

The Economic Ascent of the Hotel Business

10

Second Edition

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Published by Goodfellow Publishers Limited, Woodeaton, Oxford, OX3 9TJ

<http://www.goodfellowpublishers.com>

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Design and setting by P.K. McBride

10 The US Hotel Business: 1980–2010

Introduction

In 1980, the US elected Ronald Reagan as President and the country began its move from the introspection and economic weakness of the 1970s. The period to 2010 was characterised by development towards even greater emphasis on service businesses and experience businesses, but it was not all plain sailing. There was a recession in 1981/82 before the Reagan economic policies started to deliver economic growth. Military spending rose as ever more sophisticated weapons were created and used in Gulf Wars I and II as well as Iraq and Afghanistan. Spending on homeland security was increased following the atrocities of 9/11 and the growth of international terrorism by Islamic fundamentalists. Growth in service businesses was spearheaded by financial and professional services and the widening diversity of the segment. Experience businesses such as hospitality, travel and recreation grew more substantially than in any other country and established experience businesses as a segment in its own right.

The credit crunch and recession from 2007 to 2010 had a severe impact on the US and most other Western economies and gave birth to the banking crisis and the sovereign debt crisis, the most severe international economic trauma since the Great Depression. The economic trauma was negative for the growth in hotel demand, but coming in the last few years to 2010, it did little damage to the economic ascent of the US hotel business over the whole period. By 2010, the US had reinforced its position as the world leader in the hotel business with a supply ratio of 15.5 compared with only 8.3 for Britain and hotel room concentration of 69%.

US economic structure and hotel demand

In 1980, the US economy was already well developed as a service business economy. Otus estimates that in 2010, total room nights sold in the US exceeded one billion, more than double the volume in 1980. Over the period, the structure of the hotel business developed too as hotel chains grew to capture 75% of total demand, whereas unaffiliated hotels demand grew only marginally.

During the period, all four factors that are indicative of the shifting structure of an economy to the service and experience business segments developed significantly.

Human and civil rights legislation expanded as it did in most western economies. Applied social sciences became a more significant component of vocational degrees than in any other country and the social sciences became part of the high school curriculum. The expansion of ownership of long-term appreciating assets such as homes, insurance policies, pension schemes and other saving mechanisms was faster than in any other significant economy and this made personal credit more easily available than in any other economy. Domestic business and personal travel expanded strongly. Over the three decades from 1980, domestic business demand into US hotels more than doubled to 348 million room nights. Domestic leisure demand doubled to 454 million room nights benefiting from the low proportion of US citizens travelling outside the country on vacation.

The momentum in the development of the economic structure of the US created a wider range of service businesses and a greater number of larger service businesses. During this period, experience businesses grew to a level at which it could stand as a segment in its own right. Tables 10.1 and 10.2 illustrate that over three decades from 1980, the proportion of employment in agriculture and secondary industries, the two segments that yield lower domestic business demand into hotels, declined by three million and the employment in service businesses and experience businesses, the segments that yield the highest domestic business demand into hotels, grew by 27 million to account for more than half of all employees.

Table 10.1: Employment by segment in US: 1980–2010 (ms)

| Year | Agriculture | Industry | Public Services | Service Businesses | Experience Businesses | Total |
|------|-------------|----------|-----------------|--------------------|-----------------------|-------|
| 1980 | 3.2 | 26.9 | 23.5 | 36.8 | 9.0 | 99.3 |
| 1990 | 2.8 | 26.2 | 29.4 | 48.4 | 12.0 | 118.8 |
| 2000 | 2.5 | 31.3 | 32.3 | 56.6 | 14.2 | 136.9 |
| 2010 | 2.2 | 25.1 | 38.7 | 57.5 | 15.7 | 139.2 |

Source: US Census Bureau Statistical Abstracts and Otus

Table 10.2: Employment by segment in US: 1980–2010 (%)

| Year | Agriculture | Industry | Public Services | Service Businesses | Experience Businesses | Total |
|------|-------------|----------|-----------------|--------------------|-----------------------|-------|
| 1980 | 3% | 27% | 24% | 37% | 9% | 100% |
| 1990 | 2% | 22% | 25% | 41% | 10% | 100% |
| 2000 | 2% | 23% | 24% | 41% | 10% | 100% |
| 2010 | 2% | 18% | 28% | 41% | 11% | 100% |

Source: US Census Bureau Statistical Abstracts and Otus

Agricultural demand into hotels

In 1980, agriculture and fisheries employed three million, accounting for 3% of the US workforce compared with only 2% in Britain, illustrating the greater proportion of US agricultural output that was exported and the lower proportion that was imported. Otus estimates that in 1980, agricultural employees generated 1.4 million US hotel room nights for 1% share of domestic business demand. Over the period to 2010, employment in agriculture declined by one million and at the end of the period accounted for only 2% of the total workforce.

The creation of larger national agricultural corporations required more business travel and hotel stays from executives selling products and involved in the management of their companies. There was also a growth in the number of agricultural conferences in hotels, but the volume growth of agricultural demand into US hotels was limited by the growth in agricultural exports, which generated hotel demand in the destination countries rather than in the US. Consequently, Otus estimates that by 2010, agricultural business travellers generated both transient rooms demand and packaged conference demand of 1.3 million domestic hotel room nights, down from 1.4 million in 1980 and represented less than 1% of domestic business demand.

Industrial demand into hotels

In 1980, industrial employment was 27 million, 27% of the US workforce. Otus estimates that industrial business travellers generated demand of 34 million room nights, 23% of total domestic business demand. During the three decades to 2010, the industrial sectors – manufacturing, utilities, construction and mining – lost four million of their workforce, a trend that was accelerated during the credit crunch and recession when domestic and export consumer demand for products declined. By the end of the period, the segment was reduced to 18% of the total workforce.

The North American Free Trade Agreement (NAFTA) was established at the end of 1992 between the US, Canada and Mexico and coincided with the reduction in US jobs in agriculture and manufacturing at a time when they were increasing in Mexico. Demand for consumer durables increased over the period and led to a spurt of consolidation among manufacturers, which was positive for the hotel business. However, the growth in demand also led to further growth in imports as manufacturing costs were lower in developing economies and added to the declining significance of manufacturing for domestic business demand into US hotels.

In 1980, spending on military production amounted to \$45 billion rising to \$124 billion in 1990 due to the development of more sophisticated weapons and after the fall of communism spending relaxed to \$95 billion in 2000 (U.S. Office of Management and Budget, Historical Tables). Thereafter, Gulf War II and military action in Iraq and Afghanistan is estimated to have added a total military cost of around \$125 billion per year (www.nationalpriorities.org). Military spending on production was only of marginal benefit to the US hotel business since, for the companies involved, there was only one client, the government.