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The Cause of Inflation and Its Pending Impact in the United States

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Inflation is not as simple as we may think. It is a wildly complex and deeply pervasive economic phenomenon that is not the result of any one simple cause and effect. Unstable political climates, financial performances, global economies, consumer behaviors and disrupted supply chains each contribute to inflation. The widespread, interdisciplinary ripple effect hits nearly every sector of the economy from food prices at the grocery store, to interest rates at the Federal Bank, to gas prices at the pump, to escalating room rates at hotels. We are all experiencing an upsurge in costs. Banks, corporations and consumers are all reacting to the series of ongoing fluctuations in the economy after the seismic impact of COVID-19 on the worldwide economic systems. It is time we explore the complexity of how these economic realities impact hospitality.

6 DRIVING FACTORS ON THE ROAD TO INFLATION

1. With the COVID-19 global shut-down, lockdowns ensue, dramatically altering buying, savings and spending behaviors.
2. Drastic supply chain issues occur, impacting the availability of goods, production and transportation.
3. Pandemic restrictions ease as massive demand for goods increases.
4. Corporations' respond with continued price increases to meet demand.
5. In the US, for example, the Federal Reserve reacts by printing record high amounts of money, then increasing interest rates.
6. Decreased workforce availability and rising wage follows as the effects of inflation accumulate.

Prices in nearly every sector rose dramatically since 2020. Inflation continues to rise, increasing nearly 7.7% from October 2021 to October 2022, as compared to a 2% annual increase in a normal economy. Rising wages have not caught up to inflation, having risen nearly 5% yet still disproportionate to the increase in the cost-of-living rate. To curb this, the Federal Reserve responded with a dramatic increase in interest rates this year, starting near zero percent at the year's apex and increasing to 4% as the year closes. The goal is to increase the cost of borrowing and slow consumer activity. In practice, this tactic can often take up to two years to control inflation.

WHY IS INFLATION IMPACTING THE HOSPITALITY INDUSTRY?

In hospitality, the link between supply and demand following COVID-19 is not necessarily clear. While demand certainly increased in major metropolitan areas, the correlation between this demand and the aggressive increase in the average hotel room rate is disproportionate. As demand slowly increased, severe labor shortages and supply chain issues were exposed. Hotels are not full - they are operating with less staff and experiencing increased supply costs

from food to furniture to utilities. A recent report by Marriott revealed that occupancy rates are underperforming, and that per night costs are going *up* to combat this phenomenon. The relationship between less employees, increased costs and growth in consumer demand is not linear. The hotel pricing dynamics are impacted by a variety of factors. For example, driving this record high inflation is the demand for increased wages as the employers seek to attract talent to fill labor shortages. Paying employees at post-pandemic wages, investing in upgraded amenities to attract guests wanting more experiential value and increased supply chain costs combine to drive rates higher. These higher costs are passed directly to the consumer.

SUPPLY CHAIN ISSUES CONTINUE

While supply chain issues have slowly improved, the impact of the shortages are still being felt across residential developers for current and future projects. Joe Goldstein, managing partner of Beverly Hills based Concord Real Estate, speaks to the impact of inflation on simple renovation projects. Building renovations now take an average of twice as long to complete due to slowed delivery times on essentials, rising costs and a lack of qualified workers. “The biggest challenge in the supply chain is obviously costs going up and underwriting costs for a $900 set of appliances, and then you turn around and that same set of appliances is $1,600. You underwrite flooring to cost you $1.25 per square foot and the same flooring costs you $2.50 a foot.” Developers will continue to pass these costs on to tenants and these higher rates will most likely continue after supply chain issues subside.

INFLATION, STAGFLATION AND RECESSION?

Candidly, no one really knows what will happen over the next 18 months. In October, the US experienced a 7.7% inflation rate compared to September’s 8.2%. Some analysts are predicting the rate of inflation may have plateaued, however not everyone shares that opinion. There are two new foes we may face in the coming months. 92% of Fund Managers are predicting that the American economy will experience a cycle of slow economic growth and high inflation, known informally as “stagflation.” Stagflation is when the economy is malfunctioning; when prices keep soaring while economic growth — the rate of increase in the output of goods and services — slumps. The lack of economic growth over time can lead to higher unemployment, will limit growth and lengthen the return of a healthy economy.

Is the U.S. in a recession? Bank of America CEO Brian Moynihan is sticking to his earlier predictions that if a U.S. recession comes, it won’t be as bad as people fear. Although Bank of America economists predict unemployment will increase to 5.5% by next year, it may be a good sign for the economy. If this happens, the economy will start to get into a better condition to grow at a more normalized and predictable pace. He expects the U.S. economy to contract by just 1% for the first three quarters of 2023, then return to positive growth. This would equate to a milder recession. The result? The price increases we have experienced and continue to experience will be here for the foreseeable future.

About The Authors

James Higgins is the founder of Revalant Consulting and Recruiting. Serving as the Senior Partner, Revalant specializes in corporate housing, residential real estate, and the hospitality industry. As a former Vice President and sales leader at BridgeStreet, Oakwood and Convene, he has an expertise in having companies act more strategically, reach their maximum potential, achieve significant revenue growth, and deliver market expansion through sales development, branding, marketing, project management, and talent acquisition. Scott Higgins is the contributing author and head research analyst at Revalant. He is a 2021 graduate of George Washington University with a degree in both psychology and English.

Revalant works with organizations to successfully sell into the Fortune 1000, vertical markets, and uncover sales and operational advancement. Members of the Revalant team are experts in millennial workforce integration, business development, lead generation and project management. With exceptional leadership and a unique perspective for developing and driving others to fulfill their potential. Revalant delivers results on both the strategic and tactical level by providing executive leadership and direction, targeting sustainable revenue growth and market expansion. Revalant aims to assist businesses that are looking to improve various aspects within their company. Revalant tailors their approach to the company's specific needs and budget, while isolating key areas for development and creating a plan to implement and execute for success.

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