9-22-25

WSJ Print Edition

image

The warehouse of International Paper's corrugated-box packaging facility in Atglen, Pa. MICHELLE GUSTAFSON FOR WSJ

Cardboard Slump Flashes Warning Sign

Mill closures signal problems for firms making corrugated boxes in the U. S.

BY RYAN DEZEMBER

Cardboard-box demand is slumping, flashing a potential warning about the health of the American consumer, given that goods ranging from pizzas to ovens are transported in corrugated packaging.

A historic run of pulp-mill closures is also signaling problems for the companies that make corrugated packaging as well as the timberland owners who sell them wood.

International Paper, the country's biggest box maker, announced last month the shutdown of two U.S. containerboard mills, which make the brown paper that is folded into corrugated packaging.

Note!

When its mills in Savannah and Riceboro, Ga., permanently close at the end of September, the U.S. will have shed about 9% of its containerboard-production capacity in a span of about eight months. That is roughly twice the capacity that was lost during the recession in 2009.

"We've never seen anything like this magnitude of shuts," said Adam Josephson, a longtime packaging analyst who now writes an economics newsletter.

Box shipments have fallen from the record highs reached during the pandemic to the lowest levels since 2016. On a per capita basis, the drop is even sharper, with box shipments per American down more than 20% from their 1999 peak, Josephson said.

International Paper Chief Executive Andy Silvernail told investors this month that the Memphis, Tenn., company had forecast demand to grow about 1% this year, but it now anticipates a 2% decline.

It is a surprising turn in the e-commerce era, which was expected to require evermore containerboard to facilitate the home delivery of goods that had been shipped to retailers in bulk. Note

That thesis seemed to play out during the pandemic. Box demand climbed to records when Americans were stuck at home and economic stimulus supercharged spending on goods.

Containerboard producers raised prices sharply, pointing to not only unprecedented demand but also their own surging expenses, including natural gas and chemicals. Even after box demand began to wane, producers have continued to raise prices to counter inflation and pressure on their profit margins.

Prices for the most common variety of linerboard—the type of containerboard used for the outer layers of corrugated sheets—are about $945 a ton, up from roughly $725 at the end of 2019, according to Fastmarkets' PPI Pulp & Paper Week, a trade publication that surveys buyers and sellers to establish benchmark prices.

When producers sought earlier this year to raise prices by $70 a ton, buyers reported paying only $40 more in the publication's survey, said Greg Rudder, regional managing editor, Fastmarkets.

"That shows the tussle in the market," he said. Still, Rudder said, he doesn't expect producers to stop pushing for higher prices and taking downtime at mills to keep supplies tight.

A wave of industry consolidation that began last year when Ireland's Smurfit Kappa and Atlanta's WestRock merged in a $20 billion combination has put even more market share and pricing power in the hands of the three largest U.S. producers.

International Paper followed in January with the $7.2 billion purchase of DS Smith, a leading European box maker. Then, last month, **Packaging Corp. of America**

paid $1.8 billion for the con-

tainerboard business of rival

Greif.

Stock analysts say the capacity cuts should help them push prices higher next year even if demand continues to weaken.

Box makers and analysts say demand presently suffers from uncertainty in U.S. boardrooms and export markets because of President Trump's tariffs as well as from weakening consumer spending. Note

The sputtering housing market has also hurt, reducing the need for moving boxes as well as packaging for building products and appliances.

It hasn't helped that e-commerce firms, including **Amazon** , have trimmed their cardboard consumption by shipping more items in paper and plastic mailers, using made-to-measure boxes and reducing instances of boxes within boxes, analysts say.

Silvernail said the Georgia mill closures, which follow its April shutdown of a big mill in Campti, La., are less about demand trends than his turnaround plan for the 127-yearold company. He wants to focus on the few customers who generate the most profit and to eliminate money-losing locations.

The 89-year-old mill on Savannah's waterfront had been starved of investment and was due for about $300 million of upkeep, he told investors at a conference in New York.

"We had to do some major repairs that basically drove no economic value, but you had to do it if you were going to keep the site open," he said. To make matters worse, some of its output was for export, which is less profitable than domestic sales.

Instead, International Paper will spend $250 million to convert a copy-paper mill in Selma, Ala., to one that produces the lightweight containerboard popular with shippers looking to reduce fuel consumption.

Other investments to boost capacity at containerboard mills in Louisiana and Arkansas have been announced by closely held Hood Container and Green Bay Packaging, respectively. Together with the Selma conversion, they will add back about one-fourth of the capacity lost in the recent closures.

