

The Graphic Arts Industry in Latin America Growth Perspectives and General Status of the Economy for 2004

Latin America has now a favorable economic environment for business development.

BY JUAN GONZALO CASTELLANOS M.

According to the International Monetary Fund, the expectations for Latin American regional growth in 2004 are based on a new, yet already tangible, economic recovery. The three zones into which the IMF divides the region have the following forecasts for GDP growth: 3.2% for Mercosur, 4.9% for the Andean Region, and 3.2% for Mexico, Central America and the Caribbean. The prognosis for the whole region is 3.6% and most of its nations will show marked stability in their prices (see Chart – Annual GDP Percentage Change and Consumer Prices).

Although in 2003¹ the economy in the region will record a low growth of 1.5%, according to information by the Economic Commission for Latin America and the Caribbean (ECLAC) in its *Study of the Situation and 2002-2003 Perspectives*, the reasons of an external nature that have limited this region's economic performance, in particular the scenario of the world economy not playing its role of growth process engine well, have started to ebb.

The economic recovery of the 30 most industrialized nations, those in the Organization for Cooperation and Economic Development (OCEP), will be confirmed at the end of the second semester of 2003 and we expect it to be stable in 2004 and 2005: However, the

recovery will not be the same across the board; it will be led by the United States and by Japan and Europe's recovery will be slower with less progress. Although there are still risks present, stagnation is a thing of the past.

There have been interesting opportunities in the Latin American region in 2003. For example, exports from nations with competitive exchange rates or with investments focused on natural, non-renewable resources have enabled the value of the exports of goods in the whole region to increase 4.4%. This phenomenon can especially be seen in South America that has a trade surplus of USD 56 billion; inter-regional trade will make Mercosur trade grow 12% after its 25% drop in 2001-2002; the Central American Common Market will grow 2% and the Andean Community will have a 15% drop in trade among its member states in 2003; the deficit in the current account in the Latin American region will only be 0.2% of the GDP, a situation not seen since 1990; according to CEPAL, this will have significant consequences on investment and on national savings in the immediate future.

Industry Profile

33 nations make up Latin America (12 in South America, 20 in Central America and the Caribbean, and Mexico). Together, these nations have a total of 502 million inhabitants and a GDP of near USD 3 trillion. Therefore, it is an attractive market. In the words of Max Schrappe, President of the Latin American Graphic Arts Industry Confederation (Conlatingraf is the Spanish acronym) this market "demands our working together and seeking partners on other continents for us to better develop"².

The Graphic arts industry boasts near 42,000 companies that employ around 500,000 workers. As our data shows, the Latin American Graphic arts sector has the potential to grow, even in the FTAA. It represents 5% of the industry worldwide. Although this is a modest share, it indicates great potential for this region that boasts 17% of the Graphic arts companies in the world.

In the year 2005, we estimate that the graphics sector will move USD 949 billion. Considering the present share of 5%, Latin America would have a slice of near USD 50 billion of this pie... a rather significant piece at that.

Proportionately speaking, the region accrues significant indexes, such as the growth in paper consumption that reached 6.7% from 1999 to 2000. This growth is twice the growth of the worldwide consumption, which only rose 2.9 %.

Here is another important indicator for the Latin American Graphic arts industry growth potential. In 2000, around 57% of all advertising, on a worldwide average, was channeled to printed materials; now in Latin America, printed materials represent 39% of the advertising expenditure.

Therefore, Schrappe comments, "Growth is possible and desirable. We must make a great local effort. To do so, it is necessary to clearly understand where the worldwide Graphic arts industry is headed in an environment of cutting edge technology and incipient new means of communications, in particular the Internet".

In addition, Juan Carlos Sacco, Vice-President of Conlatingraf states, "My vision of the future is fundamentally optimistic. I imagine Mexico recovering its position and Brazil definitely growing at much higher rates than those of the past five years. I do not foresee any financial crises, all of those that had to happen have happened."

Situation of the Graphic Arts Industry in Representative Countries

Argentina

If we compare the use of the installed capacity in the Argentinean industry in the years 2002 and 2003, we can see a growth from 48% in January 2002 to 65% in September 2003, based on INDEC data³. For Graphic arts industry related sectors, we can see the same use of installed capacity trend during that period; the paper and cardboard sector rose from 68% in January 2002 to 85% in September 2003

with seasonal variations and the printing and publishing activity that had shown a drop in its installed capacity from January 2002 (54%) to August (45%) 2002 started to recover from then on reaching 72% in September 2003. There is definitely a trend towards improving the use of installed capacity in the Argentinean Graphic arts industry.

However, the physical production volume has decreased for both sectors. Data from the same source indicates a Physical Production Volume Index (PPV) for the paper and cardboard sector on a downward trend since 1999, passing from 91.3 in 2002 to 83.4 in 2003; for the printing and publishing sector, the same years showed a PPV of 75.4 and 61.8, respectively, calculated based on 1997 = 100. Such decreases are coherent with the general scenario for the manufacturing industry with a PPV of 77.7 and 70.0, respectively, for those same years.

Although official projections foresee a GDP growth of around 4% for 2004, according to Juan Carlos Sacco, Vice-President of Conlatingraf, "In my opinion, and generally speaking, in the opinion of all of the private analysts, these projections are extremely conservative; no private calculation places the growth rate under 7% for 2004. We expect consumption to grow hand in hand with the GDP yet lower than exports that will increase one and a half percentage points over the GDP. Investment will be approximately 14% of the GDP and we foresee strong imports recovery."

Brazil

The Brazilian Graphic arts industry has a total of 15,178 companies (30% of them in the State of Sao Paulo) with 195,899 employees. 89.8% of the companies hire fewer than 20 employees. The industry has seen a drop in the use of its installed capacity from 83% in the year 2000 to 71% in 2002; yet the figure of 63% during only the first quarter of 2003 indicates good recovery for 2003.

In 2002 there were industry sales worth USD 4.42 billion (1% of the GDP), distributed, among others, as follows: 26% corresponded to printing and publishing, 19% to packing, 15% to forms and 12% to printed advertising material. Based on Abigraf data and surveys⁴, the Brazilian companies expect that the final results of 2003 will be similar to those of 2002, because the changes that the new government has put into practice to encourage production will not yet be in full effect; they will take more time.

By September 2003, however, domestic demand started to rise, driven by five months of reductions in the interest rates and by incentives aimed at selected sectors. In the same manner, financial markets are being driven by the present government's monetary policies and by the one-year extension on the agreement with the IMF. At any rate, the recovery has not been the same in all of the industries, although there is data that suggests that in September 2003 production was 4.6% higher than in August 2003 and

Selected Western Hemisphere Countries: Real GDP and Consumer Prices (Annual percent Change)

	Real GDP				Consumer Prices			
	2001	2002	2003	2004	2001	2002	2003	2004
Western Hemisphere	0.7	-0.1	1.1	3.6	6.4	8.7	10.9	7
Mercosur *		-1.1	2.2	3.2	4.9	11.6	14.8	6.7
Argentina	-4.4	-10.9	5.5	4	-1.1	25.9	14.3	7.7
Brazil	1.4	1.5	1.5	3	6.8	8.4	15	6.2
Chile	3.1	2.1	3.3	4.5	3.6	2.5	3.4	3
Uruguay	-3.4	-10.8	-1	4.5	4.4	14	21.6	18.9
Andean region	2	-0.6	-2.9	4.9	10.6	10.1	13.3	13.7
Colombia	1.4	1.5	2	3.3	7.8	6.3	6.9	5.3
Ecuador	5.1	3.4	3.1	5	37.7	12.6	8.2	4.4
Peru	0.6	5.3	4	4	2	0.2	2.5	2.5
Venezuela	2.8	-8.9	-16.7	7.7	12.5	22.4	34	40.8
Mexico, Central America and Caribbean	0.3	1.1	1.4	3.2	6.6	5.1	5.9	4.5
Dominican Republic	3.2	4.1	-3	0.5	8.9	5.2	26.1	20.1
Guatemala	2.3	2.2	2.4	3.5	8.9	6.3	5	4
Mexico	-0.2	0.7	1.5	3.5	6.4	5	4.6	3.4

Excerpted from: International Monetary Fund, World Economic Outlook, September 2003.

* Includes Argentina, Brazil, Paraguay, and Uruguay, together with Bolivia and Chile (associate members of Mercosur)

4.2% higher than in September 2002, according to the Brazilian Institute of Geography and Statistics (IBGE is the Brazilian acronym). Sixteen of the 20 industrial categories enjoyed some level of growth; capital goods and durable and semi-durable consumption goods boasted most growth.

According to Mario César de Camargo, President of Abigraf, "The consensus in the production sectors is that there are conditions for 4% to 5% growth in 2004. If this is confirmed, the graphics sector, in general, and the converting and packing segments, in particular, should grow from 10% to 12% in 2004". Camargo also emphasized that we must remember that, "The Brazilian Graphic arts industry has invested more than USD 6 billion in the past ten years in technological support, machinery and equipment, and that has enabled resizing marketing and sales strategies, thus offering more sophisticated products to all of the market segments, even those abroad."

Chile

The Physical Production Volume Index for September 2003 of the Chilean National Statistics Institute (INE is the Chilean acronym) shows that the printing, publishing and related industries sector had a negative impact on the variation of the index up to that date, presenting a 12-month variation of -12.5%. The indexes for September 2002 and September 2003 are 146.6 and 128.3, respectively, calculated based on the base year 1989 = 100.

Likewise, from September 2002 to September 2003, the Physical Sales Index broken down by Industrial Sector shows that the printing, publishing, and related industries sector had a variation of -12.6%. And the respective indexes are 148.0 and 129.3.

As is known, Chile is a small yet open economy that has made international competitiveness the cornerstone of its sustainability. It has conserved an institutional framework that enjoys the trust of international markets.

The essential aspects for the competitiveness of Latin American graphic arts companies are related, above all, to technology, to incorporating new technological processes.

Mexico

The Economic Information Bank of the National Statistics, Geography and Information Technology Institute (INEGI is the Mexican acronym) of Mexico shows that the Physical Production Volume Index for the printed material and publishing manufacturing industry, since the base year 1993 = 100, has remained a bit over that value; it reached a value of 109.1 in August 2001, a value of 111.2 in August 2002, and a value of 101.0 in August 2003, representing a drop in the 12 months ending in August 2003.

At August 2002, the production of newspapers and magazines reached an absolute value of MXP 1,047,848,000; the production of books and others similar represented MXP 322,164,000, and printing and bookbinding showed a value of MXP 517,180,000; at August 2003 these segments showed MXP 1,055,199,000; MXP 279,370,000; and MP 545,521,000, respectively, according to INEGI Monthly Industrial Survey data.

Around 14,548 companies represent the Graphic arts industry in Mexico, out of which 82.1% hire fewer than 20 employees. According to Canagraf, in the last two years more than USD 950 million has been invested in the industry to modernize the production plant.

In order to support the achievements in productivity and competitiveness, at the Canagraf headquarters, a specialized attention center has been created, which attends Graphic arts industry micro, small and medium-sized businesses, through the following actions: getting vendors and customers involved, which improves the sector production efficiency; generating more subcontracting and cross-border assembly industry opportunities; giving out information on new technologies; giving assistance with

credits and financing for production growth; disseminating information relating to input factor and machinery vendors, advising formalities for organizing graphic arts companies, giving legal counsel, getting involved with possible customers, technical assistance, etc..., to strengthen the capacities of the companies in Mexico.

We expect the economic growth, which depends a great deal on the United States market, to strengthen as of the second semester, to the extent that the export activity to the United States recovers, although the domestic demand will remain limited due to restrictive fiscal policies. The progress in structural reforms should also improve market perspectives, making the great potential for growth in this country a reality.

Dissemination of New Technologies

Faced with the tough competition coming up with the FTAA, Max Schrappe, President of Conlatingraf, stated that the essential aspects for the competitiveness of Latin American graphic arts companies are related, above all, to technology, to incorporating new technological processes, among which we highlight: information digitalizing; the use of production automation, information technology and robotization; increasing equipment production capacity; incorporating finishing processes in the printing operation itself and human resource training and qualification technologies.

For the largest Graphic arts companies in the region, which represent 4% of the total (those that have 50 or more employees; among which we find the most active participants in the regional trade for printed products), adopting state-of-the-art technical innovations is a gradual but constant process.

There is active interest in upgrading printing equipment of all kinds. Commercial web offset printers, sheet-fed offset printers, and digital printers, the last ones essential for exploring the new trade opportunities that on demand printing and customized product demand have created.

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From a technical point of view, this type of investment is very specialized; it is a question of acquiring equipment that specifically favors the company's competitive position and, from a financial point of view, the companies must avoid generating situations of unused installed capacity.

In this type of company, according to the market niche situation, projects for reinforcing the preprinting area with platesetter solutions, for improving the productivity of finishing processes and, in general, for optimizing cost structure and operational efficiency have become absolutely necessary.

Thanks to the commercial reality of applying the Job Description Format (JDF), with sufficient backing from a numerous group of key vendors, there is growing interest in integrating the production processes one with another and also with the solutions for production management available on the market. This is an area with a cost optimization potential to be discovered by companies that manage their operation based on low performance systems and have no possibility of integration.

Among the medium-sized companies (that have 20 to 49 employees, mainly companies equipped with sheet-fed offset printers), the use of platesetter

solutions will expand and, with them, the consumption of digital color proofs and digital plates.

Thanks to a change of mentality that has led to understanding how digital printers can complement offset printers, this group of companies will show more interest in small and medium capacity digital printers.

Based on the ARTES GRAFICAS survey in which some 85 leading companies in this region participated, 40% of the companies surveyed qualified Investing in New Printing Equipment *Important* as compared to 28.2% that qualified it *Very Important* and to 11.8% that considered it *A Priority*. Modernizing Pre-printing was qualified as *Very Important* by 31.8% of those surveyed whereas 25.9% qualified it as *Important* and 9.4% saw it as *A Priority*. Introducing Digital Printing was seen as *Important* by 27.1% of the surveyed companies and Modernizing Finishing was considered *Important* to 24.7%, *Very Important* to 29.4% and *A Priority* to 8.2%.

In general, entrepreneurs are trying to use technology for rationalizing processes, integrating production flows, and producing first class work in order to satisfy ever more demanding customers and to differentiate their products and services from those of the competition. ■

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Footnotes

¹ This report is based on available statistics at November 2003.

² Excerpts from Max Schrappe's Lecture, "Latin American Graphic Arts Industry Perspectives in the Context of Globalization and the FTAA", at Graph-Expo, Chicago, 2003.

³ INDEC, National Statistics and Census Institute of the Republic of Argentina, Monthly Industrial Survey. This data only shows indexes, not absolute values.

⁴ Brazilian Graphic Arts Industry Association.

⁵ National Graphic Arts Industry Chamber.

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