



Market update Autumn 2021

20 October 2021

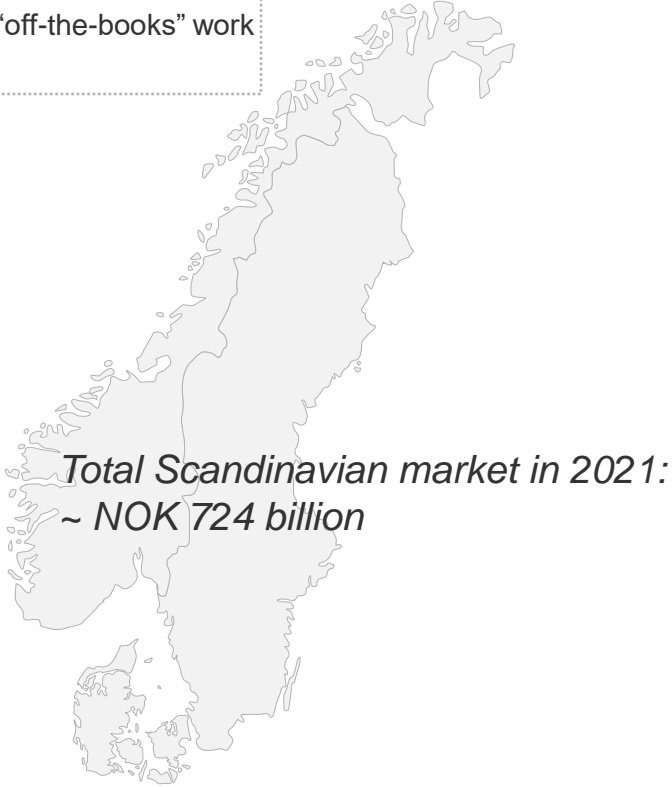
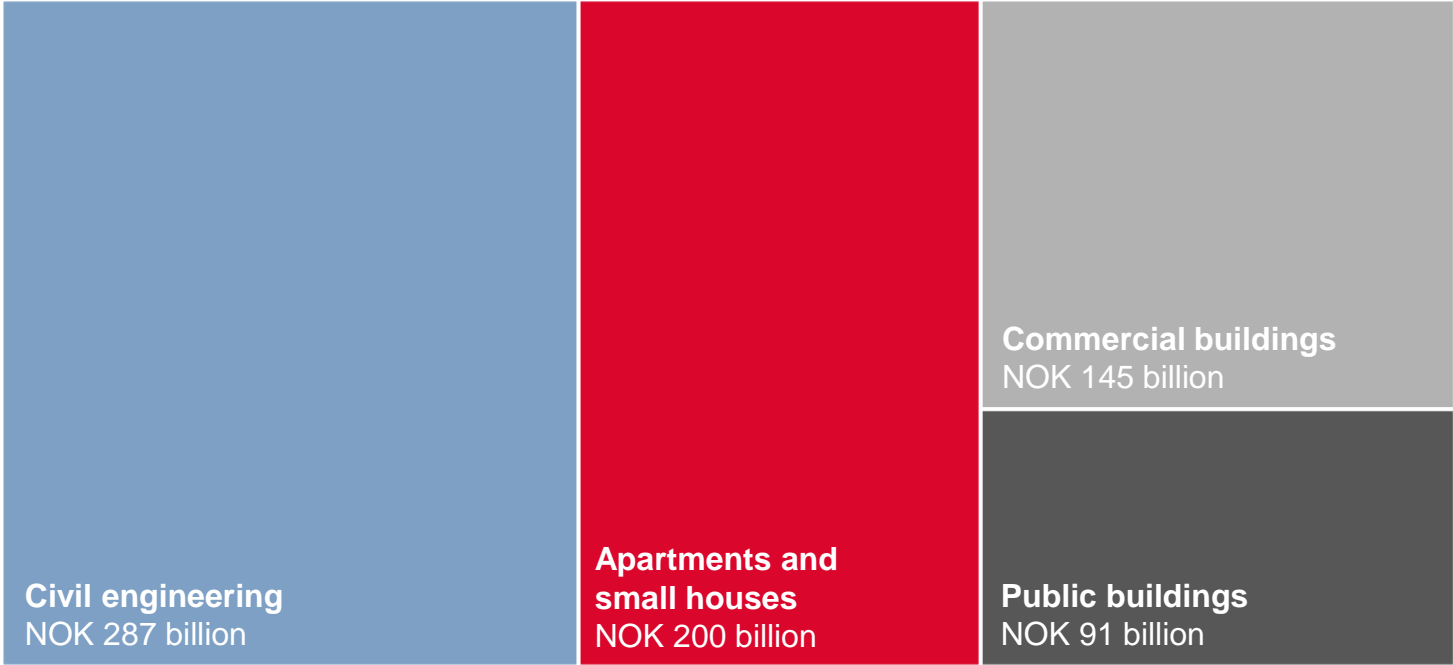
Kristoffer Eide Hoen and Anders Wettre

Our focus: the Scandinavian contracting markets

The contracting markets in 2021

Production of buildings* and infrastructure in NOK billion

- Not included:**
- Detached houses and holiday homes
 - Primary industry
 - Residential refurbishment, "off-the-books" work and households' own work

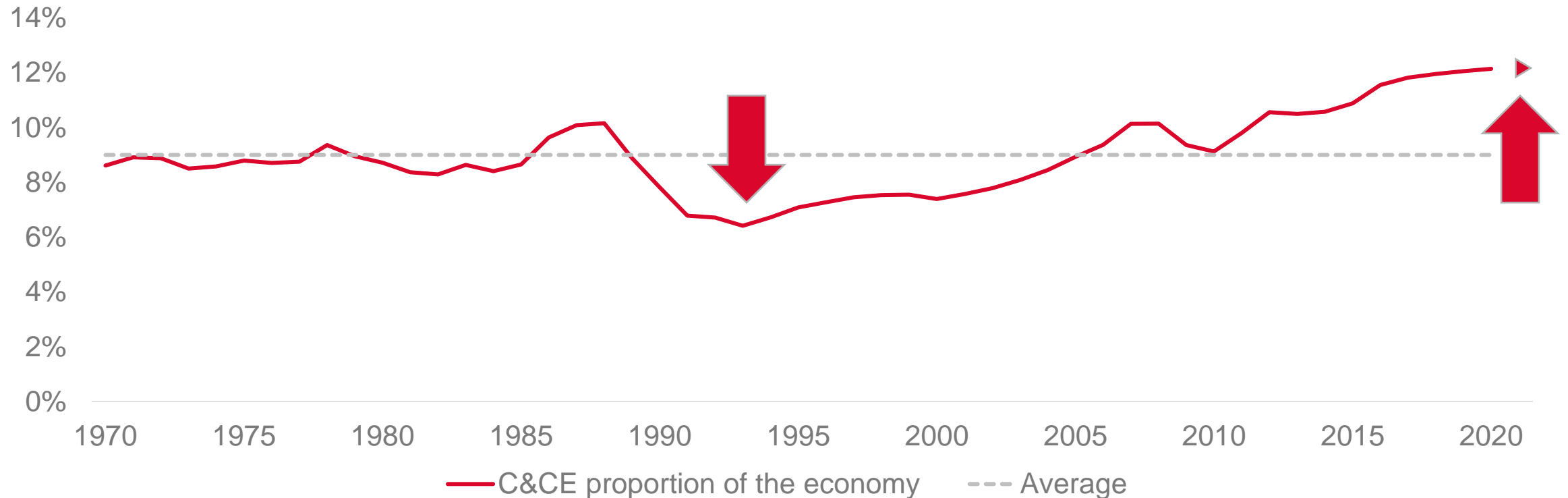


*Residential units: All new-builds, rebuilds and additions, excluding detached houses and holiday homes.
Non-residential buildings: Including an estimate of the transparent ROT market for project sizes >NOK 20 million.
Civil engineering market: Only new-builds included.

Source: Veidekke's market data

30 years since the last major downturn

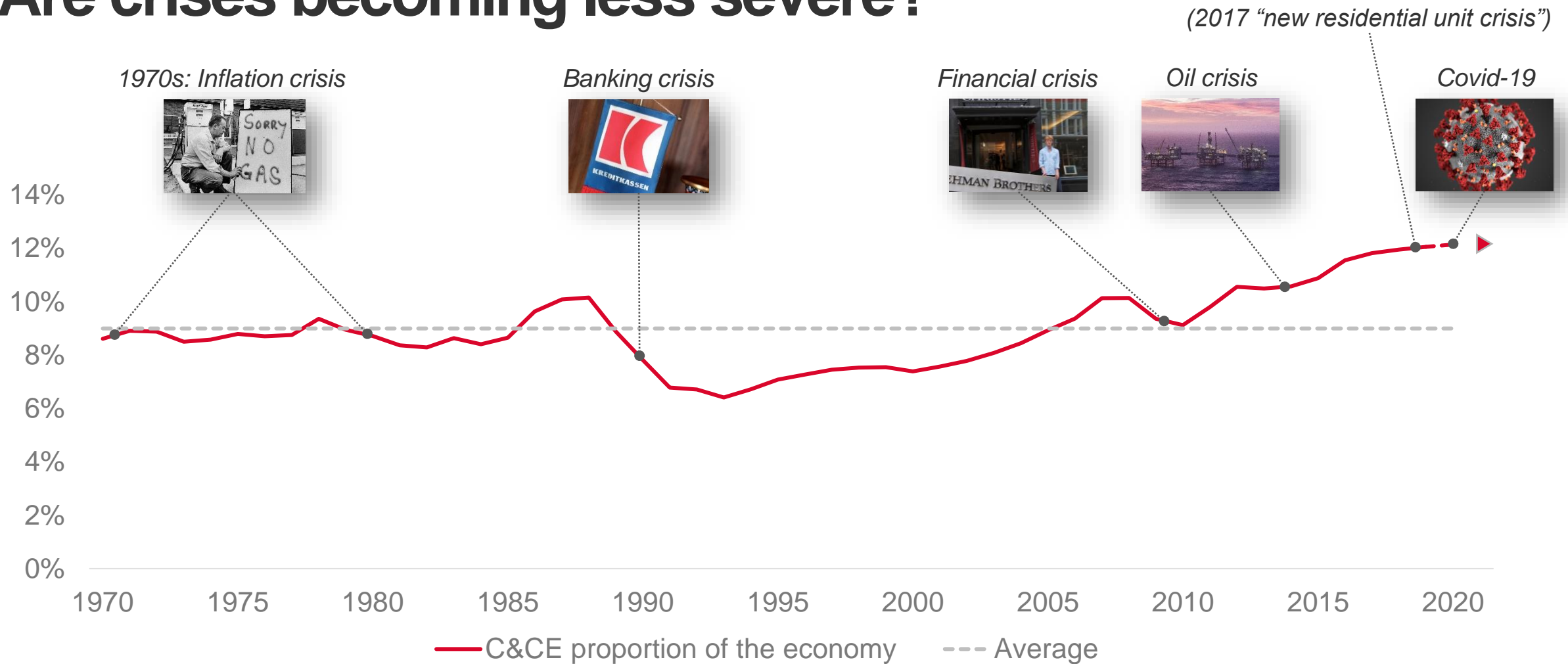
Construction and civil engineering as a proportion of Norwegian production*



Sources: Statistics Norway, Veidekke

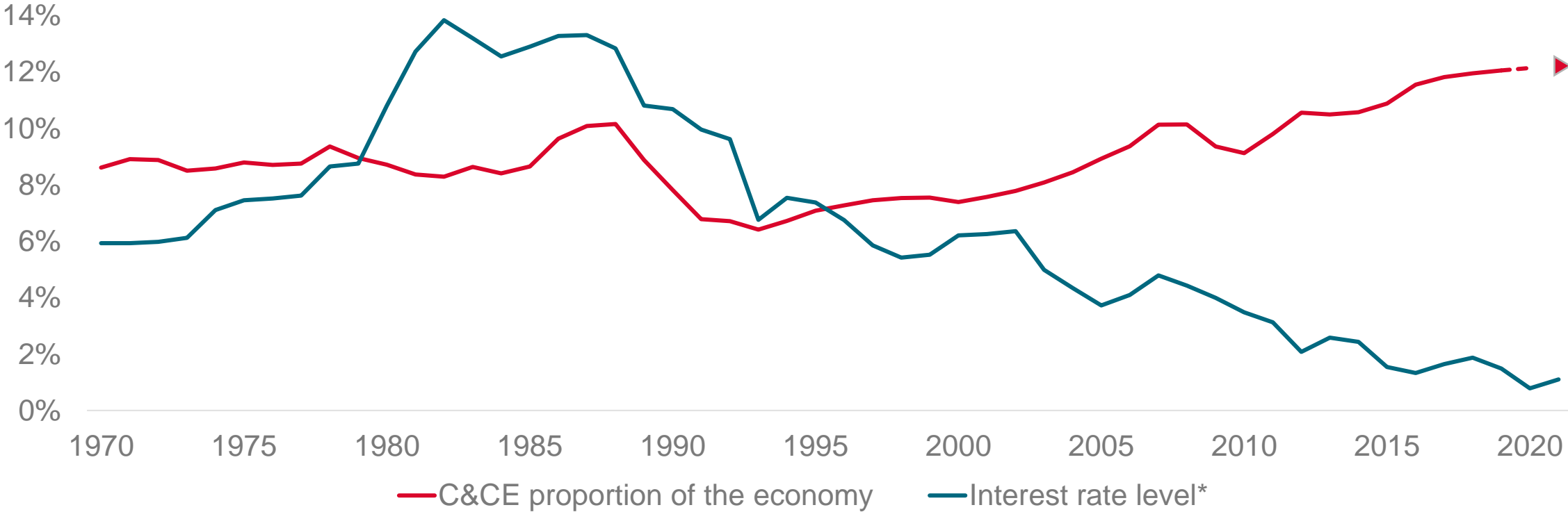
*Production in the construction and civil engineering sector as a proportion of mainland Norway production

Are crises becoming less severe?



Sources: Statistics Norway, Veidekke

Interest rates and credit the most important drivers?

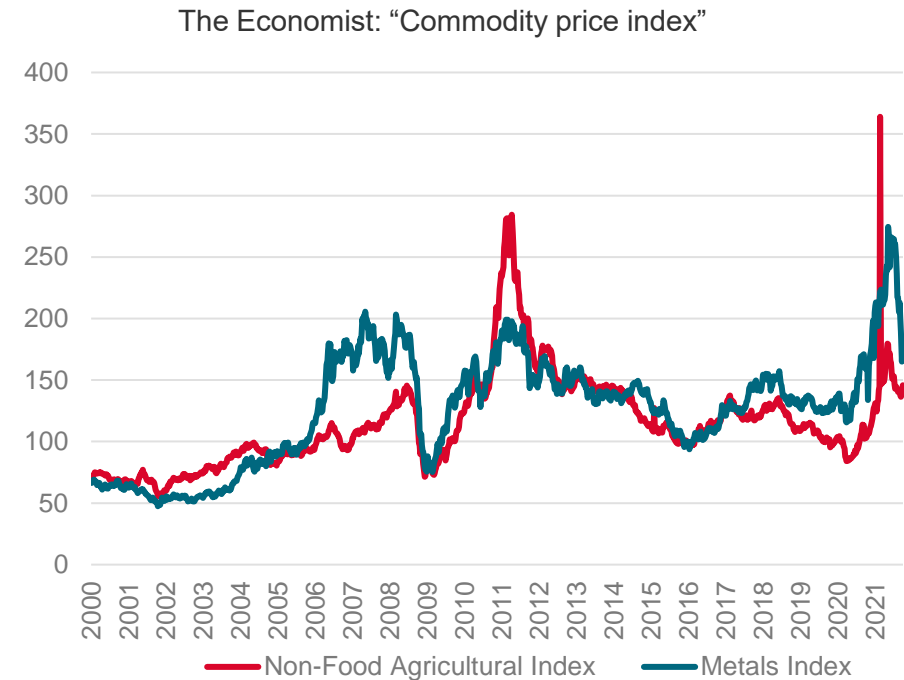


Sources: Statistics Norway, Macrobond, Veidekke

*5-year government bond rate

**Inflation and bottlenecks –
could rising interest rates
threaten economic recovery?**

The spectre of inflation and rising interest rates



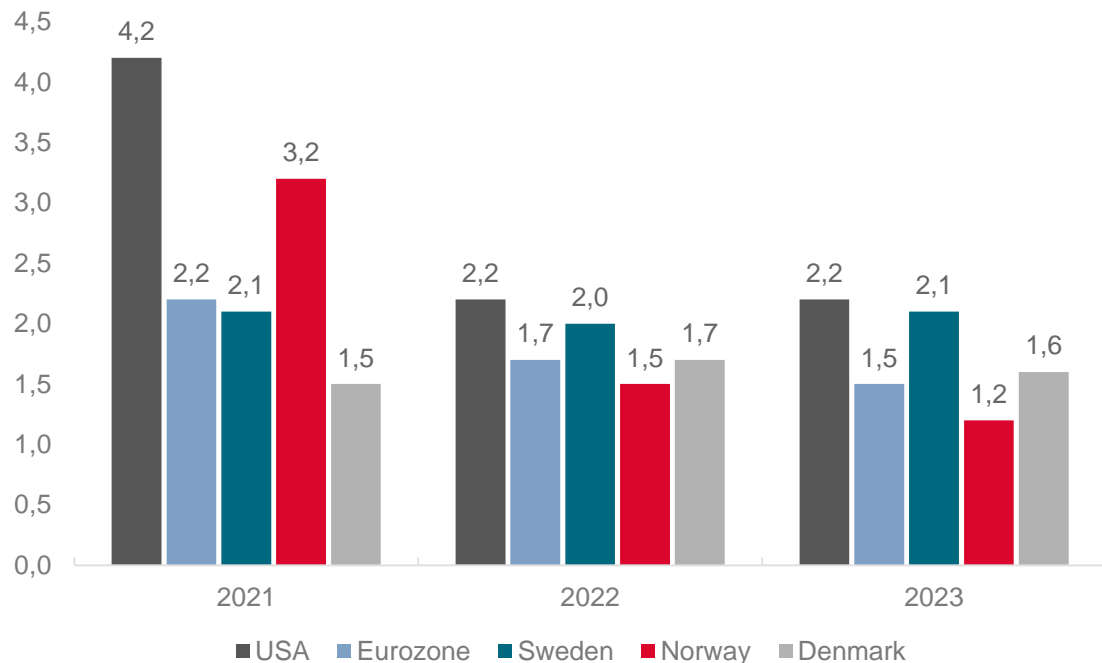
Imbalances resulting from Covid-19 measures



Normalisation expected

Inflation forecasts 2021–2023

Percentages



Comments

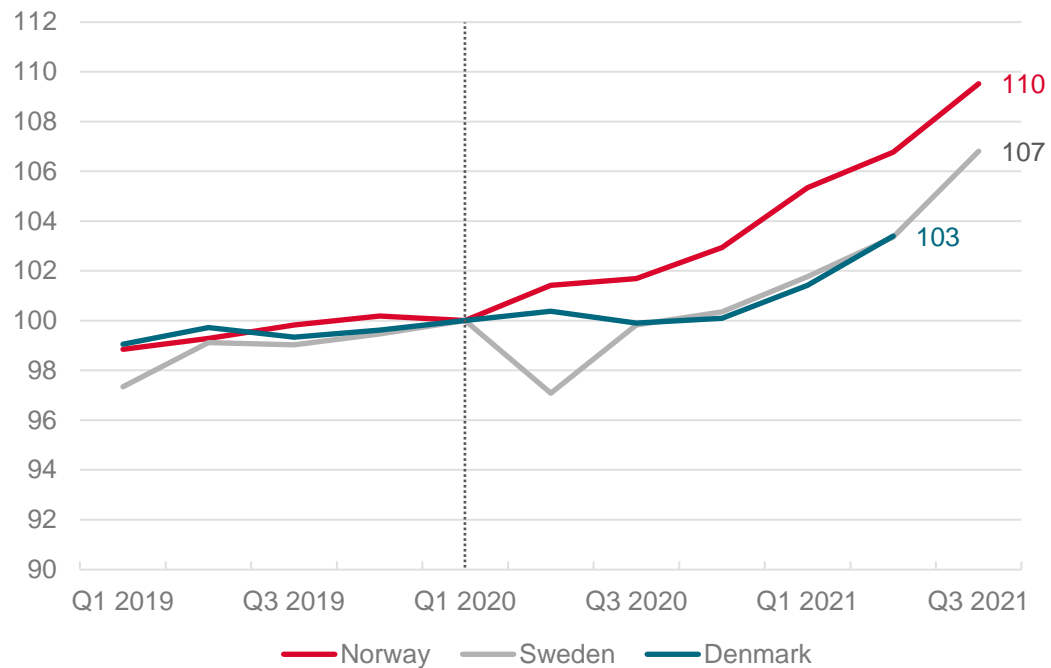
- Inflation is expected to decline or remain low in the years ahead.
- Bottlenecks will remain in coming quarters, but will gradually be eliminated.
- In the construction and civil engineering sector in particular, bottlenecks are considered temporary.

Sources: Federal Reserve, ECB, Swedish National Institute of Economic Research, Norges Bank and Danmarks Nationalbank

Strongly increasing construction costs

Cost inflation, residential blocks, by country

Index, Q1 2020 = 100



Sources: Statistics Norway, Statistics Sweden, Statistics Denmark

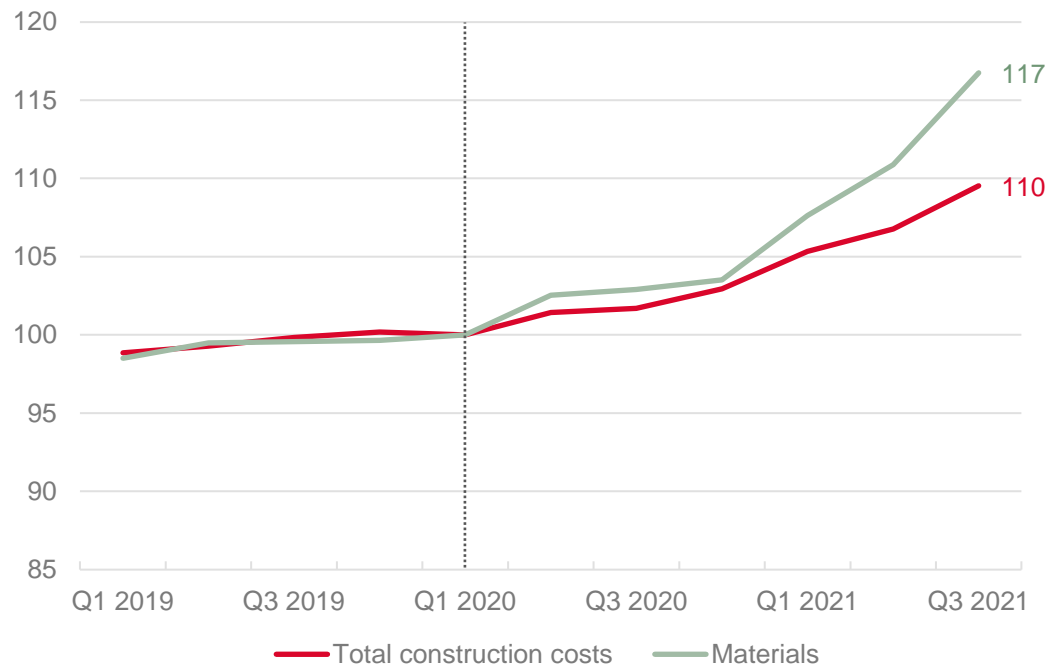
Comments

- Construction costs and inflation since Q1 2020:
 - +9.5% in Norway
 - +6.8% in Sweden
 - +3.4% in Denmark (up to and including Q2 only)

Strongly increasing construction costs

Cost inflation, residential blocks in Norway

Index, Q1 2020 = 100



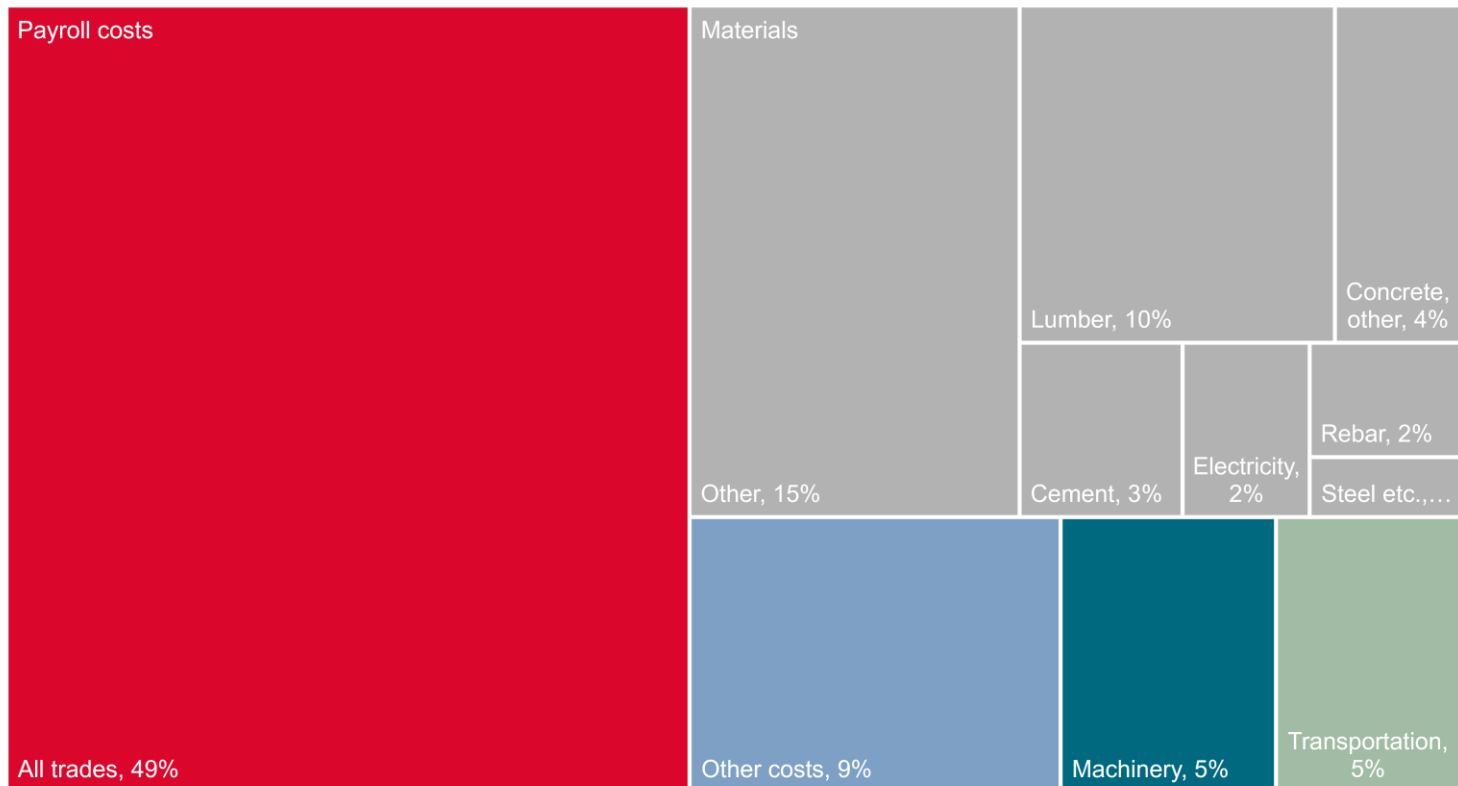
Sources: ECB, Swedish National Institute of Economic Research, Norges Bank and Danmarks Nationalbank

Comments

- Thus far, cost inflation has been driven by rising material prices
- Rising energy and CO₂ prices are playing an increasing role, both directly and indirectly in the form of additional industry and transport costs
- Despite reported labour shortages, wage inflation has not yet been affected

How important are “deliveries of goods”?

Example: Cost structure, Norwegian residential blocks



- Materials account for approx. 35%–40% in the residential block example*
- Sample calculation:
50% increase in rebar prices will lead to an increase of approximately 1% in the total cost of the “Statistics Norway” residential block
- In the civil engineering segment, machinery accounts for a considerably larger share, and materials and payroll for smaller shares

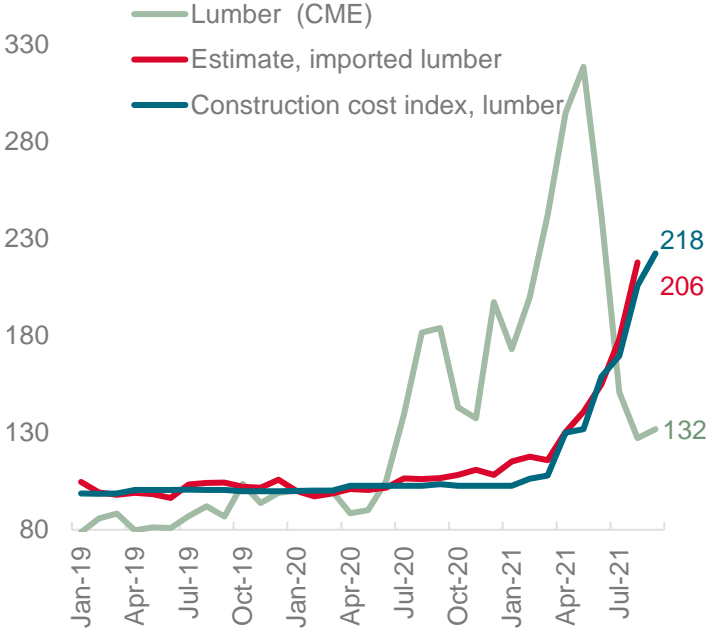
*Quantities taken from Statistics Norway’s construction cost index, which was last updated in 2019

Sources: Statistics Norway, Veidekke

Peaked, but not yet back to normal

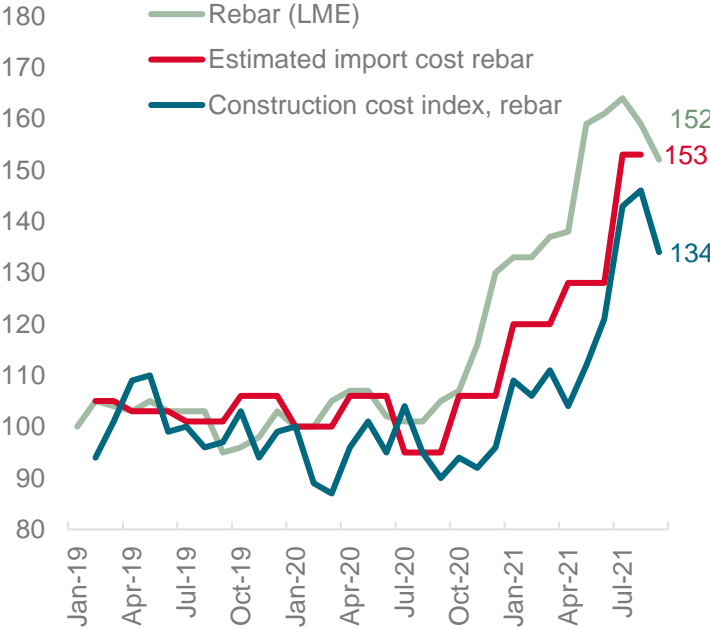
Lumber

Index: January 2020 = 100



Rebar

Index: January 2020 = 100



Comments

- Two types of cost effect:
 - Direct price increases
 - Delays
- Payroll and price inflation (PPI) adjustment in contracts
- Normal for the end customer to bear liability for risks the contractor cannot control

Sources: London Metal Exchange (LME), Chicago Mercantile Exchange (CME) and Statistics Norway

Cementa – “Sweden’s concrete supplier”

- Limestone quarry and cement production at Slite on Gotland
- Slite supplies 75% of the cement used in concrete production in Sweden
- Licence not renewed initially
- Two reports ordered by the Swedish Government have concluded that there are no alternative sources of cement in the short term (one year) and only partial alternatives in the medium term (two to three years)



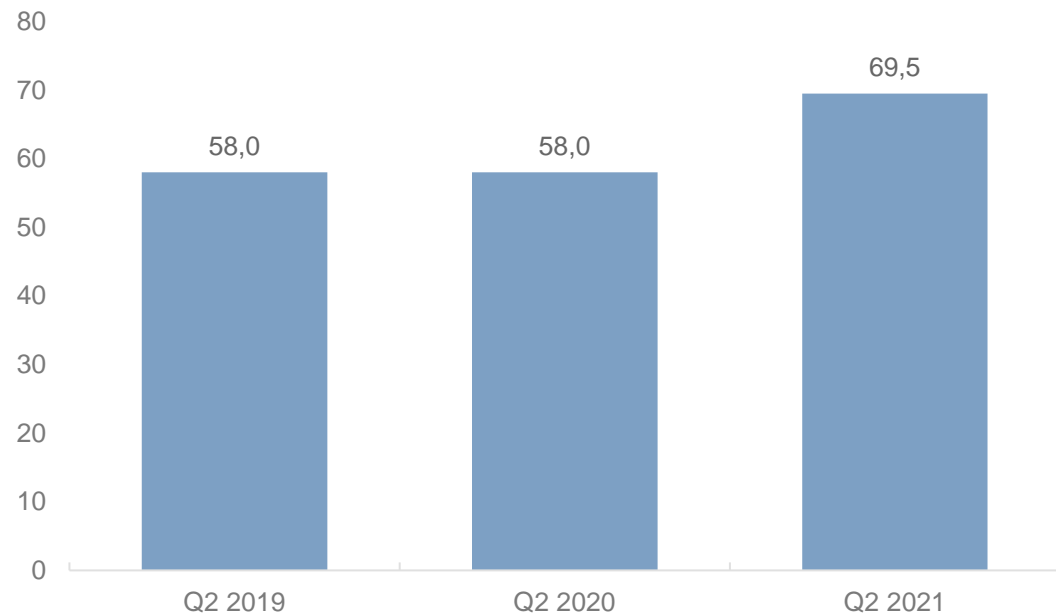
Cement factory in Slite

Contracting markets

Strong order intake and numerous building starts in Q2 2021

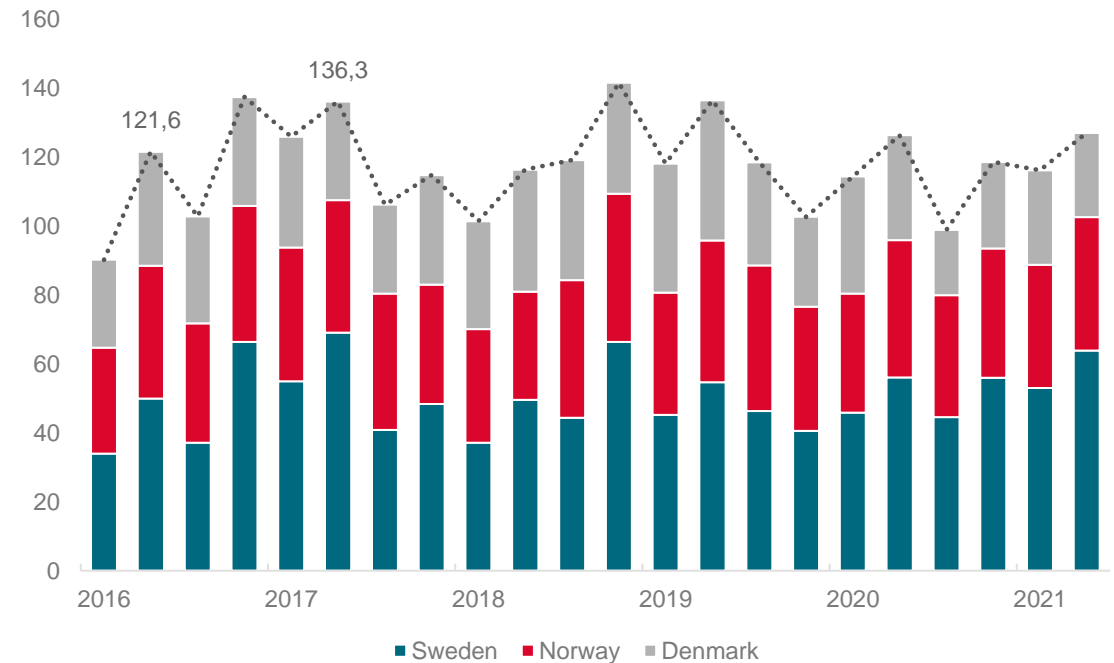
Order intake, Nordic construction operation

Reporting companies, estimate in NOK billion



Estimated order intake, construction in Scandinavia

NOK billion. Data based on registered building permits



Sources: Skanska (Nordic region data only), NCC, Peab, Veidekke and AF Group

Contracting markets

Market developments

	2020	2021	2022	2023
Norway	-1% (-1%)	0% (1%)	2% (2%)	2%
Sweden	2% (0%)	3% (0%)	2% (2%)	0%
Denmark	-1% (-1%)	-4% (-5%)	-1% (3%)	5%
Scandinavia	0% (0%)	0% (-1%)	1% (2%)	2%

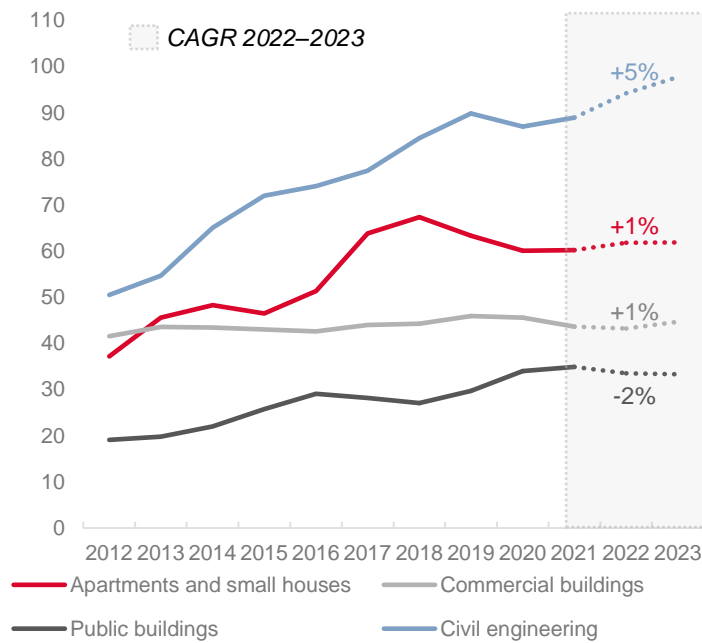
Sources: Veidekke's market data, Statistics Norway, Statistics Sweden and Statistics Denmark

Scandinavian contracting markets

Historical figures and forecasts

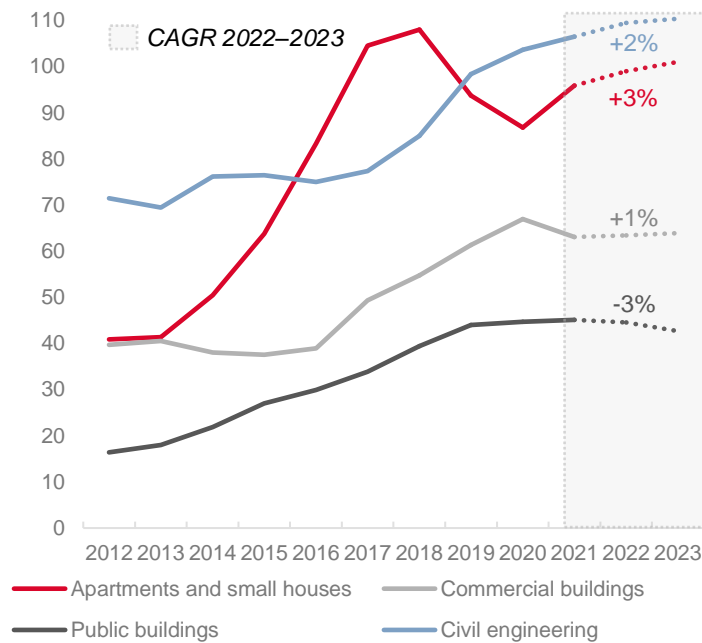
Norway

By sector, NOK billion



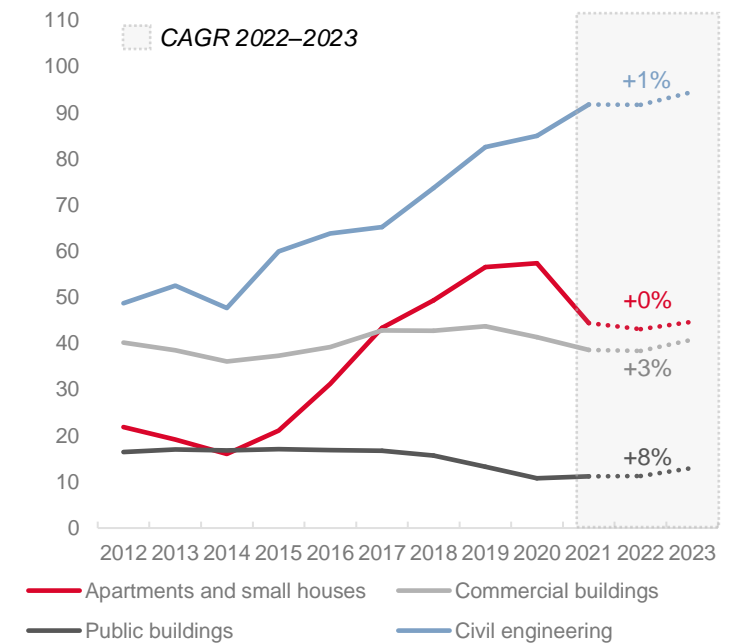
Sweden

By sector, NOK billion



Denmark

By sector, NOK billion



Sources: Veidekke's market data, Statistics Norway, Statistics Sweden, Statistics Denmark

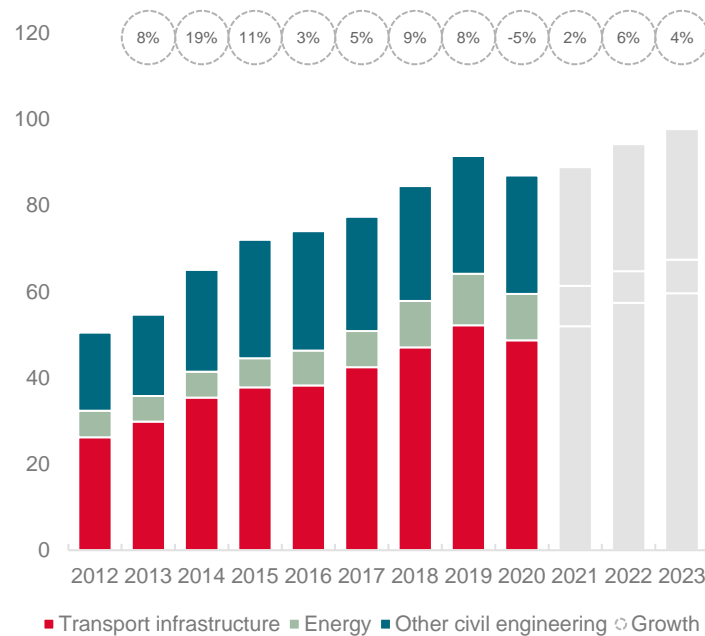
Civil engineering

Civil engineering market in Norway and Sweden

More moderate growth following high investment activity

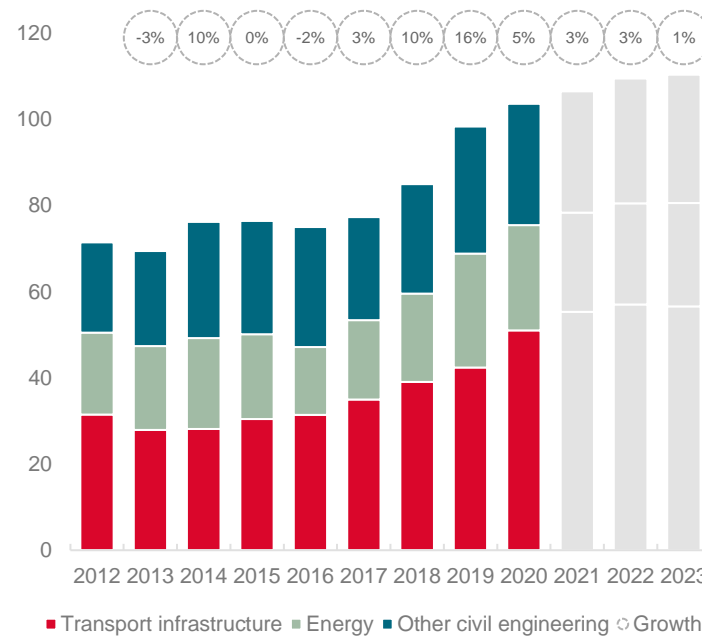
Investment by civil engineering segment

Norway, NOK billion



Investment by civil engineering segment

Sweden, NOK billion



Comments

- Investment levels were very high in both countries at the beginning of the year
- Norway: Decline in investment activity in 2020, but prospects of further growth
- Sweden: Indications of more moderate growth going forward, following several years of strong growth

Forecasts, civil engineering market

Country	2021	2022	2023
Norway	2% (1%)	6% (4%)	4%
Sweden	3% (0%)	3% (2%)	1%

Sources: Statistics Norway, Statistics Sweden, Veidekke

Transport infrastructure in Sweden

National Transport Plan

Draft Government Budget 2022

Excerptt regeringen.se



Sources: Norwegian Government, Swedish Transport Administration

National Transport Plan 2022–2033

SEK billion (2021 kroner)



Comments

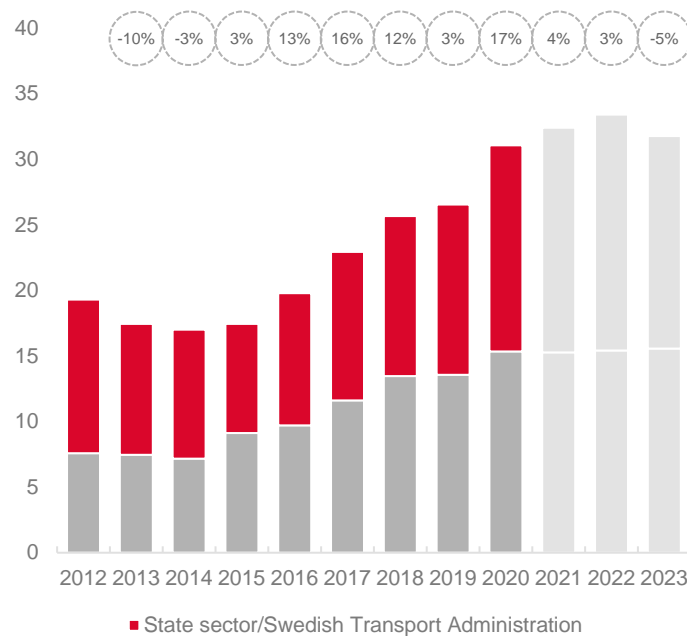
- The draft budget for 2022 foresees continued high investment levels in the years ahead
- A draft new National Transport Plan was submitted to the Swedish parliament in April; a decision is expected in 2022
- The proposed budget of SEK 799 billion corresponds to a 21% increase in fixed prices

Transport infrastructure in Sweden

Major state-owned projects

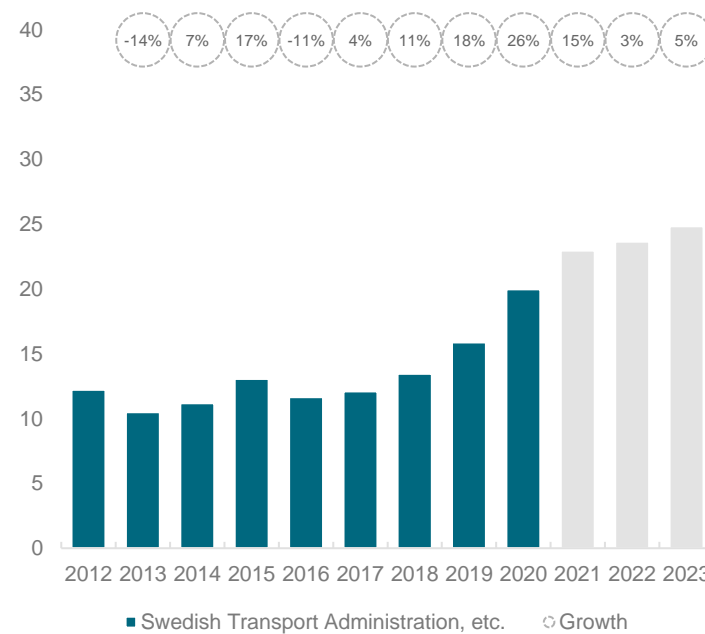
Roads market, investment

NOK billion



Railways market, investment

NOK billion



Comments

- Strong momentum in ongoing projects entailed strong growth in the roads and railways markets last year
- Large projects comprise a swing factor in relation to investment activity

Roads market

- Major construction projects are approaching completion, including the E4 bypass

Railways market

- New major construction projects will drive investment growth until the end of the forecast period

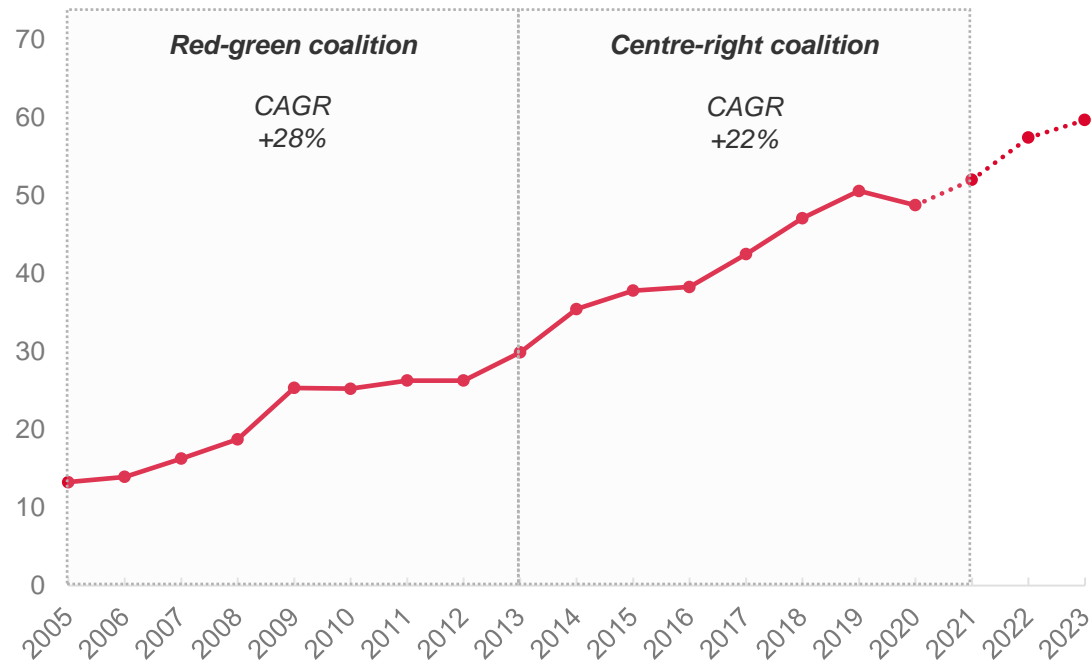
Sources: Statistics Sweden, Swedish Transport Administration, Veidekke

Transport infrastructure in Norway

Will a change of government have an impact?

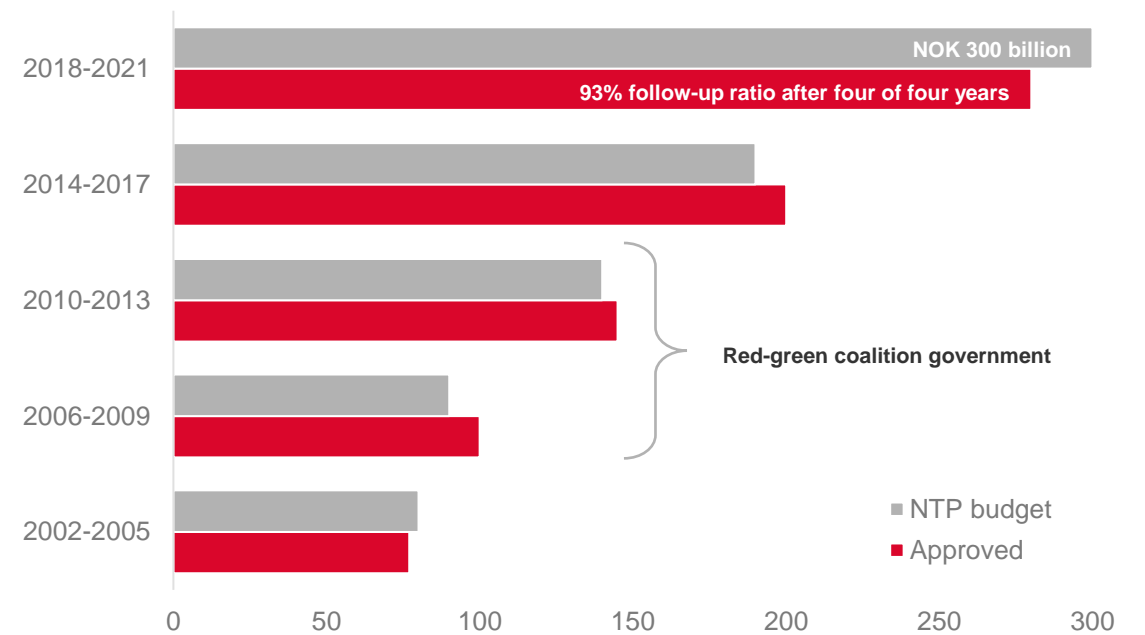
Development of transport infrastructure investments

NOK billion



Planning periods National Transport Plan

NOK billion



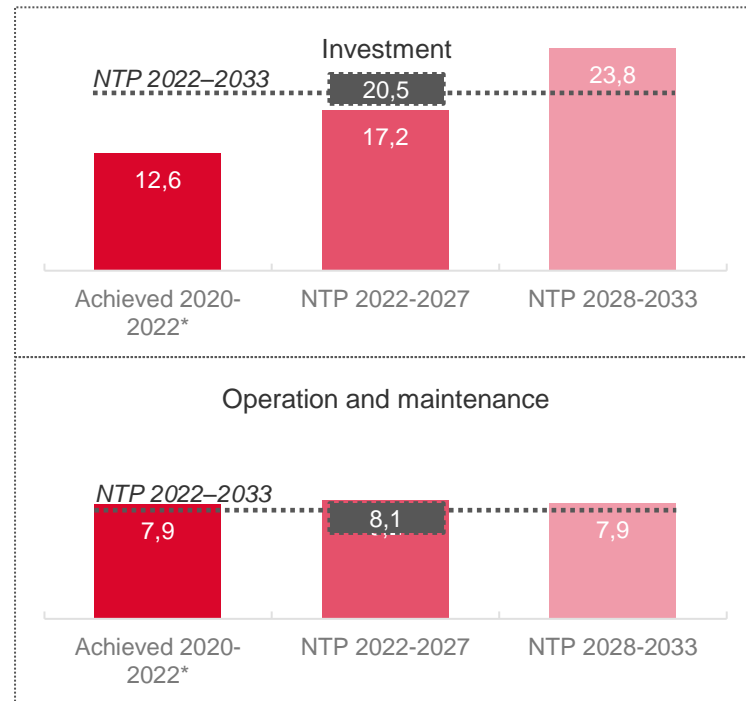
Sources: Statistics Norway, Norwegian Government, National Transport Plan, Veidekke

Transport infrastructure in Norway

National Transport Plan 2022-2033

Road purposes, NTP

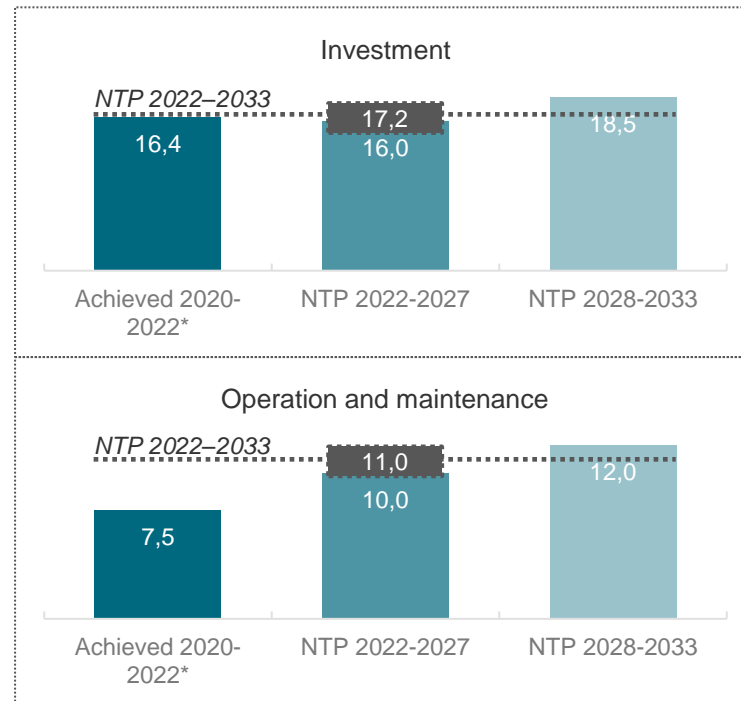
Annual average, NOK billion (2021 kroner)



Source: NTP

Railway purposes, NTP

Annual average, NOK billion (2021 kroner)



* Proposal/budget 2022

Comments

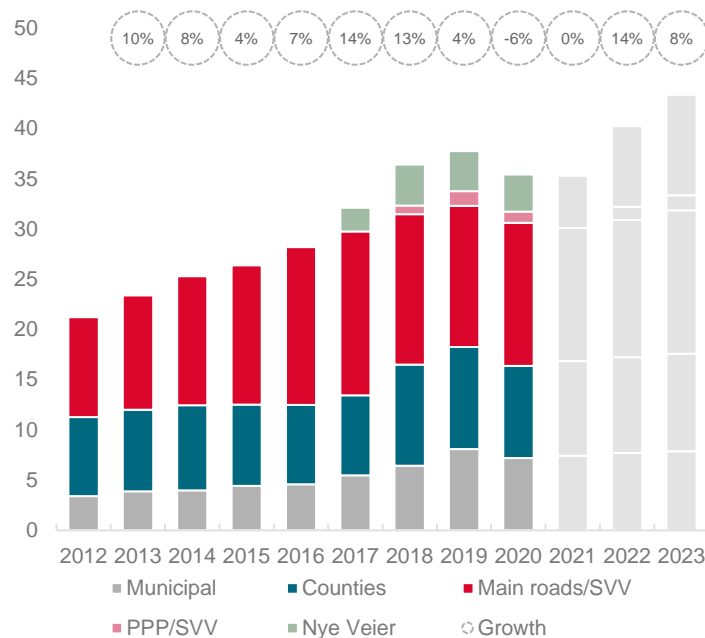
- The NTP budget totals almost NOK 1,200 billion, including NOK 123 billion in road tolls
- Unchanged ambitions, but could changes be made?
- Amended priorities in the railways sector
- Based on current allocations, investment in main roads has highest priority

Transport infrastructure in Norway

Amended priorities?

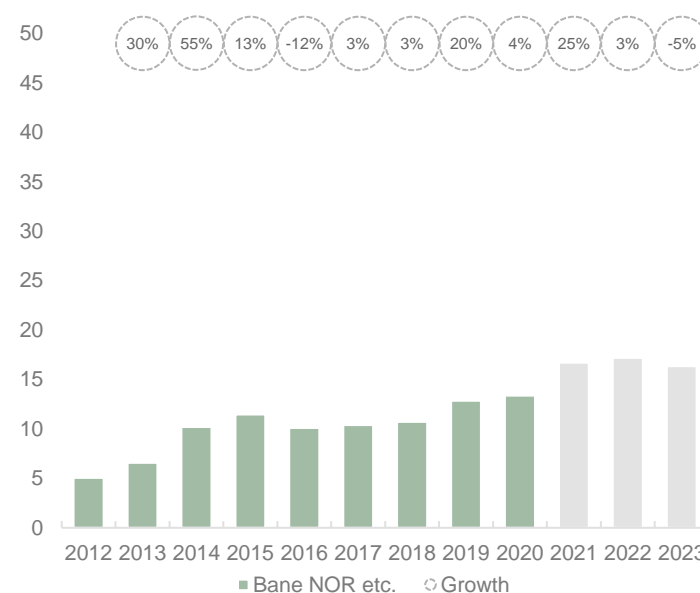
Roads market, investment

NOK billion



Railways market, investment

NOK billion



Comments

- National budget largely “as expected”

Roads market

- Moderate state-sector growth under the auspices of the Norwegian Public Roads Administration
- Expansion of Nye Veier AS project portfolio

Railways market

- High activity expected in major ongoing projects
- Start of several major construction projects linked to the Fornebu railway during the forecast period

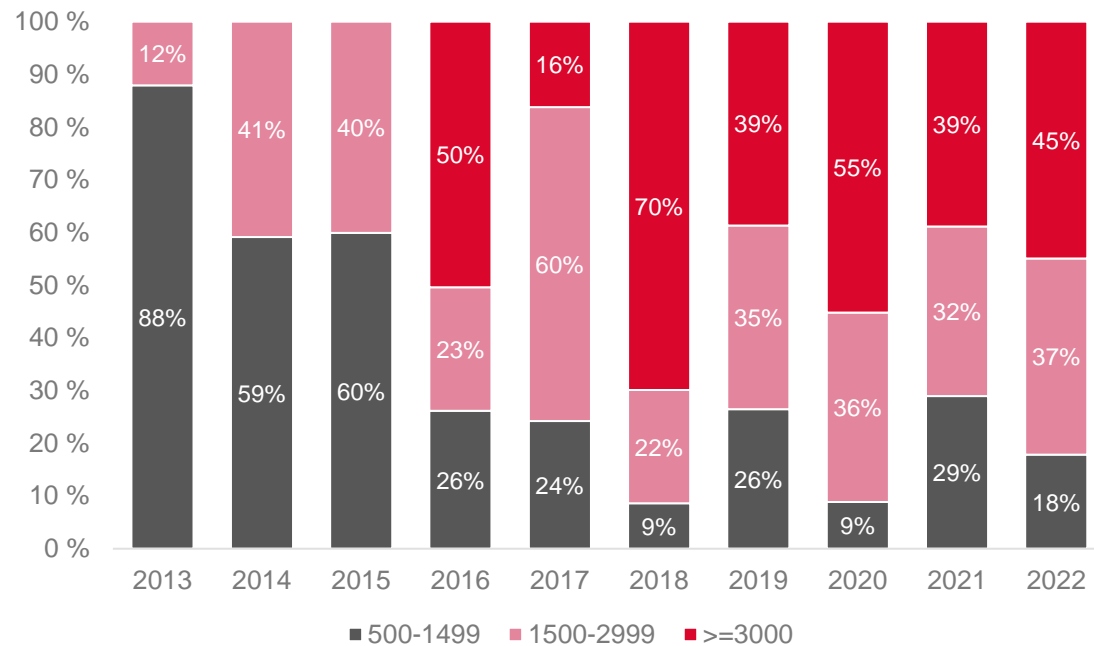
Sources: Statistics Norway, Norwegian Public Roads Administration (SVV), Nye Veier, Bane NOR, Norwegian Government, Veidekke

Transport infrastructure in Norway

Contract size and internationalisation

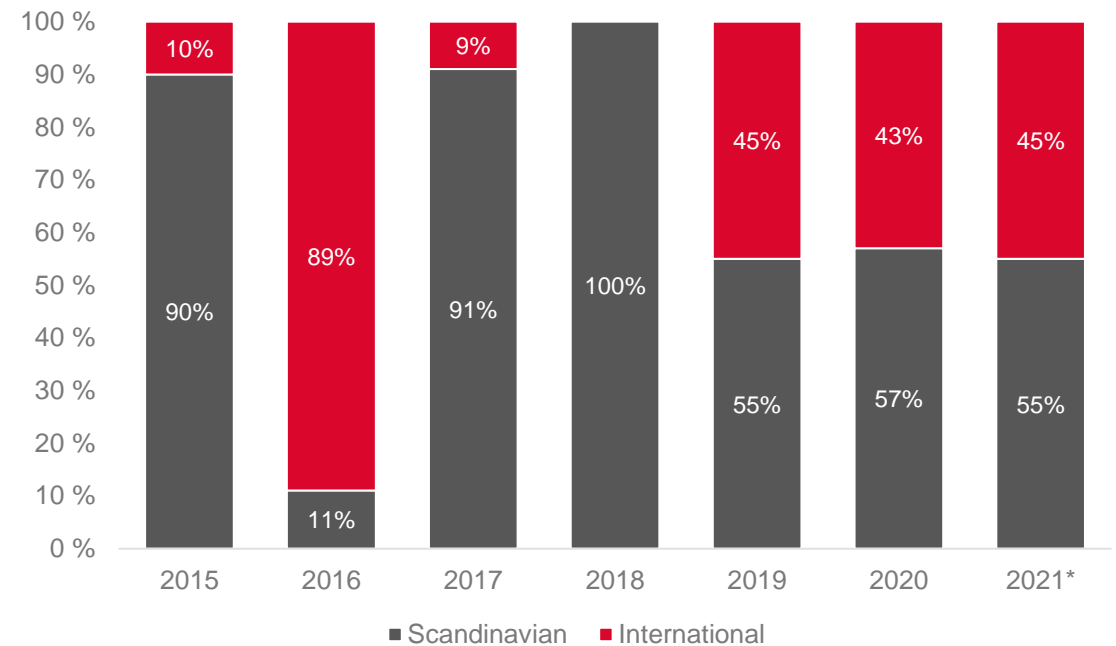
Development in contract sizes > NOK 500 million

Proportion by contract size, percentages



Awarded contracts > NOK 500 million

Proportion by contractor, percentages



Sources: Veidekke's project database, Norwegian Public Roads Administration, Nye Veier, Bane NOR, City of Oslo

* Thus far this year

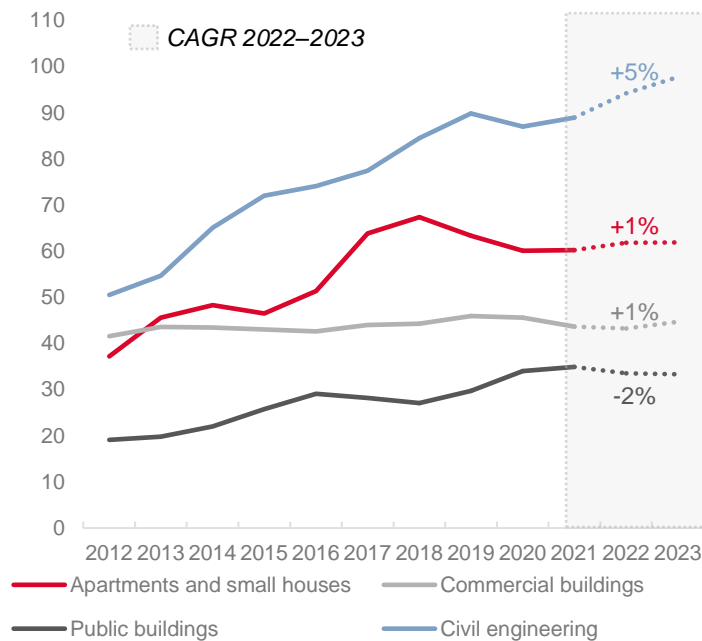
Construction

Scandinavian contracting markets

Historical figures and forecasts

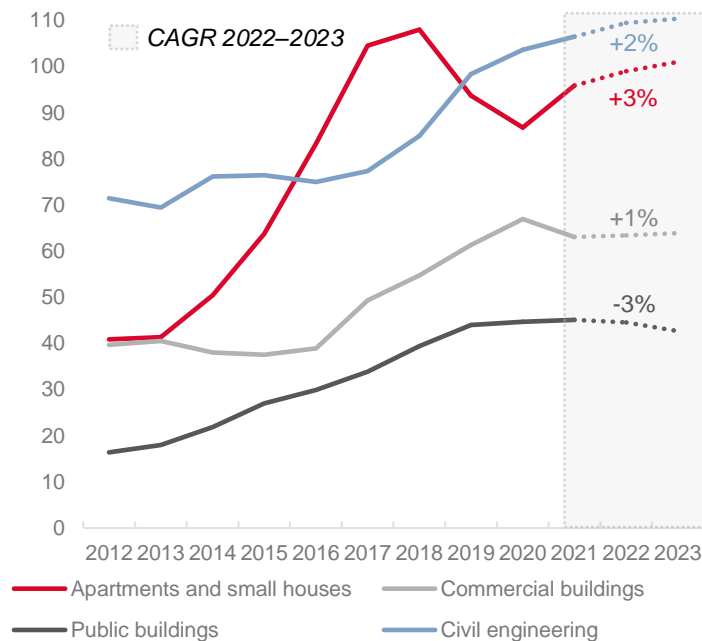
Norway

By sector, NOK billion



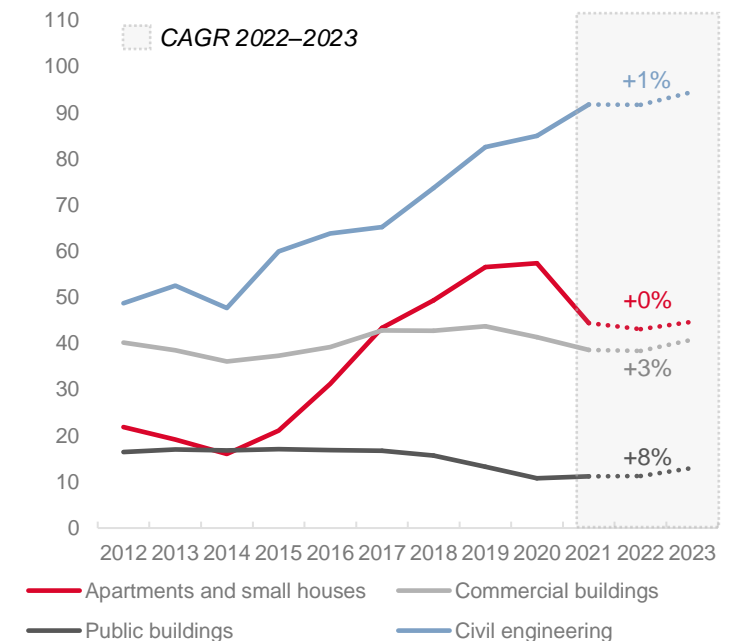
Sweden

By sector, NOK billion



Denmark

By sector, NOK billion

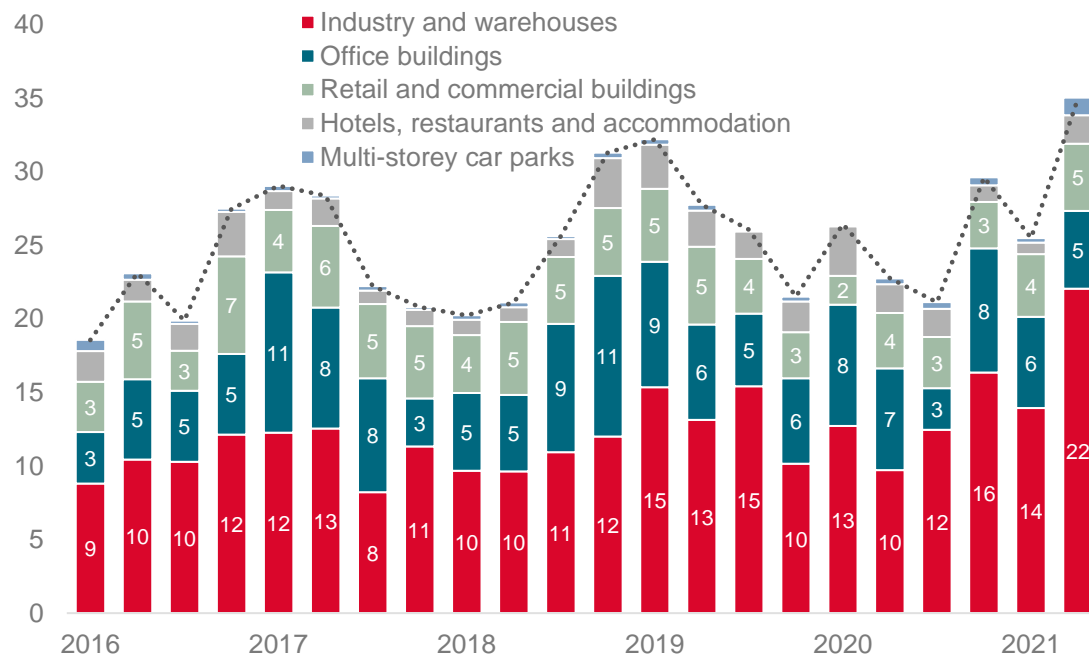


Sources: Veidekke's market data, Statistics Norway, Statistics Sweden, Statistics Denmark

Commercial buildings in Norway and Sweden

Estimated value of order intake by quarter

NOK billion



Sources: Statistics Norway, Statistics Sweden, Veidekke

Comments

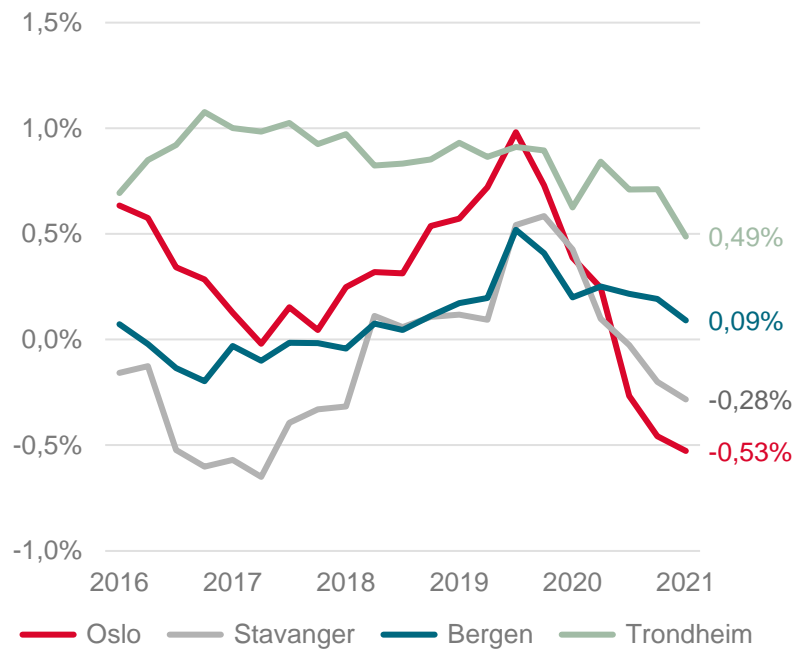
- Surprisingly strong quarters for the commercial buildings segment
- Unusually strong figures for the warehouse and industry segment, especially in Sweden
- New growth in the retail segment
- Slight decline in the office segment, but smaller than feared

Residential market

Net immigration

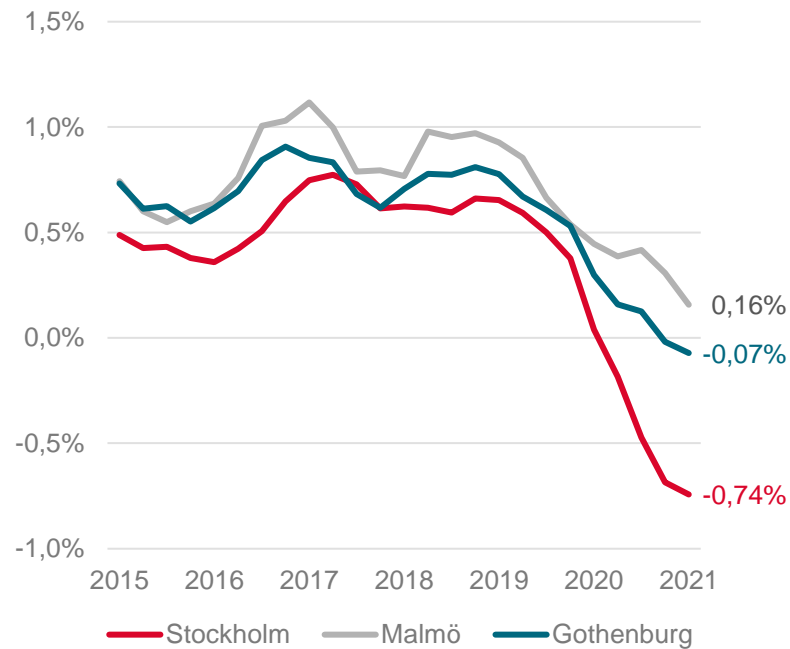
Net immigration, Norway

Proportion of population, percentage



Net immigration, Sweden

Proportion of population, percentage



Comments

- Clear Covid-19 effect in 2020
- Covid-19 has had the greatest impact in major cities: Oslo and Stockholm
- More “normal” figures expected going forward, although some Covid effects are likely to linger

Data collected at municipal level. Effects are somewhat smaller if neighbouring municipalities are included.

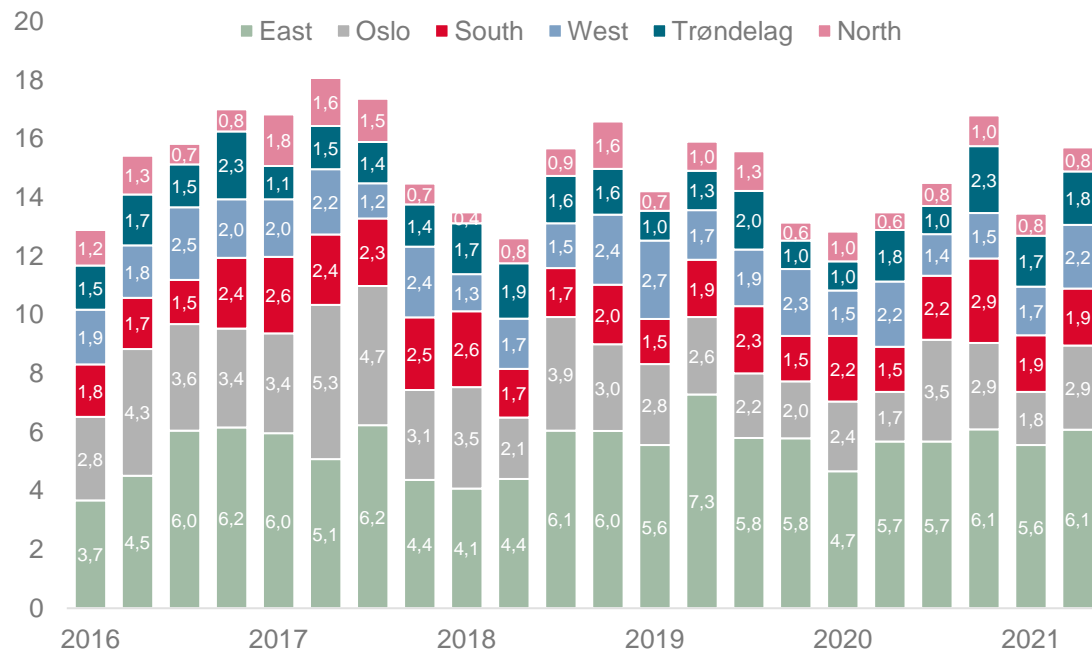
Sources: Statistics Norway, Statistics Sweden

Apartments and small houses in Norway

Estimated order intake

Estimated value of order intake by quarter

NOK billion



Sources: Statistics Norway, Statistics Sweden, Veidekke

Comments

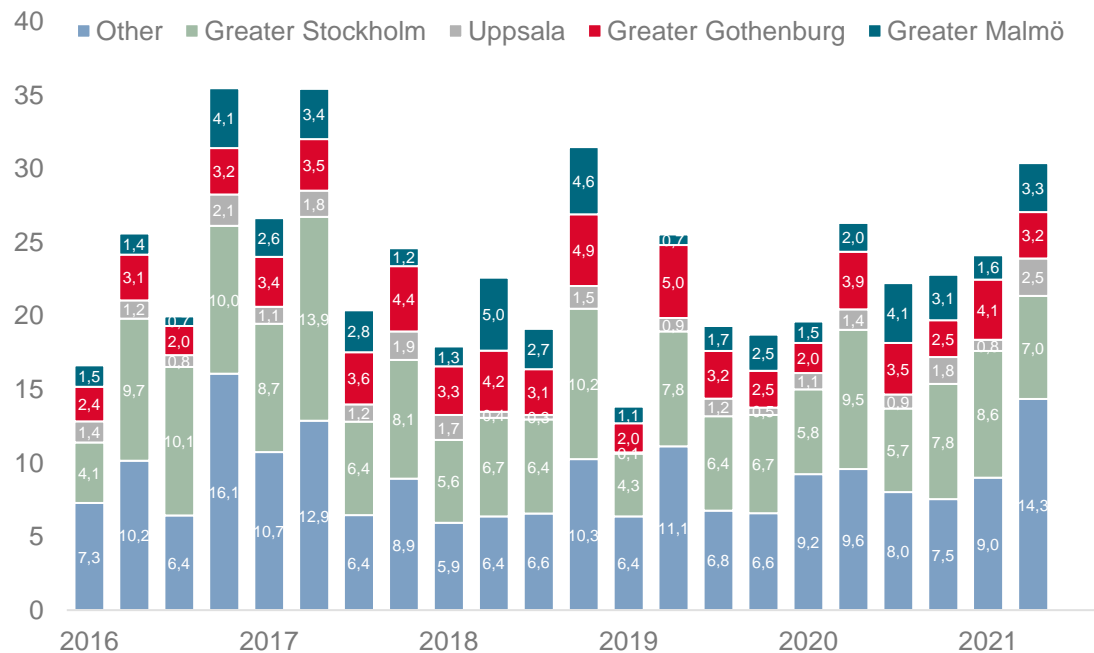
- The total estimated order intake for apartments and small houses is high
- Residential construction is particularly strong in eastern Norway excluding Oslo
- Indicators for the general residential market (prices and sales) show a strong, stable development over the past half-year
- Interest rate rises, the regulatory regime and high material prices make a construction boom in 2022 less likely

Apartments and small houses in Sweden

Estimated order intake

Estimated value of order intake by quarter

NOK billion



Comments

- Strong demand in the three major cities
- “Extremely” high Q2 figures for several counties *outside* the major cities
- Better balance in the general residential market in the past three months, following strong price rises until July

Sources: Statistics Norway, Statistics Sweden, Veidekke

Veidekke market update autumn 2021

Highlights

- Primary drivers of imbalances in the materials supply and residential markets appear to have slowed
- Prices of input factors like lumber and steel are expected to fall, but remain significantly higher than normal. High energy prices and the situation of Cementsa in Sweden have increased uncertainty regarding two further input factors
- Demand is strong and looks set to ensure stable activity levels until the end of the forecast period in 2023
 - The residential segment is calming down, while the non-residential buildings segment is recovering
 - Continued strong growth in the civil engineering sector



Thank you

