

## Economic trends

The global economic downturn appears to have reversed. In the USA and the euro area, GDP fell substantially less in the second quarter than in the preceding quarters, and national accounts figures for the third quarter show clear growth. In parts of Asia, the upswing began as early as this spring. An active counter-cyclical policy in most countries has contributed to the improvement that appears to be taking place in the global economy. Financial market uncertainty has lessened and risk premiums have fallen, but the upturn is fragile, and negative events have an unusually strong impact on foreign exchange rates and stock market prices.

In the Norwegian economy, mainland GDP growth dropped below trend at the beginning of 2009. Although mainland output increased in both the second and the third quarter according to quarterly national accounts (QNA) figures, growth remained clearly weaker than trend. The halt in the fall in household consumption, partly attributable to an expansionary monetary policy, made an important contribution to the turnaround in output. At the same time, general government spending is increasing strongly as a result of a more expansionary fiscal policy.

Despite the sharp cyclical downturn, unemployment has not increased much in Norway, and substantially less than in surrounding countries that are also affected by the financial crisis. Norway's counter-cyclical policy is more robust than that of most other countries. Petroleum activities have also contributed to stabilising the Norwegian economy during this period. The financial crisis caused the krone to weaken sharply against the euro, which reduced the pressure on the internationally exposed business sector compared with euro area countries. The increase in unemployment has also been countered by the fact that many labour migrants working on short-term contracts returned to their home countries in response to the downturn in the Norwegian economy, with the result that unemployment is increasing less than during previous cyclical downturns. The increased numbers opting for higher education, which is typical of a Norwegian downturn, reduce the labour supply and hence unemployment in the short term.

However, the depreciation of the krone in autumn 2008 contributed to appreciably higher underlying consumer price inflation in Norway than among our trading partners. The inflation rate has nonetheless remained close to the inflation target. Underlying inflation has been very low since summer 2009. The strengthening of the krone through 2009 and into 2010 implies that price impulses from imported goods and services will wane. Wage growth is now slowing as a result of the weaker economic situation and low inflation. This will continue into 2010, further reducing the inflation rate.

Although the pessimism prevailing both in Norway and abroad since autumn 2008 has now lessened, it is still too early to regard the financial crisis and its effects on the economy as over. If the positive developments are to continue, enterprises and households must make a greater contribution to economic growth, as further stimulation cannot be expected from economic policy. Our projections are based on the assumption that global growth will pick up somewhat in the period ahead, but at a more moderate pace than in a traditional recovery. This is because global financial crises are normally followed by moderate upturns. With continued weak investment in Norway, a high cost level and a gradually stronger krone, manufacturing companies are not receiving strong enough impetus to generate any substantial growth in the internationally exposed sector in 2010.

Economic policy is promoting consumption growth, and growth in the mainland economy will pick up somewhat through 2010. When the fall in housing investment comes to a halt next year, the slump in the building industry will level off. Mainland GDP growth is therefore projected to rise gradually to trend growth or higher in 2011. According to our projections, the level of GDP will remain below trend until the end of 2012.

# Cyclical developments in Norway

The Norwegian economy has been in a severe cyclical downturn for almost two years, and mainland GDP dropped below trend early in 2009. According to preliminary quarterly national accounts (QNA) figures, the fall in mainland output came to a halt in the second quarter of this year. The third quarter QNA figures show that mainland economic growth remains weaker than trend growth, but only slightly. In the summer half year, household consumption rose by about 4½ per cent as an annualised rate, and this is an important factor underlying more positive developments in output.

However, housing investment continues to fall sharply, as does mainland business investment. In the third quarter, a turnaround in traditional goods exports contributed to more positive developments. Also important for the turnaround in output is the sharp rise in general government spending since the shift in fiscal policy in the first half of this year. The change in household consumption is also due to an expansionary monetary policy, primarily in the form of low interest rates.

Table 1. **Macroeconomic indicators 2007-2009. Growth from previous period unless otherwise noted. Per cent**

	2007*	2008*	Seasonally adjusted			
			08:4	09:1	09:2	09:3
<b>Demand and output</b>						
Consumption in households etc.	5.4	1.3	-0.9	-0.3	1.1	1.1
General government consumption	3.0	4.1	0.8	2.3	1.8	1.2
Gross fixed investment	12.5	1.4	-1.1	-5.0	-0.5	-4.8
Mainland Norway	15.7	1.0	-2.5	-9.1	1.1	-4.0
Extraction and transport via pipelines	6.3	3.7	1.7	12.3	-8.2	-7.7
Final domestic demand from Mainland Norway <sup>1</sup>	6.7	1.9	-0.8	-1.5	1.3	0.1
Exports	2.3	0.9	2.3	-4.6	-2.9	4.6
Crude oil and natural gas	-2.4	-2.0	6.7	-3.0	-4.4	6.3
Traditional goods	8.5	4.3	-4.9	-7.1	-0.8	6.6
Imports	8.6	2.2	-5.8	-7.8	1.5	-0.8
Traditional goods	8.2	-0.4	-7.9	-6.1	-0.8	1.4
Gross domestic product	2.7	1.8	0.0	-0.7	-0.9	0.9
Mainland Norway	5.6	2.2	-1.3	-0.9	0.3	0.5
<b>Labour market</b>						
Man-hours worked	4.4	3.4	-0.6	-0.7	-0.2	-0.5
Employed persons	4.1	3.1	-0.2	-0.4	-0.4	-0.4
Labour force <sup>2</sup>	2.5	3.4	0.3	0.0	0.1	-0.9
Unemployment rate, level <sup>2</sup>	2.5	2.6	2.9	3.1	3.1	3.1
<b>Prices and wages</b>						
Wages per standard man-year <sup>3</sup>	5.5	6.0	6.4	5.6	4.8	3.7
Consumer price index (CPI) <sup>3</sup>	0.8	3.8	3.6	2.4	3.1	1.8
CPI adjusted for tax changes and excluding energy products (CPI-ATE) <sup>3</sup>	1.4	2.6	2.9	2.8	3.0	2.4
Export prices, traditional goods	2.7	2.4	-3.2	-6.6	-1.0	3.4
Import prices, traditional goods	4.0	4.6	2.3	-2.1	-2.0	-0.3
<b>Balance of payment</b>						
Current balance, bill. NOK	320.5	472.8	140.8	67.4	93.3	83.0
<b>Memorandum items (unadjusted level)</b>						
Money market rate (3 month NIBOR)	5.0	6.2	6.0	3.5	2.5	1.9
Lending rate, banks <sup>4</sup>	5.7	7.3	7.5	6.3	4.8	4.3
Crude oil price NOK <sup>5</sup>	422.2	536.4	385.3	313.4	386.8	421.2
Importweighted krone exchange rate, 44 countries, 1995=100	90.8	90.8	98.4	96.1	95.1	94.1
NOK per euro	8.02	8.22	8.92	8.95	8.84	8.74

<sup>1</sup> Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.

<sup>2</sup> According to Statistics Norway's labour force survey (LFS).

<sup>3</sup> Percentage change from the same period the previous year.

<sup>4</sup> Period averages.

<sup>5</sup> Average spot price. Brent Blend.

Source: Statistics Norway and Norges Bank.

The effects of the shift in economic policy for mainland GDP growth were evident in the third quarter. We believe that the recovery will accelerate slightly more in the period ahead. However, weak investment developments will have a dampening effect on growth, particularly in 2010. The upswing in traditional exports is partly a recovery effect, and cannot be interpreted as a transition to persistent high growth in the period ahead. Nor will economic policy boost growth in 2010 as it has done in 2009.

Despite the sharp economic downturn, unemployment has hardly shown any increase. Unemployment in 2009 measured by Statistics Norway's Labour Force Survey (LFS) was lower than unemployment in 2006, which was 3.4 per cent. According to our projections, we will not pass the level in 2006 until next year. Developments in Norway are distinctly different from surrounding countries that are also affected by the financial crisis, for several reasons. Economic policy stimulus is relatively strong in Norway, which helps to curb the rise in unemployment. Increased labour market flexibility as a result of high inward labour migration during the economic boom, and a clear fall in net inward labour migration in 2009, are also contributory factors. The fact that more young people opt for higher education during downturns also curbs the rise in unemployment.

In autumn 2008, the financial crisis caused a sharp depreciation of the krone. This eased the pressure on the internationally exposed business sector, but could not entirely compensate for the fall in demand in global markets. As a result of the weakened krone, however, underlying consumer price inflation has been appreciably higher in Norway than among trading partners. The inflation rate has nonetheless remained close to target since autumn 2008. This past autumn the krone has appreciated and consumer price inflation has slowed markedly. These factors, coupled with lower domestic cost inflation, are grounds for expecting substantially lower inflation in 2010 than the average for 2009.

The pessimism surrounding developments both in Norway and abroad since autumn 2008 has lessened considerably, but it is still too early to regard the financial crisis as over. Banks still have large unrealised losses, and government debt in many countries is now growing so rapidly that their current fiscal policy is not sustainable. Recent developments in Dubai show the uncertainty of global developments, and that negative news concerning the soundness of financial institutions receives greater attention than would be the case under more normal circumstances. If current crisis measures worldwide were to be reversed too rapidly, global economic growth would be weaker in the period ahead than in the scenario we regard as the most probable. This would also contribute to lower growth in the Norwegian economy.

However, we assume in our projections that global growth will pick up somewhat in the immediate future,

albeit not to the extent of a traditional cyclical upturn. Even a moderate upturn will generate positive impulses to the export-oriented business sector in the form of both increased demand and higher world market prices. This will bring the fall in manufacturing output to a halt and prompt manufacturing activity to increase after 2010. However, continued weak investment developments in Norway combined with a gradually stronger krone mean that internationally exposed enterprises will not display any appreciable growth in the period ahead. Economic policy will boost consumption growth, which in turn will cause mainland economic growth to pick up through 2010. When the fall in housing investment comes to a halt next year, the slowdown in the building industry will level off. Mainland GDP growth is projected to rise to trend in the course of 2011. We expect a certain tightening of economic policy, particularly in 2011. Our projections indicate that GDP will remain below trend through 2012.

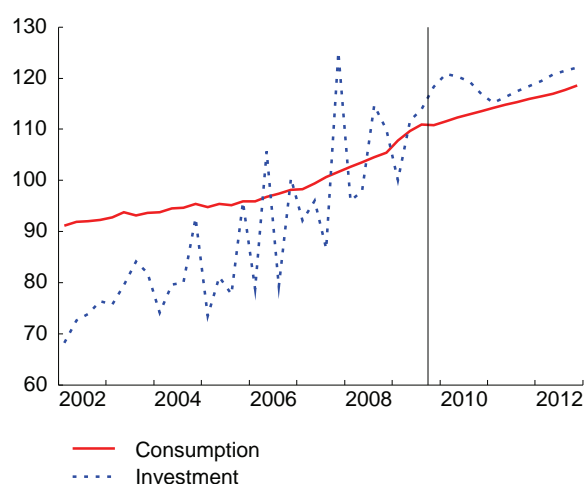
### **Weaker impetus from fiscal policy**

In two rounds in the first half of the year, fiscal policy for 2009 was made considerably more expansionary than in the budget adopted for 2009. First came Proposition no. 37 (2008-2009) to the Storting Changes in the Government Budget for 2009 with measures to secure employment, in which the Government proposed increased allocations to both consumption and investment in addition to the revision of some tax programmes. This was followed by the Revised National Budget for 2009, in which the Government promoted further expansionary measures. In the recently submitted final central government budget bill for 2009, the expansionary impetus of policy for 2009 has been revised downward somewhat compared to previously, but the impulse is 2.7 per cent of mainland trend GDP, the strongest since the 1970s.

The preliminary QNA figures show strong growth in general government consumption, in line with policy as discussed above. Growth is distributed evenly between central and local government. We now estimate that growth in general government consumption in 2009 as a whole will be 5.6 per cent. Gross general government investment varies more from quarter to quarter as a result of major variations in Armed Forces investment, but underlying investment growth adjusted for this factor is almost double the growth in consumption. We now estimate overall general government investment growth from 2008 to 2009 at almost 10 per cent. Overall growth in government spending on goods and services appears likely to be 6.2 per cent in 2009. In the recently submitted Final Budget Bill, underlying real spending growth in the government budget for 2009 was forecast to be 6½ per cent. Strong growth in transfers to households contributes to pushing up the real growth in overall expenditure.

Our fiscal policy projections for next year are based on the figures in the National Budget for 2010 (NB2010). The projections in NB2010 imply a slight increase on

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



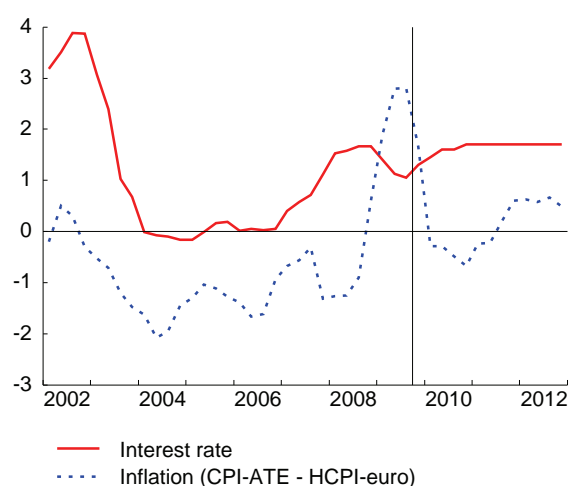
Source: Statistics Norway.

2009 in the expansionary effect of fiscal policy measured by the structural non-oil budget deficit. Calculated as a share of trend mainland GDP, this deficit will increase by just over half a percentage point from 2009 to 2010 according to NB2010. This means that the growth impetus provided by fiscal policy will be less expansionary in 2010 than in 2009. From a macroeconomic point of view there are minor changes in tax rates. Nominal indirect tax rates have been revised upward by 1.8 per cent on the whole, while personal taxation rates have increased by 3.5 per cent across the board. These figures are incorporated in our projections for 2010. A number of changes have been made in wealth taxation but these will not have major macroeconomic effects in 2010.

Our projection for growth in general government consumption is slightly higher than the projection in NB2010. We believe that this growth will be 2.7 per cent next year. The Government has a somewhat higher projection for growth in general government investment in NB2010 than we assumed for 2009. Given the possibility of transferring funds to 2010, we believe that there may be growth in general government investment also in 2010. The projections for the investment level in 2010 are fairly similar, however. The projections for 2010 are also influenced by the fact that from autumn 2009 and to the end of 2011 the Norwegian Armed Forces are to purchase new helicopters and transport aircraft at a total cost of almost NOK 10 billion. The Armed Forces will receive their last frigate in 2010. This accounts for the fall in public sector investment from 2010 to 2011, but non-military investment is expected to increase slightly in 2011.

Fiscal policy for 2011 is expected to continue generating positive impulses on a similar level to a policy that abides by the 4 per cent rule. On the other hand, we anticipate that there will be a certain tightening compared with 2010 through slower growth in public expenditure

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



Source: Norges Bank and Statistics Norway.

than previously. General government consumer spending is expected to grow somewhat less than estimated trend growth in the Norwegian economy, while investment will be reduced slightly. Our assumptions are based on direct and indirect taxes adjusted for inflation.

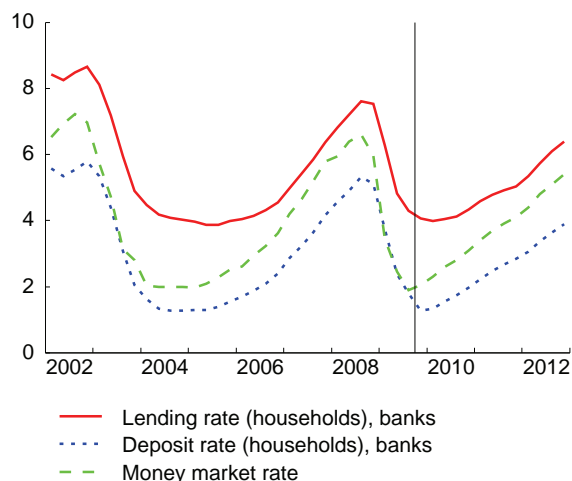
Fiscal policy is expected to be tightened slightly in 2012 as economic growth picks up somewhat again through 2011 and into 2012. The objective that budget deficits should be in line with the fiscal rule also leads us to believe that policy will be tightened somewhat. An increase in capital in the Government Pension Fund – Global, coupled with our other projections means that the structural non-oil budget deficit may lie close to the 4 per cent fiscal rule scenario in 2012. According to our projections, the Norwegian economy will be in an almost cyclically neutral state at the end of our projection period, which also implies a fiscal policy that does not deviate substantially from the fiscal rule.

### Gradually rising interest rate

Norges Bank's setting of interest rates is aimed at stabilising inflation at 2.5 per cent while promoting stable developments in output and employment. Inflation measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 2.1 per cent in October. The global financial crisis and the sombre economic outlook prompted Norges Bank to reduce the key policy rate sharply. Whereas the key rate was 5.75 per cent in October 2008, in June this year it was cut to 1.25 per cent. Slightly brighter prospects led to Norges Bank raising the key rate by 0.25 percentage point at the monetary policy meeting in October.

As a result of the financial crisis, the differential between money market rates and the key policy rate has widened. Before the financial crisis, money market rates largely shadowed the policy rate with a premium of 0.25 percentage point. Since the summer of 2007,

Figure 3. Norwegian interest rates. Per cent



Source: Norges Bank and Statistics Norway.

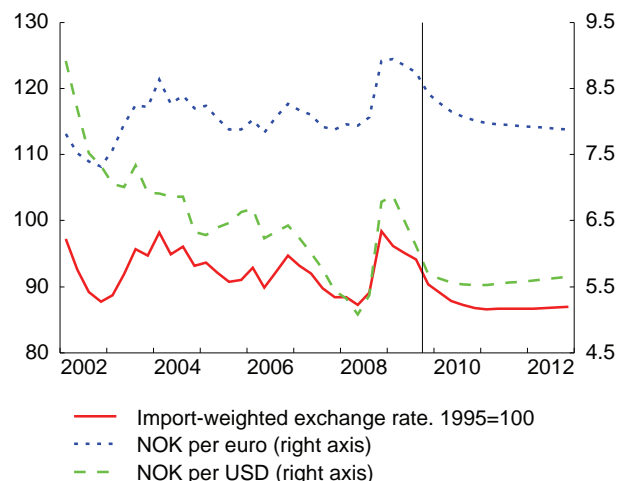
however, the premium has been substantially larger, and at the end of September 2008 it was more than 2 percentage points. At end-November, money market rates were in the range 2.0–2.1 per cent, which means that the premium is now down to slightly over 0.5 percentage point.

Spurred on by the financial crisis, Norges Bank has implemented measures to boost banks' liquidity. The volume of Norges Bank's fixed rate loans (F-loans) has increased, the maturity of these loans has been extended and Norges Bank has eased the requirements concerning the collateral banks are required to provide in order to qualify for the loans. These measures are now being reversed.

The financial crisis led to banks having problems procuring funding in the money and bond markets. Last year the Storting therefore approved a scheme of loans of government paper to banks, against collateral in bonds, for up to NOK 350 billion. By pledging this government paper as collateral, banks secure easier access to the loan market and lower borrowing costs. Alternatively, banks can resell the government paper. Swap agreements for NOK 230 billion have been made to date. Up to the summer of this year, the scheme implied an interest rate lower than market rates. The interest rate premium in relation to the money market rate for the scheme had increased to 0.7 percentage point in October, which has led to less use of the scheme. The last auction will take place in December this year.

In February/March this year the Storting approved new measures with an upper limit of NOK 100 billion. Half of this amount was to be used to supply banks with Tier 2 capital and the remainder to increase liquidity in the bond market through government purchase of corporate bonds. Banks applied for a total of almost NOK 7 billion to strengthen their Tier 2 capital, while the Government has lent some NOK 7-8 billion through the

Figure 4. Exchange rates



Source: Norges Bank.

Bond Fund. Although these two programmes have not been used very much, the fact that they act as a safety net may have helped to improve the functioning of the Norwegian bond market.

Domestic credit growth, measured by 12-month growth in private and municipal sector debt (C2) was 5.1 per cent in October 2009. Credit growth in non-financial enterprises plummeted from just over 20 per cent in July 2008 to 1.0 per cent in October this year. Household debt increased by 6.7 per cent from October 2008 to October 2009.

The Norwegian krone depreciated sharply against the US dollar and the euro through the second half of 2008. Measured by the import-weighted krone exchange rate, where weights are based on the composition of Norwegian imports, the krone depreciated by more than 15 per cent from June to December 2008. Since year-end the krone has regained much of its lost value against the US dollar and the euro, and the import-weighted krone exchange rate strengthened by over 10 per cent from December 2008 to November 2009.

In view of the improving cyclical situation, as reflected in more rapidly rising house prices and household consumption, we assume that Norges Bank will raise the policy rate in the period ahead. We believe that money market rates will rise to 2.7 per cent on average for 2010, and gradually move up to 5.4 per cent towards the end of 2012. Banks' average lending rate will then be about 6.4 per cent. We forecast that the level of GDP in the Norwegian economy will be back to trend in early 2013.

Because we are assuming a lower interest rate increase in the euro area than in Norway, we expect the appreciation of the krone against the euro to continue. In the projection scenario the price of a euro is down to NOK 8.10 on average in 2010 and down to NOK 7.90 in 2012. By way of comparison, the rate was NOK 8.04 on



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

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Totalt	3.6	7.6	-6.4	6.3	3.1	4.0	4.4	3.8	3.2
Exclusive dividends	2.7	3.5	4.2	5.1	2.7	4.7	4.2	3.4	2.4

Source: Statistics Norway.

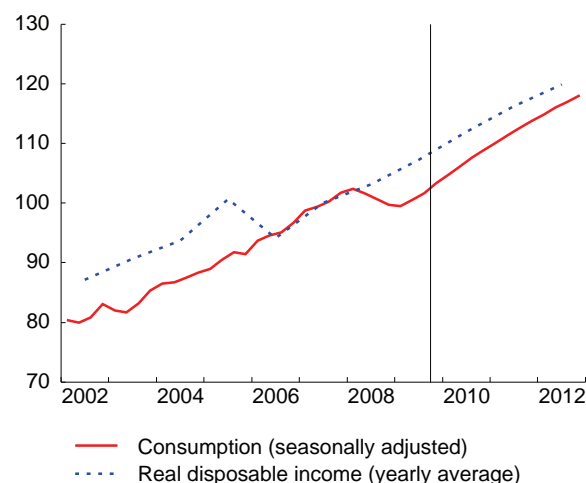
average in the period from the introduction of the euro in 1999 and up to the beginning of the financial crisis in mid-2008.

On an annual basis, the weakening of the krone last autumn will outweigh the strengthening this year. Thus the krone has weakened from 2008 to 2009. The depreciation against the euro from 2008 to 2009 is projected to be about 6.3 per cent, and the import-weighted krone exchange rate is projected to weaken by about 3.5 per cent. According to our projections, the krone will strengthen in 2010 and 2011 by about 6.6 per cent and 1.2 per cent, respectively, against the import-weighted currency basket. In 2012 the krone is expected to remain at about the level in 2011.

### Stronger consumption growth projected

According to seasonally adjusted QNA figures, the consumption of households and non-profit organisations rose by a whole 1.1 per cent in both the second and the third quarter of 2009 compared with the preceding quarter. The strong consumption growth through the last two quarters is largely attributable to a sharp rise in car purchases, which fell throughout 2008 and up to and including the first quarter of this year. The fall in car purchases was due to high interest rates, a generally unfavourable economic outlook and uncertainty concerning own earnings. Households now appear to be more optimistic. The increase in car purchases in particular, but also in purchases of food, furniture, white goods, clothing and footwear contributed to a rise in goods consumption of no less than 1.6 per cent and 1.9 per cent in the second and third quarters, respectively, of this year. Consumption of services increased more moderately during the same period. The goods consumption index for October, adjusted for normal seasonal variations, shows an increase on September of a full 2.7 per cent. This points to continued growth in household consumption in the 4th quarter of 2009.

Growth in real household disposable income is expected to be approximately 4 per cent this year, compared with around 3 per cent last year. Weaker growth in wage income pushes income growth down, while substantially lower interest rates and close to a halving of consumer price inflation counter this effect. Household financial consolidation in the wake of the financial crisis is the main reason that consumption will probably show close to zero growth from 2008 to 2009. Annualised consumption growth has not been so weak since 1990. In 2010 very low inflation will contribute to growth in real disposable income of about 4.5 per cent. At the same time, housing wealth will pick up because of rising house prices and, as a consequence, consumption growth in 2010 may rise to an annual average of

Figure 5. **Income and consumption in households. Volume indices. 2007=100**

Source: Statistics Norway.

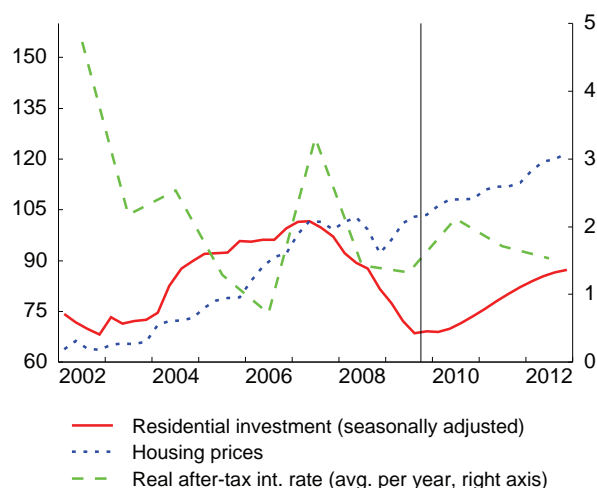
5.5 per cent. More moderate growth in real disposable income and hence also in household consumption is expected through 2011 and 2012. Although the outlook for households improves after 2009, our projections imply weaker consumption and income growth compared with the last expansion.

The household saving ratio is expected to rise from 3.5 per cent in 2008 to just under 7 per cent this year, and then to fall gradually to about 4.5 per cent in 2012. The higher saving level this year and continued falling housing investment is reflected in positive developments in household net financial investment. Households are expected to increase their net financial investment from a negative level of just over NOK 22 billion in 2008 to a positive level of just over NOK 35 billion in 2009. During the projection period (2010-2012), net financial investment will fall again by about NOK 35 billion, concurrently with a decline in saving and a rise in housing investment.

### Housing investment is rising

According to the seasonally adjusted QNA figures, housing investment declined by as much as 5.1 per cent in the third quarter of this year, and has thereby fallen for nine consecutive quarters. However, housing start statistics, on which the national accounts figures are largely based, may imply that the downturn has now levelled off. Prospects of a more favourable economic situation and a further rise in house prices indicates a turnaround in housing starts, so that housing investment will rise again through 2010 and for the remainder of the projection period. The level of housing investment in 2012 will nonetheless be about 15 per

Figur 2.6. **Residential market. Left axis adj. indices. 2007=100. Right axis per cent**



Source: Statistics Norway.

cent lower than the peak level in 2007 (measured in constant prices) according to our projections.

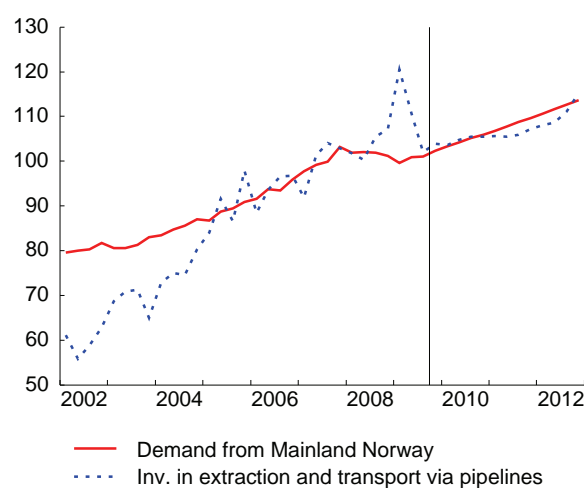
According to Statistic Norway's house price index, house prices as a whole fell steeply through the second half of last year. Prices for detached houses, small houses and flats all dropped by about 10 per cent in the period from the second to the fourth quarter of 2008. Prices for all house types combined have risen sharply from the fourth quarter of 2008 to the third quarter of this year, more than compensating for the aforementioned fall in prices. Whereas prices for flats increased by as much as 15.7 per cent during this period, prices for detached houses and small houses rose by 10.1 per cent and 11.8 per cent, respectively. We expect house prices as a whole to continue rising somewhat from the third to the fourth quarter of this year, and to rise by an annualised average of around 2 per cent from 2008 to 2009. During the 2010-2012 projection period we have assumed that house prices will rise at an average annual rate of about 6 per cent.

### Fall in petroleum investment through 2009

Following a long period of investment growth which ended with surprisingly high investment in the first quarter of 2009, petroleum investment has fallen through the last two quarters. The seasonally adjusted QNA figures show a decline in investment from the second to the third quarter of 7.7 per cent, approximately the same as the decline in the previous quarter. The decline occurred primarily in oil drilling, oil exploration and pipeline activity, which fell by 14.6 per cent from the third quarter of 2008 to the third quarter of 2009. Investment in platforms, drilling rigs and modules rose by 6.1 per cent in the same period, largely in the fourth quarter of 2008.

The fall in oil prices towards the end of 2008 has contributed to the decline in investment in exploration

Figur 2.7. Domestic demand. Seasonally adjusted volume indices. 2007=100



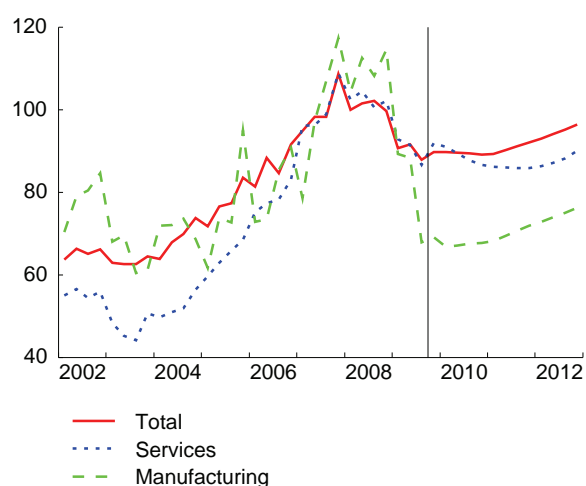
Source: Statistics Norway.

and improved operations, which characterises developments in petroleum investment in the latter half of 2009 and first half of 2010. There is a long time lag between the decision to invest in the development of new fields and development start-up. Thus the wide oil price fluctuations cannot have had any appreciable influence on investment in field development in 2009 and 2010.

In our projections we have assumed that investment in pipeline, machinery and onshore facilities remains at approximately the level since the end of 2007, when Ormen Lange and Snøhvit started operations. There will still be extensive investment in these two facilities, but less than during the development period. Since the shelving of the Skanled pipeline project we do not envisage major investments in pipelines in the course of the projection period.

Since the completion of Tyrihans earlier this year, there are now two large field developments in progress on the Norwegian continental shelf – Gjøa and Skarv. The fields are expected to be completed in the course of 2010 and 2011, respectively, and will account for much of the investment in platforms in 2010. Several planned field developments were postponed in 2009. The two big Gudrun and Goliat projects have been delayed, as have several minor field developments, and the level of drilling activity has been lower. As a result, overall petroleum investment will fall slightly in 2010 and 2011 from the high level in 2009.

Investment prices have increased sharply in recent years owing to strong wage growth and higher prices for raw materials and construction work. We expect the global recession, relatively low commodity prices and a strengthening of the krone to contribute to a fall in investment prices next year. From 2011 we expect prices to rise again.

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

Source: Statistics Norway.

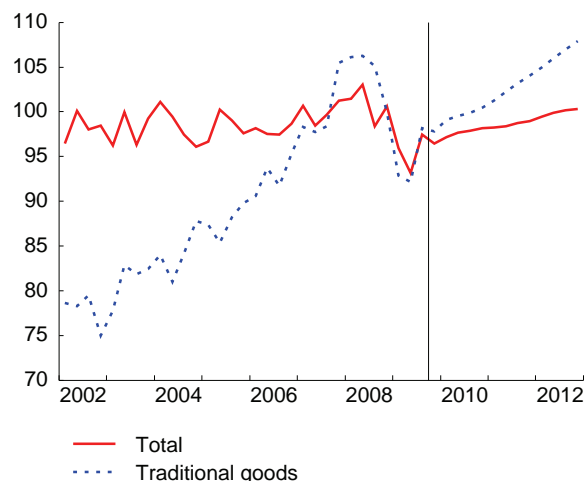
Petroleum investment is expected to increase in 2012. In real terms it will then be at about the same level as in 2009. This means that petroleum investment will have a moderately contractionary effect on the Norwegian economy for the next two years, whereas in 2012 it will contribute slightly to the recovery. We have assumed an increase in the oil price during the next four years. This will make the smaller and more complex projects profitable, which will push up investment in exploration and field development. If the oil companies' price expectations rise, they will probably bring forward investment, in which case petroleum investment may rise from as early as 2011.

Oil and gas production was higher in the first nine months of this year than in the same period last year. Despite the fact that Snøhvit has been closed in recent months, gas production increased by 8 per cent through the first nine months of 2009. Production of oil – including NGL and condensate – has fallen by just under 4 per cent, however. On balance we expect approximately unchanged oil and gas production in 2009 compared with 2008. Production is expected to fall later in the projection period, albeit only slightly.

### Investment near bottom in 2010

Revised national accounts figures show that investment in mainland industry doubled from 2003 to 2008, which means an average annual investment growth of 15 per cent. However, seasonally adjusted QNA figures show that this investment has fallen since the beginning of 2008. In the third quarter of 2009 mainland business investment was 4 per cent lower than in the previous quarter. Investment in manufacturing and mining dropped by a good 23 per cent from the second to the third quarter. Investment in services fell by just over 5 per cent while investment in other goods production increased by almost 4.5 per cent.

Our investment projections are close to the path indicated by Statistics Norway's investment intentions

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

Source: Statistics Norway.

survey. We assume that manufacturing firms will further reduce their investment, with the result that manufacturing investment will fall by about 28.5 per cent from 2008 to 2009, and close to 13 per cent next year. An improved economic situation and normalisation of credit markets are expected to contribute to manufacturing investment picking up again by around 5 per cent in both 2011 and 2012. Investment in the power supply sector appears likely to be roughly unchanged from 2008, but to pick up by 25-30 per cent next year. The rise is partly attributable to a number of large projects associated with the production and distribution of district heating. Another contributory factor is the increased focus on the upgrading and development of the electricity grid.

For mainland industry as a whole, we project an investment fall of almost 14 per cent this year, and a further decline of approximately 5 per cent in 2010. The fall in investment in 2009 is equivalent to approximately 1½ per cent of mainland GDP, making it an important factor in the downturn. In 2011 we assume that mainland business investment will fall by a further 1 per cent compared with 2010, but that it will rise by about 2.5 per cent in 2012. Even if there is a turnaround in mainland business investment during these years we do not expect it to be as pronounced as during the previous upturn.

### Turnaround in exports of traditional goods

The decline in exports of traditional goods now appears to have come to a halt. There was a sharp fall in the last quarter of 2008 and first quarter of 2009, which levelled off from the first to the second quarter of this year. From the second to the third quarter, exports of traditional goods rose by as much as 6.6 per cent according to QNA figures adjusted for normal seasonal variations. The reversal of the decline in exports of engineering products and industrial commodities has been important for the turnaround. Exports of these products rose substantially in the third quarter. Exports



Table 3. **Main economic indicators 2008-2012. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2008	Forecasts									
		2009			2010			2011		2012	
		SN	MoF	NB	SN	MoF	NB	SN	NB	SN	NB
<b>Demand and output</b>											
Consumption in households etc.	1.3	0.2	0.3	0	5.5	4.0	5 1/2	4.7	4	4.0	2 1/2
General government consumption	4.1	5.5	5.6	5 3/4	2.7	2.1	3	2.2	..	1.8	..
Gross fixed investment	1.4	-7.1	-5.9	..	-2.6	-1.0	..	0.1	..	5.7	..
Extraction and transport via pipelines <sup>1</sup>	3.7	4.7	7.0	7 1/2	-2.5	3.0	0	-0.3	2 1/2	3.5	2 1/2
Mainland Norway	1.0	-10.3	-9.3	-7 1/2	-2.4	-1.7	-2 1/2	1.4	..	4.3	..
Industries	6.1	-13.8	-16.4	..	-4.8	-2.6	..	-1.0	..	2.6	..
Housing	-12.1	-18.8	-12.0	..	-1.7	0.5	..	11.8	..	8.6	..
General government	4.7	9.9	13.2	..	2.4	-2.0	..	-2.1	..	3.7	..
Demand from Mainland Norway <sup>2</sup>	1.9	-0.6	-0.3	0	3.2	2.4	3 1/4	3.4	4 1/4	3.5	2 3/4
Stockbuilding <sup>3</sup>	-0.4	-1.5	..	..	0.0	..	..	0.0	..	0.0	..
Exports	0.9	-4.9	-6.5	..	1.7	0.1	..	1	..	1.4	..
Crude oil and natural gas	-2.0	-2.7	-4.4	..	-1.9	-2.1	..	-0.6	..	-0.5	..
Traditional goods <sup>4</sup>	4.3	-8.4	-11.0	-9 1/4	4.0	1.6	1 3/4	3.1	..	3.7	..
Imports	2.2	-9.5	-4.9	-8	4.8	2.4	2 3/4	4.0	..	5.7	..
Traditional goods	-0.4	-11.3	-7.1	..	6.4	1.9	..	6.5	..	7.4	..
Gross domestic product	1.8	-1.1	-2.1	-1 1/2	1.7	1.3	1 3/4	1.8	2 1/2	2.3	1 3/4
Mainland Norway	2.2	-1.1	-1.1	-1 1/4	2.2	2.1	2 3/4	2.7	3 1/4	3.3	2 3/4
<b>Labour market</b>											
Employed persons	3.1	-0.4	-0.4	-1/4	-0.3	-0.4	-1/4	0.7	1	1.5	3/4
Unemployment rate (level)	2.6	3.1	3.2	3 1/4	3.5	3.7	3 3/4	3.6	3 1/2	3.5	3 1/2
<b>Prices and wages</b>											
Wages per standard man-year	6.0	3.9	4.0	4	3.5	3 1/2	4 1/4	3.8	4 1/2	4.6	4 3/4
Consumer price index (CPI)	3.8	2.1	1 1/4	2 1/4	0.8	1 1/4	1 3/4	1.7	2 1/4	2.7	2 1/2
CPI-ATE <sup>5</sup>	2.6	2.5	2 1/2	2 3/4	0.7	1. 1/2	1 3/4	1.5	2 1/4	2.5	2 1/2
Export prices, traditional goods	2.4	-5.1	-6.0	..	-0.9	3.1	..	4.5	..	4.1	..
Import prices, traditional goods	4.6	-1.2	-0.3	..	-3.4	2.6	..	1.5	..	2.8	..
Housing prices	-1.1	2.1	..	..	6.6	..	..	4.0	..	6.7	..
<b>Balance of payment</b>											
Current balance (bill. NOK)	472.8	329.3	280.3	..	377.8	298.2	..	442.3	..	486.7	..
Current balance (per cent of GDP)	18.6	13.7	12.0	..	14.9	12.2	..	16.5	..	16.9	..
<b>Memorandum items:</b>											
Household savings ratio (level)	3.4	6.8	4 3/4	..	5.8	..	..	5.1	..	4.4	..
Money market rate (level)	6.2	2.5	2.6	2.5	2.7	3.5	2.6	3.8	3.8	4.9	4.6
Lending rate, banks (level) <sup>6</sup>	7.3	4.9	..	..	4.1	..	..	4.8	..	5.9	..
Crude oil price NOK (level) <sup>7</sup>	536	388	375	..	446	425	..	498	..	546	..
Export markets indicator	1.4	-9.2	..	..	2.8	..	..	4.0	..	6.0	..
Importweighted krone exchange rate (44 countries) <sup>8</sup>	0.0	3.4	3 3/4	3 1/2	-6.6	0.0	-3 1/4	-1.2	2 1/4	0.2	1

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

Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.1 (2009-2010), (MoF), Norges Bank, Pengepolitisk rapport 3/2009 (NB).

of services, particularly commercial services, showed a marked decline, however, as did exports of crude oil and natural gas. The outcome was a 4.6 per cent rise in total exports in the third quarter of this year.

Prices for traditional export goods rose by 3.4 per cent from the second to the third quarter, after falling for the three preceding quarters. This can largely be attributed to the substantial rise in metal prices. Metal prices were nonetheless more than 20 per cent lower in the third quarter than in the same quarter in 2008. However, a decline in prices for services, crude oil and natural gas contributed to a fall in the price index for total exports from the second to the third quarter.

We assume that export demand impetus will gradually gather strength. As a result of the sharp decline in the first half of the year, exports of traditional goods are projected to fall by over 8 per cent as an annual average in 2009 despite the growth through the second half of the year. Next year and thereafter, the improvement in the global economic situation will lead to exports rising by between 3 and 4 per cent annually. As a result of the weaker krone exchange rate, the fall in exports will be somewhat dampened this year. From 2010 onwards, the krone is expected to appreciate, which will weaken cost competitiveness and push down export growth. Exports of traditional goods will rise somewhat less than market growth during the projection period, which will mean loss of market shares.

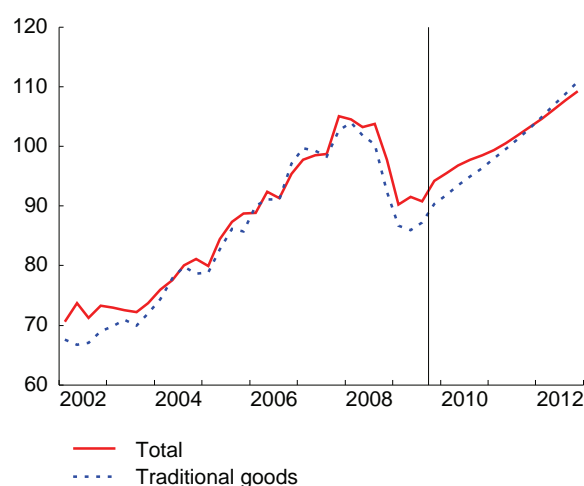
Oil exports are expected to fall throughout the projection period, while gas exports are expected to increase. Exports of services will rise weakly next year, but attain growth of around 5 per cent towards the end of the projection period. This will cause total exports to increase by between 1 and 2 per cent annually in the years ahead.

### Import growth back to normal in 2010

Imports of traditional goods rose by 1.4 per cent in the third quarter of this year. This represents a reversal of the sharp fall we saw through the winter. Increased imports of manufacturing products such as metals and industrial chemicals, coupled with strong growth in car imports, were important factors behind the turnaround. Because of the fall around the beginning of the year, we nevertheless forecast a sharp decline in imports of traditional goods of over 11 per cent in 2009.

The decline in prices for traditional imports from the second to the third quarter was somewhat slower than in the two preceding quarters. Prices edged down by 0.3 per cent, compared with a fall of around 2 per cent in each of the first two quarters of the year. The decline in prices for most import goods was moderate or changed to a rise in the third quarter. This is largely attributable to lower global market prices, but also to movements in the krone exchange rate, which weakened markedly up to the end of last year but has subsequently strengthened.

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



Source: Statistics Norway.

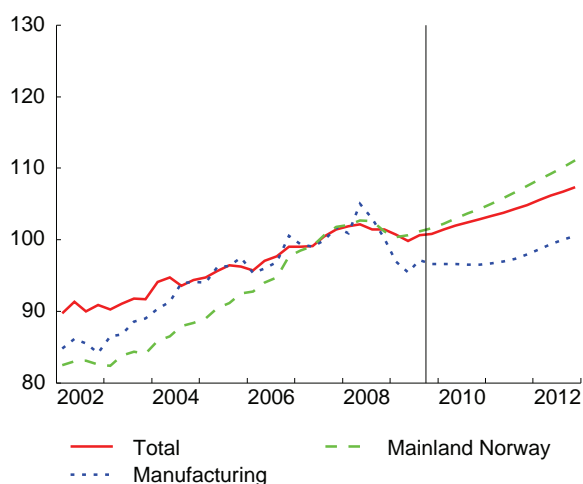
Increased domestic demand, especially associated with investment and car purchases, will contribute to a rise in import growth from 2010. Traditional goods imports are expected to grow by around 7 per cent from 2010 to 2012. This is equivalent to approximately double the growth in mainland demand, and consistent with the historical trend.

The Armed Forces' purchases of helicopters, aircraft and frigates will make a positive contribution to imports this year and in the next couple of years. The first helicopter has been delivered, and the remainder are expected in autumn 2010. The aircraft are expected to be delivered up to and including 2011. One frigate is being imported in the fourth quarter of this year, while the last one will be delivered in the second quarter of 2010.

This year and next year we forecast a decline in prices for traditional import goods as a result of the global recession. An improved global economy will contribute to a rise in prices from 2011, while an expected stronger import-weighted krone exchange rate will contribute to dampening imported price inflation.

### Pick-up in activity from a low level

The most recent QNA figures show that the decline in the activity level last winter is now a thing of the past. The increase in mainland GDP in the second and third quarters of the year by 0.3 and 0.5 per cent, respectively, is not large enough to be described as a recovery, however. The level of mainland GDP, seasonally adjusted and calculated in constant prices, was still 1.5 per cent lower in the third quarter than in the second quarter of 2008, just before the Norwegian economy received the full impact of the financial crisis. The expansionary fiscal policy is reflected in pronounced growth in general government value added. Growth was 0.9 per cent in the third quarter, and accounted for half of the increase in mainland GDP.

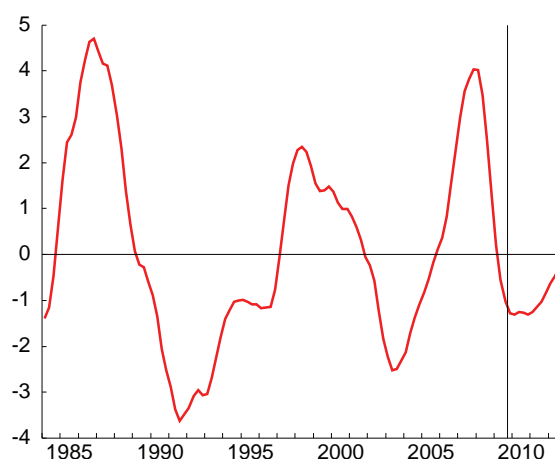
Figure 11. **Gross domestic product. Seasonally adjusted volume indices. 2007=100**

Source: Statistics Norway.

The change from fall to rise in demand in Norwegian export markets, coupled with increased public sector demand and household consumption, has stimulated business sector activity. Mainland GDP excluding general government edged up by 0.3 per cent in the third quarter. It was the first time since the second quarter of 2008 that there was growth in business sector activity. There was a marked change in manufacturing and other goods-producing industries. Value added in manufacturing and mining increased by 1.8 per cent, after falling by just over 9 per cent through the previous four quarters. The third-quarter increase in other goods-producing industries was a whole 4.6 per cent, after developments almost as weak as in manufacturing in previous quarters. Fishing, fish-farming and power supply showed strong growth. Building and construction production increased by 1.8 per cent.

Overall activity in private services declined appreciably in the third quarter, following a very moderate decline through the four preceding quarters. The decline was particularly pronounced in commercial services, but according to preliminary QNA figures, activity also declined markedly in the hotel and restaurant industry and in financial services. This is probably directly attributable to lower business sector demand. Perhaps the greatest uncertainty factor in the GDP projection for the current quarter lies in the underlying data for commercial services, however, so this scenario is uncertain. We expect the level of activity in private services to pick up in the period ahead.

The demand increase in Norwegian export markets will probably continue. On the other hand, petroleum investment is not expected to generate demand impulses over the next few years. Developments in Norwegian costs, with relatively high wage growth and a stronger krone will dampen developments in output. As the fall in mainland investment slows to a halt and gives way to a rise a little way into 2011, both manufacturing and

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

Source: Statistics Norway.

the building and construction industry will be stimulated. Overall manufacturing production will probably increase from 2011, but growth is unlikely to be strong. In the forecasts, production will not exceed the peak level from 2008 before 2012. On an annual basis, we do not expect activity in the building and construction industry to increase before 2011. The activity level in 2012 is expected to be appreciably lower than the level in 2008.

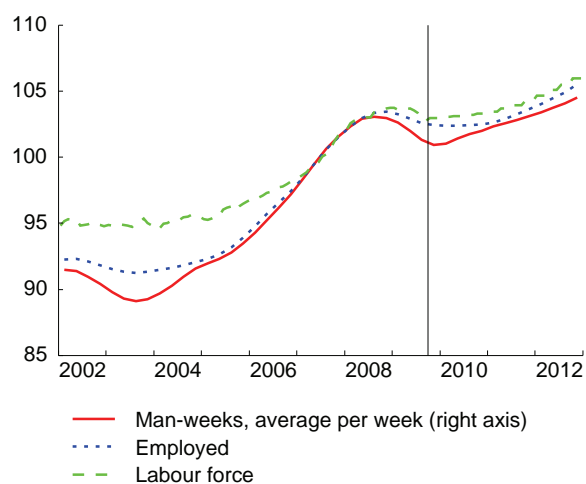
As private sector activity picks up, the increase in general government value added is expected to account for a substantially smaller share of overall activity growth in the period ahead. Public sector production growth will be appreciably reduced from 2009 to 2010. In subsequent years it will be further reduced by a somewhat tighter fiscal policy.

We estimate that mainland GDP will fall by an annual average of 1.1 per cent from 2008 to 2009. 2009 is the first year with a fall in mainland GDP since the contraction in 1988 and 1989. Growth in the period ahead is expected to be close to trend growth in the Norwegian economy. Our calculations show a cyclical upturn a little way into 2011, but not strong enough to prevent mainland economic activity remaining below trend right until the end of 2012.

### Towards higher unemployment

In the third quarter of this year, seasonally adjusted employment according to the national accounts fell by approximately 10 000 persons. This was equivalent to a decline of 0.4 per cent – the same as in each of the two previous quarters. Employment in the building and construction industry and manufacturing has been falling steadily since the third quarter of 2008. However, in the third quarter of this year the decline was largest in two major service industries – retail sales, with a decline of about 7 000 employees, and commercial services, with approximately 8 000 employees. The overall fall

Figure 13. Labour force, employment and number of manhours. Seasonally adjusted and smoothed indices. 2007=100



Source: Statistics Norway.

in employment was slowed by a continued increase in public sector employment amounting to approximately 8 000 persons.

Despite the decline in unemployment, employment according to the Labour Force Survey (LFS) has remained stable at about 3.1 per cent through the year. This is partly because some of those who were unemployed earlier no longer satisfy the requirement of seeking employment and/or being available for work, and accordingly fall outside the labour force. It is primarily the younger age groups who have left the labour force, but the share of the population in the labour force has fallen in virtually all age groups, and both genders. Whereas 74.3 per cent of those aged between 16 and 74 were either employed or seeking employment in the third quarter of 2008, the labour force participation rate had fallen to 72.6 per cent in the third quarter of this year.

Unemployment registered with the Labour and Welfare Administration increased by close to 22 000 persons from the end of December 2008 to the end of October this year. In order to be able to explain some of the difference between these two unemployment figures and LFS unemployment, the underlying data for the two sources are compared each quarter. The comparison indicates a higher drop-out rate from certain immigrant groups in their reporting to the LFS. These groups have higher unemployment, and a distortion of this kind contributes to underassessment of the level of and increase in LFS unemployment. On the other hand, some persons respond in the LFS that they are seeking work even though they are not registered with the Labour and Welfare Administration. This applies particularly to young jobseekers and others who do not have a right to unemployment benefit. A third source of error is that a number of those registered as occupationally impaired or on labour market programmes with the Labour and Welfare Administration do not respond, and are

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



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

accordingly registered in the LFS as unemployed. Both statistics confirm the picture of a labour market that is gradually deteriorating, albeit not at the same pace as earlier.

We believe that employment will continue to fall in 2010, and that a considerable part of the increase in unemployment lies ahead of us. This is partly because at the beginning of a downturn enterprises do not carry out as large staff cutbacks as the decline in demand alone would imply. Once falling demand has prevailed for a while, the enterprises adjust the workforce to the lower demand. As a result, unemployment effects tend only to be observed a while after other macroeconomic variables have shown a decline. According to the LFS, unemployment will increase from around 80 000 persons in 2008 to just over 90 000 in 2010.

In 2011 and 2012 the increase in household sector demand will be stronger, contributing to growth in service industry employment. Employment in the building and construction industry is rising gradually as a result of increased residential construction and increased investment in commercial buildings. This, coupled with continued growth in public sector employment, will lead to an increase in overall employment of an estimated 18 000 persons in 2011 and 40 000 persons in 2012. Nevertheless, unemployment is projected to increase somewhat during these years. This is because more people will return to the labour market when job prospects improve. Inward labour migration is also expected to remain at a high level in the period ahead, although we will probably not experience growth as strong as in the previous economic recovery. This brings our overall projection for the unemployment rate to 3.5 per cent for 2010, up from 3.1 per cent this year. The unemployment rate will then remain largely unchanged for the remainder of the projection period.

## Pronounced decline in wage growth

According to the revised national accounts figures, wages per normal man-year increased by 6 per cent from 2007 to 2008. Wage growth has not been so high since the mid-1980s, apart from in 1998, when it was 6.5 per cent. Wage growth in Norway is normally highest in the year a downturn starts, as was the case in 1986, 1998 and most recently in 2008.

However, wage growth has seldom been reduced as rapidly as it has in this contraction. Although wage increases through 2008 implied a relatively large carry-over of an estimated 2½ percentage points, we estimate that wage growth this year will be 3.9 per cent, which is 2.1 percentage points lower than in 2008. Small increases were granted in this year's wage negotiations, use of overtime has gone down and there has been a considerable decline in bonus payments – particularly in

### Box 2.1. The inclusive working life programme and the economic situation affect sickness absence

Sickness absence has shown two clear tendencies since the 1980s. First, it fluctuates with the economic cycle, so that sickness absence increases in good times and falls in bad times. Second, there has been an underlying increase in sickness absence. In 2006, Statistics Norway developed a model for analysing national insurance-financed sickness absence (absence after the period covered by the employer) on the basis of annual data from the Labour and Welfare Administration for the period 1984-2004.<sup>1</sup> It is the number of concluded sick pay cases that is modelled, with registration of sickness absences for up to one year after they have begun.

The average labour force participation rate is an important variable in the model. Labour force participation has increased markedly during the quantification period, largely in groups with a higher sickness absence at the outset. Whereas there have been small changes in labour force participation among men, participation has increased clearly for women in all age groups. Sickness absence has followed the same pattern. Sickness absence among women and men was at approximately the same level in 1980. Since then the differences have increased, particularly through the 1980s. Studies have shown that up to 50 per cent of all gender-related differences can be attributed to sickness absence in connection with childbirth<sup>2</sup>, and through the 1980s there was a pronounced increase in labour force participation among women before they had children.

However, average labour force participation has not increased steadily, but has varied sharply with the cyclical situation. This variable thus contributes strongly to explaining both the increase in sickness absence over time and the cyclical fluctuations in sickness absence. Thus, although unemployment is also an explanatory variable in the model, quantification showed that cyclical movements in sickness absence were primarily captured by average labour force participation. Analyses from the National Insurance Administration (2005) and Askildsen et al. (2004) find that sickness absence among those in work at the outset changes at least as much as average sickness absence when the cyclical situation changes. The Sandman Committee (NOU 2000:27) reviews research in the area and concludes that the causes of cyclical movements in sickness absence are probably composite, so that no single hypothesis can explain the developments.

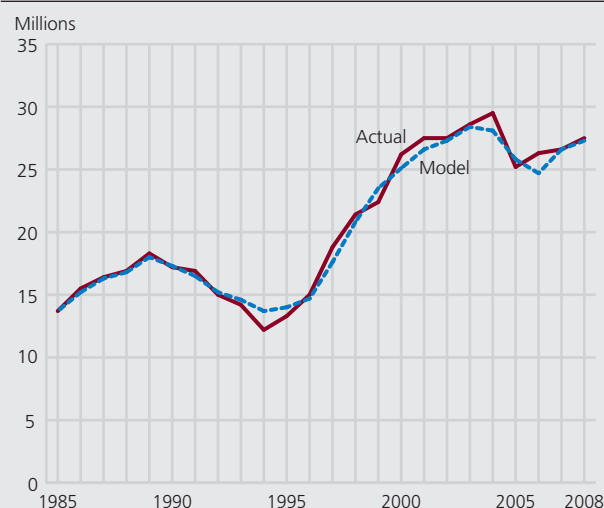
Sickness absence increases with employee age. Whereas a sick pay case for employees aged 50-59 is about 70 days on average, and a whole 90 days for those aged 60-66, a sick pay case for employees aged 20-49 is 50-60 days. The share of older employees has increased in the 2000s. The model takes this into account by modelling sickness absence in six age groups.

Sickness absence fell markedly after the quantification period of the model, as the sick pay scheme was changed on 1 July 2004. From then on, activity was required in return for the right to sick pay,

and graded sick leave was to be considered rather than active sick leave. The change reduced sickness absence in the statistics because graded sick leave was entered as partial sickness absence, while active sick leave was entered as full absence. The figure shows that the model corresponds very accurately to actual sickness absence when we check for changes in 2004.

The cyclical situation in 2008 was very similar to that in 1985. This means that the increased sickness absence from the mid-1980s up to 2008 is very largely explained by the fact that women and elderly people have entered working life to a greater extent.

### Number of sickness absence days covered by the National Insurance System (long-term sickness absence). Millions



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<sup>1</sup> See A. F. Bjørnstad and M. Sollie (2006) and R. Bjørnstad (2006).

<sup>2</sup> See NOU 2000:27, Chapter 6



financial services. According to Statistics Norway's wage statistics, average monthly wages excluding overtime remuneration in the financial industry were reduced by 3.8 per cent from 1 September 2008 to the same time this year. The main group of financial industry employees had an unchanged monthly salary, but lower bonus payments to the management group and others pushed the average wage level down to this extent.

The quarterly wage index shows that wage growth was also low in many of the other private service industries from the third quarter of 2008 to the third quarter of 2009. Wage growth in retail trade, the hotel and restaurant industry and commercial services was only around 2 per cent, as it was in the building and construction industry. Manufacturing, on the other hand, experienced wage growth of 3.4 per cent during the same period of time.

Manufacturing has traditionally had a leading role in Norwegian wage formation. Developments in the profitability of manufacturing are therefore of great importance to overall wage growth in the period ahead. The ability of large segments of Norwegian manufacturing to pay was very good when the global contraction started with the downturn in the USA in 2007. Profitability remained relatively buoyant even after the financial crisis hit the global economy in autumn 2008. In 2000, profitability was at a historically high level. Nevertheless, operating profits doubled between then and 2007. During the same period, labour costs increased by just under 40 per cent. The functional distribution of income between labour and capital thus shifted considerably in the period 2000-2007. The trend reflects the terms of trade gains Norway experienced during the period, with a strong rise in prices for Norway's export products and a low rise in prices for imported goods. In 2008, this trend reversed, and operating profits in manufacturing were reduced by over 20 per cent that year. Global GDP growth is still below trend, and will probably remain so for a couple more years. We believe nevertheless that much of the decline in Norway's export markets is behind us. Continued high petroleum investment will also contribute to buoying up manufacturing production in Norway.

With somewhat rising unemployment and low consumer price inflation, we nevertheless expect relatively moderate wage growth in the period ahead. However, wage growth of 3.5 per cent next year, rising to 3.8 and 4.6 per cent in subsequent years, is higher than can be expected of wage growth in competitor countries now that the global recession has hit many countries very hard. This implies a loss of market shares for some internationally exposed Norwegian enterprises in the years ahead. Thus wage formation will contribute to restoring a more normal functional distribution of income following the terms of trade gains that arose in the 2000s.

The terms of trade gains have also benefited wage-earners through a low rise in prices for imported consumer goods.

According to our projections, real wages, measured as wages per normal person-year deflated by the CPI, will have increased by 33 per cent in the course of the 2000s. Norwegian wage-earners have not experienced such growth in real wages since the 1950s and 1960s.

### Low inflation

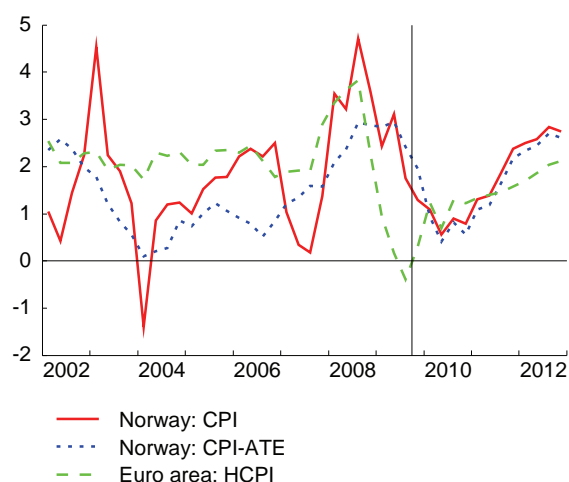
Underlying inflation, measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE), has declined markedly recently. In June 2009, it was 3.3 per cent; the highest ever measured since this indicator was introduced 10 years ago, and fell to 2.1 per cent in October. A slower rise in prices in most of the main product groups contributed to this. Seasonally adjusted figures show that the rise in prices (CPI-ATE) since June has been very low - only 0.5 per cent calculated as an annual rate. Since the CPI-ATE did not increase from October to December last year, there is unlikely to be any significant further decline in the year-on-year change in the CPI-ATE in November and December this year.

Whereas changes in the CPI-ATE say something about underlying inflation, it is the CPI that reflects developments in household purchasing power. The year-on-year rise in the CPI in October 2008 was as much as 5.5 per cent, largely as a result of high electricity prices. Electricity prices then fell up to and including September this year. From September to October prices increased appreciably less than in the same period last year, and the contribution to CPI inflation of the rise in electricity prices fell by just over 3 percentage points from October 2008 to October 2009. The 12-month rise in the CPI had then declined to 0.6 per cent. During the last months of 2008, both electricity and fuel prices fell. They do not appear likely to do so this year. This will push up the 12-month rise in the CPI for the next two months. We expect a rise of 2.1 per cent as an annual average.

A breakdown of the CPI-ATE by supplier sector shows slower year-on-year inflation for all main groups since the summer of 2009. A slower rise in prices for services can explain almost half of the decline of 1.2 percentage points from June to October. Most of this can in turn be attributed to developments in prices for air travel. Movements in prices for imported consumer goods, house rents, agricultural products and other goods produced in Norway have been of approximately equal importance for the decline in inflation. This is attributable to a clear strengthening of the krone, indirect effects of reduced energy prices, a slower rise in labour costs and other effects of the low capacity utilisation.

Exchange rate developments have generated strong inflationary impulses over the past year, initially through the sharp depreciation of the krone in the wake of the financial crisis in autumn 2008. About half the weakening of the krone was then reversed in the course of January, and much of the remainder during the third

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



Source: Norges Bank and Statistics Norway.

quarter. Changes in the exchange rate affect prices to households, but it takes a good while before the effects are exhausted. Thus exchange rate changes have a substantial, but offsetting effect on Norwegian prices. The year-on-year rise in prices for imported consumer goods rose by 2.6 percentage points from December 2008 to June 2009 and fell back by 0.8 percentage point from June to October. A further appreciation of the krone will cause the exchange rate to continue exercising a restraining effect on inflation. The global recession and a continued increase in trade with low-cost countries will also contribute to low import price inflation.

Inflation is expected to slow towards the summer of 2010. In addition to falling import prices, we expect rising productivity and slightly slower labour cost growth. We expect the CPI-ATE to rise by an annual average of 2.5 per cent this year but only by 0.7 per cent next year. As the recovery takes hold, wage growth picks up and the effects of the appreciation of the krone wane, inflation will gather pace, reaching 2.5 per cent in 2012 according to projections.

Forward prices in the electricity market indicate moderate changes in electricity prices in the period ahead. Relatively high prices early this year may nevertheless result in a slight fall in annualised electricity prices from 2009 to 2010, following a slightly greater decline from 2008 to 2009. We assume a rising oil price, which will push up the CPI next year. We also assume that there will be no changes in indirect taxes from those that have now been decided on for 2010, which imply a slight increase in indirect taxes. On balance this implies a somewhat higher projection for CPI than for CPI-ATE inflation in 2010.

We assume that indirect tax rates will be adjusted for inflation in 2011 and 2012. From 2011 we assume that household electricity prices will increase slightly more than the general rise in prices, and the oil price is expected to rise further. As a result, the CPI will continue

to increase slightly more than the CPI-ATE in 2011 and 2012. We project CPI inflation in 2012 at 2.7 per cent.

### Norway's balance of payments strengthens again

The negative developments in the balance of payments during the first half of this year very largely reflected the fall in oil prices, but also the global downturn in connection with the financial crisis. Preliminary balance of trade figures for the third quarter of 2009 and oil price movements imply that the downturn has come to a halt. The trade surplus of almost NOK 77 billion is an increase of NOK 2 billion on the previous quarter, but still NOK 33 billion less than in the third quarter of 2008. Whereas the reduction compared with the previous year can be traced back to reduced export prices – particularly for oil – the increase on the previous quarter reflects an increase in net export volumes.

So far this year, the trade surplus is almost NOK 254 billion, down from NOK 367 billion in the same period in 2008. 2008 was a record year for the balance of payments because of the unusually high oil price. If we disregard oil and gas, the trade balance has strengthened a little this year compared with last year, boosted by a relatively weak krone. In each of the last five years, the external balance of primary incomes and current transfers has been negative in the first half of the year and positive in the second. This pattern persists in 2009, with a deficit of NOK 16 billion in the first half of the year, whereas a small surplus is expected in the second half.

The global economic outlook is brighter than it was a short time ago, and commodity prices are rising. We therefore expect the positive developments in the balance of payments to continue. This will result in a trade surplus for the whole of 2009 that is projected at NOK 339 billion. An expected deficit for the year on net factor income and transfers will bring the current account surplus down to less than NOK 330 billion.

In the years 2010-2012, we expect the trade surplus to increase in pace with the rise in oil prices and the relatively favourable economic outlook upon which we have based our projections. The trade surplus is projected to rise from about NOK 380 billion in 2010 to around NOK 475 billion in 2012, which is close to the record level of 2008. Traditionally, other countries have extracted larger returns from financial activities in Norway than vice versa, which has resulted in a negative external balance of primary incomes and current transfers. The accumulation of capital in the Government Pension Fund – Global will gradually make the negative external balance of primary incomes and current transfers positive. This may push the current account surplus up to over NOK 480 billion in the course of the projection period. The surpluses for the years 2010-2012 will then account for between 14 and 17 per cent of GDP.

**Box 2.2. Developments may be less favourable**

Since the global economy has been through some of the most dramatic movements in several generations and unemployment in the countries around us is record high, our forecast for the Norwegian economy may appear optimistic. We have stressed how fragile the recovery is – particularly in countries with high government debt and large unrealised banking sector losses. However, factors in the Norwegian economy may also result in weaker developments than the scenario in which we believe most strongly. In our previous economic survey we showed calculations for how an extended recession internationally could affect the Norwegian economy (Economic Survey 3/2009, pages 15 and 16). There are also special features of the Norwegian economy that may delay the recovery and thereby exacerbate the downturn. In this box we show the effect on some key variables of three different scenarios which result in lower Norwegian investment demand. We have also included in the tables the results of our previous calculations relating to an extended global recession.

**Delayed turnaround in business sector investment**

According to our projections, mainland business investment will be reduced by 13.8 per cent from 2008 to 2009. An important factor behind the recovery in the activity level in the period ahead is that this sharp fall does not continue, and our projection is -4.8 per cent in 2010. In this alternative scenario we consider the effects of these investments falling just as sharply from 2009 to 2010 as they did the previous year. The initial impulse generated is such that investment thereafter follows growth in the baseline scenario.

**Delayed turnaround in housing investment**

Housing investment appears set to fall by 18.8 per cent this year. In our forecast, the fall is curbed rapidly before housing investments begin to rise again a little way into next year. On an annual basis it nevertheless falls by 1.7 per cent in 2010. In this calculation we consider the effects of the sharp fall continuing for another year, before giving way to the same growth as in the baseline scenario in 2011 and 2012.

**Sharp fall in petroleum investment in 2010**

Petroleum investment falls from 2009 to 2010 by an annualised average of 2.5 per cent. In this alternative scenario we consider the effects of petroleum investment being 20 per cent lower than in the baseline scenario. This may seem like a sharp fall, but must be considered against the backdrop of continuous growth of 75 per cent from 2002 to 2008. The fall in investment from 2009 to 2010 in this alternative scenario is also roughly equivalent to the fall in petroleum investment from 1999 to 2000.

The calculations show that there is still considerable uncertainty associated with the duration and depth of the current downturn. If our projections are too optimistic with respect to investment developments or events abroad, developments may be far weaker subsequently.

The calculations referred to here by no means represent an exhaustive list of scenarios that could be less favourable than the one in which we believe most strongly. For example, the turbulence in financial markets may escalate again and once more result in a more restrictive lending policy. Stronger household financial consolidation is also possible.

However, it must be stressed that the scenario we present as our forecast is the one in which we believe most strongly. Developments may also be more favourable in various areas than we have assumed, but now in the cyclical backlash of the financial crisis the uncertainty regarding the likelihood that economic developments will be less favourable is perhaps somewhat greater.

The KVARTS macroeconomic model is used in all calculations. The weaker developments in the Norwegian economy that emerge from all these scenarios are countered by the central bank's response, which is a lower interest rate compared with the projection scenario. This affects the real economy with a lag and counteracts the fall in demand that we are analysing. Fiscal policy is kept unchanged in the calculations.

**Mainland GDP. Deviation from the level in the projection scenario in per cent**

	2010	2011	2012
Deeper global recession	-0.9	-1.3	-1.5
Delayed turnaround in business sector investment	-0.4	-0.4	-0.4
Delayed turnaround in housing investment	-0.6	-0.6	-0.6
Fall in petroleum investment	-0.6	-0.6	-0.5
Memo:			
Growth in mainland GDP in the forecast scenario	2.2	2.7	3.3

**Employment. Deviation from the level in the projection scenario in per cent**

	2010	2011	2012
Deeper global recession	-0.5	-0.9	-1.2
Delayed turnaround in business sector investment	-0.2	-0.2	-0.2
Delayed turnaround in housing investment	-0.3	-0.4	-0.4
Fall in petroleum investment	-0.4	-0.4	-0.4
Memo:			
Employment growth in the projection scenario	-0.3	0.7	1.5

**Unemployment rate. Deviation from the level in the projection scenario in percentage points**

	2010	2011	2012
Deeper global recession	0.3	0.4	0.6
Delayed turnaround in business sector investment	0.1	0.1	0.1
Delayed turnaround in housing investment	0.2	0.2	0.2
Fall in petroleum investment	0.3	0.2	0.2
Memo:			
Unemployment rate in the projection scenario	3.5	3.6	3.5

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

	Unadjusted		Seasonally adjusted							
	2007	2008	07:04	08:01	08:02	08:03	08:04	09:01	09:02	09:03
Final consumption expenditure of households and NPISHs	940 067	951 832	239 389	240 742	239 138	236 716	234 676	234 004	236 522	239 067
Household final consumption expenditure	902 939	913 602	230 046	231 234	229 508	227 171	225 152	224 294	226 726	229 166
Goods	468 464	467 414	119 118	118 886	118 185	115 553	114 063	113 125	114 951	117 155
Services	404 901	413 072	102 447	102 969	103 127	103 451	103 506	103 329	104 021	104 421
Direct purchases abroad by resident households	56 083	59 614	15 264	16 113	14 947	14 509	14 287	13 938	13 820	13 633
Direct purchases by non-residents	-26 509	-26 499	-6 783	-6 735	-6 750	-6 342	-6 704	-6 099	-6 066	-6 043
Final consumption expenditure of NPISHs	37 128	38 230	9 343	9 508	9 629	9 545	9 524	9 710	9 796	9 901
Final consumption expenditure of general government	446 547	464 633	113 556	114 625	115 605	116 755	117 652	120 320	122 453	123 890
Final consumption expenditure of central government	232 901	240 672	58 820	59 362	59 832	60 371	61 117	62 551	63 445	63 987
Central government, civilian	201 675	208 565	50 963	51 482	51 782	52 347	52 940	54 235	54 998	55 560
Central government, defence	31 226	32 107	7 857	7 880	8 049	8 023	8 177	8 316	8 447	8 427
Final consumption expenditure of local government	213 646	223 961	54 735	55 263	55 773	56 384	56 535	57 769	59 008	59 903
Gross fixed capital formation	503 928	510 898	133 918	126 615	127 494	128 897	127 500	121 133	120 520	114 681
Extraction and transport via pipelines	108 252	112 247	27 832	27 537	27 143	28 529	29 015	32 595	29 914	27 612
Service activities incidental to extraction	4 720	-421	996	11	-25	-233	-174	-198	-77	-141
Ocean transport	15 440	19 961	2 988	5 251	5 035	4 608	5 103	3 647	4 700	4 625
Mainland Norway	375 516	379 112	102 102	93 815	95 341	95 993	93 556	85 088	85 983	82 585
Mainland Norway excluding general government	304 267	304 497	79 816	76 708	77 902	75 568	73 980	67 261	66 096	62 276
Industries	203 887	216 226	55 384	53 525	55 433	53 510	53 476	47 804	47 939	45 038
Manufacturing and mining	30 996	34 165	9 094	8 081	8 722	8 384	8 874	6 918	6 850	5 263
Production of other goods	32 591	38 217	8 123	9 479	10 084	9 854	8 753	8 318	9 009	9 408
Services	140 300	143 844	38 168	35 965	36 627	35 272	35 849	32 567	32 080	30 368
Dwellings (households)	100 380	88 270	24 432	23 183	22 469	22 058	20 503	19 457	18 157	17 238
General government	71 249	74 615	22 286	17 107	17 438	20 425	19 577	17 828	19 887	20 309
Changes in stocks and statistical discrepancies	32 776	43 185	7 709	13 561	8 485	17 397	3 901	3 324	3 399	-2 166
Gross capital formation	536 704	554 083	141 628	140 176	135 979	146 294	131 401	124 457	123 919	112 516
Final domestic use of goods and services	1 923 318	1 970 547	494 572	495 543	490 721	499 764	483 729	478 782	482 894	475 473
Final demand from Mainland Norway	1 762 130	1 795 576	455 046	449 182	450 083	449 463	445 885	439 413	444 957	445 542
Final demand from general government	517 796	539 248	135 841	131 732	133 043	137 179	137 229	138 148	142 340	144 200
Total exports	1 039 693	1 049 134	262 902	263 561	267 580	255 458	261 274	249 208	241 984	253 043
Traditional goods	302 350	315 309	79 645	80 095	80 207	79 344	75 488	70 133	69 579	74 137
Crude oil and natural gas	479 946	470 254	116 825	119 064	119 788	111 565	119 058	115 464	110 386	117 343
Ships, oil platforms and planes	12 745	14 215	2 510	2 507	3 361	4 700	3 646	4 917	3 291	2 690
Services	244 652	249 356	63 922	61 896	64 224	59 849	63 082	58 693	58 728	58 873
Total use of goods and services	2 963 011	3 019 681	757 473	759 104	758 301	755 222	745 004	727 989	724 878	728 516
Total imports	691 404	706 843	181 514	180 451	178 229	179 291	168 925	155 793	158 079	156 828
Traditional goods	458 084	456 080	117 552	119 016	116 549	114 801	105 707	99 228	98 401	99 780
Crude oil and natural gas	5 757	3 685	1 807	588	731	624	1 782	606	803	1 508
Ships, oil platforms and planes	19 703	28 969	7 573	6 477	6 845	9 030	6 617	4 457	6 255	4 602
Services	207 860	218 109	54 583	54 371	54 103	54 836	54 819	51 502	52 620	50 937
Gross domestic product (market prices)	2 271 607	2 312 838	575 959	578 653	580 072	575 931	576 079	572 197	566 799	571 687
Gross domestic product Mainland Norway (market prices)	1 724 280	1 762 458	438 651	439 807	442 694	442 106	436 210	432 446	433 808	436 010
Petroleum activities and ocean transport	547 327	550 380	137 308	138 846	137 378	133 825	139 869	139 751	132 991	135 678
Mainland Norway (basic prices)	1 465 064	1 504 957	373 224	374 122	377 244	378 485	373 926	370 816	371 492	373 097
Mainland Norway excluding general government	1 144 298	1 172 909	291 922	291 500	295 210	295 025	290 275	286 278	285 774	286 568
Manufacturing and mining	209 255	214 001	53 174	52 795	54 933	53 872	52 420	50 721	49 912	50 804
Production of other goods	168 668	174 377	42 450	43 298	43 907	44 143	42 844	41 720	40 216	42 049
Services incl. dwellings (households)	766 375	784 531	196 298	195 408	196 370	197 010	195 011	193 837	195 646	193 714
General government	320 766	332 048	81 302	82 622	82 033	83 460	83 651	84 539	85 718	86 529
Taxes and subsidies products	259 216	257 501	65 428	65 685	65 450	63 621	62 284	61 629	62 316	62 913

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2007	2008	07:04	08:01	08:02	08:03	08:04	09:01	09:02	09:03
Final consumption expenditure of households and NPISHs	5.4	1.3	1.5	0.6	-0.7	-1.0	-0.9	-0.3	1.1	1.1
Household final consumption expenditure	5.6	1.2	1.6	0.5	-0.7	-1.0	-0.9	-0.4	1.1	1.1
Goods	7.2	-0.2	1.2	-0.2	-0.6	-2.2	-1.3	-0.8	1.6	1.9
Services	3.8	2.0	0.9	0.5	0.2	0.3	0.1	-0.2	0.7	0.4
Direct purchases abroad by resident households	5.5	6.3	10.4	5.6	-7.2	-2.9	-1.5	-2.4	-0.8	-1.4
Direct purchases by non-residents	6.4	0.0	2.5	-0.7	0.2	-6.0	5.7	-9.0	-0.5	-0.4
Final consumption expenditure of NPISHs	0.5	3.0	0.6	1.8	1.3	-0.9	-0.2	2.0	0.9	1.1
Final consumption expenditure of general government	3.0	4.1	1.1	0.9	0.9	1.0	0.8	2.3	1.8	1.2
Final consumption expenditure of central government	2.2	3.3	0.9	0.9	0.8	0.9	1.2	2.3	1.4	0.9
Central government, civilian	1.8	3.4	1.0	1.0	0.6	1.1	1.1	2.4	1.4	1.0
Central government, defence	4.4	2.8	0.6	0.3	2.2	-0.3	1.9	1.7	1.6	-0.2
Final consumption expenditure of local government	3.9	4.8	1.3	1.0	0.9	1.1	0.3	2.2	2.1	1.5
Gross fixed capital formation	12.5	1.4	5.7	-5.5	0.7	1.1	-1.1	-5.0	-0.5	-4.8
Extraction and transport via pipelines	6.3	3.7	-1.0	-1.1	-1.4	5.1	1.7	12.3	-8.2	-7.7
Service activities incidental to extraction	34.8	-108.9	-22.3	-98.8	-320.9	819.7	-25.3	13.7	-61.3	84.5
Ocean transport	-14.8	29.3	-40.7	75.8	-4.1	-8.5	10.7	-28.5	28.9	-1.6
Mainland Norway	15.7	1.0	10.7	-8.1	1.6	0.7	-2.5	-9.1	1.1	-4.0
Mainland Norway excluding general government	17.2	0.1	3.9	-3.9	1.6	-3.0	-2.1	-9.1	-1.7	-5.8
Industries	25.5	6.1	7.1	-3.4	3.6	-3.5	-0.1	-10.6	0.3	-6.0
Manufacturing and mining	22.6	10.2	9.8	-11.1	7.9	-3.9	5.8	-22.0	-1.0	-23.2
Production of other goods	18.5	17.3	-7.0	16.7	6.4	-2.3	-11.2	-5.0	8.3	4.4
Services	27.9	2.5	10.0	-5.8	1.8	-3.7	1.6	-9.2	-1.5	-5.3
Dwellings (households)	2.9	-12.1	-2.6	-5.1	-3.1	-1.8	-7.0	-5.1	-6.7	-5.1
General government	9.6	4.7	44.3	-23.2	1.9	17.1	-4.2	-8.9	11.6	2.1
Changes in stocks and statistical discrepancies	-47.8	31.8	5.8	75.9	-37.4	105.0	-77.6	-14.8	2.2	-163.7
Gross capital formation	6.0	3.2	5.7	-1.0	-3.0	7.6	-10.2	-5.3	-0.4	-9.2
Final domestic use of goods and services	5.0	2.5	2.6	0.2	-1.0	1.8	-3.2	-1.0	0.9	-1.5
Final demand from Mainland Norway	6.7	1.9	3.3	-1.3	0.2	-0.1	-0.8	-1.5	1.3	0.1
Final demand from general government	3.9	4.1	6.3	-3.0	1.0	3.1	0.0	0.7	3.0	1.3
Total exports	2.3	0.9	1.6	0.3	1.5	-4.5	2.3	-4.6	-2.9	4.6
Traditional goods	8.5	4.3	7.2	0.6	0.1	-1.1	-4.9	-7.1	-0.8	6.6
Crude oil and natural gas	-2.4	-2.0	-2.9	1.9	0.6	-6.9	6.7	-3.0	-4.4	6.3
Ships, oil platforms and planes	-4.9	11.5	-29.2	-0.1	34.1	39.8	-22.4	34.8	-33.1	-18.3
Services	5.8	1.9	5.4	-3.2	3.8	-6.8	5.4	-7.0	0.1	0.2
Total use of goods and services	4.0	1.9	2.2	0.2	-0.1	-0.4	-1.4	-2.3	-0.4	0.5
Total imports	8.6	2.2	6.4	-0.6	-1.2	0.6	-5.8	-7.8	1.5	-0.8
Traditional goods	8.2	-0.4	4.5	1.2	-2.1	-1.5	-7.9	-6.1	-0.8	1.4
Crude oil and natural gas	145.5	-36.0	116.7	-67.5	24.3	-14.6	185.4	-66.0	32.5	87.8
Ships, oil platforms and planes	21.9	47.0	27.0	-14.5	5.7	31.9	-26.7	-32.6	40.3	-26.4
Services	6.8	4.9	6.6	-0.4	-0.5	1.4	0.0	-6.1	2.2	-3.2
Gross domestic product (market prices)	2.7	1.8	1.0	0.5	0.2	-0.7	0.0	-0.7	-0.9	0.9
Gross domestic product Mainland Norway (market prices)	5.6	2.2	1.1	0.3	0.7	-0.1	-1.3	-0.9	0.3	0.5
Petroleum activities and ocean transport	-5.0	0.6	0.7	1.1	-1.1	-2.6	4.5	-0.1	-4.8	2.0
Mainland Norway (basic prices)	4.9	2.7	1.2	0.2	0.8	0.3	-1.2	-0.8	0.2	0.4
Mainland Norway excluding general government	5.4	2.5	1.3	-0.1	1.3	-0.1	-1.6	-1.4	-0.2	0.3
Manufacturing and mining	3.2	2.3	1.7	-0.7	4.1	-1.9	-2.7	-3.2	-1.6	1.8
Production of other goods	5.3	3.4	-1.0	2.0	1.4	0.5	-2.9	-2.6	-3.6	4.6
Services incl. dwellings (households)	6.1	2.4	1.7	-0.5	0.5	0.3	-1.0	-0.6	0.9	-1.0
General government	3.0	3.5	0.8	1.6	-0.7	1.7	0.2	1.1	1.4	0.9
Taxes and subsidies products	9.3	-0.7	0.3	0.4	-0.4	-2.8	-2.1	-1.1	1.1	1.0

Source: Statistics Norway.



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

	Unadjusted		Seasonally adjusted							
	2007	2008	07:04	08:01	08:02	08:03	08:04	09:01	09:02	09:03
Final consumption expenditure of households and NPISHs	100.0	103.7	100.8	102.2	102.8	104.4	105.5	105.7	106.5	106.7
Final consumption expenditure of general government	100.0	105.9	101.7	103.2	104.5	106.8	108.9	108.7	109.2	110.0
Gross fixed capital formation	100.0	106.1	100.8	103.0	105.1	107.5	108.6	108.9	109.4	112.4
Mainland Norway	100.0	105.1	100.9	103.2	104.1	106.0	106.7	107.9	107.7	109.1
Final domestic use of goods and services	100.0	104.3	100.7	103.0	103.1	105.6	105.5	107.6	106.2	109.4
Final demand from Mainland Norway	100.0	104.6	101.0	102.6	103.5	105.3	106.7	106.9	107.5	108.1
Total exports	100.0	116.5	107.0	112.1	121.0	119.9	112.5	101.3	101.1	99.2
Traditional goods	100.0	102.4	98.3	97.3	100.9	107.3	103.8	96.9	95.9	99.2
Total use of goods and services	100.0	108.6	102.9	106.2	109.4	110.4	107.9	105.4	104.5	105.9
Total imports	100.0	104.0	99.1	101.4	102.9	105.0	106.8	104.7	104.6	105.0
Traditional goods	100.0	104.6	98.6	101.2	103.5	105.7	108.1	105.8	103.7	103.4
Gross domestic product (market prices)	100.0	110.0	104.1	107.7	111.5	112.1	108.3	105.6	104.5	105.4
Gross domestic product Mainland Norway (market prices)	100.0	103.2	101.1	101.5	102.1	104.1	104.2	105.2	106.4	106.8

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2007	2008	07:04	08:01	08:02	08:03	08:04	09:01	09:02	09:03
Final consumption expenditure of households and NPISHs	1.2	3.7	0.9	1.4	0.6	1.5	1.1	0.2	0.7	0.2
Final consumption expenditure of general government	5.0	5.9	1.4	1.4	1.3	2.3	1.9	-0.1	0.4	0.8
Gross fixed capital formation	5.6	6.1	-0.3	2.2	2.0	2.3	1.0	0.2	0.5	2.7
Mainland Norway	5.2	5.1	0.4	2.3	0.9	1.8	0.7	1.1	-0.2	1.3
Final domestic use of goods and services	3.5	4.3	0.7	2.3	0.1	2.4	-0.1	2.0	-1.2	3.0
Final demand from Mainland Norway	3.0	4.6	0.9	1.6	0.9	1.8	1.2	0.3	0.5	0.6
Total exports	1.4	16.5	9.2	4.7	8.0	-0.9	-6.2	-9.9	-0.2	-1.9
Traditional goods	2.7	2.4	-1.4	-1.0	3.7	6.3	-3.2	-6.6	-1.0	3.4
Total use of goods and services	2.7	8.6	3.6	3.2	3.1	0.9	-2.2	-2.3	-0.8	1.3
Total imports	3.9	4.0	-1.3	2.2	1.5	2.1	1.7	-2.0	-0.1	0.4
Traditional goods	4.0	4.6	-1.4	2.6	2.3	2.2	2.3	-2.1	-2.0	-0.3
Gross domestic product (market prices)	2.4	10.0	5.2	3.4	3.5	0.6	-3.4	-2.4	-1.1	0.8
Gross domestic product Mainland Norway (market prices)	3.3	3.2	1.5	0.4	0.6	1.9	0.0	1.0	1.1	0.3

Source: Statistics Norway.