



NUMERA  
ANALYTICS



TISSUE  
SUPPLY AND DEMAND

European Forecast

MAY 2016

## **FOREWORD**

This report was prepared by Numera Analytics. It presents a summary of our short term forecast for European tissue demand and consumption. More detailed analysis is available from our Custom Research group.

For any questions or comments on this report, or for information about our other regional forecasts, please contact:

David Vallières  
Senior Market Analyst  
Numera Analytics  
T: +1 514 861 8812  
E: [dvallieres@numeraanalytics.com](mailto:dvallieres@numeraanalytics.com)

Phil Bond  
Director, Europe  
Numera Analytics  
T: +44 776 825 5903  
E: [pbond@numeraanalytics.com](mailto:pbond@numeraanalytics.com)

Roman Hohol  
Vice-President, Custom Research  
Numera Analytics  
T: +1 514 861 6890  
E: [rhohol@numeraanalytics.com](mailto:rhohol@numeraanalytics.com)

# TABLE OF CONTENTS

	<u>Page</u>
<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>THE EUROPEAN CONSUMER.....</b>	<b>2</b>
<b>EUROPEAN TISSUE MARKET</b>	
Demand by Region.....	5
Tissue Consumption vs. Demand .....	6
Consumption by End-Use.....	7
At-Home .....	7
Away-from-Home.....	8
Trade - Imports & Exports.....	9
Capacity.....	11

## APPENDICES

- I: European Tissue Balance 2002-2015
- II: European Tissue Demand by Region 2002-2015
- III: European Tissue Demand Per Capita by Region 2002-2015
- IV: European Tissue Capacity by Region 2002-2015
- V: Major Capacity Changes 2012-2018

## EXECUTIVE SUMMARY

In 2015, European tissue demand rose #%, its strongest increase since 2007. Part of the increase was due to some stock-building which boosted demand relative to actual consumption, especially in Northern Europe. Nonetheless, we estimate that total European tissue consumption (removing the effects of changes in mill and supply chain inventories) grew #% for the year, bolstered by an improved economic environment. Consumption in the At-Home segment was supported by a #% increase in households as well as a #% gain in real per capita income. The primary benefactor from the rise in income, however, was the Away-from-Home (AfH) sector, as higher discretionary spending generated traffic in hotels, restaurants, stores and recreation facilities. Another positive for the AfH segment was that office employment advanced #%.

The increase in total European demand resulted in a gain of # kg in demand per capita, which set a new peak of # kg. Demand per capita actually reached new records in Northern Europe, Central Europe and Eastern Europe (see section on demand by region for further details). On the other hand, per capita demand in Southern Europe remained below its pre-recession level. It was still more than # kg below the peak of 2007, even though it rose by # kg to # kg in 2015.

### European Tissue Balance 000s of tonnes

	Actual			Forecast				
	2013	2014	2015	2016	2017	2018	2019	2020
<b>Tissue Production</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<i>Plus</i> <b>Rolls Imports</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<i>Less</i> <b>Rolls Exports</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<i>Equals</i> <b>Rolls Demand</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<i>Plus</i> <b>Converted Imports</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<i>Less</i> <b>Converted Exports</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<i>Equals</i> <b>Total Demand</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<b>Population (millions)</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<b>Rolls Demand per Capita</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<b>Total Demand per Capita</b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<b>Tissue Capacity <sup>(1)</sup></b>	#	#	#	#	#	#	#	#
	##	##	##	##	##	##	##	##
<b>Operating Rate <sup>(1)</sup></b>	##	##	##	##	##	-	-	-

(1) Capacity for 2018 onward is understated as only projects classified as definite are included in the estimates, therefore, operating rates for these years would be overstated.

For 2016, we expect demand to remain flat, as it should be dampened by a negative stock swing. At the same time, we estimate that real consumption will increase #%. Economic conditions should remain favourable with employment and income showing similar growth than in 2015.

For the remainder of the forecast period, tissue demand is expected to grow an average of #% per year. As a result, demand per capita would reach # kg by 2020. Growth should be the strongest in Eastern Europe, which is catching up to its Western counterpart, but also in Southern Europe where improvements in employment and income should support a recovery in per capita demand.

## **THE EUROPEAN CONSUMER**

Real private consumption in the European Union grew 2.1% in 2015, a clear improvement from the 1.2% registered the year before. As was the case in 2014, household spending constituted the main growth engine of the European economy, contributing 1.2% of the 1.9% increase in EU real GDP. Importantly, the composition of growth was fairly balanced, with private consumption strengthening in most Member States. We anticipate private consumption will remain the main growth driver of EU and euro area GDP over the medium term. Our tissue market projections are conditional on consumer spending rising 1.5% per year through 2020, about 1 point higher than the average rate of growth recorded between 2010 and 2015. In our opinion, persistent improvements in household spending will depend on three main factors: Low energy prices, continued stimulus by the European Central Bank (ECB), and a progressive tightening of labour market conditions.

The strengthening of household spending in 2015 was largely driven by a decline in global energy prices. The sharp drop in the price of Brent has reduced retail energy prices in EU countries, as signalled by the energy component of the harmonized index of consumer prices (HICP). The average price of energy-intensive goods in the European Union fell 6.6% last year, compared to core HICP inflation of 0.9%. For oil importing regions like Europe, falling energy prices are beneficial for private consumption. The main reason for this is that lower energy prices increase discretionary income. Since energy goods are not responsive to price variations over the short term, the decline in the relative price of gasoline is usually not strong enough to offset this positive wealth effect, thereby boosting purchases of non-energy goods. In addition, for competitive industries where oil is an important factor of production, lower marginal costs eventually result in lower output prices, further enhancing the purchasing power of households.

Importantly, the effect of energy prices on consumption is highly dependent on the persistence of the oil price shock. If the increase in real disposable income is long-lasting, then consumers with secure earnings (and who are not borrowing constrained) are more likely to increase current purchases instead of using the resulting income gain to build buffer stock savings. Since global oil prices are expected to remain low for a prolonged period of time, private consumption in EU countries should continue to benefit, especially if confidence is on the rise. It should be noted, however, that the net effect will be lower for euro zone countries than for other EU Member States.

With the policy rate at zero, downward pressure on consumer prices in the euro area will necessarily result in higher real interest rates, partly offsetting the aforementioned wealth effect. Recent econometric estimates by the European Commission suggest that in a context of falling oil prices, a large (~20%) drop in energy prices generates an almost immediate increase in demand in the euro area, with the effect peaking at about 1% growth four quarters after the shock. A weaker response ensues when the lower bound on monetary policy becomes binding.