Economic trends

The Norwegian economy has now been in a moderate cyclical downturn for a year and a half. The relatively weak growth in mainland GDP is attributable to developments in mainland private-sector demand and to global economic developments. Both mainland business investment and housing investment have fallen on the whole through the past year. Household consumption moved on a weak trend during the last three quarters of 2013, but exhibited a clear increase in the first quarter of 2014. Traditional goods exports are still clearly below the level prior to the financial crisis, and somewhat lower than a year and a half ago. Slow global growth coupled with weakened cost-competitiveness has contributed to lower exports excluding oil and gas. Prices for a number of important Norwegian export products are also low. In the first quarter, increasing petroleum investment continued to generate growth impulses to the mainland economy. As a result of the moderate mainland economic growth, employment is no longer rising to the same extent and the supply of vacancies is falling. In other words, the Norwegian economy is still in a minor cyclical downturn.

There are now signs of a certain improvement in the global economic situation, although a cyclical turnaround among our trading partners remains a little way off in the future. The inflation rate in the euro area has fallen, and is now very low, as are key policy rates. We assume that growth in the global economy will increase slowly going forward and contribute to somewhat higher growth in Norwegian exports.

It is very likely that petroleum investment will not generate growth impulses of any significance going forward. On the contrary, we foresee that petroleum sector developments may generate negative impulses to the mainland economy. There is also little to indicate any turnaround in mainland business investment in the near term. However, the recent rise in house prices, coupled with continued growth in household income and low real interest rates, will probably cause housing investment to move into a new upswing next year. The high rate of general government investment growth is also contributing to a possible turnaround to new growth in mainland investment next year. Tax relief and higher public sector demand are also spurring activity in the Norwegian economy. Fiscal policy appears to be generating slightly more expansionary impulses than previously.

The exchange rate strongly affects inflation in Norway, and the depreciation of the krone through much of 2013 and into 2014 also contributed to higher inflation. The krone has strengthened since early this winter, and is expected to appreciate a little more in the near term. We therefore expect the inflation rate to fall somewhat. Capacity utilisation in the Norwegian economy will remain lower than normal for three years, but we believe mainland economic growth may rise slightly through 2015, lifting the Norwegian economy into a moderate cyclical upturn around year-end 2015/16. The moderate increase in employment we foresee up to 2016 may therefore reverse to some degree in 2017.

Money market rates are expected to remain unchanged until the end of next year, and thereafter to increase slightly in pace with the improved economic situation. However, the interest rates faced by the private and municipal sector are also strongly affected by the capital adequacy requirements made of banks, including countercyclical buffers. As the banks approach fulfilment of the capital adequacy requirement, interest-rate margins will fall, so that household borrowing rates are unlikely to show any significant change going forward despite the fact that money market rates will increase somewhat in 2016 and 2017.

Economic developments in Norway

The Norwegian economy has now been in a moderate cyclical downturn for a year and a half. In the first quarter of 2014, mainland GDP grew by an annualised 1.9 per cent, while trend growth is estimated at just below 2.5 per cent. However, unemployment has been fairly stable so far this year.

Household spending rose markedly during the first quarter, following very moderate growth through the last three quarters of 2013. General government consumption rose even more, and both categories of consumption were important for output developments in the previous quarter.

Petroleum investment have long yielded strong growth impulses, with double-digit growth rates for the past three years, and in 2013 it rose by as much as 17 per cent. Growth during the first quarter of 2014 was an annualised 10 per cent compared with the previous quarter. Despite clear growth also in public

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

	2012*	2013*	Seasonally adjusted			
			13:2	13:3	13:4	14:1
Demand and output						
Consumption in households etc.	3.0	2.1	0.0	0.0	0.3	0.8
General government consumption	1.8	1.8	0.1	0.3	0.5	0.9
Gross fixed investment	8.3	8.4	7.7	-0.6	-0.5	-1.8
Mainland Norway	4.5	4.4	4.5	-2.5	0.7	-1.9
Extraction and transport via pipelines	14.6	17.1	8.1	6.1	-2.9	2.4
Final domestic demand from Mainland Norway[1]	2.9	2.5	0.9	-0.4	0.5	0.3
Exports	1.1	-3.3	2.6	0.7	-2.7	1.6
Crude oil and natural gas	0.7	-7.7	2.8	0.9	-5.6	2.9
Traditional goods	1.7	0.4	1.2	-1.0	-0.6	0.4
Imports	2.3	2.9	2.5	1.7	-1.3	-2.6
Traditional goods	2.4	2.5	0.8	1.4	-0.9	0.3
Gross domestic product	2.9	0.6	1.0	0.7	-0.2	0.3
Mainland Norway	3.4	2.0	0.3	0.5	0.5	0.5
Labour market						
Man-hours worked	2.0	0.6	0.3	0.4	0.3	0.1
Employed persons	2.2	1.2	0.4	0.4	0.3	0.2
Labour force[2]	1.8	1.0	0.0	0.6	0.2	-0.1
Unemployment rate. level[2]	3.2	3.5	3.5	3.5	3.5	3.5
Prices and wages						
Annual earings	4.0	3.9	..	..	..	
Consumer price index (CPI)[3]	0.8	2.1	2.0	3.0	2.3	2.1
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	1.2	1.6	1.4	2.0	2.0	2.5
Export prices. traditional goods	-3.6	3.4	1.8	0.9	2.6	0.9
Import prices. traditional goods	0.6	2.1	1.1	2.3	1.8	0.9
Balance of payment						
Current balance. bill. NOK	417.2	333.6	77.3	76.0	93.6	117.6
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.2	1.8	1.8	1.7	1.7	1.7
Lending rate. credit loans[4]	3.9	4.0	4.0	4.1	4.1	4.1
Crude oil price NOK[5]	649	639	603	657	663	657
Importweighted krone exchange rate. 44 countries. 1995=100	87.1	88.9	87.5	90.1	92.6	93.1
NOK per euro	7.48	7.80	7.62	7.93	8.23	8.35

[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.

investment, weak investment development in other industries and in residential construction led to a decline in overall investment.

During the past two years, moderate growth in Norwegian export markets, coupled with a deterioration in Norwegian cost-competitiveness, has contributed to sluggish growth in traditional exports. This development continued during the first quarter, despite a marked depreciation of the krone that improved cost-competitiveness throughout most of 2013 and into 2014. However, the krone has appreciated clearly during the last few months.

The weakening of the krone exchange rate in 2013 led to an increase in Norwegian inflation, so that the rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE), has been close to Norges Bank's inflation target of 2.5 per cent in recent months. However, we expect movements in the exchange rate this year to lead to a slight decline in inflation in the near term. There are indications that electricity prices will be considerably lower than last year, so that CPI inflation may move down towards an annualised 2 per cent in 2014.

The central negotiations in many important collective wage bargaining areas are now over. We expect annual wage growth in the economy as a whole to be 3.6 per cent this year, down from 3.9 per cent last year. This is somewhat higher than projected by the employer organisations and the trade unions in connection with the wage settlements. We believe that these projections are based on wage drift that is a little too low. The real wage growth in our calculations is 1.6 per cent, which nevertheless is clearly lower than the average for the past decade.

We do not expect any further growth in petroleum investment in the near term. However, international growth is picking up somewhat and, together with time-lagged effects of the improvement in competitiveness last year, this will lead to a certain increase in exports. When our trading partners as a whole embark on a moderate cyclical upturn in the course of the next year, this will allow Norwegian exports to increase somewhat more.

Fiscal policy is expected to have a clearly expansionary effect this year and also in the near term. Increased general government purchases of goods and services, particularly for investment, will stimulate activity. Tax relief will also help to push up household real disposable income and increase their demand. Value added in general government is expected to grow at a fairly stable pace. Growth will be close to mainland GDP in 2014 and 2015, and will be slightly lower in subsequent years.

The money-market rate is expected to remain low for a long time. When it eventually rises again, it will be countered to a great extent by reduced spreads between the money-market rate and banks' lending rates. The public will therefore face interest rates that remain close to the current level throughout the projection period. In the short term, they will probably decline slightly, and thus form a basis for higher house prices, such as we have seen in recent months. However, it will probably take some time before the decline in housing investment so far this year is replaced by growth. We do not expect this to happen until approaching the end of this year.

We expect household consumption to grow less than income, so that the saving ratio also rises this year. The saving ratio will then remain at a high level. Income growth will pick up somewhat during the next few years, and we expect a corresponding development in consumption which will gradually also be stimulated by slightly rising house prices.

Mainland business investment is expected to increase somewhat in the near term, but only to the extent that the annualised level remains the same as last year. Nor are there indications of any substantial growth next year, but we expect it to rise a little more perceptibly in 2016 and 2017. This is generally consistent with the picture of output developments we currently envisage.

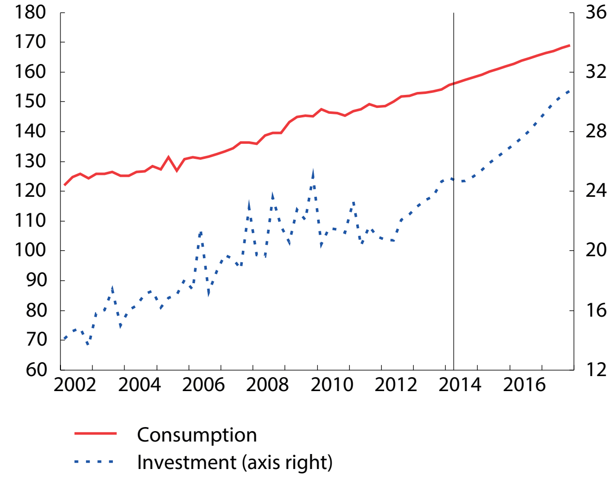
Given such a demand scenario, mainland GDP is likely to continue to grow at below trend level for a while longer. Employment will probably increase less than the labour supply, so that unemployment increases slightly. Increased demand growth will then translate into a pronounced rise in production growth around year-end 2015/2016. This cyclical upturn will boost employment growth, but unemployment will probably not decline until 2017.

We expect profitability in manufacturing to improve during the projection period. At the same time, the rise in unemployment will curb wage growth. Growth in average annual salaries may then remain close to the assumed increase for 2014. Inflation will decline from 2014 to 2015, so that real wage growth increases slightly in 2015. We expect inflation to then pick up through the rest of the projection period. According to the estimates, inflation will nevertheless remain slightly below 2.5 per cent in 2017, and mainland GDP will then be at about trend level during the transition to the next cyclical upturn.

More expansionary fiscal policy

General government consumption rose by 1.8 per cent in both 2012 and 2013. There has been low growth in military spending, while growth in local government and central government non-military spending has been fairly parallel. Gross general government investment rose substantially during 2012, and annual growth in 2013 is now estimated to have been 9.9 per cent. Increased central government investment was responsible for the high growth last year. Public

Figure 1. **General government. Seasonally adjusted, billion 2011-kr., quarterly**



Source: Statistics Norway.

transfers to households rose by 2.3 per cent in real terms last year. This is roughly a halving of real growth compared to the two previous years. On the whole, real growth in these three main components of public spending, which accounts for just over half of mainland GDP, was 2.7 per cent in 2013. This is about the same pace of growth as in the two previous years.

General government consumption growth was clearly higher in the first quarter of 2014 than through the two previous years. Central government spending increased by 1.0 per cent from the 4th quarter of 2013 to the first quarter of 2014, while the increase in local government spending was 0.7 per cent. Gross investments also rose by 1.0 per cent in the previous quarter. Adopted general government budgets do not provide reason to expect that consumption growth will continue at this pace through 2014. On the contrary, there is reason to expect very low growth in general government consumption through the rest of this year.

In the Revised National Budget (RNB), the Ministry of Finance projects a structural, non-oil budget deficit (SNOBD) of just under NOK 118 billion for 2013. This was equivalent to 3.1 per cent of the Government Pension Fund Global (GPFG), and 5.1 per cent of trend mainland GDP. For 2014, the RNB projects that SNOBD will increase to about NOK 141 billion, and the deficit as a share of trend GDP will increase to 5.8 per cent despite the fact that the deficit as a share of the value of the GFPG will fall to 2.8 per cent. If we use the increase in SNOBD as a share of trend BNP as a measure of the fiscal policy stance, this is the greatest stimulus we have had since the 2009 financial crisis.

Our projections for fiscal policy in 2014 are based on the adopted budget. In 2014, the rate of tax on ordinary income will be reduced from 28 to 27 per cent, while the national insurance contribution is increased by 0.4 percentage point. The highest wealth tax rate is being reduced by 0.1 percentage point, and inheritance tax is being abolished completely. In general, the tax rates are adjusted in accordance with expected inflation, with the exception of mineral oil tax, which was increased, and taxes on boat engines. There is a proposal to lower the latter in connection with presentation of the RNB. Subsidies for electric cars affect SNOBD because the shift in car purchases towards subsidised cars is a structural change, like reduced wealth tax and the abolition of inheritance tax, and not a cyclical tax amendment. Projections for growth in general government consumption and gross investment are about the same as in RNB 2014. There will probably be somewhat higher real growth in transfers to households in 2014 than in the previous year. We therefore expect government procurement of goods and services and the real value of transfers to households to increase by 2.8 per cent in 2014. Slightly higher growth in total expenses in 2014 than the previous year, together with tax reductions of about NOK 8 billion, indicate that fiscal policy will have a more expansionary effect this year than last year.

No fiscal policy has been adopted for the period of 2015–2017. Our projections for these three years are therefore uncertain. We have continued the main features of the changes from 2013 to 2014. General government consumption is expected to grow by just over 2 per cent annually throughout the period. In both 2014 and the two next years, changes to the number of man-hours worked per employee as a result of changes to movable public holidays and the like will push up consumption growth by about ¼ percentage point. The high growth in gross civilian government investment has been maintained for the next two years. F-35 aircrafts will be delivered to Norway between 2017 and 2024. Military investment will then increase again, following only small changes up to 2016, which will boost the growth in overall investment in 2017. High general government investment will increase the contribution from real capital to value added, and will push up growth in public consumption.

The real rise in transfers is projected to be about 3 per cent in the near term. Both the aging population and increased real growth in benefits per pensioner are factors here. Disability pensions and the scope of sickness benefits, etc. are not expected to increase much in real terms after 2014. The number of disability pensioners is expected to increase this year, but to be countered to some extent by a lower increase in work assessment allowance. We assume annual tax relief of about NOK 6 billion from 2015 to 2017 compared with an alternative scenario with unchanged real tax rates. As a technical assumption, the tax relief will take the form of reduced personal tax, and not a reduction of indirect taxes or lower corporate tax. The combined growth impulses from spending increases and tax relief will be fairly stable over time from 2014 to 2016. The stimulus will be slightly lower in 2017, but still somewhat expansionary compared with estimated trend mainland GDP growth of a bare 2.5 per cent annually.

We expect oil prices to fall somewhat in the near term. As petroleum production will not change much after 2014, the fall in prices will lead to a decline in government petroleum revenue. Transfers to GPFG will then be reduced, and the fiscal scope for manoeuvre will increase slightly less than in the past. Our calculations show that SNOBD as a share of GPFG will remain close to 3 per cent during the period 2015–2017.

Small changes to the banks' residential mortgage rates

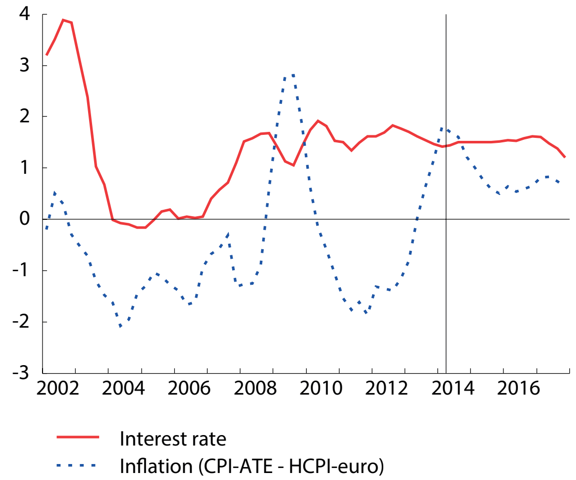
The key rate has been 1.5 per cent since March 2012. The three-month money-market rate has fallen since the last reduction in the key rate, from 2.3 per cent in the summer of 2013 to a stable level of around 1.7 per cent in March of this year. In April and May 2014, the money-market rate was about 1.8 per cent. Interest rates are even lower in a number of other countries. In the euro area, the money-market rate for the period September 2012 to November 2013 was less than 0.2 per cent. It rose somewhat towards the end of 2013, and has hovered around 0.3 per cent since January this year.

From February 2013 to February 2014, the krone depreciated by over 10 per cent, measured by the import-weighted krone exchange rate. The krone depreciated against the euro from an exchange rate of close to 7.30 at the beginning of 2013 to about 8.50 at the end of January this year. The krone has appreciated since then by a mere 5 per cent, measured by the import-weighted krone exchange rate, while at the beginning of June one euro cost just over NOK 8.10. The appreciation of the krone during the past four months may be regarded as a correction of the substantial preceding depreciation, but it must also be viewed in light of the fact that interest rates in Norway are higher than abroad.

Several banks have announced reductions in their deposit and lending rates in the second quarter of this year. At the end of the first quarter, financial institutions' average lending rate for credit loans secured on dwellings was 4.1 per cent, the same as at the end of each of the three previous quarters. We believe that the reduction in lending rates in the spring will bring the interest rate on credit loans down to 3.9 per cent. Banks' average deposit rate has also remained virtually unchanged since the end of the second quarter of last year and until the end of the first quarter of this year, at 2.2 per cent.

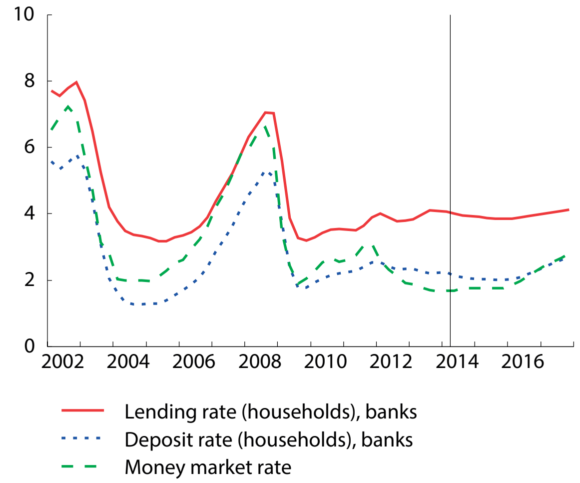
Growth in gross domestic debt (C2) fell from the second quarter of last year to the first quarter of this year. While growth in the gross domestic debt of the public (households, non-financial enterprises and municipalities) was 7.0 per cent in the second quarter of 2013,

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**

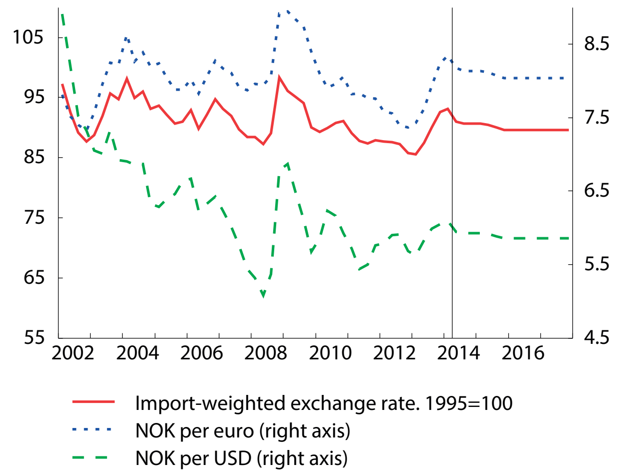


Source: Norges Bank and Statistics Norway.

it fell to 4.5 per cent in the first quarter of this year, calculated both seasonally-adjusted and as an annual rate in relation to the previous quarter. The C2 figures for April of this year indicate that this trend has been broken. During the period February to April 2014, the rise in gross household debt was 5.8 per cent, measured in relation to the previous three-month period. Non-financial enterprises have reported a reduction in credit growth. While credit growth was 3.7 per cent in the fourth quarter of 2013, it was reduced to 1.6 per cent during the last three-month period. Household credit growth was 6.7 per cent during the three-month period February to April, which is slightly down compared with the fourth quarter of 2013, when growth was 7.2 per cent, but in line with growth in previous quarters.

As in the previous report, we assume that Norges Bank will keep the current low key rate unchanged until the

Figure 4. **Exchange rates**



Source: Norges Bank.

end of 2015, in view of both weak domestic economic growth and a low interest rate level in other countries. Slower debt growth for non-financial enterprises is also a factor. House prices have risen since the New Year, after falling through the second half of 2013. If anything, this factor in isolation points to a higher key rate. Reduced bank deposits and lending rates point the same way. Interest rate cuts by banks have so far been relatively modest, and we expect house prices to rise slightly more than general inflation in the next few years.

Growth in both the Norwegian economy and in real house prices will pick up gradually. The interest rate level in the euro area is also expected to rise gradually. This points to a somewhat higher key rate from the end of 2015. The money-market rate is expected to shadow the key rate, and is projected to be 2.8 per cent at the end of 2017, the same as our projection of March this year.

We expect the krone exchange rate to strengthen slightly in the near term. Because the krone was weaker at the beginning of the year, the annualised appreciation from this year to next will be a mere one per cent measured against both the euro and the import-weighted krone exchange rate. In 2015, we expect the euro exchange rate to move towards NOK 8.00, which means an appreciation of about 1 per cent against the euro in 2015. We have assumed unchanged exchange rates between foreign currencies, which mean that the appreciation will remain the same, measured against the import-weighted exchange rate.

There is uncertainty as to how lending rates will develop in the near term compared with the money-market rate. This partly depends on the competitive situation between the banks and on how quickly the countercyclical core capital buffer in the banks must be accumulated. The premium between the money-market rate and the interest rate on credit loans was less than 1 percentage point from the time of the broad introduction of these loans in 2006 and until the end of 2011. In the last half of 2013, this premium was around 2.5 percentage points. This premium appears to have been reduced during the second quarter of this year, partly as a result of a higher money-market rate and partly because several banks recently lowered their lending rates. This means that the differential between the money-market rate and the interest rate on credit loans is just over 2 percentage points.

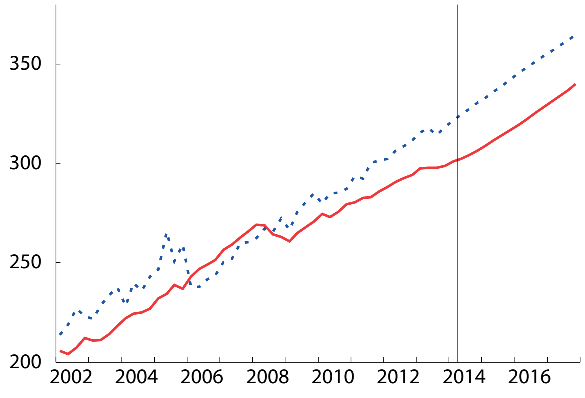
Part of the high premium can be ascribed to the fact that the yield on covered bonds – which is an important source of financial institutions' financing of mortgage loans – has risen in the past few years compared with the money-market rate. Increased equity requirements for banks combined with weak competition also appear to be a reason for the wide spread between the money-market rate and the interest rate on credit loans. We assume that the premium will be reduced as banks accumulate equity. The premium for new financing through the market for covered bonds has fallen, and it will probably pull down the average covered bond premium to some extent in the near term. We therefore expect the interest rate on credit loans to rise by less than the money-market rate in the near term, to 4.1 per cent at the end of the projection period. These assumptions thus imply more or less unchanged interest rates on credit loans for the remainder of the projection period.

Stronger consumption growth

QNA figures indicate that consumption in households and non-profit organisations rose by 0.8 per cent in the first quarter of 2014, following virtually zero growth throughout the last three quarters of 2013. Following a clear decline in both the second and third quarters, and weak growth in the fourth quarter of 2013, goods consumption rose pronouncedly by 0.9 per cent in the first quarter of this year. Purchases of vehicles, together with furniture and household equipment, which showed weak growth through 2013, contributed particularly to pushing up goods consumption. Electricity consumption showed a clear decline as a result of the mild winter. Service consumption, on the other hand, rose fairly steadily last year, and the growth continued by 0.8 per cent during the first quarter of this year. Rent, indirectly measured banking services, leisure services, and hotel and restaurant services pushed up growth. Norwegians' spending abroad grew strongly in 2013, for the fourth year in a row. However, growth slowed sharply in the fourth quarter of last year, and came to a complete halt in the first quarter of this year. The depreciation of the krone in 2013 and into 2014, which has made it relatively more expensive to shop abroad, may help explain this development.

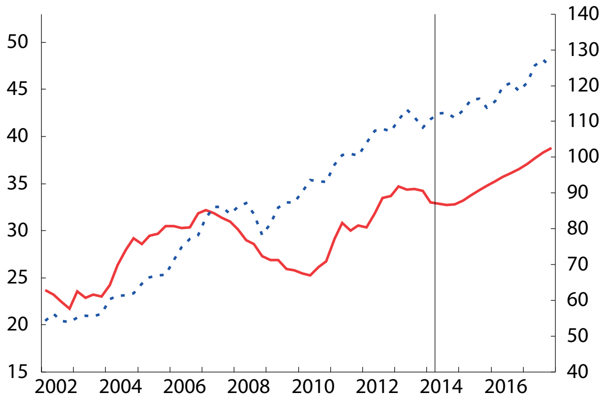
Consumption figures are largely determined by developments in household income, housing wealth and interest rates. Real disposable income rose by 3.1 per cent in 2013, about the same as the previous year. Wage income, which is the most important source of household income, made a particularly large

Figure 5. **Income and consumption in households. Seasonally adjusted, billion 2011–kr., qarterly**



Source: Statistics Norway.

Figure 6. **Residential market. Left axis adj. indices. 2011=100. Right axis per cent**



Source: Statistics Norway.

contribution of 2 percentage points to income growth last year. Higher public transfers, mainly as a result of increased disbursements of pensions and sickness benefit, also made relatively large contributions to income growth in 2013. High inflation of 2.7 per cent, measured by the consumption deflator in the national accounts, substantially curbed developments in real income. Net interest income also made a minor, negative contribution to growth, as interest income on bank deposits increased somewhat less than interest expenses on loans. Real disposable income rose by as much as 0.9 per cent during the first quarter of this year, with relatively clear contributions to growth from wage income and public transfers. We expect this to continue in the near term. At the same time, tax relief and lower inflation will boost real disposable income, and thus also consumption. However, net interest income will not make a contribution of any significance to growth. We expect annual growth in real disposable income of 3 per cent this year, about 3.5 per cent in both 2015 and 2016, and approximately 3 per cent in 2017. Housing wealth will pick up slightly during the projection period as a result of both rising house prices and high housing investment, and this will stimulate consumption. Our projections for income, housing wealth and interest rates indicate that consumption growth this year will be 2 per cent, like last year, and then rise to just over 3 per cent in 2015, and about 3.5 per cent in 2016 and 2017.

According to seasonally-adjusted QNA figures, household saving – calculated as a share of disposable income – has risen from a level of close to 4 per cent in 2008 to 9.4 per cent in the first quarter of 2014. We now envisage that the saving ratio may remain at about 10 per cent during the projection period. This is historically high, and the saving ratio has not been at a similar level since 2005. The saving ratio at the time was high as a result of tax-motivated distribution of share dividends. The fact that we do not envisage a further increase of any significance in the saving ratio is largely attributable to the positive developments in real property prices and improved outlook for the Norwegian economy.

Following the financial crisis, consumption increased less than predicted by our model. See Box 2 on page 20 of Economic Survey 1/2014. There is much to indicate that the change in behaviour is related to demographical factors, which our model does not as yet capture adequately. However, we have incorporated a correction of consumption developments in the near term that allows for the continued presence of changes in behaviour.

House prices rise again

In 2013, housing investment reached a record high after rising since mid-2009. Growth levelled off through 2013, and housing investment fell by a seasonally-adjusted 3.6 per cent in the first quarter of 2014. This is consistent with figures for housing starts, which were relatively flat through 2013, and showed a clear decline in the first four months of the year in terms of both utility floor area and number of dwellings. This process reflects the development in house prices, see Box 2.1. New figures from the Norwegian Home Builders' Association show a clear decline in sales of new homes during the first four months of the year, without the number of completed homes showing an equally large decline. In the short-term, we therefore expect a continued decline in housing investment and that the fall in the annual average will be almost 5 per cent compared with 2013. Housing investment will probably swing upwards again towards the end of 2014, and we expect volume growth of about 4 per cent in 2015, 5.5 per cent in 2016, and up to 6 per cent in 2017. In the event, investment will pass the 2013 level in 2016.

The rise in house prices showed a falling tendency through 2013, from an annual rise of 6 per cent in the first quarter to 1 per cent in the fourth quarter, according to Statistics Norway's house price index. In the first quarter of the year, the index was virtually

Box 2.1. **The housing market has a strong bearing on developments in the real economy**

The housing market plays a central part in the Norwegian economy. Around 80 per cent of households own one or more dwellings, and movements in house prices are of great importance for the developments in their assets. In addition, fluctuations in housing investment contribute directly to developments in overall output. If we disregard general government, housing investment accounted in 2014 for a full 44 per cent of mainland investment, which was equivalent to 8 per cent of mainland GDP excluding general government. The building and construction industry, for its part, delivers the bulk of housing investment and accounts for 12 per cent of value added in market-oriented activity in mainland Norway.

Demand for housing services affects prices for houses in the secondary market, which in turn affects housing investment. Changes in population, income level, access to loans, interest rates, tax rules and expectations regarding the future are important factors that influence demand. Some of these may change rapidly. Since building represents a very small portion of housing capital, changes in demand may have a strong impact on housing investment.

In order to illustrate how impulses from housing demand spread to the real economy, we have compared a scenario with a permanent change in house prices to a baseline scenario. Specifically, we increase the nominal house prices by 10 per cent compared with the baseline scenario from 2015 onwards, using a model version in which house prices are determined exogenously. The analysis is stylised in the sense that we do not explain the source of the increased demand. Nor do we allow normal feedback mechanisms, such as the fact that increased residential construction has a negative impact on house prices, to have an effect. A 10 per cent permanent decline in house prices would have almost the same effect, but with the opposite sign.

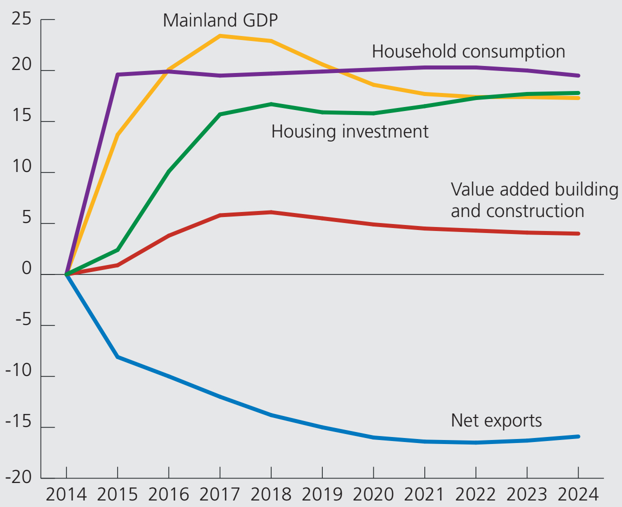
Increased house prices influence the real economy through two main channels:

- Household consumption is stimulated because household wealth increases when the value of existing dwellings rises
- Residential construction increases when house prices increase in relation to building costs

According to the model's description of household and contractor behaviour, consumption increases much faster than housing investment, but housing investment also rises substantially in the course of the second year. Measured in constant 2011-kroner, however, the effect on consumption is higher throughout than the effect on housing investment.

As a result of higher consumption and housing investment, production and employment increase in most industries, particularly building and construction. Lower unemployment also prompts a rise in the level of real wages and household real disposable income. This further stimulates consumption. Investment in enterprises that produce for the domestic market rise as a result of the increased activity level, which in turn stimulates overall wealth creation.

Effect of permanently 10 per cent higher house prices
Deviation from baseline scenario in billions of 2011 NOK



However there are also some counteracting forces. After a while, as both housing investment and consumption increase more than income, households› net financial assets decline. As a result, interest expenses increase, and after 10 years, the level of real disposable income is approximately the same as in the baseline scenario. The prospect of higher inflation prompts a slight raising of interest rates, and this in itself has a negative effect on consumption and on business investment. Higher wages and a stronger krone mean that cost competitiveness becomes poorer than in the baseline scenario, and net exports (the difference between exports and imports) are reduced. Activity in internationally exposed enterprises is therefore somewhat lower than it would otherwise have been.

Effect of permanently 10 per cent higher house prices. Deviation from baseline scenario as a percentage unless otherwise indicated

	1st year	2nd year	3rd year	10th year
Housing investment	1.8	7.0	10.4	9.5
Household consumption	1.6	1.5	1.5	1.2
Net exports as a share of mainland GDP in the baseline scenario. Percentage points	-0.4	-0.4	-0.5	-0.6
Mainland GDP	0.6	0.9	1.0	0.6
Value added manufacturing	0.5	0.7	0.6	-0.3
Effect on value added in construction as a share of effect on mainland GDP	6.9	19.1	25.0	23.5
Unemployment rate, percentage points	-0.1	-0.2	-0.2	-0.1
Wages	0.1	0.2	0.3	1.0
Real disposable income	0.2	0.4	0.5	0.1
Gross household debt	0.3	1.5	2.7	8.1
Consumer price index	-0.1	-0.1	-0.1	0.3
Krone exchange rate	0.0	-0.3	-0.7	-0.7
Money market rate, percentage points	0.0	0.1	0.1	0.4
Memo: House prices	10.0	10.0	10.0	10.0

[1] Exports - imports.

As a result of the strong increase in consumption, mainland GDP increases by 0.6 per cent in the first year already. The higher investment boosts mainland economic activity further in the course of the next two years. At this point, however, the peak of the increase in activity has been reached, and counteracting forces gradually begin to curb the increase in activity.

The increased consumption is directed at many domestic industries, but also abroad. Intermediate inputs in building and construction amount to almost double the value added in the sector. Thus the increase in building and construction activity leads to increased production in a large number of industries that makes deliveries to building and construction.

On the one hand, internationally exposed industry is hit by weakened competitiveness, but on the other hand many manufacturing segments are stimulated by the increased domestic demand. The calculations show that manufacturing value added is higher than in the baseline scenario for the first four years, and then falls lower, a development that must also be viewed in context with developments in wages and exchange rates.

The annual rise in household debt increases by up to 1.3 percentage points. The increased debt and interest burden means that the risk of default increases compared with the baseline scenario, while the economy will be somewhat more vulnerable to economic downturns. In a situation like this, it is conceivable that the authorities would try to reduce lending growth somewhat, for example by means of a countercyclical capital buffer. No such response is included in the model, nor have changes been made in fiscal policy to dampen growth in activity.

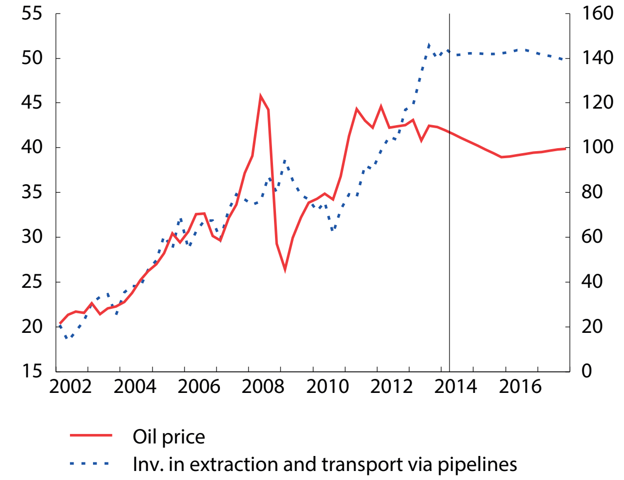
unchanged compared with the previous quarter. However, monthly figures from Association of Real Estate Agency Firms (Eiendom Norge) show clear indications that house prices are picking up again after a 1.6 per cent decline through the second half of 2013. While seasonally-adjusted house prices were unchanged in January, they rose by 0.3 per cent in February, 0.7 per cent in March, and 0.6 per cent in April. House prices are now back at about the same level as one year ago.

House prices are driven by fundamental economic factors. An increase in household disposable income and low interest rates has a positive influence on them, while an increased supply of new dwellings curbs prices. Research also shows that household borrowing and house prices mutually reinforce each other.

Our calculations take account of this interaction. In isolation, lower housing investment in 2014 will lead to lower growth in gross household debt. For their part, the banks have indicated that they want to increase lending for housing purposes. Given a stable and low nominal interest rate level which, combined with rising inflation, results in declining real interest rates, we expect growth in gross household debt to be about 5.5 per cent this year. We then expect credit growth to increase each of the next three years to about 8.5 per cent in 2017. However, housing investment also has a direct effect on house prices and high investment, which will grow from 2015, will curb the rise in house prices.

In the short-term, house prices are affected by changes in household expectations regarding developments in both their own financial situation and in the national economy. The Norwegian consumer confidence indicator Norsk Trendindikator developed by TNS Gallup and Finance Norway shows that the relatively weak developments throughout the autumn of 2013 have reversed in 2014, and risen in both the first and second quarters.

Figure 7. **Petroleum investments and oil price in USD. Seasonally adjusted, billion 2011-kr., quarterly**



Source: Statistics Norway.

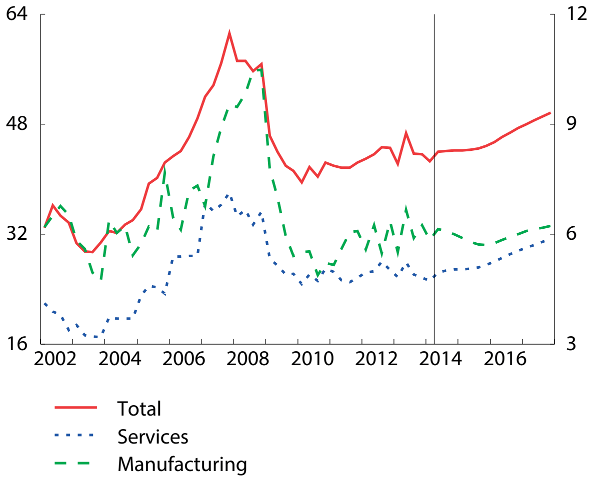
We assume that household expectations will return relatively quickly to a normal level, as has been the tendency after previous episodes of decline in the indicator. Given a moderate rise in household real disposable income, we expect house prices to rise by 0.7 per cent in 2014. Slightly higher growth in real income and increasing growth in credit to households, coupled with lower real interest rates, will bring annual growth up to just under 3 per cent in 2015, 3.5 per cent in 2016, and 5 per cent in 2017.

Signs of levelling off in the petroleum sector

Preliminary QNA figures show that the investment growth in the petroleum sector has levelled off. The decline in the fourth quarter of 2013 was followed by an upturn in the first quarter, but investment is now slightly lower than in the third quarter of 2013.

For a number of years, high oil prices have contributed to solid profitability also in previously unprofitable

Figure 8. **Investments. Mainland Norway. Seasonally adjusted, billion 2011-kr., quarterly**



Source: Statistics Norway.

fields. This has raised investment to record levels, and oil investment has never previously been greater than last year, measured as a share of the mainland economy. However, optimism has waned lately, and there is a greater focus on cost reductions. Fear of falling oil prices, combined with a high rise in costs, has led to certain projects being postponed.

Activity is high nevertheless, but we do not expect further growth. The high level of investment in recent years is partly due to a rebound after several projects were postponed as a result of the sharp fall in the price of oil in 2008/2009, but also because several large fields have been upgraded to extend their service life. The lag now appears to have been closed, and a number of large projects to upgrade for fields, including Ekofisk, are nearing an end. In isolation, this will curb investment. However, there are several major projects in the wings. The much-discussed expansion of the Utsira High is expected to begin shortly. This includes several field developments, and is an important reason why investment will remain high. There is still belief in the Barents Sea as a petroleum province, but the great breakthrough has not yet been made, including with respect to how to transport oil and gas from the Barents Sea.

Developments in the near term are therefore characterised by somewhat greater uncertainty than during the past few years. If the profitability of the Barents Sea fields improves, there is reason to believe that investment may increase more than we have assumed. On the other hand, there is also considerable downside risk in several areas.

Oil and gas production, measured in oil equivalent, edged up in the first quarter of this year compared with the same period last year. Production has remained at approximately the same level for the past few years. Increased gas production has compensated for lower oil production. After a decade of decline, oil production has nevertheless remained virtually unchanged for the past 18 months. This is expected to last, so that total petroleum production may increase slightly during the next few years. Like the crude oil price, export prices for gas have remained at a stable high level for the past three years. We assume a cautious decline in the crude oil price, and expect it to be USD 96 per barrel at the end of 2015, and that prices will subsequently remain unchanged in real terms. The average export price for gas normally follows this same tendency, and is expected to continue doing so.

Little impetus from business investment

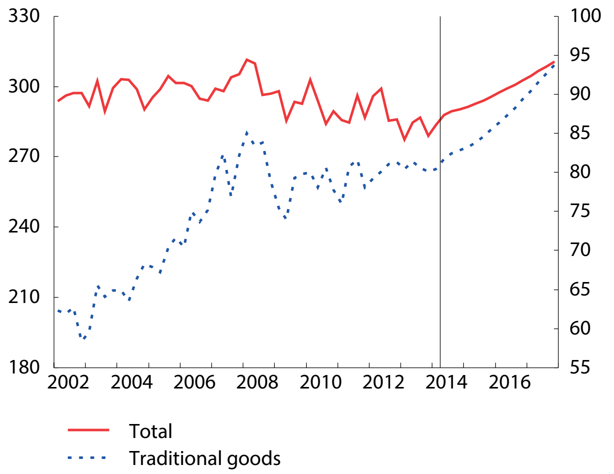
According to preliminary QNA figures, investment in the first quarter of 2014 fell by 2.3 per cent compared with the previous quarter. The decline was broad-based, and follows a weakly falling tendency since the end of 2012.

Manufacturing investment fell by 6.5 per cent in the first quarter. Investment in the food sector, which accounts for about 25 per cent of total manufacturing investment, has declined by about 30 per cent during the past two years, and the trend decline continued in the first quarter. The decline must be seen in the context of a high level of investment in 2010 and 2011, and the fact that a number of large projects have now been completed. Statistics Norway's survey of manufacturing companies' investment intentions points to weak developments in the near term. At the time of reporting, in the second quarter of 2014, companies in the food sector indicated that investment will continue to fall in 2015. For the past two years, the decline in the food industry has been countered by increased investment in shipbuilding and transport equipment, industrial chemicals, and repair and installation of machinery. The reported investment intensions in these sectors show expectations of lower investment in 2015. There is great uncertainty surrounding companies' own investment projections for next year, but even when taking into account the fact that companies' normally under-report their investment intentions, , the survey indicates that manufacturing investment will fall by 5–15 per cent from 2014 to 2015.

Growth in investment in electricity supply has been high for a long time. The investment level more than quadrupled from 2000 to 2013, and is now in line with manufacturing investment. Reported projections from power companies in the second quarter indicate that investment growth will be reduced in the near term. We estimate that growth in electricity investment will fall from about 5 per cent in 2014 to 3 per cent in 2015. The main contribution to further growth is expected to come from electricity transmission and distribution.

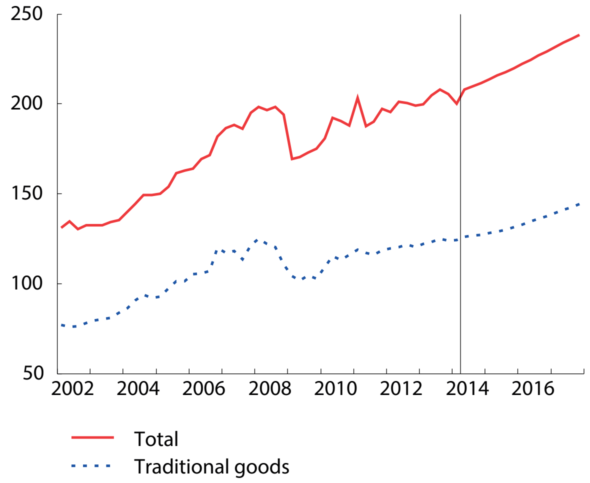
Service sector investment fell by 1.8 per cent in the first quarter. Sale and operation of real property account for about 25 per cent of investment in services, and developments in this sector have characterised business investment in the preceding years. The investment level

Figure 9. **Exports. Seasonally adjusted, billion 2011-kr., quarterly**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted, billion 2011-kr., quarterly**



Source: Statistics Norway.

has more than halved since the peak in the fourth quarter of 2007. In the service sector, there is great variation from one industry to the next. While investment in information and communication rose by 3.6 per cent, it fell by 11.7 per cent in commercial services.

Moderate investment developments are expected in the near term. Growth in industrial investment is projected to remain unchanged in 2014, and then pick up gradually. Business investment growth is projected to be about 5 per cent in 2016 and 2017. Compared with past cyclical upturns, this is very modest, and must be seen in the context of the feeble developments in the international economy and lower growth in demand from the petroleum sector. The weak investment developments help to explain why the cyclical upturn in the Norwegian economy in 2016 and 2017 is expected to be moderate.

Reduced balance-of-payments surplus

Total Norwegian exports increased slightly in 2012 and fell in 2013 as a result of reduced oil and gas exports. Oil and gas exports grew in the first quarter of this year following a slump in the fourth quarter of 2013. The volume of traditional goods exports has remained at approximately the same level for a couple of years. A relatively large reduction in exports of petroleum-related services caused a halving of growth in total service exports from 2012 to 2013. Total service exports showed a slight reduction in the first quarter of 2014, following zero growth the previous quarter.

The rise in prices for exports of traditional goods and services through 2013 continued in the first quarter of this year, largely due to the depreciation of the krone. Export prices for fish, fish products and farmed fish – which constitute a large group of export products – increased strongly through 2013 and into 2014.

This year we expect slightly strengthening international growth to heighten demand for traditional Norwegian goods and services, causing exports to pick up slightly. A weakened krone will stimulate exports compared with last year, but this improved competitiveness will wane with the recent strengthening of the krone. Growth in traditional exports is expected to be lower than growth in imports among our trading partners. This means that Norwegian exporters will continue to lose market shares. One important reason for this is a higher rise in costs than among our competitors in the export markets.

Exports of oil and gas have been declining for many years as a result of reduced production. An increase is expected this year, but that is due to a rebound following the sharp reduction last year.

Growth in overall import volumes has been moderate for the past two years. Imports of refined petroleum products have increased substantially. If these are excluded, growth in traditional goods imports has been between 1 and 2 per cent. Norwegians' spending abroad has also increased considerably and contributed substantially to pushing up growth in overall service imports. Preliminary Quarterly National Accounts figures show low or negative growth for the aforementioned import categories in the first quarter of 2014. The depreciation of the krone led to a rise in import prices from 2012 to 2013, and a relatively weak krone exchange rate is expected to do the same this year.

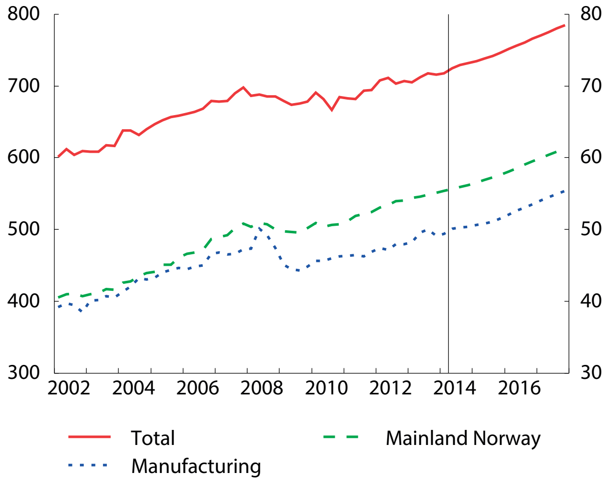
Consumption and investment in Norway are based to various degrees on imports, both direct and indirect. Growth in imports this year and through the projection period will therefore depend to a large extent on growth in and the composition of consumption and investment. We expect moderate growth, somewhat higher for total imports than for total exports excluding oil and gas. A higher rise in both volume and prices for imports than for exports will imply a fall in the trade surplus from over NOK 300 billion this year towards NOK 200 billion in 2017. We expect the return on a

Tabell 2. **Main economic indicators 2012-2016. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accunts 2013*	Forecast 2014			2015			2016		2017	
		SN	NB	MoF	SN	NB	MoF	SN	NB	SN	NB
Demand and output											
Consumption in households etc.	2.1	2.1	1 3/4	2.0	3.1	3 1/4	..	3.5	3 1/4	3.6	2 3/4
General government consumption	1.8	2.3	2	1.9	2.3	2 1/4	..	2.3	..	2.0	..
Gross fixed investment	8.4	0.2	..	1.7	2.2	..	..	3.8	..	3.6	..
Extraction and transport via pipelines[1]	17.1	3.5	1 1/2	3.0	0.4	3/4	..	1.0	-1 3/4	-1.6	- 1/2
Mainland Norway	4.4	-0.5	1 1/4	..	3.1	4 1/4	..	5.5	..	6.3	..
Industries	0.2	0.0	..	2.0	0.7	..	..	4.9	..	5.0	..
Housing	6.4	-4.8	..	-2.3	3.9	..	..	5.5	..	5.8	..
General government	9.9	4.7	..	4.8	6.2	..	..	6.3	..	8.9	..
Demand from Mainland Norway[2]	2.5	1.7	1 3/4	1.8	2.9	3 1/4	..	3.5	3	3.7	2 3/4
Stockbuilding[3]	-0.2	0.3	..	..	0.0	..	..	0.0	..	0.0	..
Exports	-3.3	2.6	..	1.9	1.5	..	..	2.2	..	2.6	..
Crude oil and natural gas	-7.7	2.7	..	1.1	-0.2	..	..	0.4	..	0.6	..
Traditional goods[4]	0.4	1.8	1 1/2	2.4	2.4	2 1/2	..	4.3	..	4.9	..
Imports	2.9	2.0	2	2.8	4.0	4 1/4	..	4.1	..	4.2	..
Traditional goods	2.5	2.4	..	2.3	2.4	..	..	4.5	..	4.8	..
Gross domestic product	0.6	2.2	1 1/2	1.5	1.7	2	1.8	2.5	2 1/2	2.5	2 1/2
Mainland Norway	2.0	2.0	1 3/4	1.9	2.2	2 1/2	2.2	3.1	3	3.1	2 3/4
Labour market											
Employed persons	1.2	0.8	1	0.8	0.7	3/4	..	1.1	1	1.8	1
Unemployment rate (level)	3.5	3.6	3 3/4	3.7	3.8	4	3.8	3.8	4	3.6	4
Prices and wages											
Annual earnings	3.9	3.6	3 1/2	3.3	3.5	3 3/4	..	3.7	4	3.8	4
Consumer price index (CPI)	2.1	2.0	2	2.0	1.7	2	..	1.7	2 1/4	2.2	2 1/4
CPI-ATE[5]	1.6	2.3	2 1/4	2.5	1.7	2	..	1.8	2 1/4	2.2	2 1/4
Export prices, traditional goods	3.4	3.5	..	..	1.4	..	..	1.1	..	2.1	..
Import prices, traditional goods	2.1	3.7	..		0.9	..	..	0.9	..	1.7	..
Housing prices	3.9	0.7	..	..	2.9	..	..	3.4	..	5.0	..
							..				
Balance of payment							..				
Current balance (bill. NOK)	333.6	344.3	..	..	334.5	..	..	305.0	..	315.1	..
Current balance (per cent of GDP)	11.1	11.0	..	11.0	10.5	..	..	9.2	..	9.0	..
							..				..
Memorandum items:							..				..
Household savings ratio (level)	9.0	9.8	..	9.2	10.2	..	..	10.2	..	9.9	..
Money market rate (level)	1.8	1.7	1.7	1.7	1.8	2	1.8	2.1	2.4	2.6	..
Lending rate, credit loans (level)[6]	4.0	4.0	..	..	3.9	..	..	3.9	..	4.1	..
Crude oil price NOK (level)[7]	639	630	..	650	580	..	626.0	568	..	579	..
Export markets indicator	1.2	3.6	..	..	4.6	..	..	5.4	..	6.2	..
Importweighted krone exchange rate (44 countries)[8]	2.2	2.8	2.9	3.6	-1.3	-1.6	..	-0.7	-0.3	0.0	0.0

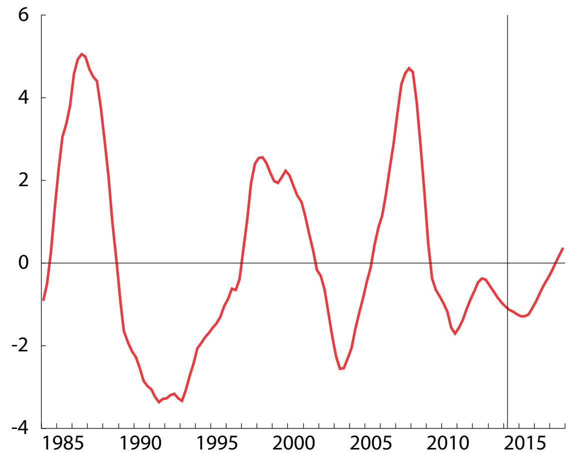
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates 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. 2 (2013-2014), (MoF), Norges Bank, Pengepolitisk rapport 1/2014 (NB).

Figure 11. **Gross domestic product. Seasonally adjusted , billion 2011-kr., quarterly**



Source: Statistics Norway.

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



Source: Statistics Norway.

large and steadily growing petroleum fund to ensure a rising net factor income and transfers surplus. The current account surplus is expected to fall from about 11 per cent of GDP in 2014 to around 9 per cent in 2017.

Continued cyclical downturn

In the first quarter of 2014, mainland GDP rose by 0.5 per cent, which is the same rate as in the two previous quarters. As an annual rate, this is approximately 2 per cent, while estimated trend growth for the mainland economy is just under 2.5 per cent. The Norwegian economy is thus still in a moderate cyclical downturn, which has now lasted a year and a half. The increased mainland activity can be mainly ascribed to three equally large contributions from the general government sector, market-oriented services, and manufacturing and other goods production combined. Among individual industries, the largest increase in production is to be found in metal goods, electrical equipment and machinery, but activity growth in the public sector (particularly administration and teaching) is also relatively high. Value added fell slightly in construction and in retail trade, and in several manufacturing segments.

The underlying economic situation looks somewhat weaker if we adjust for changes in non-cyclical activities such as electricity and primary industry production. Such an adjustment reveals that growth in the first quarter of 2014 was 0.2 percentage point lower, measured as an annual rate, than indicated by developments in mainland GDP.

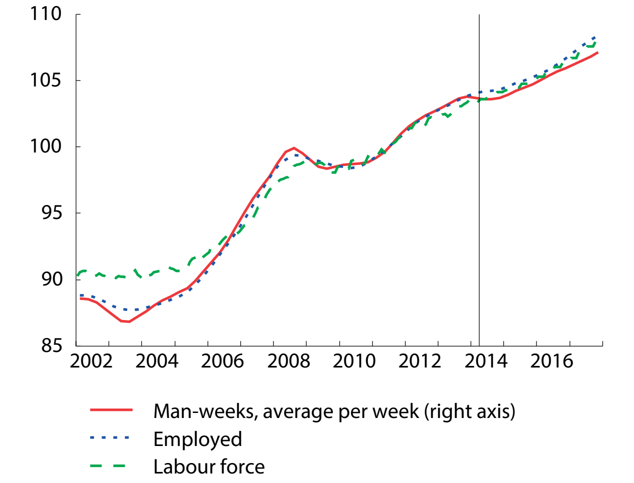
Manufacturing as a whole grew at the same rate as the overall mainland economy in the first quarter, but there was great variation across industries. Production of metal goods, electrical equipment and machinery has increased by almost 30 per cent since mid-2010. Towards the end of 2013 there were signs of lower activity, but the first quarter increase of 4 per cent has more than reversed the fall of the fourth quarter of 2013. Industries that primarily deliver to the petroleum industry are shipbuilding and repair and installation of machinery and equipment. Both of these saw a fall in value added in the second half of 2013, even though overall annual growth was high. In the first quarter, growth is again positive. The picture in other manufacturing segments was more mixed. Value added in the food industry declined fairly substantially, while value added in oil refinement and chemicals and pharmaceuticals manufacturing expanded in the first quarter after five consecutive quarters without growth. The development in value added in the remaining manufacturing segments still tends to be negative or flat.

Construction is the largest industry in the other goods production sector. Growth in this industry was strong in both 2012 and 2013 but fell back slightly in the first quarter of 2014, largely due to lower housing investment. The continued slight increase in other goods production is largely attributable to the fact that electricity production increased for the first time in almost two years.

Overall, market-oriented service industries grew somewhat less than mainland GDP in the first quarter, but the majority of industries reported some growth in value added nonetheless. An important exception is retail trade, where activity fell by 0.1 per cent. This industry has recorded low growth since 2012. On the other hand, commercial services and professional, scientific and technical services have both reported high, albeit slowing growth for the past two years. This growth declined further in the first quarter of 2014. Value added in accommodation and restaurants continued to increase steadily, and has now more or less reverted to the level prior to the financial crisis. Transport other than shipping is approaching a similar level, and rose by 0.7 per cent in the first quarter.

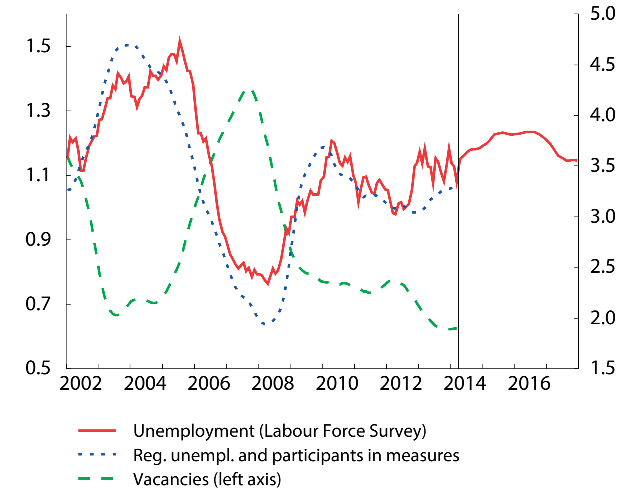
Services associated with petroleum production are not classified as part of mainland GDP. Growth in this

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.

segment was as much as 3.1 per cent in the first quarter, which is equivalent to an annual rate of more than 12 per cent. This means that production in this industry is continuing to grow as strongly as it has done for the past two years. However, it is not sufficient to compensate for a fall in value added in crude oil and natural gas production, and as a result overall GDP increased less than mainland GDP in the first quarter.

Our assumption for the next few years is that improved global economic development will create growth in manufacturing production, particularly in 2016 and 2017. The weakening of the krone exchange rate in 2013 will still lead to stronger exports in 2014, but this impulse will wane as the krone exchange rate strengthens a little through 2014. Strong growth in petroleum investment in recent years has generated a positive impulse to manufacturing. This investment is not expected to increase appreciably in the near term, as a result of which growth in overall manufacturing production will fall from this year to next.

Growth in construction is expected to be considerably lower this year and next than it has been in the two preceding years. After that, activity will pick up somewhat in 2016 and 2017. Our forecast for other goods production segments is that both fish farming and electricity production will grow somewhat.

Broad-based, but moderate, growth is expected in market-oriented service industries. Growth in retail trade will gather pace in the course of 2015 and 2016 as a result of increased growth in household consumption. At the same time, slower growth in petroleum investment will have a negative impact on the growth rate in several service sectors, in particular commercial services and professional, scientific and technical services. Growth in services associated with oil and gas production will also be appreciably reduced as a result of this, which is the main reason that our projection for overall GDP growth is lower than for GDP growth in the mainland economy in the years 2015–2017.

According to our forecasts, mainland GDP growth will be 2 per cent in 2014, which is the same growth rate as in 2013. In 2015 we expect a slight increase in growth, after which we expect it to be just over 3 per cent in 2016 and 2017. A definite change in the growth rate is thus only expected in a couple of years' time. The economic situation is thus expected to reverse from downturn to upturn in late 2015/early 2016.

Increasing unemployment

Quarterly employment increased at a steadily rate of about 0.3 per cent through 2013. Population growth in 2013 was 1.1 per cent, slightly lower than in 2012. According to the Labour Force Survey (LFS), employment as a share of the working age population declined by 0.5 percentage point from 2012 to 2013, while the share according to the QNA edged down 0.2 percentage point. The different developments in employment sectors, imply that there was still an increase in 2013 in the portion of the labour force that is either here on short-term stays or is not resident in Norway. According to the QNA, employment increased by 0.2 per cent in the first quarter of 2014.

In recent years there have been substantial differences in employment developments from one industry to the next, and this was also the case in the first quarter. Employment growth in services associated with production of crude oil and natural gas was almost three times as high as the average, while employment in retail trade declined. Employment growth in construction has also been relatively weak for the past three quarters, and on about the same level as the average for all industries. Average employment growth in manufacturing was 0.2 per cent, but the figure conceals large variations. Shipbuilding and transport industry, and repair and installation of machinery and equipment – manufacturing industries that primarily deliver to the petroleum industry – reported high employment growth, as did oil refinement and chemicals and pharmaceuticals manufacturing. Unchanged employment was recorded for export-oriented industry. However, employment in manufacturing that largely supplies the domestic market and in manufacturing of pulp and paper declined in the first quarter. Employment growth in local government was about twice as high as overall employment growth.

Labour force participation was 70.9 per cent on average for the period February to April, which is a decline of 0.3 percentage point in the period November to January. Labour force participation fell for persons aged 15–24 and for all cohorts of women. Otherwise, there is underlying trend growth in the labour force participation of both women and men in the groups aged 60–64 and 65–74. This probably reflects a higher educational level, the effects of the pension reform and generally improved health among the elderly. Work for an inclusive working life may also have had an effect.

According to LFS figures, unemployment increased towards the end of 2012, and the unemployment rate ranged from 3.3 to 3.7 per cent through 2013. Average unemployment for the fourth quarter of 2013 and for the year as a whole was 3.5 per cent. Average unemployment for the period February–April 2014 was somewhat lower, at 3.3 per cent. On the other hand, the statistics for registered unemployment of the Norwegian Labour and Welfare Organisation (NAV), and the total of registered unemployed and persons on labour market programmes showed a steady increase through 2013. The tendency through the first five months of the year has been fairly flat, however. At end-May 2014, 87 500 persons were either on labour market programmes or registered as unemployed. There is a rise in unemployment among a number of occupational groups, and the percentage increase is highest in ICT and engineering disciplines.

Persons who have been unemployed for more than 26 weeks, including persons who have been on labour market programmes during this period, but who are still unemployed, accounted for about 49 percent of the unemployed in April 2014. This is an increase of just 3 percentage points compared with the same period last year.

The number of public and private sector vacancies advertised in the media or reported to NAV was reduced by 17 per cent in January, 13 per cent in February, 10 per cent in March, 8 per cent in April and 10 per cent in May, compared with the same period in 2013. Since 2010, Statistics Norway has published figures for vacant positions compared with the total number of positions, and the figures are based on a sample survey. In the first quarter of 2014, the share of job vacancies was 0.3 percentage point lower than in the same period the previous year. The fact that the share of vacancies is falling indicates that job prospects for the unemployed have worsened over the past year. The largest decline in the number of announced vacancies was in personal and commercial services.

The rise in seasonally-adjusted man-hours worked in mainland Norway was on a par with the rise in the number employed in the first quarter of 2014. There is one more working day in 2014 than in 2013, which raises hours worked per employee. A decline in layoffs also increases the man-hours worked.

Employment growth is forecast to be weak over the next few years, although growth in both central and local government employment will push up employment figures. Activity in the petroleum industry is important to manufacturing, and impulses from this industry to Norwegian manufacturing are expected to be much weaker than in previous years. Construction activity is projected to increase again next year. Employment growth in this industry tends to reflect developments in production with a time lag, with the result that employment growth will be low this year and into next year. Employment in export-oriented activity will increase in the current year. Growth in other private service production and fish farming will also push up employment growth. On balance, we expect economic developments to result in some increase in unemployment in the near term. We project that LFS unemployment will increase slightly for the remainder of 2014 and rise further to 3.8 per cent in 2015. Unemployment is subsequently expected to remain at this level until 2017. By that time, according to our forecasts, global and domestic activity will have picked up, translating into stronger employment growth, so that unemployment falls to 3.6 per cent despite an increase in the labour supply.

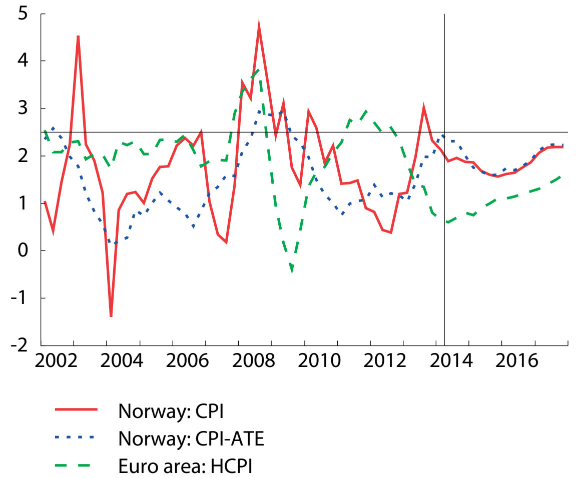
Slowing wage growth

In 2013, average annual salaries for all wage-earners increased by 3.9 per cent. This was approximately the same as in 2012, but the wage statistics reveal slightly declining growth through 2013 for both agreed and disbursed pay. Wage statistics are the main data source used both in the national accounts and by the Technical Calculation Committee for Wage Settlements for calculating annual wage growth, and the declining wage growth at the end of the year indicates that the labour market is less tight than previously.

In this year's main settlement, the parties agreed on pay increases that they estimate will result in wage growth of 3.3 per cent for manufacturing employees. Annual wages for clerical employees in manufacturing are also estimated to increase by 3.3 per cent. This is also the estimate for wage growth in manufacturing as a whole, which should be normative for the rest of the economy, according to the Holden III Committee. The framework from manufacturing has been applied in subsequent settlements in both the private and the public sector.

The total framework for wage growth aimed at by the parties depends on estimated wage drift through the year. In periods with low profitability and increased unemployment, this component tends to be low. In this year's wage settlement, the parties have assumed wage

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



Source: Statistics Norway.

drift of 1.5 per cent among manufacturing employees and 1.8 per cent among clerical employees. Such low wage drift has not been seen since 2003/2004. Unemployment was substantially higher at that time, however, and Norwegian manufacturing was struggling with very low profitability, which led to major closures. As a result, the parties aim to keep wage growth significantly lower in this year's collective bargaining settlement.

Several factors indicate that wage drift may be low this year. Unemployment has increased a little through the last few years, and we assume that it will also increase slightly this year. The supply of vacancies was lower in 2013 than in 2012 and 2011, and has also fallen so far this year. A group of highly qualified persons who have fewer jobs to choose between are engineers, including chartered engineers. According to NAV figures, the number of unemployed with ICT and engineering trainings increased by 28 per cent from May 2013 to May 2014. Unemployment has only increased more in managerial positions. The supply of vacancies in ICT and engineering occupations has fallen from a level of around 25 000 in both 2011 and 2012 to a total of about 19 000 in 2013. So far this year, the supply of these positions has continued to fall, and the decline each month has been more pronounced than the average across all occupations. As employees, engineers are very vulnerable to economic cycles, as they largely work in the private sector, and their wages are negotiated locally as a rule. A less tight labour market for these occupations will curb wage drift both in and outside manufacturing.

However, there are also other factors that influence the size of wage drift, such as structural changes and composition effects. In periods of cut-backs, young employees with low seniority tend to be the first to lose their jobs. In isolation, this factor will result in a higher average wage. In industries with high profitability, wage growth may also be somewhat higher than in manufacturing. We project that annual wages will increase by 3.6 per cent this year.

We expect wage growth to remain at about this level for the next few years as well. The unemployment rate is expected to increase to 3.8 per cent in 2015, which in isolation will serve to lower wage growth. Developments in manufacturing will have the opposite effect. Given stronger growth in demand from the global market, manufacturing production will pick up in 2016 and 2017 and fuel higher productivity growth. In our model, employees and capital owners share the proceeds of increased manufacturing productivity. We forecast that unemployment will fall in 2017. However, it will take time before increased profitability and reduced unemployment are really reflected in higher wage growth. As result, the rise in annual wages in 2017 will be only slightly higher than in the preceding years. Hourly labour costs, on the other hand, which are of relevance to employers, will be somewhat higher in 2017, mainly because there are fewer working days.

The exchange rate controls fluctuations in inflation

Underlying inflation has been relatively high through the past half year. Inflation measured by the 12-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-APE) increased from 1.7 per cent in September 2013 to 2.5 per cent in April, and this corresponds to Norges Bank's inflation target. A lower rise in electricity prices compared with developments through the previous year led the inflation rate for the total consumer price index (CPI) to fall by one percentage point in the same period, and in April it was 1.8 per cent.

Growth in hourly labour costs and in productivity have been fairly stable for the past few years, and have provided limited impulses for changes in the inflation rate. The increase in underlying inflation must therefore be viewed in light of the weakening of the krone through most of 2013 and in January 2014. The rise in prices for imported consumer goods (adjusted for taxes and excluding energy products) has thus increased from -0.3 per cent in September last year to 1.0 per cent in April 2014. This makes a 0.4 percentage point contribution to inflation, and explains a good half of the increase in the 12-month rise in the CPI-ATE from September last year to April this year.

The exchange rate also affects prices for domestically produced goods through prices for imported input factors and goods for which the prices in the Norwegian market are determined in the global market. The rise in prices for domestically produced products excluding electricity has gathered pace through the last half year, while the rise in prices for the main service categories has remained fairly stable. In April, there was in fact a sharp increase in the rise in prices for services excluding rent, but this was mainly attributable to the fact that price observations for air travel were strongly affected by Easter. This effect is expected to be reversed in May, and the rise in prices for services will then slow.

In the period ahead, too, we expect exchange rate movements to be the cause of most of the fluctuations in inflation. The appreciation of the krone through the latter part of the winter and the spring of 2014 will gradually be reflected in prices and outweigh the time-lagged effects of the preceding depreciation. We also expect some appreciation of the krone up to the end of 2015. Inflation will therefore probably slow in the near term. This will probably not prevent the rise in the annual average CPI-ATE from increasing appreciably from 2013 to 2014. We now project that the CPI-ATE will be 2.3 per cent higher this year than last. However, the appreciation of the krone will contribute to inflation falling appreciably in 2015, and it is projected to be 1.7 per cent in 2015. Wage growth in the first few years will probably make only minor contributions to changes in inflation, but may cause a small increase towards the end of the projection period. As the effects of the appreciation of the krone wane, inflation will also begin to pick up again, in 2016, and more markedly in 2017. According to our calculations, inflation will not quite reach Norges Bank's inflation target, nonetheless.

The difference between developments in the CPI-ATE and the CPI has for many years been dominated by developments in energy prices, particularly electricity prices, while tax changes have been of little significance in recent years. In light of the forward prices in the electricity market in the second half of May, we estimate that annualised electricity prices for households will fall by almost 10 per cent from 2013 to 2014. Neither oil prices nor tax changes are expected to generate significant impulses to the CPI this year. The rise in the CPI is therefore projected to be 2.0 per cent in 2014, and thus 0.3 percentage point lower than the rise in the CPI-ATE.

Electricity prices are expected to increase somewhat more than inflation in 2015, and then fall in subsequent years. Oil prices are also expected to fall somewhat in the second half of the year and through 2015. We assume as usual that no there will be no real changes in indirect taxes in the next few years. We expect CPI and CPI-ATE inflation to be very similar from 2015 and ahead, but CPI inflation may be somewhat lower than CPI-ATE inflation in 2016.

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

	Unadjusted		Seasonally adjusted							
	2012	2013	12.2	12.3	12.4	13.1	13.2	13.3	13.4	14.1
Final consumption expenditure of households and NPISHs	1 163 689	1 188 533	290 809	292 774	294 223	297 540	297 650	297 726	298 682	301 049
Household final consumption expenditure	1 109 433	1 132 871	277 298	279 238	280 671	283 831	283 674	283 694	284 703	287 067
Goods	554 323	559 588	139 550	139 538	139 927	142 174	141 350	139 464	139 768	141 022
Services	509 682	522 976	126 718	128 248	128 809	129 453	130 229	131 278	131 932	132 984
Direct purchases abroad by resident households	76 268	82 188	18 780	19 159	19 625	19 949	19 999	20 988	21 189	21 189
Direct purchases by non-residents	-30 841	-31 882	-7 750	-7 707	-7 690	-7 745	-7 904	-8 036	-8 185	-8 128
Final consumption expenditure of NPISHs	54 256	55 662	13 510	13 537	13 552	13 709	13 976	14 032	13 979	13 982
Final consumption expenditure of general government	602 683	613 623	150 196	151 795	152 131	152 928	153 043	153 433	154 237	155 614
Final consumption expenditure of central government	304 762	309 127	76 009	76 648	77 038	77 166	77 055	77 169	77 753	78 559
Central government, civilian	266 268	270 829	66 421	67 007	67 349	67 538	67 450	67 573	68 287	68 992
Central government, defence	38 493	38 298	9 588	9 641	9 689	9 629	9 604	9 596	9 466	9 567
Final consumption expenditure of local government	297 921	304 495	74 188	75 147	75 093	75 762	75 989	76 264	76 484	77 056
Gross fixed capital formation	583 849	632 879	143 347	147 644	152 324	150 262	161 757	160 821	159 990	157 033
Extraction and transport via pipelines	166 092	194 533	41 276	40 910	44 234	44 781	48 409	51 381	49 907	51 104
Service activities incidential to extraction	2 765	2 489	331	958	1 081	-474	1 182	737	1 044	404
Ocean transport	23 724	27 350	5 597	5 564	6 361	6 091	7 784	6 958	6 563	5 040
Mainland Norway	391 268	408 506	96 144	100 212	100 648	99 864	104 382	101 745	102 477	100 484
Mainland Norway excluding general government	305 178	313 894	75 433	78 139	78 193	76 882	80 968	78 099	77 811	75 578
Industries	175 817	176 223	43 603	44 647	44 549	42 171	46 630	43 670	43 573	42 585
Manufacturing and mining	23 515	24 352	6 243	5 479	6 351	5 499	6 656	5 888	6 239	5 835
Production of other goods	44 573	46 439	10 778	11 212	11 391	10 929	12 060	11 624	11 685	11 565
Services	107 729	105 431	26 582	27 957	26 807	25 743	27 913	26 158	25 649	25 185
Dwellings (households)	129 361	137 671	31 829	33 493	33 645	34 711	34 338	34 429	34 238	32 994
General government	86 090	94 612	20 711	22 073	22 455	22 982	23 414	23 646	24 665	24 906
Changes in stocks and statistical discrepancies	110 659	105 355	29 351	25 912	21 135	26 426	19 873	26 711	29 183	20 683
Gross capital formation	694 507	738 234	172 698	173 556	173 459	176 688	181 630	187 532	189 173	177 715
Final domestic use of goods and services	2 460 880	2 540 390	613 703	618 125	619 813	627 156	632 324	638 690	642 093	634 379
Final demand from Mainland Norway	2 157 640	2 210 663	537 149	544 781	547 003	550 332	555 076	552 903	555 396	557 148
Final demand from general government	688 773	708 235	170 908	173 868	174 586	175 910	176 458	177 079	178 903	180 520
Total exports	1 165 804	1 127 310	299 099	285 328	285 936	277 401	284 571	286 635	278 880	283 399
Traditional goods	321 677	323 053	80 127	81 085	81 305	80 455	81 398	80 592	80 117	80 455
Crude oil and natural gas	572 367	528 537	149 283	137 002	137 608	130 876	134 523	135 766	128 229	131 946
Ships, oil platforms and planes	8 765	8 882	3 132	2 333	1 400	1 959	1 670	2 482	2 750	3 415
Services	262 994	266 838	66 556	64 908	65 624	64 112	66 980	67 794	67 785	67 583
Total use of goods and services	3 626 684	3 667 700	912 802	903 453	905 748	904 557	916 894	925 325	920 973	917 777
Total imports	796 233	818 945	201 299	200 546	198 941	199 686	204 711	208 188	205 488	200 048
Traditional goods	482 523	494 525	120 466	121 990	120 414	122 198	123 194	124 978	123 858	124 233
Crude oil and natural gas	14 206	15 858	5 001	2 923	3 042	3 816	3 560	4 731	3 208	3 447
Ships, oil platforms and planes	26 330	24 957	6 765	6 427	7 079	6 070	6 610	7 323	4 980	3 399
Services	273 174	283 606	69 067	69 206	68 406	67 602	71 346	71 156	73 442	68 969
Gross domestic product (market prices)	2 830 451	2 848 756	711 503	702 907	706 807	704 870	712 184	717 138	715 486	717 729
Gross domestic product Mainland Norway (market prices)	2 146 145	2 188 127	534 481	539 244	540 569	543 831	545 341	548 104	550 822	553 459
Petroleum activities and ocean transport	684 305	660 629	177 021	163 662	166 238	161 040	166 842	169 033	164 664	164 270
Mainland Norway (basic prices)	1 842 887	1 878 628	458 834	462 160	463 656	466 222	468 265	470 721	473 524	475 722
Mainland Norway excluding general government	1 403 632	1 432 165	349 474	352 037	352 847	355 023	356 861	359 037	361 337	362 771
Manufacturing and mining	190 639	196 869	47 121	47 965	47 960	48 256	49 527	50 039	49 074	49 386
Production of other goods	243 959	248 232	61 349	60 898	60 606	61 495	61 811	61 913	62 869	63 189
Services incl. dwellings (households)	969 034	987 063	241 004	243 173	244 280	245 273	245 523	247 085	249 393	250 196
General government	439 255	446 463	109 360	110 123	110 809	111 198	111 404	111 683	112 187	112 951
Taxes and subsidies products	303 258	309 498	75 648	77 085	76 914	77 609	77 076	77 384	77 298	77 737

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							
	2012	2013	12.2	12.3	12.4	13.1	13.2	13.3	13.4	14.1
Final consumption expenditure of households and NPISHs	3.0	2.1	1.0	0.7	0.5	1.1	0.0	0.0	0.3	0.8
Household final consumption expenditure	3.0	2.1	1.1	0.7	0.5	1.1	-0.1	0.0	0.4	0.8
Goods	2.1	0.9	1.5	0.0	0.3	1.6	-0.6	-1.3	0.2	0.9
Services	3.1	2.6	0.7	1.2	0.4	0.5	0.6	0.8	0.5	0.8
Direct purchases abroad by resident households	9.7	7.8	0.3	2.0	2.4	1.7	0.3	4.9	1.0	0.0
irect purchases by non-residents	3.7	3.4	1.0	-0.6	-0.2	0.7	2.1	1.7	1.9	-0.7
Final consumption expenditure of NPISHs	1.9	2.6	-1.0	0.2	0.1	1.2	1.9	0.4	-0.4	0.0
Final consumption expenditure of general government	1.8	1.8	1.1	1.1	0.2	0.5	0.1	0.3	0.5	0.9
Final consumption expenditure of central government	1.8	1.4	1.2	0.8	0.5	0.2	-0.1	0.1	0.8	1.0
Central government, civilian	2.0	1.7	1.4	0.9	0.5	0.3	-0.1	0.2	1.1	1.0
Central government, defence	0.5	-0.5	0.1	0.6	0.5	-0.6	-0.3	-0.1	-1.4	1.1
Final consumption expenditure of local government	1.8	2.2	0.9	1.3	-0.1	0.9	0.3	0.4	0.3	0.7
Gross fixed capital formation	8.3	8.4	2.1	3.0	3.2	-1.4	7.7	-0.6	-0.5	-1.8
Extraction and transport via pipelines	14.6	17.1	4.1	-0.9	8.1	1.2	8.1	6.1	-2.9	2.4
Service activities incidential to extraction	..	-10.0	-16.3	189.8	12.9	-143.8	-349.3	-37.7	41.7	-61.3
Ocean transport	14.6	15.3	-11.1	-0.6	14.3	-4.2	27.8	-10.6	-5.7	-23.2
Mainland Norway	4.5	4.4	2.2	4.2	0.4	-0.8	4.5	-2.5	0.7	-1.9
Mainland Norway excluding general government	5.9	2.9	2.9	3.6	0.1	-1.7	5.3	-3.5	-0.4	-2.9
Industries	4.9	0.2	1.4	2.4	-0.2	-5.3	10.6	-6.3	-0.2	-2.3
Manufacturing and mining	3.1	3.6	11.9	-12.2	15.9	-13.4	21.0	-11.5	6.0	-6.5
Production of other goods	5.1	4.2	-2.0	4.0	1.6	-4.1	10.3	-3.6	0.5	-1.0
Services	5.2	-2.1	0.6	5.2	-4.1	-4.0	8.4	-6.3	-1.9	-1.8
Dwellings (households)	7.3	6.4	5.0	5.2	0.5	3.2	-1.1	0.3	-0.6	-3.6
General government	-0.4	9.9	-0.3	6.6	1.7	2.3	1.9	1.0	4.3	1.0
Changes in stocks and statistical discrepancies	-3.0	-4.8	-2.8	-11.7	-18.4	25.0	-24.8	34.4	9.3	-29.1
Gross capital formation	6.3	6.3	1.2	0.5	-0.1	1.9	2.8	3.2	0.9	-6.1
Final domestic use of goods and services	3.6	3.2	1.1	0.7	0.3	1.2	0.8	1.0	0.5	-1.2
Final demand from Mainland Norway	2.9	2.5	1.2	1.4	0.4	0.6	0.9	-0.4	0.5	0.3
Final demand from general government	1.5	2.8	0.9	1.7	0.4	0.8	0.3	0.4	1.0	0.9
Total exports	1.1	-3.3	1.1	-4.6	0.2	-3.0	2.6	0.7	-2.7	1.6
Traditional goods	1.7	0.4	1.1	1.2	0.3	-1.0	1.2	-1.0	-0.6	0.4
Crude oil and natural gas	0.7	-7.7	0.3	-8.2	0.4	-4.9	2.8	0.9	-5.6	2.9
Ships, oil platforms and planes	-35.6	1.3	66.1	-25.5	-40.0	39.9	-14.8	48.7	10.8	24.2
Services	3.0	1.5	0.9	-2.5	1.1	-2.3	4.5	1.2	0.0	-0.3
Total use of goods and services	2.8	1.1	1.1	-1.0	0.3	-0.1	1.4	0.9	-0.5	-0.3
Total imports	2.3	2.9	3.0	-0.4	-0.8	0.4	2.5	1.7	-1.3	-2.6
Traditional goods	2.4	2.5	0.8	1.3	-1.3	1.5	0.8	1.4	-0.9	0.3
Crude oil and natural gas	4.6	11.6	46.6	-41.6	4.1	25.5	-6.7	32.9	-32.2	7.5
Ships, oil platforms and planes	-17.9	-5.2	11.3	-5.0	10.1	-14.3	8.9	10.8	-32.0	-31.7
Services	4.4	3.8	3.9	0.2	-1.2	-1.2	5.5	-0.3	3.2	-6.1
Gross domestic product (market prices)	2.9	0.6	0.6	-1.2	0.6	-0.3	1.0	0.7	-0.2	0.3
Gross domestic product Mainland Norway (market prices)	3.4	2.0	0.7	0.9	0.2	0.6	0.3	0.5	0.5	0.5
Petroleum activities and ocean transport	1.3	-3.5	0.0	-7.5	1.6	-3.1	3.6	1.3	-2.6	-0.2
Mainland Norway (basic prices)	3.5	1.9	0.5	0.7	0.3	0.6	0.4	0.5	0.6	0.5
Mainland Norway excluding general government	4.0	2.0	0.5	0.7	0.2	0.6	0.5	0.6	0.6	0.4
Manufacturing and mining	2.7	3.3	-0.5	1.8	0.0	0.6	2.6	1.0	-1.9	0.6
Production of other goods	8.2	1.8	0.3	-0.7	-0.5	1.5	0.5	0.2	1.5	0.5
Services incl. dwellings (households)	3.2	1.9	0.8	0.9	0.5	0.4	0.1	0.6	0.9	0.3
General government	2.2	1.6	0.4	0.7	0.6	0.4	0.2	0.3	0.5	0.7
Taxes and subsidies products	2.8	2.1	2.1	1.9	-0.2	0.9	-0.7	0.4	-0.1	0.6

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2012	2013	12.2	12.3	12.4	13.1	13.2	13.3	13.4	14.1
Final consumption expenditure of households and NPISHs	101.1	103.9	100.5	100.6	101.6	102.2	103.1	104.4	104.7	105.1
Final consumption expenditure of general government	103.0	107.2	102.8	102.7	104.2	105.9	106.7	107.7	108.6	109.2
Gross fixed capital formation	103.3	107.7	103.0	103.5	104.6	106.1	106.9	108.0	109.6	109.7
Mainland Norway	103.2	107.9	102.7	103.7	104.7	106.2	106.8	108.5	109.5	110.1
Final domestic use of goods and services	102.5	105.8	102.5	102.4	103.3	104.2	105.3	106.6	107.5	107.1
Final demand from Mainland Norway	102.0	105.5	101.5	101.7	102.9	103.9	104.8	106.1	106.7	107.2
Total exports	102.0	103.9	101.2	101.4	100.9	100.9	101.4	105.1	107.8	106.2
Traditional goods	96.4	99.7	96.7	95.2	95.6	97.1	98.9	99.8	102.4	103.3
Total use of goods and services	102.3	105.2	102.1	102.1	102.6	103.2	104.1	106.2	107.6	106.8
Total imports	100.7	103.5	101.0	101.2	101.4	100.2	102.7	105.0	107.3	106.3
Traditional goods	100.6	102.7	100.5	100.8	100.7	100.3	101.4	103.7	105.6	106.5
Gross domestic product (market prices)	102.8	105.7	102.4	102.4	102.9	104.1	104.4	106.5	107.7	106.9
Gross domestic product Mainland Norway (market prices)	102.1	105.8	101.8	102.1	103.2	104.3	105.3	106.5	106.9	106.8

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2012	2013	12.2	12.3	12.4	13.1	13.2	13.3	13.4	14.1
Final consumption expenditure of households and NPISHs	1.1	2.7	-0.7	0.1	1.0	0.6	0.9	1.3	0.3	0.4
Final consumption expenditure of general government	3.0	4.1	0.8	-0.1	1.4	1.7	0.7	1.0	0.8	0.6
Gross fixed capital formation	3.3	4.3	1.0	0.5	1.1	1.5	0.7	1.1	1.5	0.1
Mainland Norway	3.2	4.5	0.8	1.0	0.9	1.5	0.6	1.6	0.9	0.5
Final domestic use of goods and services	2.5	3.3	0.7	0.0	0.9	0.9	1.0	1.3	0.8	-0.4
Final demand from Mainland Norway	2.0	3.4	0.0	0.2	1.1	1.1	0.8	1.2	0.5	0.5
Total exports	2.0	1.8	-3.1	0.2	-0.6	0.0	0.5	3.7	2.6	-1.5
Traditional goods	-3.6	3.4	-1.7	-1.5	0.5	1.5	1.8	0.9	2.6	0.9
Total use of goods and services	2.3	2.8	-0.6	0.1	0.4	0.6	0.8	2.0	1.4	-0.7
Total imports	0.7	2.8	1.0	0.2	0.2	-1.2	2.6	2.2	2.2	-0.9
Traditional goods	0.6	2.1	-0.1	0.3	0.0	-0.5	1.1	2.3	1.8	0.9
Gross domestic product (market prices)	2.8	2.9	-1.0	0.0	0.5	1.1	0.4	2.0	1.1	-0.7
Gross domestic product Mainland Norway (market prices)	2.1	3.6	0.5	0.4	1.0	1.0	1.0	1.1	0.4	0.0

Source: Statistics Norway..