Preliminary 4th Quarter U.S. Market Data Shows Extent of Economic Downturn

Anyone looking for confirmation of the extent and severity of the current global economic downturn need look no further than the preliminary NPES 4th quarter market data. The NPES market data program collects U.S. shipments of equipment and supply products. The 4th quarter equipment shipments, which include prepress, press and post-press equipment, came in at $280.8 million, the lowest 4th quarter total since at least 1987. Although the 4th quarter is traditionally the strongest in the year, for 2008 the 4th quarter was the worst quarter of the year, with shipments down 18.5% from 3Q08 and down 35% from the same period last year.

As a result of the worsening global economic situation, overall 2008 shipments ended down more than 17% from the equipment shipment levels of 2007. It is important to note that these figures do not include digital equipment. Many industry observers have pointed out that the declining shipments reported may be partially offset by the transition to digital equipment. NPES is actively working on developing a digital market data program. The quarterly results are as follows:

**2008 U.S. Equipment Shipments (millions)**

- 1st quarter: $413.8
- 2nd quarter: $289.4
- 3rd quarter: $344.4
- 4th quarter: $280.8

As shown in Figure 1, U.S. equipment shipments for 2008 totaled $1.328 billion, down 17.4% from the 2007 level of $1.608 billion and the lowest annual total since at least 1987. Although the overall shipment numbers were poor, there were some bright spots among the individual segments. Paper cutter shipments increased 18.5% from 2007 and were at their highest level since...
chairman’s perspective

Hank A. Brandtjen, III
NPES Chairman
President, Brandtjen & Kluge, Inc.

The Pendulum Swings Both Ways

Like all of us lately, I’ve been thinking a lot about our current economic situation. Call it what you will—a downturn, a recession or a depression—the business climate is severe. It is forcing many of us to make difficult, and often unpleasant, decisions. But I believe the most important action we must take is to change our core attitude.

The times we are facing today are not unprecedented. A quick historical review reveals an economic pendulum that swings from periods of boom to bust... and back. We must learn for the future what causes the pendulum to swing so far that it cripples us all.

In 1833, President Andrew Jackson said, “The mass of people have more to fear from combinations of the wealthy and professional classes—from an aristocracy which through the influences of riches and talents, insidiously employed, sometimes succeeds in preventing government from securing the freedom of the citizen.” President Jackson, driven by this mantra: ‘Liberty and Union: Now and Forever,’ took on the banking establishment and government and changed things.

In 1906, President Theodore Roosevelt said, “The dull, purblind folly of the very rich men; their greed and arrogance, and the way in which they have unduly prospered by the help of lawyers, and the corruption in business and politics, have tended to produce a very unhealthy condition.” President Roosevelt then took on a heartless tendency to produce a very unhealthy condition. “Government and the people grew united to achieve mutual goals; citizens rationed, saved and sacrificed for the common good.

Déjà Vu

Today it seems ‘like déjà vu all over again’ but with fresh examples of unprecedented greed and entitlement: Madoff and his Ponzi scheme; Merrill Lynch using federal bailout money to pay bonuses and redecorate offices; the propping up of an auto industry that’s not globally competitive. For an example on a more personal level: my company is incurring legal expenses to defend ourselves in an asbestos exposure case resulting from the use of our equipment in the 1950’s—despite the fact that at that time our presses did not use asbestos in their production!

I fear that the pendulum has not yet begun to swing the other way. Meanwhile, we’ve all had to make very difficult decisions. Friends including Susan, Steve and Phil are no longer employed by NPES member companies. How do you reach out and let these people know that the decisions made were through no fault of their own? A friend of mine in our industry’s publication sector called me the other day to share with me how torn up he was about having to lay people off. Unfortunately, it’s a pain I know all too well.

Greed and Entitlement

Two attitudes need to change for our economy to rebound—greed and entitlement. I have no problem with people making money for a product or job well done—so long as the money made is not at the expense of others. I have no problem providing a helping hand to those who need it—so long as they are willing to work for a better tomorrow without feeling ‘entitled.’

Did you know that more millionaires were made during the Great Depression than any other time in our history? Theodore Roosevelt said, “the darker the night, the bolder the lion.” So make those hard decisions, see the opportunities and lead by example, not just words. I believe that by working together we can redirect the pendulum to swing back the other way. ●

ON THE ROAD TO RECOVERY!

SAVE THE DATES!

NPES 2009 REGIONAL MEETINGS

- June 12, Dayton, OH
- June 15, Chicago, IL
- June 25, Teaneck, NJ
- June 26, Boston, MA

Based on the positive feedback from the 116 NPES members from 51 companies who attended a session in last year’s series, the NPES Regional Meetings are back—this time with a busload of up-to-the-minute economic updates, current industry trends data, and more than a few surprises!

Aply themed “On the Road to Recovery,” this year’s Regional Meetings series is completely relevant, retooled and revved-up for 2009. Rather than a ‘traditional’ education and networking program, each of these events will be highly-spirited and interactive industry information exchanges.

All four programs will kick-off with timely, revealing and up-to-the-minute presentations by industry economic ‘guru’ Dr. Joe Webb, and print technologies expert Frank Romano. Together, they will engage participants in a one-of-a-kind learning experience! Webb will provide his most current insights with a macro view of the overall economy and a micro view of our industry’s economy. Romano will provide a powerhouse of information about the hottest new and emerging technologies—along with his perspective on their likely impact on the print industry during the months and years ahead.

During the always-popular networking luncheon, as participants share their perspectives, all will benefit by expanding their ‘real-world’ outlook on what lies ahead for our industry during the remainder of 2009 and beyond.

PLAN TO BE WITH US FOR THIS OUTSTANDING LOCAL EDUCATION AND NETWORKING OPPORTUNITY. WATCH YOUR MAIL FOR MORE DETAILS!
2001. In addition, shipments of digital proofing devices were down only 6.5%, at a level essentially unchanged from the last couple of years.

With the U.S. firmly entrenched in a deep recession, the only question on everyone’s mind is, “When will things get better?” Federal Reserve Chairman Ben Bernanke recently eased many minds by offering cautious optimism that the U.S. economy might reach bottom by the 3rd quarter of this year and begin the recovery by 2010.

As shown in Figure 2, U.S. graphic arts supplies shipments, which include film, plates and proofing products and related chemistry, totaled $1.072 billion, down 7.2% from 2007 levels. This continues the long-term trend of technological substitution that has affected supplies shipments as the industry has shifted from a direct-to-film based workflow to a direct-to-plate workflow and, today, to a direct-to-press workflow. Obviously, each step along that path requires fewer supply products to produce a printed product. To illustrate the magnitude of the technological substitution effect on the total supplies market, in 1998 the total supplies market was $1.96 billion. Almost $900 million in sales have disappeared due to the shift to filmless and now plateless workflows.

Although the economic situation is currently bleak, there is no question that our economy will recover. With the Obama Administration focused on stimulating economic growth and the great efforts our members are undertaking to innovate and rethink how they approach the graphic communications marketplace, by this time next year we should already be seeing the signs of a strong and sustainable recovery. Until that happens, however, NPES is committed to doing what it takes to help you. From timely market data, to international trade support, to crucial market research, NPES is your resource of choice. Don’t be shy about taking advantage of all we have to offer! One event that can immediately benefit you is the NPES 2009 Industry Summit, March 23–25 in Washington, D.C. Information about this event and all of the other support that NPES can provide is available online at: www.npes.org.

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Recognizing that today's global green-sustainability concerns are more than just a passing trend, the Graphic Arts Show Company (GASC) is taking the lead to inform graphic communications pros across every market segment about the true meaning of ‘green’ with the world debut of GREENspace at PRINT 09.

GREENspace is a timely, specialized and multi-faceted show floor feature dedicated to educating attendees about what sustainability is—and what “going green” really means to their industry, to their business, and to their customers. GREENspace will feature over 4,500 sq. ft. of exhibit space dedicated solely to exhibitors who will display eco-friendly products and services focused on sustainability including:

- Paper/Substrates
- Recycling Services
- Inks/Consumables
- Carbon Credits
- Certification Programs
- Energy Efficiency
- Alternate Sources of Energy
- Waste Reduction Services

GREENspace will provide PRINT 09 attendees with tremendous value as their one-stop destination for ‘green’ information, education, products and services. Whether novice, intermediate or advanced in their sustainability knowledge and actions, at GREENspace PRINT 09 attendees will broaden their understanding, find the resources, strategies and ‘take-home’ tools they will put into immediate use—everything they need to “go green” with confidence.

This unique new show floor destination will also showcase the ‘best of the best’ examples of award winning printed pieces in several categories. Here attendees will come to examine the impressive variety of winning applications and processes judged to be ‘sustainable’—and learn why they won.

SPECIAL ATTRACTIONS

- **Consultants Corner**—where attendees will gain individualized advice and resources from sustainability experts.
- **Exhibitors**—consultative experts on sustainability-focused products and services who will offer personalized applications and solutions.
- **Sustainability Roadmap**—a handy ‘compass’ to exhibitors throughout the show who offer sustainability-focused products and services.
- **Green Theatre**—FREE education on a variety of ‘green’ subjects in multiple presentations held continuously on all show days.
- **Environmental Excellence Awards Gala**—Friday, September 11, 2009. All show goers are invited to join in the celebration of our 2009 winners; sponsored by American Printer.
- **Walk of Fame: Environmental Excellence Awards**—‘best of the best’ examples, on display daily during PRINT 09.
Stimulus Incentives Create Business and Jobs for NPES Member

Chesnut Engineering, Inc. President Dick Chesnut was so impressed by the effectiveness of the enhanced Expensing and Bonus Depreciation capital investment provisions of the Economic Stimulus Act of 2008 that he recently wrote to his Congressman Rodney Frelinghuysen (R-NJ-11), and Senators Frank Lautenberg (D-NJ) and Robert Menendez (D-NJ) urging the continuation of the policies in the new 2009 Stimulus legislation. Eventually they were.

In a letter to his elected representatives, Chesnut recounted how in February 2008 his company contacted one of its customers that prints pressure sensitive labels. At the time, the printer was considering purchasing a new combination flexo gravure press, and Chesnut Engineering quoted them such a machine with options ranging up to $2 million. According to his account, when Mr. Chesnut’s company provided their customer with the quote they also informed them that, as a result of the enhanced Expensing and Bonus Depreciation capital investments incentives that had just been enacted in the Economic Stimulus Act of 2008, they could write off 57% of the cost of the machine in the first year, if the press was “placed-in-service” before January 1, 2009. And, as Dick Chesnut tells it, “they signed the order without delay, and the rest is history.”

The customer ran their first job on the new multi-million dollar press before the end of December 2008 and qualified for huge tax savings. Dick Chesnut says, “I have no question that this order was placed with my company in a timely manner specifically to take advantage of the 2008 Stimulus capital investment incentives.” And what’s more, “this order required Chesnut Engineering to add six full time employees, and resulted in the company placing many orders with outside subcontractors for materials and supplies.” Chesnut believes that the acquisition of the new press also caused his customer to add new workers: a win-win situation for printer and supplier.

NPES used Chesnut’s letter as a testimonial to the effectiveness of the investment provisions in advocating to Congress for their continuation in the 2009 legislation.

Chesnut Engineering, Inc. of Fairfield, New Jersey specializes in manufacturing narrow web presses for producing high quality packaging, labels of all types, folding cartons, and specialty products. Its expertise extends from the technologies of rotogravure, flexographic and combinations of these processes (including converting options) for producing a wide variety of products including food, cosmetics, pharmaceutical, beverage and many specialized items.

New RIT Research on the Business and Workflow Models for U.S. Newspapers

Since 2001, NPES has been a founding member of the Printing Industry Center at the Rochester Institute of Technology (RIT). The Printing Industry Center is dedicated to studying the major business environment influences in the printing industry brought on by new technologies and societal changes. In order to address such changes, the Center accomplishes this through both research and educational outreach.

One of the studies that the Printing Industry Center has published recently is An Examination of Business and Workflow Models for U.S. Newspapers. This study’s inception was due to the changes that are redefining the newspaper industry, exploring how it is no longer the primary “news” information source for most people. It focuses on gaining an understanding of the traditional and emerging newspaper publishing business models for large, medium and small newspapers, and what they are doing to change their business strategies. The study also looks into the prepress and production workflow for newspapers. Among the conclusions and implications that have come from this study are:

- Business Strategy: Newspaper publishers realize that they can’t be ‘married to the newspaper’ and successful companies are looking very different from the traditional model.
- Audience: Newspapers are seeing that their core audiences are composed of middle-aged and older readers; young readers will read the printed newspaper far less. Newspapers have developed several approaches to deal with decreasing readership: increase online readership, increase relevance in the local media market, and maximize the present value of the core audience.
- Workflow Trends: The medium-sized newspapers produce a wider variety of jobs and use more automation. Some trends identified from the research were: consolidating printing plants and printing different newspapers in the same facilities; and another, relative to the larger the newspaper, was the greater level of automation in the production process.

As a Printing Industry Center Industry Partner, NPES has exclusive access to this and all other research monograph publications before they are available to the general public. To receive this monograph, contact Rekha Ratnam at e-mail: ratnam@npes.org.
The Office of Management and Budget (OMB) has accepted the Education Summit’s recommendations for structure changes for “Printing Workers” detailed occupational groups for the 2010 Standard Occupational Classification (SOC). OMB announced its decision in a January 21, 2009 Federal Register notice (Vol. 74, No. 12/Wednesday, January 21, 2009/Notices, P. 3920.)

The SOC is designed to reflect the current occupational structure of the United States, and provides data that is widely used by government program managers, industrial and labor relations practitioners, employers and job seekers, academic and business researchers, educators, guidance counselors and students exploring potential careers and identifying educational and training alternatives. Decisions to fund training programs are often influenced by the career opportunities reflected in the SOC, hence the need for an accurate portrayal of the true nature of the rapidly changing graphic communications industry.

The 2010 SOC revision began with a Federal Register notice in May 2006 calling for information. The graphic communications industry responded to that notice, and in a May 22, 2008 Federal Register notice the Standard Occupational Classification Policy Committee (SOCPC), under the direction of OMB, issued its recommendations for revising the 2000 SOC for 2010. These recommendations reflected earlier graphic communications industry input, and were supported by a July 21, 2009 Education Summit submission to OMB that was organized by NPES Government Affairs Director Mark J. Nuzzaco. The Education Summit also submitted over 40 detailed job descriptions to O*NET OnLine.

The Education Summit is an industry consortium created and supported by a number of individuals and organizations. It is primarily sponsored by the Print and Graphics Scholarship Foundation (PGSF), a 501(c)(3) not-for-profit, private, industry-directed organization that dispenses undergraduate college scholarships and graduate fellowship assistance to talented men and women interested in graphic communications careers. It is also supported by the Graphic Arts Education and Research Foundation (GAERF), also a 501(c)(3) not-for-profit group.

The mission of the 2009 Education Summit is to bring together graphic communication educators and industry leaders from around the country to strengthen and facilitate career opportunities for secondary and post secondary students, and to deepen the qualified workforce pool for the graphic communications industry. The graphic communications industry consists of over 38,000 establishments found in every community in America. It is the sixth largest employer in the nation, and number nine in value of shipments.

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For more information contact NPES Government Affairs Director Mark J. Nuzzaco at phone: 703/264-7235 or e-mail: mnuzzaco@npes.org.
In a development of importance to NPES members and their customers, enhanced IRC Section 179 Expensing and 50% Bonus Depreciation have both been extended through December 31, 2009 in the “Stimulus” legislation, American Recovery and Reinvestment Tax Act of 2009, recently signed into law by President Barack Obama. Both provisions were previously included in the Economic Stimulus Act of 2008, and NPES members report that they have proven to be very effective in encouraging and facilitating capital investment in printing, publishing and converting technology. Accordingly, NPES strongly urged Congress to keep them in force. In addition, the Stimulus extends provisions that allow companies that are currently in a loss position to use unused Alternative Minimum Tax (AMT) and R&D tax credits in lieu of Bonus Depreciation, tax policy also advocated by NPES.

NPES took no position on the overall Stimulus legislation, but it did urge the extension of capital investment incentives as vital to re-starting the American economy. Individually each provision has great merit, and collectively their synergy is compelling and will lead to more new investment and more new jobs. While sometimes hard to quantify, there is tangible evidence that these incentives have in the past facilitated new capital investment that would not otherwise have occurred as soon, or might not have happened at all. (See ‘Stimulus Capital Investment Incentives Create Business and Jobs for NPES Members’ page 5.)

A disappointment, however, was the paring back of a provision that would have increased from two years to five years the time businesses are allowed to carry back Net Operating Losses (NOLs), in effect providing interest-free loans, at a time when businesses’ cash flows are constrained and credit is severely limited if not non-existent. Originally available to all companies, the final version of the Stimulus limits the extended NOL carry back to smaller companies with gross receipts of $15 million or less. Nevertheless, this provision still potentially applies to over 80% of NPES member companies.

Some speculate that the NOL carry back provision was a victim of partisan wrangling over the legislation. However, according to the National Association of Manufacturers, Representative Richard Neal (D-MA-2), Chairman of the House Ways and Means Subcommittee on Select Revenue Measures has indicated that future tax legislation will be proposed to revise the NOL provision so that larger companies can also utilize it.

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“Individually each provision has great merit, and collectively their synergy is compelling and will lead to more new investment and more new jobs.”

And the fact that capital investment may occur sooner with incentives than it would without them is a huge positive factor when time is of the essence in stemming the current precipitous economic slide.
HURLEY’S TRADE-WISE DO TELL INTEL

Emerging Markets—Will They Remain Engines of World Growth Even in Slowdown?

In 2009, according to International Monetary Fund forecasts, world growth will be driven entirely by emerging markets while advanced economies contract. Looking at the underlying long-term trend, companies will likely continue to find attractive opportunities in emerging nations, even if growth there has slowed somewhat. Case-in-point are: China, India, Brazil, Russia and countries of the Middle East.

The end result of the global recession has been a slowdown in Chinese economic growth. The good news for China is that, unlike many other emerging markets, it has not borrowed heavily in global capital markets. Thus, China is not at risk from financial contagion. Indeed, China has been a global lender and consequently is in a good position to self-finance any measures aimed at restoring economic growth.

The slowdown in the Indian economy has led the Reserve Bank of India (RBI) to cut rates aggressively, reducing its benchmark interest rate from 9% to 6.5%. Along with the RBI, the government has planned a program of stimulus spending, as well a 4% reduction of sales tax on most goods. In the near term, it is unlikely that the stimulus and the interest rate cuts will prevent the Indian economy from slowing down.

Having experienced strong economic growth for the past several years, Brazil is now experiencing a slowdown that will endure throughout 2009. To combat the threat of a recession, Brazil’s central bank is focusing on programs to revive the financial markets and offset poor economic growth. While a recession is unlikely, the economy will experience GDP growth roughly half of what it was in 2008.

After a decade of high growth, the Russian economy is experiencing a slowdown in the wake of the global financial crisis, according to the World Bank. However, Russia’s strong short-term macro-economic fundamentals make it better prepared than many emerging economies to deal with the crisis. In 2009, the Economist Intelligence Unit forecasts growth to be 3%.

In the past few years, the oil exporting countries of the Middle East have grown rapidly and increased their level of investment in non-oil industries. However, declining petroleum prices are resulting in much slower economic growth for the oil exporting nations of the region in 2009. Still, vast assets remain to temper the impact of lower oil prices and to enable the region to stave off the impact on financing from the global credit crunch.

As a resource for member companies wanting to grow their world business even in a global slowdown, NPES has developed a program of low-cost and no-cost marketing activities and networking events with key business prospects, from March through May around major trade events in Czech Republic, Mexico, United Arab Emirates, Poland and China. For further details, contact Mike Hurley at phone: 703/264-7212 or e-mail: mhurley@npes.org.

Sources: World Bank International, Monetary Fund, Deloitte Global