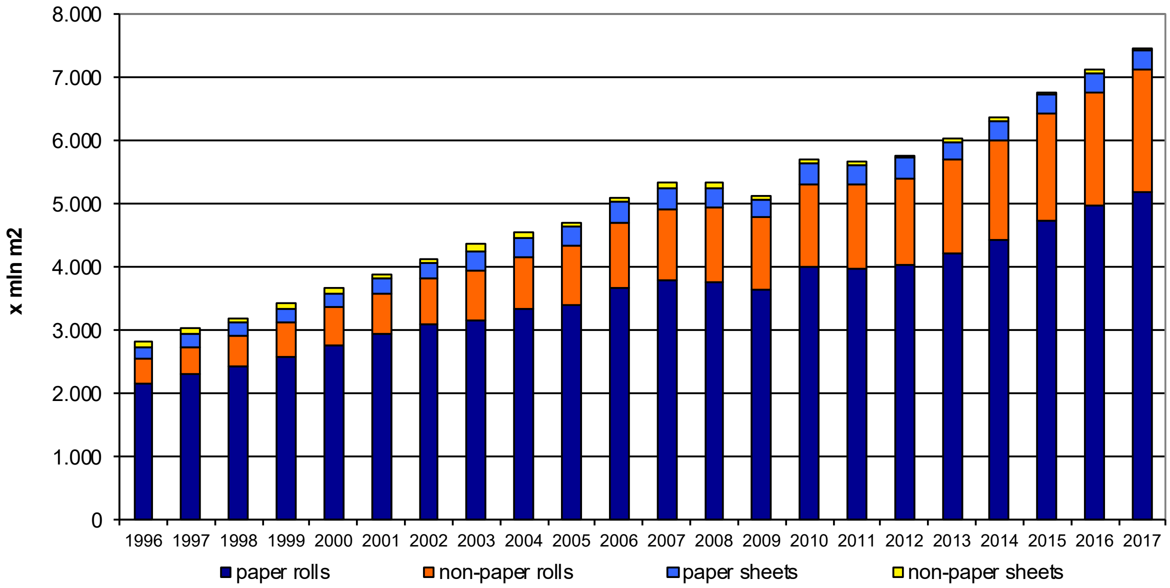
European Label Industry Continues Dynamic Track Record in 2017

Total consumption of self-adhesive label materials in Europe amounted to 7.45 million m² in 2017, corresponding with a growth rate of 4.7% compared to 2016. This was slightly below the average growth rate of 5.4% over the preceding 4 years, indicating a mild slowdown in the industry's dynamic track record over the decade so far.

Since 2010, European label companies on aggregate recorded an increase of almost 1.7 billion m² in their annual demand. The increase which was mainly driven by the continued evolution of Eastern European markets, and the growing demand for high-end applications explain the exponential growth of sophisticated label substrates like white coated papers (+24% since 2010), direct thermal papers (+51%) and especially PP (+78%).

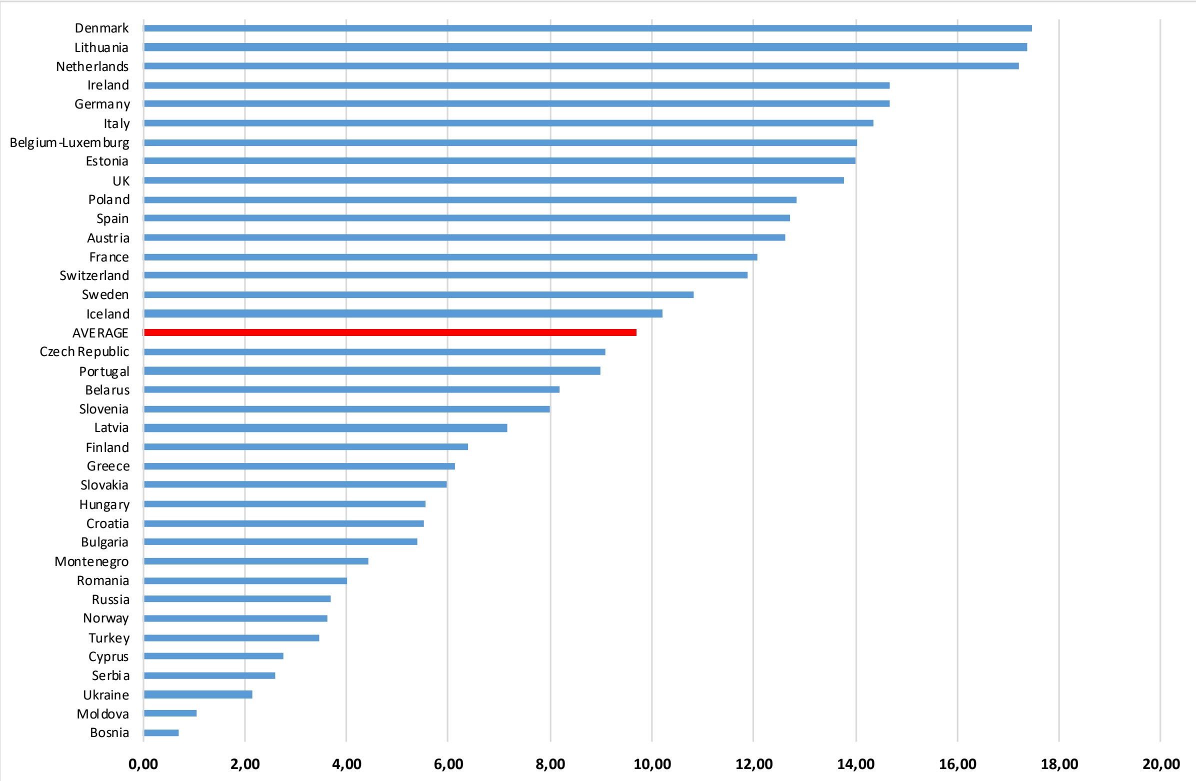


Regional outlook: great disparity across Europe – huge upward potential

Looking at the geographic distribution of labelstock demand growth, the established markets of Germany, UK, Italy, France and Spain still account for 58% of the total European market size. But large emerging countries like Poland and Turkey are catching up and are expected to challenge the top 5 over the next few years.

And yet, the disparities across Europe remain significant, when comparing materials demand in terms of consumption per capita. Whilst the European average of 9.7 m^2 is approaching the 10 m^2 benchmark, the 'standard deviation' around this average is still huge. Whilst the top 3: Denmark, Lithuania and The Netherlands (all small, export oriented countries) record a consumption per capita of almost 17.5 m^2, the bottom 10 countries still count a consumption per capita of less than 5 m^2.

Among these 10, we find 'sleeping giants' like Romania, Russia and Turkey, between them representing almost 250 million inhabitants or one-fifth of the total population in the countries under review. This indicates that even with general economic prospects indicating a cyclic slowdown, there is still a huge potential for structural growth over the years to come.



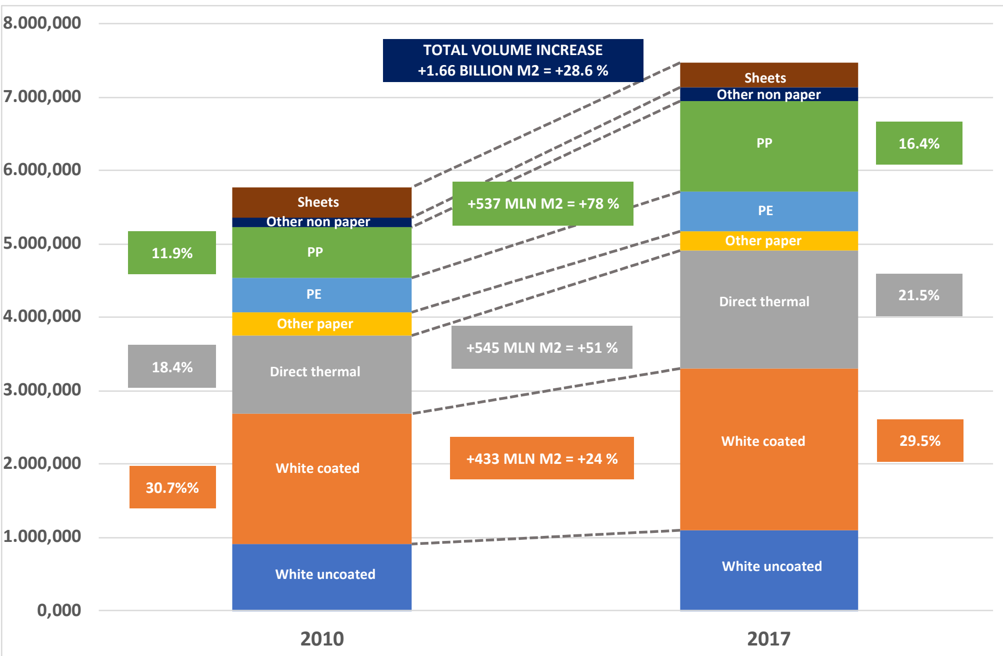
Good-better-best: going beyond labels, from a position of strength

And this potential for structural growth is not even taking into account the continuously widening scope of the labels sector, into the domain of short term flexible packaging, as companies are looking to offer adjacent solutions manufactured from the industry's sophisticated installed machine base. This diversification was created from a position of growth strength built up over the past decade, as can be seen from the chart below.

Although paper based materials continue to dominate label materials demand, demand has been shifting from basic primary and VIP labels applications, towards more sophisticated, high-end applications. The continued growth in demand for packaged consumer goods, especially in emerging economies, has increased the need for white, coated materials as end-users are looking to differentiate their branded products on the shelf. Labels containing variable product data in sectors like retail, logistics, process automation and inventory management demand an ever-growing volume of direct thermal papers. But above all, the need for high quality (transparent) product decoration in high speed, high volumes sectors like food, health and beauty care and premium beverages is driving the surge in the consumption of PP-based labels.

In 2017, demand for white coated materials recorded a modest but consistent growth of almost 3% compared to 2016 bringing the aggregate growth for the decade to 25%. This however was insignificant compared to the 6.8% growth in direct thermal (+50% on aggregate) since 2010 and dwarfed when compared to the 12.5% increase in the consumption of PP-based materials (LMOST +80% on 2010).

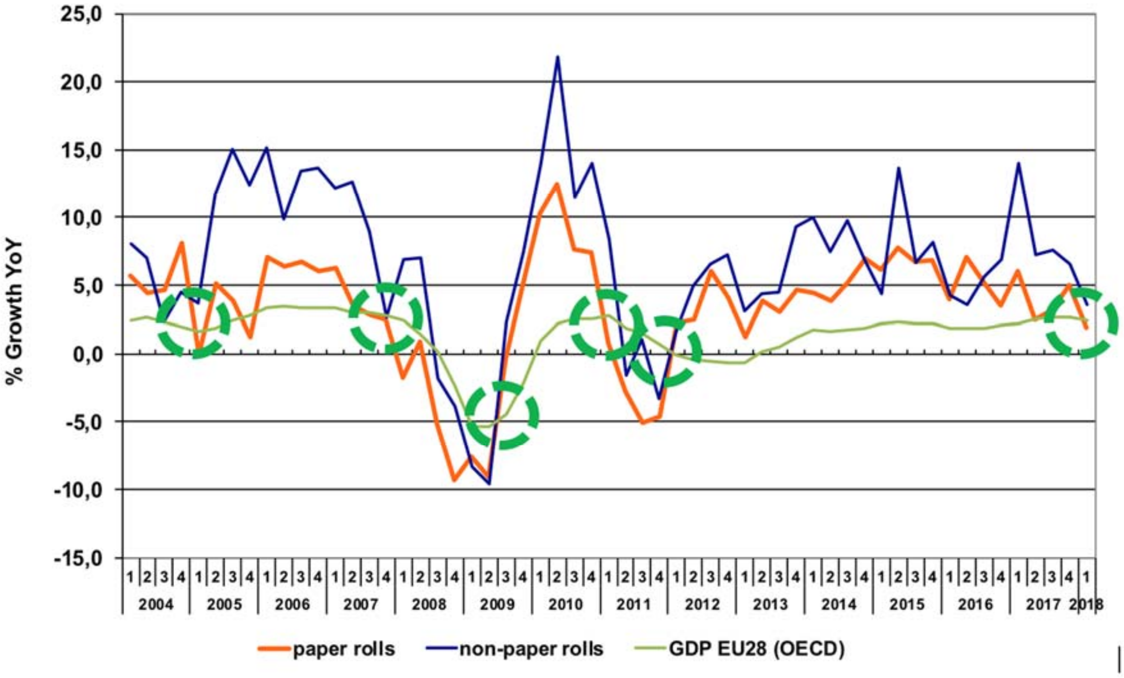
Given these numbers it is only natural that an increasing number of self-adhesive label producers are now offering adjacent high-end packaging solutions like pouches, sleeves and other flexible packaging items on their existing installed machine base, and are investing in the corresponding knowledge, facilities and accreditation programmes like in the case of food safety.



Short term outlook: signs of economic slowdown?

Exercises performed by FINAT's statistical agency Panteia last year indicate that there is a significant statistical correlation between roll labelstock demand and the general economic climate. In other words: labelstock demand is a significant indicator of the economic development in the European economic area. This correlation is not surprising since labels are an essential enabler in a wide variety of sectors of the business community.

Looking back, each of the changes of general economic cycles in the EU28 countries over de past 1.5 decades was 'announced' by a reversal of the trend in labelstock demand in the previous quarters. Given the present uncertainties associated with Brexit, escalating trade wars between the EU and the US, continued trade sanctions against Russia and, finally, re-emerging concerns about the euro following the installation of the new Italian government, it should come as no surprise that the gap between annualised growth rates in the label industry and GDP has been shrinking in recent quarters after 5 years of continued well above GPP growth rates.



Monitoring brand-owner trends

The FINAT Labelstock Statistics on which the charts above are based represent one end of the spectrum. Starting from the opposite end, one of FINAT's other market research partners, LPC Inc., has had the opportunity to conduct technical surveys and one-on-one interviews with brands across Europe for the compilation of the FINAT RADAR. This work gives FINAT members a unique perspective on the European labelling sector, and on the trends and forces that are driving brands to adopt and implement specific labelling technologies and decoration formats.

Throughout these years of extensive research and data collection, two trends dominate:

1. **Prime labels are becoming increasingly complex;**
2. **Non-prime labels are becoming increasingly functional.**

While the Eurozone economy continues to perform robustly and a recovering labour market and healthy external demand continue to support ongoing label sector growth, brands are persistently seeking ways to connect with their customers. One of the primary methods that enable them to do this is through the types of package decoration they conceptualize and push through the supply chain.

More and more, it has been noticed that labels become a way for brands to achieve a market-specific approach late in the supply chain. This means shorter runs as SKUs proliferate, and the ability for a label converter to turn around a job quickly given late-stage new design and/or label functionality requirements. This remains one of the forces driving digital press adoption and influences the ways marketing and R&D departments create campaigns and strategise ways to speak to, and captivate, consumers.

FINAT RADAR # 9: the converter perspective

Enjoying a healthy response of 97 label companies across Europe, the spring 2018 edition of the FINAT RADAR (released July 2018) confirms the buoyant state of the label industry. Average annual sales growth over the past 5 years amounted to 7.1%, albeit that sales growth in 2017 was slowed down compared to previous years. Interesting to note, however, is the fact that contrary to previous years, highest growth rates were recorded in non-prime markets like automotive, consumer durables and industrial chemicals. The largest labelling sectors of food and beverages however continue to be among the top 5 growth markets.

Sales Growth Averages for European Converters: 2013-2016						
Region	**2013**	**2014**	**2015**	**2016**	**2017**	**Average 2013-2017**
Eastern Europe	7.2%	10.1%	10.5%	10.5%	8.6%	9.4%
Uk/Ireland	5.3%	9.9%	9.8%	13.2%	11.1%	9.9%
All Regions	***5.7%***	***6.7%***	***8.4%***	***8.3%***	***6.5%***	***7.1%***
Central Europe	5.2%	4.0%	9.5%	5.5%	2.5%	5.3%
Southern Europe	4.5%	5.7%	7.6%	8.1%	7.3%	6.6%
Scandinavia	4.2%	8.5%	-1.3%	4.3%	4.5%	4.0%
Source: LPC, Inc. FINAT RADAR **Data taken from FINAT converters*						

In conclusion: the future remains bright for labels

The future remains bright for labels. When asked which printed packaging sector delivers the most innovation, again and again brands claim their label suppliers offer more innovation and agility over their flexible packaging, carton and corrugated suppliers. Ours is an industry of change. And to effectively report pertinent market shifts and directional trending, the FINAT RADAR will continue to closely monitor technology preferences and application requirements at the brand level.

The Hague, June 2018