Economic survey

Perspectives

Whereas global economic growth picked up appreciably in 2010, developments in 2011 were far less positive. The growth rate in both the OECD area and a number of emerging economies fell last year, and appears likely to continue falling in 2012. The euro area bears the marks of the government debt crisis, and the GDP level is expected to fall in 2012 as a result of fiscal policy tightening. Countries in southern Europe are struggling most, but growth is also expected to be moderate in Germany, France and the UK in the near term. Nor were developments in the USA encouraging in 2011, but GDP growth picked up markedly towards the end of the year. Growth in manufacturing output and international trade has largely come to a halt, limiting the growth opportunities of countries that need increased exports to ease the government financial situation.

The European Central Bank has implemented measures to avoid a banking crisis. Countries with their own central bank and currency, such as the UK and the USA, still enjoy market confidence and low interest rates, despite the fact that developments in their government financial situation are not sustainable. The Federal Reserve's assessment is that the Fed funds rate will remain close to zero right until the end of 2014. In Europe, too, very low interest rates must be expected for a long period. We assume that the authorities will prevent developments in financial markets from getting out of control, but the government debt crisis will impact developments in the real economy and place a considerable damper on near term growth. Norway's trading partners are not expected to emerge from the cyclical trough until two years from now, in early 2014.

Export-oriented segments of the Norwegian economy are feeling the effects of weak global growth in the form of poor market opportunities and relatively low prices for important products. The petroleum industry is the exception. High oil prices translate into high government income and large profits for petroleum-related companies. A successful stabilisation policy also contributed to maintaining mainland economic growth at a close to normal level last year. However, the Norwegian economy is still in a moderate downturn. Unemployment fell through 2011, and inflation was very low. Real wages increased more in 2011 than has been normal in the past or can be expected in the longer term. Growth in the Norwegian economy is kept up by higher domestic demand, and this is expected to remain the case in the years immediately ahead.

The Norwegian economy stands out as robust in a world in economic turmoil. We have a high level of prosperity, and are in an enviable economic situation compared with virtually the entire rest of the world. Two important indicators of the state of the economy, unemployment and inflation, have remained stable and low. This is not only attributable to an active stabilisation policy. Changes in petroleum sector demand have had a stabilising effect since the financial crisis. Perhaps the Norwegian economy has also become more self-regulating than previously.

Many have been surprised that wage and price inflation was not higher during the economic boom prior to the financial crisis. One explanation is that the labour supply responded rapidly to relatively large changes in demand, and that this curbed wage pressures. Much of the increased labour supply is attributable to inward labour migration, particularly from new EU countries in eastern Europe. Net immigration into Norway has been high in recent years, amounting annually to around 70 per cent of a normal birth cohort. Norwegian labour has thus been subject to more competition, and the inward labour migration has probably had a disciplinary effect on wage formation. It is true that real wage growth in Norway has been high since the EEA expansion in 2004, but it has nevertheless been lower than experience indicates can be expected when employment increases strongly. And without the demands of the authorities and the unions for "equal pay and equal working conditions» and the general application of collective wage agreements, the inflow of labour might have been even higher and wage growth slower.

But for Norway as part of a large, European labour market, it may also be more demanding to keep unemployment low and labour force participation high by means of an active stabilisation policy. Increased demand for labour, for example as a result of a more expansionary policy, can to a greater extent than previously be met by inward labour migration rather than by higher employment for those already living in Norway. On the other hand, we know little about whether the labour supply will adjust downwards equally flexibly if Norwegian demand growth should slow. Net inward migration did fall after the financial crisis, and experience of a free labour market in the Nordic countries indicates that labour tends to migrate when the relative labour market outlooks change. But labour market mobility in the Nordic countries concerns movements between countries that at the outset are very similar with respect to language, culture, economic organisation and welfare arrangements. For those who have come from other countries, it may be economically more attractive to remain in Norway, even without work, rather than look for work in their home countries. Net immigration may therefore fall far less during a Norwegian economic downturn than it increases during an upturn.

Norway is currently in a period of strong income and population growth and low interest rates that have pushed house prices up rapidly and to a historically high level. We project that the rise in house prices will remain at about 6 per cent annually in the near term. Even though we do not envisage a levelling off or fall in prices in the near future, it is important to be aware of the dangers inherent in large changes in house prices. We have seen both in Norway and internationally that the housing market, as a rule interacting with the financial markets, plays a very large part in both creating and intensifying economic fluctuations. This is because the housing market is an important part of the economy, and price changes can be substantial. Major price changes result from the fact that the housing supply is not very flexible in the short term, because it takes time to build new dwellings. Increased demand for housing is therefore rapidly reflected in prices. Changes in house prices give a less unambiguous signal to consumers than other price changes. A price increase raises not only housing costs, but also households' wealth and borrowing possibilities. This may result in expectations of a continued rise in house prices that intensifies, rather than reduces, housing demand and the rise in house prices. A fall in prices, on the other hand, may block households' adaptation to the housing market, locking them into their homes because their equity has been wiped out, and thereby intensify the fall in prices and contribute to less residential construction. As we have seen in many other countries, the fall can be both prolonged and deep.

The fact that housing capital accounts for a large portion of the wealth of Norwegian households cannot be explained merely in terms of culture and temperature. One important reason is that Norway is among those OECD countries that most strongly subsidise dwellings through the taxation system. Few other countries practise the combination of full deductibility of interest expenses, no tax on the advantage of living in one's own home, negligible tax on gains on sale of dwellings, and fairly moderate wealth and property tax. The result is in the first place an efficiency loss, because too much capital is tied up in dwellings. Second, the lack of taxation amplifies the fluctuations in house prices compared with a situation where growth in housing wealth results in higher taxation, and a fall in house prices the reverse.

Some have recommended eliminating the tax deduction for housing debt in income taxation to dampen the rise in house prices. In isolation, this would increase borrowing costs by almost 40 per cent, and hence be a strong instrument. A reduction in or elimination of the deduction for interest on housing debt would both make monetary policy more effective in relation to the household sector, and face households to a greater degree with the actual capital costs of housing investments. But a proposal of this nature would move the taxation system even further away from equal tax-related treatment of dwellings and other capital. The proposal would also give rise to many problems associated with drawing a line between housing debt and other debt, and entail discrimination between those who can equity-finance their dwelling and those who have to raise loans. The fundamental problem is not the deduction for interest on debt, but very lenient taxation of dwellings.

The fall in housing prices is not merely a problem for those who have purchased dwellings with a high mortgage; it also spreads to the rest of the economy through lower demand. The greater the need for household financial consolidation, the stronger this effect will be. The household debt burden has reached a peak. In 2011, debt as a share of disposable income was 205 per cent, compared with 165 per cent in 1988, when house prices peaked before falling dramatically up to 1993 and contributing to the banking crisis. On the other hand, households are somewhat less vulnerable now because when the effects of the interest deduction are taken into account their interest burden as a share of disposable income is only just over half what it was in 1988. According to our calculations, an immediate increase in money market rates of 2 percentage points would eliminate any rise in house prices for the next three years. In the short term, this is an unrealistically sharp rise in loan costs, but somewhat further ahead in time we may get interest rate levels that in isolation result not merely in a levelling off of house prices, but also in a fall.

It is important that the authorities consider and take steps to slow the rise in prices, to lower the risk of a fall in house prices. We have mentioned that heavier housing taxation could contribute to this. The recently introduced measures associated with banks' equity requirements and more stringent requirements concerning collateral for housing loans also serve to bolster financial stability. In our projections for the next four years we assume that the measures that have been introduced, together with an interest rate level that will gradually edge up, will brake the rise in house prices to some extent.

Weak global growth and high oil prices coupled with high domestic demand are contributing to a two-track internationally exposed business sector: those business segments that are stimulated by developments in petroleum activities are doing well, while other internationally exposed business segments are struggling. A two-track economy is often normal and desirable; growth in some industries will crowd out industries with poorer profitability. However, the double-tracking of the Norwegian internationally exposed sector may create a special problem. The optimism and high level of activity in the petroleum industry are currently resulting in a very good ability to pay for many of the enterprises that traditionally take the lead in collective wage negotiations. This will strain the traditional wage formation mechanisms in Norway, where the ability to pay of the wage leader, i.e. export-oriented manufacturing, has traditionally been an important premise. One possible adaptation would be to allow a greater amount of wage formation to take place locally, with the result that wage differences between persons with approximately the same qualifications, but associated with different industries, would widen. In a market economy with full employment, this would not help the segment of the internationally competitive sector that is having problems, because weak companies would be unable to compete for labour.

The petroleum industry influences the Norwegian economy partly through the actual activity related to production and partly through the government's use of petroleum revenuee. These two channels differ in both magnitude and duration. The high and increasing level of activity related to petroleum activities contributes to undermining the profitability of other segments of internationally exposed business. Sooner or later, activities associated with the Norwegian petroleum industry will decline. Industrial restructuring will be called for, and this may present challenges. But it is by no means a given that they will be substantially greater than those the Norwegian economy has mastered in recent decades. If the fiscal rule is adhered to, the use of the petroleum revenues will be more even and take place over a longer period of time than petroleum production. The fiscal rule assures the financing of a permanent stream of goods and services from abroad, and ensures that the level of internationally exposed activities can be lower, more or less permanently, than it would otherwise have had to be. In 2011, consumption of petroleum revenue accounted for less than 5 per cent of mainland GDP, while demand from petroleum activities accounted for a full 17 per cent. It is clear, then, that the long-term restructuring problems associated with petroleum operations are potentially greatest with respect to direct impulses, which at some time in the future will be very small, and not impulses generated by the use of petroleum revenues, which will be moderately large "for ever".

Irrespective of the most recent oil discoveries, the Pension Fund looks set to grow faster than GDP for some years to come, but in the 2020s the opposite will apply. The fiscal rule, which sanctions the use of 4 per cent of the capital in the Fund annually, will then change from being a rule for expansionary fiscal policy through increased phasing in of petroleum revenues, to the reverse. Conversely, the needs and costs associated with an aging population will take the opposite course. This is an argument for adjusting the fiscal rule. Now that the petroleum revenue actually used is down close to 2 per cent, according to our calculations, such an adjustment is not so demanding. The budgeting scope of manoeuvre should at least not be used to heighten the long-term challenges by giving priority to expenses that bind up even more of public spending for a long time ahead, unless we are prepared to finance expenditure by means of taxes at a later date.

Cyclical developments in Norway

According to the first quarterly national accounts (QNA) figures for the whole of 2011, mainland GDP increased by 2.6 per cent (in constant 2009-prices) from 2010 to 2011. Since value added in crude oil and gas production fell 5.6 per cent, as it did the previous year, overall GDP only increased by 1.6 per cent in 2011. Mainland economic growth has been fairly stable through the past two years according to seasonally adjusted QNA figures. In 2011, higher petroleum sector investment and related demand made the largest contribution to maintaining growth at a high level, but a sharp increase in housing investment also made a definite contribution. Consumption growth, both household and general government, pushed growth slightly downwards, and the fall in exports contributed to overall growth ending up at approximately the same level as trend growth for the mainland economy.

After falling somewhat from end-2010 and into 2011, unemployment underwent little change through 2011.

Table 1. **Macroeconomic indicators 2010-2011. Growth from previous period unless otherwise noted. Per cent**

	2010*	2011*	Seasonally adjusted			
			11:1	11:2	11:3	11:4
Demand and output						
Consumption in households etc.	3.7	2.2	0.2	0.5	0.3	0.6
General government consumption	1.7	1.5	-0.3	1.6	0.7	0.5
Gross fixed investment	-5.2	6.9	1.8	0.1	2.4	0.8
Mainland Norway	-2.5	8.2	2.6	-0.4	0.1	4.4
Extraction and transport via pipelines	-9.0	11.4	2.8	2.6	7.7	-4.4
Final domestic demand from Mainland Norway[1]	2.0	3.1	0.5	0.6	0.4	1.2
Exports	1.8	-1.1	-1.0	-1.5	6.2	-4.3
Crude oil and natural gas	-4.8	-4.4	1.0	-7.7	11.9	-8.0
Traditional goods	2.5	-0.6	-1.3	5.6	-1.0	-4.9
Imports	9.9	2.5	7.7	-7.1	1.6	-0.6
Traditional goods	8.1	5.4	3.5	-0.8	-0.5	2.1
Gross domestic product	0.7	1.6	-0.3	0.5	1.1	0.5
Mainland Norway	1.9	2.6	0.4	1.3	0.8	0.6
Labour market						
Man-hours worked	0.8	1.5	0.1	0.6	1.1	0.3
Employed persons	-0.1	1.4	0.3	0.4	0.7	0.3
Labour force[2]	0.5	1.0	-0.1	0.3	0.8	0.5
Unemployment rate. level[2]	3.6	3.3	3.2	3.3	3.2	3.4
Prices and wages						
Wages per standard man-year[3]	3.7	4.3	..	..	..	..
Consumer price index (CPI)[3]	2.5	1.2	1.4	1.4	1.5	0.9
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	1.4	0.9	0.8	1.0	1.1	1.1
Export prices. traditional goods	5.3	6.2	3.9	-0.3	-1.4	-1.1
Import prices. traditional goods	-0.6	4.1	3.5	-1.9	-0.4	1.0
Balance of payment						
Current balance. bill. NOK	313.6	387.0	79.0	95.0	111.6	101.4
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.5	2.9	2.6	2.8	3.0	3.1
Lending rate, credit loans[4]	3.5	..	3.5	3.5	3.8	..
Crude oil price NOK[5]	484.3	620.5	601.2	636.6	616.7	627.3
Importweighted krone exchange rate. 44 countries. 1995=100	90.3	88.1	89.1	87.8	87.4	87.9
NOK per euro	8.01	7.79	7.82	7.82	7.77	7.76

[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.

The Labour Force Survey (LFS) shows an unemployment rate of 3.3 per cent for 2011, 0.3 percentage point down on the previous year. Unemployment growth picked up somewhat in 2011, as did the labour force. High population growth due to extensive immigration from northern European countries is contributing strongly to growth in the labour force. Growth in labour productivity in the mainland economy has topped one per cent for the past two years. This is somewhat lower than underlying trend growth, and a broader cyclical upturn normally results in higher productivity growth.

Inflation measured by the consumer price index (CPI) was only 1.2 per cent in 2011, and was halved compared with the previous year. The CPI-ATE (the CPI adjusted for tax changes and excluding energy products) rose by 0.9 per cent down from 1.4 per cent in 2010. The fall in electricity prices through 2011 contributed in particular to the decline in CPI inflation. The rise in prices for imported consumer goods was very low, partly as a result of a stronger krone exchange rate and a weak rise in prices for international consumer goods. Prices for international food products (commodities) were high a year ago, but fell almost throughout 2011. A slow rise in rents is also a factor behind the falling inflation in Norway, and lower nominal interest rates may have played a part here. Growth in unit labour costs was slightly higher in 2011 than the previous year, but the increase was so small that it did not make any decisive contribution to inflation last year. Annual wage growth was slightly higher in 2011 than the previous year, and since inflation was appreciably lower, this meant that real wage growth was almost two percentage points higher. A slightly tighter labour market may explain some of the higher wage growth, which was much the same across the main sectors of the economy.

In recent years, general government demand has contributed to dampening growth in overall domestic demand and growth in the mainland economy. In 2012, general government consumption of goods and services will again contribute to dampening economic growth. The strongest fiscal impulse is generated by high growth in transfers, which in turn will contribute to high growth in household real disposable income. This growth will stimulate household demand. Housing starts indicate that growth in housing investment will not be as strong as in 2011, but will nonetheless contribute to pushing mainland economic growth up further. The rise in house prices contributes to stimulating residential construction, and there is no reason to assume that the newly introduced measures to restrain the growth in housing loans will have much effect on housing investment, although the measures will curb the rise in house prices somewhat going forward. Household consumption growth has not been high if account is taken of the low interest rate level and high income growth. It is difficult to explain developments in household consumption otherwise than that the uncertainty in the national and global economy influences Norwegian household spending. This will probably affect developments for a good while to come.

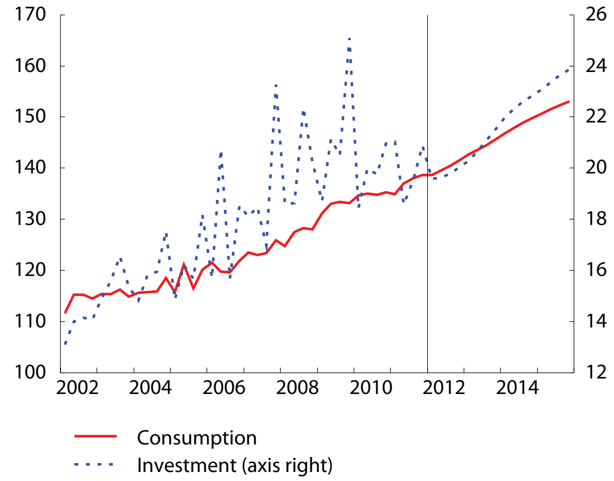
The weak developments internationally are exerting a strong influence on the Norwegian economy at present. The low interest rate level we are currently experiencing is partly attributable to the fact that leading central banks are also keeping their policy rates low. The fact that the Norwegian economy is perceived as sounder than most others may have contributed to the strong krone exchange rate. In combination with weak growth in Norwegian export markets, this causes problems for segments of the internationally exposed business sector that either become too unprofitable to survive in Norway or in some cases price themselves out of markets both in Norway and abroad when they pass on higher Norwegian costs to customers.

Given weak international growth for several years to come, growth in the Norwegian economy will have to come about largely as a result of domestic demand. It is reasonable to assume that fiscal policy will not generate substantial new impulses to economic growth other than those ensuing from real growth in transfers and an assumed increased investment in infrastructure. Growth in general government consumption is assumed to lie close to trend growth in the mainland economy in the near term. Household income will increase appreciably going forward, and if the general developments we expect should occur, the uncertainty currently characterising household behaviour may diminish. The saving ratio will then fall a little towards the end of the projection period, thereby stimulating economic growth. Such a consumption-driven upturn, boosted by a certain increase in impulses to the economy generated by the petroleum sector, will cause mainland economic growth to pick up in the period ahead. Wage and price inflation will pick up from 2013 and going forward. This will presumably lead to the interest level increasing approximately in pace with the interest rate level in the euro area.

Fiscal policy

The QNA figures reveal moderate growth in general government consumption and gross investment in 2011. General government consumption growth is estimated at 1.5 per cent. Central government spending increased by just over 1 per cent i 2011, while the increase in municipal spending was almost 2 per cent. Fiscal policy was made more expansionary in 2009 to counteract the negative impact of the financial crisis on the Norwegian economy. This resulted in strong growth in general government spending on goods and services in 2009. Growth slowed appreciably in both 2010 and 2011 as the counter-cyclical programmes were phased out. Overall gross general government investment also increased moderately from 2010 to 2011. Following high first quarter spending on military material, investment increased weakly in the last three quarters of 2011.

Figure 1. **General government. Seasonally adjusted volume indices. 2007=100**



Source: Statistics Norway.

Transfers to households increased by 6.4 per cent in 2011. As a result of the slow growth in consumer prices, real growth in transfers was just over 5 per cent in 2011 as against real growth of just over 3 per cent the previous year. Old age pensions have contributed most to this increase, while the sum of child benefit, cash benefit for young children, sickness benefit and unemployment benefit remained unchanged in nominal terms. The total demand impulses generated by general government purchases of goods and services as well as transfers increased by 2.8 per cent in real terms in 2011, which is slightly higher than trend growth in the mainland economy.

General government net financial investment is estimated at NOK 365 billion in 2011. Net financial investment excluding petroleum tax and capital income was NOK 12 billion. Municipal net financial investment amounted to a negative NOK 21 billion. The structural, non-oil budget deficit (SNOBD) was well within the 4 per cent limit defined by the fiscal rule in 2011. According to the New Balanced Central Government Budget for 2011, SNOBD would be equivalent to 3.2 per cent of the capital in the Government Pension Fund Global at the beginning of 2011. Preliminary accounts figures for 2011 imply the possibility of a further downward adjustment of SNOBD. The Ministry of Finance will publish new figures in May, when the Revised National Budget for 2012 is submitted.

According to the projections in the National Budget (NB), government spending would remain slightly under the 4 per cent limit in 2012, but the distance from the 4 per cent path was expected to be appreciably less than in 2011. Revised income figures for 2011, and the fact that the value of the Government Pension Fund Global at the beginning of 2012 was clearly higher than estimated in NB 2012, imply that the deviation from the 4 per cent path may be wide also in 2012.

Box 1. **Some budget concepts**

The non-oil government budget deficit shows the overall government budget deficit adjusted for income and expenses relating to petroleum activities. If this is adjusted for deviations from estimated trend in transfers from Norges Bank and net interest income, special accounting factors (often associated with a change in the distribution of functions between central and local government) and cyclical factors that affect government budget income and expenses, the structural non-oil government budget deficit is obtained. According to the fiscal rule, this deficit is to be made up over time by the expected real return (estimated at 4 per cent) of the Government Pension Fund Global. The government's net income from petroleum activities is therefore saved almost in its entirety through deposits in the Pension Fund, while transfers from the Fund cover the non-oil deficit so that the surplus before loan transactions in the government budget is close to zero.

The non-oil and structural budget deficit. Billions of NOK

	2009	2010	2011 FIN	2011 SN
Non-oil government budget deficit	97	104	84	79
Structural non-oil budget deficit (SNOBD)	100	108	99	..
Expected return on Government Pension Fund Global (4 per cent of the Fund capital)	91	106	123	..
SNOBD as a percentage of trend mainland GDP	5.4	5.5	4.7	..
SNOBD as a percentage of the capital in the Fund	4.4	4.1	3.2	..

Sources: For 2009 and 2010: National Budget 2012. For 2011: Prop. 45 S (FIN) and Central Government Accounts (SN)

Our detailed projections for fiscal policy in 2012 lie close to the projections in NB 2012 and are based inter alia on the adopted programme of direct and indirect taxes for 2012. Indirect taxes will increase somewhat more than the increase due to adjustment for inflation and push up consumer price inflation by just under 0.1 percentage point from 2011 to 2012. This is largely attributable to the higher value-added tax on food. The nominal limits on personal tax have been revised up by 4 per cent, equivalent to estimated annual wage growth in NB 2012. We forecast that wage growth this year will be somewhat less than 4 per cent, which implies a reduction in direct taxation. 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 and partly because the elderly are increasing in number. Transfers to households are expected to increase by approximately 7 per cent in 2012, and growth in real terms is projected to be roughly the same as in 2011.

As our projection for wage growth in 2012 is slightly lower than that in NB 2012, the budget framework that has been adopted will provide scope for slightly higher real growth in general government consumption than was projected in NB 2012. We expect consumption growth of just over 2 per cent next year, as opposed to a projection of 1.5 per cent in NB 2012. Gross general government investment is expected to be approximately the same in 2012 as in 2011. There will be a clear increase in non-military investment, however. The overall demand impulses generated by fiscal policy in 2012 are expected to be approximately as in 2011.

Fiscal policy is projected to generate slightly stronger demand impulses in the years 2013–2015 than in the current year. We assume that the tax level in real terms will remain unchanged through the projection period. Pension benefits will growth strongly in real terms in the years ahead, but the growth will be more a result of the increase in the number of the elderly than that many persons aged 62 or over elect to take contractual early retirement. Transfers to households are expected to increase by about 5 per cent annually in real terms in 2013–2015. Growth in general government consumption is expected to increase by about 2.5–3 per cent annually, which is approximately the same as estimated trend mainland economic growth. Gross general government investment will probably increase more than consumption as a result of a desire for increased investment in infrastructure, and we assume growth of approximately 6 per cent in the years 2013–2015. Growth in overall demand impulses generated by purchases of goods and services plus transfers is projected to be just over 3.5 per cent in these three years. This is higher than estimated trend growth in the mainland economy.

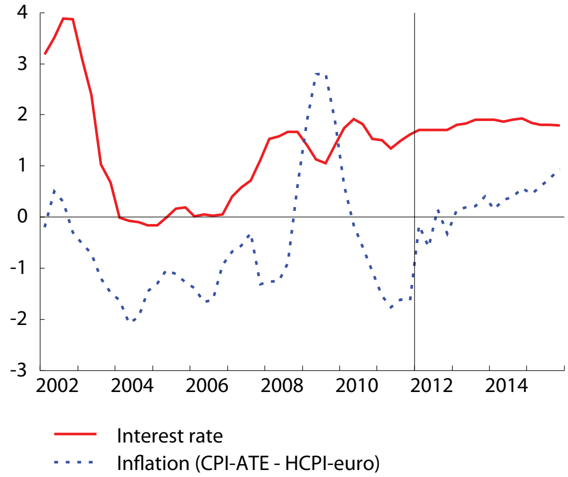
As a result of our assumptions of somewhat higher oil and gas prices, we forecast somewhat higher growth in the Government Pension Fund Global than that in NB 2012. Whereas NB 2012 projects that real oil prices will fall a good deal from 2011 to 2015, we expect oil prices to fall appreciably through 2012 and thereafter to remain fairly stable or rise slightly in real terms further ahead. According to our projections, SNOBD calculated as a share of the capital in the Fund will move down towards 2 per cent in 2013–2015.

Monetary policy

In its conduct of monetary policy, Norges Bank places emphasis on inflation developments measured by various indicators, including Statistics Norway's official consumer price index adjusted for tax changes and excluding energy products (CPI-ATE). At the same time, Norges Bank practices flexible inflation targeting, where the setting of interest rates is forward-looking, and emphasis is placed on the course taken by inflation. Account is also taken of the cyclical situation and the output and employment outlook. Inflation measured by the 12-month rise in the CPI-ATE was 1.3 per cent in January 2012.

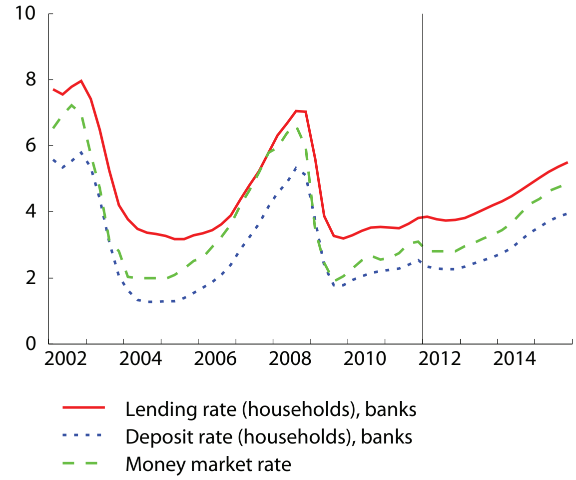
In response to the crisis in financial markets worldwide and the weak economic outlook, Norges Bank cut the key policy rate by 4.5 percentage points from autumn 2008 and over a nine month period, so that in June 2009 it was 1.25 per cent. The key rate was raised

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



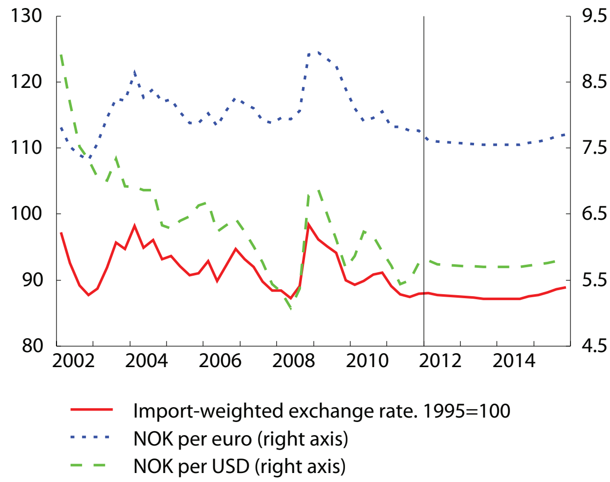
Source: Norges Bank and Statistics Norway.

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



Source: Norges Bank and Statistics Norway.

Figure 4. **Exchange rates**



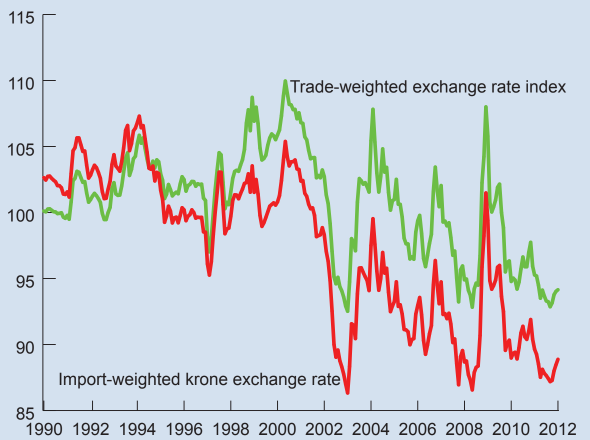
Source: Norges Bank.

Box 2. **Import-weighted krone exchange rate and trade-weighted exchange rate index**

Approximately 40 per cent of Norway's foreign trade in traditional goods (e.g. exports and imports of goods excluding oil, gas, ships and platforms) takes place with countries that are in the EU monetary union. The krone exchange rate against the euro therefore provides limited information about the international value of the Norwegian krone. It is therefore important to supplement with alternative exchange rate indicators that provide a more accurate expression of the breadth of our trading pattern. Examples of these are the trade-weighted exchange rate index and the import-weighted exchange rate. The trade-weighted exchange rate index is calculated on the basis of the exchange rate of the Norwegian krone against the currencies of Norway's 25 most important trading partners, and is a geometrical average based on the OECD's current trade weightings. The weights in the import-weighted krone exchange rate are calculated on the basis of the composition of imports of traditional goods from Norway's 44 most important trading partners. Both indices are structured in such a way that high values mean a weak krone and low values a strong krone.

In the figure, both indices indicate that the krone has maintained a generally stronger level since the end of the last century. However, the paths of the two indices do not quite coincide. For example, in January this year the krone was around 13 per cent stronger than the average for the 1990s measured by the import-weighted exchange rate, whereas according to the trade-weighted index it was only 8 per cent stronger. This reflects the fact that the two indices are designed for slightly different purposes: the trade-weighted exchange rate index is intended to reflect the competitiveness of Norwegian manufacturing in both the export and the domestic market, whereas the import-weighted krone exchange rate reflects movements in prices for an average of Norwegian imported goods. The somewhat different movements mean that since the 1990s the krone has strengthened considerably less in relation to countries Norway exports to than to countries from which Norway imports. The strengthening of the international purchasing power of the krone accordingly outweighs the weakening of the international competitiveness of Norwegian manufacturing.

Import-weighted krone exchange rate and trade-weighted exchange rate index



three times between October 2009 and May 2010, and then remained unchanged until it was raised again in May 2011. Each of these interest rate increases was 0.25 percentage point. As a result of a clearly weaker outlook for the Norwegian and the global economy and higher risk premiums, the key policy rate was reduced by 0.5 percentage point in December 2011, and is now 1.75 per cent.

As a direct result of the financial crisis, the differential between the money market rate and the key policy rate widened. Prior to the crisis, the money market rate largely shadowed the policy rate with a premium of about 0.25 percentage point. Since the summer of 2007, the premium has been substantially larger, and at the end of September 2008 it was over 2 percentage points. From summer 2009 to summer 2011, the premium moved between 0.5 and 0.75 percentage point. The money market rate averaged 2.9 per cent in 2011, and so far in 2012 it has been close to 2.7 per cent. The differential between key policy rate and money market rate has thereby increased to almost one percentage point.

Financial institutions' average deposit and lending rates normally shadow movements in money market rates to a large extent. The deposit rate increased from 2.2 per cent at the beginning of 2011 to 2.5 per cent at the end of the third quarter. The lending rate of financial institutions as a whole increased from 4.1 to 4.3 per cent in the same period. Financial institutions' interest rate margin has thus remained at around 1.9 percentage points during this period. The lending rate of financial institutions' credit loans with home mortgages – for which we will present projections starting in the present issue of Economic Survey (see separate box) – rose during the first three months of 2011 from 3.5 per cent to 3.8 per cent.

Norges Bank's setting of interest rates influences activity in the economy through a number of channels. First, the interest rate level affects households' consumption and investment in dwellings and business fixed investment. Higher interest rates will push down both consumption and investment, thereby curbing economic activity. Second, 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 hence, in isolation, of increasing imports and reducing exports. Both reduce domestic output and contribute to dampening pressures during an economic upturn.

The interest rate level affects private and municipal sector credit growth, which is important for the financial stability of the economy. Growth in gross domestic debt in the private and municipal sector (C2) from the third to the fourth quarter of 2011 was a seasonally adjusted and annualised 6.6 per cent. This is in line with quarterly growth in both the first and the second quarter, and implies that the high growth of 7.4 per cent in the

Box 3. **Projections for interest rates on credit loans**

Starting from Economic Survey 1/2012, we will make forecasts for average lending rates from financial institutions for credit loans secured on dwellings. Credit loans with home mortgages are loans with an upper limit to how much the borrower can borrow, and the borrower can herself increase or reduce the loan within this limit. In earlier editions of "Economic Trends", Statistics Norway has presented projections for the average lending rate from banks, and this rate has become less representative as banks' share of total lending has decreased. As a result of this change, we are now making projections for an interest rate that many households will recognise, as the interest rate on credit loans is a good indicator of floating interest rates on housing loans with solid collateral.

In recent years, banks have established special mortgage companies to which they have transferred some of their mortgage portfolio. This has happened partly because banks and mortgage companies are subject to different regulation, and has resulted in a reduction of banks' shares of loans to households over time. This tendency increased in connection with the financial crisis in 2008-2009, when the authorities introduced a swap arrangement whereby the government lent out government paper against corporate bonds. Only papers issued by mortgage companies could be used in this swap scheme. Banks therefore now account for only half of financial institutions' mortgage-backed loans. These are loans with solid collateral that have been transferred from banks. As a result, financial institutions' lending rate is lower than banks' average lending rate.

The figures for average bank lending rates cover all types of loan, and not only housing loans to households. Non-mortgage-backed loans normally have a higher interest rate than loans with this collateral. The interest rate statistics show that the difference between banks' average lending rate on credit loans secured on dwellings and the average lending rate generally is more than one percentage point. Lending rates from banks also apply to loans to non-financial enterprises and public enterprises, as well as to municipalities. Interest rates paid by non-financial enterprises are normally higher than those paid by households.

The interest rate statistics show that the average interest rate on credit loans from financial institutions has been approximately 0.4 percentage point lower than the average interest rate on repayment loans from financial institutions in recent years when both types of loan are secured on dwellings. One important reason for the difference is that repayment loans also include loans with a high loan-to-value ratio. Another reason for the interest rate differential between credit loans and repayment loans is that the latter also include loans with a fixed interest rate. Our assessment is that financial institutions' average lending rate on credit loans with home mortgages provides a good picture of the interest rate level for housing loans with solid collateral and floating interest rates. Financial institutions' credit loans secured on dwellings now account for a quarter of the institutions' lending with collateral in dwellings.

In Statistics Norway's interest rate statistics, interest rates are measured at the end of the quarter. The interest rate figures we use in our calculations are the average for the whole quarter. This means that when we use interest rate figures taken from the statistics in our analyses and tables we use the average of the interest rates at the end of the previous quarter and of the current quarter.

third quarter was only transient. The increase in debt in non-financial enterprises was the primary contributor to the high rise in private and municipal sector debt in the third quarter. Whereas the growth of debt in non-financial enterprises was about 3.5 per cent in the first and second quarters, it rose to over 7 per cent in the third quarter before falling back to just under 6 per cent in the fourth quarter. Municipal debt growth fell in the latter half of the year, from almost 20 per cent in the second quarter of 2010 to 6.6 per cent in the fourth quarter of 2011. Household debt rose by 7.0 per cent in the fourth quarter. This is somewhat less than in the first three quarter of 2011, but a little higher than in 2010. Developments in private and municipal sector credit growth do not indicate that there have been problems in accessing credit so far.

Measured in terms of the import-weighted krone exchange rate, the krone appreciated by more than 10 per cent in the course of 2009, largely reversing the depreciation of the previous year. The value of the krone changed little in the course of 2010. As a result of the appreciation through 2009, the krone strengthened by 3.7 per cent from 2009 to 2010. The krone strengthened during the first nine months of 2011, but weakened somewhat in the last three months. From 2010 to 2011, the krone strengthened by 2.4 per cent. Whereas the appreciation of the krone from 2009 to 2010 was primarily against the euro, the appreciation from 2010 to 2011 was primarily against the US dollar. As an annual average, a US dollar cost NOK 6.05 in 2010 and NOK 5.60 in 2011, a strengthening of over 7 per cent. During the same period, the krone appreciated 2.7 per cent against the euro. In mid-February 2012, the krone/euro exchange rate was around 7.55, whereas the dollar has strengthened since last summer and now costs about NOK 5.75.

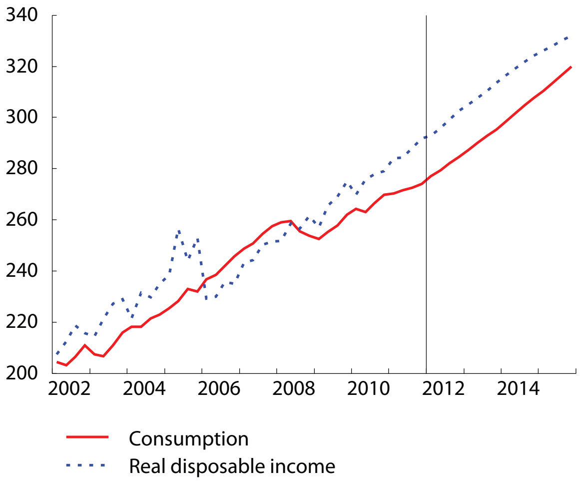
The government debt crisis that many countries are now experiencing is resulting in cuts in government spending and higher taxes, and thereby curbing global growth, which is already low. This results in lower demand for Norwegian export-oriented industry. The differential between Norwegian and foreign interest rates may also exacerbate the problems of the internationally exposed business sector through a further strengthening of the krone. Both point to continued low interest rates, also in Norway. Since domestic inflation is low, the argument of the importance of anchoring inflation expectations will not be an obstacle to maintaining the interest rate at a low level. But a low interest rate level may contribute to increased credit growth, higher house prices and a greater risk of a sharp fall in house prices when the interest rate level normalises or in the

Table 2. **Household real disposable income. Percentage rise compared with previous year**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	-6.4	6.3	3.9	3.9	3.5	4.0	3.6	3.8	3.7	2.7
Excluding share dividends	4.2	5.0	3.1	4.0	3.2	3.6	3.9	3.7	3.6	2.5

Source: Statistics Norway.

Figure 5. **Income and consumption in households. Seasonally adjusted volume indices. 2007=100**



Source: Statistics Norway.

case that the economy should be subjected to a sharp cyclical slowdown.

We have assumed approximately unchanged money market rates of 2.8 per cent through 2012. This implies no further cuts in the policy rate unless the risk premium increases. We envisage a weak increase in the money market rate through 2013 prior to a somewhat stronger increase through 2014. At the end of 2015, the money market rate will have reached 4.9 per cent. The mortgage rate, defined by financial institutions' lending rate on credit loans with home mortgages, shadows the money market rate and will then rise to 5.5 per cent in the fourth quarter of 2015. We expect the money market rate in the euro area to remain at just over one per cent until mid-2013 before it, too, rises. The interest rate differential between Norway and the euro area is expected to remain close to the current level through the projection period.

A higher interest rate in Norway and high oil prices point to the krone remaining strong throughout the projection period. Somewhat higher inflation in Norway than in the EU from 2013 will counter this effect. The krone is assumed to appreciate by about 0.5 per cent both this year and next as a result of the interest rate differential. In 2015 this effect will be reversed because inflation will increase more in Norway than in the EU.

Household income, consumption and saving

According to preliminary QNA figures, household real disposable income increased by 4.0 per cent in 2011 compared with 3.5 per cent the previous year. Approximately one percentage point lower inflation contributed substantially to the higher real income growth last year. Wage income, which is the primary source of income for households, made a particular contribution to income growth in 2011 as employment rose last year compared with a slight decline in 2010. Higher public transfers, mainly as a result of increased payments of pensions, also made a strong contribution to income growth in 2011. However, developments in net interest income did not contribute significantly to growth in 2011.

Despite strong real income growth, consumption increased by only 2.2 per cent in 2011, about 1.5 percentage points less than the previous year. Household saving motivated by caution – as a result of the uncertainty concerning the international economy – was probably an important reason for the weak consumption developments. With a growth rate of only 2.2 per cent in 2011 compared with almost 22 per cent the previous year, car purchases contributed in particular to this tendency. Weak growth was recorded in the fourth quarter of 2011 for consumption of food products and clothing and footwear, two other important product groups. Whereas seasonally adjusted consumption growth for food products was only 0.6 per cent, clothing and footwear fell by as much as 1.7 per cent in the fourth quarter, thereby contributing to weak growth in goods consumption on an annual basis last year. At the same time, consumption of electricity fell sharply after strong growth in 2010 due to a very cold winter. Consumption of services, on the other hand, increased by 2.6 per cent last year, about 0.3 percentage point more than the previous year. Important service groups such as leisure services, passenger transport and hotel and restaurant services contributed to growth last year.

Precautionary household saving pushed the saving ratio (saving as a share of disposable income) from 6.3 per cent in 2010 to 8.2 per cent in 2011. By way of comparison, the saving ratio increased by almost 3.5 percentage points in 2009 in the wake of the financial crisis. If we count purchases of consumer durables, including cars, as investment rather than consumption, the saving ratio can be calculated as 10.3 per cent in 2011 and 8.6 per cent in 2010.

Developments in household income, housing wealth and interest rates are important factors influencing consumption. Although the sizeable contributions to growth made by 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 moderate growth in real disposable income. Thus annual growth in household real

Box 4. **What increase in the interest rate would be sufficient to bring the rise in house prices to a halt?**

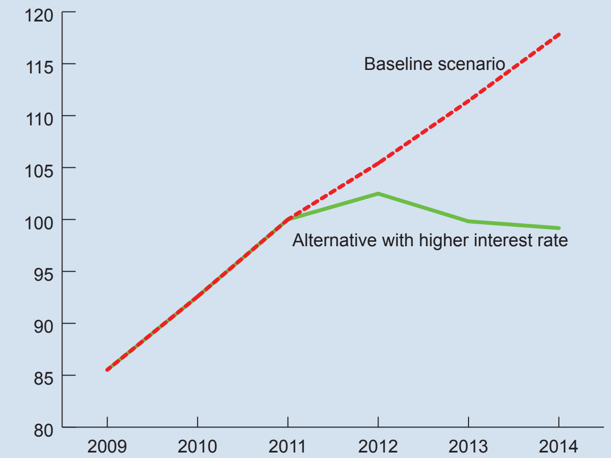
House prices influence residential construction and households' wealth situation and hence their consumption. Developments in these prices are therefore important for economic developments but also for the financial stability of the Norwegian economy. Our projections indicate a clear rise in house prices for the next four years, albeit at a somewhat slower pace than during the last two years. After almost 20 years of more or less continuously rising prices, and with only a relatively moderate decline for half a year induced by the financial crisis, many people may well perceive rising house prices as almost a law of nature. It is not. The reason our projections indicate a continued rise is that fundamental factors associated with households' financial situation appear relatively bright in the near term. This box provides an illustration of how much or how little is required to make house prices fall.

A number of factors influence house prices. The model of the Norwegian economy that we use to prepare economic reports contains some direct and many indirect factors that influence prices. We shall concentrate here on one evident candidate: interest rates. Most home-buyers finance their purchase by raising loans, some of them large. In an alternative scenario, we assume that all factors that determine economic developments in Norway are the same as in our projections, with the exception of an increase in money market rates from and including the first quarter of 2012 of 2 percentage points compared with the interest rate path in our projection. In the model, this results in an increase in lending rates for credit loans to households of 1.5 per cent in 2012, 1.9 per cent in 2013 and 2 per cent in 2014. An interest rate increase of this nature would bring (nominal) house prices in 2013 and 2014 to about the same level as in 2011. In view of how the interest rate level in Norway has varied in the last ten years, an interest rate change of 2 percentage points is not very much.

It should be stressed that this is a stylised calculation of effects. An interest rate increase of 2 percentage points in the first quarter of 2012 is not probable. We have also assumed unchanged fiscal policy and that the credit constraints facing households do not change compared with our baseline scenario.

The most important mechanism underlying the effect on house prices is the direct effect of an interest rate increase on the price of capital for consumers and on household net interest expenses. However, there are also substantial spillover effects from the rest of the economy to households and the housing market. One important channel is via the exchange rate, and according to the projection the krone will be 8-9 per cent stronger than in the baseline scenario. This will contribute to reduced export and increased import shares as a result of the direct effect on cost-competitiveness. Inflation will be curbed, and real interest rates will therefore rise further. This will amplify the effects via household demand, but also via corporate investment. In the projection, mainland GDP is reduced by almost 3 per cent after 3 years, while unemployment rises gradually and in 2014 is 0.6 percentage point higher than in the baseline scenario.

Effects on house prices of a 2 percentage point higher money market rate. 2011=100



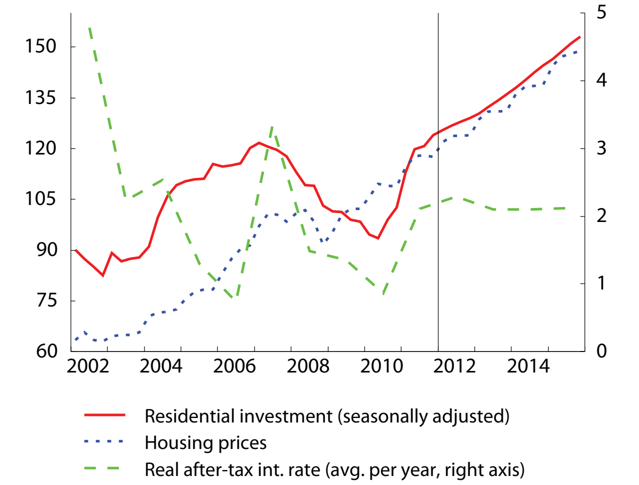
Macroeconomic effects of a 2 percentage point higher money market rate. Deviations in per cent from the baseline scenario unless otherwise specified

	2012	2013	2014
Consumption, household	-0.5	-3.0	-3.9
Mainland gross investment	-0.4	-2.2	-4.5
Business	-0.8	-3.1	-4.4
Housing	-0.1	-2.2	-7.6
Exports excluding petroleum products	-1.5	-2.8	-3.1
Mainland GDP	-0.8	-2.2	-2.9
Manufacturingi	-2.7	-5.4	-6.4
Employed, 1000 persons	-8	-25	-32
LFS unemployment (percentage points)	0.3	0.6	0.6
Wages	-0.7	-1.9	-2.9
Consumer price index	-0.9	-1.9	-2.1
House prices	-2.8	-10.4	-15.8
Krone exchange rate	-8.1	-9.1	-8.4
Household real disposable income	-0.3	-1.2	-2.2
Lending rate, credit loans (percentage points)	1.5	1.9	2.0

disposable income of just over 3.5 per cent is expected in the years 2012-2014, falling to just over 2.5 per cent in 2015. Housing wealth increases with rising house prices, which will stimulate consumption in the next few years. Consumption growth is projected to be around 3 per cent in 2012, rising to about 4 per cent in the years 2013–2015. This is weaker than during the last economic upturn from 2004 to 2007. The average annual consumption growth rate from 2012 to 2015 is projected to be just over one percentage point lower than in the years 2004–2007. If adjustments are made for population growth, the difference becomes larger. Whereas average annual growth in per capita consumption was 3.9 per cent in the period 2004-2007, our projections imply a growth rate of 2.4 per cent in the period 2012–2015.

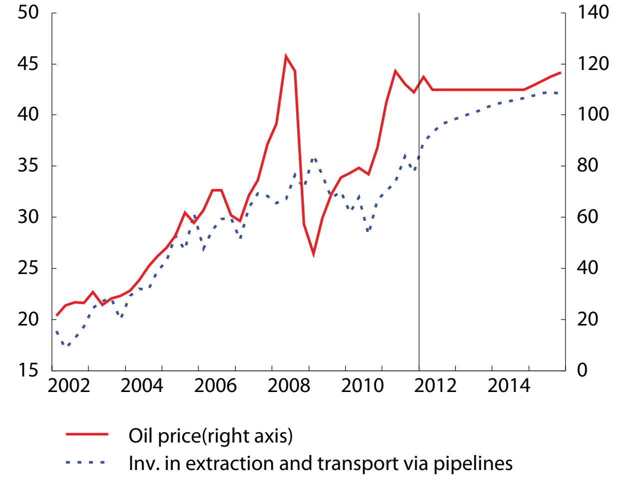
Given the continued uncertainty concerning the global economy, precautionary saving will probably still prevail to some extent during the projection period. We now expect the saving ratio to be just over 8 per cent in the period 2012–2014, more or less the same as in

Figure 6. **Residential market. Left axis adj. indices. 2007=100. right axis per cent**



Source: Statistics Norway.

Figure 7. **Petroleum investments and oil price in USD. Seasonally adjusted volum indices. 2007=100**



Source: Statistics Norway.

2011. It will then fall to 7 per cent in 2015. This is a high level in a historical perspective, nonetheless. Much of household saving takes the form of housing investment. Household 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 projected to reduce their net lending in pace with developments in housing investment, from over NOK 24 billion in 2011 to about NOK -12 billion in 2015.

Housing investment and house prices

Housing investment showed a pronounced upturn last year, ending with annual growth of 22 per cent according to the most recent QNA figures. Housing investment has increased each quarter after falling steadily for three years and bottoming out in the second quarter of 2010. This strong upturn in housing investment has been driven by strong growth in real income, rapid population growth, low real interest rates and a sharp rise in house prices. In the fourth quarter of 2011, the level of housing investment topped the peak level in 2007.

Building statistics, the main source of data for calculating housing investment, show that the level of residential building starts last year was again at the level in the years preceding the financial crisis, following a clear increase through the last two years. There were 27 735 housing starts in the course of 2011, a whole 30.3 per cent more than the previous year. The prospects of a continued solid rise in house prices indicate that housing starts will continue to increase, but at a more moderate pace. Thus housing investment is expected to increase by over 6 per cent this year and slightly less in 2013. Investment growth will then rise again.

House prices have risen markedly in the last two years. According to Statistics Norway's house price index, house prices rose by about 8 per cent in both 2010 and 2011. Following a strong rise in the first half of 2011, house prices levelled off in the second half of the year.

Prices for flats rose by 10.3 per cent in 2011 compared with the previous year, whereas prices for detached houses and small houses increased by 7.2 and 8 per cent, respectively. However, prices for detached houses fell slightly in both the third and fourth quarters last year. There are large geographical differences in the level of house prices.

Developments in household income and interest rates and high population growth point towards a continued relatively strong rise in house prices in the years ahead. Conversely, more stringent equity requirements coupled with increased residential construction will exert downward pressure on the rise in prices, and we therefore expect a somewhat weaker rise in house prices in the near term. We expect house prices to rise 5.5 per cent in the current year and around 6 per cent annually for the remainder of the projection period. However, many uncertainty factors can play a part and change this picture. See the discussion in Box 4.

Petroleum investment

2011 was a good year for the petroleum industry. Investment rose appreciably through the year, oil and gas prices remained at the high level of the previous winter and, not least, several large oil and gas discoveries were made. Production was slightly lower than expected, but the high prices ensured large profits and substantial income to the state nonetheless. The industry is pervaded by optimism that will contribute to continued high growth in investment and accordingly also in deliveries of other goods and services to the petroleum industry.

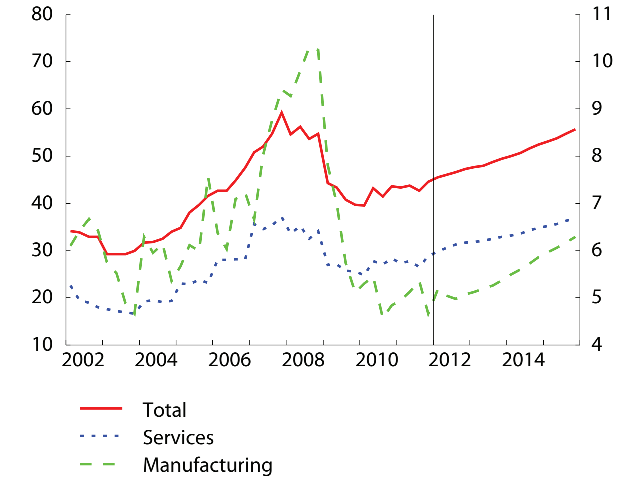
The importance to the Norwegian economy of demand from the petroleum sector can be illustrated by looking at the industry's investment and product inputs in relation to mainland GDP. Measured in this way, the importance of petroleum operations has increased appreciably this past year – from 13.5 per cent of mainland GDP in 2010 to 14.3 per cent in 2011 – and it is expected to increase further in 2012, to about 15 per cent. This

Table 3. **Main economic indicators 2010-2015. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2011*	Forecasts								
		2012			2013		2014		2015	
		SN	NB	MoF	SN	NB	SN	NB	SN	NB
Demand and output										
Consumption in households etc.	2.2	3.2	4 1/2	4.0	4.0	4 1/2	3.9	3	4.0	3
General government consumption	1.5	2.2	1 3/4	1.5	2.8	..	3.1	..	2.4	..
Gross fixed investment	6.9	7.2	..	5.6	4.2	..	5.2	..	4.6	..
Extraction and transport via pipelines[1]	11.4	14.4	14	11.0	3.4	5 1/2	2.9	4	2.1	1 1/2
Mainland Norway	8.2	4.6	6 1/2	4.1	4.9	..	6.2	..	5.8	..
Industries	3.9	6.0	..	3.9	4.3	..	5.8	..	6.1	..
Housing	22.0	6.6	..	10.0	4.8	..	6.1	..	6.0	..
General government	1.3	-1.1	..	-2.3	6.5	..	7.5	..	4.5	..
Demand from Mainland Norway[2]	3.1	3.2	4	3.3	3.8	3 3/4	4.1	2 3/4	3.9	2 3/4
Stockbuilding[3]	0.0	-0.4	..	..	0.0	..	0.0	..	0.0	..
Exports	-1.1	0.5	..	1.0	0.8	..	1.0	..	2.3	..
Crude oil and natural gas	-4.4	0.1	..	-2.2	0.1	..	-1.1	..	0.2	..
Traditional goods[4]	-0.6	-2.0	3	2.4	1.3	..	2.5	..	3.6	..
Imports	2.5	3.5	3 1/2	4.3	5.4	..	5.3	..	5.1	..
Traditional goods	5.4	4.1	..	4.7	5.5	..	5.8	..	5.7	..
Gross domestic product	1.6	2.2	3	2.4	2.0	2 1/2	2.4	2 1/4	2.7	2
Mainland Norway	2.6	2.7	3 3/4	3.1	2.8	3 1/4	3.4	3	3.4	2 3/4
Labour market										
Employed persons	1.4	1.1	1 1/4	1.5	1.4	1 1/4	1.3	1 1/4	1.4	1
Unemployment rate (level)	3.3	3.4	3	3.3	3.5	3	3.5	3	3.4	3 1/4
Prices and wages										
Annual earnings	4.3	3.6	4 1/4	4.0	3.7	4 1/2	4.4	4 3/4	4.9	4 1/2
Consumer price index (CPI)	1.2	1.3	1 1/2	1.6	1.7	2	2.1	2 1/4	2.6	2 1/2
CPI-ATE[5]	0.9	1.3	1 3/4	1.8	1.6	2 1/4	2.1	2 1/4	2.6	2 1/2
Export prices. traditional goods	6.2	-1.4	..	0.2	0.7	..	2.4	..	3.8	..
Import prices. traditional goods	4.1	-1.9	..	-0.7	-0.6	..	1.3	..	3.0	..
Housing prices	8.0	5.5	..	..	5.8	..	5.8	..	6.7	..
Balance of payment										
Current balance (bill. NOK)	387.0	426.9	..	324.3	407.4	..	381.1	..	371.2	..
Current balance (per cent of GDP)	14.3	14.8	..	11.5	13.6	..	12.2	..	11.2	..
Memorandum items:										
Household savings ratio (level)	8.2	8.4	..	9.3	8.3	..	8.2	..	7.0	..
Money market rate (level)	2.9	2.8	3	2.6	3.1	3.4	3.8	4.2	4.7	5.1
Lending rate, credit loans (level)[6]	..	3.8	..	..	4.0	..	4.6	..	5.3	..
Crude oil price NOK (level)[7]	621	639	..	575	627	..	627	..	659	..
Export markets indicator	5.5	1.7	..	..	3.2	..	4.5	..	5.8	..
Importweighted krone exchange rate (44 countries)[8]	-2.4	-0.4	1/2	0.1	-0.5	3/4	0.0	1/2	1.2	1/4

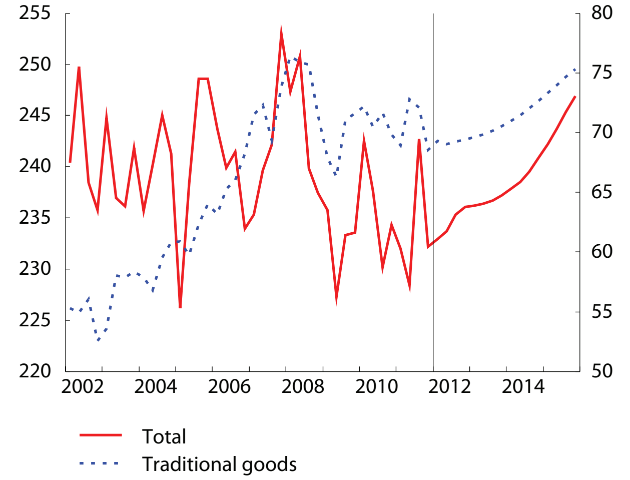
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway..
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates 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: atistics Norway (SN), Ministry of Finance, St.meld. nr.1 (2011-2012), (MoF), Norges Bank, Pengepolitisk rapport 3/2011 (NB).

Figure 8. **Investments. Mainland Norway. Seasonally adjusted volume indices. 2007=100**



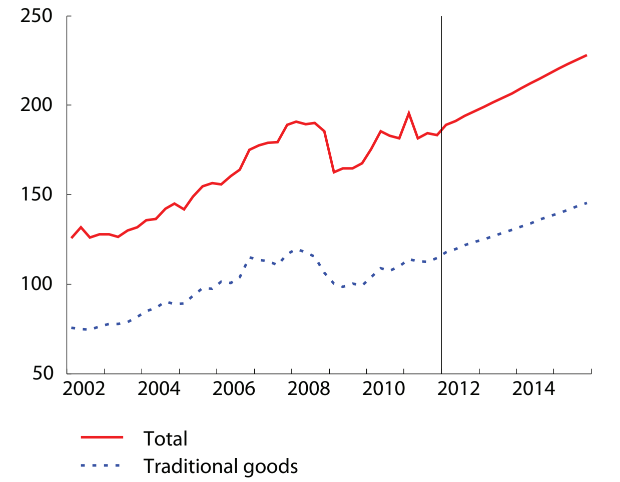
Source: Statistics Norway.

Figure 9. **Exports. Seasonally adjusted volume indices. 2007=100**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted volume indices. 2007=100**



Source: Statistics Norway.

share was around 10 per cent in the last decade, which is also considerably higher than in earlier periods.

The most recent QNA figures show a slight decline in investment in the fourth quarter of 2011 following a sharp rise through the previous four quarters. This is attributable to the fact that the record high level of exploration in the third quarter of 2011 was not maintained in the fourth quarter. Looking at 2011 as a whole, investment in platforms and drilling rigs is seen to have contributed most to the strong growth in investment in the industry, which overall ended up approximately 11 per cent higher than the previous year.

The investment intentions survey for the third quarter of 2011, which is based on the oil companies' own investment plans, indicates a continued upswing in 2012. The increase is expected to take the form of increased exploration, more developments and a clear increase in production drilling in existing fields. In the past two years, oil companies have overestimated the size of their investments when they have planned for the years ahead. This is probably due to difficulty in carrying through plans because of internal and external constraints. We have assumed that the companies have also overestimated their investments in 2012. Despite this, we assume an increase of over 14 per cent. The growth is due primarily to a continued increase in maintenance and upgrading of existing platforms and in investment in new fields. Production drilling activity is also supposed to increase further in 2012. Following the sharp growth in 2011 and 2012, we expect a definite levelling off of the pace of growth, so that petroleum investment increases in pace with the rest of the economy.

Petroleum production was subdued in 2011, With both oil and gas production falling by just under 5 per cent. The decline is the largest since production peaked in 2004. As a result of the start-up of several new fields and greater efforts to increase the recovery factor from existing fields, the fall in production is expected to level off in the next few years measured in standard cubic metres of oil equivalent (sm3 o.e.). The underlying situation is a continued decline in oil production that is counterbalanced by an increase in gas production.

Export prices for oil and gas rose throughout 2011. A time lag probably helps to explain these developments, as spot prices for oil declined moderately in the second half of 2011. In the current year, we expect export prices for both oil and gas to fall weakly and in pace with a moderate decline in spot prices for oil. We expect unchanged prices from the second quarter of 2012 to the end of 2014. A weak rise in real prices is expected in 2015. This will contribute to curbing the decline in the industry's operating results through the projection period. The price of gas measured in sm3 o.e. is considerably lower than that of crude oil representing the same amount of energy. Turnover will therefore remain roughly unchanged despite rising prices. The industry's expenses will increase rapidly, however, with the result that profits will decline somewhat.

Mainland investment

Historically, there have been close connections between developments in investment and in the business cycle – investment is procyclical. Nevertheless, investment differs from output and employment in that the fluctuations are far greater. The current downturn represents a more complex picture, however.

Mainland business investment increased by 85 per cent in the last cyclical upturn from 2003 to 2008. It fell by 23 per cent in pace with the downturn that followed from 2008 to 2010. Manufacturing and mining were particularly hard hit, and investment was roughly halved during this period. The fall in investment came to a halt in early 2010, shortly after the cyclical downturn in the Norwegian economy levelled off. A key factor driving the investment turnaround was growth in manufacturing investment. From the trough in the

Box 5. **Direct and indirect import shares**

Consumption of goods and services can be divided into final deliveries – i.e. for consumption, investment and exports – and material inputs, which constitute a production factor. Some of the final deliveries are covered directly through imports, while the remainder are delivered by Norwegian producers. Imported material inputs are also used in Norwegian production. The share that imported material inputs constitutes of a final delivery is defined as the indirect import share. It includes imported inputs from all vendors associated with the delivery in question. The total share of imports in a final delivery is thus higher than the direct share. Because the size of the import shares varies, a given change in a final delivery component will generate different impulses to Norwegian production.

Import shares are calculated by studying the effects on the import of the individual final delivery component in a static matrix model. This means excluding the effects of changes in relative prices, the ripple effects of changes in revenue earning, the need for changes in production capacity (investment) and possible effects on interest and exchange rates. The import shares in the table have been calculated for 2009, which is the most recent year for which final national accounts figures are available.

Import shares

Exports have the lowest direct import share of the main groups of final delivery categories. When indirect imports are included as well, the import share for exports is close to the average, however. Public consumption, which consists largely of labour costs, is the component with clearly the lowest total import share. Investment has clearly the highest import shares, both direct and total.

There are large differences between sub-groups of final deliveries. The direct import shares for investments in the form of buildings and infrastructure are more moderate. The indirect import shares are relatively high, however. Direct imports constitute about a third of investments in ships and machinery, oil platforms and vehicles, while total imports constitute about half of these investments. Broken down by industry, shipping has the highest total import share, at 67 per cent. Overall, the import share of petroleum activities is somewhat higher than the average for investments, while general government investment is appreciably lower.

Just over half of the final deliveries are associated with consumption, and there are large variations in import shares within household consumption. Norwegians' consumption abroad is naturally regarded as a direct import in its entirety. "Purchase of own vehicles" and "miscellaneous goods" stand out with high direct import shares. As very few cars are produced in Norway, the total import share for own vehicles of almost 36.5 per cent is perceived as surprisingly low. The explanation lies in dealer mark-ups, and in the high level of indirect taxes on these goods. Approximately two thirds of the expenses associated with car purchases relate to dealer mark-ups and indirect taxes. The import share is highest for the group "miscellaneous goods". This group includes clothing and footwear, consumer electronics and furniture.

There are large variations in import shares within exports. Exports of other goods, shipping and traditional goods have a high import content due to the fact that much of the material input is purchased outside Norway. Exports of oil and gas are distinguished by having a low share of imports. This can be largely attributed to the fact that a large share of the production value consists of petroleum rent.

Import shares 2009

	Share[1]	Direct	Indirect	Total
Total final deliveries[2]	**1.000**	**9.4**	**15.6**	**25.0**
Consumption	**0.523**	**10.6**	**12.9**	**23.5**
Consumption by households and non-profit org.	0.347	16.6	9.9	26.5
Food products and beverages	0.057	11.5	13.7	25.2
Energy products etc.	0.022	8.3	4.9	13.2
Own vehicles	0.012	29.8	4.4	34.2
Misc. goods	0.071	34.4	9.5	43.9
Dwellings	0.055	0.1	6.0	6.1
Other services	0.111	2.1	13.9	16.0
Norwegians' consumption abroad	0.019	100.0	0.0	100.0
Public consumption	0.074	0.1	9.2	9.3
New investments by type	**0.171**	**20.0**	**17.2**	**37.2**
Buildings and infrastructure	0.069	1.7	20.8	22.5
Ships	0.011	48.1	19.7	67.8
Other types	0.083	31.6	13.9	45.5
New investment by industry				
Mainland Norway	0.116	15.3	19.4	34.7
Manufacturing	0.008	30.0	4.4	34.4
Other goods-producing industries	0.011	21.8	18.5	40.3
General government	0.028	11.3	19.7	31.0
Housing	0.032	1.7	20.8	22.5
Other service industries	0.036	24.9	14.5	39.4
Production and pipeline transport	0.048	21.9	14.8	36.7
Shipping	0.007	47.6	19.5	67.1
Exsports	**0.298**	**1.3**	**19.5**	**20.8**
Traditional goods	0.100	3.2	30.1	33.3
Oil and natural gas	0.141	0.0	8.9	8.9
Other goods	0.003	0.0	36.0	36.0
Shipping etc.	0.027	0.0	34.2	34.2
Other services	0.027	2.4	16.2	18.6

[1] Share of domestic deliveries

[2] Shares in column 1 do not add up to 1 because changes in stocks have been excluded.

Source: Statistics Norway.

third quarter of 2010 to the third quarter of 2011, manufacturing and mining investment increased by 17.4 per cent. Investment in services fell less during the downturn than manufacturing investment, and more moderate developments were recorded in 2010. The annual figures for services bear witness to steady growth for the past two years of 2.5 per cent in 2010 and 2.3 per cent in 2011.

Fourth quarter developments in 2011 signal a different course in the near term. A 13.1 per cent fall was reported for manufacturing and mining, but 8.9 per cent growth in investment in services. Mirroring weak developments in output, the fall in manufacturing investment is broad-based, leaving only shipbuilding and other transport equipment unaffected. Statistics Norway's investment intentions survey also reveals signs that manufacturing firms are shelving plans for future investments. Fourth quarter reporting, after adjustment for normal under-reporting, indicated that investment in 2012 will be approximately on a level with investment in 2011. The weak developments in manufacturing investment can be viewed against the backdrop of the European debt crisis, weaker cost competitiveness and a predicted decline in manufacturing output in 2012. The annual figures show manufacturing investment falling by 21.6 per cent in 2010 and edging up 0.2 per cent in 2011. Fluctuations in manufacturing development following the last upturn are therefore not captured by looking at annual growth rates alone.

Investment in electricity supply has grown strongly in recent years, boosted by the building of windmill parks and a number of large projects relating to the production and distribution of district heating. Investment growth next year is expected to be about 15 per cent.

The weak global developments are constraining the profitability of many potential investment projects. This will be reflected in relatively moderate growth in business investment in the years ahead. We expect annual growth of from 4 to 7 per cent for the remainder of the projection period. Developments in manufacturing investment in particular will push down overall growth in 2012.

Balance of payments

The global contraction in 2009 reduced demand for Norwegian goods and services, and the subsequent below-trend GDP growth has dampened growth in exports for the past two years. Prices for Norwegian export products have developed more favourably than export volumes so far, and exports increased in value in 2010 and 2011. Imports shrank in 2009, but have now rebounded to approximately the same level as before the financial crisis. A steadily appreciating krone has contributed to weak and in some cases negative movements in import prices and this has boosted import growth.

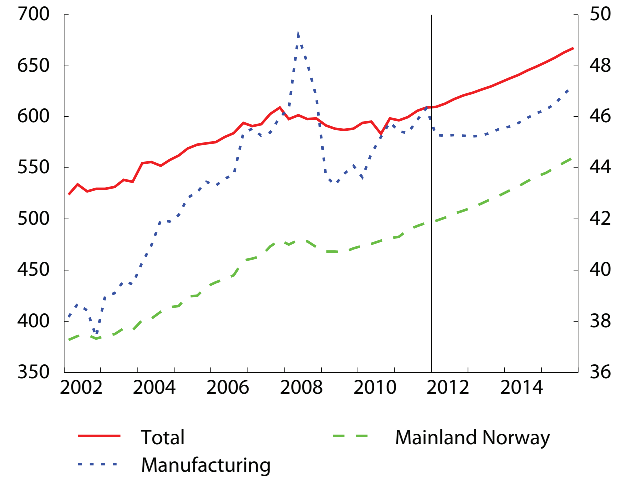
QNA figures for 2011 show that exports of traditional goods remain well below the volume for 2008. Developments in 2011 were weak, particularly through the latter half of the year. Reduced exports of manufacturing products, particularly metals and engineering products, led to the volume of traditional exports in 2011 being 0.6 per cent lower than in 2010. Following the fall in 2009, exports of services rebounded as early as in 2010, but showed approximately zero growth in 2011 if relatively strong but declining growth in gross freight revenue from international shipping is excluded. Oil and gas exports have undergone a production-based trend decline since 2002, and fell by over 4 per cent in both 2010 and 2011. In contrast to export volumes, export prices have on the whole climbed strongly for the past three years, with the exception of prices for service exports and the plunge in oil and gas prices in 2009. Prices for traditional export goods rose by just over 6 per cent in 2011, one percentage point more than in 2010, and growth was broad-based. Exports of refined petroleum products increased sharply in both price and volume. Prices for crude oil and natural gas continued to rise through 2011. Prices for service exports rose moderately in 2011 with the exception of shipping and pipeline transport of oil and gas. Large price falls in these two export categories, which are of a substantial size, caused a decline in overall service exports.

Tendencies for a fall in exports of many goods and services through 2010 and 2011 reflect both reduced growth in international demand and loss of cost-competitiveness by Norwegian exporters. This points to loss of market share, and perhaps a reduction of traditional exports also in 2012. Only afterwards do we forecast gradually increasing growth through the projection period. Increased gas exports will more or less weigh up for the trend decline in oil exports in the years ahead. Exports of services are expected to accelerate through the projection period. The international slowdown and weak growth in global demand can be expected to persist for a couple of years. This will contribute to weak movements in export prices for Norwegian goods and services in 2012 and 2013. In 2014 and 2015 we expect a weak global upturn to be reflected in a rise in most export prices.

High growth in goods imports was recorded from 2010 to 2011. Growth of over 5 per cent was broad-based, and steady throughout the year. The falling tendency for overall service imports that has prevailed for the past two years was broken in the last two quarters of last year. Norwegians' travel abroad represents another break in the pattern of service imports, having expanded over 10 per cent in the last six quarters. The rise in prices for imports gathered pace in 2011 compared with the previous year, with prices for imported goods rising most at over 4 per cent.

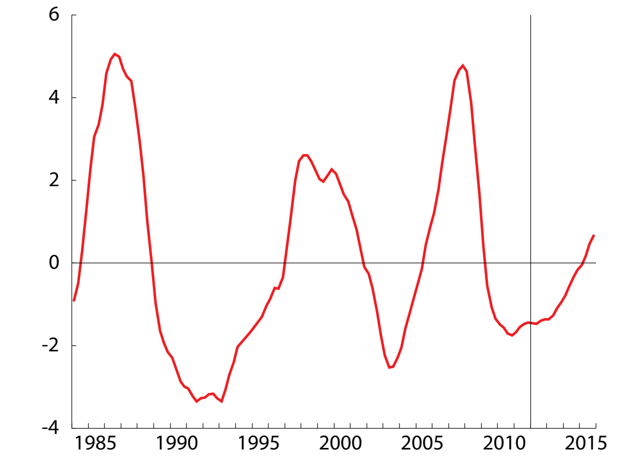
Signs of weakness and uncertainty in the European and global economy have a dampening effect on domestic

Figure 11. **Gross domestic product. Seasonally adjusted volume indices. 2007=100**



Source: Statistics Norway.

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



Source: Statistics Norway.

demand, and this effect feeds through to imports. From 2013 we expect steady and markedly higher growth in imports.

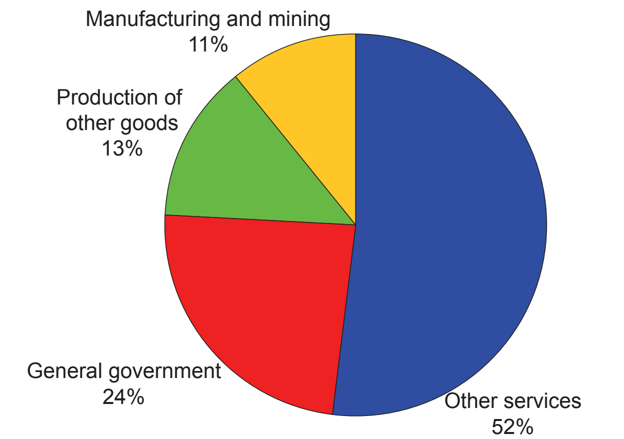
In 2011 imports increased more than exports, but improved terms of trade, largely as a result of higher oil prices, caused the trade surplus to increase by over 20 per cent nonetheless, to just over NOK 377 billion last year. The balance of payments shows a larger net factor income and transfers surplus in 2011 than in 2010, raising the current account surplus by more than NOK 70 billion compared with the previous year. During the projection period, growth in imports is expected to outweigh growth in exports and a smaller terms of trade gain is expected to lower the trade surplus. If net factor income and transfers continue to show a surplus, this will contribute to the current account surplus as a share of GDP remaining at over 11 per cent in the years 2012-2015.

Output

The economic situation has now been very stable for more than two years. Mainland GDP increased by 2.5 per cent as an annualised rate in the fourth quarter of 2011, and the level in 2011 was 2.6 per cent higher overall than the previous year. Mainland GDP has also grown by an annualised 2.6 per cent through the last nine quarters. This is close to our estimate for trend growth in the mainland economy. The sharp cyclical contraction that took hold with the financial crisis in autumn 2008 is accordingly long past. However, the Norwegian economy is still close to the bottom of a moderate recession.

Activity in the different industries has varied widely since the financial crisis. In the fourth quarter of 2010, mainland GDP topped the former peak reached in the second quarter of 2008. Excluding value added in general government, which has been rising for a long time, the GDP level from before the financial crisis was passed in the second quarter of 2011. There are wide

Figure 13. **Shares of Mainland GDP in per cent**



Kilde: Statistisk sentralbyrå.

variations between different industries in this respect. Other services regained this level as far back as the first quarter of 2010. However, in the goods producing industries, where the overall decline was far steeper, value added in the fourth quarter of 2011 remained markedly lower than before the financial crisis.

Business sector development last year strongly reflected the pronounced growth in demand from the petroleum industry, high growth in housing investment, moderate growth in other mainland demand and weak developments in demand from abroad. We also see a continuation of some long-term trends, such as a decline in postal and distribution services, a standstill in agriculture and forestry and a clear increase in aquaculture and some service industries.

The rise in activity in the fourth quarter last year was particularly pronounced in a number of manufacturing industries with substantial deliveries to the petroleum sector. There was also clear growth in construction and a number of market-oriented service sectors such as information and communication, professional, scientific and technical services, commercial services and finance and insurance activities. Production in the primary industries including aquaculture, some commodity-based manufacturing and electricity supply declined. There was also a fall or standstill in some service industries such as retail trade, postal and distribution services and property sales and management.

As an annual average, growth in value added has been very similar among the main groups in the mainland economy: manufacturing and mining, other goods production, general government and other service production.

Growth was lowest, at 2.0 per cent, in manufacturing and mining, which in 2011 accounted for 10.8 per cent of mainland GDP (basic value). Whereas growth in the shipbuilding and engineering industry was around 5 per cent, there was a clear fall in production of metals and in wood and wood products and paper products.

Developments in general government, which accounts for 23.5 per cent of mainland value added, were also weaker than the average, with growth of 2.2 per cent.

Other service production, which accounted for a full 52.2 per cent of mainland GDP in 2011, also increased most, by 2.9 per cent. The largest individual industry, retail trade, accounted alone for almost 10 per cent of mainland GDP, and is accordingly almost equal in size to manufacturing. At 2.4 per cent, growth in retail trade in 2011 was a little lower than the average for services excluding general government. The calculated value of housing services, which account for a bare 6 per cent of mainland GDP, increased at approximately the same pace. The three industries information and communication, professional, scientific and technical services and commercial services accounted for the strongest growth in mainland services. These three industries, which each accounted for about 5 per cent of mainland GDP in 2011, reported growth rates of around 6 per cent last year.

Other goods production, which is dominated by construction, accounted in 2011 for 12.3 per cent of mainland GDP. Despite the fact that construction is highly sensitive to the business cycle, short-term developments in other goods production are often dominated by the other industries, particularly fishing and aquaculture and electricity production. These industries are substantially influenced by naturally occurring factors, whereas normal cyclical factors have little influence on developments. In 2011 the increase in value added in these goods producing industries was 2.6 per cent. The strongest growth in this group was reported for fishing and aquaculture and construction.

Moving offshore, there was a clear fall in oil and gas extraction industry of no less than an annualised 5.6 per cent. A marked decline was also recorded for pipeline transport, whereas there was very strong growth in service activities incidental to oil and gas of a full 18.8 per cent and in shipping of just over 10 per cent. Since the petroleum production industry accounts for over 20 per cent of GDP in terms of market value, these developments strongly affect overall GDP growth, which was therefore only 1.6 per cent in 2011.

In the short term we foresee no strong new cyclical impulses. Growth this year and next therefore appears unlikely to differ very much from last year's. Mainland demand growth will shift more towards consumption, which may stimulate a number of service industries. Petroleum-related activities will probably continue to grow steadily, while many export-oriented industries will continue to struggle as a result of the weak global economic situation.

In the course of 2012 we expect that international growth will begin to pick up and that growth in mainland demand will also increase. The positive growth impulses are likely to be countered by slower growth in demand from the petroleum industry, and by the fact that much of the higher mainland demand will be met by increased imports. We nevertheless expect that a moderate cyclical upturn will be initiated.

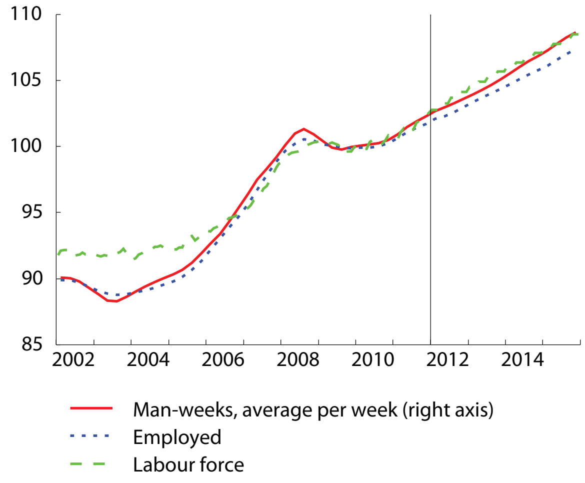
Many of the positive growth impulses will be amplified with time. This applies in particular to international developments. The economic recovery will therefore be somewhat more pronounced in 2014 and 2015, with mainland GDP growth of 3.4 per cent in both years. In 2015 the Norwegian economy may have slightly over normal capacity utilisation, and thereby leave 6 years of Mainland GDP level below trend behind.

Labour market

The positive developments in employment in the second half of 2010 continued in 2011. The average number of persons employed in 2011 was 2.6 million, an increase of about 36 000 persons, or 1.4 per cent, compared with the previous year. Growth in 2011 was moderate compared with the years prior to the financial crisis. The employment growth of 4.1 per cent in 2007 was admittedly higher than it had been for 40 years, and represented 100 000 persons.

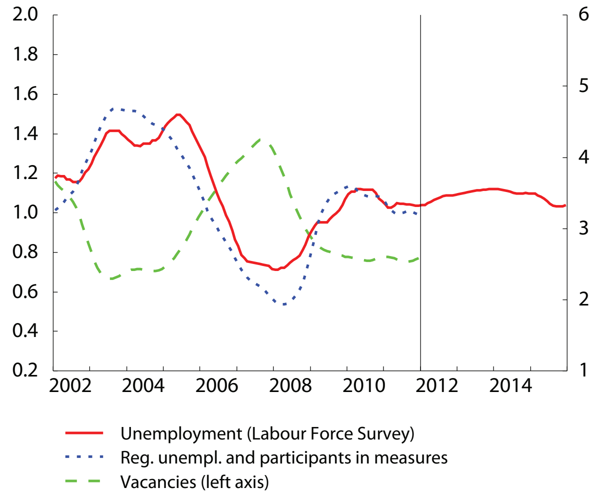
There were large differences in the employment growth between industries in the previous year. Important labour-intensive industries such as construction, retail trade and some manufacturing segments that supply the domestic market reported positive growth. The level of employment in these industries remained at a lower level than before the financial crisis, however. Manufacturing employment fell by 0.5 per cent overall, partly as a result of a 2.3 per cent decline in employment in the food industry, and of 1.7 per cent and 2.1 per cent in the wood, wood products and paper industry and the metals production industry, respectively. The level of employment in these industries is still lower than before the financial crisis. General government employment increased by 1.8 per cent last year.

Figure 14. **Labour force. employment and number of man-hours. Seasonally adjusted and smoothed indices. 2007=100**



Source: Statistics Norway.

Figure 15. **Unemployment and number of vacancies. Per cent of labour force. Seasonally adjusted and smoothed**



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

According to seasonally adjusted QNA figures, the fall in employment came to a halt in the second quarter of 2010 and increased somewhat through the second half of the year. Growth in employment through 2011 was evenly distributed through the year, with the exception of somewhat higher employment growth in the third quarter. Industries such as fishing and aquaculture, manufacturing and mining, construction and general government reported particularly strong employment growth in the third quarter. However, of these, construction and general government were the only industries with positive growth also in the fourth quarter of 2011. Petroleum refinement, chemicals and pharmaceuticals, production of metal goods, electrical equipment and machinery, shipbuilding and other transport equipment, as well as repair and installation of machinery and equipment, reported positive growth last year. Statistics Norway's business sentiment survey shows that in the fourth quarter of 2011 industrial leaders saw signs of major differences in different segments of industry in the near term. According to the survey, producers of capital goods foresee high employment growth, producers of consumer goods moderate growth, while producers of manufacturing inputs expect falling employment.

According to the QNA, there was slightly higher growth in the number of hours worked than in the number employed in 2011. However, growth was strongest in the second and third quarters. According to statistics from the Norwegian Labour and Welfare Administration (NAV), the decline in the number laid off contributed to raising the growth in hours worked in 2011. The number of both fully and partially laid off persons declined during this period. During the first three quarters of last year, the average sickness absence as a percentage of employees' contractual man-days was at about the same level as in 2010, and thus probably had little effect on the number of hours worked. Sickness absence was 6.6 per cent in the third quarter, which is lower than in the third quarter of 2010, but in the first half of 2011 sickness absence was higher than in the same period in 2010. Sickness absence through the year (not seasonally adjusted) fell from 7.3 per cent in the first quarter of 2011 to 6.6 per cent in the third quarter of 2011.

The unemployment rate increased in the wake of the financial crisis. Measured by the Labour Force Survey (LFS), it peaked at 3.6 per cent in the fourth quarter of 2010, two quarters after the fall in employment came to a halt. Since then, unemployment has fallen and remained relatively stable around the average of 3.3 per cent for 2011. Seasonally adjusted unemployment in the fourth quarter of 2011 was 3.4 per cent.

Figures for registered unemployment from NAV show roughly the same tendency as the LFS unemployment figures. At the end of January 2012, just under 90 000 persons were either on labour market programmes or registered as unemployed. This is less than in the same period last year. The number of persons on ordinary labour market programmes increased from around 14 000 persons in January 2011 to 17 800 persons in January 2012.

From January 2011 to January 2012 there was a decline in registered unemployment for all occupational groups. The largest percentage decline was in the construction sector, where unemployment was reduced by 30 per cent. The fall in engineering and ICT was 24 per cent. Academic occupations, brokers and consultants, agriculture, forestry and fishing, as well as manufacturing, report a fall of from 13 to 15 per cent. The highest numbers of registered unemployed are in manufacturing and construction, in each of which there were about 9 000 unemployed at the end of January 2012. Senior officials and managers have the lowest number of registered unemployed, with 650 persons.

The modestly positive developments in the labour market from the second half of 2010 and through 2011 are

Table 4. **Wages. Percentage growth compared with previous year**

	Annual earnings, full-time equivalents			Wages per hour worked			Labour costs per hour worked		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Total	**4.2**	**3.7**	**4.3**	**4.6**	**3.0**	**4.1**	**4.4**	**3.0**	**4.3**
Production of oil and gas, incl. services	9.5	2.3	4.9	7.7	1.9	5.1	7.9	1.9	5.1
Mainland Norway	4.1	3.7	4.2	4.5	2.9	4.1	4.3	2.9	4.3
Manufacturing and mining	5.2	3.7	4.3	6.5	2.4	4.3	4.4	2.4	4.3
Other goods production	4.8	2.6	3.5	4.5	1.8	3.2	4.0	1.8	3.2
Primary industries	4.3	4.0	4.5	4.5	3.0	4.8	4.4	2.9	4.7
Electricity supply	5.9	3.1	4.4	6.0	2.2	4.4	4.0	2.2	4.4
Construction	4.9	2.5	3.2	4.5	1.8	2.9	4.1	1.8	2.8
Service industries excl. general government	3.4	3.8	4.4	3.7	3.0	4.1	3.7	3.0	4.1
Retail trade	3.1	3.3	3.8	3.4	2.4	2.8	3.4	2.4	2.8
Transport and communications	3.6	2.9	3.9	4.0	2.1	3.8	4.4	2.1	3.9
Finance and insurance	-0.7	6.7	7.0	0.1	6.0	7.0	0.8	6.0	7.0
Other services	3.8	3.7	4.5	4.0	3.0	4.5	3.9	3.0	4.5
General governmentt	4.6	4.0	4.2	4.9	3.3	4.3	4.9	3.3	4.8
Central government	5.2	4.4	4.1	5.5	3.7	4.2	5.0	3.6	5.4
Local government	4.2	3.8	4.3	4.5	3.1	4.4	4.9	3.0	4.4

Source: Statistics Norway

also illustrated by the fact that the number of vacancies announced in the media or reported to NAV increased somewhat during the same period.

NAV regards unemployment with a duration of 26 weeks or longer as long-term unemployment. There are wide variations across countries when it comes to the number of long-term unemployed as a share of total unemployment. Norway, Sweden and the USA are examples of countries with a low percentage of long-term unemployed, while many European countries have a higher share. This can be partly explained by a lower through-flow of persons in and out of the unemployment group. The registered figures for long-term unemployed as a share of the labour force in Norway may be somewhat underestimated, because persons who alternate between labour market programmes and unemployment may appear as short-term unemployed in the statistics. The long-term unemployed may lack qualifications that are in demand in the labour market to a greater extent than the short-term unemployed. A decline in the number of long-term unemployed may therefore indicate a general improvement in opportunities for securing work in the near term. From January 2011 to January 2012, the number of unemployed in groups of all duration was reduced, but the relatively largest decline was seen among the long-term unemployed. Thus a reduction in the number of long-term unemployed may point towards low unemployment in the period ahead.

According to the LFS, there was an increase in the labour force (total of employed and unemployed) of 12 000 in 2010 and of 27 000 in 2011. Developments in the labour force are influenced by developments in demographic factors such as changes in population size and composition, but also by changes in the labour force participation of various groups. Labour force participation, measured as the labour force as a percentage of the population, remained relatively stable at just over 71 per cent in both 2010 and 2011. However, labour force participation has fallen somewhat for men of all age groups. This means that the total number of persons in each age group has increased more than the labour supply in this group. The labour force participation of women aged 55-74 has increased somewhat. Overall, however, labour force participation is at a lower level than before the financial crisis.

The lower investment and production growth in the export industries will imply a low demand for labour in these industries in the near term. On the other hand, increased demand from the petroleum sector and high domestic demand will contribute to solid growth in shipping, other transport equipment and the food industry. There is therefore a favourable employment outlook for about a third of all manufacturing employment. Construction, retail trade and repair of motor vehicles are largely influenced by domestic demand, and these major employment industries also have a favourable outlook during the projection period.

We assume that the relatively high growth in the Norwegian economy that is taking place during a global downturn will lead to high inward migration and a strong increase in the labour force in the years ahead. We project LFS unemployment rate at 3.4 per cent this year, and that it will stabilise at this level through the projection period on account of the increased labour supply. We expect employment growth of 1.1 per cent this year, and that it will remain stable at around 1.4 per cent for the remainder of the projection period.

Wages

Growth in annual earnings for full-time equivalents for all employees was 4.3 per cent in 2011. This is higher than in 2010, when annual earnings rose by 3.7 per cent, and approximately the same as in 2009. The

Table 5. **Average wages for the overall economy. Growth on previous year in per cent, differences in growth and estimated contributions in percentage points**

	2009	2010	2011
Wages per hour worked	4.6	3.0	4.1
Annual earnings, full-time equivalents	4.2	3.7	4.3
Difference	0.4	-0.7	-0.2
Estimated contribution to the difference due to changes in:			
Number of business days	0.4	-0.4	0.0
Sickness absence	0.0	-0.3	-0.1
Overtime	0.0	0.0	0.0
Contractual weekly working hours for full-time jobs	0.0	0.0	-0.1
Payment in kind	0.0	0.0	0.0
Labour costs per hour worked	4.4	3.0	4.3
Wages per hour worked	4.6	3.0	4.1
Difference	-0.2	0.0	0.2
Estimated contribution to the difference due to changes in:			
Pension costs	-0.2	0.0	0.2
Employer's social insurance contribution	0.0	0.0	0.0

Source: Statistics Norway

upswing in wage growth from 2010 to 2011 reflects slightly higher business sector profitability and somewhat lower unemployment. Broadly speaking, developments in overall annual earnings have nonetheless been relatively stable in recent years. Manufacturing has had a leading role in Norwegian wage formation. For the past two years, overall annual earnings have increased in line with annual earnings in manufacturing, which indicates that the main features of Norwegian wage formation have remained unchanged since the financial crisis.

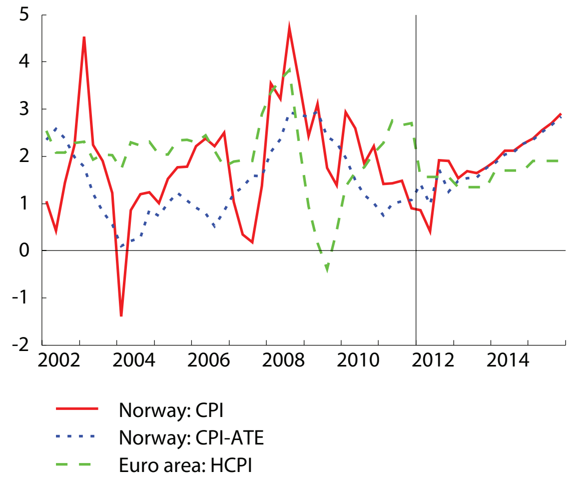
Developments in annual earnings for full-time equivalents have varied quite considerably in some industries. Wage growth depends on a number of factors, including the profitability of a given industry and how difficult it is for the industry to find relevant labour. The profitability of some service industries was hit hard by the financial crisis, and growth in annual earnings in these industries was only 3.4 per cent overall in 2009. Since then, developments in this sector of the economy have been generally good and wage growth has picked up. Annual earnings for full time equivalents therefore grew a little more strongly than overall annual earnings last year. This tendency is particularly evident in finance and insurance activities. Wage growth in this industry is closely linked to profitability, since bonus schemes account for a large share of disbursed wages. During the financial crisis, profitability fell sharply, and in 2009 wage growth was thus negative. Activity in the industry has improved now, and last year annual earnings for finance and insurance employees rose by a full 7 per cent.

Developments in annual earnings for full time equivalents are not directly affected by factors such as overtime, sickness absence and changes in contractual working hours per man-year. These factors affect wages per hour worked, however; see Tables 2.4 and 2.5. Annual variations in the number of business days also contribute to developments in wages per hour worked differing from annual earnings for full-time equivalents. Growth in wages measured in this way was a little lower than growth in annual earnings for full-time equivalents in 2011. This can be attributed to somewhat higher contractual working hours and a decline in sickness absence, both of which contributed to pushing down growth in hourly wages by 0.1 percentage point. In 2010, hourly wages increased substantially less than annual earnings, which can be attributed to the fact that there was one more business day than in 2009. Lower sickness absence helped to further reduce the rise in hourly wages. Table 2.5 also shows growth in labour costs per hour. This differs from wages per hour worked in that employer's contribution to social insurance and pension premiums is also included in this wage concept. Growth in labour costs per hour worked for employees as a whole was a little higher than growth in wages per hour worked, due to the fact that general government pension costs increased considerably in 2011.

Developments in productivity and in prices for products manufactured in Norway are important factors behind business sector profitability. Following a relatively sharp fall in labour productivity in 2008 and 2009, productivity increased weakly in 2010 and 2011, when value added per hour worked in mainland industries rose by 0.9 and 1.1 per cent, respectively. Prices, measured by the GDP deflator for these industries, have developed favourably, rising 3.9 per cent and 2.4 per cent in 2010 and 2011, respectively. We do not envisage any major widespread improvement in business sector profitability in the near term. The internationally exposed manufacturing sector in particular is under pressure.

Manufacturing activity has only grown moderately in recent years, and according to our projections, the level of manufacturing production in 2015 will remain below the level in 2008. The major trade union federations are therefore not expected to present high demands at the upcoming wage settlement, which is a main settlement. The settlement will probably take place union by union, as several unions favour this settlement form. This means that the Norwegian United Federation of Trade Unions (Fellesforbundet) will negotiate first, in line with the so-called frontfags-modell whereby specific industries traditionally take the lead in the negotiations. Thus the internationally exposed business sector will provide the framework for wage growth in the other settlements. Only when Fellesforbundet has completed negotiations will the other trade unions and employers' associations – both inside and outside the spheres of the Norwegian Confederation of Trade Unions (LO) and the Confederation of Norwegian Enterprise (NHO)

Figure 16. **Consumer price indices. Percentage growth from the same quarter previous year**



Source: Statistics Norway.

– start negotiations. Fellesforbundet demands prior to this year's wage negotiations that members' purchasing power is maintained, so that wage increases are at least equivalent to inflation. Demands to give those with low wages a lift are also being submitted.

Our projections imply that production growth will be clearly lower in those segments of the Norwegian business sector that are mainly oriented towards other countries than the rest of the business sector. We assume that both construction and service industries will increase their production going forward. This may be reflected in increased demand for labour in some business segments, and hence demands for higher wage growth. We nevertheless believe that weight is still attached to the interests of internationally exposed industry in the wage negotiations, and that wage growth will be reduced in 2012. Low inflation also contributes, in that nominal wages do not need to rise much for employees to have a real increase in wages.

In 2012 and 2013 we project that annual earnings will increase appreciably less than in 2011, with growth rates of 3.6 and 3.7 per cent, respectively. Wage growth will pick up again in 2014. Manufacturing production will then increase cautiously, while at the same time growth in the rest of the economy will be appreciably higher than it is today. Inflation will also pick up, and overall annual earnings are estimated to grow by just under 5 per cent in 2014 and 2015. According to our projections, real wage growth will be relatively even throughout the period. Average real wage growth is projected at 2.2 per cent, approximately the same as for the past four years.

Inflation

The consumer price index (CPI) rose by 1.2 per cent from 2010 to 2011, a clear decline compared with 2.5 per cent in 2010. With the exceptions of 2004 and 2007, this was the lowest rise in the CPI since 1960. The CPI adjusted for tax changes and excluding energy products (CPI-ATE) rose only 0.9 per cent on average in 2011. Underlying inflation, measured by the CPI-ATE, was low through 2010 and 2011, and the 12-month rise was stable throughout 2011 and into January 2012. The year-on-year rise in the CPI-ATE was 1.3 per cent in January 2012, an increase of 0.3 percentage point compared with November and December 2011.

The CPI increased by 0.5 per cent from January 2011 to January 2012. Real changes in indirect taxes combined with an increase in value-added tax on food and non-alcoholic beverages from 14 to 15 per cent pushed the CPI up by 0.2 percentage point. Price increases for fuel and lubricants and a rise in prices for maintenance and repair of vehicles of 7.1 per cent and 3.9 per cent, respectively, also contributed to the 12-month rise in the CPI. As a result of higher prices for mineral water/soft drinks and coffee in particular, prices for non-alcoholic beverages rose by 8.5 per cent overall. The rise in prices for the main groups of food and non-alcoholic beverages combined rose 2.2 per cent compared with January last year. The price rise for main groups such as alcoholic beverages and tobacco, transport, hotel and restaurant services and other goods and services pushed up inflation during the last twelve months. The rise in prices for these groups ranged from 2.8 to 3.5 per cent. The 12-month rise in prices was dampened by a sharp fall in electricity prices, including grid rent, of as much as 28.3 per cent from January 2011 to January 2012. Prices for postal and telecommunication services and for cultural and leisure activities edged down by 0.4 per cent, also contributing to the low inflation. Imported consumer goods have a weighting of about 25 per cent in the CPI measured by supplier sector, and prices for those goods dipped 0.2 per cent overall compared with January 2011.

Norway is a small, open economy, and our imports of goods and services account for over 30 per cent of GDP excluding indirect taxes. Changes in prices for imported goods and services strongly affect the domestic inflationary impulses, whether the imports are used as inputs for domestic production or delivered in semi-processed form directly to consumers. The import-weighted krone exchange rate strenghened by 3.8 per cent from 2009 to 2010, and by a further 2.4 per cent from 2010 to 2011. As a result of exchange rate movements, the CPI reflected the effects in both 2010 and 2011 of low and in some cases negative changes in prices for imported consumer goods. Prices for imported consumer goods with a CPI weight of about 25 per cent fell by 0.8 per cent annually in both the last two years. The price fall from 2010 to 2011 was particularly large for audiovisual and telecommunications equipment, where prices fell 7.2 per cent and 8.6 per cent, respectively.

Price impulses from abroad have not been purely negative in recent years. Some segments of the food industry have experienced rising prices for commodities as a result of developments in food prices internationally. The UN Food Index showed a climb of 22.8 per cent from 2010 to 2011. However, an expected increase in the supply of several products combined with the uncertain global economic situation exerted downward pressure on international food prices from July 2011 to the end of the year. The exception to this development was coffee prices, which remained at a consistently high level in 2011 following a strong rise in commodity prices at the beginning of the year. The agricultural settlement for 2011 was adopted with a framework that in isolation should have resulted in a 0.7 per cent rise in food prices. Whereas a considerable rise in prices for domestically produced food using imported commodities was registered in the CPI, a slight decline in prices for domestically produced food using Norwegian commodities was registered from 2010 to 2011. The CPI shows an overall decline in food prices of 1.2 per cent from 2010 to 2011, despite the fact that prices for fish, both gadiform and pelagic, from traditional fishing increased substantially compared with 2010. According to the producer price index (PPI) producer prices from the food industry to the domestic market increased by 4.1 per cent from 2010 to 2011. This may indicate that the margins have narrowed at the dealer stage.

Overall, energy products contributed to pushing up annualised CPI inflation for 2011. Last year prices for fuel and lubricants made an important contribution to consumer price inflation, rising by almost 10 per cent. Electricity prices, including grid rent, fell by 4.5 per cent. The annual rise in the CPI excluding energy products (CPI-AE) accordingly ended up at 1.1 per cent in 2011, 0.2 percentage point higher than the CPI-ATE. The course of the 12-month rise in the CPI is largely reflected by developments in electricity prices, which surged in December 2010 as a result of cold weather and low reservoir levels. In the first quarter of 2011, electricity prices were far higher than the level in the same period in 2010. As a result of the heavy precipitation through 2011 and mild weather, levels in Norwegian reservoirs in the autumn and winter of 2011-2012 were far higher than normal for the time of year. This is one reason why electricity prices fell dramatically. In December 2011 and January 2012 electricity prices including grid rent fell by over 28 per cent compared with the same month the previous year. This helps to explain why the 12-month rise in the CPI fell from 1.2 percent in November to 0.2 per cent in December 2011, and only rose 0.5 per cent in January 2012.

Prices for services as a whole contributed to pushing up the annual rise in the CPI, but the rise was lower than it has been in recent years. Movements in prices for services are more strongly influenced by wage developments than prices for goods. Prices for hotel and restaurant services and other goods and services rose by 2.9 and 2.8 per cent, respectively. Other important contributors to pushing up average price inflation in 2011 were actual and imputed rent, which increased by 2.3 and 2.0 per cent, respectively, from 2010 to 2011.

Low temperatures in the Nordic countries and reduced nuclear power production in Sweden have led to a sharp rse in spot prices for electricity in February. Developments in the Nordic forward contracts indicate that this upswing is of a temporary nature, however. The Norwegian Water Resources and Energy Directorate (NVE) sets the framework conditions for the grid rent that can be charged on the basis of developments in the grid companies' costs. Figures obtained by NVE from the grid companies show that grid rent including indirect taxes has been reduced by 3.6 per cent from 2011 to 2012. A green electricity certificate scheme was introduced with effect from 1 January 2012. This is a subsidy scheme intended to increase power production from renewable sources in Sweden and Norway by 26.4 TWh by 2020, with 13.2 TWh from each country. Producers of renewable energy are awarded green certificates for the renewable energy they produce. The power suppliers buy the stipulated share of certificates and pass the costs on to the electricity customers. The consumers' costs in connection with the scheme depend on the amount of developed power and the price of electricity certificates in the market, and will gradually increase up to 2020. The scheme is expected to entail a premium of 0.75 øre per kWh on prices for power paid by households. We have assumed in the calculation that electricity prices including grid rent and indirect taxes will be lower in 2012 than last year as an annual average. From 2013, electricity prices are expected to rise in pace with general inflation. We forecast that oil prices, measured in kroner, will fall somewhat in the course of the year and then remain fairly stable before picking up in 2015. Prices for petrol and heating oil will fall compared to the prices observed at the beginning of the year in line with developments in oil prices, and then rise somewhat more slowly than general inflation in the years ahead.

We have incorporated in our projections the indirect tax rates adopted by the Storting for 2012. The indirect tax rates for the years 2013–2015 are as usual only adjusted for inflation.

The weak global growth will probably contribute to dampening wage and price inflation among our traditional trading partners in the medium term. We expect the rise in import prices to gather pace from 2014. In our projections, the import-weighted krone exchange rate appreciates by 0.4–0.5 per cent in both 2012 and 2013. It remains unchanged in 2014 and depreciates by 1.2 per cent in 2015.

Given the assumptions for wage developments, productivity growth and global inflation upon which we have based our projections, the CPI will rise by 1.3 per cent in 2012. Higher wage growth and higher prices internationally will push CPI inflation up to 2.1 per cent in 2014 and 2.6 per cent in 2015. The rise in the CPI-ATE will closely parallel CPI inflation in the years ahead according to our projections.

Table 6. **National accounts: Final expenditure and gross domestic product. At constant 2009 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2010	2011	10.1	10.2	10.3	10.4	11.1	11.2	11.3	11.4
Final consumption expenditure of households and NPISHs	1 065 455	1 089 030	264 402	262 938	266 598	269 770	270 287	271 680	272 525	274 132
Household final consumption expenditure	1 016 238	1 039 658	252 217	250 623	254 342	257 341	257 856	259 398	260 221	261 806
Goods	516 722	523 313	128 211	126 899	128 857	130 903	130 100	130 744	130 664	131 143
Services	462 851	474 857	114 831	115 112	116 140	116 780	117 633	118 161	119 116	120 246
Direct purchases abroad by resident households	64 407	69 714	15 974	15 635	16 293	16 591	16 932	17 518	17 557	17 672
Direct purchases by non-residents	-27 742	-28 226	-6 799	-7 023	-6 948	-6 933	-6 809	-7 026	-7 116	-7 255
Final consumption expenditure of NPISHs	49 218	49 372	12 184	12 315	12 255	12 429	12 431	12 283	12 304	12 326
Final consumption expenditure of general government	539 925	548 246	134 640	135 087	134 811	135 308	134 904	137 045	137 998	138 657
Final consumption expenditure of central government	274 466	277 645	68 353	68 628	68 879	68 563	68 263	69 102	69 928	70 489
Central government. civilian	240 019	243 542	59 659	59 984	60 369	59 972	59 853	60 621	61 298	61 911
Central government. defence	34 446	34 103	8 694	8 644	8 510	8 591	8 409	8 481	8 630	8 578
Final consumption expenditure of local government	265 459	270 601	66 287	66 459	65 932	66 746	66 641	67 943	68 069	68 168
Gross fixed capital formation	488 870	522 662	117 469	124 735	119 692	126 386	128 688	128 844	131 919	132 963
Extraction and transport via pipelines	122 370	136 378	30 465	31 971	28 346	31 689	32 582	33 429	35 989	34 397
Service activities incidential to extraction	1 240	286	423	217	317	229	-517	342	738	-343
Ocean transport	24 836	17 571	6 069	7 018	6 249	5 408	5 282	4 121	4 184	3 938
Mainland Norway	340 423	368 427	80 513	85 530	84 780	89 060	91 341	90 953	91 008	94 970
Mainland Norway excluding general government	261 091	288 093	62 094	65 547	65 031	68 102	70 312	72 380	71 447	74 077
Industries	167 865	174 343	39 494	43 225	41 388	43 589	43 348	43 795	42 608	44 492
Manufacturing and mining	20 060	20 091	5 303	5 447	4 564	4 837	4 951	5 118	5 359	4 656
Production of other goods	39 916	43 874	9 484	10 049	9 819	10 436	11 037	11 008	10 752	10 973
Services	107 889	110 377	24 707	27 728	27 006	28 316	27 361	27 669	26 497	28 863
Dwellings (households)	93 226	113 750	22 600	22 323	23 643	24 513	26 964	28 585	28 839	29 585
General government	79 332	80 334	18 419	19 983	19 749	20 959	21 029	18 573	19 561	20 893
Changes in stocks and statistical discrepancies	58 542	59 661	10 551	20 689	15 009	13 802	26 065	14 932	5 398	14 354
Gross capital formation	547 412	582 323	128 020	145 424	134 701	140 188	154 753	143 776	137 317	147 317
Final domestic use of goods and services	2 152 792	2 219 599	527 062	543 449	536 109	545 266	559 944	552 502	547 839	560 106
Final demand from Mainland Norway	1 945 804	2 005 703	479 554	483 555	486 188	494 138	496 532	499 678	501 531	507 759
Final demand from general government	619 257	628 580	153 059	155 070	154 559	156 267	155 933	155 618	157 558	159 550
Total exports	945 560	935 047	242 524	237 626	230 214	234 312	231 976	228 457	242 728	232 223
Traditional goods	284 221	282 588	72 199	70 498	71 661	69 828	68 920	72 813	72 092	68 565
Crude oil and natural gas	396 175	378 587	103 292	102 367	93 850	96 157	97 081	89 641	100 349	92 301
Ships. oil platforms and planes	10 167	10 552	4 149	2 210	2 024	1 783	1 736	2 661	3 823	2 333
Services	254 997	263 321	62 885	62 551	62 679	66 544	64 240	63 343	66 464	69 024
Total use of goods and services	3 098 353	3 154 647	769 586	781 076	766 324	779 578	791 921	780 958	790 568	792 329
Total imports	725 811	744 198	175 610	185 603	182 826	181 411	195 441	181 495	184 360	183 338
Traditional goods	431 178	454 275	104 026	109 080	107 475	110 075	113 893	112 927	112 391	114 765
Crude oil and natural gas	11 227	10 415	2 420	3 515	3 126	2 267	4395	2 315	2319	2147
Ships. oil platforms and planes	30 720	37 017	8 059	8 693	8 115	5 735	17 491	6 736	6 990	5 786
Services	252 686	242 491	61 105	64 314	64 110	63 334	59 661	59 516	62 659	60 640
Gross domestic product (market prices)	2 372 542	2 410 449	593 976	595 473	583 498	598 167	596 480	599 464	606 208	608 991
Gross domestic product Mainland Norway (market prices)	1 910 616	1 959 789	473 904	475 567	478 992	481 099	482 815	489 201	492 974	496 068
Petroleum activities and ocean transport	461 926	450 660	120 072	119 906	104 506	117 068	113 665	110 263	113 234	112 923
Mainland Norway (basic prices)	1 639 237	1 681 793	406 542	408 723	410 839	412 601	413 975	420 002	423 283	425 423
Mainland Norway excluding general government	1 253 354	1 287 472	310 408	311 863	314 500	316 103	316 859	321 443	324 171	325 592
Manufacturing and mining	179 219	182 879	43 635	44 548	45 211	45 792	45 443	45 363	45 880	46 333
Production of other goods	201 957	207 260	50 723	49 548	49 921	51 175	50 036	51 819	53 259	52 404
Services incl. dwellings (households)	872 178	897 333	216 050	217 767	219 368	219 136	221 380	224 260	225 032	226 854
General government	385 884	394 321	96 134	96 860	96 339	96 497	97 116	98 559	99 112	99 831
Taxes and subsidies products	271 379	277 995	67 362	66 844	68 153	68 498	68 840	69 199	69 691	70 645

Source: Statistics Norway.

Table 7. **National accounts: Final expenditure and gross domestic product. At constant 2009 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2010	2011	10.1	10.2	10.3	10.4	11.1	11.2	11.3	11.4
Final consumption expenditure of households and NPISHs	3.7	2.2	0.9	-0.6	1.4	1.2	0.2	0.5	0.3	0.6
Household final consumption expenditure	3.8	2.3	1.1	-0.6	1.5	1.2	0.2	0.6	0.3	0.6
Goods	4.2	1.3	0.8	-1	1.5	1.6	-0.6	0.5	-0.1	0.4
Services	2.3	2.6	0.8	0.2	0.9	0.6	0.7	0.4	0.8	0.9
Direct purchases abroad by resident households	12.3	8.2	4.8	-2.1	4.2	1.8	2.1	3.5	0.2	0.7
Direct purchases by non-residents	6.2	1.7	0.6	3.3	-1.1	-0.2	-1.8	3.2	1.3	2
Final consumption expenditure of NPISHs	1.5	0.3	-1.9	1.1	-0.5	1.4	0	-1.2	0.2	0.2
Final consumption expenditure of general government	1.7	1.5	1.2	0.3	-0.2	0.4	-0.3	1.6	0.7	0.5
Final consumption expenditure of central government	-0.4	1.2	-1.2	0.4	0.4	-0.5	-0.4	1.2	1.2	0.8
Central government. civilian	0	1.5	-1.6	0.5	0.6	-0.7	-0.2	1.3	1.1	1
Central government. defence	-3.1	-1	1.4	-0.6	-1.6	1	-2.1	0.9	1.8	-0.6
Final consumption expenditure of local government	4	1.9	3.7	0.3	-0.8	1.2	-0.2	2	0.2	0.1
Gross fixed capital formation	-5.2	6.9	-10.5	6.2	-4	5.6	1.8	0.1	2.4	0.8
Extraction and transport via pipelines	-9	11.4	-6.2	4.9	-11.3	11.8	2.8	2.6	7.7	-4.4
Service activities incidential to extraction	-87.2	-76.9	-90.8	-48.8	46.2	-27.7	-325.3	-166.1	116	-146.4
Ocean transport	11.7	-29.3	3	15.6	-11	-13.5	-2.3	-22	1.5	-5.9
Mainland Norway	-2.5	8.2	-8.8	6.2	-0.9	5	2.6	-0.4	0.1	4.4
Mainland Norway excluding general government	-0.9	10.3	-1.7	5.6	-0.8	4.7	3.2	2.9	-1.3	3.7
Industries	-0.2	3.9	-0.6	9.4	-4.2	5.3	-0.6	1	-2.7	4.4
Manufacturing and mining	-21.6	0.2	3.8	2.7	-16.2	6	2.3	3.4	4.7	-13.1
Production of other goods	7	9.9	5.2	6	-2.3	6.3	5.8	-0.3	-2.3	2.1
Services	2.5	2.3	-3.5	12.2	-2.6	4.9	-3.4	1.1	-4.2	8.9
Dwellings (households)	-2.2	22	-3.8	-1.2	5.9	3.7	10	6	0.9	2.6
General government	-7.5	1.3	-26.6	8.5	-1.2	6.1	0.3	-11.7	5.3	6.8
Changes in stocks and statistical discrepancies	320.7	1.9	-406.2	96.1	-27.5	-8	88.9	-42.7	-63.9	165.9
Gross capital formation	3.4	6.4	0.2	13.6	-7.4	4.1	10.4	-7.1	-4.5	7.3
Final domestic use of goods and services	3.1	3.1	0.8	3.1	-1.4	1.7	2.7	-1.3	-0.8	2.2
Final demand from Mainland Norway	2	3.1	-0.8	0.8	0.5	1.6	0.5	0.6	0.4	1.2
Final demand from general government	0.5	1.5	-3.2	1.3	-0.3	1.1	-0.2	-0.2	1.2	1.3
Total exports	1.8	-1.1	3.8	-2	-3.1	1.8	-1	-1.5	6.2	-4.3
Traditional goods	2.5	-0.6	0.8	-2.4	1.6	-2.6	-1.3	5.6	-1	-4.9
Crude oil and natural gas	-4.8	-4.4	1.7	-0.9	-8.3	2.5	1	-7.7	11.9	-8
Ships. oil platforms and planes	-14.4	3.8	79.7	-46.7	-8.4	-11.9	-2.6	53.3	43.7	-39
Services	13.8	3.3	8.3	-0.5	0.2	6.2	-3.5	-1.4	4.9	3.9
Total use of goods and services	2.7	1.8	1.7	1.5	-1.9	1.7	1.6	-1.4	1.2	0.2
Total imports	9.9	2.5	4.7	5.7	-1.5	-0.8	7.7	-7.1	1.6	-0.6
Traditional goods	8.1	5.4	4.9	4.9	-1.5	2.4	3.5	-0.8	-0.5	2.1
Crude oil and natural gas	-17.7	-7.2	-26	45.2	-11.1	-27.5	93.9	-47.3	0.2	-7.4
Ships. oil platforms and planes	-2.9	20.5	-22	7.9	-6.7	-29.3	205	-61.5	3.8	-17.2
Services	16.8	-4	11.1	5.3	-0.3	-1.2	-5.8	-0.2	5.3	-3.2
Gross domestic product (market prices)	0.7	1.6	0.9	0.3	-2	2.5	-0.3	0.5	1.1	0.5
Gross domestic product Mainland Norway (market prices)	1.9	2.6	0.5	0.4	0.7	0.4	0.4	1.3	0.8	0.6
Petroleum activities and ocean transport	-3.9	-2.4	2.3	-0.1	-12.8	12	-2.9	-3	2.7	-0.3
Mainland Norway (basic prices)	1.5	2.6	0.4	0.5	0.5	0.4	0.3	1.5	0.8	0.5
Mainland Norway excluding general government	1.5	2.7	0.4	0.5	0.8	0.5	0.2	1.4	0.8	0.4
Manufacturing and mining	2.4	2	-1	2.1	1.5	1.3	-0.8	-0.2	1.1	1
Production of other goods	0.6	2.6	-0.1	-2.3	0.8	2.5	-2.2	3.6	2.8	-1.6
Services incl. dwellings (households)	1.6	2.9	0.8	0.8	0.7	-0.1	1	1.3	0.3	0.8
General government	1.5	2.2	0.4	0.8	-0.5	0.2	0.6	1.5	0.6	0.7
Taxes and subsidies products	3.9	2.4	1.4	-0.8	2	0.5	0.5	0.5	0.7	1.4

Source: Statistics Norway.

Table 8. **National accounts: Final expenditure and gross domestic product. Price indices. 2009=100**

	Unadjusted		Seasonally adjusted							
	2010	2011	10.1	10.2	10.3	10.4	11.1	11.2	11.3	11.4
Final consumption expenditure of households and NPISHs	102.1	103.4	102.7	101.7	102.1	102.6	103	103.7	103.7	103.4
Final consumption expenditure of general government	103	106.7	101.8	102.3	103.9	104.3	106	106.3	106.9	107.7
Gross fixed capital formation	102.1	105.4	101.4	102.4	101.7	102.8	104.7	104.9	105.4	106.3
Mainland Norway	102.5	106	102.2	102	102.2	103.6	105.4	105.7	106.5	106.1
Final domestic use of goods and services	102.7	105.1	102.7	103.1	103.3	102.4	106	105.6	104.8	105.1
Final demand from Mainland Norway	102.4	104.8	102.4	101.9	102.6	103.2	104.3	104.8	105.1	105.1
Total exports	109.8	122.1	105.5	107.8	109.6	116.4	119.5	120.3	125	124.6
Traditional goods	105.3	111.8	100.5	105.5	106.2	109.1	113.4	113	111.4	110.1
Total use of goods and services	104.9	110.1	103.6	104.5	105.2	106.6	110	109.9	111	110.8
Total imports	100	102.6	99.4	101.5	101.7	100.1	105.2	103.6	103.7	102.3
Traditional goods	99.4	103.5	97.5	99.9	98.8	101.4	105	103	102.6	103.7
Gross domestic product (market prices)	106.4	112.5	104.8	105.5	106.3	108.6	111.5	111.8	113.3	113.4
Gross domestic product Mainland Norway (market prices)	103.9	106.5	102.9	103.3	104.3	104.8	106.1	106.9	106.6	106.8

Source: Statistics Norway.

Tabell 9. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted							
	2010	2011	10.1	10.2	10.3	10.4	11.1	11.2	11.3	11.4
Final consumption expenditure of households and NPISHs	2.1	1.3	2.6	-1	0.4	0.5	0.4	0.7	0	-0.3
Final consumption expenditure of general government	3	3.6	0.7	0.4	1.6	0.4	1.7	0.3	0.5	0.8
Gross fixed capital formation	2.1	3.2	2.3	1	-0.7	1	1.9	0.1	0.5	0.9
Mainland Norway	2.5	3.4	2.1	-0.2	0.1	1.4	1.8	0.4	0.7	-0.3
Final domestic use of goods and services	2.7	2.4	3.6	0.4	0.2	-0.9	3.5	-0.4	-0.7	0.3
Final demand from Mainland Norway	2.4	2.3	2	-0.4	0.7	0.6	1	0.5	0.3	0
Total exports	9.8	11.2	2.8	2.2	1.7	6.2	2.7	0.7	3.9	-0.3
Traditional goods	5.3	6.2	2.9	5	0.7	2.8	3.9	-0.3	-1.4	-1.1
Total use of goods and services	4.9	5	3.4	0.9	0.6	1.3	3.1	0	1	-0.2
Total imports	0	2.7	3.4	2	0.2	-1.6	5.1	-1.5	0.1	-1.3
Traditional goods	-0.6	4.1	0.3	2.4	-1.1	2.6	3.5	-1.9	-0.4	1
Gross domestic product (market prices)	6.4	5.7	3.4	0.7	0.8	2.1	2.7	0.3	1.3	0.1
Gross domestic product Mainland Norway (market prices)	3.9	2.5	2.1	0.4	1	0.4	1.3	0.7	-0.3	0.2

Source: Statistics Norway..

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

											Forecasts			
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*	2012	2013	2014	2015
Demand and output														
Consumption in households etc.	3.1	3.2	5.4	4.4	5.0	5.4	1.8	0.0	3.7	2.2	3.2	4.0	3.9	4.0
General government consumption	3.1	1.3	1.2	1.4	1.9	2.7	2.7	4.3	1.7	1.5	2.2	2.8	3.1	2.4
Gross fixed investment	-1.1	0.8	11.1	13.5	9.8	11.4	0.2	-7.5	-5.2	6.9	7.2	4.2	5.2	4.6
Extraction and transport via pipelines	-5.4	15.9	10.4	19.2	4.0	6.1	5.2	3.4	-9.0	11.4	14.1	3.4	2.9	2.1
Mainland Norway	2.3	-2.9	10.6	12.2	10.5	13.3	-1.3	-13.2	-2.5	8.2	4.6	4.9	6.2	5.8
Industries	4.0	-11.2	10.6	18.6	15.2	21.9	0.8	-23.1	-0.2	3.9	6.0	4.3	5.8	6.1
Housing	-0.7	1.8	16.3	9.7	4.0	2.7	-9.0	-8.2	-2.2	22.0	6.6	4.8	6.1	6.0
General government	1.7	12.5	3.9	2.0	9.7	8.0	4.5	7.4	-7.5	1.3	-1.1	6.5	7.5	4.5
Demand from Mainland Norway[1]	3.0	1.6	5.1	4.9	5.2	6.3	1.4	-1.6	2.0	3.1	3.2	3.8	4.1	3.9
Stockbuilding[2]	0.2	-0.8	1.6	-0.1	0.9	-0.1	-0.1	-2.1	1.9	0.0	-0.4	0.0	0.0	0.0
Exports	-0.3	-0.1	1.0	0.5	-0.8	1.4	0.1	-4.2	1.8	-1.1	0.5	0.8	1.0	2.3
Crude oil and natural gas	2.4	-0.8	-0.7	-5.0	-6.6	-2.5	-1.0	-2.0	-4.8	-4.4	0.1	0.1	-1.1	0.2
Traditional goods	0.8	3.6	3.5	5.3	6.2	9.2	3.2	-8.0	2.5	-0.6	-2.0	1.3	2.5	3.6
Imports	1.0	1.2	9.7	7.9	9.1	10.0	3.9	-12.5	9.9	2.5	3.5	5.4	5.3	5.1
Traditional goods	3.0	5.6	12.9	8.0	11.6	8.3	0.2	-11.8	8.1	5.4	4.1	5.5	5.8	5.7
Gross domestic product	1.5	1.0	4.0	2.6	2.5	2.7	0.0	-1.7	0.7	1.6	2.2	2.0	2.4	2.7
Mainland Norway	1.4	1.3	4.5	4.4	5.0	5.3	1.5	-1.6	1.9	2.6	2.7	2.8	3.4	3.4
Manufacturing	-0.7	2.9	5.1	3.9	2.6	3.5	3.7	-7.4	2.4	2.0	-0.9	0.0	1.2	1.8
Labour market														
Total hours worked. Mainland Norway	-0.9	-2.1	1.9	1.5	3.3	4.3	3.5	-2.0	0.8	1.5	0.9	1.3	1.8	1.7
Employed persons	0.4	-1.2	0.5	1.3	3.5	4.1	3.2	-0.4	-0.1	1.4	1.1	1.4	1.3	1.4
Labor force[3]	0.7	-0.1	0.3	0.8	1.9	2.5	3.4	0.0	0.5	1.0	1.6	1.6	1.4	1.3
Participation rate (level)[3]	73.5	72.9	72.6	72.4	72.0	72.8	73.9	72.8	71.9	71.5	71.4	71.5	71.4	71.3
Unemployment rate (level)[3]	3.9	4.5	4.5	4.6	3.4	2.5	2.6	3.2	3.6	3.3	3.4	3.5	3.5	3.4
Prices and wages														
Wages per standard man-year	5.7	4.5	3.5	3.3	4.1	5.4	6.3	4.2	3.7	4.3	3.6	3.7	4.4	4.9
Consumer price index (CPI)	1.3	2.5	0.4	1.6	2.3	0.8	3.8	2.1	2.5	1.2	1.3	1.7	2.1	2.6
CPI-ATE[4]	2.3	1.1	0.3	1.0	0.8	1.4	2.6	2.6	1.4	0.9	1.3	1.6	2.1	2.6
Export prices, traditional goods	-9.2	-0.9	8.5	4.3	11.4	2.5	3.0	-6.2	5.3	6.2	-1.4	0.7	2.4	3.8
Import prices, traditional goods	-7.1	0.0	2.7	0.4	4.1	3.7	4.2	-1.8	-0.6	4.1	-1.9	-0.6	1.3	3.0
Housing prices[5]	5.0	1.7	10.1	8.2	13.7	12.6	-1.1	1.9	8.3	8.0	5.5	5.8	5.8	6.7
Income. interest rates and excange rate														
Household real income	8.9	4.6	3.3	7.8	-6.4	6.3	3.9	3.9	3.5	4.0	3.6	3.8	3.7	2.7
Household saving ratio (level)	8.4	9.0	7.0	9.8	-0.5	0.9	3.5	6.8	6.3	8.2	8.4	8.3	8.2	7.0
Money market rate (level)	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	4.7
Lending rate, credit loans (level)[6]	8.5	6.5	4.2	3.9	4.3	5.0	6.8	4.0	3.4	3.6	3.8	4.0	4.6	5.3
Real after-tax lending rate, banks (level)	4.8	2.2	2.5	1.3	0.7	3.3	1.5	1.4	0.9	2.1	2.3	2.1	2.1	2.1
Importweighted krone exchange rate (44 countries)[7]	-8.5	1.3	3.0	-3.9	0.7	-1.8	0.0	3.3	-3.7	-2.4	-0.4	-0.5	0.0	1.2
NOK per euro (level)	7.5	8.0	8.4	8.0	8.1	8.0	8.2	8.7	8.0	7.8	7.6	7.6	7.6	7.7
Current account														
Current balance (bill. NOK)	192.3	195.2	220.6	314.5	357.7	287.4	408.3	254.5	313.6	387.0	426.9	407.4	381.1	371.2
Current balance (per cent of GDP)	13.2	12.3	12.6	16.1	16.4	12.5	16.0	9.7	12.4	14.3	14.8	13.6	12.2	11.2
International indicators														
Exports markets indicator	2.3	2.8	7.7	7.1	9.6	5.6	1.2	-10.6	11	5.5	1.7	3.2	4.5	5.8
Consumer price index, euro-area	2.2	2.1	2.1	2.2	2.2	2.2	3.3	0.3	1.7	2.6	1.6	1.3	1.7	1.9
Money market rate, euro(level)	3.3	2.3	2.1	2.2	3.1	4.3	4.6	1.2	0.8	1.4	1.1	1.3	1.9	2.8
Crude oil price NOK (level)[8]	198	201	255	356	423	422	536	388	484	621	639	627	627	659

[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. Lending rate, banks until 2006.
[7] Increasing index implies depreciation. [8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 14. February.