Fasten Your Seat Belts!

For the past few weeks the world’s financial markets have been in turmoil, as analysts and investors have focused on the multi-billion-dollar write-offs by major U.S. financial institutions, particularly those involved in lending money to risky, “sub-prime” borrowers. Worldwide, nearly $7 trillion in stock value has gone up in smoke this month, as pessimism has rocked markets, rolling like a tsunami from Japan and Hong Kong, where the financial world’s day begins, then sweeping westward through stock exchanges in India, Russia, Europe, and the United States.

In an effort to stem the tide, the U.S. Federal Reserve stepped in with an emergency cut in interest rates of three-quarters of a percentage point, the largest cut in the Fed’s main interest rate in over 20 years. At press time, Congress and the Bush administration have agreed on an economic stimulus package designed to inject around $150 billion into the economy.

The question is whether these actions will prevent a recession, which many feel has already started.

One person who says it won’t is Byron Wien, a seasoned Wall Street strategist, whom I had the opportunity to hear speak before a small group of business leaders a couple of days ago. He summed up the current economic situation and predicted that it will lead to “Ten Surprises” in 2008, which I have paraphrased below. Wien feels that each item on the list has at least a 50 percent chance of happening.

The Ten Surprises of 2008

1. In spite of the moves by the Federal Reserve, Congress and the Bush administration, the U.S. will go into its first recession since 2001.
2. The Standard and Poor’s index will fall another 10 percent this year.
3. The dollar will strengthen against the euro in the first half of the year and weaken in the second half.
4. Inflation, as measured by the Consumer Price Index, will exceed 5 percent.
5. The price of crude oil will fall to $80 a barrel in the first half of the year and rise to $115 in the second half, as production declines, while world demand for energy continues to rise.
6. Commodity prices for wheat, corn, and cotton will remain strong, and the price of gold will reach $1,000 an ounce.
7. The stock market in China will decline sharply.
8. The stock markets in Russia and Brazil will be strong.
9. Water will become a critical worldwide problem.
10. Barack Obama will be elected the 44th U.S. president in a landslide victory over Mitt Romney, and the Democrats will win clear majorities in the U.S. Senate and House of Representatives.

The election of Hawaii-raised Obama as president of the United States might well be a surprise to many, but neither Wien nor I believe it will necessarily bode ill for the economy (as Republicans might like voters to believe).

However, if, indeed, half or more of the other “surprises” do take place in 2008 — particularly $115 oil, significant inflation, and a general U.S. recession — the impact on Travel and Tourism will be significant.

The good news is that worldwide, international tourism was very strong in 2007, growing by nearly 6 percent, according to the World Travel & Tourism Council. This is the fourth consecutive year that the year-over-year increase exceeded the norm, which is 4 percent.

Worldwide economic growth has definitely contributed to this, particularly in China where a middle class is growing, slowly but steadily. Hopefully, this will bring more international travelers to Hawaii soon, thanks to a recent relaxation in the rules for outbound travel from China. This might blunt the expected drop-off in travelers from other areas.
Unfortunately, as pointed out by Sen. Daniel Inouye, the U.S. is losing market share in international travel and tourism. “In 1992, the United states attracted 9.4 percent of all international tourist arrivals. In 2004, we attracted only 6 percent of total international arrivals. That 35 percent drop has cost the United States about $300 billion in revenue over the last 15 years,” said Inouye this past Thursday at the U.S. Conference of Mayors meeting in Washington, D.C.

Accordingly, Inouye and others have introduced the Travel Promotion Act of 2007, a bill that would create a nonprofit corporation to promote America to international visitors and establish an Office of Travel Promotion in the Commerce Department with an Under Secretary of Commerce for Travel Promotion. The Under Secretary would coordinate travel promotion at the federal level and would also work with the State Department and the Department of Homeland Security to ease the entry process for international travelers.

In my nearly 40 years in the hospitality business, I have seen any number of economic cycles. It seems to go roughly by decades, with economic growth followed by a slowdown near the turn of the decade.

In boom times, I have seen our properties running 100 percent occupancy night after night. At other times, I have seen large numbers of hotel rooms go unoccupied. Many still recall one year when Waikiki’s occupancy was so low that the 1,230-room Hyatt Regency shut down one of its two towers to save electricity!

In good times and bad, the secret of our business is a combination of aggressive marketing, efficient service, and warm hospitality. Working together, we’ll achieve those goals and get through the coming year, no matter what the future brings.

In the meantime, fasten your seat belts. There’s rough weather ahead.