



Media Tracker

Creating customer value in the digital era

kpmg.com/uk





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UK media sector insight

This is the third release of a biannual report compiled for KPMG by Markit, featuring unique survey data from UK media companies, marketing executives and employees.

UK media sector tracker

The first section presents our headline UK media sector tracker index, which aims to provide fresh media sector insight from the perspective of UK marketing executives and private sector media companies.

A specially developed composite index, our headline UK media sector tracker index is a unique barometer of prevailing conditions across the wider UK media sector.

The underlying components are media sector business activity trends and adspend budget setting.

We assess the landscape in relation to business activity trends at UK media companies by using data derived from Markit's UK Services PMI® survey. We have also used information related to UK marketing executives' main media and internet budget revisions, with the underlying data source the IPA Bellwether survey by the Institute of Practitioners in Advertising.

Given the relative lack of reliable business cycle data for the UK media sector, and its importance to health of the wider creative industries, we intend that our tracker can plug a vital information gap for industry participants and policymakers.

Media sector job market trends

In the second section, we examine labour market trends within the media sector.

Trends in job security, income from employment and household finances are benchmarked against those reported across the UK as a whole through the past six years.

David Elms, Head of Media at KPMG, said: "Trading conditions for media businesses improved over the past year, and companies reported their fastest year of growth since 2007. However, growing uncertainty dampened growth towards the end of last year.

"Ad budgets are reflective of market confidence and the general consumer appetite that underpins the economy. There was a marked slowdown in growth momentum for ad spend that suggests marketing activities are being reigned in as belts tighten again and fears over future economic turbulence return."

"The media sector faces many of the same challenges as the rest of the economy, but it appears that employees within the industry remain upbeat about their prospects and confident in the future stability of their roles. Although pay inflation is weak, media professionals are faring relatively well, in terms of job security, compared to peers in other sectors."



Executive summary

UK media sector on high in 2015, but wave of recovery fades at the end of the year

Our latest report reveals that the UK media sector experienced another calendar year of growth in 2015, its third in a row and the longest sustained period of improvement since the 2007/08 global financial crisis.

As a result, it appears that the media sector is riding a wave of recovery that matches the positive momentum seen across the wider UK economy since early-2013.

While disruptive technological change continues to generate fresh competitive challenges and pressure to adapt existing business models, the latest survey data provides a clear indication that the overall media sector landscape is still characterised by growth rather than retrenchment.

The annual figures in 2015 are especially positive in terms of core media sector business activity, as UK media companies reported the fastest calendar year of business activity growth since 2007.

Survey respondents noted that resilient consumer spending patterns, the low inflation backdrop, and efforts to pursue new revenue streams had supported overall business activity.

At the same time, UK marketing executives reported a modest uplift to adspend budgets in 2015, although this component was lower in comparison to the figures seen for 2013 and 2014.

Looking at the most recent quarterly data in the UK media sector tracker, however, it is apparent that the media sector's wave of recovery slowed at the end of 2015.

Reflecting this, the headline UK media sector tracker signalled that overall quarterly growth in the final quarter of 2015 faded to its weakest since early-2013.

Reports from survey respondents suggested that heightened economic uncertainty was a key factor that dampened overall growth in the final quarter.

*see methodology notes for full details.



The quarterly breakdown reflected a subdued contribution from adspend revisions as well as a slower growth performance for core media sector business activity in Q4.

Marketing executives suggested that increasing cost consciousness at the turn of the year, as well as uncertainty about the UK economic outlook, had acted as a brake on adspend budget setting.

Meanwhile, the second section of the report also sounds a note of caution, as it reveals that pay pressures continued across the wider media sector at the end of 2015, broadly mirroring overall UK trends.

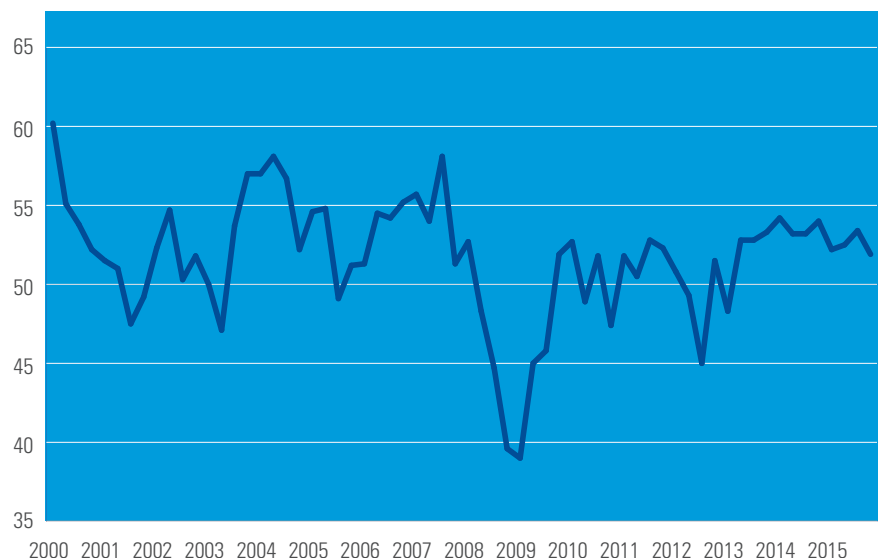
Despite reporting weak pay trends, in terms of perceived job security the latest report indicates that media professionals fared better than those in other sectors at the end of the year.

In fact, the number of media/culture/

entertainment employees reporting a rise in job security exceeded those suggesting a fall. This was the first instance of rising job security among UK media sector professionals since the index began in 2009, suggesting that employees have become more sanguine about the near-term outlook for the media sector.



UK Media Sector Tracker Quarterly Index, 50 = no change



Media sector tracker

UK media sector on high in 2015, but wave of recovery slows at the end of the year

This section evaluates the current UK media sector landscape. We have compiled an index designed to provide a single-figure snapshot of media sector conditions. The underlying components are business activity trends and adspend budget setting.

Key points:

- The headline UK media sector tracker posted 52.5 on average in 2015, which represents a third successive calendar year of growth
- The strongest component was core media sector business activity, while adspend budget revisions provided only a modest uplift in 2015

The headline UK media sector tracker index is calculated by taking the combined momentum of two key areas; core business activity at media sector companies and, secondly, adspend budget changes among UK marketing executives.

Our analysis begins by looking at the overall media tracker, on both an annual and quarterly basis. We then examine the momentum of its two components (business activity and

adspend budget revisions), as well as the reasons for change provided by survey respondents.

Annual figures show media sector on high in 2015...

Latest survey findings compiled by Markit for KPMG highlight that the UK media sector enjoyed a positive calendar year in 2015.

The headline KPMG/Markit UK media sector tracker – a composite index designed to provide a single-figure snapshot of overall media sector business conditions – registered 52.5 across 2015 as a whole. Any figure above 50.0 represents expansion.

A positive annual figure for 2015 reflected rising levels of total business activity at media companies (index at 53.3) and, to a lesser degree, upward revisions

to marketing executives' adspend budgets (index at 51.7).

...but subdued final quarter performance clouds outlook

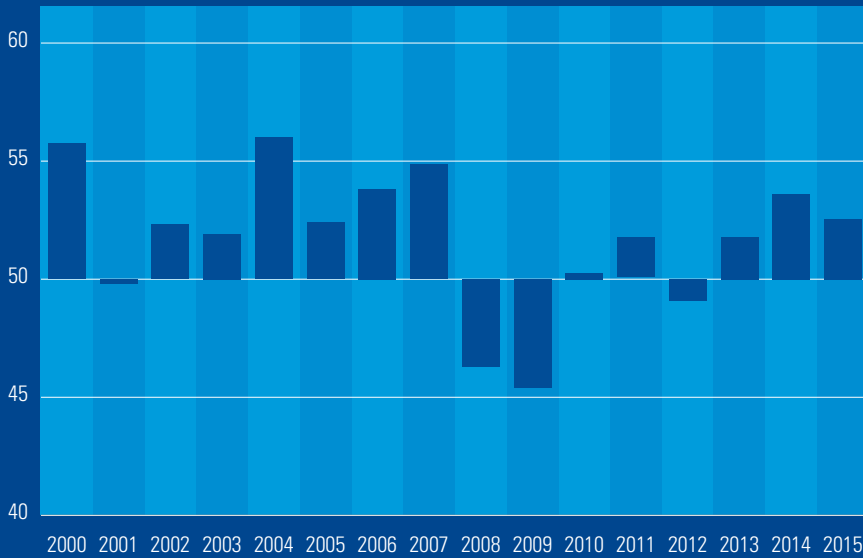
Looking at the most recent quarterly data in the UK media sector tracker, the index reveals a loss of momentum at the end of 2015.

The headline UK media sector tracker fell to 51.9 in Q4 2015, signalling that overall quarterly growth faded to its weakest since Q1 2013.

The quarterly breakdown reflected a subdued contribution from adspend revisions in Q4 (index at 51.4) as well as a slower growth performance for core media sector business activity (index at 52.3).



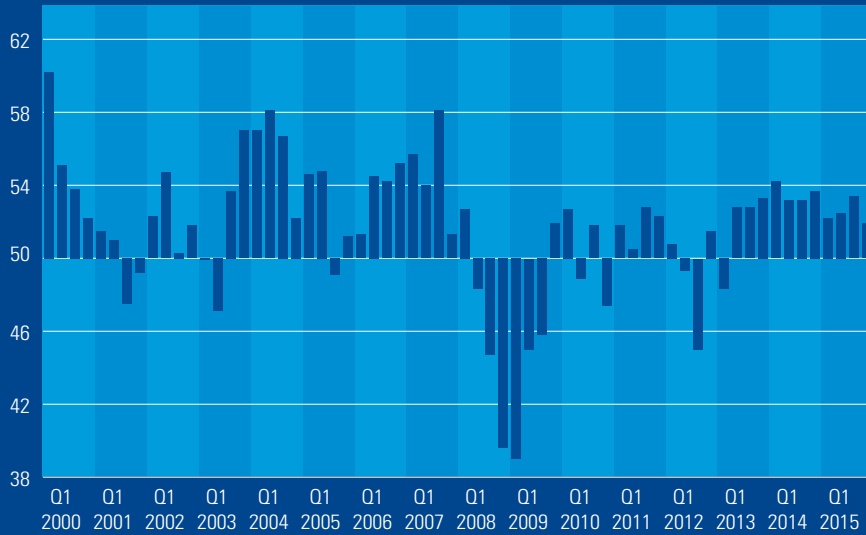
UK Media Sector Tracker Annual Index, 50 = no change



UK Media Sector Tracker



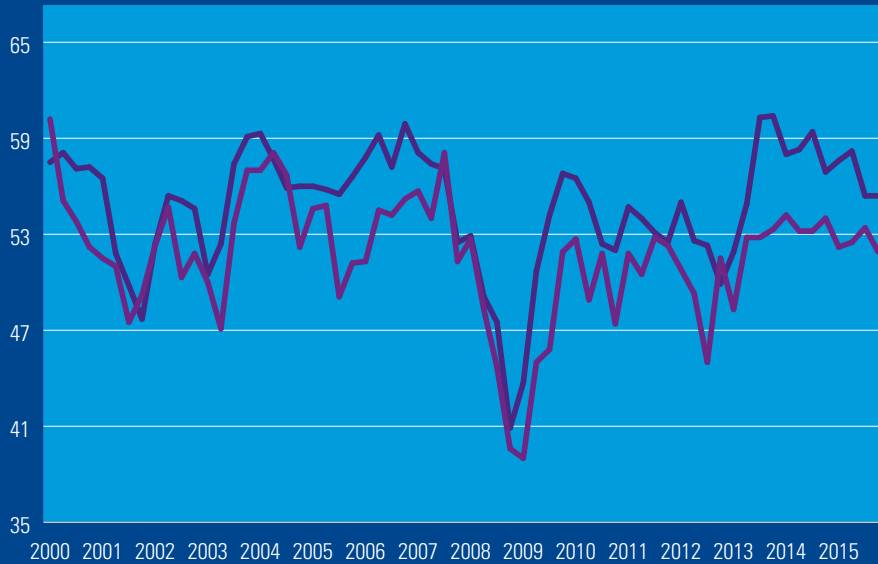
UK Media Sector Tracker Quarterly Index



UK Media Sector Tracker



UK Media Sector Tracker and UK Service Sector PMI Output Index



UK Media Sector Business Cycle UK Services Sector Business Cycle



Media sector tracker

Business activity component

This section looks at business activity trends across the UK media sector. These figures are drawn from Markit's widely-watched UK Purchasing Managers' Index® (PMI®) monthly business survey, and we compare the media sector findings to those recorded for the service economy as a whole.

Annual breakdown; business activity

Looking at 2015 as a whole, UK media sector firms reported the fastest calendar year of underlying business activity growth since 2007.

Reports from survey respondents cited improving consumer spending levels and stronger demand for digital content. Media companies also noted that efforts to pursue new revenue streams had supported overall business activity.

This was highlighted by the UK Media Sector Business Activity Index posting at 53.3 in 2015, an improvement upon an index reading of 51.8 for 2014.

The UK Service Sector Business Activity Index posted at 56.7 for 2015, indicating that growth across the services sector as a whole continued to outpace that seen for media firms, buoyed by solid growth in sub-sectors such as finance and technology.

However, the UK service sector as a whole saw momentum soften slightly since 2014, which contrasted with the improvement in activity growth at media companies over the course of 2015.

Quarterly breakdown; business activity

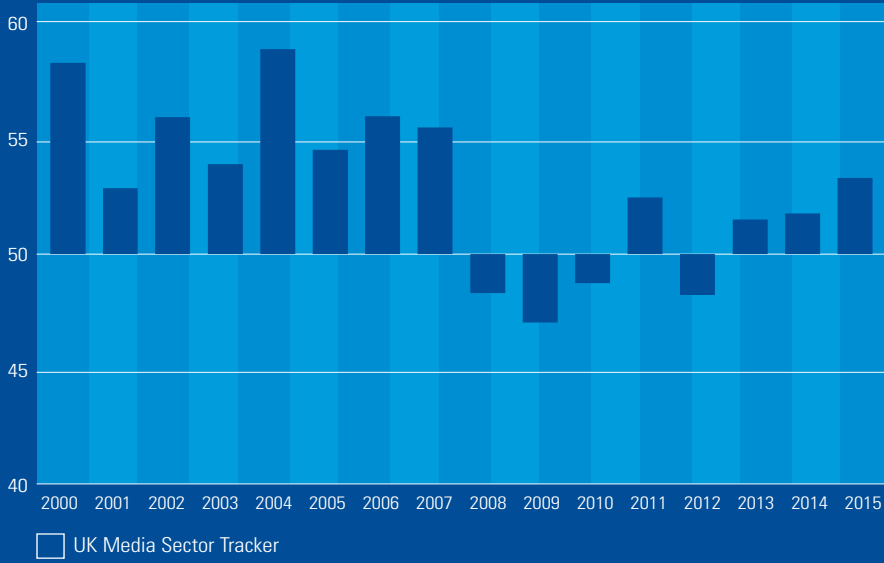
While growth looks robust on an annual basis, quarterly data provides more detailed insight into the media sector's performance. This index shows that activity growth at UK media companies softened towards the end of 2015.

The slower pace of media sector business activity expansion coincided with a general weakening across the UK service economy during the final quarter of 2015.

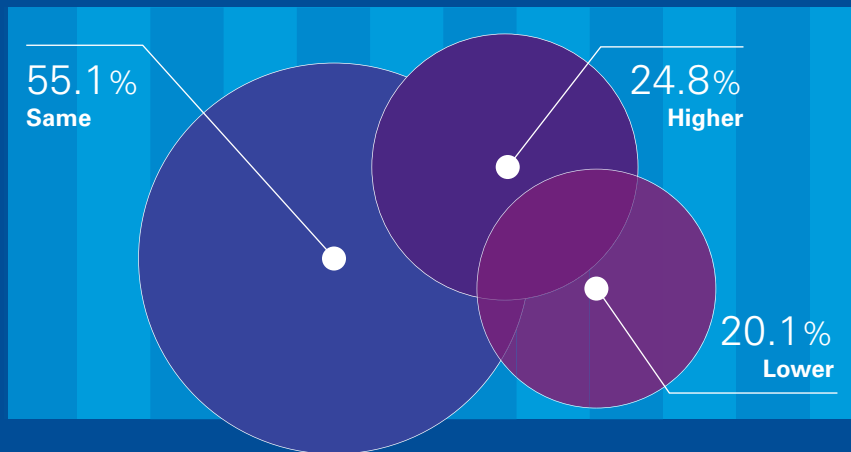
At 55.4 in Q4, the UK services index was unchanged since Q3 and pointed to one of the softest expansions of business activity since the summer of 2013.



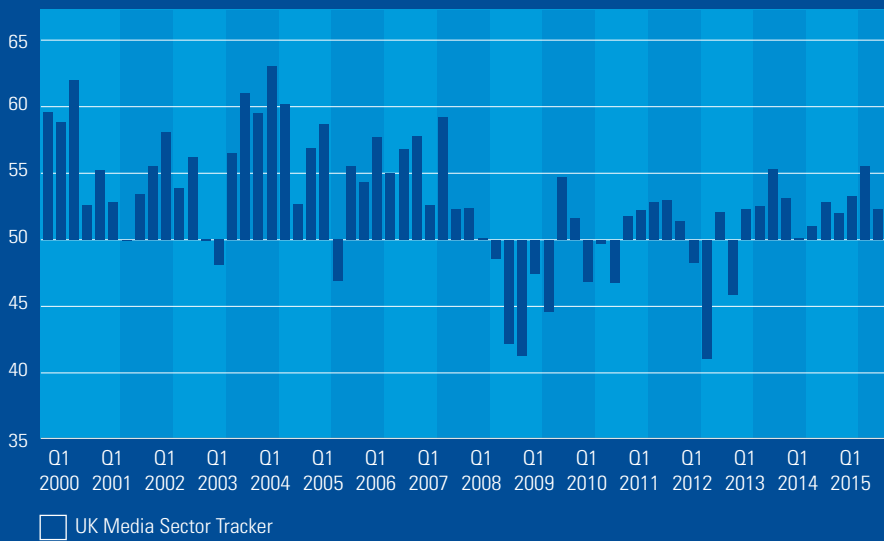
UK Media Sector: Business Activity Annual Index



UK Media Sector: Business Activity Q4 2015 (seasonally adjusted)**



UK Media Sector Business Activity Quarterly Index



Source: Markit, KPMG.

**Index numbers vary between 0 and 100, with levels of 50 signalling no-change. Readings above 50 signal an increase, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

See methodology notes for full details.



Media sector landscape

Adspend budget revisions component

The following section looks at the second component of the media sector tracker; UK marketing executives' main media and internet budget revisions, which is derived from the IPA Bellwether survey by the Institute of Practitioners in Advertising.

Annual breakdown; adspend budgets

The annual figure for 2015 indicates that positive revisions to adspend budgets have tapered off in comparison to those seen in 2014.

Although still rising overall, UK marketing executives reported the weakest degree of uplift to their media adspend budgets for three years in 2015.

A softer trend in adspend budgets revisions was shown by this component index falling from 55.4 in 2014 to 51.7 for 2015, to signal only a modest upward revision to media adspend budgets.

Survey respondents noted that renewed caution about the UK economic outlook and greater cost

consciousness had weighed on marketing budgets over the year.

At the same time, there were also some positive trends reported, with some noting that adspend plans had been supported by forthcoming sports events, particularly the Olympics and European Football Championships in 2016.

Quarterly breakdown; adspend budgets

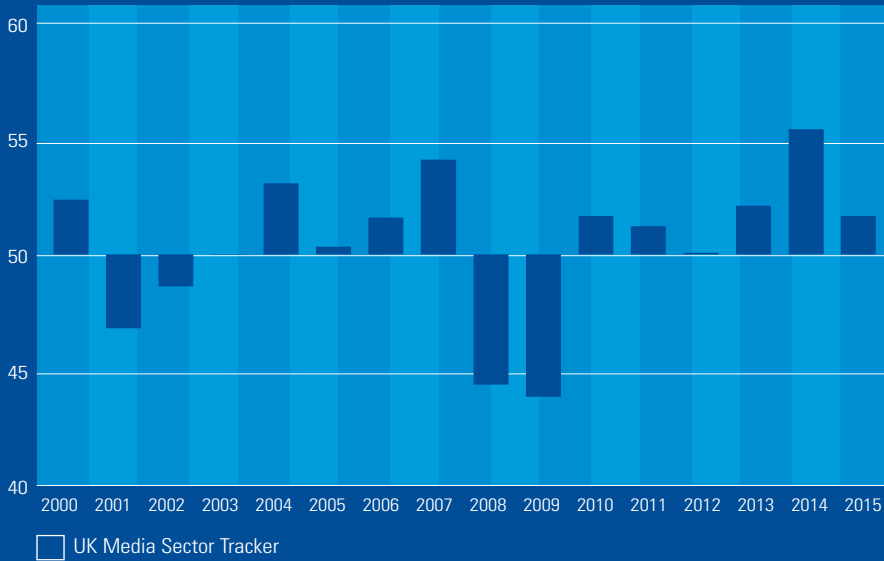
A quarterly breakdown of the adspend budget revisions signalled a particularly subdued trend at the end of the year, which provides an early indication that marketing executives may be poised to become more cautious in their media spending during 2016.

Just over 18% of UK marketing executives reported a rise in their media adspend budgets during the final quarter of 2015, while around 15% noted a reduction. At 51.4, the resulting index was only slightly above the 50.0 no-change threshold and one of the lowest readings seen over the past three years.

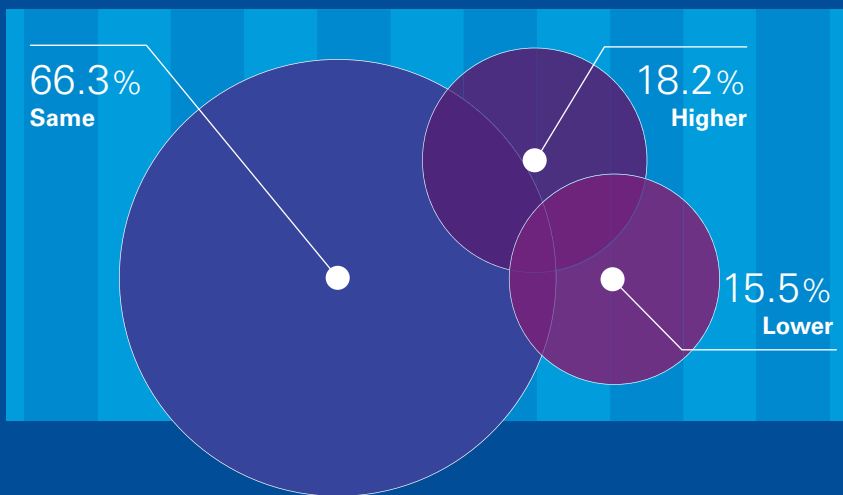
Moreover, the latest survey confirms a slowdown in the pace of adspend revisions over the second half of 2015, with the index down markedly from its seven-year peak in Q2 2014 (index at 56.3).



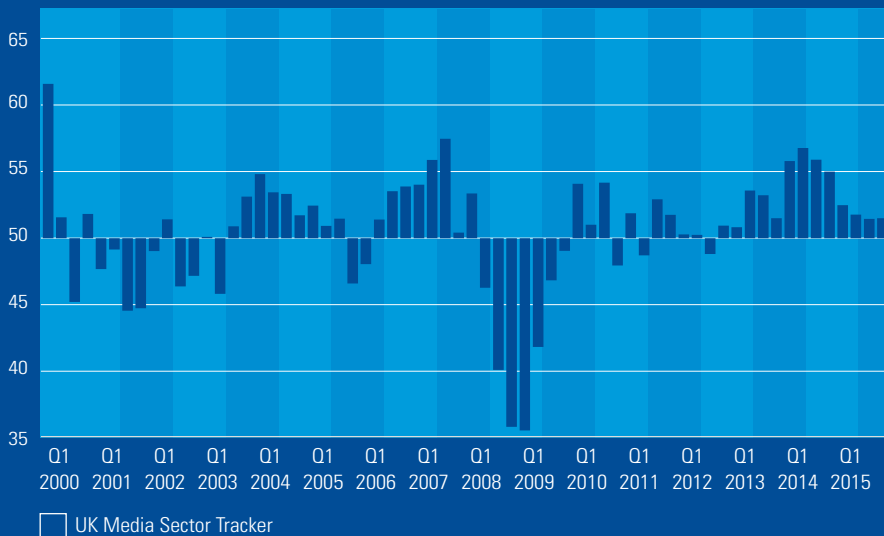
UK Media Sector: Marketing Budget Revisions Annual Index



UK Media Sector: Marketing Budgets Q4 2015 (seasonally adjusted)**



UK Media Sector: Marketing Budget Revisions Quarterly Index



Source: Markit, KPMG.

**Index numbers vary between 0 and 100, with levels of 50 signalling no-change. Readings above 50 signal an increase, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading.

See methodology notes for full details.

Job market trends

Media employees report a rise in job security, but pay trends remain subdued

In this section we compare media sector labour market trends against UK benchmarks, drawing on Markit's Household Finance Index (HFI) survey, to give a timely indication of media sector job market conditions.

Key points:

- Solid improvement in job security reported by media sector employees, in contrast to generally downbeat perceptions elsewhere
- Pay inflation remains modest, but compares favourably with the post-recession trend
- Households expect an upturn in their finances over the course of 2016

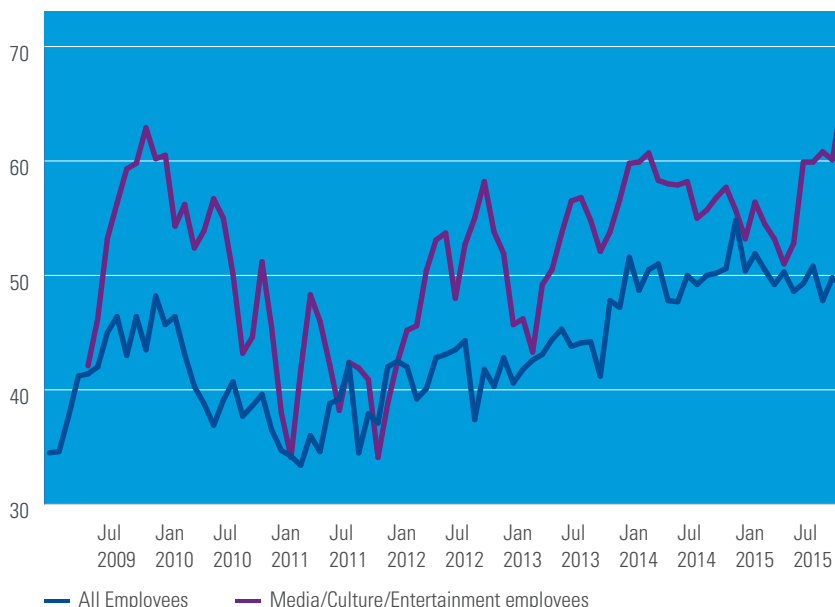
Survey data from media/culture/entertainment employees indicated positive trends overall for both job security and income from employment at the turn of the year, which contrasted with the declines seen over much of the

past seven years. Moreover, media professionals are the most upbeat about the outlook for their household finances over the year ahead since late-2009.

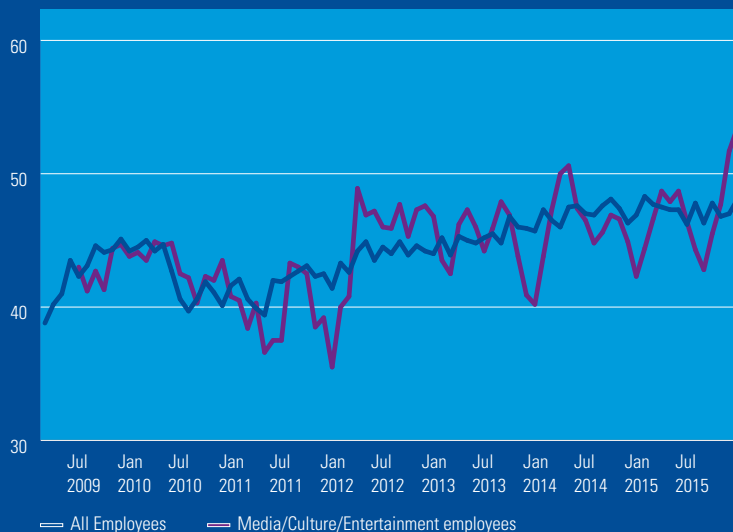
Across the UK as a whole, households are confident about their prospects for the next 12 months, but incomes were reported to have increased only slightly and job security continued to decline.



HFI Future Finances 50 = no change, SA



HFI Job Security 50 = no-change, SA



Job security and income from employment

On average over the final three months of 2015, nearly 14% of respondents employed in the media/culture/entertainment sector reported a rise in their job security, while around 7% noted a decline. At 53.5, the resulting index was above the 50.0 no-change value and signalled that job security perceptions were the highest since the survey began in 2009.

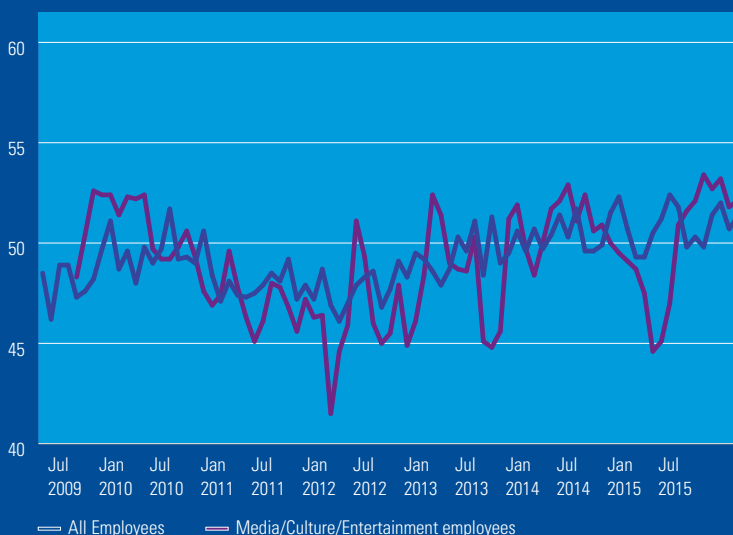
The improvement in media sector job security perceptions contrasted with a sustained reduction across the UK as a whole. People working in education/health/social services recorded the steepest fall in job security over the three months to December.

Despite an upturn in job security at the end of 2015, there was little sign of this translating into faster pay inflation across the media sector. Reflecting this, the index measuring income from employment posted 52.1 in December, which was only slightly above its long-run average (49.0).

Source: Markit, KPMG.

*Index numbers vary between 0 and 100, with levels of 50 signalling no-change. Readings above 50 signal an increase, whilst postings below 50 indicate a decrease. The greater the divergence from 50, the greater the rate of change signalled by the reading. See methodology notes for full details.

HFI Income from Employment 50 = no-change, SA





Job market trends

UK households expect an improvement in their financial wellbeing during 2016

Relatively subdued wage inflation mirrored the experience of UK employees across all industries towards the end of 2015, with only those working in utilities/energy/transport and retail recording a strong overall rise in income from employment.

Outlook for UK household finances

The latest survey provides an upbeat assessment of the outlook for UK household finances during 2016. At 65.2 in December, the index measuring confidence among media/culture/entertainment employees was the highest since the end of 2009.

Media professionals are also more optimistic than UK households across all industries (index below the neutral 50.0 value at 49.1 in December). This has been the case for much of the seven-year survey history, although the gap widened substantially over the

second-half of 2015 amid weaker confidence in the manufacturing and construction sector.

Positive sentiment about the financial outlook has been underpinned by the improving UK economic backdrop, as well as expectations of low inflation and modest rises in income from employment. In the media sector, there appears to have been an additional boost from relatively resilient perceptions of job security at the end of the year.

What do the household finance survey trends mean for UK media companies?

The latest survey results have several implications for UK media sector performance over the course of 2016.

Firstly, a sustained upturn in UK households' financial wellbeing should translate in to stronger consumer confidence in 2016. This can be

expected to feed through to greater willingness to spend, providing a boost to underlying demand for digital services and take-up of new devices.

Secondly, it seems that operating margins will remain under pressure across the media sector as real household income levels are set to rise only modestly. The latest survey results suggest that wage restraint is likely to remain prevalent over the year ahead, with the low inflation backdrop resulting in pay freezes across some industry sectors and acting as a general brake on income growth.

Thirdly, for the first time since the survey began in 2009, the coalface view from UK media sector employees is reasonably positive in terms of job security. The outright improvement shown by the job security index may prove an advance signal that some of the growth headwinds afflicting the media sector will start to diminish in early 2016.

Methodology notes

UK media sector Purchasing Managers' Index® (PMI®) survey data

UK media sector PMI data has been derived from a sub-category of companies within Markit's regular surveys of UK service providers and manufacturers. The media sector is defined in this report as advertising & marketing, programming and broadcasting activities, motion picture, video and other media production activities, publishing activities. All figures are seasonally adjusted and smoothed using a three-month moving average, to better highlight underlying trends in the data.

UK media sector; marketing budgets data

The Bellwether survey is researched and published by Markit Economics on behalf of the Institute of Practitioners in Advertising. Data are drawn from a panel of around 300 UK marketing professionals and provides a key indicator of the health of the economy. The survey panel has been carefully

selected to represent all key business sectors, drawn primarily from the nation's top 1000 companies. The indicator derived in the Media Barometer is based on the following questions within the IPA Bellwether survey (this index is a moving weighted average of main media and internet budget revisions):

- i) In the last three months, has your main media advertising budget for the current financial year been revised up or down, or is it unchanged? (Largest adspend weight in the UK media tracker).
- ii) In the last three months, has your internet marketing budget and your internet search/search engine optimisation (SEO) budget for the current financial year been revised up or down, or is it unchanged? (Smallest adspend weight in UK media tracker).

About the Institute of Practitioners in Advertising

The IPA is the industry body and professional institute for leading UK advertising, media planning and buying,

and marketing communication agencies. It provides a full range of services to its members: from advice (legal, sector and management), awards and events, best practice, information, research studies and training as part of an extensive CPD programme. It is also the agency industry spokesman.

UK media sector labour market sentiment section; technical details

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online during January 2016. A representative sample of adults was interviewed with quota controls set by gender, age and region and the resultant survey data weighted to the known GB profile of this audience by gender, age, region and household income. Ipsos MORI was responsible for the fieldwork and data collection only and not responsible for the analysis, reporting or interpretation of the survey results.



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CRT055906 | January 2015