

'Several Cities' Could Have No Daily Paper As Soon As 2010, Credit Rater Says

By Mark Fitzgerald

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CHICAGO Newspaper and newspaper groups are likely to default on their debt and go out of business next year -- leaving "several cities" with no daily newspaper at all, Fitch Ratings says in a report on media released Wednesday.

"Fitch believes more newspapers and newspaper groups will default, be shut down and be liquidated in 2009 and several cities could go without a daily print newspaper by 2010," the Chicago-based credit ratings firm said in a report on the outlook for U.S. media and entertainment.

Fitch is generally pessimistic across the board, assigning negative outlets to nearly all sectors from Yellow Pages to radio and TV and theme parks. But the newspaper industry is the most at risk of defaulting, it says.

"Much of the business risk for the media sector is likely to continue to be concentrated within the newspaper sub-sector," the report says. "Fitch expects newspaper industry revenue growth will be negative for the foreseeable future as both ad pricing and lineage will be under pressure within each of the four main components of newspaper companies' revenue streams: circulation and local, classified and national advertising. Newsprint costs could rise, and it could be difficult to offset revenue declines with cost cuts."

Fitch rates the debt of two newspaper companies, The McClatchy Co. and Tribune Co. as junk, with serious possibilities of default. It also assigns a negative outlook to both the companies and the newspaper sector, meaning their credit ratings are likely to deteriorate further.

If Fitch is pessimistic about the outlook for newspapers and other media, it's because it sees a harsh economic climate ahead.

"On a macro basis, Fitch Ratings believes the world economy faces a severe global recession in 2009," it says. "Fitch forecasts that the contraction in output among the major advanced economies in aggregate will represent the steepest decline since the Second World War at about (negative) 1%. Fitch expects real GDP (gross domestic product) in the U.S. to decline approximately 1.2%, while inflation is forecast to be 2.7%."

While other forecasters are saying the advertising environment will be as bad

as it was in 2001, Fitch predicts economic weakness continuing into 2010 could depress advertising by 6% to 9% in inflation-adjusted terms.

Fitch says the advertising downturn that began this year is unique in that it affects not only national advertisers, but local ones as well. And unlike the easy credit and lower interest rates during the 2001 ad recession, this time advertisers and consumers face a credit freeze.

More advertising categories are under pressure this time around, as well, Fitch argues. Five of the top 10 ad categories, accounting for more than 40% of ad spend will be down, Fitch predicts: retail; automotive; financial services; general services; and airlines, hotels and car rentals.

There has also been a "drastic increase in advertising inventory depressing prices, Fitch argues.

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