

Demand Rebound Kindles Growing Recovery in Containerboard Sector

Box shipments that began improving in late 2003 have been up seven of the last eight months, while total box inventories continued declining through the first half of 2004.

— By HAROLD M. CODY, CONTRIBUTING EDITOR



For most of the last four years containerboard mills have been plagued by a major loss of underlying demand,

which caused box shipments to plummet in 2000, slipping about 2 billion sq. ft on an annual basis. Linerboard prices plummeted over the same period from about \$425/ton to just over \$300/ton by late 2003.

While the general economy has been performing well for some time,

the struggling manufacturing sector has been pummeled by a surge of imports and weakness in the processed foods and nondurable goods manufacturing sectors. This weakness was the root cause of the downturn in corrugated box demand, although product substitution has also been a factor. However, propelled by inventory restocking and a weaker dollar the manufacturing sector began to recover last year and the rebound now encompasses the key processed foods sector in addition to nondurable goods.

In turn, as key segments of the economy strengthened, box shipments began improving in late 2003 and are now surging ahead. U.S. box shipments in May 2004 rose again (up for 7 of the last 8 months) according to the Fibre Box Assn., with shipments up 6.2% compared with May 2003. Demand is now at the highest levels since 2000. Overall actual shipments year-to-date totaled 160.9 billion ft², up 3.2%, while total box inventories continued declining in May.

U.S. CORRUGATED BOX SHIPMENTS						
	MAY 2004			YEAR TO DATE		
	Billions of square feet	% change actual vs. April '04	% change avg. week vs. April '04	Billions of square feet	% change actual vs. prior ytd	% change avg. week vs. prior ytd
NORTHEAST	4.533	0.6	5.7	23.450	3.1	4.1
SOUTHEAST	5.920	-0.5	4.4	30.809	2.6	3.6
E. CENTRAL	4.678	3.7	8.9	23.211	3.7	4.7
N. CENTRAL	3.789	2.7	7.8	19.574	3.2	4.2
S. CENTRAL	6.741	-0.3	4.7	34.634	2.7	3.7
WEST	5.879	1.9	7.0	29.255	4.2	5.2
TOTAL	31.536	1.1	6.2	160.931	3.2	4.2

Source: Fibre Box Assn.

Price Increases

The combined impact of tighter markets coupled with the push provided by high costs for OCC wastepaper has meant producers have regained pricing power. A \$40/ton increase was rapidly enacted and in place by the second quarter of 2004. A \$50/ton increase on linerboard—the second in six months—was announced by major North American producers effective June 1.

Prices have risen to about \$400/ton and the tight market has resulted in even higher prices on the spot market. Several major producers are also attempting to raise box prices in July to cover rising costs for linerboard and medium, with one major producer raising prices about 8%.

While it's likely this second round of board price increases will take longer to implement, it appears to have an increasing chance of success since recent data show that the gains in manufacturing may be accelerating and in fact supplies are tight.

As a result of these strong underlying demand trends, the overall containerboard market outlook remains positive although demand growth will certainly be effected if producers push through another price increase. As prices continue rising, product substitution will increase in some uses. It appears the industry will never learn the lesson that sharp price increases accelerate the search for alternate materials and ultimately hurt demand.

Healthy Production Levels

Production levels will also remain relatively good, although exports are unlikely to continue to grow due to rising capacity in Asia. It also must be remembered that the stage for the current rebound was set by the painful steps producers have taken in recent years, resulting in the closure of more than 6 million tons of capacity.

Thus, it is likely that some currently idle capacity will be brought back online at the higher price levels. The containerboard market is expected to remain solid into next year. If the economy cools a bit next year, as many predict, then growth in box demand is likely to flatten out. ■