



## Summary

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*The distinctive feature of the global operating environment for the Finnish forest industry in 2000 has been strong economic growth. This is projected to continue to the end of the year and throughout 2001. Both this year and in 2001, real GDP growth in the world economy, weighted according to the distribution of Finnish forest industry exports, is forecast to be about four per cent. This level of growth was last reached in the late 1980s. Production in the Finnish forest sector has continued to rise accordingly, and the price trend has been upwards, especially in the pulp and paper industry. Forest industry production, commercial fellings and roundwood imports will be at record levels this year and in 2001. In real terms, sawlog stumpage prices will show an increase this year, while a decrease will be recorded for pulpwood prices. In 2001, the stumpage price trend is expected to be reversed, and pulpwood prices will rise by more than those for sawlogs.*

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### **Economic Operating Environment**

The economies of all the main export markets for the Finnish forest industry have been growing this year at least as fast as in 1999, and most are growing significantly faster. Finnish forest industry exports are up, especially to the United States, Germany, France and Spain. Growth in exports to the United Kingdom, however, is confined mainly to sawnwood. With the exception of the United States, the GDP growth rate for 2001 in the main export

markets is predicted to be almost as high as in 2000. The greatest risks to further growth in the world economy are generally considered to be a continuation in the high price of oil, and an economic downturn in the United States that turns out not to be the anticipated 'soft landing' but a 'hard landing' instead. Economic growth in Finland for this year as a whole will be strong, and should continue so in 2001. This will also be reflected in the continued activity of the construction sector, for example.

### **Exports, Production and Prices in the Forest Industry**

Growth in the construction sector will raise the consumption of sawn softwood and plywood in Western Europe this year to a record level. Thanks to the increased demand in Europe and Asia, and Finland's competitive edge, production and exports of Finnish sawnwood will be up by about seven per cent in 2000, and export prices (in FIM) will be up by nine per cent. Production and exports of plywood will be up by 14 per cent, and the average export price by two per cent.

Production, exports and the export price (in FIM) of sawnwood are forecast to rise in 2001 by three per cent. The price rise will be limited by the increased supply of sawnwood in Europe and the increased use of competing materials, and, for exports outside the euro area, the expected strengthening of the euro. Production and exports of plywood are forecast to be up by about 13 per cent, and the average price by just under two per cent.

Production and export volumes in the pulp and paper industry will also achieve new records this year and in 2001. Production of paper and paperboard will be up this year by about six per cent. The average prices of pulp (in FIM) are forecast to rise this year by as much as 60 per cent on 1999. The higher price of pulp has not been transferred in full to the prices of paper products, which are expected to rise this year by only 12 per cent. As a consequence of the tight capacity situation for pulp and paper and the strong demand on world markets, prices will continue to rise in 2001, by about six per cent for pulp and about 12 per cent for paper. Production in the pulp and paper industry will continue to increase in 2001, rising by over four per cent on this year's figure.

Capacity is becoming a limiting factor on production in the Finnish pulp and paper industry: more products could be sold than can be produced.

### **Forest Industry Costs, Capacity Utilisation Rates and Profitability**

The nominal costs of raw materials, energy and labour in the Finnish forest industry are rising this year, but in real terms some of these costs are actually falling. The strong demand for forest industry products will ensure that the capacity utilisation rate this year is high. In the pulp industry, the capacity utilisation rate will be 97 per cent, in the paper industry 95 per cent, in the paperboard industry 99 per cent and in the sawmilling industry 96 per cent. The rise in export prices, the competitive edge created by the weak euro, and the growing production volumes will all serve to ensure a record profit for the Finnish forest industry this year. With the majority of production inputs being either of domestic origin or invoiced in euros, the profit for 2000 recorded by Finland's three largest forest companies is expected to rise to about FIM 25 billion.

Costs are set to increase slightly more in 2001 than this year. Nevertheless, with the continuing rise in the forest industry's export prices, production and capacity utilisation rates, or the likelihood that they will at least remain at this year's level, the forest industry will once again turn in a record profit in 2001.

### **Roundwood Markets**

The record level of production in the Finnish forest industry is also evident in fellings – the total volume of commercial fellings will rise this year to about 58 million cubic metres. The rise in stumpage prices has been greatest for spruce sawlogs, whose price will be up 10 per cent for the year. Prices of pine and birch pulpwood will not rise this year, but the nominal price of spruce pulpwood will be up four per cent. With the domestic roundwood markets operating efficiently, imports of timber will show an increase this year of only two per cent. In 2001, a new record is likely to be achieved again in commercial fellings: approximately 60 million cubic metres. Imports are also forecast to rise again to a new record level, 14.4 million cubic metres. Next year, sawlog prices will rise by 1–4 per cent and pulpwood by 2–5 per cent, depending on the type of roundwood.

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

In Finland's non-industrial private forestry, investment in timber production will rise in 2001 to almost FIM 1.05 billion. This is partly because of forest regeneration obligations mainly associated with clearcutting of spruce stands, which will increase the level of investment in planting. Thanks to the growing amount of forest extension and planning, state funds will be more effectively used this year and in 2001. This will also lead to more investment in timber production by the private forest owners themselves. This year, gross stumpage earn-

ings will rise to over FIM 10 billion for the first time, which will boost the level of funds for future investment purposes.

For the sixth year running, net earnings for non-industrial private forestry are above the long-term average. However, increases in income cannot be achieved in the future under the present formula, by increasing fellings of spruce sawlog stands. Nevertheless, it appears that the conversion of growing stock into cash has been very popular this year and will continue so in 2001. Even a rise in costs will not prevent new records being set for net earnings.

### Labour Force

Employment in the Finnish *forest industry* in 2000 and 2001 will remain at last year's level of 72 000 man-years. The distribution of employment has changed, however, in favour of the wood products industry. The real earnings of workers in both the wood products industry and the pulp and paper industry will fall this year. In 2001, real earnings are expected to rise in both branches of the forest industry in line with the rise in average industrial earnings.

Employment in *forestry* will improve this year by about 1000 man-years, to 24 000 man-years, and is expected to remain at this level in 2001. The real earnings of workers in timber harvesting will rise this year, but in silvicultural work real earnings will fall. Real earnings are projected to rise in both sectors in 2001.

### Uncertainties in the Forecasts

The uncertainties surrounding the course of the US economy and the price of oil are considered the greatest risk factors in whether or not the forecasts given above and the projected favourable trends in the Finnish forest sector will materialise. Should there be a clear recession in the US economy and/or a further rise in the oil price to over USD 30 a barrel (Brent crude), these events would have direct and indirect negative effects on the Finnish forest sector. For example, forest industry production and exports would probably fall below the current forecasts. This would also mean that growth in forestry would be below the forecast level. However, according to the information available at the start of November 2000, such developments seem unlikely.

#### Exchange rates for the Finnish markka (FIM)

EUR 1 = FIM 5.94	GBP 1 = FIM 9.92*
DEM 1 = FIM 3.04	SEK 1 = FIM 0.69*
USD 1 = FIM 6.86*	

\* On November 6, 2000