



# Forestry and Agrifoods

## Newsprint—North America

The North American newsprint industry continued to face declining domestic demand in 2010 and, increasingly, relied on offshore export markets to bolster shipments. U.S. newspaper circulation declined, indicating that traditional newspaper readership continues to fall as people increasingly acquire news electronically. Total newsprint consumption in the U.S. declined by 8.7% in 2010 with consumption by U.S. dailies down 8.0%. In contrast, industry insiders reported solid increases in offshore exports, particularly to Latin America and Asia. Offshore exports now account for one-third of North American newsprint shipments, a significant shift in market orientation compared to a few years ago when these markets accounted for less than 20% of shipments.

Growth in offshore exports and considerable capacity reductions in recent years (to stabilize the industry and raise prices) have facilitated improvements in key industry indicators. North American newsprint production rose 5.2% in 2010 and shipments increased 5.9%. Canadian and U.S. newsprint mills operated at 92% and 89% capacity respectively in 2010 compared with annual rates of 75% and 77% in the previous year.

Newsprint prices increased in 2010. After bottoming out at around US\$435/tonne in the third quarter of 2009, newsprint prices posted solid gains. By the fourth quarter of 2010 prices were reported to be around US\$640/tonne. However, the price gains experienced last year were eroded for domestic producers by the appreciating Canadian dollar as indicated in the chart.

## Newsprint Prices



f: forecast

Source: TD Bank Financial Group; Bank of Canada; Department of Finance

## Newsprint—Province

The provincial newsprint industry has faced many of the same challenges as the North American industry. Montreal-based AbitibiBowater closed its Stephenville mill in 2005 and its Grand Falls-Windsor mill in March 2009. Consequently, the Corner Brook mill, operated by Corner Brook Pulp and Paper Limited, is currently the only newsprint operation in the province. The company presently operates two paper machines (PM No. 2 and PM No. 7) with a combined rated capacity of 260,000 tonnes per year.

Newsprint shipments totalled just over 259,100 tonnes during 2010, a decrease of 2.0% from 2009. This decline was due to the closure of the Grand Falls-Windsor mill that produced roughly 21,000 tonnes of newsprint in 2009. The estimated value of newsprint shipments was down by about 5% in 2010, reflecting lower volume and the stronger Canadian dollar.

## Lumber

The volume of lumber production in the province increased by about 26% in 2010 to about 77 million board feet reflecting improved markets and prices. While this was a significant increase, it was still well below peak annual production levels of more than 140 million board feet reached eight years ago. The provincial lumber industry, like the North American industry, was hit hard by the downturn in the U.S. and Canadian housing markets in 2009 and the subsequent drop in lumber prices. Residential construction in Canada made a comeback in 2010, but U.S. housing demand remained historically low.

Despite the continued weakness in the U.S., lumber prices made significant gains in 2010 largely due to increased Chinese demand and curtailed production. Prices averaged US\$256/thousand board feet (tbf) last year, up from an average of US\$181/tbf in 2009. The estimated value of provincial lumber production in 2010 grew by 47% to \$25 million.

Lumber production is expected to continue to recover in the near-term, reflecting modernization initiatives by several of the province's larger sawmills and the potential reactivation of some idled capacity. There is also an acknowledgement by industry stakeholders that the long-term viability of the sawmill sector can only be ensured through market diversification and an expanded product line. To this end, a marketing strategy is being coordinated by the province. The strategy will benefit all integrated sawmills in the province and support value-added wood enterprises. It will identify and develop overseas markets to reduce Newfoundland and Labrador's reliance on U.S. markets.

An example of diversification and expansion in the provincial forest products industry is the introduction of wood pellet manufacturing. The production of wood pellets from sawdust, tree bark and planer shavings is providing sawmill operations with opportunity to improve their financial position and create employment opportunities in rural communities. The wood pellet industry has been growing globally. Market interest in new wood fuel products has been sparked by the volatility in world oil prices and consumer desires for cleaner, more efficient heat sources. The industry is currently in its early stages of development in this province. In 2010, there were two producers of wood pellets with a combined annual capacity of 12,000 tonnes. This is expected to increase to three producers in 2011 with annual productive capacity of 52,000 tonnes.

## ***Agrifoods—Farm Cash Receipts***

The estimated value of farm receipts increased by more than 8% to \$115.2 million in 2010, reflecting higher values for both crop and livestock production. Livestock and livestock products, which account for over 80% of farm receipts, were up almost 8% to \$94.1 million. According to published data, higher receipts for fur and egg production were important contributors to the livestock increase. Fur receipts, at \$7.1 million, were more than double the 2009 figure reflecting improved pricing and a rebound in the mink industry following disease-related challenges in recent years. Egg production receipts increased 6.0% to \$14.6 million. Although farm receipts for chicken production are no longer published, data from the Chicken Farmers of Canada indicate that the volume of chicken produced in the province increased 3.9% to 13.7 million kilograms in 2010. Dairy receipts were valued at \$44.5 million in 2010. According to the dairy industry, production was slightly higher than 2009. Crop production increased 8.7%, reaching \$20.4 million last year, as higher receipts for floriculture/nursery products and other vegetables more than offset lower potato receipts.

# Forestry & Agrifoods 2011 Outlook

## Agrifoods—Fur Farming

The fur industry in Newfoundland and Labrador was valued at over \$7 million in 2010. With 17 farms in active operation, the industry employs over 100 full-time and 300 part-time employees throughout the province. There are a variety of fur species raised on fur farms, primarily mink and fox, with some sable and lynx.

Fur is a global commodity and prices can vary greatly from year to year. More than 95% of pelts produced in this province are sold through international auction houses such as North American Fur Auctions, the Seattle Fur Exchange and Copenhagen Fur. In the past year, the main buyers at auction were from China/Hong Kong, Greece, Korea and Russia. Fur has been in vogue for several years now, with emphasis on fur accessories and trim. Several major fashion designers featured fur in their collections in 2009 and 2010.

The Newfoundland and Labrador fur industry has advanced greatly in recent years. Fur farm receipts in 2010 were more than double the previous year's value and have rebounded to levels slightly better than 2008. The main reason is improved pricing of pelts at auction. As well, on-farm fur inventories are recovering after the discovery of Aleutian Disease on several farms in 2007. To aid producers in combating the disease, the Provincial Government introduced the \$5.4 million Aleutian Disease Management Program that provided funding from 2007-2009. Other programs provided by the provincial government to assist and develop the industry include the Provincial Agrifoods Assistance Program and Growing Forward.

Newsprint shipments this year are expected to be about the same as last year, approximately 260,000 tonnes.

Lower capacity in North America and Europe is expected to lead to higher newsprint prices. Some analysts are calling for prices to rise between 12% and 13% for the year.

Lumber production is expected to increase around 25%, mainly reflecting improved prices and sawmill modernization initiatives.

Farm cash receipts are expected to post modest gains.

Prices for fox and mink pelts are expected to be 20% to 30% higher than last year and pelt production is projected to increase.

St. David's

