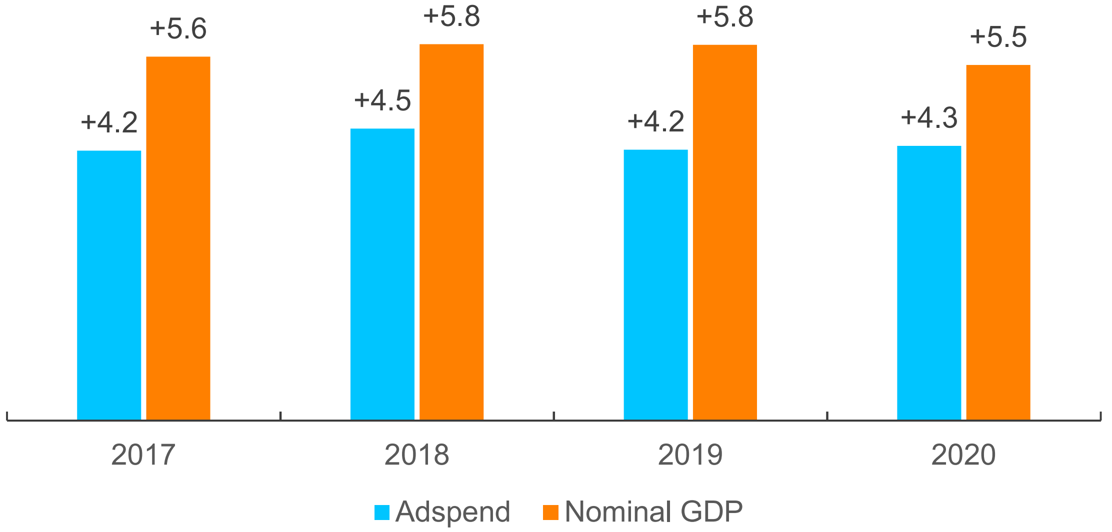
Advertising Expenditure Forecasts June 2018

Executive summary

Zenith predicts global ad expenditure will grow 4.5% in 2018, reaching US$580 billion by the end of the year. This forecast is slightly behind the 4.6% growth rate we forecast in March, mainly because we upgraded our estimate of growth in 2017 from 4.0% to 4.2%, which now provides a tougher comparison. In dollar terms, our new forecast is US$1bn above our previous one.

We expect advertising expenditure to grow behind the global economy as a whole out to 2020.

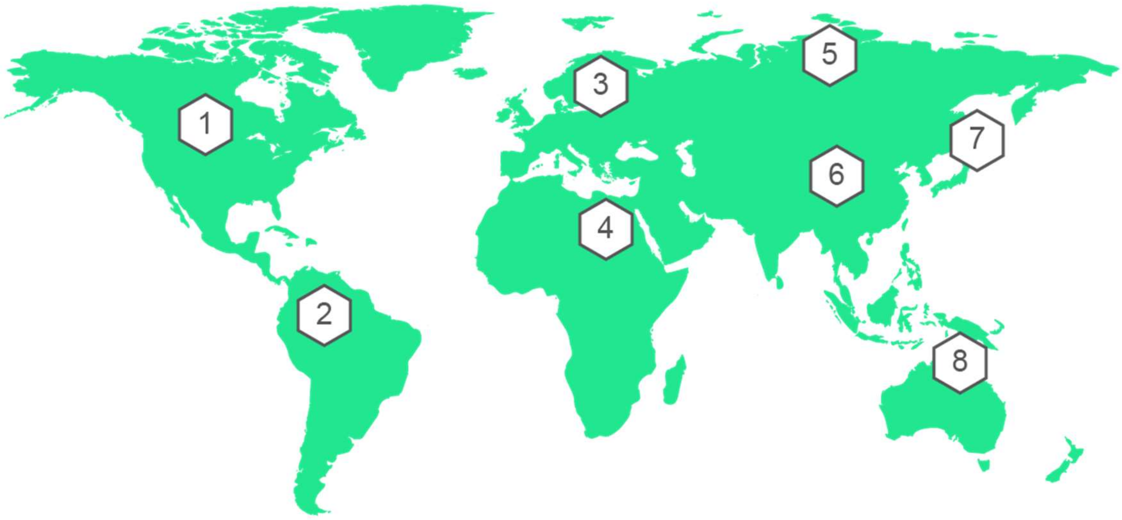
Growth of advertising expenditure and GDP 2017-2020 (%)



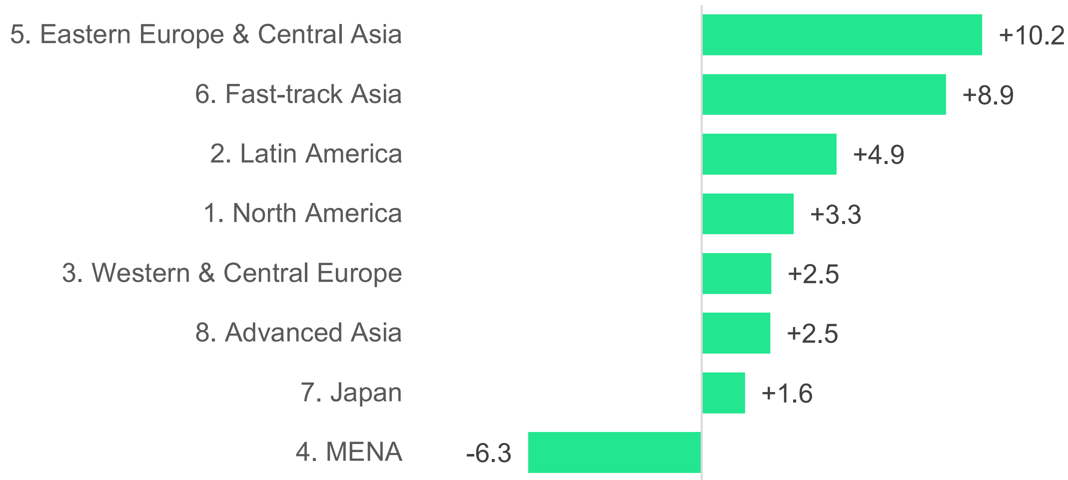
Source: Zenith/IMF

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 2017-2018 (%)



Source: Zenith

1. North America

North America’s ad market has been growing fairly steadily but unspectacularly since 2010. The pace of change is set by the US, where advertisers spend 23 times more than they do in

Canada. Adspend continues to grow in the US, despite uncertainties over macroeconomic policy and trade. We expect North American adspend to grow 3.3% in 2018, and forecast an average of 3.2% growth a year to 2020.

2. Latin America

Argentina and Brazil emerged from recession in 2017, after steep decline in 2016, and their economic growth has continued into 2018, boosting the prospects for regional adspend growth. Venezuela, which faces ongoing economic crisis, is still shrinking rapidly, but its sustained collapse in adspend means that this decline weighs less on the regional total each year. We have upped our forecasts for Latin American growth this year by 0.5 percentage points to 4.9%, and predict an average growth rate of 4.7% a year to 2020.

3. Western & Central Europe

Western & Central Europe has enjoyed solid growth since 2014, growing at similar rates to North America, in some years slightly ahead and in others slightly behind.

During the eurozone crisis, the ‘peripheral’ markets like Ireland, Italy, Portugal and Spain dragged down the region as a whole. But now Ireland and Portugal are among the strongest in Europe, with respective 5% and 7% growth forecast for 2018, while Italy and Spain slightly lag the region as a whole, with 2% growth forecast for this year. Overall we forecast 2.5% growth for Western & Central Europe in 2018, and 2.8% growth on average to 2020.

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 estimate that adspend dropped 18.6% in MENA in 2017, following 9.9% decline in 2016. We do, however, think that was the low point for the region and expect successive improvement over the rest of our forecast period, forecasting 6.3% decline in 2018, just 0.3% decline in 2019 and 2.8% growth in 2020.

5. Eastern Europe & Central Asia

In 2014 key markets in this region were disrupted by the conflict in Ukraine, subsequent sanctions, a sharp drop in oil prices and devaluation of local currencies. Adspend shrank by

0.8% in 2014 and then 8.4% in 2015. The worst-affected ad markets began to recover in 2016, however, and this recovery has continued in 2017, consistently outperforming expectations. We now estimate that adspend improved by 13.4% in 2017, and forecast 8.7% annual growth to 2020, ensuring that Eastern Europe & Central Asia remains 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 has enjoyed high single-digit or double-digit growth since 1996, and barely noticed the 2009 downturn. Growth is slowing now that some of the region’s markets, notably China, have achieved substantial scale, but we still expect growth to rise to an average of 7.5% a year to 2020. This is less rapid than the growth in Eastern Europe and Central Asia, but Fast-track Asia is ten times larger, so contributes a lot more to global adspend growth in dollar terms.

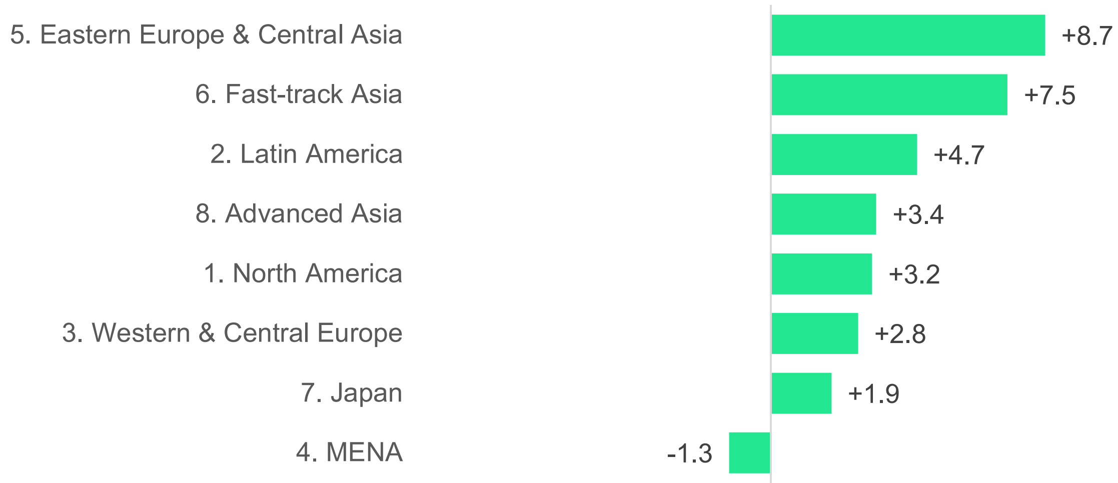
7. Japan

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 2017 and 2020, behind the average annual growth rate of 2.5% between 2012 and 2017.

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 an estimated 1.9% in 2017. We expect this to be the trough, and forecast 3.4% average annual growth to 2020, ahead of the 3.1% average growth rate since 2012.

Average annual growth in adspend by regional bloc 2017-2020 (%)



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 (Latin America).

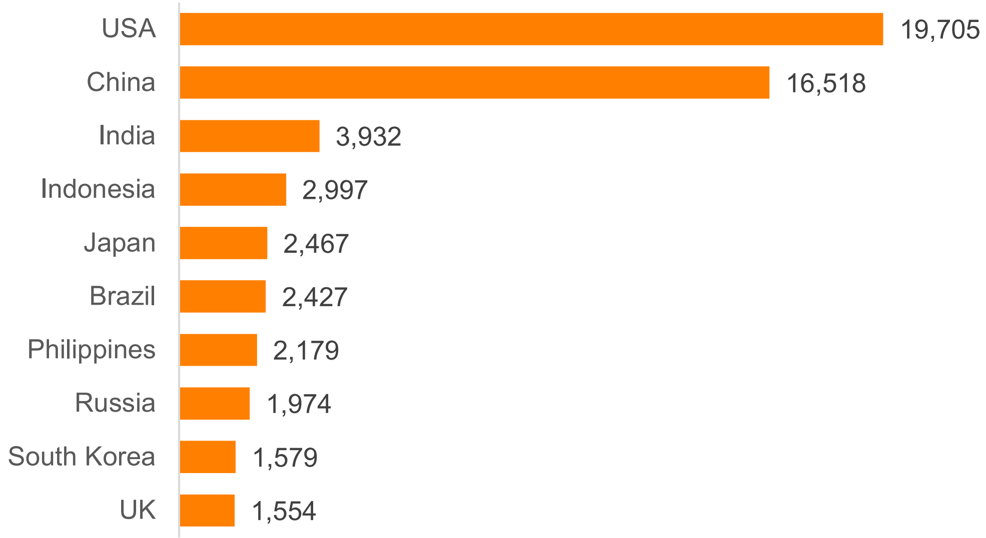
Forecast by leading advertising markets

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 2017 and 2020 we forecast global advertising expenditure to increase by US$75 billion in total. The US will contribute 26% of this extra ad expenditure and China will contribute 22%, followed by India (5%) and Indonesia (4%).

Seven of the ten largest contributors will be Rising Markets* (China, India, Indonesia, Brazil, the Philippines, Russia and South Korea), and between them they will contribute 42% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 58% of additional ad expenditure between 2017 and 2020, and to increase their share of the global market from 37% to 40%.

Top ten contributors to adspend growth 2017-2020 (US$m)



Source: Zenith

The world’s top ten advertising markets by size will remain fairly stable between 2017 and 2020, India replacing Indonesia in tenth place in 2019.

Top ten ad markets

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

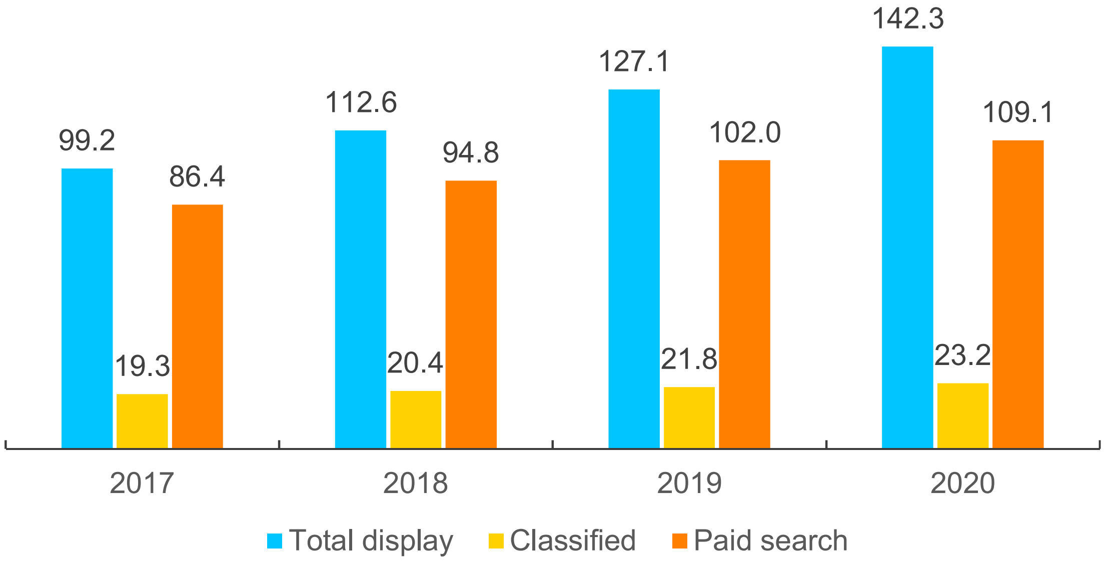
Country	*Adspend 2017*	*Country*	*Adspend 2020*
1. USA	197,474	1. USA	217,179
2. China	79,080	2. China	95,598
3. Japan	41,850	3. Japan	44,317
4. UK	24,214	4. UK	25,768
5. Germany	22,744	5. Germany	24,207
6. Brazil	14,892	6. Brazil	17,319
7. South Korea	12,126	7. South Korea	13,705
8. Australia	12,024	8. Australia	13,118
9. France	11,950	9. France	12,952
10. Indonesia	8,712	10. India	12,586

Source: Zenith

Global advertising expenditure by medium

In 2017 internet advertising overtook advertising on traditional television to become the world’s biggest advertising medium, accounting for 37.7% 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 15% year on year in 2017, and we forecast an average growth rate of 10% a year between 2017 and 2020. By 2020 we expect internet advertising to account for 44.8% of global adspend.

Internet adspend by type 2017-2020 (US$ billion)



Source: Zenith

Display is the fastest-growing internet sub-category, with 13% annual growth forecast to 2020. 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. Online video and social media are currently the driving forces of internet adspend growth: we forecast them to grow at average rates of 18% and 16% a year respectively between 2017 and 2020. 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. Note that these are not mutually exclusive categories: online video ads are now an important component of social media platforms' revenues.

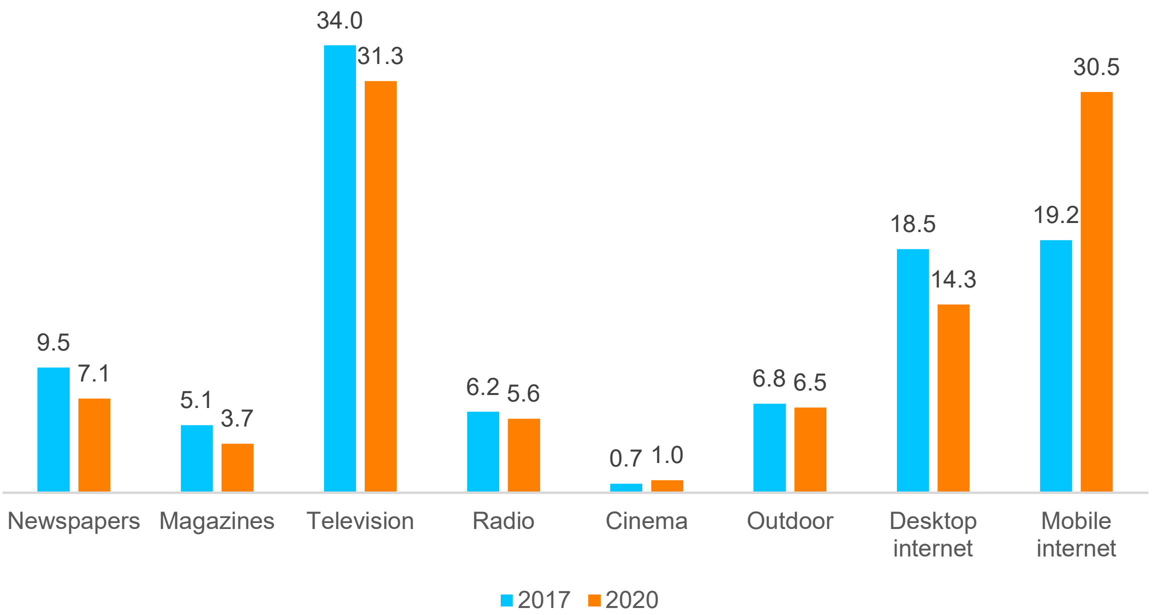
Paid search and classified are now both lagging substantially behind display. Search is growing at 8% a year, and classified at 6%.

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

35% in 2017, after 47% growth in 2016, and we forecast an average annual growth rate of 21% a year between 2017 and 2020, 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$104 billion in 2017, representing 50.9% of internet expenditure and 19.2% of total advertising expenditure (this total excludes a few markets where we don't have a breakdown by medium). By 2020 we forecast mobile advertising to have grown to US$187 billion, more than double desktop's US$88 billion total, having overtaken desktop in 2017. Mobile will account for 68.0% of internet expenditure and 30.5% of all expenditure in 2020 – 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 9% of total global spend (in 2007) to 38% (in 2017). Meanwhile newspapers' share of global spend has fallen from 27% to 10%, while magazines' has fallen from 12% to 5%. 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 shrink at average rates of 5% and 6% a year respectively, ending with respective 7% and 4% market shares in 2020.

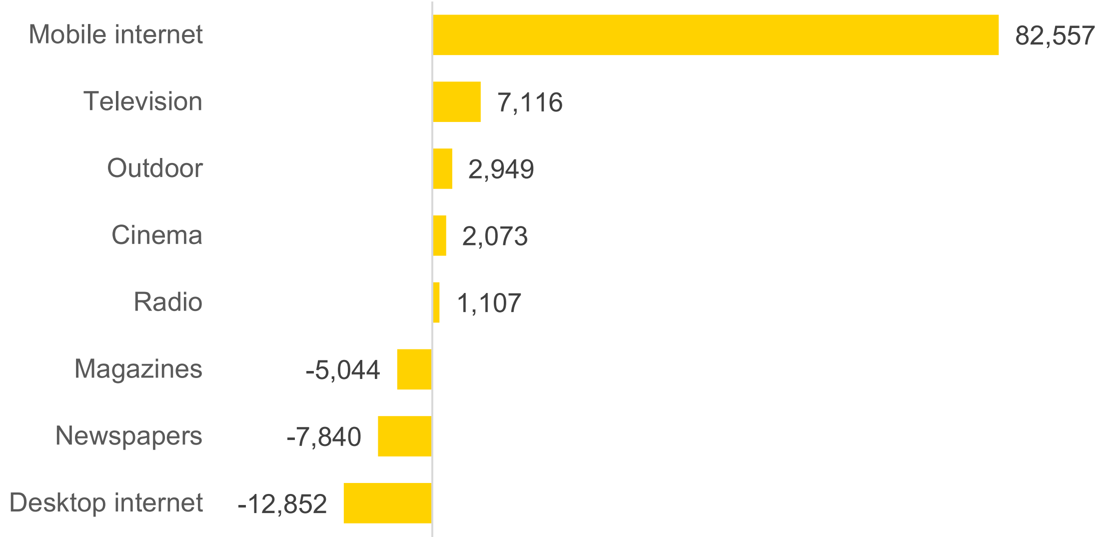
Note that our figures for newspapers and magazines include only advertising in printed editions of these publications, not on their websites, or in tablet editions or mobile apps, all of which are picked up in our internet category. The performance of print editions does not describe the overall performance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

Television was the dominant advertising medium between 1996 (when it overtook newspapers with a 37% market share) and 2016 (when it attracted 35% of total advertising expenditure). In 2017, however, the internet overtook 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 39.2% in 2012, fell to 34.0% in 2017, and will be 31.3% in 2020, its lowest share since 1981.

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. Television accounted for 42.2% of display expenditure in 2017, and will attract 39.9% in 2020.

If we consider audiovisual advertising as a whole – television plus online video – we see that it is in fact consolidating 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 2017, up from 43.6% in 2010, and expect its share to rise to 48.9% in 2020.

Contribution to global growth in adspend by medium 2017-2020 (US$ million)



Source: Zenith

Mobile is by some distance the main driver of global adspend growth. We forecast mobile to contribute US$83 billion in extra adspend between 2017 and 2020 (again excluding markets where we don't have a breakdown by medium). Mobile advertising's growth will be counterbalanced by a US$13 billion decline in desktop advertising, as advertisers switch budgets to mobile, combined with a US$13 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 cinema and radio grow by about US$2 billion and US$1 billion respectively.

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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