

After Pause For Breath In 2005, Expect More Digital Bond Price Increases In New Year

After a relatively quiet 2005, prices for uncoated laser and inkjet bond are expected to rise again early in the New Year as the six major North American mills attempt to increase profits in a market marked by constrained supply, corporate restructuring, high energy costs, and barriers to overseas competition caused by the weak U.S. dollar.

Prices for 20# digital imaging bond have increased only 6-10% this year after going up more than 30% in 2004 because mills have focused on improving profits by restructuring, consolidating demand in 92-bright grades, and shutting down excess paper-making capacity. Weyerhaeuser recently shut down a major pulp and paper facility in Saskatchewan, while Georgia-Pacific, Domtar and International Paper have also taken machines off line this fall. IP has also announced plans to sell its timberland holdings as part of a 3-year, \$1.2 billion profit improvement plan, while Georgia-Pacific assets are in the process of being acquired by privately-held Koch International for \$13 billion.



With these industry-wide cost-cutting and restructuring initiatives now virtually complete, the major mills are again focused on raising prices. **International Paper has announced a sobering 8.2% increase on 20# digital imaging bond effective with shipments on January 6, 2006.** Although it remains to be seen if the announced increases will stick, other mills are announcing price hikes for early January and we expect that the increase will hold.

We can't expect much relief from Europe, Asia or the "spot" market, either. Growing economies in Eastern Europe and Asia have combined with the weak U.S. dollar to make it very difficult to economically source bond from overseas. Meanwhile, the Big Six North American mills now account for more than 80% of all uncoated free-sheet sales in the hemisphere, meaning smaller players have simply been squeezed – or bought – out.

Nashua, despite being a \$300 million paper products converter, is not immune from the broader market pressures and dictates of the mills. We are in a strong position to secure the required tonnage and grades we need to support your business at the best prices in the market. Our pledge is to communicate frequently and directly with you so that you can anticipate and plan your business. Working together, we can make the paper market work to our advantage and help ensure that 2006 is a profitable year for all of us.

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