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US Economy, Recession and its impact on the US Tourism, Hotel and Restaurant Business: A Brief Review

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Editor's Note...

US Economy, Recession and its impact on the US Tourism, Hotel and Restaurant Business: A Brief Review

The economic climate in the United States has become a serious problem today, and has officially been called a 'recession' by experts and the government. While the country's economy continues its downward spiral, it has become increasingly apparent that this recession is going to be at its deepest since the great depression. According to a recent report from the Economist, US GDP continued to shrink by an annualized rate of 6.2% in the fourth quarter of 2008. Significant decline in GDP is further expected. Stock indices have plunged to their lowest level in 13 years. Job losses have averaged above 600,000 in recent months. The nation's jobless rate has risen to 8.1%, probably its highest level since the early 1980s. Economists expect this rate to exceed 9.3% by early 2010 - the largest increase in the unemployment rate in any postwar recession.

Such deteriorating labor market conditions have already started affecting the wealth and disposable income of common Americans. In turn, the adverse impact of such trends on the country's tourism, hotel and restaurant firms is becoming increasingly apparent.

According to a recent report from IBIS World, the impact of the current recession on the US Tourism industry is expected to be disastrous. Current trends show significant decline in domestic travel including both business and leisure travel. International visitor arrivals as well as forward travel bookings are also decreasing substantially. In line with such trends, IBIS World has revised its forecast of US Tourism's real revenue for 2009 and 2010 to -4.1% and -2.2% respectively.

Hospitality experts also expect the immediate future to be quite grim for American hotel and restaurant firms. For 2008, demand for U.S. hotel rooms decreased by 1.6%. Room occupancies decreased 4.4% in 2008, with occupancy of 60.4%. Historically, occupancy rates have typically remained below 60% on a 12-month running average basis in recessionary conditions, staying below 60% for three months or longer (occupancy levels were at recessionary levels in 2002 and 2003). According to experts from Standard & Poor's, the higher supply and lower demand conditions expected in 2009 could lead to a decline in occupancy to 55%-56%.

Regardless of NRA's optimistic forecast (nearly 2.5 percent or \$566 billion sales increase this year), the recession-related struggle is also apparent in the restaurant industry. According to a recent Reuters report, many high-profile U.S. restaurant chains have already filed for bankruptcy (chapter 11) in 2008. Bennigan's, Steak and Ale, Black Angus Steakhouse, Metromedia Steakhouses (the operator of the Ponderosa and Bonanza steakhouse chains), Buffets Holdings Inc (operators of Tahoe Joe's Famous Steakhouse, Old Country Buffet, HomeTown Buffet, Ryan's and Fire Mountain) and VICORP Restaurants Inc (operators of Village Inn and Bakers Square restaurants) are some examples. As the US restaurant industry struggles with oversupply, deteriorating consumer spending and a lack of credit for refinancing, restructuring experts are forecasting that 2009 will bring more restaurant

bankruptcies than 2008.

Given such ominous trends in the US tourism and hospitality sectors, it seems clear that at least for the next couple of years, managers in these sectors must learn from previous recessions and operate with extreme caution, seeking the best possible utilization of their resources and investment dollars. Thinking of more innovative 'lower cost' supplements wouldn't hurt during such trying times. After all, regardless of the economy's downward spiral, fast-casual restaurant companies such as McDonalds Corporation, Panera Bread, and Chipotle Mexican Grill continue to report robust trends, as Americans struggle to find less expensive ways to feed their families. Consequent to a strong sales growth in recent months, McDonalds Corporation has planned to add about 1,000 locations to its chain during 2009. Even while the rest of the nation's tourism and hospitality firms are facing rough recessionary waters, the old adage 'every cloud has a silver lining' does seem to hold true at least for America's fast-casual restaurants!