Executive summary: Advertising Expenditure Forecasts April 2013

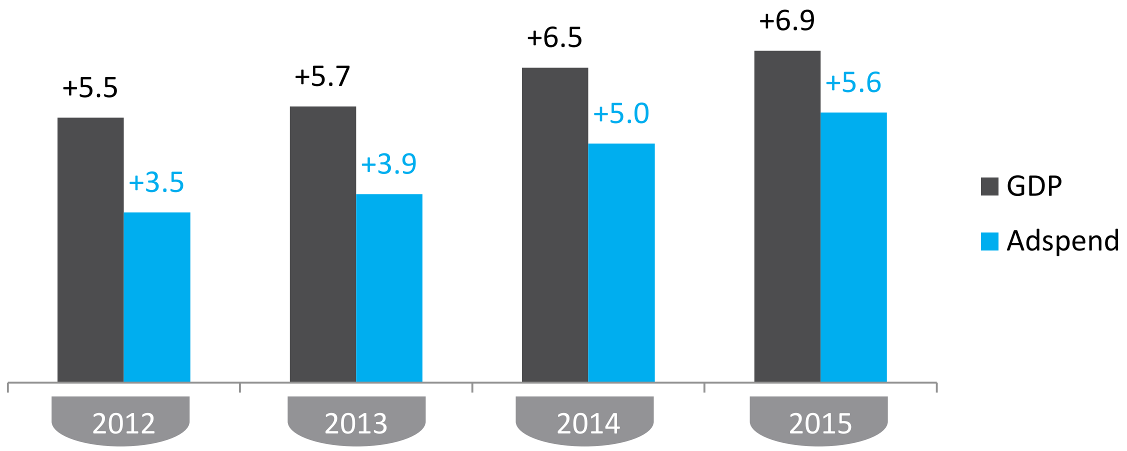
- Global ad expenditure growth to strengthen over the next three years, rising from 3.5% in 2012 to 3.9% in 2013 and 5.6% in 2015
- Rising Markets to contribute 63% of adspend growth between 2012 and 2015, and increase their share of global adspend from 34% to 38%.
- Continued strong growth expected from Eastern Europe & Central Asia, 'Fast-track Asia', and Latin America, growing at 10%+ a year *
- North America and 'Advanced Asia' to deliver solid 4%-5% annual growth
- First signs of confident resurgence in the Middle East & North Africa since the Arab Spring; average 7% growth forecast to 2015
- Peripheral Eurozone to shrink 7% in 2013, stabilise in 2014 and grow 3% in 2015
- Northern & Central Europe static in 2013, then to grow 2% a year in 2014 and 2015
- Online video and social media to help drive 20% annual growth in internet display over the next three years
- Internet advertising to exceed combined newspaper and magazine total in 2015

(* For definitions of these regions, see page 3 onwards)

ZenithOptimedia predicts global ad expenditure will grow 3.9% in 2013, reaching US$518bn by the end of the year. This is down slightly from the 4.1% we forecast in December, mainly because 2012 turned out better than we expected, leaving tougher comparatives for 2013. In dollar terms, our forecast for 2013 is marginally ahead of last forecast, by US$430 million.

The consensus among economic forecasters is that the global economy will gradually build up speed over the next three years. The eurozone should start to pull out of recession towards the end of this year, which will help stimulate world trade. We expect the global ad market to strengthen in step with the economy, although ad expenditure growth will remain behind GDP growth for the rest of our forecast period. Our growth forecasts for 2014 and 2015 are unchanged at 5.0% and 5.6% respectively.

Growth of ad expenditure and GDP 2012-2015 (%)



Source: ZenithOptimedia/IMF

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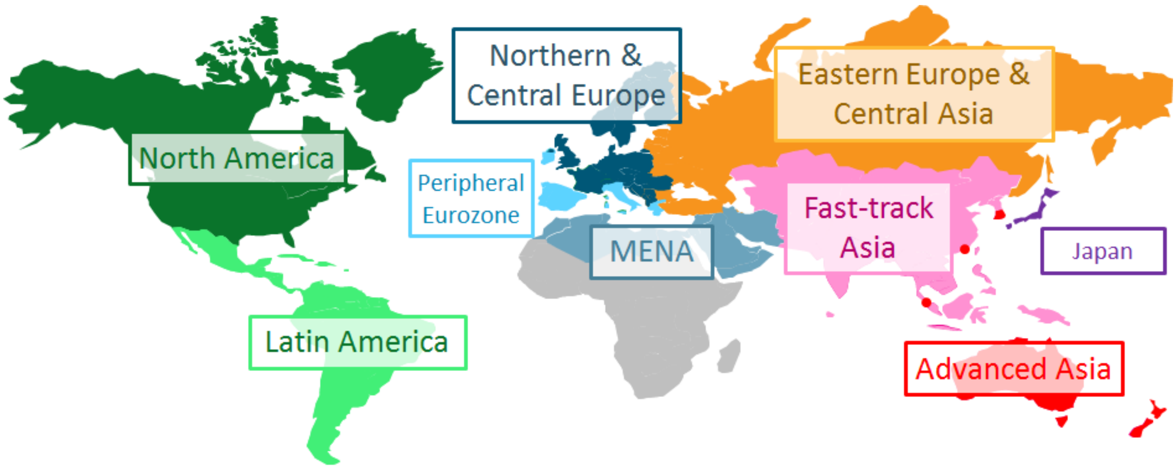
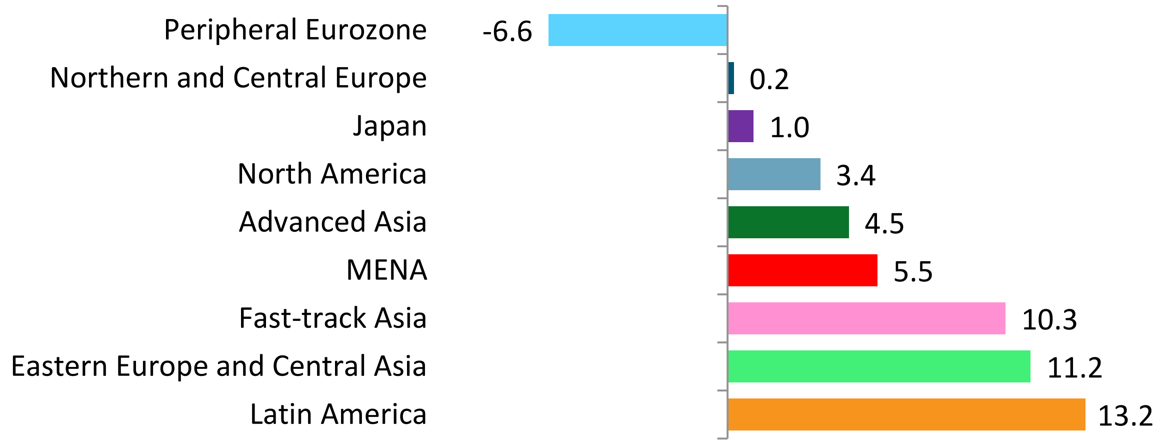
As has been the case since the economic downturn began in 2007, this growth will be led by the Rising Markets, which we forecast to grow by 8.2% on average in 2013, while the Mature Markets grow by just 1.8%, weighed down by the eurozone crisis. Over the next two years we expect growth to pick up in both Mature and Rising Markets, reaching 9.4% and 3.5% respectively in 2015.

Forecast by regional bloc

As we did for the December edition of our forecasts, we have decided to look in more detail at the growth rates of different region blocs, because the regions we usually look at (eg 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 15.5% in 2012, and expect it to fall another 6.6% in 2013.

We have reduced our Peripheral Eurozone forecast for 2013 by 2.6 percentage points since December. 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. The odds of such a disaster occurring are generally considered low, but tensions have increased since the inconclusive Italian elections in February left the country without a properly functioning government, and the controversy over the bail-out of Cyprus left savers across the eurozone wondering whether their insured deposits were truly safe. We assume these tensions will gradually ease, allowing ad expenditure in Peripheral Eurozone to stabilise in 2014, leading into mild recovery (3.0%) 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 0.4% in 2012, we forecast just 0.2% growth in 2013, followed by mild recovery in 2014 and 2015, at 2% 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. We have slightly downgraded our forecast for 2013 from 11.7% to 11.3%, mainly because eurozone uncertainty has prompted some advertisers to scale back budget increases in Turkey, where 46% of exports go to the EU. We now forecast Turkey to expand 9.1% in 2013, down from 12.0% in December.

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 3.6% in 2012, up from our December forecast of 3.1%. This will make the comparatives tougher for 2013, however, so we have reduced our forecast for this year from 1.6% to 1.0%. This will be followed by 1% to 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 called Advanced Asia: Australia, New Zealand, Hong Kong, Singapore and South Korea. We estimate that ad expenditure grew just 2.6% in Advanced Asia in 2012, mainly because of a slowdown in trade with China and other fast-growing markets. Trade is expected to pick up in 2013, and ad expenditure should follow, growing 4.5% this year, followed by 5.0% growth in 2014 and 5.2% in 2015 as advertisers rebuild their confidence in the global economy.

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 11.2% in 2012, and expect it to rise another 10.3% in 2013, followed by 10%-11% annual growth in 2014 and 2015.

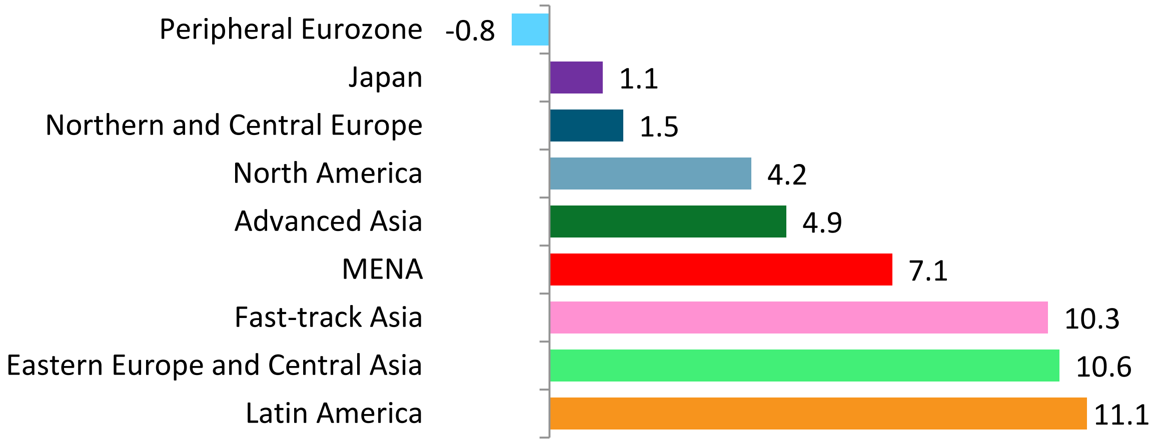
We have not changed the definition of North America, Latin America or the Middle East & North Africa (MENA) in this analysis.

North America
Ad expenditure in North America is much more robust than in Europe. Consumer confidence, retail sales, job numbers and house construction are all trending encouragingly upwards. We have upgraded our estimate for growth in 2012 from 4.1% to 4.5%, thanks mainly to strong spending in US network television and syndication. Accordingly we forecast slightly lower growth this year as the market faces tougher comparatives, with 3.4% compared to our previous forecast of 3.5%. We then expect 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 disappointing 6.5% growth rate in 2012 (depressed by a row over how TV advertising is monitored and sold in Mexico) we expect growth to rebound to 13.2% in 2013, followed by 10.8% growth in 2014 and 9.4% growth in 2015.

MENA
Since the Arab Spring began in December 2010, ad markets in Middle East & North Africa have been constrained by the region's social and political turmoil, which has left many advertisers cautious about attracting negative attention. Ad expenditure shrank 14.9% in 2011, and grew a meagre 1.4% in 2012. However, since our last forecast in December we have detected a substantial increase in confidence and activity from international and domestic advertisers, and we forecast 5.5% growth in ad expenditure this year, firming up to 6.8% in 2014 and 8.9% in 2015.

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



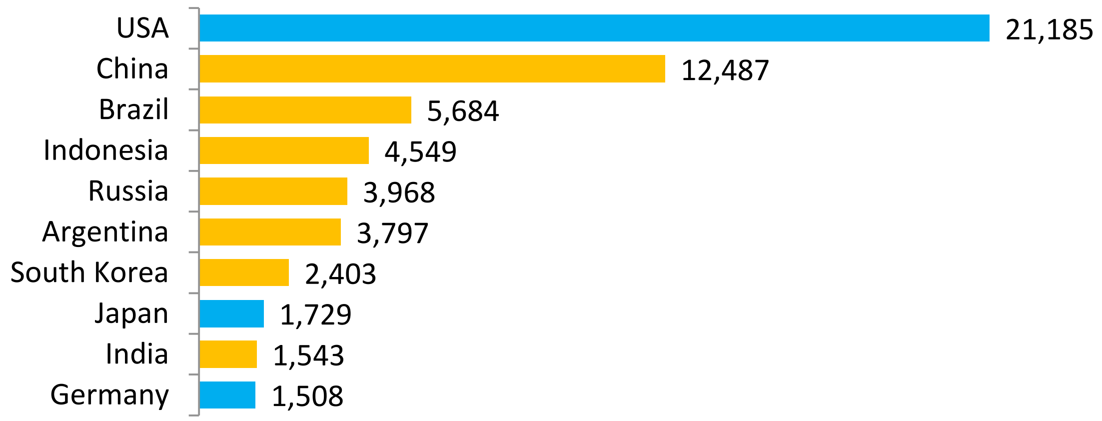
Source: ZenithOptimedia

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 decline in 2013, so we forecast an average annual 0.8% decline in expenditure between 2012 and 2015. The low-growth blocs are Japan and Northern & Central Europe, where we expect average growth of 1.1% to 1.5%. North America, Advanced Asia 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$76bn that will be added to global adspend. However, seven of the ten largest contributors will be the Rising Markets, contributing a further 45% of new adspend. Overall, we predict developing markets will contribute 63% of adspend growth between 2012 and 2015, and increase their share of global adspend from 34% to 38%.

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



Source: ZenithOptimedia

We forecast six of the current top-ten ad markets will retain their positions in 2015: the USA, Japan, China and Germany in first to fourth place, Australia at eighth and South Korea at tenth. Three markets will fall down the rankings: the UK from fifth to sixth, and France from seventh to ninth, while Canada will fall out of the top ten altogether. Meanwhile, Brazil will overtake the UK to take fifth place, and Russia will rise from eleventh place in 2012 to seventh in 2015.

Top ten ad markets

US$ million, current prices. *Currency conversion at 2011 average rates.*

2012		Adspend	2015		Adspend
1	USA	161,241	1	USA	182,427
2	Japan	51,724	2	Japan	53,453
3	China	36,190	3	China	48,678
4	Germany	25,646	4	Germany	27,155
5	UK	19,502	5	Brazil	23,901
6	Brazil	18,217	6	UK	20,689
7	France	13,525	7	Russia	13,714
8	Australia	12,633	8	Australia	13,658
9	Canada	11,325	9	France	13,456
10	South Korea	10,899	10	South Korea	13,303

Source: ZenithOptimedia

Global advertising expenditure by medium

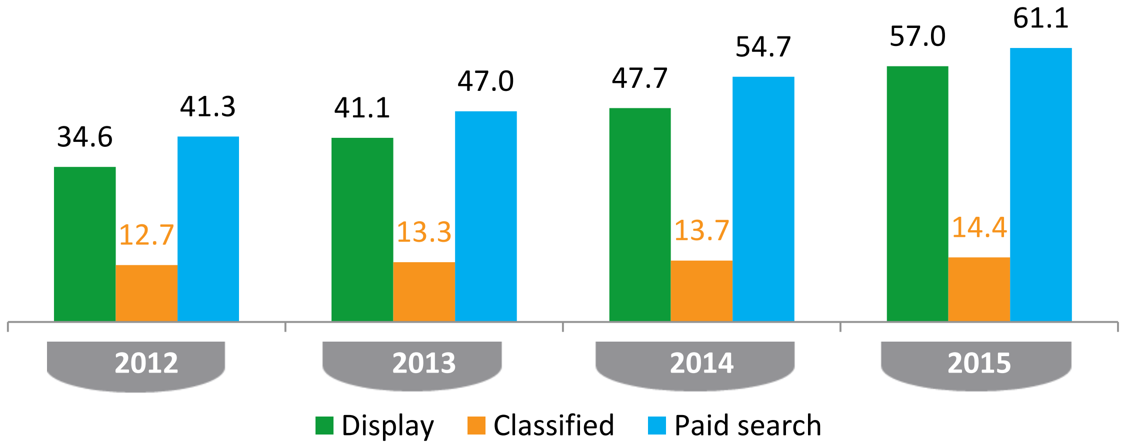
The internet is still the fastest growing medium by some distance. We estimate that is grew 15.1% over the course of 2012, and forecast 14% annual growth for 2013 to 2015.

Display is the fastest-growing sub-category, with 20% annual growth, thanks partly to the rapid rise of online video and social media advertising, each of which are growing at about 30% a year. 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 13% 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 5% for the rest of our forecast period.

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



Source: ZenithOptimedia

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 18.0% in 2012 to 23.4% in 2015, while newspapers and magazines will continue to shrink at an average of 1%-2% 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 59% of the growth in total expenditure. The next biggest is television, which we forecast to contribute 40% of growth.

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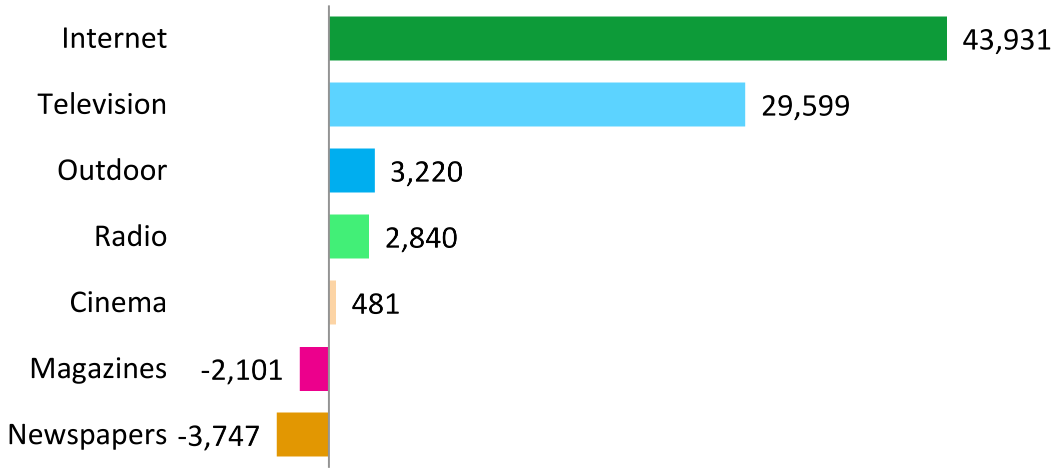
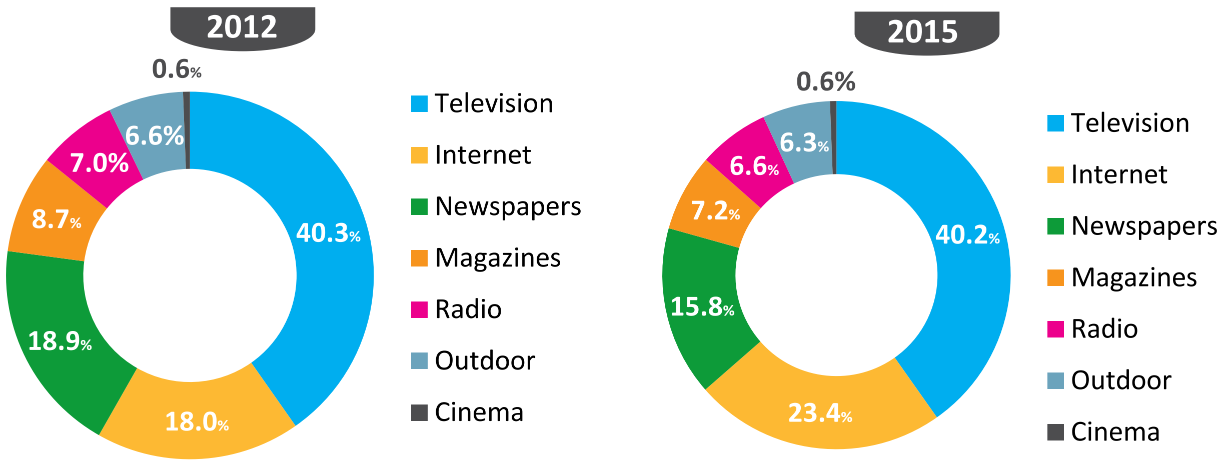
Contribution to global growth in ad expenditure by medium 2012-2015 (US$m)



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 to 40.4%, before falling back marginally to 40.3% in 2015.

Share of global ad expenditure by medium (%)



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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

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