

MAGNA

BEYOND THE
OUTBREAK:
**HOW COVID-19
WILL AFFECT
THE GLOBAL
ADVERTISING
MARKET**

3.20.20

10 KEY TAKEAWAYS

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- 1 Starting with the good news: the **COVID-19 epidemic is now slowing down in China, which shows that extreme isolation works and curbs the contagion within 4 to 6 weeks**. That means Europe and North America are now facing at least five weeks of quarantines and business closures that will hit the economy, before business gradually comes back to normal.
- 2 In the meantime, the COVID-19 outbreak already caused a collapse of stock markets and macro-economists are **revising downwards their forecasts for economic growth in 2020**.
- 3 The current consensus among macro-economists is that a global recession in the first half (negative GDP growth in Q1 and Q2) will be followed by a recovery in the second half. If so, **the global economy may stagnate in 2020, instead of growing by +3% as previously expected**.
- 4 Western Europe, where the economy was already slowing down before the outbreak, may fare (much) worse. China experienced negative growth in the first quarter for the first time in 40 years, and full-year **growth is now expected to be between +3% and +5%, compared to +7% in recent years**.
- 5 **Many industry sectors may decrease marketing and advertising spending this year** as a result of slower sales and profits. MAGNA expects the impact on revenues to be severe for the Travel and Restaurant industries, moderate for Retail and Automotive, mild for Consumer Packaged Goods (CPG/FMCG) and potentially positive for Ecommerce and Home Entertainment (SVOD).
- 6 Meanwhile, the quarantine and social distancing policies are generating **deep changes in attitudes, social norms** (remote work, remote education), **consumption** (acceleration of e-commerce and online services), and media consumption (surge in TV viewing, OTT usage, and digital media). These shifts are likely to (at least partially) outlast the outbreak and change our society forever.
- 7 In terms of media owners' advertising revenues, digital media ad formats will be the least impacted, due to organic growth factors, e.g. the explosion of ecommerce. Nonetheless, **global digital advertising is likely to slow down to single-digit growth this year**, compared to nearly +20% per year in the last eight years, and +12% in previous MAGNA forecasts for the year.
- 8 Among linear ad formats, **television will remain relatively resilient** due to pre-existing spending commitments and the fact that its core verticals (CPG/FMCG) will be relatively unscathed by the outbreak and the economic slowdown.
- 9 **TV viewing (esp. news) grows** everywhere during the isolation weeks, but shortage of fresh programming and cancellation of sports events may ultimately limit overall growth.
- 10 **Radio ad sales may suffer more**, as automotive commuting stops for weeks, and **OOH media sales will be severely hurt during the outbreak** as train stations and highways remain empty. OOH media may recover faster than other media, however, due to its strong performance and client mix (technology).

MAGNA CONTINUES TO MONITOR THE FLUID SITUATION, WITH THE HELP OF ITS NETWORK OF MEDIABRANDS AND KINESSO RESEARCH PARTNERS IN 70 COUNTRIES. MORE DOCUMENTS WILL BE PUBLISHED IN THE COMING DAYS AND WEEKS, INCLUDING:

- Detailed US Ad Revenue Forecasts on March 25
- Detailed Report on Vertical Impacts (Key Spending Industries) in the next few days
- Global Ad Forecast (June)

Mediabrand employees and clients and MAGNA Intelligence Subscribers should feel free to contact MAGNA for questions and comments.

The world is in uncharted territory as the worst pandemic in a hundred years is unfolding. At the time of writing (03/18/2020), the COVID-19 pandemic is still accelerating, and its duration remains an open question. However, the range and depth of the macro-economic and micro-economic disruptions is becoming increasingly clear, and we can learn from the impact seen in countries that were hit first, like China or South Korea.

THE MACRO-ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

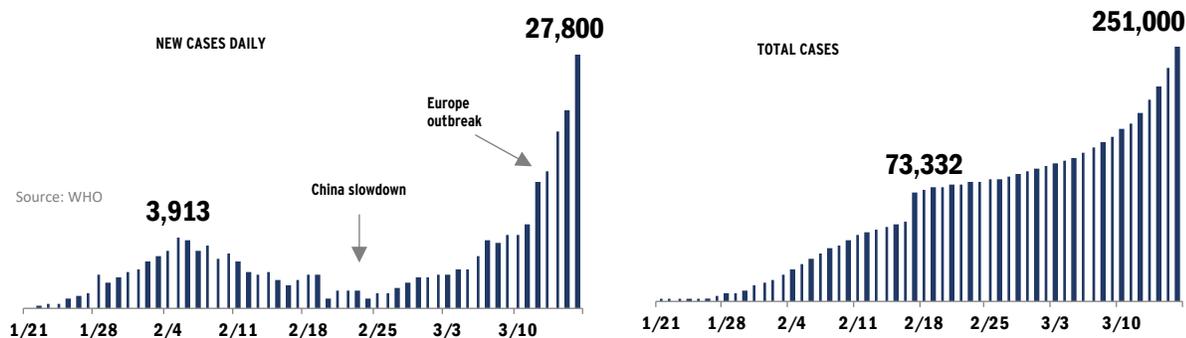
Macro-economists have slashed previous forecasts, and most of them now expect a global recession in the first half of 2020, followed by a stabilization in the second half and a recovery in 2021.

On Feb 22, the IMF was still painting a mild picture of the economic impact, with China's real GDP growing by +5.6% this year, just -0.4% below the January prediction, and the world's economy still growing by +3.2% this year, a revision of just 0.1 points from previous forecast.

Nearly a month later, the picture is much grimmer. At the time of writing, there are 251,000 reported cases globally as of 03/20/20. The good news is that the drastic quarantine measures taken in China are clearly working, and the number of new cases has fallen sharply, to just a few hundred new cases a day as of the second half of February. Unfortunately, Europe was hit by the outbreak in March, resulting in daily global new cases hitting 14,000 by 03/15/20 according to the WHO, doubling from a week before. North America is next, of course. The 8,000+ cases reported in the US (about 1,000 new cases per day) are massively under-estimated at this stage due to limited testing so far; as testing ramps up, the cases will increase significantly over the next week.

THE PANDEMIC: LATEST FIGURES

AS OF: 3/20/20



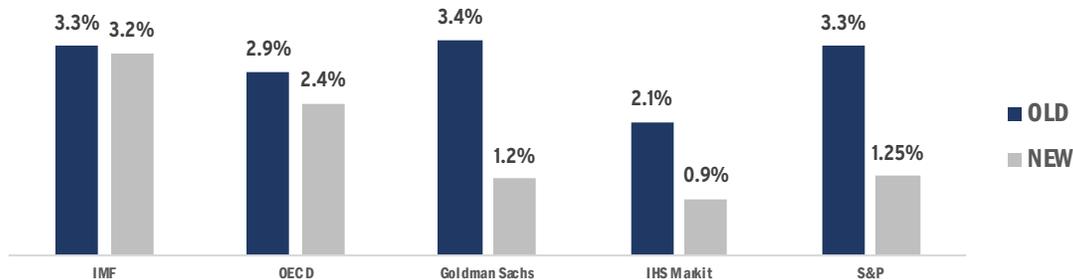
Assuming the epidemic slowdown goes on in Asia, the world is still many weeks away from stabilization. Optimistic scenarios have the number of new cases peaking in mid-April, and the total number of cases coming down in June. But there is no scientific consensus on whether the new virus will follow the seasonal pattern of typical influenza. Again, the optimistic view is it will, meaning that warmer weather will slow down viral activity in spring and summer, and if the virus comes back in the 2020-2021 winter, the world's population will have developed some degree of immunity.

HOW DOES THAT TRANSLATE IN ECONOMIC TERMS?

The impact of the virus, and the precautionary measures taken by nearly all Governments and corporations to curb contagion, are **disrupting both supply and demand**. The demand for goods and services in some industries is severely impacted (cinema theaters, cruise ships, “non-essential” local businesses facing mandatory closure). Other products suffer supply chain disruptions caused by reduced manufacturing and shipping activity, or local delivery bottlenecks. However, the supply of consumer packaged goods (CPG/FMCG), food, drinks, personal care and pharmaceutical products is seriously not compromised at this stage, despite the classic hoarding panics we are seeing everywhere. Demand will continue to be significantly impacted as families face weeks of quarantine in many regions.

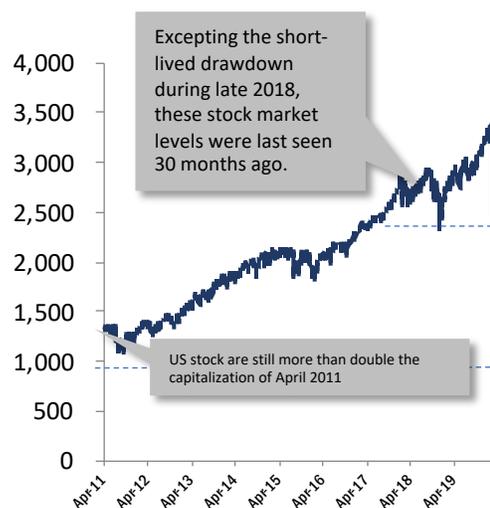
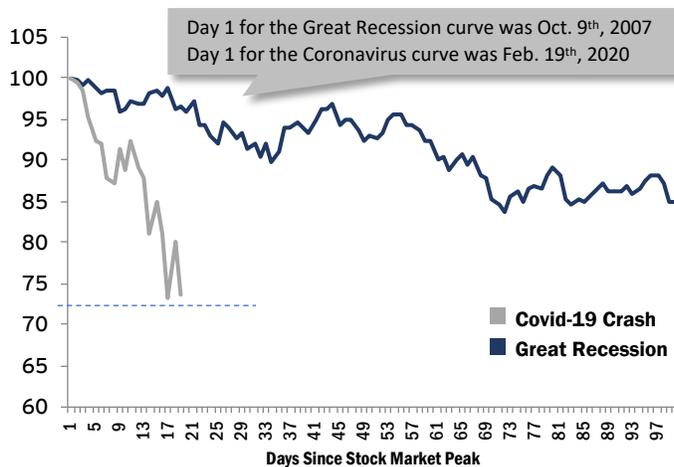
There is now little doubt that **the big scary “R” word will hit the world in the first half of 2020**, since the technical definition of a recession is two consecutive quarters of negative GDP growth. In that context, the latest economic forecast revisions for full year 2020 have been increasingly drastic. On 02/28/20, the OECD reduced global GDP growth forecast from +2.9% to +2.4% (-0.5 points). On 03/17/20, **S&P slashed its forecast from +3.3% to “+1% to +1.5%” (-1.5 points lower)**.

GLOBAL ECONOMIC OUTLOOK: 2020 GDP GROWTH FORECASTS



The pending questions remain: how severe will the contraction be in the first half, **should we expect stabilization in 3Q and a recovery towards the end of the year, and heading into 2021?** We would certainly expect a prompt and strong rebound if the “Black Swan” health crisis had hit during the expansion phase of the global economic cycle; but of course **it arrived as the global economy was already slowing down**, after one of the longest growth cycles ever recorded. Macro-economists were hoping for a “soft-landing” of the global economy in 2020-21, but history suggests that cycles rarely end smoothly, and any shock (asset bubble burst, social or political turmoil) can trigger a downward spiral in confidence from consumers, investors and business executives. **Stock markets have already fallen faster than they did at any point in the 2008 crisis**, and are approaching total declines seen over months and years in the 2008 and 2001 recessions.

US STOCK MARKET CRASH



The decline has been -30% in one month in the US, wiping out 30 months of growth, and -30% to -40% in Europe. In this context, a recovery in 3Q, 4Q or even 2021 is less than guaranteed.

HOW DOES THAT TRANSLATE IN ECONOMIC TERMS?

Governments and central banks are taking stimulus measures to mitigate the financial impact on vulnerable families, self-employed people, and small businesses, but with interest rates already – and perhaps un-necessarily – so low over the past four years, the monetary response is at this point somewhat toothless; the US Federal reserve has already slashed rates near zero and restarted most supportive policies it employed during the great recession. Looking at the various components of the economy and comparing the current situation to 2008-2009, we believe that the financial and banking system is better equipped to (and should) avoid meltdown, and household finances are also in better shape. Corporations, however, have over-indulged in debt in the low interest rate climate and some are at risk of technical default in the months to come.

Assuming, as a baseline scenario, global economic stabilization in 3Q and recovery in 4Q, **we are looking at full-year global GDP growth of 0% to +1% in 2020**, compared to +3% in previous (pre-virus) expectations.

The economic impact will vary across regions. **China experienced its first negative GDP quarter in Q1 following 44 years of uninterrupted growth** since Mao's death in 1976. 1Q GDP likely fell between -4% and -5% as industrial activity fell by -14% and retail sales by -20% in Jan-Feb. Full year is still likely to show year-over-year GDP growth between +3% and +5%, against expectations of +6% and an average growth of +7.5% in the last five years. Western Europe's GDP was already predicted to grow by a sluggish +1% this year; it is now likely to shrink by -1% to -0.5% at best and will probably be much worse in some markets (Italy, Spain). The US is more difficult to predict at this stage but the latest S&P forecast for full-year GDP growth is -0.5% to 0%.

WHAT TO EXPECT FROM KEY INDUSTRY VERTICALS?

In a “normal” end of cycle, all economic and business sectors suffer in broadly similar ways. In this particular case, the health crisis is affecting supply and demand in different ways across industries, leading to more severe and lasting damage in some of them. The severity of the mid-term impact (2020-2021) depends upon the changes in demand that each industry will face, and whether demand is maintained, delayed or destroyed during and beyond the 10 to 12 weeks of business shutdown and consumer isolation.

- **Maintained demand:** food, drinks, toiletries, pharmaceuticals supply and consumption won't suffer from either delay or destruction.
- **Delayed demand:** you were planning to buy a new car in the spring but you can't or won't visit dealerships during the outbreak, so you wait till summer; you were planning to go and watch the new James Bond movie scheduled to be released in March; instead you'll go in November.
- **Destroyed demand:** you cancelled a spring family vacation in Mexico or a trip to Disneyland; you may still go to Mexico or Disneyland at some point but you're not likely to go twice to Mexico in Spring 2021. You will watch the new James Bond in November, but due to the bottleneck in postponed releases you won't be able to see as many movies as you would have planned this year.
- Finally, long-term demand for air travel, cruises, live shows, and sports events could be eroded for many months or years after the current outbreak ceases, as some consumers unconsciously internalize “social distancing,” leading to permanent reluctance to join large crowds or spend time in confined environments.



WHAT TO EXPECT FROM KEY INDUSTRY VERTICALS?

Applying those behavioral patterns, plus supply issues, to key advertising industries, MAGNA rated the severity of the impact to business outlook and advertising spending (on a full year basis): severe, significant, mild, positive.

- **Severe** (sales down to zero for weeks, slow recovery, and potential long-term damage): travel, cinemas, restaurants, personal services (beauty parlors, gyms etc.). Although the revenue losses will be severe for many segments of the travel industry, to the point of some companies possibly going under, advertising spending (at least lower funnel spending) may resume soon after the outbreak simply because many segments of travel are fixed costs industries where advertising and dynamic pricing drive occupancy and profitability.
- **Significant** (strong slowdown, decent recovery): retail (mild impact for grocery shops, severe for department stores, positive for eCommerce), automotive, beauty.
- **Mild** (moderate slowdown, good recovery): technology, telecoms, pharma, food, drinks, personal care, household goods (some toiletries having a temporary surge in sales).
- **Positive**: home entertainment (SVOD, OTT), e-commerce and delivery services, cloud computing services.

WHAT IMPACT ON THE GLOBAL ADVERTISING MARKET?

Both supply and demand will be affected by the new economic environment:

- **Supply of impressions and ratings will increase**, at least temporarily, for most media types (TV, digital media and radio in particular) and decrease sharply for out-of-home media.
- **Demand from most industry verticals will decrease** in proportion to the severity of the business impact.

SUPPLY SIDE

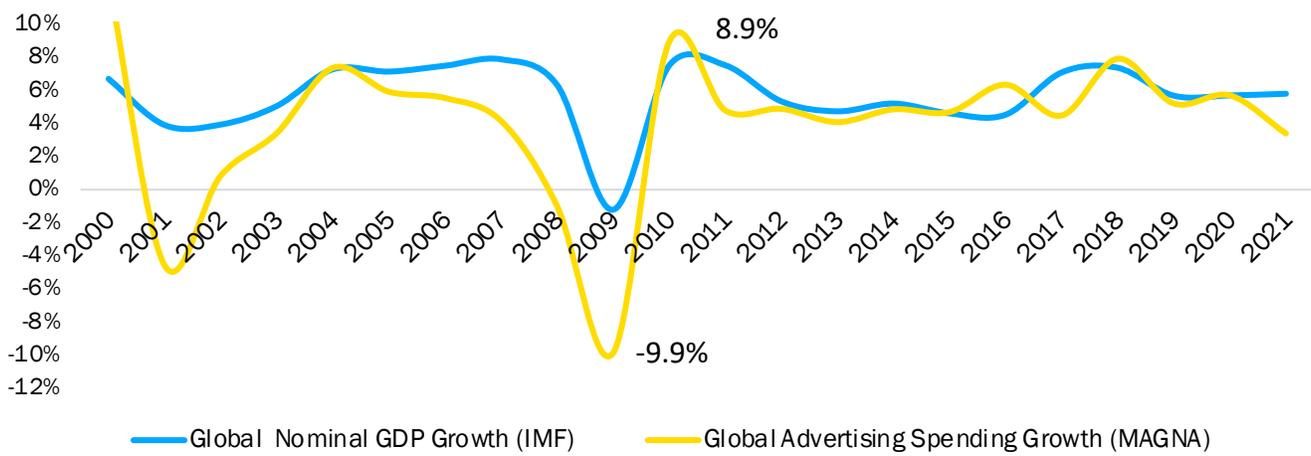
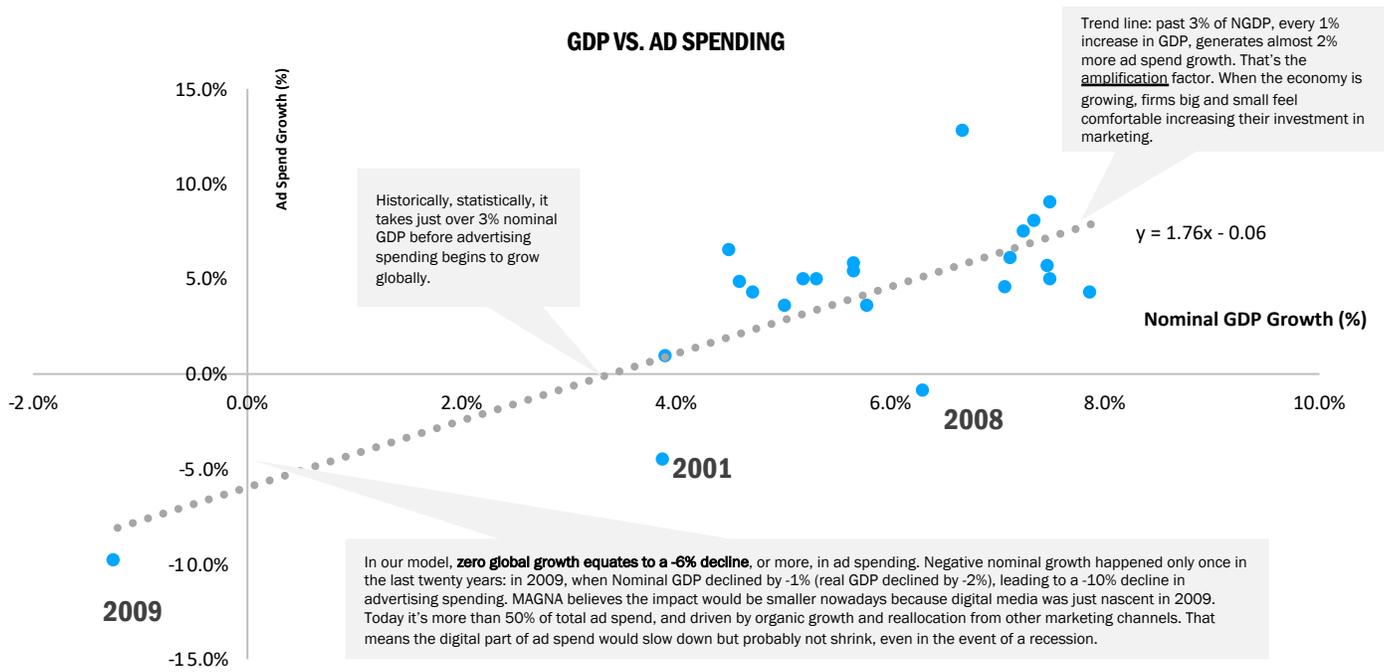
Work-from-home policies and quarantines are keeping millions of families at home for weeks. Early data from China, South Korea and Italy suggest significant increases in TV viewing and digital media consumption. When WFH and quarantines are established on a national scale, linear TV viewing increases by approx. +10% while news programs and news channels audience grew by +30% or more. Digital media consumption, esp. social media and digital video, also increase by +10% to +30%.

DEMAND SIDE

MAGNA will update its detailed media owners' Net Advertising Revenues (NAR) forecasts early June (70 countries, 10 media types, 5 years forecasts), based on media companies Q1 earning reports to be published in April, and reports from local trade organizations. By then we will also get a much better visibility on the pandemic and the economic outlook. In the meantime, we should all be aware of the **sensitivity of advertising spending to the economic environment**.

Based on twenty years of NAR data, MAGNA developed a statistical model showing the relationship between economic growth and the fluctuations of advertising spending (or revenues) for any given market, or region, or the world.

ADVERTISING SPENDING VS ECONOMY: HISTORICAL MODEL



- Advertising spend fluctuations are correlated with economic fluctuations, and they typically amplify economics ups and downs.
- If global economic growth (GDP) goes below zero, ad spending will be significantly impacted.
- During the great recession, when global nominal GDP fell below 0% in 2009 growth, ad spending was -10%.
- It was followed by a rather strong rebound in 2010 (+9%).

The key takeaways of the model are:

- Advertising revenue fluctuations are synchronized and correlated with economic fluctuations
- Advertising revenue fluctuations typically amplify economics ups and downs. For instance, during the last recession in 2008-2009, when global nominal GDP fell to -1% and real GDP to -2%, ad spending declined by -10%. Conversely, ad spend rebounded even more than the economy the following year.

In the present situation, **if we were to assume 0% of economic growth for full-year 2020, the historical model suggests global advertising spending could be shrinking by -6%**. However, there would be two mitigating factors to consider:

- **Cyclical Events:** US elections and Olympics typically **add +1% to global ad spend growth** in even-numbered years. Even if the Tokyo Olympics end-up being cancelled, the US elections alone will bring in almost five billion dollars. Political ad spending will be more resilient than many other ad formats, but with the lack of campaigning, a slowdown in public donations to campaigns because of financial insecurity, and the domination of the news cycle that Coronavirus currently possesses, it's likely that spending will slow marginally (but still provide a y/y boost to overall US spending).

Digital Media: because our statistical model is based on the last 20 years it cannot fully account for the current role of digital media in the market place. For that reason we believe that the impact of an economic recession on total ad spend today might be milder than it would have been ten years because digital media was just nascent in 2009. Today, digital media captures more than 50% of total advertising spend, and driven by organic growth and reallocation from other marketing channels. That means **the digital half of ad spend would slow down but probably not shrink, even in the event of a recession**. Linear media by contrast would suffer the most.

Again, these are theoretical impacts, based on past economic crises and assumptions on the duration and severity of the outbreak. MAGNA will continue to monitor the situation and collect data from its network of local partners in 70 markets, and a complete new set of forecasts will be published in June. In the meantime, MAGNA will update its quarterly US ad revenue forecasts next week (March 25).

HOW MEDIA CHANNELS WILL FARE IN THIS CRISIS?



Digital media will be the least impacted media type, in terms of advertising revenues, thanks to organic growth factors: growing adoption by marketers and growing consumption, accelerated further during the outbreak; continued growth of ecommerce (also accelerated during the outbreak); continued re-allocation of budgets from below-the-line marketing channels, e.g. point-of-sale. Nevertheless, global digital advertising is likely to slow down to single-digit growth this year, compared to nearly 20% per year over the last eight years. Small local businesses are heavy users of search and social ad formats and they are likely to pause or cut their digital ad spending, which is not tied to any long-term commitment. On the other hand, Direct-to-Consumer (DTC) brands selling products and services via digital media may maintain their digital spend during the outbreak. **Social and video ad sales are likely to slow down more than search**, as search advertising continues to be fueled by the explosion of ecommerce.

Among linear media types, **television will remain relatively resilient** due to pre-existing spending commitments (e.g. upfront deals) and the fact that core verticals (CPG/FMCG) will be relatively unscathed by the outbreak and the economic slowdown. Viewing will increase during the weeks or months of social isolation, and possibly beyond, but that may be limited ultimately by the cancellation of many sports events and the shortage of fresh programming likely to hit after several weeks due to the interruption of production.

Radio advertising revenues will be hit harder because car commuting (generating the bulk of talk radio listening) will stop for weeks, and small and local businesses – key radio spenders – are likely to cut ad spend during the quarantine period and restart slowly afterwards. Radio is also easier to cancel than television. On the other hand, there is a possibility that some commuters will choose to stay away from public transports for a while after the end of the outbreak, and car commuting (a form of social distancing) could increase its share of commutes compared to pre-COVID times.

Out-of-home media owners might suffer the most in the first half of the year as both supply and demand will be hurt for weeks. Brands will stay away from empty train platforms and quiet highways. **OOH media may recover faster than other media, however**, due to its strong performance and client mix (technology).

ADVERTISING THROUGH A CRISIS – SOME LESSONS FROM HISTORY

The COVID-19 situation is unprecedented, but the closest historical equivalent would be the combination of the Great Recession and the weeks following the terrorist attacks of 9/11: brutal economic slowdown and “Black Swan” trauma. In the midst of a crisis of this magnitude and uncertain nature, it becomes complex for marketers to decide what’s best for a brand during and after the crisis. There is always the pressure to cut back on marketing and advertising activity due to financial uncertainty, supply issues and the perceived risks for a brand to communicate in a sensitive climate. However, business research and marketing literature suggest that **brands cutting marketing spending during crises hurt their long-term business** by an amount that outweighs their short term marketing savings. Not only does advertising through a crisis make consumers feel positive and comforted by a brands’ commitment to its products and its clients (“Keep Calm And Carry On”), but it also keeps the brand in consumers’ top of mind and better prepared when pent-up demand reemerges.

Following 9/11, many brands cut their TV spend for weeks. But **the brands that grew their national TV spending outperformed in business outcome over the next few months**, as showed by their stock performance. In 2002, the S&P 500 was down by -22%; but some of the heavy TV ad spenders of 4Q 2001, saw massive stock growth, including Mattel (+12%), Nissan (+56%), and Bank of America (+14%). Whether or not consumers are in the right mindset to buy your products during a crisis, whether or not your product is even available in shops during that crisis, consumers like a brand that shares their will to resume normal life and normal business as soon as possible. Contrarian marketers willing to hold or increase share of voice during a crisis, while competitors withdraw, can win significant market share for a relatively low investment, as media costs typically slow down when demand dwindles.



APPENDIX

CORONAVIRUS CRISIS: POTENTIAL IMPACTS ACROSS VERTICALS

INDUSTRY	POTENTIAL IMPACTS	ECONOMIC IMPACT	AD SPEND
PHARMA	Some supply chain issues (Drug ingredients from China)	Mild	Mild
TECHNOLOGY	Supply chain issues – Potential shortage for handsets and delays for product launches	Mild	Mild
RETAIL	Brick-and-mortar footfall takes a hit. Mandatory closures and lack of tourists in big cities will make it severe for “non-essential” brick-and-mortar (e.g. furniture, department stores) while grocery will fare better (mild impact). Some supply chain issues. Ecommerce will accelerate further.	Significant	Significant
TRAVEL	Catastrophic impact in the short term and possibly beyond the outbreak.	Severe	Severe
AUTOMOTIVE	Some supply chain issues. Dealerships may face lower footfall.	Significant	Significant to Severe
FINANCE INSURANCE	The stock market collapse and zero interest rates will hurt the sector’s profits. Financial stocks have been among the most hit so far. Insurance may damage claims for event cancellations.	Significant	Significant
CINEMA	The theatrical release segment faces cinema closure and next-to-zero BO for weeks. Most releases are postponed to summer or fall, creating potential bottlenecks in 2H	Severe	Severe
HOME ENTERTAINMENT	Home entertainment segments (TV, SVOD, MVPD) will be largely immune. Consumption and subscriptions will increase but fresh content may lack in a few weeks, as production crawls to a halt.	Positive	Neutral
RESTAURANTS	Lower footfall might hurt sales, esp. in large cities.	Severe	Severe
FOOD & BEVERAGE	Mild impact on sales and supply (past the initial panic hoarding) and moderate impact on ad spend as major sports events (that usually attract a lot of ad spend from the sector) are being cancelled.	Mild	Mild to Significant (sports)
PERSONAL CARE	Overall, a moderate impact on sales and supply (past the initial panic hoarding). Moderate impact on ad spend. Some household goods and toiletries will actually benefit from the crisis while beauty segment will suffer.	Neutral to Significant (Beauty)	Mild

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