



N.A. Newsprint Market Implodes As Newspaper Business Goes From Terrible to Terrifying

By Harold Cody

The severe contraction of the newspaper ad revenue stream in 2009, which is believed the worst on record, has caused catastrophic damage to the newspaper business and to North American newsprint demand.

Currently, it's hard to find even a little bit of good news to report on anything related to newsprint or newspaper publishing in North America. And while the picture worldwide isn't as bad because the market declines in other regions haven't been as severe as the drops in the U.S. and Canada, world demand is at best flat. And offshore demand, which in recent years helped offset the loss in demand in the mature U.S. market by siphoning off excess tonnage, has been falling as well.

The brutal truth is that North American mills and publishers face the worse business climate any of them have ever experienced. U.S. economic weakness in the last couple of years has caused an unbelievably rapid drop in newspaper advertising revenues that according to some sources is essentially making a century old business model – selling newspapers and newspaper advertising – obsolete.

The revenue problem certainly isn't a new development, but the recent acceleration of the downturn has caught many by surprise. It is certainly worse than projected even just a few months ago. Newspaper advertising, which has fallen for three straight years, including declines of 9.4% and 17.7% in 2007 and 2008, respectively, contracted sharply in the first quarter of 2009, falling 30% according to the



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Newspaper Association of America (NAA). This is the sharpest drop ever recorded, or at least the sharpest recorded in modern times.

Falling Ad Revenue

This dire business climate has spawned numerous newspaper bankruptcies, large scale job cuts and other major cuts. Continuing losses to electronic media such as the loss of classified advertising to free sites such as Craigslist.com and the continued decline in daily newspaper readership have been key factors as well. As ad revenues fell, publishers also

cut back dramatically on news content, which in turn reduced newsprint demand. To further magnify the seriousness of the decline, on-line newspaper advertising revenues fell 1.8% in 2008, the first decline since the NAA began compiling online ad data in 2003. Over the 2004-2007 period, online advertising grew about 27% annually on average, rising from about \$1.2 billion to over \$3 billion annually. Over the same period, print advertising revenue fell from \$46.7 billion to \$42.4 billion. The decline in print ad revenue has been particularly severe for classified advertising, which fell from \$16.7 billion in 2004 to just under \$10 billion in 2008.

As ad revenues declined last year and then collapsed in early 2009, newsprint demand fell in lock step, plummeting at an unprecedented rate. Newsprint demand fell 25% in the

first quarter, 29% in April and was down 27% in May, according to the PPPC. U.S. demand through May was down 26% vs. the first five months of 2008 at about 2.1 million tonnes, a drop of 775,000 tons in just 5 months. In response, North American mills pulled back production, which was down 27.4% through May at 3.2 million tonnes.

Prices Plummet Nearly \$200/tonne

While these declines in output were huge and dropped operating rates to 67% in May and 71% year to date, they were unable to halt a steady fall in prices. With mills looking everywhere for customers, the battle to ship paper out the door has led to an acceleration of the fall in pricing.

Prices are off by up to 45% from peak price levels reached in the fall of 2008, and have fallen to the \$500/tonne level and even as low as \$430/tonne or a drop over just over \$200/tonne vs. the fall for June deliveries, according to security analysts. An attempt to raise prices for late summer apparently has failed and most observers think it was essentially a tactic to halt the slide.

The only good news is that input costs have also fallen, and in the case of recycled newsprint, for example, have dropped very low. Large declines in energy costs have also helped. It appears likely prices will slip down to the cash cost level, and then prices will go in the direction dictated by the scale and speed of capacity closures.

International Markets

As noted, markets in some areas of the world are holding up better but the picture is mixed. For example, while North American demand in 2008 fell 11%, demand in Asia rose about 2.5% and in South America demand, which is small by comparison, posted an 8.2% gain. A smaller decline was posted in Europe (down just under 4%).

However, the key problem is that export markets in past months were a key outlet for the over-supplied North American market and a key to sustaining prices. But recent export demand for North American newsprint has been unable to continue to support recent export tonnage levels. North American newsprint exports dropped again in April and at one-half million tonnes through April are off by one third from the prior year level according to PPPC.

The overall export outlook remains unclear. In developed regions such as Europe a long term decline in demand similar to the fundamental structural changes occurring in the U.S. is also underway. And even the growing Asian market is slowing as that region adjusts to drastically lower export sales of all types of products to an economically struggling world market.

Millions of Tons in Newsprint Demand Disappear

On the mill side, there is no question additional capacity will have to be removed. Given the current climate, the North American market isn't just "soft", as often occurs in a cyclical and mature market for a commodity such as newsprint. It's completely unbalanced. It's hard to pinpoint exactly what further curtailments, beyond what has recently been idled or shutdown will be required. However, some rough math will show that it certainly will need to be substantial.

Based on the first five months of 2009, North American newsprint production is running at an annual rate of just 7.6 million metric tonnes. This is driven by the fact that total U.S. newsprint demand has been compressed to an annual rate of 5.3 million tonnes, based on extrapolating January to May 2009 data showing consumption at 2.2 million tonnes. At this level of demand, which could and likely will get even worse, the production level required will drop considerably. In 2008, N.A. production was about 10.4 million tonnes and if the current trend continues it will drop to about 7.6 million tons annually, or a drop of almost 3 million tons. Thus, while a sizeable amount of downtime and shutdowns have already been announced, more will be needed.

Survival of the Fittest

It's pretty clear that at this point it is hard to see much light at the end of the tunnel. Ad revenues are likely to continue to be extremely weak for the remainder of the year, and the outlook for next year is a big unknown. For many publishers and mills alike, including even the largest, most efficient and best positioned, the ability to even survive is a question.

About 25 years ago I worked on a study of the impact of electronic media on print. One of the report's conclusions was that there was a good chance newspapers would face huge challenges 10 years down the road that could cut newsprint demand 30% to 40% or even more. At the time many in the industry were downright hostile to this conclusion and challenged the author's sanity to put it mildly. Unfortunately, it appears the study's conclusions were close to the mark – it just took about 10 years longer than projected – and the worst financial meltdown in a generation to finally happen.

There are slight signs things might be bottoming out but I think almost everyone – mills and newsprint consumers – can agree that the goal is just to survive 2009, in hopes that 2010 can only be better. The scary thing is it could be worse. The hope for survival is for producers to match supply to demand, but that's going to be tough. ■

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