

IPA Bellwether Report – 2018 Q2

Total marketing budget growth remains weak, despite slight pick-up during Q2

Key points:

- Budget growth remains modest, but strengthens from Q1's two-year low
- Internet marketing budgets revised higher to a noticeable degree
- Main media marketing budgets grow at strongest pace in a year
- Company financial prospects remain positive
- Relatively soft adspend growth predicted for 2018 (1.1%)

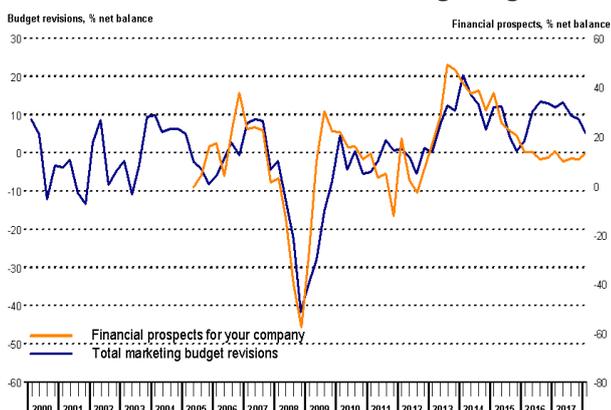
Budget growth strengthens slightly

According to the latest *Bellwether* survey, total marketing budgets were revised higher during the second quarter of 2018, continuing a trend which has been observed since the fourth quarter of 2012.

Around 23% of panellists indicated higher spending plans for overall marketing activity during Q2 2018, compared to just below 17% pointing to lower budgets. This subsequently yielded a net balance of +6.5%, up from +5.0% seen in the previous quarter. Whilst the pick-up in growth is a positive development from the latest *Bellwether* survey, the net balance of firms upwardly revising budgets was the second lowest since Q1 2016.

Increased total marketing spend was supported by new product and service launches, overall business growth and increased optimism towards future opportunities. Furthermore, there were reports that increased competitiveness had driven firms to boost marketing in order to attract new clients and sustain market share.

Chart 1: Revisions to total marketing budgets



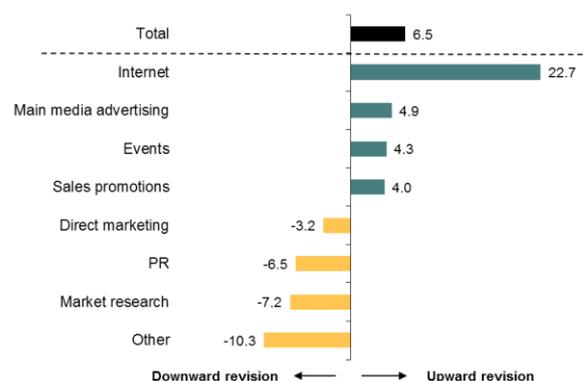
That said, growth in available marketing spend appeared to be limited, at least to some degree, by company-wide cost cutting efforts, with some panellists noting below-par revenues for the financial year so far.

Digital marketing grows markedly in Q2

Latest survey data pointed to a noticeable drive towards digital-based advertising during the second quarter, with the net balance of firms reporting upward revisions to internet marketing budgets rising to a level that matched Q2 2017's nine-and-a-half year peak (+22.7%). Within the broad internet category, panellists increased spending plans for search/SEO marketing (+11.0). Mobile marketing budgets were generally unchanged (-0.7%) over the latest survey quarter in contrast.

Meanwhile, **main media advertising**, which includes big-ticket campaigns related to TV, radio and cinema, showed more bullish spending plans by marketing executives, following downward budget revisions in Q1. The net balance was positive overall (+4.9%).

Chart 2: Analysis of marketing budgets in Q2 2018



Elsewhere, budgets available for direct marketing, which includes email and telemarketing, were revised lower in the second quarter amid recent GDPR changes. The latest -3.2% net balance extended the period of direct marketing budgets cuts to three years.

Other categories monitored by the *Bellwether* survey to endure downward budget revisions during the second quarter were market research (-7.2%), PR (-6.5%) and 'other' (-10.3%).

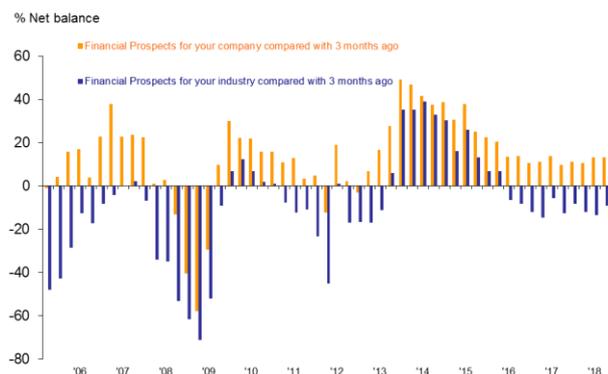
Modest upward revisions were noted for both events (+4.3%) and sales promotion (+4.0%) marketing budgets during the second quarter.

Company financial prospects remain upbeat, but wider industry prospects deteriorate further

Businesses maintained a positive outlook towards their own finances during the second quarter of 2018. The latest *Bellwether* survey pointed to a net balance of +13.3% of firms that were optimistic, fractionally higher than in the first quarter (+13.1%). Latest data also signalled the greatest level of optimism since Q1 2017.

Confidence towards wider industry financial prospects was lacking, however, amid a recent softening in UK economic growth and the ongoing impasse in Brexit negotiations. Panellists sustained their pessimistic view towards the financial outlook during the second quarter, with a net balance of -9.0%, compared to -13.6% in the last quarter. Nonetheless, the rise in the net balance signalled that the degree of negative sentiment moderated since the previous survey.

Chart 3: Marketing executives' business confidence



Adspend growth revised higher for 2018

Q1 presented a soft patch of data for the UK economy, primarily attributed to weather-related incidences which affected the majority of the country. Following a slight upward revision to the official Q1 GDP quarterly growth figure, expectations are for a bounce back in Q2. As such, we have a greater degree of optimism towards adspend growth for 2018 and 2019.

Growth for the year as a whole is expected to come in at around 1.1% (revised from 0.8%), while 2019 growth was also upwardly revised to 0.7% (from 0.4%). Ongoing uncertainty around Brexit continues to remain a primary risk for many panellists, but we expect that adspend will be used in defensive manners due to competitive pressures.

Beyond the next two years however, our forecasts are unchanged, reflecting our view that underlying growth will support stronger consumer spending. Adspend in 2020 is expected to rise by 1.1%, and steadily increase to 1.3% by the end of the forecast period.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"You only have to look at the recent hype surrounding Love Island and the World Cup – whether that's crowding around the big screen, huddling around the box, adding to #GarethSouthgateWould or passing on the 'It's coming home' memes - to realise that consumers are deeply ensconced in screen-based activity.

"As the evidence shows, television is the most effective medium for advertisers to build their brands and adding digital media to the mix enhances the effectiveness of traditional media. It therefore makes infinite sense that advertisers are investing their money here.

"Despite this overall positive growth, however, with continued Brexit uncertainty, the underlying story still remains one of caution, with the latest Bellwether data pointing to the second-slowest marketing budget growth since Q1 2016."

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

"Despite the pick-up in marketing budget growth, the latest pace remains weak and only slightly greater than Q1's two-year low. That said, at a time when industry-wide financial prospects are deteriorating, the continued increase in advertising spend offers a positive development.

"However, latest growth is partly defensive in nature. Margins are being tested by increasing competition and firms are raising budgets largely to sustain market share and profits.

"As such, there appears to be clear downside risks to spending available to marketing executives. The annual marketing budget forecasts made by panellists at the beginning of the year signalled expectations for the slowest rate of growth in five years. The current impasse in Brexit negotiations, combined with reports of rising operating costs, justifies this less opportunistic view."

- 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 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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