2 Finnish Forest Industry

2.1 Production and Exports in the Sawmilling and Plywood Industries

The economic outlook for Finland’s wood products industry has worsened again. Export volumes of sawnwood and plywood to Europe in the first half of 2012 were lower than in the same period a year earlier. Estimates of the trend in construction indicate that there will be a further reduction in demand for sawnwood and plywood in the second half of 2012, both on the European export market and the domestic market. Although exports are slightly up to markets outside Europe, specifically Africa and Asia, production and exports are expected to show an overall decrease of 4–6% for the full year 2012, varying according to the products in question. The price of sawnwood in the first half of 2012 was rising slightly, but in the second half-year the declining demand is pushing down prices. For the full year, the prices of both sawnwood and plywood are expected to be slightly below those of 2011.

In 2013, the demand outlook is expected to brighten somewhat towards the end of the year, and production and exports of Finnish sawnwood and plywood are forecast to be up slightly year-on-year. In Europe, new housing construction will begin to pick up gradually, and sawnwood and plywood exports to Asia and Africa will increase, while in Finland the building renovation sector will continue to grow. However, a real recovery in Europe’s construction sector is not expected until 2014. Demand growth is also expected to push up the unit prices of sawnwood and plywood exports, though in annual terms this will only have a minor impact. The price trend for sawnwood in Europe has remained weak during the economic downturn of the past few years, and any more significant rise in prices would require a distinct recovery in construction in Europe and the United States.

Construction Recovery Slow

In the first six months of 2011, sawn softwood consumption grew in various markets around the world on account of the improved economic outlook. In 2012, the economic outlook has deteriorated, and Euroconstruct estimates in its June report that new residential construction in Western Europe will be down for the full year 2012. Residential renovations will also fall short of the 2011 figures.

The low level of construction activity in recent years has returned Europe’s sawn softwood consumption volume (estimated consumption = production + imports – exports) to the level of a decade ago. In 2006, Europe’s housing completions peaked at 2.38 mill. units, whereas Euroconstruct’s estimate for 2012 is only about half of this. Construction activity varies greatly from one country to another, however. In the euro area’s crisis countries, construction activity is declining, whereas in Germany the more favourable economic conditions have aided construction. In Sweden and Finland, new residential construction will be down in 2012, with a turnaround in construction not expected in Finland until 2014. By contrast, Russia’s residential construction is expected to be increasing, as its 2011–2015 construction
programme is likely to boost the production of new homes and the use of wood in construction. Sawnwood consumption in the United States has fallen more rapidly than in Europe over the past few years, dropping about 40% to a level below that of a decade ago. Residential construction has nevertheless begun to grow gradually, and US housing starts were up by 25% in January–August 2012 compared with the same period a year earlier. Starts are nevertheless still far short of the volumes prevailing before the recession. With the decline in domestic consumption, North America’s sawnwood exports to China have grown, and for Canada the first half of 2012 was also a period of export growth.

The growth in consumption of wood products has chiefly been in Asia, with China being the largest consumer. China has become ever more reliant on imported roundwood, and its imports of sawnwood have also grown. China’s imports in the first part of 2012 were nevertheless adversely affected by a minor downturn in construction, which will also continue in 2013. In Japan, reconstruction boosted the demand for sawnwood and wood-based panels in 2011, but more slowly than had been expected. As reconstruction progresses, it is anticipated that the demand growth for wood products will continue and that imports will increase somewhat. Japan’s housing starts in January–June 2012 were up by 5% on a year-on-year basis, and starts of timber-framed buildings were up by almost 4%.

The demand for sawnwood in the Middle East and North Africa has not yet reflected Europe’s economic problems to any great extent. Demand in 2011 nevertheless suffered a temporary setback due to the unrest in the region and the war in Libya. The region’s economies will show continued growth for both 2012 and 2013, but uncertainty is heightened by the military action in Syria and by the possibility of conflict between Israel and Iran.

Europe’s Economic Outlook Worsens in Second Half of 2012

The weak price trend for sawnwood in Europe has continued for a considerable period already, as consumption has remained low following the recession. Sawmilling capacity is high, especially due to the investments in Germany since 2000, and further additions are on their way. The estimated net increase in capacity in Sweden over the period 2011–2012 is approximately 2.4 mill. m³ of sawnwood, and the additional capacity in Russia up to 2016 could be 3.5 mill. m³, mainly in Northwest Russia and Siberia. The oversupply has meant an increase in exports from Europe to North Africa and the Middle East, and also to markets in Japan and China. An improvement in the price trend in Europe will require a distinct recovery in demand in both Europe and the United States.

The abundant sawmilling capacity has in places led to upward pressure on sawlog prices in Europe, which together with the weak price trend for sawnwood has meant a deterioration in production profitability. Production limits have in fact been introduced in Central Europe in the first half of 2012. In Germany, sawnwood production in January–May was almost 7% lower than a year earlier, and in Austria the difference was even greater. At the same time, Russia’s production has remained close to the 2011 level, while in Finland there was a year-on-year drop of 3%. In Sweden, sawmills have been hit not only by the weak sawnwood price trend but also the strong krona, with second-quarter production falling by 3.5% year-on-year. Despite the production limits set by European producers, the rise in the HWWA index of sawnwood market prices in the early part of the year tailed off in

<table>
<thead>
<tr>
<th>Production</th>
<th>Sawnwood</th>
<th>%</th>
<th>Plywood</th>
<th>%</th>
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<tbody>
<tr>
<td>Domestic use</td>
<td>3 585</td>
<td>37</td>
<td>177</td>
<td>17</td>
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<tr>
<td>Exports:</td>
<td>6 115</td>
<td>63</td>
<td>863</td>
<td>83</td>
</tr>
<tr>
<td>EU</td>
<td>2 828</td>
<td>30</td>
<td>756</td>
<td>73</td>
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<tr>
<td>Africa</td>
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<td>16</td>
<td>4</td>
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<tr>
<td>Asia excl. Japan</td>
<td>861</td>
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<td>18</td>
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<tr>
<td>Japan</td>
<td>722</td>
<td>7</td>
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<tr>
<td>North America</td>
<td>1</td>
<td>0</td>
<td>28</td>
<td>3</td>
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<td>Russia</td>
<td>3</td>
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<td>0</td>
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<tr>
<td>Other</td>
<td>118</td>
<td>1</td>
<td>51</td>
<td>5</td>
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*Estimated domestic use = production – exports

Sources: Finnish Forest Industries Federation and National Board of Customs.
June–July. Given the deteriorating economic conditions, this will mean a weakening of the price trend in the latter part of 2012.

In Finland, the price ratio between softwood sawlogs and sawnwood became significantly less favourable for the sawmilling industry in 2011 in particular, following the drop in the ratio during the recession year of 2009. In the first half of 2012 the economic expectations were nevertheless positive, and there was a slight improvement in the price ratio between sawlogs and sawnwood, as sawnwood export prices were on the rise. Despite this, the average export price for January–June was down by 3% for spruce sawnwood and 1% for pine sawnwood on a year-on-year basis. The economic trend in Europe since the spring has worsened further. The August 2012 economic survey by the Confederation of Finnish Industries (EK) revealed that in the wood products industry the price trend is expected to reverse into a decline in the latter part of the year. With production being restricted in Europe, the drop in prices will probably be relatively small. The unit price of Finnish sawnwood exports for the full year 2012 is expected to be slightly below the 2011 average.

The total export volume of Finnish sawnwood increased in January–June 2012 year-on-year, even though exports to Europe were down by about 5% in the same period. Exports to Africa were up by about a quarter thanks to orders from Egypt and Algeria, and exports to Asia were up by 6%. Despite the unfavourable movement in exchange rates, Sweden’s exports in January–June were also up by almost the same percentage as Finland’s exports. At the same time, there was a fall of about 2% in Sweden’s exports to Europe, but its exports to destinations outside Europe were up considerably. The profitability of sawnwood production has been hit in Sweden too, due to the significant rise in roundwood prices that has occurred since the storm-damaged trees were sawn up in 2010. The increase in sawmilling capacity in Southern Sweden in particular is expected to bring additional upward pressures on the price of roundwood.

Finnish sawnwood exports to Asia and Africa for the full year 2012 will be up, but exports to Europe will show a decrease due to the fall in demand in Europe. Overall, Finnish sawnwood exports in 2012 are forecast to be about 4% below the 2011 figures.

**Hope of Improved Demand in 2013**

Forecasts by Euroconstruct indicate that new residential construction will begin to grow slightly and that residential renovations will increase in Europe in 2013. With this growth taking place from a low base and being unlikely to begin until the latter part of the year, the market outlook will see only a minor improvement. Differences between countries will remain considerable, and some countries will still see a reduction in construction activity. However,
construction will grow in Germany and the United Kingdom, which are among Finland’s biggest export destinations. Any improvement in the market outlook in Europe will require that no further worsening of the sovereign debt crisis takes place.

In Africa, the uncertain political circumstances may still continue in 2013, but sawnwood demand is nevertheless expected to remain more buoyant than in Europe. Progress with Japan’s reconstruction will stimulate its demand for wood products, and Europe’s exports to China are also expected to grow.

This improved demand is expected to push up sawnwood prices a little in Europe in 2013, though this will occur in the latter half of the year. Europe’s exports to the United States, which also shrank substantially during the recession, might well start to grow as US construction activity increases. Swedish and Russian exports to Europe may be adversely affected by exchange rate movements, which have weakened price competitiveness in these two countries. The euro was about 16% weaker against the Swedish krona in July 2012 than in January 2010. The euro has also weakened a little against the Russian ruble. In the early months of 2012, Swedish exports were focused on Africa and Asia, while Russia has also focused on its domestic consumption. In relation to the currencies of the United Kingdom, the United States and Japan, the weakened euro is expected to give Finland a competitive advantage in 2013 as well. Finnish sawnwood exports are forecast to grow in 2013 to Asian and African markets and also to a minor extent to Europe. Export volumes and prices are expected to improve towards the end of 2013, boosting their annual growth to about 2%.

Decline in Construction in Finland

According to the August 2012 survey by the Confederation of Finnish Industries (EK), economic expectations in the construction sector have deteriorated since the spring. The economic stimulus measures of 2011 resulted in an increase in the construction of new housing, but the pace has slowed in 2012. Construction activity varies considerably across the country, but overall the volume of low-rise housing construction in January–June 2012 was about 9% lower than a year earlier, and building permits were down by one fifth.

Euroconstruct estimates that new residential construction in Finland for the full year 2012 will be down by 7%, and that growth will not be seen until 2014. Renovation of existing buildings, which accounts for 45% of all building construction by value, has continued to grow, and is forecast to be up by 3% for 2012. Renovation work is boosted by the increase in the total building stock and by the ageing of this stock. However, the cut in the household tax credit arrangements in 2012 could slow the growth rate in renovations to a certain extent. The decrease in new residential construction is expected to reduce domestic consumption of sawnwood by about 5% in 2012, and consumption is unlikely to grow significantly until 2014.

The slowdown in domestic consumption and the deteriorating economic outlook on export markets began to be reflected in sawnwood production during the first half of 2012, when production volumes were down by 3% year-on-year. With domestic consumption and exports falling in the second half of the year, Finnish sawnwood production volumes for the full year 2012 are expected to be down by 7% compared to 2011. Forecasts of production and exports in the sawmilling and plywood industries, 1000 m³ (percentage changes from previous year are shown below the respective volumes).

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<tr>
<th>Production</th>
<th>Exports</th>
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<tbody>
<tr>
<td>Sawnwood</td>
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<tr>
<td>Plywood</td>
<td>1 040</td>
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<tr>
<th>Forecasts of export prices for sawnwood and plywood (as percentage changes from previous year).</th>
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<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>Sawnwood</td>
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<td>Plywood</td>
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Export prices are nominal unit values.
year 2012 are expected to fall to approximately 9.3 mill. m³. Growth in domestic consumption and in exports in 2013 is not expected to be very high, and so production growth is forecast to be about 2%.

**Plywood Markets**

The improved economic outlook at the start of 2011 was also evident in the wood-based panels market, where consumption increased in Europe and North America. Finnish plywood exports grew to the principal export markets in Europe, and there was a rise in the export unit price. Plywood prices were also rising in the first part of 2012, as the supply in Europe had decreased due to the destruction of a Chilean pine plywood factory and a reduction in imports of Chinese hardwood plywood on account of the rising cost of sea freight.

The deterioration in economic trends has also been evident in plywood markets. In January–June 2012, export volumes of Finnish softwood plywood were down by 6%, and hardwood plywood by 2%, as exports to Europe and the United States declined. By contrast, there was an increase in export volumes to destinations outside Europe. The majority of Finnish plywood exports are bound for the European Union, however, where the biggest export destinations are the United Kingdom and Germany. The trend in export prices was more favourable than that in export volumes, with the export unit prices of birch and softwood plywood in January–June 2012 being about 2% higher than for the same period in 2011. About 60% of Finnish plywood exports consists of softwood plywood and the rest is birch plywood. The price of birch plywood is about twice that of softwood plywood.

Plywood consumption is affected not only by construction activity but by demand from the furniture and transportation equipment industries and the packaging industry, which is reliant on world trade. Plywood consumption in Europe relies on a certain level of imports, as Europe’s own production covers about 80% of consumption. Europe’s biggest plywood importer is Germany, whose imports of softwood and hardwood plywood fell by 14% year-on-year in the first half of 2012, according to figures from Eurostat. The first six months of the year saw no significant changes in the biggest exporters’ market shares in Germany. Among Germany’s imports of hardwood plywood, Russia’s share was about a quarter, while Finland and China each accounted for 18%. In the first half of 2012, German imports of hardwood plywood were slightly higher than its imports of softwood plywood.

Russia’s plywood capacity has grown in recent years, and new investment plans are also in hand for the coming years. China has significantly increased its market share on the European plywood market in recent years. Finnish plywood production remains the highest in Europe after Russia, although production volumes have fallen to about 1 mill. m³ since the 2006 peak of 1.4 mill. m³.

The deterioration in economic conditions in 2012 is expected to be reflected in many different areas of plywood use in Europe. The recovery in housing and other construction has been delayed, the growth setback in international trade is affecting the transportation equipment industry and packaging, and the decline in consumer confidence is having an impact on furniture demand. In the second half of 2012, the trend in Finnish export volumes and prices is expected to be weaker than in the first six months, especially in regard to softwood plywood, which is used in construction. In comparison with 2011, plywood export volumes are expected to be down by 5%
for the full year 2012, and export unit prices will be down a little. Export volumes and prices will rise in 2013 as Europe’s economy improves.

2.2 Production and Exports in the Pulp and Paper Industry

As uncertainty over the future course of the economy increased and GDP growth slowed in the second half of 2011, consumption and production of paper and paperboard products in Europe and the United States declined. Paper consumption has fallen further in 2012, and export volumes of Finnish paper and paperboard decreased considerably in the first six months of the year. With consumption remaining slack in the second half of 2012, Finnish paper production and exports are forecast to be down by 8–9% for the full year, while paperboard production and exports will be down by 1%. Pulp production and exports are forecast to be up by 1–2% due to a growth in exports to China.

Prices of paper and paperboard products in Europe rose considerably in 2011 as a result of the production limits, and paper prices continued to rise in the first half of 2012. The average price of paper exports for the full year 2012 is forecast to be up by 4% in comparison with 2011, while the paperboard price will be unchanged. Pulp prices are forecast to be down by 7% year-on-year.

No improvement is expected in paper and paperboard demand in 2013, and an increase in demand is not likely until 2014. Production and exports of Finnish paper, paperboard and pulp in 2013 are expected to be at about the level of 2012. Prices are expected to be close to the 2012 level due to the continued weak demand in Europe.

Further Fall in Paper Demand in Europe and North America

Mid-2011 saw an end to the growth in world paper consumption that had occurred since the last economic recession, as a result of slacker growth in the world economy. Paper consumption growth was reversed into a decline in Europe and North America in the second half of 2011. Consumption of printing and writing papers fell by 3% in Europe and by 5.2% in North America in 2011. The biggest drop was in the consumption of uncoated magazine and fine papers. The reasons for the decrease in consumption of printing and writing papers are the same in Europe as in North America: consumers are switching from printed to digital media as reading habits change, unfavourable economic trends have reduced the total amount of advertising, and printed media have lost some of their market share of advertising revenues to the competing electronic media channels.

In North America, consumption of paperboard and packaging papers fell in 2011, by 5.2%. Consumption of paperboard and packaging papers in Europe actually grew a little, although at a considerably slower pace. Over the longer term, consumption of printing and writing papers in North America has fallen by a significantly greater proportion than the consumption of paper and paperboard used in packaging. As a consequence, packaging materials consumption already accounts for more than half of all paper and paperboard consumed, in both Europe and North America.

Although capacity has been cut considerably in the paper industry in recent years in Europe and North America, there is still overcapacity on the printing and writing papers market. While production volumes fell in 2011, capacity utilisation rates also fell for paper and paperboard: to 90% in Europe (a drop of 1.5 percentage points) and 85% in North America.

In Russia and several other Eastern European countries, GDP growth slowed in 2011, also reducing the growth in paper and paperboard consumption. Russia’s production of paper and paperboard has been growing at a relatively slow rate throughout the period since 2000. Russian consumption growth has focused especially
on the more expensive paper and paperboard products, which have had to be imported on account of the small scale of the country’s own production.

In 2011, the Chinese economy continued to grow, and the production and consumption of paper and paperboard were up by 6–7%. The highest growth was in the production and consumption of coated fine paper. China is the world’s largest producer and consumer of paper and paperboard. In all, 70% of its consumption and production of paper and paperboard consists of packaging board and packaging paper. In 2011, China’s production of packaging board and packaging paper amounted to approximately 60 mill. tonnes, compared with US production of 47 mill. tonnes.

Since the start of 2012, the demand for printing and writing papers and the production of these have continued to decline, both in Europe and in North America. In January–July, the demand for newsprint and wood-fibre containing printing and writing papers fell on a year-on-year basis by 8–9% in Europe and by 7% in North America. By contrast, China’s consumption and production of paper and paperboard products have continued to grow in 2012 as well.

Rise in Paper Prices

Production and exports of Finnish paper and paperboard fell in 2011 by a slightly greater proportion than the decrease in consumption and production in Europe. Although production of paper and paperboard was down by 4% and pulp production remained unchanged, the capacity utilisation rate in the paper and pulp industry rose by more than 3 percentage points to 87% in 2011 as capacity was reduced.

In the first half of 2012, exports of paper to European markets fell further. Although exports of paper from Finland to the United States grew slightly, Finland’s total export volume of paper in January–June 2012 was 11% below the figure for the same period a year earlier. Exports of magazine paper were down by almost 20% in January–June 2012. Magazine paper’s share of Finnish paper exports has been falling substantially since 2008, and now constitutes less than half of all paper exports. Fine paper has correspondingly accounted for a growing share, rising to almost 40%, while newsprint has shrunk to 3% of all paper exports. Exports of paperboard in January–June 2012 were down by 5% year-on-year.

Paper prices began to rise in Europe in 2009, and this continued in 2011. The average price of Finnish paper and paperboard exports in 2011 rose by 6–7%. In the first six months of 2012, the average price of paper exports was 2% higher, and of paperboard exports 2% lower, than the average prices for the full 12 months of 2011. Among the different paper grades, magazine paper prices rose in the first half of 2012 and fine paper and newsprint prices fell slightly. Among paperboard products the biggest fall was in the price of fluting.

Finnish forest industry companies have announced new price increases for certain
product groups to take effect during the second half of 2012. The average price of Finnish paper exports for the full year 2012 is forecast to be up by 4%, while the paperboard price will be unchanged. The decrease in production and exports of Finnish paper and paperboard is expected to level out towards the end of 2012. Paper exports are forecast to be down by 8% and production by 9% for the full year 2012. Production and exports of packaging papers and paperboard products are forecast to be down by 1% for 2012.

**Pulp Demand Remains Good, but Prices Fallen**

In China, consumption of wood fibre and of recycled fibre from recovered paper has tripled since 2000, whereas production and consumption of other fibres has fallen. Recycled fibre today accounts for over 60%, and wood fibre for almost 25%, of overall fibre use in China’s paper industry. In 2011, China’s consumption of recovered paper fibre grew by 6% and its consumption of wood fibre by 15%. China’s consumption of wood fibre and its need to import wood fibre will grow considerably in the coming years too, because almost 30 mill. tonnes of new paper and paperboard capacity is planned for construction in China in the period 2012–2016.

In January–July 2012, China’s pulp imports were up by 20% compared with the same period a year earlier. Exports of Finnish bleached softwood pulp to China grew in 2011 by almost 90%, and in the first six months of 2012 by 35%. China already accounts for 35% of Finland’s softwood pulp exports.

The dollar price of pulp in China remained high in the first half of 2011, but subsequently fell by 25% by the end of the year. The prices of hardwood and softwood pulp rose rapidly at the start of 2012, as China’s imports were at a record high from December 2011 to February 2012, but then they began to fall. However, by the start of August 2012, the FOEX PIX index of the market price of hardwood pulp in dollars had risen by 15%, while that of softwood pulp had fallen by 5%, since the start of the year.

In Europe, the decrease in paper industry production in 2011 reduced the consumption of
wood pulp by 2.8%. With the growth in exports of market pulp to Asia and particularly with the growth in demand in China, Europe’s market pulp production was up by 3% in 2011. Total production of wood pulp in Europe remained at the previous year’s level, and the capacity utilisation rate stood at 88%. Three quarters of Europe’s exports of market pulp go to markets in Asia, and these Asian exports were up by 40% in 2011.

The pulp price remained stable in the first two quarters of 2011 as paper production grew in Europe and especially in Asia, but began to decline significantly in the second half-year. The unit value of Finnish bleached pulp exports in 2011 was down by 2% year-on-year. By the start of September 2012, the euro PIX price of softwood sulphate pulp had fallen by 6% since the beginning of the year. The price differential between hardwood and softwood pulp has narrowed from EUR 140 down to EUR 10, due to the 18% rise in the euro price of hardwood sulphate pulp. The dollar price of bleached softwood pulp was down by 8% in Europe and 6% in the United States by the start of September.

In January–June 2012, export volumes of Finnish bleached sulphate pulp rose by 6% compared with the same period a year earlier. This growth came from exports to Asia, whereas there was a drop in exports to the European Union. Pulp consumption in Finland’s paper industry decreased in the early part of 2012 as a result of the reduction of paper and paperboard production in Finland during that period. Pulp production in January–June 2012 was down by 2% year-on-year. Finnish pulp exports for the full year 2012 are forecast to be up year-on-year by 2%, and pulp production by 1%, due to the growth in demand in China. The average export price of bleached pulp for 2012 is expected to be down by 7% on the average price for 2011.

Finnish Paper Exports in 2013 Hampered by European Economy

The outlook for the economy in Europe remains uncertain and neither GDP growth nor, more particularly, industrial output are expected to improve in the latter part of 2012. A positive turnaround in economic trends is not likely until the second half of 2013. Consumption of printing and writing papers in annual terms will be down slightly, and consumption of packaging papers and paperboard will remain at current levels on the European markets important for Finnish exports.

Profitability in the Finnish paper industry has risen as a consequence of higher prices and more efficient production, but is still far short of the level seen a decade ago. Production costs have remained high in comparison with competitor countries and in relation to end-product prices. Moreover, Finland’s competitiveness in magazine paper production is weaker than that of Central and Western European producers, because these producers use a high proportion of recycled fibre.

The capacity cuts made in Finland and elsewhere in Europe and also in the United States have reduced capacity overall, but despite this there is still considerable overcapacity in Europe. Production and exports of Finnish paper, paperboard and pulp in 2013 are forecast to remain at the 2012 level, as no growth anticipated in paper and paperboard demand. Average export prices of these products will also remain unchanged.
2.3 Costs and Profitability in the Finnish Forest Industry

The profitability trend in the Finnish forest industry in 2012 is fairly flat. Economic conditions in the industry’s key export markets have remained difficult and the outlook in the latter part of 2012 is dominated by uncertainty. Production volumes in both the wood products industry and the pulp and paper industry will be down year-on-year, but at the same time the low economic growth has kept production and transportation cost rises in check. There has been a drop in stumpage prices for example, with the decrease in roundwood demand. A modest decrease in profitability is therefore expected for 2012 in comparison with the previous year, in both the wood products industry and the pulp and paper industry. It is encouraging that despite the challenging economy and the planned production limits, companies have been investing or have announced investments in production development in the wood products and pulp and paper industries, in Finland too.

In 2013, the export outlook for Finnish forest industry products is expected to improve gradually. The trend in export prices in the wood products industry is expected to be marginally positive. Export prices of pulp and paper industry products are expected to be at about the same level as in 2012. No significant upward pressures are likely in production costs, and sawlog stumpage prices are forecast to rise in 2013 by only a small amount, while pulpwood stumpage prices should remain almost unchanged. Profitability in both the wood products industry and the pulp and paper industry in 2013 is therefore expected to be about the same as in 2012.

Wood Products Industry’s Profitability Trend
Weak but Steady

After a positive start to 2011 in the wood products industry, circumstances began to deteriorate towards the end of the year, with sawnwood export prices falling in the autumn by about 10%. The industry’s second half-year profitability figures were considerably weaker than those for the first six months. The financial statements of the major forest industry corporations showed that in terms of operating result as a percentage of turnover, profitability in the wood products industry for the full year 2011 nevertheless remained almost at the previous year’s level. By contrast, preliminary data from Statistics Finland indicated that 2011 was a particularly poor year for profitability in the wood products industry, as the industry made a loss overall. For the wood products industry, these two measures of profitability (one using operating result as a percentage of turnover based on the forest industry corporations’ financial statements and interim reports, and the other using Statistics Finland data) have typically been consistent with each other, but 2011 proved to be an exception.

There are a number of possible reasons for this difference in the profitability figures. On one hand, the preliminary data for 2011 from Statistics Finland is provisional and could change in one direction or the other. On the other hand, the financial statements and interim report data covers only the corporations in question and also includes operations outside Finland, which account for a smaller proportion in the wood products industry than in the pulp and paper industry; the Statistics Finland dataset comprises data for all Finnish companies across the entire sector. Furthermore, the corporations decide themselves how they divide their operations between different sub-sector categories, whereas Statistics Finland uses a classification based on the TOL 2008 industrial classification. The Statistics Finland dataset is also based on adjusted financial statements, whereas the corporations’ reporting can be affected by discretionary entries. However, both information sources agree that profitability in the wood products industry weakened in 2011 in comparison with the previous year.

For the wood products industry it seems that 2012 will follow the trend of 2011. Sawnwood export volumes and prices rose in the first six months of the year, mainly as a result of exports to destinations outside Europe, but by the autumn the positive trend had come to
a standstill as uncertainty grew on the export markets. In Finland, construction activity has slowed and the share of production destined for domestic consumption has fallen. Companies have reacted to this apparent turnaround by announcing plans to limit sawnwood production in the latter part of 2012. The situation is similar in plywood production, where export volumes and prices of plywood are expected to fall in the final months of the year.

Wood raw material costs constitute the largest cost item in the wood products industry. This cost item is especially high in sawnwood production, where the price of roundwood in relation to the price of the final product largely determines the profitability of production. The ratio between softwood sawlog stumpage prices and sawn softwood export prices remained stable during the period 2000–2005. The ratio then rose significantly during the 2006 and 2007 boom years for sawnwood, as sawlog prices rose by more than sawnwood export prices. For producers, the price ratio was particularly bad in 2008, which saw a collapse in the profitability of the wood products industry. In 2009 and 2010 the price ratio returned to its pre-2006 level, but it rose again in 2011, causing a dip in the wood products industry’s profitability. In the first six months of 2012, the ratio between sawlog stumpage prices and sawnwood export prices fell once more, boosting the industry’s profitability. This positive price ratio trend for the industry may continue in the latter part of 2012 as sawlog stumpage prices fall as a consequence of a decrease in production in the wood products industry and a reduction in roundwood demand.

An analysis of the ratio between sawlog stumpage prices and sawnwood export prices is an oversimplification of the reality, however, and does not take into account the effect of, for instance, the trend in harvesting and transportation costs on the sawlog mill price. In the analysis the sawnwood yield is assumed to be constant, although according to those in the industry the average sawlog size has fallen in recent years, which means that a given quantity of sawnwood requires more roundwood volume than before. In addition, the analysis does not take account of the time lag between roundwood sales and sales of the final product. The trend in the domestic sawnwood market also falls outside the analysis, as does consideration of the markets for wood industry products other than sawnwood. Despite the shortcomings, an analysis of the price ratio of sawlogs to sawnwood does help in looking at the direction of profitability in the wood products industry, as the trend in the ratio has generally reflected the industry’s profitability fairly well, with the exception of the peaks and troughs in the cycle.

The major forest industry corporations’ financial indicators for the first six months of 2012 showed signs that profitability in the wood products industry was starting to pick up a little in comparison with a year earlier. The industry’s profitability trend in the second half of the year is being adversely affected by the deterioration in the outlook on export markets but also favourably affected by the moderate nature of the cost trend. Profitability for the full year 2012 is expected to be more or less at the previous year’s level. Although the wood products industry’s profitability, based on the forest industry corporations’ operating results as a percentage of turnover, will be far short of the peak figures of 2006 and 2007, it will nevertheless be higher than the sector’s average profitability in the period 2000–2005. Within the sector there are also differences in the profitability trend for different products. The profitability trend for birch plywood and higher value added construction components in 2012 has been more favourable than for sawnwood. Although the outlook has deteriorated and
plans to introduce production limits have been announced, investments have been made in the wood products industry during 2012, for instance in plywood production, and investment plans have also been announced for 2013.

A recovery is expected in the wood products industry’s export demand in the latter part of 2013 at the latest. Production and export volumes and export prices of the industry’s most important export products – sawnwood and plywood – are forecast to rise. The recovery will be slow, however, with the export price of sawn softwood, for example, rising by 2% from its 2012 level. The cost trend in 2013 is expected to be moderate. Softwood sawlog stumpage prices are expected to remain at about the 2012 level, while birch sawlog stumpage prices will rise by 2%. Based on forecasts by the US Energy Information Administration, 2013 will not see any upward pressures on oil prices. Instead, the dollar price of crude oil is expected to fall from its 2012 level, which will curb the rise in energy costs and freight costs, the latter being unusually low according to the Baltic Dry Index. Export competitiveness will also be boosted by continued weakness of the euro. The profitability of the wood products industry in 2013 is expected to follow the fairly level trend of recent years. The profitability level is low, but this is typical for the industry.

Pulp Production Most Profitable Part of Pulp and Paper Industry

The pulp and paper industry’s profitability rose rapidly in 2010 from the trough reached in 2009. This favourable development was reversed in 2011, however, and the slight decline in profitability is also continuing in 2012, based on figures from the forest industry corporations’ interim reports. Despite this decline, the sector’s profitability remains relatively high compared with the mid-2000s, for example. Finland’s pulp and paper industry has gone through a major structural change, which has included some major capacity closures and also efficiency improvements in those units left operating. These measures have improved the sector’s competitiveness and profitability.

The profitability differences among sub-sectors of the pulp and paper industry have been considerable in recent years. The various paper and paperboard grades have accounted for about 75% of the sector’s turnover, and about 80% of its exports. Among these, the demand for magazine paper, in particular, has fallen in the main markets of Europe. Overcapacity has been reduced, and a significant proportion of the pulp and paper industry’s production capacity closures in Finland have specifically concerned magazine paper. The capacity cuts have helped to maintain the price level for magazine paper as demand has fallen. The first half of 2012 was in fact quite an optimistic period for magazine paper. Even though production and export volumes have fallen, the export price of magazine paper showed a distinct rise. Export prices of other paper grades and paperboard have, for the most part, been on a slight decline.

The cyclical peak in the pulp sector ended in autumn 2010. The export price of bleached sulphate pulp fell sharply at first, but then levelled out in the first half of 2011. In the remainder of 2011 the price level fell further but then in the first half of 2012 it rose again. In autumn 2012 the price of softwood sulphate pulp was again falling, while the hardwood sulphate pulp price was continuing to climb. The pulp price fluctuations are principally the result of fluctuations in wood fibre demand in China. Despite the boom coming to an end, pulp production has been the most profitable sub-sector of the pulp and paper
industry since 2010. Although the major forest industry corporations’ interim reports show that the profitability of pulp production has decreased significantly in 2012 from the previous year, it is still at a high level. As part of the forest industry’s structural changes, almost 1 mill. tonnes of sulphate pulp production capacity in Finland was closed in 2008–2009. The decrease in production volumes has been less than this, however, as efficiency has been improved in the remaining units, which in recent years have even broken production records. During 2012, decisions have also been announced about investments to further develop pulp production and add capacity in Finland.

Besides pulp, the profitability of paperboard production in recent years has been high compared with paper. The profitability of paperboard production for the full year 2012 will be down a little year-on-year, due to the slight drop in export prices. Nevertheless, the consumption outlook in the main market – Europe – is seen as relatively stable, particularly for packaging board. Investment has also been made in paperboard production in Finland during 2012.

The trend in pulp and paper industry costs during 2012 has been favourable in profitability terms. Raw material costs have fallen as a result of the year-on-year decrease in pulpwood stumpage prices and pulp prices in 2012. Freight costs have also been low. The costs of minerals and chemicals used in paper and paperboard production are very significant, and reports indicate that chemical costs have increased during 2012. The cost trend in 2013 is expected to be moderate, as in 2012. Stumpage prices of spruce pulpwood are forecast to be down by 1% for 2012 as a whole, while those of pine and birch pulpwood will be up by 1%. The reduction in Russia’s roundwood export duties are improving the price competitiveness of its roundwood, and this will affect the Finnish pulp and paper industry’s roundwood procurement in the future, leading to an expected rise in imports of Russian roundwood. The EU’s Sulphur Directive, which will take effect at the start of 2015, has been the subject of considerable public discussion, but is not expected to have any impact on freight costs in 2013. It is still premature to assess the later effects of the Directive, not least because the nature of any compensation mechanism is yet to be clarified.

Although the outlook for the second half of 2012 in the pulp and paper industry is not particularly bright, the economic conditions in the sector’s key European export markets are expected to gradually improve. The profitability trend in the pulp and paper industry in 2013 is expected to be flat. Production and export volumes and export prices of paper, paperboard and pulp are forecast to remain unchanged from 2012. The moderate trend in costs is supporting profitability in the pulp and paper industry, which is expected to remain at the 2012 level overall.