

2 Finnish Forest Industry

2.1 Production and Exports in the Sawmilling and Plywood Industries

The improved sawnwood demand in Europe and Japan in the first half of 2011 boosted exports of Finnish sawnwood, and the rise in prices improved profitability. The demand and price trends in the second half of the year will be weaker than in the first six months. For the full year 2011, sawnwood production and exports are forecast to be up by about 2% on the 2010 figures.

2012 will see a slowdown in GDP growth, even if a deepening of Europe’s economic crisis can be averted. The construction output trend in Europe will be weak, and in Finland construction will decline. The political turmoil in North Africa and the Middle East and the prospect of Japan’s reconstruction being spread out over a number of years will mean that growth in Finnish exports to these regions remains small. Sawnwood production in 2012 is forecast to be down slightly in comparison with 2011.

The volumes and unit prices of plywood exports increased in the first half of 2011 compared with the same period a year earlier. Demand in Europe picked up as a result of the improved economic situation in the retail sector and the transportation industry. With GDP growth slowing towards the end of 2011, the rise in plywood exports and prices is expected to tail off, leaving production and export growth for the full year at 7%. In 2012, the weakening of GDP growth in Europe will also reduce plywood demand, and so production will be down slightly on the 2011 total.

Sawnwood Market Overshadowed by Uncertainty

After picking up in 2010, sawnwood consumption in Europe and North America continued to grow in the first months of 2011. However, uncertainty about economic developments in the short term grew during the summer, and expectations of slower GDP growth have worsened the outlook for sawnwood demand in 2012 as well.

Euroconstruct’s June 2011 forecast shows growth in residential construction in Western Europe in both 2011 and 2012, though the trend varies considerably from one country to another. However, the distinct slowdown in GDP growth since the summer has meant that construction, too, is expected to perform less well in the second half of 2011 than had been forecast. Slower GDP growth in 2012 will slow construction down considerably, even if a new economic crisis can be averted.

Sawnwood consumption in North America began to grow in 2010, following a four-year decline. In the United States, new starts increased to 0.6 mill. units, which was nevertheless only about 40% of the long-term average. Uncertainty about the trend in construction will continue in 2012.

In Russia, housing construction is expected to be up in both 2011 and 2012. In Japan, housing construction starts in the first six months of 2011 were up by about 4%. The need for new housing starts and renovations following the earthquake will produce growth in Japan’s construction sector for the full year 2011 and in 2012. The infrastructure improvement needs in countries of North Africa and the Middle East will boost the demand for wood products in the longer term.
although the political unrest in the first half of the year has reduced import volumes.

In Europe and North America, sawnwood demand during the economic recession was maintained by the demand for housing renovations. The growing proportion of renovations in residential construction provides opportunities for more diverse uses of sawnwood and wood products.

Oversupply Threatens to Depress Prices in Europe

The ups and downs of a regular business cycle have been evident on Europe’s sawnwood market in recent years. Demand growth brings a rise in sawnwood prices, which in turn increases supply on the market, leading eventually to a drop in sawnwood prices, unless production is restricted. The same situation is shaping up for 2011, because in many Central European countries, as well as in Russia and the Baltic countries, production in the first six months has been higher than in the same period a year earlier. In Finland, production for January–June was up by 8% year on year. With demand weakening in Europe, many of Europe’s major producers, including Finland, have announced their readiness for production limits in order to avoid a drop in sawnwood prices.

Production growth in Europe has led in places to roundwood availability problems and higher roundwood costs. Although the roadside price of softwood sawlogs in Sweden has been falling quarter by quarter in 2011, it has nevertheless remained high. Globally, roundwood costs have risen over the past two years by about 40%, measured in US dollars, as a result of China’s growing roundwood needs.

Competition in Europe has been heightened by the significant growth in sawmilling capacity in Central Europe. Since 2000, capacity has grown in Germany, Austria and France, in particular. The net growth in Sweden’s sawmilling capacity in 2011–2012 is expected to be approximately 2.4 mill. m³ of sawnwood. In Russia and elsewhere in Eastern Europe there are also investment plans for expanding capacity. Even if there is sufficient demand for

The Finnish sawmilling and plywood industries, 2010 1000 m³.

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<tr>
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<th>Sawnwood</th>
<th>%</th>
<th>Plywood</th>
<th>%</th>
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<tbody>
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<td>Production</td>
<td>9 400</td>
<td>100</td>
<td>980</td>
<td>100</td>
</tr>
<tr>
<td>*Domestic use</td>
<td>3 562</td>
<td>38</td>
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<td>15</td>
</tr>
<tr>
<td>Exports</td>
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<td>EU</td>
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<td>29</td>
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<td>74</td>
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<tr>
<td>Africa</td>
<td>1 601</td>
<td>17</td>
<td>3 0</td>
<td>0</td>
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<td>Asia excl. Japan</td>
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<td>2</td>
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<tr>
<td>Japan</td>
<td>674</td>
<td>7</td>
<td>6</td>
<td>1</td>
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<tr>
<td>North America</td>
<td>4</td>
<td>0</td>
<td>27</td>
<td>3</td>
</tr>
<tr>
<td>Russia</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Other</td>
<td>108</td>
<td>1</td>
<td>50</td>
<td>5</td>
</tr>
</tbody>
</table>

*Estimated domestic use = production – exports

Sources: Finnish Forest Industries Federation and National Board of Customs.

The increased production of wood products in the longer term, in the short term the demand fluctuations lead to major variations in market conditions and in sawmill profitability.

In Europe, the growth in sawnwood demand in the first half of 2011 pushed up prices, but weakening demand during the summer appears to have halted the rise in prices. The biggest drop was in the price of pine sawnwood, following lower demand in the key markets of the United Kingdom, North Africa and the Middle East. The unit price of all Finnish sawnwood exports began to fall slightly in March, and the average price for January–June 2011 fell by about 1% against the same period in 2010. The nominal average export price of Finnish sawn softwood for the full year 2011 is forecast to be down by about 2%, and in 2012 by about the same amount. This is based on the assumption that Europe’s sawmilling industry will adjust to the weakening demand by introducing production limits, and that a new economic crisis will be averted.

Weakening Euro Boosts Price Competitiveness of Exports

Demand growth increased the volume of Finnish sawn softwood exports to Europe in January–June 2011 by about 6% compared with the same period in 2010. Exports to Japan were up by 17%, but exports to North Africa fell with the decrease in pine sawnwood deliveries to Egypt.
The deteriorating state of the European economy will probably mean an end to the demand growth in sawnwood in the second half of 2011, and demand in 2012 may weaken further. In Europe, competition will intensify and supply will increase, also to regions outside Europe, principally Africa and Asia. Finland’s position in relation to its main competitor countries, Sweden and Russia, has nevertheless improved during 2011. Both Sweden and Russia gradually lost some of their exchange-rate-based real price competitiveness achieved in early 2009 in the euro area and also against the US dollar. The fading level of GDP growth in the euro area may weaken the euro a little against other currencies in 2012 as well.

Finnish sawnwood exports for 2011 are expected to be up by about 2% on account of the favourable trend in the first half of the year. Export volumes in 2012 are forecast to fall by around 2% from the 2011 figure, due to the decline in demand in Europe.

Drop in Construction Will Reduce Domestic Sawnwood Consumption in 2012

In Finland, new housing starts in January–June 2011 were up by 23%, and construction of single-family houses, which is important for sawnwood demand, was up by 10% year on year. However, since the summer, the economic outlook for construction has deteriorated. The favourable trend at the start of 2011 will nevertheless mean that sawnwood consumption for the full year is likely to remain close to the 2010 level. The Confederation of Finnish Construction Industries (RT) expects the number of detached houses built in 2012 to decrease by about 4%, which will also reduce sawnwood demand by several per cent. One bright spot in an otherwise uncertain market, however, is the major wooden buildings project being planned for Jätkäsaari in Helsinki. Such high profile examples of timber construction are great ambassadors for wood use in Finland and help to boost exports of wood products.

The favourable trend in domestic sawnwood consumption and exports boosted Finnish sawnwood production in January–June 2011 by about 8% year on year. Sawnwood demand in the second half of the year has weakened on both the export and domestic markets, which will probably lead to cuts in production volumes. Production for 2011 as a whole would nevertheless be up by about 2% on the 2010 figure. Production volumes in 2012 are expected to adjust to the lower demand in Europe and on Finland’s domestic market, with the full year’s production being down by about 2% year on year.

Declining Demand on Europe’s Plywood Market

In Europe, which is Finland’s main export market, plywood consumption increased by about 11% in 2010, due to increased demand in the packaging, transportation and furniture industries in response to the recovery in world trade. Construction also began to grow in some countries. Demand growth continued into the first half of 2011. In Germany, for instance, plywood imports were up in January–June 2011 by around a quarter in comparison with the same period a year earlier. With Europe producing less plywood than it consumes, the shortfall is made up by plywood imports and by expanding the use of substitute products such as OSB board. Since 2000, the global focus of plywood production has shifted to China from the traditional production regions of Europe, North America and Asia. China has become the world’s biggest plywood producer, already accounting
Finnish Forest Sector Economic Outlook 2011–2012

for a quarter of the EU’s plywood imports. In Germany, a key European trading partner for China, almost one fifth of its hardwood plywood imports in January–June 2011 were from China. However, Russia accounted for the biggest share of Germany’s hardwood plywood imports by volume. Russia’s plywood production has doubled since 2000. In softwood plywood, Brazil is the biggest source for Germany’s imports. Finland’s share of Germany’s plywood imports, both softwood and hardwood, in January–June 2011 was approximately 14%.

Finnish export volumes of all plywood in the first six months of 2011 were up by about 12% year on year. Birch plywood accounted for 35% of these exports, and the growth in birch plywood exports was greater than in softwood plywood exports. Germany accounted for the largest share of Finnish exports of hardwood plywood, and the United Kingdom for the largest share of Finnish softwood plywood exports.

The unit prices of Finnish softwood and birch plywood exports in the first half of 2011 were 8–9% higher than the same period a year earlier, due to demand growth in Europe. Plywood prices in Europe were pushed up by higher demand and indirectly by the destruction in Japan’s earthquake, which led to almost one third of the country’s plywood production capacity being damaged or completely destroyed. As a consequence, the biggest producer countries, such as China and Indonesia, increased their exports to Japan. In total, Japan’s plywood imports grew in January–June 2011 by 28% in comparison with the same six months in 2010. However, the growth in Japan’s imports has begun to fade since the summer, as some of the damaged mills have been brought back to production. The prices of Japan’s plywood imports have also fallen. The reduction in exports to Japan has led to an increase in the supply of European plywood in Europe. With demand weakening at the same time, due to the greater economic uncertainty, pressure has emerged in some plywood grades for a reduction in prices. The price of Finnish softwood plywood has been falling gently since April, but the birch plywood price has remained more stable. The unit price of plywood exports for the full year 2011 is expected to be up by about 7% year on year, due to the favourable price trend in the first six months of the year, and despite this trend tailing off in the latter part of the year. The price is forecast to fall in 2012 as a result of weaker demand in Europe.

Export growth boosted Finnish plywood production in January–June 2011 by about 16% year on year. Approximately 85% of this plywood production goes for export. The growth in plywood production and exports for the full year 2011 will slow to about 7% on account of the weakening demand in the second six months of the year. In 2012, production and exports will be down year on year.

Forecasts of production and exports in the sawmilling and plywood industries, 1,000 m³ (percentage changes from previous year are shown below the respective volumes).

<table>
<thead>
<tr>
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<th>Production</th>
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<th>Exports</th>
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<td>9,600</td>
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<td>5,900</td>
<td>5,800</td>
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<td></td>
<td>18</td>
<td>2</td>
<td>–2</td>
<td>14</td>
<td>2</td>
<td>–2</td>
</tr>
<tr>
<td>Plywood</td>
<td>980</td>
<td>1,050</td>
<td>7</td>
<td>834</td>
<td>890</td>
<td>870</td>
</tr>
<tr>
<td></td>
<td>23</td>
<td>7</td>
<td>–2</td>
<td>22</td>
<td>7</td>
<td>–2</td>
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</tbody>
</table>

Forecasts of export prices for sawnwood and plywood (as percentage changes from previous year).

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<tbody>
<tr>
<td>Sawnwood</td>
<td>16 (201 €/m³)</td>
<td>–2</td>
<td>–2</td>
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<tr>
<td>Plywood</td>
<td>–1 (487 €/m³)</td>
<td>7</td>
<td>–2</td>
<td></td>
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Export prices are nominal unit values

Export volume

1000 m³ EUR/m³

Source: National Board of Customs

Volume and unit value of plywood exports, 2000–2012 at 2010 prices (wholesale price index)
2.2 Production and Exports in the Pulp and Paper Industry

The rapid growth in the consumption of paper and paperboard products in 2010 levelled off in the first half of 2011, and demand in the remainder of the year will be adversely affected by the heightened economic uncertainty in Europe and the United States. Indeed, export volumes of Finnish paper and paperboard already began to fall in the second quarter of 2011. Production and exports of paper are forecast to be down by about 1% for the full year 2011, while paperboard production and exports will be up by 2%. Pulp exports are forecast to grow by 5% and production by 2%. Paper prices and paperboard product prices rose in 2010 and in the first half of 2011. The average price of paper exports for the full year 2011 is forecast to be up by 5%, and the average price of paperboard exports by 8%, in comparison with 2010.

The dip in paper demand is expected to be short-lived, rising again in the second half of 2012. Production and exports of Finnish paper and pulp for the full year 2012 are expected to be at about the 2011 level, following the drop in demand in the early part of the year. The unfavourable market conditions in Europe will also ensure that the price trend is moderate. In 2012, the average price of Finnish paper and paperboard exports is forecast to rise by about 1–2% in comparison with the 2011 average.

Global Demand Growth for Paper and Paperboard in 2010

In 2010, consumption of printing and writing papers in Europe was up by 4%, as the economy began to grow again after the recession. The biggest growth was in uncoated fine paper consumption, while the consumption of other printing papers was close to the 2009 level. Europe’s production of paper and paperboard grew by 7% to 105 mill. tonnes in 2010, and exports were up by 10%. The production volume of printing and writing papers was significantly below the 2006 level. By contrast, production volumes of packaging board and packaging paper exceeded the 2006 figures by about 2 mill. tonnes. With Europe’s paper industry capacity having been cut substantially in previous years, the capacity utilisation rate in the paper and paperboard industry rose to 91–93% in 2010. The improved market also meant higher prices for most paper and paperboard products.

In 2010, North America’s paper and paperboard consumption began growing again, reaching 3.6% for the full year, following a number of years without growth. Consumption and production of paperboard increased in both the United States and Europe, growing at an even faster rate than paper consumption. Electronic media and the Internet are continuing to have an impact on US paper consumption. Compared with 2005, the consumption of printing and writing papers has fallen by a quarter, and the consumption of newsprint alone has fallen by about half. In the past ten years, paper production capacity has been cut by almost 20% and paperboard by almost 10%, through mill and machine closures. The growth in production volumes in 2010 boosted capacity utilisation rates to 94% for paperboard and 87% for paper.

Improved GDP growth in Russia and the other CIS countries resulted in almost 10% growth in their consumption of paper and paperboard in 2010, and most of this was met through imports. The growth was mainly in higher priced paper and paperboard products that are imported by Russia on account of the small scale of its own production. Russian imports from Finland are mainly of magazine paper.

In contrast to other countries, China’s consumption and production of paper and paperboard products continued to grow during the recession in the world economy in 2008–2009. In 2010, China’s consumption of paper and paperboard grew by more than 7%. Among the different paper grades, the highest growth was in the production and consumption of coated fine paper. By contrast, newsprint consumption fell.

China is the world’s largest producer and consumer of paper and paperboard. Most of its consumption and production of these consists of packaging board and packaging paper.
Growth in Paper Exports Slows and Prices Stop Rising

Paper demand in Europe began to fall distinctly in the second quarter of 2011. A year-on-year drop in demand of almost 8% was recorded for coated fine paper in January–August 2011. However, the demand for newsprint and magazine paper in the member countries of the Confederation of European Paper Industries (CEPI) remained almost unchanged from 2010. In the United States, paper consumption began to decline, and the production of printing and writing papers fell by 3.5% in January–July 2011, while paperboard production was unchanged. By contrast, China’s consumption, production and exports of paper products and paperboard products have continued to grow at a high rate. On the Chinese market, paper and paperboard product prices have continued to rise even further, which has also helped prices to rise in Europe and North America.

In January–March 2011, the volume of Finnish paper exports grew by one fifth in comparison with the same period a year earlier. With the demand for paper beginning to slacken in the second quarter, exports of Finnish uncoated magazine and fine papers began to fall. However, the continued export growth for other paper grades boosted paper export volumes overall, which were up by 5% year on year for January–June 2011. Magazine paper still accounts for more than half of Finland’s paper exports, although this share has fallen. Fine paper’s share has risen to 36%, while newsprint has shrunk to 2% of all paper exports. Exports of paperboard in January–June 2011 were up by 8% compared with the same period a year earlier, despite the year-on-year drop in second quarter exports.

Paper prices began to rise in Europe in 2010, and this continued in the first half of 2011. The average export price of paper in January–June 2011 was 5% higher, and for paperboard 7% higher, than the 2010 full-year average. Among the different paper grades, the biggest price rises were in fine paper and newsprint. Among paperboard products, the prices of kraft liner and fluting rose by over 15%.

Finnish forest industry companies have already announced new price increases for certain product groups, to take effect during the second half of 2011. With the demand for paper tailing off towards the end of the year, no further price rises of any significance are anticipated, and the average export price of paper for 2011 is expected to be up by 5% and for paperboard by 8%. Production and exports of Finnish paper are expected to be down by 1% for the full year 2011. Demand for packaging papers and for paperboard products is expected to remain better than for printing and writing papers, and so their production and exports are forecast to be up by 2% for 2011.

Pulp Demand and Prices at High Level

In Finland, most pulp production is for use in the domestic paper industry, with an average of
one third going for export. The majority of the exported pulp consists of softwood pulp, and in January–June 2011 the biggest export destinations were China and Germany.

China’s need for wood fibre has kept pulp demand and prices at a high level globally. China’s imports of wood pulp in the first half of 2011 returned to their 2009 level, following the slight dip in 2010. This increase in pulp imports was made instead of importing more recycled fibre. China also increased the use of non-wood fibre in its paper industry. Recycled fibre accounts for 60% of all the fibre used in China’s paper industry, but a reduction in its supply and a rise in prices meant that China imported only 5% more recycled paper in the first half of 2011.

The dollar price of pulp in China remained stable up to May 2011, following the dip in the latter half of 2010. Since then, the price has started to fall. The worsening economic outlook in Europe and the United States since the first half of 2011 will also have an adverse effect on China’s export opportunities, which will reduce packaging paper and paperboard production and with it the demand for pulp. The FOEX PIX index of the market price of both hardwood and softwood pulp in dollars fell by 10% in the period January–September 2011.

The export volume of Finnish bleached softwood sulphate pulp was up year on year by 25% in the first quarter of 2011, due to the high demand for pulp and the high pulp price. However, the pulp price started to fall in the second quarter, and exports decreased as paper demand slackened on export markets. With the production of Finnish paper and paperboard no longer rising in the first half of the year, there was no increase in the consumption of pulp either. In January–June 2011, pulp production was only 2% above the previous year’s figure. Growth in Finnish pulp production for the full year 2011 is expected to be no more than 2%. The export volume for 2011 will be up by 5% year on year, as a result of the favourable situation in the first half of the year. With PIX prices starting to decline, a downward movement in the export price of Finnish pulp is also foreseeable. Nevertheless the average export price of bleached pulp for 2011 is expected to be up on the average price for 2010, but by only 1%.
Recession Threatens Finnish Paper Exports in 2012

Europe’s GDP growth and industrial output are forecast to slow considerably during the second half of 2011 and the first six months of 2012. Paper and paperboard consumption has already started to fall on the European and United States markets, which are of key importance for Finnish exports. The dip in demand is expected to be short-lived though, rising again in the second half of 2012. In 2012, the demand for paper products in both Europe and the US is forecast to be at the same level as in 2011.

Profitability in the Finnish paper industry has risen as a consequence of higher prices and more efficient production. In comparison with its competitor countries, Finland is nevertheless in a less favourable position on account of its long travel distances and high transportation costs. Europe still has overcapacity on the printing and writing paper market, although production capacity has been cut. In Finland, too, the paper industry has made production capacity cuts, which in 2010 totalled 750,000 tonnes. In August 2011, UPM announced a major reorganisation programme for its paper industry operations, and is planning to reduce its paper capacity in Europe and the United States by a total of 1.3 mill. tonnes. As part of this reorganisation programme, UPM is planning to close its entire Myllykoski paper mill (600 000 tonnes/yr) by the end of 2011.

With paper demand in 2012 remaining at the 2011 level, production and exports of Finnish paper and pulp in 2012 are expected to be unchanged from a year earlier. Production and exports of paperboard are forecast to be up by 2%. The average price of Finnish paper exports in 2012 is forecast to rise by 1% and paperboard by 2%. The average price of pulp exports is expected to be at the same level as in 2011.

2.3 Costs and Profitability in the Finnish Forest Industry

The rapid rise in the Finnish forest industry’s profitability in 2010 has slowed in 2011. Despite the gloomier economic outlook and the end to price rises for the forest industry’s key export products, the profitability of the wood products industry and the pulp and paper industry for the full year 2011 will nevertheless be above the previous year’s level.

It will be challenging for the forest industry to retain the relatively high profitability of 2011 during 2012. The most immediate impact of the economic uncertainty on key export markets and on the domestic market will be evident in sawnwood and plywood demand and prices. Paper prices are also expected to drop slightly in the first half of 2012, although there will be significant differences between products, and efforts have been made to counter the effects of the declining demand, which is partly structural, through capacity cuts. The profitability of pulp and paperboard production is likely to remain high. The price trend for raw materials, including roundwood, is forecast to be moderate, which will serve to support profitability. Profitability in both the wood products industry and the pulp and paper industry in 2012 is expected to remain at almost the 2011 level. Profitability would thus still be higher than the post-2000

### Forecasts of Production and Exports in the Pulp and Paper Industry (1000 Tonnes)

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<tr>
<td>Chemical pulp</td>
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<td>6 900</td>
<td>1 994</td>
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<td>8 800</td>
<td>8 251</td>
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<tr>
<td>Paperboard</td>
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<td>2 950</td>
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<td>2 600</td>
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### Forecasts of Export Prices for Pulp and Paper Products

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<th></th>
<th>2010</th>
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<tr>
<td>Chemical pulp</td>
<td>49 (575 €/t)</td>
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<td>0</td>
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<td>Paper</td>
<td>4 (617 €/t)</td>
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<tr>
<td>Paperboard</td>
<td>5 (724 €/t)</td>
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</tbody>
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average, which is evidence of the positive trend in the Finnish forest industry’s competitiveness over the past few years of structural changes.

Wood Products Industry’s Rising Profitability Slows Down

Profitability in the wood products industry improved rapidly in 2010, having reached a trough in 2009. This was attributable to the sawnwood export recovery and price rises in particular. Interim reports published by the major Finnish forest industry corporations show that the rise in the wood products industry’s profitability has continued during 2011. On the basis of the operating profit figures for January–June 2011, the wood products industry’s profitability was almost the same as in 2006, when the rise towards the cyclical peak in the sawnwood market began. However, in autumn 2011 the outlook for the wood products industry appears less bright.

The industry’s profitability trend in the first half of 2011 was aided by the continuing rise in sawnwood export volumes and prices. Domestic sawnwood demand also increased as construction picked up. On the other hand, the export outlook was hampered in the early part of the year by the upheavals on key export markets for the Finnish sawmilling industry, namely Japan and North Africa. During the autumn, uncertainty over the economy has increased, especially in Europe, and there are concerns that sawnwood demand will start to decline. To prevent oversupply and a plunge in prices, Finnish sawnwood producers have announced plans to adjust production levels, as have producers in Central Europe. Although the rise in sawnwood export prices has already tailed off, prices are not expected to drop sharply. The sawnwood export price for the full year 2011 is forecast to be 2% below the figure for 2010.

In Finnish plywood production, 2010 was still an unfavourable year, and the recovery in production and rise in profitability began later than for sawnwood production. Plywood demand in Europe has grown during 2011, especially for industrial uses, such as in the transportation sector. This has had a favourable impact on the export price of birch plywood, which it seems has continued to rise despite the economic uncertainty. By contrast, the slowdown in construction in Europe has been reflected in softwood plywood demand and export prices, with the rise in the latter having faded away, as with the sawnwood export price. For the full year 2011, the average price of plywood exports is nevertheless expected to be 7% up on the 2010 figure, and production profitability is expected to have risen significantly in comparison with the losses of the previous two years.

In Finland’s wood products industry and especially in sawmilling, wood raw material costs constitute the biggest single cost item. The sawlog price trend in the first half of 2011 was moderate, and there was even a drop in prices in comparison with the previous six-month period. This in turn supported a favourable profitability trend. However, sawlog stumpage prices soon began to rise, though this did not turn out to be as sharp a rise as seen in 2010, but in August stumpage prices were already falling. A key reason for this was the response of sawnwood producers to the uncertainty concerning the sawnwood market and export prices, by restricting sawlog purchases. The trend in roundwood costs plays a key role in the profitability of the wood products industry, and price trend differences between sawlogs and products, especially sawnwood, are reflected in the profitability.
performance of the entire sector. Concern over roundwood costs also affects producers in Finland’s key competitor countries.

In 2012, sawnwood and plywood production and export prices are expected to be down slightly year on year, which will have an adverse impact on the profitability of the wood products industry. On the other hand, the cost trend is expected to be very moderate: sawlog stumpage prices are projected to start falling gently, and, due to the economic uncertainty, there is unlikely to be any upward pressure on freight costs or labour costs. Even if profitability growth in the wood products industry were to slow down considerably, profitability is not expected to fall below the 2011 level. This means that the Finnish wood products industry’s profitability in 2012 should remain above the post-2000 average.

Pulp and Paper Industry Profitability Risen Sharply

The profitability trend in the pulp and paper industry has been rising sharply since 2009, and the interim reports of the Finnish forest industry corporations indicate that this trend has continued in 2011 as well. The accompanying diagram depicts the profitability of the pulp and paper industry using two time series showing the operating result as a percentage of turnover. One of these time series is based on the forest industry corporations’ own announcements, and the other on a dataset of the industry’s financial statements maintained by Statistics Finland. The differences in the two time series have been fairly large.

Among the reasons for this are that the financial statements and interim report data reported by the corporations cover only the corporations in question and include their operations abroad. Statistics Finland’s dataset comprises data for all Finnish companies across the entire sector. Moreover, the corporations decide their own divisional boundaries, whereas Statistics Finland uses a detailed industrial classification. The Statistics Finland dataset is also based on adjusted financial statements, while the corporations’ announcements can be affected by discretionary entries.

Differences in the profitability figures based on the different datasets were especially great in 2007–2009, when, according to Statistics Finland’s financial statements data, the pulp and paper industry’s operations were loss-making in terms of their operating result, although the forest industry corporations’ financial statements showed that the operations were profitable. In 2010 the two operating result percentages matched up once again. The Finnish pulp and paper industry’s dramatic profitability improvement in 2010 on the basis of the Statistics Finland figures was exceptional for the industry. The rapid rise in profitability can be partially attributed to efficiency improvements, as the pulp and paper industry in Finland has just gone through structural adjustments of an exceptional scale. The operating result figures of the forest industry corporations and Statistics Finland in fact both give an encouraging picture of the trend in the pulp and paper industry’s competitiveness and profitability. There is nevertheless some way to go before the profitability figures of the early post-2000 years are met, and within the industry there are differences in profitability between product groups.

As in 2010, the pulp and paper industry’s most profitable product area in 2011 has been pulp production. China’s demand for wood fibre has sustained the boom in pulp. The rise in pulp export prices began in mid-2009 and continued until early autumn 2010. In that period, the export price of softwood sulphate pulp rose by
about 80%, and of hardwood sulphate pulp by almost 100%. The softwood pulp export price then fell by more than 10% by the end of 2010 from the autumn peak, but then rose a little in the first half of 2011 and has since remained high.

The export price of hardwood sulphate pulp dropped by over 20% from its peak level by the end of 2010, and a gentle decline has continued in 2011. The profitability of pulp production has been underpinned by the moderate trend in roundwood costs: the booming pulp market and the rapid rise in export prices have barely affected the stumpage prices of domestic pulpwood. Although the Finnish forest industry corporations, in their paper and paperboard production, consume most of the pulp they produce, there has been a distinct increase in pulp export volumes and in the production share of market pulp during the upswing. Despite the peak in pulp export prices having passed, the profitability of pulp production is expected to remain high in the second half of 2011 and in 2012.

Profitability remained high in paperboard production during the first half of 2011. In 2010, too, the profitability of paperboard production was significantly above the average profitability level for the pulp and paper industry, as was the case for pulp production. The demand for packaging board in particular has grown and export prices have risen. By autumn 2011, there was still no sign that the rise in packaging board export prices would tail off, and so the profitability of paperboard production is expected to remain high in the second half of 2011. Paperboard sales and prices are affected especially by the trend in industrial production and in the need for packaging materials on the main markets in Europe and Asia. Russia has also accounted for a growing share of Finland’s paperboard exports in recent years. The positive export prospects on the growing markets are helping to offset the weakening market outlook in Europe, and so the profitability of paperboard production is expected to remain high in 2012.

More than 90% of the Finnish pulp and paper industry’s products go for export, with Europe as the main market. With Europe’s demand growth for magazine paper being slower than the growth in production, the price level has fallen.

The response to this has been a cut in magazine paper capacity, and the cuts are still continuing in Finland as well, as UPM closes its Myllykoski paper mill. At the same time, the proportion of magazine paper in the Finnish pulp and paper industry’s exports has fallen. Besides magazine paper, cuts have also been made in the production of fine paper and newsprint. The export price trend for magazine paper in the first half of 2011 was favourable and the profitability of production was up from the previous year. The market outlook in Europe is considered to be stable. The trend in fine paper export prices has also been favourable, but the market outlook in Europe was gloomier than for magazine paper. The profitability of fine paper production in the first half of 2011 was slightly weaker than a year earlier, and the outlook for the remainder of the year is unfavourable. Indeed, the forest industry corporations have announced efficiency measures for fine paper production in order to improve competitiveness and profitability.

Newsprint production volumes are considerably smaller than those of magazine and fine papers, and its share of Finnish paper exports has shrunk to about 2%. Newsprint demand picked up in the first half of 2011, and the export price remained high. This gave rise to an improvement in the profitability of newsprint production, and the outlook for the remainder of 2011 is stable.

The economic outlook for 2012 in Europe, which is the main export market for the Finnish pulp and paper industry, continues to deteriorate, and consumption growth for paper in particular is expected to slow down. On the other hand, capacity cuts will have reduced oversupply and enhanced the opportunities for product price increases. With GDP growth slowing down, the demand for products of the pulp and paper industry, and their export prices, are likely to drop slightly in the first six months of 2012. This dip is expected to be short-lived and a return to a rising track is anticipated in the second half of 2012.

The profitability trend in the pulp and paper industry has been generally positive in 2011. The export prices of different products have either risen or remained relatively stable. The moderate cost trend has also supported profitability. In the first half of 2011 the biggest cost increases were
for chemicals and energy, primarily due to the rising price of crude oil. However, the rise in costs was compensated for by higher product prices. As a result of the economic uncertainty, the rise in crude oil prices has turned into a decline, and the pressure on chemical and energy costs has been reduced. Transportation costs have been critical to the competitiveness of the pulp and paper industry, which is strongly export-oriented. Sea freight charges (Baltic Dry Index) remained at a very low level from January to September 2011, despite the increase in oil prices. Freight charges then rose sharply in September, at least briefly, but are still well short of the 2010 level. The economic uncertainty will also keep freight charges in check.

In 2012, the increase in pulp and paper industry costs is expected to remain very modest. Forecasts of crude oil prices for 2012 were revised downwards in autumn 2011, and in the United States the U.S. Energy Information Administration forecasts that the average price per barrel for 2012 will rise by at least 3% from the 2011 figure. The oil price trend will be reflected in numerous different cost items, and especially in the costs of transportation, chemicals and energy. The trend in roundwood costs is also expected to be very modest as domestic pulpwood stumpage prices will remain at their 2011 level. With only a moderate increase in costs anticipated, this will compensate for the uncertainty over product prices, and so the pulp and paper industry’s profitability overall is not expected to weaken in 2012 compared with 2011.