



Hospitality Directions US

Our updated lodging outlook

Changing supply-demand dynamic tips the balance, as occupancy levels decline in 2017, after an eight-year run

Our outlook for 2016 anticipates:


Supply growth continues to be slightly below previous estimates, at **1.6%** 


 **Occupancy flat for the year**

*Average daily rate drives RevPAR increase of **2.9%***

Our outlook for 2017 anticipates:

Accelerating supply growth, reaching the *long-term average* of **1.9%**

Waning demand growth leads to first occupancy decline in eight years 

 *Average daily rate growth slows, driving below-inflationary RevPAR increase of **1.7%***

Three quarters in, the US lodging industry continues to muddle along. Continuing the trend from the first-half of this year, RevPAR growth decelerated in the third quarter, on a year-over-year basis.

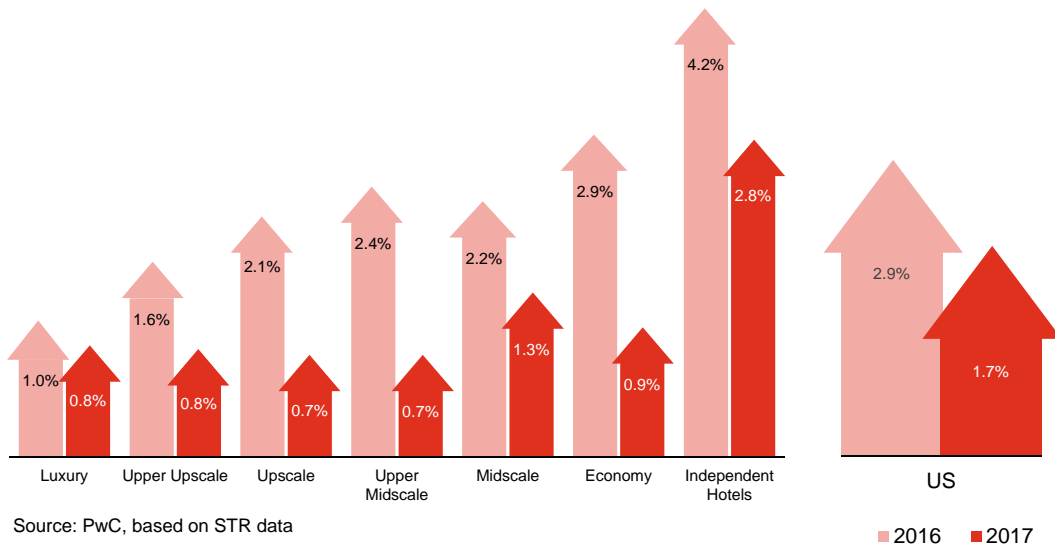
Uncertainty, both international and domestic, continues to weigh on US lodging industry performance. Economists have voiced concern that the President-elect's as-yet-undefined, long-term stance on key economic policies, including international trade agreements, infrastructure spending, and monetary policy, may cause a drag on business investment. This uncertainty, combined with plateauing growth in corporate profits, is expected to continue to weigh on corporate transient demand.

Additional demand-side concerns, including the strong US Dollar, Brexit and economic weakness in the Eurozone, Zika, and depressed energy sector activity, are all expected to contribute to the continued weakness in lodging sector demand growth. As a result, our updated outlook for 2016 anticipates occupancy levels will remain flat, and average daily rate will drive all of the growth in RevPAR.

Looking forward to 2017, acceleration of supply growth, paired with a continued deceleration in the rate of growth in demand, is expected to result in a decline in occupancy levels. This is expected to be driven in part, at least initially, by policy uncertainty of the incoming administration. Though our outlook anticipates that growth in average daily rates will continue to outpace inflation¹, RevPAR is expected to grow at 1.7 percent, the smallest increase since the end of the recession.

¹ Inflation as measured by the personal consumption expenditure price index.

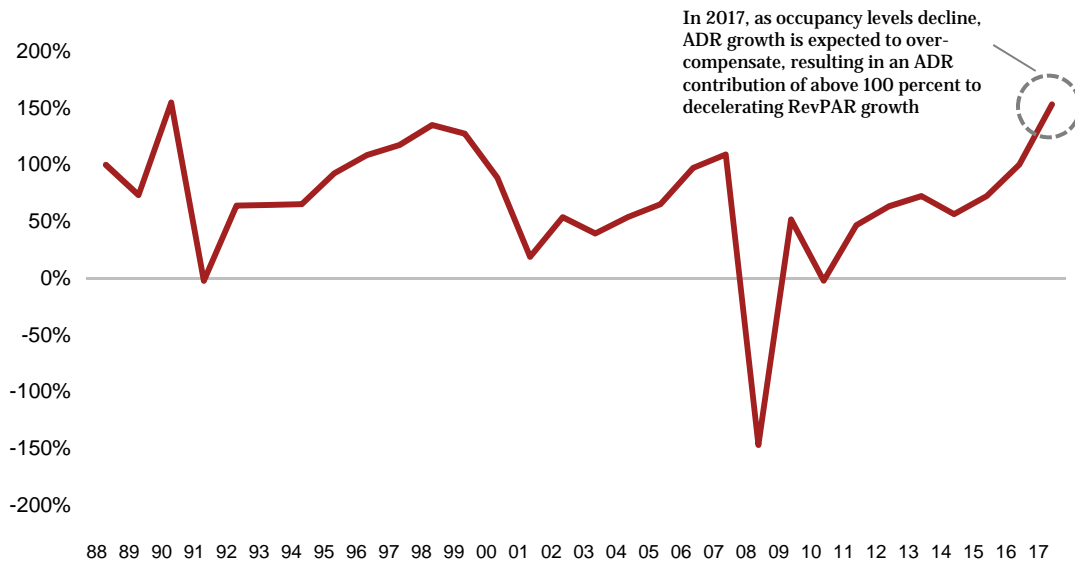
Figure 1: RevPAR growth, US and chain scales



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



Global and domestic uncertainty constrains economic activity

After a tepid first half, real GDP in the third quarter increased 2.9 percent, driven by a combination of modest increases in consumer spending and stronger-than-expected exports. However, according to Oxford Economics, challenges in the energy sector, strength of the US Dollar, and prolonged weakness in global demand continue to constrain domestic business activity. Additionally, while global and domestic uncertainty related to the potential outcome of the US presidential election has now receded, uncertainty is now focused around the President-elect's economic and social policies, and the potential impact on the US economy.

Oxford Economics now forecasts real GDP to increase 1.8 percent in 2017, measured on a fourth-quarter-over-fourth-quarter basis, approximately 50 basis points lower than in our August forecast. Primary risks related to the incoming administration's stance on economic policies, such as trade agreements like the North America Free Trade Agreement (NAFTA) and Trans-Pacific Partnership (TPP), financial industry regulatory reform, and infrastructure spending, has the potential to significantly affect both global and domestic economic activity.

Table 1: US outlook (released November 29, 2016)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Demand growth	0.7%	-2.5%	-6.2%	7.3%	4.6%	2.7%	2.0%	4.1%	2.7%	1.6%	1.0%
Supply growth	1.2%	2.4%	2.8%	1.7%	0.4%	0.4%	0.6%	0.7%	1.0%	1.6%	1.9%
Room starts, % change	4.9%	-9.2%	-63.7%	-39.1%	57.9%	26.1%	26.8%	34.8%	12.0%	7.4%	13.8%
Occupancy	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	64.9%
% change	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.6%	0.0%	-0.9%
Average daily rate	\$104.32	\$107.38	\$98.18	\$98.05	\$101.76	\$106.04	\$110.02	\$115.14	\$120.32	\$123.83	\$127.01
% change	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.7%	4.6%	4.5%	2.9%	2.6%
RevPAR	\$65.54	\$64.24	\$53.56	\$56.46	\$61.05	\$65.12	\$68.50	\$74.13	\$78.72	\$81.03	\$82.39
% change	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.7%	5.2%	8.2%	6.2%	2.9%	1.7%
GDP, % change Q4/Q4	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.7%	2.5%	1.9%	1.8%	1.8%
Inflation, % change	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.4%	1.1%	1.8%

Source: STR; Bureau of Economic Analysis; Oxford Economics (forecast released November 15, 2016); MHC Construction Analysis System; PwC

Table 2: Chain scale outlook, percentage change from prior year

Chain scale	2016					2017				
	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	1.6	2.0	(0.4)	1.4	1.0	1.0	2.6	(1.6)	2.4	0.8
Upper upscale	1.2	1.6	(0.4)	2.0	1.6	0.0	1.4	(1.4)	2.1	0.8
Upscale	4.9	5.5	(0.6)	2.7	2.1	4.2	5.5	(1.3)	2.0	0.7
Upper midscale	1.8	1.9	(0.1)	2.5	2.4	3.3	4.4	(1.1)	1.8	0.7
Midscale	1.0	1.3	(0.3)	2.5	2.2	0.4	1.1	(0.7)	2.0	1.3
Economy	(0.2)	0.3	(0.4)	3.3	2.9	(1.5)	(0.2)	(1.3)	2.3	0.9
Independent hotels	0.9	0.3	0.6	3.6	4.2	(0.3)	0.2	(0.5)	3.4	2.8
US total	1.6	1.6	0.0	2.9	2.9	1.0	1.9	(0.9)	2.6	1.7

Source: PwC, based on STR data

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Definitions and information requests

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.

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