



# RISI Outlook for North American Book Paper Markets

John Maine  
Vice President

May 2011

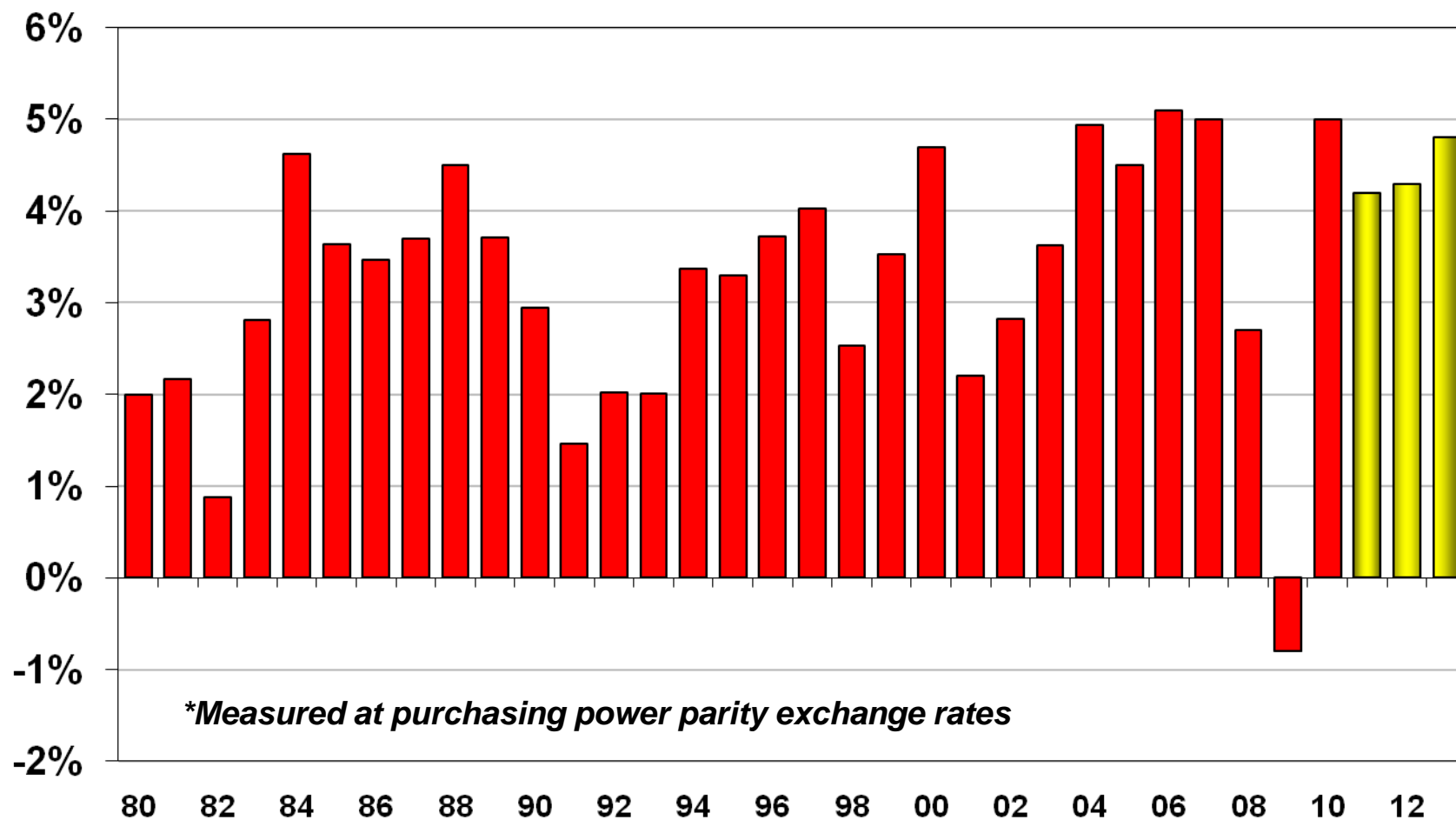


- ▶ John Maine, VP World Graphic Papers, RISI, Inc.
  - Co-Founder of Resource Information Systems, Inc.
  - With RISI More Than 32 Years
  - Developed RISI P&W Models
  - Works With Over 200 Graphic Paper Clients Worldwide
  - Assisted by 5 Local Economists in RISI Regional Offices
  - Directs Numerous Multi and Single-Client Studies on Graphic Paper



# Emerging Economies Main Drivers of the Global Growth

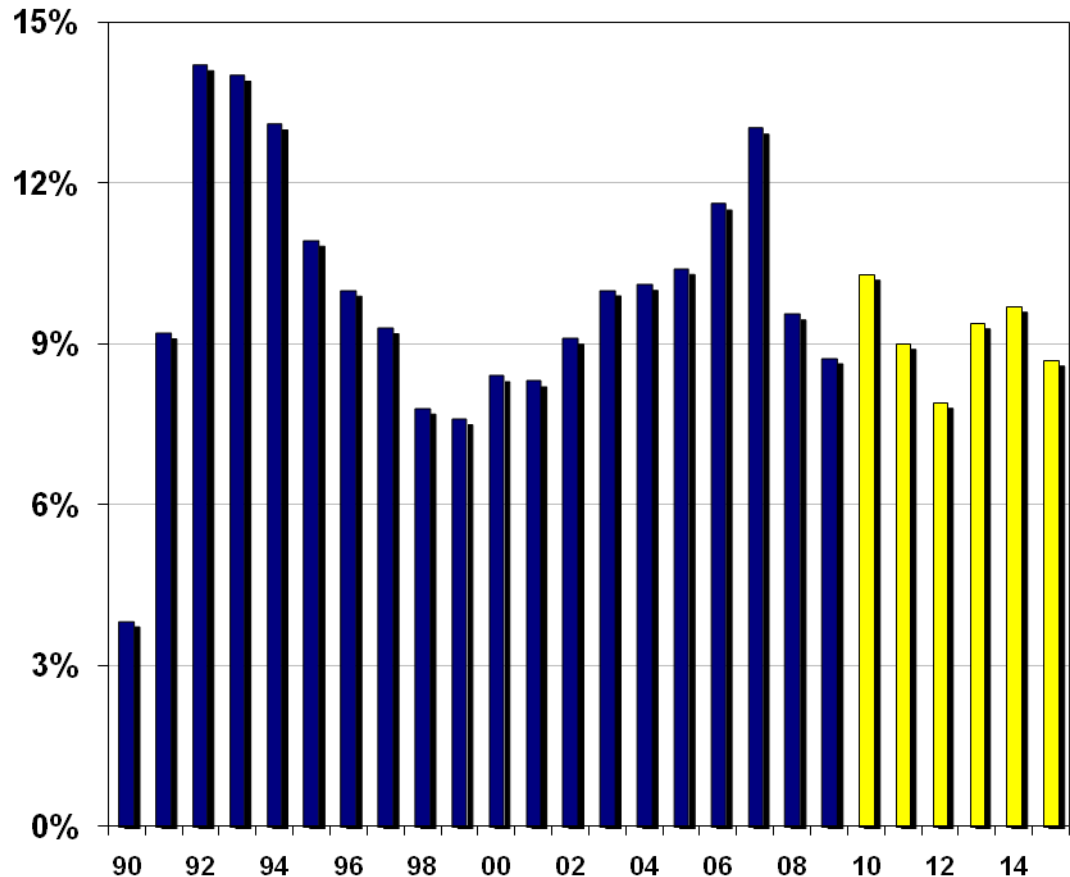
## Global Real GDP\* Growth



Source: IMF, RISI

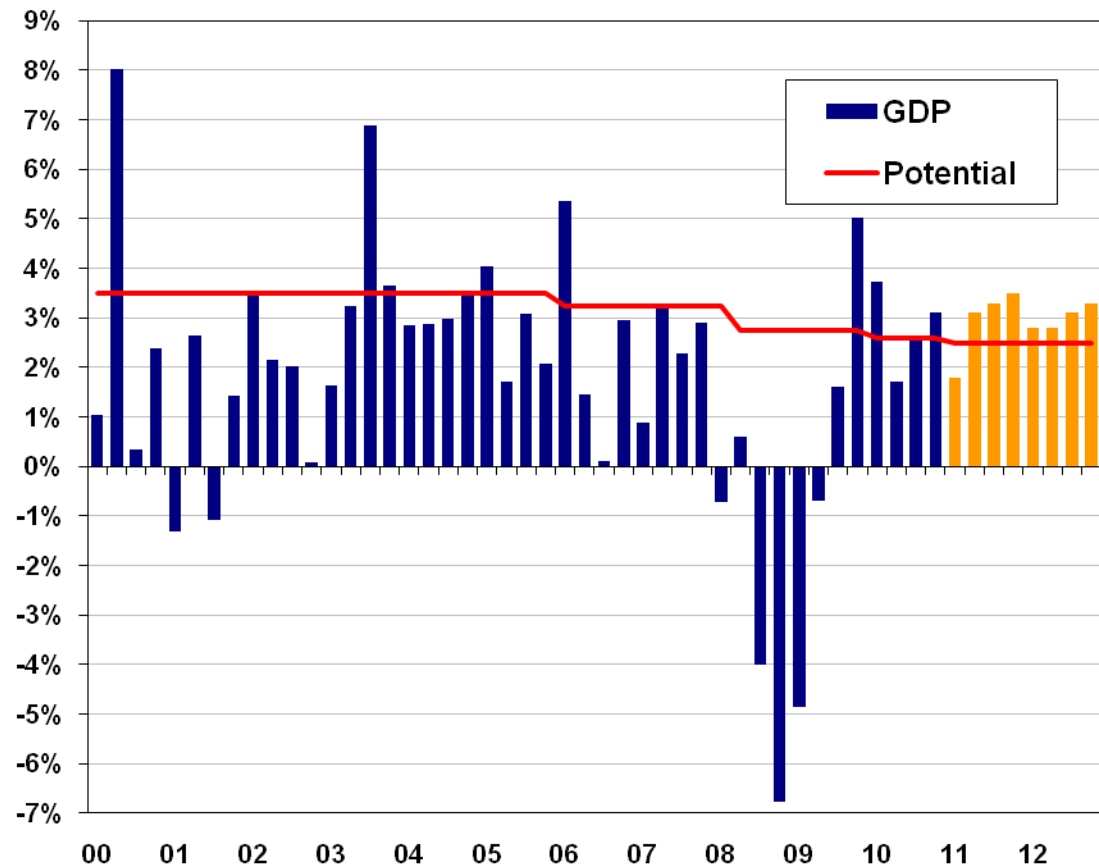
# China Slowing, But Still Key Part of Global Growth Equation

- ▶ Chinese real GDP in 2010 again supported by FAI, as well as by trade.
- ▶ Government trying to cool down economy, and contain credit bubble
- ▶ Slowing in 2011 and 2012 as government fights inflationary pressures
- ▶ Exports rebounding and yuan revaluation will have little effect on trade picture



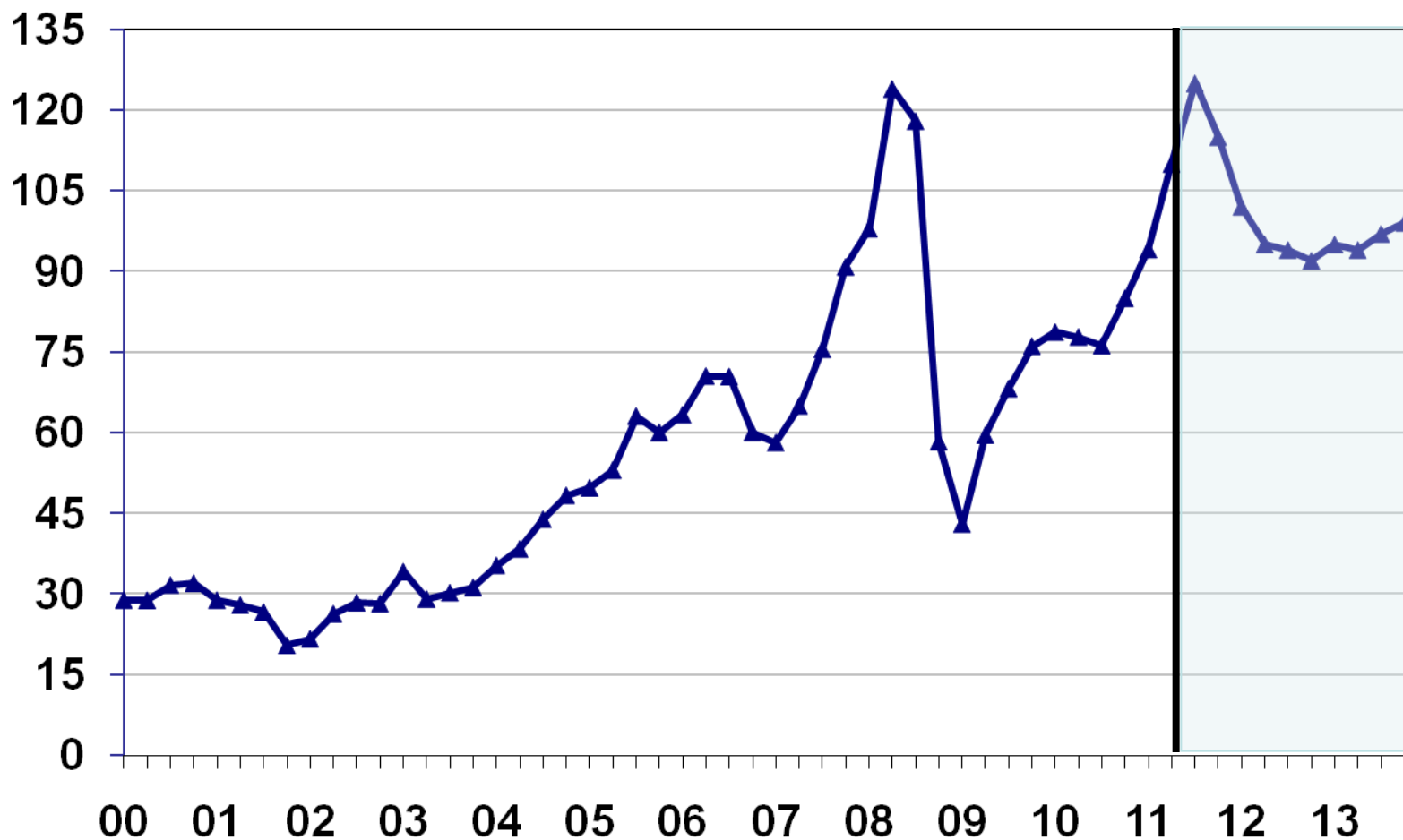
# US Economy Expanding, But Recovery Slow by Historical Standards

- Consumer spending slowing due to high food and fuel prices
- Unemployment remains elevated
- Housing remains a drag on the economy
- Withdrawal of fiscal and monetary stimulus will slow growth
- Rising food and fuel prices pose a risk



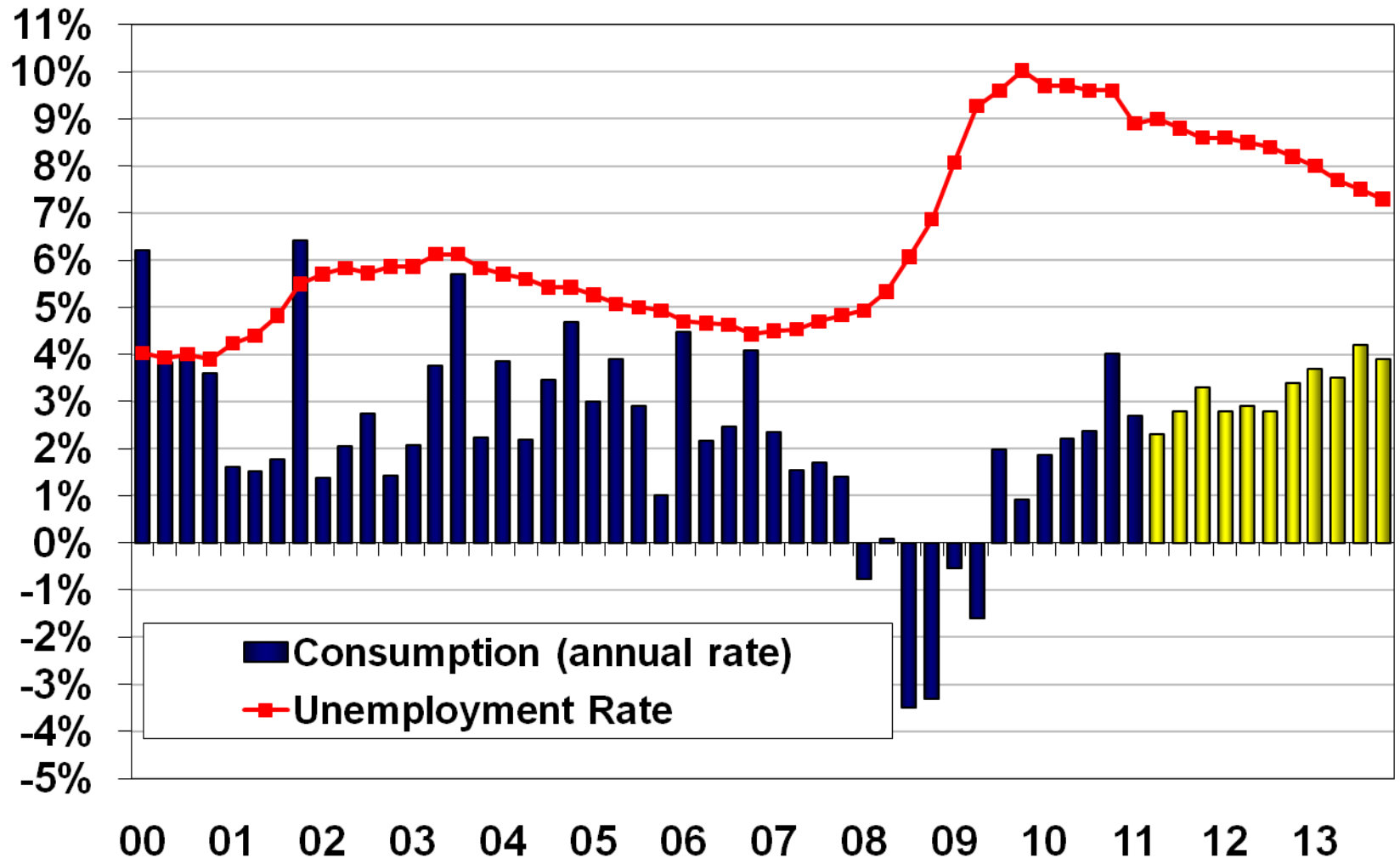
# Oil Prices Supported by Emerging Economies and Weak Dollar...and MENA troubles

(West Texas Intermediate Crude Oil, \$US per Barrel)



Source: Fed, RISI

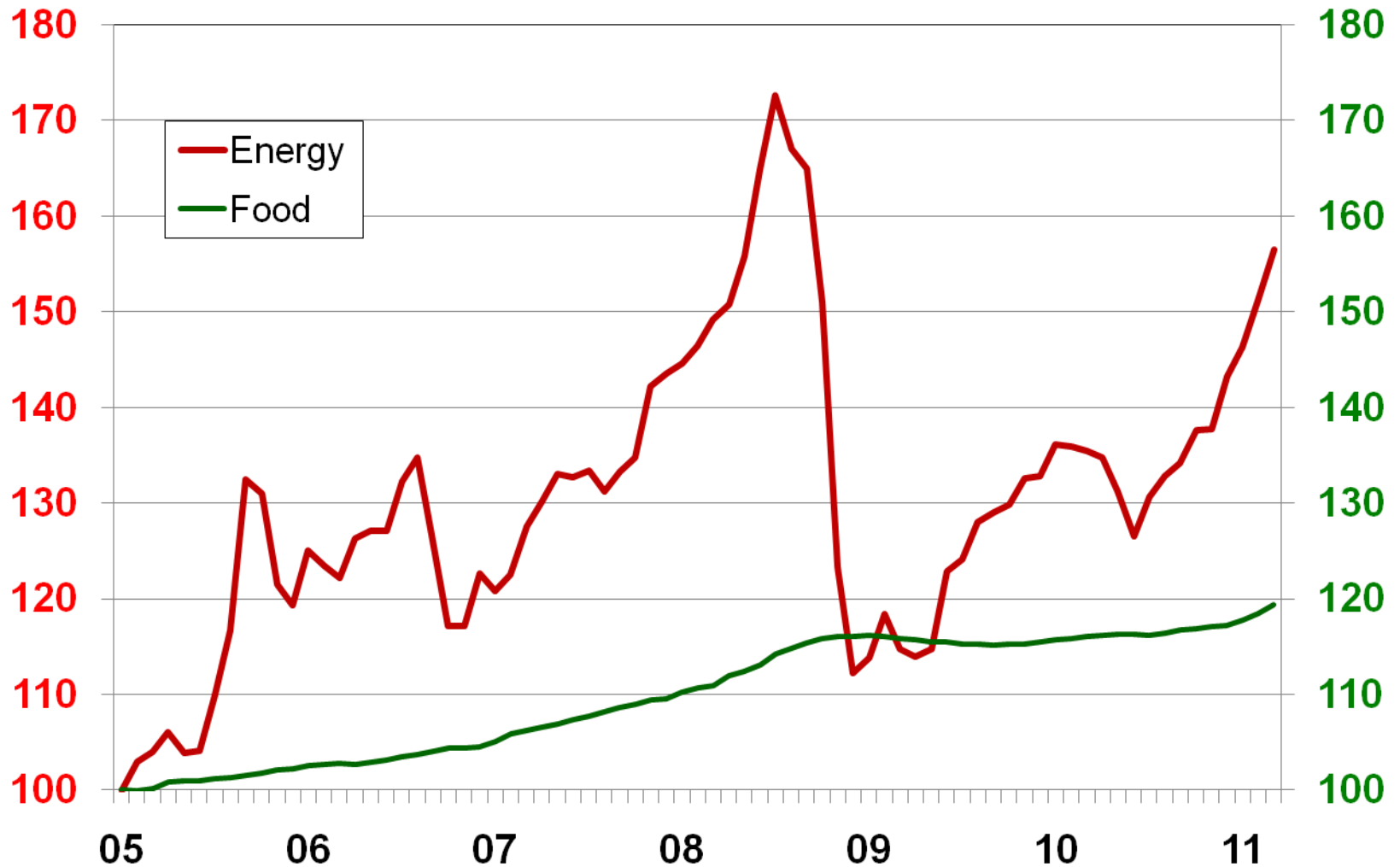
# Elevated Unemployment Will Restrain US Consumption



Source: BLS, RISI

# Fuel and Food Inflation Rising

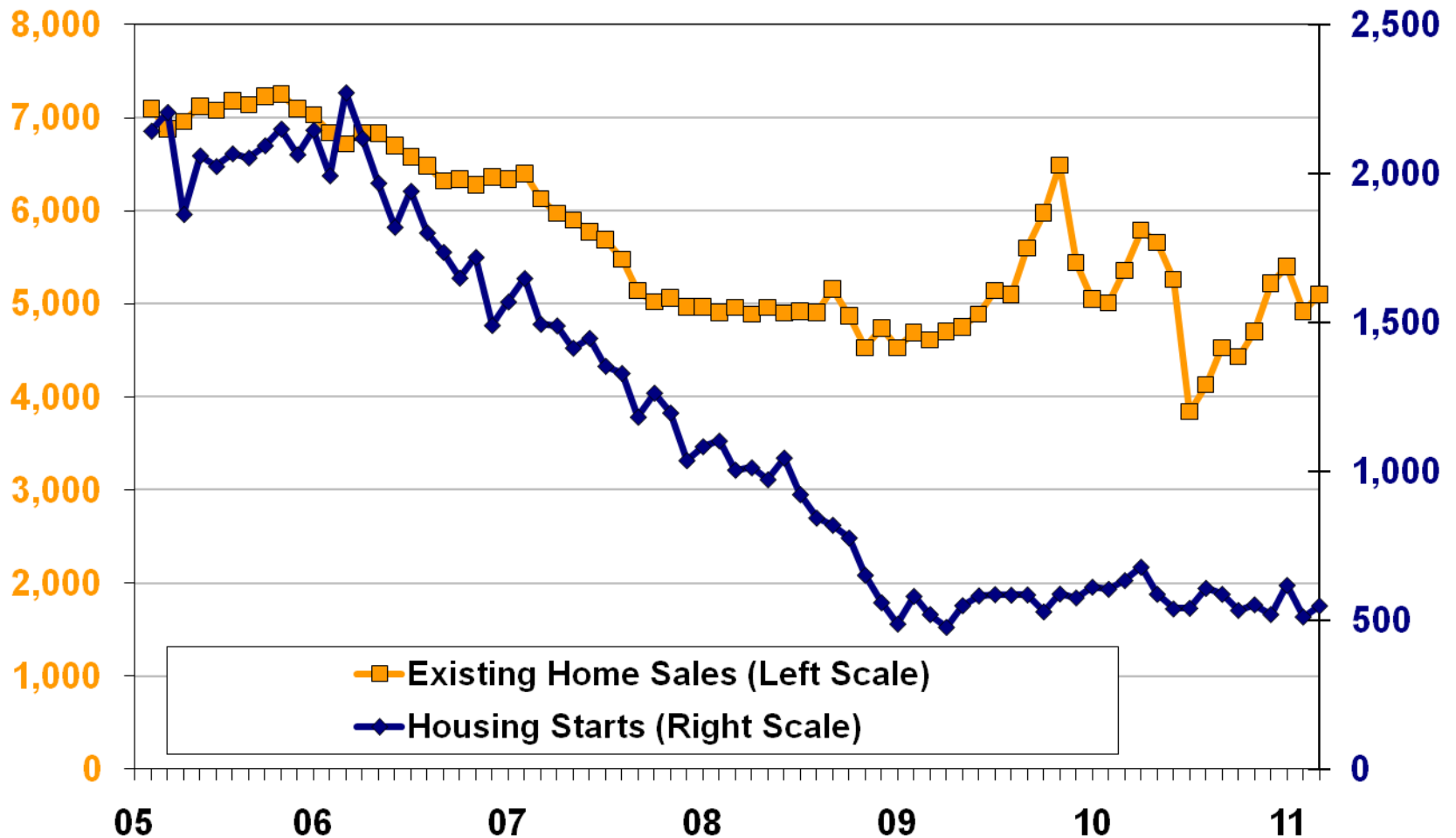
Consumer Price Index, Fuel and Food, January 2005 = 100



Source: BLS

# Housing Remains Drag on the Economy

## Existing Home Sales and Housing Starts, Thousands of Units



Source: NAR, BEA

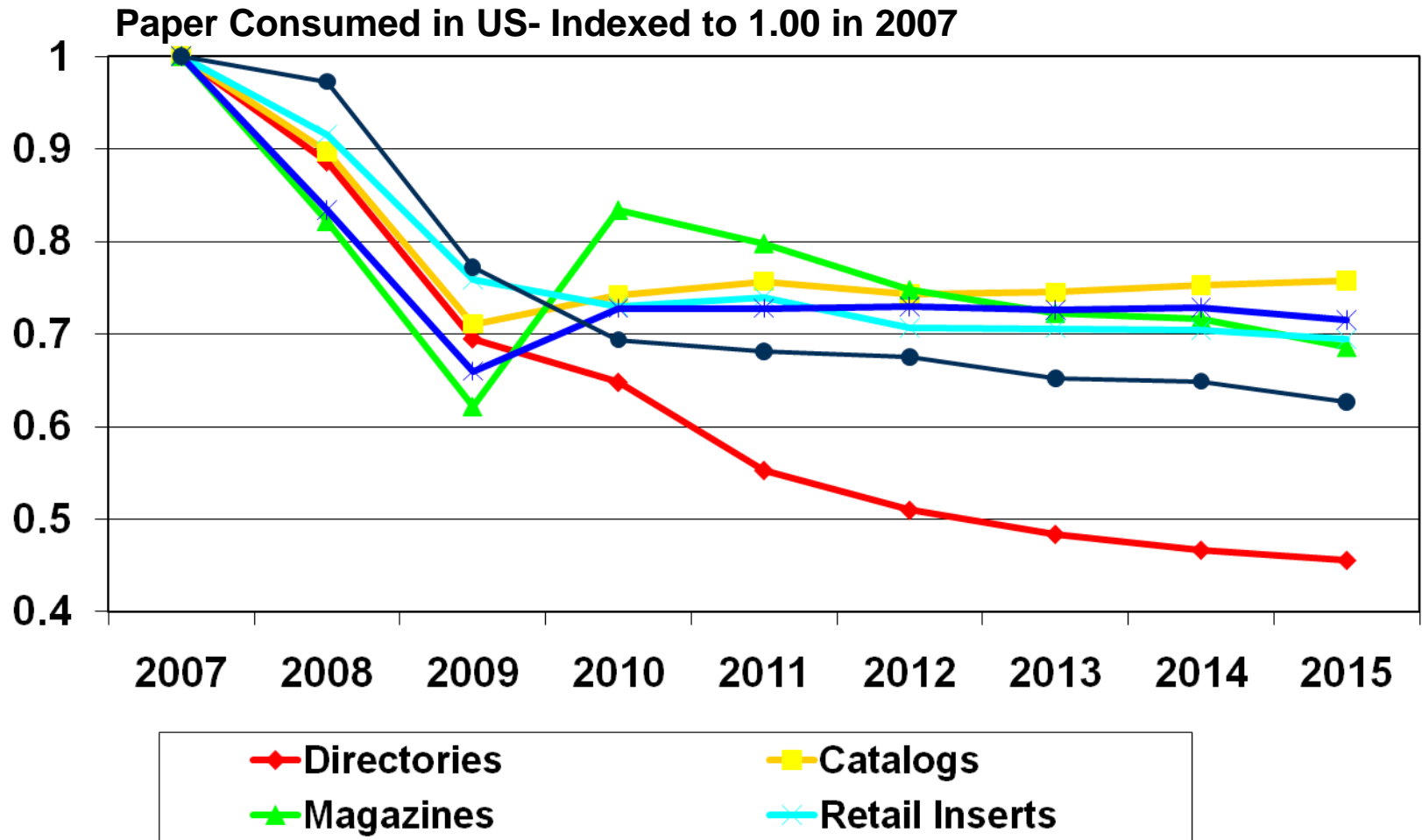


# Paper Demand and End-Use Trends

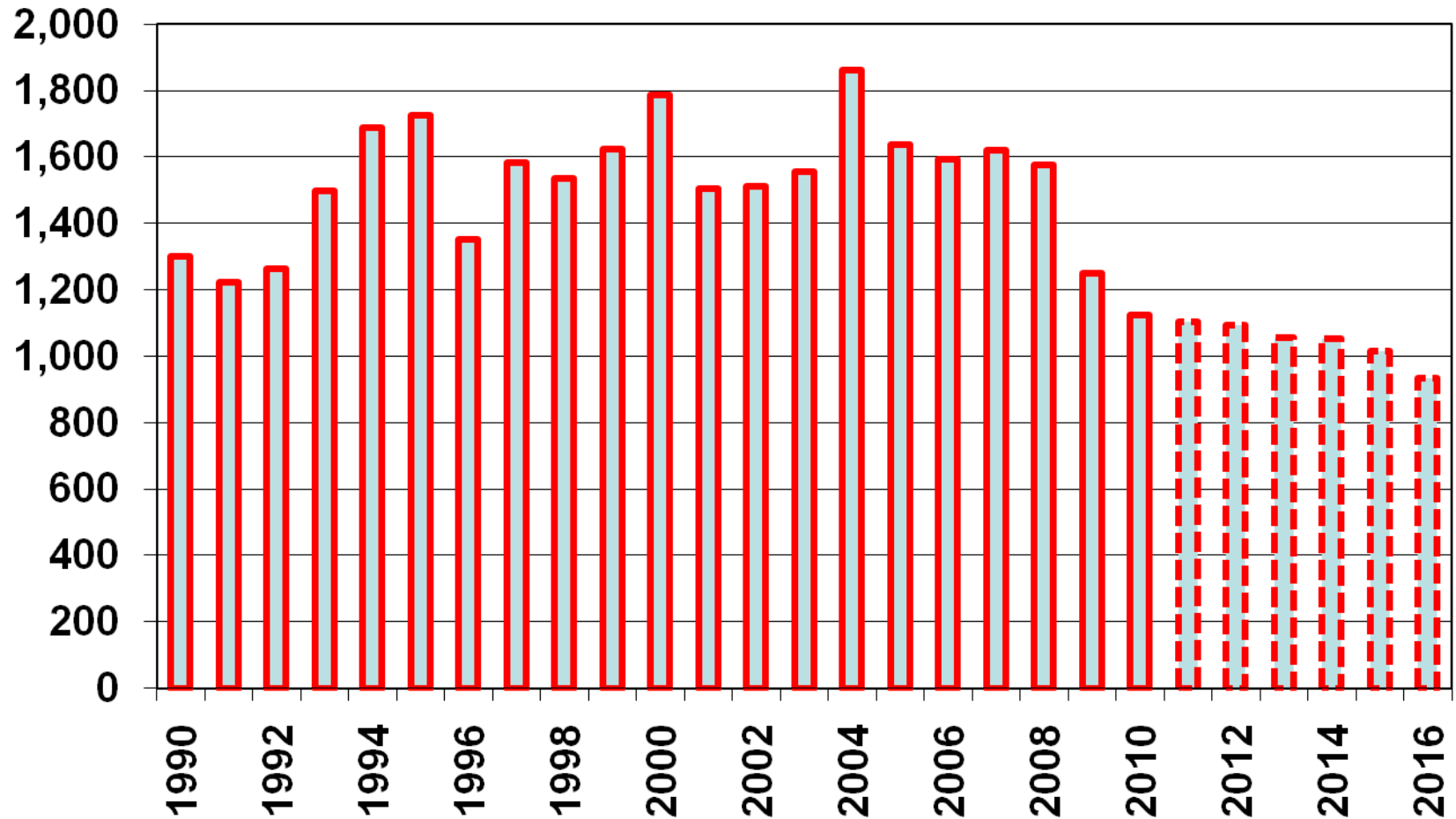
## Decline in US Paper Demand in in 2008/2009 and Subsequent Recovery in 2010

	% Loss in 2008/2009	Tonnage Lost (000 tons)	Tons Regained in 2010	
Magazines	-38%	-1,315	660	
Catalogs	-29%	-1,031	184	
Books	-23%	-371	-91	
Inserts	-24%	-833	-81	
Directories	-30%	-282	-59	
Office Papers	-16%	-830	0	
<b>Total All Uses</b>	<b>-25%</b>	<b>-7,640</b>	<b>736</b>	

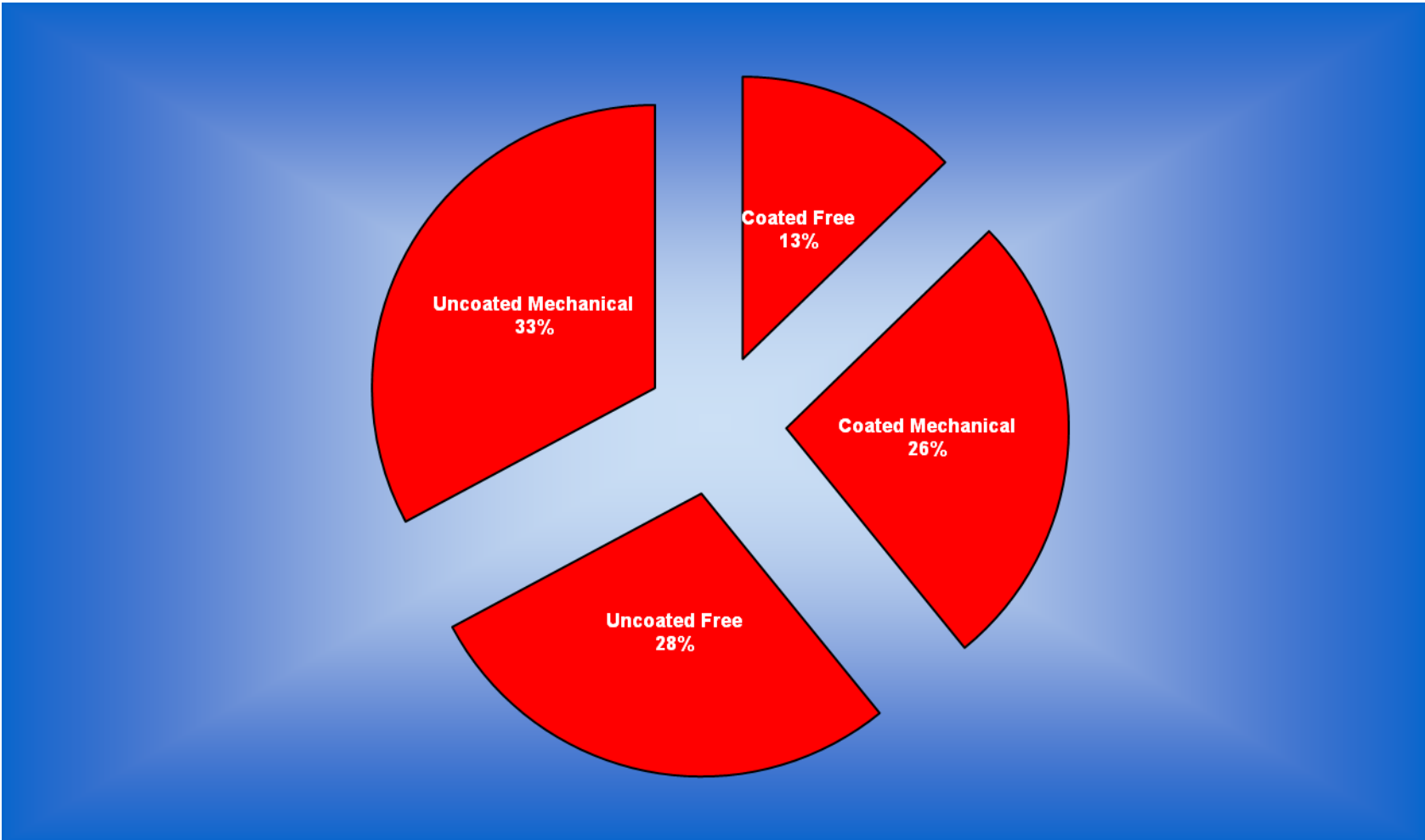
# Paper use in Most Publishing End-Uses Remains 20-35% below 2007 Levels, And Will Trend Down Further Over the Coming Five Years



# Total Paper Usage in US Books Declining (000 tons)

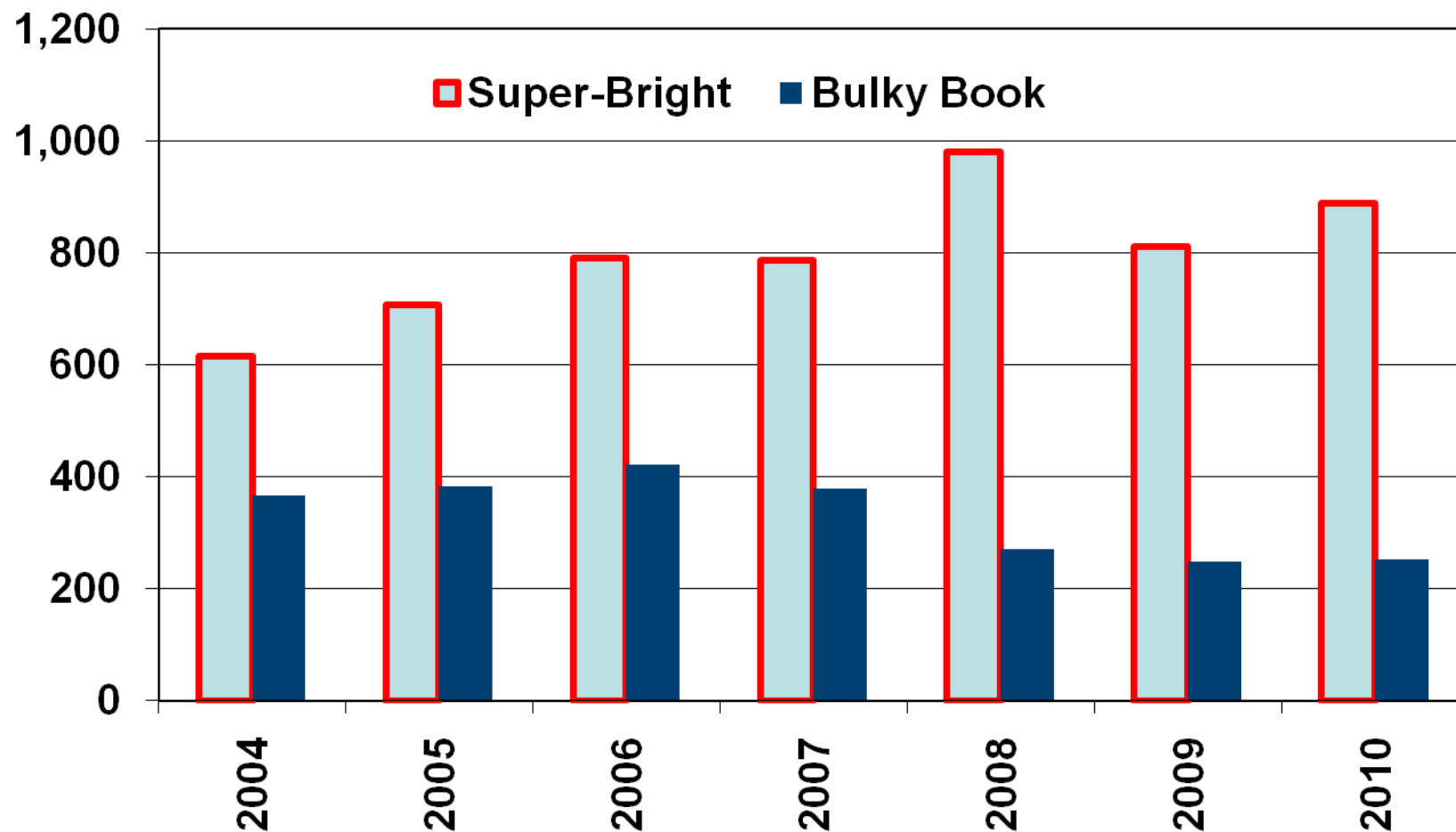


# Paper Use in US Books in 2010 by Type of Paper



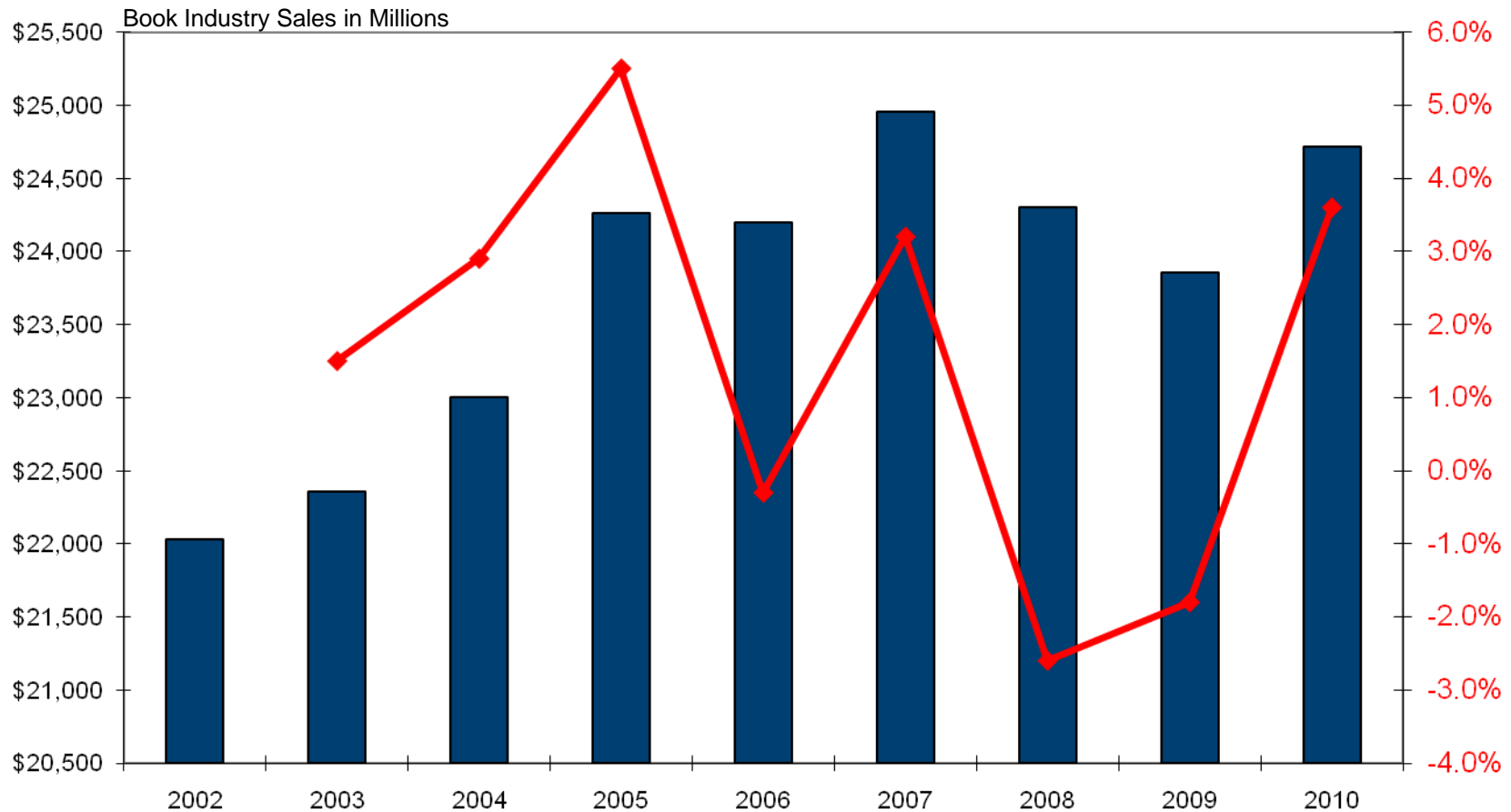
# Uncoated Mechanical Paper Usage is Shifting Away From Standard Bulky Book to Super-Bright

(N. American Shipments to all End-Uses, 000 tonnes)



Source: PPPC

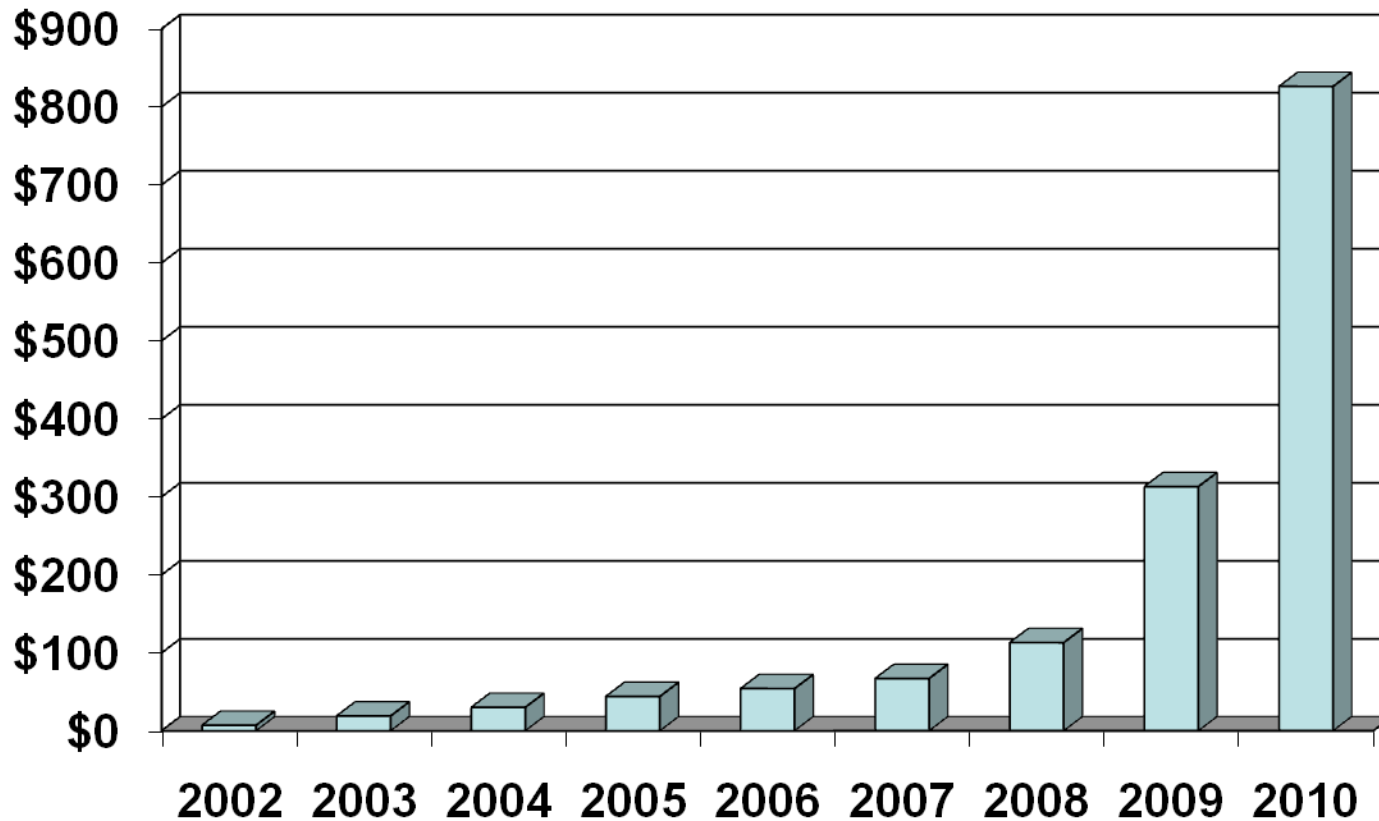
# Book Industry Sales Hold Up Well In Recession, And Are Now Growing Again



Source: Amer. Publishers Assn., note sales levels based on old definitions for compatibility with history

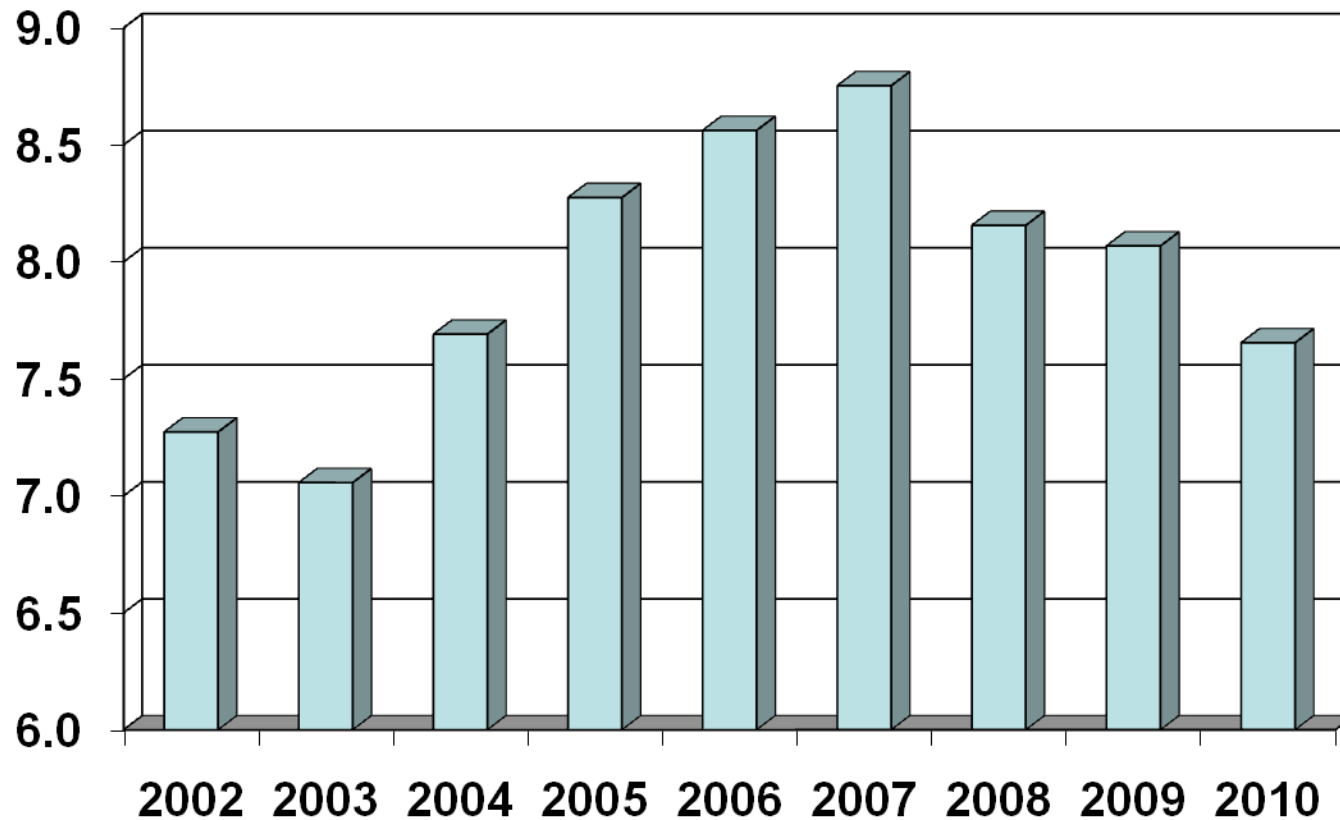
■ Million \$    —●— %ch (rt scale)

## But All of the Growth in 2010 was Sales of E-Books (Millions of dollars)



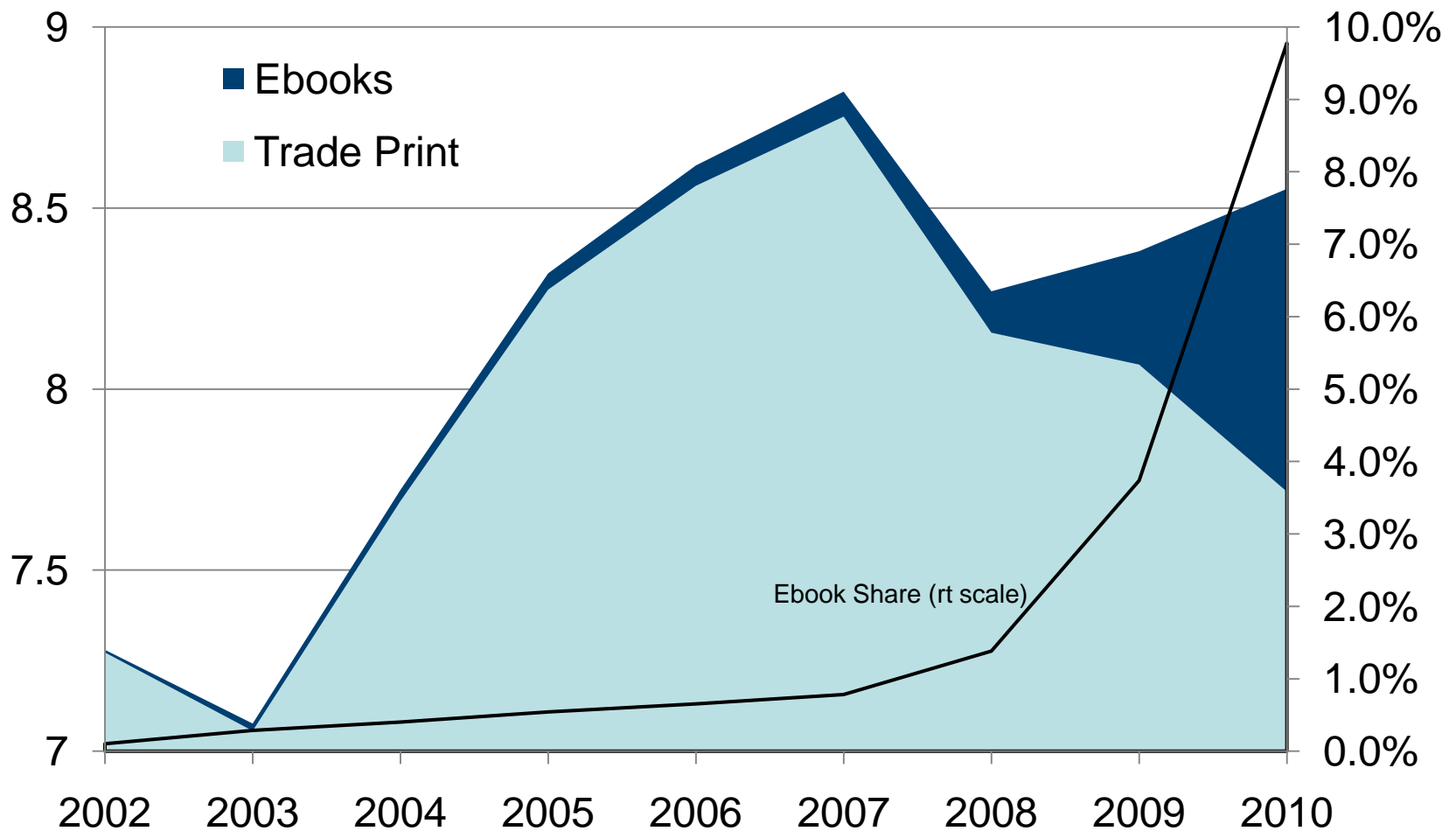
Source: Amer. Publishers Assn., note sales data based on old definitions for compatibility with history

# Real Dollar Sales (i.e. paper volume) of Trade Books is Taking the Initial Impact of e-Readers (Billion of Real 2009 dollars)

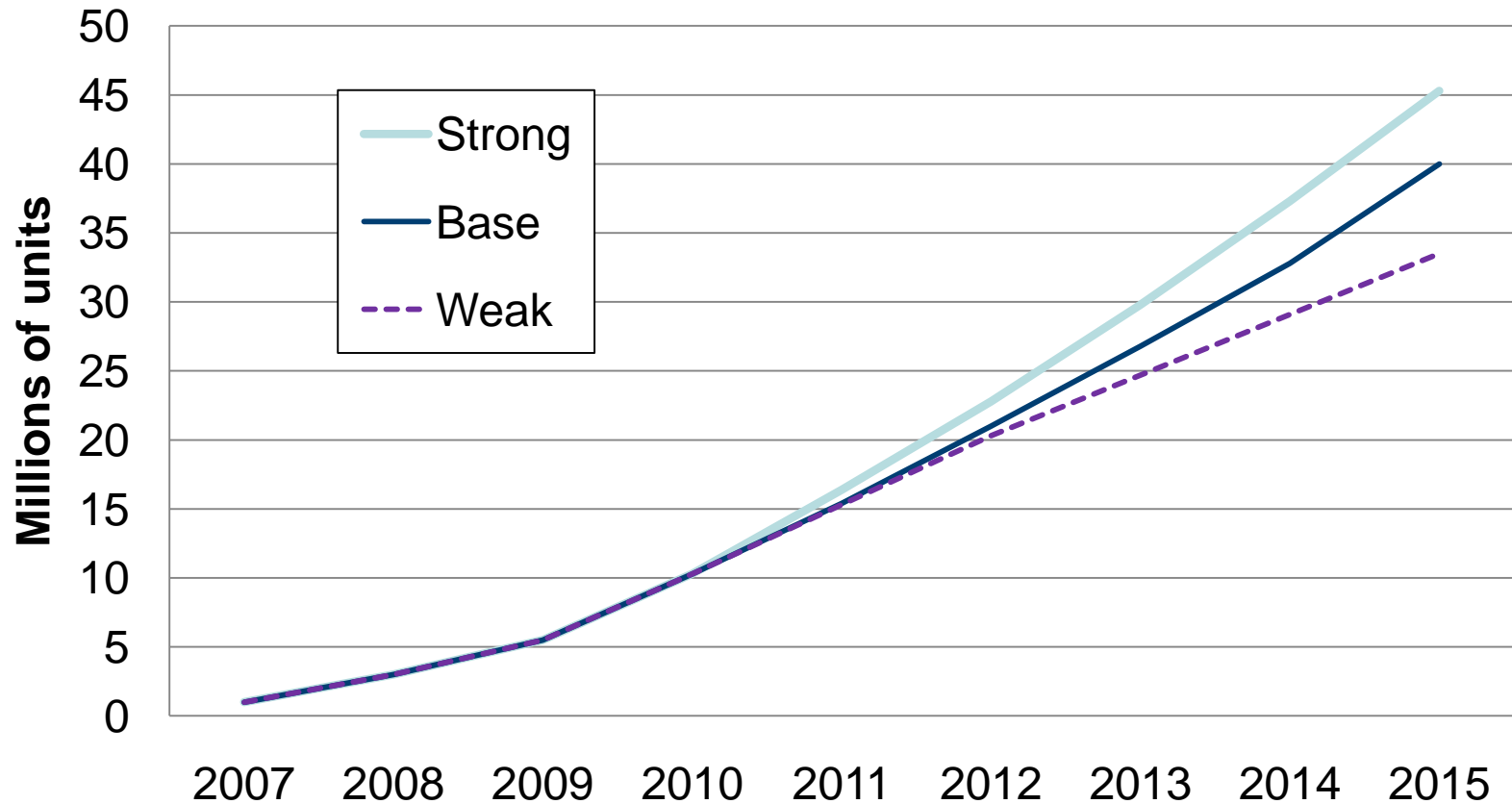


Source: Amer. Publishers Assn., note sales data based on old definitions for compatibility with history

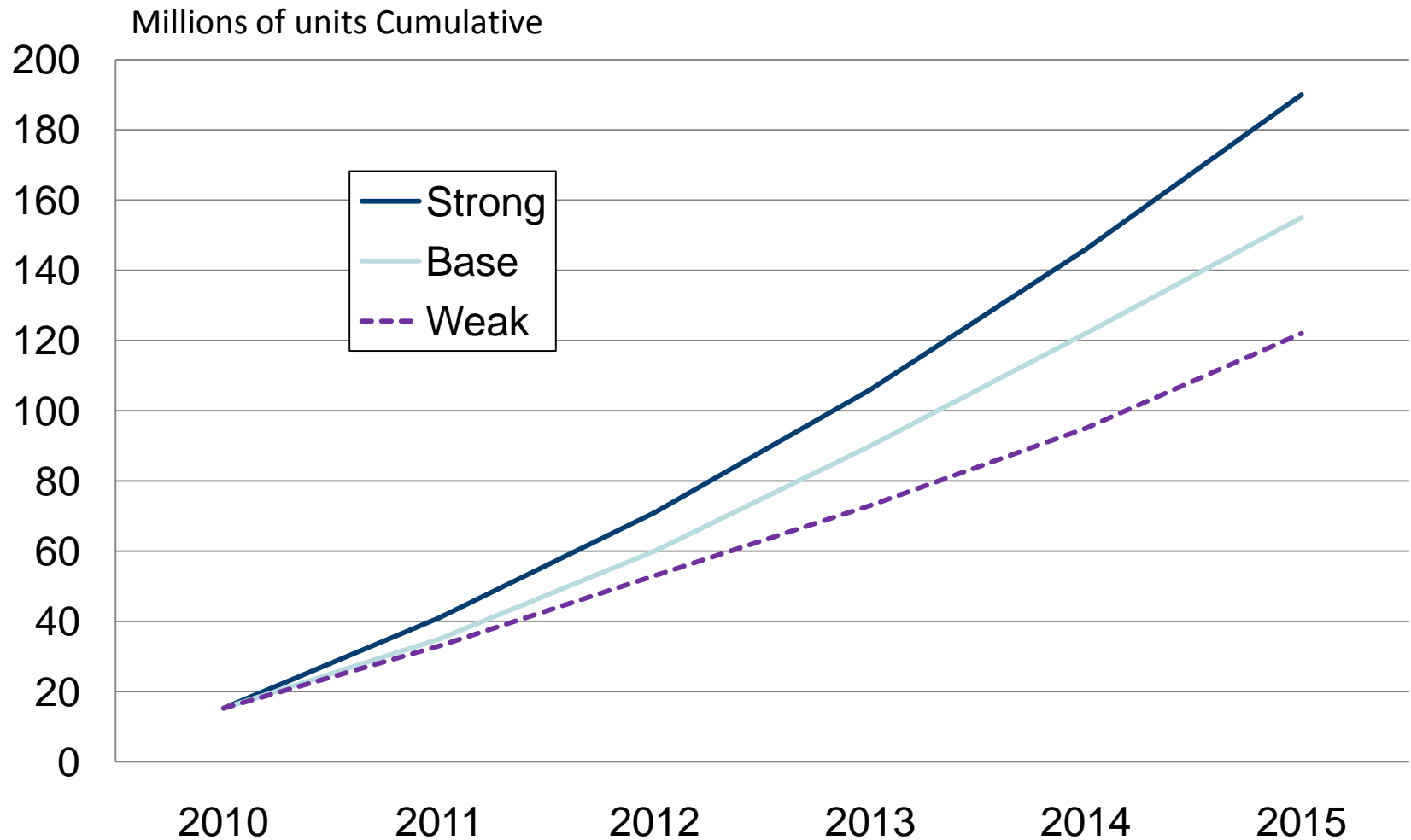
# Ebook share of real book publishing industry sales (billions of dollars)



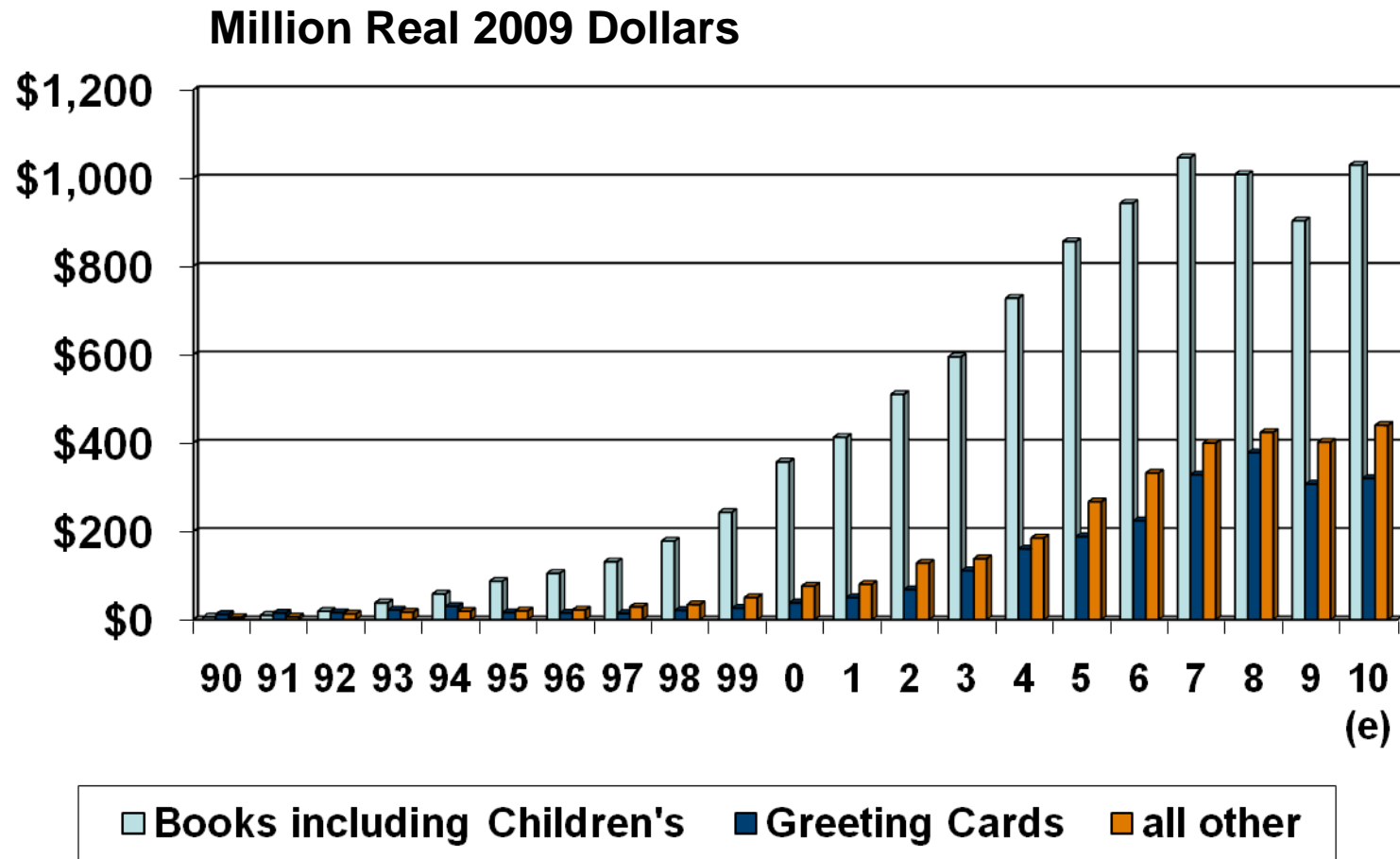
# N. American E-reader Cumulative Sales Forecast



# N Amer. Media Tablet Computer Sales Forecast



# U.S. Imports of Printed Products from China



# North American P&W Demand by Grade

## Million Tonnes, % Change

	2008	2009	2010	2011	2012	2013
Ctd. Freesheet *	5.3	4.1	4.7	4.8	4.7	4.6
%ch	-13%	-23%	17%	0%	-2%	-1%
Ctd. Mechanical	5.1	4.0	4.2	4.0	3.9	3.8
%ch	-15%	-21%	3%	-2%	-4%	-1%
Unc. Freesheet *	11.4	9.9	9.8	9.6	9.5	9.2
%ch	-8%	-12%	-1%	-2%	-2%	-3%
Unc. Mechanical	6.0	5.0	4.9	4.9	4.9	4.9
%ch	-4%	-16%	-2%	0%	0%	0%
Total	27.7	23.0	23.6	23.3	22.9	22.6
%ch	-10%	-17%	2%	-1%	-1%	-2%

\*Includes bristols and cotton

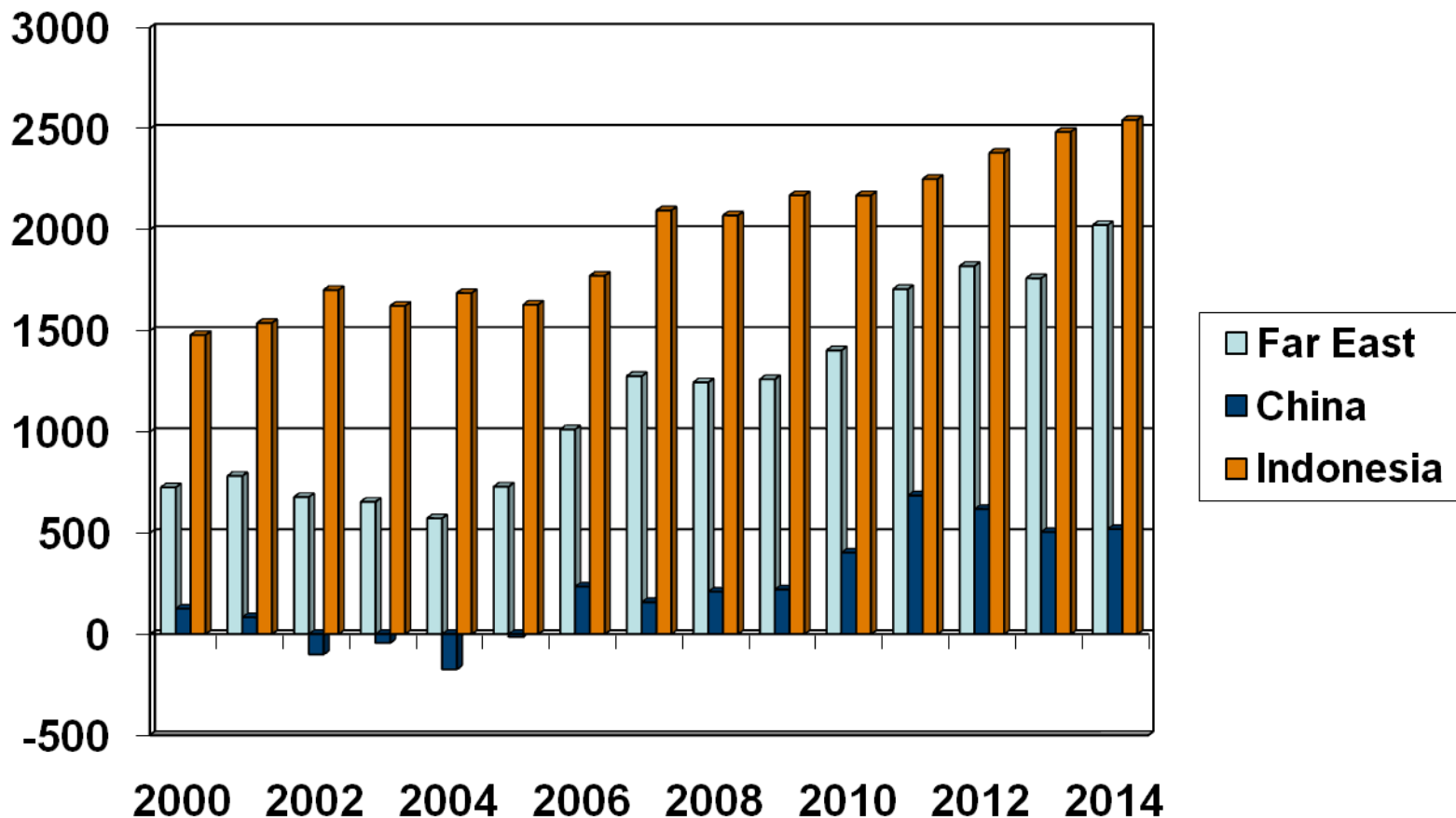
The background of the slide features a photograph of bare, leafless trees against a light sky. A solid green horizontal band is positioned across the middle of the image, containing the title text. Below this band is a white area.

# Paper Supply Issues Imports and Domestic Capacity

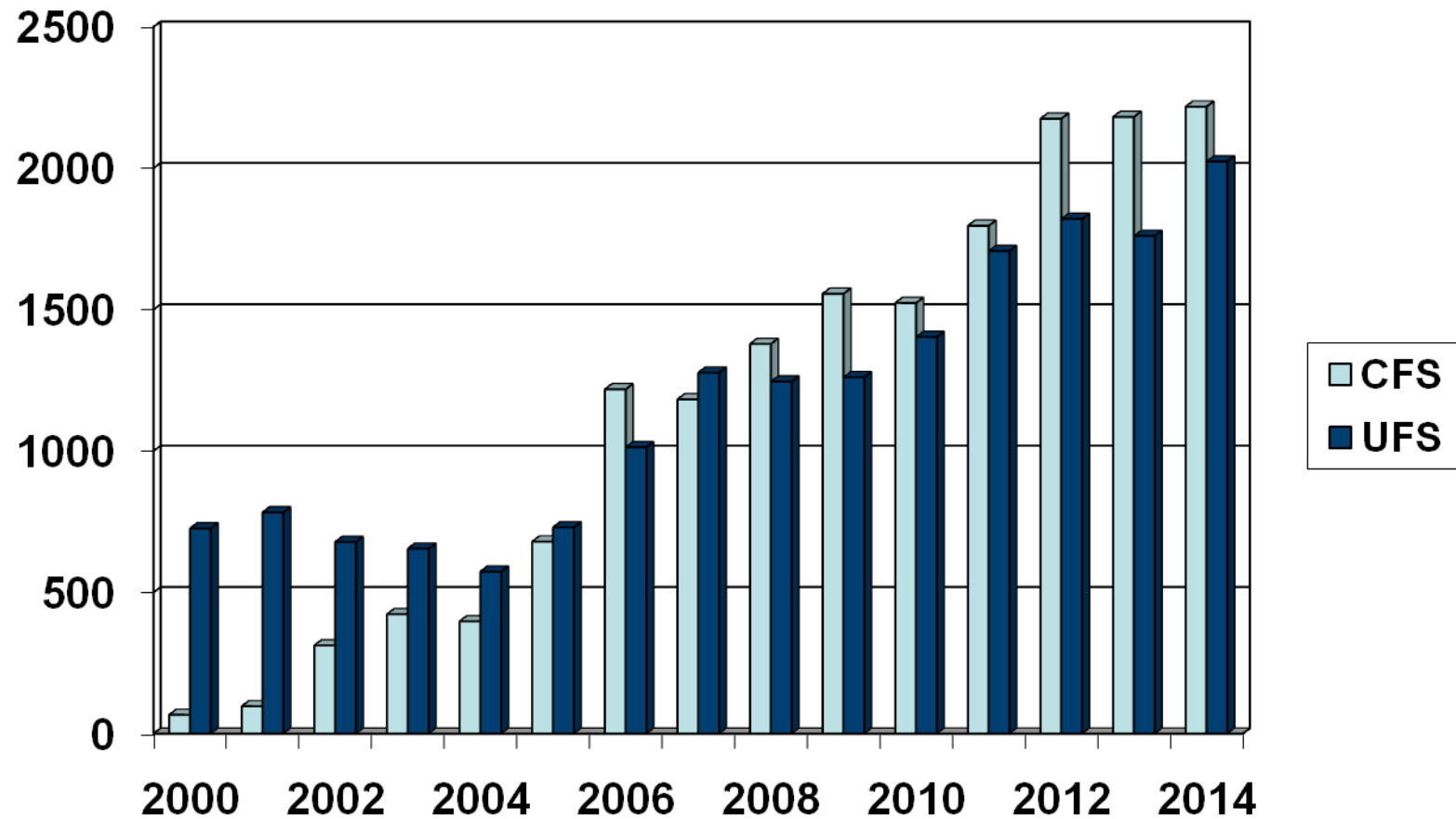
# Asia Is Becoming a Bigger Factor in World Supply of Uncoated as Well as Coated Freesheet

Net Exports of UFS Out of Far East to Rest of World and Out of China/Indonesia

(000 tonnes)



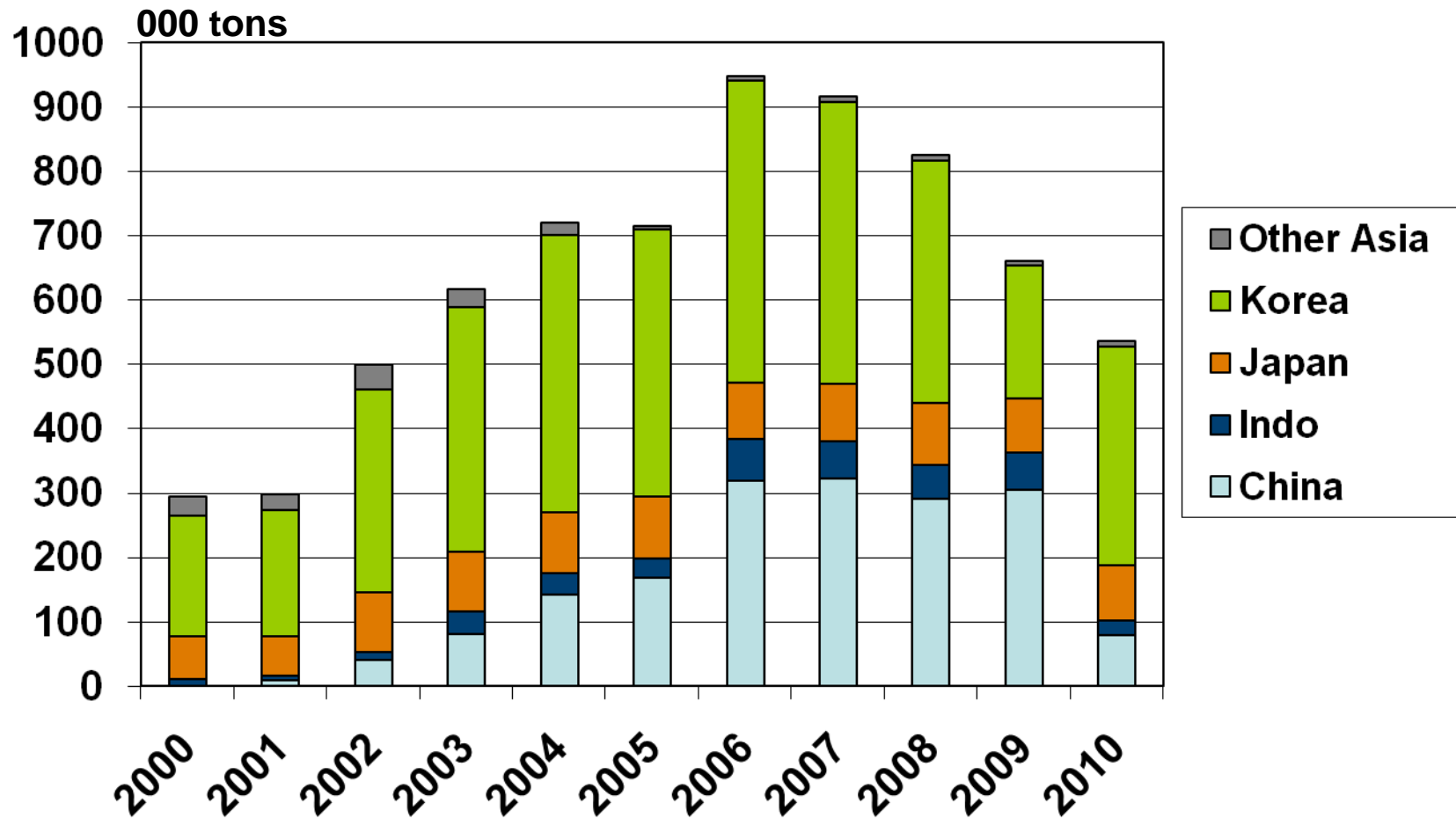
# Asia Net Exports of Coated Freesheet vs. Uncoated Freesheet (000 tonnes)



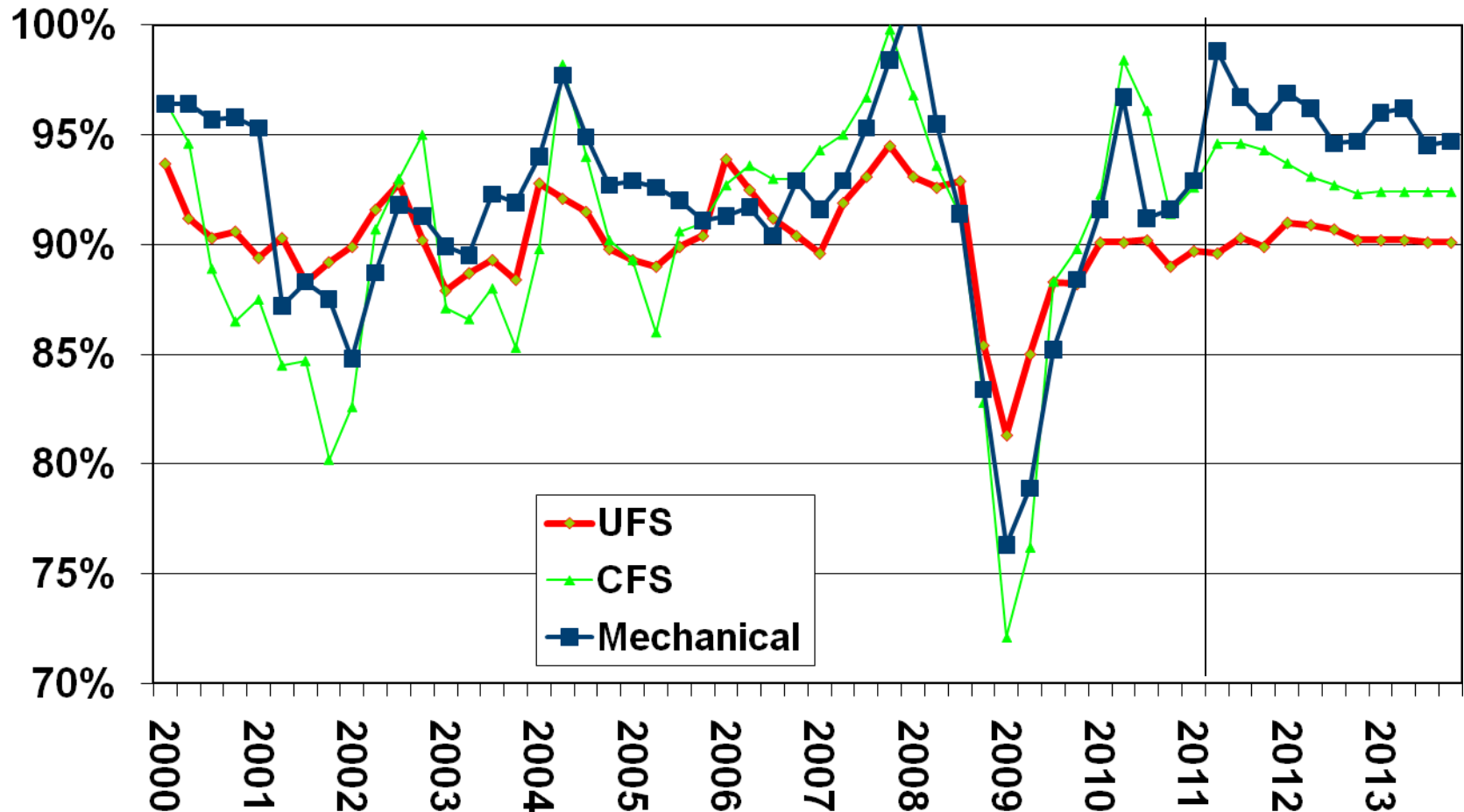
# Asian Capacity Still Coming on Strong

- ▶ China APP Hainan Island still ramping up after 2010 start with up to 1.2 million tonnes of heavyweight capacity
- ▶ China OJI Nantong also still ramping up after 2010 start at nonintegrated mill with 400,000 tonnes of capacity, and room for a second PM (partially offset by shut of about 320,000 tonnes of capacity in Japan at Fuji, Tomioka, and Takasago mills)
- ▶ China Shandong Huatai started up in Jan 2011 with 500,000 tonnes of capacity, producing coated paper in February
- ▶ China Shandong Chenming starting up in Q2 2011 with 800,000 tonnes of capacity
- ▶ Korea, Moorim Ulsan with 450,000 tonnes starting in March, 2011
- ▶ Two PMs scheduled to start in Vietnam in 2012, An Hoa with 140,000 tonnes and Tan Mai with 200,000 tonnes (BCTMP based, PM could start later than 2012)

# US Coated Paper Imports From Asia Decline at First Because of Weak Demand in 2008/2009, then Due to Tariffs in 2010



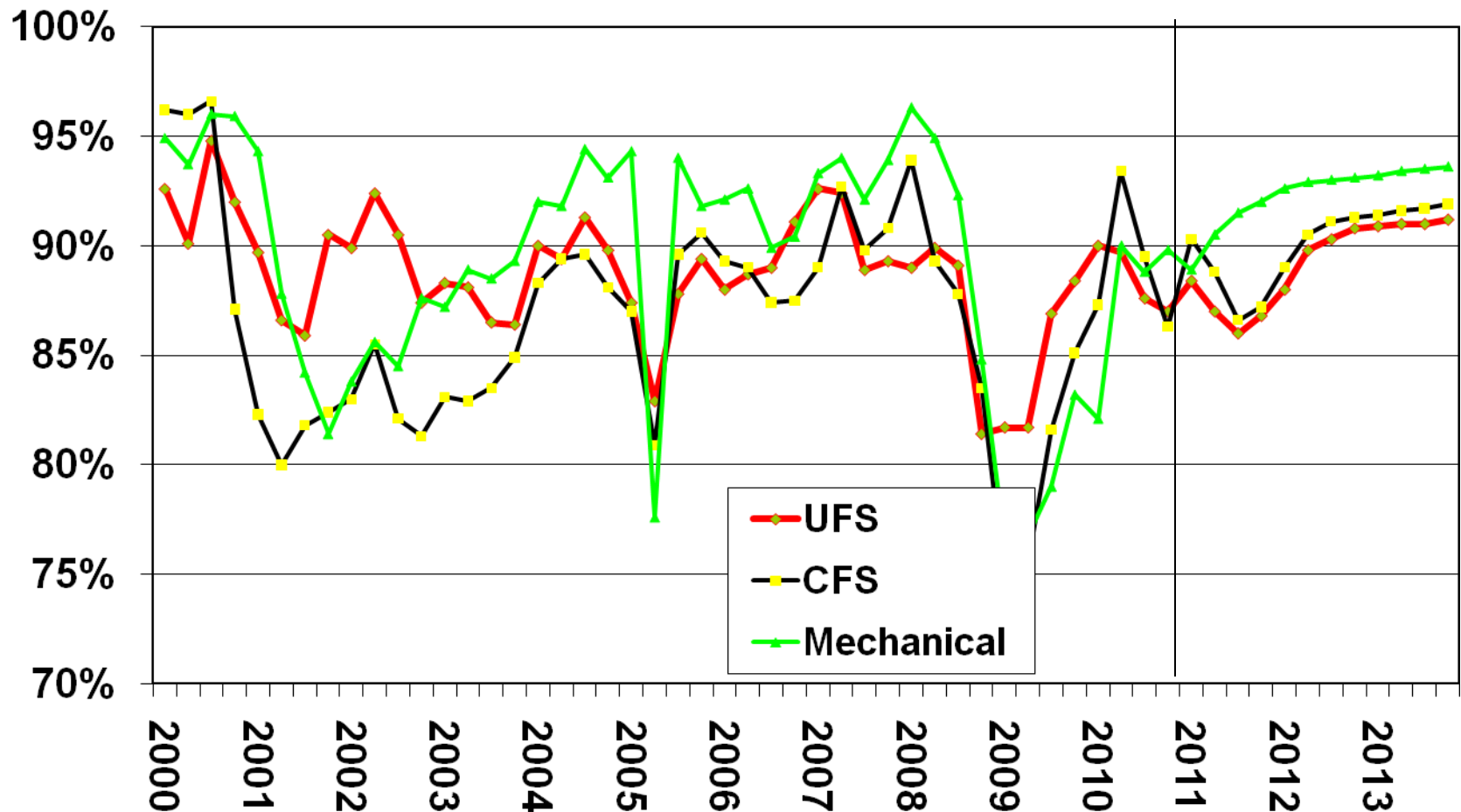
## North American Operating Rates – Market Finally Eased Off in Late 2010, But After Whiting Shut in February and Idling of Katahdin, The Mechanical Segment is Much Tighter



# North American Printing & Writing Paper Capacity Shuts for 2011 (tons)

Company	Mill	Capacity	Date
Domtar	Ashdown, PM61	125,000 UFS	July 2011
Newton Falls	(may restart on different grades)	80,000 CFS	Dec 2010
Newpage	Whiting	250,000 CGW	Feb 2011
Brookfield	Katahdin (may restart)	250,000 UGW	Apr 2011
Blue Heron	Oregon City	170,000 UGW and newsprint	Feb 2011

# European Operating Rates – Also Rising, But Not As Tight As in North America, Ctd. Mechanical Tighter Than Other Segments

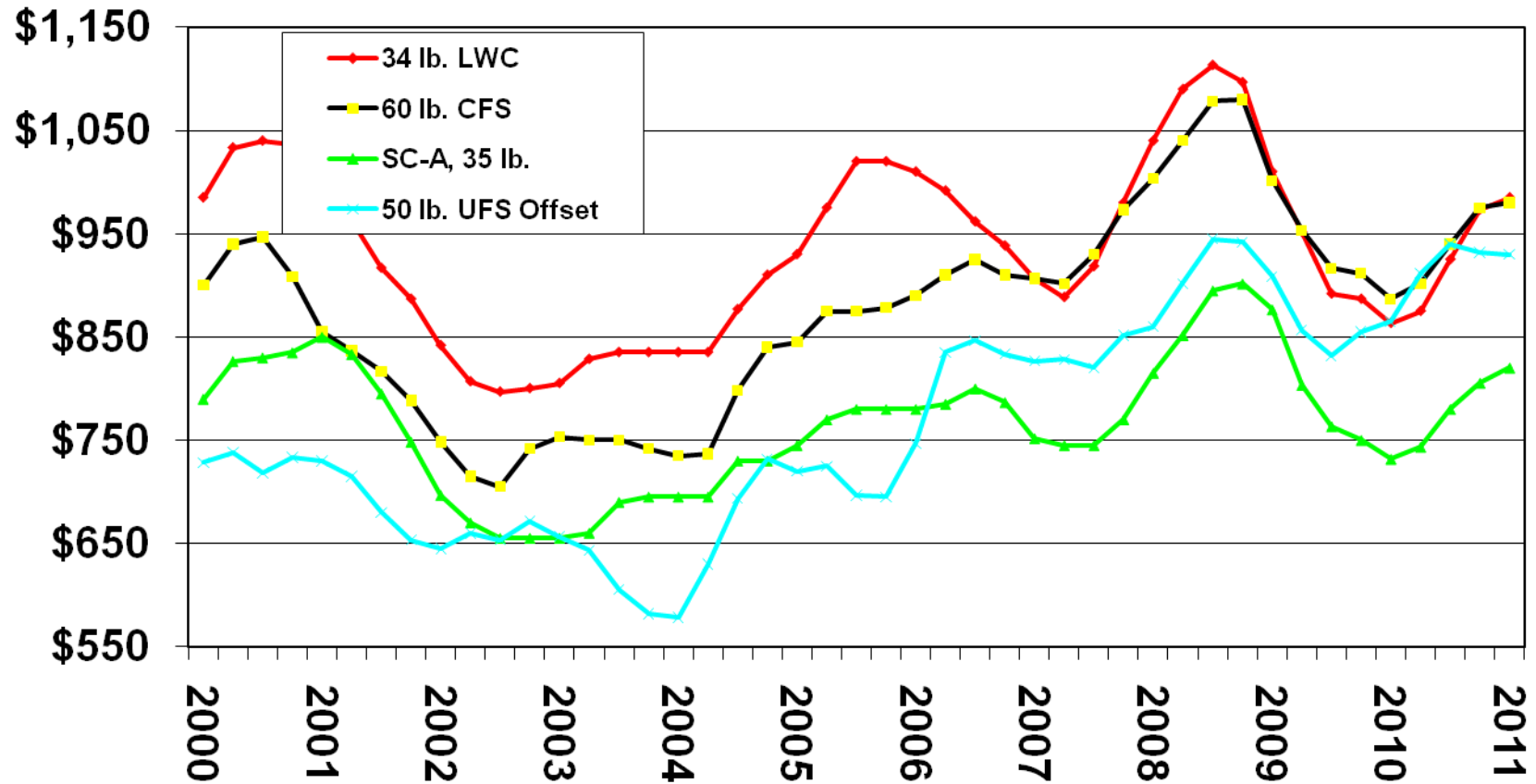


# European Printing & Writing Paper Capacity Shuts for 2011 (tonnes)

Company	Mill	Capacity	Date
SAPPI	Biberist	500,000 CFS	Mid-2011
Holmen	Fuenlabrada, PM61	170,000 CGW	Apr 2011
Burgo	Tuscolano, PM11	70,000 UGW	End-2010
M-Real	Alizay/Gohrsmuhle	430,000 UFS	Late 2011
	(may divest or shut)	70,000 CFS	Late 2011

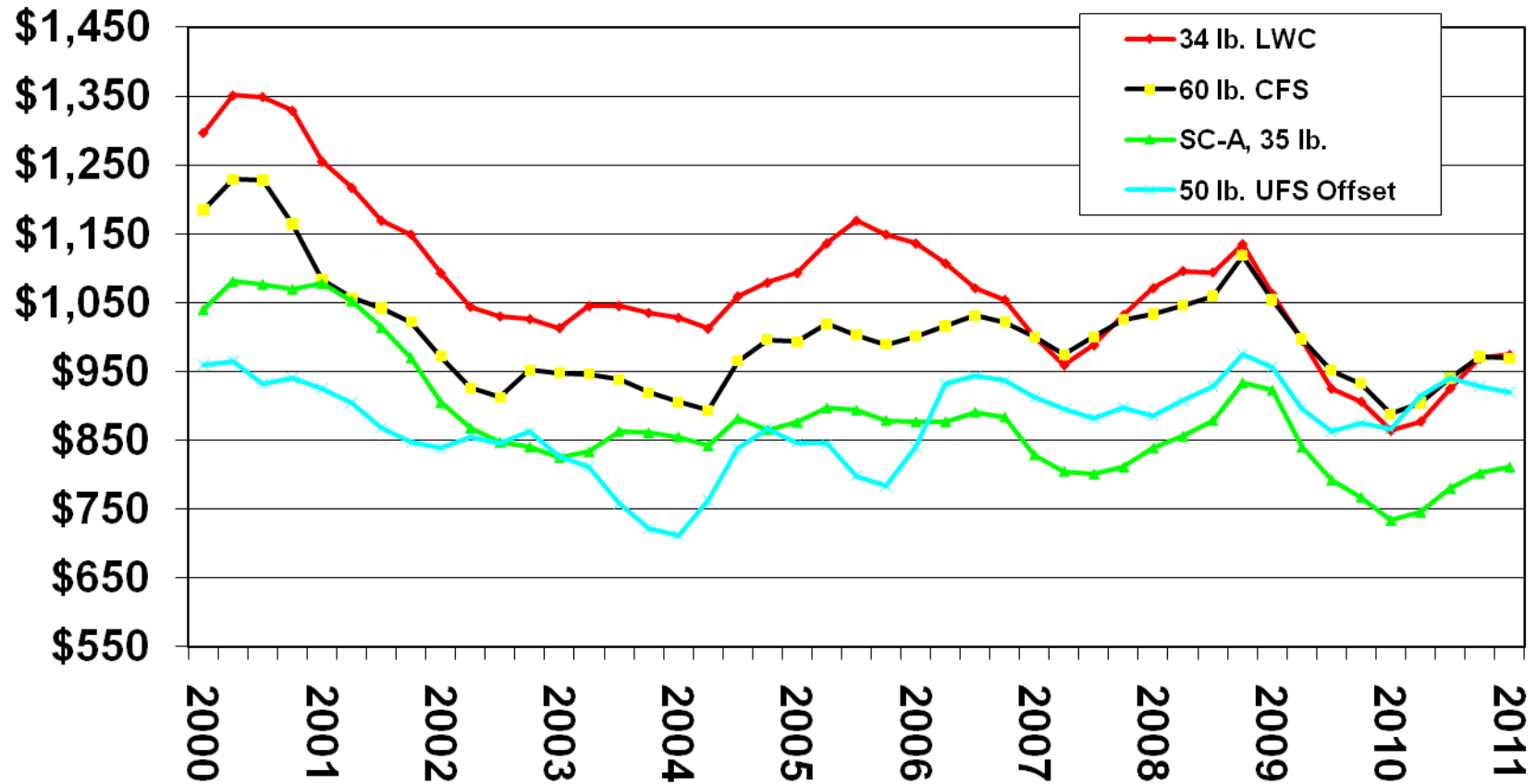
# US Publishing Paper Prices – Recovery Will Continue as Long as Operating Rates are Above 92% and Cost Pressures Remain

(\$US/ton, delivered)



# US Publishing Paper Prices – Same Chart but Adjusted for Inflation With Producer Price Index

(\$US/ton, delivered, in real 2010 Dollars)



# Increase In Mill Delivered Cash Costs vs. Increase in Price Since 2005 Q1 for Coated No. 3 Rolls (percentage)

