

OPINION ARTICLE
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2022 Hospitality Industry Forecast

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A Magical Year or More Misery?

That's easy – our hospitality forecast says the bumpy ride is coming to an end. We should assume 6 more months; October through March might remain uneven or bumpy. Why? Because business travel is not back and group business is just starting to book going forward. International travel will likely return in April, 2022 when we should be back to 2019 numbers. The 2022 hospitality forecast says you should hang in there!

At the Lodging Conference, **Bernie Baumohl, Chief Global Economist of the Economic Outlook Group**, my favorite and Wall Street Journal's #1 most accurate economist was a main draw for me at this great conference. While he placed a caveat that his forecast is based on no debt default by the US (the debt ceiling is October 18, 2021) and no \$3.5T bombshell White House giveaway, his information was timely and interesting. He did bake in the \$1T infrastructure package currently being finalized (hopefully) in Congress. Based on the economic outlook and hospitality reality, here are our thoughts.

Business Plans and Budgets

Most hospitality operators are smack in the middle of budget season. Business plans should be done, budgets should be in process and according to **Bernie Baumohl**, the consumer price index is up between 4-5% and will slow to 2-3% by mid-2022. He talked about the mismatch of skills that technology providers are facing and made some predictions (those mismatches could bode well for hospitality as we have struggled to hire and do not need all employees to be tech-savvy).

Bernie Baumohl Predictions:

- GDP will finish at 5.7%, drop to 3.1% in 2022 and drop further to 2.4% in 2023
- Unemployment and Inflation will hover around 5% this year and drop to 3% in 2022
- Delta variant still is a concern
- There is a supply chain bottleneck that persists
- Energy prices and cost of goods are cutting into consumer spending
- Vaccination rates are rising and people are going back to work

Inflation and Deflation in the Hospitality Forecast

While inflation has put a dent in consumer confidence lately, **Bernie** forecasts an impending inflection point that could send some advantage back to consumers. Our concern is that it could lead to deflation but we can hope that he is right and inflation pressures will come down to 2-3% by 2023.

Business, International Travel and Recession

Bernie Baumohl's forecast for business travel is that 90% will come back in the next year or so, vaccine boosters and vaccination plans for children will stimulate more travel and international inbound travel to the U.S. will pick up. With the caveat of no more major virus shocks, the passing of the U.S. infrastructure spending package, and a raised or suspended debt ceiling, Bernie said, "recession is off the table for the next five years in the U.S."

STR Reports

STR reported that profit margins improved in July due to the combination of demand and leaner hotel operations. Their overall status report on the industry is:

- Demand is driven by the transient consumer
- ADR is driving RevPAR growth
- Business travel and groups are needed now more than ever
- 2022 forecast shows improvement but not yet back to 2019

CBRE Reports

GDP continues to set new records and they forecast most markets will return to full employment by mid-2022. Their takeaways were:

- The recent spike in COVID cases has not led to steep declines in mass transit use
- Recent travel trend data all indicate demand and travel trends ~20 – 25% below 2019
- International travel restrictions will ease in November
- Increases in construction costs, weaker demand trends, and labor challenges will result in slowing supply growth.
- Short-term rental market share has normalized, and the bulk of the spike seen earlier in the year was driven by hotel closures.
- GMs, yield management systems, and revenue managers have learned to push rates and cut costs, driving efficiencies during the recovery.

Final Thoughts

While plenty of waves could rock the ship including supply chain disruptions, **Bernie** seemed pretty bullish on 2022, especially beginning in Q2. May we all hang on until then and have a great recovery year ahead!

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