Newsprint Balancing Act Again Relying On Direction of Exports

Capacity shuts have bolstered the North American newsprint market and helped offset a steep decline in demand. However, increased competition is making it more challenging to use exports as a strategy for North American mills to sustain shipments and operating rates. If exports falter, additional capacity reductions may be required.

By Harold M. Cody

North American newsprint markets have for the most part remained on a steady course through the first half of 2014 despite weak demand and an erratic export market. The remainder of the year could be challenging, however, as the most recent market data raise the uncertainty about whether the time honored process of using export shipments to offset declines in domestic demand can continue to work. If exports lose ground they won't be able to offset the continued decline in North American demand and this would likely require additional capacity reductions. Any hope for an upward movement in prices, which earlier in the year seemed possible, would also dim.

Growing exports from China and Russia have made the export market highly competitive, making additional gains by U.S. and Canadian mills more challenging.

As noted, the market for the most part so far this year has been steady but lackluster with little activity in terms of price movement or surprises in supply or demand. The continuing decline in demand had been expected and follows last year's decline when North American newsprint consumption fell 9.4% to 4.9 million tons, according to the Pulp and Paper Products Council (PPPC). The decline was led by a 10.2% drop in shipments to the U.S., which fell to 4.1 million tons. In contrast, one bright spot was a significant increase in overseas exports, which rose 11.4% to 2.2 million ton — an 11% gain over 2012 levels — but still lagging behind the 2011 level of 2.5 million tons. Operating rates for 2013 averaged 91% compared to 92% in 2012.

Demand Off More Than Expected

However, a recent pick up in the rate of decline in newsprint demand and a chink in the armor of exports is of concern. In May, demand fell 7.1% from year earlier levels, bringing the year to date demand down to 6.5% below the same period last year, PPPC reports. Year to date through May, North American demand is at 1.9 million tons with shipments to the U.S. off by 6% at 1.6 million tons.

Potentially of even greater concern is the May drop in export shipments by North American mills, which fell 15% to 173,000 tons, bringing the year to date total to 877,000 tons, or 5% below year earlier levels over the same period. Producers have been working to increase exports to offset continue slippage in domestic newsprint consumption and in early 2014 the effort seemed to be working. However, the slump in offshore tonnage in May brings the direction of exports into question. As would be expected, U.S. and Canadian combined newsprint production also slumped in May, falling 4% with U.S. mills steeply declining due to capacity reductions. However, operating rates were 96%.

Before the drop in May, exports had been running close to last year's levels due to a jump of nearly 10% in exports in April which pulled year to date exports close to prior year levels. It also reversed a weak first quarter for exports. Exports continue to run ahead to Western Europe and are up significantly year to date. However, exports to other regions are down, with exports to Asia off by almost 20% year to date and down by one-third in May vs. last year, reflecting the surge in exports from Chinese mills, as well as restarted tonnage in Russia. The gains made last year were driven in part by a major reduction in Western European capacity and subsequently by major gains in European markets by North American exports.

While the news on exports is discouraging, producers have certainly tried to do their part to maintain a healthy balance between supply and demand via the closure of about 375,000 tpy of U.S. capacity to-date. An additional reduction in newsprint capacity is anticipated this fall with the shut of about 200,000 tpy at the DeRidder, Louisiana mill. Current reductions included the sooner than expected conversion by SP Fiber of 130,000 tpy of capacity in January 2014 at its Newberg, Oregon mill. [Newberg's machine will be converted to lightweight packaging papers.]

Over the last three years over two million tons of capacity has been closed in the U.S. and Canada, although restarts and capacity shifts reduced the net loss to about 1.8 million tonnes. Closures last year included 120,000 tpy by Resolute at Calhoun, Tennessee and about 75,000 tpy of capacity by SP Fiber. In early 2014, Great Northern Paper ceased newsprint production at the East Millinocket, Maine mill, announcing at the time that it would shut down for at least 4 months. The mill had been producing about 145,000 tpy and it's reported that a good portion of it was targeted at exports.

Restructuring of Newspaper Business Hits Consumption

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U.S. newspaper advertising revenue continued to decline in 2013 with Sunday and daily newspaper advertising revenues falling 8.6% from the previous year, with classified advertising revenues down 10.5%, according to the Newspaper Association of America. Total newspaper media revenue, which includes all sources, fell 2.6% to $37.6 billion. Total advertising revenue fell 6.5% to $23.5 billion. Helping to partially offset the loss in revenue in traditional print advertising was a 1.5% increase in digital advertising revenues and a 2.4% gain in direct marketing revenue.

World newsprint demand also fell by almost 5% last year led by the double digit drop in North America and a 7% decline in Latin America. Demand also fell 5%-6% in both Western Europe and Eastern Europe while declining a more modest 1.5% in Asia, according to PPPC data. Asian demand accounted for an estimated 45% of global demand at nearly 14.3 million tons, followed by N.A. at 16% (4.9 million tons) and W.E. at 23% (7.2 million tons). Latin America's share was 6% with other areas accounting for about 10% or 2.5 million tons.

Given the more or less steady state of things, transaction prices for newsprint have remained relatively stable, holding steady for most of 2013 and 2014, with domestic prices at the $600-610/metric tonne level.

The thinking on the part of some was that towards the end of the year, if all else is good, producers may seek to move prices up when the capacity shuts in the U.S. occur as planned. However, if mills see a significant retrenchment in exports, this will be overly optimistic. The gains made in Europe by N.A. mills notwithstanding, growing exports from China and Russia have made the export market highly competitive, making additional gains by U.S. and Canadian mills more challenging. If exports falter, the question won't be whether prices can gain ground, but how much additional capacity will have to be removed just to keep things in balance? ■

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