

Periodic recessions are part of business cycle; there are a number of beneficial factors to be considered

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As the Hospitality Industry enters the peak travel period, there are increasing concerns about the effects of the Economic Headwinds heralding an on-coming storm. Hotel operators and developers are flocking to industry seminars to hear the forecasts of industry pundits. What they are hearing will come of no surprise.

The Fuel Crisis

Let's take a look at the list of threatening forces - first the 'fuel' crisis:

'Gas at the Pump' will shortly exceed \$4.00 in most major markets.

The Price of Crude Oil is at an all time high of \$123.00 per barrel. Airlines are scrambling (unsuccessfully) to recover fuel price increases.

Fuel prices are igniting inflationary pressures throughout many economic sectors.

The pressures from the 'fuel' crisis are likely to impact segments of the Hospitality Industry with different effects. Destination Resort Markets, largely dependent on distance-drivers or airline-arrivals are likely to experience significant declines as soon as this summer. Operators in these markets are advised to develop 'gap' strategies and promotions which favor local markets within a convenient drive distance. For the most part, consumers will vacation but they will do so 'closer to home' - that's an identifiable trend that needs to be recognized in targeting markets for promotion. While that trend poses threats to some markets, it provides opportunity for others.

In our view, over time, consumers will adjust to higher gasoline prices - in part, by buying smaller, fuel-efficient cars. Destination markets, dependent on air travel (Las Vegas, Orlando, Miami, etc.) will continue to be threatened by increased fares and reduced schedules. Local Markets will adapt to the changes and weather the storm.

The 'Wealth' Factor

When Real estate prices were rising and the 'Dow' was pushing 14,000, consumer buying habits were influenced by what has been termed the 'wealth effect'- consumer behavior based, not on actual wealth, but on perceived wealth. For the past several years, comforted by the security of their perceived, but illiquid wealth, consumers took on mountains of debt for discretionary purchases. With real estate prices falling and stock prices languishing, consumers are no longer feeling so wealthy.

In our view, the loss of the Wealth Factor will influence consumer spending for some time. Consumers will buy luxury, but avoid luxurious items. Valued products will carry the day. Hotel

operators need to identify ways to capitalize on changing consumer behavior. All inclusive pricing is a trend favored by consumers. Packaging with local attractions can add value. Weekend extenders (3rd night free) are perceived as value.

Business Travel

Recent discussion with a few hotel operators indicated that transient (overnight) business travel is holding up well, but, group (meeting) business is starting to show some economic effects. Business meetings planned early in the year, are being pushed back, if not canceled. Continued pressures will develop on the upcoming fall and winter meeting calendars. To counteract these trends hotel operators are advised to focus on transient travelers while attempting to fill in lost group blocks with social events and local groups. Universities, hospitals and federal and state government agencies are potential targets.

Operating Pressures

Occupancies have peaked and a number of major markets are currently reporting moderate occupancy declines. Revenues have continued to increase as a result of rate increases and revenue management. Going forward, in a moderately inflationary environment, we expect rate growth to continue, at least at a rate consistent with inflating operating costs. Individual Hotel profits for most operators are expected to be stable - in all but declining markets. Hotel Operators have learned over time that rate decreases do not bring added demand - cutting rates in soft economic times is a 'flawed' strategy.

Beneficial Effects

This outlook is not meant to be all doom and gloom. Periodic Recessions are part of a natural business cycle. There are a number of beneficial factors to be considered.

The recession is expected to be short-lived. An economic recovery is likely to follow the new administration into office, no matter what party wins the White House - recall early years of the current administration.

The recession will likely put a damper on inflationary pressures which could have spiraled out-of-control. Building material, food costs and commodity prices are expected to stabilize.

Provided the recession is short-lived, effects occasioned by plant closings and increased unemployment should be minimal.

In coming out of the recession, if in fact we have learned from current conditions, we may see the development of whole new industries focused on 'green' environments, the development of increased energy supplies and the production of energy efficient cars. If we haven't learned, we can look forward to the repeat of the next economic cycle.

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