

Vol. IX, No. 2
May 28, 2009

The Downturn in Perspective

The effects of the current recession on the pulp and paper industry, though painful, are no worse than those suffered by other parts of the industrial sector. Since the beginning of the recession (January, 2008) production of pulp, paper and paperboard has declined by 18.7%. This is somewhat less severe than the corresponding decrease in the production of textiles (23.2%) and is almost enviable when compared to the 62.5% loss in iron and steel production during the same period.

The month-to-month changes in production of these three industries since 1999 are compared in Figure 1, where periods of economic recession are represented by the shaded areas. The 2002 recession had comparable effects on all three industries. During the 2002 -2007 period, steel rebounded, paper held steady and textiles suffered from offshoring and foreign competition. The severe effects of the current recession, especially on the steel industry, are apparent. The optimists among us will interpret the recent upticks in all three graphs to mean that better times will soon be upon us.

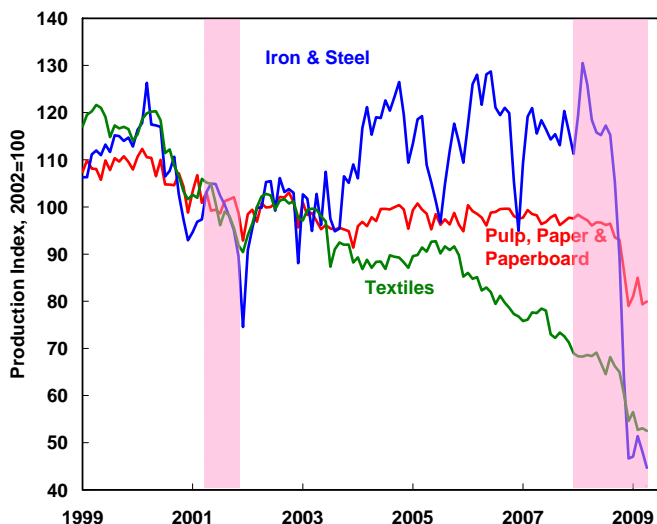


Fig. 1. Steel, Paper & Textiles Production Since 2002

Recent Forestweb Headlines

Every week, Forestweb publishes “Newsbeat,” a news report tracking recent developments in and around the paper and forest products industries. Below is a sampling of headlines from recent issues.

April 27

PPPC: No letup in North American newsprint consumption decline; publisher inventories continue to drop, mill inventories still gaining

More reports of strengthening pulp prices in certain global markets as customers start replenishing low inventories

March world pulp shipments down 4.2% year-over-year but shipment-to-capacity rate rises to 92% and days of supply falls by three – PPPC

May 4

Additional pulp producers planning May price increases in Asia and Europe, as China drives market momentum

UBS: U.S. alternative fuel tax credit still stands, locking in months of benefits for early adopters; credit could last through 2009

FOEX: Printing paper prices in Europe down; newsprint in U.S. also declines

May 11

FOEX: NBSK pulp prices gain in Europe but fall in U.S.; BHKP up in Europe and China

Paper industry slumping because of numerous causes; its decline creating widespread ripple effects

Metsä Botnia pulp mill in Fray Bentos, Uruguay, running at full capacity of 1 million tonnes/year and selling all the product, says company official

May 18

U.S. box shipments fall 12.9% year-to-year in April; expected volume pickup disappears

Obama seeks to halt alternative fuel tax credit for U.S. paper industry by Oct. 1; Treasury says payments, credits to cost US\$4B/year

FOEX: Printing paper prices mostly up in Europe; newsprint in U.S. plummet

May 25

Ambassadors from European Union, Canada, Brazil and Chile urge U.S. Congress to immediately close black liquor tax loophole

Several softwood and hardwood pulp producers raising prices for new shipments or June 1 as supplies tighten, for now, and U.S. dollar weakens

Stora Enso plans to build new pulp mill in Uruguay, with capacity of at least 1 million tonnes/year and cost of at least US\$1.36B; no immediate decision on location

Scientists in Northern Ireland and Alabama discover eco-friendly way of dissolving wood that may help its transformation into biofuels, paper and textiles

Newsbeat is available by subscription from Forestweb. See

<http://www.forestweb.com/Corporate/index.cfm>

Correction to MillsOnline Update

There was an error in a MillsOnline update published in this newsletter earlier this year. Under the heading "Mills Closed" we listed "#183 Bay West (Wausau-Mosinee Paper), Middletown, Ohio." In fact, this mill is completely operational. According to Perry D. Grueber, Wausau Paper's Director of Investor Relations, "... we recently completed a \$32.5 million rebuild of our toweling machine at this location and expect it to run for some years to come. The mill should correctly be identified as Wausau Paper Corp., Middletown, Ohio, as Bay West is a brand and trade name we use to market our towel and tissue products."

Statistics Corner: Softwood Bleached Pulp Price Update

Figure 2 shows the FOEX U.S. northern bleached softwood kraft price index from the beginning of last year to the present. The bottom appears to have been reached, owing in part to the recent weakness of the U.S. dollar, which has favored exports. However, pulp demand remains low in most markets, so a sharp rebound is unlikely.

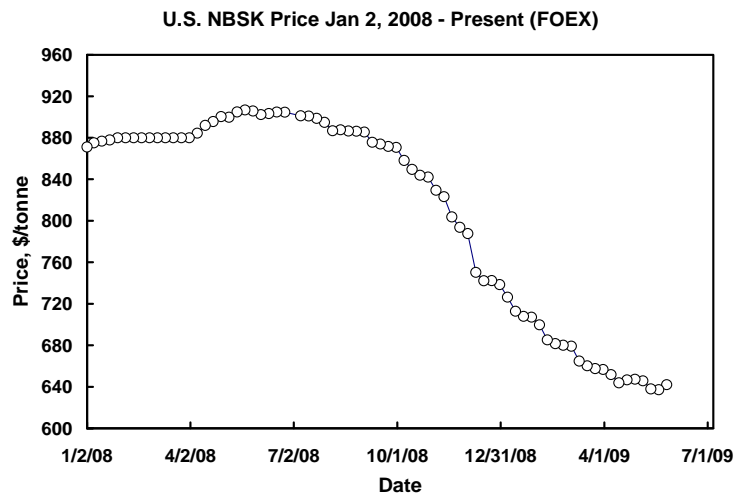


Figure 2. FOEX U.S. NBSK Price Index, January 2008 to the present.

Management Development Course Postponed

Given the current economic conditions, we have decided to postpone the next offering of the CPBIS short course, "Management Development for Enhanced Performance." The dates of the next offering will be published in a future issue of this newsletter. ■

YOUR HELP IS NEEDED

Industry sponsorship is a vital component of the resource base CPBIS needs to generate and disseminate knowledge of growing importance to a challenged industry. Sponsors enjoy many benefits, including early access to research reports, the ability to influence our choice of research topics, and free or discounted registration in industry-specific management education classes. Several levels of sponsorship are available. For more information, send a brief e-mail to CPBIS director Patrick McCarthy, patrick.mccarthy@econ.gatech.edu, or executive director Jacquie McNutt, Jacquelyn.McNutt@cpbis.gatech.edu.