FINAT label market trends: post Pandemic distortions

EUROPEAN LABEL INDUSTRY REPORTS RECORD GROWTH IN 2021 BUT FACES VOLATILE TIMES IN 2022

In the first half of 2022, European self-adhesive labelstock consumption decreased by 2% compared to the same period in 2021. The decrease came after an increase of 7% for the year 2021 (bringing the annual demand to a record 8.5 billion square meters), and an increase of 4.3% in 2020, when the Covid-19 pandemic struck Europe. The downturn was driven by the collapse of paper roll label materials, especially in the second quarter when consumption fell by 8.3% compared to the same period last year. In Q3, after base paper backlogs were being addressed, the industry rebounded strongly, reversing the downward spiral, at least for the time being. For the first three quarters as a whole the European label industry recorded a modest growth of 1.7% compared to the same period last year. The key question remains how the general economic uncertainties will affect labelstock demand going forward.

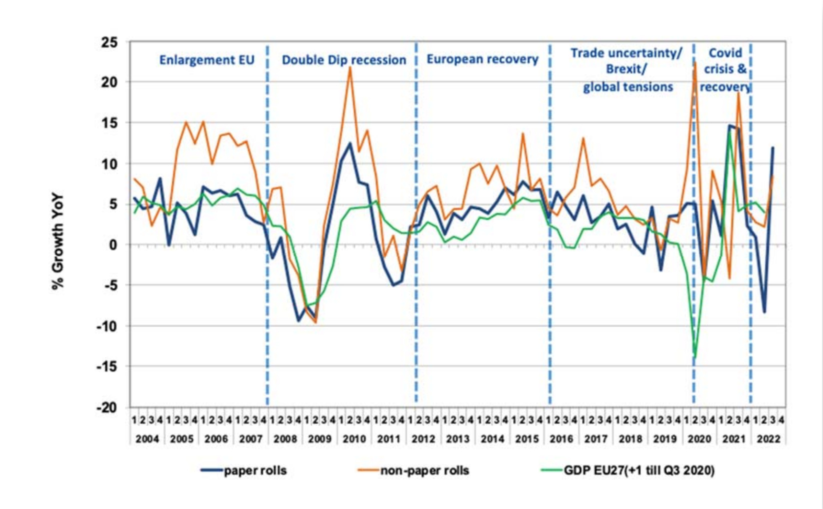
THERE ARE SEVERAL CRITICAL FACTORS UNDERLYING THIS VERSATILITY.

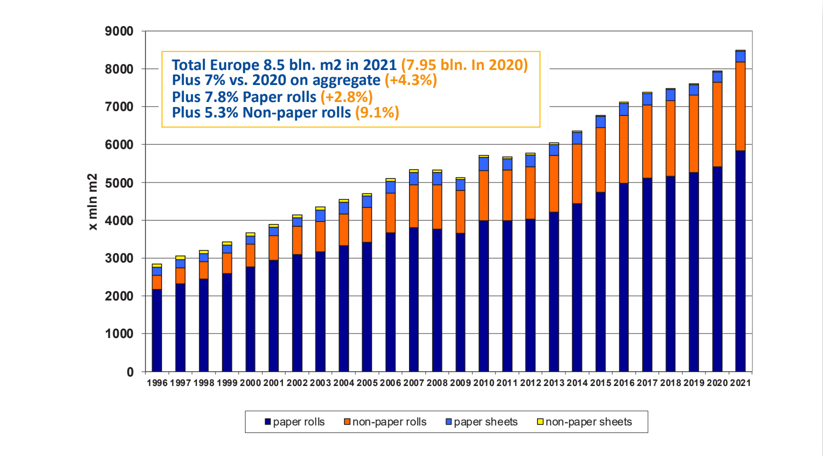
1. Over 10 billion labels each week make the markets go round

Firstly, the numbers for 2022 follow the two disruptive and volatile years 2020 and 2021, when peaking label demand was heavily influenced by excess demand for essential goods and services after the outbreak of the pandemic in 2020, and by rapid economic recovery in 2021.

Assuming an average sized label, 8.5 billion square meters consumed in Europe per annum corresponds with an astronomic amount of more than over 10 billion labels consumed each week. That's a European average of 20 labels per capita, with peaks of up to 50 labels per capita in the mature western European markets (per week!).

Of course one may argue this simulation, but the fact is that it is hard to imagine any room in Europe without labels on or inside goods. Labels are used for everyday products and services like packed meat and poultry,



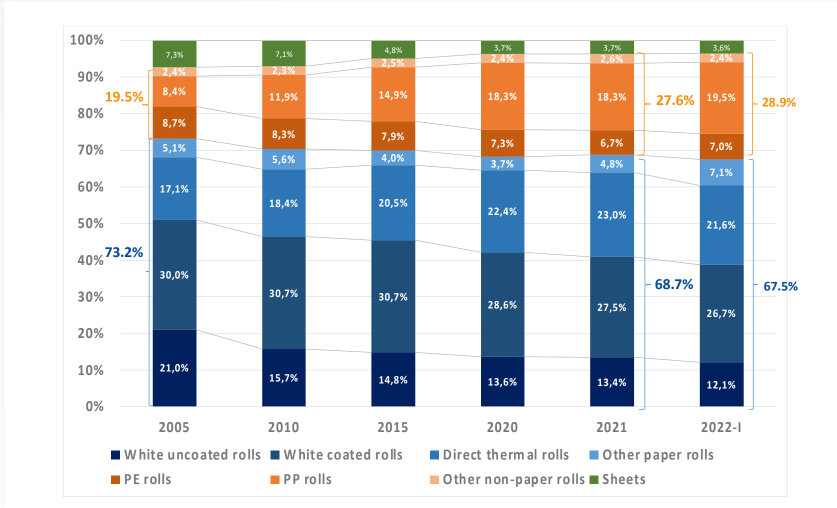


beverages, readymade meals, personal care items at the drugstore, prescribed medication, supermarket price-weigh tagging, warehousing, home deliveries, passenger tagging etc. etc. Labels are also an essential enabler for the production chain in cars, manufacturing equipment, smartphones, computers, household appliances etc.

As part of the total product value, the cost of a single label may be low, but the damage of its lack of availability to goods manufacturers, logistics companies, consumers and ultimately European economies and societies is considerable. And in the roller coaster years of 2020 and 2021, there was no doubt about the role of labels as indispensable enabler of the economy.

2. Supply chain disruptions putting the brake on recovery
This brings us to the second critical factor. Since the summer of 2021, global manufacturing chains have been suffering from supply chain disruptions caused by Covid-related adjustments. This led to a growing gap between booming post-Covid demand and the shrinking availability of energy, raw materials, chips, components, chemicals, production, labour and transport capacity. Already in late 2021, early 2022, reports from equipment manufacturers emerged that order book fulfilment was delayed by the lack of computer chips and components.

At first, these tendencies were classified as temporary adjustment problems by authorities like the European Central Bank. But at the beginning of 2022, these disruptions were compounded by China's persistent zero-Covid policy, paralysing the country's manufacturing sector and mainports. And all hopes of a swift improvement of the situation were completely wiped out when Russia invaded Ukraine on 24 February.



Paper shortages hitting commercial printing and labels in 2022

In the first half of 2022, the European label industry was particularly hit by the long lasting strike at UPM, a leading paper manufacturer in Finland. Not only did this limit the availability of facestocks for paper labels, but more importantly, more than one quarter of the European capacity for the production of glassine release liners was cut off from the market for 112 days, between 1 January and Friday 22 April.

In the first quarter of the year, the effect of this capacity shortage was dampened by significant inventory surpluses that had been built up in the final quarter of 2021 in anticipation of further increases in lead times and raw materials prices. However, in the second quarter output was severely hit with lead times going up to 5-6 months and label converters being served on allocation. Part of the decline in paper label consumption may have been absorbed by increases in filmic label demand.

In the spring 2022 edition of the FINAT RADAR, our association's 6-monthly market survey, it was reported that 60% of participating converters, surveyed this spring, had been suffering revenue losses as a result of supply chain issues. Although the strike finished just before Easter, it is expected that backlogs will not be filled before this autumn.

The latest quarterly statistics obtained just before the release of this Yearbook in Q4 2022 indicate, that there was a strong rebound in labelstock demand, as backlogs in base paper deliveries (both for facestock and release liner materials) were gradually returning to normal. Compared to the same quarter of 2021, consumption of paper roll label materials was almost 12% higher, while filmic roll label materials increased by almost 8,4. For the year as a whole, labelstock demand in the first three quarters recorded a modest plus of 1.7%.

Advocating the label industry's interest
While not attempting to interfere in an individual company labour dispute, during this label industry crisis both Intergraf (for the commercial printing sector) and FINAT repeatedly called for public attention to this issue. Purpose of this outreach was to raise awareness about the wider social and economic effects of the paper shortages for label companies, downstream label users

and ultimately for consumers. After all, after almost 3.5 months there was a serious risk of facing empty shelves because consumer goods companies would be unable to get the labels to brand and mark their goods for delivery and sale to the stores. In a letter to the EU Commission, FINAT appealed for a cross-industry dialogue to discuss not only the current emergency situation in the labels sector, but also broader measures that can be taken to reduce the vulnerability of essential supply chains to apparently small distortions like a local labour dispute.

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Printers warn on growing paper shortages

Companies from newspapers to asset manager Abrdn are already feeling the effects of high prices and a supply crunch

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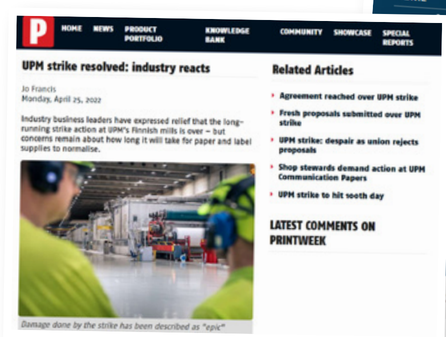
Strikes at mills owned by forestry group UPM-Kymmene in Finland have exacerbated paper shortages © Elena Noeva/Alamy



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UPM strike resolved: industry reacts

Jo Francis
Monday, April 25, 2022

Industry business leaders have expressed relief that the long-running strike action at UPM's Finnish mills is over – but concerns remain about how long it will take for paper and label supplies to normalise.

Damage done by the strike has been described as "epic"

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...2 --- Labeling association representatives are warning disaster is ... the paper packaging industry and its food and pharmaceutical ...s union strikes continue at one of Europe's largest paper mills. The ...tions had called for a quick resolution at the UPM Finnish mill but ...ok set to continue until at least April 6.

...ackagingInsights, Jules Lejeune, managing director of FINAT, ...association for the self-adhesive label and narrow web ...stry, explains that failure to settle disputes combined with ...stry consolidation has rendered consumers vulnerable to ...ruptions.

...shortages risk feeding through to end-user customers soon, possibly endangering goods with ...food and pharmaceuticals). If alternatives like filmics are not possible, this will have serious ...ssions for consumers. For the labels and packaging sector, it will not be so easy to change to other methods of product decoration and identification overnight but there are alternatives available at the short term like switching to filmic liner materials."

"Ultimately, going forward, an industry-wide debate would be useful to see how industries (not just restricted to our sector as this applies to many other sectors) can reduce their dependence on a limited number of suppliers."

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FINAT made BBC 4's flagship news programme Today this morning. Right after the news report on Storm Dudley hitting the UK, our Committee member Will Parker explained the impact of the perfect storm of supply chain issues including the current paper shortages. Listen to the recording here.

#labels #papershortage #supplychain

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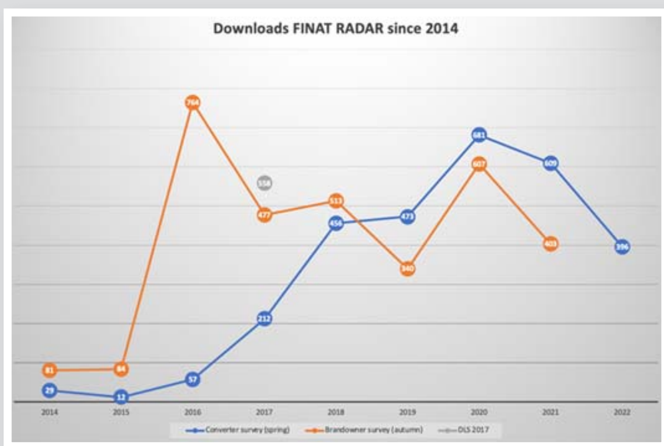
3. A recession around the corner?
Moving on to the third factor, by the time supply chain constraints may have been solved, supply chain factors may soon be overtaken by demand factors, with exponential increases in energy prices, raw materials costs and, ultimately double digit consumer price inflation eating into disposable incomes and consumer spending, and the dark clouds of the horrific war in Ukraine not expected to clear anytime soon.

As reported previously, statistically, demand for self-adhesive roll label materials is a significant indicator of European GDP. Although the correlation between the two has been distorted somewhat by the volatile consumption patterns during the 'Covid years', part of the downturn points at an economic shift in Europe in the months to come.

As FINAT President Philippe Voet put it in a statement just before the start of the new year: *"Time will tell, but the current cocktail of rising energy and raw materials costs, decreasing disposable income, disruptions in the labour market, a global food crisis and concessions being made to climate goals in order to have sufficient energy reserves for the winter, is blurring our vision. But on the positive side, crises like this can also be a driver of innovation on matters like sustainability, recycling, automation, digitalization and supply chain management. Many of these topics were discussed during the ELF, and it is FINAT's firm intention to continue facilitating the flow of information and data, to provide education and enable industry and cross-industry collaboration on matters that exceed individual companies' capabilities."*

HIGHLIGHTS FROM THE FINAT RADAR REPORTS

In 2022, the 6 monthly FINAT RADAR entered its 9th year. In the preceding 8 years, the reports have become a regular feature of FINAT's member value. Although data on the first two years are distorted by the methodology, search data via Google Analytics indicate that especially during the past 3 hectic years, surrounding the Covid Pandemic, the RADAR reports have been eagerly downloaded by member companies and their staff as a resource of market information in uncertain market circumstances. Some highlights from the latest reports since the previous Yearbook.



FINAT RADAR #16, DECEMBER 2021 (BRAND-OWNER PERSPECTIVES)

About Brand Guardians, Digital Evangelists and Sustainability Savants

The LPC team to which the Radar surveys have currently been outsourced, spoke with craft brewers as well as personnel at one of the world's largest global beer brands, with regional food products companies as well as the sustainability team at one of the world's largest food and beverage conglomerates. They spoke with chemical companies, agricultural businesses, medical device suppliers and multi-billion euro private label houses. Among the people that they had the pleasure of speaking with were a 'Brand Guardian', a 'Digital Evangelist' and a 'Sustainability Savant', all self-chosen job titles by the interviewees.

Supply Chain and Sustainability front and center

During every conversation, two topics were front and center: Supply chain and Sustainability. There is tremendous concern at the top of the value chain regarding the stability, and availability, of raw materials and the ability for companies' label vendors to meet delivery demands and lead time requirements. The current upheaval in raw material supplies has made all of us keenly aware of just how intricate and interconnected the global supply chain truly is. Additionally, from the survey and during the in-depth interviews it has become clear that there is a heightened and fervent desire to find more effective sustainable solutions for the printed packaging components that these companies buy whether it's a label, a pouch, linerboard or corrugated. Brands and printed packaging buyers want their label vendors to meet delivery requirements while providing viable sustainable solutions at minimal cost increases.

Quotes from label users

Naturally, for label converters to consistently meet all of these demands during a time of such extreme supply chain challenges isn't possible. This edition of the FINAT RADAR provides its readers with an overview of how brands and label buyers view the current state of the industry, in addition to how optimistic they are about growth in the label volumes they will purchase in the coming year. The report contains direct quotes from interviews giving them access to the way these companies across end-use segments are presenting their own opinions and insights, and the way they see their business navigating the current business landscape. There seems to be general consensus among the respondents that they wish to work more closely with their label vendors to co-create innovative ways of making the printed packaging industry a more resilient, and more sustainable one.

FINAT RADAR #17, JULY 2022 (CONVERTER PERSPECTIVES)

Revenues severely hit by internal and external supply chain shortages

The confluence of current events continues to dampen economic growth projections and weigh on consumer confidence across the European region. The increasingly complex and dynamic environment created by the ongoing war in the Ukraine, rising inflation, energy disruptions, continued lockdowns in Chinese manufacturing centers, and supply shortages in some labelstock and consumables categories has us all asking - What's next?

In this year's RADAR Converter Survey, companies were asked how the supply chain crisis is impacting their current revenue growth. Supply chain shortages directly within our own industry aren't the only ones potentially driving down growth and profits for converters. Supply chain shortages in the greater 'indirect' industry are having an impact as well; shortages for items like bottles, caps, closures and other packaging components can have an indirect effect on a label converter if contracts need to be cancelled or delayed due to shortages elsewhere.

Impact internal supply chain shortages dominant

We asked FINAT converters to indicate how much supply shortages outside of our direct industry were impacting their bottom lines, in addition to how much supply shortages within our industry were doing the same (for items like labelstocks, inks, plates, etc.). Close to 60% of participating converters indicated that supply chain issues, both in the greater packaging industry in addition to our own direct industry, has resulted in revenue losses at their companies, Unsurprisingly, direct supplies have had a higher impact with revenue losses average 6.6%, however external supply issues in the extended packaging supply chain are still having an impact on the majority of respondents.

The fallout from factors like supply chain shortages, the situation in the Ukraine and inflation is creating uncertainty and makes it difficult to predict how printed packaging converters will be affected, however one thing remains certain. While the future remains uncertain, the need for innovative printed solutions will endure. And so will our industry.