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## Down but not out

### Impact of a U.S. recession

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# Down but not out

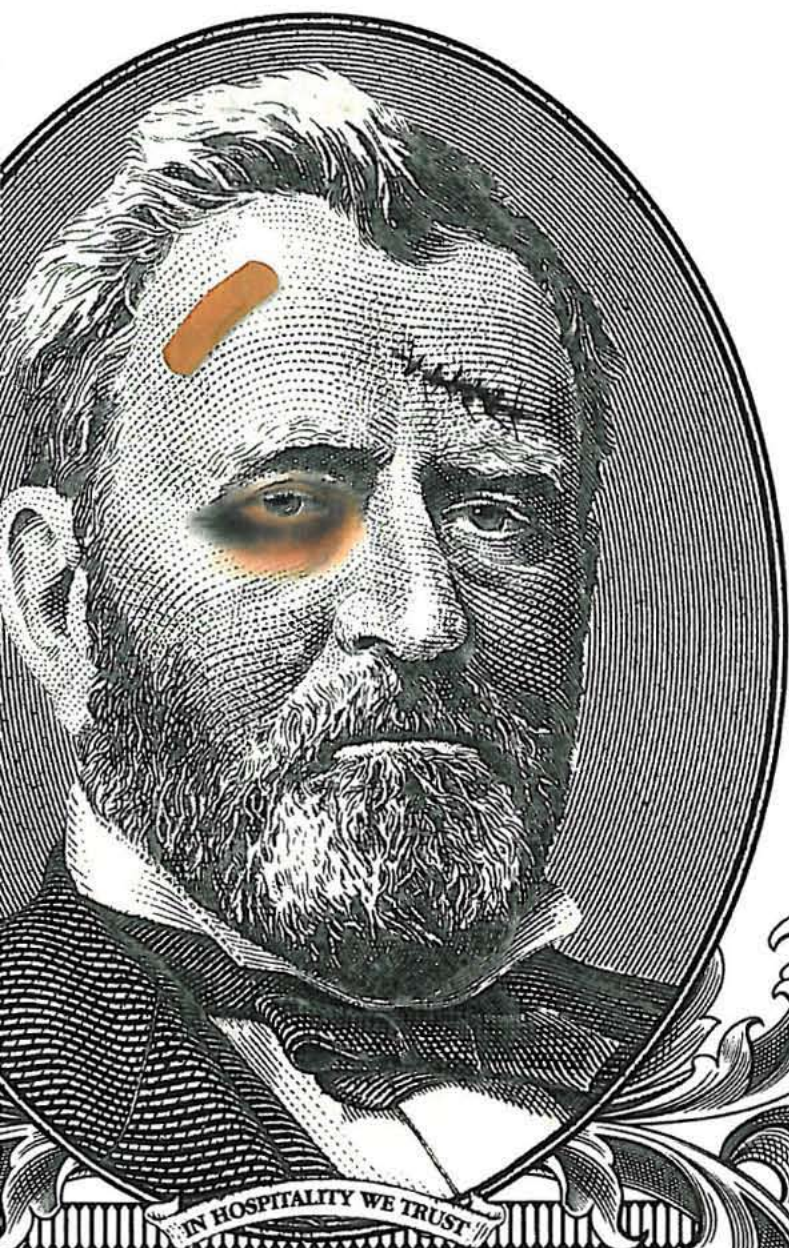
U.S. economy  
status becomes  
less important in  
the bigger  
global picture

BY CHUCK GREEN, CONTRIBUTING EDITOR

**I**s the U.S. economy in a recession or isn't it? The international lodging and hotel industry could have plenty riding on the answer. But it's a rather elusive one, according to some experts, who explained the exact meaning of a recession can be difficult to pinpoint.

For instance, Bjorn Hanson, global hospitality industry managing partner at PricewaterhouseCoopers, a professional services firm in New York, said that while "many recession-like conditions" exist in the U.S., a recession becomes official only by declaration of the National Bureau of Economic Research, based on a combination of objective and subjective criteria.

What is known, added Hanson, is that the U.S. lodging industry has anticipat-





ed recessions or recessionary conditions in six of the last eight economic cycles. Based on Smith Travel Research U.S. data, with demand increasing by 0.2 percent in January and 1 percent in February, but decreasing by 2.4 percent in March, the industry is exhibiting the weakest performance in five years, he pointed out.

Still, the forecast of macroeconomic advisors is more favorable for the second half of the year, and in fact challenges other economists for not appropriately reflecting the federal economic stimulus package and other factors, Hanson noted.

### Perception is reality

In any event, if not numerically, psychologically many consumers seem to be of the mind that the U.S. indeed is in a recession, observed Peter Yesawich, chairman and c.e.o. of Ypartnership. Consumer confidence, he said, has plummeted. "If you look at any of the measures that we take in terms of travel intentions, they're concerning. So the real point is people feel like we're in this recessionary environment, even if technically we're not."

The Conference Board Consumer Confidence Index ([www.conference-board.org](http://www.conference-board.org)), which had declined sharply in March, fell further in April, according to the Conference Board Web site. The index stands at 62.3 percent, down from 65.9 in March. The Present Situation Index decreased to 80.7 from 90.6. The Expectations Index was virtually unchanged, 50.1 versus 49.4 in March.

Clearly, a recession isn't good for hotel demand, said Robert LaFleur, a lodging industry analyst with Susquehanna Financial Group in Stamford, Conn. He noted that recession indicators, including higher unemployment and reduced consumer spending and confidence, all now are present in the U.S.

Mention of a recession can catapult companies into at least considering cutbacks, and compel them to more closely manage their resources, said Dr. Donald Ratajczak, a consulting economist in Atlanta. In fact, the first two budgets affected by even the prospect of a recession are travel and marketing, he said. While noting there's a feeling of a recession in the air, he said conditions aren't deteriorating quickly and signs of one could "vanish very

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PETER YESAWICH, CHAIRMAN AND C.E.O.,  
YPARTNERSHIP

soon," especially if the U.S. begins to experience job growth by July.

If that happens, the current slowdown here probably won't be deep or sustained enough to be declared a recession, which in turn could stir optimism in the international hotel lodging and industry, said Ratajczak, who acknowledged that the current narrow distinction between recessionary and non-recessionary conditions can help stoke confusion among some people.

Nevertheless, slightly more than 25 million Americans are expected to travel internationally this summer. That's an increase of 2.6 percent over the 24.5 million estimated to have traveled overseas in summer 2007, according to a report by Global Insight, which specializes in economic and

financial analysis, forecasting and market intelligence. The report includes all travel outside of the U.S., including Canada and Mexico. It states that American travelers will spend more than \$30 billion while traveling internationally from June to August. American spending overseas will increase by 5.7 percent, primarily because of inflation and the weakness of the U.S. dollar compared to several major currencies.

China and India are expected to see the largest increases in travel from the U.S. this summer, paced by China, with a spike of 13.4 percent, including 573,000 American travelers. India will be up 13.1 percent, with 227,000 American travelers. Travel to Canada and Mexico this summer is forecasted to closely mimic last year.

Many of the other destinations that are expected to see large increases this summer are in Europe. Travel from the U.S. to France is expected to be up 6.7 percent, including 1.1 million American travelers; and Ireland up 6.6 percent, which includes 337,000 American travelers.

Americans traveling overseas will spend more this summer because of global inflation and the weaker U.S. dollar, states the report, which also estimates that Americans will spend 5.7 percent more than they did last summer, and international spending by U.S. travelers will reach \$30.7 billion.

However, except perhaps in China and India, Ratajczak said he believes those figures are optimistic. While attributing the outlook in China to the Olympics, he said the spike in India is because of increasing wealth there, which in turn is attracting relatives from the U.S.

Furthermore, Ratajczak noted registrations for France and Ireland are down in terms of visitors—though not in dollars because of the high costs of lodging and

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dining. "My guess is that the 2.6 percent was more trend analysis than serious measures, though it also may have been related to available seat miles on planes," he said. But since the number of days that each passenger remains away is unknown, such an analysis is imprecise, he pointed out.

### **More Asian travel**

While noting that economic effects are certainly felt globally, recent studies show that the largest number of visitors to Asian countries are Asians, more of whom now are able to travel, pointed out Dr. Judy Siguaw, dean of the Cornell-Nanyang Institute of Hospitality Management in Singapore.

Outbound travel from Asian countries has been increasing at a rate of approximately 20 percent per year in recent years, she said, adding that the World Tourism Organization reports that by 2020—spurred by rising gross domestic product and low-cost airline carriers—outbound travelers from China alone will number 100 million. Consequently, Siguaw said, the Asia-Pacific and Middle East markets likely will remain buoyant, although she expects they will feel some effects from a U.S. recession, nevertheless.

Global economic growth, particularly in China and India, should continue to help mitigate softening market conditions

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**BJORN HANSON, PARTNER,  
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in the U.S., added Mark Woodworth, president of PKF Hospitality Research in Atlanta.

While the global economy has clearly become more diverse and is less reliant on the economic well-being of the U.S., he noted, the international lodging industry could feel the reverberations in the unlikely event that the U.S. falls into a full-blown prolonged recession. Fractured credit markets, the high price of fuel and commodities in general, as well as an escalating rate of inflation, all combine to create a headwind that has begun to slow consumer behavior, he said. Should this persist, continued Woodworth, the business sector will weaken, heightening the angst many market participants feel about the near-term future of the industry.

Because of the weakness of the American dollar, many foreign markets, starting with Europe, clearly aren't seeing the same level of inbound travel from the U.S. as they historically have, he said.

While Yesawich said he doesn't anticipate wholesale international or domestic travel cancellations, he does expect some fallout from the downturn in the U.S. economy—probably in the low single digits. Additionally, he said a transformation of consumer buying habits, or "trading down," has begun: Travelers are shopping more aggressively for deals, including for lodging.

Three factors are contributing to this trading down phenomenon, said Yesawich: pressure on household budgets, the inflated cost of gasoline and its impact on car travel, and the overall inflated cost of travel, which is driven primarily by fuel increases whether traveling by airplane or car.

Generally speaking, however, he noted hotels are keeping a lid on prices. "I think they're mindful of the pressure and have

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**MARK WOODWORTH, PRESIDENT,  
PKF HOSPITALITY RESEARCH**

been reticent to discount rates the way we've seen them do in the past." He added that a number of promotional offers are bound to hit the market this summer.

If a recession grows in intensity, so too will trading down, particularly when it comes to business, Ratajczak observed. At the same time, because they're selling tools, he said it's unclear how much a recession will affect the number of business conventions. Attendance at conventions could drop, which of course would take a bite out of hotel traffic, he added. But because people like to take trips, he doesn't believe leisure travel will be affected to the same extent unless a recession becomes severe.

At the end of the day, although the U.S. economy remains the world's most dominant, with the establishment of the European Union and the growth of economics in Asia and the Middle East, its status has diminished somewhat, Ratajczak said. He also noted that while U.S. travelers to international destinations still are the most or among the most important sources of business, with leisure and group demand to more regions than any others, like the U.S. economy, it's not as strong as it was.

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