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U.S. Lodging
WAGE FORECAST — 2019

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2019

WageWatch Forecast of Wages – 2019; Published 3/11/19

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SUMMARY

WageWatch is forecasting salary and wage increases for the U.S. lodging industry of 3.7% in 2019. This will be slightly above the actual to the 2018 actual wage increases of 3.6% as reported in the WageWatch PeerMark™ Salary Survey for 2018. We forecast wages for non-exempt positions on average will increase by 3.8% and exempt positions on average will increase by 3.1% in 2019.

Our forecast of average wage increases for the lodging industry in 2019 is higher than the results of the WageWatch 2019 Budgeted Wage Survey for hotel employees, conducted from January 7 to February 23, 2019. Lodging companies representing 10,000 hotels with 1.9 million rooms and 595,000 employees were surveyed. The survey results disclosed budgeted or planned wage increases ranging from a low of 1.0% to a high of 6.0% with a median of 3.0% and a weighted average of 3.0%.

RECAP OF LODGING WAGES FOR 2019

The U.S. Lodging industry continues to outperform the U.S. labor market in terms of wage increases and growth of the labor force. Last year was the sixth year in a row the Lodging industry outperformed the U.S. labor market. Based on the WageWatch PeerMark™ 2018 Wage Survey of 6,000 hotels with 300,000 employees, the overall average increase in pay was 3.6%.

Most of the increases occurred in non-exempt jobs with an increase of 3.7% as compared to exempt jobs with a 3.1% increase. The national average pay increase for 2018, as reported by the Bureau of Labor Statistics, was 2.9% for all civilian workers. The following table presents the wage increases for the period 2014 through 2018 for all reported positions, exempt and nonexempt.

WAGE INCREASES	2014	2015	2016	2017	2018
All Reported Positions	3.2%	3.4%	3.1%	3.8%	3.6%
Exempt Positions	4.2%	4.3%	2.2%	2.0%	3.1%
Non-Exempt Positions	2.9%	3.2%	3.8%	4.2%	3.7%

Source: WageWatch 2018 PeerMark™ Survey

The table illustrates an annual growth rate which has increased every year for all reported positions and non-exempt positions. As will be discussed later in this report, WageWatch attributes the strong growth of non-exempt wages to two factors:

- First, the labor market has tightened substantially with the unemployment rate as reported by the Bureau of Economic Analysis (BEA) at or below 4.0%.
- Second, the overall employment situation for the Accommodations sector, as reported by the Bureau of Labor Statistics, continues to reach new levels of employment as the industry adds new hotels to supply and continues to have strong financial performance.

Employment in the accommodations sector continues to reach new highs each month and ended 2018 at 2,036,000. The following chart of the BLS Accommodation Sector data shows the record level of employment. This trend will continue in 2019 as new hotels are added to supply.

The weighted average increase in wages for full-service and focused/economy-service hotel employees continued to diverge in 2018. Focused/economy-service hotel employees have had greater increases as compared to full service. Full-service properties are having steady increases in wages while economy properties appear to have flattened out and declined in 2018, although the 40.% percent increase in 2018 is still more than the average experienced by full-service hotels. The increase for focused/economy-service reflects the impact of increases in minimum wages in states and cities across the country. Focused-service and economy hotels as compared to full-service hotels have fewer supervisory and management positions, which are not subject to minimum wage increases.

WAGE INCREASES	2014	2015	2016	2017	2018
Full-Service Hotels	3.9%	2.8%	2.4%	2.9%	3.1%
Focused/Economy-Service Hotels	2.7%	4.3%	4.2%	4.8%	4.0%

Source: WageWatch 2018 PeerMark™ Survey

The following two tables present the average wage increases for a sample of key positions for focused/economy-service hotels and full-service hotels. As the tables show, wages in 2018 increased, on average, well above 2017 for focused/economy-service and full-service hotels.

Positions with average wage increases below the industry average, and with a median lower than the position average, are indications of churning with higher turnover or promotions with new hires coming in at entry level wages. Starting pay rates are typically 15% to 20% lower than the average or median pay rate for line positions.

FOCUSED/ECONOMY SERVICE HOTELS	2017 Increase	2018 Increase
Engineering Supervisor/Chief Engineer	3.0%	3.7%
Maintenance Technician III Advanced	2.6%	2.0%
Housekeeping Supervisor/Inspector	6.0%	5.6%
Housekeeper/ Environmental Services Attendant	4.3%	6.4%
Front Desk/Shift Supervisor	3.5%	3.7%
Front Desk Agent	3.4%	3.7%
Security Guard	4.0%	3.3%

Source: WageWatch 2018 PeerMark™ Survey

FULL-SERVICE HOTELS	2017 Increase	2018 Increase
Engineering Supervisor/Chief Engineer	2.0%	1.0%
Maintenance Technician III, Advanced	4.7%	3.4%
Housekeeping Supervisor/Inspector	7.0%	2.1%
Housekeeper/ Environmental Services Attendant	8.4%	3.8%
Front Desk Supervisor	4.1%	2.7%
Front Desk Agent	5.1%	2.5%
Security Guard	2.3%	3.8%

Source: WageWatch 2018 PeerMark™ Survey

Both tables reflect national data as reported in the WageWatch Benchmark Survey Report, which can vary substantially when compared to local markets as reported in the WageWatch PeerMark™ Salary Report. Line positions are impacted by local minimum wage increases from year to year. There are also differences between Full Service and Focused/Economy Service hotels. On average, Front Desk Agents at a Full-Service hotel are paid $14.55 an hour, while they are paid $11.96 an hour at a Focus/Economy Service hotel. Housekeeper/ Environmental Services Attendants at Full-Service hotels are paid $13.81 versus $11.32 an hour at Focused/Economy Service hotels. A 50 cent increase for a Front Desk Agent at a Full-Service hotel is a 3.6% as compared to 4.4% at a Focused/Economy Service hotel.

WAGEWATCH 2018 BUDGETED WAGE SURVEY

WageWatch has conducted an annual survey of hospitality management companies since 2010 to gain insight into planned or budgeted wage increases for the forthcoming year. The survey for 2019 was conducted from January 11th through February 28th and represented approximately 185,000 employees. The key findings of the 2019 budgeted wage survey are as follows:

- Planned increases to base pay for 2019 on average for all employees range from a low of 2.5% to a high of 6%. The 25th percentile and 50th percentile (Median) are 3.0% and 75th percentile is 3.5%. What is also of interest is 20% of the responses indicated a planned increase for all employees of 4.0% or higher.

- Planned increases for hourly employees to base pay range from a low of 2% to a high of 6%. The median is 3% as well as the 25th percentile. The 75th percentile is 4%. This is the same as the 2018 survey; however, the difference this year is a third of the participants responded with 4% or higher.

- Planned increases in 2019 to base pay for salaried employees ranged from a low of 0% to a high of 6%. The median is 3% as are the 25th and 75th percentiles. Overall, this was a slight decline from last year when the 75th percentile was 4%. Also, those budgeting 4% or more dropped to 13%, which is half of what it was the prior year.

- Planned increases in 2019 to base pay for executives ranged from a low of 0% to a high of 10%. The 25th percentile, median and 75th percentile are 3%. This is a decline from 2018 when the 75th percentile was 4.5% and 40% were budgeting 4% or more as compared to 22% in 2019.

- 51% of the responding companies surveyed target base pay at the 50th percentile (median) for each job. The second most used target is the 40th percentile with 16%. The third was a tie between the 60th and 75th percentile each at 14%. The take away is that 80% of companies surveyed use the 50th or higher percentile for planning pay increases.

- The preferred month for implementing pay increases is April with 29% responding. The second preferred date was the anniversary date of the employee with 29% responding. January is the 3rd choice with 11% responding.

- 95% of management companies report paying bonuses independently from base pay increases.

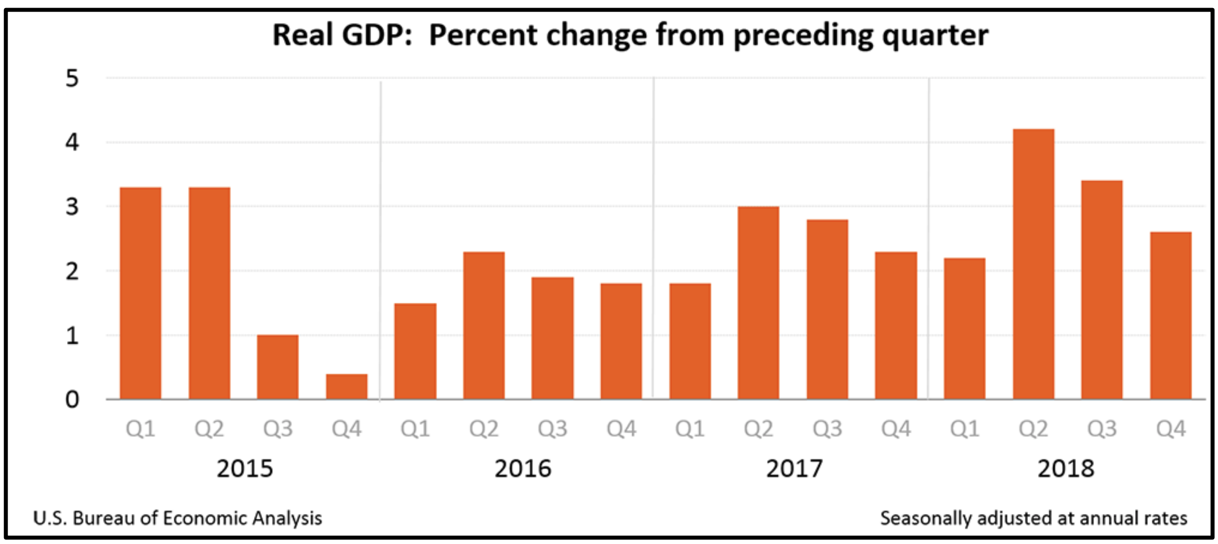
- Part-time hourly employees working less than 30 hours are reported as 24.6% of the workforce.

As reported by budgeted survey participants, labor costs now represent on average 37.5% of total operating costs. Wages growth continue to exceed the Consumer Price Index and in total represents a growing percentage of operating costs for hotels.

ECONOMIC TRENDS AND THEIR IMPACT ON EMPLOYMENT AND WAGES

The economic outlook for 2019 in the U.S. and internationally is generally positive. The upswing in the global markets, which began in 2016 and continued through the majority of 2018, is forecast to continue in 2019 and to slow in 2020. The International Monetary Fund's World Economic Outlook Update, as of January 2019, forecasts global growth for 2019 and 2020 of 3.5% each year following a solid growth rate of 3.7% in 2018. For emerging markets, the IMF forecast is for 4.9% growth in 2019 with China and India leading the way with increases of 6.2% and 7.5%, respectively. After a stronger than expected growth rate of 2.9% in 2018 in the U.S., the IMF decreased its forecasts of U.S. real GDP to 2.5% for 2019 and to 1.8% in 2020.

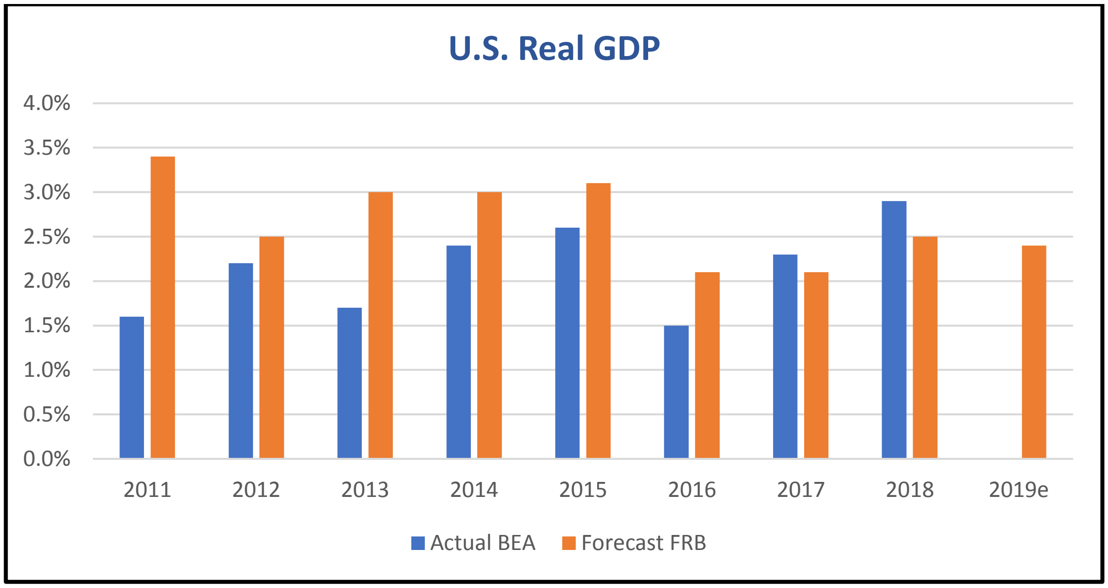
Similarly, the Federal Reserve Open Market Committee (FRB) has lowered its forecast for U.S. economic growth for 2019 to 2.4% after an expected real GDP growth rate in 2018 of 2.5% as compared to 2.5% for 2017. The BEA January 2019 report shows 2018 real GDP growth of 2.9% year over year. The following chart depicts the quarterly growth rate for the past four years. The last three quarters were the three strongest quarters back to back since the Great Recession ended.



Source: Bureau of Labor Statistics, January 2018

Interestingly, 2018 was the second year in a row in which actual U.S. economic performance exceeded the FRB forecast. The FRB's forecasts have, on average, exceeded the actual performance of the U.S. economy by 30% except for 2017 and 2018, where the U.S. economy grew at a faster rate than forecast by the FRB. The FRB has not increased interest rates at the same pace as it has in prior economic recoveries. There are discussions and speculations that the FRB may be modifying its economic models to reflect changes in the U.S. economy.

The following chart depicts the forecasts of real GDP by the Federal Reserve economists and actual real GDP as reported by the U.S. Bureau of Economic Analysis for each year. Looking ahead, as the chart shows, the FRB is forecasting 2.4% GDP growth in 2019. However, it appears that the FRB's economic model has not accurately forecasted the U.S. GDP for the last eight years. Expectations in the financial community are the actual GDP for 2019 will exceed the FRB's forecast and will be closer to 3%.

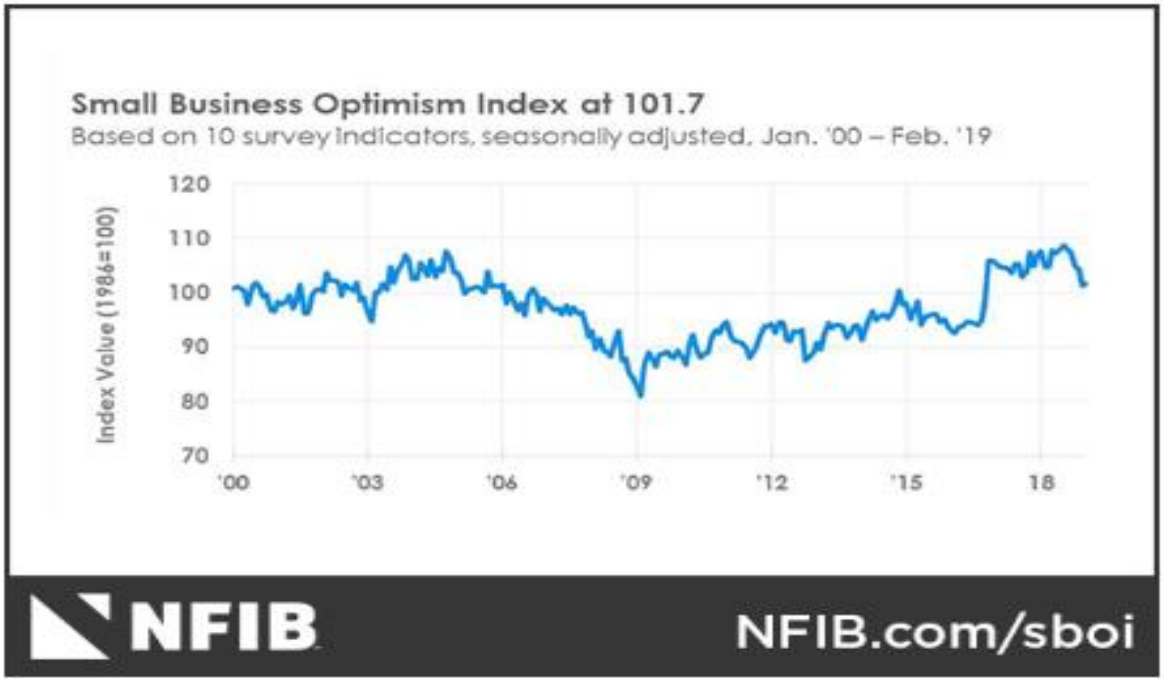


Source: Federal Reserve Board, U.S. Bureau of Economic Analysis

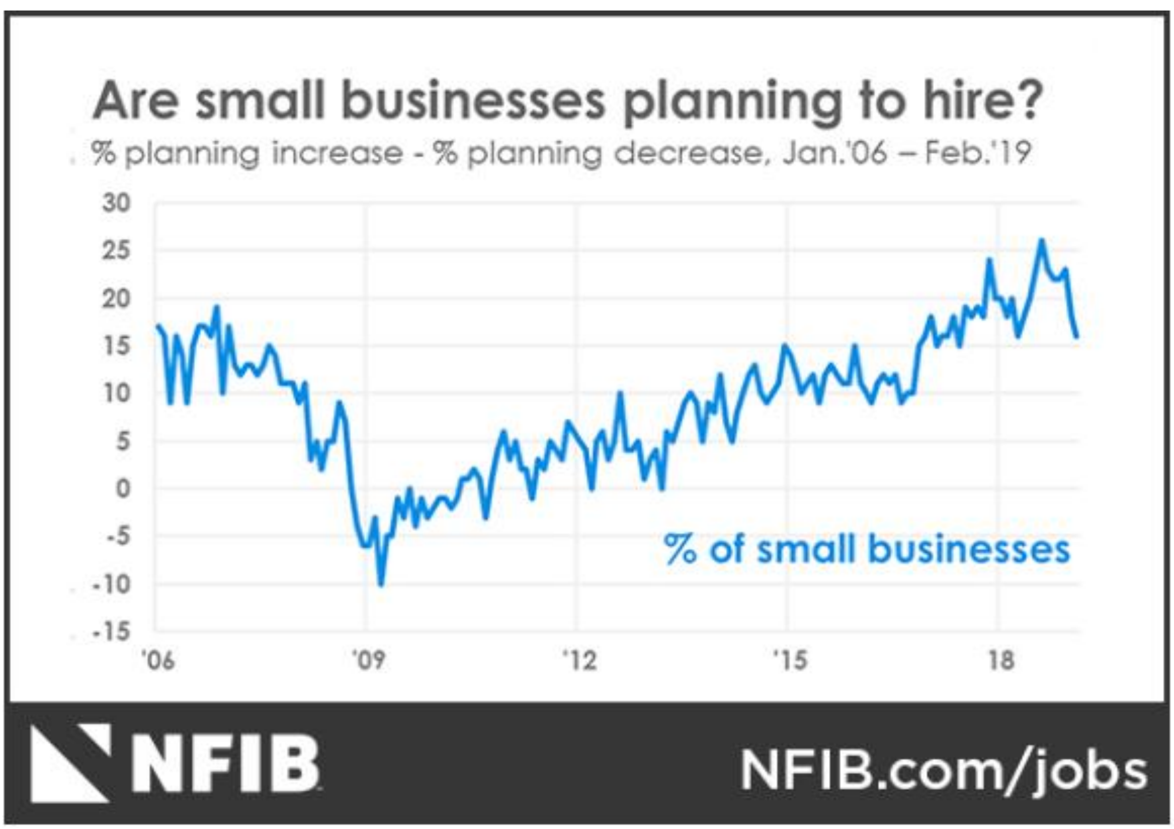
For our 2017 report, we predicted 2017 could be the year "Animal Spirits" (Irrational Exuberance as the FRB would say) reentered the U.S. economy. There were signs of a surge in business and consumer confidence that had not occurred in a decade. Business executives surveyed in February 2017, by the American Institute of Certified Public Accountants, reported that 69% were optimistic about the 2017 economy.

For 2018, the AICPA survey, conducted from November 1-28, 2017, of business executives showed 74% were optimistic about the economy because of the easing of banking and environmental regulations and the planned reduction of U.S. taxes. Another indicator of the potential for strong growth in 2018 was the survey of 350,000 small businesses conducted by the National Federation of Independent Businesses in January 2018. Their index of 10 important business indicators was 106.9, its highest level since 2005. Small business owners remain confident about the future as the following chart shows.

This year looks to be a continuation of the past two years with small business optimism remaining above 100% as well as continued strong hiring interest above 15% as reported in the NFIB survey conducted in January and February 2019.



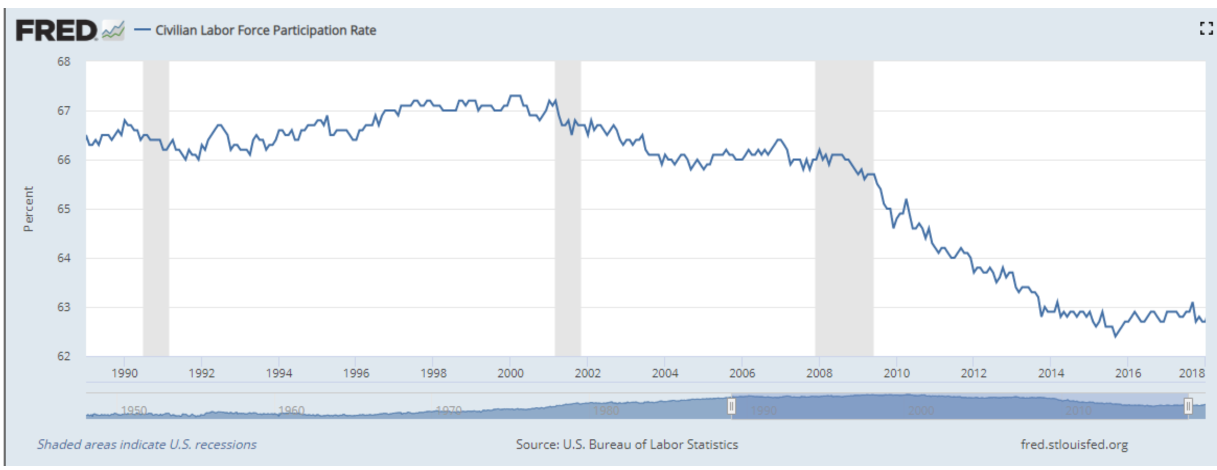
Small business optimism was at its highest reported level in 2018 since the survey was started in 1974. Similarly, small businesses planning to hire in 2018 was at an all-time high exceeding 25%. For 2019, both indicators were lower than 2018, but continue to be very strong indicators for growth for small businesses in 2019, which represent two-thirds of the U.S. economy.



This change in the index reflects small businesses have successfully been filling open positions and their needs are declining but remain strong when compared to 2006-07 optimism levels prior to the 2008 recession.

Because of the speculation regarding the FRB's forecasts, WageWatch analysts reviewed other credible sources for their economic outlook of the U.S. economy. The primary objective of the FRB is to manage inflation. Their second objective is to reduce unemployment, but only after they have controlled inflation. These objectives may be causing a bias in their forecasts. The very low unemployment rate raises questions about a potential increase in inflation as reflected by the Consumer Price Index. Although we have not yet seen a significant increase in the CPI.

An example of how this may be the case is the U-3 civilian unemployment rate. The labor participation rate measures the employed people as a percentage of the labor force. During economic recessions, the ratio tends to decline as unemployed become discouraged and quit looking for employment and are removed from the equation. The following chart shows how the labor participation rate remains low despite the economic recovery.



While the participation rate remains low, the U-3 civilian unemployment rate is 3.9%, the baseline often quoted in the press is near the 17-year low that was achieved last year. The following chart shows the U3 rate.

The inverse of the U-3 civilian unemployment rate is wage inflation. So as the U-3 reaches full employment, the wage inflation rate is expected to increase. However, we are not experiencing wage inflation anywhere close to what the equation says it should be. This ambiguity has been causing a lot of debate among economists over the past decade. The message that it delivers is the U-3 is not driving wage inflation and the likely reason is the U-3 does not correctly measure unemployment; therefore, employment is not as strong as suggested by the U-3 rate.

The significance of this debate is what will the FRB do? If they believe we are at full employment and the economy is close to being topped out and inflation is going to increase substantially in 2019 and 2020, the FRB will increase the federal fund's interest rate additionally from their current projected benchmark from 2.25% to 2.5%. This will, of course, drive up the bond interest rate and funds will begin to flow from the stock market into bond purchases. The stock market will have a serious correction which will have serious consequences for all investors. It could be the beginning of a recession.

As the federal funds rate increases, interest rates for real estate purchases and development will rise sharply and the pipeline for projects will begin to stall as it becomes costlier to do business. For the hotel industry, this would mean the slowing of future hotel projects and higher finance costs for existing hotels. This situation bears watching as it could have a serious impact on the U.S. economy and the lodging industry.

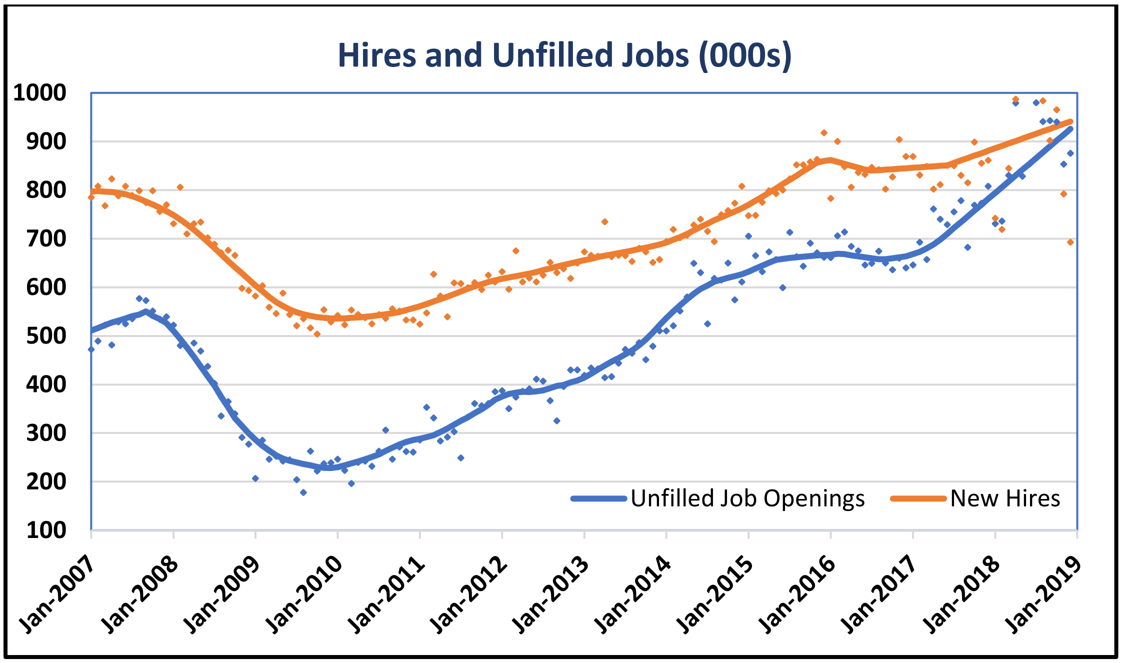
There have been many technical papers and news articles written about the uncertainty of the FRB's economic model. If you are interested in this topic, we recommend reading John Mauldin's article, Data-Dependent…on Imaginary Data, published February 18, 2018.

ECONOMIC IMPACT ON LODGING EMPLOYMENT AND WAGES

The continued strong optimism expressed by businesses, the strongest economy we have had in 10-years, the tightening labor market for hotels as more rooms are added, and the continued regulatory pressure to increase minimum wages around the country, translates into continued strong growth in wages for hotel employees. For 2018, the Bureau of Labor Statistics reported the average increase for all wages and salaries in the U.S. was 3.1%. For the Accommodations sector, wages and salary increases were reported at 3.5%; however, separating out the nonsupervisory and management jobs, the average increase reported by the BLS was 3.2% for line employees.

As discussed in the Recap of Lodging Wages for 2018, the WageWatch analysis of wage increases for 2018 over 2017 are based on the WageWatch PeerMark™ and Benchmark Surveys. The increase of 3.7% in the average base pay for all jobs in the lodging industry is 0.6% higher than that reported by the BLS for all civilian workers and slightly higher than the 3.5% reported by the BLS for the Accommodations sector. This is a strong indicator of a tighter labor market for the lodging industry when compared to the overall labor market. Lodging recruiters are reporting longer wait times to fill open positions. Those looking to hire workers with specific background experience in hospitality are having to look for workers from other similar backgrounds and industries such as healthcare, retail sales, culinary and warehousing.

The following chart depicts the number of hires and unfilled job openings in the Accommodation and Food Service sector at the end of each month, as provided by the Bureau of Labor Statistics. Unfilled jobs increased significantly from 783,000 at the 2017 year-end to 876,000 at the 2018 year-end. This represents about 47% of jobs remain open. As you can see from the chart, unfilled jobs have exceeded the highest level experienced before the Great Recession for the last four years. These factors will continue to lead to higher turnover rates as employees working in the Lodging and Food Service industries feel more confident about leaving a job in search of a better job opportunity and higher pay.



WAGEWATCH 2019 FORECAST OF WAGES

WageWatch is forecasting a tightening of employment for the lodging industry in 2019. As reported by the BLS, the Accommodations sector ended the year with 2,036,000 employees as compared to 1,983,300 employees in 2016. For 2019, we forecast that an additional 25,000 employees will be added, bringing the total to 2,061,000 by the end of 2019. This will be 172,000 more employed than the last high, just before the Great Recession.

This estimate is based, in part, on the STR Market Forecast and Pipeline reports and CBRE Hotels Americas Research's Hotel Horizons. For 2019, both are forecasting an increase in rooms supply of 1.9% and a RevPAR increase of 2.5%. Their forecasts call for occupancy to remain at 66.2% for 2019.

For 2019, WageWatch forecasts an increase in wages of 3.8% for all positions in the lodging industry. Exempt positions will increase, on average, 3.5% in 2019 as compared to 2.0% last year. Non-exempt positions will increase by 3.9% compared to 4.2% in 2018.

This conclusion is based on economic growth in 2018 as measured by real GDP is at least 2.4%, as forecast by the FRB, and likely closer to 2.6% to 2.8% as forecast by several other reliable forecast sources. The strong financial performance of the lodging industry and the continued improvement of the national economy will result in a tightening labor market and increasing pressure on filling open positions, which translates into higher starting wages in the lodging industry. Other industries with similar jobs titles/descriptions are also noticing a tightening of their labor markets, leading to workers being able to pick and choose which job market they will participate in.

The forecast wage increase of 3.8% for the lodging industry by WageWatch is well above the increase for the total civilian workforce in the U.S. of 3.1% for 2018 and should exceed the overall increase for civilian employment in 2019. The following chart compares our forecast wage increase versus budgeted or planned wage increases by hotels as surveyed by WageWatch in January and February 2019, the actual performance for the years 2013 through 2018, as reported in the WageWatch PeerMark™ Survey, and our 2019 forecast of wage increases for the lodging industry.