Hospitality Directions US

Our updated lodging outlook

January 2019

Despite near-term risks, solid economic fundamentals support decelerating RevPAR growth in 2019.

Fourth quarter lodging fundamentals came in just below expectations, with year-over-year RevPAR growth of 2.4 percent, driven by an average daily rate increase of 2.0 percent. Despite expectations otherwise, occupancy levels increased marginally (0.4 percent), surprising many with continued growth at this stage in the lodging cycle. Growth in occupancy levels was supported by strong demand increases in the contract segment, while transient and group demand declined modestly on a year-over-year basis. Despite concerns over the impact from the trade tensions with China and rising construction/labor costs, the US lodging industry ended 2018 on solid footing, with occupancy reaching levels not seen since 1981.

Looking ahead to 2019, our US lodging outlook remains stable, driven by steady economic fundamentals, including a continued increase in consumer spending; increasing, albeit decelerating business investment; and relatively strong consumer confidence. Lodging supply is expected to increase at a rate close to the long-term average; however, tightening financing conditions and further increasing labor/construction costs may cause a drag on supply growth. Overall, RevPAR in 2019 is expected to increase at a decelerating pace, driven exclusively by growth in ADR.

Counter-balances to this outlook to be watchful of include any negative near-term impact from the partial US government shutdown, continued trade tensions and effects from tariff-rate implementation, political uncertainty amid partisanship, and increasing interest rates.

Our outlook for 2019 anticipates

Continued supply growth of **slightly above the long-term average**

2.1%

Occupancy declines to

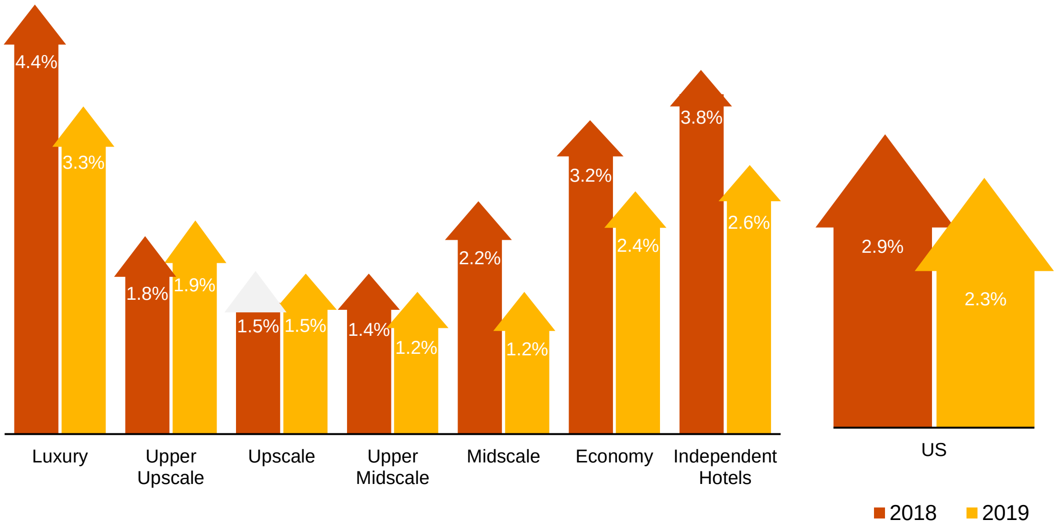
65.9%

Average daily rate growth continues to drive RevPAR increase of

2.3%

pwc

Figure 1: RevPAR growth, US and chain scales

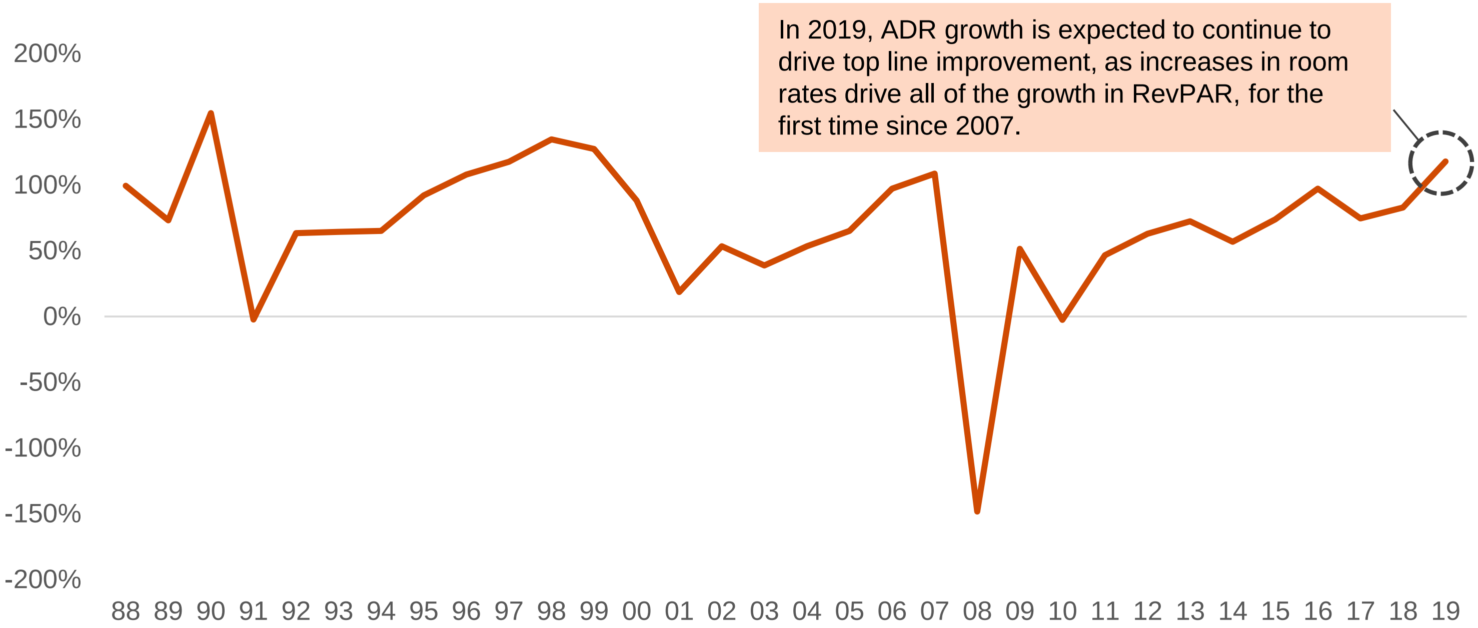


Source: PwC, based on STR data

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.

Figure 2: ADR contribution to RevPAR growth



Source: PwC, based on STR data

Economic fundamentals remain sound, but near-term outlook weighed down

Despite recent equity market declines and the partial US government shutdown, the fundamentals of the US economy remain sound to date. As a result, IHS Markit economists estimate real GDP in the fourth quarter of 2018 to increase by 2.8 percent, ending 2018 with a GDP growth of 3.1 percent, measured on a fourth-quarter-over-fourth-quarter basis.

In 2019, IHS Markit expects real GDP growth to decelerate to 2.1 percent, measured on a fourth-quarter-over-fourth-quarter basis, driven by a combination of factors, including decelerating global growth, a strong US Dollar, fading effects of fiscal stimulus, tightening monetary policy (i.e. rising interest rates), weaker equity markets, and the effects of recent tariffs. Inflation concerns have reduced somewhat for the near-term, due to lower oil prices, a higher US Dollar, and the delay in tariff-rate implementation.

IHS Markit's forecast does not reflect the impacts of the partial US government shutdown that went into effect on December 22, 2018. However, at the time of their forecast release, IHS Markit economists estimated that if the shutdown extended beyond the first week of January 2019 (it did), there would likely be a near-term drag on first quarter GDP growth.

Table 1: US outlook (January 28, 2019)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Demand growth	-6.2%	7.3%	4.6%	2.7%	1.9%	4.0%	2.5%	1.5%	2.5%	2.5%	1.6%
Supply growth	2.8%	1.7%	0.4%	0.3%	0.5%	0.6%	0.9%	1.4%	1.7%	2.0%	2.1%
Room starts, % change	-63.7%	-39.1%	57.9%	26.1%	26.6%	35.2%	13.2%	15.6%	-2.7%	3.8%	7.5%
Occupancy	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.9%	66.2%	65.9%
% change	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.5%	0.1%	0.7%	0.5%	-0.4%
Average daily rate	$98.17	$98.05	$101.76	$106.06	$110.06	$115.20	$120.41	$124.06	$126.77	$129.83	$133.38
% change	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.0%	2.2%	2.4%	2.7%
RevPAR	$53.56	$56.46	$61.05	$65.14	$68.53	$74.16	$78.71	$81.15	$83.53	$85.96	$87.95
% change	-16.6%	5.4%	8.1%	6.7%	5.2%	8.2%	6.1%	3.1%	2.9%	2.9%	2.3%
GDP, % change Q4/Q4	0.2%	2.6%	1.6%	1.5%	2.6%	2.7%	2.0%	1.9%	2.5%	3.1%	2.1%
Inflation, % change	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.3%	1.1%	1.8%	2.1%	2.3%

Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released January 2019); MHC Construction Analysis System; PwC

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	2.1	0.7	3.7	4.4	1.4	2.0	(0.5)	3.8	3.3
Upper upscale	2.2	2.5	0.3)	2.1	1.8	1.2	2.2	(1.0)	3.0	1.9
Upscale	4.8	5.2	(0.4)	1.9	1.5	3.9	4.8	(0.8)	2.3	1.5
Upper midscale	4.0	4.1	(0.1)	1.5	1.4	3.5	4.0	(0.5)	1.7	1.2
Midscale	1.3	1.0	0.3	1.9	2.2	0.6	1.3	(0.7)	1.9	1.2
Economy	0.4	(0.7)	1.0	2.1	3.2	(0.6)	(0.6)	0.0	2.3	2.4
Independent hotels	1.6	0.5	1.0	2.7	3.8	0.6	0.9	(0.3)	2.9	2.6
US total	**2.5**	**2.0**	**0.5**	**2.4**	**2.9**	**1.6**	**2.1**	**(0.4)**	**2.7**	**2.3**

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.

Information requests

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PwC's National Economics & Statistics (NES) group carries out the statistical analysis and forecast modeling for Hospitality Directions US. A center of excellence, the NES group provides economic and statistical modeling and consulting for corporations, trade associations, coalitions, law firms, nonprofits, and government agencies. For more information, please contact Qiang Ma at +1 202 414 1459, or visit www.pwc.com/us/nes.