

Journal of Hospitality Financial Management

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

Volume 7 | Issue 1

Article 1

1999

Economic Indicators, Bull and Bear Markets: Relevance for Hospitality Firms

Atul Sheel

University of Massachusetts, Amherst

Follow this and additional works at: <https://scholarworks.umass.edu/jhfm>

Recommended Citation

Sheel, Atul (1999) "Economic Indicators, Bull and Bear Markets: Relevance for Hospitality Firms," *Journal of Hospitality Financial Management*: Vol. 7 : Iss. 1 , Article 1.

Available at: <https://scholarworks.umass.edu/jhfm/vol7/iss1/1>

This Editor's Note is brought to you for free and open access by ScholarWorks@UMass Amherst. It has been accepted for inclusion in Journal of Hospitality Financial Management by an authorized editor of ScholarWorks@UMass Amherst. For more information, please contact scholarworks@library.umass.edu.

Editor's Note...

Economic Indicators, Bull and Bear Markets: Relevance for Hospitality Firms

Once upon a time, sailors went to sea believing that the earth was flat and that they were at risk of dropping off the edge. Fortunately, the discovery that it was round solved that problem. The beliefs of tourism and hospitality experts are undergoing a similar change today. Ages ago, one was told that the hospitality industry, an important core of the tourism world, was somewhat insulated from economic downturns because of its "service uniqueness," and also because "poor economic conditions" and "weaker currency" would mean a greater inflow of "foreign tourist" revenue. Today, it is well accepted that market/economic movements do influence investment returns in hospitality firms.

The recent experience of the hotel industry in Southeast Asia deserves a special mention in this context. Barely a couple of years ago, when the Asian economy was strong, hotel firms in this region symbolized the epitome of profitability and success. Hotel chains such as Shangri-La Asia, Mandarin-Oriental, and Hong Kong and Shanghai Hotels (owners of the Peninsula brand) that own and manage their own properties profited significantly when property valuations skyrocketed at one time in Southeast Asia. Last year, when the same market suffered from an unexpected financial crisis, Hong Kong and Shangri-La Hotels alone lost \$266 million. Some firms (Hyatt, Hilton, Marriott, and a few others), however, survived relatively unscathed—probably because they operated as management companies with minimal real estate holdings and took minimal risks. If nothing else, this Asian experience carries an important lesson for hotel investors worldwide. It is especially interesting for finance experts and hotel investors within the U.S. market, given the nation's current economic climate.

The American economy has come a long way since its last setback in 1987. Today, the Dow has reached unprecedented heights; the economy is enjoying an extremely strong growth and the core rate of consumer-price inflation lies at a 33-year low. Per recent reports, the American Gross Domestic Product (GDP) grew at an annualized rate of 3.9% in the second quarter. In the twelve months to September, industrial output rose by 2.4% and retail sales volume rose by approximately 9%. Above all, the twelve-month consumer-price inflation in September remained at a low of 2.6%. These indicators are certainly suggestive of an extremely robust economy. Such economic performance is particularly remarkable given the fact that barely one year ago, the rest of the world faced its worst financial crisis in more than 50 years, with emerging economies collapsing like a house of cards. The current economic climate has proved highly supportive for the hotel and lodging industry in the U.S. Asset values have skyrocketed in both the real estate and equity markets, and low interest rates have fueled increasingly high capital investments.

One school of experts attributes such a sound economic climate to increased productivity, partially stimulated by technological innovations (including innovations in information technology), and a judicious management of interest rates on the part of the Federal Reserve. Another school (*The Economist*, September 1999), however, compares the present economic climate to that of a dangerous economic bubble created artificially by keeping

interest rates low—a bubble in which assets are overvalued, in which households and firms are on a borrowing spree to support capital investments. Obviously, if managed irrationally, such a bubble could force the economy into a painful landing in the future. Validating this school of thought are some disturbing economic trends. The present financial deficit of private sectors has risen to an exorbitant 5% of GDP (relative to a 1% maximum over the past 50 years); money supply has grown at an unusually high rate, and the American current account deficit is heading for a record high today. Whether the future of our economy remains as robust as it is today or is consistent with the expectations of the “bubble theorists” is yet to be seen. Regardless of who is right, and in line with the lesson from the recent Asian crisis, the economic conditions unfolding in the coming months should have a significant influence on the future of investments in American hotel and lodging firms.