This Year Next Year

WORLDWIDE MEDIA AND MARKETING FORECASTS

December 2016

groupm

Introduction

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The IMF forecasts aggregate global GDP picking up in nominal terms from 4.4% in 2016 to 5.2% in 2017. General price inflation is baked into those numbers, and the IMF and other forecasters have this creeping up in 2017 in the belief governments and central banks are growing less doctrinaire about controlling it. The IMF's 3.3% global aggregate CPI for 2017 would still be lower than the 1999-2015 average of 4.1%: enough to check consumer spending power, but not enough to hand back much pricing power to hunkered-and-bunkered advertisers. As recessionary Brazil observes, shopping around becomes a habit, and it favors digital media.

The main change to world's economic outlook now compared to a year ago is that corporates are even more reluctant to make big investment decisions. Some of this is transitory (energy prices), some more enduring (China's structural adjustment), some political (Brexit, European populism) and some simply because CFOs despair this grinding global recovery will ever reach "escape velocity". GDP growth mathematics therefore increases dependence on government and consumer demand. Relative to consumers, governments are small and indebted. Consumers are just indebted.

Against this slow-low background our new ad forecasts are not much changed, with global ad growth continuing to shadow nominal GDP at 4.3% in 2016 (last time 4.4%) and 4.4% in 2017 (5.2%).

2016 was a maxi-quadrennial without the maxi, as neither the summer Olympics, not the European soccer, nor the US elections surprised to the upside. Ad growth in the developed world looks to have touched a post-Lehman high of 3.2%, but for next year we have this at 2.8%, reverting to its 2000-2015 norm of 2.4%. A lack of maxi makes an easier comp for the faster-growth world, where our lowish 6.1% for 2016 accelerates to a new-normal 7.3% in 2017. The "old normal" 13.8% 2000-2015 is just a memory, except for some in the digital world.

We have digital's share of all global adex at 31% this year rising to 33% next. That is the same as last time, with the run rate of growth continuing to slow through the teens from 15% in 2016 to 13% in 2017. One new milestone is coming up: next year we

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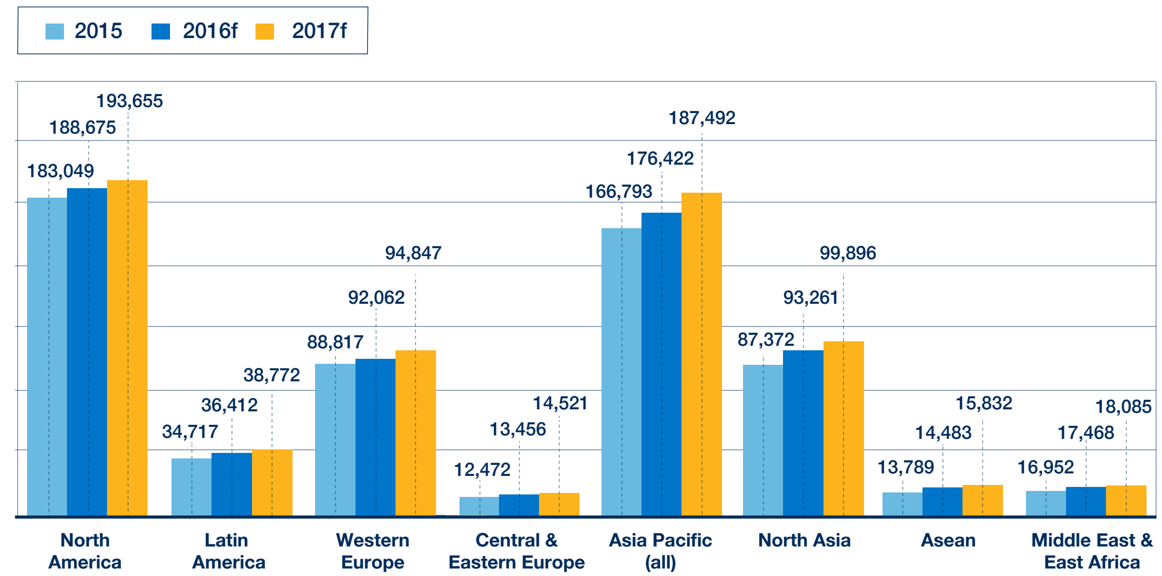
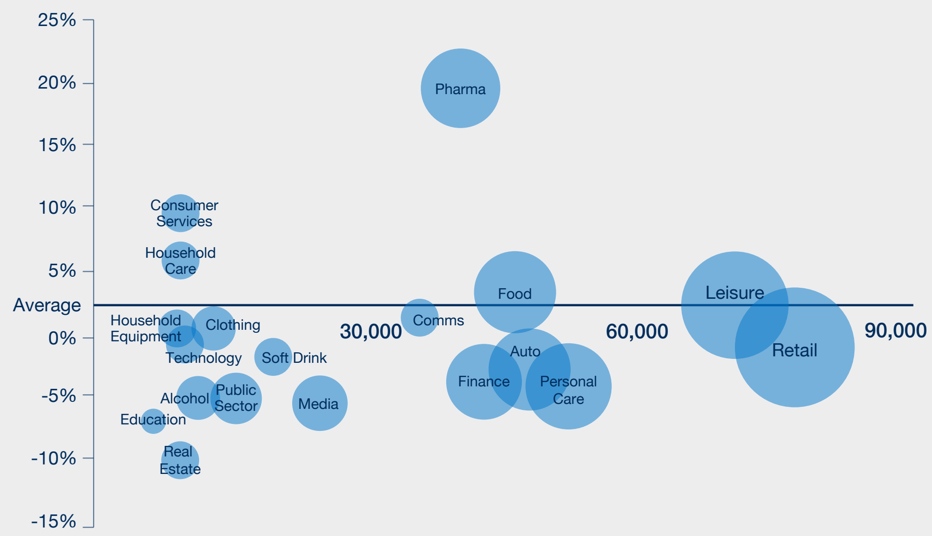
Media summary



	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
North America	157,600	159,784	164,834	171,118	174,824	179,899	183,049	188,675	193,655
YOY%	-7.2	1.4	3.2	3.8	2.2	2.9	1.8	3.1	2.6
Latin America	15,159	22,107	24,304	26,145	30,334	32,222	34,717	36,412	38,772
YOY%	1.7	45.8	9.9	7.6	16.0	6.2	7.7	4.9	6.5
Western Europe	83,365	87,280	88,363	85,393	84,203	86,294	88,817	92,062	94,847
YOY%	-11.1	4.7	1.2	-3.4	-1.4	2.5	2.9	3.7	3.0
Central & Eastern Europe	9,169	10,100	11,159	11,821	12,324	12,645	12,472	13,456	14,521
YOY%	-21.5	10.2	10.5	5.9	4.3	2.6	-1.4	7.9	7.9
Asia-Pacific (all)	109,270	119,741	129,407	139,235	148,693	157,445	166,793	176,422	187,492
YOY%	-2.5	9.6	8.1	7.6	6.8	5.9	5.9	5.8	6.3
North Asia	*47,773*	*55,037*	*63,599*	*70,372*	*76,780*	*81,905*	*87,372*	*93,261*	*99,896*
YOY%	*6.4*	*15.2*	*15.6*	*10.7*	*9.1*	*6.7*	*6.7*	*6.7*	*7.1*
Asean	*7,381*	*8,559*	*9,464*	*10,502*	*11,586*	*12,371*	*13,789*	*14,483*	*15,832*
YOY%	*7.1*	*16.0*	*10.6*	*11.0*	*10.3*	*6.8*	*11.5*	*5.0*	*9.3*
Middle East & Africa	12,124	13,529	14,330	15,877	16,652	15,662	16,952	17,468	18,085
YOY%	5.9	11.6	5.9	10.8	4.9	-5.9	8.2	3.0	3.5
World	386,686	412,542	432,397	449,589	467,029	484,166	502,799	524,495	547,371
YOY%	-6.5	6.7	4.8	4.0	3.9	3.7	3.8	4.3	4.4

Introduction (cont)

2015 Categories YOY% Change and USDmm



predict digital's share of ad investment in the faster-growth world will at last have caught up with the developed world, to the 33% we just noted. The new and old worlds have been contributing equal tonnage of new digital ad dollars since 2013. If we disregard print, which is negative, then in 2016 digital will capture 72 cents of every new ad dollar, and TV 21 cents. In 2017 this becomes 77 to 17.

We do not consider digital as big as traditional TV yet, with TV's ad share resolute at 42% in 2016 and 41% in 2017. It rode a five-year 44% peak 2010-2014, and some of the share it appears to have shed since then is an artefact of poor measurement. 10 countries have already witnessed digital overtake TV, with a further five in line in these forecasts: France, Germany, Ireland, Hong Kong and Taiwan. Digital fuels its growth by recruiting long-tail advertisers and winning share from other media. To this it now adds a serious attempt to win TV's big-brand advertising, an endeavor which will turn as much on digital's quality as on its undoubted quantity.

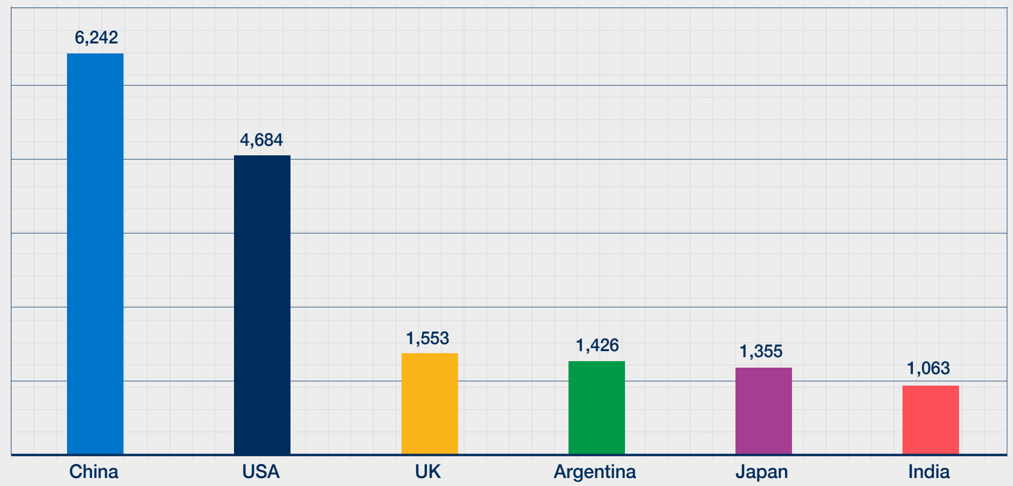
The Trump victory has raised uncertainty. This means more hesitation in important decisions in the short-term, by people, governments and corporates. Advertising spend will likely be negatively impacted until there is clarity on policy.

Brexit, or more accurately, the process leading to this, has had a discernible effect on what CFOs and financial markets think about the future, but as yet no discernible effect on advertising investment. The only country to mention this spontaneously in this forecast sweep was Ireland, the economy most exposed to the UK. Ireland downgraded its 2016 ad forecast, but in aggregate, the EU ex UK has actually raised its ad outlook fractionally, to 2.9% this year and 2.1% next year from 2.7% and 2.0% respectively before the surprise referendum result. Our UK ad forecast is also a surprise, revised upwards to a digital-fuelled 7% annual run-rate, and delivering a prospective $3.0 billion incremental investment over the two years compared to $3.3 billion from the rest of the EU put together.

China reclaims its narrow lead from the US as the principal contributor to ad growth, reflecting minor and opposing shifts in sentiment in these two titans, together furnishing exactly half of all net growth in our 2016 and 2017 forecast. All regions and nearly all countries are showing positive on our 2017 dashboard and those of other economic forecasters. Universal progress is a remarkable prospect for a year with an ample flock of swans.

Introduction (cont)

Top Contributors 2017 USDmm



Commentary for Top Contributors 2017 chart

We forecast net global ad growth in 2017 of $22.9 billion. These six countries are providing 71%. This dependence remains substantial but continues to fall. Our upward revision to China and a fractional downward revision to the US restores China to the top-contributor slot it has occupied for eight of the nine years 2008-2016. The UK contributes $1.5 billion of net growth next year, a forecast which has endured the surprise Brexit referendum result and the announcement that the departure process will start in the first quarter of 2017. Court challenges to this process, and the likelihood that extraction will prove complicated, are liable to weigh on this forecast when we review it in six months. Argentina advertising continues to stage its strong recovery, with the peso remaining stable in dollar translation. Countries just outside this top tier look well-diversified: Russia, Egypt, Brazil, the Philippines, Australia and Spain.

Commentary for Consumer and Investment charts

Consumer demand continues to support moderate GDP growth, with wage growth expected to continue at its established run-rate of 2% real in developed countries and in the low 7s in the developing world, where the travails of Russia and Latin America brought a double-digit run to an end in 2015. The IMF and other forecasters have global CPI ticking up in 2017. QE may have run out of ammo, but "natural" sources of possible inflation include firmer commodities and the fading disinflationary effect of the stronger dollar in the US. The world is still short of consumer demand, with the traditional surplus countries of China and Germany generating disinflation at home and in their export markets, and Japan corporates resisting state exhortations to distribute hoarded profit as wages.

Private sector investment growth has dropped to multi-year lows, suppressed by weak demand and pricing power amid a world of elevated political and economic risk. This mismatch of consumption and investment has kept debt above pre-Lehman levels and productivity below. An important positive on the fixed-investment outlook is the US's potential to recover from the near-zero 2016 investment growth brought about by the oil price collapse.

One way to break this impasse is for governments to stimulate demand by spending more and either taxing less, or taxing differently to unlock surpluses.

Introduction (cont)

Long-term ad forecasts

	2017f	2018f	2019f	2020f	2021f
North America	193,655	202,365	210,895	219,136	227,568
YOY%	2.6	4.5	4.2	3.9	3.8
Latin America	38,772	40,882	43,385	46,159	49,173
YOY%	6.5	5.4	6.1	6.4	6.5
Western Europe	94,847	97,455	100,321	103,159	105,923
YOY%	3.0	2.7	2.9	2.8	2.7
Central & Eastern Europe	14,521	15,247	16,090	16,934	17,773
YOY%	7.9	5.0	5.5	5.2	5.0
Asia-Pacific (all)	187,492	200,810	211,566	224,311	237,767
YOY%	6.3	7.1	5.4	6.0	6.0
North Asia	*99,896*	*108,226*	*116,167*	*124,273*	*132,572*
YOY%	*7.1*	*8.3*	*7.3*	*7.0*	*6.7*
Asean	*15,832*	*17,586*	*19,244*	*21,042*	*22,973*
YOY%	*9.3*	*11.1*	*9.4*	*9.3*	*9.2*
Middle East & Africa	*18,085*	*20,219*	*21,569*	*22,874*	*24,297*
YOY%	3.5	11.8	6.7	6.0	6.2
World	547,371	576,979	603,827	632,573	662,501
YOY%	4.4	5.4	4.7	4.8	4.7

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.

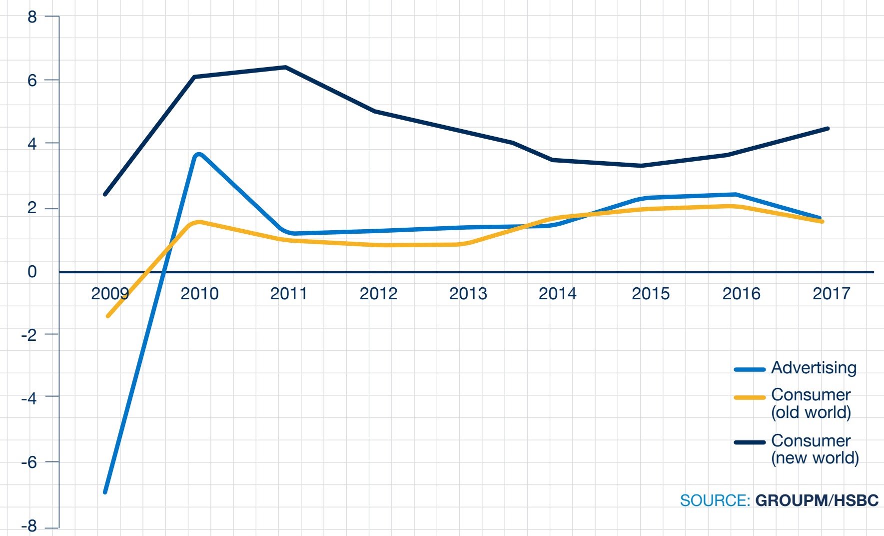
This is intended merely for scenario planning. GDP forecasts know nothing of structural changes in media advertising, so neither can this model.

THIS YEAR NEXT YEAR

Introduction (cont)

Consumer spending

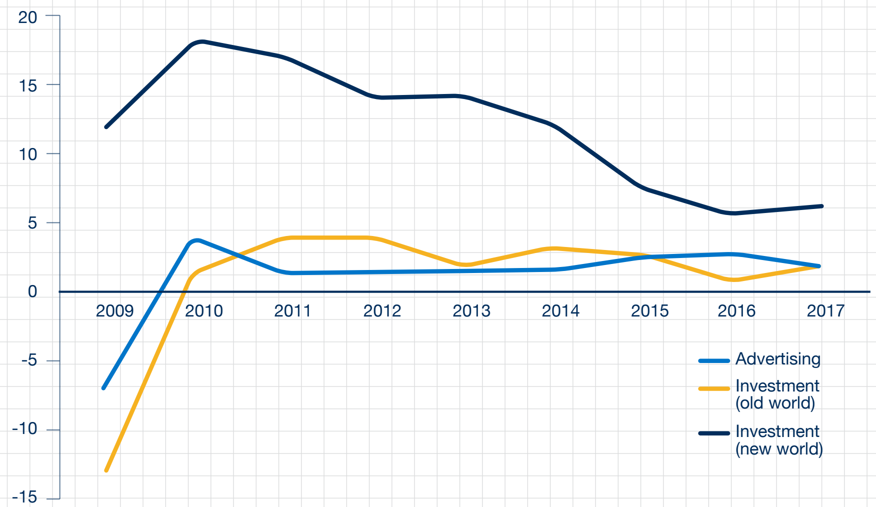
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

India

The economy should grow at 7.7%-7.9% in FY17-18 led by low interest rates, sustained urban demand and the impact of key reforms. Some risks to GDP growth remain, including the possibility of a rising current-account deficit (rising crude oil prices and sluggish exports) and muted private investment. Goods and Services Tax (GST) is expected to take force April-June 17. This may have a slight to moderate impact on consumer inflation.

FMCG outlook mixed: intense competition (food start-ups, Patanjali online shopping), increasing rural penetration and stronger mix of premium products could all lead to good media demand on the one hand, while higher input prices along with the inflationary impact of GST could dampen ad spend.

E-commerce growth likely to taper: as players consolidate and start-ups struggle to raise funds, focus on profits indicates muted advertising growth.

Auto volume growth steady at 8-12% aided by low penetration, cheap finance and growing real incomes. Set to become the world's third largest car market by 2018, India will see 20-30 new launches in 2017.

Telecom growth moderate as service provider margins come under pressure due to declining ARPU, hard-discount disruptors, long break-even on data services and high capex and spectrum spends. Smartphone shipment growth will slow down from peak of 35% to a more sedate 10%-20%. By 2018, there may be 90 million 4G subscribers using 180 million 4G devices. Tough competition among handset and service providers will continue, encouraging media spends.

Banking sector: expected to recover as public banks clean up bad loans and recapitalize; private investment likely to pick up. Retail lending (auto and home loans) and financial services expected to grow well.

Medium-wise

TV: FTA channels to add more inventory, niche genre to consolidate and HD-pure content to emerge in India.

Print to continue at a modest pace of growth in Hindi and other vernacular publications, while elections in four states and one union territory are expected to add incremental spends

Digital to witness higher emphasis on viewability metrics and outcome-based optimization. Non-human traffic and ad blocking to intensify, making advertisers rationalize digital budgets. OTT ad spends to grow as internet speeds improve and catch-up; TV gains ground. Mobile and video ads to continue to be growth drivers; online audience and content consumption to grow enormously as 4G gets implemented .

Radio: phase 3 rollout completes in 2017. Higher growth expected on increased supply (full year impact of new stations).

OOH to witness good traction from sectors addressing rural audience and premium niche audience.

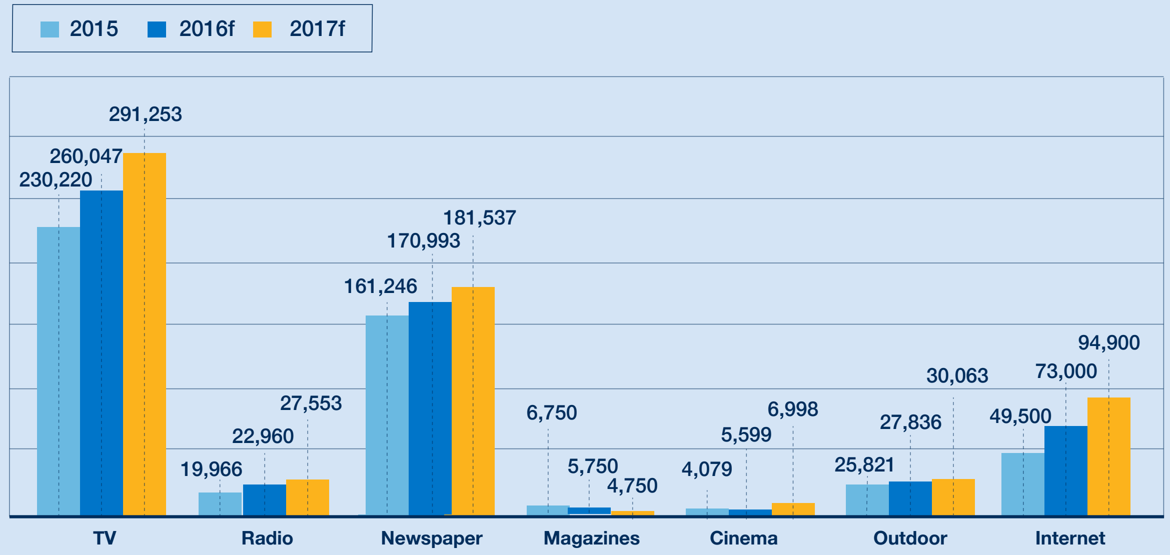
Cinema consolidation has led to infrastructure investment. Growing acceptance of premium Indian and Hollywood content by advertisers augurs well for the medium.

Despite growth ahead of China, inflation is comfortably on track to meet the RBI's 5% target for early 2017, aggregate public debt is stable, and the trade deficit remains around 1% of GDP and easily covered by inward investment.

Rural demand is supported by a return to normal rains after two years' drought, which keeps food price inflation in check. Citi notes healthy demand in two-wheel transport, tractors, fuel and money velocity. Urban demand is supported by public sector wage rises, ample credit headroom, and inward investment, again evidenced in Citi's index in car sales and fuel.

India hopes the new, reforming General Sales Tax will take effect in April 2017. It may stoke short-term inflation but its long-term effect will be beneficial, introducing single-market efficiency and broadening the tax-capture base. Beyond our own 2017 forecast horizon, HSBC anticipates GST lifting the annual GDP "speed limit" nearly a point.

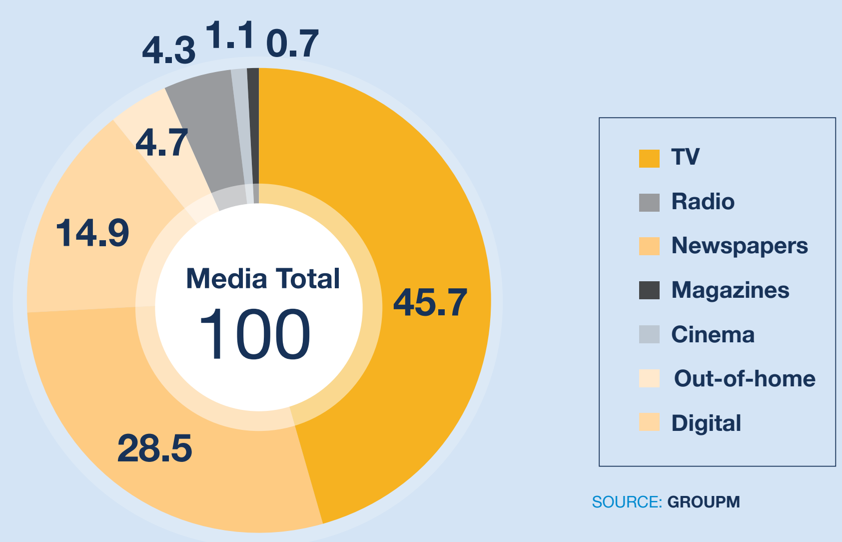
Media INRmm



Media Total	INR MM			US MM		
	497,582MM	566,186MM	637,054MM	7,464MM	8,493MM	9,556MM

SOURCE: GROUPM

% Shares of media

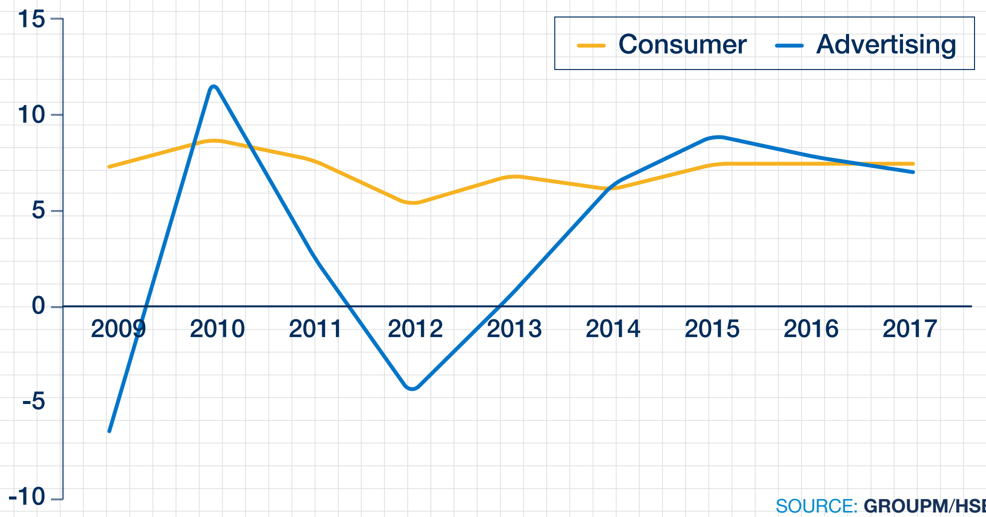


SOURCE: GROUPM

India

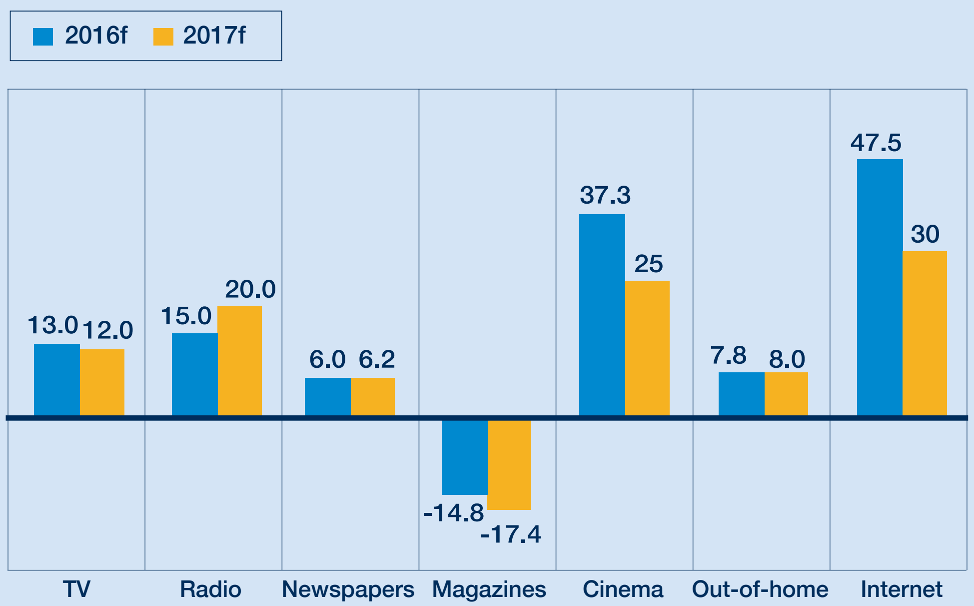
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



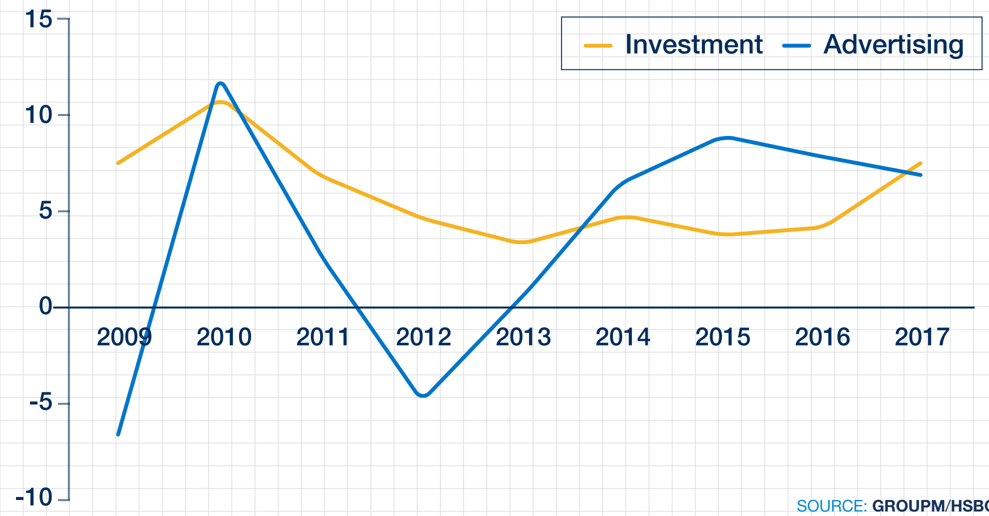
Media Total YOY% change 13.8 12.5

SOURCE: GROUPM

India

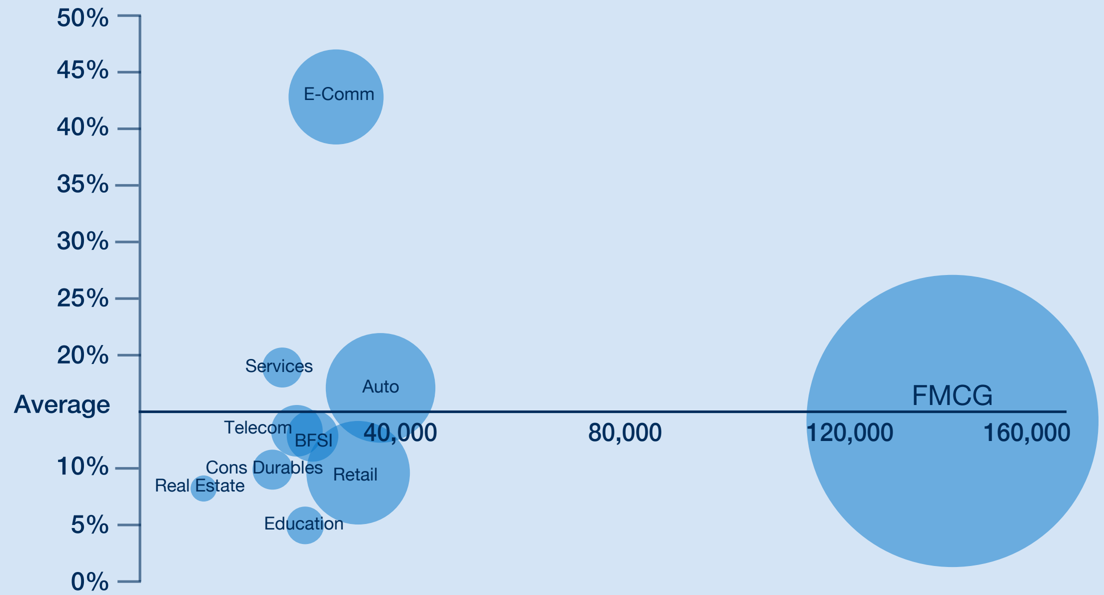
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2015 Categories YOY% Change and INRmm



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