

Printing and Writing Papers Report

Coated Groundwood Supply Limits May Boost North American Market

— By HAROLD M. CODY, CONTRIBUTING EDITOR

Continuing weak dollar, unchanged postage rates, improved demand in summer months could lead to modest growth and price increase for some coated groundwood papers.



Coated groundwood papers have fared better than free sheet grades recently but cost pressures and imports have

hammered many mills. The prospect for this year and next offers considerable hope to mills that have for the most part been downsizing and struggling.

By carefully reading the tealeaves, it's possible to construct a market outlook where, as demand improves into the traditionally stronger summer months, prices could move up and these gains might continue into next year. But the first steps in this direc-

tion were not successful, as a price increase for April 1 apparently failed. Why then does hope spring eternal?

This potentially bright outlook is, unfortunately, not due to any expected large surge in demand. Coated groundwood demand did rise more than 5% in 2003 in North America, which is the best gain in years. However, much of this was due to capturing share from other grades and thus not true demand growth. Also, this overstates growth because it's compared to weak demand in 2002. With major coated groundwood markets sending mixed signals about the future, demand in 2004/2005 is at best likely to increase modestly.

Tighter Markets

But it appears that several factors could work together and result in tighter markets and improved prices. Costs are rising, and with U.S. capacity flat, operating rates are high and expected to remain there. U.S. capacity has dropped slightly despite Bowater's new machine, and while Canadian capacity is growing, the Chandler mill fiasco means it will grow much less than originally thought.

And in a potentially significant shift, U.S. offshore imports, which jumped 68% last year, are likely to feel the impact of the weak dollar for the foreseeable future. The 30% surge in overall U.S. coated groundwood

NORTH AMERICAN PRINTING/WRITING PAPER STATISTICS

(000 Metric Tons)

	December 2003	% change year ago	Year-to-Date 2003	% change year ago
Coated groundwood				
Shipments	425	5.7	4,995	1.7
Operating rate	93	8.1	93	4.0
Imports	49	36.9	640	43.8
Demand	461	8.1	5,504	5.4
February 2004				
			Year-to-Date 2004	
Shipments	425	9.2	871	7.9
Operating rate	95	92 ¹	93	92 ¹
Imports	44	27.7	85	1.6
Demand	453	12.3	921	7.1

Notes: ¹Actual figure, not percentage change. Source: PPPC

imports last year was certainly a limiting factor in terms of price gains. A 175,000-ton jump in imports from Finland in 2003 was a major factor.

But the combination of only modest growth in Canadian capacity coupled with the strong Euro could put the brakes on imports. European producers will also want to raise prices due to the strong Euro, and if demand in Europe improves, more tonnage will stay in Europe. This could tip the scales towards a tighter market.

Unfortunately, several factors could render this rosy scenario inaccurate. One is that major coated groundwood end use markets, such as magazines, continue to be sluggish, with ad pages falling 1% in 2003 and off 2.7% through February of this year.

Offsetting this is hope that with postal rates remaining unchanged this year, catalog mailings could post gains despite the prediction of some that their growth is coming to an end due to web-based catalogs. While on-line transactions are hurting catalogs, it appears at this point that they are merely taking away growth and not significantly reducing catalog use.

Also possibly pushing coated groundwood markets in the future, as well as SC and machine finished grades, is a likely retreat from electronic/email marketing as anti-spam legislation and tighter spam control by major Internet servers gain momentum. This movement is expected to encourage marketers back to traditional printed/direct mail advertising,

but such a trend remains to be seen.

Thus, while demand gains may be modest there may be less paper chasing a slowly growing market, and that's good news.

Total Coated Paper Market

Total North American coated paper demand was flat in 2003 at 10.5 million metric tons, but there was significant divergence between groundwood and free-sheet grades. In 2003, U.S. and Canadian coated groundwood shipments reached nearly 5.0 million metric tons, up 1.7% from a year ago.

Demand for coated groundwood was up 5.4% for the full year in comparison with 2002, according to the Pulp and Paper Products Council (PPPC). ■