

Economic survey

Perspectives

At the beginning of 2009, the global economy was in the most severe cyclical downturn for many decades. Financial markets were out of balance. Many enterprises and households had difficulty in securing loans. Share and house prices had fallen steeply. Prices in many commodity markets were more than halved compared with levels a year earlier. The inflation rate, measured by the consumer price index, was unusually low. The consequences of the financial crisis for the real economy were manifested in a fall in gross domestic product in most countries. Employment was falling, and unemployment increased sharply. The situation was shrouded in uncertainty, and participants' view of the future was generally pessimistic, which prompted a further decline in demand and output.

The financial crisis triggered strong measures targeting the financial sector and changes in the economic policy of most countries. The shift in policy received broad support, and was to some extent coordinated internationally. Now, a year and a half after the most acute crisis was triggered, it is clear that this policy has worked, and economic developments through 2009 were more favourable than expected at the beginning of last year. This also applies to Norway, where the salient features of policy were sharp cuts in Norges Bank's key policy rate coupled with a strong increase in public spending. The scope of measures specifically targeting the financial sector has been relatively moderate in Norway compared with other countries. This is attributable to the fact that the Norwegian financial sector has managed well through the crisis, and the authorities' most important contribution has been to make the necessary guarantees and loan possibilities available to those financial institutions that might need them. In practice the banks have not needed to use all the resources made available to them, which in itself indicates that developments through 2009 were more favourable than was feared.

The economic backlash in Norway has also been less severe than in most OECD countries, for a number of reasons. The use of instruments in Norway's economic policy has been more forceful than in most other countries: interest rates have been cut sharply and are having a strong effect in the Norwegian economy, where a large proportion of borrowers have floating interest rates on their loans. We estimate that, viewed in isolation, the interest rate cuts in 2009 contributed to an increase in household real disposable income of some NOK 30 billion, or approximately 1.5 per cent of mainland GDP. The lower interest rates have boosted enterprises' liquidity and willingness to invest, but investment is still being constrained by the weak global economic situation and a tighter lending practice than prior to the financial crisis. Fiscal policy has stimulated demand in the economy both through increased purchases of goods and services from the private sector and to a certain extent through increased public sector employment. Fiscal stimulus is estimated at just on 3 per cent of mainland GDP. In addition to policy shifts, a relatively large Norwegian public sector has had a stabilising effect on developments in output and demand.

On balance, experience of practising the guidelines for macroeconomic policy, as they were drawn up nine years ago, has been favourable. Monetary policy is now oriented towards stabilising inflation and employment, not the exchange rate, as was the case during the 1997 fiscal crisis (the “Asian crisis”). At that time interest rates were raised to defend the exchange rate. During the last downturn, interest rates were cut sharply to counter a fall in output and the risk of deflation. The temporary pronounced weakening of the krone in the wake of the financial crisis has contributed to inflation in Norway being much higher than in euro area countries, but nonetheless in line with the inflation target.

A special feature of developments in Norway is the contribution from a large petroleum sector in which there has been little change in demand for goods and services required for ongoing production or for investment purposes. Petroleum investment and demand for goods and services from the supplier industry actually increased through autumn 2008 and into the first quarter of 2009, before levelling off. This is partly attributable to earlier investment decisions, and partly to the fact that the profitability of new investment is regarded as sound even given substantially lower crude oil prices than those applying up to the summer of 2008. This is an important difference from the period following the fall in oil prices in the mid-1980s, when prices were so low that petroleum investment gradually slumped, contributing to the sharp economic downturn in Norway in the late 1980s and early 1990s.

A new feature of the Norwegian economy in recent years is the increase in cross-border labour mobility, particularly since the expansion of the EU/EEA in 2004. During the last boom, this facilitated strong growth without as large an impact on costs as previously, and during the downturn this mobility has dampened the effect on unemployment of falling employment. The Norwegian labour market was fairly flexible at the outset, in that the labour force participation and working hours of persons outside the core labour market categories, particularly young people aged 15-24, varied in pace with demand. As a result, the effects on unemployment of major changes in demand for labour were moderate in a global perspective. Increased cross-border labour mobility has further increased labour market flexibility.

An expansionary economic policy and the slowdown in the real economy have resulted in large budget deficits in many countries. The rapidly growing debt burden is causing concern in virtually all OECD countries. At present, small peripheral European countries appear most vulnerable, but the situation may also become serious for more central countries if they do not manage to reduce public spending and increase taxes. The budget deficits in many countries are partly due to the need to finance a crisis-hit banking sector. This money is not lost to the authorities, but at present it is uncertain how large a portion of the rescue packages and higher government debt is matched by increased government financial assets. Both the IMF and the OECD warn against dismantling the stimulus packages too early. If this should happen in 2010 already, it might dampen a nascent recovery and at worst smother it in its infancy.

In Norway, too, the expansionary policy during the financial crisis has caused government budgets to expand much more strongly than the long-term fiscal guidelines prescribe. In the National Budget for 2010, the structural, non-oil deficit is projected at 7.8 per cent of mainland GDP, equivalent to NOK 148 billion. This is around NOK 45 billion higher than the projected real return on the Government Pension Fund – Global. If the fiscal rule is to be maintained as a credible, long-term guideline for fiscal policy, it is important that the use of petroleum revenue over the government budget is brought back into line with expected real returns.

By abiding by the fiscal rule, Norway as a nation will be able to harvest a prolonged return on its petroleum wealth. This return will help to finance a higher level of welfare than we would have had without the revenue from petroleum activities. However, the corollary to this in the real economy is a weakening of the competitiveness of the non-oil business sector, and a transfer of resources to the sheltered sector. At the same time, it is desirable that this shift should be as painless as possible, and that the transfer of resources should be sustainable over time. By setting aside large portions of our current petroleum revenue, we will be in a better position to meet the future challenges implicit in an aging population. However, the fiscal rule itself is no guarantee that general government finances are maintainable in the long term with an unchanged taxation level, at the same time as we continue all the welfare schemes and other responsibilities that devolve upon the public sector.

The accumulation of substantial financial wealth abroad has led to proposals that a larger portion of this be used to invest in infrastructure and other projects that provide the Norwegian society with a long-term return. When the fiscal rule was introduced in 2001, emphasis was placed on the fact that some of the increased scope for manoeuvre provided by the petroleum revenues should be used to strengthen the long-term growth capacity of the Norwegian economy, for example through investment in infrastructure and in research and development. In recent years the government has made standard increases and boosted spending in a broad array of areas. Moreover, fiscal policy in 2009 was focused on counteracting the effects of the financial crisis. On the other hand, measures to promote growth capacity in the longer term appear to have received rather lower priority.

In principle, the decision concerning financial investment abroad should reflect that there is a dearth of projects that meet the requirements in the competition for limited resources in Norway. Thus it is not the availability of financing opportunities that will limit Norwegian investment, but low expected return. However, the fiscal rule imposes a limit on the overall use of petroleum revenue over the government budget over time that can be used for public sector consumption, investment or transfers to private individuals. If current expenditure grows strongly during a period, a queue of socio-economically profitable investment projects may form. The solution to this dilemma should not be to spend more of our petroleum revenue in Norway. Nor is the solution to establish special fund structures for domestic "investment". In practice, such fund structures will be a way of avoiding ordinary budgetary considerations. Prioritisation of necessary investment should take place within the constraints imposed by the fiscal rule. Projections of general government revenues and expenditure show that even given the saving that takes place as a result of practicing the fiscal rule, it will be demanding to finance the increase in expenditure that lies ahead in the longer run. There will accordingly be a need somewhat further ahead to increase taxes or rein in expenditure in some other way. Prioritising standard increases and current expenditure at the expense of socio-economically profitable investment projects may make it more difficult to finance future increases in spending.

In the early 1990s a shift in policy was needed to get the Norwegian economy to grow out of debt problems and a situation with high unemployment. In the current situation, the labour market is in a far more satisfactory state and the challenge is rather to manage Norway's substantial financial wealth in a manner that also promotes long-term growth.

Cyclical developments in Norway

Growth in the Norwegian economy fell below trend in early 2009, after the last cyclical peak two years ago. Preliminary quarterly national accounts figures (QNA) show that the decline in mainland GDP came to a halt in the second quarter of 2009, but growth towards the end of 2009 remained considerably weaker than trend mainland GDP growth. Since the second quarter of 2009, household consumption has increased by about 5 per cent as an annualised rate, and is an important factor behind the turnaround from a fall to a rise in

mainland output. The increase in household consumption is partly attributable to a highly expansionary monetary policy in the form of low interest rates and a supply of liquidity to banks. However, housing investment continues to fall, as does mainland business investment excluding general government investment.

Since last summer, higher growth in exports of traditional goods has contributed to more positive developments as the global decline in GDP has eased off and

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

	2008*	2009*	Seasonally adjusted			
			09:1	09:2	09:3	09:4
Demand and output						
Consumption in households etc.	1,3	0,0	-0,2	1,0	1,2	1,3
General government consumption	4,1	5,2	2,0	1,5	1,2	0,1
Gross fixed investment	1,4	-7,9	-4,6	-0,5	-4,9	0,3
Mainland Norway	1,0	-12,1	-8,8	1,1	-5,2	0,1
Extraction and transport via pipelines	3,7	6,4	13,5	-8,5	-7,2	4,2
Final domestic demand from Mainland Norway ¹	1,9	-1,2	-1,4	1,2	0,0	0,7
Exports	0,9	-4,3	-3,5	-2,9	3,3	1,0
Crude oil and natural gas	-2,0	-1,3	-1,2	-5,1	4,7	-1,2
Traditional goods	4,3	-7,8	-6,2	-0,3	7,8	-0,1
Imports	2,2	-9,7	-7,4	1,9	0,9	2,6
Traditional goods	-0,4	-13,1	-5,8	-1,2	1,6	-0,7
Gross domestic product	1,8	-1,5	-0,7	-1,2	0,5	0,1
Mainland Norway	2,2	-1,5	-0,9	0,1	0,3	0,3
Labour market						
Man-hours worked	3,4	-1,5	-0,7	-0,2	-0,4	0,0
Employed persons	3,1	-0,4	-0,5	-0,3	-0,3	0,1
Labour force ²	3,4	0,0	-0,1	0,1	-0,9	0,2
Unemployment rate, level ²	2,6	3,2	3,0	3,1	3,2	3,2
Prices and wages						
Wages per standard man-year ³	6,0	3,5	4,5	3,9	3,0	2,8
Consumer price index (CPI) ³	3,8	2,1	2,4	3,1	1,8	1,4
CPI adjusted for tax changes and excluding energy products (CPI-ATE) ³	2,6	2,6	2,8	3,0	2,4	2,3
Export prices, traditional goods	2,4	-6,5	-8,2	-1,3	2,3	-3,3
Import prices, traditional goods	4,6	-1,2	-2,3	-2,0	-1,0	-2,5
Balance of payment						
Current balance, bill. NOK	472,8	360,8	69,9	95,5	78,2	117,2
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	6,2	2,5	3,5	2,5	1,9	2,1
Lending rate, banks ⁴	7,3	-	6,3	4,8	4,3	-
Crude oil price NOK ⁵	536,4	388,1	313,4	386,8	421,2	429,2
Importweighted krone exchange rate, 44 countries, 1995=100	90,8	93,8	96,1	95,1	94,1	90,0
NOK per euro	8,22	8,73	8,95	8,84	8,74	8,39

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.

world market demand has begun to rise again. As a result of the shift in fiscal policy just over a year ago, general government production and demand both contributed to bringing the decline in mainland GDP to a halt early in 2009. Since the fall in output in the wake of the financial crisis was much greater than the increase during the course of 2009, mainland GDP fell by 1½ per cent from 2008 to 2009. At the end of 2009, output was still lower than at the beginning of 2008.

The effects of the shift in economic policy on mainland GDP growth were, as expected, evident throughout 2009. We believe that growth in the Norwegian economy will pick up moderately in the time ahead. However, weak investment developments will have a dampening effect on growth, particularly in 2010. The upswing in traditional exports in the second half of 2009 was partly a recovery effect and cannot be interpreted as a transition to lasting high growth in the period ahead. A stronger krone exchange rate will also dampen the effect of higher growth in the global economy. Moreover, the economic policy will not provide the same impetus to growth in 2010 as it did in 2009, although it will provide some positive growth impulses in 2010 as well.

Despite the sharp cyclical downturn, unemployment has not increased much. Unemployment in 2009, measured by Statistics Norway's labour force survey (LFS) was only 3.2 per cent. This is lower than unemployment in 2006, which was 3.4 per cent. According to our projections, we will pass the level in 2006 this year. The number of hours worked fell appreciably last year. However, as a result of increased sickness absence and reduced overtime there was only a moderate decline in the number employed. There was a distinct decline in net inward labour migration in 2009. More young people elect to take tertiary education during an economic downturn, and this option was facilitated by increased allocations to universities and colleges in the Revised National Budget before the summer. On balance, the labour force has therefore changed little, despite the increase in population. As overall employment only fell moderately in 2009, the increase in unemployment was only just over half a percentage point. In the period ahead there is reason to expect only moderate employment growth, even with increased output. There is normally a turnaround in productivity when output growth stops up and then begins to rise again. Enterprises have idle resources internally that can be used more intensively, and can therefore increase their output without any particular new appointments. Given continued population growth, unemployment will therefore continue to increase moderately for the next couple of years. However, we project that LFS unemployment will not be higher than 4 per cent at the most during our projection period up to 2013.

In autumn 2008, the financial crisis caused a sharp depreciation of the krone. This eased the pressure on the internationally exposed business sector, but could not entirely compensate for the fall in demand in global

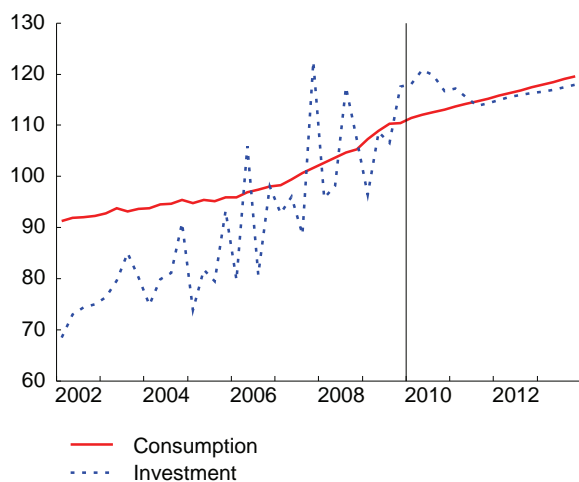
markets. As a result of the weaker krone, however, consumer price inflation was appreciably higher in Norway than among trading partners, although it fell markedly in the wake of the financial crisis in Norway too. Since October last year, however, inflation has gathered pace again, and in January this year both consumer price inflation and underlying inflation were close to the inflation target. The krone strengthened through 2009. Against this background, and given lower domestic cost inflation, there is reason to expect substantially lower inflation in 2010 than the average for 2009. When the krone ceases to appreciate in the course of next year, this effect, coupled with a moderate rise in prices internationally, will cause inflation to approach the monetary policy target by the end of the projection period.

The pessimism that has characterised developments both in Norway and abroad declined substantially through 2009, but it is still too early to regard the financial crisis and its impact on the real economy as over. Many unsolved economic problems remain, particularly in other countries. Government debt in many countries is now growing so rapidly that their current fiscal policy is not sustainable. A few months ago it was the situation in Dubai that created increased uncertainty, while more recently the budget deficits of some EU countries are the subject of attention. If it becomes necessary to show fiscal resoluteness and exercise budgetary discipline, and policy is tightened, the fragile global recovery will falter. This will lead to lower growth in the Norwegian economy.

We assume in our projections that global growth will continue, but not on the scale of a traditional cyclical upturn. Even a moderate upturn will generate positive impulses to the export-oriented business sector in the form of both increased demand and higher world market prices. Manufacturing output may then increase through 2010. However, continued weak investment developments in Norway combined with a gradually stronger krone mean that internationally exposed enterprises will not receive enough impetus to generate any appreciable growth in the period ahead. Economic policy will contribute to continued high consumption growth, causing growth in the mainland economy to pick up through 2010. Higher interest rates and tighter fiscal policy will curb the growth and strength of the recovery from 2011 onwards. We expect the fall in housing investment to come to a halt this year and then increase appreciably in the years thereafter. This will lead to the decline in the construction industry first levelling off and then entering a new upswing. Petroleum investment is expected to remain at a high level in the period ahead. Given a turnaround in mainland business investment towards the end of 2011, mainland GDP growth will also approach trend growth, and the cyclical trough will be reached in the course of 2011.

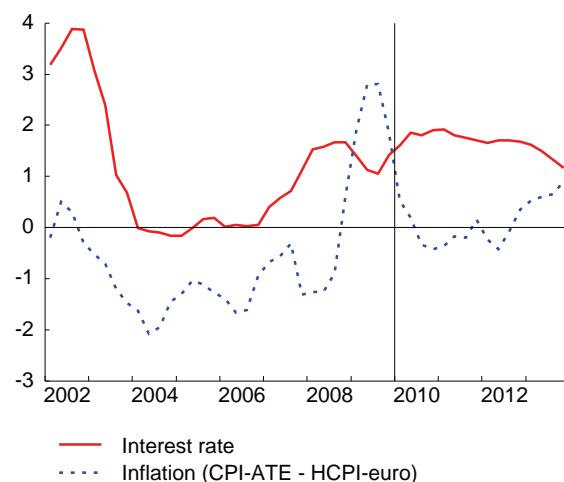
We assume that there will be a gradual tightening of economic policy from 2011 to 2013. Given moderate global growth and no significant stimulus from the

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



Source: Statistics Norway.

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



Source: Norges Bank and Statistics Norway.

petroleum sector, our projections show that the level of GDP will remain below trend through 2013, but that there may be a weak upturn from 2012.

Gradually less expansionary fiscal policy

Fiscal policy was highly expansionary in 2009. The spending limits in the government budget were increased considerably in the first half of 2009. These increases came on top of the moderately expansionary government budget that was presented in the autumn of 2008. On the basis of the *New balanced central government budget for 2009*, the expansionary policy impulses in 2009 can be estimated at 2.7 per cent of trend mainland GDP, the strongest since the 1970s. The budget adopted for 2010 will provide far less impetus to the economy than that of the previous year, but the gap in relation to the 4 per cent fiscal rule is widening. The Government has indicated that it aims for a less expansionary policy thereafter, and a gradual return to the 4 per cent path prescribed by the fiscal rule. These decisions and signals form the basis for our projections.

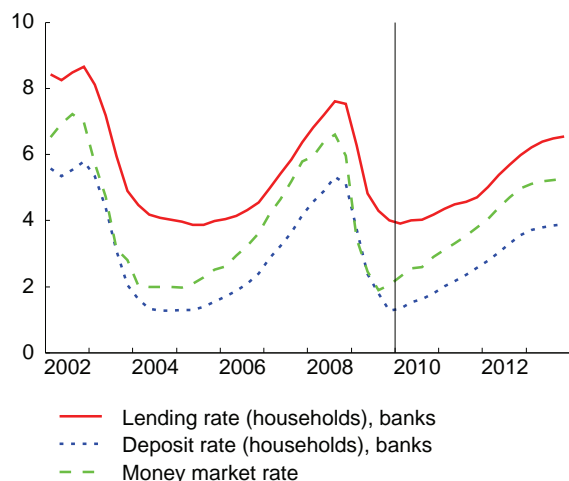
The preliminary QNA figures show strong growth in general government consumption, in line with policy as discussed above. General government spending growth was 5.2 per cent in 2009. The growth was fairly evenly divided between central and municipal government spending, but there was virtually no growth in defence spending. Gross general government investment increased far less than expected, and is now estimated at a bare 3 per cent. The main reason for the moderate investment growth is that one frigate less than expected was imported and paid for. This frigate is expected to be imported in the first quarter of 2010 instead, while the last frigate will come later in the year and cause investment growth to be very high in 2010. In the Final Budget Bill, underlying real spending growth in the government budget for 2009 was estimated at 6½ per cent. Strong growth in transfers to households

contribute to pushing up the real growth in overall expenditure.

Our fiscal policy projections for this year are based on the figures in the *National Budget for 2010* (NB2010). The projections in NB2010 imply that the expansionary fiscal policy will be loosened somewhat compared with 2009, measured by the structural non-oil budget deficit (SNOBD). According to NB2010, SNOBD will increase by a good half a per cent from 2009 to 2010 compared with the trend level of activity in the mainland economy. However the impetus attributable to increased SNOBD is substantially less than in 2009. There are no major changes in real tax rates; nominal indirect tax rates (excluding indirect tax on tobacco products) have largely been revised upward by 1.8 per cent, while nominal personal tax rates have been increased by 3.5 per cent throughout – approximately in line with assumed wage growth. These rates are incorporated in our projections for 2010. A number of changes have been made in wealth taxation, but will not have major macroeconomic effects in 2010. Our projection for growth in general government consumption in 2010 is slightly higher than the projection in NB2010. As in our previous report, we believe that this growth will be 2.7 per cent. The projections for 2010 are also influenced by the fact that between autumn 2009 and the end of 2011 the Norwegian Armed Forces are to purchase new helicopters and transport aircraft for a total of almost NOK 10 billion. This, coupled with the delivery of the last two frigates in 2010, explains the bulk of the growth in government investment from 2009 to 2010, which we estimate at just over 12 per cent.

We forecast that for 2011 fiscal policy will still imply a higher SNOBD than a policy that adheres exactly to the 4 per cent rule. We anticipate that there will be a certain policy tightening compared with 2010 as a result of slower growth in public expenditure than previously. Growth in public purchases of goods and

Figur 3. Norwegian interest rates. Per cent



Source: Norges Bank and Statistics Norway.

services is expected to be lower than trend growth in the Norwegian economy. Consumption growth is projected at 2 per cent, while investment, adjusted for changes in purchases of frigates, is at the same level as in 2009. Our assumptions are based on direct and indirect taxes adjusted for inflation. Our projections for 2011 imply that SNOBD will move appreciably closer to the 4 per cent path.

The expansionary level of fiscal policy is expected to be further reduced in 2012 and 2013 as growth in the economy picks up. The objective that the budget deficits should be in line with the fiscal rule also entails some tightening of fiscal policy. Increased capital in the Government Pension Fund – Global, combined with our other projections, means that we will be close to the 4 per cent path prescribed by the fiscal rule in 2012. According to our projections, the Norwegian economy will be in a close to cyclically neutral state at the end of our projection period.

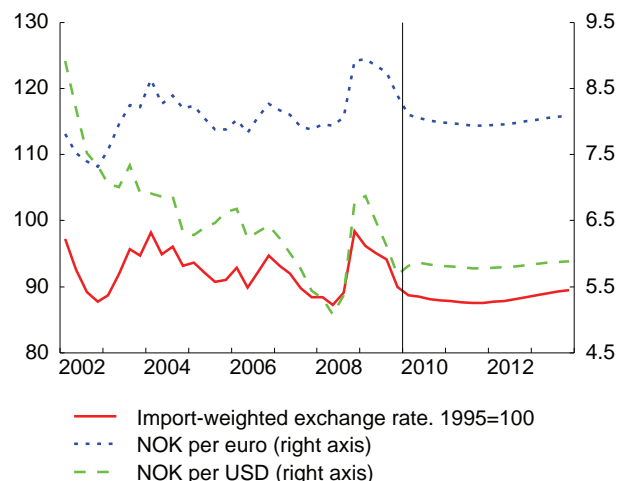
Several years of rising interest rates

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) was 2.3 per cent in January.

The global financial crisis and sombre economic outlook prompted Norges Bank to cut the key policy rate sharply. Whereas the key rate was 5.75 per cent in October 2008, in June 2009 it was reduced to 1.25 per cent. Somewhat brighter prospects caused the interest rate to be raised by a total of 0.5 percentage point at the two monetary policy meetings in the fourth quarter of last year.

As a result of the financial crisis, the differential between money market rates and the key policy rate

Figur 4. Exchange rates



Source: Norges Bank.

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. By November 2009, the premium had narrowed to 0.5 percentage point. Since the end of 2009, money market rates have been around 2.25 per cent.

Both the Storting and Norges Bank have introduced measures to reduce problems in financial markets. Domestic credit growth, measured by 12-month growth in private and municipal sector debt (C2), was 4.1 per cent in December 2009. Credit growth in non-financial enterprises slumped from just over 20 per cent in July 2008 to -1.4 per cent in December 2009. Household debt increased by 6.7 per cent from December 2008 to December 2009. Private and municipal sector credit from domestic sources moved down from October to November, thereby pushing down underlying credit growth, measured as the three-month moving average converted to an annualised rate, to 2.4 per cent.

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 and up to the present in 2010. A euro now costs just over NOK 8. This is close to the average euro price in the period from the introduction of the euro in 1999 up to mid-2008. By contrast the krone, measured by the import-weighted krone exchange rate, where weights are based on the composition of Norwegian imports, has become relatively strong. From December 2008 to January 2010 it strengthened by just over 12 per cent. The import-weighted krone exchange rate is now back at its level in summer 2008.

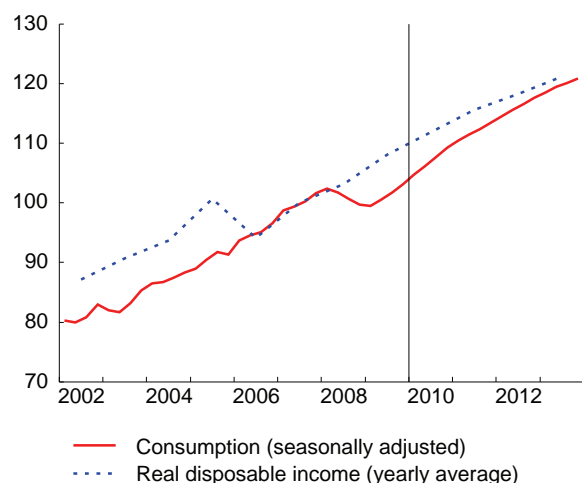
In view of the improving cyclical situation, which is already reflected in higher house prices and household consumption, we assume that Norges Bank will continue to raise the policy rate in the period ahead. We

Table 2. Household real disposable income. Percentage growth

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	7.6	-6.5	6.3	3.1	4.8	3.5	3.3	2.3	2.5
Exclusive dividends	3.4	4.2	5.1	2.7	5.5	3.1	3.1	2.0	2.2

Source: Statistics Norway.

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



Source: Statistics Norway.

believe that money market rates will rise through 2010, resulting in an average of 2.6 per cent for this year. Interest rates will continue to rise throughout the projection period, and money market rates will be 4.5 per cent in 2012, which is approximately what Norges Bank estimated in its most recent *Monetary Policy Report*. We project that money market rates will reach 5.2 per cent in 2013. Banks' average lending rate is then projected to be about 6.4 per cent.

We expect the krone to appreciate a little through the next two years, and then weaken somewhat. The price of a euro will move around NOK 8. The krone, measured by the import-weighted krone exchange rate, will strengthen by just over 2 per cent from the fourth quarter of 2009 to the fourth quarter of this year, and by a further 0.5 per cent in the next four quarters. It is then expected to weaken by just over 2 per cent over a 2-year period. The appreciation at the beginning of the projection period is due to the fact that interest rates are higher in Norway than abroad, while the depreciation towards the end of the period will be a result of rising interest rates in the euro area and somewhat higher inflation in Norway than in the euro area.

High consumption growth in 2010 and 2011

Growth in household real disposable income was high last year. According to preliminary national accounts figures, growth rose from 3.1 per cent in 2008 to 4.8 per cent in 2009. Substantially lower interest expenses in the wake of the financial crisis and almost a halving of consumer price inflation are the primary underlying

causes. Higher public transfers as a result of increased payments of pensions, sick pay and unemployment benefit also made a strong contribution to income growth. Wage income contributed to a more limited extent since the cyclical downturn resulted in weaker wage growth and lower employment in 2009 than the previous year.

Despite high income growth, household consumption did not increase in 2009. Consumption growth has not been weaker since 1989. Household financial consolidation as a result of a fall in house prices, an unfavourable financial outlook and uncertainty regarding own income, were important reasons for the weak developments in consumption from 2008 to 2009. However, the fall in consumption through 2008 and into 2009 reversed in the second quarter of 2009. The strong growth in consumption of goods through the last three quarters is largely attributable to a sharp rise in car purchases, which fell throughout 2008 and up to and including the first quarter of 2009. On an annual basis goods consumption nevertheless fell by 0.4 per cent in 2009. Consumption of services, which has been less affected by the cyclical downturn, increased by 0.8 per cent.

The household financial consolidation led to more than a doubling of the saving ratio (saving as a share of disposable income) from 2008 to 2009. Last year household saving accounted for approximately 7.5 per cent of disposable income. If we count purchases of consumer durables, including cars, as investment rather than consumption, the saving ratio can be estimated at 8.9 per cent in 2009 compared with 5.9 per cent in 2008.

Growth in household real disposable income is expected to moderate in the years ahead. Although growth in wage income will pick up somewhat, the contribution to growth made by developments in net interest income will be far more moderate in 2010 than in 2009. Housing wealth will increase sharply with rising house prices and, aided by low real interest rates, may cause consumption growth in 2010 to rise to as much as 5.5 per cent as an annual average. Although growth in wage income is expected to pick up at a faster pace in an improved economic situation, higher interest rates and gradually increasing consumer prices will lead to moderate growth in real disposable income in the years 2011-2013 as well. Moderate income growth combined with a somewhat higher real interest rate level will contribute to dampening consumption growth in the years following 2010. Consumption growth next year will nevertheless lie at around 4.5 per cent, roughly on a level with average annual growth during the last expansion in 2005-2007.

Box 1. Factors underlying the rise and fall in consumption 2005-2009

In Statistics Norway's KVARTS macroeconomic quarterly model, household consumption excluding housing and health services¹ is determined by developments in households' real disposable income, their real wealth and real interest rates after tax. Real wealth comprises both the real value of dwellings and net financial wealth. The consumption relationship – which models approximately three fourths of household consumption – is documented in Jansen (2009). It is demonstrated here that this consumption relationship explains changes in consumption better than other proposed alternatives. In the table we have set the consumption function's projection for annual growth in household consumption excluding housing and health services up against QNA accounts figures and compared them with annual growth in the explanatory factors in the model from 2005 to 2009.

According to the model, the sharp growth in consumption from 2005 to 2007 can be attributed primarily to the strong growth in household real wealth during this period. Low real interest rates in 2005 and 2006 and the high growth in real income in 2007 also helped to fuel high consumption. All three explanatory factors must be drawn into the analysis in order to capture the very high consumption growth in the period. We also see that the consumption relationship was on target with the sharp fall in consumption growth from 2007 to 2008, which can largely be explained by a plunge in asset values in the second half of 2008. Falling real income was also a factor underlying reduced consumption growth, while monetary policy curbed the fall in 2008 already.

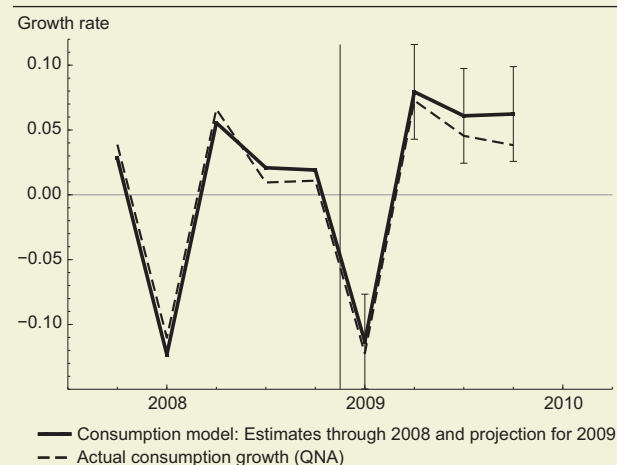
Towards the end of 2008 and through the first half of 2009 the authorities applied powerful stimuli to the economy to mitigate the effects of the financial crisis through both increased public sector demand and a sharp reduction in Norges Bank's key policy rate. This resulted in a strong increase in household real disposable income and a further decline in real interest rates. According to the model's consumption relationship, this should have given rise to weak consumption growth in 2009. Instead, the preliminary national accounts figures for 2009 show a decline, and the projection is an annualised 1.4 percentage point off target. There is therefore reason to take a closer look at how the projection error arises.

Percentage growth in household consumption excluding housing and health services and in factors that explain consumption growth in KVARTS. 2005-2009. Constant 2007 prices

	2005	2006	2007	2008*	2009*
Consumption - QNA	4.5	5.6	6.4	1.1	-0.5
Consumption - model	4.8	6.0	5.8	1.0	0.9
Real disposable income (excluding income from shares)	3.4	4.2	5.1	2.7	5.5
Real wealth	9.4	12.0	11.2	-6.6	-3.3
Real interest rate after tax (level)	1.3	0.7	3.3	1.5	1.3

* Preliminary accounts figures

The right side of the figure shows the consumption function's projection for quarterly growth in private consumption excluding housing and health services for the first to fourth quarters of 2009 compared with preliminary QNA figures. The bands show +/- two standard deviations for the relationship, which is quantified by means of data from the first quarter of 1971 up to and including the fourth quarter of 2008. The left side of the figure shows how accurately the consumption relationship forecasts changes in consumption in the last part of the observation period from the fourth quarter of 2007 up to and including the fourth quarter of 2008.



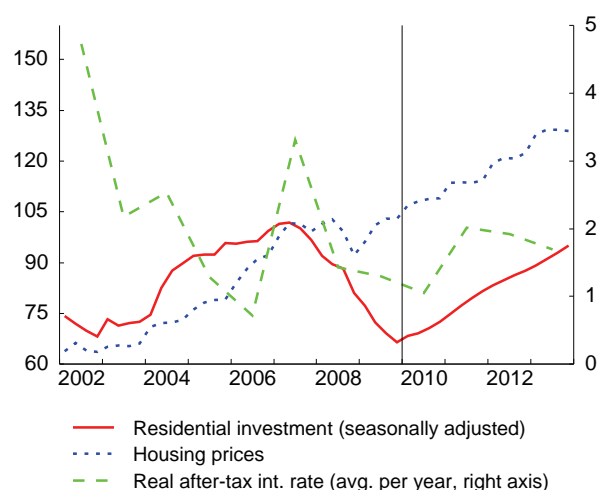
The figure shows growth in private consumption excluding housing and health services from quarter to quarter, according to preliminary QNA figures and to the consumption relationship. The growth rates are dominated by seasonal variation, but it is nevertheless clear that the projection error arises in the third and fourth quarters of 2009, although it is not statistically significant. Quarterly consumption growth was then approximately back to trend growth, according to the QNA figures, whereas according to historical experience the high income growth and low real interest rates implied even higher consumption growth. The fact that this did not happen may be because households are still uncertain about future income developments. In developing the projections for consumption in 2010, we have based ourselves on this and revised down the model's consumption projection for 2010 by about one percentage point. We have then phased out this downward revision by 2012.

References

Jansen, E.S. (2009): «Kan formueseffekter forklare utviklingen i privat konsum?», (Can wealth effects explain developments in private consumption?) Samfunnsøkonomen, 63 (2009/5), 42-59. http://www.ssb.no/filearchive/Jansen_Samfunnsokonomien_5_2009.pdf.

¹ Health consumption is determined outside the model because it is so directly affected by public transfers and political decisions. Housing consumption is determined as a share of housing capital, which is the means of calculation used in the national accounts, albeit somewhat simplified.

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



Source: Statistics Norway.

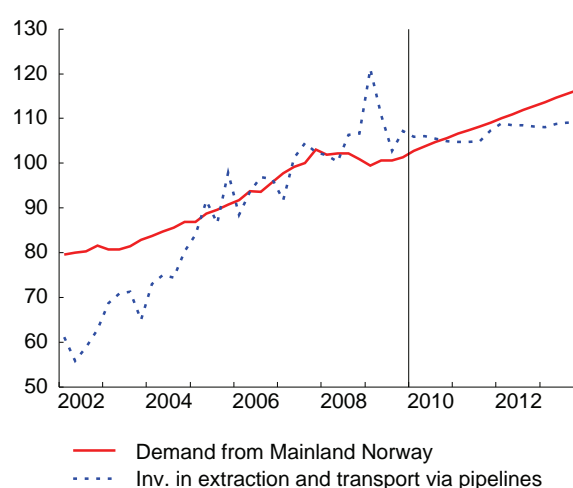
Even with increased real interest rates, the household saving ratio is expected to fall from 7.5 per cent in 2009 to just on 6 per cent this year, and then further down to just over 3 per cent in 2013. This must be considered bearing in mind that in isolation the rise in house prices will reduce the need for household financial consolidation. Net financial investment will show a negative tendency through the projection period, in pace with the fall in saving and with rising housing investment. Households are projected to reduce their net financial investment from a positive level of over NOK 43 billion in 2009 to a negative level of around NOK 27 billion in 2013.

Housing investment is rising

According to seasonally adjusted QNA figures, housing investment fell by 3.9 per cent in the fourth quarter of 2009, and has now fallen for ten consecutive quarters, by a total of 35 per cent. Housing investment fell by an annualised 18.9 per cent last year. However, housing start statistics, on which the preliminary national accounts figures are largely based, may imply that the decline has now levelled off. Prospects of a more favourable economic situation and a further rise in house prices indicates a turnaround in housing starts, so that housing investment will rise again and grow for the remainder of the projection period. Nevertheless, according to our projections the level of housing investment in 2013, measured in constant prices, will lie about 9 per cent below the peak level in 2007.

According to Statistics Norway's house price index, house prices as a whole fell steeply through the second half of 2008. Prices for detached houses, small houses and flats all dropped by about 10 per cent from the second to the fourth quarter of 2008. Since then, prices for all types of dwelling have risen sharply. In nominal terms, this price rise has more than compensated for the prior fall. From 2008 to 2009, house prices rose by an annual average of 1.9 per cent, compared with a

Figur 7. Domestic demand. Seasonally adjusted volume indices. 2007=100



Source: Statistics Norway.

dip of 1.1 per cent the previous year. We expect house prices to continue rising, and that they will rise by an annual average of just over 7 per cent this year. We have assumed for the years 2011-2013 that house prices will rise at an average annual rate of about 6 per cent.

Decline in petroleum investment through last year

Petroleum investment fell markedly, after reaching a peak in the first quarter of 2009. However, the seasonally adjusted QNA figures showed that the slowdown stopped in the fourth quarter. Developments through 2009 can be partly attributed to unusually high drilling activity in the first quarter. This led to a surge in total petroleum investment of 14 per cent compared with the previous quarter. In addition, the Tyrihans and Volvund projects were completed in summer 2009, and no new projects of significance have been started.

Petroleum investment was 1.4 per cent lower in the fourth quarter of 2009 than in the same quarter the previous year. On the other hand, annual growth in 2009 was as much as 7.8 per cent, since investment increased considerably through 2008 and was high in the first half of 2009. However, uncertainty surrounding the profitability of investment projects increased with falling oil prices through the second half of 2008. The increased uncertainty led to the postponement of a number of planned projects in 2009. Since new projects did not replace the old ones, investment fell during the course of the year. Oil prices increased through 2009, and uncertainty about the future diminished.

In the years ahead we expect drilling activity to be reduced somewhat, but from a high level. Measures to increase the recovery factor in mature fields coupled with a desire to increase reserves will curb the decline in exploration and production drilling. Rig rates fell through 2009, which contributes to maintaining buoyant activity through lower costs. Exploration activity in

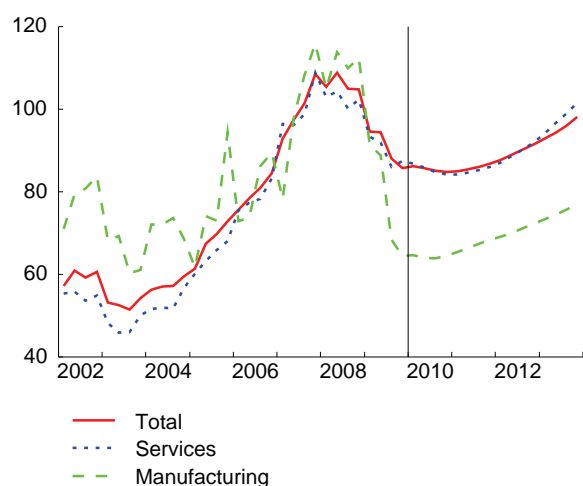
Table 3. **Main economic indicators 2009-2013. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2009	Forecasts							
		2010			2011		2012		2013
		SN	MoF	NB	SN	NB	SN	NB	SN
Demand and output									
Consumption in households etc.	0.0	5.5	4.0	5 1/2	4.7	4	3.8	2 1/2	3.2
General government consumption	5.2	2.7	2.1	3	1.9	..	1.9	..	1.9
Gross fixed investment	-7.9	-3.1	-1.0	..	-0.5	..	5.1	..	4.9
Extraction and transport via pipelines ¹	6.4	-3.7	3.0	0	-1.3	2 1/2	3.4	2 1/2	0.8
Mainland Norway	-12.1	-1.6	-1.7	-2 1/2	0.7	..	5.1	..	5.2
Industries	-14.5	-7.1	-2.6	..	0.2	..	4.6	..	5.9
Housing	-18.9	-2.9	0.5	..	12.3	..	9.1	..	7.5
General government	2.7	12.7	-2.0	..	-7.7	..	2.0	..	1.2
Demand from Mainland Norway ²	-1.2	3.4	2.4	3 1/4	3.2	4 1/4	3.5	2 3/4	3.2
Stockbuilding ³	-1.8	0.0	..	..	0.0	..	0.0	..	0.0
Exports	-4.3	2.4	0.1	..	1.1	..	1.2	..	1.0
Crude oil and natural gas	-1.3	-2.2	-2.1	..	-1.5	..	-0.8	..	-1.9
Traditional goods ⁴	-7.8	6.7	1.6	1 3/4	2.8	..	2.3	..	3.1
Imports	-9.7	6.8	2.4	2 3/4	3.2	..	5.2	..	3.2
Traditional goods	-13.1	6.2	1.9	..	5.7	..	5.5	..	5.8
Gross domestic product	-1.5	1.5	1.3	1 3/4	1.9	2 1/2	2.1	1 3/4	2.3
Mainland Norway	-1.5	2.0	2.1	2 3/4	2.7	3 1/4	2.7	2 3/4	3.0
Labour market									
Employed persons	-0.4	-0.1	-0.4	-1/4	0.4	1	1.1	3/4	1.7
Unemployment rate (level)	3.2	3.5	3.7	3 3/4	3.9	3 1/2	3.9	3 1/2	3.7
Prices and wages									
Wages per standard man-year	4.1	3.4	3 1/2	4 1/4	3.4	4 1/2	3.9	4 3/4	4.7
Consumer price index (CPI)	2.1	1.7	1 3/4	1 3/4	1.3	2 1/4	2.0	2 1/2	2.9
CPI-ATE5	2.6	1.0	1 1/2	1 3/4	1.3	2 1/4	1.8	2 1/2	2.7
Export prices, traditional goods	-6.5	-2.7	3.1	..	5.2	..	3.0	..	2.7
Import prices, traditional goods	-1.2	-3.3	2.6	..	1.0	..	1.7	..	2.8
Housing prices	1.9	7.2	..	..	5.1	..	6.4	..	6.6
Balance of payment									
Current balance (bill. NOK)	360.8	388.2	298.2	..	418.3	..	421.1	..	450.5
Current balance (per cent of GDP)	15.0	15.5	12.2	..	15.9	..	15.3	..	15.4
Memorandum items:									
Household savings ratio (level)	7.5	5.9	..	..	4.6	..	3.2	..	2.6
Money market rate (level)	2.5	2.6	3.5	2.6	3.4	3.8	4.5	4.6	5.2
Lending rate, banks (level) ⁶	..	4.0	..	..	4.5	..	5.5	..	6.4
Crude oil price NOK (level) ⁷	388	458	425	..	479	..	512	..	551
Export markets indicator	-8.7	4.0	..	..	4.1	..	5.6	..	7.2
Importweighted krone exchange rate (44 countries) ⁸	3.3	-5.9	0.0	-3 1/4	-0.8	2 1/4	0.5	1	1.2

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 (2009-2010), (MoF), Norges Bank, Pengepolitisk rapport 3/2009 (NB).

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



Source: Statistics Norway.

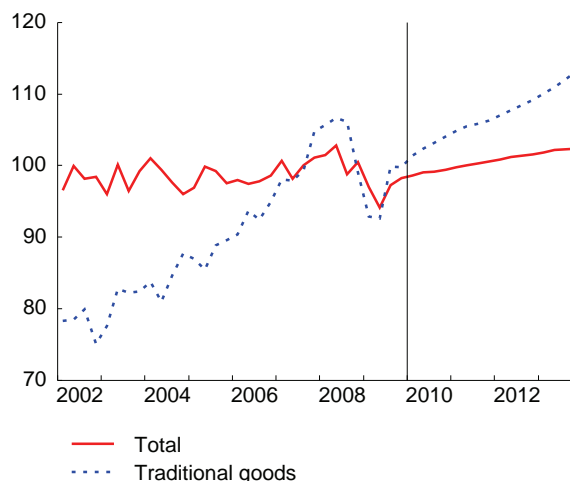
particular is strongly dependent on developments in oil prices.

The last 2-3 years have been characterised by large investments in platforms in operation. In the early 2000s there was considerable investment associated with field development. During the same period the share of investments associated with fields in operation increased. These investments include major maintenance projects, projects designed to increase the recovery factor of mature fields and the development of subsea projects associated with existing fields. The increase is ascribed to major technological improvements, but higher oil prices have also contributed to boosting the profitability of recovery from small fields. We have assumed that the shift towards investment in existing fields will continue, as exemplified by the upgrading and further development of the Ekofisk and Troll fields.

We expect a fall in petroleum investment including pipeline transport in both 2010 and 2011, before investment picks up somewhat in 2012 and 2013. Petroleum investment depends on a number of factors that it is difficult to project in the long-term. We have a certain oversight over which projects are candidates for development in the next two-three years, while there is greater uncertainty associated with investment developments towards the end of the projection period.

Crude oil and natural gas production fell by 2.5 per cent in 2009, thereby continuing the negative tendency since 2004, with 2008 as an exception. As a result of increased gas production in the near future, we expect gas production in 2012, measured in terms of energy content, to be higher than oil production for the first time. Because of the price difference between oil and gas, the value of oil production will continue to be higher than that of gas production for a long time to come. Increased recovery from a number of gas fields will boost gas recovery in the period ahead and will

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



Source: Statistics Norway.

curb the decline in overall petroleum production. Our projections are based on the assumption that combined oil and gas recovery, measured in terms of energy content, will remain at the same level as in 2009. The rise in oil prices that we have assumed means that petroleum revenues will nevertheless increase in the years ahead.

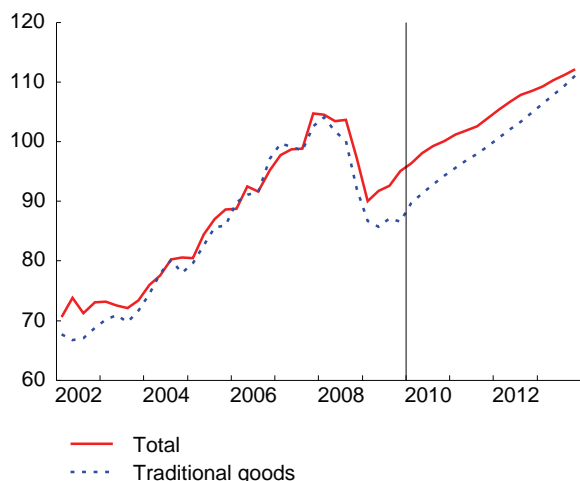
Low investment in 2010 and 2011

Mainland business investment doubled between 2003 and 2008. According to the seasonally adjusted QNA figures, this investment has fallen each quarter since the second quarter of 2008. The fall in the fourth quarter of 2009 was 2.7 per cent, and as an annual average, mainland business investment dropped by 14.5 per cent from 2008 to 2009.

Investment in manufacturing and mining fell by just under 6 per cent from the third to the fourth quarter of 2009, while investment in other goods production dropped by almost 15 per cent. Investment in the service industries edged up just under 2 per cent in the same period. Investment in all these segments of mainland industry fell on an annual basis. Manufacturing investment slumped by about 30 per cent from 2008 to 2009, while the fall in investment in both other goods production and service industries was about 10 per cent.

Our investment projections for manufacturing lie close to the path indicated by Statistics Norway's last investment intentions survey. We expect manufacturing firms to further reduce their investment, causing manufacturing investment to drop by about 17 per cent compared with 2009. An improved economic situation and normalisation of the credit market are expected to contribute to manufacturing investment picking up again by around 5-6 per cent annually in the period 2011-2013. Investment in the power supply sector appears likely to rise by about 25 per cent this year. The

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



Source: Statistics Norway.

increase will be partly attributable to a number of large projects associated with the production and distribution of district heating. Another contributory factor is the increased focus on upgrading and developing the electricity grid.

Investment in mainland industry as a whole is expected to fall by just over 7.0 per cent this year, and to remain approximately unchanged in 2011. In 2012 and 2013 this investment will rise again partly owing to strong growth in investment in services.

Low export growth ahead

In the year to the second quarter of 2009, exports of traditional goods fell by over 20 per cent. A similar fall has not been experienced since the mid-1970s. The period with a pronounced fall in exports now appears to be over, and in the fourth quarter traditional goods exports were 7.8 per cent higher than the trough in the second quarter of 2009, according to seasonally adjusted QNA figures. The decline in the first half of the year was nonetheless so pronounced that exports of traditional goods fell by an annual average of 7.8 per cent in 2009. The turnaround in traditional exports in the second half of 2009 was partly due to the fall in exports of important goods such as metals, engineering products, chemicals and chemical and mineral products coming to a halt followed by a substantial increase in exports in the second half of the year. The growth in exports of farmed fish and fish products also continued throughout 2009 after a certain slowdown in the second half of 2008. Total exports have followed the same pattern as traditional goods, but have fluctuated less. This can be attributed to slightly more stable developments in exports of petroleum products and services, which fell by 1.3 and 5.4 per cent, respectively, from 2008 to 2009. The decline in total exports in 2009 was 4.3 per cent.

Prices for traditional export goods fell by 6.5 per cent from 2008 to 2009. This can largely be attributed to a

considerable decline in prices for metals, chemicals and refined petroleum products. Seasonally adjusted figures show that export prices for traditional goods also fell in the fourth quarter of 2009, and were 3.3 per cent lower than the previous quarter. Prices for total exports fell by as much as 14.1 per cent as an annual average from 2008 to 2009. This can be largely attributed to prices for crude oil and natural gas plunging 24.3 per cent.

We assume that demand impulses from the global market to the Norwegian business sector will gradually gather strength in the period ahead, but traditional goods exports will not grow as strongly. Growth is nonetheless expected to be over 6.5 per cent in 2010, which is higher than in the following years. This is largely due to carry-over, since exports at the end of 2009 were substantially higher than the annual average for 2009. Very moderate growth in traditional goods exports is expected from 2011 onwards. In 2010 we expect the krone to appreciate further, thereby weakening competitiveness. Exports of traditional goods will therefore increase less than market growth abroad during the projection period.

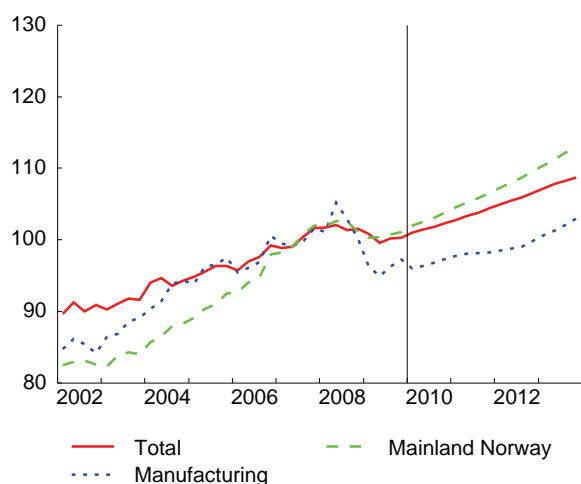
Oil exports are expected to fall throughout the projection period, while gas exports are expected to increase. Exports of services will only rise weakly this year, but reach annualised growth of around 5 per cent towards the end of the projection period. This will contribute to overall exports increasing by 2.4 per cent in 2010 and thereafter by about 1 per cent annually up to 2013. We therefore expect exports only to provide minor growth impulses to the Norwegian economy in the years ahead.

Stable growth in imports

Falling domestic demand led to imports of traditional goods falling by a whole 13 per cent in 2009. The decline in imports of traditional goods was broad-based and occurred in the first half of the year. Overall, there was a slight increase in the second half of the year. Seasonally adjusted QNA figures show that imports of traditional goods were approximately unchanged from the third to the fourth quarter of last year. Total imports fell by 9.7 per cent, as imports of services only edged down 1.8 per cent. Ship imports fell substantially after rising markedly the previous year. This is due to the import of one frigate in 2008, but none in 2009.

Prices for imports of traditional goods fell by 1.2 per cent from 2008 to 2009, after rising 4.6 per cent the previous year. The fall in prices is attributable to the fact that prices for import goods in foreign currency fell substantially, but an annualised weakening of the krone softened the impact in Norwegian kroner. Prices fell 2.5 per cent from the third to the fourth quarter, as compared with 1 per cent the previous quarter. Prices for total imports edged down 1 per cent last year, as opposed to a 4 per cent increase in 2008.

Increased domestic demand, particularly household consumption, points to import growth rising in 2010.

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

Source: Statistics Norway.

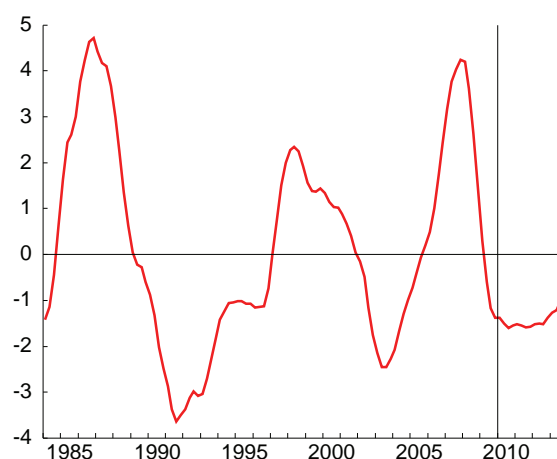
From 2011 onwards gradually increased investment will contribute to higher import growth. This will cause traditional goods imports to rise by a little over 6 per cent in 2010 and between 5 and 6 per cent annually in the period 2011-2013. Weakened cost competitiveness will lead to import shares increasing in the period ahead, and import growth is therefore projected to be clearly higher than growth in domestic consumption of goods and services.

The Armed Forces' purchases of helicopters, aircraft and frigates will push up imports this year and in the next few years. The first helicopter has been delivered, and the remainder are expected this autumn. The aircraft are expected to be delivered in the period up to and including 2011. The last two frigates will be imported in the first and fourth quarters of 2010.

For 2010 we project a slump in prices for traditional import goods as a result of the global downturn and, not least, the strengthening of the krone. An improved global economic situation is expected to translate into a rise in world market prices from 2011, while a stronger krone will contribute to dampening imported inflation.

Pick-up in activity from a low level

The financial crisis led to a marked decline in overall activity in the mainland economy in winter 2008/2009. The volume of mainland GDP, measured at basic values, declined by an annualised 4.1 per cent from the third quarter of 2008 to the first quarter of 2009. Activity as gauged by this GDP measure edged gradually and moderately up through the last three quarters of 2009, by an annualised 1.0 per cent. Seasonally adjusted mainland GDP was still 1.3 per cent lower in the fourth quarter of last year than the peak in the third quarter of 2008. Annualised growth from 2008 to 2009 was -1.3 per cent. Growth measured in market value, which incorporates product taxes and subsidies, was -1.5 per cent.

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

Source: Statistics Norway.

General government value added increased by 2.9 per cent last year, compared with 3.5 per cent in 2008. The fiscal measures to mitigate the impact on the real economy of the financial crisis consisted largely of boosting the demand directed at the private sector. Thus general government inputs increased by 8.5 per cent in 2009, compared with just 3 per cent the previous year. Stable and relatively high general government production growth eased both the severity and the duration of the decline in overall activity.

The level of mainland GDP excluding general government fell for four consecutive quarters after the second quarter of 2008, such that the fall was 3.3 per cent up to the second quarter of 2009. It rose steadily through the second half of last year at an annualised 0.8 per cent. In the fourth quarter of 2009 it remained 2.8 per cent lower than the level in the second quarter of 2008, just before the financial crisis hit the Norwegian economy in earnest. Expressed as an annual average, growth was -2.3 per cent.

Developments in activities in the second half of the year varied from industry to industry. Those industries that suffered the most severe decline in the first four "crisis quarters" also appear to have seen the greatest increase through the second half of the year. Manufacturing felt the effects of the downturn at an early stage, and value added as an annual average fell by almost 6 per cent last year. However there was a clear rise through the second half of 2009, with annualised growth of close to 5 per cent. The increase occurred primarily in food products and beverages and commodity-based manufacturing excluding wood and wood products. There was zero growth or a slight decline in other manufacturing segments.

Activity in 'Other goods production' showed a similar course to manufacturing. The increase in the second half of the year is due to a surge of activity in the

primary industries, including fish farming and power production. In construction, value added increased markedly in the third quarter and then fell back appreciably in the fourth. The level in the fourth quarter was still 4.5 per cent lower than the peak in the third quarter of 2008. By way of comparison, value added in manufacturing was 7.3 per cent lower than the peak level in the second quarter of 2008.

In contrast to goods production, activity in mainland-based private services fell through the second half of last year, more so than through the three previous quarters. The level in the fourth quarter was still 1.7 per cent lower than the peak in the third quarter of 2008. Activity in retail trade has grown appreciably since the first quarter of 2009 as a result of increased consumption. Transport excluding shipping and pipeline transport increased through the second half of last year. In most other service sectors, activity showed a general decline through the second half of the year.

Developments in manufacturing and construction must be viewed in the light of developments in demand for final deliveries in Norway and abroad. The picture is less clear for private services. Since household demand is growing, the reason may be a general tightening by the business sector on purchase of inputs in the form of services.

The increase in demand in Norwegian export markets will probably continue, but at a moderate pace. Petroleum investment, on the other hand, is expected to generate negative demand impulses over the next few years. The decline in mainland business investment is expected to ease off in 2010 and then gradually shift to growth. General government investment will probably not change much in the near future. Developments in Norwegian costs, with relatively high wage growth and a stronger krone, will curb output. In the light of this mixed picture, a moderate increase in manufacturing activity is expected this year and going forward. In 2013 we expect slightly higher growth, partly because of an anticipated shift in investment demand from the petroleum industry to manufactured products.

Construction activity is expected to edge down further this year. Increased housing investment through 2010 is not sufficient to offset falling investment in mainland industry and particularly in commercial buildings. As the fall in mainland investment slows and gives way to an upswing in 2011 and housing investment increases further, construction activity will also increase.

Last year value added in private mainland-based services (excluding housing services) accounted for 60 per cent of mainland GDP excluding general government. Developments in mainland-based service industries are therefore important to the business cycle. We expect activities in these parts of the economy to pick up. High growth in household consumption in 2010 and 2011 will be one factor behind this expected development.

After a while, the turnaround in investment in mainland industries will also contribute to growth.

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

We expect mainland GDP as an annual average to rise by about 2 per cent in 2010 and slightly more in subsequent years. We expect growth a little way ahead to be close to trend growth in the Norwegian economy. According to our calculations, there will not be a definite upturn in the economy before year-end 2012/2013. Given these projections, the level of mainland GDP will remain below trend throughout the projection period.

Towards increasing unemployment

Employment fell 1.4 per cent in the year to the third quarter of 2009, which is equivalent to almost 37 000 persons. There was a slight rise in seasonally adjusted employment in the fourth quarter of 2009, however. This was due to continued clear employment growth in the public sector and to the fact that employment fell substantially less in both manufacturing and services than in the preceding quarters. There was also a slight increase in employment in the construction sector following four quarters of decline. Overall employment declined by 25 000 persons in the year to the fourth quarter of 2009.

All in all, employment fell by an annual average of 10 000 persons from 2008 to 2009. This was the first year since 2003 with a decline in employment, but in 2003 the decline was more than twice as severe and total employment was far lower. It was followed by an unusually strong period of expansion, and over 300 000 new jobs were created. Viewed from this perspective, the decline in employment in 2009 is very moderate. Nevertheless, labour market developments are dramatic for some industries. Whereas public sector employment increased by almost 25 000 persons in the year to the fourth quarter of 2009, production in internationally exposed industries is more dependent on world market developments. During the same period, employment in manufacturing industries and in construction fell by over 20 000 persons. This weak development has had spillover effects for the service industries. Falling demand from both the business and the household sector has led to a fall in production and employment in many service industries. Some of those employed in service industries are also dependent on demand from abroad. This applies to the tourist industry, among others. The service industries saw an overall decline in employment of over 27 000 persons in the year to the fourth quarter of 2009.

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



Source: Statistics Norway.

Developments in demand for labour substantially reduced the labour force through 2009. In the year to the fourth quarter of 2009, almost 20 000 people left the labour force, according to the Labour Force Survey (LFS). This is largely due to more young people taking further education and more elderly people becoming recipients of various types of pension. However, measured as a three-month moving average, the labour force has been relatively stable since August last year.

Following a slight increase in seasonally adjusted LFS unemployment through the second half of 2008, it remained stable at just over 3 per cent through 2009. Expressed as an annual average, the unemployment rate in 2009 was 3.2 per cent. Whereas the labour market in 2009 was favourable for typical women's occupations in the public sector, it was a bad year for the typical male occupations. From the fourth quarter of 2008 to the fourth quarter of 2009, the number of unemployed increased by 9000 according to LFS. Men accounted for the whole increase. Unadjusted unemployment in the fourth quarter of 2009 was 3.4 per cent for men and 2.4 per cent for women.

At the end of January this year, seasonally adjusted unemployed registered with the Norwegian Labour and Welfare Organisation numbered approximately 77 000. In the year to end-December 2009, registered unemployment increased by over 20 000. If persons on ordinary labour market schemes are included, the increase was over 30 000 persons. The increase in registered unemployment was approximately twice as high as the increase in unemployment in the year to the fourth quarter of 2009, according to LFS. The fact that registered unemployment has increased appreciably more than LFS unemployment is largely due to an increase in persons who respond in such a way that they do not fulfil all the conditions for being defined as unemployed in the LFS. In some cases this is because they state that they have work, while others state that they are not

Figur 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.

immediately available for work, or that they have not applied for work for the last four weeks.

There are high costs associated with terminating appointments and making new ones. Despite falling demand and production, many enterprises therefore elect to keep the human resources they have by postponing cutbacks as long as possible. As a result, productivity falls at the beginning of an economic contraction, while unemployment reflects production developments with a time lag. Manufacturing and construction were hit early by the crisis, and have now cut back their workforces substantially. The service industries also appear to have scaled back their workforces somewhat. In 2010 we expect manufacturing output to pick up cautiously, but that growth will be slower than the enterprises can absorb through increased productivity. Thus the decline in employment appears set to continue in manufacturing. Increasing housing and business investment will gradually generate positive impetus to the construction sector, where employment will grow from 2011 and gather pace in 2012 and 2013. Employment in service production will also begin growing again, primarily in response to continued buoyant consumption growth. Overall we expect the decline in employment to continue for the remainder of the year, despite a slightly rising number of hours worked. From 2011 we assume that employment will again grow cautiously.

Many labour migrants who are in Norway on short-term stays are not required to have work permits. As a result there are no satisfactory statistics for the scope of short-term inward labour migration. Increasing unemployment among immigrants and sharply reduced job opportunities in those parts of the labour market where they are well represented indicates that growth in the number of short-term labour migrants has halted, and that the number may be at a lower level than previously. Nevertheless, continued high immigration means that the growth in the labour force is expected to rise

considerably through the projection period. This means that unemployment will continue to increase from just over 80 000 persons in 2009 to 90 000 persons in 2010 and on up to over 100 000 persons in 2011 and 2012, as annual averages. The unemployment rate is thus projected at 3.5 per cent in 2010, rising to 3.9 per cent in 2011 and 2012. In 2013 employment will rise sufficiently to lower the unemployment rate slightly. Unemployment is nonetheless projected to be higher than the current level throughout the projection period.

Extended period of moderate wage growth

Wage growth was sharply reduced last year. Annual wage growth fell from 6.3 per cent in 2008 to 4.1 per cent in 2009. The decline reflects lower business sector profitability and a weaker labour market. The contraction started early in 2008 and accelerated through the second half of the year. The 2009 wage settlement was characterised by the weak developments in the internationally exposed business sector. The result was only small centrally negotiated pay increases.

Annual wages are measured excluding overtime pay, and in isolation are not affected by changes in sickness absence. Wages per normal man-year, on the other hand, include overtime pay and do not include the portion of sick pay that is covered by the National Insurance System. Wage growth per normal man-year was 3.5 per cent in 2009, which is 0.6 percentage point lower than annual wage growth. In 2009 reduced overtime and increased sickness absence each contributed to reducing wages per normal man-year by 0.3 per cent, and the contributions were largest in the industries that had been hardest hit by the economic contraction. After adjustment for changes in sickness absence and overtime, wage growth in the main industries in the economy was relatively similar. The exception is financial services, where a normalisation following the very large bonus payments in 2008 contributed to a 2.7 per cent reduction in average wages per normal man-year in 2009.

The moderate negotiated pay increases in 2009 led to growth for the year to the fourth quarter of 2009 of only 2.8 per cent, compared with 6.4 per cent one year earlier. The carry-over into 2010 is relatively small. The way is thus paved for moderate wage growth from 2009 to 2010 again, even given relatively normal negotiated pay increases at the main settlement in 2010.

Developments in the labour market and unemployment will have a bearing on wage growth in the period ahead. So far in the economic downturn, the increase in unemployment in Norway has been relatively moderate, compared both with previous contractions and not least with the increase in unemployment in other countries. We believe the weak labour market trend will continue, but even then the unemployment level will be low. Viewed in isolation, the contributions from the

weaker labour market to lower wage growth can thus also be expected to be more moderate than in many other countries.

However, with manufacturing as wage leader in Norwegian wage formation, overall wage growth in Norway is clearly also affected by global economic developments. Wage growth in the next few years will thus continue to be characterised by assumed moderate growth in export markets. We also envisage relatively weak developments in the competitiveness of Norwegian manufacturing enterprises. Despite a clear correction to wage growth in Norway, there is reason to believe that the labour cost correction in the wake of the financial crisis has been stronger in many competitor countries. The krone exchange rate has also strengthened substantially over the past year. We project a strengthening of the Norwegian krone, measured by the import-weighted krone exchange rate, of just on 6 per cent from 2009 to 2010. These factors will clearly have the effect of curbing wage growth in Norway in the period ahead. Up to and including 2012 we project annual wage growth of around 3½ per cent. Wage growth as low as we project for the four-year period 2009-2012 has not been recorded since the period 1992-1995.

The global downturn will probably entail scaling back and restructuring in the Norwegian manufacturing sector for a couple of years to come. When the global recovery begins in 2012, the competitiveness and ability to pay of Norwegian manufacturing firms will be strengthened by comparison with the current situation. This will also provide a basis for wage growth to pick up. Annual wage growth in 2013 is projected at 4.7 per cent.

However, there may be reason to stress the uncertainty of assuming such a rapid recovery in competitiveness. Global trade patterns have changed considerably in recent years. There has been strong growth in trade with emerging economies like China, eastern Europe and South America. Global trade has been hard hit in the aftermath of the financial crisis in 2008. Exports of traditional goods from Norway have also been substantially reduced. The decline from 2008 to 2009 was 7.8 per cent. The order backlogs of manufacturing industries have also been markedly reduced. In the fourth quarter of 2009, order backlogs in manufacturing were a good 30 per cent lower than a year earlier. Order backlogs for machinery and equipment and building of ships and oil platforms were almost halved in the same period. There is a very high potential for further growth in exports, from China in particular. The country's export industry still has a large supply of low-cost labour. When the global economy is hit simultaneously by the deepest economic downturn in 60 years, it may trigger a change in the pace of the shift towards trade with low-cost countries like China. For example, importers of Norwegian manufacturing goods abroad may be increasingly led to import from low-cost countries

Box 2. The power market in the period ahead

In 2009 the average system price for power in the Nord Pool area was 30.6 øre/kWh, down from 36.9 øre/kWh in 2008. The average price for the first 47 days in 2010 was 45.4 øre/kWh. Forward prices on Nord Pool from 16 February this year indicate an average system price of 40.7 øre/kWh for 2010, a price escalation of 33 per cent on 2009. Grid rent including electricity tax and value added tax, which accounts for almost half of households' electricity expenses, increased by just over 8 per cent from the beginning of 2010. Electricity prices as measured in the consumer price index are projected to rise by about 17 per cent from 2009 to 2010. Prices appear likely to fall somewhat from 2010 to 2011.

2009 was a little colder than 2008 and the average for the ten-year period 2000-2009. In isolation, this contributed to increasing electricity consumption by about 1.5 TWh compared with 2008. On the other hand, power consumption fell as a result of lower economic activity, particularly in power-intensive manufacturing, where power consumption fell by over 6 TWh from 2008 to 2009. Lower power prices in 2009 dampened the decline in power consumption to some extent. Overall, power consumption in 2009 was reduced by more than 7 TWh compared with 2008. Higher economic activity in 2010 is expected to contribute to a rise in power consumption. Higher power prices have the opposite effect. The beginning of 2010 has been colder than normal for recent years, with the result that power consumption so far in 2010 is about 2 TWh higher than for the same period in 2009. Assuming the same temperature conditions for the remainder of the year as the average for the ten-year period 2000-2009, total gross power consumption by domestic users could increase by about 4 TWh on an annual basis compared with 2009. Consumption by power-intensive industry appears likely to go up by a total of about 4 TWh, while other consumption including grid losses may increase by 1 TWh. The total consumption of power in Norway in 2010 may then be about 130 TWh, compared with 121 TWh last year.

At the start of Week 6 this year, reservoirs held 13 percentage points less water than normal. There is considerably less snow in the mountains than is normal for this time. As a result of the cold weather at the beginning of 2010, power production so far has been higher than in the same period in 2009. Given normal precipitation conditions hereafter, the inflow to hydroelectric power reservoirs will be a good deal lower in 2010 than in 2009. This implies that hydroelectric power production may be substantially lower. On the other hand, expected power prices, which are somewhat higher in 2010 than the level expected in 2011, may cause hydropower producers to produce more than the inflow would suggest, and to draw on the reservoirs to more than the normal extent towards the end of the year. With power production from windpower, gas power and other thermal power of about 5 TWh, total Norwegian production could be about 124 TWh in 2010, 6 TWh less than in 2009. In such case, net power imports could be about 6 TWh in 2010 compared with net power exports of 9 TWh in 2009.

Nord Pool's forward price for 2011 is somewhat lower than observations and forward prices indicate for 2010, but after that forward prices indicate gradually rising system prices. The forward price for 2015 is nevertheless slightly lower than the average system price for 2010 appears likely to be. Although forward prices for the next few years do not vary much, the outcome range for future power prices in Norway is wide. Variations in inflow to water reservoirs may have a strong impact on Norwegian power prices. Future coal, gas and CO₂ quota prices are also uncertain. These prices largely determine the power prices on the Continent, and indirectly affect Norwegian and Nordic power prices. In the coming five-year period it is not improbable that power prices in Norway for an individual year may be as low as 20 øre/kWh or as high as 60 øre/kWh.

instead. In such case, it may prevent Norwegian manufacturing enterprises from taking part in a global recovery to the same extent as previously. In the event, wage growth in Norway would remain at a lower level for longer than our projections indicate.

Low inflation

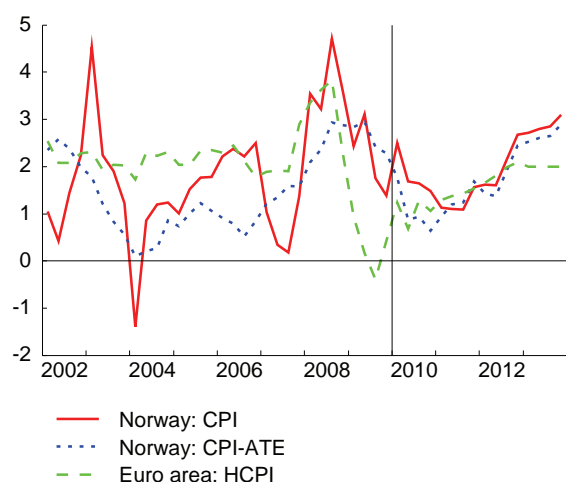
Inflation measured by the 12-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) remained fairly stable just below the inflation target of 2.5 per cent in the latter half of 2009. In June 2009 inflation was as high as 3.3 per cent, the highest recorded inflation in the past ten years. In January 2010 it was 2.3 per cent, reflecting a slower rise in prices in most of the main product groups. Seasonally adjusted figures show that the rise in prices (CPI-ATE) since June last year has been an annualised 1.6 per cent.

Whereas changes in the CPI-ATE say something about underlying inflation, it is the CPI that is relevant for

developments in household purchasing power. The year-on-year rise in the CPI in October 2008 was as much as 5.5 per cent, largely as a result of a sharp rise in electricity prices. Electricity prices then fell steadily up to and including September last year. During the last four months of 2009, electricity prices surged over 21 per cent, whereas in the same period the previous year they fell by almost 8 per cent. Developments in electricity prices have contributed to the 12-month rise in the CPI increasing from 0.6 per cent in October last year to 2.5 per cent in January this year. An increased 12-month rise in petrol prices, largely as a result of the sharp price fall at the end of 2008, added to this effect.

A breakdown of the CPI-ATE by supplier sector shows slower year-on-year inflation for almost all main groups since the summer of 2009. A slower rise in prices for services provided the greatest impetus to the fall in inflation from June last year to January this year, which was 1.0 percentage point. The decline in inflation is

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



Source: Statistics Norway.

related to the strengthening of the krone and to lower cost inflation.

Exchange rate developments have generated strong inflationary impulses over the past year, initially through the sharp weakening of the krone in autumn 2008 in the wake of the financial crisis. This weakening has been gradually reversed through 2009 and into 2010, so that in mid-February the krone is almost as strong as it was in the first half of 2008. Changes in the exchange rate affect prices to households, but it takes a good while before the effects are exhausted. Thus exchange rate changes have a substantial, but offsetting effect on Norwegian prices. The year-on-year rise in prices for imported consumer goods rose by 2.6 percentage points from December 2008 to June 2009, and fell back by 0.5 percentage point from June 2009 to January this year. We assume that the appreciation of the krone that has already occurred will push down inflation in the period ahead. A further strengthening of the krone will add to this effect. The global recession and a continued increase in trade with low-cost countries will also contribute to a low rise in import prices.

We therefore expect inflation to slow later this year. In addition to falling import prices, we expect rising productivity and a slightly slower increase in labour costs. As an annual average, we project that the CPI-ATE will increase by 1 per cent in 2010. As the economic situation improves and wage growth picks up, while the effects of the krone appreciation wane, inflation will rise again. In 2011 and 2012 we also expect the krone to weaken somewhat, and according to our projections the CPI-ATE will rise to 2.7 per cent in 2013.

We assume that there will be no changes in indirect taxes other than those that have now been decided on for 2010. This means that the effects of real changes in indirect taxes on prices will be negligible in 2010. However, both oil and electricity prices are expected to

increase more than inflation generally this year. This means that the projected rise in the CPI will be distinctly higher than for the CPI-ATE in 2010.

For the following years we assume as usual that indirect taxes will be adjusted for inflation. Oil prices are assumed to increase throughout the projection period. The especially high electricity prices this year are expected to normalise next year. With an oil price and electricity price moving in opposite directions, the CPI is expected to rise in much the same way as the CPI-ATE in 2011. A certain rise in electricity prices in 2012 and 2013 will cause the CPI to increase somewhat more than underlying inflation and to rise to nearly 3 per cent at the end of the projection period.

Weak current account growth

From the fourth quarter of 2008 to the third quarter of 2009, the quarterly trade surplus fell from NOK 120 billion to NOK 72 billion, i.e. 40 per cent. This development in trade in goods and services very largely reflected the fall in oil prices and the global cyclical downturn. In the fourth quarter of 2009, however, the surplus rose by NOK 22 billion, or 30 per cent, compared with the previous quarter. This increase reflects a terms of trade gain in the form of a higher rise in prices for exported commodities than for imported processed goods. But the increase can largely be ascribed to growth in net export volumes. The surplus on trade in goods and services with other countries for the whole of 2009 was NOK 348 billion. Oil price movements can explain the whole of the fall of NOK 140 billion compared with the surplus in the peak year of 2008.

Preliminary balance of trade figures show that net factor income and transfers strengthened each quarter last year, from a deficit of NOK 35 billion in the first quarter to a surplus of NOK 23 billion in the fourth quarter. This is not an unusual quarterly pattern. The surplus for the whole of 2009 is estimated at NOK 13 billion, 2009 may thus be the first year with positive net factor income and transfers since Marshall Aid after World War II contributed to surpluses in the years up to and including 1953. This, added to the trade surplus, results in a current account surplus of NOK 361 billion in 2009, down from NOK 473 billion in 2008.

A higher surplus in the fourth quarter of last year may indicate that the negative current account tendency has reversed. Given an improved economic outlook and anticipated higher oil prices, we envisage a somewhat higher surplus going forward. The net export volume is expected to decline, but will probably be dominated by a terms of trade gain. We have assumed a pronounced increase in oil prices during the next four years. The trade surplus is projected to rise from a good NOK 375 billion in 2010 to almost NOK 420 billion in 2013. Net factor income and transfers is expected to show a surplus of the order of NOK 10-30 billion during the projection period, so that the current account surplus may reach NOK 450 billion in 2013. The surpluses for

the years 2010-2013 will then account for 15-16 per cent of GDP.

Projections shrouded in uncertainty

Statistics Norway presented its first quantified projections for the Norwegian economy in 1988, and since 1990 has with few exceptions published projections for at least two years ahead in February/March, May/June, September and November/December each year. The following is an evaluation of our forecasting activities. The evaluation considers three important macroeconomic variables: growth in mainland gross domestic product (GDP), the change in the consumer price index (CPI), and unemployment as a percentage of the labour force (LFS). The investigation focuses on whether the projections have deviated systematically from the ex post realized outcome, and the spread of the deviations. The analysis is also used to say something about the uncertainty of the projections for 2010 and 2011 which are being published now.

There are often differences between the preliminary GDP figures published in February/March of the year after the accounting year and the final figures that are normally only available almost two years later. The “final” figures may also be revised in connection with periodic revisions when new statistics are incorporated or when the calculation principles are changed. We nevertheless use preliminary GDP figures from the preliminary accounts as “actual outcome” for three reasons: First, the final accounts figures are not available for the years following 2007. The estimates for these years must therefore be compared with preliminary accounts figures regardless. Second, the projections are made on the basis of preliminary – not final – accounts figures for the recent past. Third, changes were made in definitions in connection with the main revisions in 1995, 2002 and 2006, which means that projections and final figures do not relate to the same measuring system. Our projections for mainland GDP in 2006 and 2007, for example, would have been different if we had used the new definition at the times of making the projections.

How good have our projections been?

Figures 2.16, 2.17 and 2.18 in the Norwegian part of this publication (ØA 1/2010) show developments over time in the absolute deviation between projection and preliminary accounts for mainland GDP growth, the rise in the CPI and LFS unemployment. It emerges from these figures that whereas the projections for the CPI given the same year as the projection year and the projections of LFS unemployment given the year before the projection year have improved over time, the considerable underestimation of GDP growth in 2006, 2007 and 2009 made the year before the projection year has led to the breaking of a clear falling trend in projection

error up to and including 2005. This is also partly attributable to the change in the manner of calculating GDP in 2006. There is also a tendency to somewhat increased forecast error for the CPI in projections made the year before the projection year.

Figures 2.19, 2.20 and 2.21 (ibid) show the average deviations between projections made at different times and accounts figures for growth in mainland GDP, the change in the CPI and unemployment. The figures also provide an indication of the spread in the deviations by including three intervals around the average. These intervals are calculated against the background of the historical spread. They do not say how many of the deviations actually lie within these intervals. Under given conditions¹ the certainty that the deviation between future projections and accounts figures lies within these intervals is 50, 80 and 90 per cent, respectively. We have only used the projections for the years after 1995 for calculating the intervals.

Have there been systematic deviations?

The projections for GDP growth have often been too low. On average, the projections for GDP growth two years ahead are 0.3 percentage point lower than the actual figures. In May/June the same year the deviation is -0.2 percentage point. A negative figure indicates that the projection is too low. The projections made in September and November/December the year before the projection year are on average 0.4 and 0.6 percentage point, respectively, lower than the “actual outcome”. Again, there is less deviation in the projections made in the projection year.

The average projection error for the change in the CPI is close to zero at all projection times with the exception of the projection made in February/March the year before the projection year, when the average deviation is -0.2 percentage point.

The unemployment projections tend to have been systematically a little too high. The projections made in February/March and May/June before the projection year are 0.3 and 0.2 percentage point, respectively, too high on average. Thereafter the average difference is approximately 0.1 percentage point up to and including May/June the same year. After this the deviations are virtually zero on average.

Bearing in mind the large spread in these projections, the results indicate that there are not large systematic errors in our projections for the three parameters.

The spread of the projections

There has been a relatively large spread in the deviation between the projection for GDP growth made in February/March the year before the projection year

¹ That all deviations belong to a given statistical distribution (normal distribution with an equal expectation and spread) and are independent.

and the preliminary accounts figure. The projection for 2007 was furthest off the mark, at 4.1 percentage points. However the 2007 projection was affected by changes in the national accounts definitions. Of the 15 projections we have made for this year, from and including the 1995 projection, 7 are more than 1 percentage point different from the preliminary accounts figure. Once the projection was absolutely accurate – in 1996. The 1998 and 2008 projections were also very good, with deviations of 0.2 and 0.1 percentage point, respectively. The variation in the deviations is considerably less, on average, in the projections made in December the year before, but 6 of 15 projections are still more than 1 percentage point off the mark. Despite possessing ever more information about economic developments in the year for which projections are made, the spread in deviations is therefore only a little less right up to and including the projections in September the same year. One important contributory reason for this is that the quarterly GDP figures have often been revised quite considerably through the projection year. Only in the last projection we make before the “actual outcome” is available, is there again a distinct decline in the spread of the deviations.

We find a similar pattern in the projections for the annual change in the CPI. There is considerable variation between the first five projections and the result, but the projections from and including June the same year are very accurate. After this only one 2009 projection is more than 0.3 percentage point away from the actual change rate. The variation in the preceding projections is 3-4 times as large. Since the CPI is not revised, this reflects the fact that actual developments in the CPI gradually become more fully known through the year.

The spread in the deviation between unemployment projections and the actual figure show a steadier decline as the projection horizon grows shorter. The average absolute deviation is 0.6 percentage point in February/March the previous year and 0.3 percentage point in February/March of the same year. After that the spread narrows gradually. The projection error for unemployment is also considerably reduced in the last three projections before the result is available. After this only the 2009 projection is more than 0.4 percentage point from the accounts figure. As for the CPI, this is because the figure becomes gradually known through the year and is not revised.

The projections for 2010 and 2011 are uncertain

In figures 2.22, 2.23 and 2.24, of ØA 1/2010 the uncertainty of the projections for 2010 and 2011 given in this report is considered. Mainland GDP growth is now projected at 2.0 per cent in 2010 and 2.7 per cent in 2011. On the basis of the above analysis, we are 50 per cent certain that mainland GDP growth will be between 1.3 and 2.7 per cent in 2010 and between 1.5 and 3.9 per cent in 2011. An interval of a total of 3.6 percentage points in 2010 and 6.2 percentage points in 2011

covers the percentage growth with 90 per cent certainty. The intervals illustrate that it is difficult to make a certain projection for mainland GDP. GDP growth has changed relatively substantially from year to year, and the uncertainty is also illustrated by the fact that the growth is revised quite substantially from the preliminary to the final national accounts.

The rise in the CPI was 2.2 per cent in 2009. The rise for 2010 and 2011 is projected at 1.7 and 1.3 per cent, respectively. We are 50 per cent certain that the projections for 2010 and 2011 are not more than 0.3 and 0.6 percentage point, respectively, off the mark.

The unemployment level is estimated at 3.5 per cent in 2010 and 3.9 per cent in 2011. Whereas the historical projection errors indicate that the projection for 2009 can be regarded as having a relatively high degree of certainty, there is more uncertainty attached to the projection for the following year. For example, there is an 80 per cent certainty that the accounts figures will not differ more than 0.4 percentage point from our projection for 2010. In 2011, on the other hand, there is an 80 per cent certainty that unemployment will be within an interval of 0.8 percentage point above or below the projection.

How accurate were Statistics Norway's projections for 2009?

Statistics Norway has published projections at least two years ahead since 1990. The projections have extended four years ahead since 2005. In this edition of *Economic Survey* we present projections for the Norwegian economy for the years 2010-2013. The first time we published projections for 2009 as part of our ongoing monitoring of the business cycle was at the beginning of 2006. Table 2.4 (ibid) presents different projections for 2009 made in the last two years, together with the temporary standard now available for 2009.

We were of the view already before the Lehman Brothers bankruptcy in September 2008 that 2009 would be a year with a definite cyclical downturn, as GDP growth was approximately one percentage point lower than estimated trend growth. Falling investment and moderate consumption growth coupled with very weak international growth were expected to contribute. Monetary policy would also be oriented towards dampening the activity in the Norwegian economy in 2009. The general trend of these projections was correct, and must be viewed in the light of the very high growth in the economy in the years prior to 2008. Nevertheless, the growth projection published early in 2008 was far too high. We foresaw a sharp cyclical turnaround, but not a global financial crisis with the most severe global downturn since World War II. We also assumed originally that high oil prices and money market rates would contribute to strengthening the Norwegian krone in 2009. This would lead to lower consumption growth, while a continued high level of activity would contribute to relatively high wage growth, albeit slightly lower

than in 2008, when wage growth per normal man-year was 6 per cent.

Thus 2009 was a very turbulent year for the Norwegian economy, and even more so for the global economy. As we know, it is the financial crisis and its most acute phase from mid-September 2008 to spring 2009 that made developments in the Norwegian and global economies fairly abnormal. We can see the significance of this most easily in Table 2.4 by comparing the projections for 2009 presented in *Economic Survey 2/2008* with those presented in *Economic Survey 3/2008*. The projection for mainland GDP growth is revised down by over 2 percentage points, and the oil price projection is dramatically reduced, which is reflected in almost a halving of the projection for the current account balance. The import-weighted krone exchange rate weakened sharply in autumn 2008, and this was to some extent expected to persist until far into 2009. We also see that the projection for money market interest rates was revised sharply downwards. Whereas in the past monetary policy was assumed to be supposed to contribute to cooling down the expansion, instead it was assumed to be shifted to dampen a sharp cyclical downturn. Similarly, it was assumed that fiscal policy would be shifted strongly in an expansionary direction. The reaction in the financial market also had effects for the housing market and projections for house prices and investments were revised downwards substantially in autumn 2008.

In *Economic Survey 1/2009*, i.e. exactly one year ago, we had projections for 2009 which on the whole were quite accurate. This applies to the whole domestic demand picture and to exports. Our GDP projection was also very good. Although employment growth was projected perfectly, unemployment was appreciably over-estimated. This was partly due to the fact that the labour supply was substantially lower in 2009 than we believed a year previously. An important factor here – and which we also stressed was an uncertain factor one year back in time – was how many of the labour immigrants would return to their home countries when the labour market in Norway became weaker.

Wage growth has been fairly accurately projected since autumn 2008, albeit a little too high. This is largely due to an under-estimation of the increase in sickness absence and the reduction in overtime payment, which affected the wage concept we were projecting: wages per normal man-year. Another reason was that the price fall internationally was greater than assumed, so that the wage range in internationally exposed activities, which then spills over into wage growth for protected industries, was larger than initially assumed. The projection for CPI-ATE has been good since early in 2008 (since *Economic Survey 2/08*). The CPI projection, on the other hand, is more difficult to get right because of the large and unexpected changes in energy prices.

Box 3. Direct and indirect import shares

Consumption of goods and services can be divided into final deliveries – i.e. for consumption, investment and exports – and material inputs, which constitute a production factor. Some of the final deliveries are covered directly through imports while the remainder are delivered by domestic producers. Imported material inputs are also used in Norwegian production. The share that imported material inputs constitutes of a final delivery is defined as the indirect import share. It includes imported inputs from all vendors associated with the delivery in question. The total share of imports in a final delivery is thus higher than the direct share. Because the size of the import shares differs, a given change in a final delivery component will imply different impulses to Norwegian production.

Import shares are calculated by studying the effects on the import of the individual final delivery component in a static matrix model. This means excluding the effects of changes in relative prices, the ripple effects of changes in revenue earning, the need for changes in production capacity (investment) and possible effects on interest and exchange rates. The import shares in the table have been calculated for 2007, which is the last year with final national accounts figures.

Import shares

Exports have the lowest direct import share of the main groups of final delivery categories. When indirect imports are included as well, the import share for exports is close to the average, however. Public consumption, which consists largely of labour costs, is the component with clearly the lowest total import share. Investments have clearly the highest import shares, both direct and total.

There are large differences between sub-groups of final deliveries. The direct import shares of investments in the form of buildings and infrastructure are more moderate. The indirect import shares are relatively high, however. Direct imports constitute about a third of investments in ships and machinery, oil platforms and vehicles, while total imports constitute about half of these investments. Broken down by industry, shipping has the highest total import share, at 56 per cent. Overall, the import share of petroleum activities is somewhat higher than the average for investments, while general government investment is appreciably lower.

Almost half of final deliveries are associated with consumption, and there are large variations in import shares within household consumption. Norwegians' consumption abroad is naturally regarded as direct imports in its entirety. The purchase of own vehicles and "miscellaneous goods" stands out with high direct import shares. As very few cars are produced in Norway, the total import share for own vehicles of almost 36.5 per cent is perceived as surprisingly low. The explanation lies in dealer mark-ups and in the high level of indirect taxes on these goods. The import share is highest for the group "Miscellaneous goods". This group includes clothing and footwear, consumer electronics and furniture.

There are large variations in import shares within exports. Exports from shipping have the highest import content, due to the fact that most of the inputs are purchased directly outside Norway. Exports of oil and gas distinguish themselves by having a low share of imports. This can mainly be attributed to the fact that a large share of the production value consists of petroleum rent.

Import shares 2007

	Share of final deliveries	Direct	Indirect	Total
Total final deliveries	1.000	7.5	16.2	23.7
Consumption	0.493	11.7	9.8	21.5
Consumption by households and non-profit organisations ¹	0.337	17.2	9.8	27.0
Food products and beverages	0.052	11.4	13.2	24.6
Energy products etc.	0.021	6.9	5.5	12.4
Own vehicles	0.016	33.8	2.7	36.5
Miscellaneous goods	0.071	32.2	7.9	40.1
Dwellings	0.048	0.3	5.6	5.9
Other services	0.108	2.0	14.9	16.9
Norwegians' consumption abroad	0.020	100.0	0.0	100.0
Public consumption	0.157	7.4	2.2	9.6
New investment	0.153	19.3	17.5	36.8
By type:				
Buildings and infrastructure	0.077	0.5	19.9	20.4
Ships	0.010	31.7	24.9	56.6
Other types	0.066	35.3	15.1	50.4
By industry:				
Mainland Norway	0.122	18.1	16.5	34.6
Manufacturing	0.011	34.8	12.7	47.5
Other goods-producing industries	0.007	27.7	16.5	44.2
Public administration	0.022	12.1	19.0	31.1
Housing	0.030	0.5	19.4	19.9
Other service industries	0.052	25.6	14.8	40.4
Production and pipeline transport	0.040	20.7	17.4	38.1
Shipping	0.007	31.7	24.4	56.1
Exports	0.353	1.6	19.5	21.1
Traditional goods	0.106	5.2	30.2	35.4
Oil and natural gas	0.171	0.0	5.6	5.6
Other goods	0.002	0.0	33.8	33.8
Shipping etc.	0.042	0.2	47.7	47.9
Other services	0.034	0.6	18.4	19.0

¹ Households' consumption is calculated the adjustment items Norwegians' consumption abroad and foreigners consumption in Norway included.

The last-mentioned adjustment item is therefore extracted from the final supply of exports. The sale of second hand real capital is also removed from exports.

Source: Statistics Norway. Foreign trade.

Table 5. **National accounts: Final expenditure and gross domestic product. At constant 2007 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2008	2009	08.1	08.2	08.3	08.4	09.1	09.2	09.3	09.4
Final consumption expenditure of households and NPISHs	951 832	952 150	240 839	239 254	236 817	234 504	234 092	236 474	239 411	242 530
Household final consumption expenditure	913 602	912 575	231 336	229 614	227 240	225 016	224 383	226 668	229 464	232 366
Goods	467 414	465 671	118 831	118 283	115 783	113 903	113 089	114 985	117 511	120 106
Services	413 072	416 246	102 960	103 134	103 357	103 604	103 288	103 954	104 446	104 695
Direct purchases abroad by resident households	59 614	55 143	16 254	14 916	14 517	14 174	14 076	13 763	13 513	13 961
Direct purchases by non-residents	-26 499	-24 485	-6 710	-6 719	-6 416	-6 665	-6 069	-6 033	-6 006	-6 396
Final consumption expenditure of NPISHs	38 230	39 575	9 502	9 639	9 576	9 487	9 709	9 806	9 946	10 164
Final consumption expenditure of general government	464 633	488 757	114 644	115 654	116 821	117 504	119 834	121 631	123 087	123 232
Final consumption expenditure of central government	240 672	253 821	59 374	59 863	60 413	61 022	62 114	63 234	63 682	64 399
Central government, civilian	208 565	221 448	51 495	51 814	52 390	52 845	54 068	54 918	55 593	56 489
Central government, defence	32 107	32 373	7 880	8 049	8 023	8 177	8 046	8 315	8 089	7 909
Final consumption expenditure of local government	223 961	234 936	55 270	55 791	56 408	56 482	57 720	58 397	59 405	58 834
Gross fixed capital formation	510 898	470 365	126 674	127 613	129 558	126 786	120 893	120 244	114 328	114 696
Extraction and transport via pipelines	112 247	119 468	27 505	27 136	28 746	28 832	32 734	29 957	27 800	28 978
Service activities incidental to extraction	-421	6	11	-25	-233	-174	-198	-76	218	63
Ocean transport	19 961	17 811	5 219	5 040	4 488	5 257	3 635	4 714	5 098	4 392
Mainland Norway	379 112	333 079	93 939	95 463	96 557	92 870	84 722	85 649	81 213	81 262
Mainland Norway excluding general government	304 497	256 465	76 880	77 995	75 646	73 786	67 565	66 307	62 252	60 340
Industries	216 226	184 870	53 721	55 487	53 460	53 401	48 146	48 113	44 868	43 642
Manufacturing and mining	34 165	24 236	8 153	8 824	8 519	8 713	7 073	6 889	5 300	4 998
Production of other goods	38 217	34 649	9 491	10 064	9 810	8 805	8 329	8 987	9 379	7 982
Services	143 844	125 985	36 077	36 599	35 131	35 882	32 744	32 237	30 189	30 661
Dwellings (households)	88 270	71 595	23 159	22 508	22 187	20 385	19 419	18 194	17 384	16 698
General government	74 615	76 614	17 059	17 467	20 911	19 085	17 157	19 342	18 961	20 923
Changes in stocks and statistical discrepancies	43 185	329	12 900	9 135	14 780	4 712	1 387	1 398	-641	-1 910
Gross capital formation	554 083	470 694	139 573	136 749	144 338	131 498	122 280	121 643	113 687	112 786
Final domestic use of goods and services	1 970 547	1 911 601	495 056	491 656	497 976	483 506	476 206	479 748	476 185	478 548
Final demand from Mainland Norway	1 795 576	1 773 986	449 421	450 370	450 195	444 878	438 648	443 754	443 711	447 024
Final demand from general government	539 248	565 371	131 703	133 121	137 732	136 588	136 991	140 973	142 048	144 155
Total exports	1 049 134	1 004 472	263 534	266 874	256 620	261 031	251 913	244 512	252 618	255 052
Traditional goods	315 309	290 660	79 768	80 483	80 092	74 737	70 084	69 889	75 356	75 307
Crude oil and natural gas	470 254	463 908	119 461	118 322	112 296	119 682	118 220	112 182	117 420	116 009
Ships, oil platforms and planes	14 215	14 062	2 507	3 361	4 700	3 646	4 939	3 349	2 801	2 972
Services	249 356	235 843	61 797	64 708	59 531	62 966	58 669	59 091	57 041	60 764
Total use of goods and services	3 019 681	2 916 072	758 589	758 530	754 596	744 537	728 119	724 260	728 802	733 600
Total imports	706 843	638 454	180 616	178 702	179 029	167 963	155 592	158 497	159 961	164 189
Traditional goods	456 080	396 124	119 107	116 479	114 536	105 380	99 284	98 125	99 733	99 050
Crude oil and natural gas	3 685	4 830	594	730	591	1 836	616	811	1 838	1 565
Ships, oil platforms and planes	28 969	23 405	6 477	6 845	9 030	6 617	4 492	6 580	5 603	6 729
Services	218 109	214 095	54 438	54 648	54 873	54 130	51 200	52 981	52 787	56 844
Gross domestic product (market prices)	2 312 838	2 277 618	577 973	579 828	575 566	576 574	572 526	565 763	568 841	569 411
Gross domestic product Mainland Norway (market prices)	1 762 458	1 736 505	439 161	442 540	441 876	436 419	432 437	432 930	434 386	435 747
Petroleum activities and ocean transport	550 380	541 113	138 813	137 288	133 690	140 155	140 089	132 833	134 456	133 665
Mainland Norway (basic prices)	1 504 957	1 487 463	374 011	377 408	378 177	374 165	370 393	370 950	371 897	373 048
Mainland Norway excluding general government	1 172 909	1 145 872	291 368	295 386	294 719	290 540	286 199	285 916	286 429	287 087
Manufacturing and mining	214 001	201 300	52 841	54 989	53 778	52 395	50 347	49 620	50 345	50 843
Production of other goods	174 377	167 770	43 269	43 979	44 253	42 708	41 941	40 562	42 448	42 812
Services incl. dwellings (households)	784 531	776 802	195 258	196 417	196 688	195 437	193 911	195 733	193 636	193 431
General government	332 048	341 592	82 643	82 022	83 458	83 625	84 194	85 035	85 468	85 961
Taxes and subsidies products	257 501	249 041	65 149	65 132	63 700	62 254	62 044	61 979	62 489	62 698

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. At constant 2007 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2008	2009	08.1	08.2	08.3	08.4	09.1	09.2	09.3	09.4
Final consumption expenditure of households and NPISHs	1.3	0.0	0.7	-0.7	-1.0	-1.0	-0.2	1.0	1.2	1.3
Household final consumption expenditure	1.2	-0.1	0.6	-0.7	-1.0	-1.0	-0.3	1.0	1.2	1.3
Goods	-0.2	-0.4	-0.1	-0.5	-2.1	-1.6	-0.7	1.7	2.2	2.2
Services	2.0	0.8	0.4	0.2	0.2	0.2	-0.3	0.6	0.5	0.2
Direct purchases abroad by resident households	6.3	-7.5	7.1	-8.2	-2.7	-2.4	-0.7	-2.2	-1.8	3.3
Direct purchases by non-residents	0.0	-7.6	-0.8	0.1	-4.5	3.9	-8.9	-0.6	-0.4	6.5
Final consumption expenditure of NPISHs	3.0	3.5	2.0	1.4	-0.7	-0.9	2.3	1.0	1.4	2.2
Final consumption expenditure of general government	4.1	5.2	1.1	0.9	1.0	0.6	2.0	1.5	1.2	0.1
Final consumption expenditure of central government	3.3	5.5	1.1	0.8	0.9	1.0	1.8	1.8	0.7	1.1
Central government, civilian	3.4	6.2	1.2	0.6	1.1	0.9	2.3	1.6	1.2	1.6
Central government, defence	2.8	0.8	0.3	2.2	-0.3	1.9	-1.6	3.3	-2.7	-2.2
Final consumption expenditure of local government	4.8	4.9	1.0	0.9	1.1	0.1	2.2	1.2	1.7	-1.0
Gross fixed capital formation	1.4	-7.9	-5.0	0.7	1.5	-2.1	-4.6	-0.5	-4.9	0.3
Extraction and transport via pipelines	3.7	6.4	-0.7	-1.3	5.9	0.3	13.5	-8.5	-7.2	4.2
Service activities incidental to extraction	..	..	..	..	..	..	..	..	..	..
Ocean transport	29.3	-10.8	67.4	-3.4	-11.0	17.2	-30.9	29.7	8.1	-13.8
Mainland Norway	1.0	-12.1	-7.4	1.6	1.1	-3.8	-8.8	1.1	-5.2	0.1
Mainland Norway excluding general government	0.1	-15.8	-3.5	1.5	-3.0	-2.5	-8.4	-1.9	-6.1	-3.1
Industries	6.1	-14.5	-2.9	3.3	-3.7	-0.1	-9.8	-0.1	-6.7	-2.7
Manufacturing and mining	10.2	-29.1	-9.2	8.2	-3.5	2.3	-18.8	-2.6	-23.1	-5.7
Production of other goods	17.3	-9.3	16.2	6.0	-2.5	-10.2	-5.4	7.9	4.4	-14.9
Services	2.5	-12.4	-5.5	1.4	-4.0	2.1	-8.7	-1.5	-6.4	1.6
Dwellings (households)	-12.1	-18.9	-4.8	-2.8	-1.4	-8.1	-4.7	-6.3	-4.5	-3.9
General government	4.7	2.7	-21.8	2.4	19.7	-8.7	-10.1	12.7	-2.0	10.3
Changes in stocks and statistical discrepancies	31.8	-99.2	37.7	-29.2	61.8	-68.1	-70.6	0.8	-145.9	197.8
Gross capital formation	3.2	-15.0	-2.1	-2.0	5.5	-8.9	-7.0	-0.5	-6.5	-0.8
Final domestic use of goods and services	2.5	-3.0	0.0	-0.7	1.3	-2.9	-1.5	0.7	-0.7	0.5
Final demand from Mainland Norway	1.9	-1.2	-1.0	0.2	0.0	-1.2	-1.4	1.2	0.0	0.7
Final demand from general government	4.1	4.8	-2.6	1.1	3.5	-0.8	0.3	2.9	0.8	1.5
Total exports	0.9	-4.3	0.3	1.3	-3.8	1.7	-3.5	-2.9	3.3	1.0
Traditional goods	4.3	-7.8	0.9	0.9	-0.5	-6.7	-6.2	-0.3	7.8	-0.1
Crude oil and natural gas	-2.0	-1.3	1.8	-1.0	-5.1	6.6	-1.2	-5.1	4.7	-1.2
Ships, oil platforms and planes	11.5	-1.1	-0.1	34.1	39.8	-22.4	35.5	-32.2	-16.4	6.1
Services	1.9	-5.4	-3.0	4.7	-8.0	5.8	-6.8	0.7	-3.5	6.5
Total use of goods and services	1.9	-3.4	0.1	0.0	-0.5	-1.3	-2.2	-0.5	0.6	0.7
Total imports	2.2	-9.7	-0.1	-1.1	0.2	-6.2	-7.4	1.9	0.9	2.6
Traditional goods	-0.4	-13.1	1.4	-2.2	-1.7	-8.0	-5.8	-1.2	1.6	-0.7
Crude oil and natural gas	-36.0	31.1	-67.4	22.9	-19.1	210.7	-66.5	31.7	126.7	-14.8
Ships, oil platforms and planes	47.0	-19.2	-14.5	5.7	31.9	-26.7	-32.1	46.5	-14.8	20.1
Services	4.9	-1.8	0.8	0.4	0.4	-1.4	-5.4	3.5	-0.4	7.7
Gross domestic product (market prices)	1.8	-1.5	0.2	0.3	-0.7	0.2	-0.7	-1.2	0.5	0.1
Gross domestic product Mainland Norway (market prices)	2.2	-1.5	-0.1	0.8	-0.1	-1.2	-0.9	0.1	0.3	0.3
Petroleum activities and ocean transport	0.6	-1.7	0.9	-1.1	-2.6	4.8	0.0	-5.2	1.2	-0.6
Mainland Norway (basic prices)	2.7	-1.2	0.2	0.9	0.2	-1.1	-1.0	0.2	0.3	0.3
Mainland Norway excluding general government	2.5	-2.3	-0.3	1.4	-0.2	-1.4	-1.5	-0.1	0.2	0.2
Manufacturing and mining	2.3	-5.9	-0.5	4.1	-2.2	-2.6	-3.9	-1.4	1.5	1.0
Production of other goods	3.4	-3.8	2.1	1.6	0.6	-3.5	-1.8	-3.3	4.7	0.9
Services incl. dwellings (households)	2.4	-1.0	-0.7	0.6	0.1	-0.6	-0.8	0.9	-1.1	-0.1
General government	3.5	2.9	1.6	-0.8	1.8	0.2	0.7	1.0	0.5	0.6
Taxes and subsidies products	-0.7	-3.3	-1.5	0.0	-2.2	-2.3	-0.3	-0.1	0.8	0.3

Source: Statistics Norway.

Table 7. **National accounts: Final expenditure and gross domestic product. Price indices. 2007=100**

	Unadjusted		Seasonally adjusted							
	2008	2009	08.1	08.2	08.3	08.4	09.1	09.2	09.3	09.4
Final consumption expenditure of households and NPISHs	103.7	106.3	102.2	102.8	104.2	105.5	105.7	106.5	106.4	106.0
Final consumption expenditure of general government	105.9	109.4	103.2	104.4	106.7	109.1	108.9	109.4	109.8	109.6
Gross fixed capital formation	106.1	109.6	102.8	105.0	107.0	109.5	108.4	109.5	111.2	109.6
Mainland Norway	105.1	108.0	102.8	104.1	105.7	107.6	107.2	108.0	108.9	108.2
Final domestic use of goods and services	104.3	107.8	103.6	103.1	105.3	105.4	107.2	107.1	108.1	107.3
Final demand from Mainland Norway	104.6	107.5	102.6	103.5	105.2	106.9	106.9	107.6	107.8	107.4
Total exports	116.5	100.1	112.7	120.4	120.0	112.5	101.4	100.4	98.9	99.3
Traditional goods	102.4	95.8	97.4	100.5	106.4	105.2	96.6	95.3	97.5	94.3
Total use of goods and services	108.6	105.1	106.8	109.2	110.3	107.9	105.2	104.8	104.9	104.5
Total imports	104.0	103.0	101.5	102.8	104.5	107.6	104.9	104.5	103.7	99.2
Traditional goods	104.6	103.3	101.4	103.4	105.3	108.5	106.1	103.9	102.9	100.3
Gross domestic product (market prices)	110.0	105.7	108.4	111.1	112.1	108.0	105.2	104.9	105.3	106.1
Gross domestic product Mainland Norway (market prices)	103.2	106.8	101.7	102.2	104.1	104.1	105.1	106.3	106.8	107.4

Source: Statistics Norway.

Table 8. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted							
	2008	2009	08.1	08.2	08.3	08.4	09.1	09.2	09.3	09.4
Final consumption expenditure of households and NPISHs	3.7	2.5	1.4	0.6	1.4	1.2	0.2	0.7	0.0	-0.4
Final consumption expenditure of general government	5.9	3.4	1.3	1.2	2.2	2.3	-0.2	0.4	0.4	-0.1
Gross fixed capital formation	6.1	3.3	1.3	2.1	1.9	2.4	-1.0	1.0	1.6	-1.5
Mainland Norway	5.1	2.8	1.1	1.3	1.5	1.8	-0.4	0.7	0.8	-0.6
Final domestic use of goods and services	4.3	3.3	3.1	-0.5	2.2	0.1	1.6	-0.1	1.0	-0.8
Final demand from Mainland Norway	4.6	2.8	1.3	0.9	1.6	1.6	0.0	0.6	0.2	-0.4
Total exports	16.5	-14.1	5.4	6.9	-0.3	-6.3	-9.9	-1.0	-1.4	0.4
Traditional goods	2.4	-6.5	-1.9	3.3	5.8	-1.1	-8.2	-1.3	2.3	-3.3
Total use of goods and services	8.6	-3.2	3.9	2.3	1.1	-2.2	-2.6	-0.3	0.1	-0.4
Total imports	4.0	-1.0	2.0	1.3	1.7	3.0	-2.5	-0.4	-0.8	-4.4
Traditional goods	4.6	-1.2	2.9	2.0	1.8	3.0	-2.3	-2.0	-1.0	-2.5
Gross domestic product (market prices)	10.0	-3.8	4.5	2.5	0.9	-3.7	-2.6	-0.3	0.4	0.8
Gross domestic product Mainland Norway (market prices)	3.2	3.5	0.9	0.4	1.9	0.1	0.9	1.1	0.5	0.5

Source: Statistics Norway.