

London Olympics To Provide Minor Boost To UK Economy

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The 2012 Olympic Games have divided the UK population thanks to the timing of the games.

The economy dallied with recession in the first quarter of 2012 and with an estimated public cost of Â£9.3 billion, some are questioning the value of the Olympics.

The government has hailed it as an opportunity for economic growth and while the games do look likely to support moderate growth in Q3 2012, the likelihood of the Olympics lifting the UK out of the 2012 economic slowdown is slim.

- The Olympics has had an ambiguous effect on economic output in other host countries. Athens 2004 supported Greek real GDP growth of 4.4%; however in 2003 the Greek economy saw real GDP growth of 5.9%. In 2000, the year of the Sydney Olympics, Australia saw growth of 3.4%, while in 1999 Australian growth stood at 4.2%, suggesting that the economic impact of the Games is usually in the build-up to the event;

- According to the Olympic Delivery Authority (ODA) an estimated Â£7 billion worth of investment was created by the development of Stratford, the area hosting the event in London and the Olympic Village;

- The British Hospitality Association estimates an additional 294,000 tourists will enter the UK for the Games; in addition an estimated 587,000 UK residents are expected to visit London for the event. Consumer spending in London is set to increase by 0.9% between 2011 and 2012, in US dollar terms, almost double the country average thanks in part to a boost from the Olympics.

Implications

The Olympic Games have historically had a variable impact on the host country's economy. In November 2004, the Greek embassy in the USA estimated that the Athens Olympics cost US\$11.2 billion. The Department for Culture, Media and Sport budget for the games, covering the building of the stadium and policing the games alone is US\$14.8 billion (Â£9.3 billion), but the estimated overall cost is much higher.

- Based on historical analysis of the Olympics in Greece in 2004, growth was most conspicuous in the public sector, thanks to significant spending on public administrations such as police for the games, at the expense of education and health. Wholesale and retail trade does look to have been supported by the Olympics given its slump in 2005 but hotels and restaurants grew little during the Olympic year, recovering more strongly in 2005. This may have been caused by displacement of traditional holidaymakers, put off by the games;

Note:

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- The most likely sectors that will benefit in the UK will be retailing and tourism. Euromonitor International estimates an additional 13,000 hotel rooms have been built to support the influx of tourists while Heathrow Airport is expecting a 45.0% increase in passenger numbers per day over the course of the games; Click to tweet!

- Construction in the UK declined in 2011 by 0.8% in real terms due to the weak housing market while unemployment levels have remained elevated at around 8.0%. These figures suggest that any extra jobs or investment in construction off the back of the Olympics have already taken effect;

- Increases in tourism into the capital will support London's local economy. Olympic projects have helped mitigate some of the impact of the UK's construction slowdown on east London. According to the Department for Culture, Media and Sport 30,000 people have been employed during the construction of the Olympic Park;

- The Olympics is expected to provide minor distraction to a faltering British economy, dragged down by eurozone woes and austerity. Consumer expenditure for example in the UK overall is expected to decline by 1.3% in real terms per capita between 2011 and 2012. Click to tweet!

Prospects

Recent national statistics estimates suggest Britain has fallen back into recession at the end of Q1 2012. However Euromonitor International estimates mild positive real GDP growth of 0.1% (quarter-on-quarter, seasonally adjusted) in Q1 of 2012 due to stronger business sentiment. Real GDP growth is forecast to be boosted during the Olympic Games from a contraction in Q2 of 0.2% q-o-q, to a positive growth rate in Q3 of 0.3%. Overall real GDP growth for 2012 is expected to be just 0.1%.

- According to the London Legacy Development Corporation an estimated Â£12.5 billion of private and public funding has been invested in the Stratford region of London, where the Olympic ground is situated. This major development is set to support services and retail in the longer term in the area, which has already become home to the largest urban shopping centre in Europe while an additional 11,000 homes are to be built in the surrounding Olympic Park area;

- Given the size of Britain's economy there is unlikely to be any major impact on aggregated figures. The impact of the Olympics is expected to be minimal on nationwide, long-term problems such as unemployment and falling construction, with London feeling the greatest positive impact through a boost in tourism and retail sales;

- The Games coincide with a period of major uncertainty in the world's economic outlook . Crisis in the eurozone with danger of a Greek exit from the single currency and a faltering banking sector in Spain pose major risks to the UK. If the crisis worsens, these factors will be remembered more for their impact on the UK economy than the Olympics will.

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