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# The impact of macroeconomic and non-macroeconomic forces on hotel stock returns

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## Abstract

This study aimed to examine the relationship between macroeconomic and non-macroeconomic variables and hotel stock returns using hotel companies listed on the Taiwan Stock Exchange. The regression analysis indicated that among the macroeconomic variables (i.e., money supply, the growth rate of industrial production, expected inflation, the change of unemployment rate, and the yield spread), only money supply and the unemployment rate significantly explained the movement of hotel stock returns. On the other hand, all non-macroeconomic forces selected (i.e., presidential elections, the 921 earthquake, the 2003 Iraqi war, the outbreak of SARS, sports mega-events, the Asian financial crisis, and the 911 terrorist attacks) had significant influences on the hotel stock returns. The empirical results of this study may be used as valuable information for local and global stock investors who seek an investment opportunity in the hospitality industry.

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*Keywords:* Macroeconomic forces; Non-macroeconomic forces; Taiwan stock market; Hotel stock returns; Regression analysis

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## 1. Introduction

According to the financial theory, stock prices reflect investors' expectations about future corporate earnings (Choi et al. 1999). Stock prices are commonly known to react to economic news. A vast amount of research has focused on the impact of macroeconomic variables on stock returns (Fama, 1981; Chen et al. 1986; Fama and French, 1988; Wasserfallen, 1989; Asprem, 1989; Bulmash and Trivoli, 1991; Abdullah and Hayworth, 1993). However, studies regarding the exploratory power of non-macroeconomic variables in predicting stock returns are rare and a recent trend. Chen et al. (1986) asserted that stock prices are affected by a variety of national and international events and some, such as political and sports events, have an even more dramatic impact on stock prices than others do.

It is not surprising to encounter only a handful of studies conducted on this topic in the hospitality arena. Barrows and Naka (1994) were precursors who explored the relationship between macroeconomic variables and the movement of hospitality stocks in the US market. Although some studies attempted to discover the relationship between non-macroeconomic variables, in particular sports mega-events (e.g., the Super Bowl in the US and the Olympics) and stock returns, the scope of these studies included all industry portfolios rather than the hospitality industry (Krueger and Kennedy, 1990; Berman et al. 2000). Recent events such as the SARS outbreak, the 911 terrorist attacks, and the Asian financial crisis are possible influencers on hospitality stock returns, yet no research has been conducted using these non-macroeconomic variables in the hospitality academia.

According to the annual report of the Taiwan Tourism Bureau (2003), as of December 2002, Taiwan had 3309 hotels including 3222 general hotels and 87 tourist hotels. The 87 tourist hotels are divided into two groups: 25 are categorized as general tourist hotels and 62 are grouped as international tourist hotels. In general, international tourist hotels are much more upscale than general tourist hotels and general hotels, providing high-quality service. The first hotel company that made an appearance in the Taiwan stock market was Hotel Holiday Garden (international tourist hotel) in the year 1965. Since then, more numbers of hotel companies have been publicly held and their stocks have been traded in the market.

This study aimed to extend the existing research, which has almost exclusively been conducted for the developed stock market of the US, to the Asian stock market, specifically the emerging Taiwan stock market. The purposes of this study were to test the financial theory regarding the effects of macroeconomic and non-macroeconomic forces using hotel stocks in the context of the Taiwan stock market and compare the significance of the two forces.

The remainder of the paper is organized as follows: Section 2 reviews the theoretical literature and primary empirical research efforts; Section 3 describes the data set; the regression models and results are shown in Section 4; Section 5 discusses findings with implications for hospitality investors and the last section concludes the paper with future research.

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