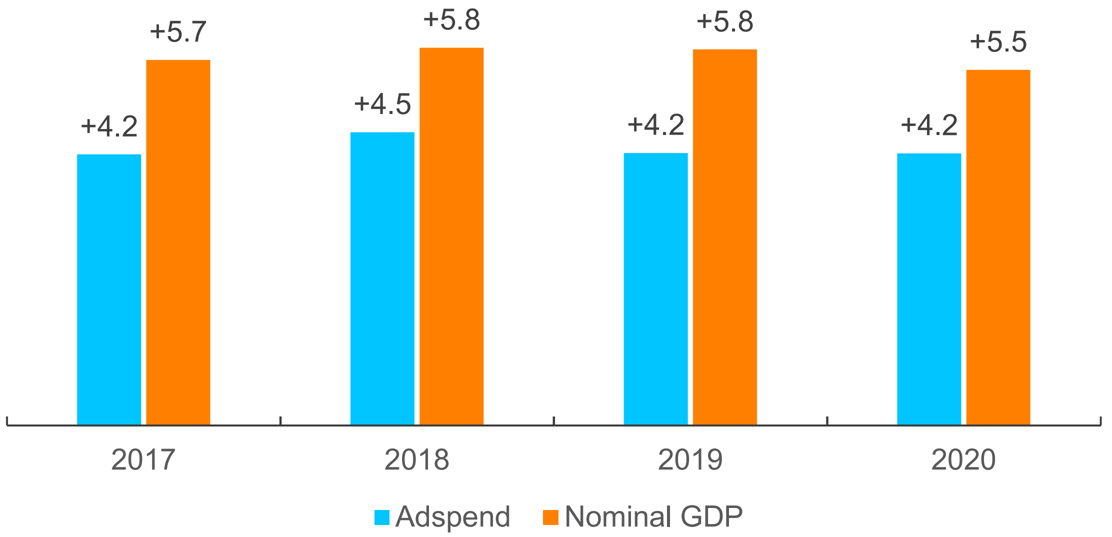
Advertising Expenditure Forecasts September 2018

Executive summary

Zenith predicts global ad expenditure will grow 4.5% in 2018, reaching US$581 billion by the end of the year. This forecast is essentially the same as the one we published in June, with upgrades in some markets counterbalanced by downgrades in others. In dollar terms, our new forecast is US$1bn above our previous one, mainly because we have overhauled our estimates of adpsend levels in the Middle East and North Africa.

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

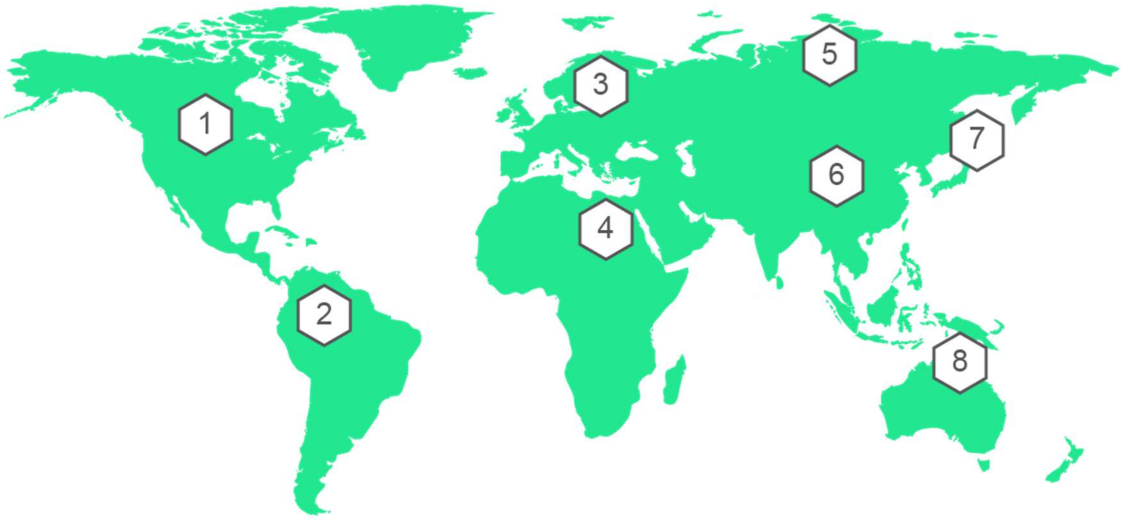
Growth of advertising expenditure and GDP 2017-2020 (%)



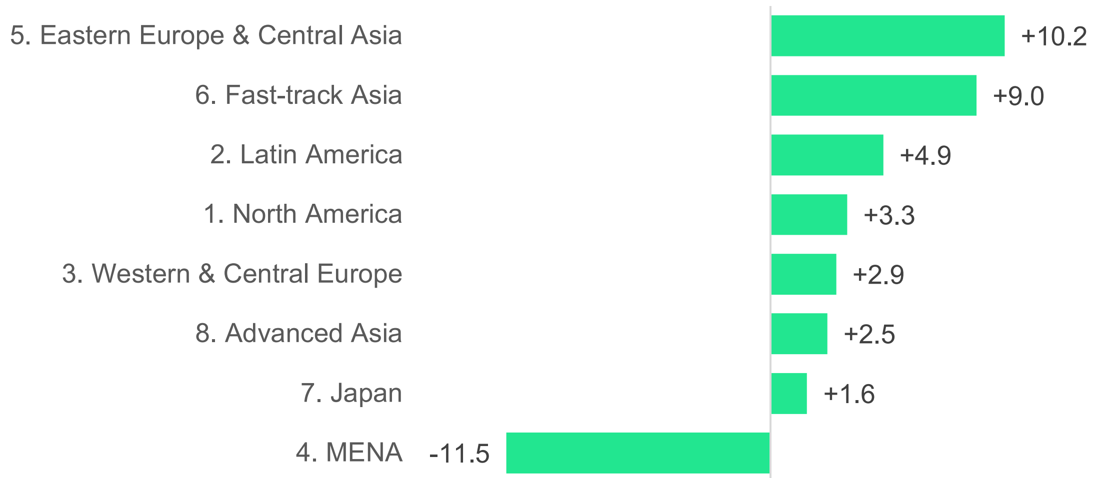
Source: Zenith/IMF

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 to average the same growth rate each 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. Concerns about Argentia's economic stability and a plunge in the value of its currency has however caused Argentina's ad market to go into reverse this year when measured in US dollars. 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. Overall we forecast 4.9% growth in Latin America adspend this year, and predict an average growth rate of 4.6% 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 8% and 5% growth forecast for 2018, while Italy and Spain slightly lag the region as a whole, with 2% growth forecast for this year. The UK's ad market has held up better than expected so far this year, and we forecast 2.4% growth for 2018 as a whole, up from 0.7% in our last forecast. Overall we forecast 2.9% growth for Western & Central Europe in 2018, and the same rate of average annual growth to 2020.

4. MENA

We have thoroughly revised our historic estimates of ad expenditure in MENA for this edition of our forecasts. We have also added figures for Iraq, Jordan and Syria, as well as channels targeting Asian-language speakers across the region. The net effect of these changes is that our estimate of regional adspend is now higher than it was previously, but so too is our estimate of the shock the region has suffered from the drop in oil prices since 2014, political turmoil and conflict. We now estimate that adspend shrank by 40% between 2014 and 2017, more than our previous estimate of 33%. We forecast 11.5% decline in 2018, followed by 4.9% decline in 2019, before the market stabilises at 0.4% 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 accelerated in 2017, consistently outperforming expectations. We now estimate that adspend improved by 14.3% in 2017, which we expect to be the high-point for the recovery. We 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 existing 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 7.6% a year to 2020. This is less rapid than the growth in Eastern Europe & Central Asia, but Fast-track Asia is ten times larger, so contributes a lot more to global adspend growth in dollar terms.

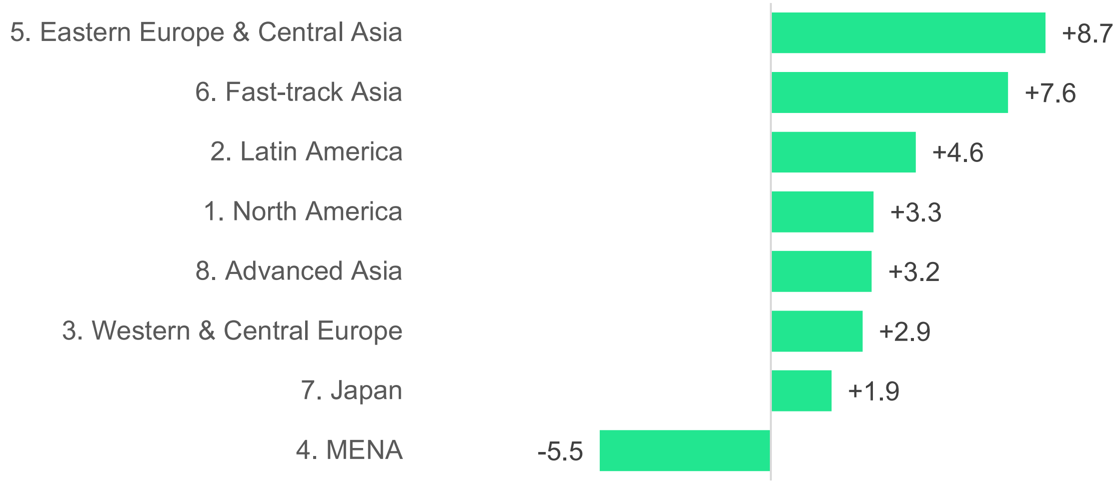
7. Japan

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 1.9% in 2017. We expect this to be the trough, and forecast 3.2% average annual growth to 2020.

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).

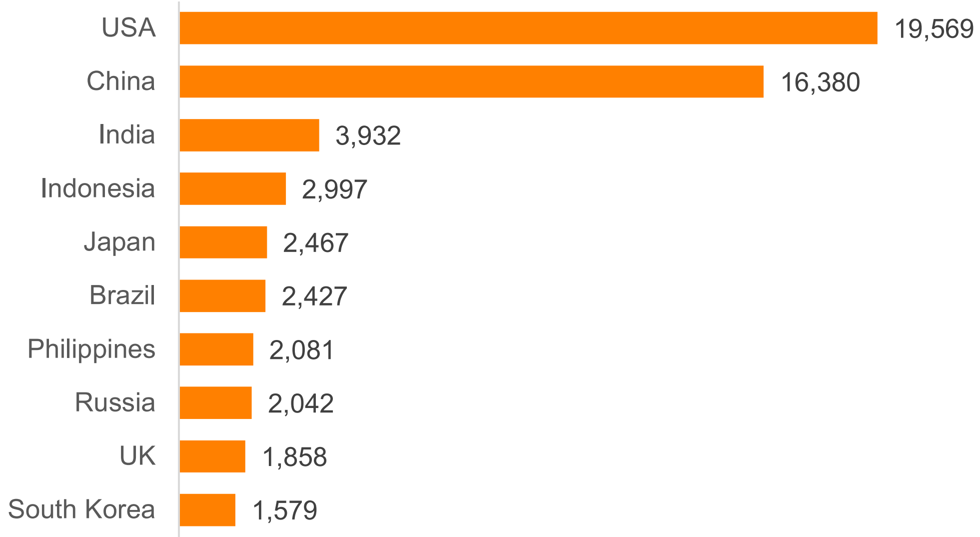
Forecast by leading advertising markets

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 57% 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. In 2020, France will swap places with Australia to become the eighth-largest ad market, and India will replace Indonesia in tenth place.

Top ten ad markets
US$m, current prices. Currency conversion at 2016 average rates.

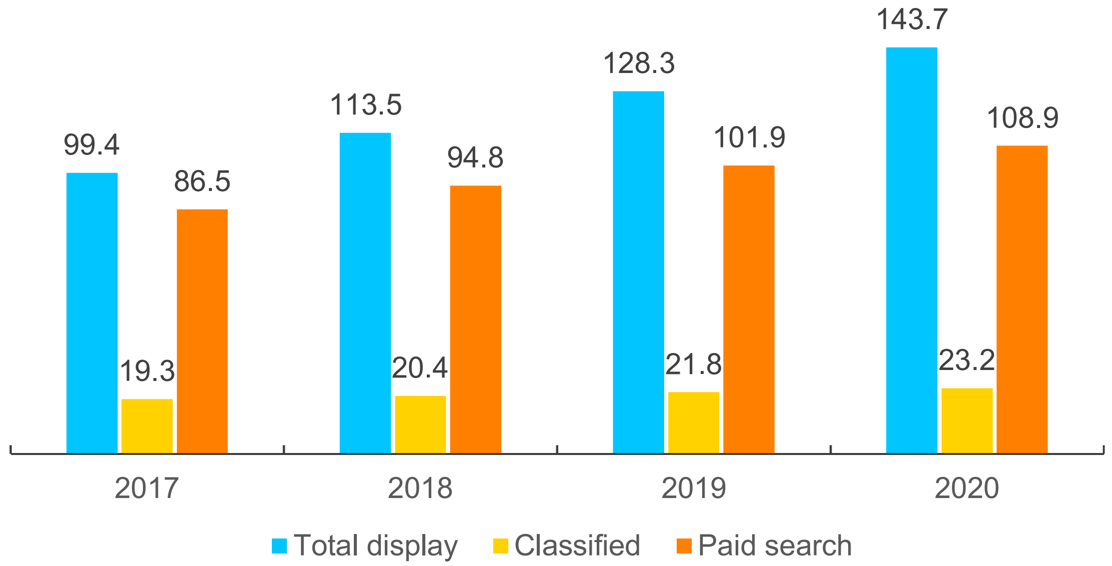
Country	*Adspend 2017*	*Country*	*Adspend 2020*
1. USA	197,474	1. USA	217,043
2. China	79,080	2. China	95,460
3. Japan	41,850	3. Japan	44,317
4. UK	24,214	4. UK	26,071
5. Germany	22,744	5. Germany	24,089
6. Brazil	14,892	6. Brazil	17,319
7. South Korea	12,126	7. South Korea	13,705
8. Australia	12,024	8. France	13,329
9. France	11,950	9. Australia	13,177
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. 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 44.9% of global adspend.

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



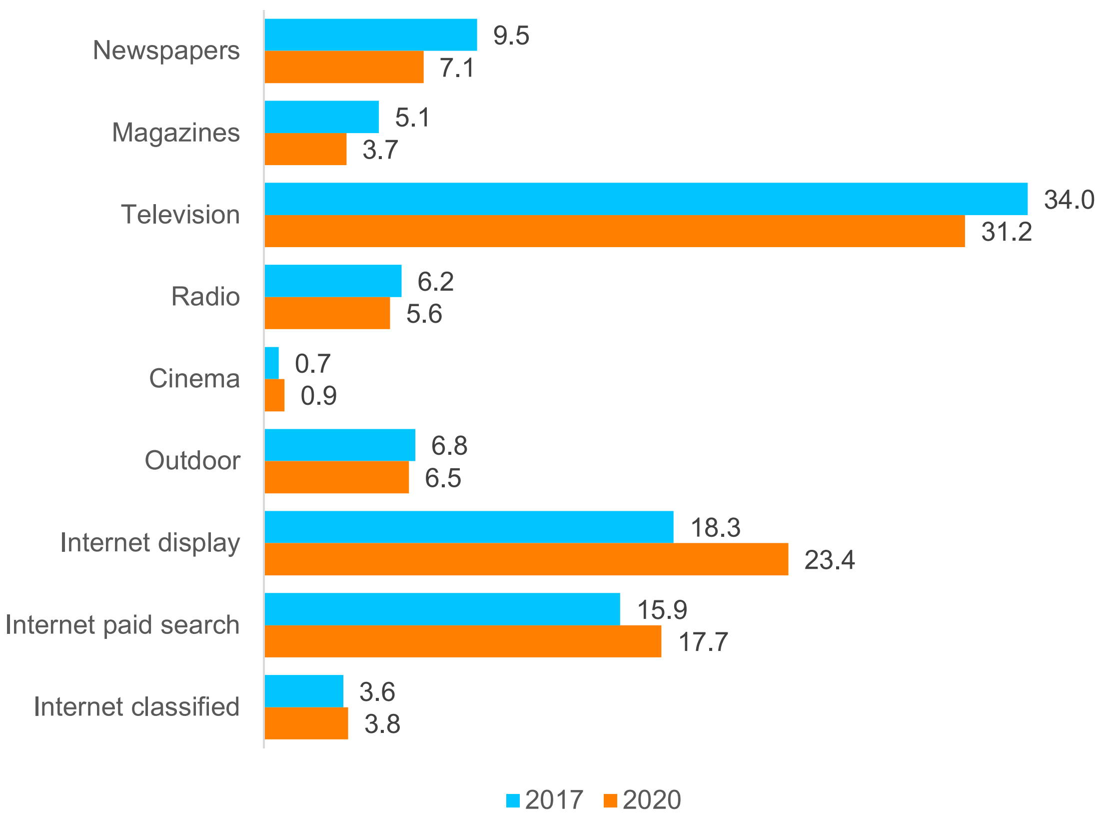
Source: Zenith

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%.

The rise of mobile technology has transformed the way consumers use the internet, and the way brands communicate with consumers. In 2017, more money was spent on mobile ads (US$104bn) than desktop ads (US$101bn) for the first time. However, as technology has developed, the distinction between mobile and desktop has blurred. Instead of a sharp divide between small smartphones, larger tablets, even larger laptops and desktops, devices have a wide range of differently sized screens, some with integral keyboards and others with detachable keyboards. Many large-screen smart-TVs run on mobile operating systems. For many brands, the number of people who view their ads on mobile devices rather than desktop PCs is largely irrelevant to their planning – it is an outcome of whatever their target audiences happened to be using when they came across the ads. While for now we will continue to track mobile and desktop advertising separately, the distinction is becoming less relevant and meaningful all the time.

Share of global adspend by medium (%)



Source: Zenith

Since it began in the mid-1990s, internet advertising 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 7% a year respectively, ending with respective 7% and 4% market shares in 2020.

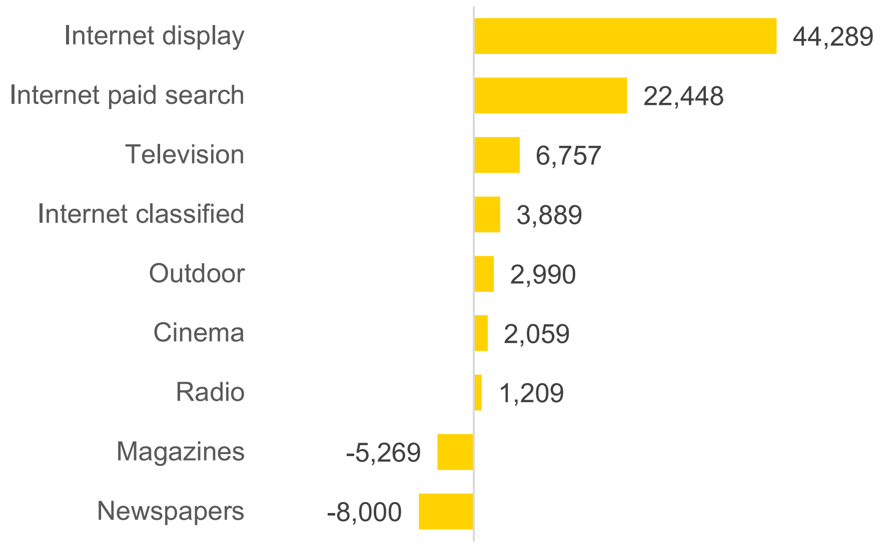
Note that our figures for newspapers and magazines include only advertising in printed editions of these publications, not on their websites, or in tablet editions or mobile apps, all of which are picked up in our internet category. The performance of print editions does not describe the overall performance 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 31.2% 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 42.3% of display expenditure in 2017, and will attract 39.8% 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 48.3% 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

Internet display is by some distance the main driver of global adspend growth, driven by the (overlapping) expansion of social media and online video. We forecast internet display and search to contribute US$67 billion in extra adspend between 2017 and 2020 (again excluding markets where we don't have a breakdown by medium). This growth will be mitigated by a US$13 billion decline from print. Television will be the second-largest contributor, adding US$7 billion to the global ad market, with smaller contributions from internet classified, outdoor, cinema and radio.

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, Iraq, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Syria, UAE

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

Advertising Expenditure Forecasts is published quarterly priced £495, or £1,485 for an annual subscription. It may be ordered in hard or soft copy from www.zenithmedia.com

For further information, please contact:

Jonathan Barnard
Head of Forecasting, Director of Global Intelligence
Tel: +44 20 7961 1192
Fax: +44 20 7291 1199
E-mail: jonathan.barnard@zenithmedia.com