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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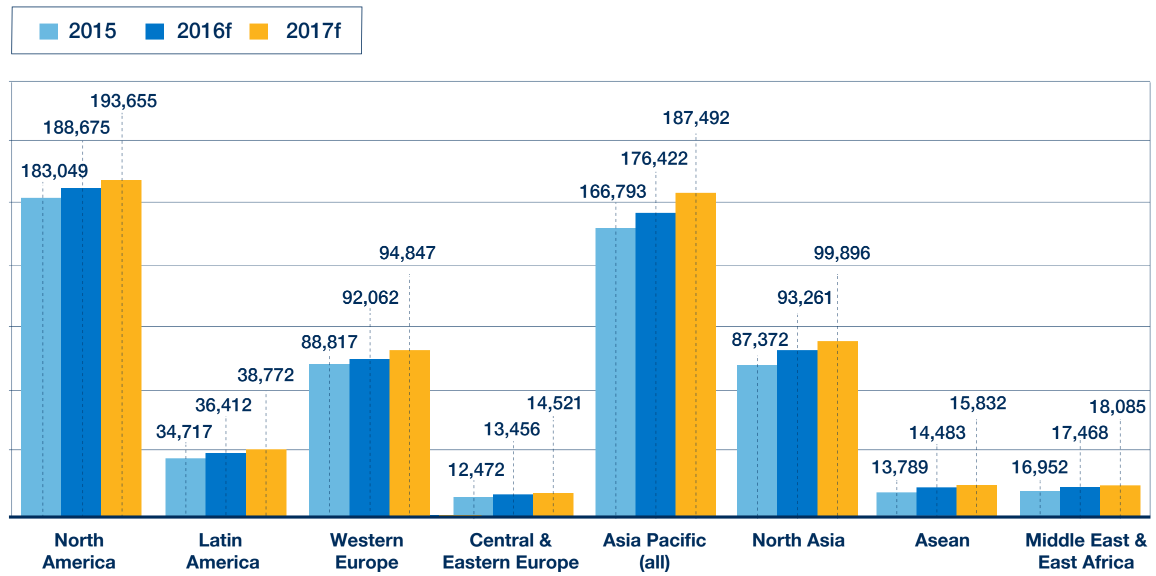
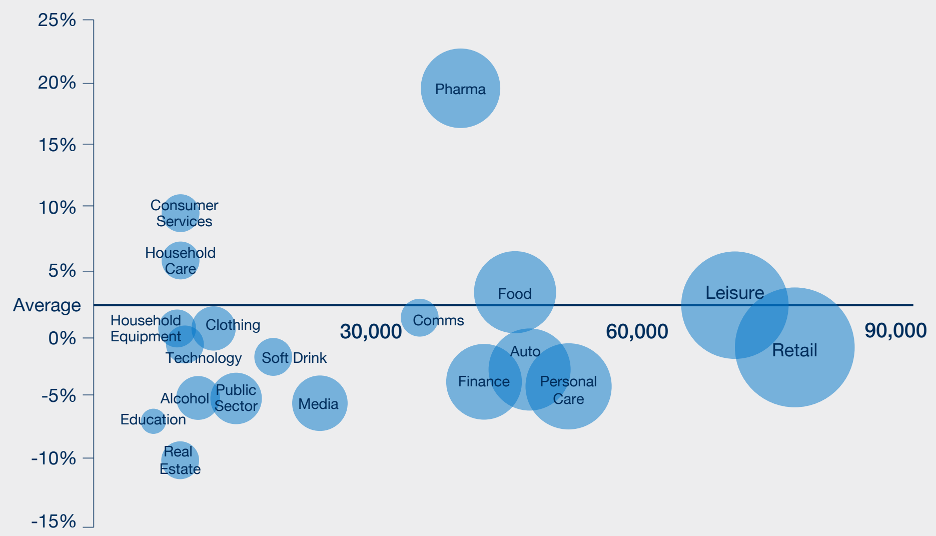
Media summary



	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.

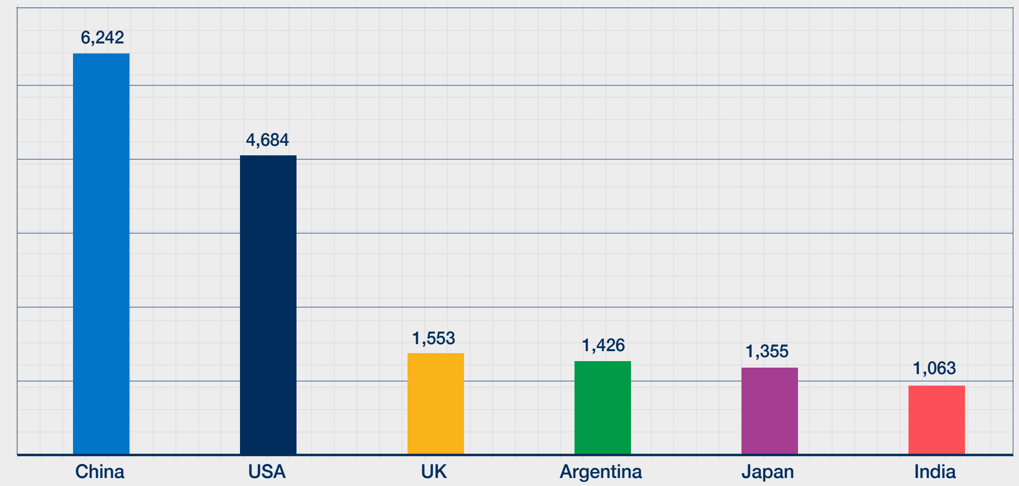
The Trump victory has raised uncertainty. This means more hesitation in important decisions in the short-term, by people, governments and corporates. Advertising spend will likely be negatively impacted until there is clarity on policy.

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

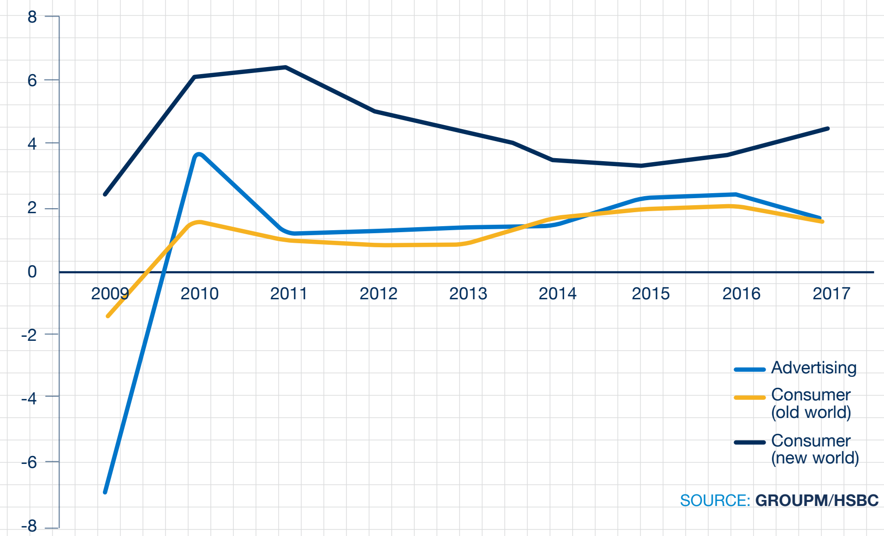
GroupM's long-term forecast model has one principal independent variable: the IMF's calculation of each country's share of global GDP at PPP.

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

Introduction (cont)

Consumer spending

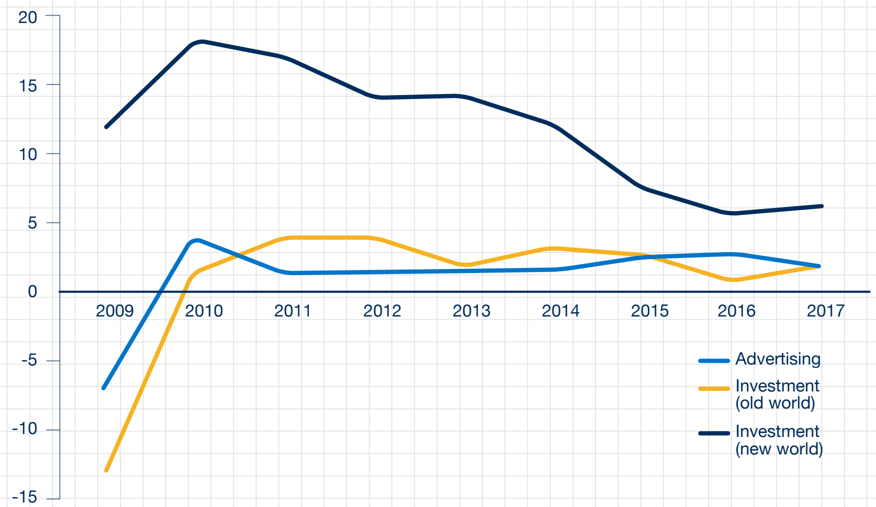
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

Brazil

After becoming part of people's routine, the theme "Political Crisis" should leave the agenda gradually. The impeachment of former president Dilma Rousseff, the end of the municipal elections, and the great feast provided by the Olympics collaborate in this process. The new government is treating the recovery from recession as the top priority (in 2016, the forecast is for further 3.3% real GDP decline, +4.5% nominal). The recently announced plans for budget cuts in health, education and social programs gave concern to the political left, but the right and financial markets favor austerity. We hope to see real GDP recover by around 1% in 2017.

Brazilians who felt incomes grow in recent years have had to adjust to lean times. Now, on the verge of a recovery in the economy, the market is aware of the new "Deal Hunter" consumer profile. Their purchases are better planned, seeking not only the lowest price but also quality assurance. For this, mobile technology and digital advantages have gained great relevance.

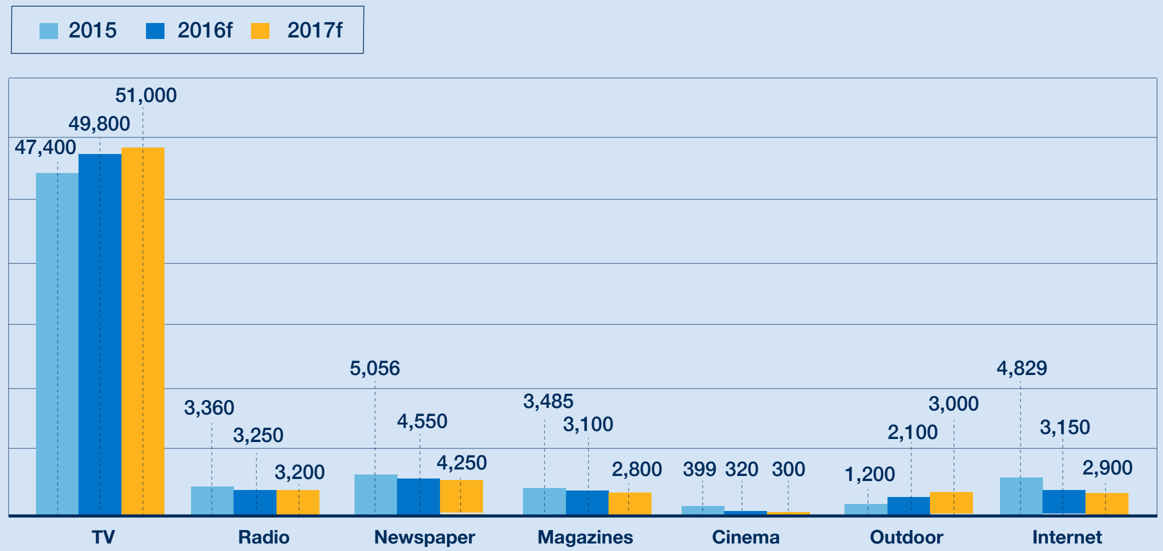
Digital adoption has therefore accelerated. According to ComScore, Brazil has 106 mm internet users per month. Since the beginning of the year, the base of mobile users grew 22% to reach 74 mm. eMarketer predicts by 2020 the number of digital shoppers will grow 23% and ecommerce volume 45%. Digital advertising naturally benefits. Unfortunately no measure of internet ad revenue is yet reliable. Official surveys under-record. Although imperfect, IAB Brazil does give an idea of the true scale. It estimates digital advertising revenue will rise 12% in 2016 to reach BRL 10.5 bn. The focus on performance, accuracy and new forms of customer engagement makes advertisers adopt other strategies in digital media and consequently intensify RTB/programmatic, mobile, use of influencers and video purchases, at rates ahead of expectations for this year.

Investment in Open (free-to-air) TV has risen more slowly than previous years, but it is still a safe haven for advertisers in times of crisis. With no expected increase in viewing or ad load, TV growth is related only to changes in rate inflation. Pay TV, on the other hand, still has projected growth in usership and has drawn the attention of advertisers because of its profitability.

Among the other traditional media, the only one to show growth was OOH. This is a result of a number of factors: changes in business model; consolidation of more professional players; the street furniture restructuring in key markets (mainly São Paulo, where for some years OOH has been restricted) and the appeal of attending public spaces motivated by recent events (World Cup and Olympics).

The softer Real has helped export competitiveness, but household income is still falling. Wage growth is forecast to trough at 4% real in 2017 to the hoped-for accompaniment of unemployment stabilizing. The budget deficit is testing 10%, with accumulated public debt tracking expensively upwards, being subject to a double-digit rate of interest. With two of four congressional hurdles now cleared to freeze government spending for years to come, the administration is banking confidence, credibility and political capital. This is the key to taming inflation and easing interest rates down. A years-long campaign lies ahead, but macroeconomic forecasts show all indicators positive starting 2017.

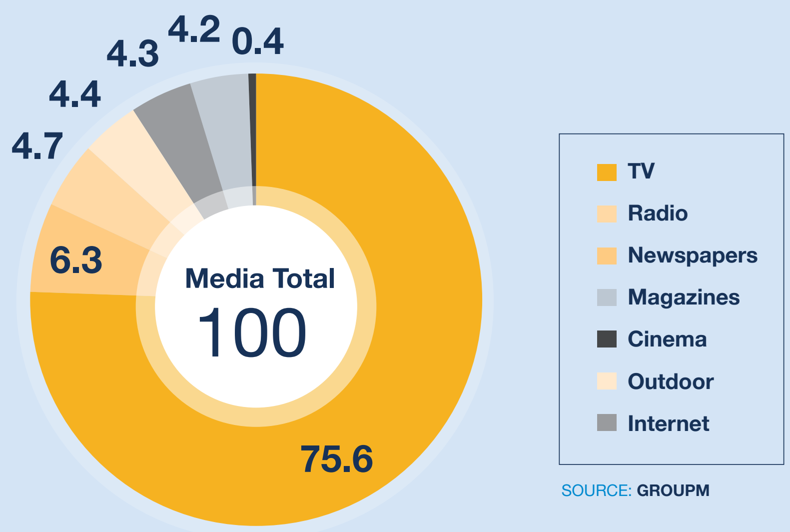
Media BRLmm



Media Total	BRL MM			US MM		
	65,728MM	66,270MM	67,450MM	20,746MM	20,917MM	21,290MM

SOURCE: GROUPM

% Shares of media

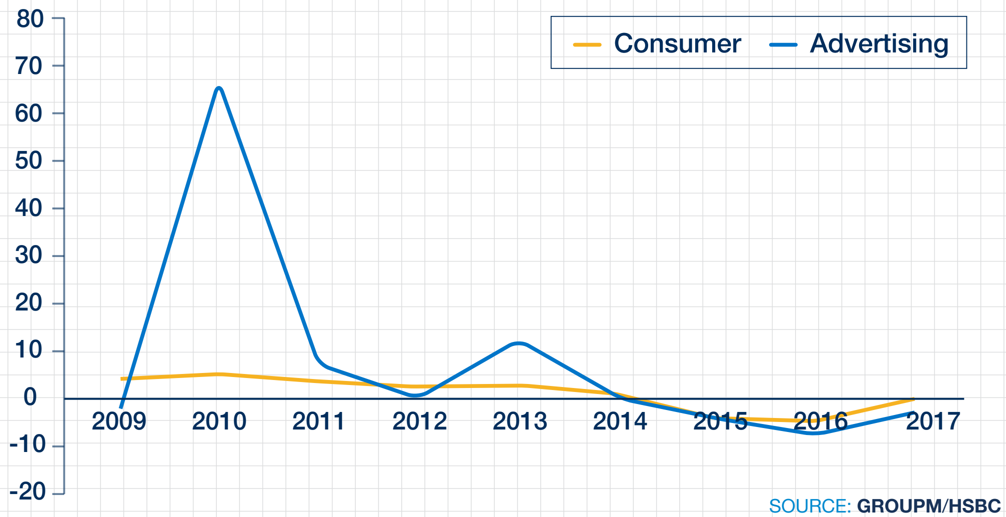


SOURCE: GROUPM

Brazil

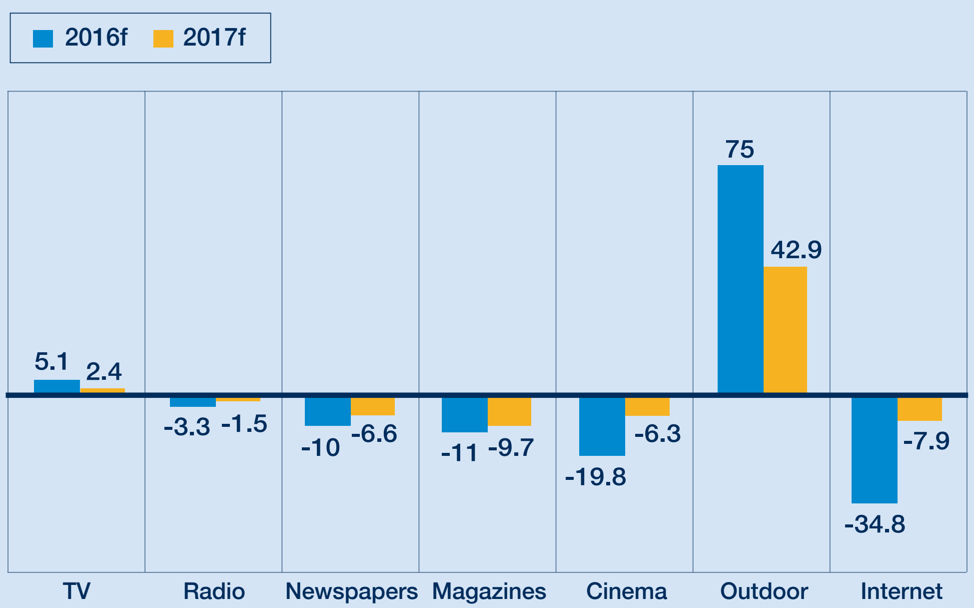
Consumer spending

YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

YOY% Change



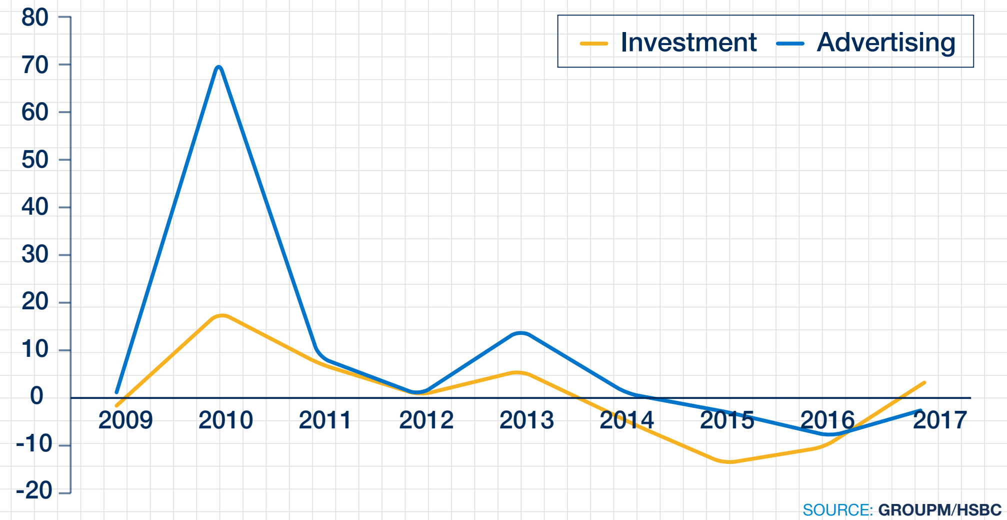
Media Total YOY% change 0.8 1.8

SOURCE: **GROUPM**

Brazil

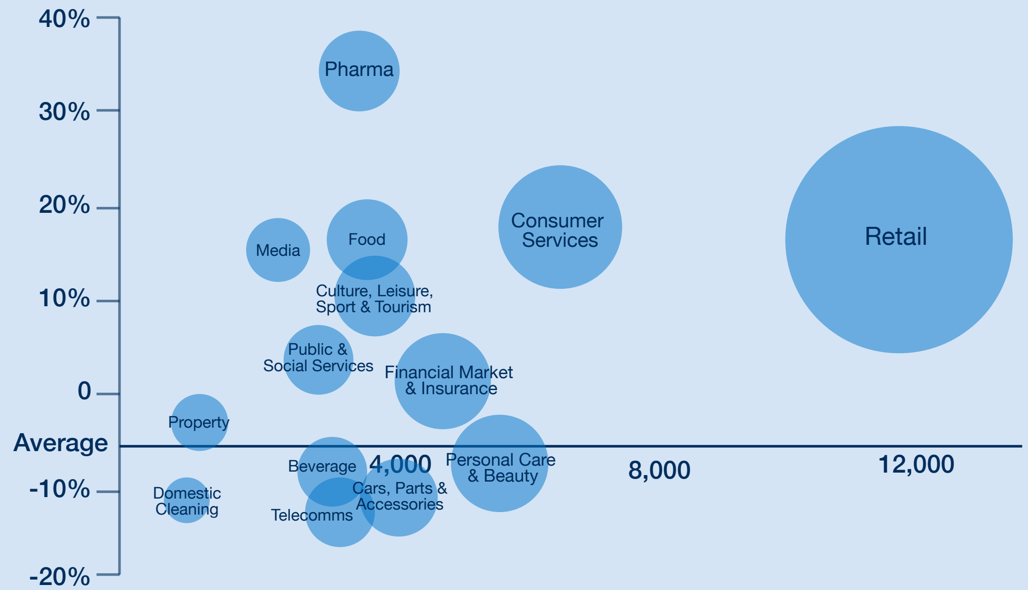
Investment

YOY changes adjusted for inflation



SOURCE: **GROUPM/HSBC**

2015 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 ratecard)
- 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.
- "Digital display" as reported is therefore a diminishing market

Canada

With the economy stable, a freer spending government and consumer spending on the rise, the media advertising landscape is in a relatively stable state.

There is however one exception to this relative stability — the traditional print companies. All of the large national newspaper operators have cut staff, with ad revenue diminishing over 20% year on year once again. Rogers, the largest publisher of magazines in the country, were forced to overhaul their strategy as digital consumer revenue was outstripping newsstand revenue by 50%. Rogers made multiple titles “digital only” with only 4 magazines remaining in print, though printed less regularly. A sign of the times.

The Canadian television industry is also contracting a little in terms of supply; the key A25-54 demographic falling by 6% vs 2015, a fall coming on a 5% contraction in the previous year. The major TV news of 2016 was Corus Television buying the TV assets of Shaw Media in a deal that saw the number 2 and 5 ranked English TV station holding groups consolidating to leave Bell Media hanging on to their #1 spot by a thread.

The fall in television viewing has also presented all major broadcasters with decisions to make surrounding the joint promotion of the television advertising industry, programmatic/addressable targeting offerings and their common long term strategy of ‘renting’ programming from the US whilst simulcasting it on Canadian networks. A limited ability to monetize content online and on streaming services around the world after first showings is not a solid long-term approach. Netflix already reaches 50% of A18-34 Canadians on a weekly basis. Without the relative success of Canadians in international sporting events such as the World Cup of Hockey and the Olympics, as well as a strong resurgence of the Toronto Blue Jays and Toronto Raptors (Canada’s only Major League Baseball and National Basketball League sports teams) audience numbers would have been far worse.

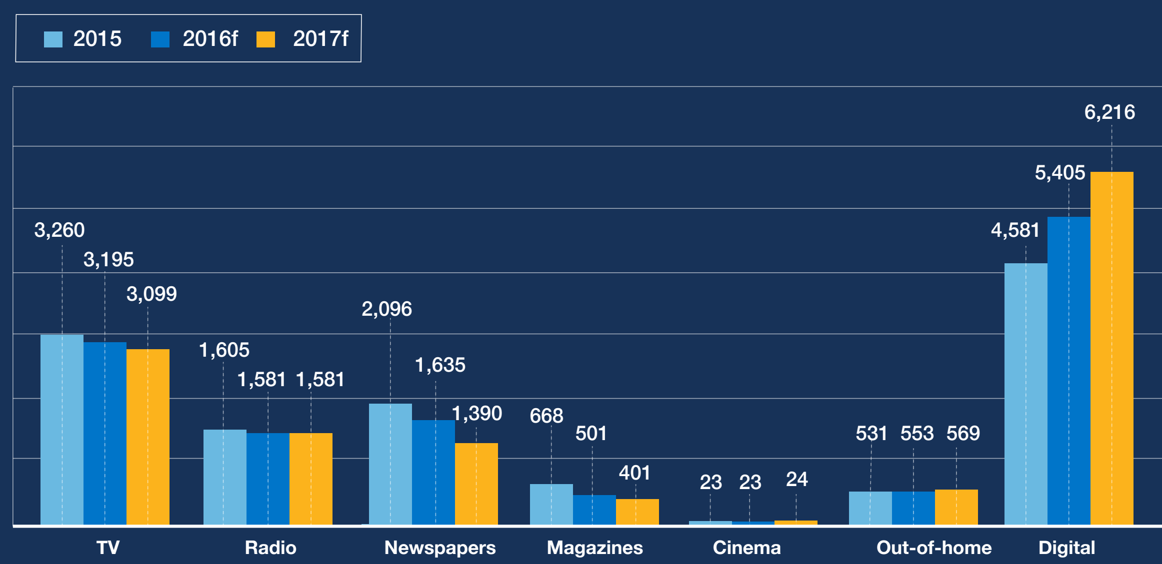
Soft TV audiences result in a forecast fall of 2% in revenue in 2017. Other media such as radio, OOH and cinema see stability in both supply and their advertising revenues.

In Digital advertising approximately 60-70% of display advertising traded programmatically, and there is continual expansion of programmatic online video. This means that the Canadian “digital rep shops” that sell on international content are seeing their business model under threat. We predict further close-downs of these intermediaries.

Mobile now represents 25% of “time spent in media” and is seeing solid growth to a 13% share of media spend as agencies and advertisers attempt to measure effectiveness and learn how to create engaging ads for handheld devices. Mobile, plus further growth in social, programmatic and video means strong growth in digital spend again in 2017.

Hopes for a modest acceleration in GDP rest on recovery in the oil sector from the effects of the May fires and from fiscal expansion of 1% of GDP set out in the March budget — and the government has headroom to bolster this in the 2017 budget if necessary. The prospect of a pickup in China and the commodity cycle are welcome; the raised uncertainty in the US less so. Consumer demand growth is however flirting with multi-year lows as rising house prices and the burden of servicing related debt meet median income growth stifled by rising inequality. Household debt is approaching 100% of GDP, and half of personal net worth is in property, with consequent risks relating to rising interest, falling values and unemployment.

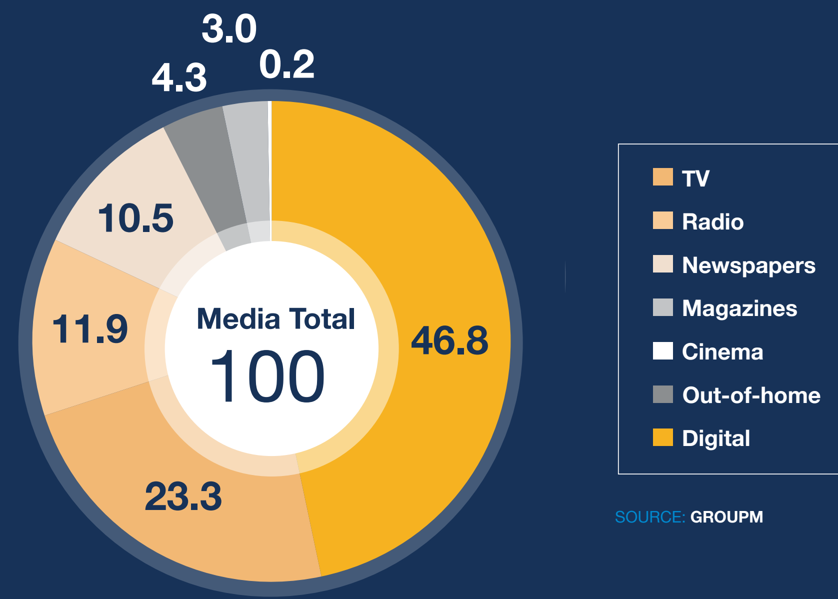
Media CADmm



Media Total	CAD MM			US MM		
	12,764MM	12,893MM	13,280MM	9,738MM	9,836MM	10,132MM

SOURCE: GROUPM

% Shares of media

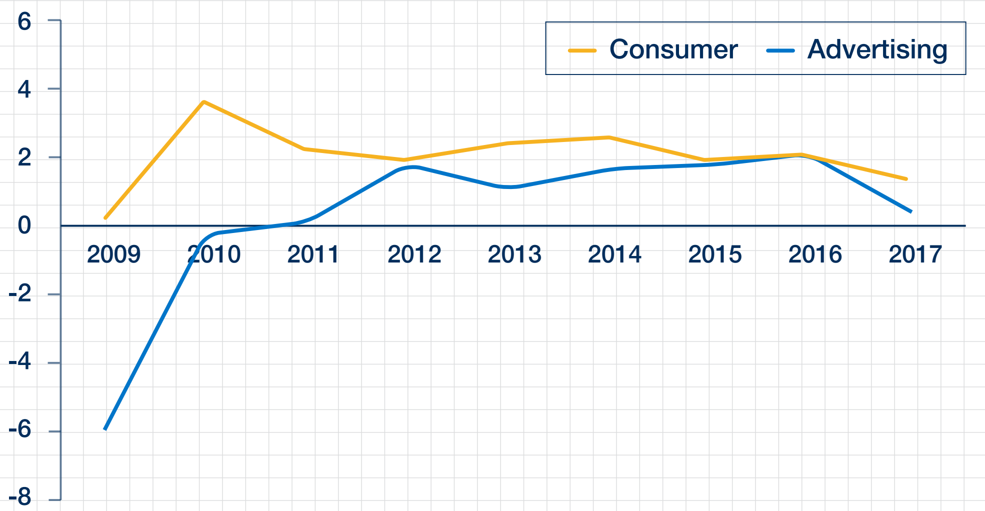


SOURCE: GROUPM

Canada

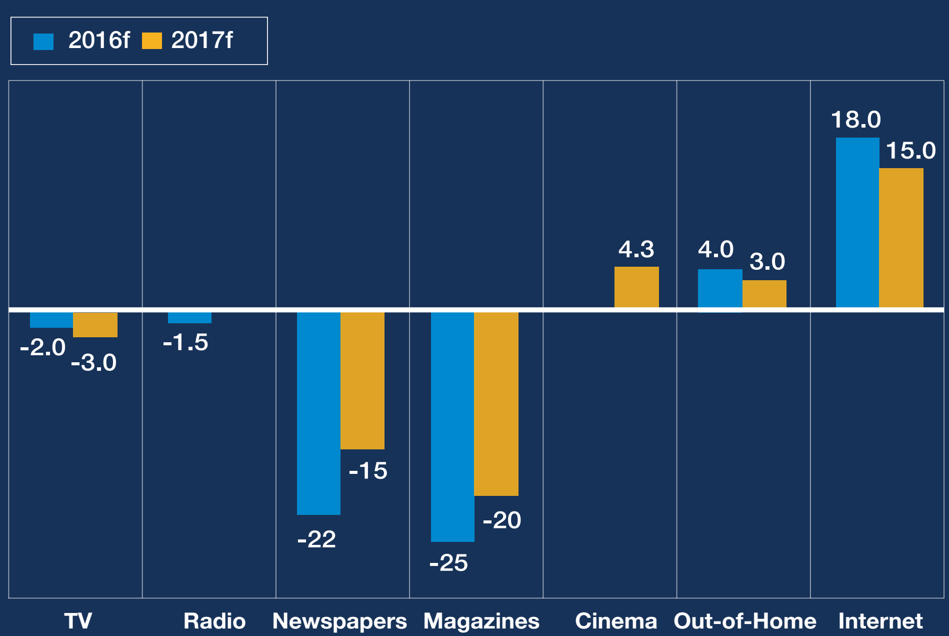
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



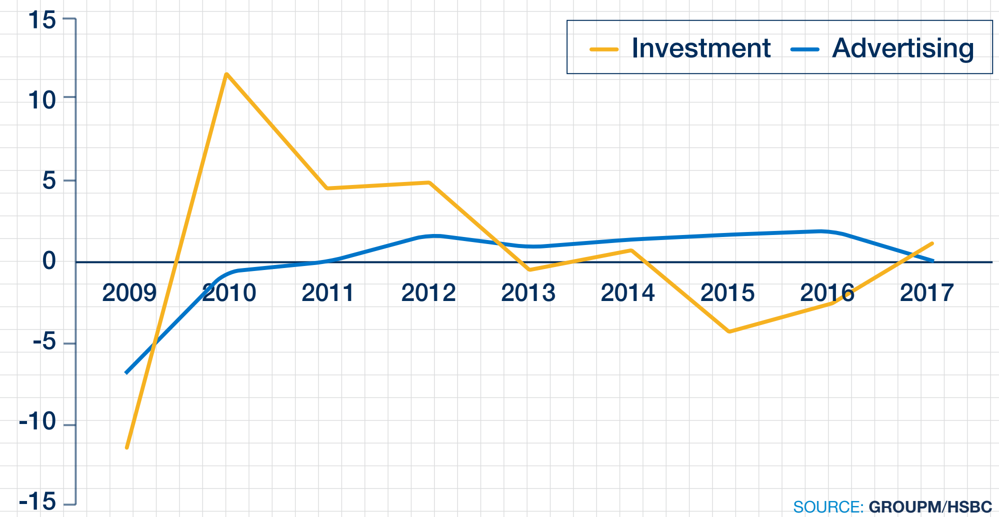
Media Total YOY% change 1.0 3.0

SOURCE: GROUPM

Canada

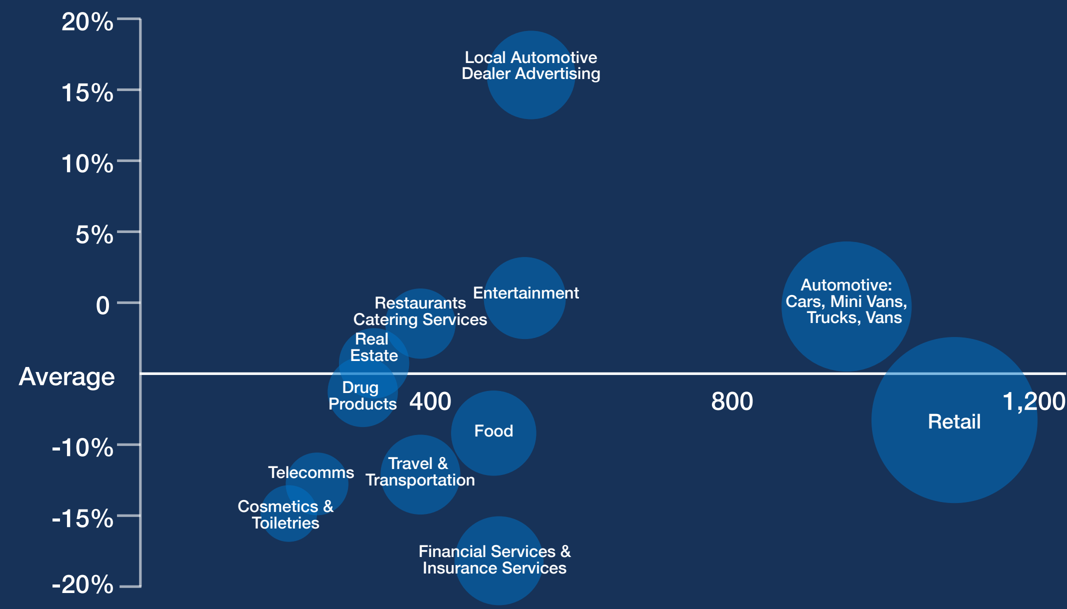
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2015 Categories YOY% Change and CADmm



- Categories: NMR, CAD m, gross
- Historic media revenue: TV and radio, CRTC; newspapers CAN; magazines, Magazines Canada; OOH, GroupM based on Nielsen; Digital, IAB. Others: GroupM
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: in
- Internet classified: in
- Digital comprises display, classified, search, e-mail and mobile

China

In spite of the still weak and precarious nature of the global recovery, China's growth stability owes much to macroeconomic stimulus measures that smooth needed adjustments in both the tangible economy and the financial sector. We predict this year's China media spending will grow 7.9% and next year's at 7.8% year-on-year.

China has embarked on a necessary and welcome process of rebalancing away from investment toward more consumption-led growth. Kantar Worldpanel China reported that FMCG advertising investment rose 4.6% in the second quarter year-on-year, much faster than the 2.0% growth rate reported in the first quarter. Meanwhile, the second-quarter China Consumer Confidence Index advanced one percentage point from the first quarter while the global index remained par.

Looking into individual media, the market has absorbed the impact of the "One Drama, up to Two PSTVs" policy, with TV's falling daily reach now stabilized. New 2016 regulations (noted below) will constrain TV further. The effect is however mitigated by advertisers moving spend from spot TV commercials to product placement, which is quite acceptable and trusted among the TV audience. We predict this year's TV ad revenue volume will fall 4.9% and 5.2% in 2017.

Average radio ratings as well as daily listening hours are falling among all age groups. Thus, we expect radio advertising to fall 7.8% in 2016 and 8.3% in 2017. Radio reach, however, is growing. As noted last time, car ownership has helped this, especially in tier 3 and 4 cities lately. Listening through apps such as Ximalaya and Qingting FM has further boosted reach in tiers 1 and 2.

Newspapers and magazines continue to decline as people spend less and less time with them. We expect double-digit decline in both in 2016 and 2017.

Outdoor, driven by massive urbanization in lower-tier cities, is expected to grow 2.7% in 2017.

Over half of the population in China uses the Internet. User growth is subsequently coming off its peak, as is the (still impressive) rate of total Internet advertising expenditure. Within this, advertising expenditure growth remains high-speed on mobile Internet, e-commerce, search, online video and social. As the engine of media-market investment, we expect internet ad investment will grow 29.5% in 2016 and 21.5% for next year.

Media convergence is speeding up in China. Consumers are used to using various media platforms at the same time and accord more credibility to brands exposed on multi-channel, which emphasizes the importance of integrated marketing.

The Rio Olympics boosted the TV audience 7.8%, incorporating a 39% rise at CCTV and over 400% at CCTV 5. This was a little lower than London 2012, no doubt attributable to the three-hour adverse time difference, and possibly because of changed modes of viewing.

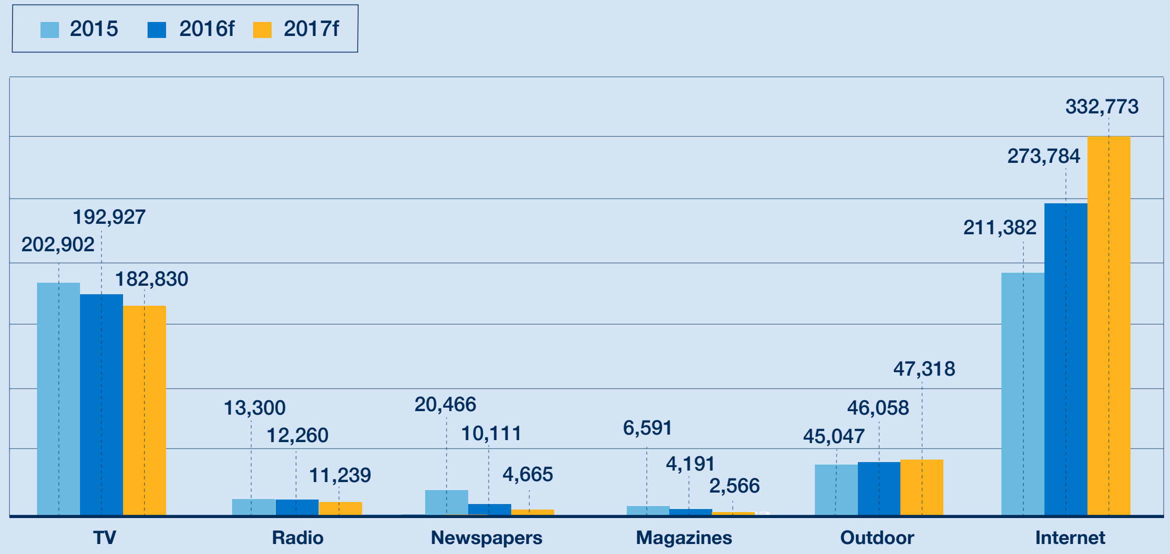
Notable new TV regulation

To encourage domestic innovation and production, unapproved imported content or formats ceased airing from July 1, 2016. Public service broadcasters (PSTV) may carry a maximum of two approved imports per year in prime time. Reality shows on PSTV are more comprehensively regulated (quantity, scheduling, content) to exclude participation by children.

It looks like 2016 GDP growth will slow for a sixth successive year, the well-managed trajectory continuing into 2017. The domestic elements of GDP are all tailwinds: investment, and government and household demand, responding to expansionary fiscal policy and a booming property market. Infrastructure spending rose nearly 20% January—August. Reform may however take precedence over expansion in 2017, and the government is already cooling the property market in tier 1 cities.

It is the external element of GDP which has been the main headwind: imports up, exports down. Currency strength is therefore a prime focus, seen either as a useful countercyclical shock absorber, or as a risk to those who worry about China exporting deflation. Strong imports suggest a picture of recovering demand consistent with China's sustained rates of real growth in wages and consumer demand. Corporate appetite for risk may prove more brittle.

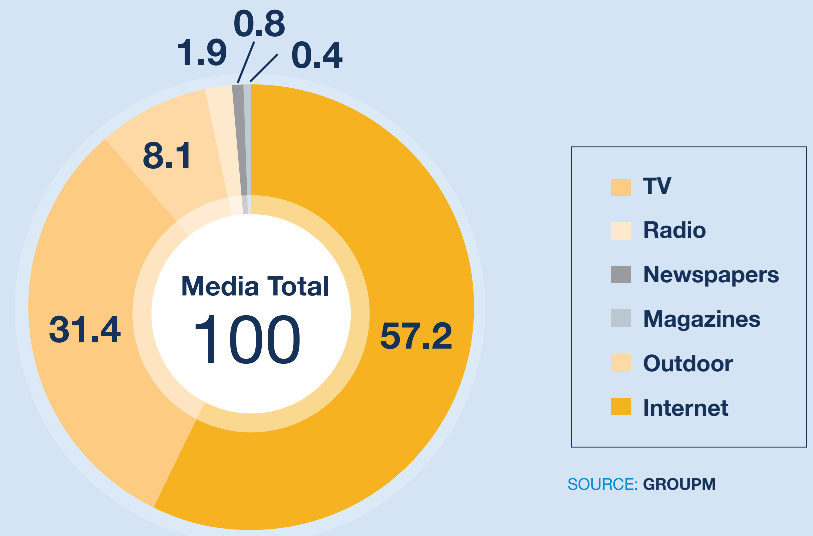
Media CNYmm



Media Total	CNY MM			US MM		
	499,687MM	539,330MM	581,391MM	74,151MM	80,034MM	86,275MM

SOURCE: GROUPM

% Shares of media

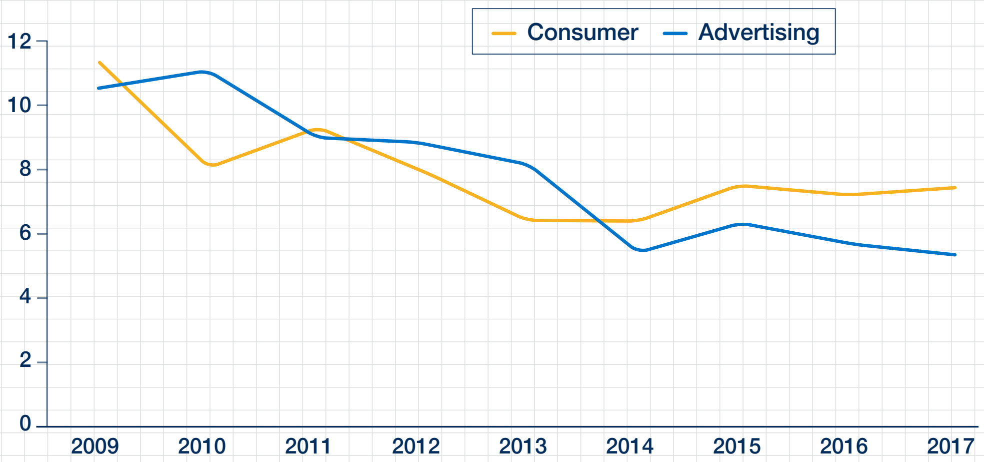


SOURCE: GROUPM

China

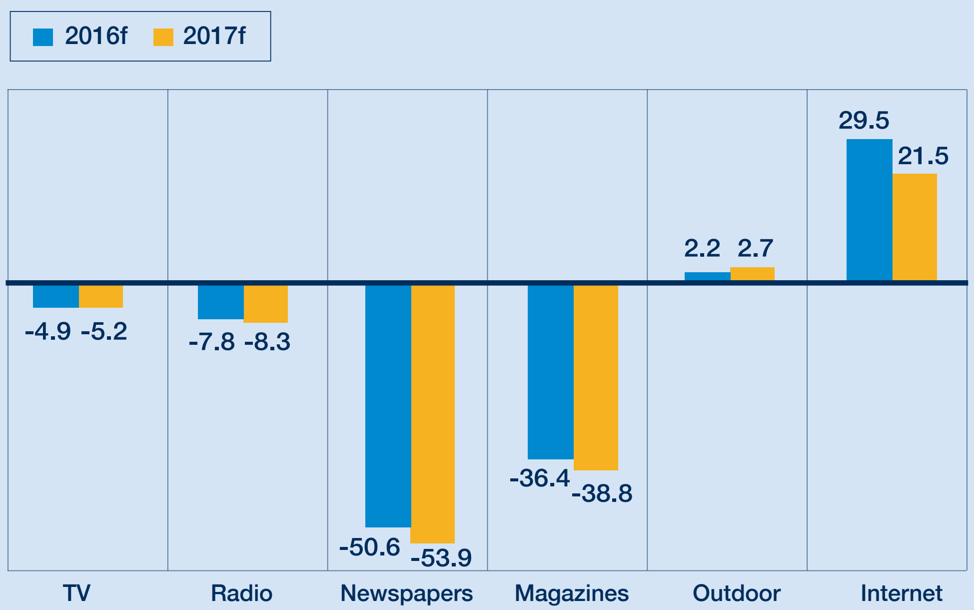
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



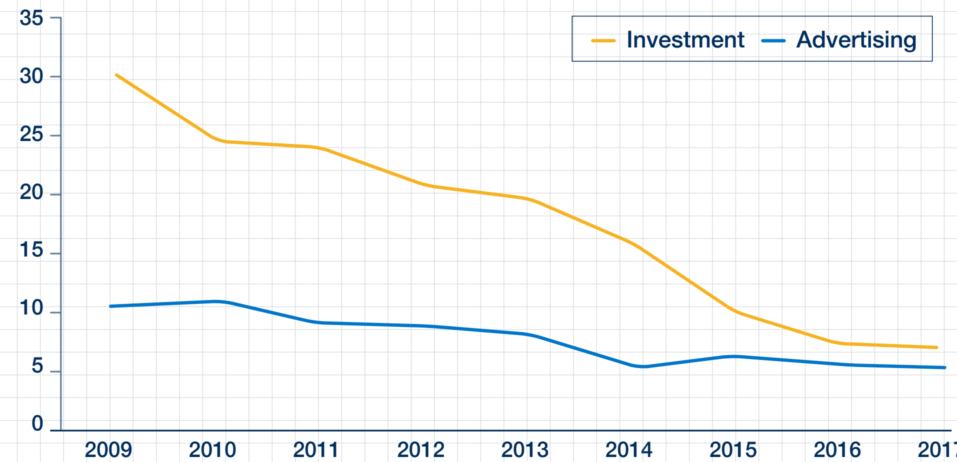
Media Total YOY% change 7.9 7.8

SOURCE: GROUPM

China

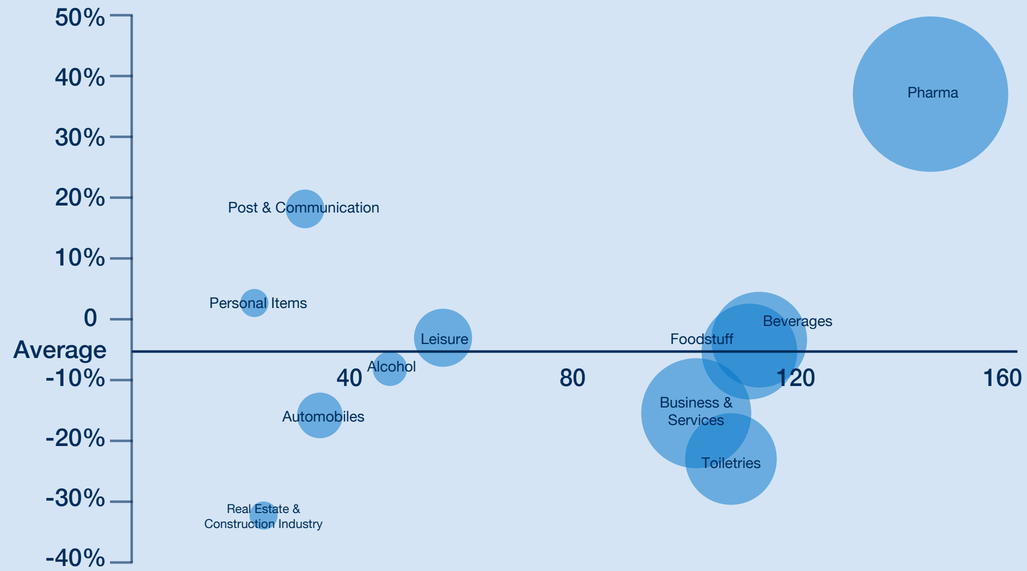
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2015 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 embrace Hong Kong or Macau
- Agency commission: out
- Discounts from ratecard: 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

TV is becoming a more specialized and target-group—oriented medium with an increasing number of fresh special-interest programs. This is causing market shares to shift. The average household now receives 77 channels; 89% of homes receive digital TV, and 20% are internet-compatible. Big TV sales houses try to reduce the effect of fragmentation by founding small target-group stations fed with stock material (i.e., RTL Plus). Another new strategy is to provide time shift broadcasting in the free TV domain (Super RTL/Toggo, Welt N 24). Pay TV is following, for example Sky launching the free-to-air Angebote.

Linear TV usage is decreasing because the profile is aging. Adults age 14-29 now index 88 compared to the base in 2010.

2016 was a sports year, which was good for the public broadcasters which broadcast the highlights. We consequently expect TV ad growth of 2%-4% in 2016, and stable viewing hours.

The German big soccer licenses "Bundesligarechte" of 2017/2018 were shared this way:

- Pay TV / Live games: Eurosport 2 / Sky
- Free TV (live): ZDF
- Free TV Highlights RTL Nitro
- Digital
- Amazon: audiostream
- Sky go: digital Live game package
- Sport streaming DAZN

The growing market for connected TV makes smart TV and addressable advertising a more relevant topic. A catalyst is the implementation of the standard HbbTV 2.0. There is, however, a delay in implementing single convergence currency expected in 2017.

Print Media Special-Interest magazines and professional journals run consistently. Three-quarters of declining circulation arises among news magazines, TV listings and women's titles. Women's magazines are particularly vulnerable to adverse demography. We expect further investment in high-quality magazine launches with selected target groups.

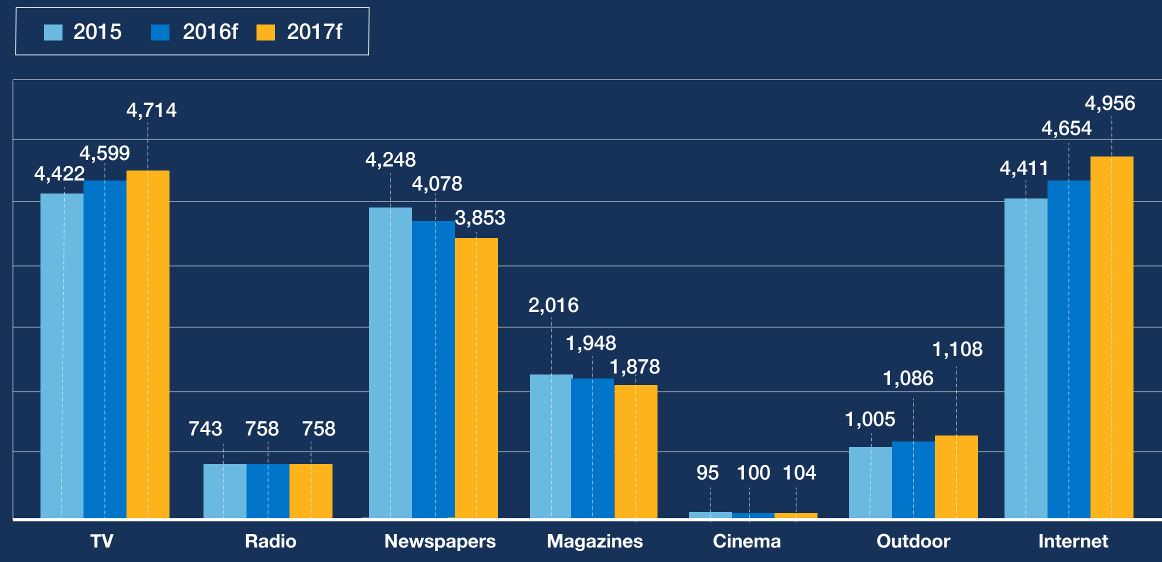
In radio advertising, the planning data study "ma audio" was relaunched in 2016 with audio digital data implemented in the existing analogue measurement. This is the first published convergent media study in Germany. The results prove the high coverage of above-the-line-radio advertising and point out the additional coverage of younger target groups through web radio advertising.

As radio advertising could lately hardly reach younger target groups, web radio and music streaming extend the portfolio and reinvent the medium. Currently big German publishers renew and automate their booking platforms to prepare for programmatic buying. Spotify remains the biggest and most successful in the German online audio market.

In 2016 spending in pre-roll and mid-roll advertising formats were still constantly rising. We expect this trend to continue into 2017. Mobile spending and shares also increased noticeably last year, finally causing advertising to converge with heavy usage. The rising use of ad blocker software is a problem, as almost 25% of the advertising formats have been blocked. Some publishers have found workarounds. 2016 is not going to be the breakthrough year of programmatic buying, but the spend is rising in the final quarter. In general, just a small growth of digital ad spends is expected with a budget shift away from standard display advertising.

Improving export performance has supported moderate GDP growth in 2016, with investment holding up reasonably well. The export element was, however, flattered by import demand suppressed by higher oil prices and a strong dollar, and investment is of course exposed to Brexit-related uncertainty in the year ahead. The workforce is at a record high of 44 million, but consumer demand remains a drag on GDP in this aging and therefore savings-minded society. Healthy public finances and autumn 2017 elections encourage talk of modest tax cuts.

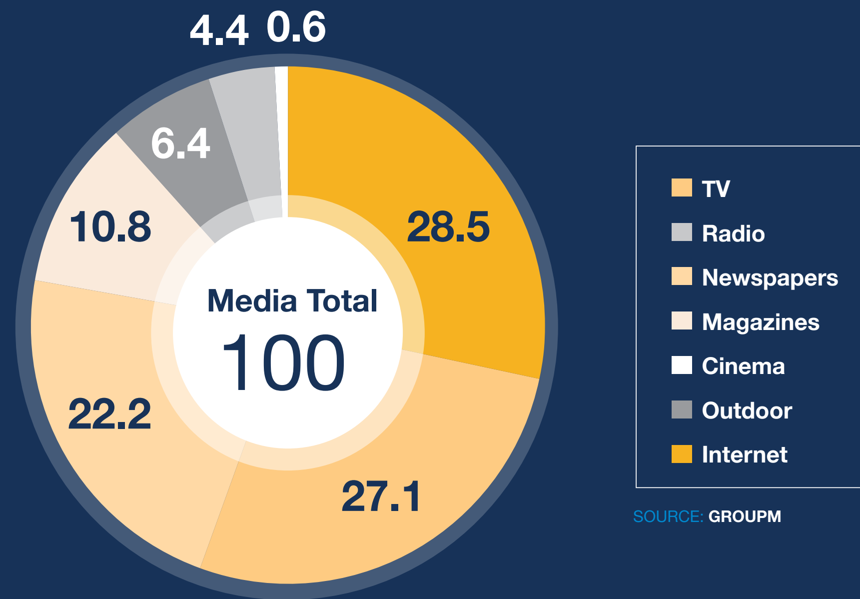
Media EURmm



Media Total	EUR MM			US MM		
	16,940MM	17,202MM	17,372MM	18,574MM	18,861MM	19,048MM

SOURCE: GROUPM

% Shares of media

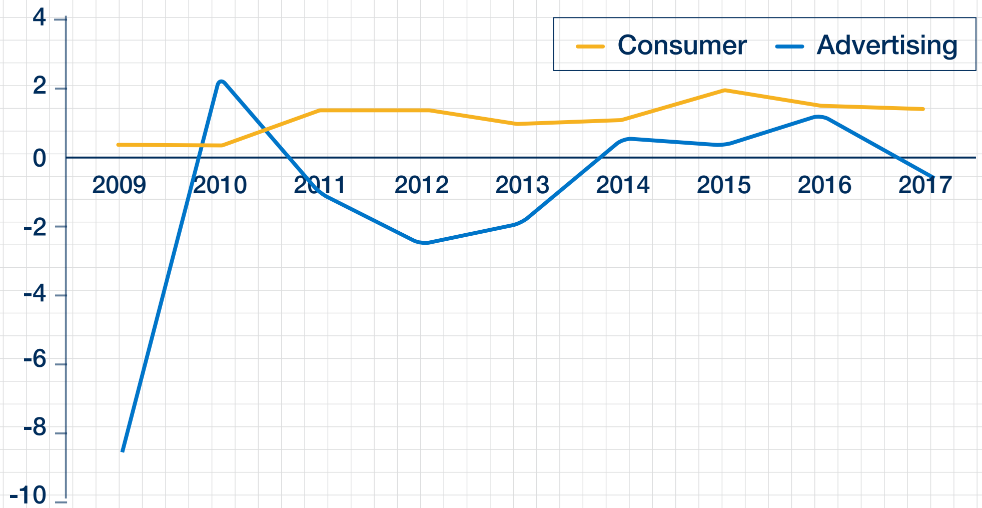


SOURCE: GROUPM

Germany

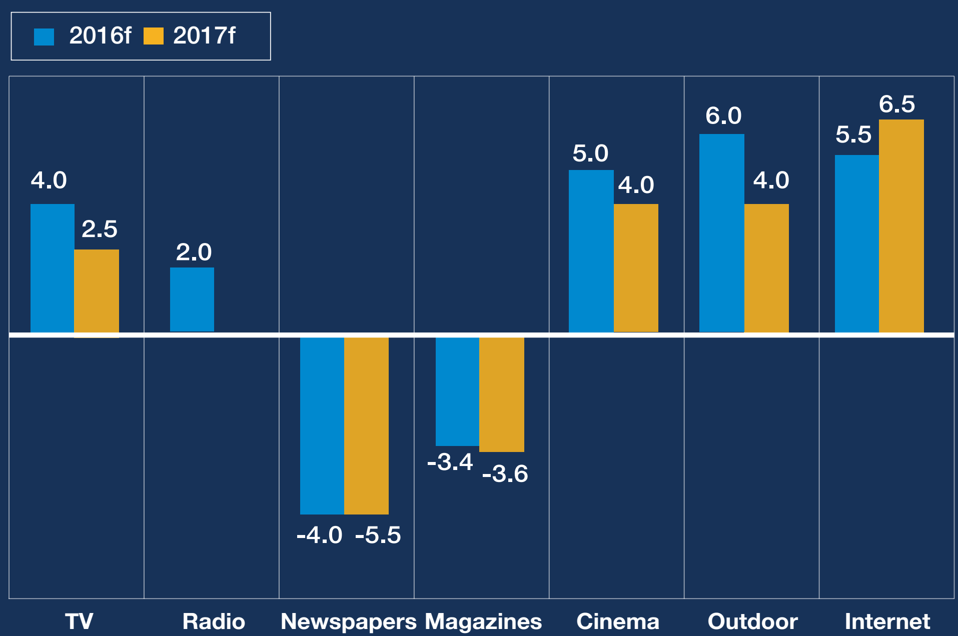
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



Media Total YOY% change	1.5	1.0

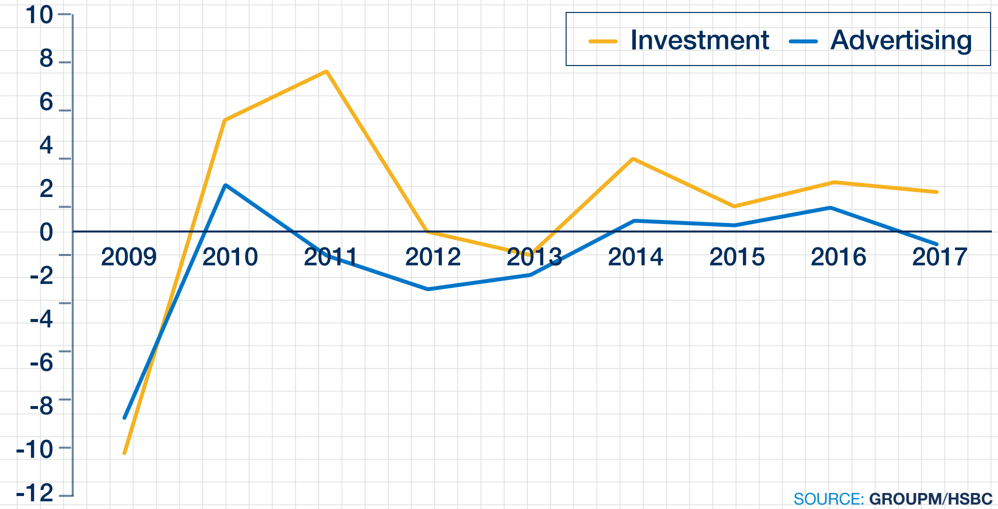
SOURCE: GROUPM

THIS YEAR NEXT YEAR

Germany

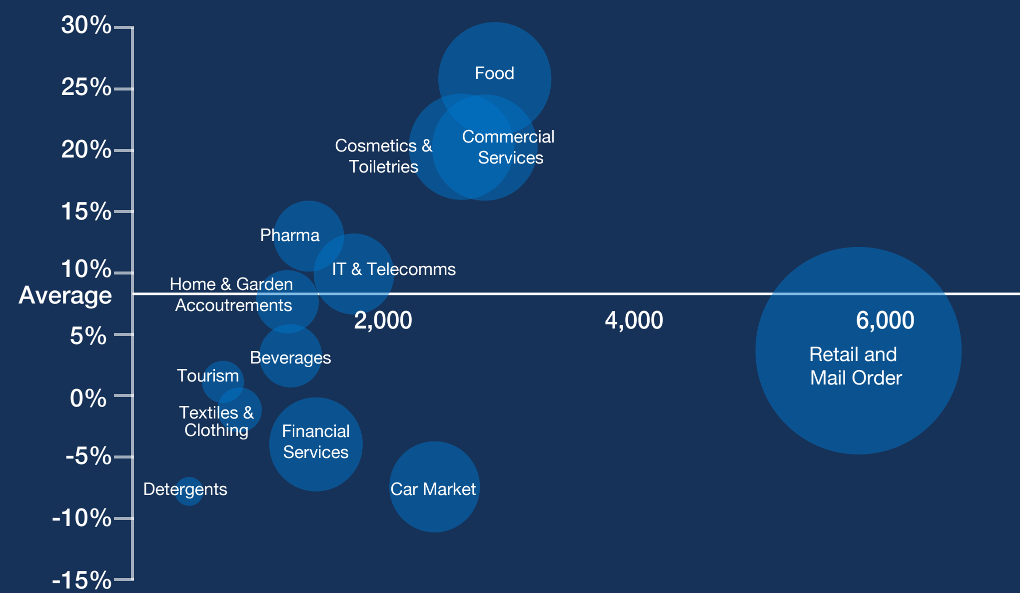
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2015 Categories YOY% Change and EURmm



- Categories: Nielsen, gross
- Historic media revenue: ZAW (except internet)
- Historic internet revenue from 2004: OVK (Online Marketing Circle) (gross, but discounted by GroupM)
- Newspapers include advertising journals, weekly and Sunday newspapers, and supplements.
- Magazines include B2B but exclude directories.
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: in
- Internet classified: out

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.

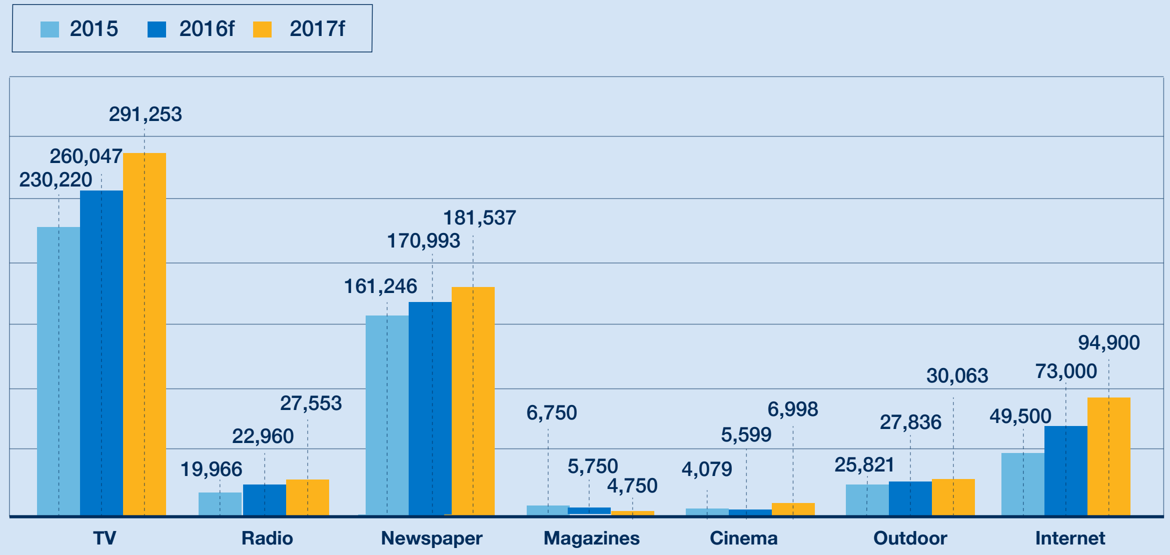
Cinema consolidation has led to infrastructure investment. Growing acceptance of premium Indian and Hollywood content by advertisers augurs well for the medium.

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.

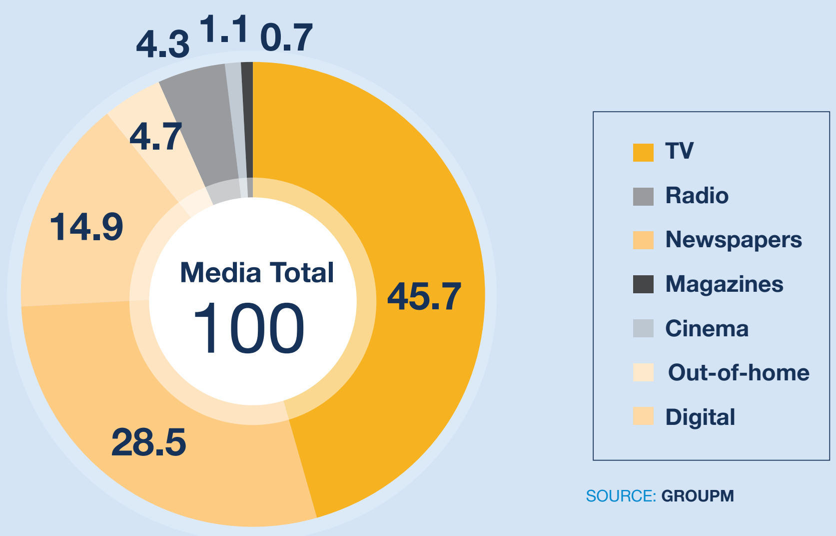
Media INRmm



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

SOURCE: GROUPM

% Shares of media

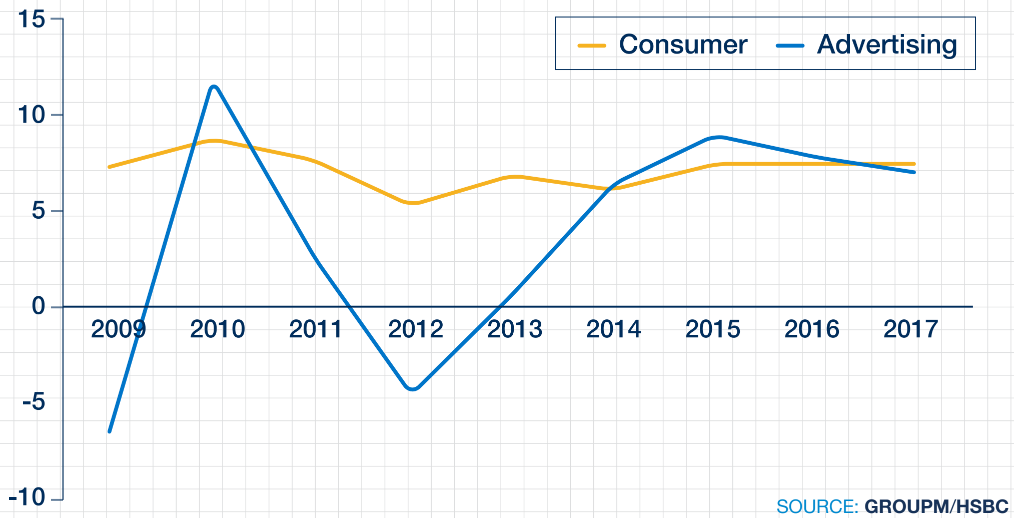


SOURCE: GROUPM

India

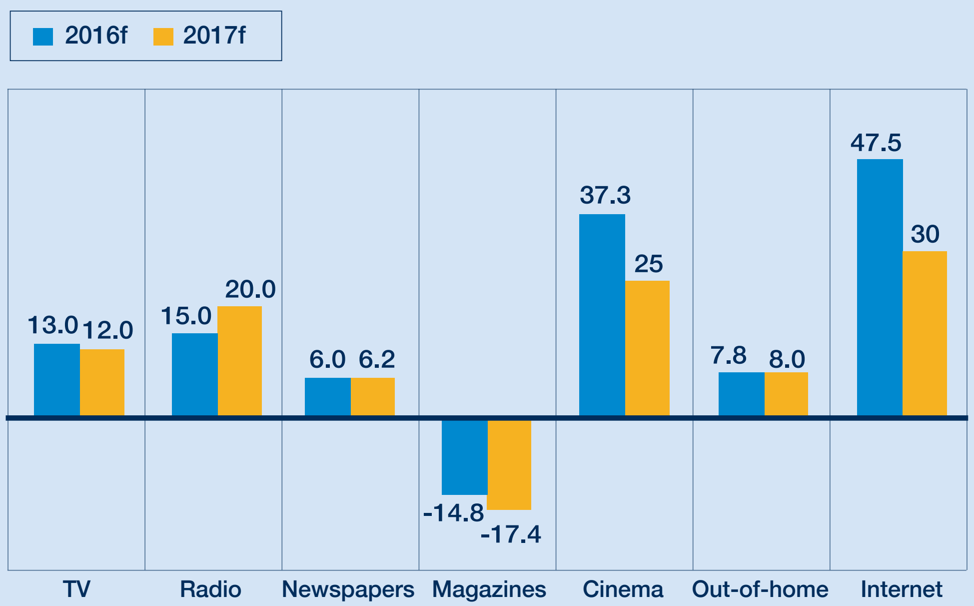
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



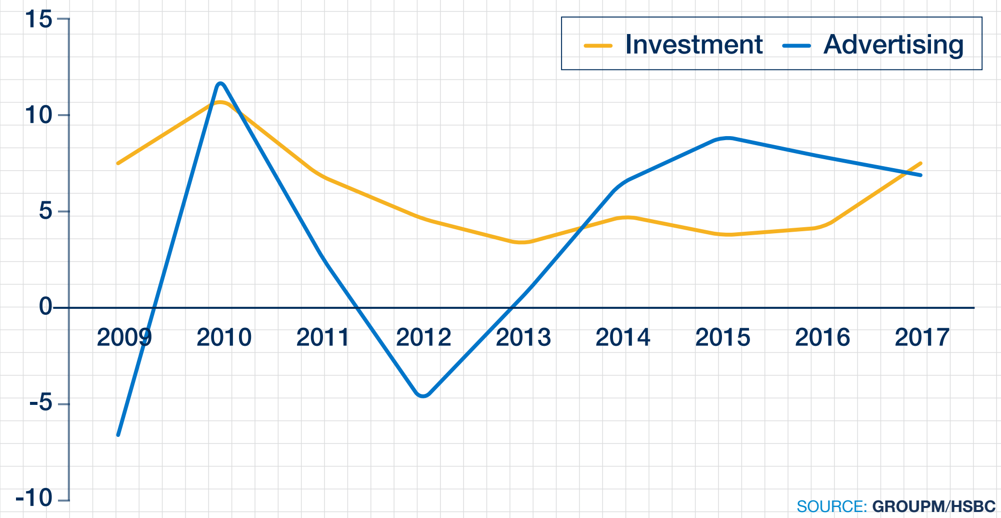
Media Total YOY% change 13.8 12.5

SOURCE: GROUPM

India

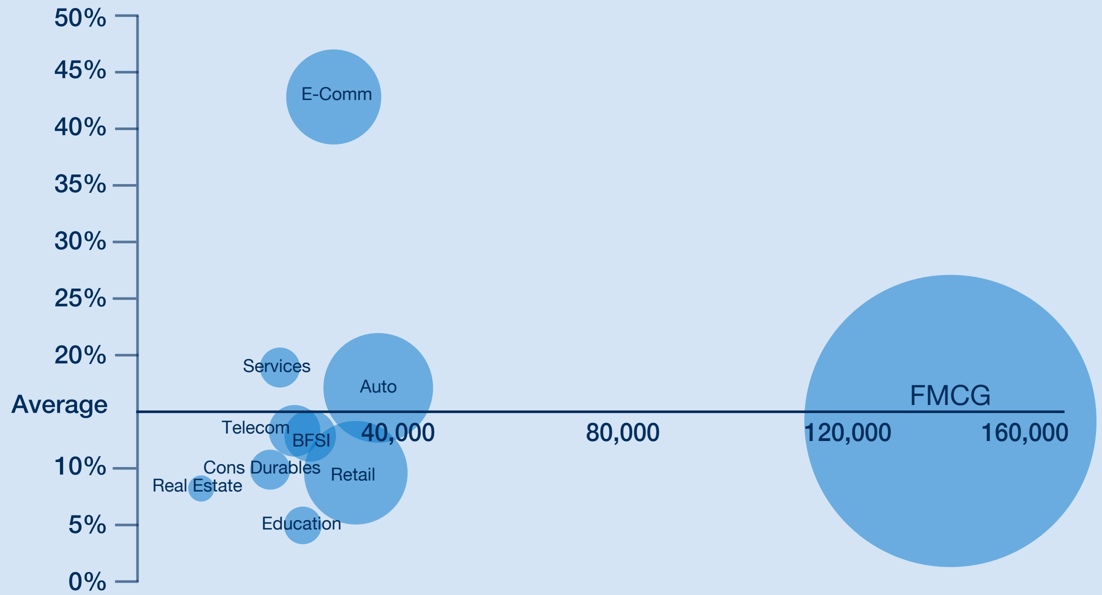
Investment

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

Russia

The general economic situation could be described as stable with no visible trend either for deeper recession or rapid recovery. Consensus forecasts of real GDP growth range from 0.5% to 1.8% which will reflect positively on the demand for media advertising.

We revise the 2016 forecast up by 1.7% to 9.5% attributable mainly to higher demand on TV in Q4 and big growth in paid search. Over half of paid search demand is from smaller businesses which cannot afford other advertising media. Search demand from larger advertisers is growing strongly as well.

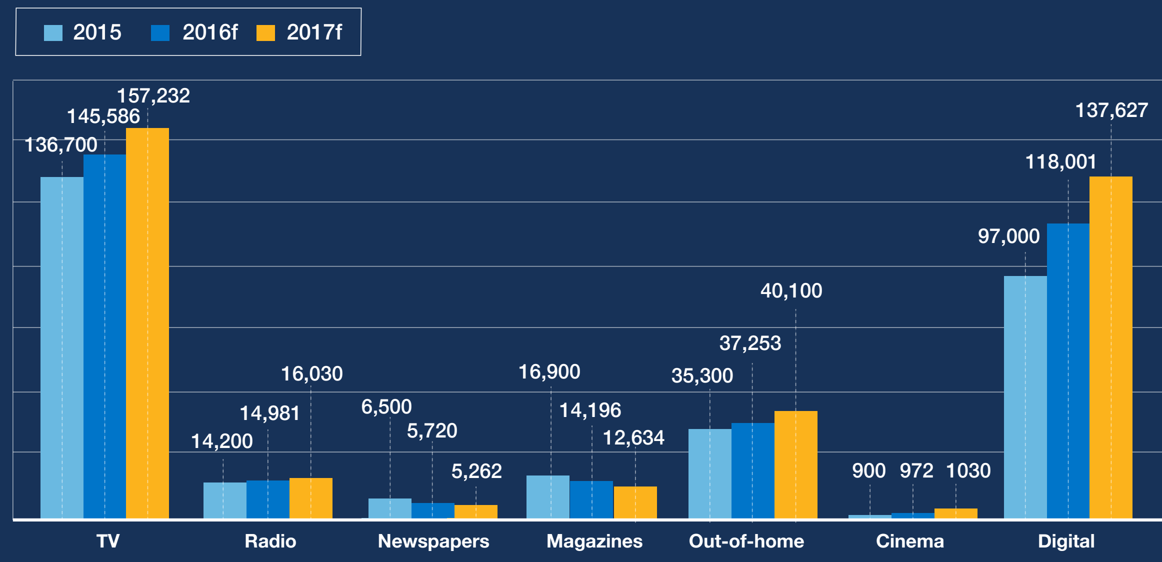
In October the new TV sales structure ("National Advertising Alliance") founded by the largest TV media vendors presented its strategy for 2017. Here are the key statements.

1. The average sell-out (paid spot occupancy) ratio should be 80-85% instead of the previous target of 95%-100%.
2. 15-20% inventory will be reserved for trials in:
   a. Programmatic trading
   b. Auctioning for the most-demanded TV inventory in top programs
   c. Special target audience packages, etc.
3. By limiting the sell-out supply and raising rates, TV unit price inflation could reach 15% in 2017.

Our media market forecast for 2017 expects around 10% growth, driven mainly by TV and Internet. Growth of investments is expected mainly from FMCG, retail and finance categories, which have already increased competitiveness in the context of stagnant consumer spending power. We also expect further rapid investment growth from local food producers and internet services and apps, but their share of spend is still lower than 5% of total market volume. 2017/2018 could push internet to the largest medium. Growth here is expected mainly in mobile and video segments, supported by an increasing proportion of programmatic.

The IMF forecast doesn't quite return Russia to real GDP growth in 2016, but the outlook feels less fragile. The government aims to balance the budget by 2020 and to get there more by managing what it spends than putting taxes up. Inflation is falling, and consumer spending power is poised to pick up by the end of 2016. The government is budgeting $40 oil versus a current level around $45, and HSBC assumes $50 to support its own 1.6% real GDP growth forecast for 2017. Acceleration from this level will, however, be constrained by Russia's demography, slow structural reform and the run-up to the next presidential election expected March 2018.

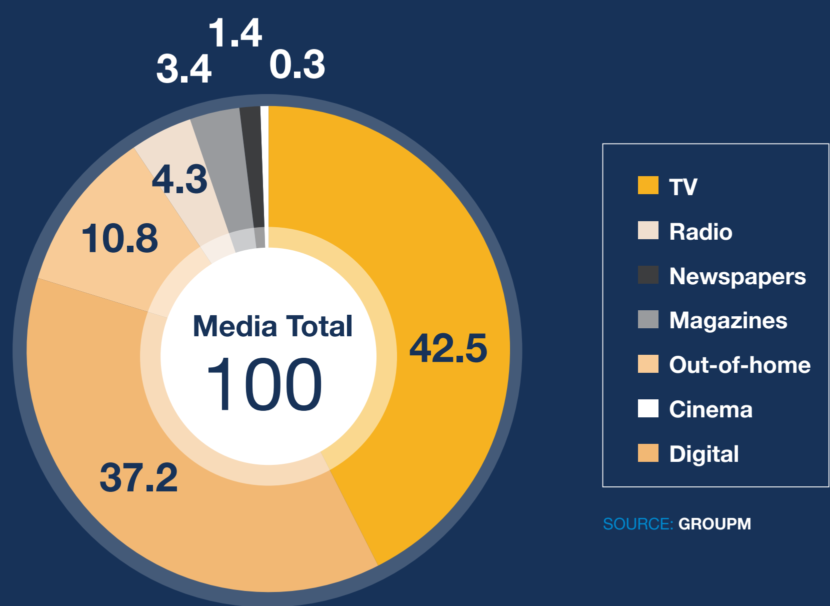
Media RUBmm



Media Total	RUB MM			US MM		
	307,500MM	336,709MM	369,916MM	4,938MM	5,408MM	5,941MM

SOURCE: GROUPM

% Shares of media

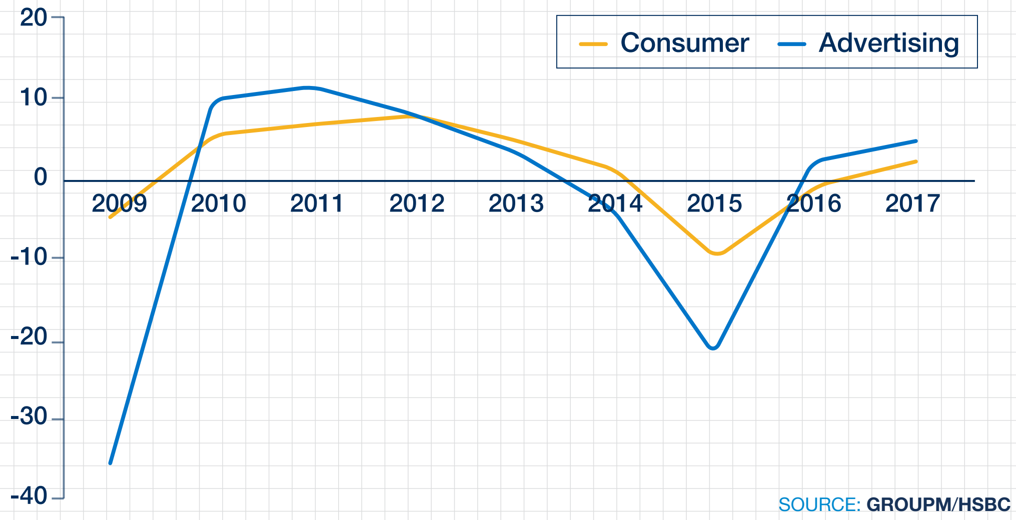


SOURCE: GROUPM

Russia

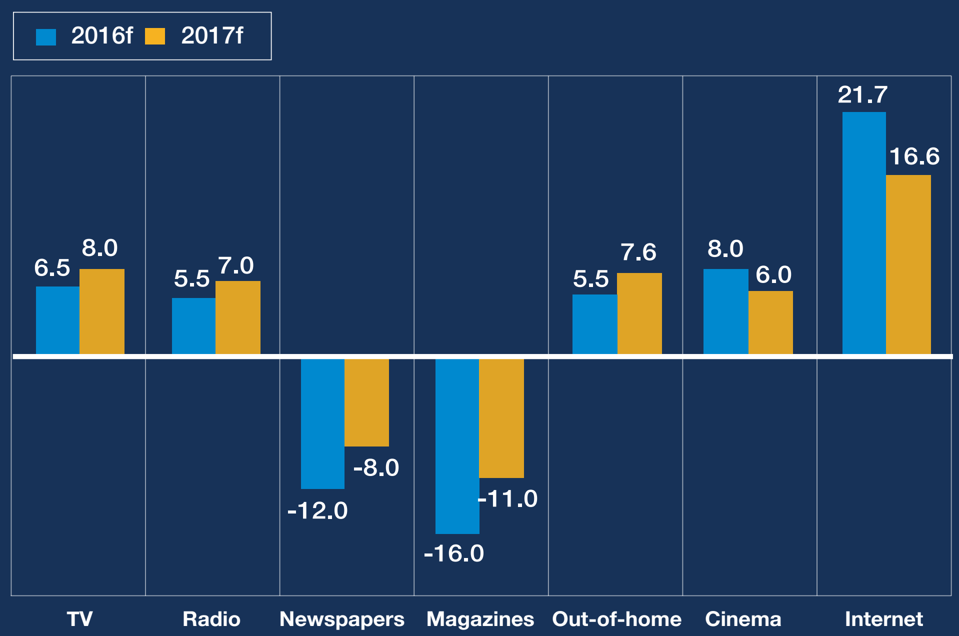
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



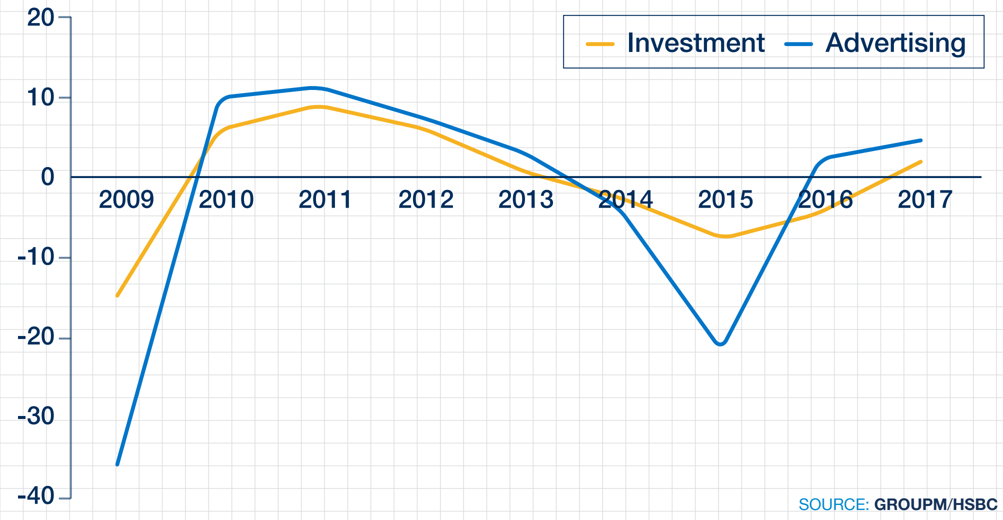
Media Total YOY% change	9.5	9.9

SOURCE: GROUPM

Russia

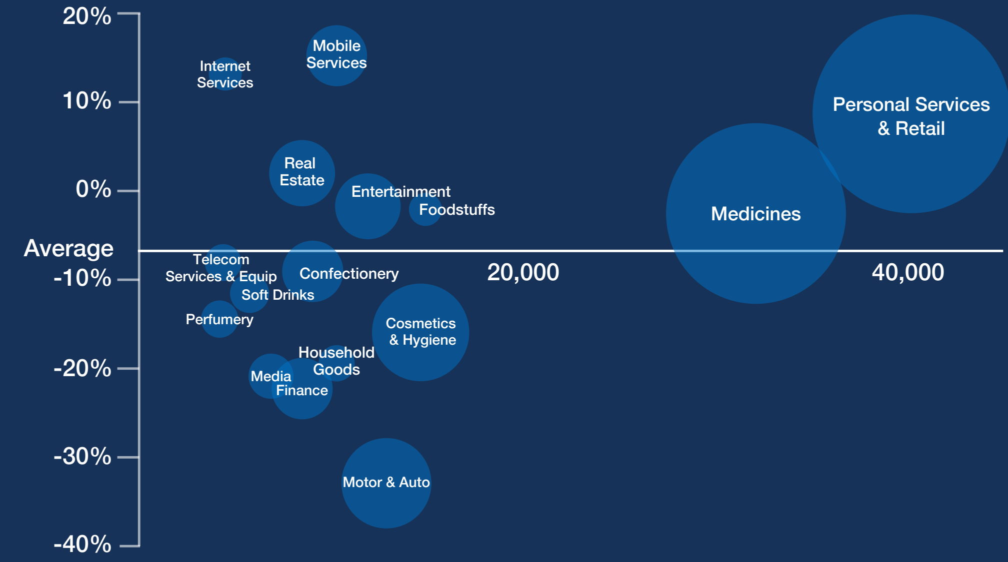
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2015 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 ratecard: after
- Newspaper classified: out
- VAT 18%: in

United Kingdom

The longer-term effect of Brexit is unknown, but the short-term effect of the referendum result is negligible. Corporate investment might weaken, depressing aggregate demand, productivity, wages and job creation. You would expect these fears to amount to a net drag on advertiser confidence. Instead, to our own surprise, we are revising UK ad growth up from 6.3% to 7.2% for 2016, and from 5.8% to 7.2% for 2017.

The main change is paid search accelerating again. It benefits from rising automation and the immediacy of mobile and performance-minded advertising. Data accelerates advertising decisions, which grow more opportunistic and tactical. It is not merely that search is "winning" shares of advertising from other media: it is turning advertising into sales promotion.

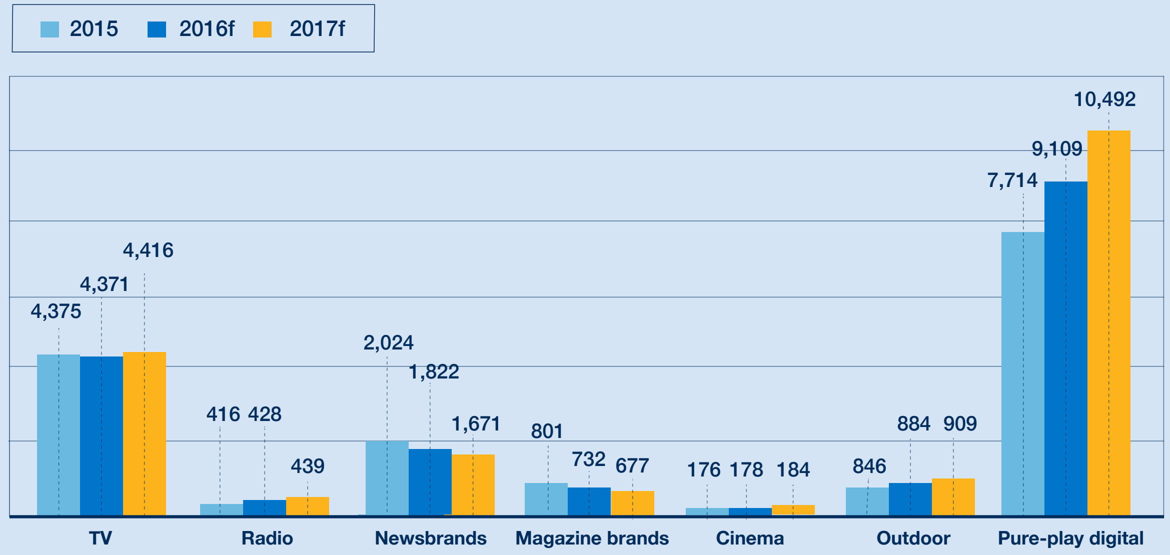
We find digital display easier to forecast, probably because agencies handle more of this than paid search, which has a longer tail of self-serve advertisers. We continue to expect digital display advertising to grow 21% in 2016 and 15% in 2017 in its determination to conquer TV territory. Five categories are big on TV but relatively light on digital: cosmetics & personal care; food; retail; household equipment & DIY; and leisure equipment. These five together comprise a third of UK TV ad investment.

We raise digital's ad share by a point or so to 52% in 2016 and 55% in 2017. Our forecast growth in "legacy" media including their digital offshoots has correspondingly softened from -1.1% to -2.6% for 2016 and from +0.5% to -1.4% in 2017.

UK ad spending has grown faster than fixed investment since 2012 and is approaching 1% of GDP, a level last seen in the dotcom boom. The western European average is a steady 0.6%. This seeming incaution may in fact be consistent with post-Lehman reluctance to commit capital to more permanent purposes. Only advertisers themselves can know if this intensity of advertising is sustainable, by scrutinizing their own financial and brand performance.

Consumer, purchasing-manager and housing indicators recovered strongly after a referendum wobble. None of the forecasters we follow now expects recession in 2017. Consumers and government may have enough ammunition between them to keep the economy the right way up. Corporates are another matter, their already limited appetite for risk curtailed further as the course of ostensibly binary Brexit grows ever more indeterminate. Employment is presently at a record high, with wage growth still ahead of GDP and inflation. Corporates are likely to act first and fastest to respond to any deterioration in 2017 (and indeed 2018, as the EU is not known for beating deadlines), which would threaten job creation and pay growth, with the possibility of inflation further crimping household spending power. Other potential Brexit risks include poorer productivity growth (from weak investment) and reciprocal damage to continental growth. The Brexit effect is proving hard to discern and harder to plan for — and discounts heavily the possible advantages of future UK autonomy.

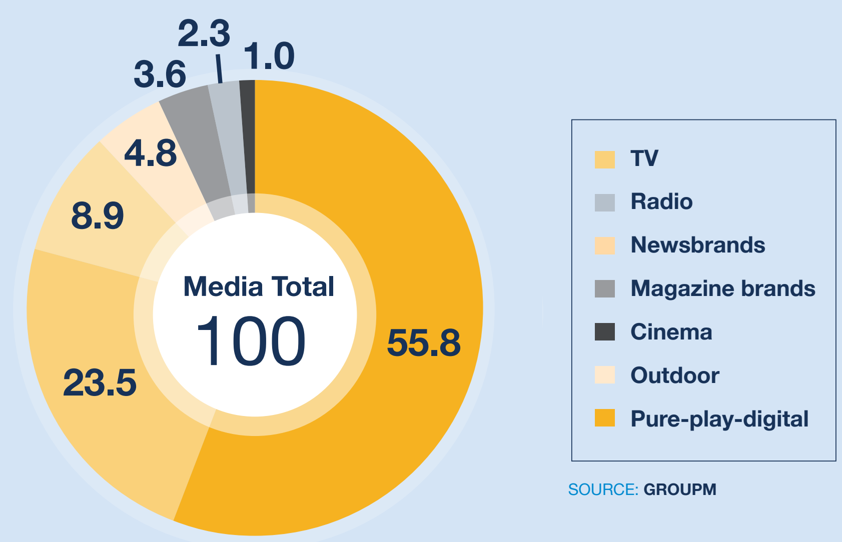
Media GBPmm



Media Total	GBP MM			US MM		
	16,352MM	17,524MM	18,789MM	20,076MM	21,515MM	23,068MM

SOURCE: GROUPM

% Shares of media

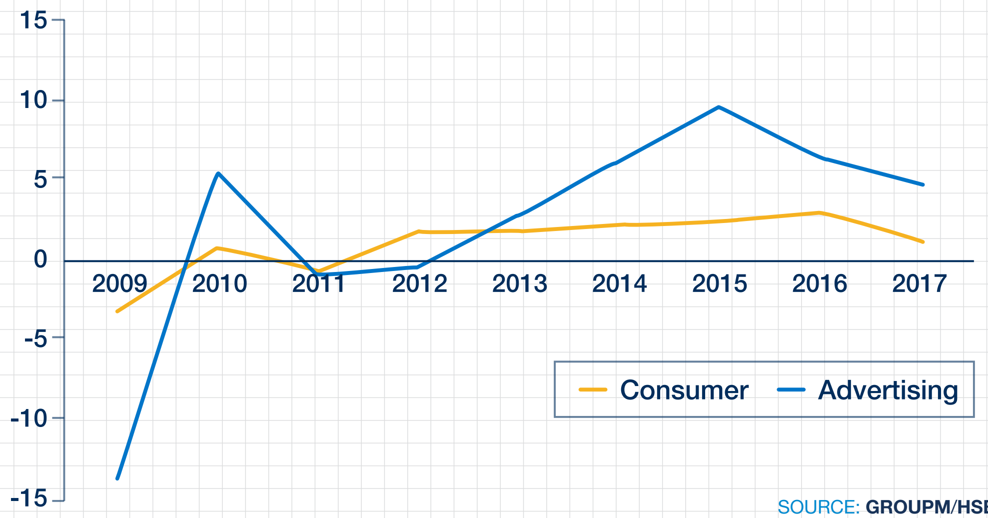


SOURCE: GROUPM

United Kingdom

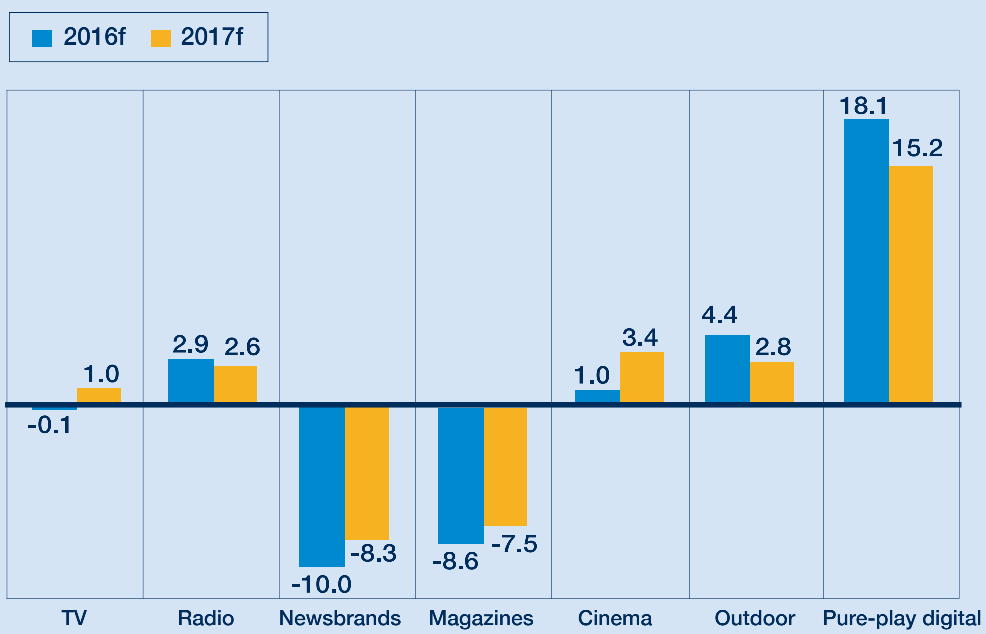
Consumer spending

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change



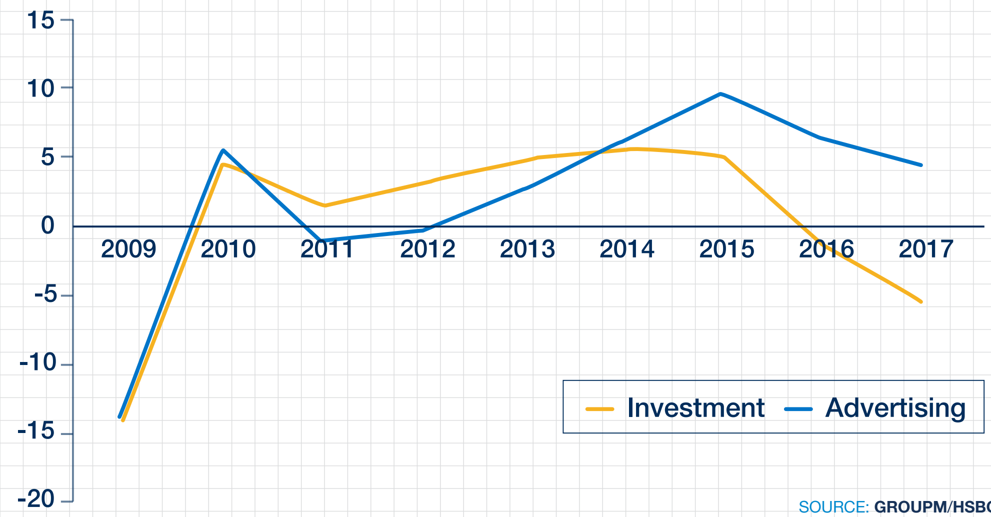
Media Total YOY% change 7.2 7.2

SOURCE: GROUPM

United Kingdom

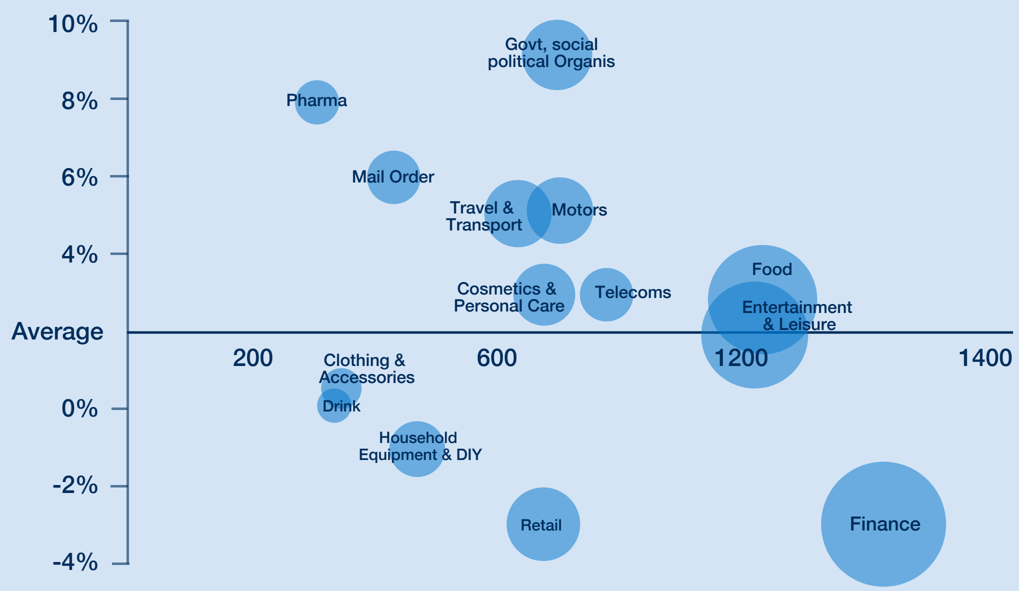
Investment

YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2015 Categories YOY% Change and GBPmm



- Historic media: AA, IAB/PwC, GroupM
- Production costs: out, except for cinema
- Agency commission: out
- Discounts from ratecard: after
- Newspaper classified: in
- Categories: Nielsen
- “Digital” comprises all forms of advertising on all connected devices.
- “Pure play” means digital revenue accruing to legacy newsbrands, magazine brands and TV broadcasters is removed from the ‘digital’ line.

United States

We fractionally upgrade our total market growth forecast for 2016 from 3.1% to 3.2%. This reflects an upward revision for TV projection from 3.4% to 4.1%, matching the rate recorded in the preceding election years of 2012 and 2014. This year's election spending may be a little less robust, but this is compensated by good advertiser demand for the summer Olympics and by the redirection of advertising funds from digital to TV which we noted last time, particularly among the pharmaceutical and CPG categories.

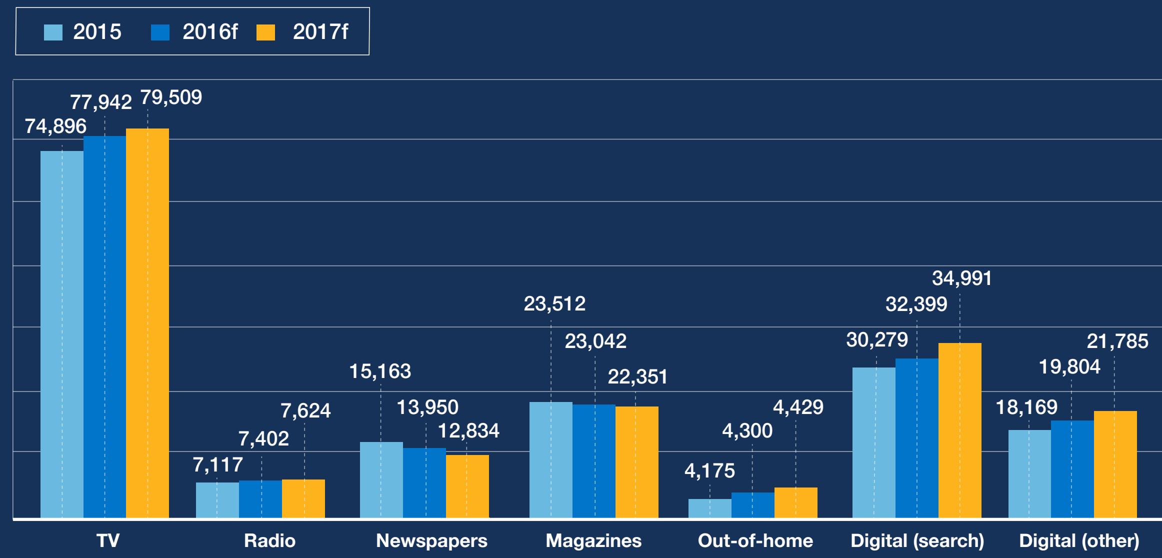
The root of this digital-to-TV movement is securing audience reach, lack of third party measurement metrics, and fraudulent traffic and viewability concerns. These challenges will provide some headwinds on a longer term basis as more advertisers focus on these key issues. However, underlying demand for digital remains strong, with ad growth continuing at a multiple of the media market average albeit lower than historical growth levels as advertisers follow consumers into these contexts.

Our raised 2016 projection for TV is offset by print turning a little more negative as the medium grapples with chronic problems of falling physical distribution, high fixed costs, and difficulty in realizing new digital revenues to compensate.

We trim our 2017 overall outlook for the media market from 3% at mid year to 2.6%. We attribute the deterioration to elevated political uncertainty and continued weak GDP growth both globally and within the U.S.

Employment growth appears to have levelled off amid 2016's GDP headwinds of an energy-related slowdown in business investment and exports cramped by a big dollar. In common with central banks around the world, inflation remains below target, pushing rate hikes further into the future. Uncertainty over the shape of policy under the Trump administration is likely to weigh upon consumer and corporate appetites into 2017. The likelihood of investment picking up from the 2016 trough should be qualified for our purposes by employment's tendency to lag the cycle.

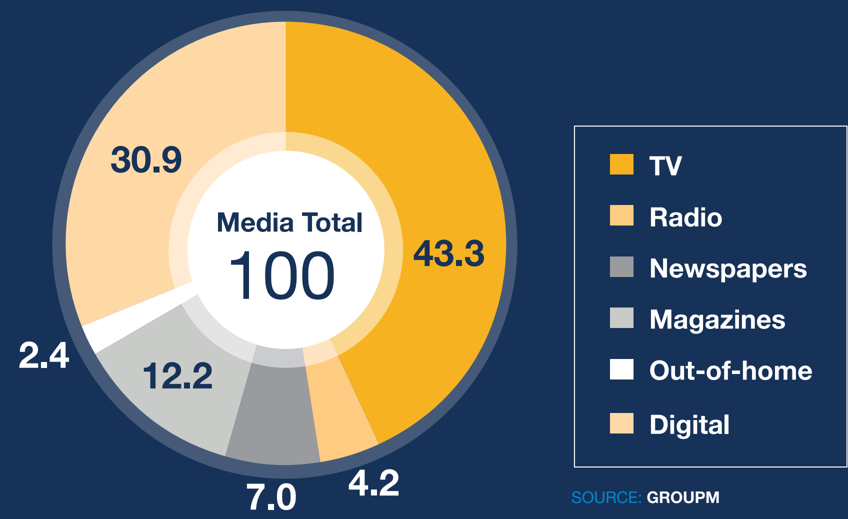
Media USDmm



Media Total	2015	2016f	2017f
US MM	173,311MM	178,839MM	183,523MM
Digital Total	48,448MM	52,203MM	56,776MM

SOURCE: GROUPM

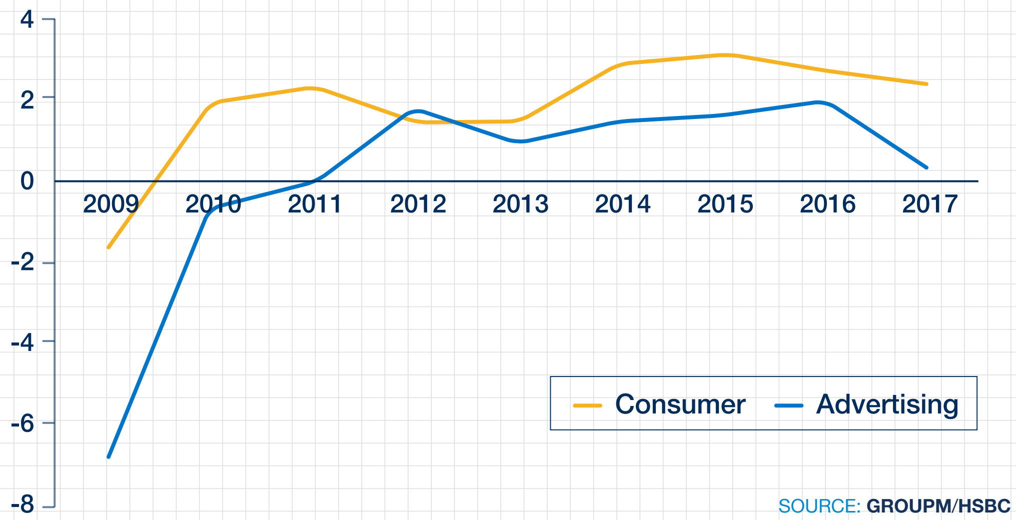
% Shares of media



SOURCE: GROUPM

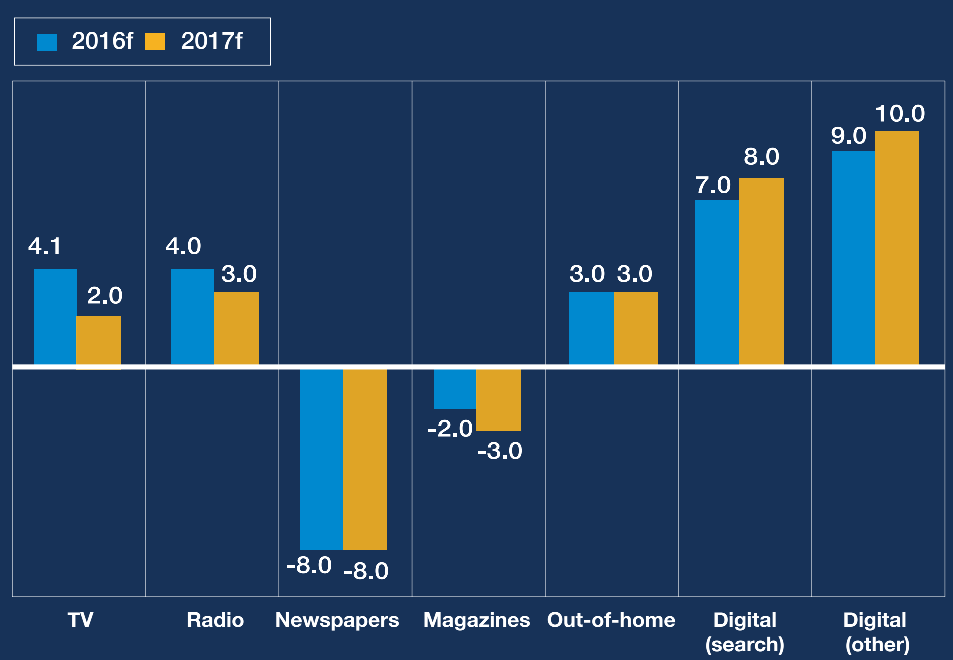
United States

Consumer spending
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

YOY% Change

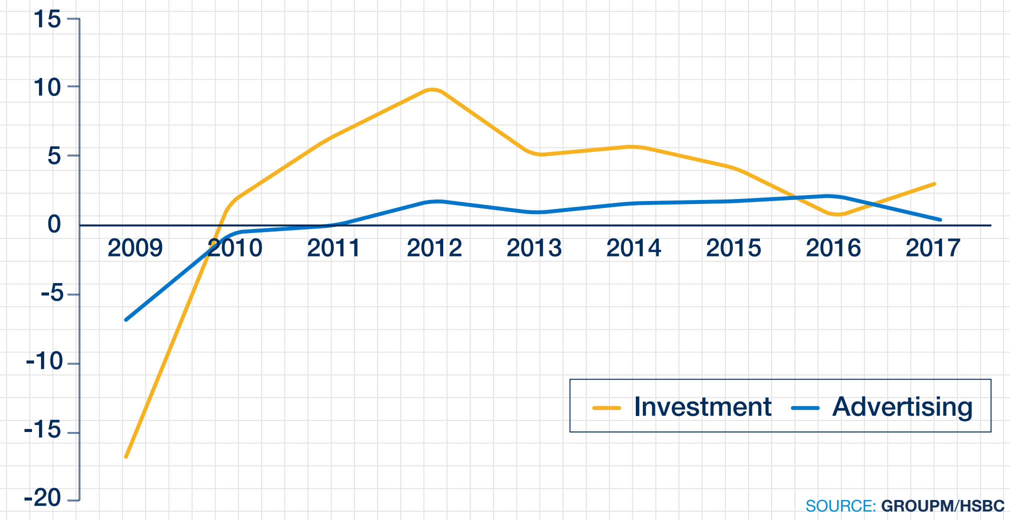


Media Total YOY% change	3.2	2.6	Digital Total	7.8	8.8

SOURCE: GROUPM

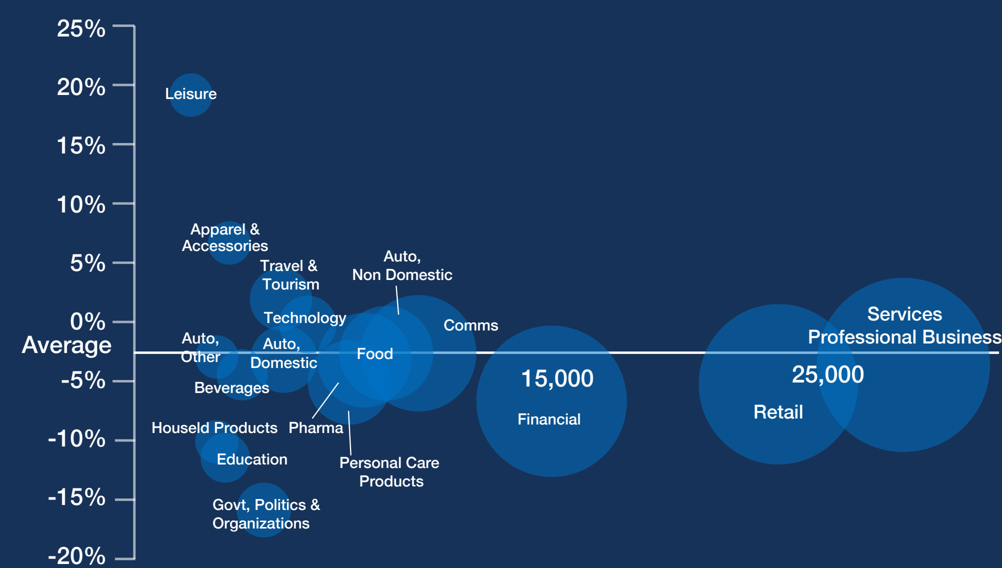
United States

Investment
YOY changes adjusted for inflation



SOURCE: GROUPM/HSBC

2015 Categories YOY% Change and USDmm



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

Marketing Services

	2015	2016f	2017
North America			
PR	4,194	4,300	4,500
Data Investment Management	19,447	19,640	19,700
Direct	103,500	108,000	112,000
Sponsorship	21,400	22,400	23,200
Total	**148,541**	**154,340**	**159,400**
Marketing % of marketing and media	44.8	45.0	45.1
YOY% Change			
PR	2	3	5
Data Investment Management	3	1	0
Direct	5	4	4
Sponsorship	4	5	4
Total	**4**	**4**	**3**
Latin America			
PR	461	480	500
Data Investment Management	1,731	1,800	1,900
Direct	35,400	37,500	39,200
Sponsorship	4,300	4,500	4,600
Total	**41,892**	**44,280**	**46,200**
Marketing % of marketing and media	54.7	54.9	54.4
YOY% Change			
PR	7	4	4
Data Investment Management	1	4	6
Direct	7	6	5
Sponsorship	2	5	2
Total	**6**	**6**	**4**
Europe			
PR	2,616	2,700	2,750
Data Investment Management	16,653	16,800	17,000
Direct	109,474	113,000	115,000
Sponsorship	15,300	15,900	15,900
Total	**144,043**	**148,400**	**150,650**
Marketing % of marketing and media	58.7	58.4	57.9
YOY% Change			
PR	3	3	2
Data Investment Management	3	1	1
Direct	3	3	2
Sponsorship	3	4	0
Total	**3**	**3**	**2**

	2015	2016f	2017
Asia Pacific			
PR	4,704	4,950	5,200
Data Investment Management	5,785	6,000	6,300
Direct	57,348	60,500	63,000
Sponsorship	14,000	14,800	15,600
Total	**81,837**	**86,250**	**90,100**
Marketing % of marketing and media	32.9	32.8	32.5
YOY% Change			
PR	6	5	5
Data Investment Management	3	4	5
Direct	6	5	4
Sponsorship	5	6	5
Total	**6**	**5**	**4**
Middle East & Africa			
PR	154	158	164
Data Investment Management	735	760	780
Direct	2,067	2,170	2,300
Sponsorship	2,500	2,600	2,700
Total	**5,456**	**5,688**	**5,944**
Marketing % of marketing and media	24.3	24.6	24.7
YOY% Change			
PR	6	3	4
Data Investment Management	5	3	3
Direct	6	5	6
Sponsorship (ROW)	4	4	4
Total	**5**	**4**	**5**
World			
PR	12,129	12,588	13,114
Data Investment Management	44,351	45,000	45,680
Direct	307,789	321,170	331,500
Healthcare	4,882	5,000	5,100
Sponsorship	57,500	60,200	62,000
Total	**426,651**	**443,958**	**457,394**
Marketing % of marketing and media	45.9	45.8	45.5
YOY% Change			
PR	4	4	4
Data Investment Management	3	1	2
Direct	5	4	3
Healthcare	3	2	2
Sponsorship	4	5	3
Total	**4.3**	**4.1**	**3.0**
Media and Marketing Total USD m	**929,450**	**968,453**	**1,004,765**

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