

# The Growth Trends in Macau's Gambling Industry: A Scenario Analysis

Macau Polytechnic Institute

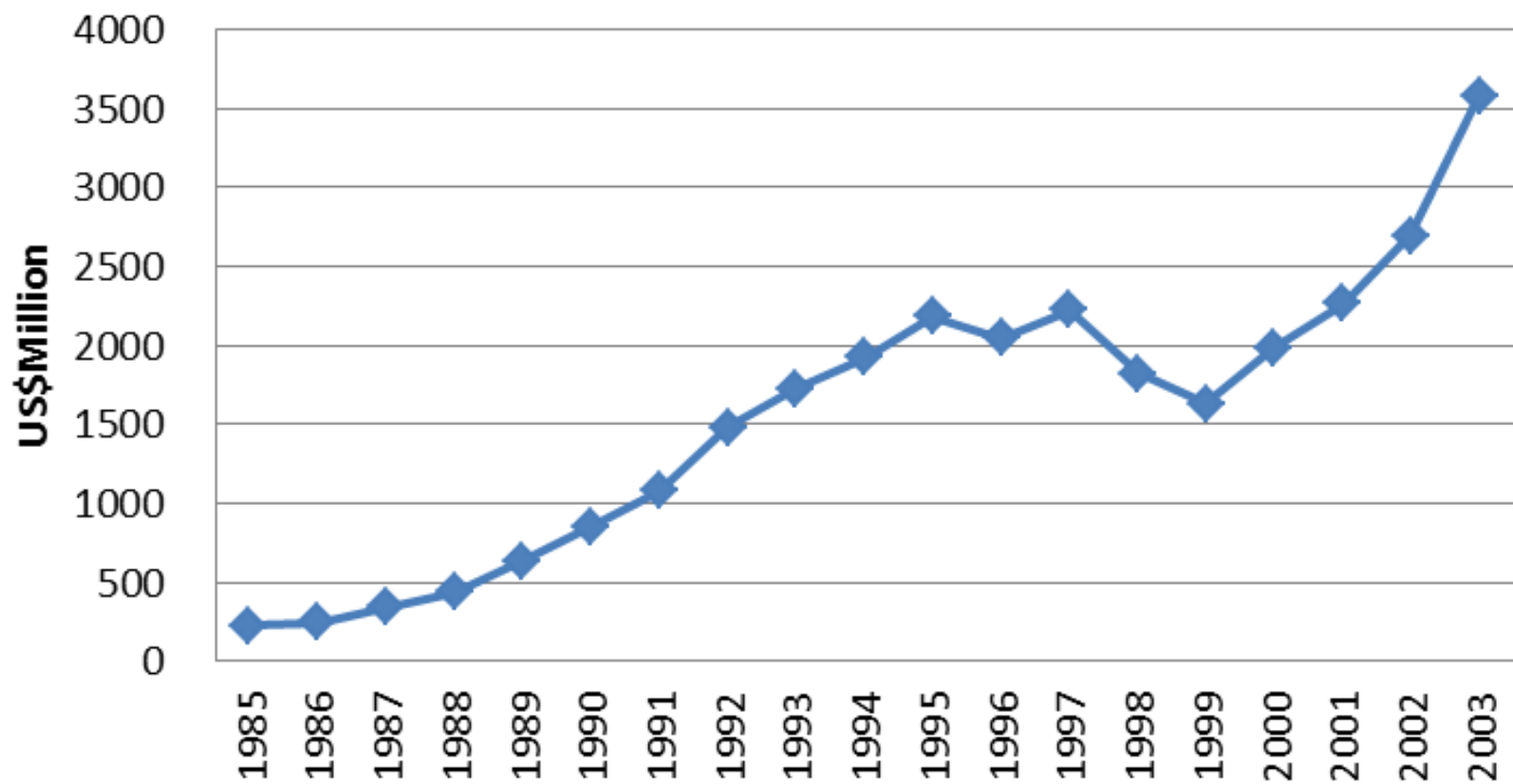
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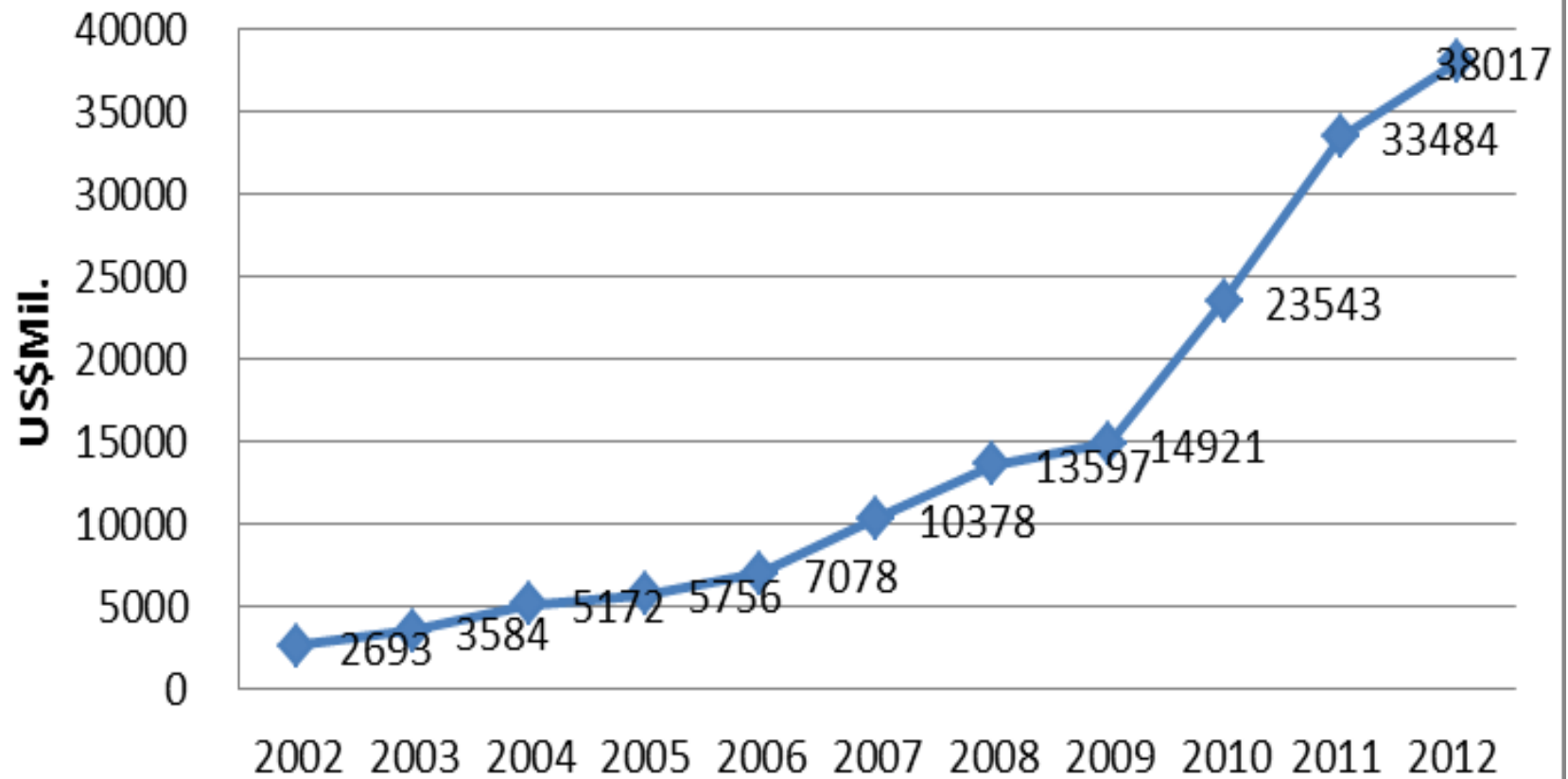
# **Macau's Gambling Industry: A Brief Review**

- Macau's gambling industry has experienced tremendous growth in the past 27 years. In 1985, the gambling revenue was only US\$0.23 billion; in 2012, the figure reached US\$38 billion. The compound annual growth rate is 22%.

## The Growth of Macau's Gambling Rev



# The Growth of Macao's Gaming Revenue



# What about the future of Macau's gambling industry?

- To understand this question is very important for both policy makers and investors. To answer the above question, I'll analyse two scenarios, a high growth scenario and a low growth scenario. I define the high growth scenario as a growth rate of more than 10% annually and a low growth rate as a growth rate of less than 10% annually. The timelines to be studied are the short term (within 5 years), intermediate term (5-10 years), and the long term (more than 10 years).

- We may believe the most likely scenario is the high growth scenario: in the past 27 years, the high growth was almost uninterrupted except for 3 years, 1996, 1998 and 1999 when Hong Kong and Macau were to be returned to China and there was uncertainty about the future of the two cities. There would have to be strong argument if we were to think that this sustained upward trend would stagnate or reverse.

- On the other hand, we might think the low growth scenario will be more likely: the world is changing fast, what happened in the past cannot guarantee the continuation of the future.

- To consider what scenario is more likely to prevail, we need to study the driving forces behind scenarios. As the visitors from Mainland and Hong Kong are the two most important forces, I'll focus my discussion on the growth trend of the two visitor groups and their probable future gambling propensity.



# Forces Supporting High Growth Scenario

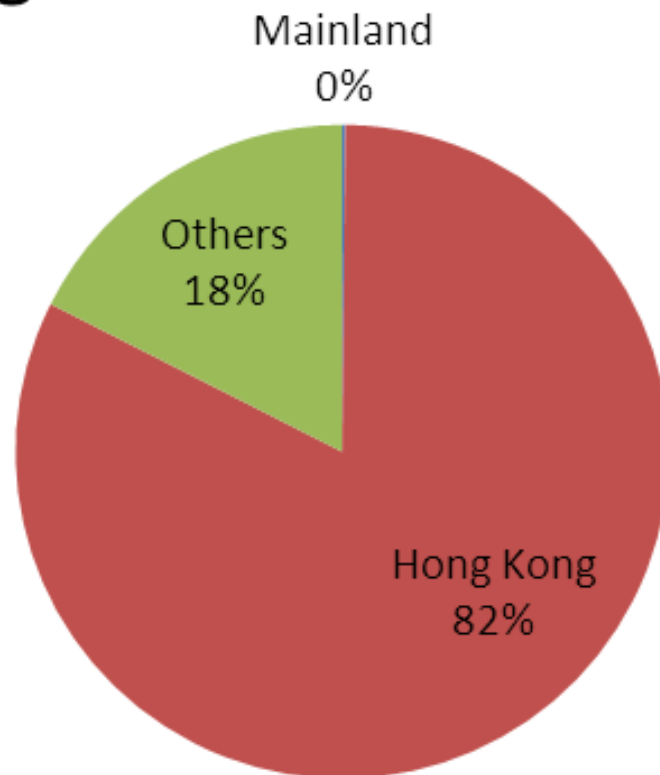
# New Visitors

- The growth of Macau's gambling industry has been sustained by visitors from new origins. When old visitors were less interested in gambling, new visitors full of enthusiasm came in. This can be seen from the changes of Macau's visitor structure.

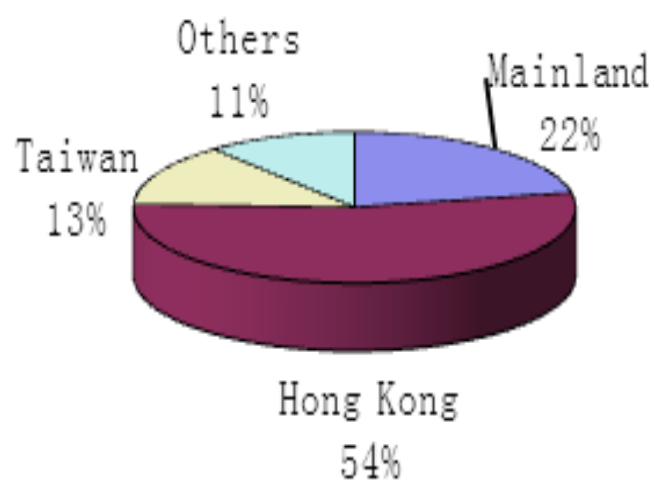
# Dominance of HK Visitors

- Before 2003, Macau's visitors were dominated by visitors from Hong Kong. From 1985 (earliest data available) to 1992, more than 80% of Macau visitors were from Hong Kong.
- In 1999, the year when Macau was returned to China, the percentage was 54%.
- In 2012, Hong Kong visitors accounted for only 25%, while Mainland visitors accounted for 60%.

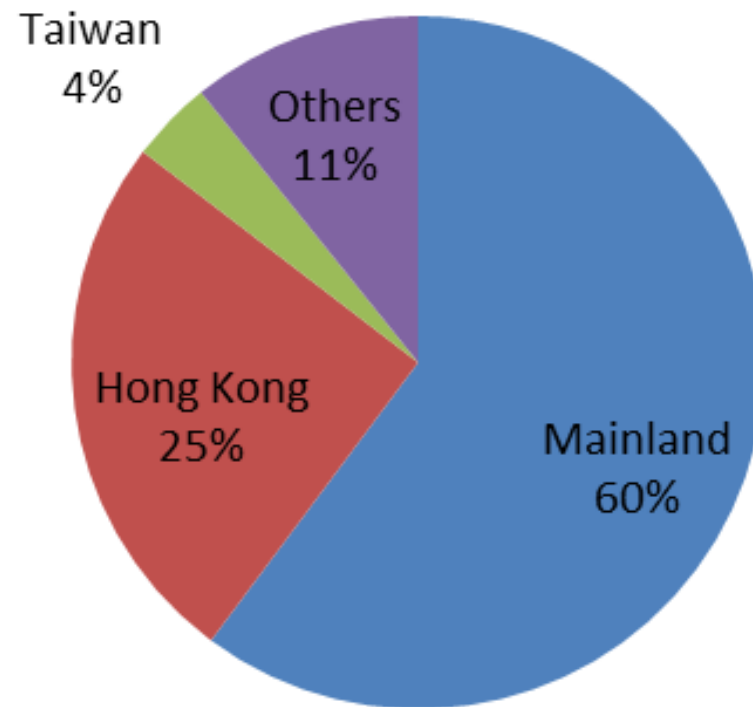
## Percentage of Visitors to Macau, 1985



### The Components of Visitors to Macau, 1999



## The Components of Macao Visitors 2012



# Dominance of GD Visitors

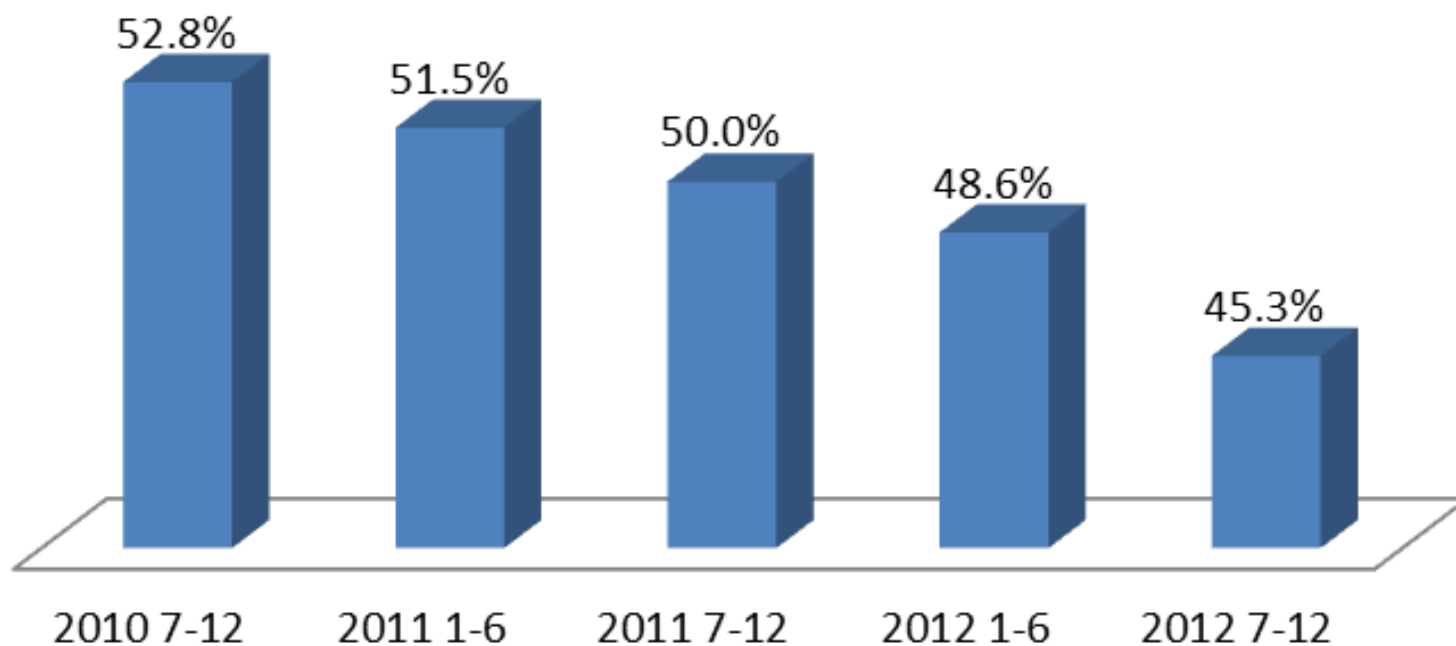
- In 2003, visitors from Mainland China overtook Hong Kong visitors to become the largest visitor group to Macau. The majority of the new visitors were from Guangdong Province. In 2005, nearly 80% of China's visitors to Macau on the individual visit scheme were from Guangdong.

# Visitors from other provinces

- After nearly 10 years, however, the visitors from provinces and municipalities other than Guangdong province are now overtaking the number of Guangdong visitors to become dominant visitor group.



## The Share of GD Visitors Among Mainland Visitors





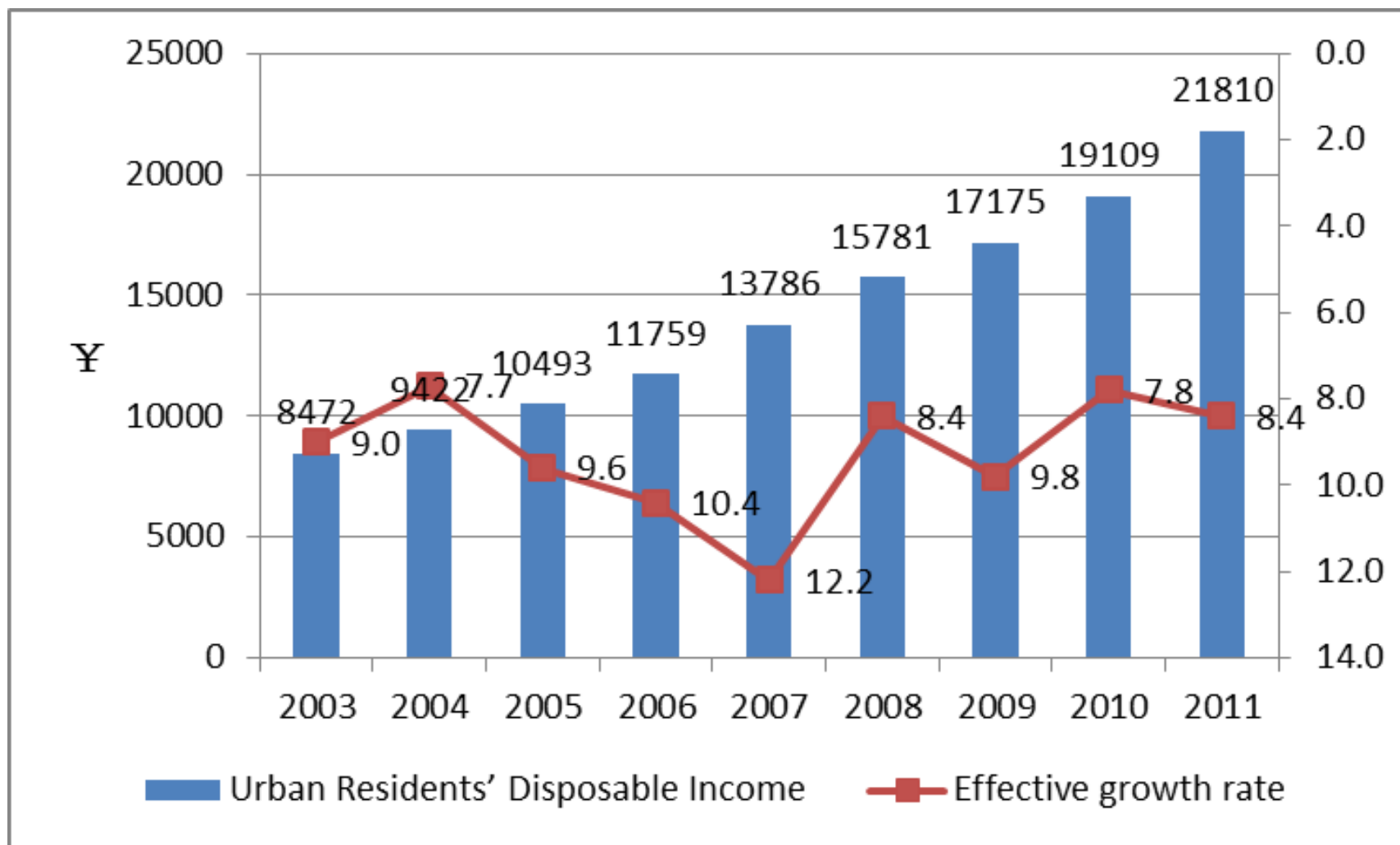




# Upward Force 1

- Visitors from new origins were the driving force for the high growth of Macau's gambling revenue in the past 27 years.
- As Macau has penetrated only small part of Mainland China, in the short term Macau can still have enough supply of new visitors which will keep Macau's gambling industry growing strongly.

# Urban Residents' Disposable Income, 2003 to 2011



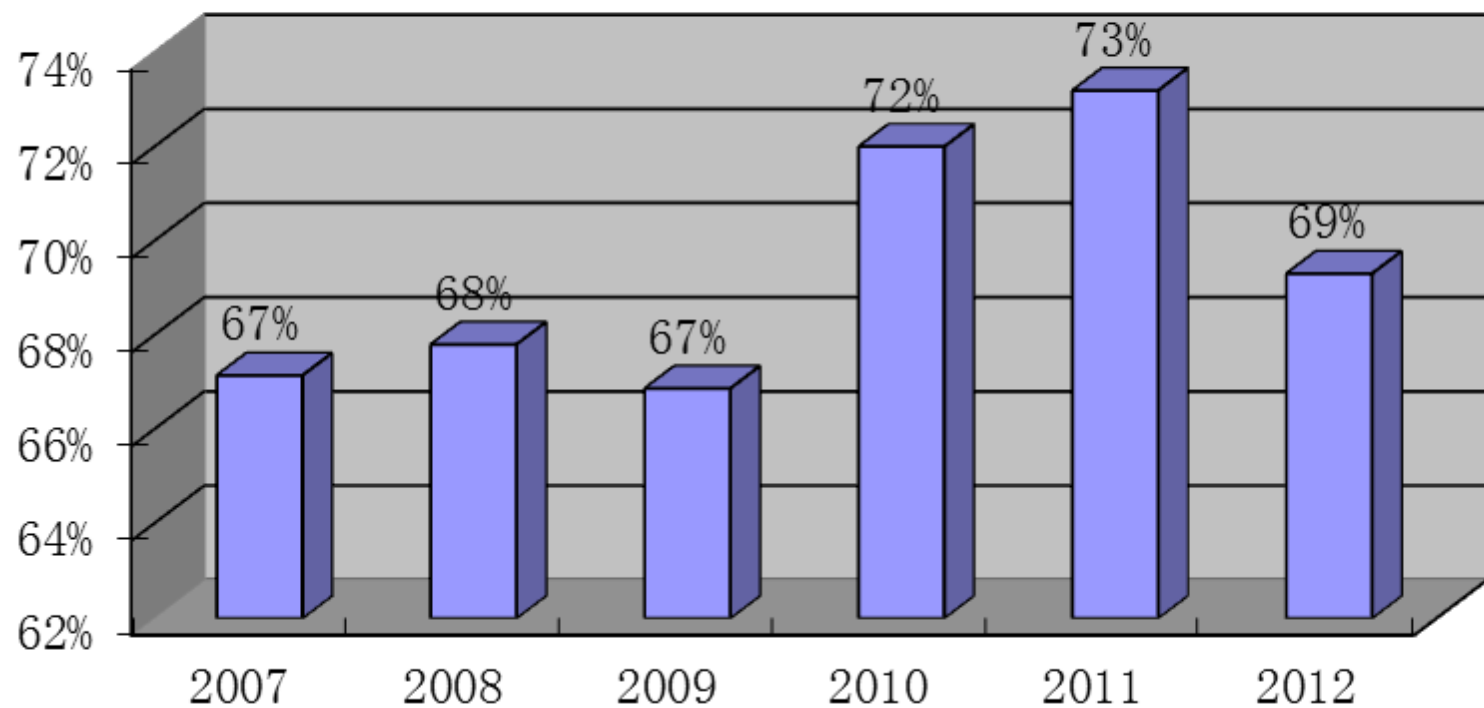
Average annual real growth of 9.2%

# Upward Force 2

- From 2002 to 2011, average annual real growth of the disposable income of urban residents is 9.2%.
- As the income of Mainland population is still growing steadily, the visitors' consuming power will grow steadily, which will support high growth of Macau's gambling industry in the short term.

# VIP Gamblers from Mainland China

## The Percentage of Revenue from VIP Players





# The Supply of VIP Gamblers

- A large part of VIP Gamblers are millionaires from Mainland China. The millionaire here refers to a person with net asset of more than RMB10 million (=US\$1.5 million).

# The number of Chinese Millionaires

<b>Location</b>	<b>2012</b>	<b>Increase since 2011</b>	<b>YOY%</b>	<b>% of total</b>
<b>Total</b>	<b>1,020,000</b>	<b>60,000</b>	<b>6%</b>	<b>100%</b>
<b>Beijing</b>	<b>179,000</b>	<b>9,000</b>	<b>5%</b>	<b>17.5%</b>
<b>Guangdong</b>	<b>167,000</b>	<b>10,000</b>	<b>6%</b>	<b>16.4%</b>
<b>Shanghai</b>	<b>140,000</b>	<b>8,000</b>	<b>6%</b>	<b>13.7%</b>
<b>Zhejiang</b>	<b>133,000</b>	<b>7,000</b>	<b>6%</b>	<b>13.0%</b>
<b>Jiangsu</b>	<b>73,000</b>	<b>5,000</b>	<b>7%</b>	<b>7.2%</b>
<b>Fujian</b>	<b>38,600</b>	<b>2,600</b>	<b>7%</b>	<b>3.8%</b>

Source: Hurun, The Chinese Millionaire Wealth Report 2012

# Characteristics of Chinese Millionaires

- The average wealth of a millionaire reached RMB 63 million (about US\$10 million), and their average annual expenditure was RMB 1.76 million (about US\$0.28 million), accounting for less than 3% of their average wealth.

► Preferred Domestic Travel  
Destination Top10 (%)

Sanya	57	
Hong Kong	52	
Yunnan	24	
Tibet	17	↑
Macao	16	↑
Hangzhou	15	↑
Beijing	14	↑
Shanghai	13	↓
Qingdao	12	↓
Xinjiang	11	↑

*Data Source: Hurun Best of the Best Survey 2012*

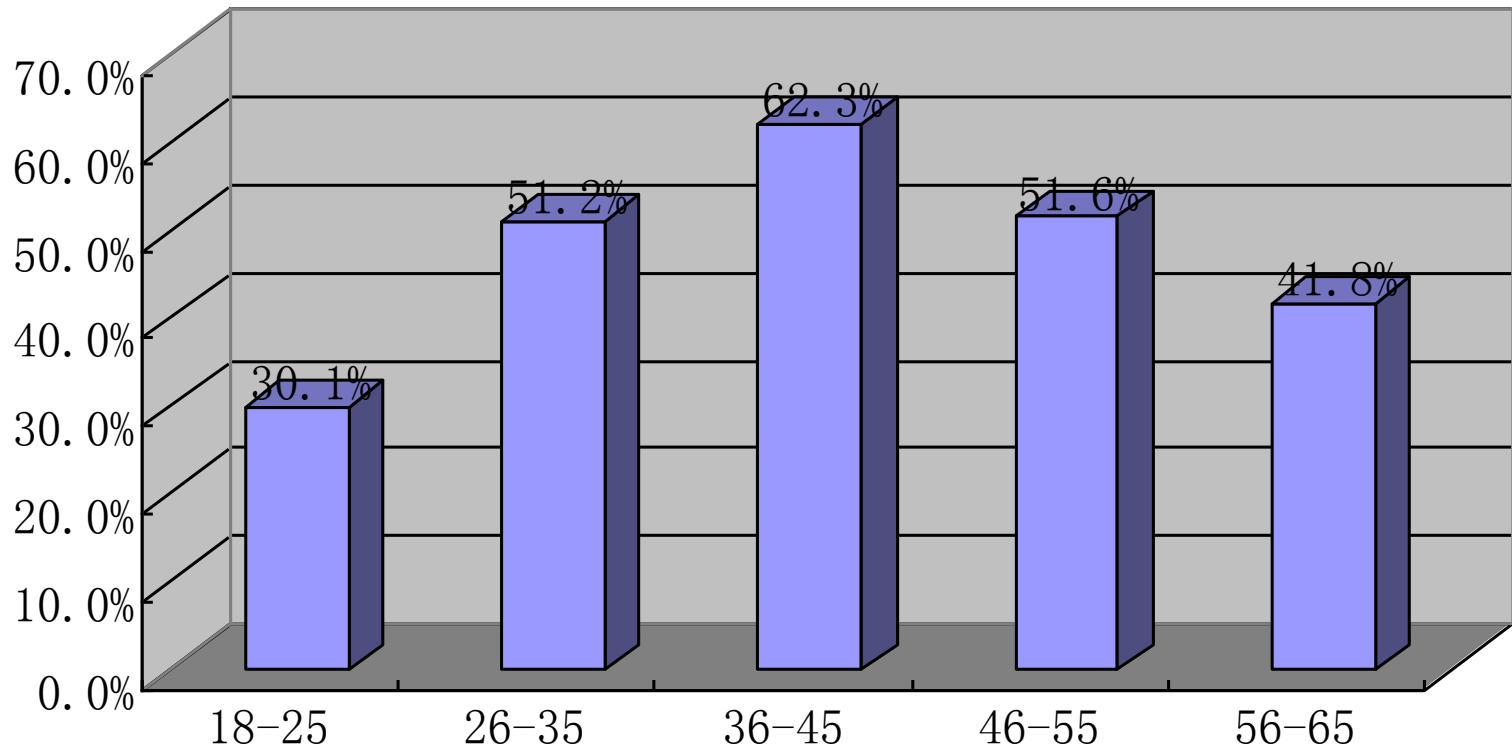
# Upward Force 3

- As the number of millionaires in Mainland China is still increasing steadily, and their wealth continues growing, the supply of VIP Gamblers will remain strong in the short term.

# Forces that Support Low Growth Scenario

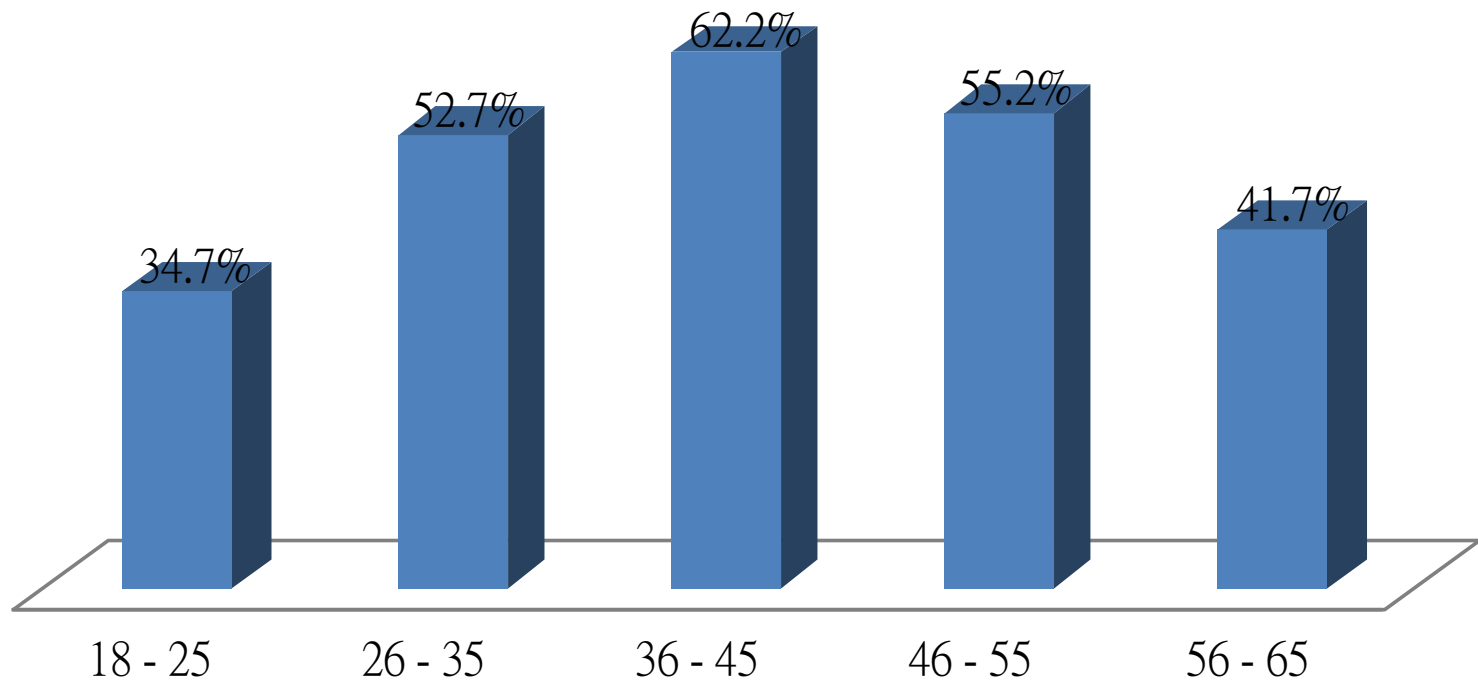
# Factors affecting the gamblers' gambling behaviors

## Age and Gambling Participation 2010

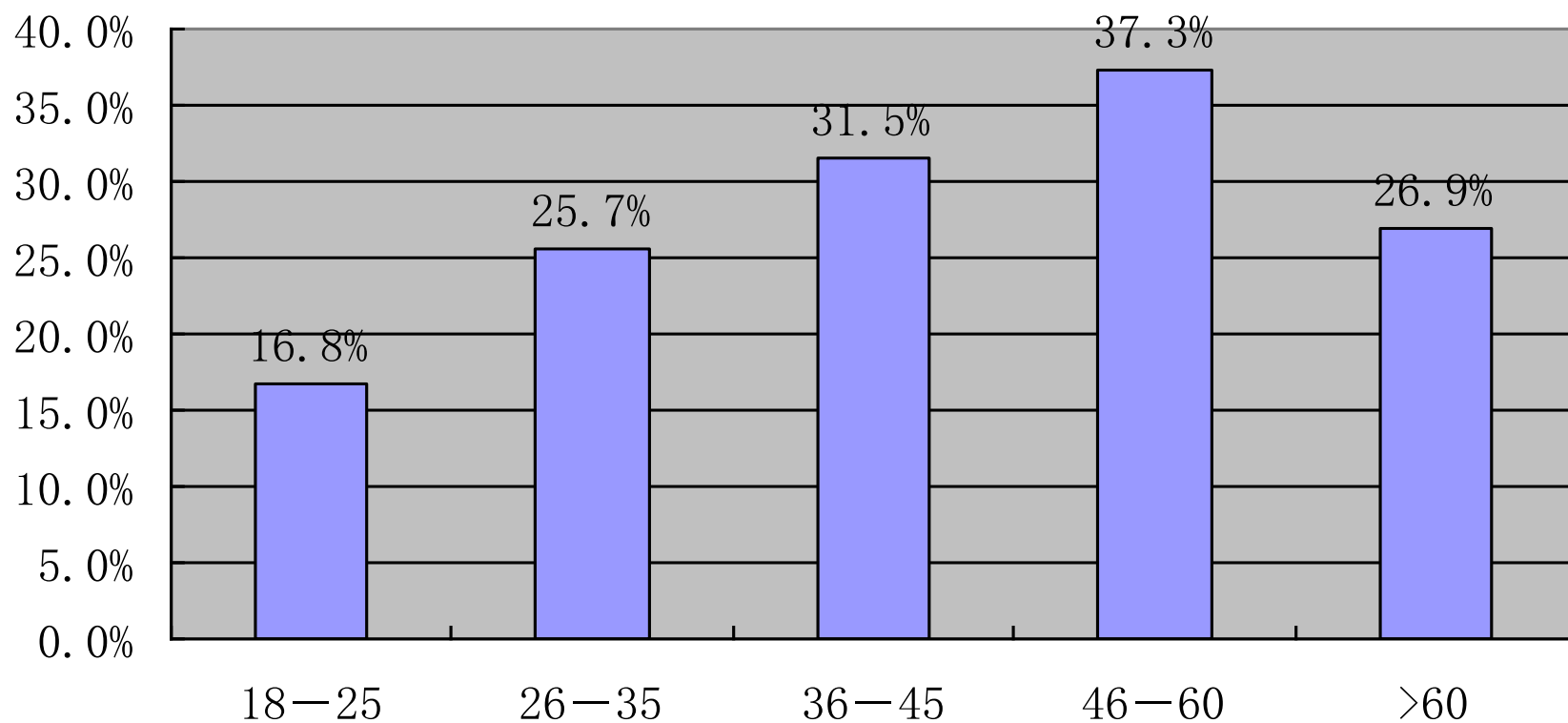




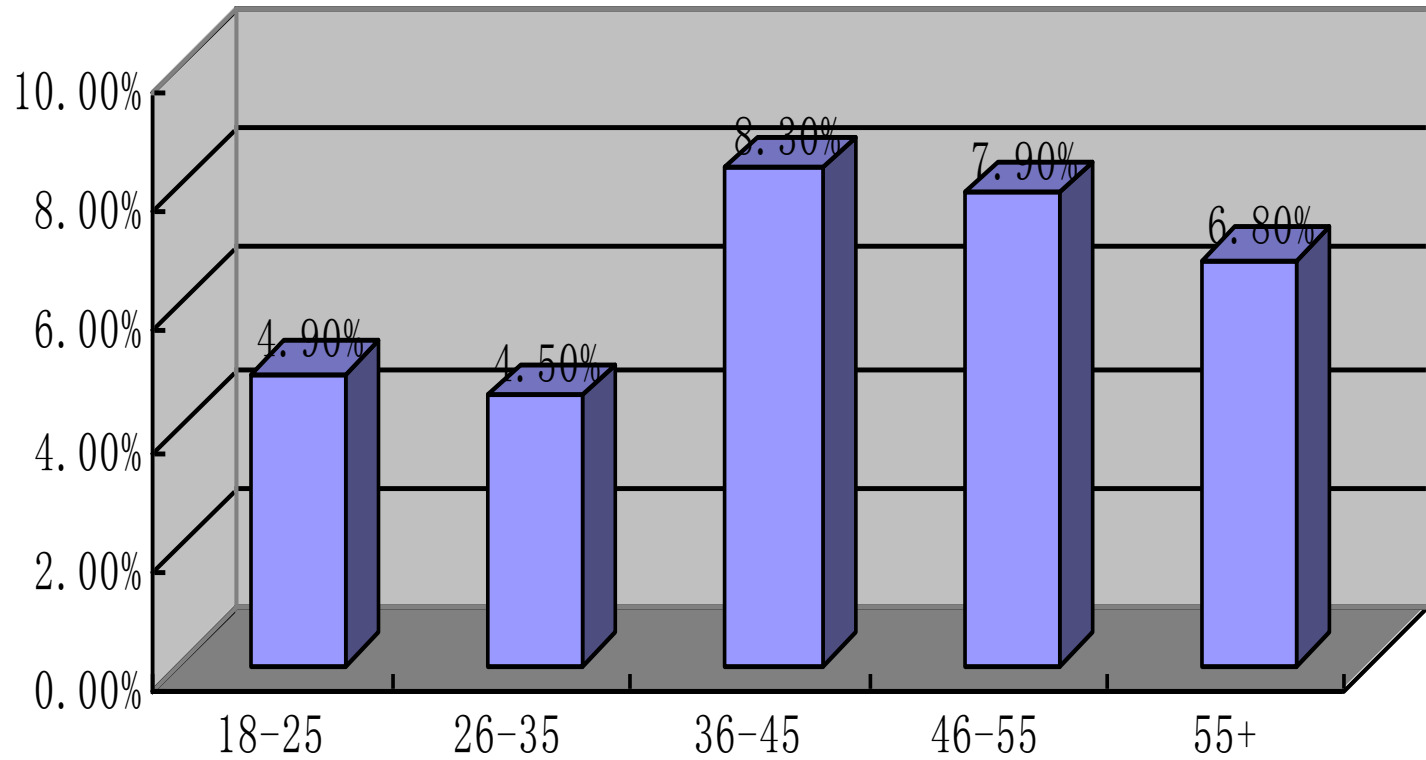
# Age and Gambling Participation 2012



## Age distribution of HK gamblers



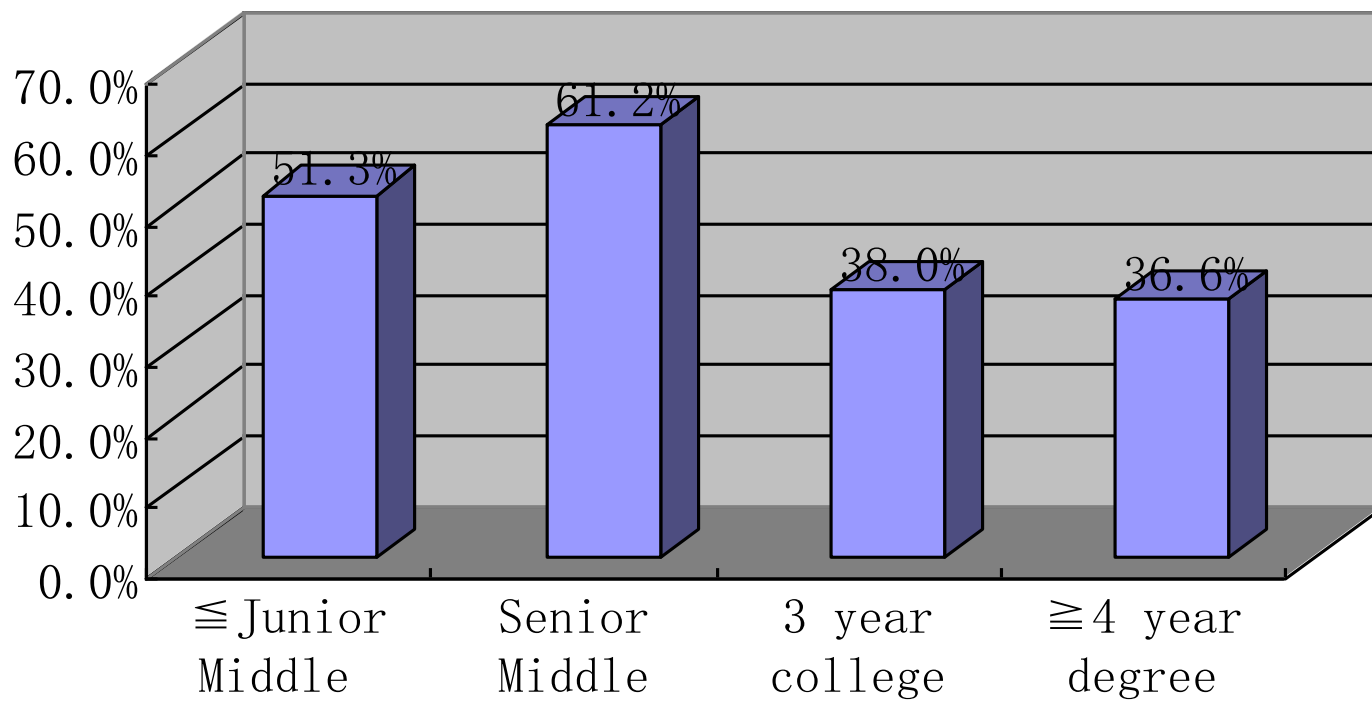
## Age and Gambling in South Africa



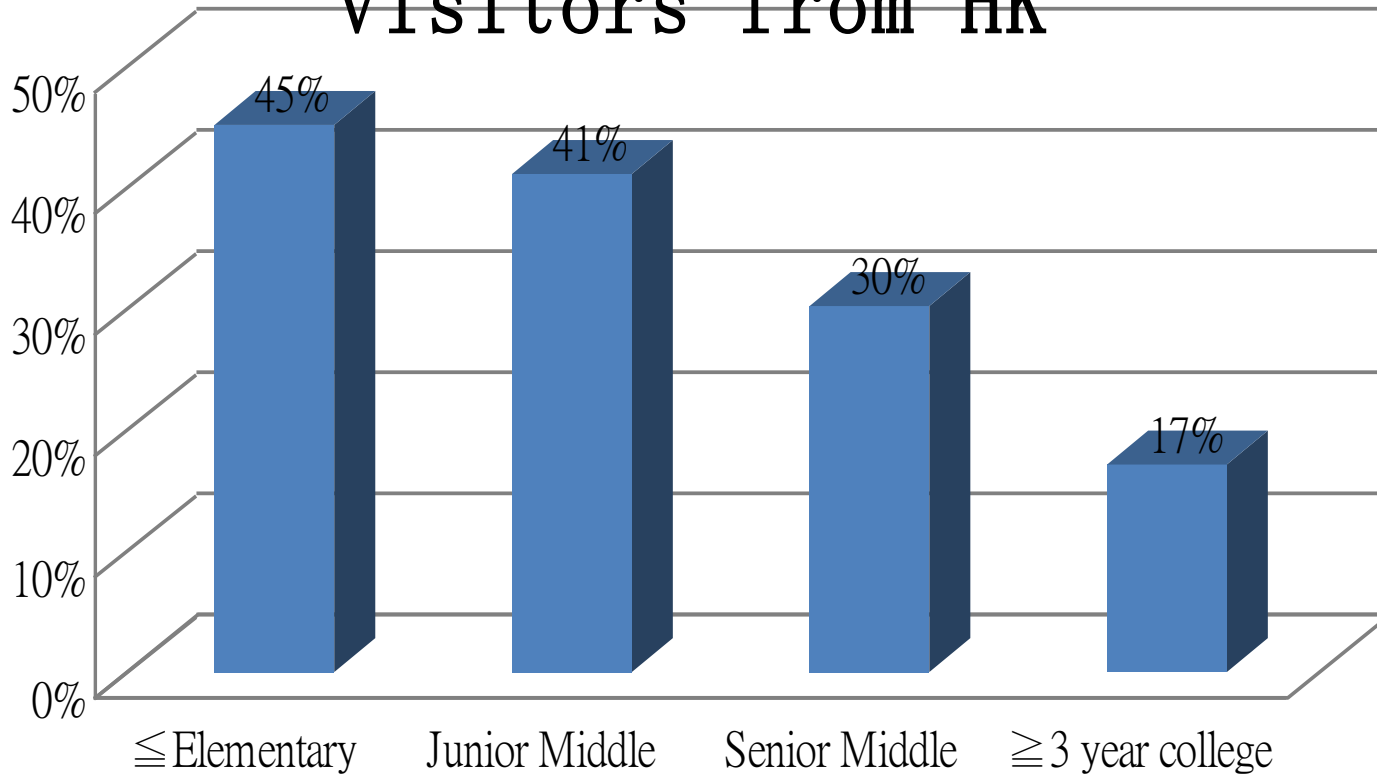
# Downward Force 1

- The younger generation may have lower propensity for gambling. If this is true, the supply of gamblers will decline in a few years to come.
- This conclusion needs more research.

## Education and Gambling, Visitors from China Cont.



## Percentage of GV among visitors from HK



# Downward Force 2

- Education is negatively related with gambling participation. As the education level of Chinese residents is increasing, the gambling participation rate may decline in the future.

# **Adaptation Effect**



# Theories

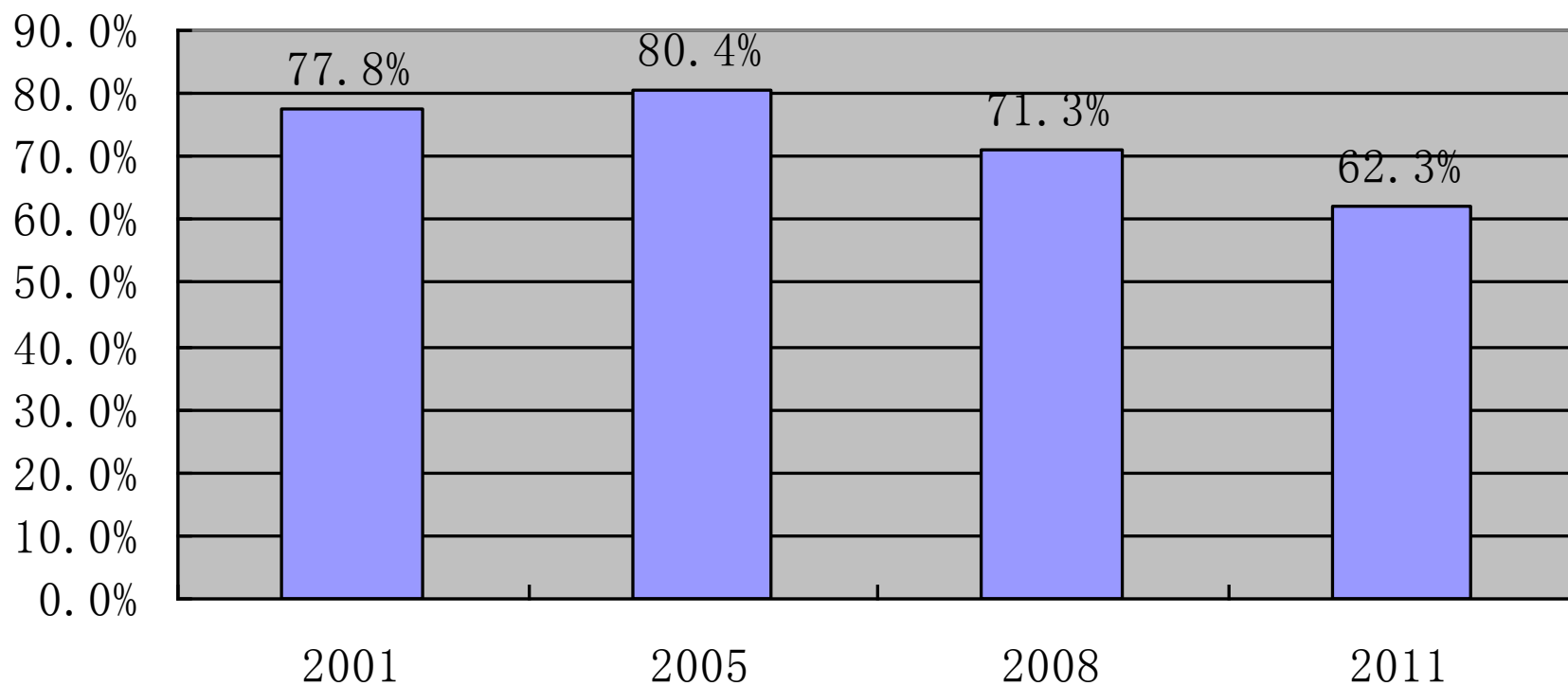
- There are several theories concerning the gambling propensity of gamblers. One of them is adaptation theory. The term is from biology, which refers to a trait of an organism that adjusts itself to fit the dynamic environment.

# adaptation theory

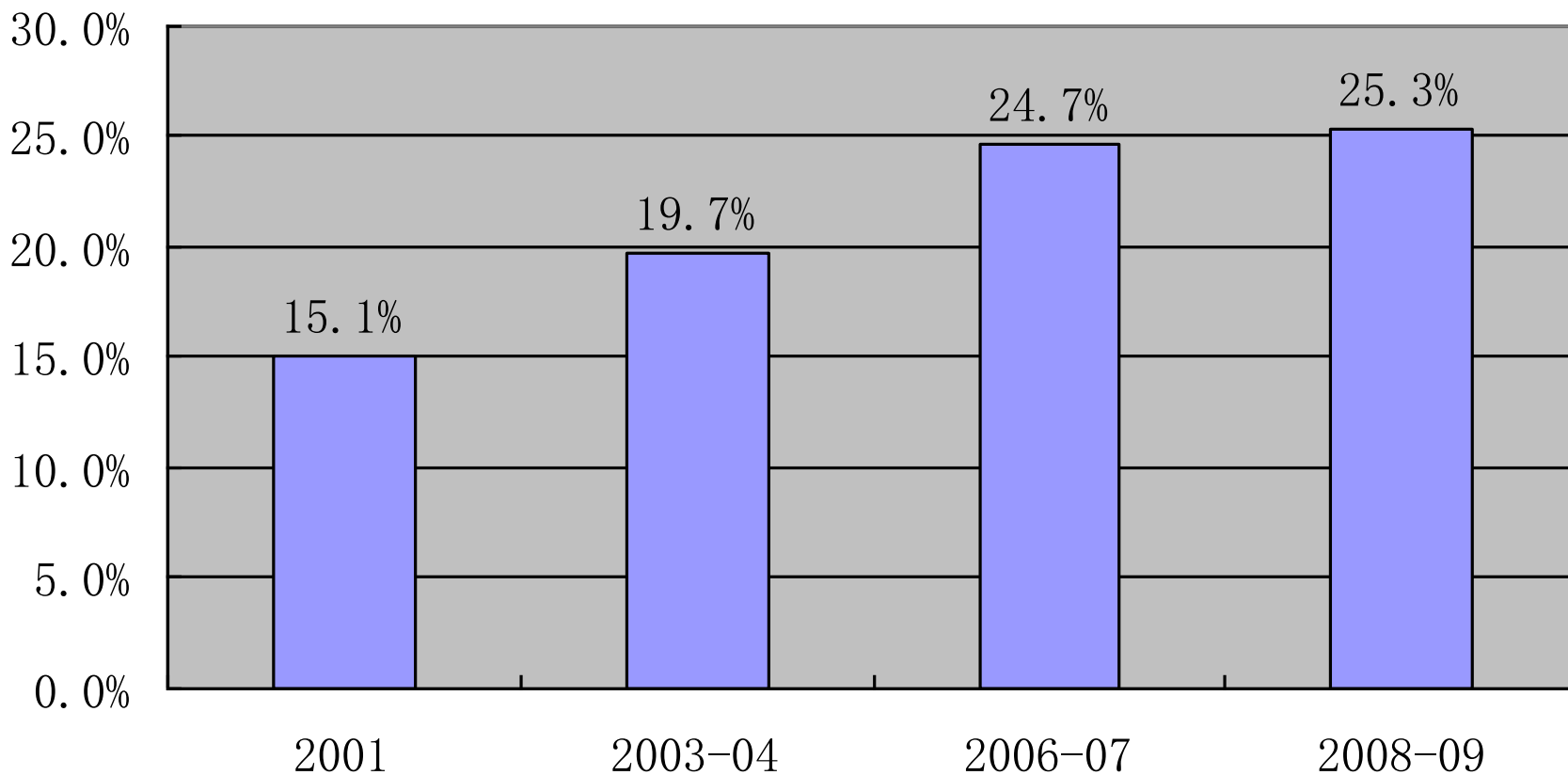
- In gambling, the social adaptation model suggests that gamblers are dynamic and capable of changing their behavior in response to exposure. When people are exposed to gambling for the first time, its novelty encourages high rates of participation. However, with time passing, participation rates go down because the novelty has worn off.

- In addition to decrements in the novelty effect, adaptation can also result from increases in adverse consequences, the emergence of competing interests, or a combination of these factors.

% of the HK respondents with gambling activity in  
the last year

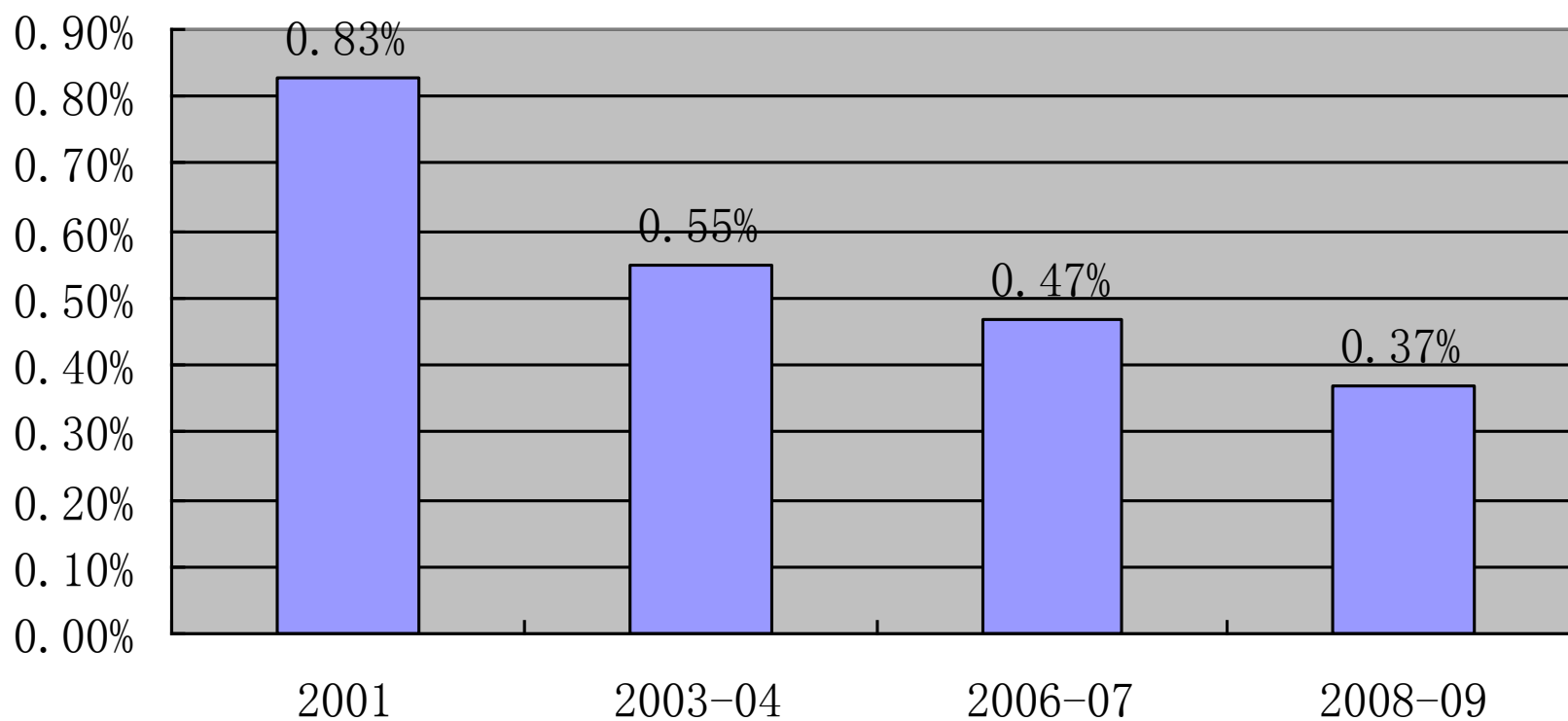


# Percentage of Non-Gambling Group in Queensland

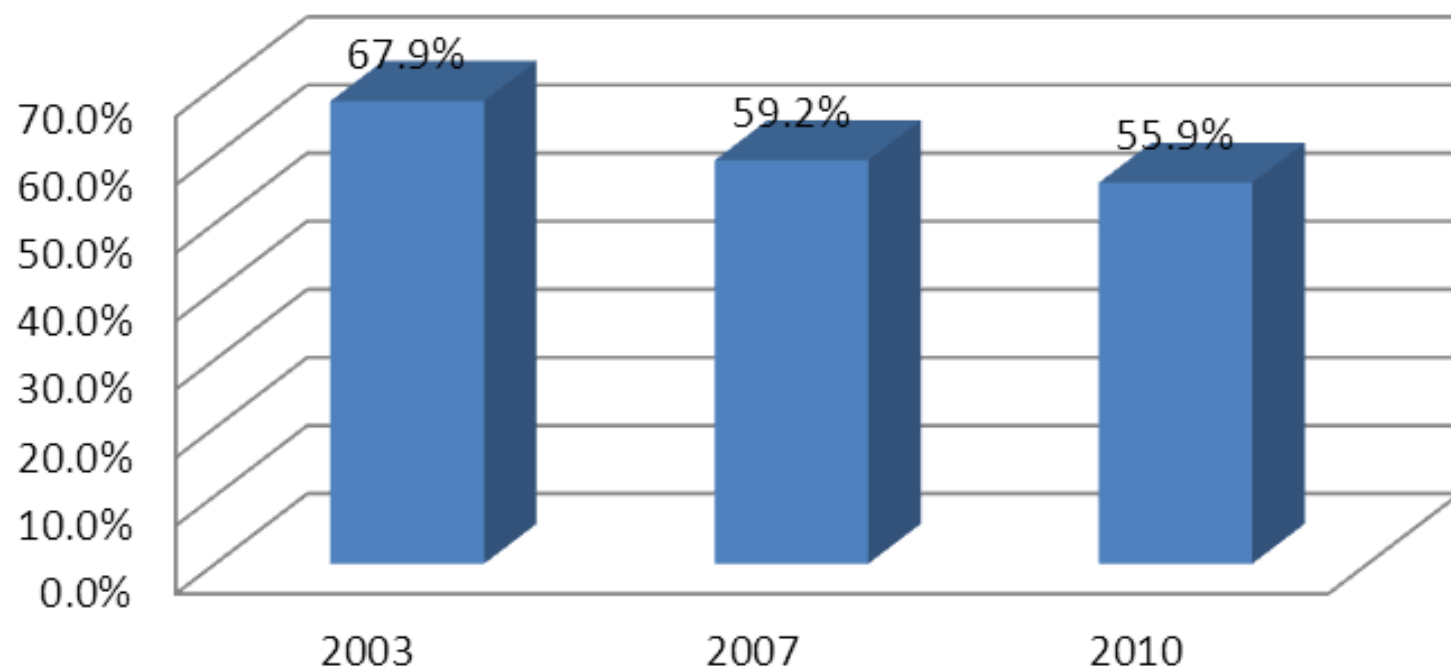


Source: Queensland Household Gambling Survey

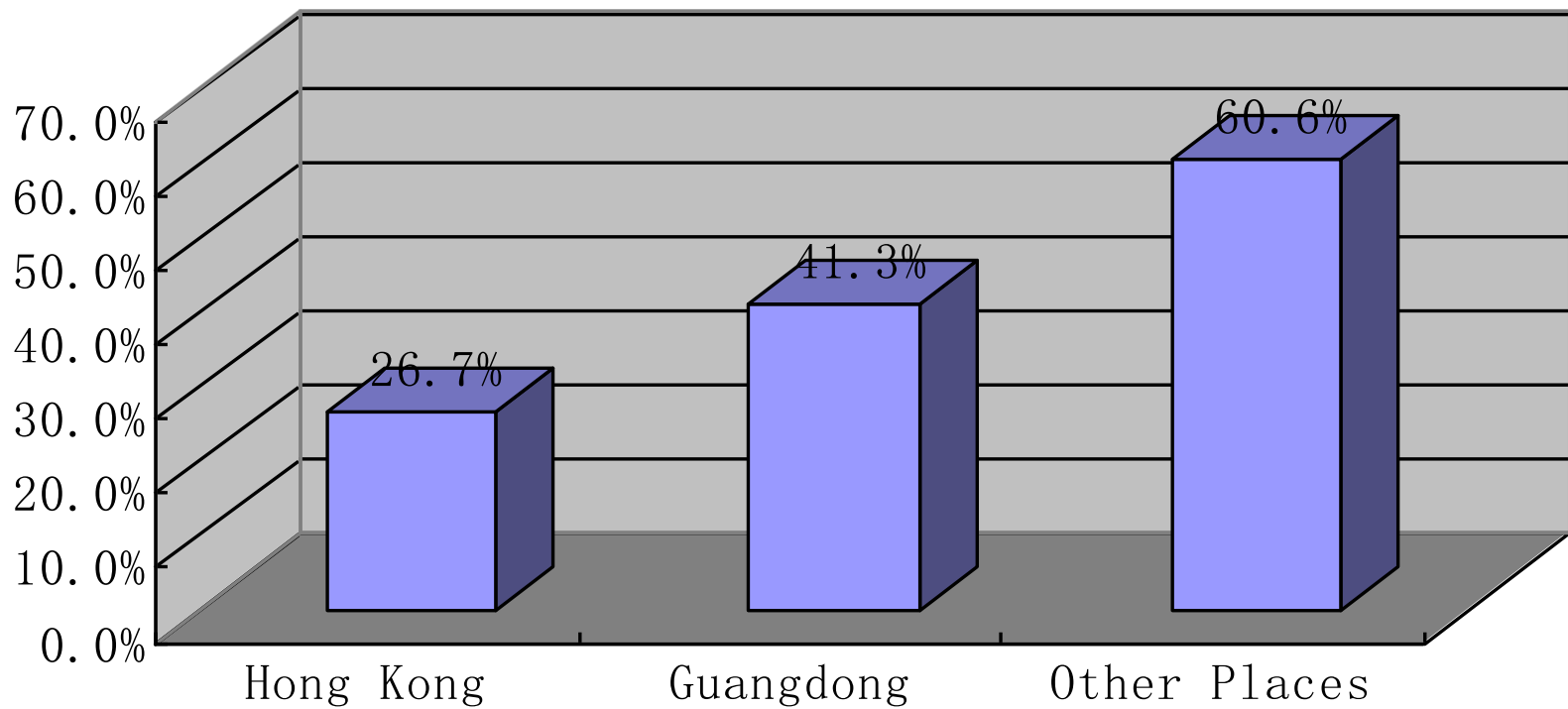
# Percentage of Problem Gambling among Population in Queensland



## **% of Macau Residents with GP in the Past 12 months**



## Gambling Propensity of HK & Mainland Visitors





# Downward Force 3

- Because of the adaptation effect, the gambling propensity of the Macau visitors may decline in the long term.

# Conclusion

- As only small part of Mainland population has been penetrated, there is still great potential to increase the visitors from China.
- As China's economy is still growing rapidly, and the disposable income of the people is increasing, the consuming power of the gamblers will increase.
- As the number of millionaires and their wealth are still increasing, the supply of high rollers still remains strong.
- These forces are the dominant forces that will drive the growth of Macau's gambling market in the short term.

# Conclusion (cont.)

- As the younger generation and more educated visitors to Macau are less interested in gambling, the growth of gamblers may slow down in the future.
- Because of the adaption effect, high rollers' expenditure on gambling may decline. They may change from heavy gambling to moderate gambling.
- These forces will dominate Macau's gambling market in the long term.

# Intervening factors

- Some intervening factors will modify the speed of adaptation:
  - More casinos at the neighboring areas will hasten the adaptation effect.
  - Innovation of casino games will slow down the adaptation effect.
- These forces will make the intermediate term uncertain.

Thank you for your attention!

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