

# Europe: Dead or Just Sleeping?

Economic Expectations Up. Confidence in Europe Down. AI top Driver.  
Results from StepChange Economic Outlook Survey – Spring 2025

Macroeconomic sentiment improves | Industry hopeful but competitiveness of Europe in free fall | Costs up | AI to benefit and applied in industry | Geopolitics continued topic of concern | Sustainability losing momentum | Plastics with sticky advantages

This publication is based on the Economic Outlook Survey conducted in February and March 2025 amongst more than 130 top managers and decision makers in the wider forest products industry (pulp, paper, packaging, tissue, converting), including participants of the 2025 Fastmarkets Forest Products Europe Conference. Of all the respondents, more than 33% are in C-level positions and another 40% in other top level managerial roles.

The survey assesses the sentiment concerning macroeconomic expectations for 2025, along with trends and priorities in the corporate sector. The second section of the survey focuses on artificial intelligence (AI) 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

- Net-positive economic sentiment improves from -38% in 2023 outlook to 21% for 2025
- Europe competitiveness is expected to decline despite an overall positive economic outlook
- Asia & South America lead in perceived competitiveness
- AI emerges as the top industry trend, surpassing digitalization, with increasing adoption and pilot projects
- Companies prioritize customer acquisition, AI integration, and energy strategy to adapt to market demands
- Geopolitical tensions, tariffs and regulations like EUDR and PPWR are expected to negatively impact the industry
- Sustainability focus declines, viewed more as a regulatory burden than a competitive advantage
- Plastic substitution faces hurdles, with cost and functionality favoring plastic over paper in many applications

## Diverging Regional Perspectives on Growth and Competitiveness

The overall macroeconomic outlook appears to be improving, with survey respondents expressing a net positive sentiment of 21% for 2025. This marks a further steady increase from

October 2024, suggesting a growing sense of confidence in economic conditions. However, while the survey average points to an upward trajectory, regional differences reveal a more complex picture [See Figure 1].

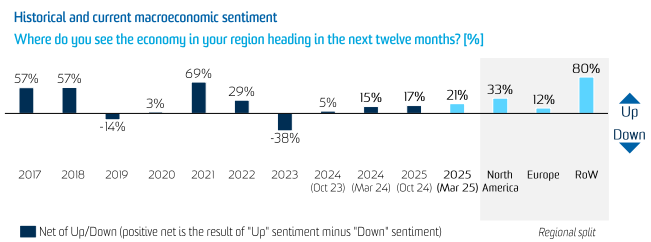


Figure 1: Macroeconomic development

Respondents from North America are notably more optimistic, reporting a net positive sentiment above the survey average. Similarly, the rest of the world (RoW) appears highly confident in economic prospects. In contrast, European respondents are more reserved in their expectations.

While Europe's net-positive sentiment stands at 12% - below the survey average - it still reflects a generally positive outlook. However, this optimism does not extend to expectations about the industry's future competitiveness for the region [See Figure 2]. Respondents see a decline in Europe's ability to compete in the coming years, suggesting that while economic conditions may improve, structural challenges remain. The contrast between economic sentiment and competitiveness expectations points to broader concerns about cost pressures, regulatory burdens, and industry dynamics that could hinder long-term growth.

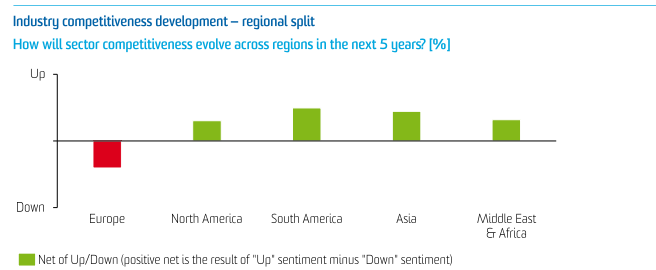


Figure 2: Industry competitiveness development by region

European respondents appear more confident in their own region's prospects compared to external observers, who may be more cautious about Europe's ability to remain competitive on a global scale.

Political developments in the U.S. have also influenced sentiment. While North America is expected to perform better than



Europe, respondents are not overwhelmingly confident about the industry's long-term competitiveness in the region. In comparison, Asia and South America stand out as the regions perceived to be most competitive in the industry's future landscape. These regions have historically benefited from lower material and labor costs, as well as fewer regulatory constraints, positioning them as stronger contenders in the years ahead.

The industry's economic outlook may be improving, but regional disparities highlight ongoing uncertainties. While optimism is on the rise, competitiveness - particularly in Europe - suggests that companies will need to navigate shifting economic and regulatory landscapes carefully, to maintain a strong position in the global market.

### Industry Outlook for 2025

Understanding where the sector is heading in 2025 is a key focus of the Economic Outlook Survey.

While respondents do not expect the industry to peak, survey results indicate that 2025 will be an overall positive year [See Figure 3]. However, expectations vary slightly across different segments, suggesting that the industry may experience a year of extremes rather than uniform growth.

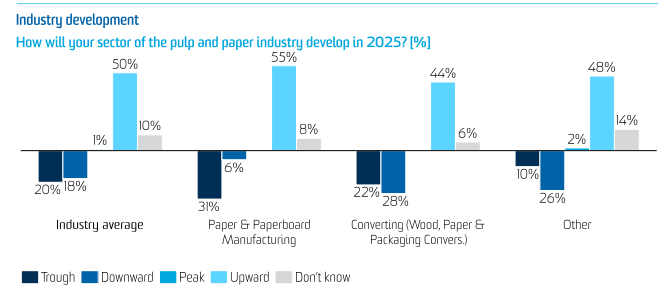


Figure 3: Outlook on industry segment development

One of the most striking findings is that 31% of respondents from the Paper and Paperboard Manufacturing segment expect the industry to hit a trough in 2025. However, within this segment, the outlook differs based on the type of manufacturing [See Figure 4].

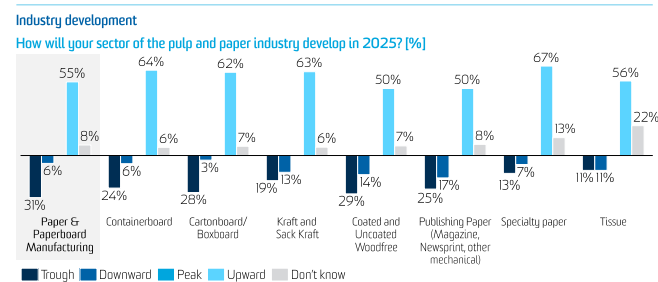


Figure 4: Outlook on the Paper & Paper Manufacturing segment

Packaging paper manufacturers maintain a relatively positive outlook, expecting stable or improving conditions. For graphic paper, projections are mixed, with both upward and downward expectations reflecting ongoing demand uncertainty. Tissue producers, while overall positive, have the highest level of uncertainty, with nearly a quarter of respondents unsure about where their segment is headed in 2025.

These expectations for 2025 come after a year marked by volatility and a subtle recovery across the industry. The StepChange B3NCH publication, which analyzes the financial performance of nearly 100 publicly listed companies across different industry segments, provides valuable context for understanding how companies performed leading into 2025.

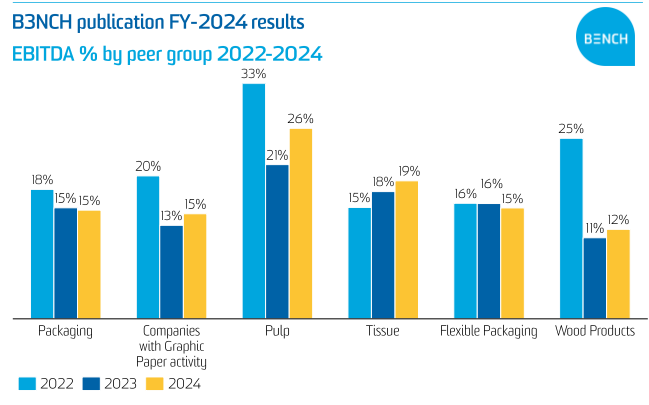


Figure 5: 2022-2024 EBITDA% by B3NCH peer group

For the Packaging peer group, financial performance declined relative to FY2023 across key indicators such as EBITDA% [See Figure 5] and Net profit% [See Figure 6]. After a historically more challenging year, it can be expected that respondents from the packaging segment remain cautious, yet their outlook for 2025 is generally more hopeful. This aligns with the expectation that the market will stabilize after a period of weaker margins and demand fluctuations. Overall it needs to be noted that all segments have been delivering positive EBITDA on average even in recent more challenging years.

The outlook for the Graphic Paper segment has historically leaned toward pessimism, and market challenges persist. However, B3NCH indicates that companies still operating in the segment had stronger financial performance in FY2024 compared to the previous year. While the segment continues to face structural difficulties, the companies that remain in the market are finding ways to sustain profitability.



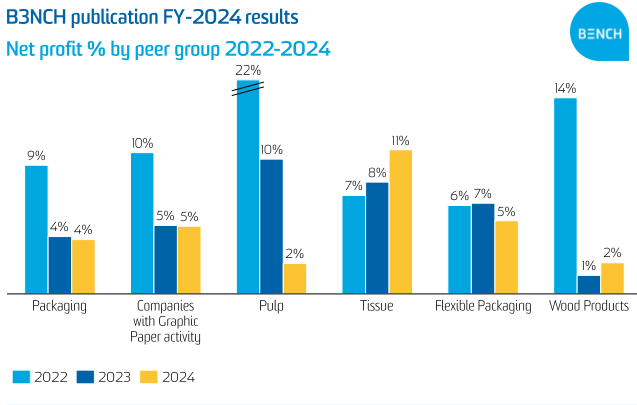


Figure 6: 2022-2024 Net profit% by B3NCH peer group

The Tissue peer group also showed resilience, continuing to grow for the third year in a row in both EBITDA% and Net profit% outperforming all other segments. However, survey respondents expressed the most uncertainty about the direction of their market in 2025.

As the industry moves into 2025, companies are navigating cautious optimism and lingering uncertainty. The key question will be whether the momentum of recovery can be sustained or if external pressures will continue to challenge profitability and growth.

### From AI to Regulation: Key Trends Defining the Industry in 2025

Moving beyond macroeconomic developments and industry expectations, the survey highlights the key trends that respondents believe will shape the industry in 2025.

Compared to the October 2024 outlook, AI now tops the list, surpassing digitalization. More than just a trend, AI is widely seen as a positive force, with unanimous agreement that it will benefit the industry [See Figure 7].

Mergers and acquisitions remain a dominant theme, reinforced by high-profile deals such as the Smurfit WestRock merger completed in 2024 and the International Paper–DS Smith acquisition completed at the start of 2025.

Cost pressures also continue to weigh heavily on the industry, with energy and material costs expected to have a significant influence on how the sector evolves.

Three of the most striking developments in the 2025 survey are the sharp decline in Sustainability, Diversity and Recruiting. Beyond its lower ranking, sustainability is also viewed in a more negative light, with nearly 35% of respondents believing it will negatively or very negatively impact the industry [See Figure 8]. Diversity has notably sharply declined which potentially can be attributed to the current Zeitgeist in the U.S.

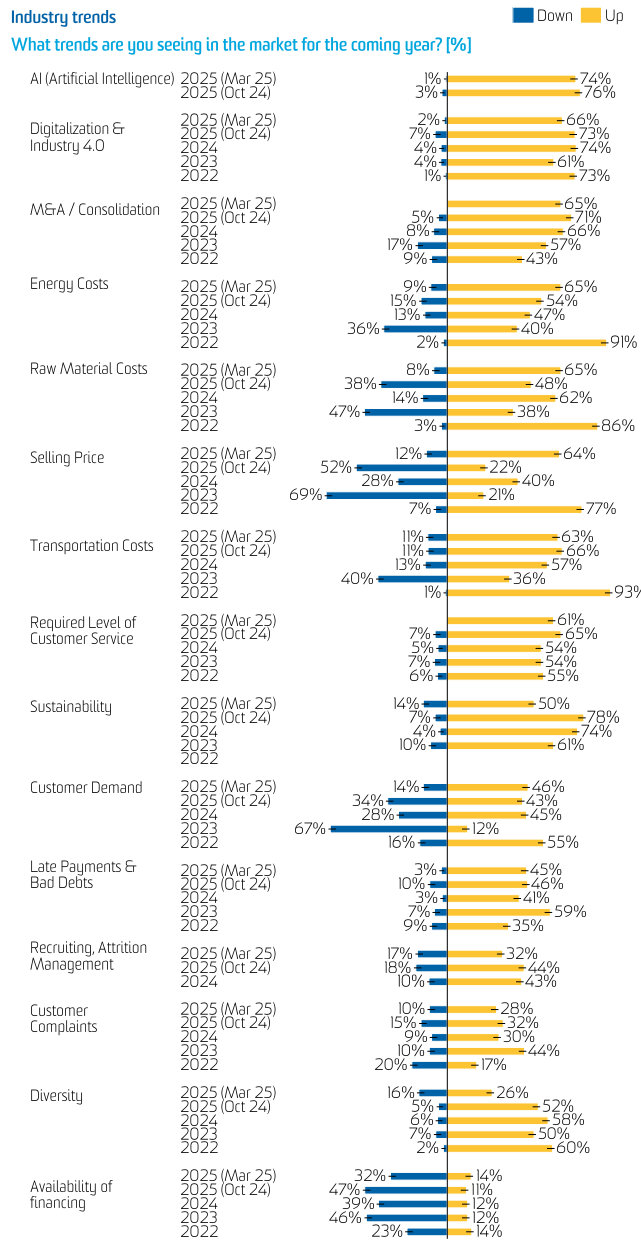


Figure 7: Industry trends

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

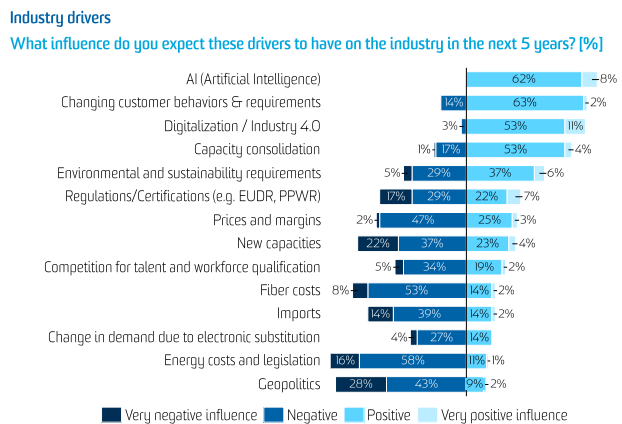


Figure 8: Main drivers and influence expectations

Regulations such as the EU Deforestation Regulation (EUDR) and the Packaging and Packaging Waste Regulation (PPWR)



also appear as unpopular topics, with 46% of respondents anticipating a negative impact. In contrast, expectations for capacity consolidation remain high, which aligns with the industry's current overcapacity challenges in many segments. As in previous surveys, energy costs, legislation, and fiber costs are expected to weigh on the industry, while geopolitics remains among the most cited negative factors only surpassed by energy.

**Geopolitics**

The current geopolitical tensions impact our company...



Figure 9: Geopolitical impact

When asked about the impact of current geopolitical tensions, respondents made it clear: most companies are already feeling the strain [See Figure 9]. Survey results indicate that geopolitical challenges are having a notable negative effect on business operations, with future tariffs expected to further exacerbate the situation [See Figure 10].

**Geopolitics**

Tariffs will impact the industry...

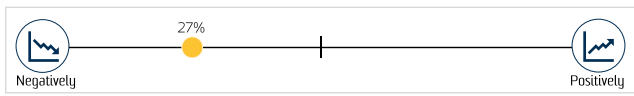


Figure 10: Impact of tariffs

**Navigating 2025 Priorities: Customer focus, Costs, AI**

Given the prevailing trends, their anticipated impact, and the wider macroeconomic landscape, respondents also indicated which areas they want to focus their efforts on in 2025. While priorities have not shifted dramatically since the October 2024 survey, certain areas continue to take precedence, with some gaining importance in response to evolving industry dynamics.

Customer related priorities (Pricing, Products, Acquisition and Retention) remain at the top together with cost management underscoring the need to manage top and bottom line while keeping customers happy [See Figure 11]. This trend is supported by survey results, which highlight how evolving customer expectations are poised to positively influence the industry [See Figure 8].

Additionally, AI – only included in the survey for a 2<sup>nd</sup> time - has continued to climb higher on the priority list, mirroring AI's rise as the most dominant trend for 2025. Companies appear to be moving beyond exploration and starting to integrate AI more seriously into their strategic agendas. Alongside this, Energy strategy is also increasing slightly again in importance - a logical development given the continued concerns over energy costs and regulatory pressures. Notably Sustainability continues to drop in importance the third time in a row.

**Company priorities**

What are your company's current priorities? [%]

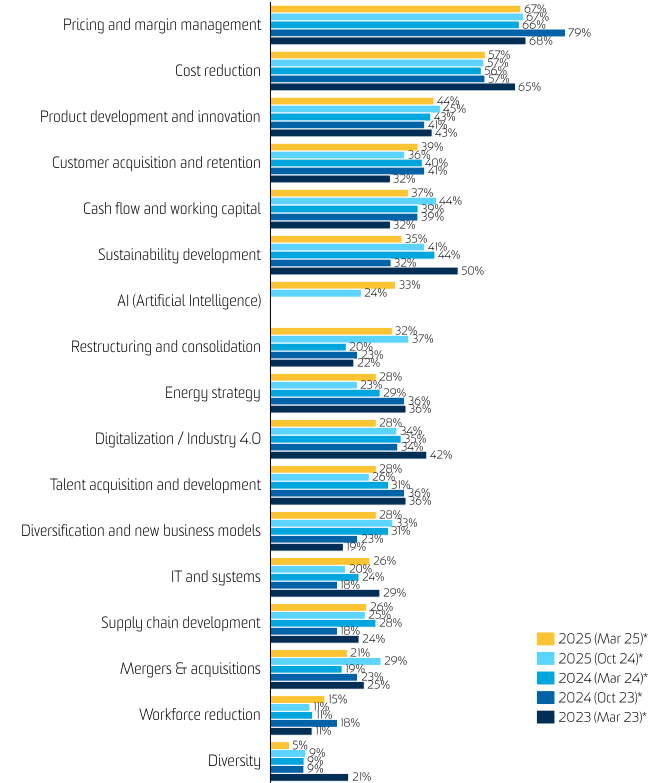


Figure 11: Historical comparison of current priorities

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

While core priorities remain stable, shifts in customer focus, AI, and energy strategy highlight how companies are adapting to an evolving industry landscape. As businesses prepare for 2025, balancing cost efficiency with innovation and market responsiveness will be key to maintaining competitiveness.

**Artificial Intelligence: A Growing Interest**

For the second time since October 2024, the survey included a section on AI. In this short period, the industry's perspective on the topic has evolved significantly, reflecting growing awareness and a more defined approach to its adoption and impact.

AI remains a trending topic in the industry, as reflected in the survey results [See Figure 7]. Looking ahead, AI is expected to gain even more significance over the next five years [See Figure 8]. However, when considering companies' current priorities, AI still ranks lower on the list. While its importance has increased compared to October 2024, it has yet to become a central focus.

The responses suggest that the industry is still in the early scepticism phase regarding AI's potential to revolutionize the sector. Many respondents remain uncertain, with opinions clustering around the midpoint (50%) when asked about AI's transformative impact [See Figure 12]. However, a notable shift



occurred in the Paper and Paperboard Manufacturing segment, where over 55% of the respondents now believe in AI's revolutionary potential. This marks a reversal from the previous survey when this group was more sceptical than the overall industry average.

**AI (Artificial Intelligence)**

Artificial Intelligence will...

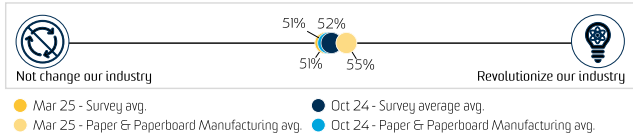


Figure 12: Impact of AI on the industry

One possible reason for this change is the growing number of companies actively engaging with AI. Nearly half of all respondents, and 52% within Paper and Paperboard Manufacturing, report having pilot projects underway [See Figure 13]. These initiatives may be providing tangible benefits, increasing confidence in AI's capabilities and its potential to drive industry-wide transformation. The positive experiences from these early implementations likely contributed to AI's slight rise in priority among companies.

**AI (Artificial Intelligence)**

We currently leverage AI to the extent of...

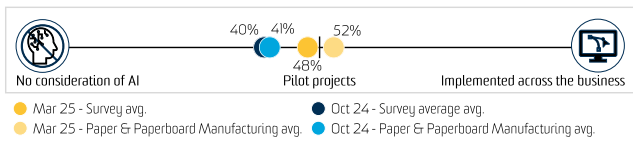


Figure 13: AI implementation status

As AI adoption progresses, its role within the industry will likely continue to evolve. While scepticism persists, hands-on experience appears to be shifting perceptions. If ongoing pilot projects demonstrate clear value, AI will further up the priority list, accelerating its integration into core business strategies.

**Sustainability: Evolving Priorities and Persistent Challenges**

Previous StepChange Economic Outlook studies have already indicated shifts in the industry's stance on sustainability, but this time, the change is more evident than ever. While sustainability remains a key topic, its influence as an industry-defining trend has declined significantly [See Figure 7]. In line with this, sustainability has also moved down the priority list for many companies [See Figure 11]. This shift is not entirely unexpected, as many respondents highlighted that environmental and sustainability regulations are placing increasing pressure on the industry, often viewed as a constraint rather than a competitive advantage [See Figure 8].

Despite this shift in perception, companies appear to be at a relatively advanced stage in their sustainability efforts. The vast majority (~92%) have a defined sustainability strategy focused on reducing their environmental footprint [See Figure 14]. A particularly notable development is the significant increase - by 10 percentage points - in respondents reporting the use of digital tools for integrated and automated sustainability performance measurement. This progress aligns with the industry's preparation for compliance with regulations such as the EU Deforestation Regulation (EUDR), which requires companies to submit proof that products are free from deforestation and forest degradation. As a result, tracking tools and digital advancements have become more critical than ever.

**Sustainability**

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

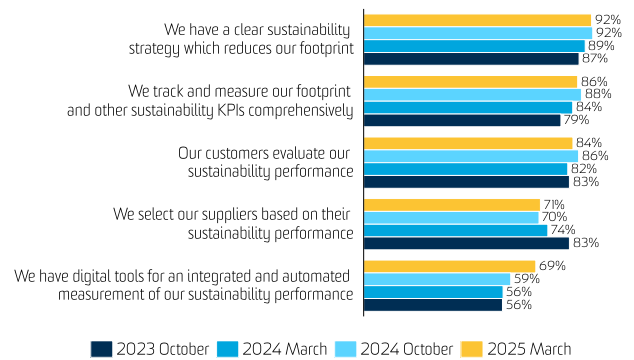


Figure 14: Sustainability strategy perception

However, a growing sense of scepticism is emerging regarding the broader impact of corporate sustainability efforts. Fewer respondents now believe that sustainability provides a competitive advantage, with this perception declining by 3 percentage points [See Figure 15]. Additionally, there is a declining belief that corporate sustainability strategies will lead to meaningful improvements for society at large.

This raises a fundamental question: beyond compliance, what are the true benefits of sustainability efforts? One persistent challenge remains the financial viability of sustainability initiatives. The expected synergies between profitability and sustainability are either not materializing, or companies have yet to find a way to fully capitalize on them. On a higher level it could be speculated that the current Zeitgeist from the new U.S. administration might have an impact on responses.

On a more positive note, the sector continues to shift toward renewable energy, reinforcing long-term commitments to sustainability despite the evolving regulatory and economic landscape [See Figure 16].



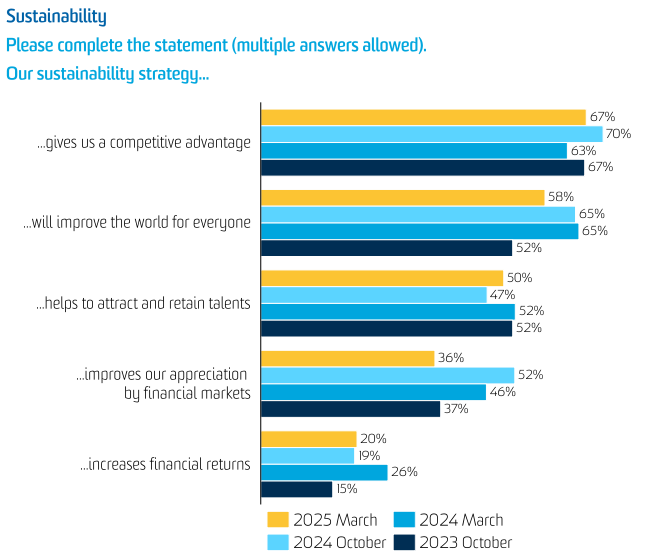


Figure 15: Benefits of increasing sustainability

The survey also explored the topic of plastic substitution, particularly the reasons why it is not progressing at the anticipated rate [See Figure 17]. Interestingly, paper’s environmental footprint was not cited as a major obstacle, suggesting that the industry still holds an advantage in terms of sustainability perception. Instead, cost remains the dominant barrier, with plastic continuing to be the cheaper alternative.

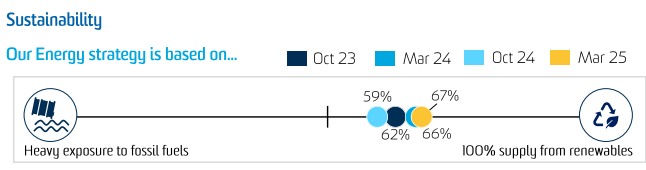


Figure 16: Energy strategy [% of Renewable energy planned to be used]

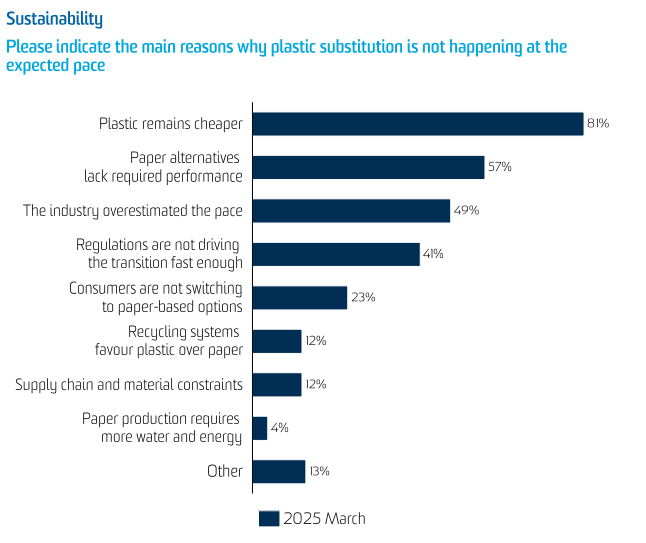


Figure 17: Plastic substitution

Additionally, paper’s lacking versatility remains a challenge, as it does not always meet the key performance requirements

necessary for substitution. One of the most striking findings is that the initial momentum surrounding plastic substitution may have been overstated. The industry appears to have overestimated the speed and scale at which paper could replace plastic, leading to a realization that significant capital expenditure and R&D investment would be required to achieve it. This reinforces the reality that, for now, plastic remains the more cost-effective option.

The ongoing battle between paper and plastic remains unresolved, with cost and functionality still favoring plastic in many applications. While sustainability remains a critical issue, its role in shaping industry strategy appears to be evolving. The regulatory environment is pushing companies toward compliance rather than innovation, and the financial returns on sustainability efforts remain uncertain. Moving forward, the challenge will be finding ways to integrate sustainability into business models in a way that balances environmental responsibility with economic viability.

### Summary: Optimism Amid Regional Variations and Evolving Challenges

The survey presents a more optimistic macroeconomic outlook for 2025, with a net positive sentiment of 21%. While this shows growing confidence, regional variations complicate the overall picture. North America and the Rest of the World (RoW) report higher optimism, while Europe remains more cautious. In fact, despite Europe’s net positive outlook, respondents expect the industry’s competitiveness to decline for the region. Especially compared to other regions, the confidence in Europe appears to be decreasing.

For the industry, the outlook is generally positive, but segment expectations differ:

- Packaging Paper manufacturers are not confident but slightly optimistic, expecting an improvement
- Specialty Paper producers are generally optimistic about the outlook, expecting growth
- Graphic Paper projections are more mixed, reflecting ongoing market uncertainty
- Tissue Producers express the most uncertainty, with almost a quarter unsure of where their segment is headed in 2025

Several trends are shaping the industry, with AI and cost management at the forefront:

- AI remains the most significant trend, with widespread belief that it will positively impact the industry, though many companies are still in the early stages of adoption
- Sustainability, on the other hand, has lost momentum,



with a decline in its perceived value

- Geopolitical tensions remain a major concern, with tariffs and trade disruptions expected to negatively impact business operations

Companies are focusing on key operational topics, including:

- Pricing and Margin Management and Cost Control remain top priorities as the industry navigates ongoing cost pressures
- Customer Acquisition and Retention is growing in importance, driven by shifting customer behaviors
- Energy Strategy is becoming more critical, reflecting concerns over rising energy costs and related regulatory pressures
- AI trending, gaining traction and surging
- Diversity and Recruiting seem to have been side-tracked

Overall, companies are balancing cautious optimism with the need to address ongoing challenges. The ability to adapt to external pressures, implement AI, and manage costs effectively will be key to remaining competitive in 2025. The pivotal years ahead will determine whether Europe is merely slumbering or has truly met its demise.



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### 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.

For further inquiries and comments regarding this publication, please contact us at [leapfrog@stepchange.com](mailto:leapfrog@stepchange.com)

