



I World Economy

The global economic recession that began in autumn 2008 started to turn the corner during spring and summer 2009, as a result of the substantial recovery packages of fiscal and monetary policies pursued around the world. However, with unemployment continuing to grow, the recovery will be slow. Real GDP growth in the world economy weighted according to the distribution of Finnish forest industry exports will be negative for 2009 – a contraction of more than 3% – though in 2010 this will be turned into a growth of 1.5%. The economy of the euro area – the Finnish forest industry’s most important market – will have shrunk by more than 4% in 2009, despite a minor recovery and improved demand in the euro area economies in the remainder of the year. The shrinkage in the German economy will be 5.5%, and in the UK economy 4%. Although the cheap krona is helping Sweden compensate for the weak demand on the world market, even Sweden’s GDP growth will be down in 2009, by 5%. The recovery in the euro area economies will continue to be slow in 2010, with real growth forecast to be 0.5%.

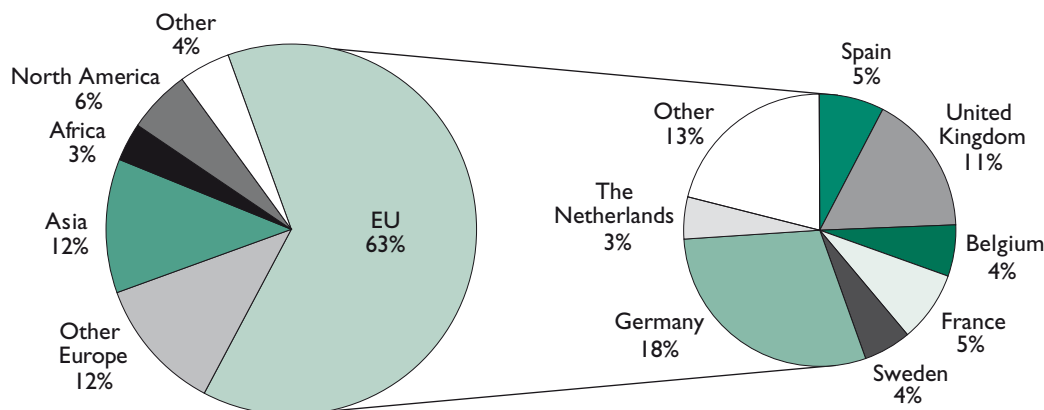
China has briefly been driving the world economy, and its GDP growth is expected to be over 8% for 2009, rising to almost 10% in 2010. After shrinking by nearly 6% in 2009, the Japanese economy will return to a slow growth track in 2010. The recession in the US economy in 2009 is expected to turn into a growth of close to 2% in 2010. Although the global recession is drawing to an end, growth is still threatened by uncertainty over the restoration of consumer confidence and the need to stimulate investment as unemployment continues to grow.

Forest Industry Exports Fell in 2008

In 2008, the weakening of overall demand worldwide and the reductions in Finnish production capacity led to an 11% drop in the value of Finnish forest industry exports in comparison with the previous year’s figure. The export volume of sawnwood fell by 15%, plywood by 13% and paper by 12%. The geographical distribution of exports remained almost unchanged, with the exception of sawnwood. Owing to the slump in euro area construction in 2008, sawnwood’s share of total exports was 5 percentage points down on the previous year’s figure. By contrast, Africa’s share of these sawnwood exports was up by a similar proportion. In terms of export value, the European Union – and especially the United Kingdom, Germany and France – is still the most important export market for the Finnish forest industry.

The total value of forest industry exports in 2009 is expected to be down by about one quarter on the previous year’s figure. The value of sawnwood exports will be down by almost one third, and paper by about one quarter. In 2010, the combined export value of forest industry products is forecast to grow by about 10% year on year. In the paper industry, the growth in export value will be mainly due to higher export volumes, while in the wood products industry prices are also expected to rise a little.

The economic trends in the main export markets for the Finnish forest industry examined in this chapter play a key role in the forecasts of demand, prices and export levels for Finnish forest industry products. Along with regional and national GDP forecasts, forecasts of investment and especially construction can be used in forecasting future export levels in the wood products



Sources: National Board of Customs and Finnish Forest Research Institute.

Finnish forest industry exports by value, 2008.

industry. Based on forecasts of private consumption growth, forecasts can be made of, for example, the demand for packaging materials, paperboard and paper. The economic situation in Finland's key competitor countries affects the level of competition and prices on the market, via exchange rate fluctuations and the supply of forest industry products.

Export Growth Slow to Revive the Euro Area

The contraction in the euro area economy began in the latter part of 2008 and continued in the early part of 2009, though figures for the second quarter already indicated that a turnaround may have occurred: the second-quarter GDP for the entire euro area shrank by only 0.1% on the first quarter figure, while German and French GDP actually grew by 0.3%. As world trade picks up, the euro area recovery is being driven by export growth in particular. During the latter part of 2009 world trade and euro area exports are expected to improve further, which is also supported by the higher figures in the Euro Area Purchasing Managers' Index.

The increase in general uncertainty and the weakening employment situation in the first half of the year led to a higher level of precautionary saving by households and a drop in private consumption. The average indebtedness of euro area households is nevertheless quite low, and it is expected that a general recovery will also mean that private consumption gradually picks up. There are already signs of this in Germany,

for instance. Low interest rates and improved confidence on the financial markets are also encouraging consumption. However, the pace of consumption growth will be kept in check by the increasing level of unemployment and the slower growth in real earnings. Production cuts and a low capacity utilisation rate have led to an almost total collapse in investment in the euro area. In particular, new housing and commercial property starts have been on hold. No rapid increase in investment is expected towards the end of 2009 either, as production increases will occur mainly by raising the utilisation rate of existing capacity. Euro area GDP for the full year 2009 will be down by more than 4%.

The euro area economic outlook for 2010 is brighter, as the growth in world trade will further boost euro area exports. Private consumption is forecast to rise only slightly. The growth in consumption will be kept in check by higher unemployment and a slower growth in real earnings in the euro area. By contrast, investment is expected to shrink further, as production growth will occur through raising the utilisation rate for existing capacity and premises. In most euro area countries there will be no new housing construction before housing prices have at least stabilised and confidence in the economy restored, following the slump in house prices brought on by the recession. The euro area's GDP in 2010, driven by exports, is forecast to be up by only about 0.5%.

As the world economy slowly recovers, the increased demand for raw materials and energy will gradually push up inflation, which has sunk

to almost a zero rate. Cost pressures will remain low, and the slow pick-up in GDP growth is likely to mean that the European Central Bank will keep its central rate unchanged until at least the second half of 2010. With growth in the US economy in 2010 expected to be above that of the euro area, this may slightly weaken the euro against the dollar in the latter part of the year.

Differences in Recovery Rate Elsewhere in Europe

In the United Kingdom, GDP growth was halted more rapidly than in the euro area because of the combined effect of the collapse of the UK housing market price bubble and the global financial crisis. The credit squeeze and plunging property values already visible in the second half of 2008 prompted indebted households to divert their available income from consumption to saving. UK investment for 2009 as a whole is expected to be down substantially on account of the tougher conditions for obtaining credit, the contraction in exports and the weak demand for end products. Another contributing factor is the collapse in new housing starts. The figures for the second half of the year will show a slight increase in UK exports and production, due to the recovering world economy. Nevertheless, the UK's 2009 GDP will be 4% down on the

previous year's figure, though in 2010, GDP will grow by about 1%, driven by export growth. Private consumption will remain at almost the 2009 level, and the drop in investment will no longer be worsening. If the UK economy grows faster than that of the euro area in the second half of 2010, the pound will probably strengthen against the euro.

Although even the Swedish economy has not managed to bypass the global recession, its prospects for returning to a stable growth track appear better than many other countries. Weak demand for end products on Sweden's export markets has been compensated by the weakening of the krona, which has brought a competitive advantage that has allowed Swedish sawmills, for instance, to expand their market share. Sweden's GDP for the full year 2009 will be down by almost 5%. In 2010, exports and private consumption are forecast to grow, but, countering this, investment is expected to shrink further. Provided the economy picks up in the first half of the year, Sweden's central bank, the Riksbank, could well raise interest rates after the summer, which would strengthen the krona. The International Monetary Fund (IMF) forecasts that Sweden's GDP will grow by 1.2% in 2010.

The Baltic countries' brisk GDP growth in most of the current decade was based largely on borrowing. However, these countries have

Growth forecasts for world economy (real GDP, annual percentage change).

Area	Proportion of Finnish forest industry's total export value 2008, %	Actual GDP growth % 2008	ETLA 2009	IMF 2009	ETLA 2010	IMF 2010
Weighted by proportion of Finnish forest industry exports	100.0	1.7	-3.8	-3.1	1.5	1.5
EU-27	63.5	0.9	-4.5	-4.2	0.5	0.5
Euro countries	41.8	0.4	-4.5	-4.2	0.5	0.3
Germany	18.8	1.0	-5.5	-5.3	1.0	0.3
United Kingdom	10.5	0.8	-4.0	-4.4	1.0	0.9
Sweden	3.6	-0.6	-5.0	-4.8	0.0	1.2
Russia	5.7	5.6	-8.0	-7.5	3.0	1.5
United States	5.4	1.2	-2.5	-2.7	1.5	1.5
Asia	11.5	5.6	2.0	5.0	6.5	6.8
Japan	3.2	-0.7	-6.0	-5.4	1.5	1.7
China	2.1	9.0	8.0	8.5	9.0	9.0
Other	13.9					

*Forecast by Research Institute of the Finnish Economy (ETLA) published September 23, 2009.
Forecast by International Monetary Fund (IMF) published October 1, 2009.*

seen their GDPs fall dramatically as a result of the problems of the banking sector, the rise in the rate of saving and the collapse in exports. The 2009 GDP figures for Estonia, Latvia and Lithuania will all show a shrinkage of more than 15%. Although consumer and business confidence is no longer at rock bottom, the recovery in national economies and a return to healthy growth will not happen overnight. Forecasts for the Baltic countries' economies in 2010 show a further shrinkage in GDP, by some per cent .

Improvement in Sight for Russia

The Russian economy is expected to have contracted by as much as 8% in 2009. The principal reasons for this rapid reversal have been the slowing of production and exports and the heavy reliance of exports on the world market demand for energy and especially oil products. Even though almost half of the government's stability fund built from export revenues has been used up and spending has been targeted at public consumption, these measures have not compensated for the deterioration in the rest of the economy. Despite the strengthening of the ruble and the lower prices of foreign consumer products, Russia's private consumption has fallen. Consumption has also been affected by the sharp rise in unemployment, the difficulties in obtaining credit, the high inflation rate and the drop in real earnings growth. Neither has Russia been able to attract sufficient foreign investment, due to the unclear and unpredictable nature of its economic policies.

With a recovery in international trade and a growth in the demand for raw material, Russia's exports have gradually started to increase, however. A contributory factor here is also the expected weakening of the ruble in the short term. In the longer term, however, the ruble will probably strengthen as a result of growth in export revenues and GDP. There will be no quick return to the high growth figures of recent years, at least in the short term, but instead a very modest level of growth in all sectors of the economy. Russia's GDP in 2010 is forecast to grow by 2–3%.

US Economy Already Over the Worst

Although the downward slide in the United States economy was still abundantly evident at the start of 2009, the statistics show that the economy turned the corner during the summer, and the country's GDP for the second half-year is expected to show growth of even 3–4%. The reasons for this growth are the government's substantial fiscal policy recovery package, which is starting to produce results in the autumn in the form of depleting stocks and a fractional pick-up in the housing market. The stabilisation of the housing market will be a key factor in getting private consumption moving. Investment will be down by almost one fifth for 2009 as a whole, on account of the weak state of overall demand and the extent of unsold housing properties. Although the dollar has remained weak and thus aided the country's export industry, exports have contracted during 2009 due to the weak demand on the world market. The United States' GDP figure for 2009 will show a shrinkage estimated at 2.5%.

In 2010, the recovering world economy is expected to push up US exports, aided by a still weak dollar. The dollar may well strengthen a little during the year if the economy starts to grow faster than that of other western countries. The recovery in the housing market will also lead to a gradual return of new housing construction, but investment in other sectors will probably be only modest. The growth expectations for private consumption are uncertain, however. The still deteriorating employment situation, the low growth in real earnings and the repayment of existing debts do little to encourage consumption. On the other hand, there are already signs in autumn 2009 that consumer confidence is improving and that private consumption is growing by a small margin. The recovering financial sector and the still low interest rates will also improve the prospects for obtaining credit in 2010. US GDP in 2010 is forecast to grow by 1.5%.

Canada's GDP for 2009 is expected to show a shrinkage of 2.3%. The reasons are the same as those affecting other industrialised countries. The growth in public consumption has not been sufficient to compensate for the collapse in exports and investment. Although the Canadian

dollar is expected to strengthen a little against the US dollar in 2010, exports will be up slightly as a result of higher demand on the world market. This together with a moderate growth in private consumption will contribute to a GDP growth of 2.5% for Canada in 2010.

Did China Even Have a Recession?

China is still only a relatively small market for the Finnish forest industry. Nevertheless, it occupies a prominent and growing position in the world market for forest products. Despite its economy being export-driven, China has sustained only limited damage in the global recession. China will post a growth of over 8% in its GDP for 2009, although exports will be down as a result of the dramatic fall in demand on the world market. With rapid changes in its economic policies China has managed to bring its domestic demand and investment onto a growth track. Private consumption will account for only about a third of China's GDP, but this proportion is growing quickly. In 2010, China's domestic demand will remain strong, although monetary policy is expected to be tightened in order to avoid overheating. In addition, the recovery in international demand will produce further growth in exports and thus bring the country's GDP back to possibly even double-digit growth.

Japan's export industry has suffered considerably from the collapse in demand on world markets. Despite the slight recovery in production and exports in the second quarter of 2009, Japan's exports over the year as a whole are expected to be down by more than one quarter on the previous year's figure. Growth in public consumption and the recovery packages have not managed to compensate for the drop in private consumption and investment. Although the outlook for the Japanese economy in the latter part of 2009 is brighter, the country's GDP for 2009 will have shrunk by almost 6%. Despite almost zero interest rates, Japan's economy has long been troubled by deflation, which does little to encourage investment or consumption. Production is expected to grow in 2010 through an increase in capacity utilisation rates, and so the level of investment will decline further. Private consumption will remain at almost the 2009 level. Japan's GDP in 2010 is forecast to grow by about 1.5%, almost entirely as a result of export growth.

Although the global economic recession has also slowed growth in the Middle East and in the North African states that import Finnish sawnwood, these economies will once again post positive GDP growth, averaging around 2% for 2009. In 2010, the recovery in the world economy and the growth in demand for oil products will accelerate economic growth in these regions to an average of over 4%.