



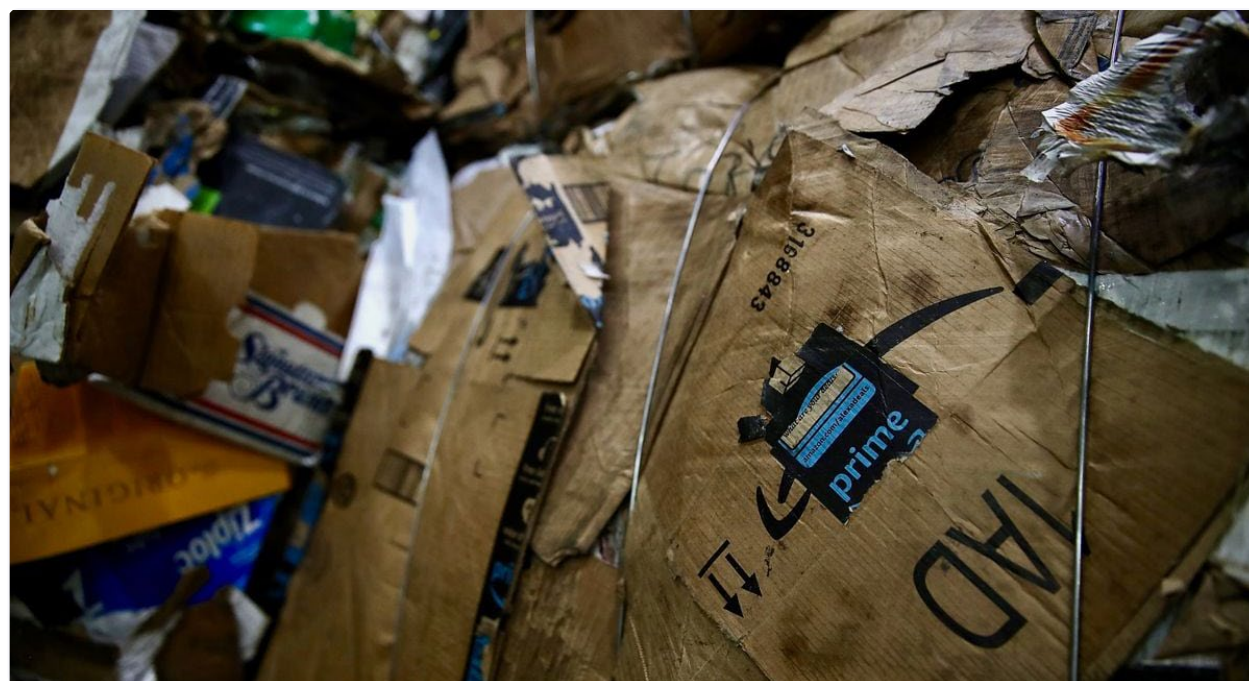
# Holiday shopping season won't save weak prices for OCC, mixed paper

Analysts and recyclers expect low prices for recovered fiber could continue through the rest of the year as e-commerce gains fade, exports fall and Amazon's efforts to reduce packaging continue.

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Reporter



Amazon Prime boxes are seen in a bundle of recycled cardboard at Recology's Recycle Central on Jan. 4, 2018, in San Francisco. *Justin Sullivan via Getty Images*



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Recovered fiber prices are expected to remain weak through year's end as the

industry grapples with excess inventory, inflation and tepid consumer spending, especially during the upcoming holiday season.

It's a different tone from the beginning of the year, when commodities like OCC enjoyed high prices and high demand. Major waste and recycling companies repeatedly mentioned during recent earnings calls that low OCC prices, along with low blended commodity prices, would be a headwind in the fourth quarter, with little expectation for recovery during the rest of 2022. Haulers upped their pricing strategies due in part to such dismal commodity values as a response. Other major commodities such as PET have also seen price decreases in recent months due to a range of economic factors.

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## **What's contributing to continued weak fiber prices?**

OCC faced lackluster prices in October. OCC price for the Northeast United States was around \$37.50, according to a market report prepared for the Northeast Recycling Council and the Northeast Waste Management Officials' Association. That's down \$40 from September and down \$140 year over year.

Residential mixed paper prices in the Northeast ended October at around - \$1.50 per ton, down about \$99 year over year. That's compared to \$13.50 a ton at the end of September, according to the report. The market last saw such negative numbers in February and March 2020, when the low hit -\$5 per ton, according to the report.

Bret Biggers, senior economist at the Institute of Scrap Recycling Industries, said commodity markets are facing uncertainty due to inflation, the Federal Reserve's recent rate hike and other global factors. Exports of all recovered paper grades are down about 5.6% year over year, he said, "and that is causing inventories to build in the United States."

Recovered fiber volumes exported to India and Vietnam, two major destinations for U.S. material since China began restricting imports, are down 8% and 11% year over year, respectively. Yet shipments to Mexico are up almost 14%, a sign that the U.S. might continue to shift its export focus to destinations within or near North America instead of farther away, Biggers said.

MRF operators have reported mixed experiences with moving their inventory in the last few months. In early October, some MRFs were reportedly stockpiling or even landfilling OCC due to dismal prices, though other sources say that's not a widespread practice. Many MRF contract structures have changed in recent years to a fee-for-service model rather than relying on profits from commodities, a change meant to insulate MRFs from swings in the market.

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Despite ho-hum demand and unappealing prices, many MRFs were still finding buyers for OCC and mixed paper as of late October, Biggers said. "They're telling us, 'The price is the price, and we aren't trying to hold onto it for later. We don't have room for it.' They still want to sell it, even though it's a completely different environment than a year ago" when both demand and price were much higher.

During Waste Connections' recent earnings call, CEO Worthing Jackman said low OCC prices were concerning, but "it's one thing to know what the price is of OCC, but it's another thing to move the product," he said. "Our folks have done a remarkable job still moving product in this environment versus just having it stacked up in our facilities."

Meanwhile, some paper mills have experienced downtime recently due to lower orders, the NERC report said, leaving mills with new capacity to

compete for paper. At the same time, there's an excess of both OCC and mixed paper in warehouses, according to the report.

Production for some fiber grades is down this year, including containerboard, which decreased 8.6% year over year, according to the American Forest & Paper Association's third quarter report. New supply of containerboard from both domestic production and imports was down 7.3% year over year.

## **Cautious holiday spending and slower e-commerce likely to contribute to lower demand**

The upcoming holiday season likely won't drum up enough activity to significantly increase fiber demand, Biggers said. The e-commerce boom during the beginning of the pandemic that helped boost fiber prices has mostly waned, and e-commerce is now losing market share to shoppers that prefer in-store purchases, he said.

"People are more comfortable going out now, and we're seeing employment gains in the leisure and hospitality sector, including restaurants and the hotels. That takes away from e-commerce" market share, he said.

Many shoppers are expected to spend less during the upcoming holiday season, due in part to inflation, Bloomberg reported. Excess retailer inventory means less demand for new products and less demand for shipping boxes, according to the NERC report. Consumers are also expected to send fewer holiday packages this year, according to an internal FedEx memo that Reuters reported in October.

The market typically begins to see holiday-related demand for packaging like cardboard boxes 60 to 90 days before the start of the season, "meaning we would have seen any [gains] in August and September. That hasn't happened," Biggers said. Demand from Lunar New Year festivities is also

expected to be light.

## Companies will continue strategies for 'lightweighting' packaging

Beyond holiday demand, other longer-term trends are expected to contribute to softer prices into the new year, said Chaz Miller of Miller Recycling Services, who compiles the NERC report.

Brands are beginning to focus more heavily on "rightsized" packaging, which can mean using smaller cardboard boxes or shifting away from OCC as the outer package, Miller said. Georgia-Pacific, for example, expanded its manufacturing of paper padded mailers in response to more demand for sustainable shipping envelopes over plastic mailers.

Amazon's recent move toward lightweighting and reducing packaging is another example of how brand decisions can affect the market, he said. "Amazon is working hard to ship as little air as possible. Rightsized boxes and flexible paper or plastic mailers have dramatically cutback the use of corrugated for the outer package," Miller said in an email.

About 43% of Amazon's shipments in 2021 came in cardboard boxes, but last year the company began using an algorithm to rightsize boxes to reduce the amount of cardboard used. It rolled out this process for 65% of global box shipments in 2021 and plans to scale it to 97% of its shipments by the end of 2022, according to its sustainability report. Over the last five years, Amazon estimates the algorithm has reduced its overall corrugated box use by 35%.

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