Economic trends

The most recent national quarterly accounts figures confirm the picture of a pronounced turnaround in the Norwegian economy in 2008. So far the cyclical downturn has been moderate, and GDP growth has been positive. The turnaround has affected the labour market, although unemployment has only risen recently. Unemployment growth has come to a halt, the supply of vacancies has decreased and the number of lay-offs has increased.

Internationally, the economic downturn has advanced further and appears likely to be considerably more severe than envisaged earlier. The downturn is manifesting itself in most countries. GDP in many OECD countries fell through the period April-September. During the same period, inflation and key rates rose in many countries. Since mid-September, the already weakened confidence in financial markets has deteriorated further. Share prices on stock exchanges worldwide have fallen sharply. The banking industry in many countries is in a state of crisis, and credit markets generally are functioning poorly. As a result, output and demand are being constrained by more restrictive lending. The authorities in a large number of countries have initiated or announced future stabilization packages for the credit market, and large scale monetary and fiscal stimuli.

The banking industry in Norway has been growing strongly since the late 1990s, but nevertheless accounts for a smaller share of the economy than the banking industry in other OECD countries. Norwegian banks have also had a favourable starting point for their encounter with the international financial crisis. They have a long period of solid profitability behind them and only limited activities abroad. Nonetheless, Norwegian banks have also felt the impact of the financial crisis. The principal effects have been more expensive funding and tight liquidity, but also losses on securities. From a cyclical point of view, the extent to which a tighter bank lending practice will exacerbate the downturn that has already been observed in the Norwegian economy will be crucial.

Petroleum sector output and investment are key factors for Norwegian economic developments. A sharp reduction in petroleum companies' expectations regarding oil prices has undoubtedly led to some projects being shelved, but profitability is probably sound enough for most current projects. We therefore assume that activity in Norway will remain buoyant and increase in some sectors. This may imply an element of stabilization for the private sector of the mainland economy.

Norwegian authorities also have a better basis than other countries for curbing the impact of the crisis through an economic policy with substantial scope for manoeuvre. In the course of October, the key policy rate was reduced by 1 percentage point. This has led to an appreciable decrease in banks' lending rates in the past couple of months and a further decrease is fairly certain to follow. The Government fiscal programme, which is being adopted at the present time, will provide a certain stimulus for the economy, and there have been signals that the fiscal stance will be even more expansionary in 2009. All these factors will inevitably fail to prevent an exacerbation of the Norwegian cyclical downturn, but they will limit it.

The driving forces of a weak outlook, a reduced willingness on the part of banks to take risk and lend money, lower product prices and a decline in demand in the global market continue to point to lower household demand, lower exports and a further decline in mainland fixed investment. Many industries must therefore expect a decline in the activity level for a while to come.

We expect the fiscal measures to contribute to bringing the decline in output to a stop during the first part of 2009. The international downturn will also ease in the course of 2009 and change to a recovery towards the end of 2010 or in early 2011. However, unemployment may rise for a long period. The number of unemployed is expected to rise to over 100 000 in the course of 2009 and the unemployment rate to be 4.5 per cent of the labour force in 2010 and 2011. Developments in inward labour migration represent a major uncertainty factor for the labour market. We have assumed that it will continue, but at a lower level than that seen in recent years.

Cyclical developments in Norway

The turnaround in the Norwegian economy has become more pronounced through 2008. Figures from the quarterly national accounts (QNA) show that growth in the Norwegian economy from the second to the third quarter, measured as developments in mainland GDP, was an annualized 1 per cent. The figures confirm the impression that the cyclical peak was passed at the end of 2007. However, it is developments since mid-September, which are scarcely reflected in the QNA figures so far, which show that the economic downturn has entered a more serious phase. The situation in fiscal markets worldwide has been unusual for the past three months. Money markets have not functioned normally, risk premiums have increased sharply, exchange rates have changed substantially and stock exchange and commodity prices have plunged. Developments have also been highly volatile, with stock exchange indices rising and falling 10 per cent or more on some days. This indicates that market participants are not quite sure ”what things are worth” any longer. This makes it difficult to evaluate investment projects which are based precisely on expectations regarding parameters

Tabell 1. **Macroeconomic indicators 2006-2008. Growth from previous period unless otherwise noted. Per cent**

	2006	2007	Seasonally adjusted			
			07:4	08:1	08:2	08:3
Demand and output						
Consumption in households etc.	4.8	6.0	1.0	0.4	0.0	-0.6
General government consumption	1.9	3.4	0.5	0.8	0.9	0.8
Gross fixed investment	11.7	8.4	3.5	-2.5	0.8	0.1
Mainland Norway	11.9	9.3	10.4	-6.5	2.0	-0.1
Extraction and transport via pipelines	4.3	5.5	-0.4	0.5	-1.9	2.9
Final domestic demand from Mainland Norway[1]	5.3	6.0	2.7	-1.0	0.6	-0.2
Exports	0.0	2.5	1.2	-0.1	-0.3	-2.0
Crude oil and natural gas	-6.5	-2.6	-2.5	1.4	-1.8	-4.1
Traditional goods	6.2	8.7	3.7	1.3	0.3	0.3
Imports	8.4	7.5	5.3	-0.7	-0.4	1.4
Traditional goods	11.5	6.7	3.2	1.6	-1.2	1.3
Gross domestic product	2.3	3.1	1.1	0.2	0.1	-0.7
Mainland Norway	4.9	6.1	0.8	-0.1	0.5	0.2
Labour market						
Man-hours worked	3.2	4.4	1.1	0.8	0.8	0.6
Employed persons	3.6	4.1	1.1	0.7	0.8	0.6
Labour force[2]	2.4	3.2	1.1	0.8	0.8	0.6
Unemployment rate, level[3]	3.4	2.5	2.5	2.5	2.5	2.4
Prices and wages						
Wages per standard man-year[4]	4.8	5.6	5.3	5.0	5.6	6.2
Consumer price index (CPI)[4]	2.3	0.8	1.4	3.5	3.2	4.7
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[4]	0.8	1.4	1.6	2.1	2.4	2.9
Export prices, traditional goods	11.4	2.5	0.9	-1.8	3.2	7.2
Import prices, traditional goods	4.0	3.7	-0.7	2.5	1.7	2.1
Balance of payment						
Current balance, bill. NOK	372.1	362.3	117.4	101.3	123.1	116.6
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	3.1	5.0	5.8	6.0	6.4	6.6
Lending rate, banks[5]	4.3	5.7	6.4	6.8	7.2	7.6
Crude oil price NOK[6]	413.8	423.4	483.2	516.4	616.8	602.1
Importweighted krone exchange rate, 44 countries, 1995=100	92.5	90.8	88.4	88.4	87.3	89.1
NOK per euro	8.05	8.02	7.88	7.96	7.94	8.06

[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.

to which greater uncertainty is attached than in the past. In this reality, quantitative projections are also shrouded in uncertainty.

The global financial crisis is also impacting developments in Norwegian financial institutions. Banks have had problems in refinancing their market loans, both at home and abroad. They have also incurred losses on their securities holdings. Now that the international downturn is depressing developments in the Norwegian economy, there is reason to believe that banks will become more restrictive in their lending to both business and household sectors going forward.

The turnaround in the Norwegian economy commenced with the decline in housing investment and was followed by a decline in purchases of consumer durables. In the last few quarters business investment has also moved along a weak trend, partly due to tighter monetary policy up to and including the third quarter of this year. Exports of traditional goods have remained buoyant despite weak developments internationally, but we expect this to change going forward. However, the Norwegian economy has received impetus from rising petroleum investment and growth in public sector purchases of goods and services. As a result, developments in Norway have been more favourable than in many other countries. An annualized estimate for 2008 puts mainland GDP growth at just over 2 per cent. Unemployment has been very low so far. Registered unemployment did not rise until after the summer, while LFS unemployment has changed little to date. The turnaround in the labour market becomes clearer when the supply of vacancies is considered. Here growth was already levelling off at the end of 2007. According to the QNA, unemployment growth has continued from the second to the third quarter, albeit at a distinctly slower rate than previously.

Inflation in Norway has gathered pace, and a sharp rise in energy prices, not least, brought the year-on-year rise in consumer prices, measured by the CPI, up to 5.5 per cent in October, whereas the year-on-year rise one year earlier was 0.2 per cent. These prices have also fed through into other prices. The rise in prices excluding energy products also increased concurrently with the cyclical upturn and high cost inflation. The rise in the CPI-ATE has been higher than the inflation target since the summer. Seasonally adjusted figures may imply that inflation, measured as the rise in prices from one month to the next, peaked during the summer.

The outlook for the Norwegian economy for the next couple of years is now far more negative than envisaged three months ago. The situation has also deteriorated by comparison with our revised outlook in October. The world now appears to be facing the most severe cyclical downturn since World War II. A small, open economy like Norway will be affected by it. Some of our traditional export industries will be particularly strongly affected. However, a number of factors may mitigate the effect of the global downturn. Norway has policy rules that almost automatically buffer the impact. As a result of the substantial weakening of the krone exchange rate, export firms obtain higher prices in NOK than in foreign currency, thereby dampening the effects of the international downturn.

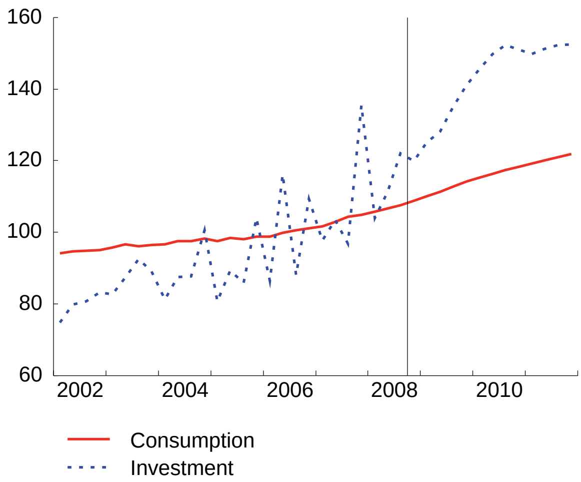
Without a more expansionary monetary and fiscal policy, developments in Norway would probably be characterized by a very rapid increase in unemployment and an appreciable decline in mainland GDP in 2009. A clear impetus from fiscal policy, upon which we base our assumptions, will substantially curb the downturn and the increase in unemployment may be limited to approximately the level during the previous cyclical 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 foreigners who have worked in Norway recently may return home because of economic developments. It is difficult to forecast how many they will be. 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 an assessed slight downward revision of inward labour migration for the next couple of years.

Inflation will remain high for some quarters to come, but will fall appreciably through 2009. With a far weaker labour market and poorer business sector profitability, there is reason to believe that wage growth will decline more markedly next year than previously assumed. If the global economic downturn becomes as deep as many now anticipate and moreover lasts far into 2010, there is no reason to count on any appreciable rise in commodity prices before some way into 2010. In consequence the profitability of Norwegian export firms and, by extension, wage growth will probably be lower than previously expected. This will also push down consumer price inflation.

More expansionary fiscal policy ahead?

The seasonally adjusted QNA figures show high, steady growth in general government consumption through the first three quarters of 2008. Developments are in line with estimated annual growth in National Budget 2009 (NB 2009) which is 3.8 per cent from 2007 to 2008. Growth in civilian consumption is high for both central and local government, while military consumption is falling. Gross general government investment shows more uneven growth through 2008. This is largely due to the import of frigates, which disrupts the quarterly trend. If adjustment is made for this in the fourth quarter of 2007 and the third quarter of 2008, unusually strong investment growth will be required in the 4th quarter to reach the estimate for the year of over 6 per cent in NB 2009. Annual growth in general government investment is now projected to be just over

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



Source: Statistics Norway.

4 per cent in 2008. Our projection for growth in total general government purchases of goods and surfaces in 2008 is thus almost the same as in the previous report.

Transfers to households, which will amount to NOK 296 billion in 2008, or 16 per cent of mainland GDP, appear likely to increase by just over a nominal 6 per cent in the current year. The strong wage growth that regulates the basic amount in the National Insurance Scheme makes the largest contribution. The number of benefit recipients is fairly stable, but this situation will change in the period ahead. Higher unemployment will cause a rise in the number of recipients of unemployment benefit, and the number of pensioners will also begin to rise faster. In the next couple of years, the number of old-age pensioners may increase by about 1 per cent per year for demographic reasons. In the light of a more difficult labour market, an increased propensity for taking advantage of early retirement schemes is conceivable. Experience indicates that the number of persons on rehabilitation schemes and the number of disabled will also increase somewhat after a period of high unemployment. These mechanisms are to some extent incorporated in our projections. In consequence, even after a slight downward revision for wage growth, both in 2009 and more particularly in subsequent years, the growth in benefits will remain at around 6 per cent. Assuming lower inflation in the period ahead than in 2008, this will provide a considerable stimulus to household income. Whereas real growth in transfers will only be about 2.5 per cent in 2008, it will be over 4 per cent in 2010 if our projections are accurate.

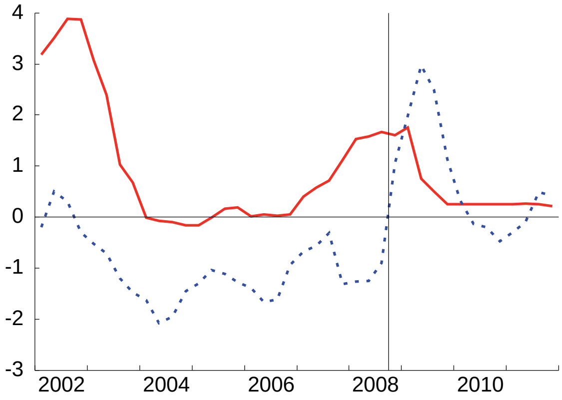
Economic policy has changed during the autumn compared with the description in NB 2009: the Government is now supplying the credit market with large amounts in the form of long-term credits to counter the effects of the global financial crisis. The fiscal programme, as proposed in NB 2009, will provide expansionary impetus to the Norwegian economy in 2009.

As a result of the sombre outlook, the Government has announced that fiscal policy will also be adjusted in early 2009. At this time of the year we would normally be using NB 2009 as a basis for our projections for fiscal policy in 2009, but in the present situation it does not provide a reliable outlook for next year. Taking as our starting point the general government purchases of goods and services in NB 2009, we have added an increase in purchases for approximately NOK 15 billion at current prices. The extra stimulus is equivalent to 0.8 per cent of mainland GDP. As a technical assumption, we have chosen not to increase general government employment, but only investment and purchases of goods and services for consumption. A demand stimulus of this nature will largely target the building and construction sector and to some extent private services. These adjustments raise the projection for gross general government investment by 15 per cent compared with the projection in NB 2008, while general government consumption is increased by about one percentage point. Our projections for direct and indirect tax rates are otherwise the same as those in NB 2009. A very large number of households will receive a substantial financial stimulus in 2009 as a result of lower lending rates and lower inflation. A separate box on **page 24** illustrates the effects that different stimuli will have on the Norwegian economy.

The Government has not yet published fiscal policy projections for 2010 and forward. We have chosen to use unchanged tax rates for the period ahead. We assume that a falling level of activity in mainland private sector industry and a severe cyclical downturn abroad will increase the need to stimulate demand by means of an expansionary monetary and fiscal policy in 2010 as well. Our projections indicate that without a further boost from fiscal policy, unemployment will increase substantially more in 2010 than indicated by our previous projections. We therefore repeat the stimulus from 2009 in 2010 when we measure this as the increase in purchases of goods and services from the private sector compared with our assumptions in the previous report, and also compared with the consequences of extending the growth in NB 2009 into 2010. The overall fiscal stimulus will be about 1.5 per cent of mainland GDP in 2010. For 2011, however, we revert to a growth in public demand closer to trend, in line with an expected cyclical turnaround.

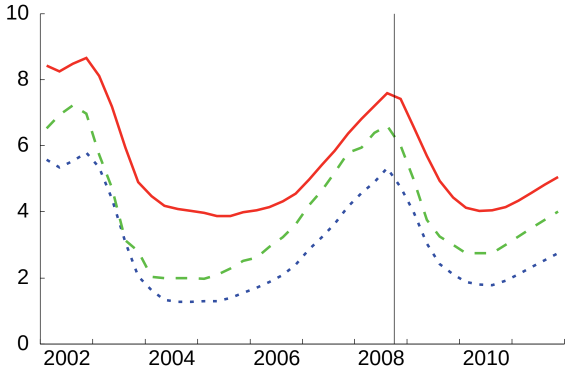
We attempt to estimate what these assumptions mean in terms of deviation from the 4 per cent scenario of the fiscal rule. First, the stimuli will contribute to a cyclical overconsumption of about 1.5 per cent of mainland GDP in 2010, equivalent to approximately 30 billion that year. As a result of the large and unexpected decline in the value of the Government Pension Fund – Global, the scope for manoeuvre provided by the 4 per cent rule will probably be less than estimated in NB 2009. There is also reason to expect that a smaller amount will be transferred to the Fund in 2009 than estimated in NB 2009 because of lower oil prices. So far,

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



Source: Norges Bank and Statistics Norway.

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



Source: Norges Bank and Statistics Norway.

the weakening of the krone exchange rate has to a large extent offset the fall in the Fund's value, measured in NOK. Unless share prices internationally rise substantially through 2009, while the krone appreciates as assumed in the period ahead, the value of the Fund at the beginning of 2010 may be lower than projected in NB 2009.

Sharp reduction in interest rates in the first half of 2009

The crisis affecting world financial markets and the sombre cyclical outlook, also for the Norwegian economy, are colouring monetary policy. Norges Bank is expected to reduce the key policy rate in the period to next summer. We also assume that the functioning of financial markets will normalize to a large extent in the course of the coming year.

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 down to 0.4 per cent in August 2006. Since then, inflation has gradually picked up. In the first 10 months of 2008, the 12-month rise in the CPI-ATE was 2.5 per cent on average.

As a result of the financial crisis, the difference between money market rates and the key policy rate has widened. Before the financial crisis, money market rates largely shadowed the policy rate, with a premium of ¼ percentage point. Since summer 2007, the premium has been considerably higher, however, 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.

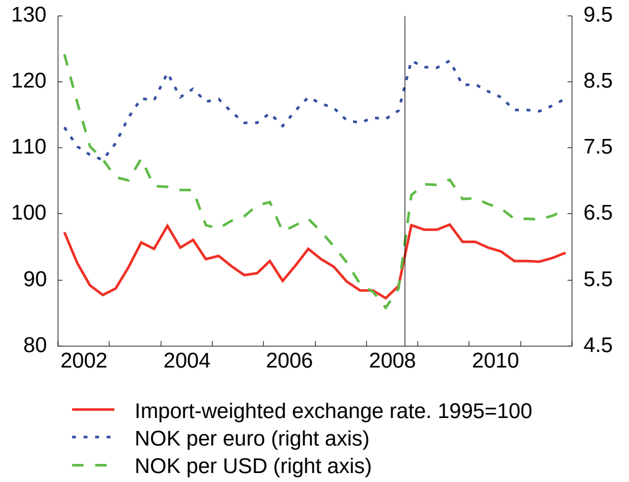
Norges Bank cut the key policy rate twice in October, after keeping it unchanged at the monetary policy meeting at the end of September. The policy rate was cut by 0.5 percentage point at both the extraordinary monetary policy meeting in mid-October and the ordinary meeting later in the month, and is now 4.75 per cent. From the beginning of October to the end of November, money market rates have fallen from just under 8 per cent to about 6 per cent.

Norges Bank has also implemented other 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.

It appears that the increased money market turbulence may have led to a flight from small currencies like the Norwegian krone. As a result, the krone has depreciated in the last three months. Whereas one USD cost just over NOK 5 in the summer, it now costs around NOK 7. During the same period, the price of a euro has risen from around NOK 8 to almost NOK 9. Measured by the import-weighted krone exchange rate, where the weights are based on the composition of Norwegian imports, the krone has depreciated by about 12 per cent from August to the end of November this year.

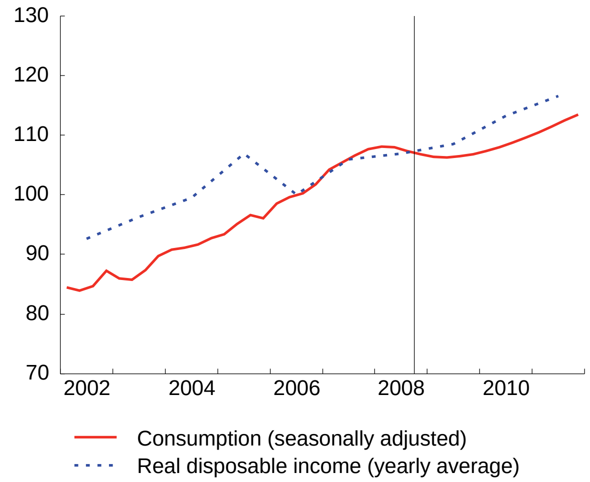
Domestic credit growth, as measured by 12-month growth in private sector gross debt (C2), was 11.9 per cent in October 2008, the lowest level in three years. Household debt growth was 8.2 per cent. This is the lowest 12-month growth since the turn of the century. Slower growth in activity in the Norwegian economy and lower turnover in the housing market form part of the background to these developments.

Figure 4. **Exchange rates**



Source: Norges Bank.

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



Source: Statistics Norway.

We anticipate sharp interest rate reductions going forward to counter the cyclical downturn. We assume that in the period to summer 2008 the key policy rate will be reduced from 4.75 per cent to 2.25 per cent. We envisage that the extraordinarily high premium on the money market rate will be gradually reduced to ½ percentage point in the course of 2009, so that at the beginning of 2010 the money market rate will be 2.75 per cent. As the downturn troughs out around the end of 2010 or early 2011, money market rates are expected to rise gradually from 2.75 per cent in the third quarter of 2010 to 4 per cent in the fourth quarter of 2011.

We assume that the weakening of the Norwegian krone against the euro will be reversed in the next two years, bringing the exchange rate down towards 8.0 in late 2010/early 2011. At the same time, we assume an unchanged EUR/USD exchange rate, so that the krone strengthens just as much against the dollar as against the euro. The Swedish krone and pound sterling have weakened against the euro recently, and they are expected to strengthen approximately as much as the Norwegian krone. The exchange rates between NOK and these currencies will thus remain unchanged in the immediate future.

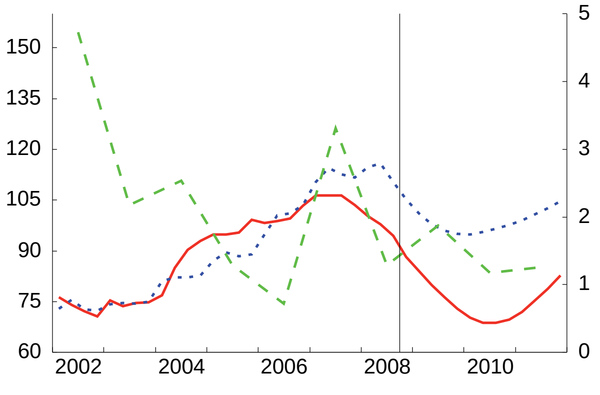
On an annual basis, the depreciation of the krone this autumn will outweigh the strengthening we expect next year. As an average for the year, the krone will therefore depreciate in value from this year to 2009. The weakening against the euro from 2008 to 2009 will be just under 6 per cent, while the import-weighted krone exchange rate will be weakened by close to 7½ per cent. The reason for the greater depreciation of the import-weighted krone is that the krone has depreciated substantially against the dollar. In 2010 and 2011 the krone will strengthen by 3 per cent and close to 1½ per cent, respectively, against the imported weighted currency basket.

Household consumption declines

Seasonally adjusted QNA figures show that consumption by households and non-profit organizations declined by a full 0.6 per cent from the second to the third quarter of 2008. The decline follows weak developments in the first half of the year, first and foremost in goods consumption, with a marked decline in car purchases through the first three quarters of the year. Consumption of services has increased somewhat so far this year, but the 0.4 per cent reduction in purchases of hotel and restaurant services in the third quarter indicates that the cyclical downturn is now also affecting this consumption group. Total consumption for the first three quarters of the year combined was only 2.3 per cent higher than in the same period in 2007. If we disregard car purchases, consumption growth was 3 per cent. The goods consumption index for October, which shows a seasonally adjusted decline of 1 per cent compared with September, also points to continued weak developments in consumption in the fourth quarter of 2008. On an annual basis we now expect consumption to increase by around 1.5 per cent this year, compared with a full 6 per cent in 2007. Developments in consumption in 2007 must primarily be viewed in the light of high underlying real income growth through the cyclical upturn. Nevertheless, the saving ratio - saving as a share of disposable income – was at a very low level, at 0.4 per cent, in 2007. Consumer durables excluding dwellings are admittedly not included in this saving concept. The very strong growth in car purchases in 2007 is therefore an important reason for the low saving ratio last year. The saving ratio including car purchases was 6.1 per cent in 2007.

The cyclical downturn will continue to influence household consumption, first and foremost through weaker income developments. Growth in household real disposable income is now expected to be around 1 per cent this year and in 2009, compared with close to 6 per cent in 2007. Weaker growth in household wage

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



Source: Statistics Norway.

income is one of the principle reasons for this development. Higher consumer price inflation, particularly in 2008, is also dampening real growth in household income to a substantial degree. However, stronger growth in public transfers, largely because there will be more recipients of national insurance old-age pensions, will push up growth in disposable income in the next few years. Lower interest rates will have the same effect in 2009 and 2010. The real interest rate after tax appears likely to be around 1.5 per cent in 2008, which is appreciably lower than in 2007, when it was over 3 per cent. Next year the real interest rate is expected to be close to 2 per cent, and then to decline further towards 1 per cent in both 2010 and 2011. After several years of high consumption growth, households are expected to attempt to re-establish a more normal relationship between income and consumption, resulting in a 1 per cent fall in consumption from 2008 to 2009. This expectation is based on a more uncertain outlook for the future, and the fact that banks are expected to make more stringent requirements for providing housing loans and other credit to households. Consumption growth has not been so weak since 1989. In 2010 and 2011 income growth is again expected to pick up somewhat, in pace with an improved economic situation, and annual average consumption growth is expected to be around 2.5 per cent. Thus our forecasts imply considerably reduced consumption growth compared with the high growth since 2004.

The assumptions made here with respect to income and consumption growth imply that the saving ratio will fall from 0.4 per cent in 2007 to -0.7 per cent this year and then rise again to around 5 per cent in 2011. The increase in saving through the projection period is reflected in a marked increase in household net lending. Measured in current prices, households will increase their net lending from about – NOK 70 billion in 2008 to over NOK 17 billion in 2011.

Continued sharp fall in housing investment

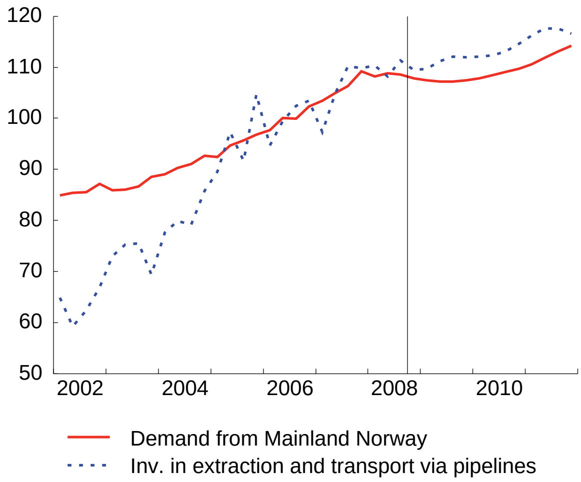
Housing investment is expected to decline substantially through the projection period compared with the level in 2007. The period of strong growth in housing investment since the end of 2003 is thus over. It has been driven by strong income growth, low real interest rates and a rapid rise in house prices. According to seasonally adjusted QNA figures, housing investment has fallen relatively sharply since the second quarter of 2007. Housing start statistics, which provide the main basis for the QNA figures, show that the marked downward trend through 2007 continued through the first three quarters of this year. The high level of housing capital and decline in building activity through 2007 and so far in 2008 point to a continued pronounced fall in housing investment for the rest of this year and for the next couple of years. On the other hand, prospects of higher growth in real disposable income from 2010 and relatively low real interest rates suggest that housing investment will pick up somewhat again towards the end of the projection period.

House prices increased substantially in the period 2004 to 2007, and the rise was close to an annual average of 11 per cent according to SN's housing price index. This trend has now reversed. Owner-occupier dwellings showed a price fall of 4.8 per cent from the second to the third quarter of this year. While detached houses showed the largest price fall, at 5.8 per cent, prices for small houses and flats also fell, by 3.6 per cent and 0.4 per cent respectively, in the third quarter. On aggregate, prices for the first three quarters of the year for owner-occupier dwellings were only 0.9 per cent higher than in the same period in 2007. We now expect house prices to fall almost 20 per cent, from the peak in the second quarter of this year to the fourth quarter of 2009, before beginning to rise again, albeit at a moderate rate, as the economic situation improves. Given this quarterly development, house prices will fall by an annual average of around 1.5 per cent this year and 12.5 per cent in 2009.

Moderate growth in petroleum investment

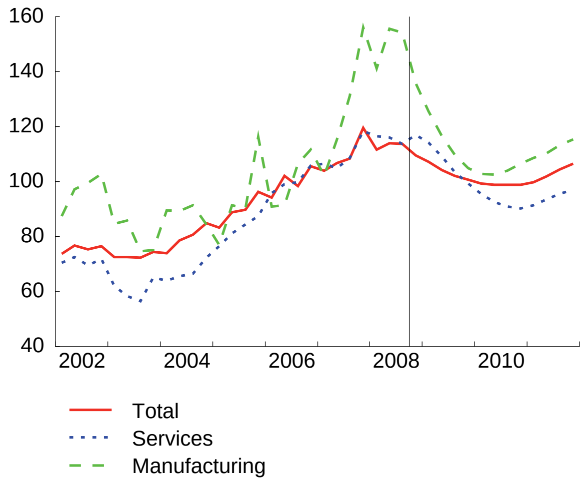
Petroleum investment was weaker in the first half of 2008 than indicated by previous investment intention surveys. The seasonally adjusted QNA figures show that investment increased by 3.9 per cent in the third quarter of 2008 compared with the previous quarter. However, unadjusted growth from the third quarter of 2007 to the fourth quarter of 2008 was only 1.5 per cent. After growing strongly in recent years, petroleum investment levelled off during the first half of 2008. This can to some degree be explained as postponement of already planned investment projects. The delays were caught up to some extent in the third quarter, and investments in the last quarter of 2008 are expected to reflect this.

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



Source: Statistics Norway.

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



Source: Statistics Norway.

Investment this past year has been concentrated particularly on exploration and upgrading of existing fields, while investment in production drilling and land-based facilities has fallen. In the period ahead we expect new investment to be largely associated with existing infrastructure, in order to increase recovery in and around mature fields.

A shortage of economic resources in the form of capital equipment and labour has constrained investment growth in 2008. The shortage led to higher factor prices and hence higher costs for oil companies. A lower oil price will result in lower investment in areas where oil and gas recovery is cost-intensive. In areas with lower costs, this will result in an increased supply of input factors, particularly for drilling rigs, and thereby contribute to maintaining investment growth.

Our projection for growth in petroleum investment in 2008 is 3.7 per cent. Investment in 2009 is not expected to be strongly influenced by the fall in oil prices. Investment growth in 2009 is projected to be 3 per cent according to the most recent investment intentions survey, and almost zero in 2010 before picking up at the end of the projection period. However there is great uncertainty. If the oil price should be lower than anticipated, investment could be lower going forward.

Petroleum production on the Norwegian continental shelf has increased in 2008 compared with 2007. The Norwegian Petroleum Directorate reports that petroleum products[1] increased by 2.4 per cent in the first three quarters of 2008 compared with the same period last year. During this period oil production fell by 5.4 per cent, but this was more than compensated for by higher gas production. The decline in oil production is expected to slow through the projection period, so that production is reduced by about 1 per cent annually. The development of several large gas fields in the years ahead will ensure a sharp increase in gas production that more than compensates for the fall in oil production. We estimate a growth in gas production of about 10 per cent annually in 2008 and 2009, before the growth rate declines substantially. This implies a moderate increase in value added for the petroleum industry in 2009, and thereafter zero growth for the remainder of the projection period.

Manufacturing investment projected to fall 30 per cent to 2010

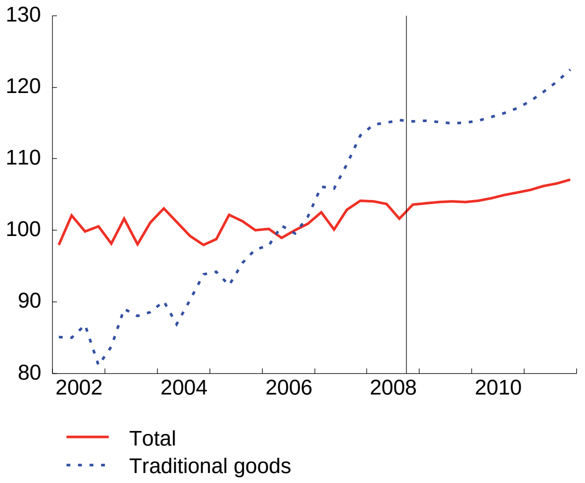
From 2003 to 2007, mainland business investment increased by 70 per cent. From 2006 to 2007 it increased by 12.2 per cent. Seasonally adjusted QNA figures show investment in the current year almost levelling off, and from the second to the third quarter of this year it fell by 2 per cent. The sub-groups show roughly the same tendency. Investment in manufacturing and mining fell by just under 1 per cent in the last quarter, while investment in services and other goods production fell by 2 and just over 3 per cent, respectively.

SN's most recent investment intentions survey indicates that investment this year will be just under 20 per cent higher than in 2007. The building of new manufacturing facilities and extensive upgrading in oil refineries and solar cell-related activities are the main reasons for this. The survey indicates that manufacturing investment will fall sharply in 2009, primarily due to the conclusion of several major projects relating to solar cells.

According to our projections, manufacturing investment will increase by almost 20 per cent this year and fall by over 20 per cent in 2009. We anticipate a further fall in manufacturing investment in 2010, and that it will be about 30 per cent lower than in 2008. For mainland industries as a whole, investment growth is projected at just under 9 per cent this year, followed by slackening growth later in the projection period in pace

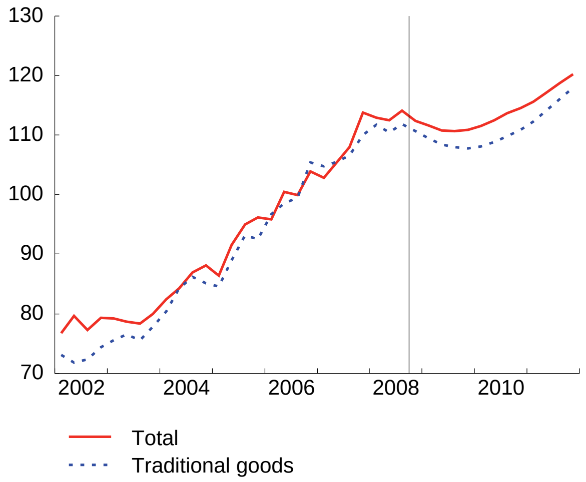
[1] Measured as number of standard cubic metres of oil equivalent.

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



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

with slower growth in production. In 2011 investment will pick up in pace with the next economic recovery.

Low export growth ahead

Growth in exports of traditional goods has been high and rising for the past five years, from 3.4 per cent in 2003 to 8.7 per cent in 2007. Developments in exports of goods and services are strongly dependent on international demand impulses, and the economic downturn affecting our trading partners has therefore had a negative impact on exports. Quarterly export growth, measured as an annual rate, fell by 1.2 per cent in both the second and third quarters this year after adjustment for normal seasonal variations. Metal exports contributed most to boosting exports in the third quarter, while exports of engineering products contributed most strongly in the second quarter.

Third quarter exports were negatively affected by maintenance work at the Mongstad Refinery in Hordaland in September and October. A large proportion of refinery production is exported. The fact that production is now under way again will help to push up growth in traditional exports from 2008 to 2009.

Prices for traditional export goods rose by 7.2 per cent in the third quarter this year compared with the previous quarter. This is largely attributable to developments in the exchange rate and in world market prices for some industrial commodities and energy products. The 5.5 per cent fall in prices for crude oil and natural gas in the same period led to a 1 per cent fall in the aggregate export price. The price of crude oil, measured in NOK, was halved between July and the end of November. This will have a negative impact on the average export price going forward.

Export markets are projected to decline by about 2.5 per cent in 2009 as a result of the global economic situation. This will have a negative impact on exports. However, the weakening of the krone will lead to strengthening of cost competitiveness from 2008 to 2009, and thus counter the negative impulses from abroad. On an annual basis, exports of traditional goods are expected to remain approximately unchanged in 2009 and 2010. We assume that exports of services will rise slightly in 2009 and 2010. Total petroleum production is expected to rise, particularly as a result of increased gas production, and oil and gas exports are projected to increase by around 2 per cent in 2009. It is assumed that the global economic situation will turn around in 2011, and export markets are then projected to climb 4 per cent.

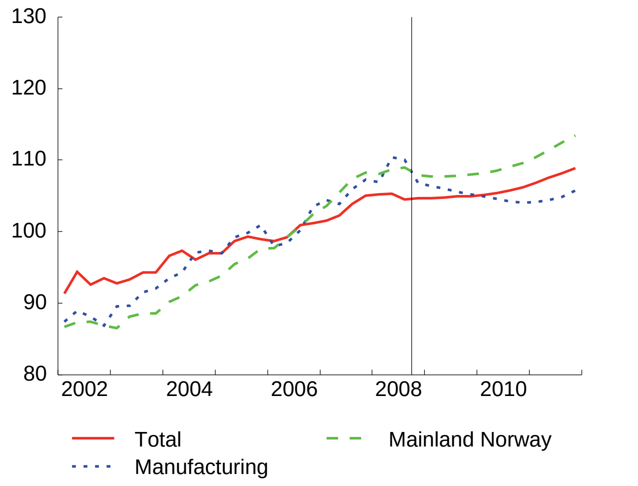
Reduced imports in 2009

After adjustment for normal seasonal variations, there was virtually no increase in imports from the fourth quarter of 2007 to the third quarter of 2008. In the third quarter, imports increased by 1.4 per cent on the previous quarter. This high import growth is assessed as being temporary, and may be attributed largely to the import of the frigate *KNM Otto Sverdrup*. Imports of services increased by 1.5 per cent. The relatively strong krone up to the third quarter of this year, particularly measured against the US dollar, may have influenced the trading pattern in the direction of increased imports, including through internet trading. This may then explain the doubling of imports of postal and telecommunication services.

There has been a broad-based increase in import prices, which increased by 2.5 per cent overall in the third quarter of this year compared with the previous quarter. This is partly attributable to a 11.2 per cent increase in prices for ships, offshore platforms and aircraft.

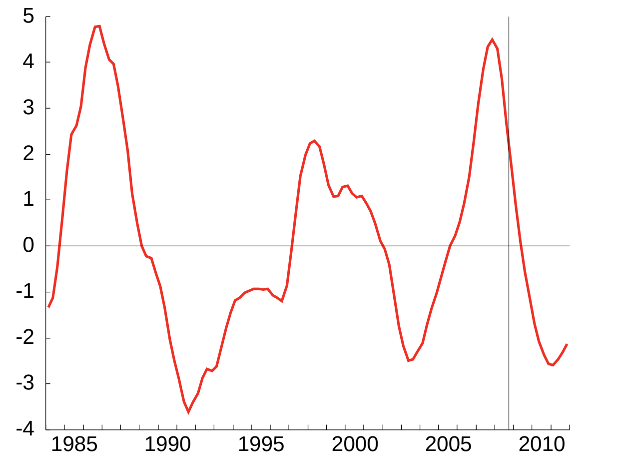
The Norwegian cyclical downturn will have a negative impact on imports. Total imports are projected to fall by about 2.5 per cent in 2009. The weak krone is causing imports to weaken more than the decline in the

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.

mainland economy, which means lower import shares. From 2010 growth in domestic demand is expected to pick up. Coupled with an expected strengthening of the import-weighted krone exchange rate, this will push up import growth from 2010.

The global cyclical downturn will have a negative impact on import prices in the period ahead. Lower international demand, lower commodity prices and falling freight rates will make imports cheaper. The expected strengthening of the import-weighted krone exchange rate points the same way. We project that prices for traditional import goods will fall for the next two years. In 2011, import prices will rise as a result of the next global recovery.

Output moves from a weak to a weaker trend

Almost five years of fairly strong expansion culminated in a 3.4 per cent increase in mainland GDP, seasonally adjusted and annualized, from the third to the fourth quarter of 2007. A decline in electricity production prevented growth from being even higher. Mainland activities took an abrupt downward turn in late 2007/early 2008. From the fourth quarter of 2007 to the third quarter of 2008 mainland GDP increased by only 0.6 per cent, or an annualized 0.8 per cent. This is appreciably lower than trend growth, and indicates that the Norwegian economy has been in an economic downturn in the first three quarters of this year. From the second to the third quarter, mainland GDP increased by only 0.2 per cent, or an annualized 1 per cent.

However, output developments through 2008 have been more positive than these figures may imply. There has been a clear decline in turnover of highly taxed products such as cars. This has pushed down GDP estimated in terms of market prices. Estimated at basic prices, excluding tax components, mainland GDP growth in the first three quarters of 2008 was an annualized 2.0 per cent. Even if this indicator is used, however, the first three quarters as a whole must be designated a cyclical downturn, albeit not as pronounced.

The QNA figures are based on indicators, not accounts, which means there is uncertainty associated with the figures. The QNA indicators show weaker developments for demand than for output. The difference is recorded as changes in stocks and statistical errors and omissions. Stockbuilding is to be expected in a cyclical phase with rapid stagnation of demand. But it may also be a sign that the demand indicators are increasing too little, or that the output indicators are increasing too much. However, a continued relatively clear rise in employment up to and including the third quarter of this year indicates that it is not output growth that is being overestimated.

The expansion was broad-based, and there was robust growth in the great majority of industries. The situation now is more mixed. Of the main group in the mainland economy, private services showed weakest developments in the first three quarters of the year combined. Developments in domestic transport and communications and financial services were particularly weak. During the period, there was a distinctly larger increase in output from manufacturing, production of other goods and general government, and there is a clear parallel. However, within these main groups there are large differences, particularly in manufacturing. Wood processing and industries with large deliveries to households have shown a weak trend, while the metal and engineering industry, and production of ships and oil platforms have grown markedly.

The last recorded developments deviate appreciably from the picture of the first three quarters combined. Developments from the second to the third quarter of this year were particularly weak for manufacturing, where value added fell by 0.4 per cent. A sharp decline

Tabell 2. **Main economic indicators 2007-2011. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2007	Forecasts									
		2008			2009			2010		2011	
		SN	MoF	NB	SN	MoF	NB	SN	NB	SN	NB
Demand and output											
Consumption in households etc.	6.0	1.6	2.3	1 1/2	-1.0	2.5	3/4	2.0	3	3.3	3 1/4
General government consumption	3.4	3.8	3.8	3 3/4	4.4	3.4	3 1/2	4.4	..	3.1	..
Gross fixed investment	8.4	3.2	4.6	..	-6.7	-0.3	..	-3.2	..	3.5	
Extraction and transport via pipelines[1]	5.5	3.7	11.0	7 1/2	3.1	5.0	10	0.2	5	4.9	0.0
Mainland Norway	9.3	2.7	2.7	2 1/4	-8.5	-1.2	-14	-3.9	..	4.5	..
Industries	12.2	8.7	7.9	..	-13.7	-2.4	..	-9.8	..	3.9	..
Housing	5.3	-9.7	-8.5	..	-17.3	-2.0	..	-12.4	..	12.2	..
General government	7.9	4.5	6.2	..	16.9	2.7	..	15.4	..	0.2	..
Demand from Mainland Norway[2]	6.0	2.3	2.7	2 1/4	-1.1	2.0	-1 1/4	1.5	1 1/2	3.5	3 3/4
Stockbuilding[3]	-1.5	0.7	..	..	0.0	..	..	0.0	..	0.0	..
Exports	2.5	1.0	2.2	..	0.9	2.5	..	0.6	..	1.7	..
Crude oil and natural gas	-2.6	-2.3	-1.5	..	2.1	2.6	..	-0.3	..	-0.3	..
Traditional goods[4]	8.7	6.0	5.9	5 1/2	0.3	1.8	3/4	0.9	..	3.4	..
Imports	7.5	5.3	5.3	4	-2.3	1.8	-1 1/4	2.3	..	4.3	..
Traditional goods	6.7	4.6	5.5	..	-3.5	1.9	..	1.2	..	5.3	..
Gross domestic product	3.1	1.6	2.0	2	0.2	2.3	1	0.7	2 1/4	2.2	3 1/4
Mainland Norway	6.1	2.2	3.1	2 1/2	-0.4	1.9	1/4	1.0	2 1/2	2.9	3 1/2
Labour market											
Employed persons	4.1	3.2	2.8	2 3/4	0.1	0.4	-3/4	-0.1	0	1.1	3/4
Unemployment rate (level)	2.5	2.6	2 1/2	2 1/2	3.7	2 3/4	3 1/4	4.6	4	4.6	4
Prices and wages											
Wages per standard man-year	5.6	5.9	6.0	6	4.0	5.0	4 3/4	4.0	4 3/4	3.7	4 3/4
Consumer price index (CPI)	0.8	3.9	3 3/4	3 3/4	2.0	3.0	3	1.7	2 3/4	2.1	2 1/2
CPI-ATE[5]	1.4	2.7	2 1/2	2 1/2	2.5	2 3/4	3	1.4	2 3/4	1.9	2 1/2
Export prices, traditional goods	2.5	2.4	1.4	..	-3.2	0.3	..	-2.0	..	3.4	..
Import prices, traditional goods	3.7	3.2	1.6	..	-0.1	1.5	..	-2.4	..	2.1	..
Housing prices[6]	12.3	-1.3	..	..	-12.6	..	..	-0.7	..	5.6	..
Balance of payment											..
Current balance (bill. NOK)	362.3	440.2	529.2	..	302.9	435.8	..	369.7	..	432.9	..
Current balance (per cent of GDP)	15.9	17.3	20.5	..	12.4	16.6	..	14.4	..	15.7	..
Memorandum items:											..
Household savings ratio (level)	0.4	-0.7	2	..	3.1	2.3	..	5.4	..	5.0	..
Money market rate (level)	5.0	6.2	6.5	6.4	3.8	6.5	4.8	2.8	4.2	3.6	4.5
Lending rate, banks (level)[7]	5.7	7.3	..	..	5.4	..	..	4.1	..	4.7	..
Crude oil price NOK (level)[8]	423	528	585	..	340	500	..	442	..	502	..
Export markets indicator	5.4	3.4	..	..	-2.4	..	..	0.3	..	4.0	..
Importweighted krone exchange rate (44 countries)[9]	-1.8	-0.1	-3	-3/4	7.3	2.5	4 1/2	-3.0	-1	-1.3	- 1/2

[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.

Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.1 (2008-2009), (MoF), Norges Bank, Pengepolitisk rapport 3+A16/2008 (NB).

in output for the refining, chemical and mineral industries alone brings manufacturing growth down by over 1 percentage point. The strongest developments are found in general government, with an increase of 1.3 per cent. QNA figures for private services and production of goods other than manufacturing also show a clear increase in production.

In the period ahead we anticipate that developments in mainland activities will be very weak, and production from most industries will probably fall. The principal exceptions are general government and activities with direct or indirect deliveries to the petroleum sector. Activities that up to the present have been curbed by a shortage of labour will experience fewer constraints now. In isolation this will contribute to increased production. Very weak household demand will contribute to weak developments in retail trade and building and construction. The building and construction industry will also notice a sharp decline in business sector investment. However, some of the loss of private demand will be replaced by increased public sector investment. It is not long since municipalities reported that hardly any contractors were interested in tendering for small building and construction projects. This situation will change now.

The grave outlook for the global economy means that we expect very weak developments for export-oriented activities. The weak krone exchange rate will have an ameliorating effect in the immediate future, however. The decline in production in the segment that first experiences failing demand will rapidly feed through into most of the private segments in the economy. We project a fall in mainland GDP from the fourth quarter of this year and for several quarters ahead and then a very moderate increase until some way into 2010. In the first half of next year already we expect that mainland output will fall below what can be regarded as a cyclically neutral level. This must be described as a relatively sharp economic downturn. However, the downturn from the mid-1980s into the 1990s was far more severe. Annualized average mainland GDP fell by over 2.5 per cent from 1986 to 1989, and did not revert to the level in 1986 until 1992.

During the present downturn, banks will be cautious about incurring new risk, and they will probably also want to strengthen the equity ratio on their balance sheets. This will lead to a tightening of credit to the business sector which will cause a reduction in corporate investment. Production capacity has been strongly expanded during the upturn. With prospects of strongly negative demand impulses from abroad, households and the business sector itself, it may take time before companies again feel a need for a substantial expansion of capacity.

Low interest rates, a normalization of credit markets and an improved household financial situation will in due course lead to household demand picking up. We expect this to happen more or less concurrently with an increase in foreign demand. Production may then begin to pick up in most industries. However, we do not expect growth in the economy to rise above the trend level before early 2011. The weak growth through 2010 will mean that annual mainland GDP growth in 2011 will not rise above slightly less than 3 per cent.

Oil and gas production appear to be living their own life in relation to the global economic situation. Value added in the production sector (in constant prices) has increased less than mainland GDP in the past six years, and has actually fallen almost throughout the cyclical upturn. This resulted in overall GDP growth being lower than mainland GDP growth at times. A strong increase in gas production will cause GDP to grow somewhat more than mainland GDP next year. Oil production has long since peaked and, even with a further increase in gas production, overall GDP will probably once again grow less than mainland GDP from 2010.

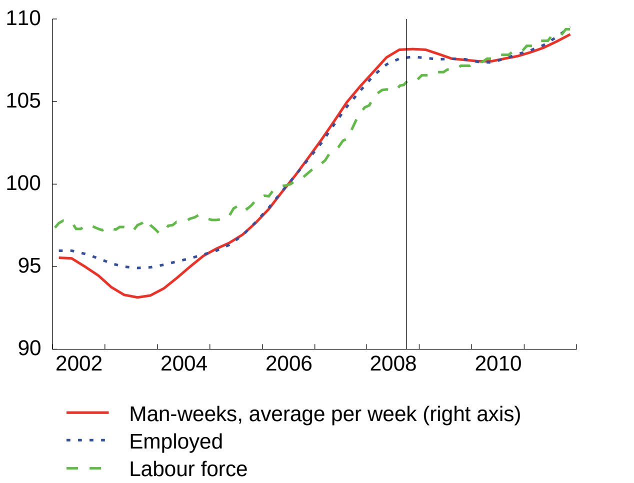
Rapidly increasing unemployment

The seasonally adjusted figures from the Labour Force Survey (LFS) are published as a three-month moving average. In the period August-October this year unemployment was 2.5 per cent, equivalent to 66 000 persons. Seasonally adjusted unemployment has remained stable at this level since spring 2007. According to the LFS there are no clear signs of increasing unemployment for the present. However, the Norwegian Labour and Welfare Administration has published figures for registered unemployment at end-November this year. The seasonally adjusted figures show that the number registered as fully unemployed had increased by 3 400 persons since end-October. This was the strongest monthly increase for over 5 years. According to the Labour and Welfare Administration, the number of lay-offs also increased markedly in November, and the number of vacancies advertised in the media has decreased sharply from a peak around the beginning of 2008. Thus the turnaround in the labour market is clearly evident.

The high inward labour migration has continued in 2008, so the relatively stable unemployment figures bear witness to a corresponding growth in employment so far this year. The seasonally adjusted QNA figures show that employment growth has slowed in 2008, but has been relatively high nonetheless. Employment increased by 1 per cent per quarter on average through 2006 and 2007. In the first three quarters of 2008, unemployment growth remained stable at about 0.7 per cent per quarter.

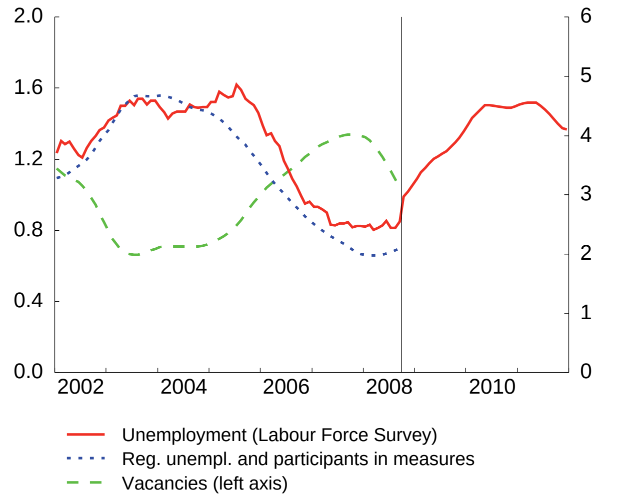
The increase in registered unemployment has affected all occupational groups except education and health care. The most pronounced increase has been in building and construction and in manufacturing. Unemployment in these sectors has increased by 73 per cent and 32 per cent, respectively, since end-November 2007, but the unemployment levels must still be described

Figure 13. **Labour force, employment and number of man-hours. 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.

as low. There has been a particular increase in unemployment among building workers such as carpenters, and to a lesser extent among road and construction workers. The national accounts show that the number employed in the building and construction industry has increased more than in the rest of the economy in the past year. In the third quarter this year there were 7 000 more employed in this industry than in the same period a year previously, an increase of 3.9 per cent. Overall employment in Norway increased by 3.3 per cent in the same period. Employment in manufacturing has also increased markedly. The increase in the same period was 3.1 per cent.

According to SN's business tendency survey, the labour shortage is the factor that has contributed most to limiting manufacturing production for a number of years. This was also true in the third quarter of the current year. Employment growth and the labour shortage in manufacturing must thus be considered against the backdrop of the high order backlog in the industry. Order backlogs in building and construction have also been very high this year, although they have been reduced somewhat compared with the record-high level in 2007. High order backlogs mean that companies need labour in order to be able to meet delivery deadlines in the period ahead. A sharp fall in new orders from the second to the third quarter of this year is nevertheless a sign that the turnaround in the economy will affect employment in traditional cyclical industries. There has been a particularly marked fall in new orders in residential construction, which may explain the increase in the number of unemployed building workers.

The global financial crisis will generate substantial negative impulses to the Norwegian economy, and the impulses come through a number of channels which have a wide-ranging effect on the labour market. The export industry is being affected by reduced growth in export markets, while continued increased petroleum investment and a weak krone exchange rate are helping to curb the decline for the industry as a whole. According to our projections, manufacturing employment in 2011 will be approximately 12 000 lower than in 2008.

Capacity in the building and construction industry has been substantially expanded through the last economic expansion. In 2004 the industry employed 126 000 persons, while in 2008 we estimate employment at 165 000. Lower investment activity, particularly in residential and commercial buildings, will release much of this capacity in the years ahead. This will provide scope for increased public sector investment, but we nevertheless project that employment in the industry will be reduced by some 25 000 persons from 2008 to 2011. The effect this will have on inward and outward labour migration is uncertain. Many of those who have immigrated to Norway in recent years work in the building and construction industry. Whether they return to their home countries or remain in Norway when the labour market suffers a decline will influence developments in unemployment in the period ahead.

Almost half of those employed work in private sector service industries and the share has shown a trend rise for the entire period for which we have statistics. This trend is expected to continue, but weak developments in household consumption will nevertheless have the effect of limiting employment growth in these industries going forward. Developments in household consumption are particularly important for employment in retail trade. After one year of almost unchanged employment in the private sector service industries in 2009, we expect overall growth of over 20 000 persons from 2009 to 2011. We also project substantial employment growth in general government, fuelled by expectations of a more expansionary fiscal policy than that in the National Budget for 2009. In 2011 we envisage that public sector employment will have increased by around 60 000 persons from the level in 2008.

We assume that increased emigration and reduced immigration will help to dampen growth in the labour force for a while to come, but we nevertheless project annual labour force growth of about 1 per cent annually in the projection period. In the last couple of years growth has been over 3 per cent annually. Approximately zero employment growth in 2009 and 2010 therefore implies rapidly increasing unemployment in the period ahead. LFS unemployment is projected at 2.6 per cent in 2008, increasing to 3.7 per cent in 2009 and 4.6 per cent in 2010. In 2011 the labour market will improve somewhat, and unemployment is projected at 4.5 per cent. Around year-end 2009/2010 unemployment may have risen to over 100 000, and in 2010 and 2011 will average about 120 000 persons. Unemployment on this scale will be about the same as in the previous contraction, and appreciably lower than during the downturn in the early 1990s, when similar unemployment measurement recorded 6.4 per cent.

Markedly lower wage growth ahead

The pay increases this year have contributed to substantial wage growth. In addition, wage drift in the first three quarters of the year has been high. Wage drift measures the effects of local wage negotiations and changes in the composition of all wages combined, among other things as a result of changes in employment. We estimate that wage growth per normal person-year from 2007 to this year will be 5.9 per cent. If this estimate should prove to be accurate, this will be the highest rate of wage growth since 1998.

Real wage growth has been high throughout the 2000s. Employees have benefited from high productivity growth. Strong growth in exports from China and other high growth countries has also given Norway a substantial terms of trade gain, with a low rise in prices for imported goods and a high rise in prices for typical Norwegian export products. Profitability in the export industry has traditionally been important for wage growth in the whole of Norway, since manufacturing has been at the forefront in the wage settlements. High export price growth has accordingly resulted in high nominal wage growth.

Since the global cyclical turnaround commenced in 2007, and in particular since the global financial crisis escalated in mid-September this year, the profitability of manufacturing firms has deteriorated. The depreciation of the krone has curbed the effects of international conditions on the internationally exposed sector. Reduced export price inflation, a faster rise in labour costs and reduced demand – resulting in lower productivity – have thus reversed a very favourable trend for manufacturing firms. These negative tendencies are expected to be exacerbated through 2009 and 2010, which will influence wage settlements going forward.

Since both pay increases and wage drift tend not to come into effect before 1 January, their full impact on annual wages will only come the following year. The high wage growth this year will thus contribute to relatively high wage growth from 2008 to 2009, even given small increases next year. We expect wage growth per normal person-year to be 4.0 per cent in 2009.

According to our projections, the Norwegian economy will have entered a cyclical contraction prior to the main settlement in 2010, and manufacturing firms will be particularly hard hit. Unemployment will have increased from 2.6 per cent in 2008 to approximately 4 per cent around the end of 2009, and the inflation rate will have been reduced by a good 2 percentage points from the high level of 3.9 per cent in 2008. These factors will contribute to a further decline in wage growth in 2010. On the other hand, business sector profitability will remain relatively satisfactory. According to our projections, manufacturing labour costs will account for over 68 per cent of value added in 2009. This is an increase from the low of 64 per cent in 2006 and 2007, but still only brings the share back to the level in 2001. In contrast, the labour cost share before 2001 was never lower than 70 per cent. Our projection for wage growth in 2010 is 4 per cent which, in combination with our other projections, means a further weakening of business sector profitability that year. A normalization of the labour cost share in manufacturing, a further increase in unemployment, and a further decline in inflation push our wage growth projection for 2011 down to 3.7 per cent.

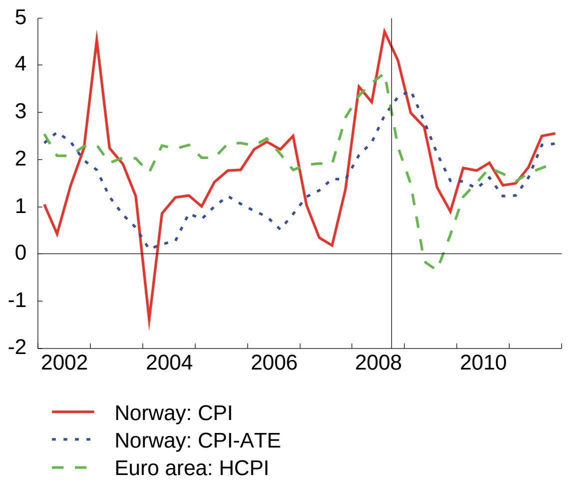
Energy prices will push down inflation in 2009

Inflation has been rising for over two years. The 12-month rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) was 3.3 per cent in October this year, whereas in August 2007 it was down to 0.4 per cent. Developments in electricity prices have contributed to a very sharp rise in the overall consumer price index (CPI) through this past year. After being as low as –0.3 per cent in September last year, also largely as a result of electricity prices, the year-on-year rise in the CPI had risen to 5.5 per cent in October this year.

A breakdown of the CPI-ATE by supplier sector shows that there have been growing inflationary impulses from all main groups through the past year. In recent months the greatest increase in year-on-year growth has been attributable to agricultural and fish products. However, the rise in prices for other domestically produced consumer goods and services, excluding house rents, has also increased somewhat. On the other hand, the rise in prices for imported consumer goods and house rents has remained stable since the summer.

A faster rise in labour costs, increased margins, weaker productivity developments and indirect effects of increased energy and commodity prices have contributed to a more rapid rise in prices for domestically produced goods and services. In the most recent agricultural settlement it was also agreed that a substantial portion of

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



Source: Norges Bank and Statistics Norway.

farmers' income growth should derive from increased prices.

The price-restraining effects of a steadily growing share of imports from low-cost countries have probably diminished in recent years. This is partly because the scale of changes in the trading pattern has decreased, and that the cost level in low-cost countries is rising. However, the appreciation of the krone through 2007 and the first half of 2008 has had the effect of lowering import prices. The depreciation of the krone through the past three months in the wake of the intensified financial crisis will contribute to pushing up prices for imported goods in the period ahead. The weak global economic situation, coupled with a sharp fall in international energy and commodity prices, will have the opposite effect, however.

A weaker Norwegian economic situation will contribute to lower wage growth, weaker developments in margins and lower interest rates. After a while productivity development will improve, and the sharp fall in energy and commodity prices will also contribute to reducing the cost level of Norwegian production. In the short term, Norwegian inflationary impulses (excluding energy products) will nevertheless increase as a consequence of the pay increases and weakening of productivity in 2008.

On balance, we assume that the 12-month rise in the CPI-ATE will edge up towards the end of the year. We project an annualized rise of 2.7 per cent in 2008. Price inflation has not been this high since 2001. Looking forward, we expect the krone to appreciate somewhat from the current level, and contribute to reducing inflation through 2009. As an annual average, we project that the CPI-ATE will increase by 2.5 per cent in 2009. A further easing of the inflation rate through 2010 may bring inflation in 2010 to below 1.5 per cent. In our calculations, a cyclical upturn and a gradually weakening krone will push inflation up towards 2.5 per cent at end-2011.

The cyclical downturn and sharp fall in oil and coal prices have contributed to reversing price developments in the Nordic electricity market. The spot price fell over 25 per cent from end-September to end-November. Prices for standard electricity contracts react to spot prices with a considerable time lag. The decline in prices in this type of contract will therefore be substantially lower. From October to November 2007 there was a very sharp rise in electricity prices in the CPI, which includes taxes and grid rent. A fall during this period of the year will therefore lead to a sharp fall in the 12-month change. A pronounced decline in petrol prices will probably lead to CPI inflation falling to under 4 per cent in November and falling further in December. On an annual basis, we project that CPI inflation will be 3.9 per cent in 2008.

Forward prices have fallen considerably since our last report, and now point to a very moderate annualized rise in electricity prices from 2008 to 2009. We assume an increase of 3 per cent in the overall electricity price as measured in the CPI. We project a similar increase in 2010, and a slightly higher one in 2011. According to our projections, the oil price, measured in kroner, will fall by 35 per cent from 2008 to 2009. This will lead to an appreciably lower rise in the CPI than in the CPI-ATE in 2009. An expected increase in the oil price from the second half of 2009 will also contribute to the CPI rising somewhat more than the CPI-ATE in the last two years of the projection period. The estimate show an annualized average rise in the CPI of 1.7 per cent in 2010 and 2.1 per cent in 2011.

The tax programme in the central government budget for 2009 is assessed to be broadly inflation-neutral. As usual, we assume that this programme will not be changed in 2009, and that indirect tax rates will be adjusted for inflation in the remainder of the projection period. Because of the financial crisis, we regard this assumption as far more uncertain than we would normally do. In the UK, the general VAT rate was recently cut temporarily by 2.5 percentage points and a number of countries are considering changes in indirect taxes as part of fiscal packages. Our forecast was based on this not being done in Norway, but a separate box over the page reflects the effects of a change in VAT rates in combination with a number of other possible fiscal stimuli.

Lower oil price reduces large current account surplus

Preliminary QNA figures show a current account surplus of almost NOK 110 billion in the third quarter of 2008. This is NOK 10 billion and NOK 20 billion lower than in the first and second quarters, respectively, but NOK 30 billion more than in the third quarter of 2007. The volume of oil exports continues to fall, while gas exports are increasing. Average prices for oil and gas remained very high in the third quarter, contributing

Effects of alternative fiscal measures

Forecasts show that the OECD countries face a severe contraction – perhaps the most serious since the 1930s. As a result there are international proposals for expansionary economic policy, both monetary and fiscal. The OECD countries will gain by co-ordinating their decisions. The effects of a stimulus are greater when all countries implement it simultaneously than when some countries attempt to implement unilateral measures. The EU is now proposing a fiscal policy stimulus equivalent to about 1.5 per cent of EU GDP. We have incorporated into our projections in this report an equivalent fiscal stimulus for Norway through 2009 and 2010. Fiscal measures can take different forms, and the macroeconomic effects of measures will depend on how they are designed. We shall show here the effects on the Norwegian economy of different fiscal measures, to illustrate what the form taken by the measures means for the different target variables of fiscal policy.

We consider expansionary fiscal measures in Norway that are initially equivalent to 1 percentage point of mainland GDP in 2009, which is equivalent to NOK 19 billion 2009-kroner. The measures are continued in real terms in 2010 and 2011 without changes. The measures are not counteracted or funded by a later tax increase or spending cuts. Sooner or later, the authorities will reverse such a policy. We will not analyse that here, but restrict our focus to the short- and medium-term perspective. If we study one measure and reverse the sign on another in order to finance the first, simple calculations enable us to set up balanced budget packages.

We have analysed the following measures:
- increased purchases of goods and services from the private sector for public sector consumption
- increased public sector employment for production for general government consumption
- increased purchase of products for general government investment
- reduced payroll tax rate
- ower rate for general value added tax
- lower tax rate on household ordinary income

The analyses were performed on SN's KVARTS model which, like the QNA, is based on the most recent final national accounts. This means that national accounts figures are presented in 2006 prices. To translate increased investment costs, for example, from current 2009 kroner to the 2006 prices in the model, we use the projection scenario's deflators. The investment increase of NOK 19 billion in 2009 prices will then be NOK 16 billion in 2006 prices. The analyses are carried out using both a model version with unchanged nominal interest and exchange rates and a version in which interest and exchange rates are model-based.

The measures are implemented in a period when unemployment is relatively high by Norwegian standards. In such a situation the KVARTS model will show stronger real economic effects and weaker nominal effects than in a scenario with unemployment as low as it has been in 2008.

The first spending scenario increases general government purchases of goods and services for consumption. These could involve the refurbishing of public buildings or the purchase of consulting services for personnel competency upgrading programmes. The measure increases public spending directly and business sector production, but not value added in general government. Increased employment is required to add value. It results in a slightly tighter labour market and slightly higher wages which are reflected in slightly higher costs and prices. Increased employment results in higher household sector income, which stimulates consumption. Higher costs weaken competitiveness and lead to increased import shares and weaker exports. But as long as the interest and exchange rates are unchanged (Table 1), the negative effects of increased costs will be approximately offset by positive consumption multipliers, so that the effect on mainland GDP is approximately stable. Non-petroleum exports will fall by some tenths of a per cent, while imports will increase at approximately the same rate as demand growth. If the interest rate is changed and the exchange rate adjusts (Table 2), the money market rate will be about a quarter of a percentage point higher and the krone exchange rate will strengthen by about a tenth of a per cent. The effect on the CPI-ATE will be approximately zero, while unemployment will be slightly reduced. The number employed in the business sector will increase by 12 000 in this case. We note that whereas the initial increase in spending is NOK 19 billion in 2009, the general government budget balance is weakened by about NOK 15 billion in the first year (Table 1). This is because increased activity raises tax income and reduces some transfers, particularly unemployment benefit. As a result of inflation, and not least higher wages, the weakening increases slightly over time. The indexing of the basic amount in the national insurance scheme makes a particular contribution here. In the case with a change in the exchange rate, petroleum income in NOK will also be changed and affect the budget balance. We will not discuss the measure with increased investment in more detail, as the effects are approximately the same as the measure with increased purchase of goods for consumption.

If the measure entails increased general government employment, the effects will be much stronger. We will look first at the effects when the interest rate and exchange rate are unchanged compared with the baseline scenario (see Table 1). Higher employment increases value added in the public sector directly, and this is part of mainland GDP. The purchase of goods from the private sector for consumption did not generate this effect. Higher household income increases household demand over time, and this heightens the effect on GDP. Unemployment falls sharply and this pushes up wages and prices. Increased taxes as a result of higher income and consumption reduce the initial budget deficit. A net amount of NOK 9 billion returns to the general government budget from the initial NOK 19 billion of increased spending. ¬Unemployment is reduced far less than the increased employment resulting from more ample supply of labour. The labour supply increases as a result of both a tighter labour market and increased real wages. The CPI-ATE rises gradually and quite substantially, while unemployment falls. The policy rate must then be raised by about one percentage point to neutralise the expansionary effects (Table 2). This boosts the krone exchange rate. A tighter monetary policy leads to weaker exports, higher import shares and lowered household demand. This leads to a sharp reduction in the GDP effect over time, and business sector production will be steadily reduced, in contrast to the case with unchanged interest and exchange rates where business sector production increases. When growth and demand slow there will be less tax income as a result of the measure. Cost increases will then gather pace, and the budget balance will be substantially weakened, while the increased interest rates will result in a higher household saving ratio.

Let us look at tax cuts. Tax cuts contribute in various ways to reducing inflation. This in itself increases real interest rates, generating a relatively strong contractionary effect in KVARTS. When the expansionary effects of increased real income are limited, tax cuts have only moderate effects on the real economy. There is reason to believe that increased interest rates generally and in the long term have a contractionary effect, but possibly not when they are due to a one-off change in tax rates. If this is the case, KVARTS underestimates the expansionary effects of reduced taxes.

Tax relief for individuals boosts household income and demand. Increased demand is moderate in the short term, so that the effects on the real economy develop gradually and are limited in the first year, but increase gradually (Table 3). Even after four years, the household saving ratio has increased by over half a percentage point. Lower tax rates reduce wage growth and

Table 1. **Fiscal measures that will initially result in higher costs. Unchanged interest rate and exchange rate**

	Goods for consumption			Employment			Investment		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Mainland GDP	0.7	0.7	0.8	1.1	1.2	1.3	0.6	0.7	0.8
Unemployment (percentage points)	-0.3	-0.2	-0.3	-1.0	-0.9	-0.9	-0.2	-0.2	-0.2
Employed	0.4	0.4	0.4	1.5	1.6	1.6	0.3	0.4	0.4
CPI-ATE	0.1	0.1	0.2	0.5	0.5	0.8	0.1	0.1	0.1
Wages	0.4	0.4	0.6	1.3	1.4	2.0	0.3	0.3	0.5
Budget balance (in billions of NOK)	-13	-14	-14	-10	-11	-13	-14	-14	-15

Table 2. **Fiscal measures that will initially result in higher costs. Model-based interest rate and exchange rate**

	Goods for consumption			Employment			Investment		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Mainland GDP	0.7	0.6	0.5	0.8	0.6	0.5	0.5	0.6	0.6
Unemployment (percentage points)	-0.2	-0.2	-0.2	-1.0	-0.8	-0.8	-0.2	-0.2	-0.2
Employed	0.4	0.4	0.4	1.5	1.5	1.4	0.3	0.3	0.3
CPI-ATE	0.0	-0.0	-0.1	0.2	-0.2	-0.3	0.0	-0.0	-0.1
Wages	0.2	0.2	0.2	1.4	0.9	0.9	0.2	0.2	0.3
Budget balance (in billions of NOK)	-15	-17	-20	-18	-26	-31	-15	-17	-19
Interest rate (percentage points)	0.2	0.2	0.3	0.8	0.6	0.9	0.1	0.1	0.2

Table 3. **Fiscal measures that will initially result in lower taxes. Unchanged interest rate and exchange rate**

	Goods for consumption			Employment			Investment		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Mainland GDP	0.1	0.2	0.3	0.1	0.1	0.1	0.0	0.1	0.1
Unemployment (percentage points)	0.0	0.1	0.1	-0.0	-0.0	0.0	-0.1	-0.1	-0.1
Employed	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.3
CPI-ATE	-0.0	-0.1	-0.1	-0.1	-0.3	-0.5	-0.2	-0.4	-0.5
Wages	-0.2	-0.3	-0.3	-0.5	-0.8	-0.8	0.0	0.1	0.2
Budget balance (in billions of NOK)	-17	-16	-15	-15	-13	-13	-11	-11	-12

Table 4. **Fiscal measures that will initially result in lower taxes. Model-based interest rate and exchange rate**

	Goods for consumption			Employment			Investment		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Mainland GDP	0.1	0.3	0.4	0.0	0.2	0.3	0.0	0.1	0.2
Unemployment (percentage points)	0.0	0.1	0.0	-0.0	-0.0	-0.0	-0.1	-0.1	-0.1
Employed	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.3
CPI-ATE	-0.0	-0.0	-0.0	-0.2	-0.3	-0.5	-0.1	-0.3	-0.4
Wages	-0.2	-0.2	-0.2	-0.6	-0.8	-0.7	0.1	0.1	0.3
Budget balance (in billions of NOK)	-17	-15	-14	-15	-10	-10	-11	-9	-10
Interest rate (percentage points)	-0.0	-0.1	-0.1	-0.2	-0.3	-0.4	-0.1	-0.2	-0.1

hence prices. This counteracts the effect of increased demand on prices. There is little change in unemployment, because lower taxes increase the labour supply. Thus tax cuts do not contribute so much to reducing unemployment, even though employment increases over time. The weakening of the budget lessens over time, partly because lower wages mean less public spending on wages and benefits, and partly because increased activity means higher tax inflows. The effect of tax cuts when the interest and exchange rates are also adjusted is not very different from the estimate with unchanged interest and exchange rates, but GDP now increases a little more over time (Table 4). Employment also increases slightly, while unemployment remains approximately the same, because the labour supply now also increases slightly.

Lower value added tax corresponding to an initial shift in the tax level from the VAT system of NOK 19 billion in 2009 means a rate change that results in a decline in consumer prices of 1.1 per cent, viewed in isolation. Lower prices lead to lower wages and hence to even lower consumer prices, also estimated excluding tax changes measured by the CPI-ATE. We assume that this reduction will influence interest rate setting (Table 4), while the actual fall in the CPI due to the tax cut will not affect interest rate setting in accordance with the Regulation on Monetary Policy. Lower prices result in increased real disposable income. Again, an increase in household income will first be saved, and only gradually begin to be used for consumption and housing investment. The first-year effect on GDP of a VAT cut will be moderate, as is also the case with a reduction in direct taxes. But the effect increases somewhat over time. A high short-term propensity for saving among consumers will generate weak effects on employment. Even after three years, the household saving ratio is somewhat higher than in the baseline scenario. Real wages will increase somewhat so that the effect on unemployment becomes negligible because the labour supply increases approximately in pace with employment. In the simulation with interest rate and exchange rate effects, a lower CPI-ATE will lead to lower interest rates, which stimulates activity and household demand in particular, while the krone will remain approximately unchanged because the price level measured by the overall CPI will be lower when VAT is reduced even if the interest rate is also lowered. Total imports generally mirror changes in domestic demand. The budget balance is weakened initially approximately as in the other shifts, but the weakening eases off over time as activities increase through increased consumption, which contributes to higher tax income.

Finally, the effects of a lower payroll tax rate are shown. The effects on the budget are somewhat lower than with the other shifts, because the public sector also pays payroll taxes. It may therefore be argued that it was net employer's contribution paid by the private sector that should have been NOK 19 billion kroner lower initially, and not the gross figure. In such case, the effects in the table could be scaled up by a factor of approximately 1.3. The effect now takes the form of lower labour costs and lower prices. This increases real wages in the short term, and household demand. It also results in increased exports and lower import shares. Over time, wages will increase, because increased corporate profitability will provide scope for wage increases. In the really long term, most of the lower payroll taxes will accrue to the employees in the form of increased wages. When wage costs fall relative to other factor prices there will be a short- and medium-term shift to increased use of labour. Employment will therefore increase more than GDP. The effects of the measure when interest and exchange rate effects are included are small, but add slightly to the expansionary effects of the measure.

The model simulations show that spending measures generally have a stronger real economic effect than tax-related measures. However, reducing direct and indirect taxes has the strongest effects on prices and may result in lower interest rates.

strongly to maintaining the surplus at a high level. Positive developments in the terms of trade for traditional goods and for services had the same effect. Net interest and transfers appear likely to show a surplus of over NOK 6 billion, making the current account balance for the third quarter of NOK 117 billion.

The favourable developments in the first three quarters of the year – generating a trade surplus equivalent to the surplus for the whole of 2007 – will persist in the fourth quarter. The surplus will admittedly be strongly reduced, largely as a result of the sharp fall in oil prices, but from a very high level. For the first time, the surplus for the year will exceed NOK 400 billion. It is now expected to be NOK 468 billion for 2008, an increase of almost 29 per cent on 2007. Net interest and transfers for the year as a whole are expected to be negative, pushing the current account surplus down towards NOK 440 billion. The surplus accounts for about 17 per cent of GDP.

In 2009 the global contraction will substantially reduce Norway's export surplus. Since the export value of oil and gas accounts for almost half of combined Norwegian exports in current prices, the trade surplus will be sharply reduced if the oil price remains near the current level through 2009, which we assume it will do. In addition we assume a pronounced deterioration of the terms of trade for traditional goods, so that the trade surplus is expected to be reduced by just over NOK 150 billion. Our projection implies a trade surplus of NOK 316 billion in 200. However, Norway had a trade surplus of the same order of size as recently as 2005.

We assume a gradual strengthening of the trade balance, primarily as a result of increased oil prices through 2010 and 2011, but improved terms of trade for other goods will also contribute. The trade surplus will then be over NOK 450 billion in 2011. We anticipate that the economic downturn will be more severe for other countries than for Norway throughout the projection period. This may affect net interest and dividend payments from abroad. We assume that net interest and transfers will show a deficit each year, so that the current account surplus will be between NOK 10 billion and NOK 30 billion lower than the trade surplus.

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

	Unadjusted		Seasonally adjusted							
	2006	2007	06.4	07.1	07.2	07.3	07.4	08.1	08.2	08.3
Final consumption expenditure of households and NPISHs	881 764	934 732	226 219	231 763	234 532	237 175	239 463	240 396	240 279	238 754
Household final consumption expenditure	846 775	898 292	217 456	222 782	225 405	228 006	230 272	231 134	230 852	229 372
Goods	439 448	472 644	113 664	118 380	119 338	121 188	121 672	121 240	121 147	119 200
Services	377 890	393 166	96 556	96 532	97 970	98 916	99 588	99 860	100 415	100 813
Direct purchases abroad by resident households	53 642	57 847	13 586	14 097	14 339	14 259	15 523	16 392	15 658	15 405
Direct purchases by non-residents	-24 205	-25 365	-6 351	-6 227	-6 242	-6 357	-6 511	-6 359	-6 368	-6 045
Final consumption expenditure of NPISHs	34 989	36 440	8 763	8 981	9 127	9 169	9 191	9 262	9 427	9 382
Final consumption expenditure of general government	412 957	427 109	104 264	104 855	106 160	107 753	108 306	109 160	110 121	110 953
Final consumption expenditure of central government	216 550	220 794	54 514	54 713	54 993	55 440	55 640	56 234	56 787	56 739
Central government, civilian	187 753	190 923	47 219	47 284	47 554	47 967	48 115	49 018	49 590	49 598
Central government, defence	28 797	29 870	7 295	7 430	7 439	7 474	7 525	7 216	7 197	7 141
Final consumption expenditure of local government	196 407	206 316	49 750	50 142	51 167	52 312	52 666	52 926	53 333	54 214
Gross fixed capital formation	424 178	459 610	110 940	107 908	112 231	117 817	121 933	118 826	119 742	119 860
Extraction and transport via pipelines	95 477	100 726	24 665	23 196	24 976	26 278	26 177	26 304	25 795	26 541
Service activities incidential to extraction	3 316	938	2 098	119	540	233	45	89	57	-53
Ocean transport	16 960	20 767	2 836	4 563	4 565	7 919	3 686	6 400	6 162	5 737
Mainland Norway	308 425	337 180	81 341	80 029	82 150	83 387	92 024	86 032	87 728	87 635
Mainland Norway excluding general government	246 969	270 862	64 570	65 032	66 272	68 536	71 232	70 072	70 642	68 924
Industries	156 565	175 663	41 209	40 989	42 237	44 506	47 843	47 390	48 539	47 578
Manufacturing and mining	24 417	30 584	6 754	6 183	6 979	7 945	9 445	8 555	9 423	9 341
Production of other goods	26 468	29 198	6 511	6 666	7 522	7 877	7 090	8 055	8 427	8 157
Services	105 680	115 881	27 943	28 139	27 736	28 685	31 308	30 779	30 689	30 079
Dwellings (households)	90 404	95 199	23 361	24 043	24 035	24 029	23 389	22 682	22 103	21 346
General government	61 456	66 318	16 771	14 997	15 878	14 851	20 792	15 960	17 086	18 711
Changes in stocks and statistical discrepancies	50 975	36 585	10 839	3 896	9 061	5 278	9 885	11 349	10 259	14 415
Gross capital formation	475 153	496 196	121 778	111 804	121 292	123 095	131 818	130 176	130 001	134 275
Final domestic use of goods and services	1 769 874	1 858 038	452 261	448 422	461 984	468 023	479 587	479 731	480 401	483 982
Final demand from Mainland Norway	1 603 146	1 699 022	411 824	416 647	422 842	428 314	439 793	435 588	438 129	437 343
Final demand from general government	474 413	493 427	121 035	119 852	122 038	122 603	129 098	125 120	127 207	129 665
Total exports	1 002 467	1 027 757	252 936	257 131	251 073	257 910	261 129	260 788	260 014	254 749
Traditional goods	271 479	295 052	69 155	71 973	71 812	74 092	76 820	77 842	78 043	78 313
Crude oil and natural gas	498 355	485 321	122 204	125 514	117 820	122 621	119 501	121 152	118 937	114 071
Ships, oil platforms and planes	12 669	11 920	4 050	2 460	3 801	3 286	2 372	1 862	2 876	3 273
Services	219 964	235 465	57 527	57 183	57 640	57 911	62 436	59 932	60 157	59 092
Total use of goods and services	2 772 341	2 885 795	705 197	705 553	713 057	725 932	740 716	740 519	740 415	738 732
Total imports	612 768	658 538	159 001	157 432	161 300	165 385	174 168	172 935	172 286	174 693
Traditional goods	407 294	434 511	107 229	106 665	107 360	108 454	111 968	113 764	112 374	113 867
Crude oil and natural gas	2 200	5 397	1 032	882	2 123	743	1 645	539	711	599
Ships, oil platforms and planes	14 764	19 847	1 983	2 826	3 308	5 974	7 739	6 589	6 697	6 918
Services	188 510	198 784	48 756	47 059	48 509	50 213	52 815	52 043	52 505	53 308
Gross domestic product (market prices)	2 159 573	2 227 256	546 197	548 121	551 757	560 548	566 548	567 584	568 128	564 039
Gross domestic product Mainland Norway (market prices)	1 580 665	1 676 943	404 405	408 972	416 457	423 907	427 457	426 837	429 091	430 114
Petroleum activities and ocean transport	578 908	550 313	141 791	139 148	135 300	136 641	139 091	140 747	139 038	133 925
Mainland Norway (basic prices)	1 342 387	1 421 656	345 165	346 386	353 374	358 777	362 891	363 912	365 818	368 349
Mainland Norway excluding general government	1 047 734	1 117 656	270 916	271 578	277 582	282 272	286 045	285 954	287 932	289 451
Manufacturing and mining	195 733	206 270	50 672	51 108	50 840	51 830	52 512	52 308	54 040	53 838
Production of other goods	162 707	174 376	40 390	42 505	43 541	44 686	43 994	44 064	44 670	44 942
Services incl. dwellings (households)	689 294	737 010	179 853	177 964	183 200	185 755	189 538	189 582	189 221	190 671
General government	294 653	304 000	74 249	74 808	75 792	76 506	76 846	77 959	77 885	78 898
Taxes and subsidies products	238 278	255 287	59 241	62 586	63 083	65 130	64 566	62 924	63 273	61 765

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2006	2007	06.4	07.1	07.2	07.3	07.4	08.1	08.2	08.3
Final consumption expenditure of households and NPISHs	4.8	6.0	1.4	2.5	1.2	1.1	1.0	0.4	0.0	-0.6
Household final consumption expenditure	5.0	6.1	1.5	2.4	1.2	1.2	1.0	0.4	-0.1	-0.6
Goods	5.0	7.6	0.9	4.1	0.8	1.6	0.4	-0.4	-0.1	-1.6
Services	3.9	4.0	2.0	0.0	1.5	1.0	0.7	0.3	0.6	0.4
Direct purchases abroad by resident households	12.5	7.8	4.1	3.8	1.7	-0.6	8.9	5.6	-4.5	-1.6
Direct purchases by non-residents	4.5	4.8	3.7	-1.9	0.2	1.8	2.4	-2.3	0.2	-5.1
Final consumption expenditure of NPISHs	0.0	4.1	0.0	2.5	1.6	0.5	0.2	0.8	1.8	-0.5
Final consumption expenditure of general government	1.9	3.4	0.5	0.6	1.2	1.5	0.5	0.8	0.9	0.8
Final consumption expenditure of central government	1.1	2.0	0.4	0.4	0.5	0.8	0.4	1.1	1.0	-0.1
Central government, civilian	2.0	1.7	0.3	0.1	0.6	0.9	0.3	1.9	1.2	0.0
Central government, defence	-4.2	3.7	1.2	1.8	0.1	0.5	0.7	-4.1	-0.3	-0.8
Final consumption expenditure of local government	2.7	5.0	0.6	0.8	2.0	2.2	0.7	0.5	0.8	1.7
Gross fixed capital formation	11.7	8.4	4.6	-2.7	4.0	5.0	3.5	-2.5	0.8	0.1
Extraction and transport via pipelines	4.3	5.5	1.0	-6.0	7.7	5.2	-0.4	0.5	-1.9	2.9
Service activities incidential to extraction	-418.3	-71.7	91.2	-94.3	353.0	-56.9	-80.5	96.6	-35.8	-193.0
Ocean transport	24.4	22.4	-40.8	60.9	0.0	73.5	-53.5	73.6	-3.7	-6.9
Mainland Norway	11.9	9.3	7.4	-1.6	2.7	1.5	10.4	-6.5	2.0	-0.1
Mainland Norway excluding general government	12.0	9.7	3.8	0.7	1.9	3.4	3.9	-1.6	0.8	-2.4
Industries	17.1	12.2	3.8	-0.5	3.0	5.4	7.5	-0.9	2.4	-2.0
Manufacturing and mining	7.1	25.3	4.8	-8.5	12.9	13.8	18.9	-9.4	10.1	-0.9
Production of other goods	11.9	10.3	-5.5	2.4	12.8	4.7	-10.0	13.6	4.6	-3.2
Services	21.0	9.7	6.0	0.7	-1.4	3.4	9.1	-1.7	-0.3	-2.0
Dwellings (households)	4.1	5.3	3.7	2.9	0.0	0.0	-2.7	-3.0	-2.6	-3.4
General government	11.6	7.9	24.1	-10.6	5.9	-6.5	40.0	-23.2	7.1	9.5
Changes in stocks and statistical discrepancies	2.1	-28.2	-21.9	-64.1	132.6	-41.8	87.3	14.8	-9.6	40.5
Gross capital formation	10.6	4.4	1.6	-8.2	8.5	1.5	7.1	-1.2	-0.1	3.3
Final domestic use of goods and services	5.6	5.0	1.3	-0.8	3.0	1.3	2.5	0.0	0.1	0.7
Final demand from Mainland Norway	5.3	6.0	2.3	1.2	1.5	1.3	2.7	-1.0	0.6	-0.2
Final demand from general government	3.0	4.0	3.2	-1.0	1.8	0.5	5.3	-3.1	1.7	1.9
Total exports	0.0	2.5	0.9	1.7	-2.4	2.7	1.2	-0.1	-0.3	-2.0
Traditional goods	6.2	8.7	2.3	4.1	-0.2	3.2	3.7	1.3	0.3	0.3
Crude oil and natural gas	-6.5	-2.6	-2.2	2.7	-6.1	4.1	-2.5	1.4	-1.8	-4.1
Ships, oil platforms and planes	9.8	-5.9	16.4	-39.3	54.5	-13.6	-27.8	-21.5	54.5	13.8
Services	6.4	7.0	5.2	-0.6	0.8	0.5	7.8	-4.0	0.4	-1.8
Total use of goods and services	3.6	4.1	1.1	0.1	1.1	1.8	2.0	0.0	0.0	-0.2
Total imports	8.4	7.5	4.0	-1.0	2.5	2.5	5.3	-0.7	-0.4	1.4
Traditional goods	11.5	6.7	5.9	-0.5	0.7	1.0	3.2	1.6	-1.2	1.3
Crude oil and natural gas	-51.0	145.3	292.8	-14.5	140.7	-65.0	121.3	-67.2	32.0	-15.8
Ships, oil platforms and planes	17.0	34.4	-47.6	42.5	17.0	80.6	29.6	-14.9	1.6	3.3
Services	3.2	5.4	2.2	-3.5	3.1	3.5	5.2	-1.5	0.9	1.5
Gross domestic product (market prices)	2.3	3.1	0.3	0.4	0.7	1.6	1.1	0.2	0.1	-0.7
Gross domestic product Mainland Norway (market prices)	4.9	6.1	1.7	1.1	1.8	1.8	0.8	-0.1	0.5	0.2
Petroleum activities and ocean transport	-5.3	-4.9	-3.4	-1.9	-2.8	1.0	1.8	1.2	-1.2	-3.7
Mainland Norway (basic prices)	4.3	5.9	2.8	0.4	2.0	1.5	1.1	0.3	0.5	0.7
Mainland Norway excluding general government	5.3	6.7	3.4	0.2	2.2	1.7	1.3	0.0	0.7	0.5
Manufacturing and mining	3.1	5.4	3.4	0.9	-0.5	1.9	1.3	-0.4	3.3	-0.4
Production of other goods	-2.1	7.2	1.3	5.2	2.4	2.6	-1.5	0.2	1.4	0.6
Services incl. dwellings (households)	7.5	6.9	3.9	-1.1	2.9	1.4	2.0	0.0	-0.2	0.8
General government	1.0	3.2	0.5	0.8	1.3	0.9	0.4	1.4	-0.1	1.3
Taxes and subsidies products	8.1	7.1	-4.1	5.6	0.8	3.2	-0.9	-2.5	0.6	-2.4

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2006	2007	06.4	07.1	07.2	07.3	07.4	08.1	08.2	08.3
Final consumption expenditure of households and NPISHs	100,0	100,7	100,2	99,2	99,4	99,6	101,2	102,2	102,8	104,5
Final consumption expenditure of general government	100,0	104,7	101,7	103,4	104,3	104,8	106,2	107,8	109,5	111,6
Gross fixed capital formation	100,0	105,4	102,8	103,2	105,3	105,8	107,1	108,3	110,1	111,4
Mainland Norway	100,0	105,1	102,3	103,3	104,5	105,4	106,7	108,5	109,1	110,3
Final domestic use of goods and services	100,0	103,0	101,5	101,8	102,7	104,0	102,9	105,3	106,6	110,4
Final demand from Mainland Norway	100,0	102,6	101,0	101,1	101,6	102,1	103,6	104,8	105,8	107,4
Total exports	100,0	101,4	100,6	97,5	100,4	98,1	109,6	113,3	120,6	119,3
Traditional goods	100,0	102,5	100,6	102,7	104,6	100,9	101,8	100,0	103,2	110,6
Total use of goods and services	100,0	102,4	101,2	100,3	101,9	101,9	105,3	108,1	111,5	113,5
Total imports	100,0	103,1	103,7	103,7	104,4	102,6	102,0	104,3	105,6	108,2
Traditional goods	100,0	103,7	104,3	104,3	105,3	103,1	102,3	104,9	106,7	108,9
Gross domestic product (market prices)	100,0	102,2	100,4	99,3	101,2	101,7	106,3	109,3	113,4	115,1
Gross domestic product Mainland Norway (market prices)	100,0	102,8	101,3	101,9	102,5	102,4	104,0	105,1	105,7	107,9

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2006	2007	06.4	07.1	07.2	07.3	07.4	08.1	08.2	08.3
Final consumption expenditure of households and NPISHs	1.9	0.7	0.6	-1.0	0.2	0.2	1.6	0.9	0.6	1.6
Final consumption expenditure of general government	4.7	4.7	1.2	1.7	0.9	0.5	1.3	1.5	1.6	1.9
Gross fixed capital formation	3.9	5.4	2.5	0.4	2.0	0.5	1.2	1.2	1.6	1.2
Mainland Norway	3.9	5.1	2.3	0.9	1.2	0.9	1.2	1.7	0.6	1.1
Final domestic use of goods and services	3.1	3.0	0.2	0.4	0.9	1.2	-1.0	2.3	1.2	3.6
Final demand from Mainland Norway	3.0	2.6	1.0	0.1	0.6	0.4	1.5	1.2	0.9	1.6
Total exports	15.4	1.4	1.5	-3.1	2.9	-2.3	11.7	3.4	6.5	-1.1
Traditional goods	11.4	2.5	-4.1	2.2	1.8	-3.5	0.9	-1.8	3.2	7.2
Total use of goods and services	7.3	2.4	0.7	-0.9	1.6	0.0	3.3	2.7	3.2	1.7
Total imports	3.1	3.1	3.1	0.1	0.6	-1.7	-0.6	2.3	1.2	2.5
Traditional goods	4.0	3.7	4.0	-0.1	1.0	-2.1	-0.7	2.5	1.7	2.1
Gross domestic product (market prices)	8.5	2.2	0.0	-1.2	1.9	0.5	4.6	2.8	3.7	1.5
Gross domestic product Mainland Norway (market prices)	3.9	2.8	0.7	0.7	0.6	-0.2	1.6	1.0	0.6	2.0

Source: Statistics Norway.