Economic trends

Economic growth among Norway's trading partners has declined markedly in 2012, and is now very low. Both the majority of European countries and the USA are reporting high and rising unemployment. Many countries are struggling with high sovereign debt and unsustainable budget deficits. Economic growth in emerging economies is also having a negative effect on developments. Fiscal tightening is curbing growth, complicating efforts to bring order to public finances. The indications are that the situation with weak growth will persist for several years to come.

Monetary policy has contributed low nominal and real interest rates to stimulate growth. Central banks are also using unorthodox means to prevent a further deterioration of the economic situation, and in some euro area countries steps are having to be taken to prevent the private banking sector from collapsing. So far, top level political meetings and rescue packages have managed to resolve acute crises, but no permanent solution has yet been found. Political conditions appear to be an obstacle to the implementation of changes that can lead to anything other than short-term solutions, with the result that the situation remains unsound. This is the case on both sides of the Atlantic.

Prices for many commodities and semi-finished goods that are important to traditional Norwegian exports have moved on a weak trend as a result of the global slowdown. An important exception is the price of crude oil which, following a dip in the spring, has picked up again in the course of the summer. This, coupled with new oil and gas discoveries, has contributed to the current spirit of optimism in the Norwegian petroleum sector and has also boosted the upturn in the Norwegian economy through 2011 and into 2012. According to the industry itself, the Norwegian economy will receive further stimuli from increased petroleum sector activity in the immediate future. This will have spillover effects for much of the economic activity in Norway and contribute to high growth in household demand. The segments of the internationally exposed business sector that do not receive positive impulses from these developments, but must instead compete both in weak international markets and booming national factor markets, are experiencing stagnation and in some cases a decline in output and employment. A strong Norwegian krone due to relatively favourable economic developments in Norway makes the situation even more difficult for these companies.

Many of Norway›s trading partners have made cut-backs in public expenditure and raised taxes to improve public finances. Solid public finances have made this unnecessary for Norway. Whereas expansionary fiscal policy contributed substantially to stabilising economic developments in Norway during the financial crisis, this policy has been gradually phased out and become more cyclically neutral as the economic upturn has gathered pace. This trend is expected to continue for the next few years. The result is that it is not the fiscal rule›s 4 per cent path for expected real return on the Government Pension Fund Global that is constraining fiscal policy, but a desire to avoid too strong a cyclical upturn. The fiscal policy of our trading partners does not have this scope for manoeuvre. Cutbacks and tax increases are thus contributing to weaker growth and higher inflation than we have in Norway; see the projections in Box 1.

The low interest rates abroad restrict Norges Bank›s freedom in its setting of interest rates. When a cyclical upturn is well under way, as is the case now in Norway, money market rates would normally be higher and rising. Norwegian inflation is appreciably lower than the inflation target, but there is reason to assume that the relatively low Norwegian inflation will taper off in pace with the upturn in the Norwegian economy. Money market rates and banks› lending rates to households and the business sector can then be expected to increase appreciably. This is expected to happen between 2014 and 2015. Given an approximately cyclically neutral fiscal policy and gradually weakening impulses from the petroleum sector, the Norwegian economic upturn will slow down when interest rates rise. As a result, we now envisage lower growth in the Norwegian economy in the years ahead than we are currently experiencing.

Economic developments in Norway

The Norwegian economic upturn increased in the second quarter of 2012 with mainland economic growth of approximately 4 per cent, calculated as an annual rate. This is substantially higher than estimated trend mainland economic growth, which is just over 2.5 per cent. Since the cyclical trough in the first quarter of 2011, mainland economic growth has hovered around an annualised 4 per cent. Growth in recent quarters has been boosted by an unusually large increase in electricity production, and will not continue at the same pace. On the other hand, the public sector strike contributed to reducing second quarter growth, and there will be a rebound in output in this sector in the current quarter. The cyclical upturn reflects clear growth in market-oriented service production and growth in production of goods other than manufactured goods. The last group includes power production, construction and fish farming - three industries with fairly strong production growth. The growth contributed by public service production has been very moderate as a result of the phasing out of the expansionary fiscal policy of the crisis year of 2009.

Table 1. **Macroeconomic indicators 2010-2012. Growth from previous period unless otherwise noted. Per cent**

	2010*	2011*	Seasonally adjusted			
			11:3	11:4	12:1	12:2
Demand and output						
Consumption in households etc.	3.7	2.4	0.5	0.8	1.1	1.0
General government consumption	1.7	1.5	0.6	0.3	-0.3	1.0
Gross fixed investment	-5.2	6.4	8.9	1.6	-0.2	2.7
Mainland Norway	-2.5	8.0	2.6	2.7	-1.9	2.6
Extraction and transport via pipelines	-9.0	13.4	8.8	0.2	3.6	3.4
Final domestic demand from Mainland Norway[1]	2.0	3.2	0.9	1.0	0.1	1.3
Exports	1.8	-1.4	3.9	-2.8	2.0	1.3
Crude oil and natural gas	-4.8	-6.2	10.4	-6.5	5.7	1.7
Traditional goods	2.5	-0.4	-0.3	-4.1	3.2	0.6
Imports	9.9	3.5	3.9	3.5	-2.1	-0.1
Traditional goods	8.1	5.3	1.7	1.9	-0.4	-0.7
Gross domestic product	0.7	1.4	1.5	0.5	1.5	1.2
Mainland Norway	1.9	2.4	0.7	0.7	1.2	1.0
Labour market						
Man-hours worked	0.8	1.6	1.1	0.6	0.6	0.3
Employed persons	-0.1	1.4	0.9	0.4	0.6	0.7
Labour force[2]	0.5	1.0	1.0	0.4	0.7	0.3
Unemployment rate, level[2]	3.6	3.3	3.2	3.4	3.2	3.0
Prices and wages						
Annual earings	3.7	4.2	..	..	..	..
Consumer price index (CPI)[3]	2.5	1.2	1.5	0.9	0.8	0.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	1.4	0.9	1.1	1.1	1.4	1.1
Export prices, traditional goods	5.3	6.2	-1.5	-0.7	-0.6	-1.8
Import prices, traditional goods	-0.6	4.1	-0.1	0.9	0.2	-0.9
Balance of payment						
Current balance, bill. NOK	313.6	395.9	100.0	109.3	145.9	90.3
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.5	2.9	3.0	3.1	2.6	2.3
Lending rate, credit loans[4]	3.4	3.6	3.6	3.9	4.0	3.9
Crude oil price NOK[5]	484	621	617	627	684	641
Importweighted krone exchange rate, 44 countries, 1995=100	90.3	88.1	87.4	87.9	87.6	87.6
NOK per euro	8.01	7.79	7.77	7.76	7.59	7.56

[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.

On the demand side, the main contributions so far to the cyclical upturn have been growth in household consumption and housing demand and investment in petroleum activities. Growth in household demand has pushed up growth in private services and residential construction. These are to a large extent labour-intensive industries in which production growth implies high employment growth. As a result, household real income has risen and unemployment has fallen somewhat. This effect, coupled with population growth - due to high inward labour migration - and low interest rates has boosted housing demand and led to a strong rise in house prices. Petroleum investment bottomed out as far back as in 2010, and has since increased by almost 25 per cent. This investment growth implies clear positive impulses to sectors in the Norwegian economy other than those normally referred to as petroleum-related industries. In Box 1 we have calculated the effect of the increased petroleum investment on the Norwegian economy.

The demand components that since early 2011 have contributed to dampening growth in the Norwegian economy compared with trend growth are public purchases of goods and services, mainland business sector investment and exports. The latter have increased little as a result of a weak global economic situation, a strong krone and a steep rise in domestic costs. This has led to slow growth in some manufacturing segments, and to a two-track Norwegian economy. Although the Norwegian economy has been in an upturn for five consecutive quarters, we have not yet seen any pronounced cyclical turnaround in mainland business investment. Nor do we expect this investment to increase as strongly as it normally does during a cyclical upturn. As mentioned, fiscal policy has helped to curb growth following the strong stimulus in 2009. This has contributed to a moderate increase in general government value added over the past year.

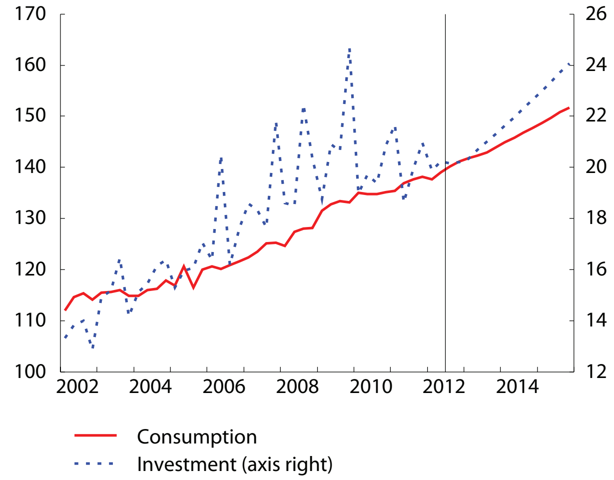
Because of the clear cyclical upturn, employment growth has also been fairly high and the number of full-time equivalents (FTEs) in particular has increased substantially. The second quarter of this year is an exception, but this is partly due to the public sector strike. High immigration has caused the labour force to expand rapidly, resulting in little change in unemployment. Unemployment has fallen somewhat recently, and the unemployment rate according to the Labour Force Survey is projected to be 3.1 per cent in 2012. Productivity growth in the economy as a whole has not been very strong thus far in the upturn. There may be many reasons for this, but weak development in mainland business investment, which results in moderate growth in capital stocks per FTE, is a contributory factor. We assume that growth in labour productivity will increase somewhat in the time ahead, reflecting stronger growth in business investment.

Inflation measured by the consumer price index (CPI) has been very low for almost a year. Inflation in 2012 is expected to be an annualised 0.9 per cent. The decline in electricity prices is an important factor, but the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) is also low and stable. CPI-ATE inflation for 2012 is expected to be 1.3 per cent, compared with 0.9 per cent the previous year and 1.4 per cent in 2010. One reason for the low inflation is the weak global economic situation, which is curbing the rise in import prices. The krone has also appreciated considerably following its weakening from 2008 to 2009, which has been a further constraint on import price inflation. Nominal wage growth has been fairly stable at around 4 per cent for several years, but the increased immigration to Norway has helped to curb cost inflation in some consumer-oriented industries. A fairly tight labour market has pointed towards high real wage growth, while low general inflation has had the effect of moderating nominal growth. This is a tendency that we expect to persist.

The weak global economic situation affects developments in the Norwegian economy in many ways. Developments in exports and most commodity prices are weak. As a result, large segments of the Norwegian export industry are experiencing poor profitability and sluggish growth. Developments in fish farming have improved slightly now that prices have picked up somewhat following a sharp fall in summer 2011. Oil prices remain at a very high level. When account is taken of the global economic situation, it appears likely that this may be due to political uncertainty associated with the supply side of the market. It is difficult to make predictions about developments in the political factors that affect the oil market. We assume that both supply and demand factors point to nominal oil prices falling from the current high level between now and next summer, but not so much as to influence decisions associated with petroleum investment in Norway over the next few years. We believe that petroleum investment will remain high for several years to come. Recent findings on the Norwegian continental shelf reinforce the arguments for this scenario. Investment growth will gradually decline, however, and thereby place a damper on near-term mainland economic growth.

As a result of the weak international developments, interest rate levels abroad are very low in both nominal and real terms. A number of central banks have indicated that rates will remain low for a good while. This is already affecting Norges Bank's scope for manoeuvre in its management of interest rates. A higher interest rate level may be desirable in the interests of a stable Norwegian economy, and not least the desire to reduce pressures in the housing market. On the other hand, the krone exchange rate is strong, inflation is very low, and there is spare capacity in many parts of the economy. Higher interest rates in Norway would probably contribute to a further appreciation of the krone exchange rate. This could widen the gap between the two tracks of the Norwegian economy. The authorities have therefore attempted to restrict credit growth in a different

Figure 1. **General government. Seasonally adjusted at constant 2009 prices. NOK billion. Quarter**



Source: Statistics Norway.

manner, with some success, judging by the growth in banks' lending figures. This has enabled banks to build up equity capital, which must be regarded as a stabilising development. The consequence for the business sector appears to be greater efforts to finance investment via the bond market rather than via banks.

On balance, we believe that the global tendency to weak growth, low demand for Norwegian products and low prices for many export products will continue to slow the upturn in Norway for some time to come. According to our projections, these factors will continue to affect developments in 2013, and only in 2014 will growth in other countries pick up markedly. The interest rate level abroad will then also rise gradually, allowing Norwegian monetary policy more scope.

Higher interest rates will inhibit household demand growth from 2014, but the effect of the rise in real income will be stronger, such that high consumption growth and housing investment is expected going forward. We also expect the rise in house prices to continue at a brisk pace, although the rise in real prices will probably slow somewhat compared with the past two years. Wage growth will contribute to high income growth even though inflation will increase slightly, thereby reducing real growth. The increase in the number of pensioners, together with wage regulation of benefits, will contribute to markedly stronger growth in household income in the period ahead. In isolation, a larger number of pensioners contributes to a more expansionary fiscal policy, while public purchases of goods and services for consumption and investment are expected to increase at approximately the same pace as trend mainland economic growth.

We do not believe that business sector investment will contribute strongly to the upturn in the Norwegian economy. This must be viewed against the backdrop of higher interest rates and the weak global economic situation. However, near-term international developments are shrouded in uncertainty.

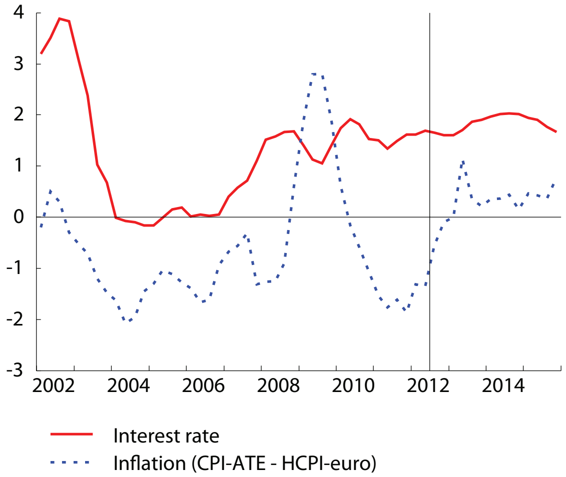
Global economic growth is expected to pick up towards the end of the projection period. The Norwegian economy will then be exposed to more traditional cyclical impulses, which will contribute to the economic upturn continuing into 2015. We assume that growth in petroleum investment will then become appreciably more moderate and that the strong growth in household demand will be slow. The result will be a moderate expansion, starting in 2015. Monetary policy will contribute to curbing growth by pushing up nominal and real interest rates. However, should fiscal policy be determined by the 4 per cent path of the fiscal rule, or should petroleum-related industries continue to grow strongly, there might be a distinctly sharper upturn in the Norwegian economy than we are forecasting. A global upturn could also cause a more pronounced Norwegian economic expansion, but in light of the current situation this appears unlikely.

More fiscal stimulus from 2013?

Whereas general government consumption fell in the first quarter, consumption increased appreciably in the second quarter, despite the strike. The strike resulted in a lowering of production and deliveries of consumer services estimated at half a per cent of general government consumption. A comparison between seasonally adjusted consumption figures for the first half of 2012, adjusted for the strike, and the level in the second half of 2011 reveals that underlying general government consumption growth was about 1.5 per cent, measured as an annual rate. This is consistent with general government consumption growth in 2011. There is reason to believe that consumption will be somewhat higher in the second half of the year than is indicated by extrapolating growth in the preceding quarters. We now assume that general government growth in consumption and investment in 2012 will be approximately in line with the projections in the Revised National Budget 2012 (RNB). Growth in general government consumption is projected in the RNB to increase by 1.9 per cent from 2011 to 2012, while gross investment is expected to fall by 1.4 per cent. If the purchase of a frigate in 2011 is excluded, the RNB projection implies underlying growth of approximately 3 per cent in gross investment.

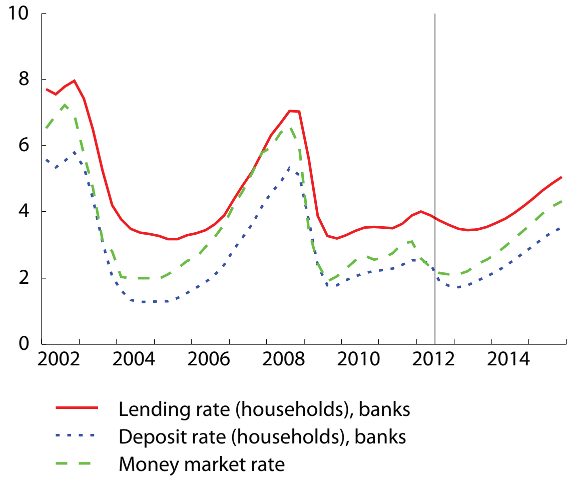
Transfers to households increased by 6.3 per cent in 2011. As a result of the low consumer price inflation, real growth was 5 per cent. Old-age pensions contributed most to this increase, while the sum of child benefit, cash benefit for young children, sickness benefit and unemployment benefit were almost unchanged compared with the previous year. The projection in RNB for nominal growth in transfers in 2012 is in line with growth the previous year. With estimated consumer price inflation of just on 1 per cent, real growth in transfers could be just over 5 per cent this year as well. Total demand generated by public sector purchases of goods and services as well as transfers increased by 2.7 in real terms in 2011, which is in line with trend growth in the mainland economy. Our projections for 2012

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.

imply that real demand growth will be approximately the same as the preceding year. The programme of direct and indirect tax changes remained approximately unchanged in both 2011 and 2012. The orientation of fiscal policy can therefore be described as relatively cyclically neutral, both in 2011 and this year.

We assume that fiscal policy will generate slightly stronger demand impulses in the period 2013-2015 compared with the last two years. The level of direct and indirect taxes is assumed to remain unchanged in real terms throughout the period. Pension benefits will grow considerably 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 because persons aged 62 or more elect to take contractual early retirement. Transfers to households are also projected to increase by about 5 per cent in real terms in 2013, but real growth will be slower when inflation picks up somewhat, as it is expected to do. General government consumption is expected to increase by around 2.5 per cent annually, approximately the same as estimated trend growth in the mainland economy. Gross general government investment will probably increase more than consumption as a result of a desire for increased investment in infrastructure, and we assume annual growth of about 5 per cent from 2013 to 2015. Higher investment growth increases the growth rate of general government real capital. This contributes to slightly higher growth in general government output and consumption in the near term as a result of an increase in capital services, which according to the definition in the national accounts is equivalent to increased capital depreciation. Growth in overall demand generated by purchases of goods and services plus transfers is projected to be just over 3 per cent in these three years. This is slightly higher than estimated trend growth in the mainland economy.

For the next few years, we forecast a somewhat lower increase in the Government Pension Fund Global expressed in NOK than the projections in RNB 2012. This is based on our assumption of a stronger krone exchange rate for the next couple of years. Not until 2015 will the Fund reach the level projected in RNB 2012. According to our projections, the structural non-oil budget deficit (SNOBD), calculated as a share of the capital in the Fund, will be about 2.5 per cent from 2013 to 2015. Given developments such as those we have outlined for the Norwegian economy, adjustment of the Fiscal Budget to allow for cyclical effects will not have much effect on near-term developments in SNOBD compared with the non-oil budget without adjustment for activity.

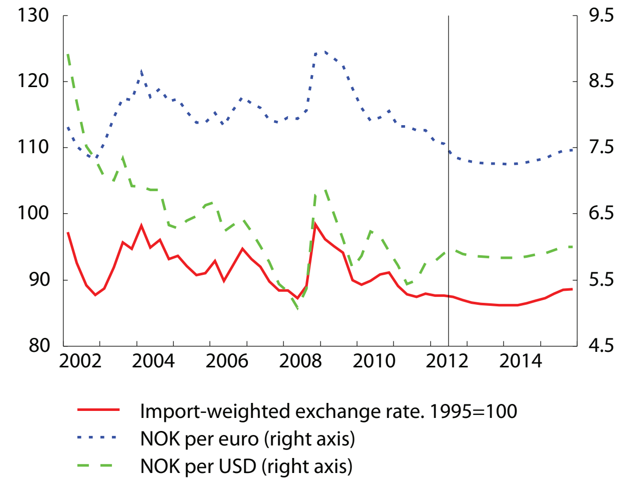
Low interest rate

In March this year, Norges Bank lowered the key policy rate by 0.25 percentage point, to 1.5 per cent. In 2009, which bore the marks of the financial crisis, the policy rate was 1.25 per cent for a period. An unchanged policy rate for the remainder of the year will mean an annual average of 1.55 per cent. This is 0.2 percentage point lower than the annual average in 2009, which up to now has been the lowest annualised policy rate level.

Whereas the authorities set the policy rate, market rates have a strong bearing on developments in the real economy. At the beginning of September this year, the 3-month money market rate was just over 2 per cent, and the premium between policy rate and money market rate was thus just over 0.5 percentage point. At the beginning of 2012, the money market rate was 2.9 per cent, and it has fallen through the year, particularly in connection with the surprising reduction in the key rate in March this year. The average for the first 8 months of this year is about 2.4 per cent. Thus it appears likely that the money market rate for the year as a whole will be lower than the annual average for the crisis year of 2009, but not as low as in 2004 and 2005, when the premium on the key rate was lower than it is now.

The sovereign debt crisis in many countries and the repercussions of the financial crisis for the real economy form much of the background to the low interest rate

Figure 4. **Exchange rates**



Source: Norges Bank.

level in Norway. The money market rate in the euro area is now 0.3 per cent. The high interest rate differential, combined with higher economic growth in Norway, has strengthened the krone against the euro. At the beginning of September this year, one euro cost NOK 7.30, which means that the krone is about 10 per cent stronger now than the average exchange rate against euro for the past 20 years. Much of the appreciation is due to a weak euro, and measured against the import-weighted krone exchange rate, the krone is only about 4 per cent stronger than before the financial crisis. The strong krone is detracting from profitability and activity in the Norwegian internationally exposed business sector. If the Norwegian key rate had not been kept low, the krone would probably have been even stronger, thereby exacerbating the problems facing the internationally exposed business sector.

Both the appreciation of the krone and low global growth are contributing to low imported inflation. Norwegian inflation, measured as the rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has been at least one percentage point below the inflation target of 2.5 per cent for the past two years. Year-on-year inflation in July this year was 1.3 per cent. In isolation, the low interest rate level in Norway adds to inflation both by curbing the appreciation of the krone and by stimulating domestic demand.

Low interest rates prompt high lending from Norwegian banks and financial institutions. Gross domestic debt (C2) in the private and municipal sector, seasonally adjusted and annualised, increased by 5.9 per cent in the period May-July this year compared with the period February-April. However, growth was lower than in the first quarter, when it was 7.8 per cent. In the last three-month period, municipalities in particular have increased their lending by 10 per cent, seasonally adjusted and calculated as an annual rate. Household gross debt increased by an annualised 7 per cent in the same period. Credit growth for non-financial enterprises slowed. Whereas the debt growth of non-financial enterprises was 9 per cent in the first quarter, their debt increased by only 3 per cent in the period May-July, both seasonally adjusted and annualised. The slower debt growth of non-financial enterprises may indicate that the effect of a low interest rate level is counterbalanced by a reduced desire to invest that is partly attributable to the strong krone exchange rate. However, a restructuring of sector groupings in the statistics makes a cautious approach to interpretations necessary.

House purchases are an important reason why households take out loans. Lower interest rates enable households to service higher mortgages, thereby pushing up house prices. There has been a formidable rise in house prices over the past 20 years, interrupted only by a few brief periods. The rise in house prices and the household debt burden would seem to be mutually reinforcing. Higher house prices and debt burden may contribute to amplifying future negative economic shocks. Statistics Norway's housing statistics show that house prices rose by 3.2 per cent from the first to the second quarter of this year. The rise in house prices over the past four quarters has been 6.7 per cent. Figures from the Association of Real Estate Agency Firms indicate that house prices, adjusted for normal seasonal fluctuations, are continuing to rise in the third quarter.

The average lending rate offered by financial institutions for credit loans secured on dwellings is a good indicator of the mortgage rate; see Box 2 in Economic Survey 1/2012. At the end of the second quarter of 2012 this interest rate was 3.8 per cent, which was 0.2 percentage point lower than in the two preceding quarters. The deposit rate also fell by 0.2 percentage point from the end of the first quarter to the end of the second quarter, when it was 2.3 per cent.

Our projections are based on the assumption that Norges Bank will keep the current key policy rate unchanged until the summer of 2013. The strong krone and low inflation are both reasons for keeping interest rates low. A rapid rise in lending and in house prices and low unemployment point towards a higher interest rate. The key rate is therefore expected to be gradually raised from the summer of 2013 and throughout the remainder of the projection period. The money market rate will shadow the key rate and reach 4.0 per cent in 2015. The wide interest rate differential between Norway and the euro area will contribute to keeping the krone strong against the euro and thereby to a strong import-weighted exchange rate throughout the projection period. Interest on credit loans secured on dwellings is expected to be over 5 per cent by the end of 2015.

Stronger consumption growth ahead

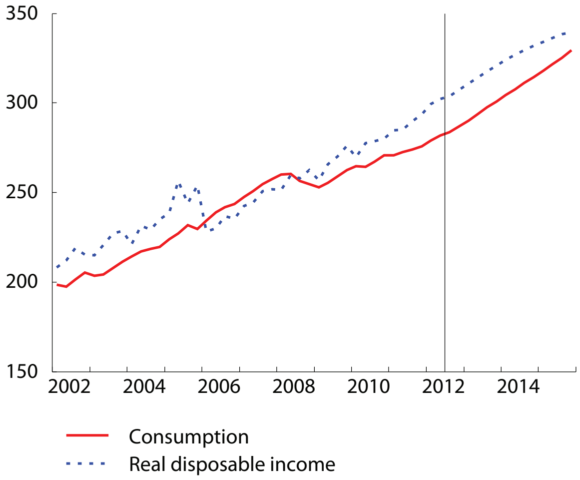
Seasonally-adjusted QNA figures show that household consumption increased by 1.1 per cent in both the first

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.	2.4	3.6	3 1/2	3.5	4.7	4 1/4	4.6	3 1/2	4.5	3
General government consumption	1.5	1.9	2	1.9	2.0	2 1/2	2.6	..	2.7	..
Gross fixed investment	6.4	8.0	..	6.4	5.8	..	3.1	..	2.9	..
Extraction and transport via pipelines[1]	13.4	13.5	15	15.0	6.4	7 1/2	2.5	4	1.7	3
Mainland Norway	8.0	4.5	2 1/2	3.5	5.7	6	3.6	..	3.5	..
Industries	2.6	5.3	..	3.6	5.4	..	2.2	..	2.1	..
Housing	22.0	6.9	..	7.0	7.4	..	3.9	..	3.7	..
General government	3.0	-0.8	..	-1.4	3.9	..	6.2	..	6.2	..
Demand from Mainland Norway[2]	3.2	3.3	2 3/4	3.1	4.2	4	3.9	3 3/4	3.8	3 1/2
Stockbuilding[3]	0.3	-0.2	..	..	0.0	..	0.0	..	0.0	..
Exports	-1.4	1.8	..	0.8	0.2	..	0.8	..	1.9	..
Crude oil and natural gas	-6.2	2.2	..	1.2	-0.9	..	-1.4	..	-0.2	..
Traditional goods[4]	-0.4	1.1	3/4	-1.7	1.9	1 3/4	2.7	..	3.4	..
Imports	3.5	2.6	3	4.3	5.7	5 1/2	4.4	..	4.1	..
Traditional goods	5.3	2.0	..	4.5	6.7	..	5.0	..	4.8	..
Gross domestic product	1.4	3.5	3 1/2	2.4	2.2	2 1/2	2.4	2 1/4	2.8	2 1/4
Mainland Norway	2.4	3.6	3 3/4	2.7	3.1	3 1/4	3.2	2 3/4	3.4	2 3/4
Labour market										
Employed persons	1.4	2.2	2	1.6	1.8	1 1/2	1.5	1	1.6	1
Unemployment rate (level)	3.3	3.1	3	3.3	3.3	3	3.2	3 1/4	3.1	3 1/2
Prices and wages										
Annual earnings	4.2	4.2	4	3 3/4	3.7	4 1/4	4.1	4 1/2	4.5	4 1/2
Consumer price index (CPI)	1.2	0.9	1	0.9	1.6	1 3/4	2.1	2	2.5	2 1/2
CPI-ATE5	0.9	1.3	1 1/2	1.4	1.6	1 3/4	2.0	2	2.4	2 1/2
Export prices, traditional goods	6.2	-2.7	..	0.1	-1.0	..	2.4	..	3.6	..
Import prices, traditional goods	4.1	-0.3	..	0.0	-1.8	..	1.3	..	2.9	..
Housing prices	8.0	7.0	..	..	7.2	..	7.7	..	8.0	..
Balance of payment			..			..		..		..
Current balance (bill. NOK)	395.9	440.3	..	380.0	348.7	..	299.3	..	285.2	..
Current balance (per cent of GDP)	14.6	15.1	..	13.4	11.7	..	9.7	..	8.8	..
Memorandum items:			..			..		..		..
Household savings ratio (level)	8.2	9.3	..	8.8	9.4	..	8.7	..	7.2	..
Money market rate (level)	2.9	2.3	2.4	2.4	2.3	2.5	3.1	3.1	4.0	3.5
Lending rate, credit loans (level)[6]	3.6	3.8	..	..	3.5	..	3.9	..	4.7	..
Crude oil price NOK (level)[7]	621	651	..	650	563	..	557	..	574	..
Export markets indicator	5.2	1.4	..	..	2.5	..	4.1	..	5.4	..
Importweighted krone exchange rate (44 countries)[8]	-2.4	-0.8	-0.4	-1.0	-1.2	-1.4	0.1	-0.9	1.9	2/7

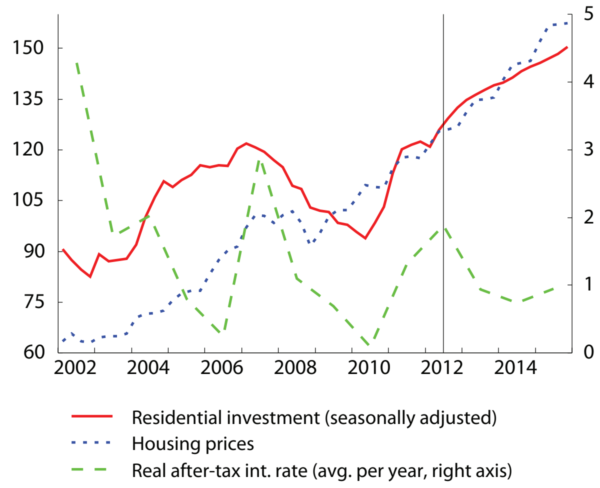
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates traditional exports, which also includes some services.
[5] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[6] Yearly average.
[7] Average spot price, Brent Blend.
[8] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.2 (2011-2012), (MoF), Norges Bank, Pengepolitisk rapport 2/2012 (NB).

Figure 5. **Income and consumption in households. Seasonally adjusted at constant 2009 prices. NOK billion. Quarter**



Source: Statistics Norway.

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



Source: Statistics Norway.

and the second quarter of this year. Goods consumption showed growth of as much as 1.6 per cent in the second quarter as a result of increased purchases of food and electricity. However, consumption of services showed more moderate growth of 0.7 per cent in the second quarter, approximately the same as first-quarter growth. A comparison of the first half of this year with the same period in 2011 reveals overall consumption growth of 3.3 per cent. This is approximately one percentage point higher than annual growth in 2011. Goods consumptions fell from May to July, but is expected to pick up in the next few months.

Developments in household income, housing wealth and interest rates are important factors influencing consumption. Household real disposable income rose by 4.2 per cent in 2011. Wage income, which is the primary source of household income, made a particularly large contribution to this income growth through solid employment growth and clear real wage growth. Institutional quarterly national accounts show that real disposable income in the second quarter was 4.9 per cent higher than in the same period the previous year, while the corresponding increase was as much as 6.2 per cent in the first quarter of this year. Underlying these developments is strong growth in both wage income and public transfers, coupled with low inflation. We are now expecting growth in household real disposable income to be around 5 per cent this year, approximately one percentage point higher than annual growth in 2011. Subsequently, we expect rising inflation, and after a while also higher interest rates, to lead to lower growth rates for household real disposable income in the period 2013-2015. A continued rise in house prices will increase housing wealth, however. This normally has the effect of stimulating household consumption. Consumption growth of 3.6 per cent is now projected for this year, rising to about 4.5 per cent annually in the period 2013–2015. This is a somewhat weaker consumption trend than during the economic boom from 2004 to 2007. If we adjust for the fact that population growth is now higher, the difference in per capita consumption growth will be even larger.

The household saving ratio was over 8 per cent in 2011, which is relatively high in a historical perspective. Precautionary household saving in the wake of the financial crisis may have increased as a result of the uncertainty concerning households' own income. Given the continued uncertainty surrounding the global economy, we assume that this saving behaviour will continue to prevail to some extent during the projection period. In our projections, the saving ratio will hover around 9 per cent both this year and in 2013, and then fall gradually to around 7 per cent in 2015.

Housing investment reaches a new peak

Housing investment increased sharply through the second half of 2010 and the first half of 2011, but then levelled off. Following a moderate dip in the first quarter of this year, housing investment has surged again. According to seasonally-adjusted QNA figures, growth in the second quarter was 4.1 per cent up on the previous quarter. The second quarter increase brings housing investment to well over the previous record levels before the financial crisis.

Building statistics, one of the main indicators used to estimate housing investment, indicate a steady rise from February this year. The tendency towards a

Table 2. **Household real disposable income. Percentage growth 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	4.2	5.0	4.5	4.0	2.8
Excluding share dividends	4.2	5.0	3.1	4.0	3.2	3.8	5.3	4.4	3.8	2.7

Source: Statistics Norway.

decline in housing starts following the winter of 2011 up to and including January this year has thus been reversed into a pronounced upswing. The number of housing starts in the second quarter of 2012 equalled the levels through the peak year of 2007, with over 8 000 new dwellings. The most recent monthly figures for July indicate a continued high number of housing starts and a further upswing in underlying growth.

Developments in housing investment are largely driven by the ratio between house prices and building costs. In our model, real house prices are driven by household real income, interest rate movements and housing capital. On balance, the outlook for these factors points to further investment growth. We anticipate growth in housing investment of approximately 7 per cent this year and in 2013, before growth falls off somewhat in 2014 and 2015 owing to the gradually rising interest rate level.

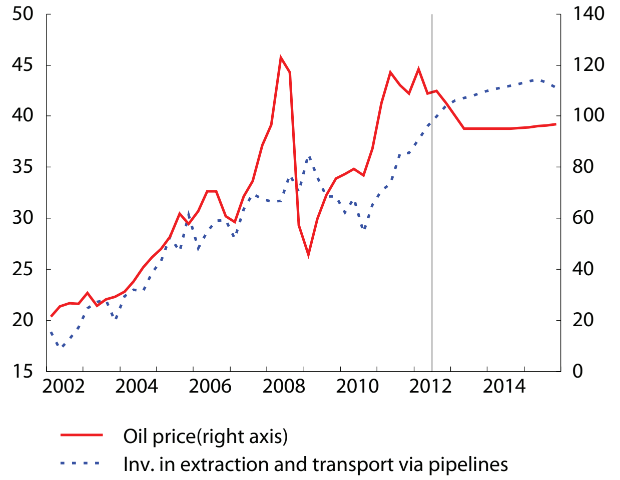
House prices have risen markedly for the past two years, and showed no signs of slowing in the first half of this year. According to Statistics Norway's house price index, house prices rose in the first and second quarters by 3.5 and 3.2 per cent, respectively, compared with the preceding quarter. Even given unchanged house prices for the remainder of the year, this implies an annual rise of 6.5 per cent. Demand in the housing market is pushing up prices for all types of dwellings. Neither more stringent equity requirements nor increased housing starts have been sufficient to halt the rise in house prices so far this year. Developments in monthly house prices figures point to a further rise in the third quarter. According to the real estate business's own figures, seasonally-adjusted house prices rose in July and August by 1.1 and 0.7 per cent, respectively. In light of developments in housing starts, household income, interest rates and population growth, we now forecast that house prices will rise by 7-8 per cent annually for the remainder of the projection period.

Continued growth in petroleum investment

Investment in production and pipeline transport continued to rise in the second quarter of 2012. According to seasonally-adjusted QNA figures, growth from the first to the second quarter was 3.4 per cent. These two segments, together with production-related services, where investment is normally limited, constitute what we refer to as petroleum activities. Investment in drilling and exploration for petroleum, oil and gas pipelines and production platforms, drilling rigs and modules all increased sharply in the second quarter. Oil platforms, drilling rigs and modules contributed most to pushing up overall petroleum investment compared with last year.

There have now been almost two full consecutive years of rising investment following the slump in the wake of the financial crisis. Oil prices fell in the winter of 2008/2009 to a level well below that required to ensure adequate profitability for a number of the planned projects. Plans were postponed, which contributed to the sharp decline in investment through 2009 and into 2010. Oil prices rose appreciably in 2010 and 2011. Improved profitability combined with greater optimism as a result of several large discoveries in recent years are factors behind the strong investment upturn we are now seeing. Calculations in Box 1 show the effect on the Norwegian economy of the high petroleum investment.

Figure 7. **Petroleum investments and oil price in USD. Seasonally adjusted at constant 2009 prices. NOK billion. Quarter**



Source: Statistics Norway.

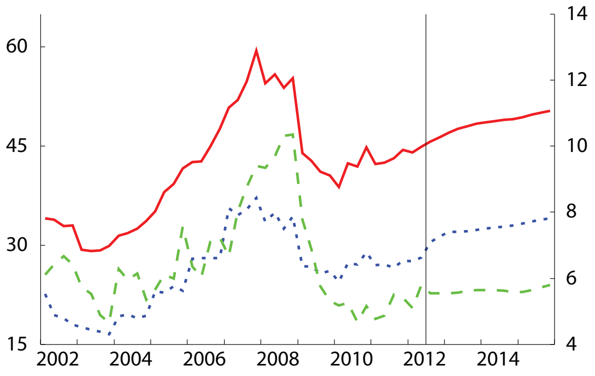
A number of large projects are expected to keep investment buoyant in the years ahead. Investment is taking place in a combination of new fields, such as Goliat, Valemon and Gudrun, and old fields, such as Ekofisk, Eldfisk and Troll. The older platforms are being both upgraded and expanded to include production from neighbouring fields. Production drilling has increased sharply since the early 2000s. With a larger number of wells, the production rate might increase. We expect this tendency to be amplified in the years ahead, thereby contributing to an increase in overall petroleum investment, albeit slightly weaker than in 2011 and 2012.

Oil and gas recovery, measured as number of standard cubic metres of oil equivalent, increased markedly in the second quarter of this year compared with the second quarter of 2011. Whereas the early summer of 2011 was characterised by a halt in production on several platforms, production of both oil and gas remained at a high level this year. However, the underlying trend is still steadily falling oil production and gas production that is increasing at roughly the same pace. Overall production is expected to rise by 5 per cent this year before levelling off over the next four years.

Moderate growth in business investment

The moderate underlying growth in mainland business investment through the past year continued in the second quarter of this year. The rise in investment compared with the previous quarter was 1.9 per cent.

Figure 8. **Investments. Mainland Norway. Seasonally adjusted at constant 2009 prices. NOK billion. Quarter**



Source: Statistics Norway.

The upswing was broad-based with the exception of a 3.6 per cent decline in investment in other goods production, which accounts for about 20 per cent. Manufacturing investment increased by 13.6 per cent in the second quarter, while investment in services increased by 2.1 per cent.

Statistics Norway surveys companies' investment intentions by means of a sample survey. In their third quarter reporting for 2012, manufacturing companies' estimates indicate an increase in investment of about 5 per cent this year and a roughly unchanged level in 2013. There has been pronounced underlying growth in power supply since early 2010. This trend is expected to continue, and may be attributed to the introduction of green certificates. The objective of this scheme is to encourage investment in renewable energy production. Since 1 January 2012, Norway has been part of the Norwegian-Swedish green certificate market, which is to exist until 2035. Power plants are granted green certificates for 15 years, and the producers therefore have an incentive to start production by 2020. Whereas investment in power supply has previously been aimed at increasing production capacity, the companies themselves now expect development of the distribution network to be the dominant aspect of growth in the years ahead. Adjusted for normal under-reporting, this implies that investment in power supply will increase by approximately 15 per cent in 2012, while the increase in 2013 is expected to be more moderate.

Historically, there has been a close correlation between investment trends and cyclical developments, in that investment is pro-cyclical. However, investment differs from output and employment in being subject to considerably wider fluctuations. In the last three cyclical upturns, business sector investment has been characterised by annual growth rates in the range of 10-20 per cent. In the current upturn, growth in business investment is expected to remain at about 5 per cent in 2013 and then decline to about 2 per cent in 2015.

The relatively weak investment growth must be viewed in light of the fact that the cyclical upturn in Norway is relatively weak and coincides with a global cyclical downturn. Demand directed at the manufacturing segments that compete on the international market is therefore low, which will exert downward pressure on manufacturing investment in the near term.

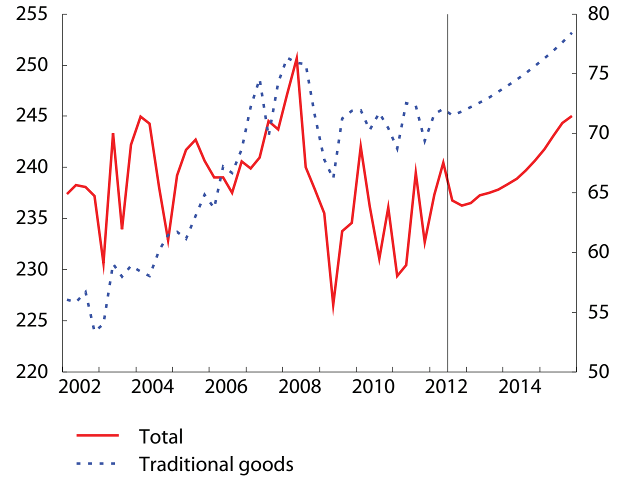
Weaker developments in the external account

The global downturn is also affecting demand for Norwegian export products, while the strong Norwegian economy is making our export products more expensive. High cost inflation and a strong krone are undermining Norwegian competitiveness. The strong Norwegian economy is stimulating growth in domestic demand for import products, and the global downturn coupled with a strong krone is curbing prices for imports. These qualitative features of recent years in the external account are likely to persist.

In isolation, developments in the volume of exports and imports have contributed to reducing the trade surplus - a tendency that is expected to continue. Exports excluding oil and gas have grown less than imports, and oil exports have exhibited a trend decline that has not been fully compensated for by increased gas exports. Growth in consumption and investment has maintained import growth at a high level. The fact that there has nevertheless been a growing trade surplus since 2003 is due to a strong rise in prices for Norwegian exports, in particular oil and gas, combined with weak movements in prices for Norwegian imports, particularly because of increased imports from low-cost Asian countries. We do not expect Norway's terms of trade to remain so favourable going forward.

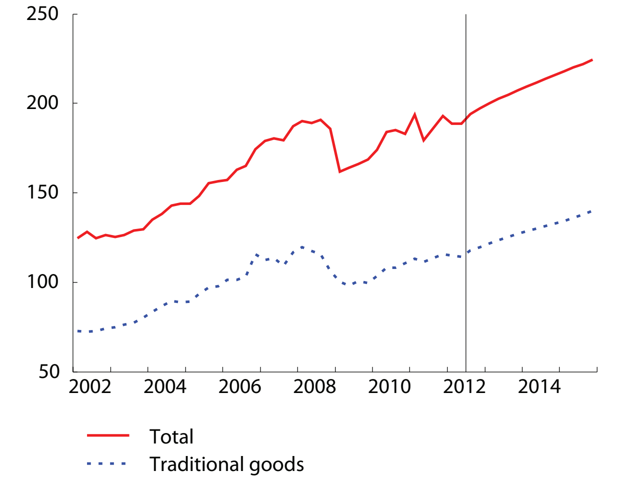
Following the sharp decline in exports during the financial crisis and the subsequent recovery, traditional Norwegian goods exports have fluctuated around an unchanged level since 2010. A broad-based slowdown through the last half of 2011 was virtually reversed in the first half of the current year. Seasonally-adjusted QNA figures show that traditional exports increased by 3.2 and 0.6 per cent in the first and second quarters of 2012 compared with the preceding quarter. Electricity exports have increased in the last four quarters from an already high level to a record level in the second quarter of 2012. On the other hand, exports of the large product group chemicals, chemical and mineral products have decreased through the last four quarters. For the year as a whole, traditional exports are expected to increase by just over 1 per cent. Since 2003, oil and gas exports combined have shown a trend decline that reflects slowing oil production. However, oil and gas exports also made a positive contribution to overall exports in the first two quarters of 2012. Gas exports were record high in the second quarter and are approaching oil exports in terms of value. Because gas production fell in 2011, 2012 may be the first year since 2003 with growth in overall oil and gas exports. Growth in exports

Figure 9. **Exports. Seasonally adjusted at constant 2009 prices. NOK billion. Quarter**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted at constant 2009 prices. NOK billion. Quarter**



Source: Statistics Norway.

of services continues to be roughly trend, but weaker than before the financial crisis. Substantial growth in transport-related services contributed to overall service exports edging up by 0.4 per cent in the second quarter of this year, following a first-quarter decline. Annual growth in 2012 is expected to be about 3.2 per cent.

Export prices reveal a second-quarter decline for oil (but not gas), traditional goods and services. Prices for several export categories are moving on a weak trend. Export prices for ships have been falling for over a year, as have prices for agricultural, forestry and fish products, electricity and the large and important category of manufactured products. We forecast that export prices for traditional goods as a whole will fall by just under 3 per cent this year, and that the fall will come to a halt in 2013, to be followed by an increasing rise in prices for the remainder of the projection period. Prices for oil and gas and service exports are expected to rise rapidly in 2012. In the next few years, prices for service exports will probably rise a little more than prices for traditional goods exports, while oil and gas prices will fall slightly.

For the past three years, growth in imports of traditional goods and services has showed a declining tendency. Developments in the first half of 2012 were generally weak, with a fall for many groups of goods and services, and annual growth for 2012 is projected to be only 2 per cent. More normal, high growth rates are expected for 2013-2015. Prices for imports of both goods and services fell in the second quarter of this year, and the price indices are on a level with the second quarter of 2011. We expect approximately unchanged import prices this year, and that prices will not rise until 2014 and 2015, partly as a result of a weaker krone.

The weak global economic situation will persist and curb growth in demand for Norwegian export goods and services for the next few years. Cost inflation in Norway will continue to undermine competitiveness and lead to further loss of market shares. At the same time, we expect a moderate Norwegian upturn that will stimulate imports from the current low level. In the period 2013-2015, lower oil and gas prices are expected to cause export prices as a whole to follow a weaker trend than import prices, thereby weakening Norway's terms of trade.

The trade surplus is expected to increase to well over NOK 400 billion in 2012, boosted by higher oil and gas prices and relatively low growth in import volumes and prices. Subsequent slow growth in exports and a continuing terms of trade loss could reduce the trade surplus by over 40 per cent in the course of the projection period, down towards the level in 2004. The net factor income and transfers surplus is expected to grow from approximately NOK 25 billion to NOK 35 billion during the projection period. The current account balance as a percentage of GDP is accordingly projected to fall from 15 per cent in 2012 to less than 9 per cent in 2015.

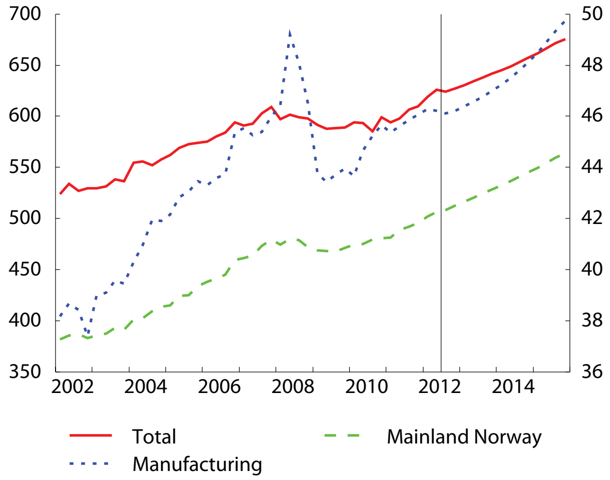
Moderate cyclical upturn

In the second quarter of this year, mainland GDP increased by an annualised 3.9 per cent, after growing 4.8 per cent the previous quarter. Growth in the past five quarters has thus been higher than estimated trend growth, which is just over 2.5 per cent. The current cyclical upturn came after a year and a half of steady growth following four quarters of falling GDP in the wake of the financial crisis in 2008-2009.

Recently there have been substantial fluctuations in power production. In the past two quarters this has added an annualised 1.0 percentage point to mainland GDP growth. This indicates that underlying production growth is somewhat weaker than indicated by GDP figures. However, the general government strike in the second quarter had an offsetting effect that is estimated to have reduced mainland GDP growth by an annualised 0.6 percentage point.

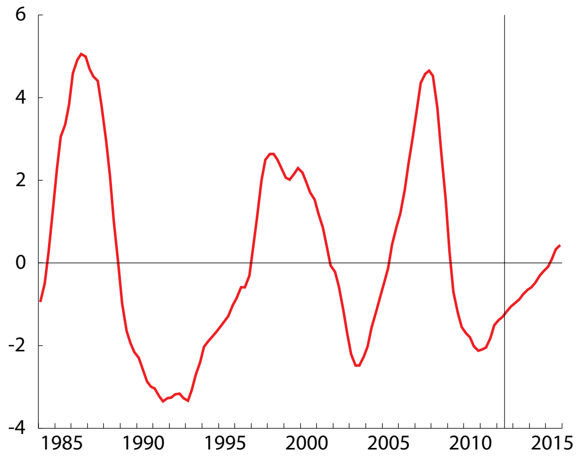
There have been major differences in activity development in the various industries since the financial crisis.

Figure 11. **Gross domestic product. Seasonally adjusted at constant 2009 prices. NOK billion. Quarter**



Source: Statistics Norway.

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



Source: Statistics Norway.

Value added in manufacturing in the second quarter was still markedly lower than the peak in the second quarter of 2008. Construction activity is also lower than previous peak levels. Activity in mainland market-oriented services never really dropped significantly after the financial crisis, and has increased appreciably in the past year and a half. Activity in public services has increased through roughly the whole period, but at a declining pace. Mainland GDP passed the former peak of the second quarter of 2008 as early as in the fourth quarter of 2010.

There was marked growth in petroleum production through the first half of 2012 following a long period during which production fell overall. Value added increased by almost 6 per cent from the fourth quarter of 2011 to the second quarter of 2012. To some extent independently of these production developments, demand from the petroleum sector has been one of the strongest forces driving the Norwegian economy for the past ten years, with the exception of 2010, when investment dipped. The growth contributed by petroleum activities is considered in more depth in Box 1.

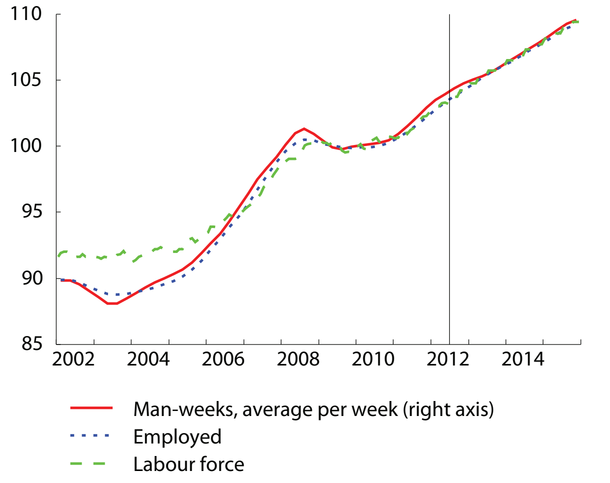
The growth impulses generated by the petroleum production industry are reflected in high growth in services associated with production which, together with the production itself, constitute the petroleum industry. The manufacturing segments particularly targeted by this demand are shipbuilding and other transport equipment industry. According to the most recent QNA figures, there was in fact a marked decline in activity of 1.8 per cent from the first to the second quarter, but this decline followed growth of almost 11 per cent during the three preceding quarters. Demand from petroleum production does not affect only these industries. Analyses show that the ripple effects reach many industries that are both direct and indirect suppliers to the petroleum industry. Thus a very large number of industries benefit from these demand impulses.

However, other structural features also affect production developments. Growth in value added in fishing and aquaculture increased by more than 11 per cent in the past half year, following an increase of 25 per cent in the three preceding years. Aquaculture is the main contributor to these developments. Growth in ICT has also been high, and value added after the financial crisis rose by 4 per cent annually on average. Growth through the last few quarters has been even stronger. A number of other service industries report similar developments. On the other hand, traditional service industries such as hotels and restaurants, domestic transport and communications and postal and distribution services have experienced little increase in activity since the financial crisis. Developments in retail trade also remained very moderate for a long time, but growth has picked up appreciably in the last two quarters.

There has been a clear increase in construction activity for more than a year, fuelled by increased investment. Although second quarter growth was only 0.6 per cent, it must be borne in mind that growth through the four previous quarters was close to 11 per cent. Whereas some manufacturing segments are doing well on deliveries to the petroleum sector, others are struggling with weak international demand, low prices and weakened Norwegian cost competitiveness. The level of activity in manufacturing excluding the shipbuilding and other transport equipment industry has remained unchanged through the last year and a half.

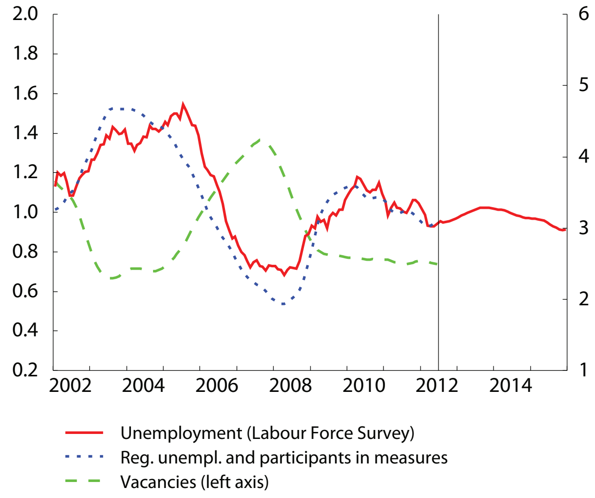
According to our projections, the cyclical upturn will continue in the years ahead. Mainland GDP growth is expected to slow somewhat, but to remain well over trend. Mainland demand growth will increase somewhat and boost production in many of the traditionally sheltered industries. Relatively high consumption growth will fuel growth in service industries supplying the household sector. The construction industry will similarly remain buoyant. The level of activity in petroleum-related industry will fairly certainly remain

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



Source: Statistics Norway.

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



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

high, but we expect the strong growth in petroleum investment to abate and be very moderate in 2014 and 2015. There is great uncertainty on this point, however.

Export-oriented industries will continue to be challenged by a weak global economic situation and by Norwegian costs, which are increasing more than in competing countries. We expect growth in global demand to pick up from 2014, albeit fairly slowly. These positive growth impulses will probably be offset by slower growth in demand from the petroleum industry, and by the fact that growth in mainland demand will gradually be checked by inter alia higher interest rates. We nevertheless expect the cyclical upturn to continue at a moderate pace. According to our projections, the Norwegian economy will not reach normal capacity utilisation before 2015, and thereby leave behind a 7-year moderate periode of GDP below trend.

Stable unemployment and high employment growth

The positive employment trend from the second half of 2010 continued through 2011 and into the first half of 2012. In the first half of 2012, employment increased by a full 34 000 persons, according to seasonally-adjusted QNA figures. Labour Market Survey (LFS) figures confirm the strong employment growth so far this year, but the three-month moving average to July this year shows a clear levelling off of growth. Employment from May to July this year increased by 6 400 on average compared with the period from February to April.

Seasonally-adjusted QNA figures show that the first quarter fall in manufacturing employment came to a halt in the second quarter, but there are large differences in employment growth in the various manufacturing segments. Unemployment fell by no less than 22.5 per cent in pulp and paper production, but rose in chemicals and in shipbuilding and other transport equipment, by 7.3 and 1.6 per cent, respectively. Employment growth was also strong in construction and the market-oriented service industries with the exception of transport and communications and retail trade. Employment in construction is now nearing the level before the financial crisis.

Growth in number of FTEs was considerably lower than growth in numbers employed in the second quarter of this year. The lower growth must be viewed against the backdrop of the strike in the second quarter.

The relatively positive picture of the labour market is also reflected in the fact that LFS unemployment has fallen steadily since peaking at 3.6 per cent in the fourth quarter of 2010. So far this year the unemployment rate has fallen from 3.2 per cent in the first quarter to 3.0 per cent for the period May-July. Unemployment for the whole of 2011 averaged 3.3 per cent.

Figures for registered unemployment from the Norwegian Labour and Welfare Organisation (NAV) confirm a slight decline in unemployment so far this year. Registered unemployment fell from 2.8 per cent in January to 2.6 per cent in August. The number of persons registered on labour market programmes also fell from January to August. There are slightly more vacancies per business day than in August last year, while the supply of vacancies over the past year has been stable. The number of public sector vacancies was lower in August than in the same month last year, while vacancies registered by employers, and which were reported to NAV, increased in the same period.

NAV regards unemployed persons who have been out of work for 26 weeks or more as long-term unemployed. It has proved generally difficult to get the long-term unemployed back in work, and a change in their number is therefore an independent indicator of the pressures in the labour market. In August there was a reduction in the number of long-term unemployed. At the same time, NAV reports an increase in measures targeting

Box 1. **Norwegian upturn: Some factors underlying the economic developments in other countries**

The Norwegian economy bottomed out in the first quarter of 2011, and since then has been in a cyclical upturn. This is in contrast to developments among our trading partners, whose economic growth is very weak. In this box we consider some factors that distinguish the Norwegian economy from those of other countries, and which may shed light on the cyclical upturn in the Norwegian economy. When countries surrounding us experience very different developments, it is of particular interest to understand why Norway is exceptional.

We often hear «Well, Norway has oil!» used as an explanation for why developments in the Norwegian economy are different from our trading partners. Petroleum activities affect the Norwegian economy through two main channels: the direct demand impulses, and the use of «oil money» over the fiscal budget. We consider here how they influence the cyclical developments in question.

The fiscal rule is used to reduce the importance of current petroleum revenues for the formulation of fiscal policy. This is done both by investing the Norwegian state›s share of current petroleum revenue in the Government Pension Fund Global (GPFG) and by taking account of the cyclical situation in «the use of oil money». For example, appreciably less «oil money» was used in 2012 than might have been the case if the fiscal policy rule for phasing in the real return on the GPFG had been slavishly adhered to. The reason for this is that during a cyclical upturn, further stimulus in the form of a strongly expansionary fiscal policy should not be applied. Given a weak economic situation abroad that leads to lower interest rates internationally, Norges Bank has less scope for manoeuvre in its setting of interest rates than it would have had under more normal circumstances. Consequently, when monetary policy stimulates the cyclical upturn in Norway, fiscal policy should be tightened correspondingly. High sovereign debt has compelled many countries to conduct a contractionary fiscal policy at a time when the economic situation implies the contrary. Spending cuts and higher taxes characterise developments among many of our trading partners, while Norwegian fiscal policy has applied stimuli approximately in line with trend growth in the mainland economy.

The use of resources in petroleum activities in the form of investments and operating expenses for current production is not restricted by any fiscal rule once the authorities have approved the plans for the development of a field. After peaking in early 2009, petroleum investment fell until mid-2010 and thereafter rose sharply until the second quarter of 2012. The oil companies' projections indicate that investment, measured in constant prices, will continue to increase, but we expect growth to be less than it has been for the past two years, and lower than the companies› own projections.

Petroleum investment is now almost 30 per cent higher than during the trough in 2010. This increase implies an impulse of almost 1 per cent of mainland GDP in both 2011 and 2012. In addition, operating expenses in the petroleum sector have increased quite considerably since 2010. This means impulses to the mainland economy of barely half a per cent in each of these years. On balance, then, the direct impulses from the petroleum sector to the mainland economy were significant in both 2011 and 2012. However, the distribution of the investments by type of real capital and the import shares associated with the various goods and services involved varies considerably.

The effects of the impulses are quantified using model-based projections that show how the Norwegian economy would have developed in the years after 2010 if the petroleum sector had not generated these impulses. In the models, petroleum investment and operating expenses in the sector are kept constant, in real terms, from 2010 to 2015. The analysis was performed using a version of KVARTS in which both three-month money market rates and the exchange rate are model-based.

Table 1. Impact of increased petroleum sector demand 2011-2015. Impact measured in per cent/percentage points of the variable in a counterfactual scenario without impulses from the petroleum sector

	2011	2012	2013	2014	2015
Mainland GDP	0.5	1.1	1.5	1.6	1.7
Unemployment rate, percentage points	-0.2	-0.3	-0.3	-0.3	-0.3
Employed	0.2	0.5	0.8	0.8	0.8
CPI	0.0	-0.1	-0.2	-0.3	-0.3
Interest rate, percentage points	0.1	0.1	0.2	0.3	0.4

Table 1 shows how some macroeconomic variables are affected by impulses from the petroleum sector, from and including 2011. Impulses from the petroleum sector have contributed about half a percentage point to mainland economic growth in 2011 and 2012, and the effect in 2013 is expected to be about the same. The overall effect on mainland GDP in the period 2011 to 2013 is 1.5 per cent. Employment has also increased somewhat, while LFS unemployment has declined. The key rate and the money market rate have risen slightly in response to higher activity and lower unemployment. This has caused the krone to appreciate slightly, thereby reducing inflation, but the effect is only 0.1 percentage point each year.

The impulses generated by the petroleum sector have thus made a clear contribution to the upturn in the Norwegian economy since 2010, and help to explain why Norwegian developments differ from those in the euro area, where growth has been weaker and inflation higher than in Norway.

We then consider the significance of the fact that Norway has not had to tighten fiscal policy, as many other countries have, but has been able to conduct a fairly cyclically neutral fiscal policy in 2011 and 2012, and is expected to continue to do so in 2013. The OECD Economic Outlook from November 2011 (Figure 1.10) provides an overview of adopted and expected fiscal consolidation plans in OECD countries. Policy changes are measured as effect on GDP and divided between tax increases and spending cuts. The OECD figure shows that there are very large variations from country to country. A rough average estimate of the changes for the OECD indicates that fiscal consolidation will be equivalent to one per cent of GDP each year from 2011-2013. Of this, 70 per cent consists of spending cuts and 30 per cent of tax increases. In our counterfactual calculation we assume that public purchases of goods and services including labour costs are reduced by 0.7 percentage point compared with mainland GDP each year from 2011-2013. VAT rates are increased such that the annual impulse is equivalent to 0.3 percentage point of the mainland economy each year. We use the same model version as above.

Table 2 shows the effect on the Norwegian economy of Norway not having to tighten fiscal policy as the OECD area generally has had to do. This has contributed to the upturn in the Norwegian economy in the period 2011 to 2015.

Table 2. Effects of a different kind of fiscal policy. Effects measured in per cent/percentage points of the variable in a counterfactual scenario with fiscal consolidation

	2011	2012	2013	2014	2015
Mainland GDP	0.6	1.1	1.6	1.6	1.7
Unemployment rate, percentage points	-0.3	-0.5	-0.6	-0.5	-0.4
Employed	0.5	1.0	1.4	1.3	1.1
CPI	-0.5	-1.2	-1.9	-2.1	-2.2
Interest rate, percentage points	0.1	0.1	0.3	0.2	0.4

In both 2011 and 2012, the contribution to GDP growth of a more neutral fiscal policy compared with a tighter policy has been slightly over half a percentage point. Unemployment in Norway has fallen appreciably in consequence, and employment has increased. Norway has avoided one important impulse by not having to increase indirect taxes in order to improve the fiscal situation. As a result, inflation has become appreciably lower, amounting, in fact, to an annual inflationary impulse of just over 0.5 percentage point. The effect on the CPI-ATE, which excludes the direct effect on prices of higher indirect taxes, is far smaller. In 2013, the CPI-ATE is only 0.7 percentage point lower than in the scenario with a tight fiscal policy. The reason that the CPI-ATE is lower is that lower unemployment results in higher interest rates and hence a stronger krone exchange rate.

Table 3 shows the effects on some macroeconomic variables of both the impulses we have analysed here. The overall effect on mainland economic activity is slightly more than 3 per cent from 2013. If we compare this effect with the estimated cyclical gap in our baseline scenario, which was about 2 per cent in 2010, we can therefore conclude that without the impulses we have analysed here, there would not have been any cyclical upturn in the Norwegian economy after the first quarter of 2011. The GDP gap would have remained fairly unchanged from 2010 to 2015 and the Norwegian economy would not have arrived at a virtually cyclically neutral situation, which we forecast will occur in 2015. Both household consumption and general government consumption have been appreciably higher as a result of the unique Norwegian developments. Increased activity has resulted in higher investment. Traditional exports, on the other hand, have decreased, and this is largely due to higher interest rates and a stronger krone exchange rate, which has become about 4 per cent stronger than it would otherwise have been. These impulses have helped to keep Norwegian inflation low. It may appear paradoxical that higher activity has led to lower inflation. The reason for this is two-fold. First, we have avoided increasing indirect taxes, as many countries have done; and second, Norges Bank has maintained slightly higher interest rates than it would have done if the growth in the Norwegian economy had been weaker.

Table 3. The overall effects of a more expansionary fiscal policy and impulses from the petroleum sector. Deviation in per cent/percentage points from a scenario without these impulses

	2011	2012	2013	2014	2015
Mainland GDP	1.1	2.2	3.1	3.2	3.3
Mainland business investment	1.0	2.1	2.7	2.7	2.7
Household consumption	0.4	1.0	1.9	2.7	3.7
Traditional exports	0.0	0.0	-0.3	-0.8	-1.3
Unemployment rate, percentage points	-0.5	-0.8	-1.0	-0.8	-0.8
Employed	0.8	1.6	2.2	2.2	2.0
CPI	-0.6	-1.3	-2.1	-2.4	-2.5
Interest rate, percentage points	0.2	0.2	0.5	0.6	0.8
Memo:					
Impulse from petroleum demand, share of mainland GDP	1.2	2.6	3.6	3.8	4.0
Impulse from fiscal policy, share of mainland GDP	0.7	1.3	2.0	2.0	2.1

unemployment, such as wage subsidies and work experience, compared with the same month last year.

According to LFS figures, the labour force (sum of employed and unemployed) increased by 8 000 persons in the second quarter of 2012. The three-month moving average, which is based on figures up to and including July, shows a clear levelling off of growth so far in 2012. Developments in the labour force are influenced by developments in demographic factors such as changes in the size and composition of the population, but also by changes in labour force participation by different groups. The participation rate, which is the labour force measured as a share of the population, increased to 72.1 per cent in the second quarter of 2012 according to the QNA, but is still at a lower level than before the financial crisis. Labour force participation mainly increased among persons aged from 15 to 24 and in the form of more part-time employed.

Lower production growth in some export industries in the period ahead will imply a reduced need for labour, while high demand from the petroleum industry and growth in domestic demand will contribute to growth in shipbuilding, the transport equipment industry and the food industry. On balance, the employment outlook is therefore favourable for about one third of manufacturing employment. Construction and other market-oriented service production is driven by domestic demand, and therefore also has a favourable employment outlook in the projection period. We also expect employment growth in retail trade to be positive for the next two years.

Norwegian and international conditions point to considerable inward labour migration going forward. This means that the labour force will grow slightly more than employment over the next year, and that unemployment will rise somewhat. We forecast that LFS unemployment will be 3.1 per cent this year and 3.3 per cent next year. The Norwegian cyclical upturn and an improvement in the global economy will subsequently result in employment growing more strongly than the labour supply, and the unemployment rate will fall a little towards the end of the projection period.

Weaker wage growth next year

Prior to the main settlement in the spring, there was broad support among the various private sector employer and employee organisations to maintain the collaboration on incomes policy. The wage leader reached agreement after mediation in April, and the other manufacturing segments largely followed the general example of the wage leader. The negotiated pay increase, bolstered by the carry-over from 2011 to 2012, will contribute to the annual wage growth of 2.2 per cent for manufacturing workers. Overall wage growth is arrived at by adding the contribution due to wage drift. For the past four years, wage drift for manufacturing workers has varied between 1.6 and 2.8 per cent. Overall manufacturing wage growth also depends on wage growth among white-collar workers in manufacturing, who account for just over half of all manufacturing wages. They are not covered by collective wage agreements, and the wage growth of this group is therefore more uncertain. Some segments of Norwegian manufacturing are currently being stimulated by strong domestic demand, particularly from the petroleum industry. At the same time, falling demand from abroad, relatively high cost inflation and a steadily appreciating krone mean a limited capacity to pay wages in large segments of manufacturing. We therefore believe that wage drift will be relatively moderate this year.

The Technical Reporting Committee on Income Settlements estimates that carry-over plus negotiated wage increase will together constitute wage growth of 3.5 per cent for central government employees and 3.9 per cent for municipal government employees in 2012. Wage drift in the public sector is relatively low, so that wage growth will not differ substantially from growth in manufacturing sector wages. Wage growth in other industries also appears likely to end up close to growth in manufacturing wages. We therefore estimate that annual wages will grow by 4.2 per cent this year for the economy as a whole.

Average wage developments for manufacturing and the public sector from 2002 to 2011 have been virtually parallel, and in line with annual wage growth for the economy as a whole, but the picture is more mixed when the individual industries are considered. In retail trade and construction, where there is a relatively large amount of foreign labour, wage growth per man-hour since the EU expansion in 2003 has been weaker than manufacturing wage growth. Wage growth in finance and insurance and in the sale and management of real estate has been generally higher than in manufacturing. These industries are not very large, and wage developments have therefore not had as strong an effect on overall annual wage growth as wage developments in retail trade and construction.

We envisage slightly lower wage growth than this year in 2013, when the interim settlements in the two-year negotiated wage agreements take place, which usually means lower negotiated increases. We project annual wage growth of 3.7 per cent next year. After that, higher inflation will cause wage growth to gather pace again. Productivity growth in manufacturing is also stronger, and export prices are picking up, resulting in improved profitability. Wage growth may then increase to 4.1 per cent in 2014 and 4.5 per cent in 2015. During the financial crisis, labour costs as a share of manufacturing value added increased substantially compared with earlier in the 2000s. This development is not unique to Norway, and parallels developments among many of our trading partners. If our projections hold true, the share of costs attributable to labour will remain relatively high for the remainder of the projection period.

Stable inflation

Underlying inflation has been very low since the summer of 2010 and stable so far this year. The 12-month rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) has remained in the interval 1.2-1.5 per cent the whole year with the exception of April, which was characterised by random variations in prices for air travel. The CPI-ATE rose by 1.3 per cent from June 2011 to June 2012. We do not expect major changes in underlying inflation going forward. For the year as a whole, the CPI-ATE is projected to increase by 1.3 per cent, while the rise in the overall consumer price index (CPI) will be 0.9 per cent. Electricity prices, including grid rental, make a particular contribution to the difference in developments between the CPI-ATE and the CPI.

Prices for air travel rose by 24.7 per cent from July 2011 to July 2012, pushed up primarily by prices for travel abroad. High demand for holiday travel from Norwegians needing a change of weather may have contributed to the strong rise in prices.

Prices for food and non-alcoholic beverages increased overall by 0.8 per cent from June to July 2012. The price rise in some product groups may be attributable to the upward adjustment of target prices in the agricultural agreement. There was a moderate decline in prices for fish products during the same period. According to the Ministry of Agriculture and Food, this year's agricultural settlement in isolation will increase food prices by less than half a per cent. Drought in the USA and Southern Europe has resulted in a pronounced increase in global food prices this summer. The drought has affected international wheat prices, but also prices for maize, soya, rape and sunflower oil. Whereas some parts of the world are suffering from drought, the Brazilian sugar harvest was destroyed by rain.

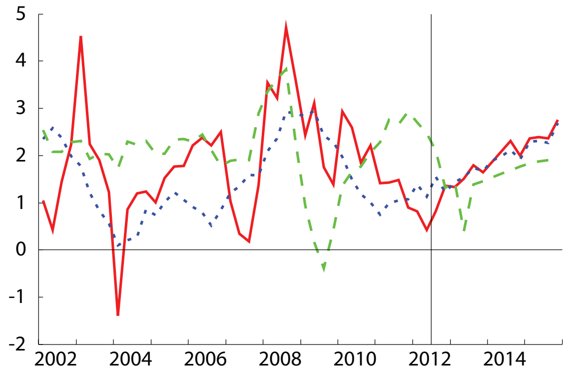
Norwegian agricultural policy regulates the markets for agricultural products through the target price system and commodity price equalisation for imports of processed agricultural products. Within the framework of import protection, the Norwegian Agricultural Authority ensures a supply of goods that are not produced in adequate quantities in Norway. As a result of import protection, consumer prices for foods vary less in Norway than internationally. FAO's food index showed a rise of 22.8 per cent from 2010 to 2011, while food prices in Norway fell somewhat during the same period according to the CPI. Higher international prices for food products will initially affect prices for products that are not produced in Norway, both those going in unprocessed form to the consumer and finished products that are dependent on this type of product as material input. However this only accounts for a limited share of overall food consumption. According to our projections, prices for food products will rise by an annual average of 1.3 per cent in both 2012 and 2013. We expect the rise in prices for non-alcoholic beverages to abate somewhat from 2012 to 2013. One reason for this is developments in coffee commodity prices, which according to FAO have fallen appreciably through 2012.

Actual and imputed rent rose by 2.0 and 1.8 per cent, respectively, in the year to July 2012. Imputed rent was 0.2 per cent up on the previous month, while actual rent remained unchanged. For households that rent dwellings, actual rent is measured in the form of market rents obtained from the Rental Survey. This survey is conducted monthly by Statistics Norway, and targets households in rented accommodation. The survey captures new rental contracts that are entered into for a given dwelling in the course of the year that the selection is monitored. Contracts entered into are often regulated by the overall CPI index, which has edged up slowly in recent years. Imputed rent for owner-occupiers is derived in the CPI by using the rental equivalence principle based on figures from the Rental Market Survey. The rental equivalence principle is based on the assumption that the value of the services that owner-occupiers receive from their dwelling is equivalent to the rent for similar dwellings in the rental market, i.e. the rent the owner-occupier would have received for renting out their dwelling. Actual and imputed rents have weights of 3.4 and 12.9 per cent, respectively, in the CPI.

Imports of goods and services account for over 30 per cent of GDP after indirect taxes. Exchange rates and global price developments have a strong bearing on domestic inflation, and for more than ten years a shift towards increased imports from low-cost countries has resulted in low inflationary impulses in Norway. The import-weighted krone exchange rate strengthened in the first half of the year, and this is expected to reduce inflationary impulses from imported goods for a period ahead. However, the picture is not clear-cut. Sweden is an important trading partner, and the Norwegian krone weakened against the Swedish krona this summer. Developments in exchange rates contributed to the low rise in the CPI in the first half of the year. Given the assumptions upon which our projection scenario is based, the import-weighted krone exchange rate appears likely to slightly moderate CPI inflation until the end of 2014. Exchange rate developments are then projected to push inflation up slightly.

Electricity prices, including grid rental, plunged 23 per cent in the first half of 2012 compared with the same period last year, and fell further in July. High reservoir levels as a result of a mild winter and unusually heavy

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



Source: Statistics Norway.

precipitation contributed to the spot price in all the Norwegian power-producing areas being less than 10 øre/kWh in certain periods this past summer. Despite record high electricity exports, reservoir levels are still higher than the median for this time of year. Prices in the Nord Pool area have nevertheless rebounded recently. On the basis of prices for forward contracts in the Nord Pool area we assume that household electricity prices including grid rental will be approximately the same as last year for the remainder of 2012. Taking account of a reduction in grid rental from last year to this year, we estimate that household electricity prices, expressed as an annual average, will be approximately 18 per cent lower this year than in 2011. The rise in electricity prices in the years 2013 to 2015 is expected to be relatively moderate, but still somewhat higher than general inflation a little way ahead. However, there is substantial longer-term uncertainty surrounding the projections. The green certificates scheme will gradually increase in scope up to 2020 and, viewed in isolation, will mean higher electricity prices for consumers. On the other hand, the development of renewable energy in Norway and Sweden and nuclear power in Finland will gradually lead to a strong increase in production capacity in the Nord Pool area. This points to low prices. The development of greater transfer capacity from the Nordic countries to Europe is likely to push prices up.

Given our projections for developments in hourly labour costs and labour productivity, annualised average CPI inflation in 2013 will be 1.6 per cent. Subsequently, stronger domestic cost impulses on the back of higher prices in other countries and a weaker krone exchange rate will push up CPI inflation. CPI inflation will consequently be 2.5 per cent in 2015. We have assumed that the overall rise in prices for energy products will be close to general inflation, so that CPI and CPI-ATE inflation will be fairly similar in the near term. In 2015, inflation measured by the CPI-ATE is projected to be 2.4 per cent, and thus close to the inflation target.

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

	Unadjusted		Seasonally adjusted						
	2010	2011	10.4	11.1	11.2	11.3	11.4	12.1	12.2
Final consumption expenditure of households and NPISHs	1 065 455	1 091 367	270 724	270 745	272 491	273 930	275 986	279 001	281 901
Household final consumption expenditure	1 016 238	1 041 718	258 197	258 389	260 186	261 498	263 437	266 331	269 328
Goods	516 722	523 611	131 881	130 502	131 203	131 710	132 050	133 030	135 200
Services	462 851	476 209	116 656	117 939	118 438	119 248	120 460	121 477	122 334
Direct purchases abroad by resident households	64 407	70 124	16 591	16 772	17 560	17 651	18 173	19 021	19 093
Direct purchases by non-residents	-27 742	-28 226	-6 931	-6 825	-7 016	-7 111	-7 247	-7 197	-7 298
Final consumption expenditure of NPISHs	49 218	49 649	12 527	12 356	12 305	12 432	12 549	12 670	12 573
Final consumption expenditure of general government	539 925	548 191	135 186	135 400	136 849	137 688	138 153	137 691	139 086
Final consumption expenditure of central government	274 466	277 459	68 495	68 377	69 124	69 768	70 234	69 723	70 534
Central government, civilian	240 019	243 377	59 877	59 984	60 640	61 150	61 650	61 074	61 909
Central government, defence	34 446	34 082	8 618	8 393	8 484	8 619	8 584	8 649	8 624
Final consumption expenditure of local government	265 459	270 731	66 691	67 023	67 725	67 920	67 920	67 968	68 552
Gross fixed capital formation	488 870	519 955	127 948	128 374	122 481	133 342	135 461	135 199	138 817
Extraction and transport via pipelines	122 370	138 720	31 304	32 698	33 362	36 303	36 384	37 705	38 998
Service activities incidential to extraction	1 240	-3 923	529	-168	-4 478	478	246	153	261
Ocean transport	24 836	17 458	5 834	4 922	3 819	4 483	4 283	4 617	4 451
Mainland Norway	340 423	367 699	90 281	90 922	89 777	92 079	94 549	92 723	95 107
Mainland Norway excluding general government	261 091	286 013	69 415	69 256	71 137	72 127	73 593	72 839	74 867
Industries	167 865	172 263	44 816	42 293	42 488	43 167	44 400	44 022	44 868
Manufacturing and mining	20 060	20 487	5 154	4 766	4 862	5 502	5 411	5 098	5 789
Production of other goods	39 916	43 514	10 698	10 503	10 587	11 094	11 303	11 310	10 898
Services	107 889	108 262	28 964	27 023	27 038	26 571	27 687	27 614	28 182
Dwellings (households)	93 226	113 750	24 599	26 963	28 649	28 959	29 192	28 818	29 999
General government	79 332	81 686	20 865	21 666	18 640	19 952	20 956	19 883	20 240
Changes in stocks and statistical discrepancies	58 542	66 669	12 111	24 009	14 594	8 476	20 348	18 669	14 604
Gross capital formation	547 412	586 623	140 059	152 383	137 074	141 818	155 809	153 868	153 421
Final domestic use of goods and services	2 152 792	2 226 181	545 969	558 528	546 414	553 436	569 948	570 560	574 408
Final demand from Mainland Norway	1 945 804	2 007 257	496 191	497 067	499 117	503 697	508 688	509 415	516 094
Final demand from general government	619 257	629 877	156 051	157 066	155 490	157 640	159 109	157 574	159 326
Total exports	945 560	931 984	236 090	229 362	230 425	239 479	232 681	237 299	240 453
Traditional goods	284 221	282 968	70 437	68 703	72 509	72 290	69 356	71 597	72 049
Crude oil and natural gas	396 175	371 622	96 588	94 998	88 259	97 478	91 117	96 326	97 986
Ships, oil platforms and planes	10 167	15 662	2 053	1 699	6 978	3 783	3 226	2 543	3 288
Services	254 997	261 732	67 012	63 962	62 678	65 929	68 981	66 834	67 130
Total use of goods and services	3 098 353	3 158 165	782 059	787 890	776 839	792 915	802 628	807 859	814 862
Total imports	725 811	751 293	183 010	193 813	179 294	186 365	192 974	188 850	188 716
Traditional goods	431 178	454 093	110 673	113 406	111 557	113 481	115 583	115 116	114 313
Crude oil and natural gas	11 227	10 800	2 235	4 848	2 262	2 379	2 433	2 923	3 457
Ships, oil platforms and planes	30 720	37 229	6 392	16 781	6 179	7 850	6 549	6 417	6 003
Services	252 686	249 171	63 711	58 778	59 295	62 656	68 409	64 393	64 943
Gross domestic product (market prices)	2 372 542	2 406 872	599 049	594 077	597 545	606 550	609 655	619 010	626 146
Gross domestic product Mainland Norway (market prices)	1 910 616	1 956 915	480 864	481 528	488 617	492 231	495 881	501 681	506 522
Petroleum activities and ocean transport	461 926	449 957	118 185	112 548	108 929	114 319	113 774	117 328	119 624
Mainland Norway (basic prices)	1 639 237	1 678 674	412 344	412 581	419 314	422 417	425 339	431 325	435 050
Mainland Norway excluding general government	1 253 354	1 283 735	315 892	315 156	320 396	323 234	325 690	331 485	335 192
Manufacturing and mining	179 219	182 879	45 655	45 354	45 602	45 864	46 051	46 284	46 204
Production of other goods	201 957	207 146	51 255	49 420	51 685	53 264	53 413	55 974	57 687
Services incl. dwellings (households)	872 178	893 710	218 983	220 383	223 109	224 106	226 226	229 227	231 300
General government	385 884	394 939	96 452	97 425	98 917	99 183	99 650	99 840	99 858
Taxes and subsidies products	271 379	278 241	68 520	68 947	69 303	69 814	70 542	70 357	71 472

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted						
	2010	2011	10.4	11.1	11.2	11.3	11.4	12.1	12.2
Final consumption expenditure of households and NPISHs	3.7	2.4	1.3	0.0	0.6	0.5	0.8	1.1	1.0
Household final consumption expenditure	3.8	2.5	1.2	0.1	0.7	0.5	0.7	1.1	1.1
Goods	4.2	1.3	1.9	-1.0	0.5	0.4	0.3	0.7	1.6
Services	2.3	2.9	0.4	1.1	0.4	0.7	1.0	0.8	0.7
Direct purchases abroad by resident households	12.3	8.9	1.4	1.1	4.7	0.5	3.0	4.7	0.4
Direct purchases by non-residents	6.2	1.7	-0.2	-1.5	2.8	1.4	1.9	-0.7	1.4
Final consumption expenditure of NPISHs	1.5	0.9	1.8	-1.4	-0.4	1.0	0.9	1.0	-0.8
Final consumption expenditure of general government	1.7	1.5	0.3	0.2	1.1	0.6	0.3	-0.3	1.0
Final consumption expenditure of central government	-0.4	1.1	-0.5	-0.2	1.1	0.9	0.7	-0.7	1.2
Central government. civilian	0	1.4	-0.7	0.2	1.1	0.8	0.8	-0.9	1.4
Central government. defence	-3.1	-1.1	1.3	-2.6	1.1	1.6	-0.4	0.8	-0.3
Final consumption expenditure of local government	4	2	1.2	0.5	1.0	0.3	0.0	0.1	0.9
Gross fixed capital formation	-5.2	6.4	6.8	0.3	-4.6	8.9	1.6	-0.2	2.7
Extraction and transport via pipelines	-9	13.4	9.4	4.5	2.0	8.8	0.2	3.6	3.4
Service activities incidential to extraction	-87.2	-416.3	..	-131.8	..	-110.7	-48.5	-37.6	70.3
Ocean transport	11.7	-29.7	-9.0	-15.6	-22.4	17.4	-4.5	7.8	-3.6
Mainland Norway	-2.5	8	6.5	0.7	-1.3	2.6	2.7	-1.9	2.6
Mainland Norway excluding general government	-0.9	9.5	6.2	-0.2	2.7	1.4	2.0	-1.0	2.8
Industries	-0.2	2.6	6.8	-5.6	0.5	1.6	2.9	-0.9	1.9
Manufacturing and mining	-21.6	2.1	10.5	-7.5	2.0	13.2	-1.7	-5.8	13.6
Production of other goods	7	9	5.4	-1.8	0.8	4.8	1.9	0.1	-3.6
Services	2.5	0.3	6.8	-6.7	0.1	-1.7	4.2	-0.3	2.1
Dwellings (households)	-2.2	22	5.0	9.6	6.3	1.1	0.8	-1.3	4.1
General government	-7.5	3	7.6	3.8	-14.0	7.0	5.0	-5.1	1.8
Changes in stocks and statistical discrepancies	320.7	13.9	-31.6	98.2	-39.2	-41.9	140.1	-8.2	-21.8
Gross capital formation	3.4	7.2	1.9	8.8	-10.0	3.5	9.9	-1.2	-0.3
Final domestic use of goods and services	3.1	3.4	1.2	2.3	-2.2	1.3	3.0	0.1	0.7
Final demand from Mainland Norway	2	3.2	1.9	0.2	0.4	0.9	1.0	0.1	1.3
Final demand from general government	0.5	1.7	1.2	0.7	-1.0	1.4	0.9	-1.0	1.1
Total exports	1.8	-1.4	2.2	-2.8	0.5	3.9	-2.8	2.0	1.3
Traditional goods	2.5	-0.4	-1.8	-2.5	5.5	-0.3	-4.1	3.2	0.6
Crude oil and natural gas	-4.8	-6.2	3.3	-1.6	-7.1	10.4	-6.5	5.7	1.7
Ships. oil platforms and planes	-14.4	54.1	3.3	-17.3	310.8	-45.8	-14.7	-21.2	29.3
Services	13.8	2.6	5.0	-4.6	-2.0	5.2	4.6	-3.1	0.4
Total use of goods and services	2.7	1.9	1.5	0.7	-1.4	2.1	1.2	0.7	0.9
Total imports	9.9	3.5	-1.1	5.9	-7.5	3.9	3.5	-2.1	-0.1
Traditional goods	8.1	5.3	2.1	2.5	-1.6	1.7	1.9	-0.4	-0.7
Crude oil and natural gas	-17.7	-3.8	-30.8	116.9	-53.3	5.2	2.3	20.2	18.3
Ships. oil platforms and planes	-2.9	21.2	-25.5	162.5	-63.2	27.0	-16.6	-2.0	-6.5
Services	16.8	-1.4	-1.9	-7.7	0.9	5.7	9.2	-5.9	0.9
Gross domestic product (market prices)	0.7	1.4	2.3	-0.8	0.6	1.5	0.5	1.5	1.2
Gross domestic product Mainland Norway (market prices)	1.9	2.4	0.2	0.1	1.5	0.7	0.7	1.2	1.0
Petroleum activities and ocean transport	-3.9	-2.6	11.7	-4.8	-3.2	4.9	-0.5	3.1	2.0
Mainland Norway (basic prices)	1.5	2.4	0.2	0.1	1.6	0.7	0.7	1.4	0.9
Mainland Norway excluding general government	1.5	2.4	0.2	-0.2	1.7	0.9	0.8	1.8	1.1
Manufacturing and mining	2.4	2	0.9	-0.7	0.5	0.6	0.4	0.5	-0.2
Production of other goods	0.6	2.6	2.2	-3.6	4.6	3.1	0.3	4.8	3.1
Services incl. dwellings (households)	1.6	2.5	-0.5	0.6	1.2	0.4	0.9	1.3	0.9
General government	1.5	2.3	0.3	1.0	1.5	0.3	0.5	0.2	0.0
Taxes and subsidies products	3.9	2.5	0.6	0.6	0.5	0.7	1.0	-0.3	1.6

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted						
	2010	2011	10.4	11.1	11.2	11.3	11.4	12.1	12.2
Final consumption expenditure of households and NPISHs	102.1	103.4	101.9	102.5	103.7	103.5	103.3	104.4	103.8
Final consumption expenditure of general government	103.0	106.9	103.9	106.0	106.4	107.0	108.2	108.7	110.3
Gross fixed capital formation	102.1	105.8	102.2	104.5	105.2	105.9	107.4	108.3	108.1
Mainland Norway	102.5	106.4	102.4	105.3	106.1	106.8	107.2	109.4	109.2
Final domestic use of goods and services	102.7	105.3	102.6	105.5	104.9	104.9	105.8	107.4	107.0
Final demand from Mainland Norway	102.4	104.9	102.5	104.0	104.8	105.0	105.3	106.5	106.6
Total exports	109.8	122.9	110.4	120.7	122.2	122.5	126.6	128.6	125.9
Traditional goods	105.3	111.8	106.2	113.1	113.0	111.3	110.6	110.0	108.0
Total use of goods and services	104.9	110.5	104.9	109.9	110.0	110.2	111.8	113.6	112.6
Total imports	100.0	102.5	100.3	103.9	101.6	102.3	103.1	103.5	101.9
Traditional goods	99.4	103.5	98.9	104.7	103.0	102.9	103.8	104.0	103.0
Gross domestic product (market prices)	106.4	113.0	106.4	111.9	112.5	112.6	114.6	116.7	115.8
Gross domestic product Mainland Norway (market prices)	103.9	106.5	104.2	105.9	106.6	106.5	106.8	107.5	107.9

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted						
	2010	2011	10.4	11.1	11.2	11.3	11.4	12.1	12.2
Final consumption expenditure of households and NPISHs	2.1	1.3	0.5	0.0	1.1	-0.2	-0.2	1.1	-0.5
Final consumption expenditure of general government	3.0	3.7	0.2	1.7	0.4	0.5	1.1	0.5	1.5
Gross fixed capital formation	2.1	3.6	0.3	1.7	0.7	0.7	1.5	0.8	-0.2
Mainland Norway	2.5	3.8	0.7	2.1	0.7	0.7	0.3	2.1	-0.2
Final domestic use of goods and services	2.7	2.6	0.8	2.0	-0.6	0.0	0.9	1.5	-0.4
Final demand from Mainland Norway	2.4	2.4	0.5	0.9	0.8	0.2	0.3	1.1	0.1
Total exports	9.8	11.9	5.7	3.8	1.2	0.2	3.4	1.5	-2.1
Traditional goods	5.3	6.2	3.2	3.4	-0.1	-1.5	-0.7	-0.6	-1.8
Total use of goods and services	4.9	5.4	2.3	2.4	0.1	0.1	1.5	1.6	-0.9
Total imports	0.0	2.5	1.8	2.1	-2.2	0.7	0.8	0.5	-1.6
Traditional goods	-0.6	4.1	2.5	3.1	-1.7	-0.1	0.9	0.2	-0.9
Gross domestic product (market prices)	6.4	6.3	2.4	2.6	0.6	0.1	1.8	1.8	-0.8
Gross domestic product Mainland Norway (market prices)	3.9	2.6	0.8	0.7	0.7	-0.1	0.3	0.7	0.3

Source: Statistics Norway.

Table 8. **Main economic indicators 2002-2015. 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	2.4	3.6	4.7	4.6	4.5
General government consumption	3.1	1.3	1.2	1.4	1.9	2.7	2.7	4.3	1.7	1.5	1.9	2.0	2.6	2.7
Gross fixed investment	-1.1	0.8	11.1	13.5	9.8	11.4	0.2	-7.5	-5.2	6.4	8.0	5.8	3.1	2.9
Extraction and transport via pipelines	-5.4	15.9	10.4	19.2	4.0	6.1	5.2	3.4	-9.0	13.4	13.5	6.4	2.5	1.7
Mainland Norway	2.3	-2.9	10.6	12.2	10.5	13.3	-1.3	-13.2	-2.5	8.0	4.5	5.7	3.6	3.5
Industries	4.0	-11.2	10.6	18.6	15.2	21.9	0.8	-23.1	-0.2	2.6	5.3	5.4	2.2	2.1
Housing	-0.7	1.8	16.3	9.7	4.0	2.7	-9.0	-8.2	-2.2	22.0	6.9	7.4	3.9	3.7
General government	1.7	12.5	3.9	2.0	9.7	8.0	4.5	7.4	-7.5	3.0	-0.8	3.9	6.2	6.2
Demand from Mainland Norway[1]	3.0	1.6	5.1	4.9	5.2	6.3	1.4	-1.6	2.0	3.2	3.3	4.2	3.9	3.8
Stockbuilding[2]	0.2	-0.8	1.6	-0.1	0.9	-0.1	-0.1	-2.1	1.9	0.3	-0.2	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	-1.4	1.8	0.2	0.8	1.9
Crude oil and natural gas	2.4	-0.8	-0.7	-5.0	-6.6	-2.5	-1.0	-2.0	-4.8	-6.2	2.2	-0.9	-1.4	-0.2
Traditional goods	0.8	3.6	3.5	5.3	6.2	9.2	3.2	-8.0	2.5	-0.4	1.1	1.9	2.7	3.4
Imports	1.0	1.2	9.7	7.9	9.1	10.0	3.9	-12.5	9.9	3.5	2.6	5.7	4.4	4.1
Traditional goods	3.0	5.6	12.9	8.0	11.6	8.3	0.2	-11.8	8.1	5.3	2.0	6.7	5.0	4.8
Gross domestic product	1.5	1.0	4.0	2.6	2.5	2.7	0.0	-1.7	0.7	1.4	3.5	2.2	2.4	2.8
Mainland Norway	1.4	1.3	4.5	4.4	5.0	5.3	1.5	-1.6	1.9	2.4	3.6	3.1	3.2	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	1.1	2.1	3.2
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	1.6	2.3	1.3	1.8	1.9
Employed persons	0.4	-1.2	0.5	1.3	3.5	4.1	3.2	-0.4	-0.1	1.4	2.2	1.8	1.5	1.6
Labor force[3]	0.7	-0.1	0.3	0.8	1.9	2.5	3.4	0.0	0.5	1.0	2.2	1.9	1.5	1.5
Participation rate (level)[3]	73.5	72.9	72.6	72.4	72.0	72.8	73.9	72.8	71.9	71.4	71.8	72.1	72.1	72.2
Unemployment rate (level)[3]	3.9	4.5	4.5	4.6	3.4	2.5	2.6	3.2	3.6	3.3	3.1	3.3	3.2	3.1
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	4.2	4.2	3.7	4.1	4.5
Consumer price index (CPI)	1.3	2.5	0.4	1.6	2.3	0.8	3.8	2.1	2.5	1.2	0.9	1.6	2.1	2.5
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	2.0	2.4
Export prices, traditional goods	-9.2	-0.9	8.5	4.3	11.4	2.5	3.0	-6.2	5.3	6.2	-2.7	-1.0	2.4	3.6
Import prices, traditional goods	-7.1	0.0	2.7	0.4	4.1	3.7	4.2	-1.8	-0.6	4.1	-0.3	-1.8	1.3	2.9
Housing prices[5]	5.0	1.7	10.1	8.2	13.7	12.6	-1.1	1.9	8.3	8.0	7.0	7.2	7.7	8.0
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	4.2	5.0	4.5	4.0	2.8
Household saving ratio (level)	8.4	9.0	7.0	9.8	-0.5	0.9	3.5	6.8	6.3	8.2	9.3	9.4	8.7	7.2
Money market rate (level)	6.9	4.1	2.0	2.2	3.1	5.0	6.2	2.5	2.5	2.9	2.3	2.3	3.1	4.0
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	3.5	3.9	4.7
Real after-tax lending rate, banks (level)	4.8	2.2	2.5	1.3	0.7	2.9	1.1	0.7	0.1	1.3	1.9	0.9	0.7	0.9
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	-0.8	-1.2	0.1	1.9
NOK per euro (level)	7.5	8.0	8.4	8.0	8.1	8.0	8.2	8.7	8.0	7.8	7.5	7.3	7.3	7.4
Current account														
Current balance (bill. NOK)	192.3	195.2	220.6	314.5	357.7	287.4	408.3	254.5	313.6	395.9	440.3	348.7	299.3	285.2
Current balance (per cent of GDP)	13.2	12.3	12.6	16.1	16.4	12.5	16.0	9.7	12.4	14.6	15.1	11.7	9.7	8.8
International indicators														
Exports markets indicator	2.3	2.7	7.7	7.0	9.6	5.6	1.2	-10.5	11.0	5.2	1.4	2.5	4.1	5.4
Consumer price index, euro-area	2.2	2.1	2.1	2.2	2.2	2.2	3.3	0.3	1.7	2.7	2.1	1.2	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	0.7	0.6	1.1	2.2
Crude oil price NOK (level)[8]	198	201	255	356	423	422	536	388	484	621	651	563	557	574

[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 4 September.