Hospitality Directions US

Our updated lodging outlook

August 2019

The US lodging industry appears to be at an inflection point, driven by a combination of decelerating demand as well as continued economic and global trade risks.

Second quarter results came in significantly below expectations - with ADR levels up 1.2 percent, and occupancy levels down 0.1 percent, resulting in a tepid RevPAR increase of 1.1 percent. Mitigating a steep decline in group occupancy levels was mild growth in transient demand, as well as strong growth in the contract segment. Between flattening occupancy and an overall lack of pricing power, RevPAR grew at a modest level, as hotels traded occupancy for rate. US lodging performance continued to experience headwinds in July, characterized by anemic RevPAR growth.

The US lodging industry appears to be at an inflection point. Since the beginning of the economic recovery, RevPAR across the US grew at a compound annual growth rate of 5.4%. Last year, it grew by only 2.9%. For the first six months of this year, RevPAR is up just 1.2%. Recent weak performance and decelerating forward trends suggest a continued deceleration in top line performance through at least next year.

Looking ahead to the remainder of 2019, the near-term lodging outlook remains choppy, with unemployment expected to reach a cyclical low by the end of this summer at around 3.5 percent, decelerating GDP growth; and softening in consumer spending. In 2020, lodging supply and demand growth are expected to moderate, resulting in a very slight decline in occupancy. Rising inflation levels are expected to support marginal growth in ADR, resulting in an expected RevPAR increase of 1.0 percent, the lowest in a decade.

The above outlook is challenged by continued trade tensions and effects from tariff-rate implementation, political uncertainty both domestically and abroad, slowing economic growth, and pressure on inbound leisure travel from China due to the devaluation of the Yuan.

Our outlook for 2020 anticipates

Continued supply growth **around the long-term average**

1.9%

Occupancy slightly **down** at

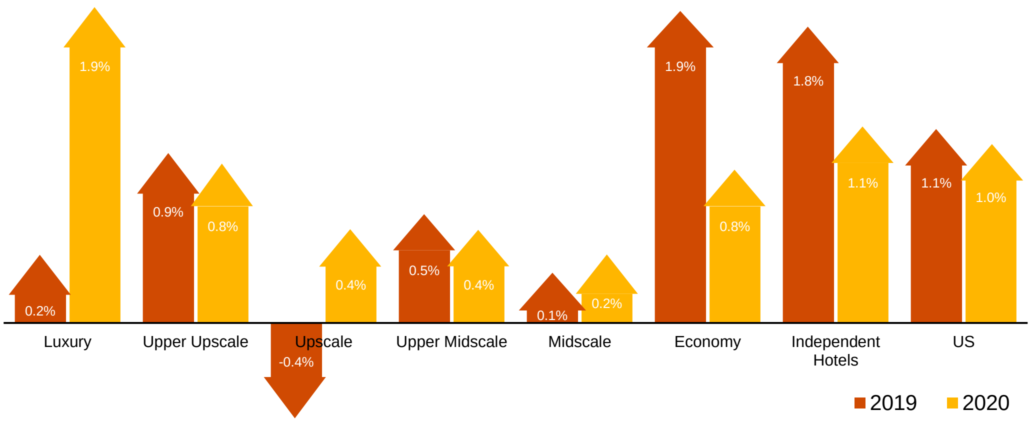
66.1%

Average daily rate growth continues to drive RevPAR increase of

1.0%

pwc

Figure 1: RevPAR growth, US and chain scales

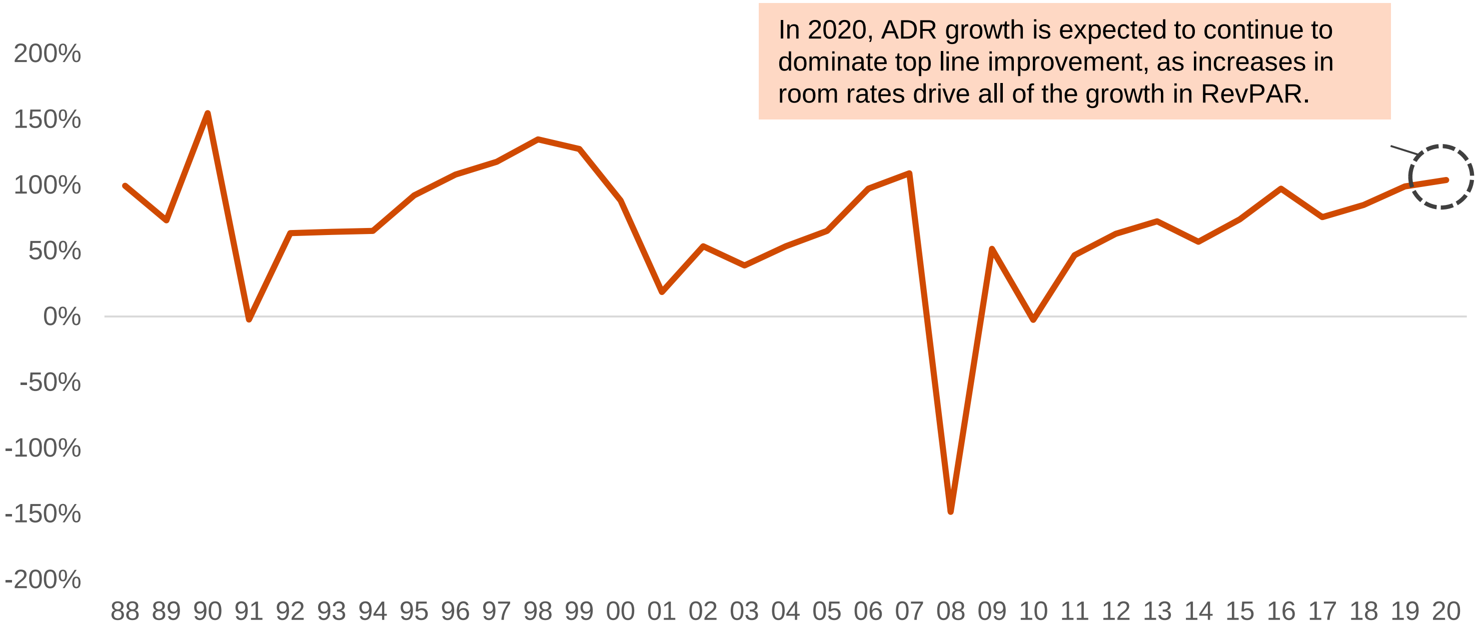


Hospitality Directions Outlook Tables

For detailed outlook tables covering the US and each of the chain scales, please access the *Hospitality Directions Outlook Tables* available online.

Source: PwC, based on STR data

Figure 2: ADR contribution to RevPAR growth



Source: PwC, based on STR data

US economic fundamentals suggest elevated downside risks

Current fundamentals of the US economy appear to be on solid footing, while concerns about the future continue to increase. IHS-Markit economists anticipate real GDP growth to decelerate to 2.2 percent in 2019, compared to 3.0 percent in 2018, measured on a fourth-quarter-over-fourth-quarter basis. Decelerating economic growth is driven by a combination of factors, including slowing global growth, anticipated deceleration in consumer spending, the effects of new tariffs, and a sharp slowing in inventory building experienced in the first quarter.

Inflation concerns have reduced somewhat for the near-term, due to moderating commodity prices, decreasing oil prices, a strong dollar, and the previously mentioned slowing global growth. At the end of July, the Federal Reserve announced a 0.25% cut in the federal fund rate for the first time since December 2008. While the previous cuts were reactionary, this cut appears to be more precautionary, anticipating tariff-rate implementation, risks related to slowing growth in China, and uncertainty around Brexit transitional arrangements.

In summary, US economic growth is slowing. Investor concerns over a potential downturn are rising, the Federal Reserve is taking preventative measures, and consumer spending is expected to cool, suggesting choppy waters may be ahead for the US economy.

Table 1: US outlook (August 19, 2019)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Demand growth	7.3%	4.6%	2.7%	1.9%	4.0%	2.5%	1.5%	2.4%	2.4%	2.0%	1.9%
Supply growth	1.7%	0.4%	0.3%	0.5%	0.6%	0.9%	1.4%	1.7%	2.0%	2.0%	1.9%
Room starts, % change	-39.1%	57.9%	26.1%	26.6%	36.0%	14.2%	14.6%	-3.3%	8.1%	-6.2%	0.6%
Occupancy	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.9%	66.2%	66.2%	66.1%
% change	5.6%	4.2%	2.4%	1.4%	3.4%	1.5%	0.1%	0.7%	0.4%	0.0%	0.0%
Average daily rate	$98.04	$101.75	$106.05	$110.05	$115.19	$120.41	$124.07	$126.82	$129.96	$131.44	$132.79
% change	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.0%	2.2%	2.5%	1.1%	1.0%
RevPAR	$56.45	$61.05	$65.13	$68.52	$74.16	$78.71	$81.17	$83.54	$85.99	$86.98	$87.84
% change	5.4%	8.1%	6.7%	5.2%	8.2%	6.1%	3.1%	2.9%	2.9%	1.1%	1.0%
GDP, % change Q4/Q4	2.6%	1.6%	1.5%	2.6%	2.7%	2.0%	1.9%	2.5%	3.0%	2.2%	1.8%
Inflation, % change	1.7%	2.5%	1.9%	1.3%	1.5%	0.3%	1.1%	1.8%	2.0%	1.7%	2.1%

Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released July 2019); MHC Construction Analysis System; PwC

Table 2: Chain scale outlook, percentage change from prior year

2019						2020				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	(0.3)	1.8	(2.0)	2.3	0.2	1.9	2.0	(0.1)	2.0	1.9
Upper upscale	1.0	1.9	(0.9)	1.8	0.9	1.5	1.9	(0.4)	1.2	0.8
Upscale	3.5	4.8	(1.2)	0.8	(0.4)	3.7	4.0	(0.3)	0.7	0.4
Upper midscale	3.6	3.6	0.0	0.4	0.5	3.4	3.5	(0.0)	0.4	0.4
Midscale	2.1	2.2	(0.1)	0.2	0.1	1.1	1.1	(0.0)	0.2	0.2
Economy	(0.4)	(1.8)	1.5	0.4	1.9	(0.1)	(0.1)	(0.0)	0.9	0.8
Independent hotels	1.5	1.2	0.3	1.5	1.8	0.9	0.9	(0.0)	1.1	1.1
US total	**2.0**	**2.0**	**0.0**	**1.1**	**1.1**	**1.9**	**1.9**	**0.0**	**1.0**	**1.0**

Source: PwC, based on STR data

Contact us

Hospitality & Leisure Sectors

Convention center

Cruise

Casino gaming

Lodging

Marinas

Sports facilities & teams

Travel & tourism

Vacation ownership

To have a discussion about Hospitality Directions US, please contact:

Scott D. Berman
Principal and US Industry Leader, Hospitality & Leisure
Phone: +1 305 375 6210

Warren Marr
Managing Director, Hospitality & Leisure
Phone: +1 646 313 3618

Abhishek Jain
Director, Hospitality & Leisure
Phone: +1 646 471 2016
Address all inquiries to: us_contact_hospitality@pwc.com

To subscribe or access further reading

US: pwc.com/us/hospitality

Global: pwc.com/hospitality

PwC Research and insights:
https://www.pwc.com/us/en/library.html

Definitions

Abbreviated terms include average daily rate (“ADR”), revenue per available rooms (“RevPAR”), and real gross domestic product (“GDP”). Growth rates are percentage change in annual averages, except GDP growth, which is expressed on a fourth-quarter-over-fourth-quarter basis. The personal consumption expenditure price index is used to measure inflation, including the conversion of RevPAR to constant dollars, which is reported as real RevPAR.

This document contains proprietary information of PwC. No disclosure or use of any portion of the contents of these materials may be made without the express written consent of PwC.

Information requests

For more information about this publication, please contact Maridel Gutierrez at +1 305 375 6253, maridel.gonzalezgutierrez@pwc.com or email us at us_contact_hospitality@pwc.com.

PwC’s National Economics & Statistics (NES) group carries out the statistical analysis and forecast modeling for Hospitality Directions US. A center of excellence, the NES group provides economic and statistical modeling and consulting for corporations, trade associations, coalitions, law firms, nonprofits, and government agencies. For more information, please contact Qiang Ma at +1 202 414 1459, or visit www.pwc.com/us/nes.

© 2019 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.