



Newsprint Market Struggles as Demand Decline Gains Speed and Prices Slip

Prices have slipped for several consecutive months as demand weakness at home and abroad have led to an unbalanced market. Hope remains that capacity adjustments and a leveling of exports can lead to improvements during the second half of 2015 but further adjustments may be forthcoming if recent closures are insufficient.

By Harold M. Cody

Newsprint markets have hit a very bumpy road that began in late-2014 and continues into the summer of 2015. That's saying quite a bit for a market that has seen nearly double digit declines in demand in the last couple of years and where the drop in newsprint demand has been going on for a long time. It's no surprise to producers that demand has continued to decline. In fact, a drop was expected this year and mills have continually responded by shuttering additional capacity to match current demand levels.

The problem is that the U.S. decline in demand has appeared to gain steam and coupled with the impact of the strong dollar has resulted in an excess of supply. Problems related to the decline in the big U.S. market have been exacerbated by a downward shift in the export market as North American mills have been hammered by weak export prices and volumes. Lacking the ability to sustain operating rates and output via exports has been a key contributor to the decline in prices in recent months.

Prices actually held remarkably steady for about three quarters of 2014 before weakening domestic demand and a



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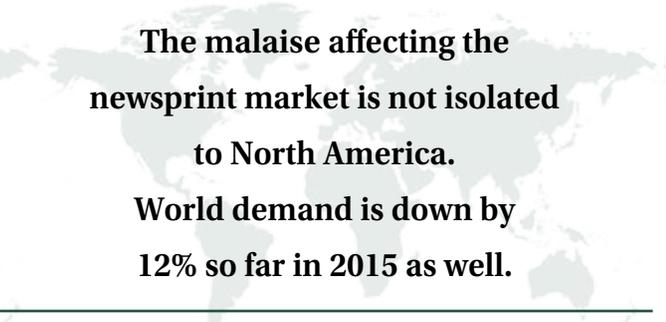
slowdown in exports occurred during the latter part of the year. U.S. prices began to slide during the third quarter of last year, and by the end of the second quarter 2015, had dropped for seven straight months. Prices have decreased roughly 10% since the fall or about \$60 per tonne according to reports.

DECLINING DEMAND

As noted, the decline in demand appears to have accelerated. For example, during the first quarter of 2015, North American demand was off 12% compared to prior year levels and exports

plummeted by 21%. Through May, North American demand was down 11.6% to 1.5 million tons and just as importantly exports plummeted to 648,000 tonnes for the five month period or a 19% drop. Operating rates actually improved to 94% vs a weak showing in April.

A drop in demand in China coupled with a weaker euro and a drop in Russian currency are all making it difficult for North American newsprint mills to compete on the global market. North American exports to Asia were off over 15% and N.A. mills lost considerable market share in several world markets owing to the strong dollar and in turn the



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increased cost competitiveness of producers in other regions. North American demand in 2014 was 4.1 million metric tonnes which was down 9% vs. 2013. Demand by newspapers, the major user of newsprint, actually fell by 12% with demand for other commercial printing uses rising 3% as users shifted down in quality and cost to newsprint from other grades in order to reduce printing costs. Demand was 4.5 million tonnes in 2013 and 5.4 million in 2010. Shipments to the U.S. market in 2014 were down almost 10% to 3.4 million metric tonnes. Overseas exports were off 6.8% at 1.8 million tonnes. Operating rates averaged just 91% in 2014. The rate of demand loss has posted a notable increase in the last two years, as the drop averaged 6% to 7% annually over the 2010-2013 period.

These data actually understate the problem as U.S. newsprint demand by newspapers has really plummeted and it clearly shows the problems facing the industry. Last year, newsprint use in newspapers fell by just over 12%, but the drop accelerated significantly during the second half of the year as demand fell 13% and 17%, respectively, in the third and fourth quarter.

The malaise affecting the newsprint market is not isolated to North America. World demand is down by 12% so far in 2015 as well and the weakness in demand has led to low global operating rates. Global demand was off 7% in 2014, led by a 9% decline in Latin America, an 8% drop in Asia and a 6% fall in newsprint demand in Europe.

The drop in demand in North America and other developed economies is due to the ongoing restructuring occurring in print media markets and in particular due to the steady decline in print newspaper advertising revenues and circulation losses. Publishers have reduced pages and gone to lower weight newsprint where possible although most of this shift has already occurred.

Detailed current data on newspaper advertising is not readily available but a feel for the market can be gleaned by looking at some specific examples. For example, News Corp. advertising revenues were off 5% and 4%, respectively, during in the first quarter to 2015 and for the last nine months to March 31, 2015. The New York Times reported an 11.1% drop in print advertising in the first quarter 2015 vs. the prior year.

ENOUGH CAPACITY CUTS?

As noted, North American mills and producers in other regions as well have moved aggressively to cut output. Resolute, the largest producer, cut significant capacity in late 2014 when it announced the closure of 460,000 tonnes of capacity in Canada. This raised the total closures for the year in North America to just over one million metric tons or a 15% drop in capacity in just one year according to industry estimates. Other 2014 closures included: Great Northern, East Millinocket, Maine; SP Fiber, Newberg, Oregon and Dublin, Georgia; PCA, Deridder, Louisiana; and Kruger, Brompton, Quebec.

Since 2010 nearly 2 million tons of newsprint capacity have been shutdown, and over the last 4-5 years nearly three million tons of capacity, or roughly one-third of capacity, has been closed in North America. Of interest is that it's reported that most of the Resolute capacity that was shutdown was targeted at the export market. The Resolute shuts include capacity at three mills in Canada: Baie Comeau, Iroquois Falls (mill closed), and Clermont.

The hope going forward is that all of the announced capacity decreases for newsprint are just beginning to take hold and that as we move into the second half of 2015 markets may stabilize. However, it's also possible that prices will continue to slide and to counter this will require additional capacity reductions in the U.S. and Canada more quickly than had been planned in order to return the market to some semblance of balance. This will be particularly true if the export market remains weak and the dollar strong meaning the time tested use of exports as a means of sustaining operating North American rates is not be an option.

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