



The Rap Sheet

Your source for news on the paper industry.

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Did You Know?

Did you know United Stationers collects consumer prices from around the country every week on key office papers?

It's true...and prices are updated every Tuesday.

See this week's price tracker at paperrap.com.

Contact Our Paper Specialists

PaperRap@ussco.com

1-888-PAPER60
(1-888-727-3760)

Interested in a Topic?

E-mail our staff at PaperRap@ussco.com and we'll try and answer your question in our next edition of *The Rap Sheet*. Please place "Rap Sheet Topic" in the subject line.



Introducing *The Rap Sheet*

When you consider the fact that office paper is a \$7 billion product category, it's no wonder United has made a major commitment to this vital product line.

In line with that commitment, United is proud to introduce *The Rap Sheet*, a new source for the latest details and news about everything that's going on in the paper industry.

With invaluable insight and information from our knowledgeable paper professionals, we hope this will be a resource you will turn to for all of your paper needs...to show you how to take advantage of United's paper programs...and help you sell more paper to your customers more profitably.

New HP Inkjet Papers Available from United

While inkjet printers tend to produce more brilliant colors than their laser counterparts, many businesses refuse to use them.

Mention inkjet printing to your customers and odds are many will reply, "We don't use inkjet printers because of smearing." And they're right. Inkjet papers take a long time to dry. Remove a freshly-printed document from the printer before it has had time to dry and the inks will likely smear.

Now there's a simple solution. HP Everyday Papers with proprietary ColorLok technology.



The end-result of a collaboration between Hewlett-Packard, the world's leading printer manufacturer, and International Paper, the world's number one paper company, HP Everyday Papers with ColorLok technology dry up to three times faster, resulting in printed documents that are much less likely to smear.

Customers save time because they don't have to reprint smeared documents. And they save money – documents print perfectly the first time, so they don't have to pay for additional ink or paper.

Special additives are incorporated into HP Everyday Papers with ColorLok that prevent black inks from penetrating too deeply within the sheet. Blacks are up to 40% darker than documents printed on ordinary papers, producing crisper, sharper text and higher contrast black-and-white images.

The same technology also prevents color inks from being absorbed too deeply for uniform colors that are up to 10 percent more vivid and vibrant than ordinary papers.

HP Everyday Papers with ColorLok technology are going to change the way your customers think about inkjet printing. They resist smears. Blacks are bolder. Colors are more vibrant. And, we think you (and they) will be pleased to learn, ColorLok technology doesn't add a penny to the price of a ream.

ColorLok technology has been incorporated into many of HP's best-selling Everyday Papers including HP Office, Multipurpose and Color Inkjet. To order, contact your United representative.

Paper Rap Note:

International Paper's testing trials, while highly successful, were unfortunately not completed in time for United Stationer's 2006 catalog production process. This means that HP Everyday Papers with ColorLok technology will be available to independent dealers through United Stationers in 2006, but the new packaging and product details will not appear in our general line catalog. More details about availability will follow as production schedules and existing inventory levels are analyzed.

New Pressure on Paper Prices

Paper mills are under tremendous pressure to increase prices. It seems inevitable that the industry will see a price increase soon, almost assuredly in the first quarter. As discussed below, there are a number of factors that go into a price increase. Generally at least three of these factors must be coordinated before an increase can hope to survive.

- **The mills are facing increased costs.** Natural gas prices rose as much as 200% in 2005, yet the mills have not passed on this increase to the market. Also, fuel costs increased in 2005, another expense the mills have so far absorbed.
- **Operating capacity rates** are another key factor for mills as they consider a price increase. The industry has had excess capacity problems for a number of years as demand has fallen (down approximately 4.7% in 2005). Mills have responded by closing many manufacturing locations, thus reducing excess capacity. A general rule of thumb is that operating rates must be at least 92% in order for a price increase to be sustained. The industry is operating at about 90% thru October 2005, but inching up in recent months.
- **The forces of supply and demand** of course impact the viability of an increase. The best time for an increase is when demand is high and supply is limited. Foreign imports (currently flat due to weak U.S. dollar) come into play as a supply factor. Currently, demand is weak and supply is excessive, so a price increase at this moment would probably not be sustainable. The market will have to change, which as outlined above is happening as mills continue to take capacity out of the system.
- Finally, there is an **established history** for how price increases are introduced to the market that correlates directly with who owns the most market share. Generally there is a lot of buzz around the industry about an increase (which we are starting to hear already), then traditionally International Paper is the first to actually float an increase. The other mills usually follow with announcements of their own and, depending on market forces, the increase may survive to impact the market.

So when will a price increase be sustainable? It looks like February is the earliest we can expect a viable increase. Operating rates are creeping up, the change to a 92 bright (GE/TAPPI) standard helped to clear mill inventories, the market's sensitivity to increased manufacturing/transportation costs is softening and capacity continues to come out of the system. International Paper may be more willing to participate in 2006 as more time separates their industry-changing summer 2005 announcement to produce 92 bright copy paper at 84 bright prices (implying that they would not raise prices soon either).

How much of an increase can we expect to see? As 2006 develops, paper prices may inflate as much as 20% over 2005. This price inflation will come in installments. A 5%-10% increase in the first quarter, or about \$1.50 per carton, seems likely. Also consider that prices became deflationary in late summer of 2005, so once we cycle to late summer in 2006 the percentage change will naturally be higher.

What does a price increase mean? United Stationers certainly views a justifiable, sustainable increase as a positive development as long as it is evenly and fairly distributed throughout the industry. The paper industry is in desperate need for increased prices to sustain their profitability. We all benefit from a strong paper industry and an increase will be a much needed shot in the arm for all paper mills.