Higher Newsprint Prices Help To Offset Rapidly Shrinking Demand

Newsprint demand contracted further in 2015 and early 2016 as the decline in advertising revenues continue to batter publishers. Prices gained some lost ground following the first increase in several years but remain low and exchange rates have battered Canadian mills in recent months. The price gains combined with minimal cost pressures mean 2016 could turn out better than last year although the going remains tough.

By Harold M. Cody

Newsprint markets had a little good news for the first time in quite a while in early 2016 as the first North American newsprint price increase in several years took hold. Newsprint mills initially implemented about half of a $40 hike in January and February 2016 but it was fully implemented thereafter. Mills have announced additional $15 increases targeted at June 1 and July 1. That’s good news for producers struggling with very low profitability driven in part by the sustained fall in prices as well as plummeting demand and production in recent years.

Unfortunately, the downturn in newsprint demand continued unabated as North American demand dropped about 10% in 2015 to 3.7 million metric tonnes. The drop equals about 400,000 tonnes and was the third straight annual decline of about 10%. Retail advertising, i.e. local retailers, restaurants, etc., is the largest component and often accounting for about half of newspaper advertising.

Exports also slipped in 2015, falling by a comparatively larger level of 15%. While exports continue to be a key outlet for U.S. and Canadian production, they have been trending down. U.S. exports in 2015 were just less than 400,000 tonnes, down 11%, while Canadian overseas exports fell 15% to about 1.2 million tonnes. The Canadian level is down compared to the prior two years but is about equal to the traditional newspapers rapidly lose ground to other media. Gannet’s advertising revenues, for example, were down 12.4% in 2015 with declines posted by all categories. Retail fell 9%, national 21% and classified advertising was down 15% vs. the prior year. News Corp.’s advertising revenues, which include major properties such as the Wall Street Journal, fell 10% in the fiscal year ending June 30, 2015. Advertising revenues for McClatchy were down about 13% in 2015 with classified down by 14% and retail off by about 15%. A key reason for the decline was large retail advertisers reducing preprint insert advertising and in newspaper ROP advertising. Retail advertising, i.e. local retailers, restaurants, etc., is the largest component and often accounting for about half of newspaper advertising.

EXPORTS SLIPPED

Exports also slipped in 2015, falling by a comparatively larger level of 15%. While exports continue to be a key outlet for U.S. and Canadian production, they have been trending down. U.S. exports in 2015 were just less than 400,000 tonnes, down 11%, while Canadian overseas exports fell 15% to about 1.2 million tonnes. The Canadian level is down compared to the prior two years but is about equal to the
level sent overseas in 2012. U.S. exports have been trending down since hitting almost 600,000 tons in 2013. The decline in U.S. exports last year was in part driven by the strong U.S. dollar. One ray of sunlight peeked through the clouds, however, as export rose a modest 1% during the first quarter and operating rates were 92%.

As noted, the recent gain in prices was welcome news as newsprint prices have been steadily declining for several years. Prices fell from about $600/tonne in early 2014 to $550/tonne by early last year and slipped to under $500/tonne ton in the fourth quarter of 2015. The recent increase have pulled them back up to the $545/tonne level.

Market fundamentals such as weak and falling demand and modest operating rates wouldn’t necessarily seem to support higher prices. However, one factor that may have contributed to a successful price increase is the recent appreciation of the Canadian dollar against the U.S. dollar. From the perspective of a Canadian newsprint mill, currency fluctuations have essentially wiped out the increases posted in early 2016. For example, at the end of last year the exchange rate was 72 U.S. cents per Canadian dollar. In contrast, at an exchange rate of almost 80 cents per dollar three months later higher U.S. dollar prices actually translated to lower prices in Canadian dollars. There was a highly volatile period from the fourth quarter of 2015 to April 2016, when the Canadian dollar fell to the lowest level in many years in early January before recovering to over 80 cents in April. Since then it’s held fairly steady in the 75 cent range.

In order to sustain recent price gains capacity closures will most likely be required unless export demand were to suddenly turn around. If demand fell by an additional 10% this year then that would equate to 365,000 tonnes of capacity. Some of this has already occurred as Resolute closed one newsprint machine in May 2016 at its mill in Augusta, Georgia. The mill has two machines and produced about 400,000 tonnes annually. This closure may be enough to sustain recent price gains but additional reductions may be needed depending on operating rates. Despite the continued collapse on the revenue side for publishers, if prices hold and the summer increase is successful newsprint mills may get a little bit of a breather.

Harold Cody is a contributing writer for PaperAge. He can be reached at HaroldCody@paperage.com.

Little plugs, big advantages.

A crushed roll of paper can cost manufacturers and their customers countless hours, dollars, and headaches. But by simply inserting core plugs into each roll, paper makers can reduce damage and loss claims for just pennies per roll. Our high-density, molded wood core plugs are:

- flake free and dust free
- consistently sized
- competitively priced
- engineered for manufacturers and converters of all grades of paper
- shipped by 2pm for orders in by 10am!

CENTER HOLE PLUG

- Easy-out design preferred by many end-use customers
- Incredible crush strength
  
  • 4" Center Hole plugs can withstand 5,000 lbs in a .25" walled paper tube
  • 3" Center Hole plugs can withstand 2,300 lbs in a .668" walled paper tube

CORSAVER™ PLUG

- Withstands three times more pressure than most other center hole plugs on the market
  
  In independent testing, our CorSaver plugs withstood a 10,000 lb crush in a .668" walled paper tube

Souhegan is a family-owned New England company that has been producing core plugs for four generations. For more information on standard sizes and custom options call (603) 654-2311 or visit us online at www.souheganwood.com