Hospitality Directions US

Our updated lodging outlook

Strong economic indicators in Q2, coupled with accelerating group demand, suggests sustained momentum for the lodging sector through 2019

Our outlook for 2018 anticipates:

Continued supply growth of **2.0%**; ***the long-term average***

Record occupancy of ***66.4%***

Average daily rate growth continues to drive RevPAR increase of **3.3%**

Our outlook for 2019 anticipates:

Continued supply growth of **1.9%**

Demand growth decelerates slightly to **1.8%**

An increase in average daily rate, combined with slightly lower occupancy levels, results in RevPAR growth of **2.6%**

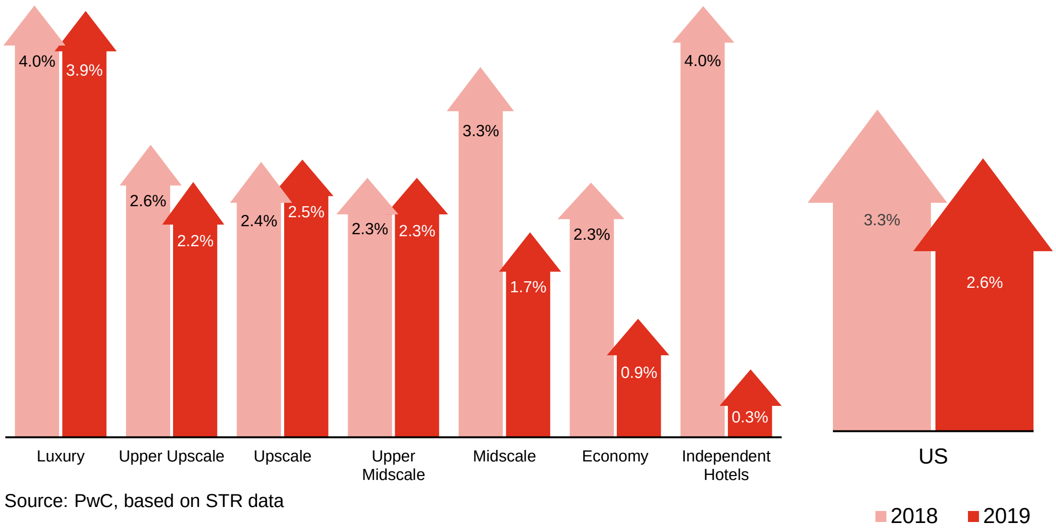
Second quarter fundamentals remained positive, as consumer confidence continued. Q2 results yielded strong demand for hotels, outpacing increases in supply, as well as the highest Q2 increase in ADR since 2016. A year-over-year comparison for the second quarter shows US RevPAR increasing 4.0 percent, led by rate growth of 2.9 percent.

Continued growth in demand led to a midyear year-to-date occupancy of 65.9 percent. Holiday shifts with Easter week ending on Sunday, April 1, contributed to a positive second quarter RevPAR performance. Group demand increased 2.1 percent for the first half of this year compared to the same period in 2017. Commercial transient demand continued to increase, albeit at a slower pace than the prior year. As demand increases for both segments and continues to apply pressure on occupancy levels in many markets, our 2018 forecast anticipates an increase in pricing power for hotels, resulting in an ADR-driven RevPAR growth of 3.3 percent, driving improved flow through for hotel operators.

Looking ahead to 2019, there is an expectation of continued confidence by hoteliers as increases in room rates continue to become a bigger driver of RevPAR growth. Consumer spending is forecasted to increase as lower personal tax rates and low unemployment continue. The industry is expected to continue to benefit from an improving economy stemming initially from the Tax Cuts and Jobs Act, with potentially higher group spend and increased commercial transient demand.

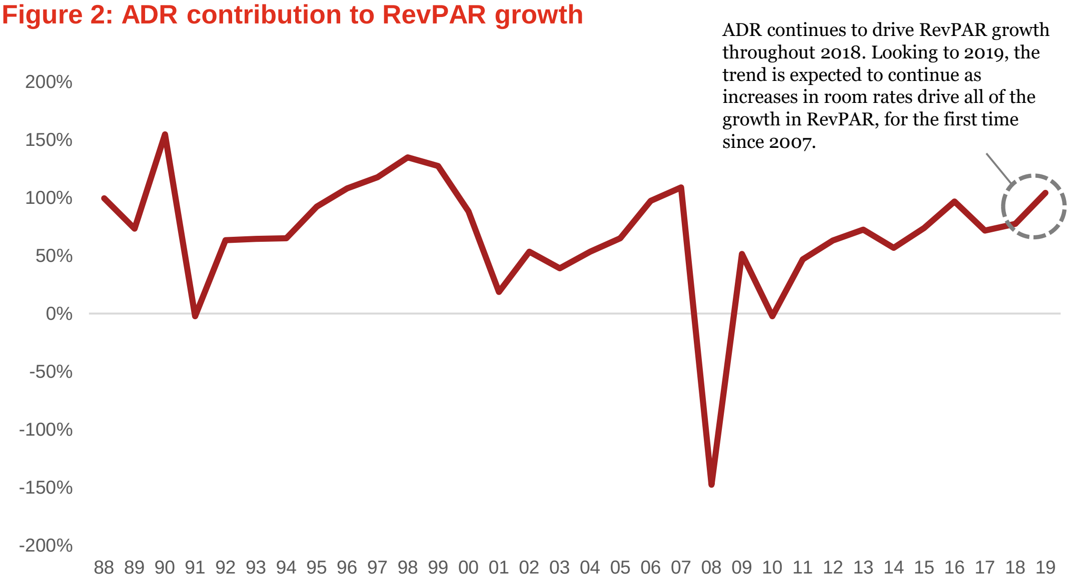
Economic factors that may dampen the industry confidence and the perceived positive impacts of the Tax Cuts and Jobs Act are the trade tensions with China and rising costs of labor for entry-level jobs, stemming from the continued low unemployment rate.

Figure 1: RevPAR growth, US and chain scales



Source: PwC, based on STR data

Figure 2: ADR contribution to RevPAR growth



Source: PwC, based on STR data

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.

Solid economic fundamentals continue, confidence continues

Consumer fundamentals continue to grow in 2018 with real consumer spending estimated to increase 2.4 percent. In 2019, IHS-Markit economists expect real consumer spending to grow 2.6 percent. Consumer spending continues to be encouraged by lower personal tax rates, improving household finances, and rising disposable income and home values.

IHS-Markit economists estimate solid fixed business investment, increasing 6.7 percent in 2018 and 5.5 percent in 2019. Business investment fundamentals continue to be bolstered to an extent by certain incentives in the Tax Cuts and Jobs Act. Our lodging commentary highlights potential increases in corporate transient and group demand through 2019, potentially due in part to this.

As of July 2018, economists at IHS –Markit expected upward pressures on inflation due to the tightening labor market, increase in oil prices, as well as increasing trade tensions and new tariffs on various Chinese imports.

Overall, IHS-Markit economists anticipate GDP will grow at a rate of approximately 2.8 percent in 2018, measured on a fourth-quarter-over-fourth-quarter basis. Estimated Q2 2018 growth of 4.8 percent was driven by increased consumer spending, gains in employment, rising interest rates and stabilizing inflation. IHS-Markit forecasts GDP growth of 3.2 percent in 2019, on a fourth-quarter-over-fourth quarter basis.

Table 1: US outlook (released August 27, 2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Demand growth	0.7%	-2.5%	-6.2%	7.3%	4.6%	2.7%	1.9%	4.0%	2.5%	1.6%	2.6%	2.7%	1.8%
Supply growth	1.2%	2.4%	2.8%	1.7%	0.4%	0.3%	0.5%	0.6%	1.0%	1.5%	1.8%	2.0%	1.9%
Room starts, % change	4.9%	-9.2%	-63.7%	-39.1%	57.9%	26.1%	26.6%	35.2%	13.4%	15.0%	-1.9%	3.7%	11.2%
Occupancy	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.9%	66.4%	66.3%
% change	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.5%	0.1%	0.8%	0.7%	-0.1%
Average daily rate	$104.31	$107.37	$98.16	$98.03	$101.75	$106.04	$110.03	$115.15	$120.34	$123.95	$126.57	$129.81	$133.29
% change	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.0%	2.1%	2.6%	2.7%
RevPAR	$65.54	$64.24	$53.55	$56.45	$61.05	$65.13	$68.51	$74.12	$78.65	$81.08	$83.45	$86.21	$88.43
% change	6.1%	-2.0%	-16.6%	5.4%	8.2%	6.7%	5.2%	8.2%	6.1%	3.1%	2.9%	3.3%	2.6%
GDP, % change Q4/Q4	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.7%	2.7%	2.0%	1.8%	2.6%	2.8%	3.2%
Inflation, % change	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.3%	1.2%	1.7%	2.1%	1.9%

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

	2018					2019				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	2.8	1.8	1.0	3.0	4.0	1.1	1.0	0.1	3.8	3.9
Upper upscale	2.6	2.4	0.3	2.3	2.6	2.0	2.1	(0.1)	2.3	2.2
Upscale	4.8	4.6	0.2	2.2	2.4	5.9	5.9	0.0	2.5	2.5
Upper midscale	4.5	4.0	0.5	1.8	2.3	4.2	3.7	0.5	1.8	2.3
Midscale	2.1	1.0	1.1	2.2	3.3	1.0	1.1	(0.1)	1.9	1.7
Economy	0.0	0.1	(0.1)	2.3	2.3	(0.5)	0.1	(0.6)	1.5	0.9
Independent hotels	1.8	0.5	1.3	2.7	4.0	0.2	0.2	(0.1)	0.4	0.3
US total	**2.7**	**2.0**	**0.7**	**2.6**	**3.3**	**1.8**	**1.9**	**(0.1)**	**2.7**	**2.6**

Source: PwC, based on STR data

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Definitions and information requests

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.

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