



Finnish Forest Sector Economic Outlook 2022– 2023

Jari Viitanen, Antti Mutanen and
Sari Karvinen (eds.)

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Executive summary

Jari Viitanen¹⁾, Antti Mutanen¹⁾, Matleena Kniivilä²⁾, Emmi Haltia²⁾, Esa-Jussi Viitala²⁾, Marja Kallioniemi²⁾, Kari Härkönen²⁾, Jussi Leppänen²⁾, Esa Uotila²⁾, Johanna Routa¹⁾ and Tuomas Niinistö²⁾

1) Natural Resources Institute Finland, Yliopistokatu 6, FI-80100 JOENSUU

2) Natural Resources Institute Finland, Latokartanonkaari 9, FI-00790 HELSINKI

Russia's attack on Ukraine, the resulting economic effects, and increased uncertainty weaken the economic growth in the main export areas of the Finnish forest industry and affect the demand, production, and export of forest industry products. The effects are transmitted to harvesting volumes and stumpage prices in the Finnish roundwood markets. However, the effects are industry specific. In Finland, production volumes of forest industry products are increasing along with the expanding production capacity. Some of the industries may even gain a competitive advantage from the energy crisis and rising prices affecting Central Europe.

In the sawmill industry, the economic outlook has rapidly weakened, and export price of sawnwood has started to fall from the record level of the summer 2022. However, production and export volumes of sawnwood are predicted to increase 2023. Also, the demand for pulp and paper industry's products seems still favourable. The export prices of cardboard, pulp, and paper are expected to decrease 2023, but they will still remain at a high level. The Finnish forest industry will be highly profitable in 2022. This favourable situation will continue in 2023 as well.

The fellings of industrial wood will decrease in 2022 but will increase again next year to more



Picture: Päivi Tommola.

than 66 million cubic metres. Increasing felling volumes improve employment in forestry. After the end of the import of roundwood from Russia, the demand for domestic pulpwood and stumpage prices will rise. The consumption of forest chips and the corresponding mill-gate prices are also increasing.

Economic growth is weakening in the main export markets of the Finnish forest industry

Russia's attack on Ukraine, the energy crisis, accelerating inflation, rapidly rising interest rates, and growing uncertainty are weakening the world's economic growth. The outlook for Finland's main market for forest industry products, the euro area, is particularly bleak, and

the worst-case scenario is that the economy can drift into a deep recession. Germany's economic growth practically stopped in the second quarter of the current year, and the country is estimated to be the first of the major euro countries to drift into recession during the rest of the year. Economic growth will also slow down significantly in other export areas of the Finnish forest industry. Weighted by the export shares of the Finnish forest industry in 2021, the global economy will grow by approximately 2.5 per cent this year, and less than two per cent next year. However, the risks of a weaker growth are high. The faster monetary policy tightening in the euro area compared to the United States and the threat of a recession in the euro area have weakened the euro during the current year. The euro is still expected to weaken slightly against the US dollar during the end of the year and the beginning of next year.

The demand for sawnwood is slowing down

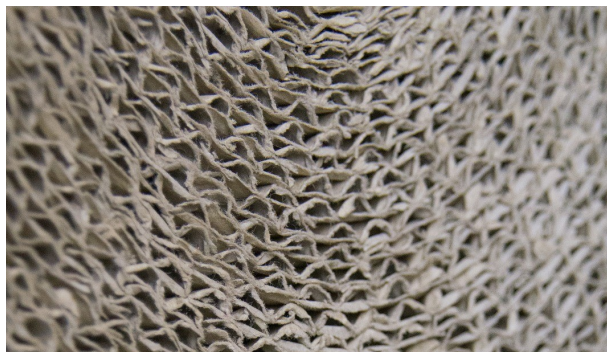
At the beginning of 2022, the demand for sawnwood on the export market was still brisk and prices rose. However, the increasing uncertainty of the global economy is already reflected in construction activity in many important export countries during the rest of the

portant export countries during the rest of the year and next year. Finnish sawnwood exports are expected to decrease by three per cent this year, and production by one per cent. Although the export price of Finnish sawnwood is expected to decrease during the rest of the year, the average export price for the whole year of 2022 will increase by five per cent from last year. The start-up of new sawing capacity in Finland at the end of this year and next year will increase the production and export volumes of sawnwood by 3–4 per cent in 2023. The average export price of sawnwood in 2023 is expected to fall to about a quarter with respect to the current year's prices.

The export price of plywood has risen throughout the beginning of 2022, and the rise is expected to continue in the fall as well. The average export price of plywood is forecast to rise this year by almost a third from last year. In 2023, the average export price of plywood will decrease by five per cent, but production and export volumes will remain approximately at the level of 2022.

Prices of pulp and paper industry products are high

Cardboard demand and exports have increased moderately despite the uncertain economic situation, and prices have seen a fair rise in early 2022. Although the price increase will be reducing at the end of the year, the average export price of Finnish cardboard will be 19 per cent higher in 2022 compared to last



Picture: Pixabay.

year. In 2023, the export price of cardboard will decrease by seven per cent, but still remain at a fairly high level. This year, cardboard exports from Finland will increase by two per cent from last year. Next year, Finland's cardboard production capacity will increase slightly thanks to new investments, and cardboard exports will increase by two per cent despite the weakening of the general economic situation in the export markets.

In 2022, Finnish paper production was significantly lower than in 2021 as a result of UPM-Kymmene Ltd.'s labour disputes at the beginning of the year and the closing of Stora Enso Ltd.'s Veitsiluoto paper mill. In 2023, the production and export volumes of paper will be clearly higher than this year. However, the downward trend in demand for paper continues in Finland's main export markets. Paper prices in Europe have been exceptionally high as a result of increased production costs and lower supply. The average export price of

Finnish paper will rise as much as 39 per cent this year. High prices intensify the decrease in demand for printing and writing paper. However, the price level will remain high next year.

UPM's labour disputes also affect Finnish pulp production and export volumes for the current year. The quantities are clearly lower than before, even though the market situation has been favourable from the producer's point of view since the beginning of the year. Next year, the weakening of global economic growth will also reduce the demand for pulp. In Finland, however, both exports and production volumes will increase this year with the start-up of Metsä Group's new bioproduct factory in Kemi. The increase in the price of pulp is gradually levelling off. In 2022, the average export price is forecast to be about 20 per cent higher than last year but will decrease somewhat next year.

Exceptionally high profitability in the Finnish forest industry

The profitability of the Finnish forest industry rises to a record level in 2022. The profitability of cardboard and plywood production will reach an all-time high, and the production of pulp, paper, and sawnwood will also be very profitable. In 2023, the profitability of the forest industry will no longer be at the same peak level, because the prices of final products will fall, and production costs will remain higher than before.

Upward pressure in pulpwood prices, felling volumes will increase next year

The transition from the COVID-19 crisis to the economic consequences of the war in Ukraine has led to a peak cycle in the Finnish roundwood market in consecutive years 2021 and 2022. The growth in the demand for roundwood has been based on the excellent demand for forest industry products and their high prices on the world market. Due to the high starting level and the labour disputes that reduced wood consumption in the forest industry at the beginning of the year and increased wood stocks, the total amount of industrial roundwood cut this year is predicted to decrease by six per cent from last year to 61.9 million cubic metres. Sawlog fellings will decrease by six per cent from the previous year to 27.2 million, and pulpwood fellings by five per cent to 34.7 million cubic metres. The



average stumpage prices of sawlogs will increase by 6–8 per cent and that of pulpwood by 3–8 per cent. The import of roundwood will collapse by 70 per cent to 3.5 million cubic metres after the end of the import of Russian roundwood. The combined total volume of fellings of industrial roundwood and import of roundwood will decrease by 16 per cent to 65.4 million cubic metres.

In 2023, it is predicted that the fellings of sawlogs will remain at the current year's level, and fellings of pulpwood will increase by 13 per cent in parallel with the increase in the amount of thinnings. Even though the prices of forest industry products are falling, growing processing capacity and intensifying competition for roundwood are predicted to increase the price level of roundwood, except for pine and spruce sawlogs. The average stumpage prices of pine and spruce sawlogs will decrease by 2–4 per cent following the falling prices of sawnwood. The stumpage price of birch sawlogs will increase by two per cent and that of pulpwood assortments by 2–6 per cent. While it seems that the stoppage of roundwood imports from Russia cannot be replaced by imports from other countries, the total import volume of roundwood will continue to decrease by 29 per cent to 2.5 million cubic metres. The combined total volume of industrial roundwood fellings and roundwood imports will increase by five per cent to 68.9 million cubic metres.

The operating profit in non-industrial private forestry remains at a good level

In 2021, the gross stumpage earnings in non-industrial private forestry were EUR 170 per hectare (EUR 2.3 billion). The earnings were almost a fifth higher than the average of the last five years. In 2022, the increase in stumpage prices, and in 2023, the increasing volume of fellings will increase the gross stumpage earnings in private forestry to almost EUR 2.5 billion in both years. Although nominally the earnings will be higher than in 2021, in real terms the earnings will decrease.

According to preliminary data, the operating result of non-industrial private forestry was EUR 154 per hectare (EUR 2.1 billion) in 2021. The increase in roundwood prices will keep the operating result high in 2022 as well, and nominally the result will remain higher in 2023 than in the current year. The investment return on wood production in non-industrial private forestry increased to 12 per cent in 2021 due to the increase in stumpage prices. The drop in stumpage prices in real terms will keep the return low in 2022 and 2023. However, when excluding the changes in stumpage prices, the return on investment will be about five per cent.

► [Luke: Forest statistics](#)

Employment in Finnish forestry is increasing

In 2021, employment in the Finnish forest industry decreased by five per cent to a total of 36,000 employees. In 2022, the economic growth will slow down, which can be seen, among other things, in a decrease in construction activity. The consequences of the war in Ukraine has changed the cost structures of companies. In the current year, employment in the Finnish wood products industry is predicted to decrease by one per cent and in the pulp and paper industry by two per cent. Employment in the entire forest industry is predicted to decrease by one per cent. The outlook for

2023 is slightly more positive, when the number of people employed in the entire forest industry is predicted to increase slightly.

In 2021, the employment in forestry increased by three per cent to 25,000 people. The turn of the economy towards slowing growth or even recession weakens employment prospects generally in 2022. However, the sanctions related to the war in Ukraine has increased work orders in forestry, but also brought uncertainty and increased costs. In 2022, employment in forestry is predicted to increase by four per cent.

Average nominal stumpage prices (over bark) in non-industrial private forests 2021–2023f.

Roundwood assortment	2021	2022f	Change	2023f	Change
	€/m ³	€/m ³	%	€/m ³	%
Pine sawlogs	62.0	66.7	8	65.6	-2
Spruce sawlogs	66.1	70.4	7	67.6	-4
Birch sawlogs	45.0	47.6	6	48.5	2
Pine pulpwood	18.4	19.2	4	20.0	4
Spruce pulpwood	20.7	21.4	3	21.8	2
Birch pulpwood	17.7	19.2	8	20.3	6

Source: Natural Resources Institute Finland.

Key forecasts 2021–2023f.*

Forecast variable		2021	2022f	2023f
		% y-o-y		
Sawnwood	production	9	-1	4
	exports	6	-3	3
	export price	56	5	-23
Plywood	production	14	-1	0
	exports	15	-3	1
	export price	9	31	-5
Pulp	production	8	-15	1
	exports	5	-17	-5
	export price	35	20	14
Paper	production	-2	-29	19
	exports	1	-29	19
	export price	4	39	-7
Paperboard	production	5	2	2
	exports	15	2	2
	export price	5	19	-7
Fellings of industrial roundwood		13	-6	7
Roundwood imports (incl. chips)		0	-70	-29

*Price changes are nominal.

Sources: Finnish Forest Industries, Finnish Customs and Natural Resources Institute Finland (forecasts).

The use of forest chips and pellets increasing in Finland

Although the total consumption of wood fuels is expected to decrease in 2022, the end of Russian energy imports will keep the consumption of forest chip at the previous year's level in Finland. In 2023, the consumption of forest chips will increase by 2–3 per cent. The mill-gate price of forest chips is expected to rise by 20–30 per cent this year. The end of Russian pellet imports affects the Finnish pellet market, as import volumes cannot be quickly replaced by increasing domestic production. This may raise prices and cause problems with the availability of pellets in the heating season 2022–2023.

Basis and risks of the forecast

The Finnish Forest Sector Economic Outlook provides information on the current situation and the future prospects of the Finnish forest sector. The forecasts are based on public statistics, world economic development forecasts, forest sector market information from various sources, and studies by the Natural Resources Institute Finland. The forecasts are prepared using the derived demand principle, which means that the fluctuations of the economic outlooks in Finland and the export markets are expected to be reflected in the demand for forest industry products and, consequently, to forest industry production and domestic roundwood market. Changes in the operating environment of the Finnish forest sector and the impact of the governments' economic in-



Picture: Metsä Group.

struments are also considered when the forecast is prepared. If the economic growth were to be slower than expected, the export prices, production and the profitability of the Finnish forest industry would be lower than this forecast.

The understanding of the economic development of the world economy and export markets is based on projections made by different organizations (e.g. OECD, IMF, ETLA, Nordea, Bank of Finland). The forecasts for this review are based on the data from the forest sector in September and October 2022 and forecasts for the development of world economy for the years 2022–2023. The forest sector forecasts

describe the most probable development as assessed by the authors. They are point estimates, which are based on export market growth forecasts and other underlying assumptions related to market development.

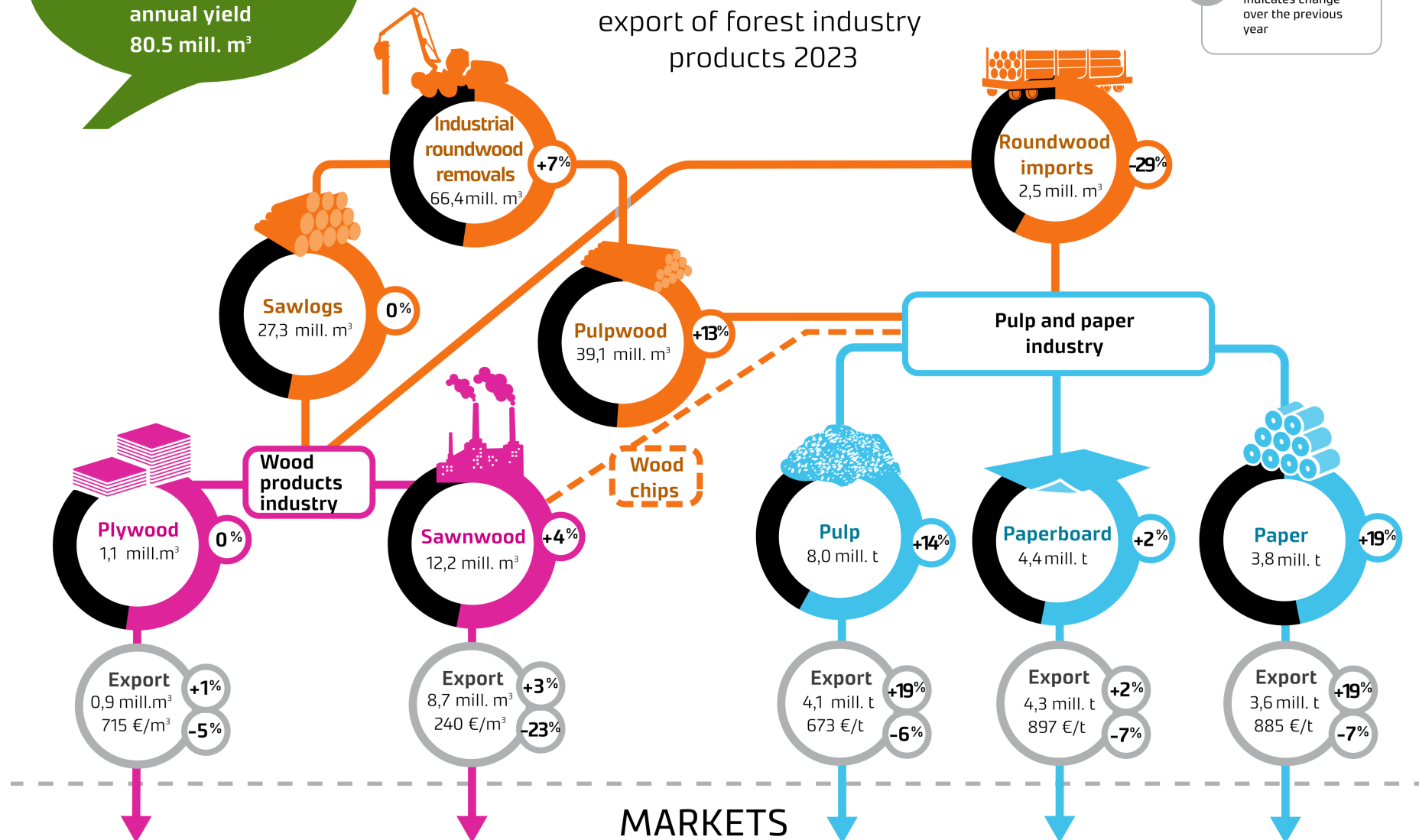
In autumn 2022, the main uncertainties related to forecasts and economic development are related to Russia and the consequences of its military actions. The length and coldness of the oncoming winter in Europe will determine the depth of the energy crisis and possible recession. Other factors of uncertainty are the escalation of tensions between China and the United States and the possibility of the emergence of new variants of the COVID-19 virus.

Volume of growing stock
2.5 bn m³
Maximum sustained
annual yield
80.5 mill. m³

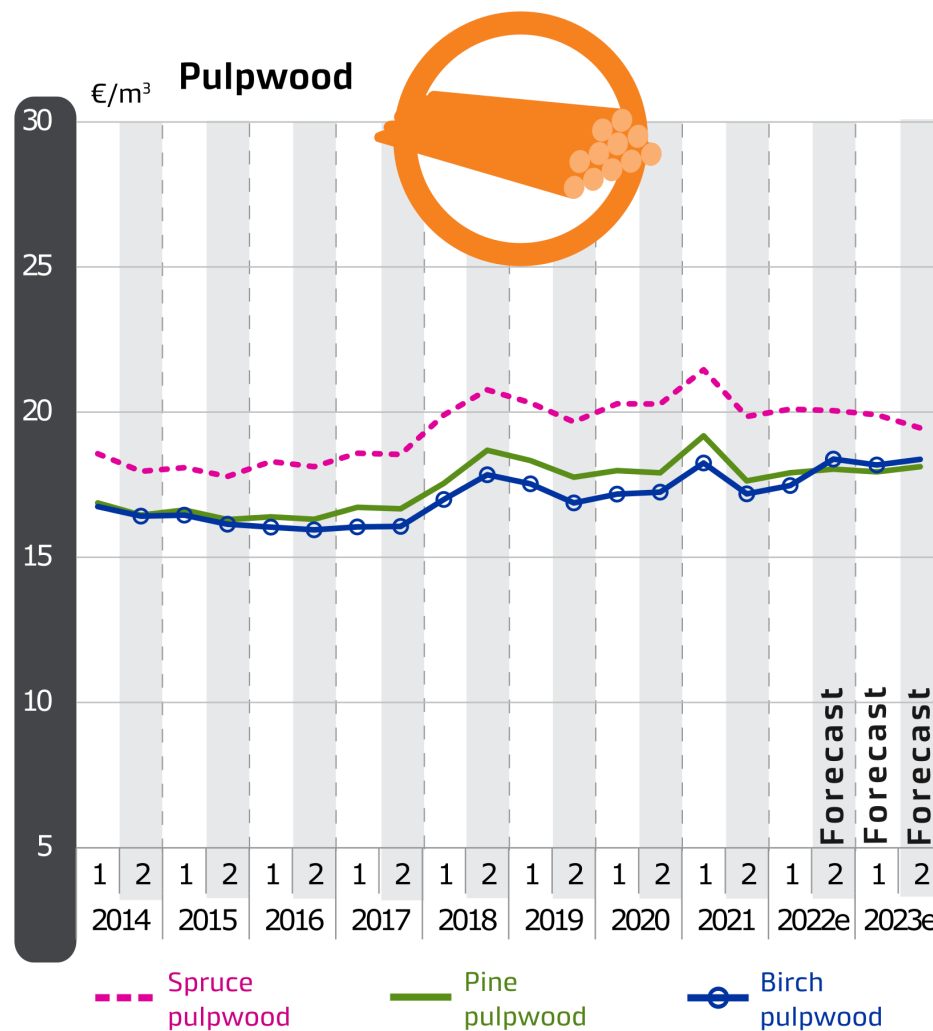
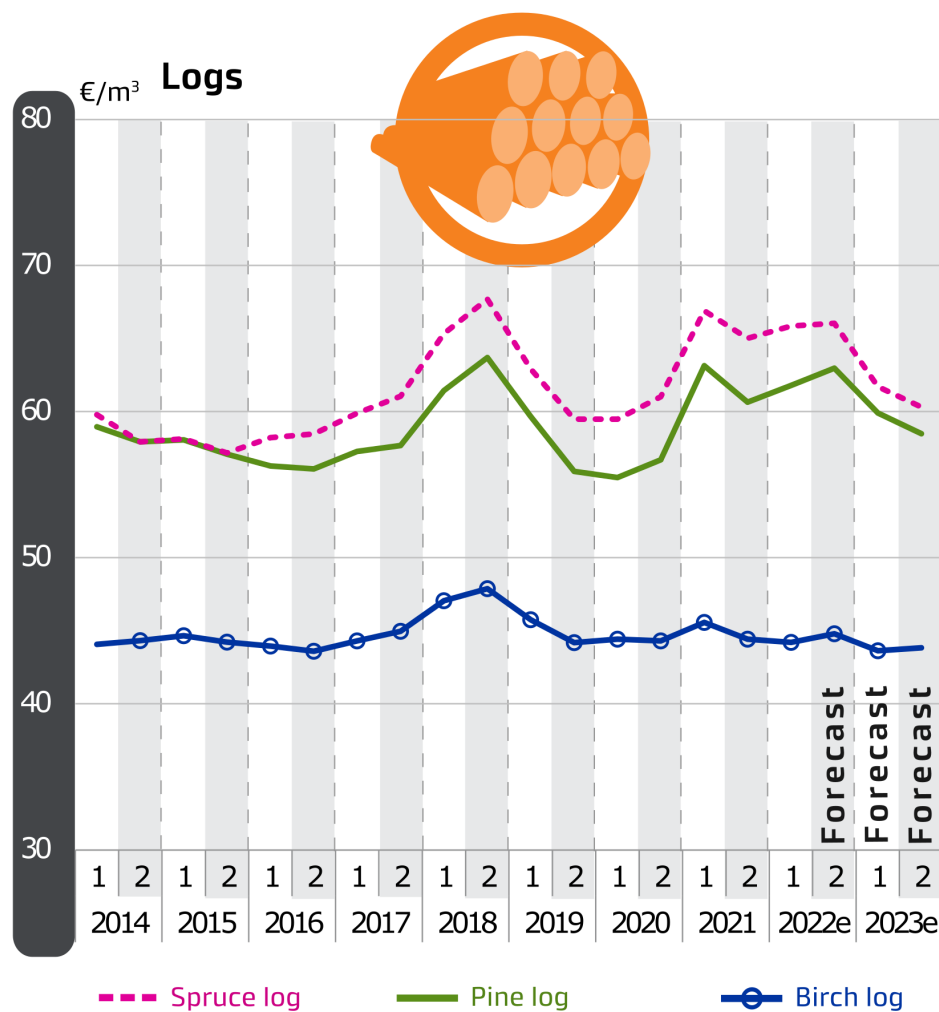
FROM STUMP TO MARKET

- forecast of fellings, processing and
export of forest industry
products 2023

%
Indicates change
over the previous
year



Biannual stumpage prices of logs and pulpwood 2014-2023e in 2021 prices (cost-of-living index)





The executive summary is a translation of the summary of the Finnish original publication "[Metsäsektorin suhdannekatsaus 2022–2023](#)", and is based on information available in October 2022.

Further information

Jari Viitanen

Natural Resources Institute Finland (Luke)

Yliopistokatu 6 B, FI-80100 Joensuu

Phone: +358 29 532 3033

firstname.lastname@luke.fi

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