

Ascertaining a Correlation between Economic Slowdown & the Indian Entertainment Industry

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Abstract: Lockdowns have been resorted to by the Governments around the world as a safeguard against the spread of COVID-19. The lockdowns in India have affected trade and commerce adversely with some industries being hit worse than the others. The entertainment industry was also affected due to lockdowns. The entertainment industry is primarily a human resource and skills-based industry, therefore the production of new entertainment material was stalled for a significant period. Besides this, the cinema halls/multiplexes/theaters were closed, thus impacting the distribution and consumption of entertainment products. Since, the entertainment industry contributes significantly to the economic growth therefore it becomes important to study the effect of economic slowdown and lockdowns on this industry. This research article studies the nature of impact of economic slump and lockdowns on entertainment industry.

Keywords: Indian, Economic Slowdown, Lockdown, Entertainment Industry.

1. INTRODUCTION:

In India, the lockdowns declared to contain the spread of COVID-19 have intensified the extent of crisis that the economy was facing since 2018. Recovery is expected to be V-shaped for the Indian economy as per the Economic Survey of 2021-22. That be the case, it is also likely that the recovery time will differ from industry to industry. For the entertainment industry, a V-shaped recovery is being visualized similar to the overall economy. In 2019, The Indian Media and Entertainment sector grew by 9% to reach Rs 1.82 trillion and by the year 2022 it is expected to go beyond Rs. 2.4 trillion ^[1]. Clearly, the Indian entertainment industry is crucial from socio-economic point of view, therefore it is essential to study the impact of economic recession & lockdowns on this industry.

2. OBJECTIVES:

The objectives of the paper are to ascertain the impact on Indian entertainment industry of :

- 2008 economic crisis and the recent economic slowdown (in the immediate pre-COVID-19 period).
- Lockdowns declared to contain the spread of pandemic in India.

3. METHODOLOGY:

The methodology of this paper is based on secondary data. A logical approach has been applied on the basis of secondary data to establish the nature of correlation between economic slowdown and the performance of the Indian entertainment industry.

4. Economic Slowdown & Indian Entertainment Industry:

In recent past, India's economy has been adversely affected by the 2008 global recession while more recently i.e., since 2018 its Gross Domestic Product (GDP) has been declining due to external shocks, demonetization of the Indian rupee in 2016, hasty implementation of Goods and Services Tax (GST) , rising Non-performing Assets (NPAs), etc. Lockdowns declared by the Indian Government to contain the virus has magnified this slowdown into a recession with the economy experiencing a GDP decline of -23.9 in Q1 April- June 2020. The following analysis studies the impact of different periods of economic slowdown/ recession on the Indian entertainment industry:

A) Correlation between Indian economic slowdown and the entertainment industry

In 2018-19, economists had already started sounding out a note of caution on the economic health of the nation. According to them all was not well on the economic front. Contrary to their views, in October 2019 Union Minister of Law and Justice, Electronic and Information Technology and Communication Shri Ravi Shankar Prasad remarked that all was well with India's economic health and the indicator of good health was 3 movies making 120 crores in a day. He drew flak for his statement of '3 movies and 120 crores business' from the economic fraternity. Though he retracted his statement the episode managed to draw attention to the nature of correlation between an economy's performance and its entertainment industry.

With the recent Indian economic slowdown, the manufacturing sector, aggregate investments, employment generation, and aggregate consumption levels have witnessed a slump. A positive correlation exists between the decline in an economy's GDP and productive economic activities with a few exceptions like the lipstick and intoxication indexes that do well despite a fall in GDP. In context to the entertainment industry, its correlation with GDP needs to be ascertained.

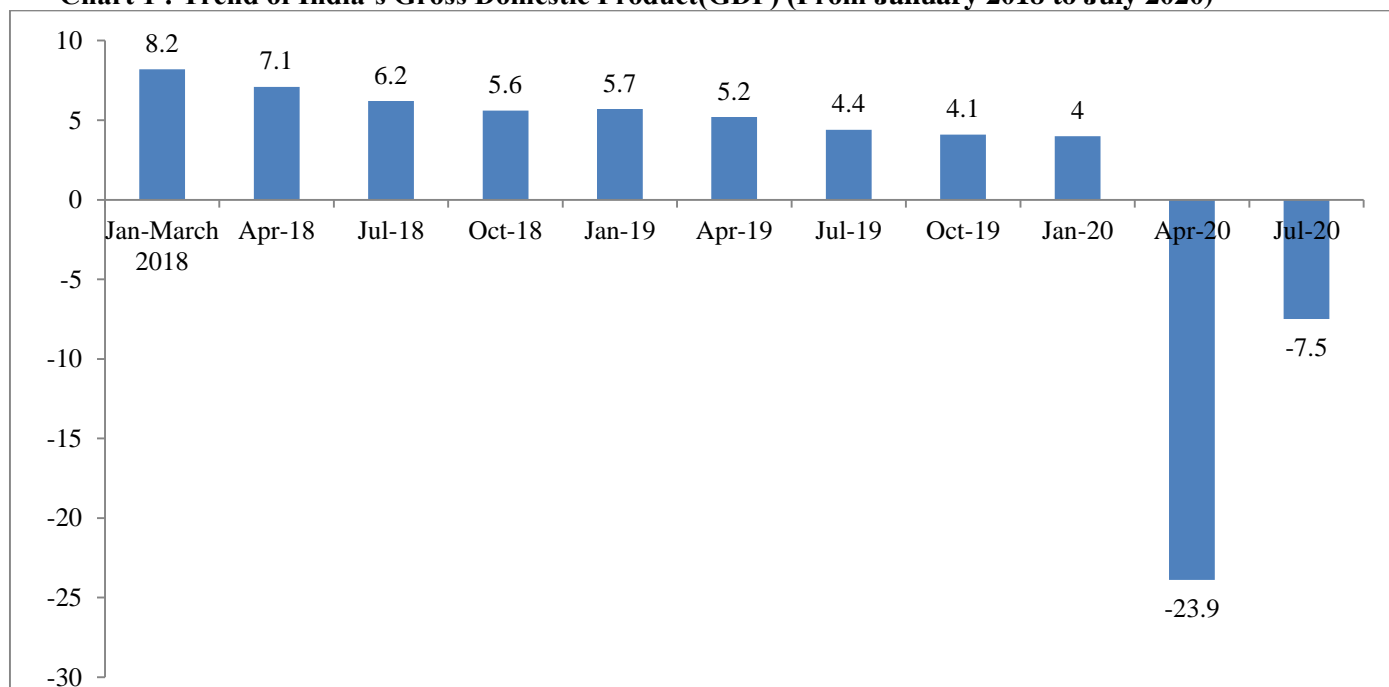
Conflicting views exist while drawing a correlation between the Indian economy's recent economic slowdown and the entertainment industry. Ajay Bijli, Chairman & MD of PVR Ltd., gave a statement ^[2] in 2008 that the entertainment industry is recession-proof and that any film with good content is bound to do well, irrespective of an economic slowdown or recession. Likewise, the United States of America during the Great Depression in the 1930s saw some of the best and most successful movies being created, to name a few The Wizard of Oz, Gone With the Wind, and Three Little Pigs.

But contrary to the above, there have been studies and opinions that differ. According to Harold Vogel, author of the book "Entertainment Industry Economics: A Guide to Financial Analysis", the entertainment industry is not recession-proof since the movie industry earned \$ 720 million in 1929. The 1920s were the years of *leisure revolution* for Hollywood which was probably due to its transition to talkies. But, soon the revenues started plunging from the next year and plunged further by 35% over the next three years with the average weekly movie attendance falling by 37% between 1929- 1932 with a drop in the ticket prices as well ^[3]. In 1933, the revenues dropped from \$ 720 million in 1929 to \$ 480 million which shows a positive correlation between the performance of the US economy and its entertainment industry. Further, during the Great Recession of 2007-08, about 57,000 US workers in the art, entertainment, and recreation sector lost their jobs but during this period the actual business of selling movie tickets fared well in the US and Canada ^[4].

Thus, there are conflicting opinions among the experts while drawing a correlation between economic slowdown and the entertainment industry. While some believe there is a negative correlation between the two, others believe that the two share a positive correlation.

The detailing below, with the help of facts, is an attempt to ascertain a correlation between the Indian entertainment industry and economic slowdown:

Chart 1 : Trend of India's Gross Domestic Product(GDP) (From January 2018 to July 2020)



Source: Tradingeconomics.com/MOSPI

The Indian economy has slowed down from January 2018 Q1 with a negative dip of (-) 23.9 % in April 2020 Q1, the worst contraction in India since its independence ^[5]. As the Indian economy faces a challenging economic period of recession with high unemployment levels, concerns have surfaced with regards to the performance of the Indian entertainment industry during this time.

In 2008, as shown in Table 1, when the global economy saw a slowdown, industrial and manufacturing activities also slowed down with lakhs being laid-off across the globe, but the Indian entertainment industry during this time of

economic slowdown did well. In 2008, despite the banking system bleeding, 87 films that were released across the nation collected Rs. 1,189 crores (gross collections less distributors' margin). But in 2009, when the Indian economy had come out of this crisis period, 90 films were released recording a collection of Rs. 1,168 crores, i.e. a fall of 2%.

According to the FICCI- KPMG annual survey on media and entertainment, the film business generated revenue of Rs. 10,400 crores in 2008 despite the slowdown. The business during this period grew over 12%, whereas in 2009, when the economy had rebounded the turnover fell by 14% demonstrating a negative correlation between the country's economic performance & its entertainment industry.

Table 1: No. of Movies Released and Revenue Collection in the years 2008 & 2009

Year	No. of Movies Released	Collection in Crores
2008	87	1,189
2009	90	1,168
Source: Business Standard		

Though during the January and April quarters of 2019-20, GDP in India stood at 5.7% and 5.2% respectively, the movie business contrary to this has done well. From *War* earning a worldwide gross of around US \$ 67 million to *Kabir Singh* earning US \$ 53 million, *Uri: The Surgical Strike* earned US \$ 48 million and so on^[6]. This shows that the entertainment industry has defied the recessionary macroeconomic impact.

The possible reasons for the entertainment industry doing well during the economic slowdown could be that people look forward to escaping the negativity that slowdown brings by opting for a movie show and also because movies are more affordable than going for a vacation or a meal or some other costly forms of recreation.

Analysing Financial Sheets of Entertainment Groups in the Immediate Period Preceding COVID-19

From the various financial sheets of entertainment groups/companies (in the immediate pre-COVID-19 period) it can be ascertained that the Indian entertainment industry has not been adversely affected due to the recent economic slowdown. Though some groups do show a downward trend in their net profits from Q3 December 2018 to Q4 March 2018-19, when a comparison is made with the December quarter of FY 2019, it shows that the entertainment industry does not exhibit a direct correlation with economy's downward swing.

**Table 2: Income Statement of PVR Ltd.
 Quarterly Trends from Sept. 2018 to Sept. 2019**

Quarterly Trends of PVR Ltd. Income Statement						
(in crores)	Sept ,19	June, 19	March,19	Dec, 18	Sept, 18	FY 2018-19
Net Profit	48.62	12.24	46.33	45.87	30.85	172.75
Source: BSE India						

**Table 3: Income Statement of Prime Focus Ltd.
 Quarterly Trends from Sept. 2018 to Sept. 2019**

Quarterly Trends of Prime Focus Ltd. Income Statement						
(in crores)	Sept ,19	June, 19	March,19	Dec, 18	Sept, 18	FY 2018-19
Net Profit	-13.86	-20.16	-0.67	15.15	-33.12	-33.27
Source: BSE India						

**Table 4: Income Statement of Eros International Media Ltd.
 Quarterly Trends from Sept. 2018 to Sept. 2019**

Quarterly Trends of Prime Focus Ltd. Income Statement						
(in crores)	Sept ,19	June, 19	March,19	Dec, 18	Sept, 18	FY 2018-19
Net Profit	6.12	11.02	18.12	22.51	21.54	87.36
Source: BSE India						

**Table 5: Income Statement of INOX Leisure Ltd.
 Quarterly Trends from Sept. 2018 to Sept. 2019**

Quarterly Trends of INOX Leisure Ltd. Income Statement						
(in crores)	Sept ,19	June, 19	March,19	Dec, 18	Sept, 18	FY 2018-19
Net Profit	35.13	26.99	48.07	36.45	11.98	133.47
Source: BSE India						

**Table 6: Income Statement of Tata Elxsi Ltd.
 Quarterly Trends from Sept. 2018 to Sept. 2019**

Quarterly Trends of Tata Elxsi Ltd. Income Statement						
(in crores)	Sept ,19	June, 19	March,19	Dec, 18	Sept, 18	FY 2018-19
Net Profit	75.42	49.81	48.79	71.29	65.99	289.97
Source: BSE India						

**Table 7: Income Statement of UFO Movies
 Quarterly Trends from Sept. 2018 to Sept. 2019**

Quarterly Trends of UFO Movies Income Statement						
(in crores)	Sept ,19	June, 19	March,19	Dec, 18	Sept, 18	FY 2018-19
Net Profit	-6.12	50.05	18.59	9.23	7.92	40.58
Source: BSE India						

The negative outlook that some companies are showing in their financial sheets cannot be attributed to an economic slowdown as in the past years of normal macroeconomic activity also, these companies have not performed well. In the case of Prime Focus Ltd., though the financial sheets are negative, it is still an improvement from 2018. In September 2018 Net Profits of Prime Focus Ltd., were -33.12 crores, having improved in September 2019 at -13.86 crores. In the case of Eros International Media Ltd., the financial adversity is not a recent one and cannot be attributed to the economic slowdown. Eros has been in a financial crunch for almost a decade with a faulty line of investments and manipulations of financial sheets. It also had a lawsuit filed against it by a US-listed unit resulting in its goodwill and stocks crashing internationally as well as in India. Lack of transparency, commitment, and poor reputation are the main reasons for its financial sheets showing red for almost a decade as they have been doing in recent years.

It can thus be concluded that during a normal period of recession, the Indian entertainment industry is not adversely affected by the general economic slowdown. On the contrary, an inverse correlation between economic slowdown and the performance of the Indian entertainment industry can be seen, since the Indian entertainment industry has not only withstood the negative effects of the 2008 economic crisis and economic slowdown before the onset of the pandemic (followed by lockdowns to control it) but has also remained robust and performed well during this period. This becomes crucial from socio-economic point of view as it denotes that despite a period of economic predicament, the entertainment industry contributes significantly to the country's GDP and employment generation.

B) Lockdowns to control coronavirus pandemic & their impact on the economic performance of entertainment industry

Lockdowns to control coronavirus pandemic were declared in India starting with the first phase from 25th March 2020 followed by strictures for the entertainment industry- closure of cinema halls, shooting, etc.

Lockdowns and the following period have adversely hit the Indian entertainment industry. The Indian entertainment industry that according to FICCI was worth Rs.1.82 trillion in 2019, has according to CRISIL experienced a loss of Rs 25000 crores ^[7]. Though OTT (Over-the-top) platforms have gained in the period, box offices have been adversely affected along with event management companies. Because of lockdowns, the revenue of the industry has also taken a severe hit. The annual box office earning of the Indian Film Industry is around Rs. 3,000 crores but in 2020 it was only around Rs 500- 600 crores ^[8].

This loss of the entertainment industry is linked to lockdowns and strictures/ guidelines declared by the Governments (state and Central) to control the spread of the pandemic. This cannot be linked to economic crisis/ recession.

5. FINDINGS:

Though the lockdowns declared by the Government of India to contain the spread of COVID-19 have adversely affected the financial performance of the entertainment industry. However, the negative impact of an economic slowdown is not seen on the Indian entertainment industry in times of normal economic slowdown.

6. CONCLUSION & SUGGESTIONS:

The entertainment industry is recession-proof and is therefore crucial regarding its contribution in the country's GDP and in employment generation, especially during periods of an economic slowdown. The negative impact of lockdowns can be mitigated to some extent by adopting various alternative mediums that are technologically advanced and require framing of new business models for this industry.

Though the Indian entertainment industry in the past was not threatened by the normal period of economic slowdown, the scene for it has changed with the onslaught of COVID-10 followed by lockdowns.

COVID-19 has globally overturned the functioning of the entertainment industry, especially the film industry. Though even before the pandemic, a transformation was witnessed in the production, distribution, and consumption of movies, COVID-19 has hugely impacted this transformation. Today worldwide streaming video on demand (SVoD) is being favoured. Even in India, COVID-19 resulted in a mass transformation of cinema viewing towards online platforms like Netflix, Amazon Prime, etc. that received a record subscription during lockdowns. Though this was a savior for the Indian film industry during the lockdown period, but the same has its own operational disadvantages like inadequate access to rural India, disrupted internet connectivity, high bandwidth use, payment of subscription fees, etc.

In the transformation that has taken place in the screening of entertainment products in India, the trend may continue of OTT platforms even post COVID-19. This calls for the industry to adjust its technologies with the new business models for it to endure and flourish. Even, though the television viewership surged during the lockdown period, in the post-COVID-19 period the traditional television medium may face stiff competition from OTT platforms with OTT platforms gradually substituting traditional television viewership. To tackle this threat, consideration will have to be given to the following:

- Government deregulating traditional television industry to compete with OTT platforms;
- Complementary working of traditional television with OTT platforms;
- Better quality of services from traditional media like television.

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