

# Economic Outlook

Here we are... still... again...

**PRINT® 13**

Dr. Joe Webb

[www.drjoewebb.com](http://www.drjoewebb.com)

[www.linkedin.com/in/drjoewebb/](http://www.linkedin.com/in/drjoewebb/)



# Agenda

- Economic situation
- The print business
- Awful doomish stuff that makes you squirm in your seats
- Hearty thanks for your attention  
(break at 9:45)
- Q&A until 10am
- Hearty thanks again

# Balance of 2013

- Continued sluggishness, interest rise in bond market is done for now
- Unemployment “improves” to 7.2%, but is hollow; incomes are still not rising
- Inflation looks “tame” but there are still problems
- Commercial print demand continues slow ebb, -2.5% for year
- Concern for industry suppliers: check the health of your vendors; possible M&A activity or closures for some suppliers, especially CapEx area

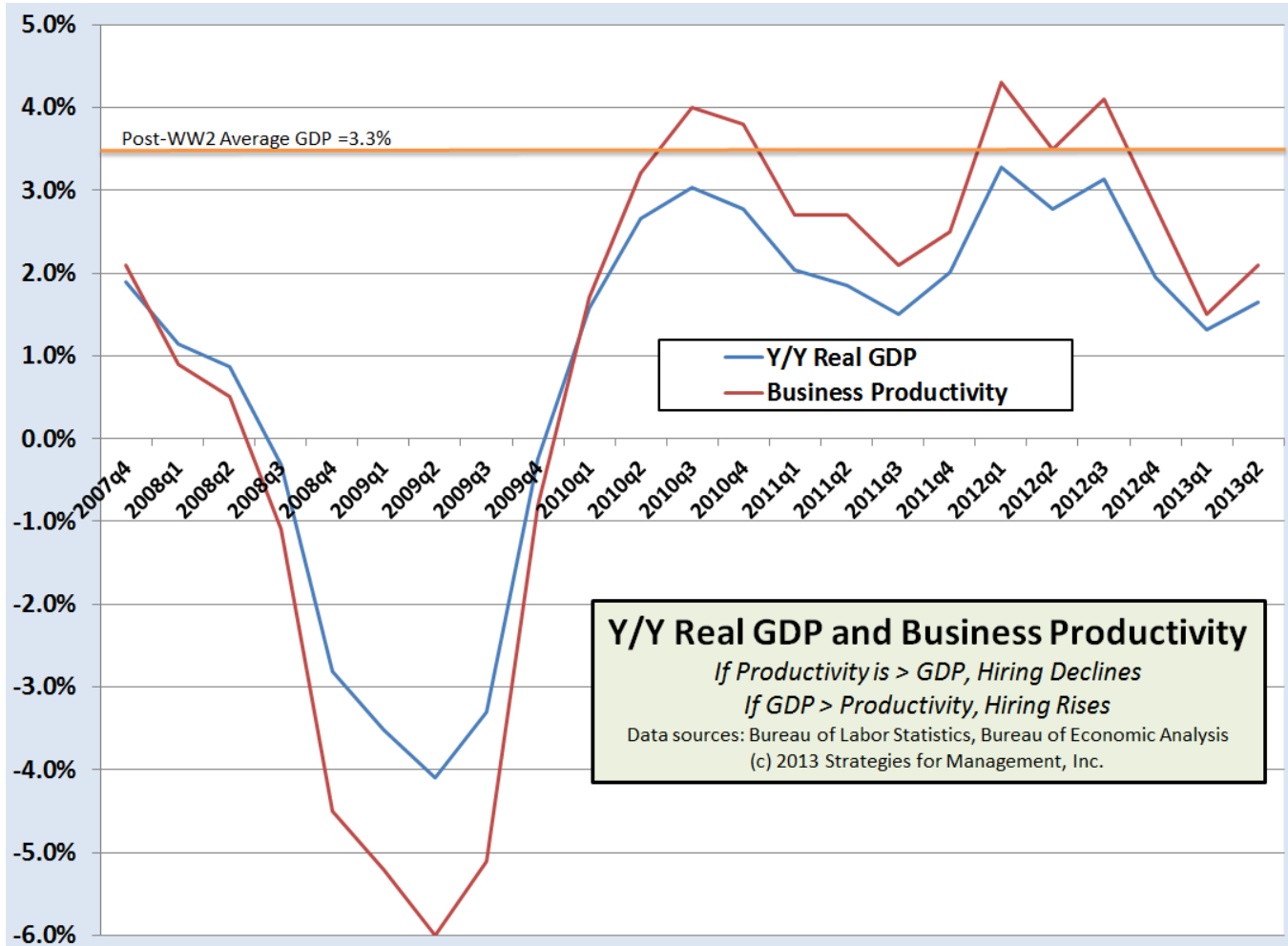
# 2014

- Contentious political year, “when all is said and done, more will be said than done”
- Corporate spending tepid, efforts to expand digital media
- GDP remains in +2% range
- Interest rates rise slightly, Fed has little freedom of action
- Employment stagnates but does get slightly below 7%; weight of ACA more obvious
- If election held today, Democrats increase seats in House and governorships; Senate stays basically the same
  - Political campaigns focus on “pain” of austerity and how “obstructionists” prevented economic initiatives from having their full beneficial effect

# Recovery still moves sideways

<b>Dr. Joe's Key Recovery Indicators as of 9/5/2013</b>	<b>NASDAQ Composite</b>	<b>ISM Non-Mfg New Orders</b>	<b>ISM Non-Mfg Imports</b>	<b>ISM Mfg New Orders</b>	<b>ISM Mfg Imports</b>	<b>Proprietors' income (\$billions)</b>
<b>Recession Start 12/2007</b>	2661.0	52.3	50.5	47.4	48.0	\$985.5
<b>Prior Reading</b>	3693.0	57.7	50.5	58.3	57.5	\$1,334.6
<b>Latest Data</b>	3658.8	60.5	55.0	63.2	58.0	\$1,333.3
<b>Change Since Prior Reading</b>	<b>-0.9%</b>	4.9%	8.9%	8.4%	0.9%	<b>-0.1%</b>
<b>Change Since Recession Start</b>	37.5%	15.7%	8.9%	33.3%	20.8%	35.3%
Data release used	9/5	9/5	9/5	9/3	9/3	Q2 Prelim.
<p><i>NOTE: NASDAQ and Proprietors' Income in the table are not inflation-adjusted. To be at December 2007 equivalents in today's dollars, the NASDAQ must be approximately 2958; it is now +24.8% above that level. The Proprietors Income CPI-adjusted level at the start of the recession was approximately \$1,096B, and is now +21.63% above its Q4-2007 level.</i></p>						

# Productivity & GDP

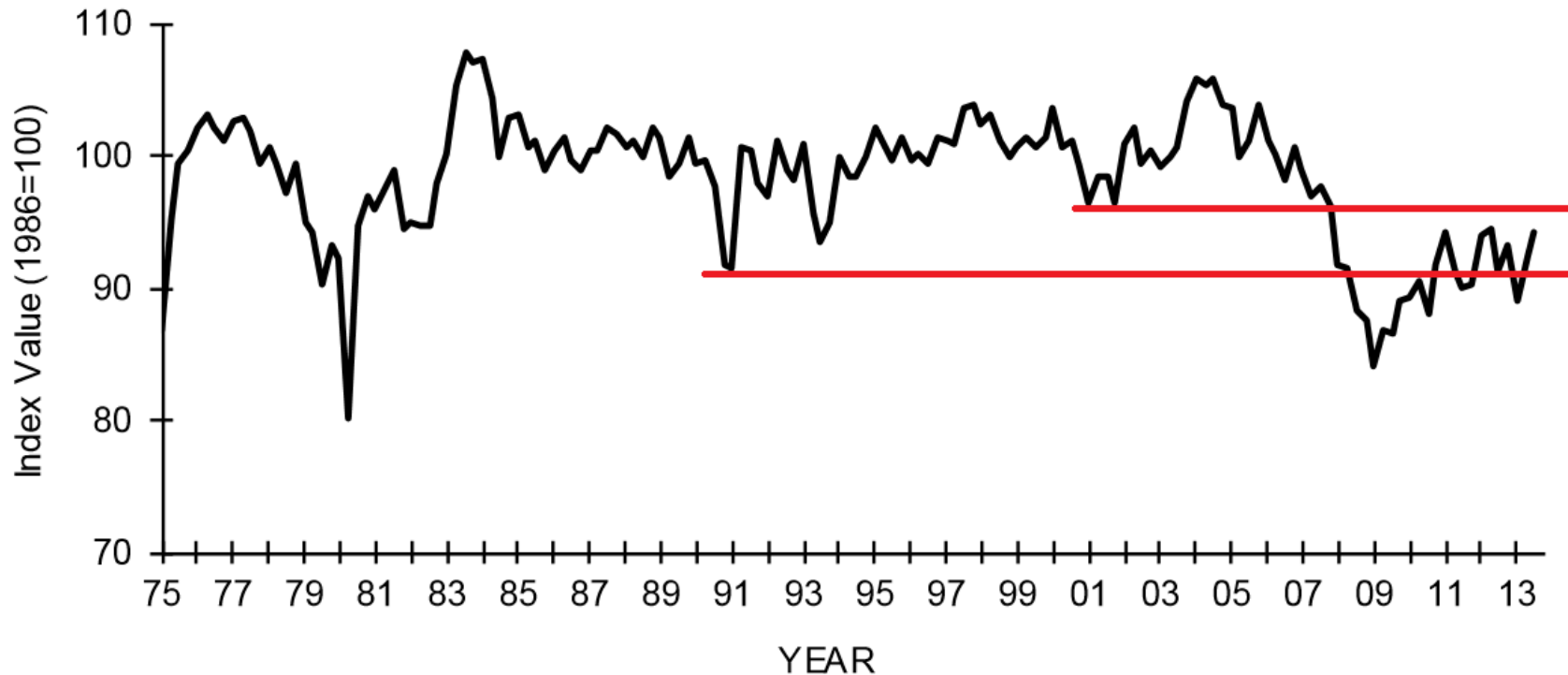


# Population-adjusted employment still short 8.9 million jobs

<b>Comparison of August 2013 Employment Data Since Recession Began (January 2008)</b>	<b>January 2008</b>	<b>August 2013</b>	<b>Raw Change</b>	<b>2008 Levels +0.9% Annual Population Growth Rate</b>	<b>Raw Change if 2008 with Population Adjustment</b>
Employment	146,378	144,170	-2,208	153,085	-8,915
Labor Force	154,063	155,486	1,423	161,122	-5,636
Labor Participation Rate	66.2%	63.2%	-3.0%		
Unemployed Workers	7,685	11,316	3,631	8,037	3,279
Unemployment Rate	5.0%	7.3%	2.3%		
Unemployed Workers 27+ Weeks	1,388	4,290	2,902	1,452	2,838
27+ Week Unemployed as % of Total Unemployed	18.1%	37.9%	19.8%		
U-6 Unemployment Rate	9.2%	13.8%	4.6%		
No longer in workforce	78,554	90,473	11,919	82,153	8,320

© 2013 Strategies for Management, Inc.; raw data from Bureau of Labor Statistics; recession declared as December 2007; January 2008 used as start point for more recent BLS population estimate for that period; employee data are in thousands (000s).

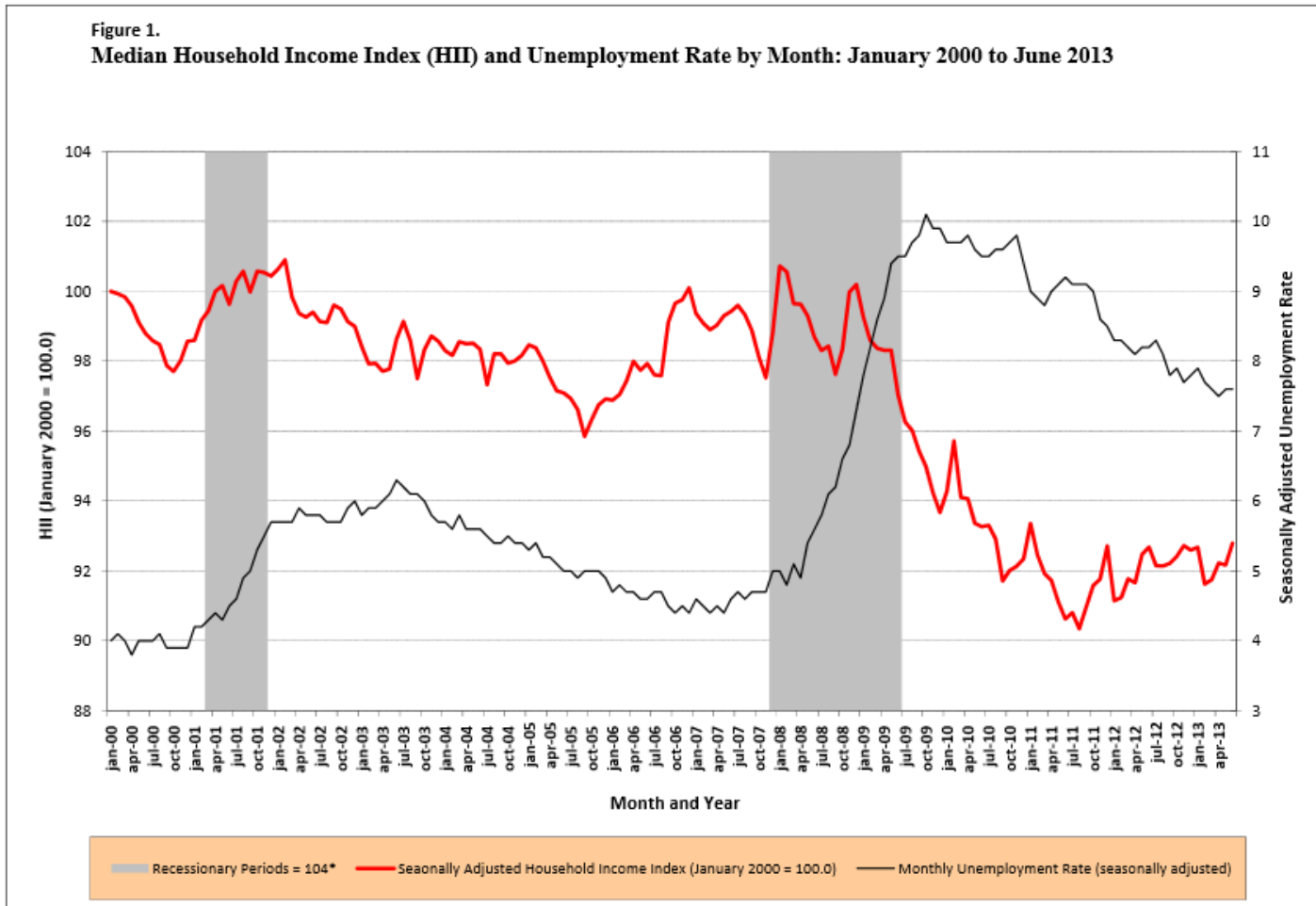
# NFIB Small Business Index trapped between recession bottoms





# Incomes remain stagnant

Figure 1.  
Median Household Income Index (HII) and Unemployment Rate by Month: January 2000 to June 2013

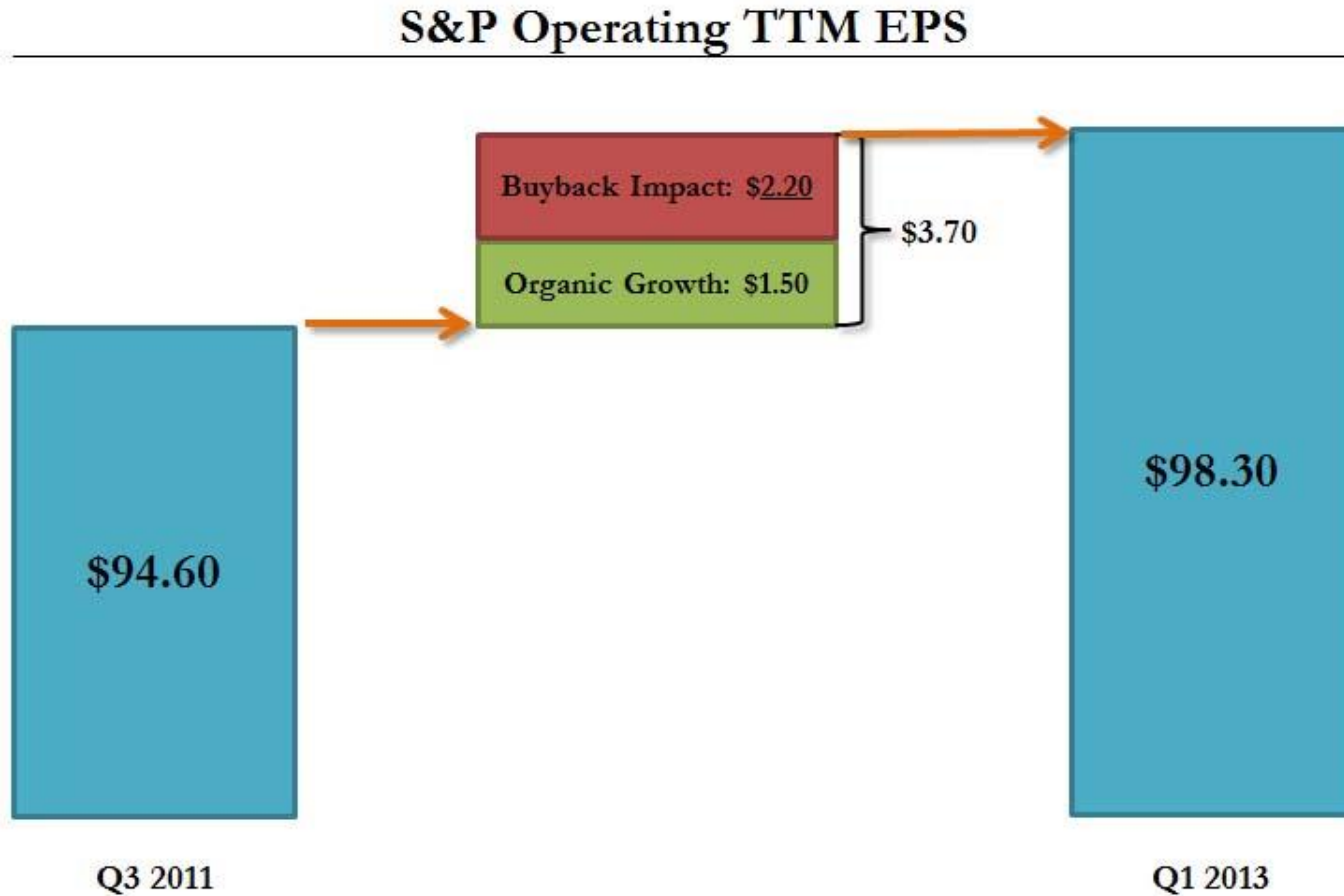


Sources: For income data: Sentier Research, LLC estimates of annual household income derived from the monthly Current Population Survey (CPS) conducted by the U.S. Census Bureau; for labor force data: the U.S. Bureau of Labor Statistics.

# Don't believe what you read: stock market is not near highs

<i>Are stocks at "all-time highs"?</i>	<b>ALL TIME CPI- ADJUSTED HIGHS</b>	<b>CLOSE ON 8/30/2013</b>	<b>VS ALL- TIME</b>
<b>Russell 2000</b>	952	1,011	6.2%
<b>NASDAQ</b>	6,461	3,590	-44.4%
<b>S&amp;P 500</b>	2,052	1,633	-20.4%
<b>DJIA</b>	15,958	14,810	-7.2%

# JP Morgan: 60% of stocks rise is buyback-related



# Adjust your financials for inflation

Inflation Multipliers	Year	Multiplier
	2007	1.112
	2008	1.111
	2009	1.082
	2010	1.066
	2011	1.035
	2012	1.017
	2013-July	1.000

© 2013 Strategies for Management, Inc., [www.drjoewebb.com](http://www.drjoewebb.com)

# The Counterproductive Economic Environment

Emphasizes efficiency, not expansion; survival, not growth



- **Efficiency investments get first preference**

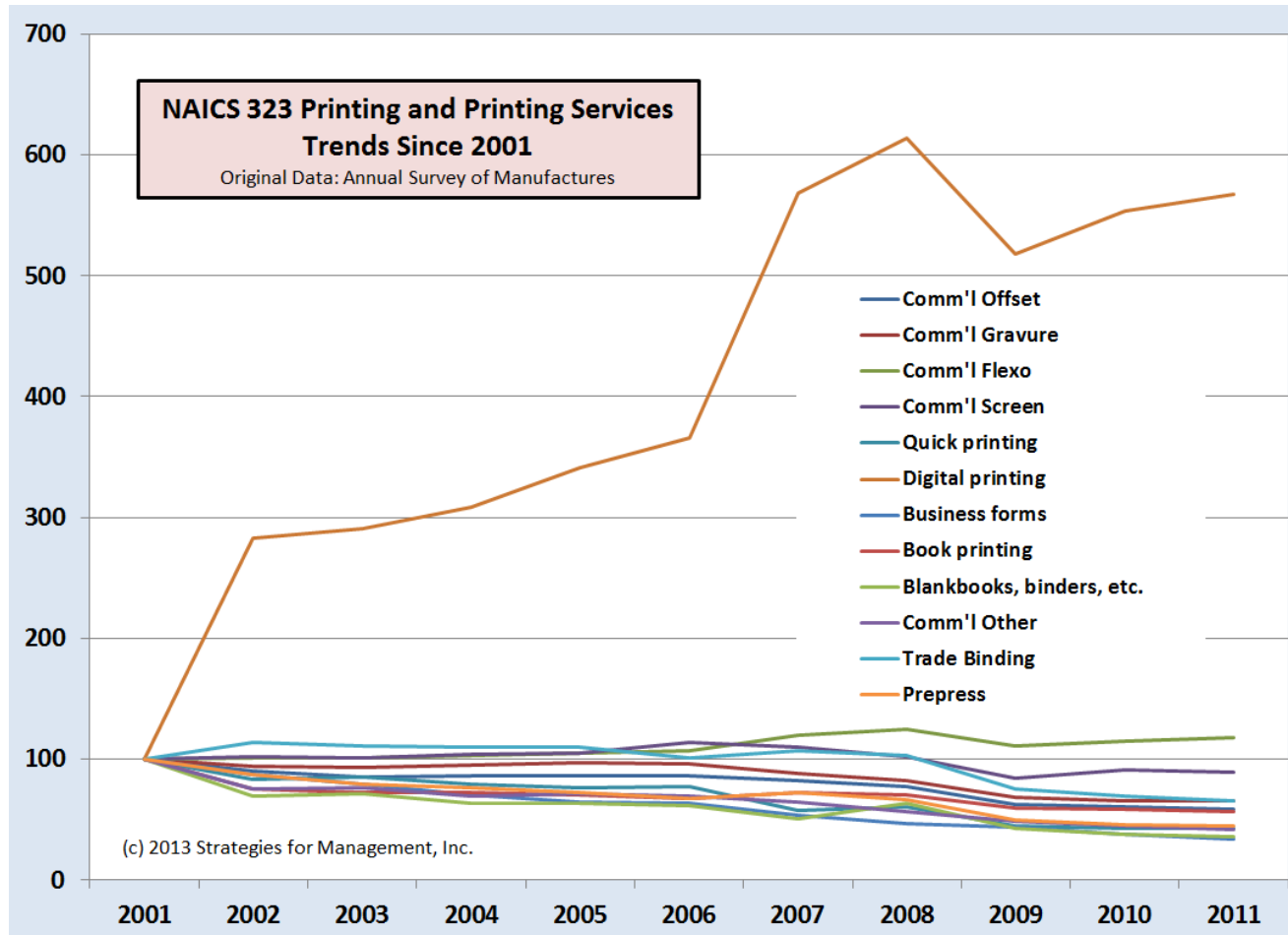
- Changes to operations and procedures
- Paybacks are immediate, predictable, measurable
- Change/shift costs to reduce overheads, increase flexibility

- **Expansion risk investments discouraged**

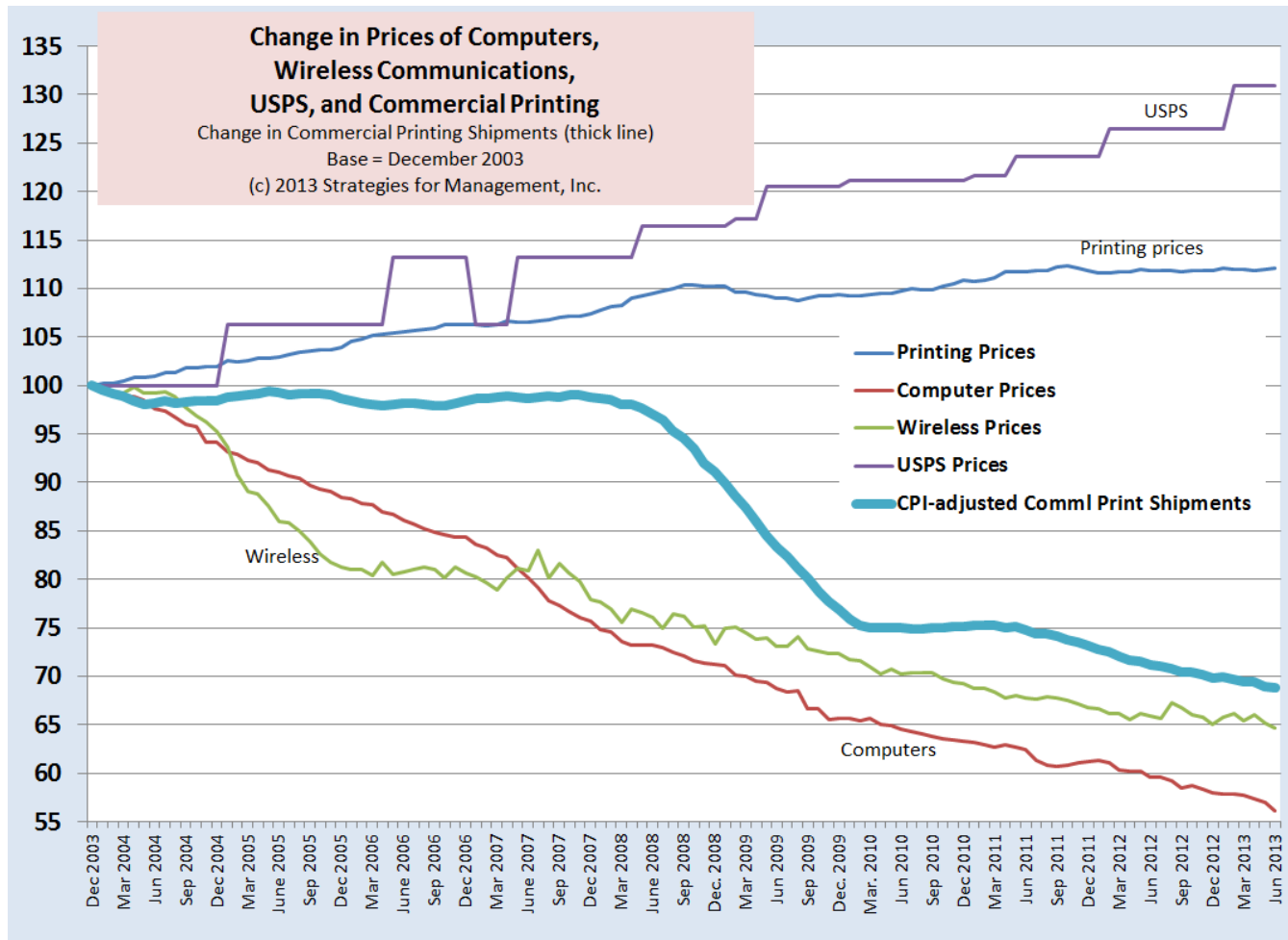
- High future tax rates, high inflation expectations, higher expected & known regulatory compliance costs
- Future demand for new initiatives harder to forecast
- Net present value of future returns must be extraordinary to surpass effects of taxes, inflation, and total labor costs to make risk worthwhile
  - Raises bar for all future expansion projects
  - Early negative cash flow years are hard to tolerate
  - Higher risk projects go unexplored
  - Only “safe” projects get funded, risk projects go elsewhere



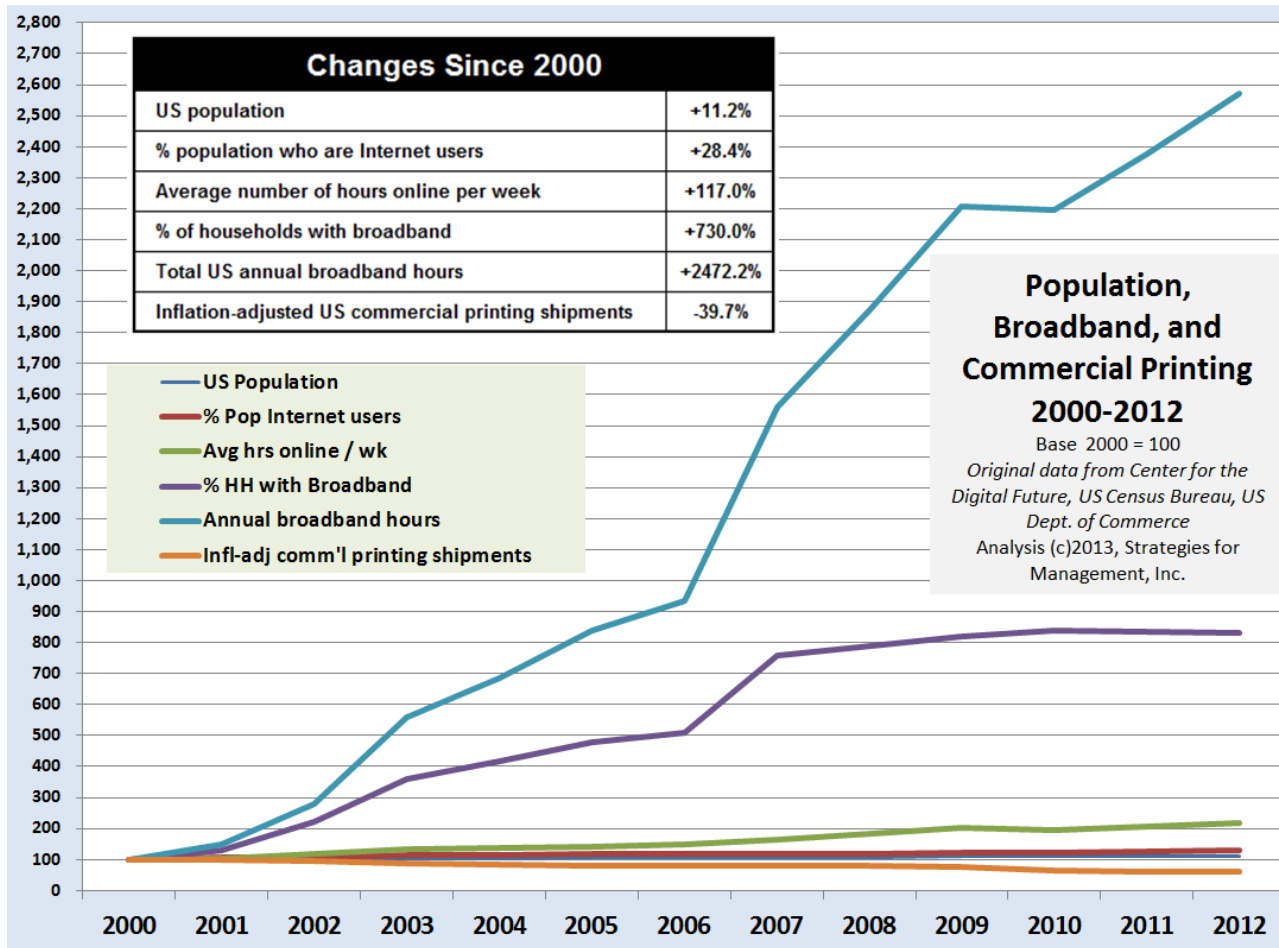
# Commercial digital printing growing share of shrinking pie



# Constantly widening gap between hard copy and digital media prices



# Broadband hours growth stronger effect on print volume than economics



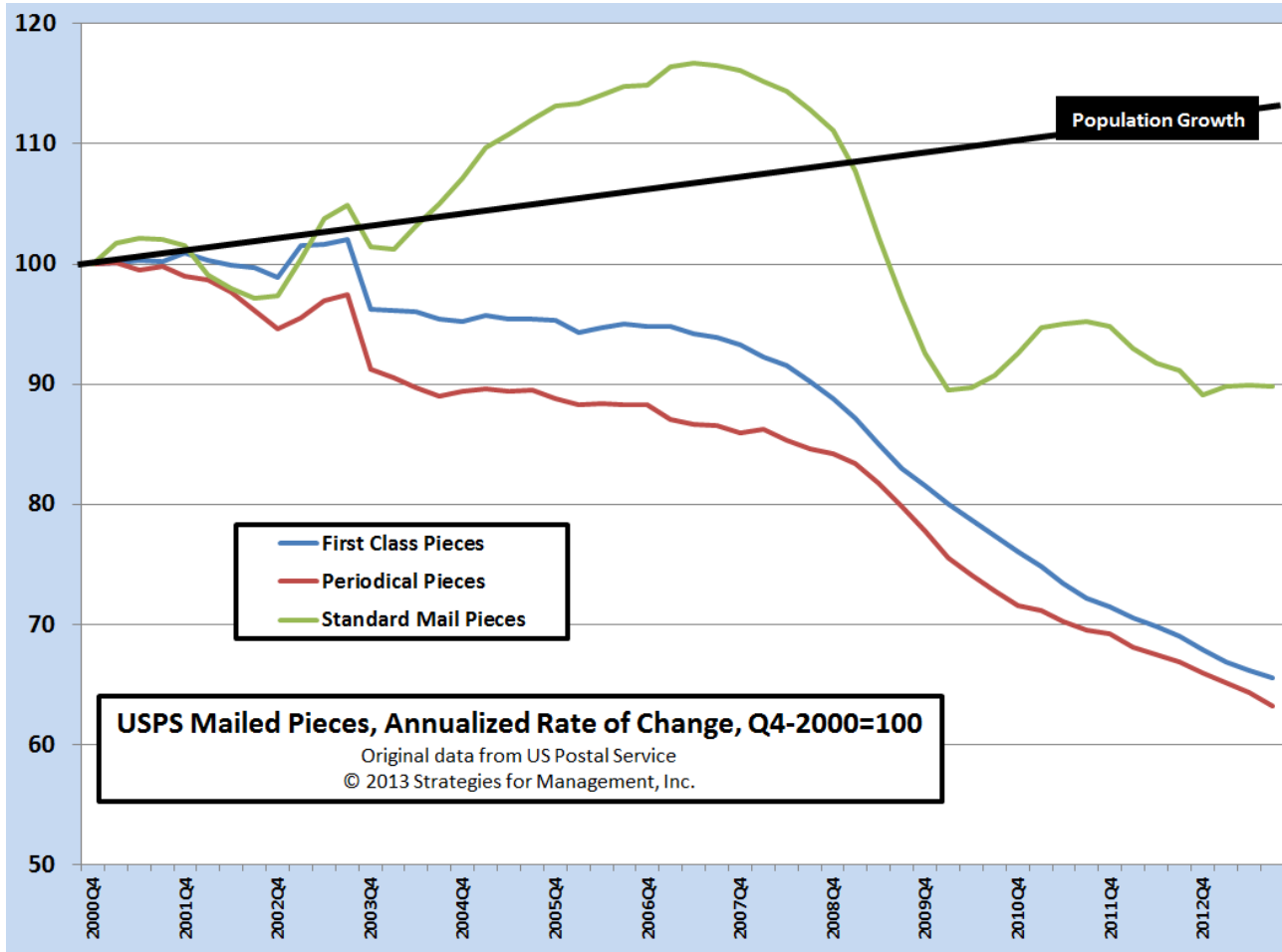
Every 5 hour increase in US broadband hours = \$1 decrease in commercial print



# Don't fall for the “preference” fallacy

- Preferences and behaviors are not the same
- Overall print revenues are a function of
  - Size
  - Page count
  - Sides printed
  - Colors/effects
  - Frequency
- 100% of the market preferred print when there were no alternatives

# USPS pieces since 2000



# Statistical relationships with CPI-adjusted commercial printing shipments

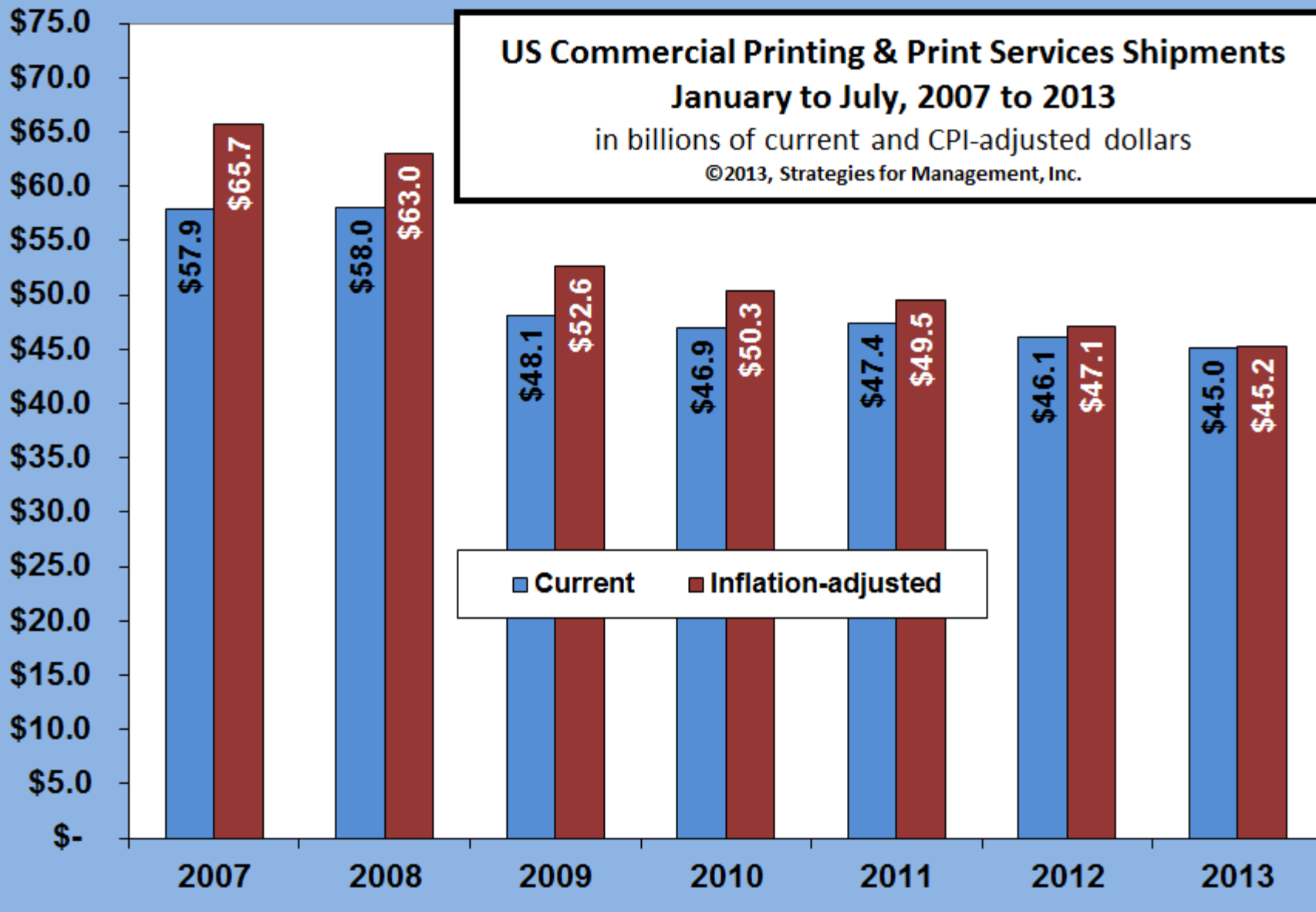
A change in the PPI in the amount of...	in the category...	yields a change in annual US commercial printing shipments of...	with an $r^2$ value of...
-1 decrease	computer equipment	-\$349 million	77.3%
-1 decrease	wireless communications	-\$1.1 billion	67.2%
+1 increase	USPS	-\$920 million	92.3%

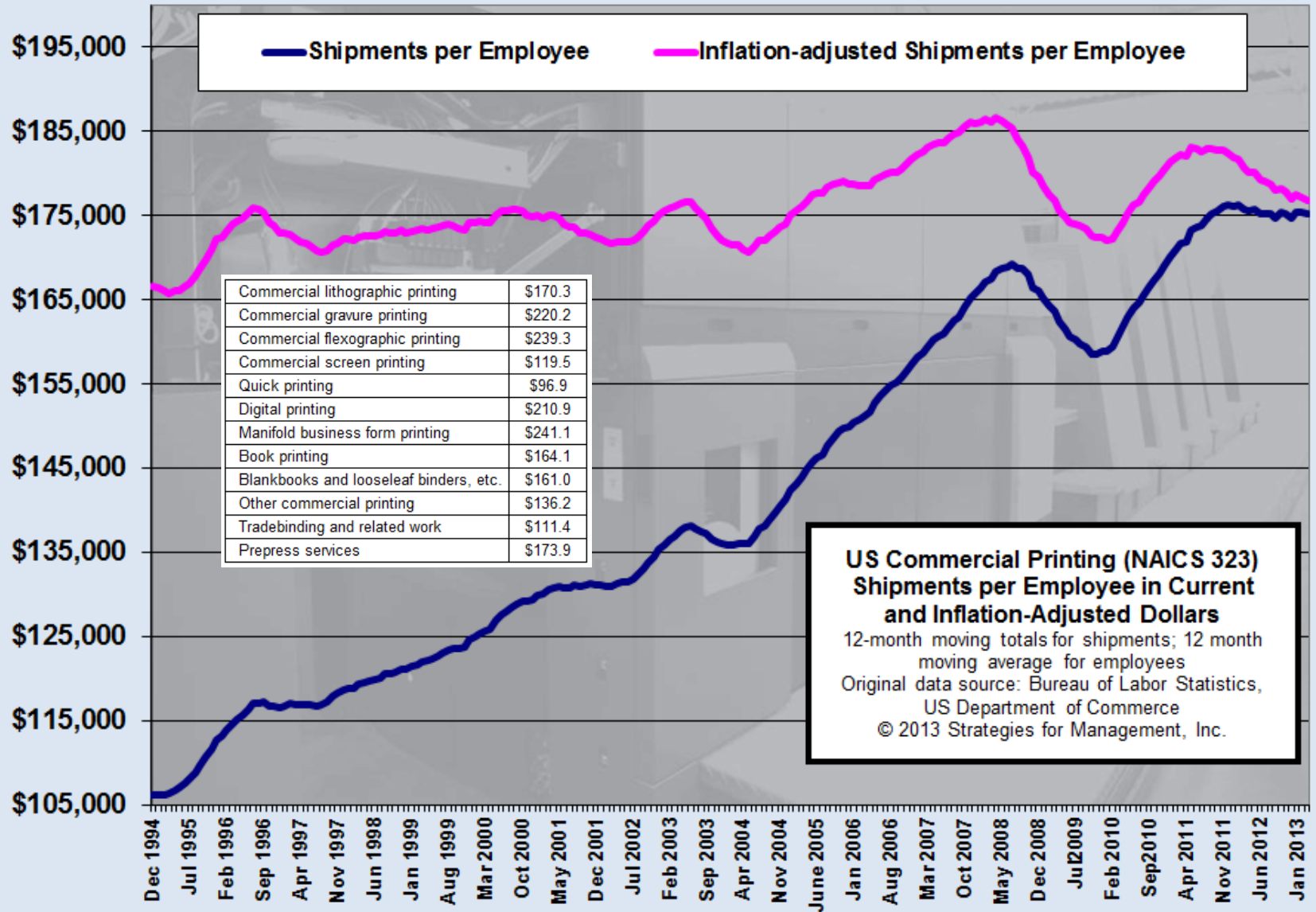
# US Commercial Printing & Print Services Shipments

## January to July, 2007 to 2013

in billions of current and CPI-adjusted dollars

©2013, Strategies for Management, Inc.

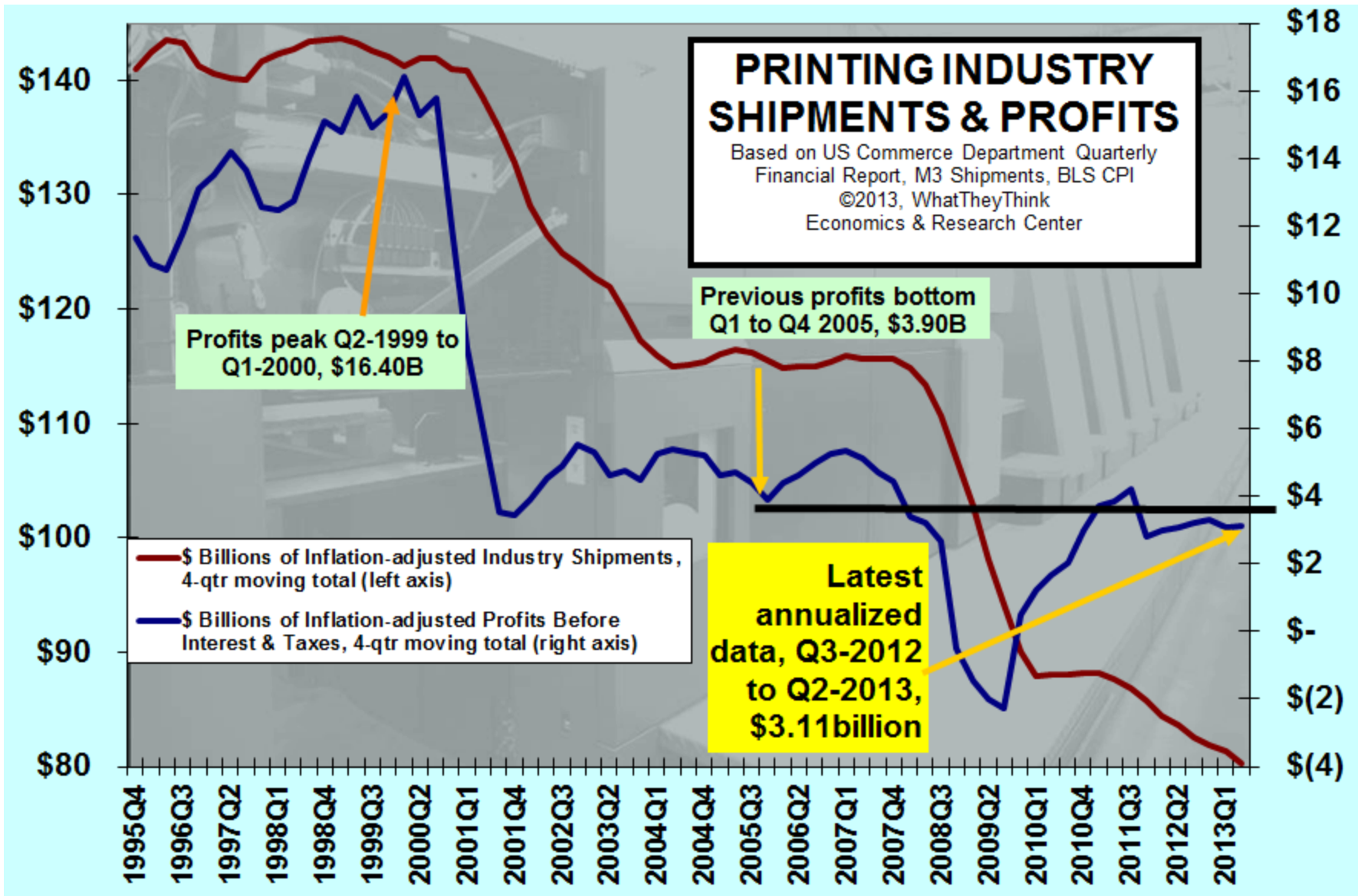


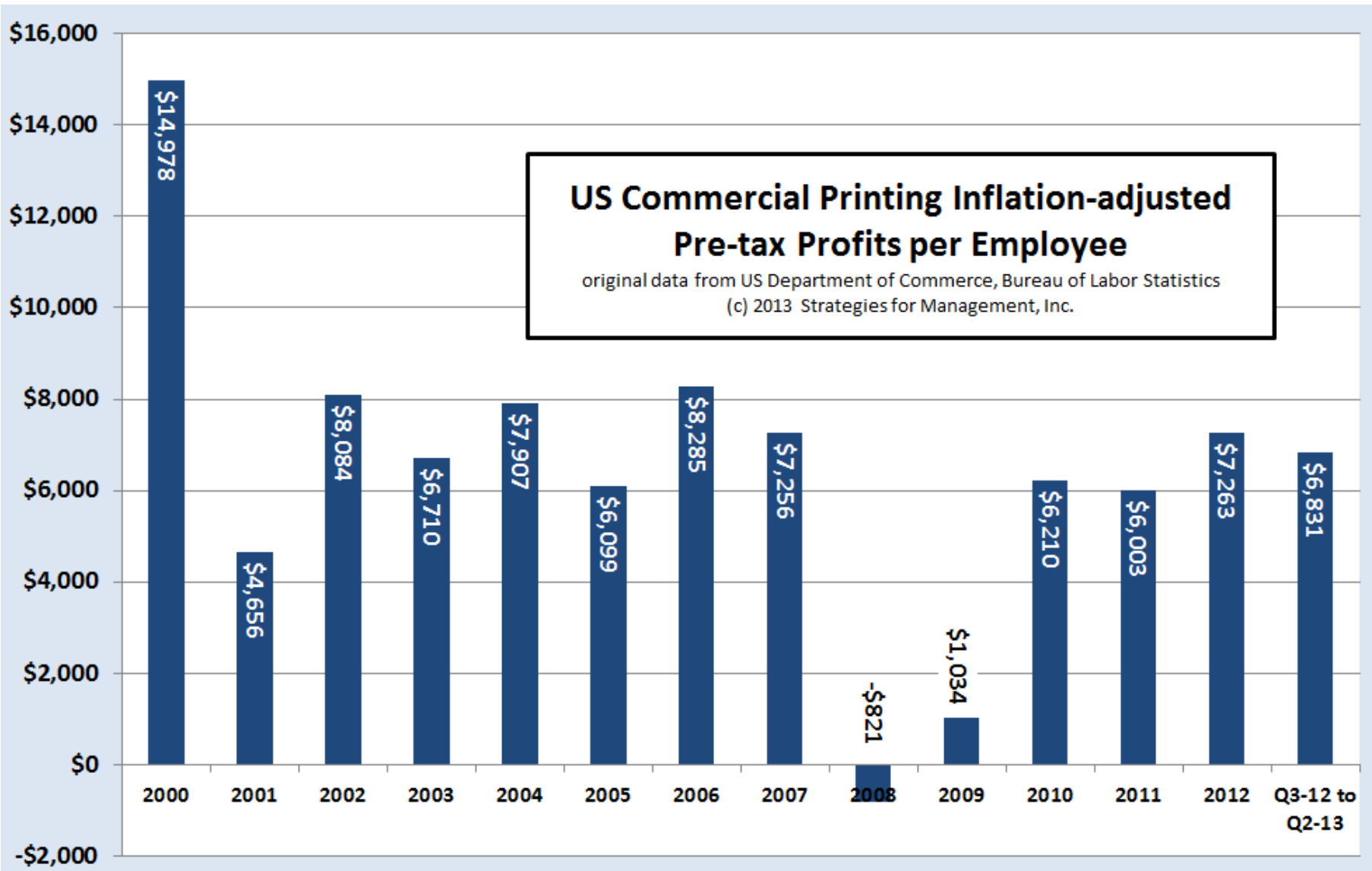


# CapEx as % of sales declining

Capital Equipment Expenditures '98-'11	Capex as % of Shipments	New Capex	Used Capex
1998	4.9%	91.5%	8.5%
1999	4.3%	94.6%	5.4%
2000	4.0%	95.7%	4.3%
2001	3.6%	92.6%	7.4%
2002	4.1%	80.1%	19.9%
2003	4.0%	88.1%	11.9%
2004	3.7%	94.0%	6.0%
2005	3.6%	96.4%	3.6%
2006	3.6%	96.5%	3.5%
2007	4.2%	96.2%	3.8%
2008	4.0%	94.4%	5.6%
2009	3.1%	83.7%	16.3%
2010	2.9%	95.9%	4.1%
2011	3.0%	93.5%	6.5%
<b>Mean 1998-2011</b>	<b>3.8%</b>	<b>92.4%</b>	<b>7.6%</b>
Mean 1998-2004	4.1%	90.9%	9.1%
Mean 2005-2011	3.5%	93.8%	6.2%

Based on US Dept of Commerce Annual Survey of Capital Expenditures, NAICS 323; analysis © 2013 Strategies for Management, Inc.







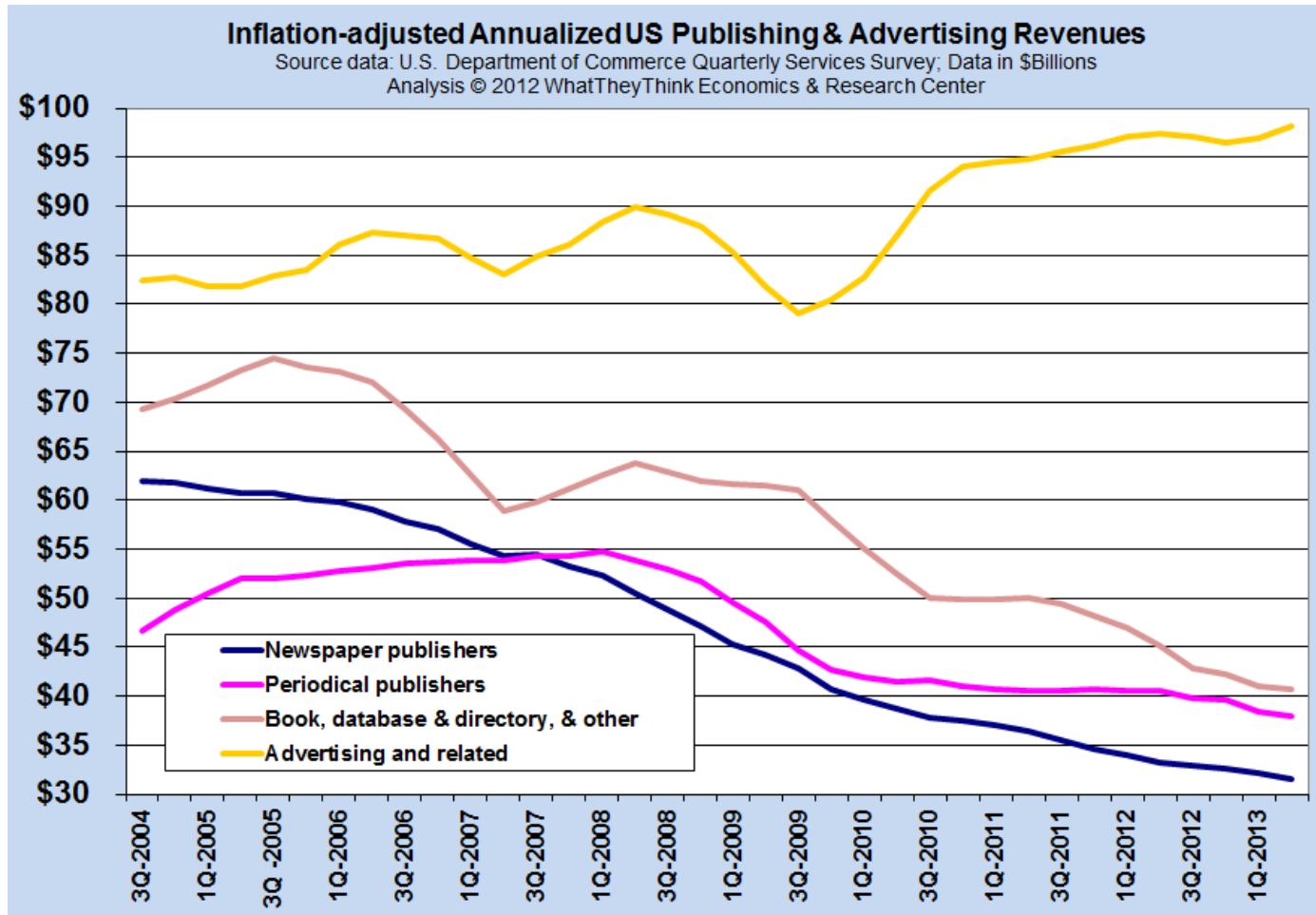
# US commercial printing shipments forecasts

<b>Note: 2012 shipments were \$80.6B</b>	<b>FORECASTS BY STATISTICAL MODELS</b>			<b>SFM Qualitative Forecast UPDATED 8/2013</b>
	<b>Conservative</b>	<b>Aggressive</b>	<b>GDP (+2.5%) REVISED MODEL begins with 2000</b>	
<b>2013</b>	\$78.1	\$74.0	\$115.9	<b>\$78.5</b>
<b>2014</b>	\$73.6	\$63.4	\$110.3	<b>\$74.0</b>
<b>2015</b>	\$69.7	\$55.2	\$104.5	<b>\$68.0</b>
<b>2016</b>	\$66.1	\$46.5	\$98.6	<b>\$61.0</b>
<b>2017</b>	\$62.6	\$37.3	\$92.5	<b>\$56.0</b>
<b>2018</b>	\$59.4	\$27.8	\$86.2	<b>\$51.0</b>
<b>2019</b>	\$56.3	\$17.8	\$79.9	<b>\$47.0</b>

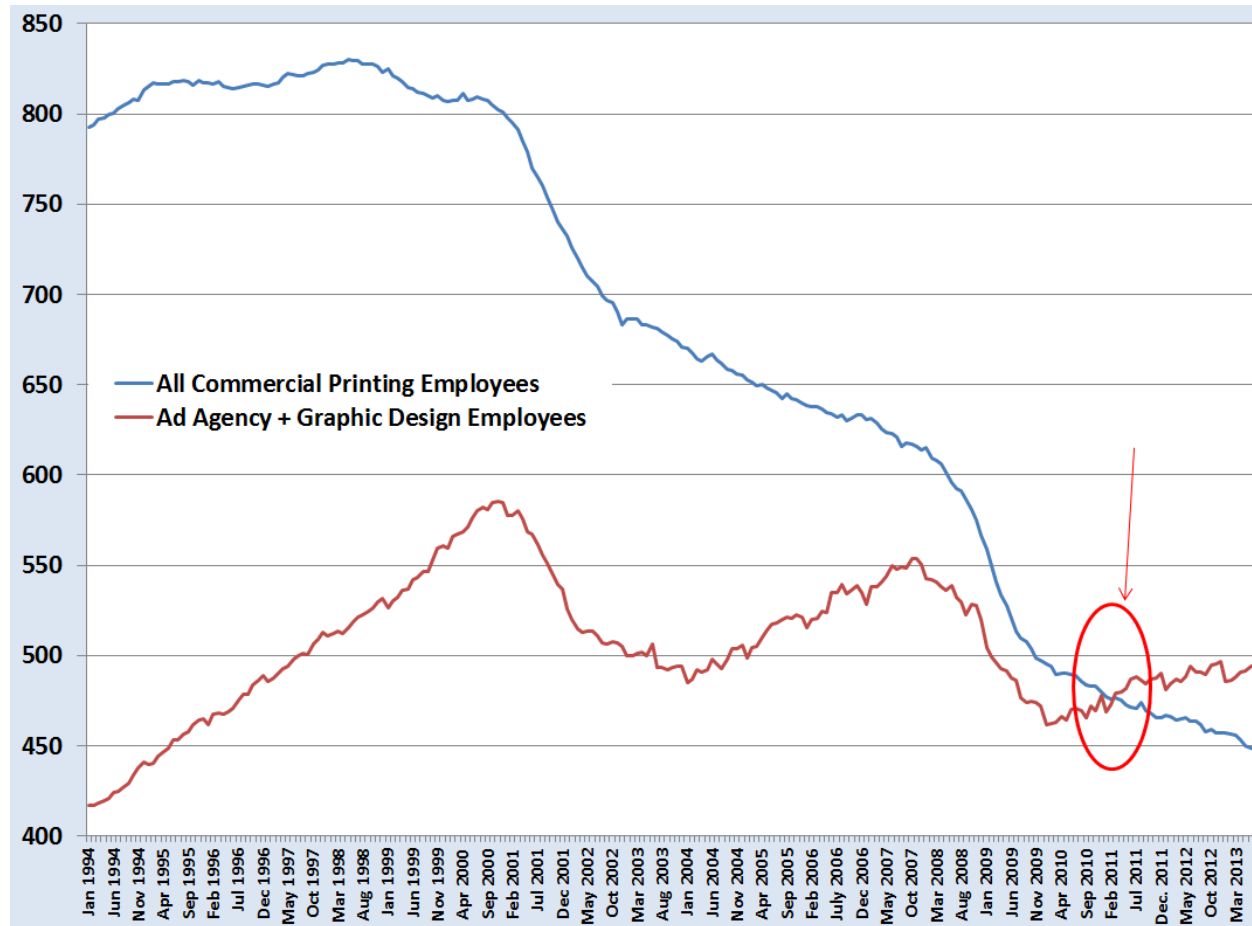
# Industry employment

<i>Employment in thousands of workers</i>	Jul. 2012	Jul. 2013	Y/Y Change	Aug. 2012	Aug. 2013	Y/Y Change
Printing, all	463.5	448.0	-3.3%	462.0	445.4	-3.6%
Printing, production	317.1	307.8	-2.9%	315.1	305.8	-3.0%
Printing less production	146.4	140.2	-4.2%	146.9	139.6	-5.0%
Publishing	738.2	727.7	-1.4%	738.7	726.5	-1.7%
Periodicals	111.0	106.0	-4.5%	110.3		
Newspapers	223.5	215.3	-3.7%	222.5		
Publishing, ex-newspaper	514.7	512.4	-0.4%	516.2		
Graphic design	59.7	60.9	2.0%	59.3		
Public relations	52.5	56.1	6.9%	52.6		
Ad agencies, includes PR	431.1	433.6	0.6%	431.4		
Ad agencies, less PR	378.6	377.5	-0.3%	378.8		
Agency (incl PR) + design	490.8	494.5	0.8%	543.3		
Direct mail advertising	48.2	46.8	-2.9%	49.6		

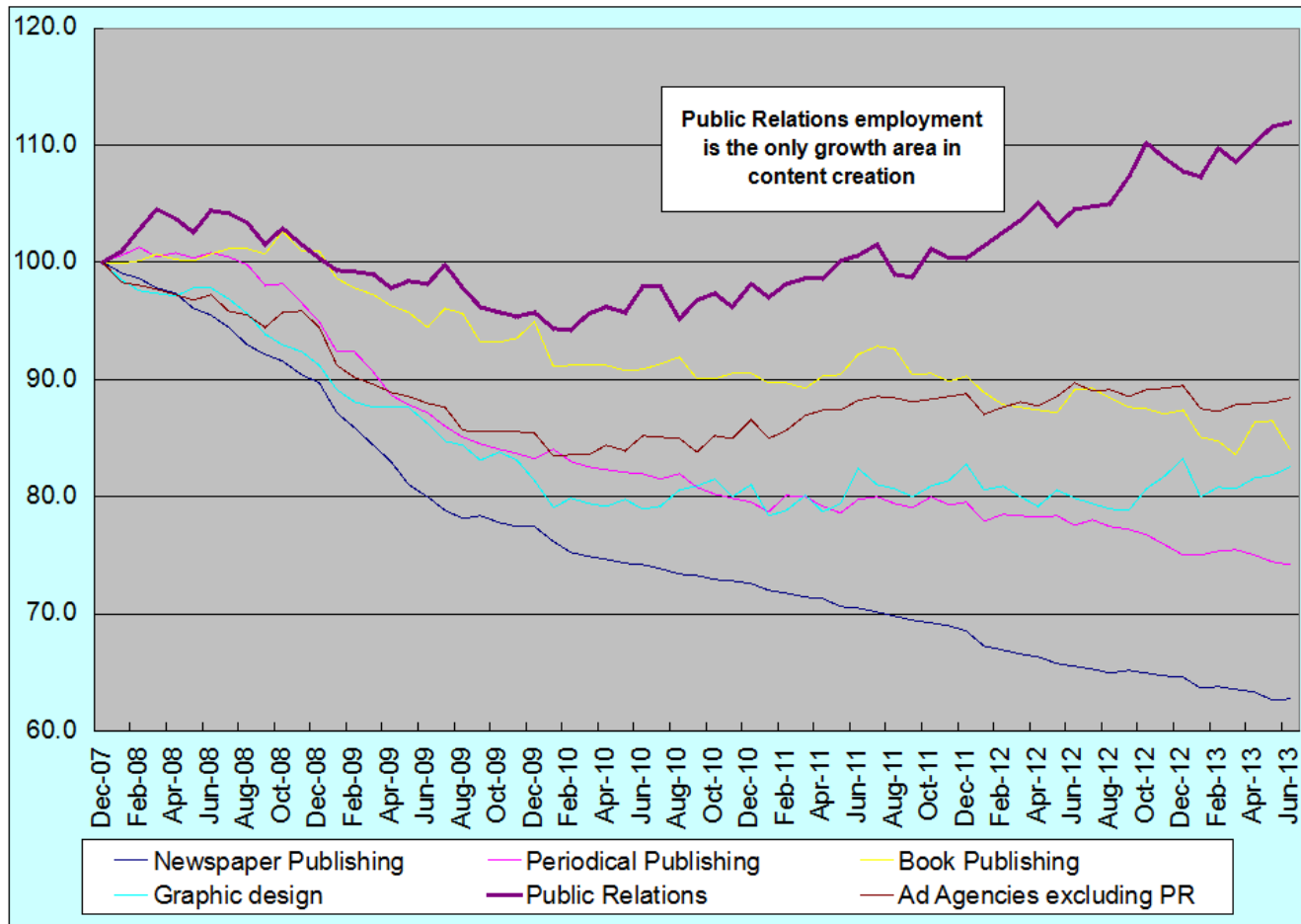
# Ad agency revenues rising



# Media shift underscored by employment shifts in Agency & Design workers vs. Print



# No content category has equaled or exceeded pre-recession levels... except Public Relations



# Freelance workers growing

<b><i>2011 employment in key content creation industries</i></b>	<b>Payroll employees</b>	<b>Freelance / sole practitioner</b>	<b>Total</b>	<b>% Freelance</b>
Advertising excluding PR	377,185	120,265	497,450	24.2%
Public relations	52,091	16,514	68,605	24.1%
Graphic design	50,241	53,233	103,474	51.4%
Commercial photography	9,589	17,049	26,638	64.0%
Book publishing	71,996	5,215	77,211	6.8%
Periodical publishing	114,702	11,350	126,052	9.0%

Original data: 2011 County Business Patterns, Nonemployer Statistics

Analysis © 2013 Strategies for Management, Inc.

**The time for commercial  
printing consolidation  
is over.**

**The time for forward-focused  
partnerships / joint ventures  
is here.**

# Three types of consolidation

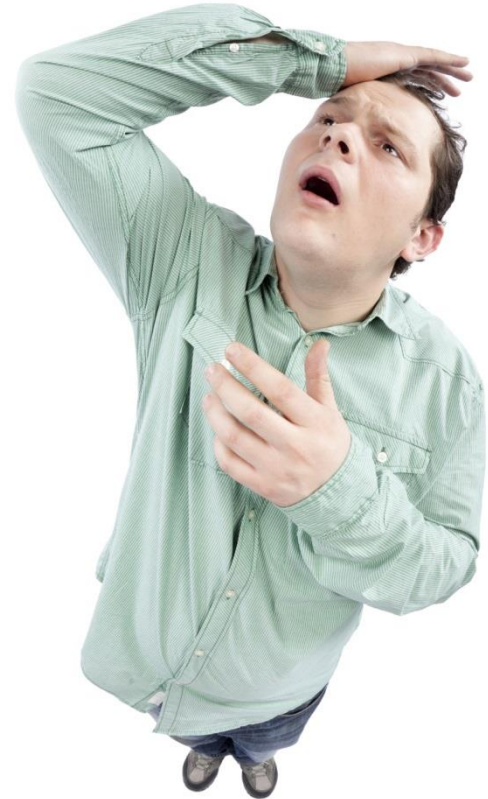
- **Defensive:** Keep the same business with incremental adjustments and fine tuning
- **Offensive:** Join with businesses in new markets with new products that have potential
- **I Give Up:** Tuck-ins





# Key concepts about consolidation

- Consolidations don't have the best track record except for the sellers
- Transition costs in consolidations are usually underestimated
- The biggest transition cost is time away from fully engaging the marketplace



Essential point:  
There are exceptional print and  
media communications companies  
that are doing very well.

# The UnSquaring the Wheel Model



- Introduced at Executive Outlook, RIT press conference
- Wayne Peterson  
Black Canyon Consulting
- Prof. Chris Bondy  
Chairman, RIT Media Sciences
- Dr. Joe Webb  
27 years of Gainful Unemployment

# What's playing out...

- Diverse product mixes aided by alliances
- Digital flexibility, shift media dollars quickly
- Shift from sales to business development
- More specialization by “problems,” not business class
- Profit gap widens, increasing profitability among well-positioned establishments
- Financial strength emerges as a competitive weapon

When economies are good,  
everyone thinks they're a genius...

When economies are not,  
**you must be one.**

Thank you very much!

***QUESTIONS?***

# Renewing the Printing Industry



Strategies and Action Items for Success

Joseph W. Webb, Ph.D.

"This is the best damn business book I have read in years."  
—Bob Sacks (BoSacks)

## Disrupting the Future



Uncommon Wisdom for Navigating  
Print's Challenging Marketplace

Joseph W. Webb, Ph.D.  
Richard M. Romano

## Getting Business



*and Their Clients*  
**Opportunities for Commercial Printers<sup>^</sup>  
in the New Communications Arena**

Joseph W. Webb, Ph.D.  
Richard M. Romano  
authors of *Disrupting the Future*

**Free downloads:**  
<http://whattheythink.com/disrupting-the-future/>