The Gross Annual Wager of the United States, 2000

"Waiting to Exhale"

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Courtesy of cca-i.com

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Consumer spending on commercial games increased by $3.1 billion in 2000, or by 5.4%, to a record $61.4 billion. This single-digit gain is off nearly a full point from last year, as growth in U.S. gambling expenditures continues to decelerate. Unlike last year, however, gambling did not keep pace with a strong economy. U.S. personal income rose by 7.3%, [1] meaning that while consumers had more money to spend they allocated less of their rising incomes to blackjack tables and lottery tickets. [2]

Those that agonized over the spread of gambling and its impact on American society can relax. Despite the fears expressed in the final report of the National Gambling Impact Study Commission, that prompted a call for a moratorium on gambling expansion, American household income is not disappearing into slot machines and lottery tickets at an increasingly alarming rate. It's slowing down. As we remarked last year, the demand for commercial games has been satisfied. The 2000 Gross Annual Wager of the United States says that with the exception of casino games in new markets like Detroit and California and Video Lottery Terminals (VLTs), the US gambling market is fully supplied.

Topline

Spending of $61.4 billion on legal gambling is still more than consumers spent on movie tickets, recorded music, theme parks, spectator sports, and video games combined. U.S. Gambling, Inc. (USGI), our fictional holding company for the nation's lotteries, casinos and other gambling businesses faired poorly in this expanding economy, however, dropping from 10th place in the 1999 *Forbes* Sales 500 to 12th in 2000, ahead of J.P. Morgan ($60.1 billion) and below Philip Morris ($63.28 billion). [3]

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[1] 1999 U.S. personal income was $7,784.14 billion. The increase, $567.4 billion to $8,352.51 billion, was 7.3%. United States Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, (May 2001), Table 1. http://www.bea.doc.gov/bea/

[2] The percentages of U.S. personal income spent on legal gambling, excluding Internet gambling (Table 16, http://www.cca-i.com), were 0.748% in 1999 and 0.735% in 2000.

[3] *Forbes*, "The Forbes 500s Annual Directory", April 16, 2001. http://www.forbes.com/.

Exhibit 1: 2000 U.S. Gross Gambling Revenues by Industry and Change From 1999

	1999 Gross Revenues (Expenditures) (revised)	2000 Gross Revenues (Expenditures)	Increase/(Decrease) in Gross Revenues (Expenditures)	
			Dollars	Percent
Pari-Mutuels				
Horse Totals	$3,382.9	$3,338.9	-$44.0	-1.30%
Greyhound Total	$489.7	$457.1	-$32.6	-6.65%
Jai Alai Total	$44.7	$46.6	$1.9	4.16%
Total Pari-Mutuels	$3,917.3	$3,842.5	-$74.7	-1.91%
Lotteries				
Video Lotteries	$1,397.0	$1,657.0	$259.9	18.61%
Traditional Games	$14,952.8	$15,558.7	$605.9	4.05%
Total Lotteries	$16,349.8	$17,215.6	$865.8	5.30%
Casinos				
Nevada/NJ Slot Machines	$8,739.8	$9,146.9	$407.1	4.66%
Nevada/NJ Table Games	$4,243.7	$4,407.6	$163.9	3.86%
Deepwater Cruise Ships	$273.4	$280.2	$6.8	2.50%
Cruises-to-nowhere	$318.8	$339.5	$20.7	6.50%
Riverboats	$8,340.0	$9,014.6	$674.7	8.09%
Other Land-Based Casinos	$787.3	$1,428.0	$640.7	81.37%
Other Commercial Gambling	$183.4	$171.0	-$12.3	-6.73%
Non-Casino Devices	$2,002.0	$1,558.2	-$443.9	-22.17%
Total Casinos	$24,888.4	$26,346.0	$1,457.6	5.86%
Legal Bookmaking				
Sports Books	$109.2	$123.8	$14.6	13.37%
Horse Books	$9.4	$6.8	-$2.6	-27.66%
Total Bookmaking	$118.6	$130.6	$12.0	10.12%
Card Rooms	$909.3	$949.3	$40.0	4.40%
Charitable Bingo	$1,044.6	$994.2	-$50.5	-4.83%
Charitable Games	$1,417.7	$1,483.8	$66.1	4.66%
Indian Reservations				
Class II	$1,149.8	$1,198.1	$48.3	4.20%
Class III	$8,464.9	$9,238.5	$773.6	9.14%
Total Indian Reservations	$9,614.7	$10,436.6	$821.9	8.55%
Internet Gambling	$1,167.0	$ 2,207.5	$1,040.5	89.16%
Grand Total	**$58,260.5**	**$61,398.6**	**$3,138.2**	**5.39%**

Notes: Columns may not add to totals due to rounding.
Because Internet gambling is conducted globally, gross gambling revenue from Internet gambling is not included in the grand total.

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Exhibit 2: 2000 U.S. Handle by Industry and Change From 1999

	1999 Gross Wagering (Handle) (Revised)	2000 Gross Wagering (Handle)	2000-1999 Increase/(Decrease) in Gross Wagering (Handle) Dollars	Percent
Pari-Mutuels				
Horses				
On-Track	$2,923.2	$2,826.9	-$96.3	-3.30%
ITW	$6,649.0	$6,043.5	-$605.5	-9.11%
OTB	$6,274.9	$6,986.0	$711.1	11.33%
Total	$15,847.1	$15,856.4	$9.3	0.06%
Greyhounds				
On-Track	$1,019.9	$913.3	-$106.6	-10.45%
ITW	$863.6	$927.1	$63.5	7.36%
OTB	$246.3	$189.4	-$56.9	-23.09%
Total	$2,129.8	$2,029.9	-$99.9	-4.69%
Jai Alai	$203.0	$193.9	-$9.1	-4.50%
Total Pari-Mutuels	$18,179.9	$18,080.2	-$99.8	-0.55%
Lotteries				
Video Lotteries	$17,413.1	$21,023.2	$3,610.1	20.73%
Other Games	$33,975.0	$35,571.1	$1,596.1	4.70%
Total Lotteries	$51,388.1	$56,594.3	$5,206.1	10.13%
Casinos				
Nevada/NJ Slot Machines	$147,156.8	$154,984.7	$7,828.0	5.32%
Nevada/NJ Table Games	$202,804.6	$211,993.1	$9,188.5	4.53%
Deepwater Cruise Ships	$3,850.7	$3,947.0	$96.3	2.50%
Cruises-to-nowhere	$4,490.1	$4,782.0	$291.9	6.50%
Riverboats	$157,380.5	$167,948.4	$10,567.8	6.71%
Other Land-Based Casinos	$14,574.6	$27,092.9	$12,518.3	85.89%
Other Commercial Gambling	$570.7	$539.5	-$31.2	-5.47%
Non-Casino Devices	$18,122.1	$15,771.7	-$2,350.4	-12.97%
Total Casinos	$548,950.2	$587,059.3	$38,109.0	6.94%
Legal Bookmaking				
Sports Books	$2,470.4	$2,323.4	-$147.0	-5.95%
Horse Books	$81.1	$67.4	-$13.7	-16.89%
Total Bookmaking	$2,551.5	$2,390.8	-$160.7	-6.30%
Card Rooms	$13,186.8	$13,618.9	$432.1	3.28%
Charitable Bingo	$4,291.8	$4,182.3	-$109.5	-2.55%
Charitable Games	$5,645.0	$5,666.9	$21.8	0.39%
Indian Reservations				
Class II	$3,832.7	$3,993.7	$161.0	4.20%
Class III	$120,927.0	$131,978.7	$11,051.7	9.14%
Total Indian Reservations	$124,759.7	$135,972.3	$11,212.6	8.99%
Internet Gambling	N/A	N/A	N/A	N/A
Grand Total	**$768,953.2**	**$823,564.9**	**$54,611.7**	**7.10%**

Note: Columns may not add to totals due to rounding.

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Demand

With relatively few exceptions, growth in consumer spending on commercial games slowed considerably in 2000. For pari-mutuel horse racing, a marginal increase (.06%) in handle combined with decreasing takeout rates lead to 1.3% decline in industry revenues. Hidden from view, however, is the ongoing consolidation in that industry that despite overall unfavorable economic trends and an increasingly disinterested consumer base is creating some healthy racing businesses.

Our analysis of 2000 lottery results confirms what we have been reading in the press. Mature lotteries are coming under increasing pressure from other forms of competing gambling leading to sales declines in places like Michigan, and flat results in many other States. We note, however, that decelerating ticket sales are more widespread than the few jurisdictions that must compete with new forms of gambling. To some extent, lotteries are a victim of their own success. Lotteries are prolific in this country, and the world for that matter. With the exception of Australian "pokie" machines, no other form of gambling has as powerful and pervasive a distribution mechanism as State-run lotteries. A punt on the lottery is as close as the corner store, and an interesting diversion while waiting in line to buy that six-pack and microwave pizza. A product that is easily available to its target audience in thousands if retail outlets, there is little room left for growth. Unless, of course, the lotteries where available in the home.

Overall, ticket lotteries posted a 4.7% gain in sales, and 4.05% increase in revenues. On the bright side, for those States that have them anyway, Video Lottery Terminals (or VLTs) posted yet another healthy gain in revenues for 2000. Powered mostly by growth in relative newcomers to the VLT industry, growth in old industry stalwarts such as West Virginia were impressive as well. Overall, VLTs posted a 18.6% revenue increase over 2000, or $259.9 million dollars, roughly $78 million of which went directly to the various States.

Casinos continued the steady deceleration observed last year. For the most part casino growth was single-digit, and low single digit at that. Despite an 81% increase in Other Land-Based Casino revenue[4] almost wholly attributable to the first full year of casino operations in Detroit, total casino revenues only managed a 5.86% or $1.4 billion increase over 1999. The positive impacts in from Detroit were almost wiped out by the decline in Non-Casino Device revenue. On July 1, 2000, the lights from slot machines went out in 33 Louisiana parishes and in the whole State of South Carolina. The result of this scaling back of neighborhood slot machines was a $443.9 million or 22% decline in consumer expenditures on these devices.

Class III Indian gambling once again proved to be an exception to the low-growth rule. Casinos on Native American lands posted another banner year, up more than 9% over last years results, or an increase of $773.6 million. Fueled in large part by the passage of Proposition 1A in California, by the end of 2000 many tribes in that State were operating the full 2,000 device complement allowed under that newly enacted legislation. We expect continued growth over the next few years as roadside casinos transform into destination resorts and a number of mini-foxwoods begin to pop up on the California landscape.

The results of the last two years verify that further increases in supply will not increase consumption (undersupplied markets excepted). In terms of American social welfare, this should be reassuring: bingo

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[4] Land-based casinos not in Nevada or New Jersey.

cards, lottery tickets, and blackjack tables, have taken their place on the shelves of the leisure supermarket. Demand for gambling products and services are approaching their natural limits; limits imposed by consumer choice among all the shiny new amusements issuing from AOL TimeWarner, Vivendi Universal *et al.* and flooding through the pipes of the leisure economy. From here on out, growth in the economy's gambling sector will come from two, and only two, sources: new products; and new markets.

New Markets

The Internet

The biggest increase in any form of gambling was Internet gambling which increased by 89%; yet another record. The Internet has created the first global gambling market. Consumers, many of them Americans, spent an estimated $2.2 billion on E-gambling in 2000. We project this expenditure to rise to $6.4 billion by 2003.

The Internet and new interactive technologies such as Internet-enabled cell phones and interactive television is a new distribution channel for commercial gambling games. This new distribution channel delivers the menu of casino, sports, racing, and lottery gambling products to the home. Consumers are enthusiastically embracing this new distribution capability. Furthermore, these new technologies are proving to be much more than simply a new way to deliver an old product. The Internet and interactive television are changing the face and character of gaming.

New Products

Entertainment

A less controversial alternative is to move away from gambling altogether into the larger leisure-entertainment economy. Las Vegas is no longer a gambling market in the sense that Atlantic City or riverboat markets are. It is a full-service leisure destination offering multiple attractions. The falling casino share of Strip resort facility revenues we've reported on in previous annual installments in this series continues. What's more, an increasing number of visitors to Las Vegas do not gamble at all. Rooms, retail, restaurants, shows, art museum admissions and a lengthening list of other non-gambling pastimes are driving return on investment in Las Vegas today.

That vision has spread to Atlantic City where a partnership between Boyd Gaming and MGM Mirage is building the first new resort in Atlantic City since 1990; The Borgata. The Borgata is the best thing to happen to Atlantic City since gaming was legalized in 1978. If The Borgata is executed well it can end Atlantic City's dependence on commodity table and machine games and transform a day trip gambling market into a full-service multi-day stay leisure destination. The obsolete boxes of slots that line the boardwalk would give way to the entertainment mega-stores that line the Strip. If The Borgata successfully sets this process in motion as the Mirage did in Las Vegas more that a decade age, the promise of gaming in Atlantic City will finally be realized.

The preceding article is summarized from the Gross Annual Wager of the United States, 2000. The full version of this report, including expanded analyses and detailed data presented in over 55 tables and charts is available at http://www.cca-i.com.