

## IPA Bellwether Report – 2022 Q3

### Total marketing budget growth slows as cost-of-living crisis dents UK economy

#### Key points:

- Total marketing budgets increase, but at slowest pace since Q1 2021
- Events remain a key avenue of marketing growth but budget cuts seen elsewhere
- Financial outlook at its most downbeat since the start of the pandemic
- Adspend forecast for 2022 revised higher to 3.7% as UK government's energy support package provides relief for households and firms

Another period of total marketing budget growth was recorded in the third quarter of 2022, latest *Bellwether* survey data showed, continuing the positive trend that began over a year ago. However, the expansion slowed for a second successive quarter as the cost-of-living crisis, soaring energy bills, weakening demand and economic uncertainty stalled business decision-making and led some companies to retrench.

According to the latest survey findings, 22.2% of companies increased their total marketing budgets in the third quarter. Despite more challenging economic conditions, some *Bellwether* participants noted that efforts to invest in their brands would continue as they look to retain market share with new innovative methods to promote their products and services. Boosting brand visibility through digital channels was also frequently mentioned by respondents.

However, only a marginally smaller proportion of companies registered total marketing budget cuts during the third quarter (20.1%), resulting in a weak positive net balance of +2.1%. This was down from +10.8% in the previous period and its lowest seen across the current six-quarter expansion sequence.

Rising cost pressures was a principal challenge faced by UK firms in the third quarter. With energy bills and general prices for goods and services rising sharply, profit margins have ultimately been squeezed. At the same time, high inflation has caused consumers' purchasing power to deteriorate, weighing on demand. This has led some companies to retrench, with marketing budgets being reduced as a result. Indeed, of the seven categories of marketing spend monitored by the *Bellwether* report, only events saw growth in Q3, reflecting the continued appetite for face-to-face meetings and engagements in person

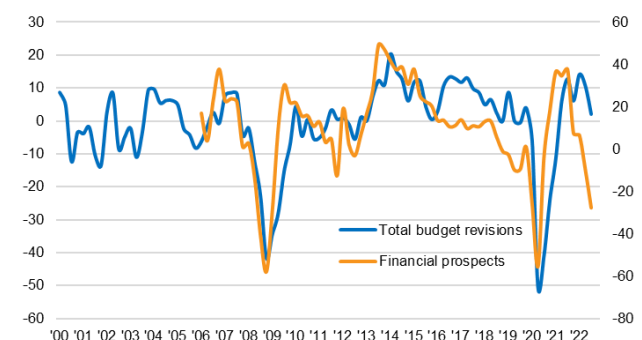
following the lifting of COVID-19 restrictions. Even here however, growth slowed notably (net balance of +4.5%, from +22.2%)

Elsewhere, main media marketing budgets – which includes big-ticket advertising campaigns relating to TV and radio – fell for the first time since Q1 2021 (net balance of -3.1%, from 0.0% previously). The decrease was only mild overall, indicative of a cautious reduction amid rising risks to the UK economy. Within main media, the largest drags were published brands (net balance of -11.2%, from -2.6%) and out of home (net balance of -7.6%, from -15.9%), while audio also fell slightly (net balance of -2.0%, from -16.4%). Other online advertising (net balance of +9.3%, from +4.4%) and video (net balance of +8.7%, from +0.8%) meanwhile saw growth.

The largest downturn was once again seen in the segment containing other forms of marketing not accounted for by the survey (net balance of -10.5%, from -8.3%). Sales promotions budgets also fell, marking a second successive quarterly decrease. The net balance registering a drop in spending here fell to -7.5%, from -0.7%.

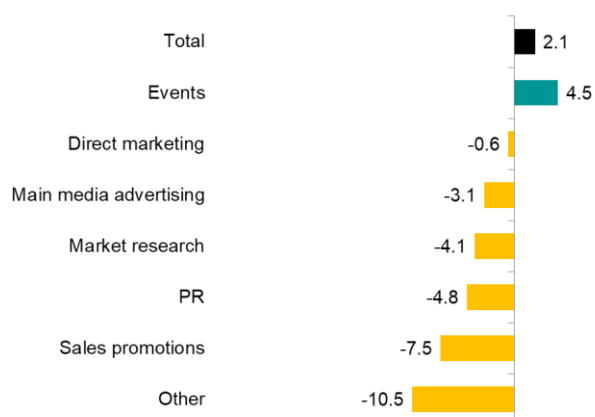
Cuts of a more modest nature were seen in the remaining segments. Public relations budgets fell for the first time in a year (net balance of -4.8%, from +3.7%), while a decrease of a similar strength was seen for market research (net balance of -4.1%, from -6.5%). Lastly, direct marketing budgets fell fractionally (net balance of -0.6%, from 0.0%).

Chart 1: Revisions to total marketing budgets



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**Chart 2: Analysis of marketing budgets in Q3 2022**



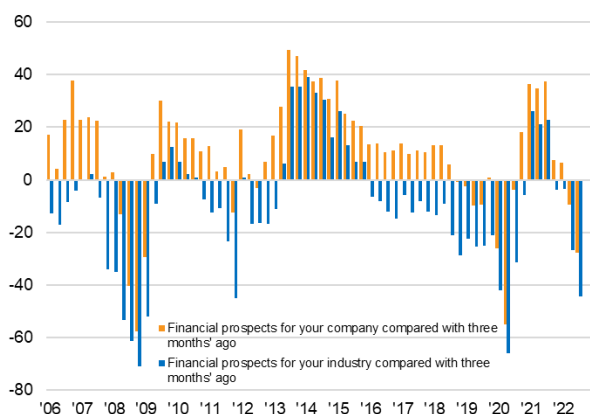
**Financial prospects fall further in anticipation of more challenging economic conditions**

Financial sentiment across the *Bellwether* survey panel moved deeper into negative territory during the third quarter, reflecting a more sombre mood among UK businesses amid high inflation and the growing risk of an economic downturn.

Compared to three months ago, the latest data signalled a stronger level of negativity among *Bellwether* firms towards the financial prospects of their specific industry. While 6.3% of surveyed companies were more optimistic, 50.5% were downbeat, leading to a net balance of -44.3% – the most pessimistic assessment of industry-wide financial prospects since Q2 2020.

Company-own financial prospects moved in the same direction during the third quarter. Latest *Bellwether* data showed 40.6% of firms reporting a downbeat financial assessment of their business, compared with 13.0% that were more positive. At -27.6%, the net balance was likewise its lowest since the start of the COVID-19 pandemic in Q2 2020.

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



**2022 adspend growth forecast lifted slightly following energy support measures**

Since the last *Bellwether* report, little has changed regarding the immediate outlook for the UK economy. A recession is likely to have started in the third quarter, but we anticipate it being short and shallow, in part owing to the support measures

provided by the government to assist households and firms with their energy bills. This relief is likely to have also helped sustain adspend into the end of the year, so we have upwardly revised our 2022 forecast to 3.7%, from 1.6% previously.

Nevertheless, high inflation will continue to squeeze incomes, while weak demand in key export markets, financial market volatility and subdued corporate investment will likely weigh on real GDP in 2023. As such, our GDP growth forecast for next year has been reduced from 0.5% to 0.2%, while our adspend growth forecast has also been trimmed to 0.3% (from 0.8%). With high inflation also set to persist into next year, this will dampen real rates of growth.

Beyond 2023, our forecasts are little-changed since the previous report. We're slightly more bullish on adspend growth in 2024 (1.6%, from 1.4%) in part due to our expectation that a consumer-led UK recession will only be short-lived.

**Commenting on the latest survey:**

**Paul Bainsfair, IPA Director General:**

*"We know from analysis of additional S&P500 data and new data from the FTSE 100 benchmarks that strong brands are a critical strategic asset that deliver value and that their budgets are an investment not a cost. Furthermore, we see from this data that strongly branded companies recover quickly after a crisis and retain their performance. We appreciate, however, that while increasing or maintaining investment in marketing during these tough economic times is generally the ideal thing for companies to do, it is not necessarily the easiest thing to do – as these latest Bellwether results imply. But there are ways around this.*

*"Instead of slashing budgets that can lose brands their customers' awareness and subsequent market share, our experts would advise that after optimising their pricing and promotions strategy, which would usually include supporting with brand advertising, companies tweak their brands' marketing budgets subject to their geography, portfolio, channels and media – all of which will have variations that can be optimised accordingly. Equally, we'd advocate a longer-term approach that steers away from heavy sales activations which can erode brand loyalty and lose companies profit."*

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

*"Bellwether survey data suggests that UK companies were able to squeeze out another round of marketing budget growth in the third quarter, although momentum has faded quite significantly since the first half of 2022 as the broader economic picture has darkened. Budget cuts are being seen across the majority of the monitored segments of marketing spend as companies move into retrenchment mode due to soaring costs and slowing demand. The cost-of-living crisis will continue to weigh on household earnings throughout the winter, meaning discretionary spending cutbacks are inevitable for the UK's low-to-middle income groups that are at the heart of the economy."*

*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 Q3 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](mailto:economics@ihsmarkit.com)

### All press enquiries, please contact:

#### S&P Global Market Intelligence

Joe Hayes, Senior Economist

Telephone +44-1344-328-099

Email [joe.hayes@spglobal.com](mailto:joe.hayes@spglobal.com)

#### IPA

Sylvia Wood, Head of Press Office

Telephone +44-20-7201-8247

Email [sylvia@ipa.co.uk](mailto:sylvia@ipa.co.uk)

Sabrina Mayeen, Corporate Communications

Telephone +44-7967-447-030

Email [sabrina.mayeen@spglobal.com](mailto:sabrina.mayeen@spglobal.com)

#### 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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