

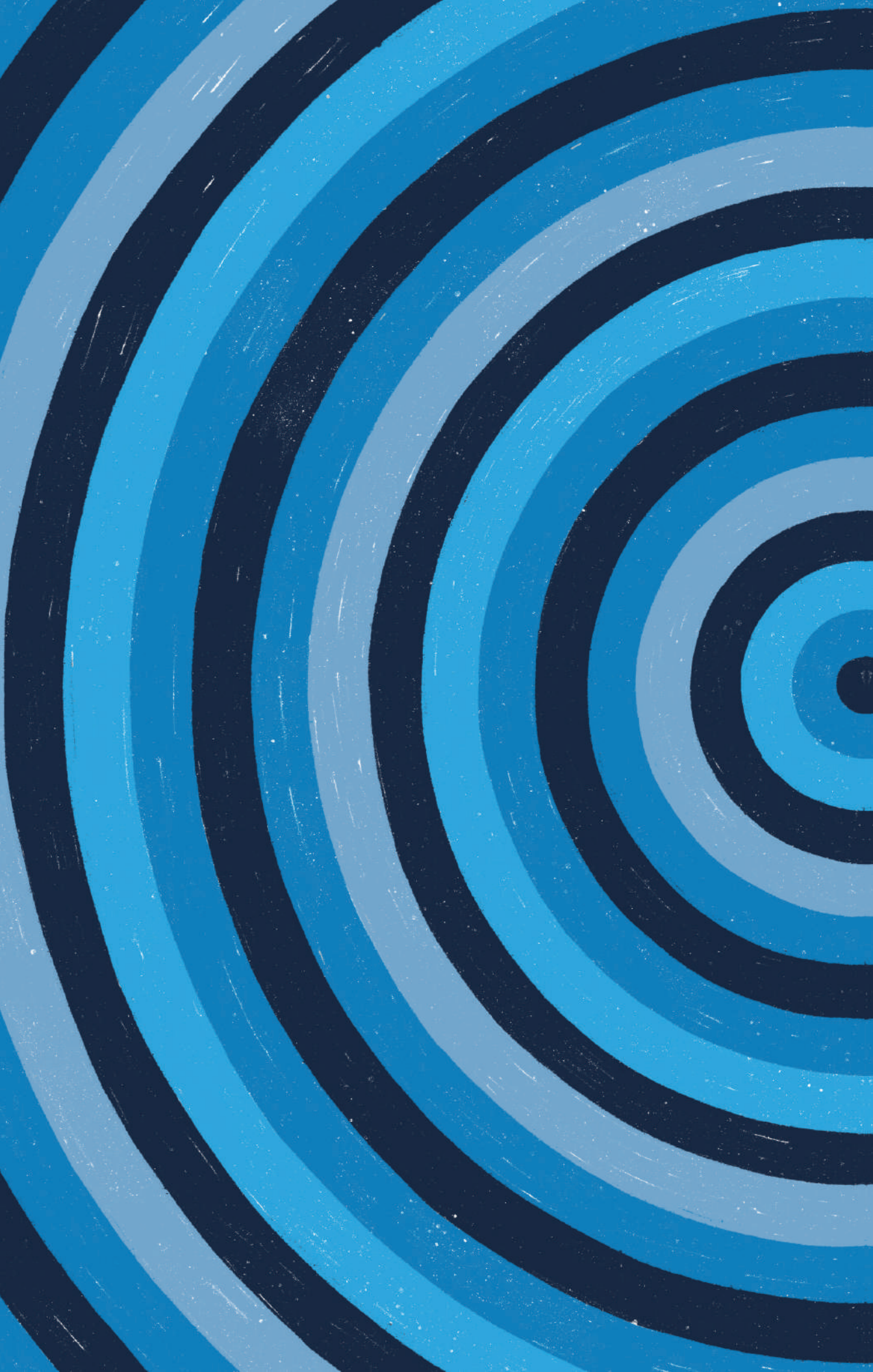
This Year Next Year

WORLDWIDE MEDIA
FORECASTS



DEC 2018

group^m



This Year Next Year

WORLDWIDE MEDIA FORECASTS

DEC 2018

**FOR THE FULL 70-COUNTRY
FORECAST AND APPENDIX :**

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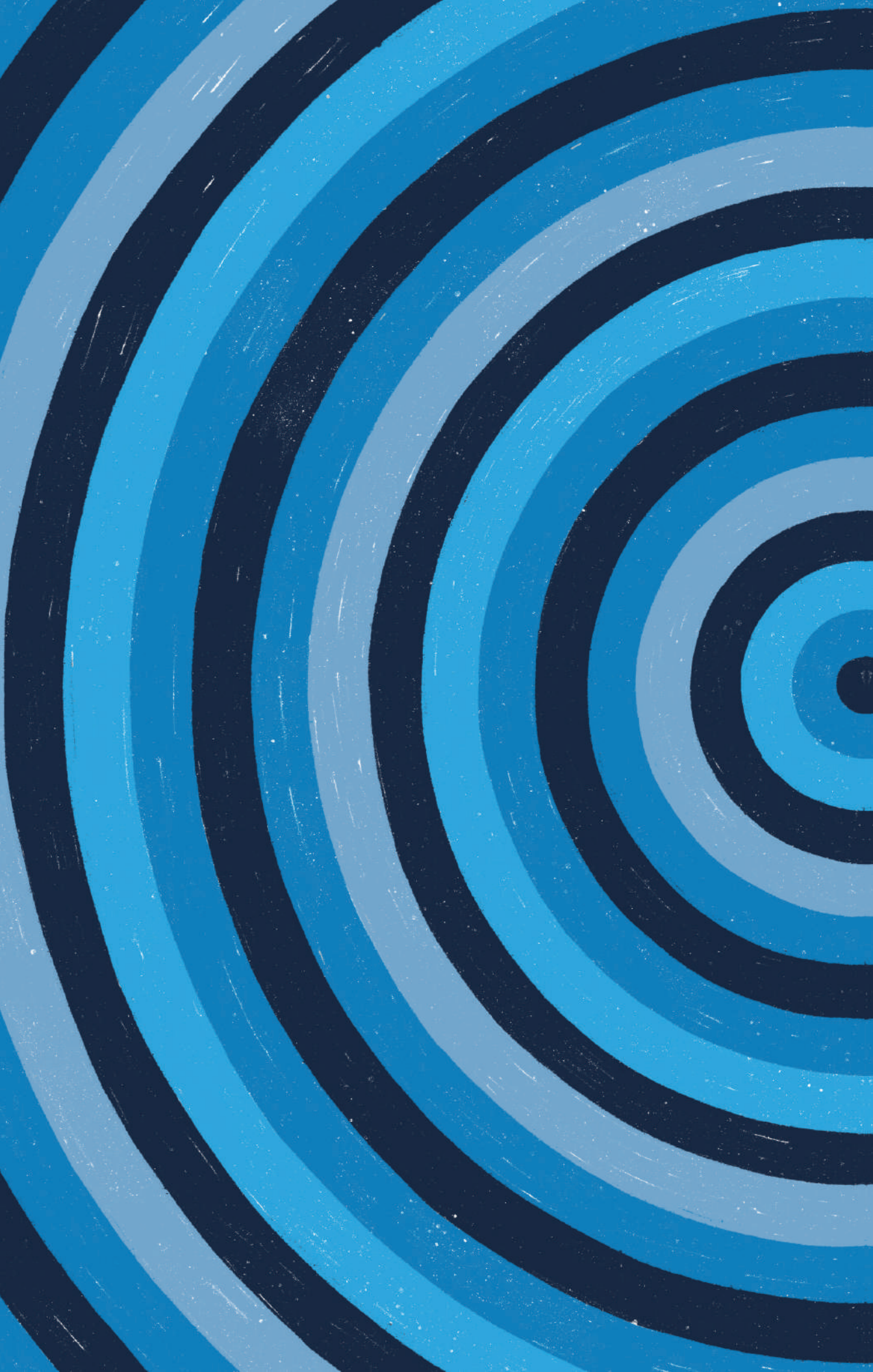
contact Brogan Laudat
(Brogan.Laudat@groupm.com)

GroupM

3 World Trade Center
175 Greenwich Street
New York, NY 10007
USA

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Introduction

Our new forecast for 2018 advertising investment growth is 4.3% and for 2019 3.6%, both small downgrades from our midyear predictions of 4.5% and 3.9%, respectively. This seems consistent with a macro outlook that remains firm, but fraying into 2019.

Commodities have been gaining since 2016, when good global demand has met limited capacity. HSBC calculates average prices rose 14% in 2017 and predicts they will rise 23% in 2018, then 6% in 2019. It believes USD 100 oil is a possibility, given the lack of slack.

The main macro questions are tighter money, China growth, pricey oil and trade wars. Globally, real interest rates are rising, led by the Fed, whether the rest of the world likes it or not. But we are not yet in domino/contagion territory. The prospect of real recession is presently quarantined to the “fragile five”: Argentina, South Africa, Brazil, Turkey and Venezuela.

On trade, export growth seems more liable to disappoint than at the time of our last forecast. Currency depreciation spurs exports if it advantages the exporter, but if all currencies fall in sync against the dollar, all boats are lowered, and we are reminded the USA remains the consumer of first and last resort. Oil’s rise this year will ripple inflation into 2019, but serious terms-of-trade damage is so far limited to the net oil importers nursing the most serious currency depreciation versus the dollar – which, fortunately for advertising, does not include India, the third-largest contributor to expected advertising growth in 2019.

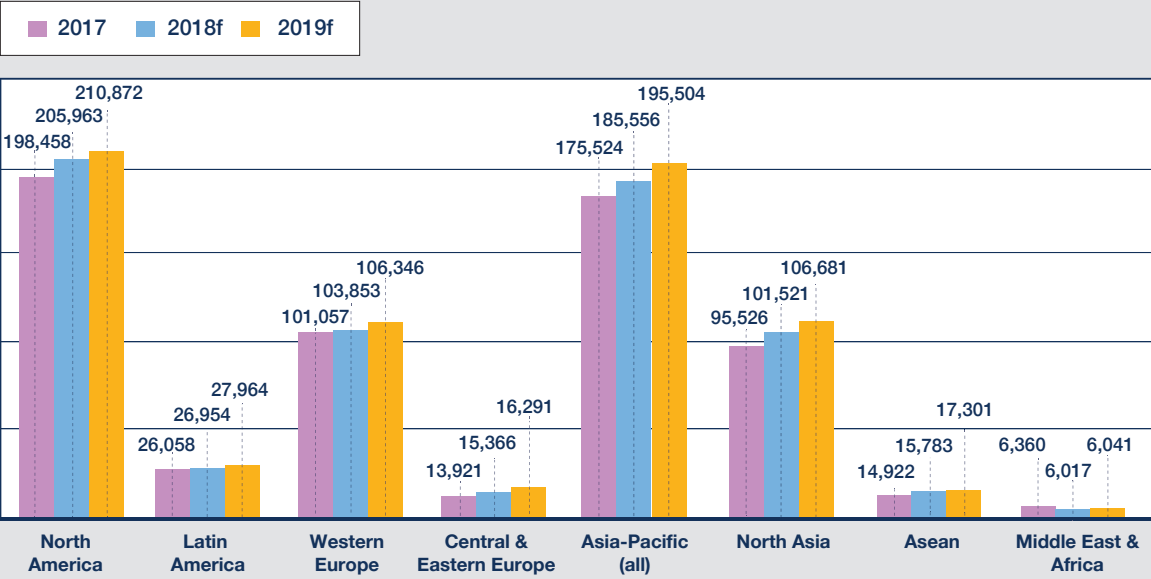
We show spend by category in 2017 in this edition. The difficulty of knowing who is spending what inside the walled gardens limits the usefulness of this exercise, but note the apparent stress on autos. Dieselgate and China demand already made this a category to watch for 2019 before the US Dept of Commerce inquiry, which will report its findings on the cars and parts trade no later than February 17, 2019, following which the executive has 90 days to decide on 25% tariffs. As for CPG, this present sweep of our correspondents in 60 countries yielded no news of resurgent investment into traditional media.

The developing world as we define it accounted for 60% of global economic growth in the decade to 2018. Worldwide growth is likely to be slower over the coming decade, but HSBC expects the developing world’s contribution to rise to 70%, reflecting catch-up potential, population (size and shape), human capital (education and health care), politics, openness and technology. Those with strong governance are more likely to see investment. The IMF’s shorter five-year horizon to 2023, which we use in our model, has the contribution at 64%. But there is little doubt where the next billion consumers will arise. By 2030, HSBC thinks China will be the world’s largest economy, and India the third.

In the decade 2009-2018e global ad investment rose \$168 billion. The developed world furnished \$76 billion of this, and the developing world the other \$92 billion, or 55%. In our modeled figures in the five years to 2023, the developing world supplies 51%. This looks low compared to HSBC’s 70% and the IMF’s 64%. The advertising-to-GDP ratio in the developing world is, however, much lower than in the developed world: currently 0.54% of GDP to 0.79%, and both rates are falling. However, it is possible that rising consumer expectations in the new world will raise ad ratios. China’s ad intensity appears to have peaked as long ago as 2006, when its investment-driven economy was a third the size. Today, China’s consumer demand growth is at last faster than growth in fixed investment.

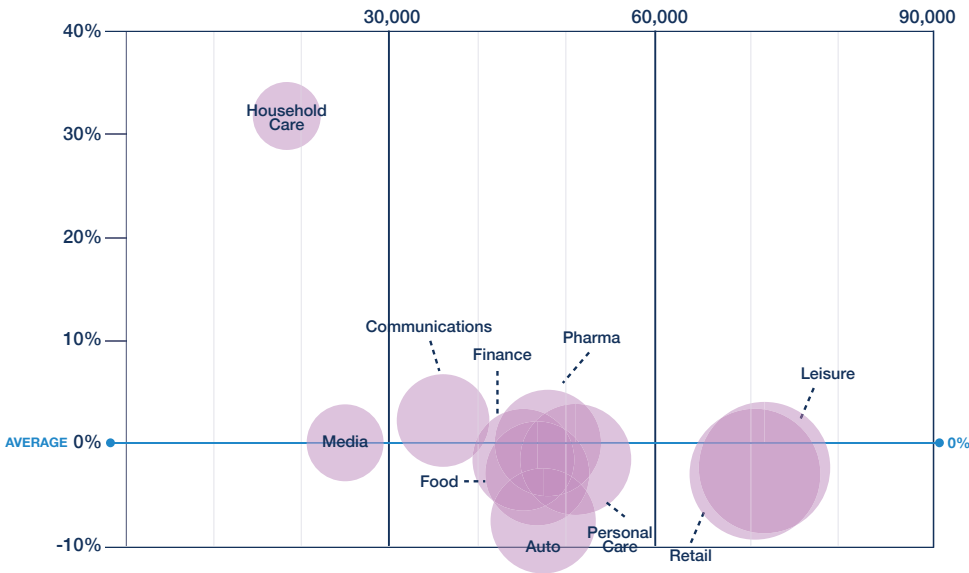
In this sweep, more countries than usual left their prior ad investment forecast unchanged. A few made downgrades to 2019 worth noting. Canada reduced two points, from seven to five, with TV and especially print having a harder time. Turkey moves from positive 9% to negative 3% as real GDP tracks toward near-zero growth in 2019. China drops from 6.6% to 5.5% because of the wider economy, OOH growth pausing after a good run, and the slow-mo slowdown in expected digital growth. The MENA region drops from positive 2.2% to negative 3.8% as regional economic growth is expected to halve in 2019. A rising oil price would help Saudi Arabia stimulate its slow-growing economy, but geopolitics makes investment and a reform program uncertain. Turmoil in Egypt has also impaired advertising.

Media summary



| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018f | 2019f |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| North America | 164,992 | 171,262 | 176,284 | 181,330 | 185,507 | 194,670 | 198,458 | 205,963 | 210,872 |
| YOY% | 3.2 | 3.8 | 2.9 | 2.9 | 2.3 | 4.9 | 1.9 | 3.8 | 2.4 |
| Latin America | 19,201 | 20,646 | 24,218 | 25,565 | 26,987 | 24,768 | 26,058 | 26,954 | 27,964 |
| YOY% | 10.9 | 7.5 | 17.3 | 5.6 | 5.6 | -8.2 | 5.2 | 3.4 | 3.7 |
| Western Europe | 93,104 | 90,218 | 89,036 | 91,493 | 94,325 | 97,503 | 101,057 | 103,853 | 106,346 |
| YOY% | 1.2 | -3.1 | -1.3 | 2.8 | 3.1 | 3.4 | 3.6 | 2.8 | 2.4 |
| Central & Eastern Europe | 10,364 | 10,894 | 11,249 | 11,526 | 11,553 | 12,585 | 13,921 | 15,366 | 16,291 |
| YOY% | 9.4 | 5.1 | 3.3 | 2.5 | 0.2 | 8.9 | 10.6 | 10.4 | 6.0 |
| Asia-Pacific (all) | 122,648 | 132,176 | 141,231 | 149,459 | 158,391 | 167,223 | 175,524 | 185,556 | 195,504 |
| YOY% | 8.2 | 7.8 | 6.9 | 5.8 | 6.0 | 5.6 | 5.0 | 5.7 | 5.4 |
| North Asia | 62,122 | 68,728 | 74,967 | 79,960 | 85,283 | 90,379 | 95,526 | 101,521 | 106,681 |
| YOY% | 15.6 | 10.6 | 9.1 | 6.7 | 6.7 | 6.0 | 5.7 | 6.3 | 5.1 |
| Asean | 9,140 | 10,110 | 11,154 | 11,834 | 13,125 | 14,020 | 14,922 | 15,783 | 17,301 |
| YOY% | 10.0 | 10.6 | 10.3 | 6.1 | 10.9 | 6.8 | 6.4 | 5.8 | 9.6 |
| Middle East & Africa | 7,966 | 8,846 | 9,121 | 8,207 | 8,405 | 6,921 | 6,360 | 6,017 | 6,041 |
| YOY% | 10.6 | 11.0 | 3.1 | -10.0 | 2.4 | -17.7 | -8.1 | -5.4 | 0.4 |
| World | 418,276 | 434,043 | 451,138 | 467,580 | 485,168 | 503,668 | 521,378 | 543,709 | 563,017 |
| YOY% | 4.8 | 3.8 | 3.9 | 3.6 | 3.8 | 3.8 | 3.5 | 4.3 | 3.6 |

2017 categories YOY% change and USDmm



These forecasts make no material change to shares by medium. Digital media investment will rise 12.6% in 2018 and 9.7% in 2019, much as before, with digital’s share of ad investment rising from 39% this year to 42% in 2019. The other big focus is, of course, traditional TV, where we expect minimal growth of 1.2% in 2018 (prior prediction 2.2%) and an almost-unchanged 1.1% for 2019. TV’s travails were a recurring theme among developed markets this time: growing shortages of younger viewers fueling cost-per-thousand inflation that some advertisers are starting to resist, combined with topline revenue stasis.

Among the smaller media, radio is slowly losing share of measured media investment, but measurement is not good at capturing ads in streams. Radio resilience comes from losing relatively less of its young audience, selling an ambiance rather than particular programs, being a passive medium, and being free to the listener. Sports popularity is under attack from festivals, gaming, social media and piracy. Radio suffers none of this. Criticism of radio in this sweep came from a few countries that felt it could be digitizing faster.

Out-of-home is similarly fighting to maintain share, which it has sustained at around 6% since the millennium. Digitization remains a strong structural driver in many countries, but China tells us higher prices are meeting resistance. The UK points out that progress in advanced OOH targeting is incremental because the medium

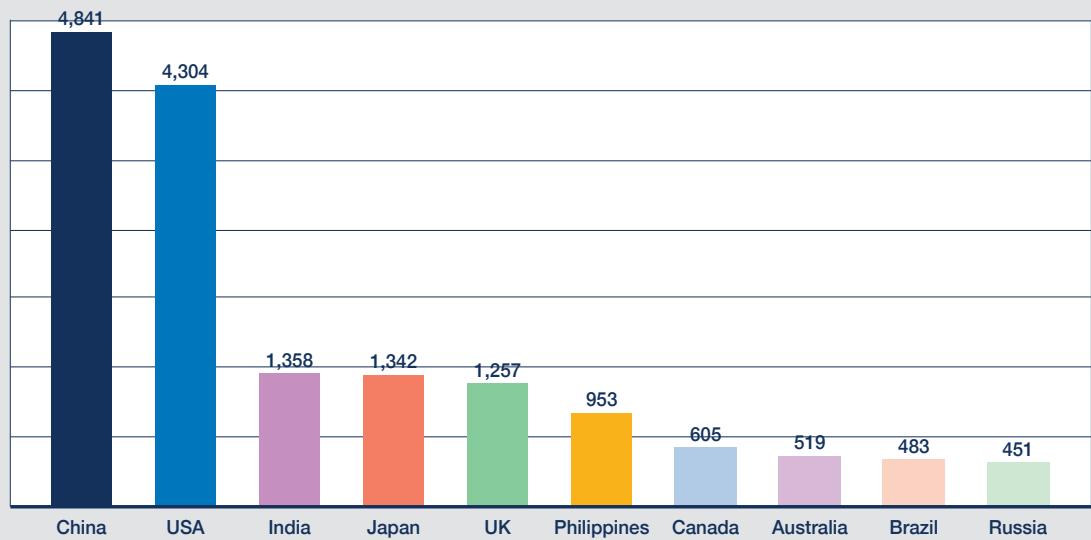
is too heterogenous for this to happen quickly. As we say in “State Of Video,” just because something is inevitable does not mean it will be quick. Like traditional TV, the traditional version of out-of-home has little difficulty attracting tech and millennial brands and the gamut of the gig economy and e-commerce.

Top contributors 2019

We predict 2019 will generate \$19 billion in net new advertising investment, a downgrade from the \$23 billion in our midyear forecast. US dollar appreciation between the two dates explains about half the difference. We think these ten countries will provide 83% of the expected growth. China remains the largest contributor, its 5.5% predicted growth in 2019 equivalent to \$4.8 billion. This would be China’s sixth successive year of single-digit ad growth, and the lowest rate of growth we have yet recorded. Despite its rapid consumerization, China’s advertising intensity peaked at 0.78% of GDP in 2006 and has trended sometimes fitfully down to a prospective 0.67% in 2019. This is in line with the world average, but is as ever well above the “emerging market” average, which we think will be 0.53% in 2019. In its September 2018 “The World in 2030,” HSBC predicts China will by then be the world’s largest economy (nominal GDP), and India the third largest.

India’s prospective 2019 growth this year is the same order as Australia, Russia and Brazil

Top contributors 2019 USDmm



combined, even though India’s ad economy is only a quarter of the others’ combined heft. Such is the arithmetic of 14% ad investment growth with its roots in 7% real growth in India consumer spending (after 9% in 2018).

Japan is a \$45 billion ad economy, third behind the USA and China, and still well ahead of the number-four UK at \$28 billion. Despite its demographics, advertising growth has on average tracked ahead of GDP in the post-Lehman cycle, with media spend per capita picking up sharply since 2016. The 2020 Olympics and a surge in biddable media are tailwinds; potential headwinds are October 2019’s consumption tax rise from 8% to 10%, and Japan’s belated confrontation of value, viewability and verification problems in the digital supply chain.

The UK remains in the table against expectations of Brexit calamity and consumer fatigue, propelled by colossal digitization that will now reach 61% of recorded ad investment in 2019 on our calculation, though we are seeing more year-on-year flat spots in the digital investment contours of larger advertisers. Another thing that keeps UK forecasts buoyant is its short-term flexibility: in an emergency, advertisers know they can turn the taps off quickly.

Consumption and investment

Worldwide investment spending grew a real 4.3% in 2017, revised down from 5%, as the famously synchronized global recovery did not

quite summon up the corporate spirit expected. Lower trade and perhaps higher oil appear to have robbed momentum, with the annual run rate currently struggling to stay above 4%. Even with tax breaks and strong GDP, US investment growth, excluding oil and gas, is running around 5% year-on-year, or about half the normal rate in recovery. The majority of US investment is also confined to a small number of companies in the tech and energy sectors. The Asia-Pacific average has slipped below 5% in 2018, where it is expected to remain in 2019, and Western Europe is similarly below 3%. Latin America’s fixed investment started shrinking in 2014, but stabilized in 2017 and is now recovering.

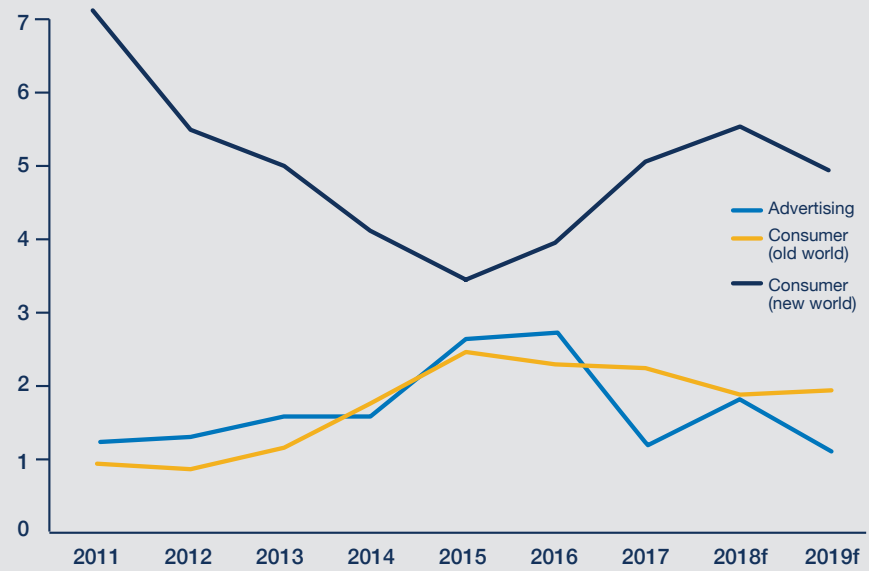
Real global wage growth was 4.4% in 2017, and is accelerating to 5% in 2018. We might now see a clear picture of how late-cycle this cycle is, as employment is a good lagging indicator. We might also soon see if overnight employers and merciless globalization have uninvented the wage-price spiral, as some economists think. China’s investment spending growth rate has slowed to that of the USA, but its consumers are sustaining an impressive 8.5% annual run rate – and India will probably beat that in 2018. Both will help support regional Asia economies, as could US demand diverted from China. Consumer spending is growing about 2% a year in real terms in the developed world, and around 5% in the developing world, for an average approaching 3%. That would be a respectable GDP growth path. It will not be the consumer that kills this recovery.

Long-term ad forecasts

| | 2019f | 2020f | 2021f | 2022f | 2023f |
|--|---------|---------|---------|---------|---------|
| North America | 210,872 | 218,785 | 226,708 | 234,383 | 242,230 |
| YOY% | 2.4 | 3.8 | 3.6 | 3.4 | 3.3 |
| Latin America | 27,964 | 29,801 | 31,886 | 34,060 | 36,352 |
| YOY% | 3.7 | 6.6 | 7.0 | 6.8 | 6.7 |
| Western Europe | 106,346 | 108,920 | 112,439 | 115,354 | 117,996 |
| YOY% | 2.4 | 2.4 | 3.2 | 2.6 | 2.3 |
| Central & Eastern Europe | 16,291 | 17,157 | 18,054 | 18,971 | 19,883 |
| YOY% | 6.0 | 5.3 | 5.2 | 5.1 | 4.8 |
| Asia-Pacific (all) | 195,504 | 206,848 | 218,102 | 228,850 | 239,229 |
| YOY% | 5.4 | 5.8 | 5.4 | 4.9 | 4.5 |
| North Asia | 106,681 | 113,923 | 120,266 | 126,137 | 131,624 |
| YOY% | 5.1 | 6.8 | 5.6 | 4.9 | 4.3 |
| Asean | 17,301 | 18,932 | 20,734 | 22,695 | 24,710 |
| YOY% | 9.6 | 9.4 | 9.5 | 9.5 | 8.9 |
| Middle East & Africa | 6,041 | 6,386 | 6,707 | 7,046 | 7,414 |
| YOY% | 0.4 | 5.7 | 5.0 | 5.1 | 5.2 |
| World | 563,017 | 587,896 | 613,896 | 638,664 | 663,105 |
| YOY% | 3.6 | 4.4 | 4.4 | 4.0 | 3.8 |
| <p>GroupM's long-term forecast model has one principal independent variable: the IMF's calculation of each country's share of global GDP at PPP.</p> <p>This is intended merely for scenario planning. GDP forecasts know nothing of structural changes in media advertising, so neither can this model.</p> | | | | | |

Consumer spending

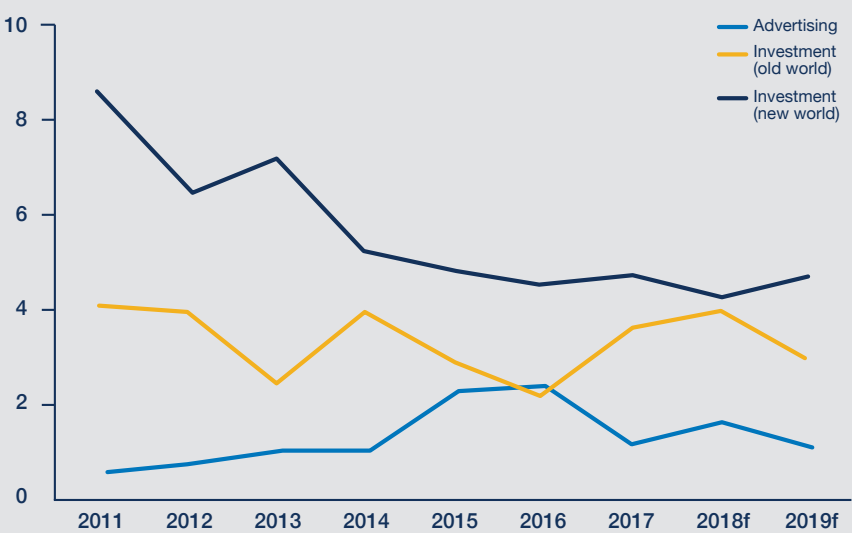
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Brazil

At the time of writing, Brazil's politics are destabilized by fiercely competed elections and the "Lava Jato" corruption inquiry investigating several politicians, including President Temer. The present elections are for president, state governors and congressmen and women, with the right wing taking an unprecedented lead, as well as new faces and parties, displacing old-school politicians. When we made these forecasts, we awaited the second round of the presidential election on October 28, when Haddad (left) or Bolsonaro (right) would be selected to take office in January 2019.

The economy is characterized by low growth, high deficit, controlled inflation and a high unemployment rate of 12.1% or 12.7 million (IBGE). The IMF currently predicts nominal GDP growth of 4.8% in 2018 and 7.4% in 2019, with CPI of 3.4% and 3.7%, respectively.

Consensus now expects a nominal fiscal deficit of 7.40% of GDP in 2018 and 6.80% in 2019. The next president will be challenged to reform tax and social security as soon as he steps in, besides the conducting the political reform.

Relative to expected nominal GDP, our ad forecast is conservative. Adjusting for under-reported digital, the true share of which is about 30%, TV is still the biggest medium, with about 45%. It is widely assumed Google is already the second-largest media player in Brazil, behind the no-longer powerful TV Globo.

In the 2013 taper tantrum, Brazil was one of the fragile five (the others were India, Turkey, South Africa and Indonesia) that had to defend their currencies. Yields are lower this time, and less lethal, and Brazil has the advantage of owing most of its debt in its own currency – but no one is immune from a rampant dollar. A weaker real means inflation, which robs demand, which Brazil cannot afford when the economy is barely growing 2% and fiscal consolidation of about 4% of GDP is reckoned necessary to stabilize public debt – 4% being the scale of tax favors dispensed by Dilma Rousseff from 2011 to 2016.

The new president assumes office in January 2019, bound by a Fiscal Responsibility Law that stops new spending for six months. Government deficit indicators are already ahead of limited expectations, and all the presidential candidates seem to acknowledge that Temer's half-finished social security reform must be completed.

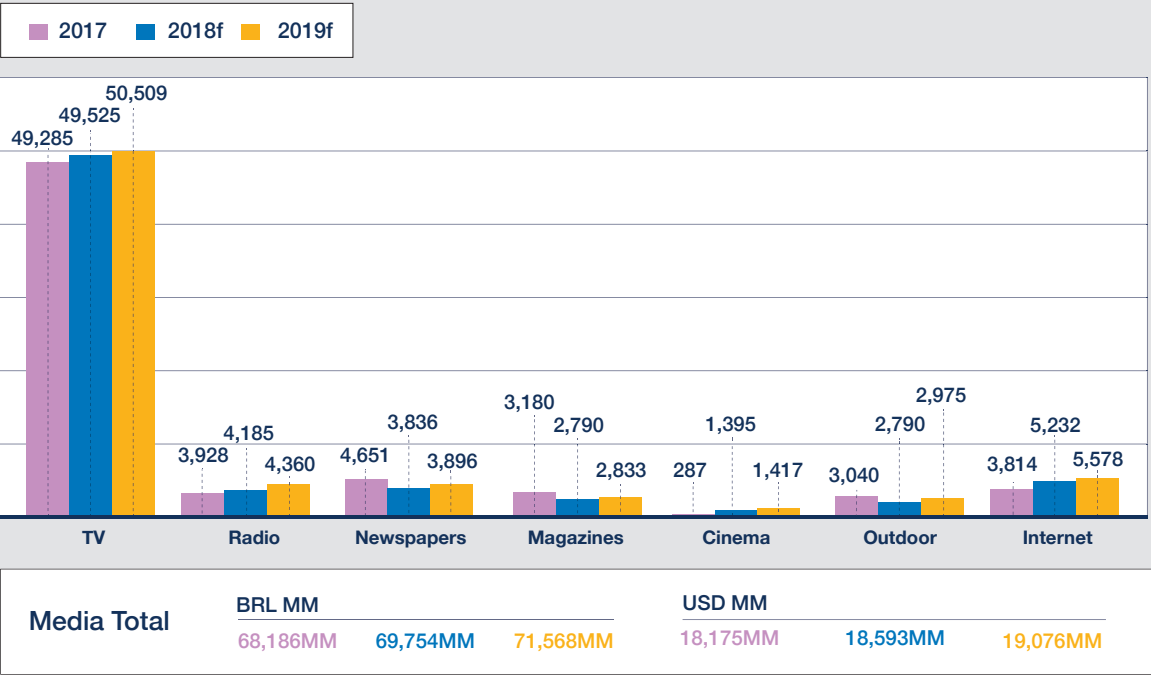
Internet consumption continues to grow in Brazil, and although the service is not excellent compared to other countries, Brazil has the third-highest daily online dwelltime of nine hours and 41 minutes, behind Thailand at nine hours 38 and the Philippines at nine hours 29. Within Brazil's time, four hours are taken up by social media, TV or VOD. Brazil's mobile hours average four hours and 21 minutes daily, second only to Thailand's four hours and 56.

Q4 2018 brings retailers hopes for Black Friday on November 23, despite the lackluster economy. Ebit, an e-commerce data company, estimated 2017's Black Friday generated revenues of BRL 2.1 billion, up 10.3% from 2016.

E-commerce reached BRL 59.9 billion (USD 15 billion) in 2017, according to ABCOM, and will achieve approximately BRL 70 billion arising 220 million transactions by the end of 2018. The average basket today is BRL 294 and the forecast is to rise to BRL 310.

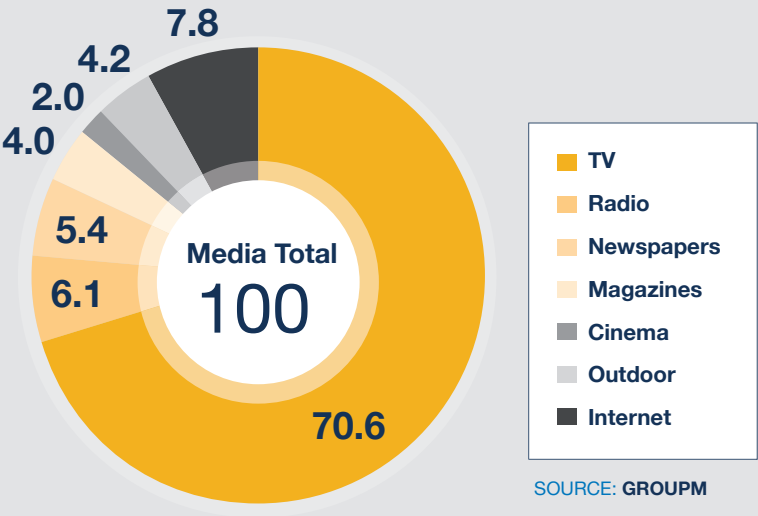
The main motivator of online shopping is Google Search, with 52% of orders originated from it. Fashion & Beauty and Electronics are the largest sectors in online sales, with annual revenues exceeding \$5 billion. Travel and Hotels saw e-commerce growth of 20% in the last year.

Media BRLmm



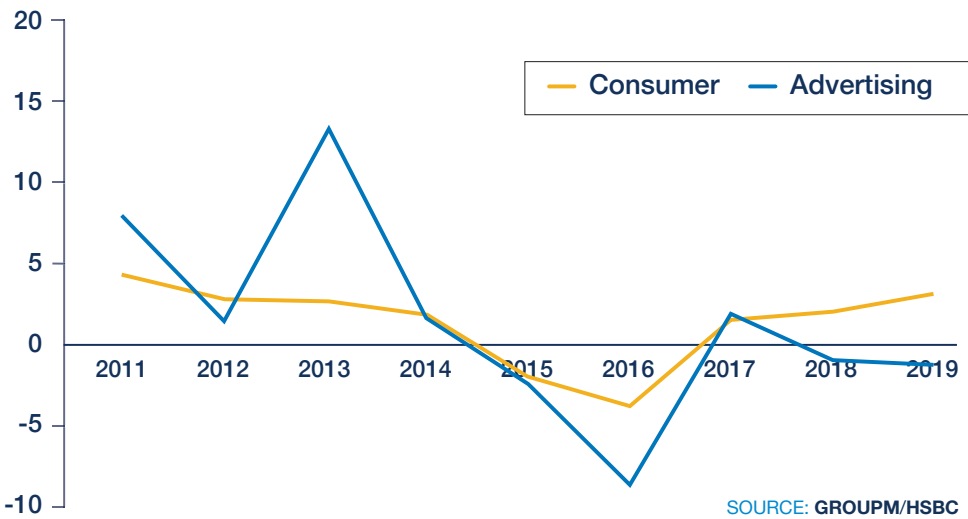
SOURCE: GROUPM

2019f % shares of media

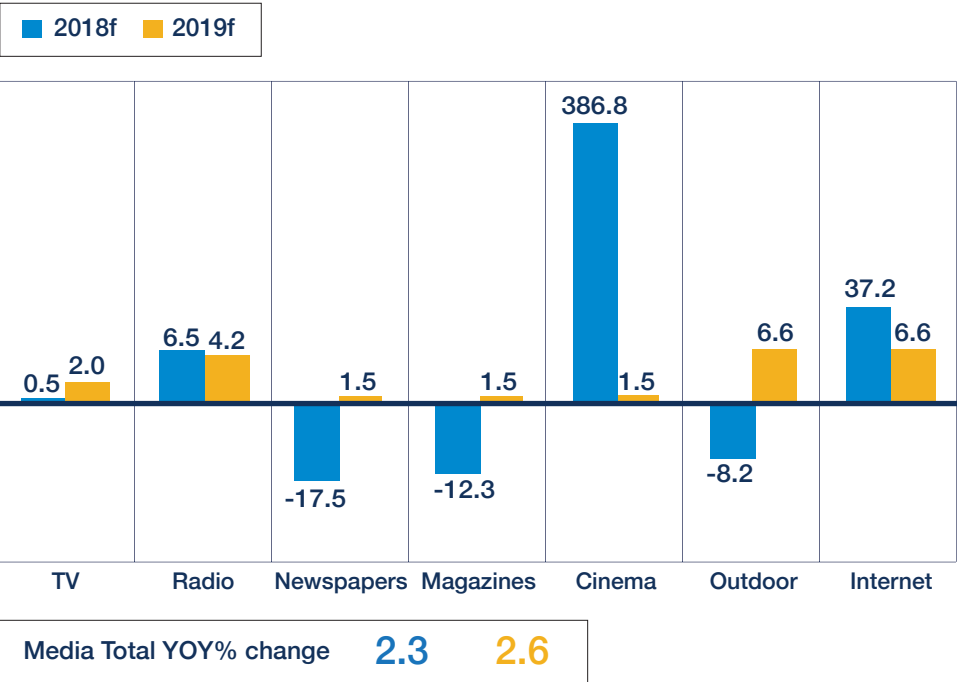


Consumer spending

YOY changes adjusted for inflation



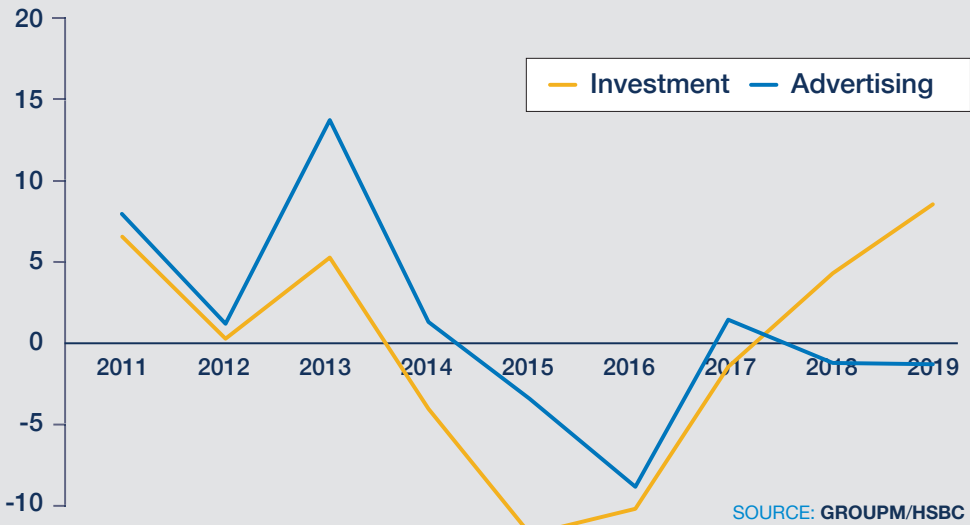
YOY% change



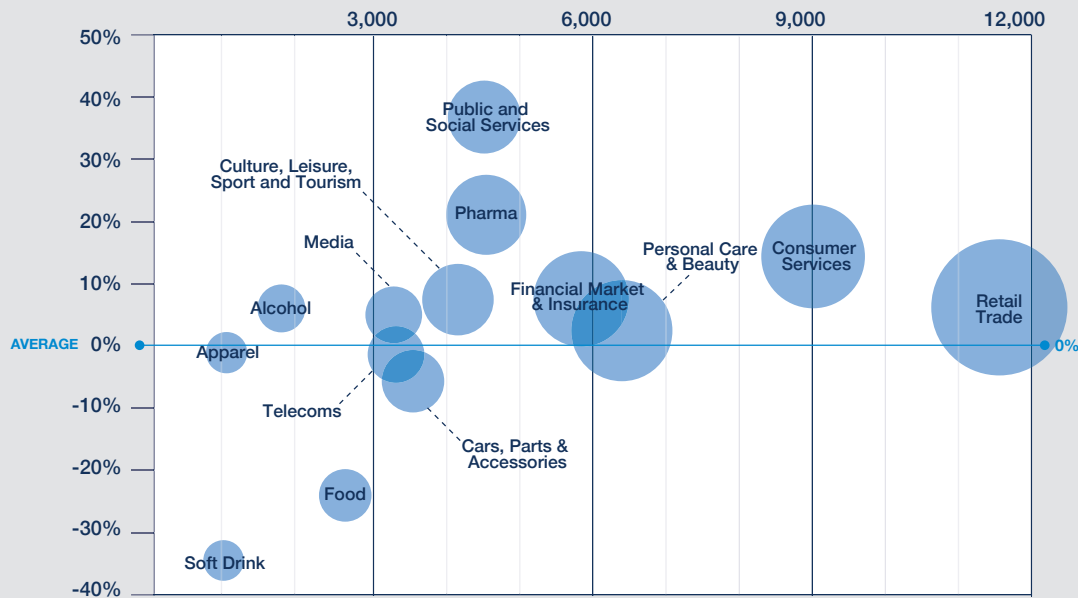
SOURCE: GROUPM

Investment

YOY changes adjusted for inflation



2017 categories YOY% change and BRLmm



- Categories: Ibope Monitor (after discounts)
- Historic media revenue: Ibope Monitor
- Internet comprises display and search but is undercounted.
- Agency commission: in, typically 20%
- Discounts: after (ca. 50% from rate card)
- Newspaper classified: in
- Internet classified: out
- Ibope (Kantar) “Digital Display” covers only the ads served in the 100 desktop sites in its viewing rank, and does not monitor Google, Facebook, mobile, or automated buys targeting specific audiences.
- “Internet” is therefore substantially understated.

Canada

Canadians have embraced personalized television with on-demand content on the device of their choice. Broadcast media faces tough times as traditional TV gives way to personalization. Television audiences dropped by 10% during the key fall 2017 period and the trend appears to continue through fall 2018.

Revenue for streaming services in Canada jumped by 29% to CAD 872 million, while cable and satellite revenue fell 2% to CAD 8.74 billion.

To combat the rise of streaming services at the cost of Canadian broadcast media, the radio and TV regulator CRTC has proposed that online streaming giants like Netflix and Spotify start paying to create local content before Canadians suffer losses of jobs, services and content. The proposed system will generate new revenue to preserve things like local news and would mitigate unbearable pressures on public funding structures that were not built for the digital age.

Broadcasters are individually trying to create a programmatic and addressable marketplace, but no solution has come to fruition yet. Broadcasters are hopeful that 2019 will be a better year because they have begun to utilize precise data segmenting and measurement, luring brands to return to the TV environment.

Google and Facebook continue to take the vast majority of growth in Canadian digital media.

While new taxation proposals from the Canadian government have been made, they have still not been approved, as the chance of their backfiring on legacy media is a big probability.

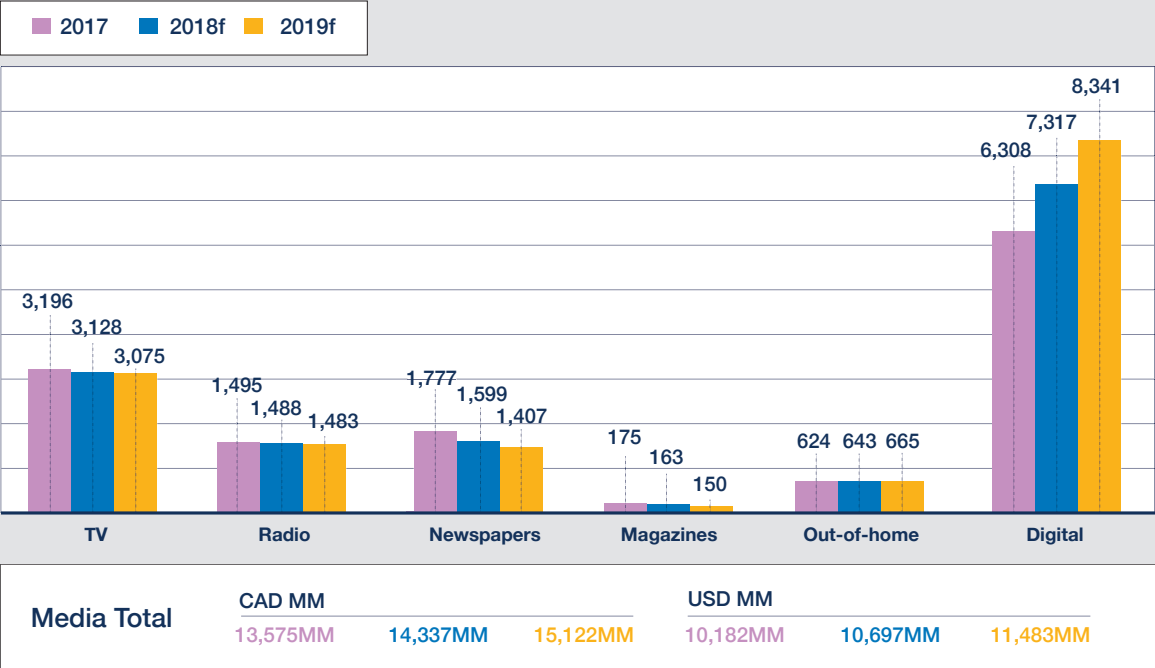
Agencies and digital publishers are still on high alert for potential new platforms emerging in the digital domain from companies such as Adobe and Accenture.

These radio forecasts indicate slight decline, but the underlying picture is strength from being free-to-air and locally focused. Radio is also extending its reach to the internet and across all devices to stay ubiquitous and generate online advertising revenue. Stations simulcast online via their own websites, and through aggregators like iHeartRadio and Radioplayer Canada, and on apps for smartphones and tablets; they are also now integrated with smart speakers (e.g., Amazon Alexa, Google Home).

Print continues to decline. Two innovators have successfully endured the pressure of the digital era. Leading English title The Globe and Mail ended physical distribution to New Brunswick, Nova Scotia and Prince Edward Island, and successfully refreshed its web experience. French title La Presse stopped printing altogether in December 2017 and is now completely digital.

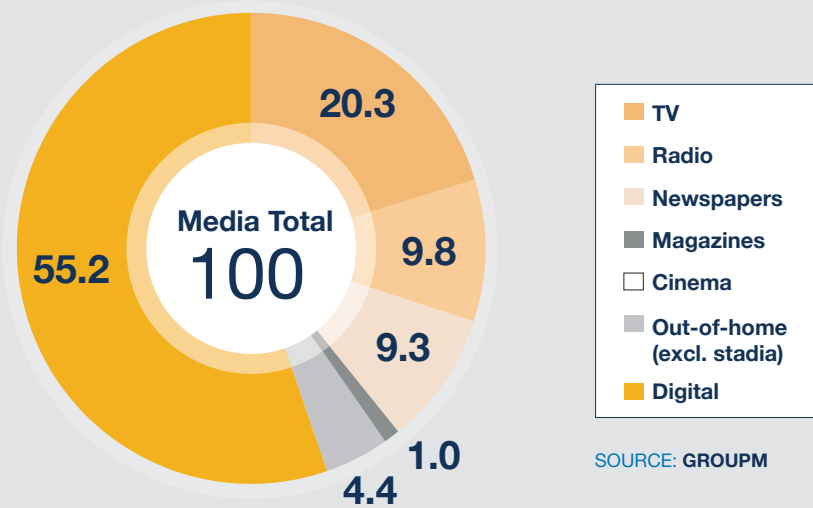
The October 2018 creation of the United States-Mexico-Canada Agreement (USMCA), replacing NAFTA, removed arguably the biggest overhang to Canada's economy. The outcome seems generally favorable to Canada, and removes the threat of a hot trade war. This will boost business and possibly consumer confidence at a time when Canada's households – still net borrowers – look to be hunkering down as policy rates edge up. Inflation is within target, but Canada runs a small, persistent budget deficit that will be harder to close with tax competition from the USA. Exports and investment growth are probably Canada's best hopes for the coming year, so it will help if growth in Asia remains stable.

Media CADmm



SOURCE: GROUPM

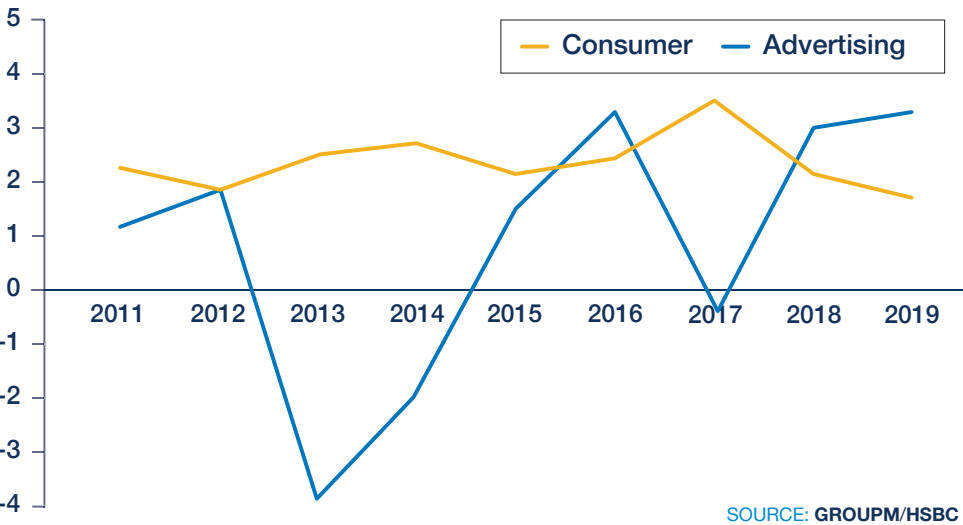
2019f % shares of media



SOURCE: GROUPM

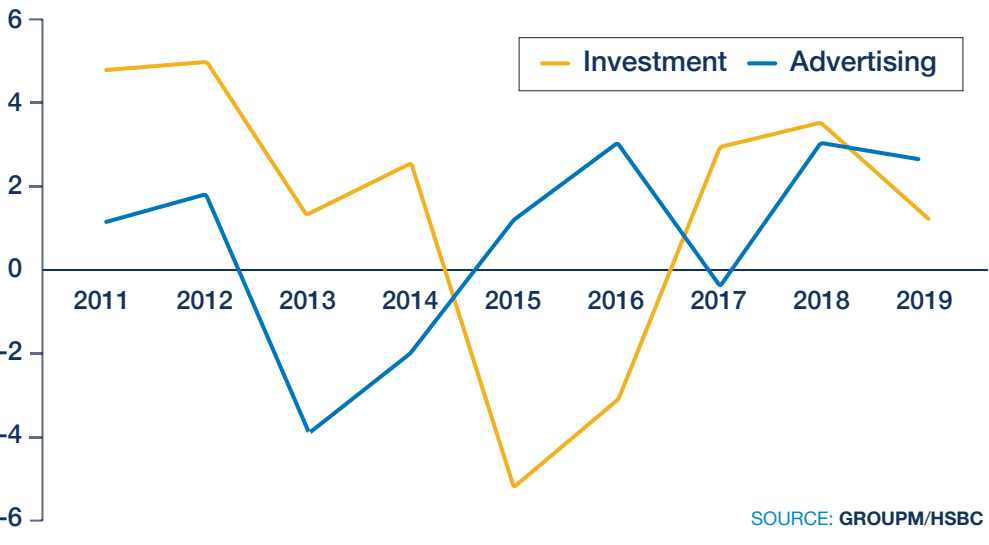
Consumer spending

YOY changes adjusted for inflation

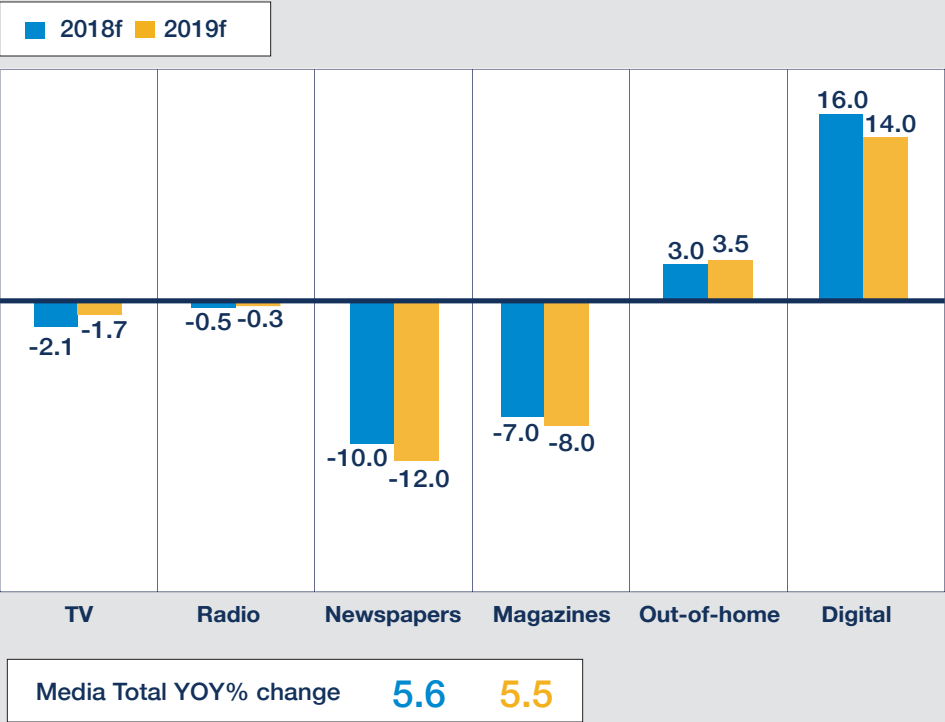


Investment

YOY changes adjusted for inflation



YOY% change



SOURCE: GROUPM

- Categories and advertisers: Market Track – Ad Dynamics (includes TV, radio, newspapers, magazines and OOH, but not internet)
 - Historic media revenue: TV and radio, CRTC; newspapers, CAN; magazines, Magazines Canada; OOH, GroupM based on Nielsen/Market Track; Digital, IAB. Others: GroupM
 - Agency commission: out
 - Discounts from rate card: after
 - Newspaper classified: in
 - Internet classified: in
- Digital comprises display, classified, search, email and mobile, including advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices
 - Historic media revenue: Linear TV CRTC to 2010 and Statistics Canada from 2011; Online TV: ThinkTV estimate; Newspapers Canada; Radio: CRTC;
 - Internet: IAB; General Magazines: Magazines Canada to 2012, Ad Dynamics from 2013; OOH estimated from Ad Dynamics

China

We adjusted 2018 China total media spending from 6.8% to 6.9% and lowered 2019's from 6.6% to 5.5% based on the outlook of China's macro economy as well as its media market.

The 2018 Russia World Cup made an impression on the total media market. We observed more clients using integrated marketing communications that benefited not only CCTV, but also other digital formats (such as short-format video, in-feed ads, open-screen ads, etc.).

In magazines, the investment squeeze is finally easing as fashion and luxury brands grow rapidly.

Meanwhile, as more and more clients as well as digital media believe out-of-home will fuel further growth, Alibaba bought just over 10% of China's biggest OOH media owner Focus Media, becoming its second-largest shareholder. Soaring demand for OOH and limited inventory has led

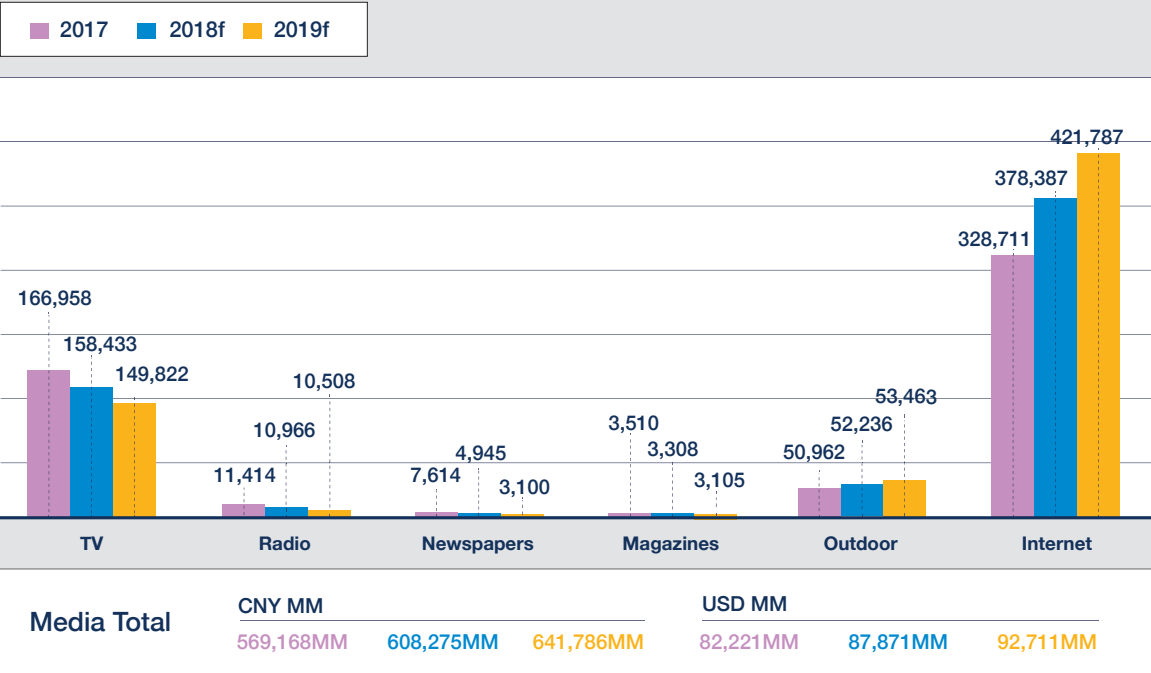
to high price inflation of around 12%. Advertisers appreciate the increasing importance of OOH in integrated marketing, but resistance is forming at these prices. We therefore forecast single-digit OOH investment growth in 2018 and 2019.

The continuing Sino-US trade war is affecting China's exerting influence over its own economy. GDP growth reported by the government in Q1 and Q2 2018 was lower compared to 2017. Furthermore, the IMF's October outlook lowered China's real GDP growth forecast from 6.4% to 6.2% for 2019 (in nominal terms, from 9.0% to 8.6%). Meanwhile, CTR, Kantar's joint venture in China, observed international clients are becoming more and more conservative because of the trade war. We have therefore revised our expectation of 2019 advertising investment growth from 6.6% to 5.5%.

US tariff rates will rise from 10% to 25% in January. HSBC thinks this could shave three-quarters of a point off China's GDP growth in 2019 – which China will of course address, HSBC noting ample headroom for tax cuts and structural reform in what it describes as “one of the world's most heavily-taxed economies.” The private sector now accounts for 80% of industrial output, suggesting substantial latent improvement if not crowded out by the government featherbedding its state-owned enterprises.

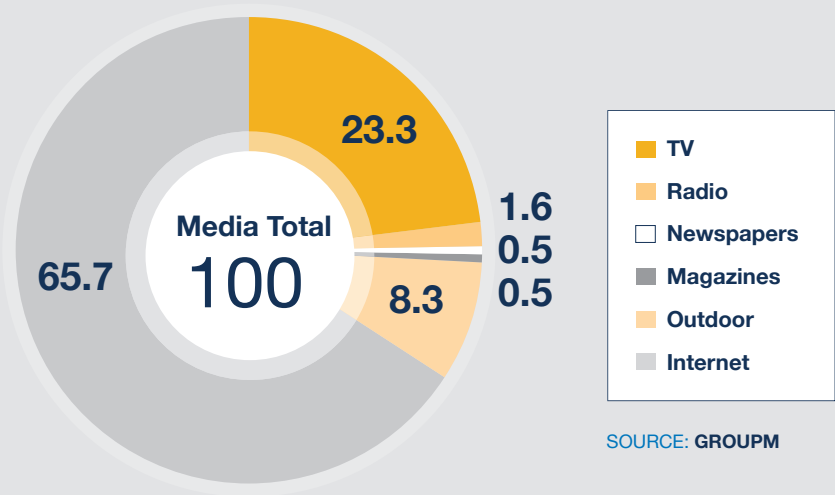
Trade war escalation is a known unknown, with a chance that it will overwhelm policy response and slow the economy. But we observed before that sanctions can also “work,” by accelerating reason and reward. China's exports to the USA actually grew 13%+ in August 2018.

Media CNYmm



SOURCE: GROUPM

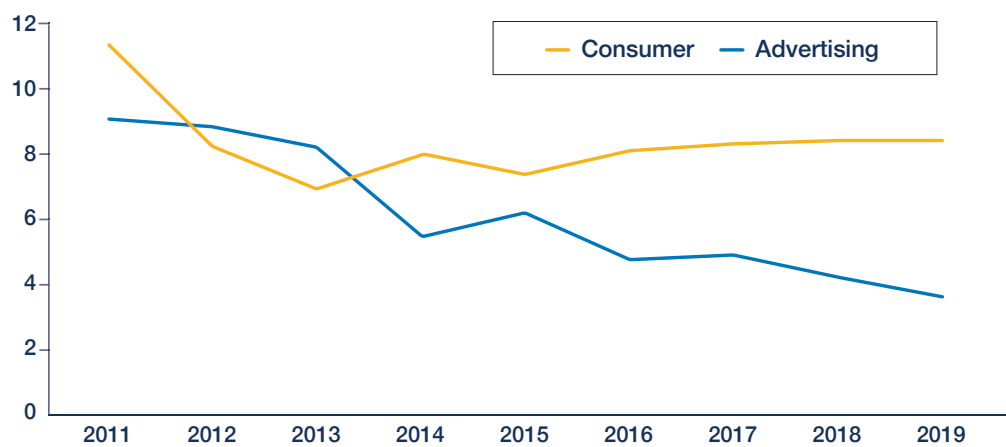
2019f % shares of media



SOURCE: GROUPM

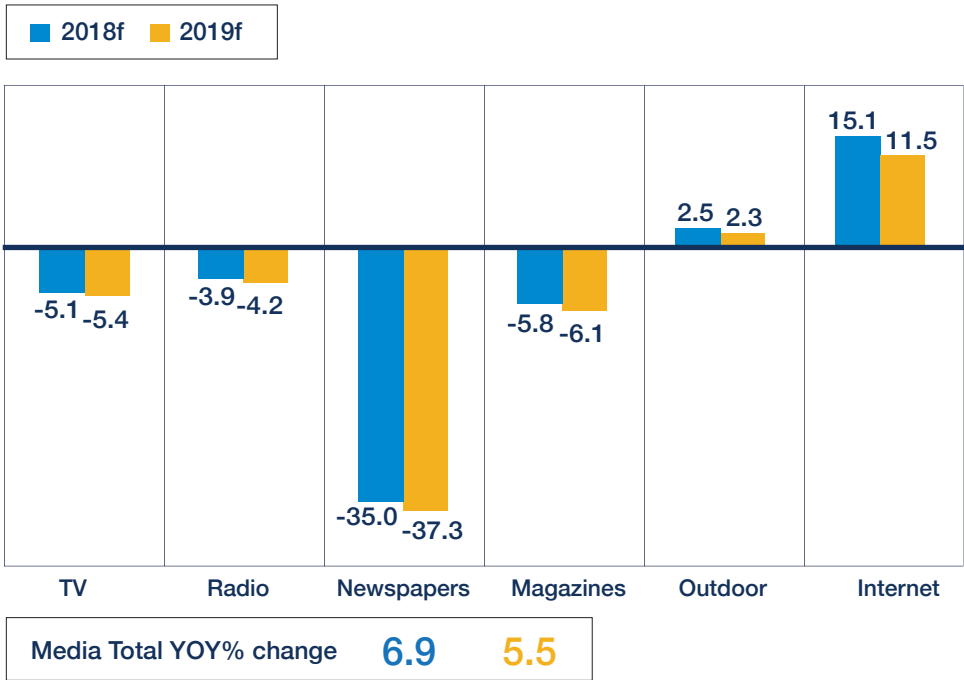
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

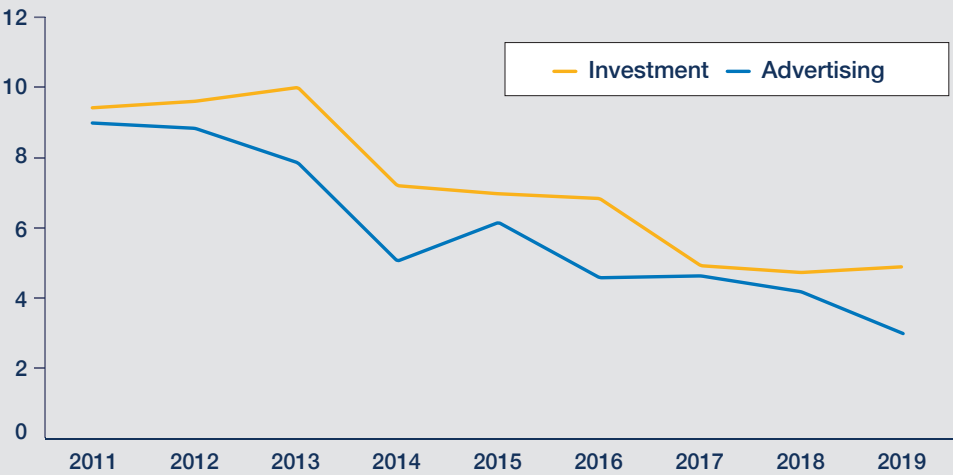
YOY% change



SOURCE: GROUPM

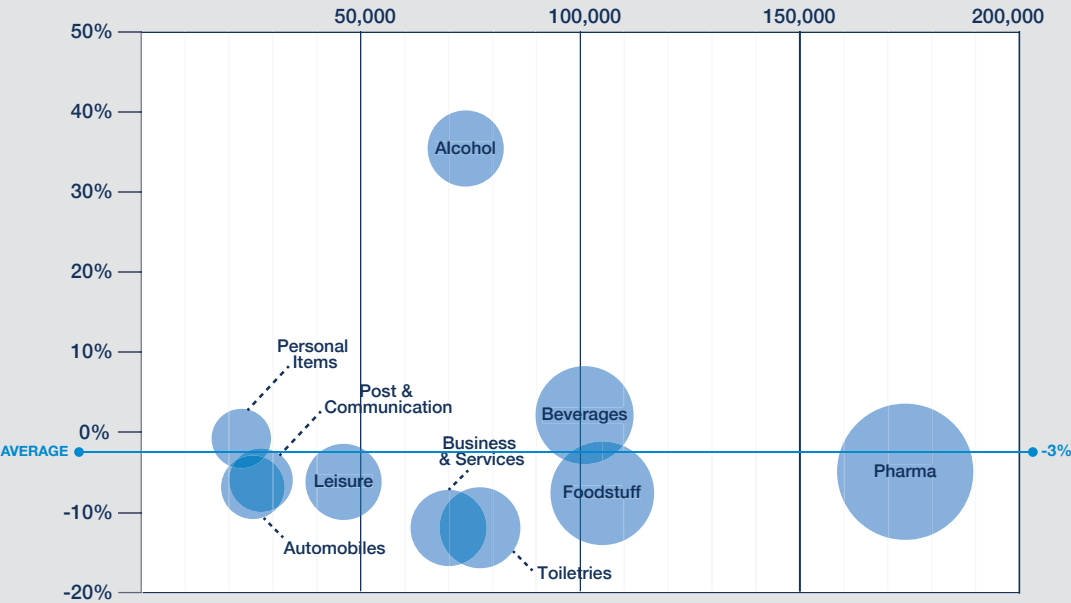
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2017 categories YOY% change and CNYbn



- Categories: CTR (TV and print only)
- Historic media revenue: TV, print, radio: CTR; internet: iResearch; OOH: Kinetic
- “China” here means the People’s Republic of China and does not include Hong Kong or Macau
- Agency commission: out

- Discounts from rate card: after
- Newspaper classified: in
- Internet classified: in
- Production cost: out
- Internet is PC and mobile, and comprises search, e-commerce website, static display, video, rich media and others.

Germany

Digital Audio advertising is growing strongly above average, especially among the younger target group. An increase of 40% is predicted for 2018, pushing the digital audio investments to about €49 million. Drivers include programmatic audio, high demand for podcasts, and the proliferation of devices such as smart speakers.

The large public **Radio** vendor, AS&S, will introduce a new pricing scheme from 2019 on. The currently uniform prices for Monday to Friday are replaced by a price increase for Thursday and Friday. Monday to Wednesday, however, should be cheaper. Saturday will remain more expensive. According to the vendor, it shall not increase the average price. Also, AS&S introduces different prices per month, which is the first time that a seasonality is applied to radio advertising prices.

TV still has the highest daily reach, with 81% of adults 14+, and remains the preferred medium to reach large audiences. However, slower growth and channel fragmentation fosters predatory competition between the TV stations.

Our biggest concern is the loss of the under-40 linear TV audience. They are watching more video, but less TV. The TV publishers must therefore increase their digital video reach. Meanwhile, the supply problem is fueling 14-49 unit price inflation of around 10%. We predict negative absolute TV revenue growth in 2018 and 2019. There is welcome progress in audience measurement in the form of a new video panel to replace the classic TV one, with mobile video included from 2018 on. Addressable TV is growing, but constrained by silos and a lack of common standards.

The ongoing fragmentation and increasing variety in different **Print** categories lead to an increasing number of published magazines from year to year. The average sold circulation is slightly decreasing,

while subscriptions remain stable. The categories of TV-, computer- and internet magazines show the biggest decline in circulation, while other categories like dailies and women's magazines halted their decline in reach and circulation.

However, magazines are still under pressure, as market spending is declining by a forecast 3% each year. Therefore, we are expecting further consolidation and collaboration between publishers and between sales houses. At the same time, the sales houses continue their transformation to become multimedia vendors, which offer print and digital media and additional services.

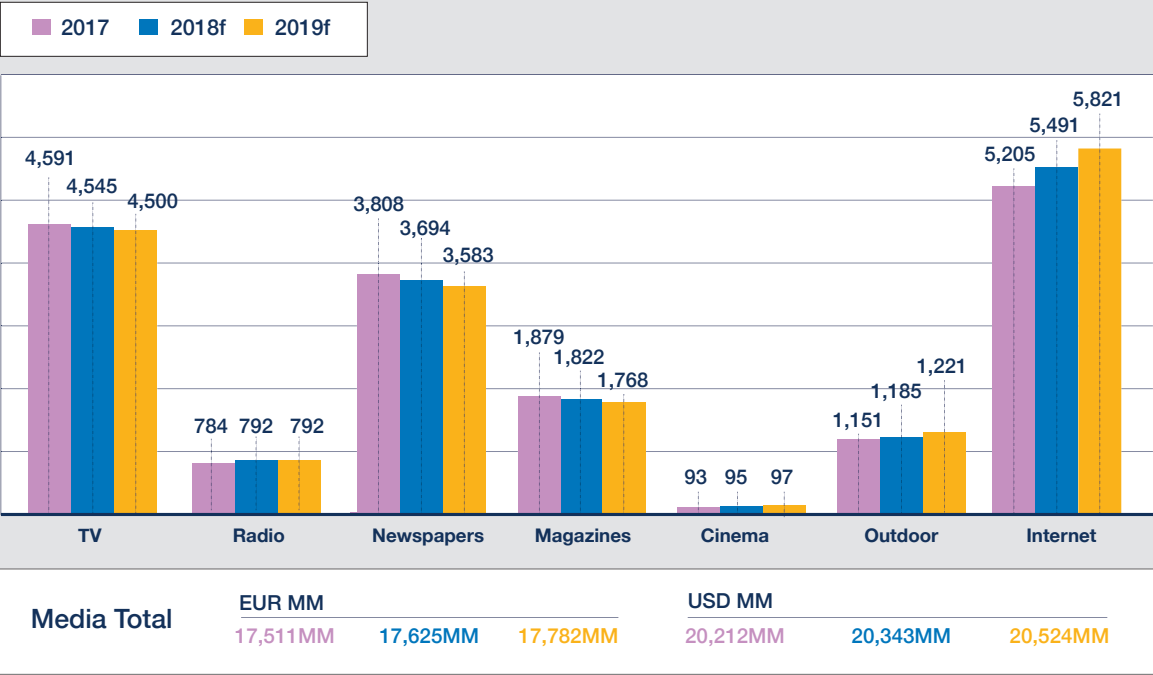
The implementation of GDPR dominated the discussions in **digital** advertising this year. Having recorded 10.8% growth in 2017, we forecast 2018 will slow to 5.5%, with a small recovery to 6.0% in 2019. Privacy questions will remain prevalent for the next year in the context of the upcoming ePrivacy directive, which in its current draft would endanger digital business models.

Despite the political and legal challenges, the digital advertising market is witnessing steady growth. This growth is mostly driven by the growth in mobile and programmatic advertising. Data-driven advertising strategies have gained scale, but for further growth it's vital to overcome the elementary challenges of the programmatic advertising market. In particular, the fight against ad fraud and the measuring of video campaigns demand special attention on the agency side.

Overall, the boundaries between the different digital channels and device categories become more and more blurred, and consumers get accustomed to a holistic cross-channel brand experience. Therefore we advise our brands to pursue a holistic approach in digital advertising.

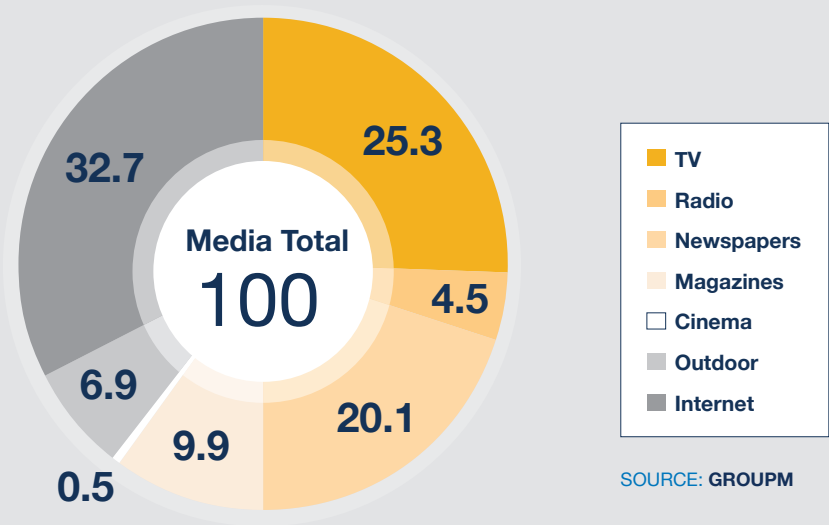
Political stasis in 2018 suppresses government spending and might also have helped households push the savings ratio back above 10%. These are transient. Support for growth looks more permanent, with EU/US trade tensions dialed down and real wage growth running a little ahead of the developed-economy average of around 2.5%. Public sector debt is equivalent to only 60% of GDP, as it has been since 1999, and the government has headroom to reduce the tax burden and build infrastructure. Exports are probably the most sensitive element of aggregate demand. Germany does not depend on 2018's "fragile five" (Argentina, Brazil, Turkey, South Africa, Russia), but collapse and contagion could spell recession for Germany.

Media EURmm



SOURCE: GROUPM

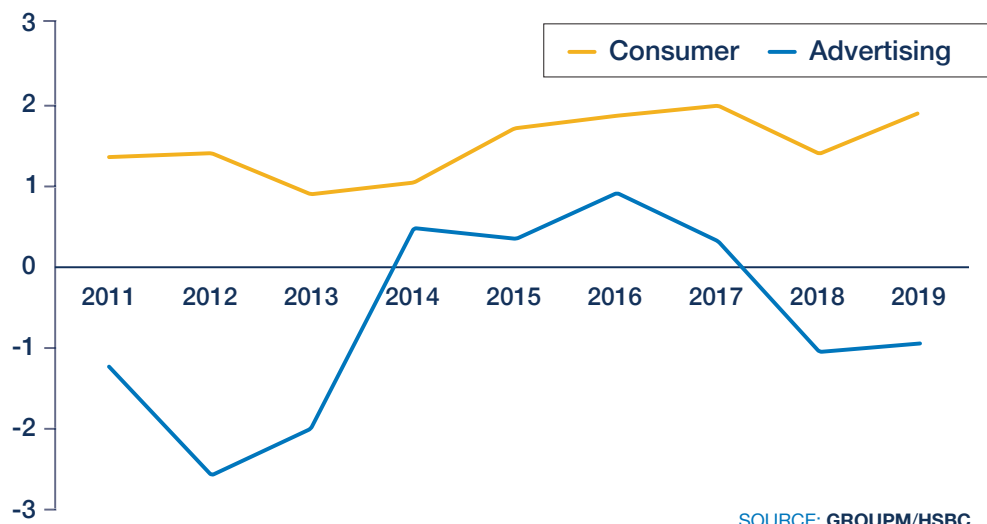
2019f % shares of media



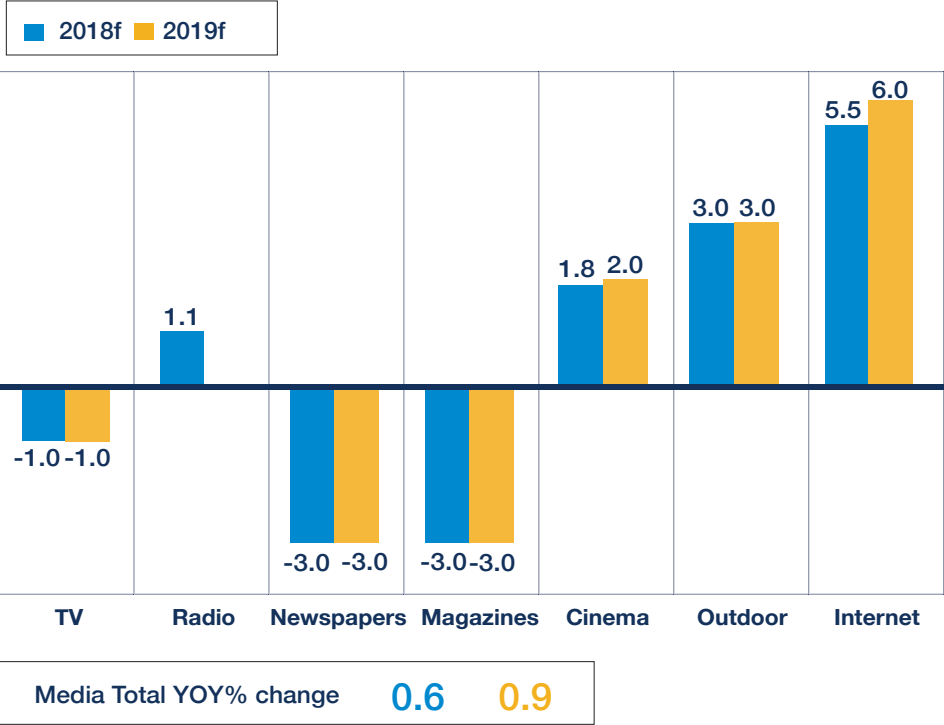
SOURCE: GROUPM

Consumer spending

YOY changes adjusted for inflation

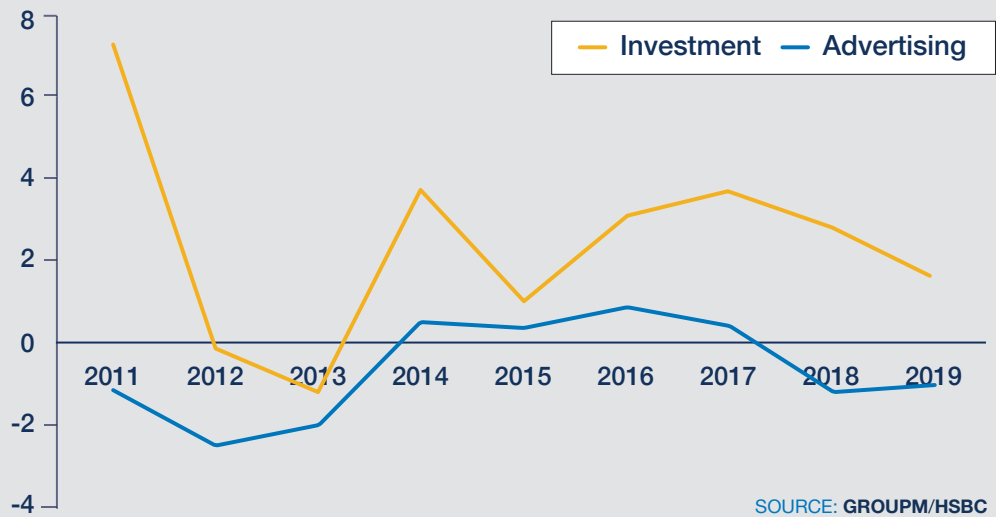


YOY% change

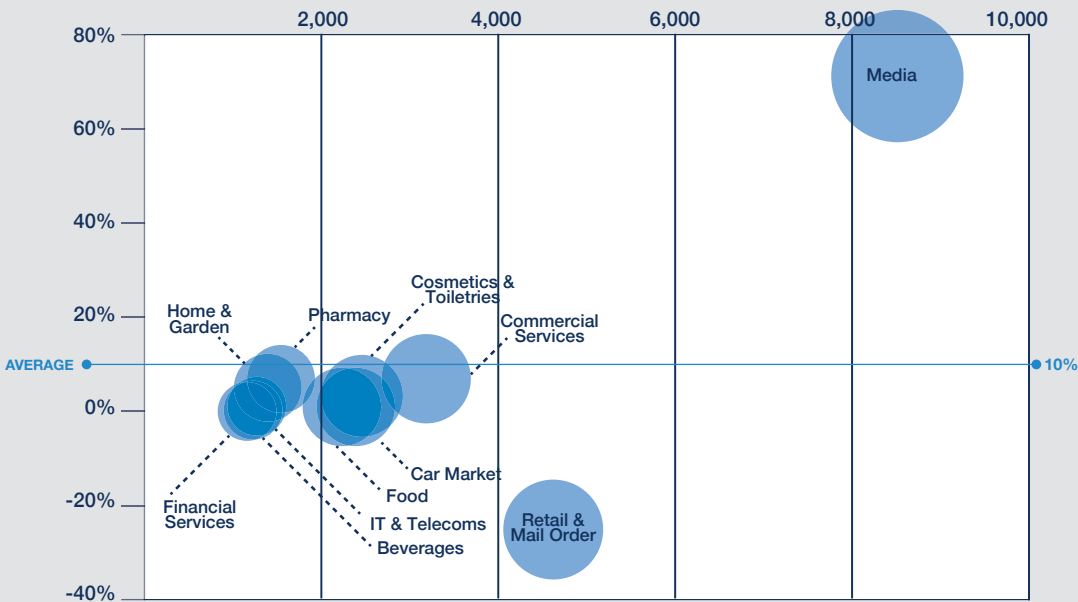


Investment

YOY changes adjusted for inflation



2017 categories YOY% change and EURmm



- Categories: Nielsen, gross
- Historic media revenue: ZAW (except internet)
- Historic internet revenue from 2004: OVK (On-line Marketing Circle) (gross, but discounted by GroupM)
- Newspapers include advertising journals, weekly and Sunday newspapers, and supplement

- Magazines include B2B but exclude directories
- Agency commission: out
- Discounts from rate card: after
- Newspaper classified: in
- Internet classified: out

India

The IMF expects **real GDP** to grow 7.4% in 2019 (12.1% nominal), driven mainly by services and private consumption; manufacturing and agriculture are likely to see moderate and low growth, respectively. Bank balance-sheet repair and GST reform is likely to start yielding results sometime in 2019, accelerating a reviving investment cycle, but downside risks remain: continued global trade conflicts and high oil prices are likely to impact the exchange rate, trade deficit, liquidity and inflation.

Auto advertising growth is expected to be high, as car, scooter, luxury bike and commercial vehicle segments will see good sales growth in 2019, driven by urban demand and infrastructure spending. Rural-led motorcycle sales will be monsoon-dependent.

BFSI ad spends will be moderate to high, as bank ad spends remain subdued but insurance and financial services spend robustly to expand penetration, with the government-led health insurance scheme also providing a boost to growth. Digital payments are expected to touch \$500 billion by 2020, and insurance to be a \$280 billion sector by 2020.

Consumer durables ad monies will see moderate-to-high growth: low penetration in consumer appliances, shorter replacement cycles in consumer electronics, robust replacement demand overall and unexpected/extreme weather – hotter summers, hazier winters – will all contribute to spends.

E-commerce ad spends will grow fast: a report cites the sector to touch \$100 billion GMV by 2020, while Morgan Stanley predicts it to touch \$200 billion by 2026 and expects ~50% of India's internet users to have matured by 2019/20 (five years or more of internet use). Online shoppers are expected to increase from the current 14% of internet users to 50% by 2026.

Strong consumer expenditure growth should lift **Retail** advertising in the order of 12-14% year over year between 2017 and 2020, and the explosion of modern retail, expected to nearly double in size between 2016 and 2019, will drive ad monies.

FMCG ad spends will grow fast, as key drivers remain strong: expanding rural penetration, strong rural demand supported by increased welfare spending in a busy election year in 2019, and steady urban sales and growing interest in luxury and health-wellness products.

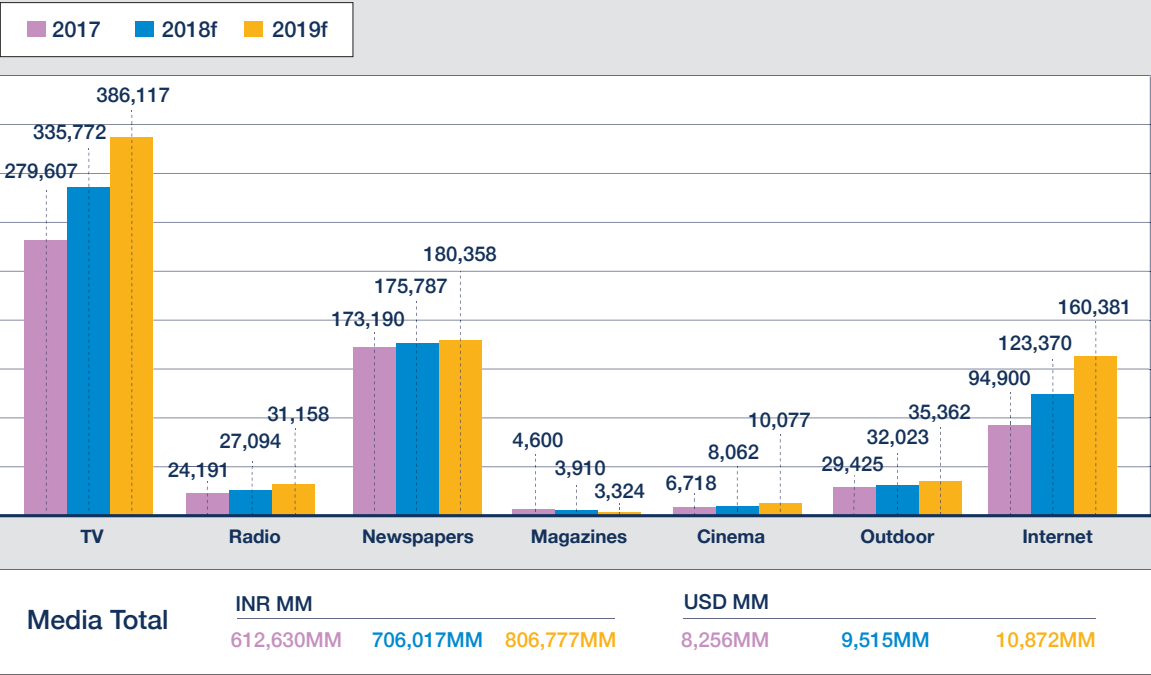
Services ad growth should be strong, as the major segments of travel and hospitality, health care and logistics are all expected to perform well in 2019. The travel market is tipped to reach \$40 billion by 2020; logistics are expected to hugely benefit from GST.

Telecom ad growth will be driven by mobile handsets. 2017 saw 288 million shipments (124 million of which were smartphones). The IDC predicts mid-teen growth in 2019-2020, led by low-priced handsets. Telco spends will be conservative, as incumbents face continued pressure on margins due to intense competition – likely to continue till ~2020.

TV: sports and elections will drive advertising. **Print** to grow at a slower rate, losing share to digital; election spending will provide some relief. **Radio** is expected to do well from auto, mobile handsets and a revival in FMCG, real estate and government spends. **Cinema & outdoor** will continue to grow, as technology adoption improves ad visibility and from the growth of organized retail. **Digital:** will see high double-digit growth backed by video (with OTT players/AVOD gaining traction) and other premium inventory.

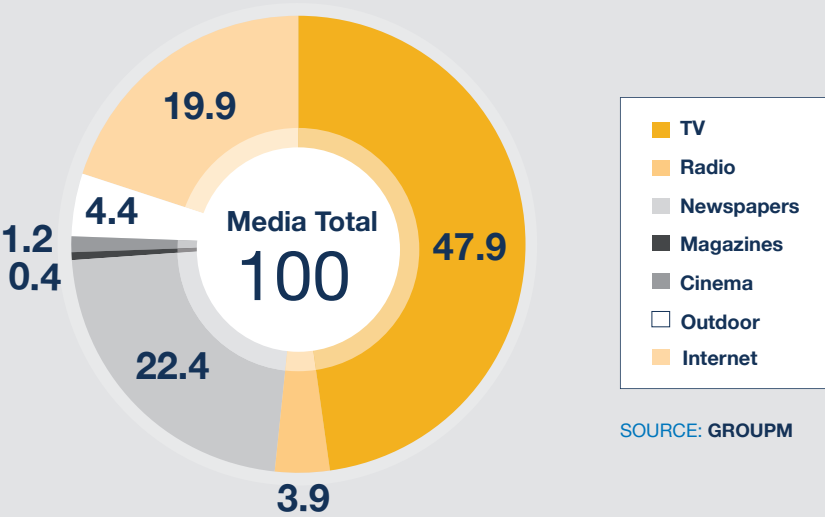
It will be a toss-up with China for 2018, but this year and next India could remain the world's fastest-growing large economy, with only the Philippines on its heels. Despite two successive quarter-point repo rate rises in 2018 (to 6.5%), the rupee has depreciated 10% versus the US dollar in the year since our December 2017 forecast, in line with the average of the currencies in our country set. The rate rises were a response to CPI creeping up, and there may be more to come. This reflects the health of India's domestic demand: like the USA, it is a relatively self-sufficient, low-trade economy, which is a strength when global trade is contracting. HSBC predicts India's consumer demand growth will peak at an impressive 9.1% (real terms) in 2018 before moderating to around 7%, which only China is likely to beat. However, no country is immune from the demand-sapping effect of pricey oil and a runaway dollar, which would only encourage capital flight from the developing world back to the rising-rate USA.

Media INRmm



SOURCE: GROUPM

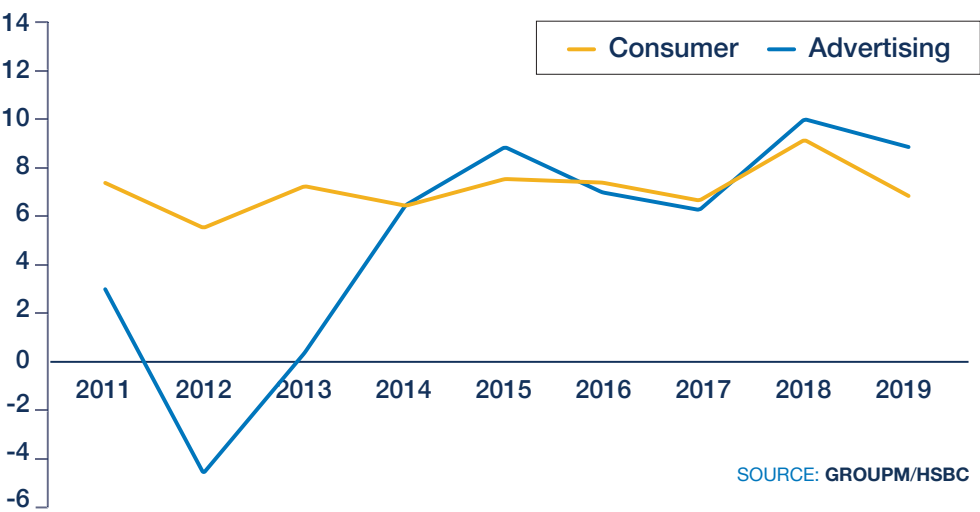
2019f % shares of media



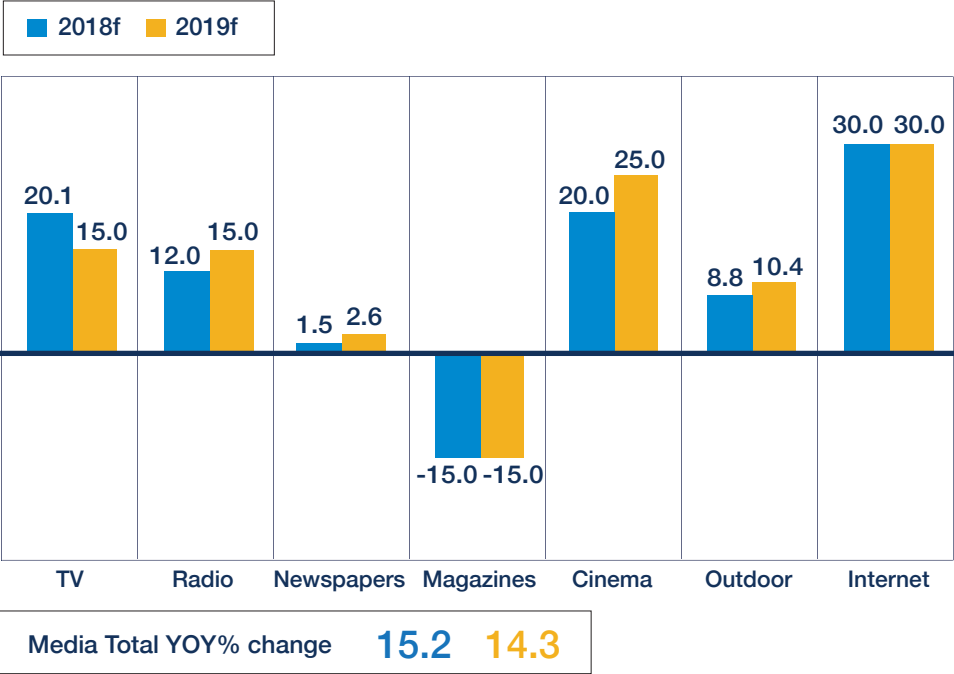
SOURCE: GROUPM

Consumer spending

YOY changes adjusted for inflation

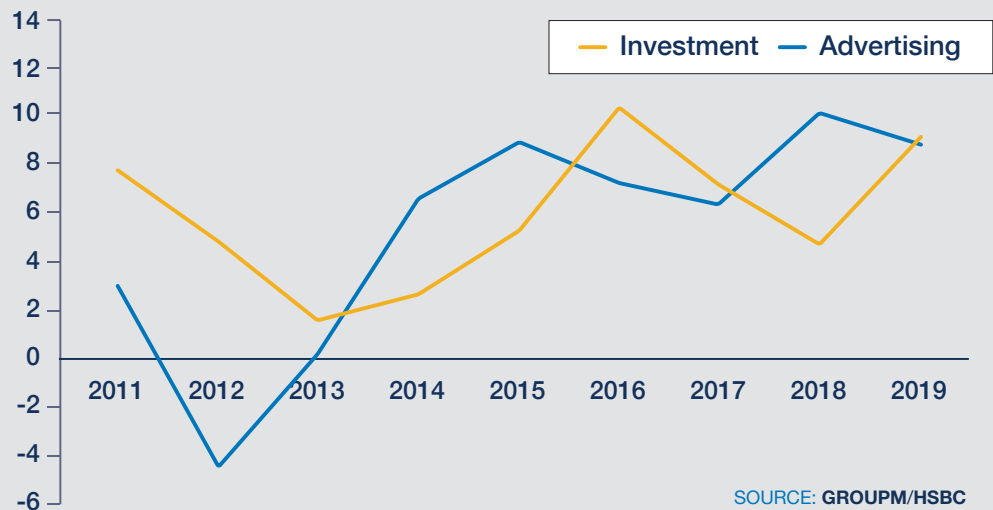


YOY% change

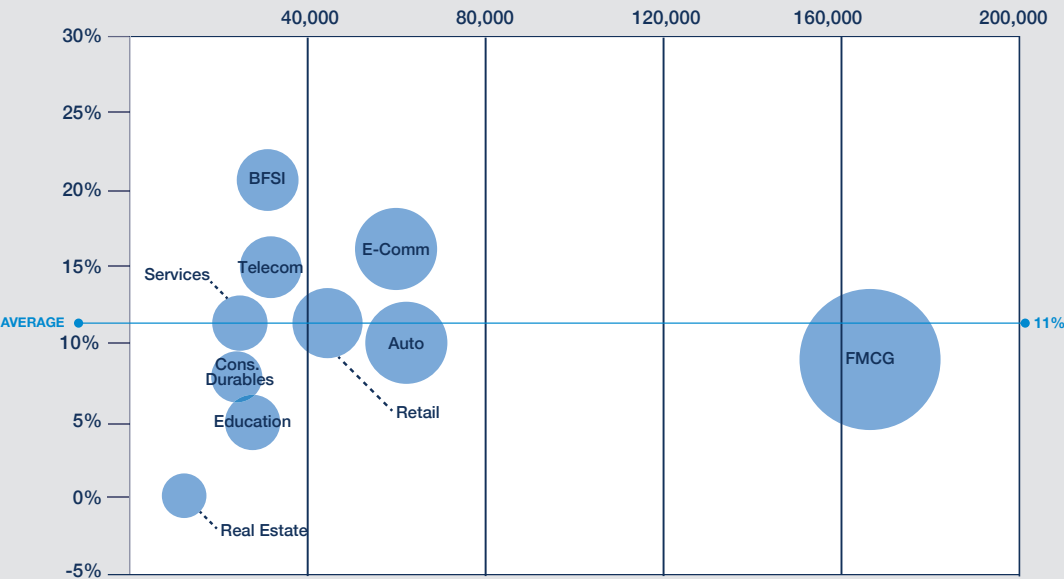


Investment

YOY changes adjusted for inflation



2017 categories YOY% change and INRmm



- Top categories data: TAM AdEx and GroupM
 - Top advertisers: TV, print, radio only
 - Historic media revenue: ORG-MAP; internet, GroupM
- Print is display only (classified is not measured)
 - Excludes 15% agency commission
 - Internet comprises search, display, video and social; excludes small advertisers

Russia

In the first half of 2018 the media market showed 13% growth, mostly driven by strong demand in TV and digital segments, with additional demand across all media segments due to presidential election campaigning. The top-performing categories were internet services, finance and FMCG.

The FIFA World Cup, hosted by Russia, helped sustain growth in the second half, and we think it will bring ad investment growth to about 12% for the full year.

The macro environment is still supportive, as consumer inflation is on a comfortable level (close to the central bank target of 4%), while GDP shows stable growth of 1.5-2% real (7% nominal).

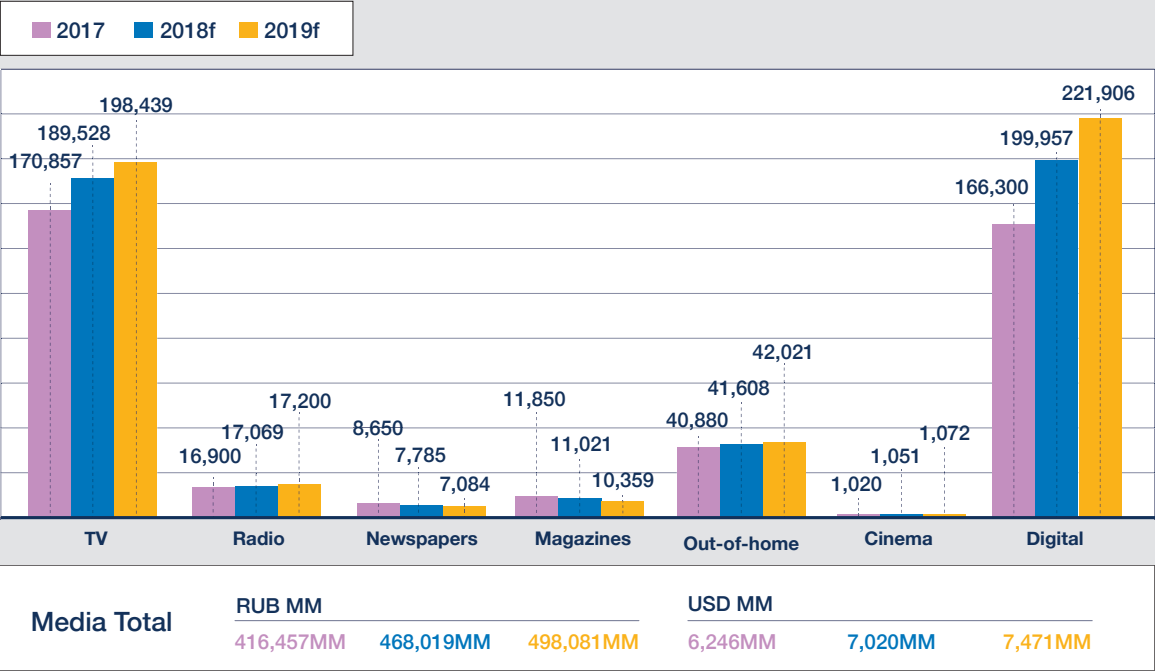
On the other hand, consumer income is volatile, fluctuating between 5% and 10% real across 2018, and with 2019 predicted to average 6%. This limits overall economy growth, which is already below global averages.

Despite all the risks caused by tough international relationships and potential new sanctions, we keep our slower but still positive forecast of 6.4% ad growth in 2019, noting there are still many threats that may lead to future downgrades. 2019's key drivers will, however, remain the same as 2018's: OLV and digital performance.

With the March 2018 election behind him, President Putin has announced various popular and unpopular measures. VAT on non-essentials rises from 18% to 20% from January 1, 2019; he wishes to see public-sector wages frozen for his term of office to 2024; and pension ages will rise five years (for men, to 65, from 2028; for women, to 60, from 2034). All these are liable to hamper consumer demand, currently growing 3% real per year, which is only half the run rate before the 2014-2017 financial crisis.

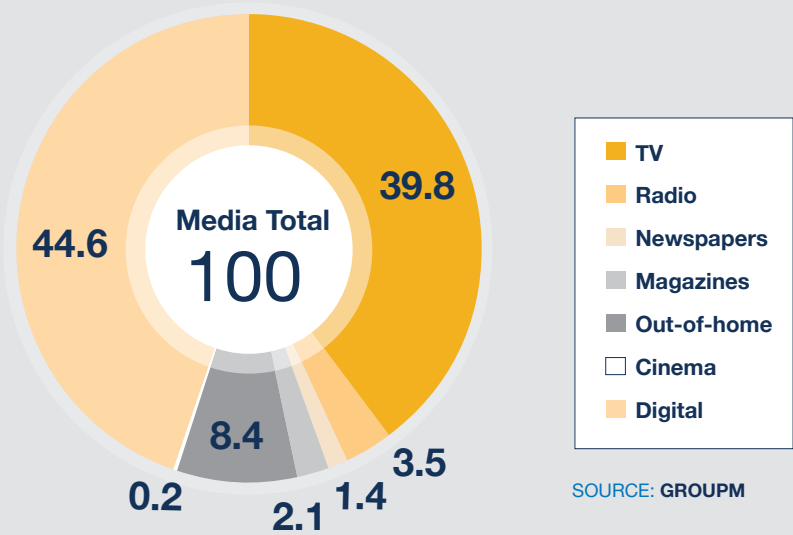
Mitigating this, Putin promises a big infrastructure spend to help transition the economy away from oil and gas, and a minimum 120-km-square annual residential new build, financed by mortgages. Further sanctions are an unknown.

Media RUBmm



SOURCE: GROUPM

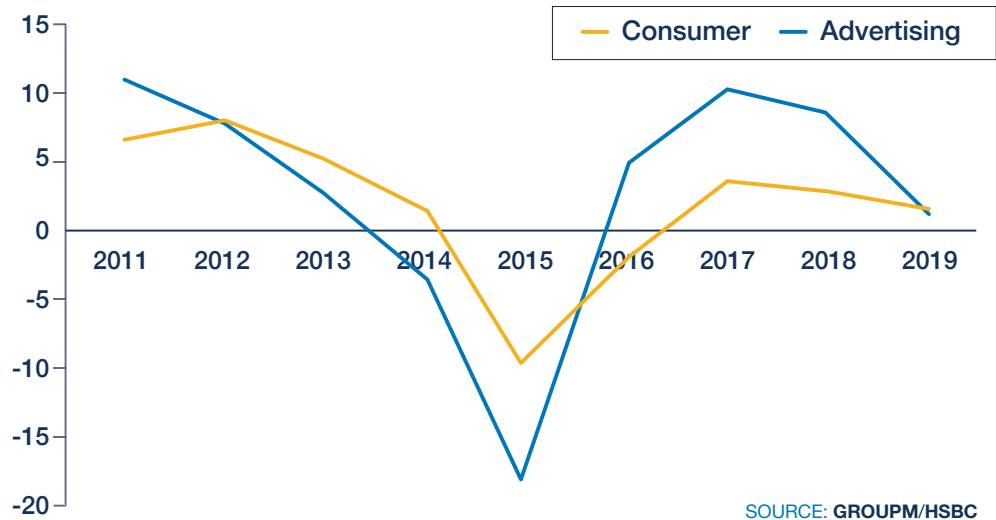
2019f % shares of media



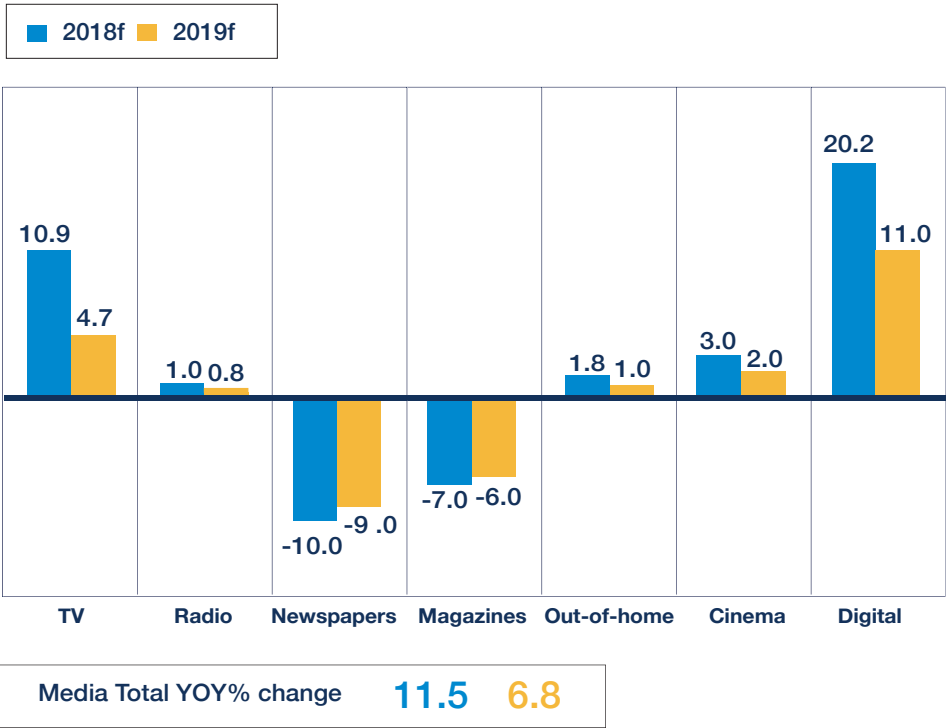
SOURCE: GROUPM

Consumer spending

YOY changes adjusted for inflation



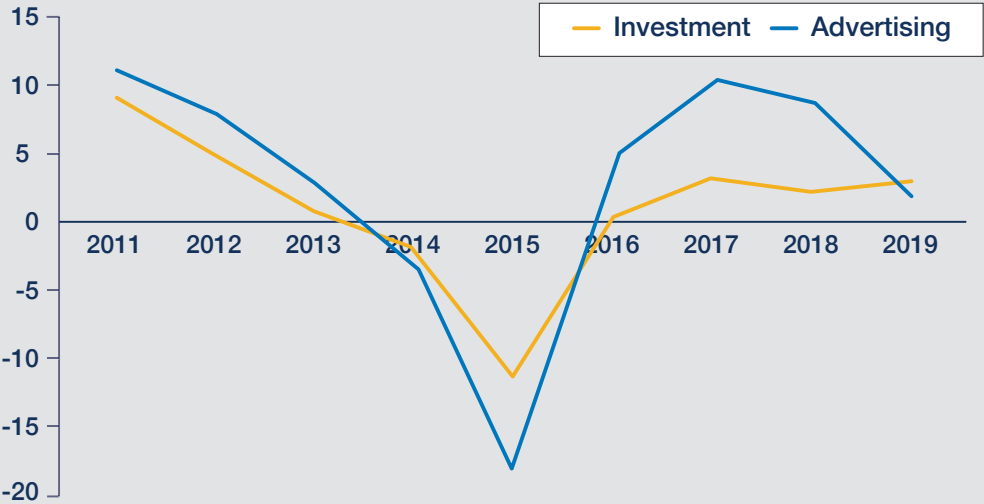
YOY% change



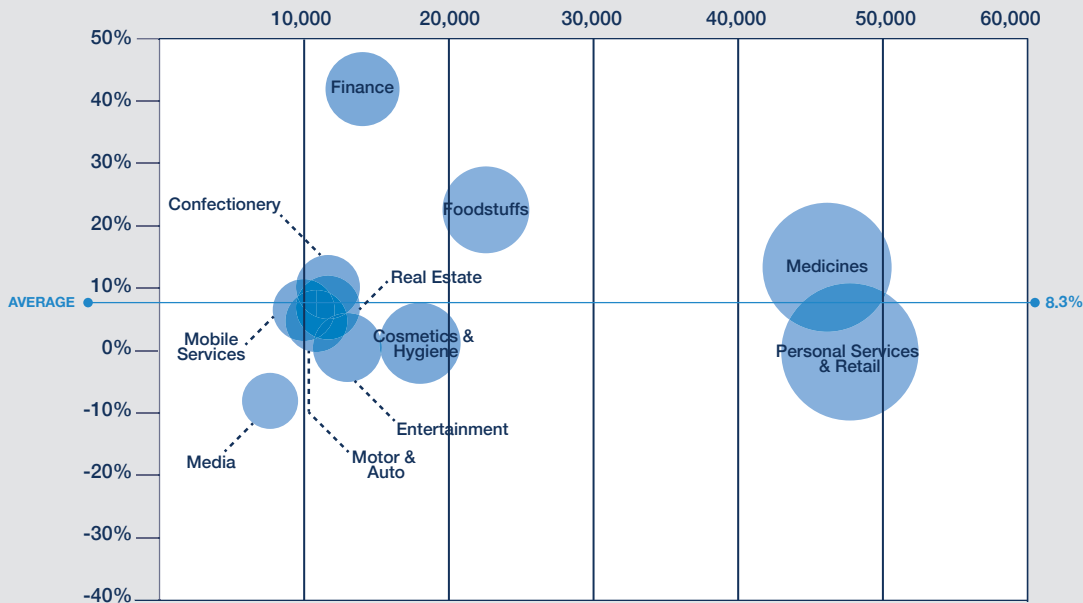
SOURCE: GROUPM

Investment

YOY changes adjusted for inflation



2017 categories YOY% change and RUBmm



- Top categories: estimated net of discounts and tax, based on Gallup TNS gross
 - Historic media revenue: AKAR/RARA
 - Agency commission: out
 - Discounts from rate card: after
- Newspaper classified: out
 - VAT 18%: in
 - “Internet display” comprises classic display, video and mobile (all types excluding paid search)

United Kingdom

2017 media investment growth of 6.4% is looking more like the peak we suggested as we shave our outlook for 2018 to 6.0% 2018 (from 6.1%) and 4.8% 2019 (from 5.1%). Pure-play internet growth appears to be slowing down, the rate having been boosted by an IAB restatement affecting 2017 and now its switching from twice-yearly to annual reporting in 2018. The IAB's new half-year statement is a simple estimate of 15% billings growth, which seems about right to us, but the second half is looking more volatile among the larger advertisers we represent, particularly in video. We have digital growth pegged back to 11% for the full year 2018 and another step down to 9% for 2019. This would still account for all net new growth in UK advertising, however, with the remainder of traditional media still losing share to digital media in aggregate.

As we see in other countries, TV price inflation arising from the loss of the measured 16-34 audience is becoming painful for advertisers and killing growth in TV ad investment in developed economies generally. Facebook is still winning share of audio-visual investment, and is heavily video-biased for large advertisers. Advertisers are taking more care in how they use it, including using only made-for-platform copy (as opposed to TV spot recuts); providing more systematic explanation of channel selection; being more alive to diminishing returns and opportunity cost; and being on guard when Facebook makes investment

so quick and simple. But TV is still doing the big basic things well: arguing its case for safety and certainty, with convincing proofs of ROI.

Print brands are still losing more in traditional than they gain in digital, but the medium is getting better at collective defense. In audience measurement, the new PAMCo system is already deployed tactically, and will shape advertiser strategy as it beds in. Sales point collaboration has progressed markedly with the national publishers' Ozone offer, and multi-title packaging remains a competitive and popular option for advertisers, buttressed by recent ownership consolidation.

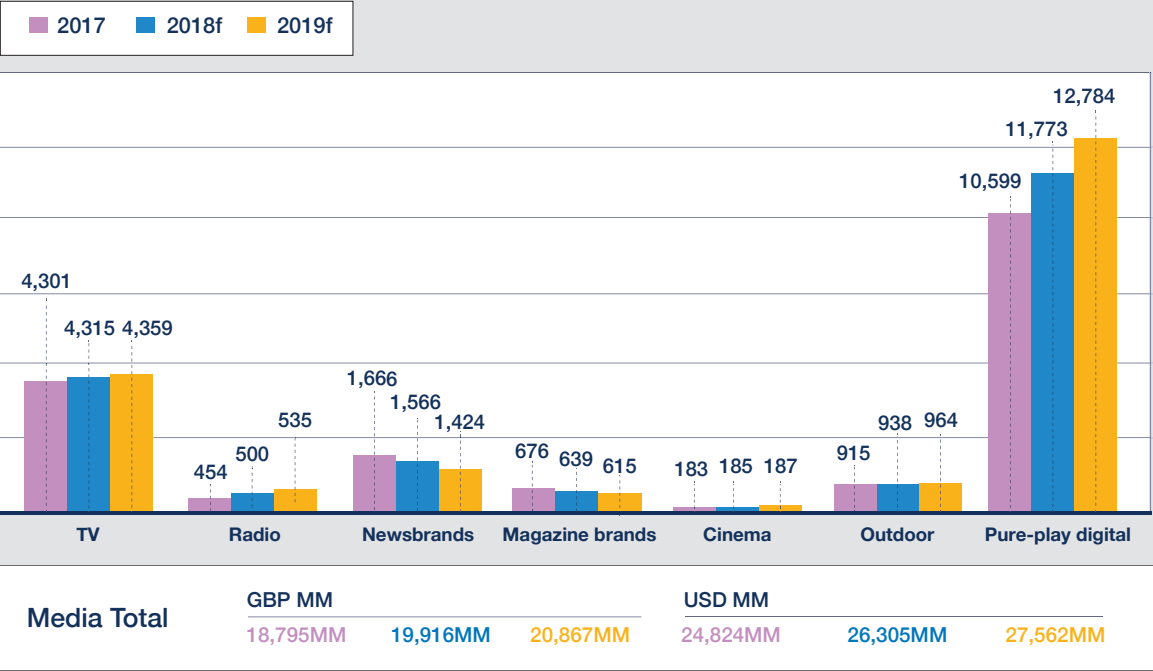
Our radio forecast is up, as rising demand pours into well-sold inventory.

Last time we thought out-of-home's digital build-out had gone about as far as it could, but it is still going. There is enough digital capacity to get a solus-digital national campaign away in small sizes at high prices. The digital price is falling, and will have to fall a lot more before national campaigns on solus-digital 48s are going to make sense. The day may yet come. Today our figures show digital commanding 50% of ad investment. 60% is possible. Progress in advanced out-of-home targeting remains incremental, hemmed in by multiple standards and formats.

The government's Office for Budget Responsibility has no special gift for astrology, but determines Brexit damage will be "relatively small." Another forecaster, Oxford Economics, reckons a no-deal Brexit would mean the economy grows 27% by 2030 instead of 31%. HSBC thinks "no deal" would spell an immediate 2% recession. What is perhaps more illuminating is Deloitte's October CFO survey, which found "Brexit being by far the biggest threat to British business over the next 12 months, ahead of weak demand, trade wars and geopolitics."

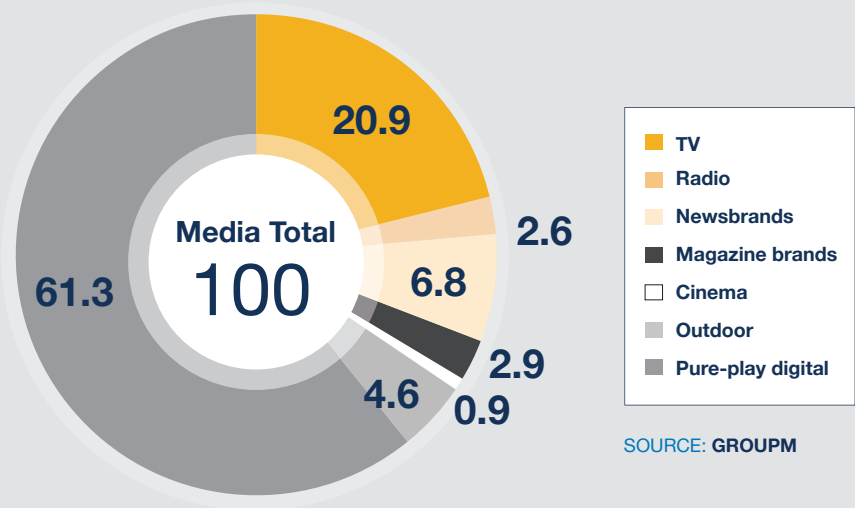
This feeds into a gloomy narrative of cost reduction and deferred investment/hiring. The actual economy is doing OK, with GDP growth sequentially accelerating to 0.7% in the rolling quarter to end-August 2018; wages growing 2.9% from May to July 2018, the fastest in more than three years; and, in March, the manufacturing sector (admittedly only 10% of the economy) marking its longest sustained period of job creation in 40 years. Weak sterling will have helped: a floating national currency is a gift the eurozone foreswore itself 20 years ago. Fortunately, this weakness has now washed through the inflation graph. Brexit might produce another surge: some would argue this is to be welcomed as an "automatic stabilizer" and worth some short-term pain.

Media GBPmm



SOURCE: GROUPM

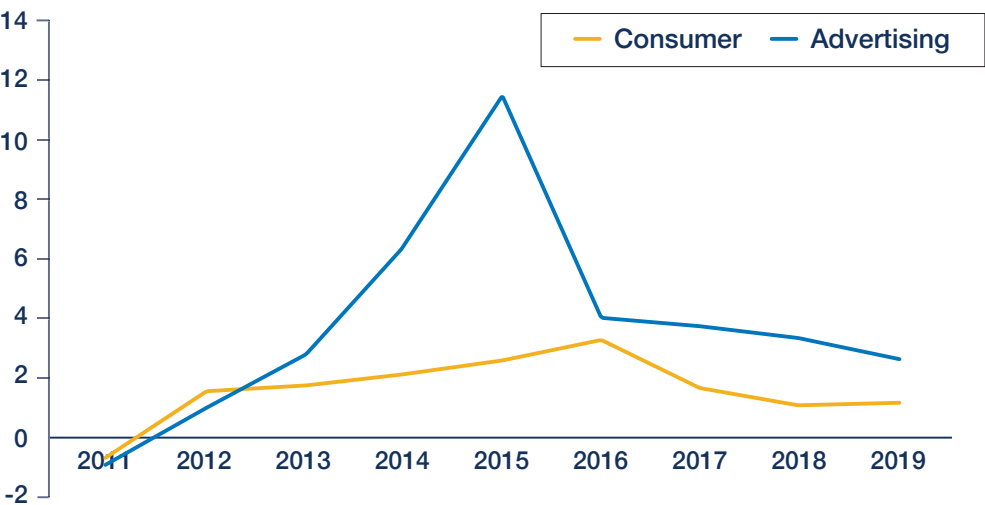
2019f % shares of media



SOURCE: GROUPM

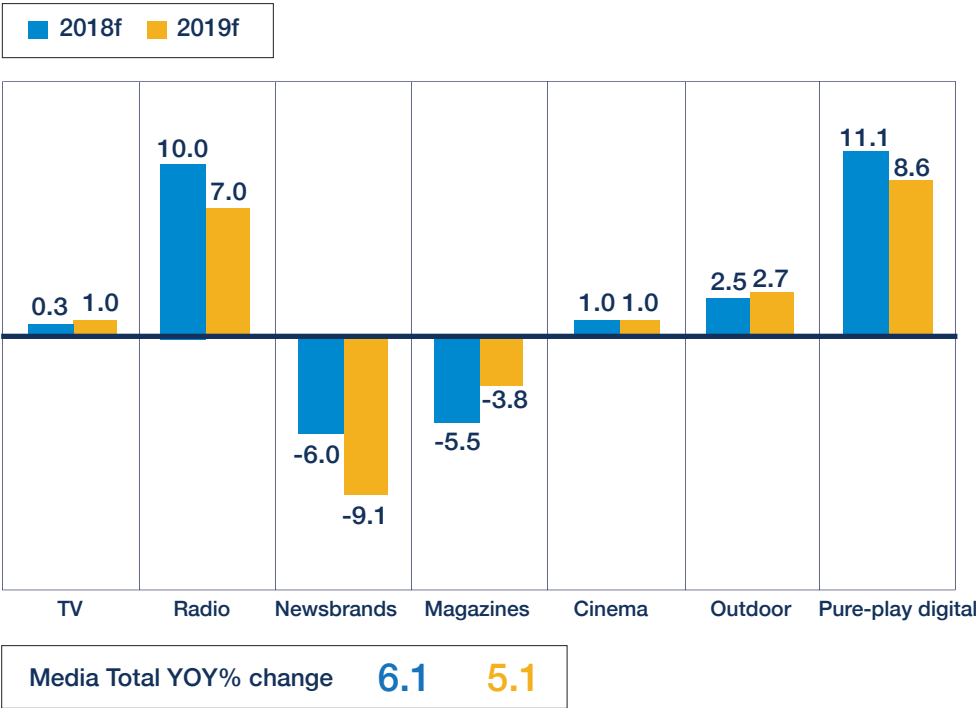
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

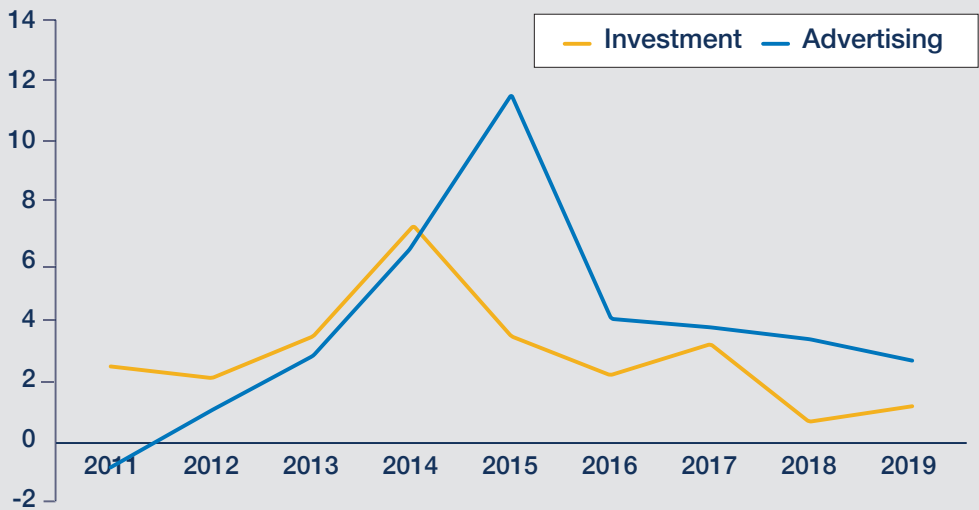
YOY% change



SOURCE: GROUPM

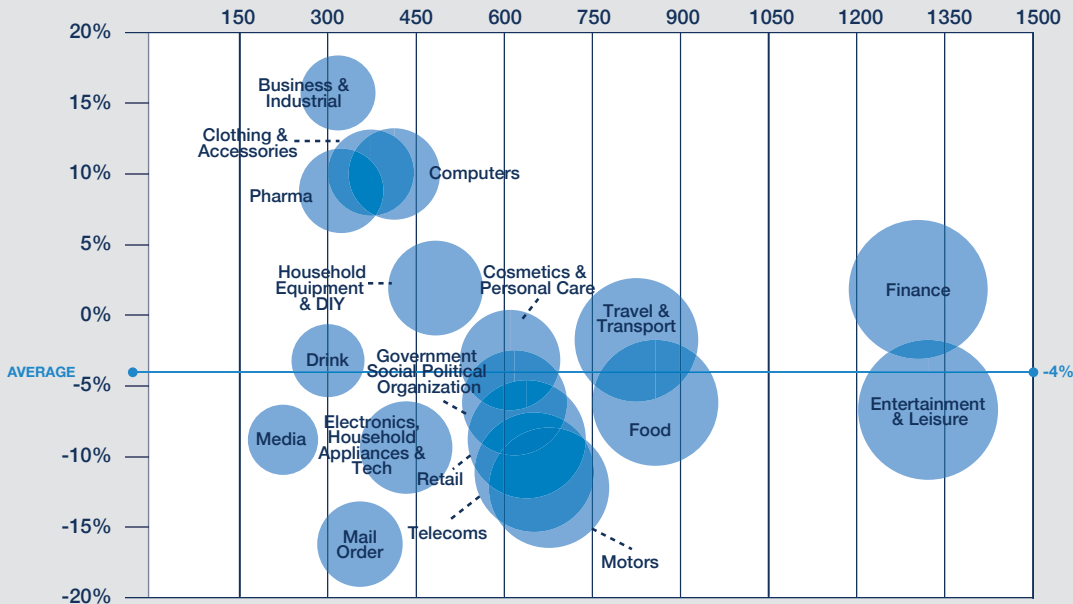
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2017 categories YOY% change and GBPmm



- Historic media: AA, IAB/PwC, GroupM
- Production costs: out, except for cinema
- Agency commission: out
- Discounts from rate card: after
- Newspaper classified: in
- Categories: Nielsen
- “Digital” comprises all forms of advertising on all connected devices
- In April 2017 the IAB retrospectively increased 2015 digital ad investment by £481m
- “Pure play” means digital revenue accruing to legacy newsbrands, magazine brands and TV broadcasters is removed from the “digital” line

United States

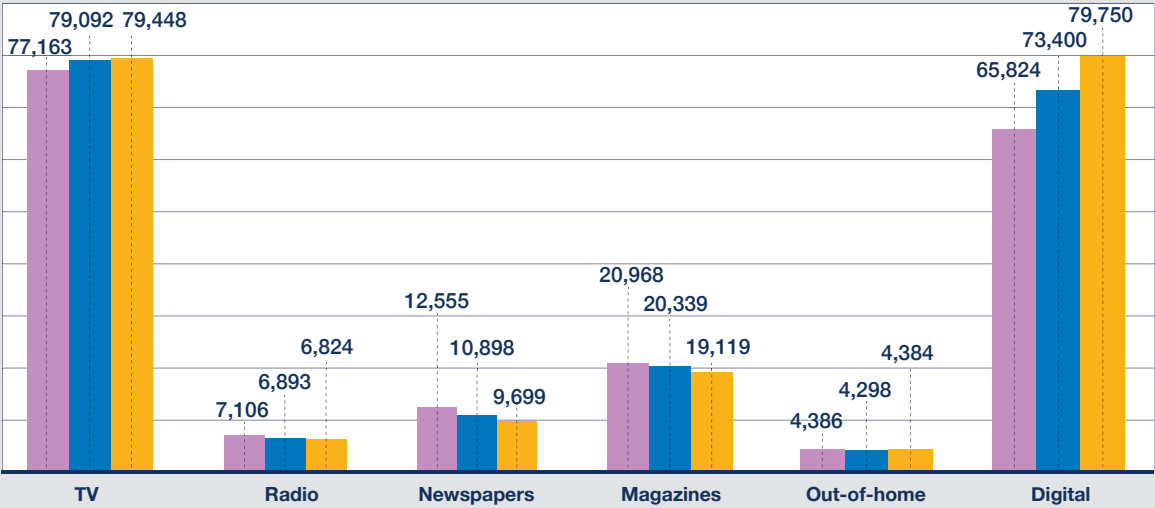
We have adjusted our 2018 total market growth forecast downward from 3.4% to 2.9% to reflect the continued pricing and top-line growth challenges faced by sectors of the US economy. While good news regarding key macroeconomic indicators like lower unemployment have increased US consumer confidence, increases in energy prices, rising interest rate rises, and low unemployment have many concerned about

increased inflation. Marketers continue to study their investments in traditional media, and have increased their scrutiny of all phases of digital, with a continued emphasis on verification and value. The implementation of the EU's GDPR has caused several US digital publishers to revise their data-sharing and targeting policies, which may put a slight drag on the spending increases in this area.

Since our midyear forecast, the US economy has set a few new high tides, such as US corporate profits up 16% in Q2 versus the prior year period, the fastest rise in six years; August consumer confidence indexing its strongest since 2000; and September unemployment of 3.7% – the lowest since the summer of 1969. US wage growth and consumer demand are both rising around 2.5% in real terms per year, and tax reliefs are helping fixed investment to what could be a peak of 6% real growth in 2018. This, then, is the Trump bump, but PCE and wages are only tracking GDP, so the division of spoils between labor and capital cannot have moved much. Meanwhile, the Fed is hawkish, with a tendency to overshoot, and there is no new bump in 2019 – only the promise of a yawning deficit.

The Fed targets 2% PCE; HSBC predicts it will average 2.5% in 2018, and the IMF, 2.4%. Risks this could go higher are late-cycle wage inflation, and the expectation that the US consumer will pay for the trade war in higher prices.

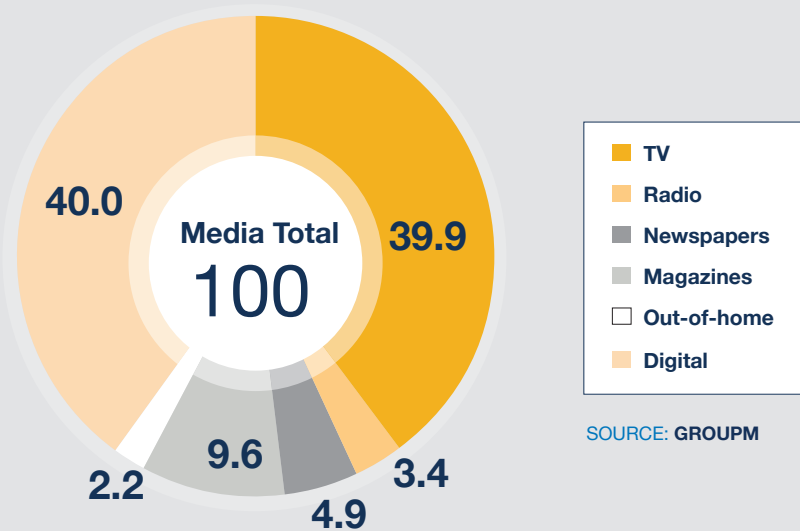
Media USDmm



| Media Total | USD MM | | |
|-------------|-----------|-----------|-----------|
| | 188,002MM | 194,920MM | 199,223MM |

SOURCE: GROUPM

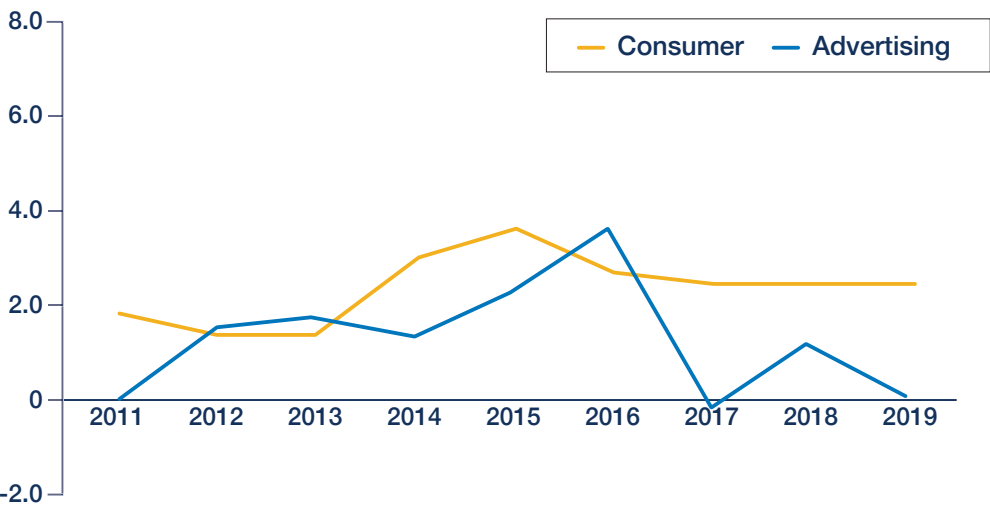
2019f % shares of media



SOURCE: GROUPM

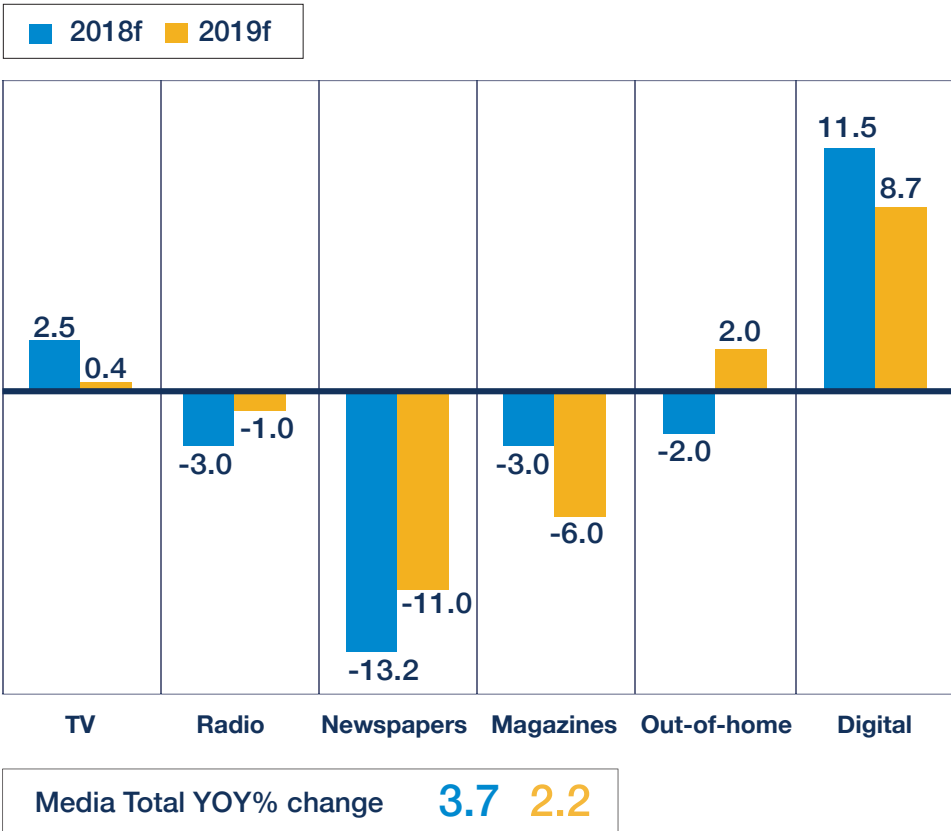
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

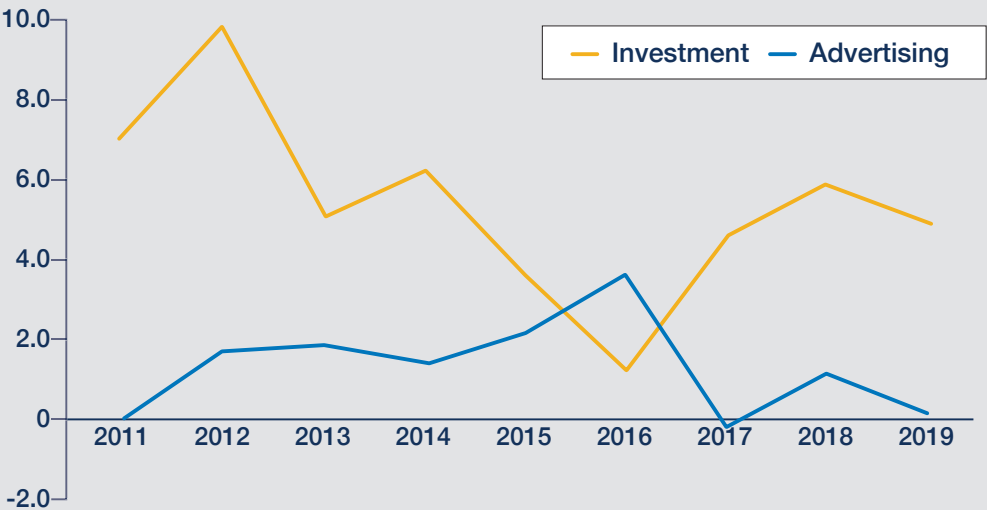
YOY% change



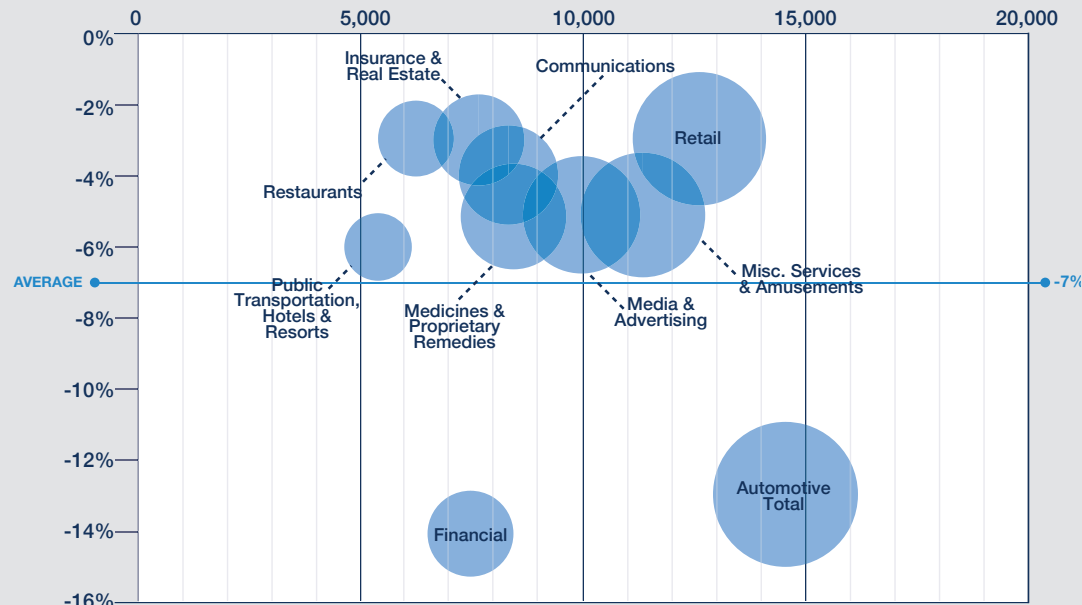
SOURCE: GROUPM

Investment

YOY changes adjusted for inflation



2017 categories YOY% change and USDmm



- Categories: Kantar
 - Historic media revenue: Kantar, GroupM
 - Agency commission: out
- Discounts from rate card: before
 - Newspaper classified: in
 - Internet classified: out

GroupM is the world's leading media investment company responsible for more than \$113B in annual media investment through agencies including Mindshare, MediaCom, Wavemaker, Essence and m/SIX, as well as the outcomes-driven programmatic audience company, Xaxis. GroupM creates competitive advantage for advertisers via its worldwide organization of media experts who deliver powerful insights on consumers and media platforms, trading expertise, market-leading brand-safe media, technology solutions, addressable TV, content, sports and more. Discover more about GroupM at www.groupm.com.

For further information about this report, please contact brogan.laudat@groupm.com



GroupM
3 World Trade Center
175 Greenwich Street
New York, NY 10007
USA

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