

- Sunday December 21st 2008
- Home
- This week's print edition
- Daily news analysis
- Opinion
 - All opinion
 - Leaders
 - Letters to the Editor
 - Blogs
 - Columns
 - KAL's cartoons
 - Correspondent's diary
 - Economist debates

- World politics
 - All world politics
 - Politics this week
 - International
 - United States
 - The Americas
 - Asia
 - Middle East and Africa
 - Europe
 - Britain

- Special reports
- Business**
 - All business
 - Business this week
 - Management
 - Business education

- Finance and economics
 - All finance and economics
 - Economics focus
 - Economics A-Z

- Markets and data
 - All markets and data
 - Daily chart
 - Weekly indicators
 - World markets
 - Currencies
 - Rankings
 - Big Mac index

- Science and technology
 - All science and technology
 - Technology Quarterly
 - Technology Monitor

- Books and arts
 - All books and arts
 - Style guide

- People
 - People
 - Obituaries

- Diversions
- Audio and video
 - Audio and video library
 - Audio edition

- The World In
 - The World in 2009
 - The World in 2008
 - The World in 2007
 - The World in 2006
 - The World in 2005
 - The World in 2004

- Research tools
 - All research tools
 - Articles by subject
 - Backgrounders
 - Economics A-Z
 - Special reports
 - Style guide

- Country briefings
 - All country briefings
 - China
 - India
 - Brazil
 - United States
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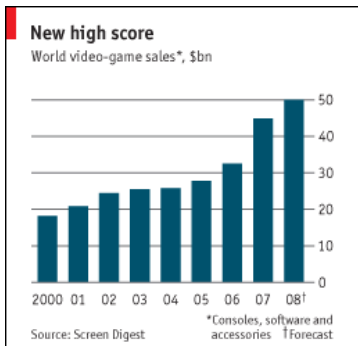
Video games

Play on

Dec 18th 2008
 From *The Economist* print edition

Video games have proved to be recession-proof—so far, at least

IS IT any surprise that an industry that enables its customers to escape from reality into elaborate fantasy worlds is thriving in today's gloomy economic climate? As other industries collapse, sales of video games are racing away. Global sales of console hardware and games software are expected to hit a record \$49.9 billion this year, says Screen Digest, a consulting firm (see chart). Games sales in America in October totalled \$697m, 35% more than a year earlier, according to NPD, a market-research firm. It is often said that video games are recession-proof. Are they really?



Video gaming is isolated from the wider economic cycle by having a cycle of its own. Every few years a new crop of consoles is launched, spurring a wave of sales as gamers upgrade. (Today's set consists of Microsoft's Xbox 360, launched in 2005, and Sony's PlayStation 3 and the Nintendo Wii, which both appeared in 2006.) During the cycle the prices of the consoles fall, bringing in more buyers. Each cycle is bigger than the last as gaming becomes more popular and the average gamer becomes older and richer.

The industry has another layer of recession-proofing in that its biggest-spending customers are typically young men (the average gamer is around 30) with high disposable incomes who regard gaming as an important part of their lives, rather than a form of discretionary spending, says Piers Harding-Rolls of Screen Digest. There was no sign of weakness during America's previous recession, in 2001, he notes, though the industry was smaller than it is now.

Now that gaming has become more popular—a survey by the Pew Internet & American Life Project found that 53% of American adults play video games of some kind, for example, along with 97% of teenagers—it seems to be doing well despite the economic downturn for an extra reason: it offers a relatively cheap form of entertainment that can be consumed at home. Alex Evans of Media Molecule, the British studio behind "LittleBigPlanet", a popular PlayStation 3 game, says people in the industry believe gaming has benefited from the rise of the "staycation", or stay-at-home holiday. It is much cheaper to escape into the world of "Fable II" for a week than to go abroad.



But is there trouble brewing? In the past few months big games publishers have announced lay-offs, losses and the cancellation of many titles. The industry's two giants, Electronic Arts (EA) and Activision Blizzard, announced losses of \$310m and \$108m respectively in the most recent quarter. THQ, another big publisher, lost \$115m. On December 9th EA said its revenues and profits would be lower than expected in 2009, owing to disappointing holiday sales. It said it would cut 6% of its workforce and focus on fewer games.

It is too soon to say whether this signals a wider slowdown. It is not unusual for firms to lay people off at this stage of the console cycle, says Mr Harding-Rolls. At the start of the cycle, he says, publishers "go all out for investment, trying to produce ideas, then at a certain stage in the cycle they pare down." EA has also suffered because it spread itself too thinly, making too many mediocre games. As retailers try to conserve cash and minimise inventories, many are restocking only the fastest-selling games. This has hurt EA, which had just one game in the American top ten in October and November, according to NPD. Hence EA's plan to concentrate on a smaller number of higher-quality titles.

EA also failed to anticipate the success of the Nintendo Wii, the most popular of the three consoles in the current cycle. (The Wii's intuitive, motion-sensitive controller

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means even non-gamers are prepared to give it a try.) Instead, EA and other large publishers have invested heavily in creating games for the Xbox 360 and PlayStation 3, both of which have high-definition graphics that increase the cost of designing games to \$15m-25m or more. Failure to control development costs may also have contributed to the publishers' woes.

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The November sales figures from NPD present a mixed picture. Software sales in America were up 11% on a year earlier, far below October's 35% growth, but hardware sales grew by 10%, against 5% in October. Given the large number of high-quality games released in October, and the fact that consoles cost far more than individual games, it is unclear whether this signals a slowdown or a pre-Christmas shift from software to hardware purchases.

The big question, says Mr Harding-Rolls, is whether the newcomers brought into the market by the Wii will keep buying games. The Wii's great strength—its broad appeal—could turn into a weakness, because less committed gamers will be quicker to cut back. Ominously, in Japan, where the Wii and Nintendo's hand-held console, the DS, have proved particularly popular with gaming neophytes, sales have slowed sharply since October. Gaming may look recession-proof so far, but that could change in 2009.

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