IPA Bellwether Report – 2021 Q3

Marketing budget growth at strongest in over four years as UK recovery shifts up a gear

Key points:
- Total marketing budgets increase at strongest rate since Q2 2017
- Pent-up consumer demand, successful vaccination roll-out and looser restrictions drive broader growth in marketing budgets
- Company-level financial prospects at their most optimistic since Q1 2015
- Adspend set to grow sharply in 2021 and 2022

Strong growth in UK marketing budgets was recorded in the third quarter, according to the latest Bellwether survey, as a final loosening of pandemic-related restrictions enabled a further march forward in the broader economic recovery. Total marketing expenditure grew at the fastest pace since the second quarter of 2017, as a net balance of +12.8% of firms registered upward budget revisions, from +6.0% previously. Approximately one-in-four Bellwether respondents recorded higher spending (25.6%), compared with 12.8% that observed budget cuts. The latest data marked the first time in three years that successive quarters of growth in overall marketing spend has been registered.

Many surveyed firms recognised the need to drive forward with marketing activity in the third quarter, with demand conditions bouncing back sharply and consumers looking to spend pent-up savings as lockdown measures were peeled back. The effectiveness of the UK’s vaccine programme was also a key pillar of support for businesses, and many firms expect its positive impact to continue.

That said, although upward revisions to total marketing budgets were strong, they still fell short of the growth firms initially had predicted for the 2021/22 financial year, where a net balance of +17.4% of firms anticipated expansion. Some surveyed companies were wary of lingering uncertainties, particularly around the trajectory of virus cases as we head into the winter period. Ongoing supply chain disruptions, which some firms mentioned had impacted their ability to carry out marketing campaigns, were also cited as a downside risk.

Main media advertising was the best-performing marketing category in the third quarter, with a net balance of +8.6% of firms recording upward budget revisions (from +1.3%), as more firms upped their spending on ‘big-ticket’ campaigns. Within main media, video (+12.6%, from +4.2%) was the main driver, followed by other online (+10.6%, from +11.0%) and audio (+6.0%, from +1.1%). Published brands returned to growth (+5.2%, from -6.1%), although out of home fell again (-2.0%, from -7.5%).

The remaining marketing categories were split between growth and contraction. Direct marketing was the next best performer, improving on the previous quarter (net balance of +5.6%, from +0.7%), while budgets reserved for sales promotions moved into expansion territory for the first time since the end of 2018 (net balance of +4.0%, from -0.7%). Meanwhile, market research registered marginal growth (net balance of +0.7%, from -9.6%). Events budgets remained under pressure as firms erred on the side of caution with regards to in-person marketing activity (net balance of -3.2%, from -24.7%), while PR (net balance of -1.8%, from +1.8%) and any other paid-for marketing budgets (net balance of -1.8%, from -2.5%) also fell.

Chart 1: Revisions to total marketing budgets

Chart 2: Analysis of marketing budgets in Q3 2021

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Firms record strongest level of optimism regarding own-company finances since Q1 2015

There was a further increase in optimism among Bellwether panellists during the third quarter, with improved expectations for growth at both a company-specific and industry-wide level.

A net balance of +37.5% of firms (versus +34.6% previously) were more optimistic about the financial prospects for their own company, which was the most bullish Bellwether panellists had been about their businesses since the first quarter of 2015. Around 48% of firms expect stronger growth than they did three months ago, compared to just 11% who were less optimistic.

Regarding their wider industry, Bellwether panellists also shared a more positive outlook during the latest survey period. A net balance of +22.6% of companies had a more upbeat view compared to three months ago. Although an improvement since the previous survey (+21.1%), it was still below that seen in the opening quarter of the year (+26.2%), which was the highest since the third quarter of 2014.

Chart 3: Marketing executives’ business confidence

Sharp adspend growth expected in 2021 and 2022 as UK economic recovery continues

The UK’s recovery from the COVID-19 pandemic has been much faster than we predicted this time last year, in part thanks to the success of the vaccination roll-out, but also owing to the positive impact the furlough scheme had on keeping a cap on the unemployment rate, which has contributed positively to strong levels of demand for UK goods and services.

We have revised our GDP growth forecasts for 2021 and 2022 higher since the last Bellwether survey, to 6.6% and 5.1% respectively, from 6.0% and 5.0% given the pace at which consumer spending has bounced back, with the UK’s impressive uptake of the vaccine supporting this. These factors will continue to facilitate the recovery to pre-pandemic levels of economic activity, and as such, we anticipate strong adspend growth of 6.6% and 6.2% in 2021 and 2022 respectively to accompany the strong economic expansion.

Beyond the near-term, we expect rates of growth in both GDP and adspend to normalise from 2023 onwards. Our forecasts for 2023, 2024 and 2025 stand at 2.4%, 1.7% and 2.9% respectively. While the adspend forecast for 2023 has been revised slightly lower (from 2.7%), 2024 and 2025 have been lifted up slightly (from 1.2% and 2.4% respectively). As already mentioned, growth is very likely to slow in 2023 as we expect pandemic-related losses to GDP to be fully recouped no later than mid-2022, while tax burdens are also set to rise in 2023, which will adversely impact domestic spending.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

“While we welcome the re-opening of global economies, it has brought with it various new challenges, particularly on the supply side. And there were widespread concerns among Bellwether panellists that supply shortages and issues with transport could hinder their business operations, and also impact their sales performances as many firms pass on these higher costs to their own selling prices. Having said this, we welcome the figures that reveal, in spite of this, advertisers are making the most of the overall economic uptick and are seizing the opportunity to invest in their brands. It is particularly good to see that companies are investing more in main media ‘big ticket’ campaigns, with these budgets revised up to the greatest extent since Q2 2017. As the evidence shows, investing in long-term brand building media is paramount to a brand’s long-term success.”

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

“The UK economy’s performance over the third quarter has been remarkably positive, helped by the progressive loosening of containment measures and a successful vaccination programme. We couldn’t have imagined such a fast recovery in economic activity earlier in the year when lockdown measures were at their most stringent. We’re expecting UK GDP to have recouped all pandemic-related losses by no later than mid-2022, and Bellwether panellists have provided us with even more evidence that firms are working hard to re-grow their businesses, with one-in-four upwardly revising their total marketing budgets. As we said last time, we hope this is just the beginning, and businesses continue with their aggressive growth plans to keep momentum moving as the post-lockdown growth boom peters out.”

-- 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 2021 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

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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)

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