

IPA Bellwether Report – 2022 Q4

Total marketing budgets continue to grow despite looming UK recession

Key points:

- Firms are reportedly expanding marketing budgets to support their brands through the impending downturn
- Main media category returns to growth; events budgets expand again
- Preliminary 2023/24 budgeting points to strong growth next year
- Financial prospects remain subdued at industry-wide and company-own level, but turn less negative

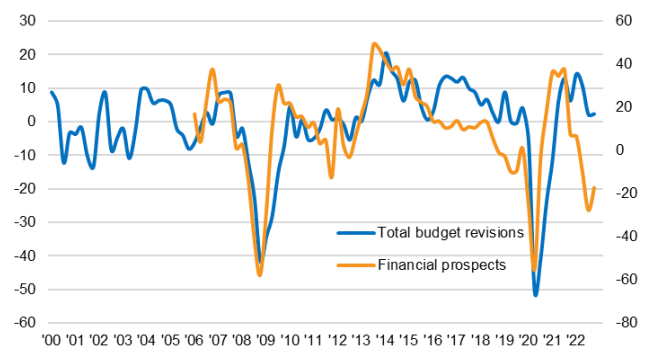
While the UK economy is widely expected to have entered a technical recession at the end of the year, the latest *Bellwether* survey signalled another quarter of total marketing budget growth across the final three months of 2022.

Around one-fifth of survey respondents upwardly revised their total marketing spending in the fourth quarter (20.2%), while 18.0% registered budget cuts. Overall, the net balance recorded in positive territory for the seventh successive quarter (+2.2%) and marked the longest uninterrupted sequence of growth for four years. Overall, growth was little-changed from Q3 (net balance of +2.1%).

Events (net balance of +5.7%, vs. +4.5% previously) was the top-performing *Bellwether* category in Q4. Meanwhile, main media marketing saw a return to growth (net balance of +4.4%, vs. -3.1%). In terms of the breakdown for main media, the data showed video (net balance of +13.7%, vs. +8.7%) and other online (net balance of +6.3%, vs. +9.3%) driving growth. Audio budgets were unchanged (net balance of 0.0%, vs. -2.0%), while published brands and out of home saw declines (net balances of -3.9% and -8.8%, vs. -11.2% and -7.6% respectively).

The remaining *Bellwether* categories saw a continuation of negative trends in the fourth quarter. Direct marketing saw a marginal reduction again (net balance of -0.6%, unchanged from previously), while PR budgets were cut modestly (net balance of -1.9%, vs. -4.8%). Sales promotions budgets struggled as companies were concerned about margins (net balance of -4.0%, vs. -7.5%). Lastly, market research (net balance of -8.8% vs. -4.1%) and other marketing activities not already accounted for (-10.1%, vs. -10.5%) saw budgets contract.

Chart 1: Revisions to total marketing budgets



Budget Plans 2023/24

The outlook for marketing budgets in the 2023/24 financial year was strongly positive, preliminary data from our *Bellwether* panellists showed.

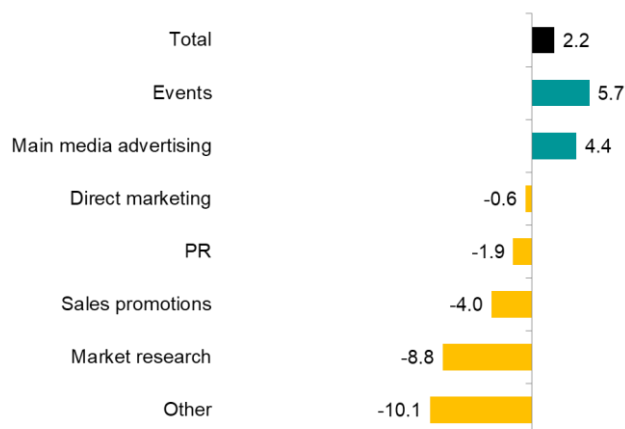
A large proportion of surveyed companies (39.5%) expect total marketing budgets to be higher in 2023/24, while only 15.3% anticipate spending cuts. This led to a strongly positive net balance of +24.2%, indicating a robust outlook among UK marketers. According to anecdotal evidence, some businesses were planning to raise their marketing expenditure in a bid to fend off competitors, protect market share and counteract the drag from a broader weakening in economic conditions.

Indeed, optimism towards budgets was seen across all seven broad *Bellwether* categories, preliminary data showed. Expectations of budget growth were the strongest for events (net balance of +18.0%) as companies continue with their efforts to re-engage with existing clients and prospects face-to-face. Companies also took a strongly positive view on the outlook for main media marketing (net balance of +13.4%).

Elsewhere, firms were also positive towards sales promotions (net balance of +7.9%), despite margin pressures. Direct marketing, PR, other marketing activities and market research (net balances of +5.8%, +3.7%, +2.4% and +2.0% respectively) are also poised for moderate budget growth.

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Chart 2: Analysis of marketing budgets in Q4 2022



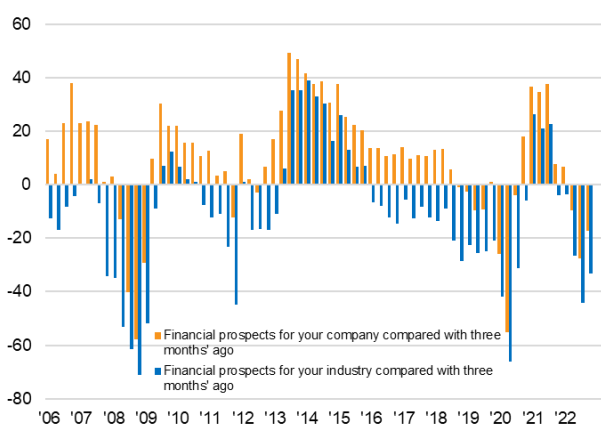
Financial prospects fall further in anticipation of more challenging economic conditions

Business sentiment among *Bellwether* panellists remained inside pessimistic territory during the fourth quarter of 2022, reflecting downbeat expectations for the year ahead as a persistence of high inflation, increased interest rates and low consumer confidence raise the prospect of a UK recession.

According to the latest figures, 41.8% of respondents adjudged the financial prospects within their specific industry as a whole to have worsened when compared to the three months prior. This dwarfed the 8.7% of companies that were optimistic on the outlook for their sector. The subsequent net balance of -33.2% was less negative than previously (-44.3%), but nonetheless the second-most pessimistic assessment of industry-wide prospects since Q2 2020.

Similarly, *Bellwether* panellists were negative on their company-own outlook in the fourth quarter. The proportion of respondents that were more downbeat than three months ago (32.8%) was over double the proportion feeling more optimistic (15.6%). That said, the net balance did increase slightly from the third quarter, up to -17.2% from -27.6%, indicating a reduced level of negativity.

Chart 3: Marketing executives' business confidence



Adspend to weaken in 2023 but growth to resume next year

The immediate outlook for the UK economy has deteriorated considerably since the previous *Bellwether* report as high inflation, rising interest rates and weak consumer confidence create an intensely challenging environment for businesses and households alike. Subsequently, the economy is likely to endure a recession in the first half of this year.

We expect GDP to shrink in 2023 by 0.8% as household incomes are squeezed by inflation. Private consumption is also likely to be adversely impacted by falling house prices and rising borrowing costs. Consequently, we expect retrenchment to occur as companies weather the storm, leading adspend to decline by a modest 0.3% in 2023.

That said, we are currently predicting a short and shallow recession in the UK. Moderate growth should return in 2024, underpinned by falling inflation, recovering demand in key export markets and a reduction in borrowing costs as the Bank of England cuts interest rates. We are predicting GDP growth of 0.6% in 2024, and a recovery in adspend (1.2% annual rate of growth).

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"Given the immediate outlook for the UK economy has deteriorated since the previous Bellwether Report, this quarter's results are most welcome. While understandably cautious, they are nonetheless in positive territory."

"We can see that the companies that can are holding their nerve and continuing to invest in marketing through the downturn, with supporting anecdotal evidence from the report also revealing that a lot of companies who are concerned about losing market share to competitors have either maintained or increased their spend accordingly. This indicates that marketing is being used both defensively and offensively."

"It is particularly good to see positive revisions to main media budgets this quarter which is helping to drive the overall upward figure, fuelled particularly by investment in video advertising. As our evidence shows, this will stand brands in good stead during a downturn as brand-building advertising has a proven ability to maintain a brand's pricing power and protect its profit margins."

Joe Hayes, Senior Economist at S&P Global Market Intelligence and author of the *Bellwether* Report:

"The latest Bellwether survey provided some interesting insights into how UK companies are planning to navigate an impending UK recession. Another quarterly expansion in total marketing budgets at a time when business costs have hit multi-decade highs and consumer confidence has plunged suggests many businesses understand the importance of investing in resources that will help them get through the downturn as best as possible."

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 Q4 2022 can be purchased for £99+VAT for IPA members (£140+VAT for non-members) at <https://ipa.co.uk>

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. 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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