

IPA Bellwether Report – 2023 Q4

UK marketing ends 2023 on a high as budget growth at its strongest in nearly ten years

Key points:

- Total marketing budgets see strongest upward revisions since Q2 2014
- Preliminary budget setting suggests 2024 will be a strong year for UK marketing executives, despite recession forecasts for beginning of the year
- Events marketing budgets continue to grow rapidly, with this trend set to carry through into the 2024/25 financial year
- Bellwether firms turn at their most bullish on company-own prospects since Q3 2021, although the sentiment at the industry-wide level remains downbeat

Total marketing budgets finished 2023 with a robust expansion, latest *Bellwether* survey data showed, with the net balance of companies reporting greater spending at its highest in nearly a decade. The fourth quarter's expansion came amid an intensely challenging backdrop for UK businesses, with high borrowing costs, persistent inflationary pressures and a looming recession all creating headwinds for growth. That said, with the downturn expected to be shallow, and economic activity widely touted to recover in the second half of 2024, many companies opted to remain proactive in the market, instead of withdrawing into cost-saving mode.

Slightly over one quarter (26.0%) of panellists saw total marketing budgets rise in the fourth quarter of 2023, more than double the proportion registering cuts (11.3%). The resulting net balance of +14.7% was up sharply from +5.3% in the third quarter of last year and its highest since Q2 2014 – nearly a decade. This subsequently extended the current sequence of expansion in total marketing budgets to 11 quarters, the longest uninterrupted period of sustained growth since 2018.

Events was the best-performing sub-category of marketing in the final quarter, recording a strongly positive net balance of +15.9%, its highest in a year-and-a-half (up from +5.9% in Q3). A notable finding was in direct marketing, which saw its greatest upturn (net balance of +12.6%, from +4.3%) since the opening quarter of 2005. These two categories were the principal drivers of total marketing budget growth at the end of 2023 as expansions of a more modest

nature were seen in PR (net balance of +1.9%, down from +4.0), main media (+1.9%, down from +7.4%) and sales promotions (+1.4%, from -1.5%).

The slowdown in main media compared with a strong performance in the third quarter, where the category was the top performer. Underlying data revealed mixed trends, with other online advertising (net balance of +13.2%, up from +9.1%) and video (+6.6%, from 0.9%) contrasting with contractions in published brands (-1.4%, from +0.8%), audio (-7.0%, from -10.8%) and out of home (-8.1%, from -12.1%).

Just two of the seven *Bellwether* categories recorded a contraction in budgets in the final quarter – market research (net balance of -5.0%, from -1.5%) and other (-6.4%, from -7.9%).

Budget Plans 2024/25

The outlook for total marketing budgets in the 2024/25 financial year was remarkably strong, preliminary budget setting data showed.

Latest survey results showed budget expansions at 44.5% of respondents, around triple (15.1%) those that were restricting spending plans in the 2024/25 period. Consequently, a net balance of +29.4% of companies with stronger budgets than the last financial year showed a robust outlook for UK marketing.

Optimistic preliminary budget setting was seen in five of the seven *Bellwether* categories. Events is expected to have another strong year, with a net balance of +17.8% boosting their budgets for 2024/25, while direct marketing also appears to be an area of focus (net balance of +16.8%) after a strong fourth quarter revision. Encouragingly, main media is also set for a strong performance (net balance of +14.2%). The two remaining areas of expansion in 2024/25 are PR (net balance of +10.6%) and sales promotions (net balance of +8.2%).

As was the case for 2023/24, budget setting or the other marketing category was unchanged (0.0% net balance), while market research was the sole area expected to see budget cuts (net balance of -1.0%).

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Chart 1: Revisions to total marketing budgets

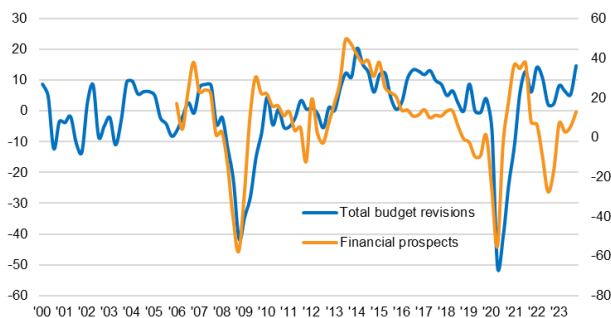
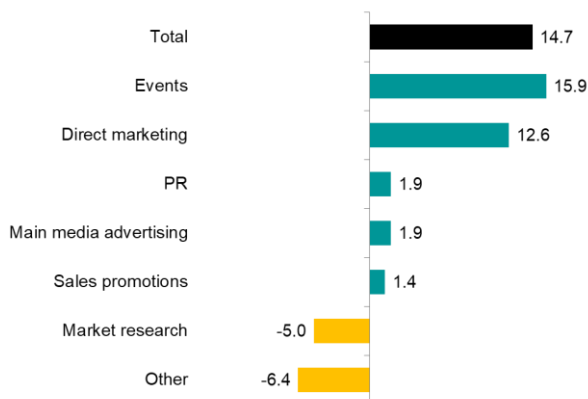


Chart 2: Analysis of marketing budgets in Q4 2023



More optimism towards company-own prospects

The latest *Bellwether* data showed a widening of the divergence between company-own and industry-wide financial prospects during the final quarter of 2023, with firms feeling more bullish towards growth prospects compared to three months prior, but still remaining concerned towards the outlook for their sector as a whole.

Looking at the industries they operate in, 13.8% of surveyed companies were more optimistic than they were in the third quarter of 2023. However, this was more than offset by the 26.5% of respondents signalling a lack of confidence in the outlook. As a result, the net balance registered -12.7%, which was unchanged from Q3 (and also compared with -12.6% in Q2). Overall, business sentiment towards industry-wide financial prospects have been stuck in firm pessimistic territory for over two years.

This contrasted markedly with *Bellwether* firms' sentiment towards their own businesses. Just shy of one third of respondents (32.4%) were feeling more upbeat compared to three months ago, whereas 19.8% were gloomier. At +12.6%, the net balance was at its most positive since the third quarter of 2021.

Adspend to fall in real terms in 2023 and 2024

Since the last *Bellwether* report, there has been little change made to S&P Global Market Intelligence's forecasts for the UK economy. Real GDP is expected to rise by 0.5% in 2023, a touch higher than the 0.3% forecast we had pencilled in the Q3 edition. However, this is a lacklustre expansion, with the UK economy expected to enter a technical recession in

the fourth quarter of 2023.

In turn, the UK economy is expected to begin 2024 in a shallow recession, and the outlook for the year is challenging. For the year as a whole, our forecast is for a 0.1% contraction (as was also the case in our Q3 forecast), as high borrowing costs and still-elevated inflationary pressures constrain economic activity. Consequently, we see adspend declining in real terms in both 2023 and 2024 (by 0.6% and 0.7% respectively).

That said, in the second half of 2024, the economy should return to growth, and our outlook for 2025 and beyond is more positive. We foresee a recovery in adspend in 2025 (1.1%), and stronger expansions in 2026 through to 2028 (1.7%, 1.9% and 1.9% respectively).

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"Despite the challenging economic climate, this quarter's upbeat Bellwether findings show that companies are heeding the evidence that continuing to advertise through the tough times can help maintain brand loyalty and protect the long-term health of their brands."

"However, we also saw anecdotal feedback that some companies noted plans to price their goods and services more competitively in a bid to gain market share. While this is good news for the consumer, it is further proof that companies are experiencing a tough trading environment."

"On this point, with the evidence showing that investing in advertising helps protect sales when businesses raise prices, it may prove more profitable for companies to increase their advertising than reduce their pricing."

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

"The resilience of UK marketing continues to be at odds with the worsening economic climate businesses are facing. Instead, companies are demonstrating the foresight to maintain a long-term view towards their brands, maintaining a healthy level of investment in the tools to stave off competition, retain clients and win new business. The UK economy is expected to endure a shallow recession, which will end in the first half of 2024, and our data clearly show more companies are prepared to ride out the bumps to put themselves in a strong position when the recovery phase kicks in than those that aren't."

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 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

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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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