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March 2024

PACKAGING NEWSLETTER

High level news and comment on the packaging market; whilst daring to entertain

QAS INTERNATIONAL ISO 9001:2008 REGISTERED FIRM

Heinzel hiking recycled corrugated base paper prices €85/tonne from March 1

Heinzel Group subsidiary Laakirchen Paper publicly reported a price increase of €85/tonne for all of the group's recycled corrugated base paper products starting from March 1, applicable to invoices and deliveries.

The firm attributed the increase to sustained high costs and low prices hitting the industry with insufficient margins. *"Consequently, it has become imperative to implement this price adjustment to maintain sustainable supply to the corrugating industry,"* it stated.

Hamburger Containerboard announces increased prices for its brown recycled corrugated base paper by €80/tone, effective March 1, 2024

Hamburger Containerboard have reported a price hike for brown recycled corrugated base paper by €80/tonne from March 1st 2024.

They attributed the rise to continued high costs in an inflationary environment that have resulted in insufficient margins. They reflect that an adjustment is urgently required to ensure a sustainable supply to the packaging industry.

Hamburger Containerboard is a member of the Austrian Prinzhorn Group and offers its partners throughout Europe a full spectrum of high-quality corrugated case material products as well as plasterboard liner. The company believes that this product range is delivered via a high level of product know-how, the latest technology and the constant advancements of its employees.

With circa 2,800 employees in five countries, Hamburger Containerboard produces advanced recycled containerboard to exceed customer expectations and is the regional market leader in Central and Eastern Europe.

Stora Enso announces price hike of recycled containerboard

As of March 1, 2024, Stora Enso announced a price increase for recycled containerboard deliveries by €75/tonne.

This decision comes as a response to ongoing challenges in the recycled containerboard sector, particularly concerning profitability due to sustained cost pressures.

SCA to increase prices for white and brown Kraftliner in Europe by €80/tonne

The new price rises are reported to start from 1 April 2024.

Mikael Frölander, Vice President Marketing and Sales at SCA Containerboard, comments: *"We see an improved and solid demand in the market for Kraftliner with a good balance in the supply chain.*

The continued cost pressure is evident and must be managed to safeguard stable supply of sustainable Kraftliner."

CONTENTS

Commandeered Music Quote: "Ain't No Mountain High Enough" **Tammi Terrell & Marvin Gaye**

Sports Wisdom: “Be better than you were yesterday”

UK containerboard price increases to take effect from May

The question of whether containerboard prices will rise has been answered over the last month; hell yes (see Jungle Drums). This has been emphatically driven by the invisible hand of the market, rather than the work of Beelzebub:

- The containerboard market in February and much of March was uncomfortably quiet. It’s fair to say that tumbleweed was seemingly untroubled as it silently drifted across some order books. Whilst European paper demand picked up somewhat in late March, Easter shutdowns may more than offset that gain. The UK corrugated market seemed to spark into life during the course of March, with some box plants seeing weekly sales intake lift by 50% (depending on their market niche) compared to February. This chimed with the Bank of England Agents’ summary of business conditions, which indicates that recovery is underway (see The Insider on page 23). However, the increased corrugated volume – if it’s sustained - won’t deliver a full month’s benefit until April.
- The insult of low demand has teamed up with the injury of input cost inflation (notably energy) and last year’s paper price reductions to leave many paper mills losing money, whilst others are ‘merely’ down to the cost of production. Only the most efficient seem to be in profit, albeit modestly so relative to the recent high watermark of profitability.
- Capitalism refuses to fund a pity party; when the price of a commodity becomes unsustainably low for the balance of the market, prices rise. We have very much reached that tipping point in the containerboard market; suppliers announced increases of circa €80/tonne from the 1st of March.

Implementation was initially patchy, but soon switched gears as it gained traction:

- The first dominoes to fall were Germany and Poland, where an increase of €60/tonne took effect on recycled containerboard in early March.
- The rest of mainland Europe implemented much the same increase between mid-March and April 1st.
- Experience suggests that the UK market tends to be a month behind the continent, so an increase of circa £50/tonne from the 1st of May seems a reasonable projection. Hard discussions between buyers and sellers confirm a new-found steely resolve emanating from often loss-making paper mills (see Jungle Drums).

There are two follow-up questions that now arise:

- Will the paper price rise stick? I think so, although a degree of price erosion over the summer seems a distinct possibility, as further new containerboard capacity comes on stream. The underlying level of demand will be a key factor, which should benefit from falling interest rates across North America and Europe as the inflation genie is consigned back to its lamp.
- What will happen to the price of sheet board and boxes? For 50-60% of industry volume, contracts on paper price indexation agreements will simply trigger a box price adjustment upwards from June. The situation for the rest of the market is difficult to the point of being a Gordian knot. Box plants have not uniformly passed on material cost falls and many subsequently have historically high margins (although these are gradually being top sliced through competitive activity). Leaving these prices alone would be an understandable tactical choice. Many sheet board price lists will be under water when paper prices rise, but the extent of overcapacity in the UK sheet feeding market may tempt at least one player to try to gain market share via price. As ever, more than one integrated box plant will certainly try to quietly gain market share via price. Healthy competition will keep you on your toes.

Mondi’s nascent interest in merging with DS Smith (DSS) is based on offering DSS shareholders £3.73 per share (see page eight). However, International Paper Containers have thrown their hat into the ring (see page 11) with an offer of £4.15 per DSS share. This corporate drama looks like it will have a few twists and turns before we reach a conclusion, with a potential bidding war afoot. Whilst Mondi and IPC are good businesses, a number of DS Smith shareholders have noted disappointment that the existing DSS executive team would not be at the helm of a merged entity of either hue. It’s been more than a couple of decades since your Editor worked for DS Smith and I retain a huge affection and respect for the business; it’s made the achingly rare transition from good to great. With this bias duly declared, I can’t help a tinge of regret that the DSS Chairman can’t persuade Miles Roberts to stay on, armed with the corporate ambition to propose a global merger of their own. To be fair, both Mondi and IPC offer meaningful synergies and their offer prices would yield a more than reasonable premium to those shareholders wishing to cash in their chips.

Standing back, it is clear that the fittest and smartest will continue to prosper; it’s perfectly possible to make a profit in these difficult times. Whether you need to: improve efficiencies; refresh your sales and marketing; invest in training or instant box pricing software - we’d love to help.

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CPI Response to BBC Article on Recyclability of Pizza Boxes and Paper Coffee Cups

The article by BBC titled 'What can and can't be recycled from your food shop?' was republished in March and contains misleading information regarding the recyclability of pizza boxes and paper coffee cups. The UK's Paper-based Industries are disappointed that despite issuing a response to the original article, the BBC has again failed to give an accurate picture of the recyclability of these items, and in reaction to this article the industry is reiterating its standpoint as follows:

Pizza boxes | BBC article: But all paper and card has to be clean of food residue. If your cardboard or paper has grease on it – unavoidable in pizza or fish and chip boxes – put it in the bin.

CPI response: Stains or marks from contact with food do not prevent pizza boxes from being recycled. The Paper Industry's position is clear, as outlined in the CPI Design for Recyclability Guidelines. Paper containing stains or even traces of food, which are unavoidable in collection of post-consumer material and do not fully soak the paper, is acceptable. Surface staining, for example stains due to grease and spots of the toppings in delivery boxes for pizza and sandwich packs, and traces such as bread crumbs in bags, sugar, salt, flour or food in emptied boxes or bags can be tolerated. Food waste sitting in the pack (free moving food), food attached to the surface (3D residue), and traces and stains that fully soak the paper, is regarded as unacceptable. This advice is in line with Paper and board — Guidance on the application of Term 2.2 Prohibited materials of BS EN 643:2014 which addresses the presence of food contamination and has been developed to assist the users of BS EN 643:2014 to better understand the term "prohibited materials".

Coffee cups | BBC article: Paper takeaway cups are not recyclable, though some coffee shops have switched to biodegradable or compostable versions.

CPI response: Paper coffee cups are a potential source of high-quality fibre and are currently recycled. These products are usually disposed of 'away from home' and due to their mixed material composition, they need to be collected separately from other fibre-based material. This ensures they are directed to the appropriate facility with the necessary equipment to be reprocessed efficiently and ensure maximum recovery of fibre. The UK has sufficient reprocessing capacity to recycle all the paper coffee cups used in the UK. Finally, a mandatory cup takeback scheme has been proposed as part of Defra's Extended Producer Responsibility (EPR) reforms, and the UK's Paper-based Industries are keen to work with all parties to ensure that the maximum amount of this valuable fibre is recovered.

Working time rules

Understanding the Working Time Regulations. The law on working time (The Working Time Regulations 1998) sets rules for:

- The maximum weekly working hours, and how someone can work more hours if they choose.
- Rest during the working day, week and year – find out more about the right to rest.
- Young workers' maximum working hours and rest breaks.
- Night work.
- Special arrangements when there's an emergency or if someone is not able to take their rest.
- Holiday entitlement – find out more about holiday.

This is to protect everyone's health, safety and wellbeing, and it applies to:

- Employees.
- Workers.
- Agency workers.
- Apprentices.
- Casual and seasonal workers.
- Doctors in training.
- Zero-hours workers.

The Working Time Regulations 1998 is the law that applies the EU Working Time Directive to England, Scotland and Wales. They remain in force (with some amendments) post-Brexit.

What counts as working time

By law, working time is when someone is:

- At the employer's 'disposal' – this means the employer can tell them what they can or cannot do in that time.
- Carrying out work activities, duties and training.
- Working time usually includes time spent travelling to a customer or client, for example if the job is a travelling salesperson.
- Training that someone needs to do the job.
- Being on call while at the place of work, for example a hotel night manager who needs to be available in case guests need them.

What does not count as working time

Working time usually does not include:

- Routine travel to and from home and the workplace if the person has a set workplace, for example a regular commute to an office or factory.
- Rest breaks when no work is done.
- Travelling outside of normal working hours, for example to get to a conference.
- Training that is not work related, for example a course the person has chosen to organise and do for themselves.

Keeping records of working hours

An employer does not need to keep records of all daily working hours.

However they must keep records to prove that:

- Employees are not working more than the 48-hour weekly maximum – this is unless they have an opt out agreement.
- They are not breaking limits for night working.
- They have offered regular health assessments for night workers.
- Young workers are not working during a restricted period.

Employers must keep these records for two years from the date they were made. Having clear and easy to understand records can help employers:

- Prevent disputes
- Protect the health, safety and wellbeing of their employees.

If an employer does not follow the law

If an employee thinks their employer is not following the law for working time, they could first try resolving it by:

- Talking with their employer informally.
- Raising a grievance – making a formal complaint to their employer.

If the employer still does not resolve it, depending on the issue the employee may be able to:

- Make a claim to an employment tribunal.
- Report it to the Health and Safety Executive (HSE) or their local authority.

Employee claim to an employment tribunal

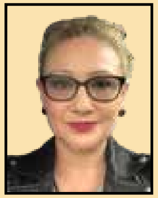
An employee can make a claim to an employment tribunal if their employer has not followed the law on any of the following:

- Rest breaks during the working day of at least 20 minutes, if the employee is expected to work more than six hours during the day.
- Daily rest of 11 hours between working days.
- Weekly rest of 24 hours in any seven-day period, or 48 hours in a 14-day period.
- Holiday entitlement.

They may also be able to claim if they have experienced detriment or been dismissed because they raised a concern about working time.

Source: www.acas.org.uk

If you have any HR queries in then please contact Raj on: +44 (0) 7769 697858 or via raj@knowitall.co.uk



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DS Smith Plc – Q3 trading statement

DS Smith issued a trading update in respect of the period since 1 November 2023.

Continued resilient performance in a challenging environment

Like-for-like corrugated box volume performance continues to improve compared with the first half of our financial year, with flat like for like volumes in the period since 1 November 2023. North America and Eastern Europe saw good growth in the quarter, offset by a weaker performance in Northern Europe.

Focus remains on resilient pricing, operational efficiency and tight cost control with anticipated containerboard price increases expected to be reflected in ongoing packaging prices, following the usual lag.

Overall trading together with our outlook for the remainder of the year remains in line with management expectations.

Miles Roberts, Group Chief Executive

"I am pleased with a continuing resilient performance, despite tough economic conditions. Our strong customer relationships, quality and service has led to a number of recent FMCG customer contract wins, underpinning our confidence in the outlook for volume growth going forward. While markets remain challenging, we continue to focus on providing value-added solutions to our customers and on driving operational efficiency and cost control across the Group and view the future with confidence."

Miles Roberts, Group Chief Executive

Long production interruption at Metsä Board's Kemi board mill

On 21 March 2024, a gas explosion occurred at the evaporation plant of Metsä Board's associated company Metsä Fibre's Kemi bioproduct mill. Three people were slightly exposed to hydrogen sulphide and were referred for a health check. The persons have returned to work after the check.

Metsä Board's Kemi board mill, which produces white Kraftliner, is part of the Kemi integrated mill. Metsä Board's board mill was not damaged in the explosion, but the mill is not operational because unbleached pulp cannot be produced without the chemical recovery of the bioproduct mill.

Due to repair work of the evaporation plant at the bioproduct mill, the mill is estimated to be out of production for 10–12 weeks. The company is exploring restarting the board production at a significantly lower production level than normal during the repair work at the bioproduct mill. In addition, the company is investigating offering alternative products to customers.

The financial impacts caused by the production interruption will be specified as the repair work progresses, and they will be reported in more detail in Metsä Board's interim reports.

Macfarlane acquires Allpack Packaging Supplies

Macfarlane Group announced the acquisition of Allpack Packaging Supplies Limited. This earnings-enhancing acquisition further progresses Macfarlane's strategy to build its protective packaging business through a combination of organic and acquisitive growth.

It is a well-established business based in East Anglia, supplying protective packaging products to customers across a wide range of sectors, from its warehouse facilities near Bury St Edmunds. It has an experienced team of 10 employees, including three Directors, all of whom will remain with the business following the acquisition.

Peter Atkinson, Chief Executive of Macfarlane, said: *"This latest transaction follows three acquisitions undertaken in the prior 12 months, and clearly demonstrates further progress in executing against our buy and build strategy. Allpack Packaging Supplies is a well-run, successful protective packaging distributor with an experienced management team. Their addition to the Macfarlane Group further strengthens our ability to serve customers in East Anglia. We look forward to working with the team at Allpack Packaging Supplies to support its continued growth."*.


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Macfarlane Group PLC Annual Results 2023
Group profit before tax ahead of previous year

FINANCIAL HIGHLIGHTS 2023	2022	2023	Increase/ decrease
	£000	£000	%
Statutory measures			
Revenue	280,714	290,431	(3%)
Gross profit	105,681	98,057	8%
Operating profit	22,068	21,496	3%
Profit before tax	20,280	19,934	2%
Profit for the year	14,974	15,637	(4%)
Interim and proposed final dividend (pence)	3.59p	3.42p	5%
Basic earnings per share (pence)	9.44p	9.89p	(5%)
Alternative performance measures			
Adjusted operating profit	27,637	25,073	10%
Adjusted profit before tax	25,849	23,511	10%

Packaging Distribution

- Packaging Distribution revenue decreased by 6% to £244.9m (2022: £259.7m).
- Weak demand from customers in the UK and Ireland and sales price deflation were partially offset by a stronger new business performance, good sales momentum in Europe and the benefits of the acquisitions of PackMann in May 2022 and Gottlieb Packaging Materials Limited ('Gottlieb') in April 2023, which are both performing well.
- Gross margins increased to 35.7% (2022: 32.1%) reflecting effective management of input price changes which has offset inflationary increases in some operating costs.
- Adjusted operating profit increased by 6% to £21.0m (2022: £19.9m) and operating profit decreased by 3% to £16.5m (2022: £17.1m), after charging £1.5m for deferred contingent consideration adjustments.

CHAIR'S STATEMENT:

"I am pleased to report that, against a backdrop of challenging market conditions, Macfarlane Group PLC has once again demonstrated the resilience of its business model and achieved another year of profit growth in 2023. In addition, we have made good progress against our ESG objectives."

Outlook

We expect the year ahead to remain challenging due to uncertainty over customer demand.

However, we are confident that we will continue to make progress in 2024 through strong new business momentum, a well-developed pipeline of potential acquisitions, the continued effective management of input prices and operational efficiencies.

Model machine acquired at Eilenburg mill from Stora Enso in April

A Model machine has been acquired by Model Sachsen Papier (which is the official name of the Eilenburg paper mill site) to commission corrugated case material from Stora Enso in 2021 and converted the newsprint machine to recycled corrugated case material production. Model Sachsen Papier, will sell containerboard to third parties as well, from April this year.

Swiss paper and packaging group Model Holding will reassign the rebuilt recycled corrugated case material (RCCM) machine at the Eilenburg mill in Germany. The new start-up date was announced in the company's 2023 annual report. The rebuilt machine was originally planned to be commissioned at the end of 2023.

Model acquired the machinery from Stora Enso in August 2021 with the purpose to convert the 280,000 tonnes pa newsprint machine to recycled corrugated case materials production. Model puts the production capacity of the rebuilt RCCM machine at 600,000 tonnes pa, including lightweight paper grades.

In 2023, Model produced almost 475,000 tonnes pa of corrugated case material. The new paper machine in Eilenburg will boost containerboard production capacity at Model group above one million tonnes pa.

The Ministry of Trade of Turkey has asked for safeguard measures on CCM imports from Europe

In January, the Turkish Ministry of Trade requested safeguard measures within the WTO regulations regarding imports of corrugated case material, mainly from Europe.

The enquiry, initiated upon application from domestic producers, is referring to a number of testliner, fluting and semi-chemical grades. The application claims that imports of these papers have increased in both absolute and relative terms, which has resulted in serious damage to domestic suppliers. Imports of these papers in the first six months of 2023 increased by 135% compared to the same period four years ago.

In a comment on the initiative, the Confederation of Paper Industries (Cepi) said that: "The stringent conditions necessary for imposing safeguard measures in the current investigation are not met. The WTO standards required to impose measures are extremely high and should only applied in exceptional circumstances as a "last resort", Cepi told Euwid. Cepi is therefore of the opinion the Ministry of Trade should terminate this safeguard investigation without delay."

According to the WTO regulations, potential measures would imply the restriction on imports of a product for the short term.

The origin of the imports referred to are mainly coming from Germany, Poland, Israel and Finland, which have a share of 55% in the imports during 2019-2023, according to the application from the Paper Recycling Industrialists Association AGED in Turkey. Other top importing countries in Europe on the association's list include Italy, Sweden, Slovakia, Romania and France.

DS Smith commences the shut down of Louth plant

DS Smith Packaging has provided more information regarding the closure of the Louth site, which will affect 70 staff. DS Smith's Louth plant commercial work will be transferred to the Blunham site.

According to a spokesperson, the closure of the plant is a phased process that started on 29 February and will be concluded in August. The majority of the 70 staff left at the end of February, with a skeleton crew in place until August.

DS Smith announced: *"A period of collective consultation has been undertaken with the Trade Union and Employee Representatives at our sheet feeding site in Louth. Unfortunately, there has been no viable alternative business proposals presented during this process, and we have therefore taken the difficult decision to proceed with the proposal to close the site."*

According to information provided earlier, the Louth plant's activities will be consolidated at DS Smith's Blunham site, where a 2.8 metre wide corrugator and high-tech material handling equipment were installed in 2015.

Mondi and DS Smith reach a settlement in principle on merger; extend PUSU deadline

Mondi and DS Smith have announced their intention to take their arrangement to the next stage. Packaging giants Mondi and DS Smith have reached a settlement in principle on the key financial terms of a possible all share offer by Mondi for DS Smith. Mondi would then acquire the entire issued share capital of DS Smith, the companies announced on 7 March.

Mondi shareholders would own 54% and DS Smith shareholders 46% of the issued and to be issued share capital of Mondi. The price per DS Smith share would be £3.73, which represents a premium of 33% to DS Smith's closing share price from 7 February 2024, according to the statement.

CEO Andrew King will remain at the helm of the expanded group, Mike Powell as CFO and Philip Yea as Chair. Three Non-Executive Directors of DS Smith are expected to join the board.

However, this arrangement does not fully establish as yet a firm take-over bid. DS Smith has requested to extend the PUSU deadline to 4 April 2024 5pm GMT. Until then, both companies will continue talks on other terms and conditions and look into the realisation of possible synergies, it is further stated.

The combination would create a pan-European industry leader in paper-based packaging solutions with sales revenues in excess of €17bn (DS Smith £8.2bn, Mondi €7.3bn) and balancing geographic footprints. Mondi has more than 22,000 employees at 100 production sites. DS Smith has 30,000 employees and operates in 30 countries.

However, it is not a done deal...see page 11 for an alternative scenario from IPC.

S&P Global / CIPS Flash United Kingdom PMI®

UK manufacturing downturn continues as weak demand and Red Sea crisis disrupt production

Key findings:

- Manufacturing PMI at 47.5 (a 10-month high, but still representing contraction).
- Production declines as new order intakes fall.
- Red Sea crisis leads to supply disruption.

Conditions in the UK manufacturing sector remained challenging during February, as the ongoing crisis in the Red Sea caused disruptions to both production and vendor delivery schedules. In several cases manufacturers mentioned that these disruptions were driving up costs as they attempted to locate alternative suppliers from more expensive markets closer to home. Demand also remained weak, with new order intakes falling at the fastest rate since last October.

The seasonally adjusted S&P Global UK Manufacturing Purchasing Managers' Index™ (PMI®) posted 47.5 in March, up from 47.0 in February and above the earlier flash estimate of 47.1. Although the PMI has signalled contractions in each of the past 19 months, the latest reading was the best since April 2023.

The contractions registered for four out of the five PMI subcomponents (new orders, output, employment and stocks of purchases) were all consistent with a deterioration in overall operating conditions during February. The only sub-index to have a positive effect on the PMI level was suppliers' delivery times, which lengthened to the greatest extent since July 2022. That said, as the increase in lead times was driven by supply disruptions as opposed to rising input demand, the trend in that index is more a symptom of the challenging situation than a positive in itself.

Manufacturing production fell for the twelfth consecutive month in February, with contractions registered in the consumer and intermediate goods sub-industries. That said, the overall rate of decline eased to a three-month low.

Companies reported weaker demand from both domestic and overseas clients, lower sales volumes, market negativity and disruption to production schedules due to the Red Sea crisis.

The total volume of new business placed with manufacturers decreased for the eleventh month in a row during February.

There were reports of client destocking, subdued market confidence and financial pressures all leading to lower new work intakes from both UK and overseas based customers.

New export business fell for the twenty-fifth consecutive month and at the quickest pace since October 2023. Export demand was also impacted by disruptions, delays and higher costs associated with re-routing shipping away from the Red Sea and Suez Canal.

Weak demand contributed to the depletion of work-in-hand (but not yet completed) at UK factories. Manufacturers reported that work on existing contracts had been used as a substitute for new orders to support production volumes.

Efforts were also ongoing to trim excess capacity, with staffing levels reduced for the seventeenth successive month. Lower employment reflected restructuring, redundancies and cost management programmes.

Average vendor lead times lengthened to the greatest extent in over one-and-a-half years (since July 2022). By far the biggest impact on supplier performance was the effect of the Red Sea crisis. This also contributed to a further increase in average purchase prices, which rose for the second month in a row. There were also reports of supplier price rises and higher transportation costs. Part of the increase in costs was passed on to clients, as average output charges rose for the fourth month running.

Cost considerations and stock normalisation programmes led to leaner inventories of both finished products and inputs and also lower levels of purchasing activity during February. All three variables were lowered across each of the sub-sectors (consumer, intermediate and investment goods) covered by the survey.

Comments:

Commenting on the latest survey results, Rob Dobson, Director at S&P Global Market Intelligence, said:

"UK manufacturers faced challenging circumstances in February, as the ongoing impact of the Red Sea crisis delayed raw material deliveries, inflated purchase prices and impacted production capabilities. There were also knock-on effects for demand, as new export orders were hit by both supply disruptions and higher shipping costs.

Production volumes subsequently contracted for the twelfth successive month while total new orders fell at the sharpest rate since October.

"The impacts were felt particularly hard on the price and supply fronts. Input cost inflation hit an 11-month high, leading to a further increase in selling prices. Average supplier lead times meanwhile lengthened to the greatest extent since mid-2022. Several manufacturers noted that they faced the difficult choice between accepting delays from re-routed shipping or facing the prospect of paying higher prices to source from closer to home. This comes at a time of already heightened cost caution at manufacturers in response to weak demand, as highlighted by further cuts to employment, purchasing and inventories in February.

"Although the supply impact and effect of prices is muted by standards seen at the height of the pandemic, any upward pressure on inflation will be a concern to policy makers and may add to calls that it is too early to be confident on the timing of interest rate cuts."

DS Smith reports a £48m investment into Kemsley paper mill

Packaging company DS Smith has declared that it intends to invest £48 million to "enhance" its Kemsley paper mill. Kemsley is the largest recycled paper mill in the UK and the second largest in Europe. The multi-year investment will go towards transforming its fibre preparation line, which DS Smith said will drive improved efficiency, sustainability and reliability.

A drum pulping and screening system which "more efficiently" separates contaminants from fibre such as plastics, barriers and coatings will also be set up as part of this initiative. Kemsley is the largest recycled paper mill in the UK and the second largest in Europe. It produces 830,000 tonnes of paper annually, "crafted from 100% recycled fibre". The new line will manufacture recycled fibre to PM3, which is a paper machine capable of producing white top test liner, plasterboard liner and other corrugated case materials grades.

Niels Flierman, head of paper & recycling at DS Smith said: *"Kemsley paper mill is an important part of our business and of the UK's recycling capacity, recycling up to one million Tonnes of paper and card every year. The installation of the new fibre preparation line will ensure that we can continue to make high performing papers more efficiently while delivering on our medium and long-term sustainability goals."*

DS Smith summarised that the upgraded system maximises the use of materials in the recycling process in addition to reducing water usage and energy consumption. The company said a sizeable decrease of emissions by more than 6,000 tonnes of CO2 a year "reaffirms DS Smith's goal" of decreasing scope 1, 2 and 3 emissions by 46% compared to 2019, by the year 2030. DS Smith also reported that the implementation of the new equipment is expected to result in a 39,000-tonne annual reduction in production waste, adding significantly to DS Smith's 2030 goal of optimising every fibre for every supply chain and sending zero waste to landfill. The improvements will also lead to a more than 50,000m3 per year reduction in freshwater use at the Kemsley mill, equivalent to the volume of 20 Olympic-sized swimming pools, DS Smith added.

DS Smith in talks with American rival IP

Britain's biggest packaging company, DS Smith is now in talks with an American rival despite agreeing 'in principle' to merge with Mondi, threatening the possibility of a bidding war. The potential multibillion-pound deal for Britain's leading cardboard packaging company was triggered on Tuesday night after DS Smith confirmed it was in talks with IP. It had previously announced that it had an "agreement in principle" to merge with Mondi, its fellow FTSE 100 company.

DS Smith, which designs and makes packaging for fast-moving consumer goods companies such as Unilever, Mondelez, the owner of Cadbury, and Amazon, announced that it was now also in discussions with International Paper, of the US. A deal is on the table for about £5.7 billion, according to Sky News.

Under the terms of the proposal, DS Smith shareholders would receive 0.1285 shares in International Paper for each share they own in DS Smith. International Paper's all-share proposal put a value of around 415p a share on DS Smith. If the proposed deal goes through, DS Smith shareholders would own about 33.8% of the combined company.

Shares in International Paper, set up in 1898 in a merger of 20 paper mills in northeastern America, closed down 6.4% upon announcement of the proposal, or $2.63, at $38.22, valuing the business at $13.2 billion. DS Smith's stock rose 8¾p, or 2.5%, to 359¾p before news of the counterbid, giving it a valuation of £5 billion.

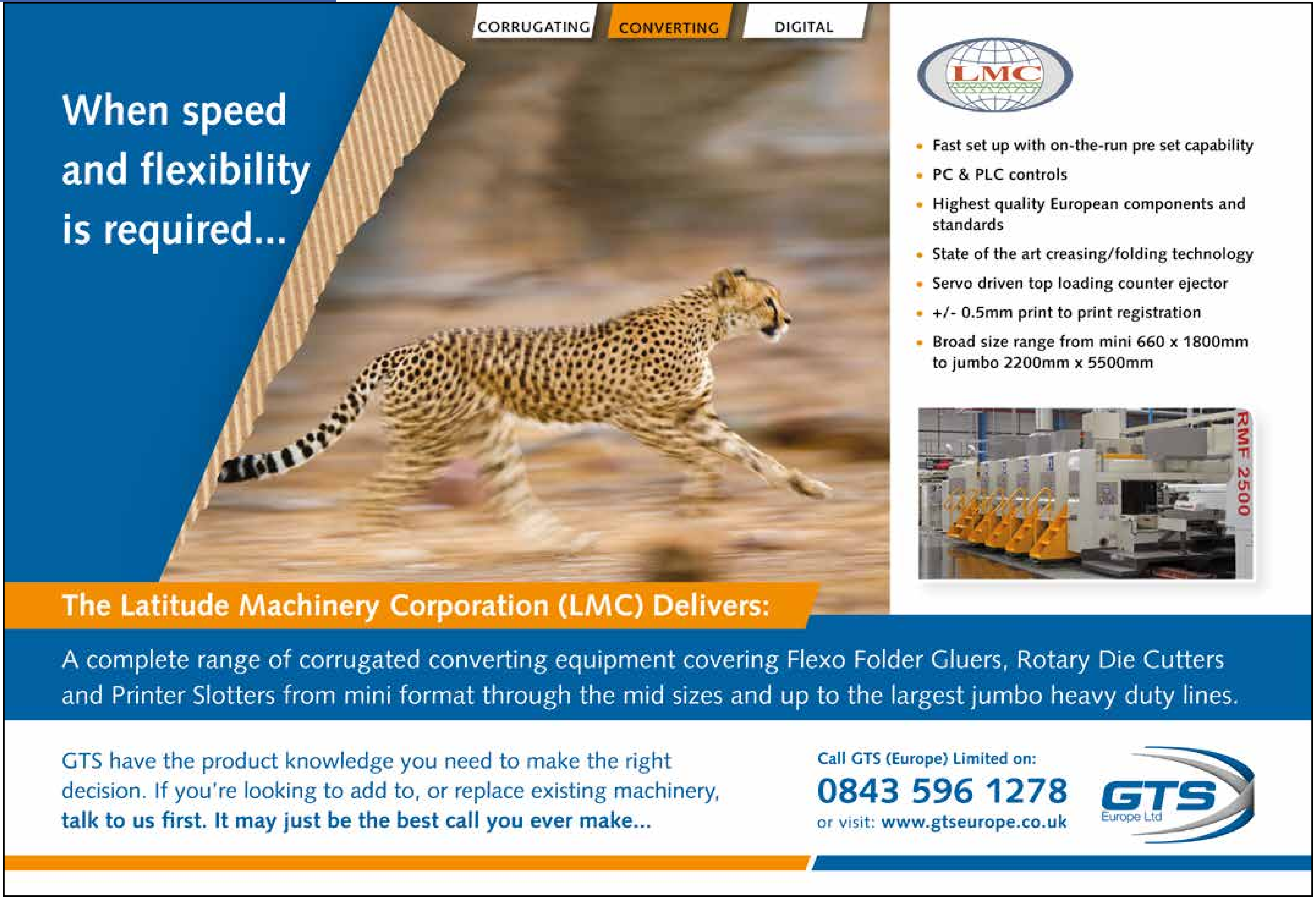
This month DS Smith agreed a £10.5 billion, 54-46 all-paper merger with Mondi, a slightly larger packaging firm that was spun out from the Anglo-American mining empire. The implied price offered to DS Smith shareholders, based on Mondi's share price and merger terms, was 373p a share. The deal talked of substantial benefits to shareholders, synergies and geographical complementarity.

DS Smith, which is chaired by Geoff Drabble, 64, the former Ashtead plant hire boss, said it had received the counterbid, which was more generous, from International Paper. The International Paper merger plan would give DS Smith shareholders only 38% of the enlarged business.

A statement from DS Smith confirmed it was talking to International Paper and added: "The board acknowledges the strategic merits and potential for value creation through a combination with International Paper." It said it was "progressing discussions".

International Paper confirmed it had "made an all-equity proposal". It said: *"There is compelling strategic and financial rationale for a combination between International Paper and DS Smith [to] create a truly global leader in sustainable packaging solutions."*

It said the deal would *"significantly strengthen the combined corrugated packaging business in Europe, with greater customer offerings, and create the opportunity to integrate the mill and box networks, and optimise the supply chains … in Europe and the US".*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Wise Words: “It sucks and blows at the same time” **Bart Simpson**

Jungle Drums

- The Jungle Drums report that paper mills are showing hitherto uncharacteristically steely resolve in terms of the circa €80/tonne price rises (testliner and Kraftliner) that they insist will take effect across Europe by April. Whereas last year’s recycled containerboard price increase requests quickly crumbled when faced with stroppy buyers threatening to move their business away, today’s loss-making paper suppliers have generally refused to continue supplying at pre-increase prices this year. When your back’s against the wall, take it or leave it is a no brainer of a sales strategy. Hence, we seem to be witnessing an inflection point…a buyer’s market looks like pivoting to a seller’s market. At least until this summer, when prices may again begin to erode because of additional containerboard capacity coming on stream.
- As this cold reality sinks in at integrated box plants who are facing tipping into loss, tempers are beginning to fray for some. Others are said to be suffering a complete sense of humour bypass as they note the perfect storm of: end users pushing for meaningful box price decreases; competitors pillaging the market place with seemingly unsustainable price reductions which at least hurt your margin (if you’re fortunate enough to retain the business); underlying market volumes that are down; an April 12.4% increase in the national minimum wage and the odd seriously lumpy and unwelcome bit of factory input inflation (e.g. one business is said to have just taken a £3m annual cost increase on the chin from its new gas contract).
- Sheet feeders have been in this unhappy place for a little while now and have already taken varying strategic actions to try to mitigate losses / subdued profits. We hear that further notable changes are on the drawing board for active consideration, with capacity potentially added or subtracted from the market; depending on the (hopefully) cunning plan in question.
- We’ve caught wind of two different rumours of a potential acquisition involving the same sizeable target UK business. With two interested buyers on the horizon, both desperately seeking to further vertically integrate with a now dwindling pool of potential acquisitions, another bidding war seems likely.

Board24's new Scottish sheet feeder now fully operational

Board24's new sheet feeding facility at Motherwell's Euro-Central business park is now fully up and running, with production at the Larkhall site now ceased.

Euro-Central is a significant milestone in the history of Board24 and corrugated board production in the UK. The only sheet feeder in Scotland is home to the newest corrugator in the country (supplied by the splendid folk at BHS), a full materials handling system and all of the ancillary equipment you would expect in a state of the art facility.

Capable of producing more than 100 million metres squared pa, it can manufacture a wide range of flute types including B, C, M, E, BC, MB, and EB.

The site has been designed to complement the other Board24 sites and uses the same business management systems (including the market leading Abaca business system) across the group enabling true contingency for supply between the 3 operating sites.

The existing Larkhall team has transferred to the new site and will benefit from working in a new site with modern welfare facilities. Board24 is understandably delighted to retain their skilled, long serving colleagues. In turn, they have had a hugely positive impact in making the site fully operation.

The new site will deliver greater energy efficiencies and will generate over 25% less carbon emissions; delivered through superior energy efficiency of the new equipment, on site solar PV and significantly lower emissions from distribution.

Dominic Drew, Group Managing Director, Board24 commented; *"We are very pleased to have Euro-Central up and running and to see the team working on this amazing new corrugator is fantastic. My thanks go to the team for their professionalism and positivity in making this happen and we look forward to a long history at Euro-Central."*

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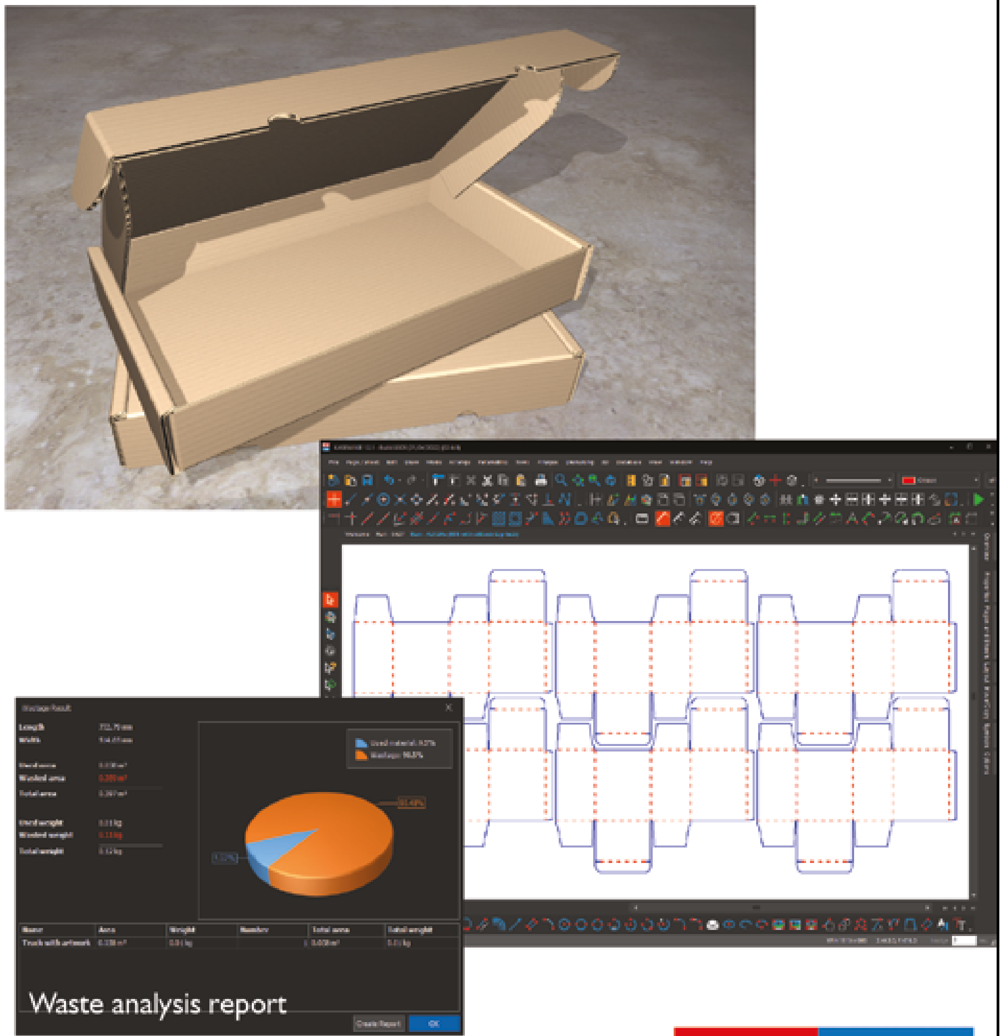

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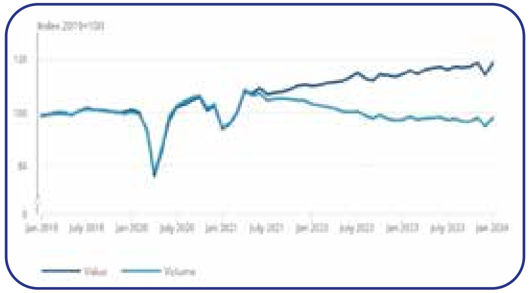
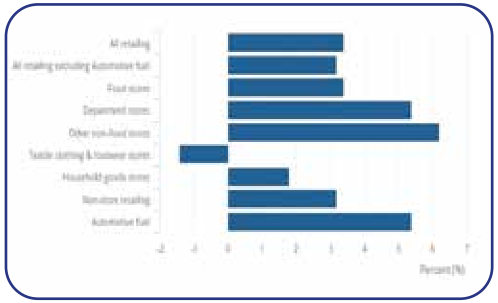
Retail sales volumes rose by 3.4% in January 2024

- Retail sales volumes (quantity bought) are estimated to have rebounded by 3.4% in January 2024, following a record fall of 3.3% in December 2023 (revised from a fall of 3.2%). This was the largest monthly rise since April 2021 and returned volumes to November 2023 levels.
- Sales volumes in all subsectors except clothing stores increased over the month, with food stores such as supermarkets contributing most to the increase.
- More broadly, sales volumes fell by 0.2% in the three months to January when compared with the previous three months, however this was the smallest fall since August 2023.

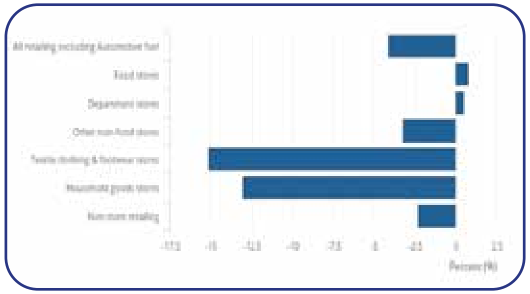
Largest monthly rise in sales since April 2021 marks a recovery from December's record fall. Volume and value sales, seasonally adjusted, Great Britain, January 2019 to January 2024





Increases in all subsectors except clothing. Volume sales, monthly percentage change, seasonally adjusted, Great Britain, January 2024

Online sales fell across most subsectors. Value sales, monthly percentage change, seasonally adjusted, Great Britain, January 2024

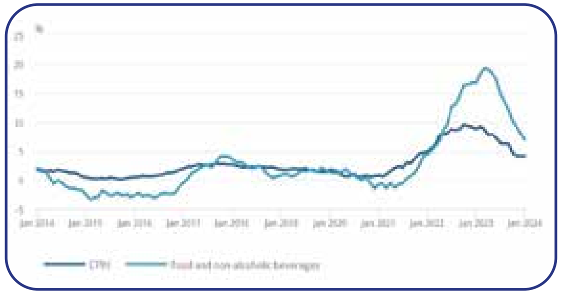


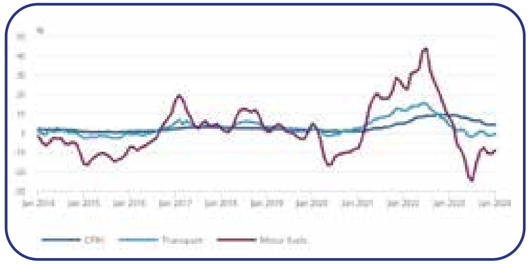
CPI inflation rose by 4% in the year to January 2024

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 4.2% in the 12 months to January 2024, the same rate as in December 2023.
- On a monthly basis, CPIH fell by 0.4% in January 2024, the same rate as in January 2023.
- The Consumer Prices Index (CPI) rose by 4.0% in the 12 months to January 2024, the same rate as in December 2023.
- On a monthly basis, CPI fell by 0.6% in January 2024, the same rate as in January 2023.
- The largest upward contribution to the monthly change in both CPIH and CPI annual rates came from housing and household services (principally higher gas and electricity charges), while the largest downward contribution came from furniture and household goods, and food and non-alcoholic beverages.
- Core CPIH (excluding energy, food, alcohol and tobacco) rose by 5.1% in the 12 months to January 2024, down from 5.2% in December 2023; the CPIH goods annual rate slowed from 1.9% to 1.8%, while the CPIH services annual rate rose from 6.0% to 6.1%.
- Core CPI (excluding energy, food, alcohol and tobacco) rose by 5.1% in the 12 months to January 2024, the same rate as in December 2023; the CPI goods annual rate slowed from 1.9% to 1.8%, while the CPI services annual rate increased from 6.4% to 6.5%.

Annual CPI and CPIH inflation rate remained the same. CPIH, OOH component and CPI annual inflation rates for the last 10 years, UK, January 2014 to January 2024

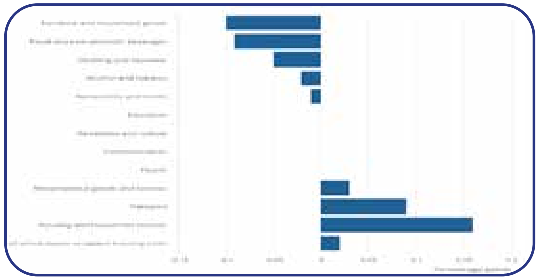
Annual inflation rate for food and non-alcoholic beverages eases for the 10th month in a row. CPIH, and food and non-alcoholic beverages annual inflation rates, UK, January 2014 to January 2024

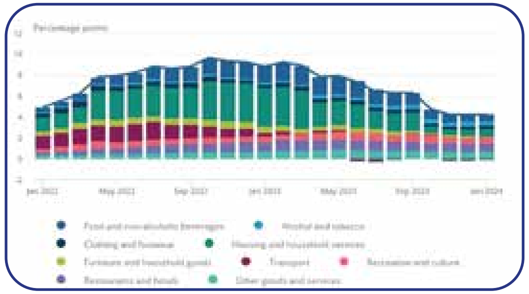




Annual inflation rate for motor fuels remains negative for the 11th month in a row. CPIH, transport and motor fuels annual inflation rates, UK, January 2014 to January 2024

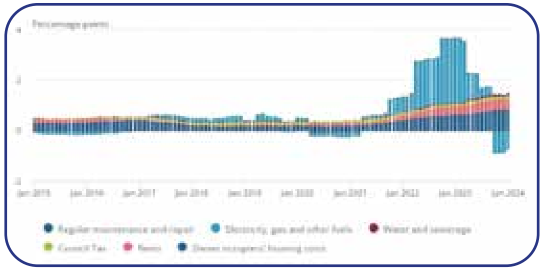
Housing and household services leads the upward contributions to the change in the annual CPIH inflation rate, mainly because of electricity and gas. Contributions to change in the annual CPIH inflation rate, UK, between December 2023 and January 2024

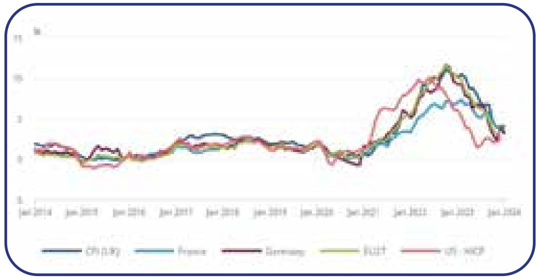




Restaurants and hotels, and housing and household services make the largest contributions to the annual CPIH rate. Contributions to the annual CPIH inflation rate, UK, January 2022 to January 2024

Contribution from owner occupiers' housing costs highest since at least January 2006. Contributions of housing components to the annual CPIH inflation rate, UK, January 2015 to January 2024





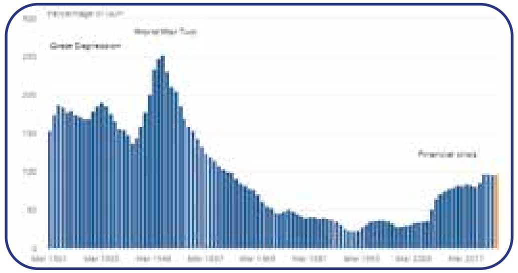
UK inflation is above that of France and Germany. CPI compared with selected G7 and EU annual inflation rates, January 2014 to January 2024

Public sector net borrowing was in surplus by £16.7 billion in January 2024

- Public sector net borrowing excluding public sector banks (borrowing) in January 2024 was in surplus by £16.7 billion, more than double the surplus of January 2023 and the largest surplus since monthly records began in 1993 in nominal terms.
- Each January tax receipts are always higher than in other months, owing to receipts from self-assessed taxes; combined self-assessed income and capital gains tax receipts were £33.0 billion, £1.8 billion less than a year earlier.
- Borrowing in the financial year-to-January 2024 was £96.6 billion, £3.1 billion less than in the same ten-month period a year ago; this is the first time in the present financial year that year-to-date borrowing has been lower than in the equivalent period in the last financial year, partly because central government receipts have been revised.
- Public sector net debt excluding public sector banks (debt) was £2,646.5 billion at the end of January 2024 and was provisionally estimated at around 96.5% of the UK's annual gross domestic product (GDP); this is 1.8 percentage points higher than in January 2023 and remains at levels last seen in the early 1960s.
- Excluding the Bank of England, debt was £2,417.6 billion, or around 88.1% of GDP, £228.9 billion (or 8.4 percentage points) lower than the wider measure.
- Public sector net worth excluding public sector banks was in deficit by £677.5 billion at the end of January 2024; this compares with a £576.5 billion deficit at the end of January 2023.
- Central government net cash requirement (excluding UK Asset Resolution Ltd and Network Rail) was in surplus by £19.5 billion in January 2024, a £1.4 billion lower surplus than in January 2023.

The last time there was not a January surplus was 2021, during the coronavirus (COVID-19) pandemic period. Public sector net borrowing excluding public sector banks, £ billion, UK, January 2021 to January 2024

At 5.0% of gross domestic product (GDP), the borrowing ratio in the financial year ending (FYE) March 2023 was around a third of that in FYE March 2021. Public sector net borrowing excluding public sector banks, percentage GDP, UK, (FYE) 1901 to FYE 2023



Net debt as a percentage of GDP is currently at levels last seen in the early 1960s. Public sector net debt excluding public sector banks, percentage of GDP, UK, financial year ending (FYE) 1921 to January 2024

Employee earnings rose 6.2% in 2023

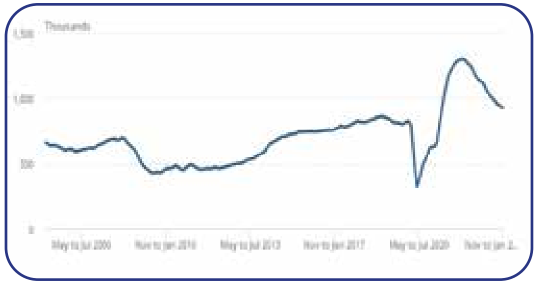
- Payrolled employees in the UK rose by 31,000 (0.1%) between November and December 2023 and rose by 401,000 (1.3%) between December 2022 and December 2023. While the number of payrolled employees continues to increase, the rate of annual growth is decreasing.
- The early estimate of payrolled employees for January 2024 increased by 48,000 (0.2%) on the month and increased by 413,000 (1.4%) on the year to 30.4 million. The January 2024 estimate should be treated as a provisional estimate and is likely to be revised when more data are received next month.
- Because of increased volatility of Labour Force Survey estimates resulting from smaller achieved sample sizes, estimates of quarterly change should be treated with additional caution and we recommend using them as part of our suite of labour market indicators alongside workforce jobs, claimant count data and Pay As You Earn Real Time Information estimates.
- The UK employment level for those aged 16 years and over is up both on the year and on the quarter. The UK employment rate (75.0%) for those aged 16 to 64 years remains below estimates a year ago (October to December 2022), but increased in the latest quarter. The UK unemployment rate (3.8%) for those aged 16 years and over decreased in the latest quarter, returning to the rate a year ago (October to December 2022).
- The UK economic inactivity rate (21.9%) for those aged 16 to 64 years was largely unchanged in the latest quarter but is above estimates a year ago (October to December 2022). The annual increase was driven by those inactive because they were long-term sick, which remains at historically high levels.
- The UK claimant count for January 2024 increased by 14,100 on the month and by 61,200 on the year to 1.579 million.
- In November 2023 to January 2024, the estimated number of vacancies in the UK fell by 26,000 on the quarter to 932,000. Vacancies fell on the quarter for the 19th consecutive period but are still above pre-coronavirus (COVID-19) pandemic

levels. The current sequence of quarterly falls in our vacancy estimates is the longest ever recorded, but has slowed in the latest period, with the smallest fall in the number of vacancies since May to July 2022.

- Nominal earnings growth remains strong, although it has eased a little in recent periods. Annual growth in total earnings (including bonuses) in Great Britain was 5.8% in October to December 2023, and annual growth in employees' average regular earnings (excluding bonuses) was 6.2%.
- Real pay growth continues as inflation continues to fall. Annual growth in real terms (adjusted for inflation using the Consumer Prices Index including owner occupiers' housing costs (CPIH)) for total pay rose on the year by 1.4% in October to December 2023, and for regular pay rose on the year by 1.8%.
- There were 108,000 working days lost in December 2023 because of labour disputes across the UK. The health and social work industry showed the most working days lost this month.

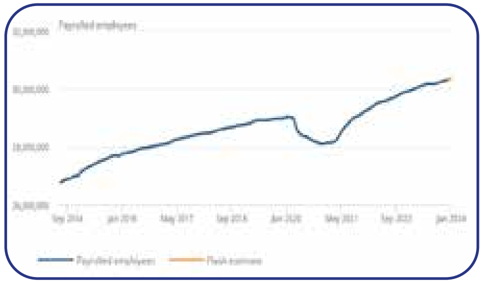
Annual growth in both total pay and regular pay (excluding bonuses) remains strong but below the record growth rates seen in recent months. Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to October to December 2023

Real earnings show a positive annual growth rate for December 2023. Real average weekly earnings single-month annual growth rates in Great Britain, seasonally adjusted, and CPIH annual rate, January 2001 to December 2023

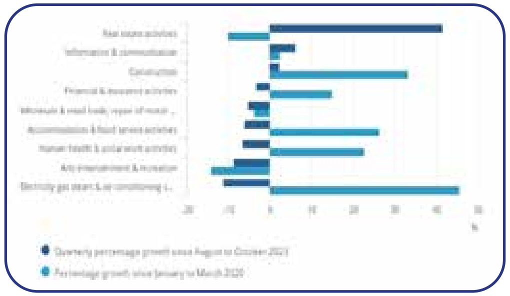


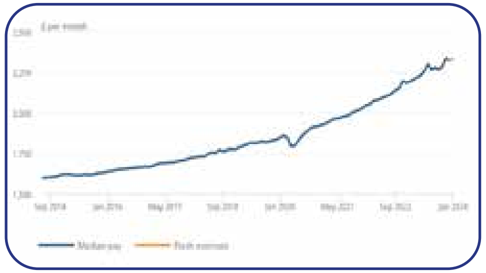
Vacancies for November 2023 to January 2024. The estimated number of vacancies fell on the quarter to 932,000. Number of vacancies in the UK, seasonally adjusted, November 2004 to January 2005 to November 2023 to January 2024

The number of employees declined between February and November 2020, but is now above pre-coronavirus (COVID-19) trends. Payrolled employees, seasonally adjusted, UK, July 2014 to January 2024

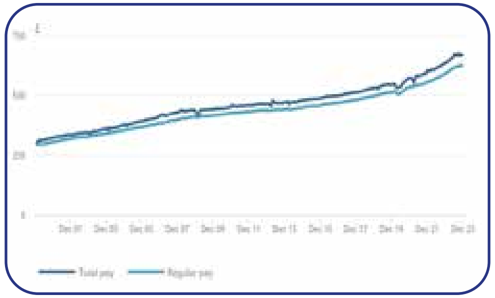


Most industry sectors showed declining numbers of vacancies on the quarter in November 2023 to January 2024. November 2023 to January 2024 three-month average vacancies in the UK, quarterly percentage growth from August to October 2023 and percentage growth from pre-coronavirus January to March 2020



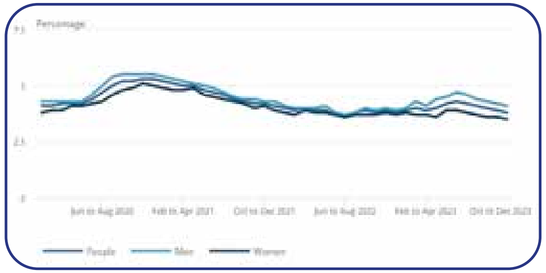


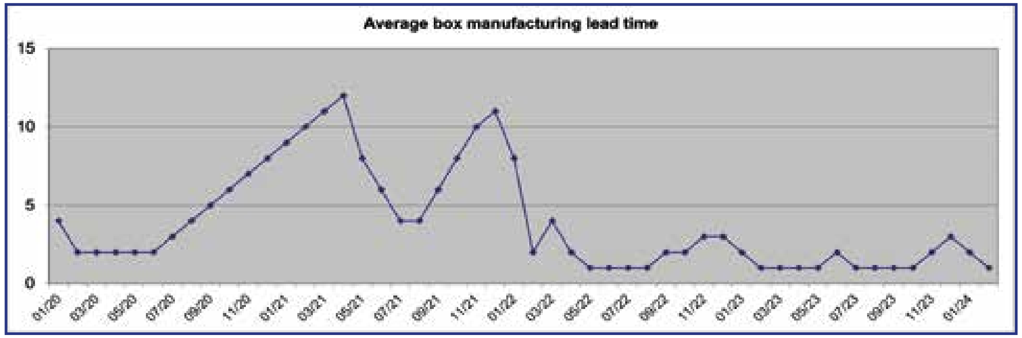
Median pay decreased sharply in April 2020, but has returned to the previous trend. Median pay per month, seasonally adjusted, UK, July 2014 to January 2024



Average weekly earnings for total earnings showed a steady increase over the long term. Average weekly earnings in Great Britain, seasonally adjusted, January 2000 to December 2023

Unemployment decreased from the previous quarter, returning to the same rate as a year ago. UK unemployment rates, people, men and women, seasonally adjusted, between December 2019 to February 2020 and October 2023 to December 2023

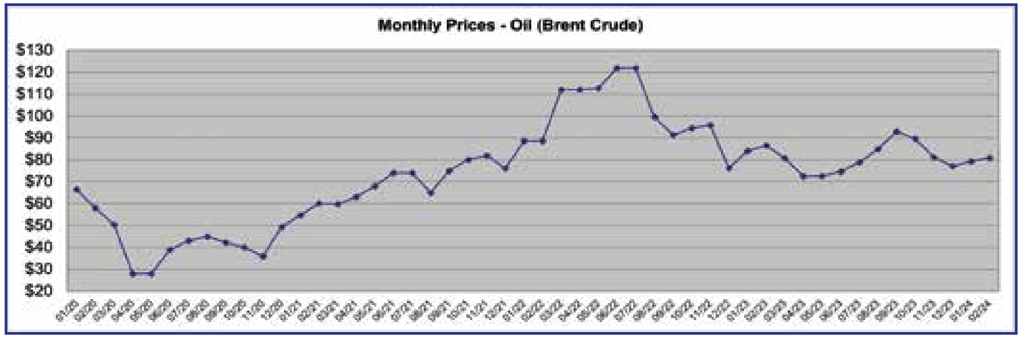



Average box manufacturing lead time


Monthly Prices - Kraft

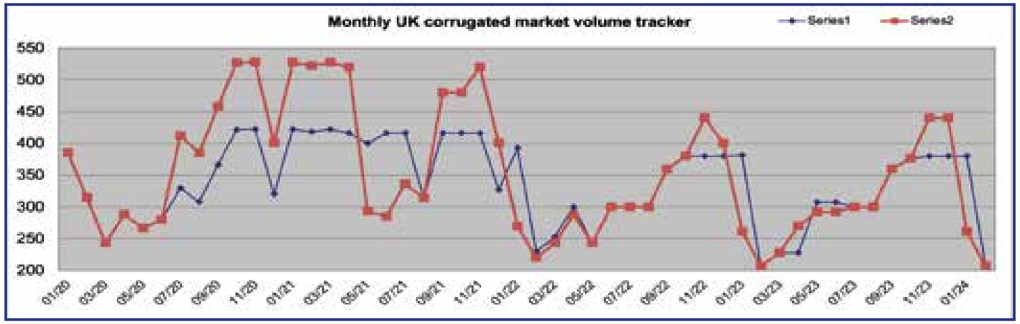

OCC price / tonne


Monthly Prices - Test 3


Monthly Prices - Oil (Brent Crude)


Monthly Prices - W/B Fluting


Monthly Prices - Euro:Pound


Monthly UK corrugated market volume tracker
Series1
Series2

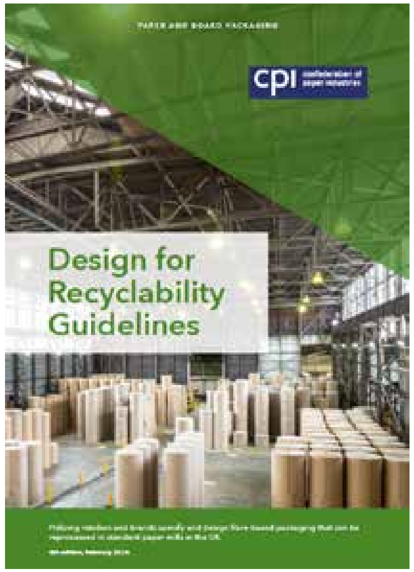
The Design for Recyclability Guidelines, an initiative by the Confederation of Paper Industries (CPI), continues to play a leading role by setting standards and shaping the future of fibre-based packaging products.

Originally introduced to provide direction and encourage resource-efficient recycling of fibre-based packaging products, the fourth edition of the Guidelines builds upon the success of the previous publications. It marks a significant step forward towards a circular economy, and drawing on practical experience and expertise from the Paper Industry it reaffirms CPI's commitment to enhancing the recyclability of fibre-based packaging.

In the latest publication, the Guidelines aim to inspire the next generation of packaging products and technological progress. The policy section has been thoroughly reviewed to reflect current developments, while a comprehensive overview of the different sources of contamination provides insights to improve the quality of recyclate. Feedback from external stakeholders and industry experts was invaluable and further promoted dialogue to drive sustainable practices across the sector.

This fourth edition encourages packaging designers and specifiers to limit non-paper components in new products to 5% of the pack weight, a recommendation designed to complement other guidance within the document. While ambitious, this design target reflects advancements in fibre-based packaging technology, and it is not a strict determinant of recyclability; each packaging product requires individual assessment.

For this purpose, and as a result of the upcoming legislative changes and innovation in material development, CPI has created a separate entity, Papercycle, an automated recyclability assessment tool, which provides a robust and comprehensive system tailored for fibre-based products and materials. Since its official launch nearly a year ago, Papercycle has become an invaluable tool in product development, removing the uncertainty faced by brands and manufacturers on the recyclability of their products.



Dimitra Rappou, Executive Director – Sustainable Products at CPI, said: *"Our commitment to promoting the sustainability agenda within the fibre-based packaging industry remains steadfast with the release of the fourth edition of the Design for Recyclability Guidelines. By prioritising innovation and collaboration, we are setting the parameters for future packaging design and sustainable packaging practices, while also inspiring the next generation of packaging solutions."*

Commandeered Movie Quote: "I'm afraid I can't do that" **Hal, 2001: A Space Odyssey**

From my perspective in the city, I was struck by the findings of the latest Bank of England Agents' summary of business conditions. The outlook from the Bank's research coal face is positive and will have an impact on the corrugated sector over the next couple of years.

The publication summarises intelligence from the Bank's Agents considered by the Monetary Policy Committee (MPC) at its March meeting. The intelligence was gathered in the six weeks to mid-February. The Agents' analysis generally represent developments over the past three months compared with the same three months a year ago.

Falling inflation and an up-tick in optimism – contingent on interest rates / financing costs following suit – are driving expectations of recovery among Agents' contacts. This is consistent with the MPC's expectation of a gradual pickup in GDP growth over the next two or three years.

Manufacturing output continues to fall slightly compared to a year ago as enquiries fail to become orders. But contacts are budgeting for a slow recovery during 2024. Weak construction activity means subdued demand for building products, steel, timber, yellow goods, and chemicals. Production of durable consumer goods remains weak while food and drink output is flat overall.

Output growth remains strong in the aerospace and defence sectors supported by demand from the US and to a lesser extent Asia (excluding China). Growth in nuclear and renewables-driven production remains solid, as does that for oil and gas-related activities, though to a lesser extent.

Consistent with the expectations of retailers, producers of food, drink and consumer goods anticipate some recovery in demand this year. This optimism is shared by producers of capital and intermediate goods, though is rather more contingent on reductions in the cost of finance materialising.

Retailers expect consumption in quarter one to remain weak, though they expect demand beyond then to improve for both goods and services. This is reflected in food, drink, and consumer goods producers' anticipation of some recovery in demand from around the summer. Exporters expect growth in services exports to continue and for goods exports growth to turn positive later in 2024.

In an encouraging note for the long-term health of the economy, investment intentions are more positive than in recent months. Capital and intermediate goods producers expect some pickup in demand later in the year. An expected increase in business transactions should result in a modest increase in demand for discretionary business services. Although recovery in commercial real estate activity (and supporting services) and construction is expected to come later than most other areas, likely late 2024 / early 2025; here, contacts expect sentiment and activity to turn only after monetary policy becomes less restrictive.

The period of relative weakness in demand we've seen is leading to a mild loosening in the labour market (though it is still tight by historical standards). Recruitment continues to get easier for most. Some businesses have started to move away from labour hoarding due to a loosening in the labour market. Expected pay settlements for 2024 remain broadly in line with those from the pay survey described in the February MPR.

Contacts report the same price dynamics as in recent rounds. Consumer price inflation continues to moderate, with services inflation moderating more slowly than for goods, reflecting the high labour content in services prices. Indications are that Red Sea disruption is having only a limited impact on retail prices so far.

What does this mean for you guys in the corrugated sector? The Bank of England's assessment is key:

- Prices are falling and will hit the 2% target by May.
- The labour market is loosening, and wage settlements are lower so far this year.
- Hence, interest rate reductions are on the cards this summer. This will help to feed into gently rising consumer optimism, which in turn will lift manufacturing out of contraction. Rising manufacturing output in 2025 means increasing corrugated demand. The box market will remain incredibly tough, but at least the headwind of shrinking demand will abate, which is important for a volume sensitive business like yours.