

The Comprehensive Economic Impact of Advertising Expenditures in the United States

***A study by Global Insight for
The Advertising Coalition***

Global Insight has provided The Advertising Coalition with a monumental study about the impact that expenditures on advertising have on the U.S. economy. The study demonstrates that advertising will help generate more than \$5.2 trillion in sales and economic activity throughout the U.S. economy in 2005. That represents 20% of the nation's \$25.5 trillion in total economic activity. The total economic activity measurement is approximately twice the nation's GDP. This economic stimulus will provide support throughout the economy for more than 21 million jobs, or 15.2% of the U.S. work force.

Historic Study. The study is part of a historic initiative that combines industry specific relationships on the sales impacts of advertising expenditures with Global Insight's macroeconomic and industry models to quantify the economic and employment impacts of advertising. Global Insight's state-of-the-art models and forecasts are widely used by over 3,300 clients in corporations, government agencies, financial institutions, utilities, and many other organizations to make investment, management, marketing, and policy decisions. The study was prepared under the direction of Michael J. Raimondi, Executive Managing Director of Global Insight's IT/Telecom Consulting practice, and Dr. Lawrence R. Klein, Benjamin Franklin Professor Emeritus of Economics at the University of Pennsylvania. Dr. Klein was awarded the Nobel Prize in Economics in 1980.

The Advertising Coalition (TAC) is comprised of national trade associations whose members are advertisers, advertising agencies, broadcasting companies, cable operators and program networks, and newspaper and magazine publishers. The Coalition works to inform Members of Congress and the Executive Branch about the important role that advertising performs in the economy and to guard against efforts to tax advertising or to restrict the content of advertising.

This study uses complex economic relationships developed by Dr. Klein to define the relationship between the amounts spent on advertising by businesses throughout the economy and the impact those expenditures have on economic activity and job creation in states and metropolitan areas. The results are compelling and graphically illustrate why advertising expenditures are a major force in the generation of sales and the creation of jobs.

Advertising provides useful information to consumers. The study demonstrates that advertising stimulates additional purchases by providing important and useful information to a broad range of purchasers in households and businesses – a critical function in a market economy. Advertising fulfills the critical role of informing and educating consumers about the many choices available to them in the marketplace and often compares features, benefits, and prices of competing products and services. With more complete information, consumers in homes and businesses choose to purchase additional products and services for their use.

Advertising causes an economic chain reaction. The advertising expenditures made throughout the economy by businesses in all industries and all geographic areas set off a chain reaction that (1) generates a net gain in direct sales and jobs due to the promotion of the industries' products and services, (2) generates indirect sales and jobs among the first level suppliers to the industries that incur the advertising expenditures,

and (3) generates indirect sales and jobs among all other levels of economic activity as the sales ripple throughout the economy.

Global Insight models provide unique insights. The study is based on economic models developed by Global Insight and Dr. Klein that estimates and predicts the impact of advertising on sales and jobs as distinguished from the impacts of other market factors such as consumer buying power, life change, buying behaviors, technological advances, and simply the need to replace obsolete or depleted items.

The total, comprehensive economic impact of advertising expenditures in the United States is analyzed in the context of Global Insight's models for U.S. economic, industry, and regional economic forecasts. The models that generate these forecasts enable Global Insight to quantify the relationships between and among various sectors and regions of the country. They are linked through sets of identical assumptions and feedback loops to assure consistency across industries, regions, and economic aggregates. Global Insight's existing models provide the framework with which to develop a comprehensive and consistent view of the economic impact resulting from changes in economic conditions, government policies, industry structure, and key product prices.

The models are policy sensitive. They respond to changes in tax rates, military spending, utility costs, etc. First, each state is modeled individually, with different model structures specified according to the characteristics of the state. Second, national policy is explicitly captured. Third, the comparative advantage of one state over another is explicitly modeled using relative cost variables.

Data from a wide range of sources is combined to assess the uses and results of advertising activities by industry and geographic area. Ultimately, the data that can help quantify the dollars spent on each advertising medium, the jobs dedicated to the advertising activities, and the sales generated from the advertising is compiled and incorporated into the analysis. Undertaking this data compilation in the context of Global Insight's databases and models enables regular checks for validity and consistency. Thus, all relevant data provide pieces of the puzzle and ultimately result in a clear, accurate picture of the advertising activities, the users, and the economic benefits.

The Members of The Advertising Coalition:

American Advertising Federation
American Association of Advertising Agencies
Association of National Advertisers
Grocery Manufacturers of America
Magazine Publishers of America
National Association of Broadcasters
National Cable and Telecommunications Association
Newspaper Association of America
Pharmaceutical Research and Manufacturers of America