GLOBAL PACKAGING TRENDS

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The downturn in global manufacturing activity during the last year has created a difficult demand environment for many packaging grades. However, this is expected to be relatively short lived, since there are several factors that suggest better times are ahead, once the uncertainty on the manufacturing front eases. Global demand for packaging paper and board should grow 2.4% annually during the next five years, even if conditions remain challenging in 2020.

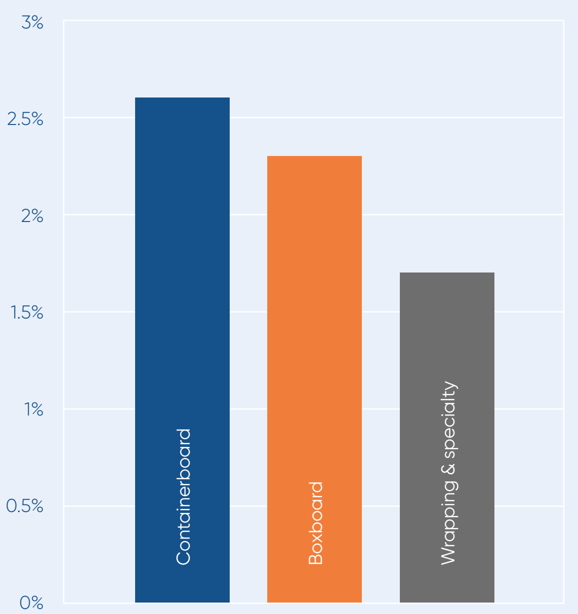
1 **Global paper packaging demand growth averaged 6.9 million tonnes per year between 2014 and 2017, up substantially from the 5.0 million tonne average increase between 2008 and 2013.** However, demand growth slowed to 1.7 million tonnes in 2018 and is poised to decline 4.0 million tonnes in 2019. The downturn in global manufacturing activity in response to increased trade tensions has been the biggest factor behind the slowdown, but Chinese demand is also being affected by shifts in government policy.

2 **Nearly 60% of the growth in demand between 2014 and 2017 was in the Asian market, with growth averaging 4.1 million tonnes per year.** Interestingly, this region has been the focal point for the demand softness during the last two years, with regional demand falling 1.4 million tonnes in 2018 and an estimated 2.5 million tonnes in 2019. Demand for the rest of the world grew 3.1 million tonnes in 2018, but is on pace to decline 1.5 million tonnes in 2019.

3 **Virtually all the packaging grades are participating in the longer-term demand rally, although for somewhat different reasons.** The explosive growth in e-commerce has boosted demand for containerboard, since products shipped to consumers via the e-commerce channels require more corrugated than products sold through traditional retail. Consumer product companies have begun to adjust their packaging to meet the needs of the e-commerce channel. The growing resistance to single use plastic products is creating opportunities in the boxboard, sack, and specialty packaging markets, providing more upward demand momentum.

4 **All of the positive factors on the demand front created extremely tight market conditions in 2017, since it takes several years for supply to respond to a tight market.** However, we are now two years beyond the peak of the market tightness and supply has definitely responded. Several existing producers have come out with plans to build new machines, although the goal of these producers is often to maintain the balance in their systems by retiring older machines. However, capacity is also entering the market via conversions or machine installations by new players to the market, which can be much more disruptive to the market. Many market segments are currently oversupplied, and even when global manufacturing begins to recover it is difficult to envision the redevelopment of the tightness that gripped the global markets in 2017.

LONG-TERM GROWTH IN GLOBAL PACKAGING DEMAND



GLOBAL PACKAGING DEMAND GROWTH