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Football Scores: World Cup can bring diverse economic benefits

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The much-hyped World Cup is nearly upon us. In June and July 32 national teams will be competing in 64 matches, including - and leading up to - the final.

Nine cities will host the event in 10 stadiums, with a total capacity of 575 700 seats. The event is similar in size to the World Cups hosted from 1998 to 2006, in France, Japan/Korea and Germany, respectively.

One has to remember that hosting a major sporting event - even in the case of an emerging country like South Africa - accounts for only a small share of an economy's total activity, and is very limited in time - barely the kind of event that would normally generate structural shifts in a country's real estate market.

Both the extreme pessimists and optimists should be proved wrong. Fifa - as the monopoly organiser - generally stands to benefit the most financially (in relative terms) from a World Cup. In particular, the host nation carries a disproportionate share of the cost burden, with Fifa responsible only for prize money awarded to the participating teams, and compensation for their travel and preparation costs. In Germany in 2006, the latter accounted for only €222 million (R2.24 billion at yesterday's exchange rate).

By contrast, the main direct benefits of the event - television and marketing rights - accrue to Fifa, which also cashes in the proceeds from the sale of VIP tickets. In the 2006 World Cup, Fifa's profit amounted to €1.4bn, or 0.7 percent of South African gross domestic product (GDP) in that year.

In the five years prior to the World Cup, the country benefits from spending on stadium building and upgrading of other infrastructure necessary to the event; in the year of the event the main benefits occur from the holiday and ticket spending by spectators, as well as participating teams, Fifa officials and visiting VIPs; in the years following the World Cup, the country can draw benefit from a successful staging of the event in the form of higher tourism inflows, and other intangibles, such as international reputation and even political clout.

The bulk of South African investment in preparations for the World Cup has been in the construction of five new stadiums, and the upgrading of five existing ones. The Treasury estimated in 2006 that the cost of stadium building was about R8.4bn, or 0.4 percent of 2008 GDP.

While other investments, such as airport expansions, additional lanes on highways, and the Gautrain, probably would have taken place anyway as the economy grows, we believe that the World Cup deadline forced an acceleration of these projects.

Economic theory also suggests that the impact on a country's economy of such infrastructure spending is not limited to direct outlays, but gets magnified via the "multiplier effect".

In 2008, academics Ramos Mabugu and Ahmed Mohamed used an input-output/social accounting matrix approach to assess the impact of many other sporting events.

Their conclusion was that public spending related to the World Cup was likely to have raised real GDP by about R16.3bn (or 1.2 percent of base-year GDP). Manufacturing, business and financial services, and internal commerce are sectors that would have benefited indirectly from the outlays.

In 2005, researchers Heinrich Bohlmann and Jan van Heerden, using a computable general equilibrium model, also concluded that World Cup-related spending was likely to extend its benefits beyond the construction and transportation sectors. They estimated an impact on real GDP of more than R10bn, creating more than 50 000 jobs.

However, they warned that most of these jobs would probably be short-term contracts and thus not make a meaningful dent in South Africa's high structural unemployment.

On balance, though, it appears that the impact on the economy of World Cup-related investments should not be exaggerated. At the end of the day, the fact that the World Cup preparation phase is now over should have only marginal implications for the country's business cycle.

The major study conducted about the potential impact of the World Cup - by Grant Thornton in 2008 - estimated that the event could draw 480 000 overseas visitors to South Africa, or about 12 percent to 14 percent more than would usually visit during that season.

Assuming that these visitors would stay for an average of 15 days, the study concluded that overall spending could amount to about R14bn to R15bn, including R6bn on ticket sales and the remainder on accommodation, catering and entertainment.

Were these expectations to be realised, the direct impact on GDP growth could be about 0.5 of a percentage point.

The German World Cup of 2006 had the same number of matches and participating teams as this year's event. But conclusions about its economic impact diverge. Researchers Stan du Plessis and Wolfgang Maennig pointed out in 2006 that, prior to the event, Postbank - one of the major sponsors - had projected an overall effect of €9bn to €10bn (about R80bn at the time, or 0.5 percent of German GDP).

Yet analyses after the event were generally more downbeat. In November 2006, the Bundesbank estimated, based on balance-of-payments data, that travel receipts increased by about €1.5bn due to the World Cup - adding no more than 0.25 percentage points to growth in the second quarter.

A report by the DIW institute in 2007 found no significant effects from the World Cup on the German business cycle. A 2004 paper by academics HJ Kim, D Gursoy, and S Lee found that that the 2002 World Cup - shared jointly by Korea and Japan - was unsatisfactory for Korea from an economic point of view, especially compared with a before-the-event estimate from the Korea Development Institute (KDI), which had projected an impact as high as 11.5 trillion South Korean Won (R75bn at current exchange rates) or 2.2 percent of that country's GDP.

In view of all these arguments, we assume in our base-case scenario that the World Cup will boost South Africa's real GDP growth by about half a percentage point this year, a non-negligible amount - and close to the Treasury's estimate as expressed by Finance Minister Pravin Gordhan in his Budget speech - but somewhat smaller than the Grant Thornton study implies. The main reason is that, in our view, the total number of foreign supporters travelling to SA may fall short of 480 000.

The economic impact of the event will not be spread equally over the year, but mainly concentrated before and at the time of the event.

Consequently, we project that most of the increment to economic activity and income growth will be seen in second quarter GDP data. With respect to the current account, we would expect a temporary surge of tourism and travel receipts in the second quarter - as most payments for flights, road transportation and accommodation are made - which could reduce the annualised current account deficit by 1 percent or more of GDP in that quarter.

As the World Cup is likely to have only a transitory impact on either real economic variables or inflation, its impact on monetary policy should only be marginal at most.

The Reserve Bank will, in our view, continue to set policy in a forward-looking fashion, and should, therefore, not respond to the economic impact of the World Cup unless: it kicks off additional growth dynamics; or the acceleration in prices of some goods and services proves permanent and/or permanently raises inflation expectations.

The greatest financial market impact is likely to be on the currency, considering that the travel-related inflows into South Africa could - assuming they reached up to R14bn to R15bn as in the Grant Thornton calculations - amount to about 9 percent of average quarterly current-account-related inflows seen over the past year.

One can argue that, to some extent, the currency market has already anticipated these inflows, and that they explain the strength of the trade-weighted rand in recent months. Were that the case, then the risk would be strong that the rand could actually weaken in coming months if ticket sales do indeed disappoint.

Citi's base case remains that the rand will stay relatively strong on a trade-weighted basis for most of this year, and trade close to R7.50 a dollar as the World Cup kick-off approaches.

However, we see the currency as remaining vulnerable to downside corrections throughout the next few quarters. Expecting a significant impact on potential economic growth in South Africa would probably be illusory.

Optimists may point to the fact that the 1998 World Cup in France coincided with a jump in household sentiment, which did not subside in ensuing months but heralded the start of a consumer boom. More seriously, the 1998 World Cup coincided with the start of a phase of above-par growth in the whole of the EU, and indeed in most industrial countries - despite the Asian crisis - that was the real cause of the acceleration in consumer spending.

One area where long-term effects from the World Cup could be the most tangible is in tourism - provided that the sporting event effectively plays its role as a major "marketing effort" for the country.

South African tourism has already been a high-growth industry over the past decade and a half. To some extent, this pattern could generate benefits from the World Cup as tourism professionals do not have to reverse a trend, but merely build on it.

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