

What is it?

The Consumables Cost Index (CCI) tracks the dollar per ton changes in costs for the most volatile inputs used to make and deliver paper: fiber, energy, and transportation.

The first CCI that RISI is introducing covers the southern kraftliner industry, and the mills that are included in the calculation of this index are shown in the figure below. Other CCI's will be introduced over time, and the list of mills will be published when they are created. The goal is to generate an index that tracks the weighted average consumption of all the mills participating in a particular market, no matter their size.

Eastern US Kraftliner is Sourced Primarily From Mills in the US South

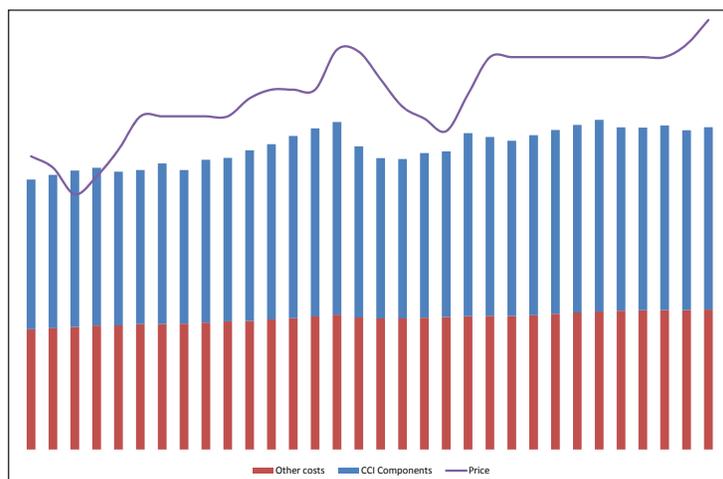


Why is it important?

Input cost inflation is a key factor influencing paper price fluctuations, yet there is no single, independent source that reports on these cost data.

The CCI was developed to address this need. As illustrated in the chart below, the greatest volatility in industry costs comes from the three components of the CCI. The remaining cost components (chemicals, labor, operating materials and fixed costs) are much more stable, and trend upward over time.

The CCI Components Drive the Volatility in Production Costs



How is it calculated?

In order to better indicate fluctuations in input costs over time, the CCI uses static consumption rates. The CCI rates are the weighted average consumption levels for the entire Southern US kraftliner industry in the first quarter of 2012.

Why use static consumption rates? The overall rates of consumption over inputs shift over time, reflecting the effects of new capacity entering or leaving the market; efficiency gains at existing mills; or shifts in consumption levels among various inputs. Examples of shifting consumption levels that regularly occur include: adjustments to the fiber mix between virgin wood and recovered paper; or adjustments to the fuel mix as the relative prices of oil and natural gas shift. Because of these shifts, however, it makes it hard to isolate the cost pressures facing a particular producer. For buyers who have established a contract with a given business partner, the CCI sheds light on the typical cost pressures that would face the manufacturer over the life of that contract.

Other cost data that RISI publishes, for forecasting and cost benchmarking, incorporate this shift in variable consumption factors over time, and thus give a picture of the cost pressures affecting the overall market.

Where do the data come from?

The data used to generate the CCI come directly from RISI's cost benchmarking dataset. RISI tracks the price for numerous inputs that are used for the production of paperboard. These data have never been published before, but will be in the online data table each month. RISI's cost benchmarking group calculates the actual consumption levels by machine for the various inputs (also called consumption factors) for all the mills they analyze on an ongoing basis. For the CCI, the consumption factors have been set to exactly match the weighted average figures from RISI's cost benchmarking service for the first quarter of 2012, since we believe that this is the best cost information regarding the market.

What is being delivered as part of the CCI?

- A chart tracking the CCI for the past eight quarters will be published in the Paper Packaging Monitor (PPM) each month. This chart will include values for the total index (all combined cost factors), as well as each of the three subcomponents (fiber, energy, and transportation).
- An online data table that details the consumption factors, input prices and calculated costs for each index subcomponent will be published. The table will include ancillary quarterly data for anyone who would like to track the CCI for a period greater than is being shown in the PPM. The detailed table also includes a section that puts the CCI components into perspective with the other less volatile cost components and the open market price for the product.
- A detailed methodology describing the data and method used to generate the CCI. This includes a description of how each of the consumption factors was generated; an explanation of how the input costs were calculated; and a complete list of the mills that were included when the consumption factors were set.

When will the CCI be updated?

The update of the input costs that are used in the CCI are scheduled to be set 45 days after the previous quarter ends. The online components of the CCI will be updated as soon as the data become available. The printed chart with the update will then be published when the next PPM is released.