

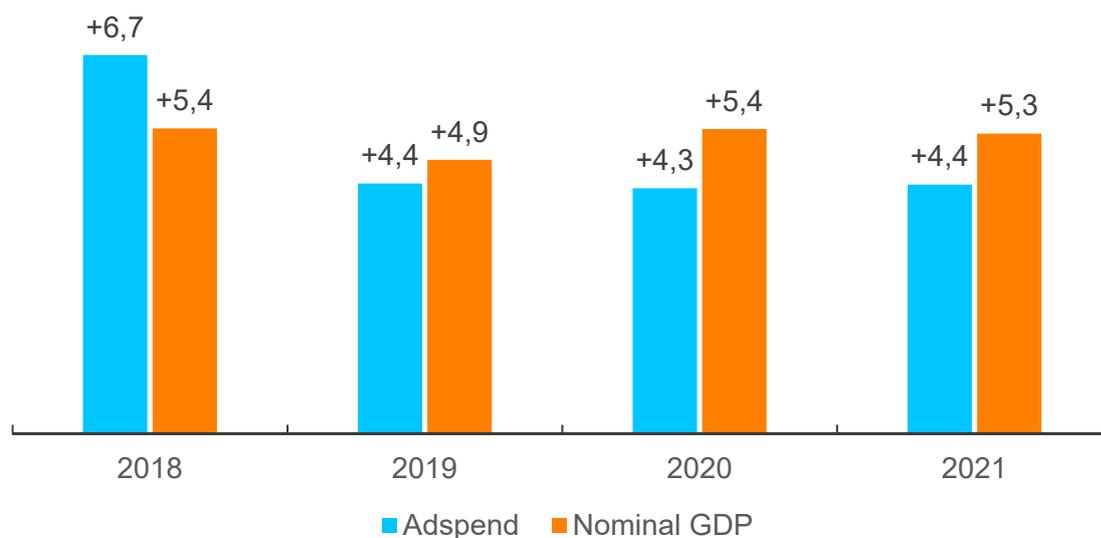
Advertising Expenditure Forecasts October 2019

Executive summary

Zenith now predicts global ad expenditure will grow 4.4% in 2019, reaching US\$640bn by the end of the year. This is a downgrade to the 4.6% growth rate we forecast in June, but we have once more upgraded our estimate for growth in 2018, from 6.4% to 6.7%, so 2019 faces a tougher comparison.

We expect advertising expenditure to grow behind the global economy as a whole in 2019-2021, after it outpaced it in 2018.

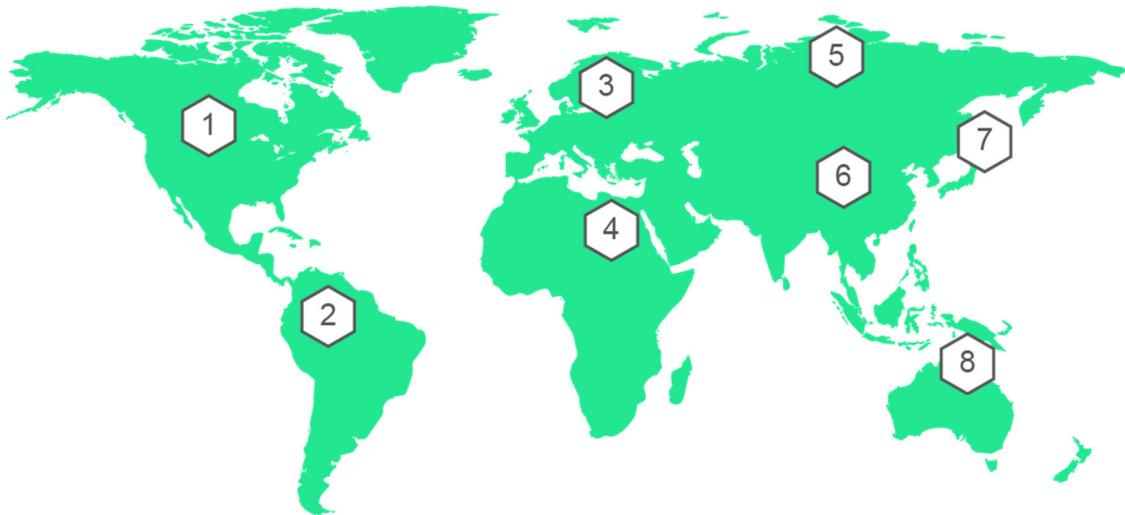
Growth of advertising expenditure and GDP 2018-2021 (%)



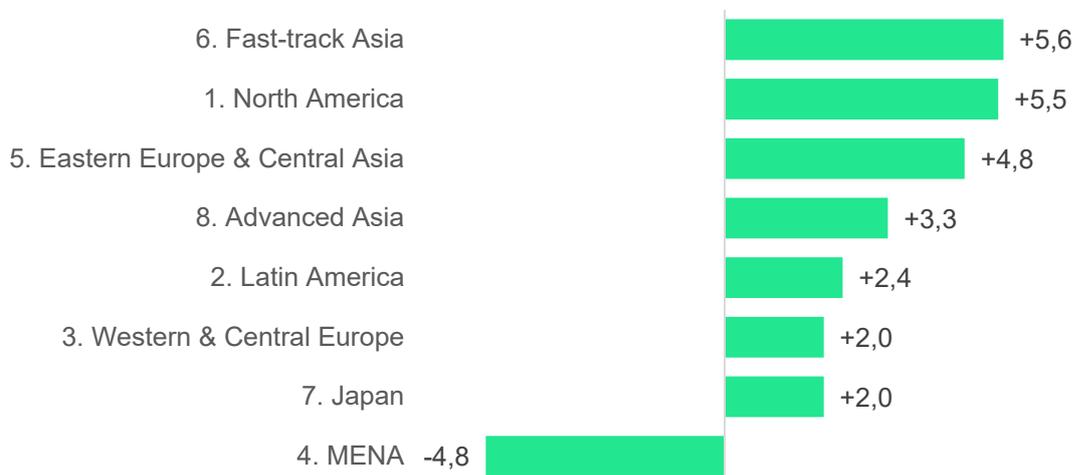
Source: Zenith/IMF

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 2018-2019 (%)



Source: Zenith

1. North America

North America's ad market has been boosted by the flood of new small and medium-sized companies using Facebook and Google to advertise for the first time, as well as digital-native brands using both digital and traditional media to boost awareness. We now estimate

that adspend grew by 8% in both 2017 and 2018, and forecast healthy 5% annual growth to 2021. The pace of change is set by the US, where advertisers spend 20 times more than they do in Canada. The US economy seems relatively robust, with a strong labour market and healthy consumption, though continuing arguments over international trade are tempering expectations for the year.

2. Latin America

Argentina enjoyed a brief respite from recession in 2017, but succumbed again in 2018, and its economy is expected to continue to shrink in 2019. We estimate that adspend shrank 33% in dollar terms in Argentina in 2018, and forecast a decline by another 16% 2019, depressing Latin America's growth prospects for the year. 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 just 2.4% growth in Latin American adspend this year as the Argentine peso continues to lose value, but predict an average growth rate of 4.3% a year to 2021, assuming that Argentina's economy begins to recover in 2020, as commentators generally expect.

3. Western & Central Europe

Western & Central Europe has enjoyed solid growth since 2014, at 3% to 5% a year. Overall we expect the region to continue to grow at the low end of this range out to 2021.

We have continued to downgrade our forecasts for the two biggest ad markets in the region, Germany and the UK, after the economies of both countries slipped into minor decline in Q2. We now predict 0.6% decline for adspend in Germany this year, down from our prediction of 0.4% decline that we made in June, and have reduced our growth forecast for the UK from 3.9% to 3.3%, the slowest rate of growth since 2011.

4. MENA

In September last year we thoroughly revised our historic estimates of ad expenditure in MENA, and 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 47% between 2014 and 2018, and

forecast 4.8% decline in 2019, before the market stabilises at 0.4% growth in 2020 and then grows by 1.0% in 2021, which would be MENA's first substantial growth since 2014.

5. Eastern Europe & Central Asia

Adspend in Eastern Europe & Central Asia has been growing at double-digit rates since 2016, as key markets have been recovering from the disruption caused by conflict in Ukraine, subsequent sanctions, a sharp drop in oil prices and devaluation of local currencies. Now the recovery phase is over, we expect adspend growth to slow to 6% a year on average to 2021, though this will still make Eastern Europe & Central 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, however, now that some of the region's markets, notably China, have achieved substantial scale. We forecast 4.6% average annual growth between 2018 and 2021. 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

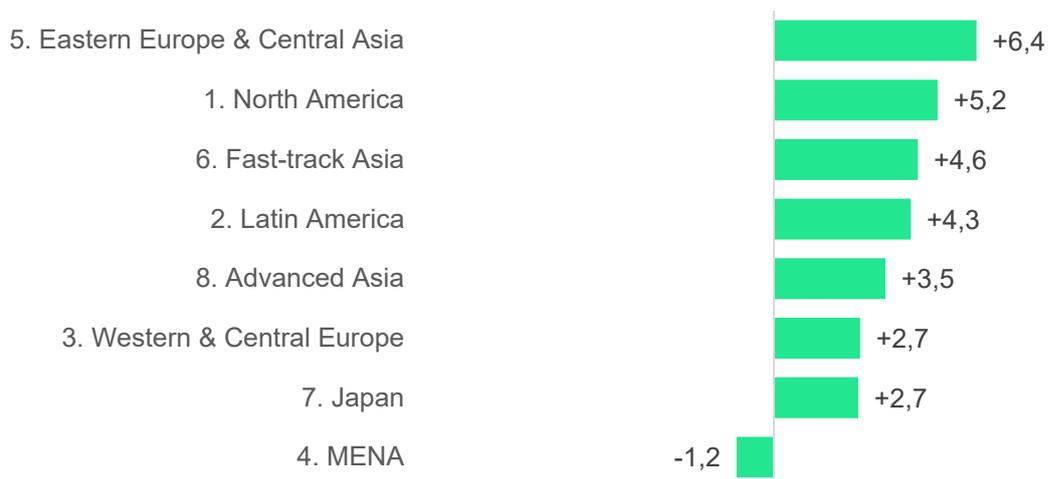
Japan behaves differently enough from other markets in Asia to be treated separately, with a persistent history of low growth. However, the ad market sprang to life in 2018 with 6.2% growth, its best result since 2005. We don't expect this sort of growth to persist, but are more optimistic for the next few years, and have upgraded our forecasts for annual growth between 2018 and 2021 from 1.7% to 2.7% on average.

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. In these markets adspend growth normally sits in between growth in Fast-track Asia and Japan, and generally closer to Japan. Adspend

growth turned out to be stronger than expected in 2018, ending the year at 4.0%, and we forecast 3.5% average annual growth to 2021.

Average annual growth in adspend by regional bloc 2018-2021 (%)



Source: Zenith

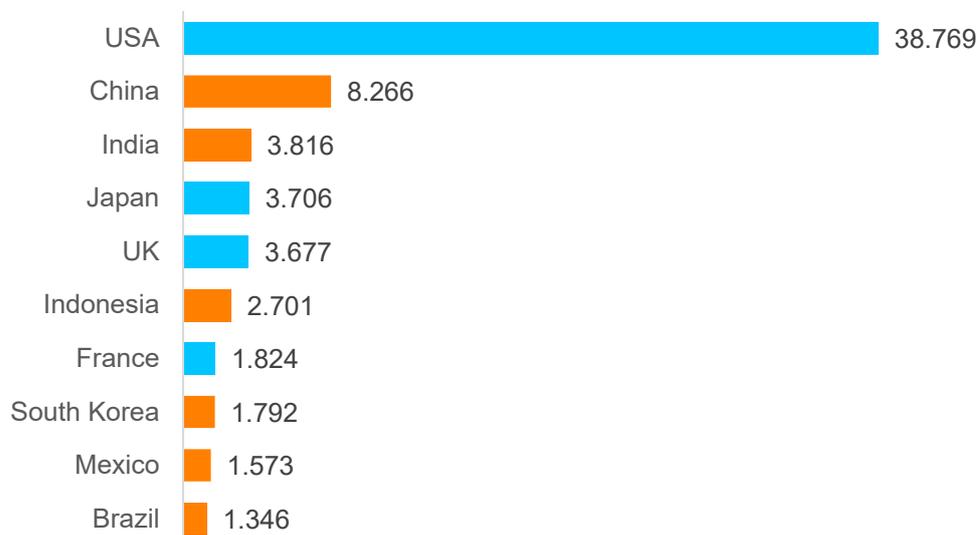
Of the various blocs, MENA is the clear underperformer, and Eastern Europe & Central Asia the outperformer. The other blocs range gradually from growing slowly (Japan and Western & Central Europe) to solidly (North America, Fast-track Asia and Latin America).

Forecast by leading advertising markets

The US will be by some distance the leading contributor of new ad dollars to the global market over the next three years, followed by China. Between 2018 and 2021 we forecast global advertising expenditure to increase by US\$84bn in total. The US will contribute 46% of this extra ad expenditure and China will contribute 10%, followed by India at 5% and Japan and the UK at 4%.

Six of the ten largest contributors will be Rising Markets* (China, India, Indonesia, South Korea, Mexico and Brazil), and between them they will contribute 23% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 38% of additional ad expenditure between 2018 and 2021, and to increase their share of the global market from 35% to 36%.

Top ten contributors to adspend growth 2018-2021 (US\$m)



Source: Zenith

The world's top five advertising markets by size will remain stable between 2018 and 2021. We expect France to take Brazil's place as the sixth-largest ad market this year, with Brazil slipping to seventh, and we expect India to take tenth place in 2021, pushing Canada out of the top ten.

Top ten ad markets

US\$m, current prices. Currency conversion at 2018 average rates.

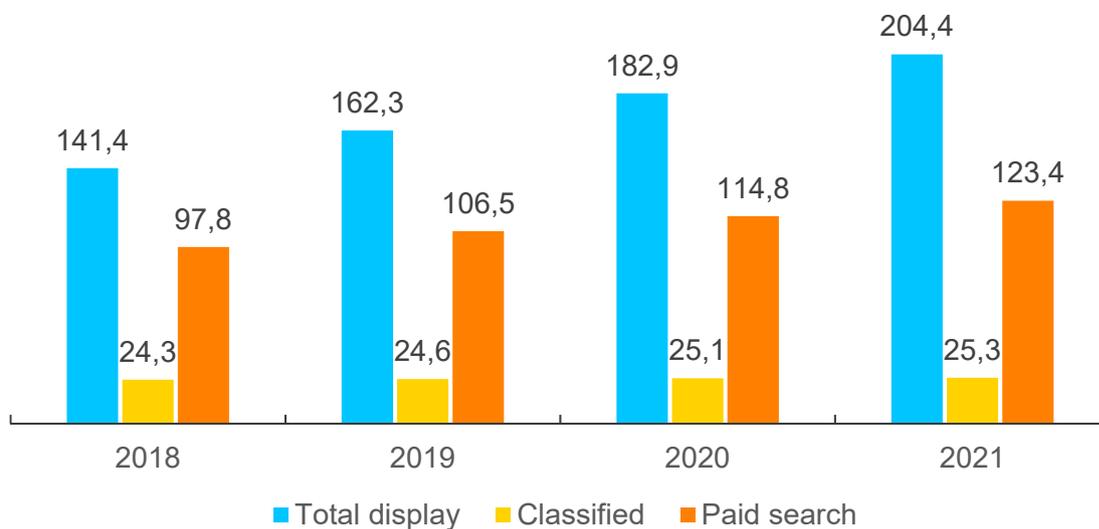
| Country | Adspend 2018 | Country | Adspend 2021 |
|----------------|--------------|----------------|--------------|
| 1. USA | 229,680 | 1. USA | 268,448 |
| 2. China | 87,077 | 2. China | 95,343 |
| 3. Japan | 45,135 | 3. Japan | 48,840 |
| 4. UK | 27,469 | 4. UK | 31,146 |
| 5. Germany | 24,917 | 5. Germany | 25,146 |
| 6. Brazil | 13,463 | 6. France | 15,086 |
| 7. France | 13,262 | 7. Brazil | 14,809 |
| 8. South Korea | 12,891 | 8. South Korea | 14,683 |
| 9. Australia | 12,429 | 9. Australia | 13,126 |
| 10. Canada | 10,781 | 10. India | 12,748 |

Source: Zenith

Global advertising expenditure by medium

In 2016 internet advertising overtook advertising on traditional television to become the world's biggest advertising medium, accounting for 35% of total ad expenditure. Despite its size, internet adspend continues to grow rapidly, with 18% growth in 2018. We forecast 11% growth in internet advertising in 2019, and an average of 10% growth to 2021, when we expect internet advertising to account for 52% of global adspend, up from 44% in 2018.

Internet adspend by type 2018-2021 (US\$bn)



Source: Zenith

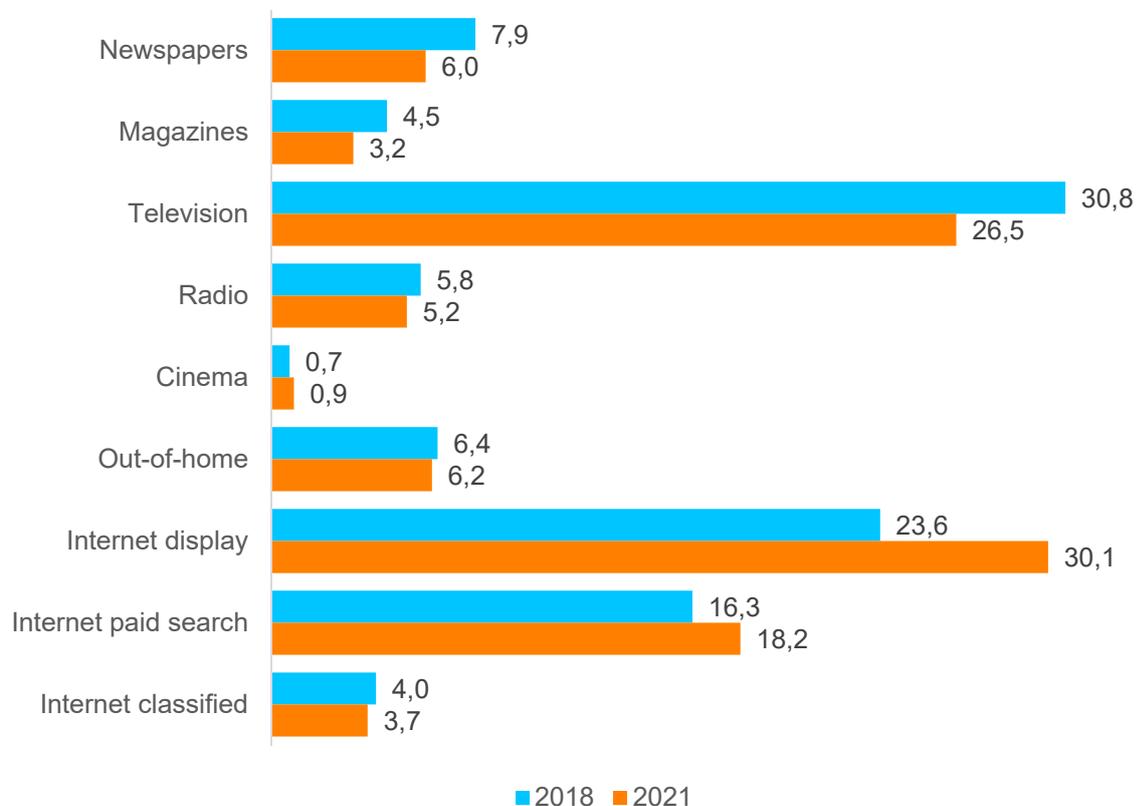
Display is the fastest-growing internet sub-category, with 13% annual growth forecast to 2021. Here we include traditional display (such as banners), online video and social media. All three types of display have benefited from the transition to programmatic buying, which allows agencies to target audiences 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 each to grow at average rates of 18% and 17% a year respectively between 2018 and 2021. 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 behind display, growing at an average of 8% and 1% a year to 2021 respectively.

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\$117bn) than desktop ads (US\$107bn) 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 (%)



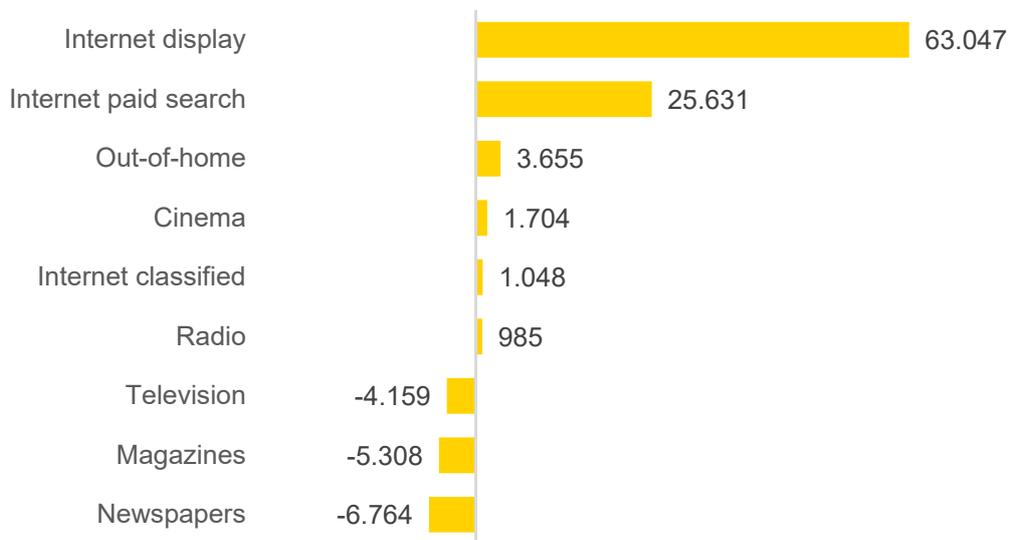
Source: Zenith

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 12% of total global spend (in 2008) to 44% (in 2018). Meanwhile newspapers' share of global spend has fallen from 25% to 8%, while magazines' has fallen from 12% to 4%. 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 6% and 3% market shares in 2021.

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 2015 (when it attracted 36% of total advertising expenditure). In 2016, however, the internet overtook television to become the largest advertising medium. Television’s share peaked at 38.7% in 2012, fell to 30.8% in 2018, and will be 26.5% in 2021, its lowest share we have on record. (Our figures go back to 1980.)

Contribution to global growth in adspend by medium 2018-2021 (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, search and classified advertising to contribute US\$90bn in extra adspend between 2018 and 2021 (again excluding markets where we don’t have a breakdown by medium). This growth will be counterbalanced by a US\$12bn decline from print and a US\$4bn decline from television. Among the ‘traditional’ media, out-of-home will enjoy the biggest growth.

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

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