

PRESS RELEASE

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Market weakens as demand slips - more positive predictions for third quarter

Activity within the UK print trade slowed during the second quarter of this year and was below previous expectations, according to the BPIF's *Printing Outlook* survey published this week. The latest industry trends survey covers the second quarter of 2011, ending 30 June. The survey was carried out online during the period 1-15 July 2011 and covers 78 companies employing 10,289 people with a turnover of £1.1 billion.

The previous survey, taken at the end of Q1, had suggested the market was starting to weaken - with more than three-quarters expecting conditions to remain the same. However in the event only 43% of firms responding to the latest survey experienced similar conditions to those of the previous quarter, with a third seeing trade deteriorate and only a quarter actually reporting any improvement. The resulting negative balance of -8 represents the first contraction after four previous consecutive quarters of growth but is close to the average Q2 balance over the past decade of -11.

However, forecasts for the third quarter are more upbeat. While just over half of survey respondents predict a 'no-change' scenario in terms of domestic demand, 38% anticipate a rise in order levels.

Surprisingly, employment increased in the second quarter. The majority of respondent companies (68%) saw no change to the size of their workforce, but of the remainder more took on new employees than cut jobs. This runs contrary to previous expectations that overall numbers employed would fall in the period and represents the first positive employment reading since the first quarter of last year.

After a short period of stability for output prices, the second quarter saw domestic price levels revert to the earlier downward trend. Although 57% of firms saw steady pricing, increased competition for business at a time of waning demand led to a third of printers having to cut prices. This is perhaps unsurprising, given that more than two-thirds of respondents cited 'Competitors pricing below cost' as one of their top three business concerns with 'Pre-pack administrations' cited by 31%. Only 11% of respondents were able to push through rises in the period under review, producing a much higher negative balance

than expected. Although export prices were more stable, some weakening was also evident here too.

While rising paper and board costs continued to burden UK printers during Q2, far fewer actually faced the price increases they had previously feared. At the time of the last survey close to three-quarters of companies had expected to suffer paper price inflation but as it turned out less than a third had to pay more in Q2. However although two-thirds of companies expect stable paper and board costs in the third quarter of this year, 28% nevertheless still cited 'paper or board prices' as one of their top three business concerns. Paper and board is not the only price problem area printers are now facing: only a third expected stability for energy prices and just over half for ink in Q3, with the remainder steeling themselves for increases.

50% of respondents had conducted a pay review since April. Where pay reviews had led to a change in wage levels the resulting average (mean) increase in basic pay was 1.9%, with the majority of those companies that had paid increases settling at between 1.5% and 2.5%. The vast majority of firms believe that employment costs will remain unchanged in Q3.

Nearly half of respondents (47%) reported a further squeeze on margins due to the impact of falling prices and rising costs. Almost three-quarters of firms continue to record earnings growth of less than 6%, while the level not making any profit rose to 17% during the second quarter - matching the high figure set in Q3 2009. By contrast though, the number announcing double-digit percentage profit growth doubled from the 10% reported in the first quarter.

The number of printers expecting to invest in plant and machinery over the next 12 months remains high at 92%, with the proportion of these companies planning to spend more rising from 33% to 44%. The prime reason for capital expenditure remains the desire to increase efficiency although the replacement of machinery and capacity expansion both rank higher than at the time of the last survey. Realising these investment intentions will be aided by some improvement in access to finance. In the year to June, 23% of respondents experienced an improvement in the availability of bank lending facilities and 21% a reduction in the cost of bank lending. Although two-thirds of respondents reported no change in the cost of bank lending, only 13% experienced an increase: the balance of -8% is the lowest since January 2010.

Bad debt continues to be a major concern for many printers though this isn't affecting as many as reported last quarter. 18% of respondents reported a decline in bad debt in the last 12 months and 58% reported no change, with only 24% reporting an increase. Average debtor days, 56 and 58 days in the previous two quarters, fell to 55 days. Average creditor days have shrunk to 61 days, from 63 recorded in the previous quarter and 68 prior to that.

BPIF Research and Information Manager Kyle Jardine says, "Our Q2 survey shows that demand slipped back during the Spring months, after four previous successive quarters of growth. Although this outcome is very disappointing, it is in line with forecasts from respondents to our Q1 survey. Falling rates of capacity utilisation and shortened lead times mean that conditions remain tough in print, with margins squeezed further as a result of a combination of falling prices and raising costs. On a brighter note though, employment levels are picking up and order levels are expected to improve in Q3. Investment intentions remain high and realising these should be aided by a degree of easing in access to finance."

Editors' Notes

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The BPIF is the principal business support organisation representing the UK print, printed packaging and graphic communication industry. We are one of the country's leading trade association and we strive to ensure our members' requirements come first. Through listening to their needs we have developed an unrivalled range of products and services that go well beyond those provided by a traditional trade association.

We provide the highest standard of support for printers to grow and develop healthy, sustainable and profitable businesses, aiming to provide an environment geared towards their businesses success. Here at the BPIF we offer practical, value-adding solutions for all areas of a print organisation, ranging from Health, Safety, Environmental and Quality issues; with the implementation of HR requirements; provide resolutions of technical or legal issues; as well as advice and support on marketing, sales and finance. This is all delivered by individuals and teams of highly skilled and experienced print and media industry specialists.

We also offer a wide range of opportunities for networking both regionally and nationally, including prestigious events, special interest groups, seminars, conferences, workshops, training and short courses on a wide range of topics and skills.

For more information on the BPIF, visit: www.britishprint.com.