Economic trends

Global economic developments provide a mixed picture. Growth in most OECD countries is moderate, but since the beginning of the year, growth has slowed in the USA and the government debt crisis in Europe has become more serious. In Europe, the tendency is for northern countries to manage relatively well, while southern countries are having a difficult time. The Japanese economy suffered a setback with the earthquake disaster in March, but was already struggling before this. Growth in emerging economies, on the other hand, is high, but capacity problems and high inflation are a growing problem. These countries have been a key driving force in the global economy since the financial crisis, which has contributed to a sharp rise in commodity prices. Consumer price inflation has risen markedly in most countries, particularly in emerging economies. The high inflation internationally is probably due to transient factors. The increase in food and oil prices has levelled off, and we do not expect a sharp rise in prices for these products in the near future. Given low capacity utilisation and moderate growth prospects in the OECD countries, we expect inflation to slow as early as in the autumn of this year. The European Central Bank has begun raising interest rates, while the Federal Reserve has signalled that it will monitor developments for a while yet.

The European government debt crisis has escalated in recent months. Financial market participants doubt whether several countries will manage to service their government debt. The high and rapidly growing government debt is compelling fiscal tightening in a number of countries, which will curb growth in the period ahead. A rise in interest rates in a fragile economic situation with high unemployment and falling house prices is not without risks, and will in any event contribute to dampening economic growth. We therefore do not expect any pronounced global economic expansion before late 2013, and many observers point to the substantial downside risk associated with developments.

The Norwegian economy was characterised by moderate growth in 2010, but with indications of an incipient recovery. Household demand increased somewhat in previous quarters, and rising housing investment and house prices in particular indicate that an upturn is under way. Unemployment has fallen a little since the peak in 2010. Wage growth appears to be on the way up, but underlying inflation is low, partly because of the strong krone. Fiscal policy is now generating less growth impulses than previously. Interest rates are still low, and there is reason to assume that Norges Bank will raise the key policy rate steadily in the period ahead. The business sector has a generally more optimistic view of the future than previously, and this is reflected in their investment plans. This applies to both the mainland economy and the petroleum industry.

With slow growth internationally and weakened competitiveness, the Norwegian economy will not be receiving any appreciable impetus from the external account in the near future. Higher domestic demand is expected to be the main means of bringing the Norwegian economy out of the current downturn. Our projections indicate that this may happen by 2013. Although we envisage fairly high growth in the mainland economy in the period ahead, the growth pace is unlikely to be as high as during the previous upturn and boom because export growth is expected to be weaker. The next expansion is therefore unlikely to be as strong as in 2007. Another contributory factor is high immigration, which is now substantially increasing the output potential of the economy and making high employment growth possible without very low unemployment. This also dampens the inflationary effects of the upturn.

Cyclical developments in Norway

Preliminary quarterly national accounts figures (QNA) show a growth in volume for mainland GDP of an annualised 2.4 per cent in the first quarter of 2011. Growth through 2010 has remained consistently around this level: slightly lower than the estimated trend growth in the mainland economy, which we estimate at an annual 2¾ per cent. Growth excluding power supply is a little higher, and indicates that we are now in a cyclical upturn. The QNA estimates for GDP growth in 2009 and 2010 have been revised slightly down. As such, the downturn now appears to be somewhat deeper than we have previously assumed. Although many of the revisions of the QNA figures pushed GDP growth down, the housing investment figures were revised upwards, and according to the most recent QNA figures, there was a turnaround in housing investment a year ago. Household investment in dwellings and consumer durables is now showing high growth. These components are normally good leading indicators of economic growth, and indicate that GDP growth will

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

	2009*	2010*	Seasonally adjusted			
			10:2	10:3	10:4	11:1
Demand and output						
Consumption in households etc.	0.2	3.7	-0.2	1.2	1.1	0.0
General government consumption	4.8	2.2	0.7	1.0	-0.6	-0.2
Gross fixed investment	-6.8	-7.4	10.3	-5.4	6.4	2.3
Mainland Norway	-10.9	-3.1	7.9	-1.8	6.4	0.7
Extraction and transport via pipelines	5.8	-12.4	6.2	-15.1	12.7	7.2
Final domestic demand from Mainland Norway[1]	-1.0	2.0	1.4	0.6	1.6	0.1
Exports	-3.9	-1.7	-5.5	0.3	-0.4	-0.5
Crude oil and natural gas	-0.9	-7.4	-2.2	-5.9	1.3	-1.6
Traditional goods	-8.1	4.9	-0.7	3.1	-4.0	-0.4
Imports	-11.7	9.0	6.7	-1.5	0.5	10.7
Traditional goods	-13.1	8.3	5.3	-1.4	2.4	3.7
Gross domestic product	-1.7	0.3	-0.1	-1.6	2.3	-0.4
Mainland Norway	-1.8	2.1	0.3	0.8	0.3	0.6
Labour market						
Man-hours worked	-1.8	0.5	0.3	0.6	0.0	-0.2
Employed persons	-0.4	-0.2	0.2	0.2	0.2	0.3
Labour force[2]	0.0	0.5	0.3	-0.2	0.6	-0.2
Unemployment rate, level[2]	3.2	3.6	3.6	3.4	3.6	3.2
Prices and wages						
Wages per standard man-year[3]	3.6	3.9	3.6	4.3	4.1	3.9
Consumer price index (CPI)[3]	2.1	2.5	2.6	1.9	2.2	1.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	2.6	1.4	1.5	1.2	1.0	0.8
Export prices, traditional goods	-6.2	3.7	4.4	1.6	2.3	2.5
Import prices, traditional goods	-1.4	-0.2	2.6	-1.0	2.3	3.3
Balance of payment						
Current balance, bill. NOK	274.9	310.0	73.7	65.0	86.3	72.7
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.5	2.5	2.5	2.7	2.6	2.6
Lending rate, banks[4]	4.9	4.5	4.5	4.6	4.6	4.6
Crude oil price NOK[5]	388.1	484.3	493.8	473.1	517.2	601.2
Importweighted krone exchange rate, 44 countries, 1995=100	93.8	90.3	89.9	90.8	91.1	89.1
NOK per euro	8.73	8.01	7.91	7.96	8.05	7.82

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

pick up going forward. Unemployment has fallen quite clearly over the past half year, and more than expected. Employment is rising, and there is strong growth in immigration from countries close to Norway, which implies an upturn in the Norwegian economy. However, it is unusual not to observe stronger mainland productivity growth at the start of a cyclical upturn. The cyclical picture is therefore not quite unambiguous.

Underlying price inflation, measured by the consumer price index (adjusted for taxes and excluding energy products) shows that inflation in Norway is still low. Even when energy products are included, inflation in Norway is lower than in many surrounding countries, partly due to a stronger krone exchange rate. In a number of EU countries, higher taxes have contributed to higher CPI inflation, but the first-round effects on inflation of higher taxes will have dissipated next year. Wage growth in Norway is higher than among trading partners, and rising. This will gradually add to the rise in domestic prices unless productivity growth increases in the period ahead. Slower growth and probably a certain decline in energy prices will have the effect of curbing inflation, and the indirect effects of this decline will dampen general price and cost inflation. Food prices, which increased substantially in 2010, have shown little change recently and, given normal crop harvests, prices could fall in the second half of 2011. In Norway, developments in food prices worldwide have not been of great significance since our markets for food products are sheltered to a large extent. On balance, there are grounds for assuming that the inflation rate in Norway will remain low for a couple of years ahead.

Developments in household and general government demand have boosted growth in the Norwegian economy over the past year, while investment, both in mainland industries and petroleum, has declined. There has also been a decline in overall exports, and the growth in traditional goods exports from 2009 to 2010 was largely a result of the recovery after the financial crisis. The moderate growth internationally is doing little to stimulate growth in the mainland economy. We believe that this phenomenon will persist for a while, and we do not expect any global expansion before 2013. We expect household demand to continue increasing substantially, which is a prerequisite for a clear cyclical upturn in the Norwegian economy. Information on business sector investment plans also indicates that a shift to stronger growth is imminent. Investment intentions surveys for both manufacturing and power supply point to this. Petroleum investment is now showing a new upturn, and the plans of the oil companies indicate high growth ahead. All in all, we therefore estimate that mainland GDP growth may be over 3 per cent in 2011, approximately one percentage point higher than in 2010.

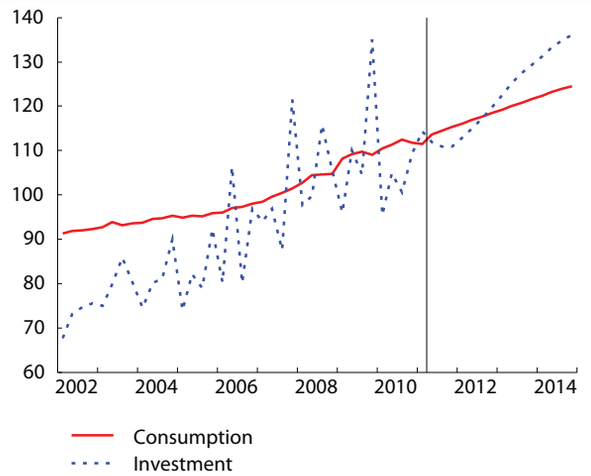
Economic policy has generated strong growth impulses, particularly in 2009, but also in 2010. Fiscal policy has generated gradually less expansionary impulses to the economy. Monetary policy has also been a little less expansionary since the key policy rate touched bottom in 2009. So far this year, the key rate has increased by a quarter of a percentage point, and further interest rate hikes are expected from Norges Bank in the course of the year. As economic growth picks up, there is reason to believe that the key rate will gradually increase to a more normal level. But the krone is strong, and inflation low. At the same time, the figures indicate that the cyclical trough in 2010 was roughly as deep as the trough in 2003. This indicates somewhat more idle capacity in the economy than previously assumed. Figures for immigration to Norway in 2010 show a new rise, and this continues into 2011, indicating that labour market capacity is still fairly flexible. These factors point to some moderation of interest rate increases going forward. On the other hand, the possibility that the central bank will attempt to curb the rise in house prices through higher interest rates in the period ahead cannot be excluded.

Fiscal policy, measured by the structural, non-oil budget deficit, is now less expansionary than previously assumed. Future developments in population growth imply stronger growth in payment of benefits, which will mean higher household income. The 4 per cent path of the fiscal rule provides scope for strong growth in expenditure in the future according to figures in the Revised National Budget for 2011. When the economy is in an upturn, as indicated by our projections, fiscal policy must also contribute to stabilising the economy. This is necessary in order to balance the need for economic stability against the possibility of using the scope for growth in expenditure offered by the 4 per cent path of the fiscal rule. We have assumed in our calculations that the scope for manoeuvre is used primarily for higher general government investment, while general government expenditure increases in line with projected trend growth in the mainland economy.

Our projections show that the Norwegian economy is now in a cyclical upturn and that the economy will enter a boom period in 2013. However, mainland economic growth is not expected to attain the levels experienced in 2004-2007, largely because of the weaker global growth in the aftermath of the financial crisis. As a result, Norwegian exports are expected to grow weakly in the period ahead. A domestically driven upturn such as we foresee in Norway would have been curbed by financial factors in many countries, but in Norway there will be no such correction since we have such a large current account surplus at the outset.

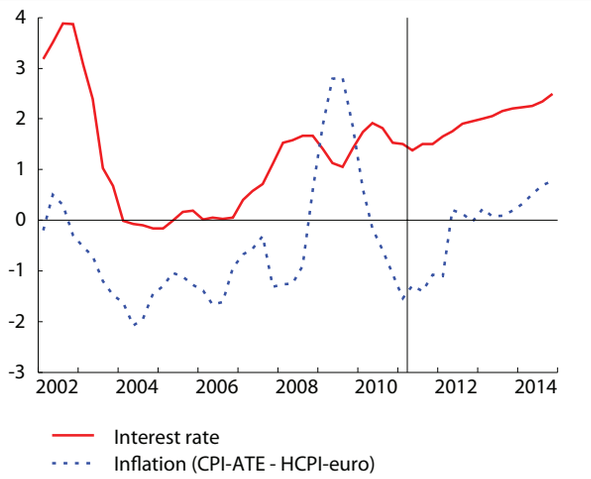
Although our projections are based on moderate forecasts for growth in the global economy, it is important to point out that many countries are struggling with government finance problems that may have a more negative impact on the Norwegian economy than we have assumed.

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



Source: Statistics Norway.

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



Source: Norges Bank and Statistics Norway.

Small cyclical impulses from fiscal policy going forward

QNA figures show that general government consumption increased by 2.2 per cent from 2009 to 2010. Overall gross non-military general government investment fell moderately from 2009 to 2010. Growth in general government purchases of goods and services was somewhat lower than previously projected.

Transfers to households increased by 5.7 per cent from 2009 to 2010, which is substantially lower than the previous year's rise. The main reason was a marked decrease in sick pay. Maternity benefits also fell last year. The introduction of the work assessment allowance system, coupled with higher unemployment benefits, contributed substantially to growth last year. Pension benefits increased moderately, while the total of child benefit plus cash benefit was nominally unchanged. Real growth in benefits was just over 3 per cent last year. The total demand impulses generated by general government purchases of goods and services and transfers in 2010 increased less in real terms than trend growth in the mainland economy. Tax rates were largely unchanged in real terms.

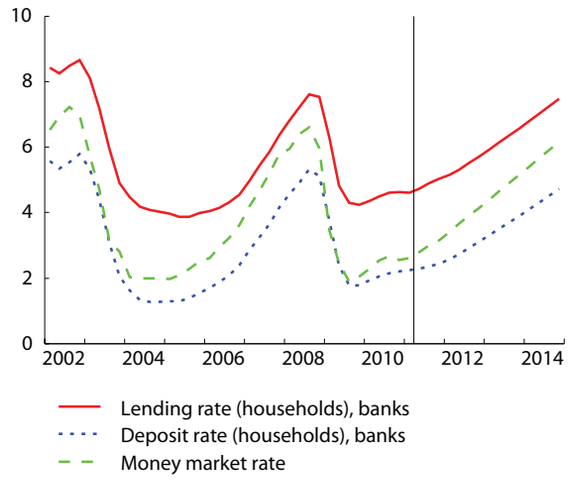
According to the seasonally adjusted QNA figures, public consumption fell in the first quarter of 2011. However, the Norwegian Armed Forces› investment in a frigate – the last of a series – resulted in an increase in overall public investment in the same period.

In the Revised National Budget (RNB) 2011, the Ministry of Finance has reduced the estimate for both the non-oil budget deficit and the structural non-oil budget deficit (SNOBD) for 2010 on the basis of new information and new projections. New figures show that SNOBD, as a percentage of trend mainland GDP, increased by only 0.2 percentage point from 2009 to 2010, to 5.7 per cent. The use of resources from the Government Pension Fund Global in excess of the expected real return was estimated at NOK 7 billion in 2010, calculated in 2011 prices. In RNB 2011, the Ministry of Finance estimates that spending of petroleum money will be about NOK 10 billion lower than the 4 per cent path in 2011. This means that SNOBD as a share of trend mainland GDP will fall to 5.5 per cent – the same level as in 2009.

Our projections for fiscal policy in 2011 are close to those in RNB 2011. They are based on the programme of direct and indirect taxes adopted for 2011. Indirect taxes are increasing somewhat more than adjustment for inflation and pushing up consumer price inflation by just on 0.1 percentage point from 2010 to 2011, while the nominal limits on personal taxation have been adjusted up by 3¼ per cent. Wage growth for 2011 will probably be somewhat higher than this. Growth in transfers to households seems likely to increase substantially in 2011 and has been revised upwards compared with our previous projections. This is because the number of persons drawing an old-age pension according to the new pension rules is somewhat higher than previously assumed. Disbursements of sick pay continue to fall weakly in real terms, while transfers to the unemployed will increase little in real terms from 2010 to 2011. Our projections show that unemployment will continue to fall the next few years. Overall, transfers to households are assumed to increase by about 7.5 per cent in 2011, which will result in real growth of close to 6 per cent.

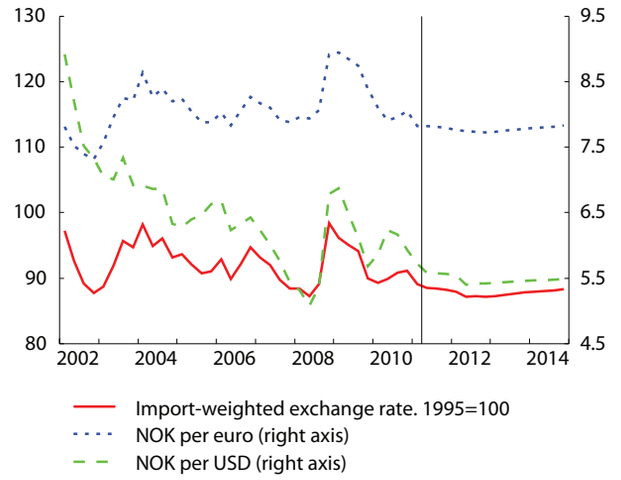
Projections for growth in consumption and gross general government investment are approximately the same as previously assumed, and approximately the same as growth in 2010 (adjusted for changes in defence investment). As a result of the strong growth in benefits, however, public budgets are generating larger demand impulses in 2011 than the previous year. As previously estimated, SNOBD is clearly lower than 4 per cent of the capital in the Government Pension Fund Global, and is rising slightly measured as a percentage of the trend value of mainland GDP.

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



Source: Norges Bank and Statistics Norway.

Figure 4. **Exchange rates**



Source: Norges Bank.

We project an unchanged tax level in real terms for the years 2012-2014, and that the strong growth in pension benefits will continue. Growth in general government consumption is expected to increase by about 2¾ per cent annually, which is approximately the same as estimated trend mainland economic growth. Gross non-military general government investment is assumed to increase by 9 per cent annually in 2012 and 2013, while the growth rate will be reduced to 6 per cent in 2014 in order to dampen inflationary impulses. Transfers to households are expected to increase by about 5 per cent annually in real terms. Growth in overall demand impulses from purchases of goods and services and transfers is then projected to be just over 4 per cent in 2012 and to fall gradually to 3 per cent in 2014. These growth rates are appreciably higher than projected trend growth in the mainland economy, but approximately in line with actual mainland GDP growth. Thus fiscal policy will not contribute to dampening the economic upturn in the years ahead according to our assumptions.

On the basis of our assumptions of somewhat higher oil and gas prices ahead, we project that growth in the Government Pension Fund Global will be somewhat higher than the projections in RNB 2011. Our projections imply that SNOBD, calculated as a share of the capital in the Fund, will be about 3 per cent in 2014. The deviation from the 4 per cent path has not been this wide since 2007.

From low to higher interest rates

Norges Bank's setting of interest rates is aimed at stabilising inflation at 2.5 per cent in the medium term, while taking account of the cyclical situation and the output and employment prospects. Inflation measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 0.8 per cent in both February and March this year. It was considerably higher in April – 1.3 per cent – but this is largely due to a high, temporary rise in air travel prices. According to our calculations, mainland GDP was just below trend in 2009 and has been about 2 per cent below trend for the last year and a half. Unemployment has fallen somewhat recently and is now close to the average since 2000.

Prompted by the crisis in financial markets worldwide and the sombre economic outlook, Norges Bank cut the key policy rate by 4.5 percentage points from autumn 2008 and over a nine month period, so that in June 2009 it was 1.25 per cent. Between October 2009 and May 2010, the key rate was raised three times. It then remained at the same level for a year before it was again raised in May this year. Each of the interest rate hikes has been 0.25 percentage point, so that the key rate is now 2.25 per cent.

As a direct result of the financial crisis, the differential between money market rates and the key policy rate widened. Prior to the crisis, money market rates largely shadowed the policy rate with a premium of about 0.25 percentage point. Since the summer of 2007, the premium has been substantially larger, and at the end of September 2008 it was more than 2 percentage points. Since November 2009, the premium has been between 0.5 and 0.75 percentage point. The average money market rate in 2010 was 2.5 per cent, and in April and May 2011 it was close to 2.7 per cent.

The interest rate setting affects activity in the economy through several channels (see Box 4). First, the interest rate level affects household consumption and housing investment and business fixed investment. Higher interest rates will push down both consumption and investment and thereby have a dampening effect on economic activity. Second, interest rates will affect the activity level through the krone exchange rate. Higher Norwegian interest rates contribute to strengthening the krone and to increased imports and reduced exports. Both imply lower domestic output. In a cyclical upturn, this points to higher interest rates.

Box 1. **Household debt and interest burden**

Preliminary financial accounts figures show that households borrowed NOK 143 billion in 2010, which implies debt growth of 6.4 per cent. At end-2010, debt accounted for 204.4 per cent of household disposable income. The debt to income ratio thus increased by almost 2 percentage points in the course of 2010, but was 2 percentage points lower than in mid-2007, when it was at a historic high.

Lenders are particularly concerned with two aspects of loans: the value of the collateral that is pledged as security for the loan, and borrower's ability to service the debt. Most loans, including consumer loans, are mortgage loans. A high loan-to-value ratio is regarded as cause for concern for both bank and borrower if there is a risk of house prices falling. In such a situation the borrower cannot merely realise the dwelling and thereby be rid of the debt. If households default on their debt, banks suffer losses. However, during the banking crisis in the early 1990s, banks' losses in connection with loans to households were moderate. There is no reason to believe that the situation would be any different in the event of a severe cyclical downturn now. Falling house prices would initially primarily affect persons and families who for one reason or another had to sell, for example if the fall in house prices coincided with events such as unemployment, divorce or a high interest burden. A house price fall could also prevent investment in larger dwellings if equity were lost.

Households with different interest burdens. In thousands

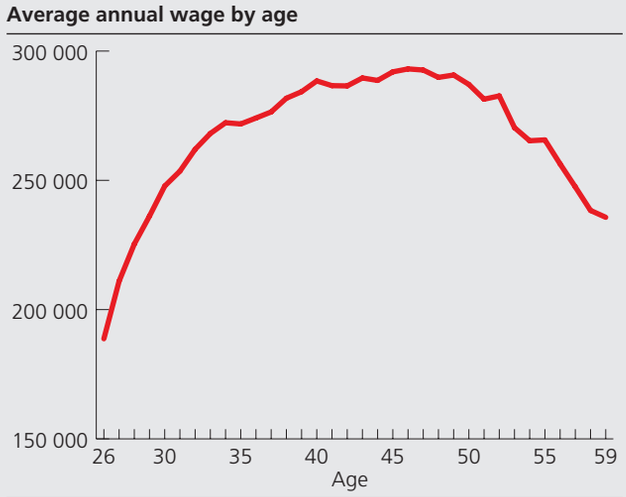
Interest burden*	2008	2010	2012	
			Interest 4.6 per cent	Interest 6.6 per cent
0,1-19,9 per cent	1 339	1 607	1 554	1 319
20-30 per cent	256	84	143	275
Over 30 per cent	144	37	61	165

* Interest burden is defined as interest expenses as a share of after-tax income, i.e. income excluding negative capital expenditures (including interest expenses) less tax. See http://www.ssb.no/iffor/ for more details.
Sources: Statistics Norway and the Financial Supervisory Authority of Norway.

The table shows the number of households with various interest burdens in 2008, and projected developments for 2010. Because of the low lending rates in 2010, the number of households with an interest burden of over 20 per cent of their after-tax income[1] sank markedly compared with the situation in 2008 before the financial crisis had pushed interest rates right down, measured as an annual average.

The table also provides some indications of how the interest burden of vulnerable households may develop up to 2012. The calculations were made by the Financial Supervisory Authority of Norway (Finanstilsynet) and Statistics Norway in collaboration, and are not based on the same projections that are presented in this report. In our projections we have assumed that average lending rates in 2012 will reach 5.4 per cent, 0.9 percentage point higher than the level in 2010. Calculated figures for one lower and one higher interest rate level are shown in the table. The low projection, 4.6 per cent, corresponds to the average bank lending rate at the end of the first quarter of this year. This low rate will nevertheless result in a clear increase in the number of households with a high interest burden from 2010 to 2012, almost a 70 per cent increase in the number of households with a burden of over 20 per cent, which is still only about half the number in 2008. If the interest rate increased by 2 percentage points, i.e. a lending rate of 6.6 per cent, we would be back at the same high levels, with as high an interest burden as in 2008, or even a little higher.

Average annual wage by age



Source: Register for personal tax payers 2005-2008, measured in 2006-NOK.

Young households are over-represented among households with a high debt burden and a high interest burden, cf. Solheim and Vatne (2011). This is natural, both because it is early in their housing loan cycle and because their income is relatively low compared with their lifetime income. The figure shows a "lifetime profile" based on cross-sectional data for individual salaries. This indicates fairly strong wage growth up to the mid-40s. If there is good underlying wage growth at the same time, many young households will be able to service their large loans without difficulty. When house prices also rise, households' collateral will also increase in value, and credit institutions will be willing to lend more.

Why should we fear a situation where the household debt burden is high?

Either an individual or a socio-economic perspective can be adopted.

It is cause for concern when individuals take on high loans if their margins are small with respect to unforeseen expenses or loss of income, especially combined with a fall in house prices. This may lead to a sharp tightening of consumption and, at worst, personal bankruptcy.

For the economy as a whole, the concern is that negative economic impulses could be amplified if households with a high debt and interest burden have to rein in consumption sharply, which will have consequences for overall demand and output. A high household debt burden can thereby contribute to financial instability as a result of losses banks may incur on loans to businesses that are impacted by the reduced domestic demand. However, it is difficult to set any clear limits to what is a "desirable" debt burden. If we exclude the possibility of a countering interest rate response, it will generally be the case that the higher the debt burden, the greater will be the contractionary effects of a negative shock that impacts households. However, there will also be a number of individual factors that influence how easily a household will be able to manage a given debt burden in the future.

References:

H. Solheim and B. H. Vatne (2011): Husholdningers gjeldsbelastning fordelt over aldergrupper [Household debt burden, by age group]. Aktuell kommentar no 2/2011, Norges Bank.

[1] 1This income concept stems from income statistics, and differs from the definition of disposable income in the national accounts in that interest expenses (and other negative capital expenditures) are not deducted.

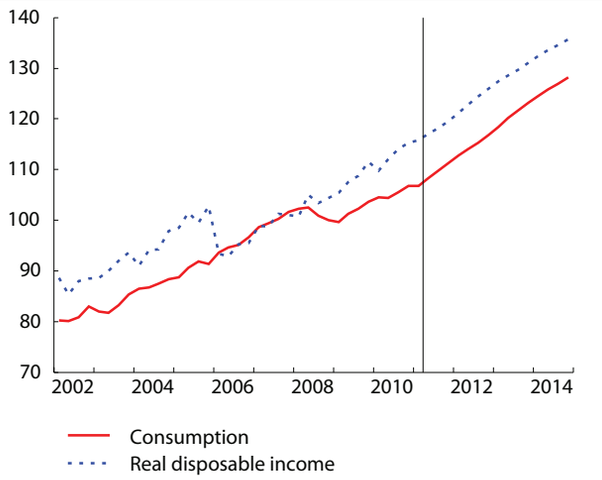
The interest rate level also influences private and municipal sector demand for credit, which is important for the financial stability of the economy. Growth in gross domestic debt in the private and municipal sector (C2) from the fourth quarter of 2010 to the first quarter of 2011 was an annualised 6.6 per cent. This is an increase on the previous quarter, when growth was 5.6 per cent. Private and municipal sector credit growth bottomed out in the fourth quarter of 2009, at 2.4 per cent. Credit growth is still appreciably lower than before the financial crisis, when it was over 10 per cent measured as an annual rate.

Growth for non-financial enterprises from the fourth quarter of 2010 to the first quarter of 2011 was an annualised 3.5 per cent. This is an increase of one percentage point on the previous quarter, but at the same time a decline of 2 percentage points compared with growth two quarters previously. Household credit growth has increased over the past year. Whereas credit growth in the second quarter of 2010 was 5.9 per cent compared with the previous quarter, as an annual rate, it had risen to 7.4 per cent in the first quarter of this year. Box 1 considers the household debt and interest burden in the period ahead in more detail.

Measured by the import-weighted krone exchange rate, the krone appreciated by 3.7 per cent from 2009 to 2010. This was largely a reversal of the depreciation the previous year. The strengthening of the krone has continued into 2011, and in the first five months of this year the krone, measured by the import-weighted krone exchange rate, has been worth 1.8 per cent more than the annual average for 2010. The krone has primarily strengthened against the US dollar. As an annual average, one US dollar cost just over 6 kroner in 2010. In April and May this year the price of a dollar has averaged less than NOK 5.5.

According to our projections, GDP growth this year and through the projection period will be higher than estimated trend growth and the GDP level will exceed the trend level in 2013. Other indicators also point to a cyclical upturn. Despite low inflation, the interest level appears likely to rise, and we cannot exclude the possibility that the central bank will attempt to dampen the rise in house prices in the period ahead. We assume that the key policy rate will be raised twice more in 2011. The interest rate hikes will continue for the next few years, and money market rates are expected to reach close to 6 per cent in the course of 2014. Banks' average lending rate is expected to be just over 7 per cent on average in 2014.

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



Source: Statistics Norway.

The interest rate level in the euro area is expected to increase less than in Norway. In isolation, the increased interest rate differential points to a stronger krone. This year and in 2012 the inflation differential will also contribute to a strengthening of the krone, while oil price developments in the period ahead will have the opposite effect. On an annual basis, we assume that the krone will appreciate by about 2 per cent from 2010 to 2011, measured by the import-weighted krone exchange rate. Next year the krone will appreciate by about a further 1½ per cent and will remain at this strong level in 2013. Higher Norwegian inflation may have the effect of weakening the krone somewhat in 2014. This means that the exchange rate in relation to the euro will remain at between 7.70 and 7.85 throughout the projection period.

Consumption growth will rise in the period ahead

According to seasonally adjusted QNA figures, consumption for households and non-profit organisations was virtually unchanged in the first quarter of 2011 compared with the previous quarter. Quarterly growth rates have been around 1 per cent from the second quarter of 2009 to the fourth quarter of 2010 inclusive, with the exception of the second quarter of last year when there was a slight fall, probably because of high electricity bills and abnormally high tax back-payments. High electricity bills may also provide part of the

Table 2. **Household real disposable income and saving. Percentage growth**

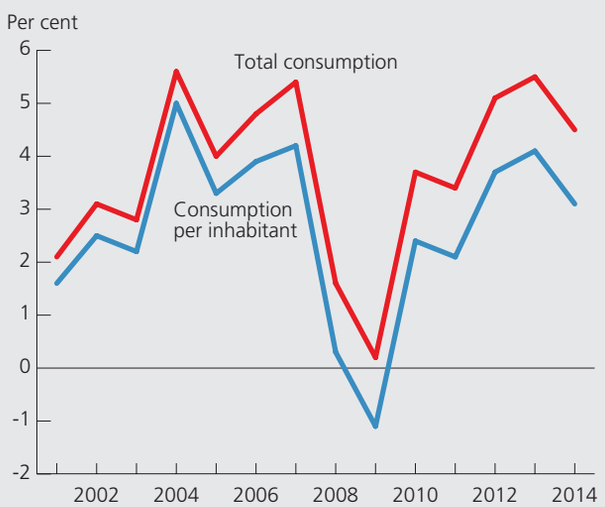
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Household real disposable income	7.6	-6.4	6.3	3.5	4.4	4.1	4.0	5.2	4.4	3.9
Household real disposable income exclusive dividends	3.4	4.2	5.1	2.8	4.8	4.0	3.5	4.9	4.1	3.5
Savings rate	10.2	0.1	1.5	3.8	7.5	7.6	8.4	8.5	7.6	7.2
Savings rate exclusive dividends	-0.9	-0.8	-0.5	1.2	5.3	5.3	5.6	5.5	4.3	3.5

Source: Statistics Norway.

Box 2. **What is consumption growth per inhabitant?**

Statistics Norway's population statistics show that growth in the number of registered residents increased through the first decade of the 2000s, from about 0.5 per cent in 2001 to about 1.3 per cent in 2010. Some household consumer growth during this decade can accordingly be linked to the population developments during the same period. It may therefore be interesting to compare developments in consumption, both overall and per inhabitant. The figure shows the growth in household consumption as a whole and per inhabitant for the period 2001-2014.[1]

Household consumption, total and per inhabitant. Percentage change on previous year



During the previous cyclical upturn from 2004 to 2007, rates of growth in overall household consumption varied between 4.0 and 5.6 per cent. The average annual growth rate was as much as 5.0 per cent during this period. Given the expansion we now envisage, overall consumption growth rates will probably lie between 3.4 and 5.5 per cent. The projections imply an average annual growth rate of 4.6 per cent for the period 2011-2014, i.e. 0.4 percentage point lower than the corresponding figures from the previous cyclical upturn. After adjustment for population growth in the same periods, the difference in average annual growth rate is larger. Whereas the average annual consumption growth per inhabitant was 4.1 per cent in the period 2004-2007, our projections imply an average annual growth rate of 3.3 per cent in the period 2011-2014. We are thus assuming that consumption growth per inhabitant through the projection period will be a good deal lower (0.8 percentage point) than during the previous cyclical upturn.

[1] The population figures forming the basis for the calculations in this Economic Survey are based on net immigration of approximately 45 000 persons in the years ahead. New official population projections will be published on 16 June.

explanation for the low first-quarter figures this year. Goods consumption fell no less than 0.9 per cent in the first quarter. However, most of this decline can be ascribed to a sharp fall in electricity consumption, which in turn must be viewed in conjunction with the high consumption in the fourth quarter of 2010. Total consumption excluding electricity, which is primarily influenced by temperature fluctuations, increased by 0.3 per cent in the first quarter, while goods consumption declined by 0.2 per cent. Clear growth in purchases of cars and food contributed substantially to curbing the decline in goods consumption. In contrast to goods consumption, consumption of services has moved along a stable path since the second quarter of 2009, with quarterly growth rates of around 0.5 per cent.

The goods consumption index for April showed a seasonally adjusted rise of 0.3 per cent. Excluding energy consumption, which fell sharply in April,the increase, was 0.8 per cent. Developments in monthly figures for registered new private cars also point to growth in household consumption in the second quarter of this year. In May, almost 16 000 new private cars were registered, approximately 25 per cent more than in the same month last year.

According to preliminary national accounts figures, household real disposable income rose by 4.1 per cent in 2010. Wage income, which is the largest source of household income, made a particular contribution to income growth last year as the decline in employment came to a halt. Growth in household real disposable income is expected to be around 4 per cent this year again, and between 4 and 5 per cent for the remainder of the projection period. Although wage income will rise further with a more favourable economic situation and public transfers will increase as a result of higher old-age pensions, higher interest rates and gradually increasing consumer price inflation will have the effect of moderating growth in real disposable income through the projection period.

Housing wealth increases with rising house prices and will also stimulate consumption in the next few years. However, an assumed higher real interest rate level points to higher household saving and a moderation of consumption growth. Overall, consumption growth is estimated at about 3.5 per cent this year, 5 per cent next year, 5.5 per cent in 2013 and 4.5 per cent in 2014. This is approximately in line with the consumption growth rates during the previous expansion (see Box 2). Given the income and consumption developments assumed here, the household saving ratio (saving as a share of disposable income) will increase from a level of just over 7.5 per cent in 2010 to about 8.5 per cent this year and the next year, and then fall towards 7 per cent at the end of the projection period. The saving ratio adjusted for share dividends will be 3 percentage points lower on average in the same period. Net lending will fall through the projection period, in pace with rising housing investment. Households are projected to reduce their net lending from a level of about NOK 50 billion in 2010 to around NOK 15 billion in 2014. These figures are based on the income accounts in the national accounts. The financial accounts, which are based on financial variables, show that net lending was negative in 2010. See Box 3 for a closer examination of different statistical sources for calculating household net lending.

Box 3. **What is the household financial position?**

In the projections we present in this report, households are saving a relatively large share of their disposable income compared with historical figures. Much of the saving takes the form of housing investment, however. In order to assess the significance of interest rate increases in the period ahead for household interest expenses, and to assess their debt servicing ability, it is important to form a picture of the household financial position.

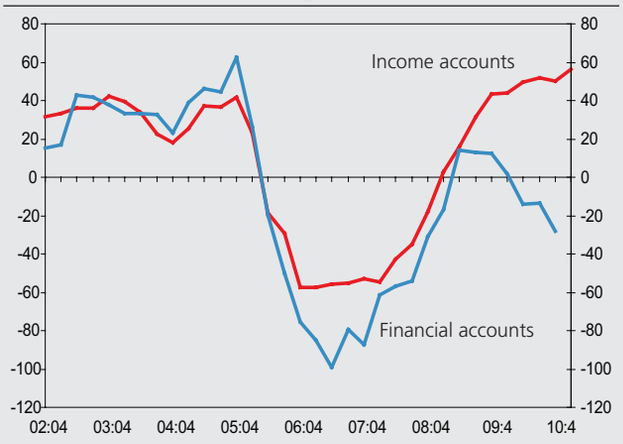
In the national accounts, saving is divided into net fixed investment and net lending. The latter can be calculated from both the income accounts and the financial accounts. In principle, the two amounts calculated for net lending should be the same, but in practice there are often differences because of errors and/or deficiencies in one or both sets of accounts.

Both emerge as the differences between large gross figures. Relatively small errors or deficiencies in these may therefore have a strong impact on the projection for net lending. In the income accounts, net lending is calculated by deducting consumption expenditures and investment in non-financial capital from disposable income. In the financial accounts, net lending is calculated as the difference between net investment in financial assets (purchases less sales) and new loans less payments on existing loans. If we add net gains on financial assets, the change in balance in the period under consideration (opening balance less closing balance) is explained.

International reports indicate growing problems of consistency between the two means of measurement in the national accounts of many countries since the global financial crisis in the autumn of 2008. The discrepancy between the income and financial accounts for households is far larger than previously, also for the Norwegian national accounts system. Access to resources in the form of income and loans has increased considerably more than the application of the resources to consumption and investment (see table). In 2010, the sum of disposable income and loans increased by 7.6 per cent, while overall consumption expenditure and investment only increased by 3.8 per cent. The discrepancy between the income and financial accounts began to grow in the second half of 2009 – at about the same time as the cyclical turnaround - and has widened through 2010. The discrepancy for 2009 is estimated to be NOK 31 billion, while the discrepancy for 2010 is estimated to be NOK 78 billion. The discrepancy for the past year was 3.1 per cent of GDP, which is very high in a Norwegian context.

The 2009 and 2010 figures for both the financial and the income accounts are preliminary. There has been a tendency for the difference to diminish as the accounts are updated with new information.

Net lending of households and non-profit organisations in the income accounts (up to and including the first quarter of 2011) and the financial accounts (up to and including the fourth quarter of 2010). Four-quarter growth in billions of NOK



Although there is uncertainty associated with net lending, the statistics on the deposits and debt of financial enterprises, interest flows and other return on capital are relatively reliable. We have calculated the interest rates necessary to bring about these interest flows. Interest rates appear to be at a level comparable with observed interest rates if the figures for interest-bearing assets and debt in the financial accounts are taken as the starting point. In our projections, we have therefore elected to treat the discrepancy that has arisen between the net lending figures in the financial accounts and the income accounts as non-interest-bearing investments. Our projections for household consumption and housing investment are based on the published national accounts figures and are not influenced by this. Household net lending follows from these projections, and is largely regarded as interest-bearing. We do not regard the uncertainty associated with our projections for household demand to be greater than normal as a result of the inconsistency between the financial accounts and the income accounts.

However, the inconsistent figures may be important for assessing households' debt servicing ability if they should experience an unexpected negative shock to their personal finances. The negative net lending of NOK 30 billion in the financial accounts means that households lend more than they save in financial assets. Household liquidity is therefore probably a good deal weaker than if net lending were the positive NOK 50 billion shown by the income accounts. The household debt and interest burden is based on an individual approach as described in Box 1 above.

Households and non-profit organisations. Income, financing, consumption and investment. Annual figures. In billions of NOK[1]

	2004	2005	2006	2007	2008	2009	2010*
Access to funding	985	1085	1065	1162	1150	1208	1300
Disposable income etc.[2]	845	917	881	951	1025	1092	1157
Debt increase (new loans less payments)	140	168	185	210	125	116	143
Application of resources	991	1106	1048	1127	1136	1177	1222
Consumption	786	826	882	940	989	1015	1073
Net investment in non-financial capital	41	49	56	64	53	34	34
Net investment in financial assets	163	231	110	123	94	128	115
Discrepancy/unused resources	-5	-21	18	35	14	31	78
Memo:							
Net lending in income accounts	18	41	-57	-53	-18	43	50
Net lending in financial accounts	23	62	-75	-87	-31	13	-28
Discrepancy as a percentage of GDP	0,30	1,07	0,83	1,52	0,52	1,32	3,13

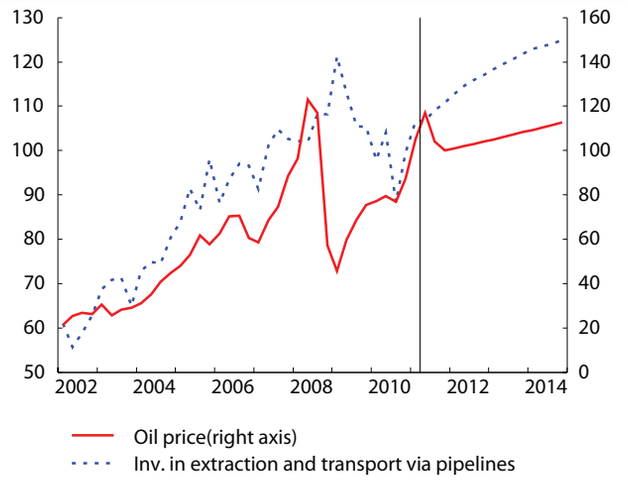
[1] Financial accounts as at 1 April 2011 and income accounts as at 26 May 2011.

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

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

Source: Statistics Norway.

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



Source: Statistics Norway.

Housing investment exceeds 2007 peak

In connection with the submission of the most recent QNA figures, housing investment has been revised quite substantially. Building statistics, the primary source drawn on for calculating housing investment, have been revised back to 2008. The new figures show that after falling sharply since the second quarter of 2007, building figures bottomed out in the first quarter of 2010 rather than in the fourth quarter of 2009 as indicated by the old figures. According to the revised figures, growth in housing investment over the past three quarters of 2010 has been stronger than previously assumed. Housing investment expressed as an annual average fell by 2.2 per cent in 2010 according to the revised figures, compared with 3.5 per cent with the old figures.

The seasonally adjusted QNA figures show that housing investment increased by as much as 7.9 per cent in the first quarter of 2011 compared with the previous quarter. Housing investment has thus increased for four consecutive quarters, at an accelerating pace. We expect more moderate growth for the remainder of this year, but that the annual average for 2011 will be a full 17 per cent. Prospects of a more favourable economic situation and rising house prices imply a continued increase in housing investment in the period ahead. Housing investment is expected to increase by 7 to 10 per cent annually in the period 2012-2014. In such case, it may exceed the 2007 peak of around NOK 100 billion in 2014 (measured in constant 2007 prices).

According to Statistics Norway's house price index, house prices fell by almost 10 per cent from the second to the fourth quarter of 2008 as a result of the financial crisis. Prices have subsequently shown a pronounced increase that far more than outweighed this decline. House prices did level off through the second half of last year, but as an annual average house prices as a whole rose by 8.3 per cent in 2010, compared with just on 2 per cent the previous year. House prices rose further by as much as 5.1 per cent in the first quarter of this year. Prices for flats increased by 5.7 per cent in the same period, while prices for detached houses and small houses increased by 5 per cent. In the first quarter of 2011, house prices as a whole were a good 12 per cent higher than the level in the second quarter of 2008. Developments in monthly house price figures point to some growth in the second quarter of this year as well. According to the real estate industry's house price statistics, seasonally adjusted house prices did in fact fall by 1.0 per cent in April, but rose by 1.2 per cent in May. As an annual average, house prices are projected to rise by around 7 per cent this year, and we estimate that they will continue to rise by around 7-8 per cent annually through the remainder of the projection period.

Petroleum investment up after a sharp fall in 2010

Petroleum industry investment picked up in the first quarter of 2011 after being at a low level in the third quarter of 2010. First quarter growth this year was 7.2 per cent. However, a comparison of the QNA figures for the winter half year with the same period a year previously shows virtually zero growth. There was a clear increase in drilling and exploration for oil, while investment in oil platforms and drilling rigs continued to decline.

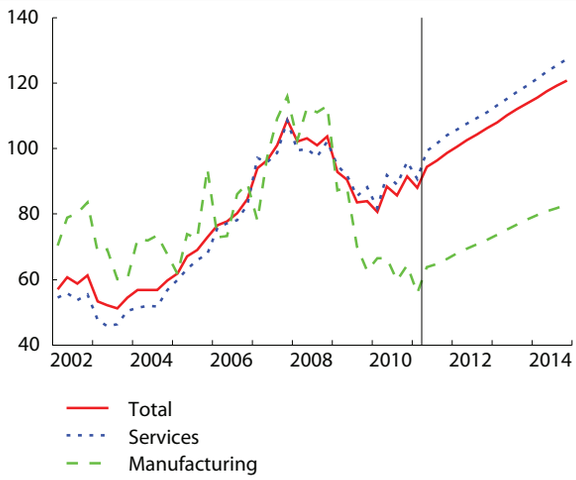
A number of new projects were launched last year, and a further rise in the pace of new field developments is expected in the second half of 2011. These are both new, large developments and expansions of existing fields. We expect exploration drilling to increase this year and then fall off somewhat through the projection period. Efforts to increase the recovery factor and the start-up of several new fields will contribute to maintaining production drilling at a high level in the projection period. On balance this will result in a rise in petroleum investment of just over 10 per cent in 2011. After that

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

	Accounts 2010*	Forecasts								
		2011			2012		2013		2014	
		SN	NB	MoF	SN	NB	SN	NB	SN	NB
Demand and output										
Consumption in households etc.	3.7	3.4	3 1/2	3.5	5.1	4 1/4	5.5	3 1/2	4.5	3 1/4
General government consumption	2.2	2.4	2 1/2	2.3	2.9	2 1/2	2.6	..	2.8	..
Gross fixed investment	-7.4	8.7	..	6.8	7.8	..	7.1	..	5.6	..
Extraction and transport via pipelines[1]	-12.4	12.1	12 1/2	7.5	6.4	6 1/2	3.8	5 1/4	3.2	3/4
Mainland Norway	-3.1	9.5	9 3/4	6.8	7.5	5 1/2	8.4	..	6.6	..
Industries	-1.2	7.7	..	7.4	8.8	..	7.4	..	6.5	..
Housing	-2.2	16.8	..	7.0	8.0	..	9.9	..	7.4	..
General government	-8.0	6.9	..	5.5	3.9	..	9.2	..	6.0	..
Demand from Mainland Norway[2]	2.0	4.2	4 1/4	3.7	5.0	4	5.3	3 1/4	4.5	2 3/4
Stockbuilding[3]	3.2	1.2	..	..	-0.6	..	0.0	..	0.0	..
Exports	-1.7	-0.9	..	1.7	1.6	..	1.5	..	2.1	..
Crude oil and natural gas	-7.4	-1.7	..	-2.0	-0.9	..	-1.2	..	-0.8	..
Traditional goods[4]	4.9	1.1	6 1/4	4.5	3.2	3 1/2	3.0	..	4.4	..
Imports	9.0	7.2	6 1/4	6.5	5.4	4 1/4	7.0	..	6.0	..
Traditional goods	8.3	6.4	..	6.8	8.8	..	8.4	..	7.2	..
Gross domestic product	0.3	2.3	2 1/2	2.1	2.8	2 3/4	3.0	2 1/2	2.8	2 1/4
Mainland Norway	2.1	3.2	3 1/4	3.2	4.0	3 3/4	3.9	3 1/4	3.6	3
Labour market										
Employed persons	-0.2	1.2	1 1/4	1.1	2.4	1 1/2	2.6	1 1/2	2.0	1
Unemployment rate (level)	3.6	3.3	3 1/2	3.2	3.2	3 1/4	2.9	3 1/4	2.8	3 1/4
Prices and wages										
Annual earnings	3.7	4.1	4	3.9	4.3	4 1/2	4.5	4 3/4	5.6	4 3/4
Consumer price index (CPI)	2.5	1.9	1 1/2	1.8	1.3	1 3/4	2.0	2 1/4	2.5	2 1/2
CPI-ATE[5]	1.4	1.3	1	1.3	1.7	2	2.0	2 1/4	2.5	2 1/2
Export prices, traditional goods	3.7	10.2	..	7.7	3.4	..	2.1	..	3.2	..
Import prices, traditional goods	-0.2	4.5	..	5.0	-0.5	..	1.0	..	2.0	..
Housing prices	8.3	6.9	..	..	6.8	..	6.8	..	8.1	..
Balance of payment			..			..		..		..
Current balance (bill. NOK)	310.0	339.6	..	384.4	303.6	..	277.4	..	274.7	..
Current balance (per cent of GDP)	12.4	12.6	..	14.2	12.6	..	9.3	..	8.7	..
Memorandum items:			..			..		..		..
Household savings ratio (level)	7.6	8.4	..	7.3	8.5	..	7.6	..	7.2	..
Money market rate (level)	2.5	2.9	2.8	3	3.8	3.9	4.8	4.8	5.8	5.1
Lending rate, banks (level)[6]	4.5	4.8	..	..	5.4	..	6.2	..	7.1	..
Crude oil price NOK (level)[7]	484	598	..	575	558	..	580	..	608	..
Export markets indicator	10.0	5.0	..	..	4.2	..	5.6	..	7.9	..
Importweighted krone exchange rate (44 countries)[8]	-3.8	-1.9	-1.7	..	-1.4	0.6	0.2	0.3	0.6	0.8

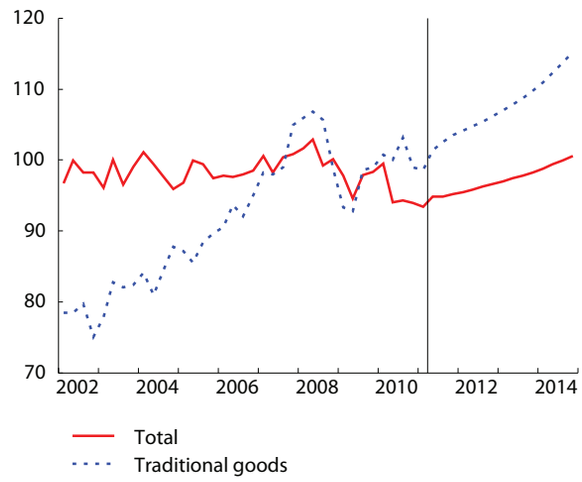
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway..
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates traditional exports, which also includes some services.
[5] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[6] Yearly average.
[7] Average spot price, Brent Blend.
[8] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.2 (2010-2011), (MoF), Norges Bank, Pengepolitisk rapport 1/2011+A12 (NB).

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



Source: Statistics Norway.

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



Source: Statistics Norway.

we expect high, but declining growth for the remainder of the projection period.

Petroleum recovery declined appreciably in the first quarter of 2011 compared with the same quarter in 2010. Overall petroleum production fell by 5.5 per cent. The decline is entirely attributable to lower oil production, as gas production remained unchanged. We expect the decline in oil production to continue, but not as rapidly as previously. Gas production is expected to edge up. Overall petroleum recovery will accordingly decline somewhat over the next four years.

Average export prices for gas will depend on the spot price for both oil and gas. There was a sharp fall in gas export prices in the first quarter of 2011, despite a clear increase in oil prices. We expect gas prices to develop in line with oil prices going forward, but somewhat more weakly.

Increase in business investment

Activity growth in 2010 has been partly driven by investment growth. The investment level in the first quarter of 2011 was 9.3 per cent higher than in the same period the previous year, but 3.8 per cent lower than the previous quarter. Such fluctuations in investment are often seen.

Investment in manufacturing and mining and retail trade was particularly low in the first quarter of this year. Investment in manufacturing and mining slumped 13.0 per cent. This industry has been characterised by low investment since the cyclical downturn began in 2008. Countering this trend is investment in commercial buildings, where 7 per cent growth was registered in the first quarter compared with the same period in 2010. Growth in office and commercial buildings in particular has remained at a high level.

Our projection for manufacturing investment this year is in line with Statistics Norway's investment intentions survey if allowance is made for normal under-reporting. Manufacturing investment accounted for 10.4 per cent of mainland business investment in 2010. We expect 2.5 per cent growth in 2011 and around 9 per cent in 2012. The investment intentions survey also indicates an increase in power supply of about 25 per cent in 2011 and a further 15 per cent in 2012. This can be attributed to the development of windmill parks and a number of large projects in the production and distribution of district heating. Another contributory factor is the increased focus on upgrading and development of the electricity grid.

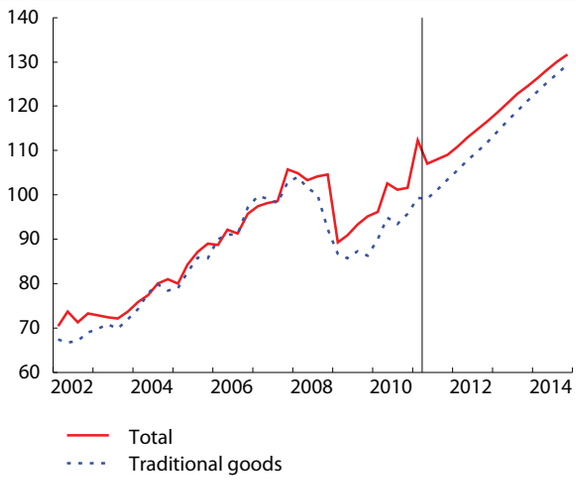
Increased investment is expected in pace with the cyclical upturn. For mainland business investment as a whole, we project growth of between 6 and 9 per cent annually through the projection period, partly due to pronounced growth in investment in the service industries. The investment level in 2014 will be about 13 per cent higher than the investment peak during the previous boom.

Imports growing faster than exports

Norway's exports are dominated by oil and gas, which in 2010 accounted for just over 46 per cent of the overall value of exports. Other major export groups were manufacturing products (26 per cent), which account for the bulk of traditional exports goods, and services (23 per cent). Exports from the metals and chemical industry are high, and have been rising since the downturn in 2009. Fish products are another major export group which rose in value to new heights last year. Shipping and commercial services contributed most to income from service exports. The bulk of overall exports go to close trading partners such as the UK and Germany. Sweden was the primary recipient of Norwegian export products excluding oil and gas in 2010.

Exports of traditional goods dipped through the winter half year. The weak development is broad-based and

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



Source: Statistics Norway.

reflects the weak global economic situation. Exports of large product groups such as metals, engineering products and chemicals and chemical products showed a decline, while exports of petroleum products rose. Exports of fish and fish products remained at the same volume as in the fourth quarter of last year. The volume of traditional goods exported from Norway in the first quarter of 2011 was lower than in all quarters last year. Exports of crude oil and natural gas and of ships and platforms have followed a declining trend through the last two calendar years. The situation for exports of services appears to be the reverse, as a weak growth tendency through 2010 continues into 2011.

Traditional goods increased in price from the fourth quarter of 2010 to the first quarter of this year. Rising international prices for commodities such as fish and metals boosted prices through 2010. The strong rise in prices for refined oil products that continued into 2011 is buoying up growth. Prices for exports of services fell. Rising oil prices pushed up the value of overall Norwegian exports in the first quarter of this year.

The weak global economic situation implies weak developments in demand for traditional Norwegian export goods and services this year. From 2013 we expect global market growth to lift exports of traditional Norwegian goods and services. After the financial crisis in 2008 and through the cyclical downturn in 2009, prices for virtually all Norwegian exports slumped. We expect the recovery seen in 2010 in the form of rising prices to continue this year. During the remainder of the projection period the rise in prices will be more moderate.

In 2010, Norway's imports were almost 20 per cent higher in value than exports excluding oil and gas. Last year imports were characterised by a rebound following the plunge in 2009. Import volumes increased for virtually all the largest product groups. Imports of private cars rose by a whole 35 per cent, after falling 14 per cent in 2009. An exception to the rule was the largest group of import goods – engineering products – which showed virtually zero growth in 2010. Reduced petroleum investment contributed to the weak developments. Growth in total imports last year made up for most of the decline in 2009. Imports of many of the largest product groups continued to increase in volume into 2011. Half of the growth in combined imports from the fourth quarter of 2010 to the first quarter of this year was attributable to the import of two platforms and one frigate.

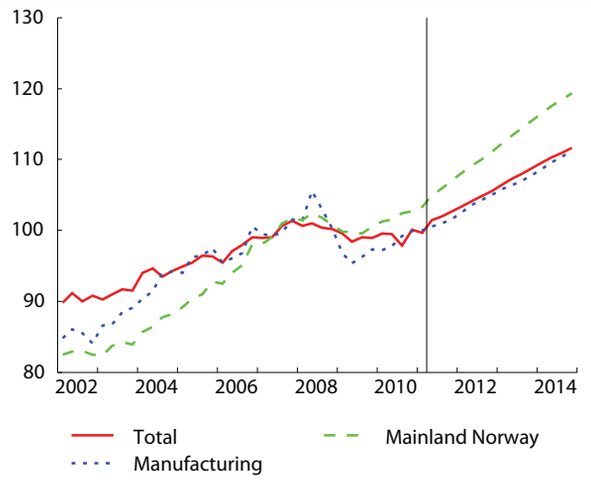
Solid growth in investment and consumption demand will maintain import growth at a high level throughout the projection period. Higher prices for petroleum products and metals are helping to boost the rise in prices for imports as a whole this year. However, lower prices for clothing, electricity and cars are countering this trend, and this effect will continue through the projection period.

Norway's trade with other countries has yielded large surpluses each year since the turn of the century. The surplus more than doubled up to 2008. The financial crisis and the global economic downturn affected exports more than imports, and the trade surplus was reduced by a third from 2008 to 2009. Exports of traditional goods and services have grown less than imports. In several of the years since 2000, developments in export and import prices compensated for this. In 2010, the trade surplus increased with the oil price and a terms of trade gain on traditional goods. A high oil price and rising commodity prices can raise the trade surplus to over NOK 360 billion in 2011. After that, high import growth is expected to dominate over both low export growth and a small terms of trade gain for the remainder of the projection period, thereby reducing the trade surplus to less than NOK 300 billion in 2013 and 2014. A net factor income and transfers deficit is expected to reduce the current account surplus to NOK 10-20 billion less than the trade surplus. The annual surpluses are expected to be reduced to the 2009 level, which will amount to less than 9 per cent of GDP.

More pronounced cyclical upturn ahead

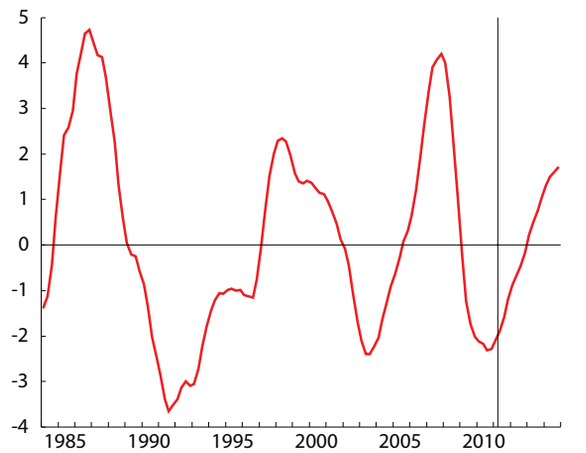
In the fourth quarter of 2009, the decline in the activity level since the financial crisis gave way to output growth slightly higher than trend growth in the Norwegian economy (which we estimate at an annual 2¾ per cent). The growth was accordingly strong enough to be called a cyclical upturn. Developments since then have in no way shown signs of a clear upturn, however. The seasonally adjusted QNA figures for mainland GDP show several quarters of lower-than-trend growth. In the last two quarters, this can largely be ascribed to special innate supply-side factors that in themselves have little influence on our perception of the cyclical situation. Measured as an annual rate, mainland GDP excluding power supply increased by 3.6 per cent in the first quarter compared with the previous

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



Source: Statistics Norway.

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



Source: Statistics Norway.

quarter, which indicates that the underlying economy is in a cyclical upturn.

The QNA figures for the first quarter of 2011 show that growth was not as broad-based as in the previous quarters. The increase in value added in commercial services accounted for almost the entire increase in mainland GDP excluding general government. There was no growth in manufacturing or construction. The growth in general government activity was slightly less than average.

Despite definite growth over an 18 month period, mainland GDP excluding general government is still lower than the level in the second quarter of 2008, the quarter before the Lehman Brothers bankruptcy. In the first quarter of this year, output in both manufacturing and construction was appreciably lower than just three years ago, while post and telecommunications, commercial and financial services and aquaculture were appreciably higher.

We assume that there will be a broad-based increase in domestic demand that will contribute to a more pronounced upturn going forward. Activity in export industries, which surged as a result of the rebound in world trade, is expected to develop somewhat more weakly than other industries. A further weakening of cost competitiveness as a result of relatively high wage growth and a stronger krone will dampen the effect of moderate growth in global demand. When growth in export markets picks up somewhat further ahead, growth in export-oriented industries will increase somewhat.

Substantial domestic manufacturing deliveries, to the petroleum industry, among others, will help the recovery in manufacturing in general to continue, despite a modest input from internationally exposed activities. The cyclical upturn is expected to be reflected in developments in most industries.

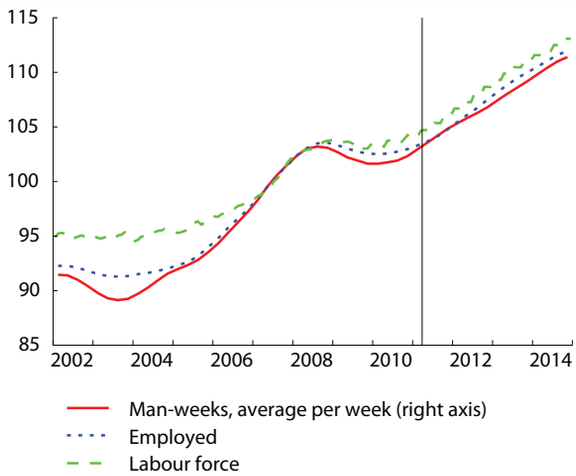
Mainland GDP growth is projected to be 3.2 per cent this year and up to 4 per cent in subsequent years. By way of comparison, annual growth in the boom years 2004-2007 averaged close to 5 per cent.

In the first quarter of 2011, mainland GDP was almost 2 per cent lower than the estimated trend level (see Figure 12). According to our projections, the economy will enter a boom period in 2013.

Lower unemployment towards 2014

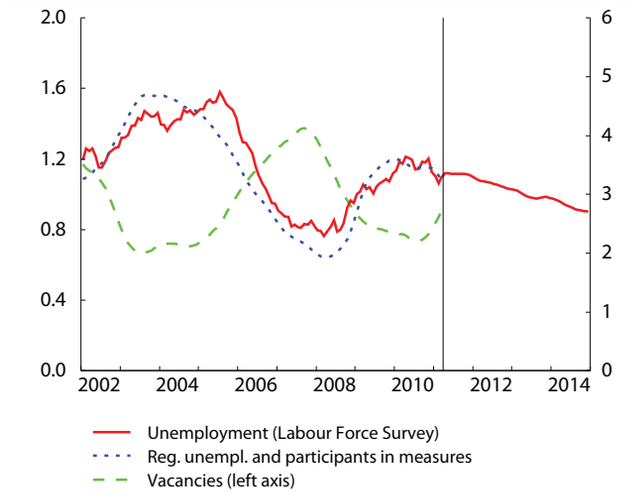
In the first quarter of 2011, seasonally adjusted employment according to the QNA figures rose by approximately 7 200 persons. This is the fourth consecutive quarter with growth in employment, which has now increased by approximately 23 000 persons since the trough in the first quarter of 2010. Because of the marked fall in employment during and after the financial crisis, the employment level in the first quarter of 2011 was nevertheless 23 000 persons less than the previous peak in the third quarter of 2008. According to the QNA, employment growth in the first quarter was confined largely to commercial services and retail trade. Manufacturing and construction employment fell by 3 000 and 1500 persons, respectively. General government employment shows moderate growth of 2 500 persons, after increasing by approximately 40 000 from 2008 to 2010. Measured as the number of employed persons, 30 per cent of those employed were employed in general government in the first quarter of 2011. It is normal for general government's share of overall employment to increase in a cyclical downturn, and decline when the temperature in the economy rises. Although general government employment has grown continuously, public sector employment does not constitute a larger share of total employment than in 2004, i.e. the start of the previous upturn. During the previous upturn, private sector employment grew far more than public sector employment.

Figure 13. **Labour force, employment and number of man-hours. Seasonally adjusted and smoothed indices, 2007=100**



Source: Statistics Norway.

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



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

Statistics Norway's Labour Force Survey (LFS) shows that the unemployed constituted 3.3 per cent of the labour force, or 86 000 persons, in the period February-April this year, after adjustment for normal seasonal variations. This is a decline of 0.3 percentage point, or 8 000 persons, since the fourth quarter of 2010. Seasonally adjusted LFS employment was then 3.6 per cent, an increase in the unemployment rate of 1.2 percentage points from the trough in the first quarter of 2008. According to the LFS, average labour force participation for persons aged 15-74 fell by 0.9 percentage point, to 70.9 per cent, from the first quarter of 2010 to the first quarter of 2011. The decline in labour force participation over the past year has been particularly pronounced among the youngest cohorts. According to the LFS, there are 14 000 more persons in education than in the first quarter of 2010. An increased propensity to study probably contributes to reducing labour force participation among the younger cohorts. Total labour force participation among men accounted for 73.3 per cent of the male population in the first quarter of 2011, down 1.4 percentage points on the first quarter of 2010. Labour force participation for women was 68.5 per cent, down 0.2 percentage point on the previous year. From the first quarter of 2010 to the first quarter of 2011, there was an increase of about 20 000 persons in the cohort 64-66 years.

Seasonally adjusted figures for registered unemployment from the Norwegian Labour and Welfare Administration (NAV) show, like LFS unemployment figures, a fall from the fourth quarter of 2010 into 2011. The total seasonally adjusted figure for those registered as fully unemployed and persons on labour market schemes was about 83 500 persons at the end of May. This is just over 6 000 fewer than six months earlier. The decline in unemployment in April and May was weaker than in preceding months. The unadjusted figure for the number of advertised vacancies was 20 per cent higher in May than one year earlier.

New quarterly statistics on job vacancies from Statistics Norway show a 14 per cent increase in the number of vacancies, or 8 300 vacancies, from the first quarter of 2010 to the first quarter of 2011. The statistics count the number of vacancies that are announced, formally or informally. According to the statistics, there were almost 69 000 vacancies in the first quarter of 2011. Figures from Statistics Norway and NAV indicate that the temperature of the labour market has risen in 2011.

Statistics Norway›s population statistics show that the number of registered residents continued to increase in the first quarter of 2011 after the record high population growth of 62 000 persons in 2010. Of the population growth of 17 000 persons in the first quarter, net immigration from abroad accounted for 13 400 persons. The figures show that both immigration and emigration have remained at a high level.

New, flexible rules for drawing an old-age pension from the National Insurance Fund are applicable from 2011. All those aged over 62 after 1 January 2011 can draw a pension from the National Insurance Fund if their pension earnings exceed the minimum pension level. At the end of the first quarter of 2011, NAV figures indicated that there were just under 18 000 persons in the age group 62-66 who took advantage of the scheme for flexible drawing of an old-age pension. The effect of the reform was pronounced in the first quarter of 2011, because five cohorts were able to make use of the option immediately. Under the new pension scheme, it is possible to combine drawing a pension with high labour force participation without a reduction of the pension. Underlying unadjusted LFS figures for the first quarter of 2011 show that labour force participation for the oldest age cohorts is roughly unchanged from the first quarter of 2010. This indicates that labour force participation has remained high for the age cohorts to which the new pension scheme applies. Cohorts of 62 year-olds will remain stable during the projection period in the interval of 56-58 000 persons. During

the projection period, the number in the population group aged 62-66 will stabilise at the current level after increasing sharply over the past five years as a result of the large post-war cohorts. We envisage that the labour force participation of the older group of employees will remain almost unchanged during the projection period, and that somewhat lower labour force participation by men aged 62-66 will be compensated for by higher participation by women.

In the years ahead, a general economic upturn will be reflected in higher employment growth. The upturn will be particularly pronounced in labour-intensive industries. General government employment is expected to increase less than overall employment. Overall, we assume that the number employed will increase by slightly more than 200 000 over the next four years. Developments in unemployment will then be determined by the growth of the working age population and by the degree of labour force participation.

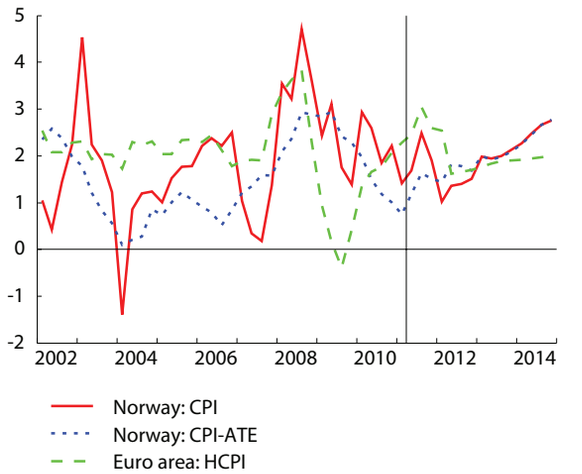
Projections produced by means of Statistics Norway's MOSART micro-simulation model show approximately zero growth in the labour supply, given unchanged labour force participation and no net immigration in the projection period. The level of future immigration and the labour force participation of the immigrants is therefore a particularly uncertain factor. We envisage somewhat higher immigration than previously assumed in the next few years, with annual net immigration of about 45 000 persons each year up to 2014. This implies overall population growth of 1.2-1.3 per cent annually during the projection period. The population aged 20-66 will increase by about 150 000 persons during the coming four-year period, almost entirely as a result of net immigration.

Higher labour force participation by most age groups is expected later in the business cycle. This is to some extent a reversal of the decline in the wake of the financial crisis. On balance, we assume that growth in employment will be somewhat higher than growth in the labour force in the years ahead. According to the LFS, average unemployment was 3.6 per cent in 2010, rising 0.4 of a percentage point from 2009. We expect the unemployment rate to fall to 3.3 per cent in 2011, and that it will fall further to 2.8 per cent in 2014. The average LFS unemployment is projected to be 88 000 persons in 2011 and to fall gradually to 79 000 in 2014.

Wage growth gathering pace

This year's wage settlement has been an interim settlement in the two-year wage agreements. The settlements have been achieved without any special need for mediation. The private sector settlements are estimated by the parties themselves to result in annual wage growth of about 3¾ per cent. The central government ended up with a pay increase that formed the basis for annual wage growth of 3.9 per cent, and in local government the parties estimated wage growth at 4¼ per cent. Wage growth other than the negotiated pay increases and different wage levels for those who move into and out of employment make estimates of overall wage growth uncertain. Our estimate for the economy as a whole is 4.1 per cent, compared with 3.7 per cent last year. We are thereby revising upwards the wage growth projection for this year by 0.5 of a percentage point compared with the previous report in February.

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



Source: Statistics Norway.

The increased wage growth can be viewed in conjunction with the fact that the labour market has shown a clear improvement this year. The ability to pay of the private sector has also improved. Although the operating results of non-financial enterprises are far lower than in the period 2006-2008, they increased by almost 17 per cent from 2009 to 2010. Developments in international commodity markets have pushed up prices for many Norwegian export products, while import prices are only rising moderately. This gives Norway a terms of trade gain, even excluding the profitable petroleum sector. This gain becomes apparent in the accounts of many enterprises, particularly in the wage-leading manufacturing sector. Thus the terms of trade gains contribute to higher wage growth throughout the economy. The rise in prices for traditional export goods in 2011 is projected to be 6.6 percentage points higher than the rise in import prices. Terms of trade gains will continue through the projection period, although not to the same extent as previously.

Productivity growth is also important for business sector profitability. In the initial phase of an upturn, which is where we probably are now, there is normally idle capacity in business to increase output without increasing employment correspondingly. Productivity growth will then be high. Our indicator for productivity in the mainland business sector increased by almost 2 per cent last year. This is somewhat slower growth than at the start of the previous upturn in 2003-2004. Employment has also picked up more this time, which

may indicate that there has been less idle capacity than around the previous cyclical trough. The fact that the unemployment level is lower this time points the same way. We nevertheless assume that productivity growth will abate somewhat going forward, and this factor in isolation will curb wage growth.

The rise in the cost of living may also be of some importance to wage growth in the period ahead. With projections for consumer price inflation that are mainly less than 2 per cent annually in the projection period, there is scope for an improvement in purchasing power without major pay increases. We assume that wage growth will increase gradually in the years ahead in pace with the cyclical upturn in the Norwegian economy. However, so will inflation. This implies real wage growth of 2-3 per cent annually. This is clearly higher than productivity growth, but with the exception of 2014, it is lower than the real growth in business sector operating profits. Despite the fact that wage growth will then probably be far higher in Norway than among trading partners, because of the terms of trade gains we project a decline in the share of costs attributable to labour in manufacturing from 2010 to 2011 and a relatively stable labour cost share thereafter.

Low inflation

Underlying price inflation was very low through the second half of 2010 and the early months of 2011, but a sharp rise in registered air travel prices in April 2011 contributed to pushing up inflation. Inflation measured by the 12-month rise in consumer prices, adjusted for tax changes and excluding energy products (CPI-ATE) thus rose from 0.7 per cent in January 2011 to 1.3 per cent in April. Developments in electricity prices this past winter compared with the previous winter contributed to the 12-month rise in the CPI falling from 2.0 per cent in January to 1.3 per cent in April.

The CPI-ATE excluding air travel would not have shown increased inflation in April for any supply sector. The year-on-year change in prices for imported consumer goods was -0.9 per cent in April. This was a slightly larger decline than the previous month, and a little less than in the first few months of the year. The rise in prices for goods produced in Norway excluding agricultural and fish products was 2.4 per cent, unchanged from the previous month. However, prices for these goods increased by about 1 percentage point from February to March. We assume that registered prices for air travel will come down in May and bring the 12-month rise in the CPI-ATE down a little. Later on, the two factors will have opposite effects on underlying inflation. The cyclical situation, with increased capacity utilisation and higher wage growth, will push up inflation. This will be countered by the recent appreciation of the krone, which in isolation will lower prices for imported consumer goods and input factors and thereby have a dampening effect on inflation. We assume that the increased domestic cost impulses will dominate after a while and gradually push up inflation. We project that as an annual average the CPI-ATE will increase by 1.3 per cent this year, gradually rising to 2.5 per cent in 2014.

It is the overall consumer price index (CPI) that is relevant for forecasting developments in household purchasing power. The difference between developments in the CPI-ATE and the CPI has for many years been dominated by developments in energy prices, particularly electricity prices. Changes in indirect taxation have had little impact. In December 2010, electricity prices were almost 40 per cent higher than 12 months previously, which contributed to the 12-month rise in the CPI of 2.8 per cent. In April this year, however, electricity prices were 8.9 per cent lower than in the same month last year. The contribution from electricity price movements more than compensated for the slowing of the 12-month rise in the CPI. In the light of prices in the electricity forward market, we do not anticipate major changes in the period ahead. On an annual basis, we assume that the average price of electricity will increase by 5 per cent this year and fall approximately the same amount next year. Following an almost zero rise in 2013, we assume that electricity prices will rise roughly in pace with the general rise in prices. The oil price, measured in NOK, appears likely to be substantially higher this year than last. We assume a certain fall next year and a moderate rise in 2013 and 2014.

Energy prices are thus expected to push the CPI index up appreciably in 2011 and appreciably down in 2012, and thereafter to be approximately neutral. We therefore expect the CPI to rise by an annual average of 1.9 per cent this year and fall back to 1.3 per cent next year. Thereafter, the rise in the CPI is expected to increase gradually in 2014 to 2.5 per cent, like the CPI-ATE.

Box 4. **The contribution of interest rate increases to dampening the cyclical upturn**

In our projections for developments in the Norwegian economy from 2011-2014 we have assumed that monetary policy will be gradually tightened to dampen the cyclical upturn. It is assumed that fiscal policy, on the other hand, would generate demand impulses approximately in line with projected mainland economic growth. We shall now attempt to illustrate the size of the contribution from monetary policy to stabilising the economy in the period ahead.

We have created two scenarios with the aid of our KVARTS macroeconomic model in which we consider the effects of keeping money market rates at the current level through the projection period instead of following the projected developments. In the one scenario, the exchange rate is assumed to remain unchanged. We then show the effects on the economy of allowing the exchange rate to be determined according to the equation in KVARTS that determines the value of the krone. Both computations are based on the projection scenario in this report.

In the projection scenario, money market rates increase by about ¼ percentage point per quarter from the second half of 2011 and through 2014. In the first alternative scenario with an unchanged interest level and constant exchange rate, this low interest rate will have a clearly expansionary effect. The difference in the interest rate level in the two scenarios increases gradually, and in 2014 the key policy rate is 3 percentage points lower. Household consumption will increase partly because real disposable income increases when interest expenses fall, and partly because it will be less profitable to save for future consumption when interest rates are low.

House prices will increase more when the interest rate is low, pushing up the value of dwellings. Higher house prices also prompt more residential construction. Higher household wealth will have a positive effect on consumption, and business investment will also be substantially influenced. The lower interest rate level will reduce investment costs and contribute to higher investment. An approximately unchanged wage level coupled with clearly lower capital costs will lead companies to replace labour with capital. This will result in higher productivity and the effect will be so pronounced that demand for labour will not change much in the scenario. When unemployment does not change appreciably either, the real wage level will be mainly affected by higher productivity.

The price level measured by the CPI will be lower in this scenario, largely because lower interest rates will result in lower costs and accordingly lower prices. Increased demand will counter the effect to some extent, but far from strongly enough to balance the reduced cost level. The wage level will be virtually unchanged in nominal terms because in isolation increased productivity will contribute to higher wages, while lower prices will have the opposite effect and roughly balance the productivity effect.

As a result of the increase in real capital, the higher demand can be met with increased output without any appreciable increase in employment. Lower capital costs mean lower prices. However this is not a realistic overall assessment of the effects of keeping interest rates low, because in this scenario we have totally ignored the fact that the foreign exchange market will be influenced by alternative developments in Norwegian money market rates.

When we allow the model to determine the krone/euro exchange rate (and all the other exchange rates are constant in relation to the euro), the results change substantially. A lower, and after a while negative, interest rate differential weakens the krone. A weaker krone is reflected in both a rise in export prices in NOK and in Norwegian companies reducing their prices in foreign currency on world markets. As a result, cost competitiveness increases, which boost exports. A weakened krone also results in higher prices for imported goods, and in contrast to the first scenario, consumer prices will therefore rise. For a given nominal interest rate level, higher consumer prices will result in lower real interest rates. As a result of the further reduction in the real interest rate due to a higher price level, both consumption and investment will increase further.

Improved manufacturing profitability coupled with higher pressures in the labour market push up nominal wages, which spills over into higher consumer prices. Inflation in 2014 is a full 4 per cent in this scenario. This further weakens the krone, and in 2014 one euro costs over NOK 9 in this scenario, compared with less than NOK 8 in the projection scenario. With stronger demand effects due to lower real interest rates, GDP increases more in the years immediately ahead and unemployment falls somewhat, and in 2014 is as low as 2.3 per cent.

Against the background of the Monetary Policy Regulations, these results show that unchanged interest rates ahead, but in other respects with the developments we expect for variables that are determined outside the model, are totally unrealistic. This is why we have a gradual increase in interest rates in the projection scenario so that inflation is approximately on target and not 4 per cent as shown in this scenario.

Effects of no interest rate increases. unchanged exchange rate. effect in per cent unless otherwise specified

	2011	2012	2013	2014
Household consumption	0.0	0.4	1.8	3.8
Mainland investment	0.0	0.1	0.6	1.7
Manufacturing	0.0	0.4	1.3	2.7
Exports. traditional goods	0.0	0.0	0.0	0.1
Imports	0.0	0.2	1.0	2.3
Mainland GDP	0.0	0.2	0.7	1.6
Manufacturing	0.0	0.1	0.5	1.2
Employment	0.0	0.0	0.0	0.2
Labour force	0.0	0.0	0.0	0.1
Unemployment rate	0.0	0.0	0.0	-0.1
CPI	0.0	-0.1	-0.3	-0.7
Annual wages	0.0	0.0	0.0	0.1
Money market rate (level)	-0.2	-1.0	-2.0	-3.0
House prices	0.0	0.5	2.4	6.4
Exchange rate (I-44)	0.0	0.0	0.0	0.0

Effects of no interest rate increases, model-based exchange rate, effect in per cent unless otherwise specified

	2011	2012	2013	2014
Household consumption	0.0	0.4	2.0	4.3
Mainland investment	0.0	0.4	1.6	4.1
Manufacturing	0.1	1.6	5.1	9.5
Exports, traditional goods	0.1	0.9	2.1	3.5
Imports	0.0	0.1	0.8	2.2
Mainland GDP	0.0	0.5	1.7	3.3
Manufacturing	0.1	1.2	3.4	6.3
Employment	0.0	0.1	0.4	0.8
Labour force	0.0	0.0	0.1	0.4
Unemployment rate	0.0	-0.1	-0.3	-0.5
CPI	0.0	0.5	1.6	3.1
Annual wages	0.0	0.4	1.4	3.2
Money market rate (level)	-0.2	-1.0	-2.0	-3.0
House prices	0.1	1.8	7.7	18.3
Exchange rate (I-44)	0.4	4.3	9.5	14.8

Table 4. **National accounts: Final expenditure and gross domestic product. At constant 2007 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2009	2010	09.2	09.3	09.4	10.1	10.2	10.3	10.4	11.1
Final consumption expenditure of households and NPISHs	956 370	991 579	238 037	240 454	243 577	245 830	245 373	248 207	251 038	250 981
Household final consumption expenditure	916 510	950 626	228 148	230 449	233 397	235 714	235 166	237 935	240 678	240 632
Goods	469 721	489 034	116 415	118 646	120 619	121 322	120 557	121 896	124 001	122 917
Services	415 841	425 308	103 843	104 229	104 631	105 259	106 003	106 821	107 184	107 639
Direct purchases abroad by resident households	55 602	62 470	13 899	13 622	14 578	15 502	15 201	15 752	16 108	16 426
Direct purchases by non-residents	-24 654	-26 185	-6 009	-6 048	-6 430	-6 369	-6 594	-6 534	-6 615	-6 350
Final consumption expenditure of NPISHs	39 860	40 952	9 889	10 005	10 180	10 115	10 207	10 271	10 360	10 348
Final consumption expenditure of general government	487 106	497 712	121 881	122 558	121 716	123 260	124 165	125 468	124 671	124 435
Final consumption expenditure of central government	252 663	252 066	63 201	63 179	63 469	62 625	63 004	63 523	62 836	62 696
Central government, civilian	220 418	219 823	54 888	55 084	55 620	54 701	54 922	55 395	54 728	54 385
Central government, defence	32 245	32 243	8 313	8 095	7 850	7 924	8 082	8 128	8 108	8 311
Final consumption expenditure of local government	234 443	245 646	58 680	59 379	58 246	60 635	61 160	61 945	61 835	61 739
Gross fixed capital formation	481 146	445 463	119 234	113 236	122 026	104 568	115 328	109 049	116 067	118 759
Extraction and transport via pipelines	120 350	105 414	30 589	28 550	28 511	26 489	28 137	23 897	26 929	28 864
Service activities incidential to extraction	10 675	1 695	-143	1593	4 468	176	457	407	655	128
Ocean transport	18 367	16 852	4 606	4 213	4 833	2 621	5 503	5 014	3 613	4 322
Mainland Norway	331 753	321 502	84 182	78 880	84 215	75 282	81 232	79 732	84 870	85 445
Mainland Norway excluding general government	251 920	248 082	64 576	60 248	60 133	58 285	62 554	61 805	65 391	65 084
Industries	178 949	176 714	46 157	42 571	42 808	41 102	45 097	43 735	46 694	44 913
Manufacturing and mining	23 861	19 937	6 861	5 448	4 865	5 170	5 174	4 646	4 998	4 346
Production of other goods	28 468	31 021	7 086	7 121	6 966	7 228	7 706	7 841	8 062	8 772
Services	126 620	125 756	32 210	30 002	30 977	28 704	32 218	31 248	33 633	31 796
Dwellings (households)	72 970	71 368	18 419	17 677	17 326	17 183	17 457	18 070	18 698	20 171
General government	79 834	73 420	19 606	18 632	24 082	16 997	18 677	17 927	19 479	20 361
Changes in stocks and statistical discrepancies	-48 449	24 026	-8 676	-6 869	-16 336	-258	13 399	2 884	8 623	23 710
Gross capital formation	432 696	469 490	110 557	106 368	105 690	104 310	128 728	111 933	124 691	142 470
Final domestic use of goods and services	1 876 172	1 958 781	470 476	469 380	470 983	473 399	498 265	485 607	500 400	517 885
Final demand from Mainland Norway	1 775 229	1 810 794	444 100	441 893	449 508	444 372	450 770	453 406	460 580	460 860
Final demand from general government	566 939	571 133	141 487	141 191	145 797	140 257	142 842	143 395	144 150	144 796
Total exports	1 009 692	992 490	245 524	254 239	255 428	258 500	244 211	245 052	243 954	242 664
Traditional goods	289 689	304 012	70 003	74 439	74 687	76 064	75 529	77 838	74 713	74 420
Crude oil and natural gas	465 978	431 700	112 985	118 902	115 073	112 372	109 902	103 466	104 829	103 160
Ships, oil platforms and planes	14 950	17 704	3 454	3 093	3 245	8 844	3 178	2 487	3 195	2 960
Services	239 075	239 074	59 082	57 806	62 422	61 219	55 602	61 261	61 218	62 124
Total use of goods and services	2 885 864	2 951 271	716 000	723 619	726 411	731 899	742 476	730 659	744 354	760 549
Total imports	636 827	694 424	157 056	161 236	164 405	166 210	177 369	174 767	175 577	194 296
Traditional goods	396 201	428 974	98 175	99 960	98 737	103 079	108 591	107 057	109 593	113 697
Crude oil and natural gas	4 912	6 137	807	1842	1 655	835	1905	2 149	1 248	1 799
Ships, oil platforms and planes	25 988	32 864	5 777	5 450	10 418	7 922	9 951	7 883	7 108	21 718
Services	209 726	226 448	52 297	53 984	53 594	54 375	56 923	57 677	57 627	57 082
Gross domestic product (market prices)	2 249 037	2 256 848	558 944	562 384	562 006	565 689	565 107	555 893	568 777	566 253
Gross domestic product Mainland Norway (market prices)	1 723 873	1 760 050	430 015	429 172	433 559	436 493	437 844	441 341	442 859	445 471
Petroleum activities and ocean transport	525 164	496 797	128 930	133 212	128 447	129 197	127 263	114 551	125 918	120 782
Mainland Norway (basic prices)	1 475 053	1 504 364	368 192	366 940	370 181	372 972	374 703	377 352	378 409	380 199
Mainland Norway excluding general government	1 134 411	1 156 989	283 275	281 801	284 465	286 838	288 086	290 216	291 000	292 410
Manufacturing and mining	201 844	206 117	49 843	50 340	50 878	50 825	51 107	51 888	52 231	52 298
Production of other goods	159 062	160 950	38 741	39 626	40 449	40 302	39 682	40 282	40 308	39 598
Services incl. dwellings (households)	773 505	789 921	194 691	191 835	193 138	195 711	197 297	198 046	198 461	200 514
General government	340 642	347 375	84 917	85 139	85 717	86 134	86 617	87 136	87 409	87 789
Taxes and subsidies products	248 820	255 686	61 822	62 232	63 378	63 520	63 141	63 989	64 450	65 271

Source: Statistics Norway.

Table 5. **National accounts: Final expenditure and gross domestic product. At constant 2007 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2009	2010	09.2	09.3	09.4	10.1	10.2	10.3	10.4	11.1
Final consumption expenditure of households and NPISHs	0.2	3.7	1.6	1.0	1.3	0.9	-0.2	1.2	1.1	0.0
Household final consumption expenditure	0.0	3.7	1.6	1.0	1.3	1.0	-0.2	1.2	1.2	0.0
Goods	-0.2	4.1	2.4	1.9	1.7	0.6	-0.6	1.1	1.7	-0.9
Services	0.8	2.3	0.6	0.4	0.4	0.6	0.7	0.8	0.3	0.4
Direct purchases abroad by resident households	-6.8	12.4	1.3	-2.0	7.0	6.3	-1.9	3.6	2.3	2.0
Direct purchases by non-residents	-7.0	6.2	-2.7	0.7	6.3	-0.9	3.5	-0.9	1.2	-4.0
Final consumption expenditure of NPISHs	3.4	2.7	1.0	1.2	1.8	-0.6	0.9	0.6	0.9	-0.1
Final consumption expenditure of general government	4.8	2.2	0.9	0.6	-0.7	1.3	0.7	1.0	-0.6	-0.2
Final consumption expenditure of central government	4.9	-0.2	0.8	0.0	0.5	-1.3	0.6	0.8	-1.1	-0.2
Central government, civilian	5.6	-0.3	0.3	0.4	1.0	-1.7	0.4	0.9	-1.2	-0.6
Central government, defence	0.5	0.0	4.1	-2.6	-3.0	0.9	2.0	0.6	-0.2	2.5
Final consumption expenditure of local government	4.6	4.8	1.1	1.2	-1.9	4.1	0.9	1.3	-0.2	-0.2
Gross fixed capital formation	-6.8	-7.4	-5.5	-5.0	7.8	-14.3	10.3	-5.4	6.4	2.3
Extraction and transport via pipelines	5.8	-12.4	-6.7	-6.7	-0.1	-7.1	6.2	-15.1	12.7	7.2
Service activities incidential to extraction	98.3	-84.1	-103.0	..	180.4	-96.1	159.5	-10.9	61.1	-80.5
Ocean transport	-25.8	-8.2	0.8	-8.5	14.7	-45.8	110.0	-8.9	-27.9	19.7
Mainland Norway	-10.9	-3.1	0.2	-6.3	6.8	-10.6	7.9	-1.8	6.4	0.7
Mainland Norway excluding general government	-15.4	-1.5	-3.5	-6.7	-0.2	-3.1	7.3	-1.2	5.8	-0.5
Industries	-14.4	-1.2	-2.5	-7.8	0.6	-4.0	9.7	-3.0	6.8	-3.8
Manufacturing and mining	-30.0	-16.4	1.1	-20.6	-10.7	6.3	0.1	-10.2	7.6	-13.1
Production of other goods	-18.3	9.0	-2.9	0.5	-2.2	3.8	6.6	1.7	2.8	8.8
Services	-9.6	-0.7	-3.2	-6.9	3.2	-7.3	12.2	-3.0	7.6	-5.5
Dwellings (households)	-17.8	-2.2	-5.8	-4.0	-2.0	-0.8	1.6	3.5	3.5	7.9
General government	7.0	-8.0	14.5	-5.0	29.2	-29.4	9.9	-4.0	8.7	4.5
Changes in stocks and statistical discrepancies	-313.3	-149.6	-43.9	-20.8	137.8	-98.4	..	-78.5	199.0	175.0
Gross capital formation	-19.7	8.5	-0.1	-3.8	-0.6	-1.3	23.4	-13.0	11.4	14.3
Final domestic use of goods and services	-4.2	4.4	1.0	-0.2	0.3	0.5	5.3	-2.5	3.0	3.5
Final demand from Mainland Norway	-1.0	2.0	1.1	-0.5	1.7	-1.1	1.4	0.6	1.6	0.1
Final demand from general government	5.1	0.7	2.6	-0.2	3.3	-3.8	1.8	0.4	0.5	0.4
Total exports	-3.9	-1.7	-3.4	3.5	0.5	1.2	-5.5	0.3	-0.4	-0.5
Traditional goods	-8.1	4.9	-0.6	6.3	0.3	1.8	-0.7	3.1	-4.0	-0.4
Crude oil and natural gas	-0.9	-7.4	-5.2	5.2	-3.2	-2.3	-2.2	-5.9	1.3	-1.6
Ships, oil platforms and planes	5.3	18.4	-32.8	-10.4	4.9	172.6	-64.1	-21.7	28.4	-7.3
Services	-4.5	0.0	-0.3	-2.2	8.0	-1.9	-9.2	10.2	-0.1	1.5
Total use of goods and services	-4.1	2.3	-0.5	1.1	0.4	0.8	1.4	-1.6	1.9	2.2
Total imports	-11.7	9.0	1.8	2.7	2.0	1.1	6.7	-1.5	0.5	10.7
Traditional goods	-13.1	8.3	-1.1	1.8	-1.2	4.4	5.3	-1.4	2.4	3.7
Crude oil and natural gas	32.0	25.0	33.1	128.4	-10.2	-49.6	128.2	12.8	-41.9	44.2
Ships, oil platforms and planes	-34.1	26.5	33.0	-5.7	91.2	-24.0	25.6	-20.8	-9.8	205.5
Services	-5.5	8.0	4.4	3.2	-0.7	1.5	4.7	1.3	-0.1	-0.9
Gross domestic product (market prices)	-1.7	0.3	-1.2	0.6	-0.1	0.7	-0.1	-1.6	2.3	-0.4
Gross domestic product Mainland Norway (market prices)	-1.8	2.1	-0.1	-0.2	1.0	0.7	0.3	0.8	0.3	0.6
Petroleum activities and ocean transport	-1.5	-5.4	-4.5	3.3	-3.6	0.6	-1.5	-10.0	9.9	-4.1
Mainland Norway (basic prices)	-1.7	2.0	-0.2	-0.3	0.9	0.8	0.5	0.7	0.3	0.5
Mainland Norway excluding general government	-2.9	2.0	-0.3	-0.5	0.9	0.8	0.4	0.7	0.3	0.5
Manufacturing and mining	-5.9	2.1	-1.5	1.0	1.1	-0.1	0.6	1.5	0.7	0.1
Production of other goods	-8.0	1.2	-3.8	2.3	2.1	-0.4	-1.5	1.5	0.1	-1.8
Services incl. dwellings (households)	-0.9	2.1	0.7	-1.5	0.7	1.3	0.8	0.4	0.2	1.0
General government	2.6	2.0	0.1	0.3	0.7	0.5	0.6	0.6	0.3	0.4
Taxes and subsidies products	-2.3	2.8	0.6	0.7	1.8	0.2	-0.6	1.3	0.7	1.3

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. Price indices. 2007=100**

	Unadjusted		Seasonally adjusted							
	2009	2010	09.2	09.3	09.4	10.1	10.2	10.3	10.4	11.1
Final consumption expenditure of households and NPISHs	106.2	108.2	106.3	106.5	106.0	108.6	107.9	108.1	108.7	109.0
Final consumption expenditure of general government	109.4	112.2	109.1	109.9	110.2	111.3	111.5	112.2	113.7	115.2
Gross fixed capital formation	109.0	113.7	108.9	110.8	108.4	113.5	112.3	113.7	115.3	113.4
Mainland Norway	108.0	110.9	107.9	109.0	107.5	110.1	110.5	110.6	112.1	111.3
Final domestic use of goods and services	107.4	110.5	107.4	108.0	106.7	110.0	110.7	110.4	110.8	111.1
Final demand from Mainland Norway	107.4	109.8	107.4	107.9	107.5	109.6	109.3	109.7	110.7	111.1
Total exports	96.1	105.5	96.5	96.0	98.2	101.2	104.3	104.3	112.5	116.7
Traditional goods	96.0	99.5	95.9	97.2	93.5	95.1	99.2	100.8	103.1	105.7
Total use of goods and services	103.4	108.8	103.7	103.8	103.7	106.8	108.6	108.3	111.4	112.9
Total imports	102.7	102.9	104.0	102.7	99.2	101.5	102.9	102.5	104.6	104.8
Traditional goods	103.2	103.0	103.4	102.5	100.3	100.9	103.6	102.5	104.8	108.3
Gross domestic product (market prices)	103.6	110.6	103.6	104.1	105.0	108.4	110.4	110.2	113.4	115.7
Gross domestic product Mainland Norway (market prices)	106.5	110.1	106.7	107.3	107.1	108.6	110.2	110.6	111.1	111.0

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2009	2010	09.2	09.3	09.4	10.1	10.2	10.3	10.4	11.1
Final consumption expenditure of households and NPISHs	2.5	2.0	0.8	0.2	-0.5	2.4	-0.7	0.2	0.5	0.3
Final consumption expenditure of general government	3.5	2.5	0.5	0.7	0.3	1.0	0.1	0.6	1.4	1.3
Gross fixed capital formation	2.7	4.3	1.0	1.7	-2.2	4.7	-1.1	1.3	1.4	-1.7
Mainland Norway	2.4	2.7	0.5	0.9	-1.3	2.4	0.3	0.1	1.4	-0.7
Final domestic use of goods and services	3.4	2.8	0.4	0.5	-1.1	3.0	0.7	-0.3	0.3	0.3
Final demand from Mainland Norway	2.7	2.2	0.7	0.5	-0.4	2.0	-0.3	0.3	0.9	0.4
Total exports	-17.2	9.8	2.8	-0.5	2.2	3.0	3.1	0.0	7.9	3.7
Traditional goods	-6.2	3.7	-1.7	1.4	-3.8	1.6	4.4	1.6	2.3	2.5
Total use of goods and services	-4.3	5.2	1.3	0.1	0.0	3.0	1.7	-0.2	2.8	1.4
Total imports	-0.3	0.2	-1.1	-1.3	-3.4	2.3	1.4	-0.4	2.0	0.2
Traditional goods	-1.4	-0.2	-3.1	-0.8	-2.1	0.6	2.6	-1.0	2.3	3.3
Gross domestic product (market prices)	-5.6	6.7	1.9	0.5	0.9	3.2	1.8	-0.2	3.0	2.0
Gross domestic product Mainland Norway (market prices)	3.1	3.4	1.6	0.6	-0.2	1.4	1.5	0.3	0.5	-0.2

Source: Statistics Norway..

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

											Forecasts			
	2001	2002	2003	2004	2005	2006	2007	2008*	2009*	2010*	2011	2012	2013	2014
Demand and output														
Consumption in households etc.	2.1	3.1	2.8	5.6	4.0	4.8	5.4	1.6	0.2	3.7	3.4	5.1	5.5	4.5
General government consumption	4.6	3.1	1.7	1.5	0.7	1.9	3.0	4.1	4.8	2.2	2.4	2.9	2.6	2.8
Gross fixed investment	-1.1	-1.1	0.2	10.2	13.3	11.7	12.5	2.5	-6.8	-7.4	8.7	7.8	7.1	5.6
Extraction and transport via pipelines	-4.6	-5.4	15.9	10.2	18.8	4.3	6.3	5.1	5.8	-12.4	12.1	6.4	3.8	3.2
Mainland Norway	3.9	2.3	-3.6	9.3	12.7	11.9	15.7	-0.8	-10.9	-3.1	9.5	7.5	8.4	6.6
Industries	2.5	4.0	-11.6	8.4	19.2	17.1	25.5	2.5	-14.4	-1.2	7.7	8.8	7.4	6.5
Housing	8.1	-0.7	1.9	16.3	10.8	4.1	2.9	-11.6	-17.8	-2.2	16.8	8.0	9.9	7.4
General government	2.7	1.7	10.4	2.5	1.3	11.6	9.6	4.7	7.0	-8.0	6.9	3.9	9.2	6.0
Demand from Mainland Norway[1]	3.0	3.0	1.4	5.0	4.6	5.3	6.7	1.7	-1.0	2.0	4.2	5.0	5.3	4.5
Stockbuilding[2]	-1.6	0.2	-0.3	1.4	0.5	0.1	-1.4	-0.4	-3.1	3.2	1.2	-0.6	0.0	0.0
Exports	4.3	-0.3	-0.2	1.1	1.1	0.0	2.3	1.0	-3.9	-1.7	-0.9	1.6	1.5	2.1
Crude oil and natural gas	6.6	2.4	-0.6	-0.5	-5.0	-6.5	-2.4	-2.0	-0.9	-7.4	-1.7	-0.9	-1.2	-0.8
Traditional goods	1.8	0.6	2.9	3.4	5.0	6.2	8.5	4.2	-8.1	4.9	1.1	3.2	3.0	4.4
Imports	1.7	1.0	1.4	8.8	8.7	8.4	8.6	4.3	-11.7	9.0	7.2	5.4	7.0	6.0
Traditional goods	4.5	3.0	5.2	10.9	8.1	11.5	8.2	-0.5	-13.1	8.3	6.4	8.8	8.4	7.2
Gross domestic product	2.0	1.5	1.0	3.9	2.7	2.3	2.7	0.7	-1.7	0.3	2.3	2.8	3.0	2.8
Mainland Norway	2.0	1.4	1.3	4.4	4.6	4.9	5.6	1.8	-1.8	2.1	3.2	4.0	3.9	3.6
Manufacturing	-0.5	-0.4	3.0	5.7	4.2	3.1	3.2	2.6	-5.9	2.1	2.6	3.2	2.5	3.2
Labour market														
Total hours worked, Mainland Norway	-1.6	-0.9	-2.1	1.7	1.4	3.1	4.3	3.4	-1.9	0.5	1.6	2.2	2.2	2.4
Employed persons	0.4	0.4	-1.0	0.5	1.2	3.6	4.1	3.2	-0.4	-0.2	1.2	2.4	2.6	2.0
Labor force[3]	0.5	0.7	-0.1	0.3	0.8	1.6	2.5	3.4	0.0	0.5	1.1	2.5	2.4	1.9
Participation rate (level)[3]	73.5	73.5	72.9	72.6	72.4	72.0	72.8	73.9	72.8	71.9	71.5	72.1	72.7	73.0
Unemployment rate (level)[3]	3.5	3.9	4.5	4.5	4.6	3.4	2.5	2.6	3.2	3.6	3.3	3.2	2.9	2.8
Prices and wages														
Wages per standard man-year	4.8	5.7	4.5	3.5	3.3	4.1	5.4	6.3	4.2	3.7	4.1	4.3	4.5	5.6
Consumer price index (CPI)	3.0	1.3	2.5	0.4	1.6	2.3	0.8	3.8	2.1	2.5	1.9	1.3	2.0	2.5
CPI-ATE[4]	2.6	2.3	1.1	0.3	1.0	0.8	1.4	2.6	2.6	1.4	1.3	1.7	2.0	2.5
Export prices, traditional goods	-1.8	-9.1	-0.9	8.5	4.1	11.4	2.7	2.4	-6.2	3.7	10.2	3.4	2.1	3.2
Import prices, traditional goods	-1.6	-7.2	-0.4	4.0	0.5	4.0	4.0	4.7	-1.4	-0.2	4.5	-0.5	1.0	2.0
Housing prices[5]	7.0	5.0	1.7	7.7	9.5	13.7	12.6	-1.1	1.9	8.3	6.9	6.8	6.8	8.1
Income, interest rates and excange rate														
Household real income	-0.3	8.0	4.4	3.6	7.6	-6.4	6.3	3.5	4.4	4.1	4.0	5.2	4.4	3.9
Household saving ratio (level)	3.1	8.4	9.1	7.4	10.2	0.1	1.5	3.8	7.5	7.6	8.4	8.5	7.6	7.2
Money market rate (level)	7.2	6.9	4.1	2.0	2.2	3.1	5.0	6.2	2.5	2.5	2.9	3.8	4.8	5.8
Lending rate, banks (level)[6]	8.8	8.4	6.5	4.2	3.9	4.3	5.7	7.3	4.9	4.5	4.8	5.4	6.2	7.1
Real after-tax lending rate, banks (level)	3.3	4.8	2.2	2.5	1.3	0.7	3.3	1.5	1.4	0.9	1.6	2.6	2.5	2.6
Importweighted krone exchange rate (44 countries)[7]	-3.1	-8.5	1.3	3.0	-3.9	0.7	-1.8	0.0	3.3	-3.8	-1.9	-1.4	0.2	0.6
NOK per euro (level)	8.05	7.51	8.00	8.37	8.01	8.05	8.02	8.22	8.73	8.01	7.81	7.74	7.76	7.81
Current account														
Current balance (bill. NOK)	247.5	192.3	195.9	221.6	316.6	372.1	320.5	443.2	274.9	310.0	339.6	303.6	277.4	274.7
Current balance (per cent of GDP)	16.1	12.6	12.3	12.7	16.3	17.2	14.1	17.7	11.8	12.4	12.6	10.8	9.3	8.7
International indicators														
Exports markets indicator	0.8	1.2	3.4	7.0	6.3	8.6	5.4	0.7	-11.2	10.0	5.0	4.2	5.6	7.9
Consumer price index, euro-area	2.3	2.3	2.1	2.1	2.2	2.2	2.2	3.3	0.3	1.7	2.6	1.9	1.9	2.0
Money market rate, euro(level)	4.2	3.3	2.3	2.1	2.2	3.1	4.3	4.6	1.2	0.7	1.4	2.0	2.7	3.4
Crude oil price NOK (level)[8]	223	198	201	255	355	423	422	536	388	484	598	558	580	608

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