



NHOs Quarterly Economic Report

SUMMARY

September 2009



NHO

NHO'S QUARTERLY ECONOMIC REPORT FOR THE 3RD QUARTER OF 2009

The crisis is not over yet

- **NHO's member companies make a downward adjustment of their forecasts for 2010.** In August, the member companies of NHO take a darker view of the economic trend than in our last survey in April. The negative outlook is especially predominant for the manufacturing sector where more than one in three see the market situation as challenging. Manufacturing enterprises fear falling sale prices as well as decreasing turnover and profitability in 2010.
- **Decreasing employment in the time ahead.** The responses provided by the NHO's Economic Survey and other available information indicate that the negative development in relation to private sector employment will continue. One in five enterprises state that they will be implementing dismissals and lay-offs in the next three months.
- **Fragile international optimism.** The outlook for the international economy looks somewhat brighter than it did before the summer, but the upturn is weak, and several of Norway's important trading partners are having economic straits. The danger of inflation has been greatly reduced and interest levels are likely to remain low for a prolonged period of time. Norwegian business are currently feeling the effects of failing export markets and increased competition.
- **The economy is currently developing along two different tracks.** The manufacturing sector and the export industries are currently experiencing low demand while the public sector and enterprises operating in the domestic market are currently increasing their activities.
- **Overcapacity serves to create a demanding competitive situation.** The outlook for both the Norwegian and the global economy clearly indicate that the challenge for the time ahead will be to maintain competitiveness. Currently, there is much that indicates that interest rates, the exchange rate, productivity and wage costs may develop in an unfavourable direction for Norway compared to our trading partners, resulting in the loss of competitiveness next year.
- **Deficient access to credit for the corporate sector.** Figures from the NHO's Business Panel show that the Norwegian corporate sector is still struggling to obtain credit to cover normal operating and investment expenses. This picture is being confirmed by the lending statistics published by Statistics Norway and Norges Bank's Quarterly Survey of Bank Lending, as well as the review of Norwegian banking operations for the first six months of 2009 published by the Financial Supervisory Authority of Norway.
- **Limited competition affects banks' corporate lending.** The Norwegian banking sector is characterised by the fact that there is little competition with regard to corporate lending, while the market for housing financing has dozens of credit providers. There is reason to fear increased banking losses in 2010, and thus Norwegian enterprises may be offered even less favourable terms when they apply for loans. This might delay the recovery of the Norwegian economy.
- **Close to 120,000 unemployed persons in the autumn of 2010.** The unemployment rate is likely to increase somewhat throughout next year – up to 120,000 according to the NHO forecasts. The danger of an even more rapid decline in the employment rate than this with extensive job losses in the manufacturing sector is great however due to a loss of international competitiveness.
- **Avoid an interest increase particular to Norway.** The labour market outlook calls for moderation in the wage bargaining sessions this spring and that the fiscal budget does not provide a too strong stimulus in relation to domestic demand, resulting in an increase in the key interest rate that is particular to Norway alone.

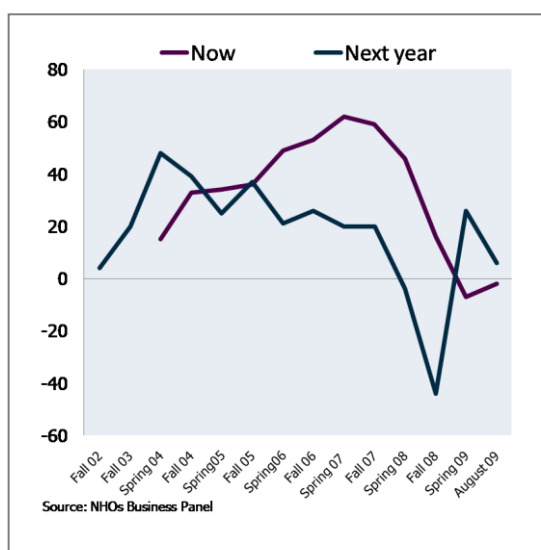
Declining employment, weak profitability – the crisis is not over yet

EURO ZONE	2008	2009	2010
GDP	0,6	-4,3	0,6
Manufacturing	-1,8	-15,5	-0,1
Inflation (CPI)	3,3	0,3	1,2
3-mnd Money market	4,6	1,4	1,4
Unemployment	7,6	9,7	11,0

Source: Consensus Forecasts August 2009

All the OECD countries have experienced recession in 2009. At GDP level, the euro zone may experience a cyclical decline of more than 4 percent if the Consensus Forecasts for August turn out to be correct. Collectively, the world economy is expected to fall by 2.5 percent in 2009. In 2010 we can expect a certain degree of cyclical recovery –strongest in Asia, more moderate in the U.S. There is great uncertainty as to just how strong the cyclical upturn will be. Europe seems to be heading towards a rather flat and sideways development. The unemployment rate in many OECD countries will further increase next year. Increasing government debt lays down restrictions as to the amount of fiscal stimulus policies governments are able to implement. On the other hand, the cool-down period for the economy has greatly reduced the inflation danger, facilitating for a prolonged period of low international interest rate levels. But the already low interest rate level does not provide much leeway as regards the provision of further stimuli for the economy. Both the weak starting point along with the political room for action that has already been used, point in the direction of a rather sad, flat development for the international economy. The weak international demand has resulted in overcapacity in many sectors. Therefore it will take some time for investments to recover. Continued risk of loss serves to generate uncertainty as to the solidity of the financial sector, something which may serve to curb the economic upturn considerably.

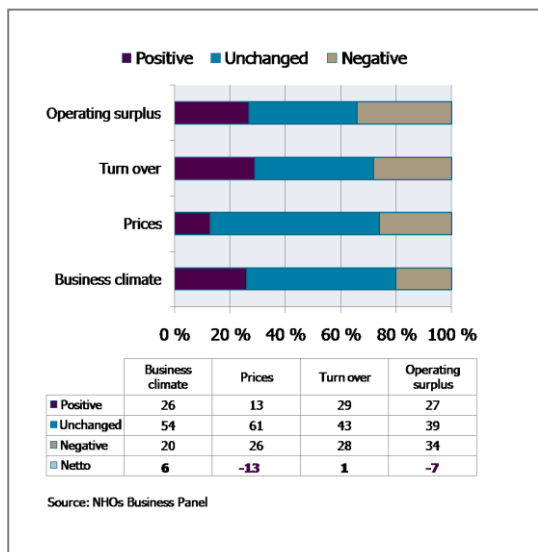
Business climate



The difference between positive and negative response

The international backdrop provides a number of implications for the Norwegian economy and politics. Weak demand, especially in relation to raw material, semi-processed goods and other investment goods, has hit Norwegian industry hard, something which may create challenges both with regard to the market and with regard to prices and profitability. The cost-related competitiveness will be a challenge in a situation characterised by overcapacity and low international demand. Enterprises will have to focus on costs and profitability and will be forced to cut back on their staff. But Norwegian politics and policy makers will also have to make allowances for the fact that many Norwegian

NHos Forecasts for 2010 with regard to:



enterprises will be experiencing tougher international competition and hard-pressed profit margins, making it important for politicians not to implement policies which serve to strengthen the exchange rate for the Norwegian krone. Norwegian monetary and interest rate policies must make allowances for the fact that the interest rate level, not at least in Europe, will remain low for a prolonged period of time. Exchange rate considerations indicate that the leeway for key interest rate increases that are particular to Norway will be very limited in 2010. Therefore, the fiscal budget for next year should not have a stimulating effect on the economy. One has to consider the fact that Norway's relatively low key interest rate has not had the same impact on lending terms for the corporate market as it has for the household market. Higher risk premiums, legal framework provisions along with the so-called gold card (the exchange scheme between housing bonds and government bonds) have contributed to significantly higher lending rates for the corporate market compared to the home mortgage market. In other words, there are several reasons why the economic policy must be composed in such a way as to facilitate for a continued low key interest rate also in Norway.

In our August Survey our panel of member companies reported having approximately the same weak market situation as they did in our June Survey. The manufacturing sector is the sector that finds the current situation most problematic, while the craft enterprises are more satisfied than they were in June. The evaluations of 2010 have become somewhat more sober in August than those expressed in the June Survey when the enterprises held a more optimistic outlook for the future. In particular, there is a pronounced downward adjustment in the tourism industry, the manufacturing sector and within the construction industry. The fishery sector and the service industry have adjusted their 2010 estimates upwards from June to August. It is predominantly enterprises within the manufacturing sector that have been implementing or plan to implement dismissals and layoffs. Based on the responses given in August, 2010 is expected to be a difficult year with regard to sales prices and profitability. A majority of the enterprises expect a fall in both prices and profitability from 2009 to 2010.

NORWAY	2008	2009	2010
GDP- Mainland	2,6	-1 ¼	½
Manufacturing	2,9	-7	-5
Inflation (CPI)	3,8	2 ¼	1
3-mnd Money market	6,2	3	2 ¾
Unemployment (LFS)	2,6	3 ¼	4

Source: SSB/NHO

Based on the information we currently have it looks like the decline in the Norwegian economy will be somewhat

more moderate for 2009 than we predicted in May, despite the fact that the Norwegian export sector is weaker. This development is being counteracted by a somewhat improved development with regard to Norwegian domestic demand. Despite the fact that there is a decline in the employment rate for the private sector there is a strong increase in public sector employment, resulting in a more moderate unemployment rise than what we estimated in May. Our current predictions for 2010 indicate that there is a danger that the unemployment rate will continue to rise next year. It may increase by twenty to thirty thousand compared to the ninety thousand unemployed we have registered today (gross unemployment figures by the Norwegian Labour and Welfare Service NAV). According to our forecasts, the Norwegian economy will be moving rather sideways from 2009 to 2010, resulting in a falling employment rate. Just how strong the rise in the unemployment rate will be next year will also depend on how flexible the labour market turns out to be. Among other things, there are tendencies indicating that the use of foreign labour declines in times characterised by a weaker market situation. The fact that more people opt for an education when the labour market is tight may also seem to reduce the supply of labour, and serve to curb a too strong growth in the unemployment rate. The unemployment rate is expected to be especially high within the industrial trades, based on the responses given with regard to the extent of dismissals and layoffs.

Economic forecast August 2009

)	2008	2009				2010			
	Statistics Norway	Statistics Norway	Norges Bank	Dept. of Finance	NHO	Statistics Norway	Norges Bank	Dept. of Finance	NHO
Private consumption	1.4	0.4	- ¼	0	½	5,4	5 ¼	..	3 ½
General gov. consumption	3.8	5.7	5 ¾	5,7	5	3,5	3 ¾	..	4
Gross fixed investment	3.9	-5,9	..	-6,3	-5 ¼	-0,2	..	..	½
Petroleum extraction and transportation	6.6	5,5	5	5,5	5	-1,8	0	..	-2
Mainland	2.4	-7,8	-13	..	-7 ½	-0,9	-6 ¾	..	2
- Business	6.8	-12,5	..	-16,1	-15	-4,4	..	..	-5
- Housing	-8.1	-13,6	..	-12	-8	2,3	..	..	2
- Public	5.8	12	..	..	12	10,7	..	..	16
Demand from Mainland	2.2	0,1	-1 ¼	-0,4	0	4,1	2 ¾	..	3 ½
Exports	1.4	-7,5	..	-5,3	-4 ¼	0,5	..	..	-2 ½
-Petroleum	-1.5	-5,6	..	-4,5	-2	-1,7	..	..	-½
- Traditional goods	4.8	-10,6	-9 ½	-7,33	-8	2,7	¼	..	-5
Imports	4.4	-8,8	-6 ¾	-2,4	-8	6,6	½	..	3
- Traditional goods	2.7	-8,8	..	-4	-8	6,7	..	..	3
Gross domestic product	2.1	-1.6	-1 ½	-1,9	-1	1,4	2 ¼	..	¼
Mainland	2.6	-1.2	-1 ½	-1	-1 ¼	2,1	2 ½	¾	½
Manufacturing	2.9	-5,7	..	..	-7	-2,3	..	..	-5
Labour force	3,3	0,3	½		½	0,3	¼	..	½
Employment	3.1	-0,5	-½	-1	-¼	-0,6	-½	-1 ½	-½
Unemployment (LFS)	2.6	3.3	3 ½	3 ¾	3 ¾	4,9	4 ½	4 ¾	4
Wages per standard man-year	5.8	4	4	4	..	3,7	3 ¾	..	..
Consumer prices	3.8	1,9	2 ¼	1,8	2 ¼	0,9	1 ¾	..	1
Money market rate	6.2	2,5	..	..	3	2,7	..	..	2 ¾
NOK/EURO	8.2	8,8	..	..	8 ½	8.2	..	..	8
Export prices traditional goods	2.3	-6,5	..	..	-5	-0,8	..	..	2
Current account, Bill. NOK	466.2	322,8	..	..	..	274,6	..	..	..
Current account, pct of GDP	18.3	13,4	..	9,8	10	11,1	..	..	..

