



US economy reaches 'pivotal moment' as hoteliers await rocky second half of the year

Hotel demand segments hold strong, lower chain scales feel effects of uncertainty



As uncertainty plagues the market, hotel demand segments hold strong while lower chain scales see effects from evolving travel behavior. (Getty Images)

By **Natalie Harms**

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With almost half of 2025 in the rearview mirror, the travel and hospitality industries have faced a bevy of challenges. As proposed and enforced tariffs fluctuate — even on a daily basis at times — hoteliers have lived in a purgatory of uncertainty when it comes to making big business decisions.

“We're beginning to now see some economic data telling us that there are a lot of businesses in wait-and-see mode,” said Bernard Baumohl, chief global economist at The Economic Outlook Group. “They're holding off any major spending. They don't want to make any significant commitments. They're not rushing out to hire people, but then, neither are they laying off at this point.”

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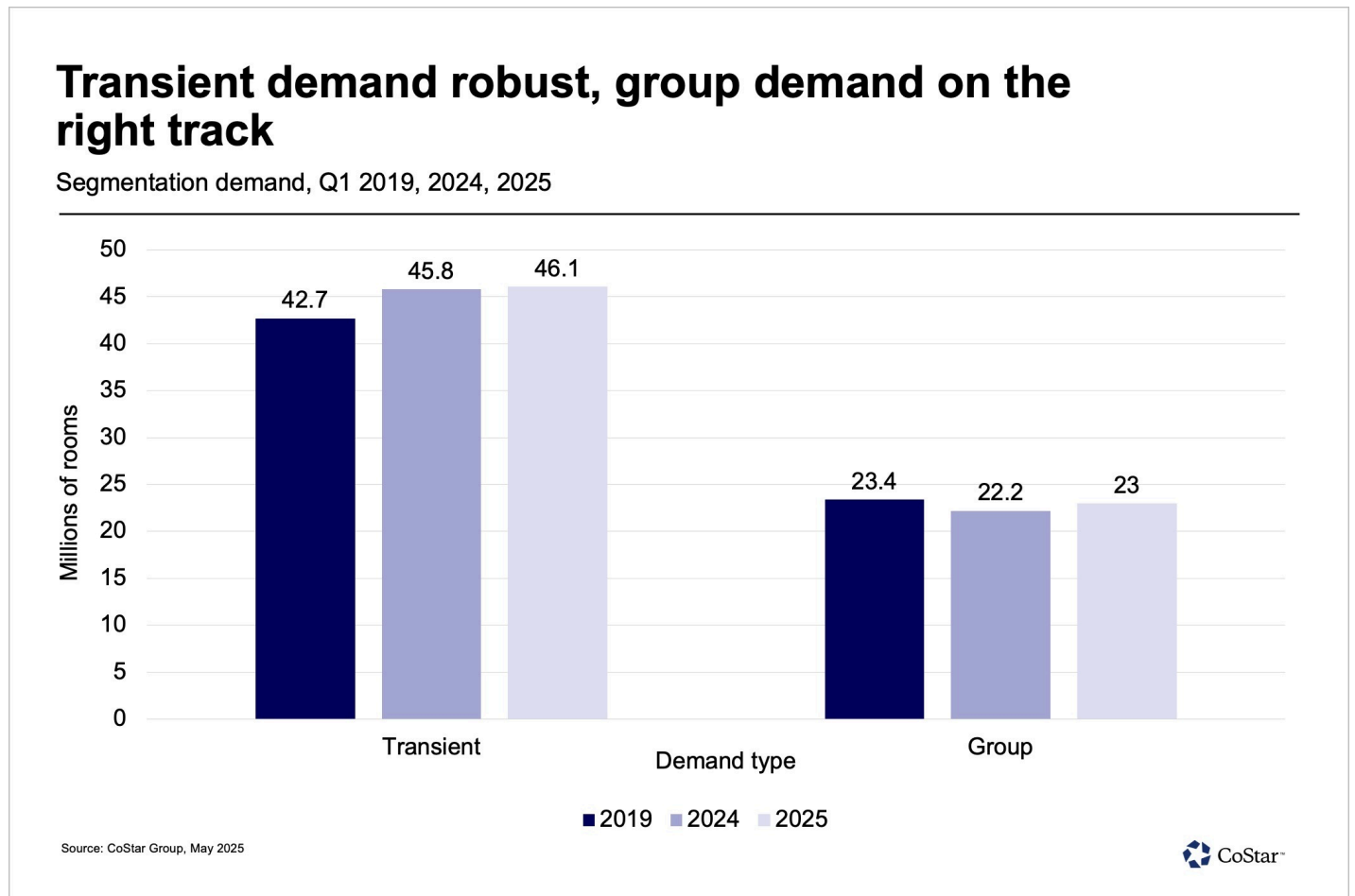
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The country's economy is being tested, Baumohl said, and all eyes are on the second half of 2025 where he expects the economy and the hospitality industry to begin to feel the pain of the Trump administration's actions.

"I think we're now at that pivotal moment in history where we're going to see whether the U.S. is either resilient and able to persevere through all the uncertainties and the head-spinning changes and tariffs and trade policy and if so, we can avoid a major economic slowdown and recession," Baumohl said.

Evolving travel behavior

For now, the travel industry has soldiered on as both leisure and business travel has continued to be steady. According to CoStar data, both transient and group demand has remained on track.



Looking at the big picture, Simon Moriarty, vice president of syndicated research at MMGY Global, said "travel and tourism is in a good position."

That's the norm and also the benefit, Moriarty said. Travel always sits in a good position because it's always been a great outlet for people seeking relaxation and escape.

So when it seems like stress and worry are everywhere these days, that can be good for travel because people want to escape those day-to-day worries, he said.

"People still want to travel. People still want to tick things off their bucket lists."

In April, following U.S. President Donald Trump's initial roll-out of tariff plans, MMGY [released a report](#) showing that the majority (83%) of U.S. consumers polled still intended to travel over the next 12 months, but 80% said they planned to travel differently in light of recent economic and political news. This included traveling closer to home, trading international trips for domestic ones, opting for cheaper transportation and shortening trips.

"I think a lot of Americans are concerned about the economic outlook and job security," Baumohl said. "They also feel the pain from higher inflation and record levels of debt that they're carrying right now combined with high interest rates. And that means that they've got less discretionary funds available at this stage."

Baumohl pointed to [recent survey](#) results from TravelAge West, which found that of the 460 travel advisers who responded to the survey, 54% are "very concerned" about recent government actions affecting their travel business. Another 25% said they are "moderately concerned." Additionally, 82% said they were either "very" or "somewhat" concerned about an upcoming recession.

The impact of these travel behavior changes remains to be seen for now, but most likely will be felt at specific destinations, Moriarty said.

"It obviously has an impact because destinations will be making plans on a regular basis year-on-year or quarter-by-quarter. They're planning and they're strategizing around number of visitors and how long those visitors are staying, what those visit," he said. "So, there's a lot of moving parts within the travel industry."

Moriarty said this impact, however long it lasts and however large it ends up being, will be something the industry and affected destinations can recover from.

"I think that [it's a] blip that will be overcome," he said. "What's important is that the travel brands and destinations are proactive rather than reactive, and they're able to weather these storms to be able to still talk and highlight and market their

what sets them apart — what makes them stand out as a destination, highlighting all of the things that people want to experience when they take a holiday. It's all about showing what they can offer to to travelers."

Especially since, as Moriarty said, "there's likely to be more blips in the next four years for various reasons."

It's not exactly a new story, Moriarty said. Since the pandemic, travelers have been forced to think about various effects on their travel plans. Safety, price, being welcomed in a country — those are factors consumers have always faced. The high-profile policy changes have heightened these concerns, perhaps, but they aren't new, he said.

"There is still a huge appetite to travel ... from an American traveler point of view," he said. "While they might swap some of their destinations around and they might change some of their short-term intentions to travel domestically versus internationally," they still want to travel.

Effects on hospitality

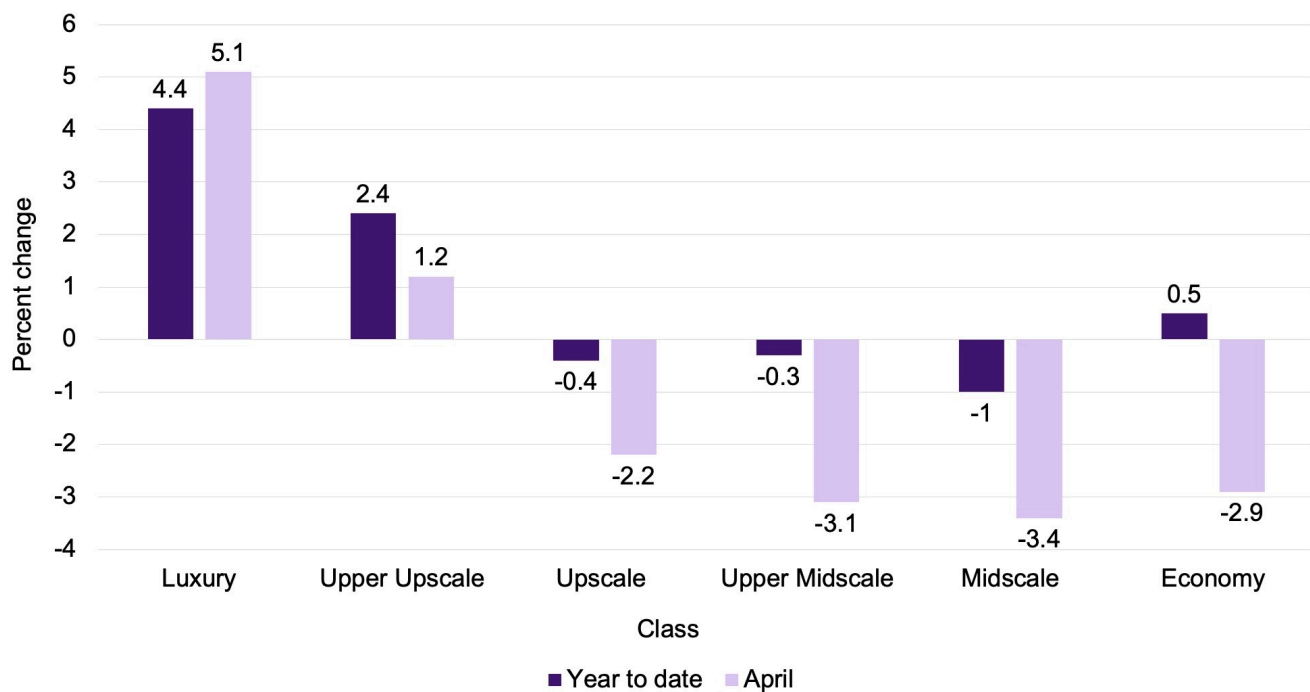
While people still want to travel, Baumohl said the lodging industry will feel the effects of the uncertainty throughout the rest of the year — especially when it comes to lower chain scales.

"Margins are going to shrink for the hotel industry, and I think this is particularly the case for the budget hotels or the limited-service hotels, maybe even for full service," he said. "I think the only part of the hotel industry that might still be in a fairly good position will be the the full-service resort and luxury hotels, because they they already start off at a very high price point and have larger operating margins."

According to CoStar data, revenue per available room dropped by more than 2% across chain scales in April except luxury and upper upscale, which saw growth of 5.1% and 1.2%, respectively.

April revenue per available room losses hurt the lower end

US revenue per available room percent change by class, year-to-date April and April 2025



Source: CoStar Group, May 2025



Baumohl said hotel owners will have to provide incentives for travelers feeling the pinch or are approaching discretionary spending more cautiously to combat upcoming challenges. Free parking and complimentary breakfast are two easy offerings, but he warns hoteliers to be sure to make it clear it's a special, so as not to mislead customers returning at a later date.

"The one thing hotels do not want to do — they don't want to lose market share," Baumohl said. "They don't want to see a competitor dramatically lowering prices because if one hotel does and customers go to that second hotel, that offers a bigger discount, you lose market share. And one of the things you always learn in the industry is if you lose market share it is hellish getting those customer back. You want to maintain that loyalty among those customers."

A dip in the U.S.'s international inbound travel — something that Tourism Economics found decreased 11.6% in March — will likely affect specific markets.

Baumohl said New York, California and Florida typically are the big attractions for international visitors.

"I think foreign travel is going to drop off," Baumohl said. "We're going to be seeing much less travel from China coming to the United States, as well, and in large part because I think a lot of foreigners are nervous of the red tape that they sometimes have to deal with arriving and leaving the U.S."

There are so many factors — economic, geopolitical and more — that can affect the trajectory of the travel and hospitality industries and the economy as a whole that it's hard to predict what to expect too far into the future. For now, Baumohl said he thinks things may settle for next year.

"We're still dealing with a lot of uncertainties and some weakness in the second half of the year, but things should begin to stabilize by 2026," he said.

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