

## **Office Products Outlook for 2010 – Recovery in the wings.**

The outlook for office products in 2010 is looking considerably better than it was in the middle of 2009. What a difference six months can make! We should all breathe a collective sigh of relief that 2010 will be a 'respectable' year if not a fully buoyant one. We should also be thankful to have been spared the major contractions experienced by our brothers and sisters in other developed countries such as the UK and the US.

Our market is certainly back on the road to the 'trend' rate of growth (2-3% above GDP) that it has mostly maintained over the last decade. However in 2010 it will not quite get there, principally due to lingering weakness in the business sector and some dampening affects of rising interest rates.

Office products market growth in 2010 will be in line with that of the overall economy – in the range of 2-3% for the year.

### **A\$ strength protecting margins**

With the A\$ predicted to maintain a relatively strong level in the US\$0.90+ range over 2010, this will bring some stability to pricing and margins in the market. With the vast majority of office products imported now days, the A\$ rate has a huge impact on consumer prices and industry profit margins. My view is that a strong A\$ is good for the OP market because it leads to more affordable products which in turn stimulate consumers to buy new products, which prop up otherwise stagnant growth.

### **Consumers**

Consumers will continue to maintain some degree of the 'frugality mode' they developed in 2009, although it will gradually lessen through 2010. This will translate into enduring demand for budget/economy versions of products, the shying away from premium products and more frequent purchasing in smaller order sizes.

Amongst the consumer segments, households and students will continue to grow at quite reasonable rates, in line with their recovery in the latter part of 2009. However further growth in spending will be hampered by interest rate increases and the removal of Government stimulus initiatives.

The key question however lies over the recovery of spending in the business sector. While employment growth, investment and confidence will certainly improve, it is not predicted they will fully bounce back until late 2010, early 2011. This translates into low but improving growth amongst businesses, with micro and small businesses leading the way (they should be quite buoyant in 2010) and large business lagging somewhat.

### **Products**

The shift away from premium products to lower priced economy products that has occurred over the course of the downturn, will gradually recede during 2010 – although not completely. There will also be a bounce back in spending on new technology products (eg computer accessories and printers) - as consumers purchase products they deferred during the downturn.

With conditions improving and confidence rising there will also be an acceleration in the flow of new product developments during 2010 - lead by technology related items. With many of these products designed to improve efficiency/productivity they will be compelling for purchasers and will provide a boost to market growth.

## Dealers

Given the recovering state of the market in 2010, competition will remain strong but slightly less intense compared with 2009. Category expansion and management of new products will return as key issues for dealers. It is expected Officeworks and other large format retailers such as Dick Smith will benefit, along with others exposed to the relatively healthy demand in the household, micro and small business segments during the year. On the other hand it will be a longer slower recovery for dealers dependent on medium and large business customers – including Corporate Express and OfficeMax.

## Lesson learned

The slump and then recovery from the events of 2008/2009 are a reminder to us all just how quickly prospects can change. Personally I believe Australia has been extremely lucky and we should recognise that significant and unanticipated shifts can occur due to external events (increasingly in this age of globalisation). In this sense all of us need to remain receptive to change, adaptive (ready to adjust strategies) and able to meet challenges with actions and a positive attitude.

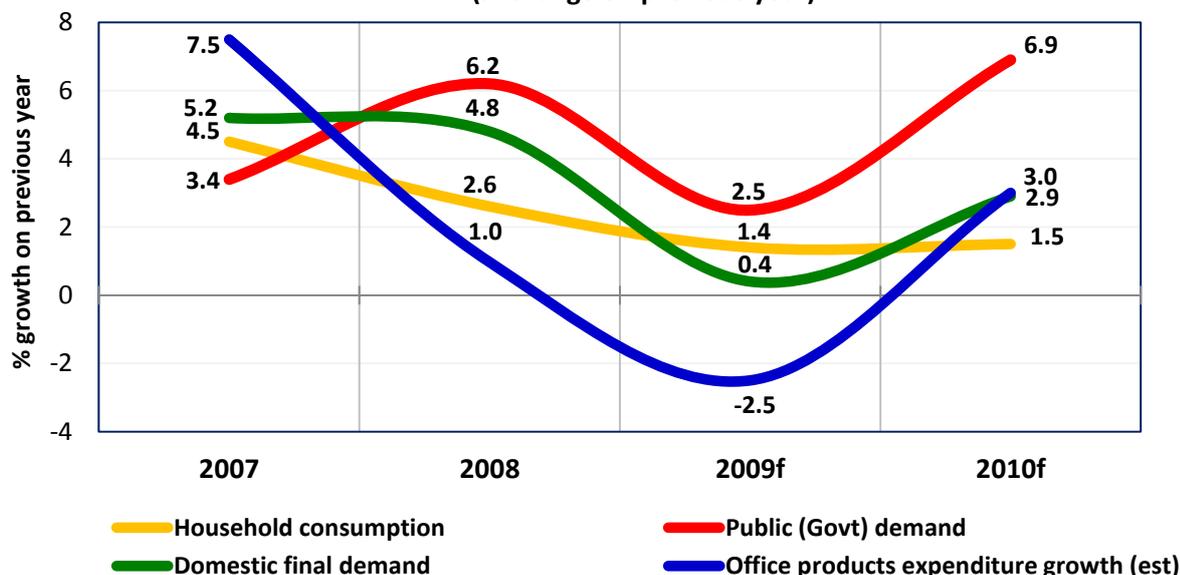
It appears clear we are at the foot of the next upward leg of the business cycle - and 2010 will be a fair to good year leading into a fully healthy 2011 as the economy fully shakes off the lingering effects of the GFC.

Economic Indicators, 2007-2011f (annual % change*)					
Indicator	2007	2008	2009e	2010f	2011f
GDP	3.9	2.4	1.1	2.7	3.2
Household consumption	4.5	2.6	1.4	1.5	3.0
Business investment	11.2	13.9	-3.4	0.2	7.0
Public demand	3.4	6.2	2.5	6.9	4.3
Domestic final demand	5.2	4.8	0.4	2.9	4.3
Unemployment rate (%)	4.4	4.3	5.7	6.4	6.2
Inflation (underlying) (%)	3.1	4.4	3.8	2.9	2.5
Currency: A\$/US\$ (exchange rate)	0.88	0.86	0.80	0.94	-
90 day bank bills (%)	6.50	4.25	3.50	4.25	-

Source: ANZ Bank Economic Forecasts as at Nov 2009. f = Forecast \* Unless denoted otherwise

## Economic/market growth indicators, 2007-2010f

(% change on previous year)



Source: ANZ Bank & Penfold Research estimates.

**Penfold Research**

Penfold Research specialises in researching the office products and related markets.

**Contact:** Andrew Penfold – [andrew@penfoldresearch.com.au](mailto:andrew@penfoldresearch.com.au)