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FNB: Economic challenges slow hotel income recovery

While hotel accommodation income continues to show robust growth, real hotel income remains significantly below pre-lockdown 2019 levels, hindered by recent economic challenges slowing post-lockdown recovery.

Source: Pexels

This is according to FNB's latest property insights regarding June 2023's StatsSA Hotel Income statistics by John Loos, property sector Strategist at FNB Commercial Property Finance.

Loos says that as of June 2023, hotel revenue year-on-year growth is still in double-digits. A battling economy continues t constrain the real
(inflation-adjusted) hotel income's ability to get back to pre-lockdown levels.

The StatsSA release of June 2023 preliminary monthly tourism statistics showed the hotel sector's income levels still growi in double-digits.
On a year-on-year growth rate basis, total hotel-sector income was still strong at 17.1% in June. This is a very similar rate the 16.8% rate for May.

While these recently strong growth rates that are well-above general price inflation, signify ongoing post-lockdown recover they are misleading as to the strength of the hotel sector, given that income growth has been coming off a very low base created by 2020/21 lockdowns.

"Because of the abnormalities created in post-lockdown growth rates, due largely to the low 2020/21 lockdown base, it ma sense to also view total revenue value, and compare it to the comparable month just prior to the lockdown era, in the pre-Covid 19 period. We then get a better perspective of a hotel sector whose income is still battling relative to the pre-Covid 1 era, and not yet having reached full recovery," said Loos.
"By "full recovery" we mean getting back to pre-lockdown levels"

Total hotel industry income in June 2023 was still -5.3% below the income for June 2019. In nominal terms this seems not too far off the June 2019 level. However, a part of the apparent recovery is merely the impact of four years of significant price inflation.

In real inflation-adjusted terms (using a hotel and restaurants CPI), this June 2023 income level was still a very significant 18% below the June 2019 level.

Long road to hotel-income recovery

This real gap between the corresponding pre-lockdown month and the most recent month’s data in 2023 widened from the 14.9% for May 2023 to May 2019. This is reflective of a long battle to get out of the severe 2020 lockdown dip, hampered the more recent economic headwinds caused by rising interest rates, a recent inflation surge and a slowing economy.

“The road towards “fully recovered” levels of real hotel income therefore still seems some way off,” Loos said.

It is more the occupancy rate that constrains real hotel income than real income per stay night. The average hotel income per stay night in June 2023 was 12.9% above that recorded in June 2019. Therefore, when adjusting for inflation into real terms, this level was only -2.1% below that of June 2019, thus the hotel sector’s revenue growth continued at a solid pace June 2023, if one views simple year-on-year growth.

However, in real inflation-adjusted terms it remains well-below pre-lockdown levels, with current economic pressures constraining the recovery.

Economic headwinds and rising costs

While consumer price inflation has been subsiding in recent months, thus eating less into household disposable income th last year, interest rates are now 475 basis points higher than late-2021, thus requiring a significantly larger portion of household income to service outstanding debt.

High fuel prices have had a direct impact on tourism through impacting on the cost of travel too. And while petrol prices ha declined from last year’s highs, the Gauteng pump price is still 52.7% higher than its early- 2021 level.

In addition, there has been the slowing domestic economy, recording real year-on-year growth of only 0.2% by the 1st quarter of 2023.

FNB forecasts a mere 0.2% economic growth rate in 2023, after a 2% rate in 2022. This slowdown has been brought abo by higher inflation and interest rates, disruptive elevated electricity, load shedding since late-2022, and a slowing global economy that affects SA’s trade.

This economic slowdown slows household income growth, another constraint on tourism demand growth.

The same economic pressures are felt on business incomes, and business travel growth may also be constrained as a result.