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CONSULTING

Surplus Supply Sabotaging Sustainability?

Oversupply drives short-term cost focus, delaying sustainability and AI transformation
Results from StepChange Economic Outlook Industry Study – Spring 2026

Economic sentiment improves | Europe slips | North America weakens | Asia and Latin America gain momentum | Containerboard outlook surges | Boxboard bottoms | Converting expects trough | Tissue remains negative | AI momentum stalls | Workforce readiness lags | Geopolitics still weigh | Sustainability paused but expected to return | Tariff pessimism eases | Diversity bottoms

This report is based on findings from the March 2026 Economic Outlook Survey, with input from around 130 senior executives across the forest products industry – including pulp, paper, packaging, tissue, and converting. Respondents are primarily based in Europe, including participants from the 2026 Fastmarkets Forest Products Europe Conference in Barcelona. Around 40% of respondents have C-suite roles, while a further 30% are in other senior leadership positions.

The survey examines macroeconomic outlooks alongside the strategic priorities expected to influence business decisions through 2026. It also features a focused section on the expanding role of Artificial Intelligence (AI), now a key driver of industry transformation. Carried out twice a year by StepChange for more than 15 years, the study provides a meaningful long-term view of shifting market dynamics and executive perspectives.

Highlights of the study

- Economic sentiment jumps from -1% to 11% - RoW 44%
- Europe expects slight increase in economic development in 2026
- Europe and North America with negative competitiveness outlook
- Asia and Latin America with strongest perceived competitiveness gains over the next five years
- Containerboard shows positive outlook for 2026
- AI implementation perceived to be stalling
- AI adoption focuses on automation, maintenance, and production efficiency
- Cost reduction rises to the top of company priorities
- Diversity remains the lowest-ranked priority
- Tariffs and geopolitics remain key external risks, although tariff pessimism is easing
- Sustainability importance is expected to gain ground in the next 2-3 years

Europe faces uncertainty: Neutral economy, vanishing competitiveness

Following the October survey, overall macroeconomic sentiment shows signs of improvement. Across regions, respondents now report a net positive outlook of 11% [See Figure 1], marking a reversal of the previously weakening trend and suggesting a gradual rebuilding of confidence in the near-term economic environment.

However, a closer regional view reveals a more nuanced picture. European respondents remain broadly neutral regarding the outlook for the coming year, with sentiment standing at 6%. In contrast, participants from the RoW express stronger optimism, recording a net positive sentiment of 44%.

In terms of expectations, roughly one third of respondents anticipate economic improvement over the next 12 months. Close to half expect conditions to remain broadly unchanged, while only a minority foresee deterioration. This distribution highlights a prevailing wait-and-see stance among industry experts, pointing to cautious confidence rather than conviction in the short-term trajectory of the economic environment.

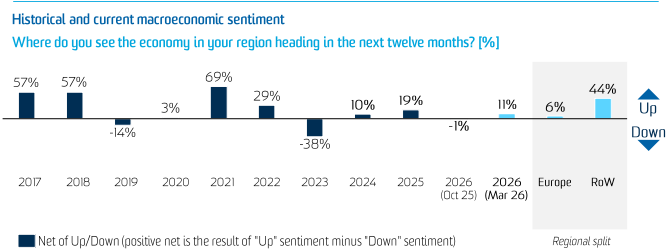


Figure 1: Macroeconomic development

When shifting the focus to longer-term competitiveness over a five-year horizon, the outlook becomes notably more challenging for Europe [See Figure 2]. Among all regions, Europe has the weakest sentiment. North America follows as the second most cautious region, with expectations leaning into negative territory.

The outlook across other regions stands in sharp contrast. Asia emerges as the most optimistic region, reporting a strongly positive sentiment, with Latin America following closely behind. The



Middle East and Africa rank third, maintaining a solid positive five-year outlook.

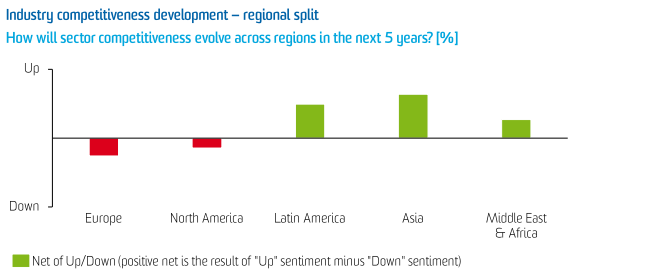


Figure 2: Industry competitiveness development by region

Industry outlook for 2026

The Economic Outlook Survey aims to capture expectations regarding the near-term trajectory of the sector. When asked about anticipated sector development in 2026, respondents reveal a clear divergence across industry segments.

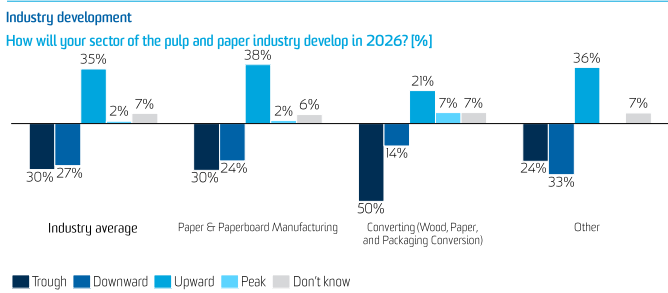


Figure 3: Outlook on industry segment development

At the aggregate industry level, expectations remain subdued. A combined 57% of respondents foresee either declining conditions (27%) or a trough (30%) in 2026 [See Figure 3]. One third expect an upward trend, offering a limited but notable source of optimism within an otherwise cautious outlook.

The most notable result comes from the Converting segment, with 50% expecting the sector to reach a trough in 2026. Only a combined 28% anticipate positive development, placing Converting among the most pessimistic segments.

Sentiment within Paper & Paperboard Manufacturing appears somewhat more balanced, although expectations remain skewed toward weaker outcomes. While 40% of respondents anticipate improvement, views are still largely concentrated around

downturn or trough scenarios, pointing to continued skepticism regarding a near-term recovery.

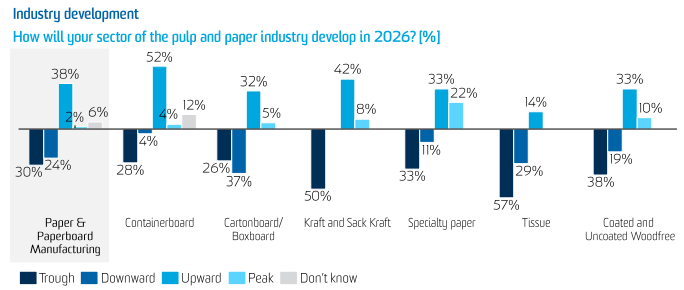


Figure 4: Outlook on the Paper & Paper Manufacturing segment

A more detailed view across the Paper & Paperboard segments adds further clarity to the 2026 outlook [See Figure 4]. Containerboard and Specialty Paper stand out as the most resilient areas, with around 55% of respondents expecting conditions to improve or even reach a peak. These segments appear better positioned to navigate the near-term environment compared to the rest of the sector. In contrast, other areas remain notably weak, with most respondents anticipating difficult conditions ahead.

Taken together, the outlook points less toward a broad-based recovery and more toward uneven performance across segments, with pockets of strength offset by continued pressure in more challenged areas. The StepChange B3NCH publication, which analyzes the financial performance of nearly 100 publicly listed companies, provides useful context for interpreting these challenges.

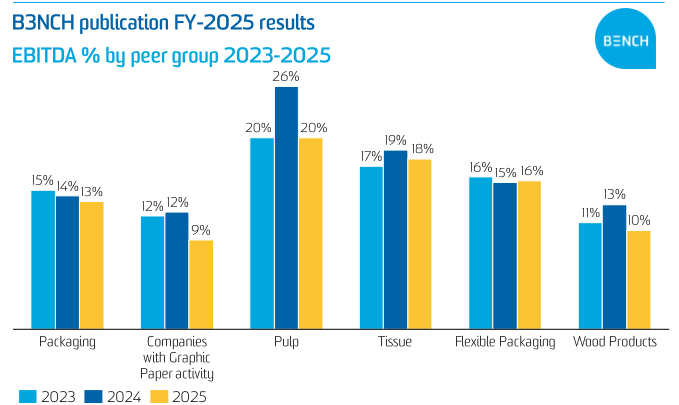


Figure 5: 2023-2025 EBITDA% by B3NCH peer group

EBITDA % declined across nearly all peer groups in 2025, except Flexible Packaging with a slight increase [See Figure 5]. Pulp remained the strongest performer despite a notable drop from its 2024 peak, while Tissue also softened but continued to deliver comparatively high margins. Graphic Paper and Wood Products



with lowest margins and both recorded 3pp decline compared to 2024.

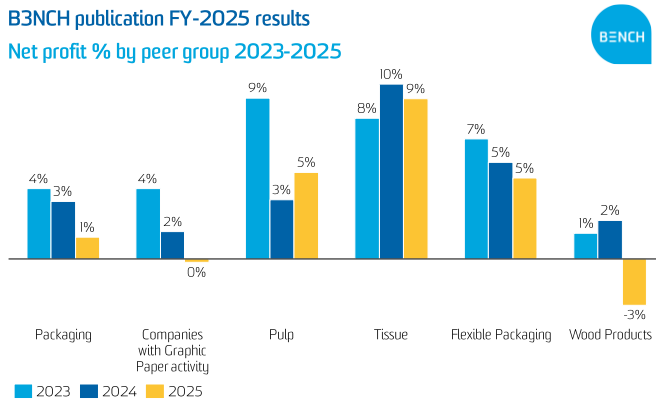


Figure 6: 2023-2025 Net profit % by B3NCH peer group

Net profit % declined across all peer groups except Pulp, which increased by 2pp [See Figure 6]. Tissue saw only a slight decrease and continued to lead all segments. Wood Products and Graphic Paper turned negative, with Wood Products showing the steepest drop. This overall deterioration highlights the continued pressure and uncertainty facing the industry.

Industry Drivers: Consolidation and AI on top, while geopolitical headwinds persist

The survey also explores which company-level drivers have been most important recently, and which are expected to shape performance over both next year and the near-term future.

Over the five-year horizon, capacity consolidation stands out as the expected top driver of change to balance supply and demand and addressing overcapacity [See Figure 7]. AI and digitalization are also considered to have a positive impact on the industry.

In the shorter one-year timeframe, however, AI remains the top-ranked driver [See Figure 8], reflecting its continued relevance in automation, process optimization, and data-led decision-making. Digitalization follows closely, reinforcing the importance of ongoing technological transformation.

Industry drivers

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

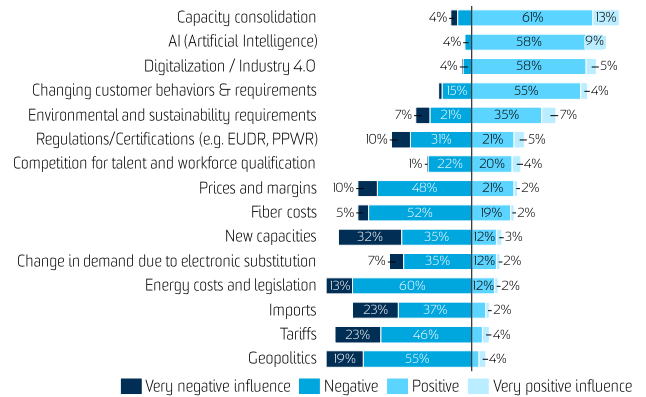


Figure 7: Main drivers and influence expectations

Customer behavior and sustainability requirements are also mainly viewed as positive influencers, [See Figure 7]. However, in spite of the European green deal focus, regulations and certifications are considered to have a net negative influence. Competition for talent exhibit a very polarized view – considered either having a positive as well as a negative influence.

Among risks & major negative influences, respondents point primarily to cost and geopolitical factors. Energy and fiber costs are identified among the negative drivers, highlighting the sector's sensitivity to input price volatility. Geopolitical tensions and trade barriers are both seen as potential constraints on investment confidence and global trade stability. Overall, the outlook suggests that internal optimization rather than expansion is likely to define the strategic focus in the coming years.

Near-term trends: costs, demand and pricing rebound

AI and Digitalization continue to rank among the most important short-term trends alongside M&A activity [See Figure 8]. In contrast, topics such as diversity, recruitment, attrition management, and access to financing remain lower priorities. This suggests that there is a belief that technological advancement will drive changes, while people and structure-related challenges receive comparatively less attention.

A small trend reversal to the previous survey is that demand and selling prices are expected to increase.



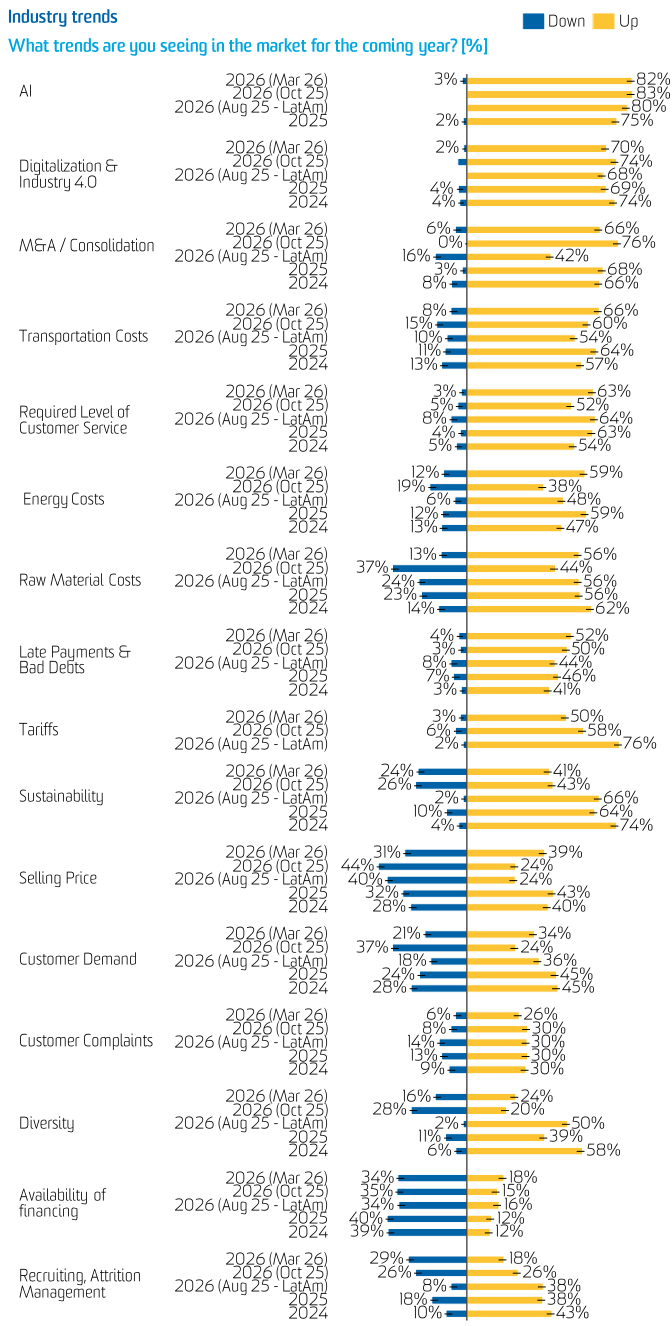


Figure 8: Industry trends

Another notable shift in this survey is the expected increase in raw material costs and energy costs. Rising input costs are increasingly shaping strategic decisions, with manufacturers facing sustained pressure on margins.

While tariffs as a trend are expected to decrease in the year ahead, respondents still see them as meaningful external risks [See Figure 9] together with geopolitical tensions [See Figure 10]. Most respondents expect tariff developments to negatively affect companies. Regionally, Western and Central Europe

respondents hold the most negative view at around 32%, participants from the Middle East and Africa are slightly more optimistic at around 36%, while Eastern Europe shows the most positive outlook at 37%.

Geopolitics

Tariffs will impact the industry...

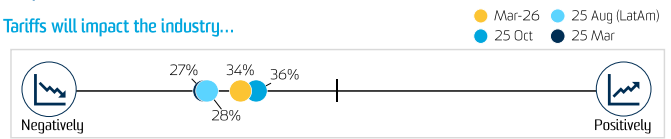


Figure 9: Impact of tariffs

Respondents across all regions continue to hold a more pessimistic outlook on geopolitical tensions compared to previous surveys. Together, these factors remain central to the external pressures reshaping global business conditions and investment confidence.

Geopolitics

The current geopolitical tensions impact our company...

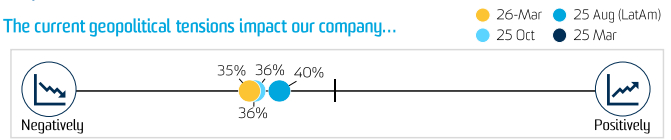


Figure 10: Geopolitical impact

Company priorities in Q1-26 and beyond

Across all regions, respondents have highlighted the strategic priorities they intend to focus on through 2026, reflecting both current trends and the wider macroeconomic context.

Cost reduction has emerged as the primary focus, with pricing and margin management following closely as a secondary priority [See Figure 11]. This together with the rise of importance of restructuring and consolidation suggests that profit protection has increasingly replaced market growth as a core concern, as companies seek to defend their bottom line against a persistent high-cost environment.

Another notable change is Product development and innovation and Restructuring and consolidation, each with a 10pp increase compared to the October 2025 survey.

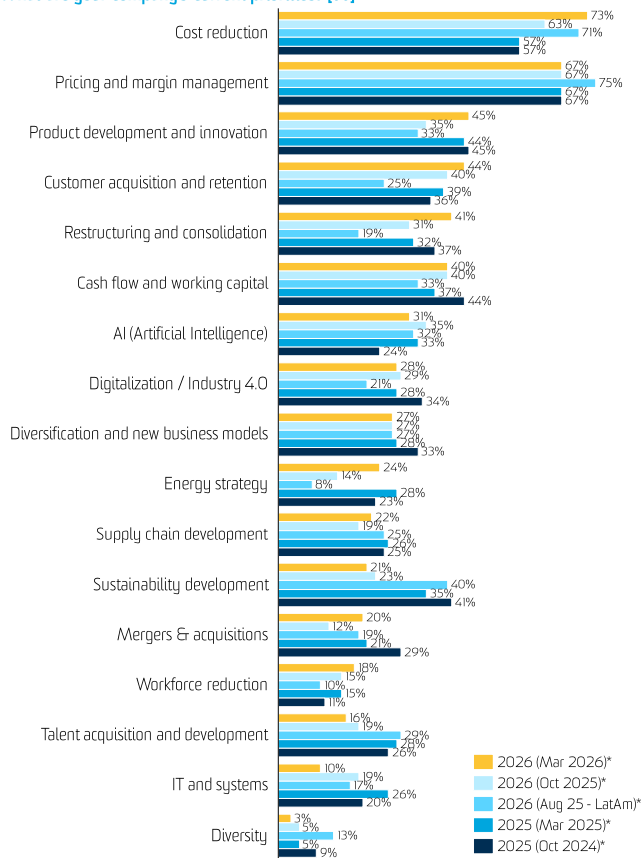
Despite AI's recognition as a top growth driver in both the short and long term, it remains ranked only in the middle of the priority list. More notably, it has dropped by 4pp since the last survey. This development contradicts AI's perceived importance as a key driver, pointing to a disconnect between the perceived general trend and the industry response. Respondents seem to acknowledge the technology's potential but have yet to prioritize

initiatives and immediate actions over more pressing operational topics.

Sustainability also declined, falling to 21%. Even though it is viewed as one of the most positively influential factors, it continues to be pushed toward the bottom of priorities, as companies focus on safeguarding their current position and ensuring survival rather than advancing sustainability solutions.

Company priorities

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



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

Figure 11: Historical comparison of current priorities

IT and Systems have slipped to second-to-last on the priority list, which is particularly interesting given that they form the foundational basis for the AI and digitalization revolution highlighted as a top trend. Diversity closes the list at only 3%, underscoring how such considerations are often sidelined when market conditions become challenging.

AI evolution: Stalled progress meets workforce limits

The survey shows that AI is widely regarded as a positive development and as the key trend shaping the coming years. While a

notable share of respondents still sees AI as a revolutionary force, the overall perception increasingly frames it as a gradual evolution. The latest sentiment places industry views slightly below the midpoint between revolution and evolution [See Figure 12].

Results reveal that European respondents view AI's impact on the industry as less significant compared with the October 2025 survey, which primarily reflected North American perspectives. The overall average has fallen to 48%, down from 55%. This shift is particularly visible within Paper & Paperboard Manufacturing, where sentiment fell to 43%, compared to 52% in the previous survey.

AI (Artificial Intelligence)

Artificial Intelligence will...

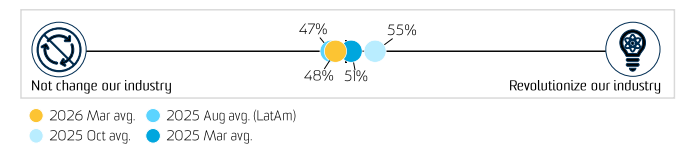


Figure 12: Impact of AI on the industry

Furthermore, respondents indicate that progress toward broader AI implementation across their businesses has stagnated, remaining at the same level as in the previous survey [See Figure 13]. This points to a slowdown in adoption, as perceptions of AI's overall transformative impact have moderated.

AI (Artificial Intelligence)

We currently leverage AI to the extent of...

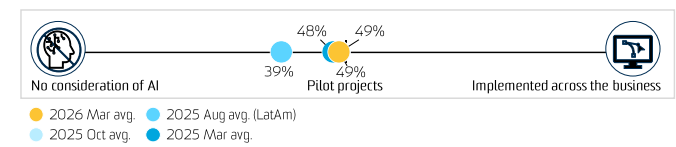


Figure 13: AI implementation status

The most relevant AI applications identified by respondents are automation of back-office functions (63%) and predictive maintenance (49%), followed by customer analytics (47%) [See Figure 14]. This emphasis highlights a pragmatic approach to AI adoption, where companies are prioritizing tools that deliver immediate operational gains, such as cost savings and reduced downtime.

Demand forecasting, energy efficiency, and generative AI for content creation rank in the middle of the list. Quality inspection stands out as the least relevant AI application. This pattern suggests that while companies see value in AI for strategic areas like understanding customers or optimizing energy use, they are less eager to apply it in hands-on production tasks such as ensuring



product quality, possibly due to concerns over accuracy, integration challenges, or the belief that current methods already work well enough in those areas.

AI (Artificial Intelligence)

The most relevant AI applications to my business are...

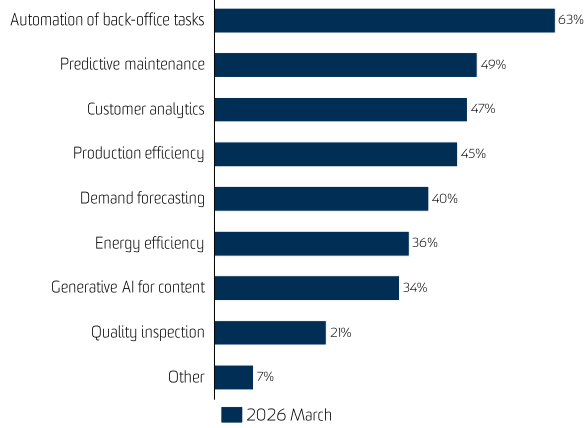


Figure 14: AI applications in the industry

Workforce readiness remains a key challenge for broader AI adoption [See Figure 15]. The survey indicates that 65% of respondents believe their workforce is not fully equipped to effectively use AI-enabled systems in day-to-day operations, while 35% consider their employees are ready.

The findings continue to highlight that AI integration across the sector remains in a developing stage. With implementation still limited, employees have fewer opportunities to gain hands-on experience with AI tools. As adoption expands, workforce readiness is likely to improve, emphasizing the importance of building capabilities alongside deployment. This pattern holds consistently across regions, with no notable differences between this and survey in October 2025.

AI (Artificial Intelligence)

Our workforce is ready to effectively use AI-enabled systems in their daily work...

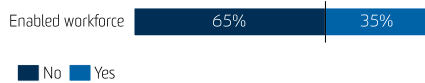


Figure 15: Perception of AI readiness among employees

When asked about the extent to which AI could replace various workforce segments, respondents' answers showed clear patterns across groups [See Figure 16]. No one expects AI to replace the workforce fully. Views were also fairly aligned on the two extremes, "not at all" between 14-17% and "largely" between 6-8%. The main differences appeared in the middle options: 46%

believe Management roles can be slightly replaced, compared to 41% for Expert roles and 54% for the Operational workforce. In contrast, 29% believe Management roles can be moderately replaced, versus 34% for Experts and just 26% for the operational workforce. The results reveal a cautious industry outlook where AI is viewed mainly as an enhancer rather than a full workforce replacer.

AI (Artificial Intelligence)

AI can replace the workforce to the extent of...

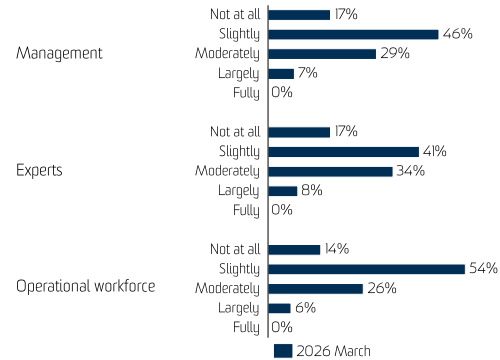


Figure 16: Perceived potential of AI to replace human labor

Overall, AI is gaining momentum, but its broader rollout has notably stagnated, with implementation still in early stages. Progress is now shifting from general interest toward targeted, pragmatic applications, with automation and predictive maintenance leading the way, while more transformative uses remain on hold. Workforce readiness continues to lag, limiting effective deployment. The industry's approach reflects evolution, not revolution.

Sustainability: Paused now, accelerating later

When asked about the future role of sustainability over the next 2-3 years, executive sentiment shows an upward shift – 65% of respondents believe that sustainability will become more of a focus for their company [See Figure 17]. This trend underscores a growing disconnect while sustainability is currently being deprioritized, a notable share of respondents expects it to regain importance. For now, the focus remains on survival, with longer-term environmental commitments pushed to the sidelines. Regional differences are evident, with respondents in Western and Southern Europe showing the strongest emphasis at 72%, followed by Central Europe at 64%, Northern Europe at 63% and Eastern Europe at 55%.



Sustainability

What role will sustainability have in your company over the next 2–3 years?

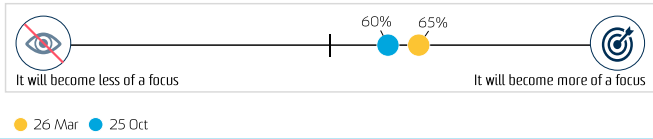


Figure 17: Future role of sustainability

Energy strategies remain largely consistent with previous studies, with renewable sources continuing to be central to sustainability efforts [See Figure 18]. After dropping to 61% in October 2025 survey, the global average for planned renewable energy use has rebounded to 66%. This may be result of different background of responders, now mostly from Europe instead of North America in the October 25 survey. This indicates that, while the pace of transition may fluctuate, across regions the industry’s long-term commitment to cleaner energy solutions remains a stable component of corporate strategy.

Sustainability

Our Energy strategy is based on...

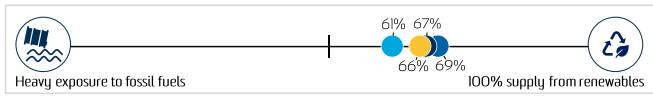


Figure 18: Energy strategy [% of Renewable energy planned to be used]

Efforts to substitute materials show patterns similar to those observed in the energy transition, with progress experiencing some volatility [See Figure 19]. In the case of plastics, adoption of sustainable alternatives remains constrained by economic and technical hurdles rather than infrastructure readiness. Plastics continue to be significantly cheaper than most alternatives, limiting commercial attractiveness for large-scale substitution. Additionally, many substitutes still fall short of required performance, particularly in demanding packaging and industrial applications.

The latest results show that the early projections of the industry have proven overly optimistic. Regulatory frameworks, while evolving, are still seen as insufficiently stringent to accelerate large-scale investment. Interestingly, this concern is more pronounced in the survey with mainly European respondents than in the prior survey with mostly North Americans. Recycling systems and infrastructure are viewed as the least critical barriers,

suggesting that the primary challenges now lie in material science and market economics rather than logistics.

Sustainability

Please indicate the main reasons why plastic substitution is not happening at the expected pace

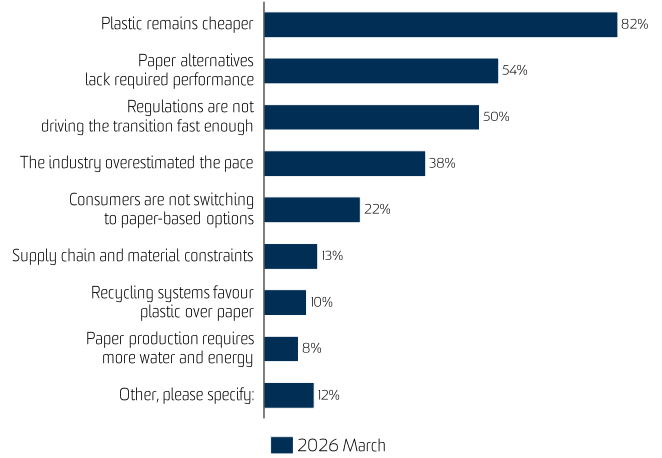


Figure 19: Plastic substitution

Sustainability remains caught in a paradox: currently ranked low among both corporate priorities and industry trends yet widely expected to reclaim a stronger role on agendas within the next 2-3 years. Broader initiatives continue to be slowed by economic and technical challenges, even as the shift toward renewable energy shows signs of recovery and steady advancement.



Summary

The StepChange Economic Outlook Survey (March 2026) portrays an industry approaching the year with a cautious and operationally grounded outlook. Sector competitiveness remains unchanged and negative in Europe and has weakened in North America. Latin America and Asia are increasingly viewed as the regions gaining the most ground over the next five years. AI has solidified its role as the leading long-term driver, with adoption focused on automation, predictive maintenance, customer analytics and production efficiency, even as overall implementation progress slows, and workforce readiness continues to limit deployment. At the same time, sustainability is losing importance in the short term, while a growing share of respondents are expecting it to play a stronger role in the next 2-3 years. Plastic substitution remains constrained by high costs, regulatory challenges and technical limitations.

The macroeconomic outlook is positive, rising 11pp compared to October 2025 average but sector development expectations show a different picture:

- Converting outlook deteriorates, with most respondents expecting a downturn
- Paper & Paperboard sentiment remains weak, with expectations centered on decline
- Boxboard and Tissue continues to show strongly negative expectations
- Containerboard stands out, showing a notable improvement and positive outlook for 2026

Several forces are steering the industry forward, with AI and M&A remaining at the forefront

- AI continues as the leading long-term driver, focused mainly on automation and maintenance, although workforce readiness still lags.
- Consolidation is preferred over new capacity, with M&A viewed as a stabilizing lever in an oversupplied market.

Companies are prioritizing actions that reinforce stability and protect margins:

- Cost reduction rises to the top of company priorities, with pricing and margin management close behind
- Sustainability remains a low short-term priority, yet its importance is expected to rise over the longer term.

- Plastic substitution progress is slowed by cost challenges, slow regulations and technical limitations
- Talent development and diversity remain the lowest corporate priorities

As the industry moves through 2026, the mood is one of guarded realism. Companies are braced for stagnation, focused internally on cost and discipline. The path forward will favor those able to hold the tension between competing forces, AI potential weighed against implementation inertia, sustainability expectations set against today's operational realities. In a landscape defined by uncertainty, adaptability paired with long-term perspective will distinguish those who shape the next phase from those who merely endure it.





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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.

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