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NYU: US economy poised for slow, 'fragile' growth

08 June 2011
By Patrick Mayock
Features Editor
patrick@hotelnewsnow.com

NEW YORK—The U.S. economy is recovering, though a slew of headwinds are making progress slow, according to a duo of economists who presented Monday during the 33rd annual New York University International Hospitality Industry Investment Conference.

"The economy is recovering. The problem is just that the numbers are very small," said David Wyss, chief economist with Standard & Poor's.

The sluggish pace is especially disappointing given the strong momentum through which the economy broke into 2011, said **Bernard Baumohl**, chief global economist with The Economist Outlook Group, LLC. He did add, however, that the likelihood of a double-dip recession was "extremely unlikely."

Both men predicted continued growth during the remainder of 2011 and 2012. Wyss projected real GDP growth of 2.7% and 2.8%, respectively, while **Baumohl** forecast growth of 2.6% and 3.3%.

"Growth is going to remain slow," Wyss said. "Slow recovery is a fragile recovery."

Follows are among the list of considerable headwinds facing the U.S. economy:

Housing: "The problem in housing is fundamentally simple: We built too many houses at too high of a price," Wyss said.

The only cures: First, "stop building houses to get supply and demand back into balance," he said. And second, housing prices have to fall back to levels consistent with average income.

"We're making progress. We probably need another year like this to get supply and demand back into balance to get home prices rising," Wyss said.

Geopolitical events: The economic significance of the Arab Spring and persistent turmoil throughout the Middle East is on par with the collapse of the Soviet Union, Baumohl said.

"There's going to be a lot more instability coming up over the next couple of years. As a result, we're expecting that the price of oil will likely remain elevated," he said.

"We are nowhere near seeing that area coming to any side of resolution," **Baumohl** added.

Consumer spending: Government stimulus has reached its limits, Wyss said. It's now the consumers' turn to try to get the economy back on track.

Unfortunately, U.S. consumers—who comprise 70% of the economy—entered the recession with such terrible rates of saving and such high debt that they are now overextended as it is, he said.

"That's going to continue to be a problem for the United States economy," Wyss said.

Japan: The devastating earthquake and tsunami in Japan has essentially put the world's third largest economy out of commission, **Baumohl** said. That has had a direct and immediate impact on U.S. supply chains—and it will continue to do so for quite some time. The economist didn't expect the country's reconstruction activity to begin in earnest until the end of the year.

Decline in the dollar: The value of the U.S. dollar has declined as a number of foreign governments began to diversify their currency reserves. "The dollar will continue to be a reserve currency, but I don’t think it will continue to be the reserve currency as it has been in the past,” Wyss said.

Corporate austerity and unemployment: “Why aren’t companies accelerating employment?” **Baumohl** asked. “It is primarily companies are laser focused on improving efficiencies. They are making every effort to improve the productivity of their workforce.”

And they have. The U.S. economy is producing more than it ever has before with 7 million fewer workers. With such efficiency, companies are hesitant to bulk up payroll.

Forecast and predictions The economists ended the panel by revealing their forecasts for the remainder of 2011 and 2012. The picture below comprises the complete rundown: