

U.S. ADVERTISING MARKET PREDICTED TO GROW 6% IN 2003
New Global Insight Study Forecasts Ad Revenues for 2002 through 2006

Advertising Market Overview

While the U.S. recovery has been sluggish, the foundations for a strong rebound in advertising expenditures have been laid. The year 2001 was disastrous for the media sector, as advertising revenues fell by 6%—the worst contraction in over a decade. This year has been more robust than many expected; but 2.8% growth before adjusting for inflation growth in 2002, can at best be described as lackluster.

What does 2003 hold? In spite of a U.S. economic performance that will be moderate, Global Insight forecasts that conditions for the media market will begin to improve significantly as 2003 unfolds.

Modest Growth in the U.S. Economy

Poor prospects for Europe, Latin America, and Japan will limit the potential for an export-led expansion in the United States. Similar to when the recovery began, the United States will be dependent on domestic factors to generate growth.

However, growth prospects in consumer spending—the strong point in 2002—are limited. Higher unemployment, a stall in the appreciation of real estate values, and mounting debt loads will discourage spending.

More positive business investment will begin to pickup some of the slack. Investments stabilized in 2002 after a dramatic fall. Growth, although slow in the opening quarters of 2003, will increase significantly next year.

Consequently, after a very slow start, 2003 should see respectable growth in the U.S. economy in the 2.5% range.

What does this mean for media and advertising?

At first glance, a middling economic outlook would seem to imply another slow year for media. A look below the top line numbers shows a very different picture. Our analysis has identified three significant factors that explain much of the change in ad spend—corporate profits, retail sales, and disposable income.

The key drivers for advertising spending are pointing to a robust 2003 and beyond.

- Corporate profits: Profits drive ad spending, particularly for national level campaigns. Broadcast TV is particularly vulnerable to ad spend shifts driven by corporate profits.
- Retail sales: This drives ad sales at the local level. Retail has particular relevance to cable, radio, newspaper, and direct mail.
- Consumer disposable income: This drives uptake for all media types, but most importantly, basic and premium or "value-added" Internet, satellite, and cable services. While not directly relevant to ad spend revenue, faster uptake means a bigger audience, which translates into an opportunity to charge advertisers higher rates. Consequently, a boost to disposable income will eventually mean stronger ad pricing and net revenues—cable and Internet being the lead gainers.

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All three factors are looking good for 2003. Corporate profits in particular will grow by over 18% in 2003, after negatives in both 2001 and 2002. This dramatic turnaround reflects very strong productivity performance by U.S. firms and remarkably aggressive management of inventory levels. This positions companies to pass through a larger share of any uptick in sales to profits.

Global Insight forecasts for key ad spend drivers			
Year	Profits Growth	Retail Sales Growth	Disposable Income Growth
2001	-10.0%	+3.8%	+3.8%
2002	-5.7%	+3.2%	+5.7%
2003	+18.8%	+3.5%	+4.4%
2004	+10.6%	+5.9%	+5.6%

2003 will be a breakout year for media firms. Advertising expenditure will strengthen in 2003, as profits rebound and retail sales and income both hold up well. In 2004, advertising spending will continue to grow as profits hold their momentum, retail sales pick up and disposable income grows.

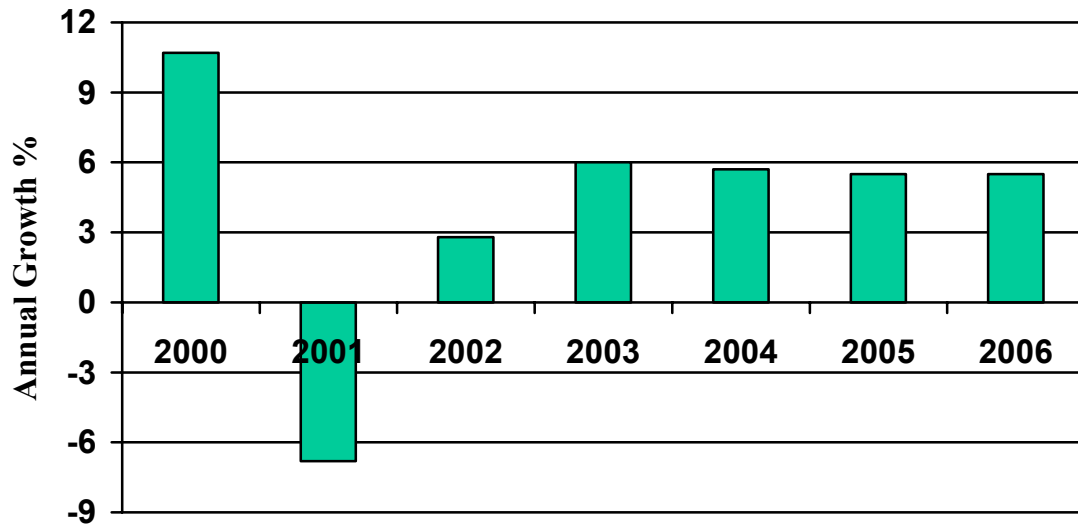


Figure 1 – U.S. advertising expenditure growth before inflation

Regional media markets experience growth

All media types will experience a recovery in advertising sales. Over the period 2002 to 2006, radio, cable, and the Internet will experience the fastest growth. Newspapers, magazines, and direct mail will be close to the national average, while broadcast TV and yellow pages will lag. Regionally, the growth in advertising will come from the Southeast, Pacific Southwest, and Northwest. The Northeast—with some exceptions—will also do well. The Midwest will lag.

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Which industries will spend?

By source, industry services will generate much of the growth in the coming years. Communications and transport services, such as airlines, will make a strong comeback. However, media that can diversify away from traditional retail and consumer durables, such as autos, will do best.

Long-term outlook

Longer term, the media sector will benefit from proposed revisions to ownership rules. Should the Federal Communications Commission remove most restrictions, rapid rationalization of media across markets will make national, cross-media ad campaigns simpler to mount and more cost effective.

America's largest advertising markets (Metropolitan Statistical Areas)	
Ranked by Size	Ranked by Growth 2002-2006
LOS ANGELES-LONG BEACH, CA	ATLANTA, GA
NEW YORK, NY	ORANGE COUNTY, CA
CHICAGO, IL	TAMPA-ST. PETERSBURG, FL
BOSTON-WORCESTER-LAWRENCE, MA	NEW YORK, NY
PHILADELPHIA, PA-NJ	LOS ANGELES-LONG BEACH, CA
DETROIT, MI	DENVER, CO
ATLANTA, GA	SEATTLE-BELLEVUE-EVERETT, WA
WASHINGTON, DC-MD-VA-WV	DETROIT, MI
DALLAS, TX	NEWARK, NJ
HOUSTON, TX	PHILADELPHIA, PA-NJ
MINNEAPOLIS-ST. PAUL, MN	NASSAU-SUFFOLK, NY
SEATTLE-BELLEVUE-EVERETT, WA	BALTIMORE, MD
ORANGE COUNTY, CA	WASHINGTON, DC-MD-VA-WV
ST. LOUIS, MO-IL	MINNEAPOLIS-ST. PAUL, MN
PHOENIX-MESA, AZ	ST. LOUIS, MO-IL
DENVER, CO	SAN FRANCISCO, CA
NASSAU-SUFFOLK, NY	HOUSTON, TX
NEWARK, NJ	PHOENIX-MESA, AZ
SAN DIEGO, CA	KANSAS CITY, MO-KS
CLEVELAND-LORAIN-ELYRIA, OH	CLEVELAND-LORAIN-ELYRIA, OH
SAN FRANCISCO, CA	OAKLAND, CA
PITTSBURGH, PA	PITTSBURGH, PA
BALTIMORE, MD	CHICAGO, IL
KANSAS CITY, MO-KS	DALLAS, TX
TAMPA-ST. PETERSBURG, FL	BOSTON-WORCESTER-LAWRENCE, MA
OAKLAND, CA	SAN DIEGO, CA

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Top industry sources for advertising spending	
Ranked by Size	Ranked by growth 2002 to 2006
DEPARTMENT AND BIG BOX STORES	ENTERTAINMENT
COMMUNICATIONS COMPANIES	WHOLESALE AND INDUSTRIAL SUPPLIERS
AUTOMOTIVE COMPANIES	SECURITY AND COMMODITY BROKERS
OTHER RETAILERS	INSURANCE CARRIERS AND AGENTS
WHOLESALE AND INDUSTRIAL SUPPLIERS	BUSINESS SERVICES COMPANIES
BANKS & TRUSTS	EDUCATIONAL INSTITUTIONS
FOOD AND BEVERAGE PRODUCERS	MEMBERSHIP ORGANIZATIONS
COSMETICS AND DRUGS	COSMETICS AND DRUGS
TRANSPORTATION SERVICES EX AIRLINES	AUTOMOTIVE COMPANIES
ENTERTAINMENT	HOME REPAIR AND RELATED SERVICES
REAL ESTATE BROKERS	FOOD AND BEVERAGE PRODUCERS
SECURITY AND COMMODITY BROKERS	HOTELS
BUSINESS SERVICES COMPANIES	COMMUNICATIONS COMPANIES
PRINTING AND PUBLISHING COMPANIES	TRANSPORTATION SERVICES EX AIRLINES
EDUCATIONAL INSTITUTIONS	REAL ESTATE BROKERS
CONSUMER AND INDUSTRIAL MACHINERY	PRINTING AND PUBLISHING COMPANIES
HOTELS	BANKS & TRUSTS
INSURANCE CARRIERS AND AGENTS	MISCELLANEOUS MANUFACTURING
CONSUMER ELECTRONICS	DEPARTMENT AND BIG BOX STORES
FOOD STORES	OTHER RETAILERS
HOME REPAIR AND RELATED SERVICES	FOOD STORES
RESTAURANTS	CONSUMER ELECTRONICS
HOME FURNISHINGS & EQUIPMENT STORES	CONSUMER AND INDUSTRIAL MACHINERY
MEMBERSHIP ORGANIZATIONS	RESTAURANTS
MISCELLANEOUS MANUFACTURING	HOME FURNISHINGS & EQUIPMENT STORES

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