Economic Overview 4/2009

Summary from NHO's Quarterly Economic Report November 2009

NHO

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Loss of competitiveness and falling employment in 2010

- The negative employment trend is growing. From the 2nd to the 3rd quarter, total employment fell by 22,000, or 0.9 per cent, according to the Labour Force Survey from Statistics Norway. The number of unemployed appears to be growing at an increasing rate through the autumn. Employment and productivity trends through 2009 indicate that companies now feel forced to seriously adjust workforces to the falling activity levels.

- NHO's member companies believe employment will continue to fall through 2010. The downward adjustment is due to weak market development, lower profitability and weaker competitiveness. In industry, 37 per cent of those asked in the NHO panel expected to lay off employees during the next quarter. The corresponding figures for building and construction and travel and tourism were 44 and 31 per cent respectively.

- Total profitability for the NHO companies reached a peak in 2007 and fell somewhat in 2008. NHO's members expect a further fall in profitability in 2009 and 2010.

- The next two years will test the ability of significant parts of Norwegian industry to adapt. In particular, companies that supply ships, marine equipment and equipment for the oil industry will face major structural changes.

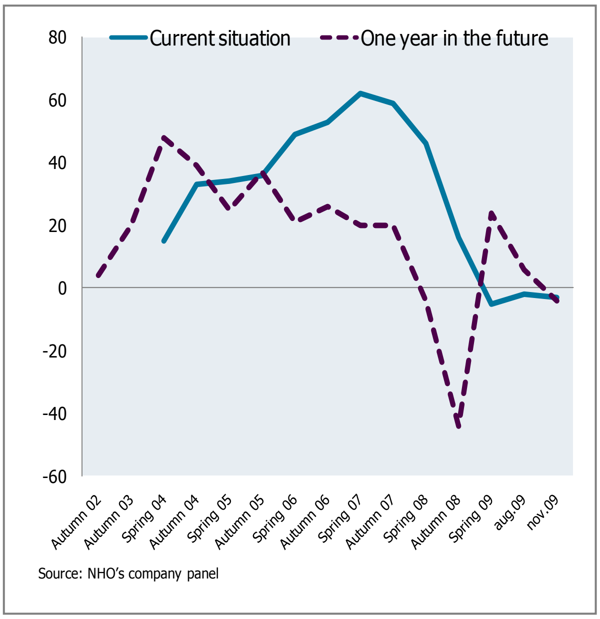
- Rapid interest rate rises in Norway alone would further weaken competitiveness. In NHO's assessment, there is nothing in the anticipated future course of the Norwegian economy that would require an early increase in the Bank of Norway's key rate. Indicators for house prices are too uncertain in statistical terms to alone give a reason to increase interest rates.

- Many overestimate the upward trend in the Norwegian economy in 2010. Our estimates for oil investment are substantially lower than those used as a basis by the Bank of Norway and the Ministry of Finance. We also believe that increasing unemployment will give continued uncertainty in households, maintain the high savings ratio and reduce the growth in private consumption.

- Little help from international markets. The upturn in the international economy is still very cautious and is occurring from a low level of production. It appears that an upturn in 2010 will happen primarily in Asia and not to the same extent in the important European markets.

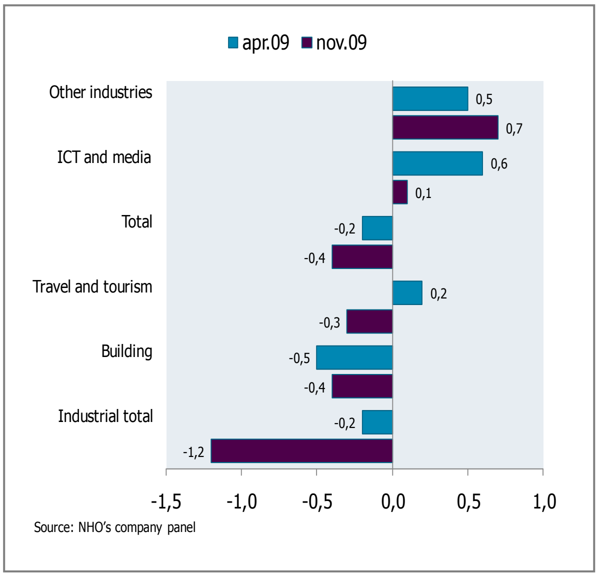
- 2010 may see a discrepancy between industry's need for loans and Norwegian banks' capacity. Norwegian companies have answered the rationing of credit throughout 2009 by keeping loan needs down to a minimum. 2010 will bring requirements for reorganisation and new efforts to create the basis for new growth and more secure jobs. The Norwegian finance market is marked by a lack of competition in the commercial loan market and by loan capacity that is limited by stricter requirements for solidity and liquidity, while the risk of substantial losses in the banking industry is not yet over.

The NHO companies' market assessment



Difference between number of positive and negative responses

Workforce needs in 2010



Annual percentage growth in the NHO companies

Two track economy calls for reorganisations and adjusting costs

Economic development is now moving along two very different tracks. While the public sector and parts of domestic industry are increasing activity, market and costs uncertainty is great in export industries and industries sensitive to exchange rates. Overcapacity in many international markets has built up during the financial crisis. Even with a moderate economic upturn, it could take a long time for growth in the international economy to become sustainable, in the sense that investment also increases. The structure of Norwegian industry, with its reliance on semi-finished products and investment-dependent deliveries, depends on overcapacity being reduced so that investments can once again increase. In a situation where many markets are moving sideways at best, it becomes especially important to maintain competitiveness. The market situation at the time of the survey is perceived as problematic, especially in industry, but also in building and in travel and tourism. The problematic market situation for industry and building is expected to continue through 2010. Travel and tourism is somewhat more positive about 2010.

Interest rates, exchange rates and payroll costs are moving unfavourably in relation to our trading partners. This presents a major challenge in the struggle for market share. Add to this the effect of weak competition, strict terms and the danger of low lending capacity in the commercial credit markets. Together with weakened profitability, this will put a brake on the upturn in turnover, investments and renewal of technology.

Monetary policy measures have stimulated household purchases of goods and services. Together with high oil investments and strong growth in public expenditure, this has kept up activity in the Norwegian economy. In the future, higher interest rates, a slowing down of public expenditure, reduced investment on the Norwegian continental shelf and a loss of competitiveness may dampen the upturn in the Norwegian economy. Adapting monetary policy will be important to how the economy develops.

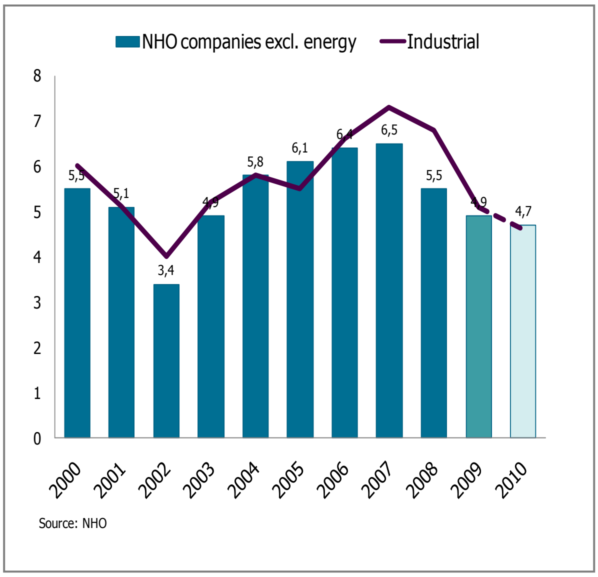
Even though parts of the labour market will improve and overall unemployment may be low in international terms, many jobs in increasingly uncompetitive companies will be at risk in 2010. Given the relatively high numbers of foreign workers many companies now have, how the labour market and unemployment will develop remains very uncertain. Overall we believe that the sum of the total registered unemployed and the total of persons in labour market initiatives will increase from the present 95,000 to 120,000 by the second half of 2010. We have based this estimate on a relatively modest growth in jobs, but as we have said, this whole area carries a great deal of uncertainty. While the monthly increase in unemployment was low in the summer, it increased dramatically in October. Employment fell markedly in the third quarter. NHO's members expect to reduce their labour force by 1.9 per cent in 2009 and a further 0.4 per cent in 2010.

The krone has strengthened significantly since the summer. At the time the national budget was presented, Norwegian hourly pay rates in a common currency were 49 per cent higher than in our competitor countries, against an average of 43 per cent in 2008 and 32 per cent when the krone was at its weakest in the 4th quarter of 2008.

Profitability has weakened considerably since its peak in 2007. This negative trend for profitability is likely to continue through 2009 and 2010, based on the companies' own expectations. But in this assessment there are great differences from industry to industry. Domestic industries that are hardly exposed to international competition expect an improvement in profitability next year. On the other hand, those industries that are more exchange rate sensitive expect the difficult profitability situation to continue through 2010.

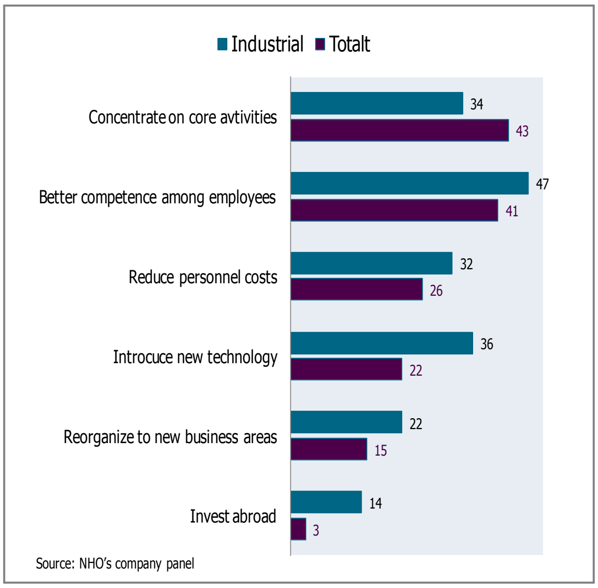
The weak market situation, combined with a difficult costs and profitability situation, will bring a great need for reorganisation in industry. When asked how they will meet these challenges, the companies respond that

Operating margins in NHO industries



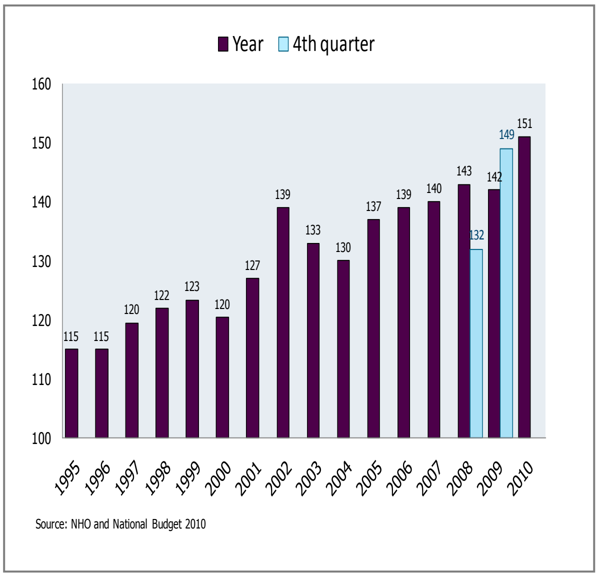
Operating profit as per cent of operating income

Important long-term issuesfor the company



Percentage responding very important

Competitiveness greatly weakened next year



Wage costs for industrial workers in Norway in relation to trade weighted groups

concentrating on core business combined with increasing the competence of the workforce are important pillars of their strategy for reorganisation. The industrial companies also emphasise renewal of technology as an important element in their strategy.

Considerations of competitiveness indicate moderate wage rises and little room for a purely Norwegian increase in interest rates that could strengthen the krone even further. Moderate wage rises are also important in the tax-financed part of the economy. Not least because there is a prospect of reduced tax income. The national budget should have been based on using less of the oil money than is proposed. Also, the part of the crisis measures that were stimulating renewal of technology in manufacturing industry and other sectors with weakened competitiveness should have been continued. It will be particularly important to follow the credit situation in the commercial loan market, so as to avoid limited access to credit putting a further brake on development.

Economic forecast

	2008	2009				2010			
	Statistics Norway	NHO	Statistics Norway	Norges Bank	Dept. of Finance	NHO	Statistics Norway	Norges Bank	Dept. of Finance
Private consumption	1.4	½	0.4	0	0.3	3	5.4	5 ½	4
General gov. consumtion	3.8	6	5.7	5 ¾	5.6	4	3.5	3	2.1
Gross fixed investment	3.9	-6	-5.9	..	-5.9	-1 ¾	-0.2	..	-1
Petroleum extraction and transportation	6.6	5	5.5	7 ½	7	-5	-1.8	0	3
Mainland	2.4	-7 ½	-7.8	-7 ½	..	0	-0.9	-2 ½	..
- Business	6.8	-15	-12.5	..	-16.1	-5	-4.4	..	-2.6
- Housing	-8.1	-10	-13.6	..	-12	2	2.3	..	0.5
- Public	5.8	12	12	..	13.2	8	10.7	..	-2
Demand from Mainland	2.2	¼	0.1	0	-0.3	2 ¾	4.1	3 ¼	2.4
Exports	1.4	-7 ¼	-7.5	..	-6.5	-2 ½	0.5	..	0.1
-Petroleum	4.8	-12	-10.6	..	-11	-5	2.7	¼	1.6
Imports	4.4	-8 ¾	-8.8	-6 ¾	- 4.9	2 ¾	6.6	½	2.4
Gross domestic product	2.1	-1 ¾	-1.6	-1 ½	- 2.1	¼	1.4	1 ¾	1.3
Mainland	2.6	-1 ½	-1.2	-1 ¼	-1.1	½	2.1	2 ¾	2.1
Manufacturing	2.9	-7	-5.7	..	..	-5	-2.3	..	..
Labour force	3.3	½	0.3	¼		½	0.3	¼	..
Employment	3.1	- ½	-0.5	- ¼	-0.4	- ½	-0.6	- ¼	-0.4
Unemployment (LFS)	2.6	3 ¼	3.3	3 ¼	3.2	4	3.9	3 ¾	3.7
Wages per standard man-year	5.8	..	4	4	4	..	3.7	4 ½	3 ½
Consumer prices	3.8	2	1.9	2 ¼	1 ¾	1	0.9	1 ¾	1 ¾
Money market rate	6.2	2 ½	2.5	..	..	2 ¾	2.7	..	..
NOK/EURO	8.2	8 ½	8.8	..	..	8	8.2	..	..
Export prices traditional goods	2.3	-5	-6.5	..	..	2	-0.8	..	..
Current account, pct of GDP	19.9	12	13.4	..	12	9	11.1	..	12.2