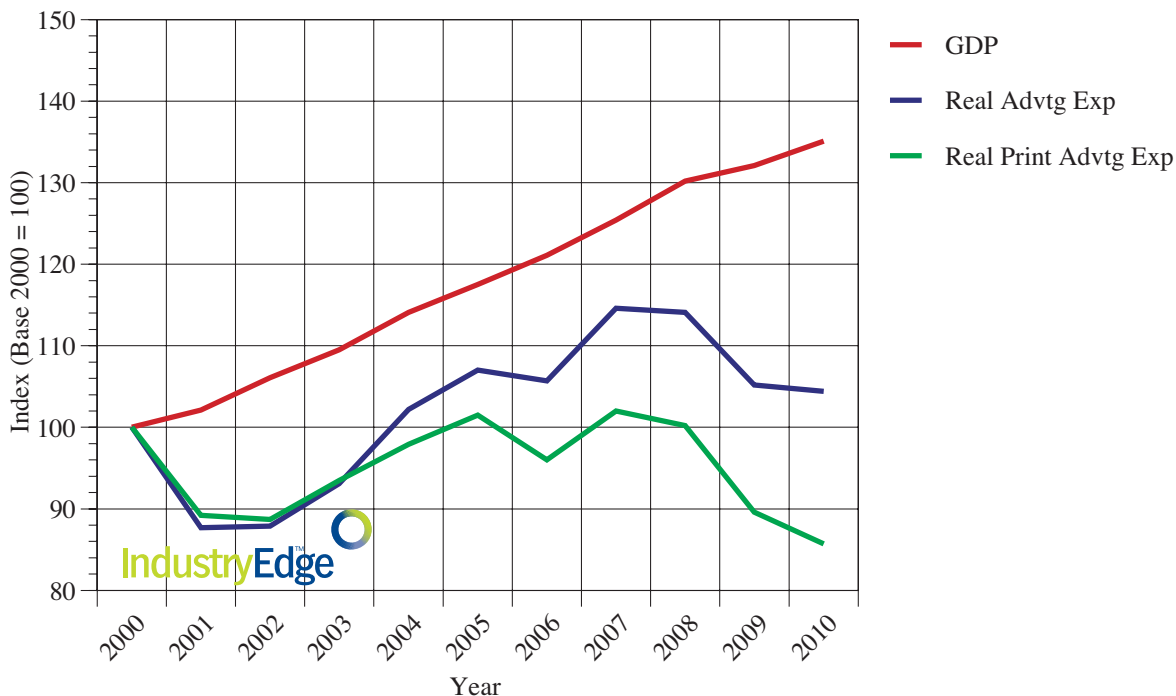


## ADVERTISING EXPENDITURE TOLLS THE BELL ON PAPER MARKETS

Over the last decade, advertising expenditure in Australia has tracked just below the growth in gross domestic product (GDP), showing patchy performance at times. In particular, the period from 2000 to 2003 saw advertising expenditure fall sharply, before recovering for several years, albeit operating without genuine stability and finishing with only marginal annual growth.

However, as the following chart shows, the last decade has seen a real decline in print advertising expenditure.

### REAL ADVERTISING EXPENDITURE VS ECONOMIC GROWTH: 2000 – 2010: INDEX (BASE: 2000 = 100)



Source: CEASA, Long Term Forecasts, 2011 – 2026 & IndustryEdge estimates

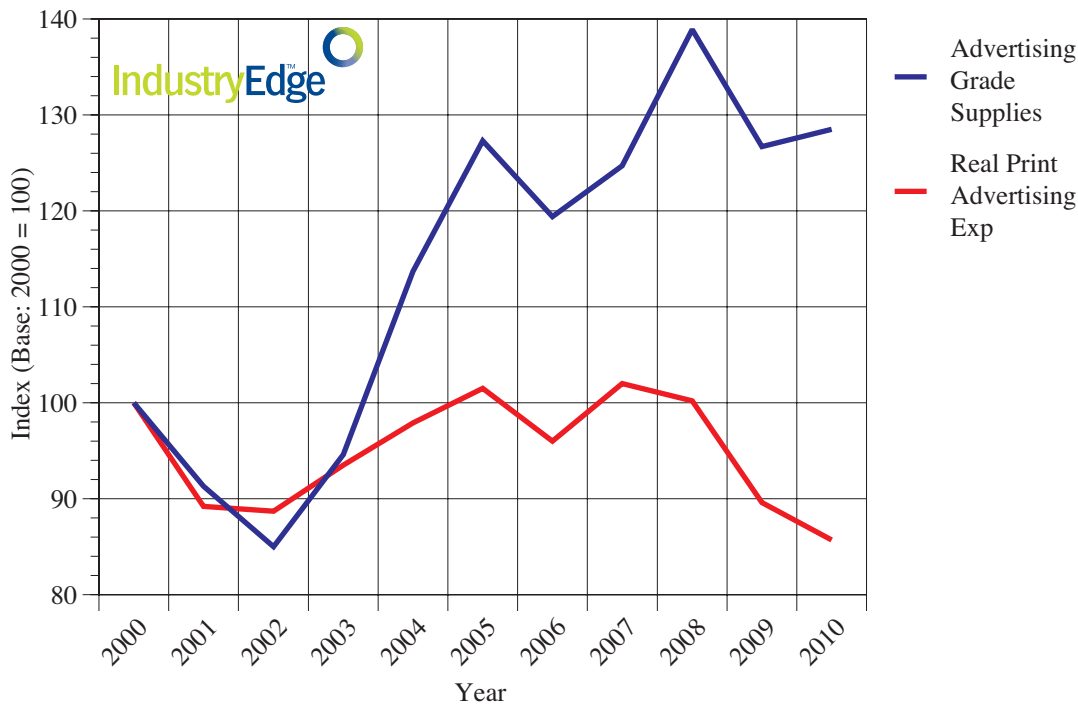
Compared to the observable growth in GDP, the real decline in printed advertising expenditure is more disturbing for two reasons.

Firstly, in its own right, the divergence is substantial and growing.

Secondly, and in many respects more importantly, since 2003, there has been a de-coupling of the relationship between total advertising expenditure growth and printed advertising expenditure growth. The gap between the two is growing and the trend indicates that it will continue to do so.

This is significant in its own right. Most notably, despite real print advertising declining, the volume of paper supplied has increased significantly, as the following chart indicates.

## REAL PRINT ADVERTISING EXPENDITURE VS PAPER SUPPLIED: 2010 – 2010: INDEX (BASE: 2000 = 100)

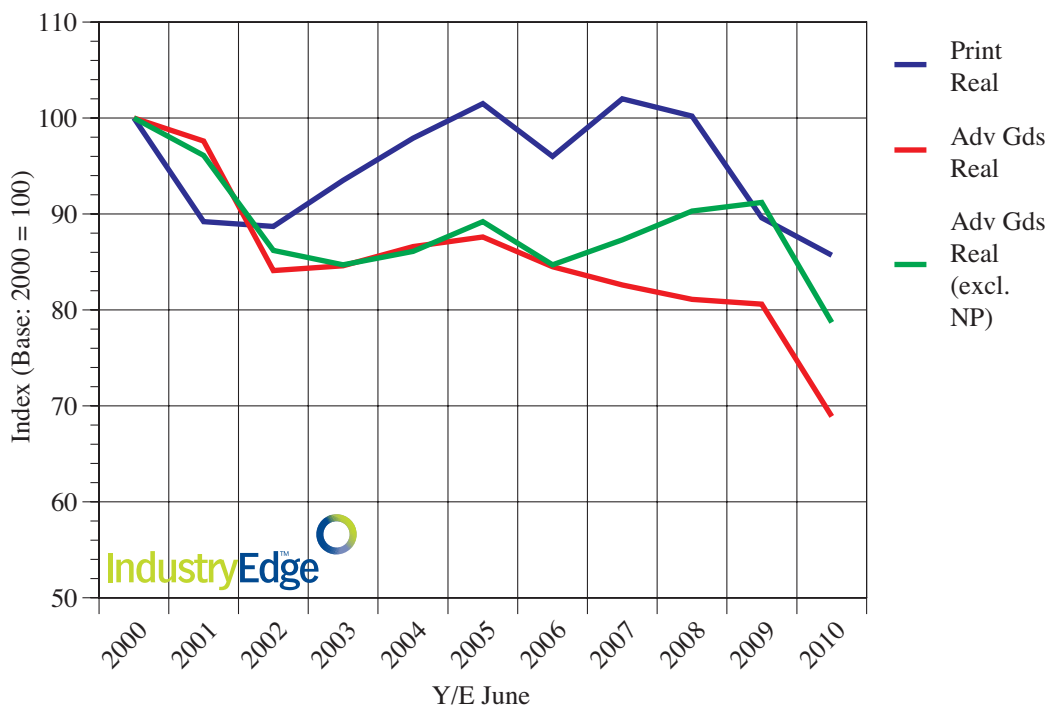


Source: ABS, CEASA, Long Term Forecasts, 2011 – 2026 & IndustryEdge estimates

As other data indicates more than adequately, the increased volumes are being supplied at ever-lower prices, with now severe downward pressure making many reflect that the current situation in Australia is likely to prove unsustainable.

That view is supported by data that demonstrates how far the price of ‘non-newsprint’ grades of printing and communication papers have fallen in price in recent years. The following chart shows the significant decline in price in grades other than newsprint, in particular in the last two years, by the global surplus.

## REAL PRINT ADVERTISING EXPENDITURE VS REAL PAPER PRICES: 2000 – 2010: INDEX (BASE: 2000 = 100)



Source: ABS, RBA, CEASA & IndustryEdge estimates

The chart shows that once the newsprint price stability was removed, the price for the non-newsprint advertising grades of paper fell sharply, now sitting more than 20 per cent below the prices of a decade ago.

At its simplest, it appears that paper manufacturers and suppliers are paying much of the cost for the decline of printed advertising expenditure, with printers and advertisers able to purchase paper at continually declining real prices.

Attributing the decline in real print advertising expenditure, and the similar declines in the real prices for advertising grades, is superficially simple. The majority of advertising expenditure growth is in electronic media, particularly the internet which was virtually non-existent in 2000. With operating efficiencies driven by continuous operations, paper manufacturers are forced to maintain volumes at the expense of price in an increasingly competitive advertising market.

With the real price cuts the data describes, there should be little doubt that the situation cannot remain as it is. Prices are so low and falling so sharply that something will eventually give.

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*Further details are analysed in the Pulp & Paper Strategic Review 2011 Edition, the most up-to-date and comprehensive source of information on pulp, paper and board products available in Australia and New Zealand. IndustryEdge will publish the 18th annual Pulp & Paper Strategic Review in October 2011.*

*IndustryEdge also publishes the monthly Pulp & Paper Edge market intelligence report and provides an ongoing subscription based data service of pulp, paper and board products trade in Australia.*

*For subscription details, contact IndustryEdge on +61 3 6231 5677 or [info@industryedge.com.au](mailto:info@industryedge.com.au).*

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*Further comments are available from Tim Woods on 0419 352 869.*

