



## Summary

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*The weak economic development during the first half of 1999 has slowed down the growth rates of paper demand and decreased prices in Europe. As a result, Finland's paper production and exports will not reach last year's levels. In contrast, the production and exports of sawnwood are projected to grow as construction increases in Finland and its major export countries. The development of export markets is reflected in the Finnish roundwood markets as a slight increase in sawlog fellings and a decrease in pulpwood harvest.*

*Finland's paper and sawnwood production are expected to increase and prices rise slightly in 2000, if the economic growth speeds up in major European export countries and construction continues to grow. The risk of overheating in the U.S. economy, however, causes uncertainty to European economy. Roundwood markets respond to growth in the forest industry's production by increasing felling volumes. As the demand for roundwood goes up, stumpage prices will rise a little, but this rise will be curbed by increased wood imports and extended fellings in forestry companies own forests.*

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### **Economic Operating Environment**

The effect of the crises in Asia and Russia is evident in the Finnish forest industry's major export countries where economic development has

declined. Real GDP growth, weighted with the export shares of forest industry's export countries, is projected to shrink from last year's 2.4 per cent to two per cent this year. Next year, however, GDP growth will accelerate up to three per cent as export demand revives. Although the growth of construction is slowing down in Finland, next year's economic development is expected to surpass this year.

### **Forest Industry's Production, Exports and Prices**

Exports of Finnish sawnwood will grow at a rate of two per cent in both 1999 and 2000 as housing construction increases in the European export countries and Japan. In 1998 the value of Finnish sawnwood exports was EUR 1.4 billion. Exports and a growing domestic demand for sawnwood will increase Finland's sawnwood production by two per cent in this year and the next. This means that new production records will be set once again, and in 2000 the output is expected to climb to 11.7 million cubic metres. A strong demand for softwood plywood drives the production and exports of plywood, which will grow by eight per cent in the current year and two per cent next year.

The strengthening demand for sawnwood and the diminishing stocks of the buyers in Europe are expected to raise the Finnish markka export prices towards the end of the year. In 1999 and 2000, the average nominal price of the sawnwood exports will rise at a rate of two per cent, whereas last year the price declined by 11 per cent. The nominal

average price of plywood will remain at last year's level in 1999 and go up by one per cent in 2000.

A slowdown in economic growth in important export countries has weakened the demand for Finnish paper products in 1999. Even though economic growth is estimated to pick up towards the end of the current year, the volumes of Finnish paper exports and production will be down by one per cent from last year. In 1998 the value of Finnish paper exports was EUR 6.1 billion. In 2000, the exports and production of paper and paperboard will grow by two per cent as economic growth strengthens in Finland's major export countries.

The nominal Finnish markka export prices of paper and paperboard will rise towards the end of the year, but will nonetheless remain about two per cent lower than last year. The export price of softwood pulp will not surpass last year's level despite a continuing price increase since last spring. The export prices of paper and paperboard are, on average, expected to rise by three per cent in 2000.

### **Forest Industry's Costs and Capacity Utilisation Rates**

The forest industry's cost development has remained moderate in 1999, and the year 2000 is not expected to bring any major changes. Nominal wood costs will rise by between two and three per cent, mainly owing to increasing wood imports, and the cost of labour will remain below the growth of labour productivity. The decline of paper's export demand as well as prices will bring about a slight downturn in the returns of the forestry companies in 1999.

In 2000, export prices of paper and sawnwood are expected to rise as demand on the export markets increases. Due to increased demand, the paper and sawnwood industries' capacity utilisation rate will increase, which together with rising export prices will improve profitability.

### **Roundwood markets**

The forest industry's large production volumes will keep commercial fellings at the high level of 54.7 million cubic metres in 1999. Sawlog harvesting will increase by one per cent from last year, but pulpwood loggings will diminish by three per cent. Fellings in non-industrial privately owned forests (NIPF) are not expected to reach last year's volumes because forestry companies have effected more extensive cuttings than usual in their own forests, and roundwood imports have increased. In 1999, roundwood imports will grow by 15 per cent, i.e., to amount to a total of 13.8 million cubic metres.

The nominal stumpage prices of pine and birch sawlogs are likely to remain at about the same level as last year, whereas the price of spruce sawlogs will grow by four per cent, due to a strong export demand for spruce sawnwood and softwood plywood. The prices of pine and birch pulpwood will decrease between 6 and 7 per cent in the current year, but the price of spruce pulpwood will remain at last year's level.

In 2000, the forest industry's demand for roundwood will increase by two per cent from the current year. An increase in the use of wood will raise commercial fellings up to 55.3 million and roundwood imports up to almost 15 million cubic metres. Imports, which consist largely of pulpwood, already constitute about one fifth of industry's total use of wood.

The nominal stumpage prices of pine and birch are forecast to rise by one per cent on average, due to improving prospects for the forest industry in 2000. The prices of spruce sawlogs and spruce pulpwood will increase by two per cent in 2000.

## **Timber Production and Profitability of Non-Industrial Private Forestry**

In 1999, non-industrial private forest owners' (NIPF) total value of investments (in FIM) in timber production will increase by between 2–3 per cent from last year. In 2000, increased forest regeneration obligations and public subsidies to investments in NIPF will cause those total investments to amount to almost FIM 1.1 billion (EUR 185 million). Even so, total investments will still not reach the level of the early 1990's. Gross stumpage earnings from non-industrial private forests will shrink this year because both commercial fellings and stumpage prices will decrease. A projected rise in stumpage prices in 2000 will raise earnings almost back to what they were in 1998, i.e., EUR 1.6 billion. In 1999 and 2000, the total investment expenditures related to NIPF will constitute about 11 or 12 per cent of gross stumpage earnings.

The profitability of timber production in NIPFs will weaken slightly this year and the next. The unit costs of forest regeneration, silviculture, basic improvements and forest road construction are projected to go up during 1999 and 2000. The profitability of timber production declines in 1999 since the growth of stumpage earnings and public investments advances more slowly than the costs of timber production.

## **Labour**

Despite production downtimes and a consequent decline in production volume in early 1999, there will be a four per cent growth in the number of jobs in the pulp and paper industry. The growth in employment is due to increase in the number of white-collar workers, whereas the number of blue-collar workers has remained the same.

The employment situation in the wood products industry of 1999 will not present much alteration from the preceding year. There will be no increase in jobs offered by sawmilling, but the plywood

industry, the most strongly-growing branch of the forest industry production-wise, will add to the number of its employees by about 10 per cent. The year 2000 is projected to see an increase in the forest industry's production and exports, which will help to maintain a high employment rate.

Jobs in forestry are estimated to lessen by four per cent as commercial fellings decrease somewhat in 1999. Since the labour productivity of logging continues to grow, the employment in forestry is increasingly dependent on the development of labour needs in silviculture and other tasks. Forestry, together with forest industry is estimated to employ 147 000 people in all in 1999 and to maintain that level throughout 2000.

## **Business Survey**

In the early autumn in 1999, Finnish Forest Research Institute carried out a postal questionnaire business survey in order to study the prospects of the roundwood market in Finland. According to the results of this survey, the forest industry estimates that compared to the current year, 2000 will show an increase in the volumes of domestic roundwood and imported timber purchases. Purchases of a domestic origin, especially sawlogs, were thought to increase by between 2 and 10 per cent. It is expected that there will be a slight decline in Finnish timber supply: 37 per cent of forest owners, which is less than last year, are planning to sell timber in 2000. In addition, the forest industry's and forest owners' expectations for next year's stumpage prices are clearly further removed from each other than in the previous three years. A majority of the respondents representing the forest industry were inclined to predict a downward tendency in stumpage prices, and they thought pulpwood prices particularly likely to tail off. In contrast, forest owners were more inclined to project a rise in stumpage prices, although their expectations of the extent of these price rises, especially as regards pulpwood, were not as high as last year.