

IPA Bellwether Report – 2022 Q2

Total marketing budget growth continues amid challenging business outlook

Key points:

- Total marketing budget growth stays resilient in Q2 with net balance of +10.8%
- Events budgets rise sharply as companies re-engage with face-to-face activities
- Financial prospects deteriorate sharply as economic headwinds build
- Adspend forecasts for 2022 and 2023 cut as cost of living crisis dents UK economy

Total marketing budgets continued to grow at a solid pace in the second quarter of 2022, latest Bellwether data showed, despite strengthening economic headwinds and rampant inflationary pressures weighing on disposable incomes and raising business expenses. There was clear evidence of firms adapting to a post-pandemic world, with events marketing budgets seeing a record upward revision as companies look to relaunch their brands, reconnect with existing clients and look for new methods to grow their businesses via face-to-face activities.

According to Bellwether data, around a quarter (24.2%) of surveyed companies raised their total marketing expenditure during the second quarter, while 13.4% registered budget cuts. At +10.8%, the resulting net balance remained in solid positive territory, but indicated a slight slowdown in growth when compared to the opening quarter of 2022 (+14.1%).

Events was a key driver of total marketing activity growth, with the latest data signalling another record upward budget revision. At +22.2%, the respective net balance was up from +18.7% previously and the strongest-performing Bellwether category by a considerable margin. The new "living with COVID" normal has given companies the confidence to plan face-to-face events, with many firms reportedly set to use this platform to relaunch their brands. The only other Bellwether category to record growth in Q2 was public relations, which saw its expansion strengthen from the start of the year (net balance of +3.7%, from +0.6%).

Main media – which includes big-ticket advertising campaigns relating to TV – saw marketing budgets stagnate, bringing to an end a year-long sequence of growth. At 0.0%, the net balance was down sharply from +9.4% as some companies chose to reduce

parts of their advertising spend amid growing recession fears and uncertainty over the cost of living crisis. Within main media, there were notable differences. While other online (+4.4%, from +18.6%) and video advertising (+0.8%, from +9.0%) growth continued, they both saw steep slowdowns. Audio (-16.4%, from -8.5%) and out of home (-15.9%, from -4.6%) saw downturns deepen, while published brands moved from positive to negative territory (-2.6%, from +1.3%).

Direct marketing was another Bellwether category to stagnate in Q2, also drawing to a close a four-quarter sequence of growth. The remaining monitored marketing activities saw budgets fall in the second quarter. Sales promotions (-0.7% vs. +8.0% previously), market research (-6.5% vs. -3.5% previously) and other marketing activities not already accounted for (-8.3% vs. -0.9% previously) all dragged on total expenditure.

Chart 1: Revisions to total marketing budgets

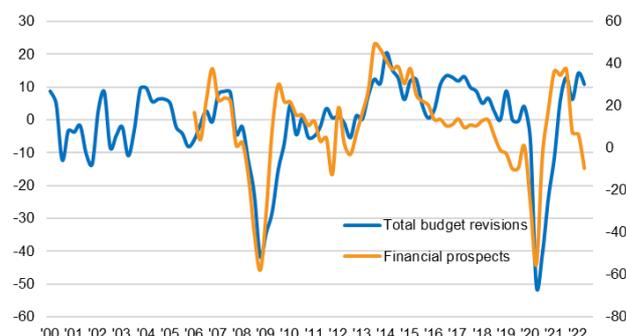
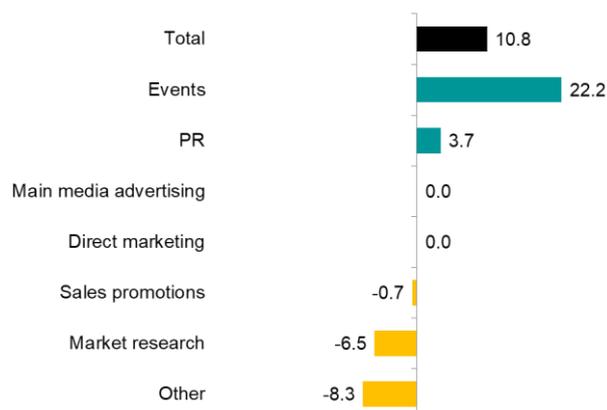


Chart 2: Analysis of marketing budgets in Q2 2022



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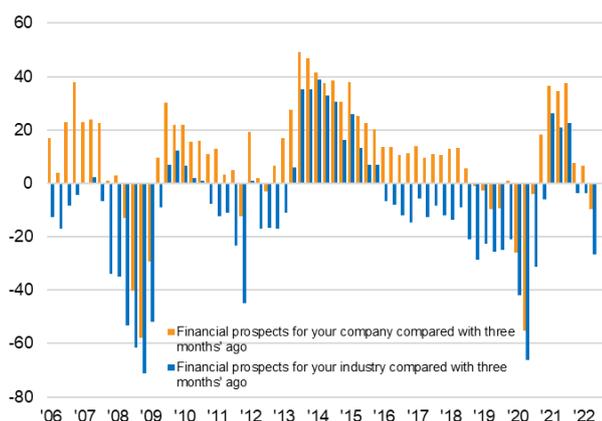
Pessimism towards industry-wide financial prospects deepens in Q2 as companies turn negative on own-business outlook

The latest Bellwether survey signalled a broad-based deterioration in financial prospects in the second quarter.

Compared to three months ago, survey respondents became more pessimistic towards their industry-wide financial prospects, with a net balance of -26.7% of companies more downbeat overall. This was the most negative outlook since Q3 2020 and compared with a net balance of -3.6% in the first quarter of the year. While 13.6% of companies were more optimistic, 40.3% expressed gloomier sentiment.

Meanwhile, for the first time since Q3 2020, own-company financial prospects slipped into negative territory. A net balance of -9.5% of companies signalled pessimism regarding their own-company performance, the most downbeat for two years. Underlying data showed that 30.7% of survey respondents were pessimistic towards their own business prospects, compared to 21.2% that were more optimistic.

Chart 3: Marketing executives' business confidence



Adspend forecasts cut amid deteriorating economic outlook

Since the last Bellwether report, we've downgraded our assessment for UK economic growth prospects in 2023 through to 2025, which in turn has seen us downgrade our adspend growth forecasts over this period too. We've also cut our adspend growth forecast for 2022 to reflect the strengthening economic headwinds that have built up through the year.

Elevated inflation throughout 2022 points to a bigger hit on consumer confidence and disposable incomes. High costs for businesses will also weigh on the economy, while rising interest rates act to deter investment. The risk of a recession has intensified, and as such, we've cut our adspend forecast for this year to 1.6% (from 3.5% previously).

Much of the economic challenges seen at present are likely to spill over into 2023. With interest rates also set to rise further and households and

businesses likely to remain in cost-containment mode until inflation comes down, our GDP forecast for 2023 has been cut from 1.2% to 0.5%, bringing down our adspend growth forecast from 1.8% to 0.8%.

With the growth path beyond 2023 now looking more uncertain amid the potential for these strong downside risks to persist, 2024, 2025 and 2026 adspend growth forecasts have also been trimmed to 1.4% (from 1.7%), 2.0% (from 2.2%) and 2.3% (from 2.4%) respectively.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"The Q2 report out today shows that marketers are understandably concerned about the challenging business climate ahead, as reflected in the deterioration of their financial prospects.

"It is interesting to see, however, amid the mounting economic headwinds, there were a number of businesses that signalled their intent to market aggressively to support their brand and gain market share from less-prepared competitors. This is usually a wise and canny move. All the IPA's analysis on who does best in a downturn shows that the companies that recover fastest are the ones that either maintain or increase their marketing spend during difficult economic times. Equally, cutting ad budgets - relative to competitors' spend - in a recession undermines companies' ability to grow future market share and profits.

"Meanwhile, others were also planning for the challenges ahead by positioning their businesses to support customers through difficult times. Brands need to be seen and continue to work for the benefit of consumers. They are important because they offer choice which ensures competition and lower prices, which in the months ahead will be important for consumers looking to spend their money wisely."

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

"Amid a deteriorating economic outlook for UK businesses, sustained growth in total marketing activity is encouraging. However, the stagnation in main media marketing budgets is a disappointing result from the Q2 survey and suggests concerns around the outlook are weighing on decision making. Risks are clearly skewed to the downside as the intensifying cost of living crisis weighs on disposable incomes, while firms face difficult decisions regarding their spending at a time when their cost burdens continue to inflate."

– 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 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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