

INSIDER'S REPORT



ROBERT COEN PRESENTATION
ON ADVERTISING EXPENDITURES
DECEMBER 2007

*Universal*McCANN





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UNIVERSAL MCCANN NOW EXPECTS TOTAL WORLDWIDE ADVERTISING TO REACH \$653.9 BILLION IN 2008, A GAIN OF 4.6% OVER THE 2007 WORLDWIDE LEVEL. ADVERTISING IN THE U.S. IS EXPECTED TO GROW MUCH SLOWER THAN THE REST OF THE WORLD IN 2008, RISING ONLY 3.7% ABOVE 2007 TO REACH \$294.4 BILLION. OVERSEAS AD SPENDING SHOULD GROW FASTER AIDED BY ABOVE-AVERAGE GROWTH IN MANY EMERGING MARKETS AND IS EXPECTED TO INCREASE 5.3% TO \$359.5 BILLION NEXT YEAR.

A YEAR AGO, ON DECEMBER 4, 2006, WE FORECAST THAT WORLDWIDE ADVERTISING SPENDING WOULD RISE 5.3% IN 2007; BUT NOW PRELIMINARY DATA FOR 2007 INDICATE THAT THIS YEAR'S AD GROWTH WILL FALL CONSIDERABLY SHORT OF OUR YEAR-AGO EXPECTATIONS.

OVERSEAS AD SPENDING THIS YEAR NOW LOOKS LIKE IT WILL BE CLOSE TO WHAT WE HAD EXPECTED IN DECEMBER OF 2006. MOST OF THE ERROR IS DUE TO A SHORTFALL IN OUR U.S. FORECAST FOR 2007. A YEAR AGO, WE WERE QUITE CAUTIOUS ABOUT THE U.S. AD OUTLOOK FOR 2007, BUT WE DID THINK THAT AD GROWTH WOULD KEEP CLOSELY IN LINE WITH NOMINAL GDP GROWTH, WHICH HAD BEEN EXPECTED TO RISE 4.9% IN 2007.

IN ACTUAL FACT 2007 NOMINAL GDP IS NOW EXPECTED TO BE UP ONLY SLIGHTLY LESS THAN EXPECTED LAST YEAR, 4.8% INSTEAD OF 4.9%. HOWEVER, IN 2007, U.S. ADVERTISING FAILED TO COME CLOSE TO MATCHING NOMINAL GDP GROWTH. OUR LATEST PRELIMINARY NUMBER FOR 2007 ADVERTISING GROWTH NOW CALLS FOR A GAIN OF ONLY 0.7%. THE RELATIVE IMPORTANCE OF ADVERTISING HAS SLID

AGAIN WITH ADVERTISING AS A PERCENT OF GDP DROPPING FROM 2.14% IN 2006 TO 2.05% IN 2007.

In 2008, we look for stronger U.S. ad growth because of above-average extra demand. In the opening quarter of the year the Super Bowl, which is a highly desired advertising vehicle, should post revenues above last year's level; the new schedule of the political primaries will probably help to keep the prices up for most months in the first half of next year; the Beijing Summer Olympics should lead to extra spending for special Olympic promotion tie-ins during the summer quarter; and by early fall, election advertising will pick up significantly to help lift ad demand in many media during most of the second half of 2008.

We expect U.S. advertising to experience improved growth in 2008 mainly because of the unique events that will fuel extra spending in 2008, but will not continue into 2009. A gain of 3.7% to \$294.4 billion is now expected for U.S. advertising in 2008.

The outlook for advertising in most other countries is now seen as better than in the U.S. next year.

Large emerging countries like China, India, Russia, and others have been experiencing exceptional economic growth and much higher advertising spending has followed. Now these countries are more than offsetting sluggish ad growth in some large developed countries like Germany, Japan and others.

The 2008 advertising outlook for all overseas countries combined, assuming no change in exchange rates, is for a rise of 5.3% in 2008 to \$359.5 billion. In 2008, worldwide advertising is expected to rise 4.6% to \$653.9 billion.

It should be pointed out that growing search marketing expenditures are not included in these projections.

Robert J. Coen, Senior Vice President, Director of Forecasting at Universal McCann made these predictions at the December 3, 2007 UBS Global Media Conference in New York City. This issue of the Universal McCann Insider's Report reviews the highlights of Bob's latest forecast.



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WHEN THE FINAL U.S. FIGURES FOR 2007 BECOME AVAILABLE THEY WILL INDICATE MIXED PERFORMANCES IN A RANGE OF ECONOMIC SECTORS. IN TOTAL THE ECONOMY WILL BE UP FOR 2007, NOT AS MUCH AS MANY HAD HOPED, BUT NOT AS BADLY AS MANY HAD FEARED. HOWEVER, U.S. ADVERTISING GROWTH HAS BEEN PERFORMING POORLY AS MARKETERS TRUSTED THEIR FEARS MORE THAN THEIR HOPES.

In recent years national advertisers have maintained very tight reigns on their advertising budgets. The desire for growing corporate profits has intensified and marketers have fiercely opposed above-average media price increases. Many marketers insist on an immediate return on ad investments before approving additional advertising spending. In addition, there was the regular drop-off in political ad spending in odd-numbered year 2007.

The Internet and growing digital alternatives siphoned off funds from many traditional advertising practices, while some key industries, like Automotive and Pharmaceuticals, experienced special conditions which negatively impacted their advertising budgeting. These forces combined to hold down the growth of national marketers' ad budgets in 2007. Advertising's share of GDP from National Advertising spending slipped again in 2007.

2007 BUDGETS OF NATIONAL ADVERTISERS

	% Change Over 2006	2007 Projections \$(000,000)
4 TV Networks	+2.2%	\$17,043
Spot TV	-6.5	10,870
Cable TV	+6.0	20,479
Syndication TV	-8.0	3,396
Radio	-3.0	4,307
Magazines	+4.0	13,695
Newspapers	+6.5	6,624
CONSUMER MEDIA SUB-TOTAL	+ 0.5	76,414
Direct Mail	+4.0	60,988
Yellow Pages	+1.0	2,228
Internet	+20.0	10,920
Other National Media	+3.1	37,647
TOTAL NATIONAL	+ 3.1%	\$188,197

NOW WE PROJECT A GAIN OF ONLY 3.1% IN NATIONAL MARKETERS' AD BUDGETS IN A YEAR WHEN THE PRESENT CONCENSUS IS FOR NOMINAL GDP GROWTH OF 4.8%. THE MEDIOCRE RISE IS NOT JUST BECAUSE OF TOUGH COMPARISONS WITH 2006. NATIONAL MARKETERS' ADVERTISING STRATEGIES HAVE TURNED SHARPLY DOWNWARD.

The ad budgets of national marketers in most of the more traditional media have failed to rise even as much as inflation this year. The only truly strong ad increases came from higher Internet spending and possibly from other forms of digital marketing programs.

THE SITUATION AT THE LOCAL LEVEL WAS EVEN WORSE.

2007 EXPENDITURES OF ALL ADVERTISERS

	% Change Over 2006	2007 Projections \$(000,000)
Local Newspapers	-8.0%	\$36,315
Local TV	-3.0	14,440
Local Radio	-6.0	14,285
Local Yellow Pages	+1.0	12,310
Other Local Media	+5.2	18,330
TOTAL LOCAL	-3.5	95,680
TOTAL NATIONAL	+3.1	188,197
GRAND TOTAL	+ 0.7%	\$283,877



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The role of traditional advertising shrunk considerably for local retailers and the smaller entrepreneurs operating in a single local market. The combination of practically flat local marketers' increases and the meager gains in spending by the larger marketers operating across the entire nation has resulted in very slow growth in U.S. advertising in 2007.

THE TREND IN THE RELATIVE IMPORTANCE OF ADVERTISING HAS GROWN QUITE DISMAL SINCE PEAKING IN THE YEAR 2000.

ADVERTISING AS A SHARE OF GDP

YEAR	AD SHARE (%)
2000	2.52
2001	2.28
2002	2.26
2003	2.24
2004	2.25
2005	2.18
2006	2.14
2007	2.05

In 2000, advertising's share was undoubtedly over-extended, and a reversal was inevitable. The decline got started in late 2000 as the economy softened and then plunged when the Internet bubble broke in 2001. As the economy gradually recovered, the slippage appeared to be flattening out and ad share actually began to move back upward in 2004, but a sustained advertising recovery failed to appear in 2005, 2006, and again in 2007.

It is becoming extremely difficult to spot any clear indicators that much improvement in advertising lies just around the corner.

THE ECONOMIC CLIMATE IS PRESENTLY CLOUDING, AND WHAT IS IN STORE FOR NEXT YEAR IS BECOMING VERY UNCLEAR. THE ELECTIONS AND OLYMPICS SHOULD HELP AD GROWTH, BUT MARKETERS ARE STILL EXTREMELY CAUTIOUS AND CONCERNED ABOUT PROFITS.

RECENT TRENDS AND EXPECTATIONS

(Percent Change Over Previous Years)

	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP	+0.8%	+1.6%	+2.5%	+3.6%	+3.1%	+2.9%	+2.1%	+2.4%
Consumer Prices	+2.8	+1.6	+2.3	+2.7	+3.4	+3.2	+2.8	+2.6
Nominal GDP	+3.2	+3.4	+4.7	+6.6	+6.4	+6.1	+4.8	+4.5
Total Advertising	-0.5	+2.4	+3.6	+7.4	+2.8	+3.9	+0.7	?
Corporate Profits	-6.2	+15.5	+12.1	+24.0	+11.5	+13.2	+3.9	+3.3

The expectations for next year are mixed, but the elections and Olympics could help to create an overdue return to more traditional advertising spending. However, with intense focus on improving or maintaining corporate profits, a significant surge in advertising in 2008 does not seem likely.

SOME IMPORTANT INDUSTRY SECTORS HAVE EXPERIENCED SERIOUS PROBLEMS IN RECENT YEARS. EVENTUALLY IMPROVEMENTS WILL ARRIVE, BUT MORE LIKELY THEY WILL GET HERE LATER RATHER THAN SOONER.

TOP PRODUCT CATEGORY CHANGES

(Percent Change Jan-Sept 2007 vs. Jan-Sept 2006)

Category	TV Nat'l Networks*	Spot TV	Magazines	Totals
Automobiles	-13%	-7%	-2%	-8%
Drug/Remedies	+4	-3	+13	+7
Toiletries/Cosmetics	+5	+4	+9	+7
Telecommunications	-11	+8	-13	-6
Direct Response	+35	+4	+3	+22
Restaurants	-1	-3	+22	-1
Food	-1	+8	+14	+5

*ABC, CBS, Fox, NBC, Pax, CW, Cable TV Networks & National TV Syndication

For the last three years, these top, most important categories have grown their ad budgets at a very modest pace. In the first months of this year the sluggish pace has continued and worsened in a number of categories with specific financial problems that have peaked this year. The problems in categories like Automotive and some others are being addressed, but significant improvements in competitive ad spending are not likely to appear soon.



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SECONDARY PRODUCT CATEGORY CHANGES

(Percent Change Jan-Sept 2007 vs. Jan-Sept 2006)

Category	TV Nat'l Networks*	Spot TV	Magazines	Totals
Movies	0%	-2%	-7%	-1%
Beverages/Snacks	-13	-22	+11	-8
Apparel	-18	-1	+6	+1
Insurance	+8	-6	+4	+4
Resorts/Tours	-10	+11	+1	-2
Computers	+15	-21	-16	0
Beer & Wine	-24	-13	-7	-20

*ABC, CBS, Fox, NBC, Pax, CW, Cable TV Networks & National TV Syndication

In 2007, most of these secondary categories posted meager increases in comparison with levels in 2006. The comparisons during 2007 suffered partially because of the elevated gains in 2006, particularly during the Winter Olympics weeks, when extra spending for Olympic promotion programs was in place.

In 2008, we will probably see some strengthening in these budgets during the second half of the year.

SELECTED SMALLER PRODUCT CATEGORY CHANGES

(Percent Change Jan-Sept 2007 vs. Jan-Sept 2006)

Category	TV Nat'l Networks*	Spot TV	Magazines	Totals
Brokers/Mutual Funds	-7%	+11%	-11%	-8%
Banks/S&L	+82	-18	+15	+29
Real Estate	-11	-20	-9	-13
Fitness/Diet Programs	+160	-22	+73	+24
Colleges/Universities	+339	-5	+17	+22
Liquor	-6	-60	+19	+12
Airlines	-54	-10	+10	-22

*ABC, CBS, Fox, NBC, Pax, CW, Cable TV Networks & National TV Syndication

The changes in budgeting for the selected smaller categories have been considerably mixed during 2007. Some categories have boomed and others, like Real Estate and Airlines, have plunged.

THE YEAR 2007 HAS NOT BEEN A GOOD ONE FOR THE TRADITIONAL ADVERTISING MEDIA. MANY KEY MARKETERS HAVE REDUCED THEIR BUDGETS FOR TRADITIONAL MEDIA CAMPAIGNS, AND NOW ONLINE MARKETERS ARE ALSO CUTTING BACK.

CONSUMER MEDIA ADVERTISING

BY ONLINE MARKETERS


(Percent Change Over Prior Year)

YEAR	AD EXPENDITURES	CHANGE
2000	\$5,597,000,000	+81.0%
2001	2,662,000,000	-52.0
2002	2,150,000,000	-19.0
2003	2,210,000,000	+2.8
2004	2,762,000,000	+25.0
2005	3,700,000,000	+34.0
2006	4,155,000,000	+12.0
2007*	4,000,000,000	-4.0

* Forecast

Ad spending by online companies for ads in traditional media plunged in 2001 when the Internet bubble burst. But since 2003, traditional U.S. media have enjoyed ad revenue growth from these new marketers which helped to offset some of the shifts to Internet advertising and spending for other new forms of digital marketing efforts. In 2007, most of the observed expenditure trends were unfavorable for the established media.

THE RELATIVE IMPORTANCE OF ADVERTISING HAS DECLINED IN SIX OUT OF THE SEVEN YEARS BETWEEN 2000 AND 2007. CAN THE ELECTIONS AND OLYMPICS OF 2008 REVERSE THE TRENDS?



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THE OUTLOOK FOR 2008 NATIONAL ADVERTISING

	% Change Over 2007	2008 Projections \$(000,000)
4 TV Networks	+5.0%	\$17,895
Spot TV	+10.0	11,957
Cable TV	+6.1	21,718
Syndication TV	+1.0	3,430
Radio	+1.0	4,350
Magazines	+3.0	14,106
Newspapers	-1.0	6,558
CONSUMER MEDIA SUB-TOTAL	+4.7	80,014
Direct Mail	+4.5	63,732
Yellow Pages	+2.0	2,272
Internet	+16.5	12,722
Other National Media	+5.7	39,802
TOTAL NATIONAL	+ 5.5%	\$198,542

Next year national marketers are expected to increase their advertising outlays at a rate a little higher than the now expected growth of nominal GDP. The largest gains are expected for Internet advertising and for political ad spending.

THE OUTLOOK FOR TOTAL ADVERTISING 2008

	% Change Over 2007	2008 Projections \$(000,000)
Local Newspapers	-2.0%	35,589
Local TV	+4.0	15,018
Local Radio	0	14,285
Local Yellow Pages	+1.0	12,433
Other Local Media	+1.0	18,509
TOTAL LOCAL	+0.2	95,834
TOTAL NATIONAL	+5.5	198,542
GRAND TOTAL	+ 3.7%	\$294,376

Spending by local marketers is not likely to change much compared to this year. The weakness at the local level will again reduce the pace of U.S. ad growth.

Until the Automotive and Housing industries regain their health, advertising's relative importance or share of nominal GDP could continue to slip in the U.S.

In 2008, we expect U.S. advertising as a percent of nominal GDP to slip to 2.04%.

THE ADVERTISING OUTLOOK WILL BE BETTER OVERSEAS NEXT YEAR.

ECONOMIC TRENDS IN MAJOR MARKETS

(Percent change in real GDP over previous year)

COUNTRY	2006	2007	Forecast 2008
United States	+2.9%	+2.1	+2.4
Canada	+3.0	+2.5	+2.6
Japan	+2.2	+2.6	+2.3
Germany	+2.7	+2.8	+2.2
United Kingdom	+2.7	+2.8	+2.6
France	+2.0	+2.1	+2.0
Italy	+1.9	+2.1	+1.7
Brazil	+3.7	+4.2	+4.4
Mexico	+3.3	+3.0	+4.4
Australia	+2.7	+3.6	+3.3
South Korea	+5.0	+4.3	+4.8
China	+10.7	+10.6	+9.5
India	+9.0	+8.1	+7.6


Most major countries in the world are enjoying better real economic growth in 2007 and more of the same is expected for 2008. A number of large emerging countries in Latin America and in the Asia Pacific Region are also expected to have strong economic growth next year. Better economic growth should lead to better overseas ad growth next year.

2008 AD OUTLOOK IN KEY INDUSTRIALIZED COUNTRIES

(Percent change over prior year in nominal currencies)

COUNTRY	2006	2007	Forecast 2008
Japan	+0.6%	+1.1	+1.3
Germany	+1.2	+3.2	+2.4
United Kingdom	+3.8	+3.8	+3.5
France	+3.0	+3.0	+3.2
Italy	+3.7	+2.8	+3.3
Spain	+7.6	+5.0	+5.3
Canada	+4.5	+6.2	+5.8
Mexico	+5.0	+5.0	+4.0
Australia	+6.0	+4.6	+4.6
Netherlands	+2.1	+4.5	+5.1

The ad outlook next year in most key industrial countries appears to be a little better than the U.S., but not much.



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2008 AD OUTLOOK IN OTHER SELECTED COUNTRIES

(Percent change over prior year in nominal currencies)

COUNTRY	Forecast		
	2006	2007	2008
Belgium	+3.5%	+2.0	+1.9
Brazil	+10.0	+9.0	+8.0
Sweden	+11.0	+7.0	+5.5
Denmark	+15.0	+7.2	+5.0
Philippines	+5.0	+10.0	+8.0
China	+23.6	+28.0	+25.0
Czech Republic	+4.1	0	+3.8
Poland	+13.0	+12.8	+8.2
India	+19.0	+10.0	+8.0
Russia	+16.4	+15.8	+21.2
Argentina	+36.0	+35.0	+30.0

Advertising growth in many of the smaller developed countries varies, with some expanding rapidly while others post sluggish growth. However, most of the other countries from emerging parts of the world are enjoying above-average advertising growth.

WORLDWIDE AD GROWTH: 1990-2008

	U.S.A.		OVERSEAS		TOTAL WORLD	
	BILLION US\$	% CHANGE	BILLION US\$	% CHANGE	BILLION US\$	% CHANGE
1990	\$130.0	+ 3.9%	\$145.9	+11.8%	\$275.9	+7.9%
1991	128.4	-1.2	153.9	+5.5	282.3	+2.3
1992	133.8	+4.2	165.4	+7.5	299.2	+6.0
1993	141.0	+5.4	163.2	-1.3	304.2	+1.7
1994	153.0	+8.6	179.0	+9.7	332.0	+9.1
1995	165.1	+7.9	205.9	+15.0	371.0	+11.7
1996	178.1	+7.9	212.1	+3.0	390.2	+5.2
1997	191.3	+7.4	210.0	-1.0	401.3	+2.8
1998	206.7	+8.0	205.2	-2.3	411.9	+2.6
1999	222.3	+7.6	213.8	+4.2	436.1	+5.9
2000	247.5	+11.3	226.8	+6.1	474.3	+8.8
2001	231.3	-6.5	209.6	-8.6	440.9	-7.9
2002	236.9	+2.4	213.6	+1.9	450.5	+2.2
2003	245.5	+3.6	244.4	+14.4	489.9	+8.7
2004	263.8	+7.4	279.8	+14.5	543.6	+11.0
2005	271.1	+2.8	298.0	+6.5	569.1	4.7
2006	281.6	+3.9	323.0	+8.4	604.6	+6.2
2007*	283.9	+0.7	341.4	+5.7	625.3	+3.4
2008*	294.4	+3.7	359.5	+5.3	653.9	+4.6

* In current local currencies

Universal McCann forecasts worldwide advertising growth of 4.6% in 2008, assuming no change in exchange rates.

The immediate future of the advertising industry is presently confronted with change, evolution, opportunities, and uncertainties. The climate in the U.S. and around the world could be much worse than we now foresee if recession occurs in the United States next year, which we do not presently expect.



Robert J. Coen

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