

# Economic Activity Report

## FOR THE SCANDINAVIAN COUNTRIES

February 2008



## What happened in 2007?

### **Global GDP growth was probably around 5% in 2007**

#### **Macroeconomic performance in 2007**

Global GDP growth was about 5% in 2007, the same as in 2006. Autumn 2007 was characterised by turmoil in the international financial markets triggered by the fall in the U.S. housing market. The Asian economies have grown strongly throughout the whole of 2007 and helped to compensate for the decline in the U.S. economy. Inflation in India and China rose during 2007 and is currently at an annualised rate of about 6%. This has contributed to a rise in interest rates and the authorities have allowed the currencies to become stronger to counteract the inflation.

Instability in the U.S. markets has also led to reduced growth in U.S. consumption during autumn 2007. GDP growth forecasts have been adjusted downward throughout the whole of 2007, and total GDP growth for 2007 ended at 2.3%, down from 3% in 2006. The Federal Reserve has cut interest rates to improve market liquidity and restrain the decline. An important question for 2008 is whether the U.S. economy is approaching recession or not.

Growth in the euro zone was somewhat lower than previously forecast and GDP growth ended a shade over 2.5% as opposed to 3% the previous year. The lower growth rates are principally stemming from the consequences of the financial market turmoil and weaker growth in consumption than was forecast.

### **GDP growth in Norway of 5.8% in 2007, and the economy still has plenty of steam**

*The Norwegian economy* performed more robustly than we had anticipated. GDP growth reached about 5.8%, while our forecast was for 3%. The expansion is mainly due to the continued high growth in demand from the continental economy. The key policy rate has climbed from 3.75% in January to 5.25% at the end of the year. The strong growth in demand has been accompanied by robust productivity growth in 2007 and continued access to sufficient international labour.

*The Danish economy* put in a weaker performance in 2007 than we had forecast. GDP growth was 1.7%. Growth in consumption, investment and exports was lower than we had forecast. In spite of the lower rate of GDP growth, employment rose during the year and unemployment fell.

*The Swedish economy* showed weaker growth in the second half of 2007 than we had estimated. GDP growth for 2007 probably ended at 2.7 - 2.9%, down from 4.1% the previous year. The reduction is mainly due to a slowdown in export growth, which in turn has contributed to lower growth in production and investment. However growth in consumption remains high and inflation has picked up, which will probably lead to the central bank increasing interest rates in the future.

#### **The building and construction market in 2007**

##### **Norway**

We assume an increase in volume in the building and construction market of about 3% in 2007. The growth has been especially strong within non-residential buildings and construction. All indications are that housing starts will probably reach about 32,000 for 2007, while we expected a significant fall during the year. We are now seeing that construction firms' order backlog of housing projects has diminished, which indicates a reduction in house building activity for 2008. A strong level of housing starts has helped to keep housing investment high during 2007 and growing at about 2%.

##### **Denmark**

Building and construction investments in Denmark grew by 1% in 2007; our forecast was for 3% growth. The discrepancy is mainly due to the slowdown in the housing market, but construction and non-residential buildings also performed weaker than expected.

## Sweden

Building and construction investments rose by 6% in 2007 compared to 9% in the previous year. The growth came in housing and non-residential buildings while the anticipated upswing in construction has not yet taken place. Housing investment increased by about 10% in 2007, while housing starts approached an annualised rate of 29,000 units. The rise in investment is a result of both greater activity in reconstruction and the high number of housing starts from the previous year. However during autumn signs of somewhat lower housing demand and lower housing starts emerged. Non-residential building activity remains high and investment increased by about 9% in 2007.

## The outlook for 2008: Main points

The growth rate in the international economy in 2008 currently depends on several factors. The financial market turmoil caused by the fall in the U.S. housing market and major losses in, for example, the banking sector and the resulting dramatic stock market decline have created much uncertainty as to what effect this can have on the real economy in the U.S. and the world at large.

### **GDP growth in the euro zone of 2.5% in 2008**

If the U.S. economy manages a "soft landing" through aggressive interest rate cuts and consumption staying high due to a strong labour market, the effect will probably be moderate. If there is a recession with two quarters of negative growth, the effect on the international economy can be substantial. The consensus today is for GDP growth in the U.S. to be around 2%, with a growth rate of 1% in the first six months and somewhat stronger growth in autumn 2008.

The European countries are less dependent on exporting to the U.S. than they were previously and have shifted more of their exports towards the former eastern European countries as well as Asia. This has enabled the euro zone countries to sustain their robust export growth in the face of weakened demand from the U.S. The growth in consumption in Europe is still modest, even though it has risen recently. As a whole, GDP growth in the euro zone countries is forecast to be about 2 – 2.5% in 2008.

## The key points for development in 2008 are:

### **Norway**

- GDP growth of 3%
- Continued tight labour market and real wage growth of around 4%
- Rise in building and construction investment of 1.5%
- Reduction in housing investment (-2.5%)
- Growth in house prices of 3 – 4% for the year
- About 28,000 housing starts
- 4.5% growth in non-residential building investment
- Continued robust and growing construction industry

### **Denmark**

- GDP growth of 1.3%
- Unemployment will slowly rise during the year
- Increasing inflation and market interest rates falling slowly
- Reduced building and construction activity (-5%)
- Housing investment declining sharply (-15%)
- Investment in non-residential buildings up 3%
- Construction activity growing by 8%

### **Sweden**

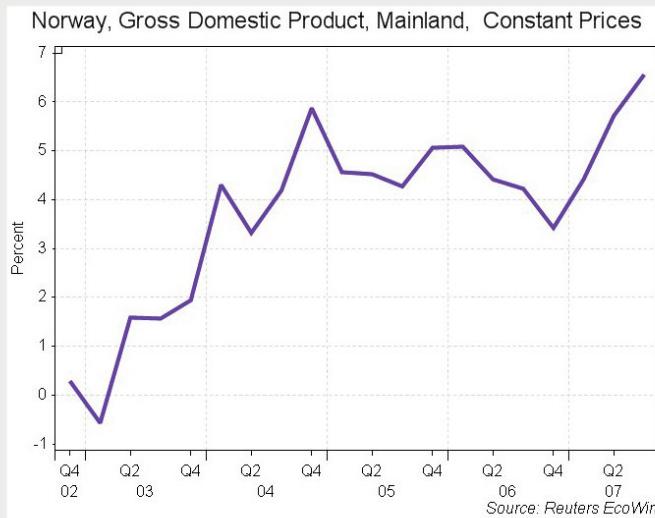
- GDP growth of 2.5%
- Continued low unemployment and rising inflation
- Interest rates rising during the year
- 4% growth in building and construction investment
- 8% growth in non-residential building investment
- Stable increase in construction activity (5%)
- House prices falling during the first six months this year but followed by growth in the second half of the year

## Norway

### **GDP growth in Norway of around 3% in 2008,**

#### **Economic indicators for Norway**

Following record high GDP growth of around 5.7% in 2007 and with a fourth quarter annualised growth rate exceeding 6%, Norway has a rapidly expanding economy at the start of 2008. However growth in consumption, investment and exports is expected to become more moderate during the year. Therefore, the consensus view of GDP growth being about 3% seems reasonable.



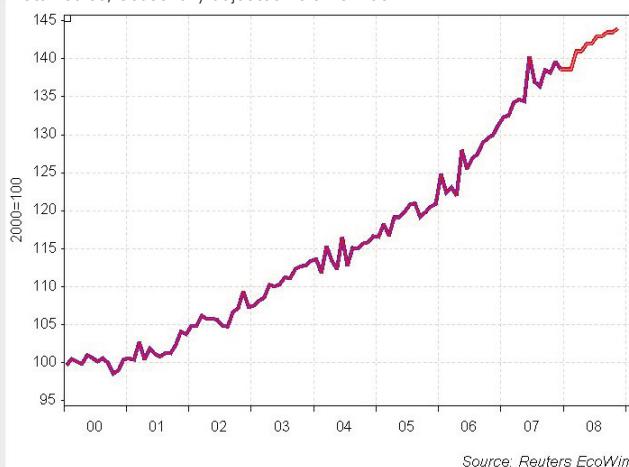
### **2.5% rise in retail sales**

Private consumption grew by 6.7% in 2007 due to the strong economic expansion. This is the fastest rate of growth since 1985. Retail sales growth was buoyant throughout the whole of 2007 except for some slight weakness during the summer months. During autumn, retail sales continued their strong growth without any signs of a slowdown.

### **Growth in retail sales probably lower in 2008**

In 2008 we are anticipating somewhat slower growth of 2.5% compared with 4% in 2007. High wage growth and prospects of interest rates levelling off are contributing to growth, while a weaker housing market and a reduction in the rate of credit growth indicate a slower rise in retail sales this year.

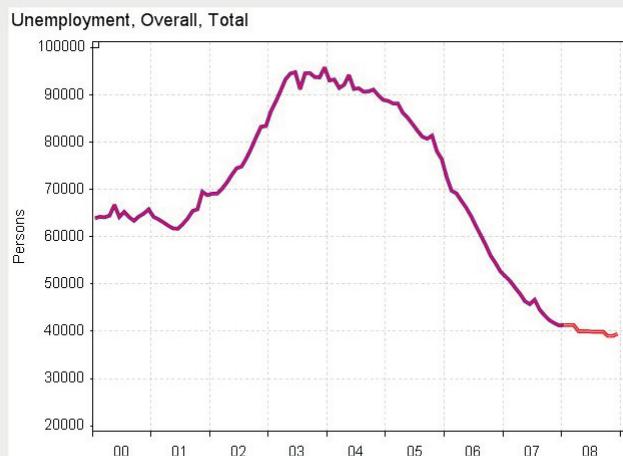
Retail Sales, Seasonally adjusted volume index



Latest data from December 2007

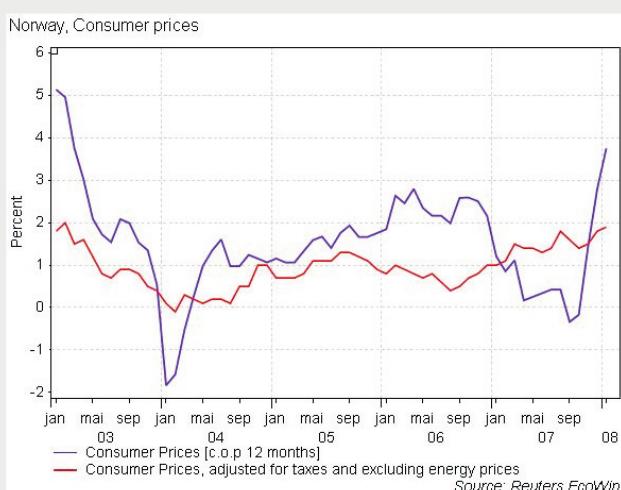
## **Unemployment flattening out at an historically low level**

Unemployment including those in job creation programs (gross unemployment) fell significantly more than expected in 2007 and is now down to the low level we saw in 1988. The unemployment rate measured in this way currently stands at 1.9%. Imported labour and population growth has resulted in a sharp increase in the supply of labour during this phase of strong economic expansion. High wage growth in 2007 and the chances of still higher wage growth in 2008 indicate that we are approaching a capacity constraint. Thus it is not likely that we will see a further reduction in unemployment in 2008. Also, weaker growth in the economy and lower export growth will help to lower the demand for labour below what we have seen during the previous years. Therefore we think that unemployment will flat out in 2008 at the current level, but with the prospect of a small rise towards the end of the year.



## **Rising inflation, but will interest rates follow suit?**

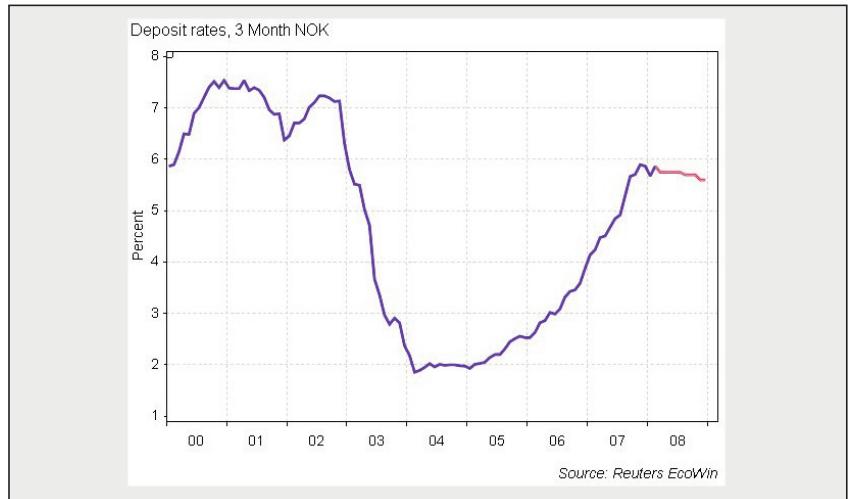
Several factors are now working to push inflation upwards. Internationally, inflation is about to increase substantially due to energy price rises. Norway will be affected by this as imported goods become more expensive. In addition, higher wage costs in Norway will lead to higher unit production costs, which in turn increase inflation.



Latest data from January 2008

Core inflation (inflation adjusted for changes in duties and energy prices) has steadily risen during last year and will probably reach 2% in 2008 and increase to the target of 2.5% during 2009.

The future course of interest rates is affected by two contradictory forces. The domestic conditions of the Norwegian economy, with buoyant growth in productivity, wage rises and growing inflation require more interest rate hikes and a steadily increasing level of interest rates. In the opposite direction, the weakening international business cycle would require falling interest rates, particularly in the U.S.



### **We expect interest rates to remain flat in 2008**

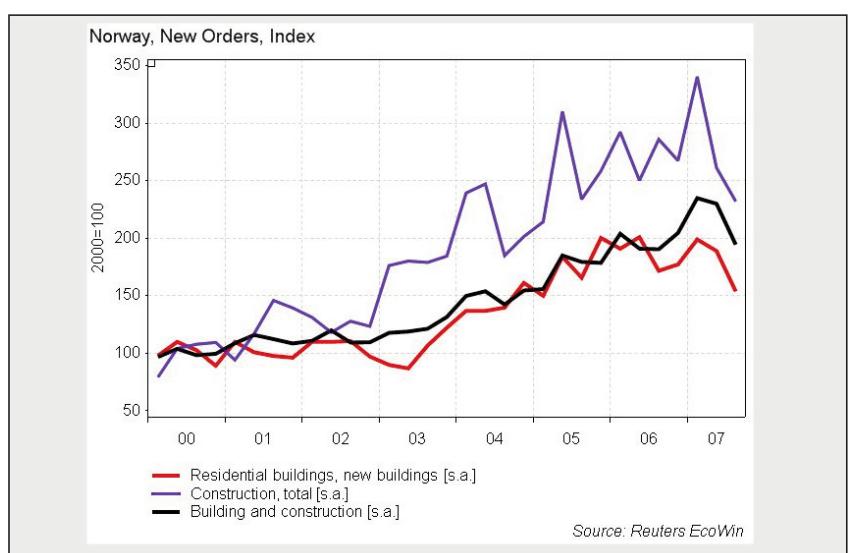
The Norwegian central bank, has indicated that interest rates may peak at a rate of 5.37% in the third quarter of 2008. If the trends in the international business cycles become clearer and wage settlements result in lower wage growth than forecast, then the key policy rate will probably be raised during spring (in May) and will be kept at 5.50% for the rest of the year. This results in a flat market rate of interest of around 5.8% for the rest of 2008.

## **The building, construction and property markets**

### **The building and construction market**

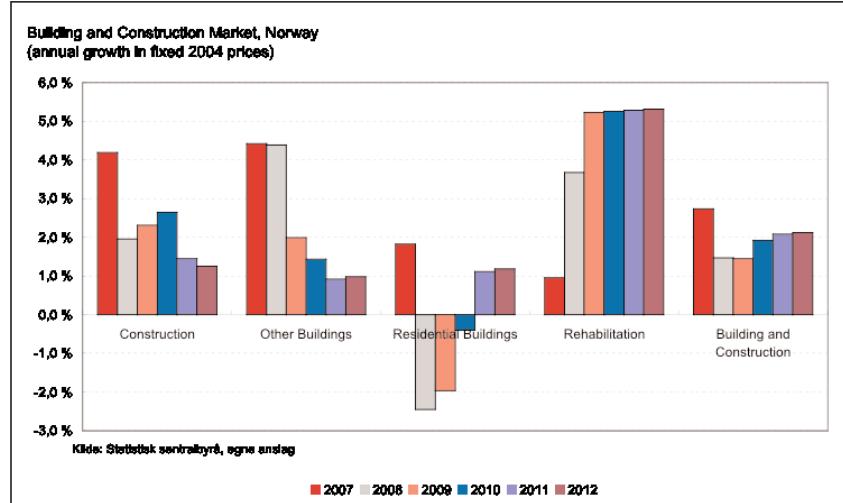
#### **Order books**

The flow of new orders in the third quarter 2007 was dramatically lower than in the first quarter. There was a fall in both housing and construction.



However it is too early to conclude that this indicates a turnaround in the total building and construction market or a signal that the industry has reached a capacity constraint and is therefore being more cautious when taking new orders.

## Investment in building and construction rose by 1.5% in 2008



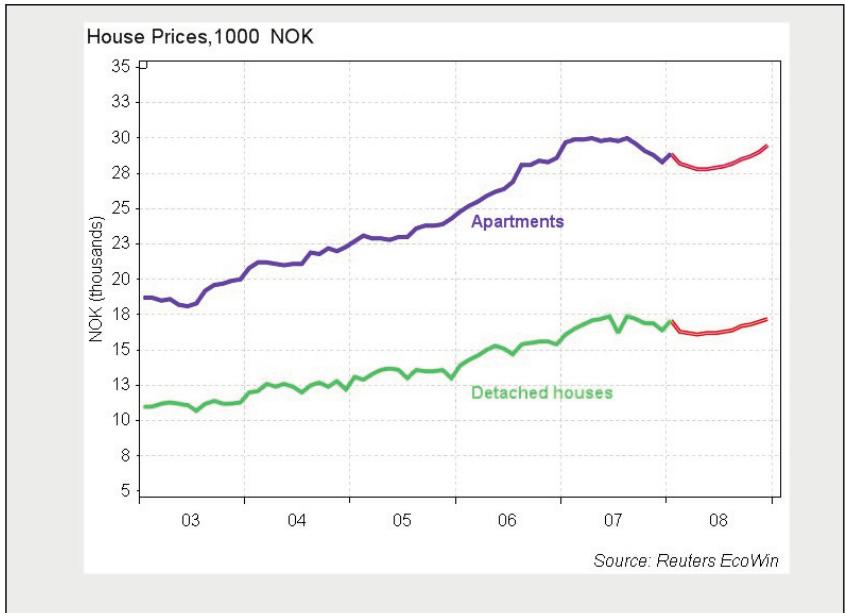
Investment in building and construction is forecast to grow by 1.5% in 2008, compared with just under 3% in 2007. Most probably this modest growth will also continue in 2009, but the outlook is for higher growth from 2010 to 2012. The prospect of lower interest rates and improvement in the international economy will also help to spur new growth.

- Housing investment is expected to fall by about 2.5%. The level of housing production is still high. Reduced housing investment is forecast for both 2009 and 2010, but with the prospect of new growth from 2011.
- The growth in investment in non-residential buildings will continue during 2008 in both the private and public sectors. Growth rates will probably ease off towards 2012, but remain positive during the period. This especially applies to the large reconstruction work on existing non-residential buildings which will help to keep the level of investment up, while new project starts in non-residential buildings will likely decline.
- There are strong growth prospects for construction investment until 2010. This applies to road, railway and energy projects. The newly proposed National Transport plan (Nasjonal Transportplan) 2010 – 2020 indicates modest growth in new construction, but with greater emphasis on repair and maintenance of the existing road and railway networks. Which of these ambitions are transformed into activity will probably be determined on a political level in the years ahead.
- There are strong growth prospects in repair and maintenance of buildings and plants. This is especially applicable to current infrastructure constructions. As mentioned, the newly presented transport plan strongly emphasises raising the standards of roads and railways.

## Growth in house prices during 2008 of about 4% for the country as a whole

### House prices

The decline in house prices became more dramatic in the second half of 2007 following a weak increase in the first six months. Compared with December 2006, the average prices of flats remain little changed one year later in December 2007. From December last year to January this year the prices of existing homes in Oslo rose by a little under 3%. Nationwide there was a slight weakening in house prices if one takes into account the effects of seasonal variations.



Latest data from January 2008

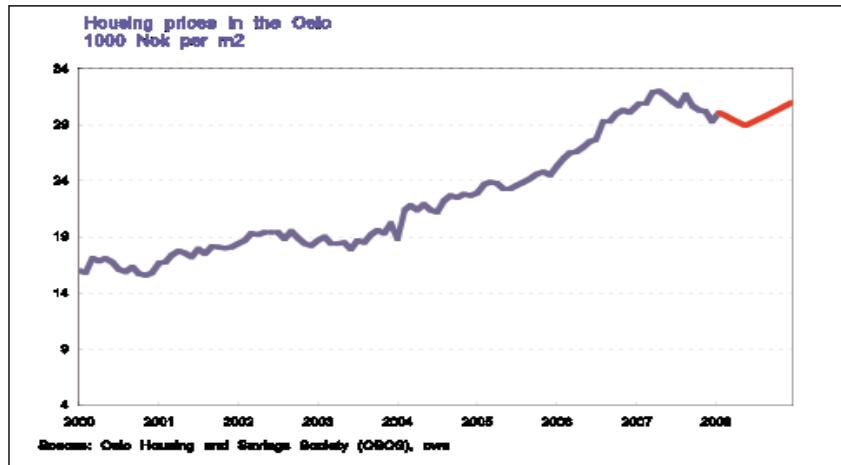
The factors which contribute to determining housing prices in the future are expected to develop as follows:

- Strong real wage growth of about 4% and prospects for reasonably high consumption
- The prospect that interest rates have now peaked and the possibility of lower interest rates in the future
- Unemployment at an historically low level and continued high employment
- Continued robust population growth and substantial migration towards central regions will contribute to continued high demand for houses

While the following factors are pulling the prices downwards:

- The supply of new homes will remain high through 2008 as a result of the elevated level of house building over an extended period
- Stock market turbulence and weaker international economies can lead to home buyers becoming more pessimistic and cautious

We are forecasting that the average price of flats will experience a further downturn in the run up to summer and thereafter rise slowly. This will result in an increase of 4% for the year from December 2007 to December 2008. Flats will fall by 4% from 2007 to 2008.



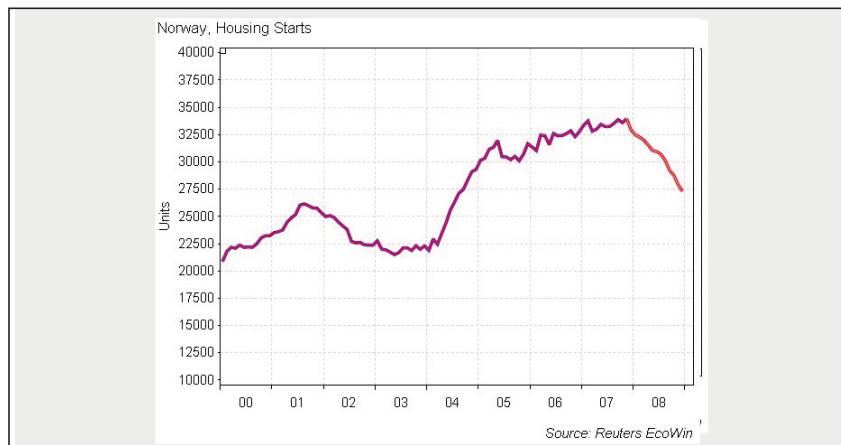
Latest data from January 2008

### **OBOS prices probably rising by 3% for the year**

The sales prices of OBOS homes followed a much weaker development in 2007 than we had assumed. The data for January shows some growth from December. We think that prices will decline further in the months up to spring before bottoming out and rising again. Growth rates of 3% are forecast from January this year to January the next year.

### **Housing starts**

House building remained buoyant throughout 2007 and the number of housing starts can reach 32,000. This exceeds the level for 2006. The growth in house building came from Akershus, Buskerud, Vestfold and Hordaland counties, while Oslo had fewer housing starts than in 2006.



Latest data from January 2008

### **28,000 housing starts in 2008**

We are assuming a much lower level of house building in 2008, with an annual rate of housing starts at the end of the year totalling about 28,000 units. We have previously estimated that a "natural" level of house building over the long run would be around 25,000 units per year to match the forecast population growth and migration patterns. The current reduction can be seen as an adjustment to this level.

### **Non-residential building starts**

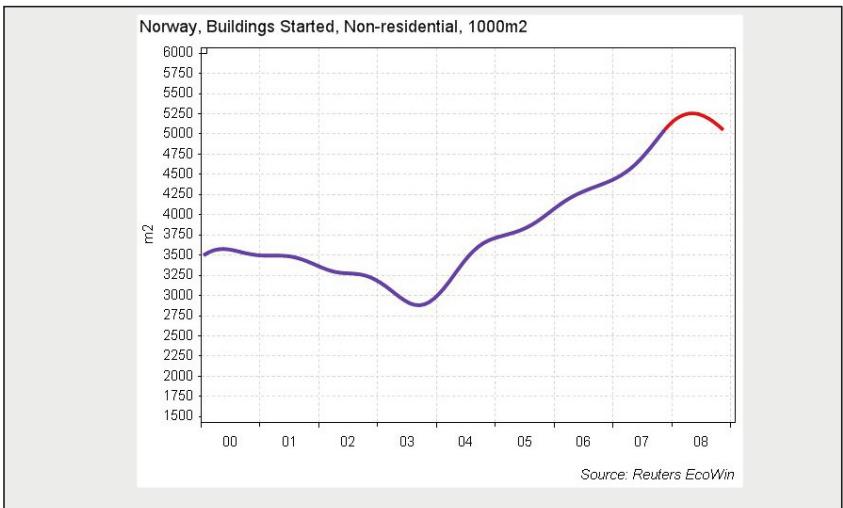
Non-residential building starts increased by almost 20% from November 2006 to November 2007.

From January 2007 to November, commercial building projects totalling 4.1 million square metres were started, an increase of 26% above a record-high level in 2006. In addition, 1.3 million square metres of garages and recreational buildings were started which are not included in the definition of commercial buildings. The largest increase was in transport and communication buildings, while the category of buildings for commercial trade (for example shopping centres) is still the largest.

## Non-residential building starts at a high and stable level in 2008 as well

We forecast that the development in 2008 will be as follows:

- Within office buildings we anticipate a slight reduction in new buildings
- Commercial buildings will probably continue on a path of sluggish growth assuming continued favourable economic development and real wage growth (+4%)
- Continued growth in transport and communication buildings
- For health care buildings and educational buildings, we expect the high level of current activity to continue. However, garages and recreational buildings will continue to decline somewhat in 2008.



Latest data from November 2007

Therefore we are assuming continued growth in non-residential building starts until summer 2008, followed by a slowly declining number of commencements.

Annual growth in building costs of 6% during 2007



## Probable rise in building costs of 5 – 6% in 2008

Building costs have soared during 2007. The annual price increase has been about 6% for blocks of flats. This growth is principally due to the sharp increase in material prices of about 9%. Towards the end of the year the rise in material prices abated somewhat. Reduced pressure in the building and construction market can help to stem the rise in building costs. An expected rise in wage costs is creating pressure in the opposite direction. The prices of imported goods can also increase somewhat. It can be difficult to predict what the total effect of all these factors will be. As a whole, we think that the growth in building costs will remain at current levels throughout 2008.

## Denmark

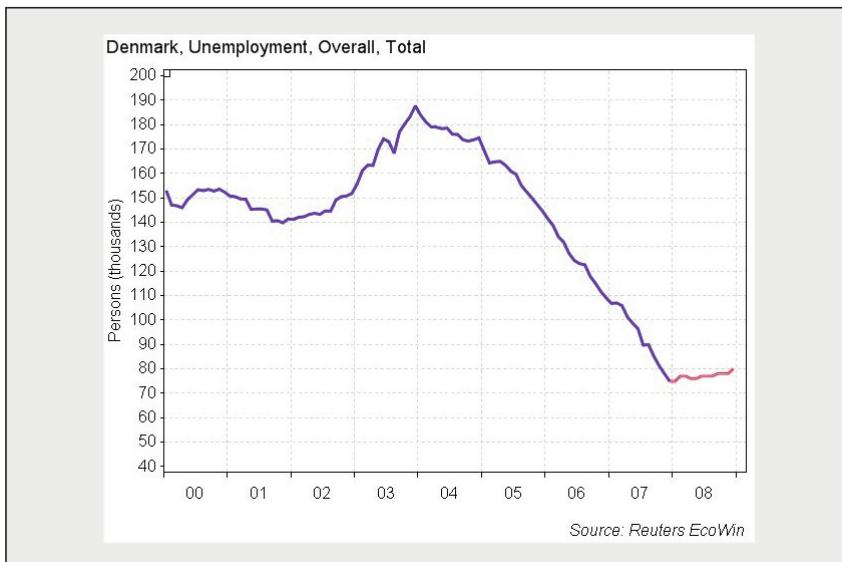
### GDP growth of 1.3% in 2008

#### Economic indicators for Denmark

GDP growth in 2008 is expected to be 1.3% which is a little under the growth in 2007 of 1.7%. The trend in 2007 of lower growth in private and public consumption, reduced growth in investment and more modest export growth is expected to continue in 2008.

However the stage is set for the Danish economy to experience a "soft landing" during the next two years. The risk is principally related to developments in the international economy which can result in further reductions in consumption and exports. We must expect to see a tighter financial policy in Denmark during the next few years to prevent the economy from overheating.

Unemployment continued its downward trend throughout 2007 and ended considerably lower than forecast. Unemployment is now at a similar level to what it was in the early 1970s.

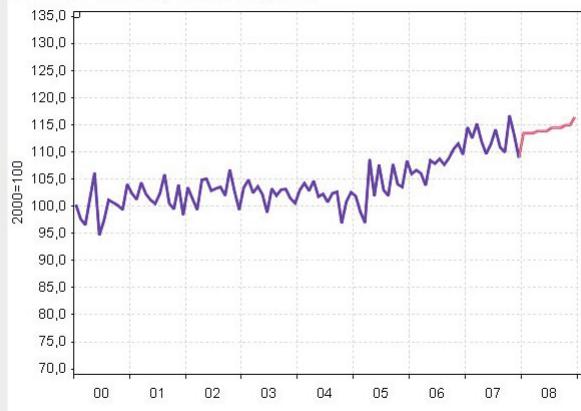


#### ***Unemployment has probably fallen as far as it can go***

In line with the weaker business cycle this year, unemployment is expected to increase again during the course of the year. In addition, the low level of productivity growth we have seen in the last few years will start to negatively impact a number of companies' earnings. This may also raise unemployment rates. We are forecasting a modest increase based on the assumption that many of the unemployed are foreign workers who would not report themselves as being unemployed and would travel back to other countries instead.

Industrial production in Denmark has grown by about 1.5% in 2007. Sluggish growth is expected to continue at around 2% in 2008, as a result of reduced exports and somewhat lower domestic demand.

Denmark: Production, Total industry, Index

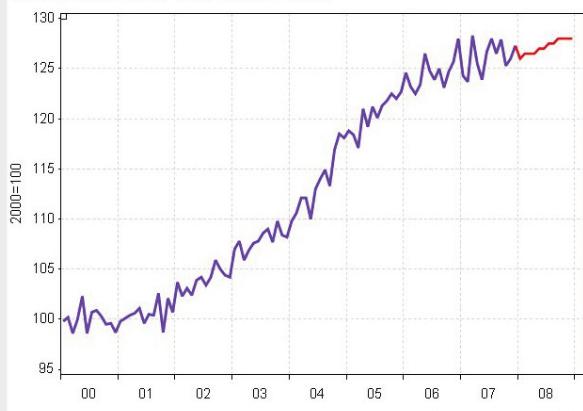


Source: Reuters EcoWin

Latest data from November 2007

### Weaker growth in retail sales in Denmark

Denmark Retail Sales, Total, Constant Prices



Source: Reuters EcoWin

Latest data from November 2007

Retail sales (exl. cars) grew by about 2% in 2007 which was lower than our forecast for 2007. We think that retail sales growth will remain low in 2008 (3%).

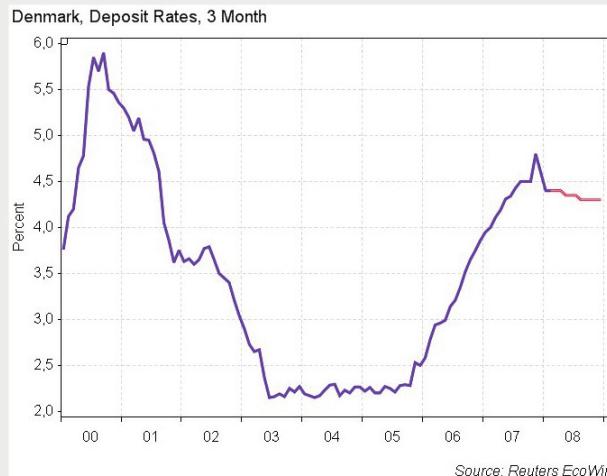
Inflation jumped in the latter half of 2007 and the current annualised inflation rate is about 2.5%. Food and energy prices played a significant role in this increase. Throughout 2008 energy prices are expected to have less impact on inflation, whereas prices of domestic products in combination with high wage growth will help to keep inflation at between 2 and 2.5% through the year.

Denmark, Consumer Prices



Source: Reuters EcoWin

Interest rates in Denmark largely follow European interest rates, but with 25 basis points difference. During the last few years this difference has remained constant except at the end of 2007 when the money market rate in Denmark fell. Last year the Danish Krone weakened somewhat and the central bank intervened in an attempt to strengthen the Krone, but without success. During the coming year, the central bank, is expected to try to maintain the 25 basis point interest rate difference against the European Central Bank. Market interest rates in Denmark have historically been a little higher than euro zone rates.



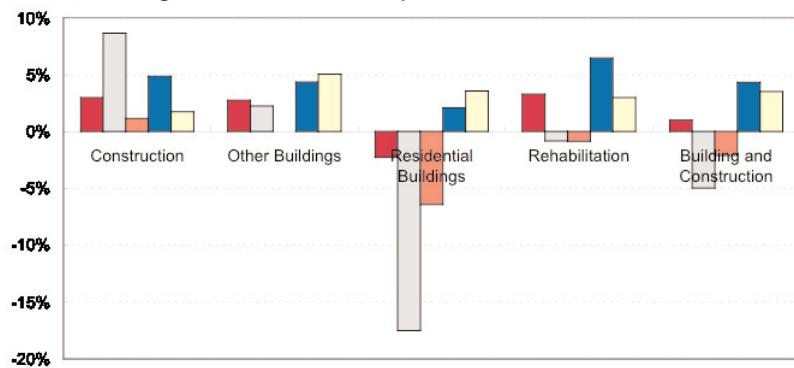
Latest data from January 2008

Money market interest rates are forecast to fall slightly during 2008

### The building and construction market

#### **Reduced building and construction activity in Denmark for the next two years**

Building and Construction Market, Denmark  
(annual growth in fixed 2005 prices)



The prospects for the building and construction market in Denmark look weaker now than we have previously seen, but with improvements in international business cycles and a better housing market from 2010, there is a good chance for new growth from the second half of 2010 onwards. However the decline must be seen in the light of several years of strong building and construction market activity which has contributed to the activity level at the end of 2007 being reasonably high. Employment in building and construction totalled 182,000 at the end of 2007, an historic high.

Housing investment is expected to fall sharply (-15%) in 2008, but again, this is from a high starting point. It is the reduction in the number of housing starts which is contributing to the fall, while investment in housing reconstruction will continue at a normal level.

## **Construction investment slowly rising**

### **Non-residential buildings**

Investment in non-residential buildings has been high for several years. Growth in 2008 will be around 3% and will mainly come from the private sector and from larger reconstruction projects in existing buildings. Public investments are expected to level off, but at a high level.



### **Construction**

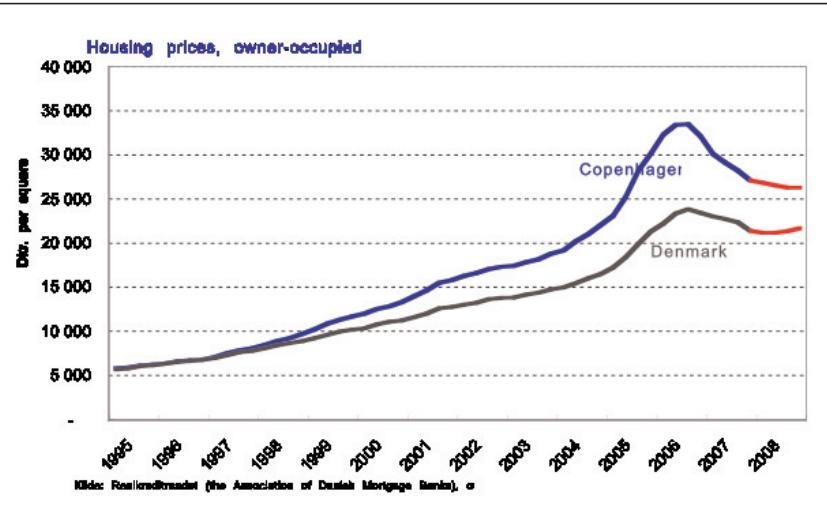
There are prospects of an improvement in construction investment in Denmark. An upturn is expected within environment, road and railways in particular.

As a whole, the figure shows that lower employment in building and construction is expected in Denmark for the next quarter. The expectations for lower employment are equally divided across building and construction.

### **Housing market**

Sales prices for houses continued to fall in 2007 as well and by the fourth quarter of 2007 prices in Copenhagen were around 15% below fourth quarter prices in the previous year. Nationwide prices dropped by about 8%. There is a lot of evidence that pessimism has gained a strong foothold in the market. The labour market is still tight with high employment, interest rates have risen a little but are still relatively low and real wage performance has been very good in 2007 as well. There are strong indications that migration to the cities remains strong.

## **Continued weak housing market in Copenhagen**

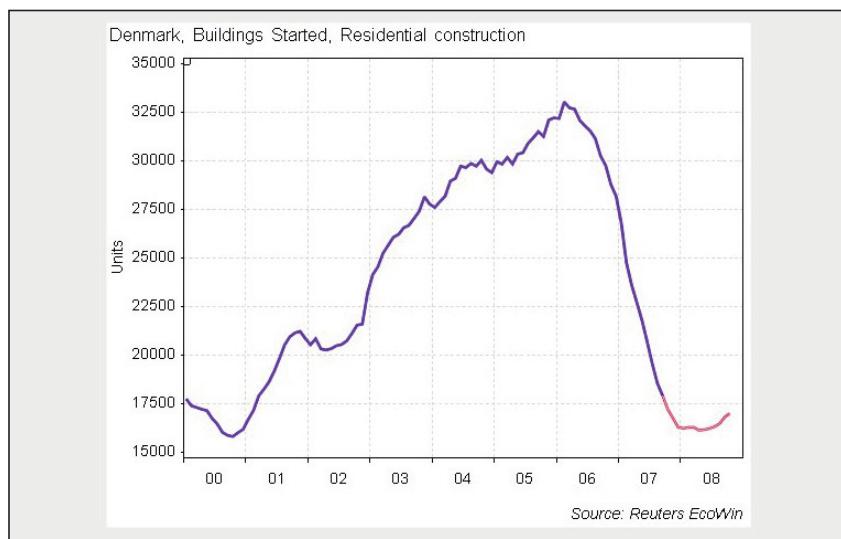


Latest data from 4th quarter 2007

## **Decline in house building in 2008, 19,000 starts, but slow growth thereafter**

Therefore it is difficult to predict future price development. The real economic conditions connected to production, consumption and unemployment will probably weaken a little in 2008, but without the likelihood of a recession. Lending rates can drop a little and prevent further price falls. There is also the prospect of good wage performance. The supply of new houses will gradually decline throughout 2008 as a consequence of the reduced house building during 2007. Best case, this ought to lead to prices starting to bottom out and from the beginning of 2009 the housing market can experience new growth.

House building performed roughly as expected during 2007 with about 23,000 starts, our estimate was for 26,000.



Latest data from October 2007

Building activity will slowly fall during the first half of 2008. Total commencements for 2008 will be 18,000 units, but with the chance of slightly higher activity in 2009.

## Sweden

### Economic indicators for Sweden

Swedish economic performance was weaker than anticipated in the second half of 2007. GDP growth in 2007 probably ended at 2.7 - 2.9%, down slightly from 4.1% the previous year. The decline is evenly distributed across all components.

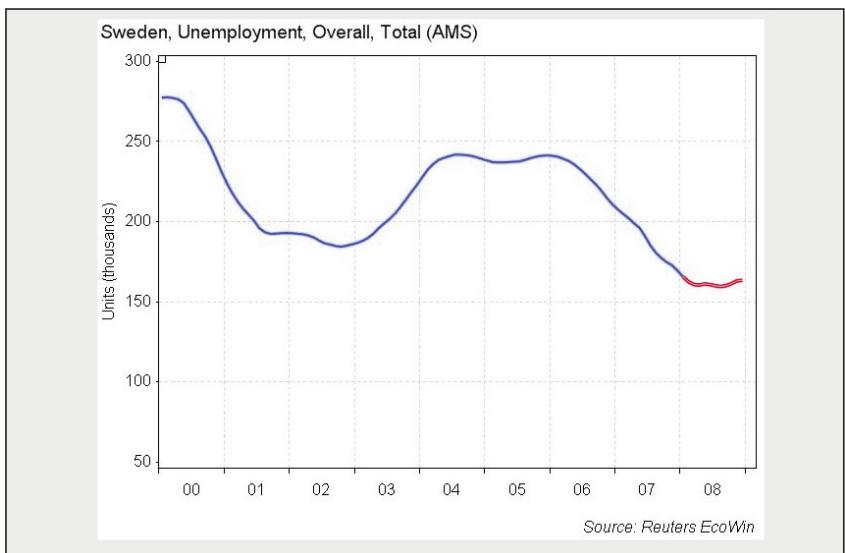
#### **GDP growth of 2.5% in 2008**

The slowdown in the Swedish economy occurred more quickly than the majority had expected. The key figures so far indicate an additional slowdown in early 2008. In particular, the adverse effects from production are having an affect on growth. Gross investments have risen by an average of 8% per year during the last few years. There is reason to believe that the growth will be much lower this year (4-5%). Export performance will also play a key role in the development for 2008. On the basis of the forecasts for the Swedish economy, export growth will probably be about 3%.

The risk factors are the performance of the U.S. and the euro zone countries. If the growth prospects here are further weakened, then will probably be forced to use interest rates earlier than forecast. However the dilemma for is to take account of rising domestic inflation as well as possible decline in the international economy.

#### **Continued low unemployment in 2008**

Unemployment fell during the whole of 2007 in line with our forecasts, and employment growth has been stable throughout the whole year. However the tight labour market led to powerful wage growth in 2007, through the negotiated wage agreement. Wage growth in the future can be between 4.5 and 5% per year. Even if the prospects for growth are weaker than before, corporate earnings remain strong, unemployment remains modest, wage drift will increase and total wage payments for 2008 will be favourable.

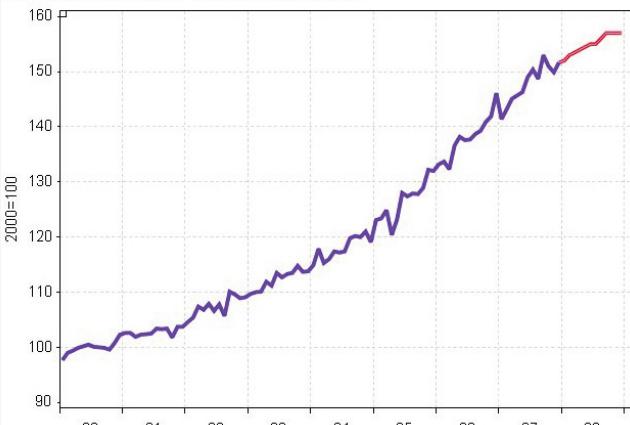


Latest data from December 2007

#### **High consumption and strong retail sales in 2007**

Expectations of high wage growth are the main rationale for continued high consumption in 2008. Private consumption rose in Sweden by about 3.5% in 2007. However inflation has risen and is currently at an annual rate of 3.5%. If this continues in 2008, interest rates may rise more than expected, give reduced real wage growth and therefore lower consumption. We are expecting growth in retail sales of about 5% in 2007.

### Sweden, Retail Sales, Total, Constant Price



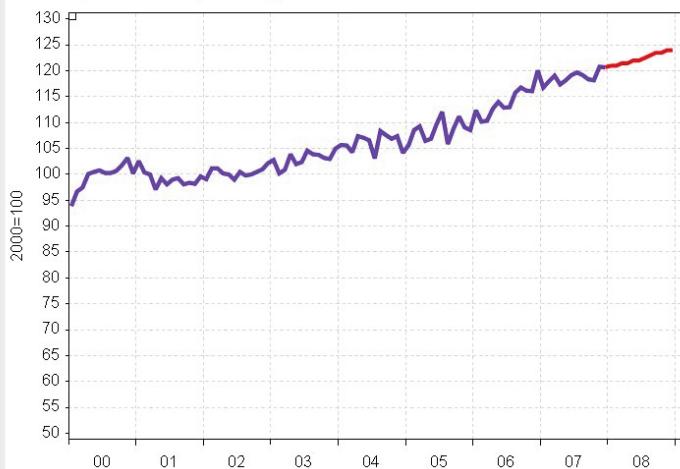
Source: Reuters EcoWin

Latest data from December 2007

### **Industrial production up 3% in 2008**

Industrial production in Sweden increased by about 4% in 2007 which corresponds with our forecast at the start of the year. However month to month variations are relatively large, which makes it more difficult to accurately interpret the underlying trend. In keeping with the favourable export performance and Swedish companies' competitiveness, there is reason to believe that industrial production will increase at a slightly lower rate than it did during the previous year.

### Sweden, Production by Industry Index

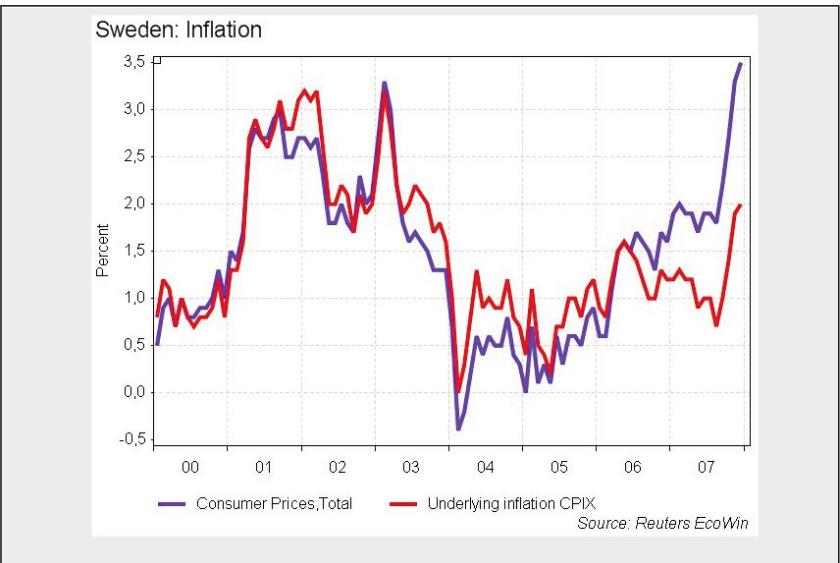


Source: Reuters EcoWin

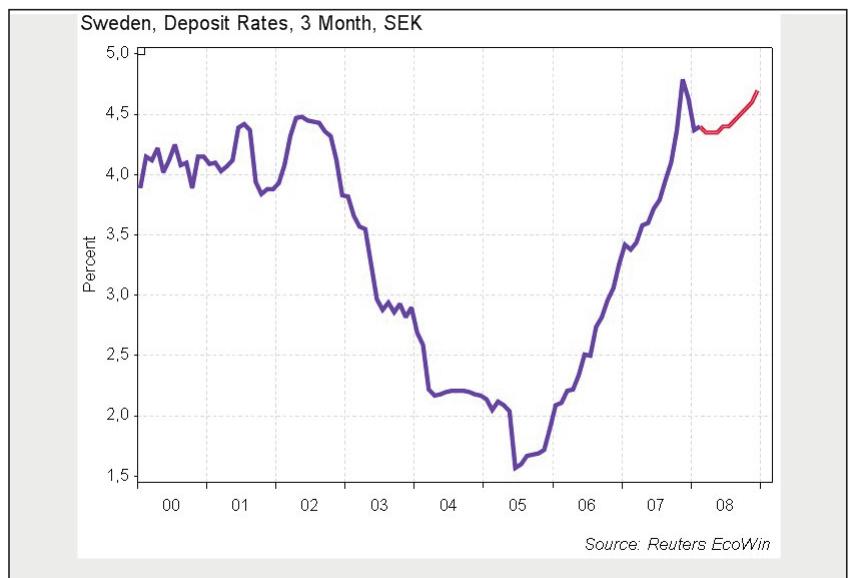
Latest data from December 2007

### **Rising inflation and interest rate hikes for Sweden in 2008**

Wage agreements contributed to higher wage growth than anticipated. This factor in combination with high growth in employment and increased prices on imported goods has resulted in a significant increase in inflation which currently stands at about 3.5% (annualised rate). Inflation adjusted for duties and rent (KPIX) is presently at 2%, somewhat higher than has relied on when establishing interest rates.



The key policy rate is currently at 4% following four increases of 0.25 percentage points in 2007. This level is about the level which has previously defined as neutral. The present dilemma is the high inflation and weaker prospects due to the business cycle. Wage drift in Sweden will be a key factor this year in determining interest rates in 2008. We assume that the key policy rate will be about 4.5% at the end of the year.

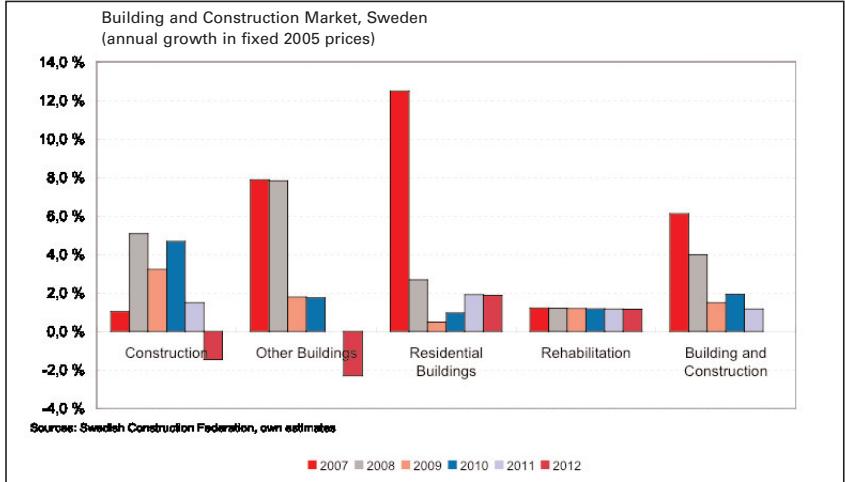


Latest data from January 2008

This can lead to an increasing market interest rate which reaches 4.75% at the end of the year.

## The building and construction market

### **Building and construction investment up 4% in 2008**



The growth in building and construction investment was 6% in 2007 which was in line with our forecast. The growth was especially strong in houses and non-residential buildings. The temperature in the building and construction market is expected to remain high during 2008. Housing investment had record growth in 2007 of 12%, but will decline somewhat from now onwards in accordance with the reduction in commencements in 2007. We think that the growth in investment in reconstruction and additions will remain strong and contribute to a positive growth in housing investment in 2008. We forecast the greatest growth to be in non-residential buildings.

The growth in non-residential building investment which started in 2005 continued in 2007 at which time the growth was about 8% and significantly exceeded our forecasts. There are several elements which have contributed to the growth. A strong rise in domestic demand has led to a surge in growth for commercial premises. Hotels have also experienced substantial growth. The regions surrounding Stockholm and Gothenburg are currently experiencing a surge in investment activity designed to increase hotel capacity. In addition, building investments made by industry are increasing by about 15% next year but from a low starting point. The processing and metal industry in particular is experiencing increased investment in 2008. One example of this is the petrochemical industry in Stenungsund and Lysekil which is investing the equivalent of billions of Norwegian Kroner.

The growth in public premises is expected to continue at a high rate even though the growth is expected to be a little lower than 2005 - 2007 rates. However the greatest growth is within health and health care buildings. Examples of specific projects include Karolinska Universitetssykehus in Solna and Centralsjukhuset in Karlstad.

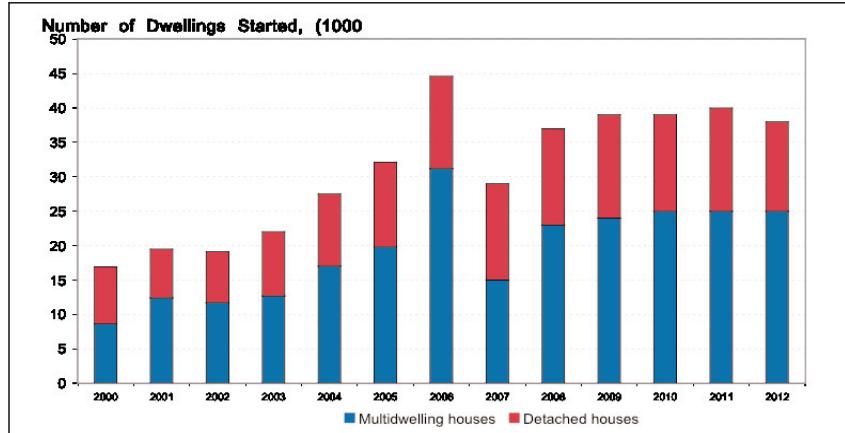
### **Some increase in private sector construction, public sector lags behind**

In total, growth in non-residential buildings in 2008 is expected to be about 8%. The growth will be much lower in 2009 and will stay low until 2012, but the activity level is still considered to be high.

Construction investments grew by 1% in 2007 and the growth was greatest in private construction, while public construction investment fell a little. In 2008 public sector investments are expected to increase and contribute to a total growth of about 5%. The strong growth in construction will probably be delayed. There are several large construction projects in progress at the moment, including Citytunnelen in Malmö, Haparandabanan and the railway Gothenburg – Trollhättan. The largest construction project in progress in Stockholm is the Norra länken.

## The housing market

The number of housing starts in 2007 will probably be just under 30,000 which is a reduction of about 35%. The reduction in blocks of flats is related to the abolition of the Government housing subsidies at the turn of 2006/2007. Continued strong household economies, demographic factors such as strong migration to regional growth centres and continued growth in employment will help to raise the level of commencements in blocks of flats in the future. We forecast 36,000 commencements in 2008, and this will increase to about 40,000 up to the year 2011. Flats in blocks will probably increase, while the number of residential houses will stay at 15,000 – 17,000 units.



If we look at the number of approved buildings then greater Stockholm is on an increasing trend, Gothenburg is on a declining trend while the level in Skåne remains unchanged.

Building costs jumped in 2007 and reached an annualised rate of 7%. The growth slowed somewhat in autumn and by the end of 2007 stood at 5.5%. The rise in material prices led to the cost increases. During 2008 costs will continue to grow at a high rate, between 5 and 6%.



## House prices

During autumn 2007 the sales prices of existing homes fell again, following 3 years of strong growth. The price fall must be seen as a consequence of the unrest in financial markets and the prospect of increasing interest rates in the future. Our forecast is that the "cooling" in the housing market will continue in 2008 and that prices will continue to fall. The extent of the fall will depend upon how the financial markets perform, the strength of domestic inflation and therefore the progression in interest rates.

However the development in sales prices will vary somewhat between different growth regions.

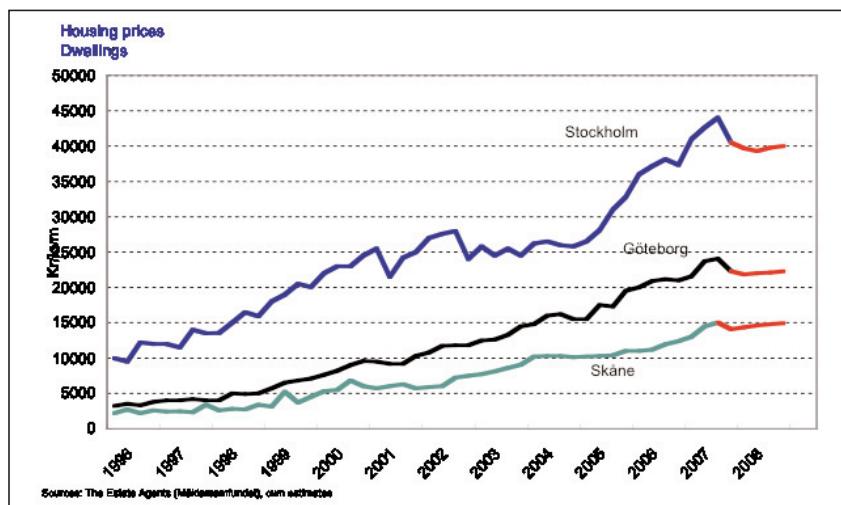
Our forecast for 2008 is built around the following elements which will pull prices up:

- Real wage growth of 2.5% and continued high employment levels
- Continued strong growth in the real economy (consumption, investment and production)
- Continued strength in household economies
- Migration to growth centres and demographic developments

Elements which put downward pressure on prices are:

- Financial market instability and stock market unrest
- Large supply of houses in the market
- Strong appreciation for several years

Based on the above, our general forecast for house prices is that they will fall during the first six months of the year and rise again during the second half of the year. Our forecast for each growth region is as follows:



Stockholm has had the strongest price growth in the last few years with annual growth rates reaching up to 30%. The prices increased by 9% from the 4th quarter 2006 to the same quarter in 2007, our forecast was for 11%. In the 4th quarter prices dropped sharply in Stockholm by about 9% compared with the previous quarter. Further downward adjustments are expected during the first half of 2008 but with the prospect of weak growth in the second half of the year. The downward adjustment is estimated to be -1% from 4th quarter 2007 to 4th quarter 2008.

In Skåne (Malmö) price performance was a little weaker than we expected in 2007 with a growth of 13% (our estimate was for 20%) during the year. In the 4th quarter we also had a downward correction in prices here of around 5%. Migration to the region is still strong and there is insufficient housing in the urban areas. The uncertainty for Skåne lies in to what extent the development in housing prices is affected by the weak housing market in greater Copenhagen. The demographic factors and growth in employment in the region indicate continued strong growth in housing prices. Our forecast is for significantly lower growth in 2008, of 6% from the 4th quarter 2007 to the same quarter 2008.

We welcome your points of view and comments.

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In Gothenburg prices rose by 6% in 2007, in line with our forecasts. Prices in this region also fell by around 10% in the 4th quarter alone, but this follows a period of strong growth. We are expecting approximately zero growth in this region during 2008.