Meet Dr. Doom

In recent months, New York University's Nouriel Roubini has cheerfully given himself the moniker "Dr. Doom" for his pessimism about the U.S. and global economic outlooks. Why so glum? Roubini spelled out his reasons in a talk at the IMF last month, with a predicted housing bust topping his list of concerns. Fellow panelist Anirvan Banerji of the Economic Cycle Research Institute remained unconvinced, however.

Moderating the event, IMF Research Department Deputy Director Charles Collyns said that Roubini's "website and his blog are probably the most widely read economics websites among the Fund's staff." Collyns also quipped that the "impressively large crowd" at Roubini's seminar—about 300 staff members attended—perhaps reflected not just great professional interest but also considerable personal interest, "since many of us at least have a substantial part of our personal portfolios exposed to risk in the Washington real estate market."

If the United States sneezes . . .

In Roubini's view, a slowdown in the U.S. housing market would be a key factor in precipitating a recession in the United States next year and a "global hard landing." The "U.S. housing bust," he said, is the most significant of three "bearish factors" in the U.S. economy, with elevated oil prices and rising interest rates being the others. Over the past several years, U.S. consumers have gone on a spending binge, spurred by low oil prices and interest rates, with many consumers using their home equity as an "ATM machine." Now, he warned, "consumer burnout" is imminent.

Roubini drew a parallel between the present situation and early 2001, when the U.S. economy last slid into a recession: "What is happening today is that, instead of a glut of tech goods, we have a glut of housing stock and also a glut of consumer durables." Even if the U.S. Federal Reserve Board lowers interest rates later this year, he said, it will not stave off a recession "for the same reason that Fed easing did not work in 2001." If you have a glut, Roubini reasoned, "you have to work it out, and interest rates effectively do not matter."

Eugene Salazar/IMF

Roubini sees three bearish factors pushing the U.S. toward recession.

Some maintain that, "even if the United States goes into a slowdown or a recession, the rest of the world could decouple" from it because there is enough momentum in domestic demand in Asia and Europe. Roubini questioned this view, noting that dependence on exporting to the United States is still strong enough that "when the United States sneezes, the rest of the world gets a cold." And many countries, he added, have only a limited ability to ease macroeconomic policies in the event of a slowdown, given inflationary pressures or fiscal constraints, and some have to cope with housing sector slowdowns of their own.

Choosing the right analogy

Banerji offered a more measured assessment of U.S. prospects. While he applauded Roubini's "signal role in questioning a complacent consensus," he was nevertheless quite critical of what he termed "forecasting by analogy." Banerji saw "a wide variation in the combination of factors that has helped trigger each recession" in the United States over the past several decades.

He was not persuaded that Roubini's comparison of the present situation with early 2001 was preferable to those forecasters who "see the soft landing of the mid-1990s as the better comparison." Forecasting by analogy is tempting, Banerji observed, "but it is hard to choose the right analogy." ■

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