

This Year Next Year

U.S. MEDIA FORECASTS



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Extreme variation in advertising growth in the United States is driven by political advertising.

Extreme variation in growth rates has become the norm in the US advertising industry, as political advertising itself is causing mid-single-digit swings of growth and decline from year to year. Defining advertising here as including core TV, radio, digital, newspapers, magazines and out-of-home (but excluding directories and direct mail, which are sometimes included in totals for the US and which in the present era would reduce headline growth rates if they were included), the industry grew by +9.5% in 2018. Almost four percentage points were due to political advertising, which probably accounted for \$9bn in spending last year (undoubtedly a record), with another half-percentage point of activity due to incremental spending on the Olympics. With such a difficult comparable, we forecast only +2.6% growth in 2019. However, that figure belies that underlying growth is likely to be up by a solid +5.8%, excluding directories and direct mail. Such growth would be only slightly slower than 2018 levels, aided by a still-strong economy and some underlying inflation. Consensus estimates from economists surveyed by the Philadelphia Federal Reserve in its most recent publication indicate that nominal GDP is forecast to be up by +4.4% in 2019 and +4.0% in 2020, both slower than 2018's +5.2% level. Consequently, for our 2020 advertising forecasts, we anticipate further deceleration, meaning underlying growth in advertising of +4.0% for 2020, or +4.8%, excluding directories and direct mail. It seems unlikely that political advertising won't be bigger in 2020 vs. 2018, and so with an estimate of \$10bn in our model for the present time, we forecast +8.2% headline growth for 2020.

Total Headline Advertising Growth



Underlying (Ex-Political) Advertising Growth



Traditional advertisers are not likely growing as fast as the industry average. All this growth is occurring as many of the world's advertisers who were historically among the largest appear to be struggling, especially in fast-moving consumer goods sectors where low-single-digit (or less) growth has been an industry norm in recent years. Their struggles have occurred for many reasons, but an inescapable observation is that relatively new companies and related products have to some degree displaced what came before them.

Some digital endemic companies are becoming massive marketers themselves. With this trend and because of the differing business goals and marketing tactics these newer companies typically use, spending on specific media has evolved, too. Consider that Google, Facebook, Netflix, Amazon, Expedia, Uber, IAC and Booking each spent \$1bn or more on advertising during 2018, for a combined total of \$28bn last year, and presumably more like \$33bn this year. If only half of this spending were in the United States, these eight companies alone would be responsible for 8% of the industry's total spending and around two percentage points of growth. Another more fragmented group of still-large app-centric companies have also become large advertisers in recent years, with Spotify, Square and Lyft among those marketers who spend more than \$100mm annually on advertising. While most of these marketers are buyers of traditional media, digital advertising remains core to what most of them do. As a result, it is unsurprising that digital advertising continues to grow at a robust pace, if one that will slow over time.

Digital advertising should decelerate. If we look at digital advertising directed to pure-play digital media owners on mobile or desktop computers, it grew around +23% in 2018. As with other media, political advertising has become increasingly important to digital, probably amounting to \$2bn in 2018, or around 2% of the medium's total. From the normalized ex-political +21% growth rate, growth should decelerate if only because of the "law of large numbers": we forecast normalized +17% growth in 2019 and +15% in 2020. Adding back expectations for political advertising reverses this trend and produces +15% growth in 2019 and +16% in 2020.

Total Digital



Underlying (ex-Political) Digital



Television evolves, underlying spending declines slightly. Meanwhile, television and its evolving form retain its primary role for most large brand owners, given its unique capacity to support and build upon their awareness-of-brand-attribute-centered goals. It is benefiting from the emergence of new advertisers, certainly, (including the app-developing technology companies), but it is hampered by the relative weakness of the medium's traditional sponsors. On a normalized (excluding political advertising) basis, the medium was up slightly (+0.7%) in 2018 after falling -2.4% in 2017. The trend probably doesn't improve much any time soon; we expect a -0.2% decline in 2019 and a -2.3% decline in 2020.

Political advertising skews television growth rates in extreme ways. However, political advertising has a meaningful impact, especially at the local level of television, and allowed the entire medium to grow by +6.0% in 2018. The difficult comparable leads to expectations for an as-reported -5.4% decline in 2019 followed by a +3.6% gain in 2020. If we exclude political advertising and what it means for local TV, national TV generally will hold up better than local TV and should outperform, as should the digital inventory these media owners offer. The rapid growth of Hulu and Roku — primarily through revenues that would have otherwise gone to traditional national networks — and connected TV are more generally illustrative of the ways in which new players can capture shares of spending on what remains a highly durable medium.

Print will continue to decline, but digital helps to limit the trend. Print is expected to continue to decline at elevated levels despite the inclusion of digital advertising in these figures: scaled alternatives that are "digitally native" are typically more compelling for many advertisers focused on performance-based goals, and others who have large enough budgets and still want to focus on brand building can continue to rely on television despite the challenges that medium presents. Consequently, decline is likely for both newspapers and magazines at approaching or exceeding double-digit declines in both 2019 and 2020.

Out-of-home media should prove to be relatively durable. Media which is primarily consumed out-of-home media should hold up relatively well in comparison to most other traditional types, at least better than print if worse than TV. Both outdoor and radio retain unique characteristics for reaching audiences and don't face direct alternatives in the ways that TV and print do. On the contrary, outdoor and radio have been able to expand what they represent to advertisers, as screens become increasingly ubiquitous and as digital-centric companies such as Spotify make the medium we have known as "radio" increasingly modern. Still, both mediums are hampered by shifts in the broader economy, including the transition from large brands to those that are web endemic, but also including the shift from the economy's local orientation toward its national one, as both radio and outdoor are primarily organized and traded along local lines. In 2019, we forecast radio will decline on an underlying basis by -2.3% (falling -4.8% including political advertising) and outdoor advertising will be fare better, growing +2.5% (or falling -3.2%, including political advertising). In 2020, we forecast radio will fall by -3.4% (or -0.1%, including political advertising) while outdoor should grow by +1.3% (or +8.1%, including political advertising).