

CAPS CASES

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CORRUGATED MARKET BRIEFING

The last year has been a huge challenge to all businesses and in recent months we have witnessed real pressure on the supply chain for corrugate packaging materials. A worrying gap between supply & demand has evolved, leading to much longer than usual lead times. Corrugate board producers have been approached by paper mills with significant price increases.

Why are prices increasing?

Fundamentally, this is due to basic economic rules of supply & demand. Global demand for corrugate materials has been at unprecedented levels for several months. This can be attributed to a number of reasons, primarily:

- The corrugated industry has not been able to keep up with demand in quarter four.
- Demand for corrugated is up circa 30%. This peak would annualise to circa 1.2 billion boxes in extra UK demand.
- The supply of paper is not keeping up with demand.

Why is demand so high?

- In the first instance, we witnessed the usual increase in demand in the approach to Christmas. UK seasonal demand in quarter four is typically 25% higher than the trough of quarter one. Traditionally, this would ease in Q1, however, this has not materialised this year.
- Covid-19 has dramatically accelerated changing buying habits and doubled the share of retail sales that are online to over 30%. It takes far more board area to wrap around a single product by post than a multi-pack delivered to a traditional retailer. The practical upshot is a significant increase in the amount of board and hence paper required to meet the changed market needs for boxes. This is a fundamental uplift in the amount of corrugated that will be needed to meet ongoing demand, long after Covid-19 becomes a distant memory.
- There was a fair degree of stockpiling by some manufacturers and retailers ahead of a then uncertain Brexit (in terms of a trade deal) at the end of the year.
- Paper supplies are proving to be ubiquitously fitful; no one is immune. Suppliers were often cutting orders by 50% with little or no notice or even cancelling them altogether; even large corporates were behaving like this within their own groups. Box plants and sheet feeders were commonly running out of paper and unable to keep up with demand. To be clear, significant demand was not met.



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