Own

How slowing GDP growth could hurt hotel RevPAR

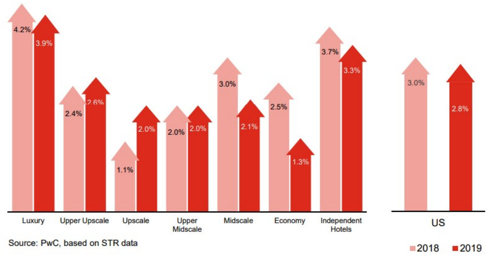
by Jena Tesse Fox | Nov 14, 2018 10:34am

Photo credit: turk_stock_photographer / iStock / Getty Images Plus

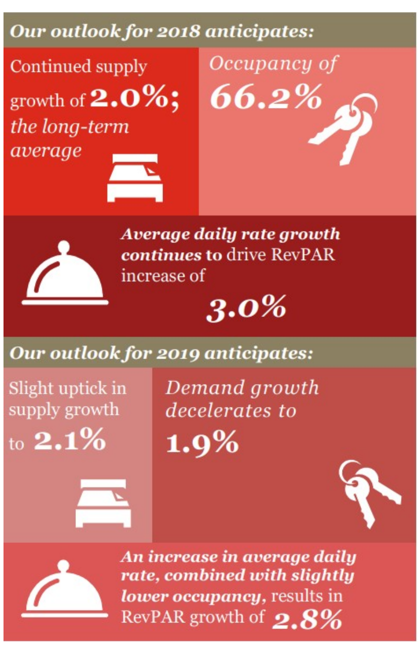
The latest report from PwC indicates that a waning fiscal stimulus—and resultant deceleration in gross domestic product growth—could hamper revenue per available room increases by the latter half of 2019. Still, economic indicators seem to support continued industry growth given high consumer spending supported by rising disposable income, employment and household net worth.

Third-quarter lodging fundamentals came in below numerous expectations, with RevPar growth of 1.7 percent year-over-year, led by rate growth of 2.1 percent, the report found. At the same time, third-quarter lodging supply growth (1.9 percent) outpaced demand (1.6 percent), resulting in occupancy decreasing 0.4 percent. Occupancies may have peaked, with flattening or slight declines on the near horizon. As such, room rate growth seems to be the way to boost RevPAR increases above inflation through 2019.

Figure 1: RevPAR growth, US and chain scales



As previously noted, September lodging results broke the industry's 102-month streak of consecutive RevPAR gains, dropping 0.3 percent. Overall, RevPAR in September fell 0.3 percent despite record growth in room supply (up 2 percent), occupancy (up 0.5 percent) and average daily rates (up 2.5 percent). While room demand was up 2.5 percent year over year, it also fell 0.1 percent in September.



About the Author

Jena Tesse Fox
Associate Editor

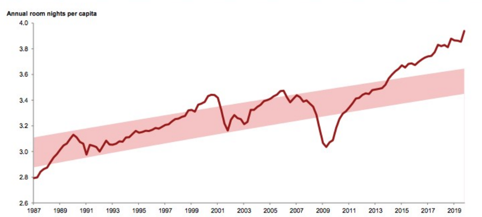
Demand in the top 25 markets decreased year-over-year, with a portion of this decline attributable to last year's hurricane season affecting markets like Houston and Orlando. Group demand increased 2.5 percent in the third quarter, with growth in the transient and contract segments also remaining positive.

At the same time, supply also increased, and occupancy flattened out over the past quarter, reporting a slight decrease in group occupancy (0.1 percent) and a 0.9 percent decrease in transient occupancy. As occupancy levels stabilize, room rate growth will remain the key to RevPAR increases through the balance of this year and into next, according to the report.

Slowing Growth

As we move into the final weeks of 2018, PwC recommends monitoring "counterbalances" to industry growth, including continued trade tensions, waning fiscal stimulus, increasing interest rates and growing inflation.

Figure 2: Lodging demand per capita



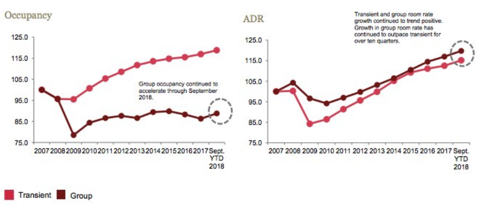
Note: Demand is shown here as annualized occupied room nights per capita. Data is seasonally adjusted actual through September 2018 and estimated through the fourth quarter of 2019. The shading represents trend growth.

Source: STR; IHS Markit; PwC

Overall, growth in the industry is expected to continue, but likely at a slower pace than in previous years. Economists at IHS Markit pointed to continued growth in GDP for the remainder of 2018 and through 2019, with slowing growth in 2020. While the economy is currently supported by nearly "full employment," strong business and consumer sentiment and employment growth, the economists at IHS Markit did point to rising interest rates, increasing inflation, and diminishing fiscal stimulus as potential detriments to economic growth by 2020.

$200 billion worth of tariffs on Chinese imports may also continue to raise inflation above the Federal target of 2 percent and ultimately slow economic growth. IHS Markit expects continued upward pressures on inflation due to the tightening labor market, as well as increasing trade tensions and new tariffs on various Chinese imports. Through 2018, inflation is expected to continue just above 2 percent. Overall, IHS Markit economists anticipate GDP will grow at a rate of approximately 3.1 percent in 2018, measured on a fourth-quarter-over-fourth-quarter basis. Estimated 2019 GDP growth slows to 2.5 percent.

Figure 1: Segment occupancy and ADR analysis (Indexed to 2007)



Note: Each year is shown as an index to the annual 2007 level. Segment data is for Luxury and Upper Upscale classes, as tracked by STR.

Source: STR

IHS Markit economists estimate solid fixed business investment, increasing 7 percent in 2018 and slowing to 4.8 percent in 2019. PwC predicts continued increases in corporate transient and group demand through 2019, due in part to solid fixed business investment.

Read More On

Revenue | Trends & Forecasts | Occupancy | Rates

PwC | IHS Markit