

IPA Bellwether Report – 2018 Q3

Marketing budgets rise in Q3, but at weakest pace in nearly three years amid uncertain outlook

Key points:

- Weaker budget trends observed across all Bellwether categories
- Cost pressures and growing uncertainty weigh on budgets
- Internet marketing spending plans continue to provide key support to growth
- Most downbeat assessment on industry-wide financial prospects since Q4 2011
- Muted adspend growth forecasts for 2018 and 2019

Budget growth weakens to near three-year low

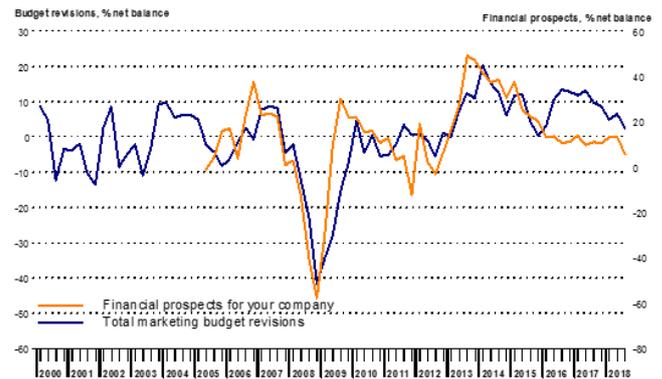
According to the latest Bellwether survey, total marketing budgets were revised higher during the third quarter of 2018, extending the current period of growth to six years. Available spending for marketing executives was supported by digital-based advertising drives, particularly across the internet space. Plans to diversify product ranges and raise market presence amid intensifying competitive pressures were also signalled.

Almost 21% of panel members revised total marketing budgets up in Q3, while around 18% observed a decline in spending plans, yielding an overall net balance of +2.5%. Although positive overall, latest data signalled the weakest growth in total marketing budgets since the fourth quarter of 2015, with the net balance down from +6.5% in Q2 2018.

Among the marketing executives reporting upward budget revisions, new product launches, planned expansions into new markets as well as efforts to diversify were mentioned as reasons supporting greater marketing spend. Some noted that marketing was being deployed in a defensive manner to help retain clients due to intensifying competitive pressures.

However, increasing costs saw some companies exercise belt-tightening, limiting spending availability for marketing executives in some instances. An overall softening of budget growth momentum was also reflective of uncertainty arising from ambiguity towards the direction of Brexit negotiations. Some panellists noted that spending plans were being placed on hold until the future UK-EU relationship was clearer.

Chart 1: Revisions to total marketing budgets

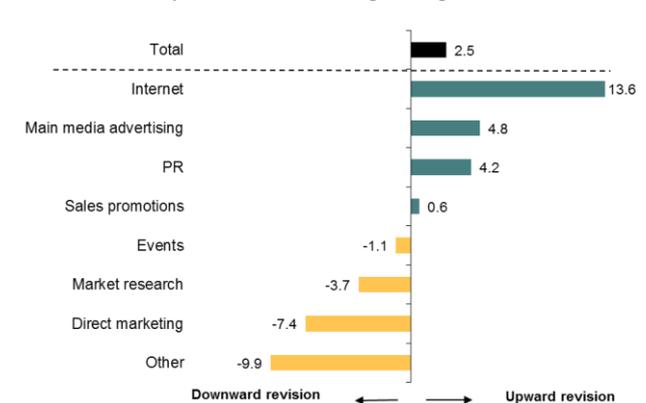


Drive towards digital marketing continues

An increasing onus on firms to engage in digital forms of advertising drove yet another strong quarterly expansion in internet-based marketing during Q3, as signalled by a +13.6% net balance of firms observing upward budget revisions. The finer details also revealed that search/SEO and mobile marketing budgets also received boosts (net balance of +5.8% and +1.9% reporting higher expenditure respectively).

Marketing executives were again given more discretion over spending plans on large scale marketing campaigns, such as those relating to TV, radio or in cinema. The net balance of firms observing budget increases for main media advertising was broadly unchanged from the preceding quarter at +4.9% (+4.8% in Q2).

Chart 2: Analysis of marketing budgets in Q2 2018



Elsewhere, other categories of the Bellwether survey to record budget growth included PR (+4.2%) and sales promotions (+0.6%). Despite reports of market shares coming under pressures due to competition, a broadly neutral stance on sales promotion advertising plans comes amid concern towards the cost outlook.

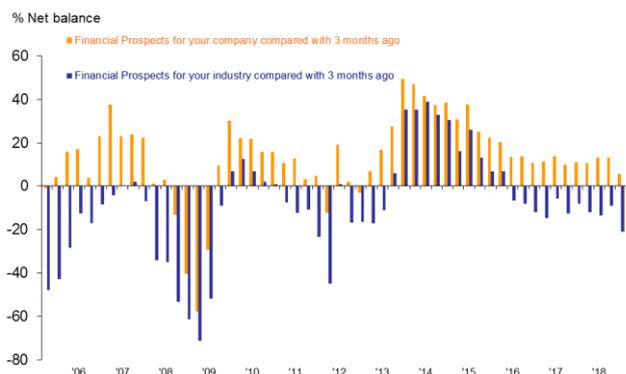
On the other hand, marketing executives noted downward revisions to budgets for events marketing (-1.1%), market research (-3.7%), direct marketing (-7.4%) and 'other' marketing (-9.9%).

Industry-wide financial prospects deteriorate notably in Q3

As part of the Bellwether survey, panellists were asked about their assessment of financial prospects for their own companies and then for their industry as a whole. A net balance of +5.7% were optimistic towards their own company's outlook, compared to three months ago. Although this signals a general upbeat view, it was notably weaker than that seen in Q2 (+13.3%) and the most downbeat assessment in six years.

Casting their views for the wider-industry, panellists were substantially more pessimistic than in recent surveys. The net balance fell in Q3 to -21.0%, from -9.0% in the second quarter, signalling the strongest level of negative sentiment since Q4 2011 (-44.9%).

Chart 3: Marketing executives' business confidence



Modest adspend forecasts for 2018 and 2019

With the Office for Budget Responsibility (OBR) yet to revise their forecasts for the UK economy since the Q2 Bellwether survey, we have chosen to leave our UK adspend growth projections unchanged.

We estimate adspend to rise 1.1% on the year. A lack of clarity over the UK's future relationship with the EU after Brexit, alongside rising cost pressures, will both act as drags on marketing expenditure. Looking to 2019, aside from the Brexit-related risks, headwinds to adspend growth are expected to come in the form of slower growth and muted consumer spending. As such, we estimate adspend growth of 0.7% for next year, but a pick-up in growth momentum from 2020 through to 2022 supports the view that advertising expenditure will improve at a quicker rate at the start of the next decade.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"With ongoing Brexit uncertainty, it is perhaps no wonder that companies are having to be more cautious with their marketing spend and are inevitably increasingly downcast about their financial prospects."

"Despite this, however, we must take some solace in the fact that investment in main media spend is fairly constant quarter-on-quarter. As the evidence shows, main media is the most effective route to building brands."

"At a time when just under two-thirds are pressing pause on their marketing spend, perhaps this provides an opportunity for others to get cut-through and see whether fortune really does favour the brave."

Joe Hayes, Economist at IHS Markit and author of the Bellwether Report:

"Since the end of 2016, there has been a distinct slowing of growth momentum in UK marketing budgets. Latest Bellwether data revealed further sluggishness, as growing uncertainty towards the UK economy's outlook as well as rising cost and competitive pressures impact companies' discretionary spending. Over 60% of the survey panel observed no change in total marketing spend, highlighting indecisiveness and risk-aversion."

"The outlook over the coming three months signalled further woes, with panellists' assessment of industry-wide financial prospects at the most pessimistic since the end of 2011."

"Nonetheless, marketing executives are still being allocated greater expenditure, particularly in the digital space. Strong competition is driving firms to explore new innovative methods to bolster market shares and retain existing clients."

- Ends -

For additional information, please purchase the full report which also has content detailing threats and opportunities facing marketers and their companies over the coming 12 months. The report also includes charts comparing business confidence amongst survey panellists to wider economic output, which depicts how views on financial prospects are a function of the current business environment.

A downloadable PDF for Q3 2018 can be purchased for £99+VAT for IPA members (£140+VAT for non-members) at www.ipa.co.uk/page/ipa-bellwether-report

Annual subscription is also available by contacting economics@ihsmarkit.com

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About the *Bellwether*

The *Bellwether* is based on a questionnaire survey of around 300 UK-based companies that provide regular quarterly information on trends in their marketing activities. The survey panel has been carefully selected to ensure that the survey data provide an accurate indication of actual marketing trends in the whole economy. Participating companies therefore include a broad variety of advertisers in terms of market sector and geographical location. The survey panel has been recruited from the nation's top 1000 companies. Respondents are primarily marketing directors or similar.

Questionnaires are dispatched to companies in the final three weeks of each calendar quarter, requesting information relating to two key issues:

- (a) whether their marketing budgets for the year (either calendar or financial year) have been set higher, lower or the same as the actual expenditure outcome for the previous year.
- (b) whether their original budgets for the current year – as reflected in their original answers to (a) above – have been revised since they were first set.

The financial prospects data are based on responses from the *Bellwether* survey panel of marketing professionals at 300 UK firms. The question asked each quarter is as follows: "Taking all things into consideration, do you feel more or less optimistic about the financial prospects for (a) your company, and (b) your industry as a whole, than you did three months ago?"

About the Institute of Practitioners in Advertising

The IPA is the industry body and professional institute for leading UK advertising, media planning and buying, and marketing communication agencies. It provides a full range of services to its members: from advice (legal, sector and management), awards and events, best practice, information, research studies and training as part of an extensive CPD programme. It is also the agency industry spokesman.

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