

The Economic Impact of the NAIAS: Does the Sowerby Study Provide the Right Data?

By Andrew Batson and Jonathan Silberman, Ph.D.

Replacing Cobo Hall, a priority for incoming Detroit Mayor Ken Cockrel, Jr. and a long awaited compromise and agreement among the regional players, may be forthcoming. Interest in Cobo Hall centers on retaining Detroit as the host city for the North American International Auto Show (NAIAS) because of the dollars it brings to metro Detroit. It is widely reported that events at Cobo pump \$595 million annually into the economy and provides 16,600 jobs for the region, with 80 percent of that coming from the auto show, according an economic impact study published in December 2007 by David Sowerby, portfolio manager and chief analyst in the Bloomfield Hills office of Loomis, Sayles & Co.

Since the Cobo renovation & expansion will involve millions of taxpayer dollars, policy makers need the **'right data'** to make the best possible decision. The Sowerby study substantially overstates the economic impact of the NAIAS from visitors and fails to account for the economic impact from exhibiting companies. The critical errors in the Sowerby report are:

It overstates NAIAS attendance. The first major challenge is to obtain an accurate estimate of attendance, because all economic impact estimates are derived from this number. The Sowerby report uses NAIAS attendance of 960,000. Attendance at the 2006 NAIAS from the official web site is public 759,310, media 6,647 and industry 17,440.

It includes economic impact from local residents. Local visitors should not be included in the economic impact. Expenditures by those who reside in the community only represent a recycling of money that already exists there and would have been spent anyway. Economists refer to this as substitution. The percentages of visitors that is local (70) and non-local (30) appear to be arbitrarily assigned, not based on a random survey of visitors.

It overstates non-local visitor spending per day at \$325. No source is provided for this figure, it fails to account for the impact of party size. In contrast, the economic impact of Super Bowl XL uses a spending per day figure of \$193.

It uses a length of stay of 2.5 days for all non-local visitors (30 percent of 960,000). This figure is arbitrary, not based on a survey of visitors. It is likely that media and industry visitors will stay more than 2.5 days. However, public visitors are likely to stay less than 2.5 days. Many will be visiting only for a day, driving from Windsor, Ann Arbor or Toledo; others will stay only 1 night.

It overstates the indirect impacts by using a multiplier of 1.9. Other recent economic impact studies for events in Detroit (Super Bowl, MLB All Star Game, Ryder Cup, and PGA Championship) all use a multiplier of around 1.6. A multiplier of 1.9 is reasonable only if you account for the fact that only a portion of visitor spending accrues to the region as final demand. Economists refer to this as the capture rate.

After correcting the errors in the Sowerby study, we estimate that the economic impact of the NAIAS from visitors is \$77 million, substantially less than the Sowerby estimate of \$476 million. The Sowerby study is incomplete, as it did not include the economic impact from the exhibiting companies and NAIAS producer. Using figures from the New York Auto Show, these economic impacts are likely to be in the \$100 million range. Our best estimate, using incomplete information, is an annual economic impact from the NAIAS of \$177 million. This figure should be used as a basis for estimating with and without Cobo renovation economic impacts.

The economic impact of the NAIAS is only the first step in assessing the benefits of the Cobo Hall renovation and expansion. Assigning all the economic impact to the renovation means that without the project, the NAIAS will not exist in Detroit – the extreme outcome. More realistic is an estimate of the economic impact of the NAIAS with the Cobo renovation (more exhibits and visitors) minus the economic impact of the NAIAS without the project (reduced exhibits and visitors).

More accurate information should be obtained about the economic impact of the NAIAS by conducting a survey of visitors to the 2009 NAIAS on their spending, length of stay and origin, and gathering data on the spending of exhibiting companies. Of special importance is information on the percentage of visitors that are local, non-local day and overnight visitors. Interviews with exhibiting companies can shed light on the likely with and without project conditions. This information, used with correct economic impact methodology, will provide local officials with the right data to make the best possible decision on the Cobo Hall renovation and expansion.

Andrew Batson is a general business major and economics minor at Oakland University. This research was in fulfillment of his independent study in urban economics. Andrew will graduate in May 2009 and plans to pursue a graduate degree in urban planning. Jonathan Silberman is a Professor of Economics at Oakland University and the supervising faculty member on the study. He has extensive experience performing economic impact studies for the Army Corps of Engineers and other public agencies. Copies of the complete report are available by emailing Dr. Silberman at Silberma@Oakland.edu.