

# North American Tissue Market : Wiping Away its Financial Woes

**Andrew Battista**  
Senior Economist



June 2005

---

---

---

---

---

---

---

---

RISI

## North American Tissue Summary

- U.S. Tissue Demand Accelerating from a Relatively Weak 2004
- AfH Growth Exceeded Retail Gains in 2003-2004 and Should Benefit from Strong Economic Indicators in 2005-2006
- New Capacity in the Works, Old Capacity May Be Retired
- Operating Rates on the Rise and Costs Poised to Drop
- Only Small Price Increase Announced for the Near-term, Industry Profits Expected to Rise



2

---

---

---

---

---

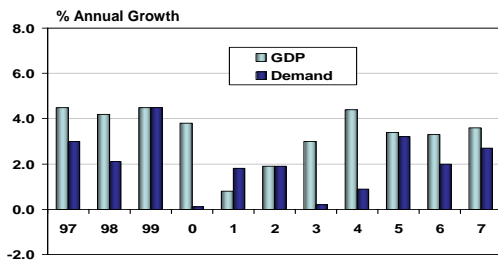
---

---

---

RISI

## U.S. GDP vs. Tissue Demand



3

---

---

---

---

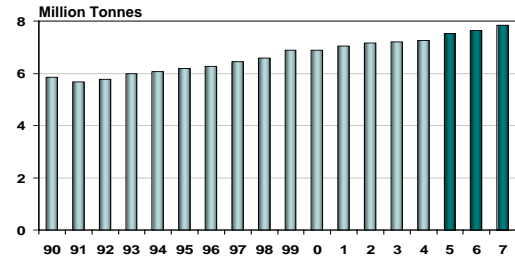
---

---

---

---

### North American Tissue Demand Edging Upward




---

---

---

---

---

---

---

---

---

---

---

---

### Regional Per-Capita Use of Tissue Papers

(Kg/Person)	1985	1995	2005
North America	18.6	21.0	22.6
Western Europe	7.4	10.5	14.4
Latin America	2.4	3.1	4.5
China	0.3	1.5	2.6
Global	2.3	3.0	3.9

---

---

---

---

---

---

---

---

---

---

---

---

### Tissue Papers Regional Demand Growth 2005–2007

Thousand Tonnes	Average Annual % Change	Total Tonnage Growth
North America	2.5%	557
W. Europe	2.8%	482
Latin America	5.0%	368
Asia	4.1%	815
Rest of World	7.2%	534
Total	3.7%	2,756

---

---

---

---

---

---

---

---

---

---

---

---



### Tissue Papers Regional Capacity Growth 2005–2007

Thousand Tonnes	Average Annual % Change	Total Tonnage Growth
North America	1.5%	364
W. Europe	3.0%	592
Latin America	3.5%	307
Asia	4.6%	1,036
Rest of World	8.2%	636
Total	3.5%	2,935

---

---

---

---

---

---

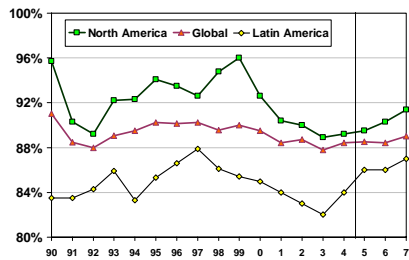
---

---

---

---

### Tissue Industry Operating Rates Rebounding




---

---

---

---

---

---

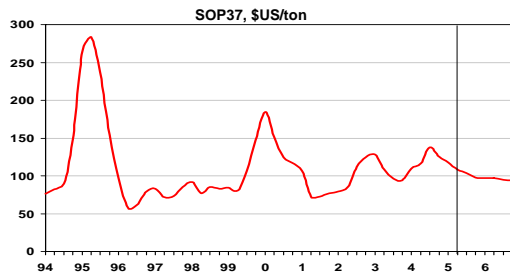
---

---

---

---

### Recovered Fiber Costs Deflating




---

---

---

---

---

---

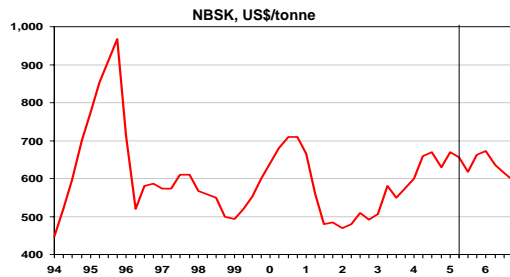
---

---

---

---

### Market Pulp Cost Pressure Abating



---

---

---

---

---

---

---

---

### Summary

- Demand in Mature N.A. Tissue Market to Grow Faster than Trend Rate this Year
- Announced Capacity Finally Catching Up with Our Expectations
- Permanent Supply Reductions in the United States Could Further Boost Operating Rates
- Fiber Costs to Deflate, But Not Enough to Encourage Intense Promotional Pricing in Tissue
- Profit Margins Should Get Short-term Boost through 2006
- Big Downside Risk: the Extent of the Next Round of Capacity Expansion
- Big Downside Risk: Fiber Costs May Rebound Stronger or Earlier than Currently Anticipated

---

---

---

---

---

---

---

---