Hospitality Directions US

Our updated lodging outlook

November 2019

Below inflationary growth in RevPAR plagues US lodging industry

Third quarter results continued to disappoint - once again coming in below expectations, with RevPAR growth of just 0.7 percent. Lodging supply growth outpaced demand in the quarter, resulting in a 0.1 percent decline in occupancy levels. A slight increase in transient demand failed to off-set declines in the group and contract segments. While RevPAR increased during the quarter, it was the lowest year-over-year growth since the beginning of the US lodging industry's recovery from the Great Recession, and the only quarter in the current lodging cycle with a RevPAR increase below 1.0 percent.

Although US hotels have experienced RevPAR increases in 112 of the last 115 months, growth continues to decelerate, with two of the three declines coming in June and September of this year. Looking ahead to the final quarter of 2019, the near-term lodging outlook suggests continued deceleration in top line metrics. Weak demand and a general lack of pricing power in October supports this outlook.

In 2020, despite an expected boost to lodging demand from the upcoming presidential election, supply is expected to exceed demand growth, resulting in a minor decrease in occupancy levels. Rising inflation is expected to help support what is still expected to be decelerating ADR growth, resulting in a marginal RevPAR increase of 0.5 percent.

Challenges to the above outlook include tempered investor confidence and political uncertainty both domestically and abroad, leading up to the presidential election.

Our outlook for 2020 anticipates

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

2.0%

Occupancy slightly down at

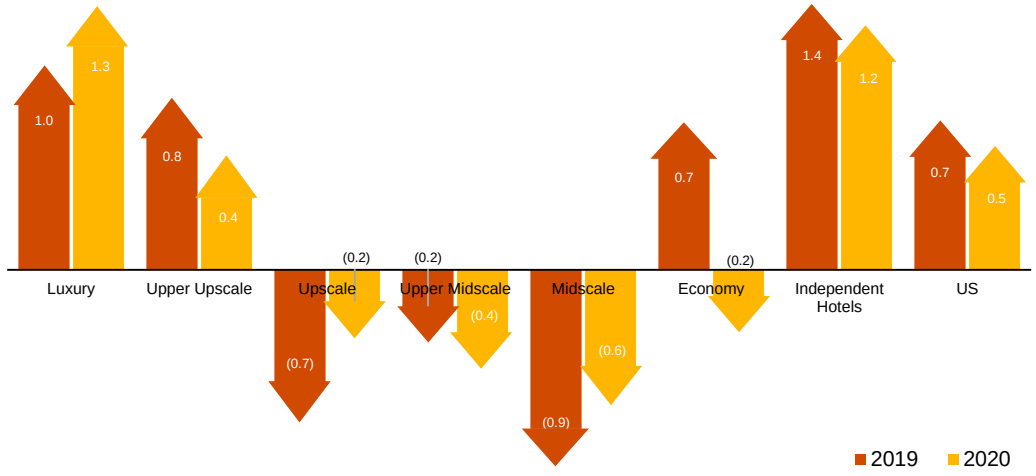
65.9%

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

0.5%

pwc

Figure 1: RevPAR growth, US and chain scales

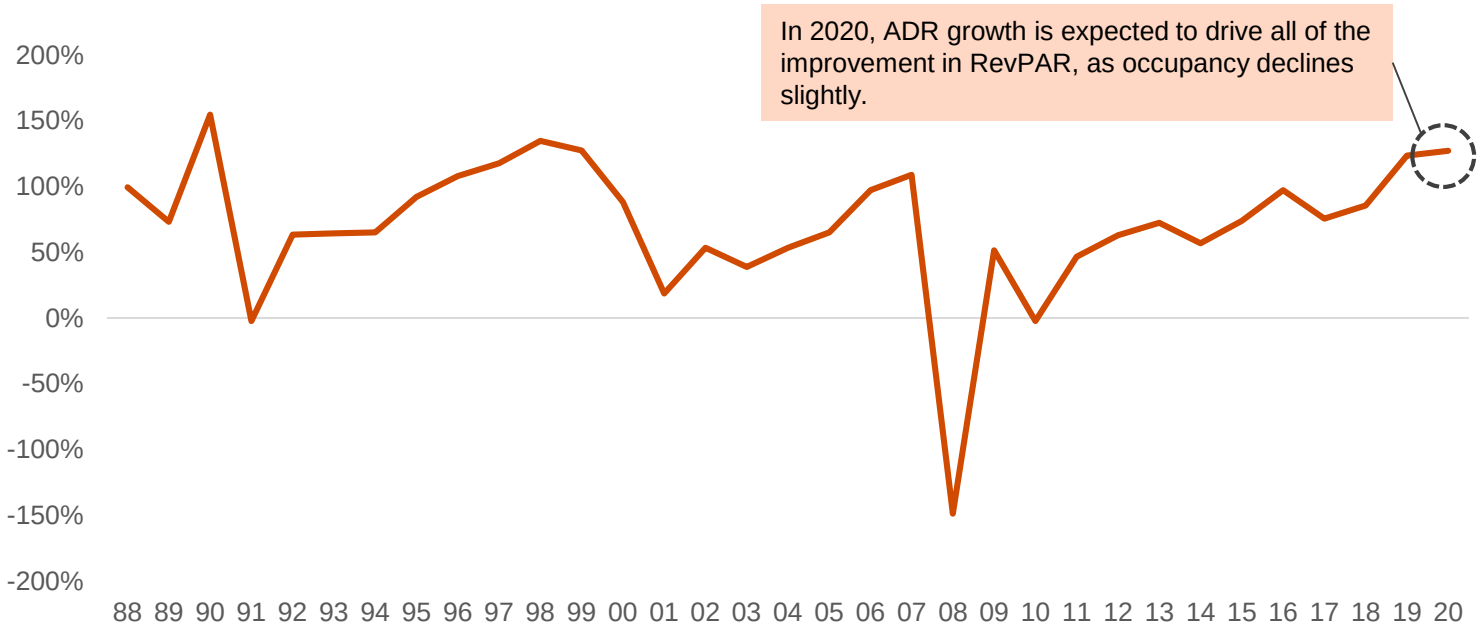


Hospitality Directions Outlook Tables

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 outlook remained mixed in the third quarter

IHS-Markit economists look to continued GDP growth for the remainder of 2019 through 2020. Economic fundamentals are currently supported by the enactment of the Bipartisan Budget Act of 2019; gains in wealth, employment, and compensation; recent cuts to the federal funds rate; and the US producing relatively higher levels of crude oil.

Nonetheless, while GDP growth continues, it is expected to decelerate to 2.1 percent in 2019, and hover at around that level through 2020, on a fourth-quarter-over-fourth-quarter basis. This deceleration is driven by multiple factors, including slowing global growth, the United Auto Workers strike against GM, declining net exports, the effects of recent tariffs, and reduced business investment.

Despite increased inflation growth expectations for the remainder of 2019 partially resulting from tariff-rate implementation, 2020 and beyond should see inflation settle in near 2.0 percent. Factors restraining further inflation growth include a strong dollar and declining oil prices.

To conclude, US economic growth is slowing. Investor concerns over a possible downturn are rising, business spending is decelerating, the Federal Reserve recently ramped up preventative measures, and political uncertainty is increasing with the coming presidential election. There are increasing signs that an economic slowdown may be on the horizon.

Table 1: US outlook (November 11, 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%	1.8%	1.9%
Supply growth	1.7%	0.4%	0.3%	0.5%	0.6%	0.9%	1.4%	1.7%	2.0%	2.0%	2.0%
Room starts, % change	-39.1%	57.9%	26.1%	26.6%	35.4%	14.7%	14.7%	-3.5%	7.8%	-7.7%	-2.1%
Occupancy	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.9%	66.1%	66.0%	65.9%
% change	5.6%	4.2%	2.4%	1.4%	3.4%	1.5%	0.1%	0.7%	0.4%	-0.2%	-0.1%
Average daily rate	$98.04	$101.76	$106.05	$110.06	$115.20	$120.42	$124.07	$126.83	$129.98	$131.09	$131.98
% change	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.0%	2.2%	2.5%	0.9%	0.7%
RevPAR	$56.45	$61.05	$65.14	$68.53	$74.16	$78.71	$81.17	$83.56	$85.97	$86.57	$87.03
% change	5.4%	8.1%	6.7%	5.2%	8.2%	6.1%	3.1%	2.9%	2.9%	0.7%	0.5%
GDP, % change Q4/Q4	2.6%	1.6%	1.5%	2.6%	2.9%	1.9%	2.0%	2.8%	2.5%	2.1%	2.1%
Inflation, % change	1.7%	2.5%	1.9%	1.3%	1.5%	0.2%	1.0%	1.8%	2.1%	1.5%	2.0%

Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released October 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	(0.2)	0.9	(1.1)	2.1	1.0	1.0	1.5	(0.5)	1.8	1.3
Upper upscale	1.1	1.9	(0.8)	1.6	0.8	1.2	1.9	(0.7)	1.2	0.4
Upscale	3.5	4.7	(1.1)	0.5	(0.7)	3.6	4.0	(0.4)	0.2	(0.2)
Upper midscale	2.9	3.4	(0.5)	0.3	(0.2)	3.0	3.5	(0.4)	0.0	(0.4)
Midscale	2.0	2.6	(0.6)	(0.4)	(0.9)	1.9	2.0	(0.1)	(0.5)	(0.6)
Economy	(0.8)	(1.5)	0.7	(0.1)	0.7	0.1	(0.1)	0.2	(0.4)	(0.2)
Independent hotels	1.9	1.5	0.4	1.0	1.4	1.1	1.0	0.1	1.1	1.2
US total	**1.8**	**2.0**	**-0.2**	**0.9**	**0.7**	**1.9**	**2.0**	**-0.1**	**0.7**	**0.5**

Source: PwC, based on STR data

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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.

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