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US ad spend reached its eighth month of decline in February

Article

US ad spend dropped 8.0% YoY in February, according to a MediaPost analysis of Standard Media Index's (SMI) US Ad Market Tracker. That marks eight months of consecutive YoY decline as part of a trend that began in July 2022. February was even worse than January, when ad spend fell 5.8%, but better than December's record 12.1% drop.

What's going on? The same trends we've seen since summer 2022 have persisted.

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- **Price sensitivity is driving down discretionary spending.** US inflation was up 6% YoY in February. Consumers are hesitant to buy, which means marketers have less to spend.
- **Privacy changes are still shaking up advertising.** Apple's AppTrackingTransparency is nearing its second birthday, and publishers are still recovering. With Google set to phase out third-party cookies next year (unless it delays the change again), advertisers are scrambling for new identity solutions.
- **Ad spend is normalizing.** Total media ad spend in the US grew 25.8% in 2021 and 9.8% in 2022, according to our data. Growth accelerated at the onset of the pandemic due to a rapid shift to digital. Now, spending is slowing naturally.

We still project 7.0% US media ad spend growth this year, although we have made modest cuts to our digital ad spend forecast.

Three things to watch: The February SMI data doesn't reflect this past month, but here are some things we're watching out for in March.

1. **The end of TikTok as we know it?** A TikTok ban would completely disrupt digital advertising. Despite a boisterous House hearing last week, 75% of US marketers plan to increase TikTok spend in the next 12 months, according to a Capterra survey. Advertisers are making backup plans—for good reason—but they're not pulling the plug on TikTok just yet.
2. **The kids aren't alright.** Last week, Utah enacted the strictest child safety laws of any US state, banning social media for kids at night, requiring age verification, and putting platforms at increased legal risk. The laws won't take effect until March 2024, though platforms will certainly sue before then. This is another area where ad spend probably won't immediately react, but limitations on ad targeting for children could become a wider regulatory trend.
3. **Bank collapses create uncertainty.** While companies were able to access their money fairly quickly after Silicon Valley Bank's collapse, the events shook Big Tech. Fallout has weighed on banking and startups, but an overall trend of risk aversion could extend to marketers.

The bottom line: Not all ad channels are hurting to the same extent. We predict US digital ad spend growth will outpace media ad spend growth overall. Retail media channels like Walmart

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and Instacart will see growth of over 40% this year. And TikTok should have another banner year for growth at 36.0%—if it can stay on regulators' good side.

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