



SOUTHERN CALIFORNIA BROADCASTERS ASSOCIATION

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The SCBA Quarterly Market Guidance Report For Q4 2014

The following **Southern California Broadcasters Association Quarterly Market Guidance Report** is a service for clients, advertising agencies, and media buying services that are planning to buy Southern California Radio advertising in **the fourth quarter of 2014**. The report looks primarily at the upcoming quarter and provides critical insight into the regional economy, Radio trends worth noting, competitive trends worth noting, advertising category trends, as well as additional market-driven insight from our member stations' management.

Southern California's Economic Overview

We begin the 2014 fourth quarter report with an in-depth look at the region's economy and its impact on advertisers, consumers, and the business environment of Southern California over the next 90 day planning period beginning October 1 through December 31, 2014. Our report commences with key economic indicators from the Los Angeles Economic Development Corporation which was released on August 21 and reflects activity through July 2014.

According to the Employment Development Department, here are the unemployment rates for Southern California's largest counties in July 2014. Los Angeles County unemployment figures are seasonally adjusted; other counties are not.

- For Los Angeles County, the unemployment rate fell to 8.1%, down from 10.0% on a YTD basis. Total non-farm jobs increased by 69,200 on a YTD basis or 1.7%. Professional and business services posted the largest year over year gain in July with 27,600 jobs. Scientific, professional, and technical services were 13,900 with administrative, support and waste services at 10,600 and there were 3,100 new jobs in management of companies and enterprises. Construction, motion picture and sound recordings, health care and retail trade accounted for the balance of new jobs.
- For Orange County, the unemployment rate was 9.2%, down from 10.9% on a YTD basis. Non-farm jobs increased by 22,500 on a YTD basis.
- For Riverside-San-Bernardino, the unemployment rate fell to 8.3%, down from 9.4% on a YTD basis. Non-farm jobs increased by 26,300 on a YTD basis.
- For Ventura County, the unemployment rate fell to 6.1%, down from 8.3% on a YTD basis. Non-farm jobs increased by 5,100 on a YTD basis.

All this job growth indicates a recovering economy and a considerable improvement in hiring on a YTD basis in the major population areas of Southern California, all of which point to increasing consumer demand for goods and services in our region. We expect this trend to continue well into Q4 and 2015.

Southern California Home Sales and Median Prices in July 2014

Southern California home sales of new, resale, and condominiums decreased in July by 12.4% compared to the same period last year. The median price of a home in Southern California increased by 7.3% to \$413,000 on a YTD basis. Home prices continue to climb higher, but at a slower pace as the result of less inventory and affordability constraints. We see this same trend in Q4 as well.

According to real estate website Zillow, **Los Angeles and Orange counties are the least affordable housing markets in the country**. Renters, according to the report, have to pay more of their income in monthly rents than anywhere else in the U.S. Adding to the tight and tighter Southern California real estate market is their prediction that home prices will average 5.7% more in 2015. The housing crisis in Southern California could be very good news for rental companies, as well as real estate firms, as interest rates and the mortgage application process eases up in Q4 and beyond. Tight home inventories are creating more renters, which has led to surging **Apartment Construction in Southern California**.

Building permits were issued for nearly 17,000 units in apartments and condo building in Southern California in 2013. This was the largest number of recorded permits issued since 2006. Solid employment numbers and a tighter home buying market are the primary reasons for this stunning growth in rental units.

Notable Regional Economic News

- The empire strikes back. The state of California has unleashed its new “California Competes” program, a major tax credit plan to attract and keep businesses of all sizes to and in California. The effort is in response to Texas’s effort to steal companies and jobs from our state. The \$29 million package is expected to grow to \$150 million this fiscal year and \$200 million in the 2015-2016 fiscal cycle. A large portion of these tax credits will directly impact Southern California where the large diversity of population and job opportunity exists.
- Aerospace giant Boeing is hiring 1,000 new engineering staff members at its Long Beach and Seal Beach plants. Boeing builds the C-17 cargo jet for the Air Force at these two locations. Boeing employs 18,640, making it the largest staff in any state in which they operate. Boeing is forecasting 34,000 new airplanes valued at \$4.5 trillion over the next 20 years.
- LAX Labor troubles averted: LA Mayor Eric Garcetti announced a new 3 year labor pact with 2,500 airport employees represented by United Service Workers union. This eliminates any potential disruption at one of the busiest airports in the world.
- Sports Chalet was acquired by Vestis Retail Group for about \$17 million. Vestis has projected an aggressive new campaign for market share for the sports retailer in 2015.
- American Homes 4 Rent plans to acquire Beazer Pre-Owned Rental Homes, Inc. for about \$260 million in debt and stock. This is consistent with real estate projections for tighter home buying and more rental opportunities for the state and region.
- Ace Cash Express, which has 1,500 storefronts in California and other states, will pay \$10 million to settle federal claims that it illegally put its customers in a cycle of debt.

- California lawmakers approved a tax credit deal that would give Northrop Grumman potential savings of nearly a half billion dollars if the aerospace firm is selected to build the Air Force's next bomber, much of which is to be assembled in Palmdale.
- California triples state film tax credit. The bill increases the available tax credits to \$330 million. In the past 15 years, film production in California has dropped almost 50%. In 2013, 21 of the 23 new prime time series were filmed outside of California. The consensus is that this increased tax credit will turn those numbers around quickly.
- The Coffee Bean and Tea Leaf, whose main offices are in Los Angeles, has announced plans to open its first stores in Japan in late Q4 2014.
- Thousand Oaks, CA based Amgen, the bio tech giant, announced positive human trial results for a cancer drug that was the focus of multimillion dollar acquisition last year. The stock hit a 52 week high on the news.
- More online video firms are forming in Southern California. Companies like Flipagram (in West Hollywood, are among the firms attracted to Southern California. Flipagram markets an app that lets users edit videos by combining photos with music.
- A new \$53 million residential and mostly retail development complex has been approved for Long Beach with completion by 2016. Retail development is on a large scale as well with the new \$250 million retail development under way in the Warner Center. The new development's shopping area will include 87 new retailers, 12 restaurants, and multiple green areas for customer use.
- The founder of Paul Mitchell Shampoo, John Paul DeJoria, has launched ROK Mobile offering unlimited text, talk, and data and a free music streaming service. ROK Mobile has already confirmed music license deals with SONY, Warner Music, and Universal. ROK Mobile is looking to take market share from Pandora and Spotify as quickly as possible. The Los Angeles based company is projecting 1 million new subscribers before the end of 2014.
- A number of businesses in downtown Los Angeles reported a doubling of revenue during the two day Labor Day weekend music festival called "Made in America." The festival attracted over 75,000 music fans and was promoted by the Mayor as a way to boost the local economy and produce more jobs.

The Larger View for Broadcast Radio

On a national basis, total U.S. Radio billings are expected to finish 2014 **1.9% ahead** of 2013, according to ad giant ZenithOptimedia. They base their findings on an improving Radio network market which has seen the return of JC Penney and Old Navy after a 3 year hiatus. The report further cites an overall growth in retail which is consistent with the National Retailers Associations' projection that all U.S. retail will experience a **3.6% growth rate** in 2014. All this data points to a robust 4th quarter as 60% of all retail volume happens in Q4 for most retailers.

Two in every five American homes no longer have a landline. This new finding by the National Center for Health Statistics is likely to impact Radio as Nielsen must begin to find smaller market diary keepers and larger market PPM panelists using other forms of communication beyond the telephone. We see a larger role for online communications between a variety of

research companies and potential audience participants. As a result, the quality and accuracy of participants will increase as written communication will enhance initial understanding and acceptance of survey candidates.

Southern California Radio Industry Growth Trends:

According to Nielsen Audio, total Radio listenership for Persons 12+, Monday-Sunday from 6:00AM-12Midnight **continues to grow** for Southern California Radio. Radio's growth is even more impressive when one looks at all the audio competition that is available to our listeners each week. In fact, Broadcast Radio is one of the only media that is still producing a growing audience YTD.

Comparing Q2 2013 to Q2 2014 listening trends, we are pleased to report continuing growth in terms of total cume listening. Q2 2013 was 10,437,900 listeners. In Q2 2014, total cume had risen to 10,547,500, which is a +1.1% growth rate for Los Angeles Radio. For Riverside/San Bernardino, total cume rose from 1,829,900 to 1,844,100 which was a +0.8% growth factor. And the largest cume growth came from the San Diego market again which grew from 2,483,100 to 2,520,900 or a +1.5% growth rate.

The SCBA views this continued listening growth rate for Southern California Radio as further proof that Broadcast Radio remains a **consistently growing and popular medium**.

According to Miller Kaplan Arase, LLC, total market revenue through July 2014 for all reporting LA Radio stations showed a variance of only -2.8% over the same YTD period in 2013. A closer look at this report reveals a national spot weakness of -11.5% which largely resulted in the total variance. National spot weakness was indeed on a national basis and not just in Los Angeles. It is important to note that on a YTD basis, Southern California Radio's Network growth was 52.0%, with Digital scoring a 10.5% increase and NTR with a 3.7% increase.

This overall revenue trend is consistent with national industry sources such as BIA/Kelsey who maintains the Radio industry's broadcast revenue will increase 1.4% to \$14.5 billion in 2014. The industry's digital revenue will increase by 11% to \$634 million this year.

Despite soft national business YTD, Southern California Radio's real health is convincingly revealed in its robust **new business development growth** through July.

- 467 new advertisers invested \$29,333,794 in just the first 7 months of 2014.

If Radio's real strength is local, then this impressive new business fact speaks loudly about the partnership local business has developed with Southern California Radio.

Based on the above developing data, we see a robust 4th quarter for our region with major retail holiday and promotional events all within a 90-day window which includes Halloween, Oktoberfest, Thanksgiving, Christmas, and New Year's.

Southern California Radio Market Trends and Data

The SCBA follows a number of key advertising categories and industries, supplementing that data with both local Radio management input and client feedback to offer the following overview of the region's advertisers and how it may affect advertising decisions regarding Southern

California Radio and its digital platforms. We offer this overview of the Radio advertising climate for Q4 and project record activity due to seasonal retail shopping holidays such as Halloween, Thanksgiving, and of course the all-important Christmas holiday shopping season. We also see spikes from political advertising, continued enrollment campaigns in Covered California, and a host of key indicators that will drive Radio advertising revenue for Southern California.

We begin our overview with the **automotive category**, Southern California Radio's largest advertiser category. As projected from our Q3 report, auto sales have been impressive with most dealers posting record sales for July 2014. Early indications would suggest that dealer spending in Q4 will continue to grow as the auto category grew by 3.08% through July 2014. Average dealership revenue is 20% higher than it was in 2006 and 77% higher than the recession-impacted numbers in 2009.

The SCBA sees a massive ad campaign coming for the Ford Motor Company in Q4 as it launches the **new all aluminum body F-150** which makes its debut in late September 2014. We also see considerable factory incentives to clear out older models and gain market share in the last 3 months of the year for all manufacturers.

Additionally, the National Automotive Dealer Association (NADA) is projecting a massive Q4 finish to 2014 for new car sales driven largely by low interest rates, a stronger housing market, and rising employment. The industry is on pace to sell 16.4 million vehicles. A 5.8% increase over 2013. With Southern California being the single largest automotive region in the country, our region will be a focus of all ad campaigns from tier 1-3 spending.

SCBA Recommendation: For automotive clients and dealer groups that are heavily invested in TV over Radio, we urge you to meet with us to discuss the new **SCBA Auto Focus Report**, which is an in-depth review of current TV to Radio ad spending by dealership and/or association for Southern California. The trend lines of Radio's growth vs. local TV's viewership erosion are compelling data that need your immediate attention for current and future spending levels. To read the full SCBA White Paper study and its findings, please visit us at <http://www.scba.com/Article.asp?id=2819766> under the report entitled "Traditional Appointment Television's Technology and Viewership Crisis."

The SCBA sees continued growth in Q4 from these Radio advertiser categories for Southern California Radio:

- The already **red-hot cellular category** just got hotter with the merger talks collapsing around **Sprint and T-Mobile**. Both companies have now become fierce competitors once again. Sprint has launched a \$60.00 monthly package of unlimited talk, text, and data. To counter that, T-Mobile has announced a similar plan at \$50.00 a month for all customers who bring a friend into T-Mobile, where both will receive the deal. At this writing, **AT&T and Verizon** are weighing their own incentive plans. All this activity means more ad dollars for our region with the category growing by 0.74% July YTD. We see a big Q4 for this category with the new iPhone launch in late September as well.
- **Casinos/Lottery** has remained a competitive category for both in-state casinos as well as Vegas hotels stepping up their presence in Southern California. The category is expected to grow in Q4 for quick getaways and "one day drive" occasions during 4 key holiday periods this coming quarter. Growth through July of **25.40%** should increase during the hectic Q4 period.

- **Health Care had a consistent 17.24%** growth rate through July. Covered California, as well as numerous regional hospitals, continue to battle for “patient share.” Hospitals with a focus on Cancer treatment, heart and valve replacement, and neo-natal care were the most aggressive in their advertising. We see this category increasing in Q4 due to the stress of the season and holiday expectations.
- **Personal Fitness and Weight Control Centers** have posted record growth rates July YTD with category spending increasing by **100.00%**. We project continued growth to offset the holiday parties and overall increased calorie consumption brought on by Q4 events.
- **Security Services** also saw impressive July YTD growth of **32.40%** and now with housing and condo construction on the rise, as well as huge apartment rental construction in place, and crime rates not improving, we see this category as growing even larger for Q4.
- **Home Improvement** advertisers increased their Radio budgets by **29.06%** July YTD. With tight inventory and affordability issues, home owners are staying put and are looking to enhance their homes rather than sell. We see that national and regional trend continuing well into Q4 and beyond.
- **Postal/Delivery Services** were way up and posted their best increase yet at **130.28%** YTD. The delivery services business is very competitive in Southern California as increased price wars and speed of delivery become larger consumer factors.
- **Insurance Companies** are up in Radio with ad spending increasing by **60.84%** YTD. In addition to the traditional coverage of home, auto, and life insurance, these companies are targeting ACA open enrollment, Covered California participants, and Medicare Part B candidates. A hectic slate of offerings will only get more competitive as we move closer to January 1 sign up dates. We see a big Q4 in insurance spending for Radio.
- **Recruitment/Employment** has increased considerably so far in 2014 and is clearly reflective of the broader employment increases our region is finally seeing with a July YTD growth rate of **39.59%**. Engineering, health professionals, and construction jobs are the 3 largest recruitment efforts and show no signs of seasonality which portends an even larger Q4 spending effort for Radio.
- **Hotels/Resorts** have increased July YTD spending in Radio by **27.05%**, which is consistent with our region’s growing tourism and trade meeting activity. We see that growth continuing as family and vacation travel will reach peak activity in Q4 during the Thanksgiving and the critical before and after Christmas family travel time.
- **Education as a category** has shown only a **0.71%** growth rate for Radio through July. However, we project significant growth in Q4 from continuing education programs as well as MBA programs and online universities that have December enrollment deadlines.
- **Political** Radio ad spending is up by **13.45%** YTD. Ballot measures and some hotly contested congressional seats should push that growth rate significantly prior to Election Day on 11/4 for Southern California Radio.

Radio Trends worth Watching

- In its latest [White Paper](#), the SCBA reveals independent research about Broadcast Radio’s awareness and retention among consumers and the substantial advantage it holds over digital and social media. See the complete paper at

<http://www.scba.com/Article.asp?id=2819766> under “**Consumer Response to Broadcast Radio Commercials vs. Digital and Social Media.**”

- According to a new report from Millennial Media and ComScore Research, 79% of streaming Radio listening now takes place on Smartphones, 16% on tablets and 5% on desktops and laptops.
- Radio content is now everywhere; in the car, on mobile phones, and all on a 24/7 anywhere-our-listeners-go basis.
- Southern California Radio’s weekly reach of Persons 12+ is larger than any other media including TV, Newspaper, Facebook, Twitter, Pandora, Sirius/XM **and** all other media outlets in our region.
- The number of listeners for our region has grown by 7% over the past 6 years.
- Please visit us at www.scba.com for updated Radio research information on a variety of categories, latest trends, and an updated “Value of Radio” overview.

Competitive Media Trends worth Watching

- The L.A. Times is part of a spinoff from Tribune Co. to Tribune Publishing with 6 other Tribune owned newspapers. The move is an effort to separate the publishing division and sets up a likely sale of the publishing division.
- Pandora’s “active persons listening” fell 1.5% from May to June this year and listening hours fell a considerable 7% on a national basis. Pandora had no immediate response as to why such a loss and won’t report its next listening data until October. The stock has lost 14% of its value since July 25, 2014.
- TV Ad revenue has fallen sharply. TV ads booked this summer have fallen over \$600 million below last year’s levels YTD. The reasons cited include more TV advertisers spending more with the Internet, overall caution, and ratings shortfall. (meaning fewer viewers to traditional appointment television)
- TV’s erosion is also attributed to the proliferation of streaming TV devices as well as the growth of DVR’s and online streaming competition from Netflix, Google, and **now** Amazon.
- Please visit us at <http://scba.com/Article.asp?id=2819766> for more on TV’s erosion from our recently published SCBA White paper entitled “**Traditional Appointment Television’s Technology and Viewership Erosion Crisis.**”

The SCBA Urges Caution regarding non-Radio Digital Advertising

While Radio has always welcomed competition from other media, the growing trend of some advertisers to spend their budgets in non-Radio digital platforms is, from our perspective, very concerning. In our “**Thought Leaders**” media post dated July 1, the SCBA urges caution for any advertiser investing in digital platforms based on misleading gross impressions. The reality of deceptive digital advertising today and exactly who or what is seeing or hearing digital ads is highly questionable. We strongly recommend that Advertisers read our post, “A Responsibility to the Truth” at www.scba.com before investing in search engines, third party networks, mobile ad networks, and/or web sites that are misleading and dishonest. Please click the link below.

<http://scbaradio.com/2014/07/01/a-responsibility-to-the-truth/>

SCBA Special Events in Q4 2014:

- To provide our industry and our clients the best in professional Radio sales training, the **SCBA Radio Sales Training Classes** have begun open enrollment for our fall 2014 session. We are the only organization in California to offer in-depth Radio Sales Training for our member stations sales teams. By providing the best in sales training, our region is striving to produce a fully-trained and professional account executive that can help our clients business grow. Classes start 9/15 and conclude on 11/19.
- **The SCBA Outstanding Achievement in Radio Advertising Luncheon** will take place on Thursday, October 16 to honor the very best of Southern California Radio Advertisers in selected categories. As of this writing, the annual event is almost sold out. Some single tickets are left. Please contact us at tcallahan@scba.com for availability.
- **The SCBA/Nielsen Audio Radio Research Event** will take place on Thursday, October 30. Nielsen's groundbreaking new research on Radio's powerful ROI will be discussed. If you would like to learn more about this new definitive research and would like to attend this major event, please contact us at tcallahan@scba.com for details.

SCBA Guidance for the Fourth Quarter of 2014

We are projecting Q4 Southern California Radio advertising activity as brisk in the categories documented in this report as well as new business development which continues at a torrid pace for our SCBA member stations. While caution is still the prevailing mood with some client categories, others will continue enjoying record months for Q4.

Southern California Radio and its multiple digital and audio platforms are **poised for Q4 growth** with four major holiday sales weeks and events, the start of college and professional football and basketball, a big fall season for both the LA Lakers with a new coach and the LA Clippers with a new owner, an improving consumer confidence, growing Radio cume listenership trends, major station events throughout the fall, and the fact that Radio still reaches 93% of Southern Californians every week. **More than any other media today.**

If building your brand and increasing sales and market share are crucial in your marketing plans, we urge you to contact us at www.scba.com to learn more about the ubiquitous reach and commercial environment your message will be heard in as only the value of Radio advertising can consistently deliver.

If you have any questions about the **SCBA Quarterly Market Guidance Report** for the fourth Quarter, or if you would like to schedule an in-depth discussion about your advertising plans using Southern California Radio and its many business solutions for Q4 and beyond, please contact us directly at **323-930-5597** or at tcallahan@scba.com.

We look forward to building your brand and increasing your market share... on Broadcast Radio and its many digital platforms.

Sincerely,

Thom Callahan
President
Southern California Broadcasters Association

Los Angeles
September 8, 2014

Sources:

NY Times, LA Times, LA Business Journal, Nielsen Audio, LAEDC, Millennial Media, Comscore Research, Los Angeles Board of Tourism, The Guardian, (UK) Miller Kaplan Arase, LLC, Employment Development Department of Southern California, UCLA Anderson Forecast, RAIN News, Inside Radio, Automotive News, The department of Transportation. Scarborough Data, National Center for Health Statistics, SCBA Member Stations, California Association of Realtors.