

# **Impact of Financial/Economic Crisis on Demand for Hotel Rooms in Hong Kong**

## **Abstract**

The main objectives of this paper are: (1) to identify the factors which influence the demand for hotel rooms in Hong Kong; and (2) to generate quarterly forecasts of the demand for hotel rooms in order to assess the impact of the current financial/economic crisis. The demand for four types of hotel room is considered by residents from nine major countries/regions, and forecasts are generated from 2009 Quarter 1 up to 2015 Quarter 4. Econometric approaches are used to calculate the demand elasticities as well as the corresponding confidence intervals, which are then used to generate interval demand predictions. In order to gauge the impact of the current global financial/economic crisis on the demand for hotel rooms, the latest economic projections published by Euromonitor International and the International Monetary Fund are used. The empirical results reveal that the most important factors that determine the demand for hotel rooms in Hong Kong are the economic conditions (measured by income levels) in the origin countries/regions, the price of hotel rooms and the 'word of mouth' effect. Demand for hotel rooms in three of the four categories is forecast to have experienced negative annual growth in 2009 due to the influence of the financial/economic crisis, whereas demand in the fourth category is forecast to grow after having decreased in 2008. Overall demand is predicted to rebound gradually from 2010 onwards.

**Keywords:** Hotel demand forecasting; ECM-ADLM models; Quarterly forecasts; Long-run elasticity; Confidence interval