

State of the Industry – An Update

Peter Martin introduced himself as the VP of CGA Peach, and gave an overview of the UK out-of-home market. It was a very big market: practically everyone who could eat out did. The group that ate out the most was the people under 35. Though the market was large, it was static; it had only experienced 0.7% growth year on year. Peter Martin highlighted the number of casual eating brands opening outlets in London. He also noted that the food market was experiencing severe disruption due to the changing nature of food delivery. Social media was also responsible for driving trends in independent outlets and street food experiences.

Peter Martin noted a trend in restaurants and casual dining outlets using drinks to leverage, often craft beers or artisanal gins. Peter noted that 2,277 new beer and cider products had been launched in the preceding three years, and that 7.1 million people were drinking craft beer at home. There was also an increased focus on provenance and health, exemplified by Pret A Manger launching more vegan products.

Peter Martin outlined that at the beginning of the year 75% of executives in the hospitality space had been confident, but that after the Brexit result 15% were optimistic in the short term, with 30% optimistic about the longer-term outcomes. There were concerns about staffing and currency issues, and it was important for the industry to pressure the Government to take the required action.

Sarah Duignan introduced herself as the Director of Client Relationships at STR. She said that the hotel market in London had recovered much faster than the market in the regions after 2007. The average room rate had increased much faster in London than the regions in the same period, and in the UK as a whole had increased roughly 15% in that time. She said that the increase in London was starting to slow, and was down from a 2015 peak, which had been 27% above 2007.

Looking at the regions, Sarah Duignan noted that Aberdeen had had a particularly bad year, driven by a decrease in oil workers and an increase in supply. Newcastle had also had a bad year, but this was more likely to be a short-term dip. Glasgow had managed to improve year on year, the year after hosting the Commonwealth Games, which was impressive. In London, the greatest improvement had been in the West End, while the East End and South East had shown the largest declines. Sarah Duignan laid out the increase in rates driven by occupancy, and said that the difference in a room rate at 90% occupancy rather than 70% was an average of 37% in London and 36% in the regions.

Sarah Duignan commented that it had been a good year for most of the regions, with positive average growth across all classes. She noted that the markets in the regions were potentially healthier than the volatility that was seen in London.

Liz Hall introduced herself as the head of hospitality and leisure at PwC. PwC had published a forecast for the hotels market in September, using assumptions from the PwC economic weather map. She ran through some key points from the weather map. These were modest growth in the US, and slowing growth in China, and recession in Russia and Brazil. Liz Hall highlighted that they were in a period of global uncertainty. PwC had issued a cautious forecast of 1% growth for the UK.

Liz Hall said that the impact of rising prices on consumers meant that consumer spending would slow, and there was a fear that there would be another period of squeezed incomes. Despite this, consumer confidence had returned to pre-referendum levels, which would have a positive effect. She explained that after grocery shopping, holidays were something that consumers viewed as a top priority. The UK had reached the highest proportion of people taking holidays since 2011. Liz noted that the falling pound would have a positive effect on inbound holidays to the UK, and staycations; the likely weakening of the dollar due to the election of Donald Trump would also help with this. Liz Hall noted that security concerns were not going to dissipate in the short term, and that they might mitigate some of those benefits, as terrorism had affected 30% of people's travel plans at some point. Business travel budgets were dropping across industry, as uncertainty and cost reduction had returned.

There were also challenges to be dealt with from the increase in supply, and the challenges of the sharing economy. Liz Hall concluded by saying that uncertainty, volatility and disruption would continue to challenge the industry.