PRINTING INDUSTRIES ASSOCIATION of AUSTRALIA

PRINTING INDUSTRY TRENDS

December **Quarter 2007**

TRENDS

Volume 21 Number 4

Survey Contents

The Printing Industries Association of Australia has undertaken quarterly surveys of the paper, paper products, printing and publishing industry since 1987. For the December 2007 quarter, questionnaires were distributed to 275 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 Manager – Policy and Government Affairs 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.

Overview of Results

National Results

The Printing Industry Trends Report for the December 2007 quarter reveals deterioration in business confidence compared to the same period a year earlier.

The following are the key December 2007 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;
- 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 2008 quarter;
- Increased investment in plant and machinery during the next six months;
- Further falls in selling prices;
- Reduced availability of labour and finance;
- Increased employment but reduced overtime;
- 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

The outlook for general business expectations over the next six months remains favourable in most states.

The most optimistic state is Western Australia with a net balance of 33.3 per cent followed by South Australia with a net balance of 16.7 per cent.

Overview of Results

State Results

Respondents from all states on net balance basis reported increased levels of orders and production during the December 2007 quarter.

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

Increased material cost pressures were reported by respondents from all states during the 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 Tasmania and New South Wales with net balances of 33.3 per cent and 27.8 per cent respectively.

Companies from all states reported increases in average wages during the December 2007 quarter. Compared with other states, a higher proportion of companies from Western Australia and Victoria reported on net balance basis increased wages.

According to projections, the March 2008 quarter will see increased wage pressures across most states.

Companies from Queensland and Victoria reported increased selling prices while respondents from South Australia, New South Wales, South Australia and Western Australia reported falls in selling prices during the December 2007 quarter.

The largest net balance falls were reported by respondents from Western Australia and South Australia with net balances of 11.1 per cent and 8.3 per cent respectively.

Over the outlook period, companies from Queensland, South Australia and Tasmania are expecting on net balance basis increased selling prices.

Respondents from all states reported on net balance basis increased investment in plant and machinery during the December quarter.

Overview of Results

State Results

As for investment in buildings, respondents from all states on balance reported either no change or increased investment while respondents from Western Australia reported reductions.

Investment expectations in buildings over the outlook period remain weak with respondents from only South Australia and New South Wales forecasting increased investment activity.

The forecasts for capital expenditure in plant and machinery are much stronger however over the outlook period with companies from most states forecasting further increases.

With the exception of respondents from South Australia (deterioration reported) the profitability situation was reported to have improved during the December 2007 quarter by a balance of respondents from the remaining states.

If forecasts materialise, the March 2008 quarter may see improvements takes place in New South Wales and South Australia.

Sectoral Results

Most product sectors are expecting either improvements or no change to take place in general business conditions during the March and June 2008 quarters.

The December 2007 quarter report shows high capacity utilisation/activity rates were achieved by the Labels, Desktop Publishing and Graphic Design, Other Packaging and Paper Converting, Quick Printing, Folding Cartons and General Promotional and Commercial sectors.

Considerable levels of excess capacity seem to exist in the Graphic Reproduction, Screen Printing and Business Forms and Continuous Stationery sectors.

Most sectors reported increased investment or no change in plant and machinery during the past six months.

Overview of Results

Sectoral Results

Three sectors comprising of Labels, Other Packaging and Paper Converting and Business Forms and Continuous Stationery reported reduced investments. Most sectors are either forecasting increased investment or no change in plant and machinery over the next six months, while the Folding Cartons and Business Forms and Continuous Stationery sectors are forecasting reduced investments.

Most sectors reporting increased material costs during the December quarter. Over the outlook period most sectors on net balance basis are forecasting further increases in material costs while the Other Packaging and Paper Converting sector is forecasting reduced material cost pressures.

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 2008 quarter.

With the sectors reporting either a decline or no change in average selling prices during the quarter, improvements in selling prices were confined to the following six sectors – Desktop Publishing and Graphic Design, Greeting Cards, Calendars and Diaries, Book Binding, Screen Printing, Paper Merchants and Cheques and Securities.

Over the outlook period most sectors are either forecasting no change or reduced selling prices while respondents from the Paper Merchants sector are forecasting increased selling prices.

With the majority of sectors either reporting increases or no changes in the number of outstanding debtors during the December 2007 quarter, improvements were confined to the Quick Printing, Books, Magazines, Periodicals and Newspapers, Screen Printing and Digital Printing sectors.

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

Overview of Results

Sectoral Results

Forecast improvements over the outlook period are limited to just four sectors comprising of Graphic Arts Machinery and Supplies, Graphic Reproduction, Digital Printing and Books, Magazines, Periodicals and Newspapers.

Summary

The December 2007 quarter turned out to be a robust trading quarter and while seasonal factors no doubt had an impact, the magnitude of the reported improvements suggest that other forces were at play as well.

Improvements were reported in a number of key indicators such as orders, production, sales and net profits. There were also reported improvements in investments in plant and machinery during the six months leading to the December quarter.

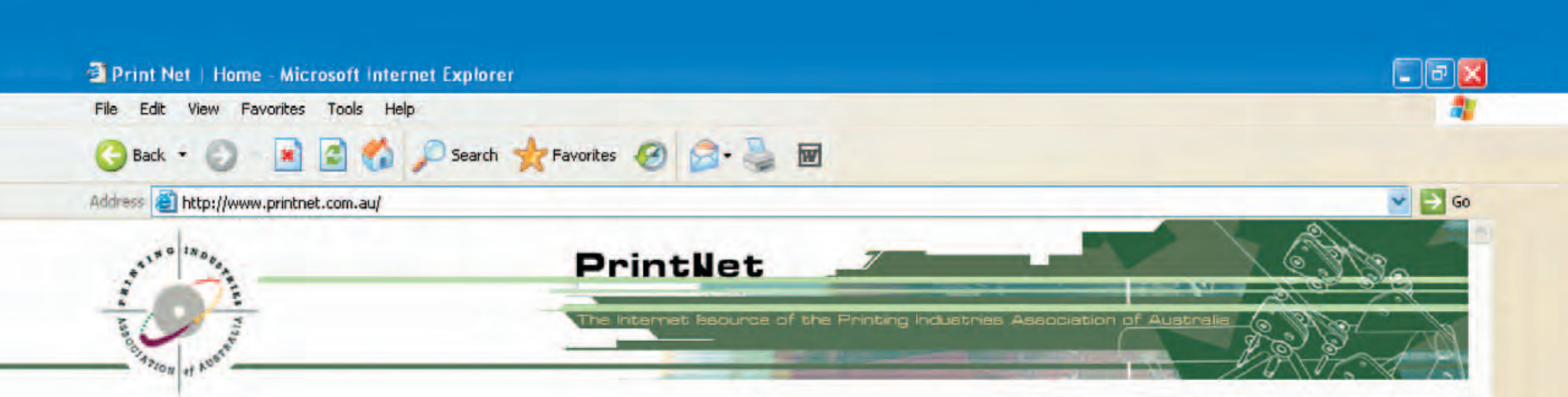
Other reported developments include increased employment and overtime levels, difficulty in obtaining labour, increased material costs, wages and other labour costs, increased availability of finance, falling selling prices and rising number of outstanding debtors.

Over the outlook period, the respondents are expecting modest 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 2008 quarter, overtime levels are being forecast to fall but employment is expected to rise.

Capital expenditure intentions remain favourable over the outlook period with increased investments being forecast.

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



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