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U.S. Lodging

**FORECAST
OF WAGES**

2015

LODGING INDUSTRY 2015 WAGE FORECAST

The New Year should prove to be a continuation of 2014 with wage increases for hourly and salary employees and executives in the lodging industry. For 2015, Wagewatch, Inc. forecasts that wage increases for the lodging industry will average 3.4%. Non-exempt employees will see pay increases of 3.2% and exempt employees will see increases of 4.2% in 2015.

The 2015 Budgeted Wage Survey for hotel and gaming employees was conducted from January 13-27, 2015 by WageWatch, Inc. Lodging companies representing over 8,000 hotels and 588,000 employees participated. The survey results disclosed planned pay increases ranging from a low of 2.0% to a high of 4.0% with a median of 3.0% and an average of 2.9%. There was no statistical difference between planned pay raises for non-exempt and exempt employees.

Randy Pullen, CEO of Wagewatch, stated that he believes the survey results will prove to be conservative for 2015. This is the first time since 2007 that we have forecast that actual pay increases for the hotel industry will exceed the planned increases as reported by the hotel operators in our survey.

ECONOMIC IMPACT ON EMPLOYMENT

Real GDP growth was 2.4% for 2014 as compared to 2.2% for 2013 as reported by the U.S. Department of Commerce. GDP growth for the last two quarters of 2014 was 5.0% and 2.6%, respectively. A consensus of recent forecasts of real GDP growth in 2015 is for 3.1% to 3.3%. Real GDP growth has averaged only 2.2% a year since the recover began in the third quarter of 2009.

Forecasts by respected economists over the recent years have proven to be overly optimistic and actual yearly results have fallen well below their forecasts. Economic models are powerful tools for understanding economic relationships. However, models rely on assumptions that are subject to change and are pervasive by nature, making it too easy to ignore their limitations. What changing economic assumptions this year will make a difference in the actual results for 2015?

The most significant change to economic assumptions for this year will likely be the improving performance of the small business sector, which represents approximately half of the U.S. economy. It is a key sector that has underperformed every year since the end of the recession in 2009 and kept the economy from reaching its full potential. This year, could see a breakout for small businesses.

Several recent surveys of small businesses have been bullish on growth in 2015. As reported in the Wall Street Journal on January 2nd, their survey of businesses under \$20 million in sales disclosed roughly 80% anticipate better sales in 2015. The December

2014 report of Small Business Economic Trends, a survey of small business owners conducted by the National Federation of Independent Business Research Foundation, had similar results. Their Optimism Index of ten indicators such as plans to increase employment, inventories, and capital spending, is at its highest level since October of 2006 at 100.4. Eight of the ten indicators in the Optimism Index were positive.



Source: *Small Business Economic Trends*, NFIB Dec. 2014

The indicators for employment are the best they have been since 2007. Twenty-five percent of employers surveyed reported job openings they could not fill. Also, plans to create more jobs in the small business sector have risen substantially and are at one of their highest levels recorded.

The strong increase in employment in 2014 of almost three million jobs and the continued growth of job openings as reflected in the survey of small business owners will create pressure on wages as demand for qualified workers grows. The U.S. has not experienced this level of pressure on wages and employment since 2007.

This change in sentiment is further amplified by a survey of small business entrepreneurs by Mainsail Partners, where they found that 81% of those surveyed expect their businesses to grow faster in 2015 than 2014. When asked, “What do you think to be the biggest challenge to growing your business in 2015?” Entrepreneurs responded with, “Finding Good People to Hire”.

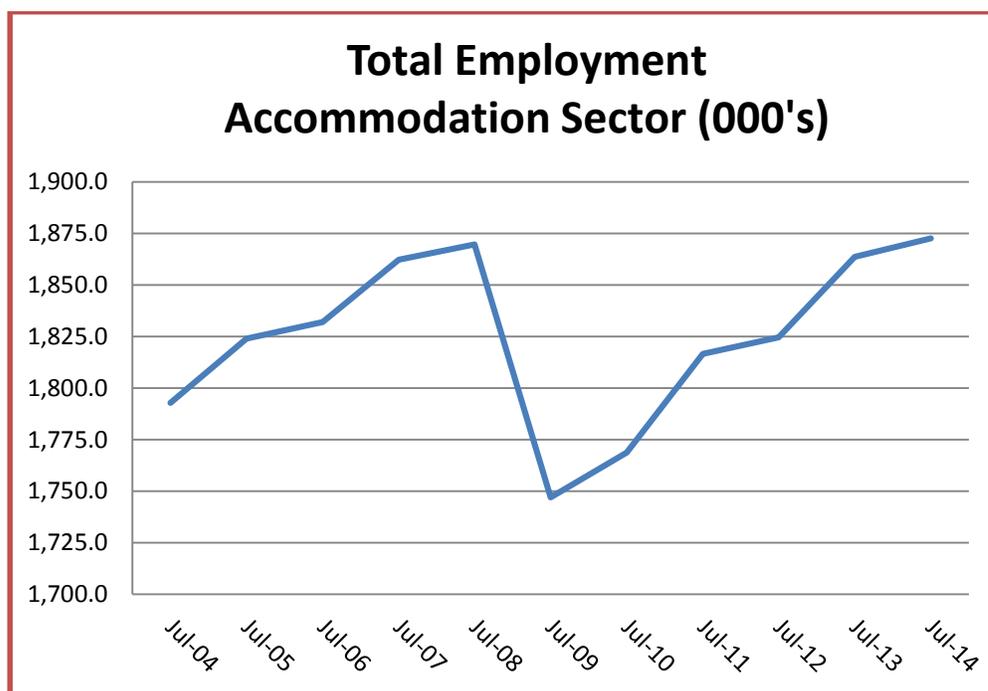
The stronger economic trend for small businesses is also bolstered by the loosening of credit markets – none more so than the housing market. With income and employment

rising, demand for housing will increase. Credit conditions are also being eased by Fannie Mae and Freddie Mac as down payments requirements have been reduced and they have signaled mortgage lenders that they are beginning to relax their credit requirements. The Federal Housing Finance Agency Director recently commented that lenders shouldn't be overly concerned about so-called pullbacks. Lenders will have a reduced risk of home loans sold to Fannie and Freddie being pushed back to them. The impact of these changes will be significant, with lending activity expected to increase by an estimated 10% in 2015.

The importance of the easing of credit for homebuyers will have a significant impact on small businesses as construction picks up. The NFIB and other reliable sources estimate that 50% of small businesses are directly or indirectly tied to the construction industry in the U.S.

ECONOMIC IMPACT ON LODGING WAGES

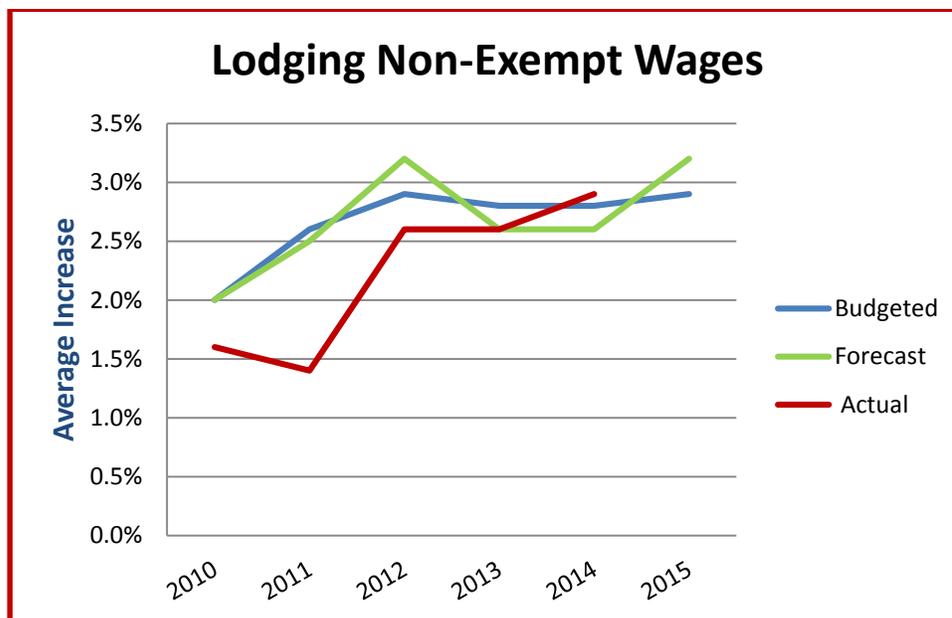
Finding qualified people to hire will be a great challenge across the country in 2015. This will especially be true for the lodging sector. Employment levels in the lodging sector are back to prerecession levels. The big news for 2014 was that employment in the lodging industry has fully recovered from the 2008-09 recession, reaching record employment levels in July, August and September of 2014. The number of job openings is at a 14-year high as reported by the Bureau of Labor Statistics. The coming year should set more new records for employment as new hotels and small business employers enter markets around the country, increasing the competition for experienced and qualified workers in the lodging sector.



Source: Bureau of Labor Statistics, 2014

This finding is amplified even more by the 2014 actual increases in wages in the lodging industry when compared to the budgeted increases. The budgeted average wage increases for 2014 as reported in last year’s survey of 2.8% for both non-exempt and exempt employees were exceeded by actual increases as reported this past December in the 2014 WageWatch PeerMark compensation survey of over 5,000 hotels.

Non-exempt employees on average received a 2.9% increase in pay and exempt employees received a 4.2% increase. In looking back at prior Budgeted Wage Surveys, this is the first year since 2008 that **actual** pay increases exceeded **planned** pay increases. We expect this trend to continue into 2015.

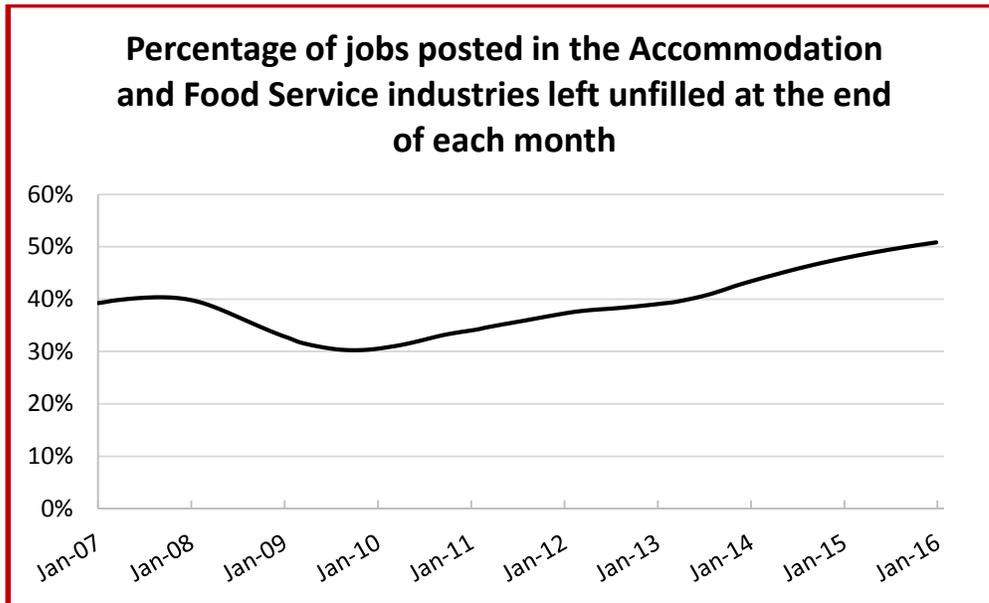


Source: WageWatch Annual Budgeted Wage Surveys and PeerMark Survey

WageWatch is forecasting employment growth seasonally adjusted on average of 15,000 jobs in 2015. Our forecast is based in part on the financial forecasts for the lodging sector by PKF Hospitality Research and Smith Travel Research. Both research firms are forecasting strong RevPAR growth in 2015 of 7.6% and 6.4%, respectively; as well as occupancy reaching new highs for the industry, approaching 66%. New supply is forecast to increase by 1.2% and 1.3%, respectively, modest but positive growth.

The final factor considered in making the strong wage forecast for the lodging sector in 2015 was the increasing number of unfilled jobs in the accommodations and food service sectors. Over the course of the economic recovery, the percentage of jobs posted but left unfilled in a given month has edged steadily upward. This trend is the result of increased demand for employees as hotels and food establishments look to fill out their staff and open new locations; as well as increased confidence by workers to look for new employment and leave their current employer.

The following chart shows that the percentage of unfilled jobs at the end of each month before the recession was about 40% and fell to 30% in late 2009. Since that time, unfilled jobs have steadily increased reaching 45% in 2014, and are expected to increase to 50% in 2015.



Source: BLS JOLTS Survey, Jan. 2015

In conclusion, all key economic assumptions and factors point to a strong year for increased employment and upward pressure on wages as the lodging sector experiences its best financial year on record. Improving economic conditions and a tighter labor market across the country due to the surge in hiring by small businesses will put significant pressure on hotels to offer increased wages in order to fill necessary positions and prevent high turnover rates.

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Randy Pullen is the President and CEO of WageWatch, Inc. He has been a leader in the Lodging and Gaming market sectors for over a quarter of a century. He founded WageWatch in 2001 to provide Web-based compensation surveys for the hospitality and healthcare industries. He was assisted in the analysis and writing of this year's forecast by Kevin Ashley, lead data analyst at WageWatch, Inc.

WageWatch PeerMark and Benchmark salary surveys offer accurate, up-to-date reports on pay practices and compensation data in 120 markets in the U.S. and Canada that keep you current with your competition in your market. For more information on our services, including consulting, salary survey data, benefit survey data and market reports, please call WageWatch at 888-330-9243 or [contact us online](#).