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STOCK PRICE CHANGES IN THE LEISURE INDUSTRY

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ABSTRACT

The Leisure Industry is examined in this paper in relation to the past ten-year business cycle. Stock price changes for seven industry segments and twenty firms are compared to the Standard and Poor's 500 Index of common stock for three recession and two expansionary phases of the business cycle. All seven industry segments outperformed the S and P 500. The twenty selected stocks displayed significant stock price movement which indicates high risk in the Leisure Industry. The conclusion is that in this high return, high risk industry, relatively high capital investment can be expected in the future. The industry is influenced significantly by business cycles of recession and expansion.

STOCK PRICE CHANGES IN THE LEISURE INDUSTRY

Standard and Poor's Index of 500 Common Stocks (S and P 500) stood at 102.03 in November, 1973, which was a peak month in the business cycle. By December, 1982, the last trough in the business cycle, the index was at 139.37. The change in the aggregate index was 36.61 percent over the period.

The purpose of this brief article is to examine the Leisure Industry, its segments, and several of the specific firms in the industry over the past ten-year period in comparison to the stock market as a whole as measured by the S and P 500 Index.

Financial markets in general and stock exchanges in particular serve the capitalistic environment as an allocator of financial resources. If the investor can make an above-average risk-adjusted rate of return in the Leisure Industry, capital will flow into the industry resulting in industrial expansion. This ten-year review will provide interested investors with a basis of comparison by using stock price indexes and their growth (decline) at specific sub-periods--three peaks and three troughs of the business cycle from November, 1973 to December, 1982.

LEISURE INDUSTRY

The Leisure Industry is not only complex and heterogeneous but also inconsistently defined. Generally, the industry can be viewed as having two major divisions: durable goods, such as boats, cameras, bicycles, video games, etc.; and services, such as gambling, travel, games, movies, etc.

Security analysts often view the Leisure Industry firms' stock price movements as the result of consumer preferences for escapism. Consumers, in escaping from the worries and pressures of the real world, spend their leisure time (and hence, their money) on a variety of leisure products and services. Today, leisure has a higher priority for consumers than it had in the past. Leisure now is viewed as more of a necessity. The public's tastes and preferences combined with demographic changes cause the leisure industry's segments to ebb and flow. It is this ebb and flow over business cycles for the industry's segments and firms which is the subject of this article.

BUSINESS CYCLE

The United States economy has had three recessions or downturns in the business cycle since 1973. The first recession began in November 1973 and ended sixteen months later, in March 1975. During this period, the S and P 500 declined by 17.89 percent. The second recession, which began in January 1980, was short and mild. This second recession, which ended six months after it started in July 1980, saw the S and P 500 increase by 8.08 percent. The third recession is fresh in businessmen's minds. It began in July 1981 and ended in December 1982. During these 17 months the S and P 500 increased 7.93 percent.

The expansionary periods are more pleasant to discuss. The first of these lasted 58 months, from March 1975 to January 1980. A 32.33 percent increase was posted in the stock market index. The second expansionary period lasted only one year. The S and P 500 increased by 7.76 percent from July 1980 to July 1981. The business cycles as defined in this section are those defined by the U.S. Department of Commerce, Bureau of Economic Analysis, with the last peak (July 1981) and trough (December 1982) estimated by the author.(1)

INDUSTRY SEGMENTS

It is doubtful that agreement is possible concerning the type of business which should be included in the Leisure Industry. An effort is made to identify seven specific industry segments for which stock price indexes are available. These segments are shown in Table 1 along with the S and P 500. The table identifies the business cycles as defined above and reports the percent change in each industry segment for the phases of the business cycle. Table 1 contains information which can be used for a risk-return evaluation for the industry's segments.

For the first recession shown in column (2) (November 1973 to March 1975), the S and P 500 declined by 17.89 percent. Two segments declined by a greater percentage: Hotel/Motel--19.92, and Restaurants--25.92. If risk is defined as a return less than the market return, then these two

segments proved themselves to be relatively risky in the first recession. The initial conclusion of the relative riskiness of the Hotel/Motel and Restaurants segments can be accepted only by further examination. In column (3), the S and P 500 is shown to have increased during the second recession (January 1980 to July 1980) by 8.08 percent; both the Hotel/Motel and Restaurants segments outperformed the S and P 500 in the second recession. In the third recession (see column (4)), the Hotel/Motel segment underperformed the market while the Restaurants segment increased at an impressive 46.29 percent compared to the S and P 500's 7.93 percent. For expansionary phases of the cycle, the Hotel/Motel and Restaurants did relatively well. Note that Restaurants slightly underperformed the market (see column (5)) in the first expansion, 31.36 percent compared to 32.33 percent for the S and P 500.

The Gaming segment was the big loser. This segment declined consistently relative to the market; however, the new Gaming Index began in 1978, so data are unavailable for the first recession and the first expansion. As will be shown later, specific gaming stocks posted extraordinarily large gains during the first expansion.

The Leisure Time Index was the consistent winner, outperforming the S and P 500 in each phase of the business cycle. The other four segments turned in mixed results. Air Transportation outperformed the market only in the first and third recessions and in the second expansion phase of the cycle.

Entertainment was an impressive group in the first recession with an index move of 83.79 percent compared to a decline in the market of 17.89 percent. The Entertainment segment also posted impressive stock price gains in the two business expansions, but underperformed the market in the second and third recessions. The Entertainment segment is the only sub-group to post consistent price increases in all recessions and expansions since 1973.

Radio/TV, like Entertainment, showed a positive return in the first recession and outperformed the market in both expansion phases of the business cycle. During the short mild recession of 1980, the Radio/TV index fell slightly while the market increased.

If the entire period were examined, Entertainment would post the highest overall gain; however, each segment for which data are available outperformed the market! See Table 2.

LEISURE INDUSTRY'S FIRMS

Twenty non-randomly selected firms are examined in this section. The firms selected are shown in Table 3, which is presented in a format comparable with Table 1. Ten of the firms shown in Table 3 were firms included in the stock price indexes presented in Table 1; ten of the stocks were not represented in the segmented industry indexes. Twelve of the firms' stock prices were adjusted for stock splits and/or stock dividends.

Of the twenty stocks shown in Table 3, thirteen declined in the first recession compared to only nine and eleven in the second and third recessions, respectively. Only three stocks declined during the long

expansion from March 1975 to January 1980. Six declined during the second expansion.

Half of the stocks underperformed the market in the first and second recessions, and twelve underperformed the market in the third recession. In the expansionary phases of the business cycle, seven underperformed the market in the first upswing while nine stocks were underperformers from July 1980 to July 1981. If risk is defined as not equaling market performance, then these 20 stocks are risky. In an industry characterized by high returns as shown in Table 2, high risks can be expected, and Table 3 clearly reflects high risk. For the entire period from November 1973 to December 1982, four of the 20 stocks posted absolute price declines: Polaroid lost 68.45 percent of its value, Berkey Photo lost 41.03 percent, Wurlitzer lost 24.95 percent and AMF declined by 24.45 percent.

The big gainer was Caesar's World with a gain of 1,034.95 percent for the period, followed by Warner (903.59 percent), VIACOM (868.00 percent), and Jostens (585.31 percent). Thirteen stocks outperformed the S and P 500 gain of 36.61 percent. In addition to the four stocks showing losses, Playboy (31.71 percent), Murray Ohio (20.06 percent), and Eastern Airlines (14.29) had positive returns from November 1973 to December 1982, but the returns were less than the market return as measured by the change in the S and P 500 index.

CONCLUSION

The Leisure Industry is a growth industry. Investors have been fortunate in the past ten years if they bought stocks in the industry, since all of the identified segments of the industry outperformed the market. The "fly in the soup" is that many individual securities did not outperform the market; in fact, many have shown absolute declines in price. While no sweeping generalizations can be made since Table 3 contains only 20 non-randomly selected companies, the point is clear: not all stocks rise in price even in a growth industry. High risk is present in an environment of high returns. The conclusion stated in economic terms is that capital investment can be expected to flow into the Leisure Industry of the future at a relatively (relative to other industries) high rate. Risks and returns are influenced by the business cycle. The adage that the Leisure Industry is recession-proof is only a half truth. The Leisure Industry's growth is retarded in recessions, although not always as much as the economy (stocks) in general.

TABLE 1

STOCK PRICE CHANGES FOR THE LEISURE
INDUSTRY'S SEGMENTS(a) COMPARED TO
THE STOCK MARKET FOR THE
PAST TEN YEARS OF THE
BUSINESS CYCLE
(percent change)

STOCK INDEX	-----RECESSIONS-----			----EXPANSIONS----	
	FIRST	SECOND	THIRD	FIRST	SECOND
Beginning Date:	Nov.1973	Jan.1980	Jul.1981	Mar.1975	Jul.1980
Ending Date:	Mar.1975	Jul.1980	Dec.1982	Jan.1980	Jul.1981
Duration(months):	16	6	17	58	12
(1)	(2)	(3)	(4)	(5)	(6)
S and P 500(b)	(17.89)	8.08	7.93	32.33	7.76
Air Trans.(b)	(16.51)	(1.74)	44.29	12.83	25.52
Entertainment(b)	83.79	3.11	4.92	142.53	42.13
Gaming(c)	N/A	(1.48)	(4.03)	N/A	(25.59)
Hotel/Motel(d)	(19.93)	14.53	4.92	171.12	25.72
Leisure Time(d)	(9.14)	24.88	10.68	93.20	96.56
Radio/TV(b)	17.79	(1.92)	50.59	105.56	25.25
Restaurants(d)	(25.92)	12.75	46.29	31.36	36.24

SOURCES: Standard and Poor's Corporation; U.S. Department of Commerce, Bureau of Economic Analysis; (percent changes calculated by the author)

NOTES: The parenthesized numbers represent declines. N/A indicates that data were not available.

(a)The stocks comprising the industry's segments are as follows: AIR TRANSPORT: (1) AMR Corp. (formally American Airlines); (2) Delta Airlines, (3) Northwest Airlines, (4) Pan American World Airways (formally Aviation Corporation of America), (5) UAL, Inc. (formally United Airlines); ENTERTAINMENT: (1) Columbia Pictures, (2) Disney (Walt), (3) MCA, (4) MGM/UA Entertainment Co. (formally Metro Goldwyn Mayer), (5) Warner Communications, Inc.; GAMING: (1) Bally Manufacturing, (2) Caesar's World, (3) Restors International, (4) Webb (Del E.); HOTEL/MOTEL: (1) Hilton Hotels Corp., (2) Holiday Inns, (3) Ramada Inns; LEISURE TIME: (1) AMF Inc., (2) Brunswick Corp., (3) Handleman Co., (4) Outboard Marine Corp., (5) Questor Corp. (formally Dunhill International); RADIO/TV: (1) American Broadcasting, (2) CBS Inc., (3) Capital Cities Communications, (4) Cox Broadcasting, (5) Metromedia, (6) Taft Broadcasting; RESTAURANTS: (1) Church's Fried Chicken, (2) Denny's Inc., (3) Gino's Inc., (4) Howard Johnson, (5) Marriott Corp., (6) McDonalds, (7) Wendy's International.

(b) Index base: 1941-1943=10

(c) Index base: 1978=10

(d) Index base: 1965=10

TABLE 2

RANKING OF THE STOCK PRICE CHANGES FOR
 THE LEISURE INDUSTRY'S SEGMENTS
 COMPARED TO THE STOCK MARKET
 NOV. 1973 TO DEC. 1982

RANK	SEGMENT	PERCENT GAIN
1	Entertainment	585.35
2	Leisure Time	376.90
3	Radio/TV	347.98
4	Hotel/Motel	227.97
5	Restaurants	118.68
6	Air Transport	67.65
7	Gaming	not available
-	S and P 500	36.61

SOURCE: Standard and Poor's Corporation; (percent changes calculated by the author).

TABLE 3

STOCK PRICE CHANGES FOR TWENTY SELECTED FIRMS
IN THE LEISURE INDUSTRY COMPARED TO THE
STOCK MARKET FOR THE PAST TEN YEARS
OF THE BUSINESS CYCLE

(percent change)

FIRM/INDEX	-----RECESSIONS-----			---EXPANSIONS---	
	FIRST	SECOND	THIRD	FIRST	SECOND
Beginning Date:	Nov. 1973	Jan. 1980	Jul. 1981	Mar. 1975	Jul. 1980
Ending Date:	Mar. 1975	Jul. 1980	Dec. 1982	Jan. 1980	Jul. 1981
Duration (months);	16	6	17	58	12
(1)	(2)	(3)	(4)	(5)	(6)
S and P 500	(17.89)	8.08	7.93	32.33	7.76
Delta Airlines(a)	(2.61)	25.94	38.01	7.02	27.29
Eastern Airlines(a)	(16.07)	23.94	(8.57)	51.06	(20.45)
Disney (Walt)(a)	1.68	13.67	17.67	2.47	1.42
MCA(a)	125.99	(18.28)	54.50	176.88	1.38
MGM/UA(a)	139.65	(24.05)	(34.00)	173.43	(16.67)
Warner(a)	(36.95)	15.19	(31.28)	893.13	109.00
Bally(a)	(62.67)	(7.75)	(8.78)	821.43	(13.87)
Caesar's World(a)	30.36	0.00	(17.14)	1,955.82	48.91
Coleco(a)	(41.30)	76.60	267.50	74.07	(3.61)
Holiday Inn	(22.32)	38.10	24.15	68.97	16.26
AMF	(26.01)	16.38	(25.14)	(9.38)	29.63
Outboard Marine	6.21	(21.55)	49.03	(24.68)	70.33
CBS	60.71	(1.44)	7.17	15.83	8.52
Polaroid	(70.00)	23.20	(8.60)	(5.73)	(0.90)
Berkey Photo	(53.85)	(2.56)	39.39	8.33	(13.16)
Jostens(a)	25.44	16.96	37.93	198.95	13.28
Murray Ohio(a)	(42.65)	(19.32)	(4.65)	125.64	21.13
Playboy	(29.27)	(5.00)	(39.33)	382.76	(33.08)
Viacom(a)	(9.98)	8.13	(6.92)	637.65	44.84
Wurlitzer(a)	(37.52)	(7.94)	(61.90)	136.49	44.83

SOURCES: Standard and Poor's Corporation; Moody's Investors Service, Inc.; and Dow Jones and Co.; (percent changes calculated by the author)

NOTE: The parenthesized numbers represent declines.

(a) Adjustments were made for stock splits and/or stock dividends.

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