



# The Economists

33<sup>rd</sup> Annual New York University

International Hospitality Industry

Investment Conference



# Panelists



**David A. Wyss, Ph.D.**

*Chief Economist, Standard & Poor's*



**Bernard Baumohl**

*Chief Global Economist,  
The Economic Outlook Group, LLC*



**Bjorn Hanson, Ph.D.**

*Divisional Dean, Clinical Professor, HVS Chair,  
New York University*

# The U.S. Lodging Industry and The Economy

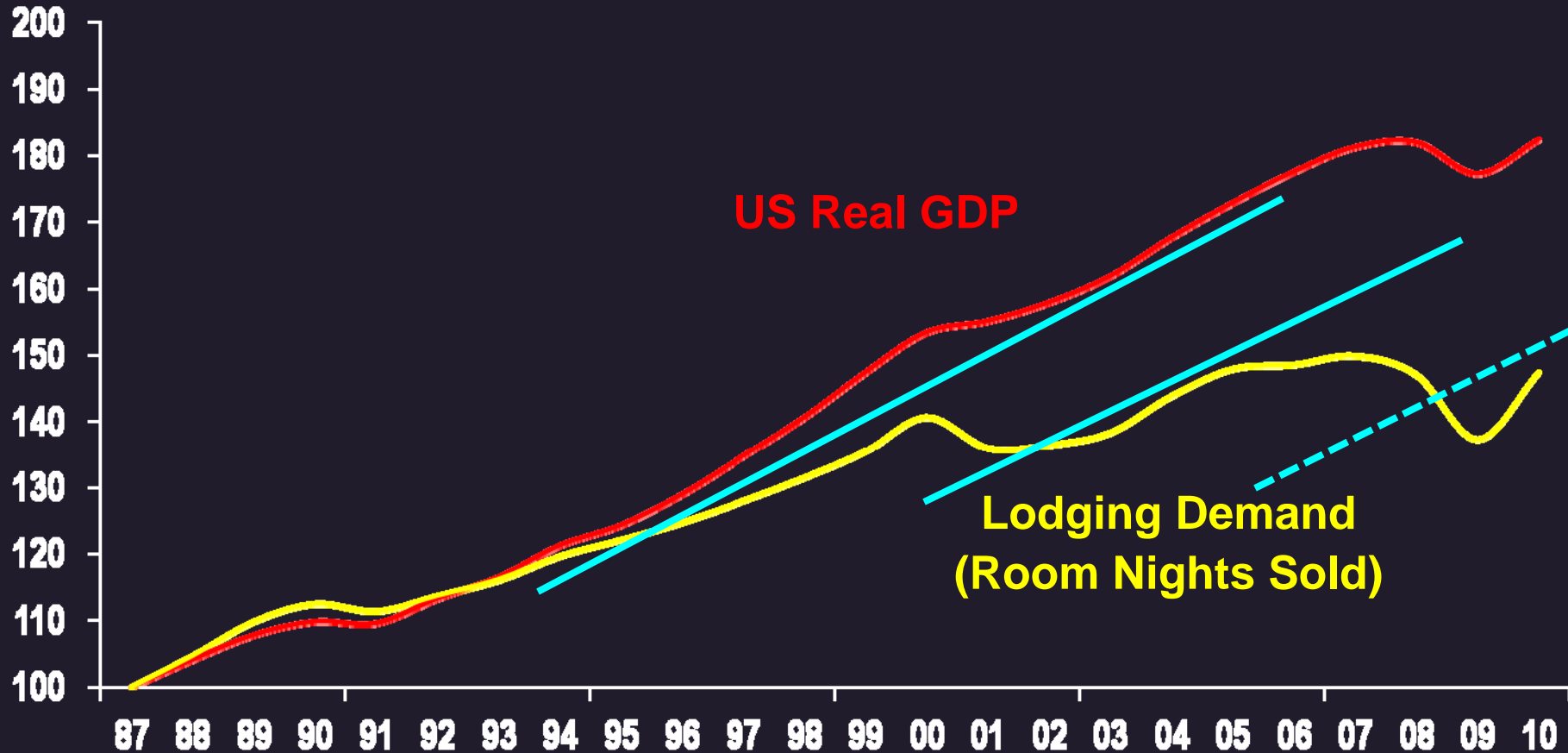


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New York University**

# Demand Elasticity Correlation to Real GDP

1987 value = 100



Sources: Lodging demand – PwC based on Smith Travel Research data; Real GDP- U.S. Bureau of Economic Analysis.

# The Economic Outlook: A Half-Speed Recovery



**David A. Wyss, Ph.D.**

**Chief Economist**

**Standard & Poor's**



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# The Economic Outlook: A Half-Speed Recovery

David Wyss  
Chief Economist  
Standard & Poor's

June 6, 2011  
Data as of May 16

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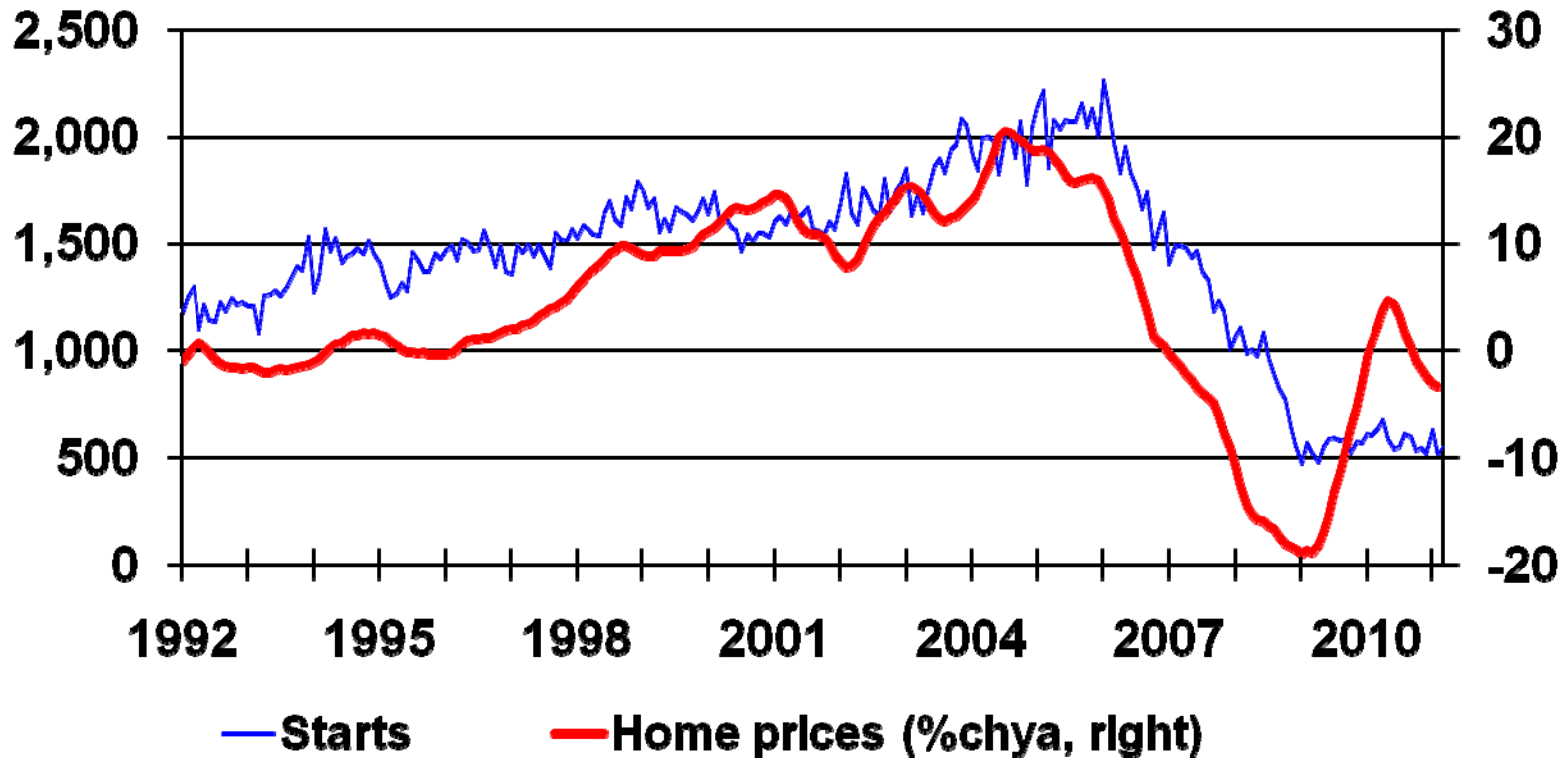
# The Half-Speed Recovery

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- **A recovery has begun, but is likely to remain weak.**
- **Housing now appears to be stabilizing, although prices are still falling.**
- **Overseas partners are recovering, helping exports, but developed economies remain slow. The financial problems in Europe and the earthquake and subsequent nuclear problems in Japan add to risks from overseas.**
- **But the dollar weakness will help**
- **The fiscal stimulus helped boost the economy, but is being reversed. A government default would increase risk**
- **Private nonresidential construction is still plunging**
- **Consumers aren't bouncing back as quickly as usual.**
- **Another dip into recession is possible if the financial markets lock up again or oil prices jump farther on Middle East turmoil.**

# The Housing Market Cycle

(Housing starts (1000) and 12-month % change in home prices (S&P/Case-Shiller))

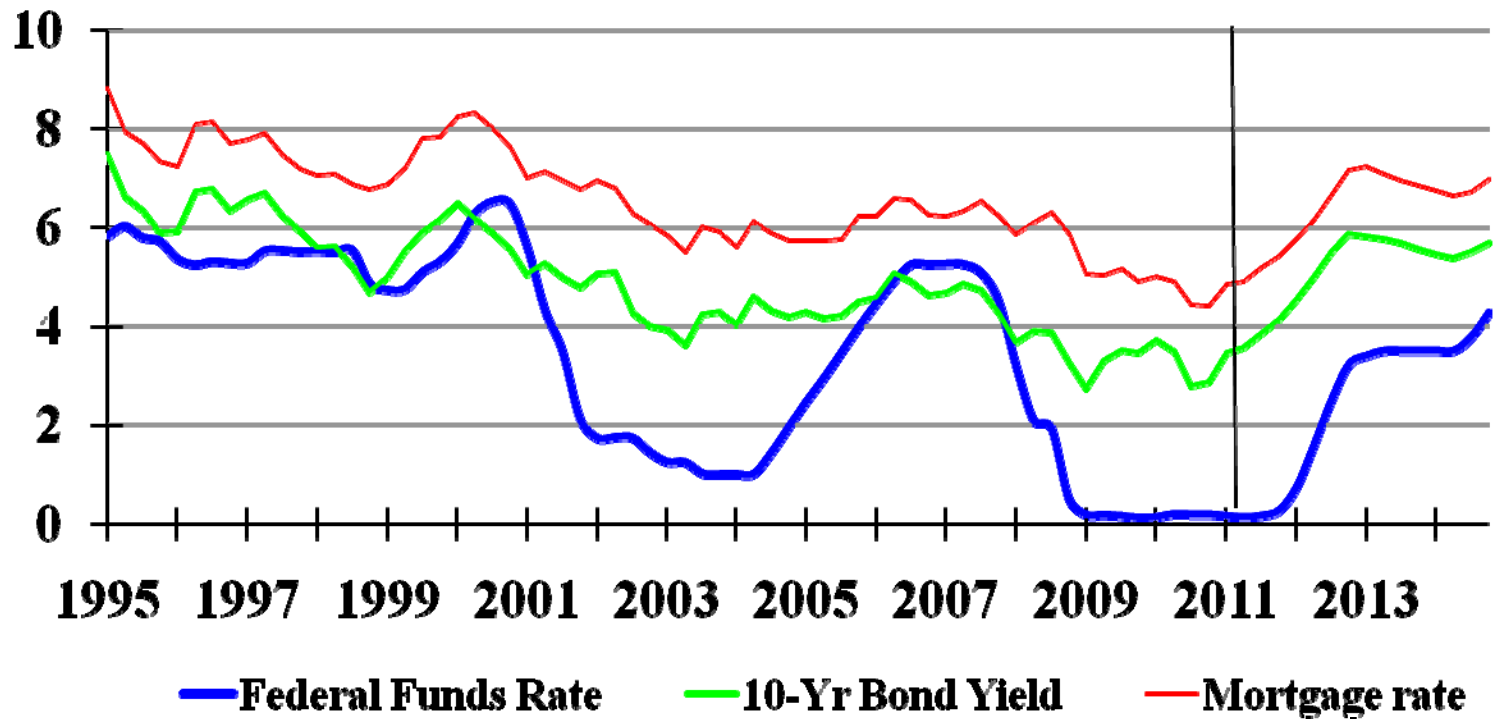


Source: Standard & Poor's and Census Bureau

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# The Fed Didn't Stop At Nothing

(Percent)



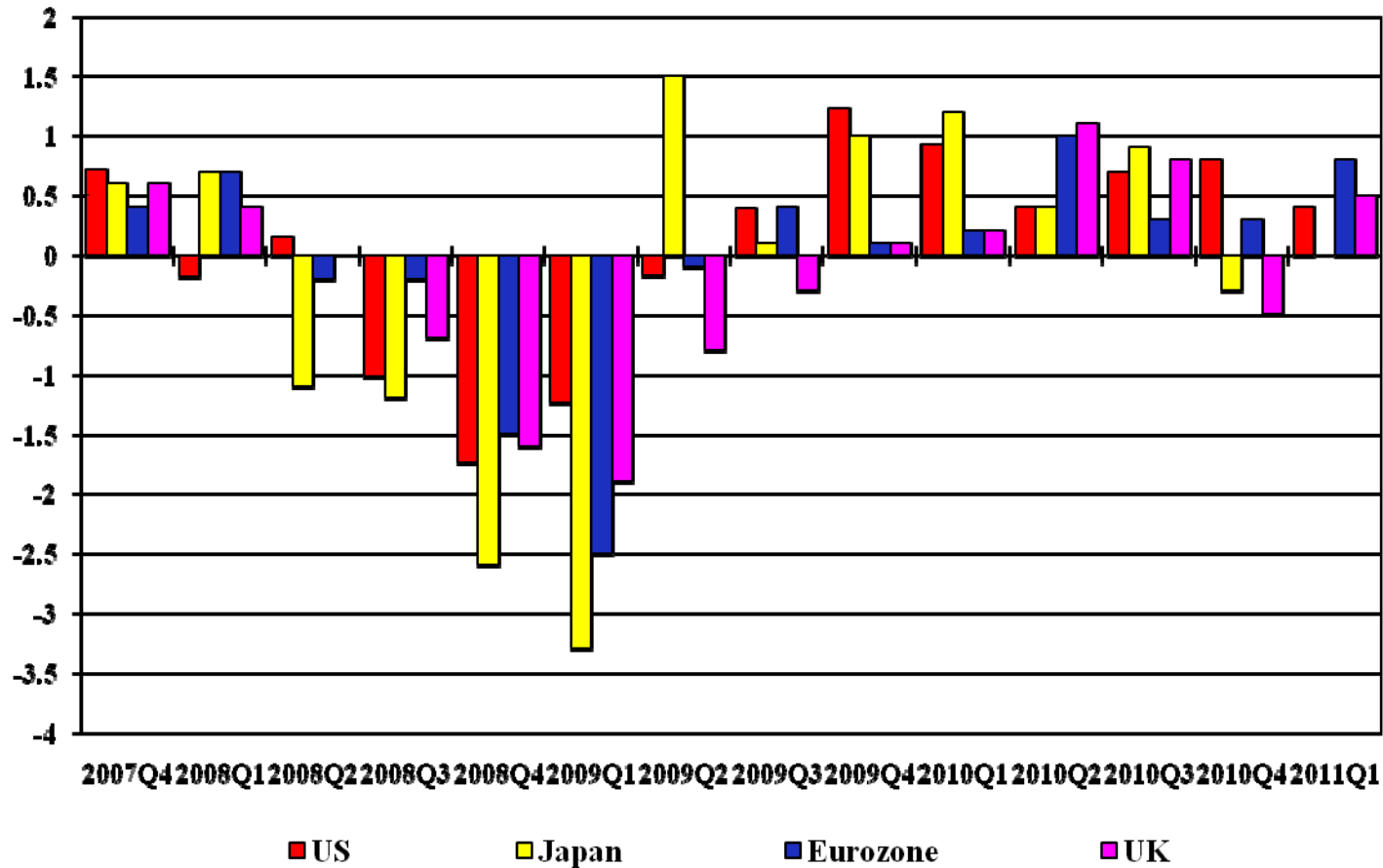
Source: Federal Reserve

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# All Fall Down

(Percent change in real GDP, quarterly rate)

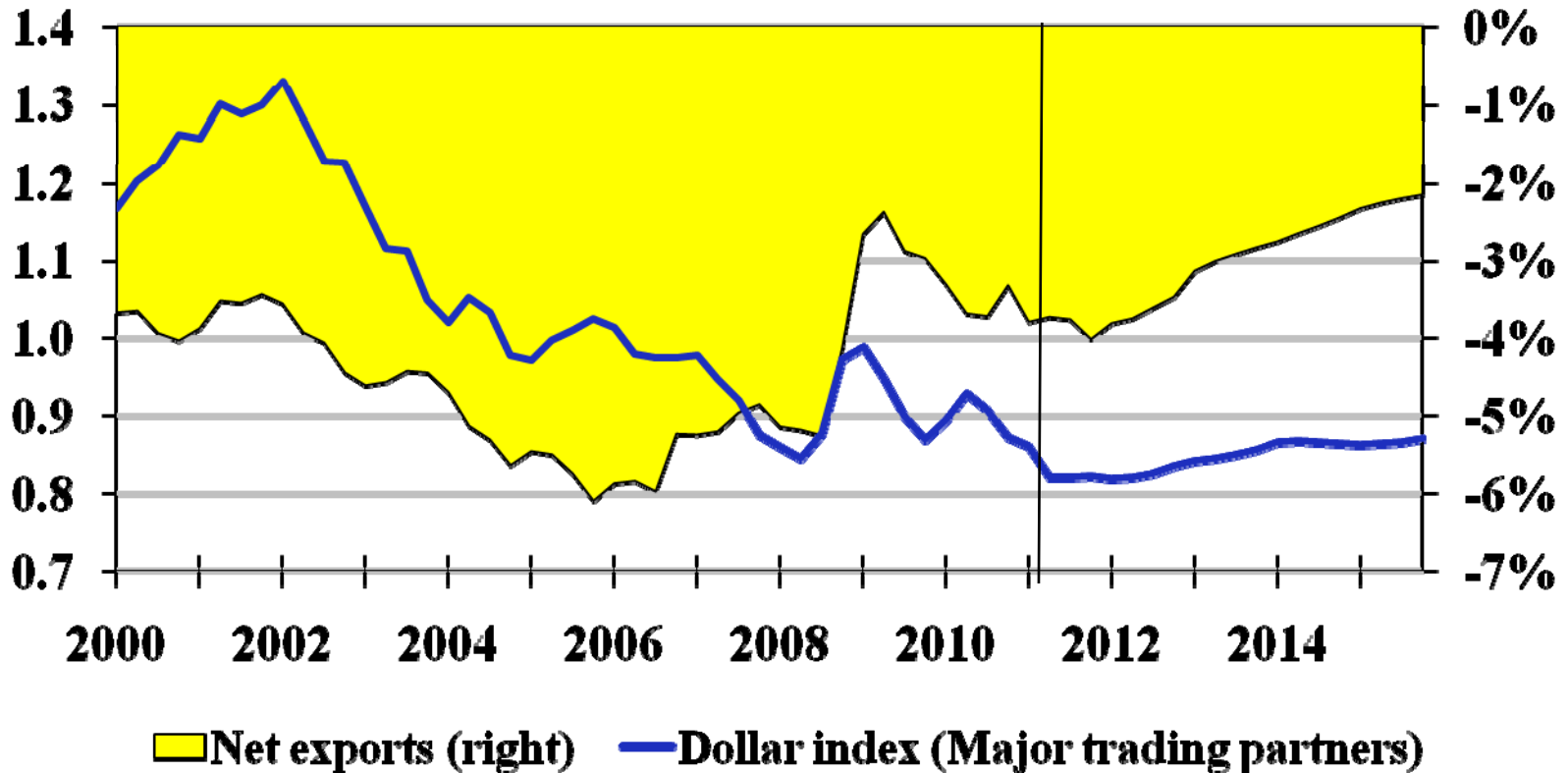


Source: Global Insight

# Trade Gap And Reserve Diversification Will Send Dollar Lower

(Index)

(Percent of GDP)



Source: Bureau of Economic Analysis and Federal Reserve, S&P projections

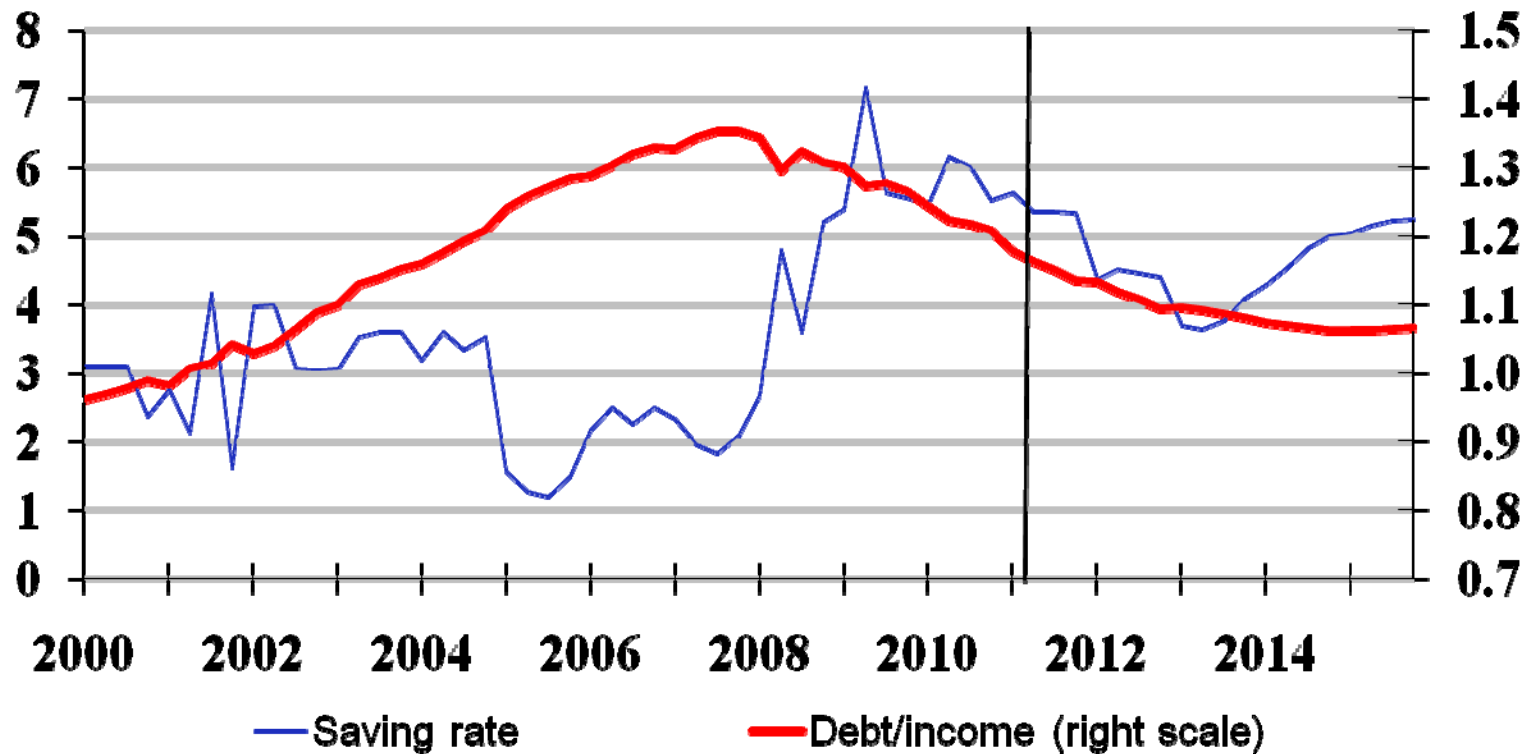
# Can the Consumer Keep Spending?

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- **Consumer spending led recent expansions**
- **But wealth is down because home prices have dropped and**
- **Stocks are still below their 2007 peak**
- **Borrowing is more difficult, and home equity loans much less available**
- **Confidence has dropped and unemployment risen**
- **Consumers are likely to continue to save more and borrow less**
- **High oil prices hurt purchasing power and confidence**
- **Stimulus package provided some income boost**

# Debt Is Dropping From Record Highs

(Percent of after-tax income)

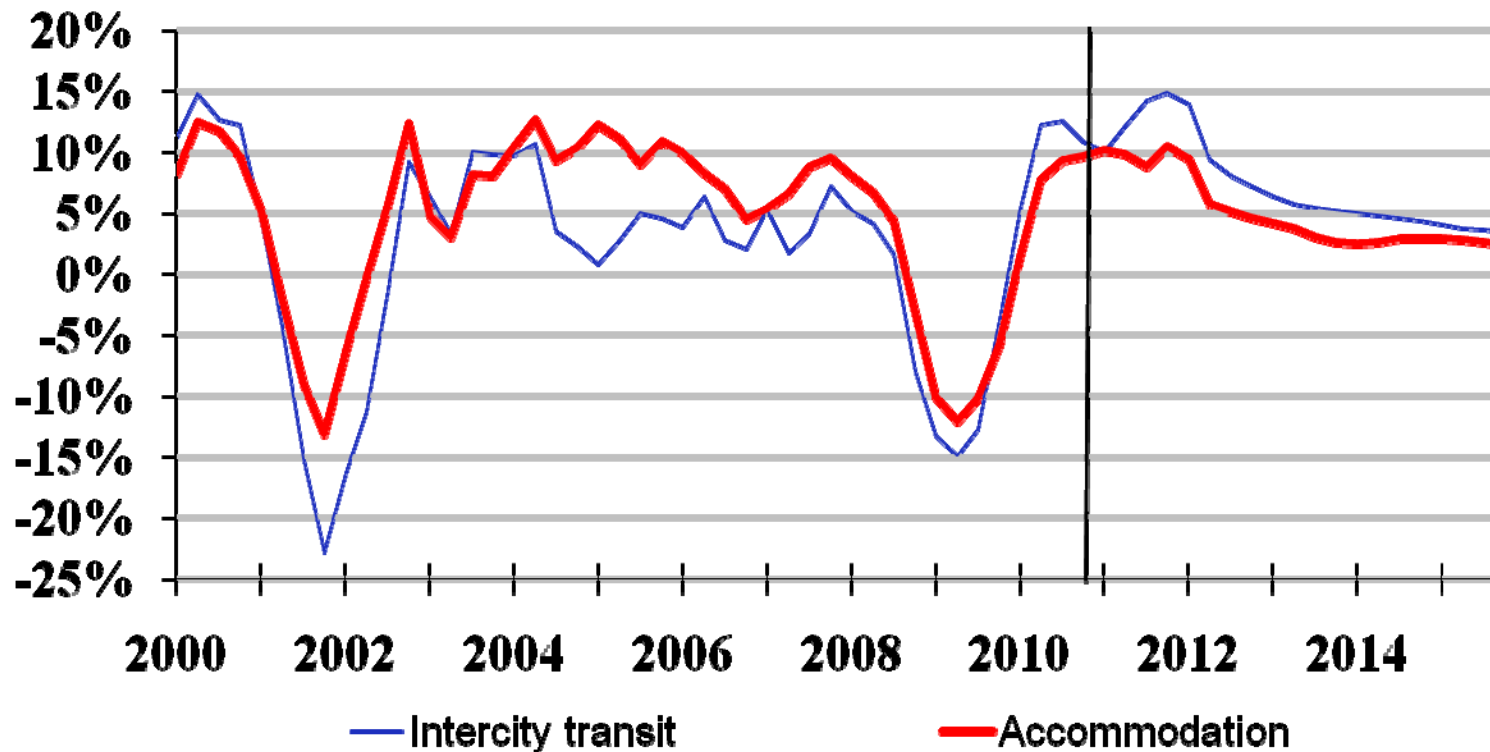


Source: Bureau of Economic Analysis and Federal Reserve

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# Tourism Is Starting To Pick Up

(Percent change over 12 months)

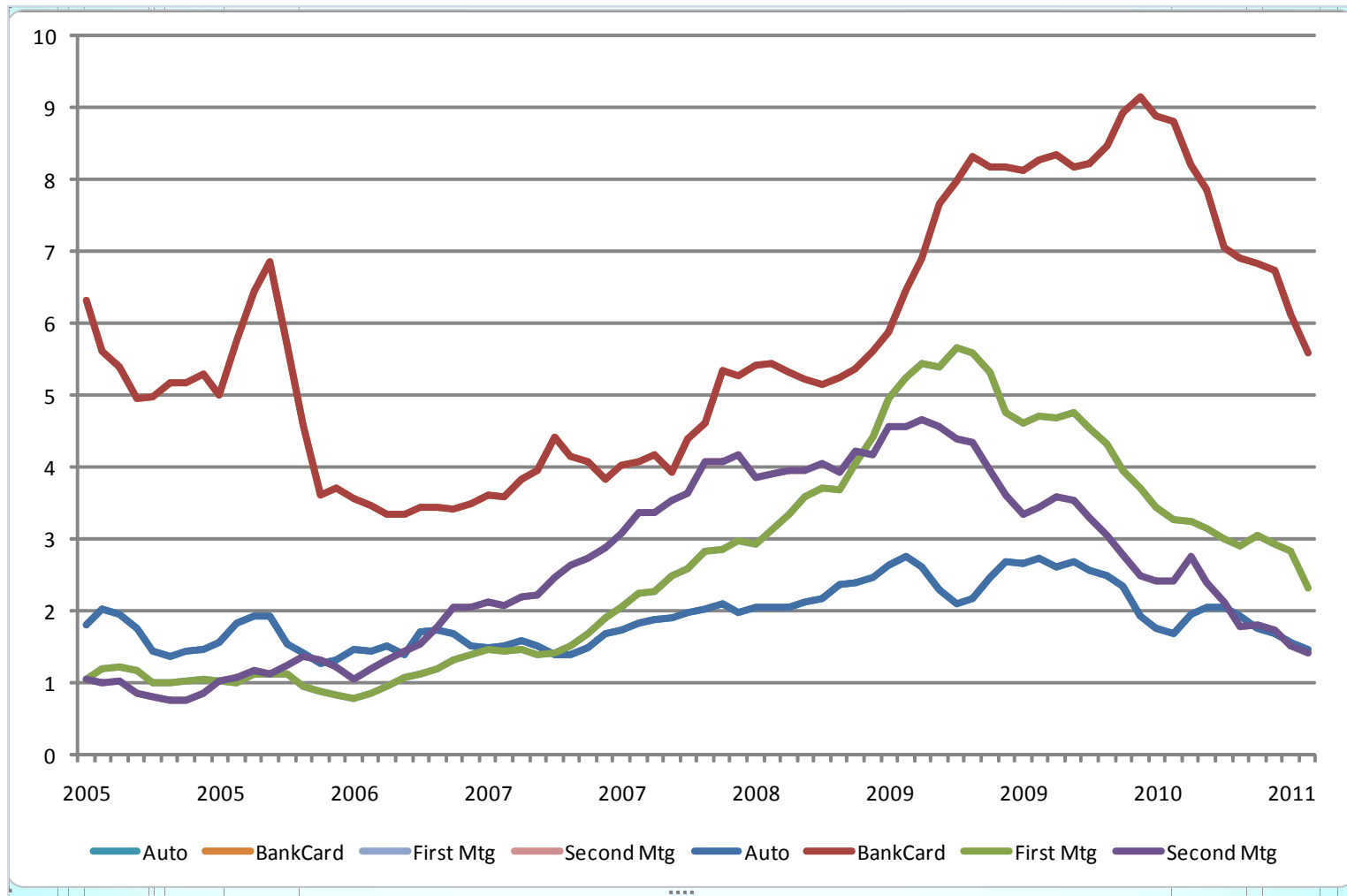


Source: Bureau of Economic Analysis, S&P projection

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# Default Rates Begin To Drop

(Percent)



Source: S&P/Experian

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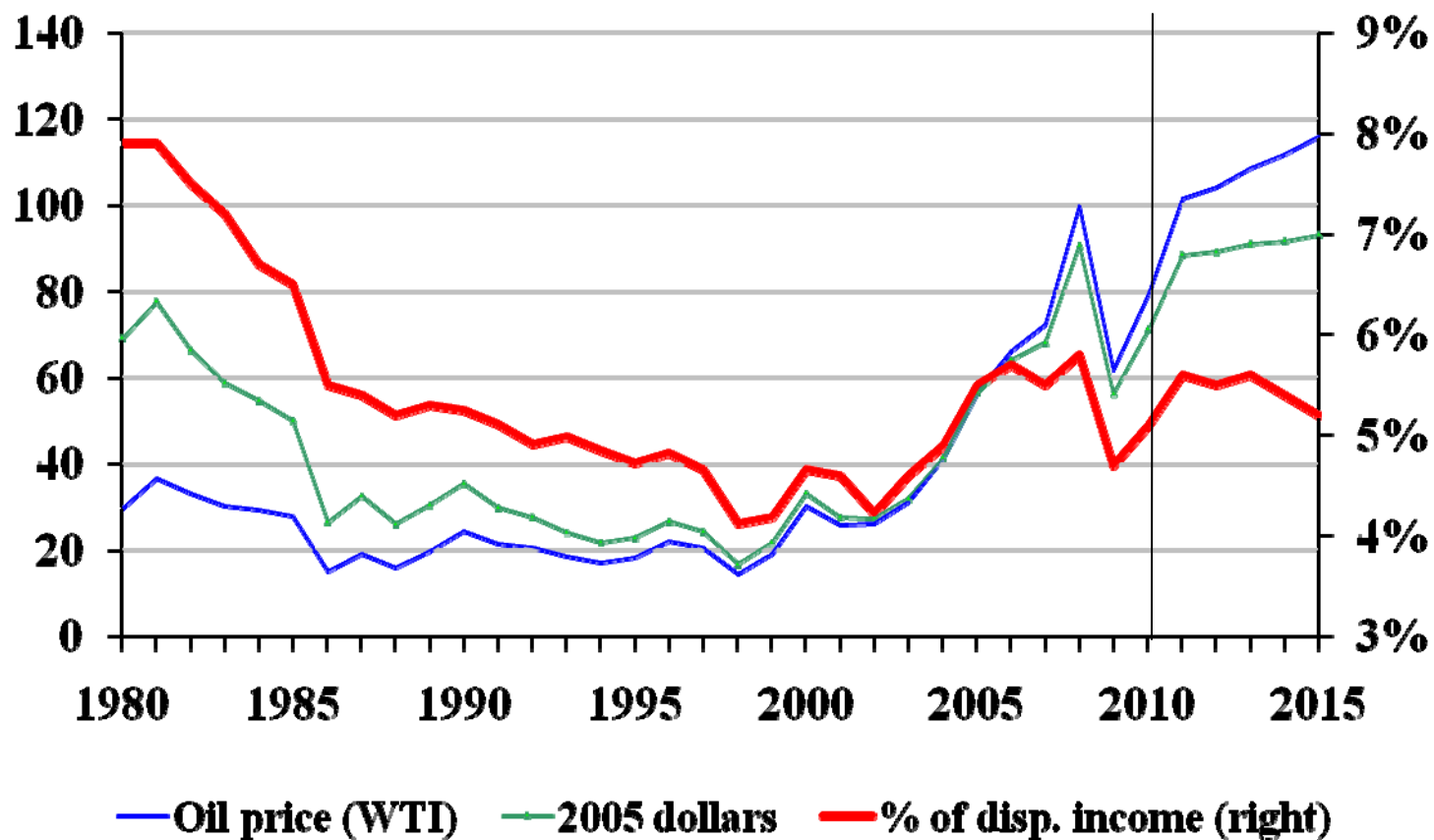


# **Bottom Line: The Economy Will Recover Slowly**

- **The recession is the longest and deepest since the 1930s**
- **Fiscal stimulus has supported the recovery**
- **But recovery is likely to be slow because of financial markets and switch to higher savings**
- **If financial markets lock up again**
- **Home prices continue to fall**
- **And oil prices continue to rise**
- **The recession could be longer and deeper**
- **With the risk of a “lost decade” similar to Japan in the 1990s**

# Oil Prices Remain Down From Peak

(\$/barrel, WTI and deflated by CPI; household energy purchases as percent of disposable income)



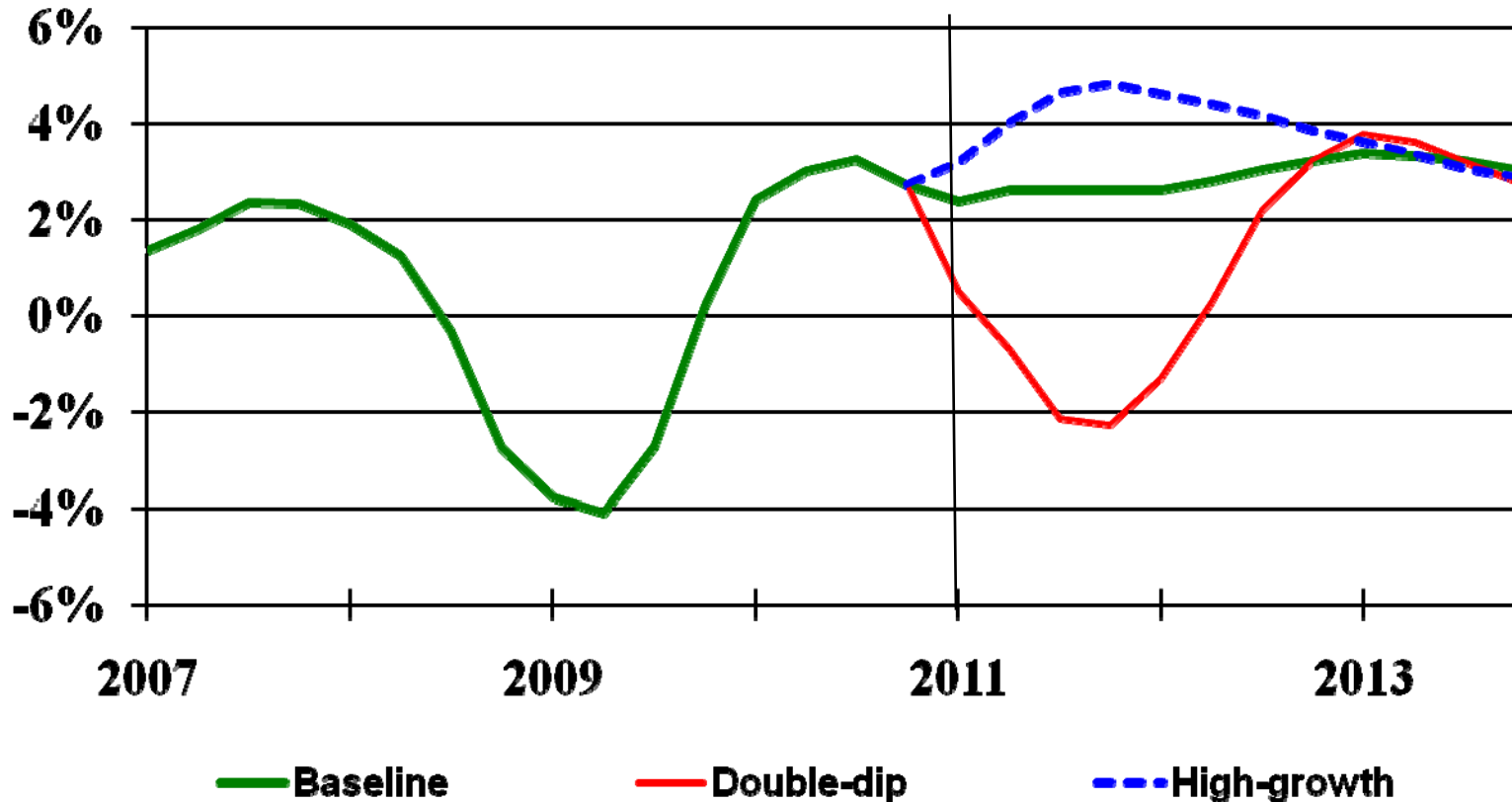
Source: Bureau of Economic Analysis

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# Risks to the Economy

(Real GDP, percent change year ago)



Source: BEA, S&P projections



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# The Economic Outlook: More Fizzle Than Sizzle



**Bernard Baumohl**

Chief Global Economist

The Economic Outlook Group, LLC

# **33rd New York University International Hospitality Industry Investment Conference**

June 6, 2011

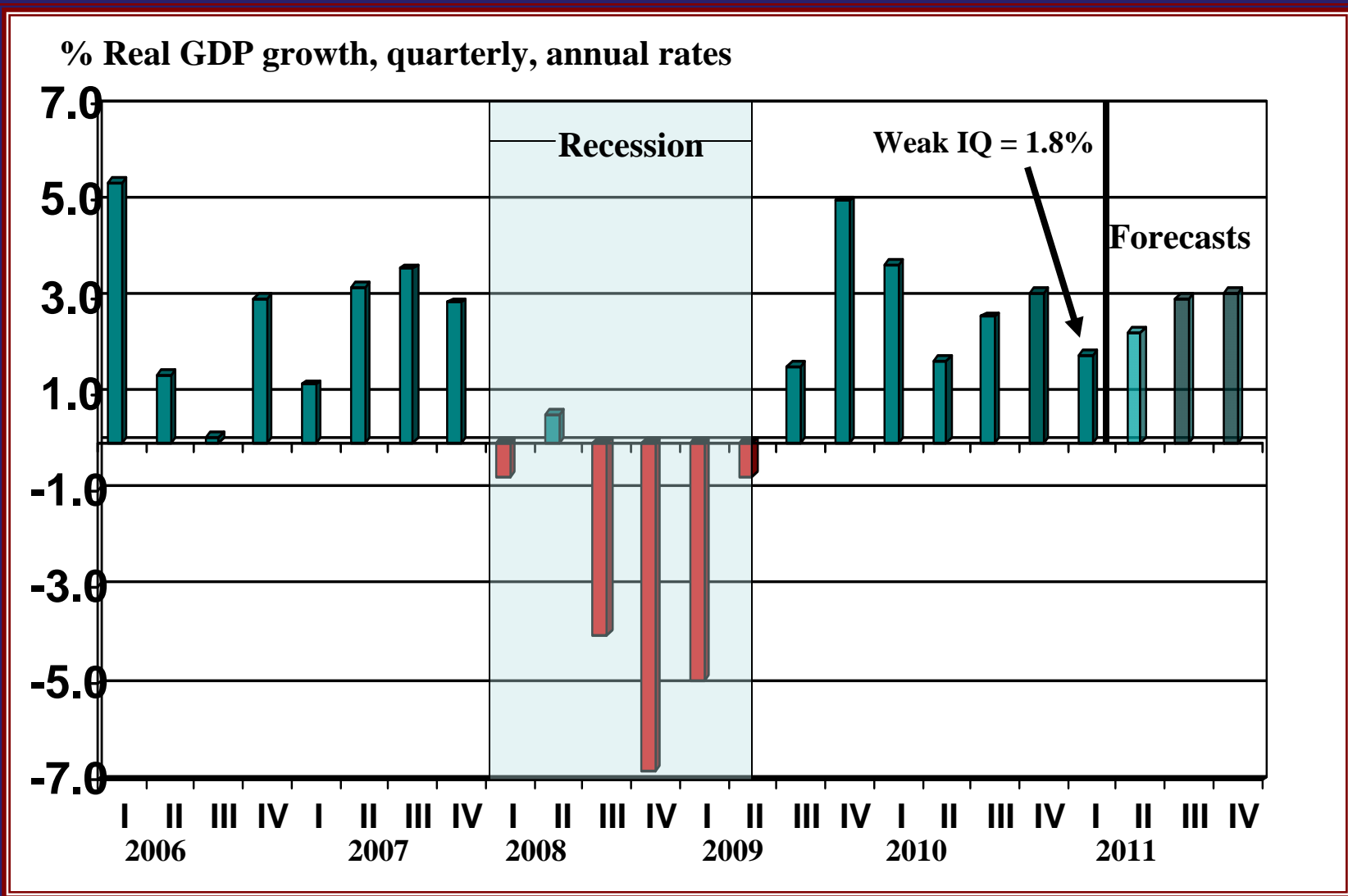
**The Economic Outlook: More Fizzle Than Sizzle**

**BERNARD BAUMOHL  
CHIEF GLOBAL ECONOMIST**

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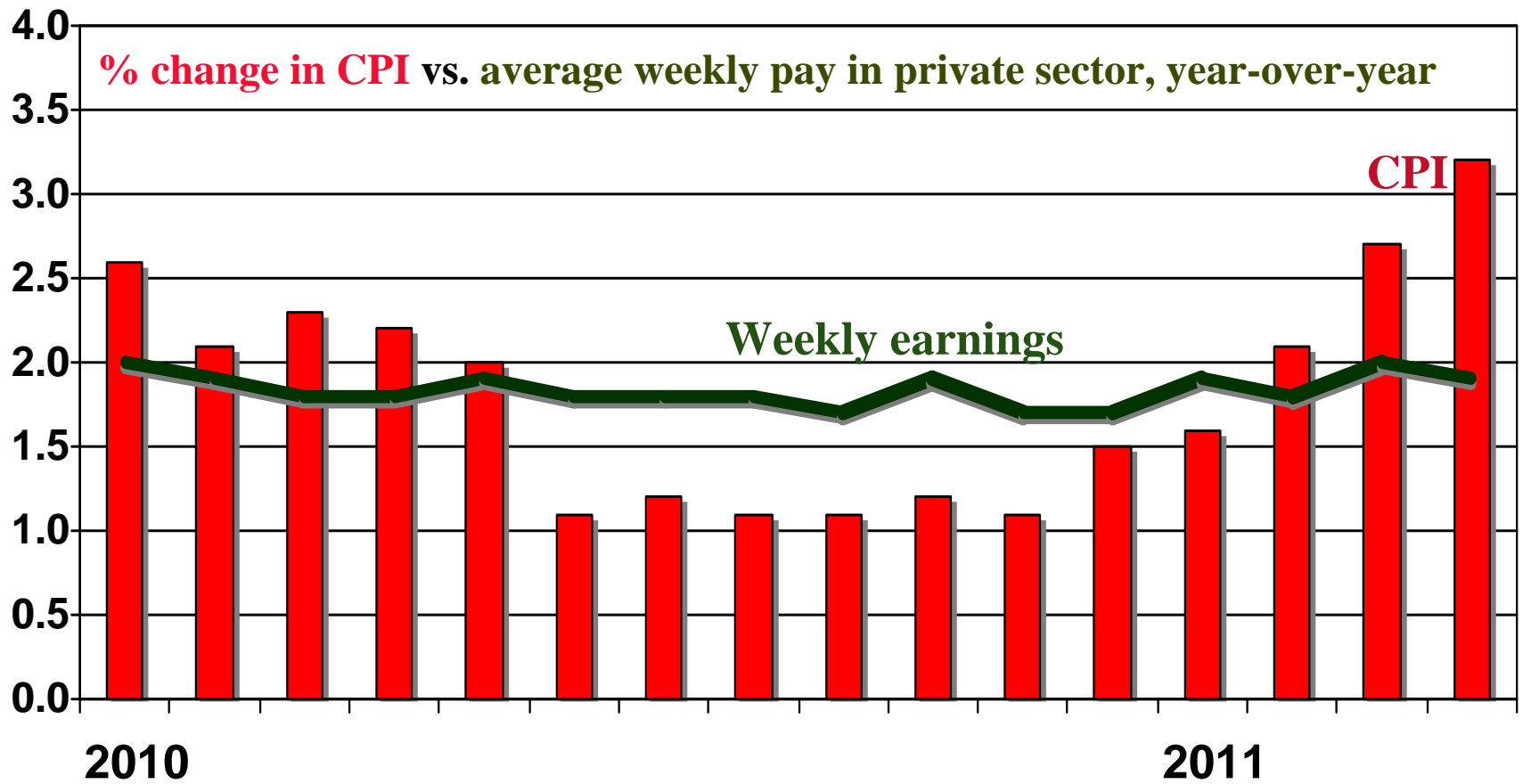
**Economy entered 2011 with lots of momentum...**  
**but geopolitical shocks and natural disasters sapped some energy.**



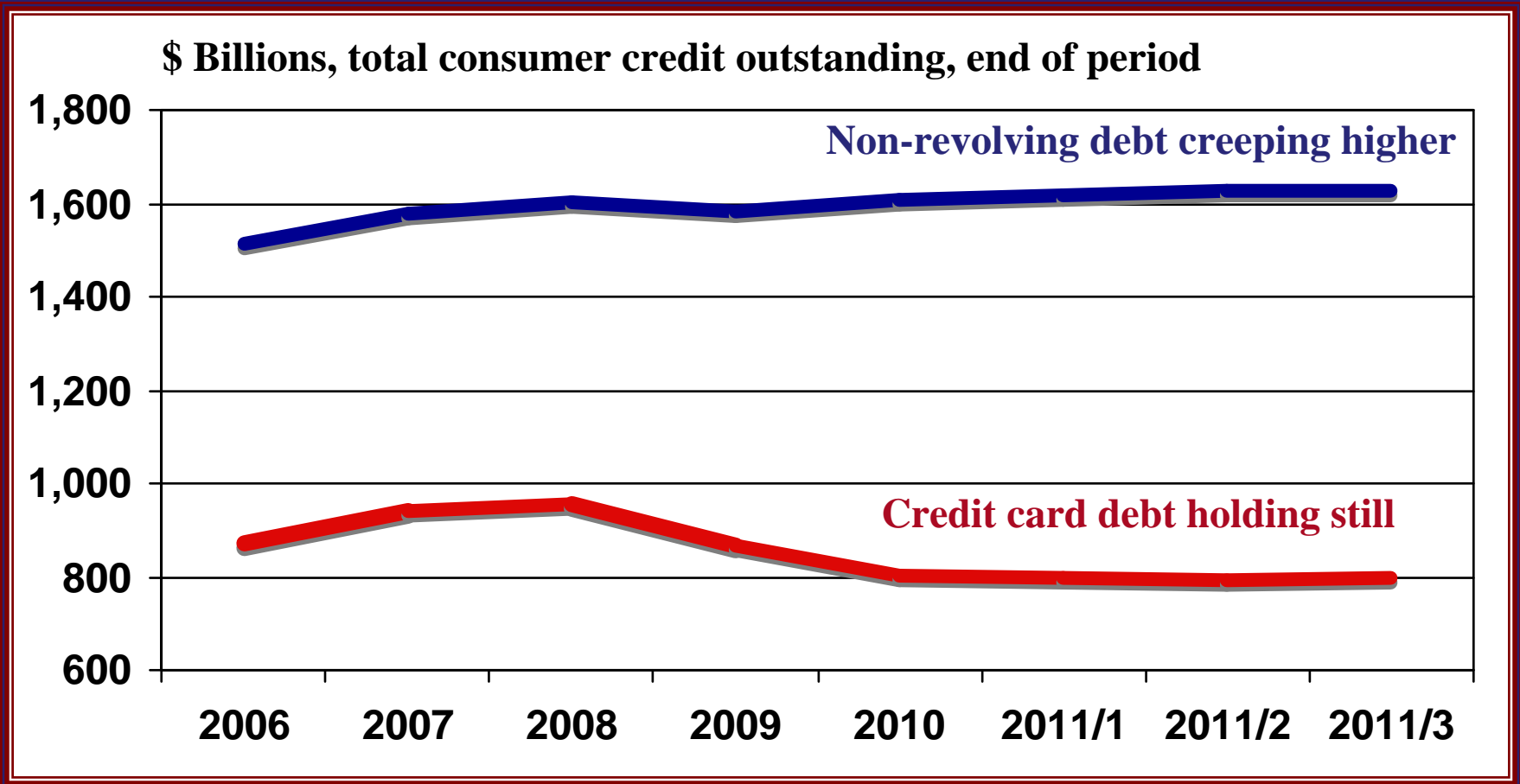
# Economy Faces Fresh Headwinds

- **Geopolitical instability in North Africa and Middle East to last. Oil prices will remain elevated. New normal for crude is \$90 to \$130 a barrel.**
- **US households under new financial pressure. Inflation + softer job market = Consumers turn cautious.**
- **Japan's natural disasters has interrupted output and sales in the US.**
- **Cuts in US federal, state and local spending will lessen demand.**
- **Economy can not fully recover w/o housing. Swamp of home foreclosures and litigations. No new home-buying tax incentives foreseen.**
- **Global interest rates on the rise (except the US); This will slow world economic growth and cut into US exports.**

# Households getting squeezed: Cost of living rising faster than wages

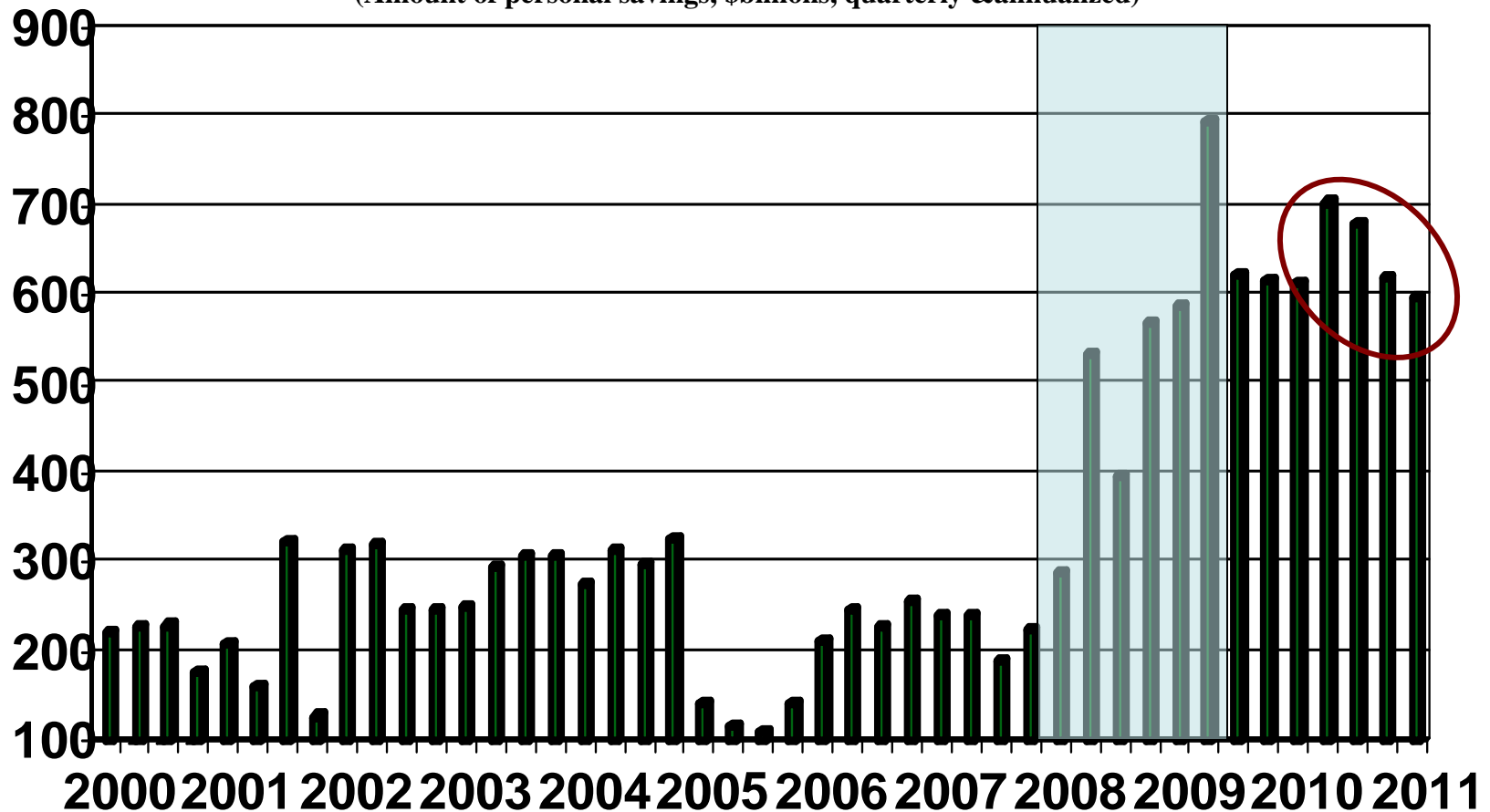


# Consumers are apprehensive about new borrowing

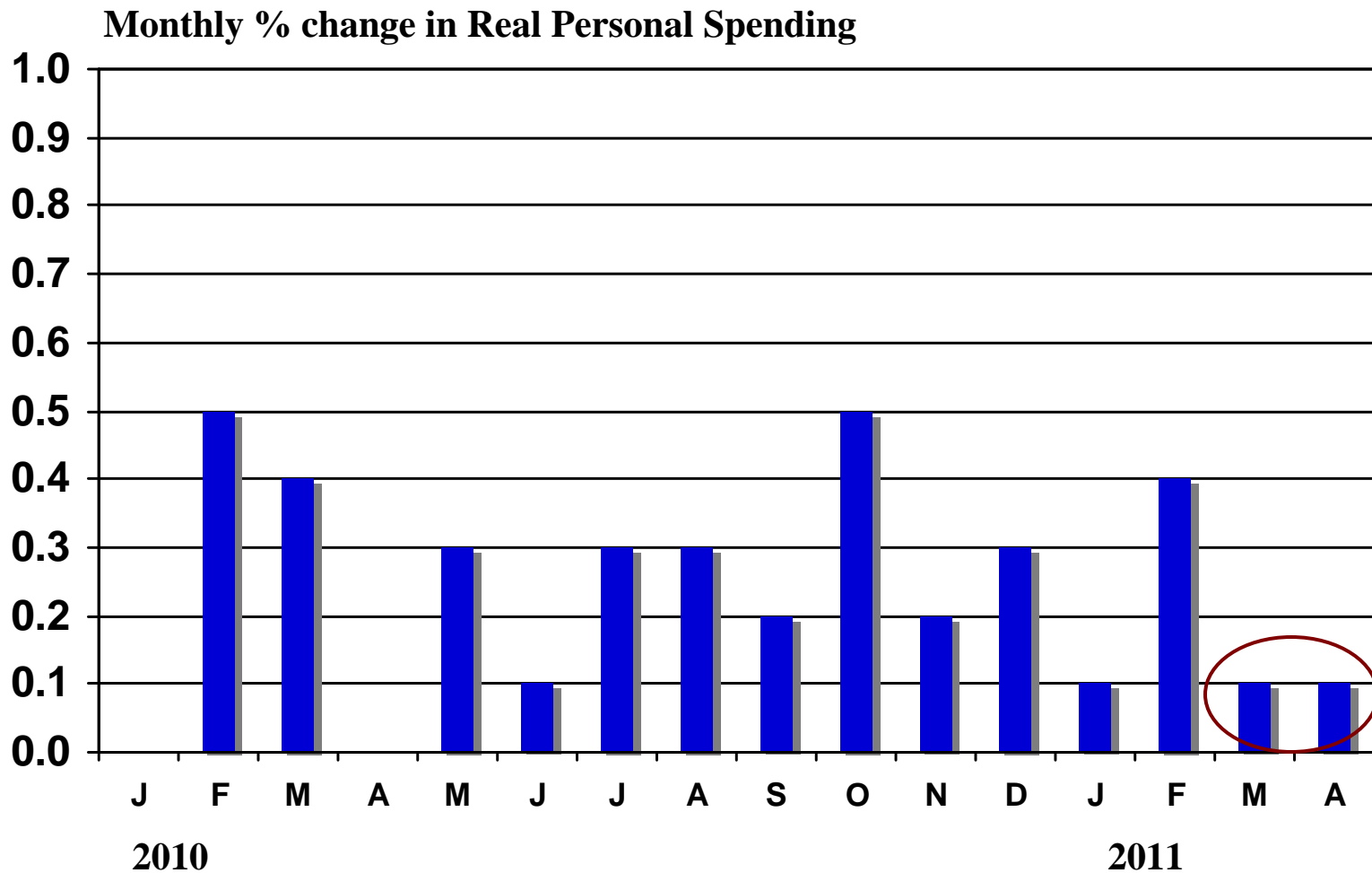


# Americans instead are tapping more of their savings

(Amount of personal savings, \$billions, quarterly & annualized)

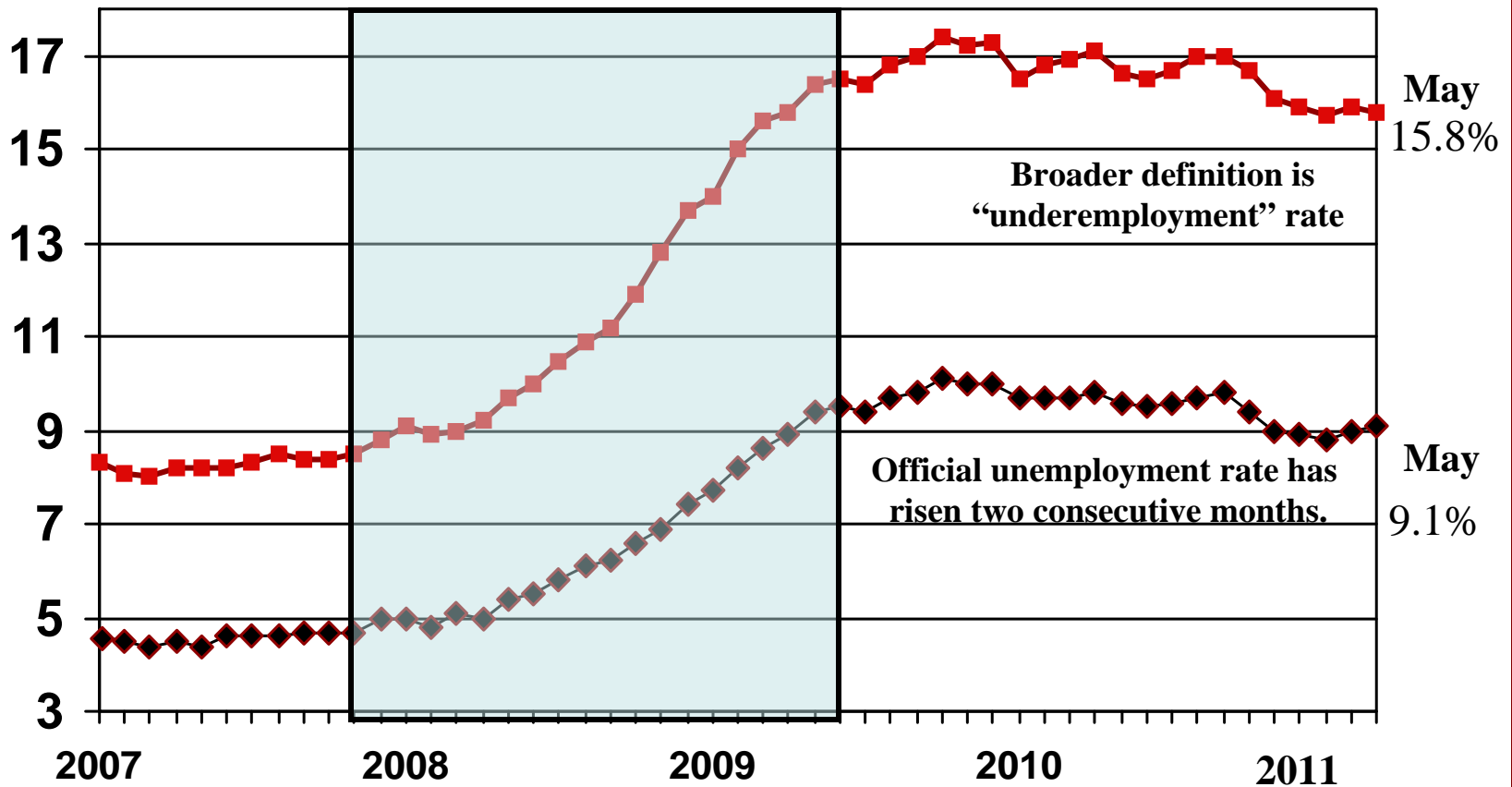


# Consumers have begun to scale back spending



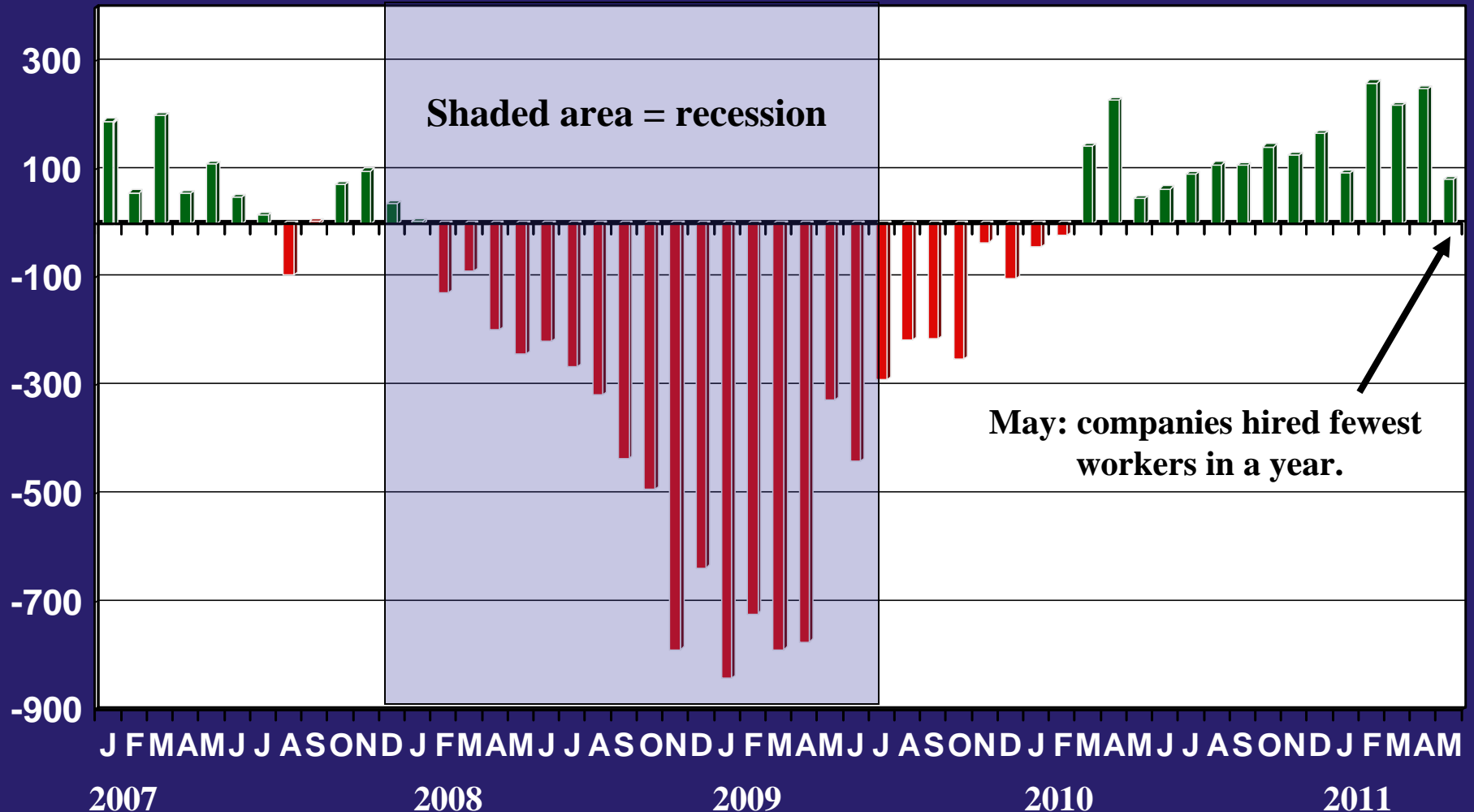
■ **Broader Measure of Unemployment Rate**  
■ **Official Unemployment Rate**

**Jobless rate %**



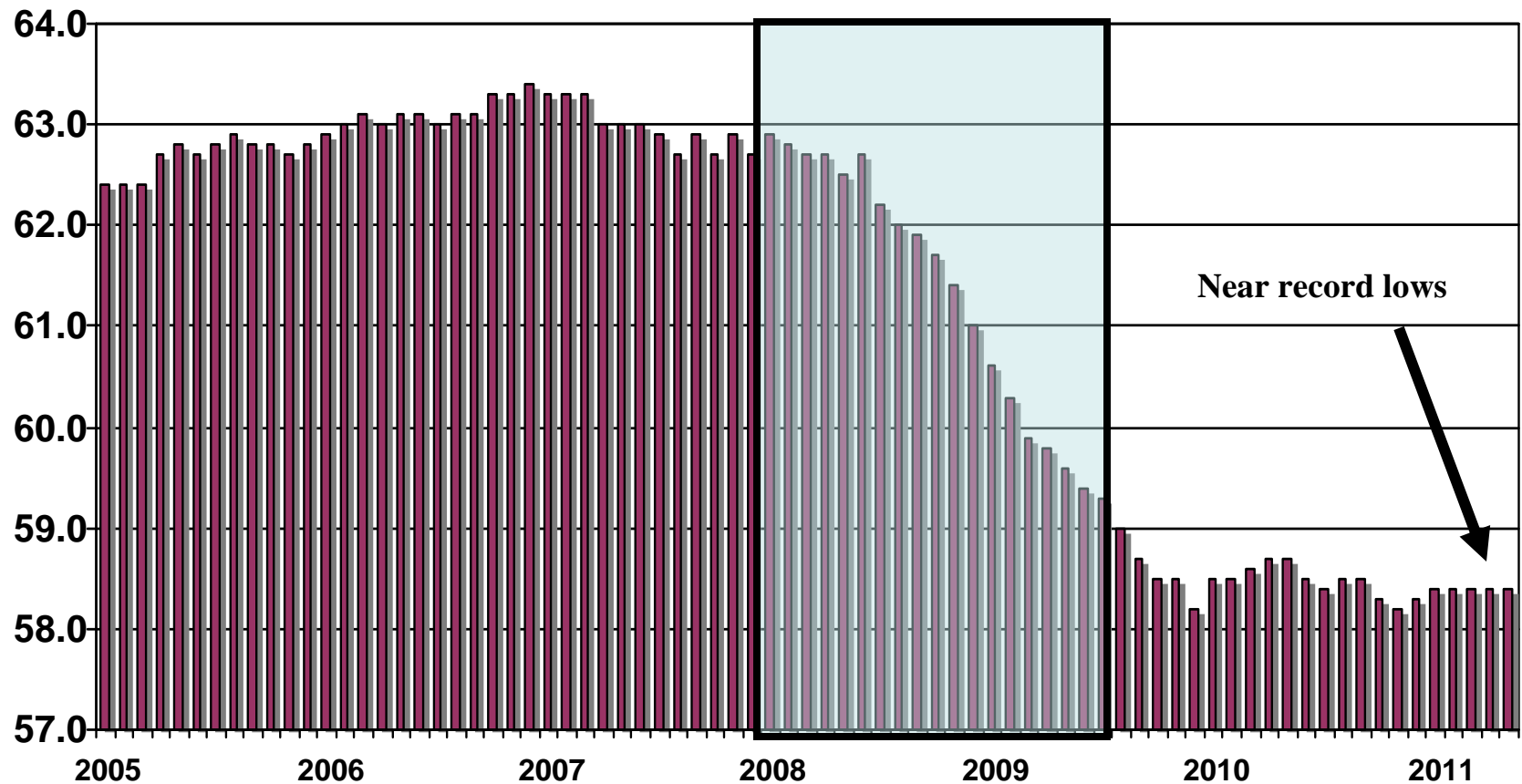
# U.S. Job Market at Inflection Point!

Monthly Change in "Business" Payrolls  
(thousands of net new jobs per month)



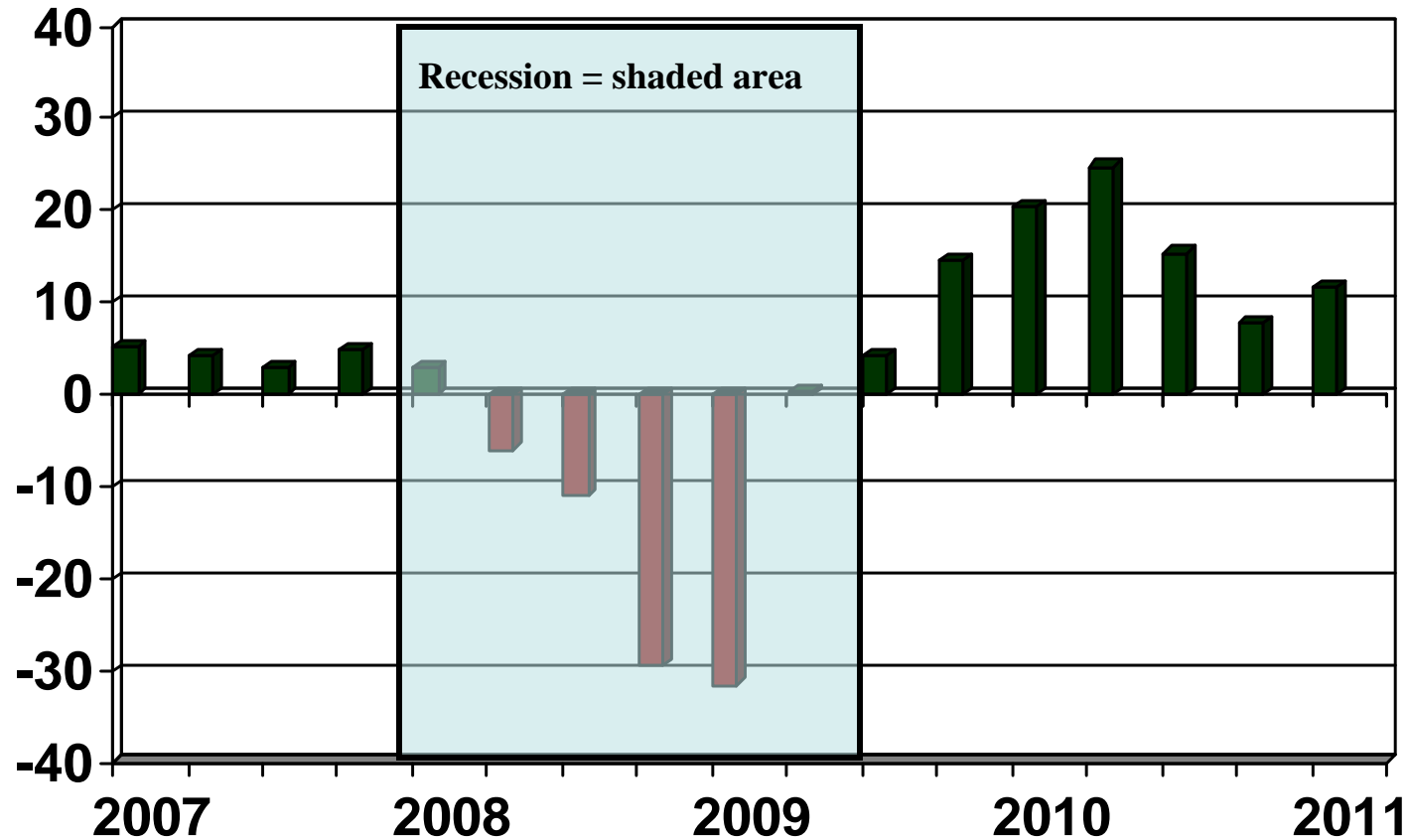
# % of Americans working stands **near 50-year lows**

% of US civilian population employed



**Companies are laser focused on improving productivity.  
Firms continue to boost spending equipment, software and computers.**

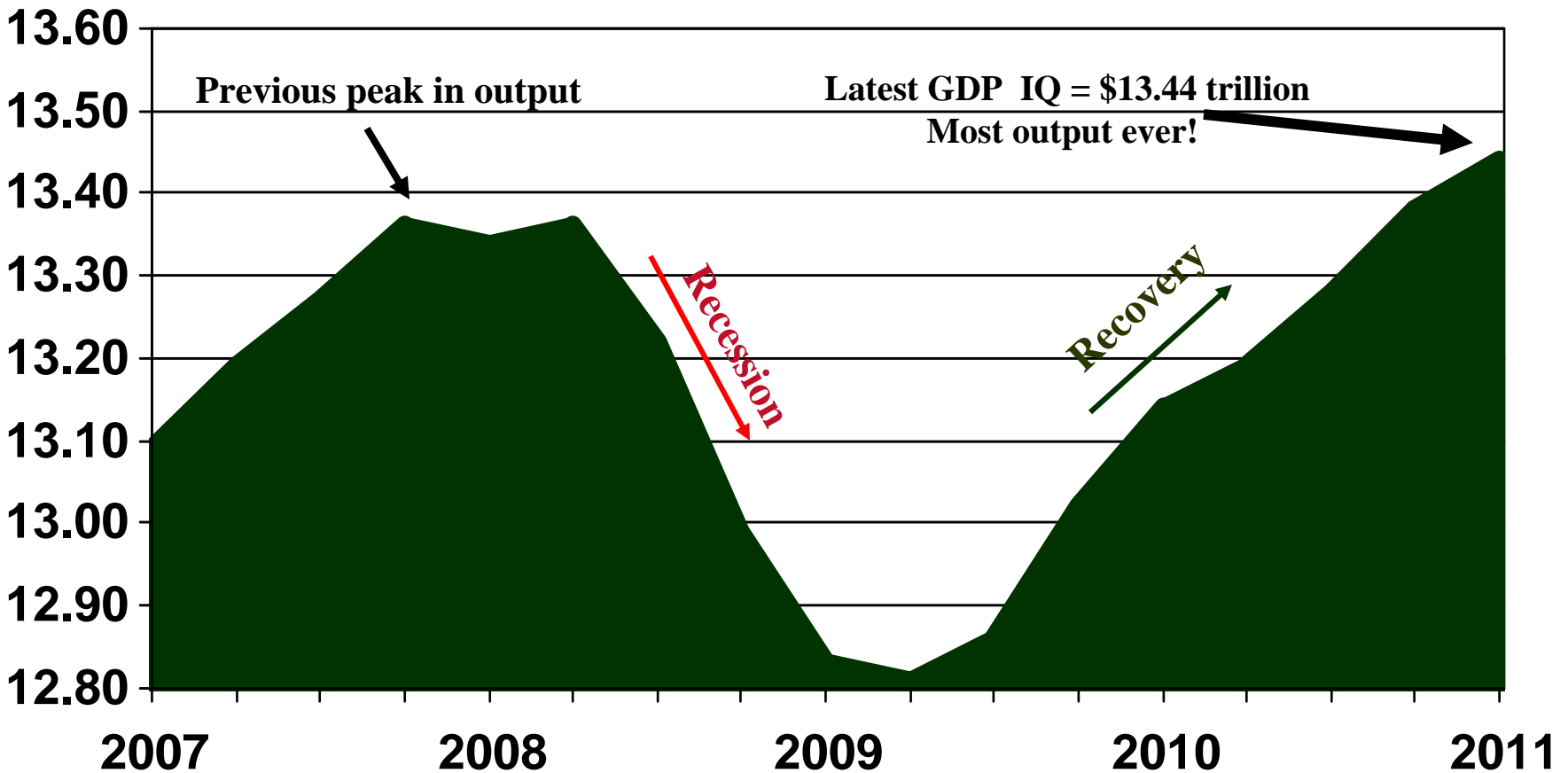
**% change, corporate outlays on *equipment and software*, quarterly & annualized**



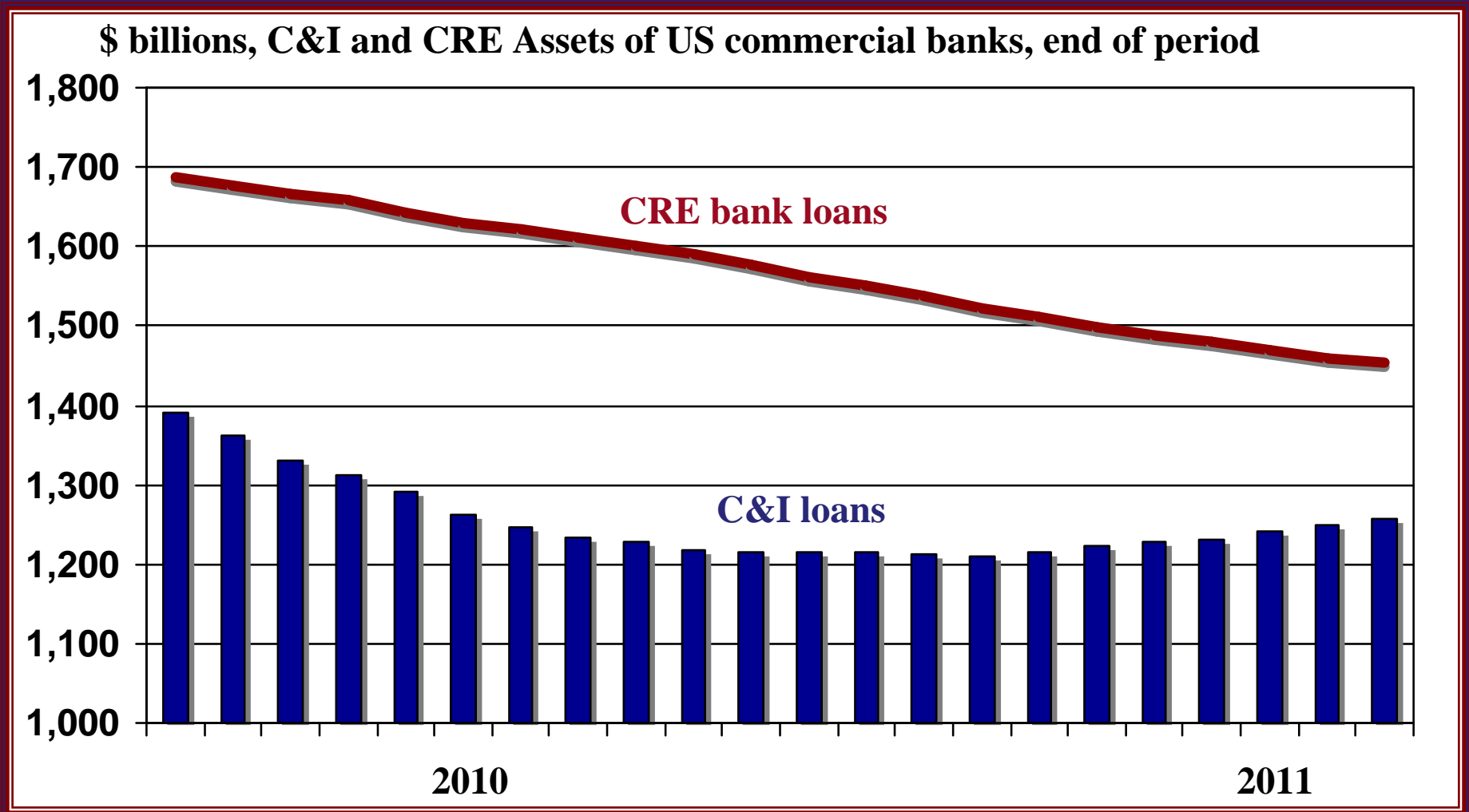
Source: Commerce Department

**US economic output now greater than ever before  
...and able to accomplish this with 7 million fewer workers!!!**

Real GDP, \$ trillions of dollars

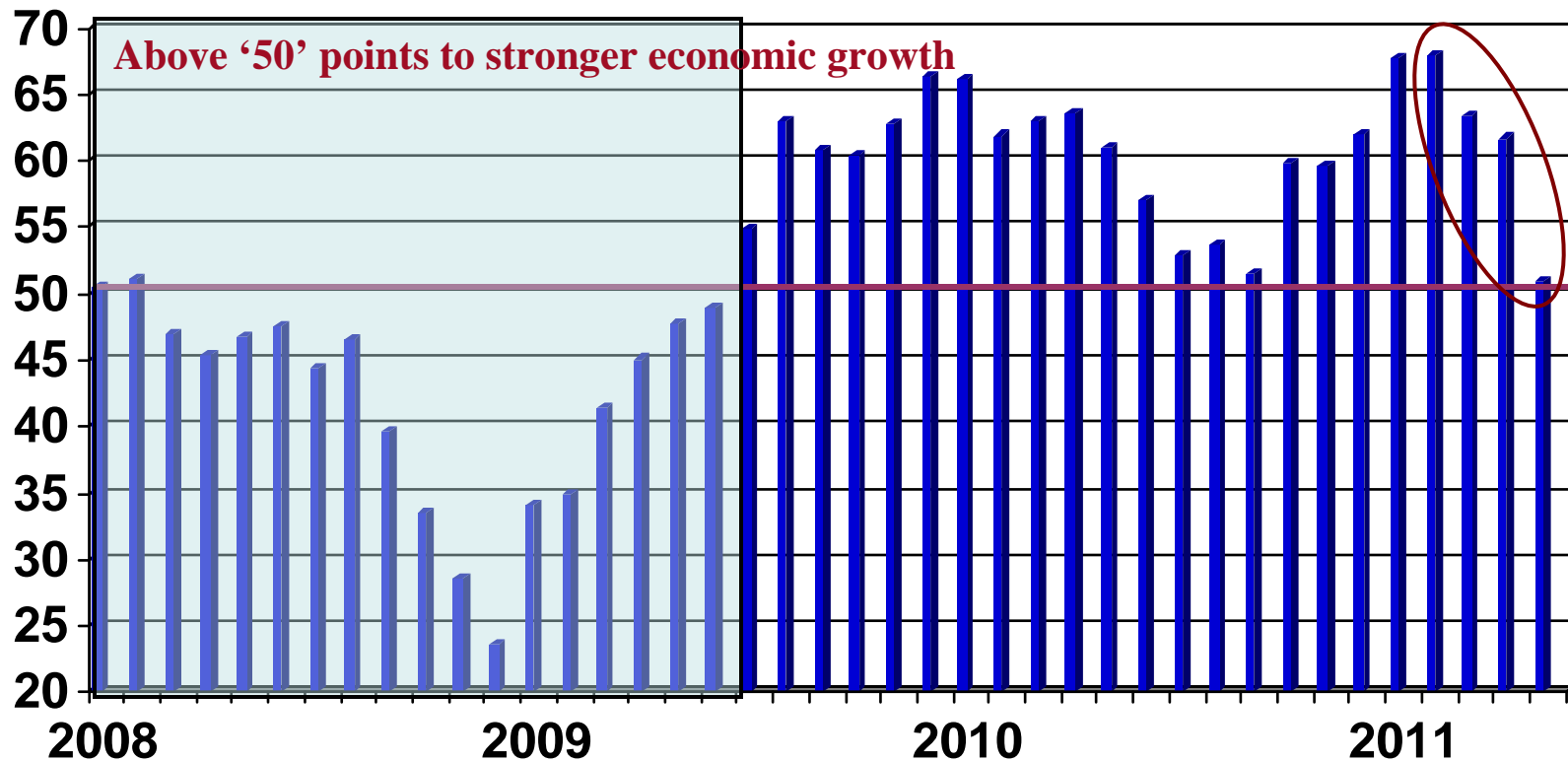


**Commercial & industrial loans by banks are picking up.  
But commercial real estate loans still in decline.**



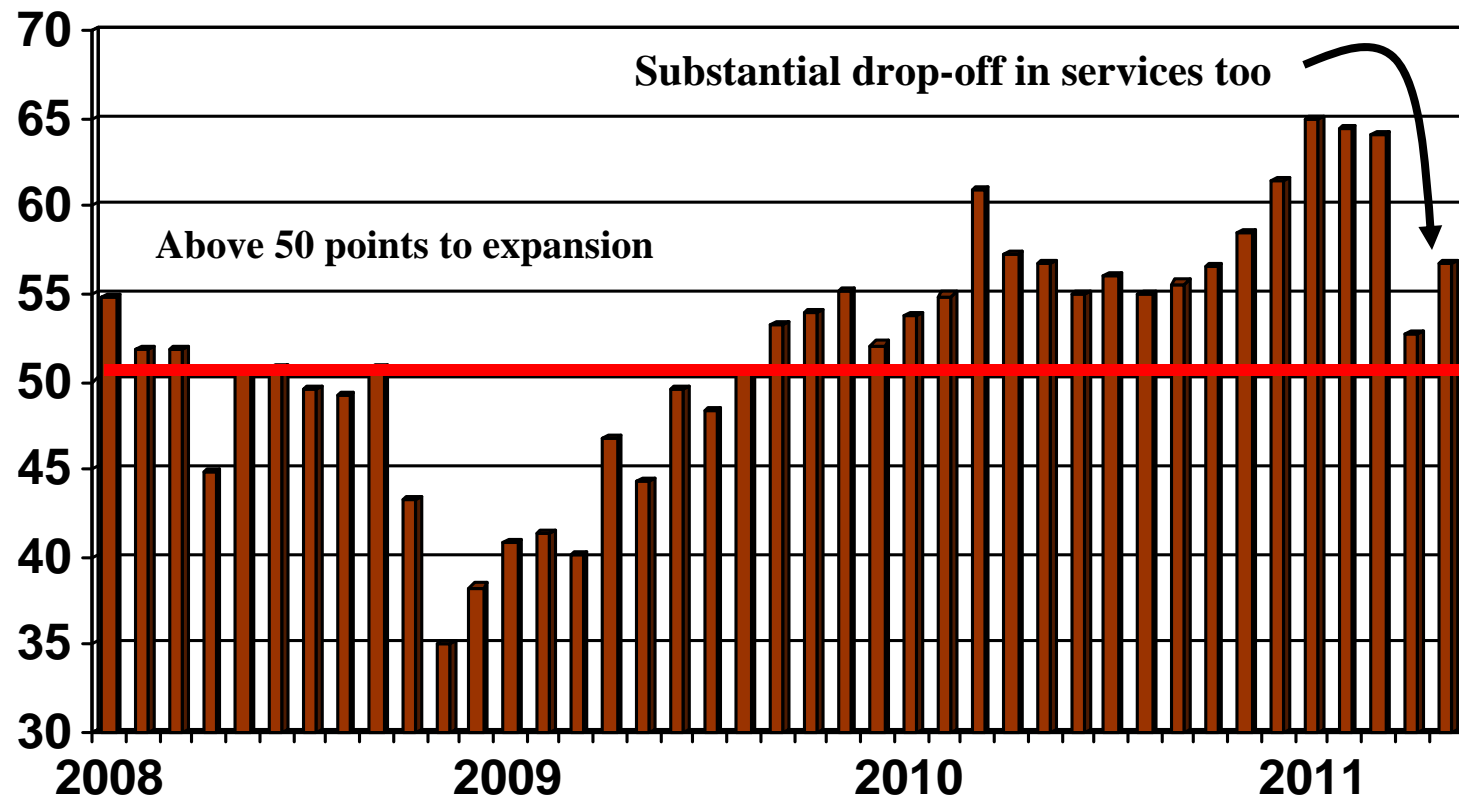
# New orders to manufacturers have fallen off sharply!

ISM New orders index for manufacturing



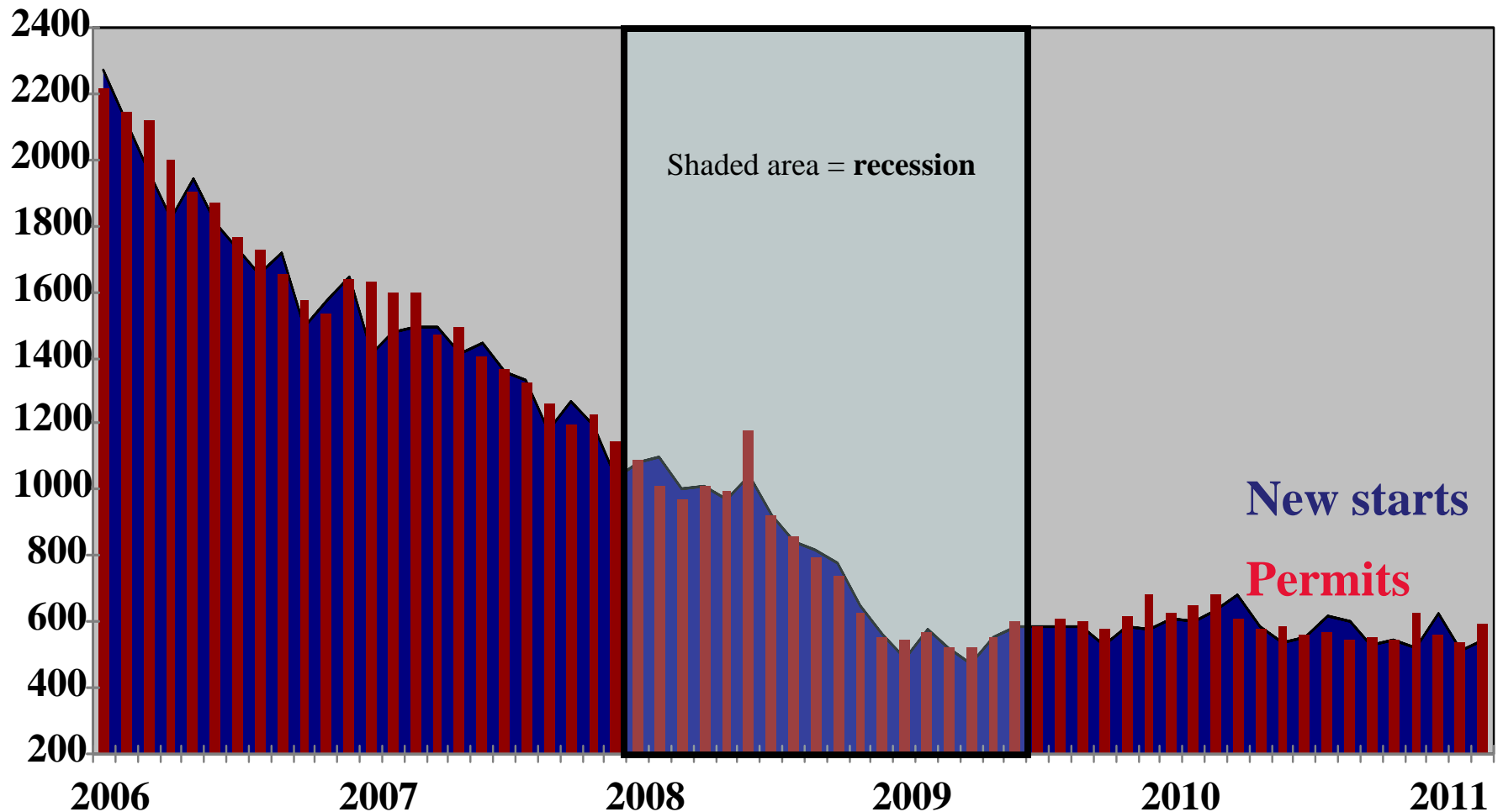
# Service sector also receiving fewer new orders

## ISM New orders index for non-manufacturing



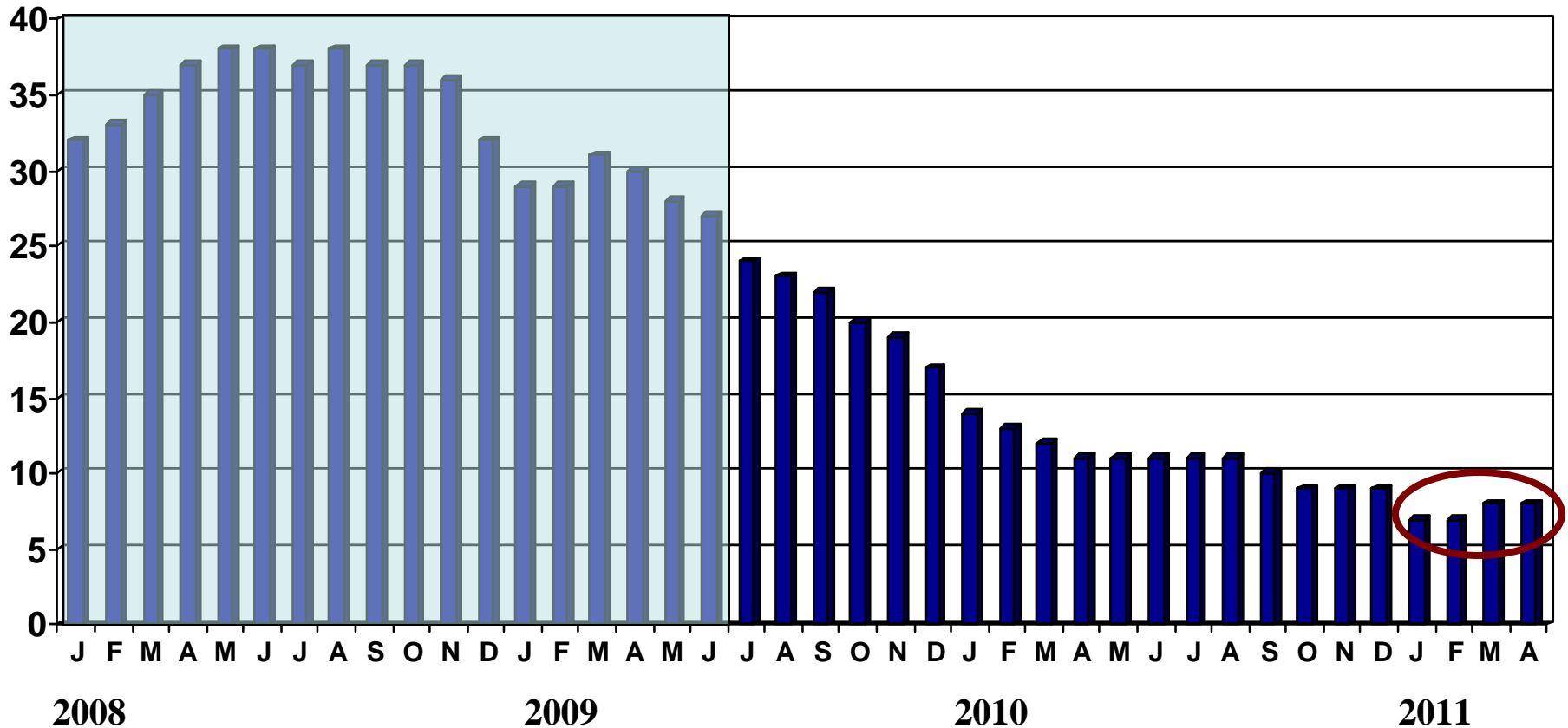
# New home construction still bouncing off the bottom

Thousands of new units, monthly annual rates



# After free fall, lodging construction spending levels off

\$ Billions, monthly, annualized



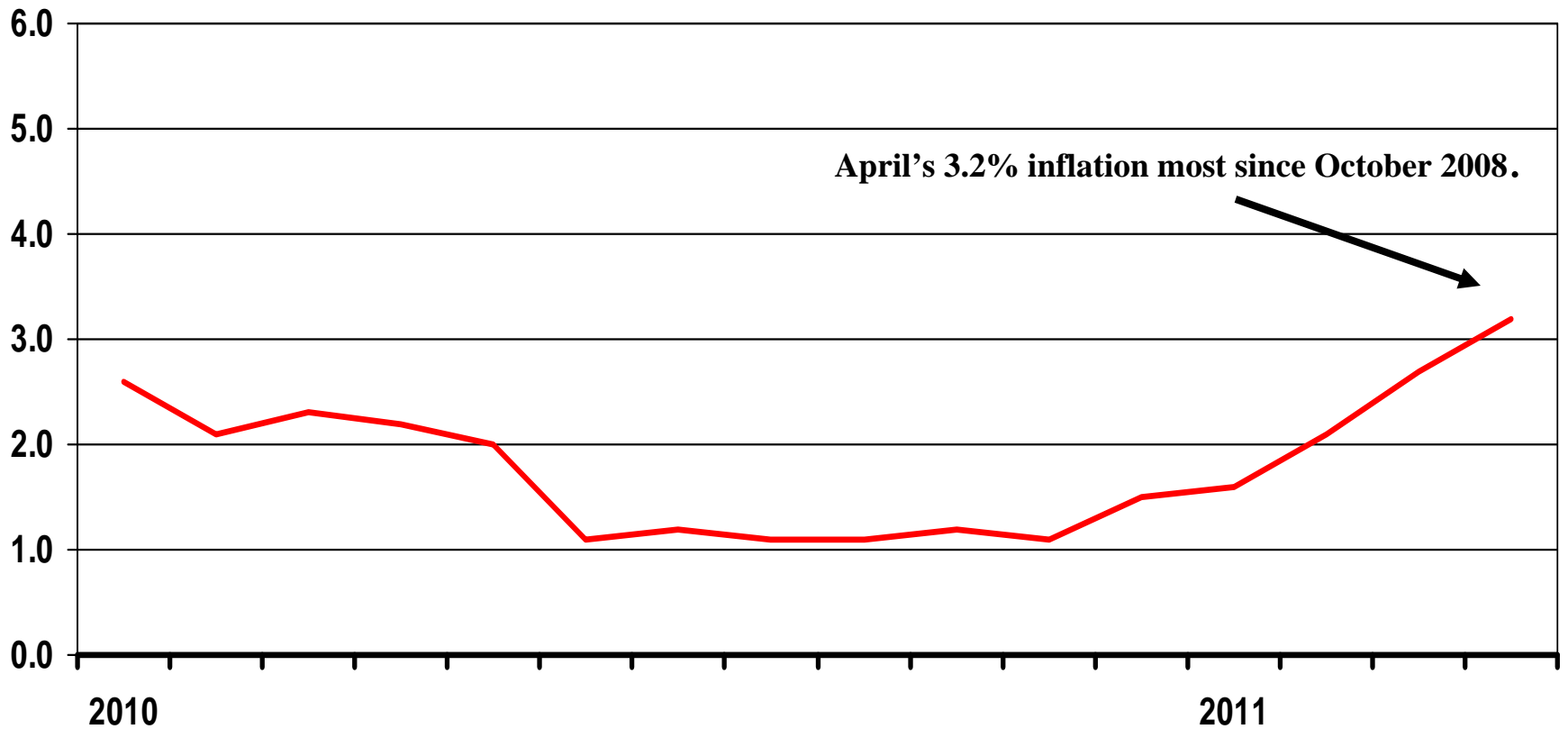
## **Inflation to edge higher even as the economy slows**

- ☑ Inflation typically accelerates 2 years after onset of recovery. Source of pricing pressures stems mostly from events outside US.**
- ☑ The Federal Reserve is wrong in arguing that recent factors driving up fuel and food prices are “transitory.”**
  - Turmoil in Middle East far from over.**
  - Demand for commodities and finished goods from emerging countries will remain strong for decades.**
- ☑ Weak dollar will contribute to inflation because imports become more expensive.**
- ☑ China no longer a deflationary influence on US imports.**

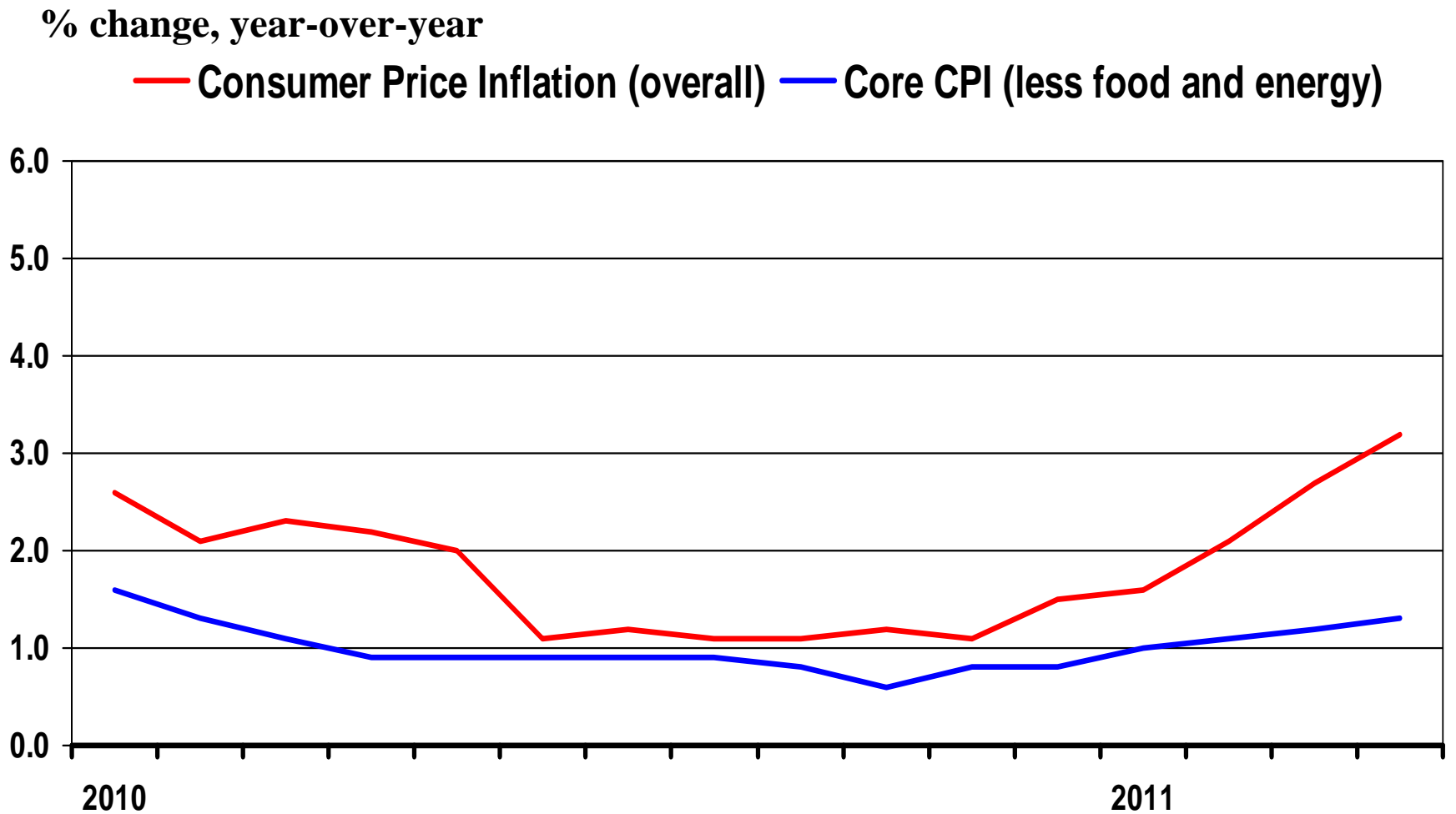
# Consumer prices moving up more rapidly

% change, year-over-year

— Consumer Price Inflation (overall)



# Consumer prices moving up more rapidly



## **Risk of recession remains very small**

- **US short & long term interest rates to remain historically low.**
- **Federal Reserve will not tighten monetary policy this year.**
- **Budget deficits still provide stimulus to the economy.**
- **Business capital spending should remain fairly strong.**
- **Consumer purchases will fade, but not disappear.**
- **US exports to accelerate:**
  - Japan to embark on massive reconstruction (\$350 billion plus). This will lift US shipments abroad.**
  - **Emerging countries will continue to expand more rapidly than the mature economies.**

# Major threats the next 6 - 12 months

◆ Congress fails to raise the national debt ceiling and US defaults.

**Probability: <10%**

◆ Greece defaults, contagion spreads.

**Probability of Greek default: 95%**

**Probability Ireland and/or Portugal will follow Greece: 70%**

**Probability damage will spill to the US (65%), and terminate recovery: (20%)**

◆ US Treasury rates climb “sharply” on fear of inflation, erosion of dollar’s value, and with China, Japan and Fed buying less new US debt.

**Probability: 30%**

◆ US employers, sensing economic slowdown, scale back new hiring.

**Probability: 70%**

◆ More geopolitical disruptions in the Middle East. Turmoil could last yrs.

**Probability: 90%**

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# Economic Forecasts

		Standard & Poor's		The Economic Outlook Group	
	2010	2011	2012	2011	2012
<b>Real GDP</b>	2.9	2.7	2.8	2.6	3.3
<b>CPI</b>	1.7	3.0	1.8	3.6	4.2
<b>Interest Rates – 3-Month T-Bills (Year-end)</b>	.14	0.2	2.1	0.4	2.4
<b>Euro / Dollar Exchange Rate (Year-end)</b>	1.33	1.45	1.48	1.28	1.41
<b>Unemployment Rate (Year-end)</b>	9.4	8.5	8.2	9.2	8.3
<b>Peak Oil (Barrel)</b>	\$95	\$113	\$110	\$116	\$130
<b>S&amp;P 500 (Year-end)</b>	\$1,258	\$1,425	\$1,525	\$1,417	\$1,525

Sources: Bureau of Economic Analysis, US Energy Information Administration, Standard & Poor's, and The Economic Outlook Group.



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