Forecasts

Economist: Hoteliers should prepare for a downturn

Bernard Baumohl, chief global economist for the Economic Outlook Group, warns there are several worrying signs for the fate of the overall economy and hoteliers would be wise to plan for a recession.

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HOUSTON—While the outlook shared by many hoteliers has remained relatively upbeat as the hotel industry has enjoyed a prolonged up-cycle, at least one economist warns that the good times probably won't last much longer.

Speaking during HSMAI's 2018 Revenue Optimization Conference, Bernard Baumohl, chief global economist for The Economic Outlook Group, said there are reasons for pessimism at the moment.

"The concern I have is we're beginning to see the seeds of a much more significant slowdown in 2019 and 2020," he said.

Baumohl admitted though that recent history has proven the difficulty of making economic projections in an unpredictable environment.

"Right now we're in a pivotal moment in U.S. and world economic history," he said. "There will be a lot of textbooks written about what's happening right now. It's really extraordinary. It's difficult for economists to project what spending will be over the next two years, and part of that is that the models we use are incredibly ill-equipped to handle the impulsive decision-making and convulsions taking place right now."

He said at the beginning of the year the global economy looked like a well-oiled machine, spurred to further growth by the U.S. tax cuts put into place in late 2017. But that changed when "someone threw a massive wrench" into that machine in the form of a rash of tariffs incited by U.S. President Donald Trump.

"For all practical purposes, we're now in a trade war, and that will obviously have an impact on the economy," Baumohl said.

Signs in the market In addition to back-and-forth tariffs, other potential bad omens for the economy include the ongoing investigation into Russian interference in U.S. elections and record levels of both household and government debt.

Baumohl said the level of household debt can be a particularly worrying sign for an industry like hotels that rely heavily on discretionary spending.

"If consumers decide at some point to reduce indebtedness, by definition that means there is less money available for spending," he said. "That's something to watch carefully."

He also said a business spending boom that many in the travel industry had hoped would come from the U.S. tax cuts hasn't materialized.

"We're disappointed with what we've seen," he said. "We haven't seen the rebound everybody was talking about."

He noted many companies have been reticent to spend freely during times of so much uncertainty, and major publicly traded companies have instead opted to return capital to shareholders with the first quarter of 2018 seeing "a record amount of stock buybacks."

"In the month of May alone, we saw the most announced plans for stock buybacks ever," he said. "Clearly companies are not yet confident and don't see sufficient return on investment at this juncture to commit to capital spending."

In addition to those specific signs, he said the average rebound time following a recession is roughly five years, and the U.S. economy has "been going nine full years of growth."

How hoteliers can react Baumohl said hoteliers—specifically revenue managers—would be wise to start preparing for the worst, as it is his expectation that there is a recession coming in the near future.

"It's time that revenue managers start preparing this year to consider what their strategy is (for a downturn)," he said. "We do believe the possibility (of a recession) is likely over the course of the next two years."

He said that timeline could be even more condensed than that in the worst-case scenario, which would include a perfect storm of the Federal Reserve raising interest rates too fast, a "constitutional crisis" throwing U.S. government into turmoil and "a major geopolitical eruption."

"You should prepare yourself for a recession perhaps as early as this year," he said, pinning the chances of that at roughly 50%.

He said companies and hotels should "undergo rigorous stress tests" and "come up with adverse hypothetical scenarios" to gauge their preparedness for an economic downturns. He also noted it's time to fight to protect margins.

"It's important to renew focus on improving efficiencies on how to operate and improve productivity," he said.

Baumohl said the hotels with the most aggressive and forward-thinking marketing, including heavy social media presences, will be better equipped to deal with a dip in business and leisure transient demand, which he expects to happen. He also noted property with "contingency plans in place" will be better equipped "when the time comes and the economy starts to slow."

"You should at least have a plan well prepared to put into motion to help mitigate the risks from a sharp downturn or major geopolitical eruption," he said.

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