Southern California Broadcasters Association

81 Years as the Voice and Advocate for Southern California Radio
www.scba.com

The SCBA Quarterly Market Guidance Report For Q4 2019

"I love Radio. It's a perfect media for our clients, their messages, and the impact it has on voters."

– Sheri Sadler, CEO, Sadler Strategic Media, a Leading SoCal Political Media Placement Firm

The Southern California Broadcasters Association is pleased to publish the largest edition to date of the SCBA Quarterly Market Guidance Report, covering the dynamic and growing Southern California region for the fourth quarter of 2019.

This industry report is for SCBA members as well as an ongoing service for clients, advertising agencies, the press, and media buying services that are planning to invest their advertising budgets in Southern California Radio in **the fourth and critical quarter of 2019**. The report looks primarily at the upcoming quarter and provides in depth insight into the regional economy, Radio growth trends worth noting, advertising category trends, as well as additional market-driven research from a variety of trusted sources.

The Southern California Broadcasters Association now represents 168 Radio stations, covering 52,000 square miles in the ten most southern counties of California. The SCBA will also be celebrating **82 years** of continuous service since 1937, making it the longest operating Radio advocacy association of its kind in the United States. For more information about the SCBA, and our services, please visit us at www.scba.com.

Southern California Radio Category Trends and Data

The SCBA now examines and tracks 30 key advertising categories and industries. Our analysis includes opportunity factors for each sector as well as disruptive industry patterns that could change business models and growth assumptions. We supplement that data with both local Radio management input and selected 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 2019 by also comparing Q4 2018 activity for seasonality as well as current YTD activity. We also account for projected market Intel for Q4 2019 and current market conditions by category. Please note that each category that is not increasing Radio ad spending is experiencing industry wide disruption and/or competitive pricing that is contracting the industry tracked.

The SCBA continues its in-depth analysis of the auto ad category with this Q4 2019 Guidance Report. The documented "softer" year for the automotive industry has meant seven of the first eight months of 2019 has seen auto sales decline on a national basis. Other troubling factors include: rising "days on lots" inventory that now exceeds 76 days on average, dealer and factory incentives that through August 2019, averaged $4,700 per vehicle, the second largest number of discounts/incentives since 2009. U.S. Consumer debt on outstanding auto loans now exceeds $1.3 trillion dollars, the largest amount on record. Additional concern is focused on the ***growing prime and subprime auto loan consumers*** with FICO scores below acceptable financial levels. It has become clear that numerous disruptive forces have impacted the auto industry with a down year projected for the balance of 2019. The auto sector is critical to Southern California Radio and the SCBA continues to provide solid research on the value and power of Radio for the automotive sector.

To protect the interests of Southern California Radio's largest ad category, and to propose and advance a more effective media allocation to attract more qualified auto customers, ***The SCBA has partnered with Nielsen*** Audio to conduct our second ever regional research study on consumer behavior and media choices when buying new and used vehicles in Los Angeles and San Diego.

"The Real Value of Southern California Radio to the Auto Industry" is our latest documented study which brings value and attribution to a new level of understanding. The study and our recent video presentation in Los Angeles can be found https://scba.com/automotive-research/ and the link to the video is: https://vimeo.com/iheartradiotheater/review/318639187/65458d652f

Our first compelling study entitled; **"The Local Path to Automotive Purchase"** examines the vehicle buying habits of actual auto customers over the past 1-2-year period in both Los Angeles and San Diego. The findings of this study were revealed before auto clients and SCBA members in a special presentation in LA and in SD before capacity sized crowds. For a complete review of this powerful research study for either market, please visit Auto Path to Purchase where PowerPoint is available.

SCBA Observation: It is clear the auto industry and its dealers will face higher costs to reach their elusive customers than ever before, especially with the ongoing headwinds hitting the industry in Q4 2019. ***We urge all of our automotive clients to review their marketing and advertising plans*** for Q4 2019. The continued ad spending on non-Radio digital platforms at the expense of other powerful media is not warranted when comparing customer acquisition expense to ROI. The threat of a possible recession in the U.S. in 2020 has already slowed the auto segment even further. The time is now to reevaluate media plans as it is clear the current path is not working for this critical category.

"The Real Value of Southern California Radio to the Auto Industry" will reveal important actual consumer behavior and how it relates to motivation, consideration, and purchase. Please find the complete study for both LA and SD https://scba.com/automotive-research/.

- **The Auto Category**: Radio's largest advertiser category is automotive, which includes dealers, dealer groups, and the manufacturers. As reported above, there are disruptive market factors impacting the sector. Based on current market conditions, we project an average adjustment of -10.4% for tiers 2 and 3 for Los Angeles and -13.2% for San Diego for tiers 2 and 3 for the Q4 period of 2019. This decline is a direct result of disruptive forces impacting the industry as well as a disproportionate focus from dealers and associations on digital advertising. The inconsistent ad trend line for tier 1, or EOM's budgets, are planned and purchased largely out of the control of Southern California Radio so any projections are with risk. Please see our latest research study on today's automotive customer, **"The Real Value of Southern California Radio to the Automotive Industry."**

For additional insight into the auto industry:

Please see the SCBA's White Paper: "Automotive Overview 2019" for an in-depth status review on this critical category for Southern California Radio

New for this report: The SCBA is providing additional insights into Political Advertising for Q4 2019 and 2020.

According to the latest BIA report on political advertising for 2020:

- **Los Angeles is projected to be the largest local political advertising market in the country in 2020. No other market in the U.S. will even be close in total revenue.**
- Total political revenue for LA alone in 2020 is now projected to be $368 million dollars.
- TV is expected to gain $168 million, Digital to gain $76 million, cable will get $55 million and Radio in LA alone is projected at $17 million.
- LA alone did $14.6 million in political Radio revenue in 2018
- We do not have data for other SoCal markets as yet.

The SCBA has launched a pro-active outreach to California's political consultant and media placement firms to showcase and spotlight Southern California Radio's natural and compelling case to reach registered voters and influence public opinion. Here a few campaigns we are actively tracking:

- **The largest potential propositions that may start spending statewide budgets in 2020 include:**

1. **Split Role Proposition Tax** – This measure seeks to roll back the business portion of Prop 13, allowing the state to tax at a higher rate, those businesses that are on their owned property. There has not been an updated tax assessment for business property since 1975. All business and commercial real estate will fight this while the California League of women voters, almost all CA homeowners, and certain groups will promote the repeal. The consensus is this could have a $100 million budget statewide. If business jumps early to influence public opinion, the measure could be killed and substituted with another measure or the other side could start spending also. So much of this is posturing to the public and how strong the opposition will be.

2. **Dynamex Proposition** – The California supreme court has ruled that certain jobs do not qualify as independent contract work and is considered as a salaried employee. The issue of which jobs and which professions was left open by the decision and that is where the fight begins. This is the gig economy or independent contractors favored by Uber, Lyft, et al, and the California Truckers Association, (which wants their drivers to remain independent operators and not employees) vs. almost every union in California and worker advocate groups.

3. **AB5 Rent Control Measure –** This measure was defeated by the California Association of Apartment owners as well as numerous building and supply groups in 2018. This group spent $90 million dollars to defeat the expansion of rent controlled apartments. The measure will try again in 2020 and all indications are the same amount of money will be spent to defeat it again.

Government housing groups and affordable housing groups will be fighting for the other side vehemently.

4. **Independent Expenditures (IEs**) – This could be the largest single category of political advertising for all efforts to influence public opinion and votes. An IE is not a PAC, but a separate entity not directly associated with a party or candidate. It also does not qualify for LUR. It is simply a group who is advocating for a candidate or cause. There are no spending limits, matching funds, or limits on this category of political ads. The consensus is we could see the first wave of these types of funds in Q4 as the remaining democratic Presidential candidates drop off and we are left with about five candidates. Look for early ads to help win the California primary for various IE candidates, now scheduled for March 3, 2020.

5. **Bail Bondsman Referendum** – A collation of California bail bond industry groups plan to block the new law of the overhaul of the bail system. The new law eliminates the payment of money as a condition for release. This would decimate the earnings of bounty hunters, surety companies, and roughly 3,200 registered bail agents in the state. Groups from both sides are not happy with this law and expect a huge fight from civil liberty groups, welfare groups, and minority interests.

Taken as a group, there could be an estimated **potential of $200 million** in total media spending over the next 15 months to influence voters and public opinion one way or the other in California. There are more measures and propositions working their way through Sacramento but the above represents our biggest and best opportunities for Southern California Radio in 2020, and again, LUR does not apply. The wild card in all of this activity is the Independent Expenditures, driven by groups, that create new funding under separate entities to advance or oppose certain legislation. It is clear this category will be meteoric in 2020 for Southern California.

- **Political/PAC/Prop Advertising** is an important new category now being tracked and analyzed by the SCBA. We estimate that total 2018 political advertising for Southern California Radio was $21.5 million dollars, making it a top seven category for total ad spending in 2018. Our research indicates an enormous growth opportunity for our members in the subset of PAC, Proposition, and Independent Expenditures advertising for Q4 2019 and 2020. The SCBA has launched a major outreach to California's political consultants to create value for our member stations and educate political parties and stakeholders on the power of Southern California Radio. We project new, incremental growth for Q4 2019 from non- LUR advertising. We project 2020 will be explosive for political advertising in Southern California.

- **Professional Services** which consists mostly of attorney and injury services will remain a steady and predictable growth category in Q4 2019. Immigration issues as well as the ever-expanding personal injury and environmental health claims in Southern California will drive the growth. With recent federal efforts to reduce immigration, an uncertain future for "Dreamers", and the executive action that currently protects them from deportation called DACA as well as growing legal and personal bankruptcy challenges for Southern California residents. Based on seasonality, the SCBA projects Q4 spending for personal and family legal services with growth rates of 3.0% for LA and 1.2% for San Diego.

- **Financial Services**, which consists primarily of personal consumer credit counseling and debt relief consolidation firms, will retract in Q4 due to holiday spending as debt management and the holiday consumer spending clash. Based on the season, we project -8.3% for LA and -5.3% for San Diego in Q4 2019. 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. A subset of this category is identity theft. Additional new online financial services will be promoted in Q4 2019. Total household debt in the U.S. is projected to rise by end of 2019 and will hit a new record high of **$14 trillion dollars.**

- **Home Furnishings/Home Flooring**: With existing home inventory extremely tight and real estate prices on most homes now at a 20-year high, Southern California home owners, condo owners, and renters are investing in home furnishings and flooring as plans for moving keep being delayed due to a very expensive housing market and unfavorable real estate tax rates for those buying new or existing properties in California. With significant competitive pricing for new customers, and a move towards downsizing by older shoppers, as well as significant seasonal adjusting factored in, this segment will be down -7.0% for LA in Q4 2019 and -8.2% for SD in the same period. Q4 is the slowest period for this sector as the holiday spending period takes over most furnishing spending budgets.

- **Home Improvement**: The housing and affordability crisis in Southern California will continue in the fourth quarter and for the foreseeable future. This will benefit the home improvement sector as home and condo owners remain in their current homes and look to upgrade and/or enhance their current address. This $317 billion-dollar industry remains robust in our region with 70% of this revenue coming from residential spending. Of this, 35% is spent on property improvements and exterior upgrades, kitchen upgrades 11.6%, bath remodeling, 9.1%, and systems upgrades 13.4%. With the near peak Q3 period completed, we project a seasonal adjustment to a -14.5% decrease for Los Angeles in Q4 and a -16.2% decrease for San Diego in Q4 2019, primarily due to the holidays.

- **Cellular Carriers** ad spending in Radio picked up in Q3 as the industry absorbed continued losses from discounted data plans and disruptive industry forces. As a result, the SCBA is focused on a new era of competitive spending. With the proposed merger of T-Mobile and Sprint now approved by the FTC, the hyper competitive environment will produce more market share opportunities for the merged companies. This is a highly volatile and competitive space in a fully consolidated industry. However, a new iPhone release, with three models to choose from, is scheduled for retail release on 9-20-19. This will stimulate new activations as well as provide conquest customers for most cellular carriers. Based on these dynamic market factors, the SCBA projects a 7.4% increase in LA and a 9.4% increase for SD in Q4 2019.

- **Restaurants, which include all fast food and quick and casual restaurants (QSRs)** will slow spending in Q4 due more to a more regional approach to media placement by some clients and overall less consumer demand. This category should expand by 2.0% in Q4 2019 for LA and 5.8% for San Diego. We urge QSR clients to read the latest QSR research study from Nielsen to understand the full power and uncanny affinity of QSR peak visits and the key listening hours of SoCal Radio. Please see highlights of the QSR study: https://scba.com/2019/07/new-nielsen-roi-case-study-for-qsr-makes-strong-case-for-broadcast-radio/. There is a significant disconnect between brands promoting price on social media while consumers want % of price stated in order to understand what they will save by shopping at certain QSRs.

- **Health Care and related industries** have seen a YTD decline of -12% for SoCal Radio. However, that will change as the critical open enrollment period for coverage begins November 1 -December 15. Providers will be heavily promoting their brand of coverage in early October. Our region contains 45 hospitals, 26 cancer treatment centers, 19 skin care medical centers, 27 dental centers, and 14 Sports related medical centers. Based on historical trending for this upcoming quarter, we project a positive variance in Q4 of 2.7% for LA and 2.2% for San Diego.

- **Television/Networks/Cable**: This category has shown considerable growth in less than 12 months using SoCal Radio. Local TV stations, TV networks, cable providers, and subscription video services have combined to make this ad category a consistent client for Radio. Advertising is no longer limited to the traditional “sweep periods” due to the increasing variety of programs and platforms to view programming on. We project a strong Q4 for this segment that will still show growth of 5.1% for LA and 4.3% for SD in Q4 2019.

- **Casinos/Lotteries**: Consumers can now choose from numerous different lottery games to entertain and increase their chances of winning. The games are: Powerball, Mega Millions, Supper Lotto, Fantasy5, Daily4, Daily3, Daily &Derby, Scratchers7, Mystery Crossword, Triple Play, Wild Bingo, Fast25, and now Hot Spot. Hot Spot draws take place every 4 minutes, providing ongoing entertainment. 34% of frequent players do so once a day. For casinos, massive remodeling of casinos and expanded operations include more rooms, gambling events, and spas in our region. The increased entertainment value of booking major music talent and the upcoming holiday weekends, will provide spike times to casinos during the Q4 period, which includes three major holiday periods. There are 27 Indian owned casinos operating in Southern California and while there are no completely documented revenue numbers, industry sources estimate the industry will generate $8.8 billion dollars in 2019 in Southern California and directly employ 23,500 people. With current market conditions factored in, the SCBA projects a consistent 2.0% increase in spending on Broadcast Radio for Q4 2019 for LA and 2.8% growth for San Diego.

- **Groceries/Convenience**: Here is another key category in the midst of a significant turnaround in ad spending on Radio. We continue to project significant disruption for the grocery industry in Southern California in Q4 and quite frankly, for the foreseeable future. The Amazon purchase of Whole Foods, Inc. is just one of a number of factors impacting the Grocery chain segment. Additional disruption from food stamps being used the same as cash online, which will now be accepted by six online grocery delivery services, including Amazon, in Southern California. The industry is suffering from price deflation throughout our region with basic food pricing down, and as a result, intense competitive pricing. Our region is experiencing selective growth based on same store sales, new openings, and additional competition from Target, Costco, and other big box retailers expanding their grocery business. With deep discounter Aldi's 45 locations, home delivery now promoted by all major chains, and the intense price wars for grocery staples as the key Thanksgiving, Christmas, and New Year's holiday periods, we project this explosive category to grow by 5.7% in LA and 5/0% in SD for Q4 2019. **We urge grocery clients to read our Category Alert on the Grocery business at www.scba.com for more details**.

- **Beverages:** All sorts of drinking liquids are compiled under this category. However, the introduction of a variety of new products on the market is driving considerable growth for Radio in Q4. New flavored waters, expanding beer budgets, and growing distribution points for retail beverages of all kinds are all contributing to a growing category. We project a 3% increase for LA and a 5.4% increase for SD in Q4 2019.

- **Education**: The continuing education sector is poised for growth in Q4 2019 as a lead up to January 2020 class starts. Among the drivers in this category include the expansion of the red hot 13-16-month online MBA programs now offered throughout Southern California. With MBA online programs costing $15,000-20,000 on average and more, the need to recruit credit worthy candidates is critical. This is a particularly competitive subset of the sector and recruiting new students for the fall enrollment period has begun. Increased enrollment in nursing schools, Physician Assistant programs, bio medical extension training, Nurse Practitioner degree programs, technical training centers, and IT training and retraining centers will see increased activity and competitive student recruitment for Q4 2019 as the medical health field's demand for trained workers continues unabated. The state of California has a critical shortage of trained healthcare workers and this segment alone is projected to get increased state and regional support to fill vacancies. We see a 3.9% growth for LA and a 3.1% increase for SD.

- **Personal Fitness/Weight Centers**: Intense competition throughout Southern California has made this sector very deflationary, putting pressure on operating margins. Personal weight control centers are no longer seasonal and personal fitness centers are more targeted to group classes, specialized exercise, health plans, and personal trainers. There are 34,000 fitness centers in the U.S. and while membership is up 16.6% YTD, with the average member visiting their club 100 times over 12 months, 67% of club membership go unused after an initial surge of attendance. Businesses are expanding their offer to share the cost of health clubs with their staffs, providing a more year-long category. The more serious disruptive forces for the industry are the increase in on line training programs and hardware as well as bigger budgets from Universities, Municipalities, and medical centers who have a captive audience and compete with fitness centers for members. Another threat is wearable technology with biometric data, which is reducing the need for group classes or a personal trainer. Our seasonally adjusted projection for LA in Q4 is a -12.3% rate, with San Diego at -15.5% for the fourth quarter of 2019.

- **Oil and Gas**: Once a very consistent ad category for Radio, numerous disruptive forces have slowed advertising growth in 2019 and for Q4. Convenience stores and gas stations are in their fourth straight year of a crime wave of robberies in the U.S., while ransomware has targeted the petroleum industry as criminals block access to a company's data and demand ransoms. The number of "C stores" selling gas has declined for the third straight year as gas is no longer considered the traffic builder it once was and stores are focused on quick foods and beverages, and another high margin merchandise. the SCBA sees the gas and oil category sliding to -7.6% in LA and -9.5% in SD for Q4 2019.

- **The Internet/e-Commerce Category**: Numerous internet and e-commerce firms are leading the way in this explosive ad category for our industry. Based on industry intel, we also see a number of new platform offerings launching in Q4 that will utilize the strength of Radio to drive trial and consideration from consumers. Newer non-retail categories are returning to Broadcast Radio for awareness and recognition while reducing ad spending on digital platforms and/or networks that offer impressions but negligible ROI. The E-commerce segment continues its fast growth pace with 50% of shoppers buying online only and 43% are ok to not speak with a human. Combined we see a substantial increase for our region in the key shopping periods of Q4. A growing trend for this segment includes voice queries growing for e-commerce sites in Q4 in 2019. By 2020, 51% of all searches will be made via voice. We see this segment continuing in Q4 2019 at a seasonally adjusted overall regional rate of growth for LA of 18.4% and San Diego at 19.4%.

- **Department Stores/Discount/Shopping Centers**: Another category experiencing solid ad growth for radio after considerable erosion in 2018 for LA due to forces outside of Broadcast Radio's control, mainly from the internet and powerful I-retail monster, Amazon. The retail sector which includes department stores, strip centers, discount stores, and name brand retailers is expected to adjust somewhat in Q4 but maintain consistent growth. The SCBA projects Q4 2019 regional growth as 6.8%. San Diego remains the outlier in this equation as its proximity to Tijuana, Mexico demonstrates. Thousands of Mexicans cross the border every day to do their shopping in San Diego. San Diego offers a short drive from Tijuana as well as a greater variety of goods and services.

- **Drug Stores/Pharmaceuticals** has become a substantial and growing category for Southern California Radio. With total industry revenue of $313 billion projected for 2019, there are 59,526 drug stores in the U.S. Annual growth rates of 3% are expected in 2019 as well. Main selling items are branded prescription drugs, generic drugs, nonprescription medicines, personal health supplies, groceries and food items, vitamins, minerals and Two primary reasons for this growth include over 700 drugs (and growing) that were previously only available by prescription 10 years ago have been reclassified now by the FDA as safe for the counter (OTC) purchase. The" RX to OTC" conversion rates will increase further as the FDA is focused on the individual making their own health choices at more reasonable rates. The largest selling segment of this market is in the nicotine prevention products. The Patch, Gum, and other quit smoking products are now available over the counter and without a trip to the Doctors office. Additionally, drug stores have expanded their offerings with larger food selection, electronics, and non-drug merchandise. Drug store retail traffic counts are 23% higher during the fall months as retail traffic grows for the three holiday weekends. We project 14.2% increase in Q4 for LA spending and a 11.7% increase for San Diego.

    - ***Please note:*** The CVS purchase of Aetna Health for $69 billion dollars will significantly change the relationship between drug retailer and health insurance providers and will have significant implications for the consumer. We see considerable and rapid consolidation in this sector in Q4 2019 and beyond.

- **Computers/Office Furniture/ Equipment and Supplies** will continue its remarkable growth pattern for Broadcast 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 office furniture. Southern California is also experiencing record setting commercial building construction not seen since 2007. Office space rental applications have grown 13% YTD through August 2019 for LA, and 11% for SD applications. Demand and growth for office space, office furniture, and equipment will increase advertising by 3.8% regionally in Q4 2019.

- **Heating/Air Conditioning** will continue its impressive ad growth pattern in Q4 2019 as the cooler months will drive more heating repairs, expanded service agreements, and continued remodeling of existing homes, condos, and apartments as well as new unit sales. This category follows a similar pattern to the home improvement sector. The unusual weather patterns and the damaging fires in Southern California will also drive more volume to this sector.

- Google and Amazon are both now actively involved in the HVAC industry with new technology for more efficient units and service. Much like using Uber and other instant service apps. younger homeowners are expecting 24-hour service appointments and installs. It's critical that fast appointments and service become part of the DNA for this ever-expanding sector. Look for this app service feature from contractors and manufacturers going forward. Based on seasonal demand and the second busiest period for this sector, we project this category to grow 10.6% for our region in Q4 2019.

- **Auto Parts/Service**: The auto parts and service category begin another strong season entering the fall and winter months to a potential service market of over 18.5 million registered vehicles in Southern California. (DMV, July 2019) The growth in this sector is coming from tires, transmission work, and full-service repair advertising clients. With the average age of vehicles still on the road today at 11.3 years, and daily commutes increasing by 13 minutes every year, wear and tear on tires and service demand more service for the daily commuter. With EOM's using synthetic oils, and improved powertrains, oil and parts replacements are being extended. Despite that trend, high-performance options remain very popular with Southern California drivers. Amazon now controls 22% of all auto parts on line shopping. On line auto parts revenue is projected at 10.8 billion in 2019 and 11 billion in 2020 nationally. 42% of online auto parts sales are made through mobile apps so retailers must include their app and a reminder for 24-hour delivery terms. Adjusting from the peak summer season into fall/winter, we see 3.2% growth for LA and 3.0% for SD in Q4 2019.

- **Hotel/Motel/Resorts:** This sector has seen a 53% increase year over year in LA and a 27% increase in San Diego. Tourism and a much stronger 2019 economy has driven more tourists, travelers, vacationers, conventions, and business meetings to Southern California than any other period over the past ten years. While Q4 is considered the “off-season”, September and October are the key months for large meeting and conventions. We see a seasonally adjusted growth rate of 3.5% for LA and 2.8% for San Diego in Q4.

- **Lawn and Garden’s** peak sales season for Q2 and parts of Q3 are behind us as the market points to a traditionally lower and seasonally adjusted rate with this sector. Retailers will be focused on marketing the higher margin garden and trellis designs, and the continued “hardscape” yard environments. Fall flower planting is also a popular sales item for gardens. Projecting a 3.4% increase for the region in Q4.

- **Security systems** advertising was down somewhat in Q3 in both markets but with fall comes shorter days and less daylight, increasing homeowner concerns about security. The fall and early winter season for installed security systems is the second highest buying period of the year with 24% of new installs coming in Q4. Los Angeles is ranked as the 4th most dangerous city in the U.S. while San Diego overall crime rates are the lowest in five years. There has been an uptick in burglaries in certain areas of the county which are concerning to the immediate residents. New technology security systems have been introduced with higher margins for security firms, and new Wi-Fi products to further protect homes and property, which will increase ad spending. Biometrics or face recognition will begin to replace traditional numbered passwords on entrance keys in Q4 2019 for greater home security and protection. We see LA Radio ad spending increasing by 8.0% and 2.0% for San Diego in Q4 2019.

- **Recruitment/Employment** Radio advertising was very hot in Q3 in both markets and is expected to continue that trend in Q4. Indeed.com and U.S. Army led the way in Radio recruitment advertising. With regional unemployment rates the lowest in ten years, and a continuing robust job market, we see recruitment advertising accelerating as new budgets and new jobs appear in Q4 throughout the region with a 3.1% increase for Q4 2019 for LA and 1.7% for SD. Look for more on-line job posting firms to market themselves through Southern California Radio as the most efficient recruitment tool for hundreds of job postings and career categories. With record unemployment, the job market remains competitive and tight. Workers start to plan career movement and job searching generally is at a high point in Q4 periods in anticipation of a new year coming and new career opportunities. Indeed, data indicates 35% of workers look to the new year as career enhancing through job searches.

- **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 22% nationally by end of 2019. 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. Appliances and all forms of electronics are sold everywhere, which also increases availability, distribution, and product comparisons which benefit the consumer. We see a Q4 seasonal adjustment growth rate of 3.3% for LA and 3.1% for San Diego.

- **Jewelry stores/Pawn Shops** the Jewelry business is projecting a strong Q4 with Christmas and new year's shopping periods in front of us. The industry is on an upswing with jewelry purchased for Mother's Day 2019 exceeded $5.3 billon nationally**.** 24% of their annual business will happen in Q4. This category analysis has had explosive growth from San Diego for most of 2019 and more modest but consistent growth from LA. With a robust economy, higher consumer debt, and the constant cross-country border shopping from Tijuana to San Diego, this category, covering both ends of the economic status of consumers, will adjust seasonally to 2.5% in Q4 for SD and 1.4% for LA.

- **Insurance** is a large variety of subsets including life, health and property, and while LA will see growth of 4.8%, San Diego insurance advertising will continue its hot streak with a 6.3% growth rate for Q4. Life insurance represents 46% of premiums, with health insurance at 23%, and Property and Casualty at 30% of business. The auto category and all of its dependent service industries such as auto insurance remains our region's strongest industry as a feeder category.

- **Concerts/Theatre/Movies** continue to showcase Los Angeles as the entertainment capital of the world. From the LA debut of Broadway's Frozen, to Disney's Anastasia, to the Blue Man Group, to Madonna, Van Morrison, The Who, Jimmy Buffett and 245 other live performances all in Q4 in concert in LA. Live entertainment of all kinds reaches a pinnacle in Q4. We see this segment with continued steady growth for our region at 3.1%.

- **Real Estate/Retirement Communities** remain a growing category for Radio. There are numerous independent and larger name realtor firms fighting in a very tight market for house/condo hunting customers. A growing and disruptive trend in real estate is the "2%" commission firms. These realtors operate from a digital platform yet are still a full-service brokerage firm. Using AI and machine learning to identify buyers and sell homes outside of the MLS. All at a 2% fee instead of the traditional 5-6% commission fees. Retirement communities continue their steady branding with new communities opening each quarter and target both seniors and their children for new occupants. We view real estate with a seasonal adjustment for the holidays at a regional growth rate of 2.4% and retirement centers at 1.6% for Q4 2019.

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

The following showcases the county by county growth trends, economic power, and employment strengths of our major Southern California counties. All are important factors when investing in Southern California Radio.

The SCBA provides this brief overview of the enormous Southern California economy, full employment rates, and other key economic data by county in order to provide clients a complete understanding of the vast markets that are available to them for increasing market share, product awareness, and revenue.

The economic, population, and consumer spending powerhouse for the nation is Southern California. This region can only be viewed as the largest and most lucrative advertising market for Radio advertisers focused on revenue growth, building their brands, and driving market share. The buying power of our region is showcased with the SCBA's regional economic overview.

Regional Economic Overview

Southern California's estimated gross domestic product will now exceed $1.7 trillion in 2019, making it the 16th largest economy in the world with Los Angeles County alone ranking 21st with a gross domestic product of $645 billion. The state of California is now the **5th largest economy** in the world, ahead of the United Kingdom, and is expected to finish 2019 with a GDP of $2.9 trillion dollars.

The following showcases the county by county growth trends, economic power, and employment strengths of our major Southern California counties;

Los Angeles County: With a population of over 10.5 million, Los Angeles County has more residents than 43 states. Unemployment rates for 2019 will fall to 4.1%, the lowest unemployment rate in the past 18 years. The median price for a home was $592,094 in 2018 and is expected to climb to $624,901 in 2019. New, multi-family and rental units are expected to grow substantially in 2019.

Job gains are expected to increase in Q3 2019 in these industries based on 2019 YTD 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 LA region has reached full employment as defined by the federal government. **Average age in LA County**: **35.5 years.**

Los Angeles County has one of the largest manufacturing centers in the nation, is a global gateway for trade, tourism, web-based businesses, and draws entrepreneurs and risk-takers from around the world. It is also the entertainment capital of the world. Real GDP growth is expected to be 2.7 percent on average for the next two years, outpacing the nation, **again.**

Orange County: The unemployment rate in Orange County will fall to 3.2% by end of 2019. 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 14% in 2019. 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 visited Orange County** in 2018 and spent in excess of $10.8 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 217,000 in 2019.

Health care is a significant part of the Orange County economy. 16% of all wages and salary jobs are in this sector. More than 1.1 million square feet of new health care-related leases were signed in commercial real estate in 2018. Look for higher paychecks in Orange County in 2019 from health care, high tech, and the burgeoning Biomed and related industries in for the highly skilled and sought-after workers in this sector.

Bakersfield and Kern County: Often overlooked, Bakersfield and Kern County provide exceptional business and housing opportunities in Southern California. Kern County was awarded the state of California's economic development honor for their promotional video of the advantages of living and working in Kern County.
https://youtu.be/G2wY55Je6oQkefield
The home of Edwards Air Force base and the China Lake Naval Air Weapons Station, Mohave Air and Space Port, Bakersfield and Kern County has a population of almost 900,000 people and is heavily employed in agriculture, energy products, as well as the military and space industries. Kern County is one of the fastest growing counties within

Southern California and is **California's top oil-producing county, with 81% of the state's 52,144 active oil wells.**

Additionally, **Bakersfield** is now ranked #5 nationally as the most affordable city to buy a home, and making it very affordable for teachers, first responders, and restaurant workers in 2018, according to Trulia. Bakersfield is also ranked #3 in the nation for millennial home ownership.

Riverside and San Bernardino Counties: Unemployment rates in the "Inland Empire" are projected to be 4.3% by end of 2019. Notable job growth will come 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 4.5% by end of 2019.

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 2019 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 4.5% for 2019. 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 3.0% in 2019. Total personal income is expected to rise by 5.6% in 2019 To underscore this county's growth potential, 1 out of 5 jobs will be in construction in 2019. Retail and mixed-use development projects are growing at fastest rate since 2008.
Average Age in Ventura County: **36.7 years**.

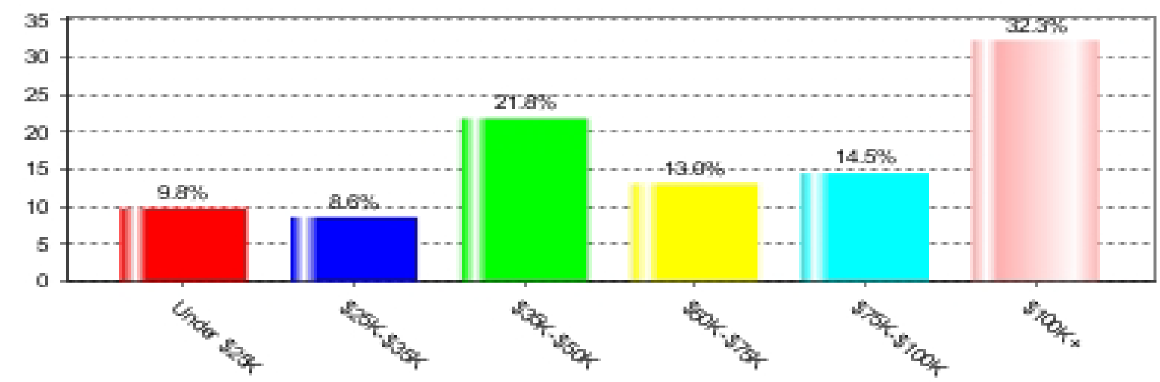
San Diego County: Total non-farm jobs will exceed 1.7 million by end of 2019. With 3.5 million people, San Diego County is the second most populated county in California after Los Angeles County. The projected 2019 unemployment rate will be at its lowest, down to 4.3%, and its best percentage since 2008. 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 five years. It will grow further in 2019 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, compelling, and growing.
Average Age in San Diego County: **35.1 year**

Q4 2019 poised for even further growth as Broadcast Radio expands its listenership, influence, and importance:

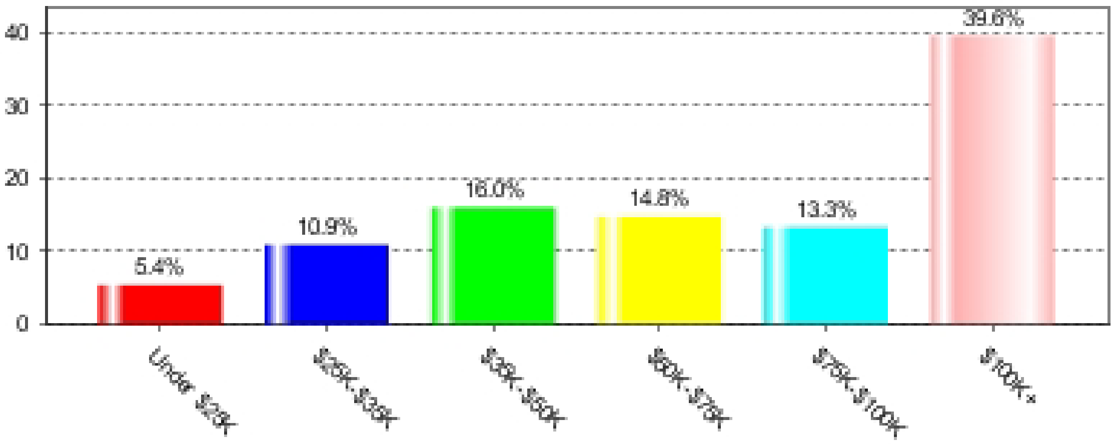
The Radio industry does an excellent job of showcasing the size and scope of its listenership. ***It is also the quality and income levels of Southern California Radio*** listeners that we urge clients to consider. Here are just a few categories which have a very attractive consumer profile:

The ability of potential customers to afford a new vehicle must be a large consideration for auto dealers when deciding on media. The average pricing for new vehicles today has risen to $36k and is expected to be $38k by 2020. Good credit ratings allow dealers to accelerate the sale process of vehicles to close at a faster rate. Dealers also save valuable time in not chasing unqualified prospects. Southern California Radio offers high income listeners with **46.8% earning $75k + per year.**



Most important: Of all listeners 18+ who indicated they would be buying a vehicle over the next 12 months, 90.6% of them listen to Radio every week. We repeat: 90.6% listen to Southern California Radio every week.

The Jewelry sector is dependent on high margin items which demand a higher income consumer. Once again, Radio showcases the buying power of today's jewelry shopper with 52.9% of weekly listeners 18+ earning $75k and more.



Most Important: 93.9% of all respondents who said they are planning to make a major jewelry purchase over the next 12 months listen to Southern California Radio every week. **That's 93.9%**

Other important facts that showcase the value of Radio:

- 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 Broadcast Radio. 14% is spent with owned music, another 13% with Internet Radio and Satellite Radio at 6% of the daily listening time.

- **81%** of Southern California Radio Listeners are in the work-force. That's 8.6 million qualified consumers listening every week. Source: National Regional Database, Fall 2018, Persons 18-64, Los Angeles, Riverside/San Bernardino and San Diego Metro.

- **80%** of Southern California ***Hispanic*** Listeners are in the work-force. That's 3.8 million qualified Hispanic consumers listening every week. Source: National Regional Database, Fall 2018, Hispanic Persons 18-64, Los Angeles, Riverside/San Bernardino, and San Diego Metro.

- With income, employment, and purchase intent for Radio listeners at impressive levels, the power and value of Radio has never been greater for advertisers.

- ***Southern California Commuter Traffic Congestion Increases (again)***

  With 71% of Southern California listenership being done away from home, it's important to note that traffic congestion has grown substantially in our region from both an improving economy and record low unemployment. According to the latest report from the Texas Transportation Institute at Texas A&M University, just released in August 2019 for its 2017 period, the average time spent while driving is on **the increase again.**

119 hours of annual delays stuck in traffic in 2017 vs. 116 hours of delays from 2016. This can only be seen as a massive captive audience for your messages or messages.

System Performance	2017	2016	2015	2014	2013	2012
Congested Travel (% of peak VMT)	56.7	--	--	--	--	--
Congested System (% of lane-miles)	34.6	--	--	--	--	--
Congested Time (number of "Rush Hours")	6.1	--	--	--	--	--
Annual Excess Fuel Consumed						
Total Fuel (1000 gallons)	256,931	252,933	250,199	247,276	245,255	243,075
Rank	2	2	2	2	2	2
Fuel per Peak Auto Commuter (gallons)	35	33	32	31	30	29
Rank	4	4	4	4	4	5
Annual Delay						
Total Delay (1000s of person-hours)	971,478	942,350	924,196	897,650	874,694	859,180
Rank	1	1	1	1	1	1
Delay per Auto Commuter (pers-hrs)	119	116	113	108	105	103
Rank	1	1	1	1	1	1

University of Texas Traffic Division Study for 2017, just released August 2019.

This chart reflects significant growth in So Cal traffic and congestion. Please note the jump in both fuels consumed each year and annual hours of delays on SoCal roads and highways.

- ***Those 119 hours of delays is more than double the national average of total hours.*** With the country's largest traffic congestion, heavy traffic and its inherent Radio listenership trends are all on the **increase** in Southern California once again.

  The Los Angeles region has the world's worst traffic congestion for six years in a row!

  The LA region has 6 of the top 10 most congested freeways in the country; The I-5, I-110, I-405, I-605, I-15, and the I-210 are the leaders.

- **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."**

Media Trends worth reading at www.scba.com

The following provides research highlights

SCBA Flash Research: The State of Digital Advertising Now in 2019
eMarketer expects U.S. digital advertising spending to hit $129.34 billion in 2019, a year-over-year rise of 19%. Amazon is expected to report an increase in its share of US net digital advertising revenues from 6.8% in 2018 to 8.8% in 2019. Conversely, Google's (GOOG) market share is expected to fall from 38.2% in 2018 to 37.2% in 2019. Facebook's (FB) market share is expected to rise from 21.8% in 2018 to 22.1% in 2019.

eMarketer has also forecasted a 50% year-over-year rise in US digital advertising sales for Amazon in 2019. This growth is mainly due to better targeting capabilities resulting from Amazon's store of consumer behavior data. Amazon is expected to gradually eat into the markets of the top two players, Google and Facebook.

While we cannot control the digital competition fighting for ad revenue in Southern California, it is in our member's interest to understand their strengths and weaknesses.

As Broadcast Radio's principle competitor for ad budgets, its important we understand where and how these budgets are being spent with digital. Here are a few of the top priorities and challenges for digital advertisers in 2019.Increasing growth remains the top priority and that means driving brand awareness is central to that goal. However, there are **constant challenges for digital clients**, including hitting volume targets with paid search, accurate attribution with paid social, and leveraging conflicting audience data with eCommerce. All these stressful hoops must be jumped through in order to drive growth through digital advetising. Digital is not without its own issues and more clients are seeing that.

Paid Search Dominates Digital Advertising

Paid search remains the dominant digital ad channel, taking in 39% of total digital budgets and despite constant issues with data privacy, paid social represented 18% of budgets with display at 16%. The issue of consumer privacy remains an unsolved issue within the digital industy.

Instagram as Stand Alone Budget

Instagram is not taking revenue from parent company Facebook as a recent survey indicated where 67% of respondents stated that Instagram spending will come from an "incremental budget" rather than taking budget from Facebook's allocation.

Amazon Grows but is not as user friendly for clients as Facebook or Google
60% of digital marketing professionals will increase their Amazon spending over the next year and consider Amazon a "growth platform". Yet, consensus is that Amazon is not as sophisticated as Facebook or Google in both campaign manangement tools and reporting tools.

Google is the Most Trusted Digital Platform
Google is considered a "trusted" publisher by 98% of marketers who listed them as 4.5-5.0 in a trust scale with 5 being the best. Only 2% of the respondents felt the platform could not be trusted.

Digital Enhancements
A majority of Google customers who use paid search (SEM) are using or will be using Google's new Responsive Search Ads format. This format allows advertisers to add up to 15 headlines and text sentences to gauge consumer response. Ad spending on shopping ad formats is increasing with shoppable images increasing within search. Video is considered the most effective with social ad formats with Image ads, Instagram stories, and carousel ads (allowing two images and/or videos within an ad) as strong runner ups.

SCBA Observation
Clients are beginning to experience "fatigue" and "crowded platforms" with digital and are looking for new formats to gain an edge. Rather than continue limited ROI, eroding CPI and CPC saturation, and increasing issues of fraud with estimates of 30% or more in bot traffic, clients should be urged to Rediscover Radio and the documented success of Radio to drive awareness, consideration, and purchase. The qualitative story for Radio advertising as well as the positive commercial environment is even more reasons for clients to examine their media mix.

When you think about it…
- Radio provides clients exact, targeted consumers that match client products and services.
- Radio builds trust with the consumer as our medium is a trusted companion.
- Radio creates customer retention and builds brand loyalty.
- Radio creates new customers, increasing market share.
- Radio produces creative to be relevant to its listeners.
- Radio is right now, in real time, and is everywhere 24/7.
- Radio commercials cannot be skipped after 5 seconds.

Radio's unique features combined with real time, listener accepted commercial environment can complement, supplement, and enhance most media plans.

To learn more about the power of Southern California Radio, visit www.scba.com, a trusted source for accurate and timely information about Radio.
And if you would like more information about the digital space, visit our digital information section at https://scba.com/scba-digital-information-series/

www.scba.com continues to receive high praise from clients and members as the go to source for local and regional research about the power and value of Broadcast Radio in Southern California. From SCBA Flash Research, SCBA Digital Information Series, SCBA Category Alerts, our in-depth SCBA White Papers, a full SoCal Traffic Report and its impact on Radio listening, our complete Market Research section as well as our complete coverage of the Pure play space. In fact, just about anything a client needs to know about Broadcast Radio in Southern California can be found at www.scba.com

The SCBA has launched a new platform and design for our website which features easy to read news and information as well as additional storage for our growing library of SoCal Radio research, white papers, and Flash research topics.

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

Exclusive SCBA Research Projects for Southern California Radio

- The second SCBA/Nielsen research study entitled**, *"The Real Value of Southern California Radio to the Automotive Industry"*** has just been released in December 2018 for all members, dealers, ad agencies and EOMs. The study showcases the direct connection between auto intenders (those consumers in the market to buy) and their relationship with Broadcast Radio and how it influences their opinions. This is a must-read study and can be found at https://scba.com/automotive-research/

- The first SCBA/Nielsen research study entitled, "***The Local Path to Automotive Purchase***" can be read in its entirety at https://scba.com/automotive-research/. This exclusive, compelling study reveals what actual vehicle buyers rely on to make their new and used vehicle buying decisions. A must read for anyone directly involved in the auto industry.

- **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.

Factual, relevant, and up to date information about the value of Broadcast Radio in Southern California can be found at www.scba.com

SCBA Market Guidance for the Fourth Quarter of 2019

After extensive study of both category and competitive factors, the SCBA is projecting a strong and highly late breaking Q4 Southern California Radio advertising activity for almost all of our tracked categories.

With three major holidays all within 30 days, as well as Halloween, which is now coming into its own as a major buying holiday event as projected 2019 sales of all Halloween related costumes, (for kids and adults) candy, and numerous party items is pegged at $9.2 billion in the United states. And with retail entering its biggest quarter, (24% of average annual retail sales happen in November/December) and political advertising tracking to unprecedented levels of potential activity, the SCBA projects solid growth for our region, albeit, at a frenetic, and late breaking business pace. We urge all clients to consider securing and placing their Radio campaigns as soon as possible as commercial inventory will be tight due to the above factors which are unique to Q4 2019.

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, its digital platforms, and its many business solutions for Q4 2019 and beyond, please contact us directly at 323-695-1000 or at tcallahan@scba.com.

The SCBA recommends the use of the **SCBA Quarterly Market Guidance Report for Q4 2019** as both a reference guide and an important resource for your planning and understanding of the true power and competitive strength of Broadcast Radio. The report was written to provide a detailed overview of the most dynamic consumer market in the United States today, which can only be Southern California.

The value and power of Southern California Radio has never been more compelling. We urge all advertisers to consider the documented evidence of Broadcast Radio to create interest, consideration, and purchase of so many products and services.

On behalf of our executive committee and the SCBA board of directors, we wish all of our clients, members, friends, and partners, an exciting and rewarding fourth quarter ahead.

Sincerely,

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

September 9, 2019

Sources:

Federal Reserve Bank of New York, Engadget.com, Zenith Media, Group M, Strata Agency Survey, Pro Publica, The Verge, 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, Bureau of Indian Affairs, Automotive News, CNN, CNBC, NPR, General Motors, Ford Motor Company, Subaru-global.com, The U.S. 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. GasBuddy.com, The Washington Post. Crain's Los Angeles Business Report, Internet Advertising Bureau 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., Food and Drug Administration, ALG, Barclay's Capital Investments Division, The U.S. Department of Commerce, Kelley Blue Book, Cox Automotive, Facebook, Twitter, JD Power and Associates, Fox8 News, Standard Media Index, National Retail Federation, The Association of Fuel and Convenience Stores, cerasis.com, California Gambling Control Board, Toyota Motor Company, Lucintel, Linex.com, Gartner Research, Joint Center for Housing Studies at Harvard University, LMC Automotive, Reuters, NADA, Wallet Hub, Trulia. Proctor and Gamble, Us.pc.com, Wards Automotive, ATT.com, Axios.com, Consumer Credit Services, Office of Immigrant Assistance, State of California, FDA, Sprint.com, Association of Home Appliance Manufacturers, Los Angeles Police Department, San Diego Police Department, Office of the Mayor of the city of Los Angeles. Ansira.com. McKinsey and Assoc. citywatchLA.com, Tapscan, Sacbee.com, California State Transportation Agency