Industry Top Trends Update

Media and Entertainment

Pouring recessionary gasoline on a secular fire

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What's changed?

Putting the pandemic behind. Through 1H 2022, the U.S. media sector performed well. Advertising continued recovering while out-of-home entertainment (OOH) saw strong demand and pricing power.

Inflection point. The pace of media's recovery is slowing as consumer confidence weakens. We recently lowered our U.S. ad forecast to reflect this slowing growth rate. However, OOH remains strong as consumers are still flush with excess cash.

Pressure on streamers. Netflix's disappointing 1Q22 results has led to a reassessment of streaming as a business model and a focus on disciplined spending and profits, as opposed to purely subscriber growth.

What to look out for?

Consumers weakening. Media is dependent on the health of the consumer. Even if there isn't a formal recession, scared consumers may pull back on discretionary spending. This should impact OOH sectors first, such as live events, concerts, and theme parks, followed by advertising as advertisers react to weaker sales.

Advertising is a lagging indicator. Advertising historically trails changes in consumer spending by two quarters due to long-lead-time sectors (TV and billboards). The rise of short-lead-time digital advertising may shorten the lag.

Streaming subscribers. 2022 is test year for streaming with full global competition and normalized content spending. Weak subscriber demand could signal both short-term consumer confidence and long-term business model challenges.

What if there's a recession?

Less pricing power. The sector has changed radically since the 2008/2009 Great Recession. Digital (now 70% of advertising) has shorter lead times and is more directly exposed to consumer spending. TV advertising may be permanently hurt by the addition of new FAST and AVOD streaming options, which will expand TV ad inventory and affect pricing integrity.

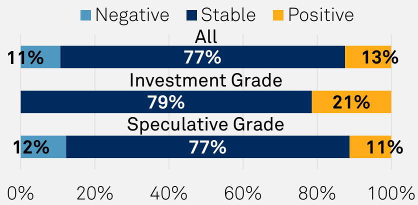
The subscription economy. Media has moved to a consumer-direct subscription model. If their discretionary spending power weakens, consumers could cut back their streaming service subscriptions or increase churn across services.

Ratings at risk. Media companies worked hard to fix damaged balance sheets after the pandemic, and opportunistic refinancings have limited near-term maturities. But we believe the sector is more exposed to recession risk than to other macroeconomic risks. Those media companies with more ad-supported models, like radio, digital marketing, and print, may be worse positioned. Global diversified companies could face elevated streaming costs and slowing legacy businesses.

Latest Related Research

- U.S. Advertising Update: 2022 Halftime Score, May 24, 2022
- Industry Top Trends 2022: Media and Entertainment, Jan. 25, 2022
- U.S. Linear TV's Decline Won't Affect Media Companies Equally, Oct. 12, 2021

Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	14	98	112
Downgrades	0	16	16
Upgrades	0	21	21

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias