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Bellwether Report

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The *Bellwether* Report is researched and published by IHS Markit on behalf of the Institute of Practitioners in Advertising.

The report features original data drawn from a panel of around 300 UK marketing professionals and provides a key indicator of the health of the economy.

The survey panel has been carefully selected to represent all key business sectors, drawn primarily from the nation's top 1000 companies.

The *Bellwether* Report is available via annual subscription, please contact economics@markit.com.

To download an individual pdf go to www.ipa.co.uk

The next Bellwether Report will be released on:

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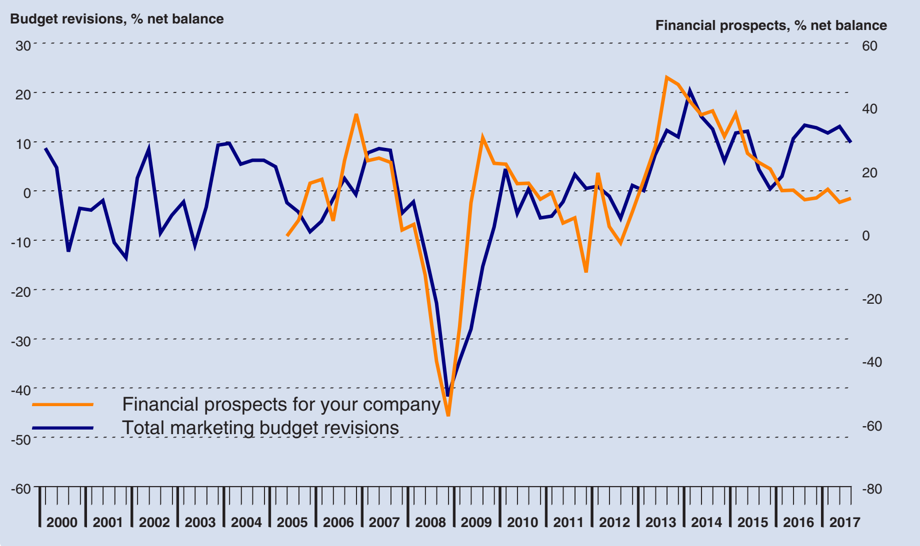
Marketing budgets rise in Q3, but to weakest extent for a year-and-a-half as uncertainty bites

Marketing budgets and business confidence



Key findings from the Q3 2017 survey:

- Period of continuous marketing budget growth extended to five years
- Uncertainty undermines gains as nearly 70% of panel record no change in budgets since Q2
- Internet marketing underpins expansion, but main media stagnates
- Financial prospects continue to underwhelm
- Adspend forecast to rise by 0.6% in 2017; no growth expected in 2018

Commenting on the latest survey results, Paul Bainsfair, IPA Director General, says:

"What strikes us most from this quarter's report is the extent to which UK companies – and their marketing budgets – are caught up in wider economic and geo-political uncertainty. The vast majority are in a seeming state of paralysis, reflected in the fact that almost 70% of UK marketers haven't revised their budgets one way or another from this quarter to last.

"Recent evidence has revealed that the most effective way to attract more customers is through increasing market penetration. Furthermore, the most effective approach to achieving this is through using a 60:40 ratio of brand-building, mass media, supported by more targeted sales activation media. So while we acknowledge the benefits of internet advertising and welcome the growth in internet advertising budgets, we wouldn't recommend sole investment in online at the expense of offline. A careful balance is required."

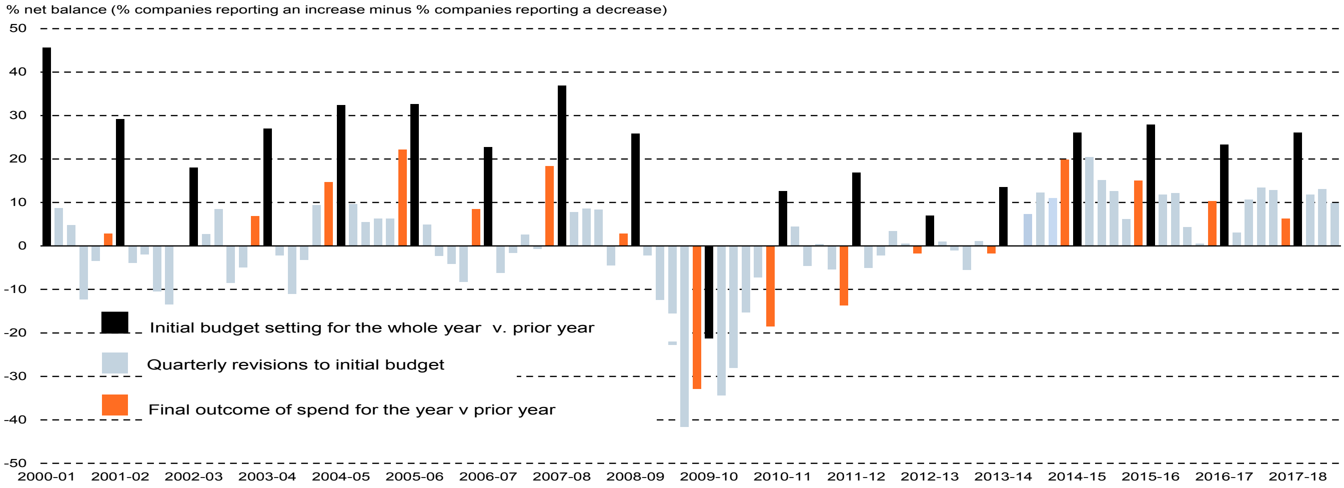
Commenting on the latest survey results, Dr Paul Smith, Director at IHS Markit, says:

"The latest Bellwether survey was characterised by uncertainty, which is reported to be weighing on investment and household spending. The net result has been relatively sluggish sales growth, with companies responding by adopting a more cautious approach, in many cases freezing budgets at levels recorded three months ago.

"Looking ahead, financial prospects remain broadly subdued as concerns about Brexit continue to weigh on sentiment. Combined with ongoing squeezes on spending from rising costs, these headwinds are likely to continue to undermine growth in the final quarter of 2017."

Total marketing

Evolution of total marketing budgets



Marketing budgets at UK companies were revised higher in the third quarter of 2017, extending the current survey record period of growth to five years.

Around 21% of the survey panel recorded an upward revision to marketing budgets during the latest survey period, generally raising their spend in a bid to attract new clients. Competitive pressures were also noted as a factor supporting growth, with companies keen to increase (or maintain) brand exposure for new and existing products, especially at a time of ongoing economic uncertainty.

The hard to quantify impacts of the Brexit negotiations and the UK's future departure from the EU were noted as the primary sources of uncertainty. Amid reports of reduced sales and investment in a number of cases, allied with an increasing desire to keep costs lean, a greater proportion of companies left their budgets unchanged in Q3 (69% versus 57% in Q2).

With 11% of companies recording a cut to their marketing budgets, the resulting net balance of +9.9% was notably down on Q2's +13.1% and the lowest reading since the first quarter of 2016.

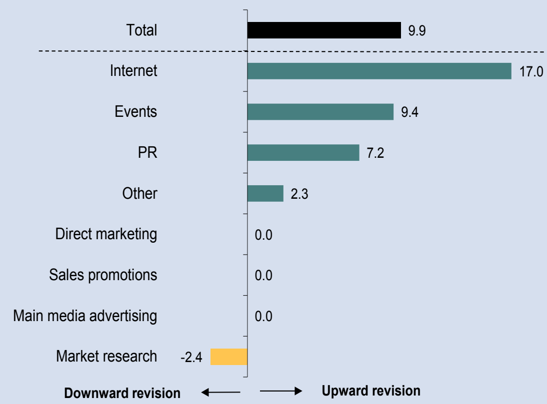
The perceived advantages of cost and return of digital marketing were noted as key in driving budget growth for internet – and thereby total marketing – during the third quarter of 2017. Latest data showed that a net balance of +17.0% of companies increased their internet budgets, lower than the previous quarter's decade high of +22.7%, but nonetheless indicative of healthy expansion. Reflective of a longer-term shift, there were reports that internet marketing budgets had been increased at the cost of reduced spending on traditional print media advertising.

Within internet, marketing budgets related to search/SEO rose to a greater degree as signalled by the respective net balance improving to a seven-and-a-half year high of +16.3% (Q2: +15.6%). Mobile advertising also rose to a stronger degree in Q3 (net balance: +5.8%, from Q2's +3.0%).

Other *Bellwether* categories to enjoy positive net balances during the third quarter included events (+9.4% versus +2.1%

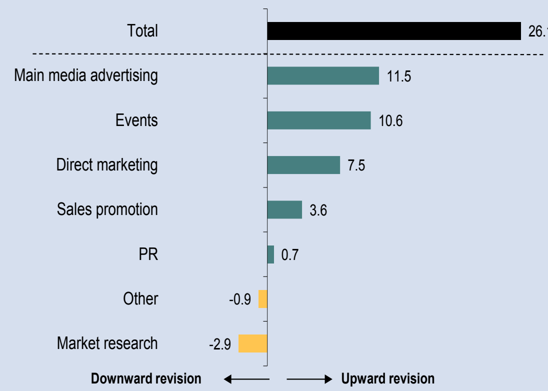
Breakdown of revisions to current budgets

% of all companies reporting an upward revision to current budgets minus % reporting a downward revision.



Breakdown of 2017/18 budget plans

% of all companies reporting an increase in spend for 2017/18 minus % reporting a decrease.



Industry Opportunities and Threats

for Q2), PR (+7.2% from +2.1% in Q2) and 'other' (+2.3% from Q2's -2.6%). Some companies commented that attendance at local events, conferences and trade shows were beneficial due to the greater opportunity afforded to them of closer and direct engagement with customers.

Perhaps reflective of ongoing uncertainty and generally slower sales growth in the third quarter, main media advertising was unchanged (net balance: 0.0%, down markedly from +9.8% in Q2 2017). Given the strong performance of internet, which forms part of the wider main media advertising category, the latest survey data subsequently implied a subdued performance for advertising related to 'big-ticket' areas such as cinema, TV and radio.

Stagnation of marketing budgets was also seen in the sales promotion and direct marketing categories during the third quarter (net balances of 0.0% were registered). That said, in both cases, no change in marketing budgets was a relative improvement following notable reductions seen in the preceding quarter (Q2 net balances were -10.7% and -4.7% respectively).

Posting a net balance of -2.4% market research was the only *Bellwether* category to register a net reduction in spending during Q3.

Opportunities and Threats

In line with the latest survey results, a number of companies are expecting to reap the rewards of increased digital marketing over the coming year. The higher usage of video content, greater social media engagement and targeted email communications were all seen as opportunities to generate sales and bolster company performance in the next 12 months.

A number of respondents also expect to benefit from the post-referendum depreciation of sterling.

Some panellists commented that overseas business had been boosted by a weaker sterling making their products more attractive to foreign buyers. Travel/Entertainment companies commented that domestic tourism continues to be bolstered given the increased cost to UK households of holidaying abroad.

That said, the fall in sterling has also led to less desirable effects for many companies, especially those based in retail.

In line with recent surveys, there were reports of rising imported prices due to currency fluctuations. Moreover, despite a relative improvement in competitiveness, companies continued to comment on difficulties competing with Far East firms.

When asked to comment on any perceived threats for their industries over the coming 12 months, Brexit remained a dominant theme amongst panellists.

Although some companies see opportunities to expand when the UK leaves the European Union, at present the majority of panellists are concerned with the uncertainty over the terms of the departure and the effect this is having on current sales and economic activity. Business clients were reported to be unwilling to invest, whilst consumer confidence was noted to be relatively subdued, exacerbated in part by rising inflation and the ongoing squeeze on household incomes at a time when

Opportunities

Panellists were asked to comment on the main opportunities for their industries over the coming 12 months. A selection of responses are summarised below:

"New product launches. Export sales. Video content." **Other**

"Weakening sterling is supporting incoming events to the UK." **Media and Marketing**

"Digital and experiential marketing - greater fan engagement." **Travel/Entertainment**

"Continuing to use the power of the internet to directly influence behaviour to purchase." **Public and Charities**

"Expanding into second line product ranges to satisfy prudent market. Development of transactional website." **Automotive**

"House building is on the increase resulting in a good and long-term opportunity." **Industrial/Utilities**

"Exchange rates lead us to be more appealing to overseas clients." **Media and Marketing**

"New build construction for housing remains firm." **Other Services**

"Greater engagement through social media. More sophisticated and well targeted communication channels based on data - behavioural email targeting. Rest of world expansion." **Media and Marketing**

"Growth in domestic tourism." **Travel/Entertainment**

"Online and market growth." **Retail**

Threats

Panellists were also asked to comment on the main threats to their industries over the coming 12 months. A selection of responses are summarised below:

"Economic uncertainty: impact of Brexit and other influences on consumer confidence." **Retail**

"Growing competition from Far East." **Other**

"Continued dominance of ad share by Facebook and Google. Client focus on short-termism." **Media and Marketing**

"Undercutting on pricing by competitors." **IT**

"Exchange rate variances leading to price rises." **Retail**

"Consumer anxiety over Brexit. Increased costs." **Financial Services**

"Traditional print part of business slipping further into decline." **Media and Marketing**

"Pause of investment in IT due to continued uncertainty caused by macro economic factors." **IT**

"Brexit, currency fluctuations, commodity prices, increase in imports from Far East." **Automotive**

"Exchange rates, possible interest rate rises, uncertainty over Brexit meaning retail and business clients are unwilling to spend." **Automotive**

"Increased competition and cutting of prices." **Industrial/Utilities**

"Government's challenge to make progress in Brexit negotiation period could become apparent and uncertainty will have a negative impact on UK business community." **Media and Marketing**

"Competition. Brexit. Rising costs." **Other**

"Brexit uncertainty across all areas. Environment regulations may or may not change as they are shaped by Brussels. Challenging to understand economic or regulatory environment in the future." **Industrial/Utilities**

Financial Prospects and Economic Outlook

wages continued to increase only modestly.

Financial Prospects

The Q3 *Bellwether* survey indicated that financial prospects remained relatively subdued, perhaps reflective of the ongoing uncertainty currently swirling around the UK.

When asked to consider their optimism regarding financial prospects for their industry compared to three months ago, nearly 24% of the survey panel were less confident, compared to around 15% that had become more optimistic. Although the resulting net balance of -8.2% was an improvement on the -12.6% seen during Q2, latest data marked the seventh successive quarter that a negative net balance has been registered.

Companies were a little bit more optimistic about their own financial prospects in Q3 2017. Just over 29% of the survey panel have grown more confident, compared to 18% that are less optimistic, with the respective net balance of +11.1% up slightly on the 18-quarter low of +9.8% in Q2. However, optimism remains historically subdued and well below the post financial-crisis average.

Economic Forecasts*

With no movement in the Office for Budget Responsibility (OBR) projections for the UK economy since the previous *Bellwether* survey, we have again chosen to leave our forecasts for annual growth in UK adspend unchanged.

Reflective of the uncertainty associated with Brexit, and the adverse effect this is having on business investment, we are pencilling in only a muted increase in adspend for 2017 (0.6%). This subdued view is supported by current business survey data which is showing the economy growing at just 0.3% in the third quarter as sectors exposed to changes in large scale investment such as construction struggled in September.

With the economy expected to slow further in 2018 (GDP growth is forecast at just 1.6%, undermined by a weak increase in consumer spending), we currently anticipate a stagnation of adpsend in 2018.

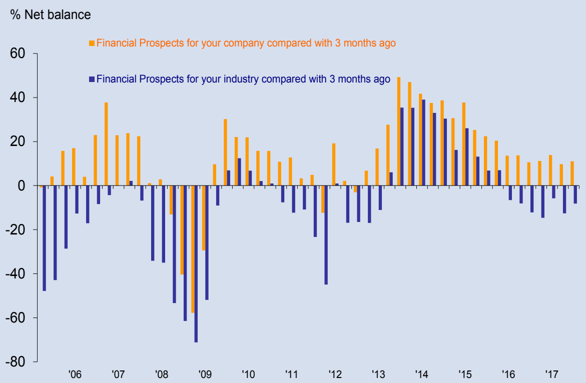
As investment, consumption and wider growth improve in 2019/2020, adspend is forecast to rise at similarly quicker rates. Our current expectations are for increases in adspend of 1.8% and 2.3% respectively in 2019 and 2020.

**A lack of accurate historical data prevents us from being able to forecast marketing in actual spend terms, so Bellwether seeks to predict advertising expenditure, as this forms the single largest component of marketing spend in the UK (an estimated 30%).*

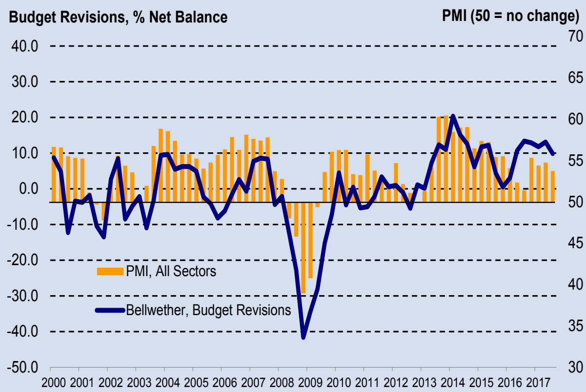
The Bellwether uses a simple model which incorporates the latest economic forecasts published by the Office for Budget Responsibility (OBR) to infer the resulting trend in advertising expenditure that would typically accompany such economic trends, based on historical relationships.

Business prospects

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?



Bellwether and the Business cycle



The above chart plots the Bellwether survey results on revisions to total marketing budgets against the IHS Markit/CIPS PMI (Purchasing Managers' Index) . The PMI is a monthly survey of business conditions that is closely watched by policymakers as it is considered an accurate and timely guide to what is actually happening in the economy and, unlike official data, does not get revised after first publication.

Source: IHS Markit

Adspend Forecasts: 2017-2020

	GDP % change	Consumer spending % change	Business investment % change	**Implied adspend % change**
2017	2.0	1.8	-0.1	0.6
2018	1.6	0.9	3.7	0.0
2019	1.7	1.7	4.2	1.8
2020	1.9	1.7	3.9	2.3

The forecasts are based on the historical relationships between aspend and its key drivers, in this instance economic output (GDP) and two important constituents: consumer spending and investment. The forecasts for GDP, consumption and investment are taken from the OBR.

Sources: Office for Budget Responsibility, IHS Markit

Main media advertising

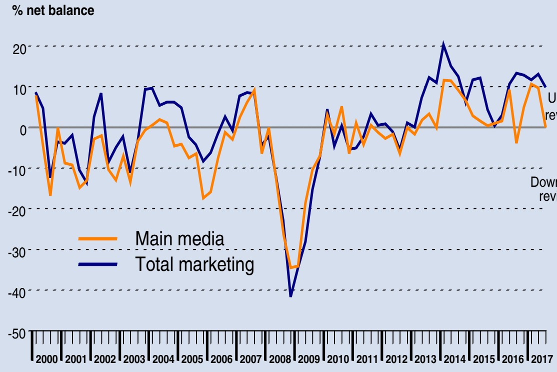
The *Bellwether* survey for the third quarter of 2017 signalled a stagnation of main media advertising, a notable turnaround from the preceding three quarters of expansion.

With exactly the same proportion of companies recording an upward revision to main media advertising budgets as indicating a contraction (14%), the respective net balance came in at +0.0% in Q3 2017. That was down from +9.8% in the previous survey and the lowest recorded level for a year.

Although only half-way through the 2017/18 financial year, no change in budgets for main media leads to doubts over full year performance for this closely watched *Bellwether* category. Previously in 2017, a net balance of +11.5% of panellists had indicated projections for an increase in main media advertising budgets for the year as a whole.

Revisions to current budgets

In the last three months, has your main media advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes TV (incl. mobile phone TV), press (incl. inserts), radio, cinema, outdoor, directories and the internet.

Internet, Search/SEO and Mobile

Having recorded the fastest upward revision for just under a decade during the previous quarter, internet* marketing budgets rose at a slower, but still considerable, rate in Q3 2017.

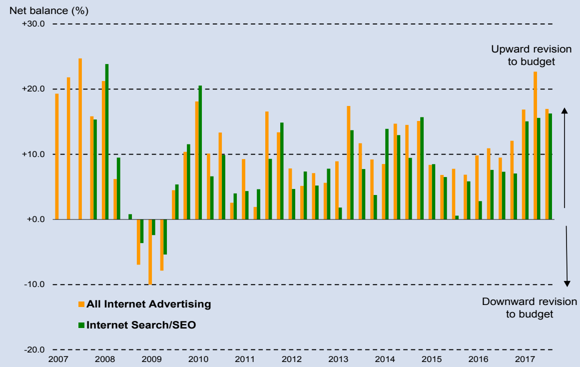
Around 23% of the survey panel recorded an upward revision to internet budgets, compared to under 6% that registered a decline. The resulting net balance of +17.0% was down from +22.7% in Q2 but still amongst the strongest recorded by the survey since the onset of the financial crisis in 2008. Internet marketing budgets have now risen continuously for more than eight years.

Within the broader internet category, search/SEO** spending continued to rise. Moreover, the rate of growth was stronger, as highlighted by the respective net balance improving to +16.3% from +15.6% in the previous quarter. The latest reading was the best recorded by the survey since Q1 2010.

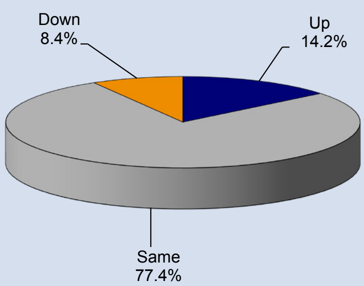
The usage of mobile advertising*** strengthened further during the third quarter of 2017. The latest *Bellwether* showed a net balance of +5.8% of companies had revised upwards their mobile advertising, compared to +3.0% in the previous quarter. Around 14% of the survey panel revised their mobile advertising budgets higher during Q3 2017, compared to just over 8% that recorded a fall.

Revisions to current budgets

In the last three months, has your internet marketing budget and your internet search/search engine optimisation (SEO) budget for the current financial year been revised up or down, or is it unchanged?



In the last three months, has your mobile advertising budget for the current financial year been revised up or down, or is it unchanged?



* Internet advertising is included in the main media advertising category and typically includes 'owned' internet media such as websites, corporate blogs, games, and apps. As well as bought internet advertising such as banners, pop-ups, paid for mobile display, paid for social media (incl. Facebook ads, promotional tweets), and paid search/SEO.

** Paid Search/Search Engine Optimisation (SEO) represents payments to increase search results visibility

*** Mobile specifically refers to advertising targeted at mobile devices such as smartphones and tablets and includes areas such as mobile TV.

Direct Marketing

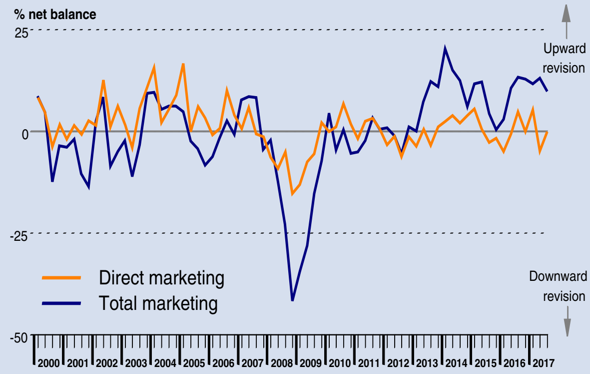
Direct marketing* budgets were unchanged during the third quarter of 2017, according to the latest *Bellwether* survey.

Just under 14% of the survey panel indicated a rise in direct marketing budgets, with the equivalent proportion recording a fall. The result was a net balance of +0.0% and, although this signalled a stagnation in overall spending on direct marketing, it was a relative improvement on the previous survey's five-quarter low of -4.7% .

The Q3 2017 data nonetheless marks a difficult first-half of the 2017/18 financial year for direct marketing budgets and raises doubts that the *Bellwether* category will experience growth over the year as a whole. Data earlier in the year showed a net balance of +7.5% of companies forecasting growth in direct marketing budgets for 2017/18.

Revisions to current budgets

In the last three months, has your direct marketing advertising budget for the current financial year been revised up or down, or is it unchanged?



* Includes direct mail, email, telemarketing, door-to-door, catalogues and SMS.

Sales Promotions

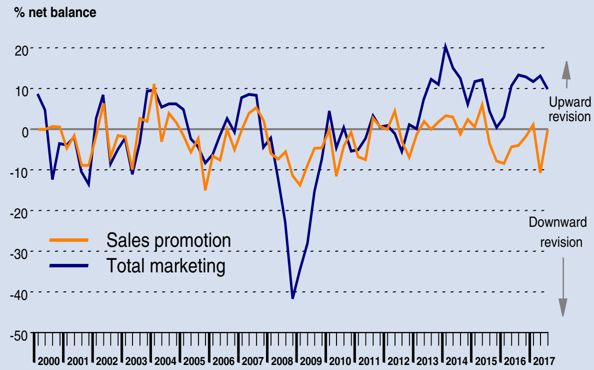
As was the case with main media and direct marketing, sales promotions marketing budgets were unchanged during the latest quarter. Whilst over 15% of the survey panel recorded an upward revision to sales promotions budgets, this was offset by an equivalent proportion of respondents indicating a decline.

The stagnation of sales promotions budgets compares relatively favourably to the marked drop seen in Q2 (when the net balance slumped to a 28-quarter low of -10.7%).

However, looking at the first half of the financial year, there remains considerable doubt whether growth can be recorded in 2017/18 as a whole. This would be in contrast to forecasts earlier in the year, when a net balance of +3.6% of companies signalled expectations of growth for the current budget period.

Revisions to current budgets

In the last three months, has your sales promotion advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes in-store/POS promotions (BOGOF and similar), coupons, trade incentives, price discounting, loyalty cards and free gifts.

Public Relations

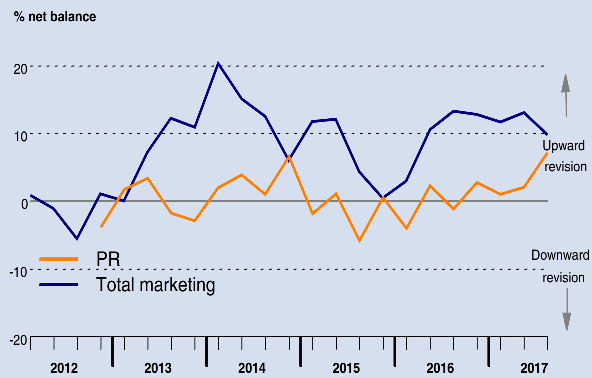
Another increase in public relations* marketing budgets was recorded during the third quarter of 2017, extending the current run of expansion to a complete year.

The degree to which budgets were increased was also the strongest recorded for this *Bellwether* category in five years of data collection. With over 15% of the survey panel recording growth, compared to a little over 8% indicating a contraction, the resulting net balance of +7.2% was noticeably higher than Q2's +2.1%.

Looking at the 2017/18 financial year, another upward revision to budgets in Q2 2017 helps to support earlier positive projections from the panel of a rise in PR budgets over the year as a whole.

Revisions to current budgets

In the last three months, has your public relations budget for the current financial year been revised up or down, or is it unchanged?



* includes reputation management, media relations, word-of-mouth, games and competitions, newsletters, and earned (not paid for) social media.

Events

The Q3 *Bellwether* survey indicated that events* budgets continued to increase during the third quarter of 2017, extending the current period of expansion to a current total of four years.

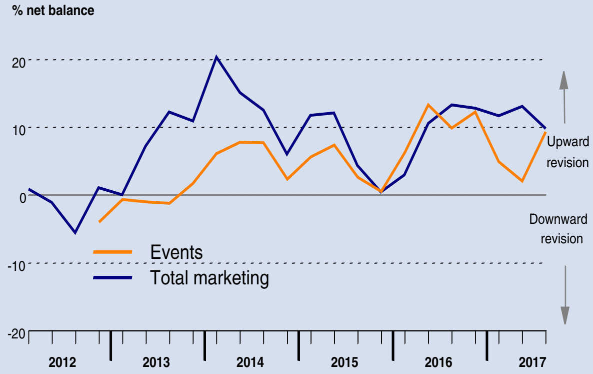
Moreover, the magnitude to which events budgets were revised higher was the strongest recorded by the survey since the end of last year. This was signalled by the respective net balance improving to +9.4%, from +2.1% in the preceding quarter.

Latest data showed that exactly 21% of the survey panel registered an upward revision to their marketing budgets during Q3 2017, compared to under 12% that indicated a reduction.

Events was also the second-best performing *Bellwether* category during Q3 2017.

Revisions to current budgets

In the last three months, has your events advertising budget for the current financial year been revised up or down, or is it unchanged?



* * Includes exhibitions, conferences, experiential, event marketing, event sponsorship, product sampling, corporate hospitality and entertainment.

Market Research

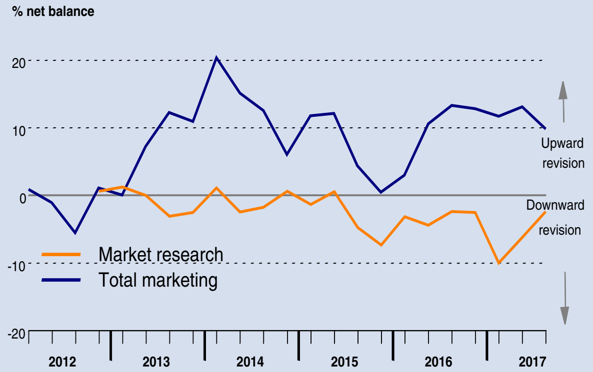
A ninth successive quarterly fall in market research* budgets was signalled during the third quarter of 2017, indicating continued under-performance in this *Bellwether* category compared to total marketing budgets.

According to the latest data, around 12% of panellists recorded a downward revision to market research budgets, compared to just over 10% that signalled growth. The resulting net balance of -2.4% compared to -6.2% in the preceding quarter and was the best recorded by the survey for a year.

Continued reductions in marketing research spend in the third quarter of 2017 are broadly in line with expected performance. Earlier in the year, a net balance of -2.9% of companies forecast a reduction in market research budgets during the 2017/18 financial year as a whole.

Revisions to current budgets

In the last three months, has your market research advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes qualitative and quantitative, brand tracking, and product development research.

Other

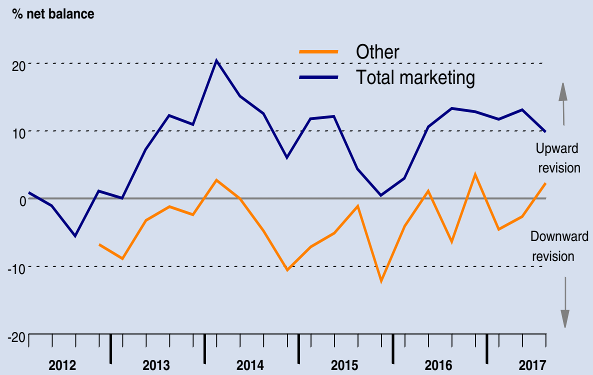
The 'other'* category registered an increase in marketing budgets during the third quarter of 2017, the first time that growth has been recorded in the calendar year to date.

Growth was relatively modest, with a net balance of +2.3% of companies reporting an increase in budgets relating to 'other' marketing in the third quarter. That was nonetheless a notable improvement on the previous quarter's -2.6% and the best recorded level since the end of 2016.

Latest data showed that over 8% of the survey panel recorded an improvement in 'other' budgets, compared to around 6% that recorded a decline.

Revisions to current budgets

In the last three months, has your other advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes any other paid for marketing activity. media.

Feature: Employment Prospects

Panellists were again asked during the third quarter of 2017 to state whether they expect overall employment to be higher, the same or lower at their company in three months' time compared to current levels. Results of this question were as follows.

Companies remained on average optimistic about employment prospects in the third quarter of 2017, maintaining the trend that has been apparent since data were first collected for this question exactly a year ago.

Over 28% of the survey panel are forecasting an increase in employment in three months' time, compared to exactly 13% that are anticipating a fall. Companies continue to take on extra staff in line with rising workloads and ongoing capacity constraints, despite signs of some sluggishness in sales growth in the past quarter.

That said, and reflective of the increased uncertainty exhibited by panellists in the latest *Bellwether* survey, over 58% of the panel are anticipating no change in employment in the final months of 2017.

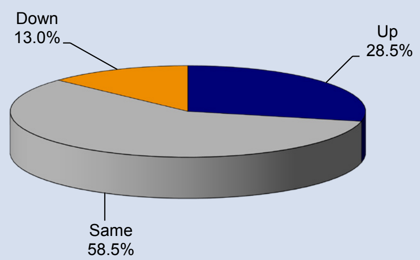
This resulted in a net balance of +15.5%, down from +18.2% in the previous quarter. Notably, the net balance was also lower than the reading from a year ago (+16.4%).

Employment Prospects

Do you expect overall employment to be higher, the same or lower at your company in 3 months' time compared to current levels?

	Higher %	Same %	Lower %	Net. +/-
Q3 2016	29.5	57.5	13.0	**+16.4**
Q4 2016	27.9	56.9	15.2	**+12.7**
Q1 2017	31.3	51.9	16.8	**+14.4**
Q2 2017	32.7	52.8	14.5	**+18.2**
Q3 2017	28.5	58.5	13.0	**+15.5**

Employment Expectations for Three Months Ahead



Background information

The Survey

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. The survey panel has been recruited from the nation's top 1000 companies. Respondents are primarily marketing directors or similar.

The Questionnaire

Questionnaires are dispatched to companies in the final three weeks of each calendar quarter, requesting information relating to two key issues:

(a) whether marketing budgets for the year (calendar or financial) have been set higher, lower or the same as actual expenditure in 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.

Marketing spend

The Bellwether data indicate that total UK marketing expenditure is approximately £30–35bn per year. This is based on the assumption that advertising represents around one third of the total.

Net balances

The report uses net balances to signal the rate of change in variables. These are calculated by deducting the percentage number of survey respondents reporting a deterioration/decrease in a variable from the percentage number of survey respondents that reported an improvement/increase.

Institute of Practitioners in Advertising

As the industry body and professional institute of the UK's leading advertising, media and marketing communications companies, the IPA has been serving its members since 1917. The mission of the IPA is to serve, promote and anticipate the collective interests of its members; and in particular to define, develop and help maintain the highest possible standards of professional practice within the advertising, media and marketing communications business. For further information please visit www.ipa.co.uk

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