North American Newsprint Producers Walk Tightrope

While prices rise in 2004, consumption and production remain sluggish, but operating rates are expected to hover near 100% due to heavy capacity withdrawals over past few years.

By Harold M. Cody, Contributing Editor

Despite the fact that almost all major economic, supply, and demand factors that measure the health of the North American newsprint market have been on a downward trend since 2000, one very, very important measure has improved—newsprint prices increased in 2004. This clearly illustrates how masterfully producers have controlled the supply side of the equation via painful but necessary capacity withdrawals.

As reported in our last look at newsprint (*PaperAge*, January 2004), underlying newsprint demand continues to be anemic at best. U.S. consumption dropped about 1.5% in 2004 to under 10 million metric tons for the first time in memory.

U.S. newsprint consumption, in fact, has dropped every year since 1999 due to a combination of lower readership, declining circulation, and weak advertising (exacerbated by losses to electronic media) in this most mature of paper markets. Factors such as lower basis weights and shrinking page size, used by publishers to control costs, are also factors.

Modest Advertising Gains. Newspaper advertising did post a modest recovery in 2004, but this did not translate into an expected increase in consumption, since the two have historically gone hand in hand. It's likely the advertising gain was so modest it simply could not offset the factors pulling down demand. Poor advertising levels despite overall economic growth is a huge problem. It certainly makes the near-term outlook worrisome, since economic growth, according to most experts, is likely to slow from recent rates.

So how did prices rise, not fall, in 2004? It's simple. The massive mill closures resulted in better operating rates. Major reductions in the past two years include Abitibi (1.1 million tons), Bowater (650,000 tons), and Irving (135,000 tons).

Two other key factors have supported higher pricing levels—exchange rates and manufacturing cost pressures. Rapid appreciation of the Canadian dollar over the past couple of years means that Canadian mills have not reaped much of the benefit of rising prices. Rising energy and fiber costs (ONP) have also pushed up mill production costs.

2005 Outlook. For the remainder of 2005, newsprint demand is expected to continue sluggish. However, according to Jim Rowland of Canadian Paper Analyst, North American newsprint capacity is estimated at about 13.4 million metric ton this year. Thus, if production stays at about last year's level, North American mills would operate at near 100% of capacity.

This could lead to another price increase and bring prices—but not necessarily profitability—back to the highest level since the mid-1990s. This may not curtail further closures, but at least it might offer some respite before things turn ugly when economic growth begins to taper off, which some forecasters project for 2006. ■

NEWSPRINT STATISTICS - December 2004. (000 metric tons)

	CURRENT MONTH		YEAR-TO-DATE	
United States	2004	% change 2004/2003	2004	% change 2004/2003
Production	405	-5.6	5,114	-0.7
Operating rate, %	92	921	95	921
Shipments to U.S.	376	-8.7	4,632	0.4
Overseas exports	35	-14.9	468	-7.0
Imports from Canada	412	-1.2	5,099	-3.2
Imports from overseas	18e	>100	221p	4.4
Total demand	806p	-3.4	9,952	-1.4
U.S. dailies consumption	662	-2.8	7,998	-1.5
Other U.S. consumption	152	3.2	1,934	-2.3

Notes: 1. Actual figure, not a percent change. p = preliminary. e = estimate.
Sources: Pulp and Paper Products Council, Newspaper Assn. of America.