Traffic Slowdown

BY JOHN ZARWAN

Canada's print exports are paying the price for our higher dollar

Trade is critical for the Canadian economy; more than one-third of the country's gross domestic product (GDP) is exported. Our most important trading partner is, of course, the United States, which accounts for about 85% of all exports and with which Canada has a substantial trade surplus. Even though printing is primarily a local business, dominated by small firms, print exports are an important part of the industry. More than one in every eight dollars of printing and related services revenue generated in Canada—more than $1.7 billion last year—is sold to non-Canadian customers and exported. Indeed, Canada is the seventh largest exporter of print in the world, after the U.S., Germany, the United Kingdom, France, Hong Kong, and Italy. Although Canada's printing industry is only a little more than one-tenth the size of the U.S., Canada exports more than one-third as much as the U.S.

SO, WHERE DOES THIS PRINT GO?

About 200 countries buy print from Canada, ranging from the U.S. to Kyrgyzstan. But the top five or ten account for the bulk of exports. As would be expected, the United States is by far the dominant market for Canadian print. In 2006, more than $1.3 billion of print was exported to the U.S.—three-fourths of all print exports. Other important print buyers are the U.K., France, Germany, and Belgium. Other markets such as India and New Zealand are more or less important in particular years, no doubt representing a few larger orders. One potential trend worth watching is the steady growth in

shipments to Mexico, up from barely $1 million five years ago to about $8 million last year.

WHAT TYPES OF PRODUCTS ARE EXPORTED?

While Canadian printers export a variety of products, some categories are far more important than others. Books, brochures, directories, leaflets and booklets are the largest categories, with nearly $500 million exported. Books themselves are more than $120 million. More than $22 million of children's books, a separate category, were exported last year. Next in importance are commercial catalogues and trade advertising material, with a value of $317 million, plus another $64 million for single-sheet "leaflets". Canadian printers also exported more than $210 million in journals, periodicals, and newspapers. Pictures, designs, and photographs are another relatively large category, with exports of $177 million.

Although the forms business has been pronounced "dead" for many years, forms printers have been steadily successful in growing their business outside of Canada, selling nearly $90 million last year. The remaining categories of note are postcards, greetings, and other announcement cards, with exports of almost $70 million, and religious materials, which is half as large.

IMPORTS

Trade is, of course, a two-way street. Although Canada exports more print than it imports, we still import more than $1.3 billion of print and related support activities, or more than 10% of what we manufacture in Canada. Most imports, more than $1 billion, are from the United States. China is second in importance, and has been for some time. Although still relatively small, at only $187 million, print imports from China have grown rapidly as they have nearly doubled over the last five years.

Not included in any of these statistics are what may be termed "stealth print", particularly published books and journals, and, less obviously, packaging.

WHY IS TRADE IMPORTANT?

As the discussion implies, trade has an important impact on Canada's print industry. First, exports are a significant portion of total industry revenues and contribute to the overall health of the sector. Second, while one might think that it is just the larger printers who export, about 800 Canadian printing companies report significant sales outside of Canada. Third, although Canada currently exports more print than it imports, that was not always the case; imports are significant and can clearly compete with Canadian printing plants.

THE FUTURE

Many factors influence the ability of Canadian printers to export. Most are the same as those that allow a printer to win *any* business—quality of work; price; cost; ability to deliver; and sales and marketing skills. In addition to the logistical difficulties, as well as understanding the very real market differences, the key distinction is the impact of the exchange rate.

During the late 1990s and early part of this century, Canada's exporters benefited

CANADA'S IMPORT/EXPORT BALANCE IN PRINT & RELATED SERVICES (CDN$ 000's)

	2000	2001	2002	2003	2004	2005	2006
Total Exports	1,662,245	1,807,148	2,038,792	1,789,983	1,645,264	1,707,526	1,576,108
United States (only)	1,569,103	1,643,366	1,866,106	1,583,877	1,479,259	1,418,649	1,303,200
Imports	1,238,748	1,265,598	1,276,001	1,237,016	1,234,762	1,253,898	1,361,376
Trade Balance	423,496	541,550	762,791	552,968	410,501	453,627	214,732

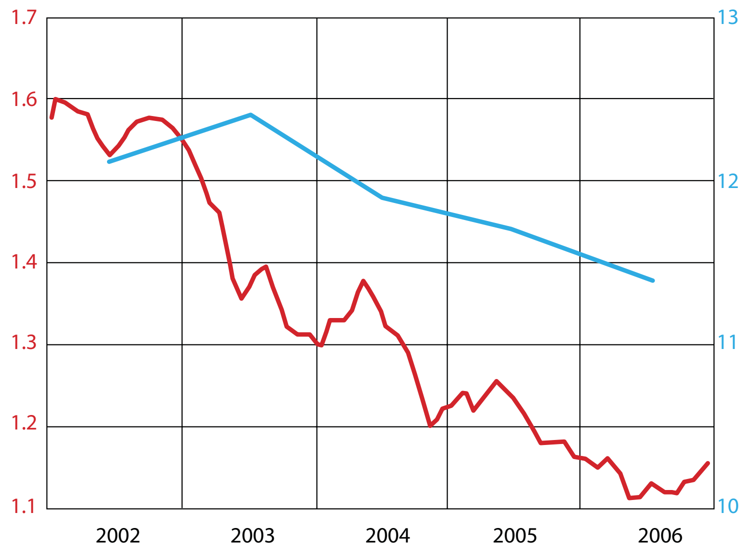
Source: Statistics Canada

■ *Monthly average exchange rates: CDN$ per US$ (2002-2006)* Source: Statistics Canada

■ *Canadian Printing shipments in billions CDN$ (2002-2006)* Source: Statistics Canada

greatly from a falling Canadian dollar. As late as 2001 and early 2002, one U.S. dollar bought $1.60 of Canadian printing. Today, it will buy only $1.10 of Canadian printing. That raises the effective price for all Canadian manufactured products and makes it more difficult for Canadian printers to compete for work south of the border. In very large part because of the strengthening Loonie, Canadian exports of print and related services are down 25% from a peak of $2 billion in 2002, without adjusting for inflation. Conversely, imports of print are up slightly over the same period.

RELATIONSHIP BETWEEN CDN$/US$ EXCHANGE RATE AND CANADIAN PRINTING SHIPMENTS



CANADA'S TOP PRINT EXPORT NATIONS (CDN$ 000's)

	2000	2001	2002	2003	2004	2005	2006
United States (U.S.)	1,569,103	1,643,366	1,866,106	1,583,877	1,479,259	1,418,649	1,303,200
United Kingdom (U.K.)	11,308	22,491	11,937	31,701	26,769	52,091	47,485
France (incl. Monaco, French Antilles)	28,270	31,908	19,721	19,380	21,379	23,388	25,952
Luxembourg	174	380	264	430	374	176	19,828
Germany	5,390	28,192	46,315	42,972	22,270	30,308	15,130
New Zealand	561	1,553	1,566	1,233	1,882	3,511	10,815
India	118	560	397	511	1,304	1,997	10,523
Belgium	1,412	1,752	941	7,008	6,924	10,521	10,431
Mexico	789	710	1,128	1,804	4,379	6,543	7,977
Sweden	4,926	5,702	5,052	7,508	7,855	10,858	7,766
SUB-TOTAL	1,622,051	1,736,614	1,953,427	1,696,424	1,572,394	1,558,042	1,459,106
OTHERS	40,193	70,535	85,365	93,559	72,870	149,484	117,002
TOTAL (ALL COUNTRIES)	1,662,245	1,807,148	2,038,792	1,789,983	1,645,264	1,707,526	1,576,108

Source: Statistics Canada

SMALL TIME EXPORTING

Even though printers are small, that does not mean they cannot export. Industry Canada's *Small Business Quarterly* notes the importance of small and medium-sized enterprises (SMEs) to Canada's exports. However, the article also takes note of the difficulties smaller firms face. Access to export financing is one potential barrier, as the investment required to develop a market can be significant, and payment terms can also strain working capital. Research indicates that Canadian SMEs have difficulty obtaining debt financing from commercial lenders compared with non-exporters. Nevertheless, there are a number of sources of assistance for Canadian SMEs. These include non-bank financing, from the Export Development Bank, for example, as well as various government-sponsored trade missions. *-JZ*

Exchange rates have an additional impact, one that primarily affects the large printers such as Transcontinental and Quebecor World that have a foreign presence and manufacture outside of Canada. These multi-national printers must account for their revenue in Canadian dollars, and the negative impact of a strong Loonie can be substantial. For example, Transcontinental's revenue in the last quarter of 2006 was 1% lower due to exchange rate fluctuations, with an 8% hit to profits. While this does not affect most Canadian printers, it does show the importance of exchange rates in the profitability of all print providers.

There is another more subtle impact. As printers who relied upon exports find it more difficult to make those sales, they are turning to domestic markets to make up their revenue shortfall and fill their capacity. That means heightened competition and falling prices for printers.

The decline of exports and increase in domestic competition is beginning to spread throughout the industry, as sales of the overall printing industry have begun to decline.

Although the dollar may soften somewhat, Export Development Canada predicts little or no growth in Canadian manufactured exports for the next two more years. Unfortunately, that implies continued difficulties for Canadian printers. **CP**

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