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**Google: Strong Retail,
Real Estate, Political
Spending Offsetting
Slowing Travel Growth
(So Far)**

GOOG, GOOGL
AMZN, FB, SNAP, TWTR

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Continued momentum in retail and strong quarterly trends in real estate and political ads are keeping overall search yy growth roughly in line with initial expectations However, concerns around the 2Q20 impact of slowing travel spending related to Covid-19 fears are mounting.

- Overall yy search ad spending growth tracking at 15%, a roughly 125 basis point deceleration from 4Q, close to source expectations
- Growth pace supported by still solid e-commerce spending, acceleration in yy real estate and finance, and aggressive political advertising
- After strong January start travel ad spending slowed in February, with further deceleration possible in March and into 2Q20 as Covid-19 fears curtail business and international travel plans

Strong retail, surging political and real estate keeping 1Q20 yy growth mostly on track

Despite acknowledging mounting concerns about the impact of Covid-19 on overall consumer behavior and advertising, sources describe yy growth in 1Q20 through the first few days of March as largely tracking with the expectations of 15%-16% given in VMI's December note, not far off the 16%-17% yy growth sources reported for 4Q19.

A key yy growth driver for the quarter has been retail e-commerce which sources said has seen less of a downshift post-Christmas season than normal. "So far this

quarter retail has remained solid, on the high-end of what we usually see in 1Q seasonally,” said one search source.

Consistent with commentary in VMIs November and December Google notes, recently developed retail focused ad products, especially gallery ads and shopping on YouTube have continued to gain traction in 1Q. “Google’s rich visual product shopping formats, especially Gallery and Showcase ads are making search a continually improving full funnel channel. We are also seeing strong traction for shopping on YouTube,” noted one search agency manager.

Also bolstering 1Q20 trend is an acceleration real estate and mortgage advertising spurred in part by lower interest rates. “Real estate and new mortgage and mortgage refinance promotions, which were lackluster last year, have revived quite a bit,” said a source.

Another vertical benefiting search is political spending, which has surged in 1Q as the US election season begins in earnest. This trend, which is forming a tailwind across digital, according to sources, is also a net plus for search. “Search is one of the bigger beneficiaries of the boatloads of money being pushed by presidential candidates into digital,” declared a source.

Travel Spending Coming Under Pressure

Though strength in retail, real estate, finance and political is keeping aggregate 1Q20 growth mostly on trend thus far, travel, long a major part of Google search’s growth story, especially since the introduction of Google Hotels in 2018, is coming under increasing pressure on worries about the spread of Covid-19 in the US. “Travel closed 2019 very strong and had great momentum in place in January,” explained a source, “but click rates on travel have started falling off significantly the past few weeks.”

Most sources said travel growth earlier in the quarter had remained solid, at or near recent baseline levels for the sector, but softened throughout February, a trend most expected to worsen in March and possibly into 2Q20 to the extent consumers canceled or postpone international tourism plans and businesses cut back on travel.

Additionally, some travel sources said they believe OTAs are rapidly winding down advertising efforts, including paid search spending, as of February, and a slowdown could both impact OTA traffic and their overall spending on Google Search. “We see Booking.com and Expedia basically shutting down their ad spending, which is making the traffic flow to hotels even worse,” said a source.

Measured Caution on 2Q20

Sources acknowledge heightened uncertainty about the extent and likely duration of any headwind effects of a further downturn in travel spending into 2Q, and most believe they could be material. However, a majority expect that in the absence of a major macro-economic downturn, the retail and other sectors will remain resilient enough to keep

year-to-year growth fairly close to 1Q, though with some further deceleration. “If the US economy becomes truly pressured over the next few months search is exposed to that and will see some negative trends, especially in areas like travel and maybe events,” observed a source. “There is obviously a lot of worry out there right now about the economy but so far outside of travel, where there are some signs of a pullback, everyone else is still advertising as aggressively as ever, though of course there are concerns.”

YouTube Spending on Track

With YouTube spending coalesced around e-commerce, CPG, entertainment, and other direct-to-consumer offerings unaffected by the travel slowdown, sources said YouTube spending in 1Q20 is so far on track to rise at a similar pace to 4Q19, and sources remain optimistic that spending will stay on plan in 2Q20. “YouTube is still the most targetable large-scale video platform in the world, and as the OTT wars heat up there’s increased demand to invest on promotions on YouTube. I don’t see spending slowing down any time this year,” said a source.

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