

The Economic Ascent of the Hotel Business

13

Second Edition

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13 The Economic Ascent of the Hotel Business: Options to 2020

Introduction

The decade to 2020 started with three defining economic challenges for the West: resolve the banking crisis, resolve the sovereign debt crisis and enact new economic policies to produce sustained economic growth. At the end of 2011, when this chapter was written, none of these were resolved. Initiatives have been put in place by the US and Britain to start to contain the banking and the sovereign debt crises and the Eurozone has agreed in principle to a set of equivalent measures. However, none of the economies has solved either crisis nor have they made an effective start on the selection of economic policies to grow the economies. Thus, at the end of 2011, recovery from the recession was barely visible and many economists were forecasting that the Eurozone would relapse back into recession in 2012.

Given that the main centres of the economic trauma were the US and Europe, which account for two thirds of global room stock and 80% of chain global room stock then the hotel business can only be impacted severely. The downsizing of employment in public services could cause a 10 million leap in unemployment in the 26 Eurozone countries alone and as a result hotel demand would be materially threatened. Additionally, an excess of room supply, which was built-up over decades reached a crescendo in 2010. When there is doubt about medium to long-term growth in hotel demand it is not helpful to start with an excess of supply.

Where next for economic structure?

To manage the sovereign debt crisis, impacted economies need to reduce public spending, vigorously. Each economy will need different amounts of fiscal tightening because each economy has different dimensions of public services. The US has announced a planned reduction in public spending of \$1,000 billion and Britain has announced a four year reduction of £95 billion, around 25% reduction to each year's planned budget, which is expected to reduce public service employment by 700,000. In December 2011, the Eurozone announced its plan for each economy

to maintain its public service budget within 3% of GDP in any year, which could reduce public service employment by at least 10 million.

Potentially, the initiatives in the US and Europe enables attention to turn to identifying the economic policies that will produce sustained growth and the priority is to create new jobs. However, two of the larger sources of employment, public services and financial services, which amounted to between 25% and 50% of employment in the most advanced western economies were the main contributors to structural unemployment and were not available to provide new employment.

The challenge to achieve economic ascent

Historically, recovery from major economic, political, ideological and technological changes is accompanied by structural ascent in economies. The Industrial Revolution was the transition phase for the structural ascent of the British economy from agriculture to industry. The four critical events of the first half of the 20th century: World War I, ideological shifts, the Great Depression and World War II moved the structure of western European democracies towards public services. The more effective governance of the critical events by the US propelled its economy towards service businesses from the 1950s. It took until the 1980s for Britain to make the ascent to service businesses following economic problems of the 1970s and radical change in economic policies from 1979.

A feature of the historic ascents in the structure of economies is that the more developed the economy, the shorter time required to make a segment shift. The Industrial Revolution lasted for around 100 years. The ascent to public services in Europe took around 50 years. During the same period, the US made two ascents from industrial through public services and on to service businesses, while it took Britain only the 1980s to make the ascent from public services to service businesses.

The world economies started the 2010s with diverse economic structures. Economic policies that will produce sustained growth in the economies that are managing the ascent from agriculture to industry will be very different from those that will be needed to manage the ascent from public services to service businesses and they will be different from the economies that will need to manage the ascent from service businesses to experience businesses.

Typically, only one economy at a time has reached the stage at which the natural momentum is for ascent to the emerging economic segment. The current position is different. Never before has there been a time when, concurrently, so many of the world's economies have reached the stage at which the natural momentum is for ascent to the emerging segments. If governments choose effective policies they will set their economies on a prolonged period of sustained economic growth and tantalising enhancement to the lives of their citizens. If they enact the wrong policies they will deliver a prolonged period in the economic wasteland and degradation of the lives of their citizens.

The policies to achieve structural ascent of the economies will be the prime determinants of hotel demand, investment and employment throughout the period to

2020. The issue is not cyclical, it is structural. It is not short-term, it is medium to long-term.

Three scenarios define the economic options and determine the prospects for the hotel business to 2020:

- ◆ The negative scenario assumes that governments pursue economic policies that resist structural ascent of their economies by stifling demand, investment and employment in the emerging segments, which also shrinks hotel demand.
- ◆ The neutral scenario assumes that governments pursue macro-economic policies, but do not enact policies to promote demand, investment and employment in the emerging segments. This scenario will produce slow structural ascent in economies and slow growth in hotel demand.
- ◆ The positive scenario assumes that governments pursue policies to promote structural ascent in the emerging segments, which grows demand, investment and employment in the emerging segments and boosts hotel demand.

To assess the potential for further economic ascent of the hotel business two questions are discussed in this chapter: where can the world economies go from here and where will this take the hotel business? These are among the biggest strategic issues, which will be dealt with in the context of three country groupings: the BRIC (Brazil, Russia, India, China) economies representing those actively engaged in ascent from agriculture to industry; the Eurozone representing those economies where the natural momentum is from public service to service business and the US and Britain representing the ascent from service business to experience business. The economic policy scenarios for each grouping will be discussed as will be their implications for hotel demand and supply, to identify the extent to which the economies can achieve further ascent of their hotel businesses.

Industrial potential in the BRIC economies and their hotel businesses

The BRIC economies with a combined population of 2.9 billion along with most other developing economies were not contributors to the banking crisis. During the de-risking period in the West the BRIC countries were embarking on the structural ascent in their economies from agriculture to industry.

Tables 13.1 and 13.2 record that the BRIC economies employ 42% of their collective workforce in agriculture against 2% collectively in the US and Britain. In contrast, the BRIC economies employ 6% of their collective workforce in service businesses and experience businesses against 52% collectively in the US and Britain. The difference is also evident in the performance of the economies. In 2010, GDP per citizen was \$45,590 in the US and \$45,440 in Britain. In contrast, Brazil delivered \$6,860; Russia, \$6,930; India, \$1,050 and China, \$2,430 consistent with their economic structures (Economist Intelligence Unit, 2010).