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Bellwether Report

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The Bellwether Report is researched and published by S&P Global on behalf of the Institute of Practitioners in Advertising.

The report features original data drawn from a panel of around 300 UK marketing professionals and provides a key indicator of the health of the economy.

The survey panel has been carefully selected to represent all key business sectors, drawn primarily from the nation's top companies.

The Bellwether Report is available via annual subscription, please contact economics@spglobal.com.

To download an individual pdf go to https://ipa.co.uk/

The next Bellwether Report will be released on:

January 18 2023

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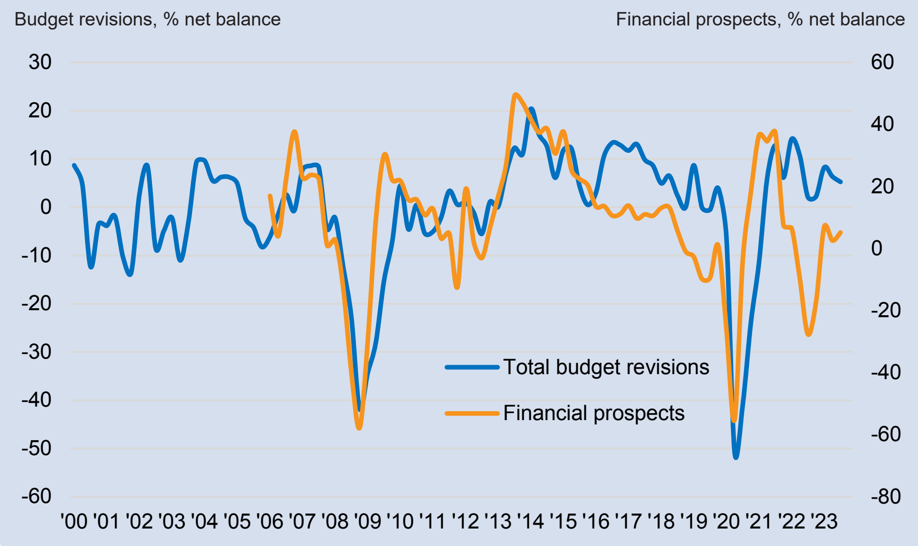
Total UK marketing budget growth slows to year-to-date low, but main media spending rises again

Marketing budgets and business confidence



Key findings from the Q3 2023 survey:

- Efforts to protect brands and capitalise on competitor hesitancy supported budget expansions, although total marketing spend growth slowed in Q3
- Main media marketing budgets rise at the strongest pace since Q1 2021, driving overall upturn
- Industry-wide business confidence remains depressed amid gloomy economic outlook, but confidence edges slightly higher for company-own prospects
- Adspend set to fall in real terms until 2024 as UK economy poised for recession

Commenting on the latest survey results, Paul Bainsfair, IPA Director General, says:

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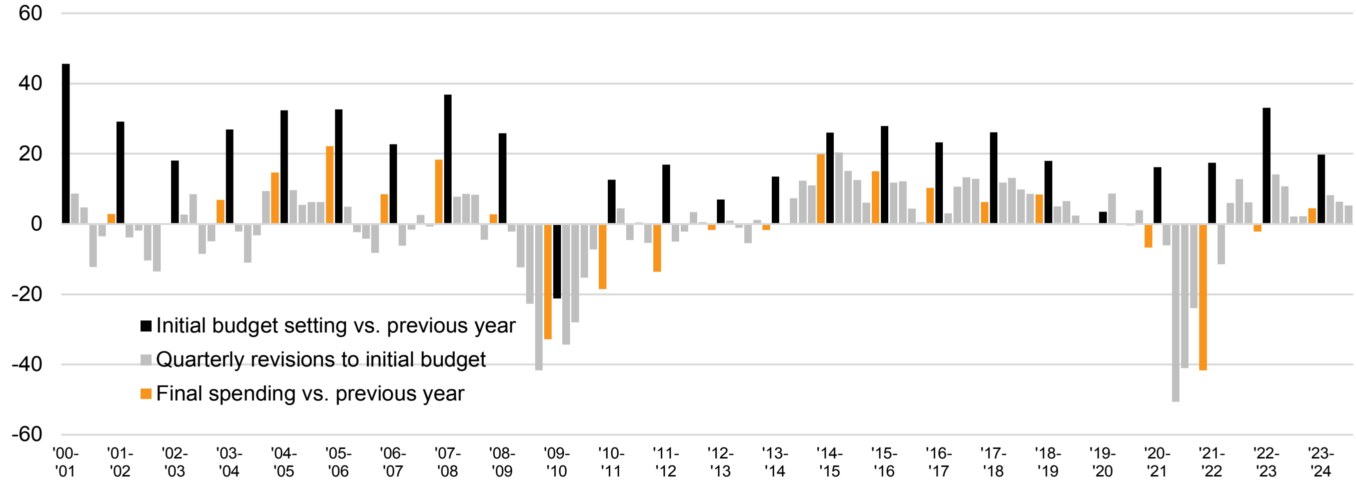
Commenting on the latest survey results, Joe Hayes, Principal Economist at S&P Global Market Intelligence, says:

"As storm clouds gather over the UK economy, it's encouraging to see total marketing budgets hold firm in expansion territory. We saw last quarter that firms had become concerned by persistence of the cost-of-living crisis, which drove a record rise in sales promotions spending. In the latest quarter, however, firms have gone back to brand-building, with anecdotal evidence suggesting that this move has been made both defensively and offensively. With demand conditions coming under pressure, companies will have to position themselves strongly to stand out from their competitors."

Total marketing

Evolution of total marketing budgets

% net balance (% companies reporting an increase minus % companies reporting a decrease)



The latest *Bellwether* survey revealed another quarter of total marketing budget growth, extending the current sequence of upward spending revisions to ten successive quarters. There was however a moderation of the upturn as persistent inflationary pressures, further increases in borrowing costs and a subsequent deterioration in the UK economic outlook drove some companies to be more cautious with their budgets.

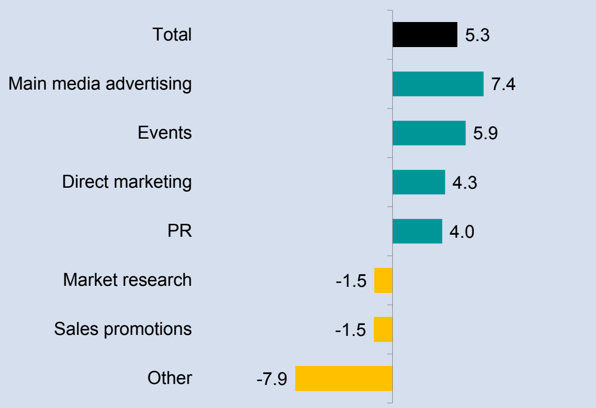
There was a strong proportion of the survey panel that expanded their total marketing spend in the third quarter of the year, with 21.1% of *Bellwether* firms increasing spending in the three months to October. However, with a sizeable 15.8% registering downgraded budgets, this resulted in a net balance of just +5.3%, pointing to the weakest quarter of total marketing budget growth since the final quarter of 2022.

According to panel members that registered growth, marketing activities were deployed both as a defensive and offensive manoeuvre, with some hoping to reinforce their brand's position in the market ahead of a downturn in the UK economy. Efforts to seize additional market share was seen at companies who were seeing key competitors prioritise short-term cost-savings over long-term business growth. Indeed, the main media advertising category was the strongest-performing segment of the *Bellwether* survey in Q3 as a robust net balance of +7.4% of companies upwardedly revised spending in this crucial segment at the strongest rate in a year-and-a-half (-2.5% previously). This contrasted markedly with the Q2 report, where sales promotions budgets drove the upturn as cost-of-living pressures drove companies to provide support to cash-strapped customers. Within main media, other online advertising methods that aren't captured by the other sub-categories rose sharply (net balance of +9.1%, vs. +8.3% previously) as companies engaged with new innovative tools such as artificial intelligence. Video (+0.9%, from +3.2%) and published brands (+0.8%, from -5.0%) were the other areas of expansion within main media, whereas audio (-10.8%, from -8.0%) and out of home (-12.1%, from -7.1%) saw contractions accelerate.

Events continued to be an area of marketing budget growth

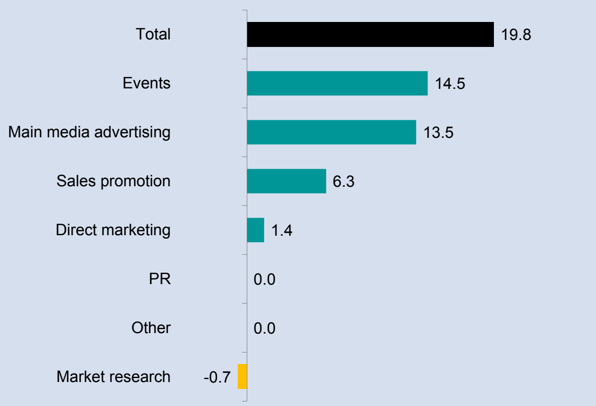
Breakdown of revisions to current budgets

% of all companies reporting an upward revision to current budgets minus % reporting a downward revision.



Breakdown of 2023/24 budget plans

% of all companies reporting an increase in spend for 2023/24 minus % reporting a decrease.



Industry Opportunities and Threats

in the third quarter, continuing its strong sequence of expansion seen in every *Bellwether* report since the opening quarter of 2022. A net balance of +5.9% of companies saw an increase in spending in this area (from +9.8%), with anecdotal evidence indicating a resilient appetite for engagement with clients and prospects face-to-face.

Other areas of budget growth included direct marketing (net balance of +4.3%, from +7.3%) and public relations (+4.0, from -1.9%). In fact, PR spending rose at the strongest pace in five years.

Meanwhile, spending cuts were recorded in the final three segments of the *Bellwether* survey. Other modes of marketing activity not accounted for continued to see budgets cut in the third quarter (net balance of -7.9%, from -6.8%), as did market research (-1.5%, from -2.9%). Notably, after a record expansion in the previous quarter, the latest data indicated a renewed reduction in sales promotions spending (-1.5%, from +13.4%).

Opportunities and Threats

The macroeconomic environment facing UK businesses has become more challenging as 2023 has progressed. The Bank of England Base Rate increased to its highest level in 15 years, while inflationary pressures remain elevated and continue to put pressure on profit margins and household incomes. Recession risks have also built both domestically and around the globe, hurting business and consumer confidence. As such, *Bellwether* respondents frequently highlighted economic conditions as a considerable threat to their businesses over the coming 12 months.

Indeed, of concern to *Bellwether* companies was the outlook for demand, with companies anticipating reduced client activity levels and, in some cases, the forced closure of businesses as a result of intense cost pressures. Some respondents were also wary of a subsequent increase in competition as the challenge to win and retain customers grows. The outlook for those more exposed to consumer markets was also expected to be uncertain given ongoing cost-of-living struggles, strain on households' discretionary budgets and the surge in borrowing costs.

Nevertheless, there were plenty of *Bellwether* firms who were actively planning ways to successfully navigate through the challenging economic environment over the next 12 months. Some respondents noted that they were hoping to gain market share from struggling competitors, while others intend to use marketing tools to protect their brands and encourage customers to stay loyal.

Meanwhile, there were companies who adopted a more strategic and long-term view towards their products and services, with many respondents commenting on the opportunities advances in technology such as artificial intelligence (AI) could bring, particularly with regards to research and marketing campaigns. In the same vein, companies taking a pro-active approach towards climate change by developing products and services which can help society achieve sustainability goals, for example, also shared optimism towards the outlook.

Opportunities

Panellists were asked to comment on the main opportunities for their industries over the coming 12 months. A selection of responses are summarised below:

“Increased spend on tech as automation becomes more of a priority.” **IT/Computers**

“Inflation levelling off should boost demand across all our products and markets.” **FMCG**

“The shift towards more sustainable packaging away from plastic.” **Industrials/Utilities**

“The introduction of AI into marketing has provided a major opportunity to become more productive.” **Media/Marketing**

“Capitalise on competition who are struggling with low margins and a downturn in orders.” **Travel/Entertainment**

“Groups with higher levels of disposable income are still willing to spend when they are ready.” **Consumer Durables**

“Changes to regulations and the continued development of the 'new' energy sector.” **Industrial/Utilities**

“Our competitors pulling out of the market or going bust.” **Financial Services**

"We cannot keep holding back. There is an opportunity to grow while others reduce spend." **Media/Marketing**

"Focus on electric vehicles (EVs) and sustainable technologies." **Automotive**

"Events are growing in size and frequency and there is a sense of stability that has prevailed despite the economic downturn." **Media/Marketing**

"Capitalise on competition who are struggling with low margins and a downturn in orders." **Travel/Entertainment**

Threats

Panellists were also asked to comment on the main threats to their industries over the coming 12 months. A selection of responses are summarised below:

“Consumer incomes squeezed and increased online competition.” **Retail**

“People not wanting to borrow due to high interest rates.” **Financial Services**

“Poor performance of the UK economy.” **Other Services**

“Attracting and retaining staff, skills shortages.” **Industrial/Utilities**

“Macroeconomic factors influencing core customers' willingness to make discretionary purchases.” **Consumer Durables**

“Inflation and the war in Ukraine are making people very wary of committing budgets.” **IT/Computers**

“AI continues to threaten to disrupt the marketing industry in many areas - advertising, copywriting, content creation etc.” **Media/Marketing**

“Dip in sales as customers are overstocked.” **Industrials/Utilities**

“ Increased cost of doing business because of wages, energy and property costs.” **FMCG**

“Supply-chain disruptions, aggravated by the global semiconductor shortage and Brexit-related trade barriers, loom large.” **Automotive**

“Inflationary pressures remain a primary concern, together with political issues such as strikes linked to the cost of living crisis.” **Media/Marketing**

“Increasing competition, threat of new substitutes.” **Travel/Entertainment**

Financial Prospects and Economic Outlook

Financial Prospects

There was little material change in company-own and industry-wide financial prospects during the third quarter of 2023, latest *Bellwether* data showed, with sentiment among respondents remaining generally subdued.

When assessing the financial prospects for their own business, *Bellwether* firms were optimistic, albeit only modestly, with a net balance of +5.2% of companies reporting stronger sentiment than three months ago. Positively, just over a quarter (25.4%) of respondents were more upbeat on their financial outlook. This was offset considerably, however, as 20.2% signalled weaker confidence. The vast majority of companies (54.3%) reported no change in their assessment of financial prospects. Nevertheless, the latest data marked an improvement compared with the second quarter, when a net balance of just +2.6% registered more upbeat expectations.

In contrast, the industry-wide outlook remained negative during the third quarter, with the proportion of panellists that were downbeat towards the outlook for their sector (24.9%) over double the proportion who were positive (12.1%). The resulting net balance of -12.7% was little-changed from the previous quarter (net balance of -12.6%) and signalled the greatest degree of negativity towards overall industry financial prospects in the year-to-date.

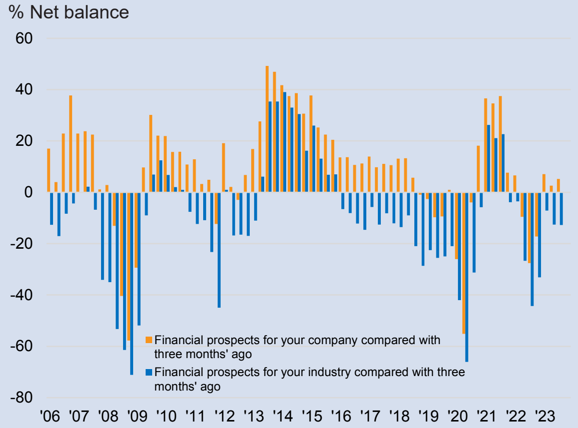
Economic Forecasts*

According to S&P Global Market Intelligence's latest forecast, the UK economy will expand in 2023 by 0.3%, an unchanged estimate from the previous *Bellwether* report. However, we have downwardly revised our growth forecast for 2024 to -0.1%, from 0.4% previously. The 2023-24 growth outlook is lackluster as the full impact of the Bank of England's interest rates rises has yet to materialise and inflationary pressures remain elevated. We actually expect the UK economy to endure a shallow recession over this period. Subsequently, we anticipate contractions in adspend of -0.6% and -0.4% in 2023 and 2024 respectively.

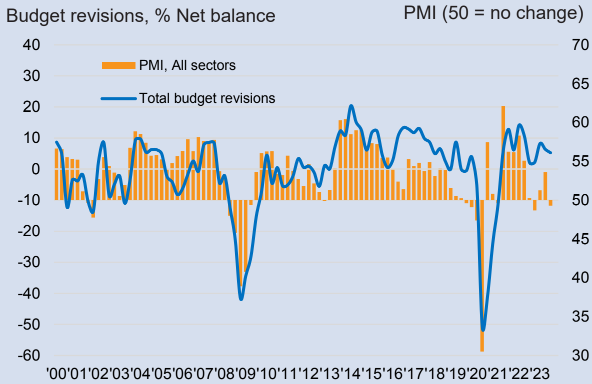
It won't be until 2025 that we adspend will grow again in real terms, according to our October forecast, where we see a modest recovery of 1.3% in annual growth terms as the UK economy picks up. We are currently predicting GDP growth of 0.9% in 2025, with a further improvement in 2026 as economic growth strengthens to 1.4% on a year-on-year basis. for 2026 and beyond, we anticipate annual adspend growth accelerating back to a solid trend of 2.0%.

Business prospects

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?



Bellwether and the Business cycle



The above chart plots the Bellwether survey results on revisions to total marketing budgets against the S&P Global/ CIPS PMI (Purchasing Managers' Index). The PMI is a monthly survey of business conditions that is closely watched by policymakers as it is considered an accurate and timely guide to what is actually happening in the economy and, unlike official data, does not get revised after first publication.

Source: S&P Global PMI

Adspend Forecasts: 2023-2028

	GDP % change	Consumer spending % change	Business investment % change	**Adspend % change**
2023	0.3	0.5	1.8	-0.6
2024	-0.1	0.1	-1.4	-0.4
2025	0.9	0.7	1.2	1.3
2026	1.4	1.5	1.6	2.0
2027	1.4	1.7	1.5	2.1
2028	1.2	1.5	1.5	2.0

Adspend forecasts are demand-driven. We estimate the growth in sales necessary to meet the demand. As such, the adspend growth rates are for real sales (sales adjusted for changes in output prices). The forecasts for GDP, consumption and investment are taken from S&P Global Market Intelligence.

Source: S&P Global Market Intelligence

**A lack of accurate historical data prevents us from being able to forecast marketing in actual spend terms, so Bellwether seeks to predict advertising expenditure, as this forms the single largest component of marketing spend in the UK (an estimated 30%).*

Main media advertising

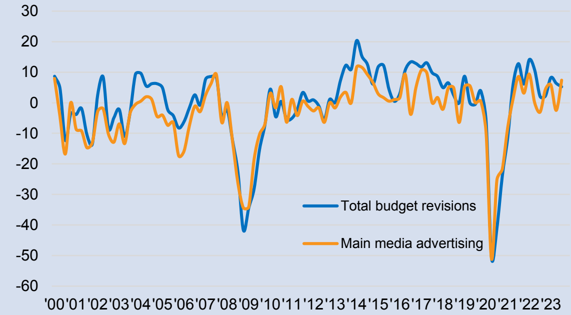
The *Bellwether* survey for Q3 2023 showed a return to growth of main media* marketing budgets. It was also the best performing of the *Bellwether* budget sub-categories during the latest survey period.

Following on from the previous quarter's reading of -2.5%, the net balance of +7.4% was also the highest recorded since the start of 2022. Budget increases were recorded at 16.1% of respondents, compared to 8.7% that signalled a fall. Latest data marked the third time in the past year that an upward revision to main media budgets has been registered.

Compared to forecasts made by *Bellwether* firms for the 2023/24 financial year, an upward revision to budgets compared favourably. A net balance of +13.5% of panellists anticipated growth in main media advertising for the current financial year.

Revisions to current budgets

In the last three months, has your main media advertising budget for the current financial year been revised up or down, or is it unchanged?



*includes video (TV, cinema and/or online), audio (radio and any other audio), published brands (print or online), out-of-home and any other online advertising.

Video, audio, published brands, out of home and other online advertising

We asked *Bellwether* panellists to provide us with a more granular breakdown regarding their main media marketing budgets during the latest survey period. We questioned whether current budgets relating to video, audio, published brands, out of home and any other method of advertising online had been revised when compared with the prior three months.

Other online marketing methods showed a further upward revision to budgets during the third quarter of 2023. Growth was also firmer, as signalled by the respective net balance improving to +9.1% from +8.3% for the second quarter. The third quarter reading was also the highest of all the main media segments covered by the survey.

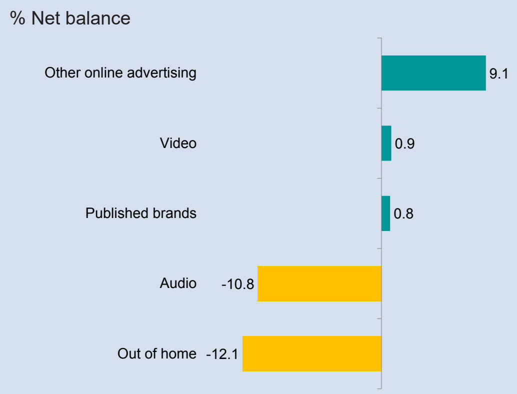
Marketing budgets related to video were also increased. However, a fall in the net balance to +0.9%, from +3.2%, pointed to only marginal growth that was the slowest since the second quarter of 2022. Nonetheless, the latest data did extend the current period of expansion in video marketing budgets to just under three years.

Published brands also recorded some modest growth in the third quarter of 2023, with the net balance of +0.8% a distinct improvement on last quarter's -5.0% and the first increase for this area of spend since the start of 2022. In contrast, Audio again signalled a noticeable decline, with the net balance of -10.8% the lowest reading since the second quarter of 2022. Similarly, there was a steep downward revision for out of home marketing budgets. The respective net balance declined to -12.1%, from -7.1% in the preceding quarter. This maintained the run of negative readings for this area of marketing spend that has been apparent since data were first collected at the start of 2020.

Revisions to current budgets

In the last three months, have your video, audio, published brands, out of home and other online budgets for the current financial year been revised up or down, or are they unchanged?

Q3 '23	Higher %	Same %	Lower %	Net. +/-
Other Online	19.6	69.9	10.5	**+9.1**
Video	13.7	73.5	12.8	**+0.9**
Published Brands	11.4	78.0	10.6	**+0.8**
Audio	2.2	84.9	12.9	**-10.8**
Out of Home	2.2	83.5	14.3	**-12.1**



We asked panellists to indicate whether their budgets for video (including any television, cinema or online video), audio (including any radio – live or online and any other audio such as podcasts), published brands (print or online), out of home and any other online advertising not already included had been revised up, down, or remained unchanged when compared to the previous three months

Direct Marketing

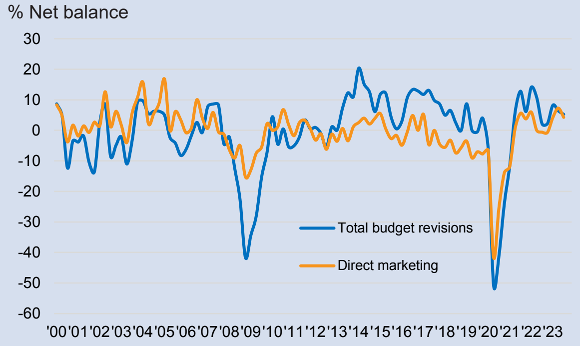
Direct marketing* budgets, which include funding made available for content distributed by post and e-mail, were reported to have been revised upwards for a third successive quarter by *Bellwether* panellists.

However, growth was not quite as strong as in second quarter, when budgets were increased to the greatest degree in nearly 17 years. This was reflected by the respective net balance, which fell to +4.3% (from +7.3%). Whereas 16.3% of panellists recorded a rise in direct marketing budgets, 12.1% recorded a cut.

Nonetheless, the latest data remain positive in the context of marketers' forecasts for the 2023/24 financial year. A net balance of just +1.4% of companies anticipated growth for direct marketing budgets.

Revisions to current budgets

In the last three months, has your direct marketing advertising budget for the current financial year been revised up or down, or is it unchanged?



* Includes direct mail, email, telemarketing, door-to-door, catalogues and SMS.

Sales Promotions

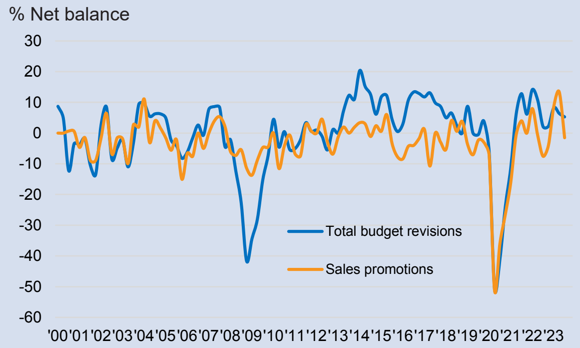
Sales promotions* budgets were reduced slightly in the third quarter of 2023. This was in stark contrast to the preceding quarter, when budgets were increased to the greatest degree in 23 years of data collection.

The respective net balance was -1.5%, down from +13.4% and marked the first time in three quarters that a reduction in sales promotions budgets has been recorded. Whereas 10.6% of companies registered an upward revision to budgets, this was more than offset by the 12.1% of firms that registered a downward revision.

The slight downward revision to sales promotions compares against companies' expectations of an increase in sales promotions for the 2023/24 financial period. A net balance of +6.3% signalled forecasts of increased budgets.

Revisions to current budgets

In the last three months, has your sales promotion advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes in-store/POS promotions (BOGOF and similar), coupons, trade incentives, price discounting, loyalty cards and free gifts.

Public Relations

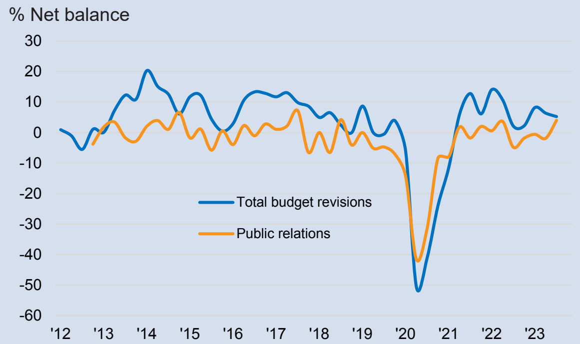
For the first time in five quarters, an upward revision to marketing budgets related to public relations* was recorded by the *Bellwether* survey.

The net balance for this category was +4.0% in the third quarter. That was an improvement on the -1.9% recorded in the preceding survey period. While 14.8% of panellists recorded an upward revision to PR budgets, 10.7% of the panel recorded a reduction.

The latest results were positive when compared to earlier predictions for 2023/24 budget plans, which pointed to a stagnation for the PR category.

Revisions to current budgets

In the last three months, has your public relations budget for the current financial year been revised up or down, or is it unchanged?



* includes reputation management, media relations, word-of-mouth, games and competitions, newsletters, and earned (not paid for) social media.

Events

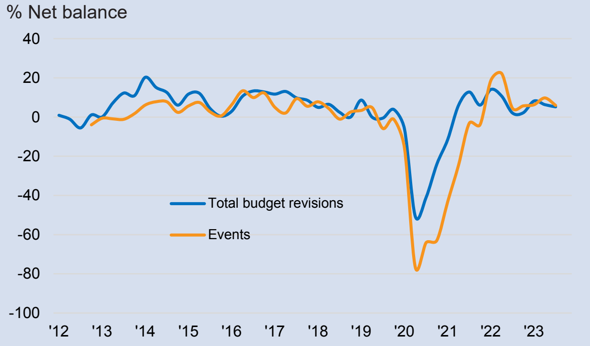
The latest *Bellwether* survey indicated a seventh successive upward revision to events* marketing budgets during the third quarter of the year.

Growth was, however, the softest seen since the end of 2022. This was highlighted by the respective net balance dropping to +5.9%, from the previous quarter's one-year high of +9.8%. Exactly 23.7% of the survey panel signalled an upward revision to events budgets. That compared to 17.8% that indicated a downward revision.

Another upward revision to events budgets is line with the positive projections for the 2023/24 financial year. *Bellwether* data shows that 14.5% of marketing executives anticipated a rise this key area of marketing spend.

Revisions to current budgets

In the last three months, has your events advertising budget for the current financial year been revised up or down, or is it unchanged?



* Includes exhibitions, conferences, experiential, event marketing, event sponsorship, product sampling, corporate hospitality and entertainment.

Market Research

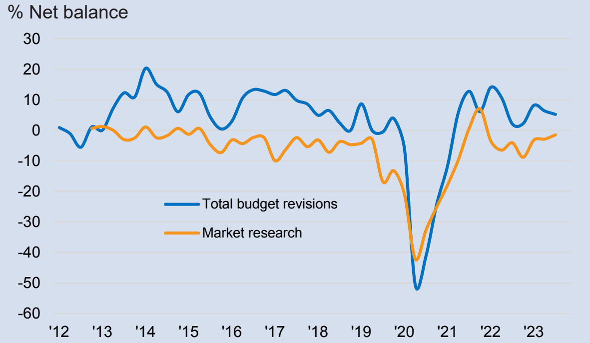
There was another downward revision to budgets related to market research* during the third quarter of 2023 as once again, as has been the case since the start of 2021, the number of panellists signalling a reduction outnumbered those that indicated growth.

However, the downward revision was marginal. Overall, the net balance was -1.5%, a relative improvement on the -2.9% seen in the previous quarter. That was also the best reading since the end of 2021. Whereas 9.5% of panellists signalled growth, 10.9% of firms registered a decline.

The marginal decline was again broadly in line with expectations for 2023/24 market research budget setting, when a net balance of -0.7% forecast a contraction.

Revisions to current budgets

In the last three months, has your market research advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes qualitative and quantitative, brand tracking, and product development research.

Other

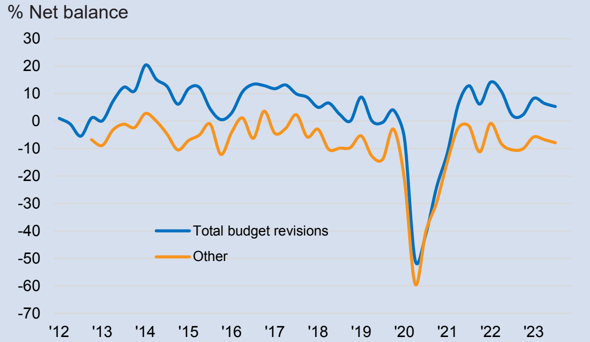
In line with the trend seen over the past six years, budgets related to other* marketing were reduced again in the third quarter of 2023.

The respective net balance also worsened. Latest data showed a reading of -7.9%, compared to -6.8% in the second quarter. It was the lowest reading of the calendar year to date. Whereas 3.5% of firms signalled an upward revision, 11.4% of companies recorded a downward revision.

Another quarter of reduced budgets related to other marketing again compared unfavourably to the neutral outlook provided by marketing executives for the 2023/24 budget year.

Revisions to current budgets

In the last three months, has your other advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes any other paid-for marketing activity.

Employment Prospects

We asked *Bellwether* panellists whether they expect employment at their companies to be higher, the same or lower in three months' time and the results are as follows.

Surveyed companies continued to anticipate greater staffing levels as we head into the final quarter of the year, as has been the case since the beginning of 2021. According to Q3 *Bellwether* data, 28.5% of respondents expect workforce numbers at their firm to increase over the coming three months, comfortably above the 16.9% that foresee job losses. Overall, this yielded a net balance of +11.6%, signalling positive expectations towards employment prospects in the final quarter of 2023. That said, this was down from +15.1% in the second quarter and the lowest in a year, thereby pointing to a softening of hiring intentions.

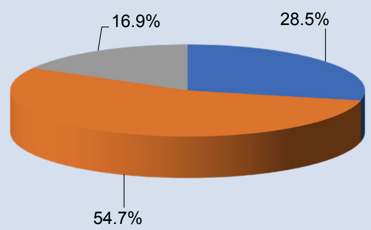
According to survey respondents, strong competition for skilled staff, and the subsequent challenges in attracting and retaining staff, is set to weigh on hiring. The deteriorating outlook for the UK economy has also led companies to assess their operating costs and make adjustments where possible, leading to redundancies.

Employment Prospects

Do you expect overall employment to be higher, the same or lower at your company in three months' time compared to current levels?

	Higher %	Same %	Lower %	Net. +/-
2022 Q2	38.4	50.0	11.6	**+26.8**
Q3	28.0	54.0	18.0	**+10.1**
Q4	27.7	58.7	13.6	**+14.1**
2023 Q1	32.3	52.0	15.7	**+16.7**
Q2	29.2	56.8	14.1	**+15.1**
Q3	28.5	54.7	16.9	**+11.6**

Employment expectations for three months' ahead



Background information

The Survey

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. Respondents are primarily marketing directors or similar.

The Questionnaire

Questionnaires are dispatched to companies in the final three weeks of each calendar quarter, requesting information relating to two key issues:

(a) whether marketing budgets for the year (calendar or financial) have been set higher, lower or the same as actual expenditure in 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.

Marketing spend

The Bellwether data indicate that total UK marketing expenditure is approximately £30–35bn per year. This is based on the assumption that advertising represents around one third of the total.

Net balances

The report uses net balances to signal the rate of change in variables. These are calculated by deducting the percentage number of survey respondents reporting a deterioration/decrease in a variable from the percentage number of survey respondents that reported an improvement/increase.

Institute of Practitioners in Advertising

As the industry body and professional institute of the UK's leading advertising, media and marketing communications companies, the IPA has been serving its members since 1917. The mission of the IPA is to serve, promote and anticipate the collective interests of its members; and in particular to define, develop and help maintain the highest possible standards of professional practice within the advertising, media and marketing communications business. For further information please visit https://ipa.co.uk

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

