

# Federal Reserve Bank of Atlanta

Michael Chriszt

August 25, 2009

**Moderator:** *Welcome to Southeastern Economic Perspectives, an occasional podcast from the Federal Reserve Bank of Atlanta. The following comments discuss travel and tourism in the district and provide some insight into how the recession affected this industry. Michael Chriszt, an assistant vice president responsible for the Regional Economic Information Network, and Courtney Nosal, an analyst who specializes in the Sixth District, will provide insight into how the recession affected travel and tourism. Thank you for joining me, Mike and Courtney.*

**Mike Chriszt:** It's our pleasure.

**Courtney Nosal:** Thank you.

**Moderator:** *So, Mike and Courtney, how is tourism holding up in the Sixth District?*

**Nosal:** Well, it's not holding up very well. Across the nation, tourism activity has been decreasing, and the Sixth District is no exception. Particularly, hotel occupancy and revenue is down, cruise profits are also falling, and the number of airline passengers has dropped.

**Moderator:** *So, Courtney, what is the industry doing in response to the decline?*

**Nosal:** There's lots of deep discounts and promotions. Cruise lines have extended the "friends and family" discounts to the public, there are online specials for hotels, cruises, flights, and some hotels in Florida are also extending special deals for Florida residents.

**Moderator:** *So are any of the discounts working?*

**Nosal:** Well, hotel occupancy rates are down throughout the district. In Florida, 13 of the 14 airports showed drop in airline passengers in this quarter, and 1.3 million fewer passengers this quarter than the second quarter of 2008. Also, although cruise ships are always at full occupancy, they have higher labor costs and lower revenues.

**Chriszt:** Jean, one thing that we look at as a general economic indicator is sales tax revenue. And, just to build on something that Courtney was talking about with regard to Florida, if you look at their tax revenues that are directly related to tourism and recreation activity, those revenues are down 10 percent year-over-year from June. And a personal story: Every year I take my daughter's softball team down to Panama City, and we were down there in July. In between games we always head out to restaurants, and in just some casual conversations with folks in that industry, they were saying that even though the crowds were there, they weren't seeing the same kind of spending that they usually see. So, we're seeing people still taking vacations, taking advantage of some of the things that Courtney mentioned, but just not spending at the same level that they spent, say, a year ago.

**Moderator:** *Based on the numbers that you're seeing, do any of your contacts have any insight into whether specific regions or sectors are being hit worse than others?*

**Nosal:** Well, if we take a look at the hotel industry throughout the nation, supply is up, and demand occupancy and revenues are down. This is pretty uniform across our district. So, tourism activity in the district has been weak recently. Hotel bookings are down, both in leisure and convention, but leisure has not been experiencing as severe a decline as in the convention travel. Most of the leisure travel is being booked online, and the strong discounts are being applied, so this encourages tourism, but it discourages revenue.

According to reports from our contacts, average daily room rates for hotels in Florida have fallen 10 percent from April, and occupancy rates are down 8.6 percent over the same period. The number of visitors to Florida in the second quarter fell 9.2 percent from the second quarter of last year. As of June 2009, the national hotel occupancy rate was 61.3 percent; every single state in the Sixth District has levels below this average. Georgia stuck out with the lowest occupancy in the district and the second-lowest rate in the nation. If we take a look at the top 25 markets in the hotel industry, six of the slots belong to the major cities in our district. Of note, Tampa and Atlanta had the second- and fourth-lowest rates. But, on a positive side, Nashville and Orlando were both above the national average.

**Chriszt:** Nashville and Orlando? So are we saying that country music and Disneyland are recession-proof, maybe, is what we're seeing in some numbers? But that's a positive thing that we're seeing; some areas in the district are doing better.

**Nosal:** And also, if we take a look at airlines, in addition to the decreasing number of airline passengers, fuel costs have risen higher than labor costs, so airlines are facing falling demand plus increases in costs. Up until 2006, labor cost was the highest expense, but today fuel costs are about 50 percent higher than labor costs. The number of airport hubs in Florida has shrunk by about 25 percent in the last few years, and many expect more to close in the future.

**Moderator:** *With the cuts and the drops in the occupancy that you mentioned, what do your contacts see coming in the next few months for their industry?*

**Nosal:** Well, according to most of our hospitality industry contacts, travel and tourism spending has been decreasing over the region, and reports are mentioning lower profit margins as a consequence of this heavy price discounting and modest spending by vacationers. As a result of

this, most contacts are reporting they are continuing to trim staffing levels. So, overall, it appears our contacts expect tourism to experience another six to 12 months of weak activity.

**Chriszt:** Jean, let me take a broader perspective on wrapping this up and just say that, looking, closely at the tourism sector gives us some deeper insight into overall discretionary spending patterns. And, what we are seeing there, along with total retail sales, data, and information from our contacts on the retail side, is that consumers remain very cautious. They're looking for deals and discounts—some of those that Courtney mentioned with regard to vacation and trips planned—and they are only pulling the trigger on sales for the bare necessities. So, in sum, discretionary spending remains very subdued.

**Moderator:** *Thanks, Mike and Courtney.*

**Chriszt:** Thank you.

**Nosal:** Thank you.

**Moderator:** *Again, we've been listening to Atlanta Fed Research team members Michael Chriszt and Courtney Nosal provide insight into travel and tourism in the Southeast. This concludes our Southeastern Economics Perspectives podcast. Thanks for listening, and please return for more podcasts. If you have comments, please send us e-mail at [podcast@frbatlanta.org](mailto:podcast@frbatlanta.org).*