



Economic Activity Report

FOR THE SCANDINAVIAN COUNTRIES

October 2007



New developments since June – highlights

Some unrest in the financial markets, but it will pass...

International economy

In the spring and summer, the decline in the US housing market worsened. Prices fell, housebuilding fell off and the number of dwellings sold plummeted. These problems triggered off quite dramatic situations in some parts of the financial market. The news that a number of home financing institutions, particularly in the US, were experiencing problems exacerbated the uncertainty. However, the consensus of opinion is that the problems are of a temporary nature and that they will have little impact on the real economy in Europe or Scandinavia.

The situation in the US housing market is more serious than previously believed and through lower household consumption it will contribute to a lower growth in GDP this year and next year. We must expect the situation in the US residential market to worsen somewhat before it gets better. We expect higher unemployment and lower consumption in the months to come and that the Federal Reserve will respond with one or two interest rate cuts before the economy stabilises.

In the second quarter, GDP growth in the Eurozone was lower than expected as a result of lower exports, particularly to the US. The strengthening of the EUR, combined with the lower growth rate in USA, will result in Eurozone exports declining even more. Despite falling unemployment figures, German households in particular continue to save and it is difficult to get consumption to pick up. The forecasted growth in European GDP assumes that savings will decline and consumption will pick up.

Scandinavia

In the Scandinavian countries, economic prospects continue to be good. However, capacity constraints, lower exports and production are expected to slow down growth somewhat in 2008 and 2009. We anticipate strong growth in wages and costs, with higher interest rates in 2008 as well as a result.

Norway

- Growth in GDP adjusted upwards for 2007 (5.5%)
- Interest levels up somewhat in the early autumn due to unrest in the financial market
- Housing construction gradually declining, but level is still high
- Construction costs rose 8% in September, cost of materials leading the way
- Housing prices have levelled out, somewhat lower than we had expected

Denmark

- Growth in GDP adjusted downwards for 2007
- Unemployment still declining, but are we seeing the low point?
- Private housing construction declining
- Housing prices continue to fall – now 6% lower than one year ago

Sweden

- Domestic demand stays high, but exports press GDP growth down
- Unemployment falls more than expected
- Housing construction and sales prices continue to rise
- Building and construction activity gradually picks up

Norway

The Norwegian economy continues its good growth, GDP up 5.5%, but increasing pressure on costs

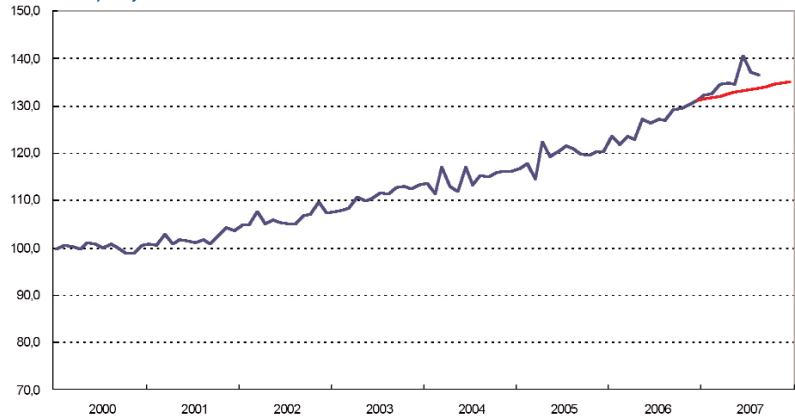
The Norwegian economy

After several years with high economic growth, the Norwegian economy continued to grow at the same rate in the first half of 2007. We must look back ten years to find the same growth rates. We expect that for the year as a whole growth in mainland Norway will be about 5.5%. There is growth across all demand components, but is strongest in private consumption. The State Budget that was presented in the autumn is regarded as slightly expansive and is expected to stimulate the Norwegian economy by 0.25 percentage points. In the current economic situation many of the players would have preferred to see a budget with more austerity measures.

Profitability in the business sector is still good and together with the tight labour market this has resulted in higher wage growth. The annual wage increase for 2007 is expected to be just under 6%, which together with low inflation means that real wage growth remains high.

Retail sales

Seasonally adjusted volume index 2000 = 100



Sources: Statistics Norway, own estimates

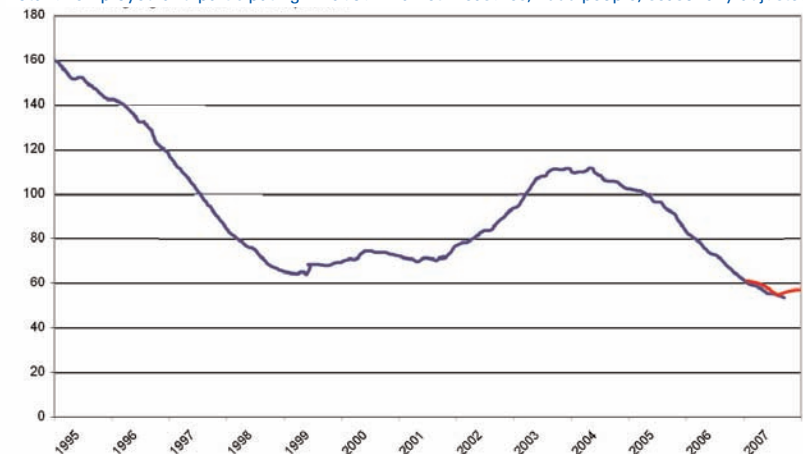
Latest observations August 2007

Retail sales somewhat higher than estimated

Growth in retail sales was at a record-high level in the first half of the year and considerably above our estimates. However, it fell somewhat in July and August, but retail turnover in August this year was 7.2% higher than the preceding year. Real wage growth will continue to stimulate household demand. We expect, therefore, that the growth will continue through the autumn and will be somewhat higher than our estimate for 2007.

Unemployment

Total unemployed and participating in labour market measures, 1000 people, seasonally adjusted



Sources: Norwegian Labour and Welfare Organisation, own estimates

Latest observations September 2007

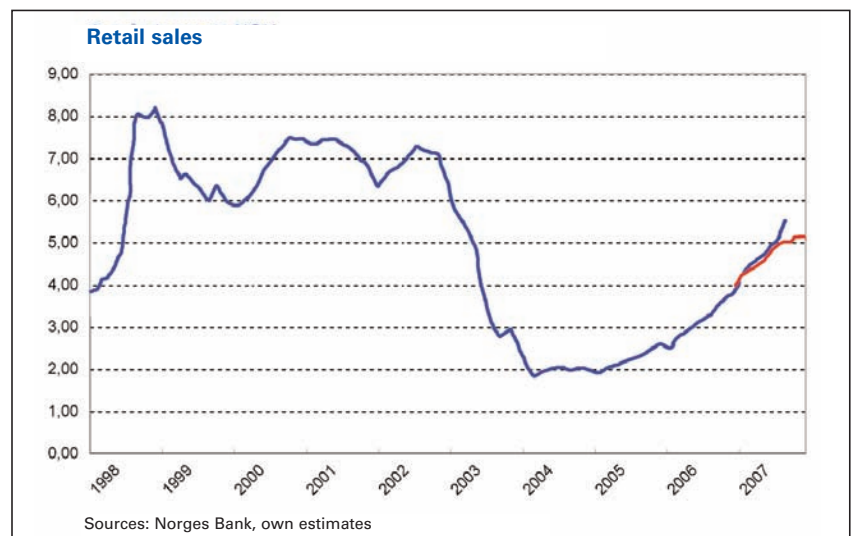
How far can unemployment fall?

Interest rates up more than expected because of financial market unrest

Unemployment continues to fall and is now lower than our assumptions for the year. Employment growth was strong in the first half of 2007. Unemployment was lowest in the counties of Rogaland and Sogn og Fjordane and highest in Oslo and Akershus. Since the summer the number of vacancies has been high and in September almost 50% more vacancies were advertised than one year earlier, indicating a further tightening of the labour market.

So far this year, market rates have risen more than expected as a result of the unrest in the financial market. Since July 2005, Norges Bank has raised the key policy rate from 1.75% to 5%. So far, the money market rate has followed the key rate with a mark-up of about 0.25 percentage points, and a little more when interest rates rise. In August and September however, the money market rate rose considerably more than the key rate and is now a good 0.5% higher than the key rate. This can be attributed to the recent unrest in the financial market.

The operational target for interest rate fixing is, as the reader will be aware, an inflation rate over time of 2.5%. It is currently about 1.6%. The high rise in productivity and falling import prices over the last few years have contributed to the low rise in prices. However, it is expected that inflation will pick up in 2008 as a result of higher food prices and rents, and that the underlying inflation will rise as a result of the economic pressure. This means that in 2008 we may experience an interest peak of 5.5 – 5.75%. A key question is how high the interest rate must be if it is to dampen private consumption and investments.



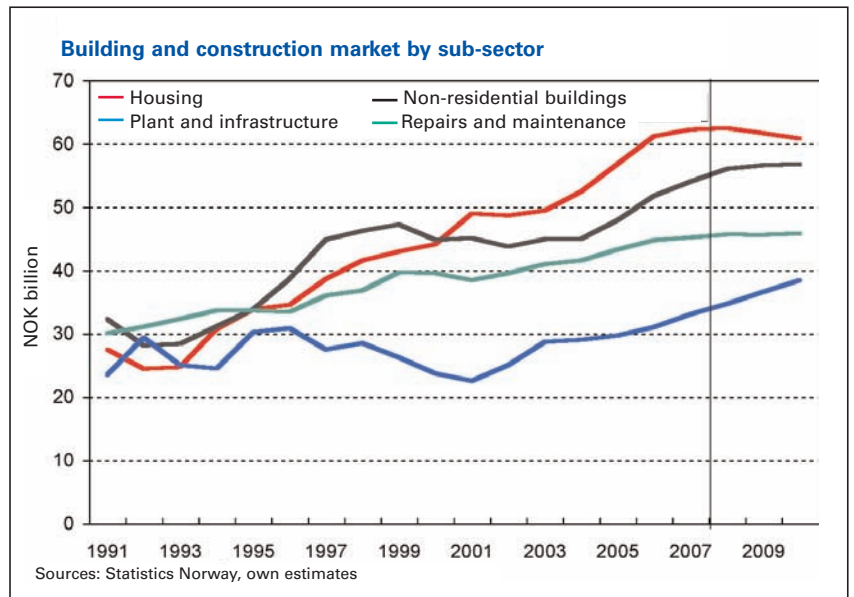
Latest observations September 2007

Good growth continues in the building and real-estate market but is expected to fall in the future.

Building and real-estate market

Building and construction market

Developments in the overall building and construction market are much as we anticipated at the beginning of the year. Building production is somewhat higher than expected in the first half of the year, but is now tending slightly down. Non-residential buildings remain at a high level while the growth in plant and infrastructure continues.



The main conclusions for 2007 and the period through to 2010 are:

- Investments in housing will probably turn in the course of 2008 as a result of the decline in construction starts and smaller houses that are started
- Investments in non-residential buildings continue and will probably stay at a high level for two-three more years. We are still seeing growth in both private and public building. In the somewhat longer term we must expect the level of activity in the public sector to level out, while private building activity will grow some.
- Investments in plant and infrastructure etc. will continue to rise during the whole period. The State Budget implies a 4-5% rise in roads and railway in 2008. In addition, the growth in power stations and industrial plant continues.

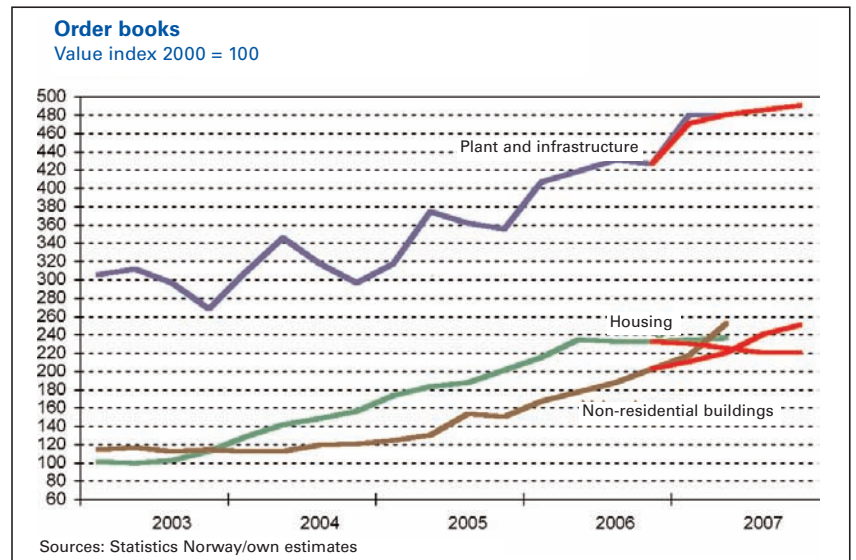
This results in a high level of activity in all sectors of the building and construction market for the entire period under review.

Building costs

Building costs continue to rise at an increasing rate. For all housing, the annual growth in building costs was a good 8% in September compared to September last year. Costs of detached houses rose most, more than 9%, while the growth for blocks of flats was 6.3%. The cost of building materials in particular forced total building costs up. In September of this year, the cost growth was about 12%. However, these figures do not take into account the total rise in wages, they include only the negotiated increase. This means that the real rise in costs is considerably higher. Furthermore, standard adjustments and productivity changes are not registered in the figures. This means that we must add a few percentage points to arrive at the real increase in costs.

Strong order books for building and construction

The development in building and construction order books so far this year is as we expected. In the case of housing, it levelled off in the second quarter of the year, indicating that the growth in house-building is coming to a halt at a high level. In the case of non-residential construction order books have continued to swell, which is consistent with other indicators. Order books for plant and infrastructure levelled off in the second quarter after having risen sharply in the first quarter. This is hardly a sign of weaker plant construction activity; it is rather a matter of when major projects are recorded in the order books.

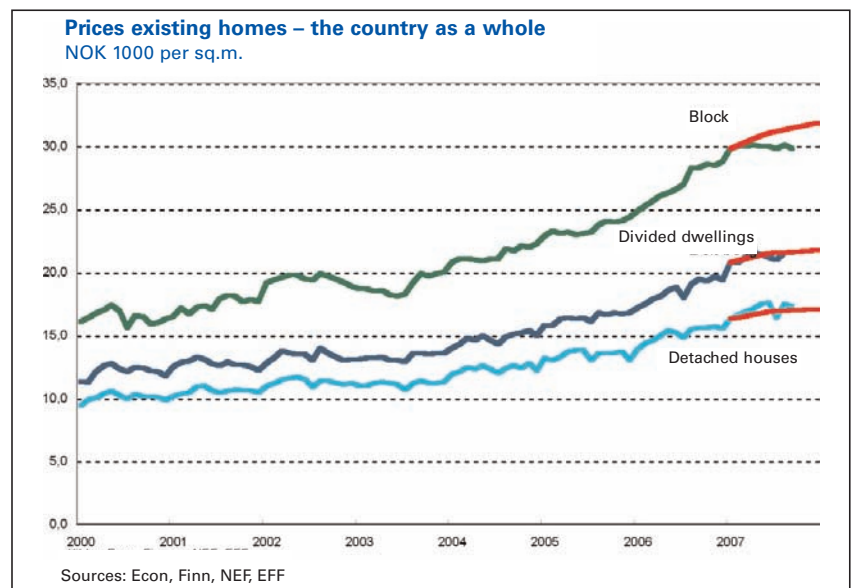


Latest observations second quarter 2007

Housing prices

***Zero growth in housing prices
this year***

We now see a clear trend toward a weaker housing market in the summer compared to the strong growth rates we have experienced over the last few years. For the country as a whole, prices for flats in blocks were unchanged from January to September this year. Compared to September 2006 the price of flats has risen by 5.3%. For detached houses and terraced houses the rise in price was more "normal" at an annual rate of a just over 10%.

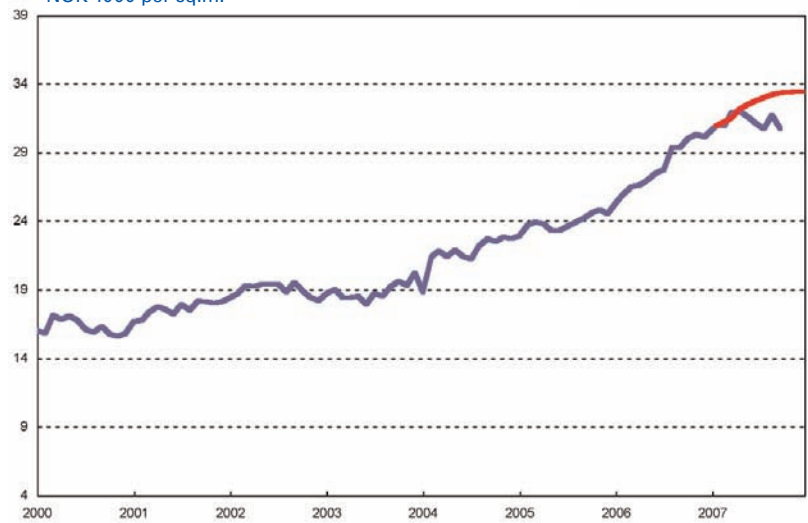


Latest observations September 2007

***Housing prices in Oslo –
the region is not increasing
any more***

This would indicate that it is apartments in blocks of flats that are currently stable, while demand for detached houses and terraced houses continues to grow.

Prices existing homes in Oslo (OBOS)
NOK 1000 per sq.m.



Latest observations September 2007

Also prices of dwellings affiliated with the Oslo Housing and Savings Society (OBOS) showed a drop of a good 3% compared to August, whilst the growth for the year is 5%. So far this year, prices have risen by 2%. This performance is somewhat weaker than our estimates for 2007. However, there are few signs of any sharp decline in the market. The number of sales remains at a high level, but it is taking a little longer to sell dwellings now than was the case earlier.

To summarise, the situation would seem to be as follows: Interest rate hikes and financial market unrest have contributed to greater prudence on the part of home buyers. This caution results in lower expectations regarding increases in housing prices in the future and the buyers' own ability to service housing loans. House buyers want to sell their current homes before buying new ones. This results in a large number of houses coming onto the market, dampening prices. In addition, new housing starts have been high over the last couple of years, in the region of 35 000 dwellings. Supply of both existing and new dwellings has therefore been high in the last year.

The economic foundation helps keep price growth up, but psychological factors can pull it down in the short term

What do we expect of the housing market in the future?

In the short term, i.e. within a year, the uncertainty surrounding interest rate developments and the continued high level of supply of existing and new dwellings will result in housing prices levelling off and in some parts of the market falling.

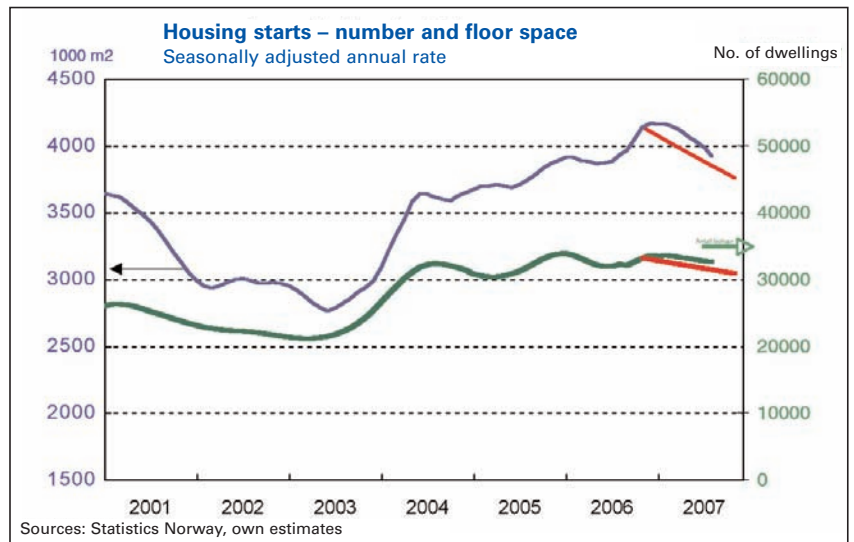
In the two to five year term, price growth will be in the 3-6% range, based on the following arguments:

- Continued high real wage growth and low unemployment
- Seen in isolation, net growth in population and expected continued migration to cities and towns indicate housing construction corresponding to about 25 000 per year
- The interest level stabilises at about 5% and greater predictability of one's own ability to pay

Housebuilding gradually declining

Construction starts

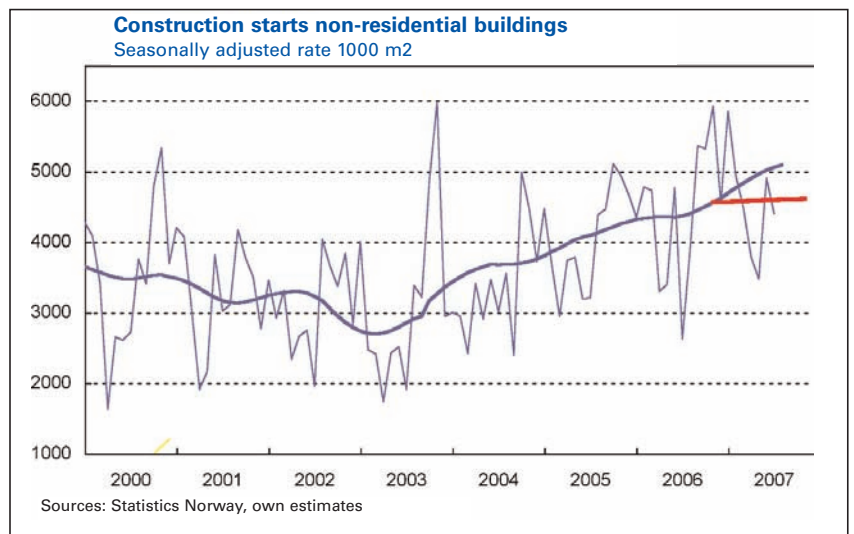
Following a significant growth in housebuilding in the first quarter of this year, the trend has shifted and both the number of construction starts and the number of square metres in dwellings are now declining in line with our predictions. The number of housing starts measured as an annual rate was down to 32 000 in August. Growth is still strongest in Oslo and Akershus but also other south-eastern counties such as Buskerud and Vestfold report a growth in housing construction. We expect the trend toward lower housing construction to continue, in line with our forecasts.



Latest observations August 2007

Strong growth in non-residential buildings continues

Construction starts on non-residential buildings show a much stronger growth than anticipated. The annual growth rate is now in excess of 16% compared to 5% in our assumptions, and so far this year growth is 10%. Growth is particularly strong in Rogaland, Hordaland and Akershus, while in Oslo construction starts have been somewhat lower than they were one year ago. Non-residential buildings can also face problems due to rising building costs, and capacity restraints in the execution phase may result in lower construction starts for the rest of the year.



Latest observations August 2007

Denmark

***Somewhat lower growth in GDP
in Denmark in 2007***

***Decline in unemployment
continues***

Danish economic indicators

The tendency towards lower growth in domestic demand in Denmark that we saw at the end of 2006 continued in the first half of 2007. The growth in GDP seems to have fallen to about 1.5% in 2007 compared to 2% in our previous forecast. The decline in the housing market, combined with higher interest rates, has put a damper on consumption and private investments. Furthermore, the tight labour market has resulted in a high rise in hourly wages, in excess of 4%. This has weakened the competitive position for Danish exports.

Unemployment continued to fall during the summer even though growth prospects have been dampened somewhat. Employment has continued to increase. At the same time, growth in production has declined slightly, resulting in lower productivity performance during the last year. We now expect to see that the bottom has been reached in unemployment and to see a flattening out during the autumn.

Unemployment, Denmark

Total unemployed and participating in labour market measures, in 1000s, seasonally adjusted



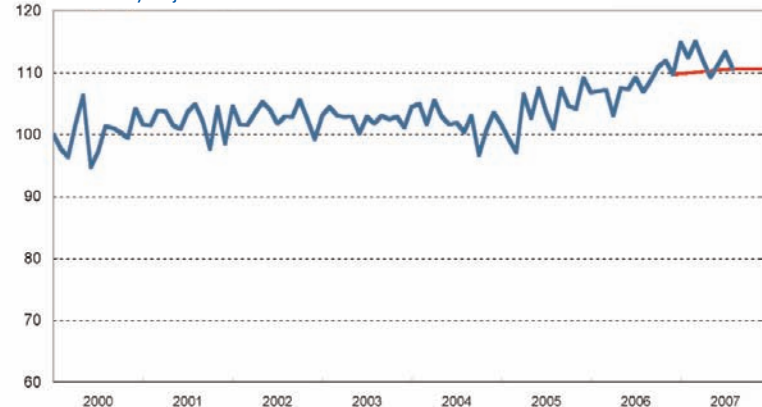
Sources: AMS, own estimates

Latest observations August 2007

***As expected, industrial production
develops weakly***

Industrial production Denmark

Seasonally adjusted volume index 2000=100

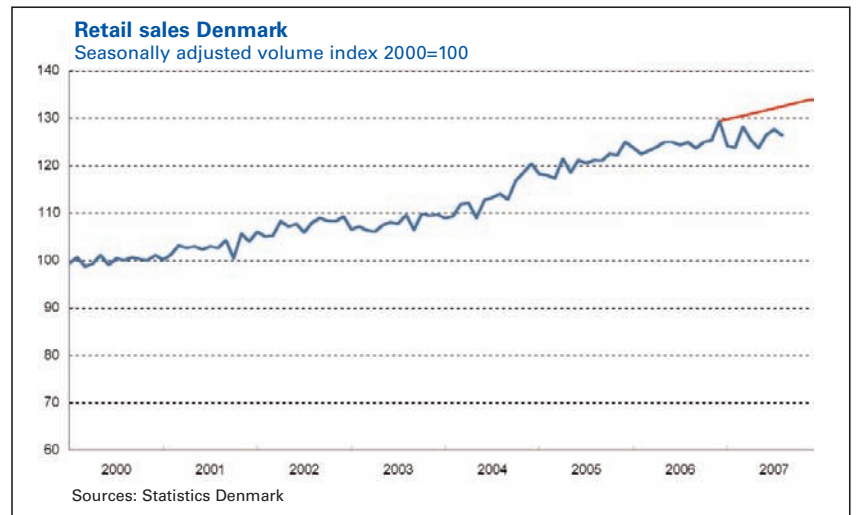


Sources: Statistics Denmark, own estimates

Latest observations August 2007

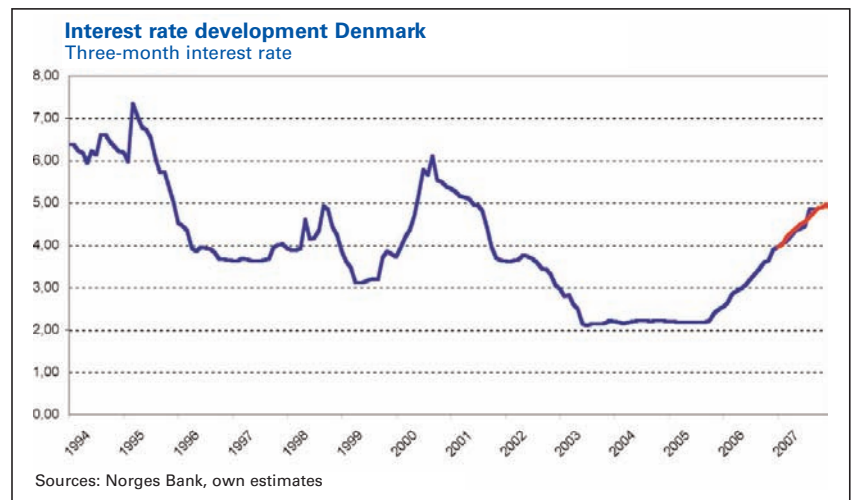
Industrial production so far this year has been about what was expected. Our forecast for the year was about 1%. The explanation is to be found in a combination of weaker exports, lower domestic demand and capacity problems. We expect a flat development during the autumn in line with our forecasts.

Flat development in retail sales



Latest observations August 2007

The development in retail sales confirms the picture of weaker domestic demand. Compared to December 2006, growth is negative. Interest rate hikes and the weaker housing market are probably the most important causes of this development in sales this year. The record-low unemployment level and the strong growth in real wages counteract this somewhat. Prospects of interest rates leveling out and an improvement in the housing market may contribute to new growth in domestic demand.



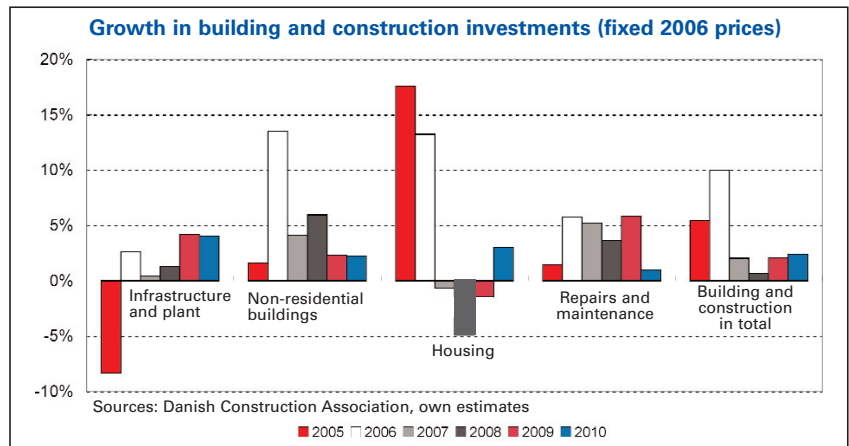
Latest observations September 2007

Interest rates develop much as expected, with strong growth

For the most part, Danish interest rates have moved in line with our forecasts for 2007. Over the last few months, due to the unrest in the financial market, interest rates have risen sharply. However, it would appear that the September level is back to where our estimates were.

The building and construction market

Some years with slower growth in building and construction investments



Decline in growth for building and construction in 2008

Building and construction activity peaks in 2007 with an expected growth of 2% from a high level in 2006. This growth rate will decline in 2008, but with prospects of slight growth (about 2%) in 2009 and 2010. Prospects are as follows for the various market segments:

Housing investments are expected to decline this year and next year. 30 000 construction starts are expected in 2007, falling by about 2000 dwellings to 28 000 construction starts in 2008. Most of the decline is in the private housing construction, while public housing construction will increase somewhat.

Investments in administration, manufacturing and commercial buildings are expected to continue to rise in the years to come, and this will result in the overall investments in non-residential building rising by a little less than 5% a year over the next 2-3 years.

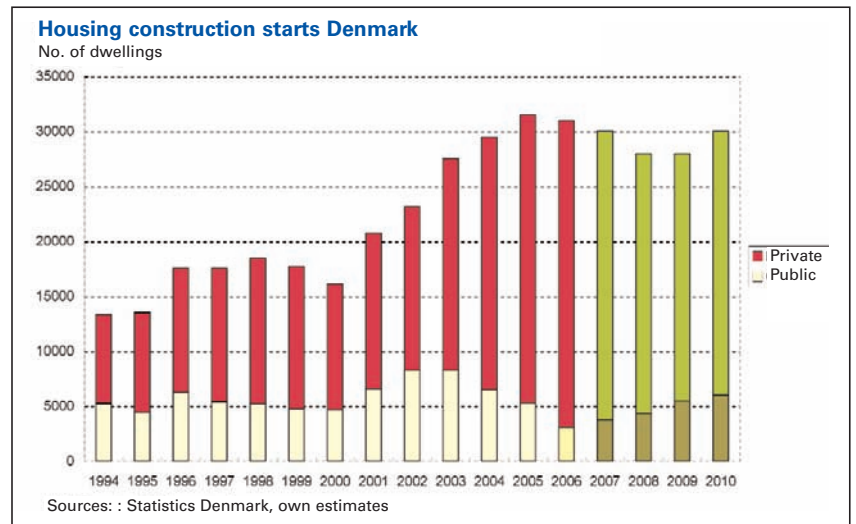
There is virtually no growth this year in investments in plant and infrastructure. However, there is a potential for growth from 2008. This is in railways and suburban lines, which will increase in 2008 (e.g. Copenhagen's metro system), and in the energy field where, for example, some offshore windmill projects will be started in 2008 and 2009. The level of road investments is expected to be unchanged in 2008 and 2009, but investments in the environment sector will remain high for some time to come.

Some decline in private housing construction

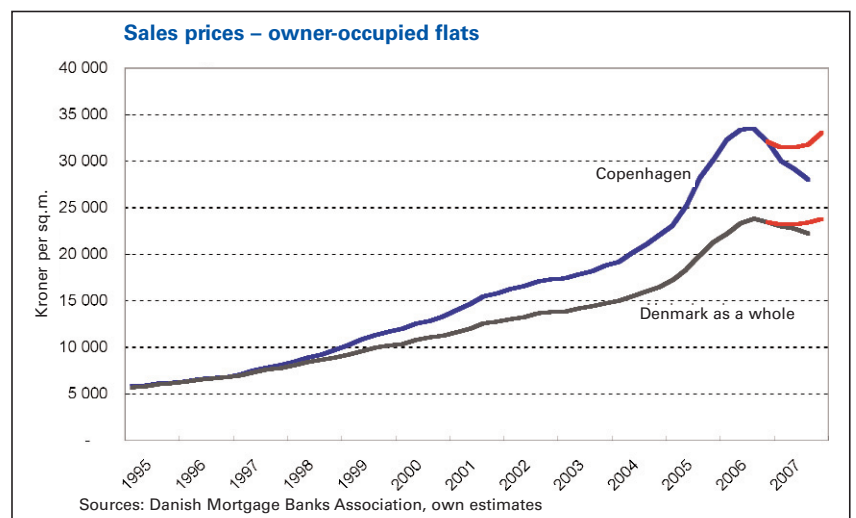
The housing market in more detail

After construction was started on roughly 31 000 dwellings in Denmark in 2005 and 2006, a decline in construction is expected in the next two years. This decline will particularly occur in private housing construction, while public housing construction will increase as a result of the municipal grants to public housing construction that were introduced on 1 January 2007. This has helped induce the municipalities to step up the construction start of planned projects. Therefore, we expect housing construction to decrease to 26 000 in 2009 and then increase somewhat again in 2010.

28 000 housing construction starts in 2007



Housing prices continue to fall in Denmark, and in particular in Copenhagen



Latest observations third quarter 2007

The price of owner-occupied flats in Denmark continues to fall. For Copenhagen, this amounts to a decline of about 16% compared with the third quarter of 2006 when prices were at their highest level. The country as a whole has seen a decline of 6% compared with the third quarter of 2006. The price of terraced houses rose by 3.6% compared to the same period last year. The number of flats sold in Copenhagen in the third quarter of this year was 25% lower than a year ago. The low rate of sales combined with a large number of owner-occupied flats for sale indicates that the decline in housing prices for this group has not yet come to an end. Therefore, we expect a further decline in the fourth quarter, but with prospects of a levelling off next year. The uncertainty in the coming months is how the increase in both the short and long-term interest rates together with the introduction of new types of bonds, so-called SDOs (covered bonds - a form of loan that is further liberalised with regard to its maturity) will affect the housing market.

Sweden

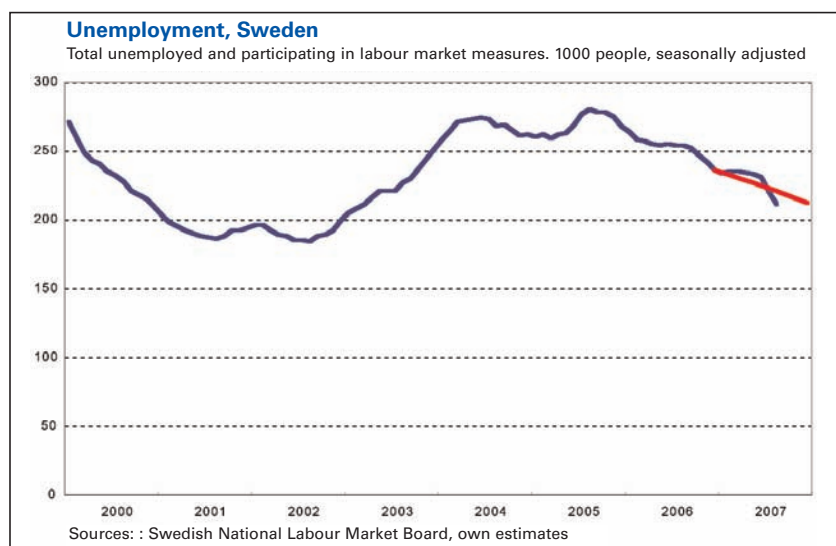
Compared to 2006, Sweden's growth in GDP is weaker

Swedish economic indicators

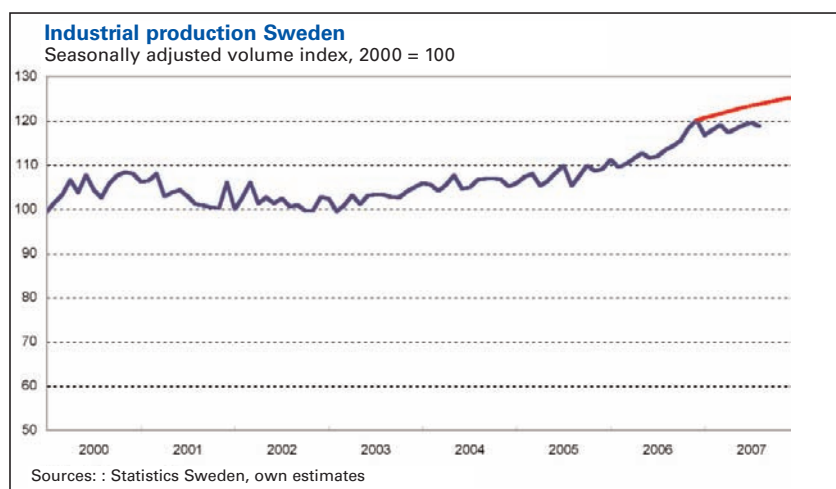
It is likely that GDP growth in Sweden in 2007 will be lower than in 2006. GDP is expected to grow by about 3.5% in 2007 compared to 4.3% in 2006. The main reason is weaker exports and domestic capacity problems. On the other hand, domestic demand will remain at its high level. Domestic investments are expected to be slightly higher in 2007 than in the preceding year. Households' disposable real income is expected to rise by 11% from 2006 to 2009, and this is an important contributor to maintaining the high level of domestic demand.

The labour market in Sweden is considerably tighter than the Riksbank and others assumed at the start of the year. The sharp cyclical upswing and the decline in productivity has resulted in the number of hours worked rising by 3% so far this year. This is the strongest growth since 1950. This has resulted in unemployment falling significantly so far this year. We also anticipate that unemployment will continue to fall during the remaining part of the year and will level off in the first half of 2008.

Unemployment down more than expected



Latest observations August 2007



Latest observations August 2007

Slower growth in industrial production than expected, less exported

Industrial production has shown a somewhat weaker trend than expected this year. This weakness is probably due to a great extent to declining exports. As of August, the annual growth rate was about 5%.

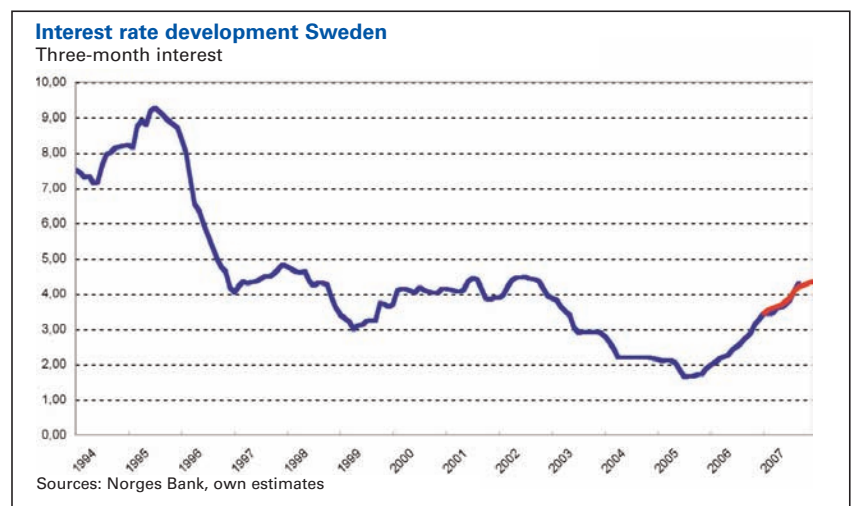
Retail sales increase less than expected



Latest observations August 2007

Retail sales so far this year have grown less than we anticipated at the beginning of the year. The financial position of households has improved considerably in the last year through higher wage increases, dividends and lower taxes. Savings have also been at a relatively high level in recent years. It is therefore expected that retail sales will increase during the autumn and on into 2008.

Market rates rise in line with expectations

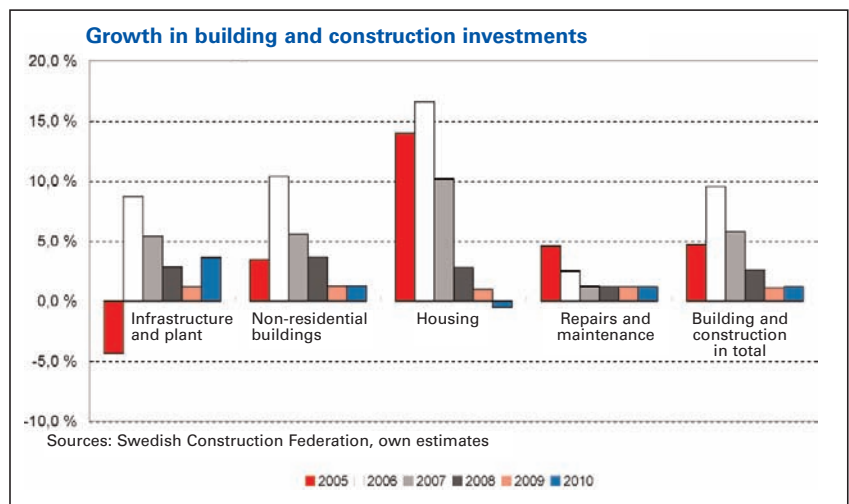


Latest observations September 2007

In 2007, market rates have developed as expected. The Swedish key rate is currently 3.75%. Uncertainty regarding rising inflation resulting from sharp growth in costs and pressure on the economy indicate two further interest rate hikes this year, so that the key rate will be 4.25% at the beginning of 2008. Further increases in the interest rate are expected in 2008 so that the key rate will be about 5% by the end of 2008.

Continued high, but decreasing growth in building and construction investment

Building and real estate market



The building and construction market in Sweden is expected to grow in the period up to 2010, but the growth rate will probably decrease as a result of rising interest rates and capacity problems. The growth rate is expected to be around 6% in 2007 and to decline to about 2% in 2010. Activity is expected to be high in all sectors.

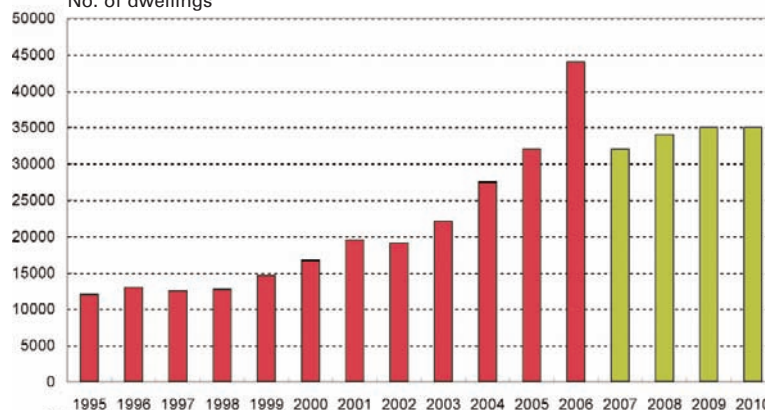
- The housing market is characterised by high demand, a high level of construction starts and growth in investment in alterations and additions. The growth rate this year will be in excess of 10%, but will decrease gradually through to 2010. However, the level of activity will be high throughout the period.
- Investments in non-residential building have increased as a result of much public sector construction and private investments in new premises. In the public sector the need for schools, university buildings and care service buildings dominate this growth. In the private sector, industry's demand for production facilities and buildings for trade have had a positive impact.
- Investments in construction will be positively affected by more funds for infrastructure and power plants. The Government's budget proposal indicates a shift from rail to road. This means a growth in road investments of about 5% per year in addition to increased maintenance of the road system. With regard to rail ways, there are currently a number of major projects underway, e.g. the CityTunnel in Malmö, the Ådal line, Hallandsås and the double track at Falkenberg. In the spring, the Government approved the start-up of the City line in Stockholm. In the private sector, increased emphasis on the energy sector will contribute to future growth.

More information on the housing market

Our previous estimation of 32 000 construction starts on dwellings in 2007 still applies. This is also a figure there is general agreement on in Sweden. However, there is uncertainty about how many construction starts will take place in 2008 and 2009. Our estimate of just under 35 000 is somewhat lower than most analysts are quoting. Strong growth in building costs and greater doubt surrounding interest rate developments and sales prices will increase the uncertainty and reduce the profitability of some housing projects. We believe that this will reduce the growth in housebuilding in the future. However, the number of construction starts will stay at about 35 000 units per year, which is high compared to the level we have seen over the last few years.

Construction starts on dwellings Sweden

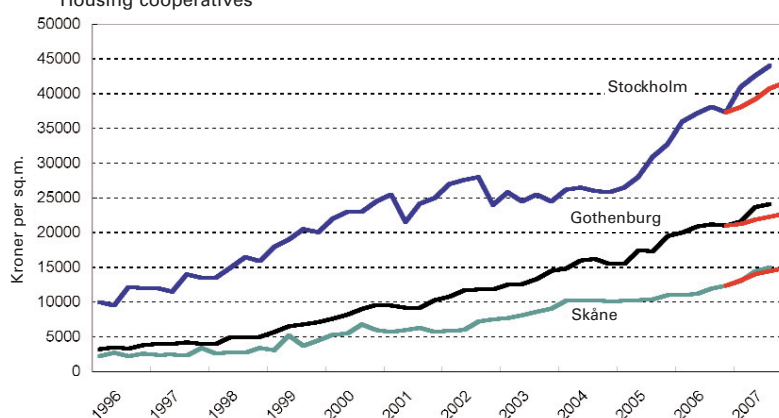
No. of dwellings



Sources: The National Board of Housing, Building and Planning, own estimates

Sales prices

Housing cooperatives



Sources: Association of Swedish Real Estate Agents, own estimates

Latest observations third quarter 2007

Housing prices in Stockholm rise by 15%

At the end of the third quarter, housing prices in Stockholm have risen considerably more than assumed in the prognoses. From the second quarter to the third quarter this year, there was a growth in housing prices of 3.2%. However, there is reason to assume that the growth will continue for the rest of the year, but at a more moderate tempo. Nevertheless, it looks as if the price rise will be somewhat greater than the 12% that we assumed at the beginning of the year.

Prices in Gothenburg also developed somewhat more strongly than anticipated. Compared to the corresponding period last year, prices in the third quarter were up 14%. Net migration to the region is stable at slightly less than 5000 per year and housing construction appears to be well adapted to the population growth. Therefore, there is reason to assume a more "normal" trend in housing prices in the future.

In the Skåne region as a whole, the price trend is in accordance with our expectations. The annual growth in prices is almost 25%. However, there are great variations here among the different areas. Especially in Malmö, the price trend for dwellings has been positive, while the developments outside of the city have been variable.

One important question is how long this growth we see in the growth regions of Sweden can continue. If we transfer our experiences from Copenhagen and Oslo, where a price hike of between 20 and 30% per year was followed by a fall in prices and at the very best a levelling off, to these regions in Sweden, this means we will soon see a decline in Swedish housing prices. However, the situation in Stockholm is different, in that housing demand is greater as a result of a low housing construction level over a long period, the high level of migration and good economic growth. There is, however, reason to believe that the growth will level off in 2008 as a result of higher interest rates and more uncertainty on the part of house buyers.

We welcome your points of view
and comments.

Rolf Albriksen
Telefon +47 21 05 75 71 Mobil +47 906 91 110
rolf.albriksen@veidekke.no