

New Report Underscores the Positive Impact of Advertising on the U.S. Economy

Potential Changes in Tax Policy Could Stifle Economic Benefits

Advertising and the Economy

Advertising is a vast driver of sales and jobs and an essential component of the U.S. economy. Each form of advertising – including print, television and radio, and Internet – helps businesses build brand awareness and communicate the benefits of their products and services to consumers. Advertising stimulates new economic activity that triggers a cascade of sales and fosters job creation throughout the U.S. marketplace.

Comprehensive Assessment

ANA is a member of The Advertising Coalition, which is comprised of national trade associations whose members are advertisers, advertising agencies, broadcast companies, cable and network operators, and newspaper and magazine publishers. ANA and The Advertising Coalition commissioned IHS Global Insight, Inc., to conduct a comprehensive assessment of the total economic impact of advertising expenditures across 16 industries, all 50 states and Washington, D.C., and each of the 435 U.S. Congressional districts. IHS Global Insight studied the contribution that advertising makes to sales and employment at local and national levels, and determined that ***each new sale stimulated by advertising creates a ripple effect in production and supply markets, helping to create and maintain jobs across every industry, state, and Congressional District.***

For the forecast period 2012 to 2017, the study concluded:

- Every dollar of ad spending will generate almost \$22 in sales,
- Every million dollars of annual ad spending will support 81 American jobs,
- In 2012, advertising accounted for \$5.6 trillion of the \$33.8 trillion in U.S. output and supported 21.1 million of the 136.2 million U.S. jobs, and
- By 2017, advertising will account for \$6.5 trillion of \$42.3 trillion in U.S. output and support 22.1 million of 146.7 million U.S. jobs.

Impacts of Advertising on Sales and Employment

Companies advertise to build brand equity and stimulate sales, but advertising does not operate at one level of the economy alone. Sales generated by advertising trigger a multiplier effect as companies buy inventory from their suppliers, suppliers buy goods from their suppliers, and employees at all levels spend money back into the economy. Over the forecast period, each dollar of ad spending will generate nearly \$22 of additional sales, including:

- \$8.78 in direct sales,
- \$3.61 in supplier sales,
- \$3.89 in inter-industry sales, and
- \$5.46 in induced sales.

Figure 4 – The Economic Leverage of Advertising
(average, 2012 – 2017)

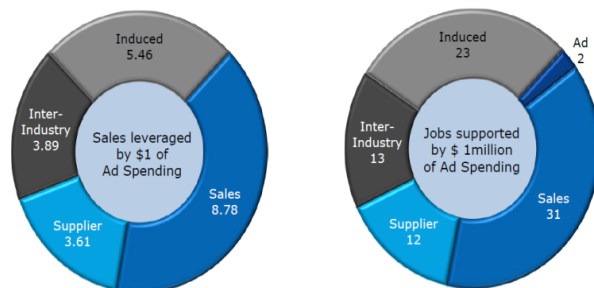


Figure 5 - Total Economic Impact of Advertising

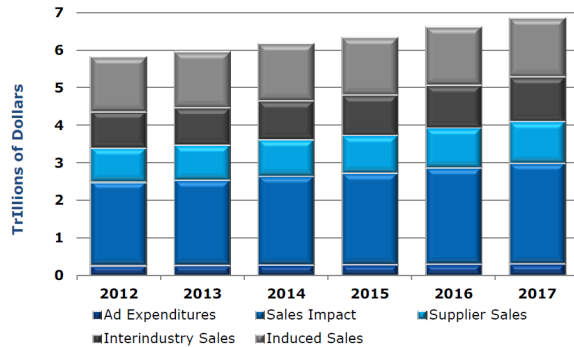
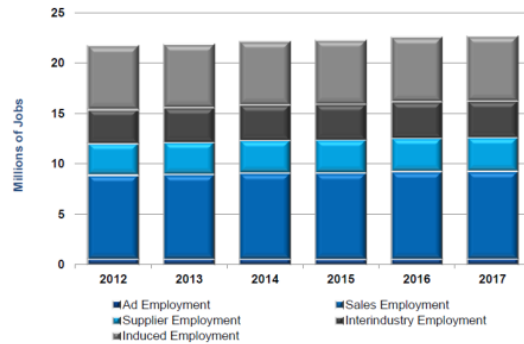


Figure 6 - Total Employment Impact of Advertising



Advertising Expenditures and Direct Employment

In the 2010 edition of this report, IHS Global Insight found that advertisers had cut spending during the recession through 2009. The 2013 report predicts that ad spending will not exceed pre-recessionary levels until 2016 when the economy further strengthens and customers are in a better position to make advertising-influenced purchase decisions.

Yet IHS Global Insight predicted that over the forecast period, direct employment due to advertising will remain relatively stable at nearly 550,000 jobs. ***This stable employment estimate during a period of lower ad spending underscores that many firms recognize the critical role that advertising plays in their businesses.***

Potential Impact of Change in Tax Policy

IHS Global Insight found that even a partial change in tax policy would have a profound impact on the advertising industry and the economy. Changes to the way advertising currently is treated – as a fully tax deductible expense necessary to the cost of doing business – would greatly affect sales and employment across all levels and sectors. IHS Global Insight determined that just making advertising only 80% deductible instead of 100% deductible would trigger:

- A \$19.4 billion loss in ad spending,
- A loss of \$419 billion in additional economic output,
- A loss of approximately 42,000 jobs directly related to advertising,
- The elimination of an additional 1.6 million in indirect American jobs.

IHS Global Insight concluded that ***the new tax liability would effectively increase the cost of advertising and cause a disincentive for companies to spend additional advertising dollars. The study found that every one percent increase in the cost of advertising leads to a 1.2% drop in ad spending.***