



Newsprint Mills Look For Options to Offset Continued Drop in Basic Demand

Despite the continued decline in demand for newsprint by newspapers several factors including grade substitution, capacity reductions and exports resulted in a relatively calm market for most of last year. However, a stiff drop in North American newsprint demand in early 2013 has weakened pricing and producers are scurrying for ways avoid even larger capacity reductions.

By Harold M. Cody

The North America newsprint market remained in balance for most of last year due to a variety of factors including capacity adjustments and grade shifts. The fact that prices held steady for most of the year in the face of some major headwinds including the continued shrinking in demand by daily and Sunday newspapers is notable. In turn, for most of the year, prices remained stable, but towards the latter part of 2012 things began to unravel and prices started to slip. There is no doubt 2013 will be another challenging year for publishers and mills, but there is hope that changes in the world market coupled with strict supply management can right the ship and avoid a serious downturn in prices.

Statistically, 2012 was a much better year than expected, as domestic shipments fell just 1% from the prior year, driven largely by a significant drop in export tonnage. However, these data don't tell the whole story: shipments to newspaper publishers plummeted nearly 6% but were offset by a surge in shipments to commercial printers. According to reports, a lack of supply for groundwood grades and the lower relative price of newsprint on a square footage basis led to a rise in substitution. The rise in use essentially canceled out the decline in exports.

North American demand fell 1.2% to 4.96 million tonnes in 2012 according to PPC data and operating rates averaged



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92% for the year. Shipments to the U.S. market fell 1.4% vs. 2011 to 4.2 million tonnes. However, overseas exports dropped a whopping 24% to 1.8 million tonnes. Exports in 2011 and 2010 by comparison were 2.3 million tonnes, and 2.5 million tonnes, respectively. North American capacity has been reduced by about one million tonnes since 2010. Shipments by North American mills fell to about 6.7 million tonnes last year, down over two million tons from 2010 levels.

The overall market for graphic papers also continues to decline. Through May, North American demand for printing and writing papers was running 3.4% behind last year's level, while shipments were off by 4.5%.

However, near the end of the year the props holding up the market began to come apart and prices were reported down about \$30/tonne in first quarter 2013. A combination of a slip in exports, which were very weak in the last four months of the year, a restart of some idled capacity and increased availability of groundwood grades combined to weaken the market and led to the decline.

Newspapers Continue Shrinking

Despite some better than expected numbers and welcomed stability, the central challenge remains the rapid demise of newspaper print advertising. According to the Newspaper

Association of America (NAA), print advertising in newspapers has fallen by over 50% in the last five years. Daily and Sunday newspaper advertising revenues in 2012 fell 6.8% compared to 2011 to \$22.3 billion. Since the huge declines posted during the 2008-09 economic downturn, when ad revenue collapsed and fell 40% or almost \$20 billion, revenues have declined on average 6.8% annually over the last three years.

According to NAA, declines were posted in all key categories except for digital advertising, where revenues rose 3.7% to \$3.4 billion. Classified revenues declined 8.0% to \$4.5 billion and retail advertising fell 7.6% to \$11 billion. National advertising dropped 11.6% to \$3.3 billion in 2012. To demonstrate the scale of the decline in newspaper advertising revenues, the print ad total of \$18.9 billion in 2012 is only 40% of the 2006 level. Newspaper advertising revenues peaked at \$47.8 billion in 2005.

A full year breakdown by classified category isn't available, but based on 2012 data for the first three quarters, the decline in classified advertising varied widely. The largest drop was posted by real estate advertising, but automotive and employment revenues also posted substantial declines. The declines were less severe later in the year. For example total classified advertising decreased 9.8% in the first quarter and 8.5% in the second quarter vs. prior year levels, but this eased in the 3rd quarter to a 4.8% decline.

Price Hike Fails but Hope Continues

Pricing appeared poised on an upswing earlier this summer as newsprint producers announced a \$40/tonne increase slated for July 1, 2013 shipments. However, sources report that the increase was rescinded in part due to the fact that the largest producer, Resolute, was not one of the firms announcing the increase. The increase may simply be deferred until later in the summer.

The background behind the attempt to raise prices appears to be centered on better demand in offshore markets and has little to do with domestic supply and demand. Asian demand and pricing have been stronger while a significant decrease in European capacity offers hope for North American exports. Stocks were low as well with U.S. daily stocks down considerably in the first quarter.

Through the first two quarters of the 2013, the fundamentals of the newsprint market were pretty bad. First of all, demand tanked as newsprint shipments to North America were off 9.8% vs. the prior year while shipments to the U.S. were down almost 12% through May of 2013.

Operating rates year-to-date for North American mills averaged 92% and mills operated at 95% in May 2013. Total North American newsprint demand through May was 1.8 million tonnes, a 10% drop from prior year levels. Those are some sobering numbers.

In contrast, exports posted strong gains in April and May, running 14% and 19%, respectively, above last year's level. Through May, offshore exports were 838,000 tonnes or 11% above 2012 and running at an annualized rate of 2 million tonnes. Gains were driven in particular by a large surge in shipment to Asia, notably to India, along with continued solid export levels to Latin America. Prices were also reported to have gained on the export market in the first and second quarters. Without this surge in offshore tonnage the market would likely have posted severe declines.

Major European capacity reductions in the face of high costs and tepid demand are also a big factor in a potential shift in source of supply for the global newsprint market that could directly benefit North American mills. Since last year, about three quarters of a million tonnes of newsprint capacity has or will close following Stora Enso's move to shutter 470,000 tpy of capacity at a two mills in Finland. The Stora capacity is estimated to account for about 4% of European capacity. On top of this, Russia temporarily closed nearly 750,000 tpy last year as well.

The closures provide hope that U.S. exports could continue high and even expand. Combined with the growth in Asian exports this may give the market a leg to stand on. In turn, if prices don't improve in North America, so the rationale goes, mills will increase export shipments to take advantage of higher prices in other regions.

However, it's likely that despite the opportunities offshore, additional capacity will close in North America as producers match supply to shrinking demand. Last year two major closures occurred with the shut of 275,000 tpy at the Resolute mill in Brooklyn, Nova Scotia and 300,000 tpy of news and specialty papers by Catalyst in Snowflake, Arizona.

Going forward, the decline in demand in mature markets such as the U.S. will continue, but shifts in global supply and capacity may offer North American mills an opportunity to increase exports in 2013. This is particularly important since it is unlikely that last year's shift to newsprint use by printers will continue to the same degree this year. As a result, producers certainly hope the export market can not only support more shipments but also aid in supporting prices. ■

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