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Paper

FIRST *Survey*

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#13

Prospective
insight for
the global
paper industry

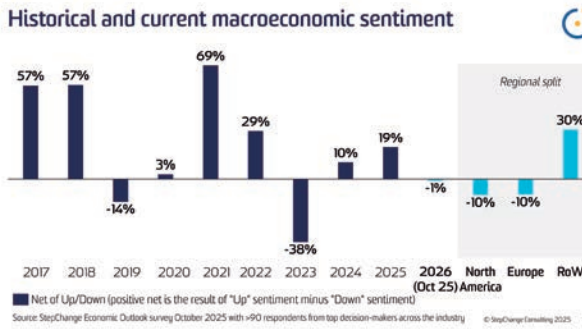
Global industry faces economic and AI challenges

Article by *StepChange Consulting*

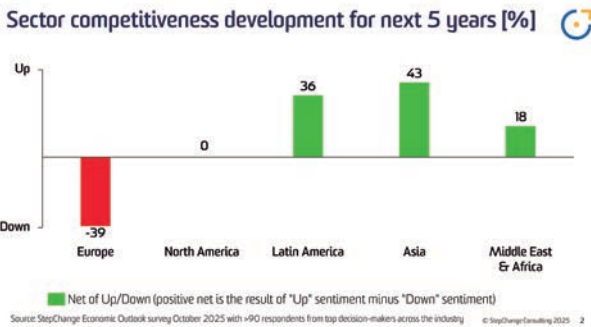
The StepChange Economic Outlook Study for October 2025, titled «Confidence Descends – AI Ascends,» presents a comprehensive view of an industry at a critical inflection point.

Based on a survey of nearly 100 senior decision-makers from the global forest products sector (encompassing pulp, paper, packaging, tissue, and converting), the report paints a picture of waning economic confidence, a strategic pivot towards efficiency, and the nascent but dominant rise of artificial intelligence as the central force for future transformation. As the industry prepares for 2026, it does so with a sense of realism and caution, navigating persistent geopolitical tensions, cost pressures, and an uneven global landscape, all while attempting to harness the potential of digital technologies.

A WEAKENING GLOBAL ECONOMIC SENTIMENT



Slide 1



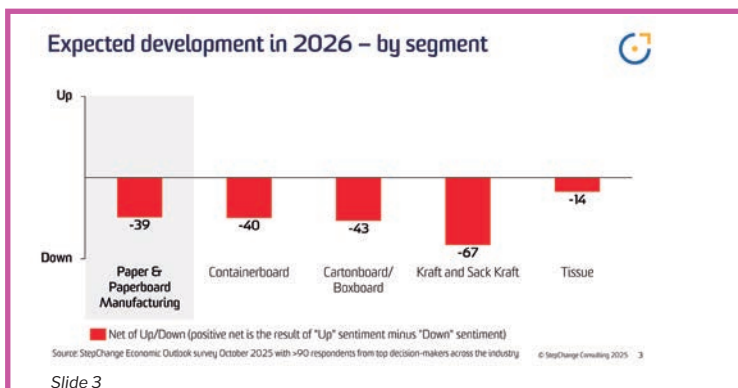
Slide 2

The most striking finding of the report is the sharp reversal in overall economic sentiment. The net sentiment across all regions has plummeted to **-1%**, a significant 20-percentage-point drop from the 19% average recorded throughout 2025, as vividly illustrated in the historical and regional data presented in **Slide 1**. This decline is not uniform, however, revealing a clear geographical divergence. North America and Europe are the epicenters of pessimism, both registering a net sentiment of **-10%**. This marks a reversal of the slowly improving outlooks witnessed over the preceding two years. In contrast, the «Rest of the World» (RoW) category, which includes Asia, Latin America, and the Middle East & Africa, displays a notably positive outlook of **+30%**. This regional split is further emphasized when respondents assess future industry competitiveness over

the next five years, detailed in **Slide 2**. North America presents a paradox: its macroeconomic sentiment is among the weakest, yet its perceived sector competitiveness is neutral, suggesting a state of uncertainty rather than outright despair. Europe, on the other hand, faces a dual challenge, combining the most negative economic outlook with the weakest perception of its future competitiveness. Meanwhile, Latin America and Asia are clearly seen as the regions gaining competitive ground, signaling a shift in global industry dynamics towards emerging markets. The general expectation is not of a sharp contraction, but rather of economic stagnation, with over half of the respondents anticipating their regional economies to move sideways over the next twelve months—a stance reflecting resilience amidst challenging circumstances marked by trade uncertainties and political developments, particularly concerning U.S. tariffs.

A DIVIDED INDUSTRY OUTLOOK FOR 2026

The sector-specific outlook for 2026 is fragmented, underscoring the varying challenges and opportunities across different segments, a divergence clearly mapped out in **Slide 3**. At a high level, 40% of respondents expect an upward trend or a peak for their sector, while a smaller but significant 5% foresee a decline. This balance indicates underlying concerns about overcapacity, cost pressures, and shifting demand patterns.

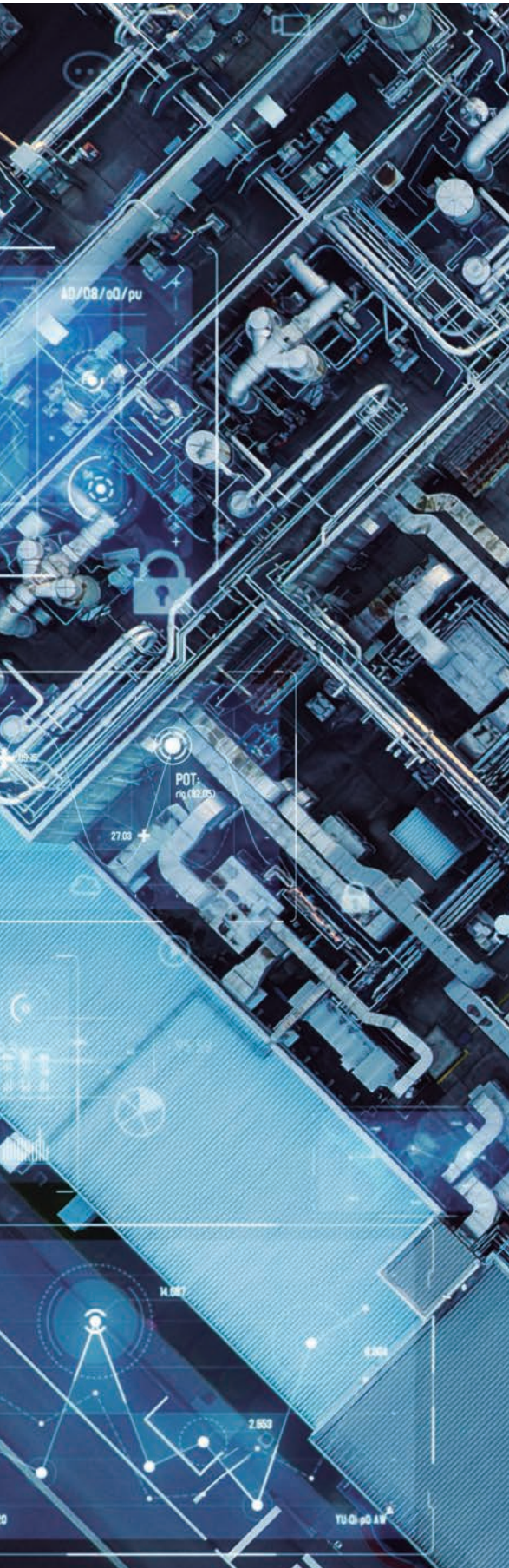


Slide 3

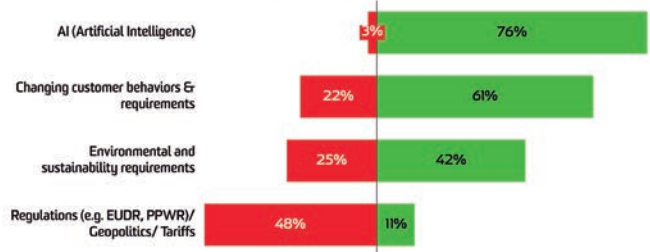
Delving deeper, the Paper & Paperboard Manufacturing segment exhibits a predominantly negative sentiment. Most respondents anticipate either a downturn or a trough, with limited confidence in a short-term recovery. Within this segment, Boxboard is unanimously viewed as having bottomed out, existing in a trough. The Tissue sector is seen as trending downward, while Containerboard sentiment is split but leans pessimistic, with a majority expecting a downturn. Graphic papers continue their well-documented structural decline, and Specialty papers face mixed expectations.

In stark contrast, the Converting segment stands out for its relative optimism and strong momentum. A majority of respondents here expect continued growth, with a notable share believing the segment has not yet reached its peak. This points to a more forward-leaning and hopeful sentiment within converting operations. Overall, the industry appears to be stabilizing at lower levels rather than poised for a broad rebound, a trend corroborated by the report's financial analysis.

The B3NCH publication, which analyzes nearly 100 public companies, shows that EBITDA margins declined across all peer groups in the first half of 2025, albeit from high levels. The Pulp sector saw the sharpest drop, returning to 2023 levels after a previous spike. Tissue and Flexibles were more resilient. Notably, Packaging margins compressed despite revenue growth, feeding into the cautious outlook. Net profit figures showed selective improvement in Pulp and Tissue, with Tissue leading all segments, while Graphic Paper posted a net loss, reinforcing its challenging position.



Expected influence of key industry drivers



Note: "No influence" & "Don't know" answers not visualized
 Source: StepChange Economic Outlook survey October 2025 with >90 respondents from top decision-makers across the industry © StepChange Consulting 2025 5

Slide 5

STRATEGIC DRIVERS: THE ASCENDANCY OF AI AND THE WEIGHT OF COSTS

The survey identifies the key factors expected to shape the industry over the next five years. As Slide 5 powerfully demonstrates, Artificial Intelligence emerges as the undisputed front-runner, with an overwhelming 76% of respondents viewing its influence as positive. It ranks highest as a long-term driver and leads as the most frequently mentioned short-term trend. This consistency underscores that AI is perceived as critically relevant both immediately and for the future, primarily associated with automation, process optimization, and data-driven decision-making. Digitalization and Industry 4.0 follow closely behind, reinforcing the central role of technology in the industry’s transformation.

Other positive drivers include changing customer behaviors and requirements, indicating that market adaptation remains a key developmental path. Sustainability, however, sits in the middle of the rankings; it remains on the agenda but is positioned below technology-related areas, reflecting a shift in immediate focus. On the negative end of the spectrum, cost-related factors dominate. Energy costs and fiber costs are viewed as the two most challenging influences, highlighting the sector’s enduring sensitivity to input prices. New capacity additions are also rated clearly negative, as respondents associate them with pressure on pricing and profitability—a concern particularly acute in the containerboard sector. Slide 5 also confirms that Tariffs and Geopolitics remain significant external headwinds, with 48% of respondents viewing their influence as negative.

In the short term, the trend analysis reinforces this narrative. AI, Digitalization, and Mergers & Acquisitions (M&A) are the leading



upward trends. Conversely, most cost elements, along with demand and pricing, are trending downward, pointing to a difficult economic situation for many. This aligns with the view that M&A and consolidation are seen as positive for the industry, while organic capacity expansion is viewed negatively.

CORPORATE PRIORITIES: OPERATIONAL STABILITY OVER TRANSFORMATION

In response to this environment, companies are prioritizing operational stability and financial performance. The historical progression of these priorities is tracked in **Slide 4**. When asked about their priorities for Q1 2026 and beyond, Profit and Margin Management top the list, followed closely by Cost Reduction at 63%. Cash Flow and Working Capital Management have also gained importance since the last survey, indicating a tightening focus on liquidity.

A critical finding is the gap between the recognition of AI as a major trend and its position as a corporate priority. AI ranks

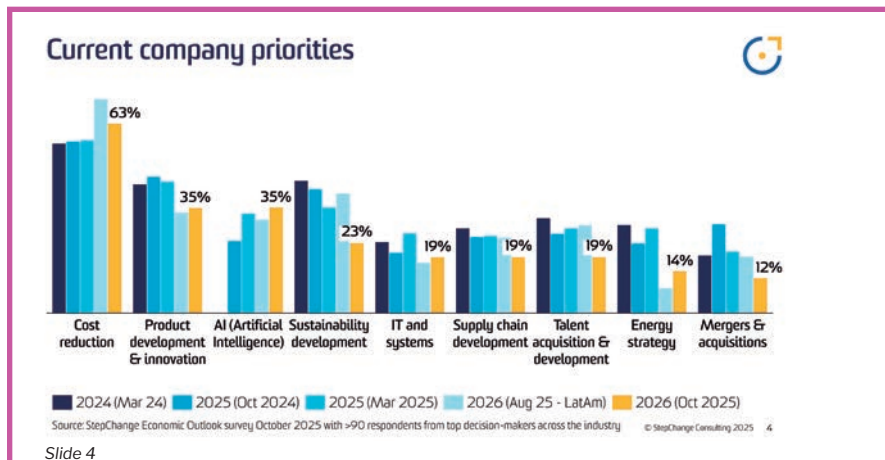
sixth on the priority list at 35%, situated in the middle. This suggests that while AI is widely acknowledged as a transformative force, it has not yet been widely translated into concrete, short-term strategic initiatives for many companies. Similarly, Sustainability Development has continued to lose ground, dropping significantly to become a medium priority. Talent Acquisition and Development has also seen a sharp decline to 19%, a trend that could backfire when growth returns. Workforce Reduction, while increasing slightly, remains a low priority, and Diversity is consistently at the bottom of the list.

Regional differences in priorities are telling. North American respondents place a stronger emphasis on top-line growth, digital transformation, customer experience, and innovation. European and RoW respondents, in contrast, are more focused on cost efficiency, operational optimization, supply chain resilience, regulatory compliance, and risk management. This suggests that North America is strategically positioning to accelerate transformation, while Europe is in a more defensive mode, concentrating on protecting margins and core operations.

ARTIFICIAL INTELLIGENCE: RECOGNIZED POTENTIAL, LIMITED PROGRESS

The report dedicates significant attention to the industry’s relationship with AI. Respondents generally view AI as a positive development. The perception of AI is evolving; as shown in **Slide 6**, it is increasingly seen as a revolution, particularly in North America, with a growing percentage of respondents believing it will «revolutionize our industry» compared to the previous year.

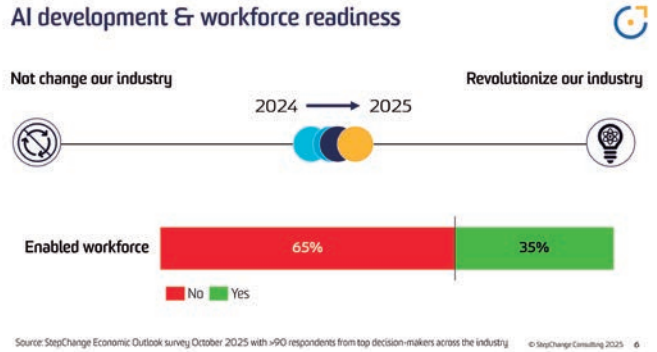
Despite this recognition, implementation remains at an early stage. Only 49% of respondents industry-wide report having AI implemented across their business or in pilot projects, with North America slightly ahead at 55%. The most relevant AI applications are those centered on efficiency and core processes: Automation of back-office tasks, Predictive Maintenance, Customer Analytics, and Demand Forecasting lead the way. Applications like Quality Control, Supply Chain Management, and Energy Optimization are in more selective use, while creative or product development uses are largely unexplored.



Slide 4

A significant barrier to broader adoption is workforce readiness. As critically highlighted in **Slide 6**, a substantial **65% of respondents believe their workforce is not fully prepared** to effectively use AI-enabled systems. This is a universal challenge across all regions. The early stage of integration naturally limits practical experience, underscoring the need for parallel development of technological capabilities and human skills.

Regarding AI's impact on employment, respondents have a nuanced view. AI is seen as most capable of replacing operational and expert roles, particularly those involving routine and analytical tasks. Management is perceived as the most resilient group, though a small percentage believe even leadership functions could be largely replaceable. This creates a clear hierarchy of perceived vulnerability: operational staff first, followed by experts, and then management.



Slide 6

SUSTAINABILITY: A PAUSED AGENDA WITH FUTURE PROMISE

Sustainability presents a paradox in the 2025 outlook. It has experienced a notable decline as a current corporate priority, yet most respondents expect it to gain focus over the next two to three years. Regional differences are modest, with North American respondents slightly more optimistic about its growing importance than Europeans. However, the pace of the energy transition remains uneven, with Europe generally seen as more advanced compared to North America.

On the topic of material substitution, the report indicates that plastic substitution continues to face significant hurdles. The main barriers are identified as price, technical properties, and regulation, rather than a lack of infrastructure or will, suggesting that economic and performance factors are the primary constraints.

CONCLUSION: NAVIGATING A CAUTIOUS FUTURE

In summary, the StepChange Economic Outlook for October 2025 depicts a global forest products industry entering 2026 with lowered expectations and heightened caution. Confidence has descended sharply in the traditional powerhouses of North America and Europe, while emerging markets in Asia and Latin America are viewed as the new engines of competitive potential.

Artificial Intelligence has unequivocally ascended as the dominant narrative for the industry's future, seen as the key long-term driver and hottest short-term trend. However, this recognition has yet to fully translate into widespread implementation or top-tier strategic priority, with workforce readiness being a critical constraint. The current corporate focus is squarely on survival and stability—managing margins, controlling costs, and preserving cash—often at the expense of longer-term initiatives like sustainability, talent development, and diversity.

The industry is prepared for a challenging year, «prepared for the worst and without high expectations.» Success in this environment will be determined by a company's ability to navigate persistent geopolitical and cost pressures while simultaneously accelerating the adoption of AI and digital technologies. The companies that can most effectively balance strict operational and cost discipline with strategic investment in technology and innovation will be the ones to shape the next level of competitiveness in the evolving global forest products sector.

The full study can be downloaded here: <https://stepchange.com/publications>