

PRESS RELEASE

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Strong decline in ad expenditure continues

Rate of decline to moderate towards the end of the year

Slight recovery in 2010

- Unprecedented economic problems have led us to predict 6.9% decline in global ad expenditure in 2009
- Lack of quadrennial events (Olympics, elections) creates tough year-on-year comparisons for markets like the US
- Poor corporate confidence means very limited visibility in the market
- Consumers are putting off big purchases and shifting consumption from premium to value products, opening opportunities for advertisers with value to offer
- Consumers are spending more time at home, consuming more media, particularly television and the internet
- Search is driving internet growth as consumers use it to find bargains

Advertising expenditure by region

Major media (newspapers, magazines, television, radio, cinema, outdoor, internet)

US\$ million, current prices. Currency conversion at 2007 average rates.

	2007	2008	2009	2010	2011
North America	188,300	181,269	166,299	163,811	165,768
Western Europe	120,177	118,894	110,875	112,090	115,835
Asia Pacific	99,583	102,584	99,071	101,704	108,480
Central & Eastern Europe	31,634	35,071	30,190	31,559	34,547
Latin America	26,422	29,676	29,070	31,128	32,969
Africa/M. East/ROW	15,931	19,241	17,750	19,664	23,069
World	482,047	486,734	453,254	459,956	480,668

Source: ZenithOptimedia

**Major media (newspapers, magazines, television, radio, cinema, outdoor, internet)
Year-on-year change (%)**

	2007 v 06	2008 v 07	2009 v 08	2010 v 09	2011 v 10
North America	2.7	-3.7	-8.3	-1.5	1.2
of which USA	2.5	-4.1	-8.7	-1.7	1.1
Western Europe	6.0	-1.1	-6.7	1.1	3.3
Asia Pacific	6.8	3.0	-3.4	2.7	6.7
Central & Eastern Europe	22.4	10.9	-13.9	4.5	9.5
Latin America	16.3	12.3	-2.0	7.1	5.9
Africa/M. East/ROW	22.6	20.8	-7.7	10.8	17.3
World	6.7	1.0	-6.9	1.5	4.5

Source: ZenithOptimedia

Since we released our last forecasts in December the global ad market has taken a substantial turn for the worse. Trade has fallen off rapidly, dragging many developing markets into the downturn. Our last forecasts predicted declining ad expenditure in North America and Western Europe in 2009. We now predict a steeper decline in these regions, with all regions joining in the general decline. We forecast global ad expenditure to shrink by 6.9% over the course of 2009.

We are currently in the middle of a period of steep deterioration in ad expenditure. The downturn began in Q3 2008, accelerated in Q4, and Q1 2009 was at least as tough as the preceding quarter. As we enter Q2, there is limited long-term visibility in the market as most advertisers wait until the last moment to confirm their spending commitments. Many are treating advertising as a discretionary expense, and one they find convenient to cut. Ad expenditure correlates strongly with corporate profits, and the ad market is unlikely to start its recovery until profits start to pick up again.

The current barriers to recovery include lack of trust in the credit markets, and low confidence in prospects for short-term growth. If governments manage to tackle the bad debt poisoning the credit markets, and if their stimulus programmes kick-start economic growth, then advertisers should start to regain their confidence. This will take time, and occur at different speeds in different markets. At this point we forecast 1.5% growth in global ad expenditure in 2010 followed by 4.5% growth in 2011, but these forecasts will be revised in the light of new information.

As in previous recessions, consumers have started to spend less, save more, and spend more time at home. Consumers are putting off the purchase of big ticket items and shifting their consumption habits from premium products to budget brands.

In the retail sector this means that stores can attract new customers if they can use advertising to demonstrate the value they offer. In response, premium stores are bringing in value lines and advertising their presence. The retail category has therefore remained fairly robust.

In the finance category, corporate advertising has fallen off quite sharply, but consumers' increased appetite for saving and risk aversion means that savings accounts and certain types of insurance are still growing. A lot of insurance advertising is direct response, and if insurers cut back on this they will lose business.

Spending by FMCG (packaged goods) advertisers has generally held up well; these advertisers have hundreds if not thousands of lines of products and they know that they need to advertise to

sell them. Many have maintained their budgets and been able to strike some very favourable deals with media owners. There has been a clear shift from premium to value products as the FMCG companies respond to consumer demand.

The automotive industry is suffering from long-term problems that the downturn has exposed and exacerbated, but not caused. Regulations (of exhaust emissions and servicing, for example), high labour costs and other structural problems left auto manufacturers with very thin margins even in the good years. Manufacturers have cut production sharply, so output is probably now nearly in line with demand, but they have been left with a large backlog of stock that needs to be sold. The situation is not universally grim, however: in France and Germany, for example, government incentives have led to increased sales in the short term, and increased automotive advertising. In many markets, smaller – generally foreign – marques have managed to gain market share by promoting their value proposition.

Businesses have cut back their travel expenses considerably, causing a large drop in premium traffic for airlines. But leisure travel is still popular, particularly to countries where exchange rates now look very favourable to consumers spending in euros or US dollars. Airline advertising to consumers is still active in markets with strong exchange rates.

We forecast ad expenditure to shrink by 8.3% in North America in 2009. The region is obviously dominated by the US, which will suffer from the absence of the quadrennial events (the Olympics and presidential elections) that injected extra cash into the ad market in 2008. We forecast the US to shrink by 8.7% in 2009, while Canada remains stable with 0.2% growth.

All the major markets in Western Europe are suffering substantial decline in ad expenditure: in 2009 we forecast 7.3% decline in France, 5.5% in Germany, 5.0% in Italy, 10.1% in Spain and 8.7% in the UK. Overall we expect ad expenditure to drop 6.7%. However, we expect all the major markets to grow in 2010 with the exception of Italy, which we expect to shrink another 0.8%.

We expect Asia Pacific to drop by 3.4% in 2009. Asia Pacific contains several large markets that are still growing, if rather less rapidly in recent years. We forecast 5.4% growth in ad expenditure in China (down from 18.8% last year), 6.4% growth in India (down from 18.9%) and 7.9% growth from Indonesia (again down from 18.9%). Several smaller markets are also still growing, but these are counterbalanced by sharp falls in some markets (-11.0% in Taiwan, -16.5% in Singapore and -20.0% in South Korea) and a 5.0% fall in Japan, which still contributes 38% of the region's ad expenditure.

We now forecast that Central and Eastern Europe will suffer the sharpest drop-off in 2009, of 13.9%. This decline has been exacerbated by the way that in some markets advertising is monitored in US dollars but bought in local currencies, many of which have weakened at the end of 2008 and the beginning of 2009. They now seem to have stabilised against the dollar, so this downward pressure on dollar-denominated ad expenditure should ease. We also predict that the large drops seen in markets like Russia, Turkey and Ukraine represent one-off corrections by international advertisers as they reassess the long-term growth potential of these markets, and expect to see a return to growth in 2010.

Most markets in Latin America are actually still growing, but the region as a whole is dragged down by two markets (Brazil and Colombia) that are also bought in local currencies but monitored in US dollars, and whose currencies have also weakened against the dollar. Overall we expect ad expenditure to shrink 2.0% in Latin America in 2009, but in the absence of the currency effect we forecast a return to strong 7.1% growth in 2010.

Global advertising expenditure by medium

Consumers are saving money by spending more time at home. As usual in a recession, this means that media consumption is increasing, particularly of television and the internet.

The internet is the only medium we expect to actually attract higher ad expenditure in 2009, thanks to its accountability and innovation in ad formats. We forecast 8.6% growth in internet expenditure in 2009, down from 20.9% in 2008. Most of this growth will come from search advertising. Consumers considering a purchase are using search more as they seek out the very best deals. In the US we predict search advertising to grow 9.0% in 2009, while classified grows just 1.8% and traditional display shrinks 1.8%. New formats are enjoying greater growth (29.8% from internet video and rich media, 29.7% from internet radio and 11.9% from podcasts), but these represent only 12% of US internet expenditure between them.

Once a modicum of confidence returns to the market we expect the growth of internet advertising to pick up again, to 11.3% in 2010 and 15.3% in 2011. We expect its share of the ad market to rise to 14.6% in 2011, up from 10.4% in 2008. However, in recent years the number of sites on the web has increased about twice as rapidly as internet ad expenditure, most of which goes to a handful of big players. A number of internet companies that have based their business model on advertising may find their model unsustainable now that credit is drying up.

Television is also doing relatively well in the downturn. We do expect television ad expenditure to fall 5.5% in 2009, but this represents an increase in market share from 38.1% to 38.6%, followed by a record 39.3% share in 2010. Advertisers that cut budgets across the board will often cut television last, since they know it best and are convinced of its effectiveness. Some advertisers are taking advantage of reduced prices to build their brands and market share while their rivals concentrate on promotions and sales. The fact that viewers are watching more television helps too. This will not necessarily benefit those large broadcasters that are suffering competition from hundreds of digital rivals, since the incumbents are continuing to lose share to the newcomers.

US\$ million, current prices *Currency conversion at 2007 average rates.*

	2007	2008	2009	2010	2011
Newspapers	128,553	121,636	107,005	102,651	102,866
Magazines	57,789	55,136	49,046	47,549	48,155
Television	178,169	183,277	173,158	179,146	186,573
Radio	38,198	37,361	33,621	33,204	34,041
Cinema	2,287	2,421	2,336	2,472	2,675
Outdoor	30,546	31,395	29,276	29,914	31,792
Internet	41,352	49,994	54,298	60,438	69,695
Total *	476,894	481,219	448,740	455,373	475,797

Source: ZenithOptimedia

** The totals here are lower than the totals in the 'Advertising expenditure by region' table above, since that table includes total adspend figures for a few countries for which spend is not itemised by medium.*

Share of total adspend by medium 2007-2011 (%)

	2007	2008	2009	2010	2011
Newspapers	27.0	25.3	23.8	22.5	21.6
Magazines	12.1	11.5	10.9	10.4	10.1
Television	37.4	38.1	38.6	39.3	39.2
Radio	8.0	7.8	7.5	7.3	7.2
Cinema	0.5	0.5	0.5	0.5	0.6
Outdoor	6.4	6.5	6.5	6.6	6.7
Internet	8.7	10.4	12.1	13.3	14.6

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