

Containerboard Markets Falter But Fall Recovery Possible

Recent capacity closures could deter further price discounting in North American markets. — **By Harold M. Cody, Contributing Editor**



Following a strong but erratic recovery in 2004, containerboard markets hit a bump in the road in early 2005 that has continued into the third quarter. North American containerboard demand was down 1.6% thru

June compared with last year, according to the Pulp and Paper Products Council. Box cutups, which turned down in February, have slipped for six consecutive months.

Initial expectations for the containerboard market in 2005 were for modest gains in line with overall growth in the U.S. economy. However, the outlook for the remainder of 2005 and into 2006 is uncertain at best. The key question is whether this has been simply a short-term adjustment largely due to inventory pull-downs, or whether the plunge will continue.

Weaknesses in key supply and demand fundamentals are behind the recent swoon in containerboard markets. Overall kraft linerboard exports are off modestly, but have weakened considerably to Asia (down 30%), including a nearly 50% drop to China. Exports are doing better in South America and Europe and, in fact, the declining dollar may give producers some advantages. However, rapid capacity growth in Asia means exports to that region are unlikely to bounce back.

Underlying U.S. demand is another culprit, with the key non-durable goods sector of the economy—the largest con-

sumer of corrugated—posting poor growth. In addition, the continuing trade deficit problem is a major factor behind weakness in the manufacturing sector, including non-durables. Weak box demand in turn led to a rise in containerboard inventories, and all of this led to a modest price slide on board grades.

Improving Market Conditions. Despite these challenges, the outlook isn't all gloom and doom, and a return to modest demand growth and, in turn, improvements in containerboard markets aren't beyond reach. One key to a rebound is the recent spate of capacity closures, mainly for corrugating medium but also for linerboard.

These closures may position producers to deter price discounting that has plagued markets and led to an approximate \$20 decline in containerboard prices. In addition, upward cost pressures due to higher recycled fiber and energy costs will have a counterbalancing effect on how far prices fall.

Box shipments and board production normally pick up in the second half when demand begins to build for the holidays. If this occurs, pricing will probably firm. Total shipments for the year are still likely to be down from 2004. However, a recovery is far from certain, and if demand continues to slide, the bottom could fall out in a repeat of what occurred during the fall off in manufacturing in 2002 and 2003. ■

NORTH AMERICAN CONTAINERBOARD STATISTICS (000 TONS)				
	JUNE 2005	% CHANGE 2005/04	YEAR-TO-DATE 2005	% CHANGE 2005/04
Production	3,136	-0.8	18,632	-0.3
Operating rate	95.0	96.0	93.0	94.0
Shipments	3,165	-1.8	18,620	-0.5
Demand	2,908	-3.6	17,180	-1.6

Source: Pulp and Paper Products Council (PPPC)