IRELAND: QUARTERLY ADVERTISING MONITOR, Q4 2014

Prepared for Nielsen Ireland and Advertising Association of Ireland (AAI)

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EXECUTIVE SUMMARY

The advertising market experienced a sharp contraction after 2008 in line with the overall economy. Advertising fell more sharply on the way down after 2008, so there is not yet sufficient investment in advertising to match economic growth. There is still catching up required. It is important for products and brands to maintain their public presence during periods of poor economic growth in order to preserve brand equity. However, a recovery in advertising expenditure occurred in 2014 in line with the overall recovery in the economy. Advertising expenditure increased by 5%, while real GDP expanded by 4.8%.

The key economic variables that drive the advertising market are the general health of the economy as measured by GDP; consumer expenditure; consumer confidence; and business confidence. All of those variables improved during 2014 and this translated into a recovery in advertising expenditure as the year progressed.

There has been a strong recovery in business confidence over the past couple of years, but it has been slow to translate into a recovery in advertising expenditure. However, higher levels of business confidence are now starting to translate into increased advertising expenditure.

In the 4th quarter of 2014, advertising expenditure totalled €295.6 million, which was 10% higher than the same quarter in 2013. Of the total expenditure in the quarter, traditional media accounted for just over 78% of the total, with online advertising accounting for almost 22%. The growth rate of 10% is comprised of a growth rate of 4.6% in traditional advertising and a growth rate of 35.2% in online advertising.

Total advertising expenditure in 2014 was 5% higher than 2013 and was 6.2% higher than 2012, which was the low point of the expenditure cycle. Total advertising expenditure is still 10.3% below the 2008 level, but is now clearly in recovery mode.

Despite the economic difficulties after 2008, online advertising has expanded every year and in 2014 was 159% higher than the 2008 level. Traditional advertising expenditure in 2014 was 23.4% below the 2008 level.

Online advertising accounted for 20.6% of the total advertising market in 2014, up from just 7.2% in 2008.

Looking ahead to 2015, all indicators are currently suggesting that GDP will expand at a reasonable pace; consumer spending is likely to make an increased contribution to the growth recovery; and notwithstanding political and economic risk, business and consumer confidence look set to improve further. Against this background it is likely that the advertising market will expand further in 2015. For a sector that employs so many people, and a sector that is an important driver of business activity, this is a very positive development.

One of the key features in the advertising market in 2014 was the recovery in expenditure on traditional advertising media, and ongoing strong growth in online advertising. These trends look set to continue in 2015.

ECONOMIC BACKGROUND TO THE ADVERTISING MARKET IN 2014

The advertising market in Ireland expanded by 5% in 2014. This growth in advertising expenditure has occurred after a number of very difficult years for the industry, following the collapse of the economy from 2008 onwards. The renewed growth in advertising expenditure reflects a general improvement in the economy, but particularly the recovery in business and consumer confidence.

ECONOMIC GROWTH IN 2014

Official growth data for the final quarter of last year show that in that quarter, GDP showed annual growth of 4.1% and GNP expanded by 6.3%. For 2014 as a whole, GDP expanded by 4.8%; GNP expanded by 5.2%; exports of goods and services expanded by 12.6%; gross domestic fixed capital formation (investment) expanded by 11.3%; and consumer expenditure expanded by 1.1%.

These are strong growth numbers and most importantly they confirm that the recovery is becoming more broadly based. Every broadly defined sector of the economy made a positive contribution to the growth performance last year, with output from Industry up 1.1%; Construction up 6.9%; Distribution, Transport & Communications up 8%; Public Administration up 1.1%; Agriculture up 10%; and Other Services up 3.4%. This is the first time this has happened since the economic crisis commenced in 2008. Ireland was the strongest growing economy in the EU in 2014 and looks set to be the strongest in 2015 also.

Consumer spending is still the most fragile part of the recovery, but it too is showing gradual signs of improvement. Over the remainder of the year a further improvement in employment; a continued pick up in earnings; and the impact of the tax changes in Budget 2015 and those to be announced in Budget 2016 should combine to support an ongoing gradual improvement in consumer spending.

RETAIL SALES AND CONSUMER DYNAMICS

In 2014, the value of retail sales was 4.1% higher than 2013, and the volume of sales increased by 6.3%. These are strong numbers, but are heavily distorted by car sales. Excluding the motor trade, the value of retail sales increased by 1.6% and the volume of sales increased by 3.7%. There is still a considerable divergence between the value of sales and the volume of sales, which is indicative of the continued pressures on the consumer and businesses selling goods & services to the personal sector. There is considerable and justifiable consumer resistance to higher prices, which has considerable implications for squeezed business margins. In the run up to Christmas, price discounting was a strong feature of the retail market.

The auto industry was the strongest component of consumer spending during 2014. For the full year, new car registrations totalled 96,338, which was 29.5% higher than 2013. In the first 2 months of 2015, new car registrations are 29% ahead of 2014.

CONSUMER CONFIDENCE…

Consumer confidence continues to trend upwards and in January was at the highest level in 9 years. Consumers are generally more confident about the economic outlook and believe that the labour market and their personal financial situation will improve in 2015. However, survey results are suggesting that although consumers are more confident about the future, they are not yet feeling the impact in their pockets, and hence the higher levels of confidence are not yet feeding through to consumer spending in a meaningful way. The measures contained in Budget 2015 should help, but a further improvement in employment, some growth in wages and a gradual easing of the personal tax burden are essential elements for a meaningful recovery in consumer spending.

Figure 1: Consumer Confidence

Source: ESRI/KBC Bank

THE LABOUR MARKET

Labour market conditions continued to improve at a healthy pace during 2014. In January 2015 the number of people signing on the live register was down 40,958 on a year earlier and has declined by 70,700 over the past two years.

In the year to December, total employment in the economy increased by 29,100 and is now 90,000 above the equivalent quarter two years ago. A breakdown of the data for the final quarter of last year shows that with the exception of Agriculture, Forestry & Fishing, which saw an annual decline of 10,900, every other segment of the private sector saw an increase in employment. Construction saw an increase of 13,100; the Wholesale & Retail Trade saw an increase of 6,300; and the Accommodation & Food Services sector was up by 1,800. The unemployment rate has fallen to 10.3 per cent of the labour force, down from a high of 15.1% at the beginning of 2012.

The sectoral breakdown clearly demonstrates that a broadly-based economic recovery is taking hold in the economy, because there is no greater manifestation of better business conditions, than a willingness to create employment.

THE ECONOMY IN 2015

The economy has entered 2015 with strong momentum. All economic indicators are suggesting that the recovery is reasonably robust. Exports are doing well; the labour market is continuing to improve; construction and housing activity is strengthening, particularly in the Dublin area; manufacturing output is strong; and car sales are making a significant contribution to the recovery in retail sales. The main caveat to this upbeat assessment is that excluding car sales, consumer spending is still fragile; many aspects of activity are coming off a very low base and growth rates are somewhat exaggerated; and the recovery has been concentrated in the Greater Dublin Area, although there is emerging evidence that the recovery is spreading. Despite these caveats, the economy is doing well, and considerably better than anybody would have predicted just two years ago.

The key risk factors and challenges facing the Irish economy in 2015 and beyond can be categorised as external and domestic.

External:

- The Euro Zone economic outlook and the impact of quantitative easing;
- A move to the hard left in Greece following the January 25th election, with possible consequences for its continued membership of EMU;
- The Russian crisis, and the difficulties in Brazil and China;
- The UK general election in May and the possibility of a referendum on EU membership in 2017; and
- Ongoing difficulties in Japan.

Domestic:

- The high level of sovereign debt;
- The high level of SME debt;
- Personal debt and particularly mortgage arrears;
- The ongoing pressure on personal disposable and discretionary incomes; and
- Political developments – an election must be held in April 2016 at the latest. There is no guarantee that a stable government will be possible due to the growing proliferation of Independents. Political stability has been a key factor in selling Ireland to investors in recent years. This is a source of concern because political instability can often result in poor policy making, with long-term negative consequences.

Ireland has been insulated from the weakness in the Euro Zone by the strength of growth in the US and UK. This will continue in 2015, and Irish exports to both of those markets will be helped by the fact that the euro has declined by 19% against the dollar and by almost 12% against sterling over the past year. The following economic forecasts are suggested for the next couple of years:

Irish Economic Forecast

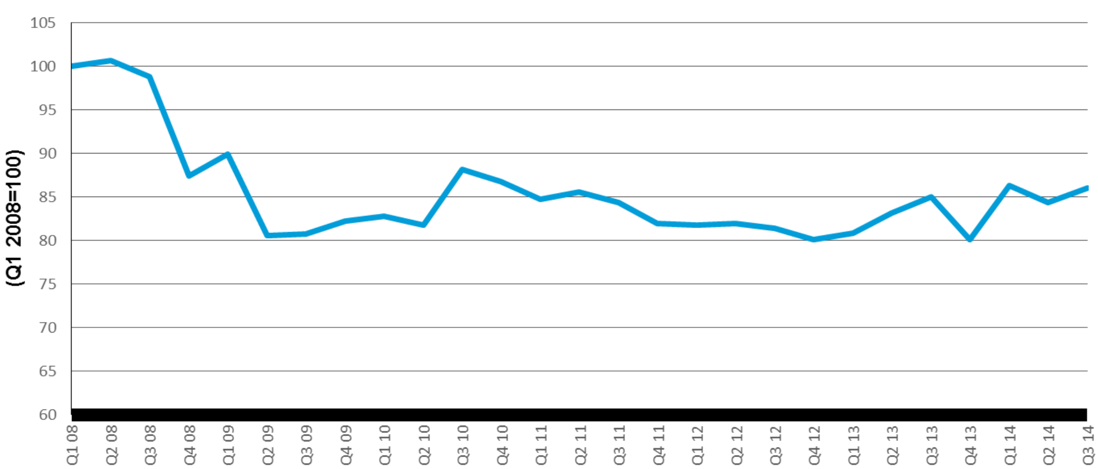
(Averages)	2013	2014	2015f	2016f
GDP	+0.2%	+4.8%	+3.6%	+3.3%
GNP	+3.2%	+5.2%	+3.3%	+3.0%
Consumption	-0.8%	+1.1%	+2.5%	+2.5%
Investment	-2.4%	+11.3%	+12.5%	+7.5%
Exports	+1.1%	+12.6%	+6.0%	+4.5%
Imports	+0.6%	+13.2%	+5.8%	+4.0%
CPI	+0.5%	+0.2%	+1.0%	+1.4%
Employment	+2.4%	+1.8%	+2.4%	+1.9%
Unemployment Rate	13.1%	11.3%	10.0%	9.3%

TRENDS IN ADVERTISING Q4 2014

After a number of very difficult years for the industry, advertising expenditure is starting to recover. In the 4th quarter of 2014, advertising expenditure totalled €295.6 million, which was 10% higher than the same quarter in 2013. Of the total expenditure in the quarter, traditional media accounted for just over 78% of the total, with online advertising accounting for almost 22%.

Figure 2 shows the seasonally adjusted trend in advertising expenditure, which seeks to adjust for seasonal patterns in advertising expenditure. The trend is starting to pick up and spending in the final quarter of 2014, was the highest since the final quarter of 2010, but it is still 1.7% below the final quarter of 2008.

Figure 2: Index of Advertising Expenditure (Seasonally Adjusted)

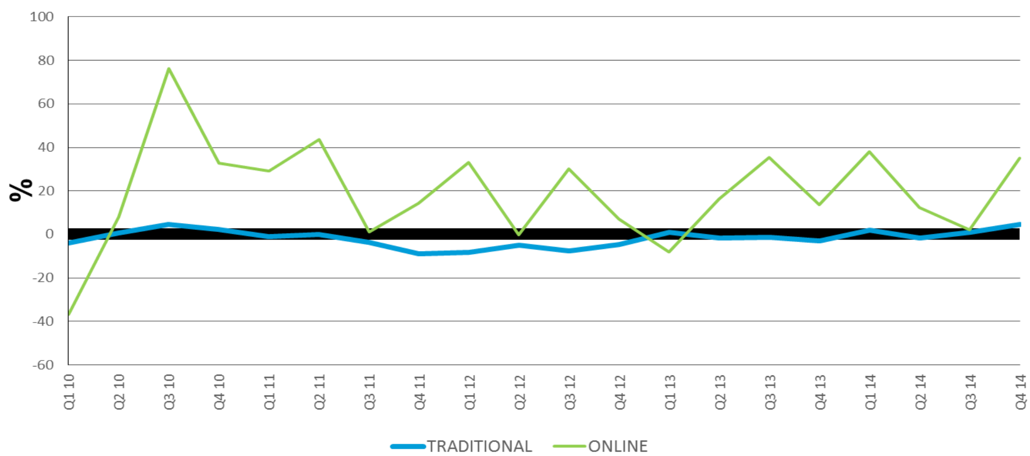


Source: Nielsen & Core Media

Figure 3 shows the year-on-year growth in the two components of advertising expenditure. In the year to the 4th quarter of 2014, overall advertising expenditure increased by 10%, which is comprised of a growth rate of 4.6% in traditional advertising and a growth rate of 35.2% in online advertising expenditure.

TRENDS IN ADVERTISING Q4 2014

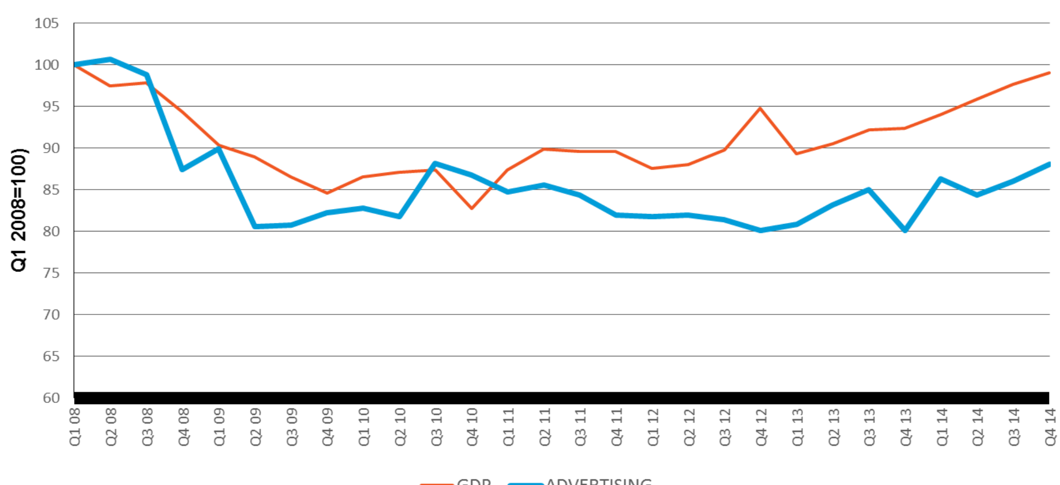
Figure 3: Advertising Expenditure (YoY)



Source: Nielsen & Core Media

The improving trend in advertising expenditure is reflecting the general improvement in the economy as reflected in GDP, consumer spending, consumer confidence and business confidence.

Figure 4: Advertising Expenditure & GDP (Seasonally Adjusted)

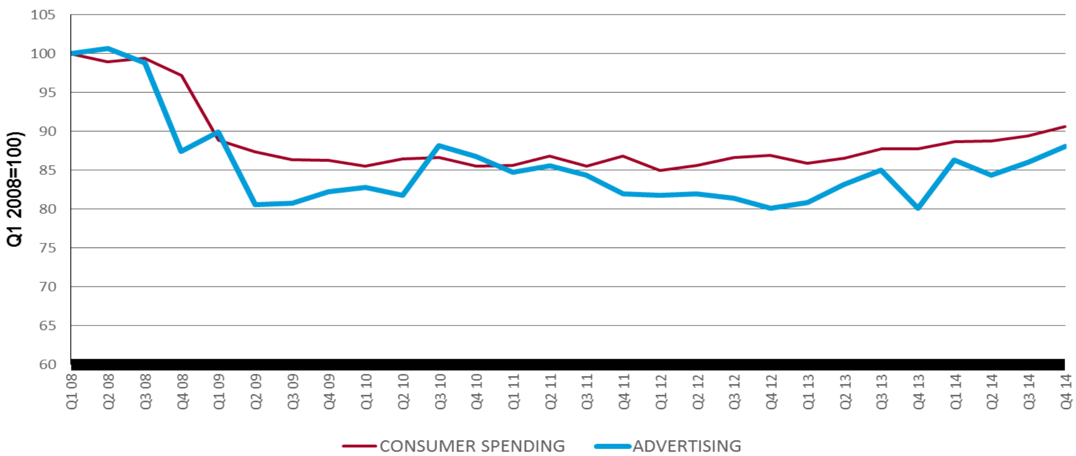


Source: Nielsen, Core Media & CSO

Figure 4 shows the relationship between GDP and advertising expenditure. Advertising fell more sharply than GDP on the way down after 2008 and is now lagging the economy on the path to recovery. However, it is clear that expenditure is now recovering in line with the overall economy. There is a strong correlation between GDP growth and advertising expenditure.

TRENDS IN ADVERTISING Q4 2014

Figure 5: Advertising Expenditure & Consumer Expenditure (Seasonally Adjusted)

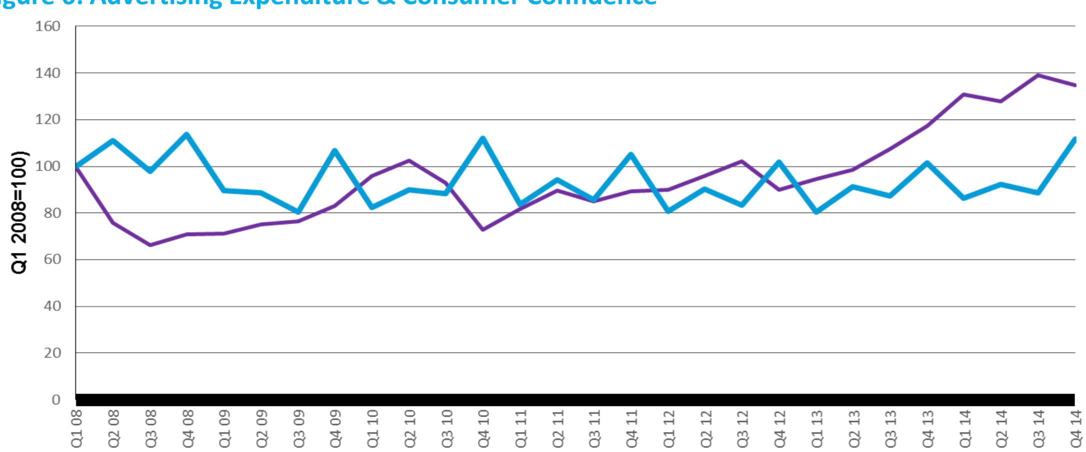


Source: Nielsen, Core Media & CSO

Figure 5 shows how advertising expenditure fell more sharply than consumer spending on the way down, but is starting to recover at a faster pace than consumer expenditure. Advertisers are clearly seeking to benefit from and promote the recovery in consumption that is now starting to emerge. This is particularly evident in the motor trade, where advertising levels are now very strong.

Figure 6 shows the relationship between advertising expenditure and consumer confidence. Consumer confidence has now reached nine-year highs and this is being reflected in the improvement in advertising expenditure that became apparent in the final quarter of 2014. It is also clear that advertising expenditure is also lagging the recovery in consumer confidence.

Figure 6: Advertising Expenditure & Consumer Confidence

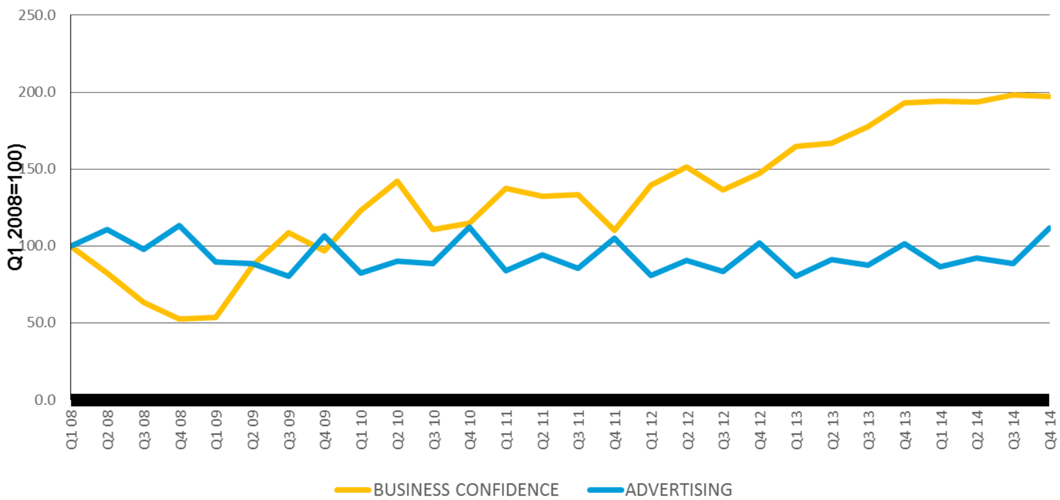


Source: Nielsen, Core Media, KBC/ESRI

TRENDS IN ADVERTISING Q4 2014

Figure 7 tracks the relationship between advertising expenditure and business confidence. There has been a strong recovery in business confidence over the past two years. This has been slow to reflect itself in advertising expenditure, but some recovery is now starting to become apparent.

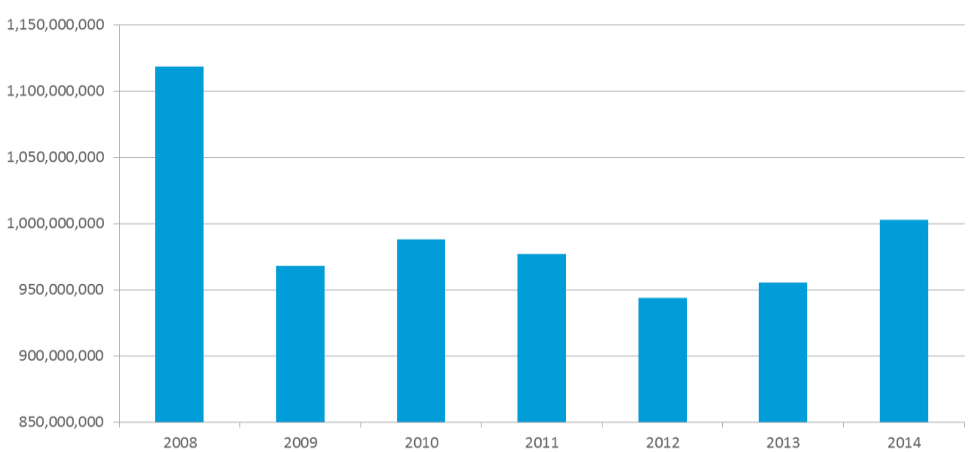
Figure 7: Advertising Expenditure & Business Confidence



Source: Nielsen, Core Media, KBC/Chartered Accountants Ireland

Figure 8 shows the annual trend in total advertising expenditure. Total advertising expenditure in 2014 was 5% higher than 2013 and was 6.2% higher than 2012, which was the low point of the expenditure cycle. Total advertising expenditure is still 10.3% below the 2008 level, but is now clearly in recovery mode.

Figure 8: Annual Advertising Expenditure



Source: Nielsen, Core Media

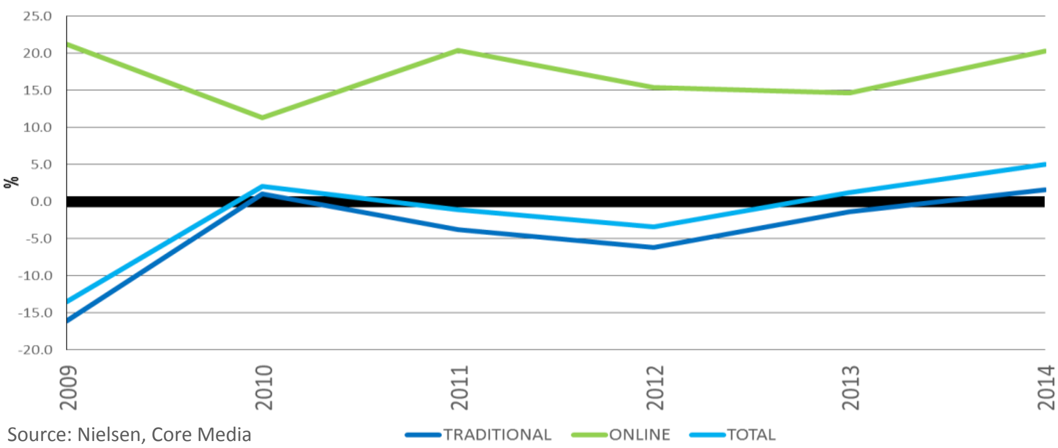
TRENDS IN ADVERTISING Q4 2014

A key feature of the advertising market in recent years has been the growth of online advertising and the pressure on the traditional advertising media. Figure 9 shows the annual growth rates in online advertising and traditional advertising since 2008.

Despite the economic difficulties after 2008, online advertising has expanded every year and in 2014 was 159% higher than the 2008 level.

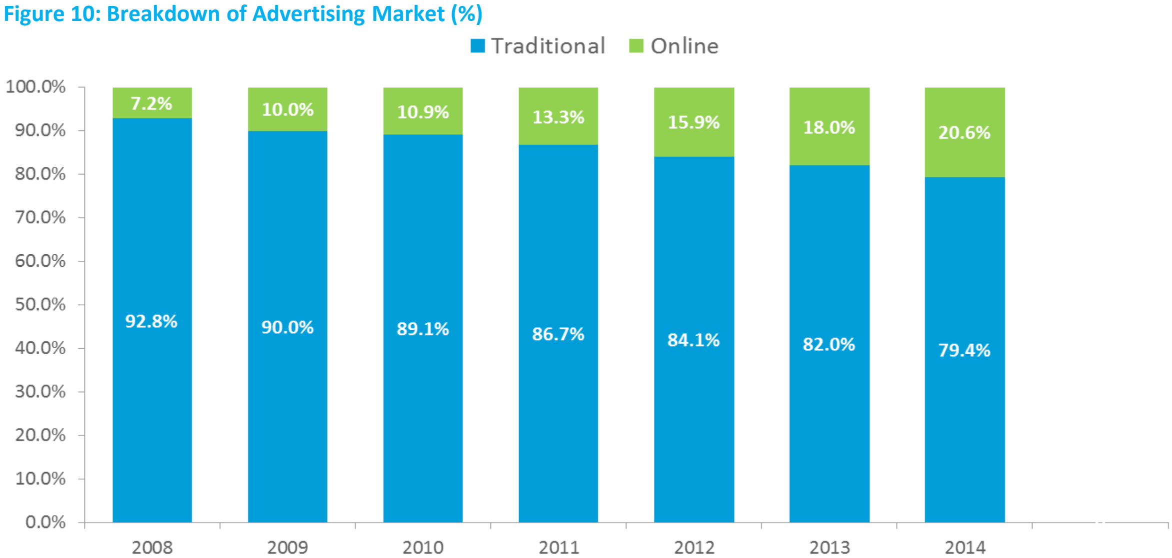
Online advertising accounted for 20.6% of the total advertising market in 2014, up from just 7.2% in 2008 (Figure 10).

Figure 9: Annual Growth Rates in Components of Advertising Expenditure



Source: Nielsen, Core Media

Figure 10: Breakdown of Advertising Market (%)

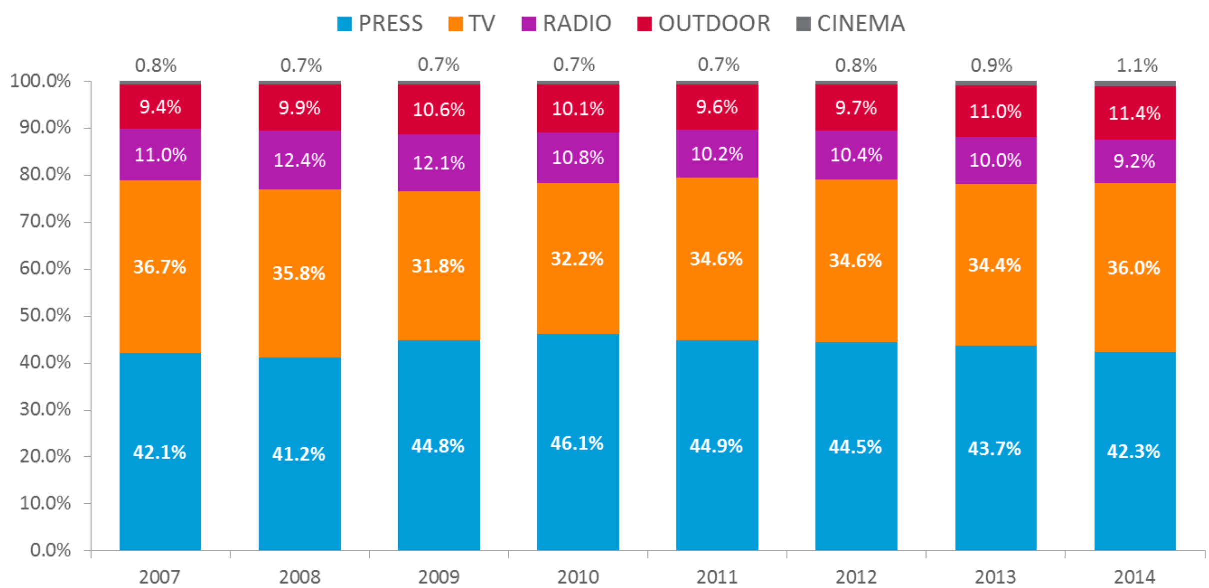


Source: Nielsen, Core Media

TRENDS IN ADVERTISING Q4 2014

Figure 11 shows the breakdown of the traditional advertising market by medium since 2007. While the traditional advertising spend in 2014 was 25.5% lower than in 2007, the composition of the advertising spend in 2014 was virtually unchanged from 2007, although it did change briefly around 2009.

Figure 11: Breakdown of Traditional Advertising Market (%)



Source: Nielsen

CONCLUSIONS

The advertising market experienced a sharp contraction after 2008 in line with the overall economy. Advertising fell more sharply on the way down after 2008, so there is not yet sufficient investment in advertising to match economic growth. There is still catching up required. It is important for products and brands to maintain their public presence during periods of poor economic growth in order to preserve brand equity. However, a recovery in advertising expenditure occurred in 2014 in line with the overall recovery in the economy. Advertising expenditure increased by 5%, while real GDP expanded by 4.8%.

The key economic variables that drive the advertising market are the general health of the economy as measured by GDP; consumer expenditure; consumer confidence; and business confidence. All of those variables improved during 2014 and this translated into a recovery in advertising expenditure as the year progressed.

There has been a strong recovery in business confidence over the past couple of years, but it has been slow to translate into a recovery in advertising expenditure. However, higher levels of business confidence are now starting to translate into increased advertising expenditure.

Looking ahead to 2015, all indicators are currently suggesting that GDP will expand at a reasonable pace; consumer spending is likely to make an increased contribution to the growth recovery; and notwithstanding political and economic risk, business and consumer confidence look set to improve further. Against this background it is likely that the advertising market will expand further in 2015. For a sector that employs so many people, and a sector that is an important driver of business activity, this is a very positive development.

One of the key features in the advertising market in 2014 was the recovery in expenditure on traditional advertising media, and ongoing strong growth in online advertising. These trends look set to continue in 2015.

Compiled by Jim Power, Economist for Nielsen Ireland and the Advertising Association of Ireland

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