

# Video game industry faces tougher year

February 22 2009, By Dan Gallagher

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After enjoying a banner year in 2008 despite the slowing economy, the video game industry may find the coming year to be more of a challenge.

The mounting recession along with a lack of big blockbuster titles in the pipeline is expected to weigh on the sector in 2009. And while no one is predicting a major downturn in what many analysts consider to be a recession-resistant business, tough comparisons with the prior year and rising development expenses are expected to put more squeeze on game makers - several of whom are already coping with their own internal issues.

"Any year that you don't have a 'Grand Theft Auto' or a 'Halo,' you're going to get a cautious outlook," said Michael Pachter, video game analyst for Wedbush Morgan.

To be sure, there are some notable new releases in the pipeline for the year, along with updates to popular franchises such as "Guitar Hero" and "Call of Duty." And unlike last year, 2009 will feature a new hardware platform - the handheld Nintendo DSi - that could give a boost to related game sales among early adopters.

But the industry will still have to contend with a slowing economy that has strained the spending power of consumers. It also has to compete with itself in a sense, as strong results last year create comparisons that will be difficult to match.

"Following an extremely competitive 2008 in which many highly

anticipated titles including 'Grand Theft Auto IV,' 'Mario Kart Wii,' 'Super Smash Bros. Brawl,' and 'Wii Fit' were released, we expect that the release environment in 2009 will be somewhat less competitive," Doug Creutz of Cowen & Co. wrote in a report last month.

In 2008, sales of video game software and equipment racked up more than \$21.3 billion in the U.S., according to data from the NPD Group.

That represents a gain of 19 percent over the prior year, despite the fact that a full-scale economic meltdown was well under way during the crucial holiday shopping season. Sales of game software surged 26 percent for the year while hardware sales were up 11 percent.

For the current year, expectations are more modest. Most analysts are expecting game sales to grow in the high single-digits for the year, around 9-10 percent. GameStop, a video game retail chain with stores across the U.S., said Thursday it expects 2009 sales to grow between 10 percent and 12 percent - a figure that would include both gaming hardware and software.

"It's always hard to quantify with the economy the way it is," said Arvind Bhatia of Sterne Agee. "Our 5-10 percent (projection) would have been 10-15 percent without the economy. These numbers are not baking in a worst-case scenario. We're assuming the economy will be tough but not tougher than it is right now."

Besides the floundering economy, the main weakness facing the video game industry this year - according to analysts - is the lack of any clear-cut blockbuster titles in the release pipeline.

"Last year, we had 'Grand Theft,' 'Metal Gear' and 'Gears of War,' and there's nothing like that on the calendar for this year," Pachter said.

The last two years have seen the release of major sequels such as "Halo 3" in late 2007 and "Grand Theft Auto IV" in early 2008. These are high-production titles that appeal to hard-core gamers who often rush out to buy them upon release. Microsoft does plan to release "Halo Wars" later this year, but the game differs from the previous "Halo" titles because of its design as a real-time strategy game rather than a first-person shooter. It is also being made by a different developer than the studio responsible for the previous hits.

"It's going to be a more steady year without the blockbusters," Bhatia said, noting that the year will still see new releases for popular franchises such as "Tony Hawk" and "Assassins' Creed." "It's going to be a decent year, and the installed base is up a lot from last year."

Other big core-gamer titles on the slate for this year include "Killzone 2," a first-person shooter set for release next Friday. But sales of the game will be constrained by the fact that it is designed exclusively for the PlayStation 3 from Sony Corp., which has seen the smallest market penetration of the next-generation consoles.

Later in the year, Take-Two Interactive will release "Bioshock 2," a sequel to its surprise hit from the 2007 holiday season.

This year will see further extensions of the popular "Call of Duty" and "Guitar Hero" franchises from Activision Blizzard. The company is also expected to launch a new PC title called "Starcraft" that will come from the same developers behind the mammoth online multiplayer hit "World of Warcraft."

Electronic Arts is expected to benefit from movie tie-ins to big summer films such as "Harry Potter and the Half-Blood Prince" and "G.I. Joe," as well as its steady stream of sports titles such as "Madden NFL." The company also has a highly anticipated title from its Bioware studios

called "Dragon Age: Origins" set to hit late in the year.

EA is currently undergoing restructuring efforts designed to reduce its costs, as is THQ Inc. THQ has a relatively small release schedule this year, with "Red Faction: Guerrilla" and Darksiders: Wrath of War" coming later in the year.

Nintendo is expected to have another strong year, as demand for the Wii console remains high and the company prepares to launch a new handheld device in April.

The company's current handheld DS has sold more than 28 million units to date in the U.S. alone, according to NPD data, and the Wii has passed by the Xbox 360 and the PS3 to become the best selling of the next generation consoles.

On the game front, Nintendo ruled last year with the top four game titles of the year. "Wii Play" and "Wii Fit" - which sold nearly 10 million units combined last year in the U.S. alone \_ are expected to continue strong this year, as the game come bundled with popular hardware such as the Wii Balance Board.

For this year, Nintendo plans to release a Wii version of "Pikmin" as well as a line of sports games such as a boxing title called "Punch Out" and "Wii Sports Resorts."

Expectations for other game hardware are more muted. Bhatia expects unit sales of the Xbox 360 and PlayStation 3 to remain relatively flat with 2008. Many analysts expect Sony to reduce the price of the PS3 which - at \$400 \_ remains the most expensive of the consoles. The basic version of the 360 fell below the \$200 price point last year, and Nintendo continues to sell out much of its Wii inventory at the original \$250 price.

"If they (Sony) don't do it this year, they run the risk that publishers will be reticent to support the PlayStation 3," Pachter said. "It's a trade-off for them."

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Citation: Video game industry faces tougher year (2009, February 22) retrieved 7 May 2024 from <https://phys.org/news/2009-02-video-game-industry-tougher-year.html>

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