Economic trends

The European crisis became more serious this autumn, largely because the politicians failed to reach agreement on measures to convince the market that their government debt was manageable. Yields on government bonds in many countries rose substantially right until the end of November. In early December, however, yields fell in the wake of interventions by a number of central banks, proposed budget cuts in Italy and expectations of further action by the European Central Bank (ECB) and the EU in the near future. However, financial markets remain volatile, and if expectations are not met, yields may rise again. A solution to the crisis now will probably entail both the ECB changing its focus from the role of defender of low inflation to printing money in order to purchase government debt, and the introduction of more stringent requirements regarding budgetary discipline for countries that are to receive emergency aid to finance their debt. In the longer term, closer cooperation on fiscal policy appears inevitable if the euro is to survive. How this will take place is currently being discussed by the political leaders in the euro area. We assume that the ECB and the euro area will regain market confidence by introducing adequate saving measures and structural changes without completely stifling growth. Even if they succeed, we envisage several years of weak economic growth and brief periods of minor falls in GDP in the euro area. Should the euro collaboration collapse, we will be in unknown terrain, making it virtually impossible to predict developments, but it will probably take the entire OECD area into a pronounced recession. Although developments in early December have made this somewhat less probable, the risk is still there.

The weak global growth has already affected the Norwegian economy. Prices for a number of cyclically sensitive export products have fallen in the last few quarters, whereas oil prices have remained at a high level. Growth in exports of traditional goods is currently close to zero, and may fall further if the negative tendencies in the global economy are not dampened and replaced by a stronger belief that governments can resolve their debt problems. The premium on Norges Bank’s key policy rate has increased, and as a result we believe the central bank will cut its key rate at the monetary policy meeting on December 14th.

Whether or not the Norwegian economy avoids a new downturn, similar to what many of our trading partners are now experiencing, will to a very large extent depend on domestic demand, since growth in external demand is so weak. Both monetary and fiscal policy stimuli can contribute. Larger transfers from the central government to households – partly because of the aging population – may make it possible to bring about stronger growth in household consumption and housing investment than in many other countries. High population growth will also contribute to growth. Whereas households in many countries are being affected by falling housing prices and high debt, the situation in Norway is different. Despite concern that the household debt-equity ratio is becoming so high that many will have difficulty making payments if the interest rate level should rise appreciably, it must be recognised at the same time that this borrowing is part of the reason for the favourable state of the Norwegian economy at present and going forward compared with other countries.

Increasing petroleum investment is now making a clear contribution to mainland economic growth. Renewed optimism concerning the resource base on the Norwegian continental shelf indicates that it will continue to do so. The ability to pay wages in the petroleum and petroleum-related business sector is high. In other sectors of the Norwegian economy, not least the internationally exposed business sector difficulties of competing in domestic factor markets are exacerbated when the petroleum sector expands. Whereas the situation is favourable for the petroleum sector, it may weaken the competitiveness of traditional industry – particularly those segments that do not supply goods and services to the petroleum industry.

Cyclical developments in Norway

The most recent seasonally-adjusted figures from the quarterly national accounts (QNA) show that mainland GDP increased by almost 3.5 per cent, as an annual rate, in the third quarter of this year. Growth in the second quarter was even higher, and appreciably higher than what we regard as trend growth for the Norwegian mainland economy. The strong GDP growth is partly attributable to temporary factors, e.g. those associated with electricity production. The growth can therefore not be interpreted as an expression of a clear economic upturn. The national accounts figures were only moderately revised in connection with the main revision (see separate article in the current edition of *Økonomiske analyser*), and seasonally-adjusted key figures were not changed in a way that changes our view of business cycle history, even though the seasonal adjustment methods have also been changed. Developments in the Norwegian economy so far in 2011 are therefore largely the same as in our previous report.

Table 1. **Macroeconomic indicators 2009-2011. Growth from previous period unless otherwise noted. Per cent**

	2009	2010*	Seasonally adjusted			
			10:4	11:1	11:2	11:3
Demand and output						
Consumption in households etc.	0.0	3.7	1.0	0.3	0.7	0.2
General government consumption	4.3	1.7	2.7	-0.3	-1.1	0.2
Gross fixed investment	-7.5	-5.2	8.0	0.7	0.7	1.6
Mainland Norway	-13.2	-2.5	6.9	1.1	0.2	-0.8
Extraction and transport via pipelines	3.4	-9.0	11.0	4.7	6.0	8.5
Final domestic demand from Mainland Norway[1]	-1.6	2.0	2.5	0.3	0.1	0.0
Exports	-4.2	1.8	1.8	-1.5	-1.4	5.8
Crude oil and natural gas	-2.0	-4.8	2.2	1.4	-7.7	11.7
Traditional goods	-8.0	2.6	-4.6	-1.3	6.0	0.7
Imports	-12.5	9.9	0.7	6.3	-7.9	0.7
Traditional goods	-11.8	7.1	3.7	2.8	-1.4	-0.4
Gross domestic product	-1.7	0.7	2.2	-0.5	0.5	1.4
Mainland Norway	-1.6	1.9	0.3	0.4	1.3	0.8
Labour market						
Man-hours worked	-1.7	0.8	0.2	-0.1	1.1	0.9
Employed persons	-0.4	-0.1	0.4	0.2	0.6	0.6
Labour force[2]	0.0	0.5	0.5	-0.2	0.4	0.8
Unemployment rate. level[2]	3.2	3.6	3.6	3.2	3.3	3.2
Prices and wages						
Wages per standard man-year[3]	4.2	3.7	4.0	4.8	4.3	3.8
Consumer price index (CPI)[3]	2.1	2.5	2.2	1.4	1.4	1.5
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	2.6	1.4	1.0	0.8	1.0	1.1
Export prices. traditional goods	-6.2	5.5	3.1	3.4	-0.6	-1.1
Import prices. traditional goods	-1.8	-0.5	3.3	2.3	-0.8	-0.8
Balance of payment						
Current balance. bill. NOK	254.5	342.4	94.0	83.5	100.2	117.5
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.5	2.5	2.6	2.6	2.8	3.0
Lending rate. banks[4]	4.9	4.5	4.6	4.6	4.7	4.9
Crude oil price NOK[5]	388.1	484.3	517.2	601.2	636.6	616.7
Importweighted krone exchange rate. 44 countries. 1995=100	93.8	90.3	91.1	89.1	87.8	87.4
NOK per euro	8.73	8.01	8.05	7.82	7.82	7.77

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] According to Statistics Norway›s labour force survey(LFS).
[3] Percentage change from the same period the previous year.
[4] Period averages.
[5] Average spot price. Brent Blend.
Source: Statistics Norway and Norges Bank.

Unemployment has remained fairly stable this year after falling towards the end of last year and into 2011. Growth is reported in both employment and the labour supply, so there has been little change in unemployment figures. With the turnaround to a renewed rise in GDP, productivity growth predictably picked up in 2010, but in the absence of a normal cyclical upturn the increase in productivity growth has come to a halt in 2011.

Underlying inflation measured by the CPI-ATE is low and fairly stable. Inflation including energy products and tax changes is also low. Wage growth, on the other hand, looks set to be higher in 2011 than the previous year so that real wage growth will be appreciably higher than productivity growth. The low inflation is partly due to the strengthening of the krone exchange rate, which contributes to low imported inflation, and partly to the decline in the inflation rate worldwide. Global food prices have shown a falling tendency through 2011. In contrast, oil prices have increased considerably compared with 2010, but have not changed much since early in 2011.

Higher mainland domestic demand, rebuilding of stocks and a rebound of traditional exports of goods and services contributed to the turnaround from 2009 to 2010. This year the drivers behind the continued growth in mainland GDP changed. Total demand in the mainland economy has shown little change, and growth in non-petroleum-related exports has largely come to a halt. Domestic demand has moved in the direction of less imports and more domestic deliveries. The strong growth in housing investment is an example of the shift in the composition of the demand. Another example is that household goods consumption has been fairly stable, while consumption of services has risen. Total imports have therefore shown moderate growth so far in 2011 compared with 2010. Mainland GDP growth has accordingly increased somewhat despite moderate growth in domestic demand and weak impulses from abroad.

As a result of the turnaround to moderate mainland economic growth, fiscal policy was made less expansionary in 2010 and 2011. The key policy rate was raised a quarter of a percentage point in May, but since the global outlook worsened appreciably after the summer, monetary policy will probably be adjusted to provide more stimulus in the period ahead.

Fiscal policy for 2012 can be claimed to be fairly neutral. However, the fiscal budget was mainly prepared during a period when growth in the Norwegian economy was expected to accelerate. Now that the international outlook is more sombre, the Government has signalled that it may be necessary to revise the budget in 2012. Projections for economic developments among Norway's most important trading partners, on which we have based this report, are not so pessimistic that we expect major fiscal policy adjustments to take place in 2012. If monetary policy succeeds in stimulating domestic demand there will be less need for fiscal policy adjustments.

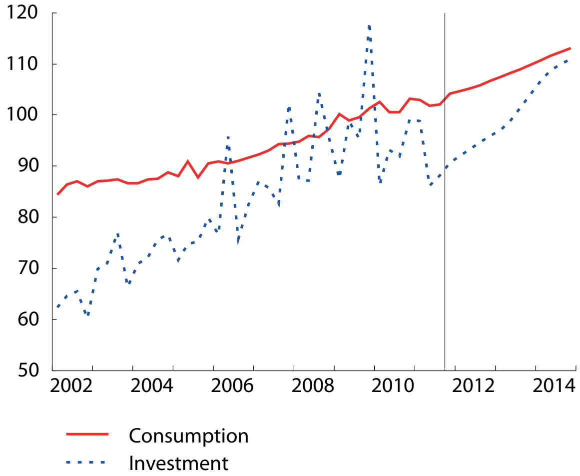
The weak global growth has already affected the Norwegian economy. Prices for a number of cyclically sensitive export products have fallen in the last few quarters, whereas oil prices have remained buoyant. Growth in exports of traditional goods is currently close to zero, and may fall further if the negative tendencies in the global economy are not dampened and replaced by a stronger belief that governments can resolve their debt problems. However, finding solutions to restore confidence in the financial system presents the governments with a considerable challenge. If they do not succeed within a reasonably short period of time, we will face a worse global economic crisis than the one we experienced three years ago. Our projections for developments in the period ahead are based on the assumption that we will avoid a full-blown crisis. However, economic growth will remain low for a long time, and so low that our trading partners will not experience an economic upturn before 2014. We therefore do not envisage that exports will give the Norwegian economy any impetus in the next few years, and assume that a moderate turnaround to higher growth will not take place until 2014.

Housing investment increased by over 20 per cent in 2011. According to our projections, this growth will continue in the years ahead, albeit at a far more moderate pace, on the back of low interest rates, rising house prices and high growth in household real disposable income. Household consumption, by contrast, has not increased as expected and consumption growth in 2011 is surprisingly low. We assume that growth will pick up markedly in the period ahead.

In addition to fiscal and monetary policy, high petroleum investment and renewed optimism regarding the resource base on the Norwegian continental shelf are boosting growth in the mainland economy. At the same time, globalisation of Norwegian petroleum activities and the petroleum-related business sector continues. Investment growth in offshore Norway has been very high in 2011, and a double-digit growth rate is expected in 2012 as well, after which growth will moderate somewhat. The ability of the petroleum and petroleum-related business sector to pay wages is high, which means that other sectors in the Norwegian economy, not least the internationally exposed business sector, will have greater difficulty in competing in domestic factor markets in the period ahead.

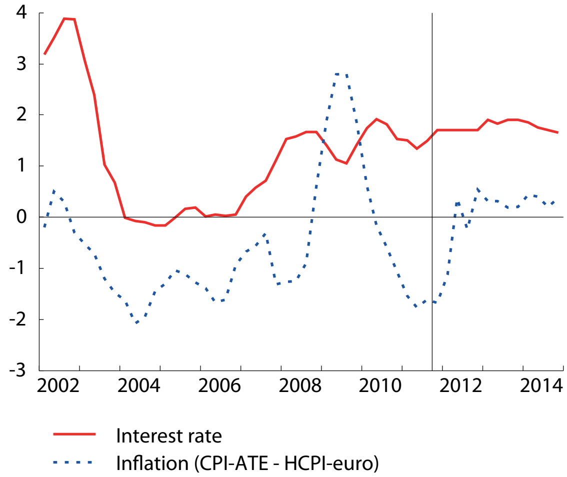
We foresee near term developments in the Norwegian economy where average mainland demand increases from over 3 per cent in 2012 to over 4 per cent in 2014. With close to zero growth in exports, mainland GDP will accordingly increase in the range of 2.5–3.5 per cent. Growth rates are again on the rise during the projection period. Given normalisation of productivity

Figure 1. **General government. Seasonally adjusted volume indices. 2009=100**



Source: Statistics Norway.

Figure 2. **Interest rate and inflation differential between NOK and the euro. Percentage points**



Source: Norges Bank and Statistics Norway.

growth in mainland industry at around 2 per cent annually, employment growth in mainland industries will be slightly less than 1 per cent annually. Overall employment growth will be somewhat higher as a result of growth in general government spending. Given strong population growth, the labour force will increase substantially with the result that unemployment will increase slightly in the period ahead. This will curb wage growth, which will also be moderate in the period ahead as a result of weaker profitability in the internationally exposed business sector and low general inflation. We do not envisage that the inflation target will be met in the course of the projection period. We project real wage growth at about the same as productivity growth in the economy.

Stronger fiscal impulses in the period ahead?

New QNA figures show weak seasonally-adjusted general government consumption growth to date in 2011. This means that even if fourth quarter growth is high, annual growth from 2010 to 2011 is estimated to be 1–1.5 per cent. Growth is lower than previously assumed, and clearly lower than the estimate for 2011 in the National Budget for 2012 (NB 2012). Local government consumption growth appears likely to be higher than central government growth.

Total gross general government investment has not increased as expected. There has been a decline in gross investment through 2011 as a result of high investment in military equipment in the first quarter of the year. We expect gross general government investment in 2011 to be at about the same level as in 2010.

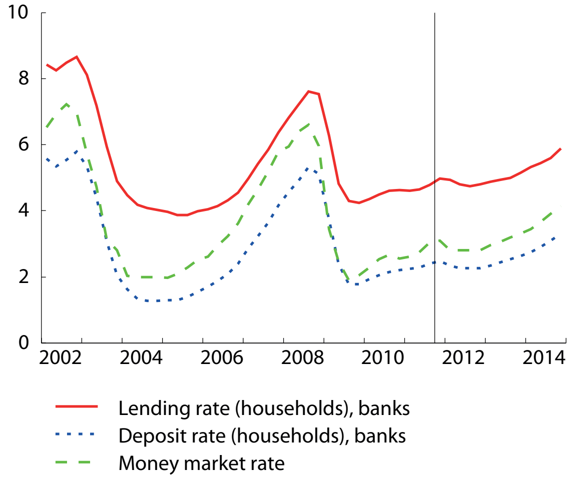
Transfers to households increased by just over 6.5 per cent in the first three quarters of the year compared with the same period in 2010. We expect growth to remain at this level to the end of the year, so that this will also be the annualised growth rate from 2010 to 2011. As a result of the low growth in consumption prices, real growth in transfers will be about 5.5 per cent in 2011, as against real growth of just over 3 per cent the previous year. Old age pensioners have contributed most to this increase, while the sum of child benefit and cash benefit for young children was unchanged in nominal terms and unemployment benefit has fallen somewhat. The overall demand impulses generated by general government purchases of goods and services plus transfers could increase in real terms by just over 2.5 per cent in 2011, which is approximately in line with trend growth in the mainland economy.

Our projections for fiscal policy in 2012 are close to the projections in NB 2012 and are based *inter alia* on the adopted changes to direct and indirect taxes. As a result of these changes, indirect taxes will increase somewhat more than the increase due to adjustment for inflation, and will push up consumer price inflation by just under 0.1 percentage point from 2011 to 2012. This is partly the result of the higher value-added tax on food. The nominal limits on personal tax have been revised up by 4 per cent, which is the estimated annual wage growth in NB 2012. We project wage growth in 2012 at half a percentage point lower than this, which in the event will result in a reduction in direct taxation and in fiscal policy providing slightly more stimulus than if wage growth were 4 per cent.

The high growth in transfers to households appears likely to continue in 2012, partly because the number of persons drawing old age pensions according to the new pension rules is expected to increase substantially. Transfers to households are projected to increase by about 7 per cent in 2012.

Assuming lower projections for wage growth in 2012 than those in NB 2012, the budget framework that has been adopted will provide scope for slightly higher real growth in general government consumption than projected in NB 2012. We expect growth in public consumption of 2 per cent next year as opposed to the projection of 1.5 per cent in the national budget, while gross general government investment significantly in

Figure 3. **Norwegian interest rates. Per cent**



Source: Norges Bank and Statistics Norway.

2012 will not differ from 2011. There will thus be a clear increase in non-military investment, given that the investment in frigates has now been completed. The overall demand impulses in 2012 are expected to be slightly higher than in 2011, however.

The structural, non-oil budget deficit (SNOBD) appears likely to be well within the 4 per cent rule in 2011. According to the New Balanced Central Government Budget for 2011, SNOBD will amount to 3.2 per cent of the capital in the Government Pension Fund Global in 2011. According to our calculations, SNOBD may be even lower. According to the projections in NB 2012, less than the amount prescribed by the fiscal rule will be spent also in 2012, but the distance from the 4 per cent path is projected to be less than in 2011. However, there is great uncertainty on this point. Thus, SNOBD for 2011 was projected in NB 2011 to be NOK 29 billion higher than the most recent projection from the Final Budget Bill, which is equivalent to 0.9 percentage point of the Fund capital at the beginning of 2011. There is also considerable uncertainty associated with the value of the Fund, with respect both to developments in oil prices – and hence inflow to the Fund – and to the market value of the Fund's assets. Oil prices have remained at a higher level towards the end of 2011 than previously assumed. As a result, the value of the Fund at the beginning of 2012 may be higher than projected in NB 2012.

Fiscal policy is assumed to generate somewhat stronger demand pulses in 2013 and 2014 than this year and next year. We assume that the tax level in real terms will remain unchanged in 2013 and 2014. The strong growth in pension benefits is expected to continue. However, after a while growth will be driven more by an increase in the number of the elderly than by many persons aged 62 or more choosing to draw an early retirement pension and to continue working. Transfers to households are expected to increase by about 5 per cent annually in real terms in 2013 and 2014. Growth in general government consumption is assumed to increase by about 3 per cent annually. Gross general government investment is assumed to increase by 6.5 per cent in 2013 and just over 9 per cent in 2014. Consequently, growth in overall demand impulses generated by purchases of goods and services plus transfers is projected to be just under 4 per cent in these two years. This is higher than projected trend growth in the mainland economy, and also higher than projected mainland GDP growth in the period ahead.

As a result of our assumptions of somewhat higher oil and gas prices, we assume somewhat higher growth in the Government Pension Fund Global than the projections in NB 2012 indicate. Whereas NB 2012 assumes that real oil prices will fall quite substantially from 2011 to 2015, we expect oil prices to fall somewhat in 2012, but then to remain fairly stable or increase slightly in real terms going forward. Given our projections, SNOBD as a share of the Fund capital may fall by about 1 percentage point from 2011 to 2014. The global debt crisis means that this projection is shrouded in particularly great uncertainty, which adds to the difficulty both of projecting structural non-oil income and expenditure associated with a given orientation of policy and of forecasting what policy actually will be pursued so far ahead.

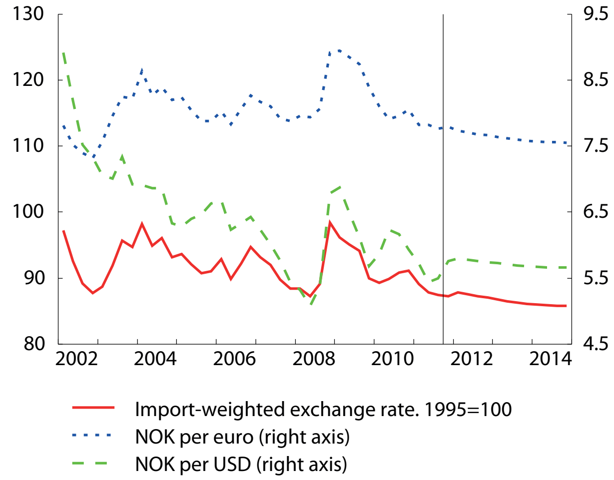
Low interest rates for a long while to come

Norges Bank's setting of interest rates is aimed at stabilising inflation at 2.5 per cent in the medium term, while taking account of the cyclical situation and output and employment prospects. Inflation measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 1.2 per cent in October this year. According to our calculations, mainland GDP was just below trend in 2009 and has been about 2 per cent below trend for the last year and a half. Unemployment fell from last year to this year and in autumn 2011 was still somewhat lower than the average for the period since 2000.

The euro area government debt crisis has worsened since the summer, and the ECB has lowered its policy rate. In Norway, the risk premium between the money market rate and the key rate increased during the autumn and in early December was about 1.2 percentage points. Up until the summer of 2007, the money market rate largely shadowed the policy rate with a premium of about 0.25 percentage point. This premium increased as a result of the financial crisis, and in October and November 2008 averaged about 1.5 percentage points. Between the summer of 2009 and summer this year, the premium moved between 0.5 and 0.75 percentage point.

In response to the crisis in financial markets worldwide and the weak economic outlook, Norges Bank cut the key policy rate by 4.5 percentage points from autumn 2008 and over a nine month period, so that in June 2009 it was 1.25 per cent. The key rate was raised three

Figure 4. **Exchange rates**



Source: Norges Bank.

times between October 2009 and May 2010, and then remained unchanged until it was raised again in May this year. Each of the interest rate hikes was 0.25 percentage point, so that the key rate is now 2.25 per cent. The money market rate at the beginning of December was about 3.25 per cent.

Norges Bank's setting of interest rates influences activity in the economy through a number of channels. First, interest rates will affect the activity level through the krone exchange rate. A higher Norwegian interest rate has the effect of strengthening the krone and thereby contributes to increasing imports and reducing exports. Second, the interest rate level affects households' consumption and housing investment and business fixed investment. Higher interest rates will push down both consumption and investment, thereby constraining economic activity. Both of these reduce domestic output and contribute to dampening pressures during an economic upturn.

The interest rate level also influences private and municipal sector demand for credit, which is important for the financial stability of the economy. Seasonally-adjusted growth in gross domestic debt in the private and municipal sector (C2) from the second to the third quarter of 2011 was an annualised 7.4 per cent. This is an increase on the previous quarter, when growth was 6.4 per cent. Private and municipal sector credit growth bottomed out in the fourth quarter of 2009 at an annualised 2.4 per cent. Credit growth is still markedly lower than before the financial crisis, when annual growth was over 10 per cent for several years. The higher growth in private and municipal sector debt from the second to the third quarter was due to an increase in the growth of debt in non-financial enterprises. Whereas debt in non-financial enterprises increased by 3.4 per cent from the first to the second quarter of this year, the annualised rise in debt from the second to the third quarter was as much as 7.1 per cent. This is the highest debt growth in non-financial enterprises since the first quarter of 2009. Growth in household debt from the second to the third quarter was 7.3 per cent, roughly the same as the previous quarter. Municipal debt rose by 9.1 per cent from the second to the third quarter, compared with 12.0 per cent the previous quarter. Figures for growth in private and municipal sector debt up to October still show increased credit growth, implying that there have been no problems with the supply of credit so far.

Measured in terms of the import-weighted krone exchange rate, the krone appreciated by 3.7 per cent from 2009 to 2010, largely reversing the depreciation of the previous year. The strengthening of the krone continued into 2011, and for the first eleven months of this year the krone was worth 2.5 per cent more than the annual average for 2010. The krone has primarily strengthened against the US dollar, which cost just over NOK 6 as an annual average in 2010. From April to August this year, the price of one US dollar was mainly between NOK 5.40 and 5.50, but the dollar appreciated

Box 1. **Crisis measures targeting financial markets**

The international sovereign debt crisis may be on the verge of becoming a new financial crisis in which financial markets stagnate. In the event, the business sector and households will not have access to as much credit as they would under normal circumstances. This will rapidly have consequences for the real economy in the form of lower economic activity and higher unemployment. In this context, monetary policy will be of lesser importance. A rapid normalisation of financial markets could substantially reduce the severity and duration of the downturn in the real economy that follows.

In connection with the financial crisis of 2007–2009, the Norwegian authorities introduced several measures designed to improve the functioning of the financial markets and protect Norwegian companies from a credit crunch. Amongst other things, Norges Bank increased the lending volume for fixed-rate loans (F-loans). The maturity of these loans was extended and the security requirements that the banks had to meet were eased. The Storting introduced a temporary scheme of loans of government paper to banks against collateral in bonds. By pledging this government paper as collateral, banks could secure easier access to the loan market and lower borrowing costs. The scheme was administered by Norges Bank. Since the end of 2009, no new government paper loans have been auctioned through this scheme, but Norwegian banks still have a stock of government paper that they have acquired in this way. The Government Finance Fund and the Government Bond Fund were also established as temporary measures. The former was established as a separate legal entity and contributed to the core capital in Norwegian banks. The Government Bond Fund is managed by the Government Pension Fund Norway with the objective of buying bonds issued by enterprises in Norway. Neither the Government Finance Fund nor the Government Bond Fund is offering new loans, but they are still operational in that they still have outstanding loans.

If the Norwegian economy should be subjected to a new, serious financial crisis, it will be possible to utilise these schemes rapidly in order to escape from a situation where Norwegian enterprises and households have problems in securing loans.

bringing the exchange rate in November to about NOK 5.70. The euro cost an average of almost NOK 7.80 in the first 11 months of 2011, and was still at this level at the beginning of December.

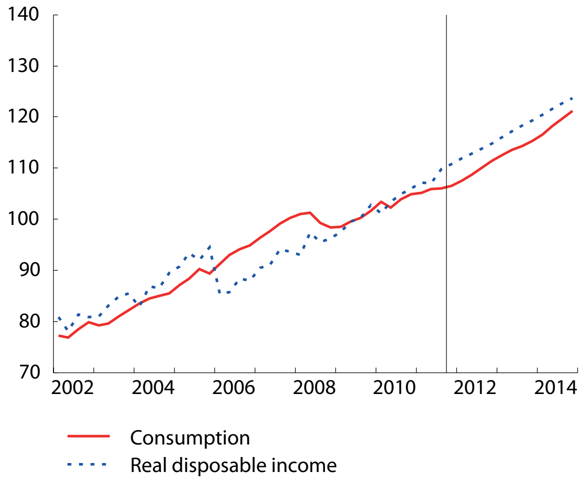
The sovereign debt crisis that many countries are now experiencing is resulting in cuts in government spending and higher taxes, and thereby curbing global growth, which is already low. This results in lower demand for Norwegian export-oriented industry. Interest rate reductions abroad may also exacerbate problems for the internationally exposed business sector if the krone appreciates. Both point to interest rate cuts in Norway too. Since domestic inflation is low, the argument of the importance of anchoring inflation expectations will not be an obstacle to interest rate reductions. However, interest rate reductions may lead to increased credit growth, higher house prices and a greater risk of a housing market bubble.

We believe Norges Bank will cut its key policy rate by 0.5 percentage point at the monetary policy meeting on 14 December, partly to compensate for the increase in the risk premium in the money market rate. As a result of the higher risk premium, the three-month money market rate has risen markedly despite the fact that the forward market for interest rate agreements is factoring in a clear decline in interest rates in the near term. The next monetary policy meeting after the December meeting is not until March next year, and we do not believe that Norges Bank will wait so long to contribute to a reduction in money market rates.

If the premium between the money market rate and the key policy rate remains higher than one percentage point in the near term, a further reduction of the key rate may be necessary next year. We have assumed in our projections that a further exacerbation of the EU government debt crisis will be avoided, and that there will then be no need for further rate cuts. For 2012 as a whole, we project a money market rate of about 2.8 percentage points. We assume that the interest rate will be raised again from early 2013, and that the money market rate will rise to just over 4.0 per cent at the end of 2014.

We have assumed in our projections that the krone will appreciate somewhat going forward on the back of higher interest rates in Norway than in the EU throughout the projection period. Higher inflation in the EU than in Norway this year will also contribute to a stronger krone. The NOK-EUR exchange rate may fall to 7.55 at the end of 2014. This implies an appreciation of about 3 per cent over the next three years from the current level of 7.80. The krone exchange rate projections are highly uncertain. The sharp depreciation of the krone during the financial crisis could not be explained on the basis of inflation and interest rate differentials. This could happen again if the euro area crisis escalates.

Figure 5. **Income and consumption in households. Seasonally adjusted volume indices. 2009=100**



Source: Statistics Norway.

Higher consumption growth ahead

According to seasonally-adjusted QNA figures, consumption for households and non-profit organisations increased by only 0.2 per cent in the third quarter of 2011. Goods consumption edged down 0.1 per cent in the same period. The decrease in goods consumption can be attributed to a sharp decline in purchases of consumer durables, including cars, furniture and white goods. A clear increase in electricity consumption lessened this decline, however. Consumption of services increased by 0.7 per cent in the third quarter. A comparison shows overall household consumption in the first three quarters of this year to be 2.4 per cent higher than in the same period last year. The goods consumption index excluding purchase of private motor vehicles shows a rise of 0.3 per cent for October compared with the previous month. The number of new private car registrations has remained at a high level so far this year. In October and November, more than 28 800 new private cars were registered, which is approximately 4.5 per cent more than in the same period in 2010. This points to solid growth from the third to the fourth quarter. On an annual basis, we are now expecting consumption growth of 2.3 per cent, which is almost 1.5 percentage points lower than in 2010.

Developments in household income, housing wealth and interest rates are important factors influencing consumption. Household real disposable income rose by 3.5 per cent in 2010. Wage income, which is the largest

Table 2. **Household real disposable income. Percentage change on previous year**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	7.8	-6.4	6.3	3.9	3.9	3.5	5.1	3.6	4.0	3.7
Excluding share dividends	3.7	4.2	5.0	3.1	4.0	3.2	4.9	3.5	4.4	3.7

Source: Statistics Norway.

Box 2. **Revisions of households' financial positiong**

Our projections imply high household saving, seen in a historical perspective. The bulk of the saving takes the form of housing investment, however. Household net lending is a measure of developments in households' financial position that can be calculated from both the income accounts and the financial accounts. In the past, there have been major discrepancies in the projections for net lending from these two sources – particularly for 2009 and 2010. In connection with the main revision of the national accounts, the discrepancies have been substantially reduced.

In the income accounts, which are part of the national accounts, net lending is calculated by subtracting consumption expenses and investment in non-financial capital assets (mainly housing investment) from disposable income. In the financial accounts, net lending is calculated as the difference between net investments in financial assets (acquisitions less disposals) and new loans less payments on existing loans.

In principle, the two amounts calculated for net lending should be the same. However, both are the differences between large gross figures. Relatively small errors or deficiencies in these figures may therefore have a strong impact on the projection for net lending. In Economic Survey 2/2011 (Box 3), discrepancies in the size of net lending calculated on the basis of previous national accounts figures were discussed in more detail. The discrepancy between the income accounts and the financial accounts for households proved to be far greater after the financial crisis in autumn 2008 than previously. Whereas the discrepancy between the two calculated amounts for net lending was NOK 30 billion in 2009, it was as much as NOK 78 billion in 2010.

Households and non-profit organisations. Income, consumption and investment. Annual figures. NOK billion[1]

	2009		2010	
	New accounts	Old accounts	New accounts	Old accounts
Access to funding	1 209	1 208	1 298	1 300
Disposable income etc[2]	1 098	1 092	1 156	1 157
Debt increase (new loans less payments)	111	116	142	143
Application of resources	1 203	1 177	1 258	1 222
Consumption	1 028	1 015	1 088	1 073
Net investment in non-financial assets	48	34	47	34
Net investment in financial assets	127	128	122	115
Discrepancy/unused resources	5	31	40	78
Memo:				
Net lending in income accounts	22	43	21	50
Net lending in financial accounts	16	13	-19	-28

[1] Financial accounts as at 1 April 2011 (old figures) and as at 29 September 2011 (new figures). Income accounts as at 26 May 2011 (old figures) and as at 22 November 2011 (new figures)

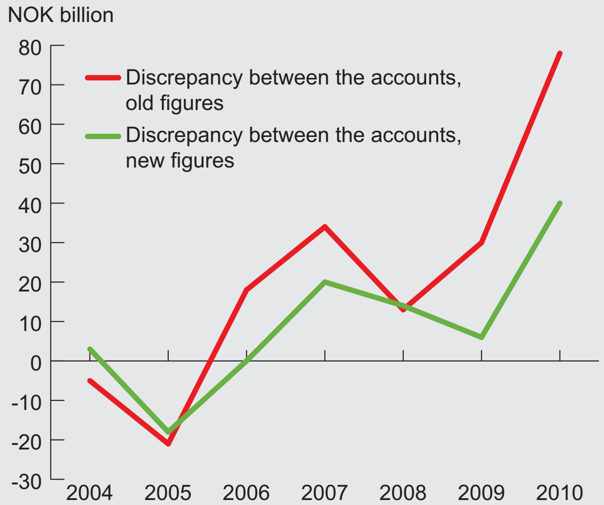
[2] Disposable income taking account of adjustment for saving in pension funds and capital transfers, net.

The revision of the national accounts figures resulted in a substantial reduction in the discrepancies in 2009 and 2010 (see table). The discrepancy between the income and the financial accounts was reduced to just NOK 6 billion in 2009, and was approximately halved, to around NOK 40 billion, in 2010. The fact that both consumption expenditure and investments in non-financial capital have been substantially revised upwards as a result of the main revision resulted in reductions in net lending, calculated on the basis of the income accounts in 2009 and 2010, by NOK 21 billion and NOK 29 billion, respectively. Disposable income in these years has not been subject to any extensive revision. Nor has the regular updating of the data underlying the financial accounts led to major changes with respect to the increase in household debt, in either 2009 or 2010. However, net investment in financial assets has been revised up by NOK 7 billion in 2010, and has thereby contributed to an upward revision of net lending calculated on the basis of the financial accounts from NOK -28 billion to NOK -19 billion.

Although the discrepancy between the income accounts and the financial accounts in 2010 is now substantially smaller with respect to calculation of net lending, the discrepancy is nevertheless fairly large compared with previous years (see figure). The calculated net lending figures are important for assessing the debt servicing capacity of households if they should experience unexpected negative shocks to their private economy, for example through substantial increases in the interest on mortgages. The negative net lending of NOK 19 billion in the 2010 financial accounts means that households borrow more than they invest in financial assets. Household liquidity is therefore probably a good deal weaker than if net lending were the positive NOK 21 billion shown by the income accounts for 2010.

At the same time, it is worth stressing that the figures for 2010, for both the financial and income accounts, are preliminary, and that the discrepancy has a tendency to diminish as the accounts are updated with new information.

Net lending by households and non-profit organisations in the income accounts and financial accounts. NOK billionr[1]



[1] Financial accounts as at 1 April 2011 (old figures) and as at 29 September 2011 (new figures). Income accounts as at 26 May 2011 (old figures) and as at 22 November 2011 (new figures)

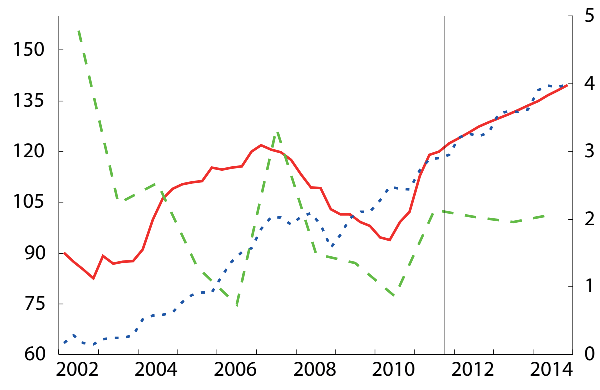
source of household income, made a particularly large contribution to this income growth as the decline in employment of the previous year came to a halt and there was clear real wage growth. Institutional quarterly national accounts show that disposable income through the first three quarters of 2011 increased by just over 6.5 per cent compared with the same period last year. Underpinning this development is strong growth in both wage income and public transfers, partly as a result of more people drawing an old age pension following the introduction of the new pension rules. This factor coupled with lower consumer price inflation will contribute to real disposable income probably being a whole 5 per cent higher this year than last year. Although the sizeable contributions to growth of wage income and public transfers are expected to continue for the next few years, somewhat higher interest rates and rising consumer price inflation will gradually have a moderating effect on growth in real disposable income through the projection period. Thus we expect annual growth in household real disposable income of from 3.5 to 4 per cent in the years 2012-2014.

Housing wealth increases with rising house prices, which will stimulate consumption in the next few years. We now project consumption growth to be around 3.5 per cent next year, rising to about 4 per cent in 2013 and close to 4.5 per cent in 2014. This is weaker consumption growth than during the economic boom from 2004 to 2007. The average annual consumption growth rate from 2011 to 2014 is just over one percentage point lower than in the years 2004–2007. Adjusted for population growth, the difference in the average annual growth rate will be larger. Whereas average annual consumption growth per capita was 3.8 per cent in the period 2004-2007, our projections imply a figure of 2.2 per cent in the period 2011-2014.

The revision of the national accounts figures now puts the household saving ratio (saving as a share of disposable income) in 2010 at 6.3 per cent, almost 1.5 percentage points lower than previously. We now envisage that the saving ratio will increase to just over 8.5 per cent this year, and then fall to just below 8 per cent in 2014. Viewed in a historical perspective, the projected saving ratio is high. Precautionary household saving probably increased in the wake of the financial crisis as a result of the uncertainty associated with households' own income. Given the current uncertainty concerning the global economy, we assume that this saving behaviour will also prevail in the projection period.

Much of the saving takes the form of housing investment, however. Net lending is a measure of developments in households' financial position. In the national accounts' income accounts, this is arrived at by deducting investment in non-financial assets (largely housing investment) from saving. Households are expected to reduce their net lending from 2010 to 2014 in pace with developments in housing investment. See Box 2 for a more detailed account of developments in household net lending.

Figure 6. **Residential market. Left axis adj. indices. 2009=100. right axis per cent**



Source: Statistics Norway.

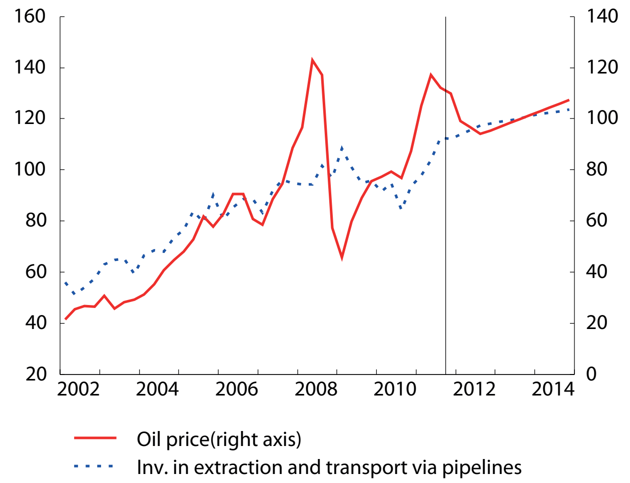
Slowing growth in housing investment

The seasonally-adjusted QNA figures show that housing investment continued to increase in the third quarter of this year, but by much less than in the previous four quarters. Whereas housing investment in the first and second quarters increased by 10.4 per cent and 5.5 per cent, respectively, on the preceding quarter, growth in the third quarter was only 0.8 per cent.

We project moderate growth in housing investment in the fourth quarter, which will bring annual growth in housing investment to about 22 per cent in 2011. Building statistics, the main source for calculating housing investment, show that the level of residential building starts so far this year has remained high following a clear increase through 2010 and into the current year. The level in the first three quarters of this year was more than 30 per cent higher than in the same period last year. Housing starts are expected to continue rising, but at a more moderate pace. Thus growth in housing investment could decline in the period ahead. According to our forecasts, housing investment will increase by 6.7 per cent next year and by about 4 per cent annually for the remainder of the projection period.

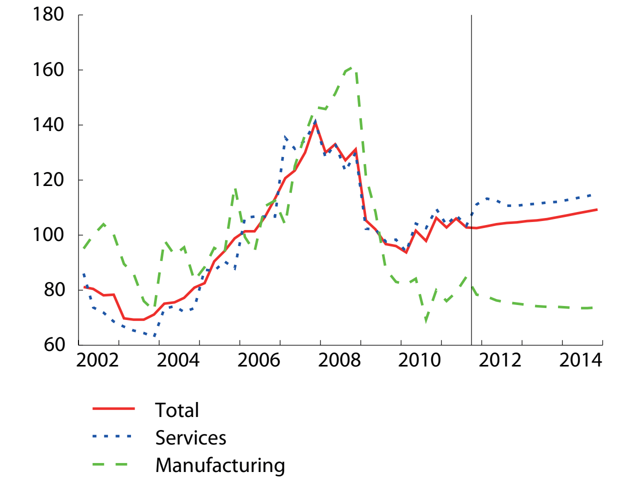
Since the price fall in 2008, house prices have picked up considerably. In the third quarter of 2011, the level of house prices, adjusted for inflation, was about 9 per cent higher than the peak level in 2008. House prices rose sharply in the first quarter of this year, but more moderately in the following two quarters. Measured in relation to the previous quarter, the rise in house prices was 0.3 per cent in the third quarter of this year compared with 5.1 per cent and 2.8 per cent in the first and second quarters. Developments in monthly house price figures point to a low rise in house prices in the last

Figure 7. **Petroleum investments and oil price in USD. Seasonally adjusted volum indices. 2009=100**



Source: Statistics Norway.

Figure 8. **Investments. Mainland Norway. Seasonally adjusted volume indices. 2009=100**



Source: Statistics Norway.

quarter of this year as well. According to the real estate industry's house price statistics, seasonally-adjusted house prices rose in October and November by 0.6 and 0.5 per cent, respectively, and we assume that the rise this year will be 8.3 per cent. More stringent capital requirements will have the effect of restraining the rise in house prices. We project that as a result of developments in completed new dwellings, interest rates and household income, house prices will rise by almost 6.5 per cent in 2012 and around 5.5 per cent annually for the next two years.

Clear increase in petroleum investment

The most recent QNA figures now show a marked upswing in investment in the industry sector petroleum recovery and pipeline transport following weak developments in 2010. The most recent QNA figures also show that petroleum investment in the first and second quarters has been revised substantially upwards, bringing growth from the fourth quarter of 2010 to the second quarter of 2011 to close to 11 per cent. Investment from the second to the third quarter also increased by no less than 8.5 per cent. Investment in the petroleum industry has now rebounded to the same high level as in 2009. On an annual basis, investment growth of 15 per cent is expected from 2010 to 2011.

The increase in investment is due to a continued high level of activity in production drilling and oil exploration. A number of development and maintenance projects have also been initiated in recent months. The new projects consist of the development of new fields as well as extensions to and maintenance of existing fields. A number of so-called fast-track developments have been initiated. These consist mainly of templates with one or more wells that are placed on the seabed and hooked up to existing infrastructure. Fast-track developments have a shorter planning phase, and the costs of these developments are also lower, making small discoveries more profitable.

We expect a further rise in petroleum investment in the period ahead. Investment in both exploration and production drilling and in platforms is expected to increase. A number of new projects are expected to be launched, and the upgrading of large fields such as Ekofisk and Troll will continue. Production drilling will pick up in pace with more field developments. Exploration drilling activity has been high for the last three years, and we therefore only expect a weak increase going forward. Overall, we expect investment growth of about 10 per cent next year followed by a weak rise in investment in 2013 and 2014.

Oil and gas production climbed substantially in the third quarter of 2011 compared with the third quarter of 2010. The increase is largely due to a number of shutdowns in the summer of 2010 and accordingly especially low production. On balance, production through the first three quarters of this year has been appreciably lower than in the same period last year. This applies to the production of both oil and gas, which has fallen by about 17 per cent since peaking in 2004. Weak developments in production are expected throughout the projection period, although slightly increasing gas production will slow the decline somewhat. An increase in production as a result of a number of new discoveries is not expected to be reflected in production figures until after 2014.

Oil and gas prices rose sharply through 2009 and 2010 and in the first half of this year. We expect a decline in oil prices some months into 2012, which will also be reflected in prices for gas exports. The downward adjustment will give way to a cautious rise from the end of 2012, which will contribute to a moderate rise in export prices for both oil and gas.

Moderate increase in business investment

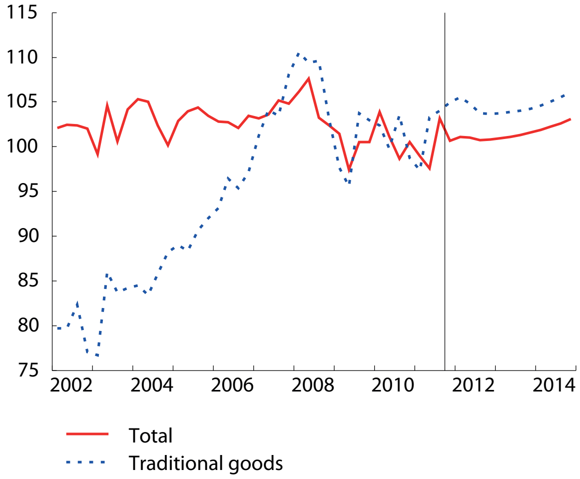
Low international demand has contributed to weak developments in business investment through 2011. The

Table 3. **Main economic indicators 2010-2014. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2010*	Forecasts									
		2011			2012			2013		2014	
		SSB	NB	FIN	SSB	NB	FIN	SSB	NB	SSB	NB
Demand and output											
Consumption in households etc.	3.7	2.3	2 3/4	2.7	3.4	4 1/2	4.0	4.2	4 1/2	4.4	3
General government consumption	1.7	1.4	2	2.4	2.0	1 3/4	1.5	2.9	..	3.2	..
Gross fixed investment	-5.2	7.4	..	9.3	5.3	..	5.6	3.0	..	3.9	..
Extraction and transport via pipelines[1]	-9.0	15.0	12 3/4	12.5	10.4	14	11.0	2.3	5 1/2	2.3	4
Mainland Norway	-2.5	8.1	8	8.8	3.6	6 1/2	4.1	3.2	..	4.5	..
Industries	-0.2	4.7	..	5.2	2.8	..	3.9	1.3	..	2.5	..
Housing	-2.2	21.6	..	24.0	6.7	..	10.0	4.0	..	4.3	..
General government	-7.5	-0.7	..	2.5	0.9	..	-2.3	6.5	..	9.2	..
Demand from Mainland Norway[2]	2.0	3.1	3 1/2	3.7	3.1	4	3.3	3.7	3 3/4	4.1	2 3/4
Stockbuilding[3]	1.9	-0.2	..	..	-0.4	..	..	0.0	..	0.0	..
Exports	1.8	-0.6	..	0.4	0.4	..	1	0.5	..	1.2	..
Crude oil and natural gas	-4.8	-4.1	..	-1.9	-0.5	..	-2.2	-1.1	..	-1.1	..
Traditional goods[4]	2.6	1.7	1 1/2	1.3	0.4	3	2.4	0.1	..	1.3	..
Imports	9.9	2.8	7	6.5	3.1	3 1/2	4.3	4.8	..	5.2	..
Traditional goods	7.1	6.3	..	5.7	4.4	..	4.7	4.7	..	5.6	..
Gross domestic product	0.7	1.6	1 1/2	1.7	2.0	3	2.4	1.9	2 1/2	2.5	2 1/4
Mainland Norway	1.9	2.6	2 3/4	2.8	2.5	3 3/4	3.1	2.7	3 1/4	3.3	3
Labour market											
Employed persons	-0.1	1.4	1	1.2	1.2	1 1/4	1.5	1.2	1 1/4	1.3	1 1/4
Unemployment rate (level)	3.6	3.3	3 1/4	3.3	3.6	3	3.3	3.7	3	3.7	3
Prices and wages											
Annual earnings	3.7	4.2	4 1/4	4.0	3.4	4 1/4	4.0	3.7	4 1/2	4.2	4 3/4
Consumer price index (CPI)	2.5	1.3	1 1/2	1.5	1.4	1 1/2	1.6	1.6	2	1.9	2 1/4
CPI-ATE[5]	1.4	1.0	1	1.1	1.5	1 3/4	1.8	1.6	2 1/4	1.9	2 1/4
Export prices. traditional goods	5.5	8.1	..	6.3	-2.4	..	0.2	0.5	..	2.6	..
Import prices. traditional goods	-0.5	4.6	..	3.8	0.2	..	-0.7	0.4	..	1.5	..
Housing prices	8.3	8.3	..	..	6.5	..	..	5.5	..	5.6	..
Balance of payment			..			..			..		..
Current balance (bill. NOK)	342.4	425.8	..	379.8	402.8	..	324.3	359.6	..	350.3	..
Current balance (per cent of GDP)	11.5	15.7	..	14.0	14.3	..	11.5	12.3	..	11.4	..
Memorandum items:			..			..			..		..
Household savings ratio (level)	6.3	8.6	..	8.6	8.6	..	9.3	8.5	..	7.9	..
Money market rate (level)	2.5	2.9	2.9	2.8	2.8	3	2.6	3.1	3.4	3.8	4.2
Lending rate. banks (level)[6]	4.5	4.8	..	..	4.8	..	..	5.0	..	5.6	..
Crude oil price NOK (level)[7]	484	623	..	588	555	..	575	565	..	595	..
Export markets indicator	10.9	5.2	..	..	1.5	..	..	3.1	..	4.2	..
Importweighted krone exchange rate (44 countries)[8]	-3.7	-2.6	-2 1/2	-2.0.	-0.6	1/2	0.1	-1.1	3/4	-0.6	1/2

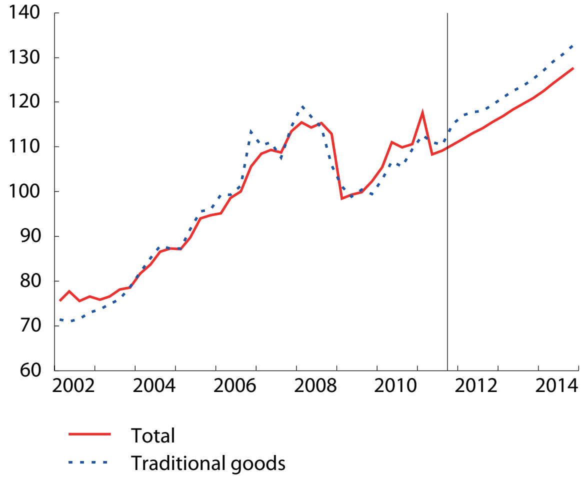
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates traditional exports. which also includes some services.
[5] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[6] Yearly average.
[7] Average spot price. Brent Blend.
[8] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN). Ministry of Finance. St.meld. nr.2 (2010-2011). (MoF). Norges Bank. Pengepolitisk rapport 2/2011 (NB)).

Figure 9. **Exports. Seasonally adjusted volume indices. 2009=100**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted volume indices. 2009=100**



Source: Statistics Norway.

level in the third quarter was about the same as in the first quarter and 3.0 per cent lower than in the second quarter. Investment in services and other goods production contributed in particular to curbing growth.

Manufacturing investment has grown through the year. The level recorded in the third quarter was 11.7 per cent higher than in the first quarter and 7.0 per cent higher than in the second quarter. The growth in manufacturing investment is taking place despite the great uncertainty surrounding the global economy in general and the European economy in particular. Although the recent international turbulence is not reflected in the investments made, there are signs that enterprises will shelve further investment plans. Statistics Norway is conducting a sample survey of the investment intentions of enterprises in some industries. At the time of reporting in the second quarter, manufacturing investment growth appeared likely to be about 10 per cent in 2012 after correction for normal under-reporting. However, the third quarter reporting indicates that investment in 2012 will be approximately on a level with investment in 2011.

Investment in electricity supply has grown strongly in recent years, boosted by the building of wind farms and a number of large projects relating to the production and distribution of district heating. A warm autumn and the absence of ground frost have made passage difficult in many places and it has therefore been difficult to complete a number of projects. Assumed investment growth in 2011 has therefore been reduced compared with earlier forecasts, to about 15 per cent. Investment next year is expected to increase by about 10 per cent.

A moderate fall in non-residential building starts since mid-2010 came to a halt in the course of 2011. Whereas a fall of 11.2 per cent was reported from the first to the second quarter of 2011, the reduction from the second to the third quarter was only 0.9 per cent. Building starts in October were also 4.2 per cent higher than the monthly average in the third quarter.

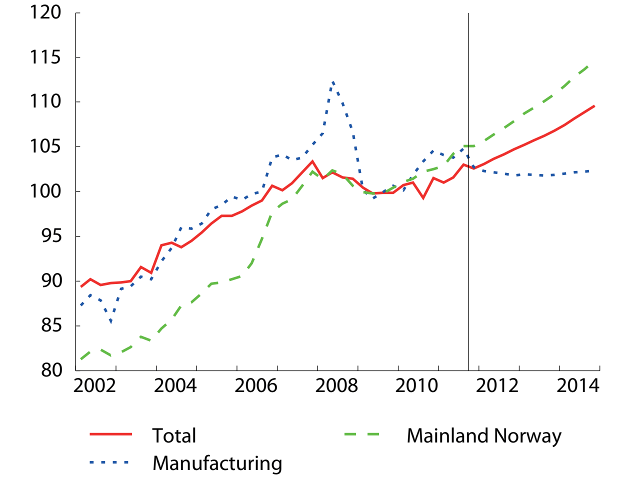
We expect business investment growth of about 5 per cent in 2011. The weak global developments are placing constraints on the profitability of future investment projects. This is reflected in low growth in business investment in the years ahead. A more restrictive lending policy on the part of banks will have the same effect. We expect annual growth of from 1 to 3 per cent for the remainder of the projection period. Manufacturing investment is a particular constraint on growth going forward.

Lower current account surplus

The global slowdown in the wake of the financial crisis in 2008 has dampened growth impulses for Norwegian exports in recent years. Developments in prices for Norwegian export goods, including commodities, have been favourable, however. An increase in domestic demand resulted in high growth in traditional imports in 2010 and weak developments in import prices underpinned import growth. This year, domestic demand growth has been largely oriented towards domestic production, thereby contributing to lower import growth. The trade surplus has increased again, not least because of higher oil prices.

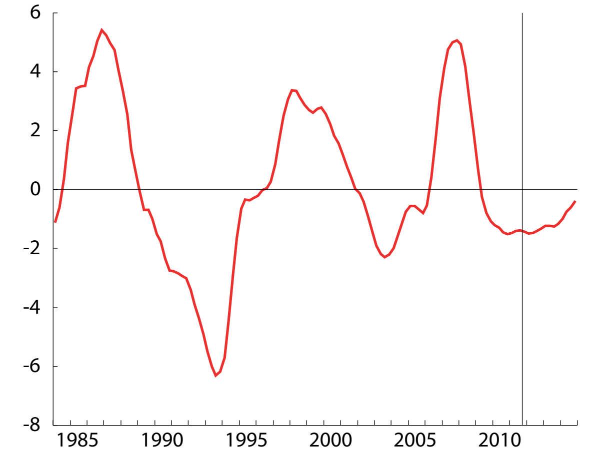
Seasonally-adjusted QNA figures show that traditional Norwegian exports grew by less than one per cent in the third quarter this year. So far this year, exports of large product groups such as fish and fish products have increased, while chemical products and metals and metal products have fallen back a little. A sharp increase in gas exports in the third quarter must be viewed in the light of a substantial fall in the second quarter. Exports of crude oil continued a weak trend decline. Exports of services increased in the third quarter, but in each of the first three quarters of the year were slightly below the level in the same quarter in 2010. Lower prices for fish and fish products and large groups of manufacturing products have contributed to a fall in prices for traditional export goods in the last two quarters. Total service exports rose in the third quarter following a fall

Figure 11. **Gross domestic product. Seasonally adjusted volume indices. 2009=100**



Source: Statistics Norway.

Figure 12. **Output gap. Mainland Norway. Deviation from trend. per cent**



Source: Statistics Norway.

in the previous four quarters. Oil and gas prices continued to rise in the third quarter.

In the period January–October this year, the value of total Norwegian goods exports excluding ships and oil platforms, crude oil, condensates and natural gas increased by over 8 per cent compared with the same period in 2010. The value of exports to neighbouring and major trading partners in Europe increased most, while exports to a number of countries in East Asia and the USA fell in value. The financial turbulence in Southern Europe led to the PIGS countries (Portugal, Italy, Greece and Spain) importing less from Norway, whereas former problem countries such as Ireland and Iceland doubled the value of their imports from Norway compared with 2010. The value of exports to BRICS countries (Brazil, Russia, India, China and South Africa), with the exception of Brazil, increased substantially. Growth in these large emerging economies is assumed to help maintain growth in overall global demand at a high level.

The global economic situation has deteriorated further since the last report, largely as a result of economic and political developments in Europe. We expect growth in demand for traditional Norwegian export goods to fall this year, and that growth will weaken further in 2012 and 2013 before picking up slightly again. Oil and gas exports will be reduced as production subsides.

The rise in prices for traditional export goods will be high in 2011. In the next three years, however, we expect a much slower rise in prices, also for oil and gas.

Imports have developed weakly so far this year. Traditional imports excluding refined oil products (imports of which fell by about 14 per cent in the third quarter) rose by 0.3 per cent. Imports of services increased in the third quarter after drifting down for four quarters. Developments in import prices this year are showing a weak tendency, with a decline in prices for traditional goods, services and overall imports in the third quarter.

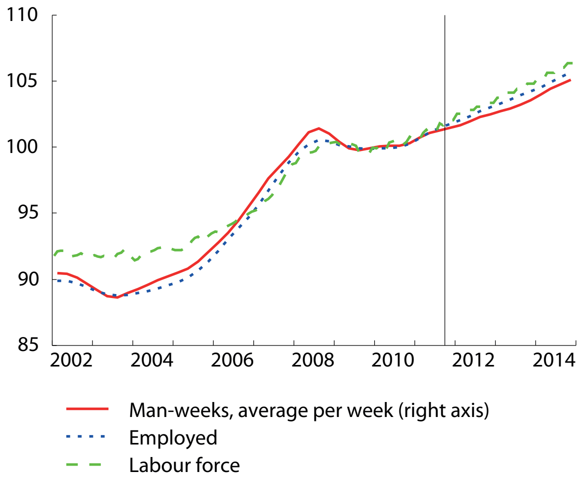
The global downturn and uncertainty in Europe are also dampening domestic demand to some extent and, accordingly, imports for consumption and investment. Imports of services are expected to decline compared with 2010, while imports of traditional goods will increase. Our growth projections for the years ahead have been revised slightly down compared with the previous projection, but still predict moderate growth.

The trade surplus is projected to increase by a full 26 per cent this year, to over NOK 394 billion. The increase can be attributed to oil and gas prices. Much of the large increase in the trade surplus is expected to be reversed in the course of the projection period, and in 2014 the trade surplus is projected to be about NOK 330 billion. The projections are based on higher growth in imports than exports and no significant terms of trade gain in 2012-2014. The revision of figures in the external account has resulted in major changes in net factor income and transfers from 2008 onwards. New accounting statistics show more reinvested earnings in foreign-owned companies in Norway and higher dividend payments in foreign companies with Norwegian ownership interests. This has strengthened the net factor income and transfers by up to NOK 50 billion, which in 2010 resulted in a surplus for the first time since the turn of the millennium. This year, too, net factor income and transfers appear likely to be in surplus, and we expect a surplus each year in the projection period. The current account surplus as a share of GDP is projected to fall from over 15 per cent this year to less than 12 per cent in 2014.

Two-track production

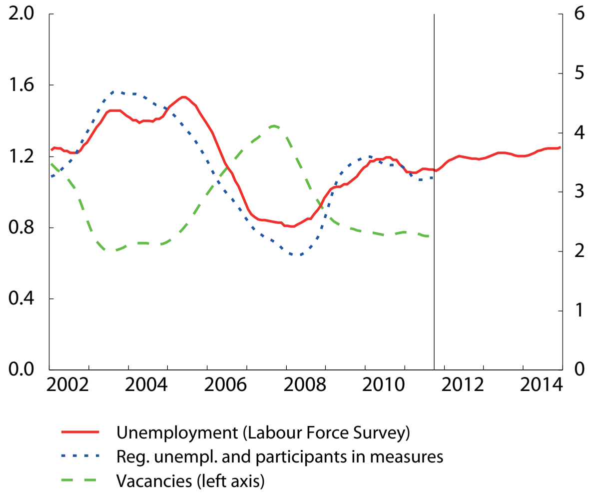
The financial crisis caused activity in the Norwegian economy to fall for the first time since the late 1980s, and it is now two years since this decline came to a halt. During these two years, growth in the mainland

Figure 13. **Labour force. employment and number of man-hours. Seasonally adjusted and smoothed indices. 2009=100**



Source: Statistics Norway.

Figure 14. **Unemployment and number of vacancies. Per cent of labour force. Seasonally adjusted and smoothed**



Source: The Norwegian Labour and Welfare Service and Statistics Norway.

economy has fluctuated around trend. Annualised mainland GDP increased by 2.6 per cent from the third quarter of 2009 to the third quarter of 2011. In the first three quarters of 2011, growth in the seasonally-adjusted figures was 0.4, 1.3 and 0.8 per cent, respectively. The last two growth rates are appreciably higher than trend. However, developments in power production, which are only affected by economic developments to a limited degree, have pushed growth substantially up in the second and third quarters, but sharply down in the first quarter. Mainland GDP growth excluding power supply was thus 0.6 per cent in the third quarter, which is very close to trend. Growth was somewhat higher in the two preceding quarters.

Fiscal policy was used actively to dampen the decline in the Norwegian economy after the financial crisis, partly by increasing production in general government substantially more than production in the economy otherwise. Growth in general government value added has been steadier and generally lower than other mainland growth since growth in the Norwegian economy picked up again. This was also the case in the third quarter of the current year. Through the past two years, mainland GDP excluding general government has increased 0.5 percentage point more than overall mainland GDP, and third quarter growth was 1.1 per cent, or 0.7 per cent also excluding power supply.

Activity growth in the various industries has varied widely since the financial crisis. As early as in the fourth quarter of 2010, the overall mainland economy topped the GDP level from before the financial crisis, i.e. the second quarter of 2008. In the third quarter of 2011, manufacturing and mining value added was still clearly lower than before the financial crisis. Solidly underpinned by strong growth in fishing and aquaculture, the level for other goods production was only slightly lower than the level before the financial crisis, while activity in construction, which is also a part of other goods production, was appreciably lower. Private services activity, on the other hand, was markedly higher in the third quarter of 2011 than the level in the second quarter of 2008.

Commodity-based manufacturing industries reported a clear decline in the third quarter, which is to a large extent due to subdued international developments. Most manufacturing industries that deliver mainly to the domestic market showed appreciable growth, however. According to Statistics Norway's business tendency survey from the end of October, manufacturing itself expects declining growth in the fourth quarter. Capacity utilisation in manufacturing as a whole was estimated at 79 per cent for the third quarter, slightly less than the average for the last 10 years. Following on four quarters of marked growth in construction, there was only subdued growth in the third quarter. Third quarter growth was reported by all mainland service industries excluding finance and insurance and sale and management of real property.

Growth in the mainland economy appears unlikely to pick up as quickly as previously assumed, partly because the high growth in household real income this year does not seem to be reflected in corresponding consumption growth. The dampened global growth prospects are not only reflected in low production growth in export industries; they will also push down investment in these industries. This will reduce demand targeting domestic suppliers of capital goods. Increased demand from the petroleum sector is a positive feature of the economic picture. Growth in residential construction is another, and will contribute to construction activity picking up again after the slightly lacklustre third quarter. A small reduction in interest rates through the first half of next year, coupled with a reduced need for households to consolidate, will gradually contribute to slightly higher growth in domestic demand and thereby to greater activity in industries targeting the domestic market.

Up until 2014, we expect only a slight improvement in demand in Norwegian export markets. Production in export-oriented activity is therefore likely to move along a weak trend throughout the projection period. Despite increased petroleum investment, we therefore project a slight decline in manufacturing production in 2012 and 2013 and modest growth towards the end of the projection period. Production in other business segments is expected to show considerably more favourable developments. The growth of activity in both private services and construction is expected to hover somewhat over 3 per cent during the next three years. General government production growth will be distinctly lower, so that according to the projections, mainland GDP growth will be 2.5 per cent in 2012 and increase gradually to 3 per cent in 2014. Accordingly the Norwegian GDP-gap will be negative throughout the period from 2009 to 2014. Fairly cyclically neutral developments are expected in the near term, turning into a clear cyclical upturn in 2014.

Slightly higher unemployment

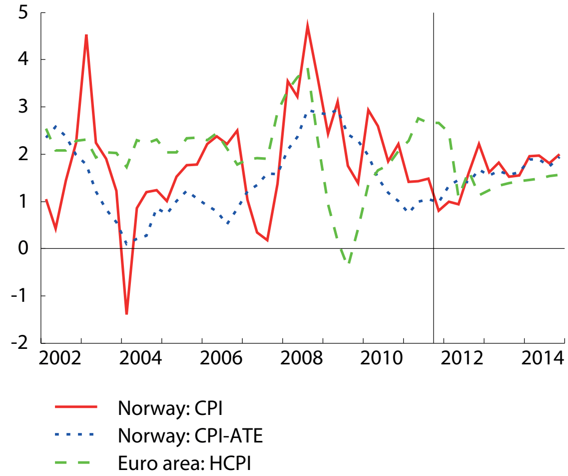
The Labour Force Survey (LFS) shows that the unemployed constituted 3.2 per cent of the labour force, or 84 000 persons, in the period from July to September. However, unemployment is well under the peak of 3.6 per cent in the fourth quarter of 2010. So far in 2011, the unemployment rate has remained stable at around 3.3 per cent of the labour force.

Figures for registered unemployment from the Norwegian Labour and Welfare Administration (NAV) show the same tendency as the LFS unemployment figures. According to these statistics, unemployment fell by about 1 000 persons in November. Compared with November last year, registered unemployment has fallen by about 8 000 persons, while the number registered as fully unemployed, including those attending ordinary labour market programmes, has fallen by over 4 000 persons.

NAV reports a moderate increase in the number of vacancies in the third quarter. Fewer vacancies were announced in October this year than in October 2010, while the level in November was about the same as the level last year. Fewer vacancies may reflect greater uncertainty and that enterprises are more reticent about making new hirings. The decline in advertised vacancies in October was especially large in occupations such as retail and sales, office work and for estate agents and consultants, and this decline continued in November. On the other hand, there were more advertised vacancies in a cyclically sensitive sector such as construction in both October and November. There were also more vacancies for engineers and ICT positions in the same period.

The decline in unemployment since the fourth quarter of 2010 must be viewed in the light of developments in employment, the labour force and the population. The number employed increased by 34 000 from the fourth quarter of 2010 to the third quarter of 2011 and the number of unemployed declined by 10 000 according to the LFS figures, while the population aged 15–74 increased by 45 000 persons. The participation rate is the total of unemployed and employed persons divided by the number of persons aged 15–74 in the population. According to the same statistics, the occupationally active share of the population was 71.4 per cent in the third quarter, approximately unchanged from the fourth quarter of 2010. However, the share of economically active persons is still lower than the level in the fourth quarter of 2008, which was 73.6 per cent. During this period, the age composition of the population has changed somewhat, so that the group of both older and younger persons within the labour force has increased. In isolation, this contributes to reducing the labour supply and the result is accordingly a lower participation rate than we would otherwise have had. The share of the occupationally active population aged between 16 and 24 increased from 17 to 18 per cent, and of those aged between 55 and 74 from 26 to 27 per cent, whereas the share of the occupationally active population aged between 25 and 54 fell. The labour force participation rate among younger employees also fell during this period.

Figure 15. **Consumer price indices. Percentage growth from the same quarter previous year**



Source: Statistics Norway.

Seasonally-adjusted QNA figures show employment growth of just under 17 000 persons, or 0.6 per cent, in the third quarter of 2011. Increased employment in labour-intensive industries such as manufacturing, retail trade and construction are contributory factors. Employment in these industries, with the exception of manufacturing, was higher in the first three quarters of this year than in the same period in 2010. General government employment has developed approximately in pace with overall employment, and growth in the third quarter was 0.7 per cent.

There has been a slight increase in employment since the second quarter of 2010. Overall employment increased by just under 56 000 from the second quarter of 2010 to the third quarter of 2011. The largest contributions were from commercial services, construction, retail trade and repair of motor vehicles. Growth in relation to the size of the industry has been greatest in commercial services and construction. Growth for these two industries was 5.1 per cent and 5.8 per cent, respectively, in the period.

New, flexible rules for drawing an old-age pension from the National Insurance Fund were implemented in 2011. The effects of the pension reform on the supply of labour from older employees may be particularly large in the current year, since five age cohorts have been able to avail themselves of this scheme. Developments in the unadjusted LFS figures for the first three quarters of this year compared with the same period last year indicate that the number of occupationally active persons in the age group 60 to 64 has increased somewhat. NAV figures show that the majority of those who have elected to draw an old-age pension are men.

In the years ahead, we expect household demand to contribute to keeping employment in labour-intensive service industries at a stable level. Growth in demand for dwellings and commercial buildings translates into growth in employment in the construction industry. General government employment increases roughly in pace with overall employment. Manufacturing employment will fall weakly in the projection period, but there are major differences between the different industries. Overall, we assume that the number employed will increase by about 100 000 over the next three years. This implies employment growth of 1.4 per cent for 2011 and slightly lower thereafter.

In the light of the turmoil in global financial markets and weaker growth prospects for the export market, we foresee a moderate increase in unemployment towards the summer. The weak developments in other European countries will also imply higher immigration, but somewhat less than previously assumed as a result of unemployment increasing somewhat more during the projection period. According to the LFS, average unemployment was 3.6 per cent in 2010, 0.4 percentage point higher than in 2009. Unemployment is likely to remain at a low level through 2011, and we estimate that the average unemployment rate in 2011 will be 3.3 per cent. Thereafter, we assume that the number of unemployed will rise to over 100 000 in 2014, accounting for 3.7 per cent of the labour force.

Moderate wage settlement

Despite the weak global economic situation, Norwegian business sector growth has been relatively high so far this year. Output has grown at roughly the trend rate and unemployment has remained stable at a low level. We estimate growth in total annual wages at 4.2 per cent in 2011, which is higher than last year's increase of 3.7 per cent. Money market rates are at a lower level than the domestic situation in isolation would indicate, and this, in conjunction with strong real wage growth, has heated the housing market and given impetus to growth in some service industries. In line with this, the quarterly wage indices show highest wage growth among employees in the sale and management of real property. Monthly take-home pay increased by 5.8 per cent from the third quarter of last year to the third quarter of this year, and a large part of the increase reflects higher bonuses and variable additional allowances. Among the large mainland industries, wage growth was also high for retail trade and manufacturing employees. Wage growth from the third quarter of 2010 to the third quarter of this year was almost 5 per cent in both industries. Wage growth in construction was a relatively moderate 3.5 per cent. The relatively low wage growth has coincided with an increase in employment, and is probably attributable to the high proportion of inward labour migrants, who are often employed at a lower than average wage.

Manufacturing has traditionally played a leading part in Norwegian wage formation. Developments in the profitability of manufacturing are therefore of great importance to overall wage growth in the near term. Operating profits fluctuate widely with the business cycle and were almost halved from 2008 to 2010. Wage growth has also been higher in Norway than among our trading partners. The share of manufacturing value added for which labour costs account is now at a level that was formerly regarded as normal. If the internationally exposed segment of manufacturing is to maintain its profitability, there is no real scope for a substantially higher rise in labour costs in manufacturing in Norway than among our competitors without stronger productivity growth or a clear improvement in prices for Norwegian export products. The global downturn appears likely to be deeper and more prolonged than previous downturns. Wage growth among our trading partners may therefore remain weak in the years ahead. On the other hand, high petroleum investment will generate growth impulses, both to manufacturing and to other service industries. We therefore expect somewhat higher wage growth both in manufacturing and in the rest of the economy than in neighbouring countries.

We now envisage a slight increase in unemployment in the near term, which will dampen wage growth. Prices for Norwegian export products will follow a particularly weak trend next year and this, coupled with productivity development, will translate into a low wage share in manufacturing. We therefore assume that annual wages will increase by only 3.4 per cent in 2012. Towards the end of the projection period we assume that prices for Norwegian export goods will develop more favourably and contribute to higher manufacturing profitability. Slightly higher general inflation will also push up wage growth. We assume that annual wage growth will return to today's level in 2014. Given inflation of less than 2 per cent in the next few years, our projection for real wages is an increase of almost 3 per cent this year and around 2 per cent annually for the remainder of the projection period. This is slightly less than average real wage growth for the past 10 years and high compared to real wage growth in both the 1980s and 1990s.

Continued low inflation

Underlying inflation has been low through 2010 and 2011. Adjusted for normal seasonal variations, the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) increased by 1.2 percentage points in both September and October 2011 compared with the same months the previous year. The underlying inflation rate has been relatively stable through the year, and the 12-month rise in the CPI-ATE has been in the interval 0.7–1.2 per cent. We expect no major changes in underlying inflation in the period ahead. The CPI-ATE for the year as a whole will probably rise by 1.0 per cent, while the rise in the overall consumer price index (CPI) is assumed to be 1.3 per cent.

The CPI rose by 1.4 per cent from October 2010 to October 2011. The most important contributions to this rise were attributable to fuel and lubricants, alcoholic beverages and tobacco products and alcohol-free beverages. The year-on-year rise in the CPI was dampened by the fall in prices for audiovisual equipment and electricity.

This past year, developments in electricity prices have made a particular contribution to differences in the paths of the 12-month rise in the CPI and the CPI-ATE, respectively. This spring, water levels in Norwegian reservoirs were very low compared with historical median values. As a result of the high precipitation and persistent mild weather this year, reservoir levels are now higher than normal for this time of year. The system price for power in the Nord Pool area fell in the period December 2010 to September 2011 from 64.7 to 22.3 øre/kWh, but has since rebounded to some extent. At the end of week 47, forward contracts for the first and second quarter of 2012 traded for 33.3 and 30.2 øre/kWh, respectively, on the Nordic power exchange. Given current system prices, taxes and grid rental account for more than half of the average end-user price for power delivered to households. We have assumed that the annual average electricity price for households next year will be slightly lower than this year. Electricity prices are expected to increase in 2013 and 2014, approximately in pace with the general rise in prices. However, there is great uncertainty surrounding price projections for 2013 and 2014.

Lower import prices curb consumer price inflation directly through the use of imported products in consumption, and indirectly through the use of imported products as factor inputs in domestic production. In isolation, the effect of a decline in prices for the business sector's factor inputs is to lower prices for consumers. This past decade, the shift towards increased imports from low-cost countries has generated negative inflationary impulses in Norway. The global turmoil will probably contribute to dampening wage and price inflation among our trading partners in the medium term. The import-weighted krone exchange rate strengthened in the second half of 2011, and this will dampen inflationary impulses from imported goods for a period ahead. Given the assumptions upon which we have based the projection scenario, the import-weighted krone exchange rate will continue to strengthen moderately up to 2014. Impulses to domestic inflation generated by imported products are therefore expected to be moderate in the near term.

For 2012, we have incorporated changes in indirect taxes adopted by the Storting. The indirect tax rates for 2013 and 2014 have been adjusted for inflation. From the New Year, value-added tax on food will be 1 percentage point higher. In isolation, tax increases will contribute to a higher rise in the CPI than in the CPI-ATE. An assumed fall in the oil price will have the opposite effect.

Developments in unit labour costs are central to developments in the underlying inflation rate. The importance of wage developments for inflation increases in proportion to the labour intensiveness of production if we assume that costs will be passed through. Average labour costs per hour are assumed to rise by 3.7 per cent in 2012, slightly down from the current year. For the years 2013 and 2014, we have assumed approximately the same change in hourly labour costs as in 2011 and 2012. More effective utilisation of the input factors lowers unit production costs. With annual growth in labour productivity of close to 2 per cent, and a low rise in prices for imported product inputs, inflationary impulses from Norwegian production also look set to be moderate in the years ahead. Given the assumptions upon which we have based wage and price projections, we expect CPI inflation as an annual average to be 1.3 per cent this year and 1.4 per cent in 2012. After that, we expect a gradual rise, bringing CPI inflation up to 1.9 per cent in 2014. According to our projections, CPI-ATE inflation will remain close to CPI inflation throughout the period.

Table 4. **National accounts: Final expenditure and gross domestic product. At constant 2009 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2009	2010	09.4	10.1	10.2	10.3	10.4	11.1	11.2	11.3
Final consumption expenditure of households and NPISHs	1 027 714	1 065 455	261 348	265 846	262 728	266 892	269 404	270 103	272 008	272 594
Household final consumption expenditure	979 235	1 016 238	248 905	253 623	250 474	254 670	256 904	257 735	259 811	260 310
Goods	495 674	516 722	126 711	129 521	126 766	128 987	130 737	129 638	131 019	130 824
Services	452 357	462 851	113 829	114 900	115 078	116 213	116 683	117 932	118 281	119 051
Direct purchases abroad by resident households	57 328	64 407	15 200	15 959	15 608	16 368	16 527	16 914	17 490	17 474
Direct purchases by non-residents	-26 124	-27 742	-6 836	-6 756	-6 979	-6 898	-7 043	-6 750	-6 979	-7 039
Final consumption expenditure of NPISHs	48 479	49 218	12 443	12 223	12 254	12 222	12 499	12 367	12 197	12 284
Final consumption expenditure of general government	530 682	539 925	134 422	136 113	133 453	133 345	136 973	136 611	135 044	135 355
Final consumption expenditure of central government	275 487	274 466	70 072	69 441	67 512	67 651	69 826	69 464	67 984	67 764
Central government. civilian	239 948	240 019	61 434	60 790	58 839	59 174	61 183	61 141	59 402	59 371
Central government. defence	35 539	34 446	8 638	8 652	8 673	8 478	8 643	8 323	8 582	8 393
Final consumption expenditure of local government	255 195	265 459	64 351	66 672	65 941	65 693	67 147	67 147	67 060	67 591
Gross fixed capital formation	515 580	488 870	132 375	118 074	123 616	118 750	128 260	129 174	130 086	132 232
Extraction and transport via pipelines	134 400	122 370	32 246	30 807	31 876	28 331	31 452	32 943	34 906	37 890
Service activities incidential to extraction	9 716	1 240	4 771	770	-25	-34	529	-169	0	340
Ocean transport	22 230	24 836	6 284	6 024	6 784	6 032	5 997	5 151	3 794	3 313
Mainland Norway	349 234	340 423	89 073	80 473	84 981	84 421	90 282	91 249	91 386	90 689
Mainland Norway excluding general government	263 475	261 091	63 815	62 047	65 082	64 801	69 105	70 132	72 988	71 862
Industries	168 164	167 865	40 410	39 440	42 684	41 144	44 720	43 205	44 583	43 233
Manufacturing and mining	25 577	20 060	5 323	5 261	5 401	4 449	5 126	4 876	5 089	5 445
Production of other goods	37 320	39 916	9 241	9 445	9 886	9 748	10 766	11 026	11 269	10 581
Services	105 267	107 889	25 846	24 734	27 398	26 947	28 828	27 303	28 225	27 207
Dwellings (households)	95 311	93 226	23 404	22 607	22 398	23 657	24 385	26 927	28 405	28 630
General government	85 759	79 332	25 258	18 425	19 898	19 620	21 177	21 117	18 398	18 827
Changes in stocks and statistical discrepancies	13 915	58 542	-4 895	5 963	23 333	17 941	12 338	23 350	13 098	6 786
Gross capital formation	529 495	547 412	127 479	124 036	146 949	136 691	140 598	152 524	143 185	139 018
Final domestic use of goods and services	2 087 891	2 152 792	523 250	525 995	543 130	536 928	546 975	559 237	550 237	546 968
Final demand from Mainland Norway	1 907 630	1 945 804	484 843	482 432	481 162	484 658	496 659	497 962	498 439	498 639
Final demand from general government	616 441	619 257	159 680	154 538	153 352	152 964	158 150	157 728	153 442	154 182
Total exports	929 116	945 560	233 852	241 575	235 280	229 479	233 702	230 118	226 872	239 926
Traditional goods	278 869	286 101	71 741	71 310	69 509	72 102	68 777	67 856	71 954	72 459
Crude oil and natural gas	414 366	394 295	100 983	103 005	101 959	93 350	95 414	96 735	89 325	99 759
Ships. oil platforms and planes	11 878	10 167	2 311	4 148	2 209	2 024	1 786	1 718	2 753	3 480
Services	224 003	254 997	58 818	63 112	61 603	62 003	67 725	63 808	62 841	64 228
Total use of goods and services	3 017 007	3 098 353	757 103	767 570	778 411	766 407	780 677	789 355	777 109	786 894
Total imports	660 408	725 811	168 875	174 138	183 322	181 430	182 770	194 262	178 978	180 233
Traditional goods	407 841	436 677	101 373	104 783	108 877	107 608	111 585	114 742	113 164	112 685
Crude oil and natural gas	4 553	5 728	1 127	1 100	2 243	1 673	929	3 159	874	572
Ships. oil platforms and planes	31 649	30 720	10 889	7 455	8 409	8 396	6 535	17 419	6 393	6 257
Services	216 365	252 686	55 486	60 800	63 792	63 754	63 721	58 941	58 546	60 719
Gross domestic product (market prices)	2 356 599	2 372 542	588 228	593 433	595 089	584 977	597 907	595 093	598 130	606 660
Gross domestic product Mainland Norway (market prices)	1 875 850	1 910 616	470 894	473 957	475 812	479 372	480 633	482 411	488 753	492 902
Petroleum activities and ocean transport	480 749	461 926	117 333	119 475	119 277	105 605	117 274	112 683	109 377	113 758
Mainland Norway (basic prices)	1 614 567	1 639 237	404 438	406 594	409 032	411 233	412 069	413 612	419 661	423 696
Mainland Norway excluding general government	1 234 453	1 253 354	308 747	310 339	312 241	314 870	315 677	316 824	321 218	324 627
Manufacturing and mining	175 062	179 219	43 992	43 772	44 525	45 185	45 726	45 507	45 386	45 815
Production of other goods	200 781	201 957	50 486	50 770	49 643	50 296	50 852	50 030	52 365	54 108
Services incl. dwellings (households)	858 610	872 178	214 269	215 797	218 073	219 389	219 099	221 287	223 467	224 704
General government	380 114	385 884	95 691	96 255	96 791	96 364	96 392	96 788	98 442	99 069
Taxes and subsidies products	261 283	271 379	66 457	67 363	66 780	68 138	68 564	68 799	69 092	69 206

Source: Statistics Norway.

Table 5. **National accounts: Final expenditure and gross domestic product. At constant 2009 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2009	2010	09.4	10.1	10.2	10.3	10.4	11.1	11.2	11.3
Final consumption expenditure of households and NPISHs	0	3.7	1.5	1.7	-1.2	1.6	0.9	0.3	0.7	0.2
Household final consumption expenditure	-0.2	3.8	1.4	1.9	-1.2	1.7	0.9	0.3	0.8	0.2
Goods	-0.4	4.2	1.3	2.2	-2.1	1.8	1.4	-0.8	1.1	-0.1
Services	0.4	2.3	0.8	0.9	0.2	1	0.4	1.1	0.3	0.7
Direct purchases abroad by resident households	-5.2	12.3	8.9	5	-2.2	4.9	1	2.3	3.4	-0.1
Direct purchases by non-residents	-5.4	6.2	6.9	-1.2	3.3	-1.2	2.1	-4.2	3.4	0.9
Final consumption expenditure of NPISHs	4.3	1.5	3.2	-1.8	0.3	-0.3	2.3	-1.1	-1.4	0.7
Final consumption expenditure of general government	4.3	1.7	1.7	1.3	-2	-0.1	2.7	-0.3	-1.1	0.2
Final consumption expenditure of central government	4.6	-0.4	3	-0.9	-2.8	0.2	3.2	-0.5	-2.1	-0.3
Central government. civilian	4.6	0	3.9	-1	-3.2	0.6	3.4	-0.1	-2.8	-0.1
Central government. defence	4.4	-3.1	-3.1	0.2	0.2	-2.3	2	-3.7	3.1	-2.2
Final consumption expenditure of local government	3.9	4	0.4	3.6	-1.1	-0.4	2.2	0	-0.1	0.8
Gross fixed capital formation	-7.5	-5.2	8.2	-10.8	4.7	-3.9	8	0.7	0.7	1.6
Extraction and transport via pipelines	3.4	-9	1.1	-4.5	3.5	-11.1	11	4.7	6	8.5
Service activities incidential to extraction	-4.2	-87.2	..	-83.9	-103.2	36.4	..	-131.9	-99.9	..
Ocean transport	53.7	11.7	14.5	-4.1	12.6	-11.1	-0.6	-14.1	-26.3	-12.7
Mainland Norway	-13.2	-2.5	5.2	-9.7	5.6	-0.7	6.9	1.1	0.2	-0.8
Mainland Norway excluding general government	-18.3	-0.9	-0.7	-2.8	4.9	-0.4	6.6	1.5	4.1	-1.5
Industries	-23.1	-0.2	-0.5	-2.4	8.2	-3.6	8.7	-3.4	3.2	-3
Manufacturing and mining	-35.4	-21.6	-5.3	-1.2	2.7	-17.6	15.2	-4.9	4.4	7
Production of other goods	-15.7	7	-0.9	2.2	4.7	-1.4	10.4	2.4	2.2	-6.1
Services	-21.9	2.5	0.6	-4.3	10.8	-1.6	7	-5.3	3.4	-3.6
Dwellings (households)	-8.2	-2.2	-1.1	-3.4	-0.9	5.6	3.1	10.4	5.5	0.8
General government	7.4	-7.5	23.9	-27.1	8	-1.4	7.9	-0.3	-12.9	2.3
Changes in stocks and statistical discrepancies	-78.5	320.7	-166.9	-221.8	291.3	-23.1	-31.2	89.3	-43.9	-48.2
Gross capital formation	-17.1	3.4	-1.7	-2.7	18.5	-7	2.9	8.5	-6.1	-2.9
Final domestic use of goods and services	-4.1	3.1	0.7	0.5	3.3	-1.1	1.9	2.2	-1.6	-0.6
Final demand from Mainland Norway	-1.6	2	2.2	-0.5	-0.3	0.7	2.5	0.3	0.1	0
Final demand from general government	4.7	0.5	4.7	-3.2	-0.8	-0.3	3.4	-0.3	-2.7	0.5
Total exports	-4.2	1.8	0	3.3	-2.6	-2.5	1.8	-1.5	-1.4	5.8
Traditional goods	-8	2.6	-0.7	-0.6	-2.5	3.7	-4.6	-1.3	6	0.7
Crude oil and natural gas	-2	-4.8	-4.4	2	-1	-8.4	2.2	1.4	-7.7	11.7
Ships. oil platforms and planes	-25.1	-14.4	19	79.5	-46.7	-8.4	-11.8	-3.8	60.2	26.4
Services	-3.9	13.8	8.9	7.3	-2.4	0.7	9.2	-5.8	-1.5	2.2
Total use of goods and services	-4.1	2.7	0.5	1.4	1.4	-1.5	1.9	1.1	-1.6	1.3
Total imports	-12.5	9.9	2.4	3.1	5.3	-1	0.7	6.3	-7.9	0.7
Traditional goods	-11.8	7.1	-1.1	3.4	3.9	-1.2	3.7	2.8	-1.4	-0.4
Crude oil and natural gas	31.1	25.8	-28.7	-2.3	103.9	-25.4	-44.5	240	-72.3	-34.6
Ships. oil platforms and planes	-23.2	-2.9	65.8	-31.5	12.8	-0.2	-22.2	166.6	-63.3	-2.1
Services	-12.8	16.8	2.2	9.6	4.9	-0.1	-0.1	-7.5	-0.7	3.7
Gross domestic product (market prices)	-1.7	0.7	0	0.9	0.3	-1.7	2.2	-0.5	0.5	1.4
Gross domestic product Mainland Norway (market prices)	-1.6	1.9	0.6	0.7	0.4	0.7	0.3	0.4	1.3	0.8
Petroleum activities and ocean transport	-1.8	-3.9	-2.6	1.8	-0.2	-11.5	11	-3.9	-2.9	4
Mainland Norway (basic prices)	-1.6	1.5	0.5	0.5	0.6	0.5	0.2	0.4	1.5	1
Mainland Norway excluding general government	-2.5	1.5	0.6	0.5	0.6	0.8	0.3	0.4	1.4	1.1
Manufacturing and mining	-7.4	2.4	0.7	-0.5	1.7	1.5	1.2	-0.5	-0.3	0.9
Production of other goods	-6	0.6	1.5	0.6	-2.2	1.3	1.1	-1.6	4.7	3.3
Services incl. dwellings (households)	-0.4	1.6	0.4	0.7	1.1	0.6	-0.1	1	1	0.6
General government	1.4	1.5	0.1	0.6	0.6	-0.4	0	0.4	1.7	0.6
Taxes and subsidies products	-1.7	3.9	1.6	1.4	-0.9	2	0.6	0.3	0.4	0.2

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. Price indices. 2009=100**

	Unadjusted		Seasonally adjusted							
	2009	2010	09.4	10.1	10.2	10.3	10.4	11.1	11.2	11.3
Final consumption expenditure of households and NPISHs	100	102.1	100.2	102.1	101.8	102.1	102.6	103	103.5	103.6
Final consumption expenditure of general government	100	103	101.1	102.1	102.2	103.7	104.2	106.5	106.3	106.6
Gross fixed capital formation	100	102.1	99.3	100.5	102.5	102	102.8	103.8	103.4	103.8
Mainland Norway	100	102.5	99.6	101.6	102.2	102.5	102.9	104.9	105.4	106.2
Final domestic use of goods and services	100	102.7	99.7	102.3	103.1	102.2	103.3	105.1	105.8	103.4
Final demand from Mainland Norway	100	102.4	100.4	102	102	102.6	103.1	104.3	104.6	104.9
Total exports	100	109.8	102.8	105.9	107.6	109.2	116.7	120.4	119.5	124.4
Traditional goods	100	105.5	98.4	100.3	105.7	106.5	109.8	113.5	112.9	111.6
Total use of goods and services	100	104.9	100.7	103.4	104.5	104.3	107.3	109.6	109.8	109.8
Total imports	100	100	97.7	98.7	101	98.7	102.5	103.7	103.1	101.1
Traditional goods	100	99.5	97.9	97.1	100.1	98.8	102	104.4	103.5	102.7
Gross domestic product (market prices)	100	106.4	101.5	104.8	105.5	106.1	108.8	111.5	111.8	112.4
Gross domestic product Mainland Norway (market prices)	100	103.9	101.1	102.9	103.3	104.2	105.1	106	107	106.4

Source: Statistics Norway.

Tabell 7. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted							
	2009	2010	09.4	10.1	10.2	10.3	10.4	11.1	11.2	11.3
Final consumption expenditure of households and NPISHs	2.5	2.1	-0.3	1.9	-0.3	0.2	0.6	0.4	0.4	0.1
Final consumption expenditure of general government	4.2	3	0.1	0.9	0.1	1.5	0.5	2.2	-0.1	0.2
Gross fixed capital formation	2.8	2.1	-1.5	1.2	2	-0.5	0.8	1	-0.4	0.4
Mainland Norway	1.6	2.5	-0.7	1.9	0.7	0.3	0.4	2	0.4	0.8
Final domestic use of goods and services	2.7	2.7	-0.7	2.5	0.8	-0.9	1	1.8	0.6	-2.2
Final demand from Mainland Norway	2.8	2.4	-0.2	1.6	0	0.6	0.5	1.2	0.3	0.3
Total exports	-18.9	9.8	1.9	3.1	1.6	1.5	6.9	3.2	-0.8	4.1
Traditional goods	-6.2	5.5	-1.7	2	5.3	0.8	3.1	3.4	-0.6	-1.1
Total use of goods and services	-5.1	4.9	0.1	2.7	1	-0.2	2.9	2.1	0.2	0
Total imports	-0.1	0	-2.7	1	2.4	-2.3	3.9	1.2	-0.5	-2
Traditional goods	-1.8	-0.5	-1.7	-0.8	3.1	-1.3	3.3	2.3	-0.8	-0.8
Gross domestic product (market prices)	-6.4	6.4	0.9	3.3	0.7	0.5	2.6	2.5	0.2	0.6
Gross domestic product Mainland Norway (market prices)	2.4	3.9	0.5	1.8	0.3	0.9	0.8	0.9	0.9	-0.6

Source: Statistics Norway..

Table 8. **Main economic indicators 2001-2014. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

										Forecasts				
	2001	2002	2003	2004	2005	2006	2007	2008*	2009*	2010*	2011	2012	2013	2014
Demand and output														
Consumption in households etc.	2.1	3.1	3.2	5.4	4.4	5.0	5.4	1.8	0.0	3.7	2.3	3.4	4.2	4.4
General government consumption	4.6	3.1	1.3	1.2	1.4	1.9	2.7	2.7	4.3	1.7	1.4	2.0	2.9	3.2
Gross fixed investment	-1.1	-1.1	0.8	11.1	13.5	9.8	11.4	0.2	-7.5	-5.2	7.4	5.3	3.0	3.9
Extraction and transport via pipelines	-4.6	-5.4	15.9	10.4	19.2	4.0	6.1	5.2	3.4	-9.0	15.0	10.4	2.3	2.3
Mainland Norway	3.9	2.3	-2.9	10.6	12.2	10.5	13.3	-1.3	-13.2	-2.5	8.1	3.6	3.2	4.5
Industries	2.5	4.0	-11.2	10.6	18.6	15.2	21.9	0.8	-23.1	-0.2	4.7	2.8	1.3	2.5
Housing	8.1	-0.7	1.8	16.3	9.7	4.0	2.7	-9.0	-8.2	-2.2	21.6	6.7	4.0	4.3
General government	2.7	1.7	12.5	3.9	2.0	9.7	8.0	4.5	7.4	-7.5	-0.7	0.9	6.5	9.2
Demand from Mainland Norway[1]	3.0	3.0	1.6	5.1	4.9	5.2	6.3	1.4	-1.6	2.0	3.1	3.1	3.7	4.1
Stockbuilding[2]	-1.8	0.2	-0.8	1.6	-0.1	0.9	-0.1	-0.1	-2.1	1.9	-0.2	-0.4	0.0	0.0
Exports	4.3	-0.3	-0.1	1.0	0.5	-0.8	1.4	0.1	-4.2	1.8	-0.6	0.4	0.5	1.2
Crude oil and natural gas	6.6	2.4	-0.8	-0.7	-5.0	-6.6	-2.5	-1.0	-2.0	-4.8	-4.1	-0.5	-1.1	-1.1
Traditional goods	1.8	0.8	3.6	3.5	5.3	6.2	9.2	3.2	-8.0	2.6	1.7	0.4	0.1	1.3
Imports	1.7	1.0	1.2	9.7	7.9	9.1	10.0	3.9	-12.5	9.9	2.8	3.1	4.8	5.2
Traditional goods	4.6	3.0	5.6	12.9	8.0	11.6	8.3	0.2	-11.8	7.1	6.3	4.4	4.7	5.6
Gross domestic product	2.0	1.5	1.0	4.0	2.6	2.5	2.7	0.0	-1.7	0.7	1.6	2.0	1.9	2.5
Mainland Norway	2.0	1.4	1.3	4.5	4.4	5.0	5.3	1.5	-1.6	1.9	2.6	2.5	2.7	3.3
Manufacturing	-1.0	-0.7	2.9	5.1	3.9	2.6	3.5	3.7	-7.4	2.4	1.6	-0.8	-0.5	0.4
Labour market														
Total hours worked. Mainland Norway	-1.6	-0.9	-2.1	1.9	1.5	3.3	4.3	3.5	-2.0	0.8	1.5	0.9	0.8	1.5
Employed persons	0.3	0.4	-1.2	0.5	1.3	3.5	4.1	3.2	-0.4	-0.1	1.4	1.2	1.2	1.3
Labor force[3]	0.5	0.7	-0.1	0.3	0.8	1.9	2.5	3.4	0.0	0.5	1.0	1.4	1.3	1.5
Participation rate (level)[3]	73.5	73.5	72.9	72.6	72.4	72.0	72.8	73.9	72.8	71.9	71.5	71.3	71.2	71.2
Unemployment rate (level)[3]	3.5	3.9	4.5	4.5	4.6	3.4	2.5	2.6	3.2	3.6	3.3	3.6	3.7	3.7
Prices and wages														
Wages per standard man-year	4.8	5.7	4.5	3.5	3.3	4.1	5.4	6.3	4.2	3.7	4.2	3.4	3.7	4.2
Consumer price index (CPI)	3.0	1.3	2.5	0.4	1.6	2.3	0.8	3.8	2.1	2.5	1.3	1.4	1.6	1.9
CPI-ATE[4]	2.6	2.3	1.1	0.3	1.0	0.8	1.4	2.6	2.6	1.4	1.0	1.5	1.6	1.9
Export prices. traditional goods	-1.8	-9.2	-0.9	8.5	4.3	11.4	2.5	3.0	-6.2	5.5	8.1	-2.4	0.5	2.6
Import prices. traditional goods	-1.5	-7.1	0.0	2.7	0.4	4.1	3.7	4.2	-1.8	-0.5	4.6	0.2	0.4	1.5
Housing prices[5]	7.1	5.0	1.7	10.1	8.2	13.7	12.6	-1.1	1.9	8.3	8.3	6.5	5.5	5.6
Income. interest rates and excange rate														
Household real income	0.0	8.0	4.6	3.3	7.8	-6.4	6.3	3.9	3.9	3.5	5.1	3.6	4.0	3.7
Household saving ratio (level)	3.1	8.4	9.0	7.0	9.8	-0.5	0.9	3.5	6.8	6.3	8.6	8.6	8.5	7.9
Money market rate (level)	7.2	6.9	4.1	2.0	2.2	3.1	5.0	6.2	2.5	2.5	2.9	2.8	3.1	3.8
Lending rate. banks (level)[6]	8.8	8.5	6.5	4.2	3.9	4.3	5.7	7.3	4.9	4.5	4.8	4.8	5.0	5.6
Real after-tax lending rate. banks (level)	3.3	4.8	2.2	2.5	1.3	0.7	3.3	1.5	1.4	0.9	2.1	2.0	2.0	2.1
Importweighted krone exchange rate (44 countries)[7]	-3.1	-8.5	1.3	3.0	-3.9	0.7	-1.8	0.0	3.3	-3.7	-2.6	-0.6	-1.1	-0.6
NOK per euro (level)	8.1	7.5	8.0	8.4	8.0	8.1	8.0	8.2	8.7	8.0	7.8	7.7	7.6	7.6
Current account														
Current balance (bill. NOK)	247.5	192.3	195.2	220.6	314.5	357.7	287.4	408.3	254.5	342.4	425.8	402.8	359.6	350.3
Current balance (per cent of GDP)	16.1	12.6	12.3	12.6	16.1	16.4	12.5	15.9	9.7	10.8	13.6	14.3	12.3	11.4
International indicators														
Exports markets indicator	1.4	2.1	2.7	7.8	7.3	9.5	5.5	1.2	-10.7	10.9	5.2	1.5	3.1	4.2
Consumer price index. euro-area	2.3	2.2	2.1	2.1	2.2	2.2	2.2	3.3	0.3	1.7	2.6	1.6	1.3	1.5
Money market rate. euro(level)	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6	1.2	0.8	1.4	1.1	1.2	2.1
Crude oil price NOK (level)[8]	223	198	201	255	356	423	422	536	388	484	623	555	565	595

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[2] Change in stockbuilding. Per cent of GDP. [3] According to Statistics Norway›s labour force survey(LFS). Break in data series in 2006.
[4] CPI adjusted for tax changes and excluding energy products. [5] Break in data series in 2004. [6] Yearly average. [7] Increasing index implies depreciation.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 6 December.