

NORWEGIAN MARKET STATEMENT 2008

The sixty-sixth session of the UNECE Timber Committee, Rome, 21-22 October 2008

The turmoil in the international financial markets influences developments in Norway. As the financial unrest has grown, the uncertainty about the outlook for the world economy has increased, making short-term economic prospects for Norway more uncertain as well.

Growth in the Norwegian economy has been strong for the past four years, with an annual growth in Mainland GDP of 5 per cent. This has been the strongest expansion in a four-year period since the 1950s. However, recent indicators suggest that growth in Mainland GDP has slowed, indicating a more moderate outlook for the economy. Weaker growth impetus from traditional goods exports and lower growth in household demand is expected to contribute to slower GDP growth. The financial turmoil has increased the uncertainty about the outlook for the economy. Growth in Mainland GDP is expected to decline from 6 per cent in 2007 to 3 per cent this year, and 2 per cent in 2009.

Employment growth has been very strong since 2003, and the unemployment rate is now at a 20-year low. The unemployment rate will remain low, albeit not quite as low as during the past year. A slowdown in economic growth ahead suggests that demand for labour will ease and employment growth level off. Unemployment is expected to average 2¾ per cent in 2009.

The tightening of the labour market the past few years have resulted in a wage growth almost as high as under the economic boom of the late 1990s. Based on the wage negotiation concluded so far this year, annual wage growth is estimated at 6 per cent in 2008. Wage growth is estimated at 5 per cent in 2009.

High capacity utilization and increased wage growth has contributed to an increase in the underlying price inflation. Adjusted for changes in excise duties and excluding energy, consumer price inflation (CPI-ATE) is forecast at 2½ per cent in 2008 and 2¾ per cent in 2009. Higher energy prices will contribute to a pick up in headline inflation (CPI) from 0.8 per cent in 2007 to an estimated 3¾ per cent in 2008 and 3 per cent in 2009.

The oil price has fluctuated considerably so far this year, with an average oil price close to NOK 583 per barrel. The projection in the National Budget 2009 is based on an oil price of NOK 585 per barrel in 2008 and NOK 500 in 2009.

Policy measures

In order to facilitate for higher activity in the forest sector, the government has continued the measures that was introduced or strengthened in recent years. The measures aim to achieve higher activity and profitability in the forest sector and include:

- Increased tax relief for forest owners when investing in forest infrastructure, forest production and small scale bio energy production
- Increased governmental support for forest infrastructure and long term investments in forest production
- Increased support for bio energy production through the Bio energy Programme
- Prolonged support for the Wood-based Innovation Scheme, supporting the sound use of wood

- Provisional regulations for road transportation allowing for heavier timber transports

The white paper on climate change policy presented to the parliament in June 2007 recognizes the important role of forests in combating climate change, and among the actions to be taken are facilitating for increased planting and forest management aiming to increase forest production.

Increased production of bio energy is another important goal presented in the parliament paper from the Government. The Government aims at an increase in bioenergy production of 14 TWh by 2020 to reduce the emissions from fossil fuel.

As a follow up of the white paper on climate change policy, the Government presented a new strategy for increased production and use of bioenergy in 2008. In order to create favourable conditions through focused and coordinated policy means, the strategy announced several measures to remove obstacles for and to promote use of bioenergy.

Among the proposals, the removal of a market distorting price mechanism, support schemes for infrastructure and production of district heating, and a prohibition against installation or replacement of oil boilers in heating systems for buildings are measures of special interest for the forest sector.

In the proposal for the national budget for 2009, the Government has announced increased efforts in research and development on bioenergy issues. There is also announced support to facilitate increased production and utilization of bioenergy from forests.

The increased efforts to increase the production and use of bioenergy are, together with the general forest policy measures, expected to improve the profitability in the production and to increase the demand for wood for bioenergy.

Market drivers

Several governmental agencies like The Norwegian State Housing Bank (Husbanken) and The Public Construction and Property Management (Statsbygg) are increasingly interested in developing their environmental policy on construction requirements. In their serious research in this connection wood has been recognised as an advantageous building material based on its environmental properties. Very soon all building material suppliers to these very important trendsetters will have to prove the environmental properties of their materials and building solutions according to international standards for environmental product declarations. The private real estate sector is also organising in the field of environmentally friendly materials, building- and energy solutions; The Green Building Alliance (Grønn Byggallianse).

Developments in forest products market sectors

Wood raw materials

Removals of sawlogs had a 10% increase from 2006 to 2007. This was mainly due to high demand at the beginning of the year. A slowdown in the building sector led to lower demand and prices later in 2007. Removals of pulpwood also increased with nearly 10%. The price for pulpwood has been more stable throughout the year. In periods, limited capacity on forest operators represented a constraint to the activity.

For 2008, a decrease in the demand and production of sawlogs is expected. At the same time the demand for pulpwood is increasing, leading to a shift in production with an increased share of pulpwood in line with recent price development for the two dominating roundwood assortment groups. Total removals are expected to increase in 2008 and 2009. This is partly explained by the new Russian regulations on exports.

Developments in the energy sector could influence on the pulpwood share of the removals.

Wood energy

The total consumption of wood energy is estimated to be approximately 15 TWh per year. The use of wood fuel in private homes makes up half of the consumption, while the other half is mainly used in the forest based industries. These figures have been relatively stable for a long time, with changes in the figures of wood fuel mostly explained by challenges in estimating the exact amounts of firewood sold and used, and changing methodologies. The use of wood energy is expected to increase as a result of the introduction of several measures under the Government strategy for increased production and use of bioenergy, as well as the development in power prices and general aim to increase the use of environmental friendly energy.

Sawn softwood

There were record high figures for housebuilding starts, leisure housebuilding (second homes) and renovation in 2007. Since the fourth quarter of 2007 the number of housebuilding starts has fallen. The 2009 estimate is at the same level as the average figure for the period 1994 – 2003. The recent turmoil in the international markets makes the estimate very uncertain.

Extremely high domestic demand and high international product price levels made 2007 the most profitable year for the Norwegian sawmilling industry in more than 20 years.

Favorable domestic market conditions for 2007 are reflected in low exports figures and high imports. So far in 2008 there are no major changes in total exports compared to the previous year. There is a tendency towards reduced imports.

Until the end of August 2008 production is reduced 4 per cent compared to 2007. In the same period there has been a 20 per cent sawlog inventory increase and a 13 per cent sawnwood inventory increase.

Pulp and paper

There is still considered to be a surplus of capacity in the industry on the international level, making it difficult to adjust prices in order to secure economic viability. Minor reductions are expected for 2008 and 2009 for production, imports, exports and consumption of pulp and paper. Paper and paperboards are the products most exposed for international trade, where export constitutes 80-90% of the total production.

Wood based panels

The figures for 2007 shows only minor changes concerning the production of wood based panels. The activity in the building industry is expected to decrease in 2008 and 2009. This will be followed by a decrease in domestic consumption of wood based panels this year and in 2009. The decrease will influence both production and imports.

Key projections for the Norwegian economy¹. Per cent

	2007	2007	2008	2009
	NOK billion ²			
Private consumption	946.1	6.4	2.3	2.5
Public consumption	449.3	3.6	3.8	3.4
Gross fixed investments	473.1	9.3	4.6	-0.3
Petroleum	107.9	5.5	11.0	5.0
Business sector, Mainland Norway	168.0	12.5	7.9	-2.4
Exports	1042.7	2.8	2.2	2.5
Crude oil and natural gas	479.9	-2.8	-1.5	2.6
Traditional goods	302.4	9.0	5.9	1.8
Imports	686.3	8.7	5.3	1.8
Traditional goods	450.7	8.1	5.5	1.9
Gross domestic product	2276.8	3.7	2.0	2.3

Mainland Norway	1714.6	6.2	3.1	1.9
<i>Memorandum items:</i>				
Consumer price inflation (CPI)		0.8	3¾	3
Underlying inflation (CPI-ATE)		1.4	2½	2¾
Wage growth		5.4	6	5
Employment growth		4.0	2.8	0.4
Unemployment rate (LFS)		2.5	2½	2¾
Current account balance (pct. of GDP)		15.4	20.5	16.6

¹Constant 2005 prices

²Current prices

Sources: Statistics Norway and Ministry of Finance

Forest products production and trade in 2007, forecasts for 2008 and 2009

			Unit 1000	2007	2008	2009
Industrial roundwood	Removals	Saw and veneer logs	m ³	4 490	4 156	4 306
		Pulpwood	m ³	3729	4 450	4 550
		Other industrial roundwood	m ³	0		
		Total	m ³	8 219	8 606	8 856
	Imports	Saw and veneer logs	m ³	290	256	256
		Pulpwood	m ³	2 338	1 800	1 800
		Total	m ³	2 628	2 056	2 056
	Exports	Saw and veneer logs	m ³	334	251	251
		Pulpwood	m ³	600	401	401
		Total	m ³	934	651	651
Sawnwood	Production	m ³	2 402	2 318	2 318	
	Imports	m ³	1 193	1 077	998	
	Exports	m ³	352	317	402	
Wood pulp	Production	Mt	2 225	2 154	2 150	
	Imports	Mt	47	45	45	
	Exports	Mt	636	631	630	
Paper and paper board	Production	Mt	2 009	1960	1 950	
	Imports	Mt	593	552	525	
	Exports	Mt	1 729	1 675	1 650	

Sources: Statistics Norway, Norwegian Forest Owners Federation, The Norwegian Sawmill Industries Association, Norwegian Pulp and Paper Association