

PRESS RELEASE

8 Jun 2020

DEMAND AND CONFIDENCE DECIMATED IN Q1 AS COVID-19 IMPACT STRIKES THE PRINTING INDUSTRY – Q2 TO BEAR THE BRUNT OF THE DOWNTURN

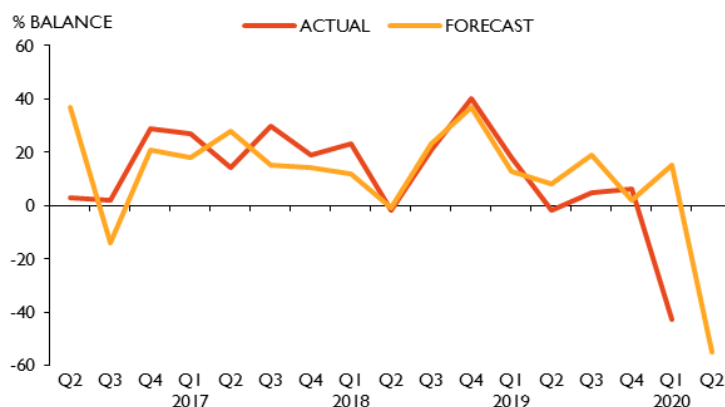
The UK printing and printed packaging industry suffered a dramatic shock at the end of Q1 2020. 2019 ended with two successive quarters of marginal improvements in output, and a more positive forecast for Q1 – the COVID-19 outbreak hit hard and fast to negate the forecast and sink both output and order performance balances deep into record negative territory. Orders and output are forecast to deteriorate further in Q2, despite the stabilising effect from much of the packaging sector.

The latest Printing Outlook survey reveals that 17% of printers increased output levels in the first quarter of 2020. Slightly more respondents (23%) held output steady, whilst 60% experienced a decline in output. The resulting balance (the difference between the ups and the downs) was -43, a long way below +6 in Q4 and the Q1 forecast (+15). The worst quarterly report for 11 years – since Q1 2009 and the immediate aftermath of the financial crisis.

Our other research reports specifically targeted towards the impacts of COVID-19 show the extent of the damage and suffering in the industry – in March the average drop in order levels was 65%. Some firms were furloughing employees and shutting operations entirely. However, the varying sectors serviced and products manufactured by the industry meant that a majority of companies were able to keep certain key operations going with a skeleton staff. Companies supplying critical sectors such as food, drink, pharma, and the NHS etc. had a maintained demand but faced other crucial H&S, HR and productivity challenges.

Comments coming through the survey show a real diversity in how companies have been affected by and reacted to the COVID-19 crisis. Government support schemes have been key for many that have accessed them; and a real concern for those that are still waiting for their loan applications to be approved. Respondents have referred to 'survival mode' and cost control measures, but there are also some adapting to new markets (such as PPE manufacture and display graphics) and developing new business models to ensure future survival.

VOLUME OF OUTPUT - Q1 EXPERIENCES DEEP DIVE, WORSENING IN Q2



Source: BPIF Printing Outlook

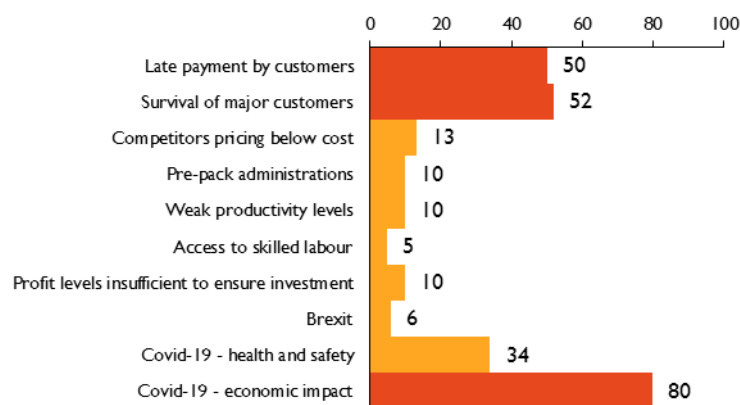
The output balance of -43 was a long way below the forecast of +15 for Q1. A balance of -55 is forecast for Q2.

On occasion we have pointed out that a gap between the ‘actual’ balance line, in our charts, and the ‘forecast’ balance line is a sign of heightened uncertainty or a major shock. Notable instances of this in the past have been following the 2008 financial crisis and the EU-referendum in 2016. The forecast for Q1 was made well before the COVID-19 pandemic hit the UK. However, the Q2 forecast acknowledges that the second quarter of the year will bear more of the brunt of the impact.

As we move through Q2, printers are experiencing and expecting a further deterioration in activity levels. Output growth is forecast to increase for 17% of companies. Fewer, just 11% of respondents, predict that they will be able to hold output levels steady in Q2. Almost three-quarters (72%) therefore expect output levels to fall. That leaves a forecasted balance of -55 for the volume of output in Q2. If realised, this will unfortunately undercut the Q1 2009 reading (-51) to become the new record low.

Despite the seriousness of the current circumstances some humour remains – “Bring back Brexit!” was the message from one respondent. Brexit has now dropped right out of mind; from being a long-running top of the list, it fell to number two in Q4 2019 and has now only been selected as a ‘top 3 business concern’ by 8% of respondents. The newly added ‘Covid-19 – economic impact’ is the most dominant concern; it was selected by 80% of respondents. The fallout of the pandemic has also seen ‘survival of major customers’ shoot up to become the second ranked concern – with a 52% share of respondents; up from 13% in Q4 2019.

TOP 3 BUSINESS CONCERNS - % OF RESPONDENTS SELECTING

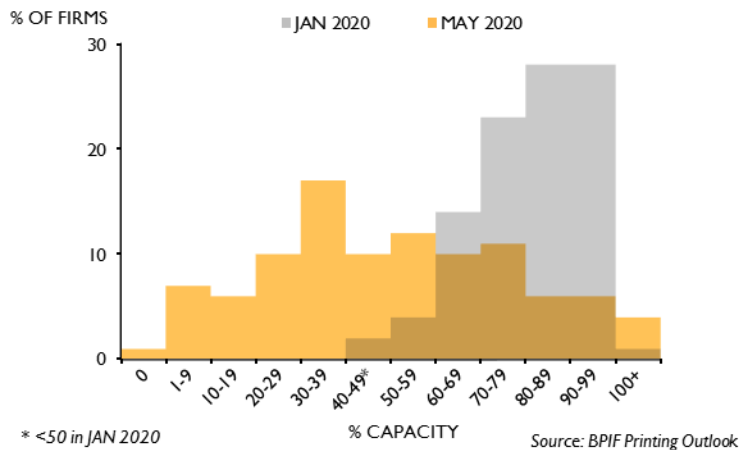


Source: BPIF Printing Outlook

Many companies are taking extensive measures to protect their cash flow – as a result ‘late payment by customers’ has also become a heightened concern in Q1; 50% of respondents selected this in their top three; more than double the amount from Q4 (23%). A little further behind was ‘Covid-19 – health and safety’ with 34% – well ahead of the remaining bunch of concerns.

Overall capacity utilisation was significantly lower in May, in comparison with January. The capacity chart shows a dramatically different picture for May. Whilst 2% of companies were in the less than 50% category in January, 51% of companies now find that they are operating at less than 50% capacity. The most common category in May was 30-39%, with 17% of respondents.

CAPACITY - OVER HALF OPERATING AT LESS THAN 50% CAPACITY



The BPIF Printing Outlook Q2 2020 report goes into further detail.

Kyle Jardine, BPIF Economist, said:

“The broad diversity of clients across the industry has support demand and assisted the industry’s ability to operate, and the capability to adapt quickly has meant printing hasn’t been as adversely affected as some sectors. However, as we know, shocks facilitate change – what we don’t yet know is what the precise nature will be of the demand that returns; what the industry will lose to accelerated digitisation, what it can gain from entirely new products and revenue streams, and how consumers will behave in the months and years ahead.”

Charles Jarrold, BPIF Chief Executive, said:

“An entirely new set of top business priorities has surfaced this quarter, such is the extent of change we are all attempting to comprehend and channel: the economic impact of COVID-19; survival of major customers; and late payment. Companies are exploring how bring their capacity capabilities back and what demand levels they can anticipate. Our efforts are targeted towards: representing the needs of the industry to Government; lobbying on its behalf so as to ensure that Government does all it can to deliver the required emergency support and aid the transition through this crisis; supporting companies to implement secure H&S and HR procedures; delivering the ongoing training that will help empower their employees; and providing the network to develop and share knowledge and best practice.”

Summary of key findings:

- The UK printing and printed packaging industry suffered a dramatic shock at the end of the first quarter of 2020. Last year ended with two successive quarters of marginal improvements in output, and a more positive forecast for Q1 – the COVID-19 outbreak hit hard and fast to negate the forecast and sink both output and order performance balances deep into record negative territory. Orders and output are forecast to deteriorate further in Q2, despite the stabilising effect from the much of the packaging sector.
- A more stable majority government, reduced Brexit uncertainty and confidence in the general state of trade in the printing industry troubling the positive y-axis; that's what was meant to happen – COVID-19 changed all that and industry confidence plummeted in Q1. However, conversely to the forecasts for output and orders; confidence is not expected to deteriorate further in Q2.
- Brexit has now dropped right out mind; from being a long-running top of the list, it fell to number two in Q4 2019 and has now only been selected as a 'top 3 business concern' by 8% of respondents. The newly added 'Covid-19 – economic impact' is the most dominant concern; it was selected by 80% of respondents.
- Overall capacity utilisation was significantly lower in May, in comparison with January.
- Employment decreased, on balance, in Q1 as fewer companies recruited and more companies than expected decreased employment levels.
- Hopes for a release in the negative pressure on prices were dashed in Q1, prices were instead subjected to intensified pressures.
- Most cost pressures were relatively subdued in Q1, though some did experience increases for paper, board and ink. Wage inflation would have been expected to mount over Q1 and Q2 – the impact of the COVID-19 crisis and the take-up of the Job Retention Scheme (JRS) has altered the landscape for many companies and employees.
- The pressure on margins remains intense, hopes for an improvement now seem forlorn.
- Printers have reported a profit distribution in May that is significantly more negative in comparison to that reported in January.
- Export orders exceeded 5% of turnover for 23% of respondents; for these companies export order growth became very negative, on balance, in Q1.
- Under half (45%) of respondents reported that they had conducted a pay review in Q1.
- The number of printing and packaging companies experiencing 'critical' financial distress decreased in Q1, those experiencing 'significant' financial distress also decreased.
- UK consumption of printing papers and boards in Q4 2019 fell in comparison to Q4 2018, was higher than in Q3 2019 but consumption for 2019 overall was lower than in 2018.
- Sales of printing inks in the UK during Q1 2020 declined in comparison to Q4 2019 and are down in comparison to Q1 2019.

Featured in *Printing Outlook* this quarter:

- Costs – paper & board, ink, labour and energy.
- Exports – orders and price trends.
- Industry insolvency and financial health statistics.
- Pay Reviews – activity and average % changes.
- Data on capacity, productivity, margins, and more.
- Consumables – paper consumption and printing ink data.

For further information on *Printing Outlook* go to www.britishprint.com/printingoutlook

For any queries on this release please contact kyle.jardine@bpif.org.uk

ENDS

Endorsements:

"We are very happy to get the opportunity to associate ourselves with the BPIF and support Printing Outlook, it's a fantastic report providing invaluable insights into the current state of UK printing."

Bernard Cassidy

Marketing Development Manager, Konica Minolta

"The BPIF Printing Outlook report is a really useful tool for myself and co-Directors in viewing the performance of the print industry as a whole, keeping us up to date with current trends and offering a snapshot of member performance in an easy to digest format."

"Most importantly, the report acts as a trusted and valued voice of the marketplace, presenting a unique round up of the most crucial issues effecting members in this diverse and fast-paced industry."

Jacky Sidebottom-Every

Sales Director, Glossop Cartons

"In everyday life we get a raft of information thrown at us. The thing I like about Printing Outlook is the fact its questions are written by people who understand our industry, they are addressed to people working at the heart of our industry and they are presented back to us by people who represent the members of our industry. It's clear, well laid out and with relevant narrative and interpretation."

Miles Linney

Managing Director, Linney Group

"I believe it's important to take part in responding to the BPIF Printing Outlook questionnaire - the more respondents there are the better the information coming back, so I feel we have a responsibility to do take part."

"The report itself it provides an interesting insight into the state of our industry and the immediate trends in a quick to understand, easy to use format - it helps us know where we are, and where our sector is in the mix."

Darren Coxon

Managing Director, Pensord

"I read Printing Outlook in order to better understand the health and direction of the BPIF members and of the print industry. We cross-reference the reports with our own findings to compound our understanding of key industry trends."

"I contribute to Printing Outlook so that our views and experiences can be both shared with the Industry and also represented by the BPIF at different levels – which should make us collectively stronger. I find that the more one puts in, the more one gets out."

James Buffoni

Managing Director, Ryedale Group

"Printing Outlook gives me an idea of how our industry as a whole is feeling. This is really important in this Brexit era in planning our marketing and any investments. This coupled with information from the BPIF acts as our barometer."

Terry Teverson

Managing Director, KCS Trade Print

"The BPIF Printing Outlook report has become a reliable barometer for Kodak to gauge the condition and trends of the printing industry. As well as an in depth read the report also expresses the data with easy to understand graphic charts which can be quickly digested and explained to an audience. It helps define decision-making and market approach – which is so crucial to a company like Kodak."

David McGuinness

Marketing Manager, Kodak UK & Nordics

"We are sometimes in our own world trying to ensure our businesses are successful, Printing Outlook enlightens us as to what is actually happening in the rest of the Industry. It has clear and concise information that is easy to understand and it helps to enhance the decisions that may have to be made in the future. I am sure we all get a lot of publications that drop on our desks but Printing Outlook is a must read for me. Well done BPIF keep the Printing Outlook coming!"

Ian Wilton

Operations Director, CDS

Editors' Notes

The online trading trends survey was carried out during 3-17 January 2020 and received responses from 120 companies employing 10,409 people with a combined turnover greater than £1.4 billion. For more information on Printing Outlook, visit www.britishprint.com/printingoutlook/

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 associations 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

The British Printing Industries Federation (BPIF)

The BPIF is a thriving, best-in-class trade association invigorating a modern, progressive print industry. We inspire those within the UK print, printed packaging and graphic communication industries to see opportunities for growth. Our members form a diverse and influential community and together we ensure the industry's voice is heard in Government.

We help solve business problems and drive strategic change providing the highest standard of support so our members can grow and develop healthy, sustainable and profitable businesses.

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