

Tavens News

Jan. 6, 2025

Linerboard Prices Unchanged

Linerboard prices did not move in December.

Containerboard markets remain stable, and linerboard prices held firm despite slight decreases in export pricing. Market demand remains soft.

Price Increase Announcements

Despite lackluster demand, major producers announced price increases to take effect on January 1, 2025.

- Linerboard: \$60-\$70/ ton.
- Corrugating medium: \$80-\$90/ton.

The broad consensus among buyers and sellers is these announced increases are premature and too high. Particularly as we head into the seasonally "low demand" months of January and February.

However, if this follows last year's pattern, we will see a push toward potential implementation in March or April.

The C-Suites of the top integrated producers continue to express dissatisfaction with current price tracking methodologies in the RISI Index. This benchmark pricing model has drawn consistent criticism during earnings calls in 2024.

Many observers view this move as an ongoing effort by the big producers to break the pricing relationship with the index. Critics highlight flaws in the industry's pricing system, and there are significant problems with the methodology, but it does provide at least some semblance of a benchmark between buyers and producers.

*It is also worth noting that **none** of the linerboard increases announced included a **percentage increase in boxes**.*

This may signal that the big integrated producers will be very cautious about raising prices with their biggest customers.

Input Costs Decline

Costs of inputs like old cardboard containers (OCC), diesel fuel, natural gas and freight fell in the past few months.

We believe the major integrated producers are operating as an oligopoly signaling to one another increases to head off or delay market driven declines in the index in the coming months.

It is clear they believe they have enough pricing power to address margin erosion and inflation by simply raising prices, despite input cost declines.

As we discussed in previous newsletters, these announced increases are outside of normal supply and demand dynamics.

*It is worth noting, **US prices are \$150/ton higher** than prices in Europe.*

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Demand

Year-end demand remains flat. A further indication that we may have found the bottom of this cycle.

Many box producers reported volume declines in early December. Seasonal slowness is expected in early 2025 as January and February are typically low demand months for corrugated packaging.

Mill backlogs declined from four to six weeks to less than or right at four weeks in December. When backlogs fall below four weeks it is traditionally a sign of imminent pricing declines. More evidence further undermining the push for the announced increases.

A potential January port strike on the East and Gulf Coasts could influence demand and logistics. This could provide some impetus to push ahead a price increase that would slow access to EU paper makers.

We expect continued challenges in achieving price hikes in Q1 2025, with attention focused on how demand and market conditions evolve in the new year.

The High Cost of Low Prices

Purchasing corrugated packaging can often be a very frustrating proposition.

Corrugated boxes are a critical item that doesn't cost much and is often overlooked. It is a customized product, but universal. It consumes a massive amount of real estate but has a very low intrinsic value. It can have relatively long lead times, is often late, frequently mis-manufactured and occasionally unavailable at a critical moment.

And when products don't ship because the packaging isn't available the humble box takes center stage, and everyone suddenly cares about the box.

There is reason corrugated packaging suffers these issues:

Corrugated packaging is cheap. The margins are paper thin (no pun intended) and most corrugated producers focus on driving down

costs by improving efficiency, throughput, speed and volume of production.

Consequently, they have built businesses focused on productivity and driving volume rather than building out the necessary and expensive infrastructure to meet real customer needs.

It is a tradeoff. No company has infinite resources, so choices must be made. The corrugated industry has focused on reducing cost, through integration, consolidation and increased productivity.

They have not focused on the customer experience.

This model is appropriate to the largest consumers of corrugated packaging. These companies work to commoditize their products and processes to drive down costs and acquire market share. For these very large manufacturers of standardized products the current corrugated industry is a very good partner.

*But for other companies, **fast moving, innovative, specialized, high value manufacturers** seeking to provide a unique solutions for a specific market, the current corrugated industry is a terrible partner.*

The corrugated buyer for these companies sits on a lot of corrugated inventory for a very long time, consuming space (its incredibly bulky) and consuming money.

*This is the best choice among two bad options: **Too many boxes** or **No boxes**.*

No boxes and the product doesn't ship. A very visible disaster.

Too many boxes is as longer, slower problem. But it is still a problem.

There is an alternative, but it is not for everyone. At Tavens, we made different choices.

Let's talk about how those choices might help you.