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Editor's Note...

Recent Trends in the Hospitality Industry

Recent months have witnessed some positive trends for the hospitality industry. The S&P Hotels, Resorts & Cruise Lines Index was up approximately 43.5 percent during 2004, following a 47.3 percent rise during 2003. Despite this trend, the overall S&P investment outlook for the stocks comprising the S&P Hotels, Resorts & Cruise Lines Index remained neutral. What could be a possible explanation for such a contradiction?

The U.S. lodging industry has approximately 4.5 million rooms located at roughly 55,000 properties, based on data from the American Hotel & Lodging Association and Smith Travel Research, plus estimates by S&P. Some lodging-related companies primarily provide services to franchisees in exchange for royalty and marketing fees. Experts predict that during 2005, room supply growth should be toward the low end of what it has been during the prior 10 years. Further, according to several reliable forecasts, the lodging industry should benefit from improved demand in both leisure and business travel during the coming year. Assuming no terrorist attacks, war-related activity, or tsunami-like catastrophes, it is expected that demand for U.S. hotel rooms should increase further. On the negative side of the equation, however, are serious economic issues such as the increased government borrowing, a large current account deficit that is expected to rise to \$825 billion by next year, and increased inflationary fears. Experts predict that hotel operators may face inflationary and cost-related pressures in the coming months, employee health care being one example of such cost.

Given such an interesting economic climate, one important factor should not be ignored—the depreciating value of the U.S. dollar. As mentioned in a recent issue of *The Economist*, the U.S. dollar has fallen by 35 percent against the euro and by 24 percent against the yen over the past three years. On the one hand, such a trend is bad for the U.S. economy, especially after considering the rampant government borrowing, furious consumer spending, and a mammoth current-account deficit within the country. Given such trends, some economists fear that a dollar-devaluation seems inevitable. But again, as the old adage says, every cloud has a silver lining. On the positive side, the suppressed dollar and consequent added purchasing power for foreign tourists could also mean more foreign travel and international travel money for U.S. hospitality and tourism businesses. If this turns out to be the case, the coming months would not be really “neutral” for the hospitality industry after all!