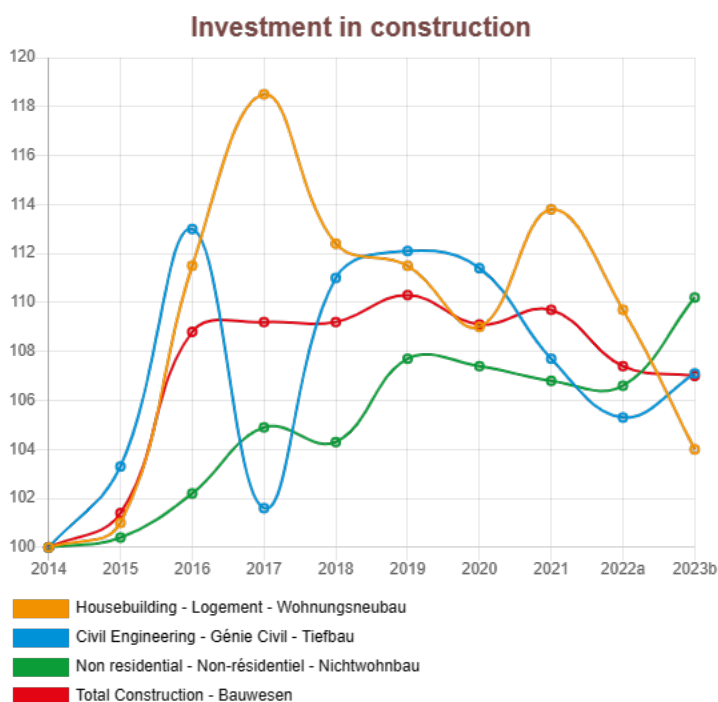


GDP 2021
€ 408
BILLION

POPULATION 2020
5,417,959

Total investment in construction in 2021
€ 60
BILLION



Overall construction activity

The Norwegian economy experienced strong growth in 2022 despite several obstacles. High oil and gas prices generated big export revenues for Norway, but prices have fallen significantly from their peak and appear to remain relatively low. Total Norwegian GDP growth is expected to be lower than the trend in the forecast period, fluctuating between 1,6% and 1,8% in 2023. Mainland GDP growth is forecasted to be somewhat weaker than this. The labour market is still tight but weaker growth perspectives, both domestically and internationally, will relieve some of the pressure. Inflation is forecasted to gradually decrease throughout the year but will remain above the target level of 2%. The central bank raised its key policy rate through 2022 and continued now in March 2023, reaching 3%. The Norwegian Krone (NOK) is historically weak, and the central bank may have to raise interest rates further to strengthen the NOK and avoid increased imported inflation.

Both building production and total construction output is estimated to have declined by 1,6-1,7% in 2022, measured in constant prices. Forecasts for 2023 indicate a further 1% decline in building production output, and zero growth in total construction. New residential construction will be the segment that contributes most negatively this year, while civil engineering has been most revised downwards since the 2022-report. High building costs and increasing interest rates have reduced sales of new dwellings, while the Government's fear of contributing to higher inflation has led to postponed and reduced infrastructure projects. Forecasts show that building material costs probably will decline somewhat more in Norway, before they stabilize at a level which still will be far above the pre-pandemic-level. Meanwhile higher labour costs will ensure that total building costs won't decline, but rather flatten out at a high level.

Housebuilding

Registered housing starts ended at 29 820 dwellings in 2022, the third year in a row with the same level. However, it must be highlighted that registered starts in Norway are equivalent to a permit to start (lasts for three years). There is no information on whether the permit has led to a physical start. The other registered statistic is for "permits", which applies to building projects where a two-step-application-process is needed. Record low sales figures throughout much of 2022, but especially in the fourth quarter, point to lower activity this year. We expect both permits and starts to decline to the lowest level since the financial crisis. Interest rate hikes and still high inflation will reduce households' disposable income, thereby reducing their purchasing power in the housing market. On the supply side, high construction costs still provide a challenging situation. A weak growth is forecasted in the next two years, so that the level in 2025 is back to around 29 000 dwellings, which is also the level of the calculated annual demographic housing need. The housebuilding sector also includes holiday houses and residential garages, which are closely linked to housing production. After two booming years of new holiday house construction, activity is forecasted to drop substantially in 2023 and stabilize at pre-pandemic-levels. The Norwegian residential renovation & maintenance (R&M) market is estimated to have declined around 1% in 2022, measured in constant prices. There was growth in different types of work connected to increasing the energy efficiency in buildings, but other segments declined. A slight growth of 1% is expected in total residential R&M this year before picking up to 3% in 2024 and 4% in 2025. Households have higher expenses for interest rates, electricity, food and fuel, resulting in lower disposable income for major R&M projects. We expect these factors to have a particularly large effect this year.

Prices of construction materials

The price of construction materials reached an all-time high in the past year, but the tide is turning due to a combination of falling demand and increasing interest rates. Nevertheless, prices are still significantly higher than pre-pandemic levels. The steel price index in Q4 2022 recorded a 67% increase when compared to Q1 2020, while the cement price index in the last quarter of 2022 showed a 20% price increase from Q1 2020. Both price indices are lower than the preceding quarter. However, we do forecast stabilized growth in the price indexes this year, which can be attributed to higher production costs. The wood price index has also reached its peak, with a 69% higher price in Q4 2022 than in Q1 2020. As we forecast a lower demand for new house building starts this year, we do expect the wood prices to decline further. The price of bitumen rose with the increase in oil prices in the past years. A 25% higher price in Q4 2022 than Q1 2020 reveals this. The oil price has already declined and therefore, the price index for bitumen is expected to decline. There are a series of events that led to the exponential growth in construction prices, and the Norwegian market is highly dependent on the European market. The fear of a potential energy crisis

Non-residential construction

Permits and starts for new non-residential building area have developed surprisingly positively in 2022. Nevertheless, it must be emphasized that the statistics for last year are very uncertain, and the high building costs can have led to postponements in physical starts (which aren't registered anywhere). There was especially a strong growth in 2022 for warehouses, after already strong growth and historically high levels in 2021. The forecast shows building starts for 3,1 million m2 of non-residential in 2023, a decrease of 19% compared to last year. This is due to construction costs flattening at a high level, interest rate hikes, still high inflation and lower demand and lower economic activity. The forecast for 2024 is 3,5 million m2, an increase of 13 % from 2023. Two large, new hospitals in Oslo are behind this anticipated growth. These building projects will contribute positively to the construction output in several years ahead. Growth in non-residential R&M in 2022 is estimated to 1%, measured in constant prices. Energy efficiency projects in existing buildings contributed positively to this segment last year, along with tenant adaption projects and general maintenance. However, the larger and more expensive renovation projects seem to have contributed negatively last year. We expect a marginally stronger growth this year of 2% and further 3% in 2024. R&M on warehouses and health and social buildings are the building types that are expected to have the strongest growth.

Civil engineering

The civil engineering sector has developed weaker than forecasted in the previous years. It has been almost untouched by the COVID-19 control measures, however a regional reform led to postponements of several large road projects. Newly revised estimates show declining civil engineering construction output (both new investments and R&M) each year in 2020-2022. Last year the decline is estimated to 2%, while the forecast for both 2023 and 2024 shows 2% positive growth each of the years. This is a much weaker growth than earlier forecasts for these years have shown. Investments in roads will be the only segment with growth in the upcoming years, but growth won't pick up sharply until 2025. Growth in R&M is usually more modest than in new investments, at some 2% a year, which in general is not enough to prevent a further increase in pent-up renovation need. However, in 2023 it is forecasted to grow by 6% (after 5% growth in 2022).

Per cent variation of investment in real terms on previous year investment Mln. € fixed prices Sectors 2022a 2019 2020 2021 2022a 2023b 1. Building 27.158 1,0 -1,3 2,1 -2,0 -1,2 1.1. Housebuilding 14.498 -0,8 -2,3 4,4 -3,6 -5,2 1.1.1. New 8.833 -2,8 -5,4 6,7 -5,5 -9,3 1.1.2. Renovation 5.665 2,7 3,0 1,0 -0,4 1,1 1.2. Non residential (c) 12.659 3,3 -0,3 -0,5 -0,1 3,4 2. Civil Engineering 10.257 0,9 -0,6 -3,4 -2,2 1,7 (1 + 2) Total Construction 37.414 1,0 -1,1 0,5 -2,1 -0,4 a: estimate - b: forecast - c: incl. R&M Number of building permits in residential construction 2019 2020 2021 2022a 2023b single dwelling 6.574 6.703 6.703 6.141 5.500 collective dwelling 22.881 21.144 21.144 22.479 19.000 other types of dwelling 2.668 2.232 2.232 1.199 1.500 Total 32.123 30.079 32.446 29.819 26.000 (Collective dwellings and other types of buildings: in number of flats)