

IPA Bellwether Report – 2018 Q1

Marketing budget growth loses further momentum during first quarter of 2018

Key points:

- Slowest growth in budgets recorded since start of 2016
- Challenging market conditions and cost consciousness weigh on budgets
- Internet continues to perform best, but main media slips into contraction
- Concerns over industry financial prospects intensify
- Muted adspend growth predicted for 2018 and 2019

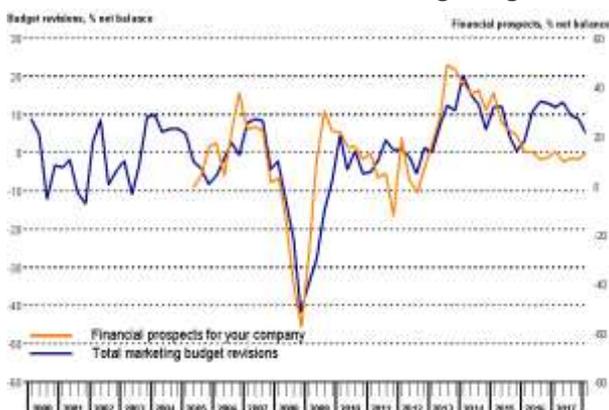
Budget growth softens further in Q1 2018

In line with the trend seen since the end of 2012, UK marketing budgets were increased further during the first quarter of 2018 as marketing executives helped launch new products, bolstered events marketing and continued to enhance the role of digital platforms within their marketing strategies.

However, latest data revealed a loss of growth momentum amid reports of challenging market conditions and financial pressures squeezing budgets. Underlying sales were reported in some instances to be a little softer, whilst investment funds were being directed away from marketing to other business areas.

The Q1 survey indicated that 22.9% of companies benefited from an increase in their marketing budgets during the latest survey period, compared to 17.9% of companies that recorded a fall. The resulting net balance of +5.0%, down from +8.6% in the previous quarter, was the lowest recorded by the survey for two years.

Chart 1: Revisions to total marketing budgets



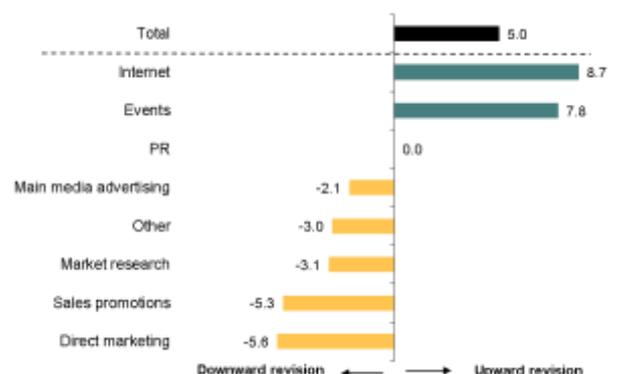
Internet marketing remained best performing Bellwether category

Encouraged by positive returns from previous digital marketing campaigns, panellists continued to step-up their adoption of **internet** advertising during the latest quarter. The Q1 survey results indicated that internet marketing spend was raised for a thirty-fifth successive quarter at the start of 2018, albeit at a slower rate. Whilst once again the strongest of all *Bellwether* categories, the net balance of +8.7% was the lowest recorded by the survey since the end of 2015.

Elsewhere, marketing executives continued to reap the rewards of direct engagement with current and potential clients by increasing **events** marketing in the first quarter of 2018. Budgets in this category have now been raised continuously for four-and-a-half years, with the respective net balance improving to +7.8% (from +5.5% in Q4 2017).

Meanwhile, the closely watched **main media advertising** category, which includes big-ticket campaigns related to TV, radio and cinema, slipped into negative territory during Q1 2018. Falling from +1.7% at the end of 2017, the net balance of -2.1% meant that a negative reading was recorded for only the second time in the past five years (Q3 2016 was the previous time the net balance was below zero).

Chart 2: Analysis of marketing budgets in Q1 2018



Other areas to suffer budget cuts during the first quarter included **market research** (-3.1%, up from -5.4% in Q4 2017), **other** (-3.0%, previous: -5.8%), **sales promotions** (-5.3%, compared to -3.0%) and **direct marketing** (-5.6%, from -4.5%) as marketing executives sought cost and efficiency savings to bolster spending in other areas or to balance already

squeezed budgets.

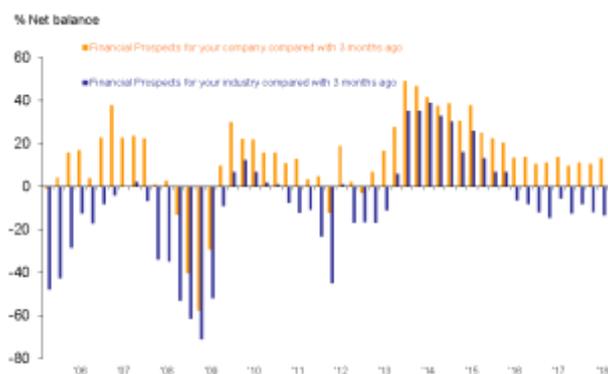
PR recorded a stagnation of activity (+0.0%, from -6.6% in Q4 2017). Spending in **mobile** failed to rise for the first time in a year-and-a-half (+0.0%, from +6.0%).

Company financial prospects remain positive but pessimism for wider industry prospects

Company financial prospects remained in positive territory during the first quarter of 2018. Latest data showed that a net balance of +13.1% of companies have grown more optimistic over the past three months, compared to +10.6% in the previous quarter. The Q1 2018 reading was the best recorded by the survey for a year, though remained slightly below the historical trend.

When considering wider financial prospects, marketing executives remained pessimistic. The net balance of -13.6%, compared to -12.1% in the preceding quarter, was the worst outturn since the end of 2016.

Chart 3: Marketing executives' business confidence



Adspend set to rise by just 0.8% in 2018

Having shown some resilience during 2017 (our real-terms adspend growth estimate is now 1.7%, compared to a previous estimate of 1.4%), and with OBR forecasts for GDP and consumption growth slightly stronger, we have become a little more optimistic about 2018 adspend growth.

However, at 0.8% (revised from 0.3%) our estimate for growth in 2018 remains historically muted. We expect Brexit-related uncertainties and ongoing pressure on household finances to continue to restrain consumption and therefore adspend growth.

We expect some of these factors to persist into 2019, with adspend growth of just 0.4% forecast. However, stronger gains in adspend are anticipated for 2020-2022 in line with an expected improvement in the underlying performance of the economy.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"Despite the slowdown, this quarter's results mark over five years of successive upward revisions to marketing budgets, signifying that regardless of external pressures – particularly Brexit uncertainties – most marketers still appreciate the value of advertising in building and maintaining their brands. Once again we are also seeing significant investment in internet budgets – for 35 quarters continuously – showing that in an 'always on' world, marketers are following the eyeballs. While we welcome this, it is worth remembering that the evidence shows that the most effective advertising achieves a 60:40 balance of brand building to sales activation media."

Dr Paul Smith, Director at IHS Markit and author of the *Bellwether Report*:

"The ongoing slowdown in marketing budget growth comes as little surprise in the context of the challenging business environment and disconnect in recent surveys between budgets and subdued financial prospects."

"Rising costs and the ongoing uncertainty that exists over the future direction of the UK economy in a post Brexit world have led to caution and belt-tightening across a number of sectors, especially those more exposed to retail and consumption."

"Despite losing clear momentum since last summer, the positive news is growth is being sustained meaning the longest bull-run in the survey history continues. Whether this can carry on remains to be seen. Although the latest survey shows anticipated growth in 2018/19, the degree of optimism is the lowest in five years."

- 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 Q1 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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