



Economic Activity Report

FOR THE SCANDINAVIAN COUNTRIES

February 2009



What happened in 2008?

We are in a period of recession

Macroeconomic performance in 2008

At the beginning of 2008, the international economy was in a "normal" cyclical downturn that many respected analysts were predicting would last to year end and into 2009. During the first six months of the year, the unrest in the international financial markets that originated in the American housing market appeared to be under control. But problems in the international financial markets escalated enormously in autumn 2008, through the nationalisation of the American mortgage giants Fannie Mae and Freddie Mac and especially when Lehman Brothers collapsed in mid September.

Even though conditions in the financial market appear rather better today, the real economy has worsened considerably. Pessimism holds sway in all the industrialised countries. Consumer confidence is at an all time low and both house prices and house building have gone down markedly. During the course of autumn 2008, the inflow of orders for industry in the USA went down by about 35%. There were corresponding reductions of 17% in Germany, 18% in Sweden and as much as 20% in Japan. Industrial production figures indicate that both fourth quarter 2008 and first quarter 2009 will see decreases. In other words, we are in a period of recession.

GDP growth in Norway was almost halved in 2008

The Norwegian economy was also affected by the financial crisis in 2008. After several years of strong economic growth, it was expected that the cyclical downturn would also affect Norway. Up until summer 2008, all key figures, with the exception of house prices, showed a gradual and expected decline. As autumn 2008 drew on, effects were more marked than had been expected. A relatively high level of interest rates after the increases made by Norges Bank, the Norwegian central bank, meant that household interest payments, as a percentage of disposable income, increased considerably. This was in addition to a marked increase in market rates and reduced access to credit. The first effect of this was a reduction in private demand. Mainland companies saw demand decline, which in turn resulted in increasing unemployment. GDP growth for mainland Norway declined over the course of the year and by the third quarter it was 1.5% compared with the same quarter the previous year. For 2008 as a whole, GDP growth is estimated to be less than 2.5%.

The Swedish economy has enjoyed high economic growth and low inflation for a long period (7-8 years). In its early phase, the financial crises had less of a negative effect on the Swedish economy than on other European countries. Risk premiums were lower and Swedish banks were less exposed to American subprime securities. But since the collapse of Lehman Brothers, the financial market in Sweden has come to a stop just like other countries. In the first quarter of 2008, GDP growth was at an annual rate of about 1%. In both second and third quarters, GDP in Sweden showed negative growth. Unemployment has increased greatly in the second half of the year. The number of job vacancies has fallen greatly and there are now many reports of significant redundancies. Both business and consumer confidence are on the way down and reached an all time low by the end of the year. Indications are that GDP for 2008 will be a weak 0.5% at best and that things were slowing down even more into 2009.

The Danish economy showed rather weak development towards the end of 2007 and was still weak at the beginning of 2008. GDP growth in 2008 is estimated to be around -0.8%. The crisis in the financial markets and the associated fall in the real economy internationally have had a significant effect on Danish exports. In addition to this, domestic investment fell sharply through 2008, particularly for investment in housing. Unemployment remained low for a long time, which led to a sharp fall in productivity. A weaker currency and reduced company competitiveness may lead to a sharp rise in unemployment through 2009.

Lower building and construction growth in Norway in 2008, but level high

The building and construction market in 2008

Norway

We anticipate a volume growth in the building and construction market of around zero in 2008. Substantially weaker housing investment (-5%) has contributed to the decline. New housing starts fell by over 30% during the year, while the high level of housing starts in 2007 helped keep activity up and meant that the fall in investments wasn't greater. All the indicators show that the number of new housing starts was less than 24,000 in 2008. We are now seeing that construction firms' order backlog of housing projects continues to diminish, which indicates a further reduction in house building activity for 2009. The growth in investment in non-residential buildings was also substantially lower in 2008 (about 1%). This reflects the way private building starts have gone down, while starts of public buildings are holding up. Construction activity still shows steady growth.

Sweden

The building and construction sectors decreased by about 1.5% in Sweden in 2008. The fall was greatest in the residential sector where the drop in investments was around 5%. It is estimated that around 19,000 homes were started in 2008 and the trend is still downward. In non-residential building and repair and maintenance of buildings, the trend was also weak. In the construction sector, there are several large infrastructure projects in the start up phase, which will contribute to growth and a good level of activity for several years to come.

Denmark

Building and construction investment in Denmark went down 6% in 2008. Our estimate for the year was a fall of 5%. The decrease in the building and construction market in Denmark has been over several years. Activity levels are therefore markedly down on the peak year of 2006. The fall has been greatest in housing investment, which is almost 35% below the peak year.

We must be prepared in case new financial crises occur

The outlook for 2009: Main points

The financial crisis that spiked in September 2008 and escalated through the autumn has now led to a fall in the real international economy, the like of which has not been seen for many decades. National emergency packages have been set in motion and new rescue packages are planned. By this means a total collapse has been avoided. The inter bank system is working better now, with more normal interest rates and the availability of credit has improved. We must however be prepared in case new, but lesser, financial crises occur in 2009 to bring unrest to the money and credit market.

Monetary policy is moving in an expansive direction in all countries. Lower energy and food prices will help reduce inflation and help disposable household incomes to increase significantly through 2009, even though pay increases may be modest.

For the industrialised countries, we must expect a fall in GDP of about 2% from 2008 to 2009 and a probable weak growth of 0.5% in 2010. But there is still great uncertainty and many unexpected events may occur.

The American economy is in its worst recession since the 1930s. GDP growth for the current year is estimated at -2.5% and zero at best for 2010. The outlook for the European countries is less pessimistic than for the USA. The economic situation of households is better and the need to reduce debt is less. For industry the situation is also difficult here, with weak exports and lower demand for investment goods leading to rapidly increasing unemployment and negative effects on capital. GDP growth for the Euro zone of about 1% in 2009 compared with 2008 is anticipated.



***GDP down 1% in Scandinavia
in 2009***

The Scandinavian countries were also affected by the international financial crisis, even though banks here were not exposed to the risks involved in American securities to the same degree as in other countries. In Scandinavia too, weaker exports and lower investment have contributed to a fall of around 1% in GDP. GDP growth of -1% is anticipated in 2009. There is reason to suppose that the outlook for 2010 is somewhat better for the Scandinavian countries. A healthy economic situation in households and good central government finances could contribute to new growth from 2010.

The key points for development in 2009 are:

Norway

- GDP growth of -0.5%
- Unemployment exceeding 100,000 during the course of the year
- Key interest rate below 2%
- Building and construction investment down 5%
- House prices down at least 3%
- 16,000 housing starts
- 20% drop in non-residential building starts

Sweden

- GDP growth of -1.5%
- Unemployment reaching about 9.5%
- Low inflation and interest rates
- Building and construction investment down 7%
- Fewer than 15,000 housing starts
- House prices down 7% in Stockholm, somewhat more in Gothenburg

Denmark

- GDP growth of -1%
- Unemployment increasing to over 100,000
- A further 6% drop in building and construction investment
- House prices down a further 9%

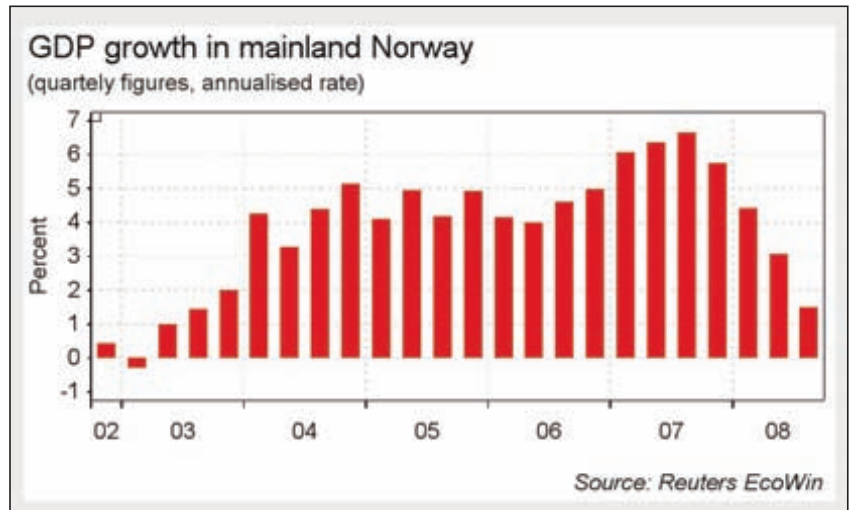
Norway

Negative GDP growth in Norway in 2009

Economic indicators for Norway

The Norwegian economy is also affected by the international downturn in three ways:

- Substantial fall in oil prices
- The money and capital market is working less well
- Export companies are seeing reduced demand



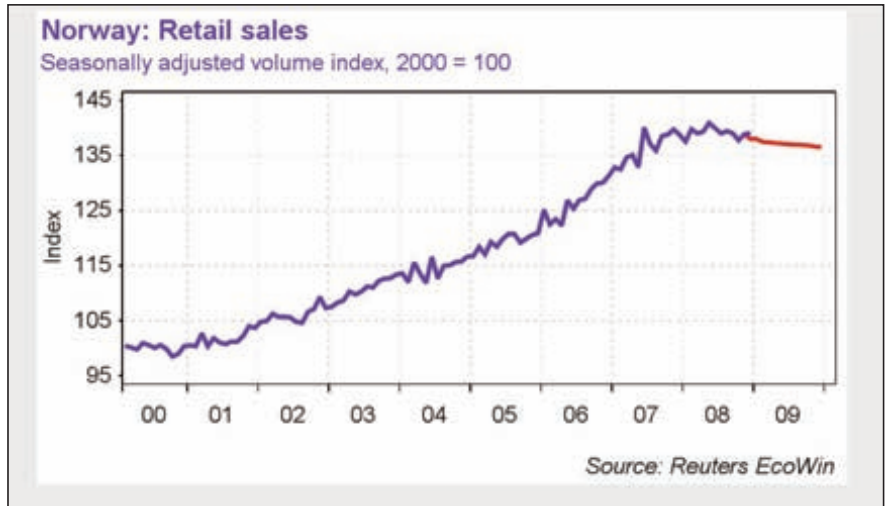
GDP growth of -0.5%

2009 may be the first year of negative GDP growth for 20 years. A fall of about 0.5% is anticipated. Several years of strong growth (between 4 and 6%) in the Norwegian economy had led to high exploitation of capacity and clear signs of increasing inflation. This was the reason why Norges Bank trebled the key interest rate over a three year period. The rate is now down to 3% and a key interest rate below 2% is expected during the course of 2009.

On 26 January this year the government put forward a package of finance policy measures for 2009 totalling NOK 20 billion. NOK 16.75 billion of this is earmarked for new investment and maintenance measures and the rest is tax relief for industry. The package is intended to stimulate demand in the economy and help keep unemployment growth down.

The price of oil fell considerably in 2008, from almost 150 dollars a barrel to a current price of less than 50 dollars. The oil price is expected to remain at this level through 2009. This will tend to reduce oil related investment in 2009. Company investment is also expected to fall in 2009. Great uncertainty about future economic trends and the limited availability of credit mean that investment plans are being postponed or cancelled.

Domestic consumption is expected to continue a very slight decrease through 2009. Growth in real household incomes and low interest rates will help to keep consumption up.



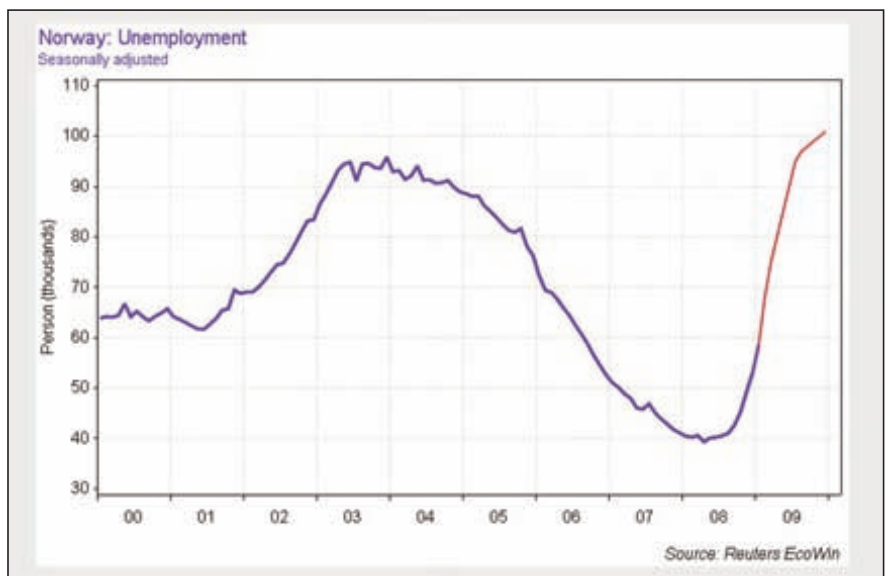
Latest data from December 2008

1.5% fall in retail sales

Retail sales increased only 0.5% in 2008, while our estimate was 2.5%. In 2008 real disposable incomes increased by 1.8% and consumption by about 1.5%, which is significantly weaker than we have seen in recent years. Increases in inflation and interest rates were the causes of this. Anticipated growth in real disposable income by around 3% in 2009 should, seen in isolation, mean more growth in consumption. Increasing unemployment and uncertainty about future economic trends will tend to increase the savings ratio, with a consequent weakening in retail sales.

Unemployment about to reach 100,000 by the end of 2009

Unemployment increased considerably more than anticipated in 2008, especially through the autumn. Up until March last year there was still strong growth in employment, but since then growth has been weak. Both employment and the number of job vacancies are expected to diminish considerably through 2009 and into 2010.



Latest data from January 2009

Inflation calming to 2% in 2009

A rise in unemployment of around 50,000 is anticipated in 2009 with a further rise in the first quarter of 2010. Unemployment will mainly increase in export industries and in building and construction.

Inflation in 2008 is estimated at 3.8%. Rising electricity prices, higher prices of imported goods, especially in the first half of the year, and wage settlements contributed to the high inflation. But weaker economic trends in the autumn brought inflation down by the end of 2008.

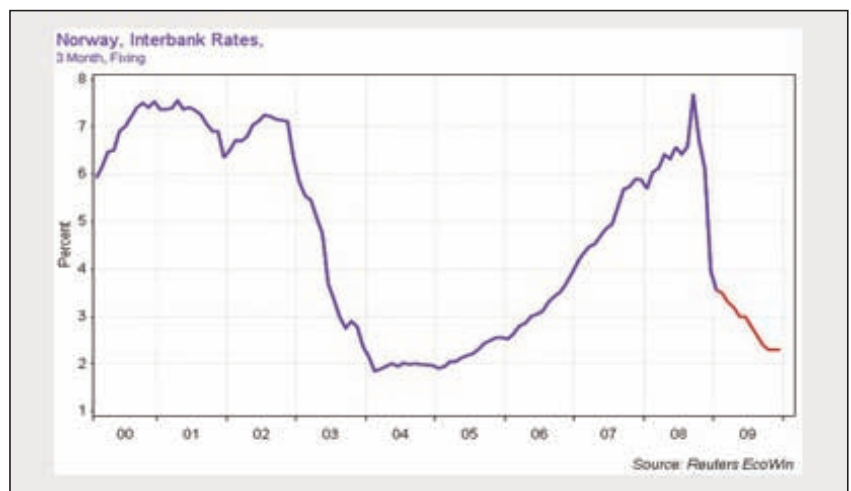
Inflation on the way down in Norway

For 2009 inflation of around 2% is expected with core inflation around 2.5%. More modest pay settlements are anticipated in 2009. Pay rose by about 6% in 2008. The figure for 2009 is expected to be around 4%. Falling raw materials prices and weak economic trends internationally may reduce price rises for imported goods.



Latest data from December 2008

Between October and December the key interest rate went down from 5.75% to 3%. Escalation of the financial crisis and prospects for the international and Norwegian economies were the main reasons. In November Norges Bank signalled a further reduction in interest rates by one percentage point during the first half of 2009. Rising unemployment, a continuing weak housing market, low inflation and continued weakness internationally may all contribute to further interest rate cuts through 2009. For 2010 a gradual increase in rates is indicated. The reasons for the rate reductions are the prospect of lower domestic demand, lower inflation and costs and lower interest rates internationally.



Latest data from January 2009

Market interest rates down towards 2.30% by the end of 2009

Interest rates are the subject of great uncertainty. Inflation may be lower than expected and the international economy may continue to be significantly weaker than many people believe. This may bring about even lower interest rates. But interest rates may stay higher than anticipated. The political stimuli laid out in the recently announced package, combined with a low interest rate, may increase consumption and house prices and so push up interest rates once again earlier than anticipated. Against this very uncertain basis, we have estimated a market interest rate of 2.30% by the end of 2009

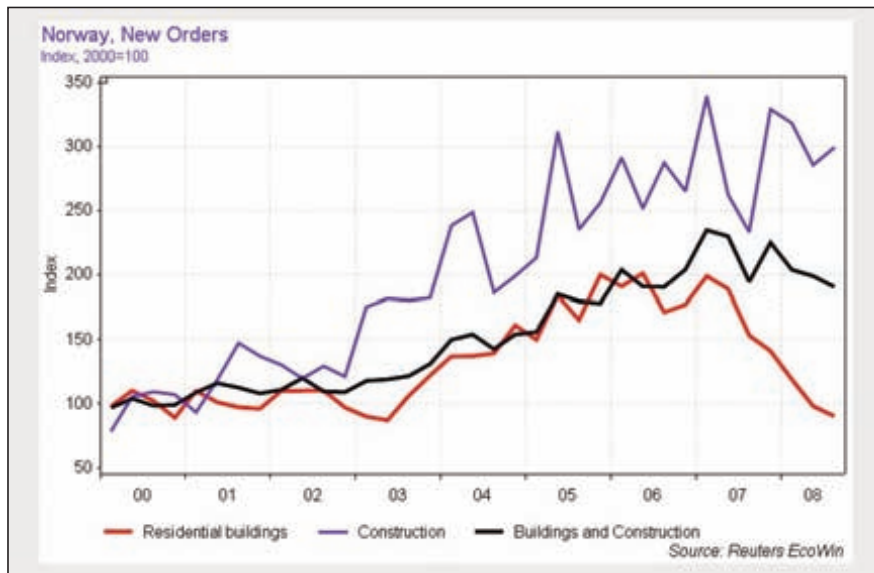


The building, construction and property markets in Norway

Orders for new homes are very low

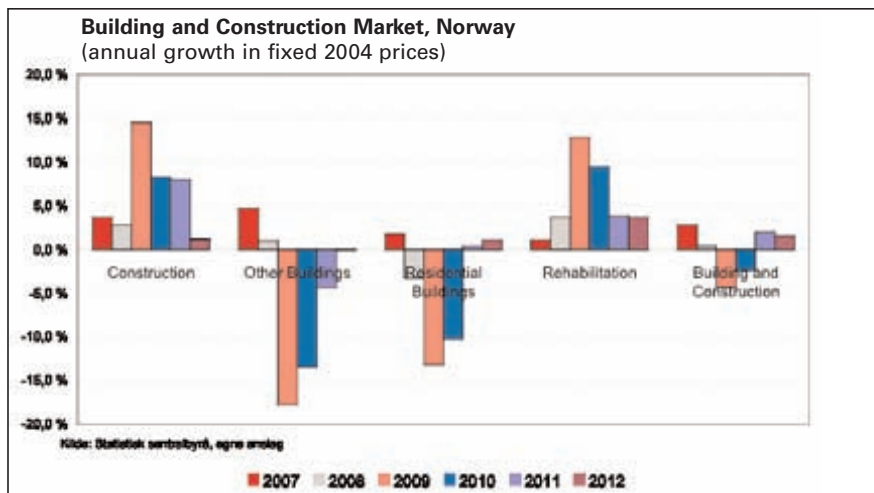
The building and construction market Order books

The flow of new orders in the third quarter 2008 was dramatically lower than in the first quarter. Orders for homes have been decreasing since the second quarter of 2007. For construction the trend is positive, but large projects cause great variations between quarters. Taking building and construction together, there is a downward trend and for non-residential building the trend is flat.



Building and construction investment down 3% in 2009

Building and construction investment has increased considerably over recent years and the present level is high. A reduction in investment of around 3% is expected in 2009, followed by a flat trend in 2010. Prospects for 2010 are uncertain however and will largely depend on residential building increasing during the first half of 2010 and the recently announced finance package having the desired effect.



Trends for the individual segments:

- Housing investment is expected to decrease by around 13% in 2009, compared with 2008, and by a further 10% in 2010. A low level of building starts from autumn 2008 and through the first half of 2009 will mean low investment for the year as a whole. A small growth in investment is anticipated for 2011.

Construction up 15%

- Non-residential building starts have maintained a higher level than anticipated in 2008. That means that we enter 2009 with a continuing high level of activity. Limited availability of credit and uncertainty about economic trends will lead to a considerable reduction (23%) in investment in private non-residential buildings in 2009. The government's package of measures proposes a considerable emphasis on local and county authority and government building, with an extra NOK 3 billion in addition to what was already in the budget for 2009. Overall, the effect will be a reduction for non-residential building of 12% this year and a further 7% in 2010.
- Construction investment is increasing by almost 15% for 2009 and by a further 8% in 2010. Much of this increase is as a result of the government's budget for 2009 and its package of additional measures. The increase is NOK 3.8 billion for roads and NOK 1.3 billion for railways. That represents a growth of 25%.
- Repairs and maintenance is the area growing the most. Growth in 2009 is estimated at around 13%, with a further 9% in 2010. This growth comes as a result of the measures proposed in the crisis package. The growth comes therefore in public buildings and construction. The growth is expected to come in autumn 2009 with effects into 2010.

House prices continue downward in the first half of 2009

House prices



Latest data from January 2009

Prices of existing homes have now been falling since summer 2007, apart from a small rise in early 2008. The decrease has been about 10% in all and so far there is no sign that the housing bubble has burst. There is however reason to believe that conditions such as anticipated interest rate rises, continued limited availability of finance and uncertainty about economic trends and increasing unemployment have been behind the decrease.

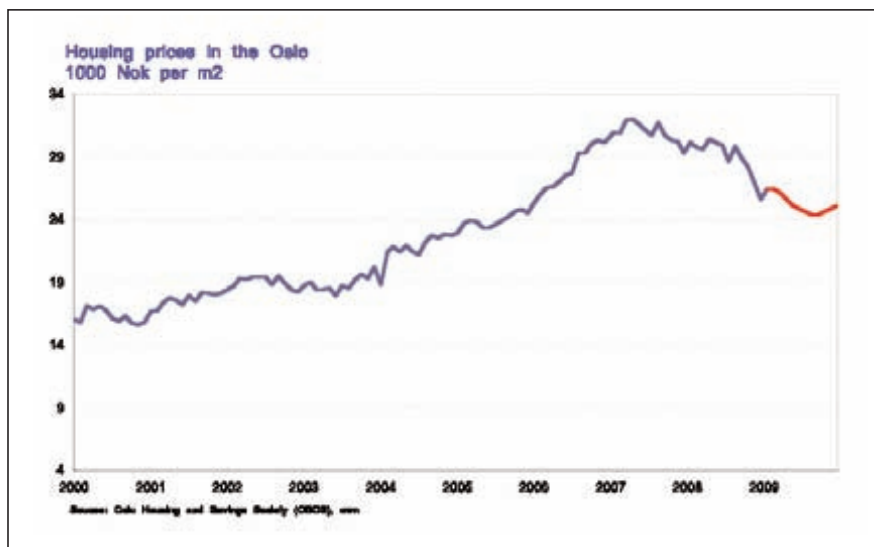
The factors which contribute to determining housing prices in the future are expected to develop as follows:

- Good growth in real household income by around 3%
- The prospect of low mortgage rates through 2009 and modest increases in 2010
- The increase in the number of households in urban areas will continue to keep up demand
- Availability of mortgage loans will continue to be limited, with increased equity requirements
- Unemployment increasing by at least 50,000 in 2009 with a further increase in 2010
- Continued stock market unrest
- Pessimism about future economic trends

Prices of existing homes down 3.5% during 2009

For 2009 the availability of existing and new homes will be high as a result of the high level of building activity in the last three years. This will also tend to push prices down.

We would therefore estimate a reduction in the prices of existing homes of around 3.5% from January 2008 to January 2009. Price reductions will be greatest in apartment blocks where availability is highest and least in terraced houses. The drop in prices will be greatest at the start of the year.



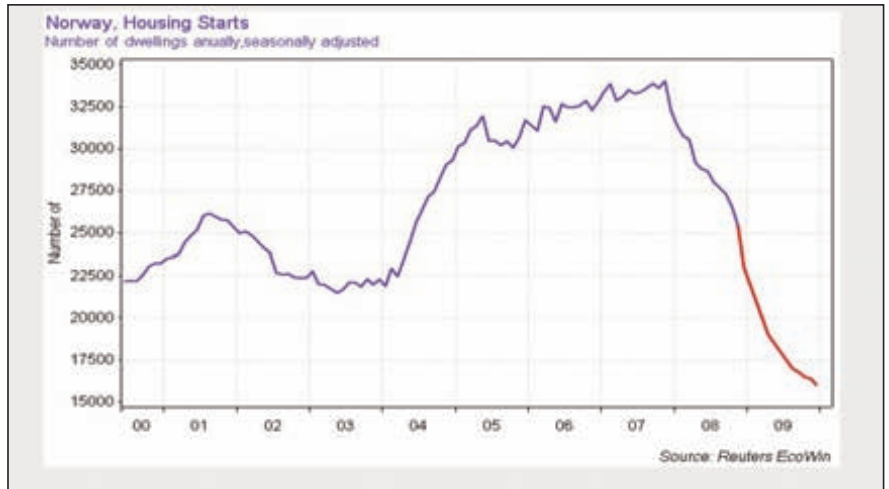
Siste observasjon november 2008

OBOS prices probably 2% down in 2009

Sales prices of existing OBOS homes fell by at least 12% during 2008 and the number of homes sold was about 20% lower in December 2008 than in December 2007. From December 2008 to January 2009 prices increased by 3.2%. OBOS also advises that more people are viewing properties and that sales of homes have increased compared with December. It is difficult to make predictions for the whole year on the basis of one month. We think that prices will decline further in the months up to spring before bottoming out and rising again. A decline of 2% is anticipated from January this year to January next year.

Housing starts

House building has been falling steadily throughout 2008. The total number of housing starts for 2008 is expected to be below 25,000. This is the number of homes for which a start has been announced, but there is reason to believe that the actual number being built is considerably lower. The decline in housing starts will continue. There is great uncertainty among investors and developers and the limited availability of credit also means that fewer dare to start building on new housing projects. The risk is great therefore that the total number of housing starts in 2009 may be below 16,000. This is considerably fewer than will be needed, based on the trend in the number of households requiring homes. That figure is around 27,000, which will tend to increase demand in the longer term.



Latest data from November 2008

16,000 housing starts in 2009

Housing starts will fall to 16,000 in 2009. The reduction will primarily be in apartment blocks and terraced houses, while the decrease in detached houses will be less. Building of council homes for rent, institutional homes and student accommodation will increase by between 2,000 and 3,000 housing units as a result of the government's budget and its package of additional measures presented in January this year.

Non-residential building starts

Non-residential building starts to decline sharply in 2009



Latest data from November 2008

Non-residential building starts increased by at least 2% from November 2007 to November 2008. The trend was therefore better than we had anticipated. The second half of 2008 showed a negative trend however. The decrease was particularly marked in offices and commercial buildings.

For 2009 we estimate non-residential building starts to be around 20% lower than at the end of the year. Trends for the individual areas are expected to be as follows:

- For office buildings a continued decline of 30-40% through the year is expected
- Commercial buildings will also see a sharp decline
- Continued stability in transport and communication buildings
- For health care buildings and educational buildings, we expect the high level of current activity to continue.
- Garages and recreational buildings will show a continued decline of 40-50% through the year

Annual rise in building costs between 6% and 7% through 2008



The rise in building costs stayed at between 6% and 7% throughout most of 2008. Towards the end of the year, price rises fell to below 5%. Prices of materials and energy have brought about this change. The decrease in the building and construction market will also tend to hold down rises in building costs in 2009. This will probably be between 2% and 3% throughout the year.

Probable rise in building costs of 2- 3% in 2009

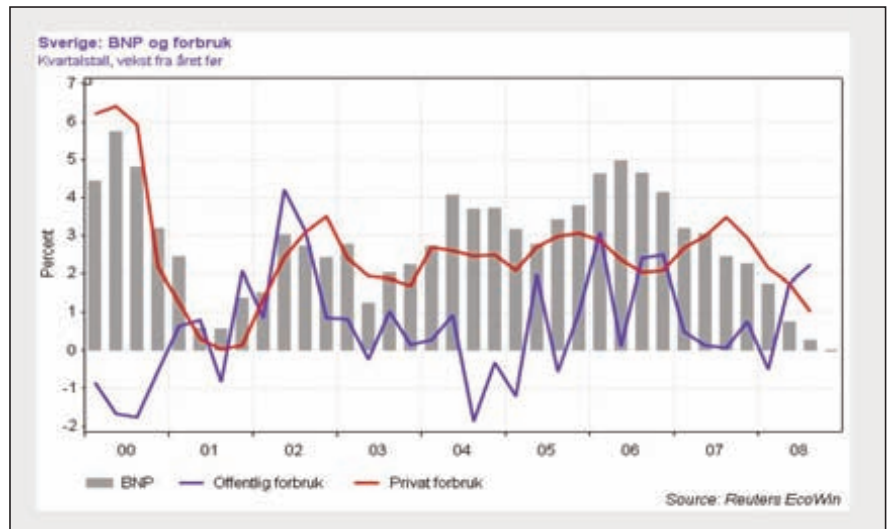
The reduced rises in building costs are as a result of both lower material prices and lower pay rises in the industry. Real prices will probably show a weak trend. Lower margins for suppliers and less pressure in the market will see to that.

Sweden

Several years of high GDP growth in Sweden

Economic indicators for Sweden

The Swedish economy has been characterised in recent years by high growth, moderate inflation and low interest rates. Over the last decade, GDP in Sweden has grown by a good 3% a year measured in real terms, inflation has been around 2% and the key interest rate an average 3%. We already began to see signs of the Swedish economy slowing down a year ago. Growth slowed during the first half of 2008 and inflation increased. It appeared to be a normal cyclical downturn. The financial crisis that deepened after the Lehman Brothers collapse in September took Sweden into a recession too. The real economic consequences of the financial crisis have now begun to be evident.

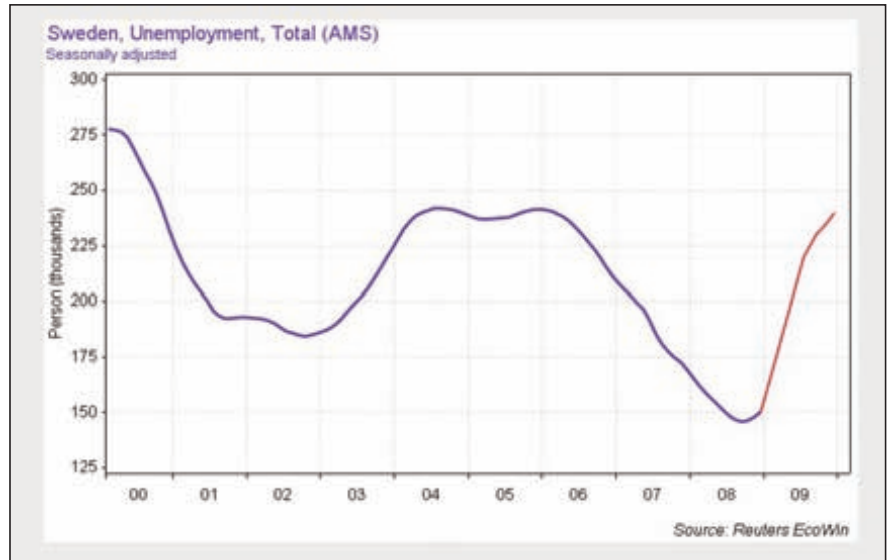


GDP growth in Sweden -1,5% in 2009

Sweden has a small, open economy. A powerful international downturn has a relatively greater effect on Swedish exports and investment. A declining export market will cause demand for Swedish goods abroad to fall by at least 3% in 2009, followed by an increase of about 2% in 2010. Problems in the credit markets and weak industrial trends will bring a significant drop in investment of 8% in 2009. Investment is expected to continue to fall in 2010, but not by as much as in 2009 (-1%). A relatively expansive monetary (key interest rate 1%) and finance policy will stimulate domestic demand. Growth in private consumption of 0.5% is therefore expected in 2009, increasing to 2% in 2010.

In spite of reduced GDP growth and darker economic prospects, the number of jobs continued to increase through 2008. The number in employment increased by 1% in 2008, much of the increase coming in private sector services, while industry and public sector employment declined. This trend has now reversed. Demand for manpower is falling. It is estimated that total employment will fall by 115,000 in 2009 compared with 2008.

**Number of unemployed
approaching 250,000**



Latest data from December 2008

The decline in employment in industry continues and around year end the number employed is expected to be around 650,000 against at least 720,000 in 2008. The decline in employment is also expected to be substantial in other sectors, such as building and construction and insurance. Open unemployment is expected to rise towards 9.5% at the end of the year, against 6% in 2008.

**Retail sales down by around 2%
in 2009**

Anticipated wage growth of around 3% in 2009 will contribute to a significant rise in real disposable household incomes this year. Seen in isolation, this would tend to increase retail trade. But uncertainty about future developments in the labour market and for capital means that saving is increasing. A savings ratio close to 8%, corrected for agreed pensions saving, is anticipated. This will lead to a decline of about 2% in consumption and retail sales in 2009.

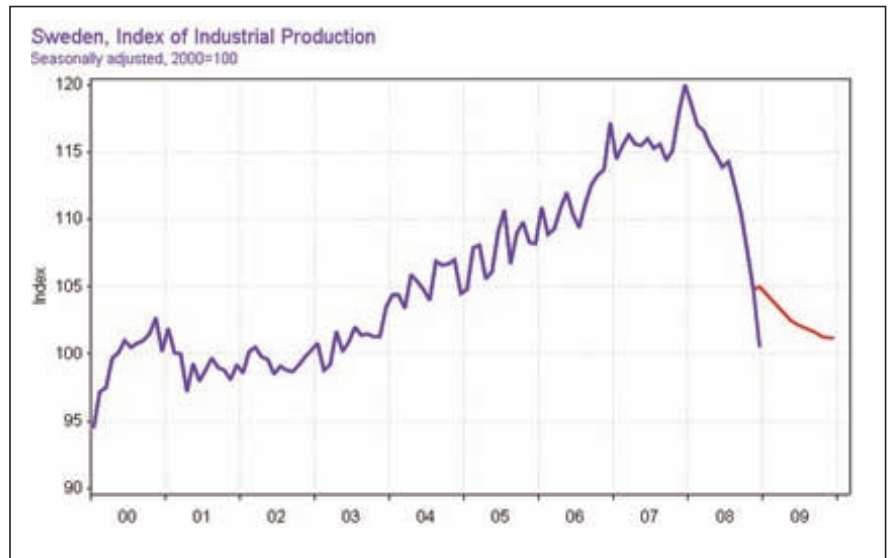


Latest data from December 2008



Industrial production fell by about 9% through 2008, showing a much weaker trend than many had predicted. It is the stoppage in the sale and export of new cars that has brought the decline.

**Industrial production down
a further 6% in 2009**



Latest data from December 2008

Confidence indicators for industry fell by 10% from November to December 2008 and half the companies reported substantial cuts to come in manning and production. The decline in the production index is expected to continue through 2009, with a 6% drop from December 2008 to December 2009.

**Lower inflation and interest rates
in Sweden in 2009**

In 2008 inflation rose steadily until September, reaching a peak of 4.4%. Greater utilisation of resources and rising raw materials prices drove Swedish inflation up to its highest level for 15 years. Since September, inflation has gone down to an annual rate of 0.9%. That is the biggest drop since the war. Much of the reduction may be explained by lower mortgage rates, but the drop in the prices of raw materials and energy has also had an effect.

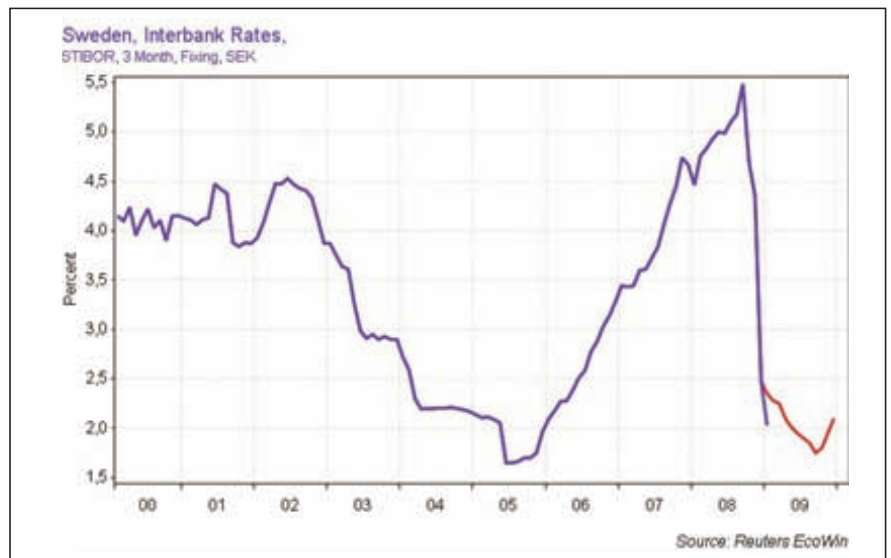
No inflation in 2009



Key interest rate down to 1% in Sweden

Annual inflation in 2009 is expected to be around 0%. This drop can be explained by many factors. Lower transport prices as a result of lower oil prices, lower prices for post and telecommunications, continued low living costs and a stronger krone which will bring down the prices of imported goods.

Between January 2006 and September 2008, the key interest rate in Sweden went up from 1.5% to 4.75%. The last increase was reversed just a few weeks later with a rate reduction of 0.5 percentage points. This was followed by cuts of 0.5 points in October and 1.75 points in December 2008 to 2%. In December, Riksbanken forecast that the rate would remain at 2% throughout 2009. This belief was not shared by the market, the trade unions or the National Institute of Economic Research. Most now believe that the interest rate will be cut to 1% or below in 2009, but with an increase in the first half of 2010.

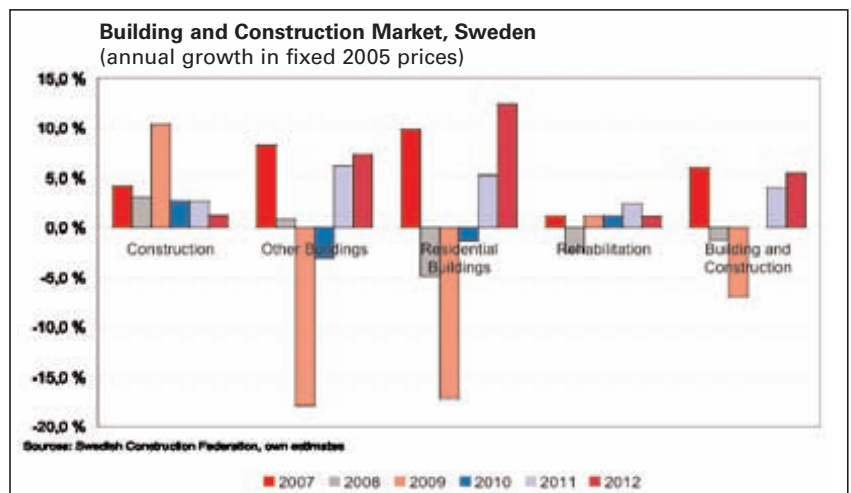


Latest data from January 2009

That could lead to a market rate below 2% during the course of the year, rising to 2.1% at year end.

7% drop in the building and construction market in Sweden

The building and construction market



The general economic downturn, worsened by the economic crisis towards the end of 2008, contributed to a much weaker trend in building and construction than we had anticipated. The decline will probably be 1.3% for building and construction as a whole. The decline in residential building was the major contributory factor. In addition, investment growth in non-residential buildings and construction was also substantially weaker than anticipated.



Prospects for 2009 are no better. Overall a decline in building and construction investment of 7% at fixed prices is anticipated. Demand from the private sector for homes, industrial buildings, offices and commercial buildings, as well as private construction, will fall substantially as a result of the limited availability of credit, growing pessimism in business and continued weak development. This trend will probably continue into 2010, which could mean zero growth in building and construction investment. A more positive note is struck by a very expansive monetary and finance policy with low interest rates and measures to stimulate activity in building and construction in particular.

An improvement in international economic conditions and a functioning credit market could contribute to new growth in building and construction from 2011.

More public building doesn't compensate for the decline in private building

Demand for private building is the hardest hit by the economic downturn. We estimate that private building investment could go down by around 30% in 2009. Increased emphasis on public building is tending to dampen overall investment in non-residential buildings. We estimate a decline of at least 17% in 2010.

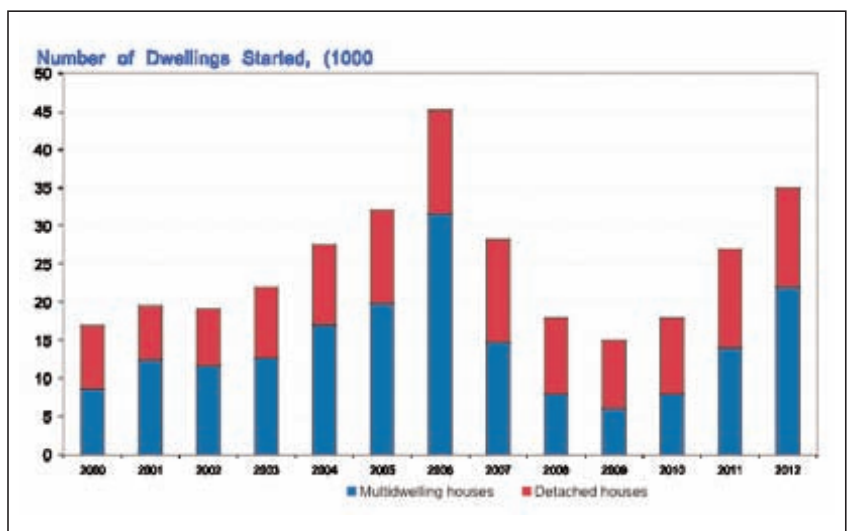
The construction sector will be the winner in 2009

The delayed start of several public infrastructure projects meant that the growth in construction investment in 2008 was about 3% against our prognosis of 6%. However a substantial emphasis on public construction is expected in 2009 with growth of around 10%.

The housing market

Housing starts fell substantially through 2008. Tighter credit and growing pessimism in households and companies led to a considerable decline in new housing projects during the year. This applied to housing cooperatives, rented homes and small houses. Probably only around 18,000 housing starts were made in Sweden in 2008, compared with our prognosis of 25,000.

15,000 housing starts in Sweden in 2009



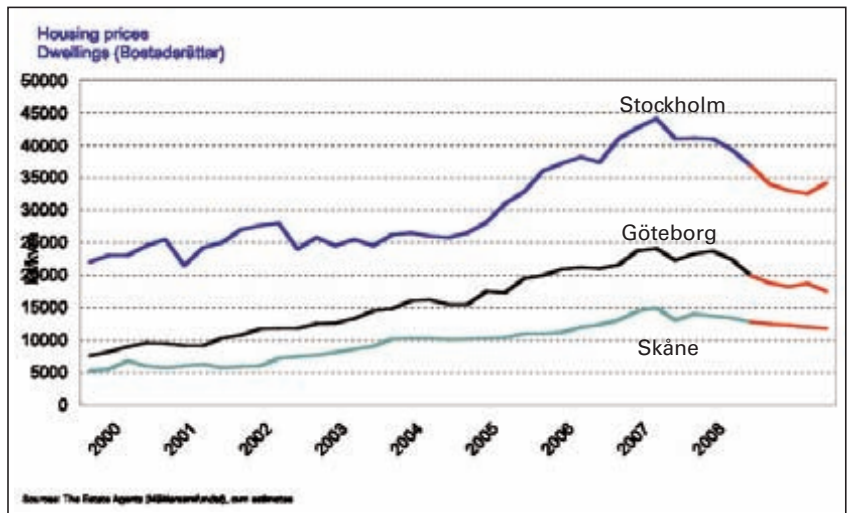
We are estimating 15,000 housing starts for 2009, which will be the lowest level for 10 years. Demand for homes will continue to be weak in 2010 as a result of a labour market that continues to be weak. A more stable financial market, continued low interest rates and the prospect of an improved international economy could contribute to a turnaround in the housing market during 2010.



The rise in building costs was around 5 or 6% until autumn 2008 and then fell to 3%. Lower raw material prices and energy costs and lower prices of steel and timber were all causes of the reduction in costs. This trend will probably continue into 2009 and we estimate an annual rise in building costs throughout the year of less than 1%.

House prices

House prices in Stockholm have fallen by 10% during 2008 and by 15% since their peak in the second quarter of 2007. In Gothenburg, house prices have varied somewhat from quarter to quarter since the beginning of 2007, but the trend has been negative. In Skåne there has been a more moderate decline until now, with a 2% drop in prices recorded.



Latest data from 4th quarter 2008

In the present economic situation, making predictions about the future prices of existing homes is very uncertain. Lack of confidence in the future among potential buyers, the unavailability of credit, low share prices and a sharp increase in unemployment all have a negative effect on the housing market. On the other hand the increase in the number of households, low interest rates and growth in real disposable household incomes all tend to pull demand up. The smaller number of available homes after a period of low building activity will also pull prices up. For 2009 it is the negative factors that will have the greatest effect, which may result in the following development.

In Stockholm a decline in housing prices of about 7% from the fourth quarter of 2008 to the same period in 2009 is expected. A sharp fall is anticipated in the first half of the year, but with a tendency towards growth again by the end of the year. This assumes that the economic situation improves and that the money and finance markets start to function again.

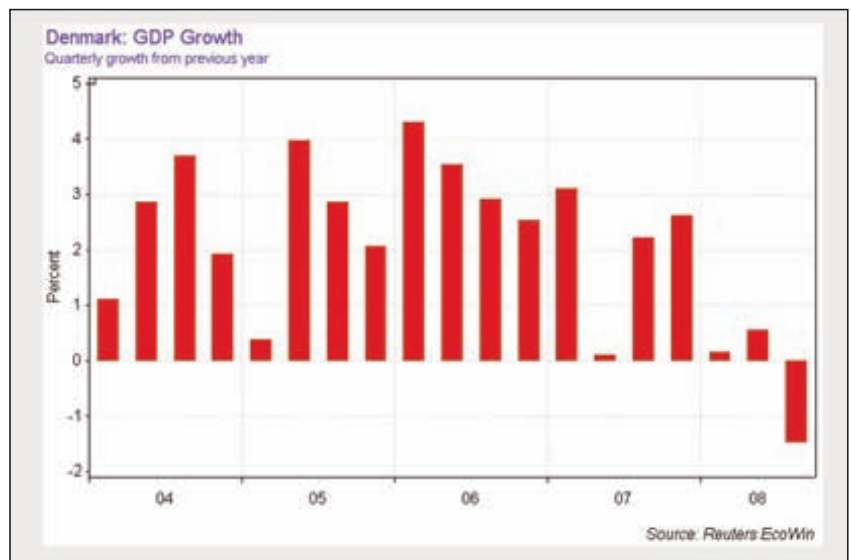
In Gothenburg a fall in the prices of existing homes of between 12 and 13% is expected for 2009. In this area, unemployment is expected to increase dramatically after major cuts in the car industry. This will bring down prices of existing homes substantially. The availability of new homes may also dry up. In the somewhat longer term (2 years) price rises could once again be considerable.

Denmark

GDP growth of -1% in 2009

Economic indicators for Denmark

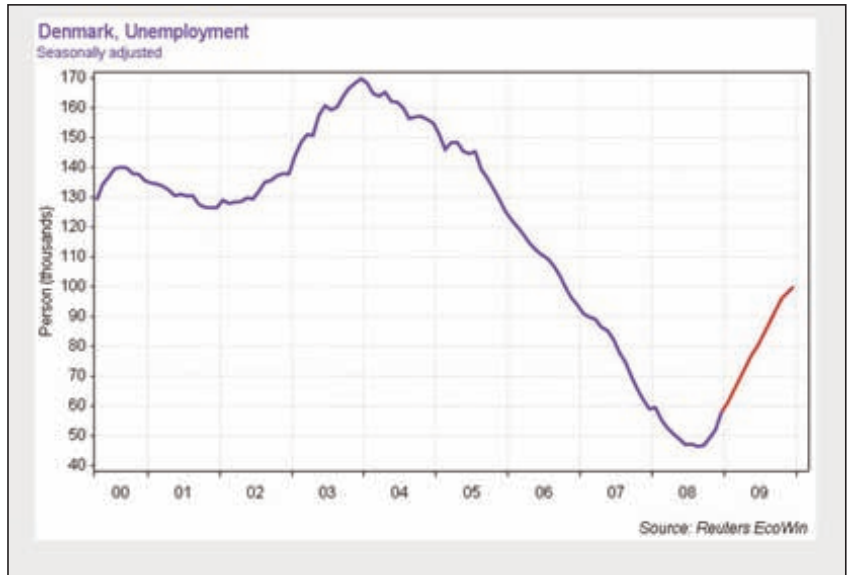
The outlook for the Danish economy is significantly worse. After a GDP fall of 0.8% in 2008, a further fall of 1% is expected for 2009. The main reasons for this decline are the fall in exports and the substantially weaker development of investment.



The outlook for 2009 is thus the worst since the oil crisis of the 1970s. Exports will continue to fall and investment will remain at a low level. Growth will probably occur in 2010. Low interest rates, a finance market that is functioning better, better prospects internationally, tax cuts and an active financial policy providing substantial stimuli can probably save the Danish economy from a hard landing.

Unemployment began to increase in October 2008 and has risen steadily over the autumn. The number of new job advertisements has fallen considerably (source: Dansk jobindex) in the last half year. At the same time the number of redundancies has risen sharply. The increase in unemployment occurred later in Denmark than in other countries, due to the lack of manpower when economic times were good.

The number in employment is falling in the service sector, in building and construction and in industry, while employment in the public sector will increase.



Latest data from December 2008

Unemployment increasing by at least 50,000 in 2009 with a further increase of 20,000 in 2010

Unemployment will increase to at least 100,000 by the end of this year. That represents at least 4% of the workforce in Denmark.

Industrial production in Denmark began to fall in October 2008 and showed a significant fall in November. This decline will continue throughout 2009 as a result of weaker exports and a marked fall in investment. We estimate a decline of 3.5% throughout the whole of 2009.



Latest data from December 2008



Retail sales down 5% in 2009 in Denmark.

Retail sales have also fallen by at least 5% during 2008 in Denmark. This is a dramatic slowdown following the strong growth we have seen over the last 5 to 6 years.

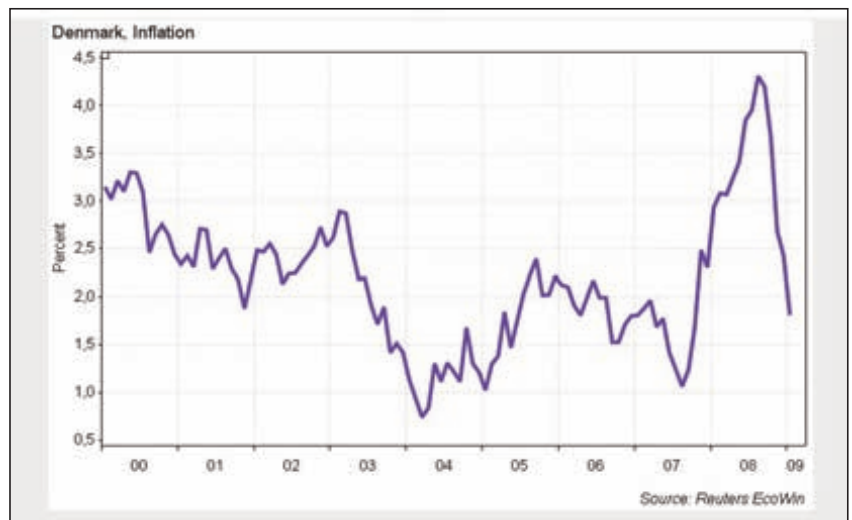


Latest data from November 2008

Uncertainty and pessimism among consumers after the financial crisis is the main reason for this dramatic slowdown. Real household incomes will increase in 2009 even with increasing unemployment, which will lead to increased saving.

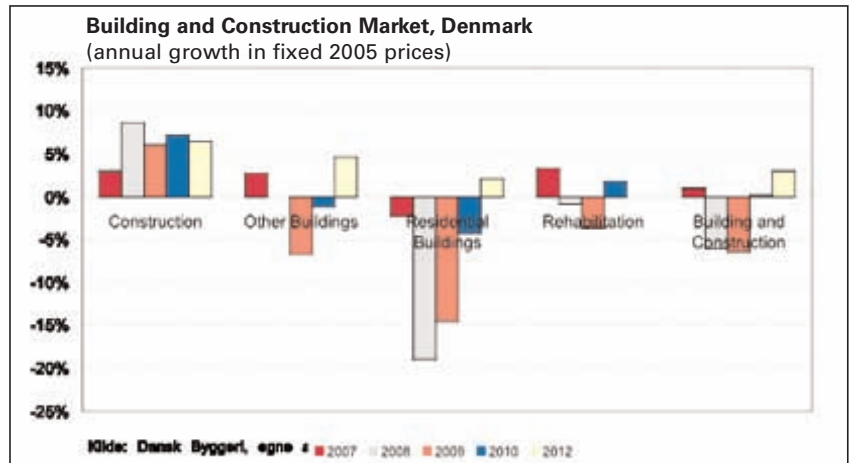
Inflation has been scared off

Between October 2007 and October 2008, inflation went from 1% to 4.3%, afterwards declining to 2.4%. During the first half of 2008, the spectre of inflation loomed large. People were afraid that inflation had come to stay. With the negative global outlook and falls in raw material and energy prices, people are now starting to speculate about the risk of deflation. We believe inflation will continue to fall, to below 1% during the course of the summer, and then increase somewhat to 1.5 to 2% during the autumn.



Lower building and construction activity in Denmark for the next two years

The building and construction market



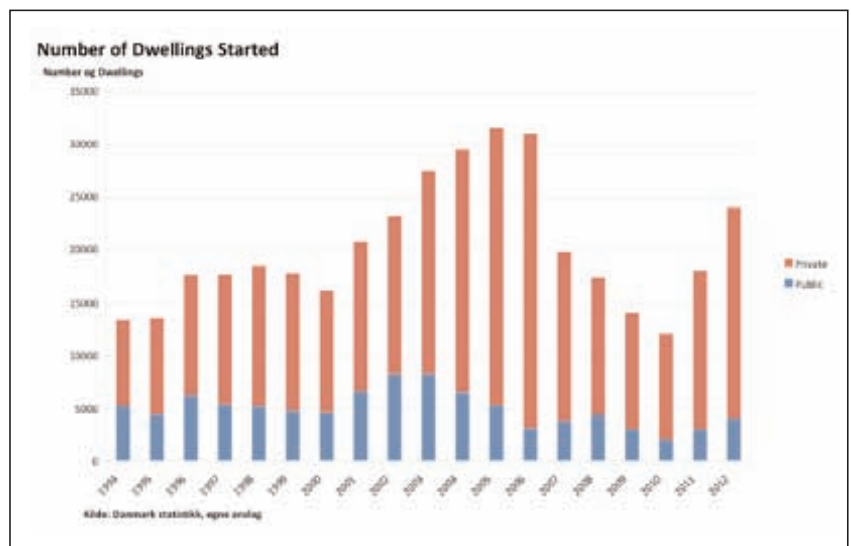
The outlook for the building and construction market in Denmark is still negative. The factor pulling the market down the most is investment in housing. The decline has been going on for three years and the level of activity is very low. As in the other Scandinavian countries, it is the construction market that is keeping employment up. The decline in 2008 was between 6 and 7% and a further 6% decline in building and construction investment is expected in 2009. Employment in building and construction is expected to be 9% down in 2009 compared with the previous year. For 2010, zero growth is expected, with the prospect of a weak growth in 2011 and 2012.

Improvement in construction investment

There are prospects of an improvement in construction investment in Denmark. An upturn is expected within environment, road and railways in particular. The government's infrastructure plan signals substantial investment in roads and railways and DKK 90 billion has been allocated to further investment in improving and upgrading the road and rail networks. During 2009 finance policy measures will also be initiated that will contribute to growth in construction.

Investment in non-residential building has been stable in 2008 as a result of the high level of building starts at the beginning of the year. For 2009 a drop of 7% in investments in non-residential building is anticipated. Private office and industrial building will see a drop of 12%. Investment in agricultural building will go down 8% while investment in public building will increase markedly this year.

Investment in housing is expected to fall by 18% in 2009 and by almost 15% in 2010. This means that activity is down to 2002 levels.





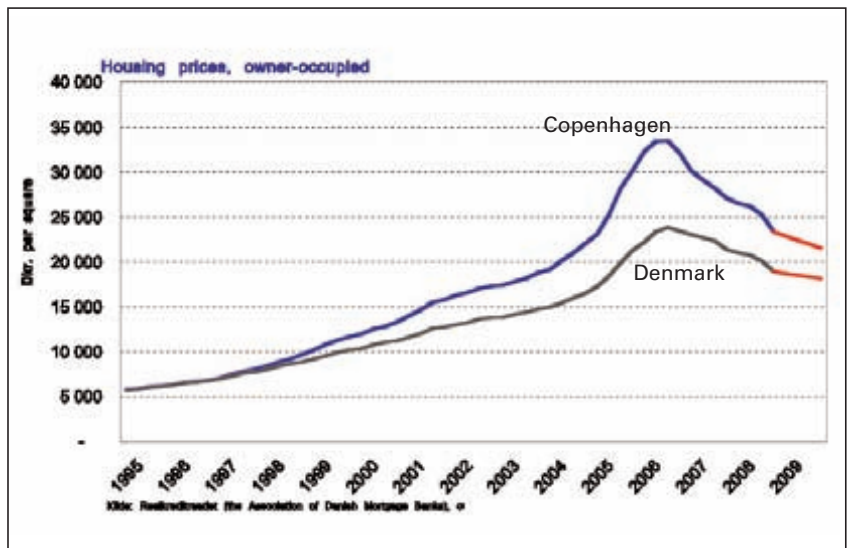
The number of housing starts in 2009 is expected to fall below 13,000, from 17,000 in 2008. The decline affects all types of homes, but is largest in apartment blocks.

The housing market

The housing market in Denmark is in a period of dramatically falling prices. 83 of the country's 98 municipalities are seeing a significant reduction in prices. The number of homes on the market has risen sharply from about 30,000 in 2006 to about 65,000 in 2008, while the number of sales has almost halved over the same period. Conditions indicate therefore that the housing market will continue to be weak in 2009. Low interest rates and increases in real disposable household incomes will diminish the price reduction somewhat. The number of homes on the market will decrease substantially after several years of very limited building of new homes in the city regions. This will also tend to limit the fall in prices. But the housing market will still be dominated by rising unemployment and pessimism about future economic trends, combined with a large number of homes on the market.

Prices in Copenhagen continue to fall

Prices in Copenhagen fell by 12% in 2008. The negative trend will continue in 2009. We estimate a further 9% drop in prices in 2009.



We welcome opinions and comments.
Rolf Albrigtsen
Telephone +47 21 05 75 71
Mobile +47 906 91 110
rolf.albrigtsen@veidekke.no