Market Statement 2023 – SWEDEN

UNECE Timber Committee Market Discussion

Content

1 General Economic Trends

The Swedish economy will operate below capacity both this year and next. Sweden's rate-sensitive households have been hit hard by high inflation and higher interest rates, as has residential constructions, which is now falling fast. Together with a slowdown in exports, this means that GDP will decrease slightly in the coming quarters. Demand for labour is still strong, however, and there are no signs yet of the labour market deteriorating. The downturn in the economy is expected to be short-lived and mainly takes the form of lower productivity than normal in the business sector. It will have only a limited impact on the labour market, and unemployment will rise much less than in previous downturns. CPIF inflation will continue to fall and will be well below the Riksbank's inflation target in the second half of 2024. The Riksbank will therefore commence a series of rate cuts in

the second quarter of next year. Fiscal policy will also be reoriented to support the economic recovery. The central government budget for 2024 is assumed to contain unfunded measures of SEK 45 billion, of which SEK 25 billion will target households. However, monetary policy will play the lead role in stabilising the economy in the coming years.

2. Policy measures taken over the past 18 months

Biotic and abiotic disturbances of forests, their impacts on forest products markets and trade and current and planned policy measures to mitigate economic and ecologic impacts

The government has allocated SEK 30 million in special funds to the Swedish Forestry Agency (SFA) in 2023 to work with monitoring and prevention of forest damage. It also includes fighting the spruce bark beetle in protected areas for which the SFA is responsible. The bark beetle is still a widely spread problem. Since the outbreak in 2018, approximately 32 million m^3 of spruce forest has been killed (excluding this year's damage which has not yet been estimated). However, much of the wood is not felled. At the latest inventory (2022), 70 percent of the year's damaged trees were still standing at the time of the inventory, which took place Sep-Oct.

Grazing damage on pine is still a major problem throughout the country (11 percent fresh damage nationally) and far from the target (5 percent). In the north region of Sweden, we have significant problems with Cronartium flaccidum which causes severe damage to the stocks. There have been relatively few large forest fires this year, even though May-June was hot and dry (about 200 fires over 0.5 ha). The storm Hans has caused major storm damage locally in the county of Västerbotten this summer. Preliminary storm felling was 0.5-1.0 million m^3sk. Outbreaks of African swine fever have recently occurred in Sweden and affects forestry within 100,000 hectares where active forestry measures are not currently permitted.

Forests and the forest-based industries in a circular bioeconomy; 2

Sweden is working on its first Bioeconomy strategy and this also includes forestry and forest industry on an overall perspective. The public inquiry for the Bioeconomy strategy will be presented in November 2023. Within the Swedish forest programme the proposal for an objective for increased sustainable forest growth will be presented in the end of 2023. The work with regional forest programmes aiming at 2030, continues with different pace and intensity in different regions.

Renewable energy policies and their impacts on forest products markets

The Swedish Government's Energy policy encompasses the production, distribution and use of energy. It aims to reconcile ecological sustainability, competitiveness and security of supply. It includes issues related to electricity, heating and gas markets, energy efficiency and renewable energy such as bioenergy, solar energy, and wind and hydropower. No new policy instruments have been launched by the Government regarding bioenergy from the forest.

Bioenergy currently accounts for about 35 percent of the Swedish final energy use (biofuels and biofuels and end-use district heating and end-use electricity produced from biofuel). About three quarter come from biproducts from the forestry and forest industry. Total added quantity biofuel in 2021 was 151 TWh.

3 Market drivers

Swedish export is currently benefitted by a depreciated Swedish krona (SEK), a lower exchange rate following the overall trend since 2013.[1] Paper, cardboard and products thereof continues to be important exported forest products, worth 103 SEK billion and top five on Sweden's most important export goods in 2022. Sweden's largest export market is still other countries in Europe. [2] Housing construction is nationally rapidly declining because of increased construction costs, triple housing interest rates and declining household purchasing power.[3] An opposite increasing construction trend can be seen locally, especially in the north of Sweden due to green industrialization.

4 Development in the forest products markets sectors

Wood raw materials

According to the Swedish Forest Agency's forecast,

• Net felling during 2023 is estimated to decrease by 3 percent to 75.1 million cubic meters (solid volume under bark), compared to the felling 2022. In 2024, net felling is expected to increase slightly to around 75.3 million cubic meters which is still 2 percent lower than in 2022.

• Import of roundwood is expected to increase with 8 percent this year and remain on around 7 million cubic meters in 2024.

• Softwood sawlog removals is preliminary estimated to 37.3 million cubic metres in 2023 (solid volumes under bark) and is expected to decrease by 1.5 million cubic metre in 2024.

• Removals of pulpwood is estimated to 31.3 million cubic metres (solid volumes under bark) in 2023 an increase by 1 percent compared to 2022. Forecast for 2024 is 31.9 million cubic metres.

• Removals of fuelwood is estimated to increase slightly with 3 percent in 2023. Considering that large forest areas have been damaged by the spruce bark beetle, the expectation would have been that the extraction of wood for energy purposes at the expense of pulpwood would have increased more. However, we cannot see such a trend.

• Production of chips and residues are expected to decrease in 2023 due to reduced production in the sawmills.

Average price of softwood sawlogs and pulpwood increased in 2022 and has also increased slightly in the beginning of 2023.

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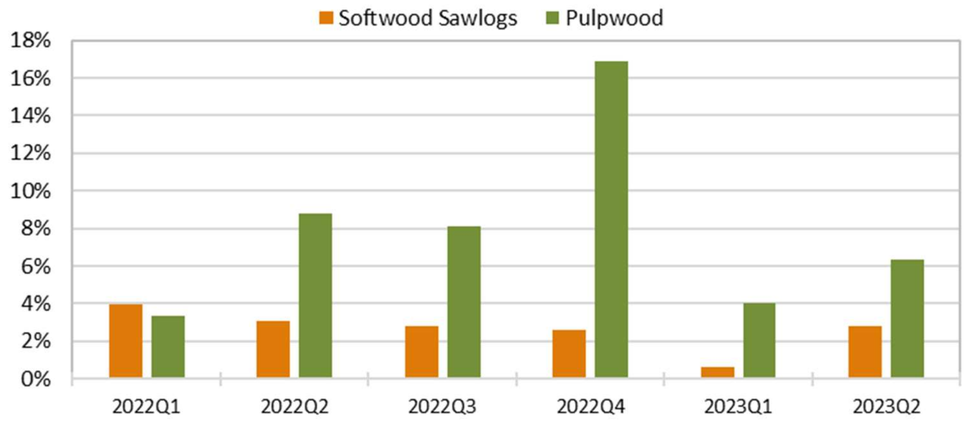
[1] Exchange rate development (KIX index)

[2] Swedish export (scb.se)

[3] The housing association's construction forecast

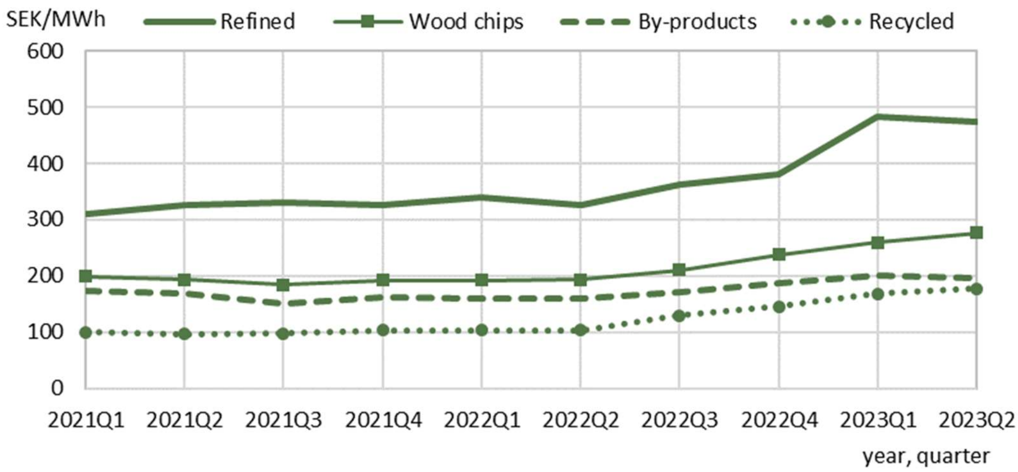
Wood fuel prices increased by 15 percent in the first quarter of 2023. The price of further processed wood fuels increased particularly much by 27 percent.

Figure 1. Quarterly change in prices for delivery logs, sawlogs (coniferous) and pulpwood. 2022Q1-2023Q2.



Source: Biometria and Swedish Forest Agency, Statistical database.

Figure 2. Wood fuel prices in district heating per quarter exclusive taxes, 2021Q1-2023Q2, SEK/MWh, current prices.



Source: Swedish Energy Agency

Timber stocks on 30 June 2023 totalled 7.9 million cubic meters, which was 9 percent less than the same time last year. Stocks broken down by assortment (comparison with the same time last year):

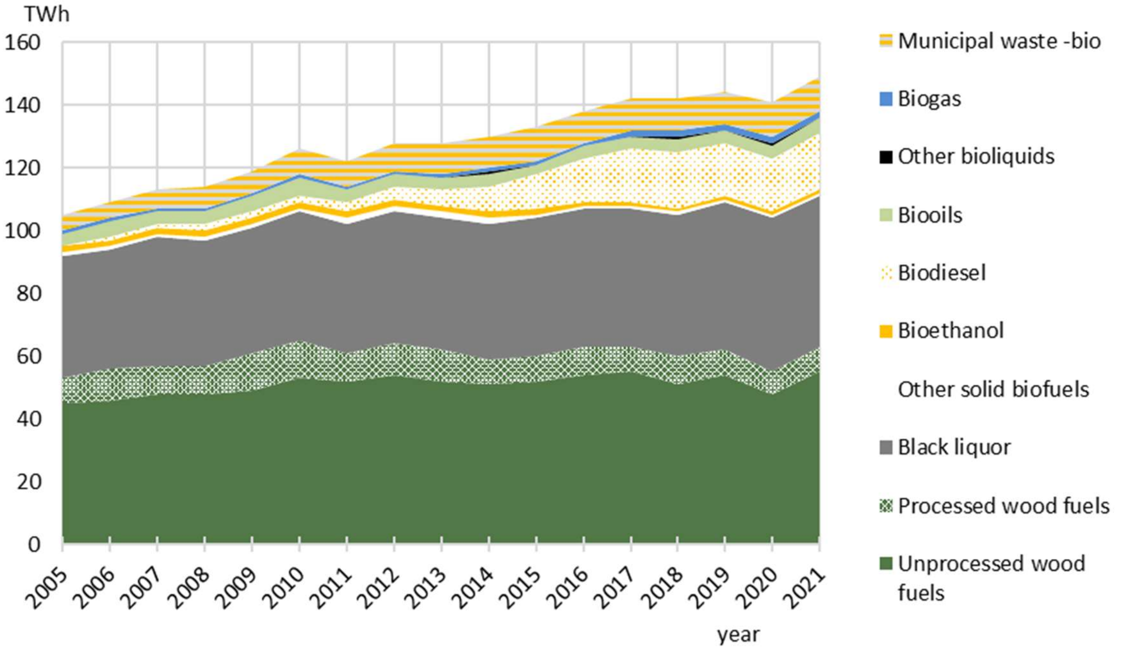
- Coniferous sawlogs 2.3 million cubic meters (-18%)
- Pulpwood 4.7 million cubic meters (-5%)
- Pulp chips 1 million cubic meters (+1%)

Wood energy, with a focus on government policies promoting wood energy

The use of biofuels has been steadily increasing for a long time. In 2018, the government introduced a so-called reduction obligation for petrol and diesel, which meant that the blend of biofuels increased. Since 2022, the reduction levels are 7.8 percent for gasoline and 30.5 percent for diesel. The current government though intends to reduce the reduction obligation to 6 percent for both petrol and diesel. This might mean a reduction in the use of biofuel up to16 TWh in 2024.

In 2021, biofuels accounted for around 28 percent of total gross inland consumption. This was about the same level as in 2020. Total gross inland consumption of biofuels was 151 TWh in 2021 which was an increase of 7 percent compared to 2020.

Figure 3. Biofuel gross inland consumption by category, from 2005-2021, TWh



Source: Swedish Energy Agency

Certified forest products

The area of productive forest land under the PEFC or FSC certifications amounted to 14.8 million hectares in 2022, a slight increase of about 20,000 hectares compared with 2021. 67 percent of all productive forest land outside formally protected areas in Sweden is certified. Individual landowners own about 4.7 million hectares of certified forest land while the largest part, 10.1 million hectares, is owned by other landowners. We expect the certified forest area of individual landowners will increase also in 2023 and 2024.

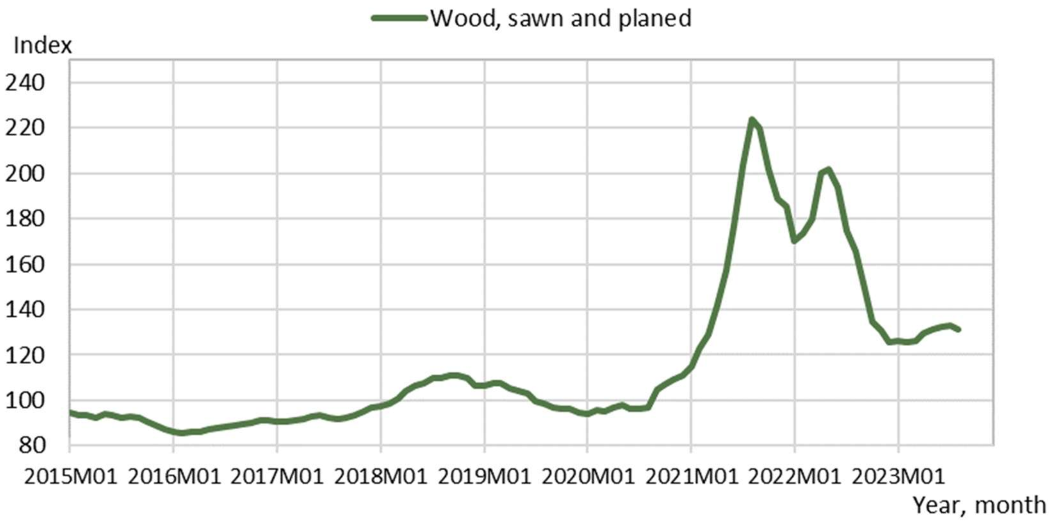
Sawn softwood;

Demand for sawn timber products from Sweden are high and is expected to remain high this year but decline next year. The prices on sawlogs have increased and the roundwood stocks are lower than usual. The prices for sawnwood are practically flat for 2023 but still higher than before the pandemic.

The production of sawn softwood is according to the Swedish Forest Industries expected to decline by 2 percent in 2023 to 18,4 million cubic meters. The production is expected to decline slightly also in 2024. The export in 2023 will be around 13,8 million cubic meters which is about the same as in 2022. In 2024 though the export of sawn softwood is expected to decline with 5 percent.

The export prices on sawn softwood decreased by -1.3 percent in August and are now -20.9% below prices in August 2022.

Figure 4. Export price index for sawn wood, January 2015 – August 2023. Price Index 2020=100



Source: Statistics Sweden

Wood-based panels (particle board, fibreboard and MDF, OSB, plywood);

Figures on production of and trade with wood-based panels are uncertain. There are just a few wood-panel industries in Sweden and production figures are confidential.

The total production of wood-based panels (plywood and particle board) was 725,000 cubic metre in 2021, according to the Swedish Federation of Wood and Furniture Industry. There is no production of fibre board in Sweden

The import of plywood was 236,000 cubic metres in 2022 and the export 48,000 cubic metres. The import of particle board was 572,000 cubic metres in 2022 and the export 59,000 cubic metres. There is no production of OSB in Sweden and the import in 2022 was 97,000 cubic metres. The total import of fibreboard in 2022 was 425,000 cubic metres.

Pulp and paper;

In 2023, demand for pulp and paper decreased. Global pulp prices have also fallen. The decline affects most assortments except for tissue paper, where demand is less sensitive to economic cycles. However, there is great confidence in the future in the industry and the investment volume is expected to be large also this year.

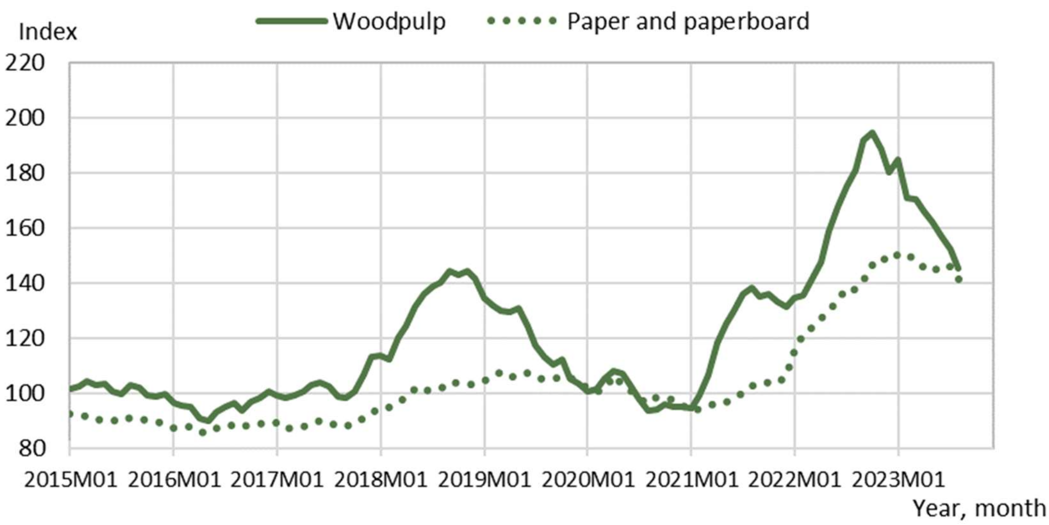
In 2023 the production of wood pulp is expected to decrease by 6.3 percent compared to 2022. In 2024 the production probably will increase again to almost the same volumes as in 2022. The decrease is due to lower demand for pulp and some stock increase among producers. The production of wood pulp was 11.6 million tonnes in 2022.

Exports of wood pulp is expected to increase by 1.7 percent this year and another 4 percent next year compared to 2021.

The paper production is expected to decrease by 14 percent in 2023. The forecast for the production in 2024 shows an increase by 10 percent. Production and demand for graphic paper continues to decline. Not least because customers are now liquidating inventories that were built up when a shortage of paper threatened in 2022. Demand for paperboard and packaging paper has also decreased, while deliveries of corrugated board are still high. The general economic situation affects the situation in many ways, not least a weak construction economy. In 2022 the production of wood pulp was 8.5 million tonnes.

According to the forecast the export of paper and paperboard will decrease with 15 percent this year and then increase again with 11 percent in 2024.

Figure 5. Export price index for pulp and paper and paperboard, January 2015-August 2023. Price Index 2020=100



Source: Statistics Sweden

Housing and construction with focus on wood construction.

In 2022, new construction of housing began with a total of approximately 60,000 residential apartments. New construction of housing is decreasing and the forecast according to the National Board of Housing, Building and Planning is 27,000 in 2023 and 21,500 in 2024. The main reason for the decline is decreasing households' purchasing power, increasing interest rates, falling prices on buildings and increasing construction costs.

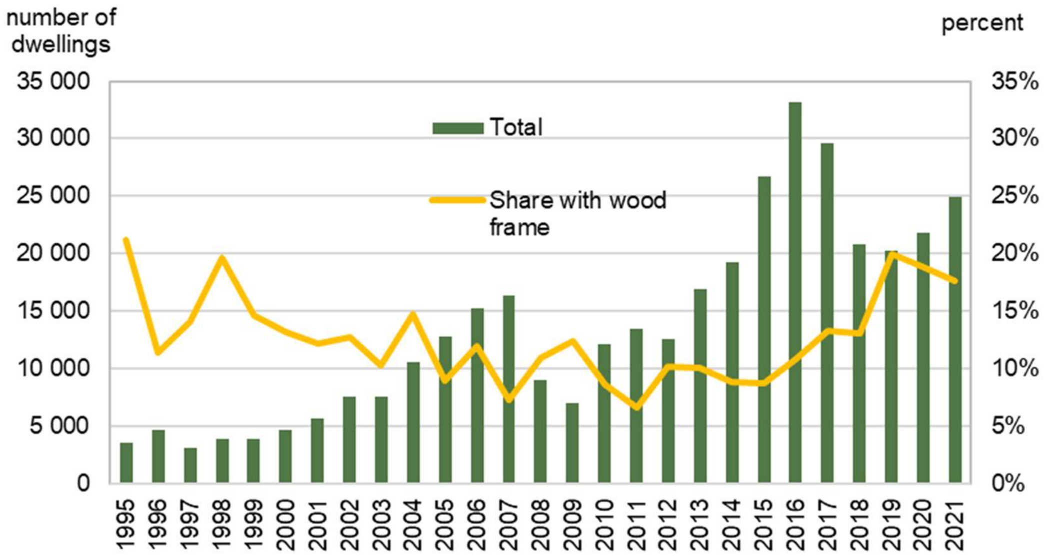
Deliveries for single-family houses made of wood increased by 15 percent in 2022 to a total of 6,436 single-family houses, The total order intake decreased by 42 percent to 4,860 under 2022. Production and new order intake of wooden houses for 2023 and 2024 are expected to decrease according to the situation described in the first paragraph above.

According to Statistics Sweden's latest figures the number of started newly built apartments in multi-dwelling buildings with wooden frame were 4,397 in 2021, an increase with 7 percent compared to 2019. Proportion of apartments with wooden frame, of total apartments started, was 20 percent in 2021 and 19% in 2020. A total delivery of 4,494 apartments in multi-dwelling buildings with wooden frame in 2022. It was a decrease with 8.6 percent compared with 2022. Also, production of multi-dwelling apartments with wooden frame is expected to decrease in this year and the next year.

Total export value of prefabricated building of wood increased by 9 percent to SEK 799 million in 2022 compared to 2021. The import value of prefabricated buildings of wood increased by 99 percent to SEK 1,693 million in 2022.

Swedish production value of prefabricated buildings of wood was SEK 24 billion in 2021.

Figure 6. Dwellings in newly constructed conventional multi-dwelling buildings, total and with wood frame. Year 1995-2021.



Source: Statistics Sweden

5. Gender and human rights issues related to the forest market sector

Male dominance in the forestry sector remains strong, in the sector as a whole and in leading positions. Stereotypical masculinity norms and a patriarchal culture exist in all parts of the forest sector. Equal forest ownership is decreasing because men increasingly buy and own forest properties.

The Swedish Forest Agency's mission is to operate in a way that contributes to women and men having the same power to shape society and their own lives. According to the Swedish gender equality policy the activities of the Forest Agency must benefit women and men on equal terms. Several actors in the forest sector have ongoing actions for improvement of gender equality, and cooperate, among other things, through a national council that was established in 2022.

6. Tables

➢ Economic indicators;

Macro-Economic indicators		**Forecasts**		***Scenarios***		
	2022	2023	2024	*2025*	*2026*	*2027*
(Annual percentage change and percent, respectively)						
GDP at market prices	2.8	-0.6	1.0	*2.9*	*3.4*	*2.2*
GDP per capita	2.1	-1.2	0.5	*2.4*	*2.9*	*1.8*
Current account balance[1]	5.0	5.5	5.6	*5.3*	*4.8*	*2.1*
CPI	8.4	8.6	4.1	*1.1*	*1.8*	*2.1*
Employment rate	2.7	1.6	-0.3	*0.7*	*1.4*	*1.0*
Unemployment[3]	7.5	7.5	8.2	*8.3*	*7.7*	*7.3*
Policy rate[4]	2.50	4.25	3.50	*2.25*	*2.25*	*2.25*
Exports	7.0	0.9	2.3	*3.4*	*4.0*	*3.0*
Productivity in construction sector[5]	1.2	-4.9	0.7	..	..	..
Gross Fixed Capital Formation	8.8	4.7	0.2	*1.1*	*1.6*	*1.6*
Housing investment, new construction[6]						
Multi-dwelling buildings	2,7	-33,2	-22,5			
One- or two-dwelling buildings	11,2	-39,1	-20,8			
SEK per Euro	10.6	11.6	11.8	*11.5*	*11.2*	*10.9*
SEK per USD	10.1	10.7	11.1	*10.7*	*10.3*	*10.0*
SEK per GBP	12.5	13.3	13.7	*13.4*	*13.0*	*12.7*

1. Percent of GDP, current prices, 2. Percent of population aged 15-74, 3. Percent of labour force, 4. Percent at year-end, 5. Constant prices, basic prices, percentage change,
6. Constant prices, percentage change

Source: National Institute of Economic Research

➢ Forest products production and trade in 2022, 2023 and 2024 (this is the Forecast Questionnaire and will be sent by e-mail separately).