

Bull trap?

Pessimistic industry outlook drives operational focus. Cautious approach to AI.
Results from StepChange Economic Outlook Survey – Fall 2024



[Economy up but Industry not profiting](#) | [Demand and prices expected to decline](#) | [Transport costs expected up](#) | [Companies prioritize operational topics over long-term strategic topics](#) | [Geopolitics continued topic of concern](#) | [AI opportunities may be underestimated](#) | [Sustainability without returns](#)

This is based on the economic outlook study conducted in October 2024 amongst more than 100 top managers and decision makers in the wider forest products industry (pulp, paper, packaging, tissue), including participants of the 2024 Fastmarkets International Containerboard Conference. Of all the respondents, more than 1/3 are in C-level positions and 37% in other top level managerial roles.

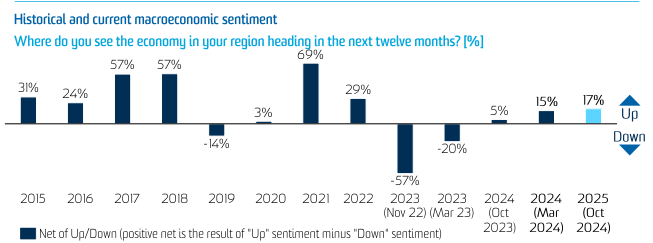
The objective of this survey is to assess sentiment concerning macroeconomic expectations for 2025, along with trends and priorities in the corporate sector. The second section of the survey focuses on digitalization, artificial intelligence, and sustainability. StepChange has conducted this survey bi-annually for more than 15 years, which puts the results into a long-term perspective.

Highlights of the study

- Optimism net-positive and continues to increase since low in November 22 study
- Sustainability, M&A, Digitalization and AI are major positive trends
- Declining prices, customer demand uncertainty, and reduced financing availability are major fields of concern
- Short-term focus on cost reduction, margin management, and restructuring
- Restructuring and cash flow are gaining importance, reflecting economic pressures
- Businesses see benefits from digitalization in productivity and cost reduction
- There is widespread uncertainty around AI's strategic importance and return on investment
- Sustainability is increasingly integrated into corporate strategies
- Geopolitical tensions remain an increasing concern

Industry-specific skepticism despite optimistic overall economic outlook

The latest survey results revealed a more tempered outlook on the overall economy compared to March. While 54% of respondents expect the economy to remain stable, the overall net trend continues to be slightly positive (17%), a barely higher level than earlier this year [see Figure 1].



*Date in brackets signifies date of survey response collection – responses concern following year

Figure 1: Macroeconomic development

The specific expectations for the pulp, paper, and packaging sector have declined during 2024. The study conducted in March revealed that 53% of participants anticipated an upward trend. This figure has since deteriorated, with only 49% now expecting growth in 2025.

A significant degree of uncertainty remains, as more than 40% of respondents foresee a downturn. This skepticism is particularly pronounced in the paper and paperboard sector, where 49% predict a decline [see Figure 2].

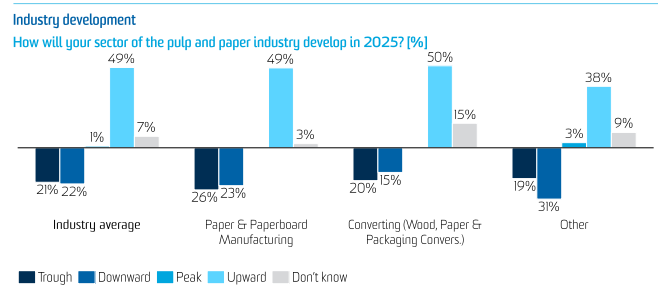


Figure 2: Outlook on industry segment development

The positive expectations from the March survey were also confirmed in H1 financial results. According to the H1-2024 results from the StepChange B3NCH publication, which analyzes the financial performance of almost 100 publicly listed companies across various segments, there was a recovery in key profitability indicators compared to 2023 [see Figure 3].



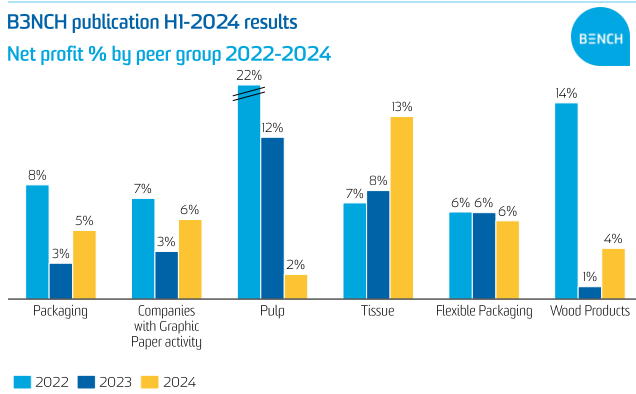
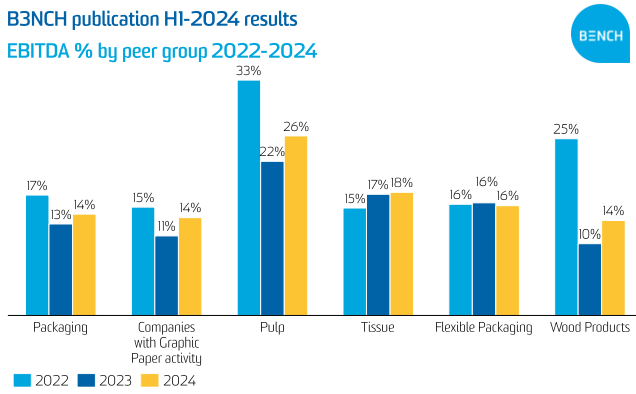


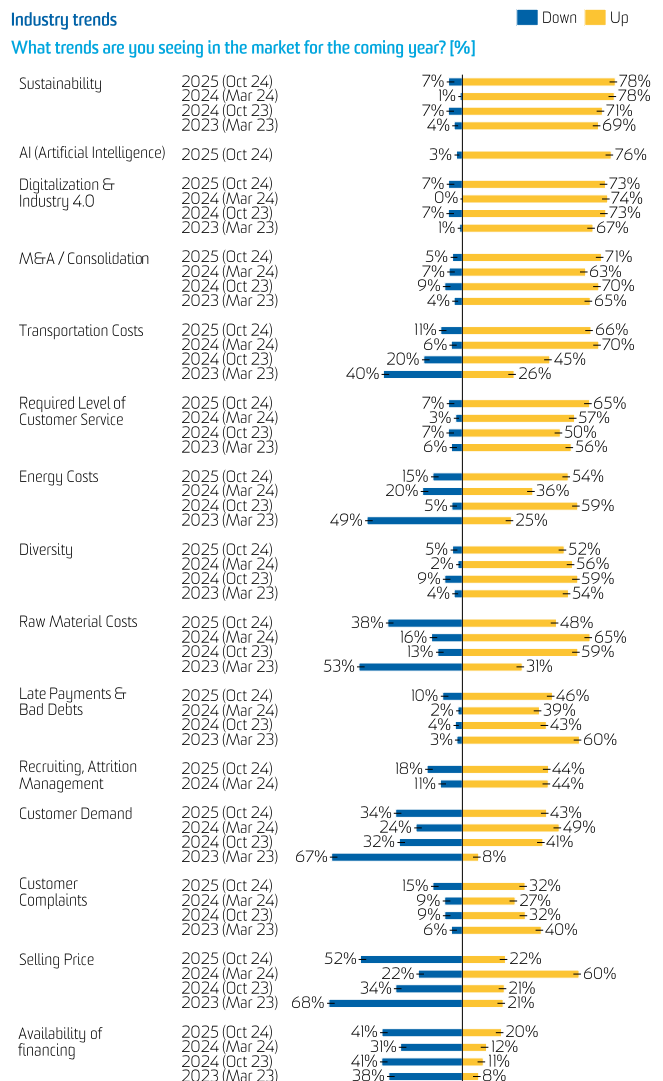
Figure 3: 2022-2024 EBITDA & Net profit % by B3NCH peer group

Most peer groups reported improved EBITDA% and Net profit% following a challenging 2023. Notably, the Tissue peer group achieved the highest net profit percentage overall, while the Wood peer group showed the most substantial improvement. In contrast, the Pulp peer group is experiencing ongoing challenges in 2024. All but pulp and the flexible packaging sector showed an increase in both KPIs [see Figure 3].

New trends shaping the industry

Current market trends point to significant shifts across various areas, with a clear increasing emphasis of Sustainability, M&A, Digitalization, and the rise of AI (explicitly included in survey for the first time) alongside negative trends such as declining prices, customer demand and the decreasing availability of financing.

A closer look at the responses reveals some challenges on the horizon. Selling prices are broadly expected to decline, and customer demand remains uncertain, with 34% predicting a decrease, 43% an increase, and 23% expecting no change [see Figure 4]. This mixed outlook contributes to a more cautious industry sentiment than in March 2024.



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Figure 4: Industry trends

Very notable is the increase of M&A when analyzing responses over a five-year period. This trend is underscored by the actual M&A developments in the industry.

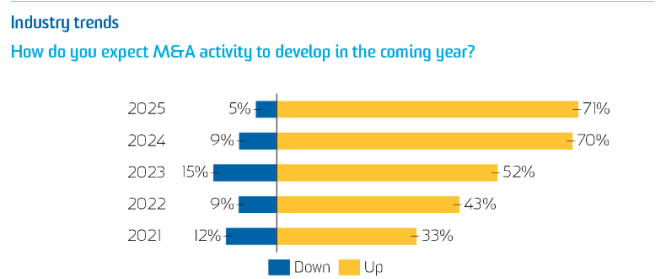


Figure 5: Development of M&A

Shift in company priorities

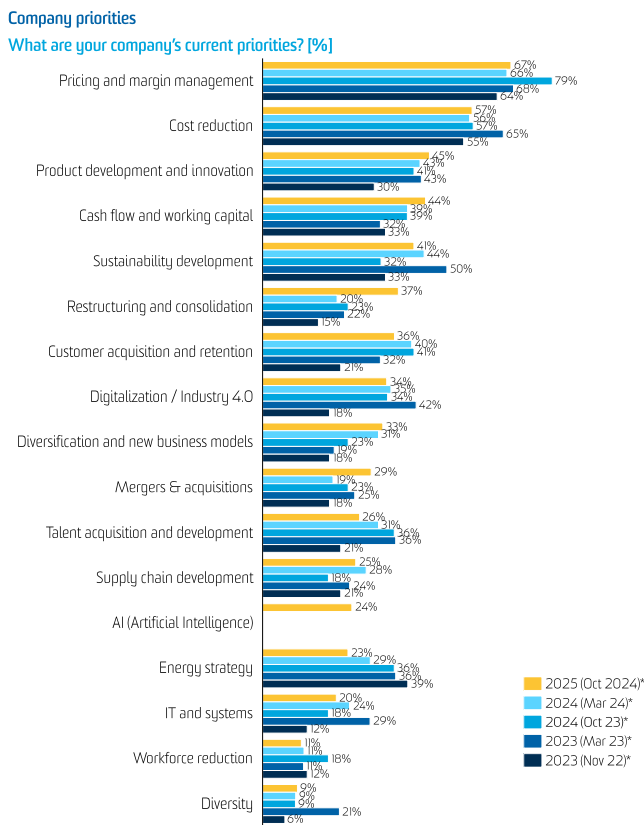
Current company priorities were also surveyed. The top responses remained consistent with previous years, focusing on pricing and margin management, as well as cost reduction [see



Figure 6]. The most significant shift in company priorities is the increase in restructuring and consolidation rising to 37%, up from 20% in March 2024.

In addition, there was a notable shift with cash flow and working capital rising in importance, with over 40% of respondents indicating it as their current priority. Interestingly, while mergers and acquisitions (M&A) and artificial intelligence (AI) are often highlighted as major industry trends [see Figure 4], they ranked lower on the list of immediate company priorities – the focus remains on mostly operational topics.

This discrepancy between focus areas and perceived industry trends suggests that companies are currently prioritizing actions that deliver short-term results, such as improving margins and reducing costs over strategic initiatives.



*Date in brackets signifies date of survey response collection – responses concern following year

Figure 6: Historical comparison of current priorities

The study focused further on examining the main (positive and negative) drivers influencing the industry over the next five years. Notably, changing customer behaviors and requirements emerge as the most significant positive driver, with 80% of respondents anticipating a positive influence [see Figure 7]. This suggests that adapting to evolving customer needs will be crucial for companies aiming to thrive amid industry and economic uncertainty.

Digitalization and AI are both expected to positively shape the industry over the next five years. Although many see AI as having a clear positive influence, only one fourth of respondents note it as a priority. This skepticism may stem from the relative novelty of AI in the industry, while Digitalization, having been established for longer, has already demonstrated its value and proven its effectiveness over time.

Conversely, respondents also highlighted several factors that are expected to exert a very negative influence on the industry. Competition for energy cost and legislation (58%), and fiber costs (62%) were seen as key concerns in addition to new capacities (52%),

Industry drivers

What influence do you expect these drivers to have on the industry in the next 5 years? [%]

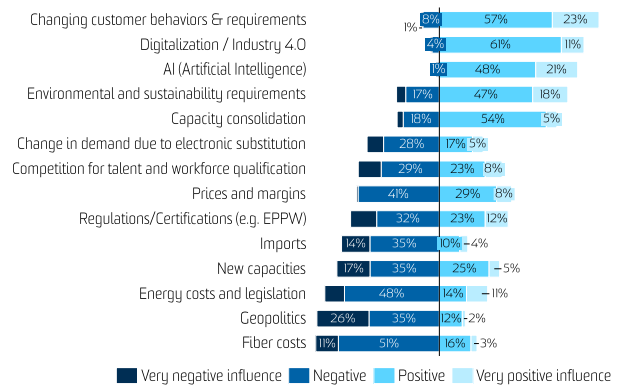


Figure 7: Main drivers and influence expectations

Geopolitical factors are perceived to have the most detrimental impact, with 61% of respondents expecting them to heavily negatively influence the future of the industry [see Figure 7]. Upon asking participants how current geopolitical tensions are affecting their companies, the response was clear. The survey results show that most companies are already feeling the strain, with the average response indicating that geopolitical challenges are having a notable negative impact on their business [see Figure 8].

Geopolitics

The current geopolitical tensions impact our company...



Figure 8: Geopolitical impact

Overall, the alignment of current company priorities with anticipated industry drivers reveals a cautious approach, as businesses focus on actions that deliver immediate benefits—such as margin enhancement and cost reduction—rather than fully engaging with the transformative trends that are shaping the industry's future – including AI to support strategic agendas and how to deal with surplus capacity.



Digitalization and AI: Trend awaiting focus

Consistent with previous studies, this survey included a section on the current state and perceived benefits of digitalization, with new questions focusing on the use of artificial intelligence (AI) for the first time.

The results show that businesses expect the greatest benefits from Digitalization in areas like productivity and cost reduction. Interestingly, however, only 23% link digital initiatives to improved sustainability and environmental footprint [see Figure 9]

Digitalization

Please select the areas where you expect the highest benefits from Digitalization / Industry 4.0 for your business?

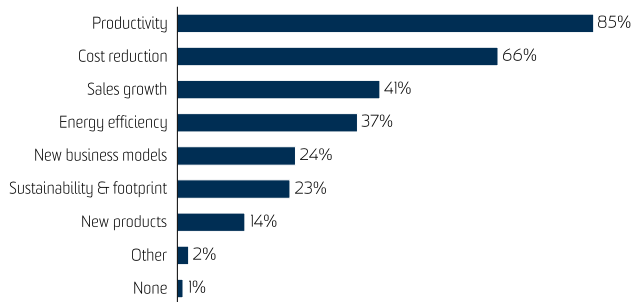


Figure 9: Expected benefits from digitalization

In spite of most respondents indicating that they are already halfway through their digital roadmap [see Figure 10]. AI initiatives are yet to be piloted [see Figure 11]. Less than 45% of respondents across industries indicated that they are currently engaged in AI projects, which aligns with a prevailing sense of skepticism about AI's potential to revolutionize their industry [see Figure 12].

Digitalization

The status of our digitalization strategy is...

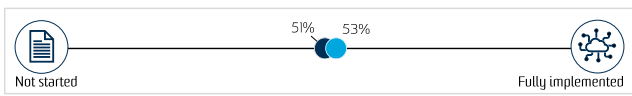


Figure 10: Digitalization strategy status

AI (Artificial Intelligence)

We currently leverage AI to the extent of...

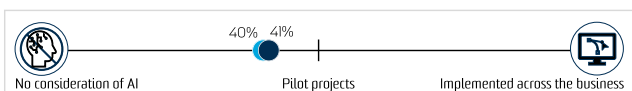


Figure 11: AI implementation status

This suggests that, while most recognize AI as a trending topic, the industry-specific perception is more conservative, especially when it comes to AI being a strategic priority [see Figure 6]. This might be due to a lack of clear, industry-specific applications or uncertainties surrounding the tangible benefits of AI implementation. The current cautious approach AI may also

reflect a lack of broad-based awareness about potential use cases and the immediate return on investment in a time cost consciousness.

Considering the tremendous speed of change in AI and the increasing availability of practical use-cases, the industry's current perception and approach may turn out to be too conservative.

AI (Artificial Intelligence)

Artificial Intelligence will...

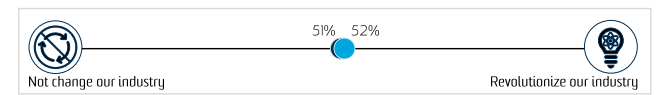


Figure 12: Impact of AI on the industry

Sustainability –competitive advantage but no returns

The development of sustainability continues to be a survey focus as the topic is an integral part of the industry. While sustainability is still expected to have a major positive impact in the coming years [see Figure 7], it has moved down in priority on company's agendas [see Figure 6].

Despite ongoing industry and economic challenges, companies continue to make progress and strengthen their commitment to sustainability. With each survey, a growing number of respondents report having a well-defined sustainability strategy and improved ability to monitor their environmental footprint [see Figure 13].

Sustainability

Please indicate if you agree to the following statements concerning sustainability and footprint in your organization

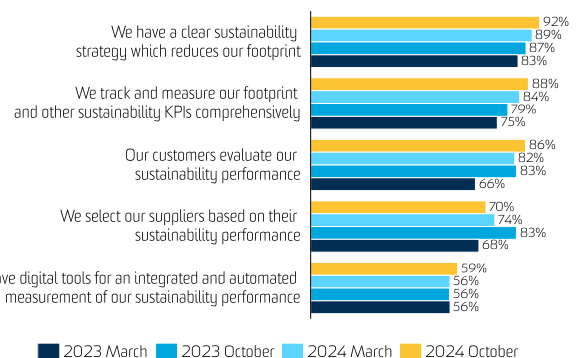


Figure 13: Sustainability strategy perception

Despite having a critical role in facilitating and monitoring sustainability efforts and KPIs, digitalization remains an underutilized domain. Only 59% of respondents indicate the deployment of tools that support integrated and automated tracking of sustainability performance.



Fewer respondents seem to prioritize supplier selection based on their sustainability performance. This shift reflects the broader trend, where cost reduction and pricing might be prioritized over sustainability in some instances in the current economic climate [see Figure 6]. The survey average of 70% further indicates that sustainability strategies are in an advanced stage of implementation [see Figure 14].

Despite extensive sustainability efforts and well-defined strategies, respondents indicate a strong dependency on fossil fuels. Scoring 59% on the fossil fuel to 100% renewable energy continuum, the score has remained more or less on the same level as in prior surveys indicating either flatlining or the fact that such changes will require time—[see Figure 15].

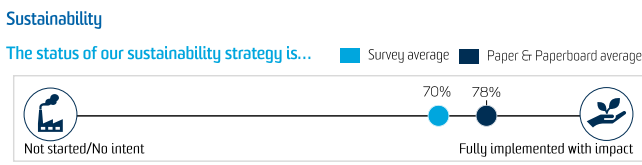


Figure 14: Sustainability strategy status

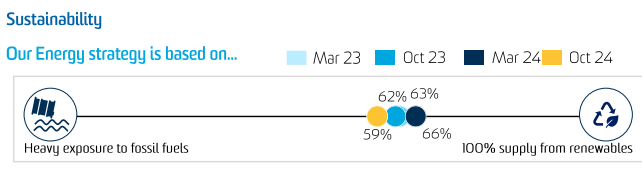


Figure 15: Energy strategy [% of Renewable energy planned to be used]

The survey also explored how companies perceive their sustainability strategies and the benefits that they deliver [see Figure 16]. The primary benefit seems to be the competitive advantage they can provide. There was a notable shift in the perception that sustainability strategies enhance appreciation from financial markets, as the perceived benefit surged by 6pp. However, this appreciation by financial markets is least likely to turn into financial returns. Only 19% of respondents believe that the industry's sustainability advantage can directly be turned into profits.

In the current study, significantly fewer respondents indicated that a sustainability strategy attracts talent compared to prior surveys. This suggests that sustainability as a differentiator may have been commoditized rather than a unique selling point of the industry [see Figure 16]. Alternatively, it may also be in line with the low priority talent acquisition and development currently receive [see Figure 5].

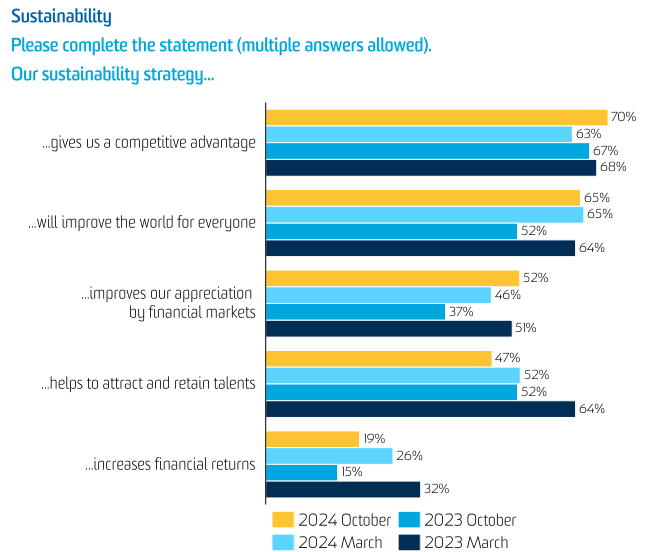


Figure 16: Benefits of increasing sustainability

In conclusion, while sustainability remains a central focus, shifting market conditions are reshaping how companies prioritize and implement their strategies.

Summary: Challenges & opportunities ahead

While the economic outlook is cautiously optimistic and net-positive, perceptions deteriorated since March 2024.

- Mixed industry outlook– while most respondents expect an upward trend, some are still predicting a downturn in 2025
- Pricing and margin management, cost reduction and product development and innovation take central focus as company priorities
- No clear consensus on where customer demand will develop in 2025
- Customer behaviors and digitalization are expected to be a major positive driver of future industry development
- Concerns regarding geopolitical tensions are exacerbating
- AI is seen as a major trend, however, but not as a current company priority

The sentiment appears to be net-positive; however, perspectives remain divided due to the prevailing economic environment. While prices and demand are anticipated with a cautious outlook, numerous macroeconomic uncertainties persist, particularly concerning escalating geopolitical tensions and ongoing supply chain disruptions. Although these factors are expected to pose ongoing challenges, the industry has demonstrated increased resilience in response to the various crises experienced over the past four years.





About StepChange Consulting

StepChange is an industry focused and independent management consulting company with a proven track record in supporting clients to achieve sustainable value. StepChange provides support to top tier organizations in the industry from strategy development to implementation of operational improvements.

StepChange is further an industry thought leader in digital strategy and on the forefront of bringing digital transformation to the fiber value chain.

With an international team of industry experts StepChange will hit the ground running. StepChange provides innovative and yet pragmatic solutions, placing an emphasis on delivering measurable business results.

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