

The Swedish economy

(According to the National Institution of Economic Research in Sweden, Report, August 1999)

The Swedish economy is presently showing vigorous growth in production and rapidly expanding employment. The threat of a global recession in the wake of the Asian crisis faded away during the spring, and international demand is on the rise. These developments have laid the groundwork for a stronger upsurge in Swedish manufacturing.

The additional strength in exports and manufacturing is a guarantee of a broad-based economic boom. The outlook for domestic expansion has been favourable for some time, and household confidence in the future is now even firmer. Consumer demand is also being fuelled by solid, steady growth in incomes, and by increases in personal net worth. Investment is rising; one reason being that construction is now picking up after a prolonged slump. Public-sector consumption is also expanding.

GDP is forecast to grow by 3.8 per cent this year and 3.2 per cent the year after.

Consumption will rise less rapidly next year, partly because of higher interest rates, while the increase in production will be curbed by faster-rising imports. On the other hand, exports should accelerate as demand picks up in other countries, especially now that the inventory cycle is heading slightly upward after the inventory reduction earlier this year.

Employment is growing. An estimated 4½ per cent of the labour force is expected to be officially unemployed.

As the economy expands, public-sector finances will continue to improve. The financial surplus in the public sector next year should reach 3.1 per cent of GNP, exceeding the 2 per cent budget target by SEK 23 billion. The forecast for the Swedish economy is based on current taxes and expenditures; possible tax cuts in the next national budget are not taken into account.

Inflationary pressure should remain insignificant up through next year. Inflation as measured by the consumer price index (CPI) is predicted to rise to 1½ per cent by the end of next year. It is estimated that the underlying rate of inflation (UNDIX) will go up to nearly 2 per cent by the end of this year before dropping to 1½ per cent in December 2000.

Selected economic indicators, Sweden			
<i>(Change in percent)</i>			
	1998	1999	2000
Gross domestic product	2,6	3,8	3,2
Industrial production	4,0	3,5	4,5
Construction volume, total	5,5	5,1	5,9
of which			
- permanent housing	4,9	16,6	17,0
- repairs, maintenance and renovation	8,6	3,7	3,8
Production in wood-using industries			
sawmill	-3,5	0,0	4,0
woodpulp	0,0	1,7	4,9
paper	1,3	0,9	2,5
Dwelling (housing starts) number of flats	11 600	16 000	18 000

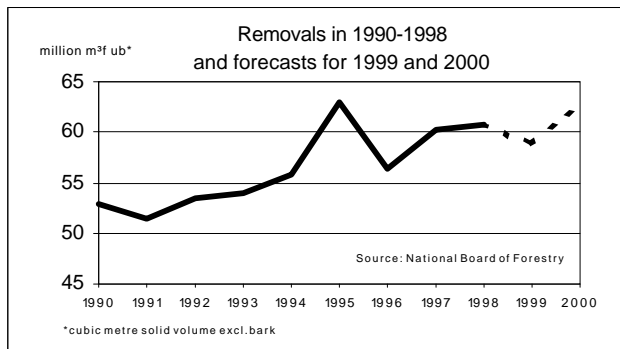
In view of the continuing absence of inflationary pressure through next year, and the uncertainty about the potential for further economic growth, the forecast is for the repo rate to remain unchanged until next year, when increases can be expected.

Forest products market

Supply of roundwood

In 1998 harvest of sawlogs and pulpwood was 1,6 millions m³ lower than previous year. This does not show in the statistics because we have upgraded our statistics about harvesting of fuelwood with 2,1 million m³ solid volume excl. bark to 5,9 million m³. The removals for 1998 were 60,7 million m³ solid volume excl. bark.

This year we expect almost the same harvest levels as last year, 59 million m³ solid volume excl. bark. The supply from the private forest owners has been rather low during the first half of the year especially in the northern parts of the country. The forest companies though seem to harvest as normal in their own forests. We expect an increase in the pulpwood production,



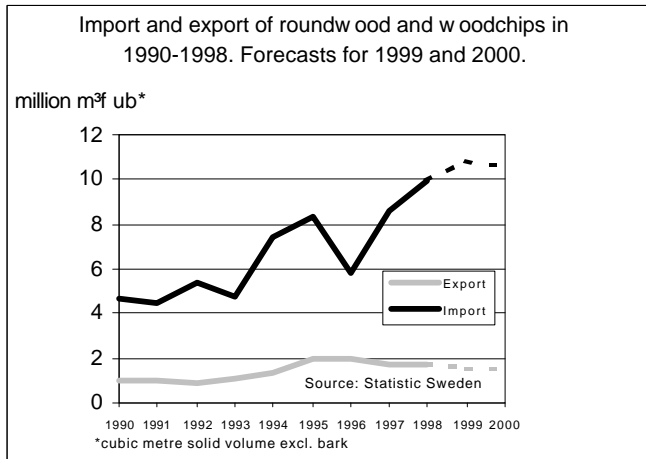
which may lead to an increase in especially thinning. We also see that the sawmill industry step by step will recover from the drop in production volumes. So in the year 2000 production and harvest are expected to rise to high levels again.

Both the prices on saw logs and the prices on pulpwood have gone down slightly during the first six-month of 1999. Any increases in those prices are not announced at present.

The import of roundwood and wood chips was 9,9-million m³ solid volume in 1998. Current statistics on trade show continuously high levels of import and for the whole year of 1999 we can count on an increased import than for the previous year. In the first three months the increase consists of coniferous roundwood. The main part of the imported wood goes to the pulp industry but the share of the sawmill industry is expanding. It is not unusual that sawmills in the southern part of the country base around 10 percent of their production on imported saw logs.

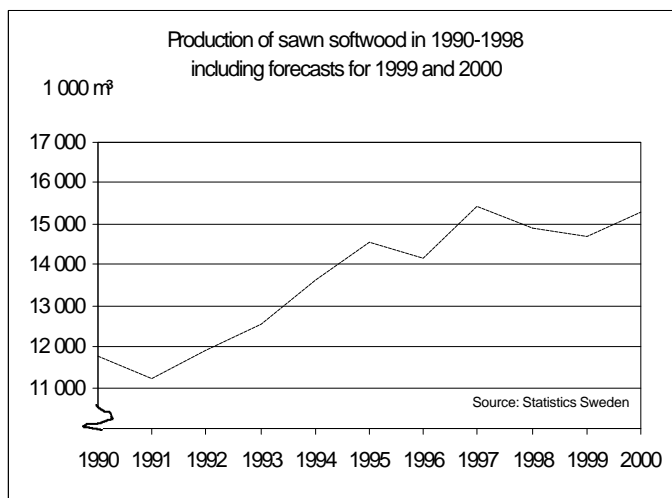
The stocks for saw timber are relatively low. The stocks of pulp wood and wood chips are also quite low and in the end of 1999 the stocks will be on a definitely lower level than at the end of 1998.

The consumption by the industry of round wood and wood chips was 68,9 million m³ solid volume for 1998. The domestic consumption is expected to be about the same this year and then increase in 2000.



Sawn softwood

In 1998 the Swedish production of sawn softwood was 14,9 million m³. Compared to the record production in 1997, 15,4 million m³, this was a low figure. During the whole year companies had to fight with low prices on chips and pulpwood, relatively high prices on timber and falling prices on sawn wood. All these aspects together resulted in very bad profitability for the sawmill industry. Still the demand for sawnwood was high and the exports almost reached 11 million m³.



In the first six-month of 1999 the production volumes has continued falling down. This is mainly a result of several closing downs due to the bad profitability for the industry. Now the production is expected to rise again. A new large sawmill has started in August and combined with a rising demand from especially Japan and a positive development in whole Western Europe this will put an end to the decreasing trend in at least production volume. In 1999 the production volume is expected to reach around 14,7 million m³.

During the first months in this year the export volumes have been slightly reduced. This is a result of falling production volumes but also because of a growing domestic consumption. The export in 1999 is calculated to 10,6 million m³. The sawmill industry expects a fairly good demand on sawn softwood since the forecasts for the building sector in Sweden, as well as for several European countries, looks promising for this autumn and the following year.

The Japanese market is already very hot and takes almost more sawn wood than the mills can offer. In 2000 we may see an increased export but since the domestic consumption also is growing the increase will be limited.

The prices on sawn wood of spruce is now going up. For sawn pinewood the situation is much more difficult. Combined with falling prices on wood chips and high prices on timber the profitability situation will still be weak. The positive forecasts for the building sector though may result in a situation with demand surplus and also higher prices. Another serious problem for the sector is the hard competition from other materials than wood, which makes it even more difficult to make forecasts about the future.

Sawn hardwood

The production of sawn hardwood is about 250 000 m³ per year and have been so in a couple of years. This year there has been a slightly increased production in the floor industry. Despite of that there will not be any big changes in the total production of hardwood either in 1999 or in 2000. The industry recognises an increased demand but have problems meeting this demand due to the difficulty in finding suitable raw material. Good quality hardwood logs is at shortage in the Swedish forests. The species used by the industry are birch (45%), oak (32%), beech (12%) and smaller volumes of alder and aspen. Other tree species like for example maple and lime tree are only sawn to a very limited extent. Logs of birch and beech is imported to certain extent, about 70 000 m³ solid volume per year and then principally from the Baltic States, Poland and Finland. The main part of the production is consumed domestically and then mainly by the floor- and furniture industry. Only about 20 000 m³ is exported. The hardwood industry has during the last year felt a rising competition on the exportmarket from sawmills in the Baltic countries.

Wood-based panels

The consumption of wood-based panels was slightly below 1,2 million m³ for 1998. This is an increase with about 4 % compared to 1997 and this despite the fact that the business activity of the building sector was low. Different types of particle boards make up 70 % of the consumption. The use of MDF and OSB is increasing but it still makes up a relatively small part of the Swedish consumption of wood-based panels.

The production of wood-based panels increased during 1998 with 4 %. For plywood a decrease of 5 % was noticed while particle board and fibreboard incl. MDF grew some 6 and 9 % respectively.

For the first six months of 1999 the plywood production was on the same level as during 1998. The fibreboard production incl. MDF increased about 3 % and particle board production has noticed a decrease of about 5 % during the same period.

Certified forest products

The Swedish Federation of Forest Owners and the Swedish Sawmill Association (representing private sawmills with a production primarily based on purchased timber) have been involved in the development of PEFC (Pan European Forest Certification) during the last year.

The Swedish Federation of Forest Owners has earlier developed a certification strategy for family forestry, which can be allied to the PEFC.

The total forest area owned by members in the Swedish Federation of Forest Owners is 5,9 million hectares. Until now certified forest area according to the certification scheme for family forestry is 350 000 hectares.

The area currently certified according to FSC is 9,2 million hectares. The main part of this is forests owned by large forest companies. Groupcertification is getting more common and three different companies are allowed to execute this. It is expected that groupcertification will make it easier for small forest owners to be certified according to the FSC.

Producers of forest industry products recognise a growing interest from buyers about environmental issues but still, there are only a few who demand certified products.

The sawmill industry sees a slightly increased demand for certified sawn wood, especially from Great Britain. One of the customer groups in Great Britain who previously only wanted FSC certified raw material has now accepted also timber from forests certified under certification systems adhering to PEFC. Other customer groups are expected to follow their example.

There is also a significant demand from the domestic market-oriented industry. Especially from the furniture and floor producers.

Timber Committee 1999

Roundwood

Product (1 000 m ³)	Year	Production	Imports	Exports
Coniferous logs	1998	31 500	1 300	600
	1999	30 700	1 700	600
	2000	32 400	1 500	600
Non-coniferous logs	1998	500	70	20
	1999	500	70	20
	2000	500	70	20
of which; Tropical	1998		1	-
	1999		1	-
	2000		1	-
Coniferous pulpwood, round and split	1998	19 536	3 739	794
	1999	18 900	4 500	645
	2000	20 600	4 100	645
Non-coniferous pulpwood, round and split	1998	2 664	4 062	6
	1999	2 600	3 700	5
	2000	3 000	4 100	5

Coniferous logs and pulpwood	1998	51 036	5 039	1 394
	1999	49 600	6 200	1 245
	2000	53 000	5 600	1 245
Non-coniferous logs and pulpwood	1998	3 164	4 132	26
	1999	3 100	3 770	25
	2000	3 500	4 170	25
Wood residues and chips and particles ¹	1998	10 600	738	246
	1999	10 500	800	250
	2000	10 900	800	250
Other industrial wood	1998	500		
	1999	500		
	2000	500		
of which: coniferous	1998	460		
	1999	460		
	2000	460		
Fuelwood ²	1998	5 900		
	1999	5 900		
	2000	5 900		
of which: coniferous	1998	2 950		
	1999	2 950		
	2000	2 950		

Bold figures are official statistics others are estimates.

¹ Our figures includes only chips and particles

² Only stemwood

Sawnwood and woodbased panels

Product	Year	Production	Imports	Exports
(1 000 m³)				
Coniferous sawnwood	1998	14 874	133	10 972
	1999	14 700	150	10 600
	2000	15 300	140	11 000
Non-coniferous sawnwood	1998	250	123	21
	1999	250	120	18
	2000	250	120	18
of which: tropical	1998	-	7	1
	1999	-	5	1
	2000	-	5	1
Plywood ¹	1998	114	145	70
	1999	114	140	74
	2000	114	140	74

Particle board ¹	1998	650	302	128
	1999	620	345	104
	2000	650	345	128
of which: OSB ¹	1998	0	11	5
	1999	0	20	12
	2000	0	20	12
Fibreboard ¹	1998	208	102	90
	1999	202	93	78
	2000	202	93	78
of which: hardboard ¹	1998	80	42	28
	1999	82	38	30
	2000	82	38	30
Medium density and MDF ¹	1998	69	45	27
	1999	85	45	26
	2000	85	45	26
Insulating board ¹	1998	59	15	35
	1999	35	10	22
	2000	35	10	22

Bold figures are official statistics others are estimates.

¹Trade figures on woodbased panels can differ compared to the figures we gave in the Joint Questionnaire. Here we have figures calculated by our Swedish trade association for woodbased panels.

In the Joint Questionnaire we gave figures calculated by Statistics Sweden.

Our export figures here do not include reexport. The biggest difference you find for export of particle board and the reason is that the board association do not include HS-number: 4410 19 50 (floor).

