

Economic & Print Market Flash Report

Volume 6
June 2009

Economic & Print Market Flash Report is published by Printing Industries of America's Economic and Market Research Department and is available only to members of Printing Industries of America.

First Quarter Print Markets and Mapping the Recovery
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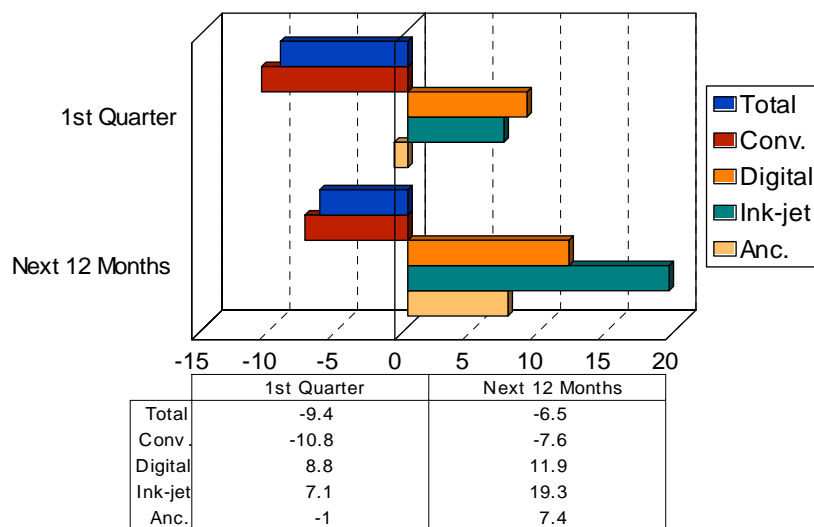
In the *Flash* we review first-quarter print markets and map the probable path of the recovery for the economy and print.

First-Quarter Print Markets Drop Dramatically

Both the economy and print markets took drastic hits in the first quarter. The economy was down 5.7% on a seasonally adjusted annual basis in the first quarter, which was a modest improvement from the 6.3% drop in the fourth quarter. In total, printing shipments decreased 9.4% from last year's first quarter based on the results of Printing Industries of America's *Print Market Tracking Model*. It should be noted that last year's first quarter was a fairly healthy quarter for print, since it was before the economy went into a tailspin. Even so this is the most dramatic fall in the history of our tracking system. Conventional ink-on-paper print fell even more, declining by 10.8%. On a more positive note, printers' toner-based digital and inkjet printing sales increased at healthy rates, 8.8 and 7.1 percent respectively. Printers' sales of ancillary services declined by just 1%.

Print Sales & Expectations

1st Quarter and Next 12 Months



% change

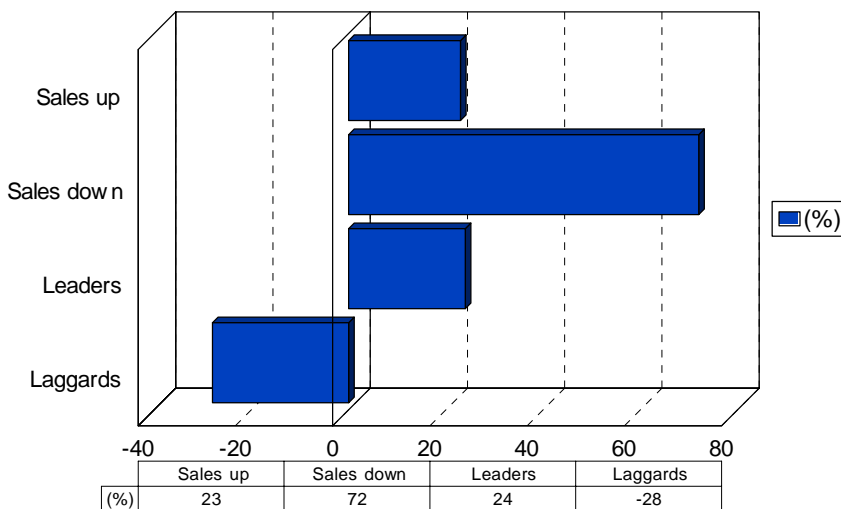
Our survey respondents also reported that printing prices fell an average of 3.5% over the last 12 months. This translates to about a 5.9% drop in “real” or inflation-adjusted printing shipments from the first quarter of 2008 to the first quarter of 2009.

Printers’ expectations for their firms’ sales over the next 12 months are for continued declines in total print sales and conventional ink-on-paper print but at more modest rates. Expectations for sales of digital and inkjet printing and ancillary services are much more positive.

Just 23% of survey respondents reported sales increases for the period. In contrast, 72% reported sales declines. This is the lowest proportion of printers with increases and highest proportion of printers with decreases since our tracking of this statistic started in 2000. Sales leaders, those printers in the top 25% of sales performance, did very well with average sales gains of 24%. At the other end of the spectrum, sales laggards, printers in the bottom quartile, reported average sales declines of 28%.

First Quarter Print Markets

% Sales up & down, leaders and laggards



A deeper examination of the first-quarter numbers reveals that almost six out of ten respondents experienced increases in toner-based digital print sales while less than one-in-four experienced sales declines—almost a reversal of the trend in overall sales. Where are digital sales coming from? Our respondents report that about one-fourth are transfers of current lithographic print jobs to digital, about half are new digital printing jobs from existing customers, and the remaining one-fourth are new digital print jobs from new customers. We will further examine these trends in an upcoming *Flash* report.

Mapping the Recovery: The Economy and Print

The economy is tracking closely with Printing Industries of America's latest forecast. In fact, in the past few weeks the consensus economic forecast has moved to almost exactly mirror our forecast of a few months ago.

The first-quarter decline marked the first three-consecutive-quarter decline since the 1974–1975 recession. As previously indicated, the 2007–2009 recession path is becoming increasingly similar to the 1974–1975 version. We expect one more quarter of decline before the economy stabilizes in the third quarter and begins growing in the fourth quarter. Given this projection the path of the 2007–2009 recession would be similar to both the 1974–1975 and 1981–1982 recessions with a path more closely tracking the 1974–1975. Overall, the economy should decline around 1.7% for the year.

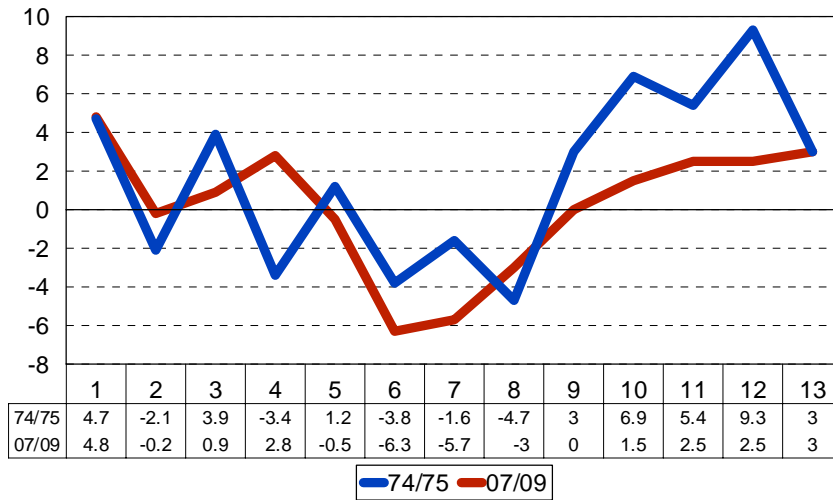
For 2010, our view remains that the recovery will be very tepid with the economy growing at below-trend rates of less than 3%. The reasons for the slow recovery include the higher proportion of “temporary” government spending and resulting increased debt acting as an anchor on the economy. In the longer run, I believe any fixes to the banking crisis will go too far and further slow growth.

The Economy Updated Outlook for 2009 and 2010 Change in Real GDP

	Q1	Q2	Q3	Q4	Annual
2009	-5.7%	-3.0%	0.0%	1.5%	-1.7%
2010	2.5%	2.5%	3.0%	3.0%	2.7%

The 07-09 Recession & Recovery

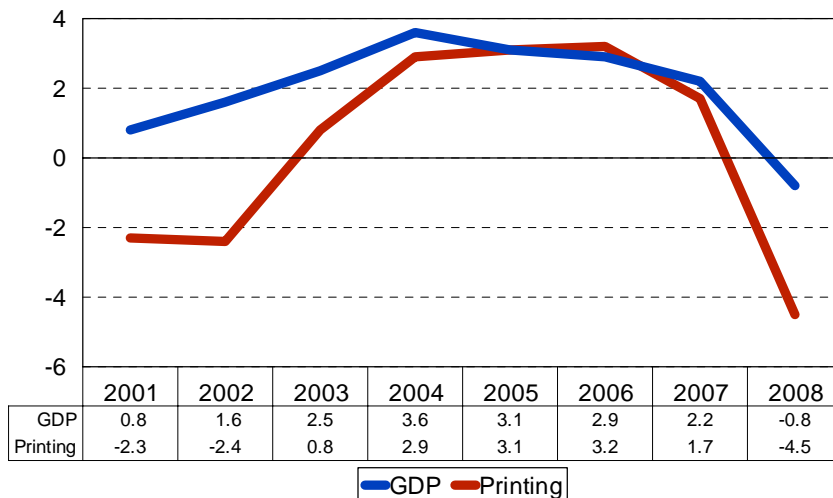
Quarterly % change in annual GDP



The projected economic recovery will most likely not provide much relief to stressed-out print markets in the near term. In fact, our expectations for print markets have deteriorated since our last outlook. As shown in the chart below, covering the most recent full cycle of recession and recovery, print leads recessions and lags recoveries, so print will rebound even slower than the projected tepid economic recovery.

Print and the Economy

% change-RGDP and Printing Shipments 2001-2008



The average gap between the percentage change in real GDP and nominal printing shipments in the recovery phase of the last recession was around 3 to 4 percentage points. Our expectations are the “recovery gap” between the economy and print will be significantly larger this time, reflecting both the severity of this recession and print’s declining share of the overall economy. At this time it looks like 2009 printing shipments will decline even more than last year’s –4.5% pace. The projected 6.5% decline amounts to a reduction in printing shipments of over \$10 billion. Most of the decline will be for conventional ink-on-paper printing rather than digital printing and printers’ ancillary services.

The slow economic recovery will help stabilize print in 2010 but will not halt the decline in total printing shipments which will be pulled down by further reductions in conventional ink-on-paper print. On the bright side, digital printing and ancillary services should see an up-tick.

**Print-Updated Forecast Snapshot
2009 and 2010
Nominal Shipments**

	2009	2010
Total Shipments (\$B)	\$157.6	\$152.9
Annual Decline in shipments (\$B)	-\$10.1B	-\$4.7B
Change in shipments (%)		
Total printing	–6.5%	–3.0%
Ink-on-paper printing	–8.0%	–4.0%
Digital Printing	–2.0%	1.0%
Printers’ ancillary services	–3.0%	1.0%

The projected market environment will put continued pressure on printers’ financial stress. Profit rates for all printers and profit challenges will likely fall throughout 2010.

Strategies for Surviving the Crisis

For printers with strong balance sheets, solid business models, up-to-date equipment, and a strategic vision, bad times can be a plus because they hurt the competition more than themselves. The next two years will be that type of environment, allowing the printing firms that are strong enough to survive to increase their market share and sales at the expense of weaker rivals.

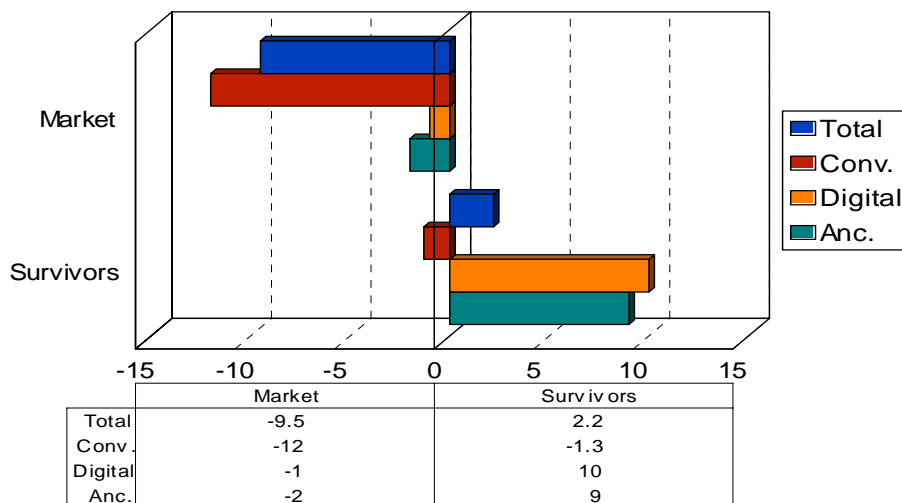
The number of printing plants declined by 2,300 in last year’s stressed-out print market. Over the next two years (2009 and 2010), the number could decline by around 4,000 or more as market weakness continues—over 10% of the total and slightly above the projected rate of decline in total printing

shipments. This means that the printers who successfully survive the next two years will see their total sales actually increase slightly—perhaps around 2%.

Even survivors will likely experience decreased sales of conventional ink-on-paper print, although much less than the overall market. If the plant decline is in the range of that projected survivor’s conventional print sales would decline slightly more than 1%. In contrast, survivors’ sales of digital print could increase around 10% and ancillary sales by 9%.

Survivors vs. the Market

Projected % Change--next two years



What is the profile of these surviving printers? Those printing firms that successfully transition over the next two years will be a diversified group in terms of size, ownership structure, and print market segment—small, medium, and large; family-owned and publicly owned; and specialized in various print-market segments from labels and packaging to direct marketing to books, catalogs, publications, and many other niches. These evolving and adapting printers will be the ones who learn how to be “better differently” from the thousands of their competitors who do not make the cut and will have some common characteristics:

- Survivors plants will be “multi-process” in providing conventional (sheetfed or web) integrated with digital (toner based/inkjet) and various ancillary services as a “one-stop” shop that can match the technology to the job and combine multiple technologies in the same job. In fact, our latest surveys indicate that more than one-in-ten current print jobs combine digital printing with lithographic printing. For sales leaders, the proportion is almost one-in-four. In contrast, the proportion for sales laggards is less than 5%.
- Survivors will likely be “solutions providers” and “marketing service organizations” that focus on higher-end value-added products and services and market both deeper and higher in their customer’s organization.
- Survivors’ operations will be continually focused on cost control, productivity improvement, and perhaps “green.”

- Many survivors may merge with or acquire other printers or ancillary service providers or otherwise change their firm structure to better adjust capacity to sales. The issue of changing capacity and sales and how it impacts on the competitive environment will be explored further in an upcoming *Flash* report.

In summary, the survivors will be evolving, adapting printing firms that exhibit the keys to success of many of today's industry profit leaders with a "specialized diversification" strategy as they specialize in particular print market segments while diversifying into more value added ancillary services and printing processes.

Have a topic that you would like explored in a future *Flash* report? If you have a suggestion for an industry issue, topic, or question for a future *Flash* report, please contact me at rdavis@printing.org. We can check our exclusive Printing Industries of America proprietary database or collect new information in our surveys for information on topics selected.

Below are additional resources and services that Printing Industries of America provides to members for free or at a substantial discount. If you have any questions please contact Ed Gleeson at egleeson@printing.org or 412-259-1756.

Now Available

1. Now is the time—Order your 2008–2009 *Ratios* report to reduce your cost and breakeven point in these tough times and benchmark your operation against industry profit leaders. To order the volume that fits your firm profile, call 866-855-4283 (or 301-393-8624) or click on the following link above.

2. Printing Industries of America Quarterly Print Market Survey Results: Click on the report title to view the results from our fourth quarter survey of printers. If you would like to participate in this survey in the coming quarters, please send an email to Ed Gleeson at egleeson@printing.org.