

Lodging Executives' Sentiment as a Leading Economic Indicator

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Abstract

The lodging industry is known to be closely linked to the general economy. Lodging executives and managers have a unique position in current and future economic events. This study examines whether lodging executives' sentiment can be regarded as a leading indicator for the aggregate economy. It uses a new index (Lodging Executives' Sentiment Index – LESI) that has captured on a monthly basis lodging executives' sentiment for over 10 years. The LESI can be regarded as an additional tool in the toolbox of decision-makers, researchers, and analysts to validate and potentially extend existing economic indicators' forecasts. This study finds that lodging executives' expectations can be regarded as leading indicators for retail sales, employment, interest rates, and stock prices.

When used in conjunction with the LESI, the predictive power and the forecast horizon of well-established indicators, such as the Conference Board's LEI, can be significantly improved. Given its respectable forecasting performance, its longer forecast horizon (12 months ahead), its timeliness, the limited resources needed to produce its monthly outlook, and the lack of a generally recognized high performing leading economic indicator, the LESI may be used as an additional indicator that may provide further insights into the future direction of the economy and help decision makers' confidence in their business planning, decision making, and risk assessment processes. Additionally, the LESI can give lodging managers an early glimpse of the direction of the overall lodging industry beyond their own properties and markets, thus helping them in operational and planning decisions.

Keywords

Leading indicator, Lodging Executives' Sentiment Index, composite index, forecasting, RMSFE