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The FIFA World Cup and SA Tourism - latest estimates

Introduction

The 2010 FIFA World Cup to be hosted in South Africa has created extensive expectations especially surrounding the expected benefits to the South African economy. While forecasts are by their nature uncertain, there is a substantial body of literature on the benefits that these events generate.

While such a mega-event is scheduled at least once every year somewhere in the world, these events are rare occurrences for the host cities and countries. The benefits of such events seem lucrative; the very fact that many countries bid to host these events suggests that the benefits – be they tangible or intangible – more often than not outweigh the costs. Most of these benefits are tourism related.

Tourism is one of the leading growth sectors in international services trade. While many factors influence tourism growth, one of the more perceptible contributions – at least in the public eye – comes from global events, or mega-events. Mega-events are 'large-scale cultural (including commercial and sporting) events, which have a dramatic character, mass popular appeal and international significance'.¹ These events, such as the Olympic Games and FIFA World Cup, have not only attracted an increasingly global audience, but also seem to have shaped world tourism patterns, highlighting new tourism destinations and creating 'lasting legacies' in the host cities or countries.²

Although *ex ante* expectations are that tourism numbers would increase significantly during such an event, a growing literature points to the careful appraisal of possible tourist displacement, i.e. 'regular' tourists that change their behaviour when a mega-event is held, either shifting their trip to a different time or different location. This may result in reduced tourism gain, or even loss. The results suggest that the gain (or size of displacement) is dependent on the type of mega-event (not necessarily its size), the participating countries, the host country's level of development, and a number of event-specific factors.

This note aims to inform the reader as to the latest estimates available on the expected impact of the 2010 FIFA World Cup on inbound tourism into South Africa.³

¹ Roche, M. (2000). Mega-events and modernity. London, Routledge.

² Horne, J. and W. Manzenreiter (2006). An introduction to the sociology of sports mega-events. Sports mega-events: social scientific analyses of a global phenomenon. J. Horne and W. Manzenreiter. Malden, USA, Blackwell/The Sociological Review.

³ The note is a summation of two recent studies on the probable impact of the FIFA World Cup on the South African Inbound Tourism Market and as such quotes extensively from both sources.



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Background

Tourism in the South African context is an increasingly important sector of the economy since the country was readmitted into the international market in the 1990s. Statistics are available for the tourism industry but they are fairly limited in scope. While updated versions are not currently available, a detailed Tourism Satellite Account (TSA) was published by StatsSA for the year 2005.⁴

Key findings include the following:

- Tourism sector contribution to GDP was calculated at 3%
- Tourism direct gross value added for the year was R42.36 billion.
- Inbound tourism expenditure totalled R51.09 billion or 48.4% of the total.
- Domestic tourism expenditure totalled R54.50 billion or 51.6% of the total.
- 4.3% of total employment or 527 630 people were employed directly in producing goods and services for tourists.

The value of inbound tourism can be likened to the value of exports and this has become a very important source of foreign currency to the SA economy. Its level is equal to approximately 10% of exports.

The indirect effect of tourism spend is harder to quantify as the industry is diverse and affects many sectors. The TSA indicated that there were over 500 000 people employed in the tourism industry, making the industry one of the leading sources of job creation over the past decade. While the ratio is probably quite variable, the TSA found a near 50/50 split between the value of domestic tourism and international tourism even though the volumes of people are obviously different.

Graph 1 depicts the growth in total annual arrivals from the three most important source markets, namely the United Kingdom, Germany and the USA from 1998 to the end of 2009. These three markets equate to more than 45% of total air arrivals and can be used as a proxy for total air arrivals. The trend is clearly positive until the onset of the recent major global recession.

⁴ StatsSA, D-0405.7, May 2009

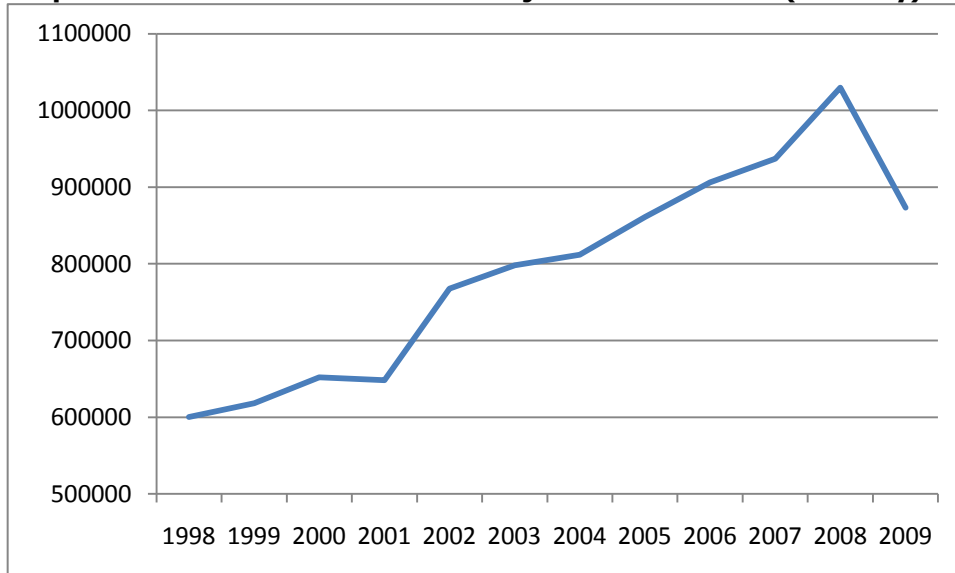


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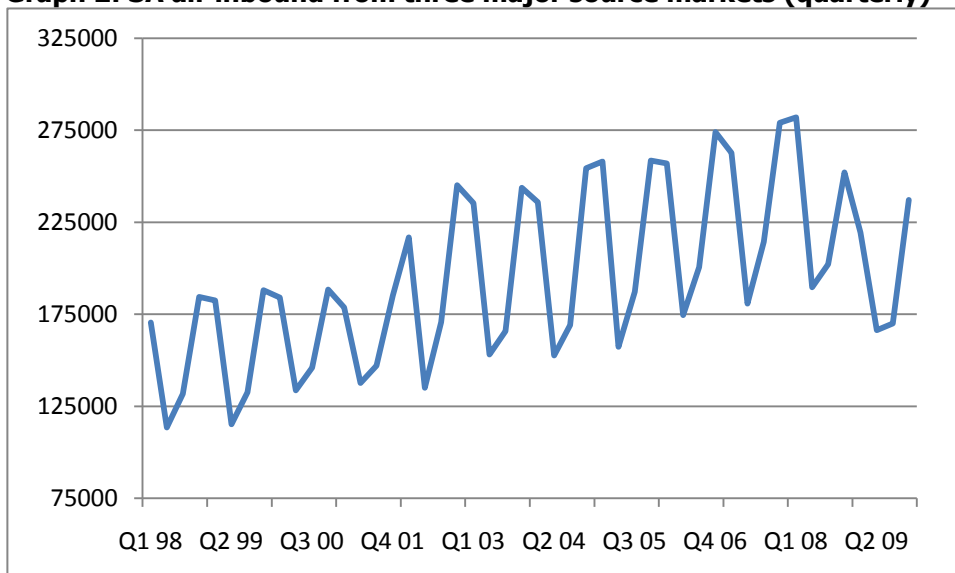
Graph 1: SA air inbound from three major source markets (annually)



Source: StatsSA

Total quarterly arrivals from these markets as depicted in Graph 2 reached more than 250 000 visitors during the high season from 2004 and into summer 2007/8 before dropping rapidly to levels not seen since 2003. The series also clearly reflects the very seasonal nature of arrivals to South Africa. The high season roughly corresponds to the summer months.

Graph 2: SA air inbound from three major source markets (quarterly)



Source: StatsSA



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The FIFA 2010 World Cup takes place in South Africa during June and July this year and not only is this the low season for inbound tourism but it also comes at the end of a strong decline in international air inbound tourism following the recent global recession.

Table 1 provides some insight into the dramatic annual declines in international arrivals experienced by the SA tourism industry during 2009.

Table 1: SA Inbound volumes from 3 major source markets (% change)

<u>Source market</u>	2009
UK	-9.5
USA	-21.3
Germany	-19.3
Econex Combined series ⁵	-14.0

Source: StatsSA

International literature on mega-events

The appeal of hosting a mega-event, or more specifically a mega-sporting event, has grown significantly over the last few decades. Countries and regions increasingly consider these events as possible lucrative opportunities encapsulating large potential tangible and intangible benefits for the host.

What has been less apparent is the size of these benefits. Although scholars have attempted to measure the economic gains that result from hosting a mega-event since the 1980s, it is in the most recent decade that the debate about the potential gains, both in terms of economic returns and intangible benefits (including various non-quantifiable advantages as broad as national pride, patriotism and country image), has intensified. Comparisons are fraught with difficulties and there is no definitive way of measuring the full cost and / or benefit of hosting these events. However, the central problem remains similar across the spectrum: isolating the impact of one mega-event and determining its counterfactual. Put more plainly: Are the costs for infrastructure, stadia, security and marketing worth the gains from tourism, trade and ticket sales? And, if not directly, does the event spark – maybe indirectly – long-run economic development?

While measuring the true economic costs and benefits is an extremely complex endeavour and one that is littered with data and theoretical problems, it is much simpler to measure the one visible benefit of these mega-events, namely any increases in tourism numbers for the country in question.

Rose and Spiegel (2009), investigating the impact of hosting the Olympic Games on international trade flows, find strong support for the view that hosting a Summer Olympic Game increases trade flows significantly.⁶

⁵ Please note that the combined series is weighted to the actual volumes rather than simple averages

⁶ Rose, A. K. and M. M. Spiegel (2009). The Olympic Effect. NBER Working Paper 14854. Cambridge, MA, National Bureau of Economic Research.



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Furthermore, they posit a theory of signalling, whereby countries that bid for a mega-event send a "policy signal that is followed by future liberalisation". The benefits of the mega-event are therefore not limited to the increase in event-related activities (tourists visiting to support their teams, for example) but also through the signal a country sends by hosting (or being willing to host) the event.

Measuring the behaviour of tourists from a comparative perspective also allows for an examination of tourism displacement or crowding-out.⁷ Whereas some tourists may be attracted to an event (event-specific tourists), some 'normal' tourists visiting the region frequently may opt to shift their visit when a mega-event occurs. This could be for a variety of demand- or supply-side reasons, including escalating prices, supply constraints in terms of accommodation and transport, security concerns, or visitor preferences.⁸ However, quantifying these crowding-out effects is troublesome as tourist behaviour is determined by many different country- and time-specific factors.

There is little empirical proof of mega-events yielding cross-country tourism gains, as the existing literature usually evaluates only one event or, at most, one type of mega-event. A recent study by researchers from Stellenbosch University and La Laguna University (Spain) empirically measured across different mega-events the change in tourism arrivals for a country hosting a mega-event. The researchers use a gravity specification standard in the trade literature to estimate the increases in tourism from hosting six different mega-sport event types, namely Summer and Winter Olympic Games, FIFA World Cup, Rugby World Cup, Cricket World Cup and British/Irish Lions tour over the period 1995-2006. Their findings are discussed in more detail below.

2010 FIFA specific research and initial estimates

The World Cup is eagerly anticipated in South Africa and initial forecasts, generated in support of the event, created expectations of around 450 000 additional unique visitors⁹. Such a number of visitors would surely be hugely beneficial to the host country's economy. The initial estimate prepared for South Africa's bid committee in 2004 amounted to a GDP contribution of R21.3 billion but was subsequently raised to over R50 billion.¹⁰ The latest release from Grant Thornton forecasts total economic impact (spend) at R93 billion with 0.54% of GDP being added during 2010 alone¹¹.

Much of the contribution was to be made up from massive infrastructure projects undertaken specifically for the event, such as the stadiums, or in support of the event such as the Gautrain. This major fiscal stimulus led to substantial growth in the construction and services sector and while the full benefits (and costs) can only be assessed accurately after the event, several studies have attempted to provide some indication of the likely outcome of hosting the tournament for South Africa.

⁷ Matheson, V. A. (2002). "Upon further review: an examination of sporting event economic impact studies." *The Sport Journal* 5(1): 1-4. Solberg, H. A. and H. Preuss (2006). "Major sport events and long-term tourism impacts." *Journal of Sport Management* 21(2): 215-236. Fourie, J., K. Siebrits, et al. (2010). Tourism displacement in a natural experiment. Stellenbosch, Stellenbosch University.

⁸ *ibid*

⁹ Grant Thornton for SA Tourism

¹⁰ Grant Thornton Strategic Solutions, 2004, 2007 and 2010

¹¹ Grant Thornton, news release 21 April 2010



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Grant Thornton has recently downgraded their estimates and now expects 373 000 unique visitors. It is unclear whether this number is in addition to the "normal volumes for the period" or in addition to the base assumption. It is to be expected that many travelers might be displaced by the large inflow of football fans.

How is all this relevant to the World Cup in South Africa

The following section provides details of the forecasted volumes and their potential impacts on the South African tourism sector. The forecasts referred to here are those from the economics consultancy Econex as well as a study conducted by Johan Fourie from Stellenbosch University and Maria Santana-Galego from La Laguna University in Spain (the FSG approach).¹²

Results from the two approaches

The FSG approach finds that there is a meaningful difference between tourism growth returns between developed and emerging economies. They also found that there is a very meaningful difference in growth between events hosted in high season versus those that are hosted in the off (low) season. Typically countries that host mega-events in the high season experience high levels of crowding out and annualized returns indicate that the net effect might be negative. In comparison, countries that host mega-events during the low season typically increase predicted tourism by as much as 16%. On average the non OECD countries benefitted with growth in tourism arrivals from participating countries of approximately 15% while OECD member states that hosted mega events returned growth of less than 10% during the years in question.

Based on their findings, an assumption can be made that South Africa might also gain 16% in international tourism arrivals. It should, however, be noted that their approach cannot allow for the unique conditions that might influence this event such as the recent global recession and South Africa being a long haul destination from traditional football supporter bases.

The Econex approach firstly analyses the underlying trend using econometric techniques before allowing for the "extra push" from the mega-event. South Africa, like most of the world, is emerging from a recent dramatic recession and tourism arrivals have been badly affected. A certain amount of normalization to volumes should first be factored in before any additional volumes resulting from the mega-event can be added. The fact that the FIFA event takes place in the middle of the low season coupled with the assumption that there will be limited crowding out allows a more robust scenario to emerge.

While the Econex forecast models include only the three major sources of inbound air arrivals, all three of the countries are also participants in the FIFA World Cup. The Econex approach used a qualitative approach to quantifying the net additions that might result from the mega-event and surveyed major industry participants while also using in-house experience on likely scenarios. The end result was strikingly similar to what the FSG model found even though both indicate total levels for the mega-event that are even lower than the initial forecasts of around 450-500 000 unique visitors. Both sets of models predict volumes of approximately 200-300 000 additional air arrivals.

¹² Sources: Venter, C & Boshoff, W. *The Econex Tourism Tool*, Q1 2010 www.econex.co.za and Fourie, J. & Santana-Gallego, M. 2010: "*The impact of mega-events on tourist arrivals*" Stellenbosch University, South Africa and La Laguna University, Spain

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The Econex approach firstly assumed a return to more normalized tourism flows, as indicated by their econometric models, onto which the additional expected flows were then added. The end result is a set of forecasts that are very positive for the expected inflow of tourists for the year.

The final scenario

Given the return to positive growth and the large inflow of people expected during the FIFA World Cup, 2010 should prove to be a positive year for tourism and much of the volume lost in the past year is expected to be restored during 2010 and into 2011. There is valid concern regarding crowding out of the traditional markets around the World Cup, but the net effect will be very favourable – even if these models' total net addition of visitors forecasted does fall short of other estimates.

It is assumed that the period directly before, but especially directly following the event will be characterised by (relatively) large contractions over historic periods as visitors avoid the pre and post event rushes. As this period coincides with the low season for arrivals, the impact on annual volumes will not be excessive.

The inbound market is expected to show strong positive year-on-year growth for 2010 as a whole, but some caution is advised as the second quarter results strongly influence the annualized figures. The World Cup is spread over a very short period of time and most operators view the event as a peak season month in the middle of low season, i.e. the World Cup will provide a strong anti-cyclical stimulus. The following table shows the combined arrivals from the three most important source markets for air arrivals – the UK, Germany and the USA.

These three source markets constitute nearly 50% of total air arrivals and while air arrivals only constitute approximately a fifth of all tourist arrivals, there can be little doubt that this group is very relevant as they make up the most important sector in the traditional tourist market (e.g. hotel stays rental cars etc). For this reason this series can be used as a proxy for air arrivals from the developed economies.

Forecasted annual arrivals growth (%), including adjustments for FIFA related arrivals

	2010 Annual Air Arrivals	Forecast number of unique FIFA spectators (total)
FSG Approach	+16.0%	291 000
Econex Approach	+13.9%	250 000
Grant Thornton¹³	n/a	373 000

Concluding remarks

South African inbound tourism can expect a very positive year ahead and while there are possibly minor contractions in 2011, these will mainly be due to base effects.

¹³ Note that Grant Thornton includes African land arrivals in their forecast. This is not the case in either the FSG or Econex approach.



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The general indication from our analysis is that, after almost 18 months of contraction, the South African tourism sector is set for a much improved period, including a return to positive trend growth. While the FIFA World Cup is very important to the expected volume growth for 2010, it is not the only driver for this year as the underlying trend growth is also normalizing.

Further analysis is planned to ascertain the costs and benefits of hosting the event to South Africa. This study can only be undertaken when the final arrivals have been verified, but it is probable that the findings will indicate lower benefits than originally anticipated - specifically around direct spend during the event.

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