



MADISON'S TIMBER PREVIEW

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With lumber cash prices continuing to firm unexpectedly, due to influences beyond US housing need, and lumber futures taking an updraft to the limits this week likely as a result, it is time to look further down the supply chain to measure the ripple effects. Generally the last to recover after a downturn in the forest industry is paper, specifically newsprint which takes a significant hit when there is any economic trouble.

While not the best news ever published, new data out this week shows that spending on newspaper ads across the US declined 5.6 per cent in the 2Q 2010, marking the third straight quarter that the decrease has narrowed on a year-over-year basis and the smallest drop in four years, according to the Newspaper Association of America. After dropping 29 per cent in 2Q 2009, the rate of decline in ad spending slipped slightly to 27.9 per cent in 3Q, and then to 23.7 per cent in 4Q 2009.

The decline then moderated considerably in 1Q 2010, to 9.7 per cent. Print-ad spending fell 7.6 per cent in 2Q 2010, the NAA said, to US\$5.69 billion, after plunging in the last five quarters.

Gannett Co, the largest US newspaper publisher, said in July that print-ad revenue fell 6 per cent, the smallest decline for that company in three years.

Online advertising revenue fared better, helping newspaper publishers through the economic downturn while print ad revenues faltered.

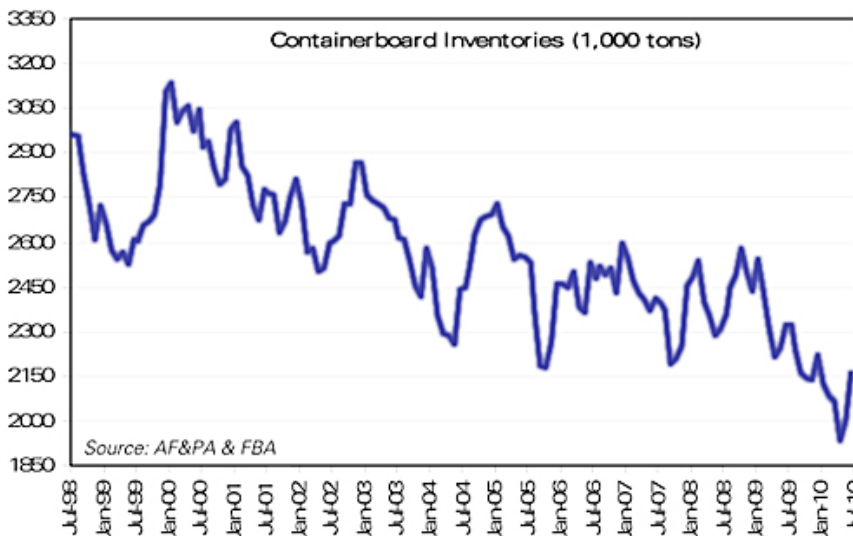
In an echo of publishing industry professionals, Business Insider founder Henry Blodget said, in response to a statement by the New York Times leadership that print issues will stop by 2015, "The economics of the online news business will not support the infrastructure or newsroom that the printed paper supports. Unless the New York Times Company can come up with a miracle new digital revenue stream, therefore, it will eventually have to be restructured and downsized."

Traditional publishers must rely on a combination of print and online advertising to maintain a business model of credibility, or else risk becoming online rags with little validity.

"Overall, sales of pulp, paper, board and recovered materials showed a significant drop in 2009 compared to 2008, from US\$313.8 billion to US\$282.6 billion. This is even below the 2007 total of US\$296.1 billion. Total reported paper and board production fell to 187.5 million metric tons from 199.3 million in

2008. This marked the second consecutive year of decline. Market pulp production did show a small jump, to 38.4 million metric tons from 37.3 million in 2008," says the September issue of Pulp and Paper International. "Recovery was underway later in 2009 and the corporate rationalizations [. . .] did help the bottom line.

PPI notes that pulp and paper companies out of Brazil, Chile and Asia made great strides up the magazine's "Million Tonners' Club" list of top 100 paper and board producers internationally.



"Over the first half of the year, the paper industry's cyclical recovery was stronger than expected in the industrialized world," according to FOEX.fi this week. "Preliminary statistics are now available for Europe and the US over July. CEPIPRINT's July data showed a 0.5 per cent increase in the estimated European demand for all wood-containing publication papers combined (including newsprint) over July 2009. Exports outside the European regions showed a gain of 27 per cent for the first seven months of 2010, bringing total exports for all CEPIPRINT member countries up 5.2 per cent for July and 7.7 per cent for the seven months' cumulative number."



In the EU, newsprint production was up 3.4 per cent in June 2010 compared to January, and July was another positive month, continues FOEX.

European newsprint prices have softened by €96 from the beginning of the year, dropping to €413 per metric ton this week, while US 30lb news-

print prices have firmed by US\$88 since January 2010 to US\$607 this week.

US west coast producers are trying hard to close the newsprint price gap (now approximately US\$50 per metric ton) to the East coast producers, according to Senior equity analyst for Deutsche Bank, Mark Wilde, in his September 7 issue of *Dr. Paper's Pulse on Pricing*. In addition to the US\$40 per metric ton September price increase announced by all the major West coast producers, White Birch last week announced another US\$25 per metric ton hike, effective October 1. Both the September and October hikes are limited to western markets. In August, list prices rose for the 12th consecutive month, up US\$10 per metric ton to US\$640 per metric ton in the East and up US\$5 per metric ton to US\$590 per metric ton in the West. Despite the approximately 45 per cent increase in prices in the last year, margins remain extremely low. Producers are focussing on alternative products and off-shore markets like Asia, Latin America, and the Middle East where newsprint demand is growing.

According to the American Forest & Paper Association's latest *Printing-Writing Paper Report*, total US printing-writing paper shipments increased 1 per cent in July compared to July 2009. Total printing-writing paper inventory levels increased 3 per cent from June 2010.

Wilde is projecting US\$800 per metric ton for US newsprint. In fact, in his *Dr. Paper's Weekly Wrap-up* for September 06, 2010, Wilde sees prices rising on all paper grades. Only market pulp is projected to decline, while uncoated freesheet and linerboard prices will remain relatively flat according to Deutsche Bank.

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