Will World Cup Give Brazil Economic Boost?

Contributed by Euromonitor
Friday, 06 June 2014
Last Updated Friday, 13 June 2014

As the World Cup in June approaches, global attention is increasingly turning towards the host nation, Brazil. Much debate has centred around the infrastructure: will the airports and stadia be ready in time? But more crucially for the economy, will the tournament give Brazil a much-needed economic boost?

Debatable Economic Impact

The economic impact of the World Cup in Brazil is still up for debate with conflicting studies being cited:

On the one hand, the FundaÃ§Ã£o Instituto de Pesquisas EconÃ´micas (FIPE) (Economic Research Institute) has found that the (much smaller) FIFA Confederations Cup held in 2013 generated R$20.7 billion (US$9.4 billion). This is being offered as evidence of the potential impact of the World Cup;

In addition, a study by Ernst & Young Terco in 2010 backs up this predicted beneficial impact, estimating that in total R$142.39 billion (US$64.7 billion) will flow into the country from 2010 to 2014, generating 3.63 million jobs and R$63.48 billion (US$28.9 billion) of income for the population. This headline figure includes indirect benefits, but the direct impact on GDP is estimated to be R$64.5 billion (US$29.3 billion) spread over 2010-2014;

On the other hand research from Moodyâ€™s indicates that the World Cup will not significantly boost the economy , because the tournament is short in duration and most benefits will be temporary. All-in-all Moodyâ€™s estimates that the tournament will add only the equivalent of 0.4% of GDP to Brazilâ€™s economy over a 10-year period.

Â
Limited Scope for Real Change

On balance I would lean towards the Moodyâ€™s view â€“ that the economic impact of the World Cup will be limited:

The headline figure of 3.63 million jobs created is attention-grabbing, but most are temporary jobs for one year spread over the 5-year period analysed in the report. 3.63 million temporary jobs over a 5-year period is not as impressive as it sounds in a country with a total labour force of 109 million in 2014.

There will be a boost to tourism - international arrivals are expected to increase in 2014 by 15.0% to a record high of 7.1 million. Tourism expenditure (including domestic tourist expenditure by domestic visitors and incoming tourist receipts by international visitors) is expected to increase by 8.7% in real terms in 2014, but in terms of GDP, forecast tourism expenditure in 2014 equates to 3.0% of GDP, up by 0.2 percentage points over 2013;

Consumer foodservice is expected to grow in real terms by 5.9% in 2014, comparing extremely favourably with 2013â€™s static sales. Key players in consumer foodservice such as McDonaldâ€™s, Al Saraiva Empreendimentos (Habibâ€™s), Brazil Fast Food Corp (mainly for Bobâ€™s, KFC and Doggis fascias), Subway, Anheuser-Busch InBev NV (mainly for Chopp Brahma and Burger King fascias) and Restpar Alimentos (Giraffaâ€™s) are all expanding operations to benefit from World Cup and Olympic visitors. Once again the overall impact on GDP is not huge â€“ hotels and catering accounted for 2.1% of Gross Value Added in 2013, compared to 5.6% from agriculture and 13.2% from manufacturing.

In the past we have seen a similar scenario of limited economic impact in other host nations, and with winners and losers across different sectors of the economy. For example the UK hosted the Olympics in 2012 and a study by the Office for National Statistics (ONS) saw no real indication of an â€œOlympic effectâ€• in the figures for full-time or part-time workers. They found that although spending by tourists increased, actual arrivals decreased because of a displacement effect with the Games leading some tourists to avoid the UK. Interestingly, they also found anecdotal evidence of a fall in online sales as consumers spent their time watching sporting coverage.

Overall, the ONS study concludes the London 2012 Olympic and Paralympic Games (and the Diamond Jubilee in the same year) â€œdid not change the overall picture of an economy that was growing slowly at best during 2012â€•. A description of a sluggish economy that matches projected growth of just 1.9% in Brazil this year.

Hosting the World Cup Brings Reputational Risks and Rewards on a Global Level

FIFA estimates that 3.2 billion people, or 46.4% of the worldâ€™s population watched at least one minute of live football during the 2010 tournament, and that 910 million television viewers tuned in to a minimum of one minute of the World

Cup final at home. In fact, FIFA believes that the ratings likely topped 1 billion people when including those who watched online and in public viewing places. Hosting the World Cup therefore places Brazil in the worldâ€™s spotlight in a way that only a global event can do.

Yet this spotlight leaves Brazil open to risks as well as rewards. Mostly these risks are centred around the potential for damage to â€œbrand Brazilâ€• if we see a re-run of demonstrations that occurred during the FIFA Confederations Cup tournament in 2013, or if infrastructure is not completed in time, or if inefficiencies or serious problems in running the tournament arise. This kind of bad publicity could damage tourism as well as Brazilâ€™s ability to attract foreign investment - at least in the short-term.

When the Party is Over

Whatever happens, the boost if it comes, will be short-term when what Brazil really needs is structural reform to improve the countryâ€™s potential rate of growth.Â Private consumption has hitherto been the engine of growth, with growth of consumer expenditure peaking at 10.9% in 2010, but this model has reached the end of its course and consumers are being squeezed by high interest rates. Reforms to improve the business environment, boost infrastructure and liberalise the economy are where Brazil stands to make real and lasting gains.

Underlying this weak performance, Brazil has many strengths, including its sheer scale â€“ in 2013 Brazil was the worldâ€™s 7tl largest economy (in PPP terms), had its 6th largest population and spans its 5th largest land area. It is also home to a vast array of natural resources, key to which is its agribusiness sector and also a young population. Structural reform will allow Brazil to capitalise on these advantages and place it squarely in the global spotlight for the right reasons economically speaking â€“ a prime example of a large emerging market experiencing strong and sustainable growth.

Republished with permission from Euromonitor Market Research Blog , originally posted in June 2014

Â