

Economic focus

This think piece scans the economic horizon and considers some implications for the play, active recreation and sport environment.

The COVID-19 outbreak presents a current threat to the world economy exacerbating its longer-term vulnerabilities – high corporate and individual debt, and high government debt in many countries; globalised supply chains; and central banks with limited options.

The longer term economic uncertainties this brings has potential implications for play, active recreation and sport, notably through impacts on individual discretionary spend; changing funding priorities of corporates and local and national government; workforce disruption; and the possible expediting of new technologies and business models such as e-learning and working from home that enforced isolation will promote.

This factsheet explores:

1. **International outlook:** The global context including economic snapshots of major economies and geopolitical instabilities
2. **NZ forecasts:** Summarising local commentaries addressing the medium term outlook and forecasts for major sectors.
3. **Individual prospects:** Focused on the economic context for NZ households given the wider economic context.
4. **Business of sport:** Highlights the economic challenges that specifically relate to the sport context and their implications for management and development.
5. **New thinking:** A brief look at the shifting political perspectives that may suggest a break with current economic orthodoxy.

This resource is part of a series which considers the changes and trends most likely to impact the future of the play, active recreation and sport sector and what we can do to best prepare for change.

Summary implications

Global economic downturn	<ul style="list-style-type: none">• May result in pressure on global sport revenues; individual discretionary spend; will 'colour' the 2020 NZ and US elections.
Decreased global economic co-operation	<ul style="list-style-type: none">• Sport is likely to be linked with geopolitical tensions – as it has been historically e.g. Cold War Olympic Boycotts.
NZ sector pressures increasing	<ul style="list-style-type: none">• Support and sponsorship to sport and recreation may be constrained. Decreased tourism could impact viability of events and venues e.g. golf.
Increasing individual wealth disparities & housing debt	<ul style="list-style-type: none">• Will lead to variable access to sport and recreation through the barriers of cost and time. Increasing housing costs/debt may result in sport and recreation being viewed as non-essential spending.
New business models	<ul style="list-style-type: none">• COVID-19 may normalise e-learning and working from home. What impact for play, active recreation and sport?
Increased competition for discretionary dollar	<ul style="list-style-type: none">• Need sport and recreation to adapt to match ever evolving competing interests. Need strong articulation of value proposition.
Gambling decrease	<ul style="list-style-type: none">• Gambling decreases with reduced discretionary spend. This will impact funds available to community sport and recreation.
Workforce disruption from automation or economic downturn	<ul style="list-style-type: none">• Opportunity for play, active recreation and sport to pick-up displaced workforce.
Increased competition between sports for fans and funding	<ul style="list-style-type: none">• Move toward dog-eat-dog environment commonplace in US and Australia, challenging the existing spirit of collaboration within the sector.
Rise of cause sponsorship	<ul style="list-style-type: none">• Greater expectation of businesses to play a stronger role in society may see rise of social enterprise and corporations as a force for good. May mean a shift from traditional sponsorships.
Increasing climate and infrastructure costs	<ul style="list-style-type: none">• May dominate local and national government priorities and resource allocation, at the expense of play, active recreation and sport. Has Council funding to sport and recreation hit a high at \$900m?
Emergent economic models	<ul style="list-style-type: none">• Ensure sport and recreation retains strong linkage to wellbeing and mental health agenda.

International outlook

- Economic confidence for next decade appears fragile. PwC's annual CEO confidence survey: 27% of CEOs 'very confident' in 2020 revenue growth; low not seen since 2009. [pwc.com](https://www.pwc.com)
- Confidence has declined further with COVID-19 outbreak. International Monetary Fund (IMF) views virus as the biggest immediate threat to global economy; worse than SARS in 2003 that cost global economy US\$40B.
- As at 11 March economists view a recession as probable. Minister of Finance confirmed economic impact of COVID-19 would impact NZ economy for at least the rest of the year.
- COVID-19 is testing the ability of central banks to respond. They deal with demand – cutting rates to stimulate it and raising rates to constrain it.
- Uncertain what if any impact cuts will have as COVID-19 is first-and-foremost a supply side issue. Increasing demand is of limited use if the goods demanded are not available.

What's changing?

Major economies

- IMF's latest outlook report projects global growth, estimated at 2.9% in 2019, to increase to 3.3% in 2020. This predates COVID-19 & is likely to be adjusted backward. [imf.org](https://www.imf.org)
- IMF and private sector forecasters expected this year's growth to decline as low as 5.8%. Prior to COVID-19, most anticipated an improvement in 2020 as trade-war tensions ease. [thediplomat.com](https://www.thediplomat.com)
- Outlook for Europe's economy is for stable, subdued growth over two years. This will prolong longest period of expansion since launch of the euro in 1999. ec.europa.eu
- The Conference Board forecasts US economic growth will slow to 2% this year and risks from US-China trade dispute replaced by new issues like the COVID-19 outbreak. [conference-board.org](https://www.conference-board.org)
- World's fourth-largest economy, India, has had its worst slowdown in a decade. Economy heavily interlinked with China's manufacturing; IMF warns it will suppress global growth. [thebalance.com](https://www.thebalance.com)

Geopolitics

- Few commentators are prepared to confidently assert a long-term perspective, and most allude to increasing geopolitical uncertainties.
- December 2019 US and China trade deal positive in short term. Relations remain fragile. Longer-term threat: US and China decoupling in technology, investment and trade. [forbes.com](https://www.forbes.com)
- UN Secretary-General António Guterres fears "the possibility of a Great Fracture – with the two largest economies splitting the globe in two." [news.un.org](https://www.news.un.org)
- OECD is urging governments to cooperate and invest in order to prevent prolonged stagnation. [oecd.org](https://www.oecd.org)
- Emergence of international co-operation and goodwill looks unlikely, given fractious political atmosphere in major economies and new sources of tension, e.g. looming tax war. [foreignaffairs.com](https://www.foreignaffairs.com)

Unexpected events on the horizon

- Against this long-term uncertainty are several left-field issues. COVID-19 most visible wild-card. Fossil-fuel transition and climate change likely to have long-term significant impact.
- Should COVID-19 sweep across world, global economy will need significant stimulus. Main complication will be lack of central-bank ammunition, as interest rates already low. [economist.com](https://www.economist.com)
- Four-fold increase in global economic dependence on China worldwide since 2003 means COVID-19 likely to have significant global impact on trade. Most vulnerable rely on factories in China for parts and materials. [Harvard business review Feb 2020](https://hbr.org/2020/02/global-economic-dependence-on-china)
- Path back to growth under COVID-19 will depend on a range of drivers, e.g. degree to which demand is delayed or foregone, whether shock is truly a spike or lasts, etc.
- Chief Economist of BCG Philipp Carlsson-Szlezak believes the most likely of three scenarios from COVID-19 is a rebounding of growth after the initial displacement of output – a V-shaped scenario. [Harvard Business Review](https://hbr.org/2020/03/v-shaped-recovery)
- History suggests the global economy after a major crisis like COVID-19 will likely be different in a number of ways. Crises can spur adoption of new technologies and business models.
- COVID-19 will likely hasten progress to more decentralised global value chains and test political systems' ability to protect their populations; maybe shape NZ and US elections. [Harvard Business Review](https://hbr.org/2020/03/covid-19-will-hasten-progress-to-more-decentralized-global-value-chains)
- Transition from fossil-fuels greater long-term impact on stable global economy than COVID-19. Institute for Energy Economics & Financial Analysis found largest publicly-traded oil and gas firms experiencing large cash shortfalls. [ieefa.org](https://www.ieefa.org/)
- Geological Survey of Finland recently warned the increasingly unsustainable economics of oil industry might lead to major disturbance in global financial system and energy markets. [dieselnet.com](https://www.dieselnet.com/)
- Climate change now recognised as a significant economic risk to oil and gas sector. Companies increasingly likely to default on their debt with \$50 a tonne carbon tax. [Reuters.com](https://www.reuters.com/)
- Bank of International Settlements taking an increasing interest in climate-related “green swan” risks – potentially extremely financially disruptive events. [bis.org](https://www.bis.org/)
- The points above underline recent research that highlights the difficulty of effective economic forecasting. Few commentators commit to a long-term view. [weforum.org](https://www.weforum.org/)

New Zealand forecasts

- As a small open economy, NZ has enjoyed benefits of globalisation, but COVID-19 is an e.g. of negative costs. NZ is economically dependent on China (26% of exported goods).
- Economists struggling to reassess duration and depth of COVID-19 downturn. Treasury forecasts global spread increasing risks of substantial negative impact for several quarters. [Treasury](#)
- ANZ downgraded growth forecasts in early March, but chief economist Sharon Zollner said forecasts were “already looking out of date given the spread of the virus, its presence in NZ, and the violent sell-off in global financial markets”.
- NZIER was assuming in early March that trade disruptions from COVID-19 will occur mainly over first half of 2020. Tertiary, aviation and tourism sectors may challenge this view.

What’s changing?

Domestic overviews

- Despite COVID-19 the fundamentals for the NZ economy are still strong. Prior to outbreak, households were feeling more optimistic and business confidence was recovering. [NZIER](#)
- NZ’s GDP growth forecast to remain 2.5% in 2020-21. OECD: should further stimulus be needed, NZ well placed to deliver it as government budget in surplus and debt is low. [oecd-ilibrary.org](#)
- ANZ pre COVID-19 snapshot for 2020 optimistic both at home and abroad. “We are particularly encouraged by the strength in labour markets and strong consumer spending.” [anz.co.nz](#)
- Infometrics less optimistic. Believes nothing has changed to help economy avoid mediocre results beyond 2021. [infometrics.co.nz](#)

Business confidence

- ANZ Business Confidence Index in NZ declined to 19.4% of respondents reporting they expect general business conditions to deteriorate in year ahead in January 2020 from 13.2% previous month. Post COVID-19 responses were more negative, but an improvement from the 53% of respondents with negative outlook in September 2019.
- 77% of NZ CEOs are concerned that a skills shortage will impair growth, with NZ among the bottom 20-40% in the OECD with regards to alignment of skills with the labour market.

Sector specific outlooks

- Despite short-term uncertainties resulting from COVID-19, respective projections for NZ’s largest economic sectors remain largely optimistic.
- MBIE’s NZ Tourism Forecasts (2018 – 2024) anticipate international visitor arrivals reaching 5.1m in 2024 (up from 3.7m in 2017). [mbie.govt.nz](#)
- Deloitte suggests over period to 2040, the economy will be \$11.5 billion (4.3%) larger in real terms if specific regions grow at national export growth target set for tourism. [deloitte.com](#)
- MPI expecting export revenue to increase by 3.3% to \$47.9 billion in 2020 and further 2.1% increase in 2021 ([mpi.govt.nz](#)). Deloitte projects additional GDP of \$4 billion over next 20 years. [deloitte.com](#)

- Tertiary education sector less upbeat. Approx \$300m lost revenue to Universities and a further \$300m loss to surrounding regions as Chinese students prevented from NZ entry.
- Air New Zealand is also negatively impacted, with its full-year profit potentially down by as much as \$75m, in addition to its loss of close to \$1 billion of market value this year.
- International Air Transport Association anticipating falling passenger demand as a result of COVID-19 outbreak will cost the industry \$44 billion this year. [iata.org](https://www.iata.org)

Potential industry disruptors

- Relying on extrapolations of the current operating environment is fraught with risk given the uncertain global context and potential sector disruptions.
- BNZ economists are concerned that the hit to NZ economy from recent drought conditions could be as bad as the impact from COVID-19, saying recession is a 'very real risk'.
- Dairy's significant role in NZ export dollars faces a threat that some suggest could threaten its future viability. Lab-grown milk protein now stepping into the bulk ingredient arena. [rnz.co.nz](https://www.rnz.co.nz)
- Crude oil prices influence both international mobility and primary industry exports. Likely to have implications for tourism and agriculture too. [hoogwegt.com\(pdf\)](https://www.hoogwegt.com/pdf)

Individual prospects

Global and national economic prospects are of secondary importance for those whose primary concerns remain whether they have somewhere to live, a reasonable income and long-term job prospects.

What's changing?

Housing costs

- Housing costs remain a key issue for New Zealanders, and the challenge appears set to continue despite the current government's efforts.
- Relative to purchasing power or income, house prices are the most expensive they have ever been. [helenclark.foundation](https://www.helenclark.foundation)
- Homeownership for 25-40-year-olds dropped from 46% to 35% between 2001-2013. Combined with student loans, unaffordable housing makes homeownership out of reach.
- *Somewhere to Live: Exploring solutions to the housing affordability crisis in Aotearoa New Zealand* report concludes the very high levels of household debt may trigger a recession. [helenclark.foundation](https://www.helenclark.foundation)
- Harvard report into US market finds since last recession (December 2007), a surge in wealthier families opting to rent is driving up prices, making affordable housing scarcer. A pointer to NZ's housing future? [jcs.harvard.edu](https://www.jcs.harvard.edu)

Income and debt

- Wage growth for New Zealanders remains relatively low, though consumer debt continues to grow.
- OECD notes some growth in NZ's wage growth, partly boosted by minimum wage hikes and increases in caregiver wages. Though overall nominal wage growth remains muted. [oecd.org\(pdf\)](https://www.oecd.org/)
- Household debt is growing at 6% per annum, down from 9% in 2016, but still rising faster than income.
- Nearly 40% of new mortgages are to people borrowing more than 5X their annual incomes ([stuff.co.nz](https://www.stuff.co.nz/)). Auckland house prices are 10X household incomes. Could be driving growth of affluent renters noted in Harvard study above. [rbnz.govt.nz](https://www.rbnz.govt.nz/)

The impact of disruptive technologies on Kiwis

- While NZ unemployment levels relatively low at 4%, future uncertainty being driven by impact of automation. Given jobs' importance to self-worth and societal position, will have more than economic impact.
- NZIER analysis found half of current NZ jobs were at risk of technological displacement over the next few decades. [nzier.org.nz](https://www.nzier.org.nz/)
- NZIER's findings mirror Frey & Osborne's often cited study that suggested a huge automation impact with 47% of total US employment at risk. [oxfordmartin.ox.ac.uk](https://www.oxfordmartin.ox.ac.uk/)
- McKinsey argues that fewer than 5% of occupations can be fully automated, but 60% partly, implying substantial workplace transformations ([mckinsey.com](https://www.mckinsey.com/)). PwC identifies how this process might unfold. [pwc.co.nz\(pdf\)](https://www.pwc.co.nz/)
- One aspect of the automation trend, which has potential consequences for regional NZ is the finding that smaller centres face greater impact. [royalsocietypublishing.org](https://www.royalsocietypublishing.org/)

Business of sport

A shifting and uncertain economic context together with new disruptive business approaches imply an increasingly complex set of factors will need to be managed in the future of play, active recreation and sport.

What's changing?

Economic drivers of participation

- In the US, the rising cost of playing sports plus rising economic inequality is increasingly causing poor and even middle-class families to leave sport. [cbsnews.com](https://www.cbsnews.com/)
- There is not evidence to suggest NZ participation rates are influenced to the same extent by changing economic factors. [Sport NZ](https://www.sportnz.org.nz/)

Competition for discretionary spend

- The fragmentation of consumption channels creates a real challenge for organisations and teams dependent on retaining fans' money and attention.

- Technology to watch any game at any time from anywhere, along with a growing world population, should suggest a positive commercial future. But slowing revenue growth is increasing intense competition between sports for fans' money and attention. economist.com
- This 'attention-deficit' challenge makes it easier for online pirates to profit from sports coverage. Digital piracy is estimated to be worth \$90 billion annually. insideworldfootball.com

Future competition for fan attention and funding

- In context of competition for participants and fans, sports will need to reinvent themselves continually to remain viable. Cricket is an exemplar of how to reinvent a game. economist.com
- NZ Rugby will be seeking to follow this example, through its independent review.
- Understanding the underlying drivers of change will be key to ensuring future financial viability for a particular code. bloomberg.com
- Competition is emerging for fans' attention and dollars beyond the traditional pitch, especially from the eSports arena – expected to generate \$1.5 billion in 2020. Deloitte
- Some eSports success may be down to ability to connect with their base. With eSports and virtual reality gaming increasingly popular among Gen Z and Millennials, major sports need to make fans feel like active participants. si.com
- Example of this connection is the creation of sports based on rules most suited to the target market – concept behind use of AI to invent a new sport called 'Speedgate'. weforum.org
- The growth of women's sport, opening opportunities for creation of new professional leagues, franchises and corporate sponsorships, will also increase competition for fan attention and funding. Deloitte
- Trend towards prize money parity; more common in individual sports (e.g. tennis) but Cricket Australia's promise to their women following Twenty20 World Cup could prove a catalyst for other sports.

Increasing complexity of sport business management

- Sports management will need to embrace business dimensions beyond the game at hand to maintain financial viability and agility in the face of uncertain economic conditions.
- Increasing business competition will force managers to ensure the business aims of their organisation align with desires of customers and fans. Sports businesses will also need to focus on wider community concerns through core ethical guidelines. sportbusiness.com
- Environmental concerns will need to be given high priority as climate crisis worsens and carbon-intensive dimension of globalised sports events comes under scrutiny.

Disrupted economics of climate

- While the business of sport has implications for environmental degradation, the impact of climate change is projected to have increasing economic consequences for sporting events.
- Since 2000, 27% of England's home One Day Cricket Internationals have been played with reduced overs because of rain disruptions

(theclimatecoalition.org). Economic consequences are becoming increasingly significant. weforum.org

- Climate is increasingly being factored into venue decisions which have knock-on economic effects. asia.nikkei.com
- In Canada, the outlook is extremely bleak for winter sports with recent studies finding ski-tourism industry could lose nearly 75% of its capacity by mid-century. tandfonline.com

New economic thinking

Whether it be the broader economic uncertainty or the financial consequences of factors such as climate change or the energy transition, we appear to be at a point where 'business as usual' is being challenged by new modes of thinking. Could the emergence of Wellbeing Economics or the Modern Monetary ideas of the Bernie Sanders campaign suggest other possibilities in the way we address future economic questions?

What's changing?

Questioning growth

- Should developed countries be working to slow economic growth to help reduce climate challenge? (newsmax.com) This is already beginning to occur at a consumer level. latribune.fr
- Can developed economies enjoy prosperity without growth? Winners of 2019 Nobel Prize in Economics argue that a larger GDP doesn't necessarily mean a rise in human wellbeing. newyorker.com
- Czech-Canadian scientist Vaclav Smil believes growth must be left behind to "ensure the habitability of the biosphere". nymag.com
- Perspectives such as Smil's are increasingly being reflected in more mainstream articles, and a recent Harvard Business Review piece suggests a tipping point in thinking. hbr.org

New political perspectives

- Challenged by a fragile global economy, a number of ideas are emerging which may have implications for future public spending and create new perspectives of societal wellbeing.
- Modern Monetary Theory is amongst these new ideas; a country with its own currency, such as NZ, doesn't have to worry about accumulating too much debt as it can print more money to pay interest. bloomberg.com
- The emergence of discussion around wellbeing economics is also indicating the willingness of a number of governments to rethink priorities. eesc.europa.eu
- Our current government's thinking is in line with this perspective and raises the question of whether NZ could be a leader in 'wellbeing economics'. victoria.ac.nz (pdf)
- Business commentator Rod Oram suggests developing a long-term vision for a transition towards a low-carbon, greener economy would help NZ defend the 'green' reputation we have acquired internationally. newsroom.co.nz