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# RISI Printing and Writing Paper Market Outlook...Publishing Paper Trends in North America

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John Maine

Vice President, World Graphic Papers

November 2010



- ▶ John Maine, VP World Graphic Papers, RISI, Inc.
  - Co-Founder of Resource Information Systems, Inc.
  - With RISI More Than 30 Years
  - Developed RISI P&W Models
  - Works With Over 200 Graphic Paper Clients Worldwide
  - Assisted by 5 Local Economists in RISI Regional Offices
  - Directs Numerous Multi and Single-Client Studies on Graphic Paper



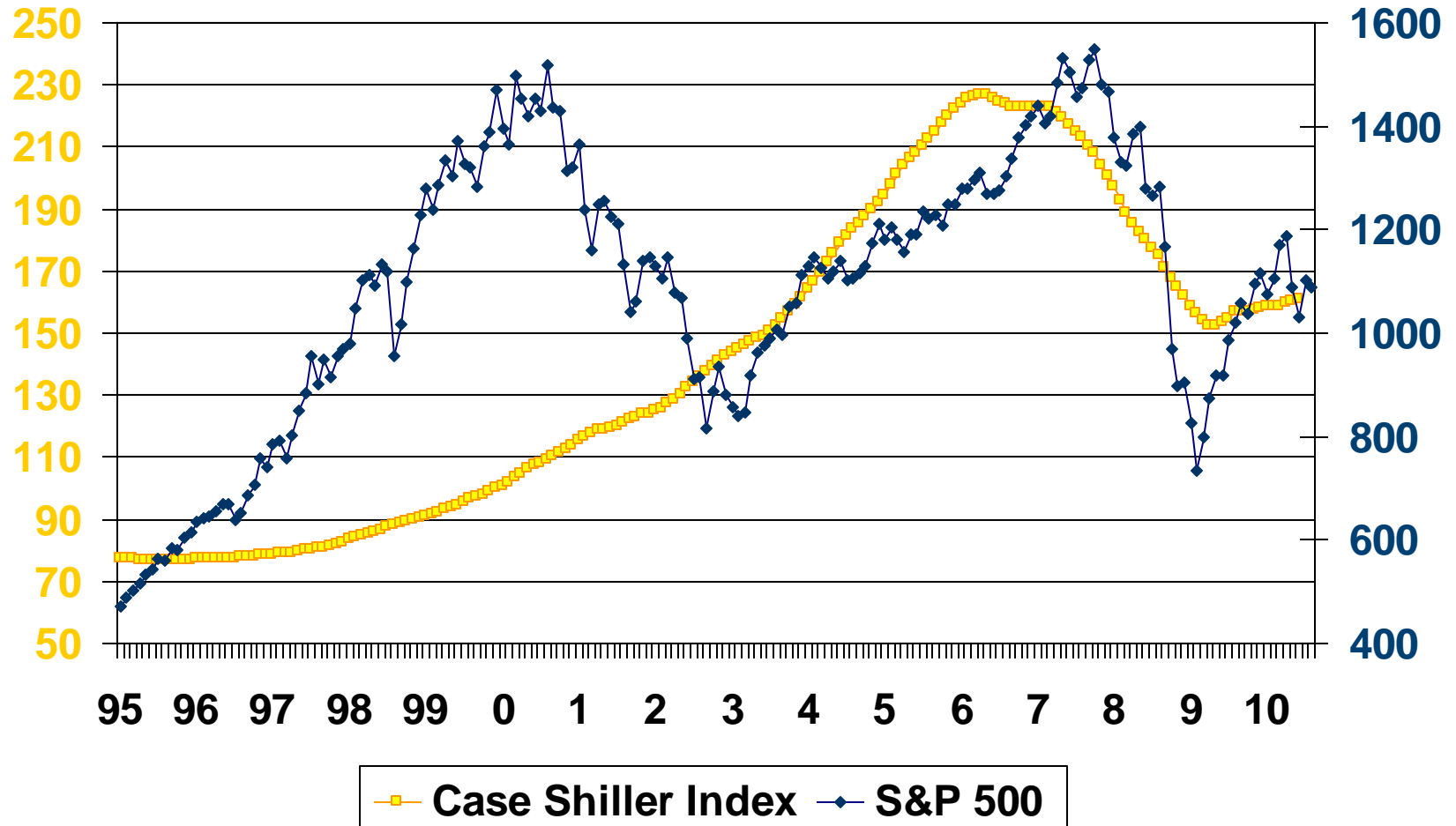
# RISI Growth Projections for 2010 Presented to GPC Last Year (11/09)

	Last Yr's Fcst. For 2010	Current Est. For 2010	Current Fcst For 2011
<b>GDP (U.S.)</b>	<b>1.9%</b>	<b>2.6%</b>	<b>2.1%</b>
<b>Paper Demand (N. America)</b>	<b>1%</b>	<b>3%</b>	<b>-1%</b>
<b>CFS</b>	<b>3%</b>	<b>16%</b>	<b>0%</b>
<b>CGW</b>	<b>4%</b>	<b>3%</b>	<b>-2%</b>
<b>UFS</b>	<b>-1%</b>	<b>-1%</b>	<b>0%</b>
<b>UGW</b>	<b>1%</b>	<b>2%</b>	<b>-1%</b>
<b>U.S. Catalog Circulation</b>	<b>0%</b>	<b>3%</b>	<b>0%</b>
<b>Magazine Ad Pages</b>	<b>-2%</b>	<b>0%</b>	<b>1%</b>

# US Economic Recovery Fizzles

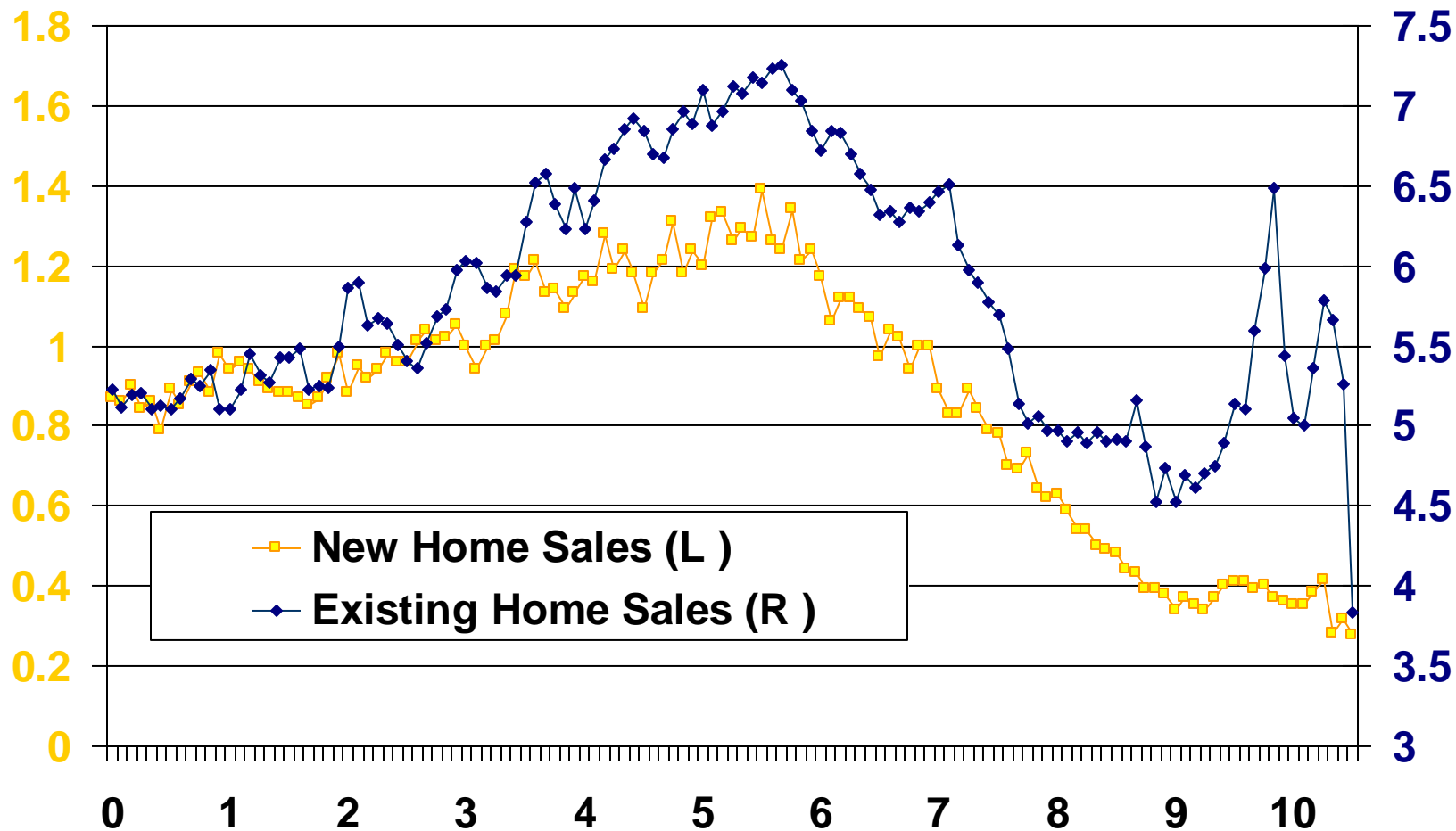
- ▶ US real GDP growth to slow considerably in 2H10
  - Consumers still paying down debt (deleveraging)
  - Unemployment rate still elevated and not expected to ease in near-term
  - Housing a drag on, not a driver of, recovery
- ▶ Inventory cycle's contribution to US and global growth diminishing
- ▶ US fiscal push has delivered meager results
- ▶ What will support growth in developed economies?
  - Release of pent-up demand will help keep consumption growth positive
  - Business investment is primary upside risk to US growth

# U.S. Households Still Feeling Effect of Damaged Asset Wealth (Case-Shiller 10-City Home Price Index and S&P 500 Index)



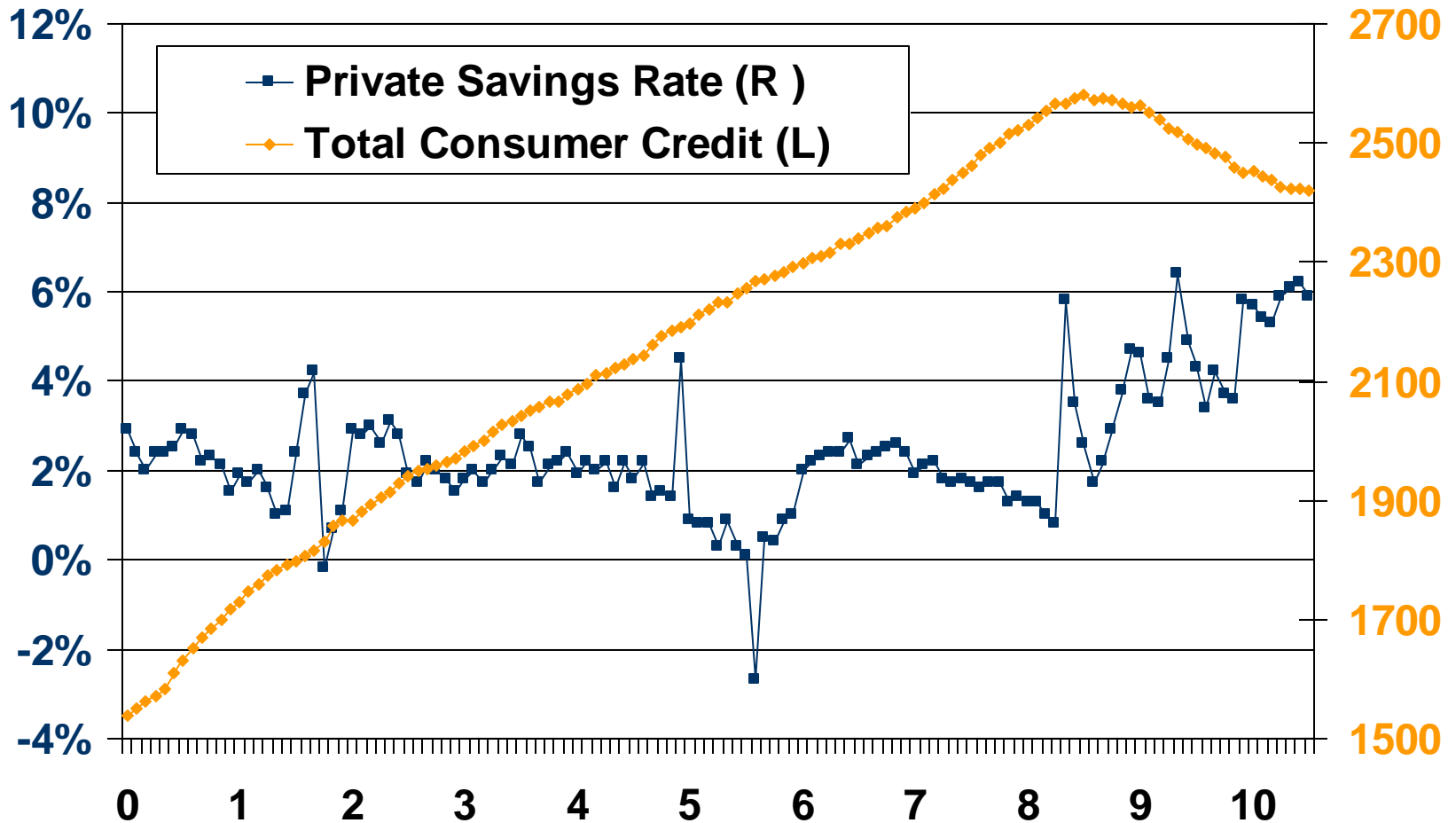
# U.S. Home Sales Responding to Expiration of Tax Credit in April

(New and Existing Single-Family Home Sales, Millions, SAAR)



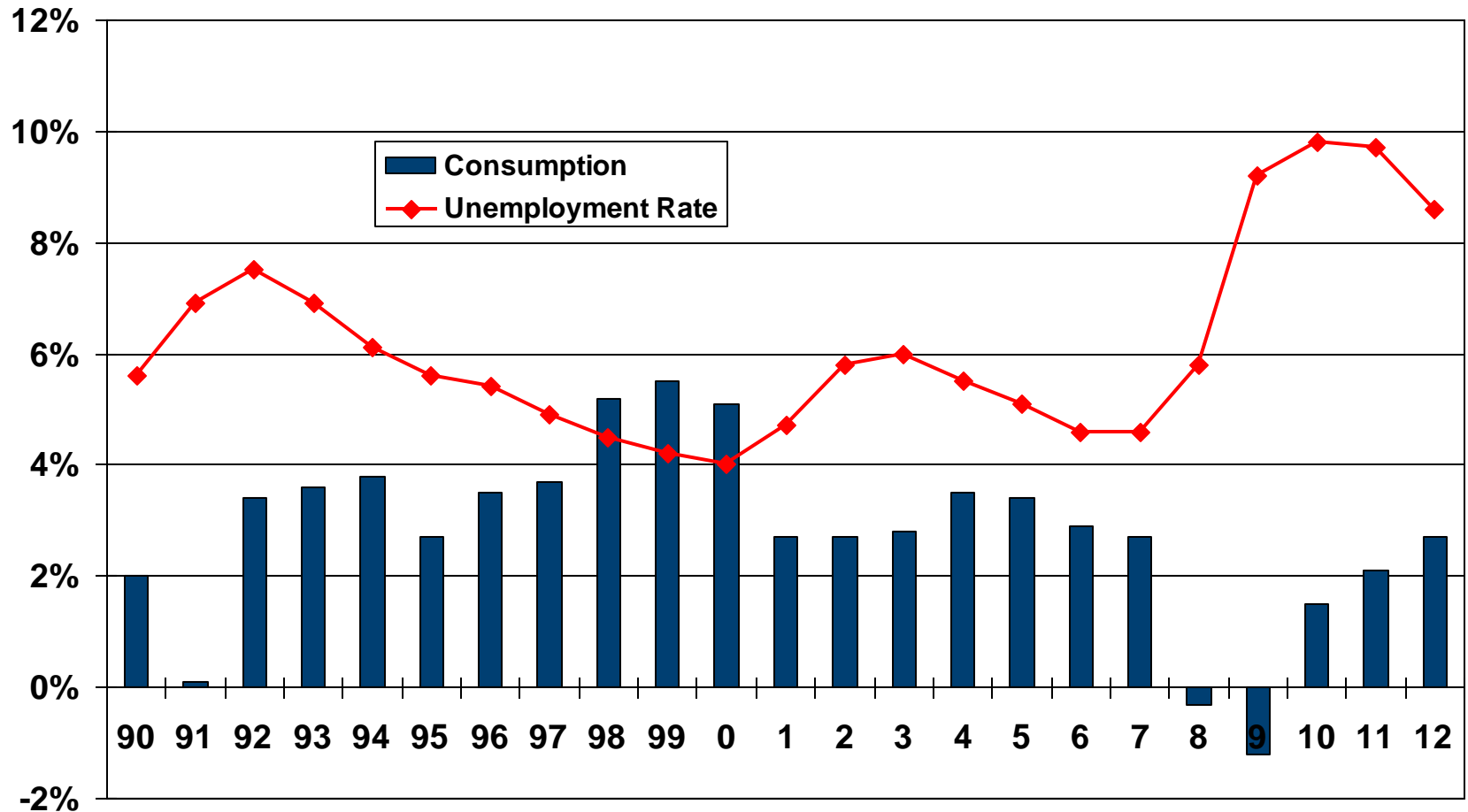
# U.S. Consumer Deleveraging

(Total Consumer Credit Outstanding and Private Savings Rate)



# Release of Pent-Up Demand Restrained by High Unemployment

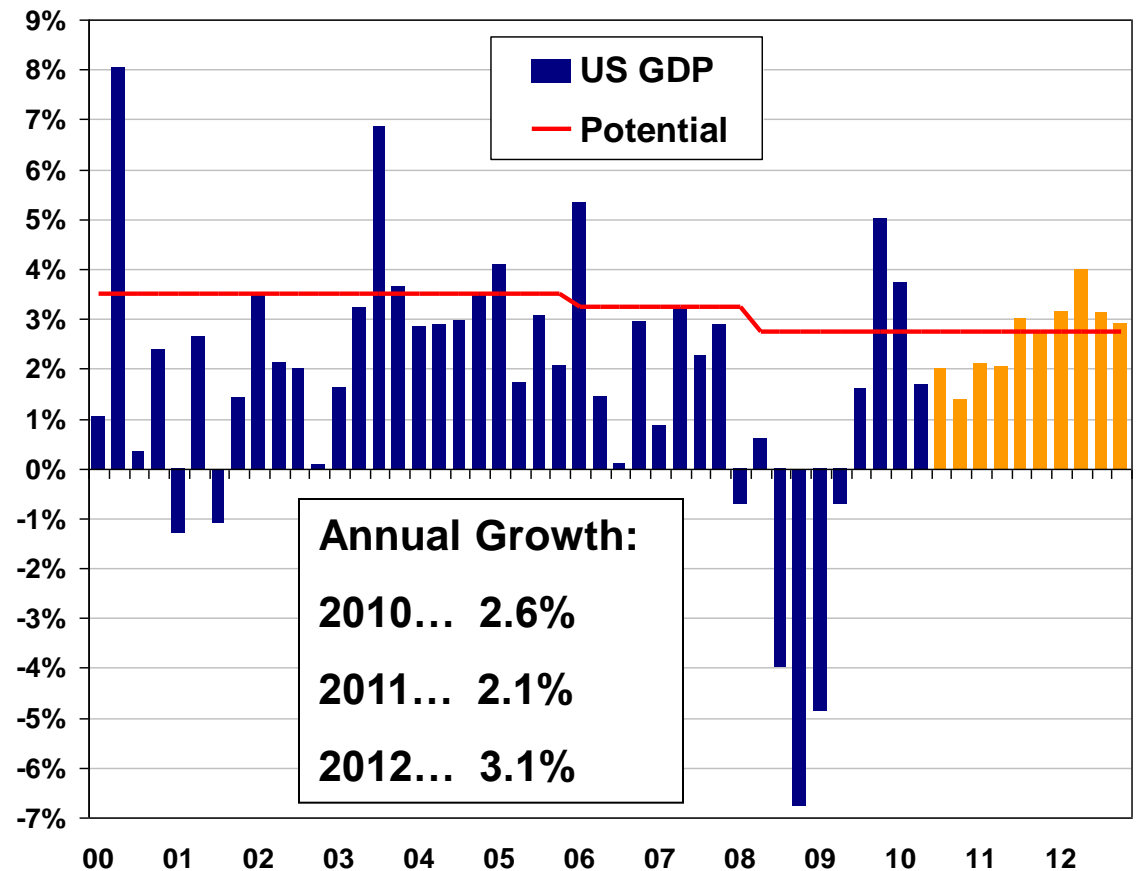
(Annual Percent Change in Real US Consumption and Unemployment Rate)





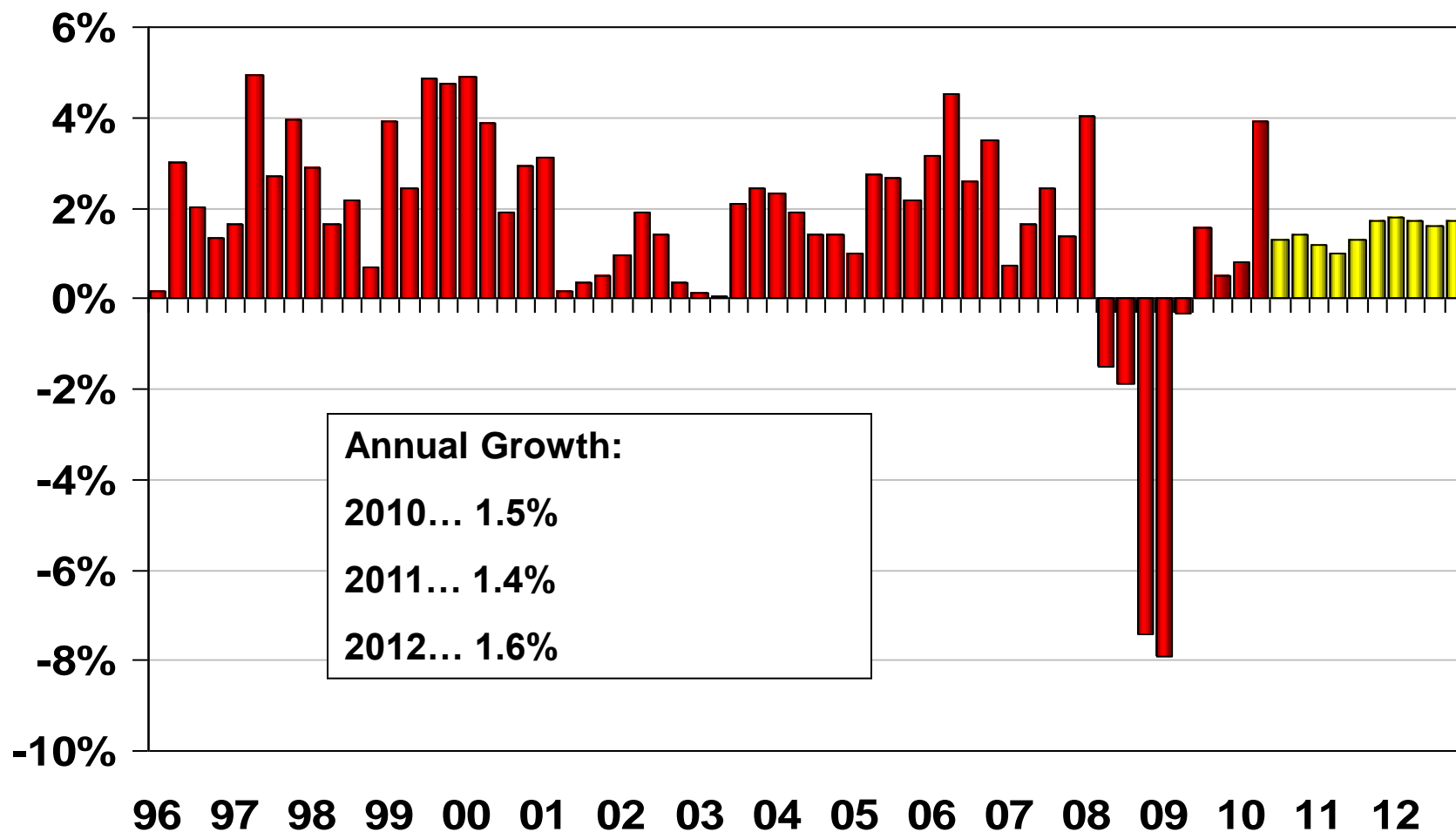
# Headwinds Overtaking Cyclical Tailwinds

- Private consumption limited by deleveraging process
- Labor market has not improved materially and wage growth minimal
- Access to credit is still restricted
- Export-led growth over next few years looks unlikely given global demand backdrop



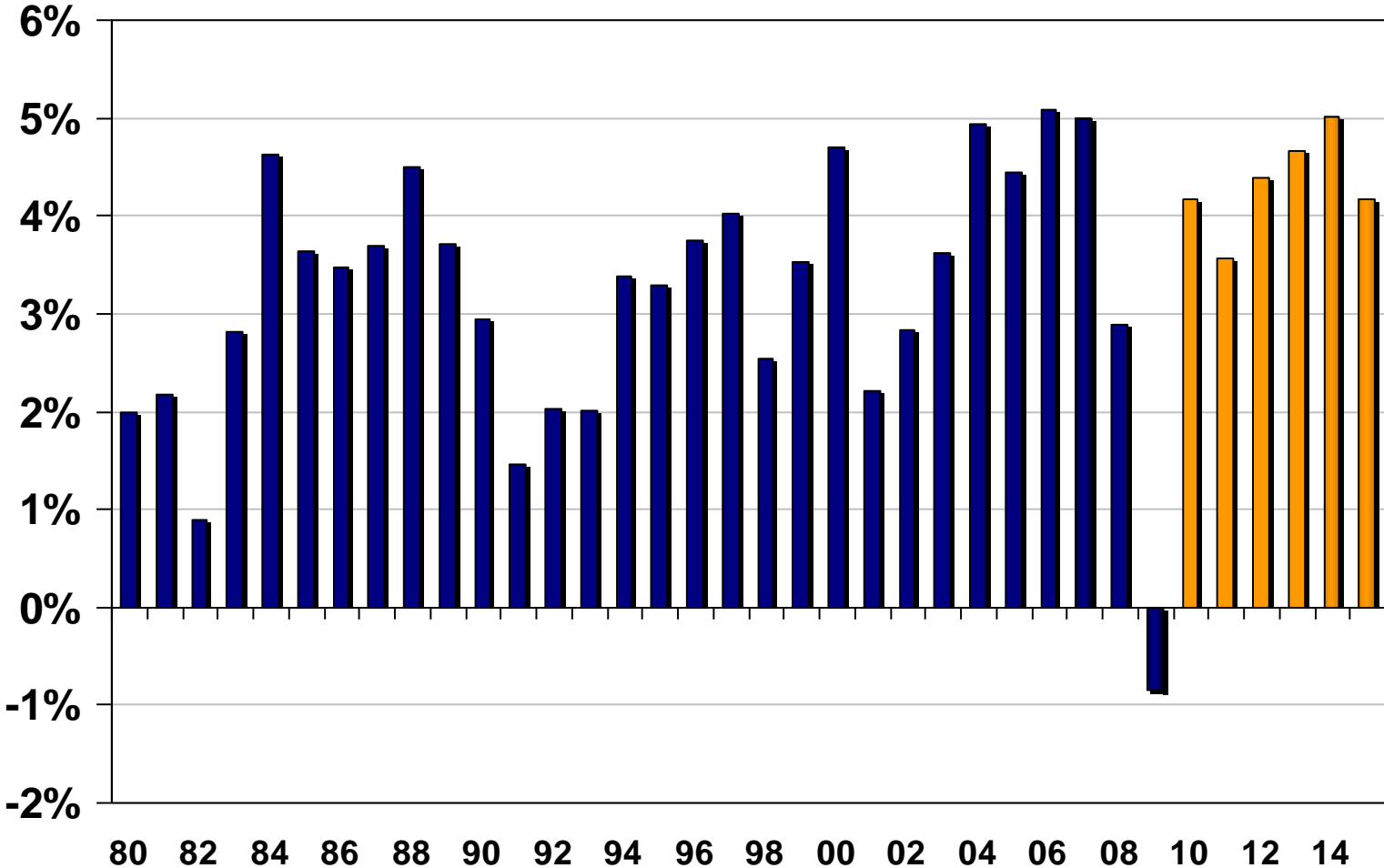
# Euro Area to Face very Sluggish Growth After the Initial Pop out of the Deep Recession

(Real GDP Growth, Annualized Percent Change)



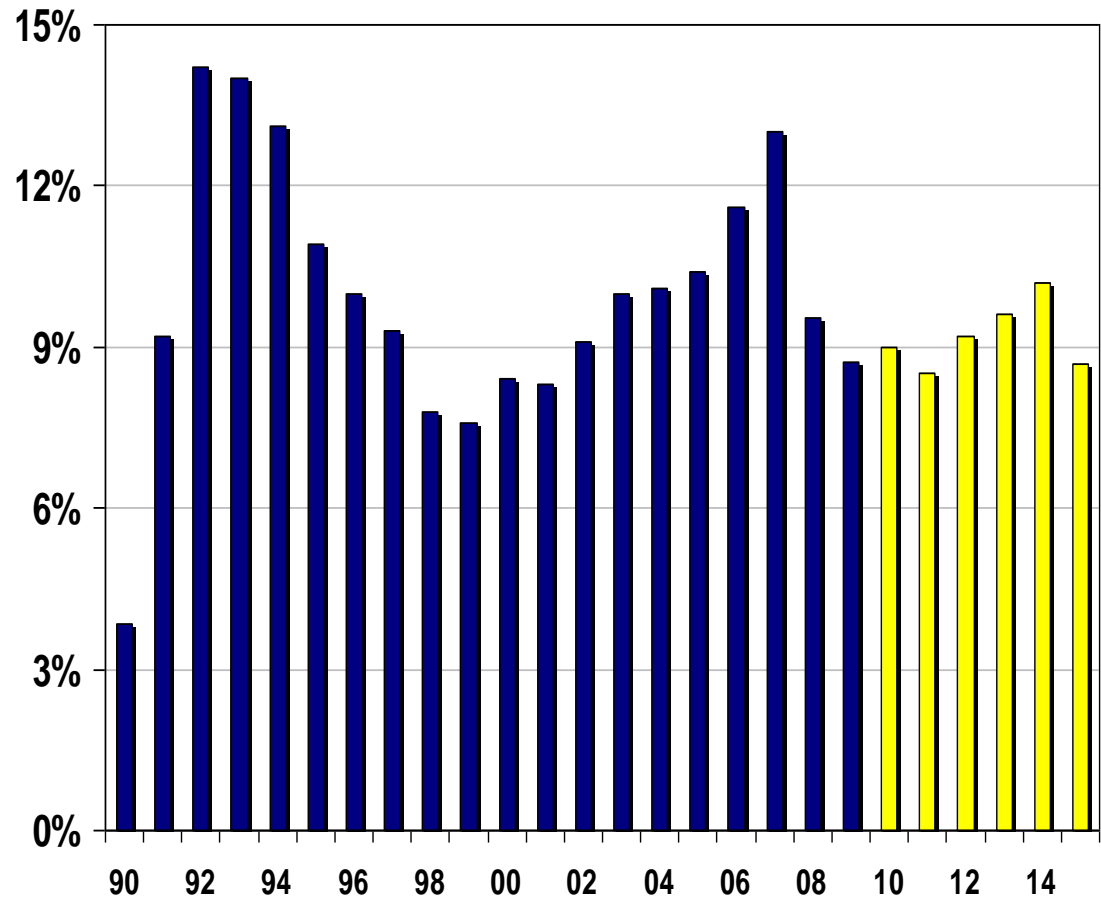
# Emerging Economies Will Drive Global Growth

(Global Real GDP Growth, PPP Exchange Rates)



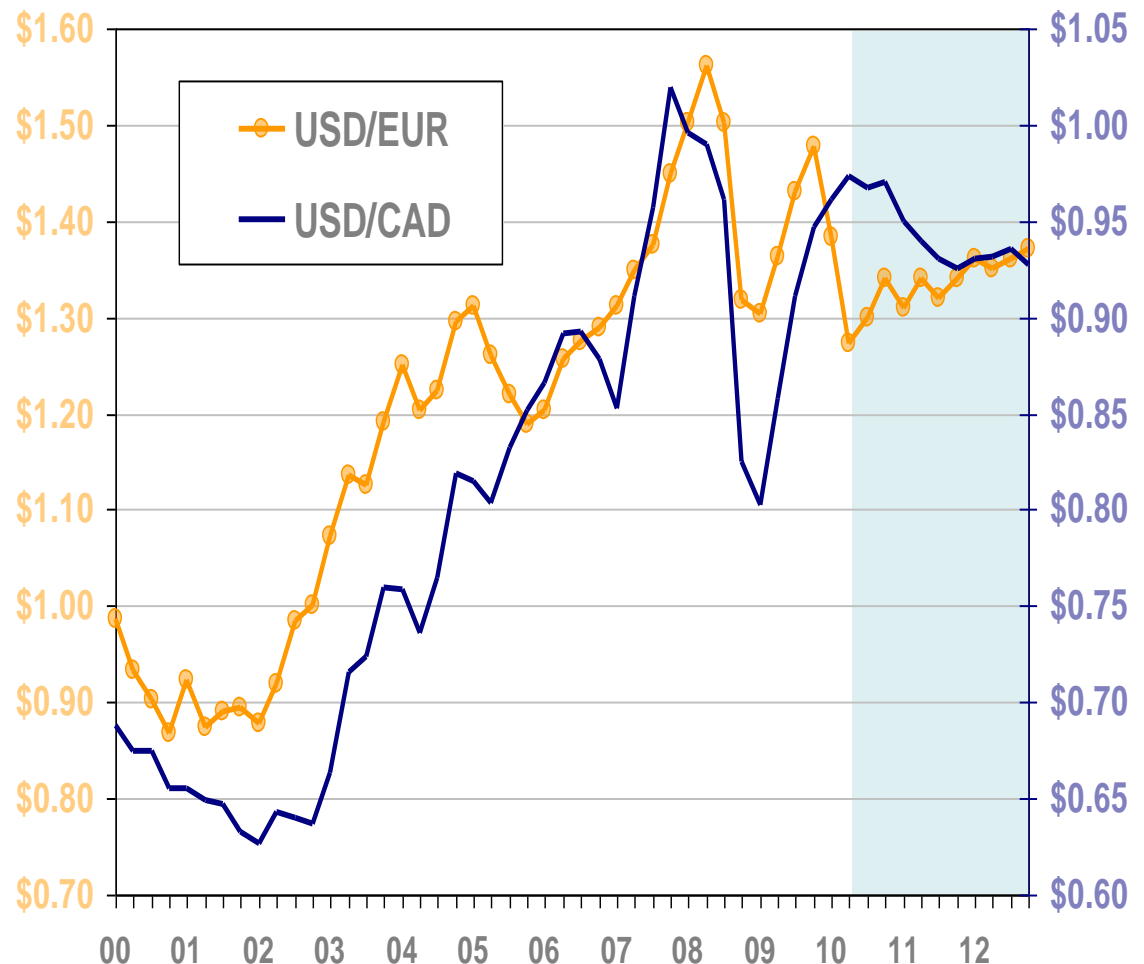
# China Slowing, But Still Key Part of Global Growth Equation

- ▶ Chinese real GDP driven exclusively by Fixed-Asset Investment (FAI) in 2009
- ▶ Government aims to limit FAI and cool domestic property sector in 2010
- ▶ Exports rebounding and yuan revaluation will have little effect on trade picture



# Currency Markets Volatile Recently

- ▶ EUR will remain below recent peaks, but has recovered from turmoil surrounding debt crisis
- ▶ CAD expected to ease moderately in next two years as Canadian growth realigns with US growth. Commodity prices will keep floor under USD/CAD
- ▶ USD is hardly attractive in the longer-term



# Key Publishing Paper End-Uses Collapsed in 2008-2009

- ▶ Demand for publishing papers (CFS, CGW, SC) saw a peak-to-trough decline of 38%
- ▶ Uncertainty over mix of inventory vs. true demand drop is now becoming clear

## Decline in US Paper Demand in Major Paper End-Uses in 2008 and 2009 (two-year loss)

	Percent Loss	Tonnage Lost (000 tonnes)
Inserts	-26%	-810
Magazines	-39%	-1,240
Catalogs	-31%	-1,010
Office Reprographics (copy paper)	-16%	-765
Directories	-31%	-260
Books	-23%	-345

# The Recovery in 2010 Looks Healthy...

## ▶ The Hype!!

- CFS/CGW shipments up 19% and 12% through Sept
- SC shipments up 3% through Sept
  - SC-A/A+ -1%
  - SC-B/SNC+ up 12%
- Magazine and catalogs seeing recovery in circulation and advertising in Q2 2010
- Most mills sold out with long order-lead times
  - Some mills/grades are on allocation



# But is Slim on Underlying Strength of Demand...

## ▶ The sobering reality

### – Newspaper Inserts

- Struggling to find alternative distribution outside of collapsing newspaper market
- Coupons going on-line

### – Magazines

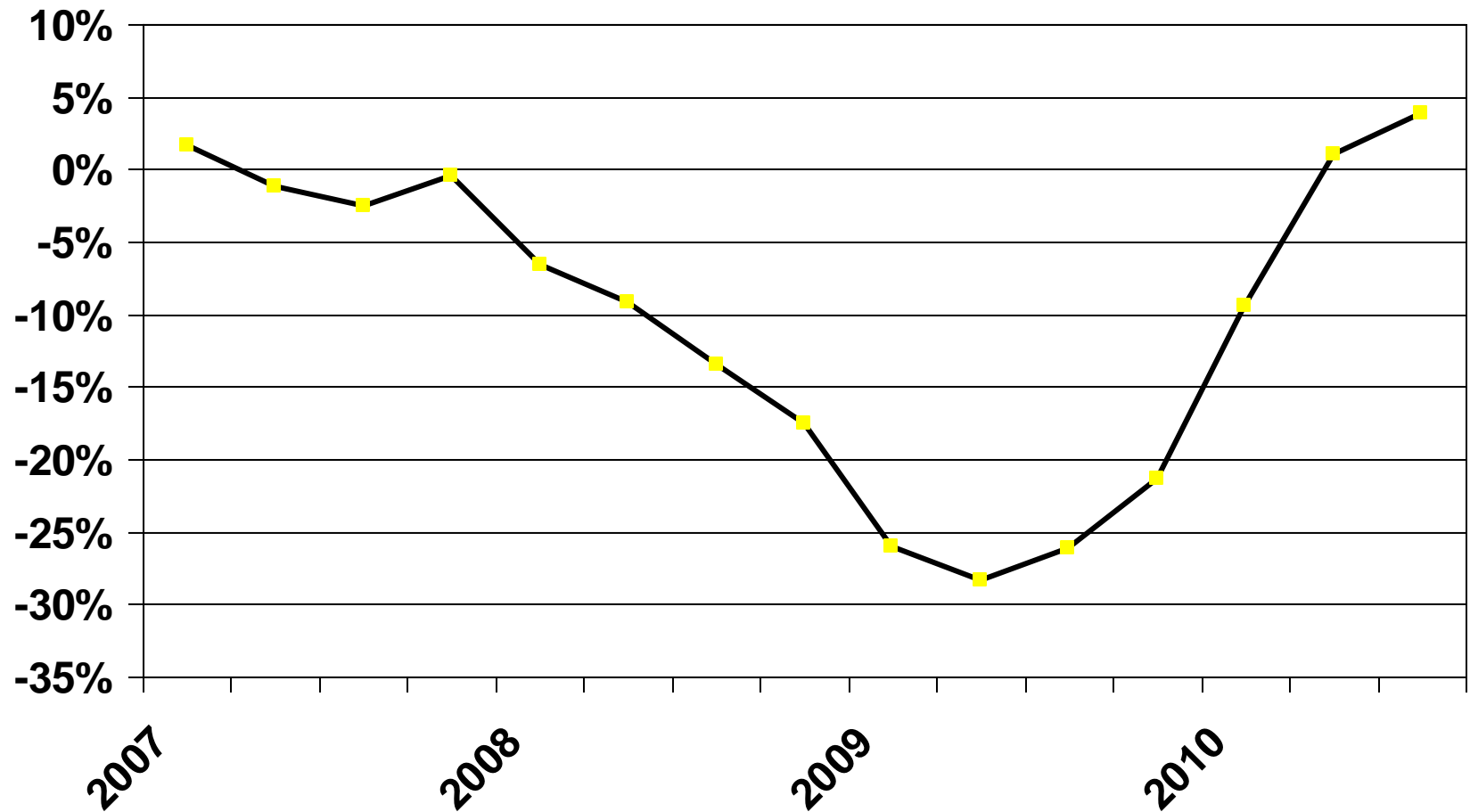
- Both circulation and ad pages declining long-term
- Further potential losses coming due to e-readers

### – Catalogs

- Circ will come back from 09, but still down long-term
- Page counts falling
- Postal costs will eventually rise?
- Do-not-mail legislation to come?

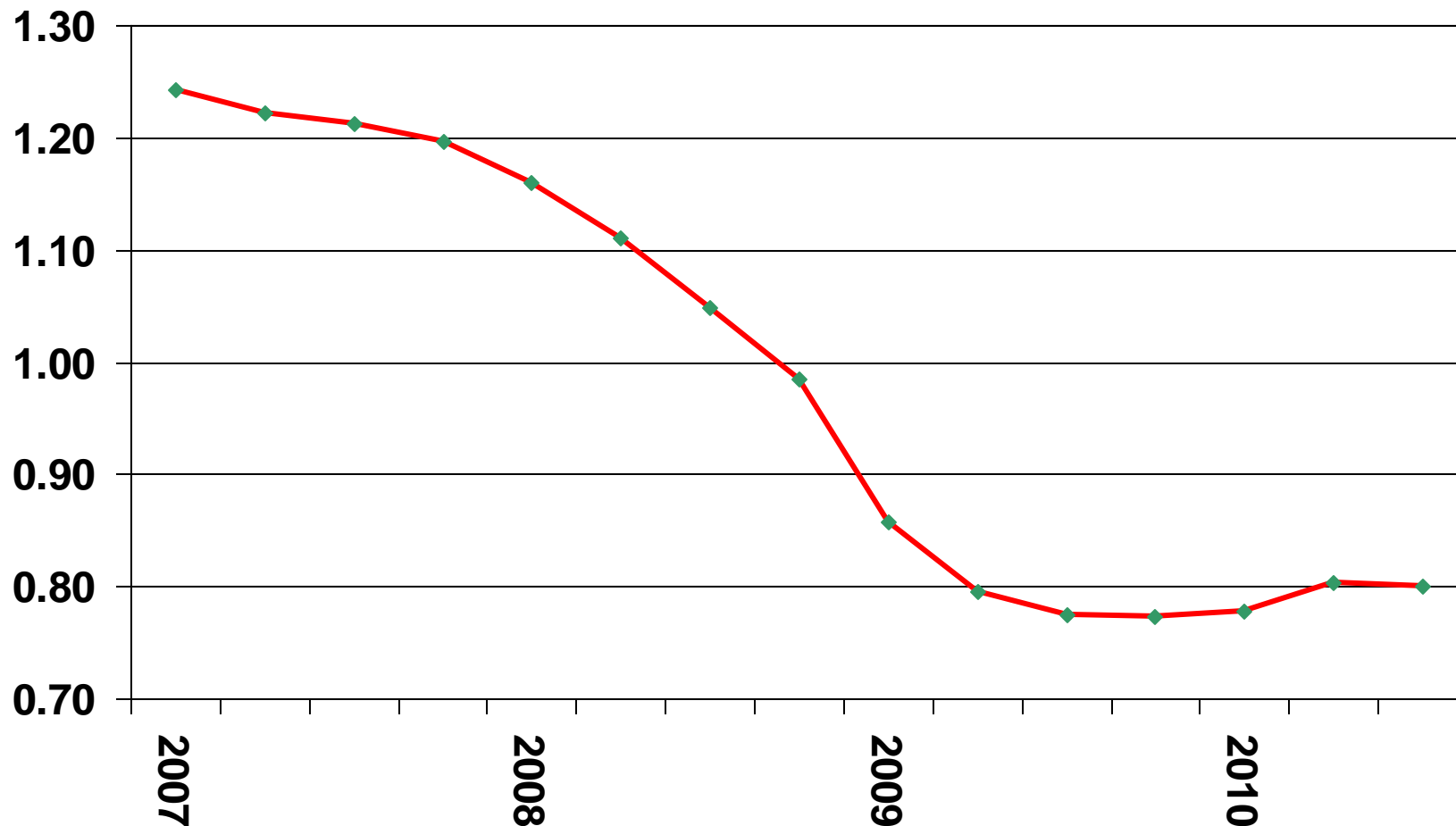
# Magazine Advertising Appears to Show Good Recovery in Q3 2010

(%change in magazine ad pages over year-ago levels)



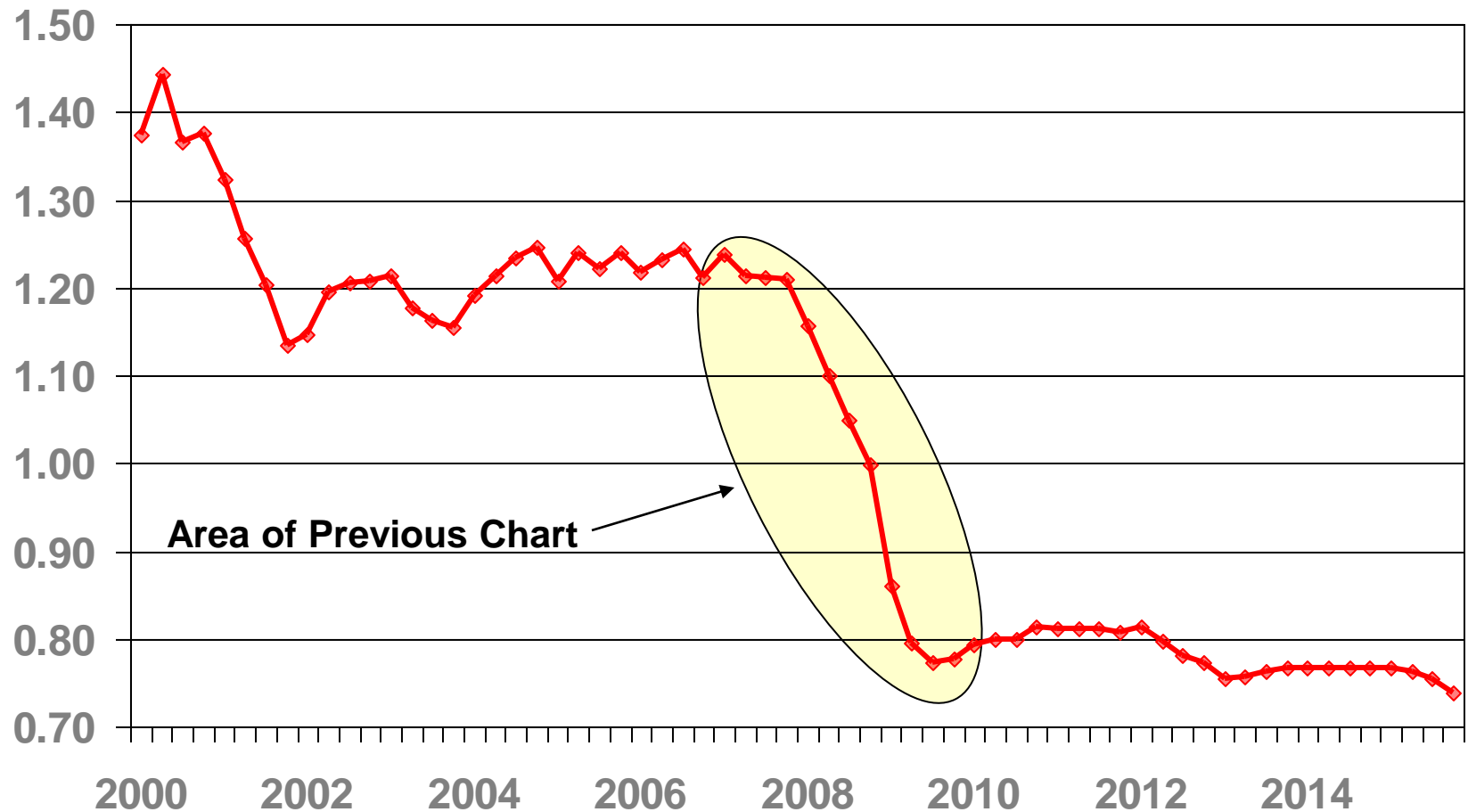
# But if You Look at the Recovery in Actual Pages, Magazines are Still Facing a Net Loss of 35% Compared to Pre-Crisis Levels

(magazine ad pages index, 1982=1.0)



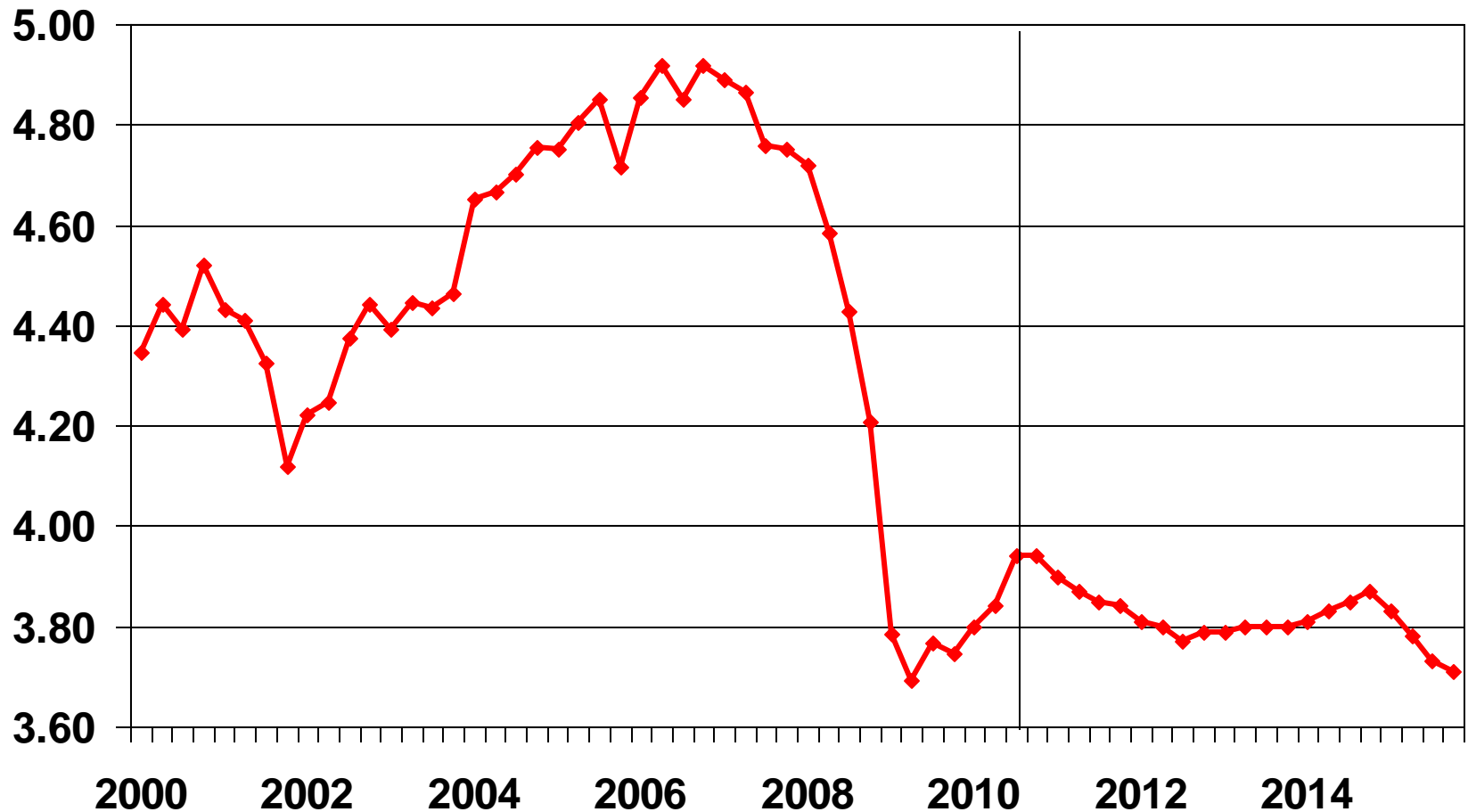
# US Magazine Ad Pages on Long-Term “Stair-Step” Decline

(Quarterly PIB Magazine Ad Page Index, 1982=1.0)

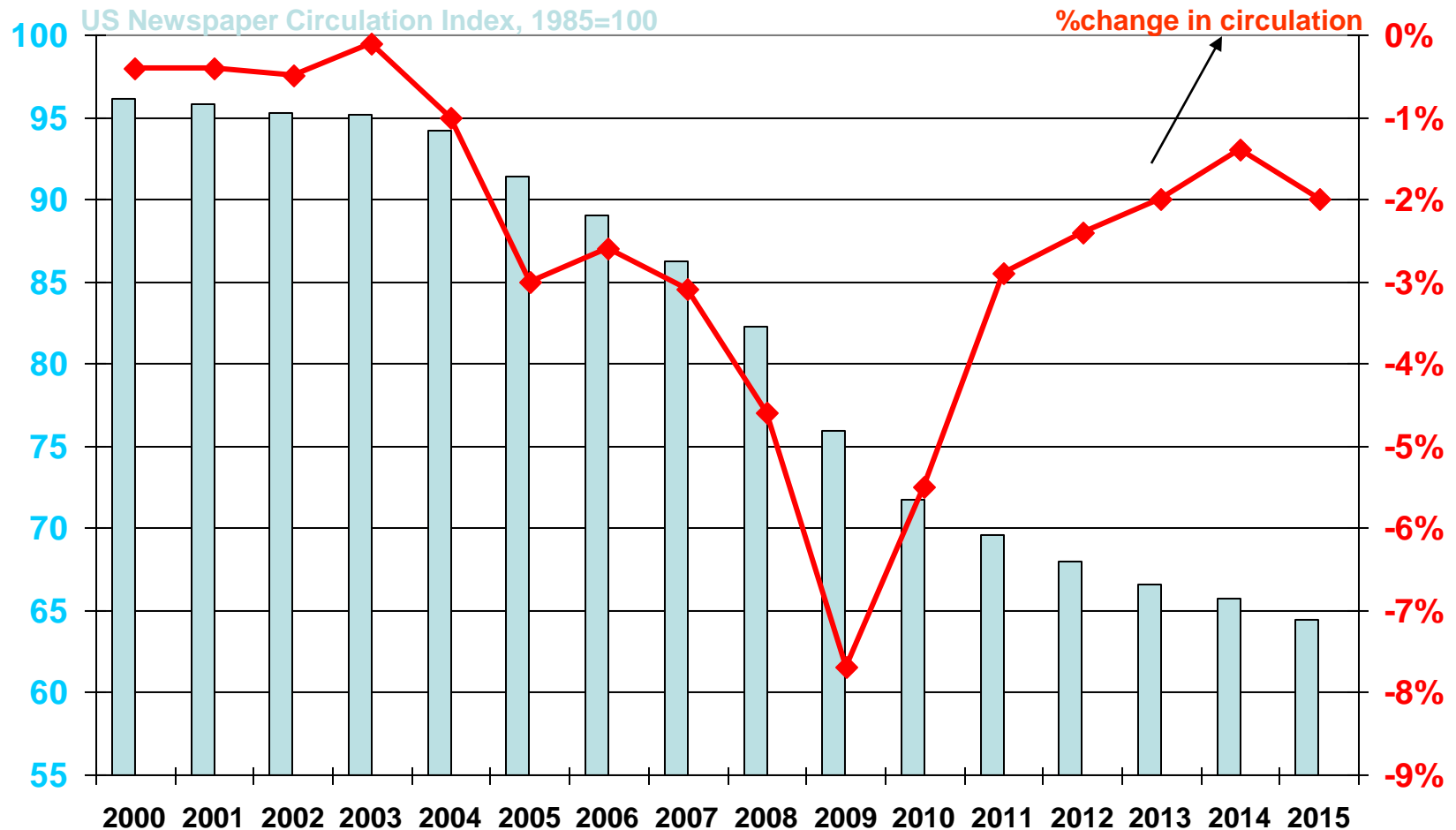


# Catalogs Showing Some Post Recession Recovery, But Staying Far Below 2007 Peak

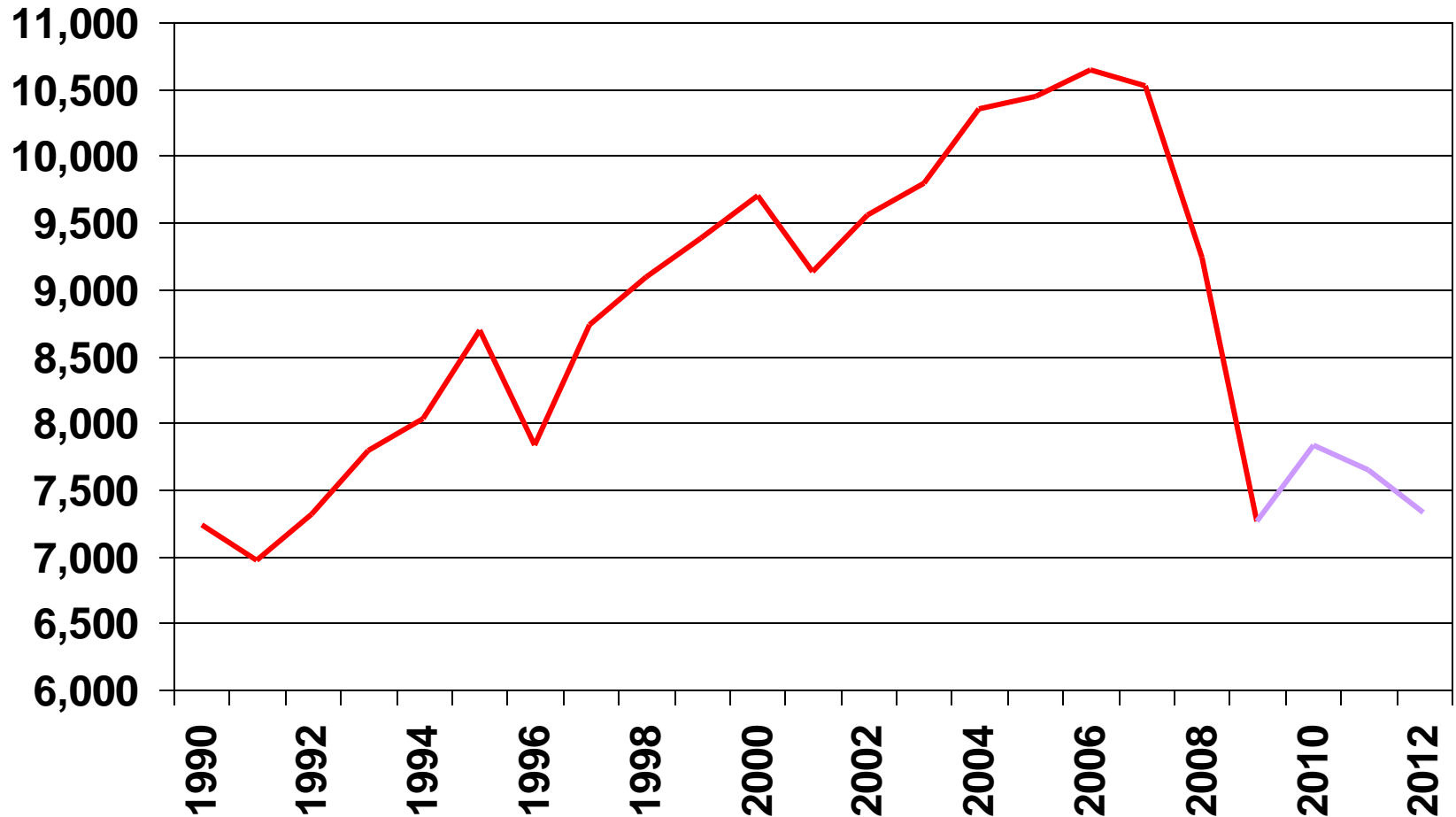
(Billions of Catalogs Mailed per Quarter)



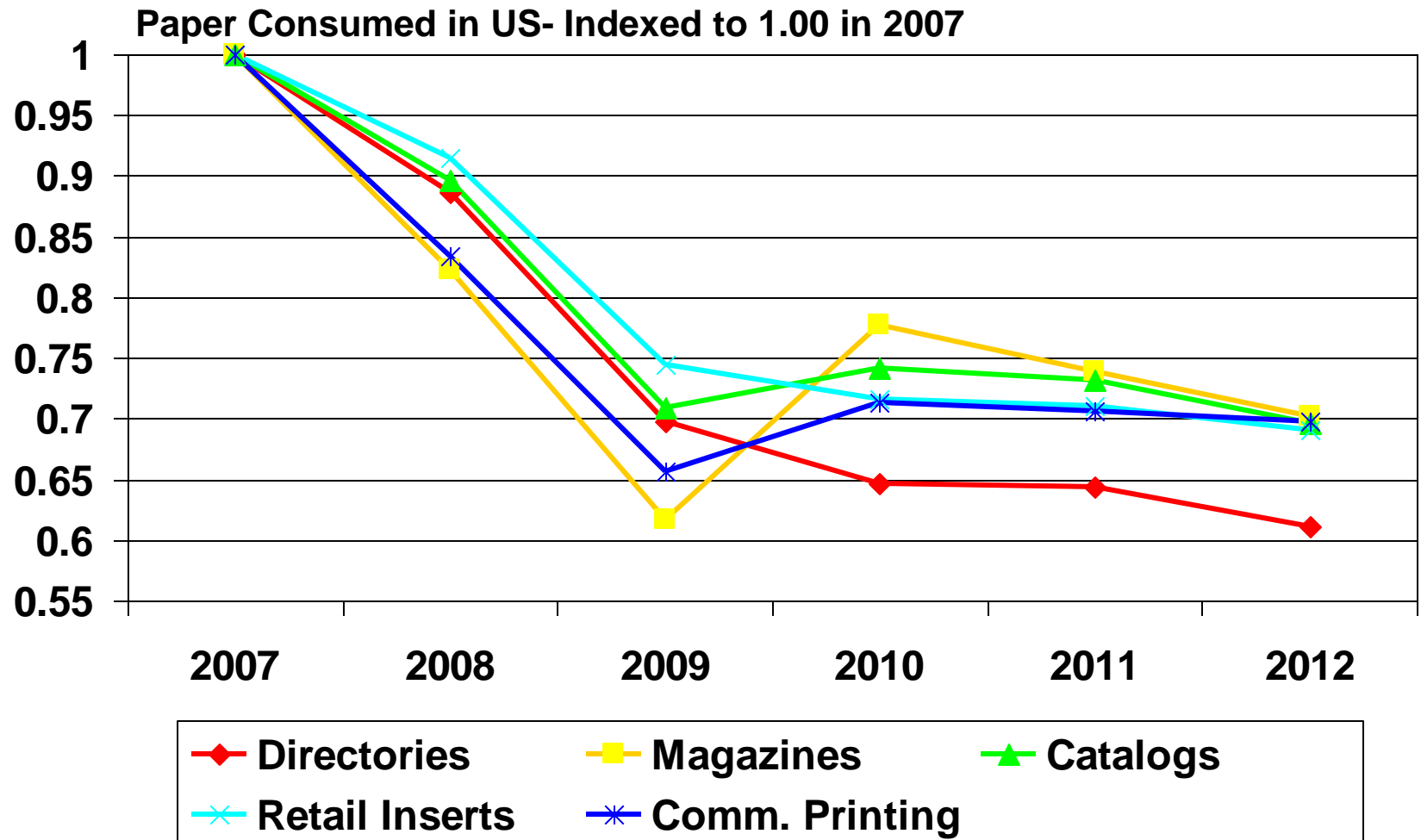
# Newspaper Inserts Struggling Against a headwind of Declining Newspaper Circulation



# Total Paper Usage in US Magazines, Catalogs, and Newspaper Inserts Combined (000 tons)

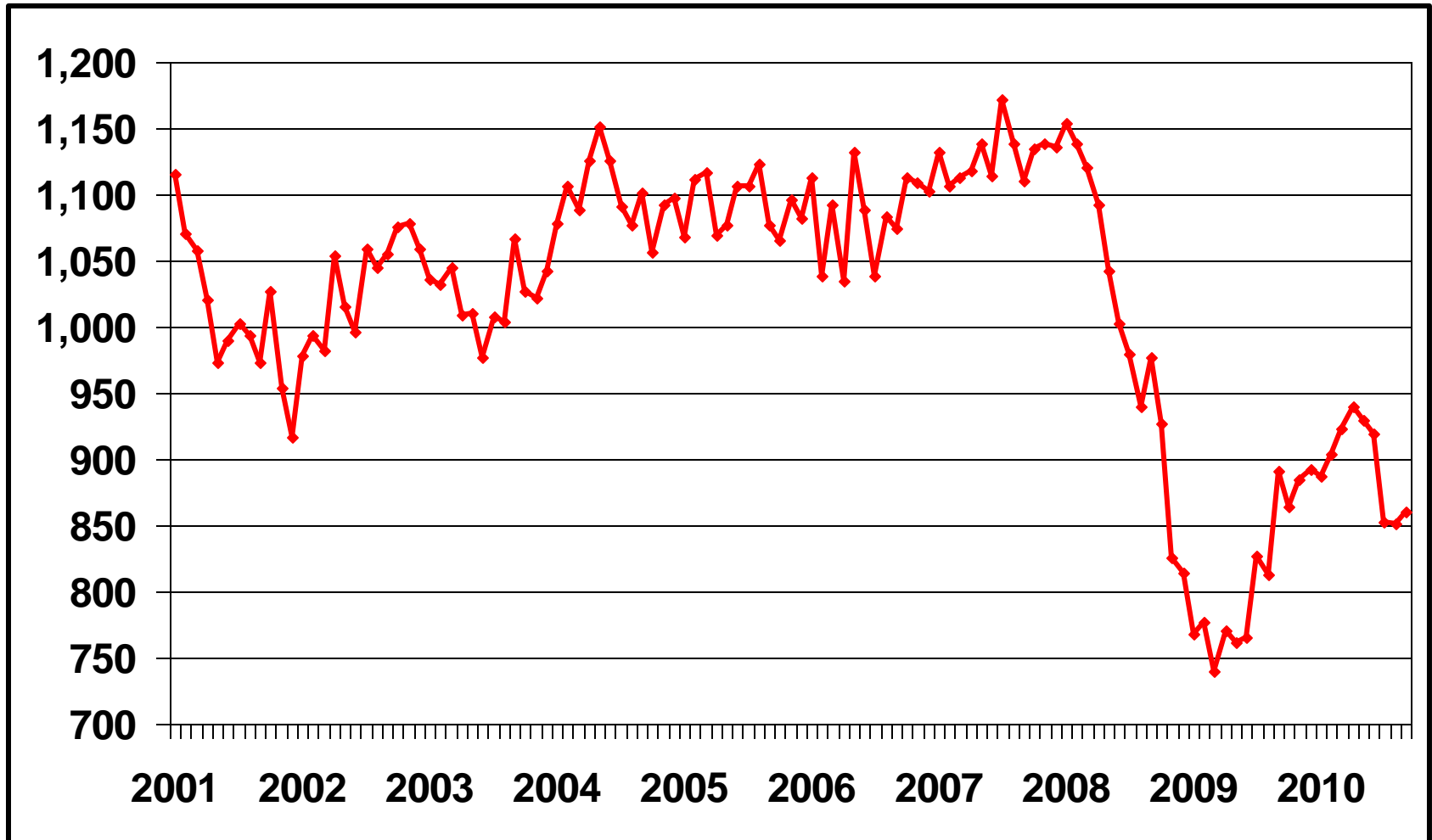


# Most Publishing End-Uses to Show Recovery in 2010, But Still Show Longer-Term Net Decline





# Monthly NA Shipments of SC, Coated Mechanical and Coated Freesheet (000 tons, seasonally adjusted)

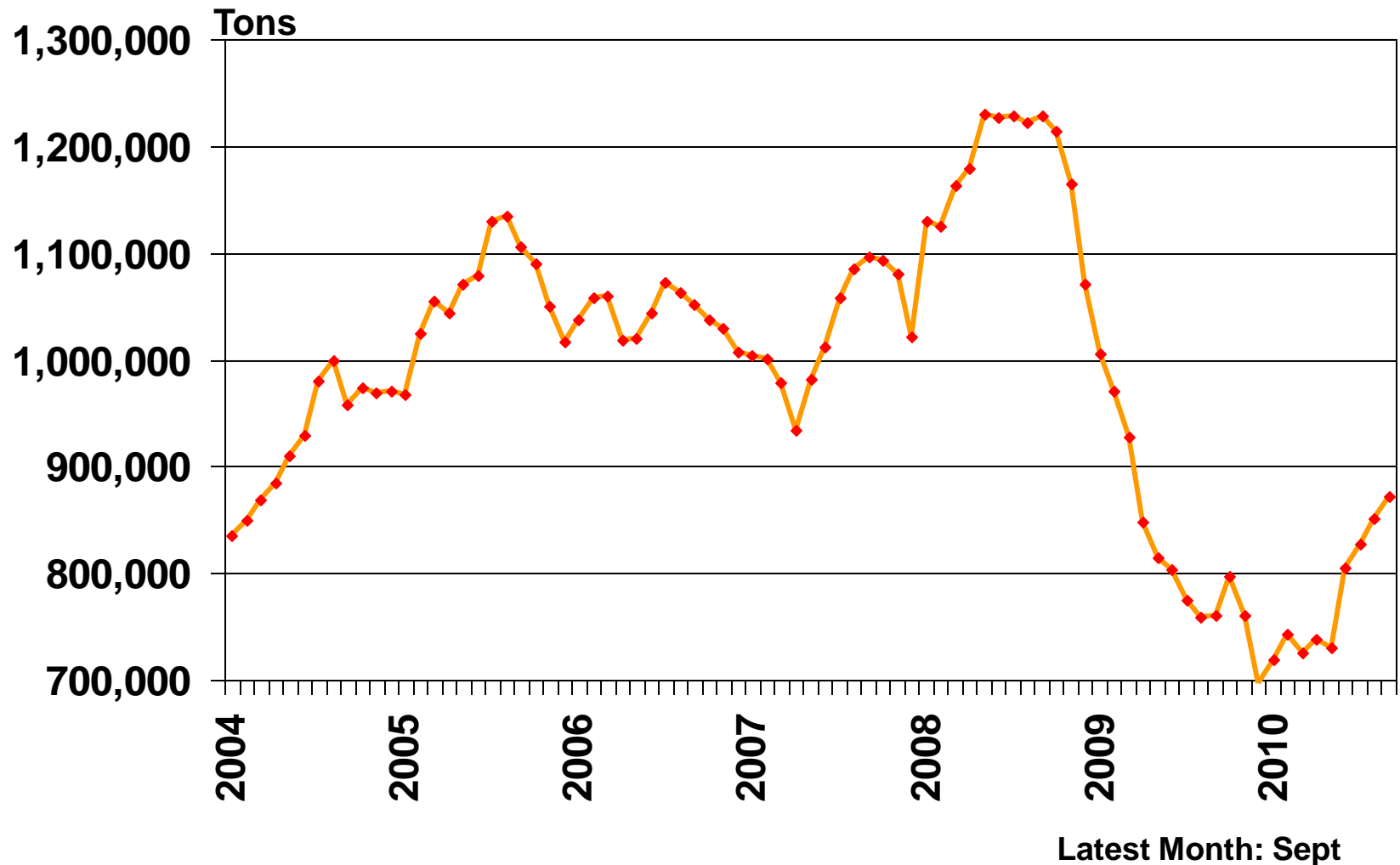


Data Source: PPPC

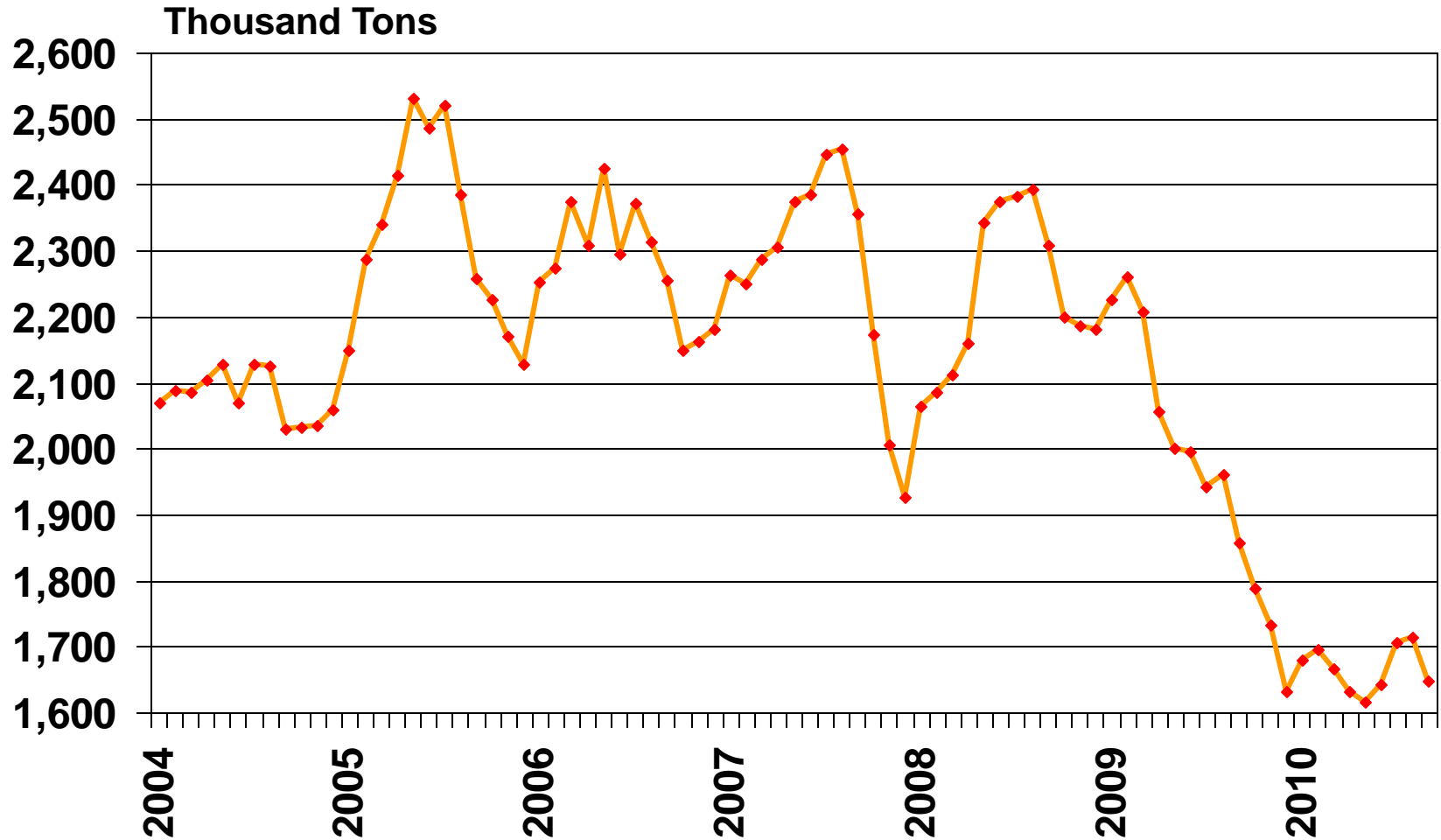
Last Data Point: Sept

# North American Inventory of Coated Paper and SC Held by Printers Started to Rise in June

(Includes Inventory Owned by Publishers But Held by Printers)



# N. American Inventory of Coated Paper and Uncoated Mechanical Held by Printers & Mills Combined (Includes Inventory Owned by Publishers But Held by Printers)



Data Sources: PPPC, IDEAlliance, AF&PA

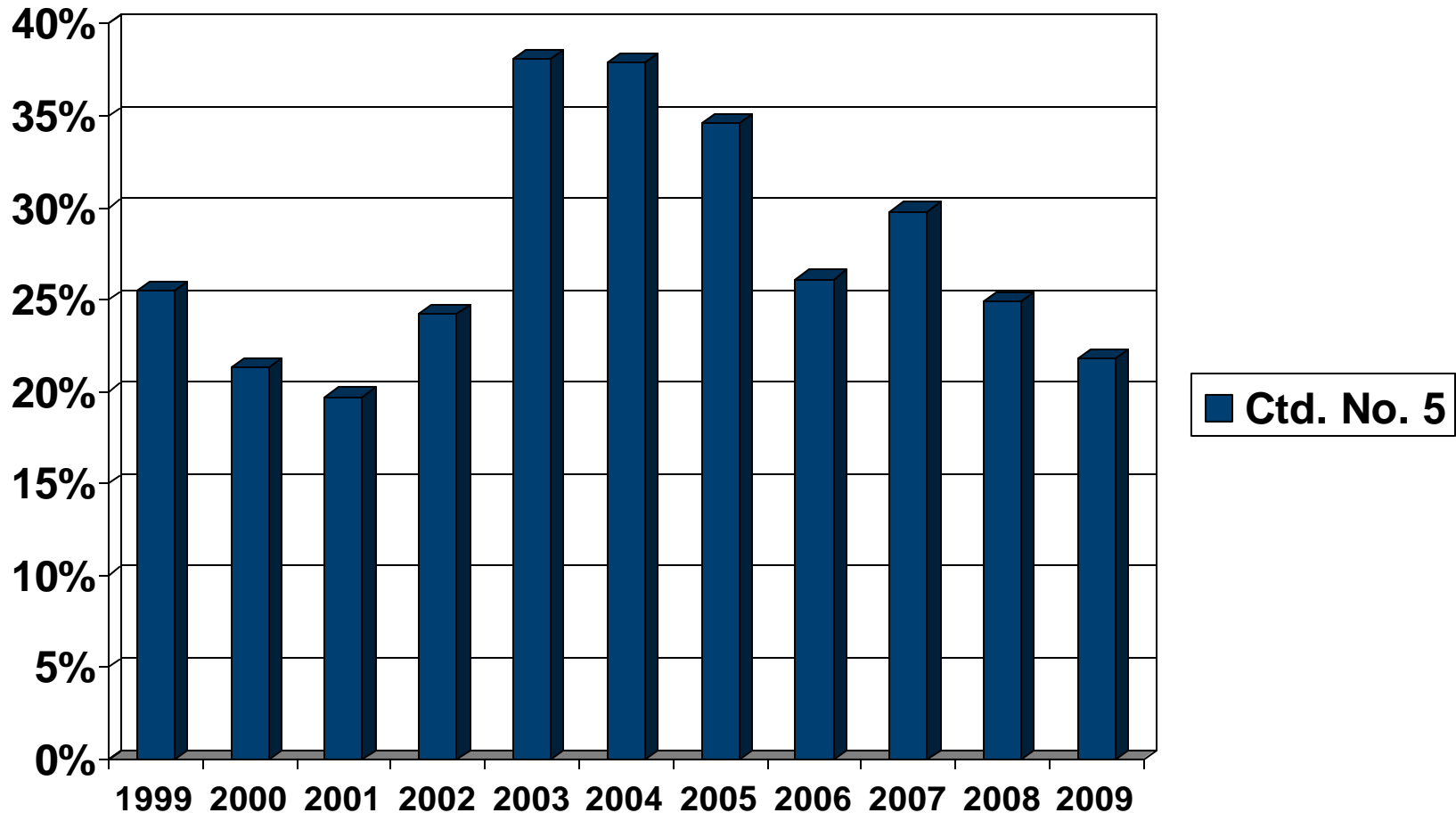
# North American P&W Demand by Grade

## Million Tonnes, % Change

	2008	2009	2010	2011	2012
Ctd. Freesheet *	5.3	4.0	4.7	4.7	4.6
%ch	-13%	-23%	16%	0%	-3%
Ctd. Mechanical	5.1	4.0	4.1	4.1	3.9
%ch	-15%	-21%	3%	-2%	-5%
Unc. Freesheet *	11.4	9.9	9.9	9.8	9.6
%ch	-8%	-12%	-1%	0%	-2%
Unc. Mechanical	6.0	5.0	5.1	5.0	5.1
%ch	-4%	-17%	2%	-1%	0%
Total	27.7	23.0	23.8	23.6	23.1
%ch	-10%	-17%	4%	-1%	-2%

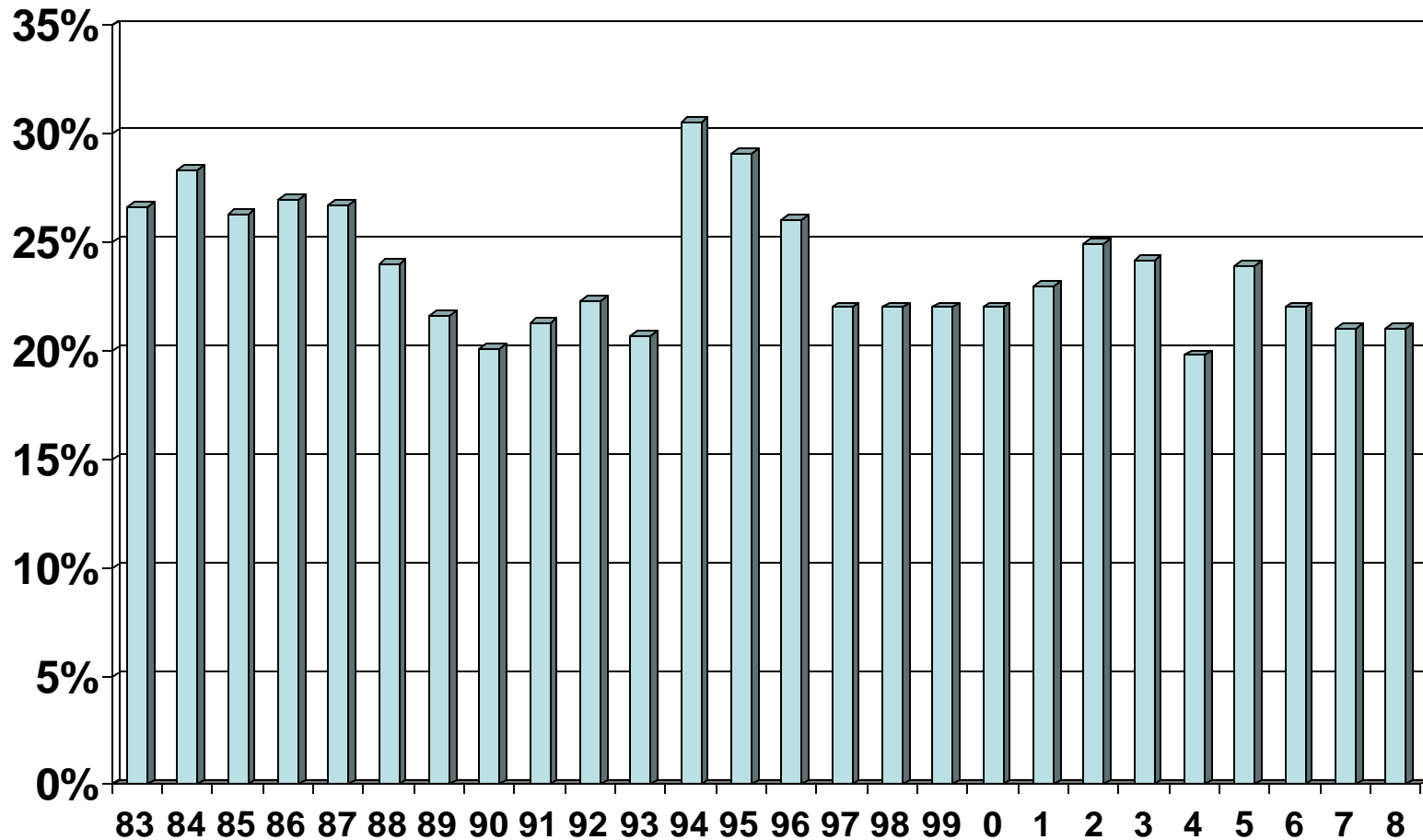
\*Includes bristols and cotton

# Gravure Paper as Percentage of US Coated No. 5 Paper Shipments



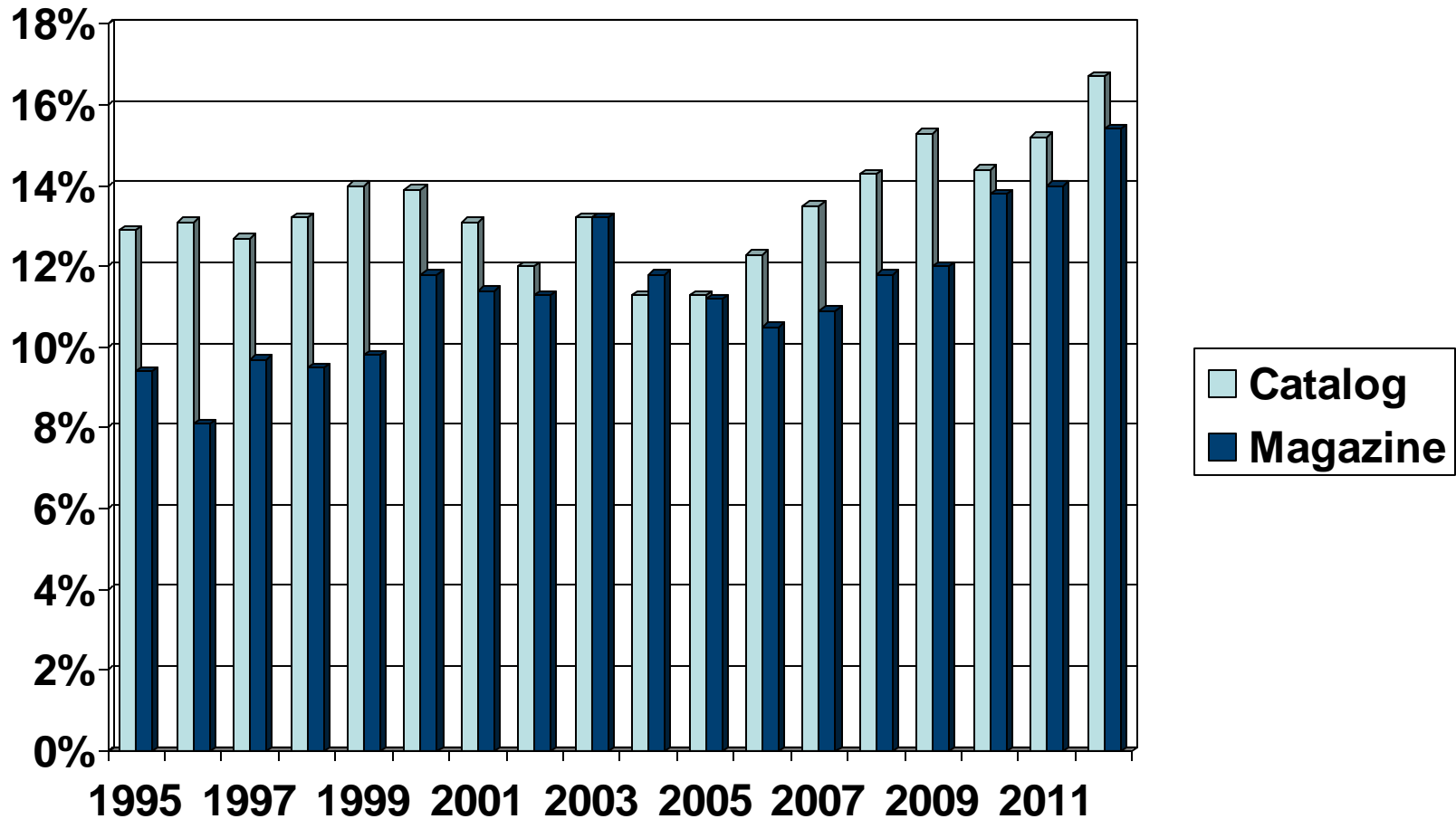
Source: AF&PA

# Gravure Paper as Percentage of Total Paper Used in North American Magazines



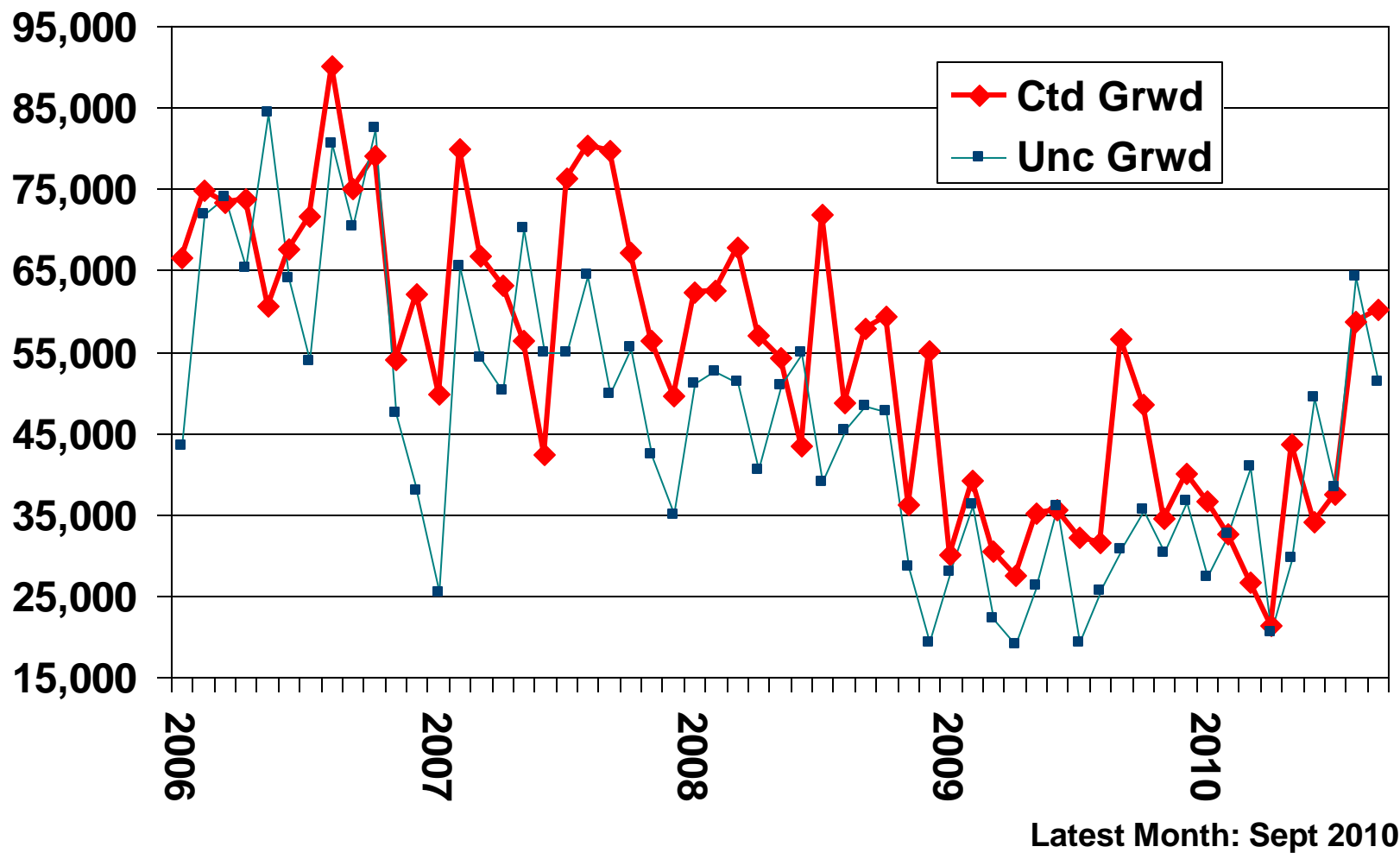
Source: MPA Paper Survey

# SC Gaining Share of Paper use in Magazines and Catalogs in Effort to Save Money (SC % of Paper use)



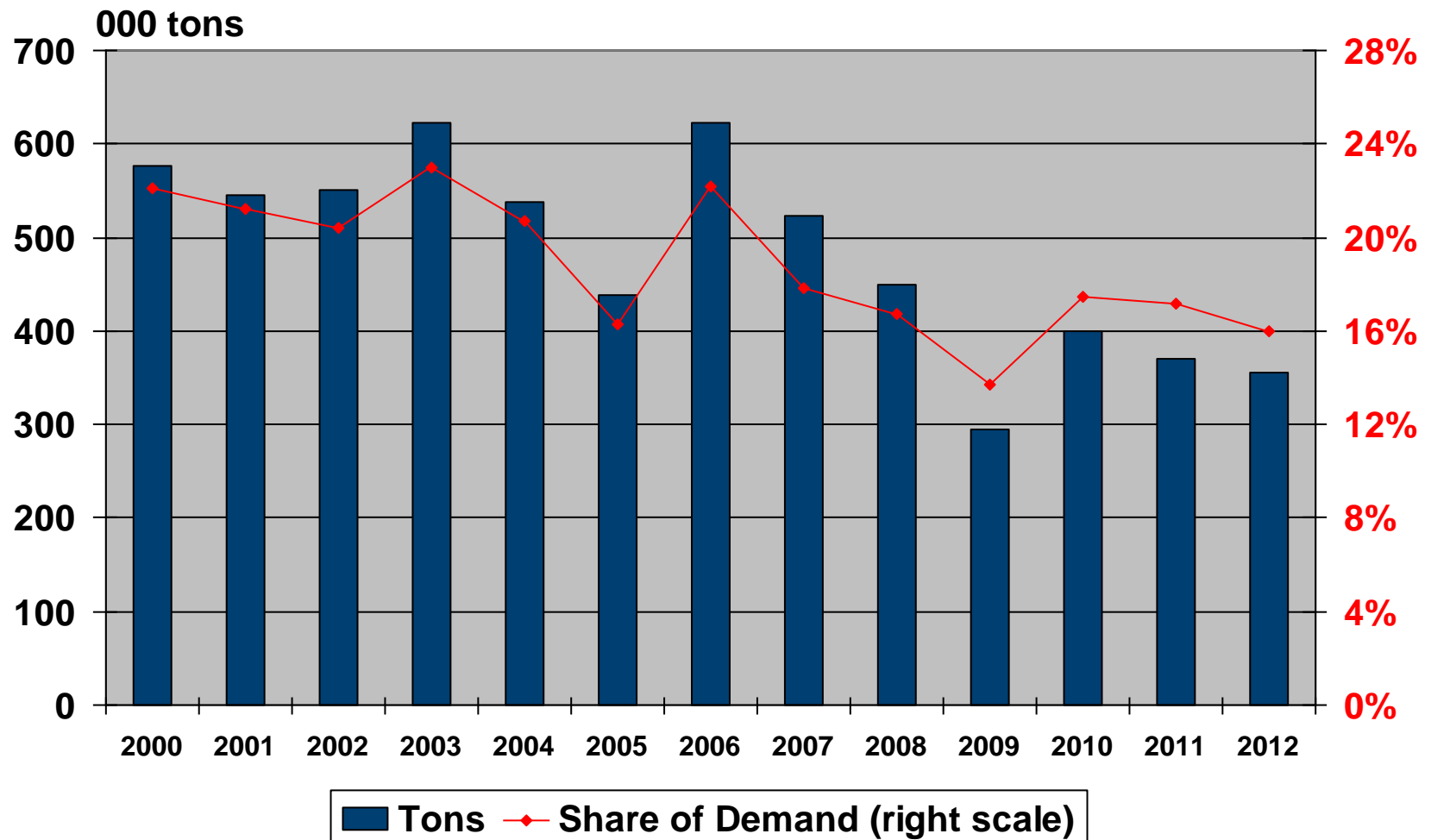
Note: Includes "New" lightly-coated SC made by some producers

# US LWC and SC Paper Imports From Europe Rising in 2010 to Meet Strong Demand, but Could Fall in 2011 Due to Strong Euro and Restart of Some NA Capacity (tons per month)

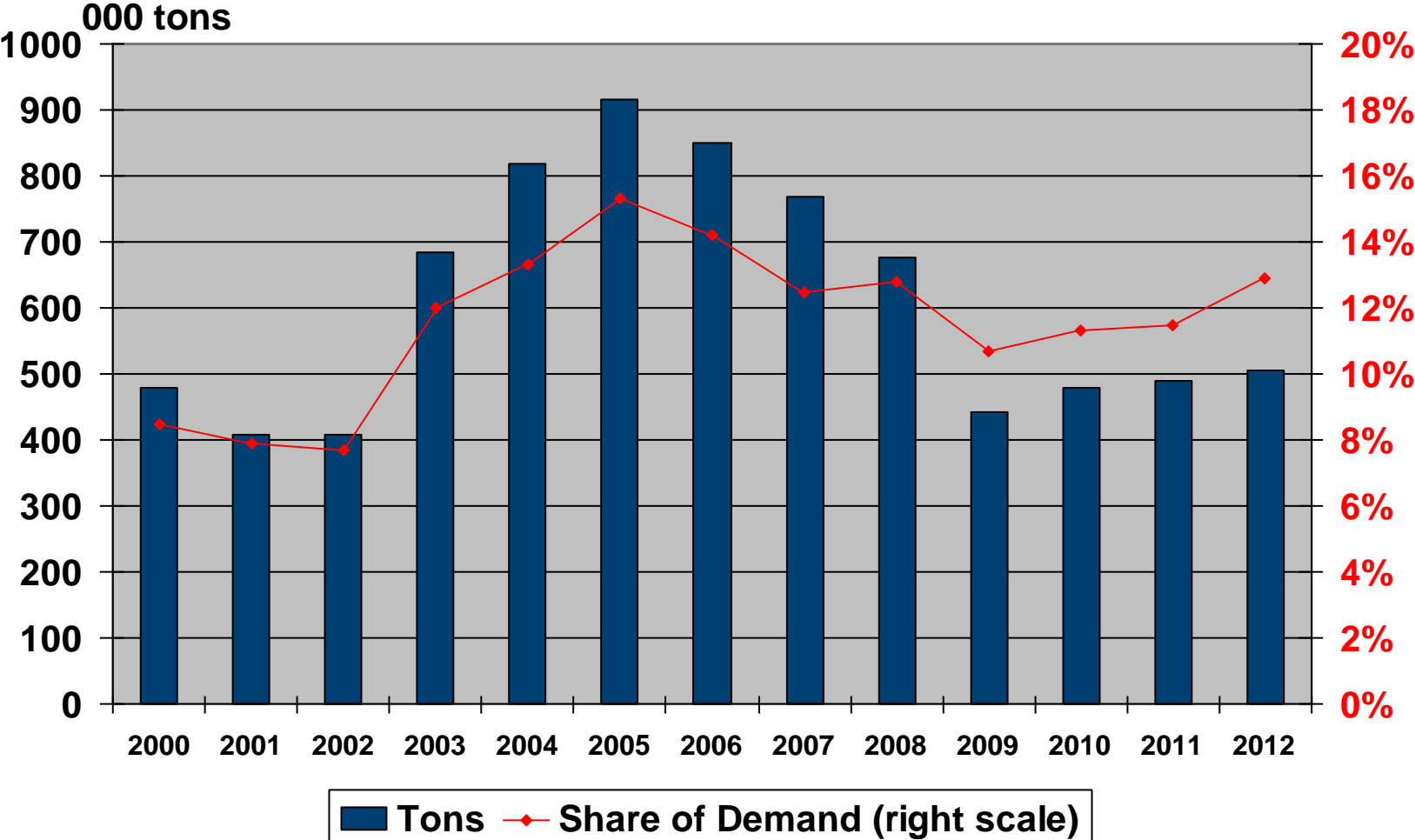




# European Imports of SC Uncoated Mechanical to the US Market Supplying 16-17% of US Demand



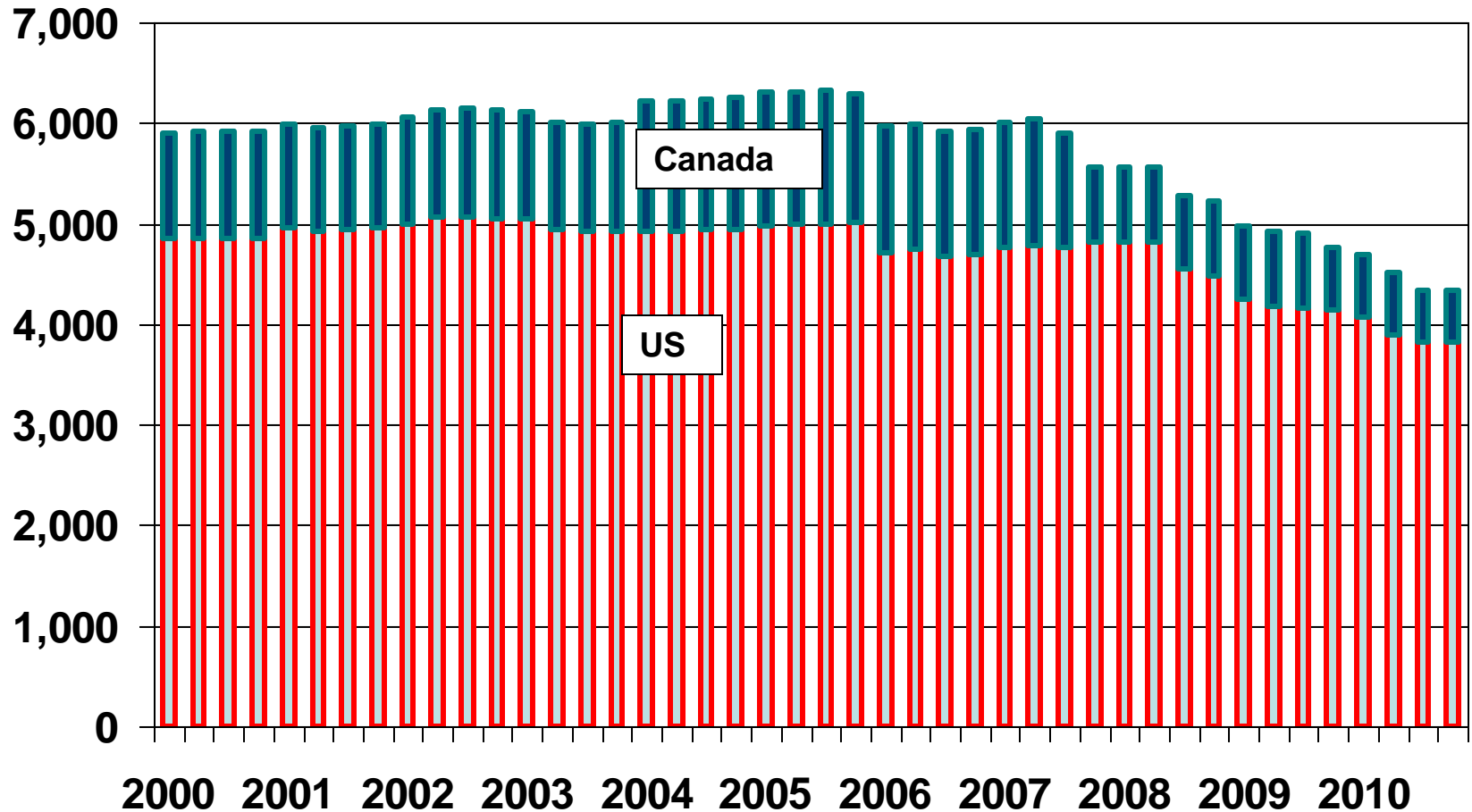
# European Imports of Coated Mechanical Into the US Market Supplying 11-12% of US Demand



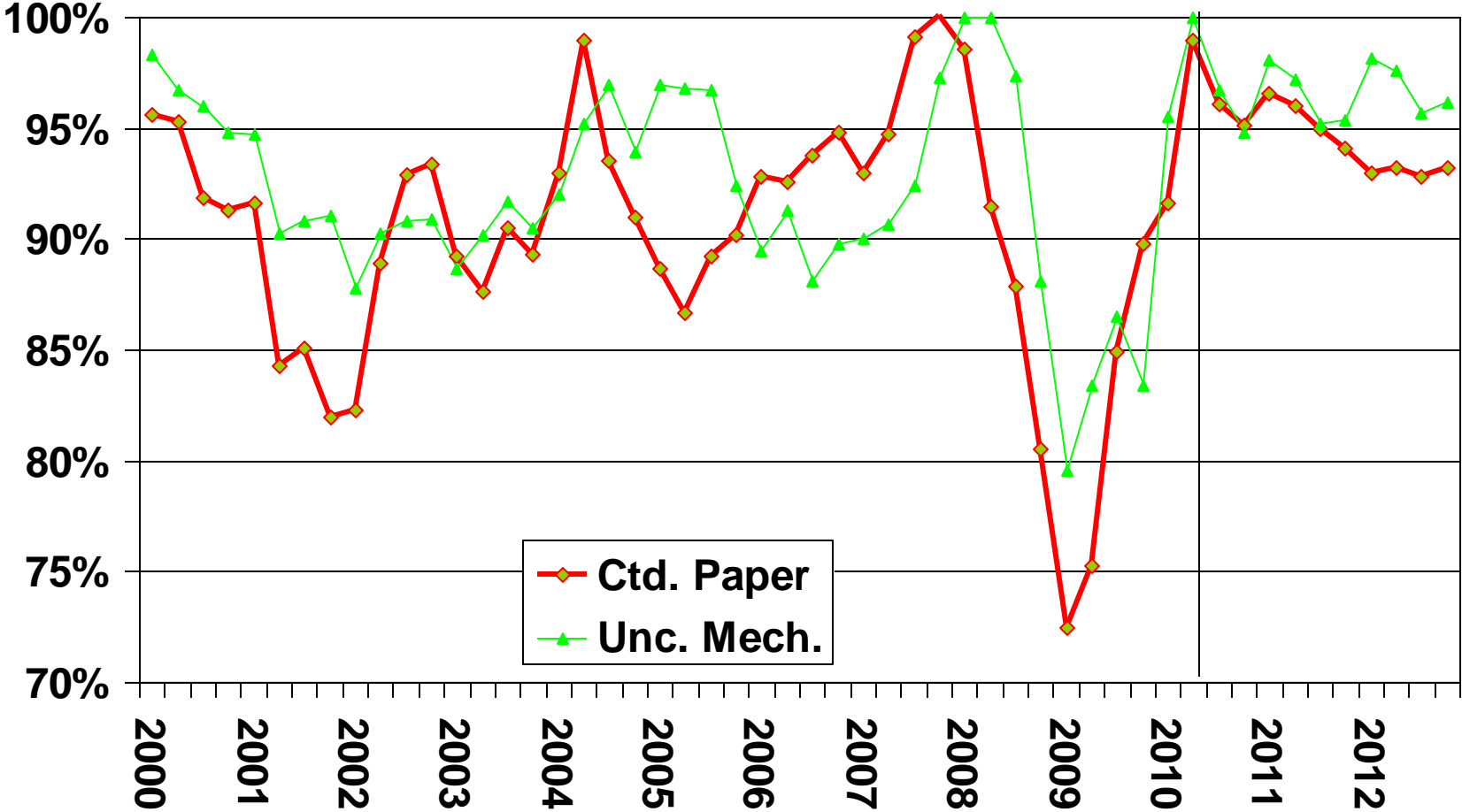
# North American Capacity Shuts for SC/LWC, 2009-2010

Location	Date	Capacity (Short Tons)
Catalyst, Elk Falls PM2	Feb 2009	-169,000 SNC
AbiBow, Ft Francis PM 6	Dec 2009	-77,000 SC-A
AbiBow, Dolbeau PM 5	July 2009	-160,000 SNC
St. Marys, PM3	Dec 2009	-53,000 SC-B
St. Marys, PM4	Dec 2009	-53,000 SC-A
St. Marys, PM5	Mar 2010	-142,000 SC-A
Kruger, 3 Rivers PM 6	June 10	-78,000 SC-C
Verso, Bucksport PM 1 to packaging	2009	-84,000 LWC
Verso, Sartell Swing half of PM 3 to SC	2009	-98,000 LWC +98,000 SC-A
Kruger, 3 Rivers PM 3,4	Oct 2009	-120,000 LWC
Kruger, 3 Rivers PM 1	June 2010	-110,000 LWC
Domtar, Columbus	April 2010	-238,000 LWC
totals		-634,000 SC (24%)
		-650,000 LWC (14%)

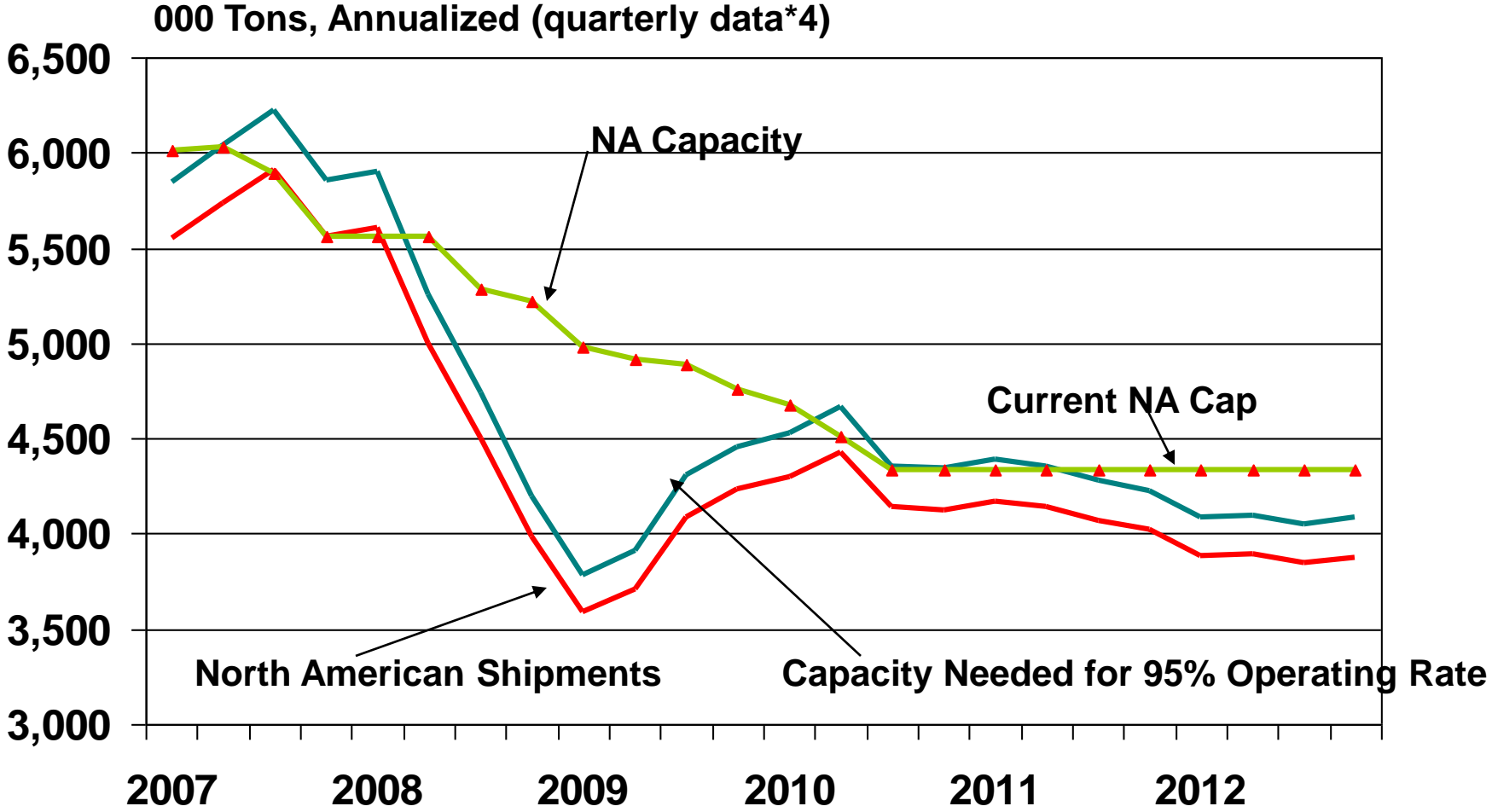
# Coated Mechanical Capacity in North America (000 tons, annual rate by quarter)



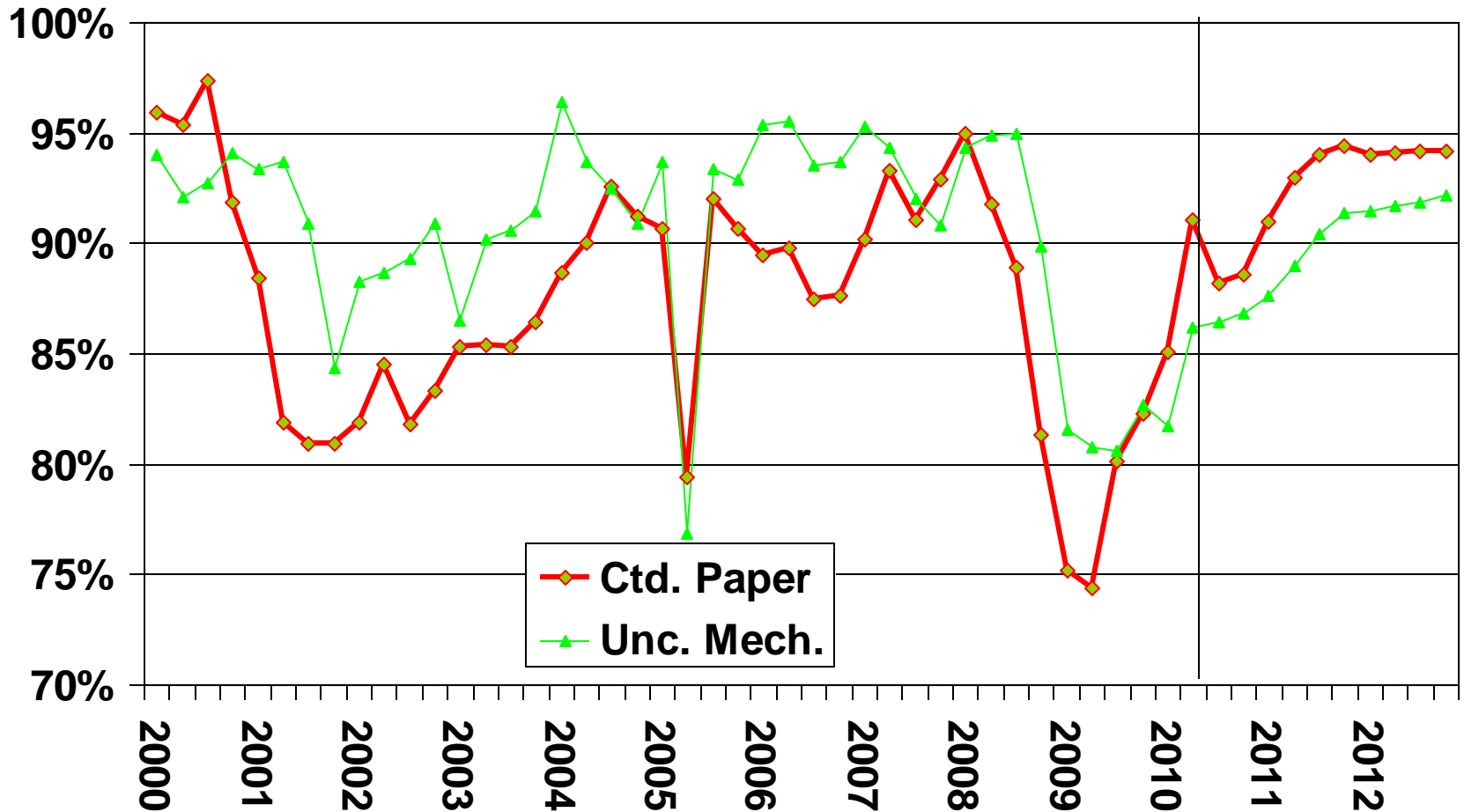
# North American Operating Rates – Coming Off the Lowest Ever Recorded for Coated Paper



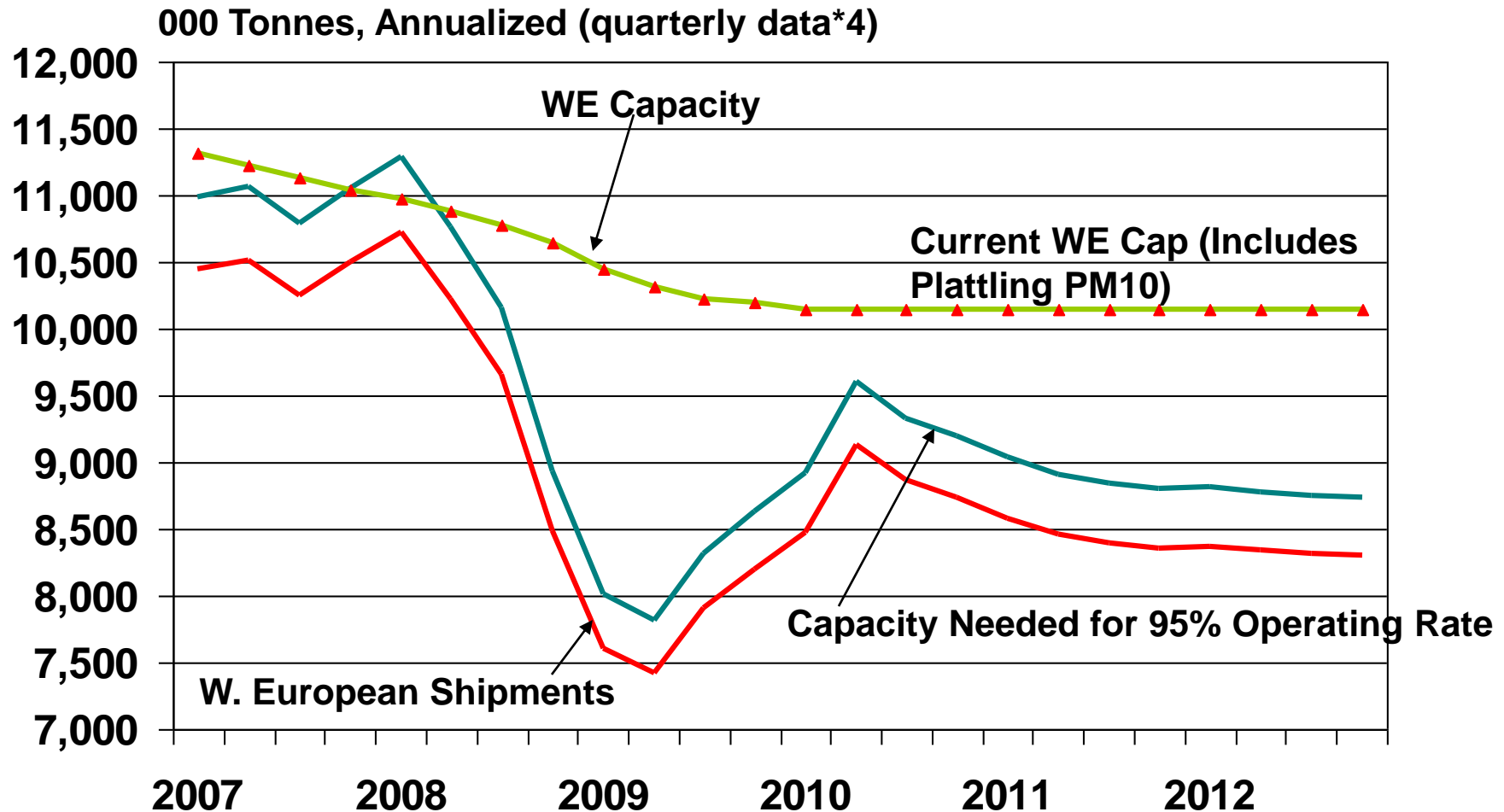
# NA Coated Mechanical Shipments vs Capacity



# European Operating Rates – Also Rising, But Not As Tight As in North America



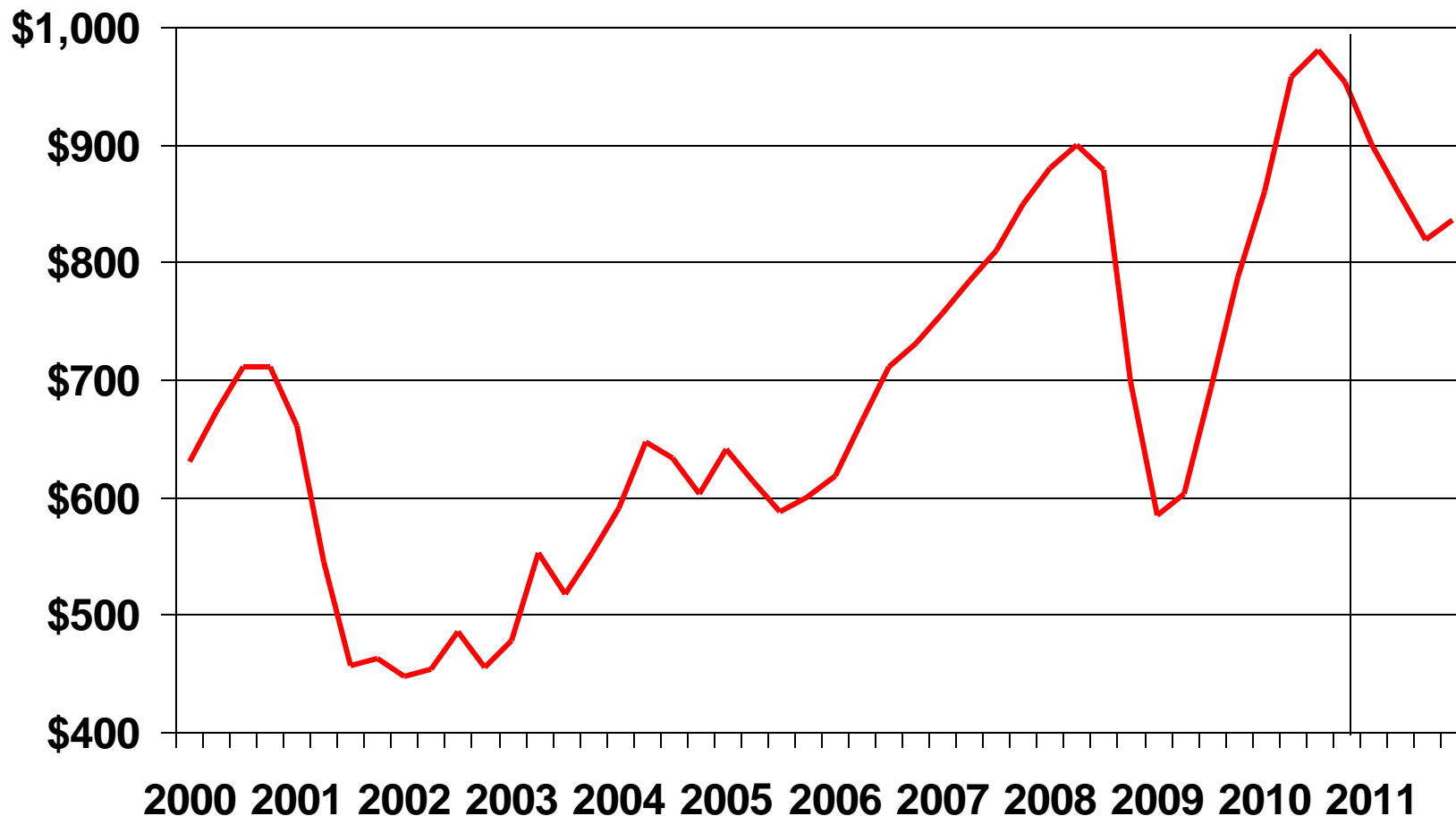
# West European Coated Mechanical Shipments vs Capacity



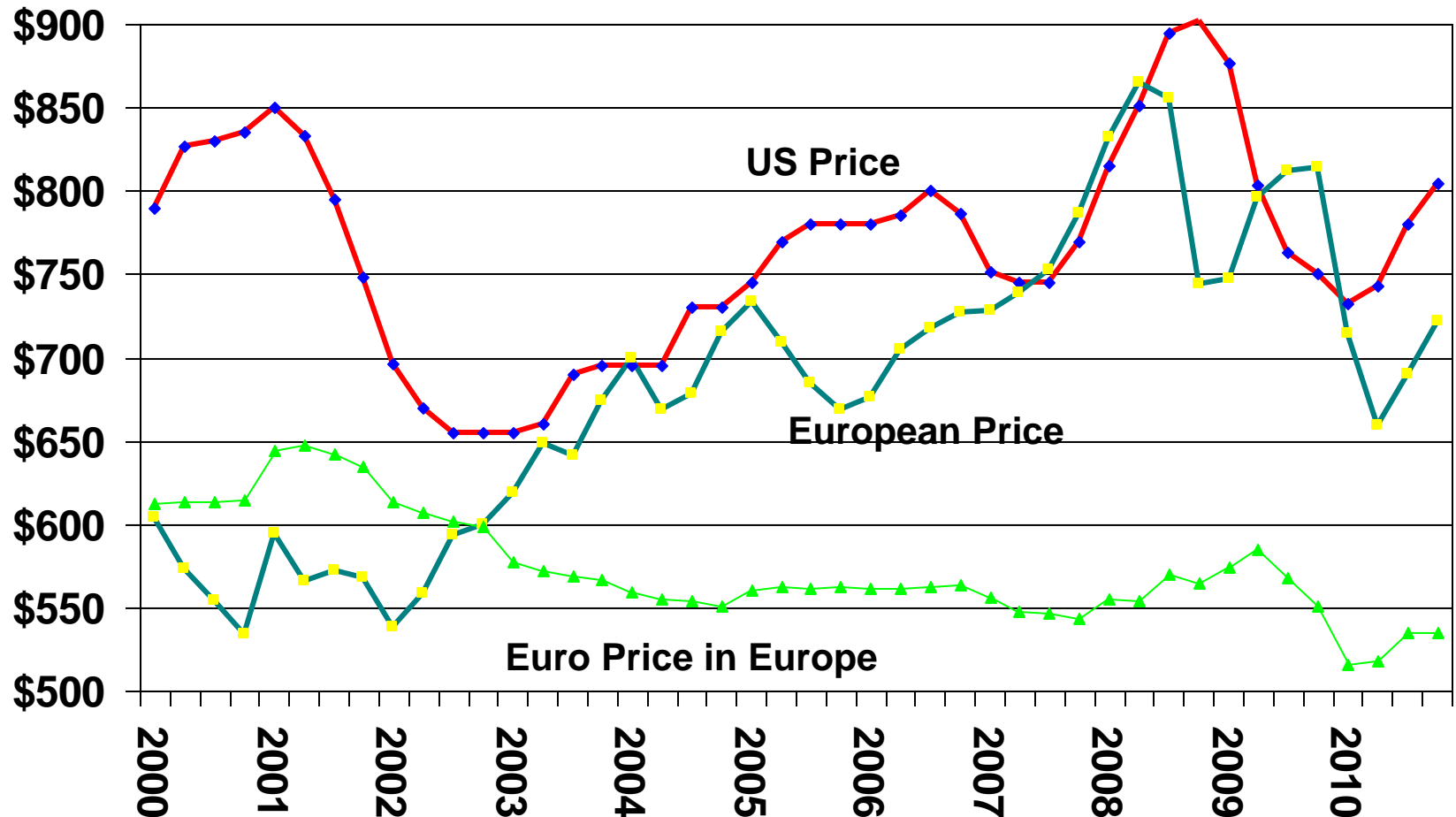


# Cost Pressures Come to Bear on SC/LWC Mills, But May Ease in 2011

(NBSK Market Pulp Price Delivered to Northern Europe \$/tonne)

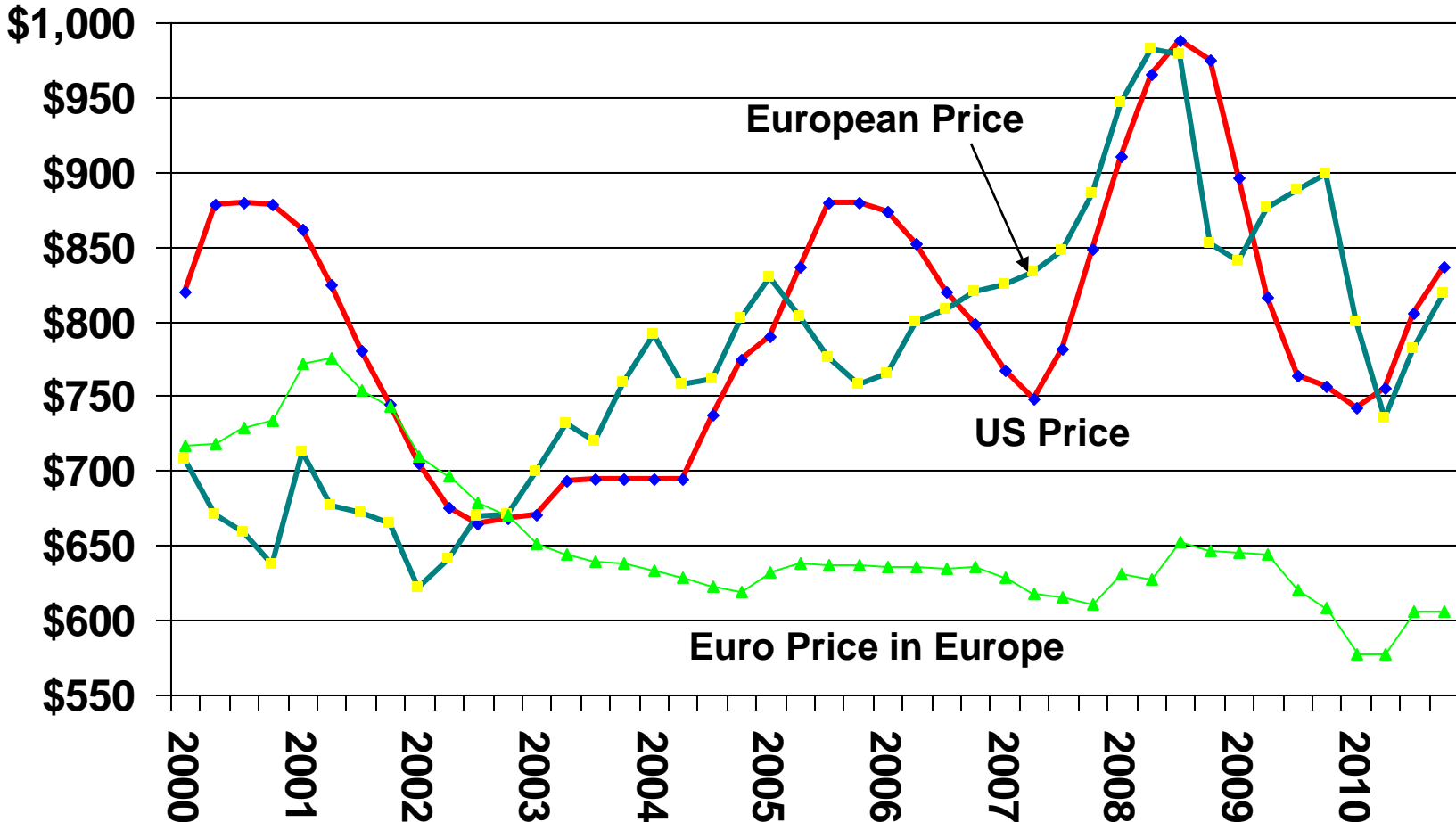


# Price Trends for SC-A 35 lb. (53 gsm europe) (\$US/short ton)

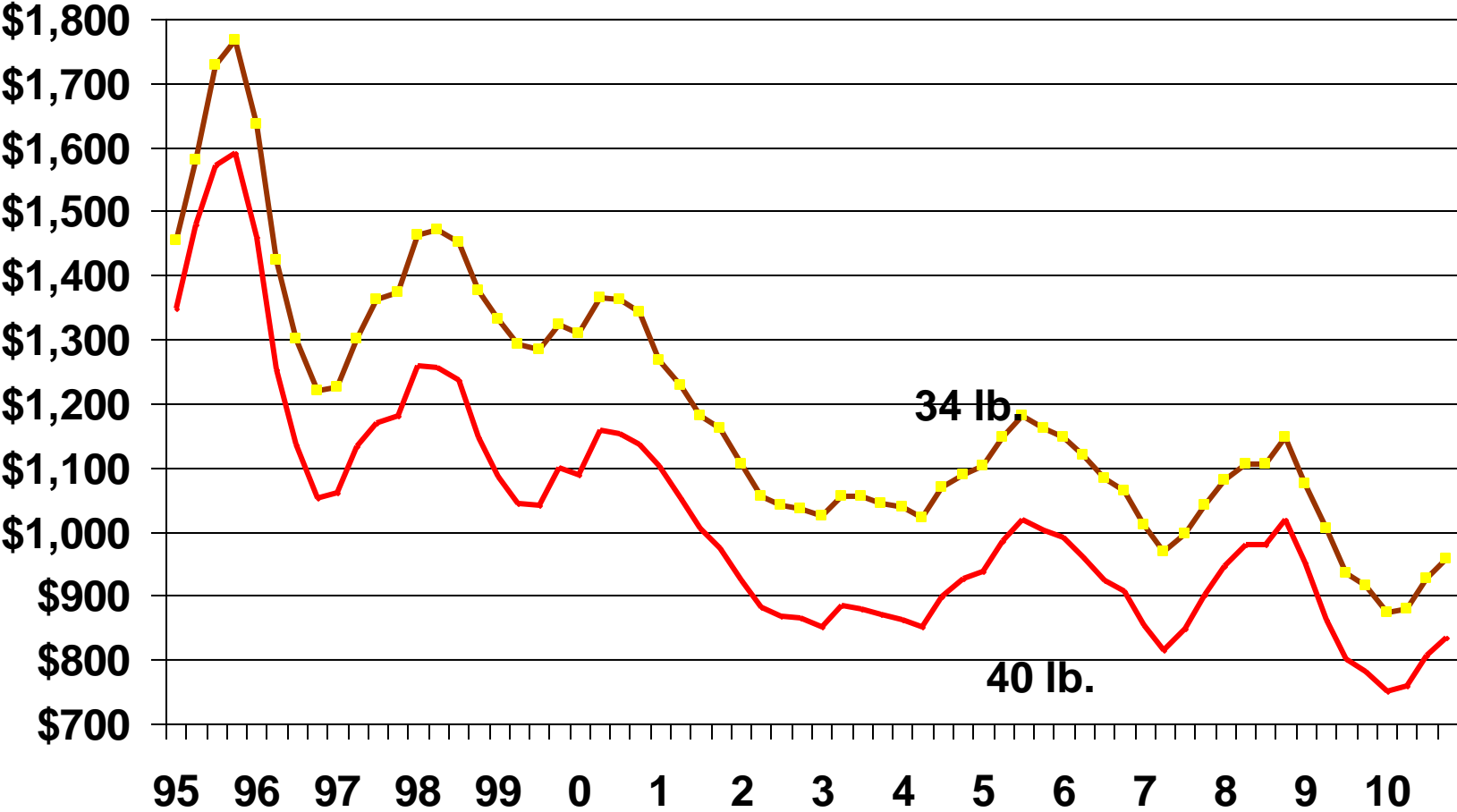


Note: European 56 gsm adjusted to 35 lb equivalent (53 gsm) for comparison

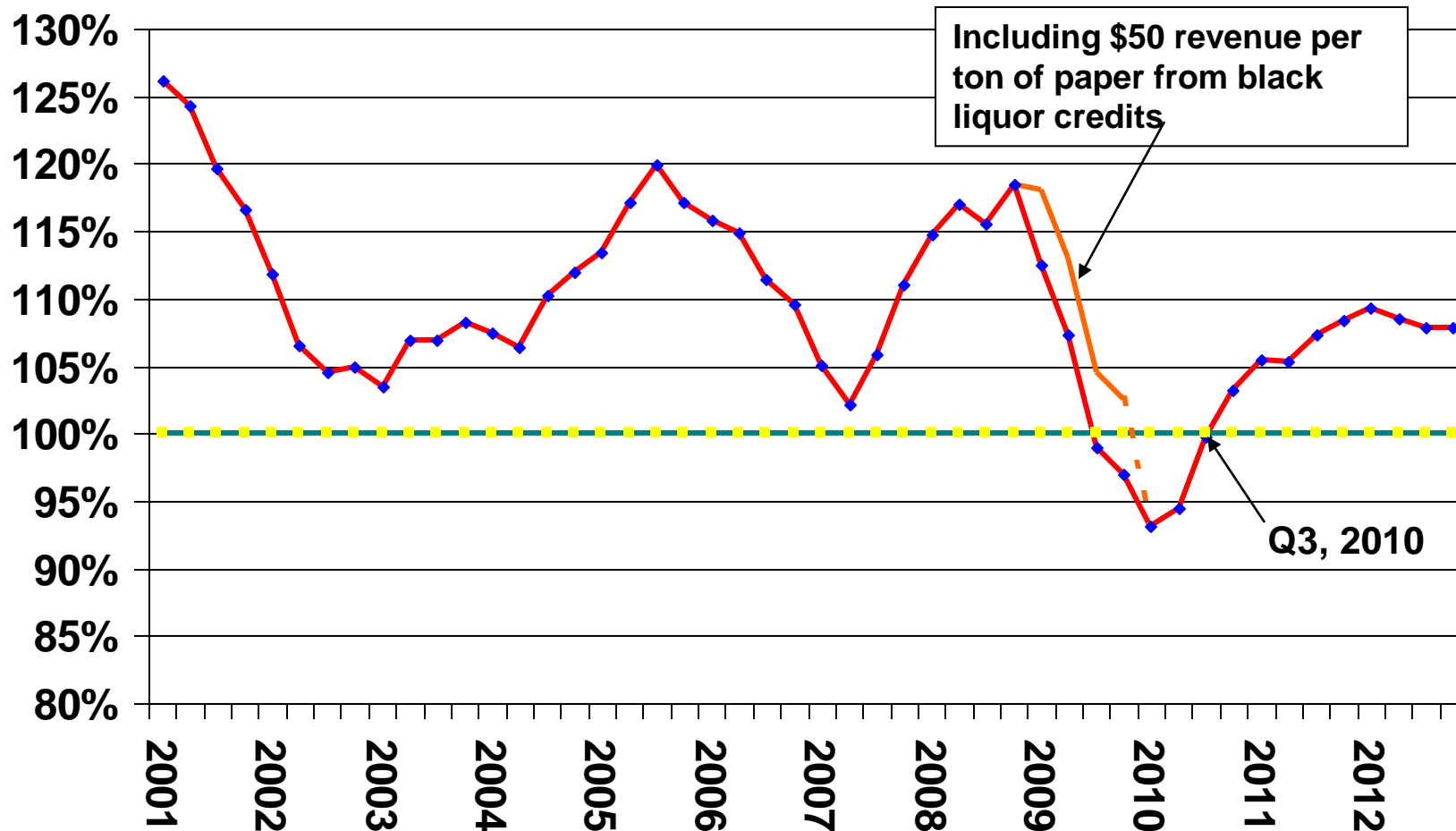
# Price Trends for LWC 40 lb. (60 gsm) (\$US/short ton)



# Real Prices for 40 lb. and 34 lb. Coated Mechanical Paper (Adjusted for inflation to real \$2010/ton)



# Price as a Percentage of Fully Weighted Costs <sup>1</sup> for Northern Mills Making 34 lb. LWC in Maine, Minnesota, and Wisconsin With Kraft On-Site



<sup>1</sup> Fully weighted costs include delivery, SG&A, Interest, and Depreciation.