

**THE ECONOMIC IMPACT OF THE AMERICA'S CUP
REGATTA
AUCKLAND 1999-2000**

**PREPARED FOR
THE OFFICE OF TOURISM AND SPORT**

**BY
MCDERMOTT FAIRGRAY GROUP
AND
ERNST & YOUNG**

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TOPLINE RESULTS

SUMMARY OF CONCLUSIONS

1. The America's Cup Regatta was an important economic event for the Auckland Region and for New Zealand.
2. It generated \$640 million of value added in the New Zealand economy.
3. It generated \$473 million of value added in the economy of the Auckland region.
4. The Report measures "net" economic activity and does not include expenditure that would have taken place even without the Regatta.
5. The Report is based on 10,600 interviews with international and domestic visitors, 360 business surveys and 70 in-depth interviews with - key informants to help estimate the magnitude and distribution of expenditure for the duration of the event.
6. The Report identified the net additional expenditure in the economy. A share of this is additional direct value added. The study measured the **direct** value added, and also the **flow on** effects of this through the economy, to identify **total** value added – a measure broadly equivalent to GDP. From this, it was possible to identify the total value added generated from the spend by each sector. Major impacts arose from spending by
 - * Syndicates (\$149.2 million)
 - * Regatta organisers and sponsors activity (\$44.3 million)
 - * Infrastructure & Government (\$130.9 million)
 - * Superyachts (\$118 million)
 - * Media (\$12.8 million)
 - * International Visitors (\$164 million)
 - * Spending by businesses (\$20.2 million)
7. The Report also identified where the spending was directed, to show the value added impacts generated from the extra activity in each sector of the economy. Major impacts arose from the extra activity:

| | |
|----------------------------|-----------------|
| * Marine sector | \$126.7 million |
| * Transport | \$79.6 million |
| * Construction | \$91.7 million |
| * Accommodation | \$64.2 million |
| * Restaurant & hospitality | \$51.3 million |
| * Retail | \$56.8 million |
| * Entertainment & leisure | \$33.2 million |
| * Media & Communications | \$23.6 million |
| * Government | \$34.4 million |
| * Business & Households | \$29.9 million |

* Other \$48.1 million

8. The additional activity sustained 10,620 full time equivalent years of employment in New Zealand.
9. It sustained 8,070 full time equivalent years of employment in Auckland.
10. In addition to a total economic impact of \$640 million nationally and \$473 million regionally, the Regatta was the catalyst for a number of benefits to Auckland and New Zealand including:
 - * "advertising equivalent" global media exposure
 - * long term credibility and publicity for the marine sector
 - * international visitor awareness
 - * focussing private sector construction investment in the Viaduct Basin area, helping open up the waterfront and supporting regional growth policies of consolidation.

EXECUTIVE SUMMARY

OBJECTIVE

This report was commissioned by the Office of Tourism and Sport to identify the impact of the America's Cup Regatta held in Auckland over the summer of 1999-2000 on the regional and national economies. The objective was to identify the impact of the Regatta on the regional and national economies by identifying the amount and distribution of value added and employment associated with the additional spending it generated. The study was undertaken by McDermott Fairgray Group Ltd and Ernst & Young.

HOW THE STUDY WAS CONDUCTED

The Regatta was a substantial event, with potentially far-reaching effects. For this reason, an intensive information gathering exercise was undertaken to inform the estimation of its direct and indirect economic impacts. A number of surveys and in-depth interviews were used to identify how much was spent, and where, by regatta participants (syndicates, their associates and families, and the Challenger and Defender series organisers); regatta hosts (those New Zealand-based bodies charged with providing the infrastructure and managing the event), and regatta spectators (including supporter groups, the super-yacht fraternity, international tourists motivated to visit or to stay in New Zealand by the Regatta and, from the point of view of the Auckland economy, domestic visitors).

This involved some 10,600 interviews with international and domestic visitors, 360 business surveys, and 70 in-depth interviews with key informants to help estimate the magnitude and distribution of expenditure for the duration of the event.

This work identified over \$530m of total expenditure associated with the America's Cup Regatta, and net additional expenditure of some \$474m, including \$432m in the Auckland Region.

However, the gross expenditure does not tell the whole story. The expenditure figures were analysed within the context of a set of accounts describing Auckland's and New Zealand's economic activity, to show the overall effect on the economy.

ESTIMATING ECONOMIC IMPACTS

The effect of the additional expenditure was to increase demand throughout the regional and national economies. However, the effects of any spending that would have taken place in the economy anyway, but would have gone to some other activity (or locality) had the regatta not taken place, had first to be deducted. This led to the estimate of net **additional** spending of \$432m in Auckland and \$474m nationally (Table 1), over 80% of gross spending. This additional spending can be counted as an injection into the economy over the period that would not have taken place without the America's Cup Regatta, because much of it represents foreign spending in New Zealand, particularly by participants and spectators, rather than simply the transfer of spending from other parts of the economy.

Table 1: Sources of Expenditure Associated with the America's Cup Regatta

| Source | Expenditure (\$m) | Share % in 2000 |
|--------------|-------------------|-----------------|
| Participants | 146 | 85% |
| Hosts | 96 | 29% |
| Supporters | 232 | 99% |
| TOTAL | 474 | 81% |

The economic impact of this increase in demand depends on the value added locally (which is a measure of gross domestic product) and jobs created in those sectors meeting it. However, it is not limited to these **direct** impacts. Businesses that directly benefit from the America's Cup spending increase their own demand for materials, components, goods and services as a result. The way in which the additional demand flows through the economy generates further income. This is the **indirect** effect. Finally, individuals and households who benefit from work created and additional wages and salaries paid as a result of the increased demand further stimulate the economy through their own spending on goods and services. The resulting increase in final demand is the **induced** effect of the original spending.

The total economic effect of growth in the demand for a particular mix of goods and services (the sum of the direct, indirect and induced effects) depends on the structure of the regional (and national) economy and the relationships among sectors within it. For the analysis described here, an inter-industry model was developed describing the composition and functioning of the Auckland and national economies. This model estimates the "multipliers" through which the flow-on, indirect and induced effects of the spending associated with the America's Cup Regatta can be identified.

While this economic impact assessment methodology is widely used as the most appropriate method for estimating the collective and cumulative economic contribution of an event to an

economy, the results cannot be interpreted in isolation, for several reasons. For example, economic impact analysis does not:

- ◆ Deal with externalities – in technical terms these are transactions that take place outside the formal market. In the case of the America’s Cup, substantial improvements to the local environment and Auckland’s urban amenity could be considered to fall into this category.
- ◆ Estimate possible future gains in demand for New Zealand goods and services (such as marine products and tourism services) from media coverage in overseas markets, generally termed the “equivalent value of advertising”.
- ◆ Demonstrate the efficiency or otherwise of the many individual spending decisions made by organisers, syndicates and individuals that generate the flow of money through the economy.

These matters fall outside the terms of reference of the current study, although it is useful to acknowledge them and, in some instances, to consider whether or not they may have contributed positively to outcomes sought by individual parties to the regatta. Nor does the current analysis seek to evaluate the many expenditure decisions, including capital spending decisions, underlying the regatta in terms of economic efficiency or the returns they provided to the organisations making them.

What economic impact analysis does do is indicate how much of the additional demand associated with an event accrues to local businesses and labour. In order to achieve this, it is necessary, first, to measure the additional spending and identify where it falls among business and government sectors and, second, to estimate the extent to which those direct gains are transmitted through to other sectors of the economy. In these terms, the economic impact of the America’s Cup reflects not just the total amount spent as a result of the Regatta, but the structure of the Auckland economy and how this influenced the flow on effects of the spending.

THE IMPACT OF THE REGATTA ON THE AUCKLAND ECONOMY

Where there are strong relationships with local suppliers (as in the marine or construction sectors) or where a sector is labour-intensive (like hospitality or retailing) multiplier effects tend to be high. Consequently, the total effects of increased demand will be high relative to the direct effects. This is the case with the additional demand generated by the America’s Cup Regatta, for which the overall indirect and induced effects are 2.75 times the direct effects. The direct value added to the Auckland economy as a result of Regatta expenditure was \$172 million (about 40% of total expenditure), but indirect and induced effects added a further \$301 million, for a total regional economic contribution of \$473 million (Table 2). This substantial figure is equivalent to as much 1.4% of the region’s estimated Gross Domestic Product of between \$33 billion and \$34 billion and will have had a significant impact on the region’s growth rate for the year ending June 2000.

One third of that contribution came from spending associated with the participants in the Regatta, the syndicates, their supporters and the organising committees. Spending by the hosts to develop and operate the Village and associated infrastructure accounted for 22% of value added in the Region. However, spending by spectators visiting the regatta accounted for the largest share - \$211 million in added value, or 45% of the total.

In turn, this additional economic activity generated additional work equivalent to around 8,070 jobs (measured as years of full-time work, Table 3), equivalent to around 1.5% of employment in the region in that year.

Table 2: Contribution to Regional GDP (\$m)

| | Direct | Indirect & Induced | Total | Share of Total (%) |
|--------------|---------------|-------------------------------|--------------|---------------------------|
| Participants | 60 | 97 | 157 | 33% |
| Hosts | 30 | 75 | 105 | 22% |
| Spectators | 82 | 129 | 211 | 45% |
| TOTAL | 172 | 301 | 473 | 100% |

Table 3: Contribution to Regional Employment (Full Time Equivalents)

| | Direct | Indirect & Induced | Total | Share of Total (%) |
|--------------|---------------|-------------------------------|--------------|---------------------------|
| Participants | 1,130 | 1,430 | 2,560 | 32% |
| Hosts | 660 | 1,180 | 1,840 | 23% |
| Spectators | 1,720 | 1,950 | 3,670 | 45% |
| TOTAL | 3,510 | 4,560 | 8,070 | 100% |

THE NATIONAL IMPACT

The study identified national as well as regional economic impacts. It should be noted that national and regional figures are not strictly comparable. For a start, domestic visits to the America's Cup regatta benefit Auckland by transferring spending to the region from elsewhere in New Zealand. That is simply an internal transfer, rather than an impact experienced by the nation as a whole.

On the other hand, the regional multipliers that calculate indirect and induced effects are lower than the equivalent national multipliers because of the significance of imports into the region from other parts of the country to help meet this demand. As the Auckland economy is strong in the marine, hospitality and accommodation sectors supplying the demand associated with the America's Cup, leakage to the national economy might be expected to be relatively low.

The analysis shows that the benefits of the regatta measured for the nation (in terms of value added or contribution to GDP) are 37% higher than benefits to the Auckland Region (Table 4). National employment benefits are only 31% higher, though, because the more labour intensive jobs meeting final demand (as in the hospitality sector) are concentrated in Auckland or close to the site of the event.

Again, the impact is substantial. New Zealand GDP in 1999 was \$98.9 billion, and is forecast to reach \$103.8 billion (New Zealand Institute of Economic Research, June 2000). The economic impact of the America's Cup Regatta, at \$640m, is equivalent to over 0.6% of the 2000 estimate.

Table 4: Contribution to the National Economy

| Contribution: | Auckland | New Zealand |
|----------------------|-----------------|--------------------|
| To GDP (\$m) | 473 | 640 |
| To Employment (FTEs) | 8,070 | 10,620 |

The study also distinguished the short term impact (experienced over the summer of 1999-2000) from the impact over the longer build-up period to the regatta. Overall, some 80% of the impact occurred over the year ending June 2000 (Table 5), the bulk of which was concentrated around the spring and summer months. Applying the \$513m total value added impact to 1999 GDP suggests a contribution to the national economy over the year 2000 of 0.8% (equivalent to 16% of the 4.8% growth forecast by the New Zealand Institute of Economic Research).

Table 5: Timing of Contribution to the National Economy

| Contribution: | Prior to 2000 | YE June 2000 | % in 2000 |
|----------------------|----------------------|---------------------|------------------|
| To GDP (\$m) | 127 | 513 | 80% |
| To Employment (FTEs) | 2,150 | 8,470 | 80% |

THE SOURCES OF THE IMPACTS

One third of regional impacts and 30% of national impacts can be attributed to the activities of the participants; 22% regionally and 20% nationally can be attributed to spending by host organisations; and 45% regionally and 49% nationally can be attributed to spending by spectators. The relatively low national share attributed to host organisations reflects the localised impacts of construction and related works required to develop infrastructure in and around the America's Cup Village and the Viaduct Basin.

The figures highlight the significant amount of spending by both syndicates and local organisers (Table 6). Syndicate spending generated nearly \$150m of value added within the national economy, and the associated committee and sponsorship activities another \$44m.

Table 6: Source of Value Added: Regatta Participants and Hosts

| | Regional | % Regional | National | % National |
|---------------------------|-----------------|-------------------|-----------------|-------------------|
| Syndicates | 125 | 26 | 149 | 23 |
| Organisers & Sponsors | 32 | 7 | 44 | 7 |
| <i>Total Participants</i> | <i>157</i> | <i>33</i> | <i>193</i> | <i>30</i> |
| Hosts | 105 | 22 | 131 | 20 |

Care has been taken to deduct from the analysis any spending on items like local infrastructure and service improvements that would still have taken place elsewhere or in other sectors had the regatta not been staged. Nevertheless, the additional activity identified with arrangements made by host organisations still supported \$131 million of economic activity nationally, and \$105 million within the region.

Several significant points arise from a similar division of impacts attributable to different categories of spectator or supporter (Table 7). First, the greatest total and widest spread of impacts come from the international visitor sector. The regatta's role as a catalyst for international visitors is the basis on which it made its substantial contribution to the national economy. International visitors did not confine their activity or their spending to the Auckland Region as much as the other supporter groups. Hence, demand by international visitors who came (entirely or partly) to see the regatta, or stayed longer than they otherwise would have done in order to see it, generated \$64m in value added regionally and \$164m nationally.

Second, the super-yachts made a substantial contribution – \$118m, or nearly 18% of the total. Third, domestic visits made a significant contribution to the Auckland regional economy, equal to 63% of that associated with the international market. Fourth, “secondary” groups such as business supporters and visiting media made substantial contributions in their own right.

Table 7: Source of Value Added: Regatta Spectators (\$m)

| Source | Regional | % Regional | National | % National |
|------------------------|-----------------|-------------------|-----------------|-------------------|
| Super-yachts | 82 | 17% | 118 | 18% |
| Media | 10 | 2% | 13 | 2% |
| International Visitors | 64 | 14% | 164 | 26% |
| Domestic Visitors | 40 | 9% | 0 | 0% |
| Business Visitors | 16 | 3% | 20 | 3% |
| TOTAL | 212 | 45% | 315 | 49% |

THE DISTRIBUTION OF IMPACTS

The distribution of direct impacts generated by the Regatta among different sectors has also been analysed (Table 8). These direct effects were reasonably widely distributed among sectors (indirect impacts by their nature are much more widely spread among suppliers).

The greatest share of direct and total value added and employment opportunities are associated with the marine sector, followed by the construction and transport sectors. Those sectors that are focused on consumer demand – accommodation, retailing, hospitality and leisure – jointly account for 38% of direct value added (\$67 million) and 47% (or 1,680) of the employment opportunities. A relatively small share of value added accrues within the government sector itself, although of course that sector contributed substantially through funding other activities, especially construction.

Table 8: Sector Distribution of National Impacts

| Sector | Value Added (\$m) | | | Employment (FTEs) | | |
|--------------------------|-------------------|-------------|------------|-------------------|-------------|---------------|
| | Direct | % Direct | Total | Direct | % Direct | Total |
| Marine | 34 | 18% | 127 | 700 | 18% | 2,100 |
| Construction | 14 | 7% | 92 | 390 | 10% | 1,590 |
| Transport | 25 | 13% | 80 | 240 | 6% | 1,060 |
| Accommodation | 20 | 12% | 64 | 570 | 15% | 1,260 |
| Retailing | 21 | 11% | 57 | 420 | 11% | 930 |
| Restaurant & Hospitality | 16 | 8% | 51 | 460 | 12% | 1,010 |
| Other | 14 | 7% | 48 | 210 | 6% | 690 |
| Government | 11 | 6% | 34 | 230 | 6% | 600 |
| Entertainment & Leisure | 10 | 5% | 33 | 230 | 6% | 600 |
| Business & Household | 11 | 6% | 30 | 270 | 7% | 560 |
| Media & Communication | 13 | 7% | 24 | 90 | 3% | 230 |
| TOTAL | 189 | 100% | 640 | 3,820 | 100% | 10,620 |

CONCLUSION

This analysis has concentrated on the quantification of the economic impact of the America's Cup Regatta. A variety of other, less-readily quantifiable or more far-reaching impacts are beyond the scope of this work, but are nevertheless real.

In terms of long term benefits, the "advertising equivalent" of the publicity gained for Auckland and New Zealand as international tourism destinations is bound to have been substantial. The standing of the region as a place of international sport and recreation should reinforce any gains from this. The credibility and publicity accruing to the marine industry should have far-reaching effects, which will continue to positively influence regional and national economic indicators.

In terms of less tangible benefits, the boost given to the quality of the Auckland downtown environment, as a residential setting, a recreational precinct and as a focus for consumer services has no doubt been substantial, if only judged by the commitment of households, consumers and businesses to the area. Furthermore, this has reinforced and possibly accelerated the Auckland Regional Growth Strategy's objectives of fostering the redevelopment of central areas for medium density residential purposes. The advantages of the impetus given to this regional priority will accrue in consequent efficiency gains in urban form and regional transport.

Potential benefits to residents from the opportunity to view the regatta and associated activity, issues of international exposure and prestige, and a focus for joint commitment by private developers and the public sector also affected the programming of improvements to downtown infrastructure. Where stormwater and underground infrastructure services have been improved as a result (whether or not this would have happened in due course) there are benefits to the physical environment that are not counted as economic impacts.

The satisfaction Aucklanders and New Zealanders might share in the successful staging of a global event (over and above the pride of retaining the Cup) is another less tangible advantage. This, too, can be reflected in a continuing increase in the intensity of use of the Harbourside and Downtown areas.

It can be concluded that a total impact of \$473m dollars added to regional GDP and \$640m added to national GDP over the period during which preparations and the regatta took place means that much of the immediate advantage from the spending associated with the Regatta accrued in the form of local economic stimulation underpinning the longer and more diffuse benefits from the event.

