

# HOTELS

PASSION FOR HOSPITALITY



## What's the Deal By Daniel Lesser

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### When is the next recession?

*(The views and opinions expressed in this blog are strictly those of the author.)*

Fear of recession always lurks behind a strong economy, particularly during prolonged recovery periods, which the U.S. has been experiencing for what is now almost a decade. Depending upon who is asked, on one end of the spectrum, the nation is experiencing a Goldilocks economy, on the other end, the calm before the storm.

During the month of May:

- J.P. Morgan Chase Chairman & CEO Jamie Dimon opined that while "America looks pretty good. ... It looks like this (economic growth) may have legs to go. Maybe a year, maybe two, maybe more." He went on to caution that the good times will not last forever, and "someone asked me once, what's the odds of a recession? I said it's 100 percent. But the question is when."
- Thestreet.com published: There Is Virtually No Chance of a U.S. Recession This Year: Goldman Sachs, in which David J. Kostin, the firm's chief U.S. equity strategist, stated: "The U.S. economic team's recession probability model assigns a 5% likelihood of a recession during the next four quarters, 19% during the next eight quarters, and 34% during the next 12 quarters," and that "an economic contraction in the near term seems remote. The consumer accounts for 69% of U.S. GDP and confidence stands near its 20-year high. Business spending is also robust. S&P 500 capex is tracking at +24% in 1Q year/year. We forecast 2018 capex growth of 10% to US\$690 billion (27% of cash spending)."

- Newsweek published: Goldman Sachs Chief Economist Warns U.S. Fiscal Outlook Is 'Not Good', in which Jan Hatzius, the firm's chief economist and head of global economics and markets research, stated: "An expanding deficit and debt level is likely to put upward pressure on interest rates, expanding the deficit further," and "while we do not believe that the U.S. faces a risk to its ability to borrow or repay, the rising debt level could nevertheless have three consequences long before debt sustainability becomes a major obstacle."
- The Wall Street Journal published Economists Think the Next U.S. Recession Could Begin in 2020, which stated: "The economic expansion that began in mid-2009 and already ranks as the second-longest in American history most likely will end in 2020 as the Federal Reserve raises interest rates to cool off an overheating economy." Of the WSJ poll of economic forecasters, 62% anticipate the next recession will be caused by rising interest rates. Other suggested causes that would cycle the U.S. into a recession include "financial crisis, the bursting of an asset bubble, a fiscal crisis or disruptions to international trade."

While I am by no means an economist, having experienced numerous cycles during my career, it appears obvious that America's next economic recession is not far away. Exactly when and how deep a recession ultimately occurs is anyone's guess.

As evidenced by the above quotes, even Wall Street insiders are split on timing/expectations for the next recession. I am curious when hotel financiers will begin to factor such conditions into underwriting investment opportunities. As shown by the recent bidding war for LaSalle Hotel Properties, today's hotel investment market is awash with available debt and equity capital that is chasing yield.

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