

# Does soccer boost economic sentiment?

Florian Dorn, Jonas Hennrich, Klaus Wohlrabe

ifo Institute

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- This paper investigates the impact of these tournaments on firms' assessments of their current business situation and expectations for the future.

# Research Question

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- Sub-questions:
  - ▶ Are the effects short-lived or do they have lasting impacts?
  - ▶ Which sectors are most affected?
  - ▶ Do the effects differ between the FIFA World Cup and the UEFA European Championship? (to be added)

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- Post-event effects may involve normalization or even a decline in sentiment as economic realities set in.

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- Studies (Baade and Matheson, 2002, 2016) show that while some sectors, such as hospitality, experience short-term gains, the overall economic impact is often minor or localized.
- Macroeconomic analyses, including those on World Cups and the Olympics, generally find no significant positive relationships with economic growth or development (Szymanski, 2002; Sterken, 2006).

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- Long-term effects on international trade are also seen, with hosting or bidding for events potentially increasing exports and global attractiveness (Rose and Spiegel, 2011).

# Data Sources

- Ifo Business Survey data from 1991 to 2023.
- Firm-level data covering manufacturing, trade, and services sectors.
- 15 football tournaments (FIFA World Cup and UEFA European Championship).

## Variable Definitions

We employ two proxies from the ifo Business survey for economic sentiment: assessment of the current business situation and expectation for next six months. We transform them into dummy variables:

- **Business Situation:** 1 if 'good', 0 if 'satisfactory' or 'poor'.
- **Business Expectations:** 1 if 'better', 0 if 'same' or 'worse'.
- Football tournament dummies for six months before, during, and six months after the events.



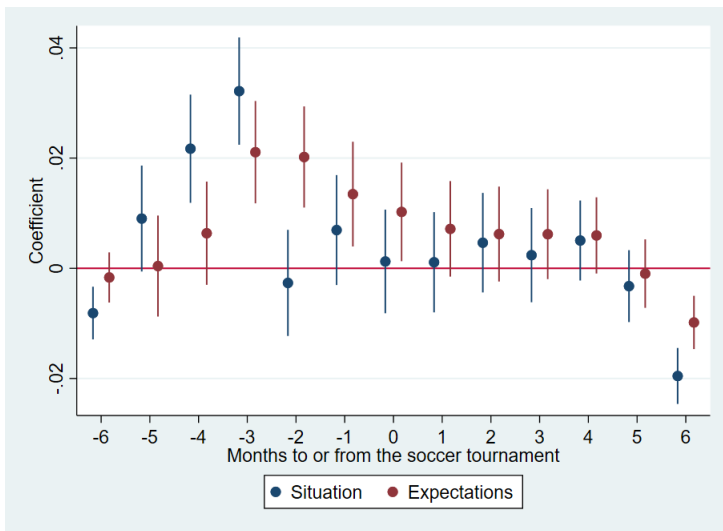
# Empirical Strategy

We employ a linear probability model which allows us to interpret coefficients as percentage points

$$y_{it} = \alpha + \sum_{l=-6}^6 \beta_l \text{Football}_{lt} + \theta_i + \mu_t \cdot \gamma_j + m_t + \varepsilon_{it}, \quad (1)$$

- We add month fixed effects ( $m_t$ ).
- In order to capture branch specific time trends we interact branch and time (month) fixed effects ( $\mu_t \cdot \gamma_j$ ).
- We have defined 31 different branches: 13 for industry, automobile trade, wholesale, retail and 14 for services.
- Finally, we capture idiosyncratic firm effects by an individual dummy variable for each firm ( $\theta_i$ ).

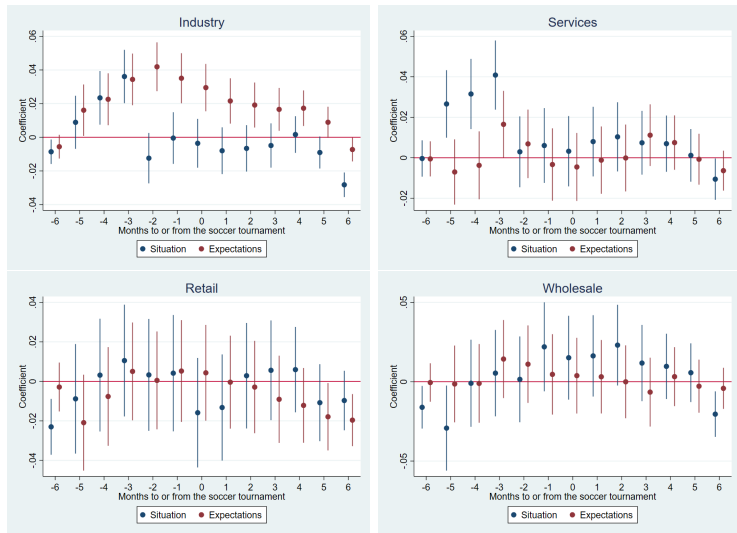
# Main Results - Overall Impact



Notes: Number of observations: 2,213,927, OLS coefficients and 95% confidence intervals for the event-study indicators from equation (1) with firms sentiment concerning situation being 'good' and expectations being 'better' as dependent variables.

# Main Results - Sectoral Impact

Figure: Impact on various sectors



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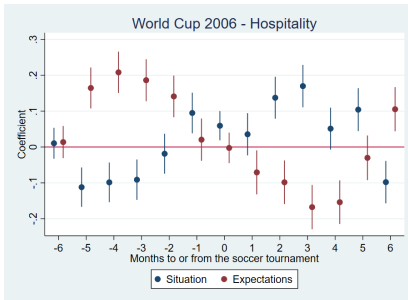
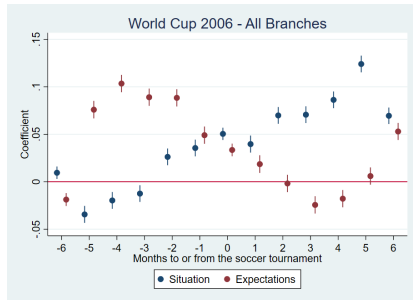
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- Example: The 2006 World Cup in Germany resulted in an estimated 700,000 additional hotel stays by foreigners, generating around 600-700 million euros in tourism revenue (Allmers and Maennig, 2009).
- However, the impact on tourism is not always consistent:
  - ▶ The 1998 World Cup in France did not lead to an increase in tourism revenue, as different tourists with lower spending patterns replaced usual visitors.
  - ▶ The 2014 World Cup in Brazil saw nearly 1 million additional tourists, significantly exceeding expectations, driven largely by fans from neighboring Argentina.

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  - ▶ The 2014 World Cup in Brazil saw nearly 1 million additional tourists, significantly exceeding expectations, driven largely by fans from neighboring Argentina.
- Tourism impacts are highly dependent on tournament progression and fan behavior, making the effects difficult to predict.

# The effect of hosting a World Cup



Notes: Number of observations 206,053 and for the hospitality sector 6,487. OLS coefficients and 95% confidence intervals for the event-study indicators from equation (1) with firms sentiment concerning situation being 'good' and expectations being 'better' as dependent variables. Covered time period 2005 - 2007.



# The effect of winning a World Cup



Notes: Number of observations 231,147. OLS coefficients and 95% confidence intervals for the event-study indicators from equation (1) with firms sentiment concerning situation being 'good' and expectations being 'better' as dependent variables. Covered time period 2013 - 2015.

## A European Perspective

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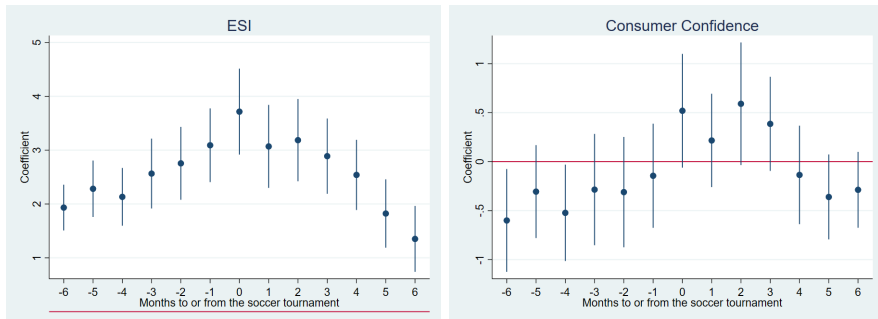
We run the following unbalanced pooled regression model

$$y_{it} = \alpha + \sum_{l=-6}^6 \beta_l \text{Football}_{lt} + c_i + \mu_t + \varepsilon_{it}, \quad (2)$$

where  $y_{it}$  is either consumer confidence or the ESI.  $\text{Football}_{lt}$  covers the same dummies as defined before. We include time fixed effects ( $\mu_t$ ) and country fixed effects ( $c_i$ ). We cluster errors at the country level.

# European Results

Figure: Impact on ESI and Consumer Confidence



Notes: Number of observations 10,221. OLS coefficients and 95% confidence intervals for the event-study indicators from equation (2) with ESI and Consumer Confidences as dependent variables.

## Summary of Findings



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- Sectoral variation observed: while the industry and services sectors showed significant increases in optimism, the wholesale and retail sectors displayed more neutral responses.
- The analysis also identifies the "post-event normalization" effect, where sentiment declines after an initial boost, as seen following Germany's 2014 World Cup victory.

# Conclusion and Implications

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- While these tournaments boost sentiment, especially in host countries, the effects can be temporary and vary significantly across sectors.
- The post-event normalization effect highlights the need to consider both short-term euphoria and long-term economic adjustments.
- From a European perspective, the positive sentiment is not limited to host countries but can spread regionally, driven by consumer spending and tourism.