

Title: Are video games recession proof?

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Hi all,

Below is a little bit of data on video games during the 2008 great recession.

****Are video games recession proof?****

Consumers scale back on "out of the house" entertainment. Think movies, restaurants, travel. Video games offer a good value source of entertainment during recessions. The number of hours of solid entertainment that comes from a video game purchase is much greater than a movie, for example, for very comparable cost."

We could see shifts towards free-to-play games and mobile games versus traditional console games.

Console, PC hardware, and accessories are likely to be impacted the most during a recession, as consumers will stretch the usability of these items for longer and they're typically higher priced.

Software, digital game downloads, and mobile games could see continued strong sales.

Consoles sales peaked in Dec 2008 and slowly trended down in 2009. Yet total video game category sales increases YoY.

<https://preview.redd.it/l6dammudg5391.png?width=990&format;=png&auto;=webp&s;=6973ced92c31b0a6b1da45cf2a455be3f031e7f8>

Annual sales at GME, ATVI, TTWO, and EA all increased in 2008 and continued to grow during the great recession.

<https://preview.redd.it/wfm1w40fg5391.png?width=1010&format;=png&auto;=webp&s;=2a6a6fbc406b409efbb8b591d6ce5a41664274fd>

The below graphs overlay annual sales with year end share price. While the share price was negatively impacted during the Great recession, sales continued to grow at ATVI and GME. This was during 10% unemployment, which could mean consumers cut other discretionary expenses before video games.

<https://preview.redd.it/bahe5cjgg5391.png?width=955&format;=png&auto;=webp&s;=685b35a3ecee0deec8cc3d8d42070f6a6b7f4f>

<https://preview.redd.it/4hwtec7hg5391.png?width=967&format;=png&auto;=webp&s;=4ca5dc46bca4d2a5220199d399e6d1669eab7bd6>

****Differences between now and 2008?****

Why is now different and will that impact the video game industry?

The two biggest differences between the 2008 Great Recession and the possible looming recession are unemployment and inflation.

In 2008, unemployment hit 10%*, while current unemployment is 3.6%*.

In 2008, inflation was 3.8%, and it currently is 8.3%.

While unemployment cuts consumer spending so does inflation. While we might be entering a recession, this recession is more likely to impact retirement accounts not actual paychecks unlike 2008 when unemployment increased.

In the below graph I overlaid unemployment by year with GME annual sales. It seems unemployment didn't have a significant impact on GME's overall sales.

[](<https://preview.redd.it/0kza04qig5391.png?width=1035&format;=png&auto;=webp&s;=64f04d8b596966e879df3a80e441ff787d6cf95e>)

With the moderate increase in April's CPI data, we could assume inflation has peaked. Instead let's assume inflation gets slightly worse and the Fed must raise rates quicker or higher than expected.

How will that impact discretionary spending?

According to First Insight's recent study, 42% of consumers will first cut dining, then entertainment, premium groceries, travel, and so on.

Video game cuts were further down the list after streaming services, gym memberships, and home décor. Only 20% of consumers would cut video game spending. Video games are almost in line with alcohol when consumers decide what to cut.

We all know alcohol is decently recession proof, but many consumers still spend on beauty and personal care products. The "lipstick index", coined by Leonard Lauder of Estee Lauder, due to the fact that Estee Lauder sales of lipstick grew during recessions.

<https://preview.redd.it/9pouawwjg5391.png?width=1003&format;=png&auto;=webp&s;=7bab8430e1811794e6bdb13ece7fb7a360ba7ab4>

Foot notes: St. Louis Fed Unemployment data, First Insight, Bureau of Labor statistics.