

## IPA Bellwether Report – 2017 Q2

### Marketing budget growth sustained at robust rate, but rising uncertainty impacts financial prospects

#### Key points:

- Largest expansion in marketing budgets for just under a year
- Optimism regarding company financial prospects lowest in four-and-a-half years
- Industry financial prospects turn increasingly negative
- Brexit, political uncertainty and rising inflation provide biggest threats to outlook
- Modest growth in adspend predicted in 2017 before stagnation in 2018

#### Ongoing growth in marketing budgets

The *Bellwether* survey for the second quarter of 2017 pointed to a further upward revision to UK marketing budgets, with the rate of growth hitting a three-quarter high.

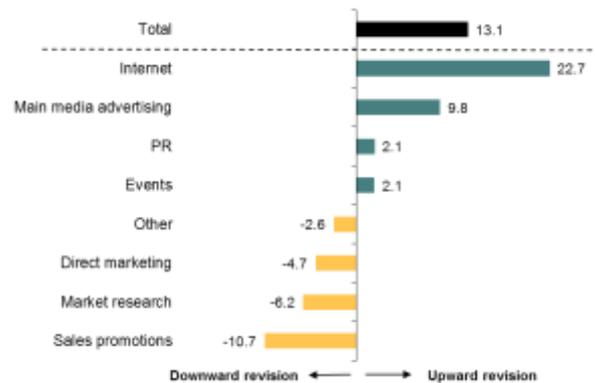
Latest data showed that over 28% of the survey panel recorded an upward revision to marketing budgets, compared to around 15% that recorded a fall. The resulting **net balance of +13.1% was up from Q1 2017's +11.8%** and the best recorded since Q3 2016. The net balance has now been above neutrality, which signals that more companies are expanding their marketing budgets than reducing them, for just one quarter short of five continuous years.

Chart 1: Revisions to total marketing budgets



Q2's survey showed that around a third of the survey panel recorded an increase in **internet** marketing budgets (32%), against a little over 9% of panellists that recorded a fall. That provided a resulting net balance of +22.7%, which was up sharply since Q1 2017's +16.9% and the highest reading since Q3 2007.

Chart 2: Analysis of marketing budgets in Q2 2017



Within internet, **search/SEO** (+15.6%) and **mobile** (+3.0%) both continued to record upward revisions to growth. The increase in spending related to search/SEO was the highest recorded by the survey for two-and-a-half years.

Elsewhere, **main media advertising** showed a further upward revision to budgets, albeit to a slightly softer degree than in the preceding quarter (net balance: +9.8%, down from +10.7%). **PR** (+2.1%) and **events** (+2.1%) also both recorded growth. The latter has now recorded an increase in marketing budgets in each of the past 15 quarters.

All of the remaining categories covered by the *Bellwether* survey showed reductions in budgets during the second quarter of 2017. **'Other'** (-2.6%), **direct marketing** (-4.7%) and **market research** (-6.2%) all recorded net balances inside negative territory.

However, the most notable reduction in budgets came from **sales promotions**. This area of marketing spend recorded a net balance of -10.7%, which was well down on the previous quarter's +1.2% and the weakest level recorded by the survey since Q2 2010. The sharp reduction in sales promotions activity appeared closely linked to a general reluctance amongst companies to offer discounts at a time when margins were under pressure from strong competition and rising operating expenses.

#### Financial prospects darken

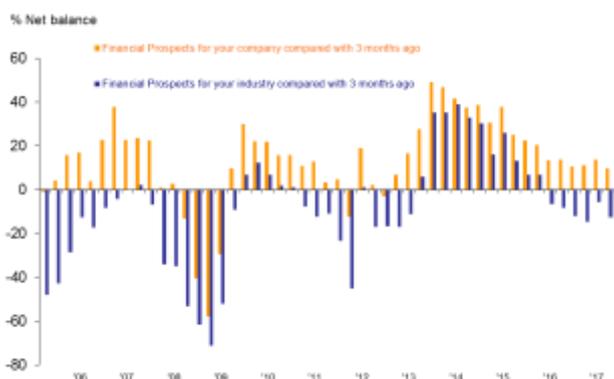
The upturn in uncertainty following the surprising outcome of the recent general election, allied with the unknown effect on economic activity of the Brexit

negotiations, had a noticeable impact on financial prospects during Q2 2017.

Although 30% of the survey panel are more optimistic regarding their **own financial prospects**, over 20% have become less confident. The resulting net balance of +9.8% was down from +13.9% in the preceding quarter and the lowest recorded by the survey since the end of 2012.

Wider industry financial prospects turned increasingly negative. Over 26% of the survey panel signalled a reduction in optimism compared to three months ago when considering the financial prospects for their industry (14% indicated more confidence). The resulting net balance of -12.6% compared to -5.7% in Q1 2017 and was the second lowest reading in four-and-a-half years (after Q4 2016's -14.6%).

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



### 2017 adspend growth expected to be modest

With no update from the Office for Budget Responsibility (OBR) since the previous *Bellwether* survey, our annual adspend forecasts for the years through to 2020 are unchanged.

Driven primarily by an underwhelming performance in business investment, which is forecast to be depressed by the ongoing uncertainty caused by the UK's decision to leave the European Union, adspend is expected to rise by just 0.6% in real terms during 2017.

Also weighing on adspend performance will be softness in consumer spending. There are already signs from high frequency indicators of consumption that rising inflation and an associated squeeze on household purchasing power is weighing on consumer spending. This is expected to continue throughout the rest of 2017 and into 2018, and is a primary factor behind the expected stagnation of adspend next year.

A somewhat recovery is then anticipated to take place during 2019 and 2020, with adspend forecast to rise by 1.8% and 2.3% respectively. However, as we stated in the previous report, forecasts remain especially uncertain at present, given the unknown details and effects on the economy of ongoing Brexit negotiations.

### Commenting on the latest survey:

**Paul Bainsfair, IPA Director General:**

*"The election result has thrown further uncertainty into an already volatile environment. It is inevitable that this has had a knock-on effect on UK plc. Specifically for marketers this has meant a desire, where possible, to seek out more activation driven advertising. As evidenced strongly in this latest Bellwether Report, this has resulted in a further move towards advertising in the digital space. While it is good to see spend up in internet, it is worth remembering that IPA studies have consistently shown that the most effective marketing results from a 60:40 brand building (emotional) to sales activation ratio (rational)."*

**Paul Smith, Senior Economist at IHS Markit and author of the Bellwether Report:**

*"The Bellwether survey continues to perfectly encapsulate the present economic situation presiding in the UK. Current economic conditions are sufficiently strong enough to support higher sales and demand, encouraging firms to provide product support through ongoing marketing budget expansion."*

*"However, the uncertainty caused by Brexit and a surprising general election outcome are skewing risks to future growth broadly to the downside resulting in subdued financial prospects, both at the company and wider macro levels."*

- 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 reports 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 2017 can be purchased for £99+VAT for IPA members (£140+VAT for non-members) at [www.ipa.co.uk/page/ipa-bellwether-report](http://www.ipa.co.uk/page/ipa-bellwether-report)**

**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))

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