

**NORWEGIAN MARKET STATEMENT 2011**  
**UNECE Timber Committee Week, 10-14 October, Antalya, Turkey**

Provided by the Norwegian Ministry of agriculture and Food

### **1. General economic trends**

(Economic survey 3/11 - September 2011 - Statistics Norway)

**Norwegian economy had a modest growth in 2010 which indicate an emerging period of general economic growth. The domestic consumer demand has raised during the last 12 months and investment in housing and house prices indicates growth as well.**

**The unemployment rate is lower compared to 2010 and wages tends to increase slowly. Although, the inflation rate is low due to a strong Norwegian krone. The fiscal policy are less aggressive, interest rates are still low, but it is expected that the National Bank will increase the key interest rate in a 12 month perspective.**

**Business and trade are fairly optimistic and this is also reflected in their plans for investments. This covers both the mainland industry and the oil and gas sector.**

**Increased domestic demand suppose to increase the economic growth substantially from 2013. Increased immigration supports the economic potential in the Norwegian economy and makes it possible to increase employment in several sectors.**

#### **Moderate export growth**

Weak international growth combined with reduced Norwegian cost competitiveness will result in a small decrease in total exports in 2011, but a modest increase in the years to follow. Exports of traditional goods will show a positive development in 2011 and this development is expected to strengthen in the next years.

#### **Tighter fiscal policy**

The growth impulses from fiscal policy will be less significant than previous years and this trend is expected to continue next year and in 2013. The budget deficit in 2012 is expected to be in line with the 4 percent fiscal rule.

#### **Interest rates are kept on a low level**

The key interest rate has been kept stable through 2011. The three-month money market interest rate has increased a little over the last year and is around 2.8 per cent. Prospects of very low interest rates internationally, moderate growth in the Norwegian economy and low inflation will probably lead to a fiscal policy where the key interest rates will remain unchanged until the spring/summer of 2012. The money market rate tends to follow the key interest rate, but increased expenses for the finance sector can change this to a slowly rising money market rate in the period 2011-2014.

#### **Increased business investments**

Following a couple of years of decline, there has been an increase in investment in mainland industries in the first part of 2011. This is expected to continue to rise the rest of 2011 and further in 2012. Investment in petroleum activities is expected to increase significantly in the years to come and this might lead to a certain pressure in the mainland investments as well.

### **The building sector is recovering**

The decline in housing prices and building activity in 2008-2009 was reversed last year and the real price of houses is now recovering to the level of 2007. It is expected a moderate future increase in prices due to increased activity in the building sector. High house prices stimulate housing starts and it is expected that investment in housing will continue to rise in the years to come. For 2011 it is expected that building of dwellings will be around 28.000 units.

### **Increased household consumption**

There has been a steady growth in household consumption the last year and it is expected that this will continue. This is due to low interest rates and increase in incomes. Consumer spending is expected to increase by 3.4 per cent this year and then grow by around 5 per cent the years to follow. At the same time the domestic savings are increasing slowly and will probably be 8.4 per cent in 2011. The growth in consumers disposable income seems to keep on a stable level in 2011 and the years to come – around 4.0 per cent.

### **Relatively tight labour market**

The number of employees has fallen for nearly two years, but will recover in 2011 and show a modest growth of 1.2 per cent. This trend is expected to continue and the growth level will be around 2.5 per cent the next years. reduced growth and periodic decline in the labour force has restrained the increase in unemployment. Adjusted for normal seasonal variations, unemployment as a proportion of the labour force was 3.6 per cent in 2010 and will probably decrease to 3.3 per cent this year. It is estimated that the unemployment rate will be up to 3.2 per cent in 2012 and then continue to fall in the years to com.

### **Modest wage and price increases**

The global recession clearly restrained wage increases in the period 2007-2010. Now this trend is partly broken and for this year and the two following years, it is expected to be around 3.5 per cent. Price increases are estimated at 2.5 per cent this year, making the rise in real wages 1 per cent. Lower growth in energy prices is expected to contribute to a reduction of 1.5 per cent in the rise in consumer prices next year. The rise in real wages will therefore nearly double in 2011.

## **2. Policy measures taken over the past 18 months, which might have a bearing on trade and markets of forest products or forest management.**

The scheme for increased production of wood chips for energy purposes, launched among the measures of the extraordinary stimulus packages to counter the financial crisis in 2009 has been prolonged. The purpose of the scheme is to stimulate the use of forest material which has not been sufficiently exploited so far. Although the scheme was started as a measure for securing employment during the financial crisis, it is equally important as a measure for achieving the aim of producing 14 TWh bioenergy within 2020.

During the last years the government has granted an increase of the budget of the Bioenergy scheme, one of the main instruments for increasing the production and use of bioenergy.

The public Wood-based Innovation scheme has an annual budget of 38 mill. Nkr. (2011), and the objective of the scheme is to increase the use of wood and added value in the

entire value chain. Economic support is given in three areas: Industrial building and construction, Wood products and traditional use of wood and Innovation systems.

The Norwegian Nature Diversity Act entered into force on the 1st of July 2009. The act provides rules for the sustainable use and protection of the natural environment and will apply for all sectors of society that have activities that affect nature, for example planning and building, fisheries, road construction, oil activity and forestry. It is still too early to assert the bearing the new act will have on trade and markets of forest products or forest management.

### **3. Market drivers, including wood and paper procurement policy developments. What market drivers are positively or negatively affecting your country's forest products markets?**

There is an increased focus on sustainable building practise and environmental aspects in the building sector. One of the major international environmental building schemes, BREEAM, has been developed and will be introduced on the Norwegian market. There is also an increased focus on the use of wood as a renewable and climate friendly solution. This represents an opportunity for the forest sector. New and increasingly stricter requirements for energy efficiency in new buildings are also a potential market driver for extensive use of wood in buildings.

There is an ongoing development of new products and applications of wood based alternatives where other materials have been preferred earlier. Combined with building codes which focus on function rather than materials, this has increased the use of wood in large and multi-storeyed buildings. The use of wood in modern road bridges is another example. Although this development is expected to continue, there are still challenges in making wood and wood-based products a competitive alternative where other solutions traditionally are used.

Public purchasers and builder are to a certain extent tending to focus on environmental aspects in their purchase and contracts. There are several public buildings projects and processes in the major cities of Norway which defines environmental specifications connected to building projects. This includes e.g. CO<sub>2</sub>-emissions which enhance to an extended use of wood.

### **4. Developments in forest products markets sectors**

*Sources: Norwegian Forest Owners Federation, The Norwegian Sawmill Industries Association, Norwegian Pulp and Paper Association, Wood Focus*

#### **Wood raw materials (e.g. roundwood: sawlogs, pulpwood and fuelwood)**

Roundwood removals in 2010 showed an increase compared to 2009. This trend seems to continue in 2011. As a result of the financial crisis, building activity was reduced, and the industry reduced their stock inventories. Demand for roundwood decreased with corresponding low prices. From the end of last year the economic situation improved and the activity in the forests improved through the winter and roundwood removals entered a more normal level.

For 2011 the positive trend from last year seems to be prolonged and the industry are expected to increase their consumption of roundwood in the next year. There is anyhow some uncertainty connected to the development in the paper and pulp industry, their purchase of pulpwood, and in this respect the total roundwood removals.

### **Wood energy, with a focus on government policies promoting wood energy**

Increased use and production of bioenergy from wood is a goal in government policies. Measures for increased production of bioenergy have also been included in the stimulus packages for counter measuring the financial crisis. There has been a positive development in bioenergy production from forest biomass, and as a result of about more than 200 000 m<sup>3</sup> of wood chips has been produced from areas with little or no economic viable industrial roundwood producing capability.

### **Certified forest products**

Most of the forestry in Norway is certified through PEFC. The Norwegian Living Forest standard, which is the basis for certification, was based on consensus among the forest sector and environmental NGOs. Disagreement about the use of spruce and non native tree species for afforestation in coastal areas has led to environmental NGOs withdrawing their support to the certification standard. This has led to concern about future development of certification standards. The pulp and paper industry is also experiencing demand for FSC certification from some markets. This has led to a development where several suppliers of wood logs now are prepared to deliver FSC-certified timber.

### **Value-added wood products**

There has been an increase in development and production of construction elements and other prefabricated products made from wood. This is an ongoing trend and replaces production on the building site. The development has initially started for new buildings, but are now also realized for repair and maintenance of older buildings, e.g. according to energy efficiency.

### **Sawn softwood**

For sawn softwood, the situation is closely linked to the construction and renovation activity. Construction activity is improving, but there are huge regional differences in the pace of recovery. Residential construction improves faster than other construction sectors. The downturn in residential construction in 2008-2009 hit hardest on multi family homes; and blocks of flats in particular. These segments are now improving significantly while single family home building seems to have a more stable development. Leisure house building, which is important for wood consumption, has started to recover, but are still on a lower level compared to 2008-2009. The renovation activity has been stable the last years, and is expected to grow slowly. The total production of soft sawnwood are showing a modest upgoing trend. The export increased in 2010 but seems to decrease slightly in 2011. The same development is expected for import of soft sawnwood.

Stocks of construction timber qualities (structural, cladding and interior) are at normal levels, but slightly higher than last year (per 2<sup>nd</sup> quarter) and show normal seasonal fluctuations.

In 2010, Germany, Belgium, Netherlands, Denmark, Sweden and UK were the main importing countries of Norwegian sawn softwood, while around 90 per cent of the imports to Norway were from Sweden.

### **Pulp and paper**

There is still surplus production capacity in the global and especially European markets for graphic papers. As a major part of the production in Norway is of graphic papers, this influences the situation for the mills in Norway. Some paper machines are temporarily closed down.

Prices on recycled paper, pulp and pulpwood increases more than the prices on paper and paperboard.

The investment level of the industry is low, only covering the most urgent investments.

There are signs of increased prices for various paper and board grades, which indicates better markets and less overcapacity in the longer run.

## Tables

### 1. Key figures for the Norwegian economy<sup>1</sup>. Percentage change from previous year

|  | 2009 <sup>1</sup><br>NOK<br>billion <sup>2</sup> | 2010  | 2011<br>(prognosis) |
|--|--|-------|---------------------|
| Private consumption.....                       | 1012.3   | 3.7   | 3.4                 |
| Public consumption.....                        | 534.9  | 2.2   | 2.4                 |
| Gross fixed investments                        | 515.4  | -7.4  | 8.7                 |
| Petroleum.....                                 | 136.5  | -12.4 | 12.1                |
| Business sector, Mainland Norway.....          | 199.1  | -3.1  | 9.5                 |
| Exports.....                                   | 1005.5   | -1.7  | -0.9                |
| Crude oil and natural gas.....                 | 463.6  | -7.4  | -1.7                |
| Traditional goods.....                         | 278.4  | 4.9   | 1.1                 |
| Imports.....                                   | 657.8  | 9.0   | 7.2                 |
| Traditional goods.....                         | 409.2  | 8.3   | 6.4                 |
| Gross domestic product.....                    | 2408.3   | 0.3   | 2.3                 |
| Mainland Norway.....                           | 1 853.8  | 2.1   | 3.2                 |
| <i>Memorandum items:</i>                       |  |       |                     |
| Consumer price inflation (CPI).....            |  | 2.5   | 1.9                 |
| Underlying inflation (CPI-ATE).....            |  | 1.4   | 1.3                 |
| Wage growth .....                              |  | 3.7   | 4.1                 |
| Employment growth.....                         |  | -0.2  | 1.2                 |
| Unemployment rate (LFS).....                   |  | 3.6   | 3.3                 |
| Crude oil per barrel, NOK <sup>2</sup>         |  | 484   | 598                 |
| Current account balance (per cent of GDP)..... |  | 12.4  | 12.6                |

<sup>1</sup>Constant 2007 prices.

<sup>2</sup>Current prices.

Sources: Statistics Norway and Ministry of Finance.

## 2. Forest products production and trade in 2010, forecasts for 2011 and 2012

|                          |            |                            | Unit 1000      | 2010  | 2011  | 2012  |
|--------------------------|------------|----------------------------|----------------|-------|-------|-------|
| Industrial<br>roundwood  | Removals   | Saw and veneer logs        | m <sup>3</sup> | 4 356 | 4 500 | 4 600 |
|                          |            | Pulpwood                   | m <sup>3</sup> | 3 985 | 4 150 | 4 300 |
|                          |            | Other industrial roundwood | m <sup>3</sup> |       |       |       |
|                          |            | Total                      | m <sup>3</sup> | 8 341 | 8 650 | 8 900 |
|                          | Imports    | Saw and veneer logs        | m <sup>3</sup> | 218   | 200   | 250   |
|                          |            | Pulpwood                   | m <sup>3</sup> | 501   | 900   | 1 000 |
|                          |            | Total                      | m <sup>3</sup> | 719   | 1 100 | 1 250 |
|                          | Exports    | Saw and veneer logs        | m <sup>3</sup> | 233   | 250   | 250   |
|                          |            | Pulpwood                   | m <sup>3</sup> | 607   | 650   | 650   |
|                          |            | Total                      | m <sup>3</sup> | 840   | 900   | 900   |
| Sawnwood                 | Production | m <sup>3</sup>             | 2 100          | 2 125 | 2 150 |       |
|                          | Imports    | m <sup>3</sup>             | 930            | 850   | 850   |       |
|                          | Exports    | m <sup>3</sup>             | 500            | 475   | 450   |       |
| Wood pulp                | Production | Mt                         | 1 882          | 1 800 | 1 900 |       |
|                          | Imports    | Mt                         | 48             | 60    | 50    |       |
|                          | Exports    | Mt                         | 648            | 500   | 600   |       |
| Paper and<br>paper board | Production | Mt                         | 1 695          | 1 450 | 1 600 |       |
|                          | Imports    | Mt                         | 482            | 550   | 450   |       |
|                          | Exports    | Mt                         | 1 464          | 1 300 | 1 350 |       |

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