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Economist Expects Inflation To Cool and Hotel Industry To Grow

By Sean McCracken
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PHOENIX — One of the top questions pending for the fate of the U.S. economy and the hotel industry, according to economist **Bernard Baumohl**, is just how far the Federal Reserve is willing to push its plan to raise interest rates and tamp down inflation.

Speaking during the "Economic Outlook" session at The Lodging Conference, **Baumohl, chief global economist for The Economic Outlook Group**, said he believes the Fed has likely already done enough, and inflation is already on the path to cooling.

"What we are now beginning to see already in some of the data is an inflection point on inflation and the beginning of what we suspect will be a long-term downward trajectory on inflation," he said. "I think the worst is over."

While very few people believe the Fed is ahead of the curve, **Baumohl** said the primary issue now is less about inflation and more about the mindset of the Fed.

"How much more pain will the Fed be willing to impose on the economy, just to conclude, just to say that they're now victorious, that they've effectively crushed inflation?" he said.

Baumohl identified Fed policy as one of three primary determiners of economic growth in 2023 and 2024, along with the broad geopolitical outlook — headlined by Russia's invasion of Ukraine — and how countries across the globe will continue to approach COVID-19 policies.

Ultimately, the most likely scenarios for the economy — including falling gas prices, a stabilizing labor environment and the dollar losing some value — will culminate in a strong travel outlook for the next two years. He said that's likely to remain true even in the face of a recession.

"Obviously, there's been a lot of pervasive talk about recession, and there could be — I haven't seen it yet — but there could be sort of a recession state of mind that consumers may get," he said. "But I haven't seen any evidence of that. I still see people happily spending. I still see people willing to go out and travel and spend on experiences."

Baumohl said that continued confidence will drive continued leisure travel, but he expects to see at least incremental growth in terms of business travel.

"From the business surveys that I've seen, corporate spending on travel is about 50% to 70% of what it was in 2019," he said. "I do expect that those percentages will increase over the next couple of quarters, but [it will be] gradually. Certainly more slowly than leisure travel."

The Geopolitical Path

Baumohl said his company projected three different economic paths based on potential outcomes of Russia's war in Ukraine.

He said the most likely is the war coming to an end in the first half of 2023, which represents the most favorable economic outlook, particularly across Europe.

"I think Europe is going to emerge the winner being stronger, and it will no longer be trapped within the clutches of Russia's energy imports," he said.

Baumohl said the economic pain inflicted on this war will take a real toll on Russia, which has seen its GDP shrink below the size of Mexico's.

But the two other possible scenarios being considered are "more ominous," including the possibility the war drags on for a few years or the even more dire possibility that it expands to other countries in eastern Europe, drawing in NATO forces.

Baumohl said that worst case scenario — coupled with what he believes will be poor economic decisions with China — will mean significant economic pain both globally and within the U.S.

"At that point, we can expect to see inflation really significantly move much higher, and the Federal Reserve is going to stamp its foot on the brakes much, much more ferociously," he said. "As a result, we're then looking at an economy that's going to experience a much deeper recession."

COVID-19 in 2023

Different countries are on different trajectories in dealing with the COVID-19 pandemic, with the U.S. and Europe better poised to deal with new variants than less-developed countries that still lag in vaccinations, **Baumohl** said.

He added what likely won't be feasible going forward — at least from an economic standpoint — will be widespread, strict lockdowns like those seen in China.

"The real question is what China's going to be doing," he said. "Will China continue to pursue its zero tolerance COVID policy? Because it has really devastated their economy with all the lockdowns in the major cities."

Baumohl said his group's current assumption for 2023 is those policies continue, which is a negative for the global economy.

"That will again mean that demand from Asia for key critical commodities will be depressed," he said.

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