



# Finnish Forest Sector Economic Outlook 2019-2020

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## Executive summary

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*Further weakening in global economy and slowing demand growth will reduce the production and export volumes of many forest industry products in 2019 and 2020. In particular, the short term outlook for the Finnish sawmill industry has become bleak due to the oversupply in the export markets. There will be no significant changes in pulp and paperboard production volumes, but paper production will be significantly reduced due to the announced capacity reductions. Pulp exports will reach record high level. The prices of many forest industry products are falling from the levels experienced during the last year's peak of business cycle. Also, the felling volumes of industrial roundwood, employment in the forest sector, the stumpage prices of roundwood as well as stumpage earnings are declining.*

### Global economic growth slowing down

Growing economic uncertainty, enhanced by ambiguous Brexit situation and escalation of the China-US trade dispute, has slowed down the growth of global economy and trade in the first half of this year. Concurrently, forest sector's boom has rapidly subsided. The average growth rate of global economy as weighted by export shares of Finnish forest industry will slow down to about two per cent this year, which is one percentage point less than the general growth forecast for the global economy. Growth in the euro area, the main export market for Finnish forest industry products, will slow to around one per cent this



Picture: Finnish Forest Industries.

and next year. In Germany, growth is slowing even more and the country's economy is in danger of falling into recession later this year. In the UK, uncertainty induced by Brexit is hampering economic development. In China, economic growth will slow to about six per cent. Growth in the United States will continue at a moderate pace this year, but is expected to slow to below two per cent next year.

The slowdown in economic growth has again led to a relaxation of monetary policies. Several central banks have lowered their key and deposit rates and eased market liquidity by continuing securities purchase programmes. One of the aims is to weaken the currency and support exports outside the currency area. The euro is expected to weaken slightly against the dollar next year, but the Swedish krona will remain weak against the euro.

### Oversupply of sawnwood lowers export prices

The fall in the export price of sawnwood, which began in autumn 2018, will continue in 2019. There is an oversupply of sawnwood in Finland's most important export markets, due to, for example, the large volumes of damaged wood occurring in Central Europe. Sawmills are expected to cut production during the rest of the year and coming winter. The production cuts are affected not only by problems in export markets but also by the decline in demand for sawnwood in domestic Finnish markets. In 2019, the average unit value of Finnish sawnwood exports (export price) is expected to fall by eight per cent from 2018. The export volumes will remain at the 2018 level. By contrast, sawnwood production is forecast to decline by a couple of per cent. The average export price of sawnwood is expected to continue declining in 2020, but at a slower pace than in 2019. Sawnwood production will decrease further to

11 million cubic metres. Exports volumes of sawnwood will also be reduced slightly.

Although competition in the birch plywood export market has intensified, the development of export price of Finnish plywood will be positive compared to sawnwood. The average unit value of Finnish plywood exports is forecast to increase by one per cent in 2019. Instead, plywood production and exports are expected to decline as production has been adjusted to market conditions during 2019. The global economic slowdown and increasing uncertainty are not expected to bring significant changes in Finnish plywood exports or production in 2020.

### Exports of pulp to new record, paper production declining

Pulp production is expected to grow by one per cent and exports by eight per cent in 2019. This is partly due to previous capacity increases in Finland. In 2020, export growth will be slower and production will fall slightly. However, export volumes will still be at record levels. World market prices of long and short fibre pulp rose exceptionally high last year, but have fallen significantly this year as demand in China and Europe declined. In the autumn of 2019, global pulp stocks are still high, which is also reflected in the price of Finnish pulp exports. The average pulp export price is expected to fall by 16 per cent from last year. In 2020, the average pulp export price will be slightly lower than in 2019, even if the price trend starts to rise slightly.

In 2019, Finnish paper production and export volumes will decrease by seven per cent as demand and

production capacity decline. However, as a result of last year's cost-driven price increase, the average export price of paper will be higher than last year. The average export price of paper has been pushed up especially by the price of magazine paper, but the prices of fine papers are also clearly higher than last year. Due to paper machine closures, Finnish paper production and exports will decline even more in 2020 than in 2019. The average export price of paper will fall slightly as demand for paper continues to decline and pulp prices fall.

In 2019, Finnish paperboard exports and production will decline slightly from 2018 as the global economy slows down. However, the average export price of paperboard will rise slightly. In 2020, the production and export volumes of paperboard will not change significantly and the average export price will decrease only marginally. The outlook for folding boxboard, the most important export article for Finnish paperboard industry, is relatively stable.

### Profitability in pulp and paper industry to normal level, difficulties in sawmilling

Operating results in the Finnish pulp and paper industry return to normal this year. The projected slowdown in global economic growth means that the peak results for 2018 will not be repeated in 2020. However, profitability in the pulp and paper industry is expected to remain reasonably good, as raw material costs are falling and the decline in graphic paper production is holding back the fall in prices. By contrast, sawmills' profitability is in sharp decline, and no significant improvement is expected for next year.

### Fellings of industrial roundwood decreasing and stumpage prices falling

Due to the downturn in the wood products industry and the fall in production volumes, the average stumpage prices of sawlogs will fall by 3–7 per cent this year. The high level of pulp and paperboard production will keep the stumpage prices of pulpwood up 0–2 per cent. The fellings in private forests will decrease by five per cent this year. As the forest industry companies and Metsähallitus, a state-owned enterprise responsible for the management of state forest property, also reduce their fellings, the fellings of industrial roundwood is reduced by a total of five per cent to just over 65 million cubic meters this year. Roundwood imports will remain at the 2018 level.

In 2020, the fellings of industrial roundwood will continue to decrease by three per cent. As the production of sawnwood continues to decline, the



stumpage prices of sawlogs will decrease by 2–3 per cent from the current year. Declining demand for paper and stagnating growth of pulp and board production will lead to a 1–2 per cent decline in pulpwood stumpage prices. The imports of roundwood are expected to grow slightly from the current year.

### Operating profit declining in non-industrial private forestry

In 2019, the gross stumpage earnings in non-industrial private forestry will fall below EUR 160 per hectare (EUR 2.1 billion). In 2020, gross stumpage earnings will fall below EUR 150 per hectare (EUR 2.0 billion), which is in real terms the same as in 2017. Large amounts of final fellings will increase investments in reforestation, but the pressure to increase investment, in particular in tending of young forests and in renovations of forest roads, is evident. In 2019, investments are projected to increase by 5 per cent to EUR 18 per hectare (EUR 240 million) and to continue to rise to just under EUR 20 per hectare in 2020.

Operating profit in non-industrial private forestry was EUR 157 per hectare in 2018. The decline in incomes and increased investments will bring the operating profit to less than EUR 140 per hectare in 2019, and the decline will continue in 2020 to less than EUR 130 per hectare. Due to the rise in stumpage prices, the calculated return on investment in wood production was 13 per cent in 2018. In 2019, the decline in stumpage prices will drop the return on investment to below minus one per cent. As stumpage prices continue to fall, return on investment will be less than two per cent in 2020. However, when excluding the changes in stumpage prices,

the return on investment remains above four per cent.

### Employment in forest sector declining slightly

In 2018, the forest industry employed a total of 42,000 people, which was nine per cent more than in the previous year. The decline in economic development will affect the production volumes of the cyclical forest industry and the development of employment in the sector. In 2019, employment in the wood products industry is expected to decline by one per cent, but remain stable in the pulp and paper industry. Employment in the forest industry is projected to decline by a couple of per cent in 2020. Since 2011, labour productivity in the forest industry has been faster than the national average. In the sawmill industry, labour productivity has increased particularly rapidly.

In 2019 and 2020, the employment in the forestry is expected to decline slightly, as the decline in the



Picture: Juha Laitila, Luke.

economy and forest industry's production volumes will reduce wood harvesting volumes. Thanks to the utilisation of new technological solutions and equipment, labour productivity in forestry and logging operations has grown faster than the national average.

### Rising emission allowance prices increase profitability of using wood fuels

Emission allowance prices have almost tripled over the past year, supporting the competitiveness of forest chips, bark and sawdust in heat production. The use of forest chips is expected to grow by a couple of per cent this and next year. The average plant price for forest chips will increase slightly. Domestic consumption and production of wood pellets are expected to grow by a few per cent annually.

### 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 outlook 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 wood market. Changes in the operating environment of the forest sector and the impact of the Government's economic instruments 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 2019 and forecasts for the development of world economy for the years 2019–2020. 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 the autumn of 2019, the main uncertainties affecting the global economy and the markets for

forest industry products are related to US-China customs and trade disputes, which have been feared to widen to trade between the United States and the European Union. The weekly political rallies surrounding Brexit have not only increased uncertainty in Britain but also in the euro area, which is an important trading partner for Britain. Geopolitical conflicts, such as the attacks on Saudi Arabian oil refineries and the Turkish invasion on Syria, are unexpected and can have far-reaching and lasting effects, both economically and politically. Next year's presidential election in the United States may bring new fiscal and trade-related surprises, which can also act as a stimulant to world trade and to mitigate uncertainty. The emergence of a compromise on Brexit can also act as a stimulus to economic growth expectations, especially in Europe. However, the global debt problem has not disappeared.

Average stumpage prices (over bark) in non-industrial private forests 2018–2020f.

Roundwood assortment	2018	2019f	Change	2020f	Change
	€/m <sup>3</sup>	€/m <sup>3</sup>	%	€/m <sup>3</sup>	%
Pine sawlogs	60,5	57,0	-6	55,4	-3
Spruce sawlogs	64,3	59,8	-7	57,9	-3
Birch sawlogs	45,9	44,3	-3	43,5	-2
Pine pulpwood	17,6	17,8	1	17,6	-1
Spruce pulpwood	19,6	19,6	0	19,3	-2
Birch pulpwood	16,8	17,1	2	16,8	-2

Source: Natural Resources Institute Finland.

Key forecasts 2018–2020f.\*

Forecast variable		2018	2019f	2020f
		% y-o-y change		
Sawnwood	production	1	-2	-5
	exports	-7	0	-3
	export price	9	-8	-2
Plywood	production	-1	-4	-1
	exports	-3	-1	0
	export price	2	1	0
Pulp**	production	6	1	-1
	exports	12	8	3
	export price	22	-16	-5
Paper	production	1	-7	-10
	exports	2	-7	-10
	export price	6	4	-3
Paperboard	production	5	-2	1
	exports	4	-2	1
	export price	4	2	-1
Fellings of industrial wood		9	-5	-3
Roundwood imports (incl. chips)		34	1	2

\*Price changes are nominal.

\*\*Figures refer to total pulp production and exports.

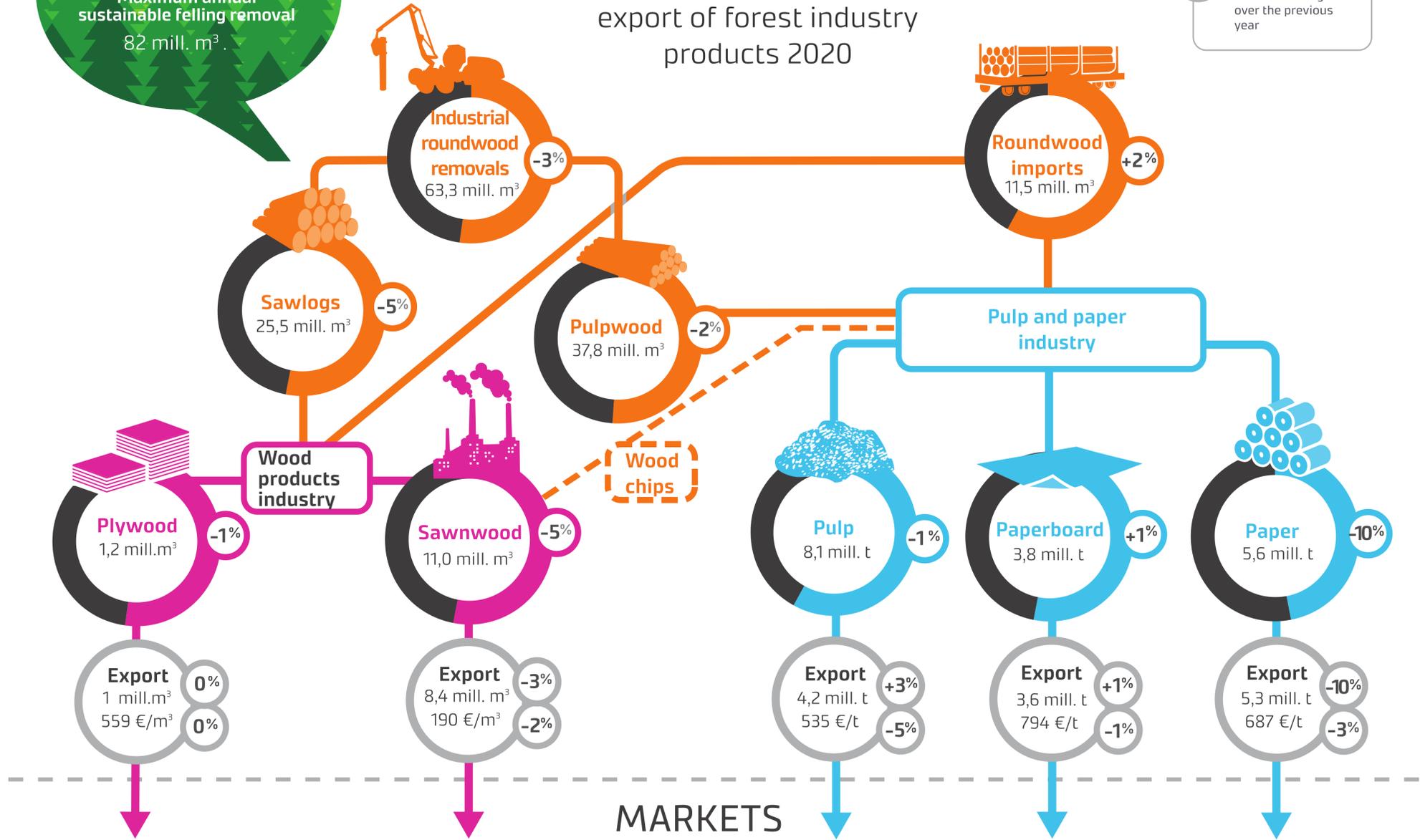
Sources: Finnish Forest Industries, Finnish Customs and Natural Resources Institute Finland.

Volume of growing stock  
2,5 bn m<sup>3</sup>.  
Maximum annual sustainable felling removal  
82 mill. m<sup>3</sup>.

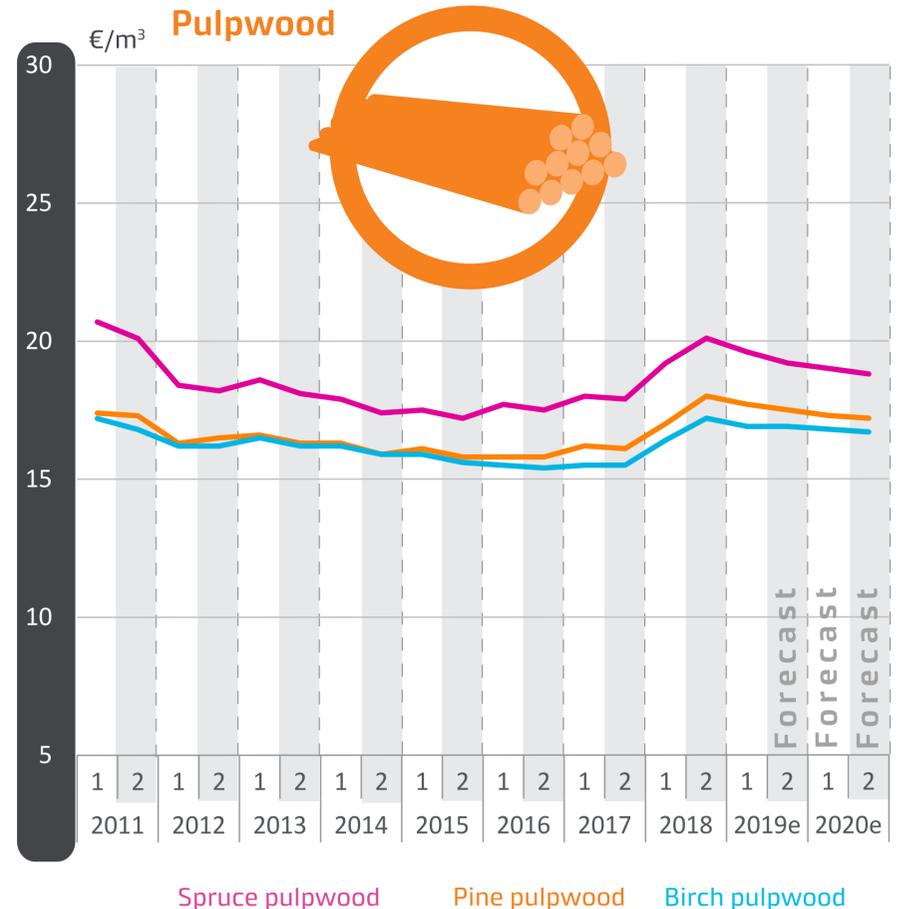
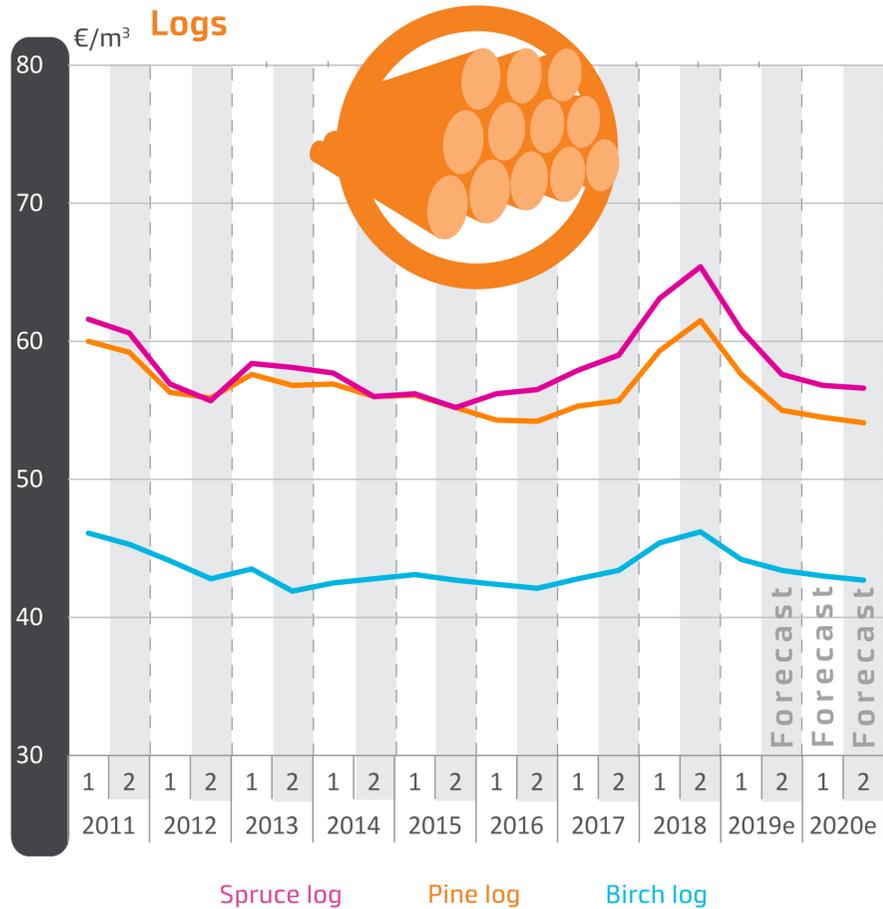
# FROM STUMP TO MARKET

- forecast of fellings, processing and export of forest industry products 2020

%  
Indicates change over the previous year



# Biannual stumpage prices of logs and pulpwood 2011-2020e in 2018 prices (cost-of-living index)





The executive summary is a translation of the summary of the Finnish original publication "[Metsäsektorin suhdannekatsaus 2019–2020](#)", and is based on information available in October 2019.

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