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Roubini sees weeds amid green shoots

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By [Pedro da Costa](#) and [Ros Krasny](#)

NEW YORK (Reuters) - The U.S. economy will not recover until the end of this year, and even then growth will remain meek and vulnerable to higher interest rates and commodity prices, economist Nouriel Roubini said on Tuesday.

Roubini, who rose to prominence for predicting the global credit crisis, tore down the "green shoots" theory that a rebound is imminent, saying there was a significant risk of a "double-dip" recession where the economy expands slightly only to begin contracting again.

"In addition to green shoots there are also yellow weeds," he told the Reuters Investment Outlook Summit in New York.

He pointed to the growing divergence between business sentiment surveys, which have been improving in recent months, and industrial production, which is down sharply and receded another 1.1 percent in May.

Roubini, the head of economics research firm RGE Global Monitor, said the U.S. jobless rate, already at a 26-year high of 9.4 percent, would reach 11 percent before it begins to ease. He added that he saw few engines for growth given that U.S. consumers are tapped out

As a result, Federal Reserve policy-makers, whom Roubini says completely missed the magnitude of the crisis at its inception, face an unenviable set of policy choices.

He said weak growth would allow the U.S. central bank to leave interest rates near the current rock-bottom levels for the foreseeable future. Eventually, however, trillions of dollars of unprecedented emergency measures to heal the financial system will need to be mopped back up to prevent an upsurge in inflation.

Rampant inflation could lead to negative economic cycles like the ones that plagued much of the industrialized world in the 1970s.

"That's the challenge the Fed is facing," Roubini said.

He said the central bank did the right thing to avoid an outright depression, but is left with emergency lending programs that are clearly not sustainable.

These factors, Roubini argued, would continue to pressure the U.S. dollar over the medium term.

Asked to grade the central bank's job, Roubini gave the Fed a "D" for missing the crisis altogether and downplaying its possible impact, but a "B-plus" after the credit debacle had unfolded.

"I give them credit for being very creative and very aggressive," he said.

(Editing by Leslie Adler)

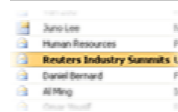
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