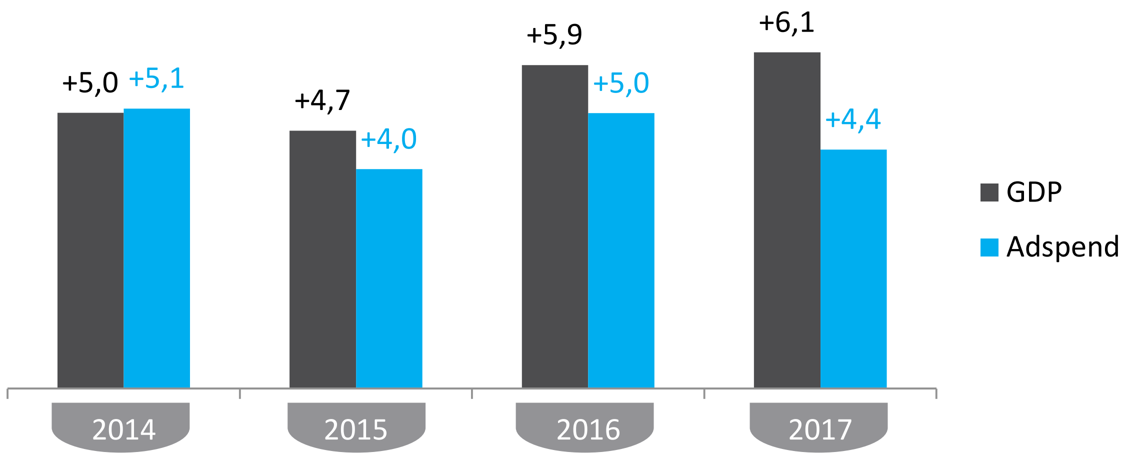
Executive summary: Advertising Expenditure Forecasts September 2015

ZenithOptimedia predicts global ad expenditure will grow 4.0% in 2015, reaching US$554 billion by the end of the year. Our forecast for 2015 is down by 0.2 percentage points from the June edition as marketers have moderated their expectations of global economic growth.

Growth of advertising expenditure and GDP 2014-2017 (%)



Source: ZenithOptimedia/IMF

Forecast by regional bloc

Since the December 2012 edition of our forecasts we have looked at 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. At the end of last year we revised the definition of these blocs. We used to separate the Peripheral Eurozone (Portugal, Ireland, Italy, Greece and Spain) from Northern and Central Europe, because the periphery was substantially weaker. However, the performance of the two regions has now converged, and we have combined them into a single region called Western & Central Europe.

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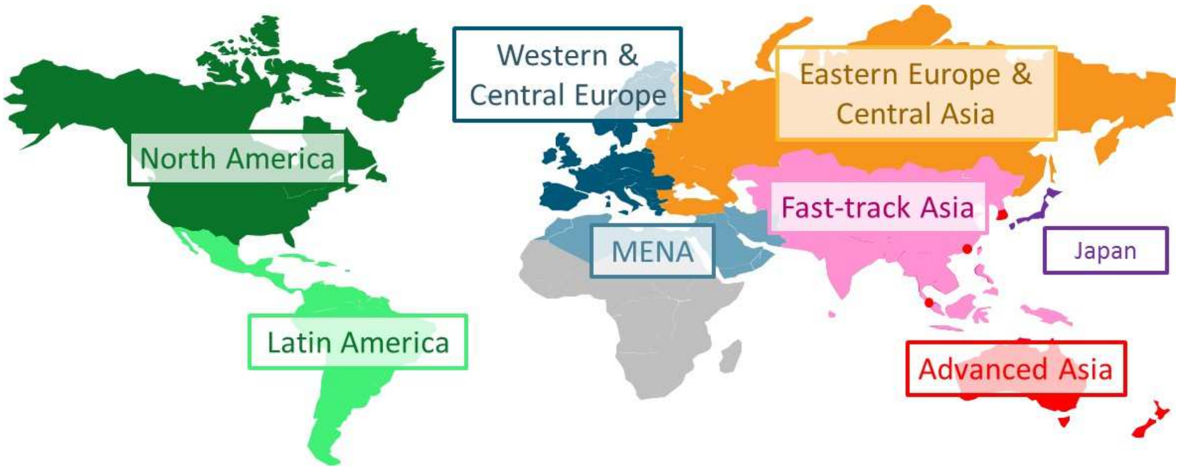
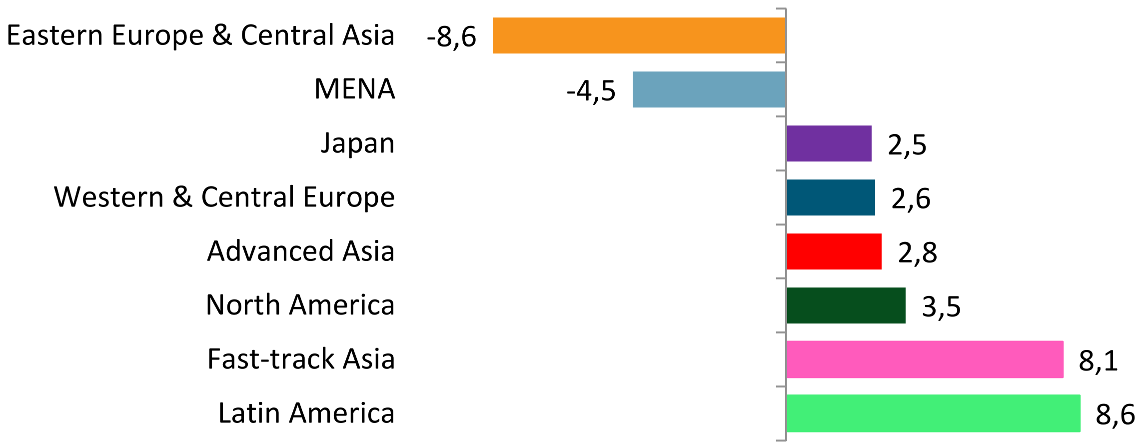


Growth in adspend by regional bloc 2014-2015 (%)



Source: ZenithOptimedia

Western & Central Europe

For several years the ad markets at the periphery of the eurozone were by far the worst-performing in Europe, which was why we separated them out in a bloc called the Peripheral Eurozone. Between 2007 and 2013, adspend fell 29% in Italy, 38% in Ireland, 43% in Portugal, 47% in Spain and 62% in Greece. Over this period the eurozone's core markets remained stable: adspend shrank by just 2% in France and by 3% in Germany.

However, Greece, Portugal, Spain and Ireland all began to make strong recoveries in 2014, helping adspend in Western & Central Europe grow 3.0% that year, substantially improving on its 0.8% decline in 2013. Greece's recovery went into reverse in early 2015 as the government geared up to confront its creditors, but over the rest of our forecast period we expect Portugal, Spain and Ireland to outperform the average rate for Western & Central Europe, admittedly from their much-reduced base levels.

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Meanwhile, France is lagging behind as business confidence remains weak and private-sector employment declines. We forecast no overall growth in adspend in France between 2014 and 2017.

Outside the eurozone, the stand-out ad market in Western & Central Europe is the UK, which is currently booming thanks to the rapid adoption of internet advertising. Adspend in the UK grew 7.8% in 2014, and we forecast an average growth rate of 6.8% a year to 2017.

We expect growth in the UK and the peripheral eurozone markets to counterbalance the weakness in the core eurozone, allowing Western & Central Europe to grow at an average of 3.0% a year between 2014 and 2017.

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. This bloc grew 11.4% in 2013.

The conflict in Ukraine severely disrupted the domestic ad market, while Russia has suffered from sanctions imposed by the US and the EU, the sanctions it imposed in response, and a withdrawal of international investment. These shocks have been 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 have since spread to Belarus, whose main trading partner is Russia by some distance. We forecast adspend in Ukraine to shrink 44.5% this year, on top of a 37.9% decline in 2014. Russian adspend grew just 4.3% in 2014, which was the first year of growth below double-digit rates since 2009, and we expect the market to shrink by 14.1% in 2015. We forecast a 15.0% decline in adspend in Belarus this year, following 7.6% growth in 2014.

Overall we expect adspend in Eastern Europe & Central Asia to shrink by 8.6% in 2015. In the past adspend in this region has been volatile, with large declines swiftly followed by rapid gains. In this case, however, we think the region will be slow to recover, and we forecast just 3.3% growth in 2016 and 6.1% in 2017.

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 adspend growth of 2.5% a year between 2014 and 2017.

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 growth here at a disappointing 1.9% in 2014, after weakness in the property market damaged consumer confidence in Singapore and Australia suffered from low prices for its key commodity exports. As these problems recede we expect growth in Advanced Asia to pick up to an average of 2.7% a year through to 2017.

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 7.9% that year) and since then has grown very strongly, ending 2014 up an estimated 10.7%. However, the Chinese economy – the main engine of growth in Fast-track Asia – is finally starting to slow after years of blistering growth, and the ad market is slowing down alongside it (although with an official target of 7.0% GDP growth in 2015, China's growth rate remains one most markets will envy). 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 at an average rate of 8.4% a year between 2014 and 2017, down from 14.7% over the last five years.

Note that for this edition we have replaced our third-party estimates of Chinese adspend with entirely new figures, unique to ZenithOptimedia, which we believe accurately reflect the true levels of adspend in the market. The previous figures substantially underestimated the scale of advertising activity in China, which we now value at US$68 billion in 2014, up from US$46 billion.

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 has been more robust than in Western & Central Europe since 2012. We estimate that adspend grew 4.7% in 2014, boosted by the Winter Olympics and mid-term elections. In the absence of these events we forecast 3.5% growth in 2015, followed by 4.2% in 2016 (which will benefit from the 2016 Summer Olympics and the US Presidential elections) and 3.7% in 2017.

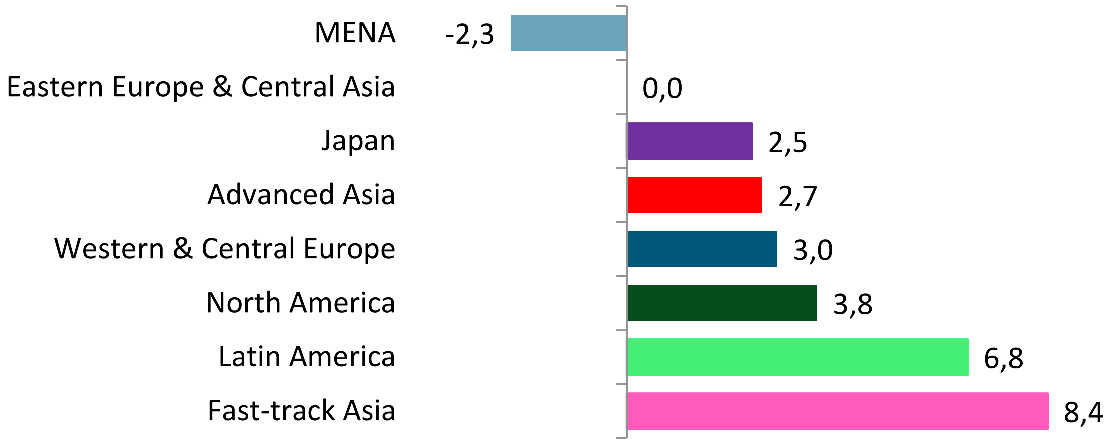
Latin America

Latin America's economies are more volatile than those of Fast-track Asia, but lately it has been restrained by low prices for oil and other export commodities, and the weakness of the economy in Brazil. We estimate that Latin American adspend grew by an estimated 4.2% in 2014, and we forecast 8.6% growth in 2015. The 2016 Summer Olympics – hosted in Brazil – should support 8.2% in 2016, after which we expect growth to fall back to 3.7% in 2017.

MENA

The Arab Spring left many advertisers in the Middle East & North Africa cautious about attracting negative attention. Adspend shrank 14.9% in 2011, and grew a meagre 1.4% in 2012. Confidence and activity began to recover in 2013, when adspend grew 4.7%. However, while the conflict in Iraq and Syria had little direct effect on the big advertising markets, it made advertisers more cautious about investing in the region as a whole; we estimate adspend grew 2.3% in 2014. The drop in oil prices has had a much more severe effect on the economies in the region, and has prompted advertisers to cut back their budgets in anticipation of lower consumer demand. We forecast a 4.5% drop in adspend in MENA this year, followed by a further decline of 2.7% in 2016 and growth of just 0.3% in 2017.

Average annual growth in adspend by regional bloc 2014-2017 (%)



Source: ZenithOptimedia

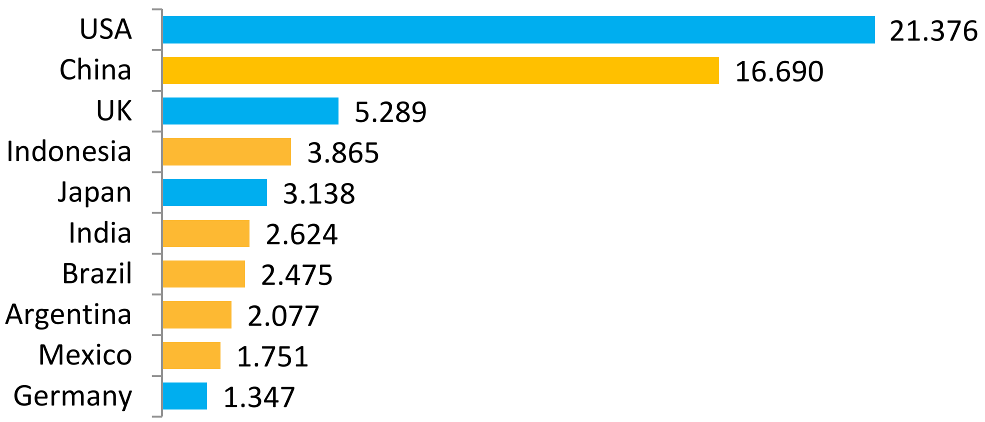
We can divide our blocs into three categories: no growth, steady growth and rapid growth. The no-growth regions are MENA (which will shrink by 2.3% a year to 2017) and Eastern Europe & Central Asia, which will only just make up in 2016 and 2017 the adspend lost in 2015. There are then four regions with very similar growth rates of between 2% and 4% a year: Japan, Advanced Asia, Western & Central Europe and North America, in ascending order of growth. Latin America and Fast-track Asia are by far the fastest-growing blocs, averaging 7% and 8% annual growth respectively.

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 2014 and 2017 we expect the US to contribute 29% of the US$74 billion that will be added to global adspend. China comes second, accounting for 22% of additional ad dollars over this period, followed by the UK and Indonesia, accounting for 7% and 5% respectively.

Six of the ten largest contributors will be Rising Markets, and will contribute 40% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 52% of additional ad expenditure between 2014 and 2017, and to increase their share of the global market from 37% to 39%.

Top ten contributors to adspend growth 2014-2017 (US$m)



Source: ZenithOptimedia

The ranking of the world's largest ad markets is currently very stable. The only change we expect between 2014 and 2017 is for the UK to overtake Germany to take fourth place this year.

Top ten ad markets

US$m, current prices. *Currency conversion at 2014 average rates.*

2014		Adspend	2017		Adspend
1	USA	176,236	1	USA	197,612
2	China	68,372	2	China	85,062
3	Japan	41,557	3	Japan	44,695
4	Germany	24,771	4	UK	29,622
5	UK	24,332	5	Germany	26,118
6	Brazil	14,232	6	Brazil	16,707
7	France	13,171	7	France	13,178
8	South Korea	11,843	8	South Korea	12,732
9	Australia	11,536	9	Australia	12,438
10	Canada	10,307	10	Canada	10,918

Source: ZenithOptimedia

Global advertising expenditure by medium

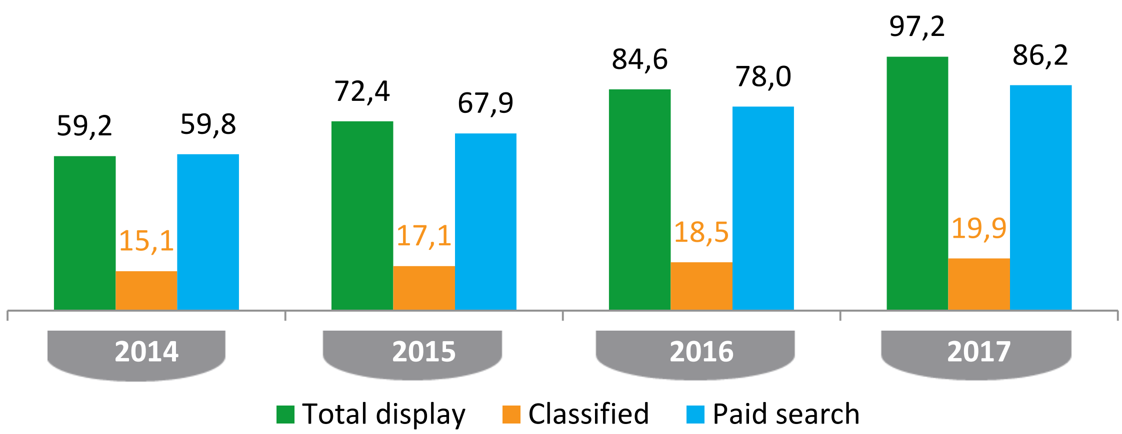
The internet is still the fastest growing medium by some distance. We estimate it grew 20.2% in 2014, and we forecast an average of 15% annual growth between 2014 and 2017.

Display is the fastest-growing internet sub-category, with 18% annual growth forecast to 2017. Here we include traditional display (such as banners), online video and social media. All three types of display are benefiting from the growth of programmatic buying, which allows agencies to target audiences more efficiently and more effectively, and improved research into consumers' activities across different platforms and devices. We forecast traditional display to grow at 10% a year between 2014 and 2017, while online video grows at 24% a year and social media grows at 28% a year.

We expect paid search to grow at an average rate of 13% a year to 2017, 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. Search platforms are also improving the addressability of their ads, giving advertisers more control over where, when and to whom their ads are exposed.

Online classified has been subdued since the downturn in 2009; after the initial shift from print to digital, classified publishers have had to compete with new paid-for and free alternatives for matching buyers and sellers. We forecast average annual growth of 10% for the rest of our forecast period.

Internet adspend by type 2014-2017 (US$ billion)



Source: ZenithOptimedia

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). Mobile advertising grew by 110% in 2014, and we forecast an average annual growth rate of 44% a year between 2014 and 2017, driven by the rapid spread of devices and improvements in user experiences. By contrast we forecast desktop internet advertising to grow at an average of just 3% a year.

We estimate global expenditure on mobile advertising at US$29.8 billion in 2014, representing 22.2% of internet expenditure and 5.7% of total advertising expenditure (this total excludes a few markets where we don't have a breakdown by medium). By 2017 we forecast this total to rise to US$89.5 billion, which will be 44.0% of internet expenditure and 15.0% of all expenditure. This means that mobile will leapfrog radio, magazines, outdoor and newspapers to become the world's third-largest medium by the end of our forecast period.

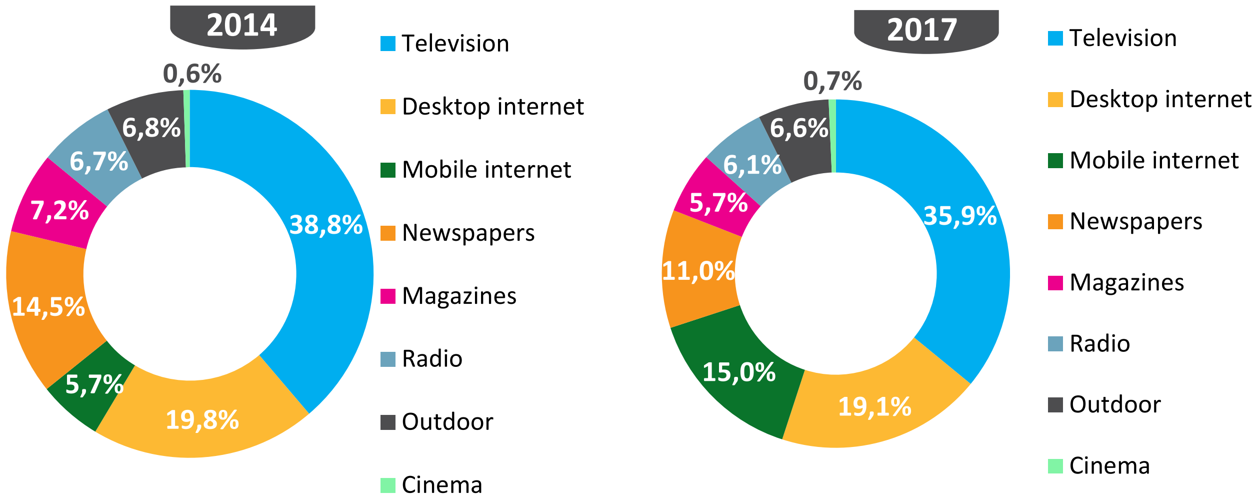
Since it began in the mid-1990s, internet advertising (both desktop and mobile) has principally risen at the expense of print. Over the last ten years internet advertising has risen from 4% of total global spend in 2004 to 25% in 2014. Meanwhile newspapers' share of global spend has fallen from 30% to 14%, while magazines' has fallen from 13% to 7%. Internet adspend overtook total adspend on both newspapers and magazines in 2014. We predict internet advertising will increase its share of the ad market from 25.5% in 2014 to 34.0% in 2017, while newspapers and magazines will continue to shrink, at average rates of 5% and 3% a year respectively.

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.

Television is still by some distance the dominant advertising medium, attracting 39% of spend in 2014. Television offers unparalleled capacity to build reach, and establish brand awareness and associations. We forecast television adspend to grow by an average of 2% a year through to 2017.

Despite this growth, television's share of global adspend is likely to fall back over the next few years as desktop and mobile internet grow much faster. Television's market share has grown steadily over the last three and a half decades, from 29.6% of spend in 1980 to 39.6% in 2012. We think it has now peaked, however; we estimate that television's share slipped slightly to 39.5% in 2013 and 38.8% in 2014, and forecast it to fall further to 35.9% in 2017. Marketers are also beginning to move budgets away from television to online video, which we expect to grow from 2.5% of global adspend in 2014 to 4.2% in 2017. The audiovisual share of the market will therefore fall by 1.2 percentage points, from 41.3% in 2014 to 40.1% in 2017.

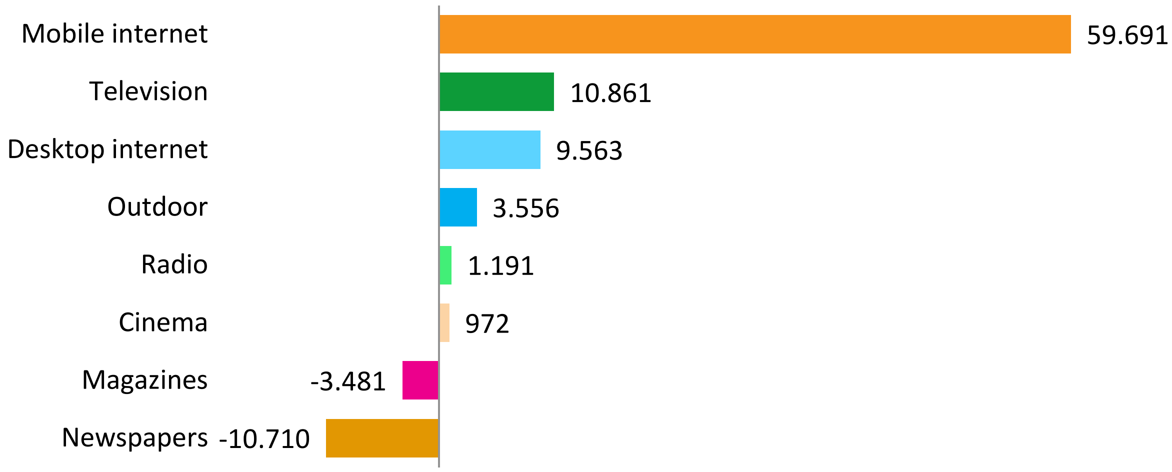
Share of global adspend by medium (%)



Source: ZenithOptimedia

Mobile is now the main driver of global adspend growth. We forecast mobile to contribute a full 83% of all the extra adspend between 2014 and 2017 (again excluding markets where we don't have a breakdown by medium). Television and desktop internet will be the second and third-largest contributors respectively, accounting for 15% and 13% of new ad expenditure respectively. The gains made by outdoor, radio and cinema will be outweighed by the continued decline of newspapers and magazines, which we expect to shrink by a combined US$14 billion over the forecast period.

Contribution to global growth in adspend by medium 2014-2017 (US$ million)



Source: ZenithOptimedia

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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

Advertising Expenditure Forecasts is published quarterly priced £495. It may be ordered in hard or soft copy from www.zenithoptimedia.com

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