



L. R. Levin Consulting, L.L.C.

# Newsletter

June 2011

## Is The Recovery Headed Toward A Double Dip Recession?

Recently the news has been full of talk of a deteriorating economy, possibly headed toward a double dip recession! *Is that what the data shows?* The impression that the economy has shifted toward a recession is not consistent with the economic data. Our **Newsletters** have explained the real expectation for the next 6 months is that the economy will continue to grow, but at a slower pace than in 2010.

Often the impression we infer from the news is highly colored by how the terms used are defined. “Recovery” to an economist merely reflects that a recessionary cycle has

ended and growth, however small, has begun.

The term “recovery” while indicating growth of the GDP has returned, does not infer anything about the rate of growth. Fed Chair Bernanke said recently that “Until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established.”

This type of comment can be highly misleading to the public and affect how the public behaves, thus affecting how the economy progresses.

Bernanke is really commenting on the pace or strength of the recovery, rather than are we in a “recovery.” As our **Newsletters** have explained, because of the policies the government has pursued, this continues to be a flat, weak recovery.

Government policy contributed to a very steep decline during the recession. This created a very steep hill to climb to achieve a strong enough

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803 Sheridan Road, Glencoe IL 60022 ■ (847) 242-1000 ■ Web: [www.LRLevin.com](http://www.LRLevin.com) ■ [LLevin@LRLevin.com](mailto:LLevin@LRLevin.com)

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recovery to reflect what the average person would consider a real recovery.

Fed Chair Bernanke recently recognized that the recovery was “continuing at a moderate pace, albeit at a rate that is both uneven across sectors and frustratingly slow from the perspective of millions of unemployed and underemployed workers.”

The same government policies that made the recession deeper also made it more difficult for the economy to repair the structural problems that caused the recession. The Fed Chair’s reflections merely confirm what our **Newsletters** have been explaining, that the economy is growing very slowly and that the recovery is not broad based and is affecting various sectors of the economy quite differently.

Whether and how your sector has experienced growth depends on what sector your business is in. As we have discussed, the Japanese quake and high energy prices have had a negative effect on our recovery. Government policy continues to impede the recovery. The Fed Chair al-

so suggested that “Accommodative monetary policies are still needed.”

This continues to be the wrong approach. Accommodative monetary policies will continue, over the long run, to weaken the dollar, buying power, and the recovery. *What does the current economic data indicate about the recovery?* The latest May Leading Indicators rate of change set a record high. They are about 4.2% above this time last year.

This rise indicates the economy will continue to grow into 2012, albeit at a slow rate. The Interest Rate Spread, Index of Consumer Expectations, and Building Permits were the best of the Leading Indicators’ 10 components, with most components showing improvement for May.

However, our recovery remains weak. The dollar remains weak and there are real reasons to fear for its long-term future. The drop in the dollar versus the Euro was the steepest March-to-April decline in over 20 years.

For us to see real economic growth, this must change along with several key economic segments.

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Construction must improve materially if we are to have a stronger recovery. Housing remains flat. Housing Starts for the first quarter of 2011 were 9.9% below the same time last year. It appears that housing will be at recession levels through the summer.

Our strategic partner, the Institute for Trend Research (“ITR”), predicts that housing will begin to improve in 2012. To put this in perspective, new home sales for the past 12 months were only 306,000 units, down 76.2% from their all-time peak in December 2005.

Multi Unit Housing Starts are the one ray of hope in the housing market. Multi Unit Housing Starts for the past 12 months are up 36.7%, and for the recent quarter up 55.5% compared to last year.

New home sales are at the highest rates in 10 months, but at a very low level. The problem is that housing starts have continued to fall along with prices. In May, Home sales dropped 3.8%. At the same time, national medium home prices fell 4.6%.

Educational building is continuing to decline through 2011.

Office building construction has begun to show early signs of improving. The data suggests that commercial construction is nearing its low point and should begin to recover by year end or early 2012.

The brightest spot is that water and sewer construction is up 3.7% from 2010. As the demand for electric power continues to grow, the construction of power facilities has been growing. But until housing doubles its current level, the economy will continue to struggle.

Retail sales remain flat. Without meaningful improvement in the economy, retail sales are not improving fast enough to support real growth in employment. In September 2009 there were 26.3 million total unemployed workers. In June 2011 there were still 24.6 million total unemployed workers or 16.1% of the work force.

That represents no meaningful recovery for a major component of the economy! We have the highest

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long term unemployment rate since the Great Depression.

The Fed's policies have stripped it of all meaningful tools to positively impact the course of the current economic cycle. We now face the possibility of growing stagflation.

The ITR predicts a cyclical upturn in inflation within the coming quarter. We are seeing the fastest rise in inflationary pressures since 1980. ITR further predicts a more rapidly accelerating long-term trend in consumer prices will set in by the second half of this year and believes inflation will be approaching peak 2008 rates by mid 2012.

Despite slowing economic growth, the Fed's past few years of rapid monetary expansion have set the economy on a stormy course. We can expect mildly increasing inflation throughout this year, accelerating rapidly in 2012.

These factors point to increasing destabilization of this economic cycle. If the government continues to push for higher taxes and increases debt (all of which will remove liquidity from the economy) with continued

deficit spending, we will be setting sail on very stormy seas for 2012 - 2013.

Until the government changes course to address these economic components, we will continue to see high unemployment and the economy will remain troubled. The threats to the economy as it enters 2012 are substantial. The policies the government adopts over the next 6 months will affect how we do in 2012-2013.

## Is The World Economy Slowing?

One important driver of the U. S. economy has been international trade. If the world economy slows, it may weaken that portion of the demand for U. S. exports. U. S. manufacturers also rely heavily on imported parts and materials.

Japan's industrial production has dropped 15.3% since its earthquake. For the next six months, this illustrates that Japan will be a spotty and unreliable supplier and trading partner.

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The second largest economy in the world is China. Its GDP was down 11% against last year in the first quarter. Factory output was at a 9 month low.

China continues to experience inflation with producer prices up 7.3% and consumer inflation up 5.4% for a 32-month high. Like Japan, China is becoming a more spotty and less reliable trading partner.

India's economy, while expanding, is beginning to see its rate of growth slow, with inflation accelerating. India is experiencing shortages and production delays. It is a less reliable recourse for U. S. manufacturers than before.

Europe's economy continues to grow, but like the U. S., its rate of growth is beginning to slow, but less rapidly than ours. Cost pressures are growing in Europe as well.

Southeast Asia's economy is decelerating, but the data indicates that it is poised to pick up through the rest of this year and into 2012.

Taiwan reduced its corporate tax rate recently and its industrial production is up 22.2%, materially

outperforming its historical average growth rate of 5.8%. Taiwan's dynamic recovery has been fueled by strong international trade, an improving financial sector, and technological development that is among the most advanced in the world. The U. S. could benefit from a similar approach which encourages business investment.

Mexico's industrial production as a whole is 6.4% above last year. Its food production is climbing to new record highs with each passing month. While Mexico's economy is slowing it should continue to grow over the next 12 months.

Over all, the world rate of growth is slowing. U. S. manufacturers should be looking for supply alternatives and areas for market growth to protect against future problems.

All of this suggests that this economic cycle is entering a new phase worldwide. The U. S. cannot rely on expanding world trade to fuel our recovery. Policies that create internal investment and growth are increasingly important to restore our economy and financial stability.

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## Recent Cartoon

### ***What Deal Will Congress Make On Raising The Debt Ceiling?***



## THE WISE OLD OWL

Our clients that are growing, in this phase of the economic cycle, are increasing their efforts to concentrate on distinguishing their products and services through focused branding. They are exploring new revenue streams and preparing alternative sourcing strategies to cope with changing world conditions. The economy is heading toward possible stagflation, and what path the government chooses going forward will have a major impact on how the backside of this cycle plays out. With different segments of the economy in varying stages, it is increasingly important to have a customized strategy for dealing with change as it occurs.



Our clients know that only through advanced planning can they anticipate what actions need to be taken now and be able to adjust quickly enough as the cycle changes to maintain growth and profits. To learn more about what you should do now, call us.

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