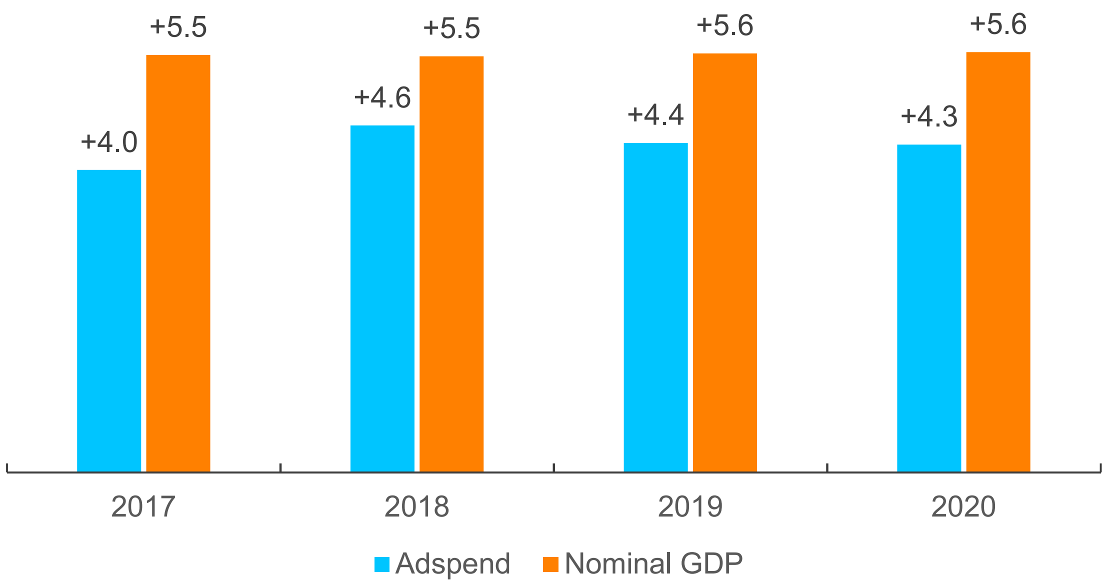
Advertising Expenditure Forecasts March 2018

Executive summary

Zenith predicts global ad expenditure will grow 4.6% in 2018, reaching US$579 billion by the end of the year. This forecast is substantially ahead of the 4.1% growth rate we forecast in December, and is our biggest quarterly upgrade since March 2011. Several markets have surprised on the upside, most notably China, the Philippines, Argentina and Ireland.

We expect advertising expenditure to grow more slowly than the global economy as a whole out to 2020.

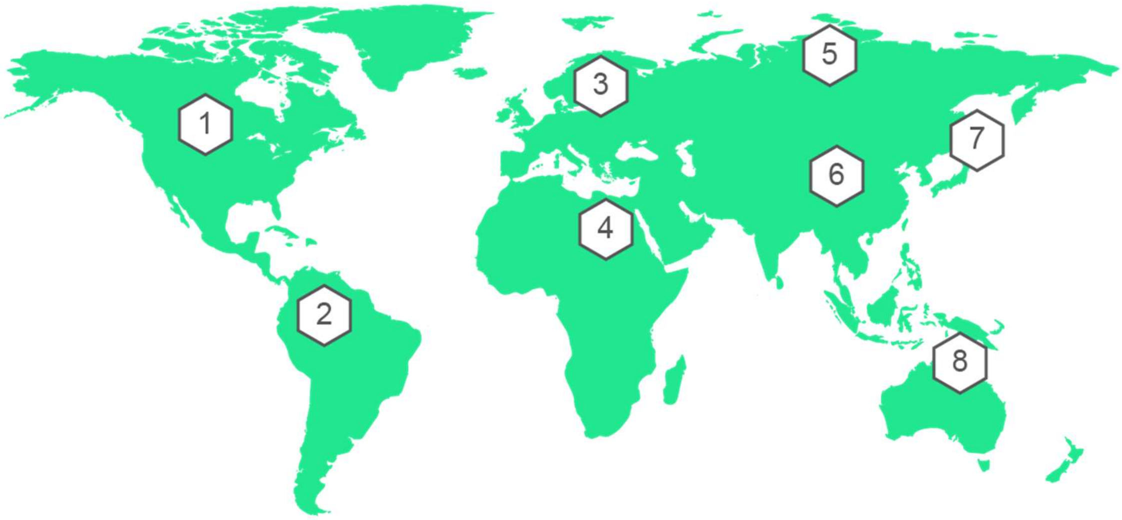
Growth of advertising expenditure and GDP 2017-2020 (%)



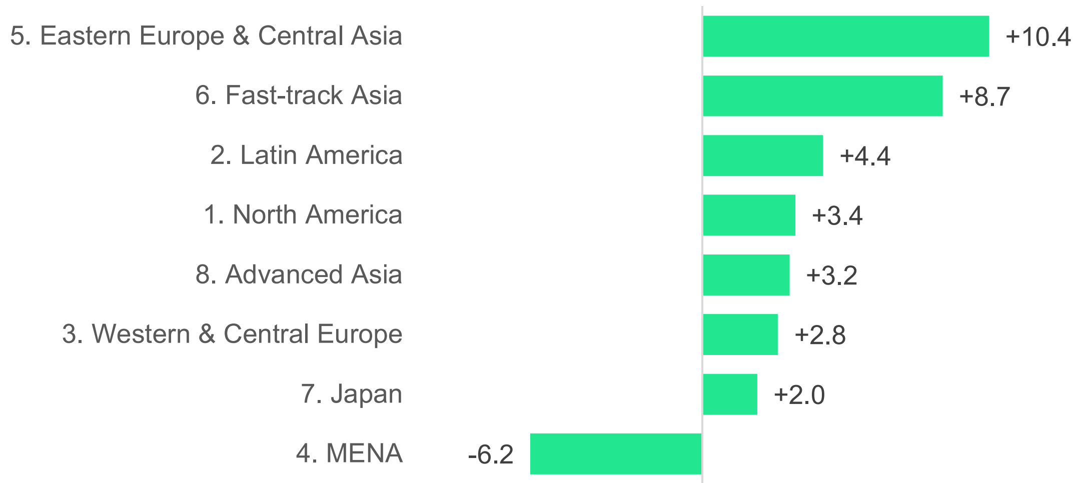
Source: Zenith/IMF

Forecast by regional bloc

We regularly examine 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.



Growth in adspend by regional bloc 2017-2018 (%)



Source: Zenith

1. 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 was more robust than in Western & Central Europe between 2012 and 2014. This changed in 2015 as the European markets most affected by the eurozone crisis recovered rapidly, while declining network television ratings eroded US adspend growth. North America started outperforming Western & Central Europe again in 2016 as political and economic uncertainty in the UK dragged down growth in the latter, and Canada's healthy economy boosted its ad market. We expect North American adspend to grow 3.4% in 2018, and forecast an average of 3.2% growth a year to 2020.

2. Latin America

Argentina, Brazil, Ecuador and Venezuela (which accounted for 59% of Latin American advertising expenditure) were in recession in 2016, compounded by rapid devaluation in Argentina and full-blown crisis in Venezuela, which is running out of basic supplies and is heading for hyperinflation. Argentina and Brazil are now well out of recession, and Venezuela's sustained collapse in adspend means that its continued decline weighs less on the regional total each year. We forecast 4.4% growth in Latin America adspend this year, 5.1% next year, and 5.1% average annual growth to 2020.

3. Western & Central Europe

Western & Central Europe was one of the regions most affected by the financial crisis of 2008-2009, which then turned into the eurozone crisis. The eurozone crisis is still not definitively over, but the region's ad market has been enjoying solid recovery since 2014, after which adspend grew at about 4% a year.

The UK was the stand-out growth market in Western & Central Europe from 2011 to 2016, growing at an average of 7.3% a year. However, a slowing economy, gathering inflation, and political uncertainty over the mid-year elections and Brexit negotiations have all contributed to a sharp slowdown in UK adspend this year, which grew just 0.8% in 2017. And although the eurozone economy picked up, the upswing was slow to feed through to advertising. Adspend grew 2.2% in Western & Central Europe in 2017, down from 4.1% growth in 2016. But we think this will be a low point, and expect an annual average of 3.2% growth to 2020.

4. MENA

The drop in oil prices in 2014 has had a severe effect on the economies in MENA, and has prompted advertisers to cut back their budgets in anticipation of lower consumer demand. Political turmoil and conflict have worsened, further shaking advertisers' confidence in the region. We estimate that adspend dropped 18.6% in MENA in 2017, following 10.0% decline in 2016. We do, however, think that was the low point for the region and expect successive improvement over the rest of our forecast period, forecasting 6.2% decline in 2018, just 0.3% decline in 2019 and 2.8% growth in 2020.

5. Eastern Europe & Central Asia

Ad markets in Eastern European & Central Asia generally recovered quickly after the 2009 downturn and then continued their healthy pace of growth for the next few years. In 2014, though, the conflict in Ukraine severely disrupted the domestic ad market, while Russia suffered from sanctions imposed by the US and the EU, the sanctions it imposed in response, and a withdrawal of international investment. These shocks were 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.

Adspend shrank 0.6% in Eastern Europe & Central Asia in 2014, and by 8.0% in 2015. The worst-affected ad markets began to recover in 2016, however, and this recovery has continued in 2017, consistently outperforming expectations. We now estimate that adspend improved by 12.9% in 2017, and forecast 8.8% annual growth to 2020, ensuring that Eastern Europe & Central Asia remains the fastest-growing regional bloc over this period.

6. Fast-track Asia

Fast-track Asia is characterised by economies that are growing extremely rapidly as they adopt Western technology and practices and innovate new ones, 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 7.8% that year) and since then has grown very strongly, ending 2016 up an estimated 10.1%. This proved a tough comparison for 2017, when adspend grew by 6.8%, but we expect growth to rise to an average of 7.4% a year to 2020. This is less rapid than the growth in Eastern Europe and Central Asia, but Fast-track Asia is ten times larger, so contributes a lot more to global adspend growth.

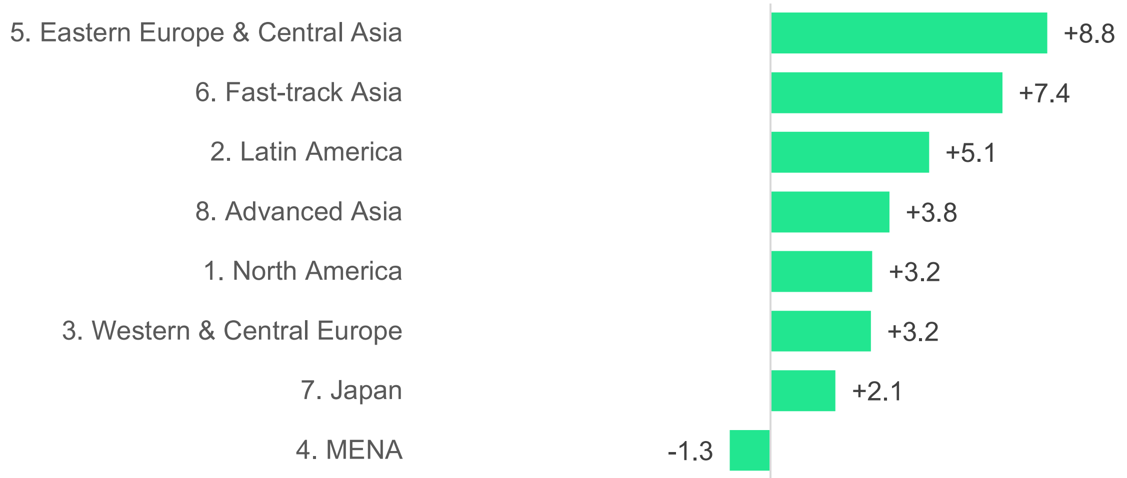
7. Japan

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 average adspend growth of 2.1% a year between 2017 and 2020, slightly behind the average annual growth rate of 2.4% between 2012 and 2017.

8. 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. Adspend grew here at 5.3% in 2015, the best performance since 2011, but has slipped back to an estimated 1.8% this year. We expect this to be the trough, and forecast 3.8% average annual growth to 2020, ahead of the 3.1% average growth rate since 2012.

Average annual growth in adspend by regional bloc 2017-2020 (%)



Source: Zenith

Of the various blocs, MENA is the clear underperformer, while the clear outperformers are Fast-track Asia and Eastern Europe & Central Asia. The other blocs range gradually from growing slowly (Japan) to solidly (Latin America).

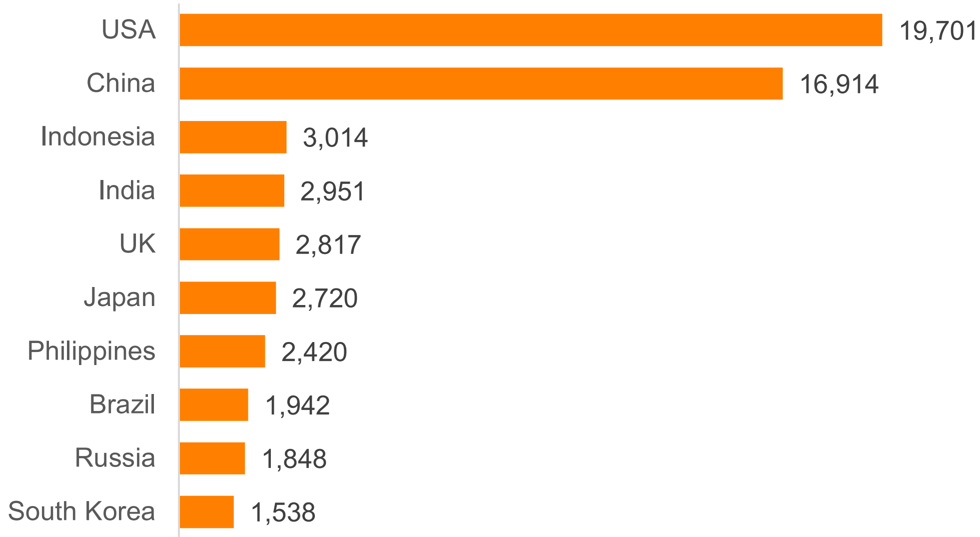
Forecast by leading advertising markets

The US will be the leading contributor of new ad dollars to the global market over the next three years, making up in scale what it lacks in speed. China will come second, combining large scale and rapid growth (though its growth is slowing as its scale increases).

Between 2017 and 2020 we forecast global advertising expenditure to increase by US$77 billion in total. The US will contribute 26% of this extra ad expenditure and China will contribute 22%, followed by Indonesia, India, the UK and Japan, which will contribute 4% each.

Seven of the ten largest contributors will be Rising Markets* (China, Indonesia, India, Philippines, Brazil, Russia and South Korea), and between them they will contribute 40% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 57% of additional ad expenditure between 2017 and 2020, and to increase their share of the global market from 37% to 39%.

Top ten contributors to adspend growth 2017-2020 (US$m)



Source: Zenith

The world’s top ten advertising markets by size will remain fairly stable between 2017 and 2020, with Australia overtaking France to take eighth place, and Indonesia replacing Canada in tenth.

Top ten ad markets
US$m, current prices. Currency conversion at 2016 average rates.

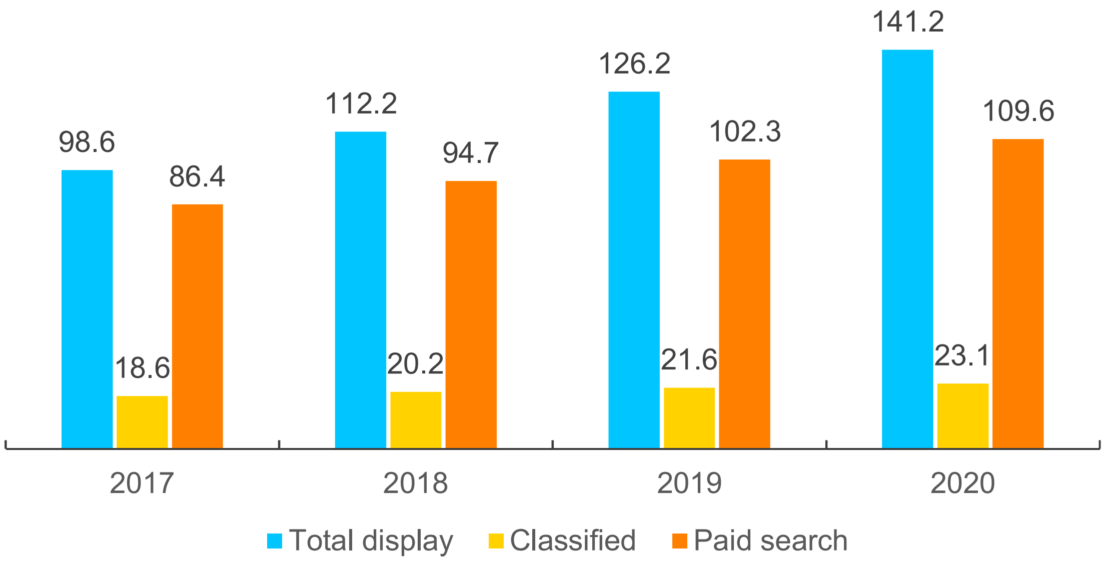
Country	*Adspend 2017*	*Country*	*Adspend 2020*
1. USA	197,474	1. USA	217,175
2. China	80,440	2. China	97,355
3. Japan	42,972	3. Japan	45,691
4. UK	24,442	4. UK	27,259
5. Germany	22,077	5. Germany	23,498
6. Brazil	13,243	6. Brazil	15,185
7. South Korea	11,812	7. South Korea	13,351
8. France	11,669	8. Australia	12,909
9. Australia	11,646	9. France	12,648
10. Canada	9,653	10. Indonesia	11,776

Source: Zenith

Global advertising expenditure by medium

In 2017 internet advertising overtook advertising on traditional television to become the world’s biggest advertising medium, accounting for 37.6% of total ad expenditure. As internet advertising matures, its growth is slowing down, but it remains the fastest growing medium by some distance. We estimate that internet adspend grew 14% year on year in 2017, and we forecast an average growth rate of 10% a year between 2017 and 2020. By 2020 we expect internet advertising to account for 44.6% of global adspend.

Internet adspend by type 2017-2020 (US$ billion)



Source: Zenith

Display is the fastest-growing internet sub-category, with 13% annual growth forecast to 2020. Here we include traditional display (such as banners), online video and social media. All three types of display have benefited from the transition to programmatic buying, which allows agencies to target audiences more efficiently and more effectively, with personalised creative. Online video and social media are currently the driving forces of internet adspend growth: we forecast both to grow by 17% a year on average between 2017 and 2020. Online video is benefiting from the increasing availability of high-quality content, and improvements to the mobile viewing experience, such as better displays and faster connections. And for many consumers, checking their mobile devices for social media has become a regular, ingrained habit, while social media ads blend seamlessly into their mobile app newsfeeds. Note that these are not mutually exclusive categories: online video ads are now an important component of social media platforms' revenues.

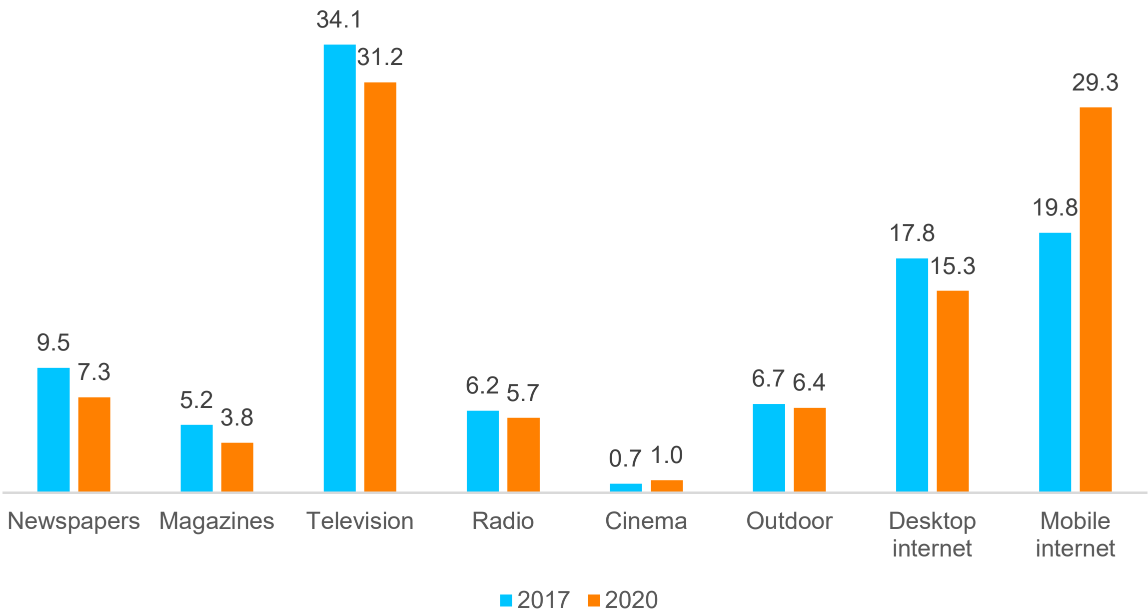
Paid search and classified are now both lagging substantially behind display. Search is growing at 8% a year, and classified at 7%.

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). We estimate that mobile advertising grew

38% in 2017, after 47% growth in 2016, and we forecast an average annual growth rate of 19% a year between 2017 and 2020, driven by the rapid spread of devices and improvements in user experiences. By contrast we forecast desktop internet advertising to shrink at an average rate of 1% a year as advertisers follow consumers to mobile.

We estimate global expenditure on mobile advertising at US$107 billion in 2017, representing 52.6% of internet expenditure and 19.8% of total advertising expenditure (this total excludes a few markets where we don't have a breakdown by medium). By 2020 we forecast mobile advertising to have grown to US$180 billion, nearly double desktop's US$94 billion total, having overtaken desktop in 2017. Mobile will account for 65.6% of internet expenditure and 29.3% of all expenditure in 2020 – more than all the traditional media except television put together.

Share of global adspend by medium (%)



Source: Zenith

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 9% of total global spend (in 2007) to 38% (in 2017). Meanwhile newspapers' share of global spend has fallen from 27% to 10%, while magazines' has fallen from 12% to 5%. Print titles will continue to lose market share as their readers continue to move to online versions of the print brands or other forms of information and entertainment entirely. We predict newspapers and magazines will shrink at average rates of 5% and 6% a year respectively, ending with respective 7% and 4% market shares in 2020.

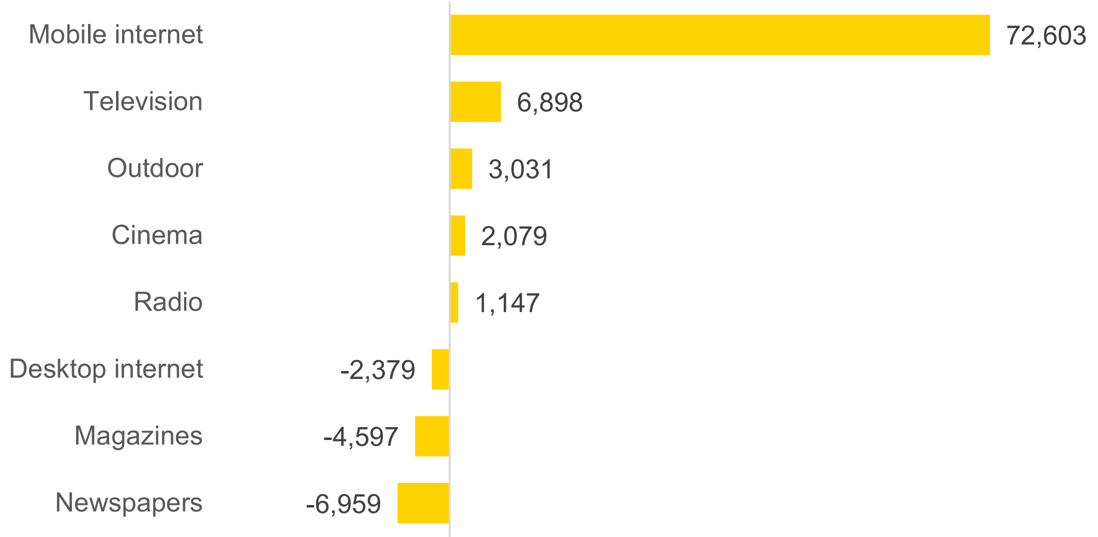
Note that our figures for newspapers and magazines include only advertising in printed editions of these publications, not on their websites, or in tablet editions or mobile apps, all of which are picked up in our internet category. The performance of print editions does not describe the overall performance of newspaper and magazine publishers.

Television was the dominant advertising medium between 1996 (when it overtook newspapers with a 37% market share) and 2016 (when it attracted 35% of total advertising expenditure). This year, however, the internet overtook television to become the largest advertising medium. Looking at the ad market as a whole, including search and classified, we think television’s share peaked at 39.1% in 2012, fell to 34.1% in 2017, and will be 31.2% in 2020, its lowest share since 1981.

However, one of the reasons for television’s loss of share is the rapid growth of paid search, which is essentially a direct response channel (together with classified), while television is the pre-eminent brand awareness channel. Television does not compete directly against search, and indeed the two can complement each other, for example by running paid search activity to take advantage of the increase in searches driven by a television campaign. Taking internet classified and search out of the picture, television will remain the principal display medium for many years to come. We estimate television accounted for 42.3% of display expenditure in 2017, and will attract 39.8% in 2020.

If we consider audiovisual advertising as a whole – television plus online video – we see that it is in fact consolidating its dominant share of display advertising. Television offers unparalleled capacity to build reach, while online video offers pinpoint targeting and the potential for personalisation of marketing messages. Both are powerful tools for establishing brand awareness and associations. We estimate that audiovisual advertising accounted for 48.4% of display advertising in 2017, up from 43.6% in 2010, and expect its share to rise to 48.8% in 2020.

Contribution to global growth in adspend by medium 2017-2020 (US$ million)



Source: Zenith

Mobile is by some distance the main driver of global adspend growth. We forecast mobile to contribute US$73 billion in extra adspend between 2017 and 2020 (again excluding markets where we don't have a breakdown by medium). Mobile advertising's growth will be counterbalanced by a US$2 billion decline in desktop advertising, as advertisers switch budgets to mobile, combined with a US$12 billion decline from print. Television and outdoor advertising will be the second and third-largest contributors, growing respectively by US$7 billion and US$3 billion, while cinema and radio grow by about US$2 billion and US$1 billion respectively.

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

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