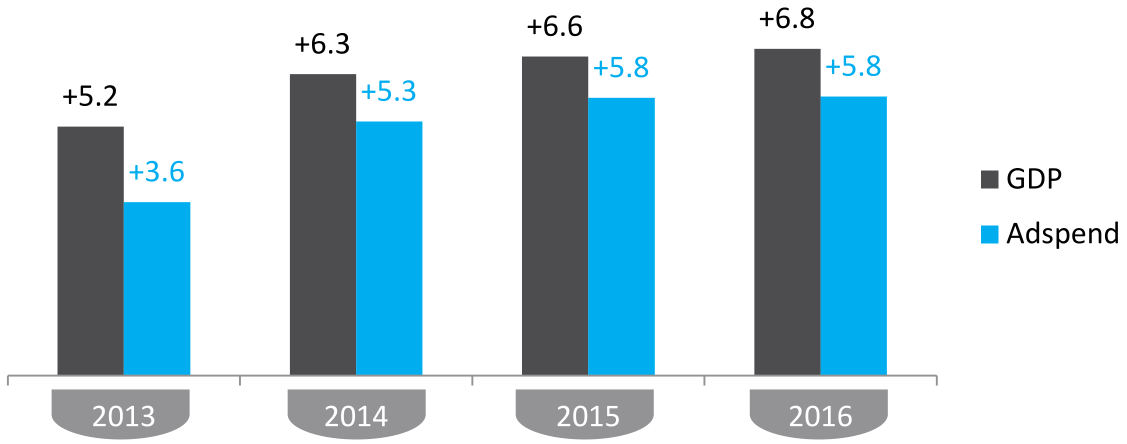
# Executive summary: Advertising Expenditure Forecasts December 2013

ZenithOptimedia predicts global ad expenditure will grow 5.3% in 2014, reaching US$532bn by the end of the year. We have increased our forecast for 2014 by 0.2 percentage points since September, after recent signs of stronger growth from markets like the US, the UK, Germany, Hungary, Poland, Australia and Mexico, together with evidence that Spain's steep downturn is finally bottoming out. This is the second time we have upgraded our expectations for 2014 this year, the first being in June (from 5.0% to 5.1%).

**Growth of advertising expenditure and GDP 2013-2016**




*Source: ZenithOptimedia/IMF*

We forecast the global ad market to accelerate to 5.8% in 2015 as a strong broad-based economic growth takes hold, followed by another year of 5.8% growth in 2016. This assumes that the Eurozone's gradual recovery continues and no new crisis occurs.

## 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 regional 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.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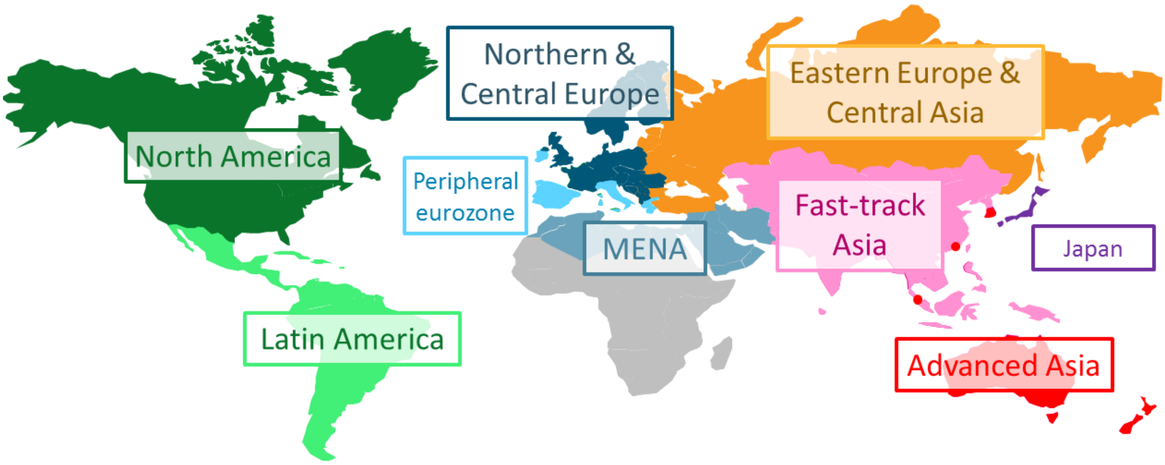
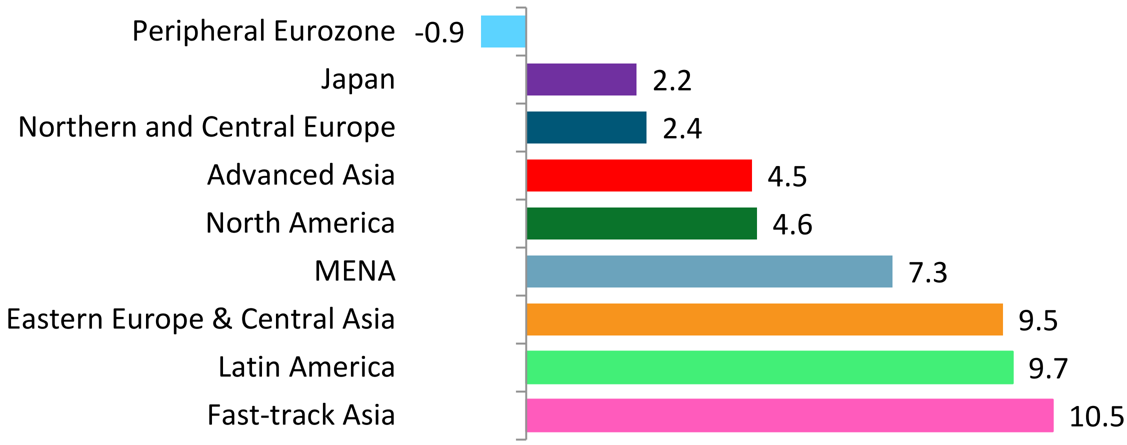



**Growth in adspend by regional bloc 2013-2014 (%)**




*Source: ZenithOptimedia*

**Peripheral Eurozone**

In Europe we have separated out the 'PIIGS' markets (Portugal, Ireland, Italy, Greece and Spain), which have faced the full brunt of the Eurozone crisis, into the Peripheral Eurozone. 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 11.1% in 2013. 2014 looks a lot better, with ad expenditure forecast to shrink by just 0.9%, followed by a slow recovery of 1.8% growth in 2015 and 2.5% growth in 2016. This assumes 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.

**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. Recent signs of life in the Eurozone economy have encouraged advertisers to think about increasing their budgets again, after keeping them on hold for the last two years. After 0.1% growth in 2013 we expect ad expenditure in Northern & Central Europe to rise 2.4% in 2014, followed by 2.6% growth in 2015 and 2.8% in 2016.

**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 expect this bloc to have grown 11.7% by the end of 2013, followed by 8%-10% growth for the rest of our forecast period.

**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. Japan grew 2.1% in 2013, and we expect the growth rate to remain at 2% a year through to 2016.

**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. Growth here has been a disappointing 1.3% in 2013, after a period of heightened tension between North Korea and its neighbours caused advertisers in South Korea to cancel or postpone several campaigns. We forecast a much healthier 4.5% growth in 2014, followed by 6.6% growth in 2015 and 4.8% growth in 2016.

**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 has grown 10.7% in 2013, followed by 10% to 12% annual growth in 2014 to 2016.

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

**North America**
Adspend is more robust in North America than in precarious Europe. Adspend has grown 3.3% in 2013, and we forecast a strong 4.6% in 2014, boosted by the Winter Olympics and mid-term elections, followed by another year of 4.6% growth in 2015 and 4.1% growth in 2016.

**Latin America**
Similar to Eastern Europe & Central Asia and Fast-track Asia, Latin America is a region with rapidly growing economic output, and its ad market is growing at a similar rate. After an estimated 8.0% growth this year, we forecast annual growth of between 10% and 13% over the next three years.

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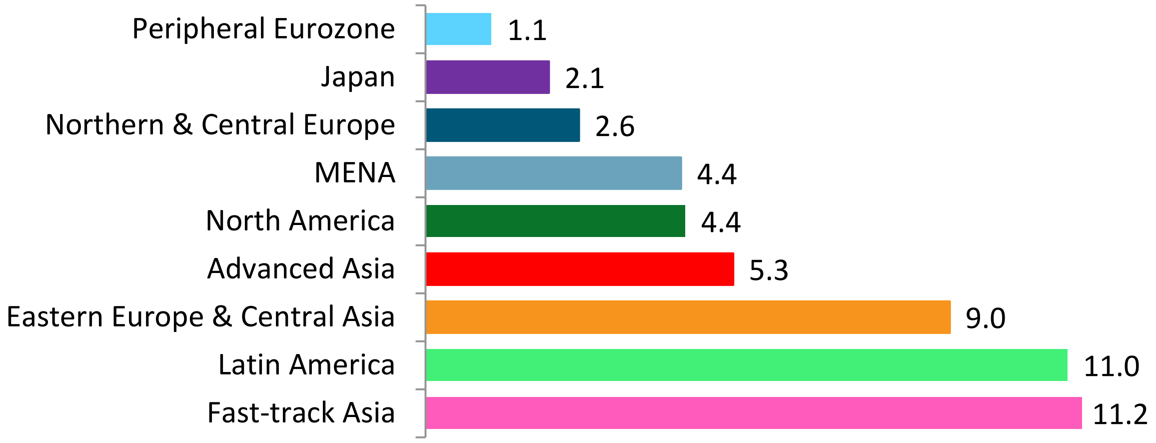
**MENA**
After the Arab Spring began in December 2010, advertising markets in Middle East & North Africa were constrained by the region's social and political turmoil, which left many advertisers cautious about attracting negative attention. Adspend shrank 14.9% in 2011, and grew a meagre 1.4% in 2012. Earlier this year we detected an increase in confidence and activity from international and domestic advertisers, and the violence in Egypt did not derail this recovery. We forecast 4.7% growth in ad expenditure this year, firming up to 7.3% in 2014, though we expect more muted 3% annual growth in 2015 and 2016.

**Average annual growth in adspend by regional bloc 2013-2016 (%)**




*Source: ZenithOptimedia*

In the medium term we can divide our blocs into three categories: low growth, steady growth and rapid growth. The low-growth regions are the Peripheral Eurozone, Northern & Central Europe and Japan, which we forecast to grow by between 1% and 3% a year between 2013 and 2016. North America, Advanced Asia and the Middle East & Africa are the steady-growth regions, and we forecast these to grow at 4%-5% a year. Meanwhile the rapid-growth regions – Eastern Europe & Central Asia, Fast-track Asia and Latin America – are on track to grow at 9% -11% a year.

## 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 2013 and 2016 we expect the US to contribute 26% of the US$90bn that will be added to global adspend. After the US, however, the biggest contributors are much younger and more dynamic. China comes second, accounting for 16% of additional ad dollars over this period, followed by Argentina and Indonesia, accounting for 7% each.

Seven of the ten largest contributors will be Rising Markets, contributing 42% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 61% of additional ad expenditure between 2013 and 2016, and to increase their share of the global market from 35% to 39%.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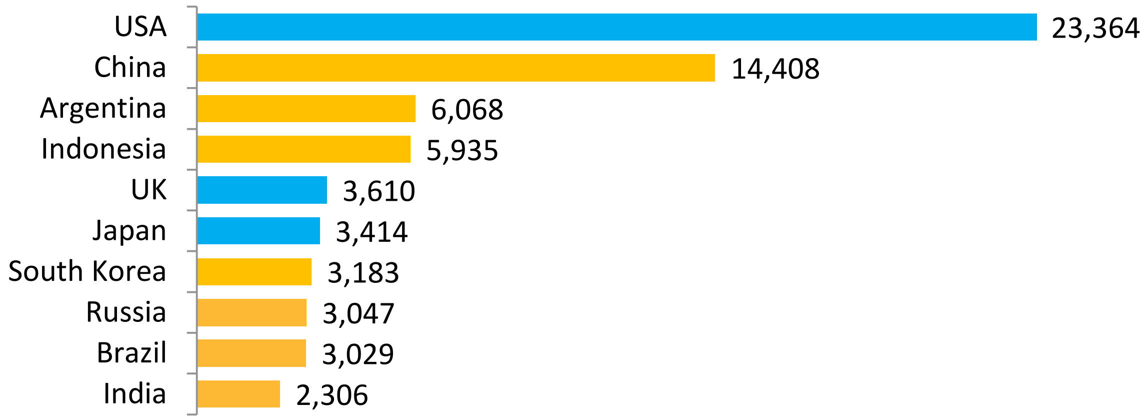
**Top ten contributors to adspend growth 2013-2016 (US$m)**




*Source: ZenithOptimedia*

In 2013 France is the eighth-largest ad market in the world and Canada is ninth. By 2016 we expect France to have fallen to twelfth and Canada to eleventh, pushed out of the top ten by Russia and Indonesia. We expect Russia to rise from eleventh place in 2013 to ninth in 2016, while Indonesia rises from twelfth to tenth over the same period. Meanwhile South Korea will rise from tenth to eighth.

**Top ten ad markets**

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

| | 2013 | Adspend | | 2016 | Adspend |
|---|---|---|---|---|---|
| 1 | USA | 166,905 | 1 | USA | 190,269 |
| 2 | Japan | 52,838 | 2 | Japan | 56,252 |
| 3 | China | 40,948 | 3 | China | 55,356 |
| 4 | Germany | 23,184 | 4 | Germany | 24,145 |
| 5 | UK | 20,345 | 5 | UK | 23,955 |
| 6 | Brazil | 15,859 | 6 | Brazil | 18,887 |
| 7 | Australia | 13,072 | 7 | Australia | 14,264 |
| 8 | France | 12,145 | 8 | South Korea | 13,795 |
| 9 | Canada | 11,589 | 9 | Russia | 13,385 |
| 10 | South Korea | 10,612 | 10 | Indonesia | 13,338 |

*Source: ZenithOptimedia*

## Global advertising expenditure by medium

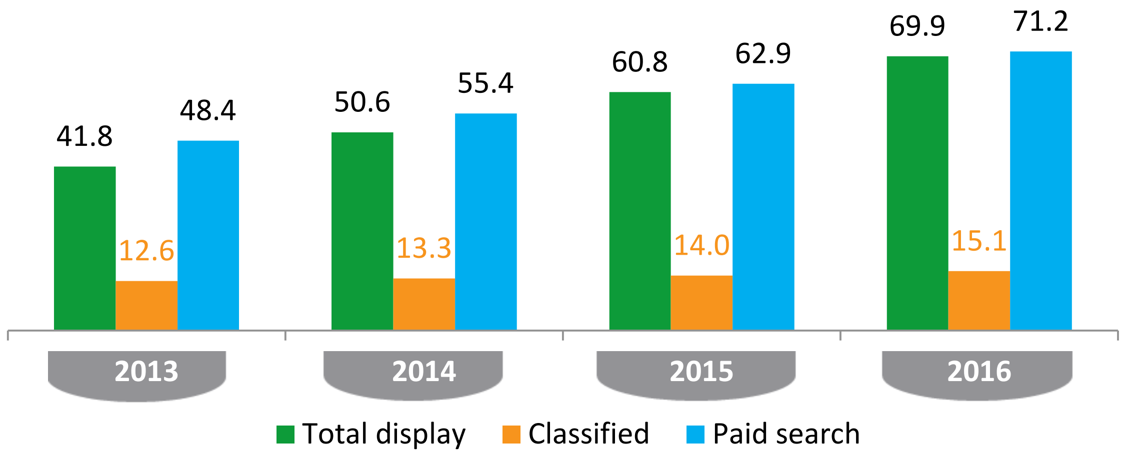
The internet is still the fastest growing medium by some distance. It will have grown 15.8% by the end of 2013, and we forecast an average of 15% annual growth for 2014 to 2016.

Display is the fastest-growing sub-category, with 19% annual growth, thanks partly to the rapid rise of social media advertising, which is growing at 28% 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 2016, 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 2013-2016 (US$bn)**




*Source: ZenithOptimedia*

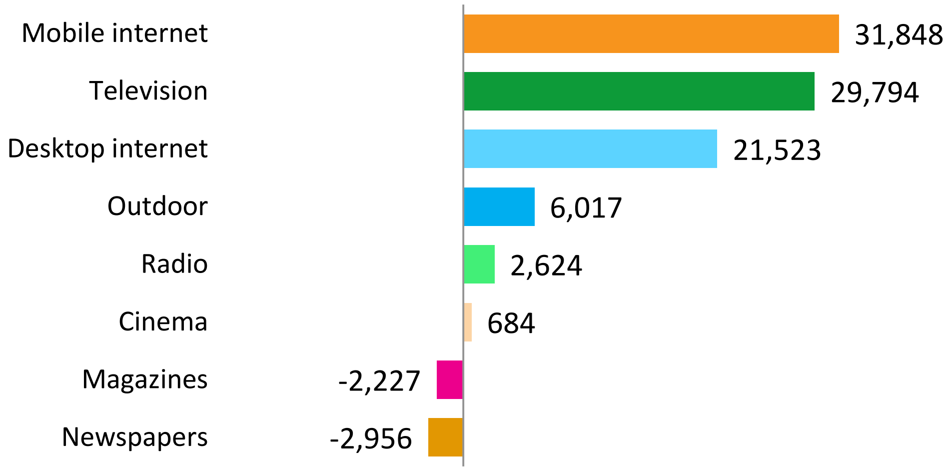
Mobile advertising (by which we mean all internet ads delivered to smartphones and tablets, whether display, classified or search) has now truly taken off and is growing seven times faster than desktop internet. We forecast mobile advertising to grow by an average of 50% a year between 2013 and 2016, driven by the rapid adoption of smartphones and tablets. By contrast we forecast desktop internet advertising to grow at an average of 7% a year.

We estimate global expenditure on mobile advertising at US$13.5bn in 2013, representing 13.1% of internet expenditure and 2.7% of advertising across all media. By 2016 we forecast this total to rise to US$45.4bn, which will be 29.0% of internet expenditure and 7.7% of all expenditure. This means mobile will leapfrog radio, magazines and outdoor to become the world's fourth-largest medium by the end of our forecast period.

Since it began in the mid-1990s, internet advertising has principally risen at the expense of print. Between 2003 and 2013 the internet's share of global advertising rose by 17 percentage points, while newspapers' share fell 13 points and magazines' share fell by 5 points. We predict internet advertising will increase its share of the ad market from 20.6% in 2013 to 26.6% in 2016, 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.  Internet advertising has overtaken newspaper advertising for the first time in 2013, and we forecast it to exceed the combined total of newspaper and magazine advertising in 2015.

Mobile is now the main driver of global adspend growth. We forecast mobile to contribute 36% of all the extra adspend between 2013 and 2016. Television is the second largest contributor (accounting for 34% of new ad expenditure), followed by desktop internet (25%).

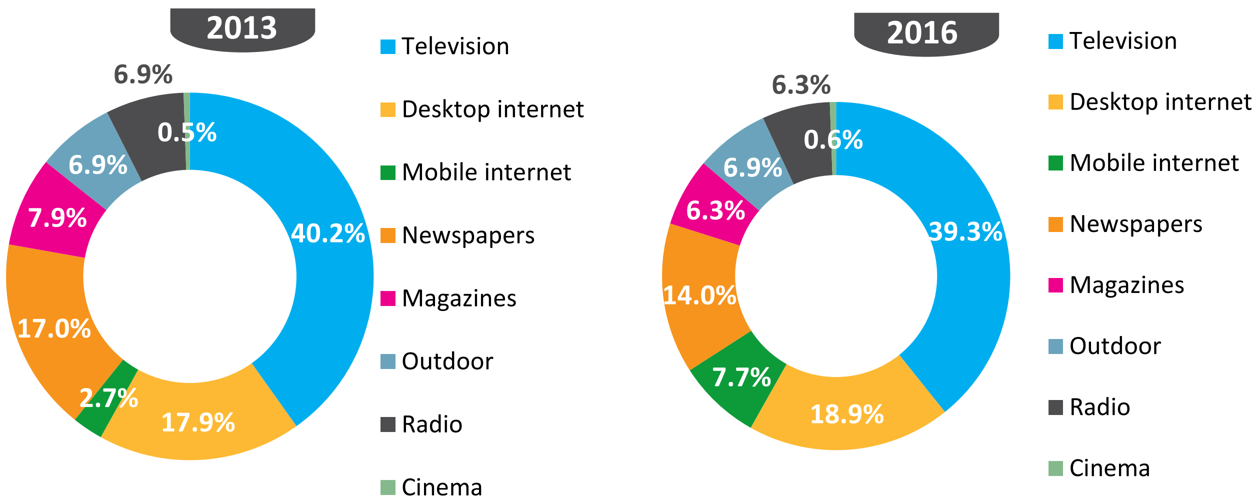
## Contribution to global growth in adspend by medium 2013-2016 (US$m)




*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 40.2%, before falling back marginally to 39.3% in 2016.

## 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

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