

Economic trends

Growth in the Norwegian economy has picked up appreciably since the summer, partly due to a rise in household demand for consumer goods and dwellings. General government demand has shown little change recently, following a period of high growth. An expansionary fiscal and monetary policy has contributed to and will continue to stimulate growth in household demand in the period ahead. Investment in the mainland economy is also showing underlying growth and the sharp decline in manufacturing investment is drawing to a close. Global growth has been fairly high in 2010, boosting exports of traditional goods. The fall in manufacturing production has given way to a new upswing. The decline in employment has come to a halt recently, and employment increased slightly in the last quarter. Unemployment is fairly stable. Underlying inflation was falling up to the first half of 2010, and has since been stable and low. As a result of a sharp rise in energy prices, overall consumer price inflation will probably be 2.4 per cent in 2010. Strong productivity growth and slower wage growth had a dampening effect on inflation, however. The appreciation of the krone through 2009 has also pushed down inflation.

The economic situation internationally is mixed. Growth in some European industrial countries, in China and in some other Asian countries has been very high. Growth in other countries has been weak, and in some countries that have been hit by a debt crisis, even the GDP level is falling. Fiscal policy is now being tightened sharply in a number of countries, without the possibility of monetary policy measures to compensate. The growth outlook in these countries is sombre. In countries where growth has been high so far in 2010, there is reason to assume that developments are partly catching-up effects following the steep fall in GDP in 2009. Important Norwegian trading partners like Sweden and Germany are examples of countries where growth has been higher than expected. On balance, GDP growth among Norway's trading partners has therefore been surprisingly high in 2010. This has contributed to the favourable developments in traditional Norwegian exports this year. We assume that growth in the OECD area will be lower in 2011 than this year. However, growth in the global economy may remain at a high level because economies in regions other than Europe and North America are growing strongly. Traditional Norwegian exports are aimed to a relatively large extent at the global market as such, and not only at the regions that are now experiencing weak economic growth. Consequently, the Norwegian economy will be less affected by the slow growth in the OECD area. We also note that commodity prices are rising more than prices for manufactured goods. Norway will therefore experience a clear improvement in the terms of trade in 2010. Our projections for the global economy indicate that the improvement will continue.

Although Norwegian economic policy will provide less impetus to growth in 2011 and thereafter than in recent years, the impulses generated by economic policy have been vital to the turnaround in the economy. The Norwegian economy now appears to have passed a cyclical trough in the summer of 2010. The recovery is still nascent, and a renewed downturn in the global economy could reverse this tendency. Even given weak OECD growth, but with higher growth in the rest of the global economy, the Norwegian economy will receive stimulus in the period ahead so that the tendencies we have observed through 2010 will continue. We therefore envisage a recovery that will bring the Norwegian economy out of its downturn in 2013. There is accordingly reason to believe that monetary policy will gradually be shifted to a more cyclically neutral stance. An increase in the key policy rate may therefore come as early as June next year even if inflation remains low and clearly below the inflation target for the next couple of years. The orientation of fiscal policy is now expected to take us back to the 4 per cent path of the fiscal rule in 2012, and perhaps as early as 2011. Since the policy rate in Norway is appreciably higher than in the USA and in the euro area, the Norwegian authorities have a greater opportunity to shift monetary policy in an expansionary direction if international developments should be substantially more negative than we are assuming. There is also considerable scope for manoeuvre in fiscal policy. The same cannot be said about the scope for manoeuvre in the economic policy of most other OECD countries.

Cyclical developments in Norway: The upturn has started

The Norwegian economy entered a cyclical downturn in early 2009 after the previous economic upturn peaked at the end of 2007. The cyclical downturn – measured by developments in mainland GDP – came to a halt in the first half of 2010. The seasonally adjusted quarterly national accounts figures (QNA) for the third quarter of 2010 show fairly high growth in the mainland economy and, viewed against the backdrop of our

other projections, indicate that the recovery has begun. However, it must be stressed that there is still great uncertainty associated with these preliminary figures. Labour market developments also provide support for a more positive assessment of the Norwegian economic situation than previously. Unemployment is fairly stable, but whereas employment was falling before, there are now signs of growth. Normally, however, a recovery

Table 1. **Macroeconomic indicators 2008-2009. Growth from previous period unless otherwise noted. Per cent**

	2008*	2009*	Seasonally adjusted			
			09:4	10:1	10:2	10:3
Demand and output						
Consumption in households etc.	1.6	0.2	1.3	0.6	-0.1	1.3
General government consumption	4.1	4.7	-0.6	1.3	1.3	0.7
Gross fixed investment	2.0	-7.4	7.3	-14.0	7.9	-7.0
Mainland Norway	-1.4	-11.7	7.3	-10.7	6.7	-3.2
Extraction and transport via pipelines	5.1	5.8	0.1	-6.8	3.4	-17.9
Final domestic demand from Mainland Norway ¹	1.6	-1.1	1.8	-1.3	1.4	0.4
Exports	1.0	-4.0	0.9	0.1	-4.3	-1.3
Crude oil and natural gas	-2.0	-1.2	-2.9	-1.6	-2.0	-4.9
Traditional goods	4.2	-8.2	1.1	0.3	0.0	2.2
Imports	4.3	-11.4	2.6	0.9	6.5	0.0
Traditional goods	-0.5	-13.1	0.2	3.8	5.3	-1.7
Gross domestic product	0.8	-1.4	-0.2	0.5	-0.2	-1.6
Mainland Norway	1.8	-1.3	0.6	0.5	0.5	0.9
Labour market						
Man-hours worked	3.5	-1.8	-0.1	0.0	0.1	0.3
Employed persons	3.2	-0.4	0.0	0.0	0.0	0.2
Labour force ²	3.4	0.0	0.0	0.4	0.4	-0.1
Unemployment rate, level ²	2.6	3.2	3.2	3.5	3.6	3.4
Prices and wages						
Wages per standard man-year ³	6.0	3.6	2.9	3.9	3.5	4.1
Consumer price index (CPI) ³	3.8	2.1	1.4	2.9	2.6	1.9
CPI adjusted for tax changes and excluding energy products (CPI-ATE) ³	2.6	2.6	2.3	2.0	1.5	1.2
Export prices, traditional goods	2.4	-6.1	-3.7	1.4	4.2	1.7
Import prices, traditional goods	4.7	-1.3	-2.8	1.1	2.1	-0.9
Balance of payment						
Current balance, bill. NOK	449.1	311.8	92.0	86.1	73.1	64.3
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	6.2	2.5	2.1	2.3	2.5	2.7
Lending rate, banks ⁴	7.3	4.9	4.3	4.4	4.6	4.7
Crude oil price NOK ⁵	536.4	388.1	429.2	452.5	493.8	473.1
Importweighted krone exchange rate, 44 countries, 1995=100	90.8	93.8	90.0	89.3	89.9	90.8
NOK per euro	8.22	8.73	8.39	8.10	7.91	7.96

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.

must have lasted for a while and been of a certain strength before unemployment can be expected to fall.

Whereas general government production growth as a result of the expansionary fiscal policy has helped to buoy up activity in the Norwegian economy in recent years, it is now growth in mainland industries that is providing impetus to the turnaround in the Norwegian economy. Fiscal policy will gradually be oriented towards providing less stimulus than during the downturn. Monetary policy remains expansionary through low interest rates, thereby stimulating household consumption, which increased appreciably in the third quarter. The upturn in housing investment and higher resale home prices are partly attributable to the expansionary policy that has been conducted. Finally, slightly higher growth internationally has boosted exports of traditional goods slightly following the trough in 2009. This has contributed to renewed growth for manufacturing as well.

Underlying inflation has been low in 2010, and the annual rise in the CPI-ATE will be markedly lower than the inflation target. The overall rise in the CPI will be close to 2½ per cent, however, because energy prices have been rising sharply since 2009. The krone exchange rate strengthened considerably through 2009 and has contributed to a lower inflation rate in 2010. A moderate weakening of the krone through 2010 implies that this effect will soon be exhausted and may be reversed slightly in the period ahead. The weakening of the krone is probably related to the national financial problems in the euro area, now largely associated with the crisis in Ireland. This effect on the krone exchange rate is probably temporary. Viewed in isolation, the weakening of the krone may contribute to pushing up the inflation rate in Norway somewhat, but more moderate wage growth and higher productivity growth will have a dampening effect. We therefore anticipate that the underlying inflation rate, measured by the CPI-ATE, will pick up somewhat through 2011. Given a more definite recovery in the course of next year, followed by somewhat faster cost increases, we expect the inflation rate to increase gradually towards the end of 2012 and thereafter. This would result in the Norwegian policy rate increasing slightly more than in the euro area.

Although the most recent QNA figures imply that a cyclical turnaround has taken place, there is considerable uncertainty ahead. Global developments are particularly difficult to foresee. We assume that economic developments among our trading partners will be close to what is now the consensus. This means that there will be relatively slow growth internationally going forward. However, this is sufficient to ensure that the internationally exposed Norwegian business sector will receive a little help from the global market in the next few years. This implies a gradual pick-up in export growth excluding petroleum products. During a global upturn, commodity prices will also normally rise somewhat more strongly than prices for

manufactured goods in the world market. This means that the Norwegian economy may experience a terms of trade gain. During the financial crisis, the terms of trade weakened sharply, to Norway's detriment, but they have improved in 2010. The increase in commodity prices is expected to be fairly moderate, unless there should be especially negative supply side shocks that drive up commodity prices.

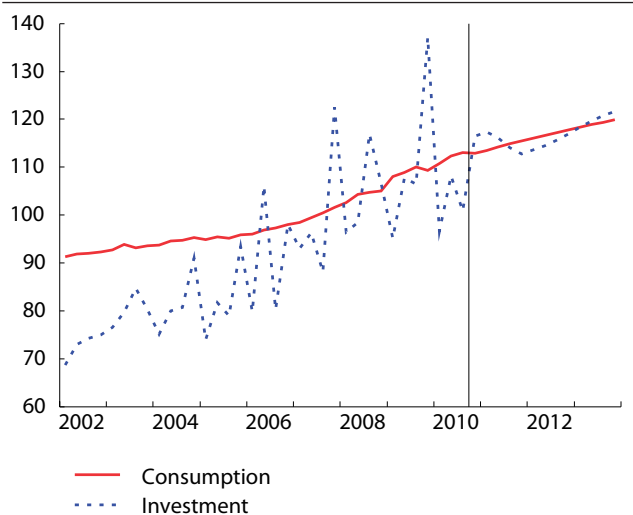
A more sustained upturn in the mainland economy depends on sufficient growth in household demand. Consumption growth picked up as expected in the third quarter, and is expected to remain relatively high for the next few years. This, coupled with higher housing investment, will gradually generate stronger impulses to the Norwegian economy. Given higher housing investment, household net investment in financial assets will gradually fall, but even in 2013 our projections show positive net household sector lending. This, coupled with a moderate real rise in house prices will thus make households' financial position sustainable, according to our projections.

Normally a rise in mainland business investment will lag slightly behind developments in both consumption and exports. We see this clearly in the case of manufacturing investment. However, the decline in investment in private service production stopped at the end of 2009, and in the category other goods production, increased investment in power supply is making a clear contribution to growth, which will persist in 2011. According to our calculations, the turnaround in the Norwegian economy will gradually contribute to higher investment in most parts of the business sector, and this will underpin and boost the upturn. Investment in petroleum activities will also generate positive impulses to the Norwegian economy in our projection period, while developments in oil and gas recovery combined will push GDP growth down.

Towards a more cyclically neutral fiscal policy

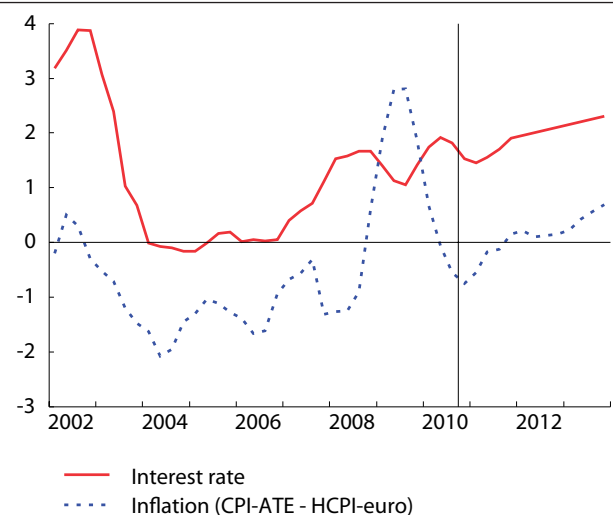
Preliminary QNA figures show that growth in general government consumption, calculated as an annual rate, was somewhat lower in the third quarter of this year than in the first half. Growth was nonetheless so high that we now estimate annual growth from 2009 to 2010 at close to 3 per cent. Consumption growth in 2010 took place primarily in municipal government. Gross general government investment was at the same level in the first three quarters of this year as in the same period in 2009. Since the Norwegian Armed Forces will not be taking receipt of a frigate in the fourth quarter of this year as they did in 2009, we assume that there will be a decline in general government investment as an annual average in 2010. According to plan, the last frigate will be received in the first quarter of next year. This will add appreciably to public sector investment in 2011. Non-military public sector investment will probably increase somewhat from 2009 to 2010. Real growth in public transfers to households

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



Source: Statistics Norway.

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



Source: Norges Bank and Statistics Norway.

appears likely to reach 3.5 per cent compared with 2009. Fiscal policy will thus impart a definite impetus to the mainland economy this year. Our projections for 2010 are close to those presented by the Ministry of Finance in the National Budget for 2011 (NB). Our projection for consumption growth is a little higher, while the projection for gross investment is a little lower.

At the beginning of the budget year, the structural, non-oil budget deficit (SNOBD) was equivalent to 4.7 per cent of the capital in the Government Pension Fund Global, according to NB. The NB estimate for SNOBD is the same for 2010. The government has indicated that it aims to revert gradually to the 4 per cent path of the fiscal rule. This forms the basis for the projections for 2011 in NB, where it is assumed that fiscal policy will be tightened somewhat in relation to 2010 through weaker growth than previously in public sector spending. NB projects growth in public purchases of goods and services at 2.5 per cent in 2011, which is lower than the trend growth in the Norwegian economy. Consumption growth is projected at just over 2 per cent, while gross general government investment adjusted for changes in purchases of frigates is approximately unchanged compared with 2010. Our projections for 2011 in these areas are approximately the same as those in NB. We have as always incorporated the direct and indirect tax rates proposed in the government budget for 2011. This implies a somewhat higher rise in indirect taxes than an adjustment purely for inflation would imply, while direct taxes are reduced somewhat as a result of adapting the taxation system to the pension reform. In our projections, growth in public transfers is also virtually identical to the NB projections, and also very similar to those forming the basis for our previous report. The NB projects SNOBD at 4.2 per cent in 2011, which is fairly close to, but still slightly higher than the 4 per cent path.

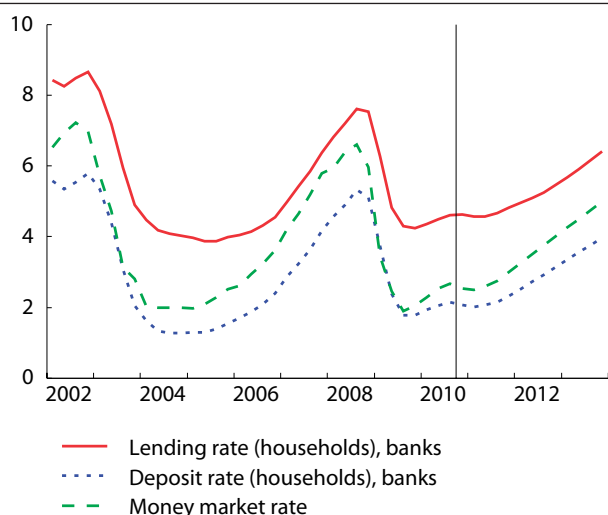
Figures from the central government accounts for the third quarter of 2010 indicate a clear improvement in the national budget deficit compared with the projection for 2011 in the NB. The deviation from the 4 per cent path of the fiscal rule may accordingly be less than projected in the NB. We forecast that SNOBD will be back on or below the 4 per cent path in 2012. Our projections for 2012 are based on the assumption that rates in the tax system will be adjusted for inflation and that budgetary tightening will be achieved through moderate growth in public purchases of goods and services.

We assume for 2013 that SNOBD will be appreciably lower than 4 per cent of the fund capital. This is in line with the intention of the fiscal rule, since growth in the Norwegian economy then will be relatively high, and according to our calculations the Norwegian economy will then be in an expansionary period. We assume that the fiscal scope for manoeuvre in 2013 will be used partly for higher gross general government investment, while tax rates are adjusted for inflation and spending for consumption purposes grows less than the estimated trend growth in the Norwegian economy. The growth in transfers to households will gradually increase as a result of increased old age pensions, while other transfers will increase less. Unemployment benefit for the unemployed will be reduced after 2012 in pace with a cyclical improvement in the Norwegian economy.

Interest rate increase in summer 2011

Norges Bank's setting of interest rates is aimed at stabilising inflation at 2.5 per cent in the medium term, while promoting stable developments in output and employment. Inflation measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has fallen since the beginning of the year and was 1.0 per

Figure 3. Norwegian interest rates. Per cent



Source: Norges Bank and Statistics Norway.

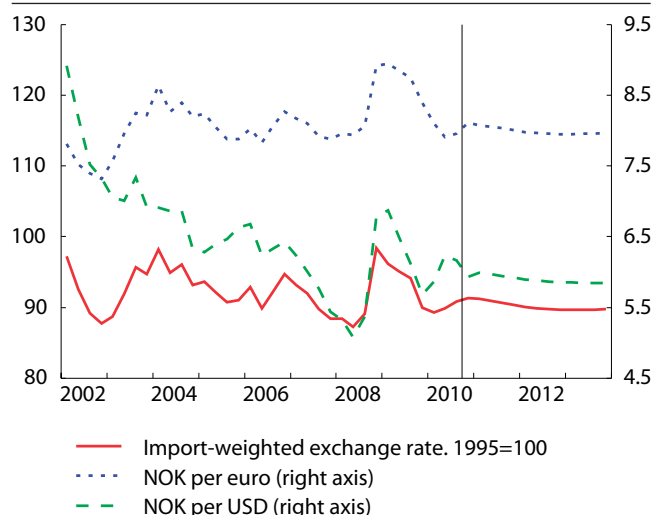
cent in October. At the same time, mainland GDP is appreciably below trend.

Prompted by the crisis in financial markets worldwide and the sombre economic outlook, Norges Bank cut the key policy rate by 4.5 percentage points from autumn 2008 and over a nine month period, so that in June 2009 it was 1.25 per cent. Since then, the policy rate has been raised three times, most recently at the beginning of May this year. Each of the interest rate hikes has been 0.25 percentage point, so that the key rate is now 2.0 per cent.

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

The setting of interest rates affects private and municipal sector credit growth, which is important to the financial stability of the economy. Growth in gross domestic debt in the private and municipal sector (C2) was just under 1.7 per cent from the second to the third quarter of this year. This is a slight increase on the two previous quarters, when growth was 1.4 per cent and 1.5 per cent, respectively, but appreciably higher than growth from the third to the fourth quarter of 2009, which was less than 0.5 per cent. Credit growth is nevertheless substantially less than in the years prior to the financial crisis, when growth was over 2.5 per cent each quarter, or over 10 per cent measured as an annual rate. Credit growth in non-financial enterprises was 1.4 per cent from the second to the third quarter of 2010 and has been increasing gradually from quarter

Figure 4. Exchange rates



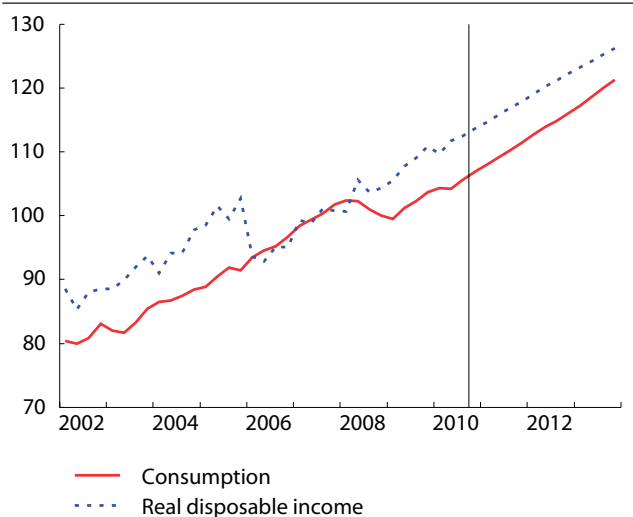
Source: Norges Bank.

to quarter since falling by 1.7 per cent from the third to the fourth quarter of 2009. Household credit growth was 1.6 per cent from the second to the third quarter, following roughly the same developments in the four previous quarters.

The Norwegian krone depreciated strongly against the US dollar and the euro through the second half of 2008. This weakening was largely reversed through 2009. Measured in terms of the import-weighted krone exchange rate, the krone appreciated by over 12 per cent from December 2008 to January 2010. From January to November 2010 the krone depreciated by about 3 per cent, measured by the import-weighted krone exchange rate. We expect the krone to appreciate by an annualised 8.2 per cent against the euro from 2009 to 2010, and by 3.7 per cent measured in terms of the import-weighted krone exchange rate.

Fiscal policy tightening in many countries – made necessary by high government debt – will probably keep interest rates worldwide at a low level in the period ahead. This points to interest rates in Norway also being kept low in order to avoid a high interest rate differential causing the krone exchange rate to increase strongly. We therefore expect money market rates to remain at the current level for the remainder of 2010 and into 2011. We assume that there will be three interest rate increases from June 2011 to the end of the year. This will raise the money market rate to about 3.25 per cent by the beginning of 2012. The interest rate level will gradually increase as a result of an improvement in the economic situation, and short rates are projected to rise to 5 per cent by the end of 2013. The money market rate is assumed to be about 1.5 percentage points higher in Norway than in the euro area in 2011. The interest rate differential will widen to around 2.0 per cent in 2012 and will be even larger in 2013, when we forecast that the Norwegian economy will be in a new expansion.

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



Source: Statistics Norway.

Our projections imply small changes in the value of the krone from the current level. We assume that the euro exchange rate will gradually move from the current level to just under NOK 8 in 2012 and 2013. We also believe that the US dollar will weaken slightly against the euro. Measured in terms of the import-weighted krone exchange rate, the krone will appreciate by about one per cent in the next four quarters and by about the same amount in 2012. The strengthening through 2011 and 2012 will come about as a result of the high interest rate differential between Norway and the euro area.

Clear consumption growth

The most recent seasonally adjusted QNA figures show that consumption by households and non-profit organisations rose by as much as 1.3 per cent in the third quarter of this year compared with the previous quarter. There was strong growth in both goods and services consumption and in Norwegians' consumption abroad. Clothing and footwear, food, furniture and white goods and durable leisure equipment contributed to growth in goods consumption in the previous quarter. Growth in consumption of services was broad-based.

The increase in consumption in the third quarter of this year follows a slight fall in the previous quarter. The fall in consumption should probably be viewed in light of special factors – high electricity bills and abnormally high advance tax payments – which weakened household liquidity. Travel in the second quarter of 2010 was also hampered by the ash cloud from Iceland. Consumption for the first three quarters of the year combined was 3.6 per cent higher than in the same period in 2009. We expect annual growth in 2010 to be at approximately this level following close to zero growth last year.

According to preliminary QNA figures, household real disposable income increased by 4.5 per cent in 2009 compared with 3.5 per cent in 2008. Substantially

lower interest expenses in the wake of the financial crisis and almost a halving of consumer price inflation contributed to the increase in real income growth. Wage income, which is the largest source of household income, contributed to a more moderate extent to income growth since the cyclical downturn resulted in weaker wage growth and lower employment in 2009 than the previous year.

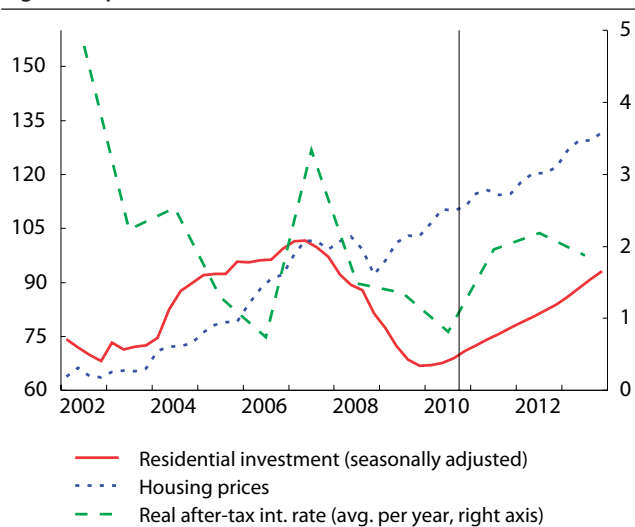
Growth in household real disposable income is now expected to fall to 3.4 per cent this year, since developments in net interest income will not contribute to further growth of any significance. Although growth in wage income is expected to pick up with an improved economic situation, somewhat higher interest rates and gradually increasing consumer price inflation will moderate growth in real disposable income in the projection period. Growth in real income will remain at about 3.5 per cent in 2011-2013, while housing wealth will increase with rising house prices, which will continue to stimulate consumption over and above real income growth in the period ahead. Consumption growth is projected at 4 per cent in 2011 and almost 4.5 per cent annually in 2012 and 2013. This is lower than in the previous cyclical upturn, when consumption growth rates approached 5.5 per cent.

The financial consolidation in the wake of the financial crisis led to almost a doubling last year of the household saving ratio (saving as a share of disposable income) from a level of just under 4 per cent in 2008. In isolation, rising house prices will reduce the need for household financial consolidation. Even given a rise in real interest rates, the saving ratio is expected to fall this year by about half a percentage point, to a level of just over 7 per cent. The saving ratio is expected to fall gradually to a level of around 5.5 per cent in 2013. Net financial investment will, in pace with the fall in saving, and with housing investment well on the way up, decline during the projection period. Households are projected to reduce their investment in net financial assets from a level of over NOK 48 billion in 2009 to a level of around NOK 10 billion in 2013. Thus households will continue to have positive net investment in financial assets when the downturn is over.

Housing investment well on the way up

After plunging almost 35 per cent in two and a half years, housing investment bottomed out in the fourth quarter of last year. Housing investment has now increased for three quarters in a row, but will nevertheless fall by almost 4 per cent from 2009 to 2010 as an annual average. Prospects of a more favourable economic situation and rising house prices imply a continued increase in housing starts in the period ahead. We therefore expect housing investment to increase by 8 to 10 per cent annually in the years 2011-2013. Despite this, the housing investment level in 2013 will be about 10 per cent lower than the peak level in 2007.

Figure 6. Residential market. Left axis adj. indices. 2007=100. Right axis per cent



Source: Statistics Norway.

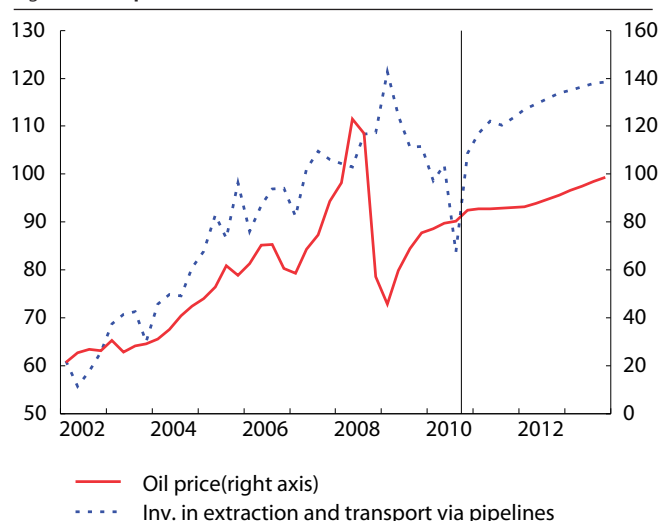
According to Statistics Norway's house price index, house prices as a whole fell by almost 10 per cent from the second to the fourth quarter of 2008 as a result of the financial crisis, but have since shown a pronounced increase that has more than outweighed this decline. House prices did fall weakly from the second to the third quarter of this year, but the level was nonetheless 6.7 per cent higher than in the third quarter of 2009. Detached houses were 1.7 per cent cheaper in the third quarter than in the previous quarter this year, while small houses and flats were 0.8 and 1.4 per cent more expensive, respectively. We expect house prices to rise for the remainder of the year, resulting in an annual average increase of 8.6 per cent. We project that house prices will rise by slightly less than 5 per cent in 2011 and 2012 and by 7.5 per cent in 2013 in pace with a steady improvement in the economic situation.

Increased petroleum investment ahead

The preliminary QNA figures indicate a sharp decline in investment in petroleum extraction and pipeline transport. Investment dropped by as much as 18 per cent from the second to the third quarter. Developments in exploration and platform investment in particular contributed to the fall. Weak investment figures are a tendency that has persisted for almost two years. A breakdown of investment into categories shows a clear decline in exploration activity through the past year. Production drilling has shown more stable developments through the period, and the reduction in the last quarter was moderate. The most pronounced decline took place in the building of platforms, drilling rigs and modules. This can be attributed to the fact that several large platforms were completed in 2009, and that new projects are still in an early phase.

The high oil price prior to the financial crisis was an important factor underlying high investment in exploration in 2008 and well into 2009. Exploration activity has declined considerably over the past year, probably

Figure 7. Oil price and oil investment. 2007=100



Source: Statistics Norway.

due to the sharp fall in oil prices through the autumn of 2008 and the following winter. It takes a long time for a change in prices to be fully reflected in investment. This time lag is there probably because it takes time to plan exploration before it is implemented, and because drilling rigs are bound by long contracts. Petroleum investment was expected to pick up in the second half of 2010. This investment growth appears to have been moved further back in time. Several new projects have started up during the last few quarters, which will mean increased investment in platforms this winter.

In the years ahead, investment in fields in operation is expected to continue increasing, pushed up by investment in the Ekofisk field in particular. Subsequently, the desire for increased recovery from existing fields will mean more drilling as the fields mature. Exploration activity is expected to remain at a moderate level during the projection period. Growth in petroleum investment in the years ahead is expected to be strong and hence to provide considerable growth impetus to the Norwegian economy.

Gas production was considerably lower than expected in the third quarter of this year due to both planned and unplanned production halts on several fields. The decline in oil production was also more pronounced than expected, but more in line with developments over the past decade. The overall effect was a 15 per cent reduction in petroleum recovery from the third quarter of 2009 to the same period this year. Oil production is still expected to fall in the years ahead, but escalating gas production from a low level in the third quarter of this year will result in a distinct rise in combined production next year. The trend decline in petroleum production will continue through the remainder of the projection period, however.

For the most part, gas prices, measured by the export price, shadow developments in the oil price. There is a

certain time lag in gas prices compared with oil prices, which explains why the gas price did not touch bottom until the first quarter of 2010, a year later than the oil price. We expect a moderate rise in gas prices in the period ahead, but somewhat lower than for oil prices. The reasons for this are weak developments in prices for liquid natural gas (LNG) and weaker prospects in the European gas market. The oil price is projected at NOK 577 in 2013 compared with slightly under NOK 530 at end-November.

Mainland investment on the rise again

On the whole, mainland business investment fell through 2008 and 2009. This trend was not broken until the second quarter of 2010. Mainland business investment, adjusted for normal seasonal variations, then increased by 7.0 per cent compared with the previous quarter. In the third quarter, mainland business investment fell by 3.7 per cent, pushed down by a 8 per cent fall in investment in manufacturing from the second to the third quarter. Mainland business investment in the third quarter was nevertheless 3.0 per cent higher than in the first quarter of 2010.

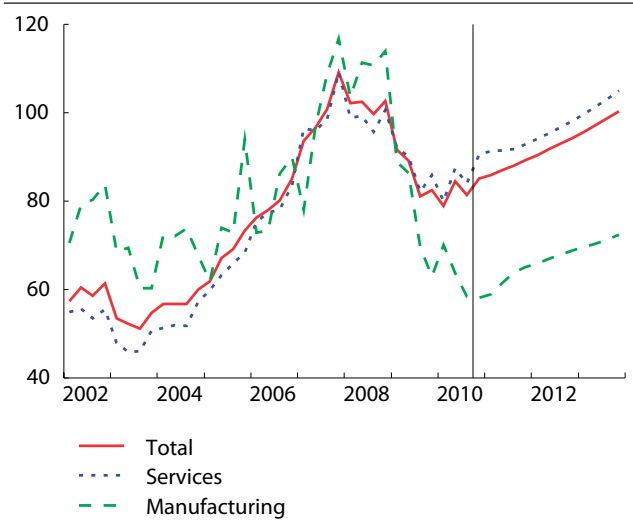
Statistics Norway's most recent investment intentions survey indicates a clear fall in manufacturing investment in 2010. We estimate that the fall will be just over 17 per cent, following a 30 per cent fall in investment in 2009. Assuming normal under-reporting in the investment intentions survey, the investment level in 2011 appears likely to be unchanged. The recovery upon which the Norwegian economy now appears to have embarked will probably lead to rising investment, and we estimate that manufacturing investment will increase by 2-3 per cent in 2011. Manufacturing will pick up further in 2012 and is projected to increase by almost 7 per cent.

The investment intentions survey indicates a clear increase in investment in electricity supply of around 10 per cent in 2010 and a further 25 per cent in 2011. This must be viewed in the context of very high projections for investment in the transmission and distribution of electricity due to the increased focus on upgrading and developing the electricity grid. The high level in 2011 is assumed to continue throughout the projection period.

Non-residential building starts increased by 24 per cent from the third quarter of 2009 to the third quarter of this year. The increase is mainly due to an increase in manufacturing and warehouse facilities. However, the figures for the third quarter of last year were the lowest for more than 10 years. An upturn in building starts of almost all kinds has been recorded. The increase in residential starts amounted to over 70 000 square metres more than in the third quarter of 2009 - a rise of more than 10 per cent.

Investment is expected to increase in most industries as the domestic economic situation improves. We estimate an investment decline of 4.3 per cent in 2010 for

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



Source: Statistics Norway.

mainland industries. Growth in these investments is then expected to increase from just over 4 per cent in 2011 to about 6 per cent in 2012 and 2013.

Balance of payments remains solid

Norwegian exports have been characterised by weak developments in volume and higher prices so far this year. The seasonally adjusted national accounts figures for the total export volume show a negative trend from quarter to quarter, with approximately zero growth in the first quarter followed by a decline of over 4 per cent in the second quarter and a further 1.3 per cent in the third quarter. The developments reflect a weak global economic situation, a trend reduction in Norwegian oil production and, not least, a production-based decline in exports of natural gas in the third quarter of just over 15 per cent. In addition to oil and gas, exports of traditional goods and services have shown weak developments this year, but export volumes increased for both groups in the third quarter. A substantial amount of growth is attributable to exports of fish and fish products, which increased by 20 per cent, and commercial services, which surged by a full 35 per cent. Other large and important export groups like metals, engineering products and gross freight exports in shipping showed minor changes.

Export prices for fish and commercial services fell in the third quarter. Otherwise, export prices for traditional goods and oil and gas continued to rise in the third quarter, but less than in the previous two quarters. During the first three quarters of the year the price index for total exports rose by about 10 per cent, with a somewhat stronger rise in prices for oil and gas than for traditional goods. The value of combined Norwegian exports has nevertheless declined from quarter to quarter this year. The decline can be largely attributed to reduced exports of crude oil, which account for about a quarter of the overall value of exports. The sharp reduction in exports of natural gas in the third

Table 2. Main economic indicators 2009-2013. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Accounts 2009*	Forecasts									
		2010			2011			2012		2013	
		SN	MoF	NB	SN	NB	MoF	SN	NB	SN	NB
Demand and output											
Consumption in households etc.	0.2	3.7	2.8	2 3/4	4.0	3 1/4	3.5	4.3	3 1/2	4.4	2 3/4
General government consumption	4.7	2.9	2.7	2 3/4	2.2	2	2.1	1.9	..	1.9	..
Gross fixed investment	-7.4	-8.1	-3.4	..	6.1	..	4.6	4.6	..	6.4	..
Extraction and transport via pipelines ¹	5.8	-9.2	-3.8	-6 1/2	9.1	7	6.0	5.4	5	2.9	4
Mainland Norway	-11.7	-4.1	-2.4	-2 1/2	5.5	10	4.3	4.7	..	6.7	..
Industries	-15.4	-4.3	-4.0	..	4.2	..	3.3	5.6	..	6.1	..
Housing	-18.9	-3.8	-4.8	..	8.5	..	6.0	8.3	..	10.4	..
General government	7.0	-3.8	3.3	..	5.7	..	5.1	-0.4	..	4.6	..
Demand from Mainland Norway ²	-1.1	2.0	1.8	1 3/4	3.8	4	3.3	3.7	3 1/4	4.1	2 1/4
Stockbuilding ³	-2.6	2.7	..	..	0.1	..	..	0.0	..	0.0	..
Exports	-4.0	-1.5	0.8	..	2.0	..	1.8	1.7	..	2.0	..
Crude oil and natural gas	-1.2	-5.8	-3.6	..	0.8	..	-2.8	-0.7	..	-0.8	..
Traditional goods ⁴	-8.2	5.8	5.1	2	3.7	2 3/4	4.9	2.9	..	3.8	..
Imports	-11.4	8.6	4.2	8 1/4	5.3	6	5.6	4.8	..	6.3	..
Traditional goods	-13.1	7.8	5.7	..	6.3	..	5.1	7.3	..	7.3	..
Gross domestic product	-1.4	0.0	0.5	3/4	2.7	2	2.1	2.5	2 1/4	2.6	1 1/2
Mainland Norway	-1.3	2.0	1.7	1 3/4	3.0	3	3.1	3.4	3	3.5	2 3/4
Labour market											
Employed persons	-0.4	-0.1	-0.2	0	1.1	1	0.6	1.8	1 1/4	2.3	3/4
Unemployment rate (level)	3.2	3.5	3.5	3 1/2	3.7	3 1/2	3.6	3.6	3 1/4	3.2	3 1/4
Prices and wages											
Annual earnings	4.2	3.5	3 1/4	3 1/2	3.4	3 3/4	3 1/4	3.6	4 1/4	4.5	4 1/2
Consumer price index (CPI)	2.1	2.4	2.5	2 1/4	1.4	1 1/4	1.8	1.5	2	2.5	2 1/4
CPI-ATE ⁵	2.6	1.4	1.5	1 1/2	1.3	1 1/4	1.9	1.7	2	2.3	2 1/4
Export prices, traditional goods	-6.1	3.2	3.6	..	4.4	..	4.5	2.4	..	3.4	..
Import prices, traditional goods	-1.3	-0.6	0.2	..	0.9	..	3.1	-0.4	..	1.5	..
Housing prices	1.9	8.6	..	..	4.9	..	..	4.7	..	7.5	..
Balance of payment											
Current balance (bill. NOK)	311.8	316.7	407.0	..	376.5	..	398.6	379.2	..	396.5	..
Current balance (per cent of GDP)	13.1	12.8	16.3	..	14.4	..	15.3	13.9	..	13.6	..
Memorandum items:											
Household savings ratio (level)	7.5	7.1	6.5	..	6.6	..	5.8	6.3	..	5.5	..
Money market rate (level)	2.5	2.5	2.5	2.5	2.7	2.7	3 1/4	3.6	3.6	4.6	4.4
Lending rate, banks (level) ⁶	4.9	4.5	..	..	4.7	..	..	5.2	..	6.0	..
Crude oil price NOK (level) ⁷	388	487	475	..	510	..	485	521	..	561	..
Export markets indicator	-8.8	7.4	..	..	5.1	..	..	4.7	..	6.0	..
Importweighted krone exchange rate (44 countries) ⁸	3.3	-3.7	..	-3.8	0.5	0.6	..	-1.1	-0.3	-0.2	1.1

¹ Forecasts from Ministry of Finance incl. service activities incidental to extraction.

² Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.

³ Change in stockbuilding. Per cent of GDP.

⁴ Norges Bank estimates traditional exports, which also includes some services.

⁵ CPI adjusted for tax changes and excluding energy products (CPI-ATE).

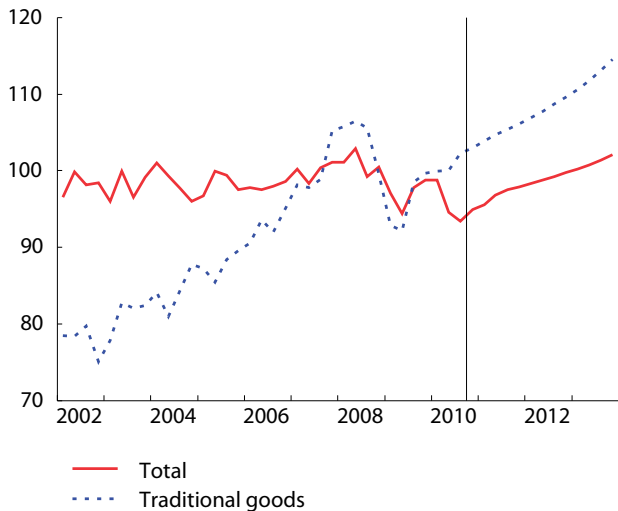
⁶ Yearly average.

⁷ Average spot price, Brent Blend.

⁸ Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.

Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.1 (2010-2011), (MoF), Norges Bank, Pengepolitisk rapport 3/2010 (NB).

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



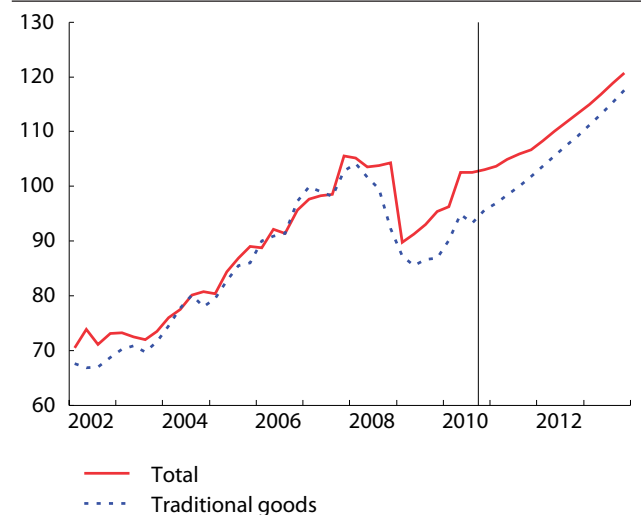
Source: Statistics Norway.

quarter also contributed substantially to the decline. Exports of traditional goods, on the other hand, have risen in value each quarter this year, whereas the value of service exports has remained virtually stagnant. Total demand for imports from our trading partners has increased more this year than the volume of Norwegian exports excluding oil and gas. The reason is probably that domestic wage growth adjusted for productivity is higher than in other countries when measured in a common currency, and this indicates that so far this year Norwegian export companies have suffered a cost-driven loss of market shares.

A comparison of the period January-October this year with the same period last year shows that the value of total exports excluding ships and oil platforms, crude oil, condensates and natural gas increased to all contents/regions in the world except Asia. China and South Korea are Norway's two biggest export markets in Asia (each accounting for an almost 4 per cent share of total exports), and both reduced their imports from Norway by around 10 per cent. Of other major trading partners, only Denmark (with a 5 per cent share) and Turkey (with a 2 per cent share) have reduced their imports from Norway this year, by 3 per cent and 18 per cent respectively. On the other hand, exports to our largest trading partners Sweden (with an 11 per cent share), the USA (with a 10 per cent share) and the UK (with an 8 per cent share) increased by 15, 30 and 20 per cent, respectively.

This quarter we expect maintenance work to cause a reduction in the production and export of crude oil, whereas natural gas exports have picked up after some months of low volumes. Exports of traditional goods and services are expected to increase. Although the volume of traditional exports is expected to increase by almost 6 per cent, this is unlikely to be enough to prevent a 1-2 per cent reduction in total export volumes in 2010 compared with 2009. The global economic

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

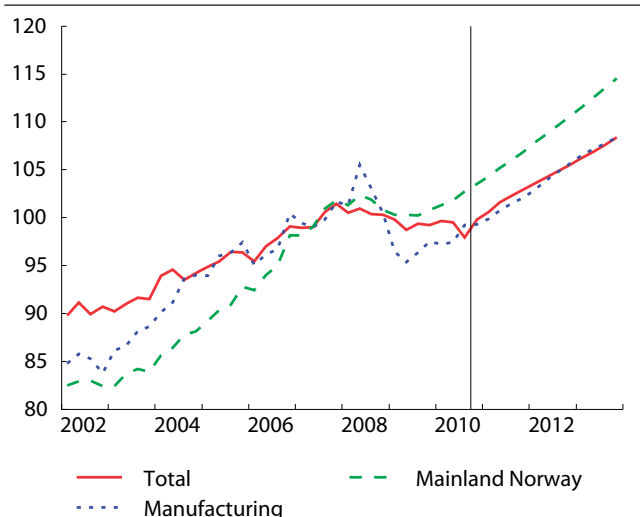


Source: Statistics Norway.

situation remains weak and uncertain, but there are positive growth signs among Norway's trading partners. Traditional exports are expected to grow by 3-4 per cent in each of the years 2011-2013 and service exports somewhat more. Weak growth in the production and export of oil and gas next year and an expected slight reduction the following two years will push the annual growth in total exports down to 1½-2 per cent during the projection period. Developments in cost-competitiveness are expected to lead to loss of market shares throughout the period.

In contrast to exports, imports are characterised by growth in volume and falling prices this year. Volumes of both traditional and total imports are higher in the first three quarters of this year than in the same quarters in 2009. Seasonally adjusted QNA figures show a 6.5 per cent growth in total imports in the second quarter, while third-quarter imports were unchanged from the previous quarter. There was a clear fall in imports of commodities and fuels. A fall in prices for these product groups contributed to import prices falling in the third quarter after rising slightly in the second quarter. For 2010 we estimate a volume growth of 8.6 per cent for total imports, which is in line with growth during the economic expansion from 2004 to 2007.

A moderate recovery with projected growth in household consumption of just over 4 per cent and investment growth that may top 6 per cent will generate substantial growth impulses to imports in each of the coming years. We have also included imports of over 50 aircraft and helicopters for the Defence Forces and for non-military use in the course of 2011-2013. Growth in overall imports is projected at 5-6 per cent in the next three years, and growth in traditional goods at just over one per cent higher than this. Whereas growth in import volumes is projected at two-three times growth in export volumes, we forecast that the rise in export prices will be more than twice the rise in import prices.

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

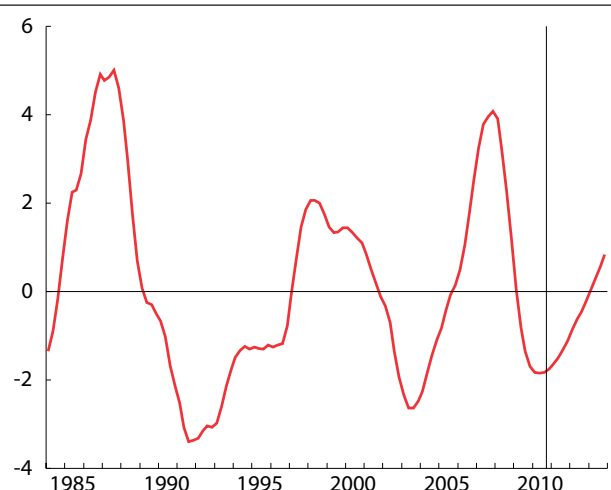
Source: Statistics Norway.

A projected high rise in prices for commodities and low rise in prices for consumer goods from China will contribute to this. We therefore expect the terms of trade to improve during each year of the projection period.

A terms of trade gain has been the underlying cause of the growing current account surplus in most years since the turn of the century. Favourable relative price developments have outweighed unfavourable developments in export volumes relative to import volumes. Last year, on the other hand, a terms of trade loss outweighed favourable developments in relative volumes. This year, unfavourable relative volume developments appear to be outweighing a terms of trade gain. The trade surplus is accordingly reduced for the second year running, from a record high NOK 481 billion in 2008, to just over NOK 350 billion in 2009 and about NOK 330 billion this year. For the years 2011-2013 we project that terms of trade gains and a continued decline in the export surplus will come close to stabilising the trade surplus at about NOK 360 billion. We assume that net factor income and transfers will change from a deficit to a slight surplus in the course of the projection period and raise the current account surplus to 13-14 per cent of GDP. This is higher than the levels in the contraction years 2002-2003, before the economic situation turned around and oil prices rose to peak in 2008.

Nascent cyclical upturn

A falling activity level in the wake of the financial crisis gave way to moderate growth in the fourth quarter of 2009. The preliminary QNA figures for the third quarter of 2010 show that activity picked up. Mainland GDP increased by 0.9 per cent on the previous quarter, or an annualised 3.7 per cent. This is distinctly higher than trend growth, and the Norwegian economy can thus be said to be in recovery. However, the first preliminary quarterly figures are always shrouded in uncertainty. Developments in second quarter activity were affected by strikes in municipal government and in the

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

Source: Statistics Norway.

construction industry, and a cold, dry winter led to power production falling sharply from the first quarter. Underlying mainland GDP growth can therefore be said to have been above trend also in the second quarter. This means that the third quarter figures may reflect catching-up effects, and this implies slightly lower underlying third quarter growth than developments as expressed in the QNA figures.

From the second quarter of 2008 to the third quarter of 2009, mainland GDP excluding general government fell by 3.3 per cent, or 0.7 per cent on average per quarter. General government value added rose in this period by 0.7 per cent per quarter on average. This growth has been reduced to 0.5 per cent in the last four quarters, during which activity growth in the business sector has moved up to an average quarterly growth of 0.8 per cent. Thus fiscal policy has contributed to stabilising economic growth directly through growth in own activities, which are additional to the growth impulses due to changes in public sector demand targeting the private sector.

The QNA figures for the third quarter of this year show fairly high growth in all the major mainland industries. The same was true of the second quarter, apart from electricity production. Value added in manufacturing increased by as much as 1.8 per cent from the second to the third quarter. The third quarter level was nonetheless almost 6 per cent lower than the level in the second quarter of 2008, before the financial crisis took hold. The lower activity level applies to all manufacturing industries with the exception of food and beverages and chemicals, where the activity level has risen, in the latter case sharply.

We find the highest third quarter growth among the main industries in other goods production, with an increase of 2.9 per cent. Growth in construction activities was in line with developments in manufacturing, while

growth in the primary industries and in power supply was even stronger. Value added in private services increased by 0.7 per cent in the third quarter after two quarters with growth of more than 1 per cent.

The economy is in a downturn when the level of activity is below trend, which implies that capacity utilisation is below average. However the trend level is not observable and has to be estimated. In the third quarter of 2010, mainland GDP was slightly higher than at the previous peak in the second quarter of 2008, but a little lower if general government is excluded. This does not mean that capacity utilisation is at approximately the same level, however. In the course of those nine quarters, the population aged 15-74 has increased by between 3 and 4 per cent, while the mainland capital stock has risen by around 5 per cent. This, coupled with clear underlying productivity growth as a result of technological innovations and greater expertise, causes a pronounced rise in trend GDP growth, currently estimated at over 2.5 per cent as an annual rate. Approximately the same GDP level at these two points in time therefore means considerably lower capacity utilisation in the third quarter of 2010 than just over two years earlier. This means that the economy has moved from being in a clear boom then to an almost equally clear recession now.

We estimate that growth in private domestic demand will pick up a little in the period ahead, particularly with regard to investment, while growth in public sector demand will slow somewhat. The overall result may be relatively stable high domestic demand growth. Growth in demand in Norwegian export markets, which has increased appreciably so far this year, is expected to decline for the next year but then to rise for the remainder of the projection period. Higher cost growth in Norway than among competing countries will dampen production growth in internationally exposed industries. Manufacturing production is therefore expected to grow moderately for the next few years.

Construction activity is expected to pick up going forward as a result of increased housing investment and other investment in building and construction. As private sector activity picks up and growth in public sector production slows in pace with a less expansionary fiscal policy, the increase in general government value added is expected to account for a considerably smaller share of overall activity growth.

On an annual basis, we expect mainland GDP to increase by 2 per cent this year and 3 per cent next year. We expect the growth rate to pick up slightly through 2011 so that mainland GDP growth increases further in 2012 and 2013. Thus we believe that the moderate cyclical upturn that the Norwegian economy appears to be in will persist and bring the economy out of the downturn in the course of 2013. This implies slightly higher growth in the Norwegian economy in the period ahead than we have assumed earlier.

Stable unemployment – lower labour force participation

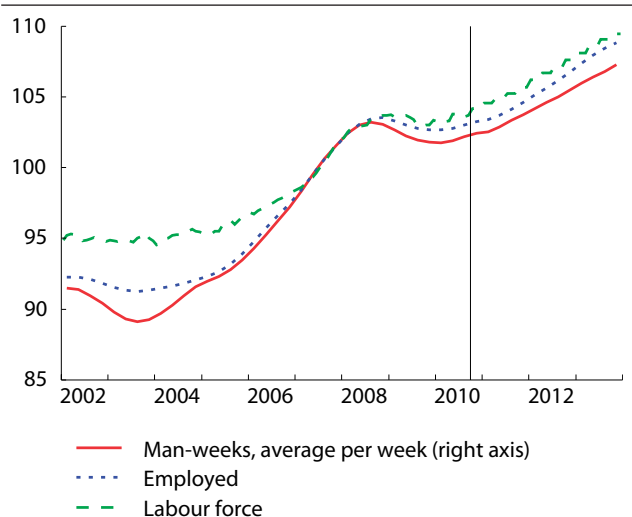
Statistics Norway's Labour Force Survey (LFS) shows that the unemployed made up 3.5 per cent of the labour force in the period August-October this year, after adjustment for normal seasonal variations. LFS unemployment has been virtually unchanged so far this year, and the unemployment rate is only 0.3 percentage point higher than in the same period in 2009. The LFS figures show a rise in employment of just over 11 000 persons from the third quarter of 2009 to the third quarter of 2010, while the labour force (sum of the employed and the unemployed) increased by 18 000. In the same period, however, the population aged between 15 and 74 increased by a full 60 000 persons, which meant that the labour force participation fell from 72.6 per cent to 71.9 per cent. Labour force participation has fallen in the younger portion of the population in particular. This fact must be viewed in light of the higher number of students taking tertiary education than before the financial crisis. Of those outside the labour force, 26 000 more people reported education as their main activity in the third quarter of 2010 than one year earlier.

At the end of October, 69 800 persons were registered with the Norwegian Labour and Welfare Organisation (NAV) as being fully unemployed. The total of those registered as fully unemployed and persons on ordinary labour market programmes was just under 84 000 - a decline of almost 3 000 from the same period in the previous year. The NAV figures confirm the stable unemployment picture presented by the LFS. Both sources show that the long-term unemployed have the greatest difficulty in finding work. NAV reports 4 per cent fewer registered vacancies in October than in the same month in 2009, but that the decline in the number of vacancies appears to have come to a halt in the last couple of months.

Statistics Norway's population statistics show that the number registered as resident in Norway was about 65 500 higher in October 2010 than one year previously. Net immigration from abroad accounts for a full 45 500 of this increase. The population growth of 20 200 in the third quarter of 2010 is the largest recorded in a single quarter to date, and is due to high net immigration to Norway. Net immigration in the third quarter was close to 14 000 persons. We have assumed that net immigration will remain high throughout the projection period and that the labour force will increase by 1½-1¾ per cent annually for the next three years.

According to seasonally adjusted QNA figures, the number of employed increased by 5 600 persons from the second to the third quarter of 2010. The figures show that there is now a rise in employment in cyclically sensitive industries such as retail trade and construction. Overall employment in public and private sector healthcare services has grown continuously throughout

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



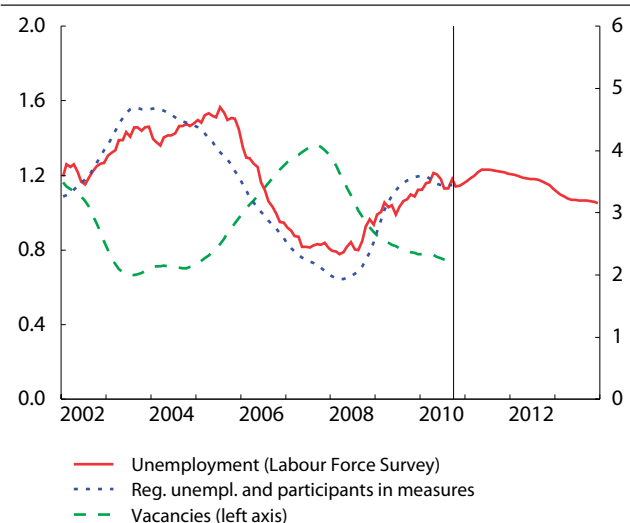
Source: Statistics Norway.

the cyclical downturn. The rise in employment has been evident in municipal services in particular. Over 20 per cent of the employed now work in public and private sector healthcare. In Statistics Norway's business sentiment survey for the third quarter, Norwegian industrial leaders report a slight improvement in the business situation. However, the QNA figures show that manufacturing employment continued to fall in the third quarter. According to the business sentiment survey, structural changes in the food and beverages industry, such as measures to increase efficiency and a change-over to larger production units, probably contributed to these developments.

Unrevised QNA figures show a 0.2 per cent rise in the number employed in the third quarter of 2010 compared with the same quarter last year, while the number of man-hours worked increased by 0.6 per cent in the same period. Lower sickness absence is a contributory cause of the increase in the number of man-hours per person employed. Sickness absence statistics show that total sickness absence dropped from 7.3 per cent to 6.3 per cent of contractual person-days from the second quarter of 2009 to the second quarter of 2010. Total sickness absence went down by 10.1 per cent from the first half of 2009 to the first half of 2010. Some sickness absence in the second half of 2009 was associated with the swine flu epidemic, and sickness absence normally falls during economic downturns. We therefore assume that in the second half of the year sickness absence will remain at lower levels than last year.

Employment is expected to pick up from the current level in the years ahead. The increase in household demand is underpinning a rise in employment in retail trade and other service industries. Growth in investment in residential and commercial buildings is boosting employment in building and construction. The labour force participation of the younger portion of the population is expected to rise gradually from the

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



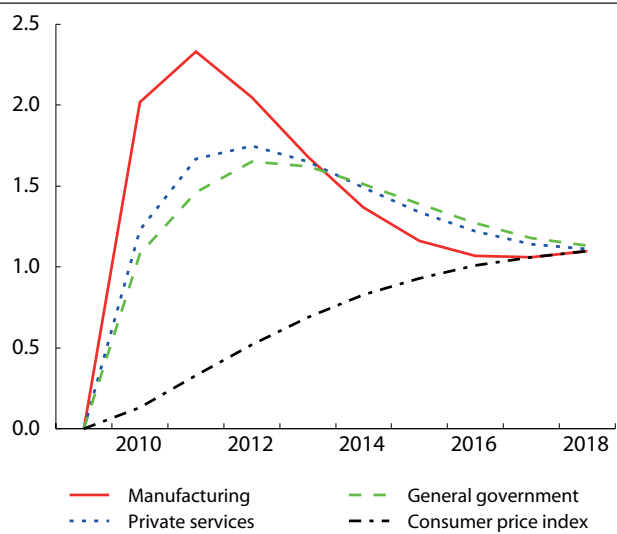
Source: The Norwegian Labour and Welfare Service and Statistics Norway.

current low levels towards 2013. Given today's high student numbers, the flow of graduates from institutions of tertiary education will also reach high levels at this time. Flexible retirement rules are being introduced for old-age pensioners on 1 January 2011. Labour force participation is unchanged for the age group 62-66 in the projection for 2011. In the medium term we envisage that labour force participation will remain unchanged for men, while the labour force participation of women in this age group will increase. Given the assumptions we have made for inward labour migration and labour force participation, LFS unemployment will probably increase somewhat in 2012. We anticipate that unemployment will remain at a level of just under 100 000 in 2011 and 2012. The unemployment rate is estimated at 3.7 per cent and 3.6 per cent, respectively, for these two years. After that, the recovery will contribute to unemployment falling to 3.2 per cent in 2013.

Wage growth only up when manufacturing is ready

Growth in annual earnings this year is estimated at 3.5 per cent. Because of the sharp drop in sickness absence, wage growth appears likely to be about half a percentage point higher if it is measured as wages per standard man-year. Annual earnings are not affected by changes in sickness absence. Annual wage growth this year therefore appears likely to be almost three percentage points lower than in 2008. The decline shows how strongly nominal and real wage growth in Norway react to economic turnarounds. The slower wage growth is a result of poorer business sector profitability, lower consumer price inflation and higher unemployment. Although unemployment in Norway has increased little during this cyclical downturn, Norwegian manufacturing has experienced almost as great a decline in demand as manufacturing in other countries since the financial crisis in 2008. High public sector demand has made a particular contribution to buoying up employment in Norway.

Figure 15. **Hourly wages. Deviations from baseline scenario in per cent**



Source: Statistics Norway.

Nevertheless, the decline in wage growth in 2010 does not prevent the years that have passed since the turn of the century emerging as a prosperous period for Norwegian wage-earners. Nor does the global financial crisis alter the fact that on the whole the decade has been very profitable for the Norwegian business sector. Operating results in the Norwegian business sector as a whole doubled between 2000 and 2008. However, they fluctuate considerably with the economic situation, and in 2009 they were “only” 51 per cent higher than the level in 2000. Disposable income for Norway as a whole (excluding net financial investment in general government, which is largely savings in the Government Pension Fund Global) increased by as much as 72 per cent from 2000 to 2009. Household wage income increased by precisely the same amount. Thus the figures show that wage-earners have shared in the very high income growth Norway has experienced so far in the 2000s. Given the added fact that consumer price inflation has been low, this decade has seen the highest real wage growth since the 1960s.

The global downturn appears likely to last longer than previous downturns. The recovery has been weak in many countries, and there are prospects of negative demand impulses from fiscal policy in many countries. The outlook for the Norwegian export industry is therefore moderate growth. Petroleum investment is expected to increase somewhat going forward, however, and developments for Norwegian industry as a whole will therefore be relatively favourable according to our projections. The cyclical upturn that we now appear to be experiencing will gradually generate new employment growth, but unemployment will remain approximately unchanged at the current level for the next couple of years as a result of corresponding growth in the labour force. Although the turnaround in output is now evident, it will thus be a while yet before the labour market improves and wage growth picks up. We project wage growth in 2011 at 3.4 per cent.

Past experience of Norwegian wage formation indicates that manufacturing experiences the highest wage growth early in cyclical upturns, and that the wage level in the service industries catches up later in the business cycle. This is illustrated in Figure 2.15. The figure shows how an assumed wage increase of 2 per cent in manufacturing in 2010 is spread to the private service industries and the public sector. The computation has been carried out by Statistics Norway’s MODAG macroeconomic model, with modelled interest rates and krone exchange rate. We see from the figure that public sector wages lag most behind manufacturing wages early in the business cycle. However, after three years the wage differences between all sectors have evened out according to the computations. Later in the business cycle, wage formation in manufacturing lags somewhat behind the service industries, before wage differences are again on the same level as before the initial increase 8 years later.

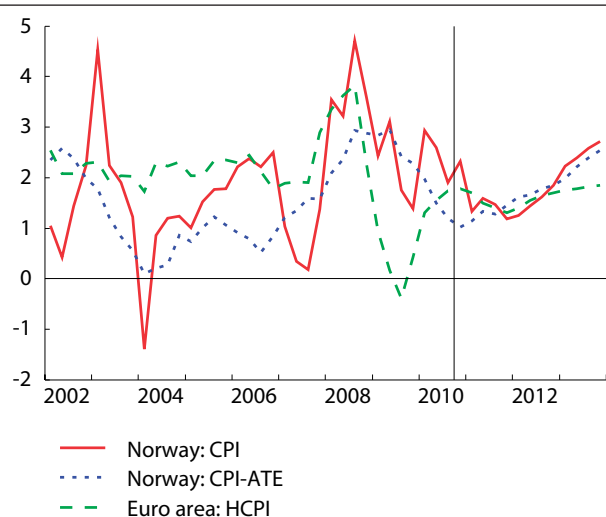
By way of comparison, actual wage growth in manufacturing was 1 percentage point higher than in the public sector in 2004, when the Norwegian economy was in an early phase of the economic expansion, whereas it was 0.8 percentage point lower at the start of the downturn in 2008. Following the same pattern, manufacturing sets the pace for higher wage growth in our projections for 2012 and 2013. Higher growth in export markets and higher export prices improve profitability. In the course of 2012, the labour market will probably also shift in a positive direction. Wage growth is forecast to be 3.6 per cent in 2012 and 4.5 per cent in 2013.

We see from Figure 2.15 that consumer prices also rise in the computation, so that real wages 8 years later in all main sectors are exactly what they were before the assumed wage increase. The reason for this is that the rise in wages has taken place without a corresponding increase in productivity or in the business sector’s source of income otherwise. This means there is no basis for a permanent increase in real wages either. However, our projections indicate that the ability of the Norwegian business sector to pay wages will improve appreciably from 2011 onward, with high productivity and a rise in export prices. This will provide a basis for relatively high real wage growth for wage-earners. Real wage growth will rise to about 2 per cent annually in the period 2011-2013, after only 1.1 per cent in 2010.

Very low inflation

Underlying inflation has fallen appreciably through the past year. The year-on-year rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) was 1.0 per cent in October, down from the inflation peak of 3.3 per cent in June 2009. Seasonally adjusted figures show that this can be traced back to a falling inflation tendency through 2009 and a further fall in early 2010. So far in the second half of 2010, underlying inflation has remained stable and very low. The rise in the seasonally adjusted CPI-ATE from December last year to October this year was as little as 0.8 per cent when

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



Source: Statistics Norway.

annualised. Because of the slightly higher inflation rate through 2009, the CPI-ATE as an annual average is nevertheless expected to increase by 1.4 per cent from 2009 to 2010.

A breakdown of the CPI-ATE by supplier sector shows a tendency for slower year-on-year inflation for all main groups through the past two years. Thus far in the latter half of 2010, developments in the 12-month rise in house rents have pushed up inflation, whereas the other groups have largely pushed it down.

Prices for imported consumer goods have largely fallen for over 10 years, and are an important factor behind low inflation in Norway and in many other OECD countries. This is partly attributable to a transition and shift towards imports from low-cost countries. In recent years, the pronounced global downturn in the wake of the financial crisis has also contributed. Developments in the Norwegian krone exchange rate also have a strong bearing on inflation in Norway. The depreciation of the Norwegian krone towards year-end 2008-2009 and the subsequent strengthening or normalisation of the krone exchange rate through 2009 have made a clear contribution to the course of Norwegian inflation. Because exchange rate changes affect prices with a time lag, exchange rate developments have probably continued to push down Norwegian inflation despite the fact that, on the whole, the krone exchange rate weakened through 2010. This inflation-dampening effect is now probably largely exhausted.

We expect Norwegian inflationary impulses to remain more or less unchanged in 2011. Wage growth will remain at the same level as in 2010. Productivity growth has risen in 2010 and will be high next year as well, in line with a normal cyclical pattern. The rise in unit labour costs will therefore remain low and contribute to inflation remaining low for a while to come. Exchange rate developments, on the other hand, point in the short term to

Box 1. Changing the CPI

As described in a separate article by Tom Langer and Randi Johannesen: "Nytt i konsumprisindeksen" [New in the consumer price index] in Økonomiske analyser 4/2010, some changes will be made in calculation routines from the beginning of 2011. Some important changes are:

1. New weights will be incorporated into the January index each year (previously August) and December will be the new price reference month (previously July)..
2. The weights source will be changed, in that national accounts figures for household consumption going two years back in time will be used hereafter. In the past the average over three years from the Consumer Expenditure Survey one, two and three years back in time has been used. The effects of the change include the following:
 - a. Calculated rent and maintenance and repair of own dwelling will have a clearly reduced weight.
 - b. Norwegians' consumption abroad, which did not previously have any weight in the CPI, will now have a weight of 6-7 per cent. For the present, however, developments in the overall CPI index will be used as a price indicator. The consequence of this will be the same as if all weights were increased proportionately and Norwegians' consumption abroad was not counted in the CPI (as was the case previously).

The change is not expected to alter the index in any systematic manner. The effects will depend on the rise in prices for groups with increased weight compared with price developments for groups with reduced weight.

The system for calculating the consumer price index is under constant evaluation. This leads to changes and reflects the fact that the reality that the index attempts to capture is constantly changing. However, there are also ongoing efforts to improve the methods so that the index captures inflationary developments optimally. From 2012, changes in some price indicators will thus probably be incorporated.

increased inflationary impulses from imported consumer goods. On balance, we therefore expect the year-on-year rise in the CPI-ATE to pick up somewhat and reach 1.3 per cent in 2011.

Wage growth will pick up in pace with a steadily improving the economic situation and contribute to higher inflation. In isolation, an improved economic situation abroad will gradually add to this effect. An expected moderate strengthening of the krone in the period ahead will have the effect of curbing inflation, however. In 2013, wage growth will gather pace while the krone exchange rate generates less negative inflationary impulses. We accordingly expect CPI-ATE inflation to rise and reach the inflation target at the end of 2013.

Developments in the CPI-ATE provide information about underlying price inflation, but it is the path of the consumer price index (CPI) that is relevant for developments in household purchasing power. Energy prices, and

electricity prices in particular, often impart strong direct impulses to the CPI. In the last five months, the contribution from energy prices to the 12-month rise in the CPI has been relatively stable at around 0.6 percentage point. In recent months, electricity prices have been more than 20 per cent higher than at the same time in 2009, and in October prices for fuel and lubricants were a bare 7 per cent higher than in October last year. As an annualised average, the CPI appears likely to be 2.4 per cent higher in 2010 than in 2009.

Annualised average electricity prices appear likely to rise by over 20 per cent in 2010. A cold, dry autumn has contributed to pushing up the price prospects for 2011. We now forecast an annual rise in electricity prices that is slightly higher than the general rise in prices next year. Oil prices are also expected to increase. Changes in indirect taxes will probably push up CPI inflation in 2011 by 0.1 percentage point compared with a scenario that is adjusted for inflation. As a result, the CPI appears likely to rise somewhat more than the CPI-ATE again next year.

We assume that indirect taxes will be adjusted in line with inflation in 2012 and 2013. The situation in the power market is expected to be more normal in 2012, and electricity prices may therefore be lower. Although oil prices are also expected to increase somewhat, we believe CPI inflation will be somewhat lower than CPI-ATE inflation in 2012. In 2013 we expect the real price of oil to rise quite appreciably, and that electricity prices will also increase a fair amount. CPI inflation is then expected to rise to 2.5 per cent as an annual average.

Box 2. What will be the effects on the Norwegian economy of an intensified global downturn?

We consider the risk associated with our projections for the global economy to be largely on the downside. We have therefore used Statistics Norway's KVARTS macroeconomic model to study the effects of a renewed global downturn on the Norwegian economy. The starting point for the alternative computation is the downside scenario for the global economy in the IMF's "World Economic Outlook" from April this year.

For our alternative computation we have extended the projection scenario to 2015, and assumed that demand in Norwegian export markets will be up to 3.5 per cent lower. At the end of 2015, the market level is approximately back to the level in the projection scenario. We have also assumed that international commodity prices will fall by about 20 per cent in the coming year before beginning to rise again, so that the difference is reduced to around 10 per cent towards the end of the analysis period. This means, for example, that the oil price will fall to USD 65 per barrel towards the end of 2011, and thereafter rise to approach the level in the projection scenario in 2015. Petroleum investment is not modelled in KVARTS, but we have chosen to reduce it somewhat in relation to the projection scenario because of the lower oil price. Euro area inflation is expected to be around 0.6 percentage point lower each year from 2011-2015. This, coupled with lower economic growth, will contribute to lowering money market rates in the euro area compared with the projection scenario. However, the interest rate level is low at the outset, and there is therefore limited scope for even lower interest rates.

Norway, by contrast, has a wider scope for manoeuvre in its monetary policy, and although the Norwegian economy has been relatively moderately hit by the intensified global economic downturn, Norwegian money market rates are being reduced somewhat more than those in the euro area. The Norwegian money market rate, measured as a deviation from the projection scenario, will gradually become 1½ - 1¾ percentage points lower than in the projection scenario.

Computation of the effects of lower global demand. Deviation from baseline scenario in per cent unless otherwise indicated

	2011	2012	2013	2014	2015
Consumption by households etc.	-0.4	0.0	0.9	1.4	1.6
Mainland investment	-1.5	-3.0	-3.3	-2.7	-1.8
Traditional exports	-0.6	-1.4	-1.9	-2.0	-1.1
Mainland GDP	-0.4	-0.7	-0.7	-0.4	-0.1
Manufacturing	-0.6	-1.2	-1.9	-1.7	-1.1
Labour supply, in thousands of persons	-1.7	-7.5	-10.3	-11.0	-9.7
Employment, in thousands of persons	-7.4	-15.3	-19.0	-19.1	-15.1
Unemployment rate, percentage points	0.2	0.3	0.3	0.3	0.2
Consumer price index (CPI)	-0.5	-0.5	-1.1	-1.4	-1.8
Money market rate, percentage points	-0.6	-1.1	-1.6	-1.7	-1.5
Import-weighted krone exchange rate (I44)	2.1	2.8	0.4	-0.7	-1.5
Memo:					
Oil price	-23.1	-18.8	-16.8	-15.2	-10.2
Investment in oil recovery and pipeline transport	-4.4	-10.1	-12.6	-12.3	-12.0
Export market indicator	-1.1	-2.9	-3.5	-2.9	-1.1
CPI euro area	-0.8	-1.4	-1.9	-2.5	-3.0
Money market rate euro, percentage points	-0.4	-0.8	-1.3	-1.6	-1.4

We also have substantially wider scope for fiscal manoeuvre than other countries, but in the alternative scenario we have elected to keep fiscal policy unchanged in relation to the projection scenario.

A tightening of bank lending to the private and municipal sector was an important assumption underlying the weaker developments in the IMF's downside scenario. This will primarily affect business sector investment and household demand for dwellings. These mechanisms are reflected to only a minor extent in KVARTS. We have therefore revised down business investment and house prices beyond those generated by the model alone. In isolation, the adjustment entails a decline in mainland business investment of 3.5 per cent, and a 4.5 per cent decline in house prices.

Lower demand in the Norwegian export market means that exports will be lower than in the projection scenario throughout the period we are looking at. The decline in exports is not as pronounced as the decline in market growth abroad in the first few years, however. The main reason for this is an improvement in cost competitiveness as a result of a weaker krone during this period. The depreciation of the krone is due to both a sharper interest rate response in Norway than among trading partners and a lower oil price. After a while, however, the krone exchange rate will become stronger than in the projection scenario when the interest rate differential and the oil price approach the levels in the projection scenario. This catch-up strengthens the krone relatively markedly in the short term. This will contribute to negative growth impulses through 2013-2015.

Lower export prices, in particular, will lead to poorer manufacturing profitability and lower wage growth in manufacturing. This feeds through to wage growth generally, since manufacturing is the wage-leader, which in turn will curb domestic inflation. Real wages are approximately unchanged in 2012, but then decline weakly up to 2015 compared with the projection scenario. Overall employment will be reduced by up to 19 000 persons. The labour force will also be reduced, however, as a result of lower real wage growth and increased unemployment. This will dampen the effect of the decline in employment on unemployment, which will nevertheless be 0.3 percentage point higher than in the projection scenario.

With the exception of the first year, household consumption growth will be higher than in our projection scenario. This is because the lower interest rates give households both higher real disposable income and a desire to save a smaller portion of their income. A fall in house prices has the opposite effect. In isolation, the higher consumption generates positive demand impulses to Norwegian production, particularly in the service industries.

The alternative scenario also results in a deeper downturn for the Norwegian economy. By comparison with international developments, the impact on Norway must be described as relatively moderate, nonetheless. The reasons for this are that the Norwegian economy is affected only indirectly, and that lower interest rates in Norway have a stronger effect on demand than lower interest rates in many other countries. An expansionary fiscal policy could also have contributed to curbing the effects on the Norwegian economy further. Other countries do not have the same option. According to the calculations, the level of Norwegian mainland GDP growth is appreciably lower than in the projection scenario, particularly in 2012 and 2013. The decline has an uneven impact, as the higher consumption growth due to lower interest rates results in increased activity in many service industries while the global downturn mainly impacts manufacturing.

Table 3. National accounts: Final expenditure and gross domestic product. At constant 2007 prices. Million kroner

	Unadjusted		Seasonally adjusted							
	2008	2009	08.4	09.1	09.2	09.3	09.4	10.1	10.2	10.3
Final consumption expenditure of households and NPISHs	954 892	956 360	235 269	234 037	238 130	240 614	243 717	245 296	245 009	248 278
Household final consumption expenditure	916 348	916 510	225 685	224 273	228 256	230 599	233 498	235 216	234 803	237 965
Goods	470 808	469 721	114 669	113 531	116 449	118 733	120 802	120 966	120 571	121 951
Services	412 405	415 841	103 416	103 119	103 880	104 301	104 677	105 253	105 878	106 817
Direct purchases abroad by resident households	59 632	55 602	14 252	13 718	13 914	13 598	14 592	15 244	14 922	15 659
Direct purchases by non-residents	-26 498	-24 654	-6 651	-6 095	-5 987	-6 032	-6 572	-6 247	-6 568	-6 463
Final consumption expenditure of NPISHs	38 544	39 849	9 584	9 764	9 874	10 015	10 220	10 079	10 207	10 313
Final consumption expenditure of general government	465 010	487 046	117 185	120 523	121 582	122 775	122 066	123 664	125 323	126 174
Final consumption expenditure of central government	240 789	252 608	60 729	62 543	63 002	63 315	63 693	63 648	63 813	64 611
Central government, civilian	208 700	220 367	52 500	54 558	54 691	55 220	55 844	55 812	56 069	57 082
Central government, defence	32 089	32 241	8 228	7 985	8 311	8 095	7 849	7 835	7 744	7 529
Final consumption expenditure of local government	224 221	234 438	56 456	57 980	58 580	59 461	58 373	60 016	61 510	61 563
Gross fixed capital formation	514 203	476 379	131 490	124 884	117 663	112 679	120 898	103 914	112 106	104 303
Extraction and transport via pipelines	113 765	120 322	29 401	32 830	30 361	28 573	28 612	26 680	27 580	22 647
Service activities incidental to extraction	5 385	10 674	1 222	4 757	-143	1 593	4 467	252	421	1 850
Ocean transport	24 749	18 464	9 098	4 242	4 640	4 954	4 597	2 679	4 801	3 033
Mainland Norway	370 304	326 920	91 769	83 055	82 804	77 559	83 222	74 303	79 303	76 774
Mainland Norway excluding general government	295 724	247 139	72 785	66 102	63 610	58 596	58 800	57 092	60 040	58 804
Industries	207 453	175 542	52 292	46 664	45 439	41 334	41 985	40 236	43 054	41 450
Manufacturing and mining	34 069	23 834	8 848	6 894	6 705	5 401	4 886	5 435	4 946	4 541
Production of other goods	34 861	28 806	8 146	7 500	7 162	7 122	7 011	6 761	7 464	7 447
Services	138 524	122 902	35 298	32 270	31 573	28 812	30 088	28 040	30 644	29 463
Dwellings (households)	88 270	71 597	20 493	19 438	18 171	17 262	16 815	16 856	16 986	17 355
General government	74 581	79 780	18 984	16 953	19 194	18 963	24 421	17 211	19 264	17 969
Changes in stocks and statistical discrepancies	25 451	-33 383	5 348	-9 461	-4 084	-4 982	-14 716	3 298	14 379	12 261
Gross capital formation	539 654	442 996	136 838	115 423	113 579	107 697	106 181	107 212	126 486	116 565
Final domestic use of goods and services	1 959 555	1 886 401	489 292	469 983	473 291	471 086	471 965	476 171	496 818	491 016
Final demand from Mainland Norway	1 790 206	1 770 325	444 223	437 615	442 516	440 948	449 005	443 262	449 636	451 226
Final demand from general government	539 590	566 826	136 169	137 476	140 776	141 738	146 488	140 875	144 587	144 144
Total exports	1 050 041	1 007 996	261 040	252 199	245 276	254 107	256 457	256 597	245 629	242 549
Traditional goods	315 175	289 338	75 159	70 088	69 611	74 399	75 240	75 483	75 498	77 193
Crude oil and natural gas	470 309	464 838	119 348	118 470	112 961	118 514	115 070	113 239	110 998	105 535
Ships, oil platforms and planes	14 203	14 756	3 638	5 158	3 428	2 930	3 239	7 902	2 792	1 636
Services	250 353	239 065	62 895	58 482	59 275	58 265	62 908	59 973	56 342	58 184
Total use of goods and services	3 009 596	2 894 398	750 333	722 182	718 567	725 194	728 422	732 768	742 448	733 565
Total imports	720 923	638 407	180 311	155 197	157 744	160 692	164 854	166 411	177 156	177 095
Traditional goods	455 782	396 194	105 612	99 872	97 808	99 184	99 386	103 171	108 689	106 824
Crude oil and natural gas	3 722	4 893	1 664	625	816	1 881	1 592	824	1 934	2 227
Ships, oil platforms and planes	39 458	27 569	17 109	4 584	6 580	5 719	10 685	8 696	10 167	12 122
Services	221 961	209 751	55 927	50 116	52 540	53 907	53 191	53 720	56 366	55 923
Gross domestic product (market prices)	2 288 673	2 255 990	570 022	566 986	560 823	564 501	563 568	566 357	565 292	556 469
Gross domestic product Mainland Norway (market prices)	1 755 470	1 731 784	434 612	432 346	432 378	431 958	434 539	436 752	438 821	442 859
Petroleum activities and ocean transport	533 203	524 207	135 409	134 639	128 444	132 544	129 029	129 605	126 471	113 611
Mainland Norway (basic prices)	1 500 270	1 484 520	372 910	370 551	370 741	369 974	372 668	375 060	377 068	380 755
Mainland Norway excluding general government	1 168 208	1 143 877	289 409	285 963	285 863	284 645	286 828	288 447	290 226	293 667
Manufacturing and mining	214 593	201 844	52 519	50 440	49 864	50 392	50 986	50 827	50 961	51 896
Production of other goods	172 874	167 637	42 363	42 166	40 908	42 022	42 601	41 899	41 200	42 398
Services incl. dwellings (households)	780 741	774 395	194 526	193 357	195 090	192 231	193 241	195 721	198 065	199 373
General government	332 062	340 644	83 501	84 588	84 879	85 329	85 840	86 613	86 842	87 088
Taxes and subsidies products	255 200	247 263	61 702	61 796	61 637	61 984	61 871	61 692	61 754	62 104

Source: Statistics Norway.

Table 4. National accounts: Final expenditure and gross domestic product. At constant 2007 prices. Percentage change from the previous period

	Unadjusted		Seasonally adjusted							
	2008	2009	08.4	09.1	09.2	09.3	09.4	10.1	10.2	10.3
Final consumption expenditure of households and NPISHs	1.6	0.2	-1.0	-0.5	1.7	1.0	1.3	0.6	-0.1	1.3
Household final consumption expenditure	1.5	0.0	-1.0	-0.6	1.8	1.0	1.3	0.7	-0.2	1.3
Goods	0.5	-0.2	-1.7	-1.0	2.6	2.0	1.7	0.1	-0.3	1.1
Services	1.9	0.8	0.3	-0.3	0.7	0.4	0.4	0.6	0.6	0.9
Direct purchases abroad by resident households	6.3	-6.8	-2.5	-3.7	1.4	-2.3	7.3	4.5	-2.1	4.9
Direct purchases by non-residents	0.0	-7.0	3.2	-8.4	-1.8	0.8	9.0	-4.9	5.1	-1.6
Final consumption expenditure of NPISHs	3.8	3.4	-0.8	1.9	1.1	1.4	2.0	-1.4	1.3	1.0
Final consumption expenditure of general government	4.1	4.7	0.3	2.8	0.9	1.0	-0.6	1.3	1.3	0.7
Final consumption expenditure of central government	3.4	4.9	0.4	3.0	0.7	0.5	0.6	-0.1	0.3	1.3
Central government, civilian	3.5	5.6	-0.1	3.9	0.2	1.0	1.1	-0.1	0.5	1.8
Central government, defence	2.8	0.5	4.0	-3.0	4.1	-2.6	-3.0	-0.2	-1.2	-2.8
Final consumption expenditure of local government	4.9	4.6	0.1	2.7	1.0	1.5	-1.8	2.8	2.5	0.1
Gross fixed capital formation	2.0	-7.4	3.4	-5.0	-5.8	-4.2	7.3	-14.0	7.9	-7.0
Extraction and transport via pipelines	5.1	5.8	0.3	11.7	-7.5	-5.9	0.1	-6.8	3.4	-17.9
Service activities incidental to extraction	14.1	98.2	915.2	289.2	-103.0	..	180.5	-94.4	67.3	339.1
Ocean transport	60.3	-25.4	123.7	-53.4	9.4	6.8	-7.2	-41.7	79.2	-36.8
Mainland Norway	-1.4	-11.7	-2.0	-9.5	-0.3	-6.3	7.3	-10.7	6.7	-3.2
Mainland Norway excluding general government	-2.8	-16.4	-0.1	-9.2	-3.8	-7.9	0.3	-2.9	5.2	-2.1
Industries	1.7	-15.4	3.0	-10.8	-2.6	-9.0	1.6	-4.2	7.0	-3.7
Manufacturing and mining	9.9	-30.0	3.0	-22.1	-2.8	-19.5	-9.5	11.2	-9.0	-8.2
Production of other goods	7.0	-17.4	-5.3	-7.9	-4.5	-0.6	-1.6	-3.6	10.4	-0.2
Services	-1.3	-11.3	5.2	-8.6	-2.2	-8.7	4.4	-6.8	9.3	-3.9
Dwellings (households)	-12.1	-18.9	-7.2	-5.1	-6.5	-5.0	-2.6	0.2	0.8	2.2
General government	4.7	7.0	-8.8	-10.7	13.2	-1.2	28.8	-29.5	11.9	-6.7
Changes in stocks and statistical discrepancies	-22.3	-231.2	-48.8	-276.9	-56.8	22.0	195.4	-122.4	336.0	-14.7
Gross capital formation	0.5	-17.9	-0.6	-15.6	-1.6	-5.2	-1.4	1.0	18.0	-7.8
Final domestic use of goods and services	1.9	-3.7	-0.6	-3.9	0.7	-0.5	0.2	0.9	4.3	-1.2
Final demand from Mainland Norway	1.6	-1.1	-0.9	-1.5	1.1	-0.4	1.8	-1.3	1.4	0.4
Final demand from general government	4.2	5.0	-1.1	1.0	2.4	0.7	3.4	-3.8	2.6	-0.3
Total exports	1.0	-4.0	1.3	-3.4	-2.7	3.6	0.9	0.1	-4.3	-1.3
Traditional goods	4.2	-8.2	-5.7	-6.7	-0.7	6.9	1.1	0.3	0.0	2.2
Crude oil and natural gas	-2.0	-1.2	5.8	-0.7	-4.6	4.9	-2.9	-1.6	-2.0	-4.9
Ships, oil platforms and planes	11.4	3.9	-22.5	41.8	-33.5	-14.5	10.5	144.0	-64.7	-41.4
Services	2.3	-4.5	3.9	-7.0	1.4	-1.7	8.0	-4.7	-6.1	3.3
Total use of goods and services	1.6	-3.8	0.1	-3.8	-0.5	0.9	0.4	0.6	1.3	-1.2
Total imports	4.3	-11.4	0.5	-13.9	1.6	1.9	2.6	0.9	6.5	0.0
Traditional goods	-0.5	-13.1	-7.3	-5.4	-2.1	1.4	0.2	3.8	5.3	-1.7
Crude oil and natural gas	-35.3	31.5	156.6	-62.5	30.7	130.5	-15.4	-48.2	134.6	15.1
Ships, oil platforms and planes	100.3	-30.1	89.5	-73.2	43.6	-13.1	86.8	-18.6	16.9	19.2
Services	6.8	-5.5	0.2	-10.4	4.8	2.6	-1.3	1.0	4.9	-0.8
Gross domestic product (market prices)	0.8	-1.4	-0.1	-0.5	-1.1	0.7	-0.2	0.5	-0.2	-1.6
Gross domestic product Mainland Norway (market prices)	1.8	-1.3	-1.1	-0.5	0.0	-0.1	0.6	0.5	0.5	0.9
Petroleum activities and ocean transport Mainland Norway (basic prices)	2.4	-1.0	-0.9	-0.6	0.1	-0.2	0.7	0.6	0.5	1.0
Mainland Norway excluding general government	2.1	-2.1	-1.0	-1.2	0.0	-0.4	0.8	0.6	0.6	1.2
Manufacturing and mining	2.6	-5.9	-2.5	-4.0	-1.1	1.1	1.2	-0.3	0.3	1.8
Production of other goods	2.5	-3.0	-2.9	-0.5	-3.0	2.7	1.4	-1.6	-1.7	2.9
Services incl. dwellings (households)	1.9	-0.8	-0.2	-0.6	0.9	-1.5	0.5	1.3	1.2	0.7
General government	3.5	2.6	-0.3	1.3	0.3	0.5	0.6	0.9	0.3	0.3
Taxes and subsidies products	-1.5	-3.1	-2.2	0.2	-0.3	0.6	-0.2	-0.3	0.1	0.6

Source: Statistics Norway.

Table 5. National accounts: Final expenditure and gross domestic product. Price indices. 2007=100

	Unadjusted		Seasonally adjusted							
	2008	2009	08.4	09.1	09.2	09.3	09.4	10.1	10.2	10.3
Final consumption expenditure of households and NPISHs	103.6	106.2	105.9	105.2	106.1	106.4	106.5	108.4	107.6	107.8
Final consumption expenditure of general government	105.8	109.5	109.2	108.5	109.4	109.8	110.1	110.8	110.4	111.5
Gross fixed capital formation	106.1	109.1	110.4	108.0	108.7	110.6	109.0	112.1	112.0	115.4
Mainland Norway	105.5	108.1	108.3	107.2	107.6	109.1	108.4	108.8	109.2	110.7
Final domestic use of goods and services	103.9	107.5	105.5	107.7	107.3	107.8	107.2	109.7	110.0	109.8
Final demand from Mainland Norway	104.5	107.4	107.2	106.5	107.3	107.8	107.9	109.1	108.6	109.3
Total exports	116.6	100.1	113.0	103.1	98.4	98.6	99.5	101.4	105.1	104.0
Traditional goods	102.4	96.1	104.2	97.5	96.1	97.4	93.8	95.1	99.1	100.7
Total use of goods and services	108.3	104.9	108.1	106.1	104.2	104.6	104.5	106.8	108.4	107.9
Total imports	103.0	102.8	105.1	105.0	104.0	103.2	99.0	101.8	102.1	101.4
Traditional goods	104.7	103.3	108.9	106.0	103.8	103.0	100.1	101.2	103.3	102.4
Gross domestic product (market prices)	110.0	105.5	109.1	106.4	104.3	105.0	106.1	108.3	110.3	109.9
Gross domestic product Mainland Norway (market prices)	103.2	106.6	104.8	105.1	106.6	107.4	107.5	108.5	109.7	110.4

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2008	2009	08.4	09.1	09.2	09.3	09.4	10.1	10.2	10.3
Final consumption expenditure of households and NPISHs	3.6	2.5	1.7	-0.6	0.9	0.2	0.2	1.7	-0.8	0.2
Final consumption expenditure of general government	5.8	3.5	2.3	-0.6	0.8	0.4	0.3	0.5	-0.3	1.0
Gross fixed capital formation	6.1	2.7	3.4	-2.2	0.7	1.7	-1.4	2.8	-0.1	3.0
Mainland Norway	5.5	2.5	2.0	-0.9	0.3	1.4	-0.7	0.4	0.4	1.3
Final domestic use of goods and services	3.9	3.5	0.3	2.1	-0.5	0.5	-0.6	2.4	0.2	-0.1
Final demand from Mainland Norway	4.5	2.8	1.9	-0.7	0.7	0.5	0.0	1.2	-0.4	0.6
Total exports	16.6	-14.1	-6.4	-8.7	-4.6	0.2	0.9	1.9	3.6	-1.1
Traditional goods	2.4	-6.1	-1.5	-6.4	-1.5	1.3	-3.7	1.4	4.2	1.7
Total use of goods and services	8.3	-3.1	-2.2	-1.8	-1.8	0.3	-0.1	2.2	1.5	-0.4
Total imports	3.0	-0.2	0.6	0.0	-1.0	-0.7	-4.1	2.8	0.3	-0.7
Traditional goods	4.7	-1.3	2.9	-2.7	-2.0	-0.8	-2.8	1.1	2.1	-0.9
Gross domestic product (market prices)	10.0	-4.0	-3.0	-2.4	-2.0	0.6	1.1	2.1	1.9	-0.3
Gross domestic product Mainland Norway (market prices)	3.2	3.3	0.3	0.3	1.4	0.7	0.0	1.0	1.0	0.6

Source: Statistics Norway.