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Economic uncertainty comes for the advertising industry

Article

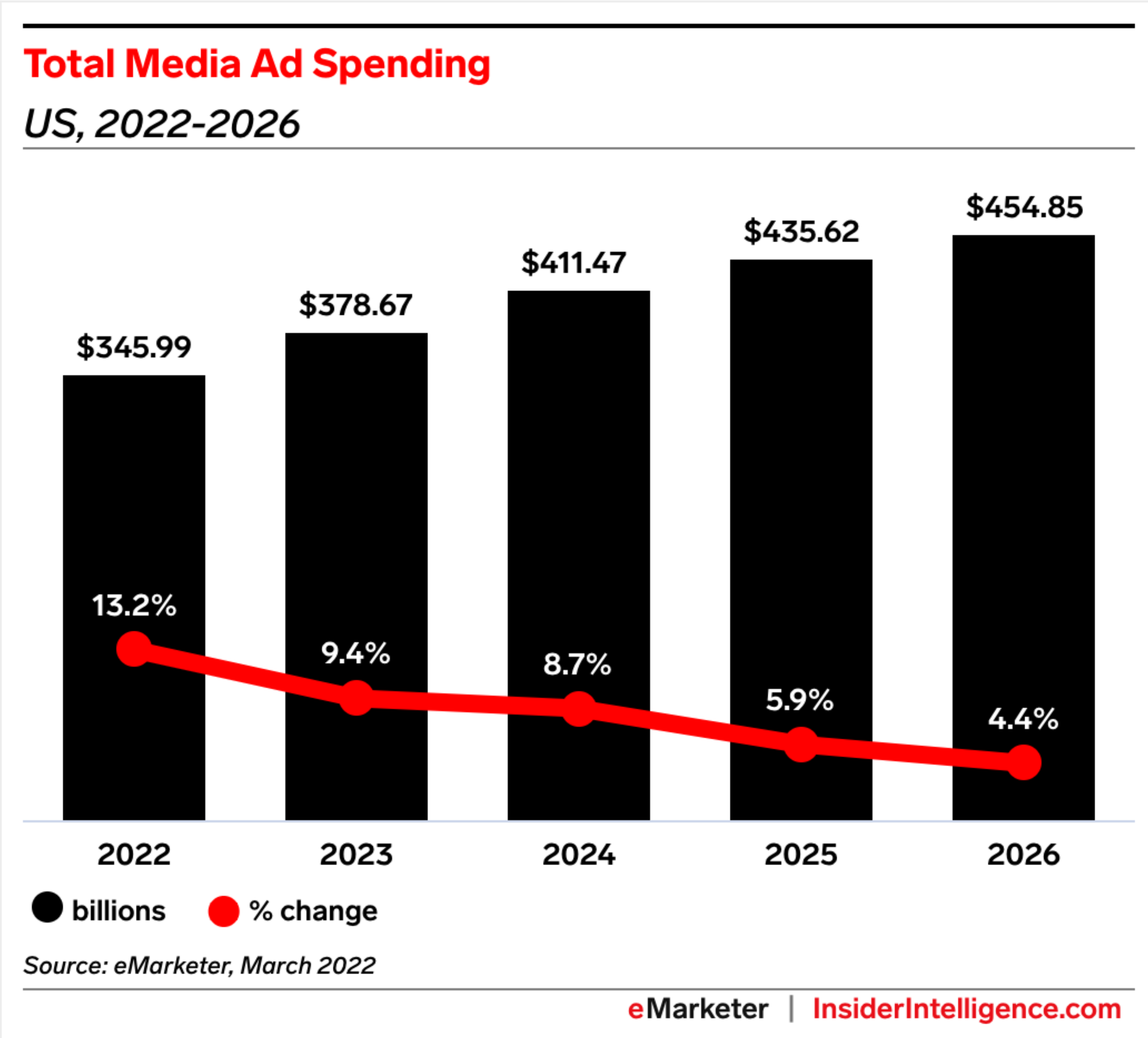
The news: The economic uncertainty that's dominated news cycles over the last few months is hitting the advertising industry. Tech giants, ad agencies, and brands are all preparing for an industrywide downturn—but how severe it will be is unclear.

All eyes on consumer spending:

- Layoffs, spending cuts, and reduced forecasts are a sign that the ad industry is preparing for the worst. **One in five** marketers have cut their spending, according to Advertiser Perceptions.
- There are already signs that consumers are worried about spending. Household consumer spending went through its first MoM decline this year in May, **dropping 0.4%**.
- If that goes on for several months, it would suggest there isn't a market to support current levels of ad spending, senior forecasting analyst Peter Newman noted.

Tech's ad stumbles: The economy's turn has only made the rocky relationship between Big Tech and advertisers worse.

- Big Tech's advertising outlook was already reeling from widespread privacy changes like **Apple's AppTrackingTransparency** policy. **Meta** said the changes could cost it as much as **$10 billion** in 2022, and its failure to create a reliable replacement has caused advertisers to flee the platform.
- In May, **Snap** said it would miss its Q2 revenue goals, bringing down the stocks of other ad-reliant social media giants. What followed was a domino effect of layoffs, hiring freezes, and abandonment of new projects across the industry.



Agencies, brands feel the squeeze: Tech's woes are just one small part of the ad industry's overall downturn. Layoffs have hit several ad agencies, and major advertisers are starting to reel in spending.

- Automakers spent 23% less on advertising in June, according to iSpot. **Ford** suggested it may cut its entire electric vehicle ad spending budget. **Microsoft** also halted TV ad spending last month, citing inflation and interest rates.

- The job outlook in the US is positive overall, but advertising still shed 2,400 jobs in May. The downturn is continuing: **Madwell** recently laid off 10% of its workforce, **Dentsu** shed 30 employees, and influencer marketing-focused **Jellysmack** let 8% of its staff go, among others.
- Connected TVs have been a hotbed for ad spending recently, but their high cost and recent concerns about accuracy have led many marketers to put their money elsewhere.

It's not all doom and gloom: An ad industry downturn isn't just coming—it's here. But that downturn also sees growth rates returning to normal from inflated pandemic-era highs.

- Despite the sour economic vibe, we still expect total media ad spending to stick close to its **current growth trajectory of 13.2%** year over year.
- Even though consumer spending is cooling off, retail sales are still expected to **rise 6.4%** this year. Strong travel figures have also prompted airlines like **United** to launch its first ad campaign in nearly a decade.
- There are still several proven, growing sectors for ad dollars to move to. US search ad spending will grow 14.5% this year to **$99 billion.** More direct channels like email marketing have also proved resilient.

The takeaway: Consumer spending figures will be a crucial signal for advertisers looking to adjust their spending.

- If advertising's rocky outlook continues, ad channels that already had issues will be hit hardest by cuts as marketers look to put their tighter wallets to use on more reliable sources.