



Executive Summary

In spite of the crises in Asia and Russia, the export markets and especially the domestic market for Finnish forest products have continued to develop favourably. The Finnish forest sector's output has continued to increase and prices have also developed comparatively favourably, with the exception of sawnwood. Production of paper and paperboard, production of sawnwood, commercial fellings and the consumption of imported wood will all reach record levels this year. Next year, the development of the forest sector will be characterised by greater than usual uncertainty about future market developments. The rate of growth of demand will slowdown and the pressure for lowering world market prices for forest products will increase. As a result, also the growth of the Finnish forest industry's output will slowdown and product prices will tend to decline rather than rise. This weakening will also be felt in the roundwood market. Accordingly, stumpage prices are expected to decline slightly next year compared with the average level of the current year.

Economic Outlook

The fairly good economic growth has continued in the main export markets of the Finnish forest industry, promoted by strong domestic demand. However, the crises affecting Japan, the emerging economies of East Asia and Russia have weakened the economic prospects. In the current year, the real GDP growth

in the Finnish forest industry's export markets, weighted with their share of total exports, is estimated at 2.5 per cent, which is 0.5 percentage points less than last year. Next year, this figure is estimated to decline to about 2 per cent, as the crises in Japan and the emerging economies are reflected more strongly in the EU countries and the United States. The growth of domestic demand will also slowdown clearly next year, though growth in the construction sector will still be quite strong.

Forest Industry's Production, Export and Prices

The production of sawnwood will grow by 4 per cent this year as a result of the growth in exports and domestic demand, which means that a new production record will be achieved (11 million m³). Next year, the growing supply of sawnwood in the European market will result in increased competition, causing Finland's exports to stagnate at this year's level. Owing to good domestic demand, the production will still grow by 1 per cent. The production and exports of plywood will grow by 3 per cent this year and 2 per cent in 1999.

Last year, the average export price (in Finnish mark) of sawnwood rose by as much as 19 per cent compared with the 1996 level. Towards the end of the year, prices stopped rising and started to decline. The weak price development has continued this year, and the average Finnish mark export price of sawnwood is projected to drop by 8 per cent compared with last year's average. In 1999, the

Finnish mark export price of sawnwood is forecast to decline by 3 per cent, whereas plywood prices are expected to remain at last year's level.

Demand for paper products has continued to grow in spite of the downturn in the world economy. Production and exports will still increase by 10 per cent this year. As a result of the weakening global economic prospects and increased competition in the EU region, the paper industry's exports and production will grow by only 2 per cent next year. The market development for paperboard products has been comparatively stable, and no major changes are foreseen next year. The production of paperboard will grow by 4 per cent this year and 2 per cent in 1999.

The Finnish mark-denominated export prices of paper products will go up by 5 per cent this year, compared with a decline of 8 per cent last year. However, the improved price development will be temporary, because next year the Finnish mark/euro-denominated prices are forecast to remain at this year's level. Paperboard prices rose by 2 per cent last year, and the growth is projected to continue at the same rate this year and next.

Forest industry's Costs, Capacity Utilisation and Profitability

The forest industry's costs have been developing at a reasonable pace. The unit costs applicable to all sectors of industry in Finland have in fact been nearly one third below the OCED countries' long-term average. The paper industry's capacity has been almost fully utilised – this year the capacity utilisation rate is estimated to reach 97 per cent and next year 96 per cent. The sawmilling industry's capacity utilisation will be slightly lower, 94 per cent this year and 93 per cent next year.

The forest industry's earnings for 1998 will improve slightly compared with last year, amounting to about FIM 13 billion. The return on investment is about 13 per cent. No major changes are foreseen in the solvency of the three leading com-

panies, and the equity ratio is estimated to remain around 40 per cent. The forest industry's domestic capital expenditure will continue to decrease this year, amounting to about FIM 5 billion. The turnover of domestic production plants is estimated at about FIM 100 billion for this year, increasing by 2 per cent next year.

Roundwood Market

The record-high production of forest products is also reflected in large felling volumes. Commercial fellings are estimated at a total of 55 million cubic metres for this year. Sawlog fellings will increase by 2 per cent and those of pulpwood by 6 per cent compared with 1997. Imports of wood have grown very strongly during the current year, and are estimated to exceed last year's imports by up to 40 per cent. As a result, wood imports will for the first time reach the level of 12 million cubic metres. Average sawlog and pulpwood stumpage prices for 1998 are estimated to be about 2 per cent above last year's level. The forest industry's demand for wood in 1999 will be roughly at this year's level, and fellings are estimated to be about 55.5 million cubic metres. The growth of wood imports will slowdown, but imports will again reach a new record level of 13 million cubic metres. The imports already correspond to about one fifth of the industry's total wood consumption. Because of the forest industry's weakening economic prospects, sawlog stumpage prices will go down by 1–4 per cent next year and pulpwood prices by 0–2 per cent, compared with this year's average levels.

Profitability of Non-Industrial Private Forestry

Investment expenditures related to timber production in non-industrial privately owned forests (NIPF) will increase this year by about FIM 50 million compared with last year. This means that investments on silviculture and basic improvements will exceed

FIM 950 million, which is slightly over FIM 200 million below the peak level achieved in the early 1990s. Because of extensive compulsory regeneration, investments are likely to remain at this year's level in 1999. State subsidies in NIPF will also remain virtually unchanged, with the main emphasis on the improvement of young stands. Gross stumpage earnings from non-industrial private forests will increase by about 7 per cent this year compared with 1997, amounting to FIM 9.3 billion. Next year, incomes will go down slightly. Total investment expenditures related to NIPF will correspond to 10–11 per cent of gross stumpage earnings, this year and next.

The profitability of wood production in NIPFs improved slightly during last year. This year and next, the costs of forest regeneration and silvicultural measures are projected to go up slightly, whereas the unit costs of basic improvements and road construction will go down. The profitability of wood production as a whole will remain good this year and 1999.

Labour Markets in Forest Sector

The number of jobs in the pulp and paper industry will increase slightly in 1998, following a prolonged decline. However, in the mechanical wood products industry, employment will remain unchanged, and jobs will continue to disappear, especially in the joinery industry. As the growth of production and exports of forest products will slowdown, employment in 1999 is predicted to return to the level experienced in 1997. In spite of increased fellings, employment in forestry will remain at last year's level both in 1998 and 1999, and no major improvement is foreseen in the relatively high rate of unemployment.

Roundwood Market Business Survey

According to the roundwood market business survey, respondents in the forest industry expect purchases of domestic roundwood and imported wood to increase in 1999 compared with this year, with pulpwood accounting for most of the growth. Of the non-industrial private forest owners, 41 per cent – which is more than last year – say they intend to sell wood next year. In the sawmilling and plywood industry, more respondents expect sawlog stumpage prices to go down than to go up, whereas forest owners expect sawlog prices to rise. As far as pulpwood prices are concerned, the forest industry's and forest owners' expectations are rather similar. A majority of the forest industry's and forest owners' representatives expect prices to go up by 2–10 per cent.