



Price Increase, Strong Demand a Nice Present for Containerboard Mills

Linerboard prices moved up for the first time in a long time in the fall buoyed by positive box and containerboard shipments and a dramatic drop in inventories. The outlook for 2017 is for continued modest growth and the market should remain relatively stable with little new capacity slated to come online.

By Harold M. Cody

The winds of change have certainly hit the containerboard business. The market began to feel a shift in the wind's direction near the end of the first quarter of 2016 when North American containerboard inventories began to drop following many months of rising. A major development was the first year over year decline in total mill/box plant inventories since late 2014 that occurred in March. Once inventories started falling they fell rapidly and steadily and by mid-2016 had reached the lowest level since November 2014. The drop in June, 6% or 152,000 tons, was the largest ever in June for a month that typically doesn't change, and maybe the largest single drop in years.

STRONG SHIPMENTS

At the same time containerboard shipments have been stronger than expected resulting in high mill operating rates of 97.4% in September, 95.5% in October and 96.4% in November. Box demand has been strong as well as shipments in November surged 9% to 31.957 bsf although there was an extra shipping day vs. last year. Box shipments are up 1% year to date while same day shipments surged strongly in the September to November 2016 period.

Containerboard consumption is up 2.9% which is well above expectations of a 1% to 1.5% rate of growth. Weeks of supply dropped in November to the lowest level in many months at 3.5 weeks and down slightly from 3.6 in October. These are low levels particularly for this time of year.

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PRICE INCREASE

While all of these statistics are interesting, the big news of



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course is the successful implementation of a price increase on Kraft linerboard in fourth quarter 2016. Once inventories began dropping, talk began in the spring and early summer of a possible price increase although many observers had initially pegged an increase for 2017. However, producers announced a \$40/ton increase for Oct. 1 and successful implementation on domestic 42 lb. linerboard brought prices to \$655/ton and marks the most notable change in a positive direction in many months.

To provide some perspective on the recent increase, liner prices had held steady for a long time at the \$630/ton level since the start of the first quarter in 2013. In early 2016 the market weakened while inventories rose to the highest levels ever at over 2.6 million tons. As a result, in January 2016 liner prices fell \$10-\$15/ton to about \$615/ton. In contrast to liner prices, medium prices have been weak and trending slowly down since early 2015. The strong report on inventories and shipments in November closed the deal on the price increase although there wasn't that much doubt.

Export prices may also be on the move with reports of producers looking at a \$10-\$30/ton increase. Exports are an interesting subject as they relate to recent improvements. Typically export tonnage has been a key factor that has sustained the market, but in 2016 exports of Kraft liner are not

up significantly and in fact at mid-year they were off somewhat. In contrast, exports of recycled grades have been rising over the prior year. Thus, the domestic Kraft liner market has been strong enough to support the market without the need for massive exports.

Pricing momentum may continue in both the domestic and export market in 2017 due to two major factors. One is a “push” from rising input costs and the other is very little new capacity. Recycled fiber and energy costs are starting to push higher and this of course will tend to support current price levels and possibly lead to the thought of an additional price increase in 2017.

After bottoming out at nearly \$30/barrel, crude oil has bounced back to above \$50/barrel, which remains relatively low historically but still the highest level since 2015. OCC prices are also rising and recently reached about \$110/ton in the domestic market. Export prices are also rising due to solid demand in changes in freight costs. OCC costs had been in the low eighties range in the first quarter of 2016 but moved up gradually in the 2nd quarter of 2016 to about \$100/ton before jumping up in the third quarter to roughly the current level, which are the highest since mid-2014.

Also contributing to what is generally a positive outlook for containerboard is that U.S. capacity is expected to increase less than 1% this year. This decline or slower growth reflects the impact of several recent closures including three reductions by West Rock (Newberg, Coshocton and Uncasville) coupled with no major expansions. The only capacity on the horizon is Kruger’s project in Trois-Rivieres, Quebec in early 2017 adding 350,000 tpy of recycled board. Another project has been floated in the U.S. by Corrugated Supplies, but it remains tentative and there are no known capacity additions in the U.S. that are currently financed.

Recent consolidation in the industry over the last couple of years is also expected to contribute to more stable markets as more and more capacity is integrated from the mill through the box side of the business. This has made it harder for “outsiders” to enter the business as well as providing more control to the major producers over supply. While some slowdown may occur early in 2017 there continues to be a chance that an additional price increase may be in the cards this year.

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