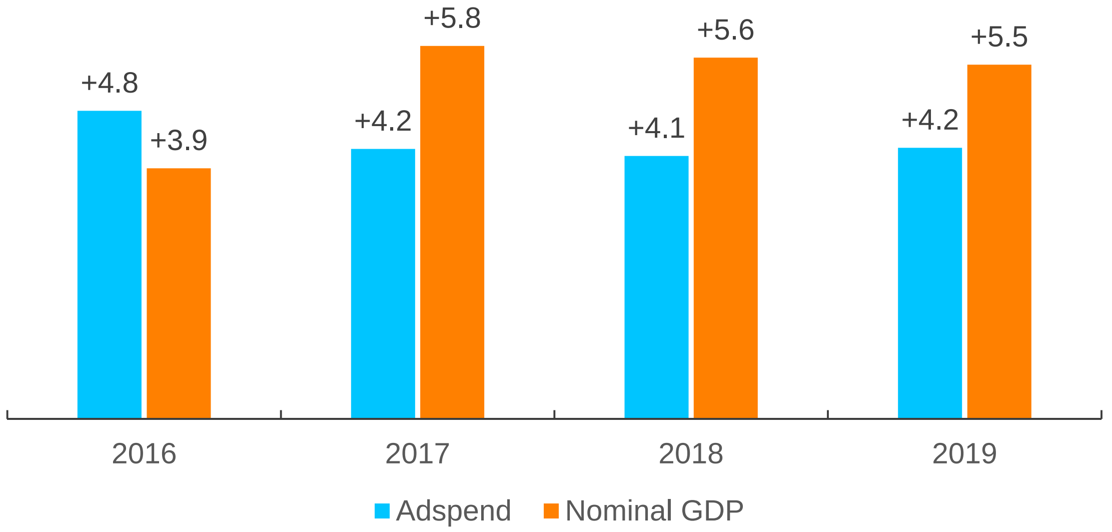
Advertising Expenditure Forecasts June 2017

Executive summary

Zenith predicts global ad expenditure will grow 4.2% in 2017, reaching US$559 billion by the end of the year. Our forecast for 2017 is 0.2 percentage points below the forecast we made in March, mainly because 2016 ended 0.2 points higher than expected, creating a tougher comparison.

Advertising expenditure grew ahead of the wider economy in 2016, but we expect it to fall behind over the next three years.

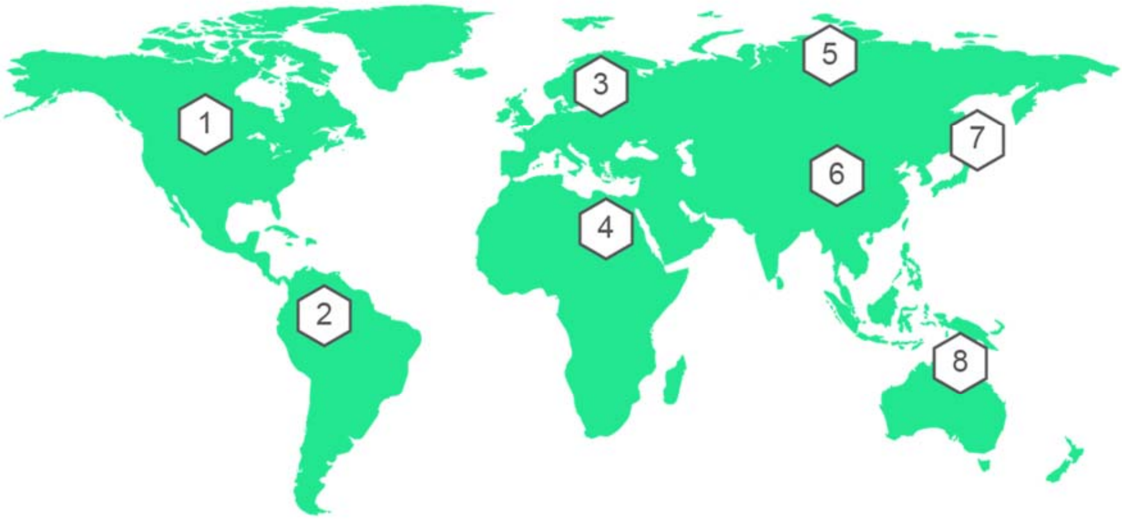
Growth of advertising expenditure and GDP 2016-2019 (%)



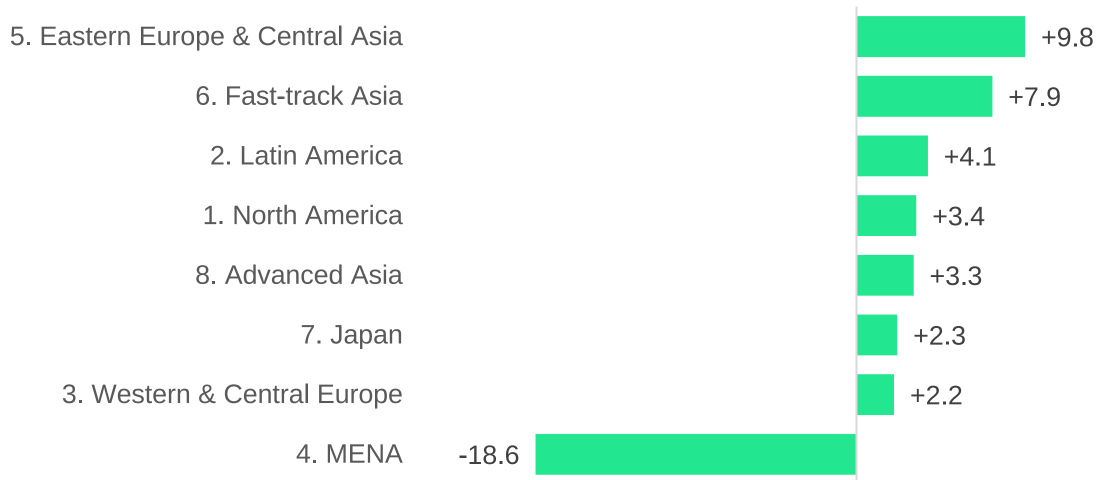
Source: Zenith/IMF

Forecast by regional bloc

We regularly examine the growth rates of different regional blocs defined by the similarity of the performance of their ad markets as well as their geographical proximity. This captures the behaviour of different regional ad markets more effectively than looking at regions defined purely by geography, such as Western Europe, Central & Eastern Europe and Asia Pacific. See the end of the Executive Summary for a complete list of countries by bloc.



Growth in adspend by regional bloc 2016-2017 (%)



Source: Zenith

1. North America

North America was the first region to suffer the effects of the financial crisis, but it was also quick to recover, and adspend in North America was more robust than in Western & Central Europe between 2012 and 2014. This changed in 2015 as the European markets most affected by the eurozone crisis recovered rapidly, while declining network television ratings eroded US adspend growth. North America should start outperforming Western & Central Europe again in 2017 as political and economic uncertainty in the UK drags down growth in the latter. We estimate that North American adspend grew 4.3% in 2016, and forecast an average of 3.3% growth a year to 2019.

2. Latin America

Argentina, Brazil, Ecuador and Venezuela (which account for 59% of Latin American advertising expenditure) were in recession in 2016, compounded by rapid devaluation in Argentina and full-blown crisis in Venezuela, which is running out of basic supplies and is heading for hyperinflation. Adspend shrank by 0.2% in 2016, after growing 7.5% in 2015. Argentina's recession looks like it came to an end in late 2016, while Brazil emerged from its longest recession since the 1930s in 2017. Meanwhile, Venezuela's sustained collapse in adspend means that its continued decline weighs less on the regional total each year. We forecast 3.0% average annual growth in Latin American adspend to 2019.

3. Western & Central Europe

Western & Central Europe was one of the regions most affected by the financial crisis of 2008-2009, which then turned into the eurozone crisis. The eurozone crisis is not definitively over, but the region's ad market has been enjoying solid recovery since 2014, after which adspend has grown at about 4% a year.

The UK was the stand-out growth market in Western & Central Europe from 2011 to 2016, growing at an average of 7.3% a year. However, a slowing economy, gathering inflation, and political uncertainty over the mid-year elections and upcoming Brexit negotiations have all contributed to a sharp drop in adspend growth in the UK in 2017. We now forecast just 0.9% growth in UK adspend this year, compared to 9.6% growth in 2016. This drop in UK growth, together with the quadrennial comparison, will drag growth in Western & Central European adspend down from 4.5% in 2016 to 2.2% in 2017, and an annual average of 2.6% to 2019.

4. MENA

The drop in oil prices in 2014 has had a severe effect on the economies in MENA, and has prompted advertisers to cut back their budgets in anticipation of lower consumer demand. Political turmoil and conflict have worsened, further shaking advertisers' confidence in the region. We forecast an 18.6% drop in adspend in MENA this year, following 10.0% decline 2016. The region's decline should moderate over time, but we predict no recovery during our forecast period. We expect adspend to shrink 6.3% in 2018 and 0.7% in 2019.

5. Eastern Europe & Central Asia

Ad markets in Eastern European & Central Asia generally recovered quickly after the 2009 downturn and then continued their healthy pace of growth for the next few years. In 2014, though, the conflict in Ukraine severely disrupted the domestic ad market, while Russia suffered from sanctions imposed by the US and the EU, the sanctions it imposed in response, and a withdrawal of international investment. These shocks were exacerbated by a sharp drop in the price of oil – which accounted for 70% of Russia's exports in 2014 – and devaluation of the Ukrainian and Russian currencies.

Adspend shrunk 0.7% in Eastern Europe & Central Asia in 2014, and by 8.2% in 2015. The worst-affected ad markets began to recover in 2016, however, and this recovery has continued in 2017. Adspend grew 4.3% in 2016, and we forecast an average of 9.2% annual growth to 2019, making Eastern Europe & Central Asia the fastest-growing regional bloc over this period.

6. Fast-track Asia

Fast-track Asia is characterised by economies that are growing extremely rapidly as they adopt Western technology and practices and innovate new ones, while benefiting from the rapid inflow of funds from investors hoping to tap into this growth. Fast-track Asia barely noticed the 2009 downturn (ad expenditure grew by 7.8% that year) and since then has grown very strongly, ending 2016 up an estimated 9.2%. However, the Chinese economy – the main engine of growth in Fast-track Asia – is slowing down after years of blistering growth, and the ad market is slowing alongside it. China accounts for 73% of adspend in Fast-track Asia, so its slowdown naturally has a large effect on the region as a whole. We expect ad expenditure in Fast-track Asia to grow 7.9% in 2017, and at an average rate of 7.5% a year between 2016 and 2019, down from 10.8% a year between 2011 and 2016.

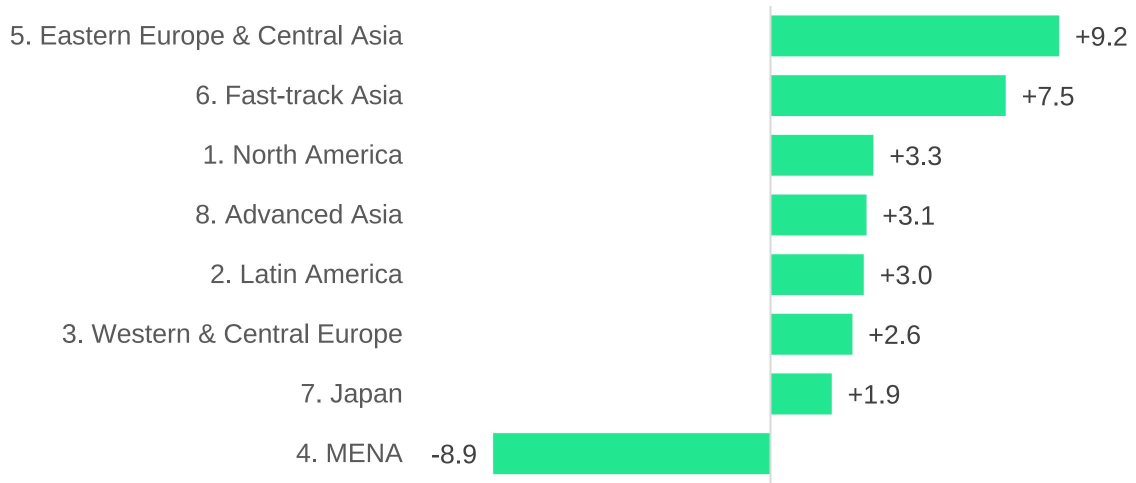
7. Japan

Japan behaves differently enough from other markets in Asia to be treated separately. Despite recent measures of economic stimulus, Japan remains stuck in its rut of persistent low growth. We forecast average adspend growth of 1.9% a year between 2016 and 2019, after a relatively strong year of 3.0% growth in 2016.

8. Advanced Asia

Apart from Japan, there are five countries in Asia with developed economies and advanced ad markets that we have placed in a group called Advanced Asia: Australia, New Zealand, Hong Kong, Singapore and South Korea. Adspend grew here at 5.3% in 2015, the best performance since 2011, but slipped back to 1.4% in 2016. Australia and Singapore faced tough comparatives – Australia after an extremely strong year in 2015, and Singapore after its 50th birthday celebrations – while Hong Kong has suffered from a drop in shoppers visiting from mainland China. We now expect Advanced Asia to maintain a growth rate averaging 3.1% a year through to 2019.

Average annual growth in adspend by regional bloc 2016-2019 (%)



Source: Zenith

Of the various blocs, MENA is the clear underperformer, while the clear outperformers are Fast-track Asia and Eastern Europe & Central Asia. The other blocs range gradually from growing slowly (Japan) to solidly but unspectacularly (North America).

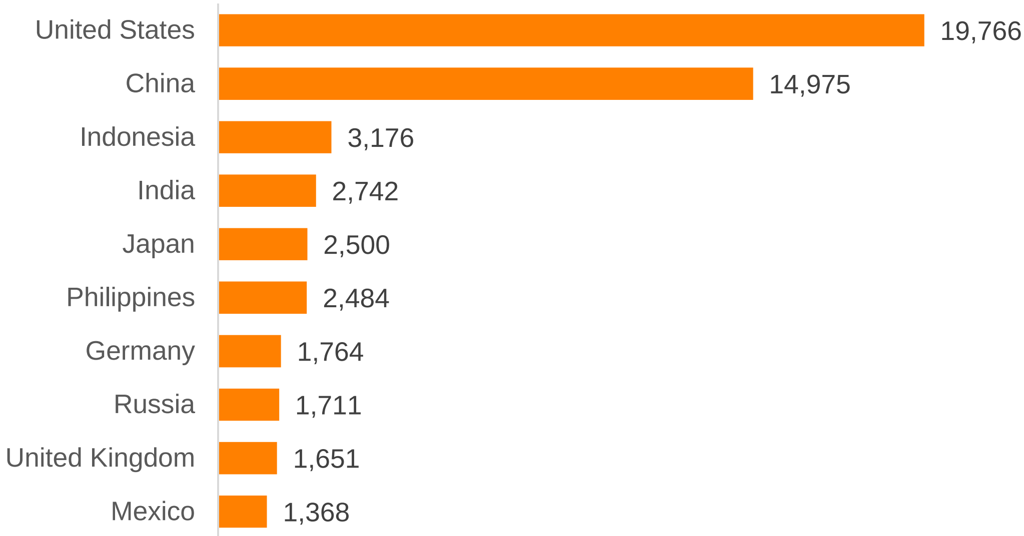
Forecast by leading advertising markets

The US will the leading contributor of new ad dollars to the global market over the next three years, making up in scale what it lacks in speed. China will come second, combining large scale and rapid growth (though its growth is slowing as its scale increases).

Between 2016 and 2019 we forecast global advertising expenditure to increase by US$69 billion in total. The US will contribute 28% of this extra ad expenditure and China will contribute 22%, followed by Indonesia, which will contribute 5%, and India, Japan and the Philippines, which will each contribute 4%.

Six of the ten largest contributors will be Rising Markets* (China, Indonesia, India, the Philippines, Russia and Mexico), and between them they will contribute 38% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 56% of additional ad expenditure between 2016 and 2019, and to increase their share of the global market from 37% to 39%.

Top ten contributors to adspend growth 2016-2019 (US$m)



Source: Zenith

The top six advertising markets will remain stable between 2016 and 2019. South Korea will overtake France to take seventh place by 2019, while Australia will move up to eighth, pushing France down to ninth, while Indonesia will overtake Canada to take tenth place.

Top ten ad markets

US$m, current prices. Currency conversion at 2016 average rates.

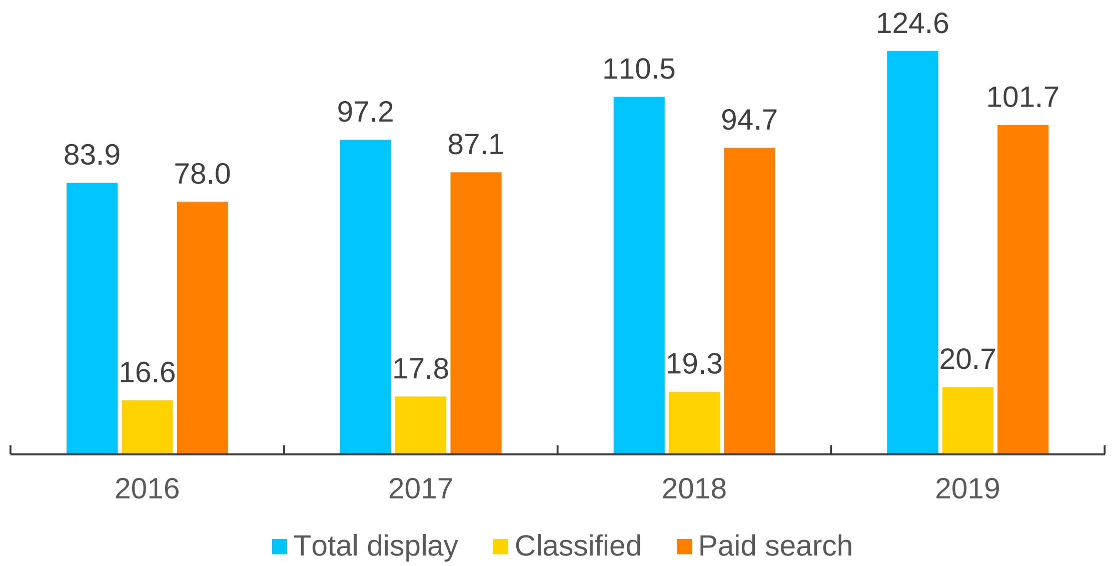
Country	*Adspend 2016*	*Country*	*Adspend 2019*
1. United States	190,778	1. United States	210,544
2. China	74,961	2. China	89,936
3. Japan	41,924	3. Japan	44,424
4. United Kingdom	24,160	4. United Kingdom	25,812
5. Germany	21,951	5. Germany	23,715
6. Brazil	13,047	6. Brazil	14,111
7. France	11,381	7. South Korea	12,113
8. South Korea	11,271	8. Australia	11,973
9. Australia	10,930	9. France	11,899
10. Canada	8,739	10. Indonesia	10,795

Source: Zenith

Global advertising expenditure by medium

This year internet advertising will overtake advertising in traditional television to become the world's biggest advertising medium, accounting for 37.0% of total ad expenditure. As internet advertising matures, its growth is slowing down, but it remains the fastest growing medium by some distance. We estimate that internet adspend grew 18% year on year in 2016, and we forecast an average growth rate of 11% a year between 2016 and 2019. By 2019 we expect internet advertising to account for 41.9% of global adspend.

Internet adspend by type 2016-2019 (US$ billion)



Source: Zenith

Display is the fastest-growing internet sub-category, with 14% annual growth forecast to 2019. Here we include traditional display (such as banners), online video and social media. All three types of display have benefited from the transition to programmatic buying, which allows agencies to target audiences more efficiently and more effectively, with personalised creative. Traditional display grew just 0.7% in 2016, but we expect it to pick up over the next few years, and forecast 6% annual growth to 2019. Meanwhile we predict that online video advertising will grow by 16% a year on average between 2016 and 2019, while social media will grow by 20% a year. Online video is benefiting from the increasing availability of high-quality content, and improvements to the mobile viewing experience, such as better displays and faster connections. And for many consumers, checking their mobile devices for social media has become a regular, ingrained habit, while social media ads blend seamlessly into their mobile app newsfeeds.

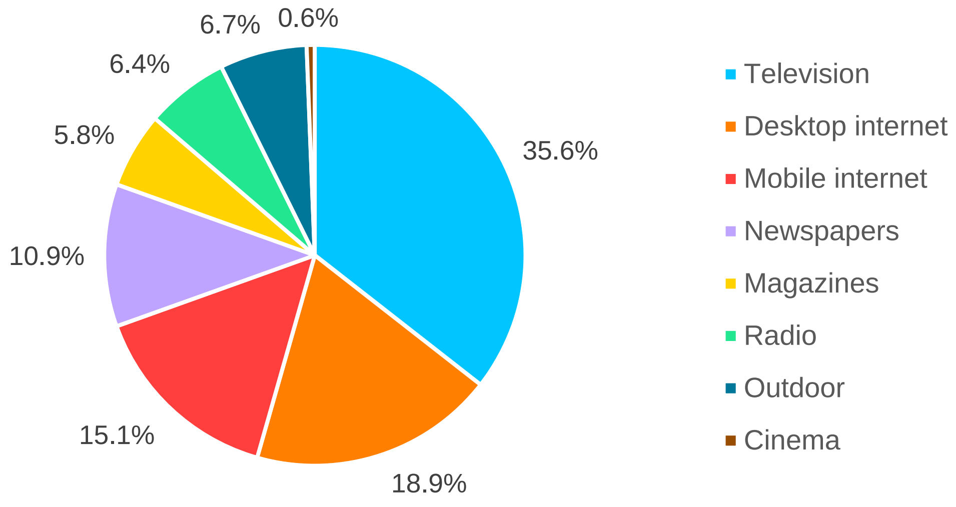
Paid search and classified are now both lagging substantially behind display. Search is growing at 9% a year, and classified at 8%.

Looking at internet adspend by device reveals the dramatic ascent of mobile advertising (by which we mean all internet ads delivered to smartphones and tablets, whether display, classified or search, and including in-app ads). We estimate that mobile advertising grew

47% in 2016, after 86% growth in 2015, and we forecast an average annual growth rate of 25% a year between 2016 and 2019, driven by the rapid spread of devices and improvements in user experiences. By contrast we forecast desktop internet advertising to shrink at an average rate of 3% a year as advertisers follow consumers to mobile.

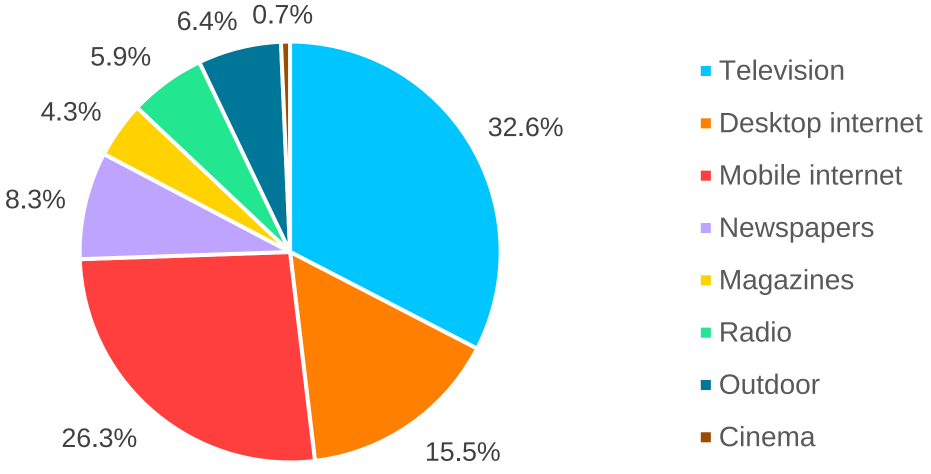
We estimate global expenditure on mobile advertising at US$79 billion in 2016, representing 44.5% of internet expenditure and 15.1% of total advertising expenditure (this total excludes a few markets where we don't have a breakdown by medium). By 2019 we forecast mobile advertising to have grown to US$155 billion, well ahead of desktop's US$92 billion total, having overtaken desktop in 2017. Mobile will account for 62.9% of internet expenditure and 26.3% of all expenditure in 2019 – more than all the traditional media except television put together.

Share of global adspend by medium 2016



Source: Zenith

Share of global adspend by medium 2019



Source: Zenith

Since it began in the mid-1990s, internet advertising (both desktop and mobile) has principally risen at the expense of print. Over the last ten years internet advertising has risen from 7% of total global spend (in 2006) to 34% (in 2016). Meanwhile newspapers' share of global spend has fallen from 28% to 11%, while magazines' has fallen from 13% to 6%. Print titles will continue to lose market share as their readers continue to move to online versions of the print brands or other forms of information and entertainment entirely. We predict newspapers will shrink at an average rate of 5% a year, while magazines shrink at 6% a year, ending with respective 8% and 4% market shares in 2019.

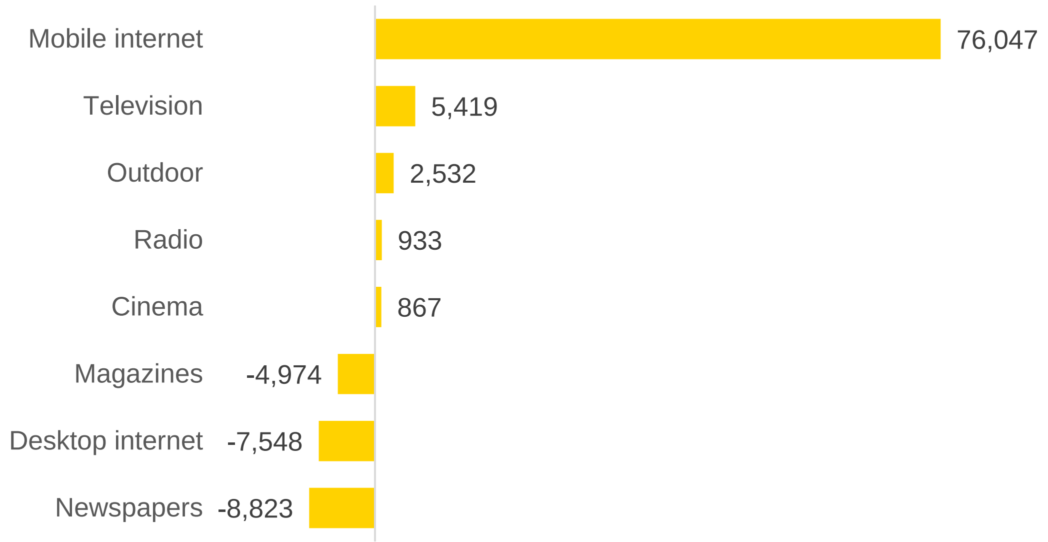
Note that our figures for newspapers and magazines include only advertising in printed editions of these publications, not on their websites, or in tablet editions or mobile apps, all of which are picked up in our internet category. The performance of print editions does not describe the overall performance of newspaper and magazine publishers.

Television was the dominant advertising medium between 1996 (when it overtook newspapers) and 2016, when it attracted 36% of total advertising expenditure. This year, however, we expect the internet to overtake television to become the largest advertising medium. Looking at the ad market as a whole, including search and classified, we think television's share peaked at 39.4% in 2012, fell to 35.5% in 2016, and by 2019 expect it to fall back to 32.6%, its lowest share since 1990.

However, one of the reasons for television's loss of share is the rapid growth of paid search, which is essentially a direct response channel (together with classified), while television is the pre-eminent brand awareness channel. Television does not compete directly against search, and indeed the two can complement each other, for example by running paid search activity to take advantage of the increase in searches driven by a television campaign. Taking internet classified and search out of the picture, television will remain the principal display medium for many years to come. We estimate television accounted for 43.4% of display expenditure in 2016, and will attract 41.1% in 2019.

If we consider audiovisual advertising as a whole – television plus online video – we see that it is in fact holding on to its dominant share of display advertising. Television offers unparalleled capacity to build reach, while online video offers pinpoint targeting and the potential for personalisation of marketing messages. Both are powerful tools for establishing brand awareness and associations. We estimate that audiovisual advertising accounted for 48.4% of display advertising in 2016, up from 43.7% in 2010, and expect its share to remain at 48.4% in 2019.

Contribution to global growth in adspend by medium 2016-2019 (US$ million)



Source: Zenith

Mobile is by some distance the main driver of global adspend growth. We forecast mobile to contribute US$76 billion in extra adspend between 2016 and 2019 (again excluding markets where we don't have a breakdown by medium). That's more than the US$69 billion net increase in total adspend over these years – mobile advertising's growth will be counterbalanced by an US$8 billion decline in desktop advertising, as advertisers switch budgets to mobile, combined with an US$14 billion decline from print. Television and outdoor advertising will be the second and third-largest contributors, growing respectively by US$5 billion and US$3 billion, while radio and cinema grow by about US$1 billion each.

Appendix

List of countries included in the regional blocs

North America: Canada, USA

Western & Central Europe: Austria, Belgium, Bosnia & Herzegovina, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, UK

Eastern Europe & Central Asia: Armenia, Azerbaijan, Belarus, Bulgaria, Estonia, Georgia, Kazakhstan, Latvia, Lithuania, Moldova, Russia, Turkey, Ukraine, Uzbekistan

Japan

Advanced Asia: Australia, Hong Kong, New Zealand, Singapore, South Korea

Fast-track Asia: China, India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan, Thailand, Vietnam

Latin America: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Peru, Puerto Rico, Uruguay, Venezuela

Middle East & North Africa: Bahrain, Egypt, Israel, Kuwait, Oman, Qatar, Saudi Arabia, UAE

*We define Mature Markets as North America, Western Europe and Japan, and Rising Markets as everywhere else

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