

## **EXAMPLES OF THE IMPACT OF RECESSION ON RACING**

### **1. INTRODUCTION**

1.1 This paper summarises possible impacts of economic recession, officially defined as a period of negative economic growth for two consecutive economic quarters, on key non-betting related racing industry variables, thereby facilitating consideration of the impact of the current economic climate on a number of the sport's current and future income streams.

1.2 For the sake of simplicity, UK Gross Domestic Product at constant prices has been considered on an annual (rather than quarterly) basis, identifying that, since 1970, the years of negative economic growth occurred in 1974-5, 1980-1 and 1991.

1.3 Analysis has been undertaken of three particular variables that are closely connected with the industry's principal non-betting related income streams:

- Total racecourse attendances
- Horses-in-Training
- Sponsorship

It does not cover other very important racecourse related income streams such as hospitality (food and beverage), broadcast fees paid by terrestrial, pay or other broadcasters, and non-raceday income such as conferences and events. All are highly likely to be impacted, with "corporate hospitality dropping off a cliff" (The Independent, Investment Column, 17 October 2008).

1.4 In each of the three areas areas, the starting point has been to identify the strength of its relationship with GDP. This has been considered with reference to the correlation coefficient ( $R^2$ ), which indicates the strength and direction of their relationship (with 0 representing no correlation and 1 representing a perfect correlation).

1.5 The impact on each variable in the years of and immediately following negative economic growth is then considered.

### **2. BASIS FOR ANALYSIS**

2.1 The data referred to within this paper, and in Appendix I, originates from two sources. The economic data is as reported by the National Statistics Office, whilst the industry's data is taken from the relevant copy of the annual statistical package (Weatherbys retain a copy of each edition since 1972).

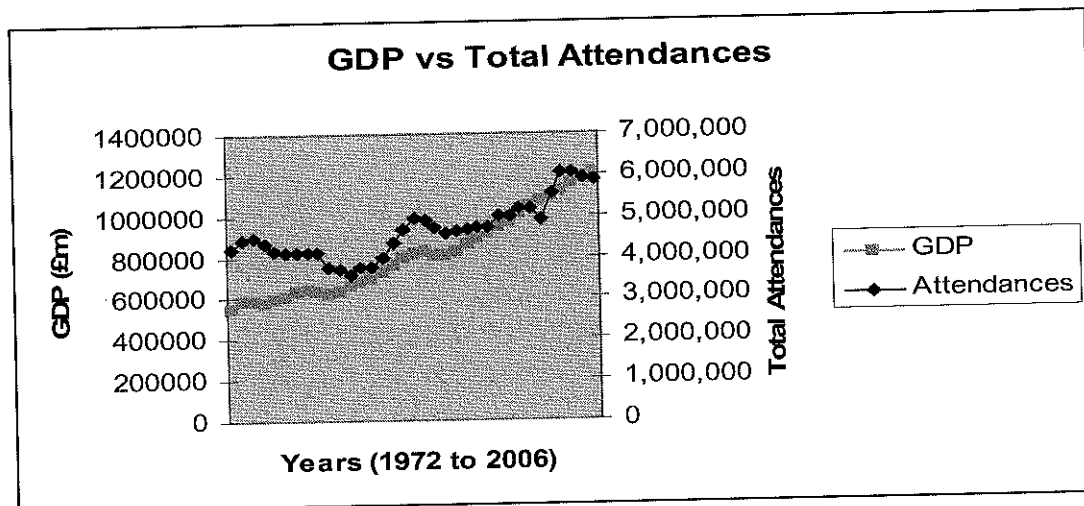
2.2 It should be noted from the outset that there are limitations associated with the data in at least two of the three areas under review:

- Total attendances have been impacted by the growth of the fixture list, particularly in recent years. To illustrate, in 1972 the fixture list comprised 909 fixtures and it was not until 1987 that it expanded to include in excess of 1,000 fixtures. The subsequent development of AWT tracks has made possible more rapid expansion experienced since, with over 1,500 fixtures programmed in 2008.

- The basis for recording the number of Horses-in-Training, available from 1975 onwards, has varied over time. Horses 'at grass' were included until 1986 whilst, from 1996, un-named horses have been taken into account.

### 3 ATTENDANCES

3.1 The relationship between the economy and total attendances since 1972 is illustrated in the graph below:



3.2 The  $R^2$  value is 0.89, representing a strong relationship between the two factors. This increases to 0.91 if comparing economic growth with the attendances in the both of the following two years, suggesting that there is a lag in the economy's impact on attendances.

3.3 This is confirmed in the table below which concentrates on those years of (and immediately following) negative economic growth:

Year	Economic Growth (%)	Attendances Growth (%)
1974	-1.4%	1.7%
1975	-0.6%	-3.6%
1976	2.6%	-3.6%
1977	2.4%	-1.1%
1978	3.2%	0%
1980	-2.1%	0.9%
1981	-1.5%	-10.3%
1982	1.9%	-1.3%
1983	3.5%	-4.1%
1984	2.6%	5.8%
1991	-1.4%	-4.2%
1992	0.2%	-2.3%
1993	2.3%	0.1%

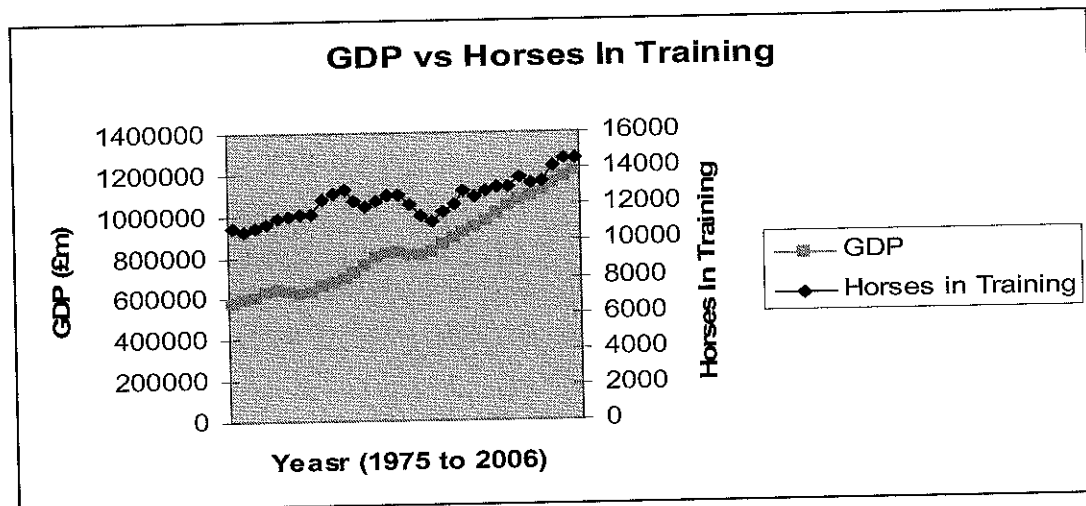
3.4 The lag is clearly evident, with the recessions in the 1970s, 1980s and 1990s leading to a reduction in attendances that continued for either one or two years after positive economic growth had resumed.

3.5 In any year of or immediately following negative economic growth, the average annual decline in total attendances since 1972 has been 2.8%.

3.6 Deloitte, in the *Economic Impact of British Racing*, published in June 2006, calculated that annual raceday income includes £116m in admissions and £94m in catering. Consequently, for these purposes it can be reasonably estimated that, in total, these would decline by approximately £5.9m annually in the year(s) of and the first year after recession. These calculations are likely to underestimate the true financial impact of declining attendances with the loss of high value hospitality custom.

#### 4 HORSES-IN-TRAINING

4.1 There is also a strong relationship between the economy and the number of Horses-in-Training with the R<sup>2</sup> value of 0.85, increasing to 0.87 in the following year.



4.2 With Horses-in-Training data unavailable until 1975, it is only possible to fully review the impact of recession in the 1980s and 1990s.

Year	Economic Growth (%)	HIT Growth (%)
1974	-1.4%	Not available
1975	-0.6%	Not available
1976	2.6%	-1.7%
1977	2.4%	1.7%
1980	-2.1%	0.9%
1981	-1.5%	1.3%
1982	1.9%	0%
1991	-1.4%	-3.6%
1992	0.2%	-5.0%
1993	2.3%	-3.3%
1994	4.3%	4.4%

4.3 It is evident that the relationship between the economy and Horses-in-Training appears to have changed over time. Indeed, the recession of the early 1980s did not lead to any reduction in the number of Horses-in-Training, unlike the shorter recession of the early 1990s, which had a significantly detrimental impact on horse numbers. Indeed, the single year of negative economic growth in 1991 initiated three consecutive years of decline in the number of Horses-in-Training. This may be explained by the expansion of the ownership base from a relatively small group of the wealthiest individuals to include others, particularly through syndicates. The impact of recession (and other factors such as prize money returns) is unknown, but will have to be tracked closely and may have a significant impact.

4.4 The recession in the early 1990s contributed to an average annual decline in horse numbers of 3.9% in the years from 1991 to 1993. If this were repeated in 2009, based on there being an average of 15,000 Horses-in-Training, generating fees of £20,000 per annum per horse, the annual cost to the industry can be reasonably estimated at between £11m and £12m. Again, there is an unknown factor relating to the response of "new owners" which combine to create the current record levels of ownership and horse in training.

4.5 The bloodstock market is showing early signs of a negative response to current economic conditions. The domestic yearling sales staged so far in 2008 have experienced reductions in both prices and clearance rates:

Sale	Median 2007	Median 2008	Clearance 2007	Clearance 2008
St Leger Yearling	29,400	26,000 (-12%)	89%	85%
St Leger Festival	10,250	10,000 (-2%)	76%	73%
October Yearling 1 & 2	90,366	75,618 (-16%)	81%	73%

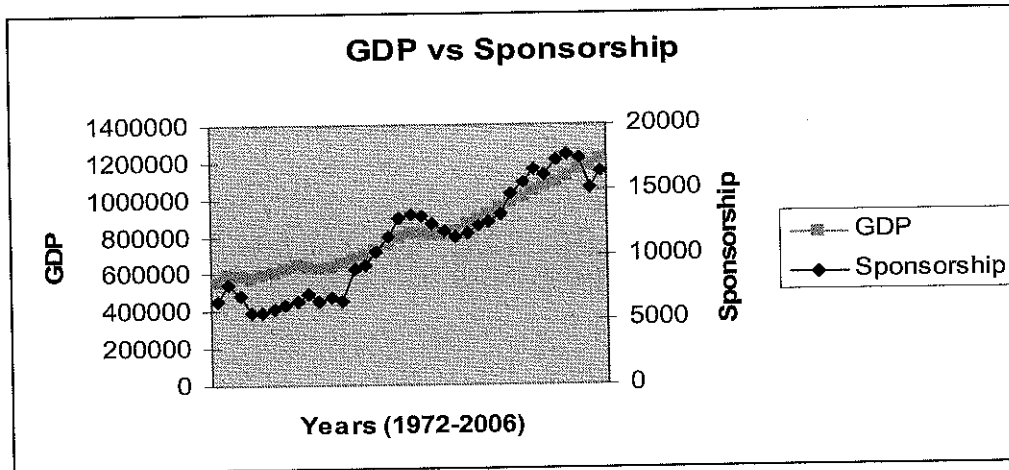
Note: Due to a change in the format of the October Yearling Sales, the results from Book 1 & 2 have been combined to provide a reasonable basis for comparison (a similar number of horses were offered in total). With the combined median values currently unavailable, the values quoted represent the average sales values.

The impact of this on the horse population and the wider industry are unknown and uncertain.

## 5 SPONSORSHIP

5.1 In 2007, racecourse sponsors contributed £17.3m to prize money, representing 18% of all prize money.

5.2 Unsurprisingly, and very importantly, sponsorship support is particularly sensitive to the wellbeing of the economy. Indeed, having adjusted for the effect of inflation, the  $R^2$  value of 0.95 identifies an extremely strong correlation:



5.3 The impact of recession on sponsorship has varied significantly between recessions:

Year	Economic Growth (%)	Sponsorship Growth (%)
1974	-1.4%	-10.9%
1975	-0.6%	-20.1%
1976	2.6%	0.3%
1980	-2.1%	8.8%
1981	-1.5%	-8.3%
1982	1.9%	3.5%
1991	-1.4%	-4.6%
1992	0.2%	-4.4%
1993	2.3%	-3.9%
1994	4.3%	2.3%

5.4 The most recent recession in the 1990s witnessed a reduction of around 4%, in real terms, in three consecutive years. At its current level, this would suggest an annual decline of approximately £700k. A repeat of either the 1970s or the 1980s experience, however, would suggest a far greater impact is possible. General sponsorship conditions are seen to be very challenging, and the impact on racecourse activity may well be considerably higher.

5.5 In addition, it is worth noting that the financial contribution of sponsors in areas other than prize money – such as hospitality and advertising spend – would similarly be expected to decline.

5.6 Also, this paper does not take into account the likely impact on broadcast rights values from a decline in the advertising and sponsorship market

October 2008

**APPENDIX I****DATA TABLE**

<u>Year</u>	<u>GDP @ 2003 Prices (£m)</u>	<u>Total Attendance</u>	<u>Horses in Training</u>	<u>Sponsors' Contribution to Prize Money</u>	<u>Sponsors' Contribution to Prize Money @ 2003 prices</u>
1972	£550,752	4,195,975	N/A	£768,875	£6,423,826
1973	£590,009	4,426,176	N/A	£1,023,985	£7,833,269
1974	£581,985	4,500,416	N/A	£1,058,088	£6,975,685
1975	£578,338	4,340,648	10783	£1,047,693	£5,570,285
1976	£593,630	4,183,859	10604	£1,226,638	£5,587,675
1977	£607,844	4,134,982	10784	£1,485,758	£5,843,122
1978	£627,546	4,133,817	10956	£1,717,028	£6,238,420
1979	£644,413	4,105,327	11287	£2,040,418	£6,535,826
1980	£630,963	4,140,358	11391	£2,618,833	£7,107,700
1981	£621,780	3,752,727	11541	£2,684,863	£6,516,273
1982	£633,662	3,703,653	11541	£3,019,573	£6,741,977
1983	£655,979	3,552,558	12390	£3,035,865	£6,482,948
1984	£672,787	3,756,926	12689	£4,386,797	£8,926,221
1985	£696,582	3,749,811	12896	£4,817,211	£9,232,139
1986	£724,263	3,958,473	12203	£5,525,037	£10,242,220
1987	£757,452	4,349,126	11956	£6,380,342	£11,351,874
1988	£795,317	4,687,413	12225	£7,534,182	£12,777,803
1989	£812,725	4,924,603	12576	£8,353,035	£13,145,878
1990	£819,007	4,901,505	12508	£9,024,719	£12,975,270
1991	£807,814	4,695,236	12063	£9,108,286	£12,369,529
1992	£809,540	4,584,997	11446	£9,037,399	£11,830,183
1993	£827,886	4,610,690	11072	£8,823,388	£11,369,440
1994	£863,623	4,671,036	11566	£9,244,883	£11,631,487
1995	£889,041	4,716,673	12012	£10,008,451	£12,169,900
1996	£913,800	4,735,004	12709	£10,490,260	£12,455,036
1997	£942,154	5,008,310	12472	£11,421,155	£13,147,018
1998	£973,748	4,988,118	12793	£13,245,618	£14,741,746
1999	£1,003,370	5,175,490	12937	£14,224,630	£15,592,052
2000	£1,041,517	5,163,152	12941	£15,560,281	£16,565,349
2001	£1,066,217	4,886,223	13510	£15,420,729	£16,132,591
2002	£1,088,108	5,557,758	13183	£16,840,856	£17,328,304
2003	£1,118,245	6,019,481	13292	£17,688,574	£17,688,574
2004	£1,154,685	6,048,517	14129	£17,970,822	£17,451,044
2005	£1,175,916	5,897,513	14568	£16,037,430	£15,143,677
2006	£1,209,344	5,873,546	14501	£18,000,911	£16,474,331
2007	N/A	5,820,569	15083	£17,370,241	£15,243,101