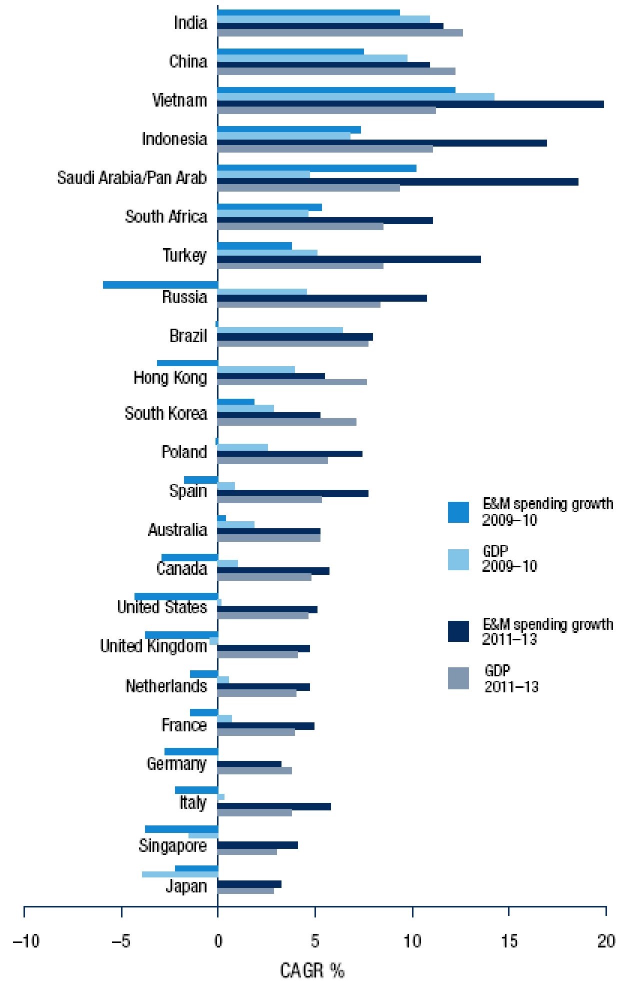
Viewpoint

Global downturn, varying local impacts

Spending/GDP growth comparison



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Across the global E&M industry, the current global economic slowdown will accelerate the migration to digital by both consumers and providers, while driving a growing divergence between the performance of the industry's different segments. An equally significant impact will be the emergence of widening gaps between different geographic E&M markets worldwide in terms of both growth rates and service mix. This geographical divergence will reflect the widely varying impact of the downturn on different markets across the world, and the deeply-embedded differences between markets in terms of consumer taste, demand and behavior.

The accompanying chart illustrates the wide diversity of economic growth rates in countries worldwide during the downturn of 2009-10 and the recovery of 2011-13, and also the sharp variations in E&M spending growth. These stark contrasts partly reflect the contrasting dynamics of the slowdown in different markets. In some countries—notably developed economies with high levels of consumer debt, such as the US and the UK—access to credit became sharply curtailed, resulting in the housing and consumer sectors being hit by a so-called credit crunch. But in some other territories—such as China—that are major exporters to the credit-crunched markets, the slowdown was primarily driven by a fall in exports rather than a credit squeeze. The export-crunched markets will generally recover more quickly, because their downturn has resulted from a dip in external demand rather than embedded internal structural problems.

Even within regions, such differences will drive major disparities in GDP growth rates at the country level. For example, in Japan in 2009 we project a 7.4% drop in nominal GDP. But looking across Asia Pacific, the decline in Japan will coincide with an 11.5% increase in GDP in India, an 8% increase in the People's Republic of China, and gains of 6% or more in Indonesia, Pakistan and the Philippines.

The impact on E&M spending and consumer choices

What do such stark differences mean for E&M spending? Assessing this impact is made more complicated by the indirect relationship between GDP and E&M growth. Historically, the E&M market globally has tended to grow faster than the economy in times of economic expansion, and slower than the economy when the economy is sluggish or contracting. In line with these trends, overall E&M spending has lagged nominal GDP growth during the past two years, but will leapfrog GDP in 2011-12 as the recovery gathers pace. However, within this overall global trend, E&M spending growth will vary widely at the country level.

Why? In combination with differing GDP growth rates, and countries' varying levels of economic maturity and disposable income, national markets also differ widely in terms of legacy and new E&M offerings, regulation, culture, infrastructure, and consumer demand. Over the next five years, these embedded structural differences will make for dramatic contrasts between different geographies in terms of both revenue performance and service mix. For example, in South Korea, digital services and content will account for over 57% of E&M spending by 2013, while in Germany the proportion will be just 24%, and only 9% in India.

These contrasts will reflect sharply differing local consumption habits and buying choices. A dramatic illustration of these factors is the fact that nearly three-quarters of global mobile Internet access spending in 2008 was generated by just three countries: Japan, the People's Republic of China, and South Korea. Largely as a result of these countries' contribution, mobile Internet access revenues in Asia Pacific will overtake wired access in 2010, and will still account for over 53% of overall Internet access spending globally in 2013. In contrast, mobile access spending in every other region will still represent only a fraction of overall Internet access revenue throughout the forecast period.