

How Should our Customers Deal with the Recession?

The economic stimulus package will have little direct impact on the U.S. hotel industry. Its main focus is job creation by rebuilding our country's infrastructure. While having a new infrastructure will be nice- we need Americans to start travelling again and spending money.

Under the worst case scenario the unemployment rate in the U.S. will reach 10% which is a huge number of people out of work- but it also means that 90% of our population who want to work are actually working!! These are the people that will get us out of the recession. You don't stimulate the economy out of the recession you spend your way out of the recession. Our government should be encouraging those of us who are employed and have money in savings accounts to go out and buy all those products currently on sale at our local stores, eat out at a restaurant at least once a week and take a one week vacation away from home. Instead, Obama has criticized companies for rewarding peak performers with incentive trips, attending conventions in Las Vegas and other vacation areas and utilizing upscale resorts for meetings etc. What he fails to comprehend is that any type of travel and spending at this point in time is better than no travelling or spending. Yes the fat cats getting government handout money should be a little more restrained in their spending, but don't go and tar and feather every company that wants to hold a meeting or a reward trip at a hotel. Nor, don't stereotype luxury hotels as "bad" and Motel 6's as "good."

Unfortunately for the Ritz Carlton's and Four Season's hotels, it seems that conspicuous consumption is no longer cool or even acceptable. What people don't realize is that these luxury hotels employ significantly more people than the more down scale properties such as Marriott Courtyards. When wealthy customers trade down and stay at focus service hotels rather than luxury-full-service properties, they may be politically correct- but they are not helping the economy as much. We all need to go back and start spending money at the level we were spending prior to the recession.

If the loss of travel demand doesn't put us into bankruptcy, price cutting will. The events of 9/11, along with the recession that followed showed the industry that hotel rate cutting did not create new demand; it merely lowered total room revenue. To a certain extent, decreasing hotel room rates might give you a slight temporary competitive advantage in your local market- but that immediately goes away when your competition matches your lower 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 actually adjusting their day-to-day room rates and hopefully price integrity will be maintained.

Most economists believe that the worst part of this recession will occur this year and we should be heading towards 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 which preceded the recession, our current

downturn was not a result of an over supply but rather a severe decline in demand. The good news is that when the economy turns around and people start travelling again, the recovery will be quick and strong since there is no excess room's inventory that needs 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. Thankfully, the U.S. population loves their freedom and their travel and one of the first things they will do when they recover their economic confidence is to book a hotel room and get on the road again. It would have been nice if the current administration saw the hotel industry as a key component to the recovery rather than a poster child for excessive spending. They need to get their priorities straight.