



ADVERTISING REVENUE IN THE UNCERTAIN COVID-19 ENVIRONMENT:

BIA's Updated 2020 Local Ad Forecast

APRIL 2020

ADVERTISING REVENUE IN THE UNCERTAIN COVID-19 ENVIRONMENT: BIA's Updated 2020 U.S. Local Advertising Forecast

With every passing day, the increasing numbers of COVID-19 cases and the resulting mandated and voluntary restrictions on social interactions and business operations is having a substantial impact on the U.S. economy.

The country has already seen a significant economic downturn, which may ultimately be the start of a recession, as defined by economists as two consecutive quarters of negative real growth.

The question now on everyone's mind is how long will it last? And, if the economy does enter a continuous descent over time, what happens to local advertising spending with media outlets?

Given the uncertainty surrounding the virus and its spread, these questions cannot be answered with any reasonable amount of certainty.

Nevertheless, BIA has spent the last several weeks examining the situation and adjusting our forecast models to offer new estimates for local advertising revenue through a COVID lens.

In this report, we review the current state of the economy in EARLY April 2020 and examine different scenarios of where we think the economy is heading and over what timeframe.

Then we'll wrap that analysis around the local advertising marketplace and offer a new forecast for nationwide advertising revenue along with specific media assessments.

Standing of the U.S. Economy

A realistic view of the virus is that it will continue to have a tremendous negative impact on the second quarter, with some continuation into the 3rd quarter.

Verticals such as Restaurants, Entertainment, Travel and Retail will be some of the hardest hit businesses. As Governors and the federal government examine how to safely open the country back up with new regulations on business operations and social distancing, we could potentially see a lift in the economy in the third quarter.

If these new regulations work in terms of safeguarding human life and remain in effect, we cautiously predict by the 4th quarter we will move back to a pre-pandemic (if not larger) upturn in the economy due to the strength of the economy earlier this year.

This type of recovery is a U-Shape recovery, with the 2nd quarter bearing the worst of the effect of the pandemic.

U-Shaped Recovery	
2020 Potential Real GDP Change	
Q1	-2% to -3%
Q2	-15% to -20%
Q3	+1 to +2%
Q4	+4% to +5%

When we consider the recovery, one important point to remember when making an overall economic forecast is simply that the U.S. economy was in a position of incredible strength immediately before the outbreak. The January and February employment data

showed a remarkably healthy environment (over 2.0% real GDP growth) for the ten year and counting recovery.

Wage gains were showing increasing strength, especially for the lowest income level population. And, before the recent downturn, the stock market was at all-time highs.

Consequently, consumers were feeling confident about the overall situation. With that confidence, consumer spending was expected to be an important factor in a relatively strong economy, with national, regional, and local businesses advertising to attract those customers.

At the same time, there was a considerable amount of political advertising being spent in the early primary states, with an expectation that much more will be spent throughout the remainder of the year, especially in certain states and markets with expected competitive local races.

Now, with the impact of the slowdown as laid out above, where do we end up in terms of local advertising?

Effect of the Pandemic on Local Advertising

BIA is now estimating an overall double digit decline nationwide across all U.S. local advertising from our original 2020 forecast.

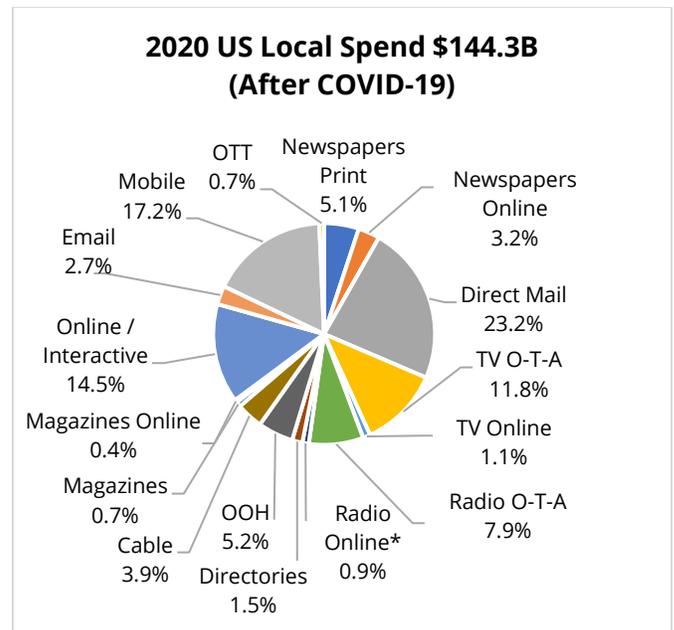
Our original estimate before the virus, and after considering year-end 2019 information, was that the total local advertising market for 2020 would be \$156.9 billion, (down from our \$161.3 billion estimate in November 2019).

That estimate included an increase in our estimate for political advertising by over \$500 million, which we still expect to occur.

Now, however, given the impacts discussed previously from the COVID-19 virus, we now expect the total local advertising market for all of 2020 to be \$144.3 billion, which is a -10.6% decrease from our prior earliest estimate in Nov. 2019.

Our new estimate also represents a 3.6% decline from 2019 even with the added political advertising this year.

The chart below shows the shares for the different advertising platforms with BIA's new estimates. Local television station over-the-air advertising revenue share increases slightly as political advertising in 2020 will still be very strong.



These estimates are based on our analysis that shows that for certain types of businesses, the change in advertising spending for the entire year will be noticeably lower.

Clearly, the leisure and entertainment industries will spend considerably less during the next few months as people can't leave

their homes and may even hesitate to go far once "stay in place" orders are lifted.

If we are correct, and the virus spread is contained (i.e., enough testing and isolation of still affected) in a few months, and life slowly turns back to normal, then we could see these businesses aggressively advertising in the later part of the year. Even with that hopeful return, the total amount spent for the entire year will be lower than in recent years.

In a similar vein, automobile advertising and advertising by retail and restaurants outlets will also be constrained over the next few months with some rebound in the second half of the year (assuming once again the virus spread is contained in the near term).

While the overall decrease in total year spending by these types of businesses will be meaningful, we believe that decrease will not be as severe as the decrease from the leisure and entertainment vertical.

Finally, we see a decrease in advertising by financial and insurance firms throughout the virus spread months followed by a slower rebound in the latter part of the year.

However, certain sub-verticals in this category, such as Consumer & Lending and Investment & Retirement companies, are in high demand as people want help rebuilding their savings, college funds and retirement accounts due to personal market losses and current market volatility.

One business vertical where we expect to see a slight increase in advertising spending is from the health sector. As these businesses (hospitals, medical professions, etc.) will unfortunately become highly sought after, we expect continued advertising spending to steer these customers to specific businesses.

Now, when it comes to local markets, performance will vary depending upon their reliance on advertising spending from the different verticals mentioned above.

Additionally, many markets with expected strong political advertising will be somewhat spared in terms of their overall advertising spending decline.

Ad Estimates by Ad Platform

Now that we have an idea of the new ad revenue for 2020, how will these changes affect the different advertising platforms? Will traditional media outlets suffer more or less than digital outlets? It certainly will depend upon the reliance on the various verticals mentioned above.

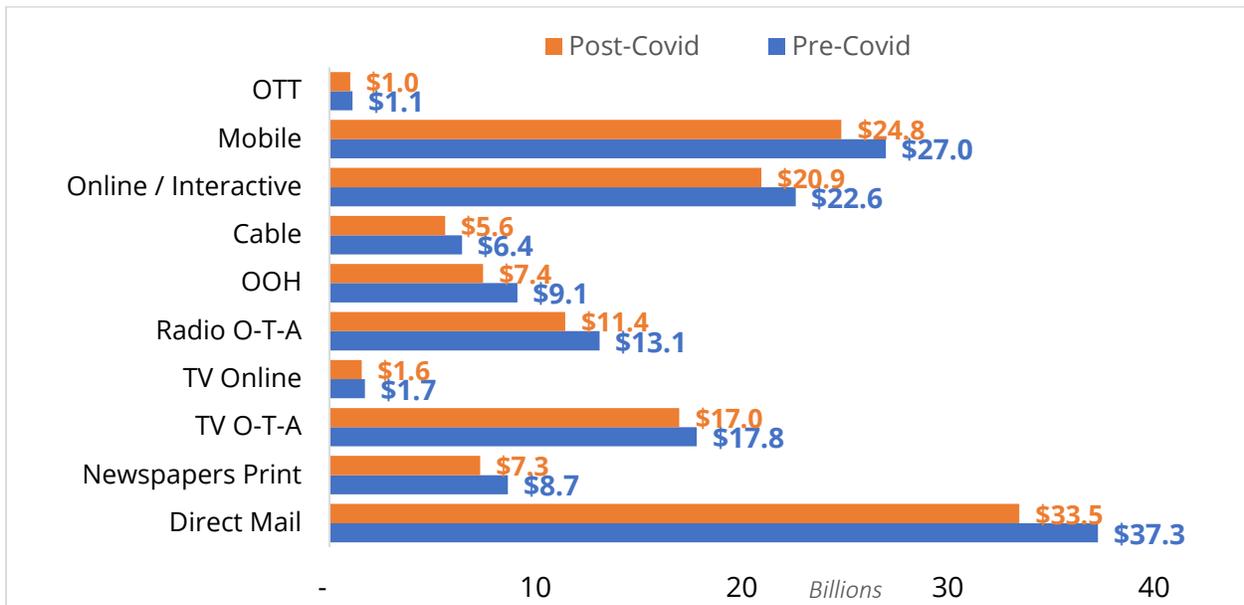
From our analysis discussed above, the chart below shows the estimates of some of our advertising platforms for 2020 before the pandemic took hold, and what we expect now.

The decrease in local television over-the-air advertising is not as severe given the buffer that political advertising revenue will provide. We still expect that total TV political advertising revenue for all of 2020 will be around \$3.25 billion for local television over-the-air.

Other media, without that buffer, will see larger percentage decreases from what we originally projected for 2020.

The chart below shows BIA's pre-COVID and post-COVID estimates for different media channels.

BIA's Estimated Advertising Revenue by Media Pre & Post-COVID-19



While all the outlets receive advertising spending by all the verticals, their reliance varies. A few takeaways:

- Out-of-home outlets, for instance, obtain a very large percentage of their revenue from leisure and entertainment companies. Additionally, with people staying at home, less will be viewing out-of-home ads.
- A considerable amount of direct mail spending is from retail and financial companies.
- Restaurants spend a considerable amount of money with local radio and television stations.
- The continued strong spending from political advertising will keep the decrease in both local cable and local television over-the-air smaller.

Preparing for the Rebound

We're only weeks into this public health crisis and while there is confidence the economy will rebound, no one can speak with certainty about the timing and level of recovery we will see.

This is a dramatically new, indeed historical challenge, our industry leadership faces. But we do know every emergency passes through several phases, and the last phase is recovery.

What steps can you take now to keep your company going through the crisis and then be ready scale back up for the recovery?

We recommend three strategies to prepare for the rebound include these areas:

1. PRESERVE LIQUIDITY



Every company requires liquidity to stay in business. As first responders learn, the first order of business in victim care is to stabilize them and this often means stopping the bleeding. Reducing cash out by cutting, reducing, or pushing out payment obligations is one strategy. When prioritizing expense reductions, consider two factors – scalability and replacement costs.

Scalability refers to a strategic reduction of business operations while preserving the core

abilities to scale back up again when we enter the rebound. Pushing out vendor payments, delaying capital projects, salary reductions and furloughing employees help preserve liquidity while hopefully preserving the ability to spin operations back up to scale when conditions change. Getting cash in is another strategy and helpfully the CARES Act providing \$349 billion in stimulus funding via the Paycheck Protection Program provided forgivable loans to applicants.

At this writing, that fund is now exhausted. If you were not part of this first cycle, look for new stimulus funding and jump on it. There may be other sources of cash, other forms of debt, equity, or more creative financial tools.

2. EMPHASIZE AND MANAGE RELATIONSHIPS



More critical than ever, it's in times of stress that executives must be at their most effective in managing relationships among team members, clients, and partners.

Sharing information and reasoning behind decisions in a timely and transparent way builds trust and commitment.

Be in touch with advertising clients and their agencies to understand their priorities in

managing through the crisis and work with them to be part of their recovery planning and execution.

Finally, offer your team members the opportunity to learn more about the business and how they can contribute and create more opportunities for themselves, as well.

3. THINK FORWARD AS A TEAM



It can be overwhelming to get caught up in the day-to-day horrors of the current pandemic along with the human, economic, and social devastation incurred along the way. But this too soon shall pass.

Leadership is tasked with the responsibility of looking around the corner and developing plans for an orderly return to normal business operations.

Bring employees back online, prioritizing vendor payments, working with clients on payment plans, reviewing cash needs and timing as things ramp back up.

We may not know exactly what will happen when, but we can predict what things we will need to do. Better to start working on those plans now rather than wait until it's too late to set and act on priorities in an orderly and managed execution.

These are things media companies can also work with their clients on. Be part of their success team and help not only manage the

crisis but build a future path to success in the rebound phase.

BIA stands ready and prepared to help you during this difficult moment.

We can help you identify opportunities right now for local sellers and examine the next best strategic and tactical steps to take to prepare for a robust rebound.

NOTE: This report and forecast were completed in early April 2020. Due to the evolving market conditions from COVID, BIA expects to update the forecast again in May.

Request a Post-COVID Snapshot for Your Local Market

BIA is pleased to offer a complimentary dataset for your local market.

Contact us and tell us your local market.

Then, we will send you a snapshot of your local post-COVID forecast that will include:

- BIA's revised 2020 local market traditional and digital ad spend estimates
- New Ad spend projections for Financial, Legal and HVAC businesses in your local market.

Email ADVANTAGEREPORTS@BIA.COM for details

Learn more about BIA Advisory Services here:



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