

## IPA Bellwether Report – 2023 Q3

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

#### Key points:

- 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

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% (down from +6.4% previously), 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 upwardly revised spending in this crucial segment at the strongest rate in a year-and-a-half (-2.5% previously). This contrasted markedly with the

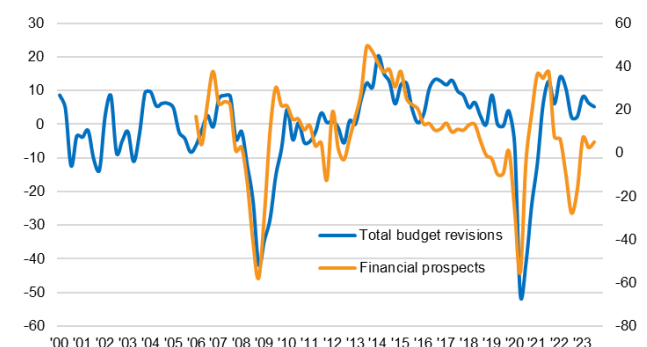
Q2 report, where sales promotions budgets drove the upturn as cost-of-living pressures drove companies to provide support to cash-strapped customers. Within main media, other online advertising methods that aren't captured by the other sub-categories rose sharply (net balance of +9.1%, vs. +8.3% previously) 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 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.

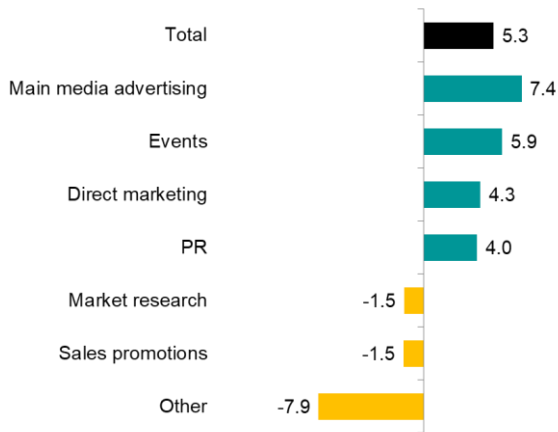
Other areas of budget growth included direct marketing (net balance of +4.3%, from +7.3%) and public relations (+4.0, from -1.9%). In fact, PR spending rose at the strongest pace in five years.

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%).

Chart 1: Revisions to total marketing budgets



**Chart 2: Analysis of marketing budgets in Q2 2023**



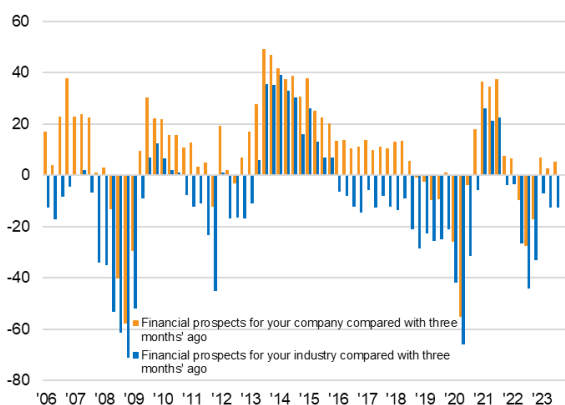
**Financial prospects at industry-wide and company-own level remain subdued**

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.

**Chart 2: Marketing executives' business confidence**



**UK economy set for shallow recession, with adspend expected to fall in 2023 and 2024**

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%.

**Commenting on the latest survey:**

**Paul Bainsfair, IPA Director General:**

*“Against a backdrop of economic stagnation and ongoing elevated levels of inflation in the UK, coupled with increasing global geopolitical volatility, the trading environment for companies is unquestionably tough. But instead of seeing a re-run of last quarter’s slightly concerning results where companies revised up their short-term sales promotional activity to record amounts while reducing their main media spend, this time we are buoyed to see a more considered, reverse state of affairs.*

*“This quarter, those companies that can be heeding the evidence that in general, investing more in main media will help to steady them through the uncertain times and help to ensure the longer-term health and profitability of their brands. Crucially, they – alongside the many investment analysts we have also recently surveyed – are recognising that marketing spend is indeed an investment not a cost.”*

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

*“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.”*

*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 2023 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@spglobal.com](mailto:economics@spglobal.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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