MARKET SECTOR INSIGHTS – MARCH 2023 (Q1)

Toy and Hobby Products Market

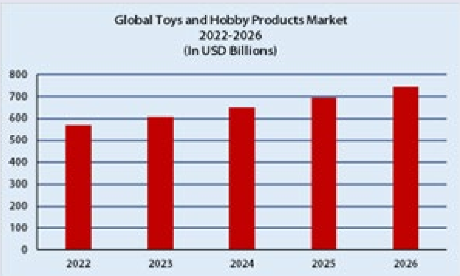

Fig 1. Global toys and hobby products market

> *"According to a report by Statista, the global toys and hobby products market amounted to $568.8 billion in 2022."*

Global Outlook

According to a report by Statista, the global toys and hobby products market amounted to $568.8 billion in 2022. The market is expected to grow at a CAGR of 6.9% during the forecast period of 2022 to 2026, to reach $742.8 billion by 2026. This growth will be fuelled by an increase in online sales, a rise in demand for eco-friendly and high-quality toys, a fierce price competition and rapidly changing consumer preferences. Moreover, the increase in disposable income as well as a growing awareness of a balanced work and private life is encouraging consumers to spend more money on their hobbies, further boosting market growth. However, the rising popularity of online gaming and concerns about the usage of harmful chemicals in toy manufacturing is restraining market growth..

The toys and games segment accounts for the largest share of the toys and hobby market, representing more than half of the market's revenue. It includes a wide variety of products intended mainly, but not exclusively, for the entertainment of children. The toys and games segment amounted to $378.2 billion in 2022.

Regional Insights

Asia Pacific is the fastest growing region in the global toys and hobby products market. The growth of the Asia Pacific region is attributed to recent government initiatives regarding the industry's development in countries such as India, China and Japan. For instance, in April 2020, the Government of India introduced the Production Linked Incentive scheme to boost local manufacturing in the country.

This enables the government to cater to local demand for such products, thereby supporting market growth. In addition, the rising popularity of arts & craft-based products among kids in China is driving market growth in the region.

North America's increasing spending on entertainment-related equipment such as toys, hobbies and playground equipment is boosting growth in the region. Additionally, the rising gift-giving market trend is further driving market growth.

The market in Europe is primarily driven by the presence of adequate import facilities of sports-related equipment in countries such as the UK and Germany. Such import facilities allow these countries to supply a wide variety of toy products to their distribution outlets, which is likely to support consumption rates in the region.

UK Toys and Games Market

Demand for toys and games in the UK is expected to grow at a steady pace on the back of a growing trend of 'home-entertainment'. As per Future Market Insights, the toys and games market in UK is forecast to expand at a CAGR of 3.0% over the next few years.

Digitalisation of traditional toys and games is also expected to fuel growth of the market in the UK. Rapid adoption of smartphones, tablets, gaming consoles and other smart devices is broadening the scope for sales of toys and games through online channels. Brands are also using technologies such as virtual reality and artificial intelligence to attract consumers' attention.

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Distribution Channel Insights

Brick and mortar stores such as specialty retailers, brand stores and hypermarkets usually maintain different kinds of soft, attractive products at their outlet shops. This is likely to attract consumers for purchasing products from such outlets, resulting in larger segmental revenues. Additionally, the growing infrastructural facilities related to specialty toy stores and brand stores are further likely to drive offline segmental revenues.

The rapid growth of the online segment is attributed to rising online shopping trends among consumers worldwide, which is likely to drive segmental growth. Additionally, discounts and coupons for select product purchases by prominent online retailers such as toycart.com, amazon.com and others is likely to direct consumers' attention towards buying such products. This helps in further propelling revenues in the online segment.

Demand for Model Trains

Over the past decade, the model train industry had been declining, failing to attract new customers. However, the COVID 19 pandemic induced lockdown led to an increase in demand for model trains. Slot cars, model railways and model-making have boomed during the pandemic, with most companies reporting higher sales than expected during 2020 and some even failing to keep up with demand.

According to a director at one of the UK's leading hobby products companies, the whole crisis has prompted people to look at how they use their time – people think they've been spending too much time at work, and now they want to make the model railway that's been on their mind for the last 20 years. Some are new model train enthusiasts, while others are established hobbyists who have had more hours to invest in getting a little closer to perfection.

Steve Haynes, sales, and export manager at Peco, a manufacturer of model railway accessories, said: "model trains appeal to people who have artistic flair, to people who have a technical mind because they like the electronics, to people who have an interest in history. It stimulates the mind. We have traded at a much higher level than we were prior to the pandemic; the demand has been relentless. Some of our retail customers have seen more business than at Christmas."

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“The rising awareness of the positive impact of toys on the overall development of children is also anticipated to aid the market growth.”

Rising Demand for Educational and Interactive Toys

The global market for toys is being driven by an increasing demand for interactive toys. The rising expenditure on educational toys and games, especially in dual-income households, is projected to propel the demand for these products in emerging economies.

The rising awareness of the positive impact of toys on the overall development of children is also anticipated to aid the market growth. Additionally, the launch of STEM-focused toys is expected to aid market growth. These toys play a major role in developing STEM (science, technology, engineering, and mathematics) skills in children.

The growing demand for movie and comic character plush toys, along with collectible action figures, is also expected to bolster the market growth. Furthermore, advancements in 3D printing technology are projected to increase the demand for customised figurines, which is expected to influence market growth positively.

-Economic Impact of Coronavirus-

The Covid-19 pandemic has created the biggest global crisis in generations, sending shock waves through health systems, economies, and societies around the world. Faced with an unprecedented situation, governments are focused on bringing the pandemic under control and reviving their economies.

Consumer Demand

According to a report by Fitch Solutions, global consumer spending growth y-o-y has slowed down significantly in 2022. Households and consumers are facing a myriad of risks, ranging from weak real income growth, high inflation and rising interest rates. The risks associated with Covid-19 have greatly reduced globally, with the exception of countries still pursuing 'zero-Covid-19" policies, such as China, where lockdowns and restrictions are weighing both on global consumer demand, through weakness in the Chinese consumer market, and on global supply chains.

The Russia-Ukraine war, lockdowns in China and disruptions to supply chains in 2022 have led Fitch Solutions to revise down its real household spending figures globally. Previously, Fitch had forecast global household spending to expand by a real rate of 6.8% (in USD terms) over 2022. The forecast now is real household spending to grow by 5.7%..

Inflation Remains High

As per IMF’s latest World Economic Outlook, since 2021, inflation has risen faster and more persistently than expected. In 2022, inflation in advanced economies reached its highest rate since 1982. Despite a slight decline in the consumer price index in July and August, US inflation reached one of its highest levels in about 40 years, with prices in August 8.3 percent higher than those one year earlier. Euro area saw inflation reach 10 percent in September, while the UK saw annual inflation of 9.9 percent. Emerging market and developing economies are estimated to have seen inflation of 10.1 percent in the second quarter of 2022 and face a peak inflation rate of 11.0 percent in the third quarter: the highest rate since 1999.

The reverberations of last year’s strong demand recovery and a continued rebalancing of demand toward services such as travel have driven up inflation. Although futures prices have fallen, the delayed pass-through of past increases in food and energy prices from global commodity markets to consumer prices may continue to drive inflation yet higher in the short term. In Europe, a significant impact from war-related energy shocks

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compounds these effects, whereas in Asia, a more moder ate impact on food prices is helping to keep inflation from rising as much as elsewhere

UK Economic Forecast

High levels of inflation will persist longer in Britain than in almost all other advanced economies, the IMF warned in its latest World Economic Outlook update. UK inflation will also be the highest in the G7 at the end of 2023, while in the 19-member eurozone, only Slovakia would have a higher inflation rate by the end of 2023.

In its Global Financial Stability Report, IMF also noted that financial markets had taken a dim view of Britain’s inflation prospects, with futures markets predicting there was a 70 per cent chance of UK inflation averaging more than 3 per cent a year during the next five years.

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Global Economic Forecast

According to the IMF’s latest World Economic Outlook update, the global economy is experiencing several turbulent challenges. Inflation higher than seen in several decades, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Normalization of monetary and fiscal policies that delivered unprecedented support during the pandemic is cooling demand as policymakers aim to lower inflation back to target. But a growing share of economies are in a growth slowdown or outright contraction. The global economy’s future health rests critically on the successful calibration of monetary policy, the course of the war in Ukraine, and the possibility of further pandemic-related supply-side disruptions, for example, in China.

Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies: a US GDP contraction in the first half of 2022, a euro area contraction in the second half of 2022, and prolonged COVID-19 outbreaks and lockdowns in China with a growing property sector crisis. About a third of the world economy faces two consecutive quarters of negative growth. Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Upside inflation surprises have been most widespread among advanced economies, with greater variability in emerging market and developing economies.

Risks to the outlook remain unusually large and to the downside. Monetary policy could miscalculate the right stance to reduce inflation. Policy paths in the largest economies could continue to diverge, leading to further US dollar appreciation and cross-border tensions. More energy and food price shocks might cause inflation to persist for longer. Global tightening in financing conditions could trigger widespread emerging market debt distress. Halting gas supplies by Russia could depress output in Europe. A resurgence of COVID-19 or new global health scares might further stunt growth. A worsening of China’s property sector crisis could spill over to the domestic banking sector and weigh heavily on the country’s growth, with negative cross-border effects. And geopolitical fragmentation could impede trade and capital flows, further hindering climate policy cooperation. The balance of risks is tilted firmly to the

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downside, with about a 25 percent chance of one-year-ahead global growth falling below 2.0 percent—in the 10th percentile of global growth outturns since 1970**.**

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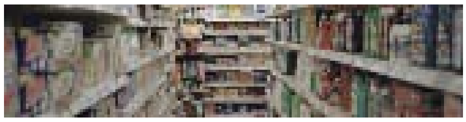

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