

2003 Safety Net Review

Submission

Printing Industries Association of Australia

Submission filed by
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Printing Industries Association of Australia opposes the application made by the ACTU for a \$24.60 Safety Net increase.

The increase is opposed on the following grounds:-

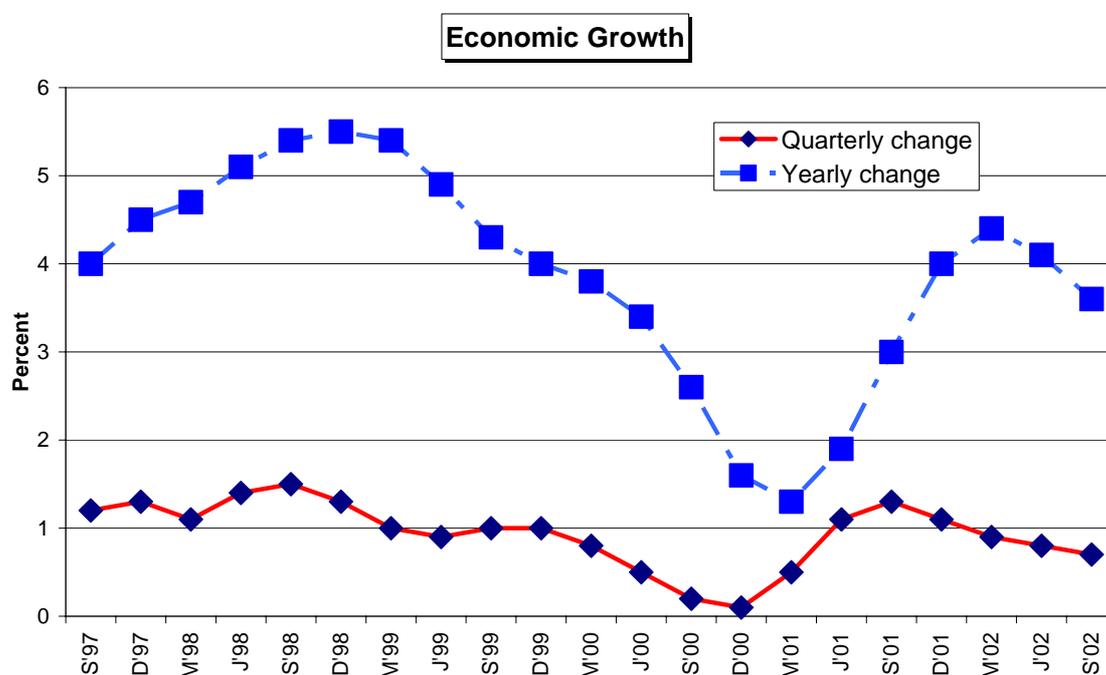
1. The general economic situation remains uncertain due to internal factors (drought) and external factors (possible conflict in the Middle East, poor global economic conditions) and seems to be trending down;
2. Employment prospects are flat and full-time employment is not increasing;
3. Profitability in the Printing Industry is down and trending further down.
4. Despite the “absorption clause” found in the last four Safety Net Review cases, the safety net increase awarded flowed through generally to employees in the industry.
5. Increased costs, reduced profitability and poor economic outlook all mean that prospects are bleak for a large percentage of the Printing Industry. This outlook will be further compounded if labour costs increase by \$24.60 per week.

1. The General Economic Situation Is Flat & Trending Down

1.1 General Economic Conditions

The Australian economy continued its expansionary phase during the September 2001 quarter, expanding in trend terms by 0.7 per cent to give an annual growth rate of 3.6 per cent in trend terms.

1.2 While continued economic growth is encouraging, the economy has considerably slowed (see chart below) and with economic growth rate dipping below 4 percent, the unemployment rate is unlikely to fall further and chances are that it will begin to rise from its current level of 6.1 per cent recorded at the end of January 2003.



Source: ABS

1.3 A closer analysis of the latest economic growth figures show that in trend terms, economic growth is being driven by private consumption expenditure, capital expenditure and investment in dwellings.

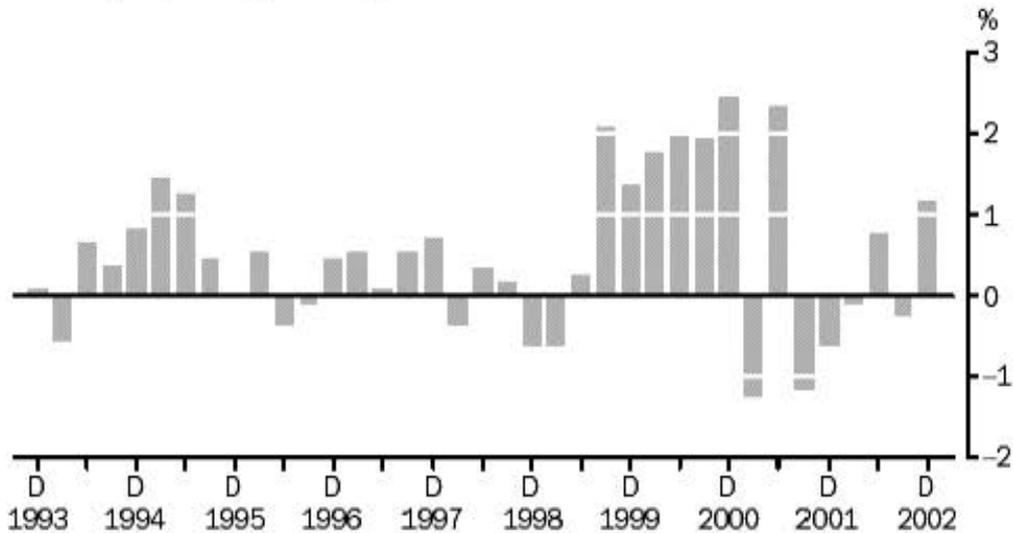
1.4 The latest National Accounts figures also shows that in trend terms the wages share of total factor income rose during the September 2002 quarter to be at 53.8 per cent, up from the 53.6 per cent level of June quarter, while the profit share remained steady at 23.9 percent.

The National Account figures also show that the import to sales ratio (import penetration) fell marginally during the September 2002 quarter from 38.7 per cent in the June 2002 quarter to 38.6 percent in the September quarter. This implies that for every \$1 spent in sales, 38.6 cents are spent on imported goods.

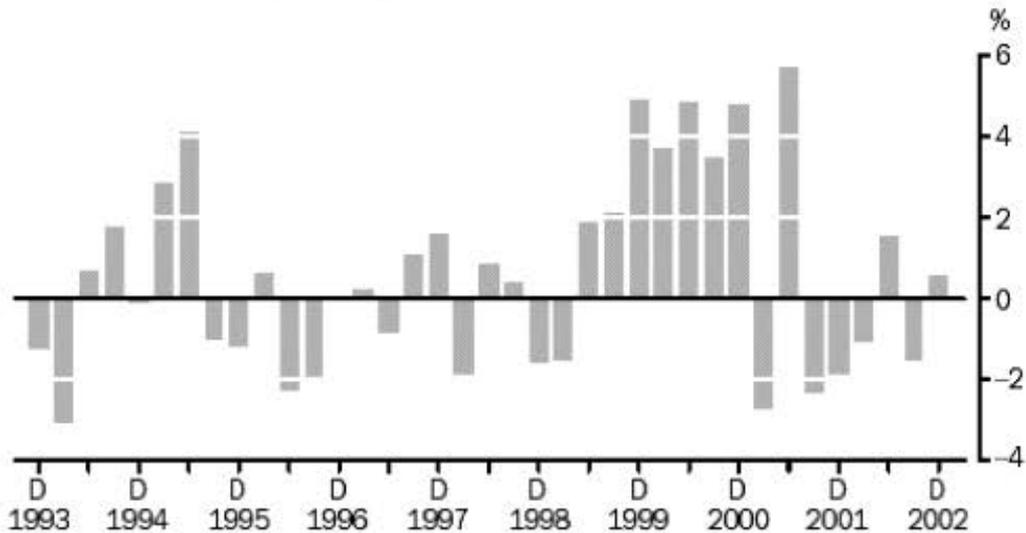
The inflation rate as measured by the Consumer Price Index (CPI), increased by 0.7 per cent during the December 2002 quarter, resulting in an annual inflation rate of 3.0 per cent, which is just on the Reserve Bank's maximum inflation target.

1.5 The input and output prices for the manufacturing industry increased during the December quarter by 0.5% and 1.2% respectively. Over the year to December quarter 2002, the materials used in manufacturing index fell by 0.5% while the articles produced by manufacturing index increased by 1.6%. The charts below depict the price movements in articles produced by manufacturing industries and articles used by manufacturing industries.

ARTICLES PRODUCED BY MANUFACTURING INDUSTRIES:
All Groups, Quarterly % change



MATERIALS USED IN MANUFACTURING INDUSTRIES:
All Groups, Quarterly % change



Source: ABS

1.6 An important determinant of the inflation rate continues to be movements in wages. The latest available results for average weekly earnings show that for full time adults average weekly earnings in

trend terms are growing at an annual rate of 4.7 per cent, which is just below the unofficial Reserve Bank upper threshold target of 5 per cent. During the December 2002 quarter, the Wage Cost Index rose by 0.8 per cent which resulted in an annualised increase of 3.4 per cent.

1.7 In conclusion, despite economic growth continuing into the September 2002 quarter, the fact that the economy has slowed in recent times has meant that economic conditions in some sectors such as manufacturing industry have been very tough. With monetary policy currently on hold, further reductions in interest rates are now unlikely. Given the degree of economic uncertainty future economic growth rates may be more modest and may be in the vicinity of between 2.25 per cent to 2.50 per cent compared to the recent past when economic growth averaged around 4 per cent.

2. Employment prospects are flat and full-time employment is not increasing

2.1 It should be noted that the available ABS statistics for this industry remain unsatisfactory. ABS publication 6203.0 – Labour Force Statistics Australia in the subcategory – Printing Publishing and Recorded Media for November 2002 suggests that a total of 117,700 people are employed in the industry. However previous adjustments to the ANZIC indices which excluded the businesses operating in the paper production and paper making, have had the effect of reducing the reported number of employees in the industry. So no single ABS industry category now represents the entire industry.

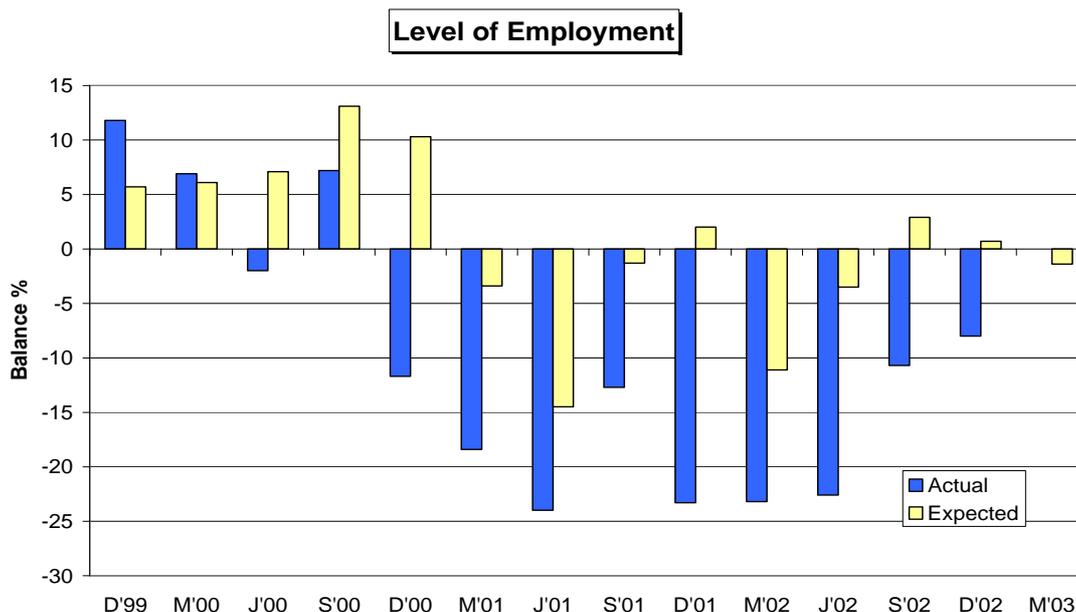
On the other hand, more recent changes to the survey sample used by ABS to generate these statistics have been widely criticized as being at such a variance to the previously published index that the new survey sample seems to create a break in the index. This means that reliable comparisons may not be possible since we are not comparing identical items.

Given the problems associated with the industry employment data, the only targeted indication of employment trends in the printing industry comes from the data generated by the Printing Industry Trends survey undertaken by Printing Industries Association on a quarterly basis.

The Printing Industry Trends Survey seeks responses from Printing Industries members (ie. those in the paper, paper products, printing and publishing industry) and provides a picture of the change in industry results and expectations between quarters. The figures in the survey are expressed on a net balance basis – ie. if 40% of survey respondents indicated things have improved and 30% of survey respondents indicated that things have deteriorated, the net balance is 10%. The results, which have been collected since 1987, show trends in the industry and are a useful indicator of both future expectations and changes in expectations.

2.2 In the December 2002 Trends Survey employment levels were reported to have declined by a balance of 8 per cent of respondents. A net balance of 1.4 per cent of respondents is anticipating further reductions in employment during the March 2003 quarter.

Overall on balance, the survey respondents indicated that they would be creating 42 positions during the next 12 months. If this result is repeated throughout the industry, some 454 positions may be created in the industry during the next 12 months. This would result in a very modest rise in the numbers employed in the industry.

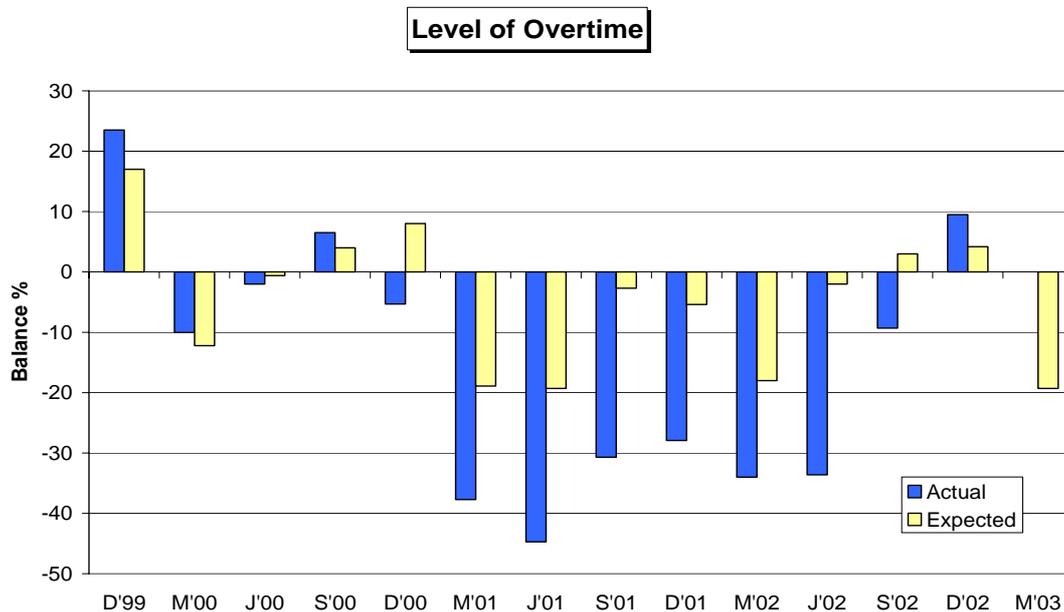


Source: Printing Industry Trends Survey

2.3 Another indicator of the level of activity in the sector is the amount of overtime worked. Historically employers in the industry, where demand increases, first use overtime to fulfill demand for labour and then when overtime fails to fulfill orders, increase the number of employees.

In the December 2002 Trend Survey overtime levels were reported to have increased by a balance of 9.5 per cent of respondents during the December 2002 quarter. Over the outlook period overtime

levels are being forecast to decline by a balance of 19.3 per cent of survey respondents.



Source: Printing Industry Trends Survey

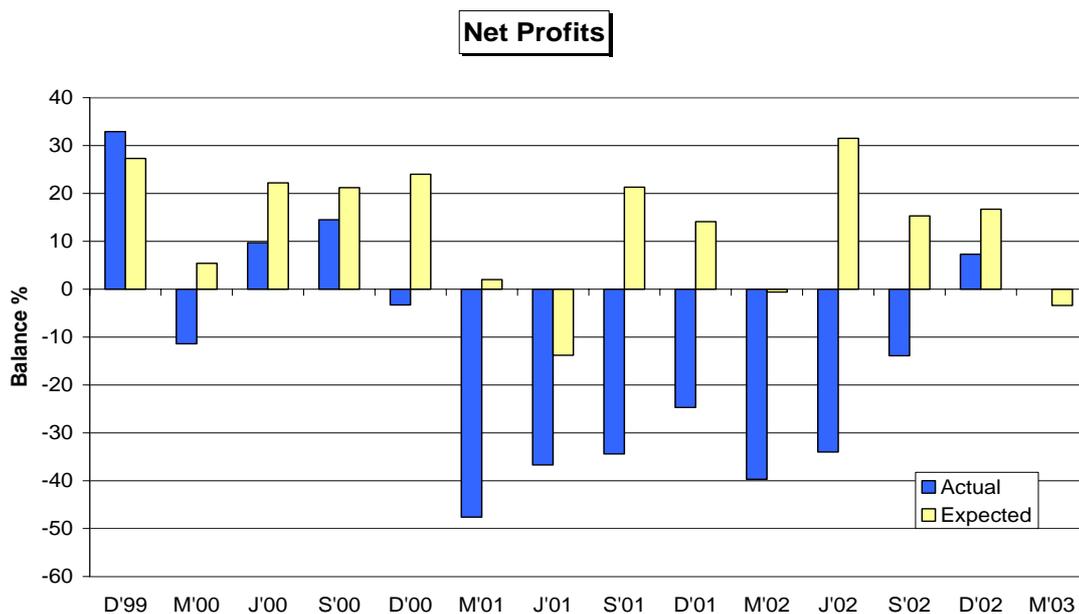
3. Profitability in the Printing Industry is down and trending further down.

3.1 Company sales are down and pre-tax profit measures are up. Based on the ABS September 2002 quarter data, profits are up 45% in September 2002 quarter compared to June 2002 quarter and up by 33% when September 2002 is compared to September 2001 quarter. Taken over the whole year, in the 12 months to September 2002 a profit increase of 7.1% has been reported by ABS.

However this happy result gives a misleading picture of the printing industry. The survey undertaken by the ABS is of organisations with 20 or more employees. The bulk of the industry (85%) employs less than 20 employees. The small firms are not as profitable and have

a lesser ability to accommodate any increase in their cost base whether due to wages or any other factor.

Industry survey results show profitability on a net balance basis as being up 7.3% over December 2002. Looking forward to March 2003, the industry expects a decline in profitability, with a balance of 3.4% of respondents expecting profits to be down in that quarter.



Source: Printing Industry Trends Survey

It should be noted that the December quarter is historically the best quarter each year for the printing industry. The industry is at its busiest and most active during this quarter, and hence it's most profitable. While the industry seems to have registered profit improvements in December 2002 quarter the view going forward is that profit improvements will not be sustained given the expectations for the March 2003 quarter.

3.2 Company Sales

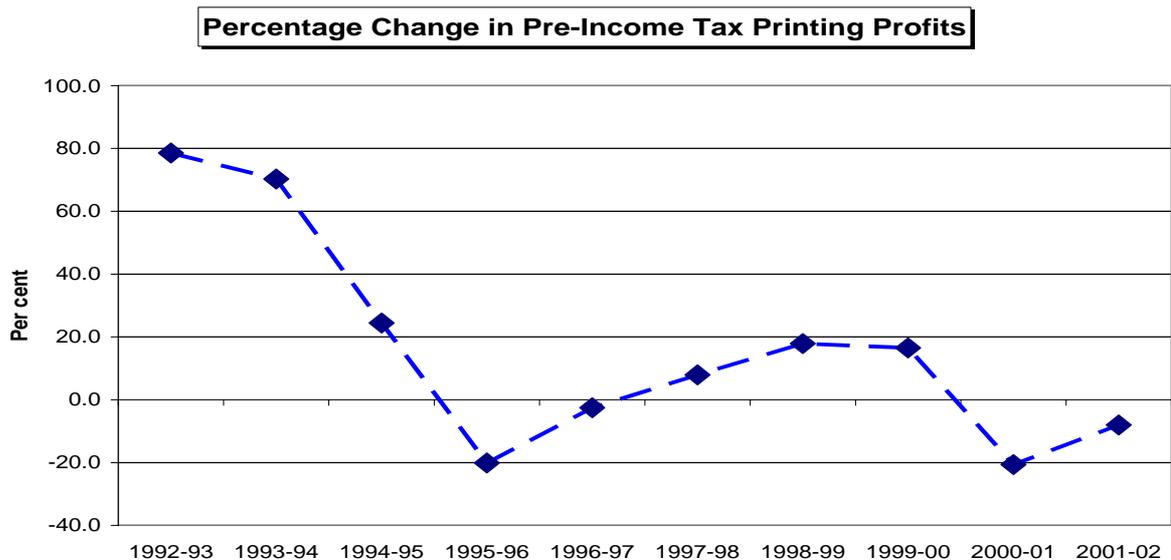
Trend estimates of company sales reveals a 9.2 per cent decrease during the September 2002 quarter compared to the same period last year. During the 12 months to September 2002 quarter sales in the printing and publishing industry totalled \$16,138 million, a decline of 1.8 per cent on the same period a year earlier.

3.3 Company Profits

Profits before income tax registered a rise in the printing industry during the September 2002 quarter increasing from \$264 million in the June 2002 quarter to \$384 million in the September 2002 according to ABS data.

Compared to the same period a year earlier the September 2002 quarter outcome represents an improvement 33.0 per cent.

Based on the results of the past 12 months to September quarter 2002 – profit levels in the industry totalled \$1283 million, a rise of 7.1 per cent on the result a year earlier. The chart below presents profitability data over recent financial years.



Source: ABS

3.4 Capital Expenditure

Trend estimates of actual capital expenditure in the printing industry during the September 2002 quarter show marginal fall in capital expenditure levels from \$178 million in the June 2002 quarter to \$177 million in the September 2002 quarter, but a strong rise of 15% in the September 2002 quarter.

For the 12 months to September 2002 quarter the industry's total capital expenditure stood at \$692 million, an improvement of more than 1.0 per cent on the result of the previous financial year.

3.5 Gross Value Added

Gross value added is a measure calculated by deducting from the selling price of goods and services, the cost of raw materials and services purchased to produce those goods and services. It is a

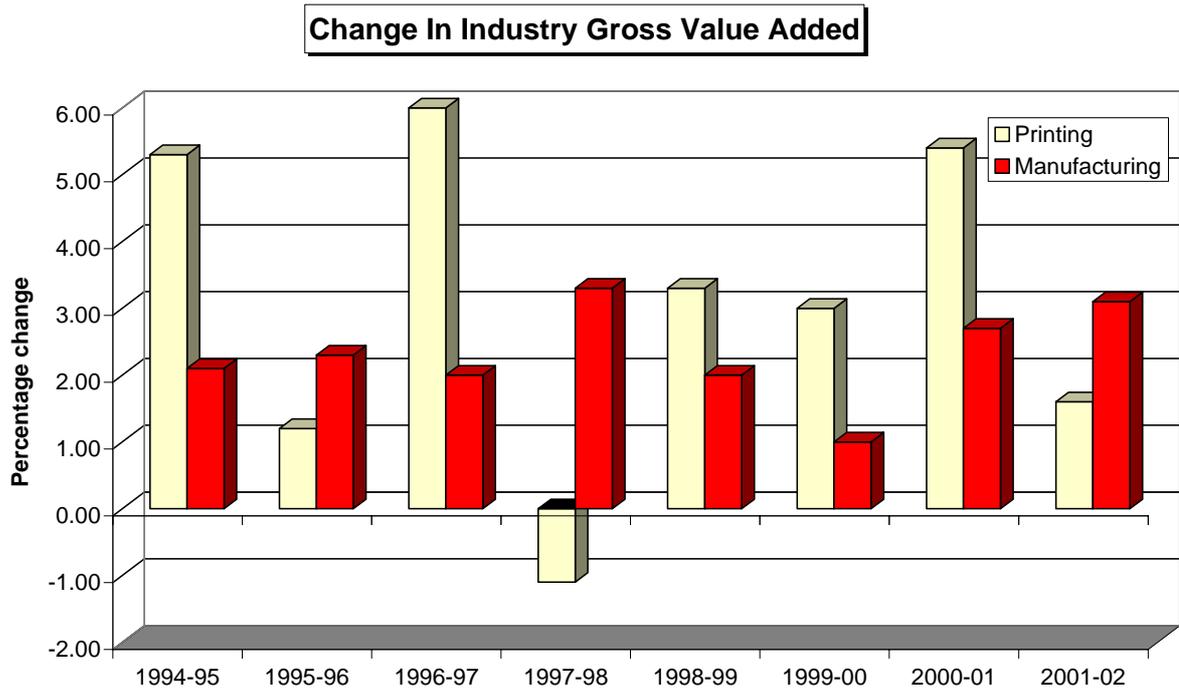
measure both of economic activity and gross margins on that activity. It should be noted that unlike the profit data produced by ABS, this figure includes data from all levels of business (not just those employing 20 or more).

The September 2002 quarter saw a 3.9 per cent decrease in the gross value added activity of the printing and publishing industry from \$1708 million to \$1641 million.

Compared to the same period last year, the September 2002 quarter result represents a decrease of 11.1 per cent.

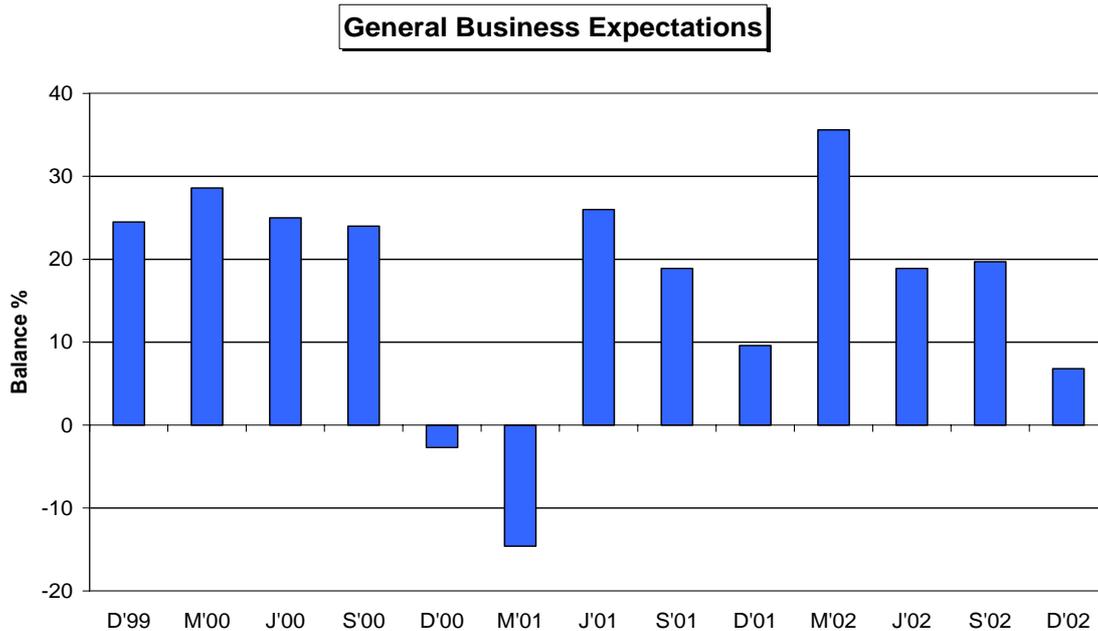
For the 12 months to September quarter 2001, the gross value added of the industry stood at \$6980 million a deterioration of 2.9 per cent on the same period a year earlier.

The chart below compares the movements of the industry's gross value added in recent years with that of the manufacturing sector.



Source: ABS

3.6 The Printing Industry Trends survey for the December 2002 quarter reveals that a significant deterioration in business confidence has taken place. Business confidence has fallen from a 19.7 % positive net balance to a positive balance of 9.6%



Source: Printing Industry Trends Survey

3.7 The December quarter results show that only 74.2 per cent of survey respondents were operating at capacity levels of 70 per cent or more. This time last year the corresponding percentage was 67.9%. Excess capacity is a reflection of lack of business activity. Even during the busiest time of the year for the industry a third of industry capacity is not being used.

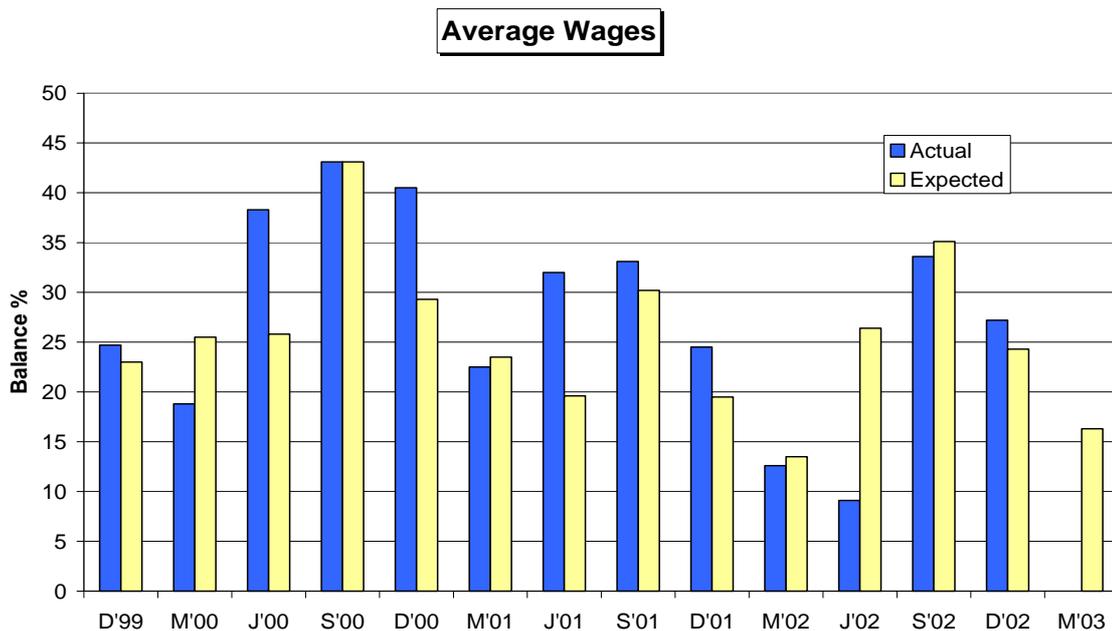
4. Despite the “absorption clause” found in the last four Safety Net Review cases, the safety net increase awarded flowed through generally to employees in the industry.

4.1 Anecdotal evidence indicated that while Safety Net increases are limited to award rates, and absorption is available, the increase flowed through. Of course the result of this Safety Net case is not confined to Federal Awards, but is commonly mirrored in State jurisdictions. As a result the Safety Net increase is seen as the

minimum wage increase and is widely perceived as being available to all employees, despite the limitations placed on it in the principles set by the Full Bench.

4.2 The December 2002 Printing Industries Trends Survey indicated on balance, 27.2 per cent of respondents reported an increase in average wages, a trend that is expected to continue in the March 2003 quarter with 16.3 per cent of respondents on balance anticipating an increase.

Other labour costs were reported to have increased by a net balance of 17 per cent of respondents, with a balance of 11 per cent of respondents anticipating further increases next quarter.



Source: Printing Industry Trends Survey

5. Increased costs, reduced profitability and poor economic outlook all mean that prospects are bleak for a large percentage of the Printing Industry. This outlook will be further compounded if labour costs increase by \$24.60 per week.

- **5.1** According to expectations there should be:
 - Net balance reductions in orders, production, sales and net profits during the March 2003 quarter;
 - Increased investment in plant and machinery during the next six months;
 - Moderate net balance falls in average selling prices;
 - Increased availability of finance;
 - A further easing of the labour market;
 - Reduced employment and overtime levels;
 - Further increases in all production cost categories - average wages, other labour costs, and average material costs;
 - Declining stock levels; and
 - Rising number of outstanding debtors.

5.2 Tabular summary of December 2002 quarter Printing Industry Trends Survey Results and Forecasts for the March and June 2003 quarters

Economic indicator	December 2002 Quarter Reported Outcome	Forecast Period March and June 2003 quarters
Production	Increased	Fall
Orders	Increased	Fall
Sales	Increased	Fall
Net Profits	Increased	Fall

Employment	Fell	Fall
Overtime	Increased	Fall
Availability of Labour	Increased	Increase
Availability of Finance	Increased	Increase
Average Material Costs	Increased	Increase
Average Wages	Increased	Increase
Other Labour Costs	Increased	Increase
Average Selling Prices	Fell	Fall
Investment in Buildings	Fell	Fall
Investment in Plant & Machinery	Increased	Increase
Stocks of Raw Materials	Fell	Fall
Number of Outstanding Debtors	Increased	Increase
Net Outcome	Improved economic climate with some ongoing challenges	Economic climate forecast to deteriorate due to seasonal factors

5.3 In our submission, we state and show that the industry is in a poor position to deal with an increase of the magnitude sought by the ACTU and an increase of this magnitude is inappropriate at this time. Printing is generally adversely affected in times of downturn with the impact often being compounded. Printing demands are often cut back early in a downturn as marketing and printing expenditures are cut back by various industry sectors. The effect of this is that when a downturn occurs, the downturn in the printing industry is more drastic than in the overall economy.

5.4 The current back drop of economic uncertainty and drought, together with the downward trends in the Printing Industry in terms of employment and overtime use (see paragraph 2.2 and 2.3), company sales (paragraph 3.2), production, (paragraph 3.1, 3.2 and 3.3), show that improvement in economic conditions for this industry is not expected in the short term at least. Further these indicators show the industry will be in a poor state to adapt to higher wage costs.

5.5 For all these reasons, the application should not be granted in the form proposed by the Applicant. In the alternative if any increase is contemplated it should be modest and confined to the genuinely lower paid. Such an approach in our submission better accords with the Safety Net wage fixation principles.