

# The current economic environment



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Select a sector of the UK's tourism or hospitality industry and discuss how the current economic environment is likely to affect its future growth.

Tourism is Britain's fifth largest industry, third largest export earner and worth £115 billion a year. It employs 2.6 million people (Visit Britain 2010).

However, this essay will talk about a hotel industry in United Kingdom (UK).

It will provide a brief historical background to the sector and discuss how the current economic situation such as global economic slowdown, credit crunch, recession and inflation might affect its future growth. The paper will also consider the value of the pound sterling in relation to the dollar and the euro, and evaluate the impact this has on both outbound and inbound tourism.

The hotel industry is a major sector of the tourism industry (Go and Pine, 1995).

According to Medlik (1989) hotels play an important role in providing facilities for the transaction of business, for meetings, for recreation and entertainment. Medlik's (1989) key study of the hotel sector also shows that for many forms of tourism, the tourist requires an accommodation.

Back to the 19th century, when hotels began to be built, there were just a few big hotels in UK, but the development of railways affected its future growth. Then in 20th century, after the Second World War, there was an economic growth, increase in income and living standards, the hotel industry expanded largely and now there are lots of modern build hotels that prove the growth and significance of this sector. However, the growth of the hotel sector can be affected by changing economic environment.

This essay will further look at the current economic situation in UK and factors that can affect the future growth of the hotel industry. But before talking about the current economy of UK, it would be reasonable to explain the economic situation globally and how it is started.

The current economic slowdown has apparently started in the United States (US), when homeowners, who had their mortgages from subprime lenders begun defaulting on their payments. US federal bank raised interest rates in 2007 and this caused house prices to fall leaving people with 100% mortgages with negative equity. As housing prices started to decline, major lending institutions that had large stakes in subprime loan companies reported significant losses. Negative equity triggered a wave of repossessions but because banks were unable to recoup the amount lent they became very reluctant to offer any loans. Unavailability of credit and high quantities of ‘bad debt’, that had to be written off, caused many companies including international banking corporations to go bankrupt. Interbank lending became very expensive, lending to businesses and individuals was virtually non-existent. This became known as ‘credit crunch – a reduction in the general availability of loans or a sudden tightening of the conditions required to obtain a loan from the banks’ (Wikipedia 2000). Although the United Kingdom did not have so many ‘bad mortgages’ the interdependency of UK and US financial sectors caused the similar problems over here.

Nowadays hotels are experiencing a sharp slump in demand and facing the most challenging trading conditions in 17 years (Hotel and Leisure journal 2009). Companies and consumers tightened their belts, and demand for leisure trips, business travel and hotels is fragile. Global economic and

financial crisis and fears of a deep recession are difficult times for hotel industry. ' In economics, a recession is a business cycle contraction, a general slowdown in economic activity over a period of time' (Wikipedia 2000).

According to Hospitality and Leisure journal (2009) hotel industry as a market is difficult to read, because hotels tend to be a late cycle industry, in terms of registering the impact of either positive or negative economic trends. This lag occurs because corporate clients review their own travel policies when they see business slowing but it takes time for these changes to filter through, and the effect is often delayed until the annual round of rate negotiations. It takes between six and twelve months to record a change in performance. The latest forecast anticipates continuing UK and London RevPAR (revenue per available room) declines throughout each quarter of 2009. According to Hotels and Leisure journal (2009) scenario there was an overall annual UK occupancy decline of 10.3 per cent as well as a room rate fall of 9.6 per cent, pushing RevPAR down to almost £51, a fall of 18.9 per cent, which is twice the rate expected in predicted scenario in November 2008. Hoteliers told that they expect rate declines of between five and 15 per cent this year and many thought occupancies could also fall by 10 per cent. The forecasts made by TRI Hospitality Consulting (2009) predicted that London experienced a 10 per cent drop in room revenue (RevPAR) in 2009 and it will follow a further 0.5 per cent drop in 2010. In the provinces RevPAR declined by 8 per cent in 2009 and it will decline further 2 per cent in 2010.

Inflation is an important factor of the UK economy. ' Inflation is a general rise in prices across the economy. This is distinct from a rise in the price of a particular good or service. Individual prices rise and fall all the time in a market economy, reflecting consumer choices and preferences, and changing costs' (coursework. info 2006). Consumer Price Index (CPI) inflation has risen sharply to 2, 9 per cent in December 2009. That rise was because of high petrol prices and the restoration of the VAT rate to 17, 5 per cent. But, latest inflation report of Bank of England (2010) stated: ' In order to maintain price stability, the Government has set the Bank's Monetary Policy Committee (MPC) a target for the annual inflation rate of the Consumer Prices Index (CPI) of two per cent and Bank rate at 0, 5 per cent'. Furthermore, according to the Bank of England (2010), UK economy recorded sluggish growth in the final quarter of 2009. Spending by households picked up a little. The rate of decline in businesses investment spending appears to have eased. And the world economy continued to recover, raising the demand for UK export.

Similarly, there are a number of current and upcoming opportunities for the UK hotel industry that should be used. Following the global financial crisis in late 2008, pound depreciated very fast, falling below €1. 25 against the euro in April 2008 and reaching \$1. 35 per £1 in January 2009 (Office for National Statistics 2009).

The depreciation of sterling means that international tourists have increased spending power in the UK, making it more attractive destination to visit. Equally, it will incentivise increased domestic tourism, as foreign destinations become relatively more expensive. A report commissioned by Travelodge <https://assignbuster.com/the-current-economic-environment/>

(2009), surveyed 3, 300 British people to investigate their holiday plans for the summer of 2009 and found that number of people going abroad has fallen from 33 per cent in 2008 to 27 per cent in 2009. 32 per cent of UK citizens are now planning a holiday domestically. British Chambers of Commerce (BCC 2009) said in their notes: ‘ there are definite signs that exchange rates are giving the tourism industry a boost with less people travelling abroad and more overseas visitors’. In addition, this picture was confirmed by the Office for National Statistics (2010), who reported that during 2009 number of visits abroad by UK residents decreased by 15 per cent and a number of overseas visitors in UK between November 2009 and January 2010 rose by two per cent to 7. 4 million.

There are also upcoming events in UK such as the 2010 Ryder Cup in Newport, the 2012 London Olympics, 2013 Rugby League World Cup and potentially hosting the 2018 Football World Cup offers a lot of opportunities for UK hotel industry and tourism in whole. The Olympics itself will offer over 50, 000 contacts to companies. Furthermore, the recent Oxford Economics Study (2007) estimated that the gain to UK tourism would be extra 32 million visitors UK-wide as a result of the games. That means there will be a huge demand for accommodation and hotel industry will largely benefit from this events. As an example, the InterContinental Hotels have signed an agreement with the City Site Estates to open three hotels in London before the Olympics (The Evening Standard 2008).

Hospitality and Leisure journal (2010) reported in their latest forecast for London that, RevPar will grow to 5, 8 per cent in 2010 and a further 7, 8per cent in 2011. It will be more difficult journey for the Province, where the <https://assignbuster.com/the-current-economic-environment/>

forecast of RevPar growth for the 2010 is 1, 6 per cent and 3, 1 per cent in 2011.

In conclusion, Hospitality and Leisure journal (2010) stated in their latest article, that hotels are on the comeback trail. Much will depend on economic growth and confidence, but with the Olympic flame approaching the forecast is optimistic. Hotel industry has overcome a wide range of challenges since this crazy 21st century began. It will have a rough ride over the months ahead but those who think and act strategically and have the ability to adapt their business model quickly to the new realities will overcome this challenge. Mr. Marriott, the Chairman of the Marriott International said: ' The long-term future is bright'.