

Report Overview

2019-20 TRENDSTRENDS

Industry Outlook & Market Data Research



Published on July 24, 2019

The 2019 Trends Industry Outlook and Market Data Report is a compilation and analysis of industry data prepared exclusively for Paperboard Packaging Council members by Fastmarkets RISI, an independent economic consulting firm. The forecasts and outlook analyses contained in the Report are prepared solely and exclusively by Fastmarkets RISI without input from Paperboard Packaging Council.

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Overview of the 2019 Trends Report

The following is a summary of some of the major findings in the *2019 Trends Industry Outlook and Market Data Report*.

Business conditions and folding carton outlook

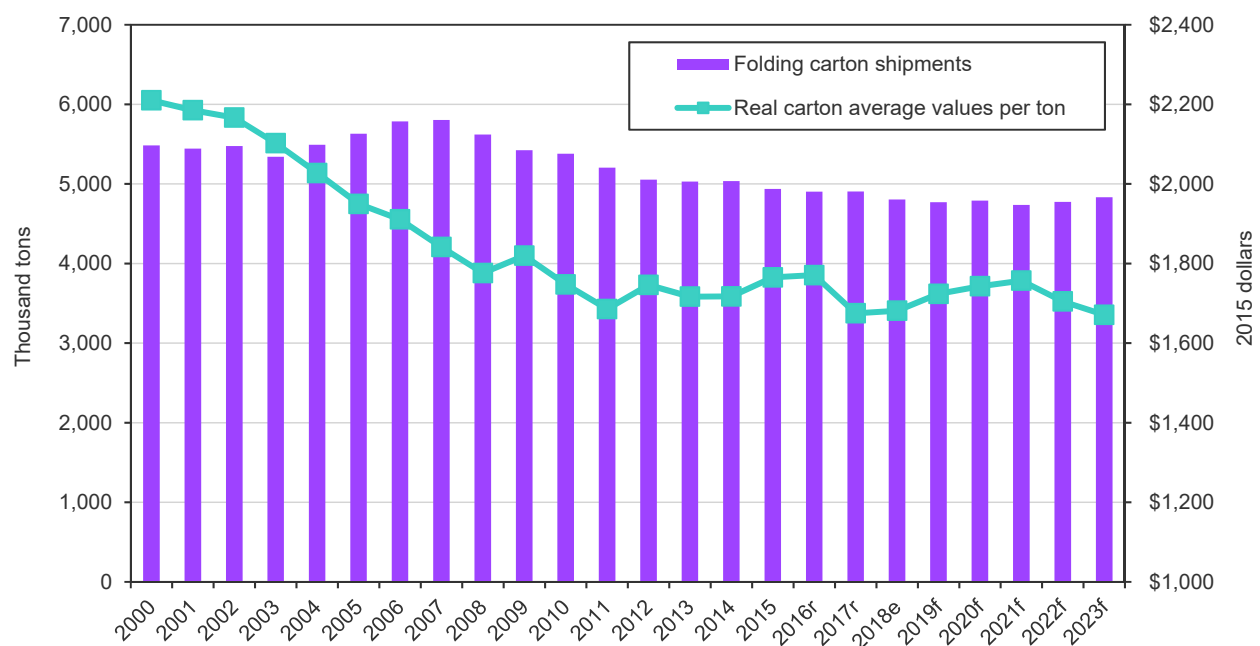
Following two years of negative growth in 2015 and 2016 and flat growth in 2017, US folding carton shipments (in tons) recorded another decline of 2.1% year-over-year in 2018. Growth suffered 2.0% and 0.7% declines in 2015 and 2016, largely the result of continued headwinds facing major processed food and consumer product companies. In the past ten years, folding carton shipments have seen persistent downward pressure, declining at an average annual rate of 1.6%.

Broad macroeconomic indicators suggest that demand for folding cartons should rebound after years of declining. Production

of nondurables, which comprise many carton-packaged goods, including processed foods, turned in another strong performance in 2018, following robust growth in 2017 that had not been seen since the initial rebound from the recession in 2010. General economic fundamentals in the US economy, such as job growth and consumer spending, recorded robust gains, indicating the general economy remains healthy. Since the recession, this trend was broken only twice, in 2014 and 2017. In aggregate, folding carton shipments are now about 1 million tons lower than their pre-recession peak from 2007 and have declined by 0.9% on average annually over the last five years.

The outlook for the macroeconomic environment appears generally favorable for folding carton producers over the horizon. However, technological and industry-related factors will place further pressures on converters. Overseas competition will

Figure 1
US folding carton shipments versus real carton value



Source: Fastmarkets RISI, Inc.

continue to challenge domestic competition during the next five years, especially with the slightly stronger US dollar compared to most global currencies. In addition, competition from alternative packaging methods and materials is expected to remain in place, especially with increasing prices of boxboard substrates. Furthermore, e-commerce is a growing force in the dry foods and household supplies sectors and is expected to put pressure on folding carton shipments growth, allowing corrugated boxes to gain share. On the flip side, recent decisions by some of the largest fast food companies and municipalities across the country seem to be providing some hope that paperboard packaging materials could finally be poised to benefit from their environmentally friendly profile. Folding carton shipments are on pace for another poor year-over-year performance in 2019 of -0.7%. However, the outlook for the latter years of the forecast is slightly more positive, resulting in an average annual growth rate over the next five year of 0.1%.

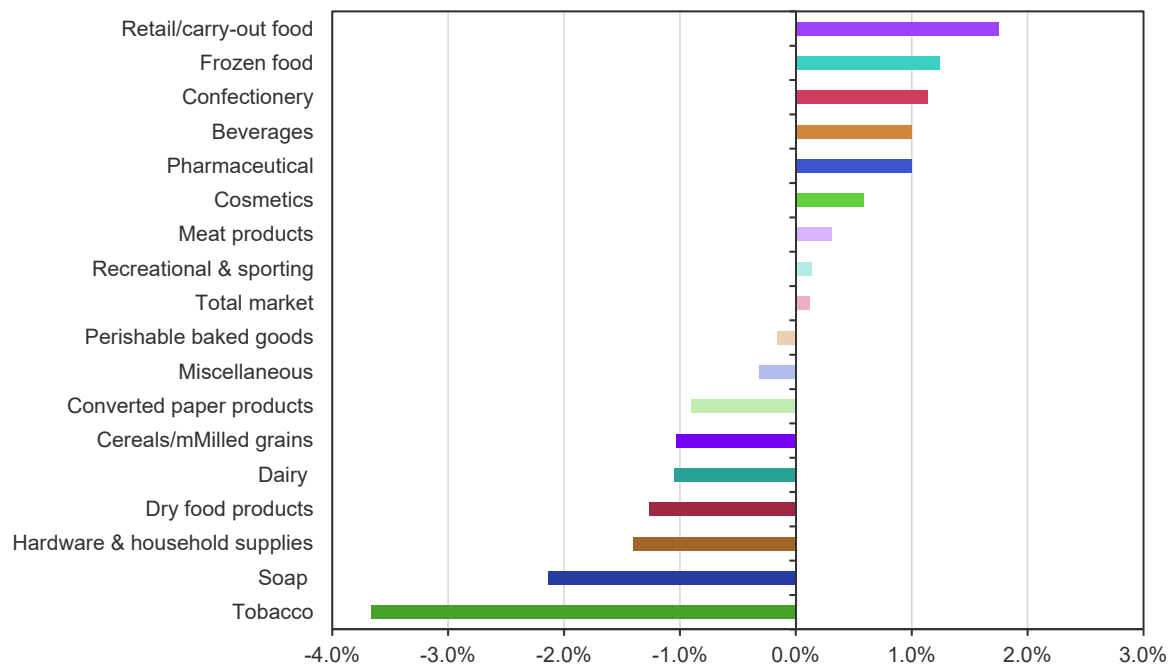
From 2011 to 2018, Canadian folding carton shipments hovered between 431,000 tons and 451,000 tons per year, reflecting some softness in the country's

nondurables production that was affecting the manufacturing and food processing industries. Fastmarkets RISI expects moderate growth in Canadian carton shipments of 0.5% over the forecast horizon, thanks to moderately improving nondurables production and a better performance by the North American economy over the same period.

End-use market trends

The US folding carton end-use markets can be grouped into three broad categories: growth, mature and declining. Growth markets are classified by average annual growth of 1.0% or more. According to our analysis, five end-use markets are poised to grow by more than 1% a year: retail carry-out, frozen food, confectionery, beverages, and pharmaceuticals. These five markets should all experience some combination of solid growth in consumer spending and/or a moderation in the merchandise trade deficit. Folding carton shipments to a couple of these markets are also expected to take market share from packaging materials such as plastics during the next five years thanks to increasing environmental concerns.

Figure 2
 Folding carton end-use market
 Five-year average annual growth in carton shipments, 2019-2023



The mature, or stagnant, markets are those that can expect virtually no growth in tonnage shipments during the next five years, with average annual growth rates from -1.0% to 1.0%. Six markets fall into this category this year: cosmetics, meat products, recreational & sporting goods, perishable baked goods, miscellaneous, and converted paper products. These markets share challenging combinations of losses in consumer demand, problems on the manufacturing front due to the threat of imports and limited export opportunities.

Six market segments are classified as declining based on this latest forecast: cereals and milled grains, dairy, dry food products, hardware and household supplies, soap, and tobacco. The average annual decline forecast for these markets ranges from 1.0% to 3.7%. These segments face significant challenges from shifts in consumer spending patterns, rising imports and losses in market share.

Many of these markets are also expected to face increased competition for market share from the growth in e-commerce and digital retail, which rely on corrugated boxes, putting further pressure on folding cartons during the next five years.

Access the 2019 Trends Industry Outlook and Market Data Report at ppcnet.org/trends. For more info, email Brian at brian@paperbox.org.

This overview contains some key information from the 2019 Trends Industry Outlook and Market Data Report, an annual forecast that provides PPC members with in-depth benchmarking and analysis of the folding carton industry, new insights and an understanding of key market drivers. Fastmarkets RISI, the leading provider of paperboard packaging industry market forecasts and analysis, is the principal author of this report.