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RUSHMORE

# LIVING WITH RECESSION

**The economic stimulus package will have little direct impact on the U.S. hotel industry.** Its main focus is to create jobs by rebuilding our infrastructure. While new infrastructure may be nice, we need Americans to start traveling and spending money.

In the worst-case scenario, U.S. unemployment could reach 10 percent, which is a huge number, but it also means 90 percent of those who want to work can work! These are the people who will pull us out of the recession. You don't stimulate the economy out of recession; you spend your way out. Our government should be encouraging those of us who are employed and have money in savings to buy the products on sale at our local stores, to eat out at a restaurant at least once a week and to take a week's vacation away from home.

Instead, Obama has criticized companies for rewarding peak performers with incentive trips, for attending conventions in Las Vegas and using upscale resorts for meetings. What he fails to comprehend is any type of travel and spending is better than none at all. Yes, the fat cats getting a government handout should be more restrained in their spending, but don't tar and feather every company that wants to hold a meeting or a reward trip at a hotel. And please don't paint luxury hotels as "bad" and Motel 6's as "good."

> "WHEN CUSTOMERS TRADE DOWN FROM LUXURY TO FOCUSED-SERVICE PROPERTIES, THEY MAY BE POLITICALLY CORRECT—BUT THEY'RE NOT HELPING THE ECONOMY."

Unfortunately for the Ritz Carlton and The Four Seasons, it seems conspicuous consumption is no longer cool or even acceptable. What people don't realize is these luxury hotels employ significantly more people than the more downscale properties. When customers trade down from luxury full-service properties to focused-service hotels, they may be politically correct—but they're not helping the economy. We need to start spending money at the level we were spending prior to the recession.

## SAY NO TO RATE CUTTING

If loss of travel demand doesn't put us into bankruptcy, price-cutting will. After 9/11 and the recession that followed, rate cutting didn't create new demand; it merely lowered total room revenue. Decreasing room rates might give you a slight temporary advantage, but it disappears the moment your competition matches your rates. The downward spiral continues until everyone is losing money. While I don't advocate price fixing, your daily Smith Travel Research reports can provide details on how your competitive set is adjusting their day-to-day room rates. Hopefully, price integrity will be maintained.

Most economists believe the worst part of this recession will occur this year and we should be heading toward better times by late 2009 or early 2010. Unlike previous hotel-industry downturns and recessions (such as 1991), where part of the problem was attributable to a period of massive overbuilding that preceded the recession, the current downturn was not the result of an oversupply, but rather a severe decline in demand.

## WHEN THE TURN COMES

The good news is that when the economy turns around and people start traveling again, the recovery will be quick and strong as there is no excess room inventory to be absorbed. As hotel occupancies start to recover, hoteliers will push their room rates and RevPAR will rebound rapidly.

Hang in there. While this recession will probably be deeper and longer than most others, it will pass and the hotel industry will recover. Americans love to travel and one of the first things they will do when they recover their economic confidence is book a hotel room and get back on the road. If only the new administration would recognize the value of the hotel industry as a key to economic recovery—we could drive a little faster down Recovery Road.