

# Paper & Packaging Recycling Market Update

Industry Specialty Team | Waste & Environmental Services | December 2024

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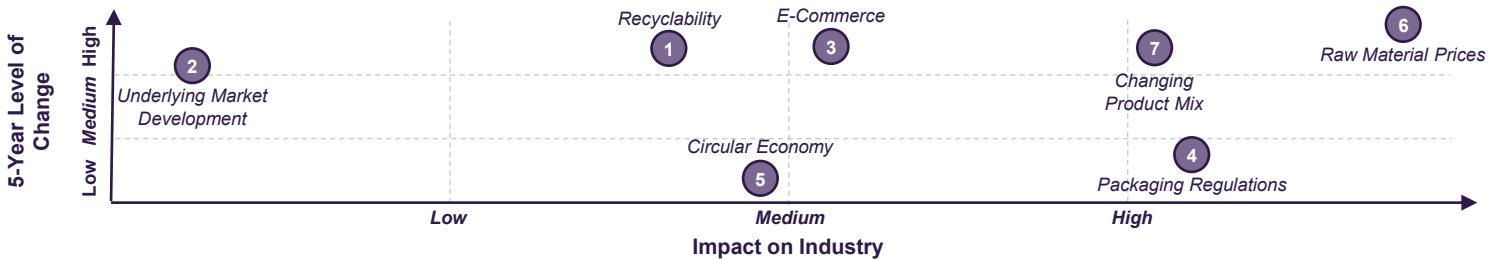
## Industry Themes & Opportunities

The global Paper & Packaging (“P&P”) industry is valued at over \$1 trillion and continuously evolving. Shifts in consumer expectations and increased competitive pressure has prompted businesses to reevaluate their production strategies to enhance operational efficiency. Additionally, the industry has had to follow how large brands approach sustainability in packaging and how the lifecycle of products meet their long-term ESG<sup>(1)</sup> objectives.

## Sustainability & Circularity

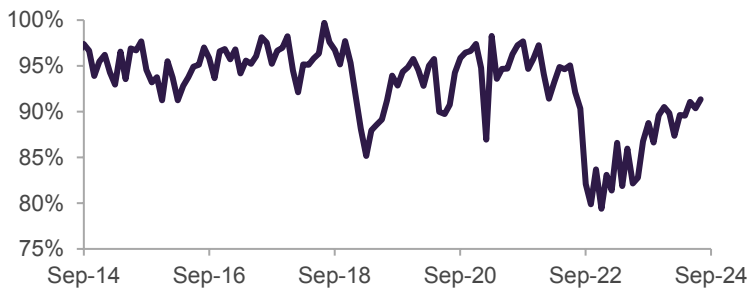
A core theme in P&P in recent years has been the integration of circular economics, which refers to systems being established to mitigate waste. Despite its viability for second-hand use, 25% of plastics are incinerated and 40% are disposed in landfills. Many businesses have established processes to improve packaging circularity while increasing costs and lack of recycling infrastructure are notable challenges for achieving their goals. Additionally, the EPA has emphasized the hazards of PFAS<sup>(2)</sup> material in chemical and consumer products, reiterating the need to reduce exposure in packaging material. The challenges in sourcing sustainable products, the lack of domestic recycling infrastructure, and inflationary pressures across supply chains have caused companies and regulators to reconsider their ambitious sustainability targets.

## Packaging Trends Led By Efforts in Sustainability



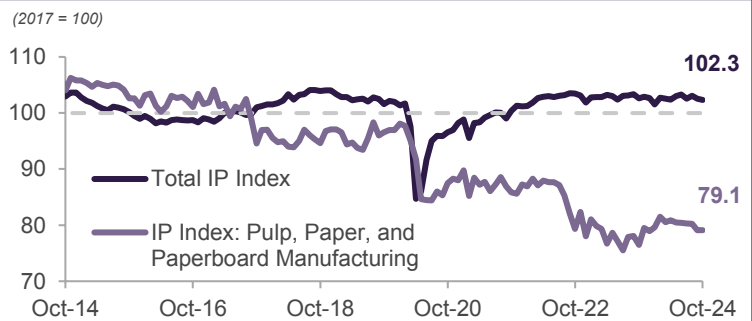
- 1 Recyclability:** Large brands announced ambitious targets and commitments for increasing the amount of recycled content in their packaging material in recent years. Lack of supply and significant costs commitments have companies considering extending their target dates.
- 2 Underlying Market Development:** Younger generations and investors are focused on being environmentally conscious and thereby shifting demand dynamics as they move to more sustainable practices.
- 3 E-Commerce:** Online shopping has opened the door to new brands with direct-to-consumer marketing, increasing packaging demand.
- 4 Packaging Regulations:** The Extended Producer Responsibility Policy holds companies responsible for the environmental impact of a products lifecycle, inclusive of the packaging material. Additionally, legislators are pushing for further reduction in the use of single-use plastics.
- 5 Circular Economy:** Drives innovations to improve the collection, sorting and reusability of packaging.
- 6 Raw Material Prices:** Generally volatile; increasing use of recycled raw materials in processes leading to margin compression.
- 7 Changing Product Mix:** Growth-focused businesses are shifting towards innovative and specialized solutions, offering tailored packaging products that differentiate them from competitors

## Paperboard Inventory & Capacity Balance



Paperboard capacity has been declining since 2018 as more traditional paper mills are being shut down, and large companies are shifting towards establishing recycled paperboard facilities instead. Inventory levels have increased in 2024 largely driven by retail restocking. However, inventory levels will likely remain lower than historical levels as companies lean on improving supply chain efficiencies to push inventory at higher frequencies.

## Increasing Production



With decreasing appetite for domestic packaging production along with continued industry consolidation, retailers may lean on second-hand material for packaging solutions. While manufacturing of pulp, paper, and paperboard products has remained compressed over the last 4+ years, it is showing signs of improvement this year as better consumer conditions present growth opportunities. Consumer sentiment has improved in recent months and may lead to increased spending in 2025, if the momentum continues.



(1) ESG = Environmental, Social, and Governance; (2) PFAS = Per- and polyfluoroalkyl substances  
 Sources: Bloomberg, Capital IQ, Federal Reserve Bank of St. Louis, U.S Census Bureau, Industry Research, Boise Paper, Golden Arrow, EPA.gov, Capstone Partners, BayWater Packaging, Financial Times, McKinsey  
 Data as 11/25/2024