

The Royal Norwegian Ministry of Agriculture

Department of Forestry

Norwegian Market Statement

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General economic situation

Macroeconomic projections for 2002 point to a modest pick-up in growth of the Norwegian economy. Higher private consumption and oil investments contribute to higher growth, whereas investments in manufacturing industries, electricity supply and some service sectors tend to be somewhat weaker than earlier expected;

- Mainland GDP is estimated to grow by 1.8 per cent in 2002 compared to a 1.2 per cent growth last year. Total GDP, which also includes petroleum and shipping, is expected to increase by 2.0 per cent in 2002.
- Private consumption is estimated to grow by 3.5 per cent this year, $\frac{3}{4}$ percentage points higher than estimated in the Amended 2002 budget. The upward revision is mainly due to higher wage growth. In addition, tax relieves contribute to the strong income growth in 2002.
- The number of housing starts has increased markedly so far this year after a surprisingly weak development at the end of last year. The number of housing starts is seen to decrease somewhat during the year, still leaving the growth in residential investments at a high level.
- Mainland business fixed investments are projected to fall by nearly 2 per cent in 2002. The estimate for 2002 has been revised downwards since the Amended 2002 budget, mainly due to lower than expected investments in manufacturing industry, electricity supply and some service sectors.
- Petroleum investments are projected to rise by 1 per cent in 2002 compared to a nearly $2\frac{1}{2}$ per cent fall estimated in the Amended budget. The upward revision is mainly due to increased investments in producing oil fields and an acceleration of the Skarv field development.
- Traditional merchandise exports are projected to grow by 1.6 per cent in 2002, after growing 4 per cent last year. Due to a deterioration of competitiveness Norwegian industries have lost market shares the last four years. The current account balance is estimated at NOK 188.5 bn. in 2002, down from NOK 216.5 bn. last year.
- Employment growth is estimated at 0.6 per cent, 0,1 percentage points higher than in 2001, thus keeping the Norwegian participation rate at a record level both historically and internationally. The unemployment rate is estimated to remain rather stable at 3.6 per cent.
- Consumer price inflation is estimated to average 1.4 per cent in 2002. The low headline inflation this year is related to changes made to the VAT-system last year, reductions in excise duties in the 2002-budget and the development in energy prices. The strengthening of the krone also makes imported goods cheaper, thereby pulling inflation down. Inflation adjusted for excise duties and energy prices is estimated at 2.4 per cent.
- Average wage growth is estimated at 5 per cent in 2002, excluding specific measures for schoolteachers already decided.

Certified forest products

Nearly all of the forestry carried out in Norway has been certified according to the ISO 14001 or EMAS EMS with the Living Forests Standards defining the environmental performance level. This constitutes 95 % of the

approx. 7 million cubic metres harvested in Norway every year. The certificate holders are all the District Associations of the Norwegian Forest owners Federation, Norsk Skogsertifisering and Nortømmer – two companies owned by the Norwegian Forestry Association, the forests of Norske Skog and SB Skog – a company owned by the Norwegian State-Owned Land and Forestry Company.

Certification based on the ISO 14001 or EMAS EMS, with the 23 Living Forests Standards for Sustainable Forest Management, has been endorsed by the Pan European Forest Certification (PEFC) Council as meeting the requirements of the PEFC.

The major buyers of sawlogs and pulpwood in Norway are only accepting roundwood from certified forestry.

Sawn softwood

The number of housing starts in the first five months has decreased compared to the first five months of 2001. Still the activity remains on a high level with a forecast of 23 000 housing starts in 2002.

The Norwegian consumption of softwood is expected to decrease by approx. 4 % this year while the production will be at almost the same level as last year. The import is stable, but the export is expected to increase by 10 %.

The international demand for softwood has been good, but the strong Norwegian currency is considered to be a threat to future profitability. Germany, the Netherlands and Great Britain is our biggest markets. The most significant increase in exports has taken place in Germany, the Netherlands, Belgium and France.

The industry is characterized by a high degree of uncertainty regarding the development in currency, interest rates and national house building policy.

Pulp and paper

Production of wood pulp is expected to decrease by 4 % in 2002 compared to 2001, while paper and paperboard is expected to decrease by 3 % in 2002.

Export of paper and paperboard is expected to decrease by 2 % compared to last year.

Demand for newsprint in Europe was 8% lower in the first half-year than in the same period of the record year 2001, while magazine paper demand declined by 2%. Prices for newsprint and uncoated (SC) magazine paper were stable, while the price level for coated (LWC) magazine paper is under pressure. As the Norwegian currency has strengthened compared to the Swedish crown and the Euro, stable prices means lower profitability.

As a result of the market situation the capacity utilisation is lower the last year. There is an expectation of decreasing production, export and consumption, although the figures of change themselves are not very high.

Wood raw materials

The commercial roundwood removals are expected to reach 7,2 mill. m³ in 2002. This represents a decrease by 7 % from 2001. The import of sawlogs is expected to decrease with 42 %, mostly due to reduction in imports from Russia.

Roundwood prices has shown a slight decrease for 2002 compared to 2001. An important factor for explaining the low removals expected for 2002 is the decreasing demand for pulpwood. For pulpwood there is a decrease of import by 4 %, while the export of pulpwood is expected to increase by 9 % compared to 2001.

Economic indicators

<i>Key figures. Changes in pct. from the previous year</i>	NOK billion			
	2001 ¹⁾	2001 ¹⁾	2002	2003
Private consumption	651.5	2.5	3.5	3.5
Public consumption	306.1	2.0	1.5	0.8
Gross fixed capital formation	280.0	-4.6	0.5	2.6
Of which:				
Oil activities	56.2	-7.4	1.0	10.4
Mainland business sector	115.5	-1.3	-1.9	-0.1
Residential	55.7	5.1	-0.5	4.7
Public sector	40.1	-4.3	6.7	-2.1
Final demand from Mainland Norway (excl stockbuilding)	1168.9	1.8	2.3	2.4
Exports	698.9	4.2	2.0	3.1
- Of which: Crude oil and natural gas	301.6	5.2	2.9	2.4
Traditional goods	215.9	4.0	1.6	3.9
Imports	441.9	0.0	2.7	3.8
- Of which: Traditional goods	285.4	4.0	3.2	4.4
Gross Domestic Product	1510.9	1.4	2.0	2.5
-Of which: Mainland-Norway	1152.0	1.2	1.8	2.2
Memo:				
Employment, persons	.	0.5	0.6	0.5
Unemployment rate (ILO), pct of labour force	.	3.6	3.6	3.5
Consumer prices	.	3.0	1.4	2½
Current account surplus, pct of GDP	.	15.4	12.5	11.6

1) Updated with revised national account figures published 14 June 2002.

Source: Statistics Norway and the Revised National Budget 2002.

Forest production and trade in 2001, 2002 and 2003

			Unit, 1000	2001	2002	2003
<i>Industrial roundwood</i>	Removals	saw- and veneer logs	m ³	4219	3880	3806
		pulpwood	m ³	3520	3321	3230
		total	m ³	7739	7201	7036
	Imports	saw- and veneer logs	m ³	459	260	230
		pulpwood	m ³	2214	2120	2130
		total	m ³	2673	2380	2360
	Exports	saw- and veneer logs	m ³	137	130	130
		pulpwood	m ³	325	355	355
		total	m ³	462	485	485
<i>Sawnwood</i>	Production	m ³	2240	2200	2250	
	Imports	m ³	987	990	990	
	Exports	m ³	593	593	593	
<i>Wood pulp</i>	Production	mt	2406	2300	2500	
	Imports	mt	101	100	100	
	Exports	mt	593	600	800	
<i>Paper and paper board</i>	Production	mt	2220	2150	2300	
	Imports	mt	536	550	500	
	Exports	mt	2046	2000	2100	

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