ECONOMIC OUTLOOK

Skøyen 15 September 2015

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Kristoffer Eide Hoen

HIGHLIGHTS

+ Norway: Slower growth ahead
  - Moderate forecasts for building construction, high activity in civil engineering
  - Increasing regional differences
+ Sweden: High levels of activity in the markets
  - Growth driven by residential buildings
+ Denmark: Upturn in the economy
  - The construction sector remains weak

Photo: Creative Commons/whiz-ka

THE ECONOMY

GLOBAL ECONOMY

GDP GROWTH 2014–2016

GDP growth (%)	2014	2015	2016
Euro zone	0.8	1.5	1.7
Germany	1.6	1.6	1.7
United Kingdom	2.9	2.4	2.2
USA	2.4	2.5	3.0
China	7.4	6.8	6.3
Global	3.4	3.3	3.8

HIGHLIGHTS

+ Stock market turbulence and signs of weaker growth in China
  - However, growth forecasts remain positive
+ Commodity prices will remain low for some time
+ Zero growth in the European construction and civil engineering sector in the last four quarters
  - Wide differences between countries

Source: IMF (9 July 2015)

INTERNATIONAL ECONOMIES

GDP GROWTH 2014–2016

Source: Eurostat

HIGHLIGHTS

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  - However, growth forecasts remain positive
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- Zero growth in the European construction sector in the last four quarters
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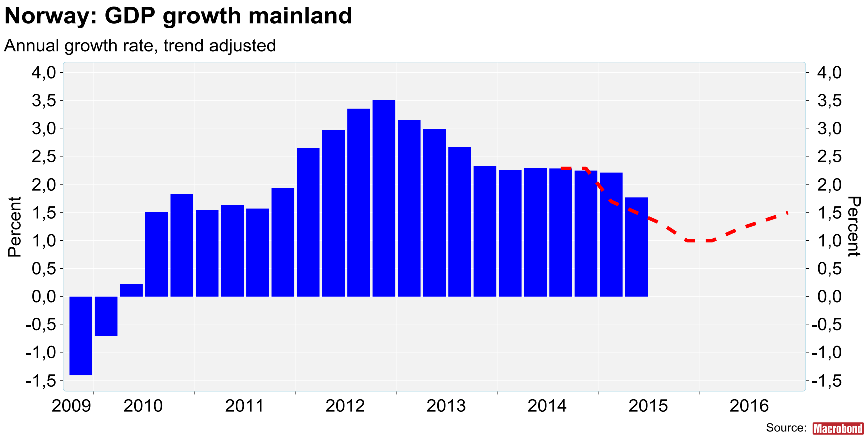
Construction market
Q2 2014 - Q2 2015

Level of production in Q2 2015	Level as % of 2010 figures
EU	94
Germany	107
UK	103
France	88
Italy	68
Spain	91
Poland	103
Finland	106
Sweden	116
Denmark	112
Norway	124

Source: Eurostat

MODERATE GROWTH IN THE NORWEGIAN ECONOMY

GROWTH FORECASTS FOR NORWAY



Dashed line = Veidekke's projection from March

HIGHLIGHTS

- A period of more moderate economic growth
  - The GDP for mainland Norway is predicted to rise by roughly 1–1.5% in 2015 and 2016
  - Continuing low interest rates, with further cuts expected
- Increased investment from the public sector:
  - Municipal finances
  - Tax relief
  - Infrastructure
- Regional differences in development
  - Dependency on the oil industry is an important explanatory factor

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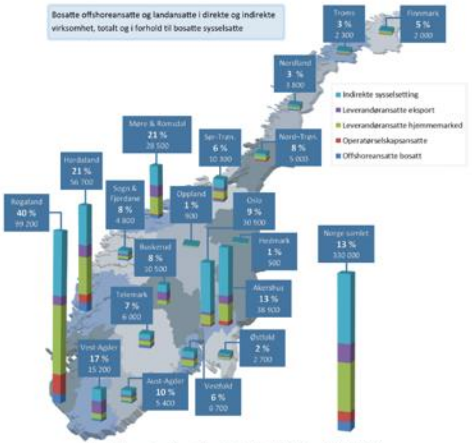

Figur 4: Ansatte i petroleumsvirksomhet fordelt på fylke, Norge 2014 Kilde: IRIS

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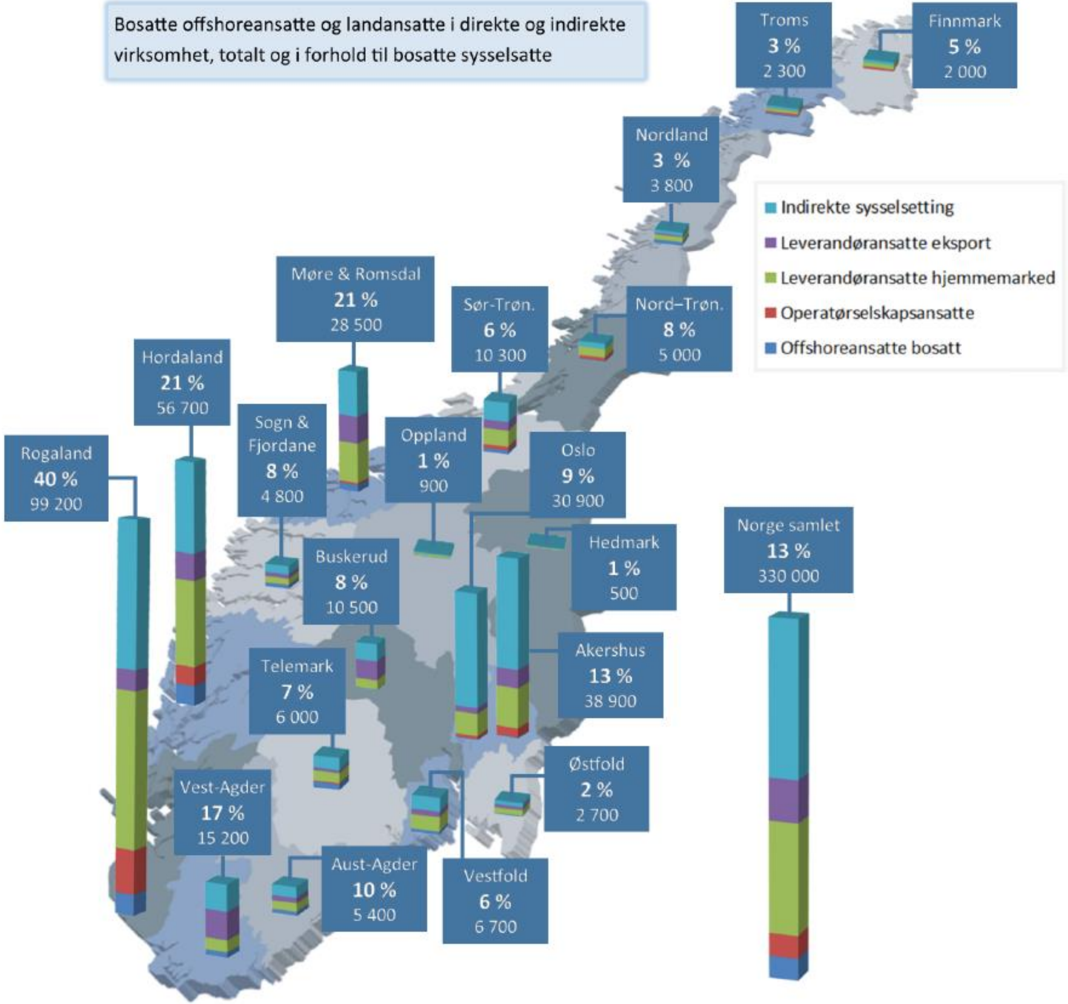

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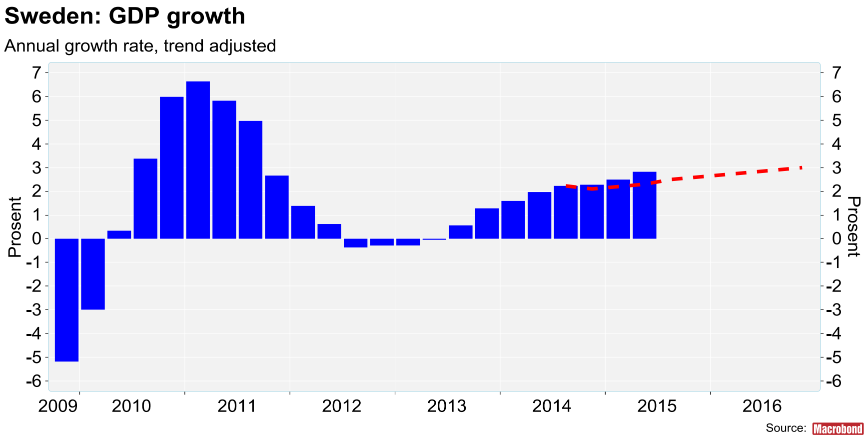
HEADING FOR AN UPTURN

GROWTH FORECASTS FOR SWEDEN



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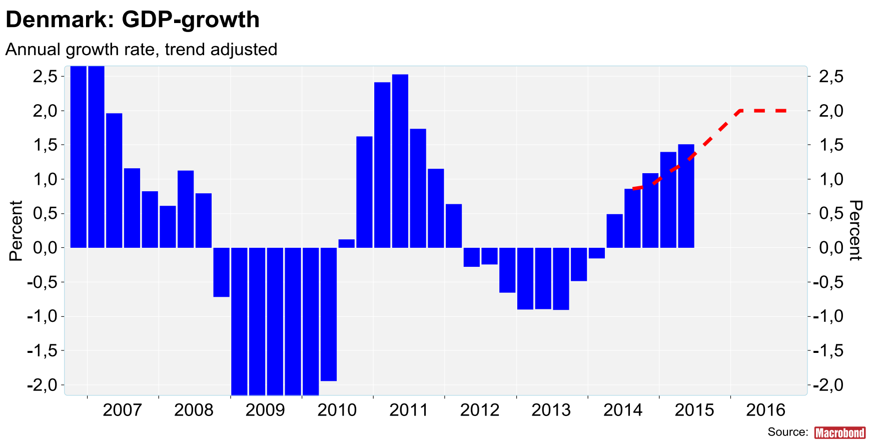
HIGHLIGHTS

- GDP growth is high, as expected:
  - Growth rate of 2.5–3% this year and next year
  - Record-low interest rates
- Positive development for households
  - Improvements in the employment market
  - Good growth in incomes and consumption
    - Households' confidence in the economy will nevertheless remain moderate

GROWTH FROM A LOW LEVEL

GROWTH FORECASTS FOR DENMARK



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HIGHLIGHTS

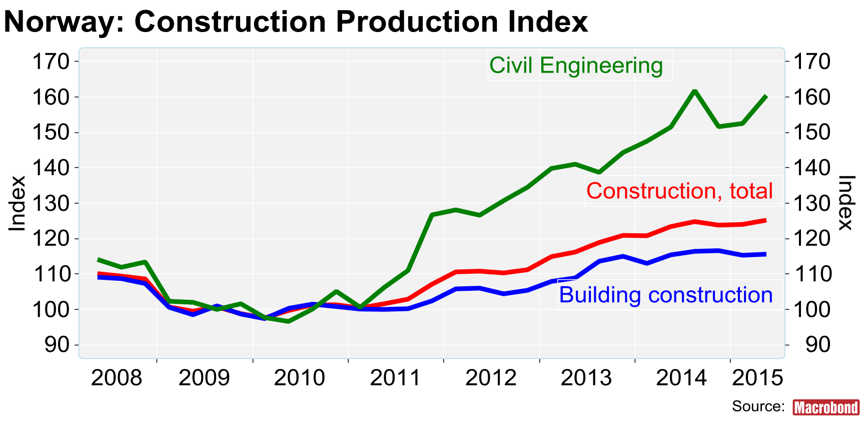
+ The economic outlook is brighter than for many years
  - GDP growth of 2% in 2015, may rise to 2.5% in 2016.
  - House prices picking up in metropolitan areas
+ May counteract imbalances in the wake of the financial crisis
  - Housing wealth vs. level of debt in households
  - Increased activity vs. overcapacity

Veidekke's new HQ in Skøyen

NORWEGIAN CONSTRUCTION MARKET: MODERATE FORECASTS, REGIONAL DIFFERENCES

INCREASING PRODUCTION

PRODUCTION INDEX FOR CONSTRUCTION

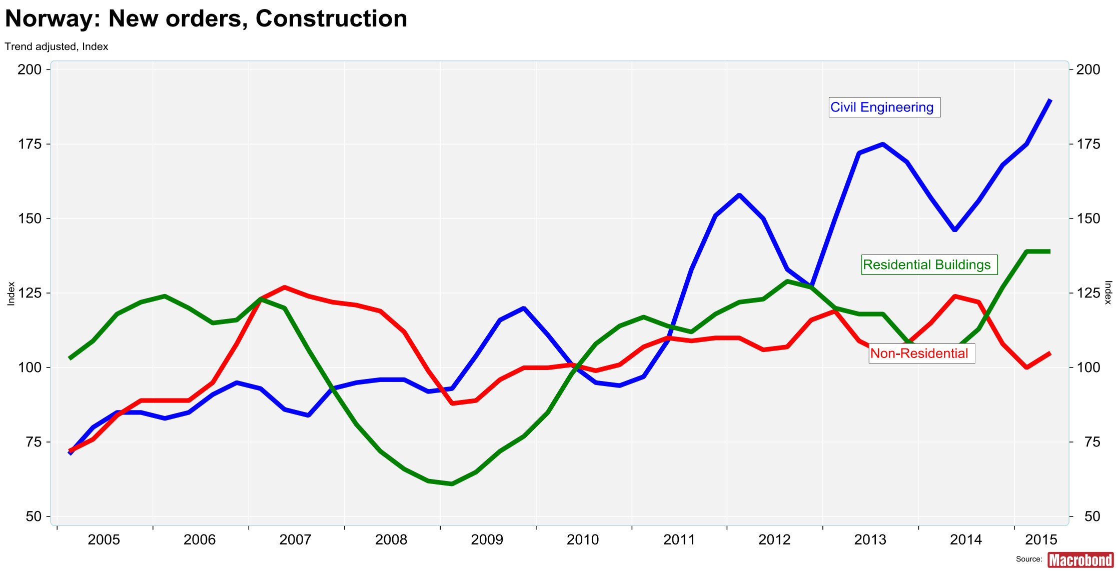


HIGHLIGHTS

+ The production index rose by 1% in Q2
  - 1.5% more than in the same quarter in 2014
+ Civil engineering: Production picked up sharply this year
  - Up 5.2% from Q1 to Q2
+ Building construction: Stable activity for residential and non-residential buildings
  - Growth largely due to public non-residential buildings
  - Private non-residential buildings declining slightly

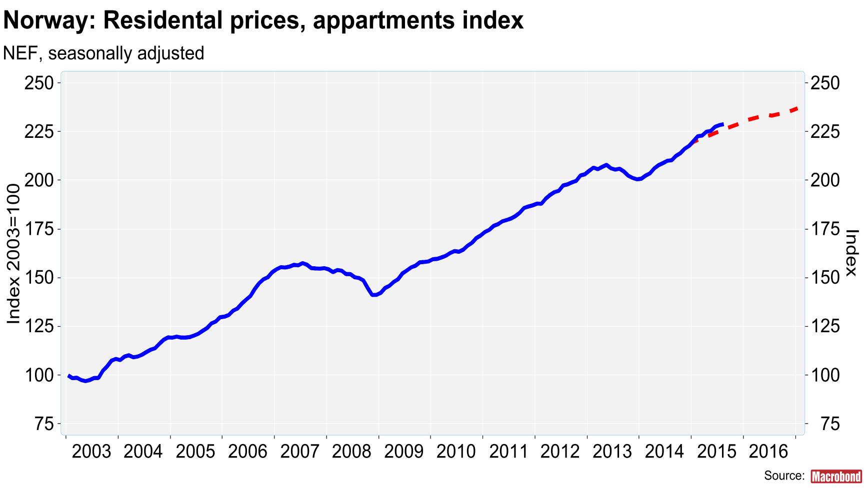
NEW RESIDENTIAL AND CIVIL ENGINEERING PROJECTS

CONTINUED GOOD INFLOW OF NEW ORDERS



THE RESIDENTIAL MARKET: HOUSE PRICES ROSE MORE THAN EXPECTED

HOUSE PRICES



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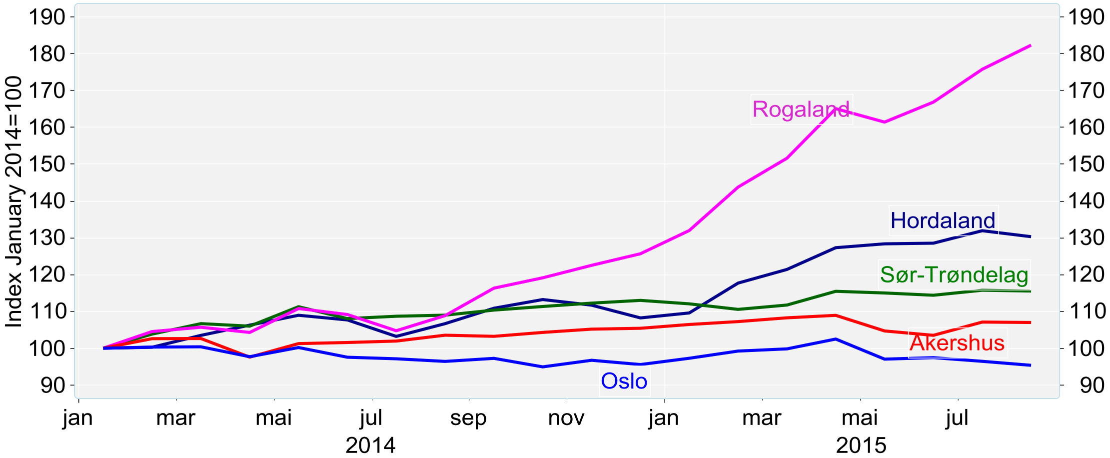
HIGHLIGHTS

+ The residential market is still dominated by rising prices and stable sales
  - Low interest rates and good access to credit
  - People moving to metropolitan areas
+ In August the price of existing apartments was around 4% higher than in January 2015
+ The forecast of 5% growth in 2015 and 3% in 2016 remains unchanged
  - The decline in the Norwegian economy and prospects of rising unemployment will affect price growth

WEAKER MARKET IN ROGALAND

DECLINING DEMAND FOR RESIDENTIAL BUILDINGS AND PRIVATE NON-RESIDENTIAL BUILDINGS IN ROGALAND

Norway: Unemployment in 2014 and 2015 in selected regions



Source: Macrobond

THE RESIDENTIAL MARKET: INCREASING REGIONAL DIFFERENCES

HOUSE PRICES AND TRENDS

Leiligheter	Endring siste 5 år	Endring siste år	Endring siste mnd
Oslo	44,5 %	12,2 %	1,7 %
Bergen	41,7 %	9,8 %	2,0 %
Trondheim	42,8 %	6,9 %	1,6 %
Stavanger	22,0 %	-1,2 %	1,3 %
Kristiansand	11,7 %	6,7 %	2,3 %

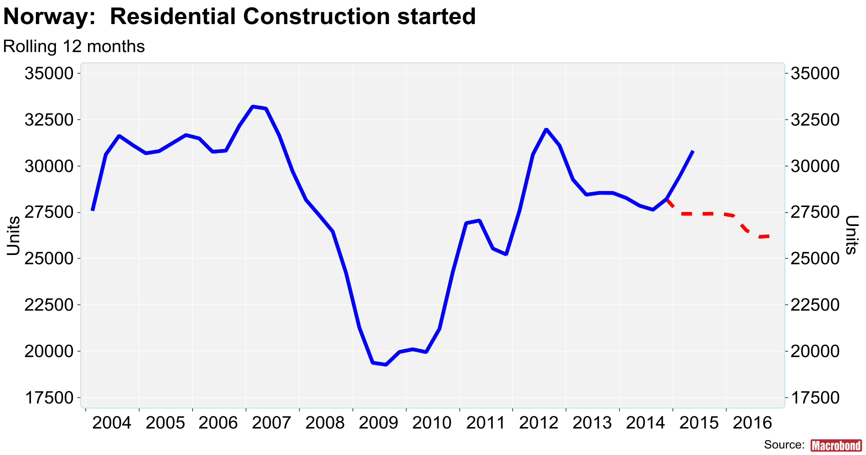
Source: Finn / Norwegian Real Estate Association (EFF)

HIGHLIGHTS

+ Continued good growth in prices in the Oslo and Bergen metropolitan areas
  - Days on the Market (DOM) stable
+ The situation in oil-dependent areas is pulling the residential market down
  - Homes taking longer to sell

THE RESIDENTIAL MARKET: HOUSING STARTS

REGISTERED RESIDENTIAL BUILDING PERMITS



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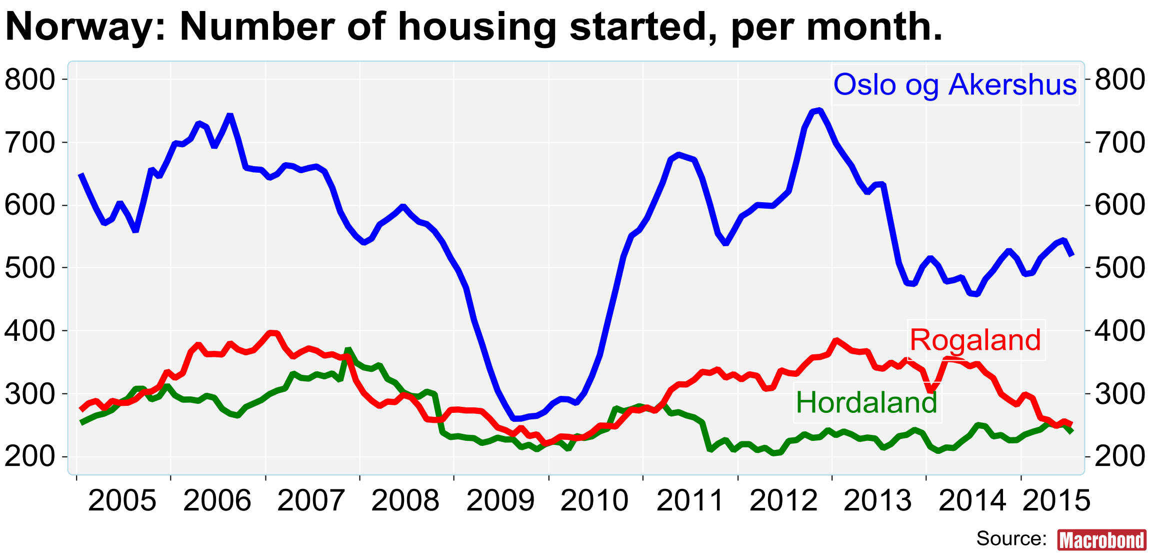
HIGHLIGHTS

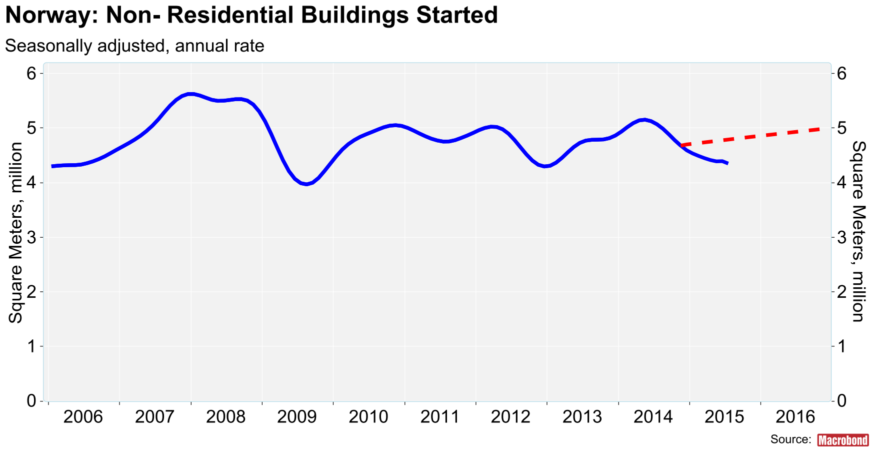
+ Strong growth in the number of housing starts in the first half of the year
  - Good housing sales through the winter this year
  - Work has started on projects that were put on ice in 2013–2014
+ We expect a flatter development through the autumn and winter
  - Around 30,000 housing starts in 2015
  - Expected to decline to around 27,000 in 2016
+ Areas dependent on the oil industry will see a sharp decline

REGIONAL DIFFERENCES IN HOUSING STARTS



SLOWER GROWTH WITHIN NON-RESIDENTIAL BUILDINGS

REGISTERED NON-RESIDENTIAL BUILDING PERMITS



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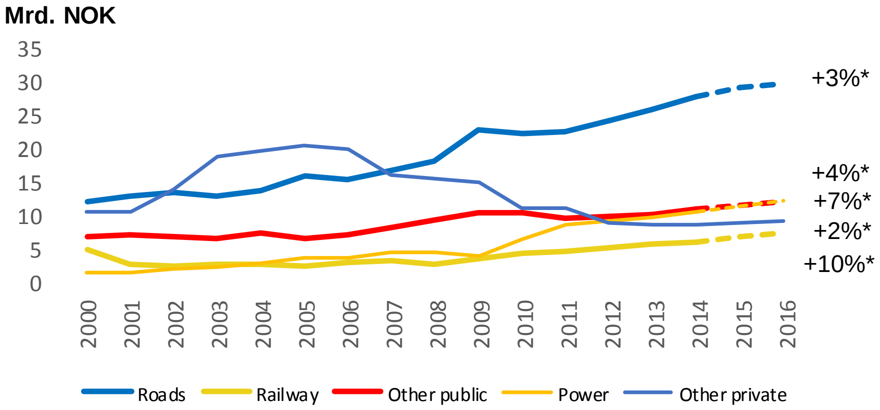
HIGHLIGHTS

- Start-up of non-residential buildings has been declining
  - A growing number of new public building projects will stabilise start-up figures
  - Construction projects for oil-related industries will fall
  - Other private construction projects will stabilise
- Drivers for the start-up of non-residential buildings
  - Private: Employment, interest rates and income trends
  - Public: State and municipal finances, interest rates and centralisation

CIVIL ENGINEERING

INVESTMENTS IN CIVIL ENGINEERING (VOLUME 2011 PRICES)



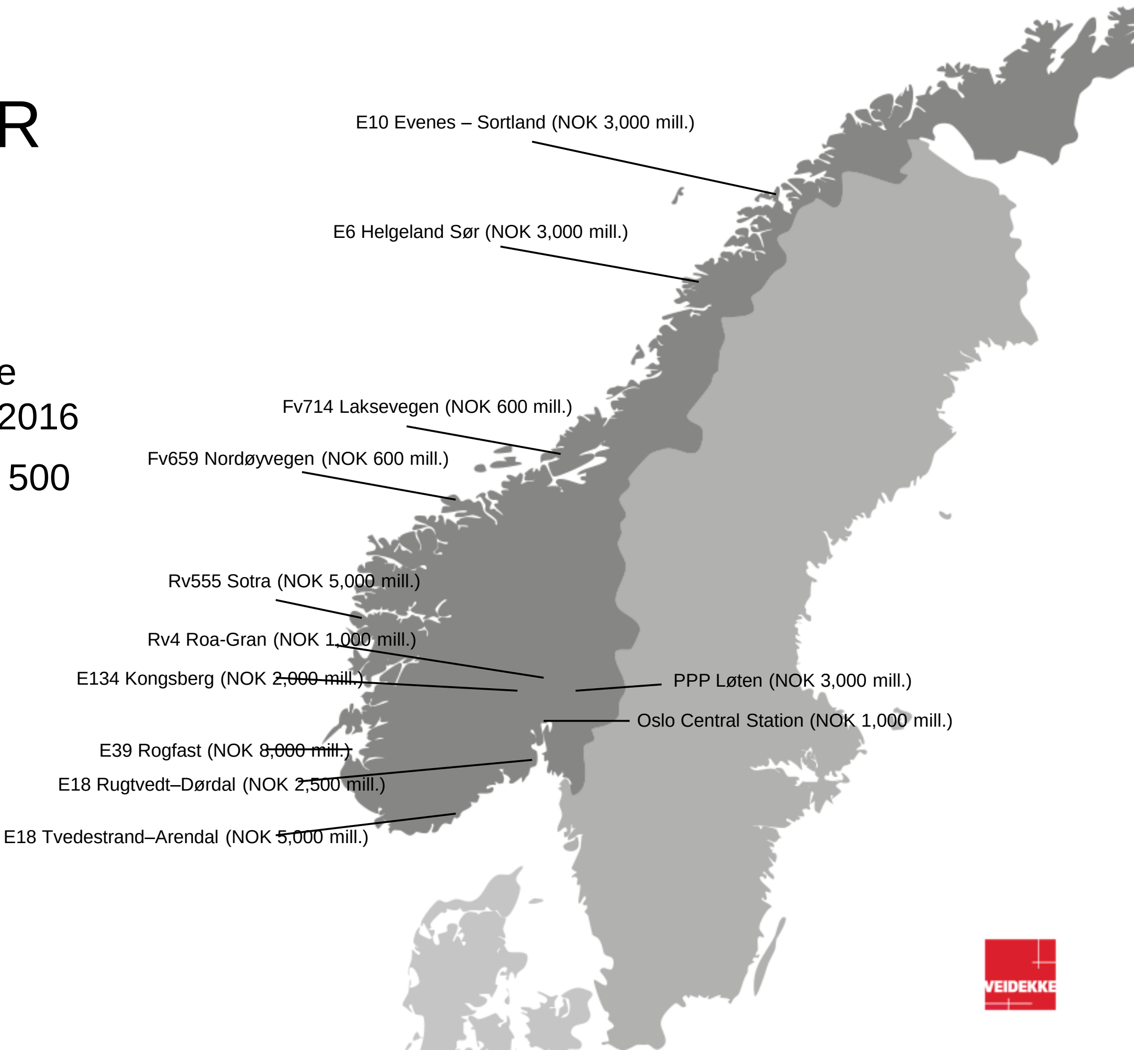
Source: Statistics Norway and Veidekke
* Annual growth rate 2015–2016 (Note "Other public" has passed "Power")

HIGHLIGHTS

+ 5% growth in the civil engineering market this year and next year
  - Transport continues to lead the growth in civil engineering
  - The growth within municipal infrastructure will probably continue going forwards
  - Development and upgrading of power plants continues to grow at 10–12% p.a.

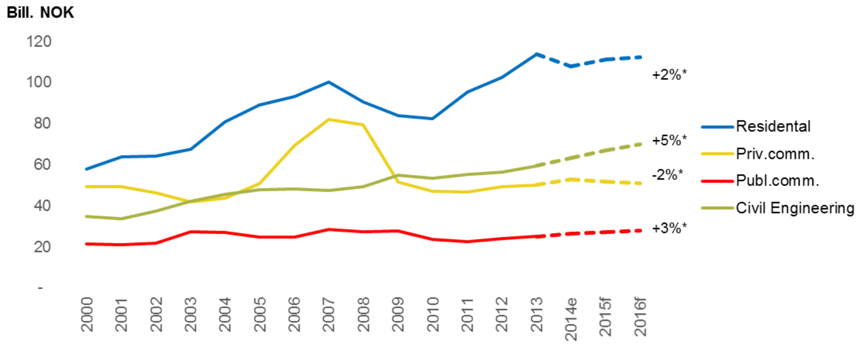
EXAMPLES OF MAJOR PROJECTS

+ A number of major transport infrastructure projects will come up for tender in 2015–2016
+ Relevant projects (worth more than NOK 500 million) total more than NOK 50 billion in Norway



CONSTRUCTION MARKETS IN NORWAY SUMMARY

INVESTMENTS IN CONSTRUCTION (VOLUME 2011 PRICES)



HIGHLIGHTS

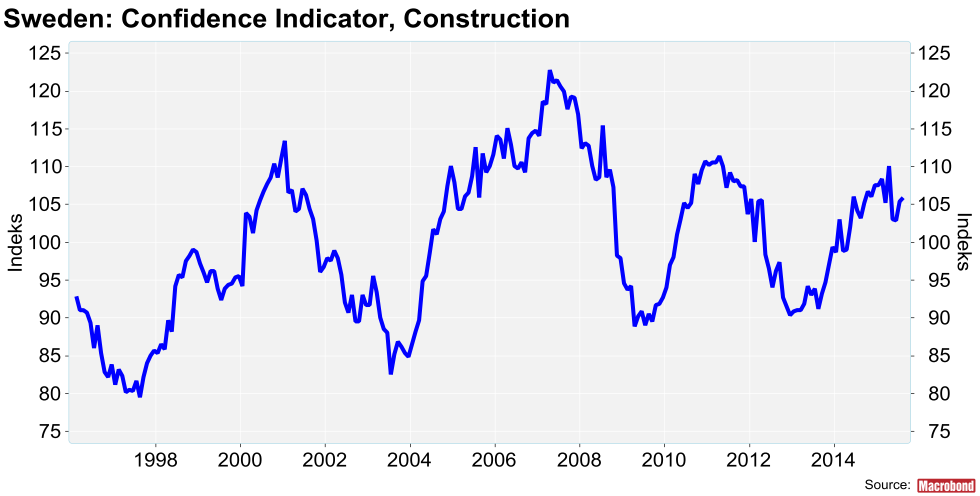
- Continued high levels of activity in the construction and civil engineering market in 2015 and 2016
  - Growth of around 2% in the total market
- Residential investments to rise by approx. 2% p.a.
- Private non-residential buildings falling, -2% p.a.
- 3% annual growth for public non-residential buildings
- Continued growth from a high level of activity within civil engineering

Source: Statistics Norway and Veidekke
* Annual growth rate 2015–2016

Brf Hovås Park, Gothenburg

SWEDISH CONSTRUCTION MARKET HIGH LEVELS OF ACTIVITY

CONSTRUCTION COMPANIES' CONFIDENCE INDICATOR

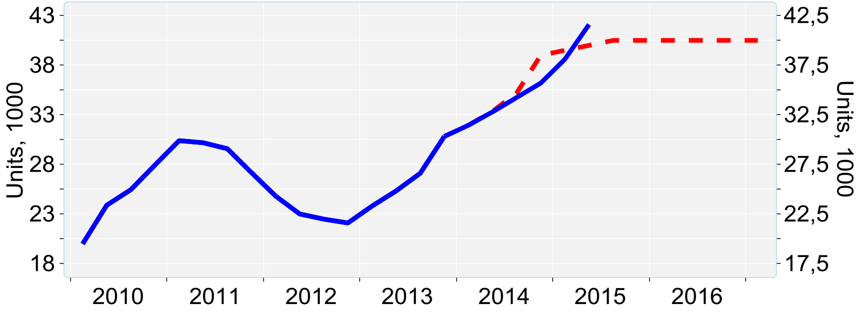


HEALTHY RESIDENTIAL MARKET

HOUSING STARTS

Sweden: Residential Buildings started

12 months rolling



Source: Macrobond

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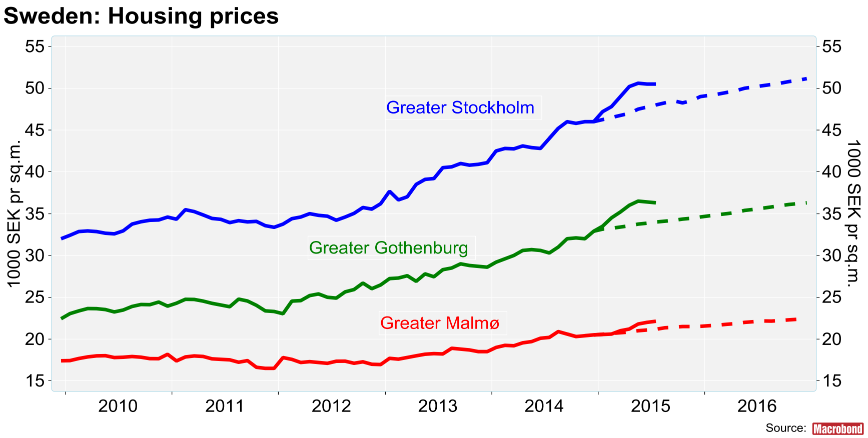
HIGHLIGHTS

+ Healthy market development so far in 2015
    - The start-up rate has passed 40,000 units
+ Price growth has picked up in the cities
+ Positive underlying driving forces
    - Improvements in the labour market
    - Low interest rates – greater purchasing power
+ Growth projections for residential investments revised upwards to 15%
    - Unchanged at 3% in 2016

HEALTHY RESIDENTIAL MARKET

HOUSE PRICES AND FORECASTS



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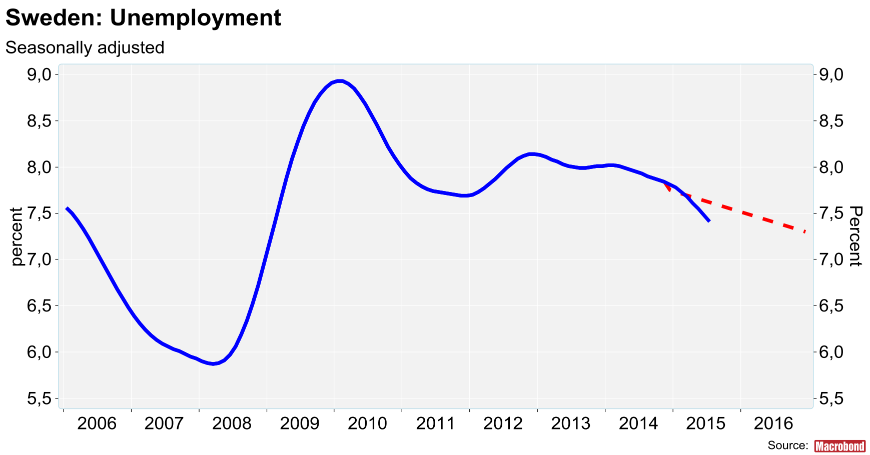
HEALTHY RESIDENTIAL MARKET

POPULATION. ANNUAL GROWTH (%)



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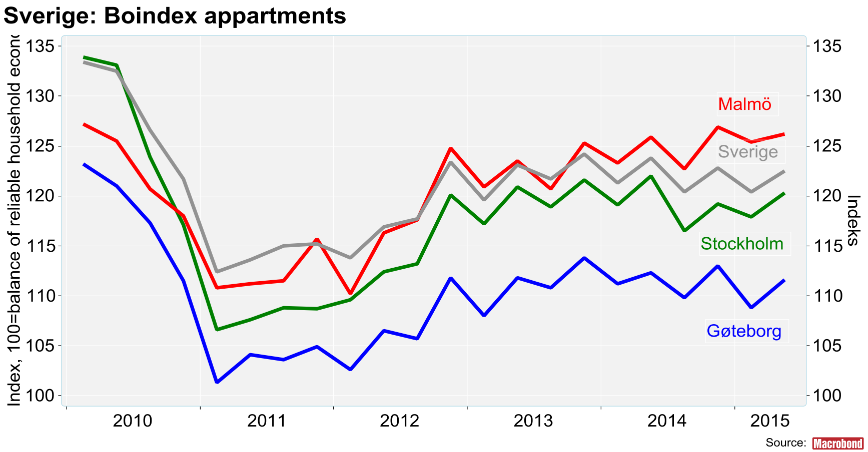
HEALTHY RESIDENTIAL MARKET

THE COST OF BUYING A HOME



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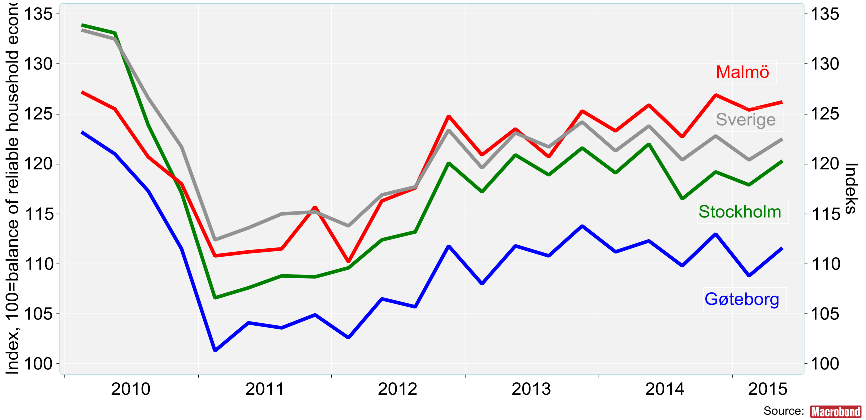
* Swedbank's housing affordability index ("Boindex"), which measures the purchasing power of households after housing expenditures. Index: 100 = good purchasing power, a higher score = greater purchasing power.

HEALTHY RESIDENTIAL MARKET

THE COST OF BUYING A HOME

Sverige: Boindex appartments



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PROGRESS FOR PRIVATE NON-RESIDENTIAL BUILDINGS

Pyramiden – SEB's new offices in Stockholm

HIGHLIGHTS

+ Moderately positive market development in 2015
  - Investment figures show +4% in H1 2015, compared with H1 2014
  - Industrial investment estimates for 2015 show solid growth
  - However this trend is not reflected in the number of projects started
+ The underlying driving forces indicate good prospects in 2016
  - Unemployment fell by more than 1.5% in Q2
  - Retail sales averaging 4% year-on-year
  - The general economic situation entails increased demand for capacity
+ The positive forecasts for the period remain unchanged
  - 5% growth in 2015, rising to 7% in 2016

PROGRESS FOR PRIVATE NON-RESIDENTIAL BUILDINGS

INVESTMENTS IN CONSTRUCTION AND CIVIL ENGINEERING FOR A SAMPLE OF INDUSTRIES

Estimate from May the same year	2014	2015	Diff. %
Industrial	6.1 bill.	5.9 bill.	-3%
Shops	2.0 bill.	3.8 bill.	+80%
Industrial and storage	9.6 bill.	10.3 bill.	+7%
Commercial property development companies	30.3 bill.	39.0 bill.	+29%

Source: Statistics Sweden

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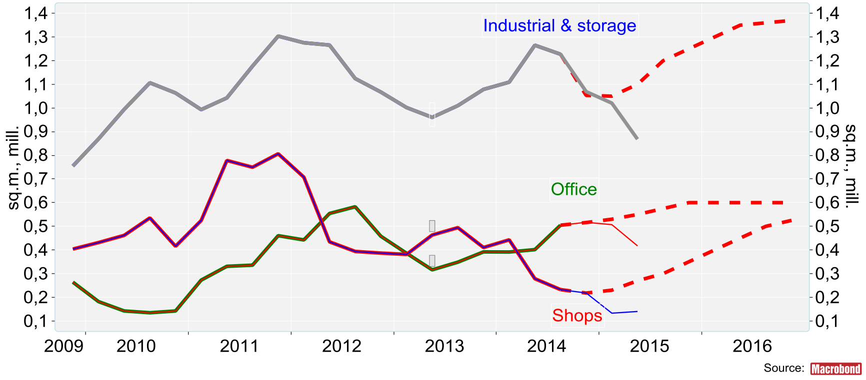
PROGRESS FOR PRIVATE NON-RESIDENTIAL BUILDINGS

BUILDING PERMITS FOR PRIVATE NON-RESIDENTIAL BUILDINGS

Sweden: Commercial building, permits

4. quarter rolling



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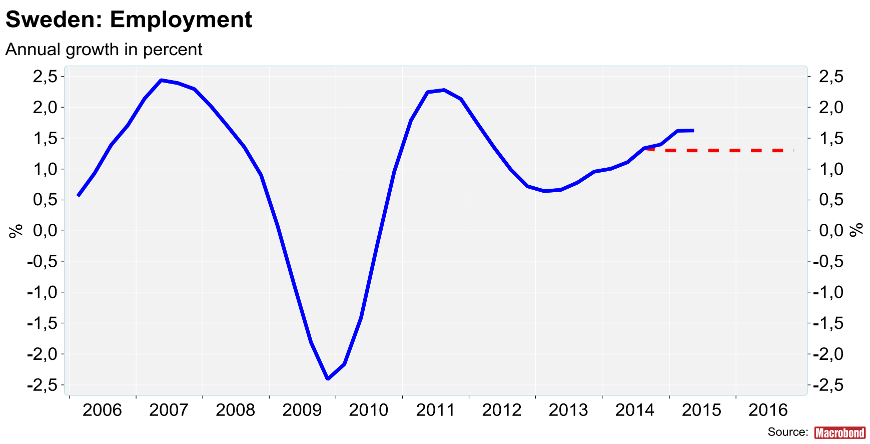
PROGRESS FOR PRIVATE NON-RESIDENTIAL BUILDINGS

LABOUR MARKET



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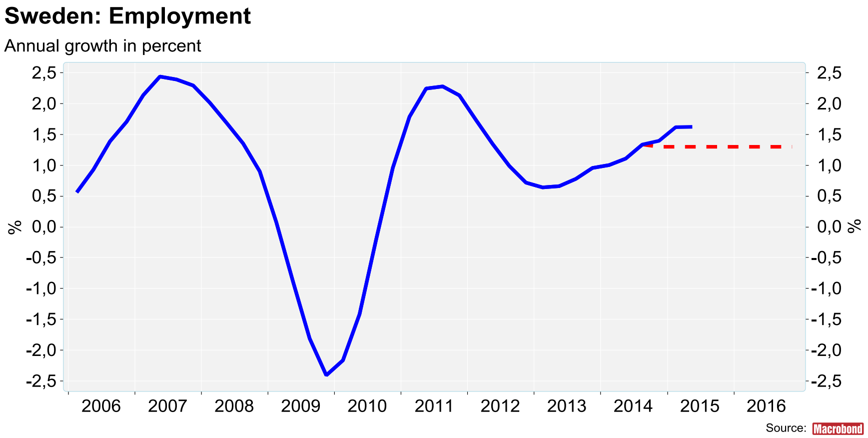

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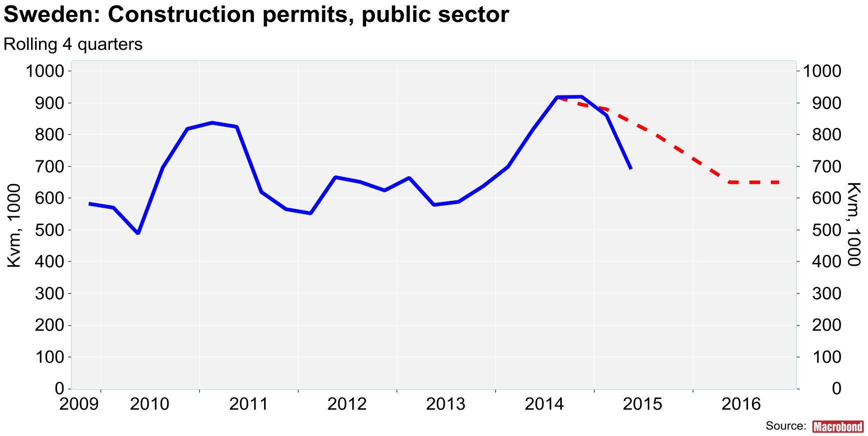
PUBLIC NON-RESIDENTIAL BUILDINGS MORE MODERATE

BUILDING PERMITS – PUBLIC NON-RESIDENTIAL BUILDINGS



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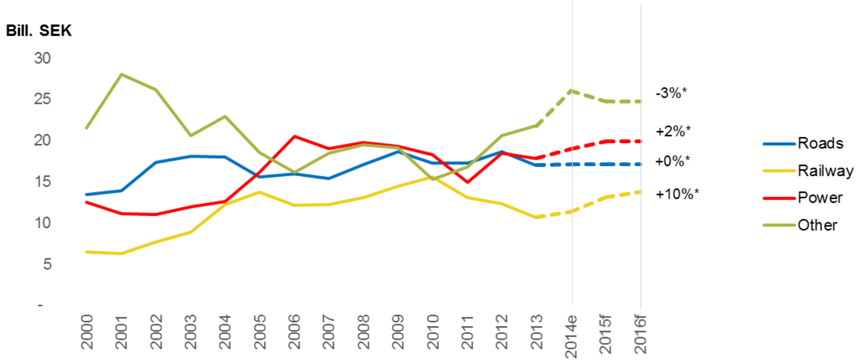
Source: Statistics Sweden

HIGHLIGHTS

+ The predicted decline seems to be under way
  - Decrease in building permits in H1 2015
  - Investments in H1 2015 -4%
+ Weak starting point for the rest of 2015 and 2016
  - An extended period of growth is now behind us
  - Cutbacks in several parts of the public sector
+ The forecasts have been revised downwards for 2015 to 0% investment growth
  - The forecast of decline of 5% in 2016 remains unchanged.

THE CIVIL ENGINEERING MARKET

INVESTMENTS IN CIVIL ENGINEERING (VOLUME 2011 PRICES)



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  - Railway and power are positive drivers, road construction down
+ Moderate forecast for civil engineering investments in 2015–2016
  - The extraction industry is being affected by weak commodity prices
  - Municipal technical facilities are facing budget cuts
  - The power sector is moderating its investment plans after many years of high investments
  - Transport projects are increasing as a result of growth in railways
    - Moderate road investments in the period up to the end of 2016
+ Forecast adjusted down to 2% for 2015
  - Flat in 2016

THE CIVIL ENGINEERING MARKET

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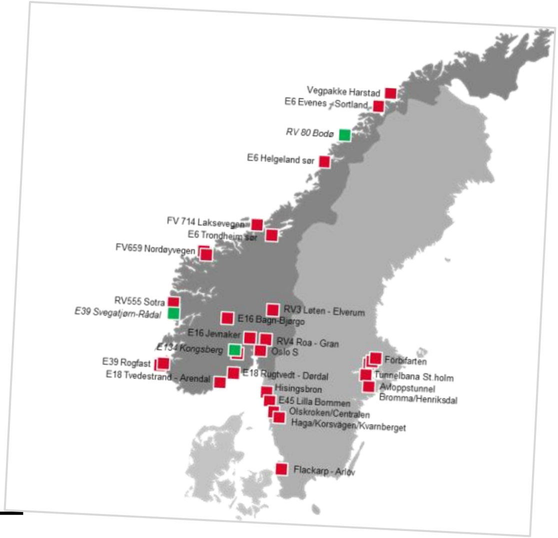

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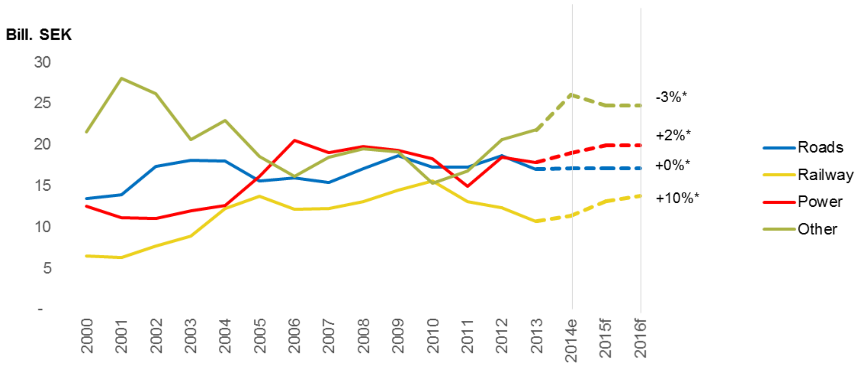

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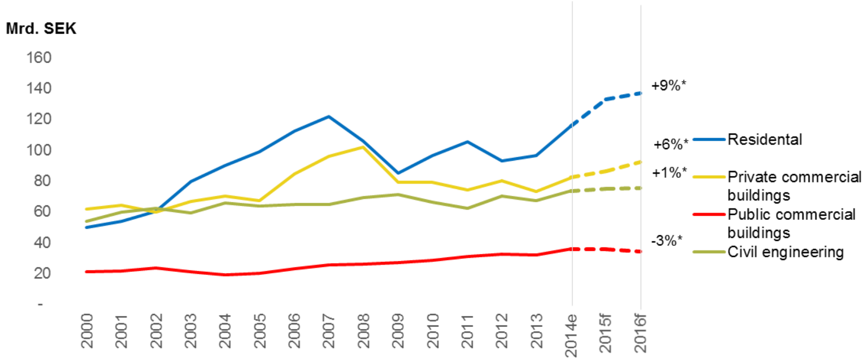
CONSTRUCTION MARKETS IN SWEDEN
SUMMARY

INVESTMENTS IN CONSTRUCTION (VOLUME 2011 PRICES)



Source: Statistics Sweden and Veidekke
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HIGHLIGHTS

+ Swedish market expected to remain strong throughout the forecast period
  - Investment growth of 7% in 2015 and 3% in 2016
+ The private sector is the main driver in 2015–2016
  - Residential market +9%
  - Private sector non-residential buildings +6%
+ Moderate growth in public sector demand
  - Public sector non-residential buildings down 3%
  - Moderate growth in transport projects in the period, but with major regional projects in start-up phase

Frederiksberg Centret

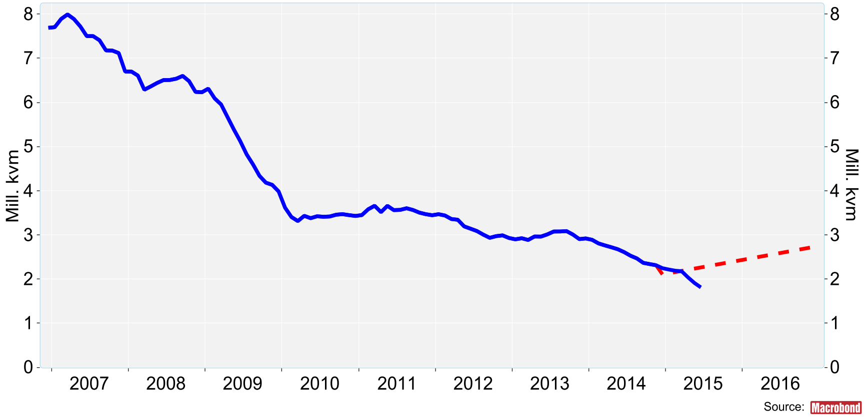
DANISH CONSTRUCTION MARKET
CONSTRUCTION SECTOR REMAINS WEAK

PRIVATE NON-RESIDENTIAL BUILDINGS – GROWTH FROM A LOW LEVEL

PRIVATE NON-RESIDENTIAL BUILDINGS

Denmark: Private Non Residential Buildings

12 month



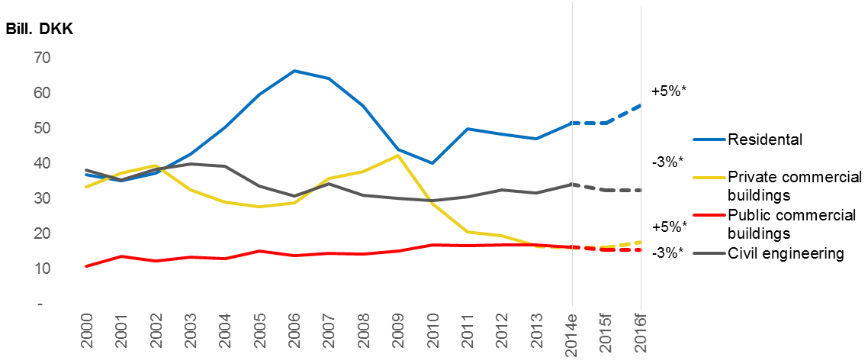
Dashed line = Veidekke's projection

HIGHLIGHTS

+ The general economic recovery has not yet impacted construction and civil engineering
+ The decline is continuing in the market for private non-residential buildings
  - Still a high level of vacancies, especially offices, which must be absorbed before new dynamics can be created
+ The growth forecast for investments has been downgraded
  - Adjusted down to 0% for 2015 due to weak performance so far this year. Unchanged at 10% growth for 2016
+ Despite some growth in 2016, the market will continue to be demanding throughout the forecast period

DENMARK – CONSTRUCTION SECTOR REMAINS WEAK

INVESTMENTS IN CONSTRUCTION. FIXED PRICES (DKK)



Source: Statistics Denmark and Veidekke
* Annual growth rate 2015–2016

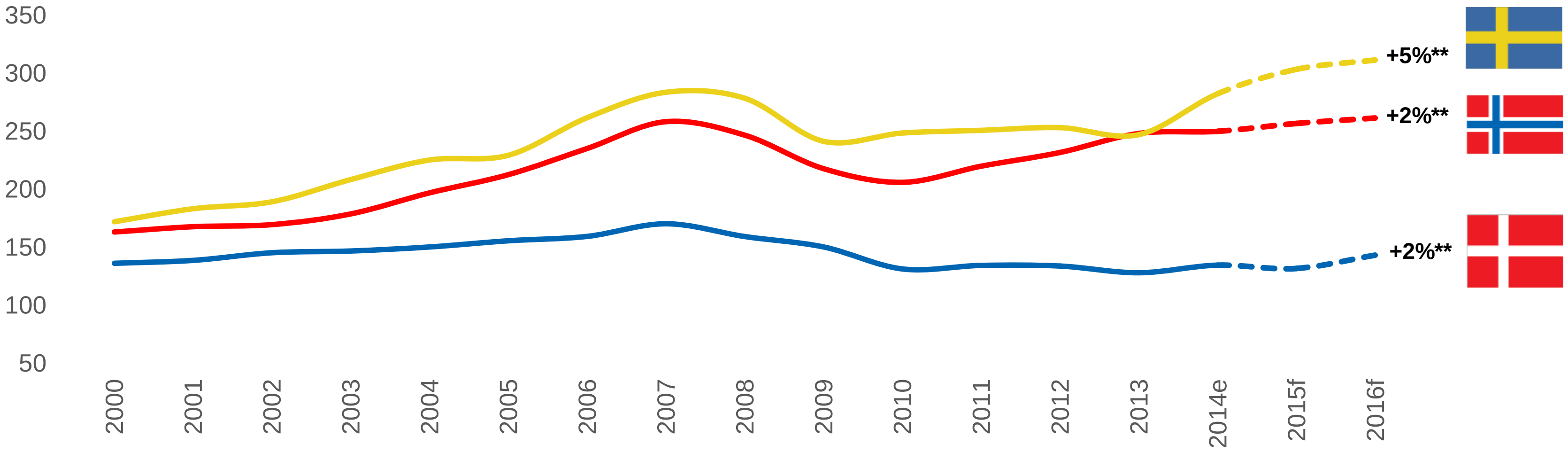
HIGHLIGHTS

+ Still some markets with very low activity
+ The private segment is expected to pick up slightly in 2016 due to a general improvement in the economy
  - Forecast for 2015 adjusted down due to weak performance so far this year
+ Public sector segments within civil engineering and non-residential buildings are expected to decline in the period due to the need for budget cutbacks

SUMMARY

SCANDINAVIAN CONSTRUCTION MARKET TOWARDS 2016

Investments in construction, NOK billion* 2011 prices (volume)



Source: Veidekke, Statistics Sweden, Statistics Denmark and Statistics Norway

* Exchange rates for Q2 2015
** Compound annual growth rate (CAGR) in 2015–2016

APPENDIX

FORECASTS

	Level 2013 BNOK	2014 Growth	2015 Growth	2016 Growth	Growth rate 15–16
Residential	114	-5% ↑	3% ↑	1% ●	2% ↑
Private non-res.	50	5% ●	-2% ↓	-1% ↓	-2% ↓
Public non-res.	25	5% ●	3% ●	3% ●	3% ●
Civil engineering	59	6% ●	6% ●	5% ↑	5% ●
Constr. total	248	1% ↑	3% ↑	2% ●	2% ●

	2013	2014	2015	2016
Number of units	29 000	27 000	30 000 ↑	27 000 ↑

Legend: ● Unchanged forecast ↓↑ Adjusted down / up

Source: Statistics Norway and Veidekke

FORECASTS

	Level BSEK 2013	2014 Growth	2015 Growth	2016 Growth	Growth rate 15–16
Residential	97	20% ⬆	15% ⬆	3% ●	9% ⬆
Private non-res.	73	12% ⬆	5% ●	7% ●	6% ●
Public non-res.	32	13% ●	0% ⬇	-5% ●	-3% ⬇
Civil engineering	67	7% ●	2% ⬇	1% ⬇	1% ⬇
Constr. total	269	14% ⬆	7% ⬆	3% ⬇	5% ⬆

	2013	2014	2015	2016
Number of units	30 000	39 000	40 000 ●	40 000 ●

Legend: ● Unchanged forecast ⬇⬆ Adjusted down / up

Source: Statistics Sweden and Veidekke

FORECASTS

	Level 2013 BDKK	2014 Growth	2015 Growth	2016 Growth	Growth rate 15–16
Residential	47	9% ↑	0% ↓	10% ●	5% ↓
Private non-res.	17	-4% ↑	0% ↓	10% ●	5% ↓
Public non-res.	17	-3% ↓	-5% ●	0% ●	-3% ●
Civil engineering	32	8% ↓	-5% ↓	0% ↓	-3% ↓
Constr. total	112	5% ↑	-2% ↓	6% ●	2% ↓

Legend: ● Unchanged forecast ↓↑ Adjusted down / up

Source: Statistics Denmark and Veidekke