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## INDUSTRY ALERT

## Industry Update

### Paper & Forest Products

### Preliminary January Printing & Writing Numbers

#### Focus stocks

International Paper (IP.N), USD7.19 Hold, Price Target USD11.00

Domtar (UFS.N), USD1.14 Hold, Price Target USD2.00

Glatfelter (GLT.N), USD8.19 Sell, Price Target USD8.00

Wausau Paper Corp (WPP.N), USD7.63 Buy, Price Target USD10.00

**From bad to worse.** According to preliminary data released by the AF&PA, the decline in printing & writing paper shipment volumes accelerated in January. After y/y declines of 20.2% in November and 20.7% in December, volumes fell 25.3% y/y in January. This is by far the worst 3-month stretch that we can remember. No other period even comes close.

**All categories declined sharply.** Shipments of uncoated free sheet, the largest category, declined 20.1% y/y. Coated free sheet shipments fell 26.5% y/y, and coated mechanical shipments fell 31.3% y/y. Uncoated mechanical, the smallest category, fell 39.0% y/y. Even in an extremely weak economy, it's hard for us to imagine that underlying consumption has fallen by this much this fast. We think that it's likely that inventory de-stocking in the supply chain is at least partly responsible.

**Implications for the industry?** For the moment, the massive amount of market downtime that the industry took in 4Q will have to continue in 1Q. As we saw in 4Q results, however, market downtime has a significantly negative impact on manufacturing efficiency and fixed cost absorption. Ultimately, we will need to see more permanent (or at least indefinite) capacity closures. Domtar announced plans to shut the 293K tpy PM5 at its Plymouth, NC mill by the end of February. We expect more such announcements.

**We expect prices to remain under pressure.** Weak demand, falling input costs, and a stronger US\$ all point to weaker prices. LWC prices fell \$15-35/ton in January, after falling \$50-70/ton in December. CFS prices fell \$20-60/ton in January, after falling a similar amount in December. UFS prices have held up better so far, down just \$5-10/ton in January, following similar declines the previous two months.

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