Bloomberg

According to Golf, the Economy Is Out of the Rough

By Nikhil Hutheesing - Jul 31, 2013

To see where the economy is going, you can follow established indicators such as housing starts and jobless reports. Or you can keep tabs on quirkier ones, such as beer sales, lipstick sales, even hemline lengths. Somewhere in the middle is golf.

Golf?

Well, when people retire, some want a house on a golf course with open views and plenty of green, even if they aren't golfers. There's your existing-home-sales data. When the economy is improving, golfers spend more on golf clothes, golf vacations, greens fees and the like (consumer spending). And as demand picks up, more golf courses, and homes, are built and old ones spruced up (housing starts).

Improving Sentiment

Right now, golf is pointing to an economy that's out of the rough (click here for a closer look at the golf economy). Steven Ekovich, managing director of the National Golf & Resort Properties Group, a division of real estate investment firm Marcus & Millichap, says financing is returning to the industry. He estimates that the number of distressed assets has fallen by 65 percent since 2009 and says that investor sentiment is improving.

"As the economy heals, we expect to see course values go up this year for the first time in six years," he says.

One reason things are looking better: Lenders that were saddled with loads of distressed debt in golf courses when the housing market plummeted have unloaded much of that debt, in part by selling courses. The pace of sales of 18-hole championship-length golf courses slowed from 86 in the first half of 2012 to 55 in the first half of this year. That means the courses that made it through this period are financially healthier, Ekovich says.

And the courses being sold now are selling for more money. The average transaction price in the first half of 2011, $3.1 million, rose to $3.3 million in the first half of 2013. (Marcus & Millichap examined golf course sales of between $1 million and $10 million, omitting large transactions so as not to skew results.)

Rising Rounds

Perhaps the best indication that things are improving is that golfers played nearly 500 million rounds in 2012, up 5.7 percent from 2011, according to the National Golf Foundation. While the number of rounds played this year may not be as high as last year because of poor weather conditions, the revenue from rounds of golf is rising. In May of this year, average revenue per round of golf was up 11 percent to $89.53 from a year ago, according to PGA PerformanceTrak, a benchmarking service of the PGA.

While such stats may not be a convincing reflection of the economy on their own, the sheer size of the golf economy gives them more heft. The core business of golf was worth $69 billion in 2011, according to the latest data from SRI International. (See the slideshow, The Real Economic Impact of Golf.) That's more than twice the revenues for pro spectator sports, which includes baseball, basketball, football and hockey, and almost as big as the motion picture business, according to SRI. If you consider the spillover effect golf has on other industries, the revenue is much higher -- $177 billion.

Golf did a good job of mirroring the economy during the most recent recession. From the mid-1980s to 2005, the annual growth rate in the number of people golfing was three percent; the golfing population in the U.S. peaked at about 30 million. In 2008, a year after the recession began, the number of golfers fell by three percent from 2007. As jobless claims rose, private memberships at golf clubs fell by 900,000 by 2010 from a peak of 3 million in the early 1990s, according to the National Golf Foundation. And as housing prices plummeted, homes on golf courses were hit even harder. By 2010, about 15 percent of the 4,400 private clubs around the nation were struggling, with at least 500 trying to increase cash flow, according to SRI. Many closed.

So far, it appears that the golf industry, in line with the U.S. economy, has turned the corner. The National Golf Foundation expects the number of golfers to grow by about three million between 2010 and 2020. That comes to a growth rate of about 1 percent -- an improvement from recent years, though not a robust sign of an improving economy.
