NEW YORK (AP) — Just as the U.S. economy is strengthening, other countries are threatening to drag it down.

Employers in the U.S. are creating jobs at the fastest pace since the late 1990s and the economy finally looks ready to expand at a healthy rate. But sluggish growth in France, Italy, Russia, Brazil and China suggests that the old truism, "When
the U.S. sneezes, the rest of the world catches a cold," may need to be flipped.

Maybe the rest of the world will sneeze this time, and the U.S. will get sick.

That's the view of David A. Levy, who oversees the Levy Forecast, a newsletter analyzing the economy that his family started in 1949 and one with an enviable record. Nearly a decade ago, the now 59-year-old economist warned that U.S. housing was a bubble set to burst, and that the damage would push the country into a recession so severe the Federal Reserve would have no choice but to slash short-term borrowing rates to their lowest levels ever to stimulate the economy. That's exactly what happened. Now, Levy says the United States is likely to fall into a recession next year triggered by downturns in other countries, the first time in modern history.

"The recession for the rest of the world ... will be worse than the last one," says Levy, whose grandfather called the 1929 stock crash and whose father won praise over decades for anticipating turns in the business cycle, often against conventional wisdom.

Levy's forecast for a global recession is an extreme one, but worth considering given so much is riding on the dominant view that economies are healing. Investors have pushed U.S. stocks to record highs, and Fed estimates have the U.S. growing at an annual pace of at least 3 percent for the rest of the year and all of 2015. Investors have also poured hundreds of millions of dollars into emerging market stock funds recently on hopes economic growth in those countries will pick up, not stall.

Worrisome signs are already out there. Unlike their U.S. counterparts, European banks are still stuck with too many bad loans from the financial crisis. Business debt there is too high. And confidence is fleeting, as investors saw earlier this month when stocks sold off on worries over the stability of Portugal's largest bank.

In China and other emerging markets, the old problem of relying on indebted Americans to buy more of their goods each year and not selling enough to their own people means a glut of underused factories.

"The world hopes to ride on the coattails of the U.S. consumer," says Eswar Prasad, an economist at Cornell University, "but the U.S. consumer isn't in a position to take on the burden."

Emerging markets bounced back faster from the financial crisis than did rich countries, but Levy thinks a big reason for that has made things worse. Overseas companies plowed money into factories, machines and buildings used to make things on the assumption that exports, after snapping back from recession lows, would continue to grow at their prior pace. They have not, a big problem since companies had been investing too much to expand production before the crisis, too.

"You build factories and stores, and they can't pay for themselves," says Levy, chairman of the Jerome Levy Forecasting Center, a consulting firm. "Businesses can't generate profits, and they start to contract."

Compared to such fragile economies, Levy says the U.S. is in decent shape. Like most economists, he's not worried about the nation's 2.9 percent drop in economic output in the first quarter, attributing it to harsh winter weather. He expects growth to return, but not for long, as a recession in either Europe or emerging markets spreads to the U.S.

Levy says the U.S. is more vulnerable to troubles abroad than people realize. Exports contributed 14 percent of U.S. economic output last year, up from 9 percent in 2002. That sounds like a good development, but it also makes the country more dependent on global growth, which, in turn, relies more on emerging markets. Those markets accounted for 50 percent of global output last year, up from 38 percent in 2002.

Levy predicts a U.S. recession will throw its housing recovery in reverse, and push home prices below the low in the last recession. He says panicked investors are likely to dump stocks and flood into U.S. Treasurys, a haven in troubled times, like never before. The yield on the 10-year Treasury note, which moves opposite to its price, is likely to fall from 2.5 percent
to less than 1 percent — an unprecedented low. In 2012, when investors feared a breakup of the euro-currency bloc, the 10-year yield fell to 1.4 percent.

His forecasts may seem a bit much, but Levy comes from a family with a good record of running against the crowd.

His grandfather, Jerome, didn't just call the Great Crash of 1929, he sold all his stock and liquidated his wholesale goods business in anticipation of it. Immediately after World War II, when many experts thought the U.S. was sure to fall into another depression, his father, Jay, accurately predicted a rapid expansion instead. In late 1999, his uncle, Leon Levy, a hedge fund manager and collector of antiquities, invited this reporter into his office, pointed to a bust of a rich Roman near his door and mused on the fleeting nature of fortune. He then predicted a new generation of wealthy would be laid low soon in a coming dot-com crash.

Those stocks began their long dive a few months later.

For all the prescience from this latest Levy, he thinks the origin of the world’s economic malaise is far more complex and deep than investors focused on the housing collapse think. The problem is not just that people in the U.S. took on mortgages they couldn't afford, but too much borrowing of many kinds in many countries, and by businesses as well as individuals. This buildup of excessive debt started so long ago — Levy dates it to the 1980s in the U.S. — that people no longer know what's prudent.

Many economists, for instance, are impressed that debt held by U.S. households has fallen from 130 percent of annual take-home income before the crisis to 104 percent, suggesting that people aren't borrowing too much. But what is a healthy level? Levy is not sure, but he suspects it’s a lot lower, noting that, in 1985, debt was 74 percent of people’s income.

Whether all this means a U.S. recession is a different matter.

Steven Ricchiuto, chief economist at Mizuho Securities, also thinks people are missing signs of a coming global slowdown, but that the U.S. economy will continue to grow anyway. Daniel Alpert, author of a grim book called "Age of Oversupply" about the glut in exports from foreign countries that so worries Levy, doesn't think the U.S. will fall into recession, either. And Cornell’s Prasad, who sees many of the same problems as Levy, suspects emerging economies may be “bottoming out,” suggesting investors buying their stocks now might not be so stupid after all.

Still, Levy has proved more right than wrong lately.

For a year now, some experts have been expecting a surge in corporate spending on factories, machines and equipment in rich countries where it had lagged, and a continuation of strong spending in emerging markets. That would speed economic growth because such capital expenditures, even if wasteful, add to gross domestic product. But Levy has said the world already has spent too much expanding capacity to produce things, and the optimists are wrong. Last month came proof. A Standard and Poor's report showed capital expenditures, adjusted for inflation, dropped by 1 percent globally last year, and by 4 percent in emerging markets — a reversal from decades of ever bigger outlays.

That may be healthy in the long run. But as China tries to contain the fallout from a deflating real estate bubble, India grows at its slowest pace in a quarter century, Brazil teeters on recession and Russia may have already sunk into one, the timing is awful. Last week there was bad news from the eurozone. Industrial production in the 18 countries that share the euro currency fell 0.5 percent in the year through May, suggesting that even the modest recovery there might be stalling.

You don't have to buy Levy’s gloomy predictions to see the world may be at a worrisome crossroads.
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