

Gaming: an economically significant industry¹

Since the late 1980s, the gaming industry has undergone major changes. Previous to the introduction of Lotto in July 1987 most gambling involved a visit to the TAB or buying a Golden Kiwi ticket.

The social and economic costs and benefits of gaming are difficult to measure as official statistical information on the industry is limited. Detailed financial information is often hard to access for reasons of commercial sensitivity and in some sectors information is difficult to gather due to large numbers of small operators, eg individual racing clubs. In order to determine the economic significance of the industry, other sources as well as official statistics must be examined.

(Figure 1 shows the introduction of the different forms of gambling.)

Spending and turnover

Lotto first began in August 1987 and the Lotteries Commission reported \$248.5 million total sales revenue in the 1987/88 year. In the year ended June 1998 Lotto and Lotto Strike sales had grown to \$473.2 million and total revenue was \$638.7 million, a 157 percent increase from 1987. In 1987/88 the amount of profit distributed by the Lotteries Commission to community groups was \$26.8 million. In 1997/98 this had increased to \$137 million, up 411.2 percent.

The amount households or individuals spend on gambling is influenced by changes in

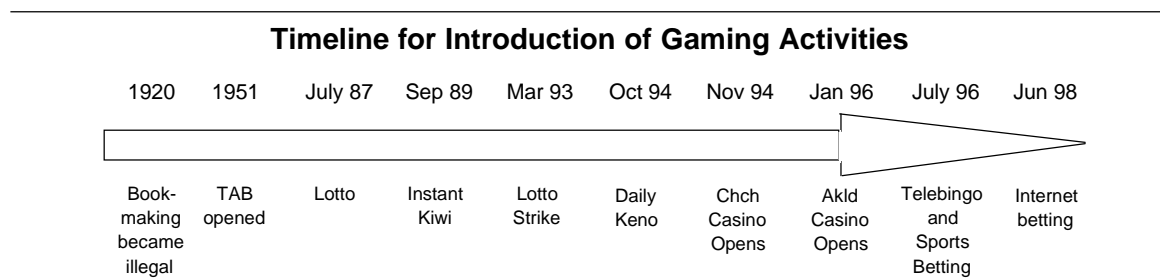
discretionary income. (See Figure 2 for factors affecting discretionary income.) According to the Department of Internal Affairs, participation in most games increases as income increases, although Daily Keno and housie have more players in low-income brackets. The regulatory regime also influences levels of spending by determining accessibility to gaming eg current legislation prohibits anyone under the age of 20 from gambling in casinos.

The Household Economic Survey (HES) reported that in the year ended March 1998, average household expenditure on all forms of gambling was \$6.50 per week, or a total of \$338 per year per household. This is up 11.9 percent from the \$5.81 per week – or \$302 per year – reported in 1989. Total spending on gambling is reported in the HES to be \$391.9 million per year (gross). Based on population estimates this works out at \$103 per year per person.

Meanwhile, the Department of Internal Affairs reported that in the 1997/98 year New Zealanders spent over \$1 billion on gambling. This figure is net of the amount paid back in winnings and in weekly terms amounts to about \$20.5 million a week, or \$5.39 per person per week (\$280 per year). This is substantially more than the expenditure per person based on HES data. It is thought that HES respondents may find it difficult to determine the amount they have spent on gambling, because some of the money spent is returned as winnings.

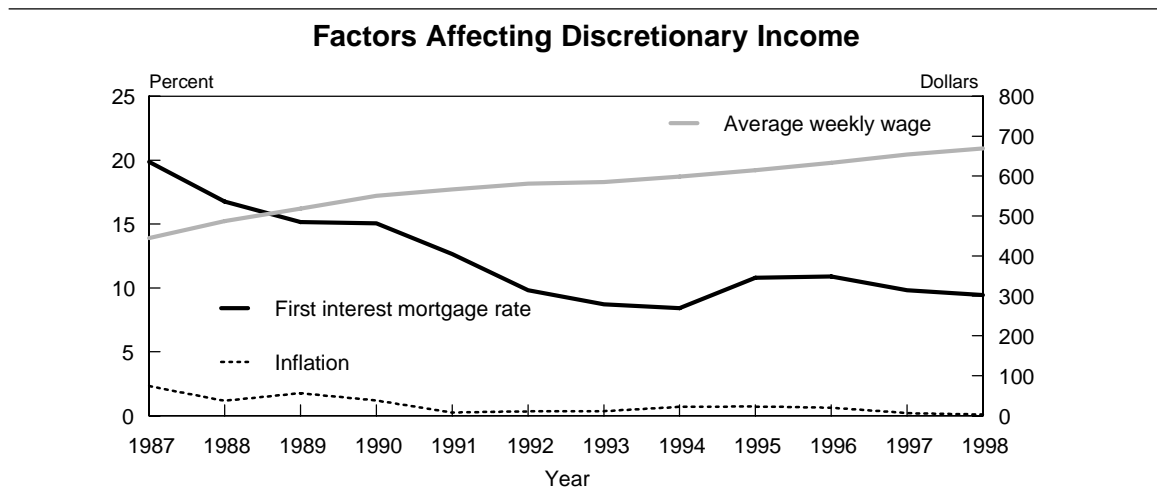
In 1998 total gaming industry turnover was \$6.1 billion, the Department of Internal Affairs

Figure 1



1 This article was prepared by Melina Curtis, Economic Statistician, Business Statistics Division of Statistics New Zealand.

Figure 2



reported. Based on population estimates, this equates to almost \$1,604 for every New Zealand citizen per year, or \$31 per week. This amount includes a churn factor, ie a situation where a person spends some money on gambling, wins a prize and then reinvests it in further gambling. (Figure 3 shows estimated total gaming turnover per year from 1979.)

The sharp rise in gambling turnover from 1994 onward can be attributed to the number of new games and forms of gambling introduced to target specific interest groups. It may also indicate a move away from games with a low churn factor, such as lottery tickets, to games with a high churn factor, such as gaming machines. In a survey commissioned by the Casino Control Authority and conducted by the Australian Institute for Gambling Research in 1998, Auckland and Christchurch residents were found to have increased their participation in gambling when compared to results of a survey

in 1995. The 1998 survey also found a big increase in the number of people spending over \$1,000 per year on gambling since 1995. (Auckland - 20.1 percent of participants; Christchurch - 22.4 percent of participants).

The number of gaming machines in New Zealand is also likely to be increasing. In December 1998 the *Christchurch Press* reported that gaming machines could be found at 2,400 sites. In January 1999 there were 13,258 individual gaming machines outside of casinos and 1,549 in casinos. (Figure 4 shows the proportion of total turnover by major gaming providers in 1998.)

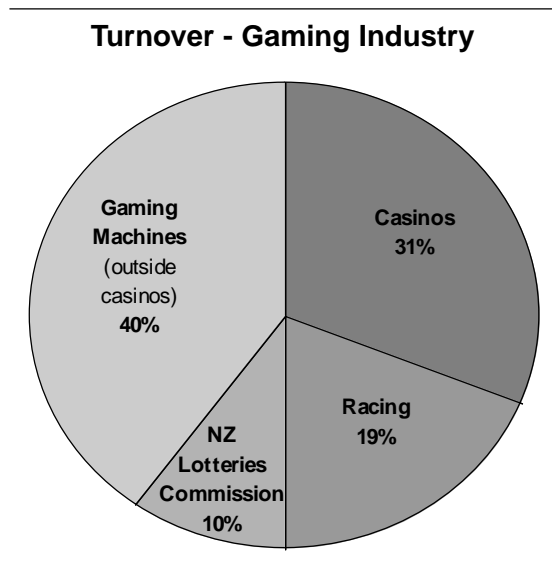
Legislative review

In 1994 the government initiated a review of all forms of gaming and their social and economic impacts. The review was intended to develop an appropriate policy and

Figure 3



Figure 4



regulatory framework against which current and new forms of gaming could be assessed and within which they could operate.

The policy focus has since shifted from completion of the review to addressing specific industry concerns regarding gaming regulations including:

- A statutory monopoly situation within certain areas of the industry. For example, the TAB is the only organisation that can legally offer betting on racing but it may not provide games like those offered by the Lotteries Commission, and it is not allowed to operate gaming machines. Meanwhile, the Lotteries Commission can't provide services such as those provided by the TAB and can't operate gaming machines. Changes to the regulatory framework could alter the scope and character of the industry and potentially lower prices and raise consumption of gaming services.
- Problem gambling is a concern with many pressure groups advocating more control over the industry. A committee on problem gambling management with representatives from the gaming industry and treatment providers decides how much funding the industry will pay to fund treatment programmes each year. Gaming machine societies must pay a yearly levy on every licensed machine, while other gaming operations make a voluntary contribution.

Other issues

Casinos

A moratorium on new casinos was passed in December 1997 and is retrospectively effective from October 1997. It prevents the granting of new casino licences until October 2000, pending the reform of gambling legislation. Some licence applications, however, were submitted before that date and approval has been granted for two casinos in Queenstown, and a casino in Dunedin due to open on 1 October 1999. This will bring the total number of casinos in New Zealand to five. There is one licence application outstanding, for the Hamilton Riverside Casino.

There has been a range of reaction to the opening of new casinos. The Christchurch casino, opened in November 1994, and the Auckland casino, opened in January 1996, both attracted little controversy. The Dunedin casino (although not open yet) has also generated relatively little negative publicity. Many people have, however, opposed the granting of consents for the Queenstown casinos and in Hamilton the prospect of a casino has not been well received by the local bodies.

With the ongoing introduction of private casinos in New Zealand, charitable organisations benefiting from the assistance of gaming profits may find that the pool of money available to them shrinks. Because they are privately owned, casinos are not required to distribute profits to charitable causes. They do however, pay income tax.

If the industry was completely deregulated, other gaming providers would probably also be required to pay income tax and the statutory requirement for them to distribute profits to community organisations would largely be done away with. The net impact of this on the economy and on society is unknown. The government receives about \$122 million a year from gaming duties as well as \$68 million in GST (1995 Internal Affairs Discussion Document).

Impact on tourism

Legislation states that one of the aims of casinos is to promote tourism, employment and economic development. It is difficult though to measure the impact of casinos on New Zealand tourism. The 1998 survey by the Australian Institute for Gambling Research found that 73 percent of casino patrons in Christchurch were New Zealand residents, and 86 percent of Auckland casino patrons were New Zealand residents. The survey also found that less than

20 percent of overseas visitors went to a casino. There is no information available to assess whether tourists would come to New Zealand solely to go to a casino. It is difficult to determine whether tourists spend at casinos at the expense of spending on other goods and services.

Impact of technology

Telephone betting has become a popular option for TAB customers, with "phonebets" accounting for 34.5 percent of the TAB's racing and sports turnover in the 1997/98 year (TAB Annual Report). In June 1998 the TAB launched Internet betting in the hope of attracting more revenue from international sports and racing fans. The launch of the TAB website may end up having the opposite effect to that intended on New Zealand's gaming revenue if other gambling sites on the Internet appeal to the New Zealand gambler more than New Zealand's gaming sites.

Employment in the gaming industry

Demographic business statistics show the number of gaming service providers in 1998 was 813. This includes casinos, TAB sites and race-tracks, but doesn't include situations where Lotto terminals are operating within supermarkets or stationery shops, or where there are gaming machines or TAB outlets in hotels or clubs. According to the Lotteries Commission's 1998 Annual Report there are about 590 Lotto outlets and the Commission's 1997 Retailer Survey reports 3,500 people employed by retailers to sell Lotto products, half of whom are part-time employees. The number of units providing gaming services in 1998 is estimated at over 3,800 (this doesn't include TAB outlets in hotels).

Between 1987 and 1994 the number of full-time equivalents (FTEs) classified as being employed

in the gaming industry decreased 3.7 percent, and between 1994 and 1998 increased 68 percent. In February 1998 there were 3,921 full-time employees and 1,872 part-time employees in the gaming industry. These figures don't include employees at Lotto outlets or those in hotels or clubs where there are gaming machines or TAB outlets. (Figure 5 shows the percentage change in the number of FTEs. The large jump in 1997 is due to the opening of the Sky City Casino.)

It is difficult to predict changes in gaming industry employment. While new casinos will provide new jobs, changes in technology may have an adverse impact on employment. It is also difficult to determine the flow-on effects of employment in the industry. Many jobs are indirectly created, eg construction work for new establishments.

Conclusion

The future of the gaming industry looks positive in economic terms. It is still in the growth stages and the contribution gaming makes to New Zealand GDP may increase. There are social costs but the industry is positively impacting on areas such as tourism and employment, and contributing to both local and national economies.

References

Department of Internal Affairs (1995), *Review of Gaming: A Discussion Document*
 John Markland (1996), "Gaming in New Zealand", *Social Policy Journal of New Zealand*, issue 7, December
 NZ Lotteries Commission Annual Reports
 TAB Annual Reports

Figure 5

