

2002 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 \$25.00 Safety Net increase.

The increase is opposed on the following grounds:-

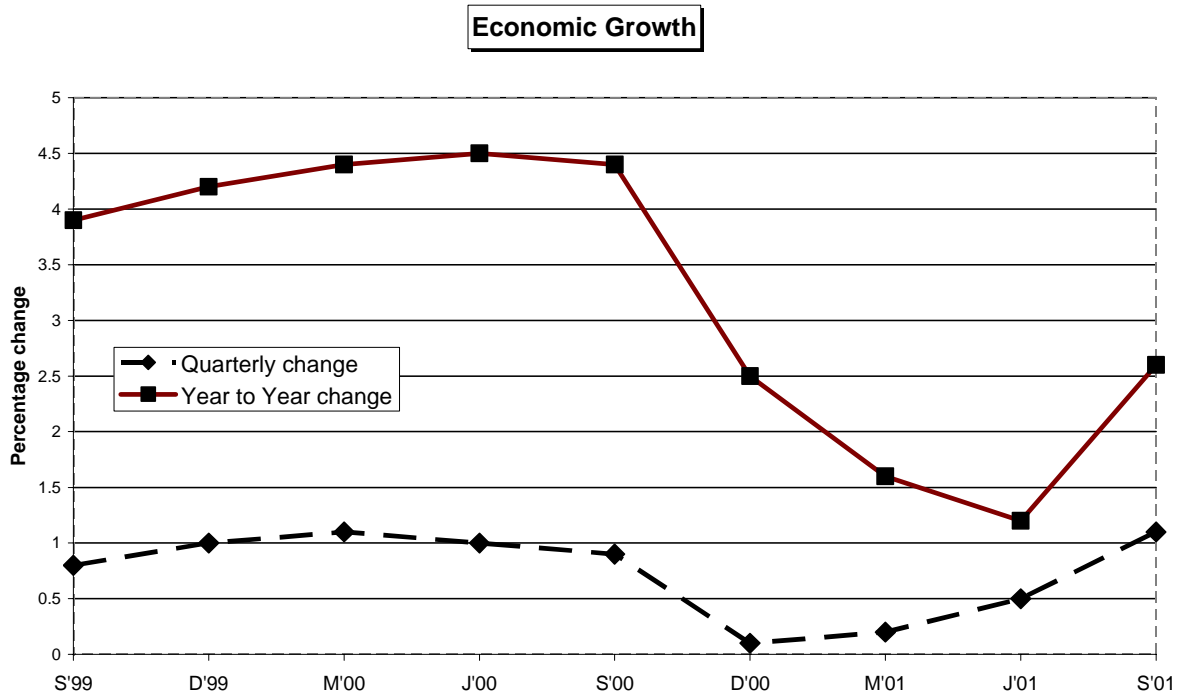
1. The general economic situation is flat and trending down;
2. Employment prospects are flat and full-time employment is not increasing;
3. Profitability in the Printing Industry is down and trending further down.
4. Despite the “absorption clause” found in the last four Safety Net Review cases, the 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 \$25.00 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 1.1 per cent giving an annual growth rate of 2.6 per cent in trend terms.

1.2 Despite continued economic growth, the economy has considerably slowed (see chart below) and with economic growth rate dipping below 4 percent, the unemployment rate has begun to creep towards 7 per cent and currently (January 2002) stands at 6.8 per cent. This time last year the unemployment rate stood at 6.4 per cent. Labour force participation levels increased modestly during January 2002, and may mean that the slight pick up in economic activity in the September 2001 quarter is encouraging new entrants to the labour market.



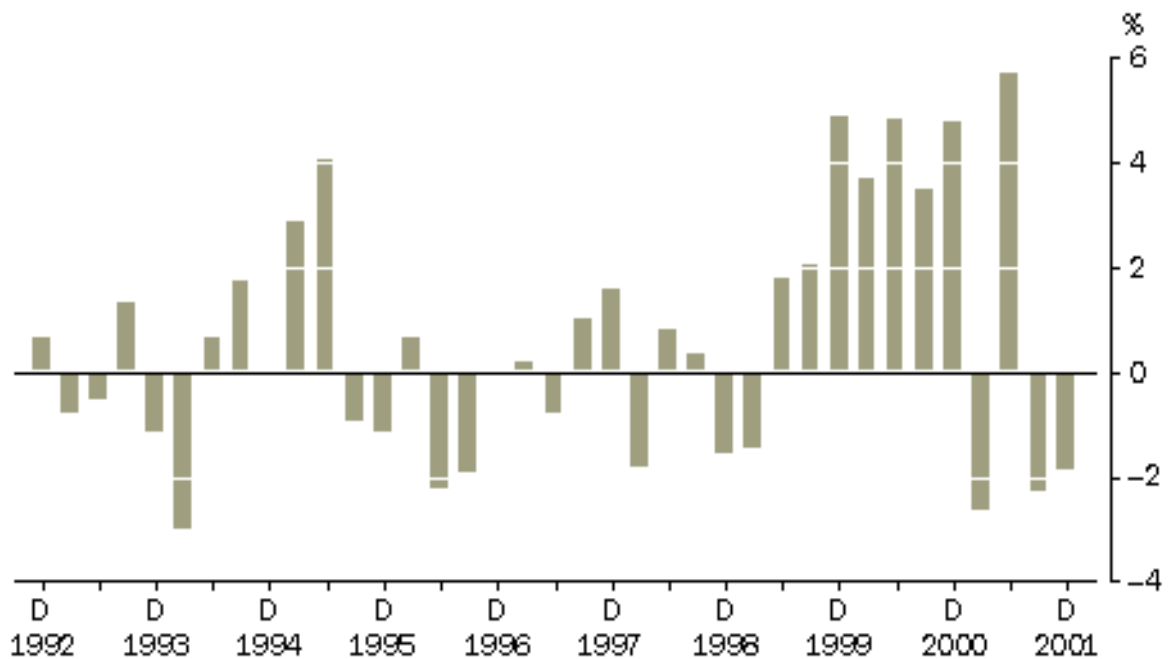
Source: ABS

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, investment in dwellings and exports.

1.4 The latest National Accounts figures also shows that in trend terms the wages share of total factor income fell during the September 2001 quarter to be at 54.7 per cent, down from the 54.9 per cent level of June quarter, while the profit share remained steady at 23.0 percent.

The National Account figures also show that the import to sales ratio (import penetration) fell slightly during the September 2001 quarter from 40.7 per cent in the June 2001 quarter to 39.6 percent in the September quarter. This implies that for every \$1 spent in sales, 39.6 cents are spent on imported goods.

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 5.4 per cent, which is above the unofficial Reserve Bank upper threshold target of 5 per cent.

1.7 In conclusion, despite the fact that economic growth continued into the September 2001 quarter, the fact that the economy has slowed in recent times has meant that economic conditions in some sectors such as manufacturing industry has been very tough. With monetary policy currently on hold, further reductions in interest rates are now unlikely. Future economic growth rates may be in the vicinity

of between 2.5 per cent to 2.75 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

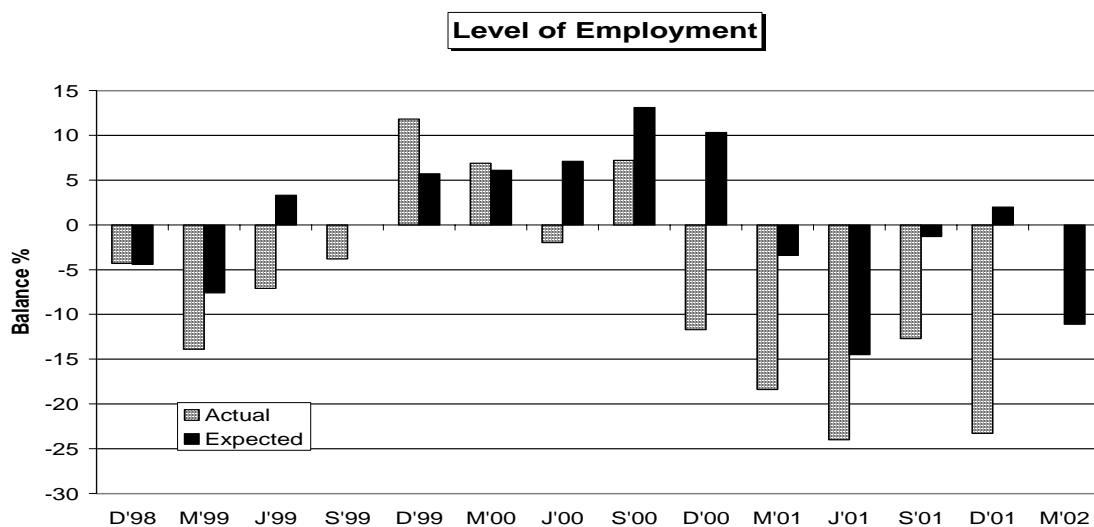
2.1 In the December 2001 Printing Industry Trends Survey, which seeks responses from Printing Industries members in the paper, paper products, printing and publishing industry and provides a picture of the change in industry results and expectations between quarters was published. The figures in the survey are expressed as a net balance – 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%. These results, which have been collected since 1987, show trends in the industry and are a useful indicator of future expectations and changes in expectations.

2.2 In the December 2001 Trends Survey employment levels were reported to have declined by a balance of 23.3 per cent of respondents. A balance of 11.1 per cent of respondents are anticipating further reductions in employment during the March 2002 quarter.

Overall on balance, the survey respondents indicated that they would be shedding 332 positions during the next 12 months. If this result is repeated throughout the industry, some 2741 positions may be shed in the industry during the next 12 months.

The December quarter employment intentions figures have heavily been influenced by the decision to shut down a large regional commercial printing operation.

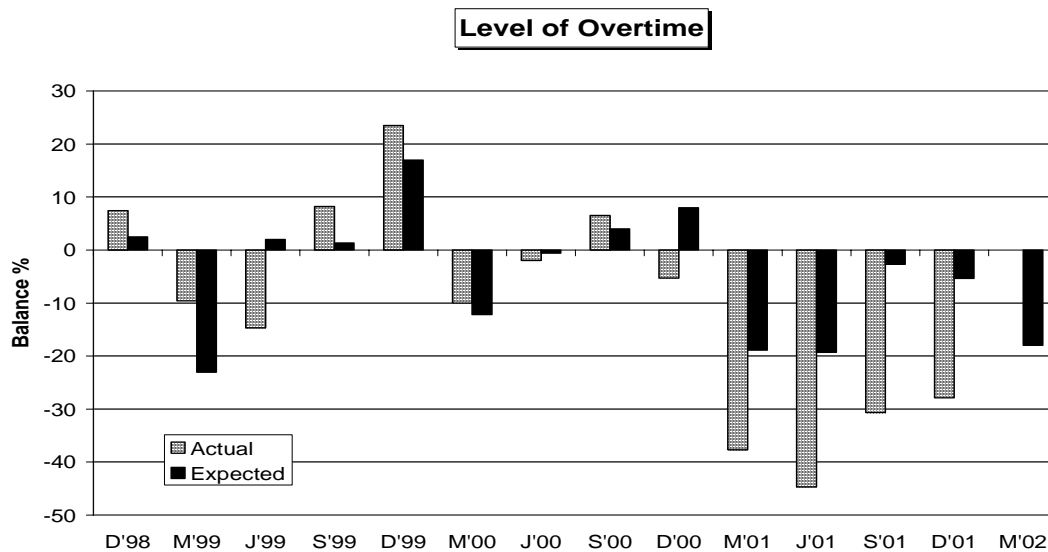
This time last year, the survey respondents indicated that they would be shedding some 17 people, which if repeated throughout the industry would have resulted in the loss of some 154 positions.



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 and then when overtime fails to fulfill orders, increase the number of employees.

In the December 2001 Trend Survey overtime levels were also reported to have declined by a balance of 27.9 per cent of respondents during the December 2001 quarter. Over the outlook period overtime levels are being forecast to decline by a balance of 18.0 per cent of survey respondents.



Source: Printing Industry Trends Survey

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

3.1 This can be seen by reference to a number of indicators. Company sales are down and pre-tax profit measures are down. In addition there is a marked decline in gross value added (ie. The amount of sales made by the industry in the 12 months to September 2001). All of these are reflected in the decline in capital expenditure in the 12 months to September 2001 and the marked deterioration in Business Confidence shown by the December Printing Industries Trends survey (see paragraph 3.6)

3.2 Company Sales

Trend estimates of company sales reveals a 6.5 per cent increase during the September 2001 quarter compared to the same period last year. During the 12 months to September 2001 quarter sales in the printing and publishing industry totalled \$16,774 million, a decline of

1.6 per cent on the same period a year earlier.

3.3 *Company Inventories*

Based on the September 2001 quarter results, a 1.1 per cent rise in inventories was reported on a trend basis for the printing and publishing industry when compared with the June 2001 quarter outcome.

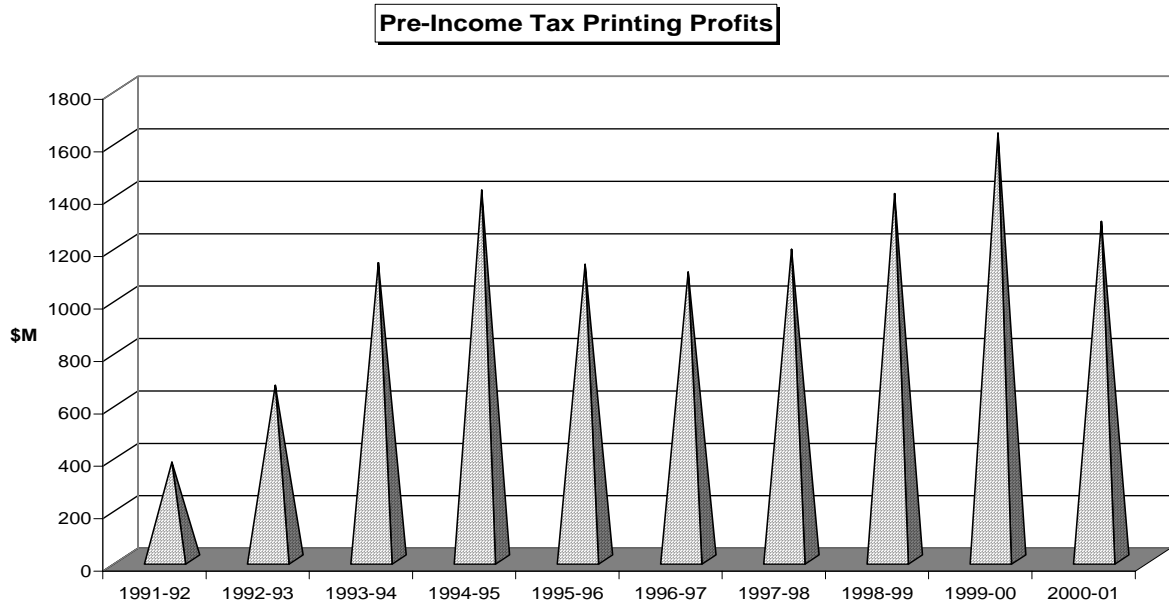
Compared to the same period a year earlier, the September 2001 outcome represents a decline of inventories of \$81 million, or in percentage terms, a fall of 9.7 per cent.

3.4 *Company Profits*

Profits before income tax registered a rise in the printing industry during the September 2001 quarter increasing from \$180 million in the June 2001 quarter to \$279 million in the September 2001 according to ABS data.

Compared to the same period a year earlier the September 2001 quarter outcome represents a deterioration of 24.8 per cent.

Based on the results of the past 12 months to September quarter 2001 – profit levels in the industry totalled \$1200 million, a deterioration of 27.4 per cent on the result a year earlier. The chart below presents profitability data over recent financial years.



Source: ABS

3.5 Capital Expenditure

Trend estimates of actual capital expenditure in the printing industry during the September 2001 quarter show a 5.4 per cent deterioration in capital expenditure levels from \$147 million in the June 2001 quarter to \$139 million in the September 2001 quarter.

Compared to the same period last year, the September 2001 quarter outcome represents a 20.6 per cent deterioration.

For the 12 months to September 2001 quarter the industry's total capital expenditure stood at \$624 million, a decline of some 19.3 per cent on the result of the previous financial year.

3.6 Gross Value Added

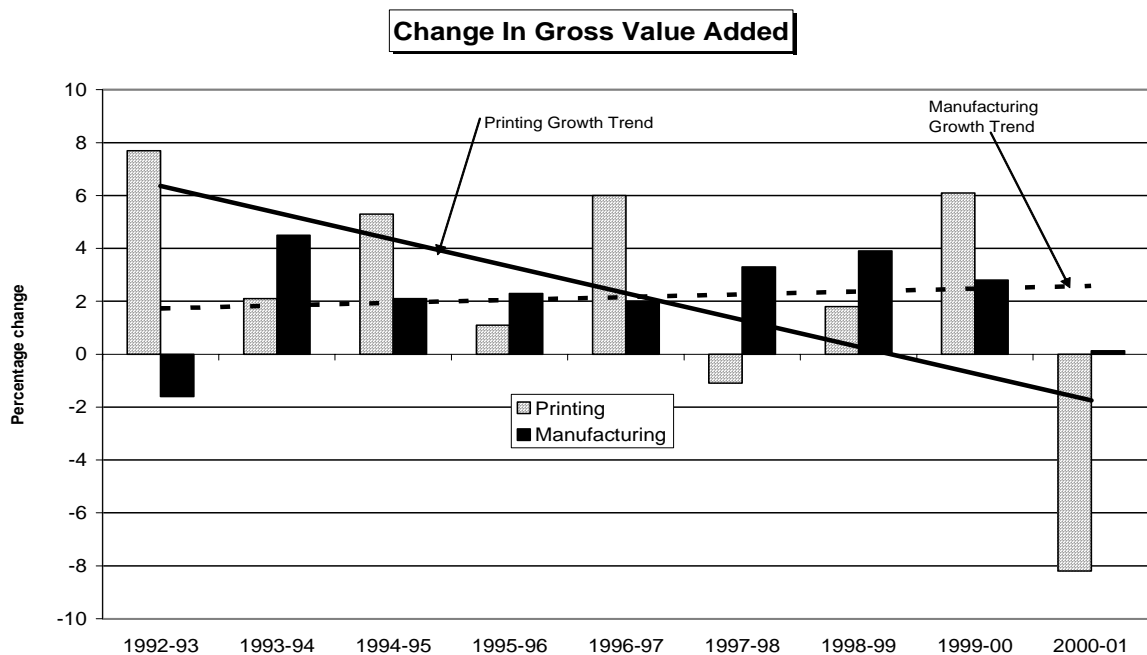
The September 2001 quarter saw a 3.3 per cent rise in the gross value added activity of the printing and publishing industry from \$1635

million to \$1689 million.

Compared to the same period last year, the September 2001 quarter result represents a modest 1.2 per cent improvement.

For the 12 months to September quarter 2001, the gross value added of the industry stood at \$6512 million a deterioration of 5.5 per cent on the same period a year earlier.

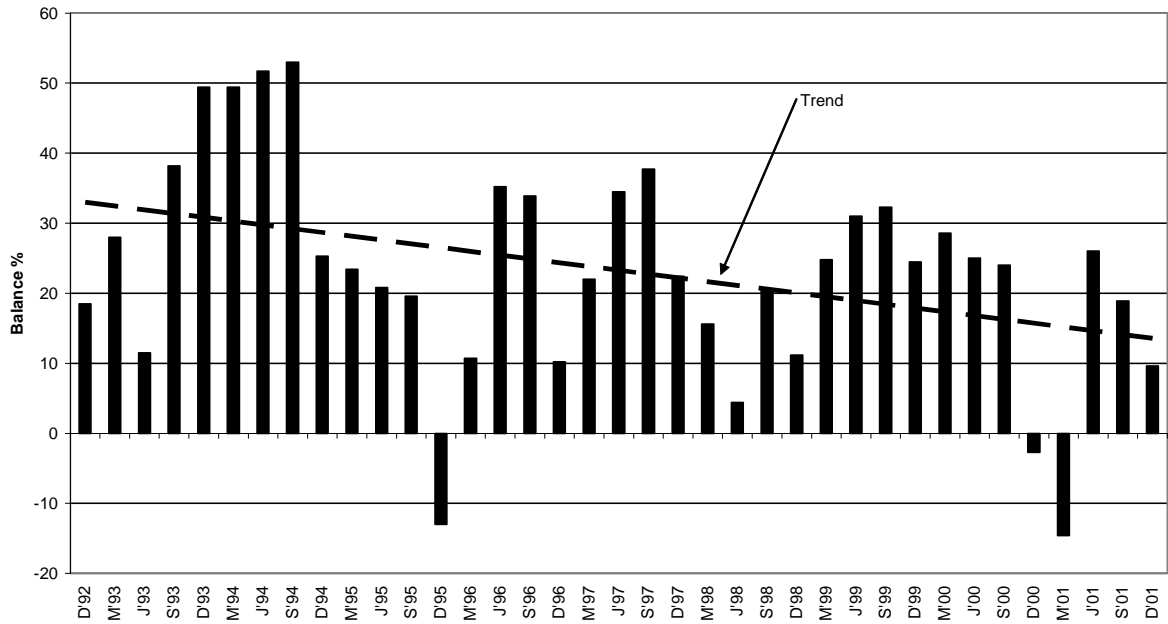
The chart below compares the movements of the industry's gross value added in recent years with that of the manufacturing sector.



Source: ABS

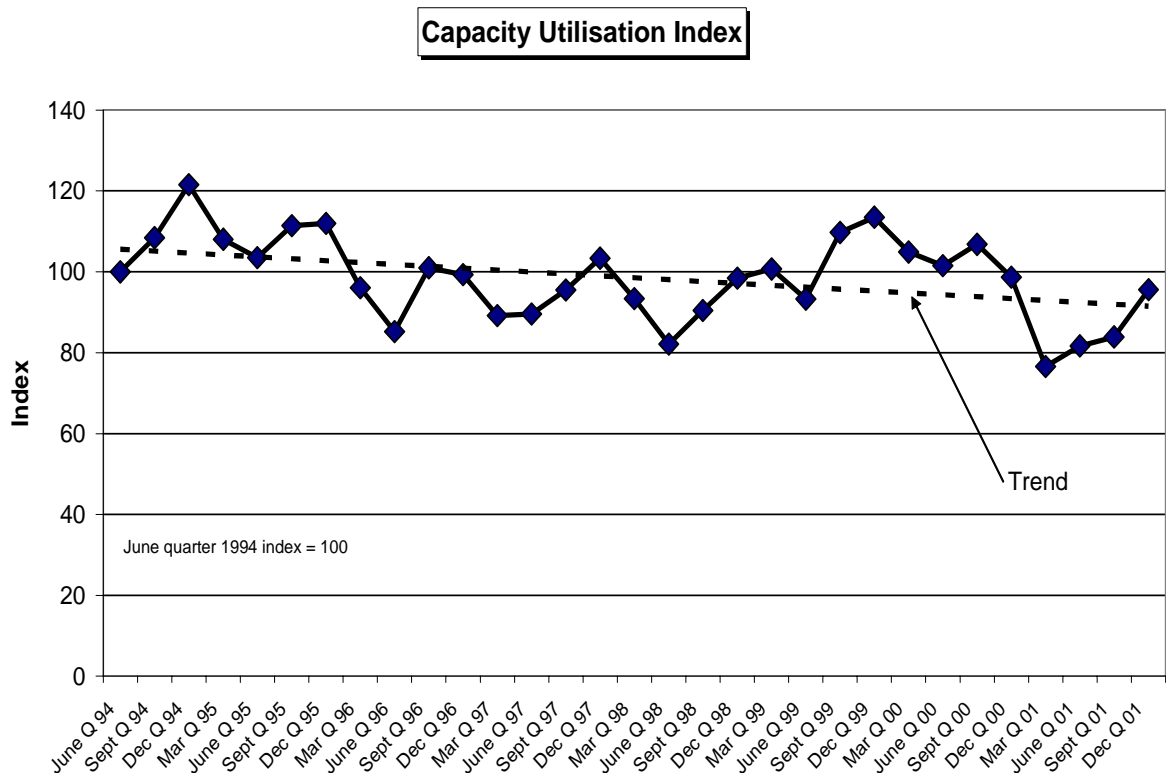
3.6 The Printing Industry Trends survey for the December 2001 quarter reveals that a significant deterioration in business confidence has taken place.

Business Expectations - Printing



Source: Printing Industry Trends Survey

3.7 The December quarter results show that only 68 per cent of survey respondents were operating at capacity levels of 70 per cent or more. The chart below shows the trend in capacity utilisation levels in recent times.



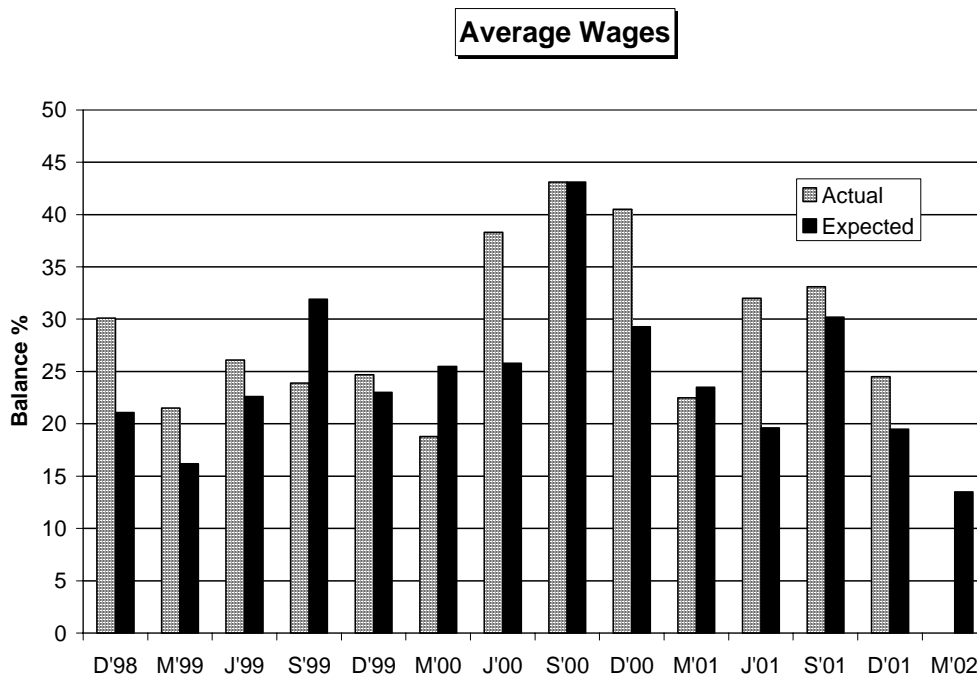
Source: Printing Industry Trends Survey

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 2001 Printing Industries Trends Survey indicated on balance, 24.5 per cent of respondents reported an increase in average wages, a trend that is expected to continue in the March 2002 quarter with 13.5 per cent of respondents on balance anticipating an increase.

Other labour costs were reported to have increased by a balance of 20.9 per cent of respondents, with a balance of 11.5 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 \$25.00 per week.

5.1 Taken together the outlook for this industry is poor. The December quarter developments include:

- Reduced orders and production;
- Reduced sales and net profits;
- Reduce employment and overtime;
- Reduced selling prices;
- Increased investment in plant and machinery;
- Finance and labour reported easier to obtain;
- Reported increases across all cost categories; and
- Worse than expected net balance for outstanding debtors.

According to expectations there should be:

- Modest net balance reductions in orders, production, sales and net profits during the March 2002 quarter;
- Increased investment in plant and machinery during the next six months;
- Small net balance reductions in average selling prices;
- Increased availability of finance;
- A further easing of the labour market;
- Falling 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 2001 quarter Printing Industry Trends Survey Results and Forecasts for the March and June 2002 quarters

Economic indicator	December 2001 Quarter	Forecast Period March/June 2002 quarters
Business Conditions	Deteriorated	Improve
Production	Fell	Fall
Orders	Fell	Fall
Sales	Fell	Fall
Net Profits	Fell	Fall
Employment	Fell	Fall
Overtime	Fell	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	Difficult economic climate	Continuation of difficult economic climate

5.3 In our submission, 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 regarded as a lagging indicator of manufacturing output in times of downturn. This means that 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 manufacturing production having fallen (see paragraph 1.5), together with the downward trends in the Printing Industry in employment and overtime use (see paragraph 2.2 and 2.3), company sales (paragraph 3.2), company inventories (paragraph 3.3), and capital expenditure (see paragraphs 3.3, and 3.5) show that improvement in economic conditions for this industry

is not expected in the short term at least. Further these indicators show the industry 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.