Uncoated Groundwood Papers Prosper But Key Markets Showing Signs of Age

Through Q3 of this year, U.S. UCGW shipments were up 16%, with imports running slightly ahead of the 2003 level—2005 market outlook remains promising. — By Harold M. Cody

Groundwood papers continue to perform well overall in 2004, with demand up about 4% versus 2003 through the third quarter. Prices have also improved in line with strong demand in most groundwood printing paper sectors, including coated as well as uncoated grades. SC prices have moved more slowly than grades such as coated papers due to the larger amount of this tonnage bought on contract.

This growth follows solid gains posted in 2003, when U.S. uncoated groundwood demand rose about 3.4%, reaching nearly 5.6 million tons. All of this demand growth was fueled by imports, which rose to nearly 4.4 million short tons. Imports rose nearly 10% last year, and have jumped one million tons in the past five years, with Canadian mills supplying 75% of this increase.

U.S. output of uncoated groundwood papers dropped 10% last year due to capacity withdrawals. Through the first nine months of 2004, U.S. uncoated grounwood shipments were up 16% at 1.12 million short tons, while imports were running just ahead of the 2003 level.

Demand Patterns Shift

However, competition with other grades and the maturing of key end-use markets has led to shifts in end-use demand growth. During the past couple of years, U.S. SC demand has lagged growth in grades such as high brightness groundwood papers and, in fact, has been flat. This is in contrast to the strong growth exhibited by SC grades during the 1990s, when consumption rose about one million tons, representing an increase in tonnage of almost 75%.

Probably the most important factor at the root of this slowing is weakness in the insert market. But supply limitations, such as the closing of Abitibi Consolidated's Lufkin mill, have also been a factor. Through September, total U.S. demand for SC grades was up 3.2% over the comparable period in 2003, but demand for SCA grades was down 1.2%. SCA imports from Europe dropped 11% during the same period.

North American SC Paper Shipments and Imports

(000 metric tons) - Jan. to Sept. 2004

	2004	2003	Chg, %
North America			
SCA	1026	1004	2.3
Other SC	837	741	13
Total	1864	1745	6.8
Europe			
SCA	324	363	-10.8
Other SC	68	77	-11.5
Total	392	440	-10.9
Total			
SCA	1350	1367	-1.2
Other SC	905	818	10.7
Total	2255	2185	3.2

Source: SC Council

However, SC papers shouldn't be written off entirely due to this recent flat spot. They continue to offer excellent value in many applications, and the prospects in markets such as magazines and catalogs remain good. It's just that over the next five years growth will considerably lag growth rates posted in the 1990s.

Growing capacity for specialty high brightness papers in Canada is also a contributing factor, and shipments have boomed. Canadian shipments of these grades have grown by 500,000 tons since 1999. Abitibi led the development of these grades, which compete with uncoated free sheet in commercial printing, and which offer a better value per square foot.

The market for other machine finish grades, such as lightweight or directory papers, remains very mature with little prospect for major long-term tonnage growth. However, demand has recently jumped modestly.

The overall groundwood paper market outlook for 2005 remains promising. Continued economic growth is expected to produce further demand growth, although it is unlikely to match growth in 2004, which is estimated at about 4.5%. Demand next year is likely to expand 3 to 3.5%. Price gains are also likely to slow once gains in early 2005 are implemented. ■