Printing and Writing Papers Report

Newsprint: Waiting, Waiting, Waiting…

— By Harold M. Cody, Contributing Editor

Newsprint producers continue to look for the improving U.S. economy to provide a boost to newsprint demand, but hope dwindled a bit early this year as year-end data indicate newsprint demand actually slipped in 2003. This shrinkage in demand was despite overall growth in the economy, but the tepid job market is one factor that has contributed to slow growth in newspaper advertising revenues and, in turn, demand.

This disappointing news, however, is offset by hopes for a price gain following a round of price increase announcements driven by a disciplined control of supply by producers and the impact of the strengthening Canadian dollar on mill profits. The big question is whether producers can really push through an increase if demand fails to recover.

Supply Contraction Provides Hope

In late 2003, data on North American newsprint demand certainly failed to inspire much confidence in terms of the ability of producers to raise prices or increase output. Demand declined 0.8% on a year-over-year basis in December, resulting in a 1.1% drop for the full year, according to the Pulp and Paper Products Council.

December demand in North America for newsprint totaled 1.095 million metric ton, down 3.8% compared with demand in December 2002. Demand in 2003 totaled 11.239 million metric ton, which was down from 11.370 million metric ton in 2002.

North American producers ran at an operating rate on average of 87%, down from 89% in 2002, because of several mill and machine closures and conversions last year. Canadian mills operated at 92% last year and U.S. mills operated at 87%.

The capacity curtailments include Abitibi-Consolidated's (AC) idling of the Sheldon, TX, Lufkin, TX, and Port Alfred, PQ, mills. In conjunction with shifts of capacity to other grades by Bowater at Catawba, SC, and Calhoun, TN, and AC at the Alma, PQ, mill, about 1.2 million tons of capacity will have been withdrawn from the market in the past three years.

While demand was down slightly in 2003 vs. 2002, newsprint inventory also declined slightly, as year-end stocks stood at 1.400 million metric tons, down from 1.438 million metric ton of inventory at the end of 2002. North American exports also posted solid gains, with exports of newsprint to Asia up 30% (by 132,000 metric tons) last year, totaling 656,000 metric tons.

Can a price increase succeed in the face of falling demand? Producers are now pushing to implement a $50/metric ton February 1 price increase, and, while continued supply-side discipline and a strengthening Canadian dollar should help the increase succeed, it appears unlikely the full increase can be realized without a concurrent improvement in demand.

A portion of the increase is likely to take hold and if the economy drives a rebound in advertising –which many forecasters project to occur in second-half 2004—producers will be sitting in the driver's seat. A jump in demand, in face of the supply constraints put in place, could propel operating rates to strong levels and allow producers to push prices up to the highest level in some time.

"Hope springs eternal" but it remains an uphill battle for producers to force through a full price increase without any up-tick in demand, even though they've done their job by reducing capacity steadily since the late 1990s.

Newsprint Statistics - December 2003

(000 metric tons)

	U.S.	CANADA	NORTH AMERICA
Production			
2003	429	666	1,095
% change 2003/2002	-1.2%	-5.5%	-3.8%
Operating rate, %			
2003	87	86	87
% change 2003/2002	851	921	891
Shipments to U.S.			
2003	4124	417	828
% change 2003/2002	1.6	-6.4	-2.6
Overseas exports			
2003	41	173	214
% change 2003/2002	-20.8	-18.2	-18.7
Imports			
2003	25e	0	25
% change 2003/2002	13.6	0.0	13.6
Consumption			
2003	679p[2]	993	–
% change 2003/2002	-2.4	10.6	–
Total demand			
2003	854p	102p	956p
% change 2003/2002	-2.2	12.6	-0.8
Publisher inventories			
2003	876p[2]	–	–
% change 2003/2002	1.7	–	–
Mill inventories			
2003	60	242	303
% change 2003/2002	11.1	8.0	8.6

January - December

	U.S.	CANADA	NORTH AMERICA
Production			
2003	5,149	8,489	13,638
% change 2003/2002	-1.9	0.4	-0.5
Operating rate, %			
2003	87	92	89
% change 2003/2002	861	901	893
Shipments to U.S.			
2003	4,611[4]	5,268	9,879
% change 2003/2002	-1.9	-1.5	-1.7
Overseas exports			
2003	503	2,104	2,606
% change 2003/2002	-11.0	3.0	-0.1
Imports			
2003	231p	0e	232p
% change 2003/2002	16.8	-97.8	14.1
Consumption			
2003	8,126p[2]	1,099[3]	–
% change 2003/2002	0.0	-1.0	–
Total demand			
2003	10,111p[4]	1,129p	11,239p
% change 2003/2002	-1.3	0.4	-2.2

Notes:
1. Actual figures, not a percentage change.
2. All U.S. Daily newspapers. Modified NAA survey.
3. Canadian domestic shipments.
4. U.S. And Canadian shipments to U.S., plus imports.

p = preliminary
e= estimate

Source: *Pulp and Paper Products Council, Newspaper Assn. of America.*