

PRINTING OUTLOOK

QUARTERLY PRINTING INDUSTRY TRENDS SURVEY

INCORPORATING:

- ◆ Printing Industry Trends & Quarterly Forecasts
- ◆ UK Headline Economic Data
- ◆ UK Economic Forecasts & Assessment
- ◆ Paper & Board Consumption Statistics from the Confederation of Paper Industries (CPI) and sector insight from EMGE (paper industry consultants)
- ◆ Printing Ink Sales Data from the British Coatings Federation (BCF)
- ◆ Energy Sector Commentary from Schneider Electric
- ◆ Financial Health Statistics from Red Flag Alert and Begbies Traynor
- ◆ Printing Insolvency Statistics
- ◆ Advertising Sector Data & Analysis from the Advertising Association / Warc Expenditure Report & IPA Bellwether Report

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UK PRINTING INDUSTRY CONTRACTED IN Q1 AS OUTPUT AND ORDER LEVELS FELL – BOUNCEBACK IN CONFIDENCE AND PERFORMANCE EXPECTED DURING Q2 AS COST PRESSURES TOP OUT

- ◆ The first quarter of 2023 has turned out to be significantly more challenging than expected for the UK’s printing and printed packaging industry. Output and orders both suffered declines in Q1 as high costs, higher prices, and subdued demand all combined to restrain production. However, the outlook for Q2 is much more positive.
- ◆ Unlike orders and output, confidence in Q1 continued to closely track expectations – and remained negative. However, confidence is also now expected to be boosted throughout Q2.
- ◆ Energy costs remain the top business concern for printing companies, they have been the number one concern since April last year.
- ◆ Unfortunately, there has since been a drop-off in the reported monthly turnover data. December, January, and February in particular, all reported disappointingly low levels of turnover. Data for March is expected to be better and, whilst April may be subdued, growth is forecast to be a little stronger in May and June.
- ◆ Industry capacity utilisation has continued to fall - in April capacity was noticeably lower than in January, although there was a slightly higher proportion operating at more than 70% capacity.
- ◆ A challenging start to the year has meant more companies reduced employment than increased employment in Q1.
- ◆ Average price levels increased, on balance, in Q1, though as predicted most companies managed to hold prices steady.
- ◆ Extensive and persistent cost pressure has been a dominant feature affecting companies in the printing and printed packaging industry for the last two years. However, except for labour costs, there is now an expectation that this pressure will ease throughout 2023.
- ◆ In April, paper, board, and other substrate costs was the largest cost component with a 36% share, on average, of total costs.
- ◆ A greater proportion of printers have been able to hold margins steady but, on balance, cost inflation has continued to outweigh output price inflation to put margins under more pressure.
- ◆ Almost half (46%) of respondents reported that they had conducted a pay review in Q1, the resulting average (mean) change in basic pay was 4.7%.
- ◆ Sustainability credentials are becoming more important in the printing and printed packaging industry. Almost two-fifths (38%) of respondents have reported that they are measuring their carbon emissions.
- ◆ The most popular area of attention for sustainability related investments was waste reduction – selected by 64% of respondents, a little ahead of solar panels (56%), and electric vehicles (55%).
- ◆ UK consumption of printing papers and boards did recover in Q4 last year, from a very poor performance in Q3, but remained below the level from Q4 2021.
- ◆ The last three months delivered further welcome reductions in UK wholesale electricity and natural gas prices, as high gas storage levels and benign temperatures continued to ease pressure on energy supply.

TREND SUMMARY

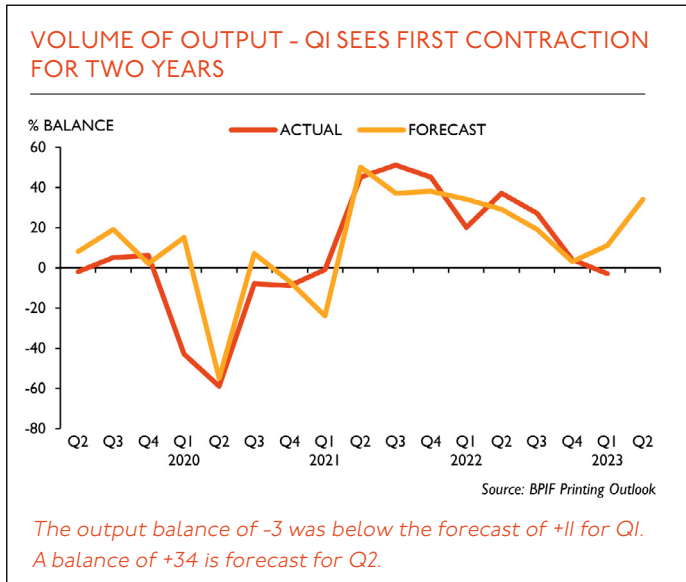
Indicator	Q1 Balance	Change (q-on-q)	Q2 Forecast	Change (q-on-q)
Output	-3	↓	34	↑
Orders	-5	↓	34	↑
Confidence	-15	↑	27	↑
Employment	-9	↓	10	↑
Exports	-51	↓	23	↑
Margins	-3	↑	-5	↓

Key			
↑	positive and improving	↑	negative but less so than previously
↓	positive but less so than previously	↓	negative and deteriorating
=	positive and unchanged	=	negative and unchanged

◆ OUTPUT AND ORDERS

The first quarter of 2023 has turned out to be significantly more challenging than expected for the UK's printing and printed packaging industry. Output and orders both suffered declines in Q1 as high costs, higher prices, and subdued demand all combined to restrain production. However, the outlook for Q2 is much more positive. A climate of stubbornly high inflation, amidst a cost of living, and cost of business crisis has dampened demand for portions of the industry. An expected easing of cost pressures in the current quarter underlies the revived expectations for orders and output in Q2.

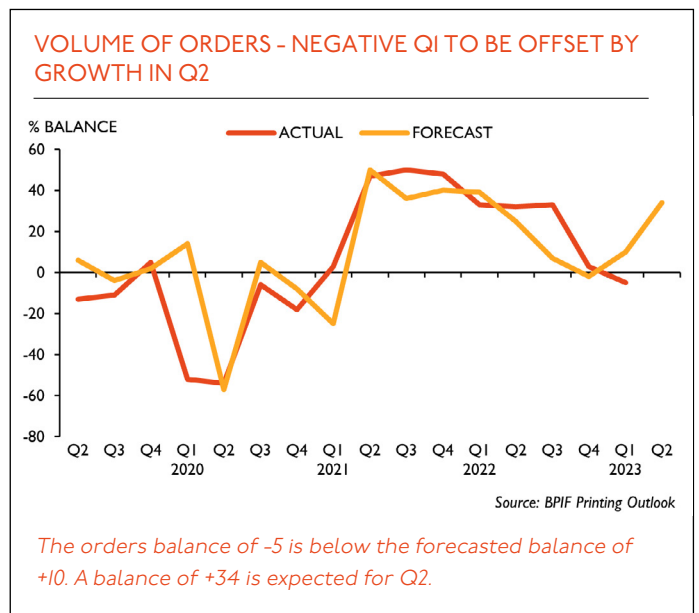
The latest Printing Outlook survey reveals that one-third (33%) of printers managed to increase their output levels in the first quarter of 2023, a further 29% were able to hold output steady. However, the remaining 38% experienced a decline in their output levels. The resulting balance (the difference between the ups and the downs) was -5, below the +4 in Q4, and well below the Q1 forecast (+11). This decline in output ends the seven consecutive quarter of positive output growth that the industry has experienced as part of the recovery from the impacts of Covid and comes just as it looks as though cost increases are balancing out.



A significantly more positive output balance is expected in Q2. Output growth is forecast to increase for 43% of companies, 48% predict that they will be able to hold output levels steady in Q2. That leaves 9% expecting output levels to fall. The resulting balance forecast is +34 for the volume of output in Q2. This Q2 forecast follows an unexpectedly obstinate and high level of inflation, formed amidst delayed evidence of an end to dramatic cost increases in some, but not yet all, areas.

The volume of orders balance remains very similar to that for output. As in Q4, it was marginally less positive in Q1. 33% of respondents reported that the volume of domestic orders in Q1 increased, and less than one-third (29%) held orders stable. That left 38% that experienced a decline in orders. The resulting balance (-5) is down from Q4 (+3), and well below the forecasted balance of +11.

Order growth is also forecast to recover strongly in Q2. Over two-fifths (43%) of respondents predict that their order levels will increase, 48% believe that orders will remain stable and 9% expect that their orders will decline in Q2. The resulting forecasted balance is +34.

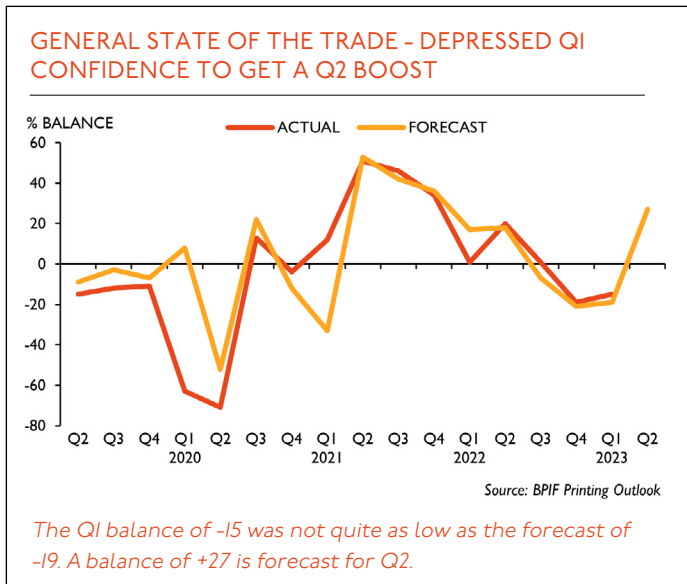


As reported last quarter, the expected recovery in output and orders does still seem optimistic when put in the context of the current state of order books. Less than one-fifth (18%) of respondents reported that their current order books (in April 2023) – were ‘better than normal for the time of year’, and 41% reported that order books were ‘normal’. That left 41% who reported that their order books were ‘worse than normal’ for the time of year, and a resulting balance of -23. However, in the wake of an underperforming Q1 the industry can still recover from that, yet still be in a worse than normal position as far as Q2 performance is concerned.

◆ BUSINESS CONFIDENCE

Unlike orders and output, confidence in Q1 continued to closely track expectations – and remained negative. However, confidence is also now expected to be boosted throughout Q2. As previously identified, lingering and extreme cost pressures, combined with economic uncertainty and political instability, had eroded earlier recoveries in confidence. But now, despite the current challenges, companies are forming a more positive mindset on the short-term outlook for the industry.

Confidence in the general state of trade improved for 23% of respondents in Q1, just under two-fifths (39%) believed that it had remained unchanged. That left less than two-fifths (38%) reporting that the general state of trade had deteriorated in Q1. The resulting balance -15, not quite as poor as the Q4 balance and the Q1 forecast (both -19).



The confidence forecast for Q2 is considerably more positive. 33% of respondents do expect that the general state of trade will improve in Q2, 61% expect that the general state of trade in the industry will remain unchanged, and only 6% now forecast a deterioration. The resulting forecast balance is therefore +27 for Q2 2023.

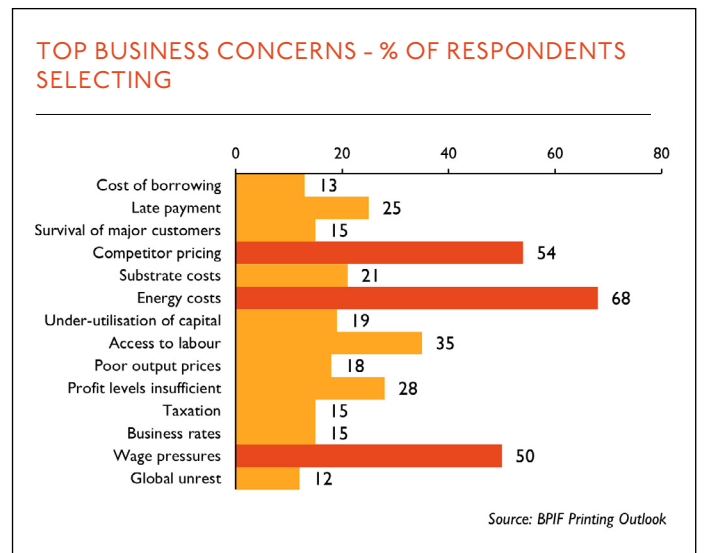
However, the confidence forecast remains negative when the comparison is with Q2 2022. 32% of firms expect an improvement in confidence, in comparison to last year; yet for 35% the Q2 2023 expectation is a deterioration from last year. The overall balance for the annual Q2 forecast comparison is -3. So, expectations formed from the quarter-on-quarter comparisons do need to be tempered from a realisation that the improvement is more a gentle brake and turning point than a handbrake turn and pedal to the metal moment.

Energy costs remain the top business concern for printing companies, they have been the number one concern since April last year. Energy costs were selected by 68% of respondents, down from 75% in January, and 83% in October. As previously mentioned, energy costs attract concerns beyond their direct impact on energy bills to printers as companies are aware of the energy intensity required to make paper and board and the effect the cost of energy can have on the cost of the paper and board supplies they purchase (though as most paper or board is imported from Europe, it will primarily be the cost of energy in Europe influencing prices).

Competitor pricing levels – or rather the perception that some competitors are pricing below cost – was the second highest ranking concern, selected by 54% of respondents in April, the same proportion as in January. Prior to January, competitor pricing had not featured in the top three concerns since January 2022, and has not been selected by as many respondents since July 2021.

The third ranking concern is now wage pressures, selected by 50% of companies. This is down from 51% in January but has entered the top three ranked concerns primarily due to a significant drop-off in the proportion of companies selecting substrate costs (paper, board, plastics etc.) as one of their top business concerns. Substrate costs has now fallen outside the top five ranking of concerns for the first time since January 2021. Concern over wage pressures has been heightened by recent minimum wage increases, and the knock-on effect that has on wage structures and pay differentials throughout businesses. Continued high levels of inflation, and the effect that has on pay review demands, has also added to wage pressure concerns.

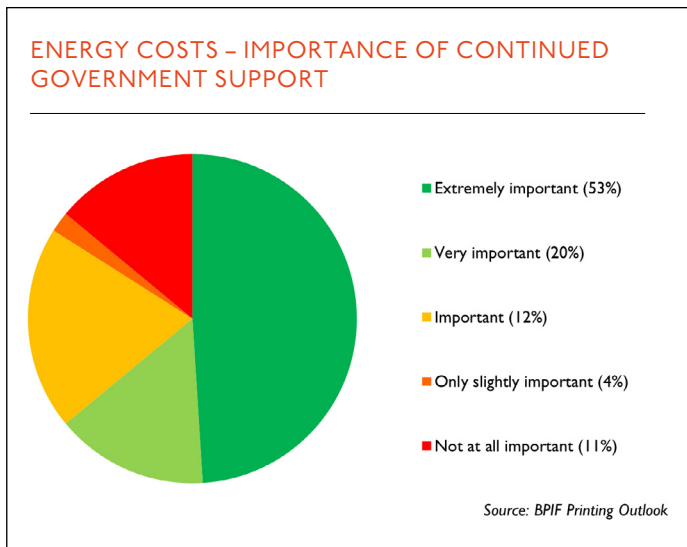
Further back, but down in fourth position, was access to labour – this was ranked fifth in January with 39% of respondents selecting it, whilst it is up to fourth in this occasion it has been selected by a smaller proportion of respondents – 35%. Profit levels insufficient to ensure investment was the fifth ranked concern – it was selected by 28% of respondents.



Most printing companies were relieved that last year the UK Government announced some support to help with the top-ranked business concern. The Energy Bill Relief Scheme (EBRS) was introduced as a temporary six-month measure, running until 31 March 2023. When introduced it was expected that the EBRS would effectively cut energy bills for businesses by around 50% of their expected levels last winter.

The operation of the EBRs was reviewed and replaced by a new Energy Bills Discount Scheme (EBDS) that will operate from 1 April 2023 to 31 March 2024 for eligible non-domestic consumers in GB and NI. The new scheme provides ongoing support, but at a reduced level, to businesses. Additional support will be available to those businesses that operate in sectors that are recognised as Energy and Trade Intensive Industries (ETII) – a list of the Standard Industrial Classifications (SIC) codes that fall within the scope of this additional support is available the Government’s website (gov.uk). Some of the printing industry is included, but not all, primarily paper, board and printed packaging related sectors.

Almost half (49%) of respondents have made it clear that continued Government support is ‘extremely important’ to their business. A further 15% classified it as ‘very important’, 20% as ‘important’ and 2% that it is ‘only slightly important’. That leaves 14% of respondents reporting that continued support from Government in energy costs was ‘not at all important’ for their business.



Unfortunately, there is confusion about who is entitled to the extra support from Government. Only 9% of respondents believe that they qualify for the additional ETII support, 44% think that they do not qualify, and 47% just don’t know if they qualify or not.

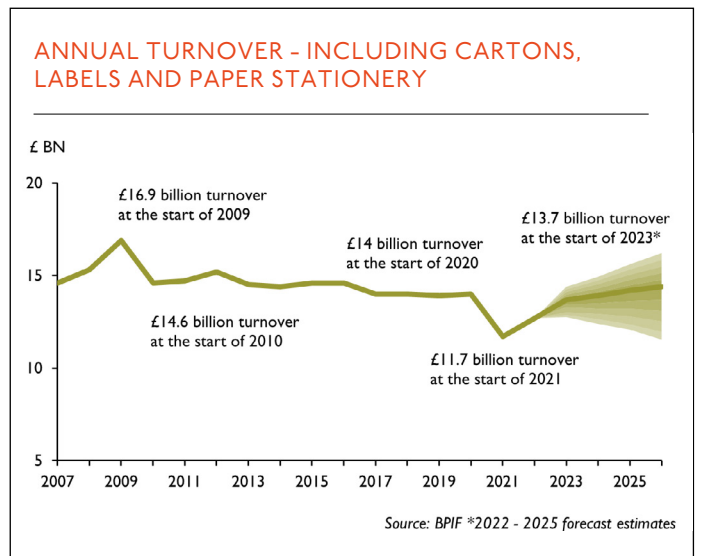
Respondents have voiced opinions over a desire for Government action in a range of areas such as, to reduce corporation tax, abolish business rates, and support to companies that entered energy supply contracts at the peak of price increases.

◆ TURNOVER

Annual data shows that turnover for the UK print and printed packaging industry (including the carton, label, and paper stationery sectors) was severely affected by the impacts of Covid-19 and contracted by around 18% in 2020 (to approximately £11.7 billion). The printing industry suffered more than many other sectors; the UK economy contracted by 11% in 2020.

Data for 2021 suggests that the industry finished 2021 with a 7.7% recovery (just ahead of the UK’s 7.6% economic growth), and an annual turnover of £12.6 billion. The printing industry has recovered stronger in 2022, to around £13.7 billion – representing annual growth of 9.4%, somewhat stronger than the UK’s GDP growth of 4.1% in 2022.

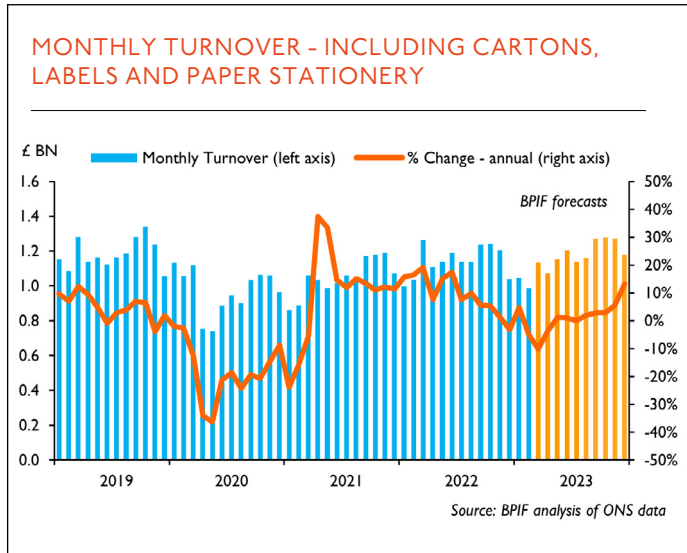
Forecasts for 2023 are subject to heightened uncertainty as energy costs and other global inflationary and cost of living pressures work through the economy.



Turning attention to the monthly turnover tracking for the industry, in particular the last 15 months or so, we see that a downturn in the face of 2021 Xmas holidays, and some Omicron-induced restrictions and isolations extended into January 2022 before growth returned in February and picked-up very strongly in March. In March industry turnover, at just under £1.3 billion, was 19.1% greater than March 2021, and 12.7% above the pre-Covid comparison to March 2020.

There was, unfortunately, a downturn in April but this was followed by a pick-up in May and stronger trading in June. However, a more pronounced than forecast deterioration led to reduced turnover figures in July and August. Stronger growth returned in September, with higher levels more-or-less maintained in October and November. Unfortunately, there has since been a drop-off in turnover.

December, January, and February in particular, all reported disappointingly low levels of turnover. Data for March is expected to be better and, whilst April may be subdued, growth is forecast to be a little stronger in May and June.

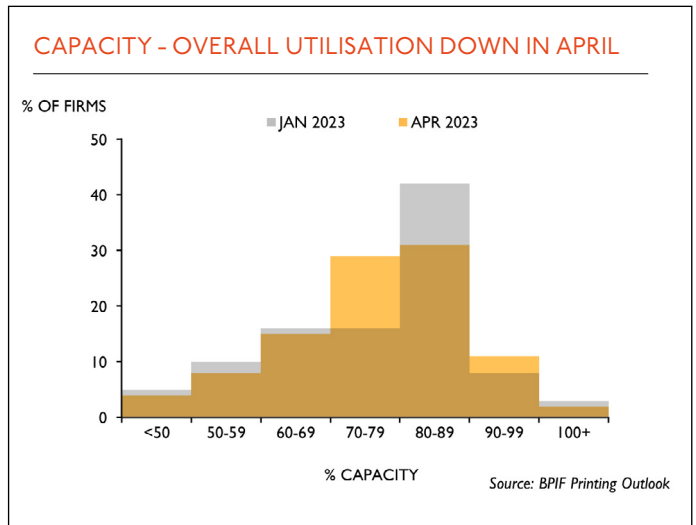


As before, prospects for later in the year will still depend upon the UK navigating a smooth path through a period of continued high energy costs, stubborn inflation, and economic instability. Whilst there is no shortage of pressures for companies to deal with – inflation is still expected to come down as we progress further through 2023, and energy costs are expected to settle further.

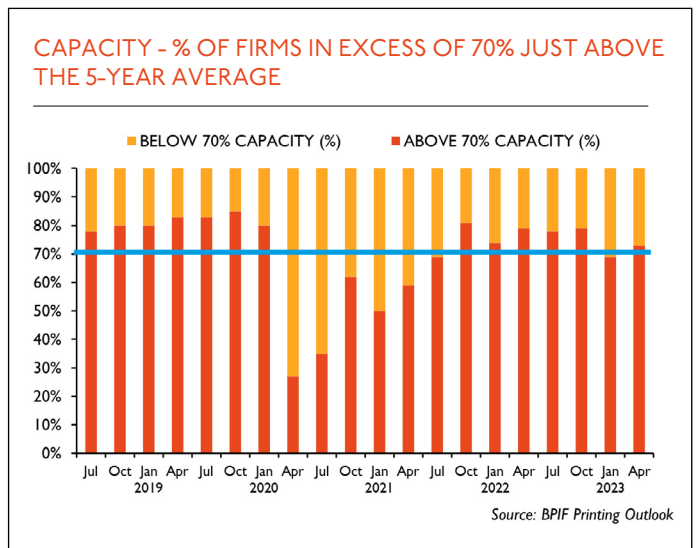
◆ CAPACITY

Industry capacity utilisation has continued to fall - in April capacity was noticeably lower than in January, although there was a slightly higher proportion operating at more than 70% capacity. Following Covid, and the recovery from that, capacity utilisation had returned towards more normalised patterns but has been restricted by several factors affecting supply chains, availability of labour, and fluctuating demand.

In April, 2% of companies were working to full capacity (meaning 98% were working below full capacity). This is below the levels reported in January (3%), October, (8%), July (14%), and just below April last year (3%). Whilst there were more companies (29%) in the 70-79% capacity range in April, there were considerably fewer in the higher 80-89% range.



The 'above' and 'below' capacity chart has been amended to reflect a more descriptive above and below 70% capacity proportion of respondents rather than above and below 100% capacity (as used prior to April 2020). This now more clearly depicts the changing capacity levels in the current climate, tracks the recovery post-Covid and helps monitor capacity in the face of further shocks.



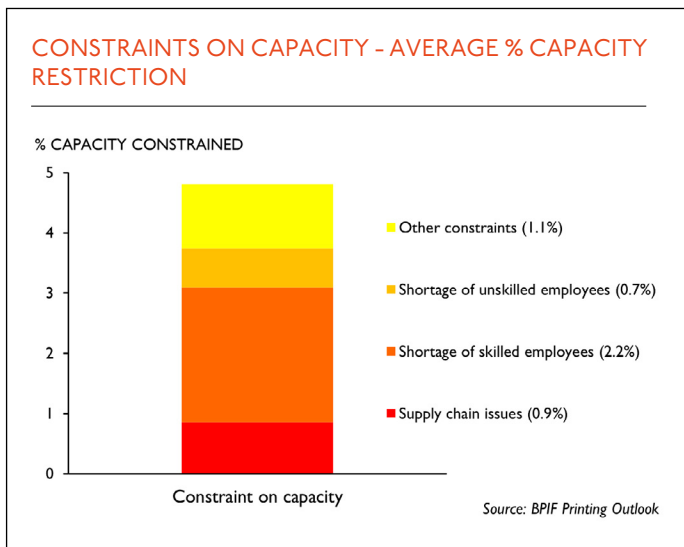
73% of companies were operating at capacity levels above 70%, more than the 69% in January, but less than the 79% in October, 78% in July, and the 79% in April last year. This pushes the level just above the average level for the last five years (currently just over 70%).

For the sixth running quarter the survey included some questions to help establish the extent and make-up of some potential constraints on capacity. The identified constraints were supply chain issues affecting the availability or timely delivery of material inputs, a shortage of skilled employees, a shortage of unskilled employees, and anything else (e.g. machine downtime due to failures, extra maintenance or

INDUSTRY TRENDS

parts and service delays). Up until July last year the most widespread and significant of these constraints has been supply chain issues. In July a shortage of skilled employees was identified as the most significant constraint, that remained the case in October, January, and more recently in April. However, the limiting power of most of the identified constraints has now weakened considerably.

One-quarter (25%) of companies reported that a shortage of skilled employees was constraining their capacity; by between 5% and 10% in most cases. 6% reported that their production capacity had been restricted by supply chain issues (by between 10% and 20% in most cases), 10% by a shortage of unskilled employees, and 16% by other factors.



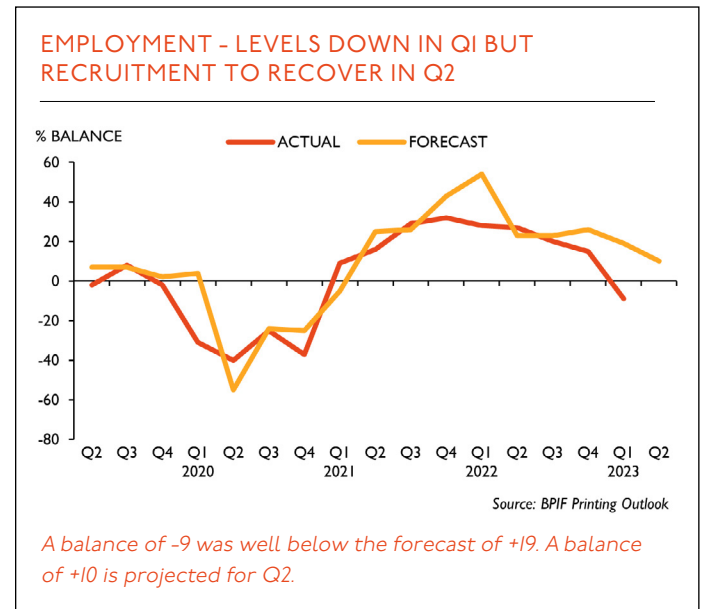
The constraints on capacity chart shows the average estimate capacity restriction for each of the identified constraints. An overall average has been calculated, also accounting for those companies that reported no constraint. Together these constraints are estimated to have restricted the UK printing industry's capacity by just under 5%, down from 9% in January, 12% in October, and 14% in both July and April last year.

◆ EMPLOYMENT

A challenging start to the year has meant more companies reduced employment than increased employment in Q1. The employment balance in Q1 was -9, below the +15 in Q4, and less than the Q1 forecast of +19. This is the first negative balance in employment for over two years. 15% of firms increased their employment levels in Q1 whilst 24% reduced them. That left 61% that kept employment levels steady.

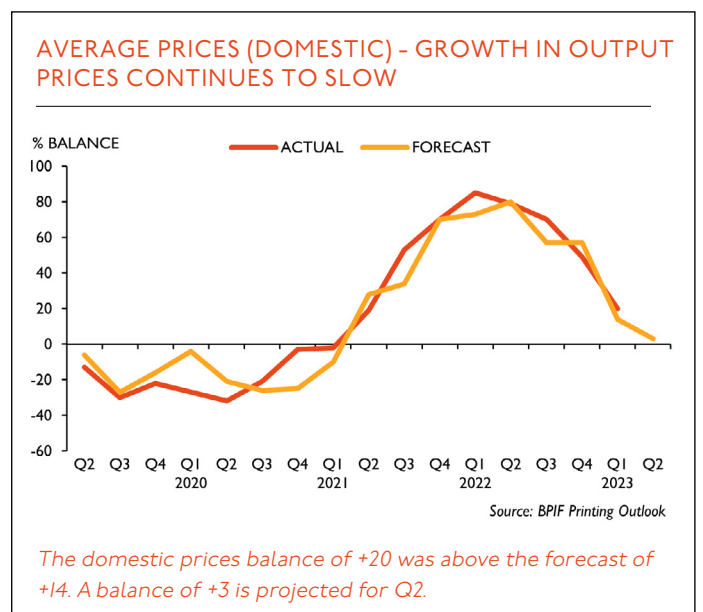
The forecast for Q2 suggests that a healthy proportion of companies expect employment levels to recover, though a majority expects to continue to hold employment levels steady. Just over one-quarter of respondents (28%) have

reported that they intend to increase employment levels, whilst 18% predict that they will decrease their workforce in Q2. The remaining 64% expect to hold levels steady, therefore the expected balance for employment in Q2 is +10.



◆ PRICES

Average price levels increased, on balance, in Q1, though as predicted most companies managed to hold prices steady. 56% of respondents did not change their prices in Q1, however the 32% that increased prices easily offset the 12% that reduced prices. The resulting balance for Q1 is +20.



As commented upon last quarter, the period of majority or companies passing on price increases does seem to now have come to an end. Less than one-fifth (19%) of respondents, expect that they will increase domestic selling prices in Q2. 65% now believe they will hold prices steady, and 16% predict that their prices will fall. The resulting forecasted balance is +3. If this forecast proves accurate it will be the ninth consecutive quarter of printers raising their prices. However, it is likely that this will also signify the end of a significant period of price increases for an industry that has historically been described as price increase averse. The indications are that cost inflation will calm enough to allow companies to avoid passing on price increases, especially those companies operating in markets considered to be too sensitive for any further price rises.

◆ COSTS

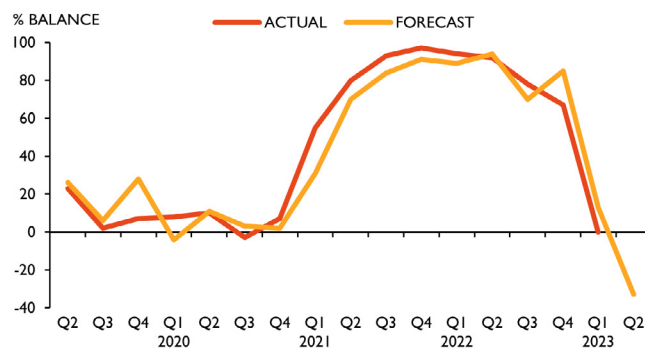
Extensive and persistent cost pressure has been a dominant feature affecting companies in the printing and printed packing industry for the last two years. However, except for labour costs, there is now an expectation that this pressure will ease throughout 2023. Labour costs and energy costs have continued to add pressure to many companies, but cost inflation in other areas has weakened and is expected to weaken further in Q2.

After a four-year period of stability, paper and board price increases returned strongly in 2016. They intensified throughout 2017, climbed further in 2018 and in early 2019. However, paper and board price increases then largely stalled in Q2 2019, eased further in Q3, and were relatively subdued through to Q4 2020. However, market signalling for future price increases did start to come through in the second half of 2020 and increases have come through in 2021 and 2022 that are stronger than any time in recent history. The latest data does suggest that, whilst there was some expectation that further increases may come early in 2023, prices plateaued or peaked for many paper grades and have more recently decreased.

19% of responding companies reported increasing paper and board costs in Q1 – much less than 69% in Q4 and the 80% in Q3. 62% reported stable costs and 19% experienced some decreases. The resulting balance was therefore exactly zero, significantly lower than +67 in Q4, +78 in Q3, and below the Q1 forecast of +13.

Fewer still (11%) expect to see price increases in Q2. 45% predict that their average paper and board costs will remain stable, and 14% expect a decline. The resulting balance for the Q2 forecast is therefore -33, if realised this would be the first negative balance for almost three years.

COST OF PAPER & BOARD - DECREASES OFFSET INCREASES FOR FIRST TIME IN OVER 2 YEARS



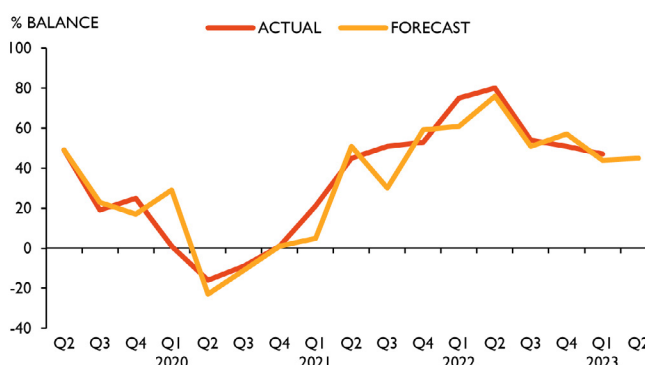
Source: BPIF Printing Outlook

The paper and board costs balance was zero in Q1, below the projection of +13. A balance of -33 is forecast for Q2.

Labour costs are now dominating the cost pressure landscape. 49% of all responding companies were subject to increasing costs for labour in Q1. Most of the remaining companies (49%) managed to hold average labour costs steady. Leaving just 2% that experienced a decline in average labour costs. The resulting balance (+47) was a little below the level reported in Q4 (+51), but a little above the Q1 forecast (+44).

Average labour costs are expected to remain under a similar level of upward pressure in Q2. Just less than half of all respondents (48%) expect some increases in Q2. A similar proportion (49%) do not expect any further change in Q2. Only 3% expect a decline in average labour costs in Q2, the resulting forecast balance for Q2 is therefore +45.

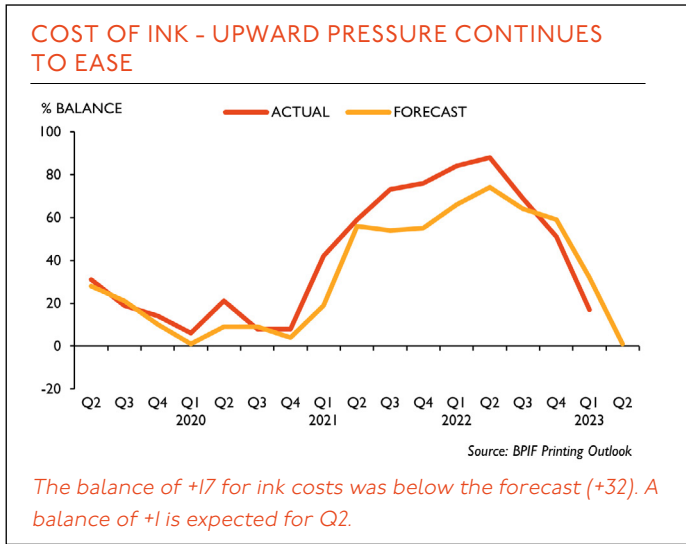
LABOUR COSTS - WAGE PRESSURES CONTINUE IN Q1 AND Q2



Source: BPIF Printing Outlook

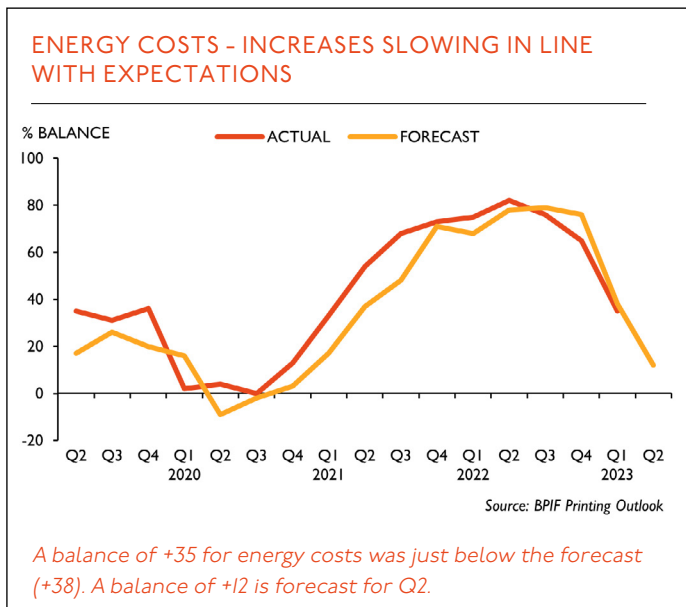
A balance of +47 in Q1 was above the forecast of +44. A balance of +45 is projected for Q2.

More than one-fifth of printers (21%) recorded rising ink costs in Q1. Most of the remaining (75%) were able to keep ink costs steady, and 4% experienced a decrease. As a result the balance of movement was +17 in Q1, below the Q1 forecast of +32. 12% of printers forecast more price increases in Q2, whilst 77% forecast stable prices for ink, and 11% expect some price reductions – as a result the forecasted balance is +1 for Q2.



Energy price increases have still been coming through, but the proportion of companies subject to price increases is now falling. Two-fifths (40%) of respondents reported rising energy costs during Q1. Most of the remaining (55%) reported stable energy costs, and 5% reported a decrease in average energy costs. The resulting balance was therefore +35, just below the Q1 forecast of +38.

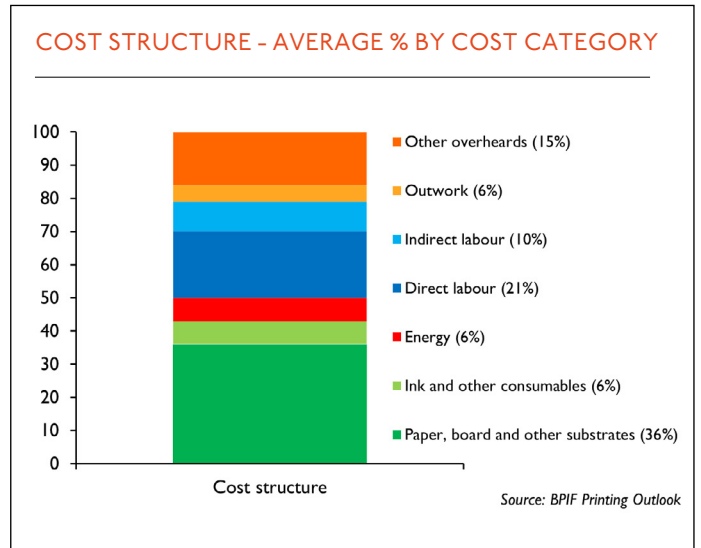
Energy costs increases are forecast to ease in Q2. 26% expect that the cost of energy will increase, 60% forecast that it will remain stable, and 14% predict to see some decreases coming through. The forecasted balance for Q2 is therefore +12.



With persistent cost increases exerting significant pressure on the industry, it has become important to monitor the balance and changing nature of different cost areas for companies in the printing and printed packaging industry.

In April, paper, board, and other substrate costs was the largest cost component with a 36% share, on average, of total costs. Direct labour was the next largest component, with 20%. Indirect labour accounted for 9% of costs, on average – meaning that altogether labour was 29%. Ink and other consumables had a 7% share, as did both energy. Outwork had a 5% of total costs.

The ‘other overheads’ category currently includes a number of categories such as rent, taxes, depreciation, repairs and maintenance, distribution, marketing and insurance – it had a 16% share of total costs in April.

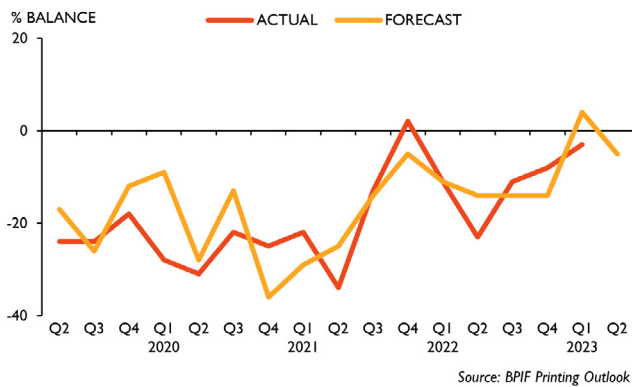


There have not been any drastic changes to the cost category proportions since this question has been introduced to the survey, so it would be easy to question why energy costs are currently in the spotlight, given that they still only amount to 6% of costs on average. However, a closer inspection on the energy costs component revealed a significant variance in energy costs amongst respondents – from as low as 1% to as high as 40%. Only some of this variance is explained by energy usage patterns across sectors and type of companies – a bigger influence is the timing of energy contracts; companies that have recently come out of an energy contract, or have recently recontracted, have been subject to some extreme price increases.

◆ MARGINS

A greater proportion of printers have been able to hold margins steady but, on balance, cost inflation has continued to outweigh output price inflation to put margins under more pressure in Q1. The balance recorded for margins in Q1 was -3 – improved from -8 in Q4, but below the Q1 forecast (+4). Almost two-thirds (63%) of respondents were able to maintain their margins. The Q1 balance has come from the 17% reporting increased margins being offset by the 20% reporting smaller margins.

MARGINS ON SALES - PRESSURE REMAINS IN Q1 AND Q2



The balance of -3 was below the forecast for Q1 (+4). A balance of -5 is projected for Q2.

The forecast for Q2 remains pessimistic. 79% of printers expect to be able to hold margins unchanged. However, only 8% expect to increase margins, and 13% are forecasting that margins will be under further downward pressure. As a result, the Q2 balance forecast is -5. It seems that the change in margins is not destined to move into the positive zone just yet.

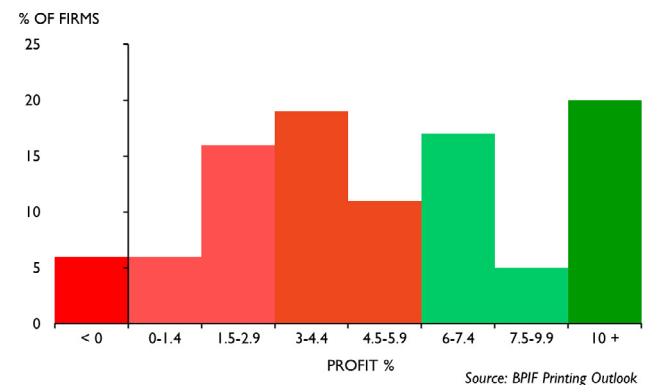
◆ PROFITS AND CASHFLOW

Once again printers have reported a broad profit distribution in April, and one that is equally as polarised as last quarter.

Just over two-fifths (42%) of respondents were in the green zone, reporting profits above 6%, in April, up from 38% in January. The proportion of loss-making printers, at 6%, is just below what was reported in January (7%). 72% of companies reported that they were returning net profits of 3% or greater in April – down from 75% in January.

Just over one-quarter (28%) of firms reported profits in the red zone (0-2.9% profits, or a loss). A little less than one-third (35%) posted in the orange zone (net profits of 3% to 5.9%), while the remaining 42% recorded profits in the green zone (net profits of 6% or greater).

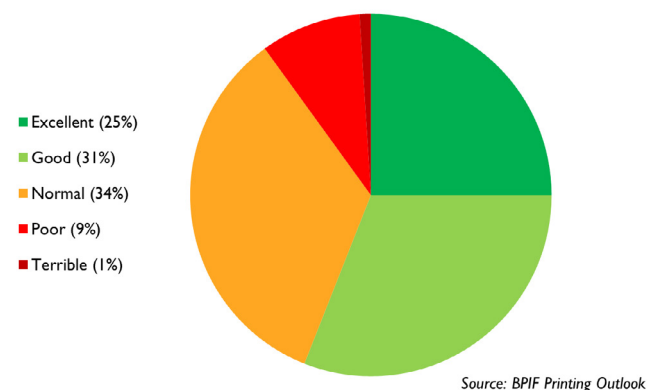
PROFIT RANGE - NET PROFITS % OF SALES



The overall proportion in the red zone in April is slightly above the 25% in January. There was a smaller proportion were in the orange zone, down from 37% in January, and there was a greater proportion in the green zone (up from 38% in January).

We have continued to ask a recently introduced question on cash flow – specifically how respondents describe their current cash flow position. In April, one-quarter of respondents (25%) described that they had an ‘excellent’ cash flow position – down slightly from 27% in January. 31% of companies selected that they were in a ‘good’ position, with a sufficient cash flow buffer, down from 37% in January. Over one-third (34%) reported that their cash flow position was ‘normal’, with a limited buffer, up from 29% in January. 9% of respondents described their cash flow position as ‘poor’, with no buffer, above the 6% reported in January. And, as in January, 1% of respondents placed their company in the ‘terrible’ category, with payment and financial viability issues.

CURRENT CASH FLOW POSITION

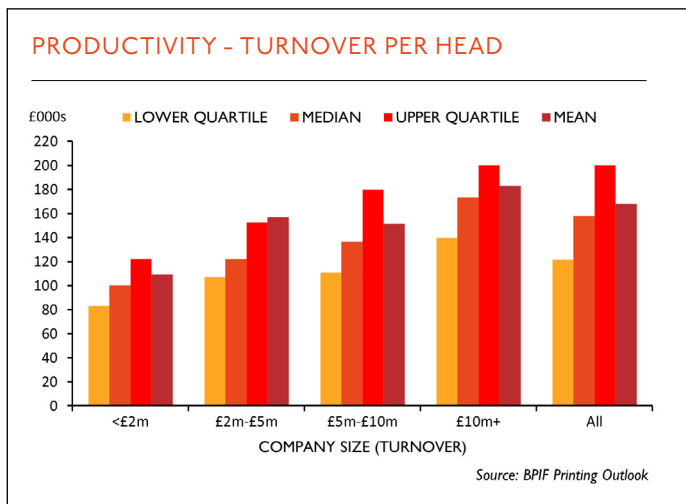


◆ PRODUCTIVITY

The average turnover per head data portrays an industry where the larger companies generally benefit from economies of scale and exhibit higher productivity benchmarks. The averages are normally dispersed despite the inclusion of companies from sectors that have characteristics which affect their turnover per head ratios.

A print management company may display a very high ratio as it is likely to have relatively fewer employees managing a relatively higher turnover and a small proportion of value-added. Whereas a print finishing company is likely to have relatively more employees managing a higher proportion of value-added, but a lower turnover – it would therefore display a lower turnover per head ratio.

The median level (that 50% of respondents fall below and 50% are above) of turnover per head ranges from just under £100,000 in companies with a turnover of less than £2 million, to over £173,000 for companies with a turnover of £10 million or greater. Full ranges by company size are shown in the turnover per head chart.

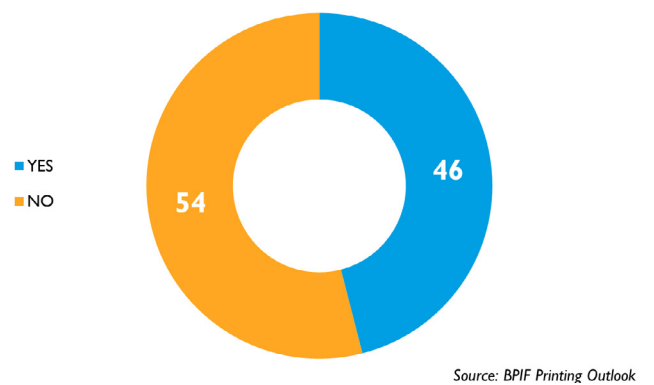


◆ PAY REVIEW

Almost half (46%) of respondents reported that they had conducted a pay review in Q1. This is more than the proportion that reviewed wages last quarter, and more than in Q1 last year. Current wage pressures are strongly linked to stubbornly high inflation, minimum wage legislation and the impact of that on maintaining wage differentials and, in some areas, competition over employees.

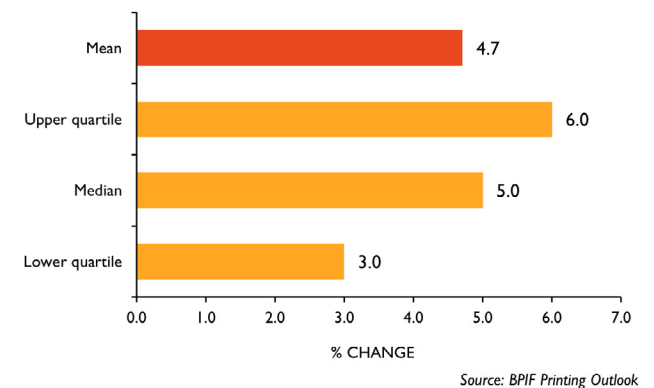
Now that national wage bargaining is a distant memory, and Government wage legislation has become more relevant, there has been a growing preference for companies to conduct at least some pay reviews in Q1 (in advance of implementation at the start of April) and then concluding most pay reviews early in Q2. However, more flexible arrangements means that some companies now have their pay reviews in Q3 and Q4.

PAY REVIEW - ALMOST HALF REVIEWED WAGES IN Q1



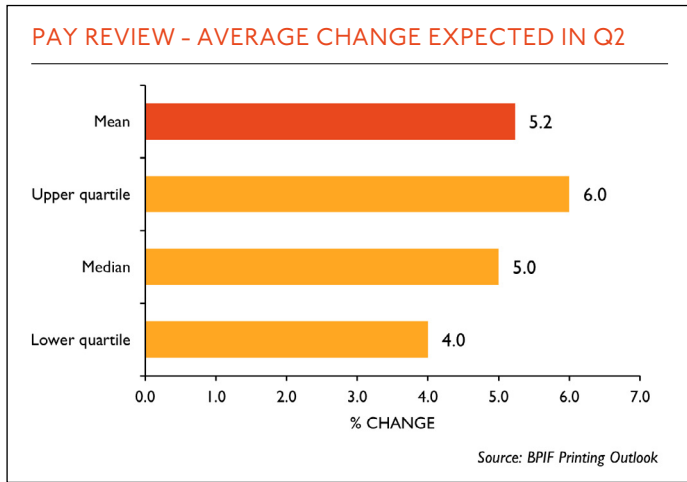
Where pay reviews were conducted in Q1, the resulting average (mean) change in basic pay was 4.7%, down from 5.2% in Q4. The median level (which dissects the highest 50% reporting change from the lowest 50%) was 5.0%, unchanged from Q4.

PAY REVIEW - AVERAGE CHANGE IN Q1



On this occasion a small proportion (5.5% of respondents) reported no change in pay, or a pay cut, following their pay reviews. The mean average level increases to 5.0% if these responses are removed, the median remains 5.0%.

Over two-fifths (42%) of respondents reported that they will be reviewing pay in Q2. The overall average (mean) expected outcome is a 5.2% increase. The target for many companies offering increases is around 5.0%, but some will remain under pressure to fund larger pay increases.



INTERNATIONAL TRADE

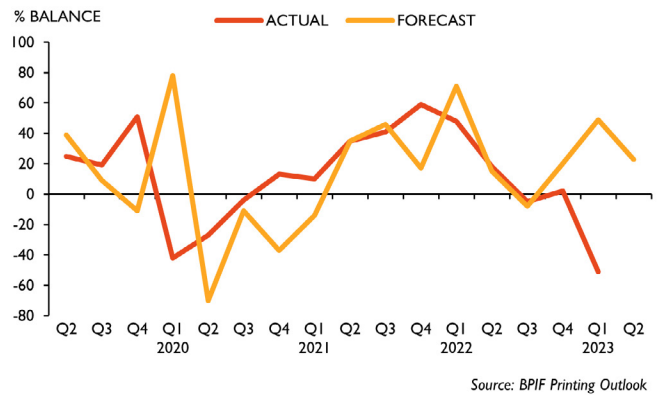
Export orders exceeded 5% of turnover for 13% of respondents in April, quite a bit lower than the 24% in January; for these companies exports took a hit in Q1. The Q1 export balance (-51) was some way below the Q4 balance (+2), and significantly below the Q1 forecast (+49).

Exports have been a welcomed boost to a significant minority of companies in pre-pandemic times. Covid-19 and Brexit have both created a significant amount of turmoil and presented challenges to those trading across borders. However, export markets do remain an important focus for those able to surmount those challenges, and exporters will be hoping that any declines or slowdowns in export orders are short-lived.

The Q1 balance was derived from 9% of UK exporting printers experiencing an increase in export orders and 60% suffering a decline. The remaining 31% were able to hold their export order levels steady in Q1.

Forecasts for exports are more positive, on balance, for Q2. 67% of respondents expect that export orders will remain stable, but the 5% predicting declining exports is more than offset by the 28% forecasting that their exports will increase in Q2. The resulting forecasted balance for exports in Q2 is +23.

EXPORT ORDERS - A SIGNIFICANT DIVERGENCE IN EXPORT ORDERS IN Q1

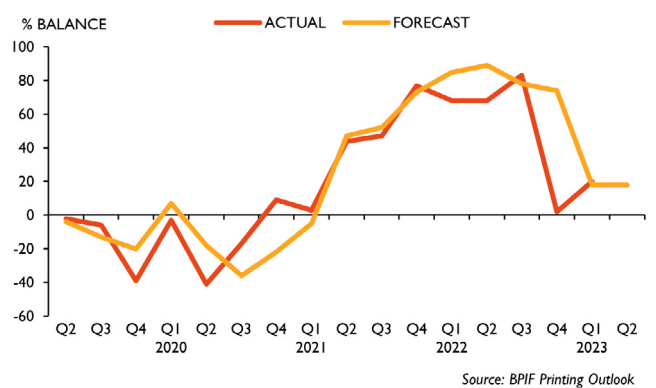


A balance of -51 in Q1 was significantly lower than forecasted (+49). The forecasted balance for Q2 is +23.

Historically contractual arrangements with export clients have meant export orders experienced more price stability than domestic orders – at least until the end of 2019. More recently, export prices have not escaped the significant inflationary pressures. As with all contractual arrangements there is currently heightened concern over prices being restricted, yet companies facing extreme pressures in the form of frequently increasing costs.

There was a positive balance for export prices of +20 in Q1, up from Q4 and just above the Q1 forecast (+18). The Q1 balance has come from 23% of respondents with increasing export prices, 74% with stable prices, and the remaining 3% reporting decreasing export prices. Export prices are expected to increase more, on balance, in Q2, the forecast is +18. As before, the increases are largely reflective of the pressure coming from input costs, labour, energy prices, and distribution costs.

EXPORT PRICES - SOME OUTPUT INFLATION FOR EXPORTS IN Q1



A balance of +20 in Q1 was just above the forecast (+18). The forecasted balance for Q2 is +18.

◆ SUSTAINABILITY

Sustainability credentials are becoming more important in the printing and printed packaging industry. For the first time the Printing Outlook survey has included a section of questions related to sustainability, the intention is to attempt to understand a bit more about what actions companies are taking towards making sustainability improvements.

Almost two-fifths (38%) of respondents have reported that they are measuring their carbon emissions. However, 50% are not yet measuring their emissions, and a further 12% of respondents weren't sure if their company was measuring emissions or not.

Of those companies that are measuring emissions almost two-thirds (64%) are measuring Scope 1 and 2 emissions, whilst just over one-quarter (27%) are measuring Scope 1, 2 and 3 emissions.

Scope 1 covers direct emissions from owned or controlled sources.

Scope 2 covers indirect emissions from the purchase and use of electricity, steam, heating, and cooling.

Scope 3 includes all other indirect emissions that occur in the upstream and downstream activities of an organisation – they come from other organisations in your value chain, or from customers using your products.

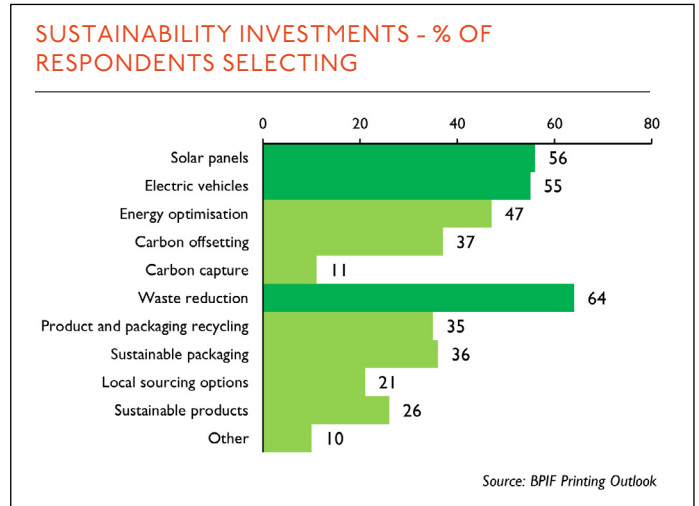
Almost half (47%) of companies measuring their emissions are doing so using the BPIF/Intergraf ClimateCalc tool. A further 20% are using the UK GHG Emissions Factors tool. 33% are using other tools such as offered through suppliers, sector specific initiatives, consultants, or local universities.

Less than one-third (29%) have set emission reduction targets, but more than two-thirds (61%) are looking to go Carbon Neutral, and 54% are looking to achieve Net Zero status.

Carbon neutrality means having a balance between emitting carbon and absorbing carbon from the atmosphere in carbon sinks.

Net Zero is similar in principle to carbon neutrality, but it is expanded in scale. To achieve Net Zero means to go beyond the removal of just carbon emissions. Net Xero refers to all greenhouse gases being emitted into the atmosphere, such as methane, nitrous oxide, and other hydrofluorocarbons.

Survey respondents were also asked to identify what, if any, investments they had made in a range of sustainability related areas. The most popular area of attention for sustainability related investments was waste reduction – selected by 64% of respondents, a little ahead of solar panels (56%), and electric vehicles (55%).



Energy optimisation was the fourth most popular target for sustainability related investments – selected by 47% of respondents, ahead of carbon offsetting (37%), sustainable packaging (36%), and product and packaging recycling (35%).

The relative popularity of the investment targets suggests that aligning targeted investments with cost reductions is an approach favoured by many companies when it comes to introducing measures that will improve their sustainability credentials.

Almost three-fifths of respondents have noticed an increase of demand for sustainable products, or for product carbon footprints. Finally, 60% of companies reported that they have a Corporate Social Responsibility programme in place.

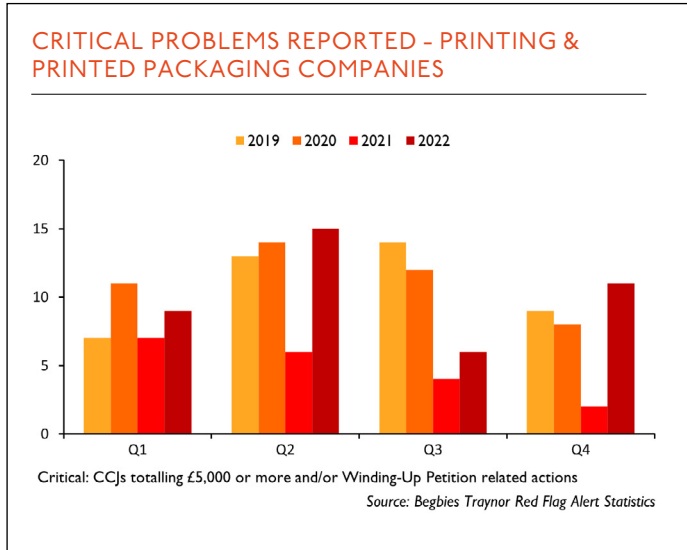
◆ RED FLAG ALERT STATISTICS

The Q1 2023 update from Red Flag Alert was not available at the time of publishing, this is the data for Q4 2022.

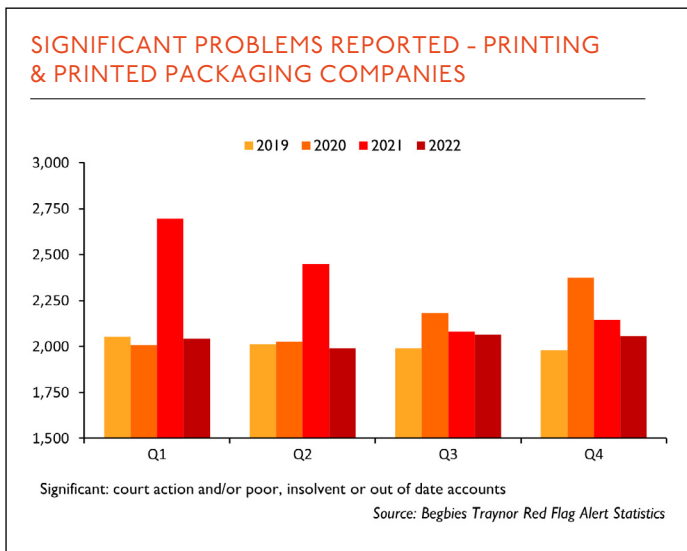
The number of printing and packaging companies experiencing 'critical' financial distress increased in Q4 2022. Those experiencing 'significant' financial distress decreased slightly but remains comparable to most quarterly levels. Begbies Traynor's latest Red Flag Alert research has updated the statistics for the fourth quarter of 2022.

We have been collaborating with Begbies Traynor to define the sector classifications used in the analysis for the Print and Printed Packaging sectors – this has helped establish the data required for the count of companies in 'critical' and 'significant' distress.

The count of ‘critical’ reports (County Court Judgements totalling £5,000 or more and/or Winding-Up Petition related actions) was 11 in the fourth quarter of 2022 – down from six in Q3, but greater than the two recorded in Q4 2021.

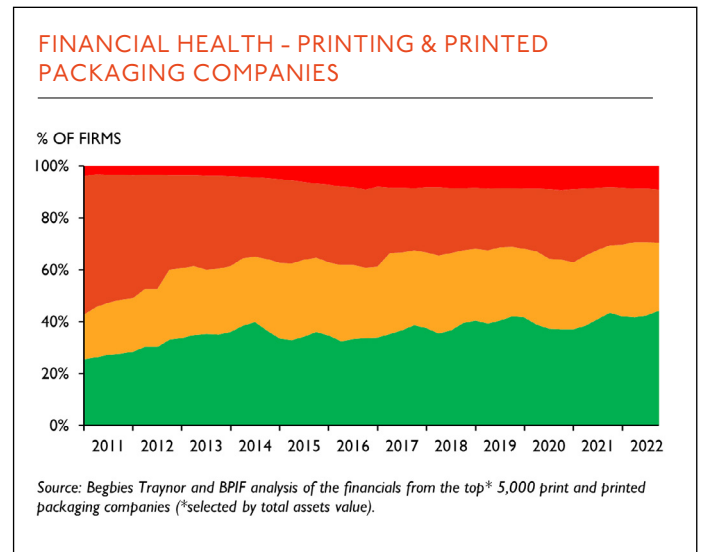


After a substantial spike in Q1 2021, the count of companies in the industry under ‘significant’ distress (i.e. facing a court action and/or having poor, insolvent or out of date accounts) shrank throughout most of 2021, apart from a slight increase in Q4. The count fell further in Q1 and Q2 this year before increasing slightly in Q3. The latest data shows that there has been a very small decrease in the number of companies under ‘significant’ distress in Q4. The exact count was 2,056 companies, 0.4% down on Q3, and 4.2% lower than Q4 2021.



A more detailed financial health analysis of data for the 5,000 largest print and printed packaging companies (as selected by total asset value ranking) provides some further interesting insights. This financial health analysis rates the financials for each company and updates them over time so that a financial health chart can be produced.

Looking at the financial health chart and working from the bottom up – the green proportion shows the share of the top 5,000 companies that are in a strong and secure financial position; the number of companies categorised here has increased from a low of 25.4% in Q1 2011, to its current high of 44.2% in Q4 2022. The yellow section shows the proportion of companies with a less strong financial position, representing an average credit risk. The percentage of companies assigned to yellow has increased from 17.3% in Q1 2011 to a high of 31.2% in Q2 2017; it stands at 26.1% in Q4 2022.

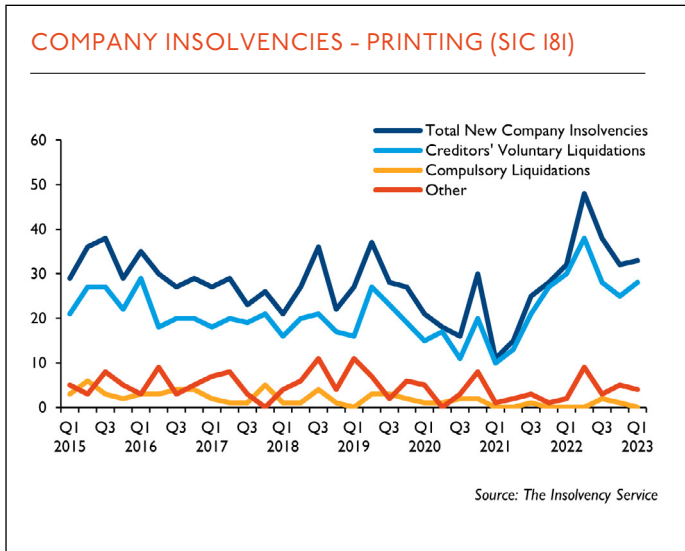


The orange shading depicts the share of the top 5,000 companies that are considered a higher credit risk due to their financial results, past trading history, the lack of available information or the presence of detrimental information against them. The proportion of companies in the orange section has fallen from 53.2% in Q1 2011, to its current low of 20.5% in Q4 2022. Finally, the red section is for high-risk companies with poor credit scores and/or serious detrimental information filed against them and companies that have undergone insolvency or have a striking-off action registered against them. The red section represents a smaller proportion of companies, but one that has grown throughout the pandemic. The red portion's low was 3.2% in Q2 2011, whilst its high was 9.3% in Q4 2020; it has subsequently fallen back slightly to 9.1% in Q4 2022.

◆ INSOLVENCIES

There were 33 new company insolvencies in the printing industry (SIC 181) in England, Wales and Scotland in the first quarter of 2023. The latest quarterly total is derived primarily from 28 creditors' voluntary liquidations, with the rest being either administrations, administrative receiverships, compulsory liquidations, or company voluntary arrangements. The latest total figure is an increase of 3% from Q4, but the highest Q1 level since 2016.

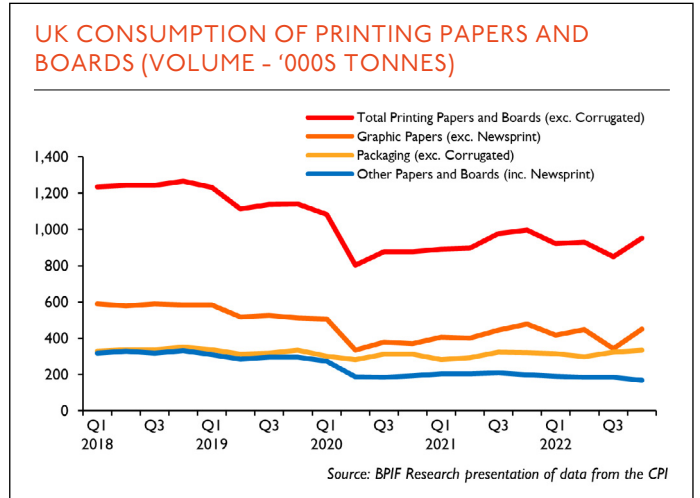
Government measures in response to Covid-19 (not just the financial support available to companies and individuals but also reduced HMRC enforcement, operation of courts and temporary restrictions on the use of statutory demands and winding-up petitions) dampened insolvencies throughout much of 2020 and early 2021. Insolvencies did spike in Q4 2020, before easing in Q1 and then increasing every quarter to a peak in Q2 last year, before falling back down slightly in Q3, Q4, before a small increase with the latest Q1 data. Total insolvencies in 2022 were 150, the highest level since 2013, and almost a 90% increase from the 79 insolvencies in 2021.



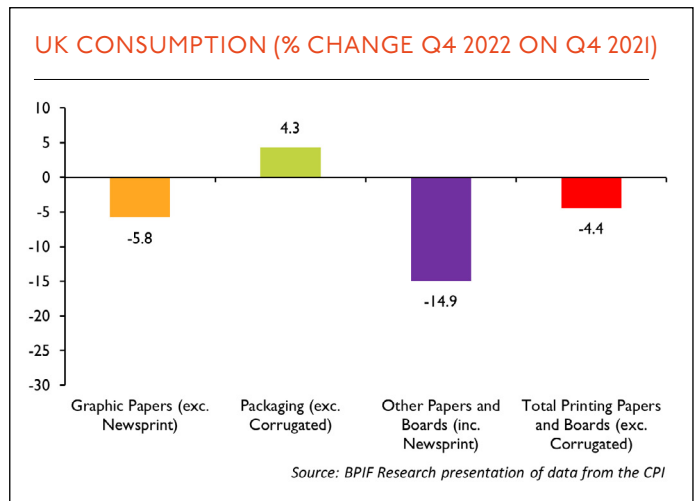
The 'Other' category in the company insolvencies chart is compiled from administrations, administrative receiverships, and company voluntary arrangements. This insolvency data comes from the Insolvency Service – there have been some recent methodology changes in the compilation of this data; as a result, data for the latest year is provisional and subject to revision. From 2022 only total company insolvency data is provided for Scotland. Comparative data for Northern Ireland is not currently available.

◆ PAPER AND BOARD

UK consumption of printing papers and boards did recover in Q4 last year, from a very poor performance in Q3, but remained below the level from Q4 2021. Total UK demand for printing relevant papers and boards was 4.4% down in the annual quarterly comparison, and 12% below pre-pandemic consumption levels (in Q4 2019). However, consumption was 12.2% higher in comparison to Q3 2022.



The seasonal variations that occur in volume consumption normally make it more meaningful to concentrate on the latest quarterly annual comparisons (i.e. Q4 2022 compared to Q4 2021) – or the full annual comparisons, when available. However, all current comparisons are still seriously disrupted by the impact of Covid-19, and more recently by the impact of the energy and cost of living crisis and, of course, paper prices. The overall data registered a 4.4% decrease in Q4 2022 (compared to Q4 2021), taking quarterly consumption to almost 954,000 tonnes. Coated mechanical papers saw the biggest decline in this annual quarterly comparison. However, cartonboard, packaging papers, and uncoated woodfree all exhibited some growth.

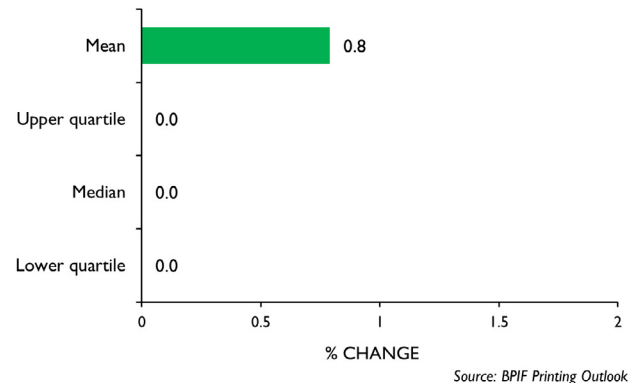


Paper and board consumption had been steadily declining pre-Covid-19; the pandemic provided an extra shock, and a significant drag, to consumption. All graphic grades have suffered to varying extents – although consumption of packaging materials has generally maintained relatively high levels of consumption. Through much of 2022 there had been some supply issues (and significant price inflation) that constrained consumption.

The Q3 2022 data put a stop to the slow recovery graphic paper consumption had been experiencing, following a period of extremely low consumption, high levels of supply chain stress, and spiralling prices. The Q4 data does indicate that some consumption has returned, but concerns over the cost have perhaps limited a stronger recovery in demand. Some early consumption data for Q1 this year does suggest that a softening in prices has stimulated demand for some graphic papers.

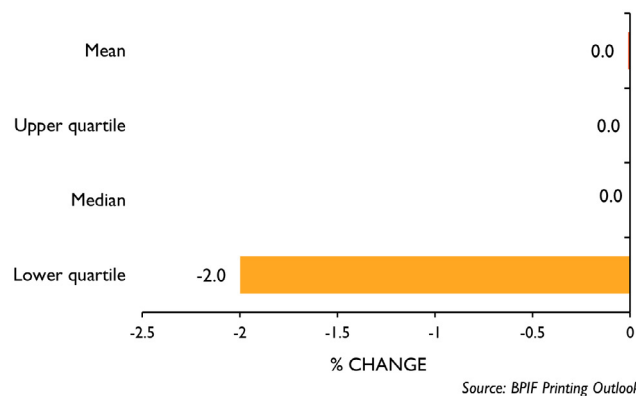
In Q1 2023 just less than one-fifth (19%) of respondents reported an increase in paper prices, 16% in board prices and 20% reported increases in the cost of other substrates. The proportions facing price rises in Q1 has fallen significantly in the last two quarters. More respondents have now reported price decreases for paper (31%) and board (32%) in Q1. The overall effect on average (mean) prices reported in Q1 were 0.0% for paper, -1.1% for board and +0.8% for other substrates.

OTHER SUBSTRATE PRICE MOVEMENTS – Q1 2023

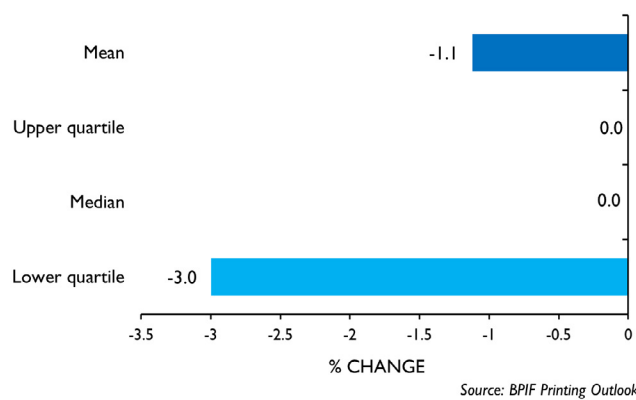


Following some early signs of price weakness in Q4 last year, Q1 2023 saw widespread price reductions across nearly all paper and board grades monitored by EMGE (paper industry consultants). The paper sector now finds itself in a destocking phase, as buyers start running down the inventories that they built up during the course of 2022. EMGE expects further price falls in Q2, but the question is, when will prices bottom out and how far will they fall?

PAPER PRICE MOVEMENTS – Q1 2023



BOARD PRICE MOVEMENTS – Q1 2023



AVERAGE UK PAPER AND BOARD PRICE CHANGES Q1 2023 VS. Q4 2022

Newsprint	-4%
Magazine papers	-7%
Uncoated woodfree	-2%
Coated woodfree	-1%
Testliner	-13%
Krafliner	-11%
GD cartonboard	3%
GC cartonboard	-9%

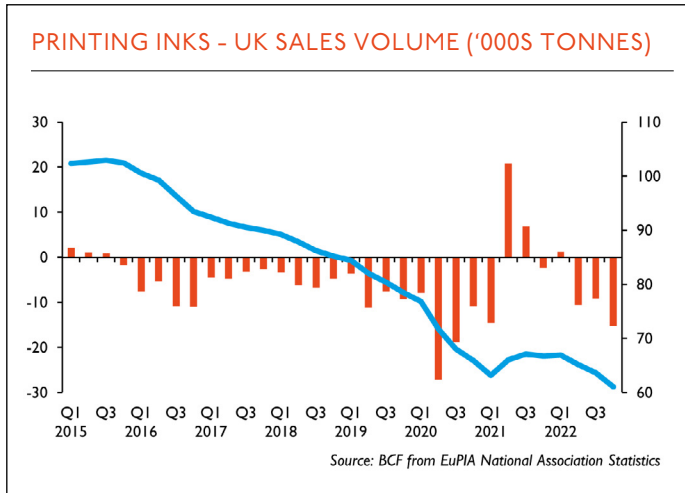
Source: EMGE

The tracked paper price indices will not necessarily match the data on paper prices that is collected via Printing Outlook. There are a few explanations for this: the survey is asking broadly about paper or board whilst the tracked indices are grade specific and there may be variances across different paper and board grades; price increases are often signalled well in advance so it is possible that companies report price increases before they have actually come into effect; organisations that produce the tracked indices often concentrate on significant purchases from larger companies – it is possible that price increases may effect smaller regular purchases from smaller companies before the larger bulk buyers.

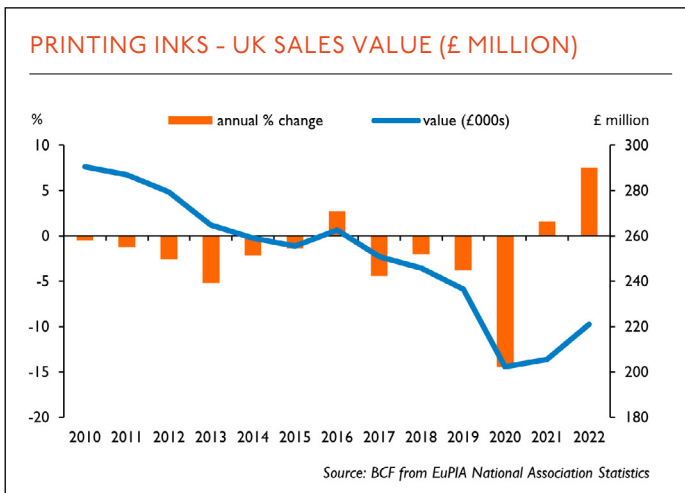
◆ INK

Printing ink sales fell sharply in Q4 2022 pushing annualised sales down to a level below that seen at the height of the pandemic fallout in late 2020 and early 2021. For the latest available quarter, total sales volume fell 15% following a 9% fall in Q3 and an 11% decrease in Q2 2022, although in all three cases it was compared with the relatively buoyant outcomes in the previous year as the sector recovered from the pandemic shutdowns of 2020.

For the last 12 months in total, sales were 8.5% lower than a year earlier compared with an improvement of 1% in calendar 2021 and a fall of 16% in 2020. The publication market continues to be the hardest hit being down 15% in the last 12 months but with packaging ink sales just 4% lower following an improvement of 1% in 2021.



In value terms, the year-end figures tell a slightly different story. Sales in 2022 were valued at just over £221 million, an increase of 7.6% on the 2021 value of £205 million. However, the 2022 value does remain 6.5% below the pre-Covid comparison to 2019.



◆ ENERGY

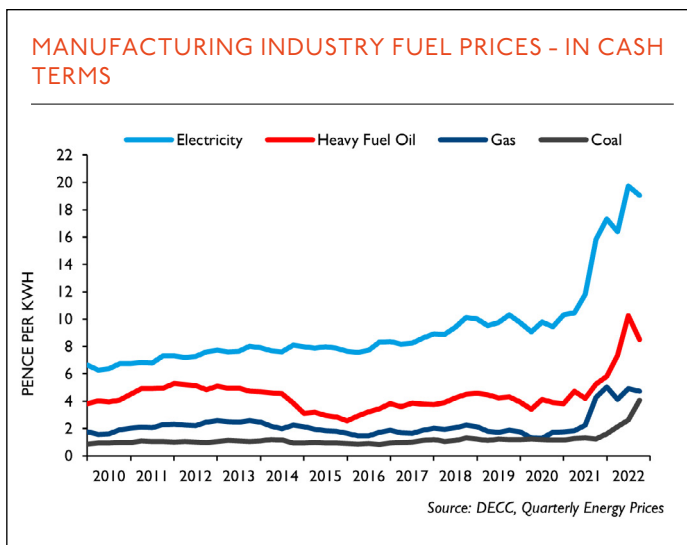
The last three months delivered further welcome reductions in UK wholesale electricity and natural gas prices, as high gas storage levels and benign temperatures continued to ease pressure on energy supply. Crude oil prices have also continued to fall overall, although recent OPEC+ production quota cuts haven't helped the supply situation. The medium-term picture remains uncertain – adverse weather or unexpected outages could easily stoke market volatility once more.

Europe is continuing efforts to wean itself off Russian gas, although the lack of additional LNG (liquefied natural gas) supply until the middle of the decade could be problematic if demand rises, and particularly if China's economic recovery leads to it competing more for existing international LNG shipments. In the meantime, a benign winter means that European gas storage stocks are particularly high heading into the summer, meaning less summer storage 'injection' demand is weighing on prices for now. Since just before Christmas, gas and electricity wholesale prices have more than halved.

European emergency demand reduction plans for both gas and electricity have impacted on energy demand, along with higher prices. If these trends weaken, industrial demand could recover – which could be uncomfortable in a world of tight supply. Beyond Russia, upside risks include ongoing nuclear unavailability in France due to strike action and ageing, unreliable reactors. Gas and power prices are closely linked because gas is the 'feedstock' for broadly half of the UK's power stations – and so mainly provides the 'marginal' power where supply balances demand.

Turning to the detail, the year-ahead gas price has retreated by a further 12% on last quarter, and is also down 37% compared to the same point last year. However, prices are still 2.2 times the level of a couple of years ago. Electricity year-ahead trades, meanwhile, have fallen an additional 13% over the last 3 months. Compared to a year ago, the fall is a third – but still just under double the price of a couple of years ago. Brent crude oil has fallen by 6.7% in dollar terms over the last quarter, slightly more in UK purchasing power terms, with a slightly stronger pound against the 'greenback'. Compared to twelve months ago, oil is 20% down in \$, by slightly less in pound terms.

The UK government's business energy subsidy scheme has been watered down as we leave the winter. Although additional help is available for the most energy intensive industries, other businesses will likely face significantly increased costs over the summer period, until the traditional supply contract renewal season in October (when those who fixed for a year in 2022 will be able to enter into new contracts at lower wholesale prices). Relief from crisis-level prices is coming, but only from autumn for many businesses.



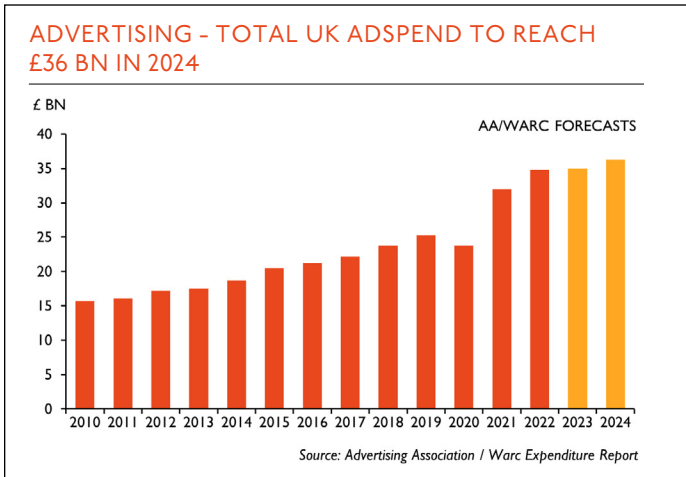
Source: David Hunter, Director of Market Studies at Schneider Electric

UK AD SPEND GREW 8.8% IN 2022 TO REACH £34.8BN – INFLATIONARY PRESSURES PERSIST WITH MINIMAL GROWTH FORECAST FOR 2023

◆ THE ADVERTISING ASSOCIATION / WARC EXPENDITURE REPORT

The latest Advertising Association / WARC Expenditure Report shows the UK's ad market grew 8.8% to £34.8bn in 2022, despite a dip in the final quarter of the year. Revised forecasts suggest minimal growth (+0.5%) in 2023, with spend expected to reach £35.0bn, before a 3.9% rise in 2024 to a total of £36.3bn. The revisions follow confirmation that UK advertising spend fell by 5.8% to a total of £8.6bn between October and December 2022, the first time spend had decreased during a fourth quarter since 2009.

2023 projections have been downgraded from the previous forecast (published in January 2023) to +0.5% (compared to +3.8% in January) due to signs that the downturn recorded in the latter half of 2022 has continued into the first half of 2023. Forecasts for the coming year show reduced growth expectations for nearly all sectors of advertising with the economic headwinds of high inflation, muted growth and talent shortages being felt across the industry.



The full picture in 2022

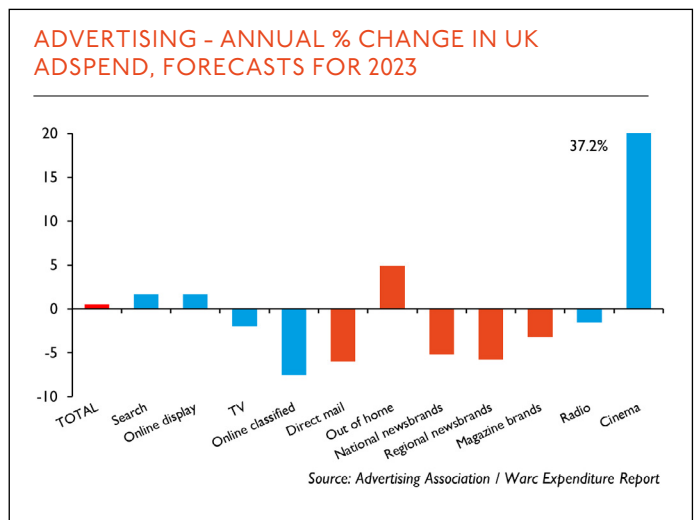
Actual figures released by the Advertising Association/WARC for the full year in 2022 confirm that spend was up by 8.8%, with the total figure standing at £34.8bn, but the momentum from a strong start to the year was seen to wane in latter months. Data shows that online advertising – 75.1% of total UK spend last year – grew 30.1% in the first half of 2022 before falling 5.4% in the second half. As a result, total UK ad spend growth in the first half of 2022 is upwardly revised to 26.0%, while the total ad market contracted by 5.7% in the second half of the year.

The strongest growth seen in 2022 was for cinema (123.0%) and out-of-home (31.1%), media which continued their year-on-year improvements after a disproportionate impact from COVID-19. Other areas of the industry posted strong figures in 2022: 15.4% year-on-year growth was seen in the Broadcaster Video on Demand (BVOD) component of TV, while Paid Search grew by 12.7%. When reviewed by category, advertising growth was led by services (such as entertainment, media and travel) and industrial (such as business, property and telecoms) products.

Revised projections for 2023 and 2024

The forecast for 2023's ad market has been downgraded to +0.5% (compared to +3.8% in January) reaching £35.0bn. Cinema is expected to continue its high levels of growth in 2023 (37.2%) while modest growth is expected in OOH (4.9%). The UK's ad market is forecast to grow by 3.9% in 2024, totaling £36.3bn as high inflation and stagnation are expected to subside and growth to pick up to a more reasonable rate.

The UK remains the third-largest advertising market in the world, at a value of US\$41.5bn, and saw the third-fastest growth rate of the top ten markets in 2022, behind only Brazil (+9.7%) and Australia (+9.4%). Projections from WARC Media however show that the UK is forecast to post the slowest growth among the top 10 ad markets this year.



“These figures reflect the broader macro-economic environment, with a cautious outlook as the UK economy narrowly avoids recession but shows very little signs of real growth. Advertising investment is an important barometer of business performance and confidence in the economic outlook. It drives competition and innovation, supporting job creation and livelihoods, returning a ratio of £1 invested generating £6 of GDP.”

Stephen Woodford, Chief Executive, Advertising Association

“The latest verified media data reveals that the UK’s ad market entered recession in the second half of 2022, with clear signs that the downturn has continued into the opening months of this year.

“Sharp and sustained falls in social media spend – the first time this has been recorded in the UK – are likely to have been instigated by reduced advertising activity among the SMEs who comprise a ‘long tail’ of ad volume on social platforms and whose margins are under incredible stress as inflation bites. One in every 202 UK companies entered liquidation in 2022 – the highest rate in seven years – and it is unsurprising to see these pressures reflected to some degree within advertising trade.

“Trading conditions are not expected to improve until the second half this year, with economic activity and advertising investment both largely flat during 2023. The outlook is set to improve next year, however, as the economy returns to growth, inflation falls nearer to the government’s 2% target and consumer confidence lifts, though advertising spend is still predicted to rise below its long-term average in 2024.”

James McDonald, Director of Data, Intelligence & Forecasting, WARC

Source: *The Advertising Association / Warc Expenditure Report* – <http://expenditurereport.warc.com>

◆ IPA BELLWETHER REPORT

Companies’ total UK marketing budget growth is at its strongest since Q2 2022, despite an intensely challenging economic environment both domestically and globally. This is according to the Q1 2023 IPA Bellwether Report.

The data reveals the net balance of firms registering upward revisions to their marketing budgets in Q1 2023 is +8.2%, considerably higher than the +2.2% recorded in Q4 2022. While 21.1% of firms saw an expansion, 12.9% of firms registered budget cuts and around two-thirds (66.0%) recorded no change in spending.

Growth by category in Q1 2023

Main media marketing, which includes online advertising activity and budgets for big-ticket campaigns on TV, recorded its strongest expansion in spending since Q1 2022 (net balance of +5.8%, from +4.4%). The breakdown of this category showed continued marked expansions in other online (+10.5%, from +6.3%) and video (+7.9%, from +13.7%), and a renewed upturn in audio (+1.7%, from 0.0%). Published brands (-1.9%, from -3.9%) and out of home (-12.4%, from -8.8%) were, however, drags on main media in Q1.

Sales promotions budgets returned to expansion in Q1 (net balance of +8.8%, from -4.0%), rising at the strongest pace in nearly two decades as companies dedicated more resources to supporting their customers through the cost-of-living crisis. Another round of budget growth was also seen for events (net balance of +6.3%, from +5.7%) as marketing executives look to re-engage with new and prospective clients face-to-face. Direct marketing spending also rose at the start of the year (net balance of +4.2%, from -0.6%).

The remaining categories all recorded budget cuts, led by other marketing activity not already accounted for (net balance of -5.8%, from -10.1%), although declines eased in each case. A net balance of -0.6% of firms cut their PR budgets (from -1.9%), while a modest reduction was seen in market research spending (net balance of -3.2%, from -8.8%).

Budget Plans 2023/24

Finalised data showing Bellwether firms’ expectations towards their marketing budgets for the 2023/24 financial period were strongly positive, in line with the findings from the preliminary estimates collected at the end of last year. More than a third (36.6%) of respondents foresee greater total marketing spend in real terms in the year ahead, compared with 16.9% anticipating cuts. This yielded a strongly positive net balance of +19.8%.

Firms' appetite to engage in face-to-face marketing activities remained strong. A net balance of +14.5% of companies expect events marketing spend to rise in 2023/24, the greatest level of optimism among the seven categories where budget plans are monitored. Bullish budget setting was also recorded in main media advertising (net balance of +13.5%), suggesting that companies plan to use marketing tools to combat a potential period of economic turbulence.

Sales promotions budgets are also set to rise in 2023/24, a sign that firms plan to provide support to cash-strapped customers (net balance of +6.3%), while direct marketing was the final monitored category where budget expectations were positive (net balance of +1.4%).

Budgets reserved for PR and other marketing activities are expected to be unchanged in 2023/24 (net balances of 0.0%), while market research was the only segment where budgets are set to be reduced (net balance of 0.7%).

Company-own financial prospects turn positive

Amid some recent signs of easing cost pressures, latest Bellwether data signalled a fresh sense of optimism among panellists regarding their own company financial prospects. This was indicated by a net balance of +7.0% of firms that were optimistic towards their business outlook (vs a net balance of -17.2% previously).

Meanwhile at the industry-wide level, Bellwether panel members remained pessimistic towards the financial outlook compared to three months ago. However, while still offsetting the proportion who had grown in confidence (15.7%), 22.8% of companies were downbeat in their assessment (down from 41.8% previously). The resulting net balance of -7.1% signalled the weakest degree of negativity in a year and compared with a reading of -33.2% previously.

Adspend forecast to improve from 2024 onwards

Bellwether authors, S&P Global's forecast for the UK economy has been modestly upgraded, with GDP in 2023 expected to decline by -0.2%, instead of the -0.8% anticipated in the last Bellwether Report. However, households continue to face shrinking purchasing power due to high inflation and borrowing costs, which will weigh heavily on the economy. The Bellwether therefore forecasts a small decline of -0.9% (vs. -0.3% previously) in adspend this year, a marginal improvement in adspend next year of 0.5% (1.2% previously), before expected growth to 1.6%, 2.0% and 2.2% in 2025, 2026 and 2027 respectively.

"This is a positive start to the financial year for marketing budgets, all things considered. The overall increase in confidence from UK companies regarding their financial prospects is being reflected in their marketing budget decision making.

"As the cost-of-living crisis continues, it is understandable for companies to offer sales promotions to help their customers' tightened purse strings. To ensure brand loyalty isn't eroded and to protect the long-term health of their brands, however, such activity must be coupled with investment in longer-term brand building media. We are pleased, therefore, to see that while investment in sales promotion activity has spiked this quarter, investment in main media advertising was revised up to its strongest level since this time last year."

Paul Bainsfair, IPA Director General

"The latest Bellwether survey once again highlights the resilience of UK businesses who have endured both a pandemic and a period of plunging consumer confidence and multi-decade high inflation. Total marketing budget growth broadened out during the opening quarter, showing that more companies are tapping into their marketing resources to help them successfully navigate through economic turbulence."

Joe Hayes, Senior Economist at S&P Global Market Intelligence, and author of the Bellwether Report

Source: IPA Bellwether Report; researched and published by S&P Global on behalf of the IPA - www.ipa.co.uk.

UK ECONOMY CONTRACTS IN AUGUST TO FALL BACK TO PRE-PANDEMIC SIZE – INFLATION IS STAYING HIGH, THE LABOUR MARKET REMAINS TIGHT, AND INTEREST RATES HAVE INCREASED AGAIN

◆ UK ECONOMIC DATA

	2022	11 May 2023	2023*	2024*
UK Bank Rate (%) Annual for year and latest available Source: Bank of England	1.49	4.50	3.94	4.00
RPI (%) CPI (%) Annual for year and latest 12 month % change Source: ONS	11.3 9.1	13.5 10.1	8.6 6.7	3.8 2.9
GDP (%) Annual for year and latest quarter on previous quarter Source: ONS	2022* 4.1	Q1 2023 0.1	2023* -0.4	2024* 1.6
Exchange rate (€/£) Exchange rate (\$/£) Annual for year and latest available month Source: Bank of England	2022 1.17 1.24	Apr 2023 1.13 1.25	2023* 1.12 1.10	2024* 1.12 1.12

*CBI forecasts, December 2022

◆ UK ECONOMIC OUTLOOK

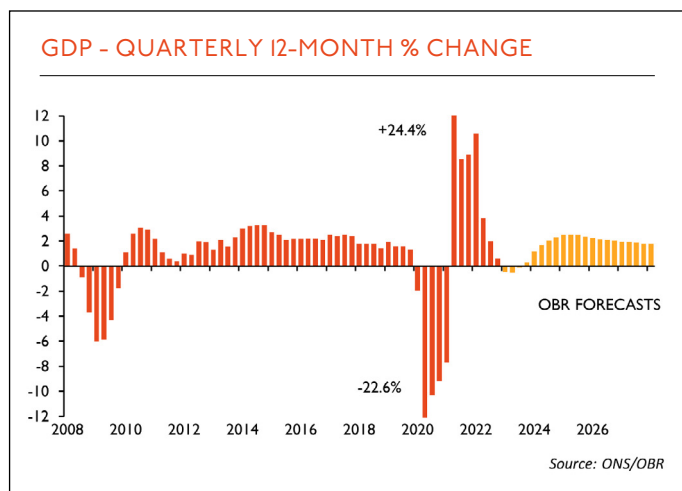
Highlights

- ◆ UK economy avoids a technical recession, but GDP expected to shrink in 2023 before growth returns in 2024 and 2025.
- ◆ Inflation so far holding higher than expected but is forecast to fall sharply.
- ◆ As GDP growth slows, unemployment is expected to rise through 2023.

Economic growth

UK gross domestic product (GDP) is estimated to have increased by 0.1% in Q4 2022, revised up from the previous estimate of no growth. This follows a revised fall of 0.1% in Q3, previously estimated as a 0.2% decline.

The level of quarterly GDP in Q4 is now 0.6% below its pre-coronavirus level (Q4 2019), revised up from the previous estimate of 0.8% below. GDP is now estimated to have



increased by 4.1% in 2022, revised up from the previous estimate of 4.0%. Compared with the same quarter a year ago, real GDP increased by 0.6%.

In the March forecast from the Office for Budget Responsibility (OBR) the economy is expected to have contracted in the first quarter of 2023 by 0.4%. GDP is also expected to be flat in the second quarter, as the rise in interest rates, the elevated cost of energy, and an additional bank holiday for the Coronation in May depress output. The OBR expects a milder fall in GDP than in their November forecast as a result of lower expectations for wholesale gas prices and interest rates. Growth is forecast to return in the second half of 2023 due to the bounce back in activity from the bank holiday and as household energy bills fall. However, in 2023 as a whole, real GDP is forecast to fall by 0.2%, with private consumption, business investment and net trade all dragging on growth, offset by growth in government consumption.

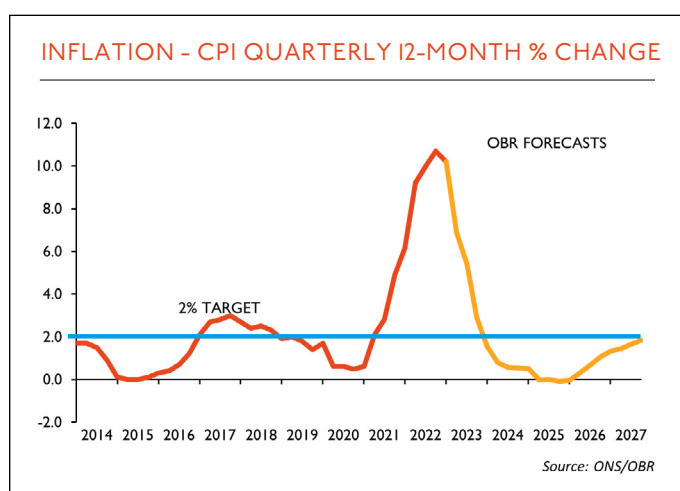
GDP growth is expected to pick up to 1.8% in 2024 and 2.5% in 2025 as interest rates start to fall and drops in energy and other tradeable goods prices take inflation below the 2% target. The recovery is driven by private consumption growth as real household incomes rise, with business investment also boosting growth in 2025, supported by the temporary increase in the generosity of capital allowances. Real GDP growth then returns towards the assumed medium-term rate of potential output growth of 1.75% as the output gap closes in the final year of the OBR forecast.

Cumulative real GDP growth over the five-year forecast is around half a percentage point higher than in the OBR's November forecast, broadly in line with the change in the forecast for potential output growth. The upgrade to real GDP at the forecast horizon is driven by higher real consumption as a result of stronger real household incomes.

Inflation

The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to March 2023, down from 10.4% in February. On a monthly basis, CPI rose by 0.8% in March 2023, compared with a rise of 1.1% in March 2022. The easing in the annual inflation rate in March 2023 mainly reflected price changes in the transport division, particularly for motor fuels. There were also downward effects from housing and household services, furniture and household goods, clothing and footwear, and restaurants and hotels. These were partially offset by upward effects coming from food and non-alcoholic beverages, and recreation and culture.

CPI inflation peaked at 11.1 per cent in October 2022 and is expected to fall rapidly to around 3% in the final quarter of 2023. The sharp fall occurs as the rapid price increases in 2022 drop out of the calculation of annual inflation, gas and electricity prices fall, and there is some further easing of supply bottlenecks, which flow through



to the price of tradable goods. This is only partly offset by continued strength in non-tradable services inflation due to elevated wage growth this year. On a calendar year basis, the OBR expects CPI inflation to be 6.1 per cent in 2023, 1.2 percentage points lower than their November forecast, mainly due to a more rapid decline in energy prices. The Energy Price Guarantee (EPG) stops biting in the third quarter of 2023 – three quarters before the scheme officially ends – so from then on lower wholesale prices feed through to lower bills for households.

Conditional on market expectations for Bank Rate and gas prices, inflation is forecast to fall sharply to 0.9% in 2024 as energy and tradables prices fall further and then oscillates around zero through to mid-2026. CPI inflation returns to the 2% target by the OBR's forecast horizon. Compared to the OBR's November forecast, the level of consumer prices is little changed by the horizon as lower energy prices are offset by more domestically generated inflation from higher demand relative to supply over most of the forecast.

Labour Market

The UK employment rate was estimated at 75.8% in December 2022 to February 2023, 0.2 percentage points higher than September to November 2022. The increase in employment over the latest three-month period was driven by part-time employees and self-employed workers.

The timeliest estimate of payrolled employees for March 2023 shows another monthly increase, up 31,000 on the revised February 2023 figures, to 30.0 million.

The unemployment rate for December 2022 to February 2023 increased by 0.1 percentage points on the quarter to 3.8%. The increase in unemployment was driven by people unemployed for up to six months.

In January to March 2023, the estimated number of vacancies fell by 47,000 on the quarter to 1,105,000. Vacancies fell on the quarter for the ninth consecutive period and reflect uncertainty across industries, as survey respondents continue to cite economic pressures as a factor in holding back on recruitment.

Growth in average total pay (including bonuses) was 5.9% and growth in regular pay (excluding bonuses) was 6.6% among employees in December 2022 to February 2023. Average regular pay growth for the private sector was 6.9% in December 2022 to February 2023 and 5.3% for the public sector. The difference between the private and public sector growth rates has narrowed in recent months.

In real terms (adjusted for inflation), growth in total and regular pay fell on the year in December 2022 to February 2023, by 3.0% for total pay and by 2.3% for regular pay. A larger fall on the year for real total pay was last seen in February to April 2009, when it fell by 4.5%, but it still remains among the largest falls in growth since comparable records began in 2001.

There were 348,000 working days lost because of labour disputes in February 2023, up from 210,000 in January 2023. Over three-fifths of the strikes in February were in the education sector.

The OBR expect that the unemployment rate will rise modestly as growth weakens, to a peak of 4.4% (around 1.5 million people). That is 170,000 people lower than their November forecast for the peak rate of 4.9%. This is due to the improved outlook for real GDP in the near term, partly due to the impact of Budget measures, which reduce the peak in unemployment by 0.1 percentage points (around 25,000 people).

The labour market started to show signs of loosening in late 2022, with recruitment difficulties starting to ease and the unemployment rate ticking up to 3.7% in the fourth quarter. Vacancies have also begun to unwind from their record highs in 2022 but remain elevated compared to their pre-pandemic average of around 635,000.

The OBR continues to expect the rise in unemployment to lag the fall in GDP as vacancies are likely to fall before firms lay off workers and labour hoarding means firms are likely to reduce hours before cutting staff. By the forecast horizon, unemployment is expected to fall back to its unchanged estimated structural rate of 4.1%.

As GDP growth slows and unemployment rises, the OBR expects the employment rate to fall to a trough in the second quarter of 2024, before recovering towards the end of the OBR's forecast horizon. Employment was 32.8 million in the fourth quarter of 2022, 120,000 (0.4%) below its pre-pandemic level. The OBR expect employment to fall a further 75,000 (0.2%) over the next year as the economy contracts and unemployment rises, before recovering to reach 33.8 million at the forecast horizon, around 900,000 higher than the pre-pandemic level.

Stronger near-term growth in nominal earnings of 5.0% is expected in 2023, 0.9 percentage points higher than the OBR's November forecast, but still a slowdown from the 30-year high of 6.2% in 2022. The strong whole economy pay growth in 2022 largely reflected private sector pay, which rose by close to 7%, while for the public sector the increase was around 2.5%. The latest Bank of England Agents' pay survey shows private sector pay expectations remain close to 2022 levels at just under 6%, while the labour market remains relatively tight and recruitment difficulties elevated.

Rising unemployment is expected to weigh on pay growth later this year. In 2024, the OBR expects nominal pay growth to ease to 1.8% as inflation falls away and unemployment remains above its equilibrium rate, before averaging 2.0% over the remainder of the forecast. Despite strong nominal earnings growth this year, high inflation means real earnings are broadly flat. Real pay growth then rises to 0.7% in 2024 before averaging around 1.0% a year over the rest of the forecast.

Source: GDP quarterly national accounts, Consumer price inflation, Labour market overview, ONS, www.ons.gov.uk; Economic and Fiscal Outlook, Office for Budget Responsibility, www.obr.uk

PRINTING INDUSTRY TRENDS & EXPECTATIONS – SELECTED RESULTS

	Q3 20	Q4 20	Q1 22	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23
General state of the trade*												
actual	13	-4	12	51	46	34	1	20	1	-19	-15	
forecast	22	-12	-33	53	42	36	17	18	-7	-21	-19	27
State of the order books (%)												
better than normal for the time of year	13	18	16	20	27	42	41	33	31	21	24	18
normal	17	28	25	23	24	32	36	43	46	49	42	41
worse than normal	70	54	59	57	49	26	23	24	23	30	34	41
Numbers employed*												
actual	-25	-37	9	16	29	32	28	27	20	15	-9	
forecast	-24	-25	-5	25	26	43	54	23	23	26	19	10
Volume of orders (domestic)*												
actual	-6	-18	3	47	50	48	33	32	33	3	-5	
forecast	5	-8	-25	50	36	40	39	25	7	-2	10	34
Volume of output*												
actual	-8	-9	-1	45	51	45	20	37	27	4	-3	
forecast	7	-7	-24	50	37	38	34	29	19	3	11	34
Average prices (domestic)*												
actual	-21	-3	-2	19	53	70	85	79	70	49	20	
forecast	-26	-25	-10	28	34	70	73	80	57	57	14	3
Cost of paper & board*												
actual	-3	7	55	80	93	97	94	92	78	67	0	
forecast	3	2	31	70	84	91	89	94	70	85	13	-33
Work-in-progress*												
actual	-15	-16	-5	14	36	28	21	20	22	5	-18	
forecast	-7	-17	-27	29	20	20	13	2	0	6	-20	5
Margins on sales*												
actual	-22	-25	-22	-34	-13	2	-11	-23	-11	-8	-3	
forecast	-13	-36	-29	-25	-14	-5	-11	-14	-14	-14	4	-5
Debtor days (average number of days)												
		56				56				51		
Creditor days (average number of days)												
		55				55				51		
Capital expenditure (next 12 months compared to last 12 months)*												
buildings			0			33				-4		
training & retraining			7			37				28		
plant & machinery			1			27				-3		
product & process innovation			28			32				9		
net zero & energy efficiency										47		
Export orders*												
actual	-4	13	10	35	41	59	48	18	-5	2	-51	
forecast	-11	-37	-14	35	46	17	71	15	-8	20	49	23

* balance = % of respondents reporting increase/more/improved less % of respondents reporting decrease/less/worsen. For example, if 48% said that the general state of the trade improved, 32% that it stayed the same and 20% that it worsened, the balance is +28.

ACKNOWLEDGEMENTS

◆ A WORD FROM CANON

"We're privileged to continue our partnership with the BPIF through our sponsorship of its Printing Outlook report – delivering the latest trends to the print industry each quarter.

"2023 has already been an exciting year so far with a number of products launched across our portfolio. This report has itself been printed on one of our new V-series devices, the Canon imagePRESS VI350, the flagship device in our colour digital cut sheet range. Offering exceptional performance, and the highest productivity, it reaches a speed of 135ppm on a wide range of media up to 500 gsm delivering flawless and precise results.

"We're excited to announce that the new imagePRESS VI350 is now in our Customer Experience Centre in Birmingham and we're welcoming customers to book in for a demonstration to see the benefits of this device for themselves.

"We'd like to thank the BPIF and its members for this opportunity and hope that we can further build on our work together throughout 2023."

Carlotta Basile, Production Portfolio Marketing Manager, Canon UK & Ireland

◆ THE BPIF WOULD LIKE TO ACKNOWLEDGE THE FOLLOWING:

Red Flag Alert (www.redflagalert.com) for the Red Flag Alert statistics and their expertise regarding measuring and reporting on corporate financial distress.

Begbies Traynor (www.begbies-traynorgroup.com) for providing data, analysis and facilitating collaboration to develop the financial health analysis.

The Insolvency Service (www.gov.uk/government/organisations/insolvency-service) for the data on insolvencies.

Confederation of Paper Industries (www.paper.org.uk) for the paper and board consumption statistics.

EMGE (www.emge.com) paper industry consultants for the extra insight on paper and pulp prices.

British Coatings Federation (www.coatings.org.uk) for the printing inks sales volumes and values data.

Messe Duesseldorf (www.drupa.com) for the extract from the latest drupa Global Trends Report.

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◆ ABOUT THE BPIF

The BPIF is the principal business support organisation for the UK print, printed packaging and graphic communication industry and is one of this country's leading trade associations. We are a not-for-profit-distribution organisation.

Contact details:

BPIF, 2 Villier's Court, Meriden Business Park, Copse Drive, Coventry, West Midlands, CV5 9RN

T 0845 250 7050

W www.britishprint.com

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◆ ABOUT THIS SURVEY

The survey was carried out online during the period 3-20 April 2023. The latest survey consists of 112 companies employing 8,063 people with a combined turnover of just over £1.3 billion.

For further details concerning this survey or BPIF Research contact:

Kyle Jardine, BPIF Economist

T 028 9002 0135

E kyle.jardine@bpif.org.uk

W www.bpifresearch.com

BPIF

EST. 1901

T 0845 250 7050

 @BPIF

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