



# Hospitality Directions US

## Our updated lodging outlook

***As uncertainty weighs on the economy, softening lodging industry growth expected to continue***

**Our outlook for 2017 anticipates:**


Supply growth peaking at the long-term average of **1.9%** 


 **Occupancy of 65.6%**

*Average daily rate primary driver of **2.3%** increase in RevPAR*

**Our outlook for 2018 anticipates:**

Continued supply growth of **1.9%**

*Slowing growth in demand results in first occupancy decline in nine years* 

 *After slowing in 2017, average daily rate growth stagnates, driving RevPAR increase of **2.0%***

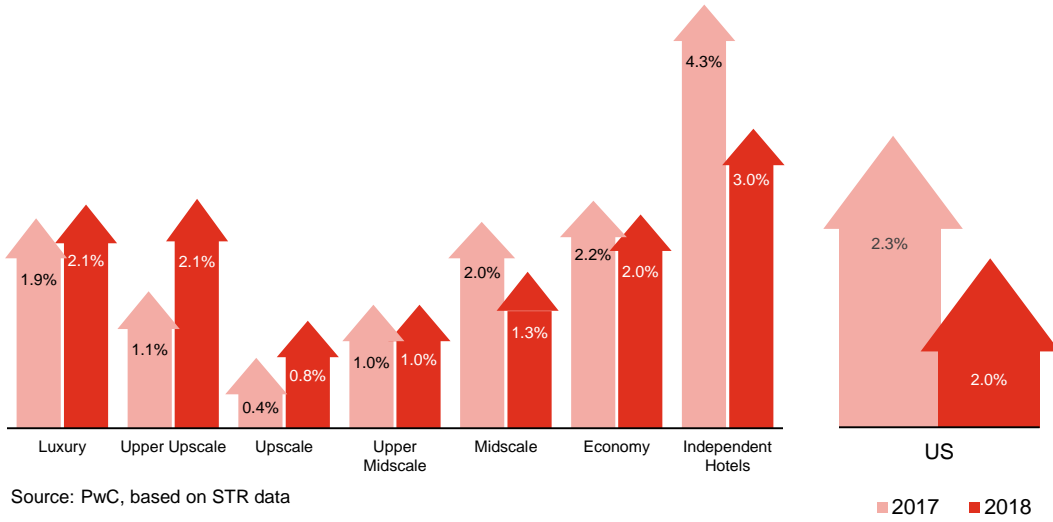
Following a weak first quarter, the US economy strengthened in Q2. An initial second quarter GDP estimate of 2.7 percent and further solid contributions from consumer spending suggest that the US economy will remain on solid footing for the balance of 2017. Overall, moderate demand growth in Q2 supported increases in both occupancy and ADR, resulting in a RevPAR increase of 2.7 percent.

Despite ongoing political uncertainty, consumer and business spending are expected to continue to support economic growth in the second-half of 2017. Benefiting from rising employment, real disposable income, and household wealth, consumers have been a driving force of economic growth this cycle. According to IHS-Markit, business fixed investment is also expected to contribute meaningfully to economic growth. For the lodging industry, this increase in domestic spending is expected to help support growth in demand, though supply growth continues to be a meaningful downside risk. ADR growth of 2.1 percent is expected to continue to outpace inflation, resulting in a 2.3 percent increase in RevPAR in 2017.

Looking ahead to 2018, policy uncertainty and Congressional gridlock, combined with the accelerating timeline to mid-term elections, pose as significant overhangs to business and consumer confidence. The US Dollar is anticipated to continue to weaken in 2018, which could help support inbound international travel. However, it may also weigh negatively on domestic consumer spending, as the prices on imported goods increase and consumers reallocate discretionary spending.

Our updated lodging outlook for 2018 anticipates supply growth peaking in the first quarter and tapering throughout the balance of the year. Demand is expected to largely follow suit, and the supply-demand balance in 2018 is expected to shift for the first time this cycle, resulting in a minor decline in occupancy. Though inflation is forecasted to remain well below the 2.0 percent targeted by the Federal Reserve, ADR is expected to continue to grow, albeit at a slower pace. Overall, we continue to anticipate RevPAR growth of 2.0 percent, the lowest increase since the beginning of the economic recovery.

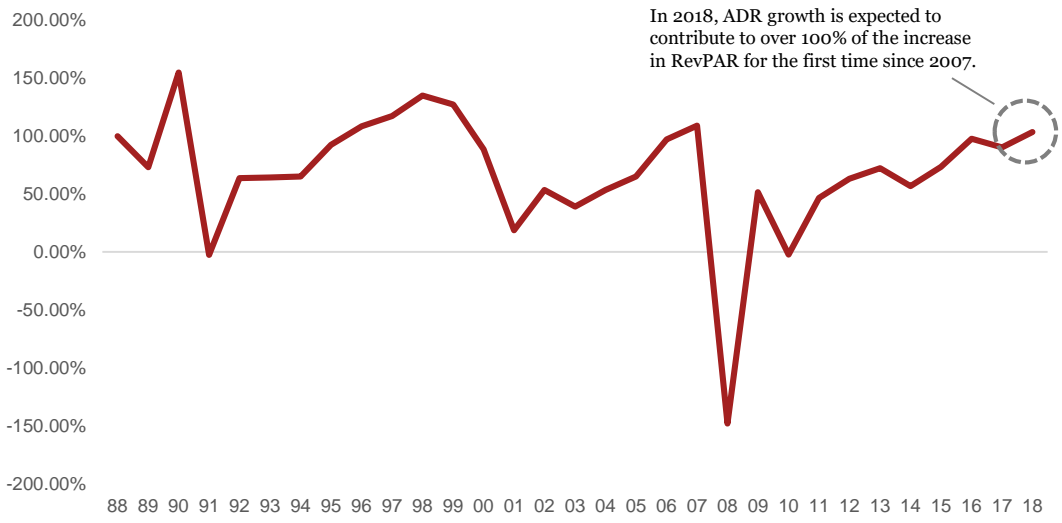
**Figure 1: RevPAR growth, US and chain scales**



**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.

**Figure 2: ADR contribution to RevPAR growth**



## Economic momentum leads to broad-based growth outlook

Despite weak consumer spending, first quarter annualized GDP growth estimates were revised upward to 1.4 percent, more than double the initial estimate. The second quarter initial estimate of 2.7 percent is supported by increased spending and improving household finances. Overall, consumer spending is anticipated to drive a 2.4 percent increase in 2017, on a fourth-quarter-over-four-quarter basis, as underlying macroeconomic fundamentals such as employment, disposable income, household wealth and both residential and nonresidential fixed investment continue to increase. Additionally, both government and business investment spending are anticipated to increase in the second-half of 2017, contributing to a stronger base for economic growth.

According to IHS-Markit, “there is considerably greater uncertainty regarding the growth outlook for 2018.” They further indicated that modest fiscal stimulus is still possible, mainly in the form of infrastructure spending and potential tax reform.

The economic forecast underlying our lodging industry outlook anticipates GDP will increase in 2018 at a 2.8 percent growth rate, on a fourth-quarter-over-four-quarter basis, supported by modest fiscal stimulus and continued strength in consumer and business investment spending. Overall, despite significant political and economic uncertainty, economic fundamentals appear to be strong enough to support more modest growth in the short- to medium-term without any additional stimulus.

**Table 1: US outlook (released August 28, 2017)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Demand growth	0.7%	-2.5%	-6.2%	7.3%	4.6%	2.7%	1.9%	4.0%	2.6%	1.6%	2.1%	1.8%
Supply growth	1.2%	2.4%	2.8%	1.7%	0.4%	0.3%	0.5%	0.6%	1.0%	1.5%	1.9%	1.9%
Room starts, % change	4.9%	-9.2%	-63.7%	-39.1%	57.9%	26.1%	26.8%	35.8%	11.2%	13.5%	-7.8%	9.0%
Occupancy	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.6%	65.5%
% change	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.6%	0.1%	0.2%	-0.1%
Average daily rate	\$104.31	\$107.37	\$98.16	\$98.03	\$101.75	\$106.04	\$110.02	\$115.14	\$120.34	\$124.09	\$126.71	\$129.39
% change	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.1%	2.1%	2.1%
RevPAR	\$65.54	\$64.24	\$53.55	\$56.45	\$61.05	\$65.12	\$68.50	\$74.12	\$78.68	\$81.19	\$83.09	\$84.79
% change	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.7%	5.2%	8.2%	6.2%	3.2%	2.3%	2.0%
GDP, % change Q4/Q4	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.7%	2.5%	1.9%	2.0%	2.4%	2.8%
Inflation, % change	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.4%	1.1%	1.7%	1.3%

Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released July 2017); MHC Construction Analysis System; PwC

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

Chain scale	2017					2018				
	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	1.8	1.9	0.0	2.0	1.9	2.0	2.2	-0.2	2.3	2.1
Upper upscale	1.5	1.9	-0.4	1.6	1.1	1.7	1.8	-0.1	2.2	2.1
Upscale	5.1	6.0	-0.9	1.3	0.4	2.3	3.1	-0.8	1.6	0.8
Upper midscale	2.7	3.2	-0.4	1.4	1.0	3.0	4.0	-0.9	1.9	1.0
Midscale	1.6	1.3	0.3	1.7	2.0	1.3	1.8	-0.5	1.8	1.3
Economy	0.3	0.2	0.1	2.1	2.2	0.5	0.5	0.0	2.0	2.0
Independent hotels	1.4	0.3	1.2	3.1	4.3	1.4	0.6	0.8	2.2	3.0
<b>US total</b>	<b>2.1</b>	<b>1.9</b>	<b>0.2</b>	<b>2.1</b>	<b>2.3</b>	<b>1.8</b>	<b>1.9</b>	<b>-0.1</b>	<b>2.1</b>	<b>2.0</b>

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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