



THE JEROME LEVY FORECASTING CENTER

Presentation to

The Commodity Markets Council

Annual Meeting

February 5, 2009

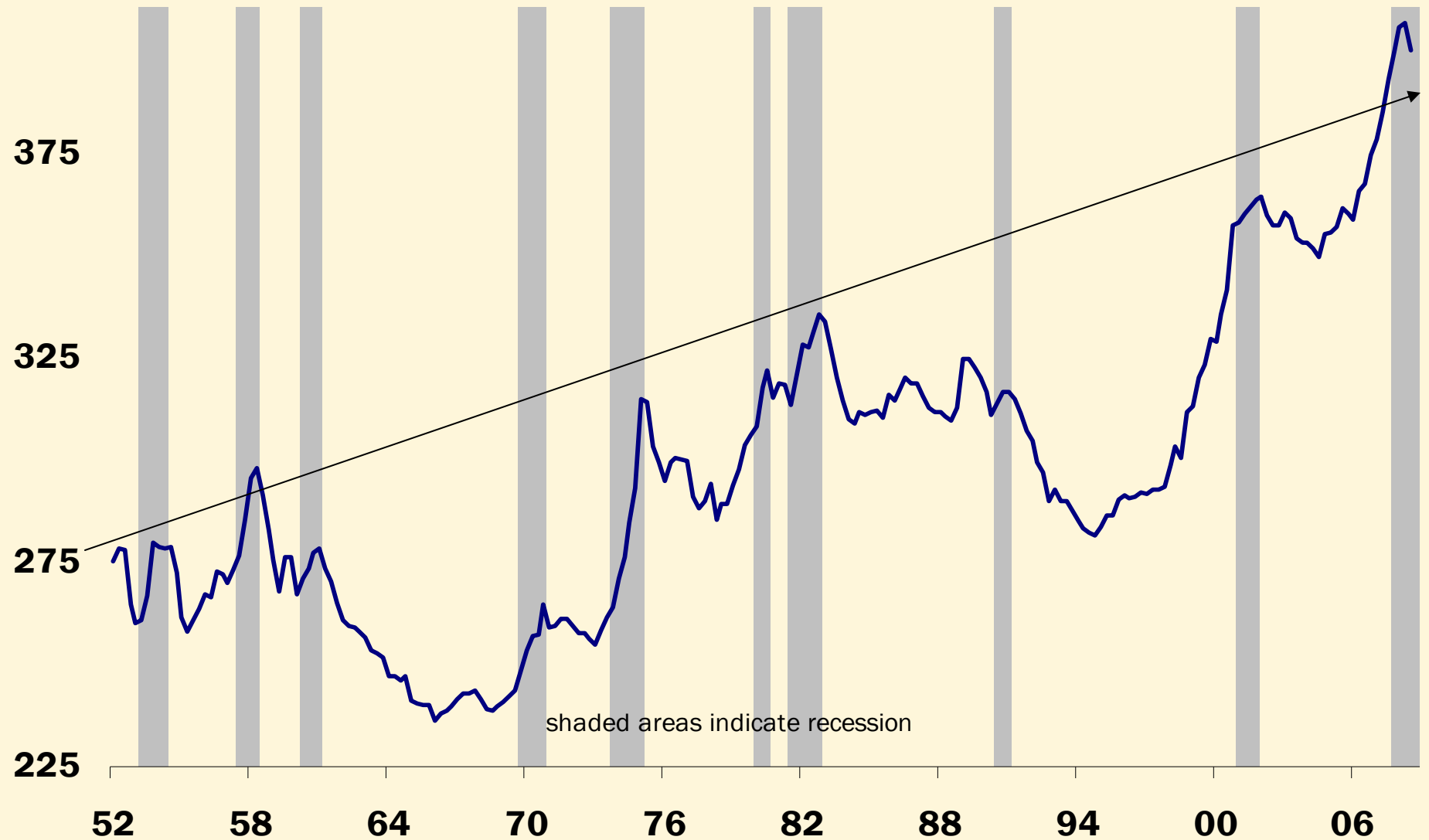
by

David A. Levy

Chairman, the Jerome Levy Forecasting Center, LLC

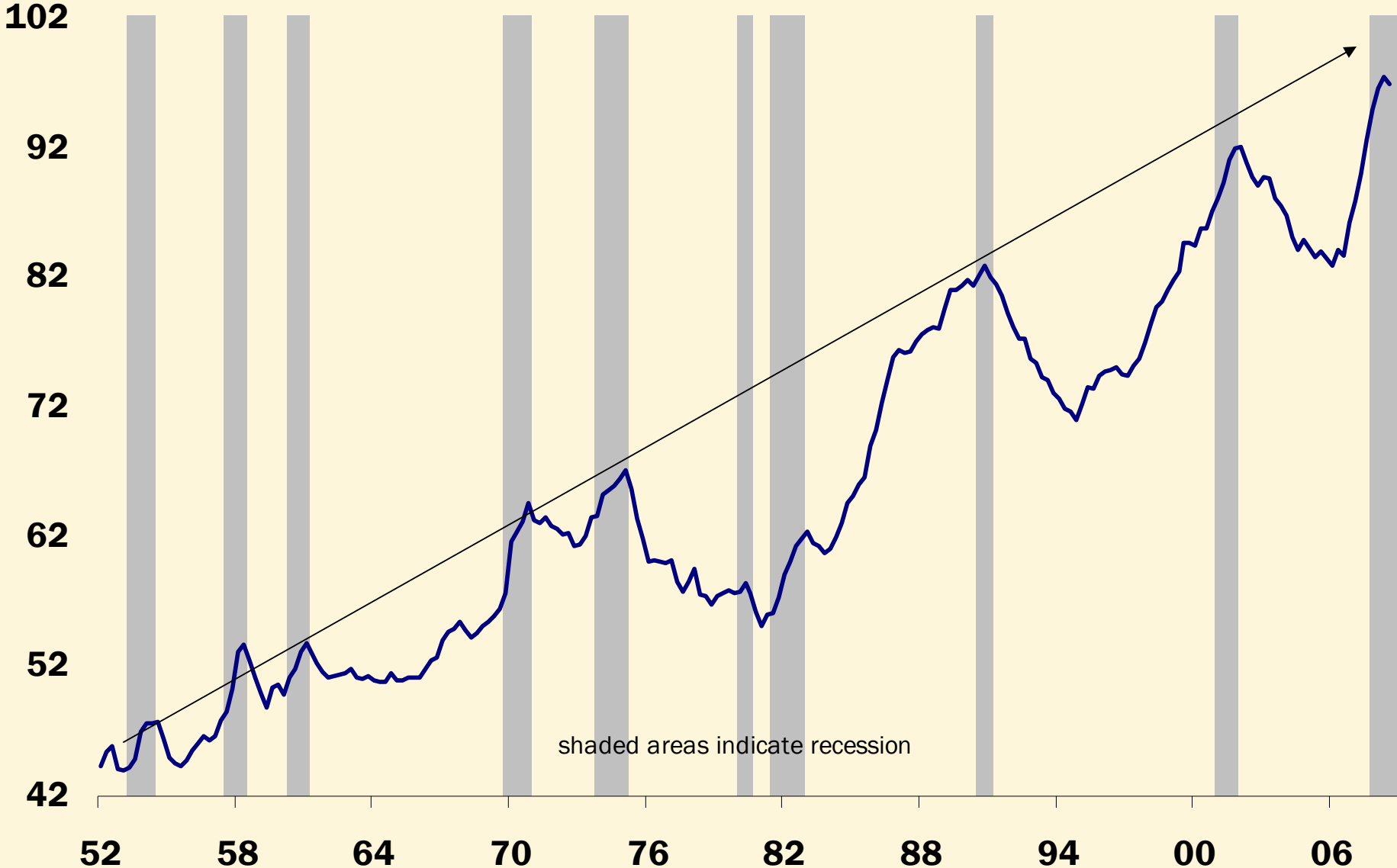
NONFINANCIAL CORPORATIONS: ASSETS TO INCOME

Nonfarm Nonfinancial Corporate Business : Total Assets as % of Nonfinancial Corporate GDP



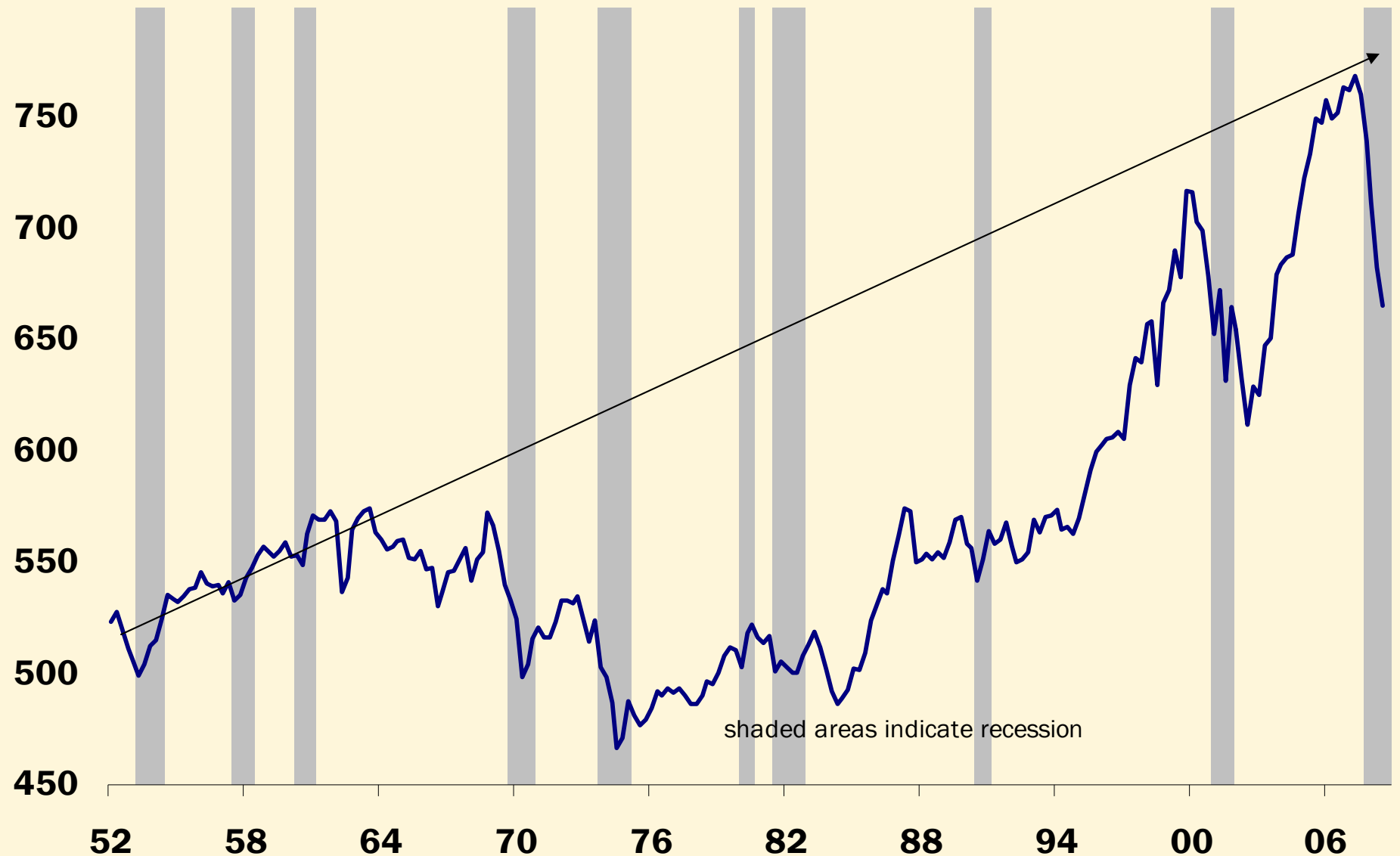
NONFINANCIAL CORPORATIONS: DEBT TO INCOME

Nonfarm Nonfinancial Corporate Business: Liabilities as a Percentage of GDP



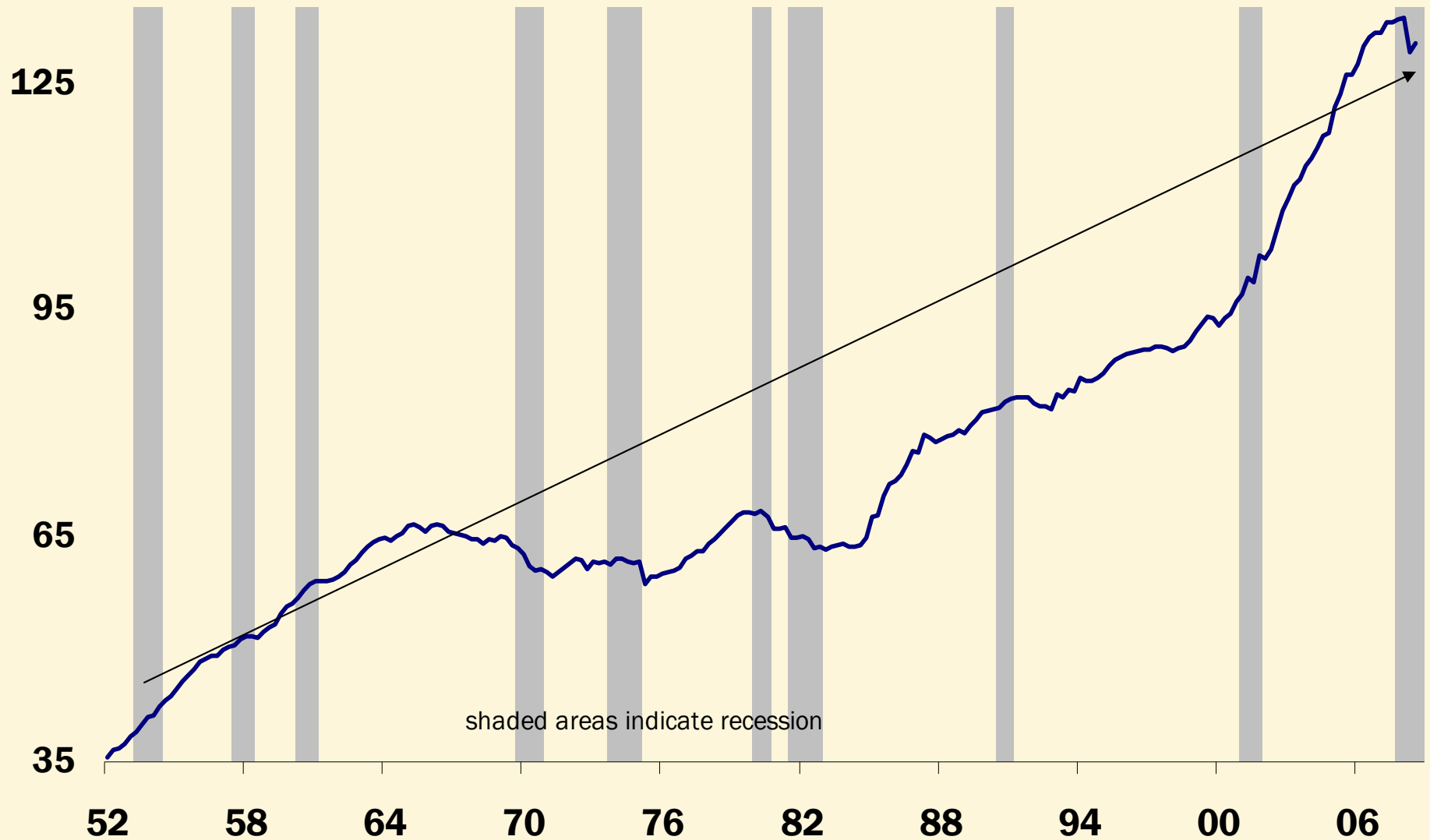
HOUSEHOLDS: ASSETS TO INCOME

Household Assets to Disposable Personal Income
ratio



HOUSEHOLDS: DEBT TO INCOME

Household Debt as a Percent of Disposable Income
percent, seasonally adjusted

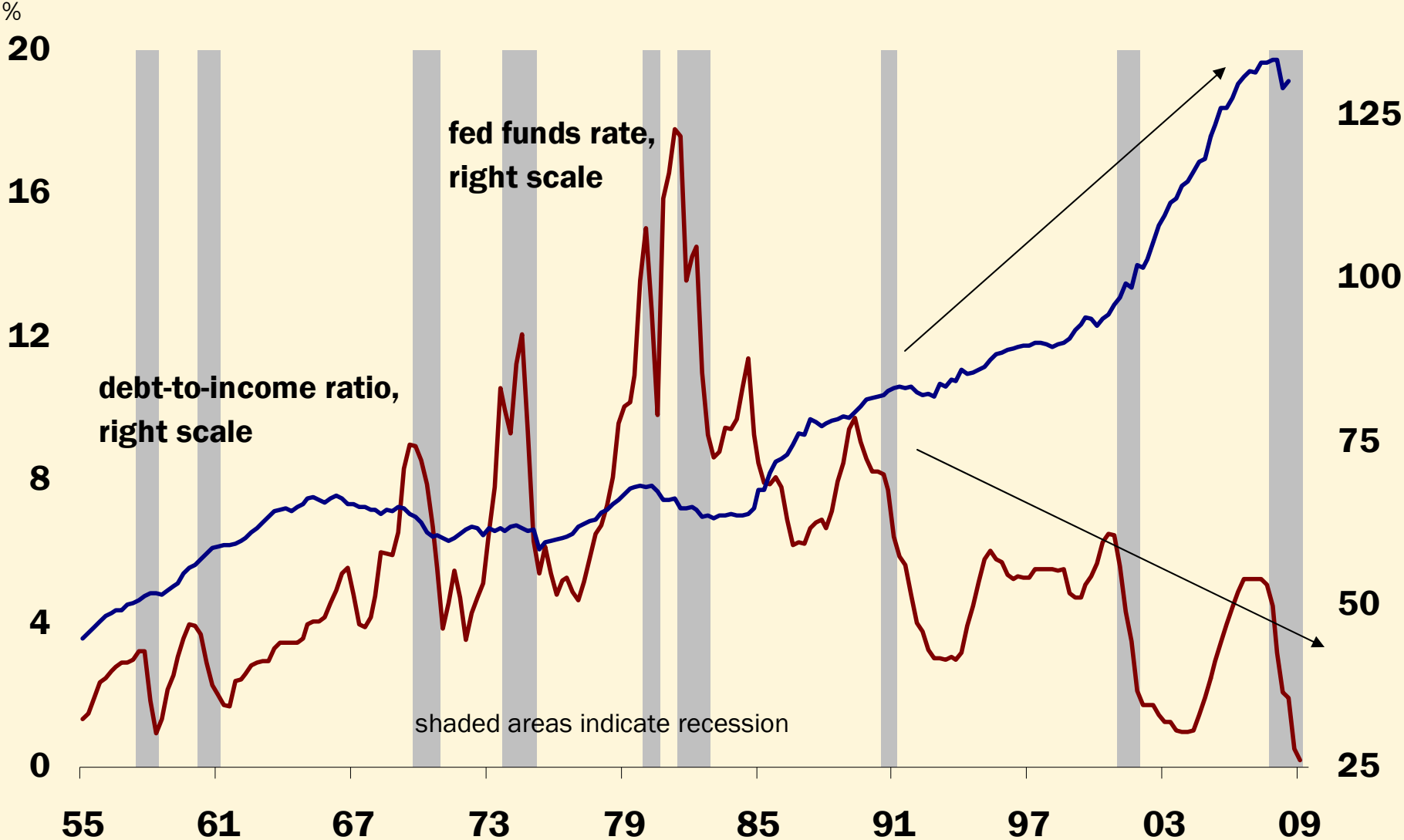


How the Economy Changes in a BBSE

1. Wealth effects become increasingly important
2. Refinancing benefits become increasingly important
3. Borrowing against asset appreciation grows
4. Interest rates become increasingly critical to stability
5. Interest rates begin a secular decline
6. Operating returns on assets trend downward
7. Investors are compelled to take greater risks
8. Lenders are compelled to become more aggressive
9. A liquidity glut emerges, grows in each business cycle
10. Financial crises tend to become larger in each cycle

HOUSEHOLD DEBT AS % OF DISPOSABLE INCOME

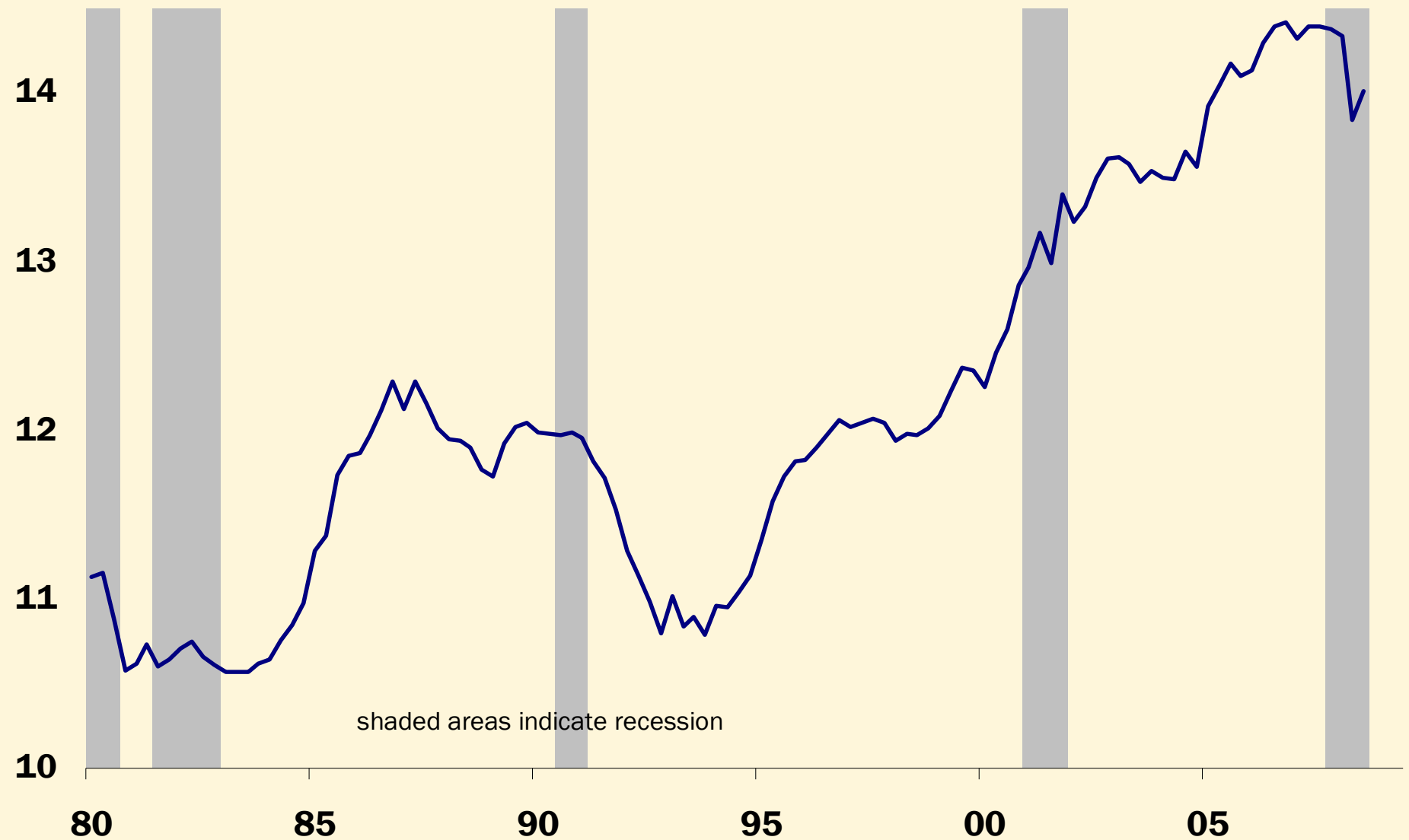
Household Debt as a Percent of Disposable Income
percent, seasonally adjusted
Federal Funds Rate: Effective



CONSUMER DEBT SERVICE BURDEN

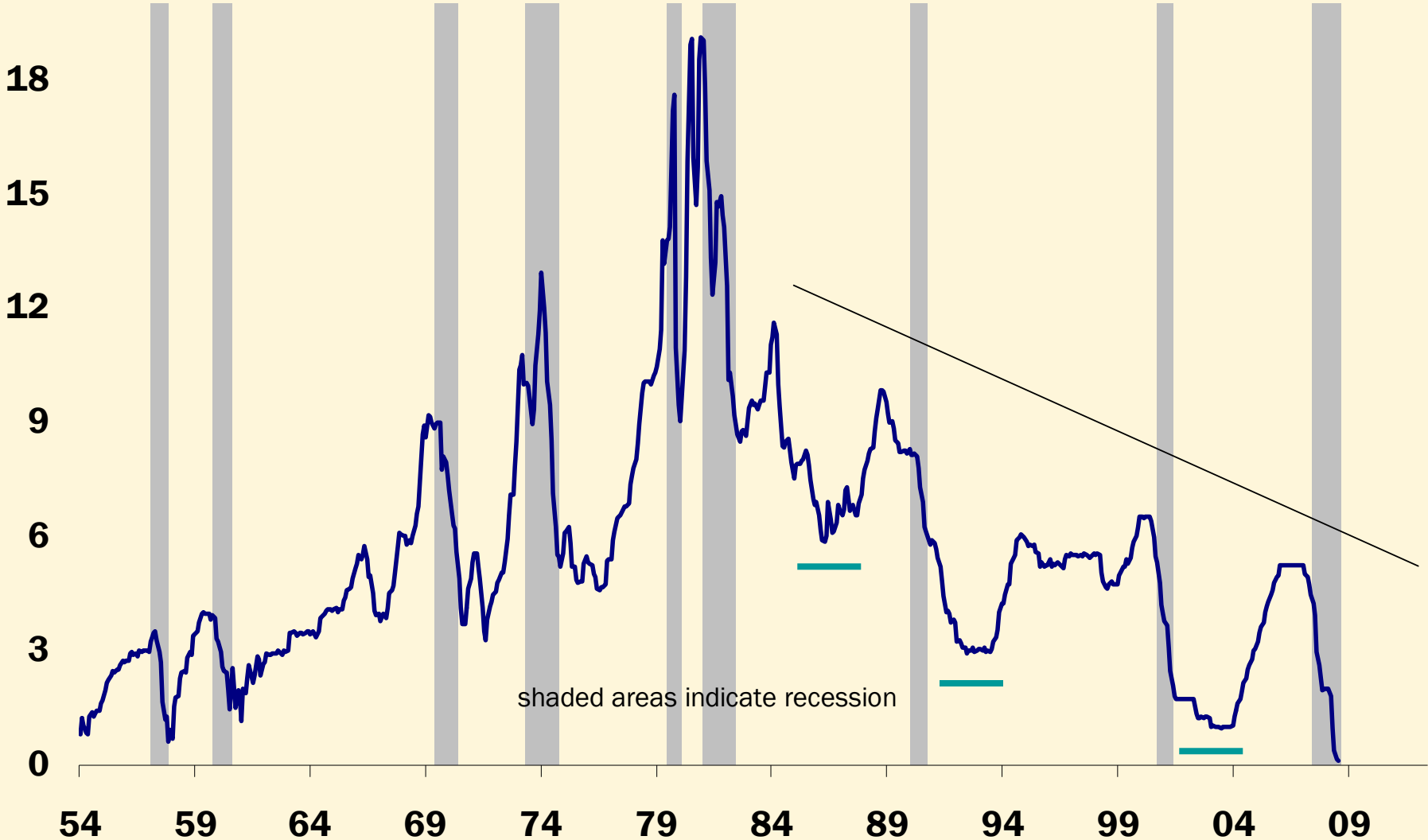
Debt Service Payments as Percentage of Disposable Personal Income

%, end of period



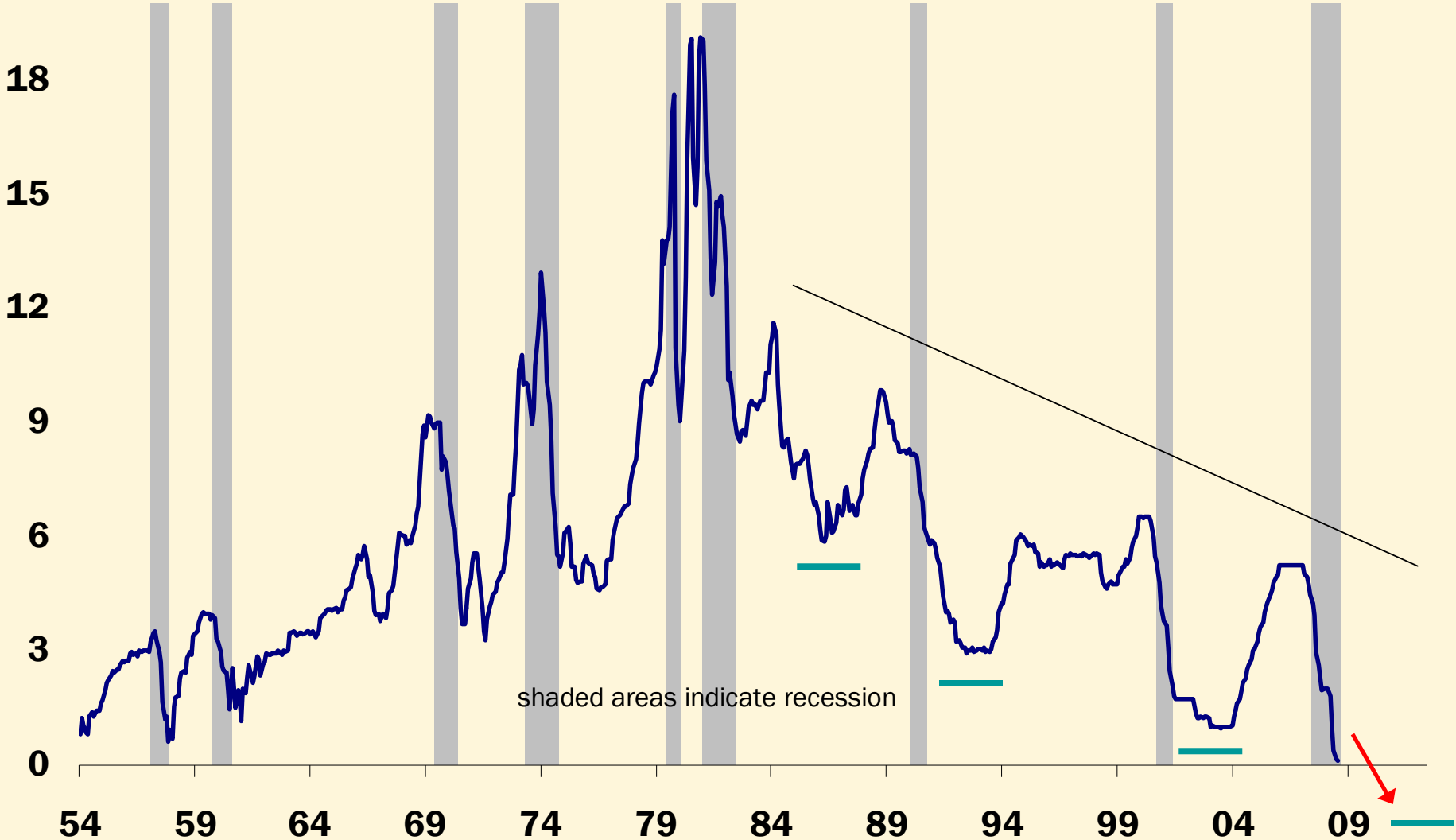
FED FUNDS RATE CAN'T FALL FAR ENOUGH THIS TIME

Federal Funds (effective) Rate
%



FED FUNDS RATE CAN'T FALL FAR ENOUGH THIS TIME

Federal Funds (effective) Rate
%



The Profits Equation (NIPA)

$$\begin{aligned} \text{Total Corporate Profits After Tax} &= + \text{Nonresidential Fixed Investment} \\ &\quad (\text{net of depreciation}) \\ &+ \text{Residential Fixed Investment} \\ &\quad (\text{net of depreciation}) \\ &+ \text{Inventory Investment} \\ &- \text{Government Saving (outlay basis)} \\ &- \text{Personal Saving} \\ &- \text{Foreign Saving} \\ &+ \text{Dividends} \end{aligned}$$

The Profits Equation (NIPA)

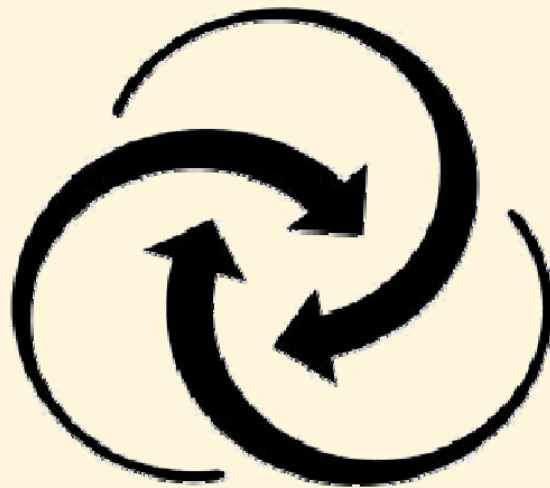
$$\begin{aligned} \text{Total Corporate Profits After Tax} &= + \text{Nonresidential Fixed Investment} \\ &\quad (\text{net of depreciation}) \\ &+ \text{Residential Fixed Investment} \\ &\quad (\text{net of depreciation}) \\ * \text{Expand real assets} &+ \text{Inventory Investment} \\ &- \text{Government Saving (outlay basis)} \\ &- \text{Personal Saving} \\ &- \text{Foreign Saving} \\ &+ \text{Dividends} \end{aligned}$$

The Profits Equation (NIPA)

$$\begin{aligned} \text{Total Corporate Profits After Tax} &= + \text{Nonresidential Fixed Investment} \\ &\quad (\text{net of depreciation}) \\ &+ \text{Residential Fixed Investment} \\ * \text{ Financed substantially with credit} &\quad (\text{net of depreciation}) \\ &+ \text{Inventory Investment} \\ &- \text{Government Saving (outlay basis)} \\ &- \text{Personal Saving} \\ &- \text{Foreign Saving} \\ &+ \text{Dividends} \end{aligned}$$

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LOW RETURN ON EQUITY DESPITE HIGH PROFIT MARGINS

Ratio of Corporate Profits w/ IVA and CCAdj to Market Value of Outstanding Corporate Equities

Ratio of Domestic Corporate Profits w/ IVA and CCAdj to Gross Value Added of Corporate Business

seasonally adjusted

