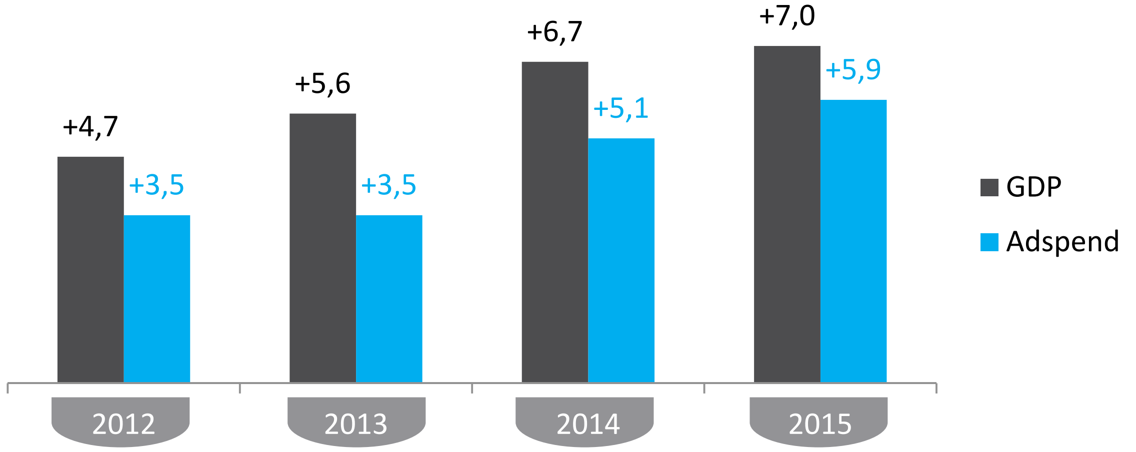
Executive summary: Advertising Expenditure Forecasts September 2013

ZenithOptimedia predicts global ad expenditure will grow 3.5% in 2013, reaching US$503bn by the end of the year. This is the same as the growth rate we forecast back in June, marking the first time that we have not downgraded our 2013 forecast since June 2012. We see this as a promising sign of stability in the global ad market.

Growth of advertising expenditure and GDP 2012-2015



Source: ZenithOptimedia/IMF

We expect stronger growth over the next two years – of 5.1% in 2014 and 5.9% in 2015 – mainly because Europe, which is currently acting as a brake on global ad growth, will become healthier over the next couple of years. The Eurozone came out of its 18-month recession in Q2 2013, and its economic recovery is expected to gather pace gradually over the next couple of years. The Eurozone ad market should follow the same track. Eurozone adspend shrank 5.2% in 2012; we forecast a smaller 4.3% decline in 2013, followed by marginal 0.7% growth in 2014 and 1.9% growth in 2015.

Despite these prospects for recovery, a steeper-than-expected decline in Eurozone adspend in the first half has weighed down our forecast for adspend growth in Mature Markets* this year, which we have reduced to 1.4% from 1.7% in June.

There has been no sign of a concerted advertising slowdown in Rising Markets*, despite concerns over their short-term economic prospects. Economic growth has slowed in the BRICs (Brazil, Russia, India and China), among other Rising Markets, as demand for their exports has weakened and international investors have begun to turn their attention to Mature Markets. However, Rising Markets still have young populations with improving education, infrastructure, productivity and adoption of technology. Their contribution to the world economy will continue to grow for decades to come. Advertisers have not been put off by the recent problems and are investing for the long term. We have actually increased our forecasts for adspend growth in Rising Markets this year to 7.6%, up from the 7.0% we forecast in June.

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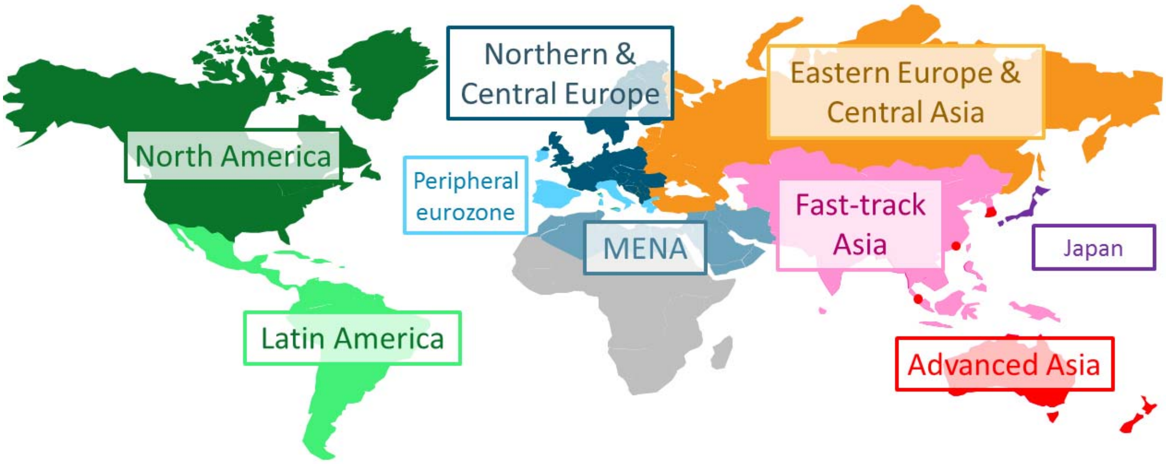
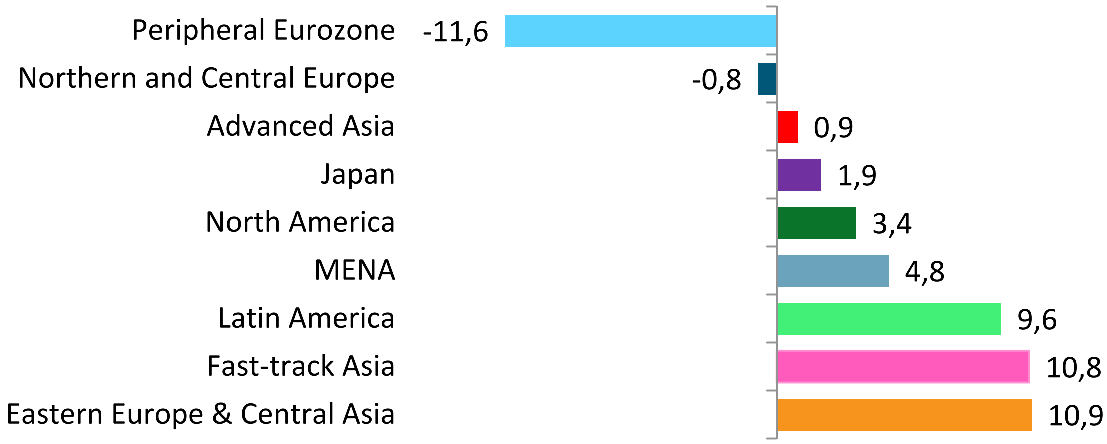
After the recent violence, we have reduced our forecasts for Egypt this year from 3.9% growth to 6.3% decline. This disruption has not spread to nearby ad markets, and we still forecast 4.8% growth for the Middle East and North Africa this year, down from our June forecast of 5.5%. The wider geopolitical problems sparked by the Syrian conflict have to date had no material effect on global adspend.

Forecast by regional bloc

As we have been doing since the December 2012 edition of our forecasts, we have looked in more detail at the growth rates of different region blocs, because the regions we usually look at (e.g. Western Europe, Central & Eastern Europe and Asia Pacific) do not capture the nuances of how different parts of the world are currently developing. These blocs have been defined by the similarity of the performance of their ad markets as well as their geographical proximity. See the end of the Executive Summary for a complete list of countries by bloc.



Growth in adspend by regional bloc 2012-2013 (%)



Source: ZenithOptimedia

Peripheral Eurozone
In Europe, we have separated out the 'PIIGS' markets (Portugal, Ireland, Italy, Greece and Spain), which face the full brunt of the Eurozone crisis, into the Peripheral Eurozone bloc. Their ad markets have fallen even more sharply than their economies, as local advertisers cut back to reduce losses and preserve cash, and multinationals withdraw budgets to redeploy in more economically healthy regions. We estimate that ad expenditure in Peripheral Eurozone fell by 16.1% in 2012, and expect it to fall another 11.6% in 2013.

We have reduced our Peripheral Eurozone forecast for 2013 by 1.3 percentage points since June, after it became clear that ad expenditure fell faster than expected during the first half of the year in Italy, Portugal and Spain. Greece, however, has exceeded expectations, and even recorded an increase in television advertising. We now expect Greek ad expenditure to shrink 9.1% this year, down from the 15.9% we predicted in June.

Our forecasts assume that the Eurozone avoids disaster over our forecast period, and in particular assumes that no country crashes out of the euro, or falls into disorderly default on its debts. We predict that Peripheral Eurozone ad expenditure will fall only 1.2% in 2014, followed by 2.6% growth in 2015.

Northern & Central Europe
Our next bloc – Northern & Central Europe – includes the rest of Western Europe, as well as Central European countries like the Czech Republic, Hungary and Poland, which are currently performing more like countries such as France, Germany or the UK than the much-faster growing markets of Eastern Europe such as Russia and Ukraine. This is partly because many of these Central European markets are in the Eurozone, and because they have strong trading links with Western Europe. Advertising budgets in this bloc are essentially on hold as advertisers await more clarity on the future of the Eurozone. After ad expenditure shrank by 0.5% in 2012, we forecast a similar decline of 0.8% in 2013, followed by mild recovery in 2014 and 2015, at 2% growth a year.

Eastern Europe & Central Asia
Eastern European advertising markets, such as Russia and Ukraine, generally recovered quickly after the 2009 downturn and have since continued their healthy pace of growth, largely (though not entirely) unaffected by the problems in the Eurozone. 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. We forecast steady growth of 10% to 11% a year for the rest of our forecast period.

Japan
Japan behaves differently enough from other markets in Asia to be treated separately. Japan had an even stronger year than we expected in 2012 as it recovered from the disaster of the 2011 earthquake and tsunami – we estimate ad expenditure grew 3.5% in 2012. We have downgraded our forecast for 2013 slightly to 1.9% from the 2.4% we predicted in June, and expect similar 2% annual growth for the rest of our forecast period as Japan continues to struggle with low growth and deflation.

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. We estimate that ad expenditure grew just 3.6% in Advanced Asia in 2012, mainly because of a slowdown in trade with China and other fast-growing markets. In early 2013 a period of heightened tension between North Korea and its neighbours caused advertisers in South Korea to become a lot more cautious, and cancel several campaigns. A lot of the money that came out of the market has since returned, however, and we now expect adspend in South Korea to shrink by just 0.9% in 2013, compared to our forecast of 6.5% decline in June. This means our forecast for Advanced Asia as a whole is now positive at +0.9% for 2013, up 1.5 percentage points on our earlier forecast of -0.6%. We forecast a much healthier 4.5% growth in 2014, followed by 6.4% growth in 2015.

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, often leap-frogging over superseded technology that has become entrenched in more developed economies, 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 7.2% that year) and since then has grown comfortably at double-digit rates. We estimate that ad expenditure in Fast-track Asia was up 10.1% in 2012, and expect it to rise another 10.8% in 2013, followed by 11% to 12% annual growth in 2014 and 2015.

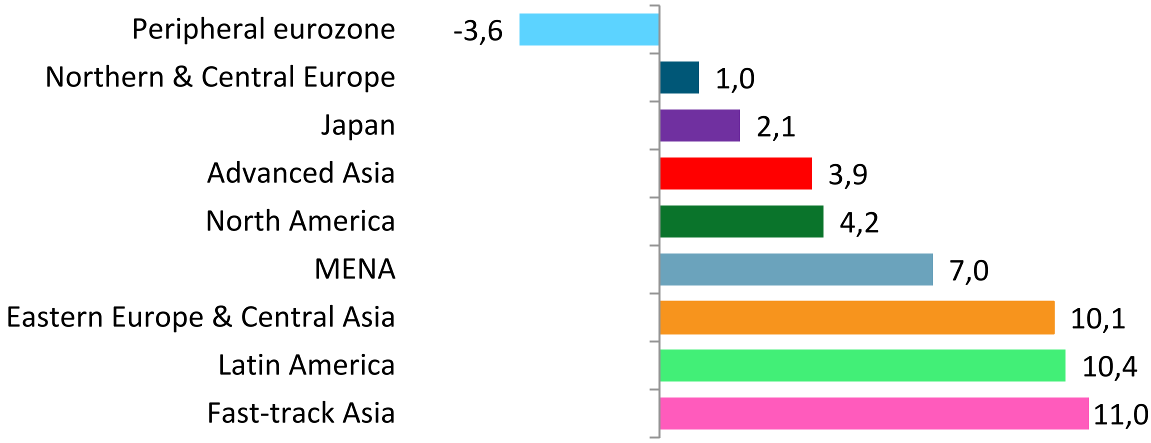
We have not changed the definition of North America, Latin America or the Middle East & North Africa (MENA) in this analysis.

North America
Adspend in North America is much more robust than in mature Europe. Consumer confidence, retail sales, job numbers and house construction are all trending encouragingly upwards. Adspend grew a healthy 4.4% in 2012, thanks partly to the summer Olympics and the elections in the US. In their absence we forecast a slightly more subdued 3.4% growth in 2013, followed by firmer 4% to 5% annual growth in 2014 and 2015.

Latin America
Similar to Eastern Europe & Central Asia and Fast-track Asia , Latin America is another region with rapidly growing economic output and its ad market is growing at a similar rate. After a slightly disappointing 7.6% growth rate in 2012 (depressed by a row over how TV advertising is monitored and sold in Mexico) we expect 9.6% growth in 2013, followed by 9.7% growth in 2014 and 11.8% growth in 2015.

MENA
After the Arab Spring began in December 2010, advertising markets in Middle East & North Africa were constrained by the region's social and political turmoil, which left many advertisers cautious about attracting negative attention. Adspend shrank 14.9% in 2011, and grew a meagre 1.4% in 2012. Earlier this year we detected a substantial increase in confidence and activity from international and domestic advertisers, and the recent violence in Egypt has not derailed this recovery. We forecast 4.8% growth in ad expenditure this year, firming up to 7.3% in 2014 and 8.8% in 2015.

Average annual growth in adspend by regional bloc 2012-2015 (%)



Source: ZenithOptimedia

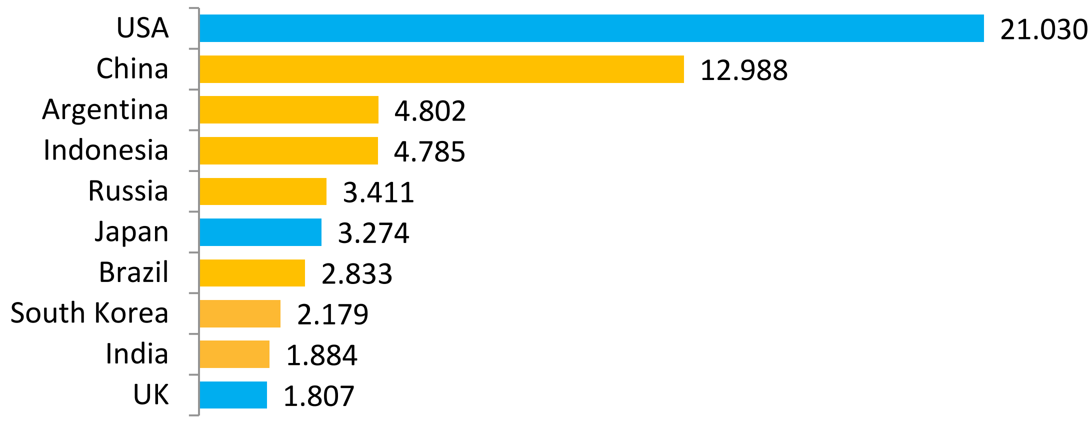
In the medium term we can divide our blocs into four categories: no growth, low growth, medium growth and high growth. In the no-growth category is Peripheral Eurozone, where slight recovery in 2015 will not compensate for sharp decline in 2013, so we forecast an average annual 3.6% decline in expenditure between 2012 and 2015. The low-growth blocs are Northern & Central Europe and Japan, where we expect average growth of 1.0% to 2.1%. Advanced Asia, North America and MENA are in the more dynamic medium growth category, with 4% to 7% annual growth. But the high-growth markets of Latin America, Fast-track Asia and Eastern Europe & Central Asia are well ahead with an average of 10% to 11% growth a year expected between 2012 and 2015.

Forecast by leading advertising markets

Despite the rapid growth of the Rising Markets, the US is still the biggest contributor of new ad dollars to the global market. Between 2012 and 2015 we expect the US to contribute 28% of the US$74bn that will be added to global adspend. After the US, however, the biggest contributors are all much younger and more dynamic. China comes second, accounting for 18% of additional ad dollars over this period, followed by Argentina (6%), Indonesia (6%) and Russia (5%). Between them these five markets will contribute 63% of the extra expenditure in the global ad market between 2012 and 2015.

Seven of the ten largest contributors will be Rising Markets, contributing 44% of new adspend. Overall, we forecast Rising Markets to contribute 64% of additional ad expenditure between 2012 and 2015, and to increase their share of the global market from 33% to 37%.

Top ten contributors to adspend growth 2012-2015 (US$m)



Source: ZenithOptimedia

In 2012 France was the eighth-largest ad market in the world, while Russia was eleventh. By 2015 we expect France to drop down to eleventh, while South Korea jumps from tenth to eighth and Russia moves up from eleventh to tenth.

Top ten ad markets

US$ million, current prices. *Currency conversion at 2012 average rates.*

	2012	Adspend		2015	Adspend
1	USA	161,241	1	USA	182,272
2	Japan	51,742	2	Japan	55,016
3	China	37,202	3	China	50,190
4	Germany	23,433	4	Germany	23,727
5	UK	19,375	5	UK	21,182
6	Brazil	15,298	6	Brazil	18,131
7	Australia	12,813	7	Australia	13,715
8	France	12,490	8	South Korea	12,917
9	Canada	11,454	9	Canada	12,838
10	South Korea	10,738	10	Russia	12,617

Source: ZenithOptimedia

Global advertising expenditure by medium

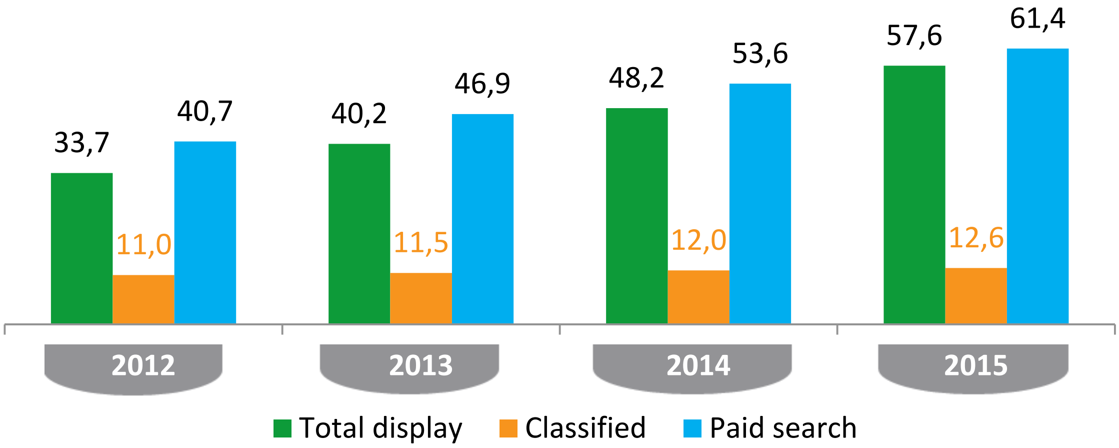
The internet is still the fastest growing medium by some distance. It grew 16.4% over the course of 2012, and we forecast an average of 16% annual growth for 2013 to 2015.

Display is the fastest-growing sub-category, with 20% annual growth, thanks partly to the rapid rise of online video and social media advertising, which are growing at 25% and 33% a year respectively. Measurement agencies are investing in research that should measure consumers' exposure to traditional display ads more accurately, and track their exposure to video ads across desktop computers, tablets and television screens. Some broadcasters are starting to trade packages that include both online video and television spots. Advertisers are now recognising the value of social media for brand building and purchase consideration purposes.

We forecast paid search to grow at an average rate of 15% a year to 2015, driven by continued innovation from the search engines, including the display of richer product information and images within ads, better localisation of search results, and mobile ad enhancements like click-to-call and geo-targeting.

Online classified has been subdued since the downturn in 2009, since it depends heavily on the weak property and employment markets in the developed world. We forecast average annual growth of just 4% for the rest of our forecast period.

Internet adspend by type 2012-2015 (US$bn)



Source: ZenithOptimedia

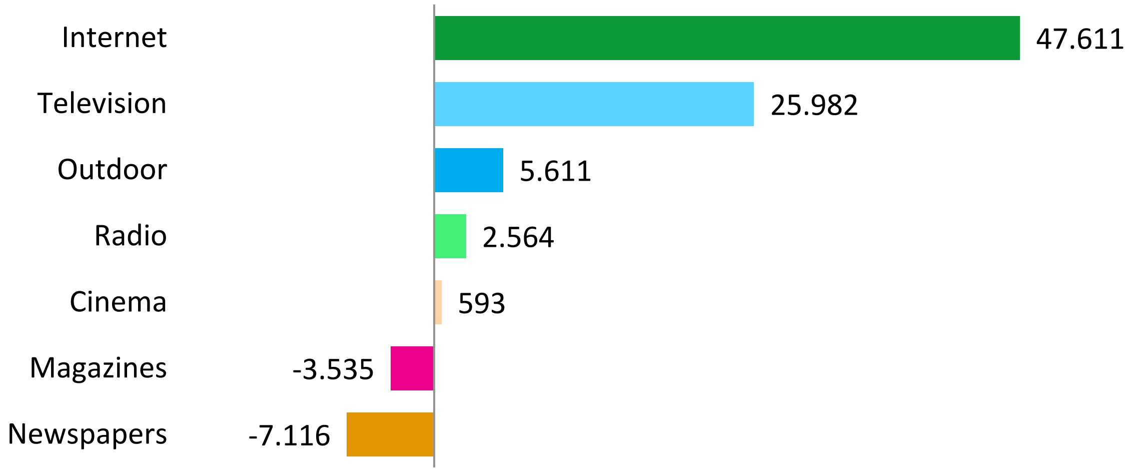
Mobile advertising (by which we mean all internet ads delivered to smartphones and tablets, whether display, classified or search) has now truly taken off and is growing seven times faster than desktop internet. We forecast mobile advertising to grow by 77% in 2013, followed by 56% growth in 2014 and 48% in 2015, driven by the rapid adoption of smartphones and tablets. By contrast we forecast desktop internet advertising to grow at an average of 10% a year.

We estimate global expenditure on mobile advertising at US$8.3bn in 2012, representing 9.5% of internet expenditure and 1.7% of advertising across all media. By 2015 we forecast this total to rise to US$33.1bn, which will be 25.2% of internet expenditure and 6.0% of all expenditure.

Since it began in the mid-1990s, internet advertising has principally risen at the expense of print. Between 2002 and 2012 the internet's share of global advertising rose by 15 percentage points, while newspapers' share fell 12 points and magazines' share fell by 5 points. We predict internet advertising will increase its share of the ad market from 18.3% in 2012 to 24.5% in 2015, while newspapers and magazines will continue to shrink at an average of 3% a year. Note that these figures 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. We forecast internet advertising to overtake newspapers for the first time in 2013, and then exceed the combined total of newspaper and magazine advertising in 2015.

The internet is by some distance the biggest contributor of new ad dollars to the global market. Between 2012 and 2015 we expect internet advertising to account for 66% of the growth in total expenditure. The next biggest is television, which we forecast to contribute 36% of growth.

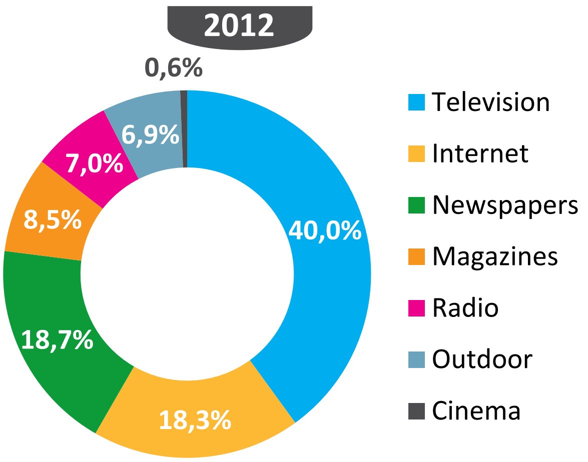
Contribution to global growth in adspend by medium 2012-2015 (US$m)

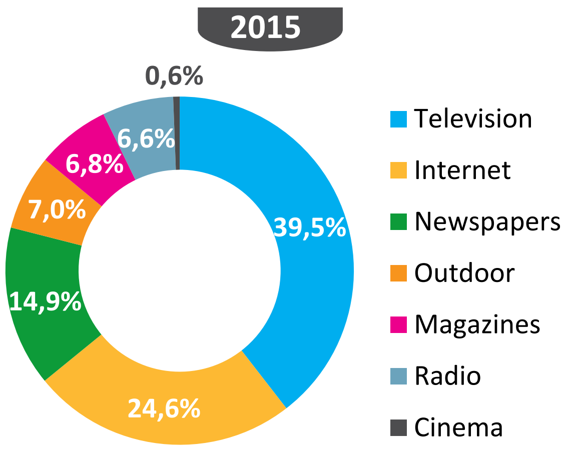


Source: ZenithOptimedia

Television's share of global adspend has stabilised, after growing slowly but surely for most of the last three decades. Television accounted for 31% of spend in 1980, 32% in 1990, 36% in 2000 and 39% in 2010. We now expect television's market share to peak in 2013 at 40.1%, before falling back marginally to 39.5% in 2015. However, overall video advertising is still on the rise – between them, television and online video attracted 41.2% of global adspend in 2012, and we expect them to attract 41.6% in 2013.

Share of global adspend by medium (%)





Source: ZenithOptimedia

Appendix

List of countries included in the regional blocs
North America: Canada, USA
Peripheral Eurozone: Ireland, Italy, Portugal, Spain, Greece
Northern & Central Europe: Austria, Belgium, Bosnia & Herzegovina, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Netherlands, Norway, Poland, Romania, Serbia, Slovakia, Slovenia, 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

Advertising Expenditure Forecasts is published quarterly priced £435. It may be ordered in hard or soft copy from www.zenithoptimedia.com

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