

US Department of Commerce, Office of Consumer Goods 2005 SPORTING AND ATHLETIC GOODS Outlook

Current Industry Trends

The U.S. sporting goods market has experienced modest growth in recent years, as real apparent consumption has grown 3 percent annually from 2000 to 2005. The baby boom generation, who has driven sales over the last 25 years, are no longer purchasing sports equipment in a robust way, as they did when it dominated the trends in the industry. For the past 30 years, the effect has been positive on sports equipment sales as the baby boomers have had a strong desire to participate in sports and stay fit. In the 1970's, baby-boomers were in their teens and twenties and strenuous activities like running, football, and tennis had all-time high participation totals. In the 1980s, the generation mellowed a bit, as its members swelled the ranks of the thirty somethings, pushing such activities as weight training, baseball, and softball to peak participation rates. In the 1990s, with baby boomers reaching middle-age, fitness activities, like walking, and exercising with equipment, were the most popular forms of sports recreation. Now this generation is running out of steam as sales have barely matched the growth of the economy.

A changing retail environment is also affecting sports equipment sales. A major problem for the industry is an over-saturation of retail space. There are more places and more choices for consumers wanting to shop. This has created a survival of the fittest mentality in the sports retail business, with the large super-sporting-goods store winning most of the battles. Many retailers have opted super-size themselves into larger stores; some even creating a “shoppertainment” format with such in-store features as climbing walls, golf driving ranges, and exercise facilities. The large-store format chains have also continued to increase the number of outlets. These chains are not only affecting their competitors but also wield substantial power over the manufacturers on both price and product offerings. Price inflation has actually decreased over the past few years. The producer price index for sports equipment declined 4 percent from 1998 to 2004. Many manufacturers find themselves in a partnership with retailers, yet most of the power is on the retailers side. However, these partnerships can give manufacturers some security knowing what the retailer will purchase over the next several years.

Current Domestic Situation

The single major factor affecting the growth of U.S. sports equipment consumption and U.S. manufacturers' shipments in recent years has been the steady growth of disposable income. Constant-dollar product shipments of sporting and athletic goods are expected to grow three percent in 2005 after an estimated four percent growth in 2004. Apparent consumption in real terms was up an estimated five percent in both 2004 and 2005, over preceding years. The growth of apparent consumption of sporting and athletic goods has been aided by higher personal income. Over the last five years, real disposable personal income (DPI) increased five percent annually from 1999 to 2004. During the same period, real personal consumption expenditures for sporting goods increased six percent annually. Real DPI grew 2.4 percent during the first quarter of 2005 over the same period in 2004. As a result, consumers had more income to spend on sports activities.

However, much of the growth in sports equipment spending was captured by imports, as U.S.

imports grew nine percent in 2004 and are expected to increase an additional seven percent in 2005. Overall, imported sporting goods are manufactured at lower costs, since labor costs in major sporting goods-producing countries like China, Pakistan, and Indonesia, are significantly lower than labor in the United States, and labor is a significant cost in the production process for sports equipment. Therefore, more manufacturers are choosing to import products so that both wholesale and retail prices are more attractive to retailers and consumers. However, many sports equipment manufacturers continue to employ U.S. workers. There are significant non-labor costs in the production of sports equipment, including product engineering, corporate management, and marketing. Total domestic employment in the sports equipment industry has declined 1 percent from 1999 to 2004. Over the same period, production worker employment declined 4 percent. In fact the employment of non-production workers grew 4 percent of the same period. With aggressive price competition and many manufacturers importing similar products from the same countries, manufacturers are trying to gain an advantage over the competition through advertising and product innovations. Manufacturers have kept these jobs in the United States so that they can respond to changes in their most important market, the U.S. sports equipment market.

Major Industry Segments :

Golf Equipment

In 2004, current-dollar domestic shipments of golf equipment totaled an estimated \$3.1 billion, up three percent in constant dollars from 2003. Imports of golf equipment jumped eight percent to reach \$974 million, while exports grew only one percent to about \$652 million (\$322 million trade deficit). While U.S. companies continue to design products that appeal to the world's consumers, more and more of these U.S. engineered golf clubs are being produced in China. Since 2001, several manufacturers have moved production from the U.S. to Mexico, and eventually to China. These manufacturers initially moved to Mexico to take advantage of lower wage rates and duty-free tariffs resulting from the North American Free Trade Agreement. However, even lower wages in China have enticed some U.S.-brand manufacturers to move their production to China, since the common tariff on most golf equipment is only 3.1 percent. Labor is an important factor in production only because the construction of a golf club is so simple. However, the true value of the club lies in the research and development, and brand identity. The major golf companies spend far more economic resources on designing a great product and having it endorsed by professionals than is spent on the assembly of the club. As a result, many other companies try to copy these successful designs both legally and illegally. When the large manufacturers like Calloway, Nike, Adams, Ping and Taylor-Made create a design that excites the American market, they need to bring it to market in the most cost efficient way or lose market share to imitations.

Apparent consumption of golf products totaled an estimated \$3.4 billion in 2004, up five percent in real terms. The demographics of the United States have played a large part in the growth of consumption. In the late 1990's, the baby boom generation had high levels of disposable income at a time when their leisure time was also high. Golf participation statistics peaked in 2000 while sales were also strong. Despite the level of disposable income for the age group now slowing down slightly, sales have not declined. Perhaps this is owned to the fact that golf is an equipment intensive activity with participants eager to have the proper tools to maximize their golfing talent. Recent product innovations like bigger, lighter golf club heads have driven

increased demand in revolutionary new equipment, raising the interest of golfers. In addition, these trends have been hard to copy without the use of high-quality expensive raw materials like titanium and other composites. Therefore, golfers have had to pay more for the latest popular improvements.

Fishing Tackle and Equipment

In 2004, apparent consumption of fishing equipment was estimated at \$1 billion, up seven percent in real terms from 2003. This increase reflected a 16 percent growth of U.S. imports of fishing equipment, which totaled \$487 million. Current-dollar domestic product shipments were an estimated \$670 million, up two percent in constant-dollars. The growth of imports and the domestic market are likely attributed to an improvement in the retail market which had been saturated with surplus equipment in the late 1990's and the early part on this decade. While the overall participation in fishing activities has declined slightly, sales have increased thanks in large part to the baby boom generation. Fishing is a popular activity among the retiring individuals of this generation as it is less strenuous than other sports activities. In addition, the coverage of sports fishing competitions on cable television has increased. These shows and the accompanying commercials highlight the latest and greatest fishing products which have benefited consumers who only fish occasionally, to choose the best product for his or her needs. Hopefully, in the future, more youthful participants will also be attracted by these televised competitions. Lastly, U.S. exports of fishing equipment increased 31 percent in 2004. U.S. manufacturers produce high quality fishing items whose prices tends to fluctuate significantly from year to year but remain relatively constant measured over longer periods of time. In fact the level of U.S. exports of sport fishing products from 1999 to 2004 declined by one percent annually.

Exercise, Gymnastic, and Playground Equipment

The exercise and fitness sector, now the largest part of the sporting goods industry, has grown the fastest among major industry segments. Real apparent consumption grew at an estimated compound annual rate of 4 percent from 1999 to 2004. Imports of fitness equipment increased 16 percent, totaling \$1.2 billion in 2004, while exports of exercise equipment increased 23 percent to \$455 million. Current-dollar shipments reached an estimated \$3.5 billion in 2004, an increase of 4 percent in constant-dollars. However, overseas consumers were very interested in more sophisticated products, such as cross-country ski machines, treadmills, and stair climbers, that typically are manufactured in the United States.

In the United States, the physical fitness market has been driven by a series of industry and social trends that have contributed to the strong growth. One trend is the growing number of individuals who participate in exercise for its overall health benefit. A second trend is the move toward shorter workouts. With the busy life of urban professionals, these individuals seeking exercise opportunities want short "express" workouts that typically are 20 minutes or less. Fitness clubs like CURVES 1,2,3 Fit, and CUTS, offer programs to improve your health and physique with short specific workouts. In addition, there are videos and other programs that try to make it easier for those fitness enthusiasts with busy lifestyles. Other growing trends of the fitness industry are mind and body exercises like yoga and pilates, and the increasing use of personal trainers both in person and through video and online methods. These trends have opened up new opportunities in the market for more entrepreneurs and companies that are

willing to specialize in a particular activity.

Other Sporting and Athletic Goods

This category includes all other sporting goods products, including ski, water sports, and team sports equipment. Major segments of this category include snowboarding, skateboarding, soccer, bowling, and billiards. Snowboarding participation nearly grew 30 percent from 1998 to 2004 to total 7.1 million participants according to an Sporting Goods Manufacturers Association (SGMA) survey. The inclusion of snowboarding in the Winter Olympic Games since 1998 and the growing popularity of the Winter X-Games have helped fuel the growth of this market segment. The summer X-Games and other similar competition has helped fuel the growth of skateboarding which climbed 47 percent over the same 1998-2004 period. The growth of these sports have likely come at the expense of downhill (alpine) skiing and bicycling which have declined 15 percent and 5 percent respectively over the same periods according to the SGMA study.

In the 1970s, soccer was forecast to be a major spectator sport and participatory activity. However, the sport is just now close to meeting those lofty claims. Participation in soccer increased 3 percent between 1987 and 2004, reaching 15.9 million participants. The U.S. teams' participation, both men and women, in World Cup competitions has attract more participants over the last few years. In addition, the development of a first-rate professional league (Major League Soccer-MLS) has enticed kids to stay involved in the sport. Based on participation statistics of the NSGA, soccer is the number one team sports activity for individuals aged nine and below. However, the sport has lost participants and spectators to basketball, football, and baseball as these children have grown older. However, several factors are changing that trend. The percentage of the U.S. population that is of Asian and Hispanic descent is growing significantly. Individuals of Hispanic and Asian descent are now 17 percent of the total population in 2005, compared to 12 percent in 1990. These cultures typically have a high penchant for soccer and are not likely to give up the sport.

[Sports Equipment Trends Table]

[Table 1: Major Sports Industry Segments Trends]

[Sports Equipment Trade Patterns Table]

International Trade

The U.S. sports equipment industry is focused on global competitiveness, especially in terms of the manufacturing process. The production process of sports equipment is diverse in that there are varying amounts of labor and capital needed to manufacture the different types of sports products. Sports balls are a good example of varying cost of production inputs. Inflatable and stitched balls like basketballs and baseballs require a high degree of labor intensity, while solid and non-inflatable hollow balls like golf balls and tennis balls rely on more capital or machinery. As a result, U.S. industry manufactures and competitively exports many capital intensive products, like golf and exercise equipment, from factories in the United States. Labor-intensive products, like baseball and fishing equipment, tend to be manufactured overseas through licensing contracts or joint ventures, since labor costs are lower in many of the less-developed countries, and imported into the United States. U.S. manufacturers rely on imported products to complete product lines; the import-to-apparent consumption ratio was 36 percent in 2004. This

is an increase from the ratio of 2000 which was 31 percent and the ratio of 1990 when the import-to-apparent consumption ratio was 27 percent.

In 2004, China was the largest foreign supplier and sold \$3.1 billion of sporting goods to the United States, an increase of 16 percent. U.S. imports from Taiwan were up one percent in 2004, as Taiwan remained the second largest foreign supplier at \$412 million. China and Taiwan combined accounted for 68 percent of U.S. imports, up from 65 percent in 2003. Many sporting goods firms are changing their source for imports from Taiwan to China to take advantage of lower labor costs in China. U.S. sports equipment imports from Canada, the third-largest foreign supplier, totaled \$312 million, down 11 percent, and accounted for six percent of total imports. U.S. sports equipment imports from Mexico, the fourth-largest foreign supplier were \$191 million, accounting for four percent of total imports. Some U.S. companies may prefer to have production in Mexico as a way to be closer to the U.S. market and take advantage of the lower import duties and lower wages, relative to U.S. wage rates.

Many of the products that have a capital-intensive production process and that are made in the United States are price-competitive worldwide. The export-to-shipment ratio for the U.S. sports equipment industry was an estimated 16 percent in 2004. U.S. exports totaled \$1.9 billion in 2004.

U.S. exports to Canada accounted for the largest share of total U.S. sports equipment exports in 2004, 20 percent, totaling an estimated \$369 million, virtually unchanged from 2003. Canada was the largest foreign market for exercise equipment as U.S. exports of exercise equipment totaled \$112 million or 30 percent of U.S. exports of sports equipment exports to Canada in 2004. The United Kingdom was the second largest market for U.S. sports equipment exports, as exports to the United Kingdom climbed 12 percent to \$278 million. The United Kingdom was the largest foreign market for golf equipment as U.S. exports of golf equipment totaled \$169 million. Japan was the third largest market for U.S. sports equipment exports, as exports from Japan fell two percent to \$254 million. Japan was once the largest market for U.S. sports equipment, but U.S. sporting goods exports peaked at \$634 million in 1996. The financial crisis weakened the Japanese market in the late 1990's, and it has not recovered as Japanese consumers now spend far less on all recreational activities as they once did. Australia and the Netherlands are the fourth and fifth largest markets for U.S. exports of sports equipment, totaling \$89 million and \$75 million and growing 23 percent and 24 percent respectively in 2004.

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