Economic survey

Perspectives

After over four years of strong growth, the Norwegian economy experienced a pronounced turnaround at the beginning of 2008. Mainland economic growth slowed appreciably as a result of both weaker global developments and capacity restraints in the Norwegian economy. Until the early autumn of 2008 most projections – including Statistics Norway's own – pointed to a soft landing for the Norwegian economy. Then, however, problems in global financial markets escalated dramatically, particularly after US investment bank Lehman Brothers filed for bankruptcy in mid-September. From this point on, the outlook for both the Norwegian and the international economy deteriorated rapidly.

The global economy is now in a deep financial crisis, and the problems have spread to the real economy. Asset prices worldwide have fallen dramatically. A number of large banks and financial institutions have gone bankrupt, while others have been taken over or bailed out by the government. Important lines of credit have dried up as a result of financial institutions' need to trim their balance sheets and the fact that lenders are less willing to take risks. This constrains consumption and pushes down investment and economic activity. The economic backlash is predicted by many to be the worst since the 1930s. Although hit less hard than most countries, Norway will not escape untouched. At the end of last year, mainland output dropped, while unemployment increased appreciably.

Serious problems in the financial sector have been building up over a long period. It is difficult to acquire a full overview of the causal relationships, but some central mechanisms appear clear. The crisis must be viewed against the backdrop of a long period of strong economic growth. During this period, major global imbalances have developed, with substantial debt build-up in some countries, like the US, and correspondingly large, persistent current account surpluses in other regions, like China. As a result, interest rates in OECD countries have remained low for a long period. China's rapid integration into world trade has also led to the traditional industrial countries importing goods at low prices, causing a supply-side shock for OECD countries. In countries with an inflation-targeting monetary policy, the key rate has been lowered, further stimulating demand. Borrowing and debt build-up have escalated.

The period of sustained high economic growth combined with low interest rates paved the way for strong financial sector expansion and the development of new, complex loan products. US financial institutions spearheaded these developments, partly through lax lending in the subprime market, where specialized credit institutions extended loans to high-risk groups, i.e. borrowers with a weak credit history and uncertain ability to pay. Lending was based largely on the assumption that housing market values would continue to rise. These mortgages were then ”packaged” and resold in several rounds and many variations, often accompanied by insurance transactions.

The risk was spread globally through international capital markets. The overall result was vast inflation of financial institutions' balance sheets.

The new financial products were marketed as virtually risk-free, or with very limited risk. Asymmetrical bonus programmes and other incentive schemes for brokers and decision-makers encouraged more risk-taking. When the turnaround came in the housing and property market, the heavy risk in subprime mortgages and related instruments was revealed.

The substantial growth in asset prices and credit extension in the 2000s brings to mind the lead-up to previous financial crises. In good times, investors take risk by investing in assets using borrowed money. This investment activity gives impetus to the upturn. Banks and credit institutions are willing to give loans because higher asset prices ostensibly increase the solidity of the collateral. But bubbles burst. A fall in asset prices may be a triggering factor. The return on investments is too low in relation to interest expenses. Loan losses due to many parties failing to settle their debts lead to a credit crunch. Investors with a heavy loan burden are compelled to sell assets; at the same time it becomes more difficult for companies to raise fresh capital. This affects the real economy. The negative spiral is amplified by weaker expectations regarding future developments which, in isolation, curb lenders' willingness to invest and to take risks. Over-optimism gives way to pessimism.

Smoothly functioning capital markets have been an important prerequisite for the rise in prosperity experienced by many countries in the last few decades. Free movement of capital allows capital to be allocated to profitable projects, across countries, and to smooth consumption over time. At the same time, history shows that financial bubbles and other mechanisms that destabilize the economic system can develop in financial markets. Up to the 1940s, global capital markets were subject to very little regulation. The financial crisis unleashed by the stock market crash of 1929 and which led to the depression of the 1930s, was one reason that economists like John Maynard Keynes gained support for alternative economic theories that promoted more active government involvement, both in controlling demand and in regulating capital markets. Global coordination of economic policy came about gradually, partly through the Bretton Woods Agreement, whereby restrictions were placed on capital flows across countries in order to achieve foreign exchange market stability. After the collapse of the Bretton Woods system and the credit liberalization of the 1970s and 1980s, most countries initially oriented their monetary policy towards maintaining fixed or stable exchange rates. However, the emphasis on stable exchange rates made it difficult to conduct an autonomous monetary policy, and in the 1990s policies were re-oriented to place greater emphasis on free capital markets and floating exchange rates.

The financial crisis the world is now experiencing will provide new experience on which to base the formulation of economic policy. One obvious lesson is that a new regulatory regime and better supervision are required in the financial sector. The massive expansion of credit during the last upturn occurred to a significant degree outside the traditional, regulated financial system. We have also received an important reminder that formulators of monetary policy face a major challenge in terms of maintaining a balance. Most OECD countries now have either an explicit or an implicit inflation target for their monetary policy. These regimes are based on the assumption that inflation expectations that are firmly anchored at a low level contribute to balanced economic developments. However, the events of recent years show that major imbalances may build up in the economy even with relatively low inflation and stable inflation expectations. Long-term high or low nominal interest rate levels may affect the stability of the capital market and various asset markets. The solution to this problem is not to include house or other asset prices in the inflation index. Since asset prices normally fluctuate more than other economic variables, this will make the tuning of monetary policy more difficult. However, interest rate setting that is less ambitious with respect to fine-tuning inflation is worth considering. Interest-rate setting should not be strongly influenced by inflation changes due to supply-side shocks in the economy. There are also significant self-correcting mechanisms for inflation inherent in both wage drift and product markets. Hence a monetary policy that implies less interest rate fluctuations also implies allowing the self-correcting mechanisms in the economy to play a larger part in securing price stability.

The current financial crisis differs from previous crises in that the authorities are now using economic policy actively to limit the effects on the real economy and the labour market. Government budgets in a number of countries are being increased to stimulate demand and maintain the level of activity. Following the asset market collapse of the 1930s, monetary policy was tightened to some extent. Central banks raised interest rates and restricted the liquidity supply. Banks went under and the public lost their savings, thereby exacerbating the depression. This time the crisis is being handled differently. Central banks worldwide have cut their key rates to very low levels and a substantial amount of liquidity has been supplied to credit markets. The authorities have also provided guarantees for bank deposits, thereby averting mass withdrawals by the general public.

The economic crisis of the 1930s was prolonged and aggravated by the implementation of a number of protectionist measures, amongst other things higher tariff rates. In the current situation, the authorities appear to have deliberately avoided similar errors so far. Nevertheless, now that unemployment is accelerating in many countries it is probable that a number of measures will in fact be established to protect domestic industry at the expense of foreign enterprises. The tendencies are already there. Fiscal stimulus packages are being provided with conditions that they be spent on domestic suppliers, or are designed to avoid import leakage. And in the financial sector there are clear indications that banks and other financial institutions, which have long been operating in a global market, are now concentrating on lending to domestic customers. If these tendencies should grow stronger, it will be a serious danger signal.

The outlook for the international economy is sombre. Activity is falling sharply in many large economies, and unemployment is accelerating at a pace not seen since World War II. There is reason to believe that the global downturn will be both deep and prolonged. The Norwegian economy, however, is well equipped to get through a difficult period. The room for manoeuvre in government finance is now being used to counteract the fall in domestic demand. In addition, a continued high level of petroleum sector activity will stimulate other parts of the business sector. On balance, the rise in unemployment in Norway will probably be moderate compared with other countries, and large groups of employees and households will experience continued income growth in 2009. But the Norwegian economy is not shielded from the problems affecting international financial markets or an expected sharp decline in our export markets. Segments of Norwegian industry and other export-oriented business will be affected. Enterprises will close down, and jobs will be lost. For the next couple of years we may therefore experience a two-track economy. This may create tensions, for example in wage formation. Channelling available resources into new, profitable activities will be an important challenge. Our capacity for economic restructuring will again be put to the test.

Cyclical developments in Norway

The turnaround in the Norwegian economy became gradually more pronounced through 2008. Seasonally adjusted quarterly accounts (QNA) figures show virtually no growth in the Norwegian economy through 2008 measured in terms of mainland GDP. At end-2008 there was actually a slight fall in output. The cyclical peak was reached in the fourth quarter of 2007, so the Norwegian economy was declining throughout 2008 even though annual mainland economic growth was 2.4 per cent as a result of the carry-over from 2007. The financial crisis and international economic developments after mid-September 2008 increased the pace of the cyclical downturn. Money markets have not functioned normally, and stock exchange and commodity prices have fallen sharply. GPD in the US, Japan and the EU all fell substantially towards the end of 2008, thereby influencing the outlook for the Norwegian economy. Export-oriented industries in particular face difficult times. Unemployment has begun to increase in Norway too, but from a very low level. In 2008, Labour

Table 1. **Macroeconomic indicators 2007-2008. Growth from previous period unless otherwise noted. Per cent**

	2007*	2008*	Seasonally adjusted			
			08:1	08:2	08:3	08:4
Demand and output						
Consumption in households etc.	6.0	1.5	0.1	-0.3	-0.7	-0.5
General government consumption	3.4	3.7	0.8	0.8	1.3	1.0
Gross fixed investment	8.4	3.3	-3.6	-0.1	2.0	-0.9
Mainland Norway	9.3	1.9	-6.9	0.5	1.7	-3.1
Extraction and transport via pipelines	5.5	7.1	1.6	-2.1	3.9	6.5
Final domestic demand from Mainland Norway[1]	6.0	2.1	-1.2	0.1	0.3	-0.6
Exports	2.5	0.9	-0.3	-0.9	-1.1	2.1
Crude oil and natural gas	-2.6	-2.3	0.8	-2.6	-2.9	6.5
Traditional goods	8.7	4.8	1.0	0.5	-0.2	-3.5
Imports	7.5	4.2	-1.4	-0.7	2.2	-4.7
Traditional goods	6.7	3.2	1.0	-1.6	0.8	-3.2
Gross domestic product	3.1	2.0	0.0	0.1	-0.7	1.3
Mainland Norway	6.1	2.4	-0.3	0.5	0.3	-0.2
Labour market						
Man-hours worked	4.4	3.5	0.8	0.7	0.6	-0.6
Employed persons	4.1	3.2	0.7	0.8	0.7	-0.4
Labour force[2]	3.2	3.3	0.8	0.8	0.6	0.1
Unemployment rate, level[3]	2.5	2.6	2.5	2.5	2.4	2.9
Prices and wages						
Wages per standard man-year[4]	5.6	5.7	5.1	5.6	6.0	6.0
Consumer price index (CPI)[4]	0.8	3.8	3.5	3.2	4.7	3.6
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[4]	1.4	2.6	2.1	2.4	2.9	2.9
Export prices, traditional goods	2.5	2.3	-1.5	2.8	7.4	-5.1
Import prices, traditional goods	3.7	3.2	2.7	1.8	2.2	-1.3
Balance of payment						
Current balance, bill. NOK	362.3	448.9	101.0	122.2	117.2	108.4
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	5.0	6.2	5.9	6.4	6.6	6.0
Lending rate, banks[5]	5.7		6.8	7.2	7.6	
Crude oil price NOK[6]	423.4	526.8	516.4	616.8	609.5	375.2
Importweighted krone exchange rate, 44 countries, 1995=100	90.8	90.8	88.4	87.3	89.1	98.4
NOK per euro	8.02	8.22	7.96	7.94	8.06	8.92

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] Unemployed (Labour Force Survey) and employment (NA) excl. maritime personnel in ocean transport.
[3] According to Statistics Norway›s labour force survey (LFS).
[4] Percentage change from the same period the previous year.
[5] Period averages.
[6] Average spot price, Brent Blend.
Source: Statistics Norway and Norges Bank.

Market Survey (LFS) unemployment was measured at only 2.6 per cent – approximately the same as the previous year. Unemployment bottomed out in spring 2008. A marked increase in unemployment was first evident at the end of 2008. The slowdown in the Norwegian economy is now manifesting itself on a broad front and points towards a pronounced downturn.

The turnaround in the Norwegian economy began with the decline in housing investment According to the QNA, the peak appears to have been early in 2007, but only in 2008 did the fall in housing investment become appreciable. A decline in purchases of consumer durables followed, bringing the turnaround in consumption clearly into evidence in 2008. Business sector investment has moved on a weak trend in the past couple of quarters, following a very strong rise through 2007. Exports of traditional goods remained buoyant despite weak developments internationally. A pronounced turnaround first became evident towards the end of 2008. However, the Norwegian economy has received impetus from increasing petroleum investment and growth in public sector purchases of goods and services through 2007 and 2008. As a result, output developments in Norway were still more favourable than in most OECD countries towards the end of 2008. Employment growth continued right up to the third quarter of last year, albeit at a definitely slower pace than previously, and fell a little towards the end of 2008.

Inflation has picked up in Norway. A sharp rise in energy prices contributed strongly to the fact that the consumer price inflation, measured by the CPI, rose substantially more in 2008 than in 2007, when inflation was very low. The rise in energy prices has also fed through to other prices. The rise in prices excluding energy products thus increased concurrently with the cyclical upturn and high cost inflation. The rise in CPI-ATE inflation (CPI adjusted for tax changes and excluding energy products) has been higher than the inflation target since the summer. Seasonally adjusted figures show that inflation peaked in July 2008. It then declined somewhat, so that annualized CPI-ATE inflation was 2.6 per cent in 2008, while the overall rise in consumer prices was as much as 3.8 per cent. Part of the decline in the CPI-ATE in autumn 2008 is assumed to be due to the cyclical downturn and early seasonal sales. The sharp depreciation of the krone through autumn 2008 does not appear to be reflected in monthly figures before the January 2009 index.

The world now appears to be facing the most severe cyclical downturn in the global economy since World War II. A small, open economy like Norway will be strongly affected by it. Some of our traditional export industries will be particularly hard hit. A number of factors may mitigate the effect of the global downturn on the Norwegian economy. Norway has policy rules designed to curb the impact of a downturn. In the short term, the substantial weakening of the krone exchange rate has led to export firms obtaining higher prices in NOK than in foreign currency, thereby dampening the effects of the international downturn. This advantage will gradually be eroded as the krone continues to appreciate, as we assume it will do. Automatic fiscal stabilizers also contribute to curbing the impact of a downturn. Nevertheless, without the change to an expansionary monetary and fiscal policy, developments in Norway would have been characterized by a stronger increase in unemployment and more pronounced decline in mainland GDP in 2009 than we now expect. The high petroleum investment will also help to dampen the contraction in the Norwegian economy this year. Although the oil price has fallen considerably, the production of petroleum products will not be affected by the cyclical situation in the short term. This will contribute to a stabilization of the Norwegian economy compared with countries in which a large and often labour-intensive manufacturing sector dominates the export sector. Should low oil prices and financial market problems cause the oil companies to substantially cut investment, however, the economic situation in Norway will deteriorate. In such case, developments in Norway may be more similar to the sharp downturn the OECD area is now experiencing.

The stimulus imparted by economic policy is substantially curbing the cyclical downturn in Norway. The rise in unemployment is projected to be approximately as in the previous downturn five years ago. Because of the extensive inward labour migration, it is now more difficult than previously to project developments in unemployment. Some of the foreign nationals who have worked in Norway recently may return home because of economic developments, but it is not easy to estimate how many will do so. The labour market situation in Norway will certainly become more difficult, but this will also apply to most other European countries. As a result, returning to the home country may not be an obvious choice. The population figures on which we base our labour force projection still assume high inward migration, even though we have made a slight discretionary downward revision of inward labour migration for the next couple of years. Developments in inward migration in 2008 appear to be consistent with this assessment.

Inflation will remain high for some quarters to come, but we believe it will fall through 2009. Given a far weaker labour market and poorer profitability in wage-leading industries, wage growth can be expected to decline appreciably through 2009. We have assumed that the global cyclical downturn will be deep and will continue through 2010. Consequently there are no grounds for expecting a significant rise in commodity prices before 2011. The profitability of Norwegian export companies, and accordingly wage growth, are therefore likely to be moderate in 2010 and 2011 as well. This will also push down consumer price inflation in the period ahead.

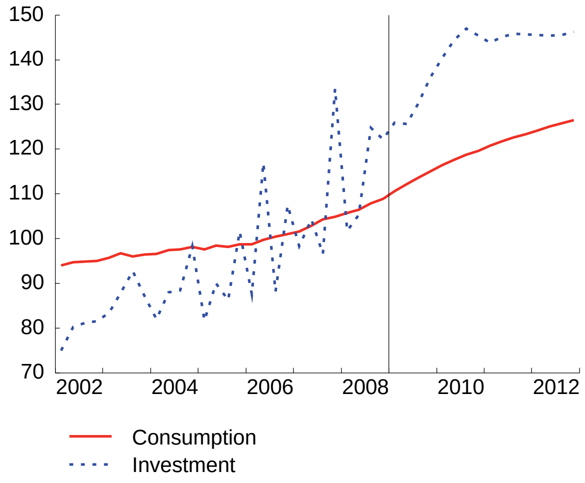
Fiscal policy – strong impulses ahead

Growth in public purchases of goods and services was approximately 4 per cent in both 2007 and 2008, while the tax level did not change substantially. Thus fiscal policy provided moderate positive growth impulses to the Norwegian economy during those two years. Unchanged tax rates maintained the automatic stabilizers during the expansion, and curbed growth. This also substantially improved the current budget balance, so that the non-oil government accounts were almost in balance in 2007 and showed only a moderate deficit in 2008. Real growth in transfers to households has also been moderate in recent years, thereby improving the current budget balance.

At the end of January, fiscal policy for 2009 was shifted in an expansionary direction in the light of prospects of a sharp cyclical downturn. The Government presented Storting Proposition no. 37 (2008-2009) *Changes in the Government Budget for 2009 with measures to secure employment* which proposes increased allocations to both consumption and investment in addition to revisions of some tax programmes, with an overall framework of approximately NOK 20 billion. Almost NOK 17 billion of this amount consists of spending on consumption and investment, while NOK 3 billion will go to corporate tax relief. No changes in personal taxation have been proposed. The Storting deliberation on the package will probably result in some minor adjustments to the tax programme, but not change the broad outlines of the government proposal. The fiscal policy package supplements a relatively expansionary government budget for 2009 and a number of economic stimulus packages associated with the banking and credit system, the last of which was presented on 8 February. We are now basing our projections for fiscal policy in 2009 on the figures in the proposition. This means that we assume there will be no major changes in fiscal policy for 2009 beyond those already adopted. According to the proposition, the projections for 2009 imply a structural non-oil budget deficit of approximately NOK 119 billion. In constant prices, this is just over NOK 43 billion higher than in 2008, and according to Storting Proposition no. 37 equivalent to a 2.3 per cent increase in trend mainland GDP.

With prospects of continued weak economic growth in Norway, an expansionary fiscal policy is likely to be maintained and loosened further in 2010. We assume that there will be a certain shift in the composition of public sector purchases towards greater emphasis on investment and somewhat less growth in spending on consumption. This shift is based on the assumption that investment activities require more time-consuming planning, and therefore cannot be implemented as rapidly as maintenance activities. The projections for 2010 are also influenced by the fact that from autumn 2009 and to the end of 2011 the Norwegian Armed Forces are to purchase new helicopters and transport aircraft for a total of almost NOK 10 billion. The Armed Forces will take delivery of the last frigate in 2010 according to the projections, and public investment in 2010 and 2011 will decline accordingly. Non-military investment is expected to increase somewhat into 2011.

Figure 1. **General government. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

We assume that fiscal policy will remain expansionary but not be relaxed further in 2011 and 2012. Consumer spending will then grow more in line with assumed trend growth in the Norwegian economy, and the investment level will remain high but not increase. Our assumptions are based on direct and indirect taxes adjusted for inflation throughout the period. Our projections imply a further increase in the structural government budget deficit in relation to the 4 per cent rule in 2010. On the basis of our assumptions concerning a rise in the oil price from the current level, the Government Petroleum Fund – Global will increase so much that excess spending according to the 4 per cent rule will decline slightly in 2011 and 2012, but not enough to return it to this path in 2012.

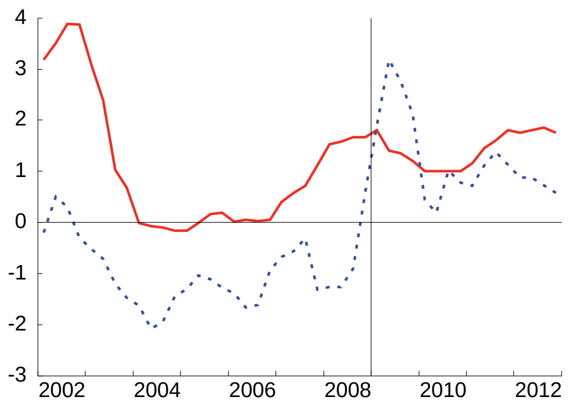
Low interest rates ahead

The crisis affecting world financial markets and the sombre cyclical outlook, also for the Norwegian economy, are colouring monetary policy. Norges Bank has already substantially lowered its key policy rate and is expected to cut it further before the summer.

Norges Bank's setting of interest rates aims to stabilize inflation while promoting stable developments in output and employment. The operational target of monetary policy is annual consumer price inflation of close to 2.5 per cent over time. Inflation measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was as low as 0.4 per cent in August 2006. Since then, inflation has gradually picked up. In January, the year-on-year rise in the CPI-ATE was 2.8 %.

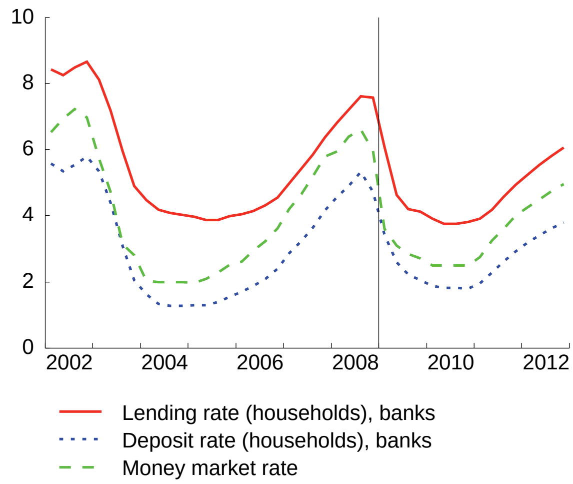
As a result of the financial crisis, the differential between money market rates and the key policy rate has

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



Source: Norges Bank and Statistics Norway.

Figure 3. **Norwegian interest rates. Per cent**



Source: Norges Bank and Statistics Norway.

widened. Before the financial crisis, money market rates largely shadowed the policy rate, with a premium of 0.25 percentage point. Since summer 2007, however, the premium has been considerably higher, as result of the turbulence in financial markets. The differential between money market rates and the key rate increased to 2 percentage points in late September/early October, but has since narrowed.

Since the monetary policy committee's interest rate meeting in February, the key rate has been 2.5 per cent. Norges Bank has cut the key rate by a total of 3.25 percentage points since October last year. From the beginning of October to mid-February this year, money market rates have fallen from just under 8 per cent to about 3.5 per cent.

Norges Bank has also implemented measures to strengthen banks' liquidity. The volume of Norges Bank's fixed rate loans (F-loans) has increased, the maturity of these loans has been extended and the collateral banks are required to provide in order to qualify for these loans has been reduced. The Storting has additionally approved loans of government paper to banks, against collateral in bonds, for up to NOK 350 billion. Up to now, loans for slightly over NOK 70 billion have been made.

In February the Government proposed new measures with a framework of NOK 100 billion to ease corporate and household access to loans. Half of the package is to be used to increase banks' core capital, and enable them to lend more money. The other half is to be used to lubricate the bond market through government purchases of corporate bonds.

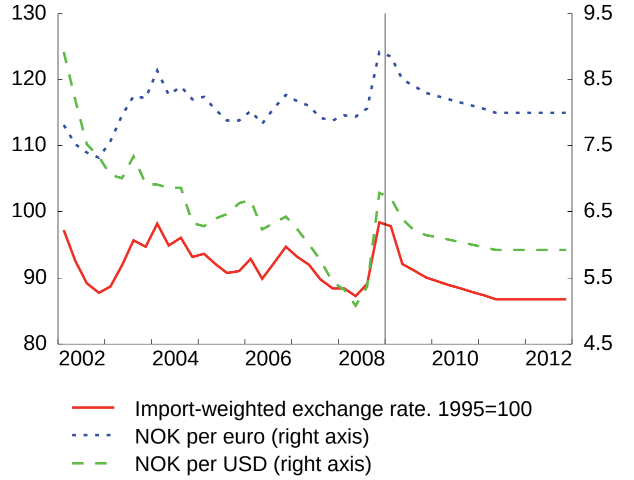
The increased money market turbulence appears to have caused a flight from currencies from small countries, like the Norwegian krone. This caused a sharp depreciation of the krone during the last half of 2008. Whereas one USD cost just over NOK 5 in the summer of 2008, it cost around NOK 7 at year-end. During the same period, the price of a euro rose from around NOK 8 to about NOK 10. Measured by the import-weighted krone exchange rate, where weights are based on the composition of Norwegian imports, the krone depreciated by about 15.5 per cent from June to December 2008. The krone has strengthened since the beginning of the year, particularly against the euro. In mid-February 2008 a euro cost around NOK 8.80.

Domestic credit growth, as measured by 12-month growth in private sector gross debt (C2), was 9.9 per cent in December 2008, the lowest level in five years. Credit growth in non-financial enterprises fell from just over 20 per cent in July 2008 to less than 15 per cent in December 2008. Household debt increased by 7.1 per cent in 2008. This is the lowest 12-month growth since the turn of the century, and is partly attributable to slower growth in activity in the Norwegian economy and lower turnover in the housing market.

We anticipate further interest rate reductions to counter the cyclical downturn. In the period to summer 2008, the key policy rate is expected to be cut from 2.5 per cent to 2 per cent. We envisage that the extraordinarily high premium on the money market rate will be gradually reduced to 0.5 percentage point in the course of 2009, so that the money market rate will be 2.5 per cent at the beginning of 2010. Assuming that the business cycle bottoms out in the first half of 2011, money market rates are expected to increase gradually from 2.5 per cent in the fourth quarter of 2010 to about 5 per cent towards the end of 2012.

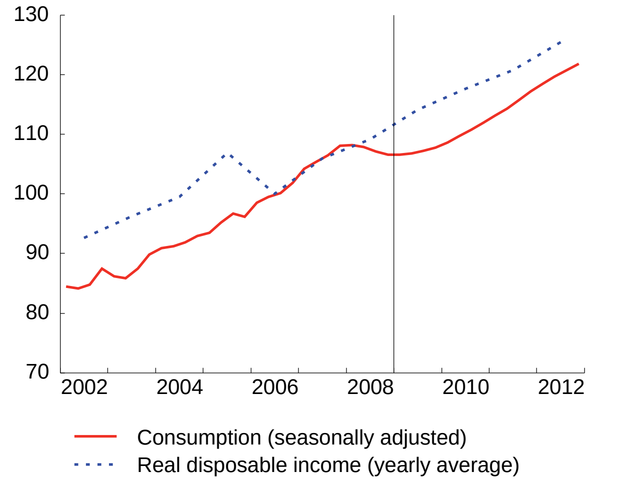
We expect the appreciation of the krone against the euro, which began at the end of 2008, to continue for the next two years, bringing the exchange rate down towards 8.00 in early 2011. At the same time we assume that the Norwegian krone will appreciate somewhat

Figure 4. **Exchange rates**



Source: Norges Bank.

Figure 5. **Income and consumption in households. Volume indices. 2006=100**



Source: Statistics Norway.

more against the US dollar than against the euro, bringing the price of the dollar down to just under NOK 6 in 2011 and 2012.

The Swedish krone and pound sterling have weakened more than the Norwegian krone against the euro recently. These two currencies are expected to appreciate against the euro in the period ahead, but not as much as the Norwegian krone, which will therefore continue to strengthen against both.

On an annual basis, the depreciation of the krone last autumn will outweigh the strengthening we expect this year. The krone will therefore weaken from 2008 to 2009 as an annual average. The weakening against the euro from 2008 to 2009 will be just over 3.5 per cent, while the import-weighted krone exchange rate will be weakened by just over 2 per cent. In 2010 and 2011 the krone will strengthen by about 4.5 per cent and 2 per cent, respectively, against the imported weighted currency basket.

Household consumption unchanged

According to new national accounts figures, the real disposable income of households and non-profit organizations increased by 3.1 per cent in 2008, after growth of as much as 5.9 per cent in 2007. The causes are higher inflation coupled with the cyclical downturn through 2008. As in 2007, household wage income contributed most to income growth, although growth in both real wages and the number employed was weaker in 2008 than the previous year. Public transfers also contributed positively to growth in real disposable income, due to a strong increase in disbursements of pensions and sick pay. However, net interest income detracted from income growth in 2008, due partly to a rise in interest for the year as a whole, and partly to stronger growth in household debt than in interest-bearing assets. The contribution to growth from business earnings was also negative, albeit relatively moderate.

According to the latest national accounts figures, consumption in households and non-profit organizations increased by 1.5 per cent in 2008. By comparison, consumption rose by a full 6 per cent in 2007, which must be viewed in the light of high income growth and low real interest rates through the last cyclical upturn. The low consumption growth in 2008 applied particularly to goods consumption, which fell throughout the year. On an annual basis, goods consumption edged down 0.2 per cent. A steep fall in car purchases since year-end 2007/2008 – which reflects high interest rates, a poor general economic outlook and uncertainty regarding own income – is an important reason for this development. Household consumption growth excluding car purchases was 2.4 per cent in 2008. Consumption of services rose by 2.1 per cent, half the figure for the previous year. The decline in purchases of hotel and restaurant services through the last three quarters of the year significantly pushed down growth in service consumption in 2008, and indicates that the cyclical downturn is affecting consumption of services.

The saving ratio – i.e. saving as a share of disposable income – increased from the historically low level of 0.4 per cent in 2007 to 2.1 per cent in 2008. If purchases of consumer durables, including motor vehicles, are regarded as investment and not consumption, adjusted saving ratios of 3.8 per cent and 4.7 per cent are obtained for 2007 and 2008 respectively.

Growth in household real disposable income is expected to be around 4.5 per cent this year. Weaker growth in household wage income is contributing substantially to dampening income growth, while very much lower interest rates and reduced consumer price inflation are having the opposite effect. Despite favourable income growth, the downturn will continue to influence household consumption in 2009. Given household financial consolidation, which will probably take place in the wake of persistent uncertainty concerning own income

Table 2. **Main economic indicators 2008-2012. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2008	Forecasts							
		2009			2010		2011		2012
		SN	MoF	NB	SN	NB	SN	NB	SN
Demand and output									
Consumption in households etc.	1.5	-0.4	0	3/4	3.1	3	4.3	3 1/4	4.6
General government consumption	3.7	5.3	5 1/4	3 1/2	4.8	..	3.3	..	2.7
Gross fixed investment	3.3	-9.2	-3 1/2	..	-2.7	..	0.9		5.6
Extraction and transport via pipelines[1]	7.1	1.2	7 3/4	10	0.5	5	2.2	0.0	-3.3
Mainland Norway	1.9	-11.5	-7 1/2	-14	-3.4	..	1.9	..	6.5
Industries	6.6	-17.3	-12 1/2	..	-9.8	..	1.5	..	8.5
Housing	-8.9	-17.7	-12	..	-9.9	..	5.8	..	11.4
General government	5.2	12.1	12	..	15.3	..	-0.2	..	-0.5
Demand from Mainland Norway[2]	2.1	-1.1	0	-1 1/4	2.4	1 1/2	3.6	3 3/4	4.4
Stockbuilding[3]	0.2	0.0	..	..	0.0	..	0.0	..	0.0
Exports	0.9	-4.4	-2 1/2	..	-1.4	..	0.7	..	1.2
Crude oil and natural gas	-2.3	-1.9	-2 3/4	..	-0.4	..	-1.1	..	-1.9
Traditional goods[4]	4.8	-6.6	-3	3/4	-1.9	..	3.6	..	5.5
Imports	4.2	-4.4	-1/2	-1 1/4	2.4	..	4.0	..	6.9
Traditional goods	3.2	-6.0	-1 3/4	..	1.9	..	5.7	..	8.0
Gross domestic product	2.0	-1.7	-1/2	1	0.5	2 1/4	1.9	3 1/4	2.1
Mainland Norway	2.4	-1.7	0	1/4	0.9	2 1/2	2.6	3 1/2	3.4
Labour market									
Employed persons	3.2	-0.4	-1	-3/4	-0.2	0	1.0	3/4	1.7
Unemployment rate (level)	2.6	3.7	3 1/2	3 1/4	4.7	4	4.7	4	4.2
Prices and wages									
Wages per standard man-year	5.7	3.8	4 1/4[10]	4 3/4[10]	3.2	4 3/4[10]	3.5	4 3/4[10]	4.3
Consumer price index (CPI)	3.8	1.4	2	3	1.0	2 3/4	2.2	2 1/2	2.7
CPI-ATE[5]	2.6	2.3	2 1/2	3	1.1	2 3/4	2.0	2 1/2	2.6
Export prices, traditional goods	2.3	-4.2	..	..	-2.8	..	3.3	..	5.3
Import prices, traditional goods	3.2	-2.0	..	..	-3.1	..	0.8	..	2.4
Housing prices[6]	-1.1	-12.1	..	..	-2.1	..	3.5	..	7.8
Balance of payment								..	
Current balance (bill. NOK)	448.9	217.7	266	..	186.4	..	218.8	..	238.2
Current balance (per cent of GDP)	17.7	9.3	11	..	7.9	..	8.7	..	8.9
Memorandum items:								..	
Household savings ratio (level)	2.1	7.2	4 1/2	..	7.1	..	5.6	..	4.9
Money market rate (level)	6.2	3.1	3 1/4	4.8	2.5	4.2	3.4	4.5	4.6
Lending rate, banks (level)[7]		4.8	..	..	3.8	..	4.4	..	5.7
Crude oil price NOK (level)[8]	527	293	350	..	324	..	372	..	426
Export markets indicator	1.9	-5.2	..	..	-0.9	..	3.8	..	7.0
Importweighted krone exchange rate (44 countries)[9]	0.0	2.2	5	4 1/2	-4.4	-1	-2.0	- 1/2	-0.2

[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates traditional exports, which also includes some services.
[5] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[6] Freeholder.
[7] Yearly average.
[8] Average spot price, Brent Blend.
[9] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
[10] Årslønn.
Source: Statistics Norway (SN), Ministry of Finance, St.prp. nr. 37 (2008-2009), (MoF), Norges Bank, Pengepolitisk rapport 3+A16/2008 (NB).

and declining wealth as a result of falling house prices, we now expect close to zero consumption growth in the current year. Consumption growth has not been so weak since 1989. In the period 2010-2012, the need for household saving prompted by caution will probably decline in pace with a more favourable economic situation, a brighter outlook and a renewed upswing in house prices. Real disposable income is expected to increase by an annual average of just over 3 per cent in the three years following 2009, while consumption will increase one percentage point more in the same period. At the same time, real interest rates will continue falling until 2011, and wealth will pick up again with rising house prices, which will stimulate consumption. Although prospects for households improve after 2009, our projections imply considerably weaker consumption and income growth compared with the high growth through the last expansion.

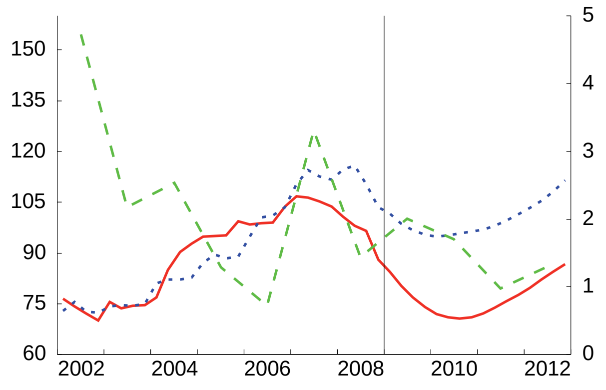
The assumed income and consumption developments imply a rise in the saving ratio from 2.1 per cent last year to just over 7 per cent this year and in 2009, and thereafter a fall to around 5.5 per cent in 2001 and somewhat lower in 2012. The rising level of saving, and continued slowing of housing investment in the next couple of years will be paralleled by positive developments in household net financial investment. Measured in current prices, household net financial investment will increase from a negative level of about NOK 40 billion in 2008 to a positive level of around NOK 35 billion in the current year, increasing to just under NOK 47 billion in 2010. In the last two years of the projection period, net financial investment will fall again to about NOK 33 billion, in pace with a certain decline in saving and a rise in housing investment.

Housing investment continues to fall

The period of strong growth in housing investment from end-2003, driven by high income growth, low real interest rates and a sharp rise in house prices, came to a halt in the second quarter of 2007. Since then, housing investment has fallen markedly. According to preliminary national accounts figures, the fall intensified in the fourth quarter of 2008, by as much as 8.7 per cent. On an annual basis, housing investment fell 8.9 per cent in 2008, as opposed to a rise of 5.3 per cent the previous year. Housing start statistics, the main basis for the national account figures, indicate that the pronounced downward trend through 2007 continued with undiminished effect last year. Housing investment is therefore expected to continue falling through 2008 and into 2010. However, prospects of a more favourable cyclical situation and relatively low real interest rates imply that housing investment will pick up again in the last two years of the projection period.

House prices increased substantially in the period 2004 to 2007, rising by an annual average of close to 11 per cent according to Statistics Norway's house price index for owner-occupier dwellings. Developments in prices for owner-occupier dwellings as a whole reversed in the second quarter of 2008 and fell by no less than 10.6 per cent by the end of the year. The annualized fall in house prices was 1.1 per cent in 2008. Prices for detached houses and small houses fell most, at around 11 per cent, in the period from the second to the fourth quarter of last year. Prices for flats fell by just over 6 per cent in the same period. Prices in this segment of the housing market had already begun to slide in the second quarter of 2007. We now expect prices for owner-occupier dwellings as a whole to continue declining, bringing the fall from the peak level in the second quarter of 2008 to the fourth quarter of this year to almost 20 per cent. Given this quarterly trend, house prices will fall by an annualized average of just over 12 per cent this year. From the first quarter of 2010 and for the remainder of the projection period house prices will rise again, albeit at a moderate rate, in pace with a more favourable economic situation.

Figure 6. **Residential market. Left axis adj. indices. 2006=100. Right axis per cent**



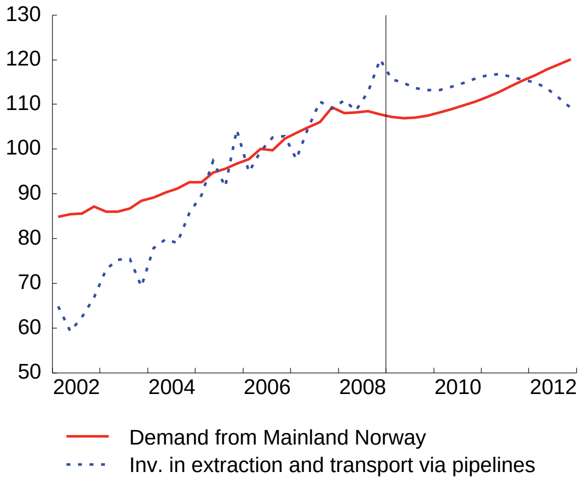
Source: Statistics Norway.

Petroleum investment remains at a high level

Petroleum investment through 2008 was not affected by the downturn. Seasonally adjusted investment figures from the QNA showed increases of 3.9 per cent and 6.8 per cent in the third and fourth quarters respectively. In 2008 as a whole, investment increased by 6.3 per cent. A high oil price during much of the year contributed to greater optimism in the petroleum industry through the first half of the year. The high petroleum investment boosted demand for both labour and real capital, which was reflected in a sharp rise in petroleum industry costs. High costs may constrain the growth of investment in the industry. There may be signs that the strong cost rise has eased. Seasonally adjusted QNA figures showed a fall in prices for capital goods from the third to the fourth quarter of 2008.

Investment in oil and gas recovery platforms contributed in particular to the strong growth in investment in the industry. According to QNA figures, investment increased by 23 per cent, or more than NOK 9 billion.

Figure 7. **Domestic demand. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

Such investment extends the life of large fields like Valhall and Ekofisk. Investment in onshore facilities fell by almost NOK 6 billion from 2007 to 2008, due largely to the completion of onshore facilities at Melkøya (for the Snøhvit field) and Nyhamna (Ormen Lange field).

There has been a strong increase in production and exploration drilling in recent years. As a result of the high oil price, production drilling has received priority over exploration drilling. A scarcity of available drilling rigs has acted as a constraint on growth in drilling activity. New drilling rigs are expected to come onto the market through 2009. Weak oil prices may also lead to the postponement of deepwater projects in the Arctic areas and in Brazil. This will reduce demand for drilling rigs, and will normally result in lower rig rates, so that drilling activity may remain at a high level even with low oil prices. Our projection for investment in production and exploration drilling implies a shift towards exploration during the projection period, with an approximately unchanged level of overall drilling activity.

Investment in pipeline transport fell in 2007 and 2008, and in 2009 is expected to be at about the same level as last year. We assume that work on the Skanled gas pipeline will commence in 2010. The investment is estimated to amount to around NOK 10 billion, and will accordingly push up investment in pipeline transport.

On balance, petroleum investment is projected to rise weakly up to and including 2011 before falling in 2012. There are few expectations of making major new discoveries on the portion of the Norwegian continental shelf that is open for exploration, so investment will largely be associated with existing fields. Tail-end production and development of fields near existing infrastructure are of great importance to petroleum production in the medium range. The global contraction and lower oil price have caused a reduction in our projections compared with those made in spring 2008. In 2009, petroleum investment accounted for just under 6.5 per cent of mainland GDP. This share is expected to remain virtually unchanged for the next two years, and then to fall somewhat.

Box 2.1. **Effects of lower petroleum investment**

In our projections, developments in petroleum investment are an important reason that growth in the Norwegian economy is not harder hit by the global contraction. We consider here the effects of an annual fall in petroleum investment of 15 per cent, viewed in relation to the projection path from and including 2010. In 2012, the investment level is almost 39 per cent lower than in the projection path. The decline is roughly equivalent to the investment fall in the wake of the low oil price in the late 1990s. However, in order to consider the effect of a fall in petroleum investment in isolation, the oil price in this estimate is assumed to be unchanged from the projection path.

The analysis was performed with a version of the KVARTS model in which the interest rate and the krone exchange rate are also determined. This has a stabilising effect in that weaker growth, lower inflation and higher unemployment prompt Norges Bank to cut the key rate. This in turn leads to a weaker krone exchange rate and improves the competitiveness of the internationally exposed sector. In isolation, improved competitiveness contributes to increased manufacturing activity. Lower interest rates also lead to slightly higher housing investment and curb the decline in household sector income.

The consequence for the Norwegian economy of a fall in petroleum investment is that an already strong downturn is exacerbated. The effects on GDP growth decline through the period as lower interest rates and a weaker krone exchange rate dampen the negative impact on the economy. In 2012, mainland GDP is just under 1 per cent lower than in the projection path. The lower activity level leads to lower employment and higher unemployment. The increase in unemployment is curbed by a somewhat reduced labour supply, but in 2011 and 2012 unemployment is nevertheless 0.4 percentage point higher than in the projection path. Weakened business sector profitability and higher unemployment curb wage growth, which is about ¼ percentage point lower than in the projections for the next three years. Inflation is virtually unchanged, since the effects of reduced wage growth are countered by a higher rise in import prices due to the weaker krone.

Lower petroleum investment. Effect on growth in percentage points unless otherwise specified

	2010	2011	2012	2012 Difference in level
Mainland GDP	-0,4	-0,3	-0,2	-0,8
Employment	-0,3	-0,3	-0,1	-0,7
Unemployment rate, change in level	0,2	0,4	0,4	0,4
Wages per normal person-year	-0,3	-0,3	-0,2	-0,7
CPI	0,0	-0,1	0,0	-0,1
Petroleum investment	-15,0	-15,0	-15,0	-38,7

Future developments in petroleum investment depend on movements in the oil price, which we assume will edge up from end-2009 and for the remainder of the projection period. Should the oil price remain at its level in mid-February – or even fall – this will have the effect of lowering oil company investment in relation to our assumptions. A large share of investment in 2009 is contractual and will probably take place irrespective.

The Norwegian Petroleum Directorate (NPD) reports that petroleum production increased by 1.2 per cent in 2008, from 238 million to 242 million Sm^3 oil equivalent, which is approximately 8 per cent lower than the peak in 2004. Oil production has declined each year since 1999, but was partly compensated for by higher gas production. In January 2008 NPD presented new forecasts for petroleum production. We assume slightly more positive developments than NPD, with approximately zero growth in oil and gas production. There are indications of a clear fall in oil production in the period ahead, which will, however, be balanced by increasing gas production. Our production forecast is somewhat more pessimistic than previously.

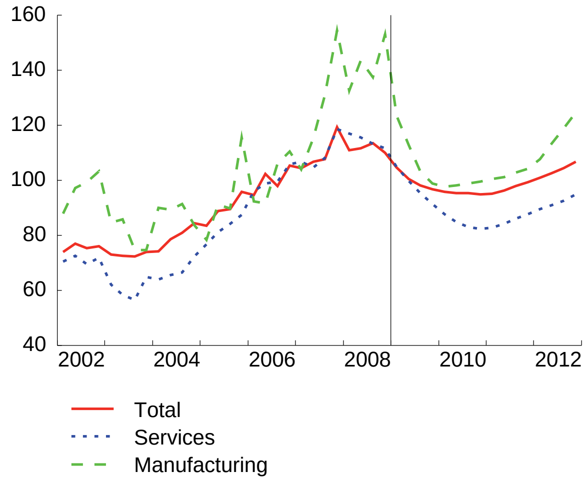
Investment sharply down

Investment in mainland industries increased by a little over 70 per cent from 2003 to 2007, which averages out to annual growth of slightly over 14 per cent. From 2007 to 2008, this investment rose by 6.6 per cent. This positive annual growth is largely attributable to the increase in investment through 2007, because the QNA figures show a fall in this investment through 2008, particularly in the second half of the year. Mainland investment in the fourth quarter of 2008 was 4.0 per cent lower than the same quarter the previous year. The reduction in this period was largely attributable to developments in investment in services, but manufacturing and mining investment also declined. Investment in production of goods other than manufacturing showed a slight rise from the fourth quarter of 2007 to the fourth quarter of 2008.

Statistics Norway's November 2008 investment intentions survey indicates a clear decline in manufacturing investment. The investment reported by manufacturing for 2009 implies a fall of around 25 per cent compared with the preliminary figure for 2008. Enterprises normally revise their forecasts upwards through the year, but these upward revisions are normally smaller at the start of a contraction. Statistics Norway's most recent business tendency survey reports that an increasing number of industrial leaders are considering revising down adopted investment plans.

We expect manufacturing investment to fall by over 22 per cent in 2009 and by over 6 per cent next year. Such pronounced falls in investment are a sign of a cyclical downturn. This time, more restrictive lending by banks has contributed to the downturn. Manufacturing investment is expected to pick up somewhat in 2011 and 2012. For mainland industry as a whole, we project an

Figure 8. **Investment, Mainland Norway. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

investment fall of over 17 per cent this year, and a further decline of almost 10 per cent in 2010. The decline in 2009 will be equivalent to 1.3 per cent of mainland GDP. We expect investment in mainland industry also to pick up concurrently with the cyclical turnaround in 2011.

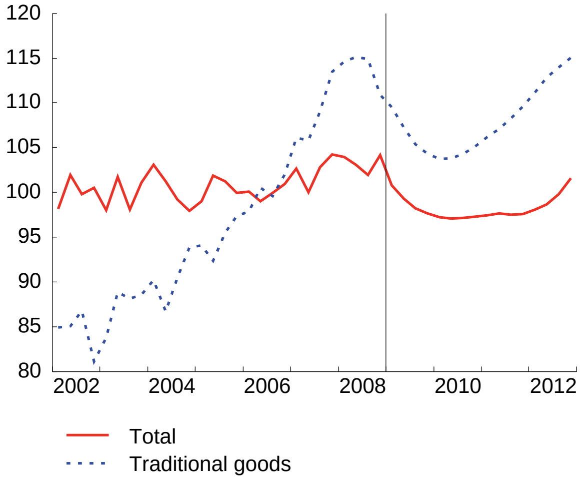
Sharp fall in exports in 2009

The global contraction through 2008 contributed to a marked slowing of growth in exports of traditional goods. Growth was 4.8 per cent – down from the unusually high growth of close to 9 per cent the previous year. Growth remained buoyant in the first half of 2008, but following a slight decline in the third quarter, the seasonally adjusted figures showed a fall of 3.5 per cent from the third to the fourth quarter. In the fourth quarter, exports of traditional goods were 2.1 per cent lower than in the same quarter the previous year.

Growth in exports of chemical and mineral products, metals and electricity in particular was slower than in 2008. However, growth in exports of engineering products remained at a high level. Overall, exports in 2008 rose 0.9 per cent more in 2008 than in 2007, down from 2.5 per cent the previous year. Lower growth in service exports contributed particularly to pushing down growth in 2008. However, oil and natural gas were the most important single component pushing down overall exports, with a fall of approximately 2.5 per cent in both 2007 and 2008.

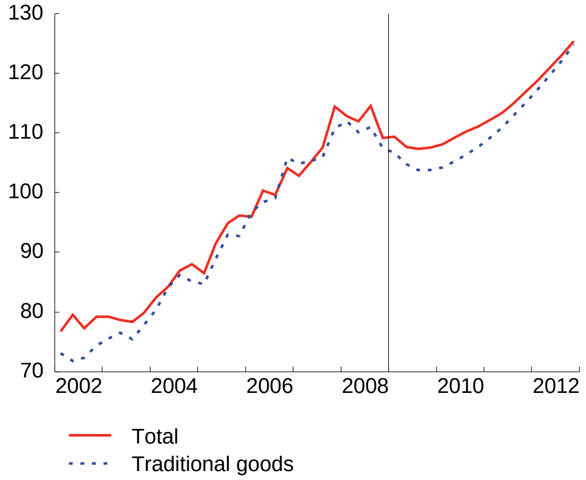
Prices for traditional export goods rose by 2.3 per cent in 2008 compared with 2007. This is approximately the same as the previous year, when prices rose 2.5 per cent. A fall in metal prices of over 10 per cent contributed to pushing down prices, while a strong rise in prices for refined oil products and chemicals had a countering effect. The sharp price rise of fully 26 per cent for crude oil and natural gas contributed to a price rise of 13.7 per cent for total exports. However, inflation through

Figure 9. **Exports. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted volume indices. 2006=1000**



Source: Statistics Norway.

2008 was very different. Despite pronounced depreciation of the krone, export prices corrected for normal seasonal variations fell by over 13 per cent from the third to the fourth quarter. The slide covered all main groups, but was strongest for oil and natural gas.

Negative demand impulses from export markets, coupled with a considerable fall in power exports are expected to contribute to a decline of almost 7 per cent in exports of traditional goods in 2009. A weakening of the krone on an annual basis in 2009 will curb the fall in exports. In 2010, the negative demand impulses from export markets will be reduced, but a stronger krone will detract from cost-competitiveness. Exports of traditional goods will fall by around 2 per cent in 2010, but will increase through 2011 and 2012 on the back of an improved global economic situation. This will bring growth in exports of traditional goods up to just under 6 per cent at the end of the projection period. Exports of goods and natural gas are expected to fall throughout the projection period by between ½ per cent and 2 per cent in each year of the projection period. Developments in exports of traditional goods will be weaker than demand growth among our most important trading partners throughout the projection period, which implies loss of market shares.

Continued fall in imports through 2009

Import growth in the period 2004 – 2007 was around 8 per cent annually. The turnaround in the Norwegian economy through 2008 and the decline in total investment sharply reduced import growth, which was 4.2 per cent in 2008, down from 7.5 per cent the previous year.

Imports showed a broad-based fall of 4.7 per cent from the third to the fourth quarter of 2008. Lower imports of metals, textiles and private cars accounted for the bulk of the reduction in imports of traditional goods. Private car imports in December 2008 were the lowest recorded in any single month since January 2008. The reduction in service imports can be attributed to less travel.

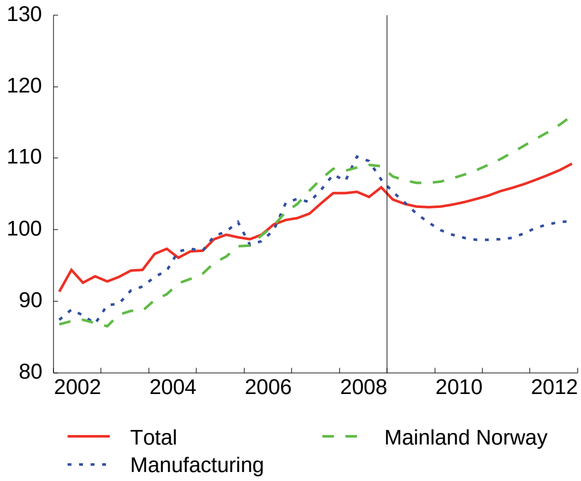
The global fall in metal prices was the most important factor behind the 1.3 per cent fall in the price of traditional goods imports from the third to the fourth quarter of 2008. Prices for imports of services rose by 2.9 per cent in the same period, largely as a result of the high rise in prices for imports of travel services. The rise in price for travel services must be viewed in the light of the sharp depreciation of the krone through the fourth quarter of 2008.

As a result of lower domestic demand, and in particular a sharp fall in investment, imports of traditional goods are expected to be 6 per cent lower in 2009. Imports have not fallen so much since 1987. The reduction in imports can be largely ascribed to the fall in investment, which has a high import content. We assume that growth in domestic demand will pick up from 2010, and foreign demand is expected to increase from 2011. Increased investment in this period will cause import growth to increase relatively more than growth in the mainland economy.

The Armed Forces' purchases of helicopters and aircraft will influence imports in the next few years. The Armed Forces have ordered 14 new helicopters and 4 new Hercules aircraft for a total of approximately NOK 9.5 billion. The aircraft are expected to be imported in the period up to end-2011, while delivery of the first helicopter is expected in the third quarter of 2009.

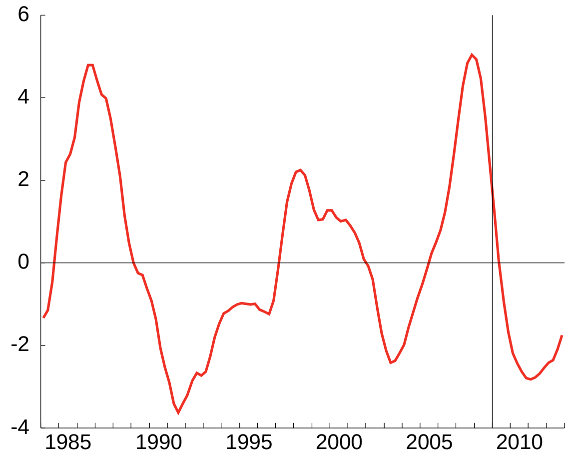
The international contraction affects commodity prices in particular, but global market prices for finished goods will probably also fall. The expected appreciation of the import-weighted krone exchange rate from the current relatively weak level will exert further downward pressure on import prices in the period ahead.

Figure 11. **Gross domestic product. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

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



Source: Statistics Norway.

We project a fall in prices for traditional import goods through the next two years, but assume that they will rise in 2011 as a result of the next global recovery.

Amplified cyclical downturn

The economy was already entering the cyclical downturn – defined as growth lower than trend – at the beginning of 2008. The downturn gathered pace at the end of last year. According to seasonally adjusted national accounts figures, mainland GDP edged down 0.2 per cent from the third to the fourth quarter of 2008. Mainland GDP only increased by 0.4 per cent from the fourth quarter of 2007 to the same quarter a year later. Nevertheless, the strong growth through 2007 resulted in a year-on-year rise in mainland GDP of as much as 2.4 per cent from 2007 to 2008.

The GDP figures above are estimated at market prices. There has been a clear decline in turnover of highly taxed products such as motor vehicles. This has pushed down GDP estimated in terms of market prices. Measured in basic prices, excluding tax components, mainland GDP growth through 2008 was 1.3 per cent and the annualized increase was 3.2 per cent. The difference between GDP measured at market prices and at basic prices only relates to developments through the first three quarters of 2008, however. Growth from the third to the fourth quarter was unchanged. Thus the shift to lower growth is even more pronounced when GDP is measured at basic prices.

When individual industries and groups of industries are considered, value added is always measured at basic prices. The largest decline from the third to the fourth quarter of 2008 was reported for the main category manufacturing and mining, at -2.4 per cent, equivalent to an annualized -9.2 per cent. Value added in other goods production fell 0.5 per cent. Private services, by far the largest group, edged up just 0.1 per cent. General government production stood out, as expected, with activity growth of 0.5 per cent. Annualized growth from 2007 to 2008 was very similar for all main groups, at between 2.9 and 3.5 per cent. This reflects the fact that the strong growth through 2007 was broad-based, but clearly lowest in general government.

Activity in the main groups differed substantially from the third to the fourth quarter in 2008. Commodity-based manufacturing segments performed particularly poorly. This can be attributed to both weak global market developments and low demand for materials for building and construction as a result of the low level of activity. On the other hand, there was still growth in industries making large deliveries in connection with petroleum investment. The level of activity in the food industry and in the publishing and graphics industry has also remained buoyant.

Problems in the construction industry have been in focus. According to the QNA, the decline in the fourth quarter of 2008 was not very much over the average, and according to QNA, developments through the first three quarters of 2008 were slightly more positive than for other mainland business segments. The construction industry distinguishes itself in that the decline commenced in the second quarter of 2007 already, and that annualized growth in 2008 was therefore much weaker than for most other industries. In the private services sector, developments through 2008 were very weak for retail trade and vehicle repair and transport, whereas the fall in the fourth quarter was sharpest for the hotel and restaurant industry. The large commercial services segment also dipped somewhat in the fourth quarter. By contrast, postal services and telecommunications showed clear growth through the whole of 2008.

The most recent business tendency survey, which is based on interviews in the fourth quarter, reveals rapidly growing pessimism among industrial leaders.

A clear majority now expect lower rather than higher production, whereas a majority were optimists the previous quarter. There is a sharp increase in the number who identify market conditions as a constraint on production, but a pronounced decline in the number who identify the supply of production factors as a constraint.

Although deliveries to the petroleum sector and household consumption will remain at a high level, and deliveries to the public sector will increase, we expect manufacturing production to continue falling through the current year.

The decline will first and foremost affect export-oriented manufacturing sectors. As a result, developments will vary considerably from industry to industry, and also within manufacturing. Value added in manufacturing is expected to fall by around 4 per cent as an annual average, both this year and in 2010. After approximately zero growth in 2011, a certain increase in production is projected for 2012, when export industries will experience far more favourable market conditions.

We also expect the activity level in private services to fall in the period ahead. The activity level in segments that are largely oriented towards households may increase a little later in the year. Businesses oriented largely at the public sector will generally increase their activity in the period ahead. Deliveries of inputs will be reduced as a result of the generally low level of business sector activity. This will affect large segments of private service industries. On balance, production therefore appears set to fall from 2008 to 2009.

Despite many new public building projects, we expect a clear fall in production in the building and construction sector this year. Residential construction is declining sharply, and we expect commercial construction to move on a very weak trend going forward. Production may increase again in 2011 and 2012.

General government production will increase markedly both this year and in the remainder of the projection period. The increase this year will be particularly strong, and will thereby limit the decline in mainland GDP. We project an annual average decline of 1.7 per cent, nonetheless. We expect the strong cyclical downturn to slow towards the end of the current year, but not to bottom out until the first half of 2011. Mainland GDP is projected to increase by an annual average of 1 per cent in 2010. However, the positive impulses from the global recovery will be dampened by higher interest rates and less expansionary fiscal impulses. Nor can any contribution be expected from the petroleum sector, where the activity level will remain relatively stable in terms of both production and investment until 2012, when it will fall a little. The increase in mainland output in 2011 and 2012 is therefore unlikely to be very strong, and the Norwegian economy is not expected to recover until right at the end of the projection period.

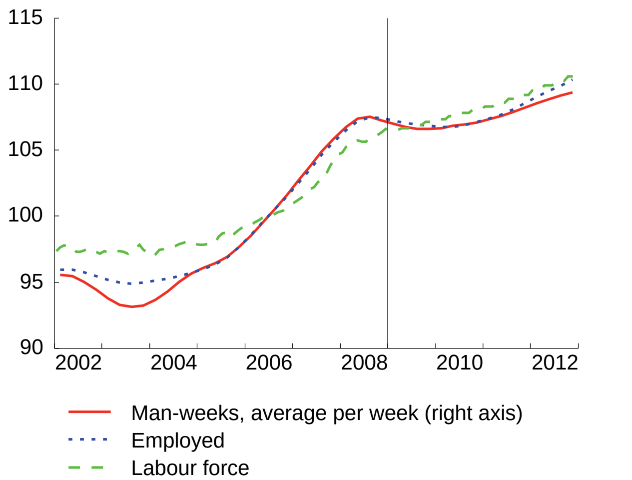
Towards a two-track labour market

According to the national accounts, employment has increased strongly since early 2006. Employment growth in 2007 was 4.1 per cent, or 100 000 persons. This is the highest annual employment growth that has been recorded for more than 40 years. In the cyclical upturns of the 1970s, 1980s and 1990s, annual growth was a maximum of about 60 000 persons. On an annual basis, employment growth was a little slower in 2008, at 3.2 per cent. Seasonally adjusted growth was stable through the first three quarters of last year, but in the fourth quarter there was a marked change in the labour market. Preliminary national accounts figures show a seasonally adjusted decline in employment of 0.4 per cent from the third to the fourth quarter of 2008. The reduction was most marked in transport services and manufacturing, at 1.6 per cent and 1.1 per cent, respectively. The reduction in retail trade and financial and commercial services was just under 1 per cent, and in the construction industry 0.4 per cent. Municipal sector employment was unchanged, and this, coupled with somewhat increased central government staffing, contributed to limiting the reduction in overall employment in the fourth quarter.

The EU enlargement with new member countries from eastern Europe on 1 May 2004 has led to increased inward labour migration to Norway. It is difficult to measure this migration, partly because an increasing amount of it is short-term. However, all citizens of non-Nordic countries wishing to work in Norway must as a general rule have a work permit from the Norwegian Directorate of Immigration. The number of valid permits on the first of each month averaged 96 000 in 2008, 26 000 up on the previous year. 1. On 1 January 2009 there were 17 000 more valid work permits than on the same date in 2008. Thus the strong growth in work permits has slowed somewhat.

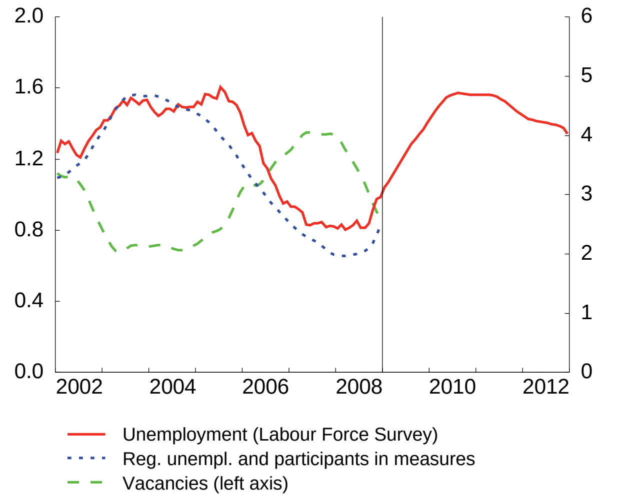
It is likely that signs of a weaker labour market in late 2008 have curbed the growth of the labour force. According to the Labour Market Survey (LFS), the labour force increased by 53 000 persons from the fourth quarter of 2007 to the fourth quarter of 2008, compared with an increase of as many as 86 000 persons in the same period the previous year. Seasonally adjusted figures show that the turnaround in the labour market in autumn 2008 occurred concurrently with a further decline in the labour force growth rate. The decline has dampened the effect of the lower employment on unemployment. Nevertheless, unemployment has increased markedly since autumn last year. Seasonally adjusted unemployment had then remained stable at around 2.5 per cent since early 2007. LFS publishes seasonally adjusted figures as three-month moving averages. In the period October-December 2008, seasonally adjusted unemployment reached 2.9 per cent, or 76 000 persons. This implies an increase of 13 000 persons in three months.

Figure 13. **Labour force, employment and number of manhours. Seasonally adjusted and smoothed indices. 2006=100**



Source: Statistics Norway.

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



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

Employment registered with the Labour and Welfare Administration has largely paralleled developments in LFS unemployment. However, the Labour and Welfare Administration has also published unemployment figures for January this year. From the end of August last year until the end of January this year, the seasonally adjusted number of persons registered as fully unemployed increased by just under 20 000, to 58 600 persons, or 2.4 per cent. The unemployment level at end-January 2009 was highest in building and construction trades, at 5.2 per cent. The number of unemployed building and construction workers had then increased by 130 per cent compared with the same time the previous year. The number of unemployed manufacturing workers increased by 75 per cent in the same period, amounting to 4.1 per cent of manufacturing workers at end-January this year.

Norwegian manufacturing has experienced strong growth in activity in recent years. However, with prospects of a considerable contraction in the global economy, the decline through 2008 must be expected to gather pace this year and in 2010, particularly for export-oriented industry. The decline will be dampened by continued high petroleum investment and a slower fall in mainland demand for manufactured goods. Following total growth of 36 000 in the number of manufacturing employees in the period 2005 – 2008, we envisage a reduction of about 40 000 from 2008 to 2011. Employment in the building and construction industry will also move on a weak trend in the period ahead, partly as a result of a considerable decline in business sector investment. We project a decline of some 27 000 building and construction wage-earners in the period to 2011 from the peak level of 167 000 wage-earners employed in this industry in 2008.

The private sector service industries will also experience a considerable decline in employment in 2009 and 201, but we expect the trend to reverse in a number of these industries through 2010. These developments, coupled with clear growth in public sector employment, point to the development of a two-track labour market in 2010 and 2011: manufacturing and construction will employ fewer, and the service industries will employ more.

On balance we expect the decline in employment from last autumn to continue through 2009 and 2010. On an annual basis we expect a decline of 0.4 per cent in 2009 and 0.2 per cent in 2010. In 2011 and 2012 growth in the Norwegian economy will pick up and push up employment again. We anticipate annual growth of 1.0 per cent in 2011 and 1.7 per cent in 2012.

In the light of a weak labour market outlook and particularly difficult times in building and construction and in manufacturing, we expect inward labour migration to fall off somewhat in the period ahead. Unemployment figures from the Labour and Welfare Administration indicate that unemployment is rising more rapidly among labour migrants from eastern Europe than among Norwegians. Some of the former have no claim to unemployment benefit, and this may prompt them to return to their home country. Labour market developments also mean that labour force participation rates among Norwegians will fall, particularly among younger age groups who may instead opt for further education. If net inward labour migration remains high, the decline in labour force participation rates will still not be sufficient to reduce the labour supply. At the beginning of 2009, the labour force was record high, and on an annual basis our projections for 2009 imply a labour force 0.7 per cent higher than the average level in 2008. We have accordingly assumed labour force growth of close to 1 per cent.

A weak employment trend for the next couple of years, and continued overall growth in the labour force imply that unemployment will increase markedly through

2009 and 2010. Measured as an annual average, unemployment will increase from 2.6 per cent in 2008 to 4.7 per cent in 2010 and 2011 - equivalent to 125 000 unemployed. Assisted by increased public sector employment and increased employment in some private service industries, unemployment may edge down again through 2011 and in 2012. On an annual basis we estimate unemployment at 4.2 per cent in 2012.

Wage growth as under the 'solidarity alternative'

According to preliminary national accounts figures, wages per normal person-year rose by 5.7 per cent from 2007 to 2008, compared with 5.6 per cent the previous year. Last year, annual wages rose by 6 per cent, 0.3 percentage point more than wages per normal person-year, according to the Technical Reporting Committee on Income Settlements. Annual wages differ from wages per normal person-year in not including overtime payment, and in not being affected by changes in long-term sickness absence. The difference in wage developments in 2008 between these two wage concepts is due to the fact that reduced overtime payment and increased long-term sickness absence pushed down wages per normal person-year.

In manufacturing, growth in wages per normal person-year was 5.4 per cent in 2008. Overtime pay in this sector fell markedly. Central government wage growth was particularly strong, at 6.3 per cent. Wage growth in municipal government was 6.0 per cent. Average wages in the private service industries were pushed down by substantial structural changes in retail trade, where many new employees had a low wage level. Overall wage growth in private service industries was 5.5 per cent.

Norwegian manufacturing enterprises reported very solid profitability through much of the 2000s. Coupled with low consumer price inflation, this resulted in high real wage growth for wage-earners. Not since the 1960s has real wage growth been as high as it has been so far in the 2000s. When the global business cycle entered a downturn in 2007, the positive trend reversed for manufacturing firms. The downturn developed into a sharp contraction in global demand for manufactured products as a result of the escalation of the financial crisis in autumn 2008. Added to high wage growth in manufacturing in 2008, this caused substantially weakened manufacturing profitability. Labour costs as a share of overall value added constitute a measure of profitability. The labour cost share in manufacturing, which never dropped below 70 per cent before the 2000s, was down to 64 per cent in 2006 and 2007. As a result of the turnaround last year, it increased to an annual average of just over 67 per cent in 2008.

Poorer business sector profitability, rapidly increasing unemployment and lower consumer price inflation are setting the stage for very moderate pay increases in the years ahead. However, the expansionary fiscal policy in Norway and continued income growth for Norwegian households will gradually stabilize the Norwegian labour market, even given continued weak developments in manufacturing production.

This may create pressure in wage formation, where manufacturing is normally a wage-leader. Our wage projections presuppose that manufacturing will continue to be a wage-leader, nonetheless. It implies low wage growth through the whole of our projection period. Thus the period is in many ways reminiscent of the period after the Norwegian banking crisis in the early 1990s, when the government entered into an agreement with the largest confederation of workers union (LO) to provide nominal exchange rate stability in exchange for wage moderation known. Wage formation was then described as "the solidarity alternative". During this period, wage growth was down to close to 3 per cent three years in succession. It will be slightly higher than this according to our projections. We forecast wage growth of 3.2 per cent in 2010, rising to 3.5 per cent and 4.3 per cent in 2011 and 2012, respectively.

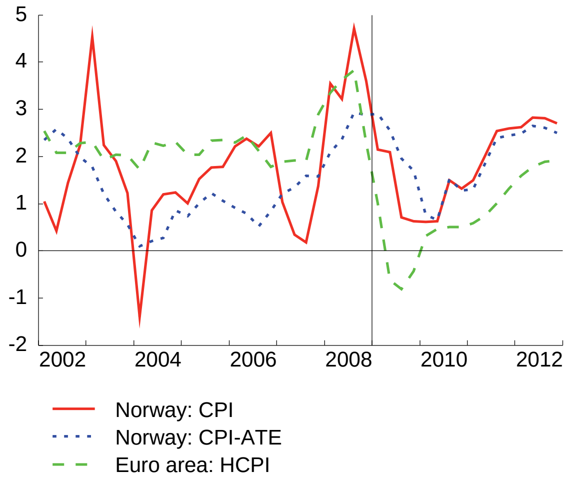
Average wage growth will be buoyed up in 2009 by the large pay increases made late last year, and because pay increases for 2009 were adopted in the municipal settlements last year. Our projection implies overall wage growth of 3.8 per cent. This projection implies small or no pay increases in the ordinary wage settlements, and also that use of overtime and bonus payments will be reduced. Structural changes may push up the wage level because it is often those with lowest pay who lose their jobs in periods of contraction.

Turbulent inflation picture

The consumer price index (CPI) increased by 3.8 per cent from 2007 to 2008, the highest annual rise since 1990. A sharp rise in prices for energy, particularly electricity, contributed to about one third of the price rise. Real tax changes contributed 0.1 percentage point. Underlying inflation measured by the 12-month rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) was 2.6 per cent, approximately the same as the inflation target, and the highest annual inflation rate since 2002.

Last year was also turbulent with respect to inflation. Measured year-on-year, the CPI peaked in October at 5.5 per cent, the highest monthly observation since 1988. Two months later inflation had fallen to 2.1 per cent. Developments in energy prices were the primary explanatory factor for the fall. There was also a pronounced fall in underlying inflation. The 12-month rise in the CPI-ATE in October was 3.3 per cent, decidedly the highest in the over eight years for which there are official measurements. In December underlying inflation was down to 2.6 per cent, despite the considerable depreciation of the krone through the last four months of 2008. This would normally result in higher prices for imported goods.

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



Source: Norges Bank and Statistics Norway.

After adjustment for normal seasonal variations, and taking account of inflation the previous month, inflation measured by the CPI-ATE peaked in July 2008. It had then been rising on balance for over two years, and it was a good half a year after the turnaround in the Norwegian economy. A breakdown of the CPI-ATE by supplier sector shows that there were growing inflationary impulses on a 12-month basis from all main groups since mid-2007 and until the peak in October 2008. The subsequent decline is also reflected in all main groups, apart from a clear increase for house rent and a weak increase for imported goods in January.

The rise in inflation up to last autumn can be linked to higher domestic costs, wider margins, higher international prices for commodities, including energy, and a global rise in inflation. During the last agricultural settlement it was also agreed that a substantial portion of farmers' income growth should come about through increased prices, which has contributed to pushing up prices for agricultural products produced in Norway. Energy is a cost component in almost all production. According to projections from Statistics Norway's KVARTS macroeconomic model, changes in prices for crude oil and electricity from 2007 to 2008 added 0.4 per cent to the CPI-ATE. The effects transmitted via global prices other than for energy are not taken into account in this figure.

The slowing of inflation in recent months may to some degree be traced back to a reversal of the factors that previously drove it up. International market prices for commodities, including energy, have dropped sharply in the wake of the amplified global downturn. The Norwegian downturn may also have contributed. For example, margins in retail trade narrowed, witness the unusually extensive pre-Christmas sales.

In the period ahead there will still be strong impulses pushing inflation in Norway in different directions. The fall in international commodity prices will affect prices to Norwegian households with a lag, and the strong international economic contraction will reduce global market prices for finished goods. Appreciably lower Norwegian labour cost growth and continued pressure on retail trade margins will also help to push down inflation.

At the start of a cyclical downturn, labour productivity is normally low. Production falls, and it takes time for the work force to adapt to lower production. This was evident in 2008. We expect productivity to grow this year, but that growth will remain subdued. It will nevertheless contribute to lower inflation this year than last. Productivity growth will increase ahead, and have the effect of curbing inflation.

The depreciation of the krone last autumn has the opposite effect. Although the trend has been reversed, and the krone appreciated strongly through January this year, it is still weaker than the average for last year. This will contribute to more expensive imports. In addition, the weak krone in autumn 2008 will affect prices in Norwegian shops with a lag. However, we expect the krone to continue appreciating through the coming two years. This will have a dampening effect on inflation for a long while to come. The total effect, in isolation, of these exchange rate movements is probably that inflation will be pushed up for a period ahead, perhaps until the end of the current half year, and then down.

The rise in the CI-ATE as an annual average is estimated to slow to 2.3 per cent this year. The annualized appreciation of the krone is expected to be particularly strong in 2010. As a result, CPI-ATE inflation is expected to fall to 1 per cent. It will then rise for the next two years, and according to projections be just over 2.5 per cent in 2012.

The weak economic outlook in Northern Europe and low prices for crude oil and coal have contributed to a slide in forward prices in the electricity market since our last report. Electricity prices now appear likely to fall from 2008 to 2009. However, grid rent has increased. We project that the annual average of total electricity prices to households from 2008 to 2009 will fall by about 5 per cent. They are expected to be appreciably higher this spring than at the same time in 2008, while the opposite applies to the second half of the year. Electricity prices are also expected to move down slightly from 2009 to 2010. In subsequent years we assume they will more or less shadow the general rise in prices.

The tax programme adopted for 2009 with adjustment of taxes for inflation using our inflation projection, will push inflation up by 0.1 percentage point. Indirect tax on soft drinks, in particular, has increased considerably. As usual, we assume that this tax programme will not be changed in 2009, and that indirect taxation rates will be adjusted for inflation in the remainder of the projection period.

Movements in prices for crude oil contributed to high petrol prices far into 2008. The subsequent fall in oil prices is bringing down overall consumer price inflation in 2009, and CPI inflation is now estimated at 1.4 per cent. Oil prices are expected to increase somewhat from the second half of this year. As a result, the CPI is expected to rise somewhat faster than the CPI-ATE in the years 2011-2012.

Reduced balance-of-payments surplus

Except in 2007, the balance of payments has shown a larger surplus each year since 2002. During these six years, the surplus has more than doubled, reaching NOK 465 billion in 2008 according to preliminary national accounts figures. This is an increase of over NOK 100 billion compared with 2007, and NOK 75 billion more than the surplus in 2006. The large and increasing surpluses can be mainly attributed to oil and gas exports, and to a stronger rise in prices for Norwegian export goods than in prices for import goods. Measured in Norwegian kroner, the oil price has more than doubled in the course of the six years. If oil and gas are excluded, the balance of trade shows a growing deficit each year since 2002. The current account balance shadows developments in the balance of payments, but at a slightly lower level because the interest and transfers balance has shown a deficit of between NOK 1 million and over NOK 17 billion annually since 2002. Preliminary estimates for 2008 show a deficit of NOK 16 billion, so that the current account deficit is estimated to be NOK 449 billion. This accounts for almost 18 per cent of GDP.

Although a record-high current account surplus was recorded in 2008 for goods and services, developments through the last half of the year were less favourable. The trade surplus fell in each of the last two quarters of the year compared with the previous quarter, from a record-high level of NOK 129 billion in the second quarter to around NOK 102 billion in the fourth quarter. Much of this decline can be attributed to the fall in oil prices, but prices for other important export products also fell sharply. In the fourth quarter, a generally weak krone exchange rate had a positive effect on the value of total exports, thereby dampening the negative effect of falling prices on world markets. A clear growth in the volume of petroleum exports also contributed to the trade surplus remaining at a satisfactory level in the fourth quarter.

The global economic downturn is expected to sharply reduce balance of trade surpluses in the years ahead. A deeper cyclical downturn abroad than in Norway, and an expected stronger krone will mean weaker developments in exports than in imports. We project almost a halving of the average oil price in Norwegian kroner in 2009 compared with 2008. Largely as a consequence of this, the trade surplus is projected to be more than halved compared with 2008. The projection of NOK 225 billion for 2009 is a little lower than the surplus in 2004. In 2010 increased imports are expected to further reduce the surplus, to approximately NOK 195 billion. This is lower than the surplus in 2003.

The trade surplus is expected to increase again in the period 2010-2012, first as a result of a rising oil price, and then also as a result of an improvement in the terms of trade for traditional goods, in pace with the cyclical recovery. In the course of the three years, the trade surplus is expected to grow from less than NOK 200 billion to almost 250 billion. Net interest and transfers is expected to remain negative through the projection period, in the area of NOK 8-10 billion. As a result the current account surplus will remain a little less than but otherwise shadow the movements of the trade surplus. The current account surplus for the year 2010-2012 is projected to be close to the levels in 2002-2004. The surplus as a share of GDP is projected to be well under 10 per cent each year of the projection period. These shares are the lowest by a good margin since the turn of the century, and illustrate the consequences of the pronounced global downturn on a small, open economy.

Table 3. **National accounts: Final expenditure and gross domestic product. At constant 2006 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.1	07.2	07.3	07.4	08.1	08.2	08.3	08.4
Final consumption expenditure of households and NPISHs	934 732	948 406	229 889	232 409	234 804	238 332	238 563	237 894	236 185	235 078
Household final consumption expenditure	898 292	910 920	220 909	223 287	225 641	229 126	229 309	228 478	226 812	225 659
Goods	472 644	471 822	116 593	117 256	118 877	120 254	119 346	119 036	117 111	115 492
Services	393 166	401 486	96 465	97 926	98 939	99 693	99 816	100 149	100 414	101 089
Direct purchases abroad by resident households	57 847	62 622	14 079	14 343	14 185	15 687	16 487	15 645	15 321	15 389
Direct purchases by non-residents	-25 365	-25 009	-6 228	-6 238	-6 360	-6 507	-6 340	-6 352	-6 034	-6 312
Final consumption expenditure of NPISHs	36 440	37 486	8 980	9 122	9 163	9 206	9 254	9 416	9 373	9 419
Final consumption expenditure of general government	427 109	442 802	104 867	106 201	107 733	108 264	109 098	109 932	111 322	112 411
Final consumption expenditure of central government	220 794	227 292	54 713	54 993	55 440	55 640	55 990	56 489	57 122	57 677
Central government, civilian	190 923	196 363	47 284	47 554	47 967	48 115	48 360	48 826	49 419	49 741
Central government, defence	29 870	30 929	7 430	7 439	7 474	7 525	7 630	7 663	7 702	7 936
Final consumption expenditure of local government	206 316	215 510	50 154	51 208	52 293	52 624	53 108	53 443	54 200	54 734
Gross fixed capital formation	459 610	475 002	108 313	112 116	117 070	122 324	117 914	117 792	120 146	119 074
Extraction and transport via pipelines	100 726	107 836	23 278	24 987	26 349	26 000	26 419	25 875	26 890	28 628
Service activities incidential to extraction	938	-22	119	540	233	45	90	58	-120	-50
Ocean transport	20 767	23 518	4 492	4 375	7 560	4 431	5 921	5 926	5 955	5 818
Mainland Norway	337 180	343 671	80 424	82 214	82 928	91 848	85 484	85 933	87 422	84 678
Mainland Norway excluding general government	270 862	273 935	65 338	66 210	68 106	71 363	69 879	69 766	68 263	65 923
Industries	175 663	187 207	41 212	42 143	44 329	47 903	47 105	47 599	46 458	46 015
Manufacturing and mining	30 584	34 217	6 297	6 987	7 923	9 354	8 022	8 692	8 321	9 265
Production of other goods	29 198	32 013	6 691	7 470	7 807	7 184	8 159	8 372	8 223	7 260
Services	115 881	120 977	28 223	27 685	28 599	31 365	30 924	30 535	29 915	29 490
Dwellings (households)	95 199	86 728	24 126	24 067	23 777	23 461	22 774	22 168	21 805	19 907
General government	66 318	69 735	15 086	16 004	14 822	20 485	15 605	16 167	19 159	18 755
Changes in stocks and statistical discrepancies	36 585	55 289	5 181	11 590	6 758	12 307	13 691	15 511	16 227	11 195
Gross capital formation	496 196	530 291	113 493	123 706	123 827	134 631	131 606	133 303	136 373	130 269
Final domestic use of goods and services	1 858 038	1 921 499	448 249	462 316	466 365	481 227	479 267	481 129	483 880	477 758
Final demand from Mainland Norway	1 699 022	1 734 879	415 180	420 824	425 466	438 444	433 145	433 759	434 929	432 167
Final demand from general government	493 427	512 537	119 954	122 205	122 555	128 749	124 703	126 099	130 480	131 167
Total exports	1 027 757	1 037 114	257 424	250 692	257 791	261 384	260 623	258 403	255 630	261 107
Traditional goods	295 052	309 197	71 999	71 765	73 963	76 967	77 738	78 101	77 954	75 240
Crude oil and natural gas	485 321	474 135	125 744	117 740	122 497	119 489	120 470	117 385	114 010	121 401
Ships, oil platforms and planes	11 920	13 376	2 460	3 801	3 286	2 372	2 362	3 171	4 395	3 448
Services	235 465	240 406	57 220	57 386	58 045	62 555	60 054	59 746	59 271	61 017
Total use of goods and services	2 885 795	2 958 613	705 673	713 008	724 156	742 611	739 890	739 532	739 510	738 865
Total imports	658 538	686 518	157 526	161 074	164 685	175 182	172 698	171 503	175 347	167 108
Traditional goods	434 511	448 201	106 778	107 126	107 795	112 795	113 900	112 072	112 992	109 323
Crude oil and natural gas	5 397	3 235	884	2 100	772	1 620	541	700	661	1 350
Ships, oil platforms and planes	19 847	28 084	2 826	3 308	5 974	7 739	6 683	7 041	9 454	4 906
Services	198 784	206 998	47 038	48 540	50 144	53 028	51 574	51 690	52 239	51 528
Gross domestic product (market prices)	2 227 256	2 272 096	548 147	551 934	559 470	567 429	567 192	568 030	564 163	571 758
Gross domestic product Mainland Norway (market prices)	1 676 943	1 717 358	409 156	416 360	422 908	428 305	427 212	429 231	430 548	429 825
Petroleum activities and ocean transport	550 313	554 738	138 991	135 574	136 562	139 124	139 980	138 798	133 615	141 933
Mainland Norway (basic prices)	1 421 656	1 467 689	346 424	353 395	358 111	363 559	364 380	366 195	368 706	367 888
Mainland Norway excluding general government	1 117 656	1 152 944	271 681	277 526	281 630	286 663	286 390	288 336	289 561	288 334
Manufacturing and mining	206 270	212 223	51 055	50 824	51 684	52 743	52 301	53 944	53 651	52 374
Production of other goods	174 376	178 761	42 584	43 587	44 469	44 096	44 112	44 716	45 130	44 908
Services incl. dwellings (households)	737 010	761 960	178 043	183 114	185 477	189 824	189 978	189 675	190 781	191 051
General government	304 000	314 745	74 743	75 869	76 481	76 896	77 990	77 860	79 145	79 554
Taxes and subsidies products	255 287	249 669	62 732	62 965	64 797	64 746	62 831	63 036	61 842	61 937

Source: Statistics Norway.

Table 4. **National accounts: Final expenditure and gross domestic product. At constant 2006 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.1	07.2	07.3	07.4	08.1	08.2	08.3	08.4
Final consumption expenditure of households and NPISHs	6.0	1.5	2.3	1.1	1.0	1.5	0.1	-0.3	-0.7	-0.5
Household final consumption expenditure	6.1	1.4	2.3	1.1	1.1	1.5	0.1	-0.4	-0.7	-0.5
Goods	7.6	-0.2	4.2	0.6	1.4	1.2	-0.8	-0.3	-1.6	-1.4
Services	4.0	2.1	-0.2	1.5	1.0	0.8	0.1	0.3	0.3	0.7
Direct purchases abroad by resident households	7.8	8.3	2.9	1.9	-1.1	10.6	5.1	-5.1	-2.1	0.4
Direct purchases by non-residents	4.8	-1.4	-2.0	0.2	1.9	2.3	-2.6	0.2	-5.0	4.6
Final consumption expenditure of NPISHs	4.1	2.9	2.4	1.6	0.4	0.5	0.5	1.7	-0.5	0.5
Final consumption expenditure of general government	3.4	3.7	0.6	1.3	1.4	0.5	0.8	0.8	1.3	1.0
Final consumption expenditure of central government	2.0	2.9	0.4	0.5	0.8	0.4	0.6	0.9	1.1	1.0
Central government, civilian	1.7	2.8	0.1	0.6	0.9	0.3	0.5	1.0	1.2	0.7
Central government, defence	3.7	3.5	1.8	0.1	0.5	0.7	1.4	0.4	0.5	3.0
Final consumption expenditure of local government	5.0	4.5	0.9	2.1	2.1	0.6	0.9	0.6	1.4	1.0
Gross fixed capital formation	8.4	3.3	-2.5	3.5	4.4	4.5	-3.6	-0.1	2.0	-0.9
Extraction and transport via pipelines	5.5	7.1	-5.1	7.3	5.5	-1.3	1.6	-2.1	3.9	6.5
Service activities incidential to extraction	-71.7	-102.3	-94.3	353.0	-56.9	-80.5	97.4	-35.5	-307.3	-58.8
Ocean transport	22.4	13.2	35.2	-2.6	72.8	-41.4	33.6	0.1	0.5	-2.3
Mainland Norway	9.3	1.9	-0.9	2.2	0.9	10.8	-6.9	0.5	1.7	-3.1
Mainland Norway excluding general government	9.7	1.1	1.0	1.3	2.9	4.8	-2.1	-0.2	-2.2	-3.4
Industries	12.2	6.6	-0.1	2.3	5.2	8.1	-1.7	1.0	-2.4	-1.0
Manufacturing and mining	25.3	11.9	-5.8	11.0	13.4	18.1	-14.2	8.4	-4.3	11.4
Production of other goods	10.3	9.6	1.6	11.6	4.5	-8.0	13.6	2.6	-1.8	-11.7
Services	9.7	4.4	0.9	-1.9	3.3	9.7	-1.4	-1.3	-2.0	-1.4
Dwellings (households)	5.3	-8.9	2.9	-0.2	-1.2	-1.3	-2.9	-2.7	-1.6	-8.7
General government	7.9	5.2	-8.5	6.1	-7.4	38.2	-23.8	3.6	18.5	-2.1
Changes in stocks and statistical discrepancies	-28.2	51.1	-60.5	123.7	-41.7	82.1	11.2	13.3	4.6	-31.0
Gross capital formation	4.4	6.9	-8.7	9.0	0.1	8.7	-2.2	1.3	2.3	-4.5
Final domestic use of goods and services	5.0	3.4	-1.1	3.1	0.9	3.2	-0.4	0.4	0.6	-1.3
Final demand from Mainland Norway	6.0	2.1	1.3	1.4	1.1	3.1	-1.2	0.1	0.3	-0.6
Final demand from general government	4.0	3.9	-0.6	1.9	0.3	5.1	-3.1	1.1	3.5	0.5
Total exports	2.5	0.9	1.7	-2.6	2.8	1.4	-0.3	-0.9	-1.1	2.1
Traditional goods	8.7	4.8	4.0	-0.3	3.1	4.1	1.0	0.5	-0.2	-3.5
Crude oil and natural gas	-2.6	-2.3	2.9	-6.4	4.0	-2.5	0.8	-2.6	-2.9	6.5
Ships, oil platforms and planes	-5.9	12.2	-39.3	54.5	-13.6	-27.8	-0.4	34.2	38.6	-21.5
Services	7.0	2.1	-0.7	0.3	1.1	7.8	-4.0	-0.5	-0.8	2.9
Total use of goods and services	4.1	2.5	-0.1	1.0	1.6	2.5	-0.4	0.0	0.0	-0.1
Total imports	7.5	4.2	-1.2	2.3	2.2	6.4	-1.4	-0.7	2.2	-4.7
Traditional goods	6.7	3.2	-0.8	0.3	0.6	4.6	1.0	-1.6	0.8	-3.2
Crude oil and natural gas	145.3	-40.1	-10.9	137.5	-63.2	109.9	-66.6	29.4	-5.6	104.2
Ships, oil platforms and planes	34.4	41.5	42.5	17.0	80.6	29.6	-13.6	5.4	34.3	-48.1
Services	5.4	4.1	-3.6	3.2	3.3	5.7	-2.7	0.2	1.1	-1.4
Gross domestic product (market prices)	3.1	2.0	0.3	0.7	1.4	1.4	0.0	0.1	-0.7	1.3
Gross domestic product Mainland Norway (market prices)	6.1	2.4	1.1	1.8	1.6	1.3	-0.3	0.5	0.3	-0.2
Petroleum activities and ocean transport	-4.9	0.8	-2.0	-2.5	0.7	1.9	0.6	-0.8	-3.7	6.2
Mainland Norway (basic prices)	5.9	3.2	0.2	2.0	1.3	1.5	0.2	0.5	0.7	-0.2
Mainland Norway excluding general government	6.7	3.2	0.1	2.2	1.5	1.8	-0.1	0.7	0.4	-0.4
Manufacturing and mining	5.4	2.9	0.5	-0.5	1.7	2.0	-0.8	3.1	-0.5	-2.4
Production of other goods	7.2	2.5	5.3	2.4	2.0	-0.8	0.0	1.4	0.9	-0.5
Services incl. dwellings (households)	6.9	3.4	-1.1	2.8	1.3	2.3	0.1	-0.2	0.6	0.1
General government	3.2	3.5	0.6	1.5	0.8	0.5	1.4	-0.2	1.7	0.5
Taxes and subsidies products	7.1	-2.2	6.0	0.4	2.9	-0.1	-3.0	0.3	-1.9	0.2

Source: Statistics Norway.

Table 5. **National accounts: Final expenditure and gross domestic product. Price indices. 2006=100**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.1	07.2	07.3	07.4	08.1	08.2	08.3	08.4
Final consumption expenditure of households and NPISHs	100.7	104.6	100.1	100.4	100.5	101.8	102.9	103.7	105.2	106.6
Final consumption expenditure of general government	104.7	110.4	103.4	104.3	104.9	106.2	107.8	109.5	111.6	112.8
Gross fixed capital formation	105.4	111.0	103.2	105.7	106.5	106.0	108.0	110.6	112.4	112.6
Mainland Norway	105.1	110.2	103.1	104.9	105.7	106.3	108.0	109.7	111.0	111.5
Final domestic use of goods and services	103.0	107.9	102.7	102.4	102.6	103.7	106.7	106.2	108.0	110.6
Final demand from Mainland Norway	102.6	107.2	101.5	102.3	102.6	103.8	105.1	106.3	108.0	109.2
Total exports	101.4	115.3	96.4	100.7	99.8	108.7	111.6	121.1	122.7	106.5
Traditional goods	102.5	104.9	102.8	104.6	100.9	101.8	100.3	103.1	110.7	105.1
Total use of goods and services	102.4	110.5	100.4	101.8	101.6	105.4	108.4	111.4	113.1	109.1
Total imports	103.1	106.5	103.7	104.5	102.7	101.6	104.3	105.4	108.2	108.3
Traditional goods	103.7	107.1	104.2	105.4	103.3	102.1	104.8	106.7	109.1	107.7
Gross domestic product (market prices)	102.2	111.7	99.4	101.0	101.3	106.6	109.7	113.2	114.6	109.4
Gross domestic product Mainland Norway (market prices)	102.8	107.3	101.9	102.5	102.6	103.9	105.2	105.7	108.0	109.9

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2007	2008	07.1	07.2	07.3	07.4	08.1	08.2	08.3	08.4
Final consumption expenditure of households and NPISHs	0.7	3.9	-0.8	0.3	0.1	1.3	1.1	0.7	1.5	1.3
Final consumption expenditure of general government	4.7	5.5	1.7	0.9	0.5	1.3	1.5	1.6	1.9	1.1
Gross fixed capital formation	5.4	5.3	1.4	2.4	0.7	-0.4	1.8	2.4	1.6	0.2
Mainland Norway	5.1	4.9	1.3	1.7	0.8	0.6	1.6	1.6	1.2	0.5
Final domestic use of goods and services	3.0	4.7	0.4	-0.3	0.2	1.0	2.9	-0.5	1.7	2.4
Final demand from Mainland Norway	2.6	4.5	0.2	0.7	0.3	1.2	1.3	1.1	1.6	1.1
Total exports	1.4	13.7	-3.2	4.5	-0.9	8.9	2.6	8.5	1.3	-13.2
Traditional goods	2.5	2.3	2.2	1.7	-3.5	0.9	-1.5	2.8	7.4	-5.1
Total use of goods and services	2.4	7.9	-0.9	1.4	-0.2	3.8	2.8	2.7	1.5	-3.5
Total imports	3.1	3.3	0.2	0.7	-1.7	-1.1	2.7	1.1	2.6	0.1
Traditional goods	3.7	3.2	-0.1	1.1	-2.0	-1.1	2.7	1.8	2.2	-1.3
Gross domestic product (market prices)	2.2	9.3	-1.2	1.6	0.3	5.3	2.9	3.2	1.2	-4.5
Gross domestic product Mainland Norway (market prices)	2.8	4.4	0.6	0.6	0.1	1.3	1.2	0.5	2.1	1.8

Source: Statistics Norway.