



Economic Overview 3/2010

Summary from NHO's Quarterly Economic Report September 2010



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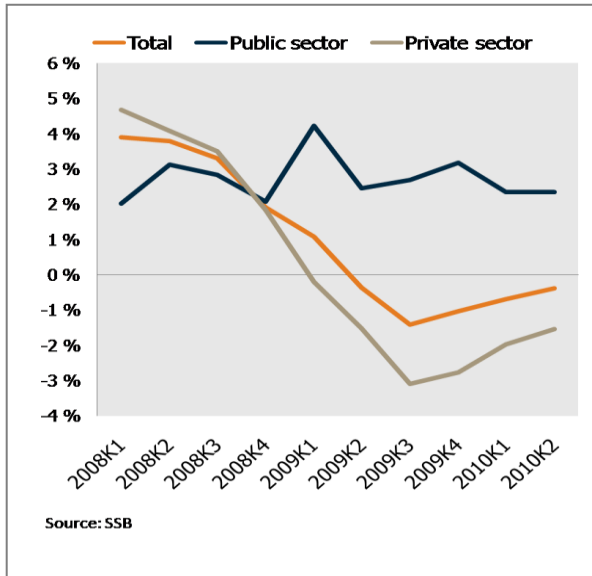
Overall positive but weak investment outlook

- **Norwegian export structure matches world demand.** The decline in production and employment in the Norwegian manufacturing sector after the financial crisis has been less pronounced than in many other countries in Europe. This is due to a favourable match between world markets and the composition of the Norwegian manufacturing sector
- **Better global growth, but increased uncertainty.** The international economic outlook looks better overall, but the economic development in the US as well as several of the EU Member States still gives cause for concern.
- **The overall domestic demand is growing weaker than expected.** The main cause contributing to this has been low growth of private consumption resulting from a high household debt burden and an uncertain labour market.
- **Low capacity utilisation in the industrialised countries in the time ahead.** The OECD estimates that the OECD member countries currently have the greatest production gap since World War II. The unemployment rate – both in absolute and relative terms is the highest of the post-war era.
- **The NHO member companies expect a brighter outlook for the Norwegian economy in 2011.** So far however, there is little appetite for investment in the NHO member companies.
- **Increased private sector employment also in 2011.** The number of enterprises currently planning dismissals and lay-offs is still decreasing and is currently at a very low level.
- **But continued high unemployment** Increased workforce growth, mainly caused by population growth is expected to result in a rise in the number of unemployed persons.
Will new jobs in the exposed sectors be located in Norway? The long-term challenges in the Norwegian economy are linked to wage formation, a balanced fiscal and monetary policy that avoids excessive exchange rate appreciation. The NHO survey shows that new investments can be hindered by the generally high wage cost level.

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Fig. A. Employed persons



Percentage change from previous year

Fig. B Wage costs for Norwegian industrial workers versus our trading partners.



Index Trading Partners = 100

* According to RNB, the wage growth in Norway will be 1 percent higher than that of our trading partners. The exchange rate is based on quotations up until 28 August. For the remainder of the year the exchange rate for the Norwegian krone is the same.

Challenges in the Norwegian Economy

While many other countries have had to cut back their public spending due to the financial crisis, Norway has had the opportunity to expand its budgets and increase the number of people employed in the public sector. However, we are currently seeing that Norway's high petroleum revenues are on their way down. This makes it necessary to stimulate the growth of productive sectors other than the petroleum sector. The profits from the Government Pension Fund will not be sufficient to make up for strongly increasing expenditures for pensions and public services production.

Over time, maintaining a balance between the jobs created in the competitive private sector and the jobs financed over public budgets will be of key importance. The employment trend for 2009 and the first half of 2010 clearly contradicts a balanced long-term development between the public and the private sector (See Figure A). In 2009, overall private sector employment decreased by 36,000 persons. At the same time the public sector employment increased by 24,000 persons, resulting in that the total decrease in employment of 12,000 individuals for 2009. This imbalance continues this year. In the first half of 2010 public sector employment increased by 18,000 compared to the first half of 2009. The decline in the private sector was 32,000. From the fourth quarter of 2008 to the second quarter of 2010, the percentage of public sector employees have increased from 29.1 percent to 30.6 percent.

The long-term challenges for the Norwegian economy lay down requirements to wage formation, the direction of the economic policy formation and a capability for productive organization throughout all segments of the economy.

It is important that our fiscal policy and spending of petroleum revenue does not contribute to an increase in interest rates that is particular to Norway and a stronger exchange rate for the Norwegian krone. In addition to a growth promoting use of the oil revenues in line with the intention at the time when the fiscal rule was introduced, public sector reforms are needed to contribute to a more

productive use of resources. The tax system must be directed towards stimulating growth, knowledge and research. More savings capital needs to be channelled into production capital.

The NHO forecasts for 2010 indicate a neutral fiscal policy in the state budget for 2011. Given the current weak investment outlook, the profile of the 2011 budget is very important. We need to see smart tax policies and a growth in expenditures designed to promote a capacity for growth and value creation in the economy.

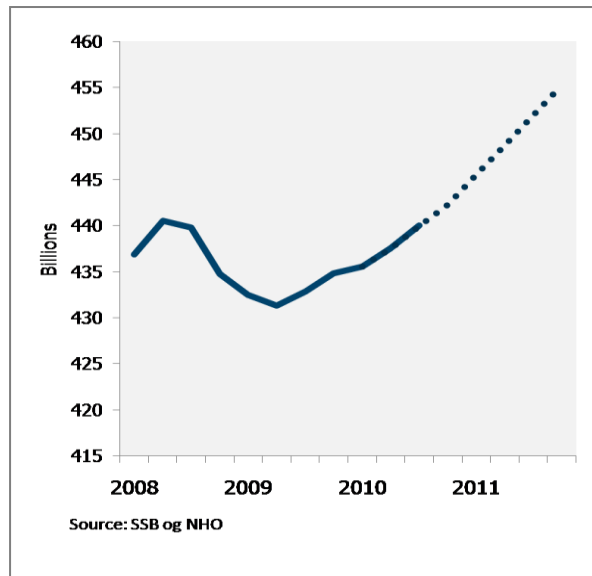
The Norwegian Economy

Overall positive but weak investment outlook

The Norwegian economy has been through a two-year cyclical down-turn. Neither overall production nor the total number of hours worked for the main-land economy has yet bounced back to pre-financial crisis levels. The total number of man-hours in the second quarter of this year was still 2.5 percent lower than what they were at the start of the financial crisis. This decline has both resulted in a reduction in the average number of working hours and a reduction in the total number of employed persons. At the same time we are currently in a phase of relatively strong growth as regards the number of persons of employable age. It is therefore safe to say that at this point in time, in the second half of 2010, the Norwegian economy is a long way away from full use of its capacity, and that we will have to see several years of healthy growth in labour demand before we can talk about any pressure tendencies in the Norwegian economy. The low capacity utilisation is also resulting in low investment willingness in the internationally exposed sectors.

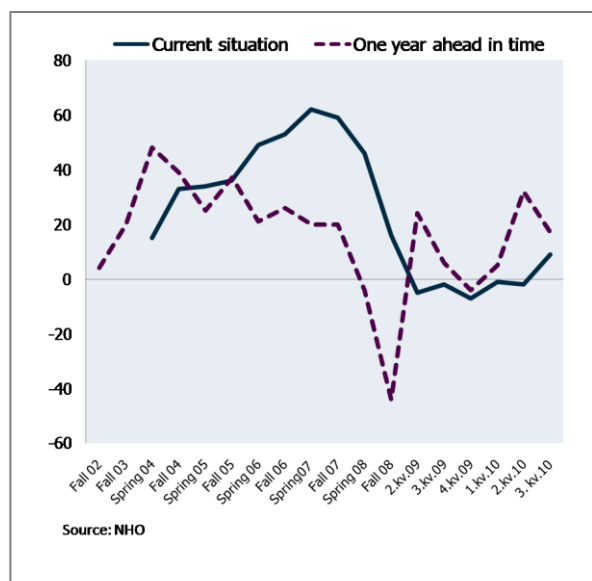
However, our situation is better than that of many of our neighbouring countries. Our oil revenue spending over the state budget has to a significant degree contributed to less of a decline in overall employment. It is also worth noting that many Norwegian companies, among them producers

Fig. 1.1 GDP –Mainland Norway



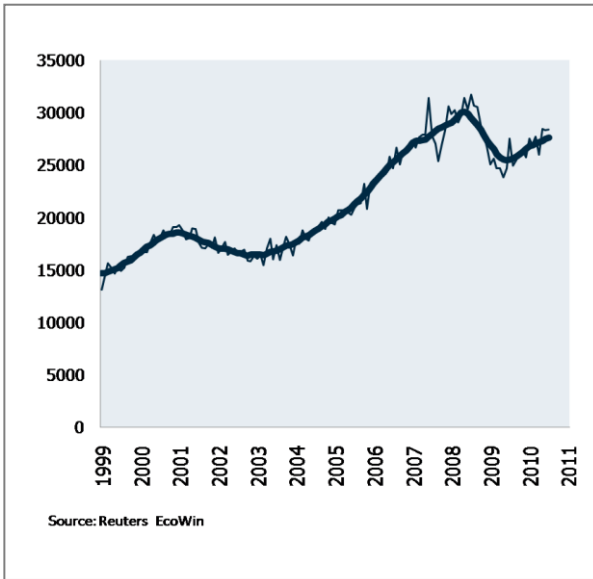
Prognoses by the NHO as of the 3rd quarter 2010

Fig. 1.2 Market Forecasts by the NHO Member Companies



The difference between positive and negative responses

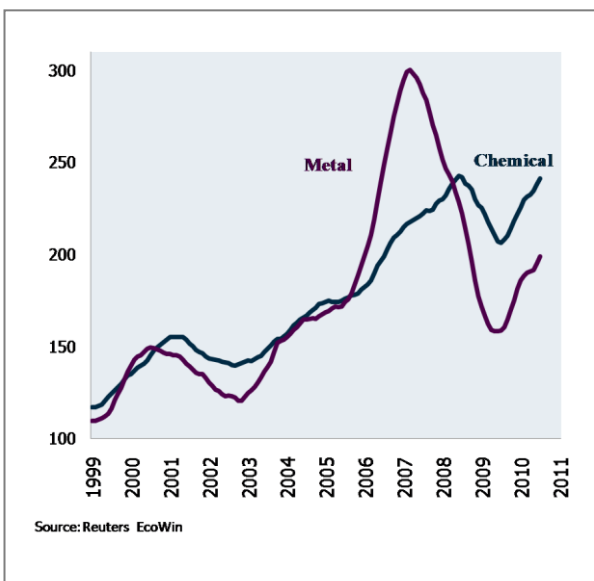
Fig. 1.3 Export value of traditional goods. Seasonal and trend adjusted



of raw materials and semi-finished products whose prices are being determined on the world market, have been and still are benefitting greatly from healthy growth in countries like China, India and Brazil. Norwegian export prices are currently increasing more than the import prices.

Collectively the NHO member companies rate the situation for the third quarter of 2010 as marginally better than the two preceding quarters (see Figure 1.2). There are still relatively few member companies that rate the situation as good, but the percentage that rate it as unchanged is growing. The decline in the employment for the NHO companies seems to have been brought to a halt as our member companies report an unchanged labour demand from 2009 to 2010.

Fig. 1.4 Export value for the process industry



Index: 1999=100

The outlook for 2011 is positive, even if the optimism in the future has been adjusted downwards somewhat compared to the previous quarter. In 2011 the NHO member companies collectively plan to increase their staffing by 1 percent. The construction industry in particular report increased labour demand, but also the manufacturing industry plan to increase their staff. Despite positive outlook, a clear majority of the NHO companies expect reduced investments in 2011. A weak inflow of new orders along with low sale prices serves to keep investments back. The manufacturing industry puts great emphasis on a challenging cost-related competitiveness as a barrier for new investments.

Adaptable Norwegian Exporters

The export of traditional goods decreased dramatically in value during the first year of the financial crisis in the autumn of 2008. First the export volume fell, followed by the prices. However as of the summer of 2009, Norwegian exports have had a positive development compared to many other countries. The overall value of Norwegian exports is increasing once again (see Figure 1.3). Much of the positive development experienced by the Norwegian export of goods and industrial production is a direct result of the fact that countries outside the OECD area are currently experiencing a healthy growth. Countries like

China, India and Brazil have become important export markets for Norway. The Norwegian corporate sector has proven to be very adaptable to altered international market conditions. This has occurred simultaneously with a strong exchange rate for the Norwegian krone whereas for instance the Swedish industry has been aided by a low exchange rate for the Swedish krone during the same period.

These figures hide significant changes in the composition of Norwegian exports. The export of engineering products has seen a relatively weak development in recent months. This applies to both machinery, shipping equipment as well as other types of metal goods. These goods are typical investment goods and the market for this type of products has failed as investments have decreased in the OECD countries. Several Norwegian enterprises are making an active effort to locate new markets outside the OECD.

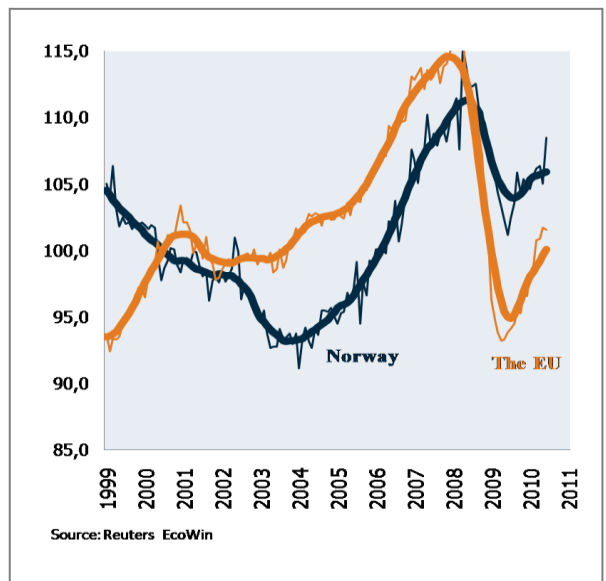
The export value for the metal, chemicals and wood products industries has had a positive development since the middle of 2009 (See Figure 1.4. Export prices for this category of goods increased during the course of 2010, something which must be viewed in conjunction with a massive surge in prices for the metal and steel category along with aluminum. The excellent market conditions for these metals are caused by the strong growth China and India are currently experiencing, requiring vast amounts of raw materials for their industry. Last, but not least the export increase for Norwegian seafood has been formidable in particular during the last two years. The value of the fish and seafood export is currently fluctuating around NOK 4 billion a month.

Less of a decrease in Norwegian Industrial production compared to the EU

The decline in Norwegian industrial production in the wake of the financial crisis turned out to be far less severe than that of the EU.

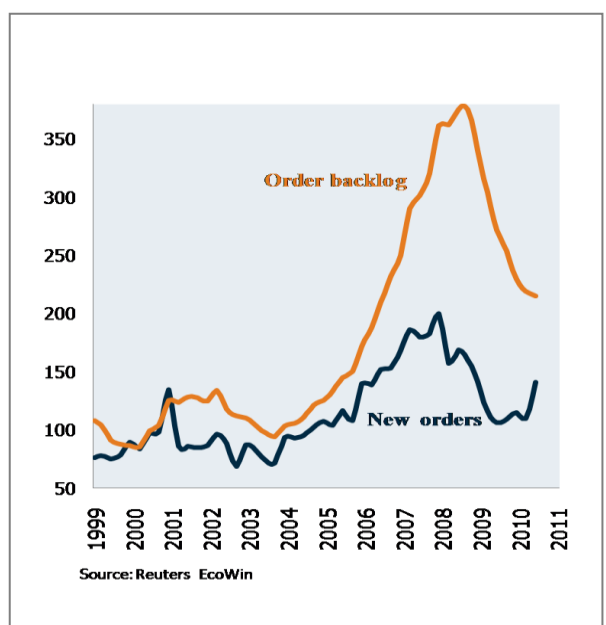
The developmental trend for the individual sectors within the manufacturing industry follows the same pattern as the developmental trend for exports. The production level in the process industry dropped severely right after the financial crisis set in, and then went up again during the course of 2009 and into 2010. For the engineering industry,

Fig. 1.5 Industrial Production in Norway and the EU



Index 2000= 100

Fig. 1.6 New orders and order backlog for the metal and chemical industry



Export value for the process industry

the fall in activity level came somewhat later. With the possible exception of the shipbuilding industry, the developmental trend for the engineering industry has not been as weak as feared a year ago.

The positive trends are also apparent in a number of the leading indicators for the manufacturing industries. The NHO Economic Survey shows that the manufacturing industry expect improved markets and increased employment as measured by the number of working hours next year. The Norwegian PMI (Purchasing Managers Index) is currently at its highest since February 2008—a clear indicator of a further upswing in the industrial production in the time ahead. The sub-indexes for production and new orders also showed a clear increase (see Figure 1.6).

Also in the Business Tendency Survey developed by Statistics Norway for the second quarter of 2010, their contacts within the manufacturing industry reported that they expected further growth in the time ahead, among others as a result of increased inflow of new orders from both the domestic market as well as from the export market. The complex cyclical indicator increased from 3 in the first quarter to 5 in the second quarter (seasonally adjusted net figures which are somewhat higher than the historical average).

Forecast for 2010 and 2011

Sources: Statistics Norway (SSB)ØA3-2010 Norges Bank (NB) PR2/10 Ministry of Finance (Fin). RNB10	2009	2010				2011		
	SSB	NHO	SSB	NB	Fin	NHO	SSB	NB
Private Consumption	0,1	2 ¾	4,1	3,5	4,3	3 ½	3,7	4
Public consumption	4,8	3	2,7	2 ½	2,4	2	2,1	2 ¼
Gross investments	-7,9	-7	-6,2	..	-3,6	2 ¾	3,4	..
Petroleum Activities	4,6	-5	-3,1	-2 ¾	-2,5	5	-1,3	4
Mainland Norway	-11,7	-5 ¾	-5,4	-4 ¼	..	3 ¼	4,1	6 ½
- Corporate	-15,1	-8	-7,3	..	-7,8	0	0,4	..
- housing	-18,9	-3	-3	..	-1,5	10	13,1	..
Demand from mainland Norway	-1,1	1 ¼	1,9	1 ¾	2,3	3	3,3	4
Exports	-4,0	2 ¾	0,1	..	0,8	-1 ½	0,4	..
- Traditional goods	-7,8	5	4,6	..	4,7	0	2,7	..
Imports	-10,3	5	1,5	2 ¾	3,7	4	3,6	5 ¼
Gross Domestic Product	-1,6	0	0,6	¾	0,9	1 ¼	2,7	1 ¾
Manland Norway	-1,6	1 ¼	1,6	1 ¾	2,1	2 ½	2,2	2 ¾
Workforce	0	½	0,2	¼	..	1	0,9	¾
Employment rate	-0,4	- ¼	-0,1	- ¼	-0,1	¾	0,3	¾
Unemployment rate	3,2	3 ¾	3,5	3 ½	3,5	4	3,9	3 ¾
Annual wages	4,5	..	3,4	3 ½	3 ¼	..	3,4	4
Consumer Prices	2,1	2 ½	2,5	2 ½	2,2	1 ½	1,6	1 ½
Money market rate	2,5	2,7*	2,5	2,9*	2,8	..
Export price, traditional goods	-6,5	2	2	3	2,4	..

* From Consensus Forecast, august 2010