

SMARTER PERSPECTIVE: FORESTRY

Examining the Intricacies of the Evolving Pulp and Paper Industry: Q2 2026

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For decades, the pulp and paper business followed a fairly predictable script. Demand rose with population and economic activity, mills ran at steady rates, and the product mix of newsprint, office paper and packaging shifted only gradually. That stability started to break down in the early 2000s as digital communication began to displace the use of paper for newspapers, periodicals, promotions and advertising. According to data from the American Forest & Paper Association, printing and writing grades once made up close to 30% of U.S. capacity; today they account for little more than 10%.

The mill closures that followed were significant, particularly in regions that had long depended on the industry. What's happening now, however, is more complicated. The industry isn't just shrinking in certain geographic areas, but is actively reshaping itself in a market that has become more cyclical, more consolidated, and less forgiving of misaligned assets.

Packaging Demand

Packaging has been the clear growth engine for the better part of the last decade. Containerboard and corrugated products moved to the center of the industry as e-commerce expanded and supply chains became more complex. Today, packaging represents the majority of U.S. paper and paperboard capacity,



according to recent industry data.

The past couple of years, however, have introduced a reality check for packaging. According to the Fibre Box Association, box shipments have now slowed to levels last seen around 2016. And this pullback isn't just about a slowing economy. It reflects a mix of post-pandemic normalization, inventory corrections, and quieter but more structural changes in how packaging is being used.

While it is true that companies are shipping fewer goods than they were at the peak of the pandemic, they are also using less material per shipment. That's because packaging has become more efficient—lighter, better designed, and less wasteful. It is very important to take note of the fact that these efficiencies don't just reverse when volumes recover, which means demand shouldn't be expected to snap back the way it might

have in earlier cycles. As a result, what we see is a segment with solid long-term fundamentals that still finds itself dealing with short-term oversupply. Mills that were running flat out two years ago are now facing margin pressure and, in some cases, downtime.

Capacity

The industry has responded to the slowdown, but the approach today looks different than it has in past downturns. Capacity is still coming out of the system. Total U.S. paper and paperboard capacity has drifted lower again, landing in the high-70 million ton range in 2024, based on AF&PA survey data. At the same time, operating rates have held up reasonably well, which suggests producers in this market are being more deliberate about how they manage output.

Instead of waiting for losses to accumulate,

for example, companies have been quicker to idle machines, take downtime, or close higher-cost facilities. Some older paper machines have been converted to packaging, where it makes sense. Others have simply been retired.

Consolidation has also changed the dynamic. A smaller group of large, integrated producers now controls a greater share of capacity, and they tend to act earlier in the cycle. That doesn't eliminate volatility, but it does seem to be limiting the kind of prolonged oversupply that defined earlier periods.

Assets

Now, perhaps more than ever before, there is a widening disparity between new and old mills. Newer facilities tend to be larger, more automated, and more integrated into downstream operations. They run with tighter cost structures and can adjust more easily to shifts in product mix. Older mills, especially those built around a single grade or lacking integration, have a harder time competing, particularly when volumes soften.

There has also been a noticeable shift in fiber usage. Recovered fiber plays a much larger role in packaging than it once did, for both cost and environmental reasons. At the same time, mills are paying closer attention to energy. Biomass and cogeneration systems are becoming more common, not just to manage costs but to meet customer expectations around emissions and sustainability. These differences matter because they show up quickly when the market turns. In a weaker demand environment, the most efficient assets keep running. The rest become candidates for curtailment or closure.

Supply Chain

The changes in pulp and paper are being felt well beyond the mills themselves. For many years, pulp mills provided a steady outlet for low-grade wood and sawmill residuals. When that demand weakens as a result of closures or curtailments, it has a direct impact on timber markets. In some regions, landowners have had to lean more heavily on sawtimber sales tied to construction, simply because pulpwood

demand isn't what it used to be.

This, in turn, introduces a different kind of exposure. As we have discussed in many of our market update articles over the years, housing activity now plays a larger role in the economics of the fiber supply chain. When construction slows, sawmill output drops. This, in turn, reduces the supply of wood chips that pulp mills rely on. It is important for a lender to understand that this can tighten fiber availability and push up costs, even when demand for finished products is under pressure.

With all this in mind, the key takeaway here is that we are dealing with a much more interconnected system than in the past, and that interconnectedness can more readily amplify swings on both the upside and the downside of the market.

Sustainability

As touched on briefly earlier in this article, there is no question that sustainability is playing a role in shaping the direction of the industry. Fiber-based packaging is gaining ground in applications where plastic once dominated, and there's a continued and steady push from both regulators and large consumer companies to find alternatives that are easier to recycle or source responsibly.

That said, this shift is happening more gradually than many would like. Largely because both cost and performance are of paramount importance. In many cases, enabling these transitions requires paper-based solutions that need to match or come close to the durability and barrier properties of plastic, which has often been difficult to achieve. While progress is being made, it has tended to occur in small increments rather than step changes. Over time, however, these developments are likely to further expand the role of fiber in packaging and other materials.

Lender Considerations

The industry is definitely settling into a different rhythm. As graphic paper continues to fade, packaging remains the core growth area, and capital is increasingly being directed toward assets

that can operate efficiently across a range of conditions. The sector is likely to keep adjusting by closing or repurposing older capacity, investing selectively in newer facilities, and actively responding to shifts in demand as they happen.

For asset-based lenders, the dispersion in performance across the industry suggests that added emphasis should be placed on consideration of a borrower's end market when assessing underwriting risk. A converter supplying food and beverage customers or large e-commerce platforms is likely to typically show more stable order patterns and receivables performance than one tied to industrial or discretionary goods. Those types of differences should factor into how borrowing bases are structured in the current market.

Asset quality is equally important, but it needs to be evaluated in regard to operating terms, not just replacement cost. A newer, integrated mill with on-site converting or a diversified product mix tends to maintain utilization even when volumes soften. By contrast, a single-machine facility producing a narrow grade (especially in legacy paper) can see utilization fall off quickly.

We believe inventory also now requires closer scrutiny than in some prior cycles. In packaging, for example, inventories can build quickly when box demand slows, and pricing can adjust faster than expected. Lenders should pay close attention to turnover trends by product type, not just aggregate levels. Stress-testing borrowing bases against both volume declines and modest price erosion is also highly advisable.

Fiber sourcing is another variable that tends to show up late in a downturn but matters early in underwriting. Mills with consistent access to low-cost fiber (whether through ownership, long-term supply agreements, or proximity to sawmill residual flows) are generally able to better maintain margins. When supply is more exposed to spot markets or regional imbalances, cost volatility can compress earnings quickly, which in turn affects fixed-charge coverage and liquidity. The overall pulp and paper market over the last decade has performed differently

depending on the region. Specifically, mills located in the Pacific Northwest of the U.S. and Canada have struggled to maintain costs as state/province regulations have driven up the cost of fiber. While not immune to market conditions, mills in the southern part of the U.S. have benefited comparatively from cheaper fiber and labor, and fewer regulations.

It is also worth paying close attention to maintenance capital requirements. Some industry facilities, particularly older ones, require ongoing investment just to maintain baseline operating rates. When cash flow tightens, that spending can be deferred, but only temporarily. Over a longer period, underinvestment tends to show up in lower uptime and higher operating costs, which can quickly erode collateral performance.

Lastly, the current environment is creating a steady pipeline of transition financing opportunities. While mill conversions, packaging line upgrades, and recycled fiber investments are all capital-intensive, they are also often tied to assets that are more closely aligned with actual demand. These situations can be attractive from a lending perspective, but demand a clear view of associated execution risk based upon factors such as timelines, cost overruns, and ramp-up assumptions— as these tend to be where hopeful projections often diverge from executional reality.

Conclusions

Packaging remains the core of the industry, but recent shipment data makes it clear that it is not immune to cyclical swings. When volumes pull back, the impact shows up quickly in mill utilization, pricing, and working capital. At the same time, the long-term shift away from graphic paper continues, which means older assets tied to those grades are unlikely to regain relevance moving forward.

What has changed over the past several years is how quickly these dynamics play out. Producers are acting earlier to idle or close capacity, and larger operators are more disciplined about managing



supply. That has helped prevent prolonged oversupply, but it also means weaker assets tend to be exposed faster.

For lenders and investors, the practical takeaway is that asset selection matters more than broad industry exposure. Two facilities in the same sector can perform very differently depending on their cost structure, product mix, and customer base. Understanding those differences at the asset level, rather than relying on industry averages, is critical.

The industry will continue to adjust, but the path forward is unlikely to be uniform. Some assets will continue to run at high utilization and attract capital. Others will face ongoing pressure as demand shifts away from what they produce. The gap between those outcomes is where most of the opportunity, and risk, exists. With this in mind our team continues to advise thorough diligence as well as frequent intervals of valuation monitoring in the year ahead. We welcome the opportunity to assist in those efforts or answer any questions you may have pertaining to new opportunities or existing exposure within your portfolio. We are here to help.

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