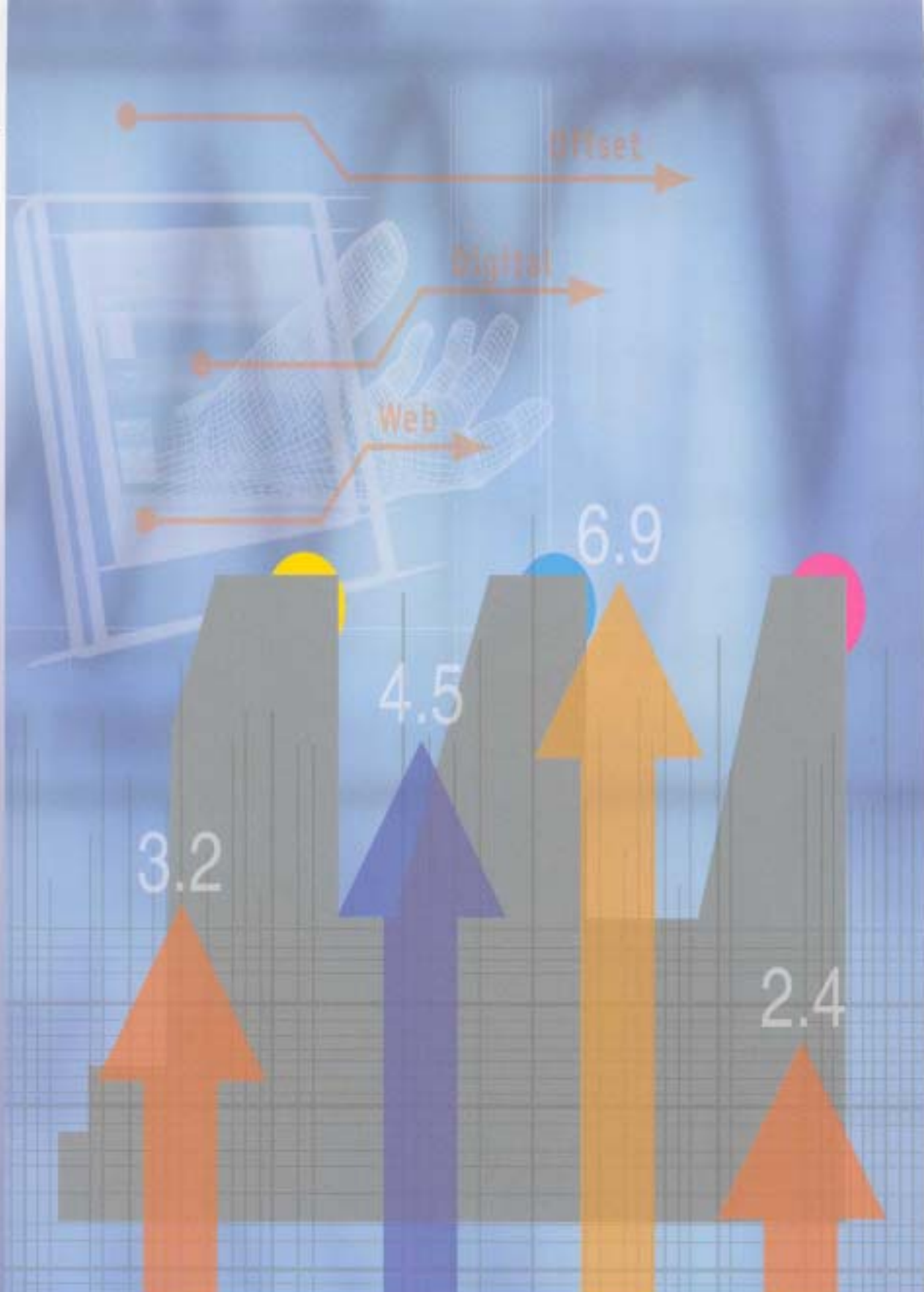




PRINTING INDUSTRY TRENDS



June **Quarter 2006**

TRENDS

Volume 20 Number 2

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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 June 2006 quarter, questionnaires were distributed to 266 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**, Manager, Industry and Commercial Policy 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 survey for the June 2006 quarter reveals business confidence continues to remain positive on the back of another disappointing trading quarter.

The following are the key June 2006 quarter developments:

- Reduced orders and production;
- Reduced sales and net profits;
- Reduced 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 September 2006 quarter;
- No change in investment in plant and machinery during the next six months;
- Further falls in selling prices;
- Reduced availability of labour;
- Increased availability of finance;
- No change in employment levels but reduced levels of 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 all states with the exception of Tasmania (deterioration).

The most optimistic states are Queensland and Western Australia each with a net balance of 50.0 per cent.

Overview of Results

State Results

Respondents from most states reported on net balance basis reduced levels of orders and production during the June 2006 quarter.

Based on expectations, improvements in orders and production over the outlook period are likely to occur across all states.

Respondents from all states with the exception of Tasmania (decline) reported increased material cost pressures in the June quarter.

Over the outlook period, companies from all states with the exceptions of those from Western Australia (no change) and Tasmania (decline) are forecasting increased material cost pressures.

The most pessimistic forecasts on material costs are emanating from companies in South Australia and Queensland with net balances of 46.2 per cent and 45.5 per cent.

Companies from most states reported increases in average wages during the June 2006 quarter.

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

According to projections, the September 2006 quarter will see increased wage pressures across all states.

On net balance basis survey respondents from all states reported falls in selling prices during the June 2006 quarter.

The largest net balance reported fall was from respondents from South Australia with a net balance of 53.9 per cent.

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

Defying the downward expectations are respondents from South Australia and Queensland who are expecting selling prices to improve during the September 2006 quarter.

Overview of Results

State Results

With the exceptions of South Australia and Queensland (decline) respondents from the remaining states reported on net balance basis increased investment in plant and machinery during the quarter.

Companies from three states - Queensland, South Australia and Victoria are forecasting increased investment in plant and machinery during the September quarter.

With the exception of respondents from Tasmania (no change reported), the profitability situation was reported to have deteriorated during the June 2006 quarter by a balance of respondents from the remaining states.

If forecasts hold, the September 2006 quarter may see improvements in all states with the exception of South Australia (no change expected).

Sectoral Results

With the exceptions of Graphic Reproduction and Desktop Publishing (deterioration) most product sectors are expecting improvements to take place in general business conditions over the next six months.

According to the June 2006 quarter reported results, high capacity utilisation/activity rates were achieved by the Cheques and Securities, Labels, Paper Merchants, Folding Cartons and General Promotional and Commercial sectors.

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

Most sectors reported increased investment or no change in plant and machinery during the past six months. Two sectors - Business Forms and Continuous Stationery and Desktop Publishing reported reduced investments.

Most sectors are either forecasting reduced investment or no change in plant and

Overview of Results

Sectoral Results

machinery over the September-December 2006 outlook period. Five sectors - General Promotional and Commercial, Cheques and Securities, Business Forms and Continuous Stationery, Other Packaging and Paper Converting and Greeting Cards, Calendars and Diaries are forecasting increased investments.

The material cost situation deteriorated further during the June quarter with the majority of 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 June 2006 quarter. A significant number of sectors are forecasting further increases during the September 2006 quarter.

With the sectors reporting either a decline or no change in average selling prices during the June quarter, no sector reported improvements. Over the outlook period most sectors are either forecasting no change or declining selling prices while respondents from the General Promotional and Commercial sector remain confident of achieving higher selling prices.

The majority of sectors reported reduced levels of net profits during the June 2006 quarter. Defying the downward trend were the Other Packaging and Paper Converting and Cheques and Securities sectors which reported increased levels of profits during the quarter.

Over the September 2006 quarter, improvements in profitability are being anticipated by most sectors. Two sectors - Desktop Publishing and Paper Merchants are going against the positive expectations by forecasting deteriorations.

With the majority of sectors reporting increases in the number of outstanding debtors during the June 2006 quarter, the cash flow situation would have deteriorated since improvements were confined to the General Promotional and Commercial, Quick Printing and Cheques and Securities sectors.

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 September quarter.

Summary

The June 2006 quarter turned out to be another disappointing trading quarter for a significant number of industry participants. A number of key indicators such as orders, production, sales, net profits and employment and overtime were all reported to have fallen during the quarter.

There were reported increased investments in plant and machinery.

Other reported quarterly developments include difficulty in obtaining labour, further falls in selling prices, 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 improvements to take place in a number of key indicators such as orders, production, sales and net profits.

The improved trading conditions are not expected to result in improvements in either employment or overtime.

Capital expenditure intentions remain weak over the outlook period with no change being forecast for plant and machinery and a deterioration being forecast for buildings.

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



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