Confidence descends – AI ascends

Industry enters 2026 with caution, shifting focus from growth expectations to efficiency
Results from StepChange Economic Outlook Industry Study – Autumn 2025

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CONSULTING

Confidence weakens | Growth expectations stall | Asia and Latin America gain ground | Boxboard bottoms | Containerboard with hope | Converting optimistic | Tissue negative | AI momentum builds | Workforce readiness lags | Geopolitics still weigh | Sustainability paused | Tariffs – no-one wins

This publication presents insights from the Economic Outlook Survey conducted in October 2025, gathering responses from close to 100 senior decision-makers across the forest products industry – including pulp, paper, packaging, tissue, and converting. The participants represent a diverse geographic mix, primarily from North America and Central Europe, including attendees of the 2025 Fastmarkets Forest Products North America and International Containerboard Conference. More than 40% of respondents hold C-level positions, with an additional 30% in other senior management roles.

The survey explores macroeconomic expectations and strategic priorities shaping corporate agendas into 2026. A dedicated section delves into the growing influence of artificial intelligence (AI) – which is increasingly central to industry transformation. Conducted bi-annually by StepChange for over 15 years, the survey offers a valuable long-term perspective on evolving trends and executive sentiment.

Highlights of the study

- Economic sentiment drops from 19% to -1%
- North America remains neutral in competitiveness outlook
- Asia and Latin America, seen as the regions clearly gaining competitiveness in the next five years
- Europe shows negative economic outlook and weakest sector confidence
- Trends: AI leads, but workforce readiness lags
- Company Priorities: Margin and cost control top priorities; AI #6
- Different priorities and trends by region – AI & Digitalization stronger in North America, Cost focus in Europe/RoW
- Diversity lowest priority among respondents
- Tariffs and geopolitics remain key concerns, with improving sentiment on tariffs
- Sustainability-focus drops, fossil fuel reliance remains high
- Plastic substitution faces hurdles – price, technical properties, and regulation seen as main barriers

North America at a crossroads: Weak outlook, uncertain competitiveness

After two years of slowly improving outlooks, the trend is now reversing. The net sentiment across all regions now stands at -1%, a notable drop from the 19% average seen throughout 2025 [See Figure 1]. North American and European respondents have the most pessimistic outlook, both with a net sentiment of -10%, while the Rest of the World (RoW) has a rather positive outlook of +30%.

More than half of the respondents expect their regional economies to move sideways over the next twelve months, pointing to stagnation rather than contraction. Considering ongoing global trade uncertainties and recent political developments - particularly around U.S. tariffs - this neutral stance may reflect a cautious but resilient outlook under challenging circumstances.

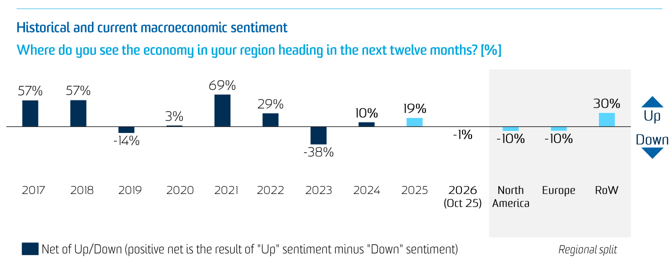


Figure 1: Macroeconomic development

Survey respondents were also asked to assess regional industry competitiveness over the next five years. For North America the macroeconomic sentiment is among the weakest, while views on sector competitiveness are neutral [See Figure 2], suggesting uncertainty rather than outright pessimism. This disconnect may reflect mixed signals in policy, investment, and market dynamics.

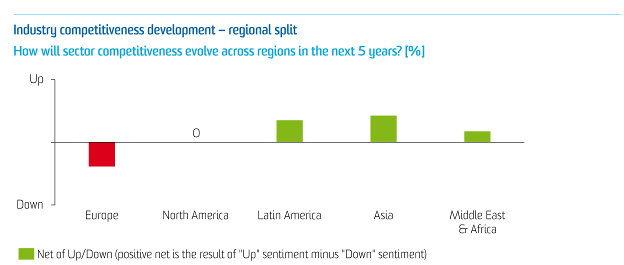


Figure 2: Industry competitiveness development by region

Europe, on the other hand, has the most negative sentiment in combination with the weakest macro-economic outlook.

Meanwhile, Latin America and Asia are seen as gaining ground, pointing to growing confidence in their competitive potential. Middle East & Africa also show modest optimism.

The results highlight a shift in industry expectations: emerging markets are gaining momentum, while Europe faces challenges with economic stability and sector competitiveness.

Industry outlook for 2026

Looking ahead to 2026, industry sentiment remains divided.

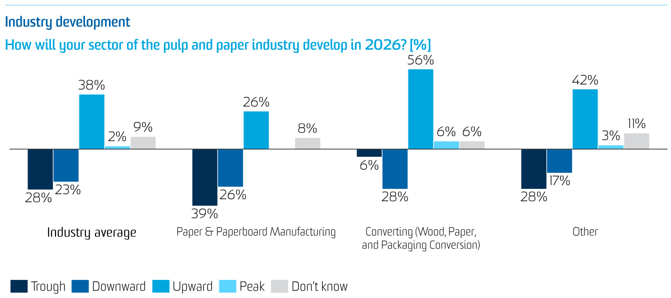


Figure 3: Outlook on industry segment development

A combined 40% of respondents expect upward movement or a peak – with 38% anticipating growth and 2% expecting a peak [See Figure 3]. In contrast, 51% foresee some form of decline, split relatively evenly between those predicting a downturn and those expecting a trough. This balance reflects ongoing concerns about overcapacity, cost pressures, and shifting demand patterns.

In Paper & Paperboard Manufacturing, the outlook is predominantly negative, with most respondents anticipating either a downturn or a trough. Only a minority expects conditions to improve, suggesting limited confidence in short-term recovery within this segment.

Compared to other areas of the industry, Converting stands out for its relatively strong momentum and more optimistic outlook. Most respondents expect continued growth, and a notable share indicates that the segment has not yet reached its peak. This points to a more forward-leaning sentiment, with expectations of further development still ahead.

Looking deeper into the Paper and Paperboard sectors, sentiment is clearly tilted to the negative [See Figure 4]. Most respondents expect further decline or stagnation, with only a small share seeing room for recovery. Boxboard is unanimously negative but seen in a trough.

Tissue is seen as trending down. Containerboard remains split but leans downward, graphic papers continue to face structural decline, specialty with mixed expectations.

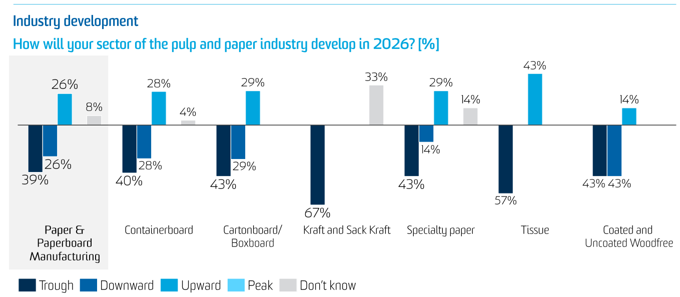


Figure 4: Outlook on the Paper & Paper Manufacturing segment

Overall, the outlook points to stabilization at lower levels rather than a broad rebound, as the industry adjusts to persistent demand and cost pressures. The StepChange B3NCH publication, which analyzes the financial performance of nearly 100 publicly listed companies, provides useful context for interpreting these expectations.

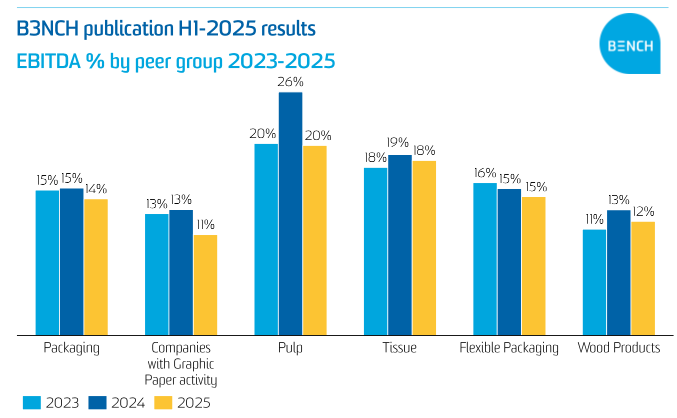


Figure 5: 2023-2025 EBITDA% by B3NCH peer group

EBITDA margins declined across all peer groups in H1 2025, although levels remain high [See Figure 5]. Pulp saw the sharpest drop, falling back to 2023 levels after last year's spike. Tissue and Flexibles were more resilient, showing only modest declines. In Packaging, margins compressed despite revenue growth, contributing to a more cautious outlook.

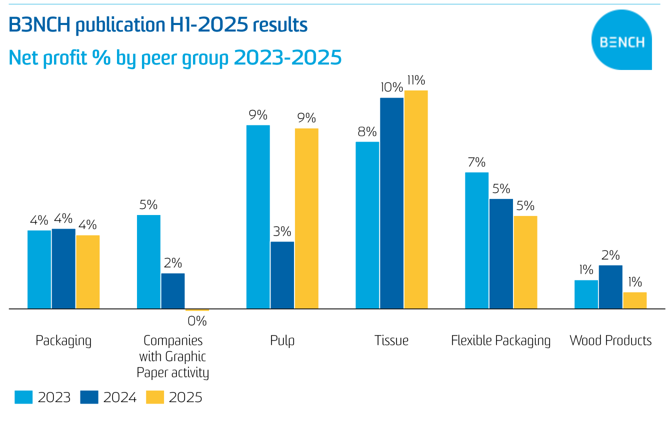


Figure 6: 2023-2025 Net profit % by B3NCH peer group

Net profit% improved in Pulp and Tissue, with Tissue continuing to lead all segments [See Figure 6]. Graphic Paper posted a net loss, reinforcing its structural decline. While some segments showed selective improvement, margin pressure and uncertainty remain key themes across the industry.

Industry Drivers: From growth to efficiency while impacted by geopolitics and tariffs

Moving beyond macroeconomic developments and industry expectations, the survey highlights the key factors respondents believe will shape the sector over the next five years and the trends expected to dominate in the year ahead.

Artificial intelligence is the clear front-runner across both charts. It ranks highest as a five-year driver and leads as the most frequently mentioned short-term trend. The consistency of its position suggests that respondents see AI as relevant both now and in the longer term, reflecting ongoing interest in automation, process optimization, and data-based decision-making. Digitalization follows closely, appearing among the top-rated factors in both perspectives and reinforcing the importance of technology in the industry's current transformation [See Figure 7].

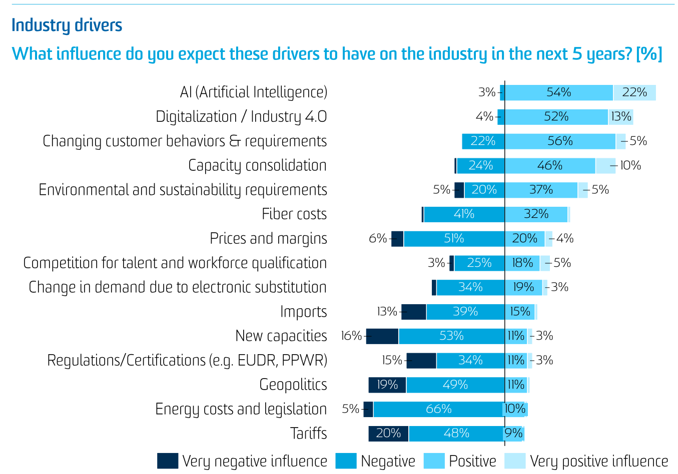


Figure 7: Main drivers and influence expectations

Customer behavior and market demand shifts also appear high among the positive drivers. Respondents continue to view adaptation to changing customer requirements as an important part of the industry's development path. Sustainability, by contrast, sits near the middle of the rankings. It remains a visible part of the agenda but is positioned below technology-related areas.

Meanwhile, new capacity additions are rated clearly negative in the five-year outlook, indicating that respondents associate additional supply with pressure on pricing and profitability. This especially applies to respondents from the containerboard sector.

Cost-related factors dominate the negative end of the five-year drivers [See Figure 7].

Energy and fiber costs are viewed as the two most challenging influences, reflecting the ongoing sensitivity of the sector to input costs. Tariffs and geopolitics follow, both positioned among the main external headwinds that could continue to affect trade and investment confidence. The perception of these two factors is almost equally negative across the different world regions including North America.

Near term trends: Technology up, costs, demand and pricing down

AI and Digitalization lead the short-term trends in conjunction with M&A [See Figure 8]. Most cost elements with downward trend. Costs, availability, demand and pricing are all down, pointing to a difficult economic situation for many sectors.

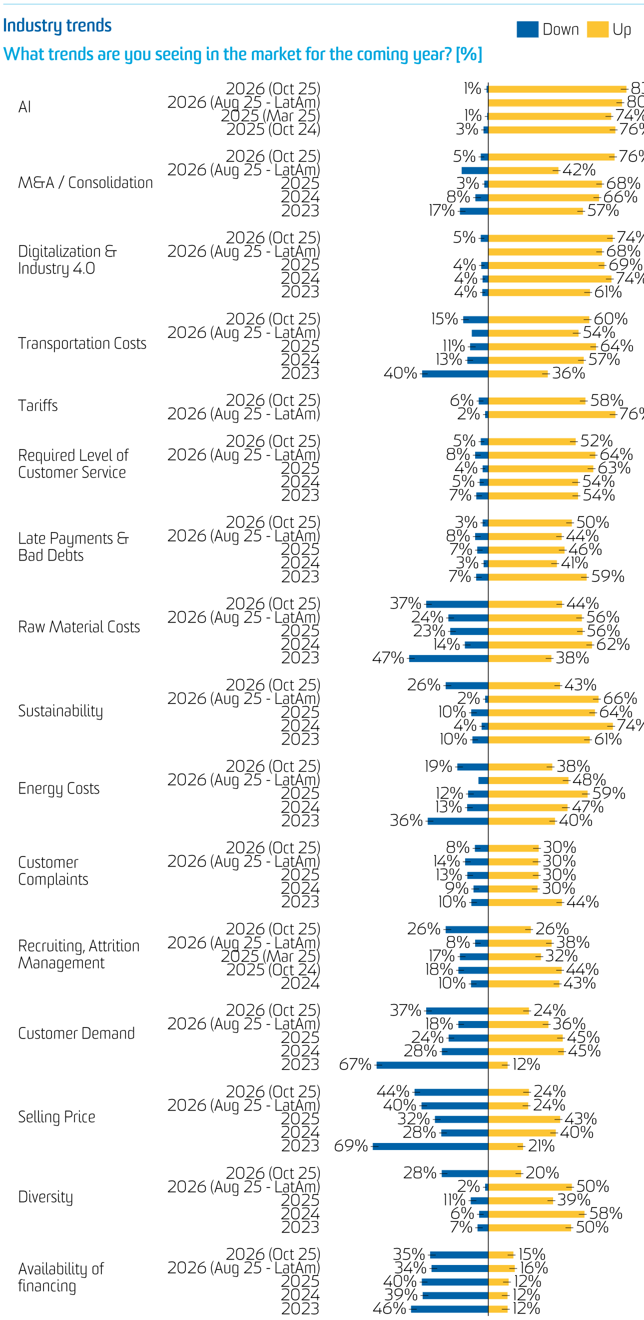


Figure 8: Industry trends

At the lower end of the trends, workforce and diversity related topics are seen as moving down in importance. Their low scoring suggests that respondents currently see these factors as less influential in shaping near-term developments.

Looking deeper into regional differences it is evident in how trends are perceived [See Figure 9]. While both regions agree on the importance of AI and Digitalization European respondents place stronger emphasis on energy sustainability, cost efficiency, and circularity, reflecting regulatory pressure and mature market dynamics. In contrast, North American participants highlight product innovation, and new business models as key growth levers. The divergence suggests that while global priorities are converging around transformation and efficiency, regional market structures and policy contexts continue to shape how these shifts are prioritized.

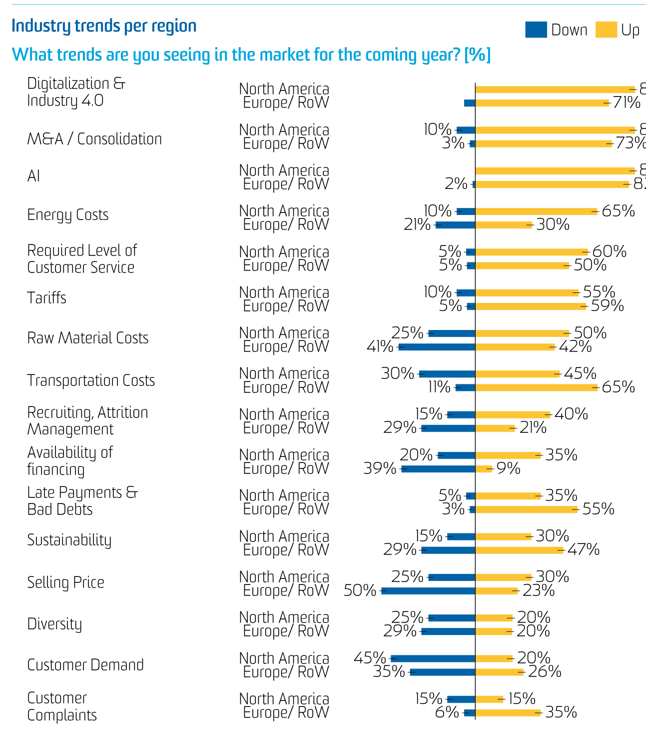


Figure 9: Industry trends by region

Survey respondents continue to view both tariffs [See Figure 10] and geopolitical tensions [See Figure 11] as negative influences. Most consider tariffs as having an adverse impact on their companies, with few indicating any positive effect. North America is slightly more positive than average with a score of 41%.

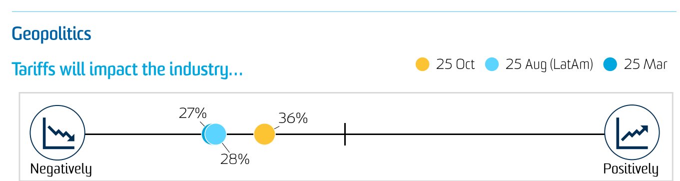


Figure 10: Impact of tariffs

Geopolitics are equally expected to negatively affect the industry across all regions even if European respondents see it more negatively than North American counterparts. While the intensity of concern appears to have eased slightly both issues remain firmly on the list of key external pressures shaping business conditions.

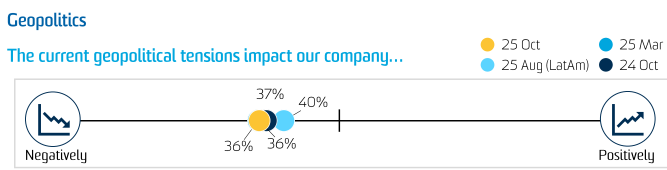


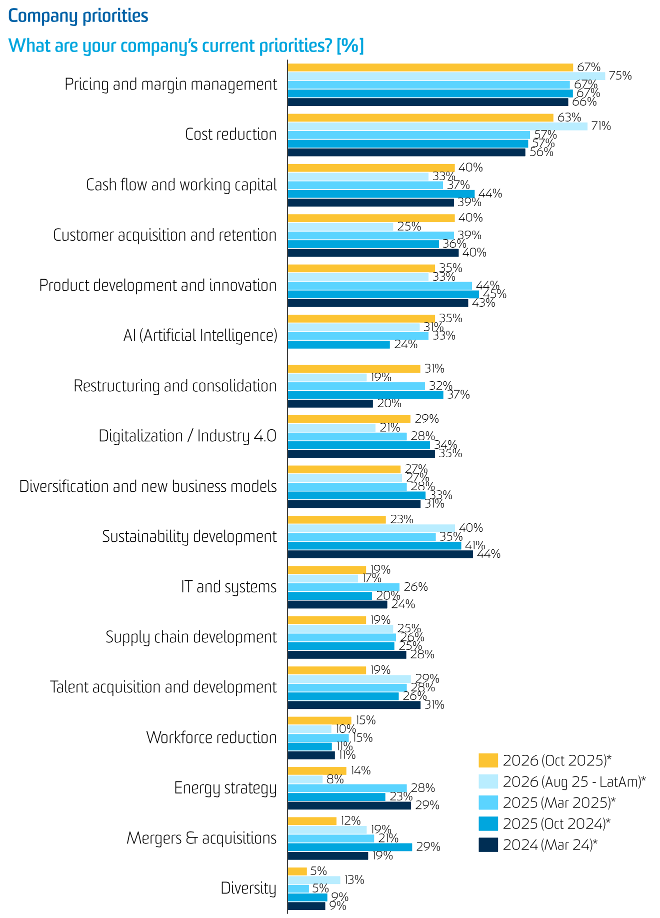
Figure 11: Geopolitical impact

Company priorities in Q1-26 and beyond

Summary findings across all regions: Given the prevailing trends, their anticipated impact, and the broader macroeconomic environment, respondents also indicated which areas they plan to prioritize in Q1 2026 and beyond.

Profit and margin management remain the main focus areas, followed by cost reduction [See Figure 12]. These continue to be the dominant levers for companies, also shown in previous surveys. Notably, cash flow and working capital management have gained importance since the last survey, now reaching levels close to those recorded a year ago in October 2024.

AI is gaining importance among company priorities; however, it remains positioned in the middle of the list, contrasting with its consistently high ranking among the broader industry trends [See Figure 8]. While recognized as an important driver of change, it has not yet been translated into concrete short-term initiatives. Sustainability development has continued to lose ground, now positioned as a medium priority dropping from 35% in March 2025 to 23% in this survey.



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

Figure 12: Historical comparison of current priorities

One of the most notable changes compared to the previous survey is the decline in talent acquisition and development, which has dropped from 28% in March 2025 to 19% in this survey. This inhibits a significant potential to backfire once growth returns. Workforce reduction sees an increase in comparison to the last survey but is surprisingly still at the bottom of priorities given the focus on costs. Diversity had a sharp increase in the Latin American version of the survey in August - but compared to the survey in March earlier this year it is still losing ground.

Regional differences reveal the differing strategic focuses between North America and Europe/ RoW [See Figure 13]. North American respondents show notably higher emphasis on top-line growth, digital transformation, and customer experience. In contrast, European/RoW respondents place greater priority on cost efficiency, operational optimization, and sustainability initiatives. North American respondents also highlight innovation and technology development more strongly, while European and

RoW respondents emphasize supply chain resilience, regulatory compliance, and risk management.

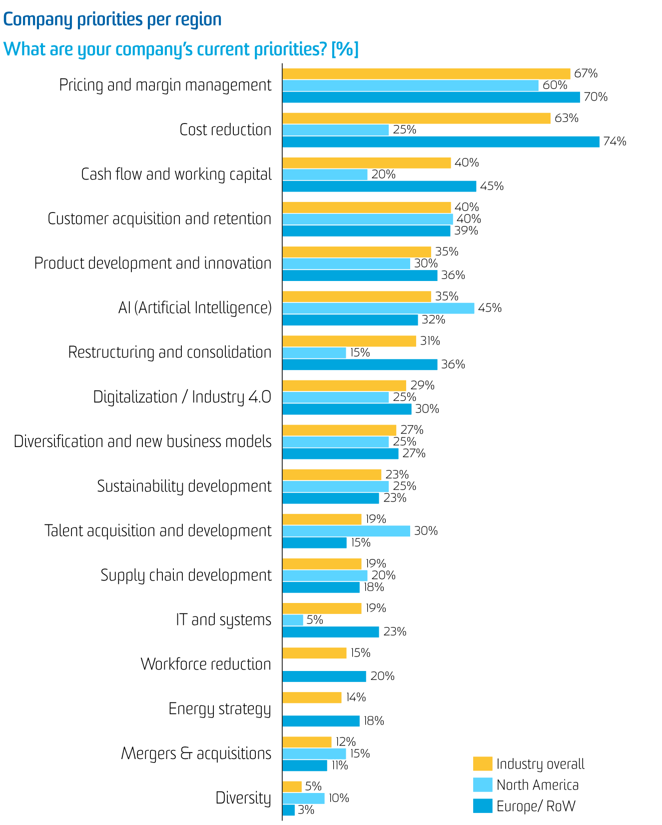


Figure 13: Comparison of current priorities between regions

The results suggest that companies are currently prioritizing operational stability and financial performance over organizational and cultural initiatives as they navigate a still uncertain economic landscape.

Artificial Intelligence: Recognized potential, limited progress

Survey results indicate that respondents generally view artificial intelligence as a positive development for the industry and the major trend for the coming years. Rather than being seen as a disruptive revolution, AI is perceived more as a gradual evolution, with the overall average only slightly above the midpoint between the two [See Figure 14]. However, it needs to be noted that it is increasingly seen as a revolution also in this industry.

Compared to the August 2025 survey, which had mostly Latin American respondents, current results show that participants in Europe and North America lean more toward the "revolution" perspective, with North American respondents reaching 54% versus the overall industry average of 55%.

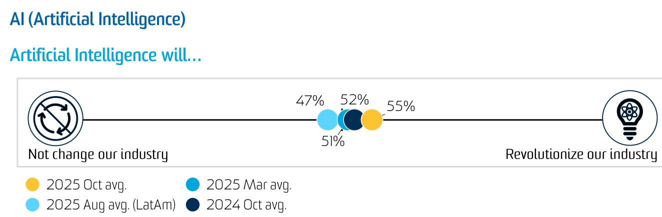


Figure 14: Impact of AI on the industry

Furthermore, North American respondents report a stronger shift toward broader AI implementation across their businesses, reaching 55%, while the overall industry average remains lower at 49% [See Figure 15].

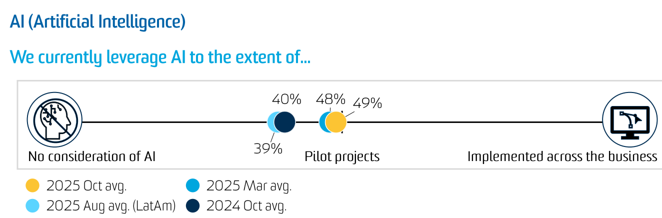


Figure 15: AI implementation status

The most relevant AI applications identified by respondents are automation of back-office functions, predictive maintenance, customer analysis, and demand forecasting, which form the top group with relatively similar response levels [See Figure 16]. These areas indicate that AI adoption is centered on improving efficiency, reliability, and decision-making in established processes.

Further down the list are applications such as quality control, supply chain management, and energy optimization, showing more selective or early-stage use. Product development and content creation appear at the bottom, suggesting that experimental or creative uses of AI are still largely unexplored within the industry.

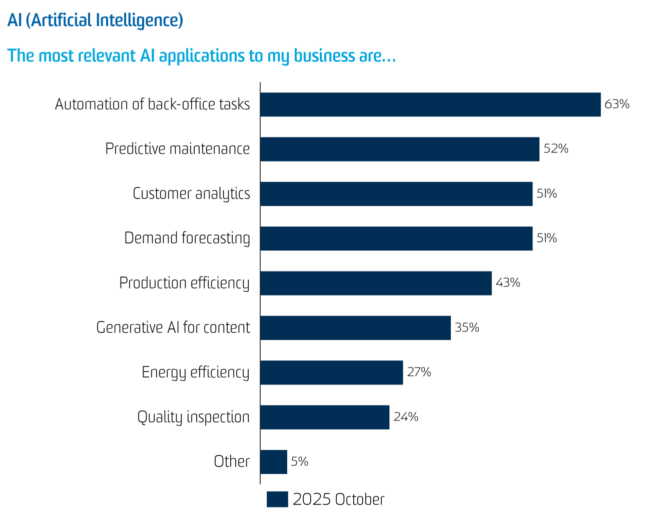


Figure 16: AI applications in the industry

Workforce readiness continues to present a challenge for broader AI adoption. According to the survey, 65% of respondents believe their workforce is not yet fully prepared to effectively use AI-enabled systems in daily work, while 35% consider their employees ready [See Figure 17].

This pattern is consistent across regions, with no clear distinction between European and North American respondents, suggesting that workforce capability gaps are a shared issue rather than region-specific. The results also reflect the early stage of AI integration across the industry. Limited implementation naturally leads to fewer opportunities for employees to gain experience with AI tools. As adoption progresses, readiness levels could potentially improve, underscoring the need to develop capabilities in parallel with deployment.

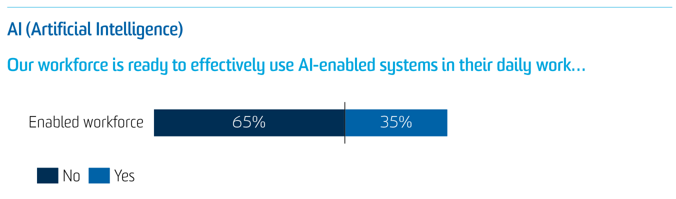


Figure 17: Perception of AI readiness among employees

When respondents were asked to what extent AI could replace different segments of the workforce, their answers revealed a nuanced and differentiated perception of AI's impact [See Figure 18]. AI is seen as most capable of replacing operational and expert roles. While AI generally may not be seen as a tool to reduce workforces completely, the potential of replacing or reducing certain activities is recognized. Management stands out as the most resilient group, with most respondents believing these roles cannot be replaced, although around 10% still see them as largely or fully replaceable - indicating some openness to AI-driven leadership functions. Experts and operational staff are also seen as partially replaceable, with roughly 45% and 35% respectively believing their roles are slightly or moderately replaceable. Overall, the results suggest a clear hierarchy of perceived vulnerability: operational roles first, followed by experts, then management, reflecting expectations that AI will transform routine and analytical work more than leadership and strategic decision-making.

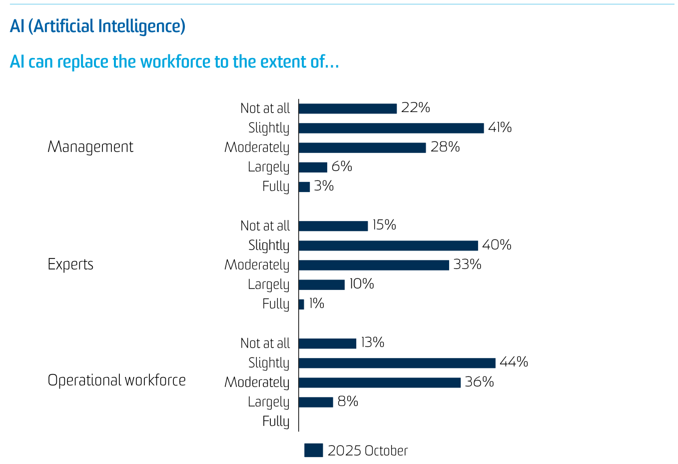


Figure 18: Perceived potential of AI to replace human labor

Overall, the findings show that AI is gaining traction but remains at an early stage of integration. Progress will depend on turning awareness into implementation and ensuring the workforce is equipped to apply AI effectively across core business areas.

Sustainability: Gaining focus, but transition progress remains uneven

Sustainability remains positioned in the middle of the rankings for both company priorities and short-term trends, although experiencing a significant drop in company priorities. When asked whether it will gain or lose focus over the next two to three years, most respondents expect it to receive increased attention [See Figure 19]. Regional differences are modest, with North American respondents at 60% and European respondents slightly lower at 54%, indicating that sustainability is expected to grow in importance, although not as strongly as other topics.

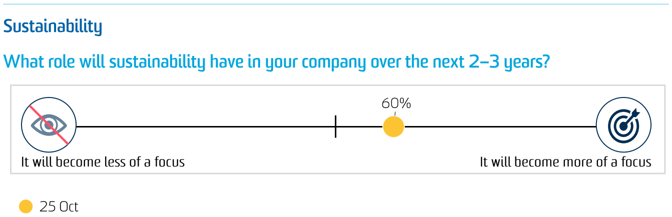


Figure 19: Future role of sustainability

Energy strategies remain broadly aligned with results from the survey conducted in October 2024, emphasizing renewable and circular sources as key components of sustainability [See Figure 20]. While the overall direction is consistent across regions, notable differences emerge in the pace of transition. North American respondents report an average of 47%, pulling down the global average and indicating a slower shift toward cleaner energy solutions. In contrast, Europe demonstrates stronger integration of renewables, reflecting more advanced energy transition efforts.

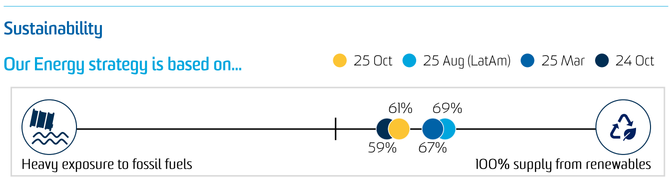


Figure 20: Energy strategy [% of Renewable energy planned to be used]

While progress in energy transition shows regional variation, similar dynamics are evident in material substitution efforts. In the case of plastics, momentum toward sustainable alternatives has also slowed, reflecting challenges that go beyond infrastructure readiness. The main barriers are economic and technical rather than infrastructural [See Figure 21]. Plastic remains significantly cheaper than most alternatives, making large-scale substitution commercially unattractive. Many substitutes also fail to match the required performance, particularly in demanding packaging and industrial applications.

In addition, results suggest that the industry has overestimated the pace of change, with early projections proving unrealistic given current material, technology, and market constraints. Regulatory frameworks, while evolving, remain fragmented and insufficiently stringent to accelerate investment and adoption. Interestingly, recycling systems are viewed as the least critical barrier, suggesting that infrastructure is improving or no longer the key constraint.

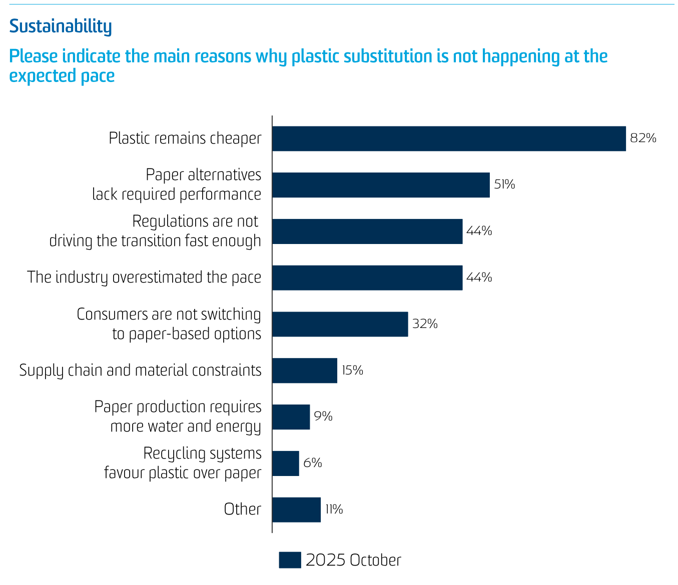


Figure 21: Plastic substitution

Sustainability is expected to move higher on corporate agendas, though progress remains uneven across focus areas. Energy transition shows steady advancement, while regional gaps persist in implementation speed. Broader sustainability efforts, such as material substitution, face slower traction due to persistent economic and technical barriers.

Summary

The StepChange Economic Outlook Survey (October 2025) shows an industry facing 2026 with realism and caution. Confidence has weakened in both Europe and North America, while Asia and Latin America emerge as the most optimistic regions. Artificial intelligence stands out as the dominant long-term driver of change, though adoption remains limited and workforce readiness a key barrier. The priority of sustainability is down although expected to remain important. The pace of transition toward renewable energy and material substitution remains uneven across regions.

For the sector, the outlook is generally negative, falling 20pp compared to 2025 average but segment expectations differ:

- Paper & Paperboard Manufacturers report a sharp decline in confidence, with 65% expecting the segment to deteriorate
- A majority in Converting sees an upward or peak trend for 2026
- Within manufacturing segments Boxboard considered to be in a trough while tissue with very negative expectations
- Around 68% of Containerboard producers see a downturn for 2026, while 30% expect upwards trend

Several trends are shaping the industry's direction, with AI and M&A/ consolidations at the forefront as hottest topics:

- AI viewed as both a short-term trend and long-term driver, focused on efficiency and process optimization - Workforce readiness is the main constraint
- M&A viewed as a positive trend, while new capacity additions are seen as negative - consolidation rather than expansion is considered beneficial for the industry

Companies are focusing on key operational topics, including:

- Pricing and Margin Management, Cost Control and working capital management remain top priorities going into 2026 as the industry navigates ongoing cost and price pressures
- Regional differences; North America is investing to accelerate transformation, while Europe/ RoW focuses on protecting margins and operational efficiency
- Sustainability with a decline in current priority but seen to gain importance again, yet North America trails compared to Europe in energy transition progress
- Plastic substitution remains constrained by economic and technical barriers rather than infrastructure
- Talent development and diversity have fallen sharply in company focus

Overall, the industry faces 2026 prepared for the worst and without high expectations. Success will depend on companies' ability to navigate geopolitical volatility, accelerate digital and AI adoption, and manage persistent cost pressures. Those that balance operational and cost discipline with technology adoption and innovation will be able to shape next level of competitiveness in the global forest products sector.

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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