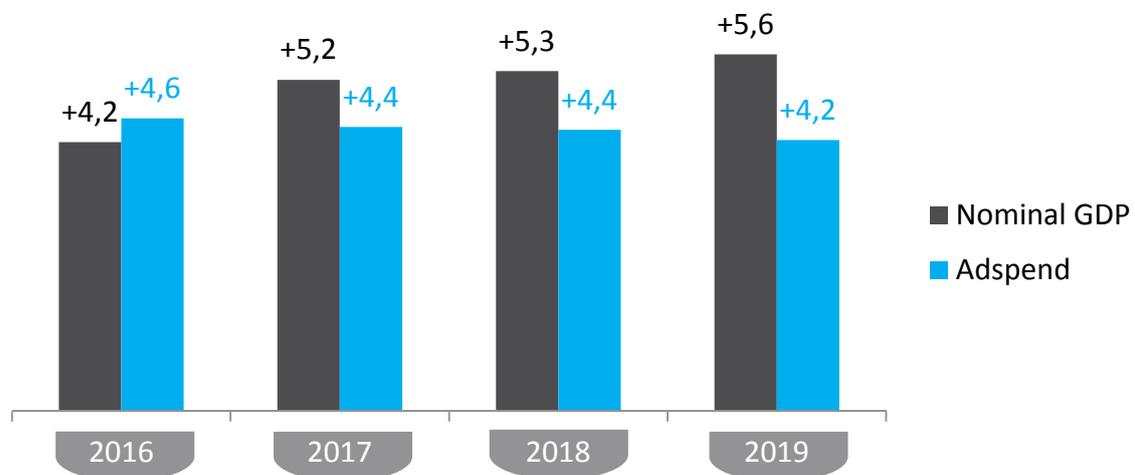


Executive summary: Advertising Expenditure Forecasts March 2017

Zenith predicts global ad expenditure will grow 4.4% in both 2017 and 2018, reaching US\$592 billion by the end of 2018. Our forecast for 2017 remains at the level we predicted in December, but our forecast for 2018 is 0.1 percentage points lower, after we made small downgrades in Western Europe and Asia Pacific.

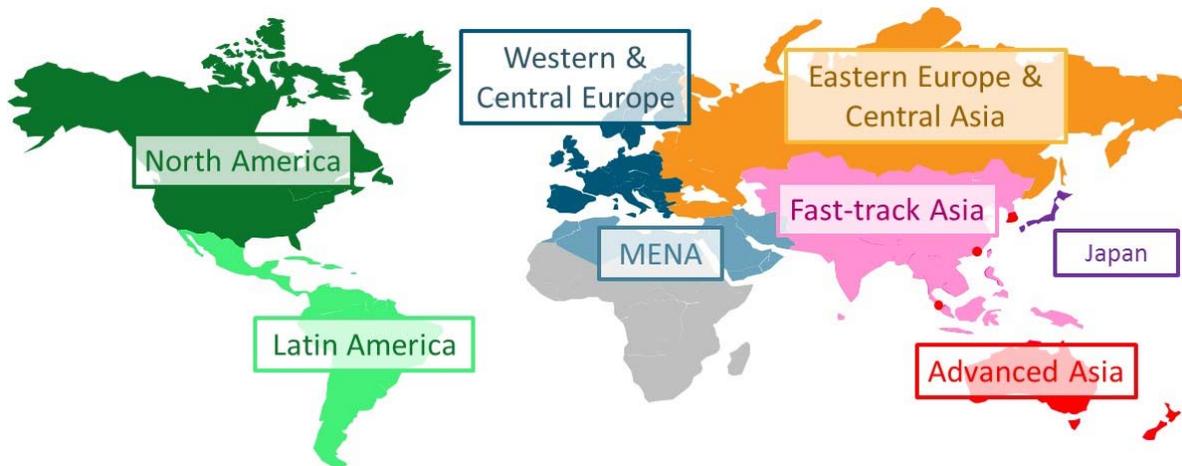
Growth of advertising expenditure and GDP 2016-2019 (%)



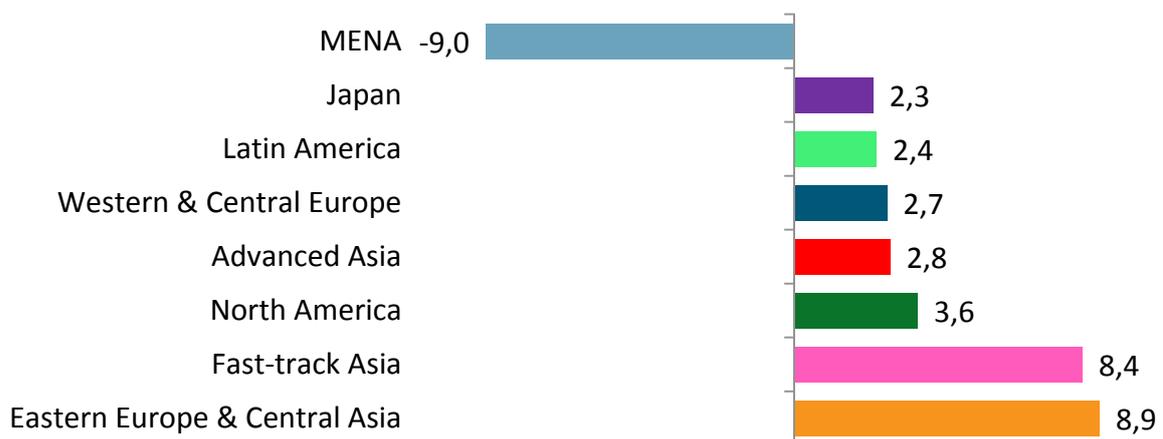
Source: Zenith/IMF

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

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 – Greece’s debts are still unsustainably high, for example – but the region’s ad market has been enjoying solid recovery since 2014, after which adspend has grown at about 4% a year. We expect adspend growth to remain at a similar rate (3.7%) for the rest of our forecast period, after a slight slowdown to 2.7% growth in 2017.

The UK, the stand-out growth market for 2012 to 2015, started to slow down in 2016 (to 4.8% growth, from 9.2% in 2015) and will slow further in 2017 (to 2.7%). How much of this is due to political uncertainty, and how much is a response to years of rapid growth and high media inflation, remains unclear. Strong growth from Portugal (which we expect to grow by 5% a year to 2019), Spain (which we expect to grow 6% a year) and Sweden (7%) should help compensate.

Eastern Europe & Central Asia

Eastern European advertising markets, such as Russia and Turkey, generally recovered quickly after the 2009 downturn and continued their healthy pace of growth, largely (though not entirely) unaffected by the problems in the eurozone for the next four years. Their near neighbours in Central Asia, such as Azerbaijan and Kazakhstan, have behaved very similarly, so we have gathered them together under the Eastern Europe & Central Asia bloc.

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. These problems then spread to Belarus, whose main trading partner is Russia by some distance. In 2015 adspend shrank by 44% in Ukraine, 28% in Belarus and 9% in Russia. Russia’s ad market proved more resilient than we feared, and having avoided collapse in 2015 staged a recovery in 2016, when it rebounded by 9%. Belarus also grew by 9%, and Ukraine by 4%. We expect Russia to maintain 9%-10% annual growth to 2019, while Belarus and Ukraine grow at double-digit annual rates.

We expect Eastern Europe & Central Asia to be the fastest-growing regional bloc to 2019, with 8.9% annual growth in adspend.

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.

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 2.8% a year through to 2019.

Fast-track Asia

We characterise the rest of Asia as Fast-track Asia (China, India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan, Thailand and Vietnam). These economies are growing extremely rapidly as they adopt Western technology and practices, 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 9.3%. 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 74% 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 8.4% in 2017, and at an average rate of 7.9% a year between 2016 and 2019, down from 10.8% a year between 2011 and 2016.

We have not changed the definition of North America, Latin America or the Middle East & North Africa (MENA) in this analysis.

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. The US had a good year in 2016, thanks to Olympics and election-related spending. We estimate that North American adspend grew 4.3% in 2016, compared to 3.5% in Western & Central Europe. For the rest of our forecast period we forecast North America to grow by 3.4% a year, slightly behind Western & Central Europe's 3.7%.

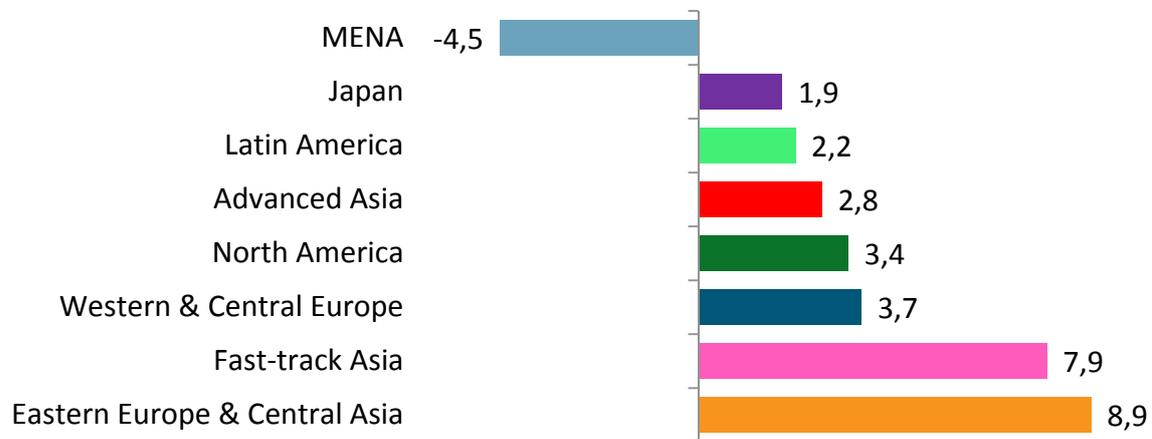
Latin America

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 0.5% in 2016, after growing 6.4% in 2015. Argentina's recession looks like it came to an end in late 2016, while the economies of Brazil and Ecuador are widely expected to improve in 2017. Meanwhile, Venezuela's sustained collapse in adspend means that its continued decline weighs less on the regional total each year. We forecast 2% annual growth in Latin American adspend to 2019.

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 further shaken advertisers' confidence in the region. We forecast a 9.0% drop in adspend in MENA this year, following 10.1% decline 2016. The region's decline should moderate over time, but we predict no recovery during our forecast period. We expect adspend to shrink 3.2% in 2018 and 1.1% in 2019.

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



Source: Zenith

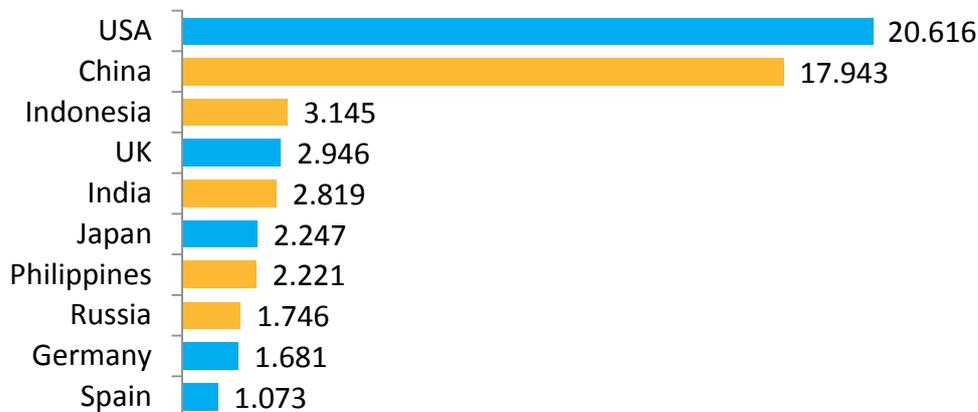
Of the various blocs, MENA is the clear underperformer, while the clear outperformers are Fast-track Asia and Eastern Europe & Central Asia. The other blocs range gradually from growing slowly (Japan) to solidly but unspectacularly (Western & Central Europe).

Forecast by leading advertising markets

The US will be 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\$74 billion in total. The US will contribute 28% of this extra ad expenditure and China will contribute 24%, followed by Indonesia, the UK, and India, which will each contribute 4%.

Five of the ten largest contributors will be Rising Markets*, 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 38% to 40%.

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



Source: Zenith

The top seven advertising markets will remain stable between 2016 and 2019. Australia will overtake France to take eighth place in 2019, pushing France down to ninth, while Indonesia will overtake Canada to take tenth place in 2018.

Top ten ad markets

US\$m, current prices. Currency conversion at 2015 average rates.

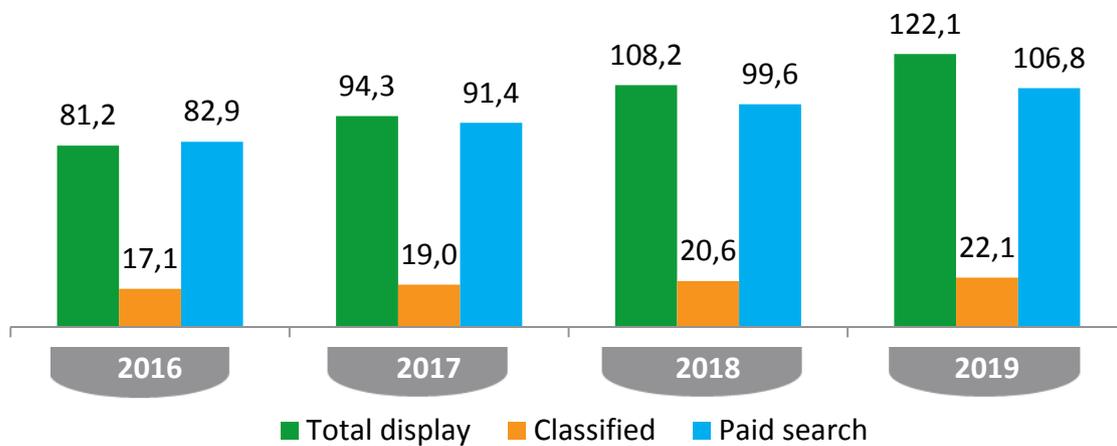
2016		Adspend	2019		Adspend
1	USA	190,835	1	USA	211,451
2	China	80,239	2	China	98,182
3	Japan	37,681	3	Japan	39,928
4	UK	26,102	4	UK	29,048
5	Germany	22,065	5	Germany	23,746
6	Brazil	13,195	6	Brazil	13,621
7	South Korea	11,561	7	South Korea	12,425
8	France	11,458	8	Australia	12,113
9	Australia	11,058	9	France	11,923
10	Canada	9,050	10	Indonesia	10,690

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 36.9% 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 17% 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 41.7% of global adspend.

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



Source: Zenith

Display is the fastest-growing internet sub-category, with 15% 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 shrank 6.1% in 2016, but we now think that decline is unlikely to be repeated in the near future, and forecast 5% annual growth to 2019. Meanwhile we predict that online video advertising will grow by 17% a year on average between 2016 and 2019, while social media will grow by 20% a year. Online video, by contrast, 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.

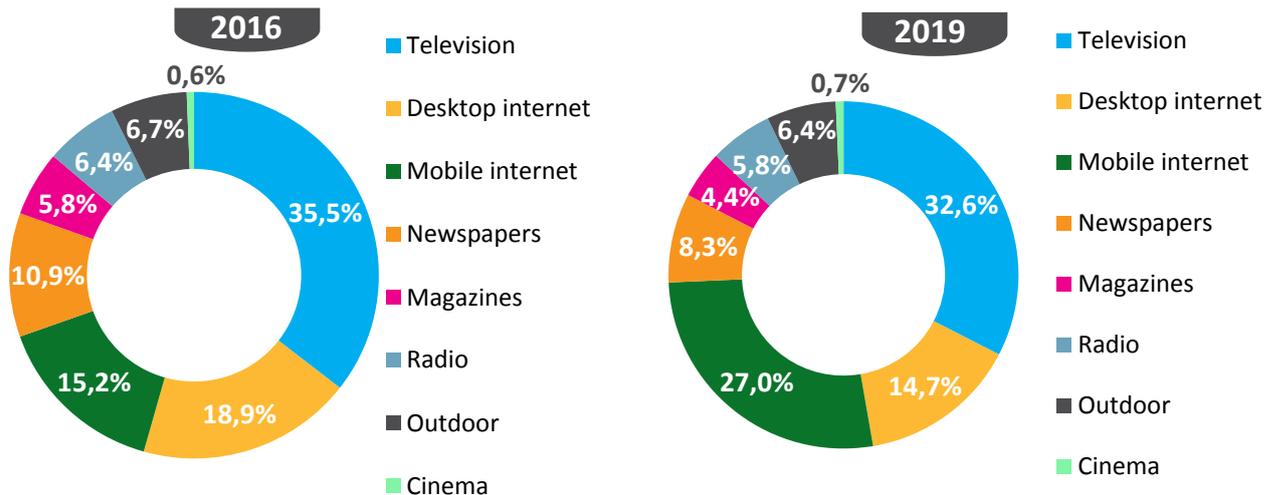
Paid search and classified are now both lagging substantially behind display, although they are still growing at 9% a year.

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 49% in 2016, after 95% growth in 2015, and we forecast an average annual growth rate of 26% 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 4% a year as advertisers follow consumers to mobile.

We estimate global expenditure on mobile advertising at US\$81 billion in 2016, representing 44.6% of internet expenditure and 15.2% 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 grow to US\$163 billion, well ahead of desktop's US\$89 billion total, having overtaken desktop in 2017. Mobile will account for 64.7% of internet expenditure and 27.0% of all expenditure in 2019 – more than all the traditional media except television put together.

Share of global adspend by medium (%)



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 and magazines will each continue to shrink at average rates of 5% a year between 2016 and 2019, ending with respective 8% and 4% market shares.

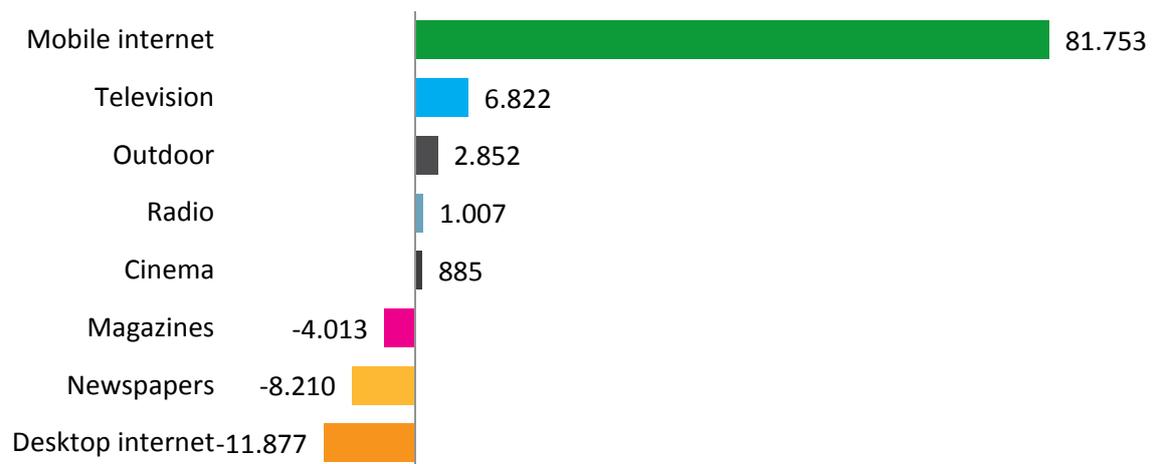
Note that our figures for newspapers and magazines include only advertising in printed editions of these publications, not on their websites, or in tablet editions or mobile apps, all of which are picked up in our internet category. The performance of print editions does not describe the overall performance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

Television was the dominant advertising medium between 1996 (when it overtook newspapers) and 2016, when it attracted 36%. This year, however, 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 43.8% of display expenditure in 2016, and will attract 41.5% 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 48.9% of display advertising in 2016, up from 43.8% in 2010, and expect its share to reach 49.0% 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\$82 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\$74 billion net increase in total adspend over these years – mobile advertising’s growth will be counterbalanced by a US\$12 billion decline in desktop advertising, as advertisers switch budgets to mobile, combined with an US\$12 billion decline from print. Television and outdoor advertising will be the second and third-largest contributors, growing respectively by US\$7 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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