



PTT'S FORECAST FOR THE FINNISH FOREST SECTOR 2008-2009:

Weakening economic situation speeds up structural change in forest industry

According to Pellervo Economic Institute (PTT), the quick downturn of economic growth decreases the demand for paper and keeps up oversupply in Europe. Despite of capacity cuts paper export prices will continue to decrease during the years 2008 and 2009. The weakened economy has turned the demand to a strong downward trend in sawn goods markets as well. The reduction of Finnish forest industry capacity reflects on decreasing use of roundwood. Finnish forest industry will not suffer from lack of roundwood, although imports will decline to a half as a result of Russian export duties. Supply of domestic roundwood is sped up by temporary reduction of timber sales tax.

The state of paper industry will not improve until 2010 at the earliest

According to PTT, 10% of the European paper capacity has been closed down between 2006 and 2008. If the economic prospects had stayed unchanged, the capacity cuts would have turned paper prices upwards during 2009. There is oversupply of paper in relation to the weakening demand in Europe at the moment. As a result, paper prices will continue to slightly decrease during 2008 and 2009.

A quicker recovery in European paper industry can result only from a strengthening of the US dollar. The weakening of the Euro against the US dollar from the current level of 1.4 to a level of 1.2-1.3 would lead to increasing export prices of paper, expects PTT.

Due to capacity closings paper production will decrease by 5% this year in Finland. Closing down the capacity will continue in 2009 leading to a production decrease of 3-6%. This forecast includes the possibility of new cuts on production capacity.

In spite of the gloomy news, paper production will continue in Finland. European countries will produce at least the paper consumed in the area. Once the structural change in forest industry is completed the remaining mills in Finland will be competitive in Europe.

Rapid drop from the boom to a slump in the sawmilling industry

Export prices of sawn goods rose 23% in 2007. PTT expects the prices to fall by 15-20% this year. The high fluctuation incurs great challenges for the timber mills to adapt their operations. PTT expects the sawn goods production to decrease by 10% this year.

Fortunate to Finland, sawn goods production is decreasing in the other major sawn goods producing countries as well. However, high stock levels delay reaching the market balance. PTT expects the sawn goods prices to start to recover at the end of 2008, when the stock levels are low enough.

Forecasts for construction activity do not indicate an increasing demand for sawn timber in 2009. However, Russian export duties on roundwood will reflect on sawn timber market. The impacts will be most significant in China where sawmilling industry will suffer from insufficient raw material availability.

Tax relief on roundwood sales profit speeds up the market

In Finland, the demand for roundwood will decrease significantly from the past few years due to closed capacity of pulp and paper mills. The decrease will be approximately six million cubic metres in 2008–2009.

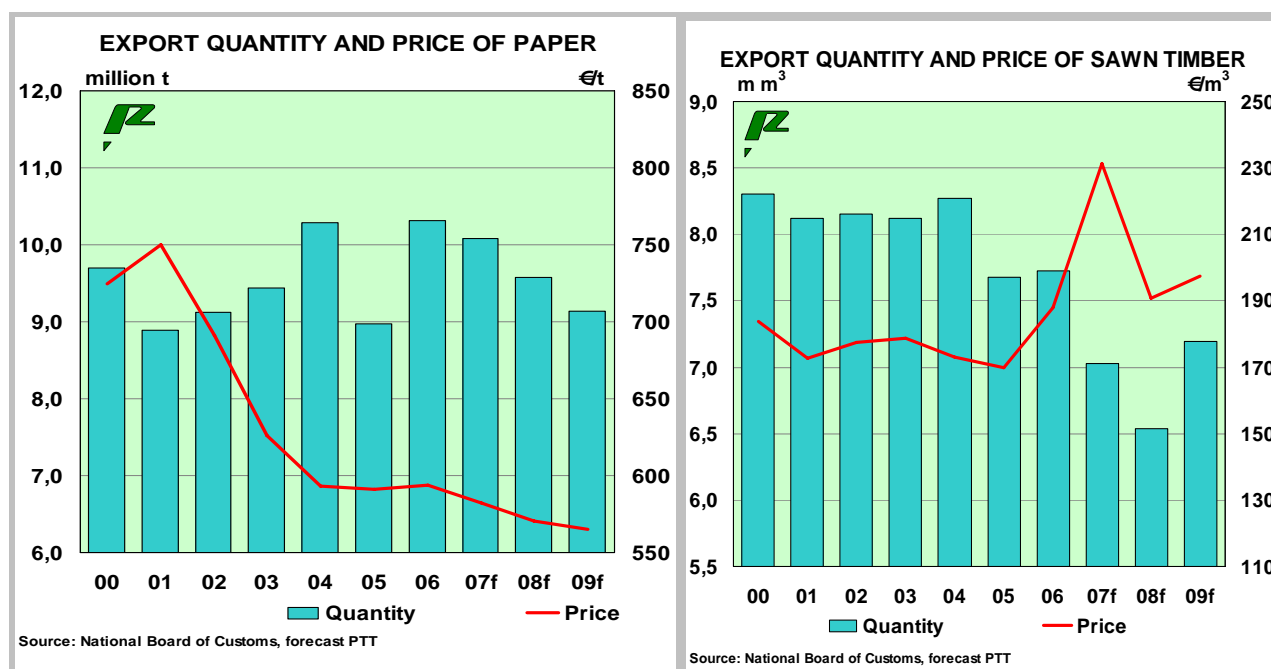
PTT expects that the rise of the Russian export duty to €50 /m³ in 2009 will lead to a decrease of about 8 million cubic metres in roundwood imports to Finland. Demand for domestic roundwood will rise by 2 million cubic metres. PTT estimates that the roundwood shortage caused by decreased imports could be replaced by domestic roundwood.

Roundwood trade has significantly slackened from the past year in Finland. The reason is lowered stumpage prices, which has lead to a declining supply. According to the government decision, the roundwood sales contracts made by the end of 2009 will have a 50% reduction of sales profit tax. PTT estimates this to increase the willingness of the non-industrial private forest owners to sell timber. Roundwood trade will speed up in the end of the year and remain active the whole next year.

KEY FORECAST VARIABLES IN THE FINNISH FOREST SECTOR:

EXPORT MARKETS:	2007		2008 change (%) in		2009 change (%) in	
	Volume	Average price	Volume	Price	Volume	Price
Export of paper and paperboard	12.7 million t	€599/t (FOB)	-5	-2	-6 – -3	-2 – 0
Export of pulp	2.60 million t	€458/t (FOB)	-4	0 – 5	-10 – -5	-5 – 0
Export of sawn timber	7.0 m m ³	€231/m ³ (FOB)	-7	-20 – -15	10	2 – 5
ROUNDWOOD MARKETS:						
	2007		2008 change (%)		2009 change (%)	
Volume of roundwood import (overbark)	18.0 m m ³		-5		-45	
Volume of commercial fellings (overbark)	57.9 m m ³		-4		8	
Volume of roundwood trade (overbark)	49.4 m m ³		-10		10	
Stumpage prices	+27% (f) (nominal)		-10		-4 – -2	
Gross stumpage earnings (private forest owners)	€2.012bn (f) (nominal)		-15		7 – 9	
Sources: Finnish Forest Research Institute and PTT's forecast						

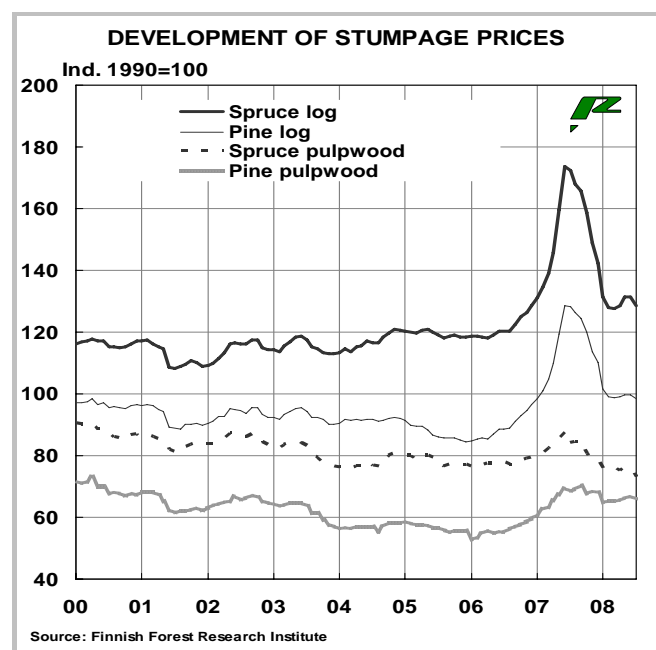
THE MAIN TRENDS IN THE FINNISH FOREST SECTOR:



THE PRODUCTION OF FINNISH FOREST INDUSTRY

	Paper	Pulp	Paper-board	Sawn timber*	Ply-wood
	million t.	million t.	million t.	m m ³	m m ³
00	10.76	11.92	2.75	13.32	1.17
01	9.90	11.17	2.60	12.67	1.14
02	10.04	11.73	2.74	13.28	1.24
03	10.35	11.95	2.71	13.65	1.30
04	11.18	12.62	2.86	13.47	1.35
05	9.84	11.13	2.55	12.20	1.31
06	11.17	13.07	2.98	12.15	1.42
07	11.28	12.81	3.08	12.39	1.41
	%	%	%	%	%
08f	-5	-5	-4	-10	-2
09f	-4	-5	-4	3	-3

Source: Finnish Forest Research Institute, FFIF, forecast PTT
* Softwood



For further information please contact:

Ms. Paula Horne, Research Director

Tel. +358 9 34 888 412, +358 40 592 6820 e-mail: paula.horne@ptt.fi

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