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Season's Greetings!

The CPBIS management team and the entire body of CPBIS faculty, staff and students extend best wishes for this holiday season to all of our newsletter readers. We value your continued interest in the Center's work as we strive to help meet the industry's research, education, and outreach needs. During this joyous season, we hope that your travels are safe and your holidays relaxing.

With warm regards,

Pat McCarthy

Jacquie McNutt

Tom McDonough

Vinod Singhal

Charley Burney

A Conversation with Michael Chriszt

Earlier this year, we were pleased to report that Michael J. Chriszt had joined the CPBIS Board of Executives. Mr. Chriszt is an assistant vice president with the Federal Reserve Bank of Atlanta's research department. From 2004 to 2008 he served as director of international and regional analysis with responsibility for analysis of economic conditions in the Sixth Federal Reserve District as well as international economic developments.

We recently had an opportunity to speak with Mr. Chriszt and solicit his views on the paper industry's current situation and future prospects. Here are the questions we asked and his responses:

How would you characterize recent trends in production, capacity, and capacity utilization of the U.S. paper industry?

Production measures of the paper industry output show a 3.4 percent year-over-year decline through September

2008 and now stand at their lowest level since the mid-1980s. Capacity utilization declined significantly in recent months as well and stands at its lowest level since the last recession.

In the above respects, is the industry in the southeastern U.S., typical of the U.S. industry as a whole?

We do not have data on production or capacity data by state, so direct comparisons of regional trends to national trends are not possible. One thing we found interesting is that through September, business contacts tell us that industrial sales of electricity to the paper industry in the southeast were steady, hinting that the decline in capacity and production may not be as great here as in other regions. Again, it's impossible to draw conclusions from this kind of analysis.

What is the outlook for production, capacity, and capacity utilization of the paper industry in the U.S.? In the southeastern U.S.?

The decline in demand that is the hallmark of a contracting economy will likely touch the paper industry along with most other production sectors. It's hard to imagine a scenario where facilities in the southeast are not affected as well.

How has the paper industry's rank among manufacturing industries changed in the recent past, and how do you expect it to change in the future?

In terms of output, using the strict definition of GDP by industry, paper manufacturing as a percent of total manufacturing output has declined modestly over the last decade from about 4.0 percent to 3.3 percent. In terms of employment, paper and paper products manufacturing employment as a percent of total manufacturing employment has declined modestly over the last decade – from 3.6 percent to 3.3 percent. I don't see any reason why these trends would not continue.

What do you see as the main implications of the current financial crisis for the U.S. paper industry?

Access to credit has become a serious challenge for most businesses. Capital investment plans have been shelved and many industries are scaling back production plans. These trends will likely continue in all sectors until market tension eases.

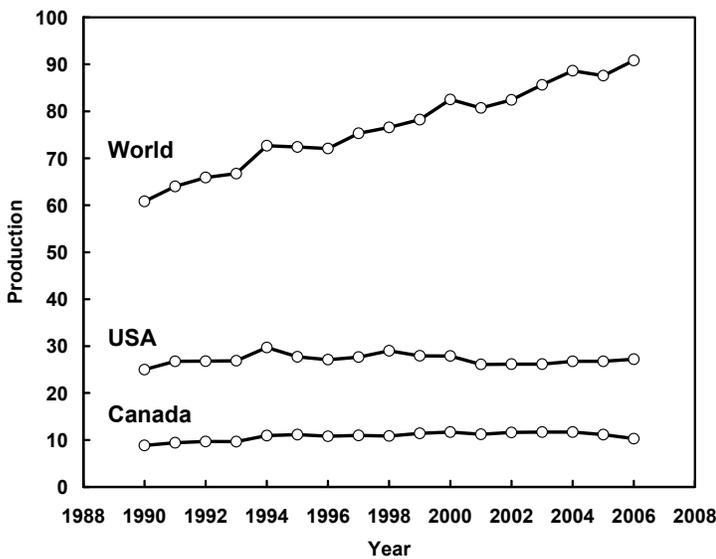
Will the global slowdown have any beneficial impacts on the U.S. paper industry?

It's hard to imagine anybody benefitting from a global economic slowdown, but firms that went into the downturn in sound financial shape may be able to expand market share and emerge in a stronger position for the long run.

**Statistics Corner:
The Globalization of Bleached Kraft Pulp Production**

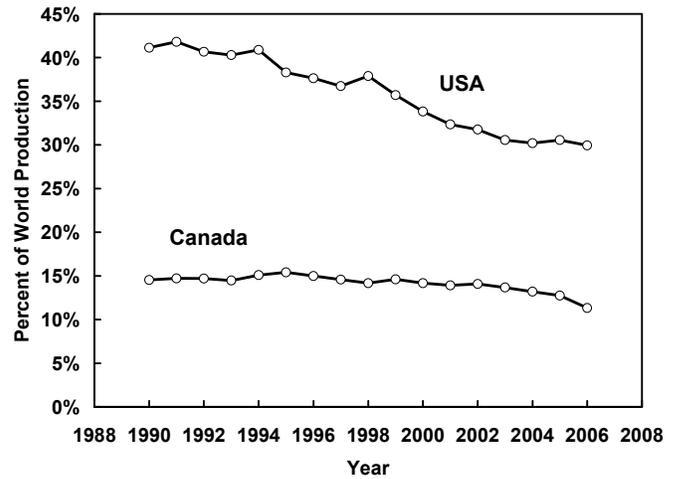
World production of bleached kraft pulp (BKP) grew by 50% between 1990 and 2006 (Figure 1). Since BKP is the principal component of virtually all white paper products, this may appear to be at odds with the expected impact of electronic media on the consumption of communications papers. However, examination of the corresponding consumption data would probably reveal that much of the growth can be attributed to the increased appetite of developing economies for paper products of all kinds.

Figure 1. Bleached Kraft Pulp Production, 1990 - 2006, Millions of Metric Tons

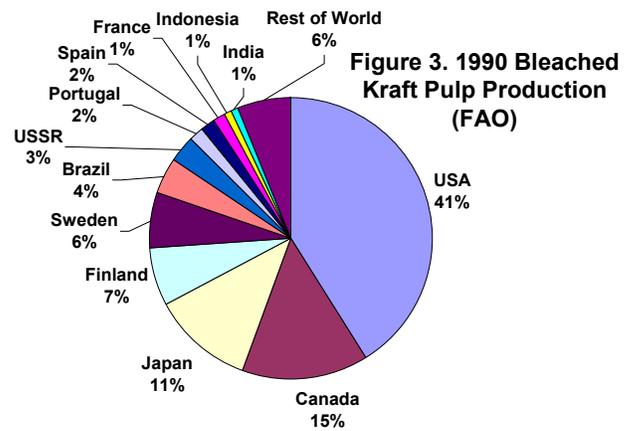


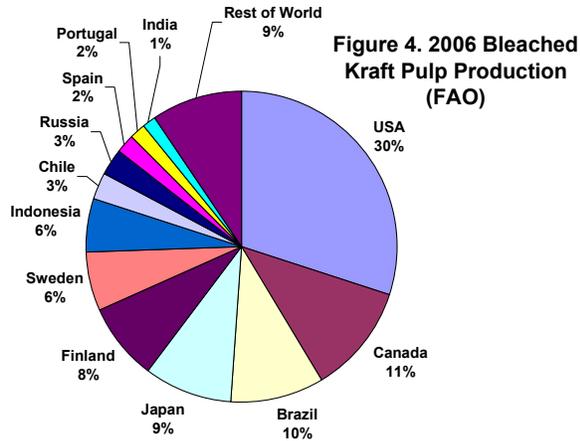
Also shown in Figure 1 are production data for the U.S. and Canada. It is immediately apparent that the North American producers have not enjoyed a significant share of the production growth. Although it is still true that the U.S. produces more than any other country and Canada is the second-largest producer, both countries have seen their margin of leadership reduced as developing countries such as Brazil, Indonesia and Chile ramp up their production capacity. Figure 2 illustrates the decline in the North American share.

Figure 2. Bleached Kraft Pulp Production as Percent of World Production, 1990 - 2006



Figures 3 and 4 show the geographical distributions of BKP production in 1990 and 2006, respectively. The growth of the Brazilian and Indonesian industries is particularly notable.





Call for Papers

Authors are invited to submit abstracts of pulp and paper business-related papers for presentation in CPBIS-sponsored sessions at next year's TAPPI Engineering, Pulping and Environmental (EPE) Conference, October 11-14, 2009 in Memphis, TN. Authors interested in presenting a paper should submit an abstract by e-mail to techpapers@tappi.org noting the EPE Conference as the intended venue. Please also send a copy of the e-mail to tom.mcdonough@cpbis.gatech.edu. Requests for further information can also be sent to the latter address. Abstracts are due by January 15, 2009. ■

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.