

# IPA Bellwether Report – 2020 Q2

## Coronavirus outbreak drives record decline in UK marketing budgets

### Key points:

- Total marketing budgets contract at the quickest pace since data collection began over 20 years ago
- Coronavirus impact leads to broad-based reduction in all types of marketing with events spending hardest hit
- Both company-specific and industry-wide financial prospects move deeper into negative territory
- Economic outlook points to a challenging year for adspend but recovery expected from 2021

The latest *Bellwether* survey shed further light on the devastating impact the coronavirus disease 2019 (COVID-19) outbreak had on the UK economy during the second quarter of 2020. With a large proportion of businesses temporarily closed or operating at reduced capacity due to COVID-19 restrictions, total marketing budgets were slashed at a rate previously unmatched in over 20 years of data collection.

The net balance of firms that cut marketing budgets fell to -50.7% in Q2 (down from -6.1% in Q1). The result supersedes the previous nadir of -41.7% in Q4 2008. Almost 64% of panel members registered a decrease in spending compared to the first quarter, while only 13% posted an increase.

Anecdotal evidence suggested that many businesses were focused on cutting costs amid the severe declines in revenue caused by the pandemic. Although firms utilised the UK government’s furlough scheme to ease the burden of staff costs, other reductions were required in order for many businesses to survive. Service sector companies faced particularly challenging circumstances, with little-to-no access to their clients amid enforced closures.

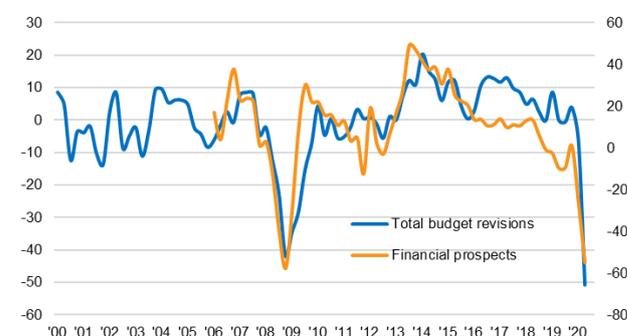
The decline in overall marketing budgets was driven by a broad-based reduction across each of the underlying categories.

With coronavirus restrictions prohibiting anything other than small gatherings, funding for marketing events saw the sharpest reduction in the second quarter. A net balance of -76.6% of panellists registered a decline in events budgets, with more than 80% reporting a decrease. Just 3.6% posted a rise.

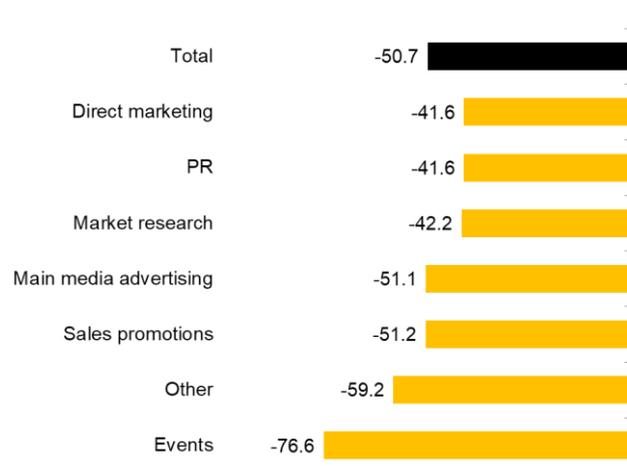
Main media advertising, crucial for brand exposure, also reported a steep decline in Q2. In fact, the reduction in budgets was the most severe since the survey’s inception, with a net balance of -51.1% of marketing executives seeing a decline in available spend. Underlying data suggested the worst performing sub-category was out of home advertising (-61.2%), followed by audio (-50.0%) and published brands (-49.2%) respectively.

Across each of the seven broad marketing types, direct marketing and public relations saw the joint-softest budget cuts in the second quarter, although with net balances of -41.6%, the downturns were still severe overall. Meanwhile, market research (-42.2%), sales promotions (-51.2%) and other marketing expenditure (-59.2%) each saw historic reductions for their respective categories.

**Chart 1: Revisions to total marketing budgets**



**Chart 2: Analysis of marketing budgets in Q2 2020**



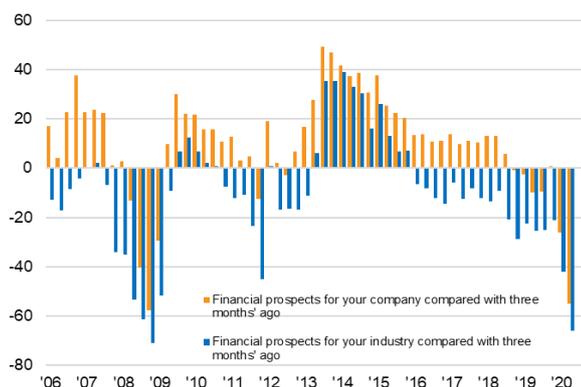
## Own-company outlook most pessimistic since global financial crisis

*Bellwether* panellists remained pessimistic towards financial prospects in the second quarter of 2020, casting more downbeat assessments on both own-company and industry-wide finances.

Sentiment on own-company prospects plunged far deeper into negative territory compared to the first quarter, when the severity of the COVID-19 pandemic was only just beginning to become apparent. In the second quarter, precisely two-thirds of survey participants reported a pessimistic outlook for finances against 11.5% that expected an improvement, taking the net balance to -55.1%. The result represented the most severe degree of negativity since the fourth quarter of 2008.

Reporting on industry-wide prospects, firms were also more pessimistic in the second quarter. In the latest survey period, 72.4% of businesses were pessimistic on financial prospects compared to just 6.4% that were optimistic. As a result, a net balance of exactly -66% of firms were downbeat, eclipsing the recent low of -42.0% registered in Q1. The latest reading pointed to the most negative outlook since the final months of 2008, at the nadir of the global financial crisis.

**Chart 3: Marketing executives' business confidence**



## Adspend expected to rebound in 2021

Following the global coronavirus outbreak and resulting lockdown measures, we anticipate steep contractions in several key economic indicators during 2020. With many businesses temporarily closed throughout the majority of the second quarter, we are expecting a -11.9% decline in GDP for the year as a whole. This forecast assumes that the gradual easing of UK lockdown measures continues over the coming months, allowing an increasing number of businesses to fully reopen and begin to claw back some of the lost revenue from the months of March, April and May. Given the current economic climate, our model points to a -11.3% reduction in adspend during 2020. However, this figure is heavily dependent on most sectors in the UK economy remaining open for the rest of the year, with a second wave of coronavirus infections a significant downside risk.

Looking forward, we anticipate a robust recovery in macroeconomic conditions during 2021 as businesses move closer to operating at full capacity. This would translate into a predicted +4.9% expansion in GDP and implied adspend growth of +6.0%. Beyond that, we expect the economy to achieve above-average growth during a further recovery phase, before stabilising near long-run rates in 2024 and 2025.

## Commenting on the latest survey:

### Paul Bainsfair, IPA Director General:

*"As we suspected, these Q2 Bellwether figures reveal the very grave impact of COVID-19 on UK companies' marketing budgets, financial prospects and employment plans. Understandably companies in the most severely disrupted sectors have had few options but to preserve cash and operations to survive until trading conditions are more benign. We can only hope that the range of Government aid – from VAT cuts to the Eat Out scheme, in addition to the furlough scheme and more, can help to facilitate this.*

*"While the future trajectory of the economy is unpredictable, however, that of brands starved of marketing investment is much clearer. Our evidence from previous recessions and periods of buoyancy consistently shows that cutting marketing investment weakens brands in the near-term and limits growth and profitability in the long-term.*

*"There are positive forecasts for a return to adspend growth in 2021 but a significant part of this coming to fruition hinges on the decisions companies make now. Ultimately, companies must invest in marketing in a recession in order to profit in a recovery."*

### Eliot Kerr, Economist at IHS Markit and author of the *Bellwether* Report:

*"Given the steady flow of awful economic data that we've seen since the start of the UK lockdown in March, a further reduction to marketing budgets in the second quarter was anticipated. However, the sheer scale of the latest decline, unprecedented since we first started producing this report over 20 years ago, shows the catastrophic impact that this crisis has had. Despite the weak headline figures and the corresponding hardship that many businesses will face for the rest of this year, we do expect a strong bounceback in 2021."*

– 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 Q2 2020 can be purchased for £99+VAT for IPA members (£140+VAT for non-members) at <https://ipa.co.uk>

Annual subscription is also available by contacting [economics@ihsmarkit.com](mailto: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.

#### About IHS Markit ([www.ihsmarkit.com](http://www.ihsmarkit.com))

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and expertise to forge solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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