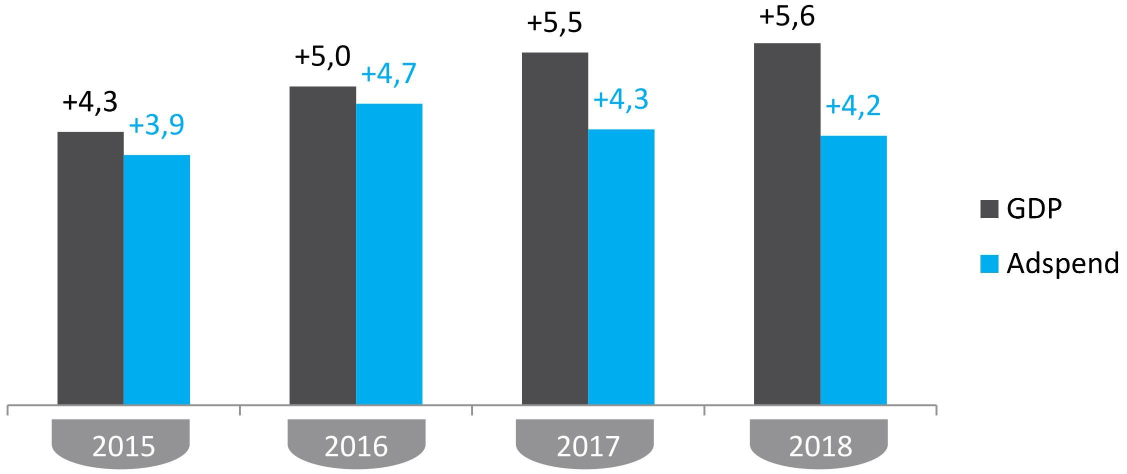
Executive summary: Advertising Expenditure Forecasts December 2015

ZenithOptimedia predicts global ad expenditure will grow 4.7% in 2016, reaching US$579 billion by the end of the year. This will be a 0.8 percentage point improvement on 2015: 2016 is a 'quadrennial' year, when ad expenditure is boosted by the Summer Olympics, the US presidential election and the UEFA football championship in Europe. The global ad market has enjoyed stable growth since 2011, with growth rates ranging between 4% and 5% a year, and we expect it to maintain this pace for the rest of the forecast period.

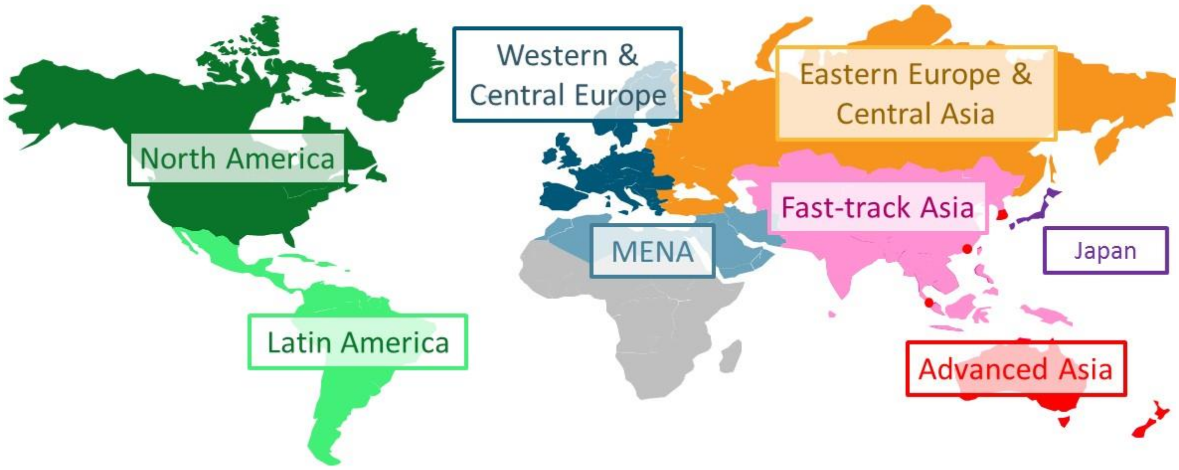
Growth of advertising expenditure and GDP 2014-2017 (%)



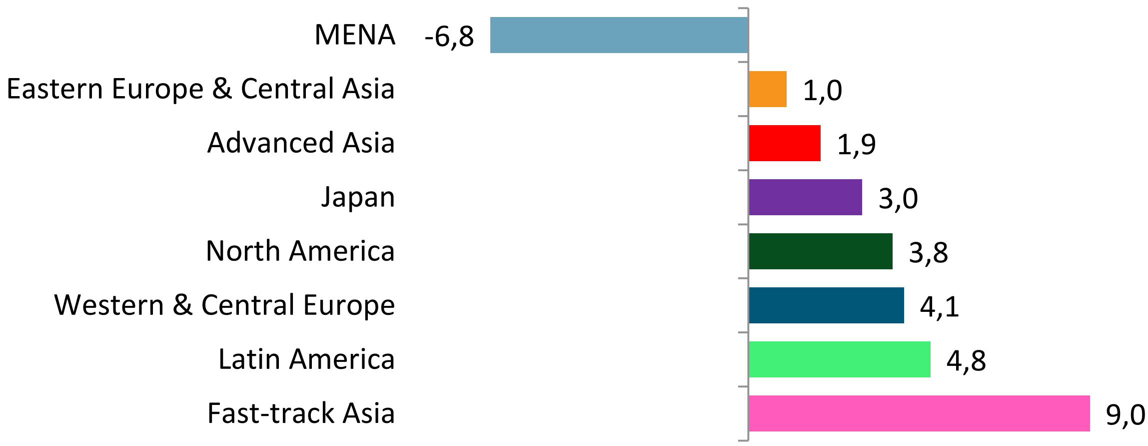
Source: ZenithOptimedia/IMF

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.



Growth in adspend by regional bloc 2015-2016 (%)



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. However, the last four began to make strong recoveries in 2014. 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 Ireland, Portugal and Spain to outperform the average rate for Western & Central Europe, admittedly from their much-reduced base levels. We forecast Ireland to grow at an average 7.6% a year between 2015 and 2018, while Portugal grows by 4.8% a year and Spain by 6.6% a year.

Meanwhile, France is lagging behind with weak business confidence and household consumption. We forecast French adspend to grow only 0.5% a year on average between 2015 and 2018. This will be the slowest growth rate in the region, with the exception of Slovenia, where increased competition among television broadcasters is pushing down prices, and we expect no growth at all over the three year period. Other slow growth markets include Finland (0.9% growth a year to 2018), Norway (1.3%), Switzerland (1.3%), Austria (1.7%) Germany (1.8%), Italy (1.9%) and Greece (1.9%).

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. We predict UK adspend will grow 7.0% in 2015, and at an average of 6.3% a year to 2018.

We expect growth in the UK and the peripheral eurozone markets to counterbalance the weaker markets, allowing Western & Central Europe to grow at an average of 3.3% a year between 2015 and 2018.

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. We also forecast a 17.2% decline in adspend in Belarus this year, following 7.6% growth 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 10.6% this year. This is an improvement on the 14.1% decline we forecast in September; Russia's ad market has been more resilient than we feared, with a slowdown in decline in the second half of the year and recovery in prospect for 2016.

Overall we expect adspend in Eastern Europe & Central Asia to shrink by 7.5% in 2015. In the past adspend in this region has been volatile, with large declines swiftly followed by rapid gains. In this case, we think the region will be slower to recover, and we forecast just 1.0% growth in 2016, followed by 6.8% in 2017 and 7.4% in 2018.

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 2.7% a year between 2015 and 2018.

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

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 2.7% in 2015, as Singapore has continued to suffer from a weak property market, and slowdown in China and other emerging markets has hit exports from all markets. We expect growth in Advanced Asia to average 2.2% a year through to 2018.

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 8.9% in 2015, and at an average rate of 8.4% a year between 2015 and 2018, down from 14.7% a year between 2009 and 2014.

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. Adspend growth was boosted to 4.7% in 2014 by the Winter Olympics and mid-term elections in the US; in their absence we expect growth to subside to 3.5% in 2015. In 2016 the market will benefit from the 2016 Summer Olympics and the US Presidential elections, but growth will be constrained by ongoing decline in network television adspend as ratings continue to slide. We forecast 3.8% growth in 2016, and an average of 3.4% a year to 2018.

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 recession in Brazil. We estimate that Latin American adspend will be up 6.0% in 2015, and will grow just 4.8% a year in 2016 despite the presence of the 2016 Summer Olympics, hosted by Brazil. Growth should average 4.0% a year to 2018.

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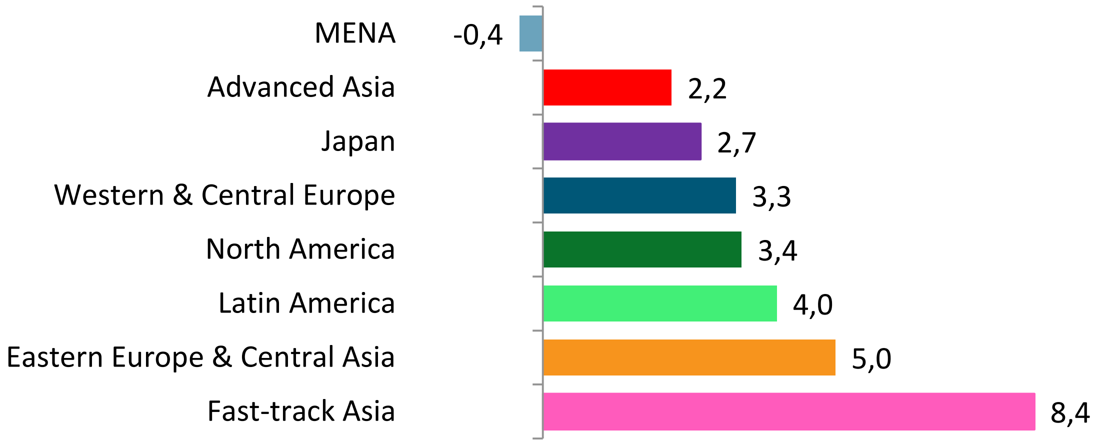
MENA
For this edition we have thoroughly overhauled our historic advertising expenditure figures in MENA, based on new information on actual spending levels in comparison to monitored spending measured at ratecard. Our new forecasts are all based on these revised historic figures.

The drop in oil prices in 2014 has had a 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 an 11.1% drop in adspend in MENA this year, followed by a further decline of 6.8% in 2016. We then predict a slow recovery with 1.5% growth in 2017 and 4.3% in 2018, averaging a 0.4% decline a year from 2015 to 2018.

Average annual growth in adspend by regional bloc 2015-2018 (%)



Source: ZenithOptimedia

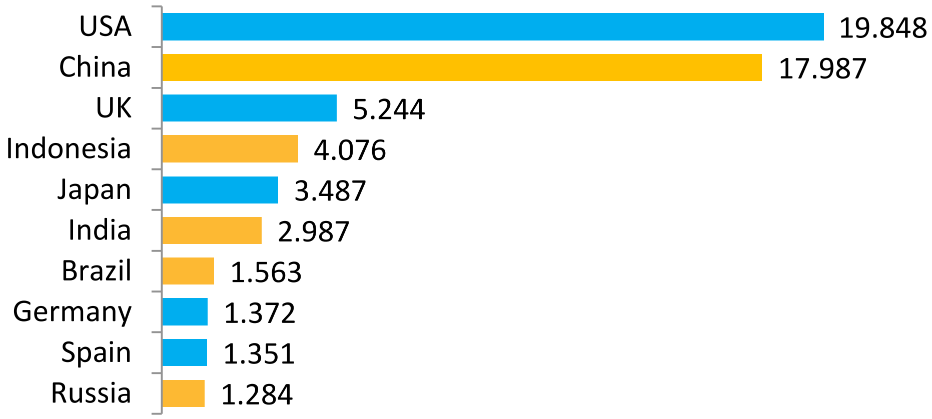
It is not as easy as usual to divide the different blocs into groups with distinct growth rates. There are two stand out blocs: MENA at the bottom, with no growth between 2015 and 2018; and Fast-track Asia, with 8.4% annual growth. The other six vary fairly evenly from 2.2% annual growth to 5.0%.

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 2015 and 2018 we expect the global ad market to grow by US$77 billion. The US will contribute 26% of this extra ad expenditure, closely followed by China, which will contribute 24%. The UK comes third, contributing 7%, and Indonesia fourth, contributing 5%.

Five of the ten largest contributors will be Rising Markets, and between them they will contribute 36% of new adspend over the next three years. Overall, we forecast Rising Markets to contribute 54% of additional ad expenditure between 2015 and 2018, and to increase their share of the global market from 37% to 39%.

Top ten contributors to adspend growth 2015-2018 (US$m)



Source: ZenithOptimedia

The ranking of the world's largest ad markets is currently very stable. The only change we expect between 2015 and 2018 is for Indonesia to displace Canada as the tenth-largest ad market.

Top ten ad markets

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

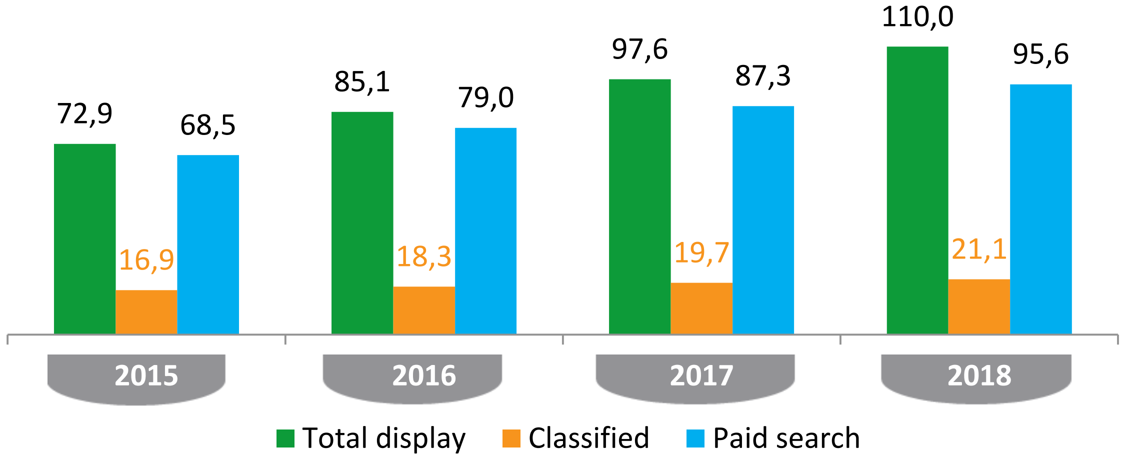
2015		Adspend	2018		Adspend
1	USA	182,615	1	USA	202,462
2	China	74,308	2	China	92,295
3	Japan	42,285	3	Japan	45,771
4	UK	26,025	4	UK	31,270
5	Germany	25,194	5	Germany	26,566
6	Brazil	14,406	6	Brazil	15,969
7	France	13,123	7	France	13,338
8	South Korea	12,208	8	South Korea	13,038
9	Australia	11,855	9	Australia	12,737
10	Canada	10,172	10	Indonesia	10,992

Source: ZenithOptimedia

Global advertising expenditure by medium

The internet is still the fastest growing medium by some distance. We forecast internet adspend will have grown 18% year on year by the end of 2015, and we forecast an average of 13% annual growth between 2015 and 2018. We estimate that the internet advertising will account for 29.0% of global ad expenditure across 2015, up from 25.5% in 2014. By 2018 we expect internet advertising to attract 36.6% of all global advertising, overtaking television for the first time to become the world's largest advertising medium.

Internet adspend by type 2015-2018 (US$ billion)



Source: ZenithOptimedia

Display is the fastest-growing internet sub-category, with 15% annual growth forecast to 2018. 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. For traditional display this transition is slowing down, at least in the biggest markets, and we forecast average annual growth of 7% a year between 2015 and 2018. Online video and social media continue to grow much faster – we forecast annual growth of 20% and 22% respectively over the same period. The amount of time consumers spend watching online video is growing by 17% a year, and content producers are working hard to address the scarcity of premium content. Meanwhile social media is benefiting from its rapid transition to mobile and the introduction of new, engaging ad formats, such as Facebook's full-screen Canvas ads.

We expect paid search to grow at an average rate of 12% a year to 2018, driven by continued innovation from the search engines, such as personalising search results, automatically matching search terms to content available on advertiser websites, and enhancing local and real-time search. The latter including integrating advertiser data into search results to improve the

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

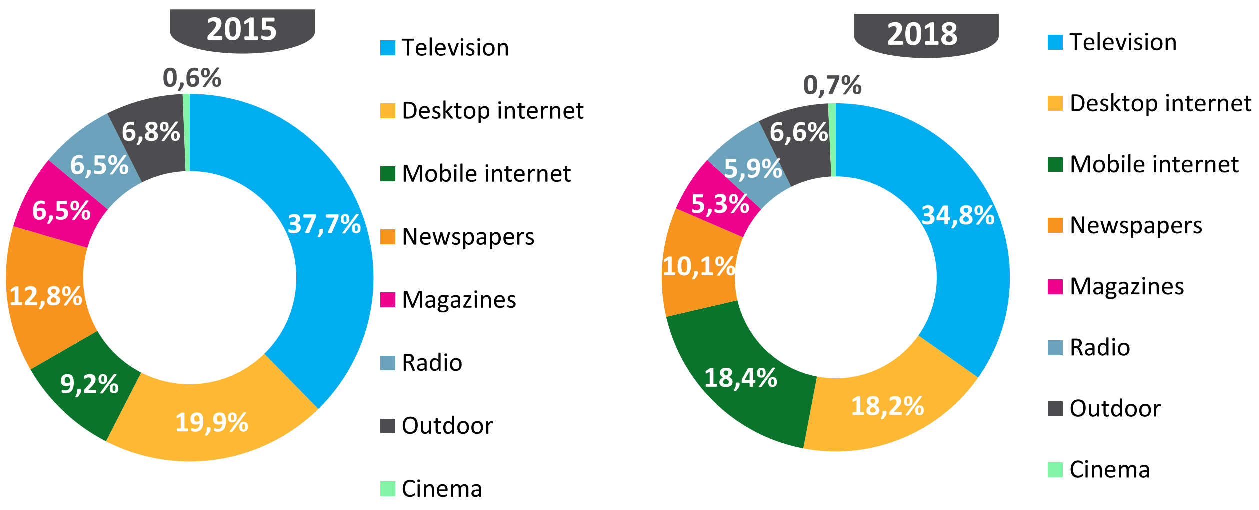
customer experience – telling consumers how long it will take to walk to the advertiser's stores, for example, and how long they can expect to wait to be served.

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 8% for the rest of our forecast period.

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 mobile advertising will end 2015 up 71% year on year, and we forecast an average annual growth rate of 32% a year between 2015 and 2018, 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 1% a year.

We estimate global expenditure on mobile advertising at US$50 billion in 2015, representing 31.5% of internet expenditure and 9.2% of total advertising expenditure (this total excludes a few markets where we don't have a breakdown by medium). By 2018 we forecast mobile advertising to grow to US$114 billion, for the first time overtaking desktop, which will total US$113 billion. Mobile will account for 50.2% of internet expenditure and 18.4% of all expenditure.

Share of global adspend by medium (%)



Source: ZenithOptimedia

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 6% of total global spend in 2005 to 29% in 2015. Meanwhile newspapers' share of global spend has fallen from 29% to 13%, while magazines' has fallen from 13% to 7%. Print titles will continue to

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lose market share as their readership continues to decline, either move to online versions of print brands or other forms of information and entertainment entirely. We predict newspapers and magazines will continue to shrink, at average rates of 4% and 3% a year respectively, between 2015 and 2018, ending with respective 10% and 5% market shares.

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 wholly describe the overall performance of newspaper and magazine publishers.

Television is currently the dominant advertising medium, expected to attract 38% of total spend in 2015. As mentioned earlier, however, we now expect the internet to overtake television to become the largest medium in 2018. Looking at the ad market as a whole, including search and classified, we think television's share peaked at 39.7% in 2012, estimate it at 37.7% in 2015, and expect it to fall back to 34.8% by 2018.

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 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 will account for 44.7% of display expenditure in 2015, and 42.9% in 2018.

If we consider audiovisual advertising as a whole – television plus online video – we see that it is in fact gaining 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 will account for a record 48.4% of display advertising in 2015, up from 44.1% in 2010, and expect its share to reach 48.9% in 2018.

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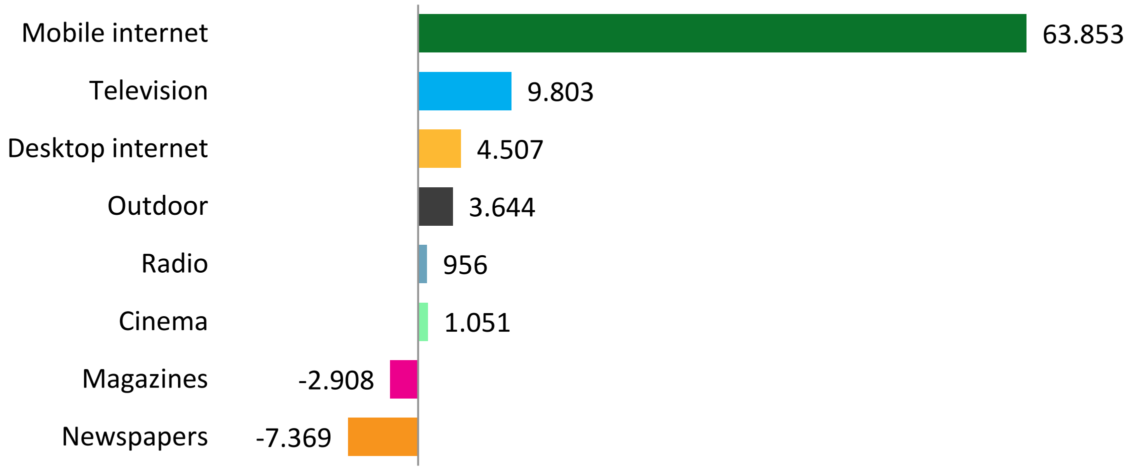
Contribution to global growth in adspend by medium 2015-2018 (US$ million)



Source: ZenithOptimedia

Mobile is now the main driver of global adspend growth. We forecast mobile to contribute a full 87% of all the extra adspend between 2015 and 2018 (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 13% and 6% 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$10 billion over the forecast period.

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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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