

Optimism, uncertainty take center stage

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Story Highlights

- STR expects demand to increase approximately 2% during the rest of 2012.
- Advance group bookings are looking fairly strong, but some questions remain, according to TravelClick.
- Mark Woodworth of PKF Hospitality Research said it won't be pretty if the U.S. breaches an impending fiscal cliff, but 2014 looks pretty solid all the way around.



Bernard Baumohl of The Economic Outlook Group told attendees of the Lodging Conference on Wednesday that 2013 could be better than people think it will be.

PHOENIX—A fast-paced opening general session Wednesday confirmed a number of things for the 1,400 attendees of the 18th annual Lodging Conference. Most notable: Optimism and uncertainty permeate the hotel space as most parties with a vested interest in the sector are happy with the way it has performed but aren't as pleased with the overall economy.

"There's a little bit of business constipation out there," summed up Bruce Ford, senior VP of sales for Lodging Econometrics. "The economy outside the hotel industry is not very healthy, but the hotel industry economy is very good."

Vail Brown, VP of global business development and marketing for STR, opened the conference with a quick [data overview](#), setting the tone for the rest of session by telling attendees the industry has achieved an all-time high in room revenue of \$78 billion through the first eight months of the year. She added demand has been outpacing supply for 25 consecutive months. STR is the parent company of HotelNewsNow.com.

"The first eight months for our industry have been very, very strong," Brown said. "For the remainder of year, demand will grow at about a 2% pace, and supply will remain somewhat muted."



She added that while on a seasonally adjusted basis occupancy has returned to pre-recession levels, average daily rate has not.

"From a recovery standpoint, that's where the opportunity lies," Brown said.

Tim Hart, executive VP of enterprise services for TravelClick, said there's good news on the group-business front as roomnight bookings for the next 12 months are up 3.2% from the previous year and ADR is up 1.6%. Meanwhile, future transient bookings are up 6% and transient ADR is up 5.3%. Transient leisure bookings are up 8% while transient leisure ADR is up 4.5%.

"We see positive things. We see some things to worry about with group pace, but we'll see how they unfold," Hart said.

Mark Woodworth, president of PKF Hospitality Research, said there are good signs for the hotel industry: Year-to-date room rate growth, for instance, is twice the long-term average, while profits have increased by double digits.

"The recovery is here," Woodworth said, but he did caution that the potential of the fiscal cliff in Washington, D.C., later this year or early next year could cause issues.

"If we go over the fiscal cliff, it's a real unattractive picture for 2013 as we see it," he said. "I always like to end things on a happy thought, and under any scenario that we've run, 2014 looks wonderful so let's all look forward to that."

Ford said hotel construction is beginning to rise to approximately 67,000 rooms under construction.

"It's modest," he said, comparing it to the peak of 180,000 rooms under construction during the peak year of 2008. "Nothing is really standing out. ... I would have expected that we would have had a little bit better outlook for hotel development, (but) it hasn't grown as much. People are more interested in pausing than they are acting."

Upside on the economy

Bernard Baumohl, chief global economist for The Economic Outlook Group, said the overall economy's performance in 2013 could be a lot better than most forecasts indicate.

"The fundamental structure of the U.S. economy today is a heck of a lot better than it was a half decade ago," he said, specifically pointing to the lowest household debt burden in 18 years. "They're poised to spend at the right opportunity."

Add to that the \$1.7 trillion that corporations have sitting on the sidelines waiting to be put to use at the right time and there could be good news ahead, he said.

Baumohl said if the economy breaches the fiscal cliff, more than \$600 billion will be removed from the economy in 2013, and there would be an 80% probability of the U.S. going back into recession. But that's a good reason for politicians to make sure the fiscal cliff is avoided.

"No politician worth his salt wants blood on his hands for causing a recession," he said. "It's completely avoidable, and the American public knows it."

He said the two-year "election shrill" that the public has endured will be over in November, and, regardless of which presidential candidate wins, that should mean more meaningful discussions taking place in Washington.

Baumohl gave projections for the economy based on whether President Obama or challenger Mitt Romney wins the election.

If Obama is re-elected:

- Gross domestic product in 2013 will grow 3%;
- there will be an 8.5% unemployment rate;
- payrolls will add 2.5 million jobs;
- the budget deficit will dip slightly below \$1 trillion; and
- Ben Bernanke likely will be reappointed as chairman of the Federal Reserve.

If Romney is elected:

- GDP will increase 2% in 2013;
- the unemployment rate will be 8%;
- 1.5 million jobs will be added to payrolls;
- the budget deficit will remain above \$1 trillion; and
- Bernanke will be replaced as chairman of the Fed.

Baumohl said there would be large-scale changes if Romney wins and that will result in unnerved financial markets in the short terms, which will lead to higher interest rates. "Tax cuts will not immediately revive private sector spending," he said.

The big wild card is what is going to happen in Iran as it continues to edge toward nuclear-weapon capability.

"There is a foreboding sense that something is going to happen in the next few months," Baumohl said. "If that happens, oil prices will surge toward \$200 (per barrel), and at that point all bets are off."