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IPA Bellwether Report – 2016 Q4

Companies shrug off ongoing uncertainty by raising marketing budgets markedly at end of 2016

Key points:

- Growth sustained to extend record run of growth to over four years
- Events and online marketing remain best performing sub-categories
- Weaker sterling offers threats and opportunities over coming 12 months
- Ongoing uncertainty continues to weigh on financial prospects
- Adspend expected to fall in 2017 before recovering in subsequent years

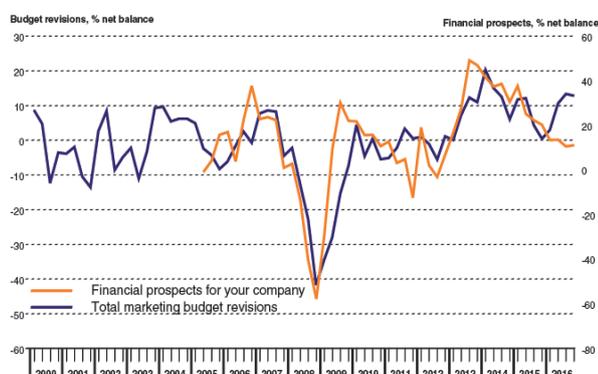
Headline net balance down only slightly in Q4

The final *Bellwether* survey of 2016 signalled the sustained expansion in UK company marketing budgets during the fourth quarter.

The headline net balance from the survey, which shows the percentage of respondents indicating an upward revision to their marketing budgets minus those that indicated a fall, posted a level of **+12.9% in the fourth quarter of 2016**. That was only fractionally lower than Q3's nine-quarter high of +13.4% and represented a historically marked degree of budget growth. The survey showed that 26.2% of the survey panel indicated an increase in marketing budgets, compared to 13.4% of the survey panel that signalled a fall.

Moreover, the latest report marked the seventeenth successive quarter that an expansion in marketing budgets has been recorded.

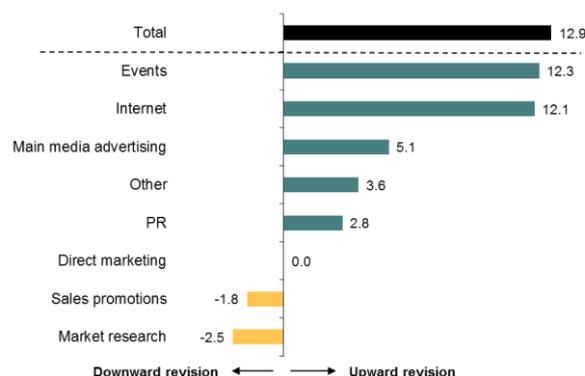
Chart 1: Revisions to total marketing budgets



Growth was recorded across a number of budget categories as firms sought to utilise a variety of promotional tools at their disposal.

Leading the way in the fourth quarter was **events**, where the net balance of +12.3% was an improvement on Q3's +9.9% and represented the second strongest increase in four years of data collection for this category. Panellists continued to comment that events marketing was an effective way of engaging with both current and prospective clients, with exhibits also a sound way for firms to raise brand awareness within their respective industries.

Chart 2: Analysis of marketing budgets in Q4 2016



The use of **internet** also continued to gain an increasing share in the marketing mix of companies. The internet category, which covers online marketing platforms, recorded a net balance of +12.1% for Q4 2016. That compared to Q3's +9.5% and was the best reading for two years, with respondents continuing to report good returns on investment from digital marketing.

Latest data showed that companies increased their engagement with **mobile advertising** over the quarter as the respective net balance improved to +3.9%, compared to -2.6% in the preceding quarter.

Q4 2016's survey indicated that companies were also willing to increase their budget spend in other areas, albeit to lesser degrees than seen for events and internet.

Most notably **main media advertising** staged a recovery in Q4 following the previous quarter's decline. The respective net balance rose to +5.1% (Q3: -3.8%) as firms sought to support new product launches, respond to increased competition or in some instances try to revive sales growth.

Other categories that registered an increase in

spending included **'other'** (+3.6%) and **PR** (+2.8%).

In contrast, **sales promotions** (-1.8%) and **market research** (-2.5%) both recorded declines. Budgets related to direct marketing (0.0%) were unmoved since the previous quarter.

Financial prospects remain subdued

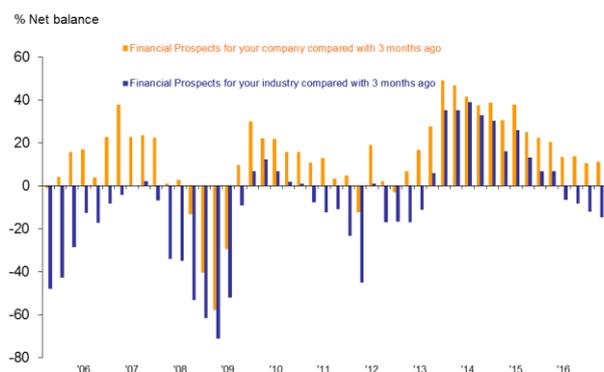
Looking ahead to **2017/18 budget plans**, UK marketers have indicated a positive outlook, with a net balance of +27.6% of companies signalling growth in their total budgets for the coming year.

However, the uncertain economic and political climate continued to weigh on **industry financial prospects** during the final quarter of 2016.

Over 28% of the survey panel signalled a deterioration in their confidence regarding industry financial prospects over the past three months, compared to just 14% that have indicated an improvement. The resulting net balance of -14.6% was down on the previous quarter's -12.1% and the lowest level recorded for four years.

In contrast, panellists retained a reasonable degree of confidence regarding their **own company prospects**, with the respective net balance edging up slightly in the fourth quarter to +11.2%, from +10.6% in Q3. Just over 30% have grown more confident compared to three months ago, while exactly 19% of respondents indicated a deterioration.

Chart 3: Marketing executives' business confidence



Challenging 2017 for adspend predicted

Our latest annual adspend forecasts until 2020 paint a slightly more positive picture than previously, with growth in 2016 and 2018 both revised higher compared to previous expectations.

Following a strong rise in economic activity at the end of 2016, which has resulted in an unexpectedly firm 2.1% increase in GDP, we are now anticipating adspend to rise by 2.1% in 2016 (Q3 estimate: 1.9%).

Moreover, a markedly more upbeat projection for business investment has meant our adspend forecast for 2018 currently stands at 0.7% (previous estimate: 0.2%).

However, punctuating the expected adspend

increases in 2016 and 2018 is a forecasted fall during 2017. Uncertainty over the impact of the negotiations of the UK's terms of EU withdrawal is likely to drag on investment, while consumer spending is forecast to rise at a much slower rate. The result is a projected -0.7% annual fall in adspend during 2017 (unchanged from Q3).

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"After a year of well-publicised doom and gloom, Bellwether provides some welcome positive news. With marketers revising their budgets up yet again, the industry ends the year on a high. Furthermore, it is reassuring that despite the slight fall in adspend predicted by Bellwether in 2017 due to Brexit negotiations, growth is forecast for both 2016 and 2018."

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

"The Q4 2016 Bellwether survey provides a fascinating account of the impact on marketing activity of a currently humming UK economy contrasting with the uncertain Brexit-dominated prospects to be faced in the coming months."

"With company sales growth being underpinned by firm UK household spending, marketing budgets continued to be driven higher in the fourth quarter of 2016 and a number of companies are seeking to maintain growth with some taking advantage of the weak pound to promote their goods and services to a foreign audience."

"However, with inflation set to rise in the coming months and erode purchasing power, plus the continued uncertainty created by the Brexit vote, it remains to be seen whether momentum can be sustained into the heart of 2017."

- 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 Q4 2016 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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