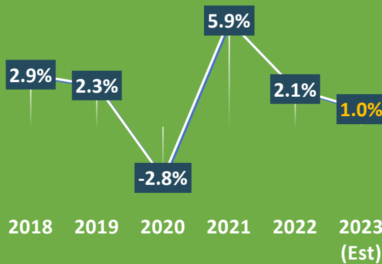
National Paper Trade Association

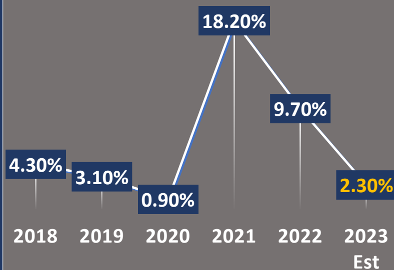
Quarterly Economic Report

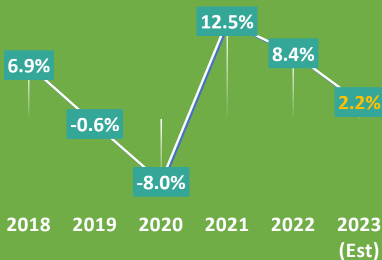
Q2 2023

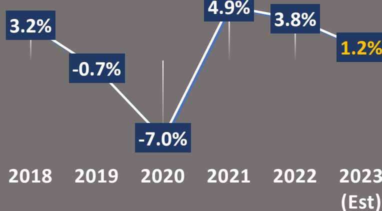
Executive Summary – Q2 '23

Selected Indices









Big Items

Real GDP: The revised growth data for the first quarter show a GDP gain of 2.0% and the latest GDPNow forecast from the Atlanta Fed is 2.3%. There has been consistent belief that recession was likely to start in the first two quarters of this year and instead there has been growth that is close to the 25-year average of 2.5%. The consumer and the overall service sector are driving a significant part of this expansion. There are still concerns regarding a slowdown in Q3 and Q4, but many of the sectors that drive paper consumption are still stable.

Paper Inventories-to-Sales: The inventory-to-sales-ratio is an important barometer of future orders for new paper (consumer paper). The ratio has fallen back into a reasonable range in the past quarter and currently sits at 1.08, that is down 1.8% M/M through May (latest available). It was flat versus a year ago and is now lower than the pre-pandemic period from 2014 to 2019. This should help new orders and production of new materials remain stable. Inventories can fluctuate significantly in the industry, and this adjustment can happen quickly (1-2 months).

Construction: The overall outlook for construction remains healthier than many expected. The sense is that projects are being completed this year but next year may be a bigger issue as many projects have been stalled or abandoned. Single family development is down by 23% but multi-family is up by 24%. Manufacturing construction is still surging with growth of 74.0%. The normal spend is usually around $60 billion and this year it is on track for $194 billion due to factors such as reshoring and the expansion of automation and robotics.

Retail: The unadjusted retail sales data reversed trend a bit and were up 0.3% from the previous month and were up 1.6 over May of last year. This is good but these numbers have not been adjusted for inflation. The growth in the food services and drinking establishments category continued with a gain of 8.0% while general merchandise stores were still growing at a 6.5% pace. The overall sense is that retail is still expanding, especially for the upper income earners. Those in the bottom third are living paycheck to paycheck and accessing credit for necessities. Inflation adjusted retail spending across all categories was down 2.3% year-over-year against difficult comparisons to last year. Against May of 2019, inflation-adjusted retail sales are up 12.8%.

Manufacturing: Global PMI data from JP Morgan remains slightly above the midpoint 50 line at 54 points through June. The US has fallen deeper into contraction with a reading of 46.0. All of Europe and North America are now experiencing deteriorating numbers as far as the PMI is concerned. The only real markets worldwide showing gains have been primarily in India and a few other Asian states. Canada is down but Mexico has been stable. The reduction in purchasing has been prompted to some degree by overstocked inventories, companies are working on reducing their exposure to higher cost of capital and are trying to get inventories trimmed. That slows new orders and reduces demand for raw materials.

Risks

Recession Risk: Recession has arrived in Europe but thus far the US has escaped even a mild downturn (although some sectors are very close to recessionary conditions). Aerospace and automotive are still growing and retail has managed to remain consistent. Travel and hospitality are also still growing. There are still plenty of concerns and warning signals however – everything from inverted bond yields to the collection of leading economic indicators. But for now, a stronger jobs market and stable consumer spending (which accounts for 70% of GDP) is creating a stronger than expected broader growth trend (for now).

Macroeconomic Viewpoints

- Dr. Chris Kuehl

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Making Sense of Some Contradictory Data – There are any number of factors that affect demand for paper, packaging and the industry as a whole. As a result there are few economic indicators that do not matter in one form or another. Lately there has been a little something for the optimist and the pessimist. Why are there no real clear signals? Are we headed for a recession or not? Will inflation ease or will it get worse? The latest data from the Purchasing Managers' Index is not great – two straight months in contraction with a current reading of 46.4. On the other hand the rate of durable goods orders has risen to levels not seen since last year and factory orders are up higher than anytime in the last year. Retail sales are up 0.3% over last month and 1.6% above May of last year. These are actually pretty healthy numbers. The recession was predicted to start towards the end of last year but there was growth of 2.6% in Q3 and 2.9% in Q4. The recession didn't start in Q1 of this year either (up 2.0% in the third iteration). And for now, Q2 is expected to be close to 2.5% in the final analysis.

The perplexing part is that the Fed has been doing what it can to address inflation with 500 basis point rate hikes in a year and a half. That should be enough to trigger at least a downturn but thus far it hasn't, and inflation has remained stubbornly high. There is a theory making the rounds among economists that might partially explain this. The Fed (and other central banks) operate under the assumption that a "neutral" interest rate is 1.0%. That is the rate that is neither stimulating nor does it slow the economy. If the neutral rate is 1.0% the Fed has been pushing towards slowdown since last year but there is a sense that the neutral rate has changed and that it really should be seen as 2.5%. If that is the case the Fed has only been pushing hard on inflation since February.

There are several theories as to why the neutral rate should have changed but at the top of the list have been two factors – worker shortages and excess cash in the system. The fact that so many companies are struggling to find workers means that layoffs have been relatively rare. It also means that people are confident enough about their job security to keep spending and that has supported retail. That same shortage has meant that wage hikes have been outpacing overall inflation for several months now. The rate of inflation has been around 4.5% (as measured by Personal Consumption Expenditures) but wages have been rising by almost 7.0% in many sectors (4.4% nationwide).

In addition to more cash on hand, there is the immense holdover in savings from the 2020 pandemic. There is still an estimated $3.5 trillion in excess savings in the system and the majority of this is in the hands of the upper 25% of income earners. The majority of that extra cash has found its way into the so-called shadow banking system (non-bank financial intermediaries). These funds along with entities like insurance companies are still distributing money to the business community and that essentially undermines the Fed's effort to slow the economy through higher interest rates. On the one hand this cash has allowed expanded capital investment to continue at record levels but it also slows the process of dampening inflation and ensures the Fed will keep hiking rates. If the neutral rate is determined to be closer to 2.5% than 1.0% the potential is there for a Fed Funds at between 5.5% and 6.0%. That would take rates to highs not seen since 2000 when it was above 6.0% for several months. This would still be far less than the record highs in the 1980s (above 15%).

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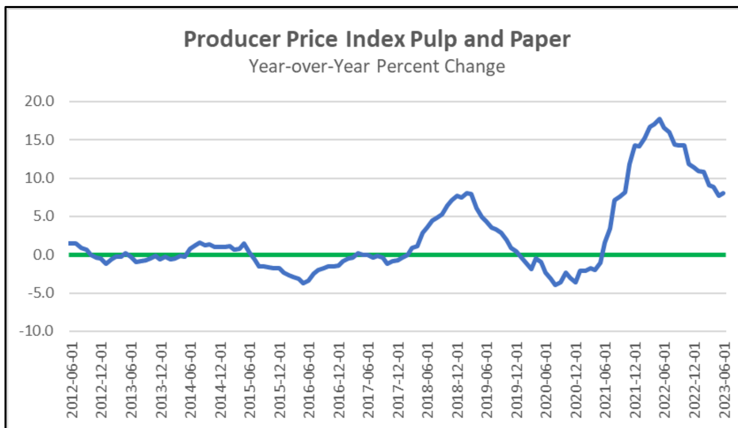
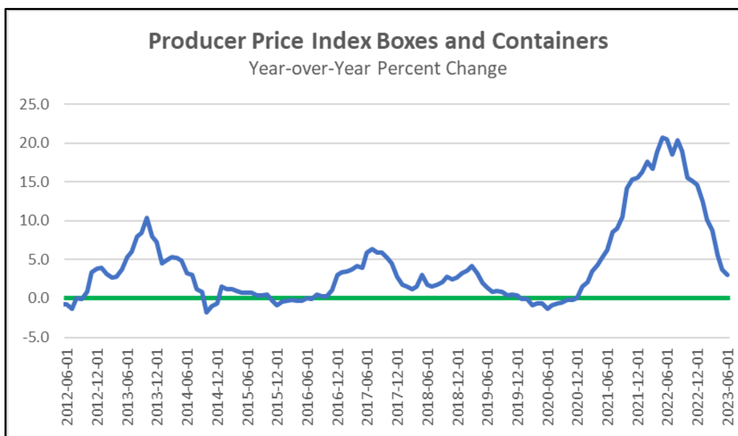
Upstream Conditions

The following section includes viewpoints on key commodities. Wherever possible, the Producer Price Index (PPI) is used as a gauge of prices for specific commodities. The PPI is derived from monthly Government surveys of those that purchase specific products and services. The PPI includes views on both spot and contract pricing for a given product or service and is more representative of general changes in street-level pricing trends. The most recent months of activity are used to provide the most accurate viewpoints.



Pulp and Paper Prices (WPU0913)

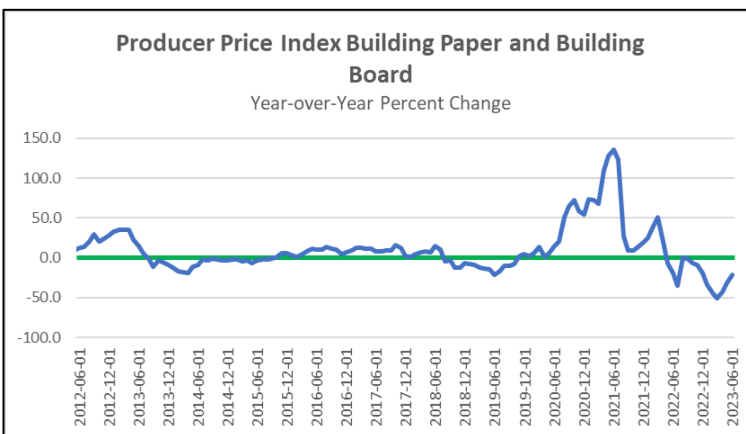
- The Producer Price Index (PPI) for paper and pulp in June (latest PPI available) was down month-over-month by 1.5% (down 1.9% last month). But it was higher year-over-year, rising by 2.8% Y/Y (up 4.3% last month) against more difficult comparisons.
- **Looking Ahead**: Input prices for pulp and paper are easing, despite remaining somewhat higher historically. Input prices are 23.6% higher than they were prior to the pandemic. Energy prices are easing, and global manufacturing activity is slowing, that is reducing some portions of demand. Transportation costs are also down and that has helped ease some of the production cost pressure. That should continue into the end of the year.



Paper Boxes and Container Prices

(WPU091503)

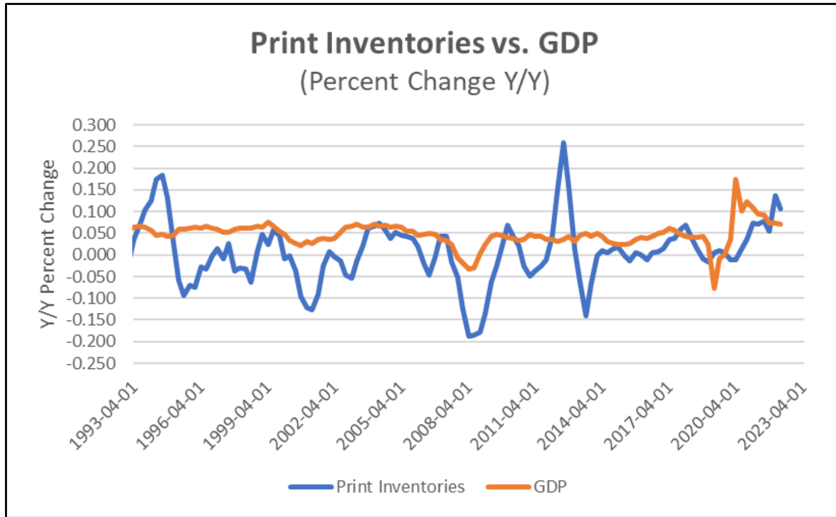
- The Producer Price Index (PPI) for boxes and containers in June (latest PPI available) was down month-over-month by 0.7% (-1.9% last month). It was higher year-over-year, rising by 3.0% Y/Y (up 3.7% last month). This marked another all-time high for the index at 357 points.
- **Looking Ahead**: Consumer spending is still robust and when adjusted for inflation, is still growing near all-time highs. E-commerce (and packaging demand) is still growing at a 6.5% annual rate and firms like Amazon have just recently booked their largest sales days in history. E-commerce sales are still more than 60% higher than they were prior to the pandemic, and boxes/containers are still at heightened demand.



Building Paper / Building Board Prices

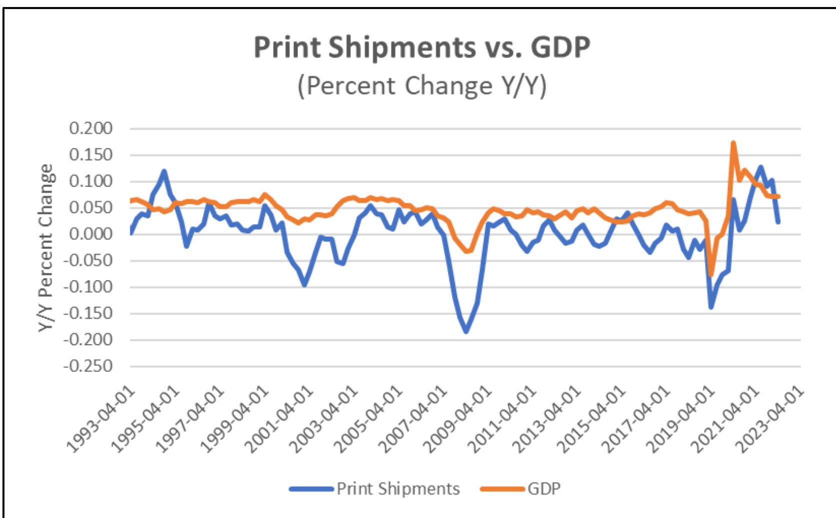
(WPU092)

- The Producer Price Index (PPI) for building paper and building board in June (latest PPI available) was down 10.0% month-over-month (down 12.1% last month). It was down sharply year-over-year, falling by 21.2% Y/Y (down 31.2% last month).
- **Looking Ahead**: Single family construction spending was down 25% Y/Y in May. However, strong growth was being seen in multi-family spending (up 24% Y/Y), and nonresidential spending which was up 17.3% Y/Y. Manufacturing and lodging are still up double-digits. Other construction activities that use building paper and boards were still growing, the only category lower year-over-year was church construction.



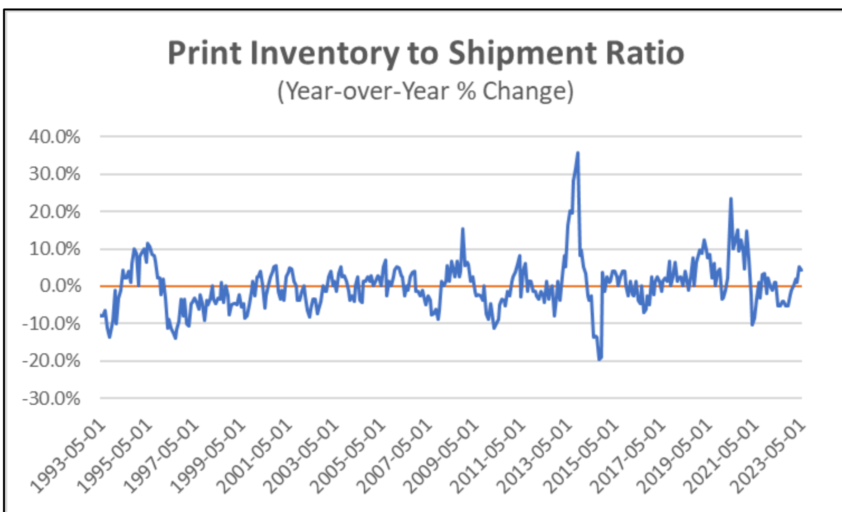
Print Inventories vs. GDP (U23STI)

- Print inventories were sitting 10.6% higher year-over-year in Q2 (latest available) and were slightly weaker than the 13.6% posted in Q1. These inventory figures cover the broadest spectrum of print material, some sub-sectors could be experiencing tighter conditions.
- **Looking Ahead**: Print inventories generally follow GDP trends, of course the year-over-year percent changes in inventory levels are more dramatic than the changes in GDP. With risks of recession now starting to abate for 2023, demand for ongoing print products is still rising. The big question moving forward into 2024 is what the Presidential election will do for print activity – and it should help boost spending on mail collateral and other types of temporary signage.



Print Shipments vs. GDP (U23SVS)

- Shipments of print material were up 2.3% year-over-year through the end of the last quarter (down from the 10.3% rate hit in the prior quarter). Shipment activity was lower in the last quarter by 0.8% over the prior quarter. Activity was stable.
- **Looking Ahead**: Like inventories, print shipment activity has more volatility than is seen in GDP. On a year-over-year percent change basis, shipments showed some softening against more difficult comparisons from last year. But on a real basis, total shipment volumes were still at the higher end of the 15 year range.



Inventory to Shipments Ratio (U23SIS)

- The inventory to shipment ratio (ISR) for the print industry increased by 8.3% year-over-year after rising 2.7% in the prior quarter.
- **Looking Ahead**: The importance of the inventory to shipment ratio (ISR) is that it shows how quickly inventories are building relative to outgoing shipment volumes. An ISR that is rising (like the current condition) shows that inventory building activity is outpacing outgoing shipments. The shipment ratio is also a gauge of how backlogged the manufacturing process is. Looking at the inventory-to-sales ratio for the industry, it continues to show the ratio slightly elevated relative to where it was prior to the pandemic, and it is higher than it has been for some time. This could slow future orders, especially with the cost of capital rising and cash flows being negatively impacted by overstocked paper supplies.

Manufacturing Producer Prices

The Producer Price Index (PPI) for key paper industry metrics is listed in the chart below including month-over-month and year-over-year comparisons. To the degree that the PPI is derived from monthly Government Surveys of actual purchasers and users of the following products, it provides a more accurate street-level pricing viewpoint. Some data is delayed and may not have been updated by the time of publication.

Producer Price Index - Key Manufacturing Sectors

Category	PPI Code	Jun-23	May-23	M/M% Chg	05.01.22	Y/Y % Chg
Paper Manufacturing	PCU322322	185.0	185.7	-0.4%	180.8	2.3%
Pulp, Paper and Paperboard Mills	PCU32213221	179.5	181.3	-1.0%	178.2	0.7%
Pulp Mills	PCU3221132211	232.8	241.3	-3.6%	236.9	-1.7%
Paper Mills	PCU3221232212	241.8	243.7	-0.8%	231.0	4.7%
Paper Mills (Except Newsprint)	PCU322121322121	165.4	166.7	-0.8%	158.1	4.6%
Newsprint	WPU091302	166.1	168.9	-1.6%	168.3	-1.3%
Paperboard (Primary Products)	PCU322130322130P	366.0	368.5	-0.7%	373.2	-1.9%
Recycled Paperboard	PCU3221303221307	404.8	413.9	-2.2%	437.5	-7.5%
Paper Container Manufacturing	PCU3222132221	326.3	327.1	-0.2%	324.8	0.5%
Converted Paper Product Manufacturing	PCU32223222	190.4	190.6	-0.1%	185.2	2.8%
Corrugated and Solid Fiber Box Manufacturing	PCU322211322211	430.6	432.3	-0.4%	449.5	-4.2%
Shipping Containers for food, beverages, carryout	PCU32221132221101	366.4	365.9	0.1%	367.7	-0.3%
Shipping Containers for paper products	PCU32221132221102	445.0	445.4	-0.1%	473.7	-6.1%
Shipping Containers for Metal Machinery	PCU32221132221103	262.0	263.5	-0.6%	258.4	1.4%
Corrugated Paperboard in Sheets and Rolls	WPU091405	326.6	326.3	0.1%	361.0	-9.5%
Folding Paperboard Box Manufacturing	PCU322212322212P	238.2	238.2	0.0%	208.6	14.2%
Paper Bag and Coated and Treated Paper Manuf.	PCU322220322220	134.1	133.8	0.2%	128.2	4.6%
Stationery Product Manufacturing	PCU322230322230	163.9	163.7	0.1%	150.2	9.2%
Sanitary Paper Product Manufacturing	PCU322291322291	133.8	133.7	0.0%	123.0	8.8%
Disposable Sanitary Product Manufacturing	PCU3222913222912	103.7	103.7	0.0%	99.4	4.3%
Sanitary Tissue Product Manufacturing	PCU3222913222915	169.3	169.3	0.0%	148.8	13.8%

Q2 2023 Comments: Paper prices across both inputs and finished goods are mixed through June. Some deceleration is showing up on the input side of the equation, output prices are still generally stable in most categories. Shipping materials are stable, but the overall rate of growth is slowing. A slowdown in manufacturing activity is having an impact on demand for certain types of packaging and shipping materials. As mentioned last quarter, spending on consumer staples remains strong and e-commerce spending was growing at an annual rate of 6.5% through May, it continues to do well and is historically dramatically stronger than it was prior to the pandemic. Pulp input prices are mixed as mentioned, recent sequential deceleration of 0.4% M/M in June are showing some of the near term slowing in the broader economy, but overall paper manufacturing still came in 2.3% higher year-over-year. Like other macroeconomic trends, if business inventories were in control, the demand side of the economy is still stable, and products would be flowing more consistently. But inventory overstocks of many products across many categories have new orders stalled for manufacturers, and that is slowing overall conditions up and down the supply chain.

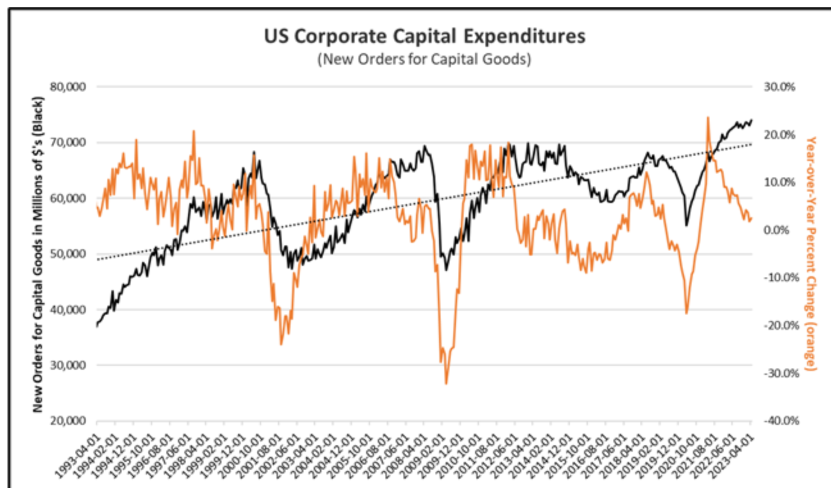
Downstream Market Demand

Kind of Business	Percent Change May 2023 Advance from -- Apr. 2023	May 2022
Retail & food services, total	0.3	1.6
Retail	0.3	0.7
Motor vehicle & parts dealers	1.4	4.4
Furniture & home furn. stores	0.4	-6.4
Electronics & appliance stores	0.2	-5.0
Building material & garden eq. &	2.2	-0.9
Food & beverage stores	0.3	3.1
Grocery stores	0.2	3.1
Health & personal care stores	0.0	7.8
Gasoline stations	-2.6	-20.5
Clothing & clothing accessories stores	0.0	-0.2
Sporting goods, hobby, musical instrument, & book stores	0.3	1.2
General merchandise stores	0.4	2.0
Department stores	0.3	-3.5
E-Commerce retailers	0.3	6.5
Food services & drinking places	0.4	8.0

Retail Sales (RRSFS)

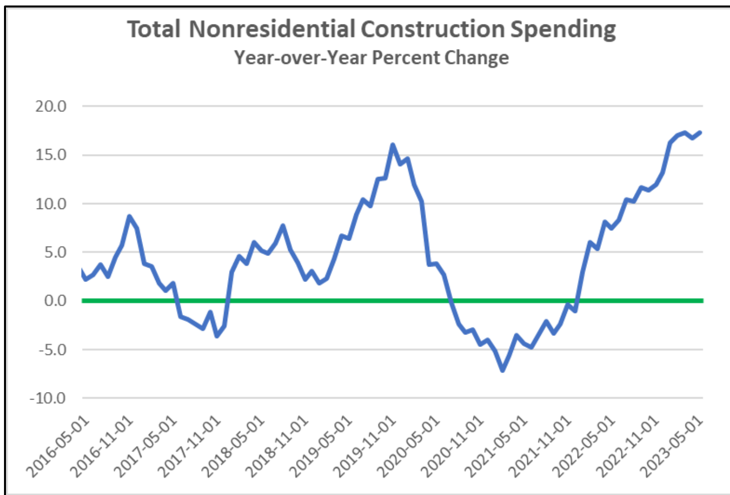
- Total retail sales were 1.6% higher year-over-year in May (the latest available). When stripping out fuel and autos, sales were still up 0.7%. However, when adjusting for inflation, total retail sales were down 2.4% Y/Y and were 0.2% lower sequentially M/M in May.
- General merchandise retailers saw sales 2.0% higher year-over-year and the critical e-commerce sector experienced an increase of 6.5%. As mentioned last quarter, inflation is pressuring households (60% of US households are now living check-to-check).
- **Outlook**: The back-to-school season could be down nearly $2 billion relative to last year. Sales are still expected to be up significantly, but parents are signaling that they will reduce apparel and electronics purchases this year because of higher classroom supply costs. Inflation and lack of stimulus has finally caught up with many households, credit card interest rates hit new all-time highs in Q2. The moratorium on student loan payments ending in September (payments resume in October) could add as much as $250 in debt payments for the average household with student level debt. That is expected to pull more than 2 tenths of a point off GDP for the year.

Other lines of retail are still holding their own but concerns about a weaker peak season are starting to weigh on the outlook for Q3 and Q4. Still, if retailers can get moderate sell-through this peak season, that will reset the supply chain and activity in the first half of 2024 may be better than expected. Inbound container volumes are expected to mirror those of 2019 but are likely to be nearly 2 million lower vs. last year.



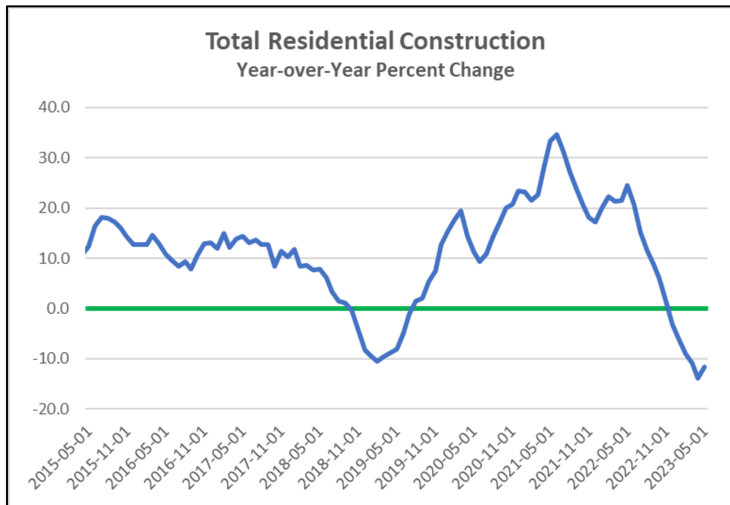
Capital Spending (NEWORDER)

- Spending on capital goods continued to be 'stable' through May (latest available); they were up sequentially 0.4% M/M (0.1% higher last month). They were up by 2.3% Y/Y (up 1.9% last month) and continued to be strong historically.
- **Outlook**: Although the percent change seems to be slowing, it is primarily due to heavy comparisons to last year. Three drivers for capital spending are still intact – expanding the use of robotics and machinery to cope with the worker shortage, expansion to accommodate the pace of reshoring activity and the fact that demand for many capital goods has remained steady. Consumers anticipating inflation are buying now in hopes of beating future price hikes.



Total Non-Residential Constr. (TLNRESCONS)

- Total Non-Residential Construction was 17.3% higher than it was a year ago (16.8% higher last month) and was up 0.5% M/M (-0.5% last month). Overall spending was at an annual rate of $1,059B (a new annualized run rate peak).
- **Outlook**: Nonresidential construction activity is still growing aggressively across all but one sector. Primary sectors spanning manufacturing, lodging, health care, and other non-infrastructure based nonresidential sectors (which are more apt to order building paper and materials) are growing. Reshoring activity in the manufacturing sector is still accelerating, spending in the sector is approaching $195B ($60B was the annual average in the decade prior to the pandemic). An annual rate 50% or more higher than the decade prior to the pandemic is expected through the next two years.



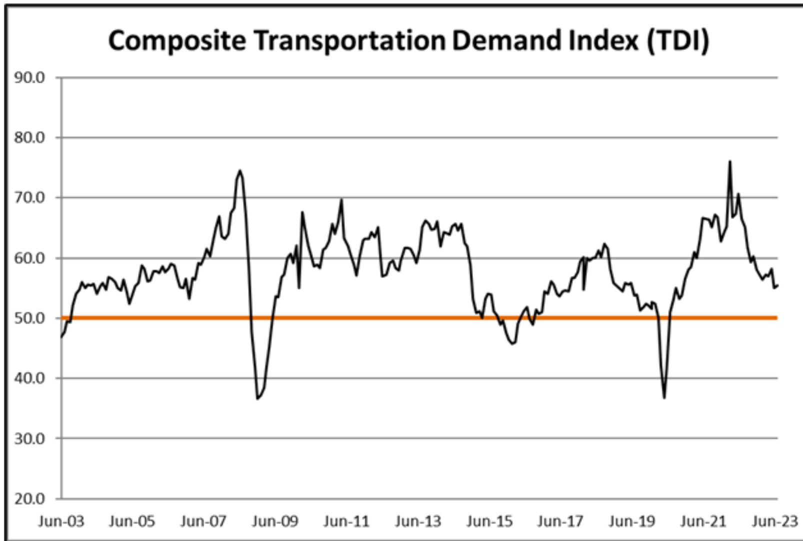
Total Residential Construction (PRRESCONS)

- Total residential construction in May (latest available), was down by 11.6% Y/Y (down 13.9% last month). It was up 2.3% M/M (-3.1% last month).
- **Outlook**: Housing data is still confusing. As we learn more about the housing market, it appears that interest rates are not a primary factor holding back buyers, lack of affordable housing is the greater factor. Relocation activity is still ongoing, and this is pushing many home buyers into the market. The US is still estimated to have demand for 1.5 to 2 million “homes”. Homes in this instance could include multi-family or a primary residence of other types, not necessarily single-family. Builder sentiment is improving, raw construction material prices are easing, and jobs remain steady. These are all bullish factors for the housing market in the near term.

Wholesale Paper ISR (R4241IM163SCEN)

- Merchant wholesalers’ inventory to sales ratios of paper supplies were at 1.08 months of inventory-on-hand. This is still lower than the decade average, but inventories have recovered. The ratio was flat Y/Y through May (latest available; up 4.8% Y/Y last month).
- **Outlook**: Wholesale inventory to sales ratios for paper products are now back in a range comparable to those between 2014 and 2019. But they are lower than they have been historically. Paper wholesalers have managed their inventories to sales better than other segments of the wholesale trade sector, with inventories this tight (relative to sales), small surges in demand should keep prices stable.

Supply Chain and Transportation Situation



Transportation Demand Normalizing

- The Transportation Demand Index shows the current demand environment for freight services improved slightly and remains in the expansion zone with a reading of 55.4 as compared to 55.0 the month prior.
- **Outlook:** The logistics sector is approaching "normal" in terms of capacity and demand. This has been evident in trucking and maritime but a little less obvious in rail and air freight. The assertion is that demand is down to levels that have eroded the capacity crunch. Most of the 65,000 new trucking operations that formed in 2022 are now starting to shut down. The used truck market was blazing hot a year ago and now the dealers are facing a major glut and prices have collapsed with the exodus. But again, this is a return to "normal" growth rates seen prior to the pandemic instead of the hyper-growth over the past two years that led to an over-abundance of capacity.

	23-Jun	23-May	22-Jun	Y/Y Change %	M/M Change %
Composite	55.4	55.0	66.5	-16.7%	0.7%
Rail	53.4	53.4	63.8	-16.3%	0.0%
Trucking	55.5	55.1	67.0	-17.2%	0.7%
Air	61.0	60.6	66.5	-8.3%	0.7%
Maritime	59.6	58.3	64.7	-7.9%	2.2%

Mode Demand Slowing

- Each mode of transportation continued showing signs of decelerating demand, which was also pulling pricing lower. A reading over 50 here shows an expanding market, a reading under 50 is contracting. Every mode still had indexes above normal; demand is stable. And all modes were up slightly in June but were much weaker off the peaks hit over the past two years. Again, it feels more like a normalization process bringing prices and capacity back to pre-pandemic levels.

What we are Watching in Transportation

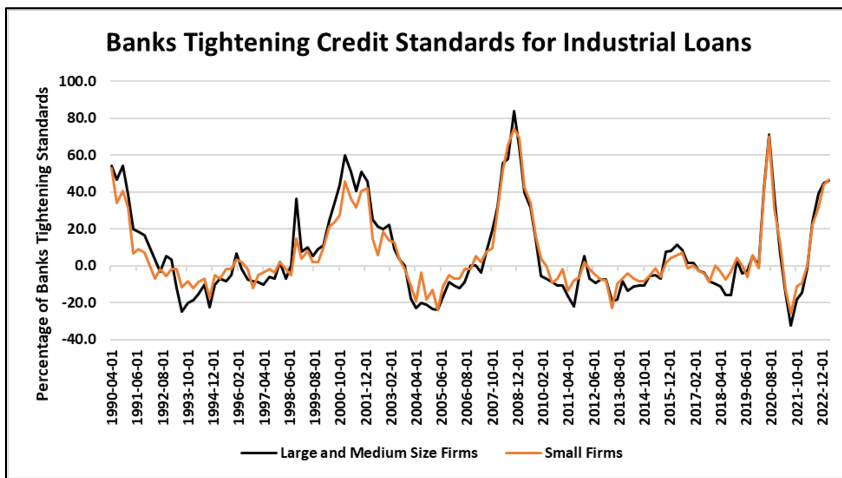
- **Is the Supply Chain Still in Disarray?** The New York Fed's Global Supply Chain Pressures Index shows conditions at their lowest in history (meaning that the global clog of freight is gone). The capacity issue is now more situational and has more to do with improper placement of resources. There has been less reliance on "blank sailing" and slow sailing but the temporary shift in supply chain volumes have put pressure on ports that are not used to the volumes they now encounter. China has over 70 ports that can handle the largest vessels and all of Asia combined only has 23. Europe has just 30. The challenge now is that 90% of parts for most manufacturing supply chains are available but that remaining 10% is crucial and leading to renewed supply chain challenges. That allows other inventories to overbuild (waiting on the final remaining critical piece or component part), and demand for temporary storage could remain higher than expected as a result.

- **Port Contract Negotiations Remain Problematic in Some Regions.** The negotiations with the International Longshore and Warehouse Union have hit tentative agreement stages, but ratification is still ongoing. But strikes at the Vancouver port is seen as a significant disruptor to inbound freight into the North American markets. The strike has prompted the engagement of federal mediators from Canada, but progress has been slow. The key issue for the Canadians is automation. The unions have resisted any sort of technology that would threaten the jobs of the clerks that make up most of the union members. There has been some automation deployed in the west coast ports but compared to the rest of the world the levels are miniscule. Over 50% of the Asian ports are fully automated and this process indeed meant a reduction of the workforce by over 45%. Most of these losses were in jobs related to tracking shipments.

Banking Credit and Finance

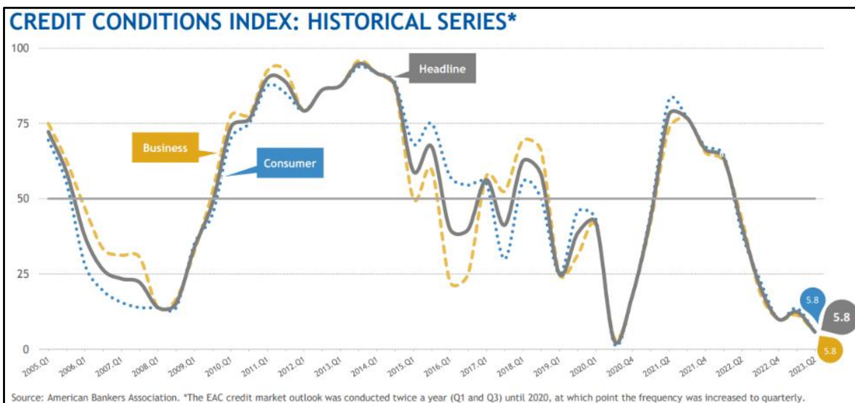
Overall Observations: There is a new wrinkle as far as predicting Fed rates. One of the more basic assumptions guiding policy decisions is that 1.0% is a “neutral” interest rate. That is a rate that is not impacting the economy – doesn’t stimulate growth and doesn’t affect inflation. There is now discussion over whether 1.0% is still the neutral rate and many are making a case for 2.5% as the “new” neutral. If that is the case the Fed didn’t really start impacting the economy with rate hikes until February of this year and it is possible the Fed could push rates to 5.5% or even 6.0% in the coming months.

Impacts could be felt in 2024 and 2025, especially in the construction field. The sense among those in the field is that 2023 will still be a fairly profitable year as there are still many projects that are underway and will need to be completed. The prime issues that have been affecting the industry are the same as they have been for several years – labor shortage and an unreliable supply chain. The problems could start to manifest more in 2024 as many projects have been put on hold. The fear of recession has shifted to next year as compared to 2023.



Banks Tightening Conditions (DRTSCILM; DRTSCIS)

- The latest view of the number of banks tightening credit standards has now hit 46.0 for large and medium-sized commercial firms and 45.8% for smaller firms. This is arguably the fourth tightest lending environment going back into the early 1990’s, and all prior periods were in recession periods.
- **Outlook**: The speed of this tightening matches the speed of the Fed’s interest rate hikes. There has been a 500 basis point increase in a very short time and the banks have reacted. The only silver lining in all this is that higher rates have provided some mild flexibility for banks. The banks are asserting more interest in loans that can be more highly collateralized to some degree.



ABA Credit Conditions (ABA)

- The American Bankers Association’s Credit Conditions Index for business credit decreased by 6.7 points to 5.8 and is well below the midpoint 50 line. The respondents all believe this sub-50 reading will extend through the year and this constrains the available credit to levels not seen since the pandemic.
- **Outlook**: The outlook from the ABA is signaling extreme caution. Part of this is reaction is to the interest rate environment and concerns regarding the future of the economy but there is also lingering concern over the “bank crisis”. That concern has fizzled to a degree, but the regulators have stepped up scrutiny and that forces even more caution for each institution. When asked, bankers have cited increased regulatory pressure as their greatest concern for the rest of 2023.

Industry Outlook

	2023				2024				2019	2020	2021	2022	2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4							
Real GDP	1.1	2.0	-1.4	-1.9	-0.5	1.9	2.2	2.3	2.3	-2.8	5.9	2.1	0.7	0.7	1.8
Unemployment rate (%)	3.5	3.6	3.8	4.0	4.5	4.5	4.4	4.3	3.7	8.1	5.4	3.6	3.8	4.3	4.5
PCE Inflation (%Y/Y)	4.6	3.6	3.1	3.1	3.1	2.5	2.1	2.0	1.5	1.1	4.0	5.6	3.1	2.2	2.0
Core PCE Inflation (%Y/Y)	4.7	4.3	3.8	3.5	3.1	2.5	2.1	2.0	1.7	1.3	3.5	4.8	3.5	2.2	2.0
Fed Funds Rate	4.9	5.1	5.3	5.5	5.5	5.2	4.7	4.0	1.6	0.1	0.1	4.4	5.5	4.0	3.1

The macroeconomic outlook for the US is still volatile and most estimates are now hinting that a “rolling recession” is likely. Rolling recessions mean that some (not all) industries will go through some secular recessionary periods at some point in time, but not all at the same time. The transportation sector for instance has been in an industry recession for nearly 6 months. But that recession is a shallow one, and many firms across the transportation sector have retained workers and continue to invest in the future because the downturn is mild.

Consumer spending continues to be strong, but there are some cracks showing up in approximately 60% of the consumer population. Approximately 60% of the population is living check-to-check and credit card interest rates have recently hit all time highs above 22%. In September, the moratorium on student loan interest rate accumulation ends and payments will resume in October. The average household with student debt is expected to get hit with approximately $250/month in extra debt payments, and that will tighten conditions in a percentage of US consumer households.

But there are just as many positive growth factors for the paper industry also at work. The unemployment rate in the US is still near all-time lows, job openings are still near 9.5 million (6 million is considered to be “normal”), wages are growing, and consumers are generally becoming slightly more optimistic about the future. As inflation cools (and it is slowly starting to reduce), that will help some of those households that are under pressure and loosen up some spending activity.

Analysts expect back-to-school spending to be lower this year than last. Spending could be as much as $2 billion lower vs. 2022, but it will largely fall on the apparel and technology sides of the retail sector. Spending on school supplies is expected to be up year-over-year, families will make difficult decisions in other areas of the back-to-school arena.

Lastly, construction as mentioned throughout this month’s report is doing very well. Single-family household construction is obviously down a bit (starts are down 6.6%). But multi-family and nonresidential construction activity are still doing well. Most forecasts expect higher interest rates to start impacting construction activity late in 2024 and 2025. Until then, demand for construction paper and board should remain consistent.

We expect hurricane activity to be weaker this year because of the onset of El Nino this summer as well as an upper level dust storm that has moved from the Coast of Africa over the lower and central Atlantic. That will prevent storm development, except in regions immediately off of the US coast (gulf development or potentially immediately off of the east coast). But the threat from long-track storms that create a lot of property damage are reduced this year based on current conditions. That can change rapidly, but conditions are not favorable for an active storm season at this time.