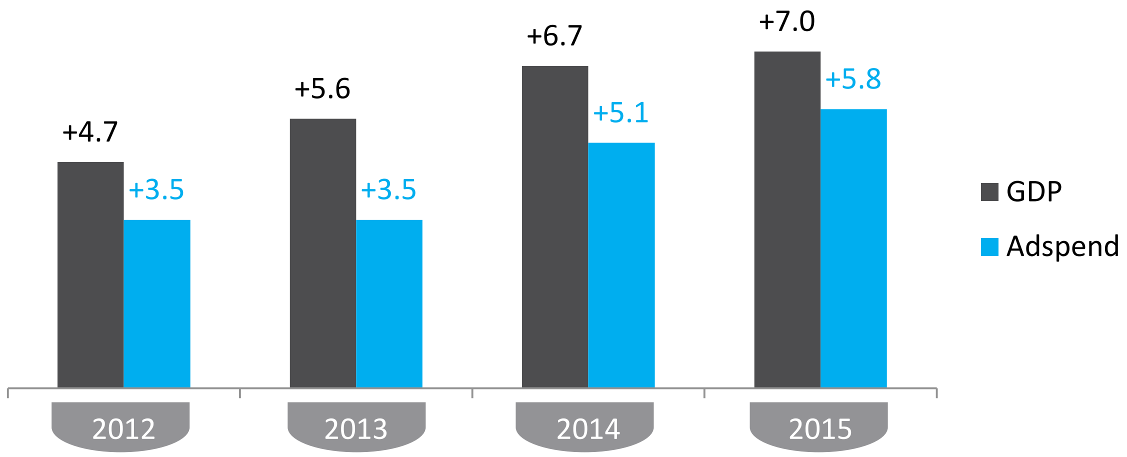
Executive summary: Advertising Expenditure Forecasts June 2013

ZenithOptimedia predicts global ad expenditure will grow 3.5% in 2013, reaching US$505bn by the end of the year. This is down from the 3.9% we forecast in Q1, but our forecasts for recovery in 2014 and 2015 are stronger than the previous quarter, by 0.1 and 0.2 percentage points respectively.

Growth of advertising expenditure and GDP 2012-2015



Source: ZenithOptimedia/IMF

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 at an average of 8.6% a year between 2012 and 2015, while Mature Markets* grow at an average of 2.8%.

We have downgraded our forecast for 2013 for two reasons: the continuing recession in the eurozone, and security concerns in South Korea.

The economic recovery that economists hoped to see in the eurozone in the second half of 2013 now appears to have been postponed until the end of the year, after the political deadlock in Italy, followed by the controversial bail-out of Cyprus, highlighted the zone's institutional problems. We now expect to see ad expenditure fall 3.9% across the eurozone in 2013. This is down from the 1.6% decline we predicted in April, but up from the 5.2% drop in ad expenditure across the eurozone in 2012. Assuming that the economic consensus is correct, and the economy begins to recover at the end of 2013 or beginning of 2014, we expect eurozone ad expenditure to stabilise in 2014 – growing by 0.8% – followed by slow recovery in 2015, with 1.8% growth that year.

The Peripheral eurozone (Portugal, Italy, Irelands, Greece and Spain) is at the heart of the eurozone's economic problems, and it is here that advertising is shrinking the fastest. We expect adspend to fall 10.3% across these five markets in 2013. Again, this is an improvement on 2012, when ad expenditure shrank 15.4%, and even in these markets there are some bright spots. In Ireland, where the ad market shrank by 34% between 2007 and 2012, adspend has now stopped shrinking. We forecast 0.7% growth in 2013, followed by 2.9% growth in 2014 and 4.3% growth in 2015. We expect the Peripheral eurozone to lag Ireland by a year, with stability in 2014 (when we expect expenditure to shrink by 0.1%), followed by 2.7% growth in 2015.

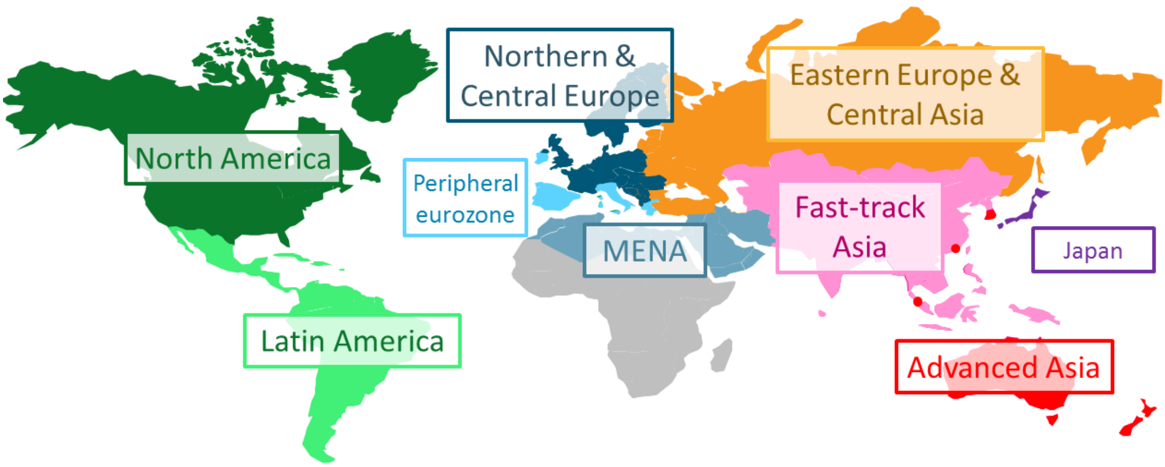
Zenith Optimedia Group Limited
Registered in England number 4244479
Registered office Pembroke Building Kensington Village Avonmore Road London W14 8DG
VAT number GB 707283633

24 Percy Street London W1T 2BS
T +44 (0)20 7961 1000
F +44(0)20 7961 1113
www.zenithoptimedia.com

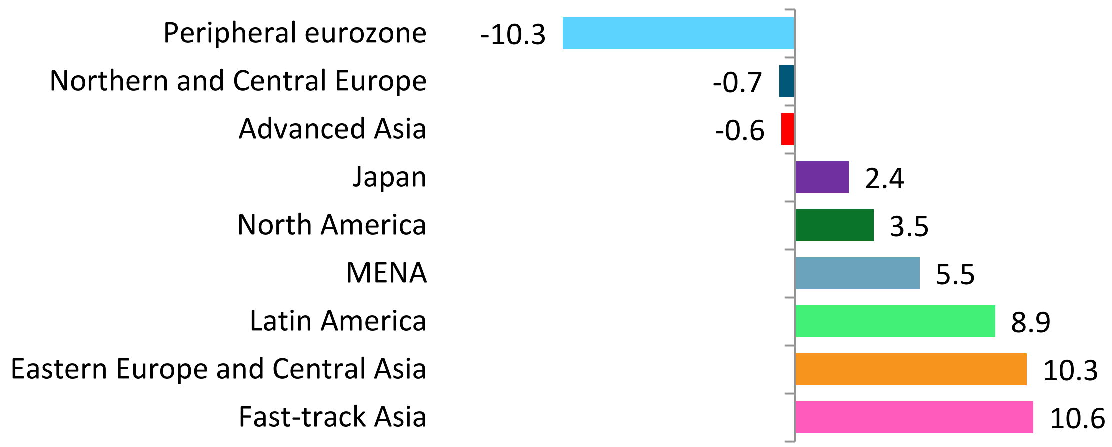
The recent period of heightened tension between North Korea and its neighbours obviously had the greatest effect in South Korea, where advertisers became a lot more cautious at the height of tension. We expect this caution, coupled with a slowdown in exports caused by current strength of the South Korean won against the Japanese yen, to lead to a 6.5% decline in adspend in South Korea in 2013. Compared to our previous forecast for South Korea, this represents a loss of US$1.3bn, and 0.2 percentage points of growth, off our global 2013 forecast.

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 (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 15.4% in 2012, and expect it to fall another 10.3% in 2013.

We have reduced our Peripheral Eurozone forecast for 2013 by 3.7 percentage points since April. 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 government until May, 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 (2.7%) 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 0.6% in 2012, we forecast a similar decline of 0.7% 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 9% to 10% 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. Ad expenditure has picked up in 2013 after a slow start to the year, and we have increased our forecast for this year from 1.0% to 2.4% growth, followed by 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 3.6% in Advanced Asia in 2012, mainly because of a slowdown in trade with China and other fast-growing markets. We had expected

improvement in 2013, but the recent period of heightened tension between North Korea and its neighbours caused advertisers in South Korea became a lot more cautious at the height of tension. We expect this caution, coupled with a slowdown in exports caused by the current strength of the South Korean won against the Japanese yen, to lead to a 6.5% decline in adspend in South Korea in 2013. This has led us to downgrade our forecast for Advanced Asia to -0.6% this year. We do expect a rapid rebound in 2014, with 7.0% growth, followed by 6.8% 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 7.3% 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 10.6% in 2013, followed by 10% to 11% annual growth in 2014 and 2015.

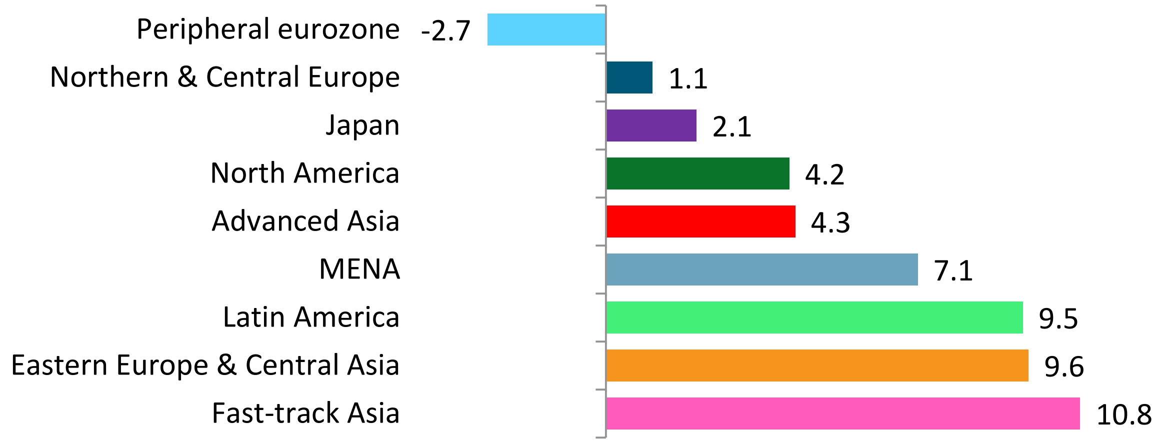
We have not changed the definition of North America, Latin America or the Middle East & North Africa (MENA) in this analysis.

North America
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 4.5% in 2012, thanks partly to the summer Olympics and the elections in the US. In their absence we forecast a slightly more subdued 3.5% 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 disappointing 7.0% growth rate in 2012 (depressed by a row over how TV advertising is monitored and sold in Mexico) we expect 8.9% growth in 2013, followed by 9.1% growth in 2014 and 10.7% growth in 2015.

MENA
Since the Arab Spring began in December 2010, advertising 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. Adspend shrank 14.9% in 2011, and grew a meagre 1.4% in 2012. However, this year 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

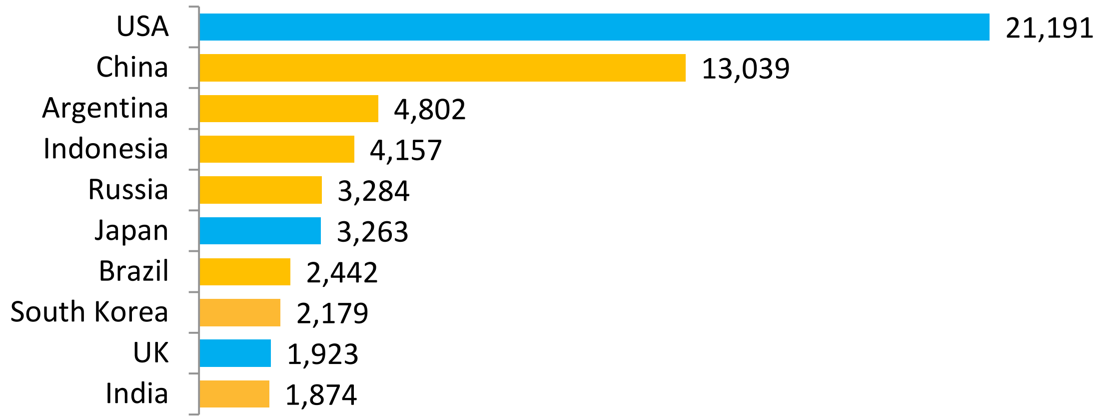
In the medium term we can divide our blocs into four categories: no growth, low growth, medium growth and high growth. In the no-growth category is Peripheral eurozone, where slight recovery in 2015 will not compensate for sharp decline in 2013, so we forecast an average annual 2.7% decline in expenditure between 2012 and 2015. The low-growth blocs are Northern & Central Europe and Japan, where we expect average growth of 1.1% to 2.1%. 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 29% of the US$73bn 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 (7%), Indonesia (6%) and Russia (4%). Between them these five markets will contribute 64% of the extra expenditure in the global ad market between 2012 and 2015.

Seven of the ten largest contributors will be Rising Markets, contributing a 43% of new adspend. Overall, we forecast Rising Markets to contribute 62% 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$ million)



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 the next three markets are bumped up one position: Canada from ninth to eighth, South Korea from tenth to ninth, and Russia 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	182,433
2	Japan	51,742	2	Japan	55,005
3	China	37,202	3	China	50,241
4	Germany	23,433	4	Germany	23,698
5	UK	19,376	5	UK	21,299
6	Brazil	15,298	6	Brazil	17,740
7	Australia	12,813	7	Australia	13,753
8	France	12,490	8	Canada	13,022
9	Canada	11,624	9	South Korea	12,917
10	South Korea	10,738	10	Russia	12,492

Source: ZenithOptimedia

Global advertising expenditure by medium

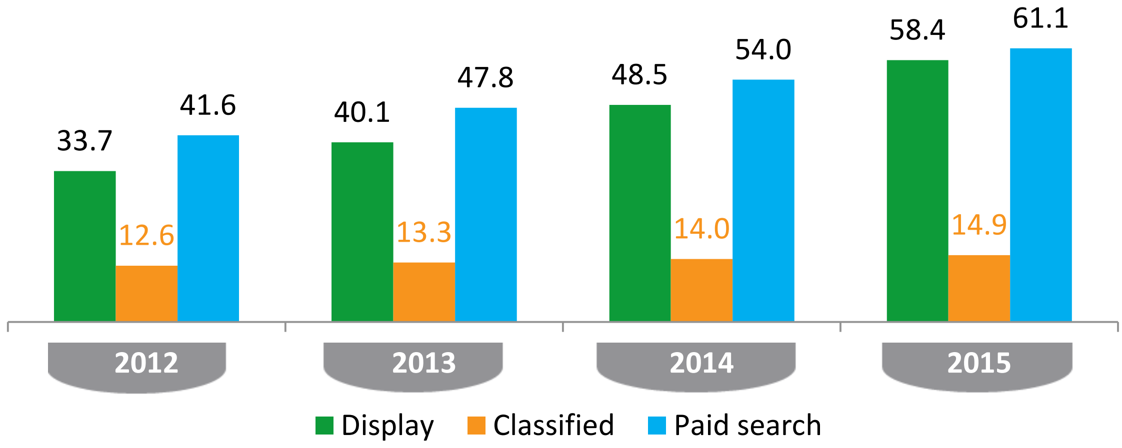
The internet is still the fastest growing medium by some distance. It grew 16.1% over the course of 2012, and we forecast an average of 15% annual growth for 2013 to 2015.

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 14% 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 6% for the rest of our forecast period.

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



Source: ZenithOptimedia

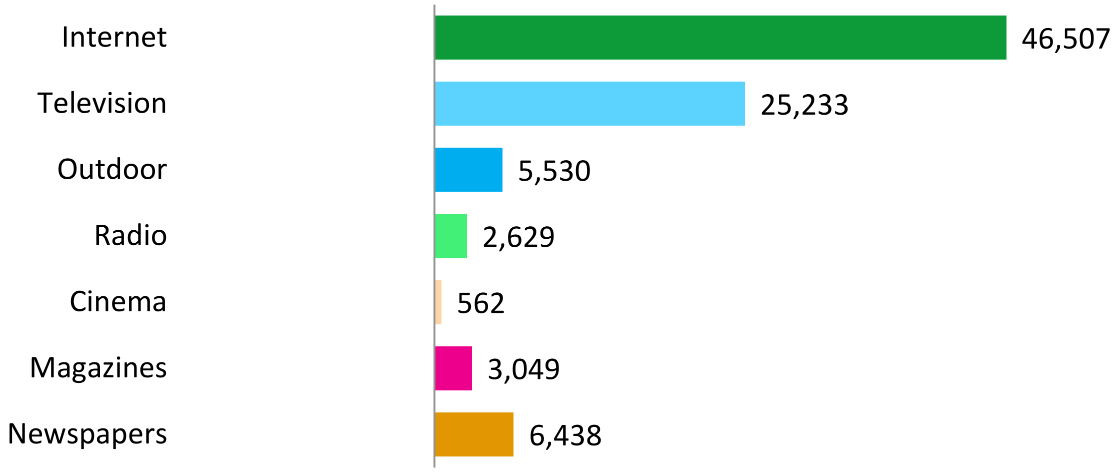
Mobile advertising (by which we mean all internet ads delivered to smartphones and tablets, whether display, classified or search) has now truly taken off and is growing five times faster than desktop internet. We forecast mobile advertising to grow by 67% in 2013 and to grow by an average of 51% a year between 2012 and 2015, driven by the rapid adoption of smartphones and tablets. By contrast we forecast desktop internet advertising to grow by 10% a year.

We estimate global expenditure on mobile advertising at US$8.6bn in 2012, representing 9.8% of internet expenditure and 1.8% of advertising across all media. By 2015 we forecast this total to rise to US$29.4bn, which will be 21.9% of internet expenditure and 6.1% 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 24.3% in 2015, while newspapers and magazines will continue to shrink at an average of 2%-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 68% of the growth in total expenditure. The next biggest is television, which we forecast to contribute 36% of growth.

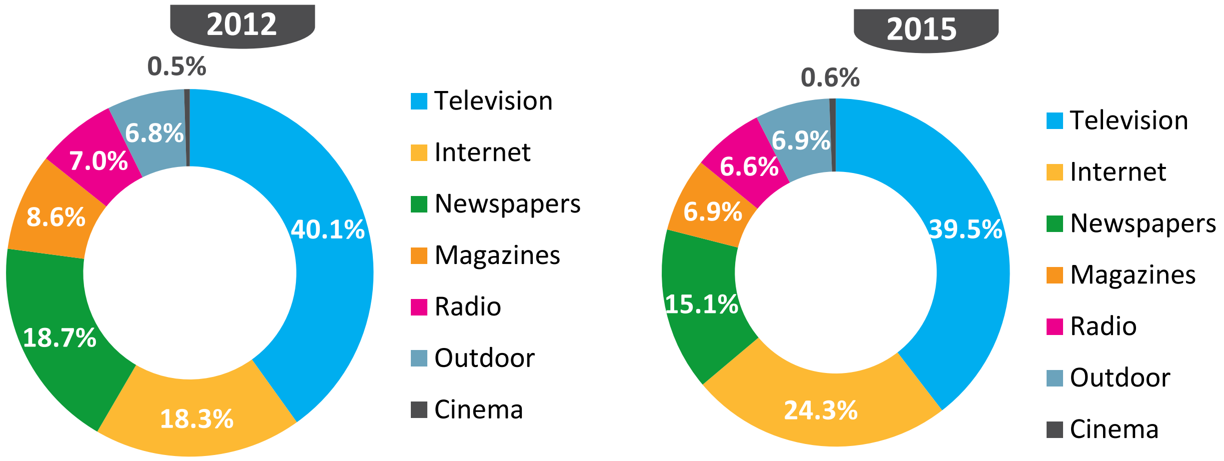
Contribution to global growth in adspend by medium 2012-2015 (US$m)



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 to 40.1%, before falling back marginally to 39.5% in 2015.

Share of global adspend by medium (%)



Source: ZenithOptimedia

Zenith Optimedia Group Limited
Registered in England number 4244479
Registered office Pembroke Building Kensington Village Avonmore Road London W14 8DG
VAT number GB 707283633

24 Percy Street London W1T 2BS
T +44 (0)20 7961 1000
F +44(0)20 7961 1113
www.zenithoptimedia.com

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

For further information, please contact:

Jonathan Barnard
Head of Forecasting
Tel: +44 20 7961 1192
Fax: +44 20 7291 1199
E-mail: jonathan.barnard@zenithoptimedia.com