Forestry and Agrifoods

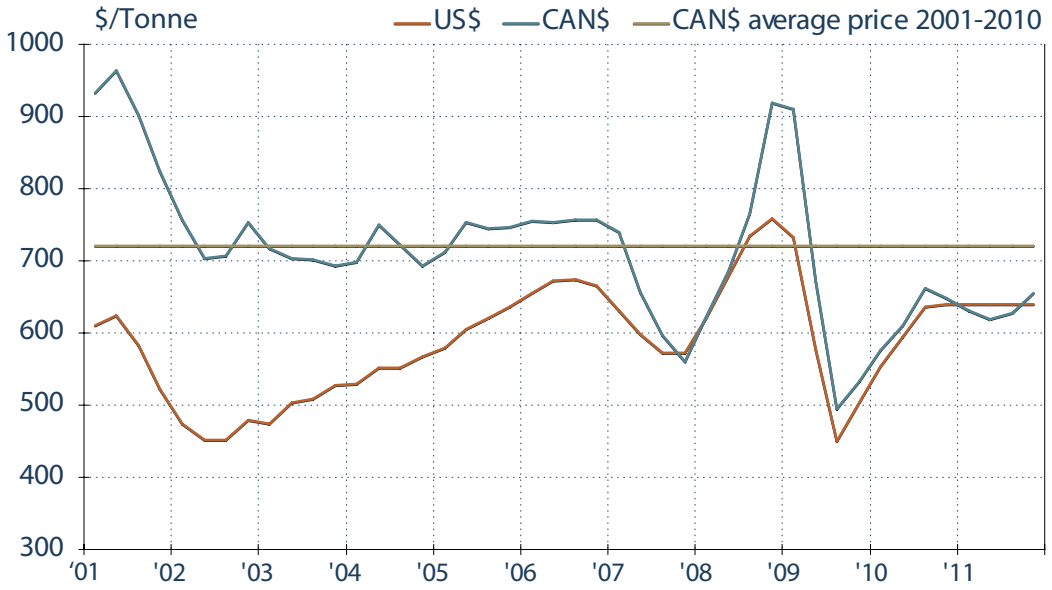
Forestry

Newsprint—North America

The North American newsprint industry continued to struggle in 2011, the result of declining demand which has fallen by more than 50% over the past decade. Demand dropped by 7.4% in 2011 compared to a year earlier. Overseas exports were down by 5.5% for the year, with declines in western Europe and Latin America only partially offset by increased shipments to customers in Asia. As domestic demand continues to decline, overseas markets have become increasingly important to North American newsprint producers, representing about one-third of total shipments today versus less than 20% five years ago.

Newsprint prices have remained relatively stable since the third quarter of 2010 at around US$640/tonne. Last year prices averaged 5.6% above 2010. However, for producers in this country the benefit of the higher U.S. prices was eroded by a stronger Canadian dollar (prices to Canadian producers were up by only 1.4%). The historical benefit of the low Canadian dollar for producers in this country has disappeared over the last three years as the Canadian dollar now routinely flirts with parity. For a significant portion of last year, newsprint prices in Canadian dollars were actually lower than the price in U.S. dollars (see chart).

Newsprint Prices



Note: Quarterly prices
Source: TD Bank Financial Group; Bank of Canada; Department of Finance

North American newsprint mills operated at roughly 92% capacity in 2011 and prices were stable. With overall demand continuing to decline, industry experts are speculating that more capacity reductions may be required in the future to support prices.

Newsprint—Province

The provincial newsprint industry has endured the same challenges as the North American industry, resulting in the permanent closure of two mills, one in 2005 in Stephenville and a second in 2009 in Grand Falls-Windsor. The Corner Brook mill, operated by Corner Brook Pulp and Paper Limited, is now the only newsprint operation in the province. The company operates two paper machines with a combined capacity of 260,000 tonnes per year.

Paper product shipments (both newsprint and directory paper) totalled 236,240 tonnes during 2011, a decrease of 8.8% from 2010. This decline reflects, in part, lost production due to both mechanical and electrical repairs and the implementation of directory paper production. The first shipments of directory paper from the mill commenced in February 2011. Directory paper is a thinner, stronger paper often used in telephone directories. The mill shipped 8,850 tonnes of this paper in 2011. The total value of paper product shipments in 2011 is estimated to have declined between 7% and 8%, reflecting lower volume.

Lumber and Wood Pellets

The North American lumber industry has struggled in recent years because of a slump in the U.S. housing market, its single biggest customer. Annual U.S. housing starts have continued to languish in the 500,000-600,000 range, compared to a pre-recession average of 1.5 million. While this situation has been alleviated somewhat by increased demand from Asian markets, prices overall have remained low, creating a tough, competitive environment for the Canadian sawmill industry. Since 2008, Canadian producer prices for softwood lumber and structural ties have remained, on average, about 17% below pre-recession prices.

There are four large integrated sawmills in the province that represent 85% to 90% of the lumber produced. These are located in Bloomfield, Summerford, Roddickton and Hampden. Like elsewhere in Canada, the slump in lumber demand in the U.S. has created challenges for the sawmill industry in this province. Increasingly, industry's strategy has been to focus less on the U.S. market and to maximize sales in the local lumber market. The industry has also moved to improve its economic situation through increased utilization of raw materials, mill upgrades and product line enhancements. The latest marketing strategy hopes to identify and develop overseas markets to further reduce Newfoundland and Labrador's reliance on the U.S.

Efforts to improve the viability of the industry have been met with some success as lumber production has regained some lost ground. In 2011 the volume of lumber produced in the province was estimated to have been about 85 million board feet, up slightly from 82 million board feet in 2010, and substantially higher than the 61 million board feet in 2009. The value of production is estimated to have increased from $26 million in 2010 to $29 million last year, reflecting higher production and price gains. Further production increases are anticipated over the near term.

Wood pellets are a new addition to the value-added wood products sector and provide diversification to sawmills' product lines. In 2010 two wood pellet plants operated, producing 3,000 tonnes of product for local markets. Last year productive capacity increased significantly when Holson Forest Products in Roddickton started operating a new 50,000-tonne capacity wood pellet plant. It is anticipated that the main export market for these pellets will initially be Europe. Wood pellets are produced from sawdust, tree bark, planer shavings and small diameter, low quality timber. The pellet industry has been growing globally as market interest in new wood fuel products has been sparked by high prices for other types of fuel and consumers' desire for cleaner, more efficient heat sources.

Agrifoods

Farm Cash Receipts

Farm receipts totalled $124.8 million in 2011, up 5.8% over 2010. Livestock and livestock products, which account for 85% of farm receipts, were up by 6.8% to $105.9 million. Higher fur sales accounted for the bulk of this increase—the value of fur production receipts increased by 40.7% to $15.8 million. This reflected gains in revenue for the local mink industry driven by high pelt sales and strong international prices in 2011. In addition to higher fur sales, livestock and livestock products were also positively impacted by higher values for eggs and cattle. Egg production receipts increased 17.4% to $17.1 million reflecting higher production and farm prices. Cattle receipts increased 48.5% to $2.8 million. Dairy product receipts dropped 3.9% to $43.3 million during the period. 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 decreased by 1.8% to 13.4 million kilograms in 2011. Crop production increased 0.4% to reach $18.2 million during the year.

Cranberry Farming

Cranberry farming in Newfoundland and Labrador is a relatively recent development, starting in the late 1990s. At that time Government decided to evaluate the potential for this industry by establishing pilot sites in collaboration with the private sector. Trials have proven that cranberries can be grown in the province in sufficient quantities to be profitable. Establishing the industry, however, takes some time as a cranberry farm requires a minimum of five years before significant commercial harvest.

There are currently about 250 acres of cranberry beds under development throughout the province. Sites include Deadman's Bay, Terra Nova, Stephenville, Stephenville Crossing, Frenchman's Cove and the Grand Falls-Windsor area. The Grand Falls-Windsor region has the largest acreage under development (10 farms with 12 acres each). It is estimated that farmers should have approximately 50 acres of cranberry beds for a sustainable operation. As such, some of the farms have initiated expansion. It has also been determined that the provincial industry should have at least 500 acres of beds in order to support a dedicated secondary processing facility. The current 10-year goal for the industry is to establish between 600 and 800 acres of beds.

OUTLOOK 2012

FORESTRY and AGRIFOODS

The North American newsprint industry is expected to continue to be challenged by factors that have plagued the industry for some time (e.g. increased electronic media usage, higher costs, economic uncertainty).

Newsprint prices are expected to remain on par with 2011 at about US$640/tonne.

Paper product shipments from Newfoundland and Labrador are expected to be about 250,000 tonnes this year, up slightly from shipments in 2011.

With a slight improvement anticipated in the U.S. housing market and increasing Chinese demand, lumber prices are expected to increase from US$343/thousand board feet (tbf) in 2011 to US$350/tbf this year.

Lumber production in the province is expected to increase by about 6% to 90 million board feet.

Farm cash receipts are expected to post modest gains.

The harvest results in the province have been encouraging thus far. The most recent data (2010) showed an average yield of approximately 15,000 pounds per acre with some varieties yielding greater than 20,000 pounds per acre. This is comparable to the Canadian average of 14,400 pounds per acre. As well, the fruit has had above standard colour and quality.

Currently, most of the cranberries harvested are purchased by Indian Bay Frozen Foods in Bonavista Bay and shipped to Europe and Russia. Almost all of the cranberries grown in the province are processing varieties. However, there is increased interest in developing some fresh market varieties which command higher prices.

Although prices have fallen in the past couple of years analysts agree that the 5-10 year forecast for cranberry prices is between $0.55/pound and $0.60/pound, a good range for financial viability.