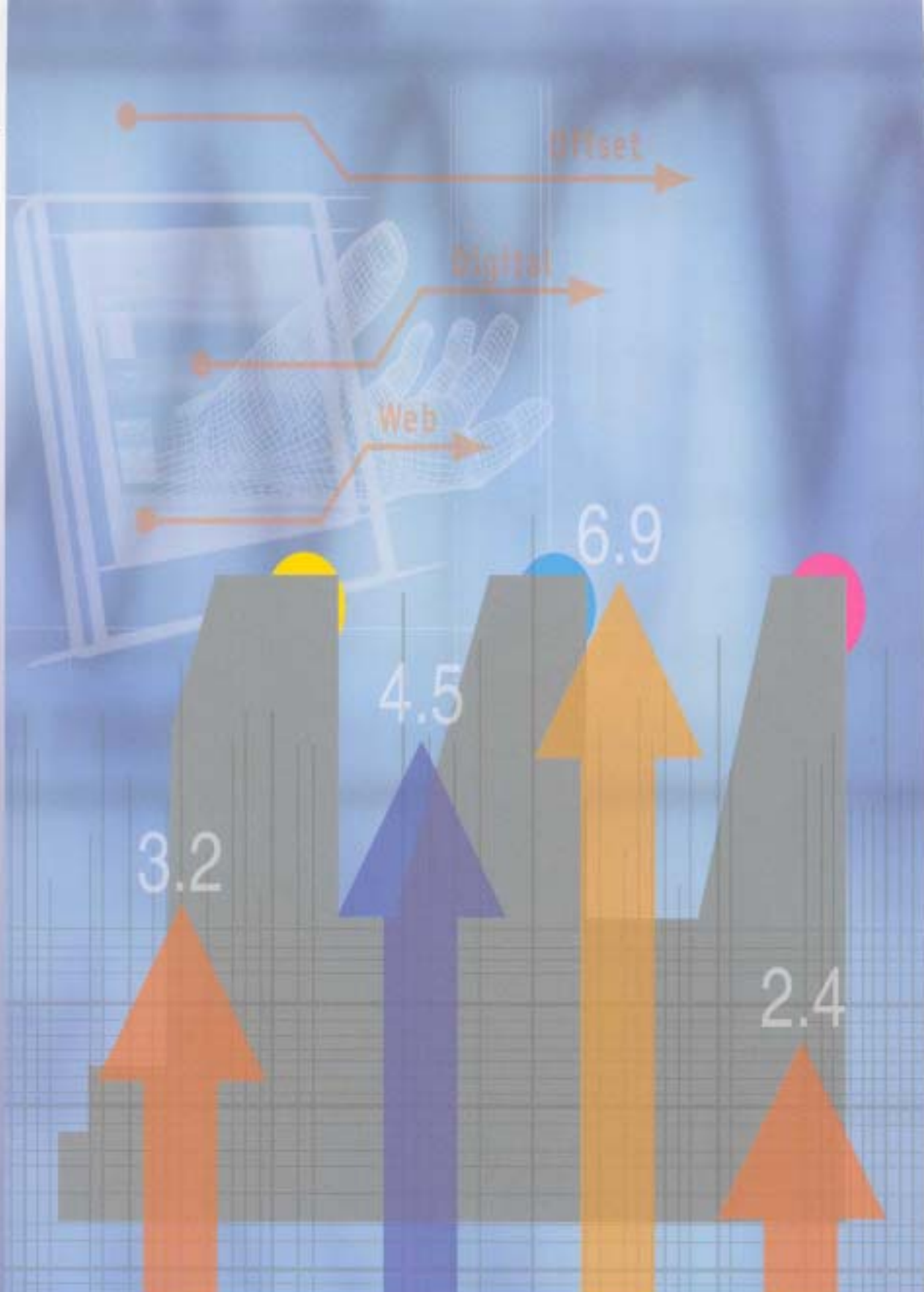




PRINTING INDUSTRY TRENDS



December Quarter 2006

TRENDS

Volume 20 Number 4

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The Printing Industries Association of Australia has undertaken quarterly surveys of the paper, paper products, printing and publishing industry since 1987. For the December 2006 quarter, questionnaires were distributed to 290 companies.

Survey methodology and interpretation of survey results

* Reference in the survey is made to net balance or results obtained on balance. These results are obtained by subtracting the number of ups from downs for a given survey question. For example, if 40 per cent of survey respondents report sales have improved while 30 per cent report sales have deteriorated, then the resulting net balance result is a positive 10 per cent (40 per cent minus 30 per cent).

In the example above the positive net balance of 10 per cent does not mean that sales have increased by 10 per cent. What it means however is that the proportion of respondents reporting improvements in sales outnumbered those respondents reporting deterioration in sales by 10 per cent. While net balance outcomes do not measure the magnitude of change for a given indicator they present the directional movement (emerging trends) of key indicators.

* Copies of the **Printing Industry Trends** survey can be obtained by contacting:
Hagop Tchamkertenian, National Policy & Research Manager on (02) 8789 7300.

* The annual subscription rates for four issues are: \$60 members; \$120 non-members.
Individual hard copies are also available on request: \$20 members; \$40 non-members.
Electronic copies are also available on request: \$20 members; \$40 non-members.
More detailed reports can also be prepared on request.

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Overview Of Results

National Results

The Printing Industry Trends Report for the December 2006 quarter reveals business confidence has deteriorated despite a strong trading quarter.

The following are the key December 2006 quarter developments:

- Increased orders and production;
- Increased sales and net profits;
- Increased employment and overtime levels;
- Reduced selling prices;
- Reported increased investment in plant and machinery and buildings;
- Finance reported easier to obtain;
- Labour reported harder to obtain;
- Reduced levels of material stocks;
- Reported increases across all cost categories; and
- Increased number of outstanding debtors.

According to expectations there should be:

- Net balance increases in orders, production, sales and net profits during the March 2007 quarter;
- Increased investment in plant and machinery during the next six months;
- Recovery in selling prices;
- Reduced availability of labour;
- Increased availability of finance;
- Reduced employment and overtime levels;
- Further increases in all production cost categories - average wages, other labour costs, and average material costs;
- Reduced stock levels; and
- Increased number of outstanding debtors.

State Results

With the exception of Tasmania the outlook for general business expectations over the next six months remains favourable in the states.

The most optimistic state is Queensland with a net balance of 26.7 per cent followed by Western Australia with a net balance of 22.2 per cent.

Overview of Results

State Results

Respondents from all states reported on net balance basis increased levels of orders and production during the December 2006 quarter.

Based on expectations, improvements in orders and production over the outlook period are likely to occur in Victoria, Queensland and New South Wales.

Respondents from all states reported increased material cost pressures during the December quarter.

Over the outlook period, companies from all states are forecasting further increases in material cost pressures.

The most pessimistic forecasts on material costs are emanating from companies in Western Australia and Queensland with net balances of 44.4 per cent and 40.0 per cent.

Companies from all states reported increases in average wages during the quarter.

Compared with other states, a higher proportion of companies from Queensland and Western Australia reported on net balance basis increased wages.

According to projections, the March 2007 quarter will see increased wage pressures across all states.

Companies from all states with the exception of Queensland (rise) reported falls in selling prices during the December quarter.

The largest net balance reported falls were reported by respondents from New South Wales and South Australia with net balances of 18.0 per cent and 16.7 per cent respectively.

Over the outlook period, companies from most states are expecting on net balance basis increased selling prices or no change.

Defying the positive expectation are respondents from Western Australia and New South Wales who are expecting selling prices to deteriorate during the March 2007 quarter.

Overview of Results

State Results

With the exception of Tasmania (no change) respondents from the remaining states reported on net balance basis increased investment in plant and machinery during the December quarter.

The forecasts for capital expenditure in plant and machinery are stronger over the outlook period with companies from most states forecasting further increases. Only respondents from Western Australia are forecasting reduced investment activity over the outlook period.

With the exception of respondents from New South Wales and Western Australia (deterioration reported) and South Australia (no change reported), the profitability situation was reported to have improved during the December 2006 quarter by a balance of respondents from the remaining states.

If forecasts hold, the March 2007 quarter may see improvements takes place in Queensland and Victoria.

Sectoral Results

With the exceptions of the Graphic Reproduction and Other Packaging and Paper Converting sectors (deterioration) most product sectors are expecting either improvements or no change to take place in general business conditions over the next six months.

According to the December 2006 quarter reported results, high capacity utilisation/activity rates were achieved by the Desktop Publishing, Quick Printing, Other Packaging and Paper Converting, Cheques and Securities, General Promotional and Commercial and Folding Cartons sectors.

Considerable levels of excess capacity seem to exist in the Business Forms and Continuous Stationery, Graphic Reproduction, Screen Printing, Book Binding, Books, Magazines, Periodicals and Newspapers, Greeting Cards, Calendars and Diaries, and Digital Printing sectors.

Overview of Results

Sectoral Results

Most sectors reported increased investment or no change in plant and machinery during the past six months. Two sectors - Greeting Cards, Calendars and Diaries and Quick Printing reported reduced investments.

Most sectors are either forecasting increased investment or no change in plant and machinery over the next six months, while the Greeting Cards, Calendars and Diaries, Screen Printing and Folding Cartons sectors are forecasting reduced investments.

The material cost situation deteriorated further during the December quarter with all sectors reporting increases.

Over the outlook period most sectors are forecasting further increases in material costs.

Increased wage cost pressures were reported by most product sectors during the quarter.

A significant number of sectors are forecasting further increases during the March 2007 quarter.

With the sectors reporting either a decline or no change in average selling prices during the December quarter, improvements in selling prices were confined to just four sectors - Desktop Publishing, Greeting Cards, Calendars and Diaries, Digital Printing, and Quick Printing.

Over the outlook period most sectors are either forecasting increased selling prices or no change, while respondents from the Screen Printing, Book Binding, Books, Magazines, Periodicals and Newspapers, Folding Cartons, and Paper Merchants sectors are forecasting reduced selling prices.

With the majority of sectors either reporting increases or no changes in the number of outstanding debtors during the December 2006 quarter, improvements were confined to just two sectors - Business Forms and Continuous Stationery and Graphic Arts Machinery and Supplies.

Overview of Results

Sectoral Results

Improvements in the number of outstanding debtors over the outlook period seem highly unlikely given that respondents from most sectors are either anticipating no change or further increases over the March quarter.

If improvements do occur they may be limited to the Business Forms and Continuous Stationery, Labels, Cheques and Securities, and Paper Merchants sectors.

Summary

The December 2006 quarter turned out to be a strong trading quarter for a significant number of industry participants. A number of key indicators such as orders, production, sales, net profits, employment and overtime were all reported to have improved on a net balance basis, and there were reported increased investments in plant and machinery and buildings during the 6 months to December.

Other reported December quarterly developments include reported falls in selling prices, difficulty in obtaining labour, increased material costs, wages and other labour costs, increased availability of finance, and rising number of outstanding debtors.

Over the outlook period, the respondents are expecting modest net balance improvements to take place in a number of key indicators such as orders, production, sales and net profits.

With activity expected to moderate during the March 2007 quarter, both employment and overtime levels are forecast to decline.

Capital expenditure intentions remain favourable over the outlook period with increased investments being forecast for plant and machinery.

Further increases across all production cost categories, reduced levels of material stocks, reduced availability of labour, increased availability of finance, recovery in selling prices, and increased number of outstanding debtors round up the forecasts for the outlook period.



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