Printing Industries Association of Australia

PRINTING INDUSTRY TRENDS

September Quarter 2006

TRENDS

Volume 20 Number 3

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 September 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, 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.

WARNING
Whilst every care and attention has been taken in the preparation of this document, no responsibility can be taken by the Printing Industries Association of Australia for any decisions which are based on the information contained herein.

Overview Of Results

National Results

The Printing Industry Trends Report for the September 2006 quarter reveals business confidence has improved on the back of a mixed trading quarter.

The following are the key September 2006 quarter developments:

- Increased orders, production and sales;
- Reduced 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 December 2006 quarter;
- Increased investment in plant and machinery during the next six months;
- Recovery in selling prices;
- Reduced availability of labour;
- Increased availability of finance;
- Increased 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

The outlook for general business expectations over the next six months remains favourable in all states. The most optimistic state is Tasmania with a net balance of 71.4 per cent followed by Queensland and Western Australia each with a net balance of 50.0 per cent.

Overview of Results

State Results

Respondents from three states – Victoria, Tasmania and Queensland reported on net balance basis increased levels of orders and production during the September 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 (no change) reported increased material cost pressures during the September quarter.

Over the outlook period, companies from all states are forecasting increased material cost pressures.

The most pessimistic forecasts on material costs are emanating from companies in South Australia and Tasmania with net balances of 61.5 per cent and 42.9 per cent.

Companies from most states reported increases in average wages during the September 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 December 2006 quarter will see increased wage pressures across all states.

Companies from all states with the exception of Victoria (rise) reported falls in selling prices during the September quarter. The largest net balance reported fall was from respondents from South Australia with a net balance of 46.2 per cent.

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

Defying the positive expectation are respondents from Western Australia who are expecting selling prices to deteriorate during the December 2006 quarter.

Overview of Results

State Results

With the exceptions of South Australia (decline) and Queensland (no change) respondents from the remaining states reported on net balance basis increased investment in plant and machinery during the quarter.

The forecasts for capital expenditure in plant and machinery are strong over the outlook period with companies from all states forecasting further increases.

Respondents from South Australia, New South Wales and Western Australia reported on net balance basis deteriorating profitability during the September 2006 quarter. If forecasts hold, the December 2006 quarter may see improvements in all states with the exception of South Australia (no change expected).

Sectoral Results

With the exceptions of the Graphic Reproduction sector (deterioration) and Graphic Arts Machinery and Supplies and Desktop Publishing sectors (no change); most product sectors are expecting improvements to take place in general business conditions over the next six months.

According to the September 2006 quarter reported results, high capacity utilisation/activity rates were achieved by the Labels, Paper Merchants, Folding Cartons, Quick Printing, 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, Other Packaging and Paper Converting, and Books, Magazines, Periodicals and Newspapers sectors.

Most sectors reported increased investment or no change in plant and machinery during the past six months, while respondents from the Business Forms and Continuous Stationery sector reported reduced investment.

Overview of Results

Sectoral Results

Most sectors are either forecasting increased investment or no change in plant and machinery over the next six months, while the Graphic Reproduction sector is forecasting reduced investments.

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

With the sectors reporting either a decline or no change in average selling prices during the September quarter, improvements in selling prices were confined to just two sectors - Greeting Cards, Calendars and Diaries and Cheques and Securities.

Over the outlook period most sectors are either forecasting no change or declining selling prices, while respondents from the Paper Merchants, Cheques and Securities, Greeting Cards, Calendars and Diaries, and Screen Printing sectors remain confident of achieving higher selling prices.

With the majority of sectors either reporting increases or no change in the number of outstanding debtors during the September 2006 quarter, improvements were confined to the Business Forms and Continuous Stationery, Screen Printing, Quick Printing and Books, Magazines, Periodicals and Newspapers sectors.

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

Overview of Results

Summary

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

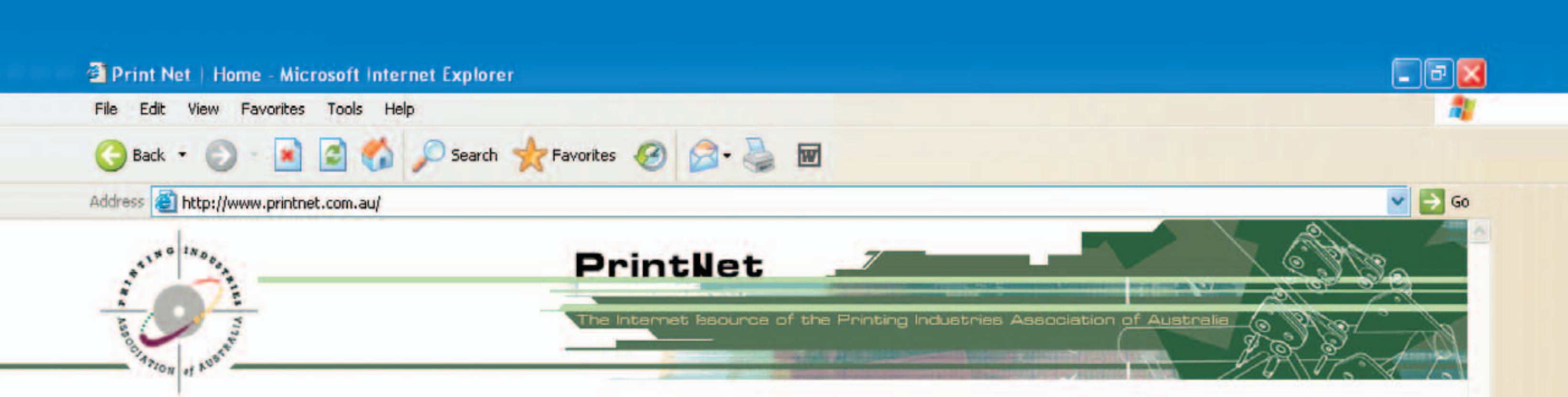
Other key indicators such as net profits, employment and overtime levels, and selling prices were all reported to have fallen during the quarter.

Other reported September quarterly developments include 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 strong net balance improvements to take place in a number of key indicators such as orders, production, sales and net profits. The anticipated improvements in trading conditions are expected to result in improvements to both employment and overtime levels.

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

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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