

Bellwether Report – 2008 Q3

Marketing budgets cut at record rate in Q3 as business confidence hits new survey low

Key findings

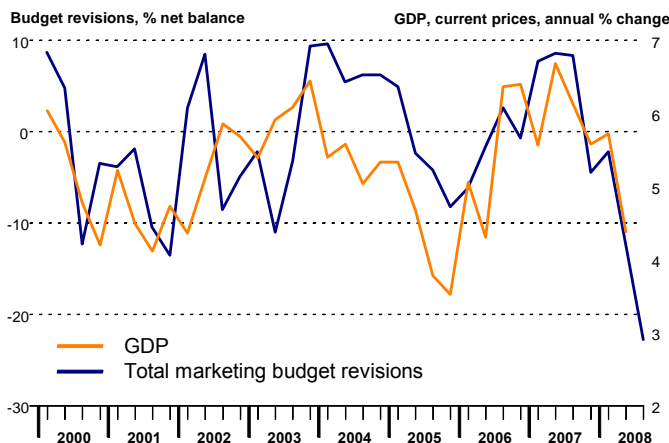
- Total marketing budgets revised down to greatest extent in survey history in Q3.
- Business confidence regarding financial prospects suffers record fall.

Marketing cut at fastest rate for 9 years

The IPA's latest Bellwether survey, compiled by Markit, found that annual marketing budgets were revised down to the greatest extent ever recorded in the Bellwether survey's near-nine year history in Q3. Only 12% of companies reported an upward revision to budgets while 35% reported a downward revision.

The cut was the fourth successive quarterly reduction in spend and pointed to a marked deterioration in business conditions since the summer.

Chart 1: Marketing budgets and economic growth



Companies attributed the cutting of budgets to lower-than-anticipated sales and profits, in turn reflecting weaker consumer and corporate demand, as well as growing concerns about the economy.

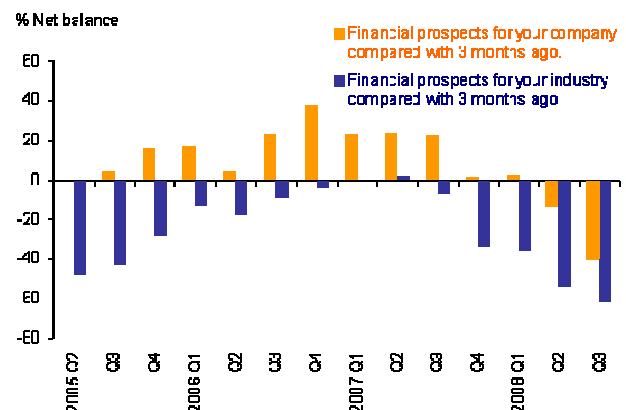
Financial prospects see record deterioration

The latest downward revision to spend indicates the increasing impact of the credit squeeze on the real economy, with companies participating in the Bellwether survey reporting that financial prospects for their own companies and the industries in which they operate both deteriorated at the fastest rates yet recorded by the survey.

Just 8% of companies were more optimistic about prospects for their industry than they were three months ago compared to 69% that were less optimistic.

Looking at optimism with regard to executives' own companies' financial prospects, 13% of companies cited greater optimism in Q3 but 54% reported a weakening of confidence.

Chart 2: Marketing executives' business confidence



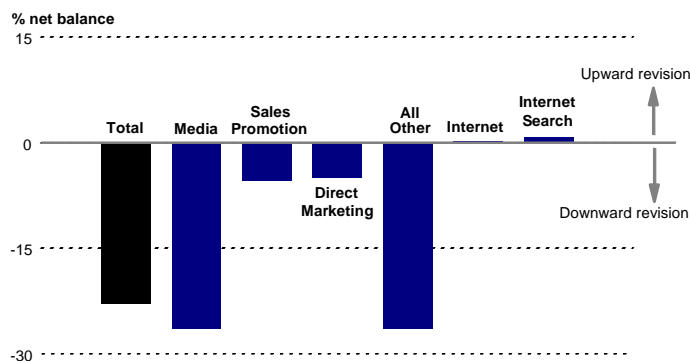
Main media advertising and 'all other' spend hit hard

Hardest hit were budgets for main media advertising and the Bellwether's 'all other' category, which includes activities such as PR, events sponsorship and market research, both of which saw record downward revisions.

Budgets for sales promotion and direct marketing fared slightly better, but were nevertheless still revised down.

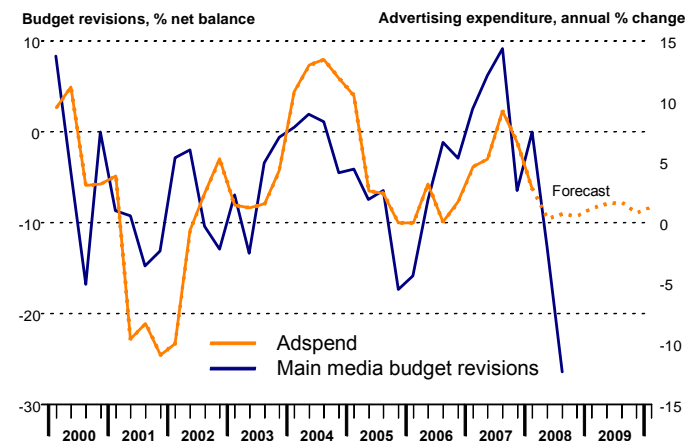
Even internet advertising budgets came under pressure, with expenditure for the year held steady in Q3, contrasting with the robust growth seen in previous quarters and pointing to the weakest growth for seven years.

Chart 3: Analysis of marketing budget changes in Q3



Bellwether survey therefore highlights new downside risks to recent forecasts for the advertising industry, despite such forecasts having been already revised down sharply since the summer.

Chart 4: Advertising expenditure



Recession risk increases

Chart 4 tracks Bellwether data on revisions to main media budgets against Advertising Association (AA) adspend data, which includes the AA's latest forecast for the next two years. The weakness of the latest

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