



MEMORANDUM

December 9, 2011

To: Office of Senator Ron Wyden
Attention: Jayme White

From: Sue Kirchhoff, Analyst in Industrial Organization and Business, 7-0658

Subject: U.S. Motion Picture Industry

This memo is in response to your request for information about the financial condition of the U.S. motion picture industry. Specifically, you asked for information on the industry's:

1. nominal contribution to Gross Domestic Product (GDP) in 1995 and 2010;
2. real contribution as a share of total GDP in 1995 and 2010;
3. gross revenue, both domestic and foreign (or the gross revenue of major studios) in 1995 and 2010;
4. net profits, both domestic and foreign (or the net profits of major studios) in 1995 and 2010;
5. direct employment, both domestic and foreign (or the direct employment of major studios) in 1995 and 2010; and
6. CEO pay in 1995 and 2010.

CRS has provided national data, where possible, and individual data for major studios: Time Warner's Warner Bros., Walt Disney's Disney Studio Entertainment, News Corporation's Twentieth Century Fox, Viacom's Paramount, Sony's Columbia, and General Electric/Comcast's Universal. These studios represent about 80% of annual North American box office revenues.¹

The Department of Commerce, Department of Labor, and Internal Revenue Service collect financial and economic data on the motion picture and sound recording industry. In some cases, however, it is not possible to provide consistent information back to 1995. The federal government modified a number of industry categories, used for compiling information, in the 1990s, including the classification for the motion picture and sound recording industry. In some instances data sets go back only to 1998.

¹ Tuna N. Amobi, *Industry Surveys: Movies & Entertainment*, Standard & Poor's, September 15, 2011, p. 18.

Because the major motion picture studios are owned by larger corporations, and studio revenues are folded into broader corporate earnings statements, it is difficult to provide precise profit data or information on compensation for studio executives.

Box office revenues are the most commonly used metric for assessing the health of the movie industry, though profits now are closely tied to additional revenue streams from home video sales, pay-TV licensing, video-on-demand and other services. A majority of films fail to become profitable during initial theatrical release, leaving studios dependent on the video market and other secondary usage to recoup expenses.²

1. Industry Contribution to GDP

According to the Department of Commerce's Bureau of Economic Analysis (BEA), the motion picture and sound recording industry's value-added share of GDP was 0.4% in 1995 and 0.4% in 2009, the most recent year for which data are available.³ See **Table 1** for information on the motion picture and sound recording industry's share of GDP in dollar terms.

Table 1. Motion Picture and Sound Recording Contribution to GDP

In Billions of Dollars

	Current Dollars				Chained (2005) Dollars			
	2000	2005	2009	2010	2000	2005	2009	2010
Overall GDP	\$9,952	\$12,638	\$14,119	\$14,660	\$11,226	\$12,638	\$12,881	\$13,248
Motion Picture and Sound Recording Contribution	\$37	\$56	\$60	NA	\$43	\$56	\$56	NA

Source: U.S. Commerce Department, Bureau of Economic Analysis.

2. Gross Revenues

The motion picture and sound recording industries had gross output of \$52.8 billion in 1995 and \$104.4 billion in 2009, the most recent year for which such data is available, according to the BEA.⁴

Box office receipts historically have been used to measure the financial health of the motion picture industry. Box office revenues for the United States and Canada rose from \$5.3 billion in 1995 to \$10.6 billion in 2010, according to the National Association of Theater Owners.⁵ (See **Figure 1**.)

² Tuna N. Amobi, *Industry Surveys: Movies & Entertainment*, Standard & Poor's, September 15, 2011, p. 19.

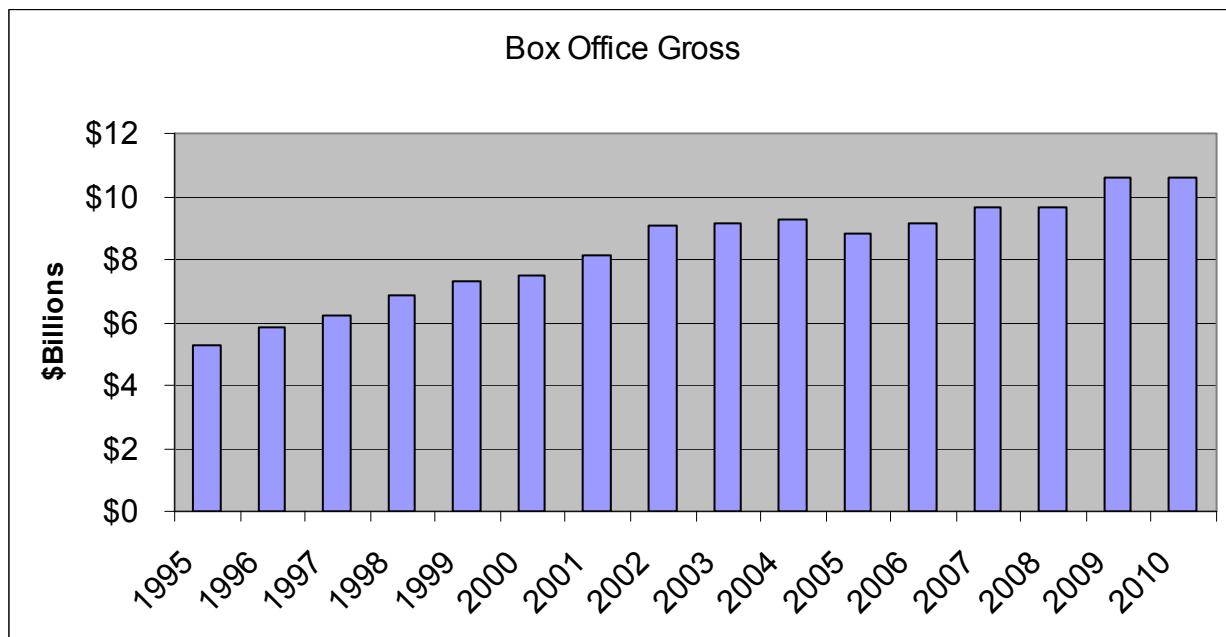
³ The government changed its NAICS classification for motion pictures and sound recording in the mid-1990s. Most data are only comparable back to 1998, though BEA economists have recalculated some data to allow for longer-term comparisons. The North American Industry Classification System (NAICS) code for the motion picture and sound recording industry is 512.

⁴ BEA, "Gross Output by Industry," <http://bea.gov/iTable/iTable.cfm?reqid=5&step=4&isuri=1&402=15&403=1>.

The increase in revenues is largely due to higher ticket prices, including ticket prices for specialty movies such as 3D productions. Movie admissions in the United States and Canada have been flattening, rising from 1.211 billion in 1995 to 1.339 billion in 2010.⁶ Meanwhile, average ticket prices rose from \$4.35 in 1995 to \$7.89 in 2010.⁷

Figure I. U.S./Canada Motion Picture Box Office Revenues

In Nominal Dollars



Source: National Association of Theater Owners.

Worldwide box office receipts have been growing faster than U.S. domestic receipts. Worldwide box office, which is a measure of revenues for all films released in each country around the world, was \$31.8 billion in 2010, compared to \$25.5 billion in 2006. Foreign moviegoers accounted for 67% of worldwide ticket sales in 2010, compared to 64% in 2006.⁸

Revenues from the U.S. movie industry's home entertainment sector have been declining in recent years. According to the Digital Entertainment Group, an industry-funded nonprofit, total U.S. spending on home entertainment, including movies and television content, was \$13.9 billion in 1999. Spending rose to a

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⁵ National Association of Theater Owners, "Total U.S. & Canada Box Office Grosses," <http://www.natoonline.org/statisticsboxoffice.htm>.

⁶ National Association of Theater Owners, "Total U.S. and Canada Admissions," <http://www.natoonline.org/statisticsadmissions.htm>. Data compiled by AC Nielsen and Rentrak.

⁷ National Association of Theater Owners, "Average U.S. Ticket Prices," <http://www.natoonline.org/statisticstickets.htm>. Figures are based on Ernst & Young survey.

⁸ Motion Picture Association of America, *Theatrical Market Statistics 2010*, p. 3, <http://www.mpa.org/Resources/93bbeb16-0e4d-4b7e-b085-3f41c459f9ac.pdf>. We were not able to get information for earlier years. We contacted Rentrak, but was told it charged tens of thousands of dollars for the data sets. In addition, Rentrak has not fully incorporated earlier data it has purchased from Nielsen Co., which used to measure international box office.

peak of \$21.8 billion in 2004, before declining gradually to \$18.8 billion in 2010.⁹ The decline partly reflects the shift to less expensive video-on-demand services, such as Netflix.

The major motion picture studios account for most of the box office revenues. (See **Figure 2.**)

Figure 2. Share of North American Box Office

DOMESTIC BOX-OFFICE MARKET SHARES (In percent)							2010 BOX OFFICE REVS. (MIL. \$)
DISTRIBUTOR	2005	2006	2007	2008	2009	2010	
20th Century Fox ¹	15.3	15.2	10.5	10.5	13.2	14.0	1,482
Walt Disney Pictures ²	10.4	16.2	14.0	10.5	11.6	13.8	1,456
DreamWorks ³	5.7	...	...	...	...	...	...
Focus Features	...	...	...	1.4	1.5	0.7	75
Fox / Searchlight	...	...	1.4	2.2	2.4	1.4	153
Lionsgate	3.2	3.6	3.8	4.5	3.8	4.9	516
MGM/UA	2.1	1.8	3.8	1.7	...	...	...
Miramax ⁴	2.1	...	1.3	...	...	...	...
New Line	4.8	2.7	5.0	...	...	...	...
Overture Films	...	...	...	1.1	1.5	0.8	82
Paramount	9.4	10.3	15.5	16.4	13.9	16.2	1,715
Rogue Pictures	...	...	0.8	...	...	...	...
Sony / Columbia	10.4	18.6	12.9	13.2	13.7	12.1	1,283
Summit Entertainment	...	...	...	2.4	4.6	5.0	523
Universal ⁵	11.4	8.9	11.4	11.0	8.2	8.3	882
Warner Bros. ⁶	15.6	11.6	14.7	18.4	19.9	18.2	1,924
Weinstein Company	...	2.5	...	...	1.9	0.8	81
Total, major distributors	90.4	91.4	95.1	93.3	96.2	96.2	10,171
Others	9.6	8.6	4.9	6.7	3.8	3.8	396
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	10,567

¹Largely owned by News Corp. ²Formerly Buena Vista. ³Acquired by Paramount in 2006. ⁴Owned by Disney. ⁵Currently owned by NBC Universal, which is 80% owned by General Electric Co. ⁶Currently owned by Time Warner Inc.
Source: Box Office Mojo.

From: Standard & Poor's Industry Surveys: Movies & Entertainment.

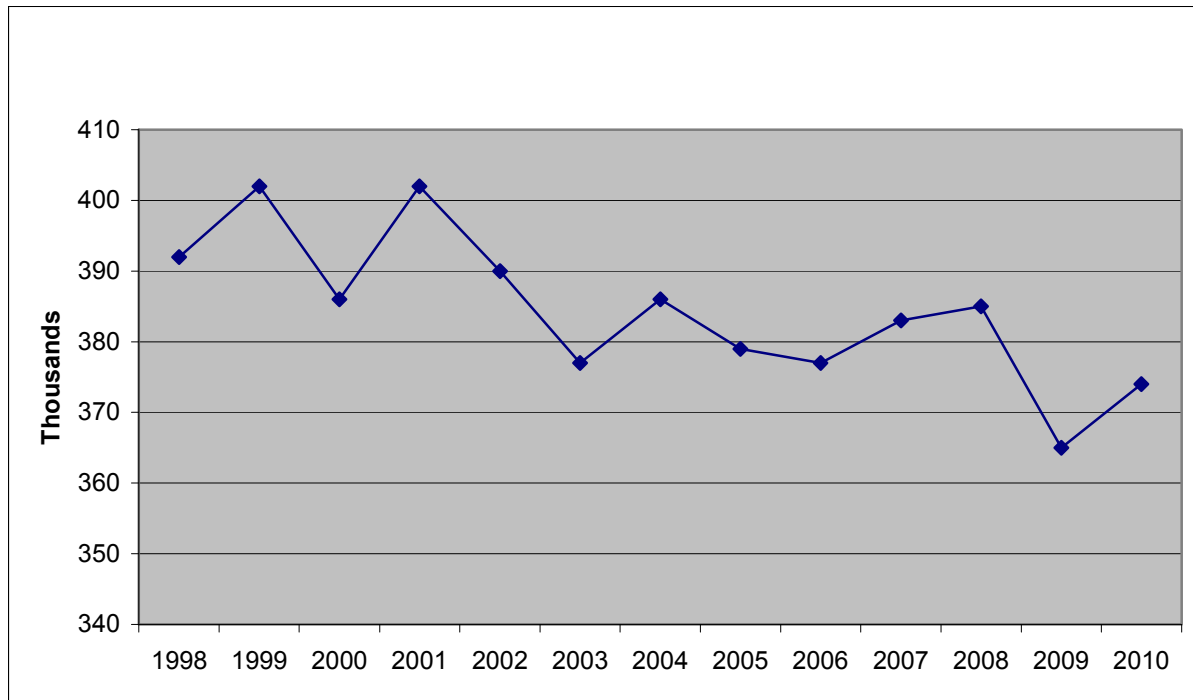
Employment

About 374,000 people worked full or part time in the U.S. motion picture and sound industry recording sector in 2010, compared to 392,000 in 1998, according to BEA.¹⁰ (See **Figure 3.**) Data on foreign employment by U.S. motion picture companies are not readily available.

⁹ Digital Entertainment Group, "U. S. Home Entertainment Market Nears \$19 Billion," News Release, January 6, 2011, http://www.degonline.org/pressreleases/2011/f_Q410.pdf. Release includes a chart with annual data from 2000-2010.

¹⁰ The Department of Commerce has slightly different employment numbers than the Department of Labor's Bureau of Labor Statistics. This memorandum uses the Commerce numbers because they line up with other economic data for the motion picture and sound recording industry, NAICS Code 512100. The definition of the sector is "subsector group establishments involved in the production and distribution of motion pictures and sound recordings. While producers and distributors of motion pictures and sound recordings issue works for sale as traditional publishers do, the processes are sufficiently different to warrant placing establishments engaged in these activities in a separate subsector. Production is typically a complex process that involves several distinct types of establishments that are engaged in activities, such as contracting with performers, creating the film or sound content, and providing technical postproduction services. Film distribution is often to exhibitors, such as theaters and broadcasters, rather than through the wholesale and retail distribution chain. When the product is in a mass-produced form, (continued...)

Figure 3. U.S. Motion Picture and Sound Recording Employment
Full and Part Time Workers, Average Annual Employment



Source: Bureau of Economic Analysis.

Industry Profits

The U.S. Bureau of the Census began compiling information on financial profits of corporations in the service sector in 2010, including the motion picture and sound recording industry. According to Census data, after-tax profits for the industry were \$891 million in the second quarter of 2011 compared to \$496 million in the second quarter of 2010.¹¹

BEA provides industry data on profits from current production, which includes certain adjustments for income and expenses. The BEA numbers are not directly comparable to the Census data. According to BEA, corporate profits after taxes for the U.S. motion picture and sound recording industry were -\$2.7 billion in 1998 compared to \$937 million in 2008, the most recent year for which annual data are available.¹² (See **Figure 4**.) Corporate profits before taxes for the industry were -\$1.8 billion in 1998 and \$2.2 billion in 2008.

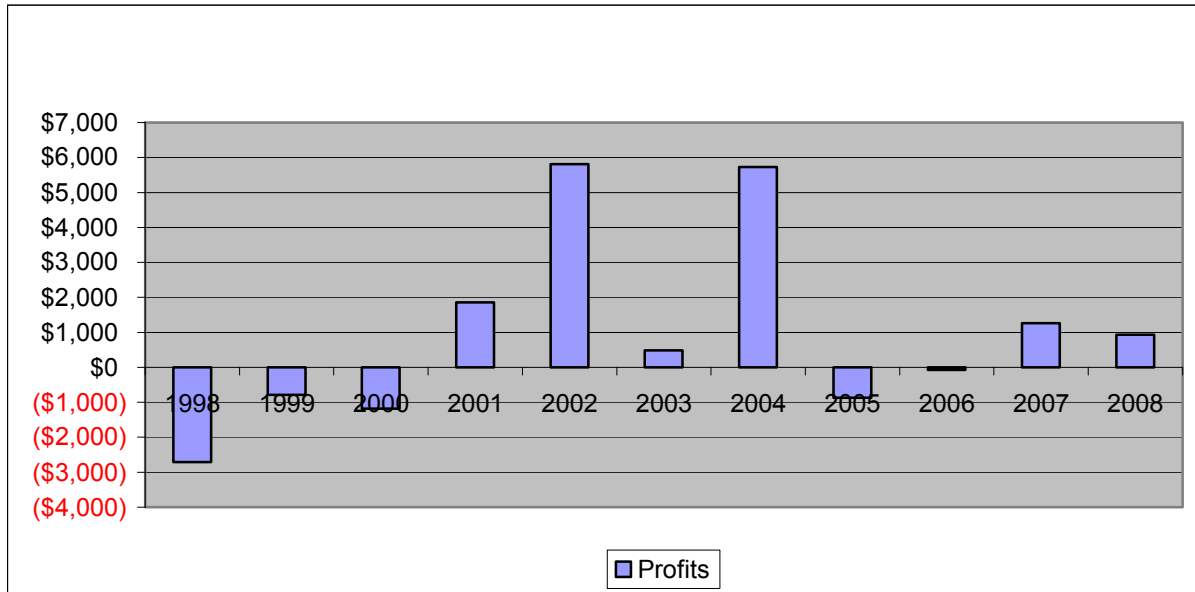
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NAICS treats production and distribution as the major economic activity as it does in the Publishing Industries subsector, rather than as a subsidiary activity to the manufacture of such products.” There are some data just for the motion picture and video industries, but these data are more limited.

¹¹ U.S. Census Bureau, “Second Quarter Data from the Quarterly Financial Report,” September 11, 2011, p. 7, http://www2.census.gov/econ/qfr/current/qfr_mg.pdf.

¹² Bureau of Economic Analysis, Gross Domestic Product Table 6.19D, “Corporate Profits After Tax by Industry.” These are the most recent data available. Data prior to 1998 are not directly comparable because the BEA changed its categorization of the (continued...)

Figure 4. Motion Picture and Sound Industry Profits After Taxes
In Millions of Dollars



Source: U.S. Commerce Department, Bureau of Economic Analysis.

Disney

The Walt Disney Co. is a major multinational corporation with divisions including the ABC television network, movie studios, theme parks, and a variety of licensed merchandise. Disney’s Disney Studio Entertainment, which includes film, television, and home video under the Walt Disney, Touchstone, and Miramax brands, accounts for about 16% of corporate revenues and 7% of earnings before interest and taxes (EBIT).¹³ The overall Disney company on November 10, 2011, reported net income of \$4.8 billion for its fiscal 2011, compared to \$3.9 billion in 2010.¹⁴ By comparison, Disney’s corporate net income was \$1.2 billion in 2002.¹⁵ Over the same period, Disney’s return on equity increased from 5.4% to 14%. (See **Table 2** for historic earnings data.)

Disney Studio Entertainment revenues for the 2011 fiscal year declined by 5% from the previous year to \$6.4 billion and operating income decreased 11% to \$618 million. Those results reflected lower worldwide theatrical and home entertainment results, compared to 2010. (According to the 2010 *Annual*

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industry from motion pictures to motion pictures and sound recording.

¹³ Standard & Poor’s Stock Report, November 30, 2011.

¹⁴ Walt Disney Co. 8-K Filing, Securities and Exchange Commission, November 10, 2011, <http://sec.gov/Archives/edgar/data/1001039/000119312511307001/0001193125-11-307001-index.htm>.

¹⁵ Standard & Poor’s, Stock Report, December 6, 2011.

Report, Disney Studio Entertainment had revenues of \$6.7 billion in 2010 and operating income of \$693 million).¹⁶

News Corporation

News Corp. is one of the world's largest media corporations. News Corp. properties include the Fox film studio and 20th Century Fox TV; Fox television stations; HarperCollins; and the *Wall Street Journal* and *New York Post* newspapers. News Corp had net income of \$2.7 billion in its fiscal 2011, compared to \$2.5 billion in 2010, and net income of -\$12 billion in 2002.

The company's Filmed Entertainment division accounts for about 20% of the corporation's consolidated revenues on average. The Filmed Entertainment division had revenues of \$6.9 billion in fiscal 2011 (July-June), compared to \$7.6 billion the previous year, and operating income of \$681 million, compared to \$220 million in fiscal 2010.¹⁷

Viacom

Viacom Inc. (Via-B stock ticker) is one of two companies created when the parent Viacom company split in 2006. Viacom Inc. includes a media networks segment, primarily the MTV and BET Networks, which accounts for about 60% of revenues. The entertainment segment includes Paramount Pictures. About 27% of this segment's revenues came from films (including home video). Viacom had net income of \$2.2 billion in its fiscal 2011.¹⁸

Sony

Sony Corp., a Japanese company, sells electronics, video games, financial services, and other products. Sony's pictures business, which includes Columbia TriStar and Sony Pictures Studios, accounts for 8% of the corporation's total sales. The company had net income of -\$2.6 billion in its fiscal 2011, compared to \$70.2 million in 2002.¹⁹ Sony Pictures, which also includes television products, had a 15% decline in sales compared to 2010.²⁰

Time Warner

Time Warner Inc. is a major media company with operations including Warner Brothers and New Line Cinema and television networks CNN and HBO. The company had \$2.6 billion in net income in calendar 2010, compared to -\$5.3 billion in 2001.²¹ During 2010, the company's Filmed Entertainment segment, which includes movies, television, and video games, had revenues of \$11.6 billion (40% of Time

¹⁶ Disney Co., 2010 *Annual Report*, http://a.media.global.go.com/corporate/investors/annual_report/2010/media/global/pdf/form-10kfy2010.pdf.

¹⁷ News Corp, 2011 *Annual Report*, <http://sec.gov/Archives/edgar/data/1308161/000119312511221637/d10k.htm#toc>.

¹⁸ Standard & Poor's Stock Report, December 3, 2011.

¹⁹ Standard & Poor's Stock Report, December 3, 2011.

²⁰ Sony, 2011 *Annual Report*, p. 37, <http://www.sony.net/SonyInfo/IR/financial/ar/report2011/SonyAR11-E.pdf>.

²¹ Standard & Poor's Stock Report, December 3, 2011.

Warner's overall revenues) and \$1.1 billion in operating income.²² That compares to \$11.1 billion in revenues and \$1.08 billion in operating income in 2009.²³

General Electric/NBC Universal LLC

General Electric and Comcast, in January 2011, created a joint venture that married NBC Universal with Comcast cable networks, regional sports networks, and certain digital properties. NBC Universal LLC is 51% owned by Comcast and 49% by GE. NBC Universal LLC reported net income of \$469 million for the quarter ending in September 2011.²⁴

Table 2. Return on Equity for Major Media Companies

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Disney	14%	11.1%	10%	14%	14.9%	11.6%	9.8%	9.4%	5.7%	5.4%
News Corp	9%	10%	NM	17.5%	10.9%	9.5%	8.4%	6.5%	5.5%	NM
Sony	NM	NM	NM	10.8%	3.8%	4.1%	6.4%	3.9%	5.0%	0.4%
Time Warner	NA	7.8%	5.4%	NM	6.8%	8.2%	4.7%	5.5%	5.8%	NM

Source: Standard & Poor's. News Corp 2011 and 2010 figures are from NASDAQ.

Notes: Return on Equity refers to the amount of net income returned as a percentage of shareholders equity and measures the amount of profit generated with shareholder dollars.

NM means not meaningful. Sony, had negative net income in 2011, 2010 and 2009, leading to the NM label. Time Warner had negative net income in 2002 and 2008, News Corp had negative net income in 2002.

CEO Pay

Major publicly traded U.S. companies report information on the compensation of top executives to the Securities and Exchange Commission (SEC). The numbers used in this report are total compensation figures that include salary, stock options, bonus awards, changes in pension value and other compensation.

Walt Disney Co.— Disney President and CEO Robert A. Iger had total compensation of \$29,617,964 in 2010, according to a January 2011 proxy statement filed by the company.²⁵

In 1994, Michael Eisner, then Chairman and CEO of Walt Disney Co. had total compensation, including salary, bonus and long-term compensation, in excess of \$10 million.²⁶

²² Time Warner 2010 *Annual Report*, p. 21, http://media.corporate-ir.net/media_files/irol/70/70972/Request-AR2010.pdf.

²³ *Ibid.*, p. 31.

²⁴ NBC Universal LLC, 10-Q filing, SEC, November 2, 2011.

²⁵ Walt Disney Co., 14A filing, SEC, p. 33, <http://sec.gov/Archives/edgar/data/1001039/000119312511017517/ddef14a.htm>.

Time Warner (Warner Brothers) — Chairman of the Board and CEO Jeffrey Bewkes had total compensation of \$26,303,071 in 2010.²⁷

In 1994, Time Warner CEO Gerald M. Levin had compensation of more than \$5 million in salary, bonus and other compensation.

News Corp. (Twentieth Century Fox) — Rupert Murdoch, Chairman and Chief Executive Officer, had total compensation of \$33,292,753 in fiscal 2011.²⁸

Viacom (Paramount) — Sumner Redstone, Executive Chairman and founder, had total compensation of \$15,033,630 in fiscal 2010. Compensation of Philippe Dauman, President and Chief Executive Officer, was \$84,515,308.²⁹

General Electric (NBC Universal) — Jeffrey Immelt, Chairman of the Board and CEO, had total compensation worth \$21,428,765 in 2010.³⁰

Sony/Columbia — Howard Stringer, CEO, had a salary and bonus cut of 14% to \$4.3 million for the twelve months ending March 31, 2011, as Sony faced financial problems stemming from the Japanese earthquake and tsunami.³¹ He also received options for 500,000 shares of Sony stock.

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²⁶ Walt Disney Co., 14A filing, <http://sec.gov/Archives/edgar/data/29082/0000912057-95-000045.txt>. According to news articles, Eisner's compensation was much higher in later years.

²⁷ Time Warner, 14A filing, SEC, p. 84, April 8, 2011, <http://sec.gov/Archives/edgar/data/1105705/000095012311034161/g26534ddef14a.htm>.

²⁸ News Corp, 14A filing, SEC, September 2, 2011, p. 43, <http://files.shareholder.com/downloads/NWS/1544340950x0xS1193125-11-239655/1308161/filing.pdf>.

²⁹ Viacom, 14A filing, SEC, January 21, 2011, p. 49, <http://sec.gov/Archives/edgar/data/1339947/000119312511012061/ddef14a.htm>.

³⁰ General Electric 14A filing, SEC, April 7, 2011, p. 30, <http://sec.gov/Archives/edgar/data/40545/000119312511065578/ddef14a.htm>.

³¹ Daisuke Wakabayashi and Juro Osawa, "Struggling Sony Cuts CEO's Pay," *Wall Street Journal*, June 29, 2011, <http://online.wsj.com/article/SB10001424052702304447804576413111410102524.html>.
