Economic trends

Economic activity in the euro area has now picked up slightly after several quarters of falling GDP. Growth is higher in China and a number of large OECD countries outside the euro area. Stagnation is continuing in Sweden, however, and in Russia GDP has fallen for the past two quarters. Even though the international outlook is somewhat brighter, we are not witnessing a cyclical upturn, simply a less gloomy trend than previously. Unemployment remains at a high level, and inflation is low. Monetary policy is still very expansionary, and the European Central Bank applied further stimuli during the autumn. Many countries have a contractionary fiscal policy, however, with major debt problems that in some cases appear almost insurmountable. Our projections regarding the global situation in the next few years have not changed appreciably, compared with previous projections. We do not expect a cyclical turnaround until 2015, and then it is unlikely to be strong enough for Norway's most important trading partners to emerge from the downtrough in the course of 2016. Inflation will remain low, and this, coupled with slow growth, suggests that interest rates will also remain low for a good while to come.

The cyclical upturn in Norway that began around year-end 2010/2011 came to a halt at the end of 2012. Mainland economic growth through 2013 has been lower than trend growth. The low growth among Norway's trading partners has led to stagnation in exports. Viewed in conjunction with surprisingly slow growth in household consumption, this explains much of the development in GDP. Manufacturing, on the other hand, has continued to grow appreciably faster than the rest of the mainland economy. The engineering industry is experiencing substantial growth, to a great extent as a result of increased petroleum investment, while growth in many other manufacturing segments is weak due to the global economic situation. Construction has continued to grow, driven by a rise in housing starts, but saw a levelling off in 2013. Low consumption growth has led to very weak developments in market-oriented services.

Inflation increased somewhat during the year as a result of a weaker krone and higher energy prices. The contribution from domestic cost inflation has been stable for the past couple of years. We do not expect any further depreciation of the krone in 2014, however, meaning that the inflationary effects of a weaker krone will be reduced in subsequent years. It is reasonable to expect wage growth to be slightly lower next year as a result of the weak global economic situation and moderate global price movements, as well as slightly higher unemployment.

The household saving ratio, which rose to a high level in 2012, has remained high, despite low real interest rates and substantial growth in household net wealth. The interest rate on credit loans has risen through 2013 while money-market rates have fallen. This is due to banks raising their premiums in order to increase their earnings, with a view to meeting the authorities' more stringent requirements regarding equity capital. Household debt growth has fallen somewhat, and the rise in house prices has come to a halt. House prices even dipped slightly during the second half of 2013. Household expectations regarding the Norwegian economy have become more pessimistic, which will lead to a further decline in house prices and weak growth in consumption for a further few quarters. However, the underlying income growth points to consumption growth gradually picking up, which will lead to the Norwegian economy resuming growth. We expect price movements in the housing market to be reflected in fewer housing starts in the immediate future.

Fiscal policy has provided a moderate impetus to developments in Norway for several years. The budget adopted for 2014 implies that the impulses from fiscal policy will increase slightly next year. Given a clearly weaker krone exchange rate and slightly higher economic growth among our trading partners, exports may pick up somewhat in the near term, but not to an appreciable level until 2015. Our forecasts thus indicate that the weak cyclical downturn in the Norwegian economy in 2013 will persist through the whole of 2014. We therefore expect a moderate turnaround tol.

Economic developments in Norway

Mainland GDP growth has been moderate for the past four quarters. The cyclical upturn that began around year-end 2010/2011 came to a halt at the end of 2012, and growth through 2013 has been lower than trend. Exports have shown limited growth as a result of unusually low growth among Norway's trading partners. Viewed in conjunction with surprisingly modest growth in household consumption, this explains developments from the perspective of the demand side of the economy. On the production side, growth in market-oriented services has been weak, while manufacturing has continued to grow appreciably faster than the mainland economy as a whole. Developments in manufacturing are heterogeneous, in that shipbuilding and engineering are exhibiting robust growth, while growth in many other manufacturing segments is weak. Growth in petroleum investment, combined with a weak global economic situation, is a factor in this development. Construction continues to grow, partly driven by increased housing construction, although the latter has levelled off somewhat through 2013. The decline in electricity production after a sharp increase during

Table 2.1. **Macroeconomic indicators. Growth from previous period unless otherwise noted. Per cent**

	2011*	2012*	Seasonally adjusted			
			12:4	13:1	13:2	13:3
Demand and output						
Consumption in households etc.	2.6	3.0	0.3	1.0	0.2	0.1
General government consumption	1.1	1.8	0.1	0.4	0.5	0.5
Gross fixed investment	7.7	8.3	4.0	-1.8	4.8	-0.5
Mainland Norway	6.3	4.5	1.8	-1.4	1.1	-0.3
Extraction and transport via pipelines	11.3	14.6	6.3	1.4	8.4	1.5
Final domestic demand from Mainland Norway[1]	2.8	2.9	0.6	0.4	0.4	0.1
Exports	-0.7	1.1	0.0	-1.4	1.0	0.1
Crude oil and natural gas	-5.6	0.7	-1.1	-3.3	2.6	1.6
Traditional goods	-0.1	1.7	0.1	1.3	-0.3	-2.0
Imports	3.8	2.3	1.5	0.0	-0.9	2.6
Traditional goods	4.1	2.4	0.3	1.4	-0.9	1.8
Gross domestic product	1.3	2.9	0.4	-0.4	1.2	0.7
Mainland Norway	2.6	3.4	0.2	0.5	0.3	0.5
Labour market						
Man-hours worked	1.9	2.0	0.3	0.4	0.4	0.5
Employed persons	1.6	2.2	0.2	0.3	0.4	0.5
Labour force[2]	1.0	1.8	0.3	0.3	0.0	0.7
Unemployment rate, level[2]	3.3	3.2	3.5	3.5	3.5	3.5
Prices and wages						
Annual earings	4.2	4.0	..	..	..	..
Consumer price index (CPI)[3]	1.2	0.8	1.2	1.2	2.0	3.0
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	0.9	1.2	1.2	1.0	1.4	2.0
Export prices, traditional goods	5.8	-3.6	2.0	0.0	2.0	1.0
Import prices, traditional goods	4.0	0.6	0.4	-0.9	1.3	1.7
Balance of payment						
Current balance, bill. NOK	372.2	417.2	106.1	88.0	81.9	75.7
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.9	2.2	1.9	1.9	1.8	1.7
Lending rate, credit loans[4]	3.6	3.9	3.8	3.8	4.0	4.1
Crude oil price NOK[5]	621	649	625	634	603	657
Importweighted krone exchange rate, 44 countries, 1995=100	88.1	87.1	85.8	85.6	87.5	90.1
NOK per euro	7.79	7.48	7.37	7.43	7.62	7.93

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

the previous two years is a factor underlying lower GDP growth. Even taking this into account, however, growth in the mainland economy is lower than trend.

Weaker output growth has led lower growth in employment, and a small rise in unemployment, from a trough in the spring of 2012. Growth in the labour force in 2013 is slower than in 2012, and is one reason why the growth reversal has not resulted in a greater increase in unemployment. While LFS unemployment has not increased through 2013, registered unemployment has risen slightly, according to the Norwegian Labour and Welfare Administration (NAV). Our calculations indicate weak growth in the immediate future, implying that growth in employment will slow down even further. As growth in the labour force will also be curbed, unemployment will probably not increase much in the near term.

Inflation has increased somewhat in the course of the current year. This is partly due to a weaker krone, higher housing rents, which may to some extent be linked to methodological changes in the CPI, and higher energy prices; particularly electricity prices. The contribution from domestic cost inflation has been stable for the past couple of years. The depreciation of the krone through 2013 will lead to higher inflation, measured by the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) next year. Our forecasts are based on a somewhat strengthened and subsequently stable krone exchange rate in the near term, so that the inflationary effects of a weaker krone are reduced in subsequent years. As a result of a weak global economic situation and low global inflation, we project slightly lower wage growth than has been the case during the past few years. Slightly higher unemployment also points to lower wage growth. Productivity growth may also decline slightly in 2014, but not to the extent of affecting the stability of domestic cost inflation. We believe that electricity prices, including grid rent, have peaked, and expect them to remain stable in the near term. The oil price has remained high for a long time, but we expect it to fall in the years ahead. This will lead to the inflation rate peaking this winter, before falling slightly.

The weak growth in household consumption is an important factor underlying the dampening of the rate of growth in the Norwegian economy. The household saving ratio, which rose to a high level in 2012, has remained high, despite both low interest rates and substantial growth in household net wealth. This came as a surprise, even though the tendency was already visible in early 2013. Money-market rates have fallen throughout 2013, while interest rates on credit loans have risen. The banks state that they have raised their premiums in order to increase their earnings with a view to meeting the authorities' requirements of higher equity capital. Thus it is to a lesser degree the Central Bank's monetary policy that is driving the interest rate developments the public has to contend with, as what was usual prior to the financial crisis. Household debt growth is somewhat lower, and the rise in house prices has come to a halt. Prices have even fallen slightly in the second half of the year. Household expectations regarding developments in the Norwegian economy are more pessimistic, which is partly reflected in their housing market behaviour and partly in the weak consumption growth. We expect this pessimism to contribute to weak consumption growth for several quarters ahead. However, underlying income growth indicates that consumption growth will pick up in the course of 2014, and thus lead to higher growth in the Norwegian economy and a new cyclical upturn in 2015. We expect price developments in the housing market to be reflected in fewer housing starts in the immediate future, so that investment falls slightly next year and then show a weak rebound a few months into 2015.

Fiscal policy has provided a positive impetus to developments in Norway for several years. The situation in Norway is substantially different in this respect from most OECD countries, not least in Europe. The budget adopted for 2014 implies that the impulses from fiscal policy may increase slightly next year. Fiscal stimulation has not been as strong since 2009. The fiscal rule allows for further stimuli in subsequent years, but there is reason to believe that efforts will be made to keep the distance from the 4 per cent path at about the same level as in 2014. Given somewhat higher growth in 2015 and 2016, the level of fiscal stimulus must be viewed in context with the orientation of monetary policy. We expect money-market rates to begin to rise in 2015 in Norway and the euro area once economic growth picks up a little. At the same time, the high lending margin will be reduced, so that banks' lending rates will not change in pace with a higher key rate.

Weak growth in exports of traditional Norwegian goods and services has affected the economy since 2010. This is mainly attributable to very low import growth among our trading partners. The strengthening of the krone and cost inflation in Norway has also contributed to curbing exports of many goods and services. With a clearly weaker krone exchange rate and slightly higher economic growth among our trading partners, we believe that export growth will pick up gradually in the near term, but not to an appreciable level in 2014.

After the decline in 2009 and 2010, total investment growth in the Norwegian economy has been stable and fairly high. We expect slower growth in gross investment for the next few years, for several reasons. First, petroleum investment is unlikely to continue to grow at the same pace as previously. However, we expect it to remain at a high level for several years, despite our assumption that the oil price will fall to USD 90 per barrel in the course of 2015. Second, housing investment has also been a factor in the high investment growth, but is expected to remain at approximately the same level in

2016 as in 2013. Two large investment components will thus change from being drivers of growth in the economy to being constraints. General government investment, which has not changed for several years, has the opposite effect. Here we expect political priorities about which there is general consensus to contribute to solid growth in the near term. On the other hand, there is little reason to expect mainland business investment to increase substantially in the near term, but growth may pick up slightly. The level in 2016 will still be appreciably lower than before the financial crisis, however.

A moderate rise in gross investment in the near term will lead to a moderate increase in capital intensity in the economy, with the result that productivity growth will remain moderate. In 2012, productivity growth rose in pace with fairly high production growth. Growth has abated again in 2013, and we believe it will fall further in 2014. However, productivity growth is expected to rise again at the end of the projection period, as productivity normally shows a clearly procyclical tendency.

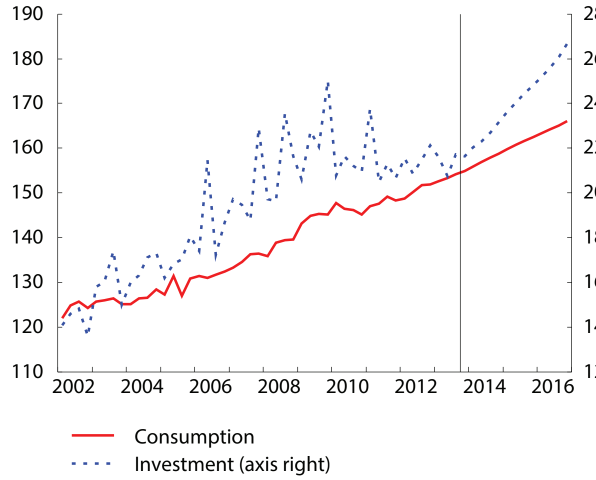
Our projection scenario shows that the Norwegian economy will move from a weak cyclical upturn through 2011 and 2012 to a slight decline in 2013 which is expected to last throughout 2014. We then expect a shift to a new upswing in 2015, but for the Norwegian economy to remain in a recession even in 2016. If the main features of these calculations should prove to be correct, the Norwegian economy will experience as prolonged a contraction this time as in the one from 1988 to 1996, albeit by no means as deep.

Fiscal policy is becoming more expansionary

Underlying growth in general government consumption has been about 2 per cent, calculated as an annual rate, and fairly stable through 2013. This also appears likely to be the annual growth for the year as a whole, which is slightly lower than previously estimated. The weakest growth is in civilian central government spending. Gross investment in general government, which was expected to increase this year, has not shown any appreciable growth during the year, and now appears likely to end up at approximately the same level as in 2012. Real growth in transfers to households has also been somewhat lower than we envisaged earlier and even with a strong increase in the fourth quarter annual growth may fall to less than 3 per cent. On the whole, we estimate that real growth in these three spending components will be 2.1 per cent (calculated in 2011 prices) in 2013. This is a little higher than the estimate for mainland GDP growth, but lower than trend growth.

In the New Balanced Central Government Budget, the Ministry of Finance estimates a structural, non-oil budget deficit (SNOBD) of just under NOK 119 billion for 2013. This amounts to 3.1 per cent of the

Figure 1. **General government. Seasonally adjusted at constant 2011 prices. NOK billion. Quarter**



Source: Statistics Norway.

Government Pension Fund Global (GPFG) at the beginning of the fiscal year. Calculated as a share of trend mainland GDP, the deficit was 5.1 per cent, an increase of 0.4 percentage point on the previous year. The new balanced budget for 2013 thus shows a slightly smaller deficit than the adopted budget, which is due to lower than forecast cost. The 2014 national budget is estimated to imply roughly the same stimulus when it is measured by the increase in SNOBD, calculated as a share of trend mainland GDP. Calculated as a share of the GPFG, the estimate is 2.9 per cent. The Storting's review of the 2014 budget maintained the balance in the new government's budget proposal, but both expenses and revenues rose slightly.

Our projections for the fiscal policy in 2014 are based on the adopted budget. Next year, the rate of tax on ordinary income will be reduced from 28 to 27 per cent, while the national insurance contribution will be increased by 0.4 percentage point. The highest wealth tax rate will be reduced by 0.1 percentage point, and inheritance tax will be abolished completely. In general, tax rates have been adjusted in accordance with projected inflation, except for mineral oil tax, which will increase sharply, and electricity tax, which will also increase in real terms. We estimate that these tax increases will jointly raise CPI growth by a bare 0.1 percentage point. The projections for growth in general government consumption are about the same as in the 2014 national budget, while gross general government investment is now expected to increase by approximately 5 per cent. On balance, we therefore expect general government procurement of goods and services and the real value of transfers to households to increase by about 3 per cent in 2014. This is almost one percentage point higher than the growth for the current year. If tax relief for businesses and individuals is added, the 2014 fiscal policy may be the most expansionary policy since the 2009 financial crisis.

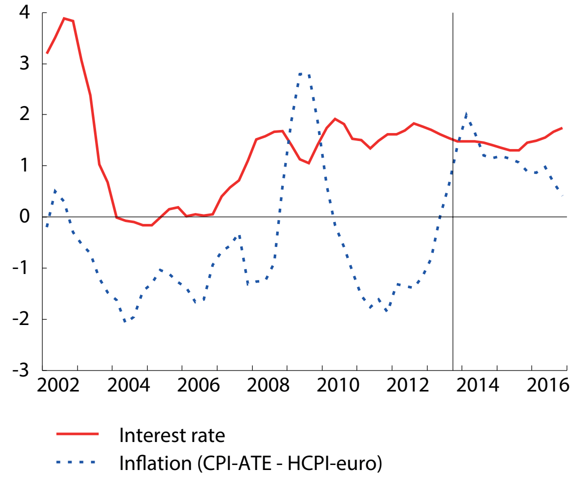
No fiscal policy has been adopted for 2015 and 2016. This means that our detailed projections for these two years are far more uncertain than the projections for 2014. However, we have retained the main features of the changes from 2013 to 2014. Government consumption is expected to grow by about 2¼ per cent in both 2015 and 2016. The high growth in gross investment in non-military general government has been retained. The real rise in transfers is projected to be about 3 per cent. The aging population will contribute to increased real growth in pensions while there will not be much of an increase, in real terms, in the size of disability pensions and sickness benefit, etc. This will dampen real growth in total transfers to households. On balance, real growth of transfers will increase more than mainland GDP in the near term, and will reduce the structural budgetary scope for manoeuvre of fiscal policy. We now assume a reduction in personal tax of about NOK 6 billion in both 2015 and 2016, compared with an alternative scenario with unchanged real tax rates. The assumption that tax relief will take the form of reduced personal tax, and not reductions in indirect taxes, is simplistic but nevertheless captures the most important economic effects of the tax changes. The combined growth impulses from spending increases and tax relief are approximately the same in 2014 and 2015, while the stimulus is slightly lower in 2016, but still expansionary. We have assumed a slightly more expansionary fiscal policy than in earlier forecasts. This is not only due to the policy adopted for 2014, but also because the prospects for growth in the economy are not as bright as we had previously envisaged.

We expect oil prices to fall somewhat in the near term. As production volume will not change much during the next few years, the decline in prices will lead to a fall in government petroleum revenues. This will lead to a reduction in transfers to the Government Pension Fund Global, and will result in less of an increase in the fiscal scope for manoeuvre than previously. Offsetting this effect, a weaker krone exchange rate has caused an increase in the value of the fund in terms of Norwegian kroner. In line with revised estimates from the Ministry of Finance, we assume use of 'oil money' to be 2.9 per cent of the value of the fund at the beginning of 2014. Our projections imply that the use of petroleum revenues will remain below 3 per cent also in 2015 and 2016, which is consistent with our projections in our last report.

One and a half years before the key rate is raised

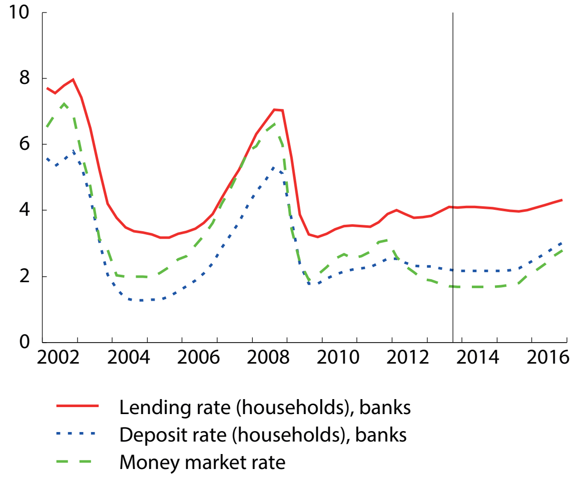
The key policy rate has been 1.5 per cent since March 2012, only 0.25 percentage point above the record low level in the summer of 2009. The three-month money-market rate has fallen since the last interest rate reduction, from 2.3 per cent in April last year to a stable level of 1.7 per cent this autumn. The spread between the key rate and the money-market rate has thus narrowed to 0.2 percentage point, corresponding to the level in the period before the financial crisis.

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



Source: Norges Bank and Statistics Norway.

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



Source: Norges Bank and Statistics Norway.

The sovereign debt crisis in many countries and the repercussions of the financial crisis for the real economy form much of the background for the low interest rate level in Norway. In the euro area, the money-market rate has been below 0.2 per cent since September last year. A wide interest rate differential, combined with higher economic growth in Norway than in the euro area led to the krone appreciating against the euro for a long period. At the beginning of 2013, the krone exchange rate was 7.30 against the euro. Reduced growth in Norway, a positive inflation differential and dampened expectations of higher interest rates have led to a weakening of the krone since this summer. The krone exchange rate against the euro at the beginning of December was about 8.30. The exchange rate against the dollar rose during the same period from about 5.50 to 6.10. The krone has also weakened this year against the import-weighted krone exchange rate. If exchange rates remain fairly unchanged until the end of 2014, the depreciation from last year to next year will be about 11 per cent against the euro and about 7 per cent against the import-weighted krone exchange rate.

Box 1: **Effects of a weaker krone on the Norwegian economy**

The krone has weakened substantially since February. Measured as an average of exchange rates with 44 currencies, weighted by Norwegian imports, the value of the krone fell by 10.6 per cent from 1 February to 2 December. The krone was then around 7 per cent weaker than assumed in Statistics Norway›s projections published on 30 May. The krone depreciated by about 13 per cent against the euro in the same period, to around 8.3 kroner per euro. Statistics Norway›s macroeconomic model KVARTS, which is used for economic analyses and projections, contains a relationship that determines the value of the krone against the euro as a function of interest and inflation rate differences and the level of the oil price. It is unable to explain the depreciation of the krone through 2013.

The exchange rate equation in KVARTS captures the main movements of the krone exchange rate for much of the time, but occasionally deviates from actual developments. In the past we have linked such deviations to turbulence in international financial markets, and to the Norwegian krone being perceived as illiquid. This time these arguments do not appear to be relevant. Our interpretation is that much of the weakening is not based on economic fundamentals, so that the krone exchange rate will return fairly rapidly to a somewhat stronger path than its current one. Given recent developments and our other projections, the model's calculations show a stable krone exchange rate in the near term, at about 8.05 kroner per euro. We have therefore chosen to assume that the krone exchange rate will be at this level from the start of 2014 and for the remainder of the projection period. This implies that the krone must strengthen by about 3 per cent in the course of a month for the projection to be accurate, if we assume that the appreciation will be the same against all currencies. Many believe that it is quite impossible to forecast changes in the exchange rate, and that we may just as well assume an unchanged exchange rate in such calculations. This has been done in the calculation of effects presented in the table below.

We have assumed here that interest rates, fiscal policy and the indicator for household expectations regarding the future are not affected. A weaker krone will then primarily affect the Norwegian real economy through three channels. The one is through reduced household demand. As a result of higher import prices, prices to Norwegian consumers will rise, thereby reducing their purchasing power, even if their wages also increase. This suggests more subdued economic activity. The second is through an improvement in cost-competitiveness, which will increase exports for a while and in isolation curb imports. This points to an increase in GDP. The last effect takes place via business sector demand for factor inputs. As a result of higher import prices, prices for material inputs will increase more than labour costs. Companies will use relatively more labour and relatively less material inputs in their production. This points to an increase in GDP and higher employment.

The table shows that if the expected appreciation of the krone does not occur, so that it remains at the current level, mainland GDP growth will increase by a bare 0.1 percentage point annually, and unemployment will be reduced by 0.1–0.2 percentage point compared with the baseline scenario. In manufacturing, a 3 per cent weaker krone will imply a more pronounced increase in activity, boosting the level in the third year by a good 1.2 per cent. However, the household consumption level is 0.3 per cent lower in all the three years. Inflation rises 0.3 percentage point per year on average, while wage growth rises by just over 0.2 percentage point.

The calculation indicates the way in which we believe developments in the Norwegian economy will be affected by a weaker krone than the one on which we have based our projections. However, it can also be used to show the significance of the depreciation of the krone through the current year. The effects of the depreciation through the past nine months will be about 3.5 times as great as shown by the table. In such a perspective, however, assumptions, particularly concerning unaffected interest rates and fiscal policy, will be less realistic.

Effects of a 3 per cent weaker krone exchange rate, assuming unaffected interest rate. Percentage deviation from the baseline scenario unless otherwise specified

	2014	2015	2016
Exports (volume) excluding crude oil and natural gas	-0.01	0.26	0.52
Imports (volume)	-0.42	-0.43	-0.35
Consumption, household	-0.26	-0.35	-0.32
Household real disposable income	-0.43	-0.46	-0.37
Mainland gross business investment	0.17	0.73	1.26
Housing	0.03	0.21	0.56
Mainland GDP	0.04	0.12	0.23
Manufacturing	0.54	1.01	1.21
Employment	0.13	0.23	0.28
LFS unemployment (percentage points)	-0.11	-0.12	-0.15
Wages	0.28	0.50	0.67
Consumer price index	0.50	0.79	0.88
House prices	0.34	0.88	1.39
Memo: Import-weighted krone exchange rate	3.00	3.00	3.00

The average lending rate of financial institutions on credit loans secured on dwellings is a good indicator of the general mortgage rate. At the end of the third quarter of 2013, this rate was 4.1 per cent, while the average deposit rate was 2.2 per cent. Both the interest rate on credit loans and the deposit rate were unchanged compared with the previous quarter, but in the second quarter, the interest rate on credit loans rose by 0.3 percentage point while the deposit rate fell by 0.1 percentage point. The spread between these two rates thus increased by 0.4 percentage point over a short period of time.

At the end of the third quarter of 2013, the interest rate differential between credit loans secured on dwellings and the money-market rate was 2.4 percentage points. In the period between the broad launching of such loans in 2006 and the end of 2011, this premium has generally been over 1.5 percentage points lower. The increase in the premium is partly due to financial institutions' need to increase their equity capital, due to more stringent requirements regarding the size of Common Equity Tier 1 capital ratio requirements. There appears to be limited competition in the Norwegian financial market, making it possible to increase equity capital through a high interest rate margin.

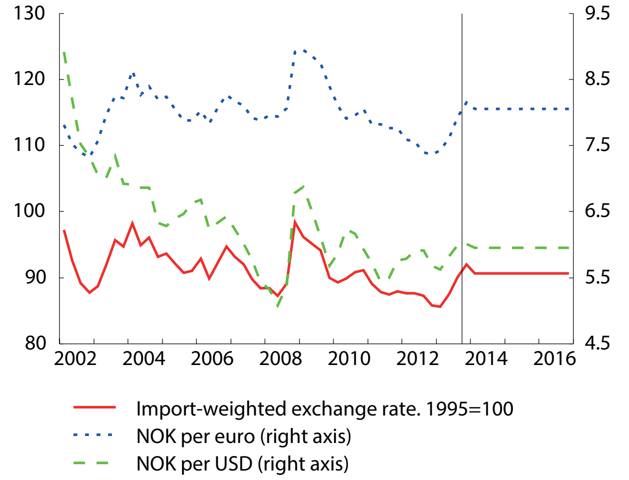
Gross domestic household debt (C2) increased by 6.9 per cent in the third quarter of this year compared with the previous quarter, seasonally adjusted and calculated as an annual rate. This is the same growth as in the previous quarter, but it has fallen for the past four quarters viewed as a whole, and is 1 percentage point lower than in the third quarter of 2012. Credit growth in non-financial enterprises was 5.1 per cent in the third quarter, and has been rising through the year. In the first quarter, debt growth in non-financial enterprises was 2.6 per cent. Debt growth in these enterprises is nevertheless slower now than in 2012.

We assume that Norges Bank will maintain the present low key rate until the summer of 2015. This is the result of both weak domestic developments and low interest rates in other countries. Domestic growth will pick up gradually and foreign interest rates are also expected to rise slightly. Both these factors point to a higher key rate in Norway in 2015. The money-market rate is expected to shadow the key rate, and will rise to 2.8 per cent at the end of 2016 according to our projections. This is 1.1 percentage points above the level in the autumn of 2013.

We assume that some of the weakening of the krone this autumn has been of a temporary nature. Our forecasts are based on the krone strengthening to 8.05 against the euro and remaining at that level for the next few years. There will be a corresponding strengthening measured in terms of the import-weighted krone exchange rate, and the weakening of the annual average will be about 2 per cent both this year and next. Slightly lower inflation and somewhat higher growth in Norway will contribute to the appreciation, but we expect the krone to appreciate first and foremost because no economic fundamentals appear able to explain developments so far this year. Box 1 contains a separate calculation that considers the consequences of the current particularly weak exchange rate remaining at the current level throughout the projection period, given that all other assumptions, including the interest rate scenario, remain unchanged. The consequence is that the krone will be 3 per cent weaker, which will lead to inflation rising on average by 0.3 percentage point, while GDP growth rises so that the level in 2016 is 0.2 per cent higher than it would otherwise have been.

There is great uncertainty as to how lending rates will develop in relation to a given money-market rate. This partly depends on the nature of the competitive situation between the banks and on how quickly the countercyclical capital buffer in the banks must be

Figure 4. **Exchange rates**



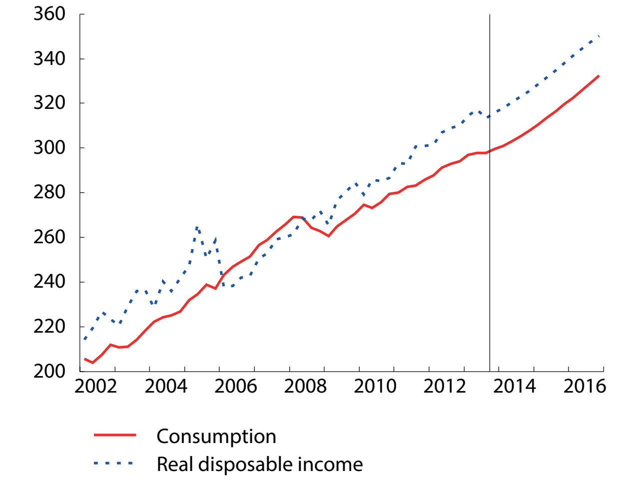
Source: Norges Bank.

accumulated. At the end of the second quarter, the six largest bank groups in Norway had a Common Equity Tier 1 capital ratio of about 11 per cent, while the requirement at the same time was 9 per cent. The requirement for systemically important banks will escalate in the near term, and will reach 12 per cent in mid-2016, with any countercyclical buffer coming in addition. Norges Bank has calculated that the banks will increase their core capital by about 1 percentage point per year, given the current interest rate margins. The banks will then be able to meet the requirements regarding capital adequacy in the near term with a smaller lending margin if a countercyclical buffer is not required in the next few years.

The countercyclical buffer requirement may mean a capital adequacy requirement that is up to 2.5 percentage points higher. According to Norges Bank, several of the largest banks have long-term goals for a capital adequacy ratio that allow for a full countercyclical buffer. The high premium on lending rates is thus based on the banks aiming to attain the amount of the highest capital adequacy requirement within a few years. If it becomes clear that it will take a long time before the buffer requirement is set at the maximum level, this may lead to a lower premium on lending rates. Norges Bank has drawn up criteria for a sound countercyclical capital buffer. One of the criteria is that the buffer requirement must be viewed in light of other requirements applying to banks.

Earnings on lending are now high. This may lead to small banks deciding to have a lower lending margin in order to capture new loan customers. These banks may then need to meet the requirement for core capital in a different way, for example by issuing new shares or equity certificates. Such a pricing of loans may be profitable if the reduced interest rate margin is more than offset by increased lending, which presupposes that loan customers will choose banks with low lending rates.

Figure 5. **Income and consumption in households. Seasonally adjusted at constant 2011 prices. NOK billion. Quarter**



Source: Statistics Norway.

Our projection model does not include modelling of the competition in the banking market. Our forecasts for the interest rate margin for credit loans are therefore made outside the model, and are characterized by great uncertainty. The forecasts assume that the interest rate on credit loans will remain at the present level until mid-2016. When money-market rates begins to rise in 2015, the lending margin will narrow slightly and end at 1.7 percentage points at the end of 2016, against 2.4 percentage points today. The interest rate on credit loans is projected to be 4.3 per cent at the end of 2016.

Developments in the key rate have no independent importance for our assessments. What is of importance is the money-market rate and the interest rates that the public will face. It is the latter that will affect the players' consumption and investment behaviour, while the money-market rate has a more direct effect on the exchange rate. However, the key rate affects the level of the money-market rate, which in turn influences the rates to the public, but other important factors are also involved. The key rate is set on the basis of an understanding that different considerations must be balanced against one another. Assuming that "all else is equal", a lower interest rate premium in the banks will therefore result in a somewhat higher money-market rate, but also a slightly lower lending rate. Economic fundamentals will then point to the economy being stimulated by slightly lower interest rates, while at the same time activity is curbed by a slightly stronger krone exchange rate. The overall effect on the real economy may thus be fairly limited, but there may be a slight shift of activity away from internationally exposed activities.

Weaker consumption growth

Consumption in households and non-profit organizations rose very moderately in both the second and the third quarter of 2013, compared with the previous quarter. Weak developments in purchases of cars and other vehicles, clothing and footwear, furniture and white goods, and sports equipment made a particular contribution to the decline in goods consumption of 0.1 per cent in the second quarter and a full 1.3 per cent in the third quarter of 2013. However, the first-quarter figures show strong growth in the same product groups. Overall household consumption increased by a full 1.0 per cent in the first quarter, following moderate growth in the fourth quarter of 2012. So far this year, consumption of services has shown fairly stable and moderate quarterly growth of 0.5 per cent or somewhat higher. There are now indications that annualized growth in consumption will be a bare 2.5 per cent in 2013; just over half a percentage point lower than in 2012.

Developments in household income, interest rates and housing wealth are important drivers of consumption. Household real disposable income rose by 3.2 per cent in 2012, following growth of a full 4.5 per cent the previous year. Seasonally adjusted figures from quarterly institutional sector accounts show weak developments in real disposable income in the second and third quarters this year, following strong growth of over 1 per cent in the first quarter. This development was due largely to relatively weak growth in wage income, which was only 0.3 per cent higher in the third quarter than the previous quarter. We now expect growth in real disposable income to be about 2.5 per cent this year; just over half a percentage point lower than last year. During the next few years, we expect wage income and public transfers to make solid contributions to wage growth. Tax relief will also be a factor. Somewhat lower inflation will also gradually push up real disposable income. Developments in interest rates will not contribute significantly to growth. We thus expect annual growth in real disposable income of just over 2.5 per cent next year, rising to 3.5 per cent in 2015, and up towards 4 per cent in 2016. The shift in house price developments, with a fall of some 2 per cent in 2014 and moderate growth subsequently, will curb growth in housing wealth, and thereby also growth in consumption through the projection period. Given our projections for income, interest rates and housing wealth, consumption growth will be about 2.5 per cent next year, just over 3.5 per cent in 2015, and close to 4 per cent in 2016.

The household saving ratio is now envisaged to be over 8.5 per cent this year, about the same as last year. Following the developments in income, consumption and house prices assumed here, the saving ratio will be about 9 per cent in the years 2014 to 2016. This saving ratio is about 1.5 percentage point higher through the projection period than was assumed in our previous report. The fact that we now foresee a higher saving ratio must be viewed primarily in light of substantially weaker house price movements than we assumed in our forecasts in May. We therefore expect precautionary saving, which helped explain the higher saving ratio in the wake of the financial crisis, to remain the norm during the downturn until 2016. A definite normalization of saving behaviour, as we assumed in our last report, is therefore not to be expected at present.

Fall in house prices in 2014

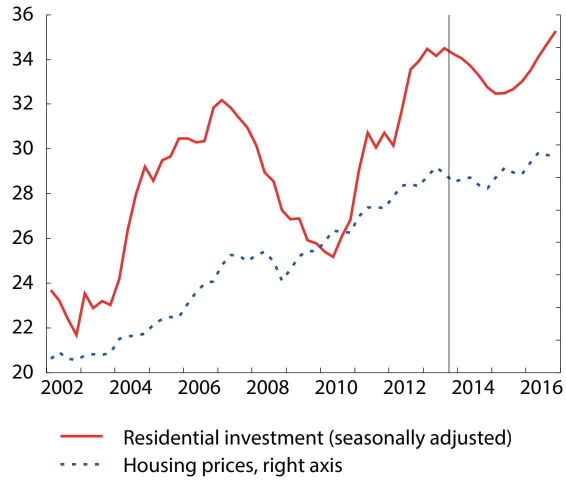
Housing investment during the first three quarters of 2013 was at a record level: 7.7 per cent higher than during the same period in 2012. The curve has levelled off, however, and the seasonally adjusted figures show constant investment through 2013, following a continuous period of rising housing investment since mid-2009. The figures tally well with housing starts which, after seasonal adjustment, showed a clear rising trend until the end of 2012 and then declined somewhat through the first half of 2013, in terms of both initiated utility floor space and the number of starts. The period from June to October 2013 shows another weak rising tendency. The prospect of falling real prices for resale homes and sluggish sale of new dwellings this autumn points to weaker developments in housing starts in the near term and pushes down housing investment growth. Housing investment will nevertheless be almost 6.5 per cent higher in 2013 than in 2012 due to the strong growth in housing investment in 2012 and into the first quarter of 2013. We then expect housing investment to fall by an annualized 2.5 per cent in 2014, and by close to 3 per cent in 2015, before rebounding to the 2013 level, with growth of up to 6 per cent in 2016.

The rise in house prices has slowed through 2013, from a four–quarter rise of 6.7 per cent in the fourth quarter of 2012 to 2.9 per cent in the third quarter of 2013, according to Statistics Norway's house price index. The real estate industry's house price statistics shows even more marked developments during the past few months, with a seasonally adjusted nominal decline of just under 1 per cent compared with the previous month in September, October and November 2013. House prices in November 2013 were only 0.2 per cent higher than in the same month the previous year.

In the long-term, house prices depend on economic fundamentals – see a dedicated article on this subject in *Økonomiske analyser* 5/2013. They are positively affected by an increase in household disposable income and low interest rates, and restrained by the addition of new dwellings. Research shows that household borrowing and house prices have a reciprocal effect on each other. More stringent regulation of banks will affect house prices through bank lending to households.

In the short-term, house prices will also be affected by household expectations regarding their own financial situation, as well as regarding the economy of the country. The Norwegian consumer confidence indicator Norsk Trendindikator developed by TNS Gallup and Finance Norway shows a negative change in these expectations through 2013. There was an especially large decline for the fourth quarter, which was measured in mid-November. In combination with weaker developments in real household disposable income in 2013 than forecast in our previous report, growing pessimism may provide an explanation for the weak movements in house prices this autumn. There have been moderate changes in the other factors that affect house prices.

Figure 6. **Residential market. Left axis 2011 prices, NOK billion, quarter. Right axis indices, 2011=100**



Source: Statistics Norway.

Our calculations have taken into account the interaction between household debt and house prices. In isolation, lower housing investment contributes to lower growth in gross household debt, and will gradually contribute somewhat weaker impulses to curb the rise in house prices. Given a continued low interest rate level, growth in gross household debt is nevertheless expected to remain at about 6.5 per cent throughout the projection period. New regulatory regulations from the authorities and more stringent creditworthiness assessment by banks may curb growth in loans to households in the near term, however.

In the short-term, we believe household expectations regarding the national economy will be coloured by pessimism for a further two quarters. We then expect a change of mood when growth in the euro area becomes more evident, at the same time as the Norwegian economy proves to be robust, also this time. In light of falling house prices through the second half of 2013 and relatively moderate growth in real household disposable income in 2014, we expect house prices in 2014 to be just over 2 per cent lower than in 2013 for the year as a whole. According to our calculations, house prices will show a new upswing well into the projection period as growth in real disposable income picks up while the real interest rate after tax remains at a low level. We expect house prices as an annual average to rise by over 2.5 per cent in 2015, and to rise by just over 4.5 per cent in 2016. Box 2 provides a more detailed account of our assessment of the factors that will affect near-term developments in house prices.

Petroleum investment nears its peak

Petroleum investment was unchanged in the third quarter of 2013 after a substantial rise in the previous quarter. Investment activity in oil drilling, oil exploration and gas pipelines has increased during the past

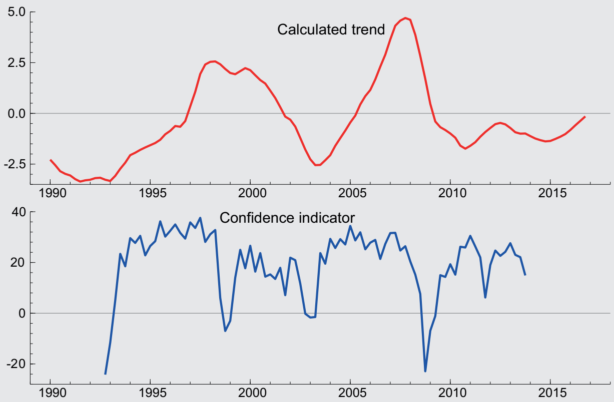
Box 2: **Factors underlying near-term developments in house price**

An article in Økonomiske analyser 5/2013[1] describes how house prices are determined in Statistics Norway›s quarterly model KVARTS after the implementation of a new model block which takes account of the fact that rising house prices and increasing household debt can be mutually reinforcing. Any changes in the authorities› regulation of financial institutions will then impact house prices through the effect on aggregate lending to households. In the long term, fundamentals such as household disposable income, real after-tax interest and the volume of the total housing stock determine both these variables in the model. These factors are therefore the most important drivers behind developments in house prices in the projection scenario for the years 2014 to 2016.

In the short term, however, the change in a consumer confidence indicator helps to explain house price movements. The consumer confidence indicator is designed to capture households› perception of the current situation and their expectations regarding developments one year ahead in both their own financial situation and the Norwegian economy. The indicator is the unadjusted combined indicator of TNS Gallup and Finance Norway, which is published quarterly.[2]

The consumer confidence indicator shows developments over time that coincide to a large extent with the business cycle of the Norwegian economy over the last 20 years. In Fig. B1 we have plotted the consumer confidence indicator together with a curve that shows deviations from a calculated trend for mainland GDP (see Fig.12). The consumer confidence indicator is particularly low during the banking crisis in 1992, the slowdown in the Norwegian economy in 2003, and during the financial crisis in 2008–2009. Households also reacted with pessimism to the international commodity crisis that affected Asia, South America and Russia in 1997–1998, even though it had only a moderate impact on the Norwegian economy. Nor did fear of a slowdown in the European economy in 2011 (the double-dip of the financial crisis) have any effect worthy of mention on the Norwegian economic situation. We also note that the periods during which households are highly pessimistic are relatively short.

Figure B1. Deviation from calculated trend for mainland GDP and the consumer confidence indicator. 1990 Q1– 2013 Q4



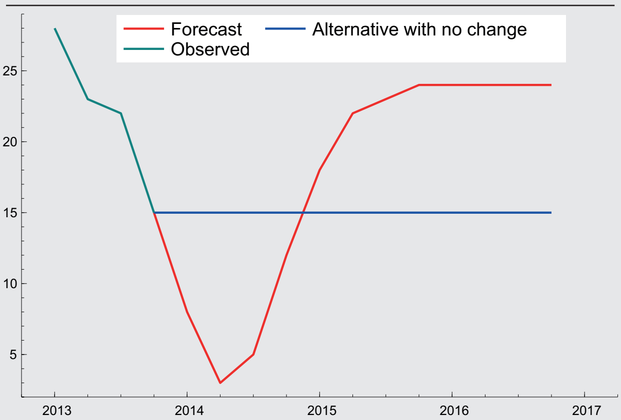
Sources: Statistics Norway (see Fig. 12) and TNS Gallup in collaboration with Finance Norway.

Our estimates show that changes in the consumer confidence indicator have a clear short-term effect on house prices. An index shift in one quarter towards greater pessimism (lower value) results in a slower rise in house prices in both the same quarter and the next two quarters. It can capture the effects of households› changing their housing market behaviour when they are pessimists, for example by trying to sell their dwelling before they buy a new one. If many change strategies simultaneously, it can have a considerable impact on market prices. This may well have been the case during the financial crisis in autumn 2008. There is also reason to believe that a massive flow of negative news and gloomy prophecies about economic developments may have been strongly reflected in the consumer confidence indicator.[3]

Both these phenomena have probably come into play this autumn, and may continue to do so when the slowing of growth in the Norwegian economy continues into 2014. We have therefore assumed that the consumer confidence indicator will fall in the first two quarters of 2014 before the trend reverses and households› belief in the future gradually returns to a more normal path. Our assumptions about the expectations for the first quarter of 2014 up to and including the fourth quarter of 2016 are shown on the red curve in Fig. B2.

There is evident uncertainty regarding the assumptions concerning the future course of the consumer confidence indicator, as there is with the more fundamental factors. In order to illustrate the importance of our assumptions in connection with the expectations in the projection scenario, we have calculated how much the change in the consumer confidence indicator will affect the results. We then compare our projection calculation with a calculation with precisely the same assumptions, with the exception of the consumer confidence indicator, which is kept constant at the level in the fourth quarter of 2013 in all the quarters ahead (blue curve in Fig. B2). The table shows the results for a number of key variables in the model.

Figure B2. Expectations regarding quarterly change in the consumer confidence indicator for the projection period 2014 Q1 – 2016 Q4



[1] André K. Anundsen and Eilev S. Jansen: «Boligpris- og kredittvekst forsterker hverandre» [Rise in house prices and credit growth mutually reinforcing], see page 33 of Økonomiske analyser 5/2013.

[2] Norwegian consumer confidence indicator developed by TNS Gallup in collaboration with Finance Norway ("Forventningsbarometeret»), see TNS Gallup (2013): "Økende usikkerhet omkring nasjonens økonomi" [Growing uncertainty concerning the Norwegian economy]. Norsk Trendindikator: Measurement for the fourth quarter of 2013, published 26 November 2013.

[3] However, the consumer confidence indicator may also capture the effects of variables excluded from the model, i.e. variables that both have a high correlation with the indicator (and with the business cycle) and influence house prices.

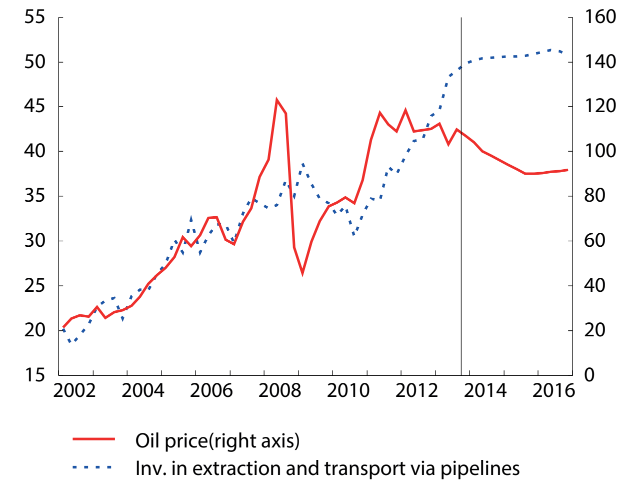
Assumptions concerning changes in the consumer confidence indicator have a definite effect on house prices in our calculations. In 2014, the path for house prices will be reduced by 1.5 per cent because of the reduction in the consumer confidence indicator, while house prices will lie 1.1 and 2.5 per cent higher in 2015 and 2016 than in the alternative scenario, as the indicator gradually indicates more optimism. Household gross debt will be reduced somewhat. The effects on house prices will primarily affect consumption in the same direction through wealth effects, while household real disposable income will remain virtually unaffected. Housing investment reacts with a time lag to house prices, and it will therefore be lower in both 2014 and 2015, but higher in 2016, as a result of changed expectations. The effects on consumption, and to a slightly lesser extent on housing investment, will be reflected in projections for mainland GDP growth. Apart from this, changes in house prices have only moderate effects in the model.

Deviation between the projection scenario and an alternative scenario with unchanged consumer confidence indicator 2014–2016. Percentages unless otherwise indicated

	2014	2015	2016
House prices	-1.5	1.1	2.5
Household gross debt	-0.1	-0.4	-0.2
Housing investment	-0.2	-0.7	0.6
Household real disposable income	0.0	0.0	0.1
Consumption, household	-0.3	0.2	0.5
Mainland GDP	-0.1	0.0	0.2
Unemployment rate, percentage points	0.02	0.00	-0.03

Other factors that are not explicitly included in the model may also have a bearing on house prices in the near term. A more restrictive lending policy to households on the part of the banks may reduce credit growth and contribute to a slower rise in house prices (see Box 3 in Economic Survey 1/2013)

Figure 7. **Petroleum investments and oil price in USD. Seasonally adjusted at constant 2011 prices. NOK billion. Quarter**



Source: Statistics Norway.

year, except for the third quarter, after several years with no significant growth. This is in contrast to investment activity in oil platforms and modules, which fell appreciably through 2010, and then showed a steady rise before levelling off at a high level through the past year and a half.

The petroleum industry has been characterized by a long period of very high profitability. This, and prospects of continued high oil prices have pushed up investment, despite lower production of oil and gas. A high oil price, combined with improved technology, is prompting the initiation of new projects to extend the life of older platforms. This is resulting in a substantial upgrade of existing platforms. Improved profitability means that smaller fields can be linked to existing platforms. Continued high oil prices will keep this investment at a high level.

As a result of low exploration activity in the late 1990s and the first half of the 2000s, there were few discoveries. Exploration increased appreciably after 2005, in pace with the rising oil price. Several large discoveries during the past few years have revealed major oil and gas resources. This has given investment in oil exploration a further boost, and is also providing impetus for more investment in oil platforms and modules towards the end of our projection period in order to develop these discoveries.

We expect only a moderate increase in petroleum investment during our projection period. An increase of a scant 5 per cent in 2014 mainly implies that the high level from the past half year will be maintained in the near term. Several projects will end in 2014 and 2015, which will lead to a pause in growth in 2015, before the start-up of new projects pushes investment up slightly in 2016. Petroleum investment is very important to the Norwegian economy. According to our forecasts, petroleum investment will be equivalent to 9 per cent of mainland GDP in 2013. The relative importance of oil investment, measured this way, has never previously been as high.

Oil and gas production measured as oil equivalent increased by 2 per cent in the third quarter compared with the same quarter in 2012. Earlier this year, corresponding figures showed a clear decline. The year as a whole will probably show a weak fall in production in 2013, following an upswing in production in 2012. Petroleum production is expected to remain fairly stable in the years ahead, following a trend decline from the early 2000s and up to 2012. In 2011, oil and gas prices regained their 2008 level. There has been a very moderate decline in prices since then. We expect prices to continue to fall, but not beyond a levelling off at USD 90 per barrel at the end of 2015, and subsequently to remain unchanged in real terms. This factor,

Table 2.2. **Main economic indicators 2012-2016. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2012*	Forecasts									
		2013			2014			2015		2016	
		SN	NB	MoF	SN	NB	MoF	SN	NB	SN	NB
Demand and output											
Consumption in households etc.	3.0	2.3	2 1/4	2.0	2.3	2 1/2	2.4	3.6	2 3/4	3.9	2 3/4
General government consumption	1.8	2.0	2 1/2	2.6	2.4	2 3/4	2.1	2.4	..	2.2	..
Gross fixed investment	8.3	6.4	..	5.1	2.5	..	4.8	2.0	..	3.9	..
Extraction and transport via pipelines[1]	14.6	15.8	12 1/2	9.0	4.8	3 3/4	7.5	0.4	1 1/2	1.6	1 3/4
Mainland Norway	4.5	2.7	2	..	1.7	3 3/4	..	2.9	..	5.2	..
Industries	4.9	1.0	..	1.6	3.3	..	3.7	4.5	..	4.3	..
Housing	7.3	6.4	..	5.0	-2.5	..	3.0	-2.9	..	5.8	..
General government	-0.4	0.6	..	5.9	5.3	..	4.8	8.0	..	6.3	..
Demand from Mainland Norway[2]	2.9	2.3	2 1/4	2.5	2.2	2 3/4	2.6	3.1	3	3.7	2 3/4
Stockbuilding[3]	-0.1	-0.4	..	..	0.0	..	..	0.0	..	0.0	..
Exports	1.1	-2.5	..	-1.6	2.3	..	3.3	1.6	..	2.1	..
Crude oil and natural gas	0.7	-5.3	..	-5.5	2.3	..	4.2	-0.1	..	0.4	..
Traditional goods[4]	1.7	0.8	1 3/4	0.1	1.2	1/4	2.5	3.2	..	3.9	..
Imports	2.3	2.2	0	3.2	2.9	4	3.8	4.2	..	4.6	..
Traditional goods	2.4	2.0	..	2.9	1.4	..	2.9	3.8	..	4.6	..
Gross domestic product	2.9	0.7	1/4	0.8	2.1	2	2.6	1.9	2 3/4	2.5	2 1/4
Mainland Norway	3.4	1.8	1 3/4	2.0	2.1	2 1/4	2.5	2.5	2 3/4	3.1	2 3/4
Labour market											
Employed persons	2.2	1.4	1 1/4	1.1	0.9	1	1.0	0.9	1	1.4	1
Unemployment rate (level)	3.2	3.5	3 1/2	3.5	3.6	3 1/2	3.6	3.7	3 3/4	3.6	3 3/4
Prices and wages											
Annual earnings	4.0	3.9	3 1/2	3 1/2	3.6	4	3 1/2	3.6	4 1/4	3.9	4 1/4
Consumer price index (CPI)	0.8	2.1	2 1/4	2.1	2.0	2 1/4	1.9	2.0	2	2.2	2
CPI-ATE[5]	1.2	1.6	1 3/4	1.6	2.1	2 1/4	2.0	2.1	2	2.3	2
Export prices, traditional goods	-3.6	2.3	..	..	2.0	..	..	1.2	..	1.7	..
Import prices, traditional goods	0.6	1.8	..	..	2.9	..		1.4	..	1.8	..
Housing prices	6.7	3.9	..	..	-2.2	..	..	2.7	..	4.6	..
Balance of payment											
Current balance (bill. NOK)	417.2	352.2	..	..	330.3	..	..	268.3	..	228.1	..
Current balance (per cent of GDP)	14.3	11.7	..	11.0	10.6	..	10.6	8.4	..	6.9	..
Memorandum items:											
Household savings ratio (level)	8.6	8.7	..	..	9.2	..	..	9.1	..	8.9	..
Money market rate (level)	2.2	1.8	1.8	1.8	1.7	1.9	1.8	1.8	2.3	2.5	..
Lending rate, credit loans (level)[6]	3.9	4.0	..	..	4.1	..	..	4.0	..	4.2	..
Crude oil price NOK (level)[7]	649	634	..	623	593	..	600	545	..	543	..
Export markets indicator	1.4	1.3	..	..	3.3	..	..	4.5	..	6.0	..
Importweighted krone exchange rate (44 countries)[8]	-1.2	2.0	1.0	2.4	2.1	0.0	3.6	0.0	-0.3	0.0	0.0

[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.1 (2013-2014), (MoF), Norges Bank, Pengepolitisk rapport 3/2013 (NB).

coupled with relatively high prices, will contribute to continued solid profitability for the industry. If these assumptions hold true, transfers to the Government Pension Fund Global will remain substantial, but declining.

Moderate growth in business investment

Underlying growth in business investment has been moderate since 2010, and is expected to remain so for the next few years, despite a drop in the third quarter. This applies to both service and manufacturing industries.

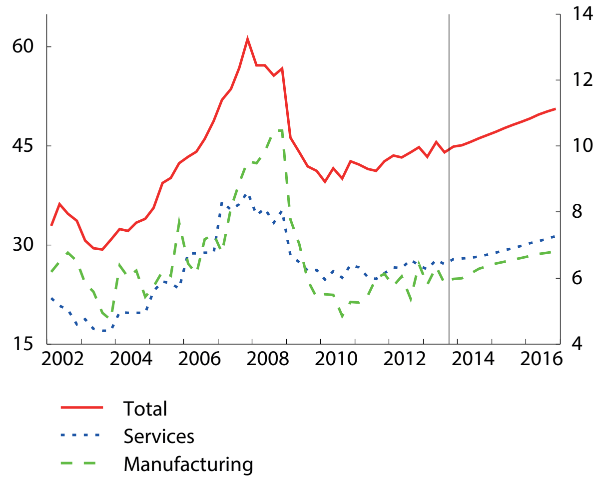
Service industry investment declined by 2.2 per cent in the third quarter. There was a particularly pronounced decline in property sales and management, which account for about 25 per cent of service investment. This decline represents a trend. The level in the third quarter of 2013 was approximately 11 per cent lower than in the first quarter of 2010, and has more than halved since the peak in 2007. On the other hand, the weak developments in this industry since 2010 have been more than counterbalanced by higher investment in administrative and support services, the level of which has remained high for the past year. Investment figures have not been as high since 2005.

Manufacturing investment fell by 8.0 per cent in the third quarter compared with the previous quarter. The fall reflects a weak investment tendency through the past two years. Investment in the food industry in particular has contributed negatively, with a fall of about 25 per cent in the investment level over the two-year period. However, investment in the production of industrial chemicals has contributed positively during the same period. Statistics Norway's survey of companies' investment intentions points to moderate development in the near term. At the time of reporting, in the fourth quarter of 2013, the projections for manufacturing companies indicate an unchanged investment level this year and growth of about 4 per cent in 2014 after adjustment for normal under-reporting.

There has been high growth in investment in electricity supply for a long period. The investment level increased fourfold from 2000 to 2012, and this year investment in electricity supply is on a par with manufacturing investment. The reported projections from power companies in the fourth quarter indicate that the high investment growth will continue, and it is expected to be about 10 per cent next year.

The weak global economic situation is curbing the profitability of many investment projects. This is expected to be reflected in slow growth in business investment in the years ahead. As the end of the projection period approaches, the uncertainty in the global economy will abate, and we anticipate annual growth in business investment from 3 to 5 per cent.

Figure 8. **Investments. Mainland Norway. Seasonally adjusted at constant 2011 prices. NOK billion. Quarter**



Source: Statistics Norway.

Weak exports and reduced external account surplus

Export volumes for traditional goods and services have both shown relatively little change since the first quarter of 2012, despite a weak decline in the second and third quarters this year. Exports of oil and gas have increased in the last two quarters, but from a low level in the first quarter of 2013. As a result of a fall through the latter half of last year and into 2013, oil and gas exports have been appreciably lower so far this year than during the same period last year.

Exports of important groups of traditional export goods such as metals, farmed fish, chemical products and electricity showed a declining tendency last year, and exports were lower in the first three quarters of 2013 than in the first three quarters of last year. Electricity exports have fallen for six quarters in succession, and are now almost halved. Product groups with higher exports in the first three quarters of the year than in the same period in 2012 are dominated by non-residents' consumption in Norway, machinery and engineering products, industrial chemicals and pharmaceutical products. Shipping, which accounts for almost a third of service exports, has also increased by comparison with 2012.

Export price indices for traditional goods and services and for oil and gas all rebounded in the second and third quarter of this year, and are broadly back at the levels of the first quarter of 2012. Prices for farmed fish and electricity have shown a particularly substantial rise this year, of 30 per cent and 20 per cent, respectively, compared with the same period last year.

We expect the volume of exports of traditional goods and services to increase slightly compared with last year, but that oil and gas exports will show a marked reduction. During the next few years, growth in traditional exports is expected to reflect business cycle developments in Europe, which includes Norway's most

Figure 9. **Exports. Seasonally adjusted at constant 2011 prices. NOK billion. Quarter**

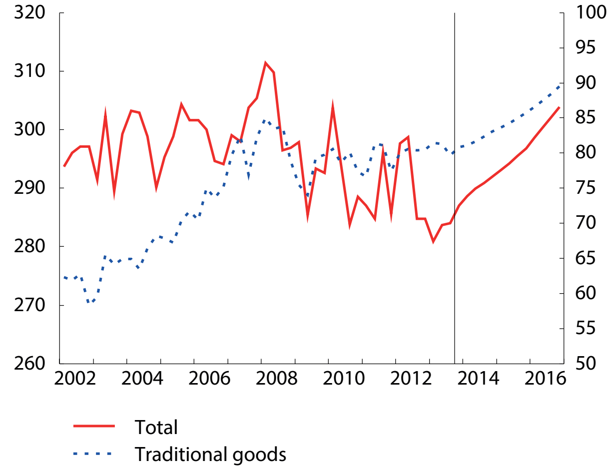
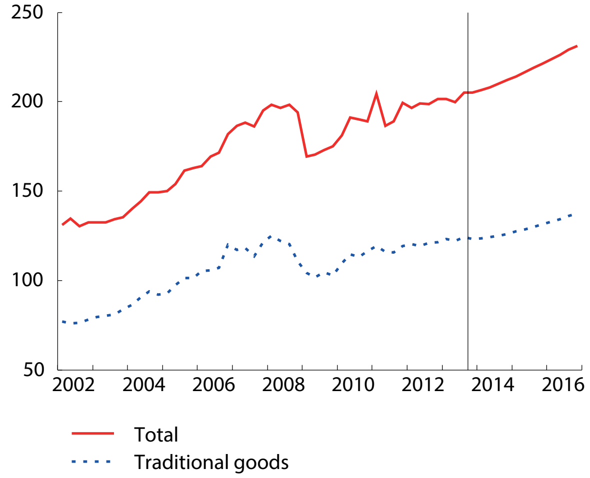


Figure 10. **Imports. Seasonally adjusted at constant 2011 prices. NOK billion. Quarter**



important export countries. Weak growth in demand, and hence in imports, in many countries will dampen growth in Norwegian exports, while a somewhat weaker Norwegian krone, viewed in isolation, will stimulate growth. We expect exports of traditional goods and services to increase gradually through the projection period in pace with subdued increasing growth among our trading partners. After falling for many years, oil and gas exports have levelled off this year, and from next year are no longer expected to contribute negatively to growth in overall exports, which are picking up appreciably in consequence. Export prices for traditional goods and services will change from falling in 2012 to rising this year, but the rise in export prices is expected to be very moderate for the next three years. Changes in the dollar exchange rate are expected to ease the decline in oil prices in Norwegian kroner both this year and next.

Whereas a weak global economic situation, particularly in Europe, has curbed export growth in recent years, relatively strong growth in the Norwegian economy has maintained import growth at a high level. Imports of traditional goods and services increased by a couple of per cent through the first three quarters of the year. Imports of machinery and other equipment and vehicles have grown strongly this year. Norwegians' consumption abroad is a major category of service imports that has shown pronounced growth for seven successive quarters, and grown by over 16 per cent during this period. Import prices exhibited a weak rise last year and into the current year, but have risen during the past half year with the exception of some service categories. In isolation, the weakening of the Norwegian krone so far this year will translate into higher import prices, but with a considerable lag. Imports are expected to grow by just over two per cent in 2013, twice the expected growth in traditional goods exports. Next year, weak growth in domestic demand will dampen import growth before it picks up again in 2015.

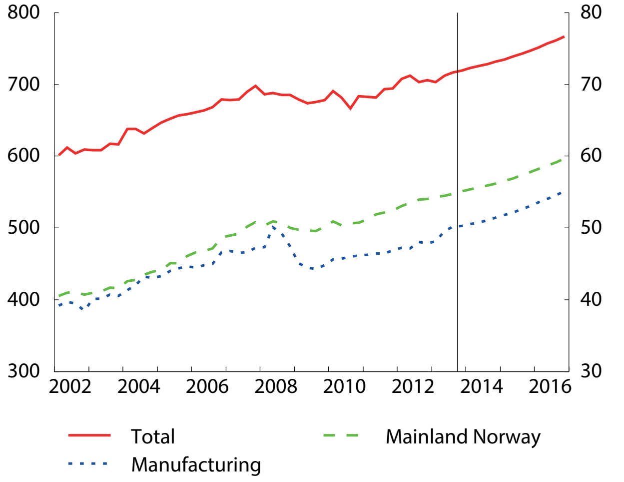
Stronger growth in imports than in exports and reduced terms of trade gains have pushed down the trade surplus so far this year compared with the same period last year. The continued subdued global economy is curbing growth in demand for Norwegian export products, and relatively high Norwegian costs are undermining the competitiveness of Norwegian export companies. An expected decline in prices for oil and gas is the weightiest factor, however. A substantial reduction in the trade surplus is expected in the projection period, from almost NOK 330 billion this year to less than NOK 200 billion in 2016. Returns from a large and expanding petroleum fund – which has just topped NOK 5000 billion, 17 years after the Ministry of Finance transferred the first NOK 2 billion in 1996 – are expected to contribute increasingly to a net factor income and transfers surplus. The effect will be a smaller reduction in the current account surplus than in the trade surplus. The surplus as a share of GDP is expected to fall from just under 12 per cent this year to close to 7 per cent in 2016.

Continued downturn through 2014

Mainland economic growth has been very moderate through the past year. Mainland GDP grew somewhat less than trend growth, and the level in the third quarter was 1.8 per cent higher than in the same quarter of 2012. Annualized growth in the third quarter compared with the previous quarter was 1.9 per cent, while trend growth is estimated at around 2.5 per cent. However, electricity production fell throughout the period, contributing negative annualized growth of about 0.3 percentage point, so that underlying economic development was somewhat less weak than the GDP figures in isolation might suggest.

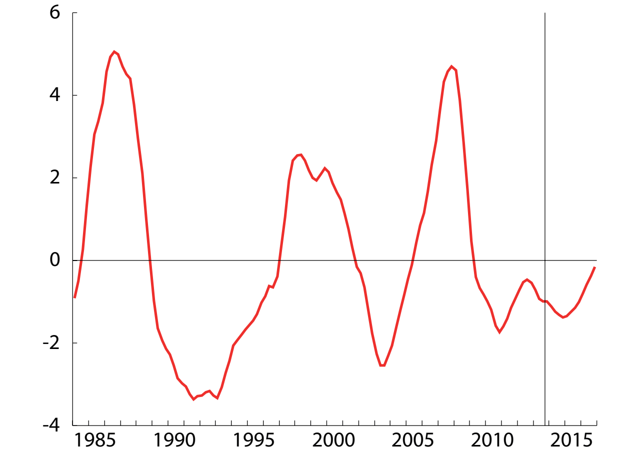
Activity in manufacturing and in construction has increased most in mainland Norway through the past half year, with annualized growth approaching 10 per cent. Production in general government is close to the average, while the activity level in market-oriented services

Figure 11. **Gross domestic product. Seasonally adjusted at constant 2011 prices. NOK billion. Quarter**



Source: Statistics Norway.

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



Source: Statistics Norway.

as a whole remains almost unchanged. The general picture shows that industries supplying petroleum and other engineering industries as well as construction are boosting growth, and that developments in other market-oriented industry are very weak.

Value added in manufacturing calculated as an annual rate increased by just over 6 per cent in the third quarter, and by even more the previous quarter. A few industries stand out because of their prolonged, high growth, and this applies in particular to the production of metal goods, electrical equipment and machinery, which have maintained consistently strong growth through the past three years. These industries are substantial suppliers to the Norwegian petroleum sector, but their production for export is even higher. Shipbuilding and the repair and installation of machinery and equipment are the two manufacturing industries that primarily deliver to the petroleum sector. These supplier industries have also grown substantially through the past three years, but activities slumped somewhat in the third quarter of this year. However, many manufacturing industries showed a clear rise in the third quarter after a falling tendency in recent years. Notable exceptions are the furniture industry, oil refinement, pharmaceuticals, and not least the pulp and paper industry, where the slump has continued. The activity level in pulp and paper is now over 70 per cent lower than the peak in 2007.

The level of activity in manufacturing as a whole was slightly higher in the third quarter than in the first half of 2008, before the financial crisis. However, there are major differences from one industry to the next. Apart from the supplier industry and manufacturing of metal goods, electrical equipment and machinery, only the food industry, oil refinement, chemicals and pharmaceuticals industry had risen to a higher level during this period. The activity reported by the others was in some cases considerably lower than the level prior to the financial crisis.

Growth in 'Other goods' production, which has been satisfactory through the current year, has primarily been bolstered by construction. Following very high growth for a long period, activity in fishing and aquaculture has largely fallen for the past two years, including the third quarter. Naturally occurring factors play a large part in developments in traditional fishing. However, aquaculture has also seen a decline in value added for four successive quarters, prior to an upswing in the third quarter. However, this was to a level well below the peak in the second quarter of 2012.

Among mainland market-oriented services, only postal and distribution services lie at an appreciably lower level than prior to the financial crisis, following a steady decline in the general level of activity through the past two years. For a long period, almost all the other service industries reported high growth, which has now come to an almost complete halt. For many, this took place in the current year; for others, in 2012 already. The exceptions are accommodation and restaurants and transport other than shipping, which have reported almost continuous and marked growth through the past 3 – 4 years, and so far up to and including the third quarter of this year. However, this was the service industries that were hit hardest by the financial crisis, and they are now at approximately the same level as before the crisis.

Services related to petroleum production, which are classified as non-mainland industries, have reported very strong growth in activity through the past two years, following a couple of years with a substantial dip in the wake of the financial crisis. This is a highly disparate industry, which includes both drilling services and some engineering. According to the preliminary QNA figures, the increase continued in the third quarter, but at an appreciably more moderate pace than previously. The production of crude oil and natural gas has increased markedly through the last half year, and as a result overall GDP has increased appreciably more than mainland GDP.

Both demand from the mainland private sector and internationally have been weak. Unfavourable cost competitiveness has also contributed to some extent to the moderate production growth reported recently. We expect global economic developments to pick up somewhat going forward, providing slightly more positive impulses to the Norwegian export sector. The petroleum sector, on the other hand, is unlikely to provide any stronger impulses than it has done recently. Overall, the fiscal stance is likely to stimulate GDP growth slightly, and the shift in fiscal composition may generate somewhat stronger impulses to commercial activity. It is difficult, nonetheless, to envisage any turnaround to economic recovery without higher household consumption and increased investment in mainland companies. However, we expect this to happen to some degree through 2014 and 2015, leading the Norwegian economy into a cyclical upturn in 2015. In the period ahead, the activity level will edge up in many industries reporting weak developments recently. At the same time, developments in industries that have reported marked growth recently may slow slightly. Thus we envisage somewhat less divergence in developments in the different parts of the economy in the next years.

We expect construction to grow more sluggishly in 2014 than this year, but that growth will then gather pace again. Growth in the supplier industries to the petroleum sector, including the mechanical engineering industry, may fall during the entire projection period, however, while growth in other industry may pick up on the back of a rise in international demand. We also expect aquacultural activity to expand again, so that the third quarter figure was not merely a short-term phenomenon. The moderate cyclical upturn we envisage will nonetheless be associated first and foremost with slightly firmer growth in market-oriented services, which account for about half of mainland GDP.

We expect mainland GDP growth in 2013 to fall to an annualized average of 1.8 per cent, from 3.4 per cent in 2012. Growth is likely to pick up gradually, attaining 3 per cent in 2016. The growth in 2015 and 2016 must be regarded as a very moderate upturn, such that mainland GDP in 2016 will remain below trend.

Labour market uncertainty

The quarterly national accounts (QNA) report that employment rose by 0.3, 0.4 and 0.5 per cent, respectively, in the first three quarters of the year. The Labour Force Survey (LFS) shows distinctly weaker employment growth through the same period. The QNA – as opposed to the LFS – figures include short-term immigrants and persons not resident in Norway, but the growth of these groups can probably not explain the whole difference from the LFS. According to the LFS, employment as a share of the population is unchanged so far this year.

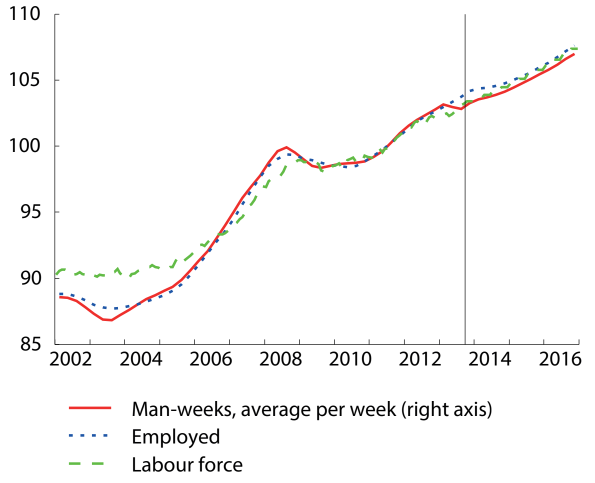
There are substantial differences in employment developments within and across industries. Construction, other services, and oil and gas production and associated services have reported strong employment growth in recent years. The employment growth in construction was positive also in the first three quarters of this year. Growth was particularly strong in the second quarter, while developments in the third quarter were considerably weaker. Retail trade, which is also a cyclical industry, reported a fall in employment in the third quarter and weak growth in the first half of the year. Manufacturing employment rose by 0.6 per cent in the third quarter. However, there are also major differences from one industry to the next. Shipbuilding and other transport equipment, production of metals and metal products, the food industry, and pulp and paper production boosted employment growth in the third quarter. In the last two industries, however, this followed a sharp fall in employment in the preceding quarter.

So far in 2013, the average rise in man-hours worked in mainland Norway is at the same level as the employment growth rate. There are two more working days in the first three quarters of 2013 than in 2012, which increase the growth in number of man-hours worked per person employed. The underlying growth in man-hours worked is therefore weaker than the employment growth. Statistics Norway’s figures show that sickness absence has declined since 2009, and this trend continued in the second quarter of 2013. In isolation, a reduction in sickness absence raises the number of hours worked per employee. Up to September there was also a decline in the number of layoffs compared with the same period in 2012, which also pushes up the number of man-hours worked.

LFS unemployment increased towards the end of 2012, and the unemployment rate has through 2013 ranged from 3.3 to 3.7 per cent. Average unemployment for the period August to October is 3.4 per cent which, apart from the average for the period May to July, is the lowest level so far this year. However, the Norwegian Labour and Welfare Administration (NAV) figures for registered unemployment and the total of persons registered as unemployed or on labour market programmes have shown a steady increase so far this year. At end-November 2013, over 86 000 persons were either on labour market programmes or registered as unemployed. Persons who had been unemployed for more than 26 weeks accounted for about 44 per cent of the unemployed in April 2013. The share has increased slightly so far this year. There has also been a fall so far this year in the number of unemployed and persons on labour market programmes in teaching and manufacturing compared with the same period last year, while there has been a clear increase in construction, agriculture, forestry and fishing.

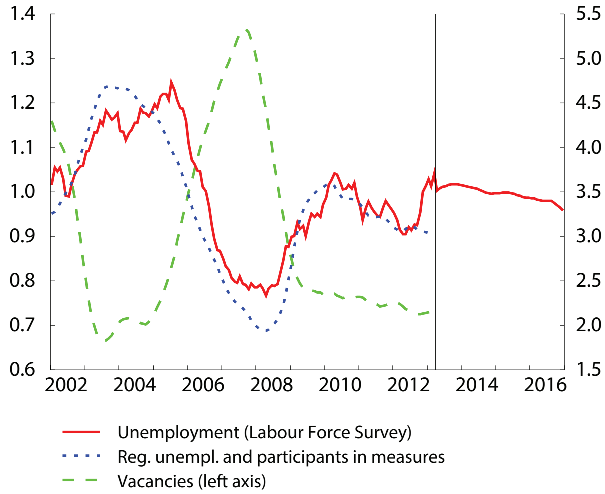
Developments in the labour force as a percentage of the population are affected by demographic factors, including immigration, but also by changes in behaviour.

Figure 13. **Labour force. employment and number of man-hours. Seasonally adjusted and smoothed indices. 2011=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.

According to the LFS average, labour force participation increased on average in the period August to October compared with the average in the period May to July. Distributed by age, there has been an increase in labour force participation among young men and a decline among young women, while the opposite applies to women and men aged over 25. The unadjusted figures show that the age group between 55 and 74 as a share of the total labour force has increased since 2006. This probably reflects a rise in educational level, effects of the pension reform and generally improved health among the elderly, which in combination imply a structural change in the direction of higher labour force participation.

The number of vacancies continued to fall in the third quarter of this year. There was a particularly large decline in administrative and support services and retail trade.

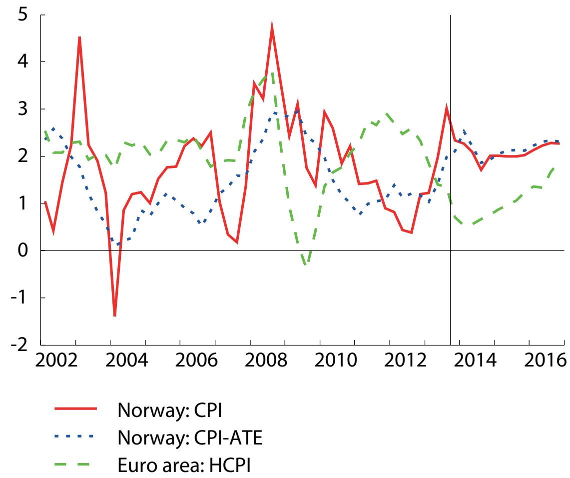
We estimate that employment will rise by an annualized 1.4 per cent in 2013. However, growth is expected to decline somewhat in the next two years, and this must be viewed in light of the fact that employment normally reflects developments in production with a time lag. During this period, increased public sector employment is not expected to make any particular contribution to employment growth. However, purchases of public sector services will increase appreciably during the projection period, and growth in household consumption will also pick up gradually. In isolation, this will contribute to higher growth in employment in administrative and support services. We expect an improvement globally which will boost exports towards the end of the projection period. Growth is therefore expected to rise to 1.4 per cent in 2016.

The population was 1.2 per cent higher in the third quarter of this year than in the same quarter of 2012. There are still substantial cross-border immigration flows, but the number of immigrants is lower than in the same period last year, while the number emigrating is higher. Developments in both the Norwegian and the global economy imply that there will continue to be considerable inward labour migration in the future, although the growth is expected to slow. Quarterly figures for 2013 also point to lower gross immigration. This is reflected in the construction industry, where substantial employment growth is seen to be paralleled by higher unemployment. We assume that the labour force will continue to grow somewhat more than employment for the next two years, with the result that unemployment will edge up. LFS unemployment is projected to be 3.5 per cent this year, rising to 3.6 per cent next year and 3.7 per cent in 2015. After that unemployment will fall in pace with the recovery of both the Norwegian and the global economy.

Lower real wage growth

At this year's interim settlements, the parties agreed on small centrally negotiated increases, and the negotiated framework was estimated to be 3.4 per cent for manufacturing workers. In addition to the pay increases, the framework consists of carry-over and wage drift. The carry-over indicates how high the annual rise in wage growth will be in one year as a result of the rise in salaries through the previous year. The carry-over varies from one industry to the next, and depends on the time of year when the employees get their pay increase, and the size of the increases. Wage drift encompasses all wage growth that is not a result of negotiations, such as locally agreed pay increases, personal increases and bonuses. Structural changes in the form of the composition of the employees along different dimensions will also influence wage drift. Wage drift varies from one business to the next, and is uncertain until final statistics are available. The size of the drift tends to increase in periods of low unemployment. Measured as an annual average, unemployment in 2013 will be markedly higher than last year, which points to lower wage drift. At the same time, a number of industries that deliver on a large scale to the petroleum sector have

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



Source: Statistics Norway.

experienced a shortage of qualified labour, and wage growth in these industries will probably be higher than the amount upon which the parties based the wage negotiations. Some service industries have also experienced high wage growth in recent years. According to the annual wage statistics, bonuses are now increasing in the areas of banking and insurance. Almost half of the 4.6 per cent increase in monthly salaries paid from 1 September 2012 to 1 September 2013 can be attributed to higher bonuses. We estimate that annual wage growth for the economy as a whole will be 3.9 per cent in 2013, on a par with developments in recent years.

Some manufacturing segments have struggled with low earnings for several years as a result of the global economic downturn, strong krone and markedly higher wage growth than other countries. This is an important reason for the parties agreeing on small centrally negotiated increases in this year's wage settlements. Next year, growth in foreign demand will again be moderate. At the same time, appreciably weaker impulses are expected from the petroleum sector. The production of key manufacturing supplier industries will therefore not grow as much as in recent years. Because it is costly for companies to terminate labour, the work force will not be scaled back as rapidly as production in such a situation. Productivity growth may accordingly be more sluggish in the near term in these manufacturing segments. This will push down the profitability of manufacturing, which is the first industry to hold wage negotiations. We expect higher unemployment, as an annual average, in both 2014 and 2015. Wage drift may therefore also be lower than in recent years, which in isolation will curb wage growth, both in manufacturing and generally. Since CPI inflation will be moderate in 2014 and 2015, annual wages will not need to increase much in nominal terms for Norwegian wage-earners to experience real wage growth. We envisage a reduction in wage growth to 3.6 per cent in both 2014 and 2015.

The prolonged, deep global economic recession has also led to closures and restructuring in segments of Norwegian manufacturing. Given that demand from our trading partners is expected to revive towards the end of the projection period, the ability to pay wages of those segments of manufacturing that sell their products abroad will gradually strengthen compared with the current situation. In 2016, increased productivity growth is expected, and in consequence greater profitability for Norwegian manufacturing companies. Lower unemployment also pushes up wage growth. These are some of the reasons that we expect wage growth to rise again in 2016, to 3.9 per cent. On the basis of our projections for developments in wages and prices, real wage growth will be between 1.5 and 2 per cent annually for the whole projection period. This is appreciably less than in 2011 and 2012, when real wages increased by around 3 per cent, and also somewhat lower than the average for the 2000s.

Higher import prices will result in higher inflation in the near term

The rate of underlying inflation has been rising for the past half year after remaining stable since the summer of 2010. The year-on-year rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) was 1.9 per cent in October, up from 1.4 per cent in May. Developments in electricity prices have caused the consumer price index (CPI) to rise appreciably more than the CPI-ATE in the current year. For the year as a whole, the CPI-ATE appears likely to rise by 1.6 per cent, while the rise in the CPI is estimated to be 2.1 per cent for 2013.

Low global inflation combined with a strong krone has contributed to low domestic inflation in recent years. As a result of a marked weakening of the krone exchange rate through the year, the fall in prices for imported consumer goods is less in 2013 than in 2012. The CPI-ATE sub-index for prices for imported consumer goods in the period January–October was 0.3 per cent lower on average than the previous year, while the reduction in prices for the whole of 2012 was 0.6 per cent. A large portion of imported consumer goods is marketed in the retail sector, where efficiency improvement and competition from internet-based trade help to offset the effects of the depreciation of the kroner on consumer prices. Increased production costs will nevertheless cause companies to raise consumer prices over time to secure satisfactory earnings. It takes time before these effects are exhausted, and this year's weakening of the krone will continue to cause a rise in prices for a while.

Another important factor underlying the rise in the CPI-ATE is price developments in rents, where the 12-month rise has gradually increased through the year from just over 2 per cent in January to 3.7 per cent at the end of October. Actual and imputed rents have a weighting of 20 per cent in the CPI-ATE. For households that rent their homes, actual rent is measured in terms of market rents obtained each month through the rent survey for a selection of households in rented dwellings. The price of rents for owner-occupied dwellings is derived from rents for similar dwellings in the rental market, and the rent survey is thus of great importance to the total CPI. One of the main challenges in the rent survey has been to capture newly signed contracts where the landlord has more scope to change rents than in ongoing contracts. With effect from 2013, new and more efficient methods were introduced for tracing new tenants in rented dwellings, and at the beginning of 2013, Statistics Norway announced that the change in method could push up CPI inflation to some extent. Given high population growth and an assumed shortage of rental dwellings, combined with a general rise in inflation, we assume that the increase in rents will continue at approximately the current level for the next few years.

As a result of a tighter resource situation in the Nord Pool area, electricity prices so far this year have been far higher than last year. The effects of fluctuations in system prices for electricity are dampened in the consumers' purchase prices through the add-ons of grid rental and electricity tax, which in combination are higher at current prices than the price of the electricity itself. Grid charges are set on the basis of a framework issued by the Norwegian Water Resources and Energy Directorate (NVE), and are expected to increase going forward as a result of ongoing investment in the main grid. Through the joint Norwegian-Swedish green certificate scheme for subsidising renewable energy, it is expected that 26.4 TWh of new, subsidised power production will be established in Norway and Sweden in the period 2012–2020. The running costs of production in existing plants, with the exception of gas power plants, are low, so this production will be maintained even at very low system prices. This development will apply pressure to power prices, since there is a limit to the extent to which fossil fuel and other energy carriers can be replaced by electricity in the medium term. Prices for forward contracts in the Nord Pool area indicate that next year's power prices will be approximately unchanged from this year's prices. Given our assumptions about grid charges, electricity taxes and green certificates, power prices will increase somewhat more than general price inflation in 2014. After that we assume that power prices as a whole will rise a little more slowly than general inflation as a result of system prices falling somewhat. Coupled with an expected fall in oil prices, this will result in CPI inflation that is somewhat lower than CPI-ATE inflation for the remainder of the projection period.

We have assumed that the thrust of the agricultural settlement will remain the same as in this year's settlement through the projection period. Given the assumptions made concerning developments in wages, import prices and exchange rates, the near-term rise in prices for food and alcoholic beverages term will be approximately the same as this year. The Fiscal Budget's tax programme has been incorporated for 2014. In 2014, tax on mineral oil will be sharply increased and push up the CPI by almost 0.1 percentage point. Volume-based taxes are as usual assumed to be adjusted for inflation in subsequent years.

The import-weighted krone exchange rate is now at a far weaker level than in our previous projections. Although wage growth is a bit lower due to a slightly weaker economic situation, the rise in prices for imported products will contribute to increased inflation in the near term. However, it will take time before the full effect of higher import prices is reflected in higher consumer prices. This applies in particular to effects that arise through prices for material inputs and investments. According to our calculations, the rise in the CPI-ATE will be 1.6 per cent as an annual average in 2013. Thereafter, CPI-ATE inflation is expected to increase to 2.1 per cent in 2014. Low international inflation and a stable krone exchange rate will subsequently contribute to keeping inflation unchanged in 2015, before higher wage growth and other domestic factors push inflation up to 2.3 per cent in 2016. Given our assumptions about developments in energy prices and indirect taxes, CPI inflation will be slightly lower than CPI-ATE inflation in 2015 and 2016.

Table 3. **National accounts: Final expenditure and gross domestic product. At constant 2011 prices. Million kroner**

	Unadjusted		Seasonally adjusted						
	2011	2012	12.1	12.2	12.3	12.4	13.1	13.2	13.3
Final consumption expenditure of households and NPISHs	1 130 176	1 163 689	287 794	291 097	293 087	294 073	297 080	297 758	297 941
Household final consumption expenditure	1 076 920	1 109 433	274 099	277 613	279 591	280 506	283 494	284 017	284 170
Goods	542 760	554 323	137 290	139 786	139 803	139 763	141 831	141 705	139 894
Services	494 385	509 682	125 815	126 795	128 296	128 776	129 534	130 192	131 259
Direct purchases abroad by resident households	69 522	76 268	18 661	18 776	19 175	19 703	19 845	19 997	21 002
Direct purchases by non-residents	-29 747	-30 841	-7 667	-7 744	-7 683	-7 736	-7 716	-7 877	-7 986
Final consumption expenditure of NPISHs	53 256	54 256	13 696	13 485	13 496	13 567	13 586	13 741	13 771
Final consumption expenditure of general government	592 080	602 683	148 734	150 222	151 749	151 955	152 608	153 341	154 114
Final consumption expenditure of central government	299 483	304 762	75 187	76 002	76 638	76 927	77 246	77 520	77 786
Central government, civilian	261 168	266 268	65 619	66 419	66 975	67 251	67 467	67 703	67 923
Central government, defence	38 315	38 493	9 568	9 583	9 663	9 676	9 779	9 817	9 863
Final consumption expenditure of local government	292 597	297 921	73 546	74 220	75 110	75 029	75 362	75 822	76 328
Gross fixed capital formation	539 299	583 849	141 640	142 671	146 782	152 588	149 915	157 092	156 381
Extraction and transport via pipelines	144 960	166 092	39 560	41 166	41 379	43 972	44 579	48 309	49 047
Service activities incidential to extraction	-888	2 765	395	331	958	1081	-474	1182	829
Ocean transport	20 694	23 724	6 434	5 382	5 346	6 629	6 340	7 073	6 258
Mainland Norway	374 533	391 268	95 252	95 793	99 099	100 905	99 470	100 527	100 246
Mainland Norway excluding general government	288 126	305 178	73 692	74 941	77 614	78 789	77 849	79 790	78 509
Industries	167 584	175 817	43 527	43 251	44 063	44 863	43 367	45 629	44 003
Manufacturing and mining	22 804	23 515	5 757	6 046	5 375	6 419	5 797	6 341	5 835
Production of other goods	42 394	44 573	11 163	10 705	10 955	11 577	11 266	11 565	11 045
Services	102 386	107 729	26 606	26 499	27 733	26 867	26 304	27 723	27 123
Dwellings (households)	120 542	129 361	30 165	31 690	33 551	33 926	34 482	34 161	34 505
General government	86 407	86 090	21 560	20 852	21 485	22 116	21 621	20 737	21 738
Changes in stocks and statistical discrepancies	114 126	110 659	28 045	28 331	25 719	24 443	24 421	19 739	29 461
Gross capital formation	653 425	694 507	169 686	171 002	172 501	177 030	174 336	176 831	185 842
Final domestic use of goods and services	2 375 681	2 460 880	606 214	612 321	617 336	623 059	624 025	627 930	637 897
Final demand from Mainland Norway	2 096 789	2 157 640	531 780	537 112	543 935	546 934	549 158	551 627	552 301
Final demand from general government	678 487	688 773	170 293	171 074	173 234	174 071	174 229	174 079	175 852
Total exports	1 153 619	1 165 804	297 640	298 741	284 774	284 784	280 878	283 657	284 052
Traditional goods	316 248	321 677	79 995	80 549	80 378	80 453	81 485	81 264	79 653
Crude oil and natural gas	568 428	572 367	149 386	149 063	137 913	136 360	131 799	135 291	137 422
Ships, oil platforms and planes	13 618	8 765	1 889	3 116	2 302	1 456	1 888	1 610	2 301
Services	255 325	262 994	66 370	66 013	64 181	66 515	65 706	65 491	64 676
Total use of goods and services	3 529 300	3 626 684	903 853	911 062	902 110	907 843	904 902	911 587	921 949
Total imports	778 520	796 233	196 476	199 224	198 753	201 662	201 590	199 765	205 052
Traditional goods	471 100	482 523	120 232	119 315	121 246	121 590	123 307	122 219	124 379
Crude oil and natural gas	13 587	14 206	3 440	4 697	3 008	2 969	4 030	3 307	4 638
Ships, oil platforms and planes	32 053	26 330	5 993	6 651	6 216	7 565	6 257	5 760	5 572
Services	261 780	273 174	66 811	68 561	68 284	69 538	67 997	68 478	70 462
Gross domestic product (market prices)	2 750 780	2 830 451	707 377	711 838	703 357	706 181	703 312	711 823	716 898
Gross domestic product Mainland Norway (market prices)	2 075 197	2 146 145	530 596	534 627	539 302	540 324	542 804	544 647	547 245
Petroleum activities and ocean transport	675 583	684 305	176 781	177 211	164 055	165 857	160 508	167 176	169 653
Mainland Norway (basic prices)	1 780 143	1 842 887	456 436	458 890	462 209	463 544	465 655	467 852	469 853
Mainland Norway excluding general government	1 350 177	1 403 632	347 489	349 569	352 027	352 748	354 367	356 071	357 506
Manufacturing and mining	185 569	190 639	47 241	47 151	48 028	47 833	48 170	49 563	50 230
Production of other goods	225 572	243 959	60 971	61 668	60 781	60 633	61 253	61 798	62 235
Services incl. dwellings (households)	939 036	969 034	239 277	240 750	243 218	244 282	244 944	244 710	245 042
General government	429 966	439 255	108 948	109 321	110 183	110 797	111 288	111 780	112 347
Taxes and subsidies products	295 054	303 258	74 159	75 737	77 092	76 780	77 149	76 795	77 392

Source: Statistics Norway.

Table 4. **National accounts: Final expenditure and gross domestic product. At constant 2011 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted						
	2011	2012	12.1	12.2	12.3	12.4	13.1	13.2	13.3
Final consumption expenditure of households and NPISHs	2.6	3.0	0.7	1.1	0.7	0.3	1.0	0.2	0.1
Household final consumption expenditure	2.6	3.0	0.7	1.3	0.7	0.3	1.1	0.2	0.1
Goods	1.6	2.1	0.1	1.8	0.0	0.0	1.5	-0.1	-1.3
Services	2.6	3.1	1.0	0.8	1.2	0.4	0.6	0.5	0.8
Direct purchases abroad by resident households	9.4	9.7	3.4	0.6	2.1	2.8	0.7	0.8	5.0
Direct purchases by non-residents	1.9	3.7	2.5	1.0	-0.8	0.7	-0.3	2.1	1.4
Final consumption expenditure of NPISHs	4.1	1.9	1.6	-1.5	0.1	0.5	0.1	1.1	0.2
Final consumption expenditure of general government	1.1	1.8	0.3	1.0	1.0	0.1	0.4	0.5	0.5
Final consumption expenditure of central government	0.1	1.8	0.3	1.1	0.8	0.4	0.4	0.4	0.3
Central government, civilian	0.1	2.0	0.6	1.2	0.8	0.4	0.3	0.3	0.3
Central government, defence	0.4	0.5	-1.7	0.2	0.8	0.1	1.1	0.4	0.5
Final consumption expenditure of local government	2.2	1.8	0.3	0.9	1.2	-0.1	0.4	0.6	0.7
Gross fixed capital formation	7.7	8.3	3.4	0.7	2.9	4.0	-1.8	4.8	-0.5
Extraction and transport via pipelines	11.3	14.6	5.7	4.1	0.5	6.3	1.4	8.4	1.5
Service activities incidential to extraction	..	..	-271.5	-16.3	189.8	12.9	-143.8	-349.5	-29.8
Ocean transport	22.4	14.6	12.6	-16.4	-0.7	24.0	-4.4	11.6	-11.5
Mainland Norway	6.3	4.5	1.3	0.6	3.5	1.8	-1.4	1.1	-0.3
Mainland Norway excluding general government	7.5	5.9	0.5	1.7	3.6	1.5	-1.2	2.5	-1.6
Industries	2.3	4.9	2.1	-0.6	1.9	1.8	-3.3	5.2	-3.6
Manufacturing and mining	9.2	3.1	-6.1	5.0	-11.1	19.4	-9.7	9.4	-8.0
Production of other goods	6.1	5.1	3.9	-4.1	2.3	5.7	-2.7	2.7	-4.5
Services	-0.5	5.2	3.3	-0.4	4.7	-3.1	-2.1	5.4	-2.2
Dwellings (households)	16.1	7.3	-1.8	5.1	5.9	1.1	1.6	-0.9	1.0
General government	2.2	-0.4	4.4	-3.3	3.0	2.9	-2.2	-4.1	4.8
Changes in stocks and statistical discrepancies	-2.6	-3.0	-23.6	1.0	-9.2	-5.0	-0.1	-19.2	49.3
Gross capital formation	5.8	6.3	-2.3	0.8	0.9	2.6	-1.5	1.4	5.1
Final domestic use of goods and services	3.1	3.6	-0.2	1.0	0.8	0.9	0.2	0.6	1.6
Final demand from Mainland Norway	2.8	2.9	0.7	1.0	1.3	0.6	0.4	0.4	0.1
Final demand from general government	1.3	1.5	0.8	0.5	1.3	0.5	0.1	-0.1	1.0
Total exports	-0.7	1.1	4.2	0.4	-4.7	0.0	-1.4	1.0	0.1
Traditional goods	-0.1	1.7	3.4	0.7	-0.2	0.1	1.3	-0.3	-2.0
Crude oil and natural gas	-5.6	0.7	8.3	-0.2	-7.5	-1.1	-3.3	2.6	1.6
Ships, oil platforms and planes	54.6	-35.6	-27.2	65.0	-26.1	-36.8	29.7	-14.7	42.9
Services	5.9	3.0	-2.0	-0.5	-2.8	3.6	-1.2	-0.3	-1.2
Total use of goods and services	1.9	2.8	1.2	0.8	-1.0	0.6	-0.3	0.7	1.1
Total imports	3.8	2.3	-1.5	1.4	-0.2	1.5	0.0	-0.9	2.6
Traditional goods	4.1	2.4	0.7	-0.8	1.6	0.3	1.4	-0.9	1.8
Crude oil and natural gas	-7.7	4.6	4.7	36.5	-36.0	-1.3	35.7	-17.9	40.2
Ships, oil platforms and planes	6.0	-17.9	23.7	11.0	-6.5	21.7	-17.3	-7.9	-3.3
Services	3.7	4.4	-7.0	2.6	-0.4	1.8	-2.2	0.7	2.9
Gross domestic product (market prices)	1.3	2.9	1.9	0.6	-1.2	0.4	-0.4	1.2	0.7
Gross domestic product Mainland Norway (market prices)	2.6	3.4	1.2	0.8	0.9	0.2	0.5	0.3	0.5
Petroleum activities and ocean transport	-3.0	1.3	4.4	0.2	-7.4	1.1	-3.2	4.2	1.5
Mainland Norway (basic prices)	2.4	3.5	1.4	0.5	0.7	0.3	0.5	0.5	0.4
Mainland Norway excluding general government	2.6	4.0	1.7	0.6	0.7	0.2	0.5	0.5	0.4
Manufacturing and mining	1.5	2.7	0.7	-0.2	1.9	-0.4	0.7	2.9	1.3
Production of other goods	2.8	8.2	4.1	1.1	-1.4	-0.2	1.0	0.9	0.7
Services incl. dwellings (households)	2.8	3.2	1.2	0.6	1.0	0.4	0.3	-0.1	0.1
General government	1.9	2.2	0.7	0.3	0.8	0.6	0.4	0.4	0.5
Taxes and subsidies products	3.3	2.8	-0.4	2.1	1.8	-0.4	0.5	-0.5	0.8

Source: Statistics Norway..

Table 5. **National accounts: Final expenditure and gross domestic product. Price indices. 2011=100**

	Unadjusted		Seasonally adjusted						
	2011	2012	12.1	12.2	12.3	12.4	13.1	13.2	13.3
Final consumption expenditure of households and NPISHs	100.0	101.1	101.2	100.4	100.6	101.6	102.2	102.9	104.3
Final consumption expenditure of general government	100.0	103.0	101.8	102.7	102.9	104.4	106.5	107.0	107.8
Gross fixed capital formation	100.0	103.3	101.8	102.7	103.7	104.8	106.3	107.3	108.6
Mainland Norway	100.0	103.2	101.7	102.7	103.8	104.8	106.5	107.8	109.2
Final domestic use of goods and services	100.0	102.5	101.9	102.5	102.2	103.4	105.3	105.7	106.3
Final demand from Mainland Norway	100.0	102.0	101.5	101.4	101.8	103.0	104.2	104.9	106.2
Total exports	100.0	102.0	104.2	101.0	100.9	102.0	100.6	101.3	104.7
Traditional goods	100.0	96.4	98.3	96.0	94.9	96.8	96.7	98.7	99.6
Total use of goods and services	100.0	102.3	102.7	102.0	101.8	103.0	103.8	104.3	105.8
Total imports	100.0	100.7	100.6	101.3	100.1	101.7	101.1	102.9	103.4
Traditional goods	100.0	100.6	100.5	100.7	100.5	101.0	100.1	101.4	103.1
Gross domestic product (market prices)	100.0	102.8	103.2	102.2	102.3	103.4	104.6	104.7	106.5
Gross domestic product Mainland Norway (market prices)	100.0	102.1	101.1	101.7	102.1	103.4	104.9	105.8	106.6

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted						
	2011	2012	12.1	12.2	12.3	12.4	13.1	13.2	13.3
Final consumption expenditure of households and NPISHs	1.0	1.1	1.3	-0.8	0.2	1.0	0.6	0.7	1.4
Final consumption expenditure of general government	4.9	3.0	-0.4	0.9	0.2	1.5	2.0	0.4	0.7
Gross fixed capital formation	3.9	3.3	-0.7	0.9	1.0	1.0	1.5	0.9	1.3
Mainland Norway	3.7	3.2	-0.3	1.0	1.1	1.0	1.7	1.2	1.3
Final domestic use of goods and services	2.9	2.5	1.1	0.6	-0.3	1.2	1.8	0.3	0.6
Final demand from Mainland Norway	2.6	2.0	0.5	0.0	0.4	1.1	1.2	0.7	1.2
Total exports	12.8	2.0	0.4	-3.1	-0.2	1.1	-1.4	0.7	3.3
Traditional goods	5.8	-3.6	-1.7	-2.4	-1.2	2.0	0.0	2.0	1.0
Total use of goods and services	5.9	2.3	0.9	-0.6	-0.2	1.2	0.8	0.4	1.4
Total imports	3.2	0.7	-0.1	0.6	-1.2	1.6	-0.5	1.7	0.5
Traditional goods	4.0	0.6	0.1	0.2	-0.2	0.4	-0.9	1.3	1.7
Gross domestic product (market prices)	6.7	2.8	1.2	-1.0	0.1	1.1	1.2	0.1	1.7
Gross domestic product Mainland Norway (market prices)	1.8	2.1	0.3	0.7	0.4	1.2	1.5	0.9	0.7

Source: Statistics Norway.

Table 7. **Main economic indicators 2003-2016. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

											Forecasts			
	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*	2013	2014	2015	2016
Demand and output														
Consumption in households etc.	3.2	5.4	4.4	5.0	5.4	1.8	0.0	3.8	2.6	3.0	2.3	2.3	3.6	3.9
General government consumption	1.3	1.2	1.4	1.9	2.7	2.7	4.3	1.3	1.1	1.8	2.0	2.4	2.4	2.2
Gross fixed investment	0.8	11.1	13.5	9.8	11.4	0.2	-7.5	-8.0	7.7	8.3	6.4	2.5	2.0	3.9
Extraction and transport via pipelines	15.9	10.4	19.2	4.0	6.1	5.2	3.4	-9.5	11.3	14.6	15.8	4.8	0.4	1.6
mainland Norway	-2.9	10.6	12.2	10.5	13.3	-1.3	-13.2	-4.5	6.3	4.5	2.7	1.7	2.9	5.2
Industries	-11.2	10.6	18.6	15.2	21.9	0.8	-23.1	-5.1	2.3	4.9	1.0	3.3	4.5	4.3
Housing	1.8	16.3	9.7	4.0	2.7	-9.0	-8.2	-1.6	16.1	7.3	6.4	-2.5	-2.9	5.8
General government	12.5	3.9	2.0	9.7	8.0	4.5	7.4	-6.8	2.2	-0.4	0.6	5.3	8.0	6.3
Demand from Mainland Norway[1]	1.6	5.1	4.9	5.2	6.3	1.4	-1.6	1.5	2.8	2.9	2.3	2.2	3.1	3.7
Stockbuilding[2]	-1.1	2.3	-0.1	1.1	-0.2	-0.1	-2.8	3.5	-0.1	-0.1	-0.4	0.0	0.0	0.0
Exports	-0.1	1.0	0.5	-0.8	1.4	0.1	-4.2	0.4	-0.7	1.1	-2.5	2.3	1.6	2.1
Crude oil and natural gas	-0.8	-0.7	-5.0	-6.6	-2.4	-1.3	-2.0	-6.9	-5.6	0.7	-5.3	2.3	-0.1	0.4
Traditional goods	3.7	3.6	5.3	6.1	9.2	3.5	-8.0	3.4	-0.1	1.7	0.8	1.2	3.2	3.9
Imports	1.2	9.7	7.9	9.1	10.0	3.9	-12.5	9.0	3.8	2.3	2.2	2.9	4.2	4.6
Traditional goods	5.7	12.8	8.4	11.6	7.2	1.2	-12.9	9.1	4.1	2.4	2.0	1.4	3.8	4.6
Gross domestic product	1.0	4.0	2.6	2.3	2.7	0.1	-1.6	0.5	1.3	2.9	0.7	2.1	1.9	2.5
Mainland Norway	1.3	4.5	4.4	4.8	5.3	1.5	-1.6	1.7	2.6	3.4	1.8	2.1	2.5	3.1
Manufacturing	2.9	5.1	3.9	2.6	3.5	2.9	-7.4	2.4	1.5	2.7	3.4	3.3	2.8	3.7
Labour market														
Total hours worked, Mainland Norway	-2.1	1.9	1.5	3.3	4.3	3.5	-2.3	0.0	1.8	1.9	0.8	1.1	1.2	1.5
Employed persons	-1.2	0.5	1.3	3.5	4.1	3.3	-0.4	-0.5	1.6	2.2	1.4	0.9	0.9	1.4
Labor force[3]	-0.1	0.3	0.8	1.6	2.5	3.4	0.0	0.5	1.0	1.8	1.0	1.1	1.2	1.4
Participation rate (level)[3]	72.9	72.6	72.4	72.0	72.8	73.9	72.8	71.9	71.4	71.5	71.3	71.0	70.9	70.9
Unemployment rate (level)[3]	4.5	4.5	4.6	3.4	2.5	2.6	3.2	3.6	3.3	3.2	3.5	3.6	3.7	3.6
Prices and wages														
Wages per standard man-year	4.5	3.5	3.3	4.1	5.4	6.3	4.2	3.7	4.2	4.0	3.9	3.6	3.6	3.9
Consumer price index (CPI)	2.5	0.4	1.6	2.3	0.8	3.8	2.1	2.5	1.2	0.8	2.1	2.0	2.0	2.2
CPI-ATE[4]	..	0.4	1.0	0.8	1.4	2.6	2.6	1.4	0.9	1.2	1.6	2.1	2.1	2.3
Export prices, traditional goods	-1.0	8.4	4.0	11.3	2.4	2.8	-6.0	4.5	5.8	-3.6	2.3	2.0	1.2	1.7
Import prices, traditional goods	0.0	3.7	0.3	4.0	3.7	3.9	-1.5	0.1	4.0	0.6	1.8	2.9	1.4	1.8
Housing prices[5]	1.7	10.1	8.2	13.7	12.6	-1.1	1.9	8.3	8.0	6.7	3.9	-2.2	2.7	4.6
Income, interest rates and excange rate														
Household real income	4.6	3.3	7.8	-6.4	6.3	4.0	4.1	2.7	4.6	3.2	2.5	2.6	3.5	3.8
Household saving ratio (level)	9.0	7.0	9.8	-0.5	0.9	3.8	7.1	5.8	7.8	8.6	8.7	9.2	9.1	8.9
Money market rate (level)	4.1	2.0	2.2	3.1	5.0	6.2	2.5	2.5	2.9	2.2	1.8	1.7	1.8	2.5
Lending rate, credit loans(level)[6]	6.5	4.2	3.9	4.3	5.0	6.8	4.0	3.4	3.6	3.9	4.0	4.1	4.0	4.2
Real after-tax lending rate, banks (level)	2.2	2.5	1.3	0.7	2.9	1.1	0.7	0.1	1.3	2.1	0.7	0.9	0.9	0.8
Importweighted krone exchange rate (44 countries)[7]	1.3	3.0	-3.9	0.7	-1.8	0.0	3.3	-3.7	-2.4	-1.2	2.0	2.1	0.0	0.0
NOK per euro (level)	8.0	8.4	8.0	8.1	8.0	8.2	8.7	8.0	7.8	7.5	7.8	8.1	8.1	8.1
Current account														
Current balance (bill. NOK)	195.2	220.6	322.8	357.7	287.4	408.3	279.3	303.2	372.2	417.2	352.2	330.3	268.3	228.1
Current balance (per cent of GDP)	12.3	12.6	16.5	16.4	12.5	16.0	11.7	11.9	13.5	14.3	11.7	10.6	8.4	6.9
International indicators														
Exports markets indicator	-7.6	7.7	7	9.6	5.7	1.1	-10.3	11	5.5	1.4	1.3	3.3	4.5	6.0
Consumer price index, euro-area	2.1	2.1	2.2	2.2	2.2	3.3	0.3	1.7	2.7	2.5	1.3	0.6	1.0	1.6
Money market rate, euro(level)	2.3	2.1	2.2	3.1	4.3	4.6	1.2	0.8	1.4	0.5	0.2	0.2	0.5	0.9
Crude oil price NOK (level)[8]	201	255	356	423	423	536	388	484	621	649	634	593	545	543

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[2] Change in stockbuilding. Per cent of GDP.
[3] According to Statistics Norway›s labour force survey(LFS). Break in data series in 2006.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Break in data series in 2004.
[6] Yearly average. Lending rate, banks until 2006
[7] Increasing index implies depreciation.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 4 December 2013.