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Economic developments in Norway

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Economic developments in Norway

Growth in the Norwegian economy has been modest since mid-2022. Several interest rate hikes, high inflation and low global demand have placed a damper on economic activity. At the same time, unemployment has increased from a low level, and is currently close to the average for the 2010s. After peaking at 7.5 per cent in October 2022, inflation has more than halved, and in the course of the summer has come down to below 3 per cent. Inflation is expected to fall further going forward, but at a much slower rate than seen previously this year. Activity in the Norwegian economy is likely to pick up as a consequence of stronger growth in real wages, a high level of public sector activity and the

Table 1. Main macroeconomic aggregates. Accounts figures. Change from previous period. Percent

	2022	2023	Seasonally adjusted			
			23:3	23:4	24:1	24:2
Demand and output						
Consumption in households etc.	6.2	-0.8	-0.0	0.5	-0.7	1.5
General government consumption	1.1	3.4	1.0	1.0	0.3	0.7
Gross fixed investment	5.2	0.0	-0.2	0.8	-7.6	5.1
Extraction and transport via pipelines	-7.1	10.6	8.6	7.9	-9.2	10.0
Mainland Norway	7.6	-1.2	-2.6	-2.0	-5.4	3.5
Final domestic demand from Mainland Norway[1]	5.1	0.3	-0.4	0.1	-1.5	1.7
Exports	4.5	1.4	-1.6	3.4	-1.4	5.6
Traditional goods	-2.5	6.1	-2.8	3.0	-6.5	3.5
Crude oil and natural gas	1.3	-1.1	-1.0	4.5	-0.5	6.9
Imports	12.5	0.7	-3.0	-0.3	-0.4	3.1
Traditional goods	3.4	-3.7	-2.1	-1.1	0.3	3.9
Gross domestic product	3.0	0.5	-0.7	1.7	0.3	1.4
Mainland Norway	3.7	0.7	0.0	0.3	0.1	0.1
Labour market						
Total hours worked. Mainland Norway	3.9	0.8	0.1	0.3	0.3	-0.1
Employed persons	3.9	1.3	0.1	0.1	0.3	0.0
Labour force[2]	1.4	1.3	0.5	-0.0	0.1	0.5
Unemployment rate. level[2]	3.2	3.6	3.6	3.7	3.9	4.2
Prices and wages						
Annual earnings	4.3	5.2	..	..	..	..
Consumer price index (CPI)[3]	5.8	5.5	0.4	1.2	1.0	0.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	3.9	6.2	1.2	1.2	0.8	0.8
Export prices. traditional goods	30.2	-0.4	-3.3	2.0	-1.2	-2.2
Import prices. traditional goods	15.6	5.8	-1.9	3.6	-2.0	2.1
Balance of payment						
Current balance. bill. NOK[4]	1 722	917	193	243	238	232
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	1.3	3.5	3.9	4.3	4.5	4.5
Lending rate. credit loans[5]	0.7	1.3	5.3	5.7	6.0	6.1
Crude oil price NOK[6]	951	867	897	897	857	911
Importweighted krone exchange rate. 44 countries. 1995=100	110.0	119.4	117.7	121.0	118.6	119.7
NOK per euro	10.10	11.42	11.40	11.66	11.41	11.57

[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] Current account not adjusted for saving in pension funds.
[5] Period averages.
[6] Average spot price. Brent Blend.
Source: Statistics Norway and Norges Bank

imminent reversal of the decline in housing investment into a rise. Several of our trading partners have begun to cut interest rates in pace with falling global inflation, and the key policy rate appears likely to be lowered in Norway too from the beginning of next year.

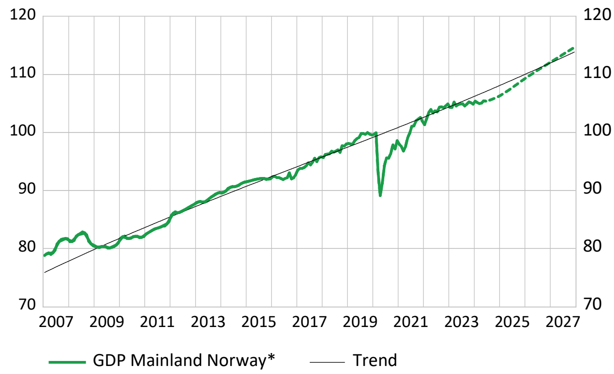
The krone is still weak in a historical perspective and has depreciated by around 3 per cent since our last economic report in June. Developments in the krone exchange rate have an important effect on inflation, amongst other things through import prices measured in NOK. We assume that the exchange rate will remain at its mid-September level in the years ahead.

The most recent depreciation of the krone means that it will take longer for inflation to come down to the inflation target of 2 per cent. The increase in the annual underlying inflation rate (CPI-ATE) was especially high in the first half of last year, peaking at 7.0 per cent in June 2023. It then slowed gradually to 5.3 per cent in January 2024 and fell further to 3.2 per cent in August. Since the beginning of this year, the rise in prices for imported goods has fallen more than prices for Norwegian goods and services, energy products excluded. The rise measured by the consumer price index (CPI), which includes energy products, was 2.6 per cent in August. It is expected to be 3.4 per cent for 2024 as a whole. We expect inflation to continue falling in the period ahead, but are now expecting that even in 2027 CPI inflation will remain about half a percentage point higher than the inflation target of 2 per cent. A key precondition for a continued fall in inflation is that productivity growth picks up markedly in the years ahead.

In December last year Norges Bank raised the key rate by 4.5 per cent, and it has remained at that level since. Norges Bank sets the policy rate primarily to stabilise inflation at around 2 per cent and to ensure financial stability. The central bank also takes into account that a higher interest rate impacts activity in the Norwegian economy. In August the Governor of Norges Bank announced that the interest rate will be kept at 4.5 per cent for "some time ahead". We assume that interest rate cuts will start at the beginning of next year. In our projection scenario, the money market rate will fall from the current level of 4.7 per cent to about 3.5 per cent in 2026 and 2027.

Figure 1. GDP Mainland Norway and estimated trend

Seasonally adjusted, index 2021 = 100

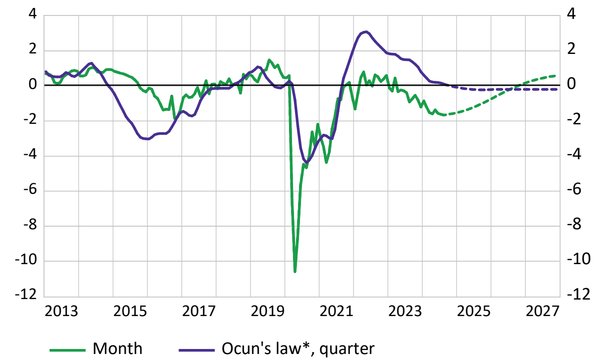


* Quarterly figures before 2016, monthly after. The trend is estimated by an HP-filter (lambda = 40 000 quarterly), but such that the trend is not directly affected by the developement of economic activity in 2020 and 2021.

Source: Statistics Norway

Figure 2. Output gap, Mainland Norway

Deviation form estimated trend GDP in percent, monthly and quarterly frequency



* The series «Okun's law» is based on a one-to-one correspondence between the rate of unemployment and the output gap, cf. box 2.1 i Economic surveys 4/2022. The rate of unemployment is measured relative to the historical average 2010-2020.

Source: Statistics Norway

In the years ahead, fiscal policy will be characterised by increased scope for manoeuvre and increased investment in defence. Public investment and consumption account for just over 1/3 of the mainland economy, and these demand components have grown appreciably more than trend growth in the economy through 2023 and so far this year. Fiscal policy additionally affects economic activity through transfers to households and businesses, and through various changes in policy. There was increased spending of petroleum revenue in the Revised National Budget 2024. The growth is largely attributable to an increase in proposed appropriations for defence as well as for the police, hospitals, the national insurance scheme and support for Ukraine. The new long-term plan for defence entails substantial investment in defence over the next years. Total public investment is expected to grow by around 4 per cent annually up to 2027, while annual growth in consumption is expected to be around 2 per cent. However, the

Table 2. Growth in GDP Mainland Norway and contributions from demand components[1]. Percentage points. Annual rate

	QNA				Projection			
	2020	2021	2022	2023	2024	2025	2026	2027
GDP Mainland Norway	-2.8	4.5	3.7	0.7	0.7	2.1	2.9	2.8
with contributions from:								
Consumption by households and non-profit organisations	-0.6	1.8	0.8	-0.4	0.2	0.6	1.1	1.3
General government consumption and investment	-0.2	0.8	0.3	1.0	0.8	0.6	0.7	0.8
Petroleum investment	-0.1	-0.0	-0.3	0.3	0.4	0.0	-0.1	-0.1
Housing investment	-0.1	0.2	-0.1	-0.8	-0.7	0.2	0.5	0.3
Other mainland investment	-0.3	0.2	1.0	0.3	-0.4	-0.3	0.1	0.1
Exports from mainland Norway[1]	-2.6	2.1	1.4	1.0	0.1	1.0	0.8	0.8
Other factors etc.[1]	1.2	-0.6	0.4	-0.8	0.3	-0.1	-0.1	-0.3

[1] See explanation under Figure 3.
Source: Statistics Norway.

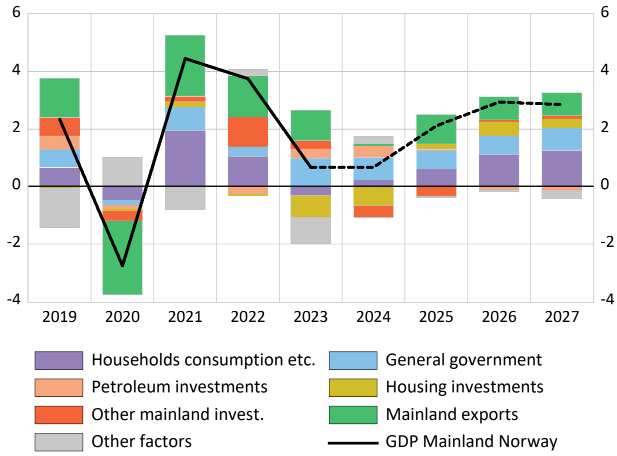
sharp increase in the value of the Government Pension Fund Global (the petroleum fund) means that the withdrawal rate will be only about 2.5 per cent in the next few years, slightly less than the 2.7 per cent that is budgeted in normal times.[1] The future funding requirement, which is partly due to an ageing population, points to such a gradual adjustment of fiscal policy.[2]

Household consumption, which accounts for around half of mainland GDP, remained almost unchanged through 2023, Overall consumption fell in 2024 Q1 and then rose sharply in Q2 as a consequence of large fluctuations in car purchases. Developments in overall consumption excluding car purchases were more stable, with a rise of around 0.5 per cent from Q1 to Q2. While food, beverages, clothing and footwear pushed up overall consumption in the same period, developments in consumption of services were virtually flat. Going forward, we expect increasing growth in real disposable income and real wealth to boost consumption further. On an annual basis, consumption is expected to grow by around 1 per cent in 2024. Growth is then expected to increase gradually to almost 4 per cent in 2027. Our projections imply that the saving ratio will then be between 7 and 8 per cent in the years ahead, which is a little higher than the average for the ten-year period 2010–2019.

Business investment is still at a historically high level, after growing substantially from late 2021 and up to the second half of 2023. Since then it has dipped somewhat, particularly in manufacturing, mining and quarrying. Overall, business investment accounts for about 13 per cent of mainland GDP, but because it is relatively volatile, it normally contributes more to economic developments than this share would suggest. This year we expect investment to be reduced by about 6 per cent on an annual basis. Businesses report lower investment in both manufacturing and services. This applies in particular in the computer and electrical equipment segment. One exception is power supply, where a sharp rise in investment is expected this year, particularly in the transmission and distribution of electricity. Rising real interest rates will depress the investment level going forward, while increased economic activity will exert upward pressure. Business investment is expected to remain at the current level in the years up to and including 2027.

Figure 3. Contributions to growth in GDP Mainland Norway, import adjusted

Change from previous year in percent



Source: Statistics Norway

The demand contributions are calculated by finding the change in each variable, extracting the direct and indirect import shares, and then dividing by the mainland GDP level for the previous period. All figures are seasonally adjusted and in constant prices.

The export variable is defined as total exports excluding exports of crude oil, gas and shipping.

Other factors are defined as changes in stock and statistical deviations.

[1] See Box 3.4 in Meld. St. 1 (2023–2024) - the National Budget 2024 – for a description of the so-called "asymmetry buffer".
[2] See the Long-term Perspectives Report for projections of the funding requirement up to 2060.

Table 3. Main economic indicators 2023-2027. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Acco-unts 2023	Forecasts 2024			2025			2026			2027	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	-0.8	1.1	1.2	1.0	2.1	2.7	2.0	3.6	2.2	..	3.9	2.0
General government consumption	3.4	2.3	2.4	2.1	1.9	2.1	..	1.9	1.9	..	2.3	1.6
Gross fixed investment	0.0	-2.4	..	-1.7	-0.1	..	0.4	2.9	..	..	2.2	..
Extraction and transport via pipelines	10.6	11.0	9.0	7.3	1.0	-4.0	-4.0	-3.0	-3.0	..	-4.0	-3.0
Industries	4.0	-5.8	-9.8	-2.6	-5.1	1.8	-3.4	0.9	3.0	..	1.4	3.3
Housing	-15.6	-16.2	-15.8	-16.1	5.5	5.1	13.0	13.5	10.0	..	8.6	9.2
General government	3.0	4.2	..	4.1	3.2	..	..	4.1	..	..	3.9	..
Demand from Mainland Norway[1]	0.3	-0.1	-0.6	0.2	1.4	2.5	1.8	3.3	2.5	..	3.4	2.3
Exports	1.4	1.9	..	2.4	1.9	..	4.5	1.3	..	..	0.6	..
Traditional goods[2]	6.1	-1.8	5.2	3.6	5.7	1.2	2.9	5.0	1.5	..	4.6	2.4
Crude oil and natural gas	-1.1	1.9	..	-0.2	-1.9	..	4.4	-1.8	..	..	-3.3	..
Imports	0.7	0.9	0.6	2.7	2.4	2.8	2.7	3.3	2.1	..	3.6	2.0
Gross domestic product	0.5	1.0	1.1	0.7	1.3	1.9	2.4	2.0	0.4	..	1.7	0.6
Mainland Norway	0.7	0.7	0.8	0.9	2.1	1.3	1.9	2.9	1.2	..	2.8	1.6
Labour market												
Employed persons	1.3	0.5	0.6	0.5	0.7	0.7	0.5	0.8	0.6	..	0.6	0.9
Unemployment rate (level)	3.6	4.1	..	3.8	4.1	..	3.9	4.1	..	..	4.0	..
Prices and wages												
Annual earnings	5.2	5.3	5.2	5.2	4.6	4.5	..	4.3	3.8	..	3.7	3.4
Consumer price index (CPI)	5.5	3.4	3.7	3.9	3.3	3.2	2.8	2.9	2.6	..	2.5	2.3
CPI-ATE[3]	6.2	3.9	4.0	4.3	3.3	3.4	3.0	3.0	2.8	..	2.6	2.4
Housing prices[4]	-0.5	2.5	3.3	..	3.8	6.8	..	3.8	7.8	..	4.0	6.6
Balance of payment												
Current balance (bill. NOK)[5]	917	878	..	753	918	..	..	834	..	..	697	..
Current account (per cent of GDP)	17.9	16.9	..	14.6	16.8	..	..	14.7	..	..	12.0	..
Memorandum items:												
Money market rate (level)	4.2	4.7	..	4.7	4.3	..	4.2	3.6	..	..	3.5	..
Crude oil price NOK (level)[6]	82	79	..	83	70	..	78	70	..	..	70	..
Import weighted krone exchange rate (44 countries)[7]	8.5	1.0	-1.0	1.1	1.8	-0.7	0.6	0.0	0.0	..	0.0	0.0

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.

[2] Norges Bank forecasts exports of traditional goods and services from Mainland Norway. Ministry of Finance forecasts exports of goods exclusive of oil and natural gas.

[3] CPI adjusted for tax changes and excluding energy products (CPI-ATE).

[4] Norges Bank forecasts the housing price index published by Eiendom Norge.

[5] Current account not adjusted for saving in pension funds.

[6] Average spot price. Brent Blend.

[7] Increasing index implies depreciation.

Source: Statistics Norway (SN). Ministry of Finance. Nasjonalbudsjettet 2024 (MoF). Norges Bank. Pengepolitisk rapport 2/2024 (NB).

Last year petroleum investment increased by as much as 10.6 per cent, and high projections in the petroleum companies' reporting for the most recent quarterly investment intentions survey point to equally high growth this year. The high investment figures for 2024 are attributable largely to higher projections for field developments and increased investment in fields in operation. Some of the development projects that have been started in recent years are reaching completion, and we do not expect them will be fully replaced by new investment, so petroleum investment is likely to fall through 2025 and further in 2026 and 2027. Although almost half of the deliveries of capital goods for the petroleum industry are imported from abroad, the deliveries also involve considerable demand directed at mainland Norway[3]. The reduction in petroleum investment in the years ahead will thus also have a dampening effect on mainland economic growth.

[3] For an overview of import shares in final consumption is provided in Economic Survey 1/2024, Box 3.

The fall in housing development is nearing a turning point. In 2023 Q4, housing investment was a whole 21 per cent lower than in the same quarter the previous year. The fall continued in the first half of this year, at almost 10 per cent. A similar fall in housing investment has not been seen since the 1990s housing crisis. Housing accounts for approximately 20 per cent of mainland investment, and the sharp fall has played a part in depressing activity in the Norwegian economy as a whole. The most recent figures from the Norwegian Homebuilder Association show that sales of new dwellings, a leading indicator of housing starts, may have reached a turning point. For the first time in two and a half years, sales of new homes in the past twelve months have been higher than housing starts. We forecast that in 2024 housing investment will fall by just over an annualised 15 per cent. Housing investment is expected to pick up through 2025. The increase must also be viewed in light of the expectation that house prices will rise in the years ahead. However, projecting house price movements is particularly uncertain. Factors that may influence them are households' expectations regarding future house prices and possible policy changes. The Norwegian financial supervisory authority, Finanstilsynet, has submitted its advice that the current lending regulations should be maintained almost in their entirety, and this assumption forms the basis for our projections. In our macroeconomic model, house prices are driven in the long term by household real disposable income, the value of the housing stock, debt and real interest rates.[4] Although household real disposable income is expected to pick up appreciably, rising real interest rates will place a definite damper on the rise in house prices in the years ahead. They are expected to increase by around 3–4 per cent in the years up to and including 2027.

There was virtually no real wage growth in Norway from 2015 to 2023. Wage growth was 5.2 per cent last year, but real wages fell a little due to the high inflation. As a result of solid profitability in several wage leader segments and falling consumer price inflation, the weak real wage developments will probably reverse into an upturn from this year onwards. Following mediation by the National Mediator of Norway, the Federation of Norwegian Industries (Norsk Industri) and the United Federation of Trade Unions (Fellesforbundet) reached agreement on a norm of 5.2 per cent for annual wage growth in 2024 in overall manufacturing under the Confederation of Norwegian Business and Industry (NHO). The wage formation process is not over for all parties, and in November the National Wages Board will consider the public sector settlements that went to compulsory and voluntary arbitration. Our projections point to accrued annual wage growth of 5.3 per cent this year. This implies real wage growth of 1.9 per cent, the highest for more than 10 years. The labour share in manufacturing will gradually pick up from a historically low level and approach the average for the last 20 years in 2027. Given this picture, real wage growth will remain at around 1.5 per cent in the years ahead.

Unemployment measured by the Labour Force Survey (LFS) has risen from a low level in 2022 of around 3.2 per cent to a level slightly higher than the average of 4.1 per cent for the 2010s. The rise in unemployment from 2022 has been most pronounced among persons in the age group 15–24 years, but there has also been an increase among persons aged 25 and above during this period. According to the Norwegian Labour and Welfare Organisation (NAV), half of those registered as fully unemployed or as job-seekers on labour market programmes have an immigrant background, with Ukrainians constituting the largest group. As more and more Ukrainians complete the introduction programme, they will increasingly enter the labour market. At the same time, the economic upturn we foresee will increase demand for labour, so that the rise in unemployment is likely to come to a halt soon. Unemployment will then remain at roughly the current level in the years ahead.

Several factors indicate that the Norwegian economy is entering a clear cyclical upturn. Good profitability in the wage leader segment is pushing up wage and income growth, thereby stimulating household consumption. Consumption will also be stimulated by the fact that inflation is on the way down, and that the interest rate is very likely to be cut at the beginning of next year. The fall in housing investment will probably soon reverse into an upturn. The increased fiscal scope for manoeuvre will contribute to a marked increase in public consumption and investment in the years ahead. All these factors contribute to a clear rise in activity in

[4] See Boug, P., Hungnes, H. & Kurita, T. (2024). The empirical modelling of house prices and debt revisited: a policy-oriented perspective. *Empirical Economics,* 66, 369– 404.

Box 1. Higher productivity growth results in lower interest rates

Trend mainland GDP growth has been slowing since the financial crisis. This tendency is not unique to Norway, but applies to many developed and emerging economies.[1]

The slowing trend GDP growth can be largely attributed to falling productivity growth. Productivity is a measure of how much value added we extract from the production factors. Although the slowdown in productivity growth is not fully understood, research shows that it is related to several factors, such as reduced global trade, less capital per worker, lower contributions from human capital and reduced business dynamism. See for example Goldin et al. (2024). For Norway, which is a small, open economy, productivity is largely determined by global developments, but is also influenced by domestic research and development and knowledge flows across companies and industries; see Brasch et al. (2021).

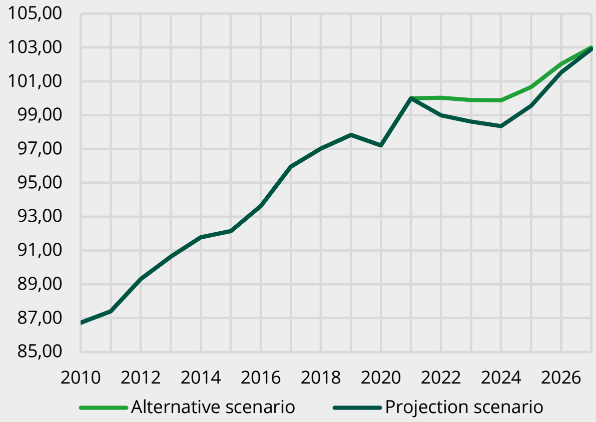
Whereas these factors are important for long-term changes in productivity and economic growth, other factors and incidents may influence productivity in the short and medium term. A recent example is the Covid-19 pandemic.

The productivity level has fallen since the pandemic. In this box we consider the effect this weak productivity development has had on the Norwegian economy in the short and medium term. We compare both historical developments from 2022 and up to today and the projection scenario with an alternative scenario without a fall in productivity (see Figure 1).[2] In the alternative scenario, we assume that the productivity level has been virtually unchanged from 2022 to 2024, and that the level in 2027 is approximately the same as in the projection scenario.[3] The analysis is carried out using the KVARTS macroeconomic model.[4] Fiscal policy is kept unchanged in the projections and monetary policy follows a Taylor rule; see Boug et al. (2023).[5]

A direct consequence of higher productivity is that production can be maintained at the same level with less use of labour and real capital, which in the short term means lower demand for these factor inputs. At the same time, higher productivity will also stimulate production in both traded and non-traded sectors, which in isolation increases demand for labour and real capital. Lags in the adjustment of real capital mean that the first effect is dominant. Our projections show that without the fall in productivity since 2021, unemployment this year would have been 0.4 percentage point higher than in the projections.[6]

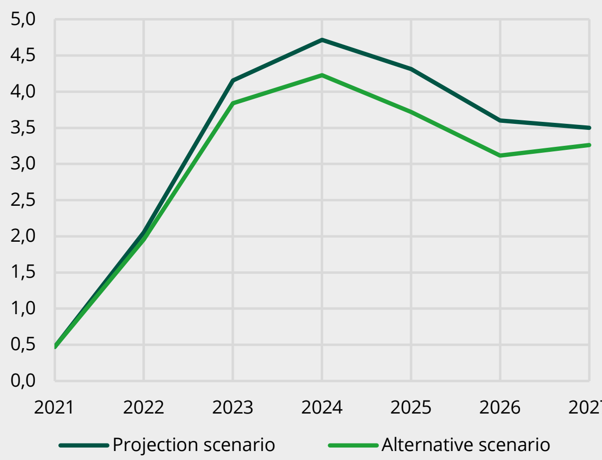
The historical growth in business investment would also have been weaker. At the same time, historical production would have been little affected. In isolation, higher unemployment contributes to lower wage growth. Lower labour costs are reflected in a lower rise in prices and wider margins, and hence higher business profitability. In isolation, higher profitability pushes up wage growth in manufacturing (the wage leader), which leads to higher wage growth in the rest of the economy (the non-traded sector). On balance, however, nominal wages would be lower. As a more efficient production process

Figure 1. Labour productivity in market-oriented mainland industries[1] Index. 2021 = 100



[1] Excluding housing services and government sector. Labour productivity is measured as value added per hour worked. Source: Statistics Norway.
Source: Statistics Norway

Figure 2. Money market rate
Per cent



Source: Statistics Norway

[1] See for example World Economic Outlook (2024).
[2] The analysis is based on Brasch et al. (2023), in which the authors studied how temporarily lower productivity affects developments in the Norwegian economy, based on shift analysis in the KVARTS and NORA models. Whereas Brasch et al. (2023) studied two possible scenarios in which the authors distinguished between a fall in productivity in the traded and non-traded sectors, we assume in this box that productivity increases in both sectors.
[3] These assumptions imply that total factor productivity (TFP) for mainland Norway, which is not affected by composition effects followed by the pandemic, will be on the same level in 2022 as in 2019. In 2024, mainland TFP is 0.35 per cent higher than the level in the projection scenario, while labour productivity is 1.6 per cent higher.
[4] See Boug et al. (2023) for a more detailed description of KVARTS.
[5] Unchanged fiscal policy means that the volume of public consumption and investment is the same as in the projection scenario.

[6] Whether lower productivity leads to higher or lower unemployment is an open question according to economic theory, and will depend on factors such as the causes of changes in productivity, adjustments and the further expectations of the economic agents. However, the empirical literature shows that in the short term there is a negative relationship between these two factors; see Brasch et al. (2023) for a reference list.

←

Effects of higher labour productivity on selected macroeconomic variables
Deviation from the baseline scenario in per cent unless otherwise indicated

	2022	2023	2024	2025	2026	2027
Mainland GDP	-0.1	0.0	0.1	0.3	0.5	0.6
Consumption by households etc.	-0.1	-0.1	0.1	0.4	0.8	0.9
Business investment	-1.1	-1.1	-0.8	0.9	2.4	2.9
Unemployment (percentage points)	0.4	0.3	0.4	0.2	-0.1	-0.2
Annual wages	-0.1	-0.1	-0.2	-0.1	-0.1	0.0
Number employed	-0.6	-0.8	-0.9	-0.5	0.0	0.4
Profit/loss on operations	0.7	1.1	1.2	0.7	0.1	-0.4
Household real disposable income	-0.3	-0.1	0.2	0.6	0.8	0.7
Consumer price index	-0.2	-0.3	-0.5	-0.6	-0.4	-0.3
Inflation	-0.2	-0.2	-0.2	0.0	0.1	0.1
Money market rate (percentage points)	-0.1	-0.3	-0.5	-0.6	-0.5	-0.2
Exchange rate, NOK per euro[1]	0.2	0.5	0.5	0.4	0.0	-0.4

[1] A negative sign means appreciation.
Source: Statistics Norway

places less pressure on prices, inflation would have been lower, which would have resulted in slightly higher growth in real wages in the period from 2022 to 2023. There would have been less need for Norges Bank to raise the policy rate, and the money market rate this year would have been 0.5 percentage point less than our projection. Despite lower interest rates, inflation would have been lower this year. Higher productivity and generally lower inflation exert pressure on the krone to strengthen, but a lower interest rate differential against our trading partners would have prevented appreciation taking place, so that the krone would have weakened up to 2025.

Towards the end of the projection period, investment growth and overall mainland production would have picked up and unemployment would have been 0.2 percentage point less than our projections. The money market rate would still have been less than the level in the projection scenario, but only by 0.2 percentage point. In the scenario with higher productivity, the consumer price level would have been 0.3 per cent lower than our projection in 2027.

Productivity development is crucial to developments in the Norwegian economy, also in the short term. Higher productivity growth in recent years would have resulted in lower inflation and there would have been less need to raise the interest rate. The interest rate would also have been kept down because of a weaker labour market.

It is an open question whether the weak productivity of recent years represents a trend change or whether it is purely cyclical. We have assumed the latter in our projections, and that productivity growth will pick up in the years ahead. However, there is great uncertainty surrounding further developments. If productivity growth does not pick up, it could lead in the short term to rising inflation and higher interest rates. In the longer term, however, weak productivity development will result in gradually slower growth in economic activity and living standards.

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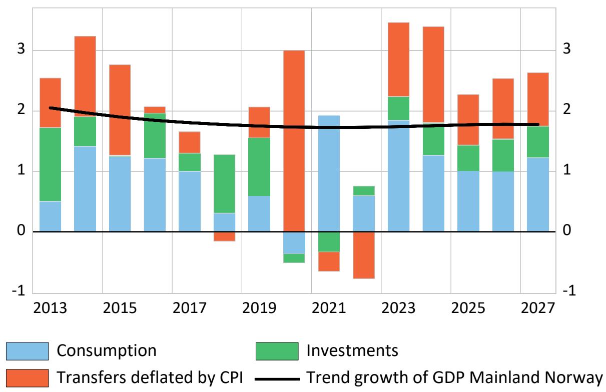
the Norwegian economy through 2025. We expect mainland GDP to grow to what we regard as a cyclically neutral situation from 2026.

Our projections are shrouded in uncertainty. In addition to that associated with further developments in the global economy, there are a number of uncertain domestic factors. For households, there is uncertainty as to how they will balance their consumption and saving in a situation with continued high inflation and interest rates. There is also uncertainty surrounding productivity, and whether the recent weak developments reflect a cyclical or structural phenomenon (see Box 1). For general government there is uncertainty associated with future fiscal scope for manoeuvre, and with how much of the wider scope for manoeuvre will be utilised in the years ahead (see Box 2). In addition, there is great uncertainty surrounding further movements in the krone exchange rate. What is certain, however, is that economic disturbances not included in our projections will arise in the future. Our projections must be interpreted in such a way that the disturbances have an approximately equal probability of arising on the upside as the downside of the projection scenario.

Figure 4. Contributions to growth in general government

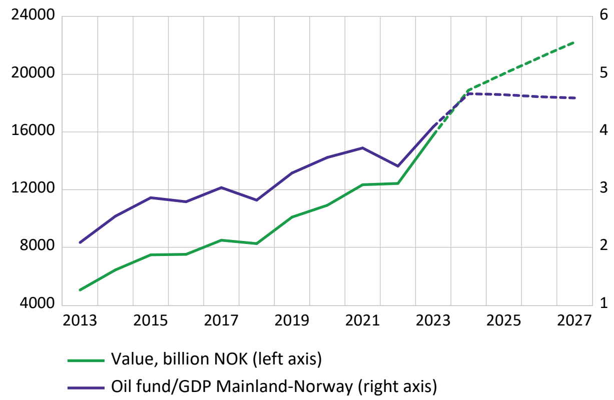
Change from previous year in percent



Source: Statistics Norway

Figure 5. The Norwegian Oil Fund / Government Pension Fund Global

Value, measured in billion NOK and in terms of GDP Mainland-Norway, year



Source: NBIM and Statistics Norway

Fiscal policy is characterised by wider scope for manoeuvre

Through 2023, and so far in 2024, growth in general government consumption and investment has been appreciably higher than estimated trend mainland economic growth. General government consumption grew by 0.7 per cent in 2024 Q2. Central government consumption grew by 0.9 per cent, while defence consumption grew 1.6 per cent. Local government consumption grew 0.4 per cent. General government gross investment fell by 0.1 per cent, The level of general government investment is high in a historical perspective.

Spending of petroleum revenue in 2024, measured as the structural, non-oil budget deficit, is forecast in the Revised National Budget 2024 (RNB 24) to be NOK 418.7 billion. Spending was forecast to be about NOK 9 billion higher than the projections in the National Budget and the Final Budget Bill. Spending increased mainly as a result of proposed increases in appropriations for defence, the police, hospitals, the national insurance scheme and support for Ukraine. Revenue increased mainly as a result of higher revenue from direct and indirect taxes. The forecast percentage withdrawal remained at 2.7 per cent because the value of the petroleum fund also increased. The fiscal stimulus, measured as the change in the structural non-oil budget deficit as a share of trend mainland GDP, was revised up from 0.4 to 0.7 percentage point in RNB 24. The budget for 2024 and those of previous years are expected to have a weakly expansionary effect on the economy in 2024.

According to the semi-annual report of Norges Bank Investment Management, the value of the petroleum fund at the beginning of 2024 was NOK 15 765 billion. Its value increased to NOK 17 745 billion in the first half of 2024. Return on investment accounted for NOK 1 478 billion of the total change in market value. Net capital added in the first half of the year, i.e. capital added from petroleum activities less capital withdrawals, amounted to NOK 188 billion. The depreciation of the krone increased the value of the fund by NOK 315 billion.

In recent years the value of the fund has increased significantly as a result of favourable developments in global financial markets. The depreciation of the krone has also contributed to increasing the value of the fund measured in NOK. In addition, a large amount of capital has been added to the fund. RNB 24 forecast that the state's net cash flow from petroleum activities will be NOK 673 billion in 2024. We assume that the real return on the fund will be 3 per cent, and that inflows will be based on oil and gas prices that shadow forward prices. In mid-September, the value of the fund was approximately NOK 18 500 billion. This expands the fiscal scope for manoeuvre in the period ahead. However, fluctuations in financial markets create a risk of falls in value that may reduce this scope for manoeuvre.

We assume in our projection scenario that the defence programme will entail extensive investment. We expect the twelve remaining F-35 fighter aircraft to be delivered by the end of 2025. We assume that the NATO target that at least 2 per cent of GDP should be used on defence will be met in 2024. Imports of military defence materiel, such as fighter aircraft, will have little impact on activity in the Norwegian economy. However, purchases of defence materiel produced in Norway, as well as investment in and upgrading of the defence infrastructure in Norway, will stimulate economic activity. A gradually expanding health and care sector will also stimulate economic activity in the period ahead. The tax relief announced by the Støre Government will also probably stimulate activity. We have assumed that the spending of petroleum revenue will be adjusted to the risk of a fall in the value of the fund, as described in Box 3.4 in National Budget 24. The level of spending also takes into account the future funding requirement attributable to an ageing population. This means that the withdrawal percentage will be maintained at around 2.5 per cent further out in the projection period despite the increased defence investment.

RNB 24 projected growth in general government consumption and gross investment of 2.2 and 4.1 per cent, respectively, in 2024. In our previous report we forecast growth of 2.2 and 3.2 per cent. We now forecast growth in general government consumption and gross investment of 2.3 and 4.2 per cent. In our previous report, growth in gross investment was revised upward with effect from 2025 as a result of higher defence investment.

Public consumption is forecast to grow by about 2 per cent annually in the course of the projection period, as in our previous economic report. The real value of transfers, measured by the consumer price index, is expected to increase by about 3 per cent further out in the projection period. This is somewhat lower than previously projected.

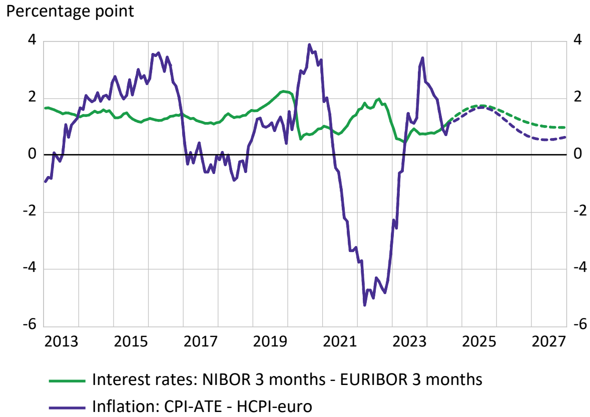
No interest rate cuts until next year

In December 2023 Norges Bank raised the key policy rate by 4.5 per cent, and it has been kept at that level since then. In June this year the Central Bank Governor stated that the key rate will probably " continue to lie at 4.5 per cent to the end of the year, before gradually being reduced". At the monetary policy meeting in August, the formulation was altered to "the policy rate will likely be kept at the current level for some time ahead".

The money market rate normally shadows the key rate with an added premium. However, the money market rate did not increase last year in connection with the September and December rate hikes. This may be because part of the increase in the policy rate had already been priced into the money market rate. The premium may also have been reduced. The 3-month money market rate has remained almost unchanged at around 4.75 per cent since the beginning of August last year.

Deposit and lending rates from banks and financial institutions have increased from record low levels in 2021 Q2 and Q3 . Average rates on loans secured on dwellings increased from 2.0 per cent at the end of 2021 Q3 to 6.1 per cent at the end of 2024 Q1 and remained at roughly this level at

Figure 6. Interest rate and inflation differential between NOK and euro



Source: Norges Bank and Statistics Norway

Box 2. Will increasing the spending of petroleum revenue by NOK 30 billion result in high inflation and higher interest rates?

According to the fiscal rule, spending of petroleum revenue should be adjusted so as to maintain the real value of the petroleum fund. This means that in normal times spending of petroleum revenue is equivalent to around 2.7 per cent of the value of the fund (see Box 3.4 in the National Budget 2024).[1] As the value of the fund has increased by around NOK 2 800 billion so far this year, fiscal scope for manoeuvre will be considerably wider going forward. However, we have assumed in our projection that spending will remain at about 2.5 per cent of the fund's value. What will happen to inflation and the interest rate if more of the short-term scope for manoeuvre is utilised, and from next year onwards spending of petroleum revenue is NOK 30 billion higher than assumed in our projections?

In this box we consider the relationship between increased public spending, consumer price inflation and the effect on the interest rate. The four fiscal measures to be analysed are:

- Increased public consumption
- Increased public sector investment
- Personal tax relief
- Increased development aid

The analysis quantifies the effects on the Norwegian economy of increased spending of petroleum revenue from 2025 and for the remainder of the projection period, which extends up to and including 2027. The increase is equivalent to a nominal weakening of the government budget balance of NOK 30 billion each year over and above the amount forming the basis for our projections. In order to reveal the mechanisms of and need for a monetary policy response, we first consider a projection in which the interest rate and krone exchange rate are kept constant. We then show the effects of altering the interest rate and the exchange rate. The impact on the Norwegian economy is calculated with the aid of the KVARTS model.[2]

Given an unchanged interest rate and krone exchange rate, an annual NOK 30 billion increase in the spending of petroleum revenue channelled into public sector investment and personal tax relief barely impacts inflation in 2025. However, such spending will increase consumer prices in 2027 by 0.2 per cent if it is channelled into investment and 0.1 per cent if it goes to tax relief. Using petroleum revenue for public consumption will exert slightly more pressure on consumer prices, which will rise by 0.4 per cent in 2027, while inflation will be just over 0.2 percentage point higher than our projections. The case with increased development aid has no effect on domestic consumer prices.

The central bank will be able to adjust the interest rate in the event of changes in fiscal policy. In the projection with a model-based interest rate and exchange rate, the policy rate is raised by around 0.5 percentage point after some years in the case with increased public consumption. Higher public investment leads to the money market rate increasing by 0.3 percentage point, while the rate remains virtually unchanged in the tax relief case. In all three cases, changes in consumer prices will be less than 0.1 percentage point. In the case with increased development aid there are no changes in the rate, as consumer prices are not affected. In the following, we analyse each of the four cases.

Increased public consumption

In this case, increased use of petroleum revenue goes to public sector employment, intermediates and purchases of goods and services.[3] Higher public consumption will boost growth in overall employment and unemployment will decrease. A tighter labour market will exert upward pressure on annual wages. This will lead to higher real wages which, along with higher employment, will increase household real disposable income.

Growth in household real disposable income will lead to increased private consumption. However, the pass-through from increased real disposable income to private consumption is relatively weak, because some of the income will go to the purchase of dwellings and other saving. In the first year, consumption will increase by around 30 per cent of the increase in real income.

Around 30 per cent of the increased household consumption will also be covered by increased imports, which will be raised as a result of higher private consumption and increased public consumption of intermediates and purchases of goods and services. However, the upswing of demand in the domestic market, which accounts for just over a fifth of the increase in income, after taking account of import leakage, will have limited effect on prices for consumer goods produced in Norway. Businesses set prices by adding a premium to their variable unit costs.[4] The unit costs increase a little as a result of higher labour costs. The pass-through from wages to consumer prices is weak, however, and 1 percentage point higher wage growth increases inflation by around 0.1 percentage point; see Box 5 in Economic Survey 1/2024.[5, 6]

[1] In Box 3.4 of National Budget 2024 it is specified that in normal times the withdrawal should be 2.7 per cent in order to create an "asymmetry buffer" which compensates for additional spending in periods with large deficits, as it is challenging to reduce spending quickly after sharp increases.

[2] Monetary policy follows a Taylor rule. There are no Ricardian equivalence effects in KVARTS. This means that households do not adapt their consumption to changes in the government's long-term funding requirement, of which increased petroleum revenue spending is an example. See Boug et al. (2023) for a more detailed description of KVARTS.

[3] We assume that the distribution between employment, intermediates and purchases of goods and services is 60, 30 and 10 per cent, which is in line with the analysis in Boug et al. (2023). We assume further that employment will take place gradually through 2025 and 2026, as it takes time to increase the number employed.

[4] See Boug et al. (2017, 2023).

[5] According to our projections, 0.5 percentage point lower unemployment will increase the nominal annual wage by 0.3 per cent. The immediate effect is relatively limited, as it takes time for changes in the labour market to be fully reflected in wage growth, which is in line with Gjelsvik et al. (2020). In the longer term, the effect will be about 2 per cent. Such an adjustment is also consistent with the NORA macroeconomic model (see Gundersen et al. (2024)), where 0.5 percentage point higher unemployment leads to just over 1.5 percent higher nominal wages.

[6] This is in line with the results generated by the NORA macroeconomic model (Gundersen et al., 2024). A change in the trade union's baseline benefit which in the initial year leads to a 1 percentage point increase in nominal wage growth expressed as an annual average results in a 0.12 per cent rise in the CPI in the same period.

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Figure 1a. Inflation
Exogenous interest rate and krone exchange rate. Deviation from the projection scenario in percentage points

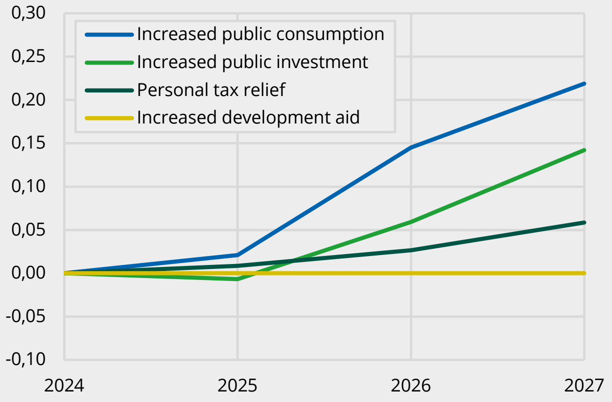
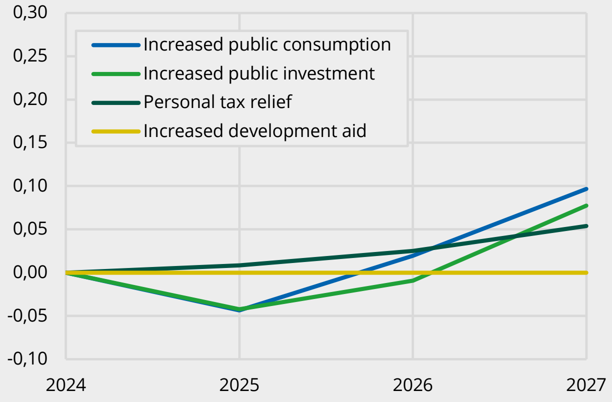


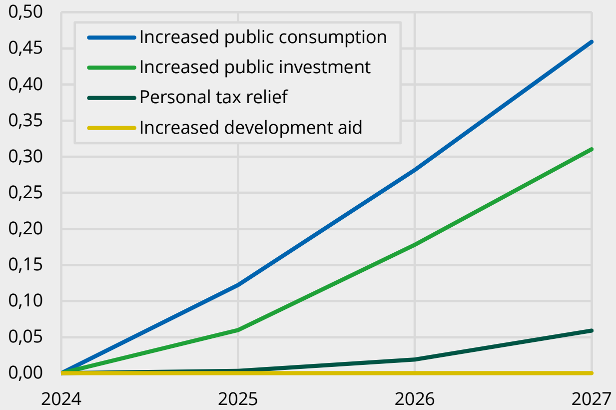
Figure 1b. Inflation
Endogenous interest rate and krone exchange rate. Deviation from the projection scenario in percentage points



On the assumption that the money market rate and krone exchange rate remain unchanged, higher public consumption will raise the CPI by 0.4 per cent compared with the projection scenario and inflation will be 0.2 percentage point higher in 2027.

Because of the reduction in unemployment and rise in inflation, the central bank will raise the policy rate. Our projections indicate that the money market rate will increase by around 0.5 percentage point towards the end of the period, while there will be around 22 000 more public sector employees. Unemployment will fall by 0.5 percentage point, 0.4 percentage point of which will be due to public sector appointments. In isolation, higher public consumption will act via higher inflation to weaken the krone and will push up inflation further through higher import prices. A wider interest rate differential with our trading partners will dominate, however, and lead to the krone strengthening in relation to the projection scenario. The appreciation of the krone will curb the increase in nominal wages and inflation will therefore only increase by 0.1 percentage point in relation to the projection scenario.

Figure 2. Money market rate
Endogenous interest rate and krone exchange rate. Deviation from the projection scenario in percentage points



Increased public sector investment

Increased public investment pushes up mainland activity and imports. Compared with the case with higher public consumption, higher public investment causes a more limited increase in labour market pressures, and hence has less effect on annual wages. With an unchanged exchange rate and policy rate, consumer prices will increase by 0.2 per cent in 2027 compared with the projection scenario, while inflation will be 0.1 percentage point higher.

According to our projections, increased public investment will lead to a lifting of the interest rate path, and in 2027 the money market rate will be 0.3 percentage point higher than in the projection scenario. Public investment will increase by just over 10 per cent compared with the projection scenario. As in the case of increased public sector employment, a higher interest rate path will lead to a stronger krone.

Personal tax relief

In the case of personal tax cuts, which affect a broad population group, household real disposable income increases, but not as much as in the case with higher public consumption when the interest rate and krone exchange rate are kept unchanged. The labour market is not impacted as much in this case as in the public consumption case. This means that annual wages, inflation and money market rates will also be approximately as in the projection scenario. Because the interest rate is kept almost unchanged, household real disposable income and consumption will increase more than in the cases with higher public consumption and investment. Conversely, the increase in mainland GDP will be smaller, which is due to personal tax relief not being directly reflected in the sub-components of the GDP.

Increased development aid

In the last case, we consider how the Norwegian economy is affected by increasing aid to other countries, for example in the form of increased support to Ukraine, Palestine or Syria. We have assumed that the transfers take place via multilateral organisations rather than government bodies or Norwegian development aid organisations. We also exclude any adminis-

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Effects of increased use of petroleum revenue on selected macroeconomic variables[1]
Deviation in 2027 from the baseline scenario in per cent unless otherwise indicated

	Increased public consumption	Increased public investment	Personal tax relief	Increased development aid
Mainland GDP	0.7	0.9	0.5	0.0
Consumption by households etc.	0.6	0.5	1.4	0.0
Business investment	0.2	1.4	0.6	0.0
Exports excl. oil and gas	-0.4	-0.3	0.0	0.0
Imports	0.7	0.9	1.0	0.0
Unemployment (percentage points)	-0.5	-0.4	-0.1	0.0
Annual wages	0.6	0.4	0.1	0.0
Number employed	1.0	0.8	0.3	0.0
Household real disposable income	0.8	0.7	1.9	0.0
House prices	0.7	0.7	2.9	0.0
Consumer price index (CPI)	0.1	0.0	0.1	0.0
Inflation, CPI (percentage points)[2]	0.1	0.1	0.1	0.0
Money market rate (percentage points)	0.5	0.3	0.1	0.0
Exchange rate, NOK per euro[3]	-1.0	-0.8	-0.1	0.0

[1] The projections are based on increased spending of petroleum revenue equivalent to a nominal weakening of the government budget balance of NOK 30 billion each year from 2025 to 2027 inclusive. The effects were calculated with the aid of the KVARTS model.
[2] Measured as deviation in inflation from 2026 to 2027 between the case scenario and the projection scenario.
[3] A negative sign means appreciation.
Source: Statistics Norway

trative costs in Norway in connection with implementation. As the increased petroleum spending is transferred unabridged to other countries, economic activity in Norway will not be affected by the measure, and the interest rate will not change.

In sum, the effect of increased spending of petroleum revenue will thus depend on how the money is spent. Increased use of petroleum revenue for public consumption has the strongest effect on inflation and the interest rate. But it is also possible to spend 30 billion extra petroleum kroner without it having any impact worth mentioning on inflation or the interest rate, for example by giving tax relief or increased development aid. Although it is possible to increase the use of petroleum revenue without raising inflation and the interest rate, we have nonetheless assumed that spending of petroleum revenue will remain at around 2.5 per cent of the value of the petroleum fund further out in the projection period. This is because the fiscal rule has to comply with several considerations. It is intended to smooth fluctuations in the economy, and ensure the distribution of petroleum revenue over several generations. According to the 2024 Perspective Report, the government has a future funding requirement as a result of the ageing population. If the short-term scope for manoeuvre is not fully utilised in the next few years, the funding requirement will be reduced. Thus it is in the interests of the long-term sustainability of the public finances and the desire for more stable developments in public spending and taxes that use of petroleum revenue will probably be restrained in the next few years, not because various fiscal measures necessarily generate such strong inflationary pressures.

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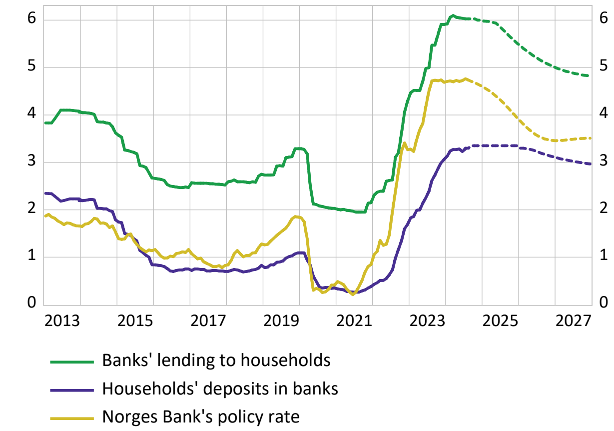
the end of Q2 this year. In the last three years, the average deposit rate has risen by 3 percentage points, to 3.3 per cent at the end of Q2 this year.

Norges Bank sets the interest rate primarily to stabilise inflation at around 2 per cent and to ensure financial stability. The central bank takes into account that the setting of the interest rate influences the krone exchange rate, and thereby imported inflation. It also takes into account that the interest rate level affects activity in the Norwegian economy. Inflation measured by the 12-month rise in the consumer price index (CPI) was 2.6 per cent in August this year. The 12-month rise in the CPI adjusted for tax changes and excluding energy products (CPI-ATE) was 3.2 per cent in same month, down from 6 per cent in October 2023. Thus inflation has decreased appreciably in the course of

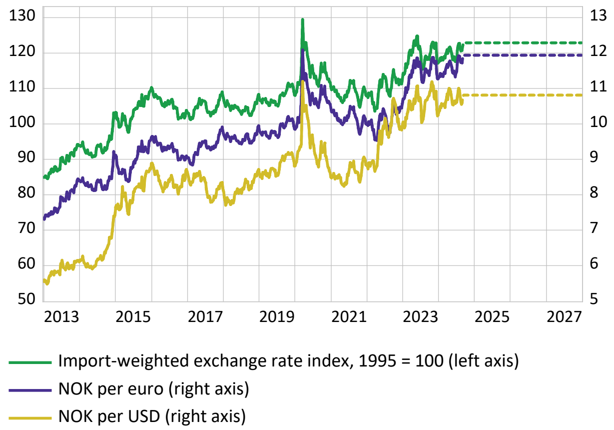
Figure 7. Norwegian interest rates

Percent



Source: Norges Bank and Statistics Norway

Figure 8. Exchange rates



Source: Norges Bank

just under a year, while remaining higher than the inflation target. The clear fall in inflation in recent months has led to our revising down our projections for CPI and CPI-ATE inflation for 2024 in this report too. In isolation, this points to a lower interest rate. At the same time, inflation in the years ahead has been adjusted up somewhat, which implies a higher interest rate.

Norges Bank also takes wage growth into account in its setting of interest rates. Expectations of a weakened krone and improved competitiveness may be reflected in higher wage demands, which in turn will weaken the krone. Thus expectations may be self-fulfilling.

As of mid-September, one euro is worth NOK 11.90. This represents a depreciation of almost 4 per cent compared to the value in our last report. In the same period, the krone has weakened by about 2 per cent against the US dollar, which costs about NOK 10.80 in mid-September. Measured by the import-weighted exchange rate, the krone has weakened by close to 3 per cent since our previous report. Our projections are based as previously on exchange rates remaining unchanged in the near term.

Norges Bank will probably attempt to prevent further depreciation of the krone. It will therefore wait to make interest cuts until after other central banks have cut their rates appreciably. The European Central Bank made its first cut before the summer, and we expect the US to do so later in September. Sweden has already cut its policy rate twice this year. The money market rate in the US was around 5.5 per cent in the first half of 2024, before falling in light of expectations of an interest rate cut in mid-September. The money market rate has thus been almost 1 percentage point higher in the US than in Norway. If the rate in the US is cut by a total of 1 percentage point at the monetary policy meetings in September and November, and by roughly the same amount in the euro area, the first cut in Norway may come in December this year. If the cuts in the US come later, the first cut in Norway may only come next year.

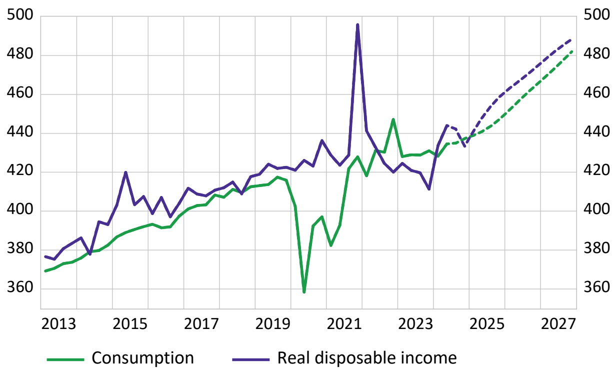
In our projections, we have assumed that the interest rate in Norway will not be reduced until March next year. After that, interest rate cuts abroad will provide scope for cutting the policy rate in every quarter next year and into 2026. The policy rate will then come down to 3.0 per cent in the course of 2026, while the money market rate will fall to 3.5 per cent. Interest rates on loans secured on dwellings, forecast to be 6.0 per cent this year, will then fall to under 5 per cent in 2027.

Consumption is expected to pick up

According to the preliminary non-financial sector accounts, the real disposable income of households and non-profit organisations, both including and excluding share dividends, fell by around 2.5 per cent in 2023. The fall is roughly as forecast in our last publication. Last year's fall is explained by a high rise in prices for a number of goods and services and increased net interest expenses. However, higher wage income and increased government transfers countered the fall. Real disposable income, also excluding share dividends, picked up

Figure 9. Income and consumption in households

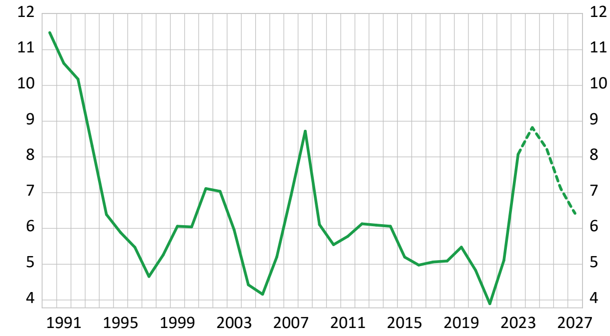
Seasonally adjusted, billion 2021 NOK, quarter



Source: Statistics Norway

Figure 10. Household interest burden

Interest expenses after tax as a share of disposable income in percent, year



Source: Statistics Norway

appreciably through the first half of 2024. Wage income, government transfers and disbursements from pension and other funds contributed substantially to this upswing.[5] In addition, the rise in prices for goods and services slowed through the first two quarters of the year.

According to the preliminary national accounts, total consumption by households and non-profit organisations decreased by close to 1 per cent in 2023, following growth of just over 6 per cent in 2022. The weak developments in consumption through 2023 were dominated by low sales of furniture, white goods and cars. This must be viewed against the backdrop of the higher cost of living and higher interest rates, coupled with strong sales of these goods during the Covid pandemic. The low level of car purchases must also be viewed in light of the introduction of taxes on electric cars in January 2023, which brought planned car purchases forward to 2022. Overall consumption fell further in 2024 Q1 and then expanded sharply in Q2 as a consequence of large fluctuations in car purchases. The upswing in overall consumption excluding car purchases in the first half of the year would have been around 0.5 per cent. While food, beverages, clothing and footwear pushed up overall consumption in the same period, developments in consumption of services were virtually flat. At the same time, Norwegians' purchases abroad increased, while foreigners' purchases in Norway fell, despite the weakened krone.

Measured in current prices, consumption in the second half of 2022 and in much of 2023 was clearly higher than disposable income. Consequently the saving ratio, measured as saving as a share of disposable income, fell from a record-high level of around 14 per cent in 2021 to around 4 per cent in 2023.[6] The saving ratio excluding share dividends fell from around 5.5 per cent to close to zero in the same period. As income grew more than consumption through the first half of 2024, the saving ratio including and excluding share dividends increased in the same period to levels of around 7 and 2.5 per cent, respectively. Household net financial investment, measured as a share of disposable income, also picked up through the first half of this year, from a low level in 2023 to a level in line with the saving ratio. Households therefore appear to have strengthened their financial position so far this year as a result of increased saving, higher prices for securities and a fall in housing investment.

We now forecast that real disposable income, both including and excluding share dividends, will increase by around 4.5 per cent this year. This is a fairly large upward revision compared with our previous report, and relates to the fact that wage income and public transfers will probably grow more, while net interest expenses and prices for goods and services will probably grow less than forecast previously. For the years 2025–2027, growth in annualised average real disposable income will hover around 3.5 per cent. Wage

[5] Disbursements from pension and other funds consist of disbursed benefits associated with employment from employers and disbursements associated with pensions from life insurance and pension funds.

[6] Household saving includes saving in collective pension funds. Thus household saving has been positive, despite consumption being higher than disposable income. The high level of the saving ratio in late 2021 is due to large share dividend disbursements prior to an increase in taxation of these dividends.

income and public transfers, which are forecast to grow more than prices for goods and services, will contribute substantially to growth in real income in the near term.[7] Net interest expenses will also contribute to income growth as mortgage rates fall due to cuts in the policy rate. The level of the household interest burden, measured as interest expenses after tax as a share of disposable income, is projected to rise from around 8 per cent in 2023 to around 9 per cent this year. The interest burden will fall gradually from 2024 to 2027, to around 6.5 per cent. By way of comparison, the average annual interest burden was 5.5 per cent in the 10-year period 2010–2019.

We now forecast growth in total consumption in 2024 of around 1 per cent, roughly one percentage point higher than published previously. The upward revision is mainly due to the fact that, owing to the sharp increase in car purchases, consumption growth will be stronger in Q2 than previously forecast. The annual growth projection for 2024 implies a weak rise in consumption in Q3 and Q4. The goods consumption index for July this year, i.e. the first month in Q3, showed a seasonally adjusted fall of just over 4 per cent. Car purchases, which fluctuate widely from month to month, made a particular contribution to this fall. Given fairly strong growth in both real disposable income and real wealth, consumption growth will gradually pick up to nearly 4 per cent in 2027.

Our projections for income and consumption developments, coupled with projections for saving in collective pension funds, imply that the annual average saving ratios in the projection period, including and excluding share dividends, will be around 7.5 and 3.5 per cent, respectively. They will thus be somewhat higher than the average annual levels in the 10-year period 2010–2019. Our projections also indicate that household net financial investment as a share of disposable income will be an annual average of around 5.5 per cent in the projection period, compared with around 0.5 per cent in the 10-year period 2010–2019. Thus households' financial position will be strengthened in relative terms through the projection period, as also indicated by the fall in the interest burden.

[7] According to projections made using the MOSART model, the number of old-age pensioners will increase by about 100 000 in the 3-year period 2025–2027.

Housing investment close to a turning point

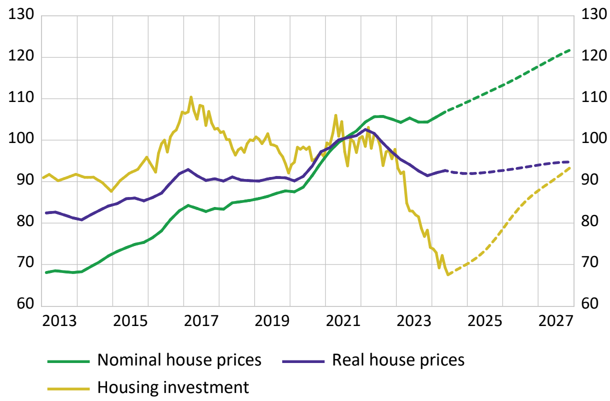
Statistics Norway's resale home price index shows that house prices rose 1.2 per cent from 2024 Q1 to Q2. Growth was geographically broad-based, with the exception of Trøndelag and Møre og Romsdal counties, where developments were weakly negative. House prices have risen to an unexpected extent so far this year despite a continued high interest rate level and a large supply of dwellings. The projections for house price movements are shrouded in uncertainty. Among other things, the form the lending regulations will take in the years ahead is unknown, as the interim lending regulations cease to apply with effect from 1 January 2025. Finanstilsynet has submitted its advice that the current regulations should be largely maintained. The policy decision will be taken by the Ministry of Finance. We assume in our projections that the current regulations will remain unchanged for the remainder of the projection period.

Real Estate Norway publishes monthly housing statistics. The figures show that house prices in Norway as a whole fell marginally from June to July following six months of strong growth. However, a rise in prices was noted in all Norway's largest cities except Trondheim. The high level of activity since May in the resale home market looks set to continue, with a supply side featuring many resale homes on the market, and a very high number of sales. Some 22 per cent more dwellings were sold in July than in the same month in the two previous years. The average turnover time of 62 days is high, however, but the range is wide, from 22 days in Bergen to 104 days in Hamar. House prices increased by 0.5 per cent from July to August, and market activity was still very high. HousingLab's Bidding War Index shows that the share of sales in Oslo involving a bidding war has fallen from a peak of 35 per cent in May, and is now about 25 per cent. In the rest of the country, only 10 per cent of sales feature bidding wars, and over 50 per cent of sales have had bidding rounds with only one bidder.[8]

The sharp fall in housing investment that started at the beginning of 2023 does not appear to have declined to any significant degree. Preliminary quarterly national accounts figures show that housing investment fell by 3.2 per cent from 2024

[8] See HousingLab for a definition of bidding wars.

Figure 11. Housing market
Seasonally adjusted, index, 2021 = 100



Source: Statistics Norway

Q1 to Q2. Housing starts in Q2 were at the lowest level observed for 25 years. The last time a similar fall in housing starts was seen was during the financial crisis, when the turning point came within a year and a half. The current downward trend has persisted for a year longer than this. The general macroeconomic situation and contractionary monetary policy may provide some of the explanation for the difference between the two episodes. Housing starts, which are a leading indicator of housing investment, point to a further fall in the immediate future.

The Norwegian Homebuilder Association presents its members with monthly figures for sales of new homes and housing starts. The most recent June figures show that the upswing in sales of new homes mentioned in our previous report has continued. Thirty per cent more dwellings were sold in June than in the same month in 2023. Sales so far this year have been 12 per cent higher than in the same period last year. Since sales of new homes is regarded as a leading indicator of housing starts, and hence also of housing investment, this may mean that we will soon see the bottom. The most recent housing start figures show that developments so far this year follow last year's closely. The latest figures in Statistics Norway's construction cost index show that price inflation remained high, at 4.4 per cent, also in July. These factors, coupled with the fact that the most recent national accounts figures have been somewhat weaker than we envisaged in our last report, have led to our revising our projection for housing investment in 2024 down somewhat to a decline of 16.2 per cent. We expect housing starts to pick up again in due course, so that investment growth will be positive next year already, but rising from a low level.

In Box 2 of Economic Survey 2/2024 we provided an account of the factors that determine movements in resale home prices. These factors are expected developments in household debt growth, interest burden, real disposable income and interest rate level. We have revised up our projections for household debt growth and real disposable income as well as revising the interest burden down somewhat. Finance Norway's Consumer Confidence Indicator indicates that households are somewhat more positive about their own financial situation next year than they have been previously. The Norwegian Federation of Cooperative Housing Associations' housing market barometer shows that very few households believe in a fall in house prices over the next year. Norges Bank's bank lending survey shows that demand for mortgages increased somewhat in Q2. This, coupled with low residential construction figures, points to somewhat higher house price inflation in the years ahead. However, the interest rate level is expected to remain at the current level in the near term, which may curb the rise in prices. On the other hand, expectations that interest rates are on the way down may reduce households' uncertainty and drive up demand for dwellings. Any changes in the lending regulations will also have a strong effect on demand for mortgages, and accordingly for house price movements. These factors add great uncertainty to our projections. Nonetheless, there is little new information to indicate that the projections in our previous economic report should be revised to any significant extent. The first policy rate cut has been postponed, however, with the result that we have revised down the projection scenario in 2024 a little. Housing Lab's Bubble Index also indicates that house prices may be too high compared with what fundamental prices imply. We therefore adhere closely to our previous projections for the rise in resale home prices for 2024 and 2025 of 2.5 and 3.8 per cent, respectively. We expect house prices to rise by about 8 per cent for 2026 and 2027 combined. This means that real house price inflation will finally become weakly positive from 2025.

Petroleum investment to fall from next year

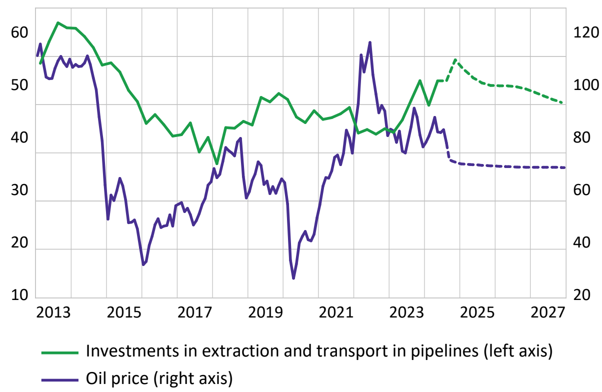
Following a fall of 9.2 per cent in Q1 this year, national accounts figures show 10 per cent growth in petroleum investment in Q2. Second-quarter growth was driven by higher activity in the investment areas petroleum production platforms, drilling rigs and modules and exploration for oil and gas, while lower production drilling activity had a countering effect. In the first half of this year, petroleum investment was 14.4 per cent higher than in the same period last year. Whereas investment prices rose by a whole 10.5 per cent in 2023, the rise in the first half of 2024 was about 7 per cent more than in the same period last year.

The petroleum companies' investment plans for the current and following year are reviewed in Statistics Norway's quarterly investment intentions survey (KIS). In the last survey from August, the nominal projection for 2024 is a record high NOK 257 billion, which is an increase of 4.1 per cent on the projection published in the previous survey in May. The projection for 2025 is NOK 240 billion, some 11 per cent higher than the May projection.

The higher investment projections for both 2024 and 2025 are driven largely by higher cost projections for production drilling in fields in operation. More drilling campaigns have been budgeted for in some existing fields. The category 'field development' also contributes to the higher projection for 2025. No new development projects have been added to the count in the previous survey, but the costs of some ongoing developments have increased. Since the budgets for the combined developments have not been reduced for 2026 and 2027, there is no question of bringing forward previously planned development investment for these years. The increase for 2025 is attributable to cost increases, either in the form of a rise in prices for inputs or as a result of projects demanding more investment activity than previously planned, or a combination of the two.

The package of tax measures adopted by the Storting (Norwegian parliament) in June 2020 to help the industry cope with the sharp fall in the oil price early in the Covid pandemic triggered a very large number of new developments on the Norwegian continental shelf in 2022, which led to strong investment growth last year. As investment is usually higher in the second year of developments than in the first, investment will also increase appreciably in 2024. Given that the survey's projections for 2024 also indicate clear growth in activity in fields in operation and in exploration, we forecast

Figure 12. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2021 NOK, quarter
Right axis: USD per barrel



Source: Statistics Norway

that the investment volume will increase by 11 per cent this year. The projection has been raised by 1 percentage point compared with the previous economic report, mainly because of the upwardly revised projection in the survey.

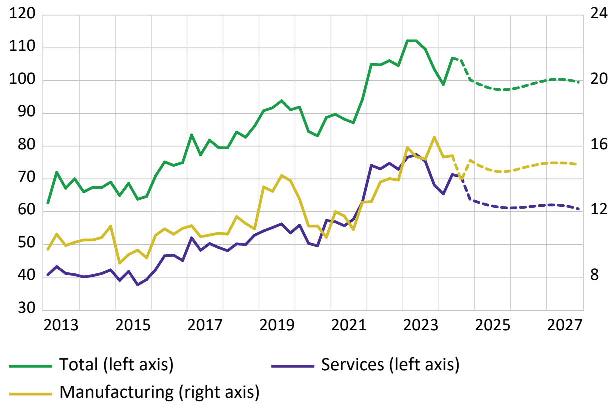
We assume there will be some investment in 2025 in developments for which plans for development and operation (PDOs) have not yet been delivered, and which are therefore not yet included in the survey. This will raise development investment beyond that now included in the survey. Investment in 2025 in some other investment categories, particularly exploration and fields in operation, is also assumed to be higher than the figures in the last survey. Because of the strong survey figures for 2025, we have changed the projection from a slight fall in the previous report to a slight rise now. Coupled with our upwardly revised projection for 2024, this means a 4 per cent increase in the investment level in 2025 compared with the last report.

The development projects that were decided upon at the end of 2022 will have gradually lower investment in 2026 and this will subside to zero in the course of 2027 and will not be fully compensated for by investment in new projects. But the reduction in investment will be countered by higher activity in exploration, fields in production and shutdowns and abandonment. We forecast that investment in 2026 and 2027 will fall by 3 and 4 per cent, respectively. This would make the investment level in 2027 almost 3 per cent higher than in 2019.

In the first half of 2024, oil and gas extraction was 5.3 per cent higher than in the same period last year. Liquid production increased by 0.8 per cent and gas production by 9.9 per cent compared with the first half of 2023. In the spring, the Norwegian Offshore Directorate forecast that extraction this year would be at about the same level as last year. Gas production so far this year has been a good deal higher than forecast by the Norwegian Offshore Directorate owing to fewer planned maintenance shutdowns. We are therefore assuming growth in overall petroleum production of 4.2 and 2.5 per cent in 2024 and 2025, respectively. The Directorate furthermore expects extraction to fall gradually through the remainder of this decade.

Figure 13. Investments Mainland Norway

Seasonally adjusted, billion 2021 NOK, quarter



Source: Statistics Norway

Flat business investment going forward

Business investment is still close to a historically high level, after growing substantially from late 2021 and up to the second half of 2023. Since then it has fallen back somewhat, particularly in manufacturing, mining and quarrying. Investment in service industries and in and wholesale and retail trade fell slightly in 2024 Q1, but has rebounded in Q2. These two industries combined led to growth in overall business investment of over 8 per cent in Q2 this year.

Businesses in manufacturing, mining and quarrying, power supply and oil and gas report regularly to Statistics Norway's investment intentions survey on planned and completed investment. The most recent projections for 2024 for businesses in manufacturing, particularly computer and electrical equipment, show an overall decline in planned investment in 2024 compared with 2023. This is largely due to several projects being in a final phase without new ones being initiated. Businesses report upwardly revised forecasts for investment in 2025 of almost 10 per cent, measured in current prices.

Norges Bank's survey of businesses' outlook for the period ahead, Regional Network (norges-bank.no), includes their planned investments. In the most recent report, published in June, businesses report somewhat more favourable prospects than in the previous publication. Service industries and wholesale and retail trade in particular have revised up investment plans for both 2024 and 2025. The enterprises forecast a slight decline in their previous report, but almost flat developments in the June report. They point in particular to climate mitigation measures, digitalisation and data storage as important investment areas, but point out that high investment and financing costs are placing some restraints on willingness to invest.

The figures submitted by the enterprises must be interpreted in light of the substantial rise in prices for capital goods. Flat developments measured in current prices will therefore still mean a decline in volume. Our forecast for overall business investment is thus a decline of about 6 per cent this year, somewhat less than in our previous report.

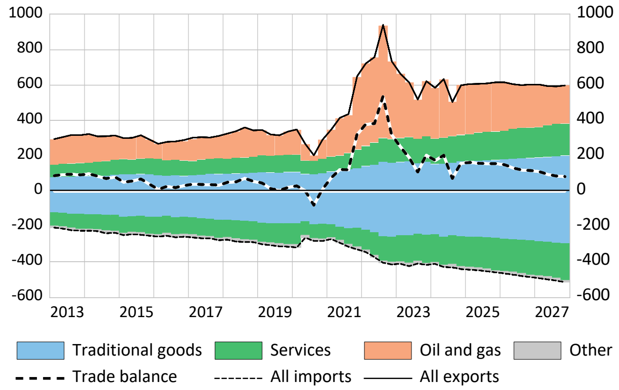
In isolation, rising real interest rates will depress the investment level going forward, while increased economic activity will exert upward pressure.
On balance, business investment is expected to remain at the current level in the years up to and including 2027.

Oil and gas exports boost the current account

After faltering in Q1 this year, the current account strengthened in Q2. This is largely attributable to the export value of oil and gas falling in Q1 and increasing in Q2. The changes were due to both volume and price falling in Q1 and then increasing in Q2. There was only a slight rise in the volume and value of goods and services exports excluding oil and gas. The value of overall imports increased more, such that the non-oil trade deficit increased by NOK 12 billion, to NOK 123 billion. The trade surplus including oil and gas exports increased by NOK 31 billion to NOK 203 billion in Q2.

Figure 14. Foreign trade

Exports (positive axis), imports (negative axis) and balance of trade
Value (current prices), seasonally adjusted, billion NOK, quarter



Source: Statistics Norway

Exports of mainland traditional goods are dominated by some large product groups: engineering products, basic metals, agricultural, forestry and fisheries products, food and beverages, chemicals and chemical and mineral products. The export volume of these product groups, except for basic metals, increased in Q2 and boosted growth in traditional goods exports. Gross freight earnings lifted service exports in Q2. There was also strong growth in exports of services in the segments construction, repair and installation. Export prices for traditional goods and services fell in Q2. The decline was steepest for gross freight earnings, and substantial for chemicals and chemical and mineral products. Import volumes and import prices for most groups of goods and services increased in Q2. Car imports increased substantially. Prices for services associated with shipping and travel fell.

We expect no major changes in the balance of trade in the projection period 2024–2027 compared with our June projection. The krone has depreciated since June. This boosts competitiveness and will stimulate mainland exports. From next year we expect higher growth in mainland exports than forecast growth in demand from our trading partners. This will mean that Norway wins market shares. Oil and gas exports are expected to increase with production this year and next, and may then fall back somewhat.

Imports are forecast to grow more slowly than non-oil exports through the projection period. The depreciation of the krone causes import prices to rise. Mainland Norway has had a growing trade deficit for several decades, but the high value of oil and gas exports ensures a large trade surplus, nonetheless. Lower production and reduced export volumes coupled with lower oil and gas prices may reduce the surplus somewhat in the latter half of the projection period. The surplus on income and current transfers is expected to increase as the petroleum fund grows. When this surplus is added to the trade surplus, the total – estimated as a share of GDP – is expected to be in the range 12–17 per cent in the years 2024–2027.

Improved outlook for the mainland economy

According to preliminary national accounts figures, mainland GDP increased by 0.1 per cent from 2024 Q1 to Q2. The weak quarterly growth continues the trend in 2023, which also featured almost zero growth.

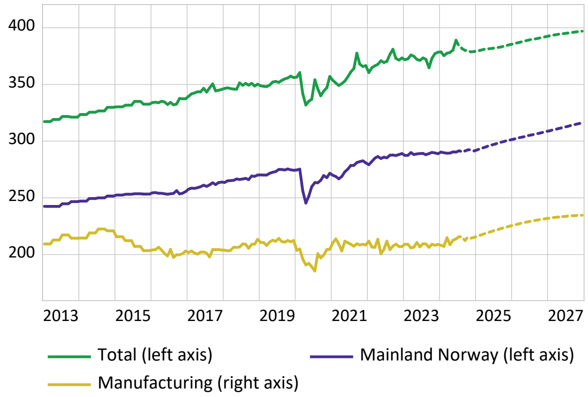
Mainland industries exhibited divergent developments in 2024 Q2. Low value added in traditional fisheries detracted from mainland growth, mainly because the authorities have reduced catch quotas on the grounds of low fish stocks. Conversely, increased value added in the power sector pushed up growth. Traditional fisheries and electricity are impacted by non-cyclical factors that often result in large variations over time. Growth in mainland economic activity excluding these industries was 0.2 per cent in Q2.

The construction sector experienced a decline in value added for the fifth successive quarter, partly as a consequence of low residential construction and reduced housing investment on the part of households. At the same time, increased goods consumption led to a 2 per cent rise in wholesale and retail trade in Q2.

In private services, growth in the finance and insurance sector pushed up total growth for the quarter, while negative growth in accommodation and food service activities had a countering effect. Manufacturing industries as a whole grew by 0.5 per cent in 2024 Q2, but with large differences across industries. The group food, beverages and tobacco products grew by 0.6 per cent, while manufacture of metal goods, electrical equipment and machinery dipped 0.1 per cent.

Value added in general government increased 0.4 per cent on the previous quarter, with growth of 1.2 per cent in defence.

Figure 15. Gross domestic product
Seasonally adjusted, billion 2021 NOK, month



Source: Statistics Norway

According to the July business tendency survey for manufacturing, mining and quarrying, which surveys the expectations of industrial leaders, growth is expected on balance in 2024 Q3 in terms of production volume and new orders from both domestic and export markets.

The June report from Norges Bank's Regional Network reveals that most enterprises have expectations of increased activity going forward. Service industries report growth in demand, particularly from households, and this trend is expected to continue through the autumn, driven by stronger purchasing power. The value of production in wholesale and retail trade is forecast to pick up after falling for several years. Manufacturing businesses expect moderate growth, while construction businesses expect a slight fall.

According to our projections, activity in all industries will pick up from 2025 onwards, with particularly strong developments in the construction sector and in wholesale and retail trade. Construction growth will be driven by lower interest rates, higher real wages and the turnaround in the housing market. Higher household disposable income will stimulate goods consumption, resulting in strong growth in wholesale and retail trade. Private service production is also expected to grow in pace with households' increased purchasing power. However, growth in housing services will weaken as a consequence of the sudden halt in housing investment since 2023. The greater scope for fiscal manoeuvre means that general government growth will continue through 2024 and remain higher than trend mainland GDP growth for the remainder of the projection period.

On balance, the protracted mainland stagnation is coming to an end, and the Norwegian economy is on the road to normalisation.

Unemployment will remain at around the current level

Unemployment has risen from a low level in 2022 to a level slightly higher than the average for the 2010s. The expected upswing in economic activity suggests that the rise in unemployment will come to a halt soon. Unemployment will remain at roughly the current level in the years ahead. Labour force participation (the labour force as a share of the population), is high, but the level so far in 2024 has been slightly lower than in the latter half of 2023. We expect labour force participation to decline somewhat in the near term, but to remain at a high level.

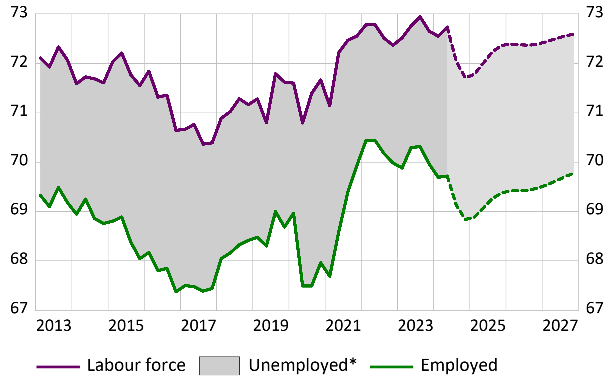
According to the Labour Force Survey (LFS), seasonally adjusted unemployment rose from 3.9 per cent in Q1 to 4.2 per cent in 2024 Q2. The average for the 2010s was 4.1 per cent. After lying at a historically low level in 2022, unemployment increased through 2023 and 2024 Q1. According to the LFS trend figure, unemployment was 4.1 per cent in June and 4.0 per cent in July. The trend figures represent long-term developments, and greatest uncertainty is associated with the figures at the end of the time series.

Since 2022 the majority of the increase in seasonally-adjusted LFS unemployment has been among persons aged 15-24. The reason for the increase is that more young people than previously enter the labour market, which has resulted in historically high employment and labour force participation figures for this age group. There has also been a slight increase in unemployment among persons over the age of 24. However, there have been no major changes in employment or labour force participation in this group.

The figure for seasonally adjusted registered unemployment published by NAV was 2.0 per cent in August, down 0.1 percentage point from July. The NAV figures are based on a total count of all those registered as fully unemployed by NAV, while LFS figures are based on responses to an interview

Figure 16. Labour market status

Percent of population in working age, LFS

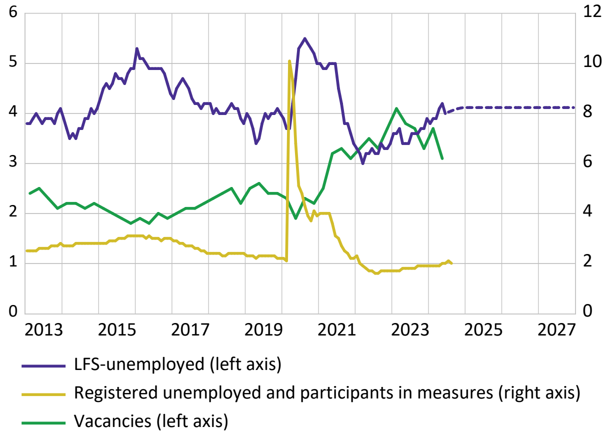


* Unemployment is measured as share of population in working age

Source: Statistics Norway

Figure 17. Unemployed and number of vacancies

Percent of labour force and of the sum of occupied and vacant positions, seasonally adjusted and smoothed



Source: The Norwegian Labour and Welfare Administration and Statistics Norway

with a sample of the population. The figures differ, although the same underlying criteria form the basis for being defined as unemployed in the two sets of statistics. The recent difference between developments in registered and LFS unemployment is probably attributable to unemployment increasing in groups with low incentives to report to NAV as unemployed.

The number of vacancies edged down in 2023 and so far in 2024, but is still near a historically high level after a pronounced increase in vacancies through 2021 and 2022. According to seasonally adjusted figures from [Statistics Norway's survey of vacancies](), there were just under 100 000 vacancies in 2024 Q2, of which 63 per cent were in the private sector. Also according to seasonally adjusted NAV figures, the number of new vacancies has fallen somewhat this year, but the supply of new vacancies is at a higher level than prior to the pandemic. Statistics Norway publishes figures on the stock of job vacancies, while NAV publishes figures on new vacancies.

Seasonally adjusted LFS figures put the employed at 69.7 per cent of the population in 2024 Q2. This was unchanged from the previous quarter and down 0.6 percentage point on 2023 Q2. During the past year, employment growth has been weaker than population growth so the employment rate has fallen. LFS figures have shown weak growth in the number employed through most of 2023, followed by fairly flat developments in the first half of 2024.

Seasonally adjusted national accounts figures also show unchanged unemployment from 2024 Q1 to Q2. The number employed increased by 0.3 per cent from 2023 Q4 to 2024 Q1. This is a larger increase than in any of the previous three quarters, but lower than any quarterly rise in 2022. The 12-month growth in 2024 Q2 was 0.6 per cent. Revised Q1 figures yielded 12-month growth of 0.7 per cent, which was revised up by 0.1 percentage point. The quarterly figures for hours worked are influenced by the early Easter in 2024, as it fell in Q1. If the first half of 2024 is viewed as a whole, there was 12-month growth in hours worked in mainland Norway of 0.8 per cent compared with the first half of 2023. Seasonally and calendar-adjusted figures showed a 0.1 per cent decrease in hours worked from 2024 Q1 to Q2.

The high level of activity on the Norwegian continental shelf is reflected in an increase in hours worked in the petroleum industry. From the first half of 2023 to the first half of 2024, hours worked in extraction of crude oil and natural gas, including services, increased by 5.7 per cent. Other industries reporting growth in hours worked during this period include manufacturing, public administration and health and care services. Construction and administrative and support service activities both saw a decline in this period. Wholesale and retail trade also reported a slight decline of 0.5 per cent in hours worked from the first half of 2023 to the first half of 2024.

According to figures from [Statistics Norway on job numbers and earnings](), in July there were 11 600 immigrants from Ukraine who had immigrated after the full-scale invasion in 2022 and who were in work and receiving wages. They accounted for 27 per cent of Ukrainians aged 20-66 who have remained living in Norway. After remaining fairly unchanged in the second half of 2023, this share has increased by about 10 percentage points so far in 2024. This is a consequence of the increase in immigration from Ukraine slowing somewhat and of steadily more Ukrainians entering the labour market. The fairly low participation rate is related to the fact that many take part in the introduction programme for newly arrived refugees before they look for work. Among Ukrainians who have lived here less than a year, 19 per cent are in work, while 44 per cent are in work after two years. According to NAV, half of those registered as fully unemployed or as job-seekers on labour market programmes have an immigrant background, with Ukrainians constituting the largest group.

According to the LFS, the number in the labour force increased through most of 2023 to a historically high level, but so far in 2024 there have only been small changes from one quarter to the next. Labour force participation has lain at about 72.6 per cent so far in 2024. This is a little lower than the level in the latter half of 2023, but is still high in a historical perspective.

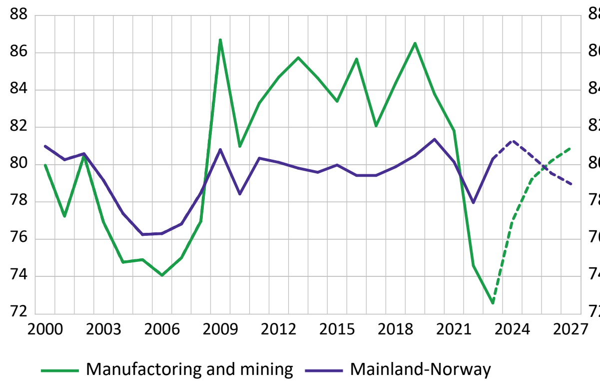
The labour market has been a little less tight so far in 2024 than it was through 2022 and 2023. We forecast almost unchanged employment growth in 2024. Growth in labour productivity is expected to pick up, which will contribute to employment growth remaining low for the remainder of the projection period (see Box 1 for an analysis of an alternative scenario for the Norwegian economy as a result of lower labour productivity). According to our projections, employment will not keep pace with the increase in the population, with the result that the employment rate will fall slightly. We forecast that unemployment will remain roughly unchanged at the current level of around 4 per cent through the entire projection period. The labour force will probably grow weakly in 2024 and through the remainder of the projection period.

Continued high earnings growth

Growth in average monthly basic earnings in 2024 Q2 compared with the same quarter last year was 5.4 per cent. This was considerably lower than the growth of 6.1 per cent in the previous quarter, which was pushed up by composition effects and the effects of the 2022 wage settlement in the education sector.[9] Growth in 2024 Q2 was still high, however, and points to high wage growth in the Norwegian economy.

Figure 18. Wage share

Calculations based on factor income adjusted for income of self-employed, percent



Source: Statistics Norway

Figures across industries show that growth in average monthly basic earnings in Q2 this year was pushed up by the wholesale and retail trade and construction sectors, which contributed growth of 5.6 and 5.5 per cent, respectively. These two industries combined employ about 600 000 wage-earners. Conversely, health and social services, which employ about 580 000 wage-earners, contributed growth of 4.7 per cent, thereby pushing down average growth in Q2. On balance there was nonetheless broad-based wage growth across industries in Q2.

The labour market is characterised by many workers changing jobs and by new employees entering the market. As a rule, new employees have lower wages than employees with extensive experience. These labour market flows thus influence average earnings growth.[10] In 2024 Q2, wage-earners with jobs in the same company as the previous year had growth in average monthly basic earnings of 6.2 per cent, which pushed up average earnings growth. Growth in average monthly basic earnings for the other group of wage-earners, who

[9] See *Economic Survey 2/2024* for more on composition effects and the effects of the wage settlement in 2022 for education. The latter factor also contributes to the growth in average monthly basic earnings in education in 2024 Q2.

[10] See Kvile, J. (2024): Jobbveksten stopper, men lønningene vokser [Growth in jobs comes to a halt, but ages grow].

either entered the labour market or switched jobs, was 2.7 per cent in Q2, which depressed average wage growth. This group accounted for about 27 per cent of all jobs in Q2. Within the group, wage-earners who changed jobs contributed positively to average wage growth in Q2, but at the same time the growth rate for this group fell from an average of 8.1 per cent for the previous three quarters to 6.9 per cent in Q2.

The public sector strike of the unions Akademikerne and Unio was terminated with compulsory arbitration on 2 June, while the LO Stat union and the public sector underwent voluntary arbitration on 17 June after LO Stat members rejected by ballot vote a Basic Collective Agreement. The National Wages Board is to consider these cases on 7 and 15 November, respectively, and as it is not clear when the decision will be handed down, it is possible that these groups will not complete local negotiations before the end of the year. The settlements may therefore only be disbursed in 2025 Q1 instead of in 2024 Q4. This could result in growth in average monthly basic earnings in 2024 Q4 and annual wages disbursed in 2024 being lower than usual for this group of wage-earners. However, in the case of growth in annual earnings for full-time equivalents for 2024, which is the wage concept for which we make forecasts, the disbursement will be recognised in the period in which it is earned. Annual earnings for wage-earners who are affected by the by the National Wages Board's dealing with the case will therefore not be affected by a disbursement possibly taking place in 2025 instead of 2024.

Preliminary national accounts figures indicate that the labour share for manufacturing and mining, which is a measure of the percentage of wealth creation in this industry that accrues to workers, was estimated to be 72.6 per cent in 2023. We forecast that it will pick up to about 77 per cent in 2024 and up further to about 80 per cent at the end of the projection period. The upward revision since the last economic report is due to lower forecast growth in operating earnings in the industry than previously.

Our projection for annual wage growth for 2024 has been revised up from 5.0 per cent in our previous report, to 5.3 per cent. The higher projection for annual wage growth this year, coupled with the downward revision of the projection for CPI inflation, means that real wages in 2024 are forecast to be higher than in the previous report. We then expect annual nominal wage growth of about 4 per cent further out in the projection scenario. In light of the CPI projections, we therefore expect average real wage growth of about 1.5 per cent going forward to 2027.

Inflation rate flattening out before falling further

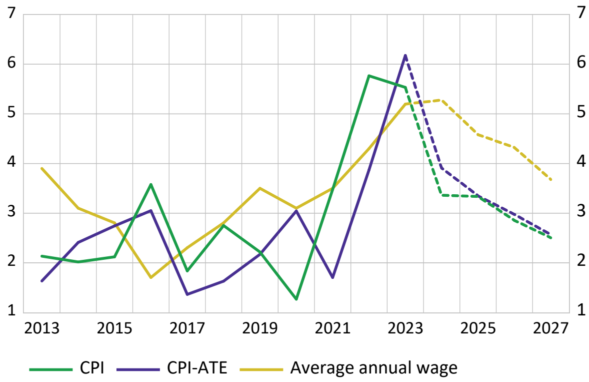
In recent months, inflation has been lower than envisaged in our previous report. As a result we are now revising down our figures for the annual rise in the consumer price index (CPI) and the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) by 0.4 and 0.2 percentage point, respectively, for 2024. We now forecast that CPI and CPI-ATE inflation will increase by 3.4 and 3.9 per cent, respectively, in 2024. An unexpectedly pronounced slowing of the rise in prices for package tours, and lower electricity prices than forecast earlier in the year, are among the factors that have depressed inflation since our previous report. Given the revised, lower projection for the annual rise in electricity prices including grid charges that forms the basis for this report, the difference between CPI-ATE and CPI inflation will increase to 0.5 percentage point for 2024.

The annual rise in the CPI-ATE has slowed almost consistently from a peak of 7.0 per cent in June 2023 to 3.2 per cent in August 2024. The 12-month rise measured by the CPI-ATE fell further, from 3.3 per cent in July to 3.2 per cent in August. This last decrease can be attributed to the fact that in the national budget for 2024, the Storting decided that the maximum payment by parents for day-care was to be reduced from 1 August 2024.[11] The lower day-care rates reduced the 12-month rise in both the CPI and the CPI-ATE by 0.3 percentage point in August. Without this price reduction both would have risen in relation to July. In contrast to a cut in special taxes, which is only reflected in the CPI, policy-related measures such as reductions in parental payments are reflected in both the CPI and the CPI-ATE. Policy-related price cuts imply a shift in the price level and affect the 12-month rise for

[11] See Kristiansen, E. and Sletten, P. (2024): Slik påvirkes nasjonalregnskapet og KPI av redusert foreldrebetaling [This is how the national accounts and the CPI are affected by reduced parental payments].

Figure 19. Consumer price indices and annual wage

Change from previous year in percent



Source: Statistics Norway

a year from the time when they are implemented. The price level for the product or service may still be lower after the end of the calendar year, but the effect, measured as a 12-month rise, is phased out and the inflation rate then again largely reflects developments in underlying product prices.

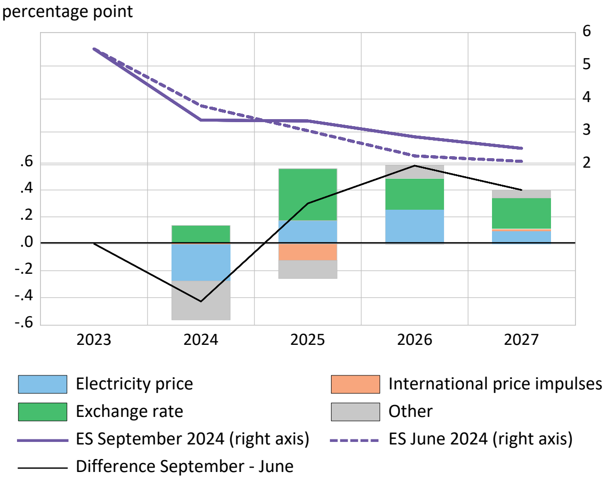
There is still a strong focus on prices for food and non-alcoholic beverages, which have a weighting of about 12 per cent in the CPI. The 12-month rise fell from 8.7 per cent in January to 4.5 per cent in August. For this consumption group, too, the decline in the rate of the price rise was largely due to a high rise in prices in the first half of 2023. In contrast to last year, however, the rise in prices fell from January to March, while that for the consumption group as a whole was somewhat lower than in the period March to August last year. Recently the 12-month rise in prices for food and non-alcoholic beverages has been higher than that for initial sales of goods and the producer price index for food products for the domestic market. This may indicate that prices will go down somewhat in the time ahead. Lower electricity prices, which substantially reduce the costs of the wholesale and retail trade sector, contribute similarly. In isolation, the agricultural agreement for the coming year also contributes to a slower rise in prices. According to the final records from the negotiations meeting between government and farmers' unions, the isolated impact of higher commodity prices reflected in consumer prices, including the forecast for goods without a target price, is 0.5 percentage point of the price index for food and non-alcoholic beverages. Wage growth in wholesale and retail trade is high, and in isolation contributes to inflation. The price level for food and non-alcoholic beverages fell from a peak in July 2023 and up to March 2024. We regard it as unlikely that we will now see a fall in prices by March 2025 that is larger than last year. We therefore assume that the 12-month rise in prices for the consumption group is maintained for a good while at roughly the same level as that observed in August. Naturally occurring factors impact production, and the price level in agriculture and last year's harvests were lower than in a normal year following drought in Southern Europe and heavy rains in Northern Europe during the harvest. Before Christmas, the Storting passed a resolution changing the duty on a number of types of vegetables, including potatoes, from specific to ad valorem. Wholesale prices for Norwegian-produced products that are covered by the change are set by a market regulator. These prices follow target prices fixed in the agricultural settlement. Goods produced abroad are not subject to duty once there are no more Norwegian products in the market. This is a situation that may arise in the spring, outside the Norwegian season. The high prices observed for some products this spring were probably due to a supply-side shortage both in Norway and abroad. The switch to ad valorem duty will probably result in consumers tending more to buy Norwegian products, which after the change will be relatively cheaper than equivalent imported products.

Prices for the group alcoholic beverages and tobacco products have been far more stable, with a large portion of special taxes dampening the fluctuations in underlying producer prices. AS Vinmonopolet, the state-owned wine and spirit monopoly, adjusted its prices by an average of 0.2 per cent on 1 May, and followed up with an adjustment of 0.6 per cent on 1 September. Both adjustments were described in press releases as unusually low. The September price adjustment was lower than last year, which may lead to the rise in prices for this product group slowing somewhat in the near term.

According to the CPI-ATE by delivery sector, it is primarily movements in prices for imported goods that have curbed the rise in prices so far this year, while the rise in prices for Norwegian products has been fairly stable at a higher level. The rise in rental prices is also stable at a high level, while the rise in prices for services other than rents has fallen considerably since May. The fall in prices for package tours and day-care services has contributed to reducing the 12-month rise for services excluding rents from 4.9 per cent in May to 2.9 per cent in August. We assume that the year-on-year rise in prices for import goods will be far more stable going forward than it has been so far in 2024, when the falling rates have largely reflected high inflation through the first half of 2023. We also assume a stable rise in prices for service consumption going forward now that the price cut for day-care services has been implemented. Because of the weaker krone exchange rate upon which this report is based, the entire scenario for underlying inflation is lifted to a higher level, and given the lag from the time when a weakening of the exchange rate occurs until it is fully reflected in consumer prices, the most recent depreciation of the krone will have a greater impact on inflationary developments in 2025 than this year.

The housing rental index in the CPI consists of actual rental and imputed rental. The imputed rental is intended to express the value of the service that their dwelling provides for owner-occupiers and unit owners in housing cooperatives. Prices for imputed rental shadow movements in prices for equivalent dwellings in the rental market. Existing rents are largely regulated by means of the consumer price index, while price adjustments in connection with entry into new rental contracts must be captured. In the economic reports earlier this year, the change in actual rental has largely shadowed the CPI with a time lag. There now appear to be larger time lags between developments in rents and CPI inflation than previously forecast, and we therefore assume in this projection that the increase in rents will not approach CPI inflation until some years ahead. In this projection we have revised up previous price forecasts for rental services and placed greater weight on other key factors in the housing market such as the interest rate level, population growth and the supply of new dwellings. The price scenario for rents is being lifted as a result of a low supply of new dwellings, high population growth and a shortage of rental housing, and because the interest rate level will be falling later than previously forecast. The revision of prices for rental services plus the weaker exchange rate are the main reasons that Norway will not come right down to its inflation target by the end of 2027; see Figure 2.20.

Figure 20. New and old estimates of CPI inflation
Contributions to changes in forecasts from June to September 2024, percentage point



Source: Statistics Norway

Spot prices for the NordPool power exchange in August and so far in September have been far lower than the pricing in forward power contracts in June. Heavy rainfall with associated substantial production of non-regulatable river-generated power has contributed to the low power prices. The low electricity prices led to the 12-month rise in the CPI in August, as previously in the year, being considerably lower than CPI-ATE inflation. A special feature of the market is that the southernmost part of Norway again faces far higher electricity prices than the rest of the country. This was also the case last autumn, which featured extremely large volumes of precipitation and very low electricity prices. The exception was Southern Norway, where prices were very much higher. Spot prices realised so far in September and forward rates in the financial market indicate that on average electricity prices will also be low in September this year, and will be lower than in the same month last year for the remainder of this year. According to the Norwegian Water Resources and Energy Directorate, grid charges have increased considerably from last year, which also pushes up household electricity prices. If the outlook in the power market at the beginning of September becomes reality, household electricity prices including grid charges could be somewhat higher in September this year than they were last year. In the event, this will contribute to the 12-month rise in the CPI being approximately the same as for the CPI-ATE in September. Prices normally rise when temperatures fall and consumption increases. In November and December last year, energy support reduced the impact of high spot prices on household consumer prices. From October and for the remainder of the year we assume that households' average electricity price, including grid charges, will be somewhat lower than last year. The business sector and general government, which do not receive energy support, will then see a fall in prices in November and December compared with last year. The annual contracts for Nordic power in the financial market were fairly stable at the beginning of September, and are priced at about EUR 40/MWh for 2025, and about EUR 42/MWh for the years 2026–2027. We use movements in prices for Nordic power contracts in the financial market as the basis for developments in the Nordic System Price for the years ahead, and adjust for deviations from the System Price in the various price areas. We have assumed that the distribution companies' cost growth will be moderate next year, but that on average grid charges will increase somewhat from 2024 to 2025 because of the price rise through 2024. Household electricity prices including grid charges are forecast to rise somewhat more than general price inflation in 2025. The upward revision of next year's rise is also attributable to the downward revision of the annualised forecast for 2024. In the years 2026–2027, household electricity prices including grid charges are forecast to rise roughly in pace with general price inflation. In our projections for energy prices, fuel prices largely shadow crude oil prices in NOK with a premium consisting of special taxes. The forward price for crude oil in NOK is lower than in our last economic report. For the outlook for prices in global energy and commodity markets, see Box 1.1 in Økonomiske analyser 3/2024 (Norwegian text). On balance, we assume that the annual rise in energy prices will increase roughly in line with general inflation in 2025, and a little less than general inflation in the years 2026–2027. We have adjusted the special tax rates for inflation for the years 2025– 2027 and expect them to have a neutral effect on CPI inflation.

The 12-month rise in the CPI-ATE fell from 5.3 per cent in January 2024 to 3.2 per cent in August. In terms of level, the CPI-ATE has also increased this year, but far less than last year when the first half of the year featured a marked increase in the price level. Prices in the first half of the year were expected to increase less this year than last, and thereby contribute to a slowing of the 12-month rise in the CPI-ATE. However, inflation has been weaker than forecast earlier in the year, and the 12-month rise has come down towards 3 per cent earlier than expected. The krone strengthened again after the especially weak period in spring 2023, which prompted a limited rise in the overall price level through the second half of 2023. Prices as a whole must therefore fall from the current level if the rate of underlying inflation is to subside appreciably for the remainder of the year. In this report, we assume that the inflation rate, measured by the 12-month rise in the CPI-ATE, remains stable at the current level for a good while to come, and only falls below 3 per cent in 2026. Our projections for annual wage growth and global inflation for the years ahead are virtually unchanged since our June report. As usual, the exchange rate is fixed at the current level in the projections, which means that the rise in import prices for typical consumer goods falls to 2 per cent in the medium term. The rise in import prices will then be in line with our projections for global inflation. This was also the case in our last report, but as we have taken a weaker krone as our basis this time, it takes longer for import prices to stabilise. A further decline in the CPI-ATE therefore takes place later. Productivity growth is forecast to be low this year, but in our projections it picks up in the years ahead with the general upturn in economic activity. Given a 2 per cent rise in import prices and expected stable developments in energy prices, there will mainly be increased productivity growth in the medium term, which will lead to a rise in real wages (see Box 1).

CPI-ATE inflation is expected to fall to 3.3 per cent in 2025, 0.6 percentage point lower than the projection for 2024. The inflation rate is then forecast to slow gradually to 2.6 per cent in 2027. Household energy prices taken as a whole are expected to increase roughly in line with underlying inflation next year, so that CPI inflation will also be 3.3 per cent in 2025. Given a moderate expected reduction in energy prices, CPI inflation will be slightly lower than CPI-ATE inflation in the years 2026– 2027.

Table 4. Main economic indicators 2015-2027. Accounts and forecasts[1, 2]

										Forecasts			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Demand and output													
Consumption in households etc.	2.7	1.1	2.2	1.4	1.0	-6.2	5.1	6.2	-0.8	1.1	2.1	3.6	3.9
General government consumption	2.4	2.3	1.9	0.6	1.1	-0.5	3.6	1.1	3.4	2.3	1.9	1.9	2.3
Gross fixed investment	-4.0	3.9	2.6	2.2	9.5	-4.1	0.7	5.2	0.0	-2.4	-0.1	2.9	2.2
Extraction and transport via pipelines	-12.2	-16.0	-5.4	0.7	14.3	-3.3	-0.9	-7.1	10.6	11.0	1.0	-3.0	-4.0
Mainland Norway	-0.2	9.0	6.8	1.5	6.3	-3.1	1.6	7.6	-1.2	-5.3	-0.6	4.5	3.7
Industries	-2.8	12.6	9.2	3.1	10.3	-5.3	3.2	17.1	4.0	-5.8	-5.1	0.9	1.4
Housing	3.2	6.6	7.3	-6.5	-1.1	-1.6	3.5	-1.4	-15.6	-16.2	5.5	13.5	8.6
General government	0.2	6.4	2.6	8.1	7.5	-1.1	-2.5	1.3	3.0	4.2	3.2	4.1	3.9
Demand from Mainland Norway[3]	2.0	3.1	3.1	1.2	2.3	-3.9	3.9	5.1	0.3	-0.1	1.4	3.3	3.4
Exports	3.9	0.4	1.6	-1.5	2.1	-2.3	6.1	4.5	1.4	1.9	1.9	1.3	0.6
Traditional goods	6.5	-11.2	0.9	2.0	5.1	-0.8	6.7	-2.5	6.1	-1.8	5.7	5.0	4.6
Crude oil and natural gas	1.3	5.4	5.2	-4.6	-2.9	10.5	0.2	1.3	-1.1	1.9	-1.9	-1.8	-3.3
Imports	1.9	1.9	1.8	1.4	5.3	-9.9	1.8	12.5	0.7	0.9	2.4	3.3	3.6
Traditional goods	2.7	-1.4	3.5	2.8	6.2	-2.7	5.4	3.4	-3.7	0.1	1.8	3.7	4.0
Gross domestic product	1.9	1.2	2.5	0.8	1.1	-1.3	3.9	3.0	0.5	1.0	1.3	2.0	1.7
Mainland Norway	1.4	0.9	2.2	1.9	2.3	-2.8	4.5	3.7	0.7	0.7	2.1	2.9	2.8
Manufacturing	-4.4	-4.1	-0.1	1.6	2.1	-5.7	5.6	-0.5	0.2	2.2	3.7	4.0	2.5
GDP in current prices (NOK billion)	3 130	3 116	3 323	3 577	3 597	3 462	4 324	5 708	5 127	5 195	5 478	5 655	5 791
Labour market													
Total hours worked. Mainland Norway	0.6	0.6	0.5	1.6	1.5	-2.1	2.4	3.9	0.8	0.9	1.0	1.3	1.8
Employed persons	0.4	0.3	1.1	1.6	1.6	-1.5	1.1	3.9	1.3	0.5	0.7	0.8	0.6
Labor force	1.5	0.2	-0.2	1.4	1.0	0.4	2.2	1.4	1.3	0.8	0.7	0.8	0.5
Participation rate (level)	71	70.4	69.7	70.2	70.5	70.4	72.1	72.6	72.8	72.3	72.2	72.4	72.6
Unemployment rate (level)	4.5	4.7	4.2	3.8	3.7	4.6	4.4	3.2	3.6	4.1	4.1	4.1	4.0
Prices and wages													
Wages per standard man-year	2.8	1.7	2.3	2.8	3.5	3.1	3.5	4.3	5.2	5.3	4.6	4.3	3.7
Consumer price index (CPI)	2.1	3.6	1.8	2.7	2.2	1.3	3.5	5.8	5.5	3.4	3.3	2.9	2.5
CPI-ATE[4]	2.7	3.0	1.4	1.6	2.2	3.0	1.7	3.9	6.2	3.9	3.3	3.0	2.6
Export prices, traditional goods	2.6	4.5	4.7	5.1	0.1	-3.5	12.6	30.2	-0.4	-1.2	2.6	1.7	1.9
Import prices, traditional goods	5.0	2.5	3.2	4.1	2.5	4.3	5.0	15.6	5.8	1.3	2.0	1.6	1.9
House prices	6.1	7.0	5.0	1.4	2.5	4.3	10.5	5.2	-0.5	2.5	3.8	3.8	4.0
Income, interest rates and excange rate													
Household real disposable income	5.3	-1.6	2.0	0.9	2.0	1.1	4.1	-3.3	-2.5	4.6	2.8	3.9	3.2
Household saving ratio (level)	9.8	6.9	6.6	5.9	7.1	12.9	13.8	4.9	4.1	7.2	7.7	7.8	7.2
Money market rate (3 month NIBOR) (level)	1.3	1.1	0.9	1.1	1.6	0.7	0.5	2.1	4.2	4.7	4.3	3.6	3.5
Lending rate, credit loans (level)[5]	3.2	2.6	2.6	2.7	3.0	2.6	2.1	2.9	5.0	6.0	5.8	5.2	4.8
Real after-tax lending rate, banks (level)	0.1	-1.6	0.1	-0.7	0.2	0.7	-1.8	-3.3	-1.5	1.3	1.5	1.5	1.7
Importweighted krone exchange rate (44 countries)[6]	10.5	1.8	-0.8	0.1	2.9	6.7	-5.3	1.2	8.5	1.0	1.8	0.0	0.0
NOK per euro (level)	8.95	9.29	9.33	9.60	9.85	10.72	10.16	10.10	11.42	11.68	11.94	11.94	11.94
Current account													
Current balance (bill. NOK)[7]	282	163	210	320	136	38	644	1 722	917	878	918	834	697
Current account (per cent of GDP)	9.0	5.2	6.3	9.0	3.8	1.1	14.9	30.2	17.9	16.9	16.8	14.7	12.0
International indicators													
Exports markets indicator	5.3	3.8	5.6	4.3	3.4	-7.5	10	8.2	1.6	2.4	2.1	3.4	3.9
Consumer price index, euro-area	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.4	2.5	1.8	2.0	2.0
Money market rate, euro (level)	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.6	2.6	2.2	2.5
Crude oil price US dollar (level)[8]	53	45	55	72	64	43	71	99	82	79	70	70	70
Crude oil price NOK (level)[8]	431	379	452	583	564	407	609	951	867	846	761	754	752

[1] Percentage change from previous year unless otherwise noted.
[2] Some time series may have been revised after the publication of the Economic Survey.
[3] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Yearly average. Credit lines. secured on dwellings.
[6] Increasing index implies depreciation.
[7] Current account not adjusted for saving in pension funds.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 11 September 2024.