

Journal of Hospitality Financial Management

The Professional Refereed Journal of the International Association of Hospitality Financial Management Educators

Volume 15 | Issue 1

Article 13

2007

Recent Trends in the Lodging Industry: An Economic Perspective

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Recommended Citation

Sheel, Atul (2007) "Recent Trends in the Lodging Industry: An Economic Perspective," *Journal of Hospitality Financial Management*. Vol. 15 : Iss. 1 , Article 13.

Available at: <https://scholarworks.umass.edu/jhfm/vol15/iss1/13>

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Editor's Note...

Recent Trends in the Lodging Industry

In February 2007, Standard and Poor's projected a healthy growth for the US Lodging and Gaming sectors with an average room rate of \$103.17 in 2007, up 6.3% from the \$97.06 estimated for 2006. According to the consulting firm PricewaterhouseCoopers LLP, revenue per available room (RevPAR) was predicted to rise 5.9% in 2007 and 5.4% in 2008. Recent economic events, however, seem to tell us a different story.

According to recent reports, June 2007 consumer spending in the U.S. increased at the slowest pace in nine months influenced by near-record gasoline prices and falling home values. On July 31st 2007, the U.S. stocks took a significant fall following news that the troubled American Home Mortgage Investment Corp. did not have cash to fund new loans. The Standard & Poor's 500 Index posted its biggest monthly decline in three years. Such trends including a steep rise in oil prices, a weakening economy and an anxious credit market have also had a poor effect on the US Dollar. In recent months, the US greenback seems to have been the least favorite of the currency markets. In late July 2007 the US Dollar slumped to \$2.06 against the British Pound. The dollar traded at \$1.3683 per euro. According to currency experts, the US Dollar has been undervalued by 15% against the euro, 18% against the Australian Dollar and 21% against the British Pound. On the positive side, however, a weakened US Dollar could also mean better foreign tourist revenue for American Lodging and Gaming properties.

Could the anxious credit markets and weakening real estate bubble influence future supply of lodging properties during the coming months? Could the steep rise in oil prices lead to poor domestic travel revenues for US Lodging properties in the near future? Only time can provide us with answers to these questions.