Economic trends

The oil price has featured strongly in the headlines this autumn. After almost four years at over USD 100 per barrel, the oil price fell to USD 70 at the end of November. A price fall of this magnitude has not been seen since 2008. The oil price slump we are now experiencing is due not to an acute global crisis, such as the one in 2008, but to a combination of a weak global economic situation and a growing supply of oil from many sources. The oil stockpiling that has been taking place was expected by most to lead to a fall in the oil price sooner or later. Nevertheless, the price fall came sooner and has been somewhat deeper than envisaged by most.

After the financial crisis, the oil price recovered in the course of a couple of years, and returned to almost the pre-crisis level. We do not think the same will happen this time. The main reason is that the world›s oil production capacity at a price of USD 100 per barrel is appreciably larger now than it was in 2008. At the same time, we consider it unlikely that the oil price will remain at the current level, because some production will cease if the price remains at around USD 70. We believe that the oil price will increase somewhat, and assume that it will end up at USD 80 per barrel towards the end of the projection period in 2017. Box 1 provides a more detailed account of the factors that will influence the oil market going forward.

A lower oil price will mean less activity on the Norwegian continental shelf, which will have spillover effects on the mainland economy. Companies› petroleum investment projections for 2015 have been revised downwards in the course of the autumn, and lower oil prices give reason to expect that investment will be cut further in both 2016 and 2017. This will result in reduced employment, higher unemployment and lower real wages in Norway. The weak growth picture we envisage in 2015 will be dominated by falling petroleum investment and lower consumption growth. A deterioration in the economic situation will lead to a decline in population as a result of lower immigration and higher emigration than would otherwise have been the case. This will dampen the rise in unemployment slightly.

The fall in oil prices has already reduced the value of the Norwegian krone in relation to other currencies. This will weaken household purchasing power, but at the same time improve the competitiveness of exporters and Norwegian manufacturers in the domestic market. Norwegian exporters will also benefit from the slight improvement in the global economic outlook that will be a result of the fall in oil prices. This will counteract some of the negative effects of a lower level of petroleum sector activity.

Even if lower petroleum income results in reduced transfers to the Government Pension Fund Global, there is nothing in the fiscal rule to dictate that fiscal policy should be changed in the short term. At the outset, there is therefore no reason to believe that fiscal policy will be shifted appreciably. In our simulations, we have allowed automatic stabilisers to act through a progressive tax system and generous welfare schemes.

A balancing act lies ahead for monetary policy, however. On the one hand, the inflation rate in Norway will increase as a result of a weaker krone. In addition, household debt is high, as are house prices. On the other hand, the fall in oil prices will result in lower output and employment, which the Central Bank wishes to counteract. We assume that Norges Bank will place most emphasis on the latter effect, and will therefore cut the interest rate by 0.5 percentage point in the course of the first half of 2015. This will dampen the economic downturn without inflation becoming significantly higher than the inflation target.

Economic developments in Norway

The most recent quarterly national accounts figures (QNA) show that mainland GDP grew by just 0.4 per cent in the third quarter of 2014, markedly down on the previous quarter›s 1.2 per cent. Growth through 2014 has been strongly influenced by naturally occurring factors, but underlying growth has been fairly steady and close to trend growth in the mainland economy. Growth is likely to be much weaker going forward, however. The sharp fall in oil prices through this autumn will reinforce the fall in petroleum investment going forward. After two years of fairly cyclically neutral developments, the mainland economy will now experience a sharp, but probably brief, cyclical downturn.

If we regard the increase in the structural budget deficit as a share of trend mainland GDP as a measure of how expansionary fiscal policy is, the fiscal stance this year has been decidedly the most expansionary since the introduction of the fiscal rule, with the exception of the crisis year of 2009. The relatively high underlying output growth so far this year can therefore be attributed largely to clear growth in public sector demand, which

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

	2012*	2013*	Seasonally adjusted			
			13:4	14:1	14:2	14:3
Demand and output						
Consumption in households etc.	3.5	2.1	0.3	0.8	0.7	-0.1
General government consumption	1.6	1.7	1.1	0.8	1.0	0.6
Gross fixed investment	7.6	6.8	1.2	-0.8	0.3	-0.2
Mainland Norway	7.4	2.9	2.7	0.1	0.4	-0.6
Extraction and transport via pipelines	15.1	17.1	-2.0	-2.9	-0.5	0.2
Final domestic demand from Mainland Norway[1]	3.2	2.5	1.0	0.8	0.6	0.0
Exports	1.4	-3.0	-1.2	0.8	-1.4	2.1
Crude oil and natural gas	0.5	-7.6	-3.8	2.2	-4.3	4.3
Traditional goods	-0.2	1.0	0.6	0.6	2.9	0.9
Imports	3.1	4.3	1.5	-1.4	-0.3	2.2
Traditional goods	2.6	3.2	0.6	0.3	-1.6	1.8
Gross domestic product	2.7	0.7	-0.1	0.5	1.1	0.5
Mainland Norway	3.8	2.3	0.5	0.6	1.2	0.4
Labour market						
Man-hours worked	1.9	0.7	0.4	0.4	0.4	0.3
Employed persons	2.1	1.2	0.2	0.3	0.3	0.2
Labour force[2]	1.8	1.0	0.2	-0.1	0.4	0.4
Unemployment rate. level[2]	3.2	3.5	3.5	3.5	3.2	3.7
Prices and wages						
Annual earings	4.0	3.9	..	..	..	
Consumer price index (CPI)[3]	0.8	2.1	2.3	2.1	1.8	2.1
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	1.2	1.6	2.0	2.5	2.4	2.4
Export prices. traditional goods	-1.9	3.1	2.1	0.7	-1.0	0.8
Import prices. traditional goods	0.3	2.1	1.5	2.0	-0.2	1.4
Balance of payment						
Current balance. bill. NOK	368.9	299.6	90.4	101.5	55.3	52.3
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.2	1.8	1.7	1.7	1.8	1.7
Lending rate. credit loans[4]	3.9	4.0	4.1	4.1	4.0	3.9
Crude oil price NOK[5]	649	639	663	657	657	646
Importweighted krone exchange rate. 44 countries. 1995=100	87.1	89.0	92.6	93.1	91.5	93.1
NOK per euro	7.48	7.80	8.23	8.35	8.21	8.28

[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.

was reinforced by tax cuts and high growth in transfers to households. Household consumption during the period also contributed significantly to growth, even though consumption fell slightly in the third quarter. The moderate falling tendency in housing investment has continued, following the investment peak at the end of 2013. Mainland exports made a substantial contribution to growth in both the second and the third quarter. Overall, mainland business investment has pushed down total demand through the year, but it contributed positively in the third quarter.

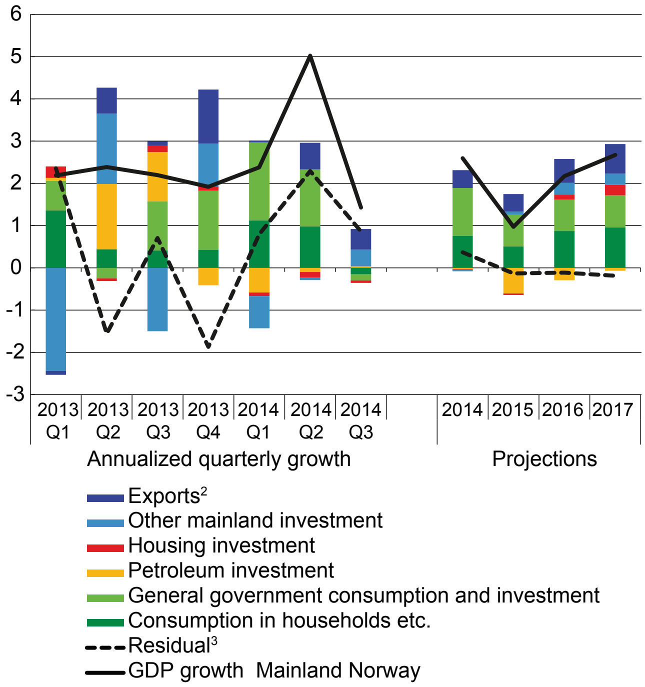
After falling through the last winter half-year, petroleum investment has shown little change in the last few quarters. The result is a substantial loss of growth impetus compared with the first half of 2013.

The fall in oil prices is now sharpening the oil companies› focus on cost-cutting, and also means that a number of development projects are no longer regarded as profitable. This is amplifying the already expected contraction in petroleum investment. We assume that investment will fall by close to 13 per cent in 2015 and by 7 per cent the following year, providing that oil prices do not fall further. We believe that balance in the oil market will be contingent on oil prices recovering somewhat in the period ahead. The oil price is projected to rise gradually to USD 80 per barrel in 2017.

The reduction in petroleum activity will exert appreciable downward pressure on GDP growth, both directly and through spillover effects in the form of lower demand from households and from the many industries that make substantial deliveries to the petroleum industry. Real disposable income will increase only slightly, thereby curbing consumption growth. For a while, more pessimistic households may also restrain GDP growth through lower demand in the housing market and weaker house price developments, which will further reduce household consumption growth in their turn. House prices are expected to fall somewhat a little way into next year, and as an annual average to remain at the same level as this year. Subsequent to this, real house prices are expected to remain roughly unchanged.

The krone depreciated sharply through the second half of 2013. This contributed to pushing up inflation in Norway, but also to improved cost-competitiveness, which is part of the explanation for the growth impetus from mainland exports in the second and the third quarter this year. In the wake of the decline in oil prices this autumn, the krone again weakened considerably. As a result, inflation will increase next year also, implying a further improvement in competitiveness. The lower oil price will also stimulate growth in Norwegian export markets by degrees, and Norwegian exports will pick up.

Figure 2.1. **GDP growth Mainland Norway and contribution by final demand components[1]. Percentage points**



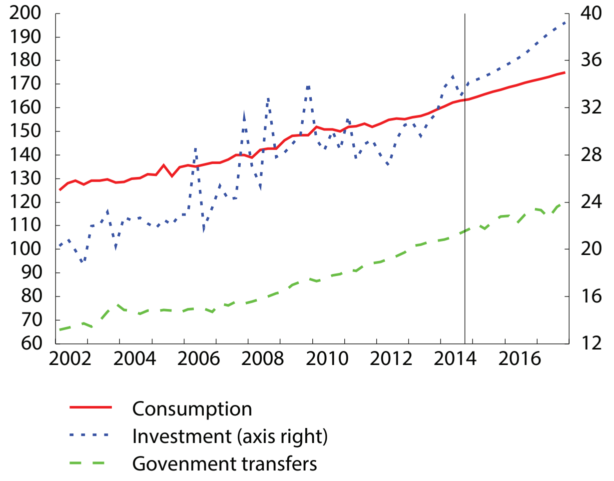
[1] Demand components are calculated as the change in each variable, adjusted for the direct and indirect import shares, relative to the level of GDP Mainland Norway in the preceding period. The import shares can be found in Economic Survey 1/2014. All variables are seasonally adjusted and at constant prices.
[2] Exports is defined as total exports minus exports of crude oil, natural gas, ships, oil platforms and planes.
[3] The residual is the sum of all the demand factors that are left out as well as changes in stocks and statistical discrepancies.
Source: Statistics Norway.

We believe that the pronounced economic deterioration will lead to the key policy rate being cut quite rapidly by 0.5 percentage point, with the result that the money market rate will fall to 1.2 per cent from the second quarter of 2015. We also expect banks› interest rate margins to be reduced, so that typical mortgage rates will fall somewhat more than this.

Lower interest rates and increased exports will then counteract the negative impulses generated by lower petroleum sector demand. We have not assumed that there will be a shift in fiscal policy, but the budget agreement recently achieved in the Storting nonetheless implies fiscal impetus roughly as expansionary as this year›s. The growth contributed by public sector consumption and investment is projected to be equivalent to three-quarters of mainland GDP growth on 2015, while contributions from household consumption and mainland exports will be quite considerably smaller. Underlying growth in mainland GDP is expected to be very low until the end of next year. Unemployment is expected to increase gradually, peaking in 2016 at 4.0 per cent.

Fewer negative impulses from the petroleum sector and stronger growth abroad will be reflected in higher growth in the mainland economy in 2016 and 2017, and unemployment may then fall slightly in 2017. Higher oil prices, lower Norwegian inflation and slightly higher Norwegian interest rates will lead to some

Figure 2.2. **General government. Seasonally adjusted, billion 2012-kr., quarterly**



Source: Statistics Norway.

strengthening of the krone. In consequence, inflation will fall markedly from over 2.5 per cent in 2015. The projections for 2016 and 2017 are 2.0 and 1.7 per cent, respectively.

Expansionary fiscal policy

Underlying growth in general government consumption has been high for many quarters. Given the same level in the fourth quarter as in the third quarter, annual growth in 2014 will be 3 per cent. We therefore now estimate that annual growth will be 3.1 per cent. This is one percentage point higher than both our previous projections and the forecast according to the 2015 National Budget (NB15). Part of the upward revision can be attributed to changes in recording procedures. Gross general government investment increased considerably through 2013, and continued to do so in 2014. Given an unchanged seasonally adjusted level from the third to the fourth quarter of this year, annualised investment growth will be about 10.5 per cent.[1] This is also slightly higher than the projection in NB15. Transfers to households appear likely to increase by just under 6 per cent in 2014, which means real growth of just over 3.5 per cent. These three spending components combined will increase by just over 4 per cent in real terms from 2013 to 2014, and help explain about half of the growth in the mainland economy this year. In addition, reduced tax rates from 2013 to 2014 have likely provided some stimulus to household consumption. An expansionary fiscal policy is therefore an important driver of mainland economic growth in 2014.

The Government and the coalition parties in the Storting agreed on the 2015 National Budget in November. The agreement means that compared with the projections in the State Budget and the National Budget, the tax reduction has been amended from NOK 8 billion to about NOK 5 billion. About half of the change is due to the reduction in wealth tax being less than proposed in NB15, and most of the tax cuts will accordingly take the form of lower direct taxes. The expense side of the budget has increased by NOK 3 billion, most of it in the form of increased public spending on consumption. This means that we estimate that the increase in general government consumption will be just over NOK 2 billion higher in 2015 than the projection in NB15. We forecast that growth in gross general government investment will be just over 3 per cent in 2015, in line with the projection in NB15. Household transfers are projected to increase by a nominal 7.7 per cent in 2015, according to NB15. About NOK 12 billion of this growth is linked to increased disability pensions as a result of such pensions being taxed as pay with effect from 2015. The net effect of this change on household income is zero. If we disregard this change, the real growth in transfers can be estimated at just under 3 per cent in 2015.

The overall real impulses from the three spending components will then be 2¾ per cent. If we add tax reductions of about NOK 5 billion, this indicates that the fiscal policy will have a clearly expansionary effect on the Norwegian economy. Corrected for normal import shares, growth in general government consumption and investment will be ¾ percentage point of mainland economic growth in 2015. According to our projections, fiscal policy will thus play a major role in ensuring that growth in the Norwegian economy does not come to a complete halt in 2015.

For 2016 and 2017, we have mainly kept the earlier projections for the main features of fiscal policy. Tax rates will be reduced approximately as in the two previous years, and mainly in the form of lower direct personal tax of about NOK 6 billion per year. Growth in general government consumption will be slightly curbed, but will generally follow the same tendency as in 2015.

Gross investment will increase in 2016 approximately as in 2015, while growth in 2017 will be higher as a result of the purchase of new fighter aircraft. Growth in transfers is projected to continue at about the same level as in 2015 in real terms, but higher unemployment will lead to an increase in labour market-related transfers. The growth impulses from fiscal policy are expected to be almost the same as in 2015 or slightly lower.

In NB15, the Government estimates the structural, non-oil budget deficit (SNOBD) to be 2.8 per cent of the Government Pension Fund Global (GPFG) in 2014. The projection for 2015 was 3 per cent, but the SNOBD has now grown substantially, partly due to a weaker krone. Our estimates and projections for the period up to and including 2017 show only small changes in the SNOBD, measured as a share of the GPFG.

[1] The revision of the National Accounts figures has changed the calculation of general government consumption and gross investment.

Box 1. **Impact of a lower oil price**

From early 2011 until autumn 2014, the oil price was around USD 110 per barrel. In our September projections, when the price was still over USD 100 per barrel, we forecast that it would gradually fall to USD 95 by the end of 2015. Since then the price has plummeted far more than foreseen, and in early December was down to USD 70 per barrel. We now assume that the oil price will remain around USD 70 until the spring of 2015, and then gradually rise to USD 80 in 2017.

In this box, we study the effects on the Norwegian economy of a lower oil price. This is done by calculating the effect of the oil price following our new projections instead of the oil price path we used in September. The reduction in the oil price is only USD 6 in 2014 as an annual average, but increases to USD 27 in 2015 before the difference abates in 2016 and 2017. In the calculations we use a version of the macroeconomic model MODAG which is approximately the same as the one used by Cappelen et al. (2013) to analyse a similar problem.

In a short and medium-term perspective, the oil price affects the Norwegian economy primarily through demand from oil companies and via the krone exchange rate. With weaker oil company profitability and lower oil price expectations, it is less profitable to invest in order to increase the recovery factor. This results in cutbacks in employment in the industry and reductions in its purchases of goods and services. Exploration and production drilling is reduced – generally fairly abruptly – investment projects to increase service life are scrapped and new field developments are shelved.

However not all these effects are captured by the model. In order to show the effects of the fall in oil prices as far as possible in isolation, we have not changed the assumptions associated with international developments. Nor have we included any mitigating monetary or fiscal response. However, we have allowed household expectations regarding the near future to be affected by the fall in oil prices. In the fourth quarter, household expectations were appreciably lower than in our September projection, where we assumed a cautious rise. In the shift analysis we included weaker expectations up to the summer, and then normalisation.

According to the model-based calculations, a lower oil price path results in a reduction in mainland GDP of 0.2 per cent in 2015 which increases to 0.7 per cent in 2017. The decline in petroleum sector demand particularly affects supplier industries such as shipbuilding and engineering and services associated with production (drilling and engineering), but also the traditional mainland industries such as banking and insurance and other market-oriented services. This leads to lower employment than would otherwise have been the case. Poorer profitability and lower petroleum sector wages combined with a weaker labour market curb growth in real wages. Household income growth declines as a result, so that consumption falls.

Table 1. **Effects of lower oil price on main macroeconomic aggregates. Percentage deviation from the baseline scenario unless otherwise indicated**

	2014	2015	2016	2017
Mainland GDP	0.0	-0.2	-0.6	-0.7
Manufacturing	-0.1	-0.4	-0.5	-0.6
Household consumption	0.0	-0.3	-0.7	-0.8
Mainland investment	0.0	-0.2	-0.6	-0.7
Housing	-0.1	-0.6	-1.5	-1.8
Business	0.0	-0.1	-0.2	-0.3
Petroleum investment	0.0	-0.9	-5.5	-6.8
Total exports	0.0	0.1	0.3	0.3
Imports	0.0	-0.4	-1.3	-1.5
CPI	0.0	0.0	0.2	0.1
Annual wages	0.0	-0.2	-0.4	-0.5
Real disposable income	0.0	-0.3	-0.8	-1.1
Import-weighted exchange rate	0.3	1.7	1.8	1.5
House prices	-0.4	-2.0	-2.0	-0.6
Employment	0.0	0.0	-0.2	-0.4
Labour force	0.0	0.0	-0.1	-0.3
Unemployment rate	0.0	0.0	0.1	0.1
Immigrants aged 15-74 years, 1000s of persons	0.0	-0.5	-3.2	-6.1
Memo:				
Oil price, in USD	-5.7	-26.9	-20.1	-18.9

The fall in the oil price weakens the krone directly. This leads to higher consumer prices, despite the fact that the oil price, in isolation, depresses them. The developments in the krone exchange rate also result in improved profitability in the internationally exposed sector excluding the supplier industry, and this dampens the fall in real wages. Weak developments in real income combined with a fall in household expectations contribute to slowing the rise in house prices for the first few years, so that they fall in real terms. A normalisation of expectations, such as we expect, will lead to house prices rising slightly.

The weakening of the exchange rate also means an improvement in the cost-competitiveness of Norwegian companies, which will accordingly gain market shares both at home and abroad. The output of these companies will therefore increase, pushing up labour and real capital needs to some extent. The rise in unemployment will be checked by the contraction of the labour force as a result of somewhat lower labour force participation and immigration.

Referanse

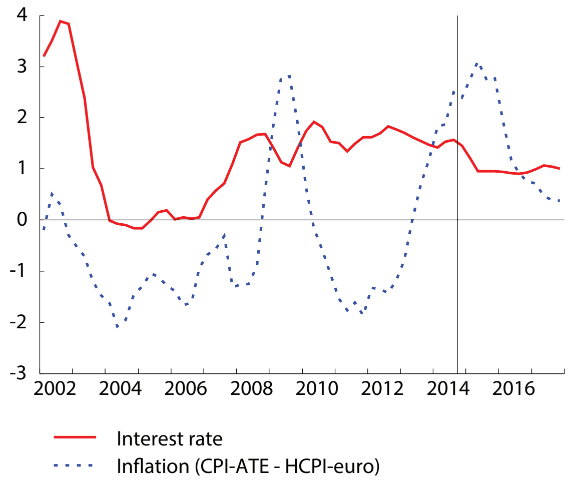
Cappelen, Å., Eika, T. and Prestmo, J. (2013): Petroleumsvirksomhetens virkning på norsk økonomi og lønnsdannelse. Framtidig nedbygging og følsomhet for oljeprissjokk. [The effect of petroleum activities on the Norwegian economy and wage formation. Future contraction and sensitivity to oil price shocks]. Reports 2013/59, Statistics Norway.

Tabell 2. **Main economic indicators 2013-2017. Accounts and forecasts[9]. 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	2 1/4	2.1	1.4	3 1/4	2.7	2.4	3 1/2	2.6	3.0
General government consumption	1.7	3.1	2 1/4	2.1	2.5	2 1/4	2.2	2.3	..	2.0	..
Gross fixed investment	6.8	1.3	..	1.0	-2.8	..	-0.9	1.1	..	3.5	..
Extraction and transport via pipelines[1]	17.1	-0.7	0.0	0.0	-12.8	-10	-8.0	-7.2	-1.0	-1.8	4.0
Mainland Norway	2.9	2.2	1/2	..	1.2	5.0	..	4.0	..	5.2	..
Industries	-1.1	-0.5	..	0.1	1.4	..	1.2	4.8	..	4.5	..
Housing	6.4	-0.3	..	-2.0	-0.7	..	3.4	2.6	..	5.2	..
General government	6.5	10.4	..	9.4	3.2	..	3.2	4.3	..	6.3	..
Demand from Mainland Norway[2]	2.5	2.4	2.0	2.0	1.7	3 1/4	2.5	2.7	3 1/4	3.0	2 3/4
Stockbuilding[3]	0.5	0.9	..	..	0.3	..	..	-0.1	..	-0.5	..
Exports	-3.0	1.0	..	2.2	0.8	..	2.2	1.4	..	1.9	..
Crude oil and natural gas	-7.6	-0.8	..	0.9	-0.8	..	0.6	-0.5	..	-0.4	..
Traditional goods[4]	1.0	2.9	3.0	3.1	3.1	1 3/4	3.6	3.9	2 3/4	4.5	4.0
Imports	4.3	2.8	1 1/4	2.3	1.8	4 3/4	2.5	2.0	..	1.5	..
Traditional goods	3.2	0.8	..	1.4	-0.5	..	3.6	3.3	..	4.2	..
Gross domestic product	0.7	2.2	1 3/4	1.8	0.5	1 3/4	1.6	1.6	2 1/4	2.1	2 1/2
Mainland Norway	2.3	2.6	2 1/4	2.2	1.0	2 1/4	2.0	2.2	2 3/4	2.7	2 3/4
Labour market											
Employed persons	1.2	1.1	1.0	0.9	0.2	3/4	0.8	0.2	1.0	1.1	1 1/4
Unemployment rate (level)	3.5	3.5	3 1/4	3.4	3.9	3 1/2	3.6	4.0	3 1/2	3.7	3 1/4
Prices and wages											
Annual earnings	3.9	3.3	3 1/2	3.3	3.1	3 1/2	3 1/4	3.3	4.0	3.3	4.0
Consumer price index (CPI)	2.1	2.1	2.0	2.1	2.6	2 1/4	2.1	2.0	2.0	1.7	2 1/4
CPI-ATE[5]	1.6	2.5	2 1/2	2.4	2.8	2 1/4	2.1	2.0	2 1/4	1.7	2 1/4
Export prices, traditional goods	3.1	3.4	..	..	2.2	..	..	2.0	..	1.6	..
Import prices, traditional goods	2.1	4.8	..		2.8	..	..	1.5	..	1.4	..
Housing prices	4.1	2.3	..	..	0.2	..	..	2.5	..	1.3	..
							..				
Balance of payment							..				
Current balance (bill. NOK)	299.6	278.7	..	..	234.8	..	..	244.4	..	287.8	..
Current balance (per cent of GDP)	10.5	8.9	..	11.6	7.5	..	11.5	7.5	..	8.5	..
							..				..
Memorandum items:							..				..
Household savings ratio (level)	7.4	8.1	..	9.3	8.5	..	9.5	9.0	..	9.4	..
Money market rate (level)	1.8	1.7	1.7	1.7	1.3	1.8	1.7	1.2	1.9	1.4	..
Lending rate, credit loans (level)[6]	4.0	3.9	..	..	3.4	..	..	3.3	..	3.5	..
Crude oil price NOK (level)[7]	639	625	..	656	488	..	650	519	..	537	..
Export markets indicator	1.3	3.1	..	..	2.7	..	..	4.8	..	5.7	..
Importweighted krone exchange rate (44 countries)[8]	2.2	4.9	3.7	5.4	4.0	-2.2	1.9	-1.0	-1.4	-0.8	-0.6

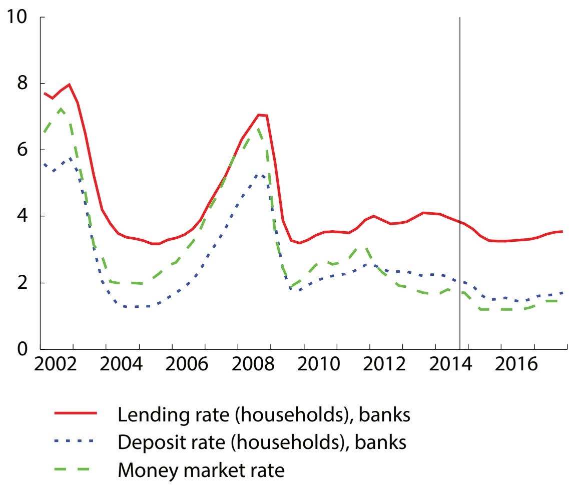
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates 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.
[9] Whereas our projections are based on the national accounts as they are at present, the analyses of FIN and NB were performed before the main revision in 2004. In particular, this means that the saving ratio projections are not comparable.
Source: Statistics Norway (SN), Ministry of Finance, St.meld nr. 2 (2014-2015), (MoF), Norges Bank, Pengepolitisk rapport 3/2014 (NB).

Figure 2.3. **Interest rate and inflation differential between NOK and the euro. Percentage points**



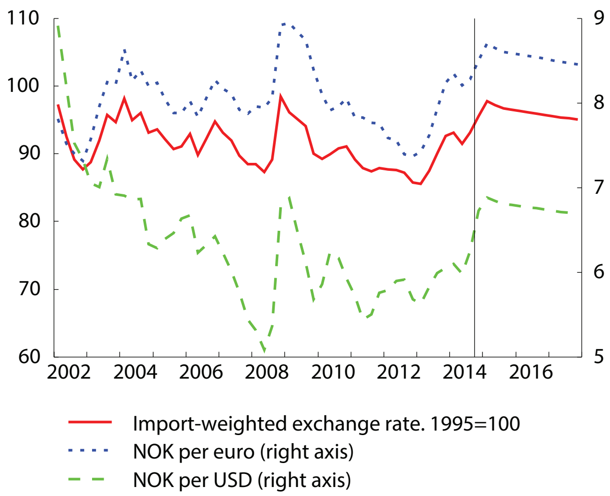
Source: Norges Bank and Statistics Norway.

Figure 2.4. **Norwegian interest rates. Per cent**



Source: Norges Bank and Statistics Norway.

Figur 2.5. **Exchange rates**



Interest rates edge down even further

The key rate has been unchanged at 1.5 per cent since March 2012. The premium between the key rate and the money market rate now appears to have normalized. For the past two months, the three-month money market rate has been just under 1.7 per cent, approximately the same as the average for this year. This is even lower than the level in 2013.

The low and at times falling money market rate was a factor in the depreciation of the Norwegian krone through 2013. The krone appreciated again in early 2014 and until May this year, but then depreciated markedly, mainly due to the sharp fall in oil prices. After the OPEC meeting at the end of November, the oil price was down to USD 70, while the krone exchange rates against the euro and the dollar were NOK 8.70 and NOK 7.00, respectively. Six months ago, one euro cost NOK 8.10, while one dollar was worth less than NOK 6.

Household interest rates fell through the first three quarters of 2014. While the average interest rate from banks and credit institutions on credit loans secured on dwellings was 4.08 per cent at the end of the fourth quarter of 2013, it was 3.85 per cent at the end of the third quarter of this year. Most of the reduction occurred in the second quarter. Interest rates on bank deposits decreased from 2.24 per cent at the end of the fourth quarter last year to 2.08 per cent at the end of the third quarter of this year.

We expect more interest rate cuts, partly as a result of the low growth next year combined with a clear increase in unemployment and relatively low inflation. We believe that the money market rate may decline to 1.2 per cent in the second quarter and then remain at that level for most of 2016. The rate may rise slightly at the end of 2016 and in 2017, as a result of improvements in the economic situation.

Several banks have lowered interest rates this quarter. With an even lower money market rate in the near term, interest rates to the public will be further reduced. In our forecasts we have assumed that the interest rate on credit loans will decline to 3.3 per cent in 2016.

Given a money market rate in the euro area that remains below 0.5 per cent, despite an increase through the projection period, the interest rate differential between the Norwegian money market rate and the money market rate in the euro area will be reduced from 1.5 per cent in the autumn of 2014 to 1.0 per cent in 2017. Higher interest rates in Norway than in the euro area point in isolation to a strengthened krone, while the reduced interest rate differential points in the opposite direction. We assume that the depreciation of the krone at the end of November this year will gradually be reversed through the projection period, to NOK 8.50 against the euro in early 2017. On an annual basis, this implies a very weak krone next year, and we expect it to depreciate by about 4 per cent in 2015, measured by

Box 2. **Downward revision of the saving ratio**

Saving in households and non-profit organisations is defined as disposable income less consumption adjusted for saving in pension funds. As a result of the 2014 main revision of the national accounts (HR2014), the saving ratio – saving calculated as a share of disposable income – has been revised down by about 1.5 percentage points annually for the period 2009 to 2013 compared with the figures from the 2011 main revision of national accounts (HR2011). The levels of saving ratio revisions for the years 1995 to 2008 are small.

The downward revisions of the saving ratio for the period 2009 to 2013 are largely due to the levels of disposable income being revised down by between NOK 45 and 60 billion as a result of the downward revision of self-employment income and the upward revision of transfers abroad on the basis of re-use of existing sources. Total consumption has also been revised down, but not to the same extent. Another consequence of HR2014 is that the return on insurance claims in the income accounts is no longer entered as disposable income but is added to adjustment for saving in pension funds. This accounting change has no effect on the saving level, however.

	2009	2010	2011	2012	2013
Saving ratio HR2014	5.5	4.3	6.2	7.4	7.4
Saving ratio HR2011	7.1	5.8	7.8	8.6	9.0
Revision, percentage points	-1.6	-1.5	-1.5	-1.2	-1.6

the import-weighted exchange rate. This is one percentage point less than in 2014. In both 2016 and 2017, the krone will appreciate by about one per cent against this index.

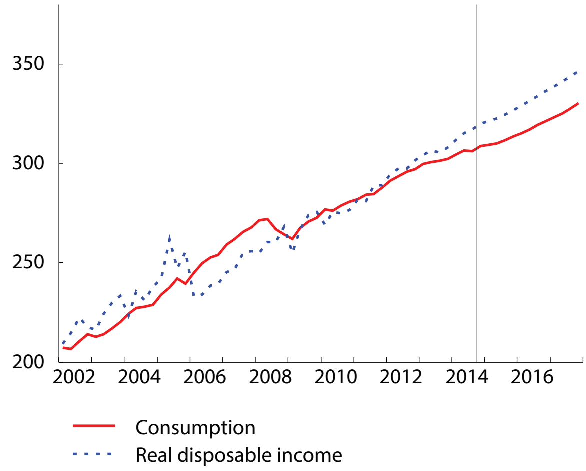
Weak consumption growth in 2015

According to seasonally adjusted QNA figures, consumption in households and non-profit organisations declined by 0.1 per cent in the third quarter of 2014, following a strong increase in the two previous quarters. Much of these movements can be attributed to developments in goods consumption, which showed a clear decline of 0.8 per cent as compared to a corresponding increase in both the first and the second quarter. Apart from reduced food purchases, most of the decline can be attributed to the purchase of durable goods like furniture, white goods and cars. Electricity consumption was also clearly lower in the third quarter than in the previous quarter.

However, the goods consumption index for October shows a 0.6 per cent increase on September, which is clearly higher than the average monthly growth in the third quarter.

Consumption of services has risen relatively steadily throughout 2013 and so far this year. The third quarter increase was 0.7 per cent, with relatively large contributions to growth from rent and hotel and restaurant

Figure 6. **Income and consumption in households. Seasonally adjusted, billion 2012–kr., qarterlyl**



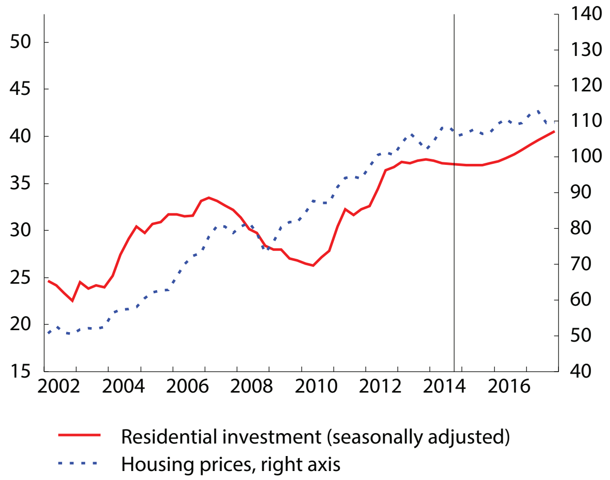
Source: Statistics Norway.

services. Norwegians› spending abroad grew strongly through 2013, for the fourth year in a row. After remaining virtually unchanged in the first quarter of this year, probably as a consequence of the depreciation of the krone through 2013, Norwegians› consumption abroad increased again by 0.9 per cent in the second quarter. In the third quarter, however, Norwegians› spending abroad declined for the first time in a long time and the 0.6 per cent decline can be attributed to the hot summer in Norway as well as to the depreciation of the krone.

Changes in consumption are largely determined by movements in household income, wealth and interest rates. Real disposable income rose by 2.8 per cent in 2013. Wage income made a particular contribution to income growth last year, as a consequence of higher wages and more employees. Higher public transfers, mainly as a result of increased disbursements of pensions and sickness benefit, also made appreciable contributions. Relatively high inflation of 2.8 per cent, measured by the National Accounts consumption deflator, curbed developments in real income. Net interest income also made a negative, albeit minor, contribution to growth, as interest income on bank deposits increased somewhat less than interest expenses on loans.

According to seasonally adjusted figures, real disposable income rose by a full 1.3 per cent in the first quarter, and 1.0 per cent in both the second and third quarters, with continued clear contributions to growth from both wage income and government transfers in addition to tax cuts. We expect clear contributions to growth from these income components also during the projection period, albeit to a lesser degree with regard to wage income in 2015 and 2016, mainly as a result of weak employment growth. Net interest income, on the other hand, will make relatively small contributions to growth. Higher inflation in 2015 than in 2014 will curb developments in real income, while substantially lower inflation in 2016 will have the opposite effect. We now expect annual growth in real disposable income of just

Figure 7. **Residential market. Left axis adj. indices. 2012=100. Right axis per cent**



Source: Statistics Norway.

over 3.5 per cent this year, just under 2 per cent next year, and about 3 per cent in 2016 and 2017. Weak movements in real house prices, and possibly even a fairly sharp decline in 2015, will dampen consumption throughout the projection period. Given our projections for income, housing wealth and interest rates, consumption growth this year will be over 2 per cent, like last year, about 1.5 per cent next year, and about 2.5 per cent in both 2016 and 2017.

Household saving – calculated as a share of disposable income – was 7.4 per cent in 2013. As a result of the 2014 main revision of the National Accounts, the level of the saving ratio in 2013 was revised down by 1.6 percentage points; see Box 2. We envisage an increase in the savings ratio through the projection period to a level close top 9.5 per cent in 2017 consistent with a weaker economic situation and rising unemployment. This implies a historically high saving level that has not been seen since 2005. The high saving ratio that year was the result of tax-motivated disbursements of share dividends.

Decline in real house prices in 2015

Following the decline in house prices in the autumn of 2013, seasonally adjusted house prices have risen every month since February 2014, according to monthly figures from the Association of Real Estate Agency Firms (Eiendom Norge), and the level in October 2014 was 5.3 per cent higher than 12 months earlier. This development is in line with Statistics Norway›s quarterly house price index, which shows four-quarter growth of 3.4 per cent in the third quarter of 2014. The index is approximately unchanged compared with the previous quarter, and 1.5 per cent higher than the previous peak in the second quarter of 2013. Corrected for the rise in consumer prices, house prices declined in real terms by 1 per cent from the second quarter of 2013 to the third quarter of 2014.

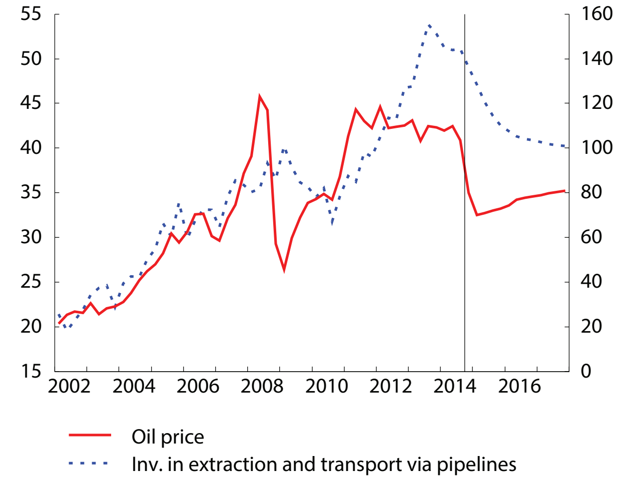
An increase in household disposable income and low interest rates has a positive impact on house prices, while an increased supply of new dwellings curbs prices. At the same time, household borrowing and house prices mutually reinforce each other. Lower housing investment so far this year has provided a weakly negative growth stimulus to gross household debt, and the pace of growth in gross household debt has declined slightly through 2014. For their part, the banks have indicated that they want to increase mortgage lending. Despite weaker developments in real income in 2015, a decline in lending rates will lead to credit growth of just over 6.5 per cent in 2015 and just over 7 per cent in 2016, followed by a decline to just under 6 per cent in 2017.

In the short-term, house prices are affected by changes in household expectations regarding developments in both their own financial situation and the national economy. While the consumer confidence indicator from TNS Gallup and Finance Norway, previously called Norsk Trendindikator, showed growing optimism through the first three quarters of the year, the index fell to its lowest level in three years in the fourth quarter of 2014. The change is particularly pronounced for households› perception of the Norwegian economy at present and one year ahead. A similar consumer confidence indicator from Opinion Perduco shows a similar decline in household expectations and dates the change to the month of October.

We assume that households will continue to view the financial outlook as relatively weak in the near term, and that the consumer confidence indicator will weaken further in the first half of 2015. This will provide a negative stimulus to developments in house prices. We then expect a change of mood, and that the consumer confidence indicator will return to a normal level in early 2016. We expect weak developments in real income in 2015, while growth in gross debt will be stimulated by low real interest rates. House prices are expected to remain virtually unchanged in 2015, corresponding to a decline in real prices of close to 2.5 per cent. In 2016, we foresee higher growth in real income and increasing credit growth, so that house prices rise by 2.5 per cent. In 2017, we expect the rise in house prices to again be slightly lower than inflation, which is projected at 1.7 per cent.

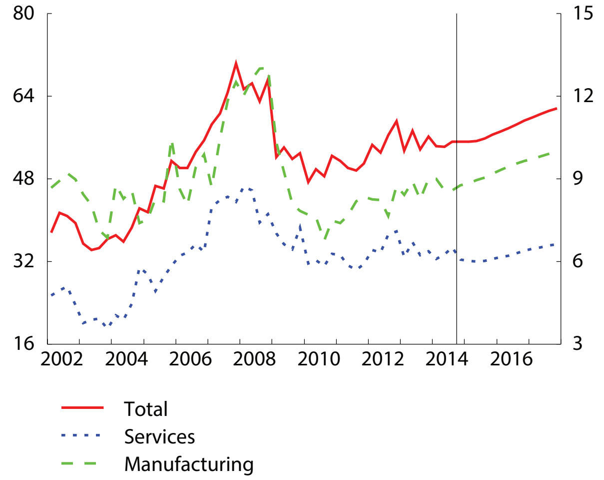
Housing investment has shown a falling tendency through 2014, after reaching a record high level in 2013. The decline in housing starts is responsible for this development, while investment in existing dwellings, which represents 30 per cent of total housing investment, rose in 2014. The figures for housing starts have been very volatile this year, but they do not indicate any upturn in investment in the coming year. According to the Norwegian Home Builders› Association, sales of new dwellings have picked up since the summer, following a decline through the first half of 2014. These sales were nevertheless 8 per cent lower in October this year than in the same month last year. We project that housing investment will decline

FigurE 8. **Petroleum investments and oil price in USD. Seasonally adjusted, billion 2012-kr., quarterly**



Source: Statistics Norway.

Figure 9. **Investments. Mainland Norway. Seasonally adjusted, billion 2012-kr., quarterly**



Source: Statistics Norway.

slightly in 2015, about the same as in 2014. Stimulated by house prices rising slightly more than construction costs, housing investment will rise by close to 2.5 per cent in 2016, and just over 5 per cent in 2017.

Decline in petroleum investment

According to preliminary QNA figures, petroleum investment was virtually unchanged in the third quarter of 2014, following three quarters of a moderate decline. The decline in petroleum investment thus began before the pronounced decline in oil prices. Investment in petroleum drilling, exploration and pipelines is at approximately the same level as investment in production platforms, drilling rigs and modules. During the past year, developments in these two main components have varied considerably, but both are now lower than the level in the same quarter in 2013.

We expect the moderate decline in investment we have observed so far to be just the beginning of a more pronounced decline. In the winter of 2014, high cost inflation and weak profitability were the main reasons why oil companies reduced their planned investments. The decline in oil prices will be a further deterrent to investment activity during the next few years. The Johan Sverdrup field is exceptional in being one of few development projects that will start up in the coming year. This is a major development project, and will help to buoy up activity.

An important reason for the increase in investment after the financial crisis was the start-up of several large projects related to fields in operation. These projects have now been phased out, or are about to be wound up. This is also a reason for the weak developments that are expected in the near term. Exploration drilling has been particularly high during the past year, albeit with some decline through the year. Low oil prices normally translate swiftly into reduced exploration. The tax regime, whereby the state covers 78 per cent of exploration costs, coupled with an expected reduction in rig rates due to overcapacity in the market for drilling rigs, will temporarily curb the decline resulting from developments in oil prices.

We have assumed that oil prices will rise from USD 70 per barrel in the first quarter of 2015 to about USD 80 at the end of 2017. The current low oil price means that the development of several potential fields will be postponed, pending higher oil prices or lower development costs. Despite the major development project on the Utsira Height, which includes the Johan Sverdrup field, we therefore believe that petroleum investment will not return to the 2013 level.

Oil production increased slightly in the third quarter, while gas production declined somewhat more. Thus there was a moderate decline in petroleum production compared with the third quarter of last year and measured in energy equivalents. A moderate increase in petroleum production is expected for 2014 as a whole. Lower prices will nevertheless lead to a clear decline in petroleum tax and thus in transfers to the Government Pension Fund Global. Production is expected to remain high in the near term, but low oil and gas prices will result in a weakening of the sector's operating result. As a result, the state›s petroleum revenue will be moderate in the period ahead.

Weak business investment

According to preliminary QNA figures, business investment rose by 1.8 per cent in the third quarter, compared with the previous quarter. While manufacturing investment was virtually unchanged, service sector investment rose by 3.9 per cent. The increase is mainly due to higher investment in transport excluding shipping, which represents one-fifth of investment in services. Investment in these industries has increased by about 50 per cent since the fourth quarter of 2013, and has therefore contributed substantially to the growth in investment in services through 2014.

Statistics Norway›s survey of manufacturing companies› projections for future investment points to a slightly stronger tendency, compared with their reporting earlier this year. When adjustments are made for normal under-reporting (see Box 2 in Economic Survey 3/2014), the companies› projections estimate growth of about 2 per cent in both 2014 and 2015.

Investment in electricity supply is now on a level with manufacturing investment, and continued strong growth is expected in the near term. The registered projections regarding future investment indicate that growth will increase from 5 per cent in 2014 to 10 per cent in 2015. The proposed change in depreciation rules for wind power in the 2015 National Budget may result in a further increase in the years ahead.

For investment in general, we nevertheless expect a moderate tendency as a result of the state of the international economy, now coupled with a decline in petroleum sector demand. Lower interest rates provide some compensation for these negative impulses; see Box 3.

Business investment as a whole is now projected to decline marginally in 2014 and then pick up slightly. Towards the end of the projection period, we expect growth to be about 5 per cent. Even given this growth, business investment in 2017 will still be about 10 per cent lower than in 2008.

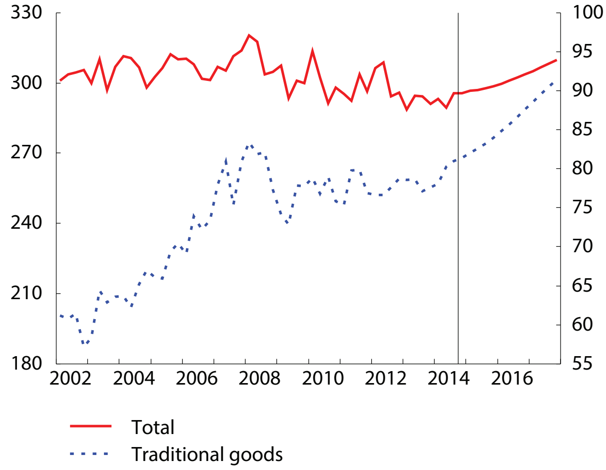
Moderate growth in exports and imports

Exports of traditional goods showed moderate growth in the first three quarters of the year. Chemicals, refined petroleum products, machinery and equipment, fish and fish products are large product groups that have made significant contributions to growth this year. About one-tenth of fish exports previously went to Russia, but the Russian sanctions do not appear to have resulted in a reduction in the growth of fish exports. Except for a fall in the first quarter of this year, total exports of services rose last year and have risen so far this year. High and persistent growth in non-residents› spending in Norway, domestic shipping and telecommunications services have contributed substantially to growth in total service exports. Oil exports have fluctuated around a weakly declining trend for the last few quarters, while gas exports have undergone little change this year. Growth in traditional goods exports is expected to increase compared with last year, while last year’s sharp decline in oil and gas exports is not continuing this year. Service exports are not likely to change much this year.

A rise in prices through 2013 for total exports has reversed into a decline this year. This is mainly due to reduced oil and gas prices. Both fell significantly in the third quarter, and the export price of natural gas has declined by more than twenty per cent so far this year. Export prices for traditional goods and services rose in the third quarter, following a decline in the previous quarter. This development must be seen in light of the krone exchange rate, which strengthened moderately at the beginning of the year, and then weakened considerably. The rise in prices through 2013 appears to have abated this year, most clearly for traditional goods – which are nevertheless expected to achieve a slightly higher rise in prices as an annual average this year than last year.

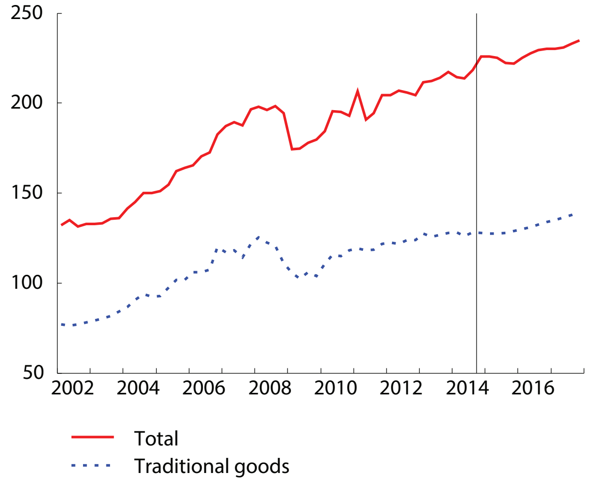
The growth in Norwegian exports of most mainland products depends on global market growth and the cost-competitiveness of Norwegian exporters. We expect somewhat higher global market growth this year than last, and stronger growth from 2016. A weaker krone and lower wage growth this year and next than in the preceding years is expected to improve competitiveness. However, because the cost level in Norway is very high, resulting in lower exports over time, we expect that growth in exports of traditional goods and services will nevertheless remain lower than global market growth. Norwegian exporters will thus lose market shares through the projection period. Oil and

Figure 10. **Exports. Seasonally adjusted, billion 2012-kr., quarter**



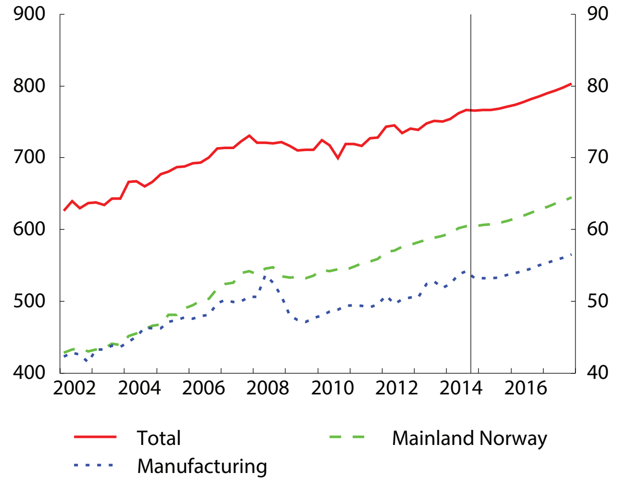
Source: Statistics Norway.

Figure 11. **Imports. Seasonally adjusted, billion 2012-kr., quarterly**



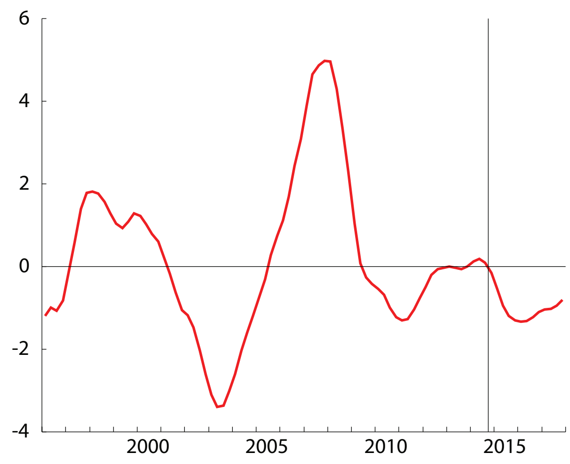
Source: Statistics Norway.

Figure 12. **Gross domestic product. Seasonally adjusted , billion 2012-kr., quarterly**



Source: Statistics Norway.

Figure 13. **Output gap. Mainland Norway. Deviation from trend. Per cent**



Source: Statistics Norway.

gas exports are mainly determined by production, and are not expected to change much in the next few years.

Imports of traditional goods rose in the third quarter of this year, following a decline in the previous quarter. A very large increase in imports of refined oil products was crucial for this growth, which has otherwise been very moderate last year and so far this year. Imports of ships, platforms and aircraft have risen strongly in the past two quarters, and are back at the same level as one year ago. Norwegians› foreign travel increased considerably in 2012 and 2013, but the growth levelled off this year. This is attributable to a weaker krone and also the good weather in Norway this summer. Imports of services rose slightly in the third quarter of this year, but goods imports contributed by far the most to growth in total imports. Growth in total imports is expected to be substantially lower this year than last year.

Import prices for traditional goods and services rose markedly through last year. The rise in prices for traditional goods continued this year. The depreciation of the krone in 2013 and 2014 has contributed to these developments, which appear likely to result in the highest rise in import prices for many years for 2014. A continued depreciation of the krone will lead to a high rise in prices for imported goods and services also in 2015, while we expect a moderate appreciation of the krone in subsequent years. The annual rise in prices is thus expected to decline.

We expect total imports to increase more rapidly than total exports this year and until 2017, both in volume and in price. This may substantially reduce the trade surplus. Assumptions of lower oil and gas prices explain much of the reduction. At the same time, a weak krone and continued transfers to the Pension Fund will have a positive effect on the net factor income and transfers surplus, which is expected to result in a rising surplus through the projection period. The current account surplus may then fall to below 8 per cent of GDP during the projection period.

Pronounced, but brief cyclical downturn

Mainland GDP edged up by 0.35 per cent in the third quarter of 2014. This was markedly down from 1.2 per cent the previous quarter and also lower than 0.6 per cent in the first quarter. Part of the reason for these fluctuations is that value added in fishing and aquaculture and in electricity, gas and hot-water supply has varied substantially. If we exclude these industries from mainland GDP, quarterly growth for the past two years has remained for the most part between 0.5 and 0.8 per cent, and third quarter growth was just over 0.5 per cent. These figures indicate a fairly neutral economic situation with approximately trend growth.

Manufacturing value added grew by 0.7 per cent in the third quarter, which was also lower than growth the previous quarter. Just on half the fall in the growth rate was due to lower activity growth in the food industry, which is partly attributable to fishing industry developments. The metal goods manufacturing and shipbuilding industry, coupled with repair and installation of machinery and equipment, have been the principal drivers of manufacturing growth for several quarters. This also held true in the third quarter, even though growth was not as high as previously. Apart from that, developments in many manufacturing segments were fairly flat or negative.

For the past two years, activity in the construction industry has grown steadily almost every single quarter. In the third quarter of this year, value added increased by 1.7 per cent, thereby contributing approximately 0.1 percentage point to mainland GDP growth.

Retail trade is decidedly the largest market-oriented service industry, and has seen a slight increase in activity in every quarter so far in 2014 following a fairly weak tendency through the last three quarters of 2013. In the third quarter, value added in retail trade rose by

1.3 per cent, and made approximately the same contribution to mainland economic growth as the construction sector. The information and communication and finance and insurance industries made contributions of the same magnitude. All in all, market-oriented service industries therefore added substantially to mainland GDP growth in the third quarter.

The definition of mainland GDP has now been changed to include services associated with the recovery of crude oil and natural gas. Overall, value added in this industry has grown strongly for the past 10 years, and after falling back somewhat in the period 2009–2011, activity growth in 2012 and 2013 was again strong. For the past four quarters, however, value added has again shown a negative tendency, and the third-quarter fall was 1.8 per cent.

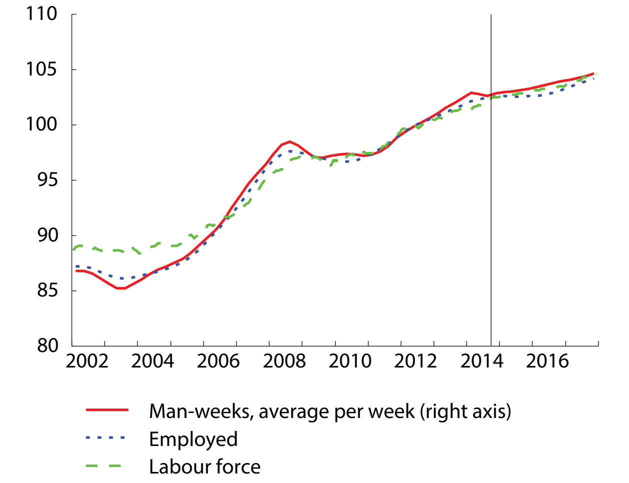
Our projection for mainland GDP growth for 2014 as a whole is largely based on developments according to the QNA up to the present. We assume that fourth-quarter growth will be weaker than in the two previous quarters, resulting in annual growth of 2.6 per cent.

Mainland economic growth in 2015 appears likely to be substantially lower than in 2014. The fall in petroleum investment, lower consumption growth and a less expansionary fiscal policy will result in annual mainland GDP growth of 1.0 per cent, which is half our previous projection for annual growth. The gap between actual growth and estimated trend mainland GDP growth is widening.

Lower growth in 2015 will characterise a number of industries. Manufacturing and a number of market-oriented service industries will all feel the effects of the decline in petroleum investment. This applies in particular to the manufacture of engineering products and services associated with petroleum production, and professional, scientific and technical services. Slower growth in income and house prices is still being reflected in slightly falling housing investment, and this is reducing construction activity. In 2014, this industry was bolstered by high public sector investment growth, but this will fall off somewhat in 2015. Nor will retail trade make any particular contribution to growth, as consumption developments are expected to be fairly moderate.

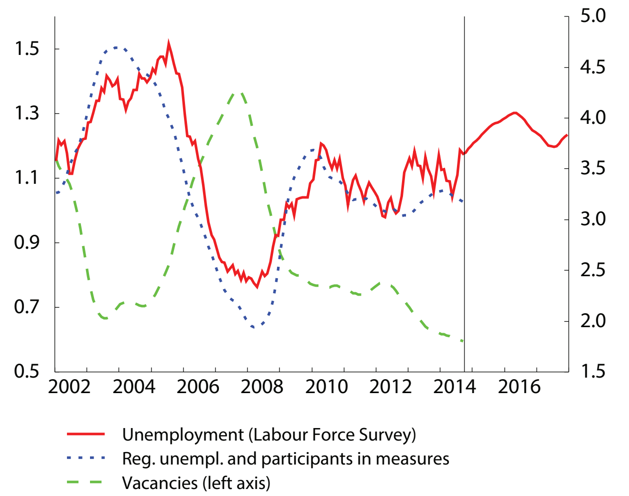
According to our projections, the clear cyclical downturn we now face will last for over a year. The projection path shows that mainland GDP growth will rise to 2.2 per cent in 2016 and then to 2.7 per cent in 2017. This rise will be accompanied by higher export growth, due to several factors: higher growth among our trading partners and a weaker krone, growth in mainland investment, slightly higher consumption growth, and a pronounced easing of the negative impulses due to lower petroleum investment. There will then be increased growth in value added in manufacturing, retail trade, construction and private service production, among others.

Figure 14. **Labour force. employment and number of man-hours. Seasonally adjusted and smoothed indices. 2012=100**



Source: Statistics Norway.

Figure 15. **Unemployment and number of vacancies. Per cent of labour force. Seasonally adjusted and smoothed**



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

Rising unemployment

There was a steady rise in employment through 2013 of about 0.3 per cent each quarter, and this trend has continued so far this year. The third-quarter rise was 0.2 per cent. In recent years there have been substantial differences in employment developments across industries. In particular, there was a long period of strong employment growth in services associated with crude oil and natural gas production, but in the second and third quarter of this year employment in this industry declined. So far this year, manufacturing employment has increased in line with the average. However, there has been very varying growth in the individual manufacturing segments, and third-quarter developments mark a change compared with recent years. There has previously been high employment growth in manufacturing segments that primarily supply the petroleum industry, such as the shipbuilding and other transport

Box 3. **Effects of various anticyclical measures**

We now assume in the projection scenario that Norges Bank cuts the key policy rate in order to dampen the pronounced cyclical downturn that we are expecting. However, we have not altered our fiscal policy projections as a result of the weaker outlook. This is consistent with monetary policy›s responsibility as «first line of defence» in stabilising the economic situation.

However, there may be a need for extraordinary fiscal measures if the economic outlook is very bleak, as was the case in the wake of the fiscal crisis. Interest rate changes have very different effects from fiscal measures, and there are great differences in the ways in which different fiscal measures act. To illustrate this, we have performed three alternative model simulations.

The money market rate in our projections is assumed to be reduced by 0.25 percentage point in the first quarter of 2015 and a further 0.25 percentage point in the second quarter. We have then allowed the interest rate to rise slowly from 2016. We find the effects of this orientation of monetary policy in relation to the interest rate path upon which we based our September projections with the aid of the KVARTS macroeconomic model with an exchange rate determined by the model. In September we assumed that the interest rate would remain at the current level until the end of 2015, and then increase somewhat.

The interest rate cuts stimulate the economy through the channels of demand and exchange rates. A lower interest rate contributes in itself to increased investment (particularly business investment) and after a while also to housing investment and consumption. In addition, the krone exchange rate weakens, which improves cost-competitiveness, with the result that exports increase and imports fall. During the first year, higher business investment and lower imports are most important, and each year activity increases more in manufacturing than in the mainland economy as a whole. The weakening of the krone also results in higher inflation, so real disposable income only increases weakly at the start. When production increases, employment rises, resulting in lower unemployment. Our calculations show that the reduction in the interest rate path increases growth in mainland GDP by 0.11 percentage point in 2015, 0.25 in 2016, and finally 0.31 in 2017. The cumulative increase in the course of the projection period will thus be 0.67 per cent. The reduction in unemployment also increases over time.

In order to compare the effect of interest rate cuts with an expansionary fiscal policy, we have taken as our starting point increased public sector employment, which stimulates demand directly. We have chosen to dimension the increase such that it has the same effect on mainland GDP in 2017 as the interest rate cut. The increase is also gradual, having the same time profile for the stimuli as for the interest rate changes. This is equivalent to a fiscal stimulus of just over NOK 8 billion per year. The interest rates are unaffected by assumption.

With increased public sector employment, mainland GDP has increased by 0.35 per cent in 2015 already, as compared to 0.11 per cent for the interest rate cut. This is attributable to the fact that public sector production is assumed to increase immediately as a result of the increased employment, while at the same time there will be no import leakage initially. Unemployment will accordingly fall by 0.33 percentage point in 2015. Higher real income gradually results in increased household consumption, and housing and business investment also increase. Over a period of time, this augments the effect on GDP and employment. Since the labour supply increases when the labour market situation improves, the reduction in unemployment will decrease over time.

Table 1. **Effects of anticyclical measures Percentage deviation from the baseline scenario unless otherwise indicated**

	Interest rate cuts			Increased public sector employment			Lower employer›s social insurance contribution		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Mainland GDP	0.11	0.36	0.67	0.35	0.55	0.67	0.04	0.10	0.16
Manufacturing	0.41	1.17	1.72	0.03	0.06	0.09	0.04	0.10	0.15
Household consumption	-0.06	0.01	0.26	0.12	0.40	0.71	0.08	0.24	0.38
General government consumption	-0.01	-0.02	-0.04	1.16	1.53	1.51	0.00	0.00	-0.01
Housing investment	0.02	0.26	1.15	0.01	0.21	0.83	0.00	0.09	0.37
Business investment	0.75	2.67	3.99	0.03	0.17	0.30	-0.04	-0.18	-0.29
Total exports	-0.01	0.09	0.26	0.00	-0.02	-0.02	0.01	0.03	0.04
Imports	-0.16	-0.10	0.06	0.10	0.27	0.49	0.01	0.05	0.12
House prices	0.16	0.54	0.93	0.39	0.63	0.94	0.14	0.19	0.28
Annual wages	0.26	1.39	3.24	0.18	0.95	1.96	0.05	0.32	0.66
Household real disposable income	0.03	0.18	0.40	0.44	0.73	0.98	0.26	0.43	0.54
CPI	0.24	0.59	0.81	0.07	0.10	0.13	-0.04	-0.10	-0.13
Import-weighted exchange rate*	1.79	2.82	3.56	0.04	0.09	0.11	-0.01	-0.08	-0.12
Employment	0.10	0.25	0.38	0.45	0.65	0.62	0.17	0.22	0.19
Unemployment rate, percentage points	-0.08	-0.14	-0.18	-0.33	-0.23	-0.25	-0.12	-0.07	-0.07
Memo:									
Money market rate, percentage points	-0.44	-0.62	-0.64	0	0	0	0	0	0
Public sector employment	0	0	0	1.89	2.56	2.56	0	0	0
Employer's social insurance contribution	0	0	0	0	0	0	-5.35	-7.31	-7.31

* A positive sign implies weakening of the krone..

Box 3. cont.

We have also calculated the effects of a cut in the payroll tax. The size of the cut is set in such a way that the initial fiscal impulse is the same as that resulting from an increase in public sector employment. We see that this stimulates GDP in quite a different way – and to quite a different extent – from both interest rate cuts and employment. The effects on output during the first few years are very modest and the cumulative change in mainland GDP in 2017 is 0.16 per cent. However, the effect in the labour market is very swift, and stronger than that resulting from the monetary stimulus. Business investment falls in the short term due to factor substitution, as companies shift from capital to labour.

Consumption increases a fair amount, however, and after a while more than in the interest rate cut scenario, and accounts on its own for almost the entire increase in total demand. Consumption growth is driven by higher real disposable income. Lower payroll taxes lead to both higher disbursed hourly wages and lower hourly labour costs, and accordingly improved operating results, but increased operating results do not have any particular consumption-driving effect. This reduces the demand effect per krone of tax cuts. It also takes time before the full effect of the increased income on consumption is achieved, and there is some import leakage in addition, as some of the increased demand is deflected to other countries. As a result of these factors, there is less impact on GDP.

The results show that an effect can be achieved more rapidly in the labour market through fiscal policy than through monetary policy. This applies to both the fiscal policy measures we have considered, but increased public sector employment acts fastest and most powerfully. If the purpose of the measures is to influence GDP quickly, increased public sector employment presents itself as a possibility, while tax cuts do not appear very effective. However, we have not investigated an exhaustive list of options. At the same time, there are various practical challenges associated with the use of the measures. Monetary policy can be implemented immediately, while changes in direct and indirect taxes take a little longer to implement. There may be substantial implementation delays in connection with public sector employment. In addition to the fact that making the necessary decisions takes time, it may also take quite a long time to find areas where the increased employment can be most beneficial, particularly if the measure is to be reversed when the economic situation improves.

equipment industry and repair and installation of machinery and equipment. In the third quarter, overall employment in these industries was unchanged.

There are also substantial differences in employment in non-manufacturing industry. Employment rose in construction but declined in retail trade in the third quarter. This is consistent with the tendencies for these two important industries through the past three-four years. So far this year, employment in central government has grown by about 0.5 per cent each quarter. Employment in local government remained flat in the third quarter, following growth in both the first and second quarters.

Labour force participation has remained unchanged at about 71 per cent so far this year. For persons aged between 15 and 24, participation so far this year has been lower than the average for 2013. There is an underlying trend increase in the participation of both men and women aged from 60 to 74 years. Higher labour force participation by the elderly probably reflects a higher level of education among the post-war cohorts, the effects of the pension reform and generally improved health. Efforts to achieve an inclusive working life may also have had an effect.

Towards the end of last year, LFS unemployment was 3.5 per cent, after fluctuating between 3.3 and 3.7 per cent earlier in the year. In 2014, unemployment declined somewhat up to May, but has since risen. Average unemployment was 3.7 per cent in the period August to October. We expect unemployment to be 3.5 per cent this year as an annual average.

Statistics for registered unemployment and the total of registered fully unemployed and jobseekers on labour market programmes under the Norwegian Labour and Welfare Organisation (NAV) rose steadily through 2013 but have levelled off this year. At end-November this year, 71 000 persons were registered as fully unemployed, which is equivalent to a seasonally adjusted 76 000. There is a clear increase in unemployment in several occupational groups compared with the same month last year. The increase is greatest in engineering and ICT.

Statistics Norway›s figures for vacancies compared with the total number of positions show that the share of vacancies decreased by about 0.3 percentage point in each of the first three quarters of the year compared with the same period the previous year. So far this year, the decline in vacancies is greatest in a number of internationally exposed industries such as mining and production, professional, scientific and technical services, construction, retail trade and accommodation and restaurants. The fact that the share of vacancies is falling may indicate that job prospects for the unemployed have worsened over the past year.

The growth in man-hours worked is somewhat stronger than employment growth so far this year. LFS figures show an increase in the percentage of full-time employed and a decline in the number of underemployed. A decline in labour force participation among younger workers also pushes up the average number of man-hours worked per employee, since individuals in this group generally have relatively small percentages of full-time positions. On the other hand, the teachers› strike resulted in a decline in the number of man-hours worked. Growth in man-hours worked in central government was 0.8 per cent in both the second and the third quarter, compared with 0.3 and 0.1 per cent, respectively, in local government.

Employment is projected to remain almost unchanged for the next two years. Growth is expected to pick up again in 2017. This must be viewed in context with general business cycle developments, where growth will gradually pick up towards 2017. In the construction sector, we expect a shift to lower employment growth. Activity in the petroleum industry is important to manufacturing, and the demand directed by the latter industry at Norwegian manufacturing is expected to be much weaker in the period ahead than in previous years. In particular, we expect employment in services associated with petroleum production to decline up to 2016. We also expect a decline in shipbuilding employment in 2015, albeit not as strong as for petroleum-related services. On the other hand, we expect continued clear growth in both central and local government employment. Towards the end of the projection scenario, more appreciable export market growth will also contribute to increased manufacturing output and higher employment growth.

Inward labour migration to Norway has been high for a number of years. The latest rise in the number of inward labour migrants on short-term stays occurred in the years 2012–2013, and many of them have been employed in industries that supply the petroleum sector. We anticipate a slight fall in this category of immigrants in the period ahead, reflecting a less favourable labour market. This factor in isolation will push down the unemployment rate by 0.1 and 0.3 percentage point in 2015 and 2016 respectively if we do not take account of the effect on factors such as overall consumption. Total inward labour migration, particularly from the newest EU countries, may also fall in the next few years. The calculation of effects in Box 2 shows that the fall in oil prices may result in some 6 100 fewer inward labour migrants by the end of 2017.

We expect nonetheless that the labour supply will increase more than employment, so that unemployment will rise in the near term. The effect of lower growth in the petroleum industry may be a strong increase in unemployment in parts of Norway with a high proportion of petroleum-related activity. LFS unemployment is projected to increase for the next two years, so that unemployment in both 2015 and 2016 is about 4 per cent. As the economic situation improves, employment will start picking up a little way into 2016, such that unemployment falls to 3.7 per cent in 2017.

Wage growth checked by higher unemployment

Annual wage growth for the industries as a whole has remained fairly stable at around 4 per cent in the years following the financial crisis. In 2013, wage growth was 3.9 per cent, but it is expected to be somewhat lower than that this year. Quarterly wage index figures show that growth in average basic salaries for full-time employees from the fourth quarter of 2013 to the first quarter of 2014 were clearly lower than in the same period a year previously in both manufacturing and a number of service industries. This development has continued in the second quarter. Manufacturing wages remained almost unchanged in both the first and the second quarter. By way of comparison, growth in agreed wages was 0.2 per cent in the first quarter and 1.1 per cent in the second quarter of 2013. However, it is not unusual for wage growth in the first half of the year to be lower in years with a main settlement than in years with an intermediate settlement, as the negotiations in main settlements tend to revolve around factors other than wages. For example, this summer›s conflict between the Norwegian Association of Local and Regional Authorities (KS) and the Union of Education Norway concerned flexibility in employment relationships. The full effect of most of the wage increases took place in the third quarter, and wage growth in manufacturing increased by 1.9 per cent. A comparison of developments in average basic salaries so far this year and the previous main settlement reveals that wage growth is still appreciably lower, but the differences are not as pronounced.

In recent years, the wage share has been relatively high. This has been a result of relatively solid profitability in the manufacturing segments that supply the domestic market. If labour accounts for a high share of costs, this reduces the profitability of enterprises and is in itself a source of reduced wage growth later. In this year›s main settlement, the parties followed up on the Holden III Committee›s recommendation that the Confederation of Norwegian Enterprise (NHO), with the understanding of the Norwegian Confederation of Trade Unions (LO), should provide a credible framework for overall wage growth in manufacturing. The negotiated framework was 3.3 per cent. Given considerably weaker impulses from the petroleum industry and a higher unemployment level, there are grounds for supposing that moderate negotiated wage growth may be achieved through a reduction in wage drift compared to previous years. We estimate that wage growth for all industries combined will be 3.3 per cent in 2014.

Since the wage settlement, the krone has depreciated substantially, and according to our projections, it will undergo some weakening next year too. This means higher earnings for internationally exposed manufacturing, and in isolation will result in higher wage growth next year. Somewhat higher global economic growth will also result in higher earnings for the internationally exposed business sector. The fact that wage growth is expected to decline next year nonetheless is due to domestic factors. A higher unemployment level contributes to lower wage growth by weakening the negotiating position of the employee unions and resulting in lower pay increases. Because the manufacturing industry negotiates first, and sets the framework for wage growth in later settlements, lower wage growth in manufacturing will be reflected in lower wage growth in the other industries as well. Outside of the negotiated settlements, a weaker labour market for wage-earners will also curb wage growth through lower wage drift. Wage growth is accordingly expected to be reduced further, to 3.1 per cent, in 2015. Given inflation of 2.6 per cent, this implies clearly reduced real wage growth.

Earnings in manufacturing companies are gradually reflected in higher wage growth. In 2016 and 2017, global market growth will pick up further, and productivity growth in manufacturing is also expected to increase. On the other hand, unemployment is expected to increase a little further in 2016 before falling again in 2017. A higher unemployment level curbs wage growth, but unemployment also has considerable effects in the longer term. In our projections, the unemployment level is higher than in 2014 throughout the projection period. This means that the share of labour costs in manufacturing value added will fall appreciably in the near term.

Depreciation of the krone keeps inflation high

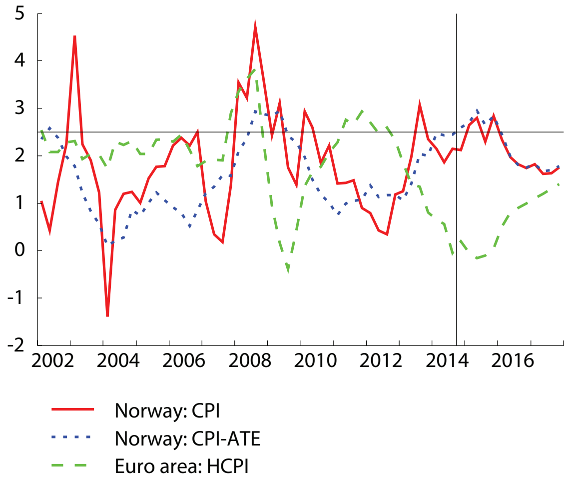
Measured in terms of the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE), inflation so far in 2014 has been around 2.5 per cent, and this was also the observation in October. The depreciation of the krone through 2013 caused inflation to pick up through the second half of last year, and this is the reason that inflation is approaching Norges Bank›s inflation target for the first time in several years. Except in 2008 and 2009, when inflation was also pushed up by an abrupt weakening of the krone, CPI-ATE inflation has not risen above an annual average of 1.6 per cent for the past 10 years.

Electricity prices have remained lower throughout the year than at the corresponding time in 2013. As a result, the rise in the overall consumer price index (CPI) has been lower than the rise in the CPI-ATE. The annualised average CPI appears likely to rise by 2.1 per cent this year, as it did last year, whereas the rise in the CPI-ATE is projected to be 2.5 per cent compared with 1.6 per cent in 2013.

According to the CPI broken down by supplier sector, there has been a tendency this year for a slower rise in prices for domestically produced goods and for rents, while the rise in prices for other services has pushed up somewhat. During this period, the rise in prices for imported consumer goods has largely fluctuated round a constant level, following an increase through the second half of last year.

Wage growth appears to be lower this year than last, and this points to lower inflation in the near term. However, movements in the krone exchange rate have far greater significance for future inflation developments. We expect the krone to strengthen slightly from the level at the end of November, which will mean a weakening in the annual average from 2014 to 2015 of 4 per cent measured by the import-weighted krone exchange rate, following a weakening of just under 5 per cent this year. Changes in the exchange rate pass through gradually into Norwegian prices. The depreciation of the krone that has already occurred will accordingly continue to push up inflation next year. The inflation rate is expected to increase somewhat up to spring 2015, and then to ease off slightly when the effects of the weakening of the krone abate and the krone strengthens. We project annualised CPI-ATE inflation of 2.8 per cent next year. The time-lagged effects of the weakening of the krone in 2013 and 2014 will wane in the course of the inflation scenario, and our calculations show that CPI-ATE inflation will fall to 2.0 per cent in 2016 and 1.7 per cent in 2017. During these years, slightly higher wage growth will help to dampen the fall in inflation.

Figure 16. **Consumer price indices. Percentage growth from the same quarter previous year**



Source: Statistics Norway.

The government budget for next year contains a number of changes in real taxes. Some taxes associated with cars and car-ownership are being reduced, while electricity prices are rising and a new tax is being introduced on plastic and paper bags. On balance, we do not expect these to have an appreciable effect on inflation. Forward prices in the electricity market at end-November pointed to a rise in electricity prices including grid rent and taxes of about 7.5 per cent in 2015. At the same time, the oil price, measured in kroner, is expected be 22 per cent lower. The fall in oil prices is expected to have the strongest effect, so that the net effect of these two counteracting price impulses from energy products is that CPI inflation is projected to be 0.2 percentage point lower than CPI-ATE inflation. In subsequent years we assume that the oil price measured in kroner will rise slightly more than general price inflation, and the electricity price slightly less. We assume that there will be no real tax changes. The calculations therefore forecast the same rise in the CPI as in the CPI-ATE, also in 2016 and 2017.

Table 3. **National accounts: Final expenditure and gross domestic product. At constant 2012 prices. Million kroner**

	Unadjusted		Seasonally adjusted								
	2012	2013	12.3	12.4	13.1	13.2	13.3	13.4	14.1	14.2	14.3
Final consumption expenditure of households and NPISHs	1 176 409	1 201 060	295 872	297 021	299 735	300 621	301 462	302 340	304 636	306 649	306 328
Household final consumption expenditure	1 121 081	1 144 644	282 144	283 176	285 766	286 473	287 342	288 137	290 436	292 503	292 064
Goods	548 458	554 754	138 638	138 983	140 545	139 818	138 625	138 722	140 118	141 274	140 159
Services	527 665	540 065	132 051	132 517	133 088	134 581	135 926	136 573	137 241	138 241	139 219
Direct purchases abroad by resident households	76 617	82 559	19 351	19 563	20 092	20 205	21 018	21 241	21 293	21 487	21 360
Direct purchases by non-residents	-31 659	-32 734	-7 896	-7 887	-7 960	-8 131	-8 228	-8 398	-8 217	-8 498	-8 674
Final consumption expenditure of NPISHs	55 328	56 416	13 728	13 845	13 969	14 148	14 120	14 203	14 200	14 145	14 264
Final consumption expenditure of general government	618 896	629 119	155 521	155 150	156 086	156 569	157 520	159 210	160 537	162 094	163 072
Final consumption expenditure of central government	310 262	314 723	77 881	77 816	78 536	78 269	78 595	79 603	80 685	81 606	81 642
Central government, civilian	270 839	275 637	68 090	67 986	68 723	68 489	68 786	69 922	71 026	71 861	71 945
Central government, defence	39 423	39 087	9 791	9 831	9 813	9 779	9 809	9 681	9 659	9 745	9 697
Final consumption expenditure of local government	308 634	314 395	77 641	77 334	77 550	78 300	78 925	79 607	79 852	80 489	81 429
Gross fixed capital formation	659 824	704 846	166 555	174 958	170 638	177 257	177 552	179 708	178 247	178 729	178 328
Extraction and transport via pipelines	174 672	204 477	43 146	46 723	46 904	50 857	53 857	52 778	51 243	50 980	51 082
Ocean transport	6 876	8 125	1 337	1 794	2 325	2 364	1 758	1 669	1 554	1 844	2 085
Mainland Norway	478 276	492 244	122 072	126 440	121 410	124 036	121 936	125 262	125 449	125 904	125 162
Industries	222 979	220 588	56 372	59 131	53 375	57 266	53 701	56 105	54 285	54 154	55 107
Service activities incidential to extraction	10 573	3 244	3 539	3 946	-318	1 381	920	1 261	552	783	706
Other services	132 353	132 497	33 631	33 884	33 127	34 321	32 336	32 728	31 867	32 561	33 937
Manufacturing and mining	32 750	34 591	7 637	8 729	8 410	8 896	8 256	8 983	8 987	8 567	8 576
Production of other goods	47 303	50 255	11 565	12 572	12 156	12 668	12 190	13 133	12 880	12 243	11 888
Dwellings (households)	140 290	149 206	36 422	36 756	37 250	37 130	37 406	37 582	37 424	37 165	37 051
General government	115 007	122 450	29 278	30 552	30 785	29 640	30 829	31 575	33 740	34 586	33 003
Changes in stocks and statistical discrepancies	126 775	140 216	28 485	21 955	35 128	30 824	34 800	35 643	32 114	39 393	41 409
Gross capital formation	786 599	845 062	195 041	196 912	205 766	208 081	212 352	215 351	210 361	218 123	219 738
Final domestic use of goods and services	2 581 904	2 675 241	646 434	649 084	661 587	665 271	671 334	676 901	675 534	686 866	689 138
Final demand from Mainland Norway	2 273 581	2 322 423	573 465	578 612	577 231	581 226	580 918	586 812	590 623	594 647	594 562
Final demand from general government	733 903	751 568	184 799	185 703	186 871	186 209	188 349	190 785	194 277	196 680	196 075
Total exports	1 204 351	1 168 538	294 193	295 922	288 716	294 538	294 338	290 943	293 263	289 296	295 488
Traditional goods	309 560	312 541	77 601	78 737	78 527	78 671	77 151	77 612	78 059	80 288	80 972
Crude oil and natural gas	610 796	564 225	145 216	147 657	140 034	143 809	143 306	137 909	140 875	134 828	140 647
Ships, oil platforms and planes	8 646	8 512	2 282	1 420	1 880	1 617	2 378	2 613	3 500	1 536	880
Services	275 349	283 260	69 094	68 109	68 275	70 441	71 504	72 808	70 830	72 644	72 989
Total use of goods and services	3 786 255	3 843 779	940 627	945 006	950 303	959 809	965 672	967 844	968 797	976 161	984 626
Total imports	821 047	856 565	206 066	204 323	211 546	212 360	214 266	217 456	214 437	213 761	218 361
Traditional goods	492 164	508 128	123 844	123 901	127 425	125 722	126 957	127 735	128 148	126 105	128 340
Crude oil and natural gas	14 781	16 437	2 963	3 248	3 799	3 991	4 651	3 382	3 623	3 362	3 539
Ships, oil platforms and planes	20 496	25 211	4 625	5 445	6 614	6 388	6 888	5 319	4 286	5 177	6 842
Services	293 606	306 790	74 634	71 729	73 707	76 259	75 771	81 021	78 380	79 116	79 641
Gross domestic product (market prices)	2 965 208	2 987 214	734 560	740 683	738 758	747 450	751 406	750 388	754 360	762 401	766 265
Gross domestic product Mainland Norway (market prices)	2 295 395	2 347 170	575 662	578 873	582 014	585 452	588 638	591 439	594 924	602 254	604 387
Petroleum activities and ocean transport	669 813	640 044	158 898	161 811	156 744	161 997	162 768	158 949	159 436	160 146	161 878
Mainland Norway (basic prices)	1 986 981	2 030 965	497 345	500 977	503 375	506 836	509 260	512 020	515 161	521 327	524 155
Mainland Norway excluding general government	1 503 988	1 541 130	376 209	379 712	381 947	384 727	386 568	388 404	390 971	396 462	398 806
Manufacturing and mining	201 261	207 747	50 274	50 517	50 562	52 430	52 752	51 858	52 419	53 795	54 214
Production of other goods	240 106	246 140	59 647	60 477	61 508	60 858	61 176	62 525	63 023	65 438	64 911
Services incl. dwellings (households)	1 062 621	1 087 243	266 288	268 718	269 877	271 438	272 639	274 021	275 529	277 230	279 681
General government	482 993	489 835	121 135	121 264	121 428	122 109	122 693	123 616	124 190	124 864	125 349
Taxes and subsidies products	308 414	316 205	78 318	77 896	78 639	78 616	79 377	79 419	79 764	80 928	80 232

Source: Statistics Norway.å.

Table 4. **National accounts: Final expenditure and gross domestic product. At constant 2012 prices. Percentage change from the previous period**

	Ujustert		Sesongjustert								
	2012	2013	12.3	12.4	13.1	13.2	13.3	13.4	14.1	14.2	14.3
Final consumption expenditure of households and NPISHs	3.5	2.1	0.7	0.4	0.9	0.3	0.3	0.3	0.8	0.7	-0.1
Household final consumption expenditure	3.5	2.1	0.8	0.4	0.9	0.2	0.3	0.3	0.8	0.7	-0.2
Goods	3.1	1.1	0.7	0.2	1.1	-0.5	-0.9	0.1	1	0.8	-0.8
Services	3	2.4	0.5	0.4	0.4	1.1	1.0	0.5	0.5	0.7	0.7
Direct purchases abroad by resident households	11	7.8	2.4	1.1	2.7	0.6	4.0	1.1	0.2	0.9	-0.6
Direct purchases by non-residents	3.6	3.4	-1.0	-0.1	0.9	2.1	1.2	2.1	-2.2	3.4	2.1
Final consumption expenditure of NPISHs	2.2	2	-0.2	0.9	0.9	1.3	-0.2	0.6	0	-0.4	0.8
Final consumption expenditure of general government	1.6	1.7	0.5	-0.2	0.6	0.3	0.6	1.1	0.8	1	0.6
Final consumption expenditure of central government	1.7	1.4	0.4	-0.1	0.9	-0.3	0.4	1.3	1.4	1.1	0
Central government, civilian	2	1.8	0.5	-0.2	1.1	-0.3	0.4	1.7	1.6	1.2	0.1
Central government, defence	-0.7	-0.9	-0.6	0.4	-0.2	-0.3	0.3	-1.3	-0.2	0.9	-0.5
Final consumption expenditure of local government	1.4	1.9	0.6	-0.4	0.3	1.0	0.8	0.9	0.3	0.8	1.2
Gross fixed capital formation	7.6	6.8	4.4	5.0	-2.5	3.9	0.2	1.2	-0.8	0.3	-0.2
Extraction and transport via pipelines	15.1	17.1	-0.5	8.3	0.4	8.4	5.9	-2.0	-2.9	-0.5	0.2
Ocean transport	-57.4	18.2	-7.6	34.2	29.6	1.7	-25.6	-5.1	-6.9	18.7	13.1
Mainland Norway	7.4	2.9	6.5	3.6	-4.0	2.2	-1.7	2.7	0.1	0.4	-0.6
Industries	10.5	-1.1	6.2	4.9	-9.7	7.3	-6.2	4.5	-3.2	-0.2	1.8
Service activities incidential to extraction	..	-69.3	119.4	11.5	-108.1	-534.1	-33.4	37.1	-56.3	42	-9.8
Other services	4.4	0.1	4.7	0.8	-2.2	3.6	-5.8	1.2	-2.6	2.2	4.2
Manufacturing and mining	4	5.6	-7.2	14.3	-3.7	5.8	-7.2	8.8	0	-4.7	0.1
Production of other goods	6.6	6.2	4.2	8.7	-3.3	4.2	-3.8	7.7	-1.9	-4.9	-2.9
Dwellings (households)	10.9	6.4	5.7	0.9	1.3	-0.3	0.7	0.5	-0.4	-0.7	-0.3
General government	-1.8	6.5	7.8	4.4	0.8	-3.7	4.0	2.4	6.9	2.5	-4.6
Changes in stocks and statistical discrepancies	-6.6	10.6	-18.9	-22.9	60.0	-12.3	12.9	2.4	-9.9	22.7	5.1
Gross capital formation	5.1	7.4	0.2	1.0	4.5	1.1	2.1	1.4	-2.3	3.7	0.7
Final domestic use of goods and services	3.5	3.6	0.5	0.4	1.9	0.6	0.9	0.8	-0.2	1.7	0.3
Final demand from Mainland Norway	3.7	2.1	1.8	0.9	-0.2	0.7	-0.1	1.0	0.6	0.7	0
Final demand from general government	1.0	2.4	1.6	0.5	0.6	-0.4	1.1	1.3	1.8	1.2	-0.3
Total exports	1.4	-3.0	-4.7	0.6	-2.4	2.0	-0.1	-1.2	0.8	-1.4	2.1
Traditional goods	-0.2	1	1.2	1.5	-0.3	0.2	-1.9	0.6	0.6	2.9	0.9
Crude oil and natural gas	0.5	-7.6	-8.8	1.7	-5.2	2.7	-0.4	-3.8	2.2	-4.3	4.3
Ships, oil platforms and planes	-38.4	-1.5	-25.6	-37.8	32.4	-14.0	47.1	9.9	33.9	-56.1	-42.7
Services	7.7	2.9	-0.7	-1.4	0.2	3.2	1.5	1.8	-2.7	2.6	0.5
Total use of goods and services	2.8	1.5	-1.2	0.5	0.6	1.0	0.6	0.2	0.1	0.8	0.9
Total imports	3.1	4.3	-0.4	-0.8	3.5	0.4	0.9	1.5	-1.4	-0.3	2.2
Traditional goods	2.6	3.2	1.7	0.0	2.8	-1.3	1.0	0.6	0.3	-1.6	1.8
Crude oil and natural gas	2.5	11.2	-46.4	9.6	17.0	5.0	16.5	-27.3	7.1	-7.2	5.2
Ships, oil platforms and planes	-37	23	-11.5	17.7	21.5	-3.4	7.8	-22.8	-19.4	20.8	32.2
Services	8.9	4.5	0.4	-3.9	2.8	3.5	-0.6	6.9	-3.3	0.9	0.7
Gross domestic product (market prices)	2.7	0.7	-1.4	0.8	-0.3	1.2	0.5	-0.1	0.5	1.1	0.5
Gross domestic product Mainland Norway (market prices)	3.8	2.3	0.9	0.6	0.5	0.6	0.5	0.5	0.6	1.2	0.4
Petroleum activities and ocean transport	-0.7	-4.4	-8.8	1.8	-3.1	3.4	0.5	-2.3	0.3	0.4	1.1
Mainland Norway (basic prices)	3.8	2.2	0.7	0.7	0.5	0.7	0.5	0.5	0.6	1.2	0.5
Mainland Norway excluding general government	4.3	2.5	0.8	0.9	0.6	0.7	0.5	0.5	0.7	1.4	0.6
Manufacturing and mining	2.0	3.2	1.3	0.5	0.1	3.7	0.6	-1.7	1.1	2.6	0.8
Production of other goods	9.4	2.5	-0.5	1.4	1.7	-1.1	0.5	2.2	0.8	3.8	-0.8
Services incl. dwellings (households)	3.6	2.3	1.0	0.9	0.4	0.6	0.4	0.5	0.6	0.6	0.9
General government	2.3	1.4	0.4	0.1	0.1	0.6	0.5	0.8	0.5	0.5	0.4
Taxes and subsidies products	3.3	2.5	1.8	-0.5	1.0	0.0	1.0	0.1	0.4	1.5	-0.9

Source: Statistics Norway..

Table 5. **National accounts: Final expenditure and gross domestic product. Price indices. 2012=100**

	Unadjusted		Seasonally adjusted								
	2012	2013	12.3	12.4	13.1	13.2	13.3	13.4	14.1	14.2	14.3
Final consumption expenditure of households and NPISHs	100.0	102.8	99.7	100.7	101.4	102.1	103.2	103.4	104.2	104.4	105.1
Final consumption expenditure of general government	100.0	103.9	100.0	101.3	103.0	103.4	104.2	104.6	105.7	106.3	106.3
Gross fixed capital formation	100.0	103.0	100.1	100.5	102.1	102.4	103.2	103.9	104.7	104.8	105.7
Mainland Norway	100.0	102.6	100.3	100.6	101.7	102.1	102.9	103.6	104.1	103.9	105
Final domestic use of goods and services	100.0	103.0	99.6	101.0	102.4	102.1	103.2	104.5	104.5	105.4	105.4
Final demand from Mainland Norway	100.0	103.0	99.9	100.8	101.9	102.5	103.4	103.8	104.6	104.8	105.4
Total exports	100.0	101.9	99.8	98.6	98.4	100.1	103.6	105.5	103.6	101.3	100.2
Traditional goods	100.0	103.1	99.0	98.8	100.0	102.2	103.7	105.9	106.7	105.6	106.4
Total use of goods and services	100.0	102.7	99.7	100.3	101.1	101.5	103.3	104.8	104.2	104.2	103.9
Total imports	100.0	102.5	99.9	100.4	100.0	101.6	103.1	105.7	107.1	106.4	106.9
Traditional goods	100.0	102.1	100.3	100.2	99.8	100.9	103.1	104.6	106.7	106.5	107.9
Gross domestic product (market prices)	100.0	102.7	99.6	100.2	101.5	101.5	103.4	104.5	103.4	103.5	103
Gross domestic product Mainland Norway (market prices)	100.0	103.2	99.7	101.0	102.3	102.8	103.6	104.0	104	104.7	105.5

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	12.3	12.4	13.1	13.2	13.3	13.4	14.1	14.2	14.3
Final consumption expenditure of households and NPISHs	1.1	2.8	0.4	0.9	0.7	0.7	1.0	0.2	0.7	0.3	0.6
Final consumption expenditure of general government	3.8	3.9	0.3	1.3	1.7	0.3	0.8	0.4	1.1	0.5	0
Gross fixed capital formation	3.0	3.0	0.3	0.4	1.6	0.3	0.7	0.7	0.7	0.1	0.9
Mainland Norway	3.3	2.6	0.6	0.2	1.1	0.4	0.8	0.7	0.5	-0.1	1
Final domestic use of goods and services	2.5	3.0	-0.2	1.4	1.3	-0.3	1.1	1.2	0.0	0.8	0
Final demand from Mainland Norway	2.3	3.0	0.4	0.9	1.1	0.5	0.9	0.4	0.8	0.2	0.5
Total exports	2.9	1.9	0.1	-1.2	-0.2	1.8	3.5	1.9	-1.8	-2.2	-1.1
Traditional goods	-1.9	3.1	-1.5	-0.2	1.2	2.2	1.5	2.1	0.7	-1	0.8
Total use of goods and services	2.6	2.7	-0.1	0.6	0.9	0.3	1.8	1.4	-0.5	-0.1	-0.3
Total imports	0.1	2.5	-0.5	0.5	-0.4	1.6	1.5	2.5	1.3	-0.7	0.4
Traditional goods	0.3	2.1	0.5	-0.1	-0.4	1.1	2.2	1.5	2.0	-0.2	1.4
Gross domestic product (market prices)	3.4	2.7	0.0	0.6	1.3	0.0	1.9	1.1	-1.0	0.1	-0.5
Gross domestic product Mainland Norway (market prices)	2.5	3.2	0.0	1.2	1.3	0.4	0.8	0.4	-0.1	0.7	0.8

Source: Statistics Norway