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Editor's Note ...

Oil Prices, Inflation, Hospitality and Tourism – An Economic Perspective

As crude oil hit its recent record of \$135 a barrel, politicians, economists, finance experts, businesses as well as consumers in the United States have started worrying about the sinking US economy. While the authorities are debating about the most benign definition of consumer price index at this time, U.S. producer prices have risen by almost 7% over the past year and are rising at an annualized pace of 13.2%. Critical energy, food and commodity prices are rising at jet speed. Major economic indicators are suggestive of rising inflation in the American economy. Recently, the Fed's governors cut their policy rate by another quarter-point, to 2% implying a 'negative' 2% real interest rate even if a modest 4% inflation is assumed. As summarized by economy.com, declining economic fundamentals in the US, fueled by the turmoil in the capital markets and the escalating price of oil portend a much weaker domestic economy for the months ahead.

What message would such an upside-down state of affairs have for the American travel and lodging businesses in 2008? Regardless of a weak dollar and its 'so-called' tourism export benefits, unprecedented rise in travel costs fueled by fuel price hikes have become a major concern for travel gurus in the US today. Both air and ground transportation industries have shown signs of deceleration because of higher travel costs. Domestic capacity (measured by available seat-miles or ASMs, the total number of seats multiplied by the total number of miles flown) is expected to drop significantly in 2008. Smaller airlines are becoming bankrupt. Aloha Airgroup Inc., ATA Airlines Inc., and SkyBus Airlines Inc. are some examples. Larger airlines such as Delta and Northwest have chosen to merge in order to survive today's challenging environment. The lodging sector is no exception. Both hotel and casino industries in the United States showed a deceleration in business in the first three months of 2008 according to Standard and Poor's. In the same context, PKF lowered its 2008 RevPAR forecasts and projected a 1.6% decline in occupancy to reflect recessionary trends and the excess supply of rooms. Needless to mention, small business owners in the hospitality sector have become more vulnerable at least in the short run.

Given such a challenging operating environment for travel and hospitality businesses, the need for better management and survival skills among hospitality and tourism professionals seems imperative. Can the Fed successfully protect this economy with further interest rate cuts, regardless of existent sub zero real interest rates? How long will oil and travel prices continue to limit the growth of travel and hospitality businesses? Indeed, these are some important questions that only time can answer.