



# Spring Market 2024 update

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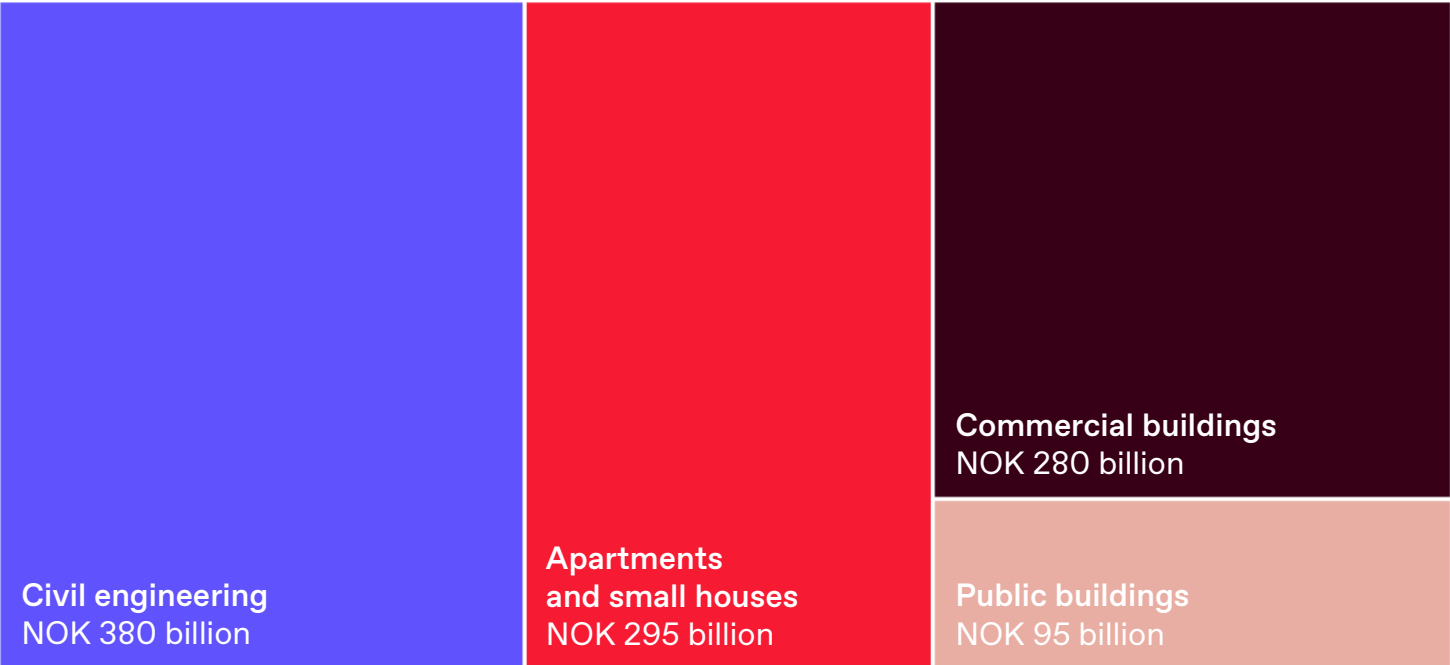
# About Veidekke's market report

- Veidekke prepares figures for the Scandinavian markets based on statistics published by Statistics Norway (SSB), Statistics Sweden (SCB) and Statistics Denmark (DST). Other information sources include major construction clients like the Swedish Transport Administration and the Norwegian Public Roads Administration, as well as central and local government budgets.
- Macroeconomic forecasts stem from reputable forecasting institutions like the National Institute of Economic Research (Sweden), Statistics Norway and central banks.
- Veidekke calculates best-estimate forecasts of production levels using a forecasting model that incorporates national interest rate levels and municipal-level data on registered building starts, population growth and unemployment. Sources used for infrastructure forecasting include publicly available information on upcoming major public transport projects.
- Veidekke's contractor activity assessments and construction cost indices are forecasts based on current knowledge. Forecasts may be revised in the event of unforeseen changes in geopolitical circumstances, financial markets or commodity prices.

# Our focus: the Scandinavian contracting markets

## The contracting markets in 2023

Production of buildings\* and infrastructure in NOK billion



- Not included:**
- Detached houses and holiday homes
  - Residential refurbishment, “off-the-books work” and household DIY

Total Scandinavian market 2023:  
~ NOK 1 050 billion



\* Residential units: All new-builds, rebuilds and additions, excluding detached houses and holiday homes.  
Residential units and commercial buildings: Including an estimate of the transparent ROT (rehabilitation, conversion, and extension) market for project sizes >NOK 20 million.  
The civil engineering market: New-builds only.

# Contracting markets

## Forecasts 2024–2025

### Comment

- Following strong growth in 2022, production slowed in 2023, falling by 5% in value terms in Sweden and Denmark. Norway, however, maintained a high level of activity last year.
- We expect 2024 to be marked by a noticeable decline in activity in all three countries, reflecting the previously observed low number of building starts in 2023.
- The outlook for 2025 remains less certain, and rising activity levels are dependent on a relatively rapid increase in building starts. This scenario cannot be ruled out, and we will adjust our forecasts in the next report if it materialises.
- The overall figures for each country evidence a clear division between construction and infrastructure. The decline in total activity relates almost exclusively to construction sectors, and residential construction in particular.
- Our forecasts are more or less the same as in our autumn 2023 report, reflecting the fact that the markets are developing reasonably predictably and as expected.

### Production in the Scandinavian contracting markets

Percentage change since previous year, current prices

	2022	2023	2024	2025
Norway	11%	3% (3%)	-7% (-5%)	-4% (-3%)
Sweden	22%	-5% (-6%)	-11% (-8%)	-1% (-1%)
Denmark	11%	-5% (-12%)	-8% (-5%)	-1% (3%)
<b>Scandinavia</b>	<b>16%</b>	<b>-2% (-6%)</b>	<b>-9% (-7%)</b>	<b>-2% (-1%)</b>
Scandinavia, NOK billion	1,070	1,050	950	930

Autumn 2023 forecasts in brackets.

# Agenda

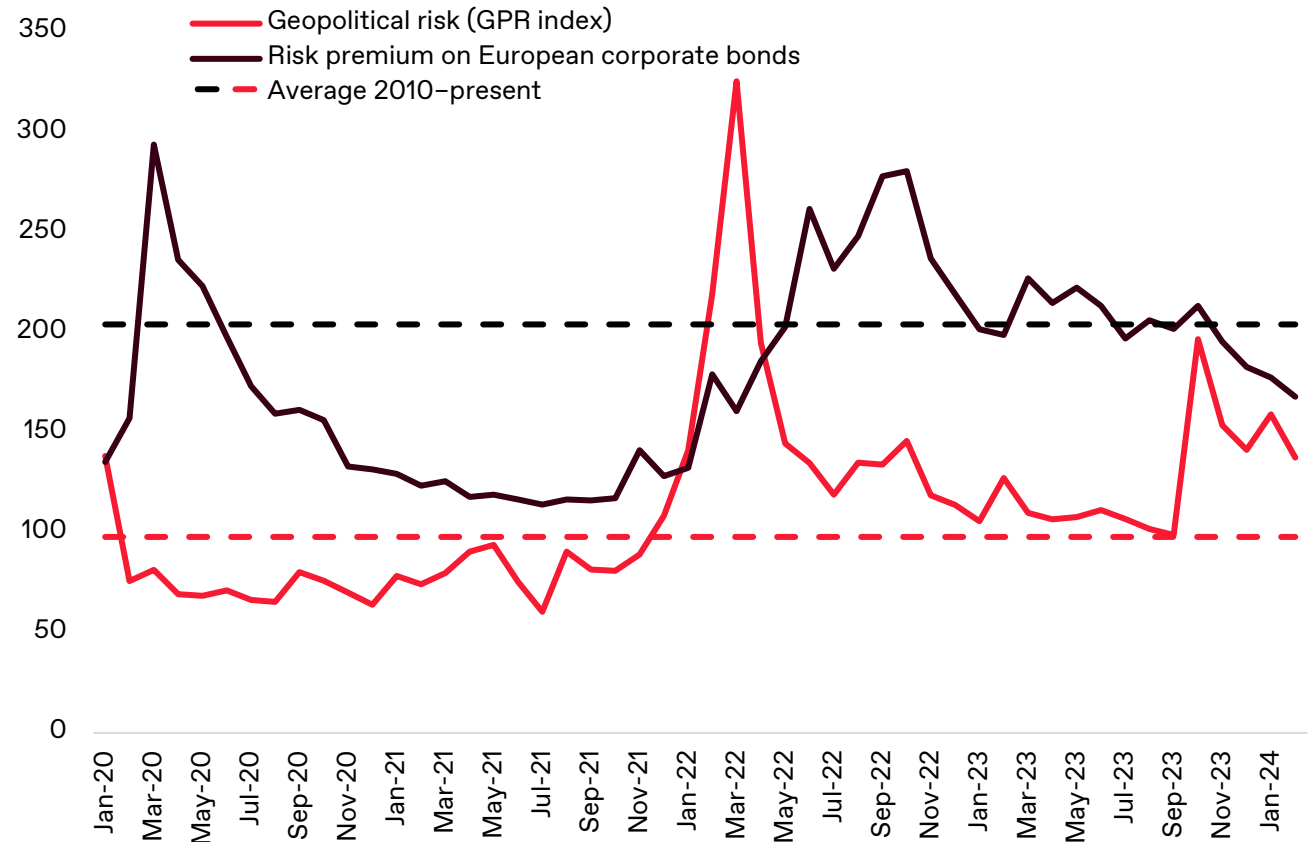
- 01 Introduction
- 02 Economic environment
- 03 The contracting markets
- 04 Construction costs
- 05 Summary

# 01 Introduction

# Less geopolitical unrest – for the time being

## Geopolitical turmoil and risk premium in European corporate debt

- The geopolitical risk indicator (GPR) increased after the terrorist attack on Israel in October and the subsequent invasion of Gaza, but has since fallen.
- The premium on European corporate bonds, which reflects the financial markets' confidence in European businesses, has dropped by 30-40 basis points over the past three months. The premium is now below the historical average for the period since 2010.
- We interpret the development in these indicators as positive, not least in terms of reduced financing costs for customers in both the private and municipal sectors.
- It is worth noting that indicators only provide a picture of the current situation, and do not forecast the future. New and unforeseen situations may increase the risk of both geopolitical conflicts and uncertainty in financial markets.



# 02

## Economic environment

- Growth and the labour market
- Inflation and interest rates
- Demographic factors

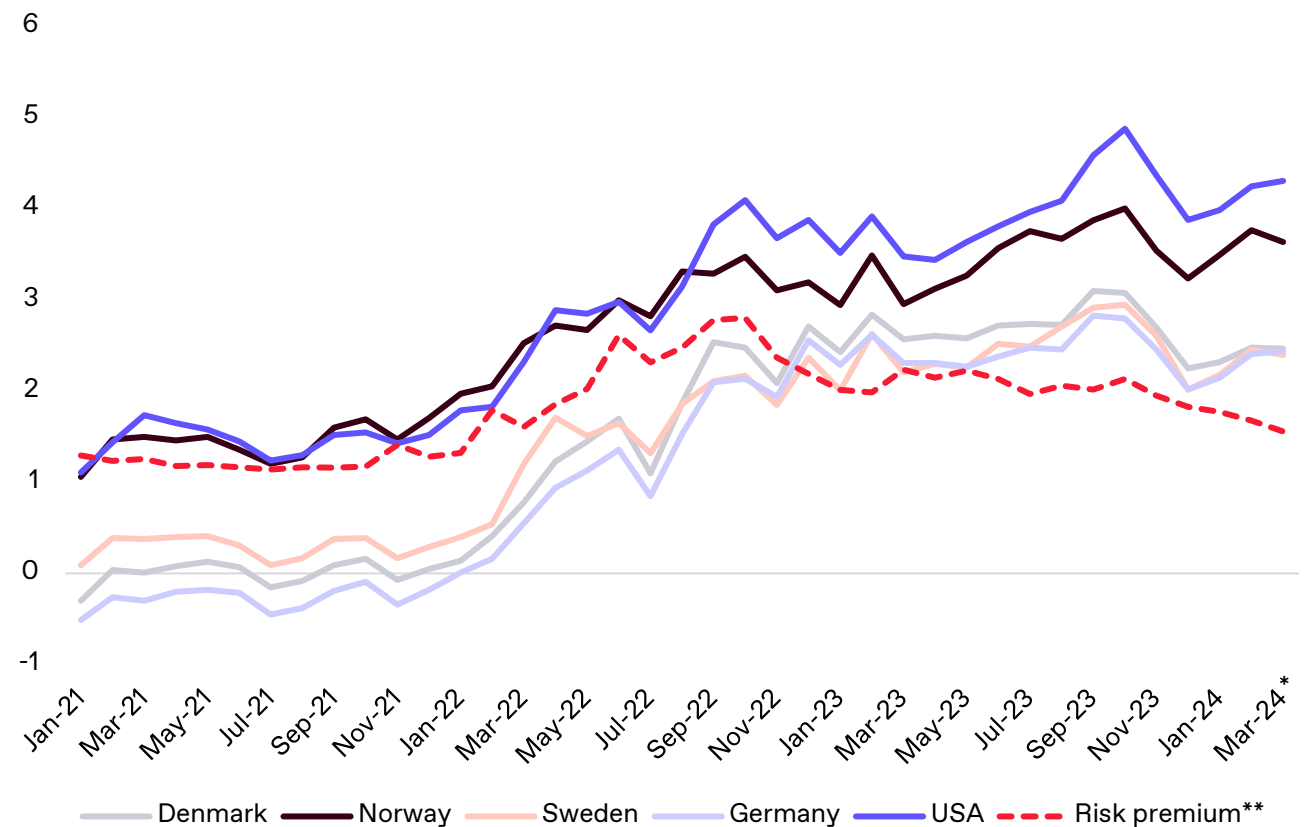


# Rising market interest rates?

## Market interest rates have risen again, but risk premiums are stable

- Market interest rates have generally developed positively since the autumn 2023 report, showing a clear decline.
- In most markets long-term bond yields are somewhat lower than at their peak in September/October 2023.
- The risk premium on European corporate bonds has also shrunk considerably, indicating a positive improvement in financial market confidence in European companies.

### 10-year government bonds



\* Data for March 2024 is from 17 March.

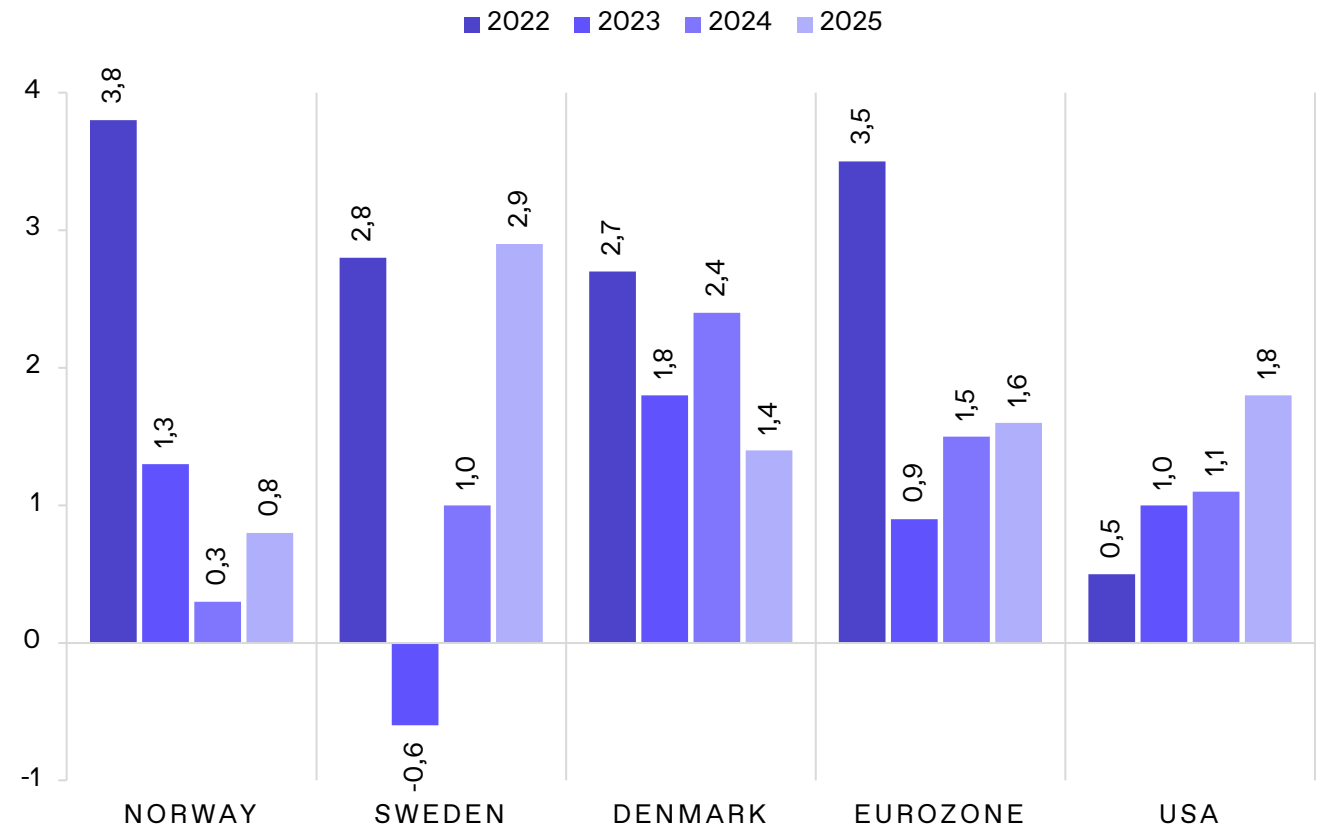
\*\* Difference between European corporate bonds (BBB) and German government bonds (five-year)

# Soft landing for the economy thus far

## Economic growth in Scandinavia and selected countries

- Global economic growth is expected to remain moderate, which will have a negative impact on Scandinavian export markets.
- Leading GDP forecasts indicate an economic downturn in the Scandinavian countries in 2024 and 2025, leading to increased unemployment, as recently observed.
- The Norwegian economy is being fuelled by high oil and gas prices and strong central government stimuli via the national budget.
- In Norway and Sweden in particular, there is a clear division of the economy, with some manufacturing and energy-related sectors doing very well while the construction industry, for example, is performing poorly.

GDP growth

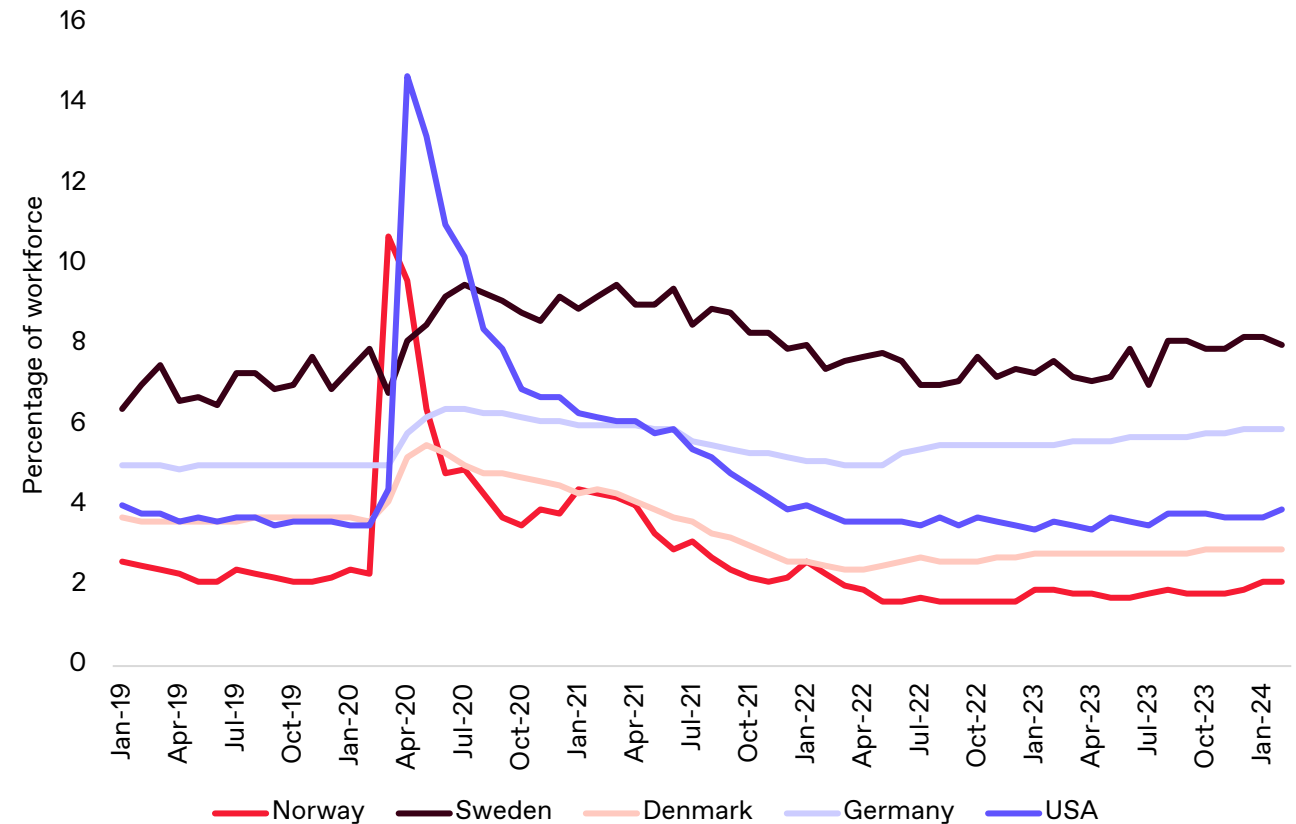


# Labour markets remain strong

## Still few indications of material increases in unemployment

- Low unemployment equates to a lower risk of material demand disruption in private segments such as residential units and commercial buildings.
- To date, higher interest rates and weaker economic developments have not impacted unemployment, although forecasts and trends indicate rising unemployment going forward.
- Unemployment has shown a moderate upward trend since the autumn 2023 report, but remains at historically normal levels. Central banks will probably continue to seek even weaker labour markets to curb inflationary wage growth.

Unemployment

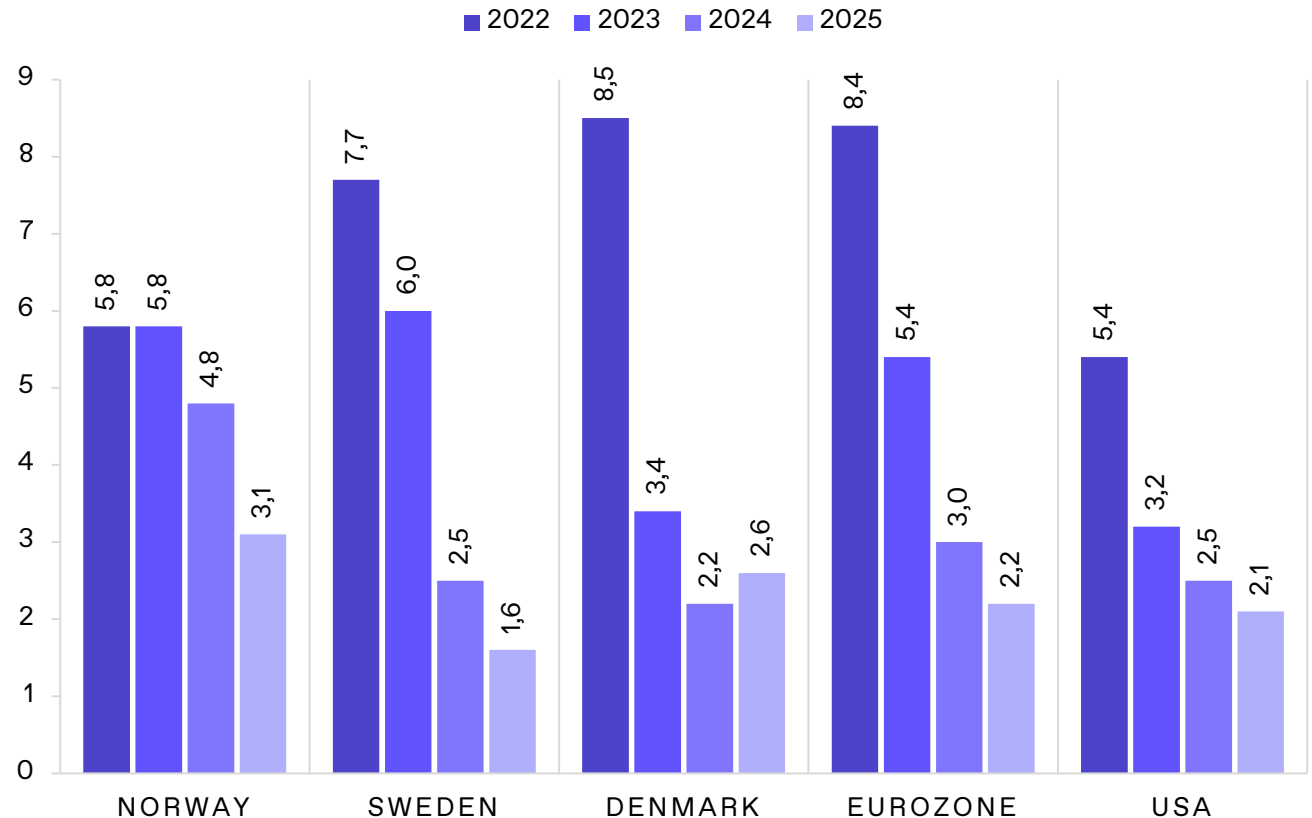


# Inflation/CPI are falling, but it is taking time

## Forecasts indicate a downward trend

- Inflation declined throughout 2023 at both an overall and underlying level. The latter category usually excludes goods such as energy and food.
- Central banks need to feel confident that the 2% inflation target is within reach before they will start cutting policy rates. In most countries, there is still some way to go before this point.
- Denmark and Norway represent two extremes, with Danish inflation having come well down, to target levels, while Norway still has a long way to go to reach its target of 2%.
- Both forecasts and messaging from central banks indicate that the battle to bring inflation down to target levels is not seen as over. Nevertheless, the primary scenario is that inflation will continue to fall in the coming year, with the greatest uncertainty attaching to energy prices and wage growth.

Inflation/CPI



# Declining population growth

- Population growth in Norway totalled 1.1% in 2023. Excluding immigration by Ukrainian refugees, the increase was a moderate 0.6%, in line with the years up to 2021.
- Population growth in Sweden and Denmark was also on a par with the low level seen in previous years. In these countries, while the influx of refugees has also been high, Ukrainian refugees have not consistently been registered as immigrants.
- Sweden's population growth of just 0.3% was exceptionally low and is in line with a trend of declining population growth.
- The decline can be explained by reduced immigration and a lower birth surplus.
- The number of births is continuing its downward trend in all three countries. In Sweden, the number of births in 2023 was 11% below the average for the last ten years, while the corresponding figure for Norway is 7% below average.

Population growth



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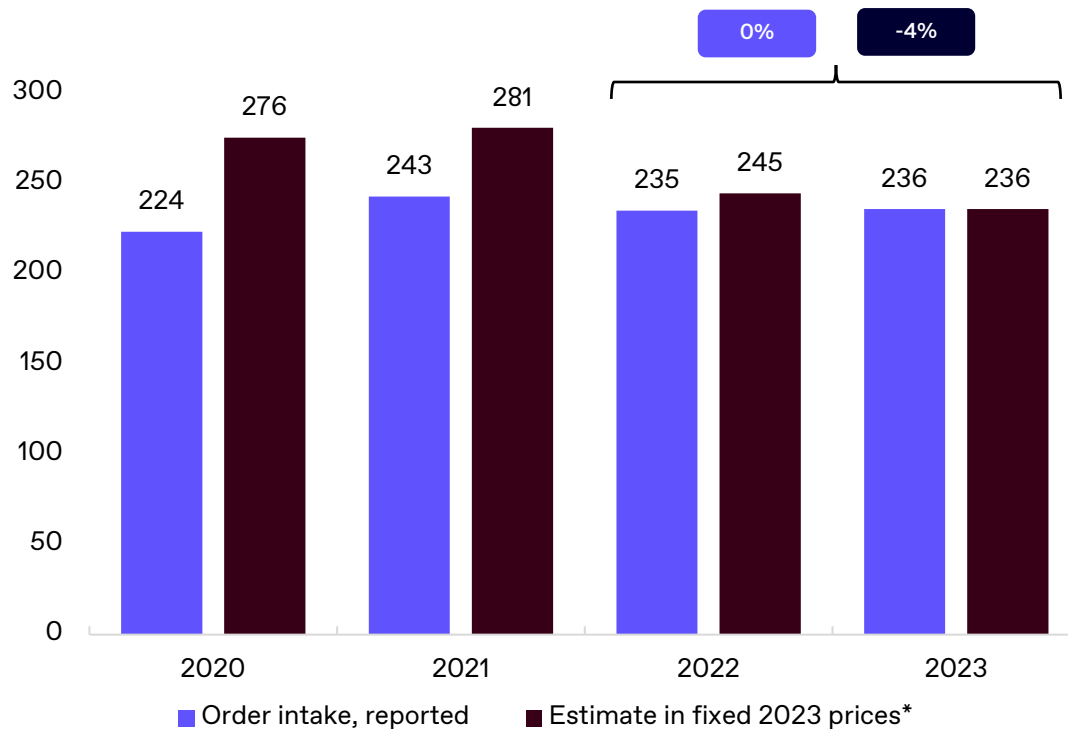
# The contracting markets

# Estimated order intake, construction operation

## Stable order intake among major listed companies

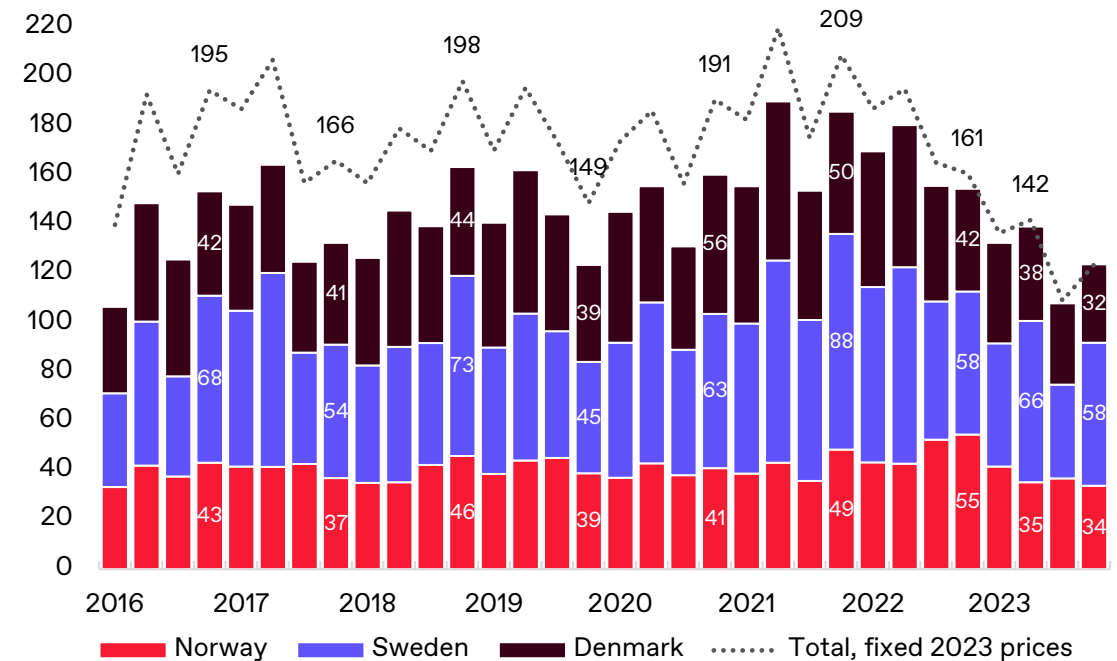
### Order intake, Nordic construction operations

Reporting companies, inflation-adjusted estimates in NOK billion



### Estimated order intake, Scandinavian construction projects

Inflation-adjusted and in NOK billion. Based on registered building permits



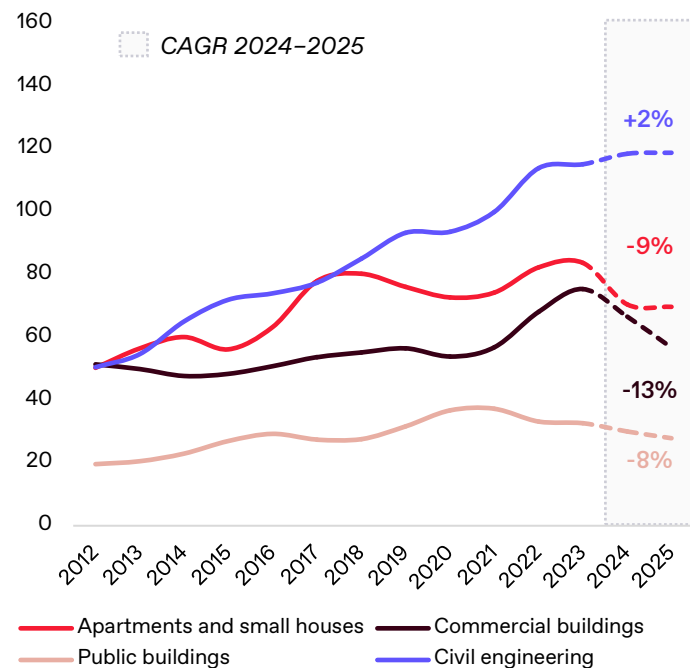
\* Adjusted using construction cost indices for residential blocks and roads from Statistics Norway and Statistics Sweden

# The Scandinavian contracting markets

## Historical figures and forecasts, current prices

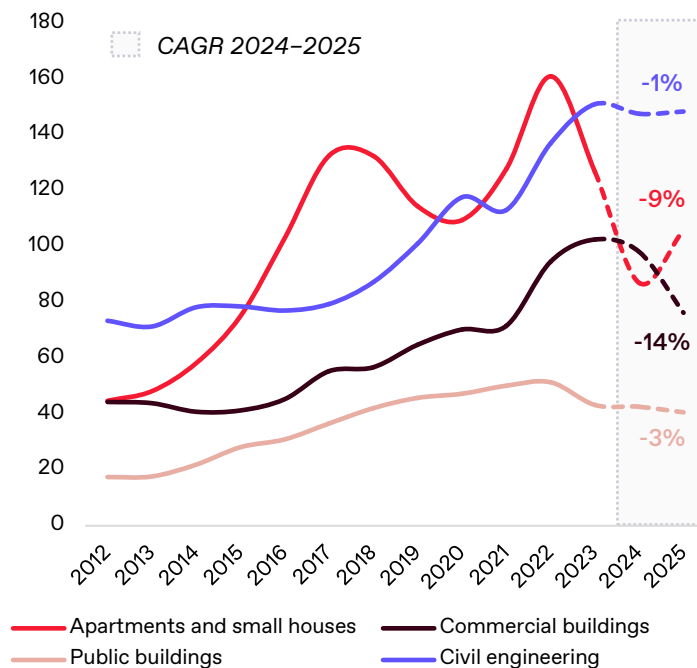
### Norway, production by sector

NOK billion, current prices



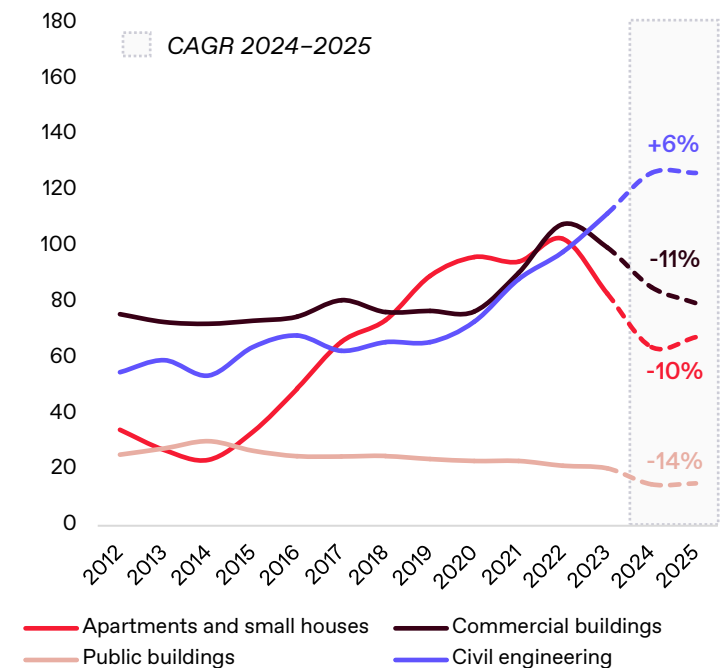
### Sweden, production by sector

NOK billion, current prices



### Denmark, production by sector

NOK billion, current prices



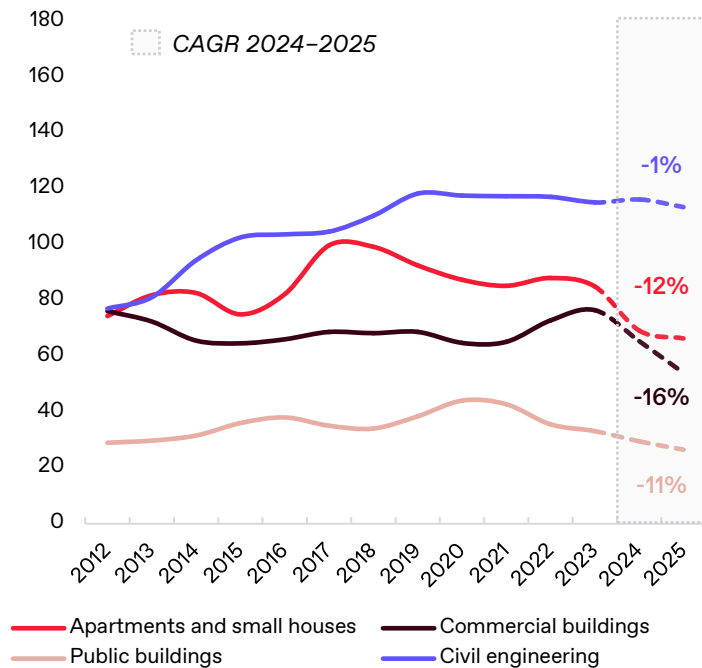


# The Scandinavian contracting markets

## Historical figures and forecasts, fixed prices

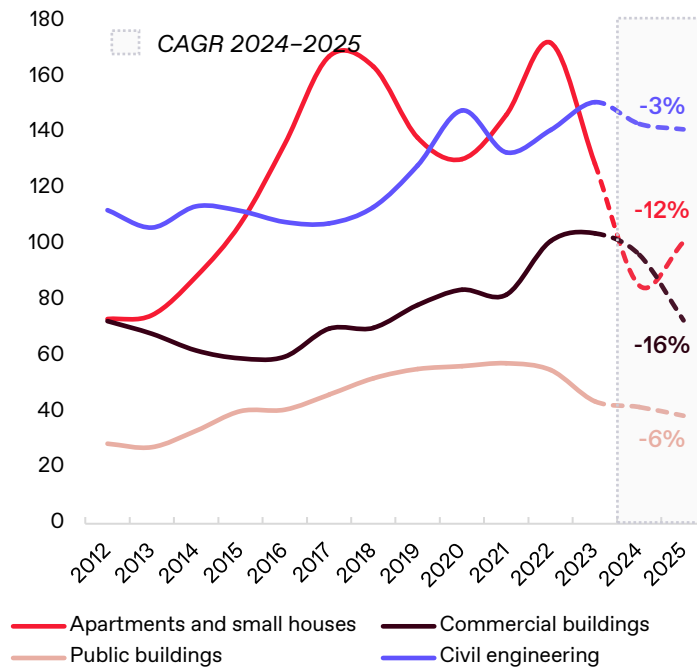
### Norway, production by sector

NOK billion, fixed prices



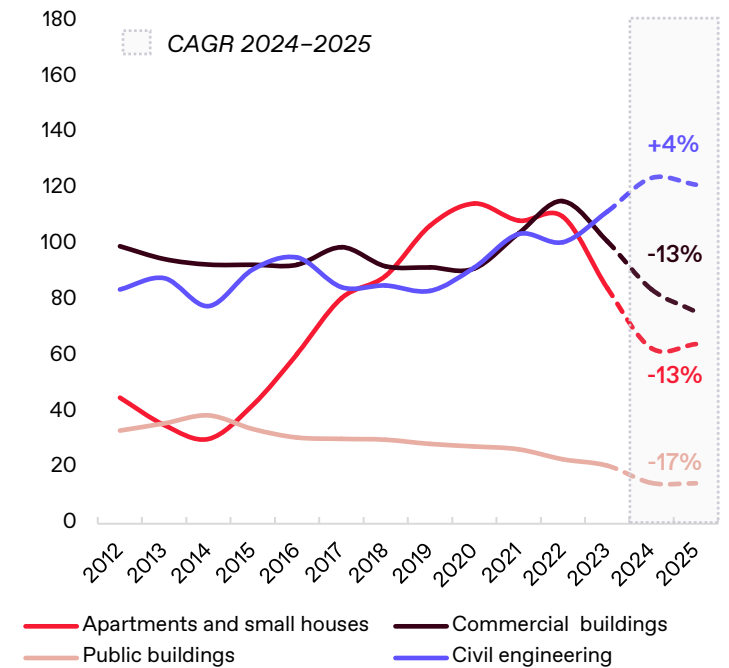
### Sweden, production by sector

NOK billion, fixed prices



### Denmark, production by sector

NOK billion, fixed prices



# Buildings

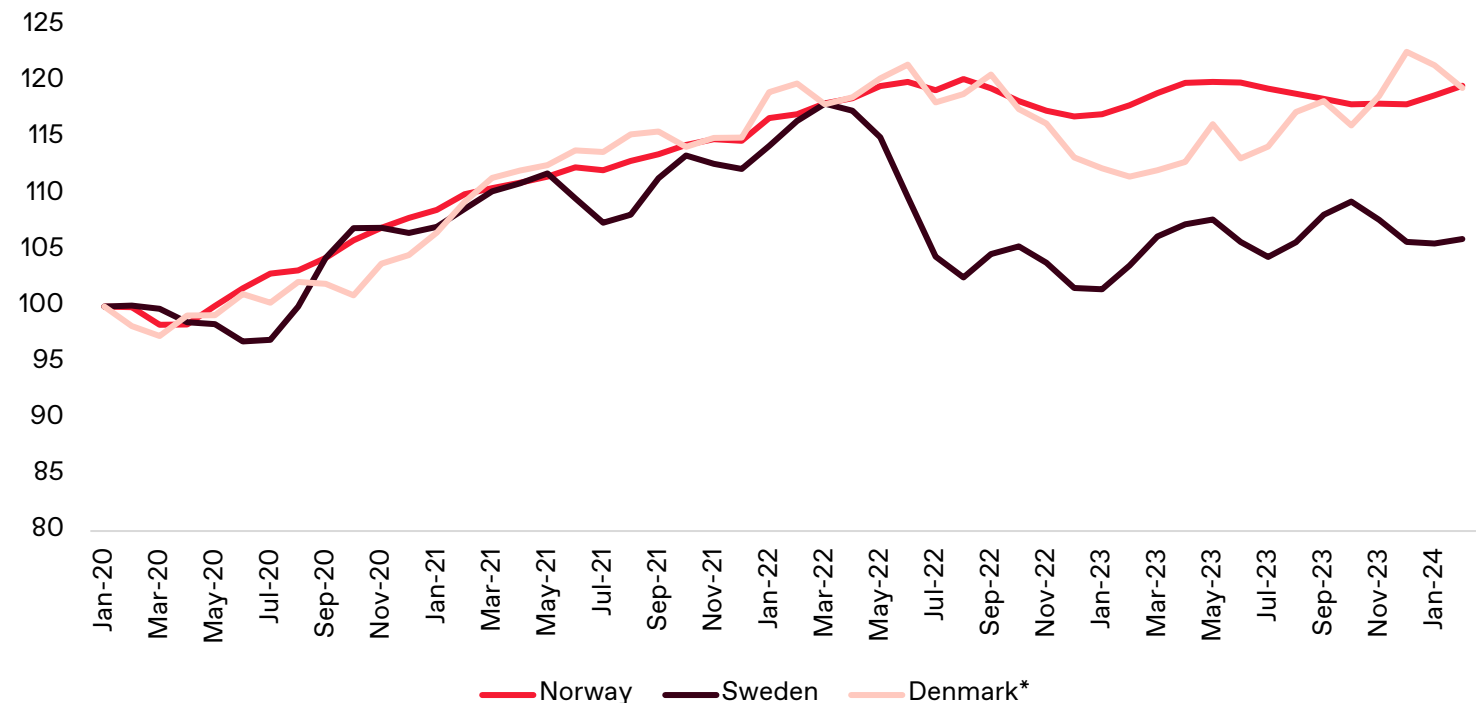
# Positive signs in the secondhand residential market

## Residential prices, index

- Prices of secondhand homes in Norway and Sweden have maintained their relatively flat trend of recent years. In Denmark, however, there are indications of a stronger upward trend.
- In addition, transaction volumes have remained at an acceptable level, supporting the assessment that the secondhand residential market is well-functioning.
- Given the solid financial foundation which exists in the three Scandinavian countries, we do not expect any significant impact on residential prices unless unforeseen circumstances arise.
- Stable and positive development of the secondhand residential segment can normally be expected to boost demand for new residential units as well.

### Prices, secondhand residential units in Scandinavia, apartments

Index: January 2020 = 100



\* The statistics show the most recent price of apartments taken off the market due to being sold or withdrawn from sale.

# New residential unit sales in Norway

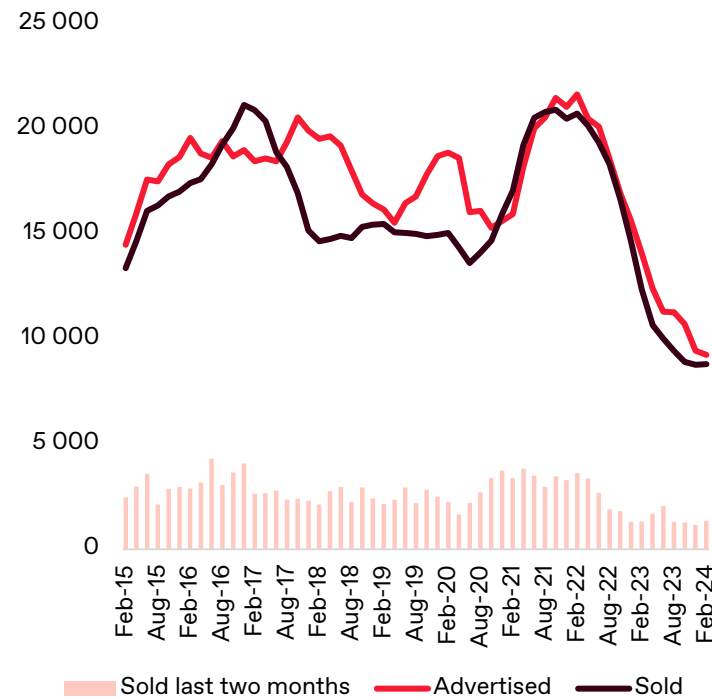
## Sale starts and sales remain low, but there is an upward trend

### Comment

- New apartment sales remained weak throughout the autumn and in the first two months of 2024. Sales in the last 12 months totalled around 55% of the average for the period since 2015.
- Although sales appear to have bottomed out, there are currently no signs of new growth. Nevertheless, strong figures for the secondhand residential market and strong macroeconomic conditions make us optimistic about a slight improvement in 2024.
- Sale trends largely reflect the volumes advertised for sale, a fact which is positive in itself in terms of maintaining balance in the market.
- Although the number of unsold units is fairly stable overall, the number of unsold *completed* apartments has increased considerably, especially in Eastern Norway. This stock will probably have to be reduced before new momentum materialises in new residential sales in this segment.

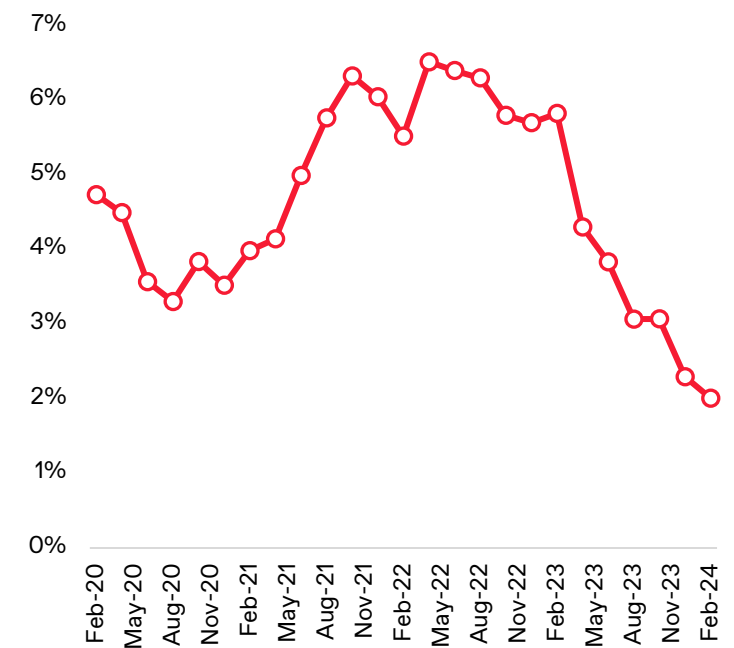
### Ready-for-sale and sold apartments

Number of units, 12-month rolling total and last two months



### New residential unit prices (apartments)

Year-on-year percentage change in price per m<sup>2</sup>



# Apartments and small houses, Norway and Sweden

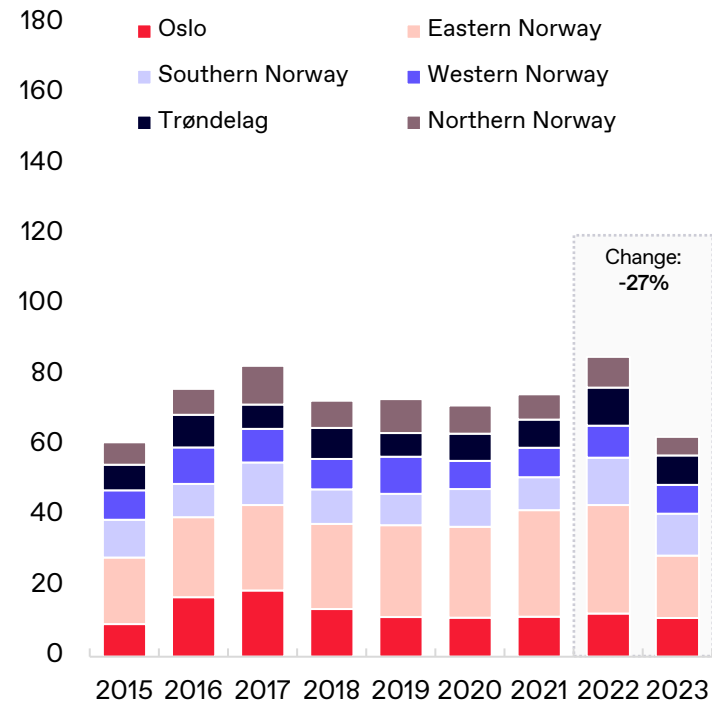
## Estimated value of order intake

### Comment

- The number of building starts involving new apartments and small houses in Norway fell by 27% in 2023. In Sweden, the decline was even greater, at 47%.
- In Norway, the decline was particularly evident in Eastern Norway (excluding Oslo), following many years of high and stable construction activity.
- While a broad decline is evident across much of Sweden, the drop is particularly marked in Greater Stockholm and Greater Gothenburg.
- We anticipate a degree of recovery in 2024 as a result of favourable macroeconomic conditions, especially if the expected fall in interest rates materialises during the course of the year.

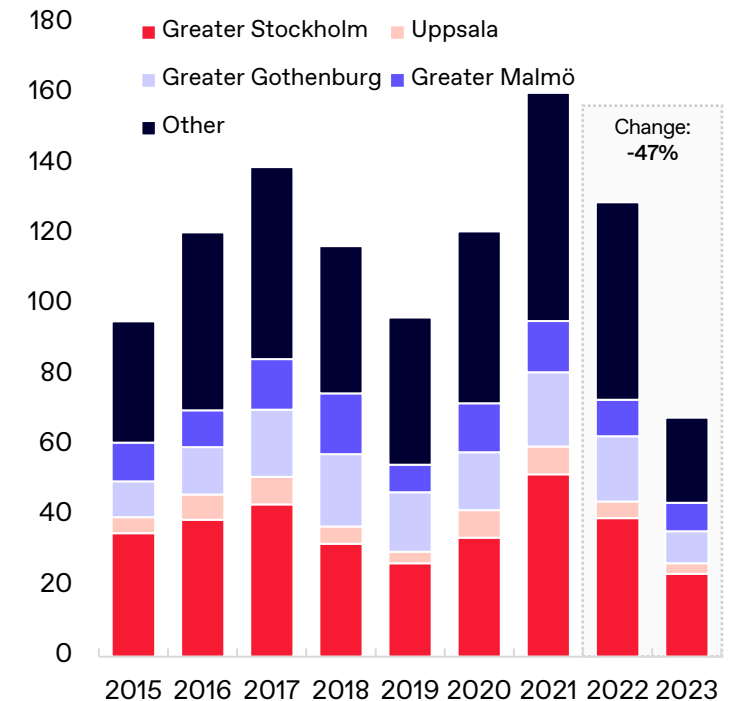
### Norway, estimated order intake

NOK billion



### Sweden, estimated order intake

NOK billion



# Commercial buildings in Norway and Sweden

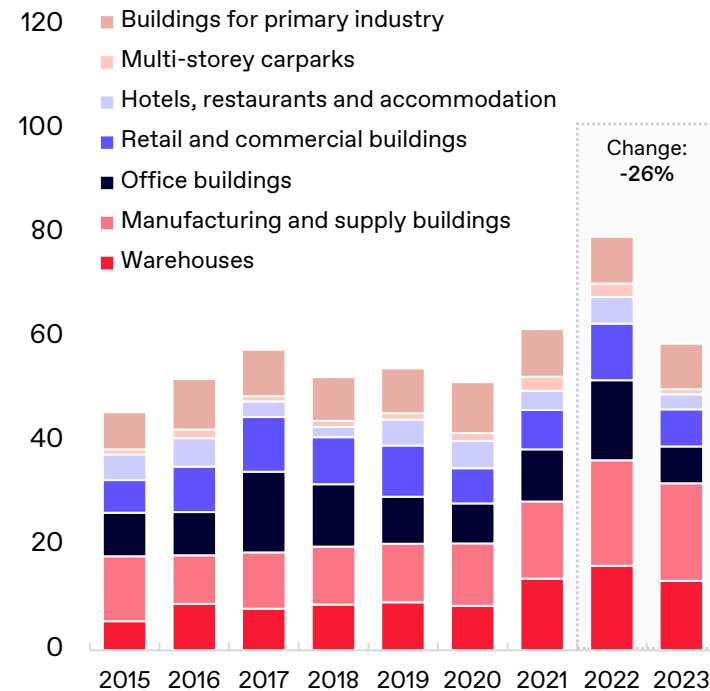
## Surprisingly strong figures for 2023

### Comment

- The commercial buildings segment continued to surprise, in the form of strong building start figures in both Norway and Sweden.
- The trend was particularly strong in Sweden, where the market continued to grow. The level in Norway remained relatively high from a historical perspective, albeit much lower than in the peak year 2022.
- Industrial and logistics buildings stand out as the strongest segment in both countries, while other segments show more moderate growth.

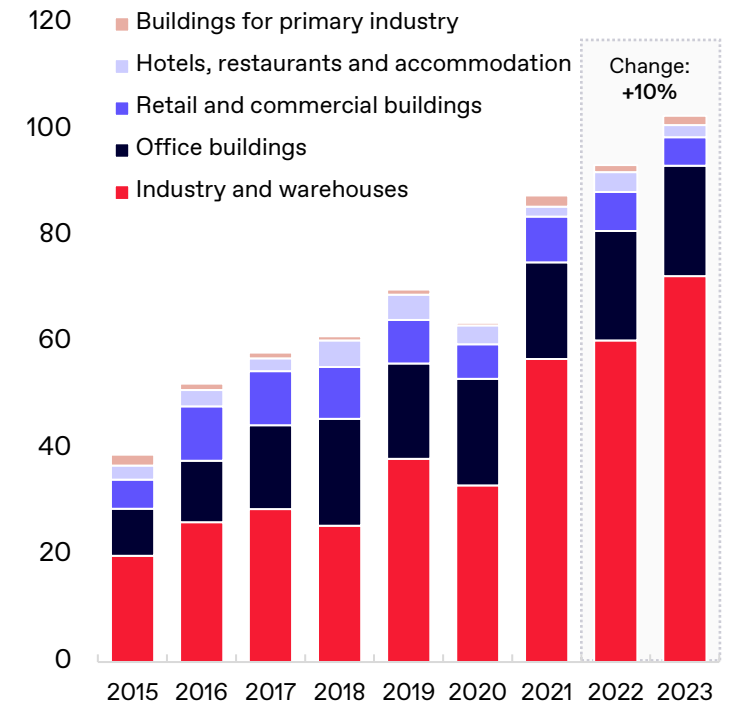
### Norway, estimated order intake

NOK billion



### Sweden, estimated order intake

NOK billion



# Public buildings in Norway and Sweden

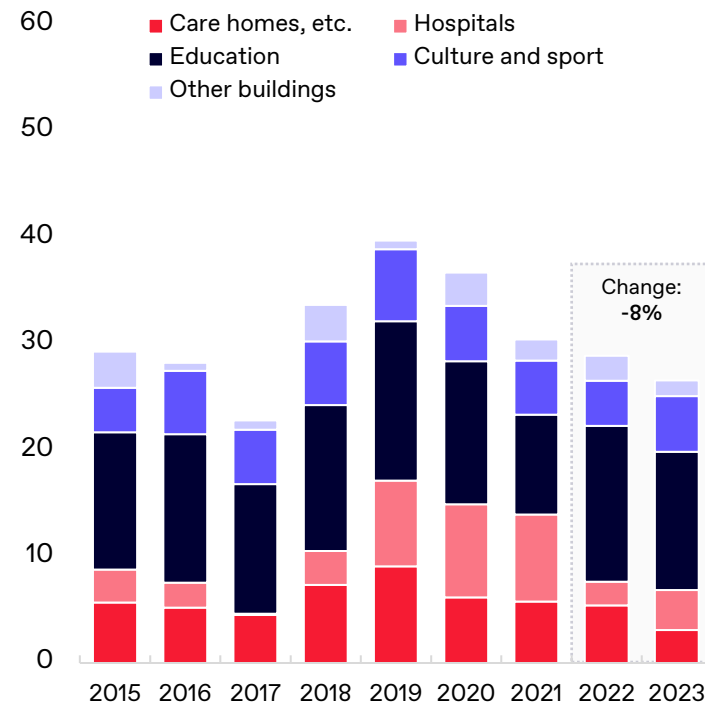
## Reduced number of building starts in Norway and Sweden

### Comment

- The number of building starts in the Norwegian public buildings segment continued to decline in 2023. The 8% year-on-year drop means that this market has now been in decline for four years since peaking in 2019.
- A reduction in the number of new hospital projects is an important driver of the decline in Norway. Another is the falling number of new care home builds, which fell to a very low level in 2023.
- The educational sector has remained strong in both countries. Demographic factors indicate less expansive investment in the sector going forward, although the need for refurbishment following the school construction boom of the 1950s and 1960s remains great.

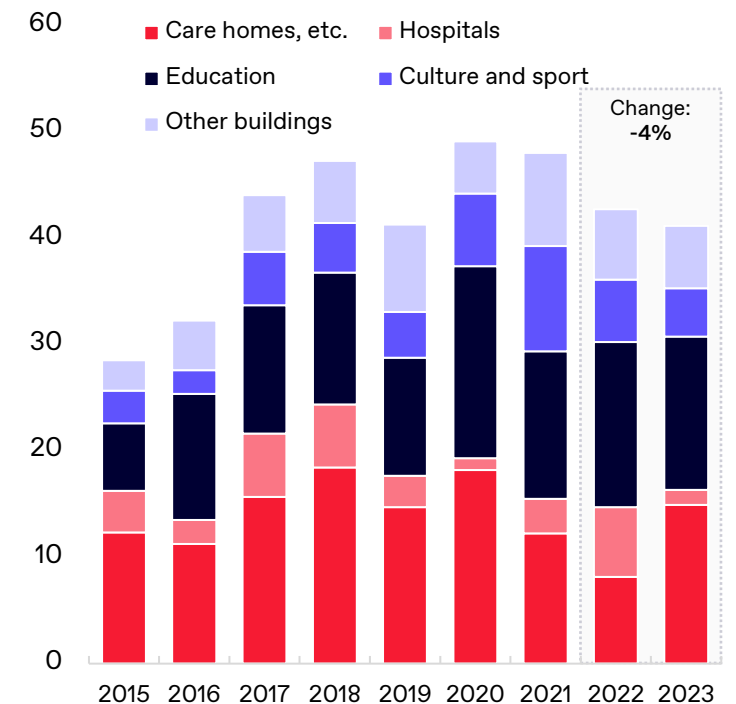
### Norway, estimated order intake

NOK billion



### Sweden, estimated order intake

NOK billion



# Infrastructure



# The civil engineering market in Norway and Sweden

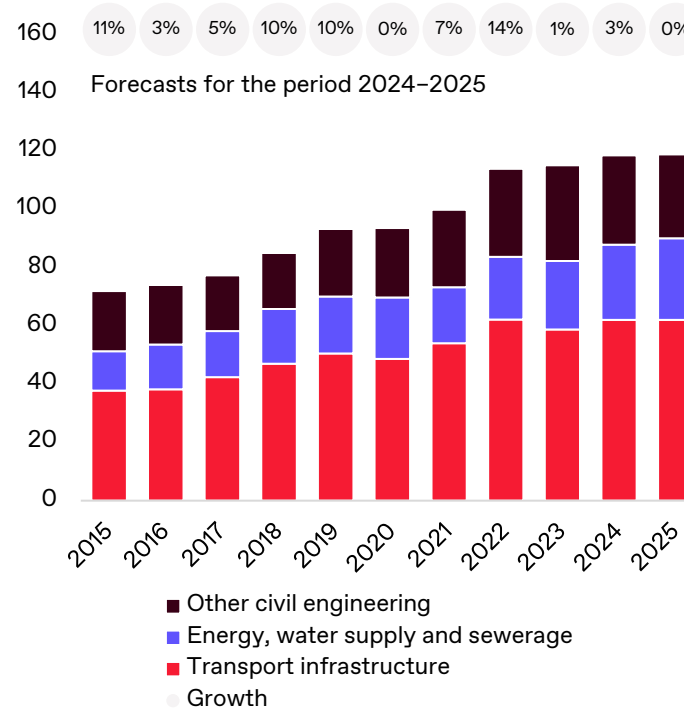
## Production tapering off at a high level

### Comment

- Stabilisation at a high production level with many large ongoing projects in the market.
- Strong growth in the energy, water supply and sewerage sector, driven particularly by increased investment in transmission lines.
- Sweden's recent accession to NATO paves the way for potential investment in new infrastructure.
- A new national transport plan for the period 2025-2036 is due to be published on 22 March. Lower investment and higher maintenance have been indicated.

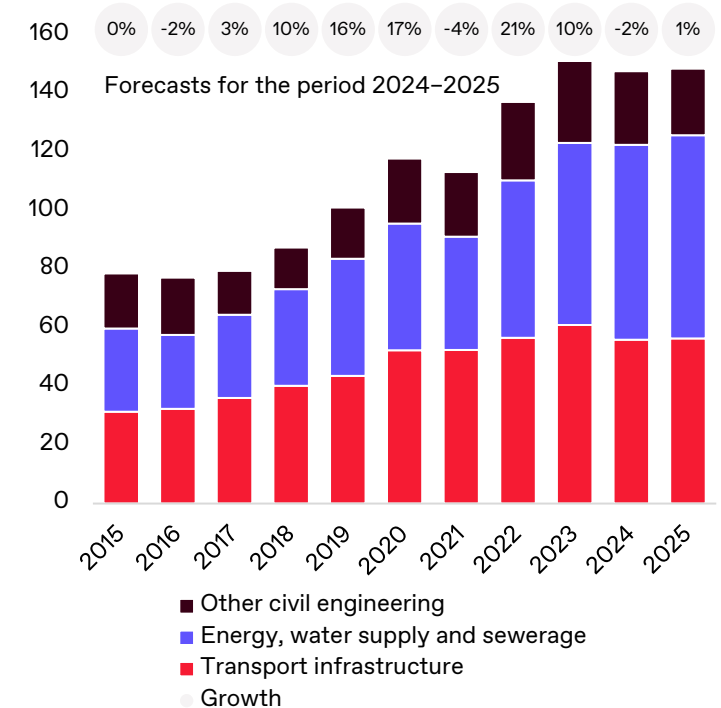
### Norway, production

NOK billion, current prices



### Sweden, production

NOK billion, current prices



# Transport infrastructure in Norway

## More roads, less rail

### Comment

#### Roads

- Reduced forecasts compared to autumn 2023.
- Declining investment in county and municipal roads.
- Continued high production linked to the national road network.
- In the major projects market\*, residual production in ongoing projects will stay high until the end of 2025.

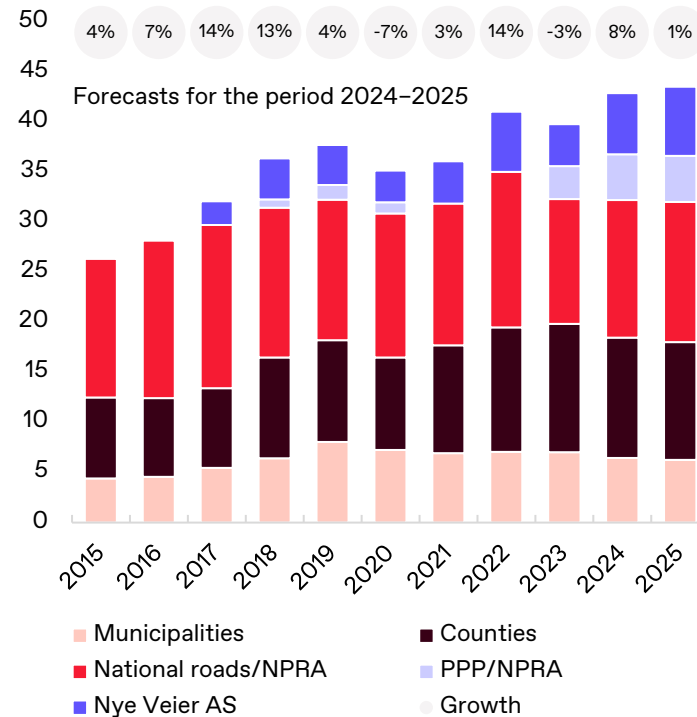
#### Railways

- A surprisingly strong National Budget has led to upward revision of forecasts for 2024.
- Increasing production on the Fornebu Line is making a positive contribution.
- Dependent on supply of new projects to maintain activity in the major projects market.

\* Projects > 500 millions

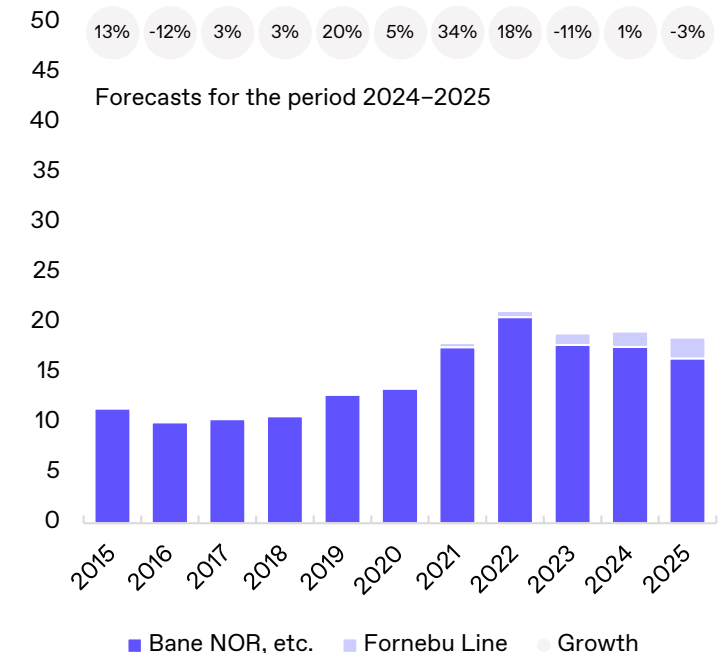
### Roads market, production

NOK billion, current prices



### Railways market, production

NOK billion, current prices



# Transport infrastructure in Sweden

## Somewhat lower production volumes in the coming years

### Comment

#### Roads

- Slight decline in central government investment until the end of the forecast period.
- Investment in municipal roads is due to peak in 2023 and likely to decline in 2024 and 2025.
- Flat production development in the major projects market\*, but the government has greenlit e.g. *Tvärförbindelse Södertörn*.

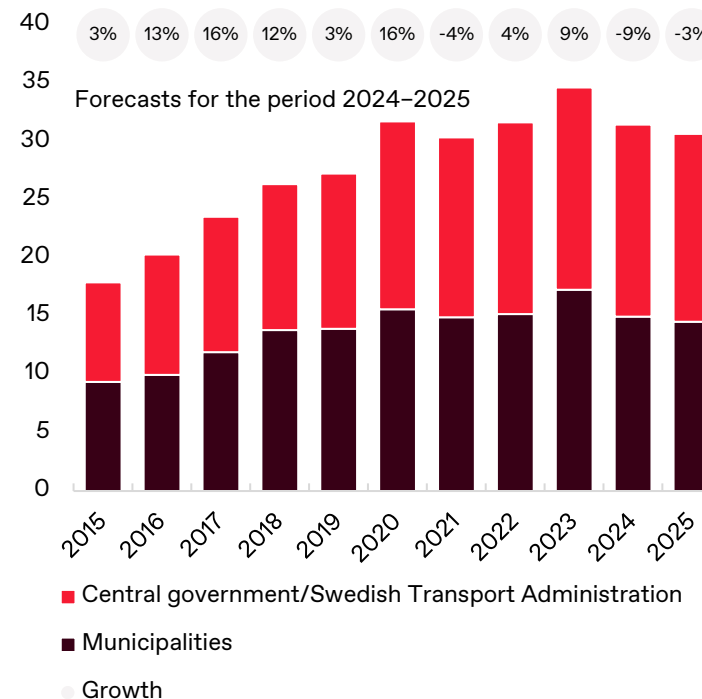
#### Railways

- Both the National Budget and the Swedish Transport Administration's investment plans envisage a decline in 2024 and new growth in 2025.
- Production on the new metro in Stockholm will be high but will gradually decline going forward.
- A new tramline project in the Uppsala region is also expected to start in 2025.

\* Projects > 500 millions

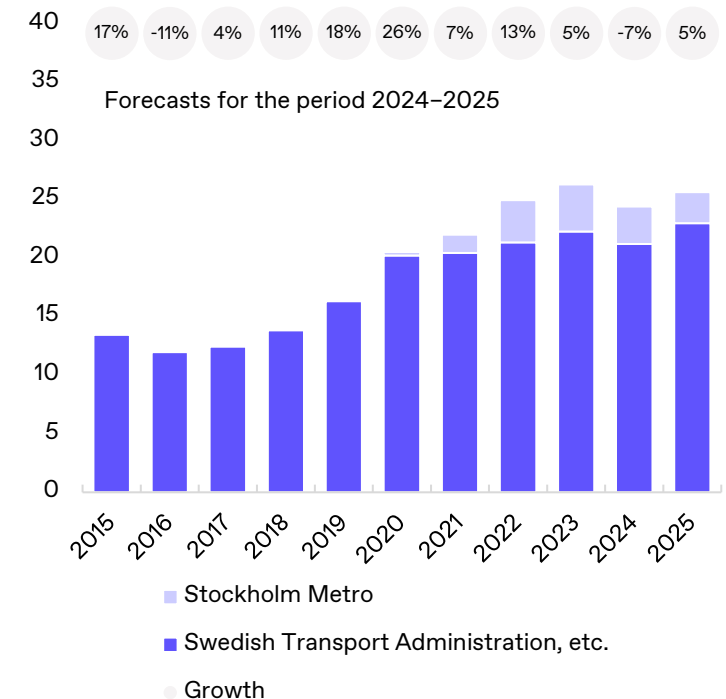
### Roads market, production

NOK billion, current prices



### Railways market, production

NOK billion, current prices



# Norway: energy, water supply and sewerage

## Further growth expected

### Comment

#### Energy

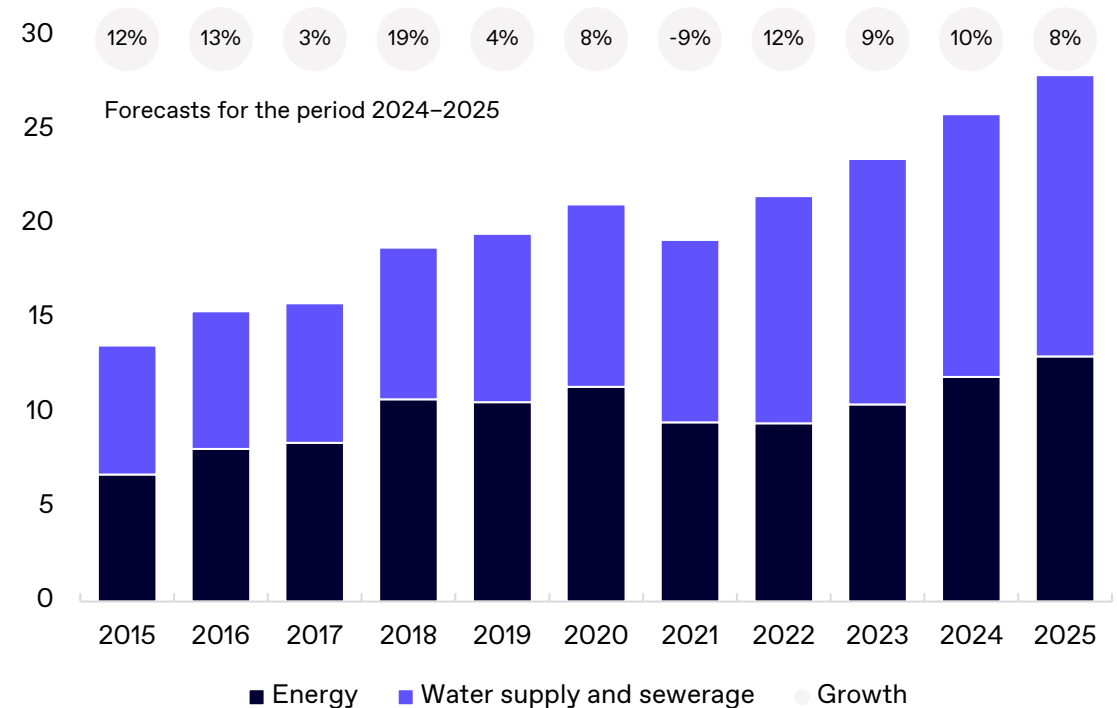
- Low rate of investment in new power plants in recent years.
- Statkraft, the largest power company in Norway, is planning to upgrade and rebuild Norwegian hydropower plants, and to renew existing and build new wind power plants in the years ahead.
- In parallel, Statnett plans to increase investment in the power grid over the next ten years.
- Overall, these developments will contribute to a growing market going forward.

#### Water supply and sewerage

- National targets for water and health have been revised.
- The report identifies challenges related to poor maintenance, high leakage rates and a need for investment to ensure safe drinking water supply and wastewater management in response to climate change and increasing vulnerability.
- Several wastewater treatment plants do not fulfil current treatment requirements. A currently ongoing revision of the relevant EU directive will impose even stricter requirements.
- Investments in water and wastewater facilities have increased in recent years, and we expect this growth to continue throughout the forecast period.

### Production

NOK billion, current prices



# Sweden: energy, water supply and sewerage

## Further growth expected

### Comment

#### Energy

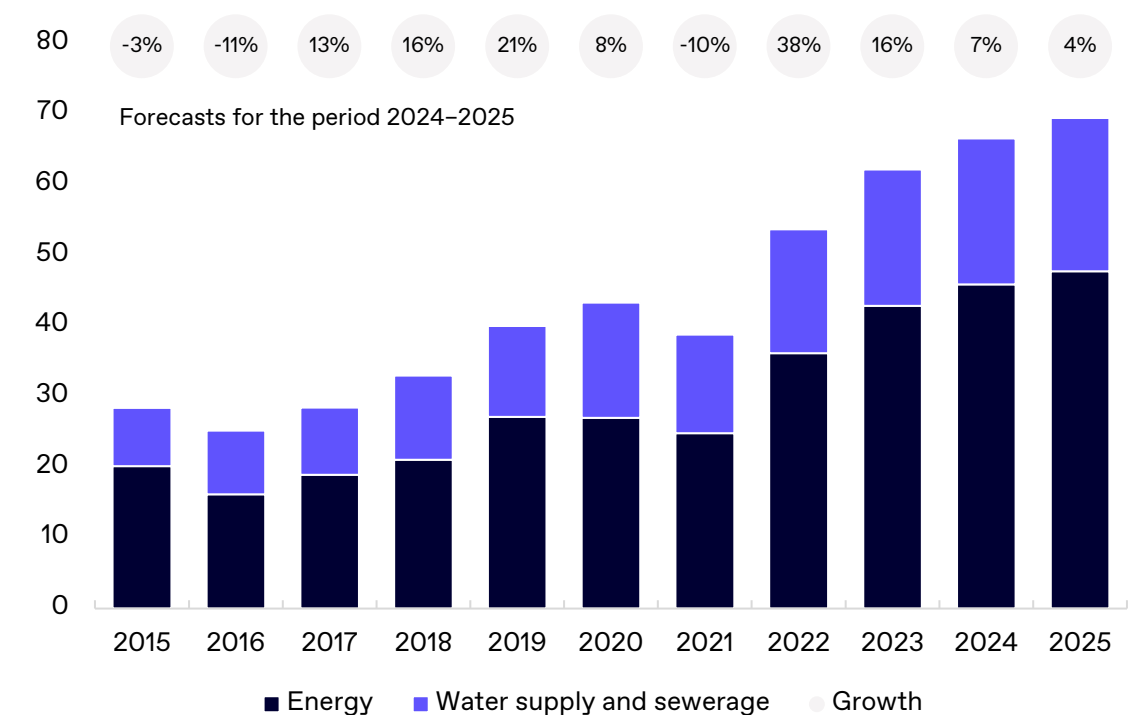
- Updated figures from Statistics Sweden show investment growth of 18% in 2023.
- Svenska kraftnät has reported a sharp increase in investment levels in 2025 and 2026, and we therefore expect investments in the power grid to make the strongest contribution to growth during the forecast period.
- According to a report prepared by Sweco, the greatest need for power-grid investment lies ahead, in the period 2026–2030.
- The production outlook is moderate, due to the high number of ongoing projects expected to be completed in 2024/2025.

#### Water supply and sewerage

- Investment growth of over 10% in 2023.
- Preliminary estimates from Statistics Sweden's investment survey indicate continued growth this year.
- As several major projects are approaching completion, the growth rate is expected to slow somewhat.

### Production

NOK billion, current prices



# Road maintenance, Norway

## High priority going forward

### Comment

- Road maintenance will be highly prioritised in the upcoming national transport plan, and we are likely to see increasing activity levels from next year onwards.

### Roads

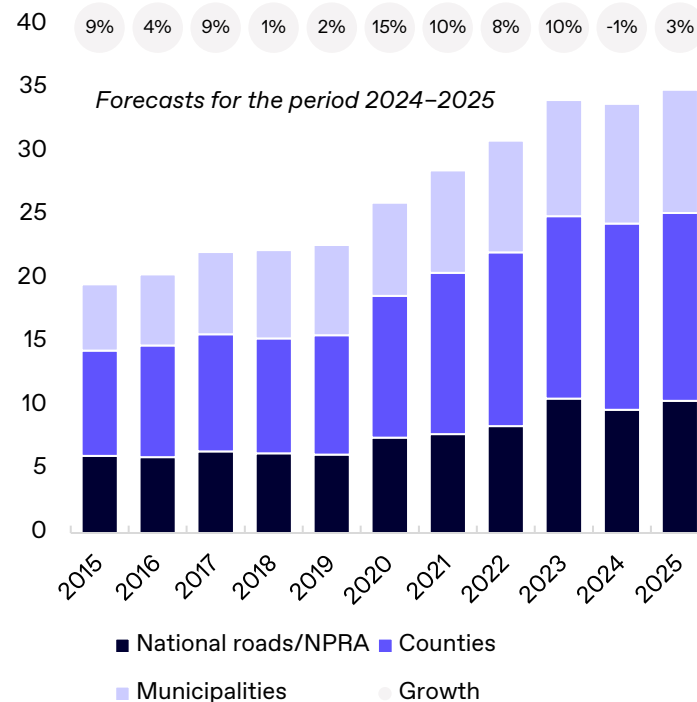
- 4% growth in the 2024 National Budget, but an 8% drop if the additional allocation made in 2023 of NOK 1.2 billion is taken into account.

### Railways

- A slowdown in new investment creates scope for higher road maintenance activity.
- The government has proposed a 10% increase in the allocation to railway-network operation and maintenance in 2024, and we expect continued growth next year.

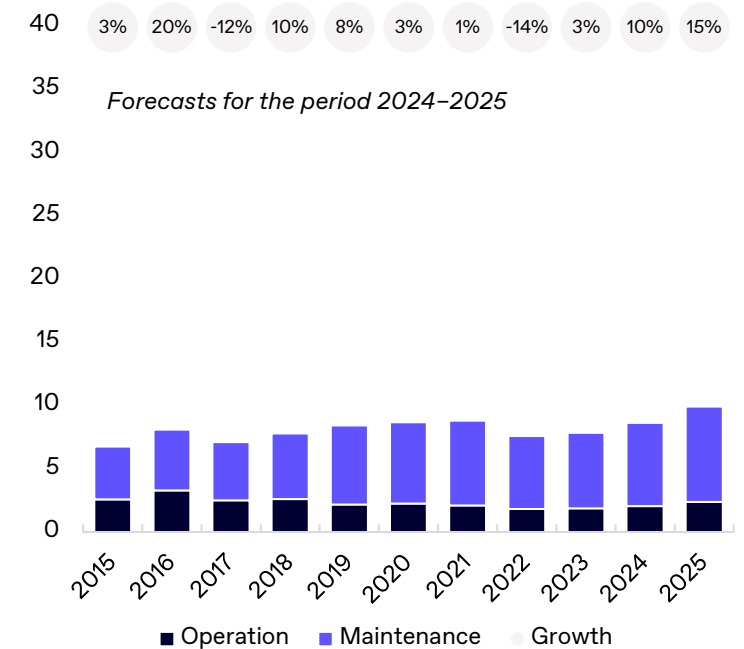
### Road maintenance

NOK billion



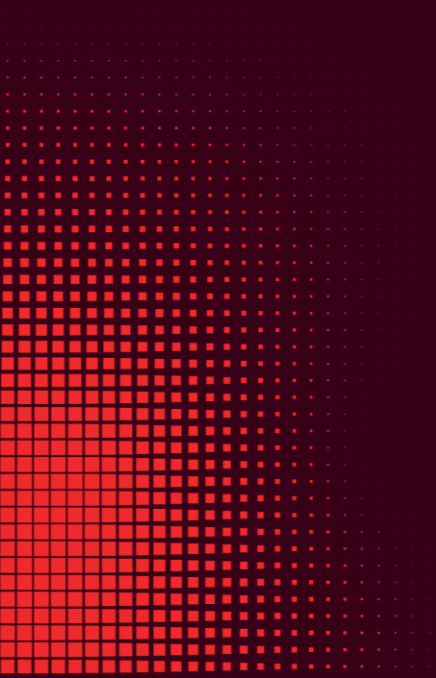
### Railway maintenance

NOK billion



04

# Construction costs



# Cost inflation set to fall

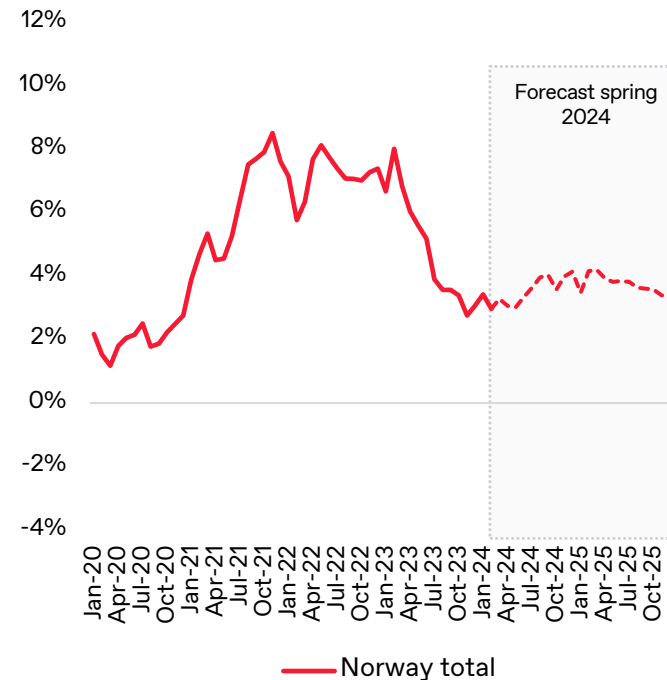
## Construction cost indices show slower growth than last year

### Comment

- Construction cost inflation has slowed significantly in recent months and amounted to 2% in Sweden and 3% in Norway on the last measurement date in February.
- Based on currently known conditions, Veidekke expects inflation to stabilise in the 2–4% range going forward, and that inflation will be somewhat higher in Norway than in Sweden.
- The prices of most input factors have remained relatively flat in recent quarters as a result of more stable energy prices and foreign exchange rates. One exception is concrete, which has become more expensive due to strong increases in the cost of the ingredient fly ash.
- Despite reduced demand, there are currently no indications of falling prices for any of the input factors.
- While wage growth previously functioned as a stabilising element in the indices, high wage growth is now one of the factors contributing to elevated inflation.

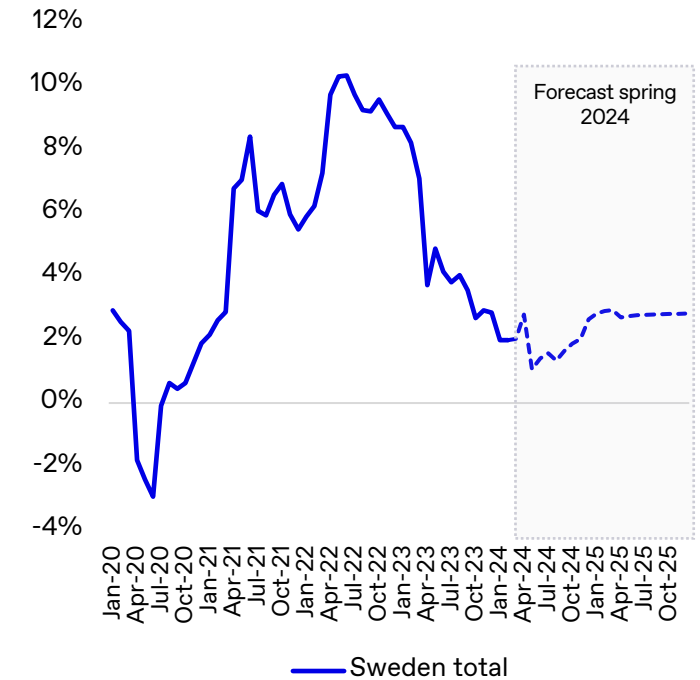
### Construction cost index, residential blocks, Norway

Percentage change since same month last year



### Construction cost index, residential blocks, Sweden

Percentage change since same month last year





# Construction cost index, civil engineering (Norway)

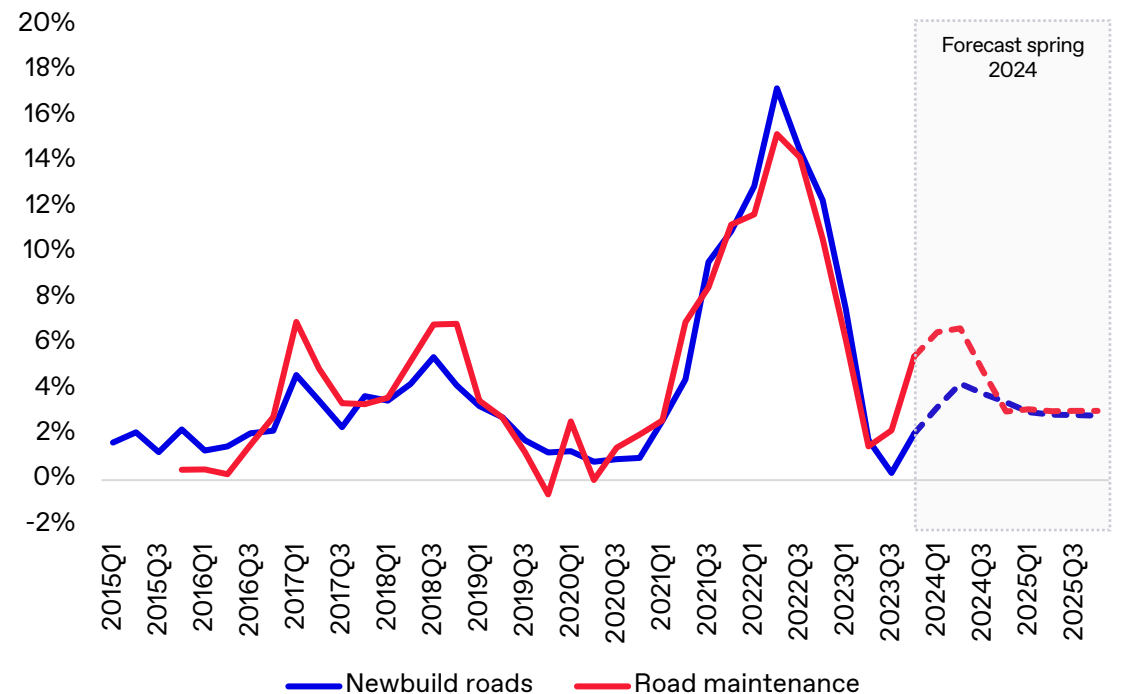
## Prices are stabilising

### Comment

- Construction costs in the civil engineering and road maintenance sectors fell sharply last year compared to 2022, as a result of reduced fuel costs. However, in the second half of the year, fuel prices rose again slightly, which impacted the civil engineering and road maintenance index in particular, in which this factor is heavily weighted.
- As the effects of fluctuating energy prices transition out of the indices (measurement of year-on-year change also takes into account developments in the preceding year), other input factors such as wage growth will have a stronger impact and bring the indices towards levels in the 3–4% range.
- The forecasts are based on the assumption that energy prices will not experience new disruptions that cause major fluctuations.

### Construction cost index, roads

Percentage change since same quarter last year



# 05 Summary

# Contracting markets

## Forecasts 2024–2025

### Comment

- Following strong growth in 2022, production slowed in 2023, falling by 5% in value terms in Sweden and Denmark. Norway, however, maintained a high level of activity last year.
- We expect 2024 to be marked by a noticeable decline in activity in all three countries, reflecting the previously observed low number of building starts in 2023.
- The outlook for 2025 remains less certain, and rising activity levels are dependent on a relatively rapid increase in building starts. This scenario cannot be ruled out, and we will adjust our forecasts in the next report if it materialises.
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- Our forecasts are more or less the same as in our autumn 2023 report, reflecting the fact that the markets are developing reasonably predictably and as expected.

### Production in the Scandinavian contracting markets

Percentage change since previous year, current prices

	2022	2023	2024	2025
Norway	11%	3% (3%)	-7% (-5%)	-4% (-3%)
Sweden	22%	-5% (-6%)	-11% (-8%)	-1% (-1%)
Denmark	11%	-5% (-12%)	-8% (-5%)	-1% (3%)
<b>Scandinavia</b>	<b>16%</b>	<b>-2% (-6%)</b>	<b>-9% (-7%)</b>	<b>-2% (-1%)</b>
Scandinavia, NOK billion	1,070	1,050	950	930

Autumn 2023 forecasts in brackets.

