SOUTHERN CALIFORNIA BROADCASTERS ASSOCIATION
The Voice and Advocate for AM/FM Radio for 79 Years
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The SCBA Quarterly Market Guidance Report For Q1 2017

The Southern California Broadcasters Association is pleased to publish its **Quarterly Market Guidance Report covering the Southern California region for the first quarter of 2017.**

This report is for SCBA member use as well as an ongoing service for clients, advertising agencies, the press, and media buying services that are planning to buy Southern California Radio advertising in **the first quarter of 2017**. The report looks primarily at the upcoming quarter and provides critical insight into the regional economy, Radio growth trends worth noting, advertising category trends, as well as additional market-driven insight from our member stations' management.

With this Q1 2017 report, the SCBA has added additional Q1 insight into the growing technology sector of Southern California, expanded both our competitive media trends, economic growth by county, as well as regional business developments worth noting. The SCBA now provides more in-depth analysis of Radio's largest ad categories and their projected growth patterns for Q1 2017 and beyond.

The Southern California Broadcasters Association represents 165 member Radio stations covering 52,000 square miles in the ten most southern counties of California. The SCBA is also celebrating 79 years of continuous operation since 1937, making it the longest operating Radio advocacy association of its kind in the Unites States. For more information about the SCBA, please visit us at www.scba.com

The Expanded Southern California Economic Overview

We provide the following information to assist advertisers in evaluating the dynamic and growing market called Southern California and its impact on advertisers, consumers, and the business environment of all of our Radio member markets over the next 90 day planning period beginning January 2 through March 31, 2017.

Population growth trends: According to the California Department of Finance's research unit on population, Southern California will remain a densely populated region. By 2020, here are the population projections for our key counties:

- LA County will grow to 10.51 million
- Orange County will grow to 3.29 million
- Riverside will grow to 2.58 million
- San Bernardino will grow to 2.26 million
- San Diego county will grow to 3.40 million
- Ventura county will grow to .91 (thousands)

By 2020, California will remain the most populated state in the country with 40.46 million people. Texas will be a distant second with 28.1 million, Florida with 20.1 million, and New York State with 19.8 million.

Southern California will also lead the nation in job growth over the same period. Our region will add 334,000 jobs by 2020. Health services will add 106,000 jobs, professional services (A large category) will add 75,000 jobs in a range of industries, leisure and Hospitality will add 47,000 jobs, and the information category, which includes entertainment and digital, will add 20,000 jobs.

Southern California's estimated gross domestic product will exceed $1.5 trillion in 2017, making it the 16th largest economy in the world with Los Angeles County alone ranking 21st with a gross domestic product of $644 billion. The state of California is now the 6th largest economy in the world, ahead of France, and is expected to finish 2016 with a GDP of $2.6 Trillion!
The economic and population powerhouse that is Southern California can only be viewed as the largest advertising market for Radio advertisers looking to grow revenue, build their brands, and drive market share.

The following showcases the economic strengths of our major Southern California counties.

LA County: With a population of over 10.4 million, Los Angeles County has more residents than 43 states. Total personal income is expected to grow by 5.9% in 2017. Unemployment rates for 2017 will fall to 5.2%. Housing sales will accelerate to 6% in 2017 with new homes sales over 10% YTD. The median price for a home was $486,000 and is expected to climb higher in 2017. New, multi-family and rental units are expected to grow substantially in 2017.
Job gains are expected to increase in 2017 in these categories based on 2016 results: Health care and social assistance as the largest growth job category, followed by administrative, waste services and management of companies and enterprises. Other noteworthy gains will include Education, professional, scientific and technical services, and information, which includes motion picture and sound recording. The burgeoning international trade with Asia in 2017 will see heavy investments from both public and private entities and with new trade agreements now in place for numerous industries, the LA region will increase employment and generate new wealth. Average age in LA County: 35.3 years.

Orange County: The unemployment rate in Orange County will fall to 3.7% in 2017. The home of Disneyland, Orange County job growth mirrored LA County with health care, scientific and technical services leading the way in terms of jobs. Orange County's residential real estate market is improving with the stronger regional and national economy. The county is experiencing strong housing permits for new home construction and is projected to grow by a robust 18% in 2017. New master planned communities in Irvine Ranch, Great Park neighborhoods and Rancho Mission Viejo are all reporting strong sales. Average age in Orange County: 36.7 years

Local commercial real estate is also improving. Institutional investors are pushing up sales prices in expectation of rental increases. This all indicates a solid and growing business environment. Tourism is one of Orange County's most important industries. According to the Orange County Visitor and Convention Bureau, over 46 million people will visit Orange County in 2016 and spent in excess of $10.5 billion. Disneyland, Fashion Island, and local beaches will continue to attract international visitors, with China and the Middle East being the two largest tourist countries. Leisure and hospitality jobs are projected to increase to 210,000 in 2017.

Health care is a significant part of the Orange County economy. 14% of all wages and salary jobs are in this sector. More than 1 million square feet of new health care-related leases were signed in commercial real estate in 2016. Look for higher paychecks in Orange County in 2017 from health care, high tech, and the growing biomed industries for the highly skilled workers in this sector.

Riverside and San Bernardino Counties: Unemployment rates in the "Inland Empire" are projected to be 5.8% for 2017. This region has regained all of the jobs it lost during the recession. Notable job growth came from the health care, leisure and hospitality, warehousing, and retail sectors. Another leading employment sector is the goods-movement industry which includes transportation and warehousing along with wholesaling. The industry employed 144,000 workers in this growing segment of Riverside and San Bernardino. Based on huge port activity, this category of jobs will grow by 5.1% in 2017.
This region's housing rebound has been remarkable since it was hit the hardest during the housing crisis of 2008. Higher prices per existing homes are expected in 2017 and beyond for this dynamic and growing region. Average Age in Riverside: 34.2 years and San Bernardino: 32.2 years.

Ventura County: The unemployment rate is projected to be 5.3% for 2017. With 43 miles of coastline and close proximity to one of the largest wine growing regions in the world, Ventura County attracts large numbers of tourists every year. Non-farm employment is projected to grow by nearly 4.0% in 2017. Total personal income is expected to rise by 5.6% in 2017. To underscore this county's growth potential, 1 out of 5 jobs will be in construction in 2017 and beyond. Retail and mixed use development projects growing at fastest rate since 2008. Average Age in Ventura County: 36.7 years.

San Diego County: The San Diego market recovered all of the jobs it had lost during the great recession. Total non-farm jobs will exceed 1.5 million in 2017. With 3.3 million people, San Diego County is the second most populated county in California after Los Angeles County. The projected 2017 unemployment rate will be at its lowest, down to 4.9%, and its best percentage since 2008. San Diego County has a wide and dynamic variety of industries. Ship building and aerospace is a jobs driver with heavy ties to the local defense sector. With traditional defense spending down, other defense projects and related technical jobs have increased. These areas of growth include cyber security, intelligence surveillance, defense related electronics and software, and unmanned aerial systems. Biotechnology and health care jobs are surging, with San Diego County ranked 7th in the U.S. in the total amount of biotechnology venture capital invested. San Diego County added more jobs than any other Southern California county for the past four years. It will grow further in 2017 and beyond as a leader in telecommunications, medical devices, life sciences, and high-tech manufacturing. San Diego County is also investing heavily in its infrastructure that will improve long-term growth prospects, including upgrades to Lindberg Field and border crossing projects. San Diego County is also a popular travel destination which, along with the U.S. Navy and Marine Corps presence, makes this region dynamic and growing. Average Age in San Diego County: 34.9 years.

Notable Regional Economic News:

- **2.3 million Travelers passed through LAX during Thanksgiving week 2016,** the largest group ever during the holiday travel period of 11 days. That is an 8.4% increase over last year.

- **General Motors** launches their new car sharing app, Maven, for all of Southern California. The app allows drivers to “borrow” a GM vehicle for $8.00 an hour.

- **Dairy Queen** will open 60 new locations over the next 4 years in Southern California. The expansion is for the new DQ Grill and Chill, a quick serve restaurant theme. DQ has 90 locations in SoCal currently and will begin converting locations to the new theme environment over the next several years.

- **Santa Monica based, Zip Recruiter**, an online job posting service, launched in 2010, became the second largest spot Radio advertiser in the country, according to Media Monitors, for the last two week in October 2016.

- **San Diego based Luna Grill** obtained $30 million dollars in financing for its expansion plans and future growth. The fast casual eatery has 29 locations and plans for another 18 in 2017.

- **San Diego’s Liberty Public Market** placed 13th in a recent national poll of the top 20 food halls in the U.S. The poll was part of an urban retail report by brokerage firm Cushman and Wakefield.

- **San Diego’s Hotel revenue** jumped 4.8% for first 10 months of 2016. That’s 2.29 billion in hotel revenue with YOY increases in all key metrics, according to research firm, STR.

- The **San Diego Convention Center** generated $1.1 billion to the local economy based on their fiscal report ending June 30. 824,000 attendees to various events over the fiscal 12 months directly spent $658.7 million, the highest level since 2008.

- **The San Diego City Council** has approved the city’s first Ritz-Carlton Hotel, along with a Whole Foods Grocery store and housing project, which will be a $400 million dollar mixed use development project. Ground breaking in early 2017.

- **A New Dunkin Donuts shop opens in downtown San Diego.** The Canton, Massachusetts based company continues with its plans to open 16 locations over the past two years in the San Diego area by early 2017.

- **Single-family home sales in San Diego in November 2016 were up 19 percent** from the same month last year, but limited inventory and rising mortgage rates are checking growth. Homes were on the market an average of 33 days before close of escrow in November, compared to 39 days a year ago. The three zip codes recording the most sales were 92026 in Escondido, 92028 in Fallbrook and 92057 in Oceanside. Condominium and townhome sales are also up, with a 16 percent increase from a year ago.
- **Santa Monica based, WaiveCar,** an app which rents ad-laden cars for free, will add 400 Hyundai Ioniq vehicles by end of 2017, creating a major expansion of its services in Southern California.

- **Boeing will move 1,600 jobs to LA County from Huntington Beach facility** to consolidate its defense and space operations in early 2017. Boeing is the 8th largest non-government employer in LA County.

- **Starbucks** to add nearly 50 percent more locations by 2021 (12,000 more stores) and plans to entice people to spend more with new products, store formats, and technology as the coffee chain tries to grow even without Howard Schultz as CEO. Highlights include wheat-free and gluten-free breakfast foods.

- **San Diego Retail space** is growing according to Cushman Wakefield's Outlook for 2017; retail space is expanding for fast casual restaurant concepts and fast food, grocery stores with specialty/ethnic offerings, off price/discount stores, personal services – salons, spas as well as medical space for dental and optometry. Consolidating space will come from drug stores, office supplies, and department stores.

- **Delta Airlines has won FAA approval** for a $1.9 Billion dollar expansion at LAX. The airlines will move terminals for closer proximity to international flights and will also expand from 16 to 23 gates in 2017, increasing both amount of daily flights in and out of LAX and size of planes.

- **Los Angeles has 6 of the top 10 "Most Packed Roadways"** in the U.S., according to The National Auto Insurance Center. The "Most packed Roadway in the U.S." belongs to the 101 from Topanga Canyon in Woodland Hills to Vignes Street in Downtown"

- **The Los Angeles Convention Center** reported record profits of $8.1 million for its fiscal year ending July 30. This was due to a surge in conventions and trade shows and triples the $2.8 million profit from the previous fiscal year of $2.8 million.

<u>Southern California Commuter Traffic Congestion Increases</u> (once again)

With 71% of Los Angeles Metro listenership being done away from home, it's important to note that traffic congestion has grown substantially in our region with the improving economy. According to census data and the Texas Transportation Institute at Texas A&M University, average commuter time spent while driving is on **the increase again.** The institute's most recent study shows that motorists in LA and Orange Counties experience **80 hours of delay annually**.

Those 80 hours of delays is almost double the national average of 42 hours.

With the country's largest traffic congestion, heavy traffic and its inherent Radio listenership trends are on the **increase** in Southern California once again.

SCBA recommends: Please see the highlights of this study created by the SCBA under the Traffic and Commuting tab in the Market Research section entitled; **"Listening to Radio in SoCal's Traffic Jams." At www.scba.com**

In addition to all of the growing traffic congestion that is faced in Southern California, there is new concern that traffic will become much worse under the new proposed <u>Mobility Plan 2035,</u> a major effort by the LA City Council to get people to take the bus and/or bike to local neighborhood events.

The Larger View for Broadcast Radio

Q1 2017 poised for growth as Broadcast Radio grows its listenership:

- Weekly cume and average time exposed (or TSL) has increase for Southern California over the past year, making AM/FM Radio the only media to show listener growth. This includes local TV, Pandora, and all other measured media.

- A recent report from **JD Power** found 20% of new-vehicle owners said they never used 16 of 33 in-car tech features and nearly 33% indicated they never used in-vehicle apps.

- The **new BIA/Kelsey Advertising Expenditure Report** projects that on a national level, local Radio revenue will finish at $15.4 billion in 2016, a 2% increase over 2015. The top 5 local revenue mediums and their share are as follows:

  1. Direct Mail will bill $36.9 billion in 2016 and a 25% share of local budgets.
  2. Local TV will bill $21.9 billion in 2016 and a 15% share of local budgets.
  3. Newspapers will bill $17.4 billion and a 12% share of local budgets.
  4. Online/Interactive space will bill $17.3 billion and a 12% share of local budgets.
  5. AM/FM Radio will bill $15.4 billion and an 11% share of local budgets.

- Additionally, **BIA/Kelsey projects** that for 2017, Radio and its online platforms will garner 10.5% of the projected $148.8 billion dollar local ad pie.

- **ZenithOptimedia** projects $182.5 billion in advertising expenditures for 2016. Of that, Digital spending will rise by 18%, with TV down by 5%, Newspapers down by 8% and Magazines down by 1%. Radio is projected to increase by 1% with Cable up by 3%.

- According to ad buying service Strata, their new quarterly survey of ad agency buyers reveals that **Radio is the media their clients are most interested in**. This is a 2 year high for the survey in terms of Radio interest. The survey also reveals an optimistic outlook for the marketplace overall in terms of advertising budgets for Q1 2017.

- Americans spend an average of **4 hours and 5 minutes a day consuming audio**. A cross-media analysis by Edison Research finds that **more than half (52%)** of that time is spent with over the air AM/FM Radio. 14% is spent with owned music, another 13% with Internet Radio and Satellite Radio at 6% of the daily listening time.

Southern California Radio Industry Growth Trends:

SCBA Recommendation: Please read our latest Media blog post about Radio's real strength: It's called: "Pushing Back on DERP" at www.scba.com

Southern California Radio is in the midst of an impressive 4 year listener growth trend:

Southern California Radio's growth is even more impressive when one looks at all the varied audio competition that is available to our listeners. Despite all the hype and misinformation about competing media and digital platforms, AM/FM Radio in Southern California keeps growing.

Now let's take a closer look at the steady and impressive growth in actual Radio listenership for the Los Angeles and San Diego metro areas alone as well as the critical Average Time Exposed data according to Nielsen Audio, for 12+, Monday-Sunday, 6:00-12:00 Midnight.

Source: Nielsen Audio, **Los Angeles Metro**, Monday - Sunday, 6a-mid, Persons 12+.

	Q3 2013	Q3 2014	Q3 2015	Q3 2016	Change 2013 vs. 2016	
ATE	2:00	2:00	2:00	2:15	**12.5%**	
AVG WK Cume	10,285,900	10,375,800	10,407,400	10,543,600	**2.5%**	**257,700**

Source: Nielsen Audio, **San Diego Metro**, Monday – Sunday, 6a-mid, Persons 12+.

	Q3 2013	Q3 2014	Q3 2015	Q3 2016	Change 2013 vs. 2016	
ATE	1:45	1:45	1:45	2:00	**14.3%**	
AVG WK Cume	2,454,200	2,503,300	2,466,100	2,512,700	**2.4%**	**58,500**

The SCBA views this continued listening and average time exposed growth rate for Southern California Radio as further proof that Broadcast Radio remains a **consistently growing and popular medium. You can view this data and much more audience growth research for AM/FM Radio at www.scba.com**

We also encourage our readers to learn more about Radio's powerful ROI. Follow this link: http://images.radcity.net/5335/5167548.pdf to a compelling regional research presentation commissioned by SCBA.

Southern California Radio's inherent ability to attract new advertisers to the many targeted and mobile formats that only Radio can offer is underscored by the October Miller Kaplan Arase reports of new advertisers in the first 10 months of 2016.

AM/FM Radio's real economic health is revealed in its robust **new business development growth** for YTD October in 2016.

For Los Angeles: 454 new advertisers to AM/FM Radio in the first 10 months of 2016.
For San Diego: 158 new advertisers to AM/FM Radio in the first 10 months of 2016.

October YTD:
454 New advertisers to AM/FM Radio in Los Angeles totaling $41,108,784

158 New advertisers to AM/FM Radio in San Diego   totaling $9,847,686

That is an impressive $50 million dollars in new advertisers through October 2016.

If Radio's real strength is local, then this outstanding new business fact **speaks loudly** about the new partnerships that local and regional businesses have developed with SCBA's member radio stations and the inherent ROI in such volume. Simply put… **Radio works.**

Growth for any media comes from new business development and AM/FM Radio in Southern California is leading the state and the nation as of this writing.

While new business development for Radio advertisers will only grow in the critical Q1 period, as well as achieving its largest cume audience ever, but while it's hard to believe, there is still a nagging perception issue regarding the value and strength of AM/FM Radio.

Perception vs. the Reality for Broadcast Radio

"As a marketer, I've always found Radio to be a medium that effectively and efficiently delivers reach over an extended period of time, while driving ROI within the total communications plan," said Mark A Kaline, a former head of media at Ford Motor Company and Kimberly-Clark, who now heads his own consultancy. "But Radio has been too low profile with brands…" Radio needs to be more aggressively marketing their story as the leading mass reach media."

A recent survey commissioned by the Radio industry had the company, Advertiser Perceptions, survey advertisers and agencies in the U.S. about Radio's audience and that of its digital audio rivals. The survey results from the study of 327 advertising decision-makers underscored **Radio's perception problem versus the reality of Radio's reach.**

Advertisers surveyed estimated that 64% of Americans are reached by AM/FM Radio. Nielsen clearly shows that Radio's actual reach is **93%**. Another perception issue rose when advertising executives were asked about the share of audio time spent with Radio and streaming music services. They perceived the time spent with Pandora and Spotify to be the same as AM/FM Radio. However, the reality is that AM/FM Radio's share of audio time is **9 times greater** than Pandora and **17 times greater** than Spotify, according to Edison Research's Share of Ear study.

Adding even more to the misconception of Radio, those surveyed said they believed that Pandora and Spotify reach 27% and 20% of Americans, respectively. **The reality is that Pandora's reach is only 6% of Americans and Spotify even less at 3%, all according to Edison Share of Ear study.**

SCBA Recommendation: If your team, agency or client (s) would like a no obligation consultation on the real facts and value of AM/FM Radio and its vast digital platforms, please contact the SCBA to arrange a confidential meeting. We represent only our member stations and discuss AM/FM Radio without bias for format, ownership, or location. Please contact tcallahan@scba.com for more information or visit us at www.scba.com.

An informed client is in everyone's best interest. Please get the facts about Southern California Radio at www.scba.com today.

<u>Southern California Radio Category Trends and Data</u>

The SCBA examines and tracks a number of key advertising categories and industries. We supplement 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 Q1 2017 by comparing Q1 2016 activity with projected Intel for Q1 2017 and current market conditions by category.

The SCBA is providing a special focus on the automotive category which includes auto dealers, dealer groups, and the manufacturers. While Q3 saw a flattening of auto sales, November sales have come back strong with a variety of SUV's outselling autos by a 60-40 margin. Early indicators suggest an equally strong Q1 2017 as was Q4 2016 at this writing, for both SoCal dealers and groups. Comparing Q1 2016 expenditures, continued low interest rates for financing, attractive Q1 lease offers, and seasonally lower gas prices; we look to a 6.5% growth rate for Q1 2017. For Q1 2017, all new vehicle models will be competing for Southern California new vehicle buyers and the competition in Radio's largest category will be intense among manufacturers, dealers, and dealer groups.

Dealers and dealer groups will be challenged to maintain the cost to acquire new customers as the marketplace moves to more SUV type vehicles and 90 day dealer inventory continues to build for autos. More broad market advertising is projected to insure an attractive ROI ratio and build showroom traffic.

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 our **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, which should bring more value and consideration for SoCal Radio, 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 has analyzed the following key advertiser segments and projects the following <u>potential</u> spending trends for Q1 2017 from these categories for Southern California Radio. Our enhanced membership merger with San Diego market has, in some cases, created two projections due to the unique aspects of the two MKA monitored markets.

- **The Auto Category:** Radio's largest advertiser category is auto, which includes dealers, dealer groups, and the manufacturers. We see steady growth with competitive Q1 sales events, deep manufacturer rebates for autos, lower than average gas prices and clearance sales on 2016 models. Growth rate for much of 2016 has been 5.7% in 2016 and with current market conditions factored in; the SCBA projects a 6.5% growth in Q1 2017.

- **Casinos/Lotteries:** As more casinos open and expand operations with more rooms, gambling events, and spas in our region, and the increased entertainment value of booking major music talent and special events grows, we project more regional travelers coming to casinos during the less crowded Q1 period. There are 27 Indian owned casinos operating in Southern California and while there are no documented revenue numbers, industry sources estimate the industry will generate $7.5 billion dollars in 2016. Current YTD Growth rates of 13.1% for LA and 7.9% for SD, with current market conditions factored in, and the SCBA projects an average 21.0% increase in spending on AM/FM Radio for Q12017 for LA and 23.9.0% for San Diego.

- **Groceries/Convenience**: The industry is suffering from price deflation throughout our region with basic food staples and as a result, intense competitive pricing. Our region will see considerable growth for AM/FM Radio in Q1 for this category. With deep discounter Aldi just opening 45 locations, Whole Foods launching its 365 discounted stores in LA and Santa Monica by August, home delivery now promoted by all major chains, and the intense price wars for grocery staples only heating up more in Q1, we project this explosive category growing by 22.1% for our region in Q1 2017.

- **Personal Fitness/Weight Centers**: This category continues to become a more year round advertising category as weight centers are no longer seasonal and personal fitness centers are more targeted to group classes, specialized exercise, and personal trainers. With a -13.4% YTD decline for LA and a 27.1% YTD growth rate for San Diego, our seasonally adjusted projection for LA in Q1 is a 15.1% growth rate, with San Diego continuing with a strong Q1 projection of 32% for Q1 2017 for both markets.

- **The Internet/e-Commerce Category**: Brick and mortar retailers are highlighting their ecommerce sites as are grocery chains and mass merchandisers. New apps, games, and lifestyle web sites will launch from Southern California using AM/FM Radio as a key component. Newer non-retail categories are returning to AM/FM Radio for awareness and recognition instead of digital platforms that offer impressions but negligible ROI. We see this trend continuing in Q1 2017 at an overall regional rate of growth of 20.3%.

- **Television/Networks/Cable:** This category continues to suffer from disruptive factors for Southern California as well as the country; impacting appointment TV with continued viewer erosion, and its negative growth rate on advertising for AM/FM Radio. With a -17.2% decline on an October YTD basis, and based on the disturbing trend line, as well as no critical Spring sweep periods during Q1, we see a negative growth rate of – 20.7 % for Q1.

- **Department Stores/Discount/Shopping Centers**: Another category experiencing considerable erosion due to forces outside of AM/FM Radio's control, mainly from the Internet and powerful I-retail monster, Amazon. The retail sector stocks have been hit hard in 2016 and based on market Intel and retail feedback, we project continued less ad spending of -19.4% for Q1 2017. However, San Diego will grow in this category by 10.4%, bucking the trend line for LA.

- **Professional Services** which consists largely of attorney services grew at a seasonally adjusted rate of 5.2% on an October YTD basis for LA, yet down for San Diego at a YTD rate of -18.2%. However, Q1 historically has grown during this period as demand for legal representation grows during the winter months. A 3.7% average increase is projected for Q1 for both markets.

- **Restaurants, which include all fast food and quick and casual restaurants** remain a growing and year round AM/FM Radio advertiser with an impressive October YTD growth rate of 26.9% for LA and 16.6% for San Diego. With so many burgeoning restaurant choices in much of SoCal, expanding locations for most major chains and same store sales up in 2016 for most national brands, volume dining habits will continue in 2017. This category should expand by 18.2% in Q1 2017 for our region.

- **Home Improvement** advertisers increased their Radio budgets in LA by 7.7% October YTD. With San Diego slightly down at 5.4% YTD. With SoCal's continued tight housing 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 Q1 and beyond. Projecting a conservative 9.0% increase for our region Q1 2017.

- **The Auto Parts/Service category for LA** posted a -25.7 October YTD negative variance, while San Diego posted a YTD gain of 10.2% YTD. This is consistent with previous periods for this somewhat seasonal category. Despite a slow start to the year, we see consistent growth for this sector with Q1 business increasing for winter months' check-ups, colder conditions, and consumers holding on to their cars and trucks as they look at the 2017 model price increases. We anticipate a 3.0% increase for LA and a 7.5% increase for San Diego from a universe of 18 million registered vehicles in Southern California.

- **Computers/Office Furniture/ Equipment and Supplies** continue its remarkable and durable growth pattern for AM/FM Radio in Southern California. This sector mirrors the overall growth of our region's jobs, economy, and a high occupancy rate for office space and business parks needing equipment, computers, and furniture. Southern California is also experiencing record setting commercial building construction not seen since 2007 Demand and growth is on track to increase by 45.6% regionally in Q1 2017.

- **Healthcare** continues its downward spiral as insurance companies pulling out of the ACA and the uncertainties of the marketplace in California has created erosion in this sector. Providers will be challenged to offer services based on price as health insurance costs in California continue their rapid rise on average of 13%. We project a negative variance in Q1 of -5.6%.

- **Heating/Air Conditioning** will continue its growth pattern in Q1 2017, much like the home improvement sector. Based on seasonal demand for heating repairs and continued remodeling of existing houses and apartment complexes, we project this category to grow 22.3% for our region in Q1.

- **Hotel/Motel/Resorts** are really a tale of two cities for our region. While October YTD growth in LA was -0.1%, San Diego YTD growth was a substantial 99.8% YTD. We see seasonal adjustments for Q1 in San Diego at 34.0% as it remains a strong winter vacation destination. We project a slight uptick in LA of 3.5% for the quarter. Both cities will have considerable convention and meeting business throughout Q1.

- **Lawn and Garden's** peak consumer buying season will start in late Q1 as spring approaches and yard and garden planting begins. We see a large seasonally adjusted increase in this sector due to tighter housing inventory, and increased home and garden improvement trends for Southern California. Retailers will market the more profitable gating, trellis work, and SoCal drought focused yard environments. Projecting a 23.0% increase for the region in Q1.

- **Security** will be a continuing growth segment for AM/FM Radio in Southern California. An unfortunate surge in crime and break-ins is being reported for LA with a 12.7% increase in the first 6 months of 2016 and a 4% increase in San Diego during the same time period. This negative news will only heighten public fears. New technology security systems will be introduced with higher margins for firms, increasing ad spending. We see this sector growing in our region by 12.6% in Q1.

- **Financial Services**, which consists primarily of consumer credit counseling and debt relief consolidation firms, will continue its growth in Q1 with a 6.1% increase for our region in Q1 2017. The consumer affairs division for California lists 162 approved credit counseling service firms in Southern California alone. This does not include banks and credit unions which are also entering this growing consumer segment.

- **Recruitment/Employment** will regain its strength as a Radio advertising category after a brief lull in Q3 and Q4. With regional unemployment rates going down and a more robust job market, we see recruitment advertising accelerating as new budgets and new jobs appear in Q1 with a 9.4% increase for Q1 2017 for LA and a 20.4% for SD. LPN Nursing jobs, Nurse practitioners, and a variety of home health care workers will be in high demand in Q1 and beyond in 2017 for our region.

- **Appliances/Electronics** have seen rapid growth as an advertising category due primarily from new product introductions, enhancements to existing product lines, and consumer demand for newer products. The market share for Small domestic appliances such as coffee makers and toasters are projected to grow by 20% nationally in 2017. Products that are "home connected" as well as tablets (12% growth) and smart phone demand for 3D enhancement technology will grow to a $4.4 billion dollar market by 2020. We see a Q1 seasonal adjustment growth rate for our region of 26.5%.

- If there is a particular industry not listed that you or your company would like additional insight on, please contact us at tcallahan@scba.com

AM/FM Radio Trends worth Reading from www.scba.com

- **AM/FM Radio Dominates the Pure plays:** Read how AM/FM Radio clearly dominates all audio listening compared to Pandora, Spotify, and Sirius/XM Satellite. **http://images.radcity.net/5335/5179740.pdf**

- **AM/FM Radio remains the overwhelming choice for in-car audio listening**, despite the various choices available for today's in-car listeners. http://www.scba.com/article.asp?id=2851286

- **One More Reason to invest in AM/FM Radio**. Ad blocking poses serious threat to Google and Facebook advertisers. http://images.radcity.net/5335/5179716.pdf

- **Radio remains the top music source to discover new music** among 18-34 year olds. Surprised? Read why: http://www.scba.com/Article.asp?id=2993920&spid=

- **For Auto Dealers, it's AM/FM Radio, not digital, that is the big driver**. See this great article from Automotive News. http://www.scba.com/Article.asp?id=2993919&spid=

- 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."**

- Radio's **massive reach** recorded an all-time high of 265 million listeners, making it a larger reach media than television, according to Nielsen.

- With 1 hours and 49 minutes of daily usage, **Radio remained** the second most used medium tracked by Nielsen. Broadcast Radio outperforms Smartphones, Internet access from a computer, time-shifted TV, game consoles, DVD/Blu-ray devices, and multimedia devices. (Source: Nielsen Total Audience Report, Q4 2015).

- According to a 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.

- **AM/FM 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 18+ is larger than any other media including TV, Newspaper, Facebook, Twitter, Pandora, Sirius/XM **and** all other media outlets in our region.

- Please visit us at www.scba.com for updated Radio research information on a variety of market research data.

Competitive Media Trends worth Watching:

- **Lionsgate buys $4.4 billion deal to buy Starz.** Santa Monica-based Lionsgate closed its $4.4 billion cash-and-stock deal to take over the premium cable network, Starz. Lionsgate acquires Starz and Starz Encore Network's 56 million subscription units and will end up with a library of 16,000 film and TV titles. Lionsgate said it could cut $50 million in costs through the merger.

- **Pandora and other new media reaching limits to growth.** They were the all-digital, online media darlings – that being Pandora and Twitter. Pandora stock is down 54% (35% decline through October 2016) and Twitter stock value has eroded by 56% by end of October 2016. Why? The short answer is investors see both companies with much lower audience potential than earlier in 2016.

- Please see our factual, competitive research in the pure play section on Radio vs. Pandora at www.scba.com.

- **Microsoft has completed its purchase of LinkedIn in a $26 billion dollar deal.** Where past acquisitions have failed Microsoft, the company hopes this one succeeds. Using Facebook's success with Instagram as a sort of guide, Microsoft aims to give LinkedIn more autonomy; Microsoft won't weave LinkedIn into one of its existing product lines, and Jeff Weiner will remain LinkedIn's chief executive. Its highest priority is LinkedIn's expansion.

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, 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 websites that are misleading and dishonest. Please click the link below. http://scbaradio.com/2014/07/01/a-responsibility-to-the-truth/

Also, please read the latest article on **fraudulent digital ad clicks** from the NY Times below:

http://www.nytimes.com/2014/12/10/business/media/study-puts-a-price-tag-on-digital-ad-click-fraud-.html?smid=nytcore-ipad-share&smprod=nytcore-ipad

The SCBA's focus on technology as a new Radio advertising category continues with this report. Research and recent activity now indicates that new apps, new tech based services, and a large number of startups in Southern California have begun to consider

Southern California Radio to garner market share and brand awareness for their new consumer on-demand services.

- **NBCUniversal** is making a $200 million investment in Buzzfeed, the news sharing web site. Plans include extending their advertising sales platform and collaborating with the NBC "content studio" to produce short form video digital video content for advertisers and create "new digital experiences".

- **Los Angeles has more high-tech jobs than any other metro region in the country**, including Silicon Valley, according to the Los Angeles Economic Development Corp.

- **LA County employed 379,500** people in its high tech sector in 2016, defined as businesses with a large proportion of technology oriented jobs.

- **Hubbard Radio** takes a 30% stake in PodcastOne of Beverly Hills just as E.W. Scripps bought Hollywood podcasting network Midroll Media. Despite a few breakout hits, podcast audiences remain small and slow-growing. 17% of Americans listening to Podcasts since January, according to Edison Research.

- LA based **Snapchat** is seeking a new round of funding which would value the company at as much as $19 billion, making it the 3rd most valuable venture backed company in the world. Saudi Arabia to become a key investor. Snapchat will also be including live sports broadcasts in its app, starting with the NCAA Basketball tournament in late March. WPP has announced it will place $70 million in client advertising with Snapchat in 2017.

- **Research confirms that Netflix** and others are upending the TV business model. The steady rise in online streaming is causing the rapid deterioration of traditional TV audiences and related ad revenue. Netflix, Hulu, Google TV, Amazon TV and others are greatly reshaping how people watch TV, as well as the broader economics of the TV business. In December 2015, WPP's GroupM advertising firm released a forecast predicting that traditional Television's share of the total ad market would fall for the first time in 2016. Todd Juenger, a media analyst with Bernstein Research said, "The ratings have just disappeared. You have audiences leaving ad-supported Television for non-ad-supported Television, and I don't think they will be coming back."

New SCBA Service for clients and agencies:

In Q1 2017, the SCBA will introduce a **new service** for clients and ad agencies in Southern California who would like to learn more about Broadcast Radio and its varied digital platforms. Our new seminar is designed as a Primer to Southern California Radio for new media staffers including creative teams, media planners, buyers, and clients who may be new to the advertising business and would like to learn more in a "non-selling" environment.

The seminar is entitled, **"Understanding Broadcast Radio in 2017 and beyond."** Dates and locations for the seminar will be announced shortly. For more information, please contact tcallahan@scba.com.

- For Radio sales staffs and agency account executives looking for new business, the **introductory letter** is critical to that first appointment. The SCBA is now offering one on one consultation to effectively help Radio and agency staffs write compelling and

- response producing introductory letters to key prospects. For more information, write to tcallahan@scba.com.

- **The SCBA/Nielsen Audio Radio Research Event** was Nielsen's groundbreaking new research on Radio's powerful Return on Investment for Radio advertisers. If you would like to learn more about this definitive research and would like to discuss any of the facts presented, please contact us at tcallahan@scba.com for details.

SCBA Market Guidance for the first quarter of 2017

We are projecting Q1 Southern California Radio advertising activity to be steady in the categories documented in this report as well as the noteworthy new business development pace for our SCBA member stations. While caution is still the prevailing mood with some client categories, others will continue enjoying record months through the important Q1 consumer period.

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

If you have any questions about the **SCBA Quarterly Market Guidance Report** for the first 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 Q1 2017 and beyond, please contact us directly at 323-695-1000 or at tcallahan@scba.com.

For Advertisers, the media landscape can be a confusing and contradictory world. The SCBA is here to clearly and factually describe the value of Broadcast Radio and its considerable digital platforms, all of which are extensions of its core brands.

We look forward to providing our members, clients, agencies, and the press with any additional and relevant information as needed.

Please write or call with any questions. The SCBA looks forward to a great 2017 with all our members, clients, friends, and partners.

Wishing everyone a happy and peaceful Holiday season.

Sincerely,

Thom Callahan
President
Southern California Broadcasters Association
tcallahan@scba.com
323-695-1000

<u>Sources:</u>
The New York Times, Los Angeles Times, San Diego Business Journal, San Diego Union-Tribune, Los Angeles Business Journal, Nielsen Audio, Los Angeles Economic Development Corporation, ComScore Research, Los Angeles Board of Tourism, The Wall Street Journal, Miller Kaplan Arase, LLC, Employment Development Department of Southern California, UCLA Anderson Forecast, Inside Radio, Automotive News, CNN, CNBC, The Department of Transportation. Scarborough Data, SCBA Member Stations, California Association of Realtors, Indiancasinos.com, Kyser Center for Economic Research. Bloomberg News. Orange County Register. Broadcasting and Cable. BIA/Kelsey. Restaurant Week. The Washington Post. Crain's Business Report. Edison Research. CNBC. Texas Institute at Texas A&M University. California Department of Transportation. Los Angeles County Institute of Applied Economics, California Department of Finance, STR Research. Statisa.com, San Diego Association of Realtors, the Times of San Diego, NBCTV San Diego, Cushman Wakefield, Inc.