Economic trends

Economic indicators now show that the Norwegian economy may have passed the cyclical peak and that we are now moving into a period of lower growth. It is primarily developments in household consumption and housing investment that are dragging down growth. Weaker impulses as a result of an international cyclical slowdown are also contributing to the downward shift in the Norwegian economy. On the other hand, business investment is still expanding rapidly and so far there are no signs of slower growth. The economic picture for Norway is thus mixed, while the global economy is clearly marked by lower growth. Growth is particularly weak in the US, but growth prospects have also deteriorated for many of Norway's traditional trading partners.

Inflation has also increased and is now above 3 per cent in the OECD area. Excluding the rise in prices for energy products, inflation is more moderate. In Norway, consumer price inflation has picked up and is largely being fuelled by the same factors as in other countries. Moreover, wage growth has gradually moved up and productivity growth slackened. This has resulted in higher inflation. Commodity prices are now at a historically high level. Oil prices are setting ever new records. Prices for some food products may have peaked and in the absence of a negative supply shock or weather conditions that limit production, these prices may fall ahead. However, the full impact of high energy and food prices on overall inflation has still come into evidence. The increase in crude oil prices and electricity prices from autumn 2007 to 2008 will push up underlying inflation measured by the CPI-ATE by about a half percentage point both this year and next. Inflation-targeting central banks have presumably sought to counter this indirect inflation effect by raising interest rates, while they have largely disregarded the direct effect of increased energy prices on CPI inflation.

The Norwegian economy has now experienced the strongest cyclical expansion since the "yuppie wave" in the mid-1980s. The overall increase in mainland GDP in Norway has been higher than at that time, but trend growth in the economy is now higher than in the 1980s so that the cyclical impact is somewhat smaller. Unlike the upturn during the 1980s, the expansion since 2003 has been driven by strong investment growth rather than consumption growth. The cyclical upturn has now spanned a good four years as was the case in the 1980s. The upturn in the 1990s spanned a little more than six years and was almost as pronounced as the previous upturn, but started from the deepest recession since the Second World War. While the two previous upturns coincided with rapid growth in oil and gas production, petroleum production is moving down during this upturn. The most recent upturn has still been marked by Norway's oil economy, as reflected in both the sharp increase in petroleum investment during the upturn and the positive fiscal impulses to growth in the mainland economy thanks to higher oil prices, even though fiscal policy has been well within the limits set by the guidelines for petroleum revenue spending.

The introduction of economic policy guidelines in spring 2001 aimed at promoting stability in the Norwegian economy and adapting the Norwegian economy to being an oil economy. The question can be raised as to whether the new guidelines have succeeded in stabilizing the Norwegian economy to a further extent than earlier. As regards stabilization of the real economy, the most recent upturn has been approximately as pronounced as the two previous upturns. The cyclical peak is at least as high as the previous peak and the previous trough is slightly deeper than the bottom in 1982, but as deep as in 1991. It would thus appear that there has been no significant change in our ability to stabilize the real economy. Unemployment has followed a fairly similar path, with a particularly sharp increase from 1987 to 1992 and a subsequent fall up to 1998, but has shown smaller changes thereafter. In nominal terms, inflation variability measured by CPI inflation has been relatively high in recent years, but this reflects frequent and pronounced changes in energy prices. CPI-ATE inflation was more volatile than CPI inflation in the 1990s, which clearly reflects wider fluctuations in the nominal exchange rate. Caution must be exercised when making such a simple comparison over time since it cannot in and of itself reveal what would have happened if the policy orientation and framework prevailing prior to 2001 had been applied rather than the current one. However, developments since 2001 show that Norway is still faced with stabilization policy challenges.

Cyclical developments in Norway

The cyclical peak now seems to have been reached in Norway after an upturn that has continued since 2003. In the period 2004-2007, average GDP growth for mainland Norway was close to 5 per cent. The upturn is the strongest witnessed since the mid-1980s and unemployment moved down to a level that has not been recorded since that time. In spite of this, both wage growth and price inflation have been moderate so far. This is now changing partly as a result of the sharp increase in world commodity prices.

Preliminary quarterly national accounts (QNA) figures for the first quarter of 2008 show markedly slower growth than in the preceding quarter and growth is now below trend growth for the Norwegian economy. It is difficult however to interpret quarterly figures this time because the entire Easter holiday took place in the first quarter of this year. This is unusual and makes it difficult to adjust for seasonal variations. In order to determine with greater certainty that a turnaround in the economy has actually taken place, a broader set of data than the first-quarter QNA figures must be assessed.

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

	2006	2007	Seasonally adjusted			
			07:2	07:3	07:4	08:1
Demand and output						
Consumption in households etc.	4.7	6.4	0.9	1.1	1.0	0.3
General government consumption	2.9	3.6	1.1	1.4	0.6	0.7
Gross fixed investment	7.3	9.3	3.3	4.6	5.0	-4.8
Mainland Norway	7.6	9.4	2.5	1.9	8.3	-5.9
Extraction and transport via pipelines	2.9	5.5	4.8	6.5	-3.7	-1.7
Final domestic demand from Mainland Norway[1]	4.8	6.2	1.2	1.3	2.3	-0.8
Exports	0.4	2.8	-2.2	2.9	-0.2	1.0
Crude oil and natural gas	-6.6	-2.8	-6.8	3.7	-2.8	2.3
Traditional goods	6.2	9.0	0.4	2.5	4.4	0.2
Imports	8.1	8.7	1.7	3.5	6.6	-2.8
Traditional goods	9.6	8.1	0.5	1.1	3.5	2.2
Gross domestic product	2.5	3.7	0.6	1.6	1.3	0.2
Mainland Norway	4.8	6.2	1.5	1.9	1.1	0.2
Labour market						
Man-hours worked	2.6	4.2	1.5	0.8	1.0	1.0
Employed persons	3.4	4.0	1.3	1.0	1.0	0.8
Labour force[2]	2.2	3.1	1.2	1.0	1.0	0.7
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]	4.9	5.6	5.7	5.5	5.3	5.3
Consumer price index (CPI)[4]	2.3	0.8	0.3	0.2	1.4	3.5
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[4]	0.8	1.4	1.4	1.6	1.6	2.1
Export prices, traditional goods	11.4	2.2	1.7	-3.4	0.4	-0.9
Import prices, traditional goods	4.7	3.4	0.7	-2.0	-0.8	2.1
Balance of payment						
Current balance, bill. NOK	373.4	372.1	75.0	97.5	113.2	..
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	3.1	5.0	4.6	5.2	5.8	5.9
Lending rate, banks[5]	4.3	5.9	5.6	6.1	6.7	7.0
Crude oil price NOK[6]	413.8	423.4	414.1	435.3	483.2	516.4
Importweighted krone exchange rate, 44 countries, 1995=100	92.5	90.8	92.0	89.8	88.4	88.4
NOK per euro	8.05	8.02	8.10	7.92	7.88	7.96

[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] End of period.
[6] Average spot price, Brent Blend.
Source: Statistics Norway and Norges Bank.

External growth, particularly for Norway's trading partners, is now lower than earlier. Growth is particularly sluggish in the US, but there are also clear signs of slower growth in the euro area. Consensus forecasts for GDP growth in the OECD area over the next few years have now been revised down considerably, and for 2008 these forecasts are broadly in line with our projections. However, we project that the global cyclical downturn will be longer than indicated by consensus forecasts, and our growth projection for 2009 is considerably lower. Norwegian exports of traditional goods are now growing at a slower pace than earlier, in line with a rate that can be expected in the wake of a global downturn.

Monetary policy tightening, coupled with heightened financial turbulence, has led to higher interest rates and a strong krone exchange rate. This has contributed to both lower export growth and slower growth in household demand. This applies in particular to household housing investment and household spending on consumer durables. Housing starts have shown a clear decline, and according to QNA figures housing investment fell through the past four quarters. Car purchases also show a downward tendency after rising rapidly through 2007. Growth in household demand has been one of the main driving forces behind the expansion in the Norwegian economy in recent years, and a turnaround in this variable will influence the whole economy.

The latest figures for labour market developments indicate that employment growth may be somewhat weaker than earlier. The decline in unemployment seems to have come to a halt, and the supply of job vacancies seems to have flattened out. Labour market pressures are still very elevated, but pressures are no longer growing to the same extent as through 2007 and into 2008.

The cyclical picture is highly mixed however. Petroleum investment, mainland business investment and public spending on goods and services are still providing clear growth impulses to the Norwegian economy. In particular, mainland investment is still growing at a fast pace, and there is little reason to expect slower growth before the end of the year. Petroleum investment is expected to continue to expand, and with today's soaring oil prices, the main growth constraint is resource availability not profitability. Fiscal policy is still stimulating growth, and according to the Revised National Budget (RNB) for 2008 underlying spending growth may be slightly higher in 2008 than in 2007. Growth in general government purchases of goods and services is expected to be about the same in 2008 as in 2007.

The strong rate of economic growth in Norway, coupled with external inflationary impulses, particularly as result of higher commodity prices, has led to higher consumer price inflation than earlier. As measured by the consumer price index (CPI), inflation is now higher than 3 per cent, and even when adjusting for tax changes and excluding energy products (CPI-ATE), inflation picked up markedly through 2007 and into 2008. CPI-ATE inflation is now close to the central bank's inflation target for the first time since 2002. Wage growth is also on the rise and real wage growth remains high. In an international context, real wage growth in Norway has been very high for a long period. As a result, growth in household demand is likely to remain firm even if growth in the Norwegian economy should slow from a very high rate to a more moderate rate.

Our projections for the international economy are based on a clearly lower rate of growth among trading partners than in recent years. Combined with an increased supply of commodities, this is likely to bring an end to the sharp rise in most commodity prices. We assume that world food prices will fall somewhat further out in 2008 and into 2009, but that oil prices will remain at an unusually high level because of a longer lag in supply-side responses for oil prices. Given these assumptions, the world economy will shift into a period of markedly high inflation than witnessed over the past 10-15 years. We thus envisage a relatively traditional cyclical path ahead.

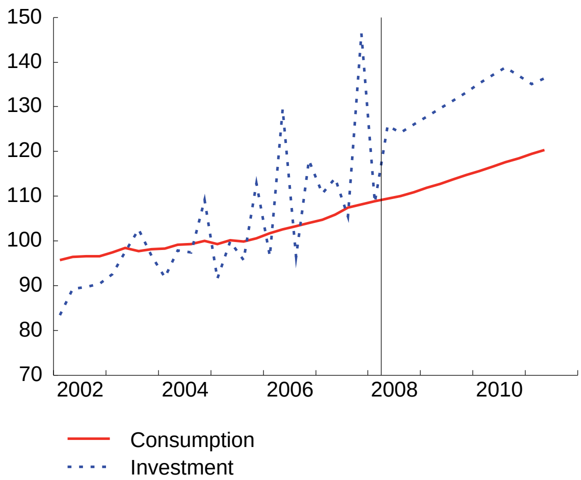
Should this somewhat optimistic scenario not materialize, many central banks will be faced with a dilemma. In a period of low economic growth, it is desirable to use the interest rate to stimulate the economy, as is the case in the US at present. Central banks do not allow the relatively high rate of headline inflation to influence interest rate setting in the first round. However, if inflationary impulses from commodity markets should continue, and not least feed through to other sectors of the economy, the objective of keeping inflation at a moderate level may prompt many central banks to raise interest rates again even if real economic growth is low. This may then amplify and prolong the cyclical downturn.

Over several years, the Norwegian economy has benefited from falling import prices for manufactured goods and not least for many consumer goods. If higher food prices in low-income countries lead to strong wage growth in these countries, partly because food products account for a large share of a manufacturing worker's budget in such countries, the period of falling import prices may shift to a period of imported inflation also in Norway. For several years Norges Bank has interpreted low imported inflation as a supply-side shock to the Norwegian economy, which monetary policy should not fully counter, but the question now is whether the same reasoning should apply if imported inflation jumps up ahead.

Stable growth in public demand

General government purchases of goods and services were at about the same seasonally adjusted level in the first quarter of 2008 as in the fourth quarter of 2007. The decrease in the first quarter primarily reflects the import of one frigate in the fourth quar-

Figure 1. **General government. Seasonally adjusted volume indices, 2005=100**



Source: Statistics Norway.

ter of 2007. In the RNB for 2008, growth in general government consumption is estimated at 3.2 per cent in 2008 and growth in gross investment at 5.4 per cent. Our projections are based on the same estimates. For consumption, our growth projection is the same as in the previous *Economic Survey*, while the projection for investment growth is slightly higher than in the previous report. Growth in the real value of transfers to households, which accounts for a third of general government expenditure, was a little less than 2 per cent between the first quarter of 2007 and the same quarter of 2008. The low rate of growth partly reflects a decline in unemployment benefits owing to reduced unemployment, a decline in cash benefits for families with young children and a reduction in various central government transfers. On the other hand, growth in old-age pension benefits is pushing up growth in transfers.

The RNB for 2008 shows a negligible non-oil budget deficit in 2007, primarily owing to the upward adjustment of tax revenues as a result of strong growth in the Norwegian economy. The structural, non-oil budget deficit was considerably larger and came to 3.6 per cent of the trend level for mainland GDP. The estimate for the structural, non-oil budget deficit in 2008 is markedly higher and is now estimated at 4.3 per cent of trend. In the RNB, real underlying growth in central government expenditure is estimated at a little more than 3 per cent this year against a good 2½ per cent in 2007. This implies a somewhat stronger expansionary impact in 2008 than in 2007. According to the RNB, 2008 will be the third consecutive year where the expected real return on the Government Pension Fund – Global at the beginning of the year will be higher than the structural, non-oil budget deficit. In the light of cyclical developments, this is in line with the intentions underlying the fiscal rule.

Our projections for fiscal policy in the years 2009-2011 are based on fairly stylized assumptions. It is assumed that general government purchases of goods and services will continue to grow at about the same pace as in 2007 and 2008, and real tax rates are held unchanged. These projections imply spending of less than 4 per cent of the capital in the Government Pension Fund – Global throughout the projection period. The value of the Government Pension Fund – Global was NOK 2 018.5 billion at the beginning of 2008. Even if the value of the Fund's investments showed a considerable decline in the first quarter of this year, the Fund may still reach a value of a good NOK 2.3 trillion at the end of 2008 as projected in the RNB. Today's high oil prices and sizeable transfers to the Fund indicate to an increase in value, while continued turbulence in global financial markets, combined with an appreciation of the krone, may depress returns in NOK terms.

We assume steady and moderate real expenditure growth because continued strong pressures in the Norwegian economy imply moderate fiscal impulses. Should the downturn in the Norwegian economy prove to be more pronounced than envisaged, Norway has ample fiscal leeway to stimulate the economy in the years ahead.

Downward shift in interest rates up to 2010

In interest-rate setting, Norges Bank's shall strike a balance between stabilizing inflation, the exchange rate and developments in output and employment. The operational target of monetary policy is an annual rise in consumer prices of 2.5 per cent over time. Low inflation in recent years primarily reflects a supply shock through falling prices for certain imports and high productivity growth. Such supply shocks can lead to a situation where inflation is low while capacity utilization is high. Norges Bank must then weigh the objective of stabilizing inflation around the operational target against stabilizing developments in output and employment. In this connection, Norges Bank must also take into account the effects of interest rates on the exchange rate.

Since July 2005, Norges Bank has gradually raised its key policy rate from 1.75 per cent to 5.5 per cent in April 2008. The money market rate normally follows the key rate with a premium. This premium has over time been around ¼ percentage point, but is somewhat higher when the interest rate is expected to increase and somewhat lower when it is expected to fall. Since summer 2007, the premium has been considerably higher as a result of the turbulence in financial markets. At the end of 2008, the money market rate was about 6.5 per cent, i.e. one percentage point higher than the key rate.

Inflation measured by the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was down to 0.4 per cent in August 2006. Subsequently, inflation has gradually picked up and the year-on-year rise in the CPI-ATE was 2.4 per cent in April. CPI-ATE inflation has thus moved close to the target for monetary policy after several years of low inflation.

Domestic credit growth, as measured by 12-month growth in private sector gross debt (C2), was 13.9 per cent in March 2008. Growth in household debt was 11 per cent in March 2008. This is the lowest twelve-month growth recorded since 2004 and indicates that the interest rate increases have put a damper on the willingness to borrow.

The European Central Bank (ECB) raised its key rate by 0.25 percentage point to 4.0 per cent in June 2007. It has thereafter remained unchanged. Money market rates in the euro area stood at about 4.8 per cent in May. The difference between Norwegian money market rates and euro-area money market rates was thus about 1.7 percentage points at end-May.

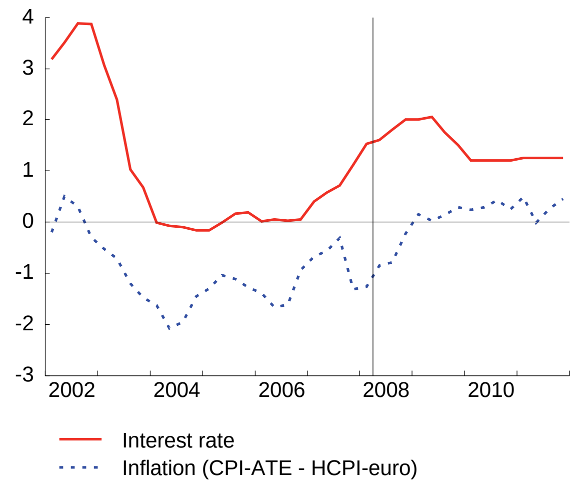
In 2007, the krone varied between a little less than 7.70 and 8.40 against the euro, with the annual average at about NOK 8. In the first five months of 2008, the krone hovered around 7.90 against the euro. The US dollar depreciated sharply against most countries through 2007 and into 2008. The krone also appreciated against the US dollar. While the krone stood at about 6.40 against the US dollar in January 2007, the US dollar fell in value to around NOK 5.00-5.10 in March 2008 and has since remained at about this level. Measured by the import-weighted krone exchange rate, where the weights are based on the composition of Norwegian imports, the krone has appreciated by about 8 per cent between the beginning of 2007 and May 2008.

We believe that the Norwegian krone will appreciate against other currencies partly owing to a higher interest rate level in Norway. On an annual basis, the krone is projected to appreciate by 5.4 per cent this year and a further 3.2 per cent next year, as measured by the import-weighted krone exchange rate. This implies an appreciation of the krone against the euro, with the exchange rate gradually moving down to around 7.50 in 2009 followed by a weakening of the krone somewhat further out in the projection period.

In response to weaker economic developments in the euro area, interest rates are expected to decline. Money market rates in the euro area are expected to move down to 3.8 per cent in 2009 and 2010, which is one percentage point lower than in May this year. Thereafter, interest rates are expected to shift up to 4.0 per cent in 2011 in line with an improvement in global cyclical conditions.

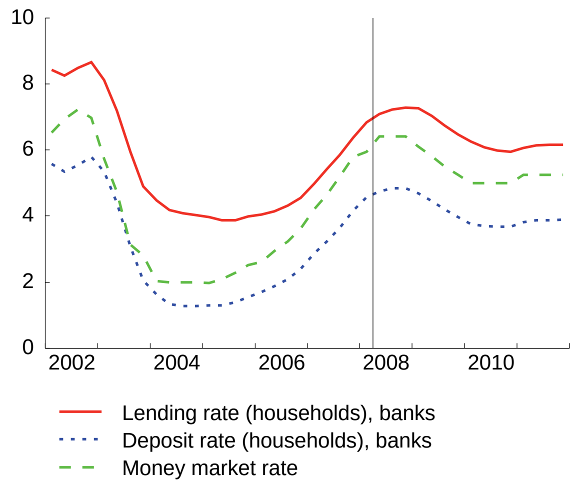
The interest rate level in Norway is also expected to fall during the projection period, partly through a gradual normalization of interest rate premiums and partly as a result of a reduction in Norges Bank's key rate. The interest rate will be cut in response to lower growth in Norway and to prevent a further appreciation of the krone. The money market rate will fall steadily through

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



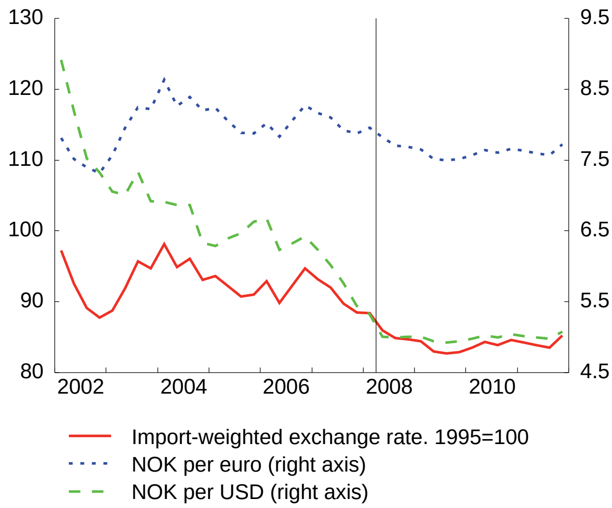
Source: Norges Bank and Statistics Norway.

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



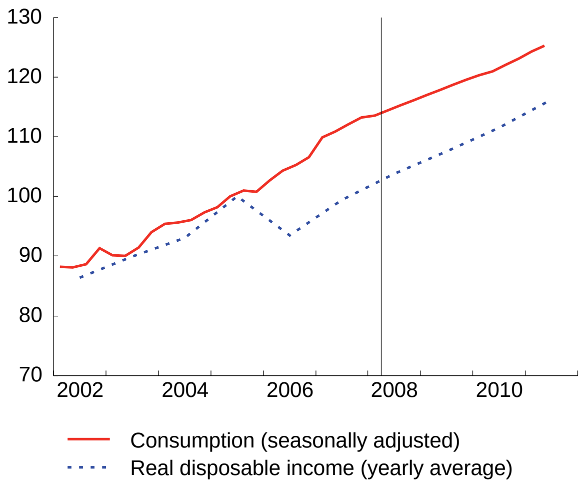
Source: Norges Bank and Statistics Norway.

Figure 4. **Exchange rates**



Source: Norges Bank.

Figure 5. **Income and consumption in households. Volume indices, 2005=100**



Source: Statistics Norway.

2009 and shift down to 5.0 per cent at the beginning of 2010. In response to higher growth and increased external interest rates, the interest rate edges up again to around 5.25 per cent in 2011. The Norwegian money market rate will then hover around 1¾ percentage point above the euro-area interest rate in 2008 and 2009, while the interest rate differential will narrow to about 1¼ percentage points in 2010 and 2011.

With a normalization of the premium in the money market, this path for the money market implies three reductions in the key rate up to 2010 and one interest rate hike in 2011.

In *Economic Survey* 4/2007, we estimated the effect of an isolated interest rate change in Norway on various variables such as inflation, mainland GDP and the krone exchange rate. According to the calculations, a one percentage point increase in the interest rate reduces inflation by 1.1 percentage points after one year, while GDP is reduced by 1.0 per cent. The impact on inflation and GDP growth gradually diminishes. The level of GDP increases twofold after three years. The effect on GDP is primarily transmitted through household adaptation and exchange rate changes, while the main transmission channel for the impact on inflation is the krone exchange rate. The Norwegian krone exchange rate appreciates by a little more than 5 per cent in course of the first three years after the interest rate increase.

Slower consumption growth

According to seasonally adjusted QNA figures, consumption for households and non-profit organizations rose by a modest 0.3 per cent in the first quarter compared with the same quarter one year earlier. Spending on services increased by 0.4 per cent, while goods consumption dropped by 0.2 per cent. Important groups of goods such as clothing and footwear showed zero growth. At the same time, consumption of electricity and car purchases slowed markedly, which made a substantial negative contribution to goods consumption. Consumption of telecommunication services and leisure services showed the strongest increase among services groups. Other groups of services showed weak growth or a decline in the first quarter of this year. The retail sales index for April and new car sales in April and the first three weeks of May also indicate slower growth in household consumption so far in 2008.

Table 2. **Household real disposable income. Percentage growth from the previous year**

	2006	2007	2008	2009	2010	2011
Total	6,5	6,4	4,3	3,7	3,7	4,2
Excl. dividends	4,1	5,7	2,8	3,0	3,5	4,0

Source: Statistics Norway.

On an annual basis, consumption is now expected to grow by a good 3 per cent this year, which is clearly lower than the growth rate of 6.4 per cent in 2007. Consumption growth in 2007 primarily reflected high underlying real income growth and lower real interest rates after tax in recent years. The saving ratio, i.e. saving as a percentage of disposable income, moved down to a very low level of -0.4 per cent in 2007.

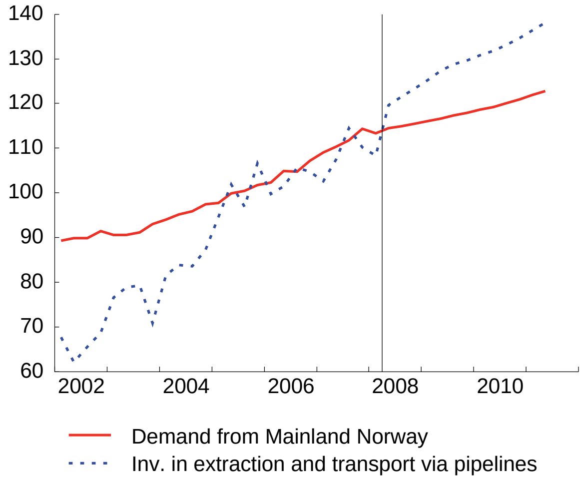
Household real disposable income is projected to grow by around 4.5 per cent in 2008 and almost 4 per cent as an annual average to the end of the projection period. Excluding dividend payments, which have little impact on consumption, income growth is expected to be high, but considerably weaker than in 2007. This income path is projected against the background of continued strong growth in household wage earnings, but also in business earnings and public transfers, primarily owing to a steadily rising number of national insurance old-age pension recipients. Higher consumer price inflation will, however, have a dampening impact on household real income growth. This is partly because housing investment will remain high even if housing investment is now shifting down. At the same time, household indebtedness will increase slightly more than household interest-bearing assets. Combined with higher interest rates, this will translate into weak developments in net interest income, which pushes down growth in disposable income. The real after-tax interest rate is expected to be a good 1 per cent in 2008, or markedly lower than in 2007, and then move up to an annual average of a good 2 per cent in the period 2009-2011. All in all, the income and interest rate path projected here results in consumption growth of 3 per cent in the coming years. Our projections thus imply a pronounced slowdown in consumption growth compared with the high rate of growth in 2007 and previous years.

The saving ratio is projected to pick up gradually from -0.4 per cent in 2007 to just below 4 per cent in 2011. Higher saving is reflected in a marked increase in household net lending. Measured at current prices, household net financial investment is projected at NOK 14 billion in 2011, against NOK 73 billion in 2007. An

Figure 6. **Residential market. Left axis adj. indices, 2005=100, right axis per cent**

Source: Statistics Norway.

Figure 7. **Domestic demand. Seasonally adjusted volume indices, 2005=100**



Source: Statistics Norway.

expected fall in housing investment through the projection period also contributes to the increase in household net lending.

Fall in housing investment

According to QNA figures, housing investment increased by 5.5 per cent in 2007 compared with 6.6 per cent in 2006. The rapid growth in housing investment since the end of 2003, which has been driven by strong real income growth, lower real interest rates and rapidly rising resale home prices, has now clearly moderated. According to seasonally adjusted QNA figures, housing investment has edged down since the first quarter of 2007. This tendency was amplified in the first quarter of this year. Housing start statistics, which is the main statistical source for QNA figures, show that the downward trend through 2007 continued in the first quarter of this year.

The high level of housing capital and the decline in building activity through 2007 and so far in 2008 point to a pronounced fall in housing investment through this year and next, albeit from a high level. On the other hand, prospects of somewhat higher growth in real disposable income and a relatively low real interest rate suggest that housing investment will pick up somewhat again towards the end of the projection period.

House prices have risen sharply since 2003 and the rate of increase was a good 12 per cent in 2007. From the fourth quarter of 2007 to the first quarter of this year, house prices increased by 2.6 per cent compared with all of 6.6 per cent in the same period last year. The rate of increase in real prices for resale homes is expected to move down from about 11.5 per cent in 2007 to around -1.5 per cent in 2008, followed by a gradual pick-up to around 4 per cent in 2011. The projections for real house prices in the coming years must be seen in connection with the projected path for the real interest rate and household real disposable income.

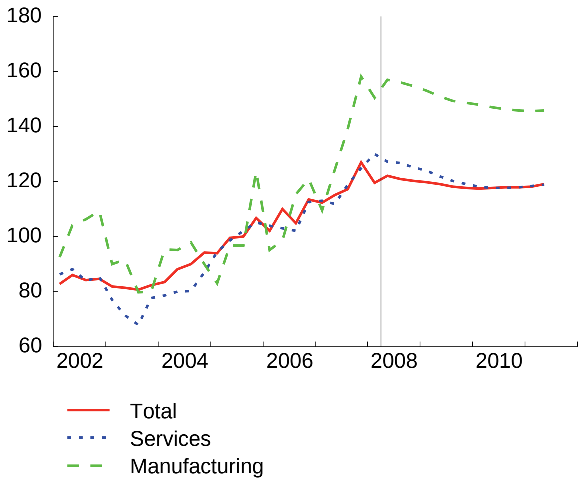
Elevated investment pressures in the off-shore sector

Investment in production and pipeline transport is still expanding. QNA figures show 5.5 per cent growth in the volume of investment between 2006 and 2007, i.e. a small downward revision in relation to previously published figures. The figures also indicate that investment in the first quarter of this year showed a corresponding increase in relation to the level in the first quarter of 2007. While investment linked to exploration and fields in operation is on the rise, pipeline and on-shore investment is falling. The installations linked to Snøhvit and Ormen Lange have been redefined from fields under development to fields in operation, and the completion of these development projects accounts for a large share of the change in the composition of investment type.

Oil companies' exploration willingness has been high for a period, but is being limited by rig capacity. The exploration willingness is attributable to expectations of high oil prices for a long period ahead and promising exploration areas. The discovery rate was relatively high in 2007, with many small and medium-sized finds close to existing infrastructure. It is therefore assumed that extraction here will be cheaper and faster than at more mature fields. Exploration activity is expected to pick up further as rig capacity expands, which will stimulate investment in field development. Oil prices are now projected to be considerably higher than earlier, but in the short run this is not likely to translate into markedly higher investment volumes.

Investment in fields in operation is expected to grow at a fast pace ahead because investment in tale production at existing fields has been profitable owing to high oil prices in recent years. New finds close to existing fields are also expected to boost investment linked to existing infrastructure. Fairly good discover rates so far point to a sustained upswing in field development observed

Figure 8. **Investment, Mainland Norway. Seasonally adjusted volume indices, 2005=100**



Source: Statistics Norway.

over the past two years. On-shore investment will move on a considerably weaker path, however. Now that the on-shore installations linked to the Snøhvit and Ormen Lange fields are largely completed, there are no signs of new on-shore installations of importance that can prevent a marked fall in on-shore investment. Investment linked to pipeline transport is also expected to continue to fall, but may increase somewhat again further out in the projection period.

The overall investment volume is projected to increase by close to 10 per cent this year. Further ahead, investment is projected to continue to expand to the end of the projection period, but at a somewhat slower pace.

The previous investment peak from 1998 seems to have been passed already in 2007, and we assume that investment will hover above this level throughout the projection period. The relative contribution, measured as a percentage of mainland GDP, will still be smaller than in 1998. At that time, investment accounted for about 8 per cent of mainland GDP compared with 6 per cent this year. Even with a clearly higher investment level in 2011, this share is expected to remain well below 7 per cent. With sinking investment in on-shore installation in the period ahead, the import share in investment is likely to be higher than observed in recent years so that the impulses to the mainland economy will not weaken.

QNA figures show that oil and gas production was close to 6 per cent lower in 2007 than in 2008. Production fell at a slower pace towards the end of 2007, and figures now show that production is at about the same level in the first quarter this year as in the same quarter last year. Adjusted for normal seasonal variations, the figures indicate a modest pick-up on the previous quarter. Underlying these figures are two very different movements for oil and gas production. While oil production is still moving downward, gas production has increased markedly over the past two quarters. The main factor behind this are that production is seasonally higher through the winter half-year and that the gas fields linked to both Ormen Lange and Snøhvit came on stream at the end of last year. Production was postponed to some extent due to start-up problems, which resulted in a further jump in production in the first quarter of this year. In the preliminary figures, the increase in gas production now fully offsets the drop in oil production.

Oil production is projected to continue to fall to the end of the projection period, but at a considerably slower pace than expected earlier. Gas production is expected to increase at an annual rate of 10 per cent both this year and next, and will thereafter show markedly slower growth. These projections imply moderately slower growth in total petroleum production in 2008, somewhat higher growth in 2009 and unchanged from that level to the end of the projection period. Gas production will account for a growing share of petroleum production ahead. In value terms, gas accounted for a little less than 24 per cent of petroleum production in 2005 and the gas portion is projected to increase to almost 40 per cent in 2011.

Business investment remains firm

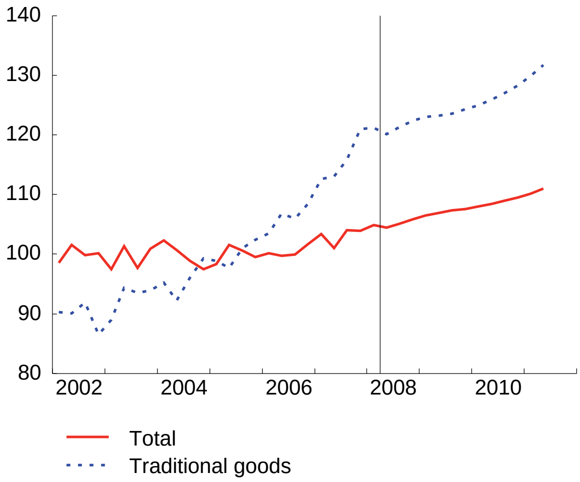
Mainland business investment expanded by close to 60 per cent between 2003 and 2007 and increased by 12.5 per cent between 2006 and 2007. According to seasonally adjusted QNA figures, mainland business investment grew by 3.1 per cent between the fourth quarter of 2007 and the first quarter of 2008. While manufacturing and mining investment moved down by 4.9 per cent, investment in goods production rose by 9.4 per cent. Investment in services increased by a seasonally adjusted 4.1 per cent between the fourth quarter of 2007 and the first quarter of 2008.

Statistics Norway's latest investment intentions survey in March this year indicates sustained growth in manufacturing investment in 2008. Measured at constant prices, manufacturing may reach close to 20 per cent this year, primarily reflecting expectations of a very high level of investment in the food industry, oil refinery, the chemical industry and machinery. An expected halving of investment in wood processing will restrain growth to some extent.

Manufacturing investment will shift down somewhat from 2009 to the end of the projection period, but owing to the strong investment expansion in the period 2003-2008 investment will remain at a high level. After growing by 40 per cent over the past two years, investment in the electricity industry is likely to moderate ahead. In 2008, growth is projected at the same rate as in 2007, i.e. at a good 10 per cent.

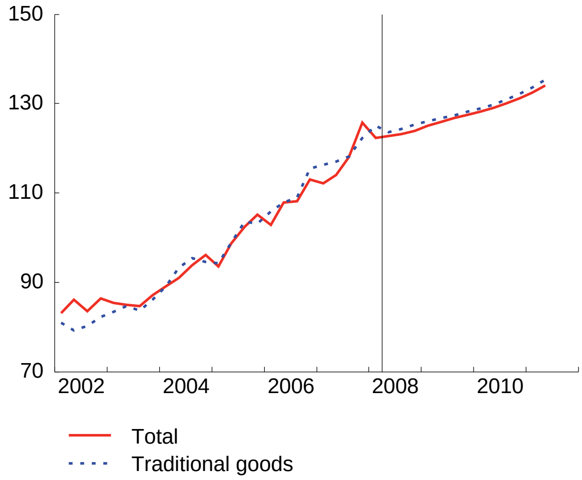
Sharp investment growth through the entire cyclical upturn has resulted in a 15 per cent increase in capital stock in the mainland private service sector over the

Figure 9. **Exports. Seasonally adjusted volume indices, 2005=100**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted volume indices, 2005=100**



Source: Statistics Norway.

past four years. In the light of the high level of capital stock, combined with weaker cyclical conditions, investment in services ahead is expected to grow at a considerably slower pace than last year's rate of 11.4 per cent. For mainland industries as a whole, investment growth is projected at close to 8.5 per cent this year, followed by slackening growth in 2009 in pace with slower growth in production. A somewhat higher real interest rate will also curb investment growth.

Slower export growth this year

The emergence of a global slowdown, higher cost growth in export-oriented industries and a strong krone now seem to be dragging down growth in traditional goods exports. According to seasonally adjusted QNA figures, growth was 0.2 per cent between the fourth quarter of 2007 and the first quarter of this year, i.e. a clear downward shift on the previous quarter when growth was 4.4 per cent. The slowdown primarily reflects developments in engineering products. Exports of engineering products grew by 2.8 per cent, which is markedly lower than the growth rate in the previous quarter when growth was as high as 11.2 per cent. Metal exports also weakened in the first quarter. Between the first quarter of 2007 and the first quarter of this year, total exports expanded by 1 per cent. Growth in oil and natural gas exports was as high as 2.3 per cent, while growth in services exports showed a more moderate deceleration than traditional export goods.

Prices for traditional export goods moved down by 0.9 per cent between the fourth quarter of 2007 and the first quarter of this year. A continued rise in oil and natural gas prices contributed to a 2.8 per cent increase in overall export prices. Crude oil prices are now 45 per cent higher than in the first quarter of 2007. Metal prices are still moving down and were 14 per cent lower in the first quarter of this year compared with the same quarter last year.

Demand growth has been high among our main trading partners since 2004. This has contributed to the strong growth in exports in recent years. Demand growth is projected to be approximately halved this year and to decelerate further in 2009. Combined with weakened cost competitiveness, reduced electricity exports and a stronger krone exchange rate, this will contribute to a fall in export growth for traditional goods to almost 5 per cent this year and further down to 2 per cent in 2009. After 2009, global cyclical conditions are expected to improve, pushing up export growth which is projected to move up to about 5 per cent towards the end of the projection period. During the projection period traditional goods exports are expected to grow at a slower rate than demand among our main trading partners. This implies reduced market shares as a result weakened competitiveness.

Exports of oil and natural gas are expected to continue to slow this year. In 2009, however, oil and natural gas exports are projected to pick up on the previous year. In the event, this will be the first time since 2002. Growth flattens out, but continues to the end of the projection period. In line with recent years' developments, growth in services exports is projected to continue at a faster rate than growth for traditional goods during the projection period. Overall export growth will nevertheless be somewhat lower than for traditional goods through the projection period.

Reduced import growth

Import growth has been driven by the cyclical upturn since 2004. Import growth has exceeded 8 per cent over four consecutive years. There are now signs of a shift in pace in the economy and a slowdown in export growth.

Growth in total imports slowed to a seasonally adjusted 2.8 per cent between the fourth quarter of 2007 and the first quarter of this year. This primarily reflects the defence sector's import of one frigate in the fourth

Table 3. **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	NB	SN	NB	SN	NB
Demand and output										
Consumption in households etc.	6.4	3.3	3.7	3 1/2	2.9	1 3/4	2.7	2 1/4	3.6	3
General government consumption	3.6	3.2	3.2	2 3/4	3.2	3 1/4	3.4	..	3.1	..
Gross fixed investment	9.3	4.6	4.8	..	-0.5	..	0.4	..	2.3	
Extraction and transport via pipelines[1]	5.5	9.9	10.0	7 1/2	6.6	5	3.0	5	4.9	0
Mainland Norway	9.4	2.8	3.4	5 1/4	-2.4	3/4	-0.5	..	1.4	..
Industries	12.5	8.3	7.0	..	-4.9	..	-2.3	..	0.8	..
Housing	5.5	-8.3	-4.0	..	-3.9	..	-2.5	..	4.7	..
General government	7.8	5.5	5.4	..	5.7	..	5.9	..	-0.7	..
Demand from Mainland Norway[2]	6.2	3.2	3.5	3 3/4	2.0	2	2.3	2 1/2	3.1	3
Stockbuilding[3]	-1.3	0.0	..	..	0.0	..	0.0	..	0.0	..
Exports	2.8	1.5	2.4	..	2.3	..	1.4	..	2.6	..
Crude oil and natural gas	-2.8	-1.8	-0.2	..	2.6	..	0.1	..	0.1	..
Traditional goods[4]	9.0	4.9	4.3	5	2.0	1 1/4	2.6	..	5.1	..
Imports	8.7	4.8	6.0	5 1/4	2.7	2 1/4	2.5	..	4.1	..
Traditional goods	8.1	4.9	6.1	..	2.5	..	2.6	..	4.6	..
Gross domestic product	3.7	2.3	2.4	3	2.0	2 1/4	1.8	1 3/4	2.5	2 1/2
Mainland Norway	6.2	2.9	3.2	3 1/2	1.9	2	2.3	2 1/4	3.2	2 3/4
Labour market										
Employed persons	4.0	2.6	2.4	2 1/4	1.5	1/4	1.0	0	1.3	1/4
Unemployment rate (level)	2.5	2.6	2.4	2 1/2	2.8	3	3.1	3 3/4	3.0	4
Prices and wages										
Wages per standard man-year	5.6	6.0	5 1/2	6	4.8	5 1/2	4.2	5	5.2	4 3/4
Consumer price index (CPI)	0.8	3.9	3.2	3	3.1	2 3/4	2.1	2 1/2	2.1	2 3/4
CPI-ATE[5]	1.4	2.5	2.4	2 1/4	2.3	2 1/4	2.2	2 1/2	2.2	2 3/4
Export prices, traditional goods	2.2	1.9	-1.5	..	-2.3	..	4.1	..	6.3	..
Import prices, traditional goods	3.4	-0.4	0.3	..	0.2	..	1.7	..	2.4	..
Housing prices[6]	12.3	2.4	..	..	3.6	..	3.3	..	6.1	..
Balance of payment										..
Current balance (bill. NOK)	372.1	517.0	429.4	..	605.8	..	639.5	..	671.9	..
Current balance (per cent of GDP)	16.3	19.9	17.2	..	21.8	..	22.0	..	22.1	..
Memorandum items:										..
Household savings ratio (level)	-0.4	1.5	0.3	..	2.0	..	3.0	..	3.7	..
Money market rate (level)	5.0	6.3	6.4	5 3/4	5.7	5 1/2	5.0	5	5.3	5
Lending rate, banks (level)[7]	5.7	7.1	..	..	6.9	..	6.1		6.1	..
Crude oil price NOK (level)[8]	423	575	500	..	594	..	601	..	602	..
Export markets indicator	7.6	4.9	..	..	2.4	..	4.9	..	8.2	..
Importweighted krone exchange rate (44 countries)[9]	-1.7	-5.4	-3 1/4	-4 1/4	-3.2	1 1/2	1.0	2	0.1	1

[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.2 (2007-2008), (MoF), Norges Bank, Pengepolitisk rapport 1/2008 (NB).

quarter of last year and lower imports of crude oil, oil platforms and services. Traditional goods imports continued to move up, but growth slowed to 2.2 per cent after growth of 3.5 per cent in the previous quarter. The downward shift in imports reflects a fall in both private consumption and mainland investment which has a high import share.

Despite the appreciation of the import-weighted krone exchange rate, there was a broad increase in import prices of 1.7 per cent in the first quarter of this year. The price increase is ascribable to higher world commodity prices and a general acceleration in costs among our trading partners.

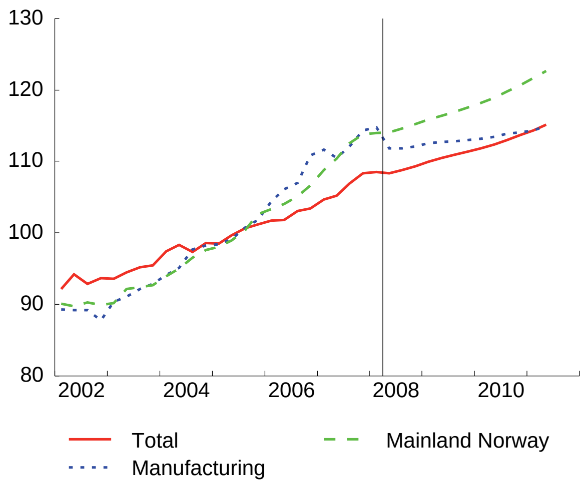
In 2008, import growth is projected at 4.9 per cent for traditional goods and 4.8 per cent all total. Further ahead towards 2010, mainland economic growth is expected to moderate and import growth to slacken. The effects on imports of a fall in the activity level will be dampened somewhat by a projected strengthening of the krone in 2009. Reflecting the strong krone, import growth is projected to be higher than domestic demand growth, which implies increased import shares. Import growth is projected at a little less than 3 per cent in 2009 and 2010, and total imports are expected to follow approximately the same path as traditional import goods.

Normalisation of GDP growth

In 2007 economic growth, as measured by mainland GDP, was the highest witnessed in several decades. Since the previous cyclical trough was reached in 2003, growth in the mainland economy has averaged 5 per cent annually. This is the strongest rate of GDP growth observed through a cyclical upturn since the 1980s. Total GDP growth has been clearly lower than growth in the mainland economy primarily owing to the fall in total petroleum production.

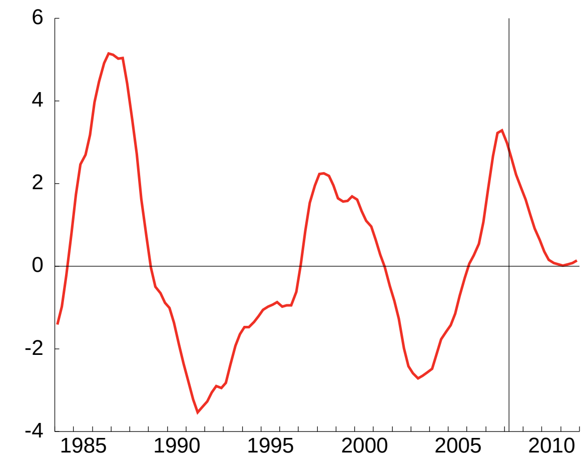
In the past few years, growth in the mainland economy has been broad-based, with strong growth in manufacturing, construction and private services. This is because growth in the various demand components has been fairly evenly distributed. Growth in household consumption has been high and housing investment has accelerated rapidly. Gross investment in the petroleum sector and mainland industries has expanded at a brisk pace and mainland growth is continuing according to seasonally adjusted QNA figures for the first quarter of 2008. Exports, with the exception of oil and gas, have also expanded at a fast pace largely thanks to rapid global growth and term-of-trade gains for the Norwegian economy. Against the background of the rapid expansion in the private sector, public sector growth has been limited in the interest of cyclical stabilization. As a result of fiscal discipline, a cyclical increase in tax revenues and sharply rising oil prices, the general government budget balance has shown a substantial improvement through the upturn. The opposite is true for household financial saving.

Figure 11. **Gross domestic product. Seasonally adjusted volume indices, 2005=100**



Source: Statistics Norway.

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



Source: Statistics Norway.

Growth is projected to show a clear downward shift ahead. QNA figures for the first quarter of 2008 show that growth has decelerated markedly. However, it is difficult to interpret the seasonally adjusted figures because the entire Easter holiday was in the first quarter this year, which is unusual. Sluggish growth in the world economy will result in weaker growth in Norwegian exports of both goods and services ahead. Household demand seems to be growing at a more moderate pace than earlier, and housing investment in particular is weakening, with falling housing starts over several quarters. A gradual tightening of monetary policy has probably contributed to reducing household demand. A strong krone and a rising domestic cost level have dragged down export growth. On the other hand, business investment is still growing at a firm pace. Petroleum investment is also expected to grow through the projection period and the same applies to public spending on goods and services is projected to grow at the same pace as earlier. The macro picture on the demand side is thus mixed. On the supply side, weaker export growth will contribute to weaker growth in some export-oriented sectors, particularly in manufacturing. However, continued growth in petroleum investment will stimulate some manufacturing segments. The downward shift in housing investment will curb activity in the construction industry, but sustained strong growth in investment in non-residential construction and infrastructure will contribute to holding up production growth. We still envisage slower growth than in 2007. In service sectors, more moderate consumption growth ahead will contribute to lower production growth.

Mainland GDP is projected at about 3 per cent in 2008. This is a halving of the growth rate for the previous year, but is still fairly close to estimated trend growth for the Norwegian economy. Even if the downward shift in growth in Norway is expected to be pronounced, growth will still be high compared with the OECD area. Given our fiscal assumptions, growth in general government production will be broadly in line with mainland production. Partly reflecting lower oil production in 2008, GDP is projected to grow by 2.3 per cent in 2008.

Growth in the mainland economy is projected to be markedly lower in 2009 and as previously we expect to see a clear downward shift in the business cycle. The main factor behind a further slowdown in growth after 2008 is slacker growth in business investment. Weaker growth reduces impulses to household demand. Export growth will slow further in 2009. With weaker investment growth, the slowdown in growth will broaden to large parts of the business sector. The projected stable production growth in the public sector will contribute to stabilizing developments in line with the intentions underlying the fiscal rule. As mentioned above, lower growth in the economy will prompt central banks in Europe to reduce interest rates somewhat. We assume that the difference between key rates and money market rates will normalize. At the same time, the rise in commodity prices is assumed to come to halt, with an attendant dampening impact on inflation. As a result, the real interest rate shows little change from 2008 to 2009. Given a stronger krone, monetary policy in Norway will have a contractionary impact on the economy again in 2009, restraining growth in consumption and investment. In 2009, total GDP growth may be higher than GDP growth for the mainland economy as a result of an expected sharp acceleration in gas production and only a moderate decline in oil production.

In line with previous projections, we envisage a renewed economic upswing through 2010. This will then be from an approximately cyclically neutral level for mainland output. Our projections do not therefore imply an actual recession after two years of moderate growth. A global pick-up will stimulate exports and export growth will fuel economic growth. In 2010 and 2011, lower oil and gas production will not put a substantial drag on growth, and consumption of inputs in the petroleum sector normally generates growth impulses to the mainland economy. Household income growth will also stimulate housing investment, which is projected to show a renewed upswing from the end of 2010. Combined with approximately unchanged business investment and continued growth in petroleum investment and the public sector, construction activity will then shift upwards again. The same applies to manufacturing, which will also be stimulated by the upswing in exports. With faster production growth in the business sector and strong growth in employment, growth in household consumption will also pick up, so that services production will increase again. Growth in the mainland economy is projected at 2.3 per cent in 2010 and about one percentage point higher in 2011. This is slightly higher than estimated trend growth. Based on these projections, the Norwegian economy will experience a renewed cyclical upturn towards the end of 2010. Interest rates are then assumed to edge up in line with the key rate in the euro area.

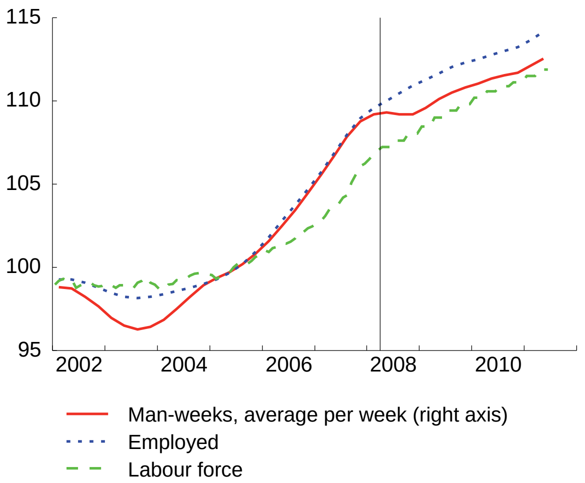
Unemployment near a trough?

Seasonally adjusted QNA figures show rapid employment growth. Growth in the number employed was 0.8 per cent between the fourth quarter of 2007 and the first quarter of this year. This is still the lowest rate of growth since the fourth quarter of 2006. Seasonally adjusted Labour Force Survey (LFS) figures also show somewhat slower employment growth since the beginning of the year. The slackening in employment growth is evidence of a moderate easing of labour market conditions so far this year.

In both 2006 and 2007, annual employment growth was the highest registered in over 40 years. The number employed increase by almost 180 000, or 7.6 per cent, between 2005 and 2007. Growth in temporary labour services has been particularly high for commercial services and the construction industry, with close to 20 per cent growth during this two-year period. Commercial services include the provision of temporary labour services and the construction industry has probably been one of the main users of these services.

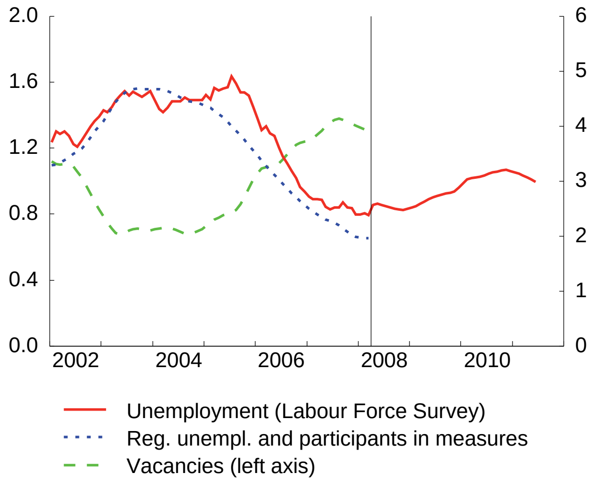
While employment and commercial services continued to grow at a brisk pace in the first quarter of this year, and at a faster rate than in any other quarter of this upturn, employment growth for commercial services and the construction industry slowed by a seasonally adjusted 1 per cent from the fourth quarter of 2007 and the first quarter of this year. This is the first quarter since the second quarter of 2003 that seasonally adjusted national accounts figures have shown a decline in employment in this industry and the decline is relatively large. This development may reflect a shift towards increased use of temporary labour services, which may explain the sharp employment growth for commercial services, but may also reflect a cyclical turnaround in the Norwegian economy. Traditionally, a cyclical turnaround rapidly influences employment in

Figure 13. **Labour force, employment and number of man-hours. Millions. Seasonally adjusted and smoothed indices**



Source: Statistics Norway.

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



Source: The Directorate of Labour and Statistics Norway.

the construction industry. Overall manufacturing employment also showed a seasonally adjusted fall in the first quarter of this year, after 11 consecutive quarters of rising employment.

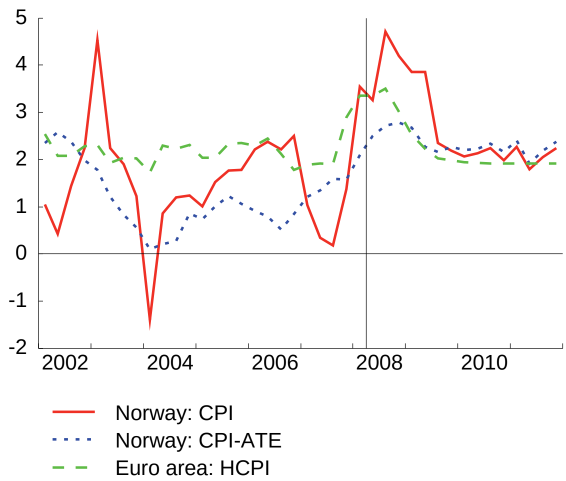
Even if employment has increased rapidly, also according to the latest LFS statistics, the seasonally adjusted LFS unemployment rate measured as a three-month moving average has only declined by 0.1 percentage point since May 2007 and has remained at 2.4 per cent so far this year. The seasonally adjusted rate of decline in registered unemployment has also moderated. At the end of April this year, 1.6 per cent of the labour force was registered as fully unemployed, 0.3 percentage point lower than at end-May 2007. At this juncture, labour force growth is thus almost as high as employment growth. An important factor behind this is the increase in inward labour migration. Developments indicate that a further fall in unemployment is unlikely. Without the strong growth in inward labour migration, labour shortages would probably have been greater today.

Driven by strong demand growth and high world commodity prices, Norwegian manufacturing enterprises have experienced a surge in production in recent years. Petroleum investment has also made a substantial contribution to production growth in this sector. Manufacturing segments other than the petroleum supplier industry have also recorded substantial profitability gains. This has contributed to an increase in manufacturing employment by over 20 000 persons between 2005 and 2007. Continued growth in petroleum investment will underpin employment growth in manufacturing also in the years ahead. Weaker growth in export markets, combined with a strong krone and relatively high cost growth in Norway, will have the opposite effect. Manufacturing employment is projected to increase to more than 290 000 in the course of 2008, or the highest number recorded since 2000. In the following years, manufacturing employment is projected to remain approximately unchanged. Based on these projections, Norwegian manufacturing as a whole will become more dependent on supplying goods to the petroleum sector, and will thus become more vulnerable in the event of a setback in the global oil market with an attendant fall in petroleum investment.

According to QNA figures and our calculations, the Norwegian economy has now passed a cyclical peak. Our projections imply a continued slowdown and a clear slackening of employment growth in the period ahead. Continued fiscal impulses and petroleum investment imply, however, that the cyclical downturn will be very moderate compared with earlier downturns. Growth in total employment will slow from 4.0 per cent in 2007 and 2.6 per cent in 2008 to 1-1½ per cent annually in the period 2009-2011. The increase in total employment of 100 000 in the period 2008-2011 is fairly evenly distributed between private and public services. Employment growth in these sectors reflects relatively strong household income growth and a steady increase in petroleum revenue spending over the central government budget which will hold up private and public consumption growth.

Inward labour migration is expected to show slower growth, so that lower employment growth will not push down employment to the same extent. With continued growth in the working age population and the lower portion of younger persons relative to older persons, the labour force is nevertheless expected to grow at somewhat faster pace than employment. This results in a gradual increase in unemployment from 2.5 per cent in 2007 to 3.1 per cent in 2010. In 2011, eight years after the previous cyclical trough, the Norwegian economy is expected to show a renewed cyclical upturn and employment to edge down again. The long-term projections relating to a cyclical turnaround are highly uncertain, however.

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



Source: Norges Bank and Statistics Norway.

Wage growth normalizes

Normally, wage growth picks up late in a cyclical upturn. This has also been the case this time. In the light of the strong growth in employment and the unprecedented rapid rate of decline in unemployment in 2006 and 2007, wage growth has been relatively moderate up to and including the first six months of 2007. It now seems that wage growth will reach about 6 per cent this year, the highest rate recorded since 1998.

In large parts of the private sector, centrally negotiated wage settlements have been concluded without conflicts this year. The parties to these settlements have estimated annual wage growth within these bargaining areas at about 5.6 per cent. The figure includes the full-year effect of pay increases awarded in 2007 and wage drift in the wage bargaining areas. For the private sector, locally negotiated pay increases come in addition to this. In the public sector all organizations, with the exception of UNIO (Confederation of Unions for Professionals, Norway) in the local government settlement, have approved a settlement that the parties have estimated will result in annual wage growth of 6.2 per cent.

Statistics Norway projects growth in wages per normal person year, which differs from the annual wage concept in that it also includes overtime pay. The tightening of the labour market in recent years has resulted in an increase in overtime and higher growth in wages per normal person year than in annual pay. Slacker employment growth ahead may reverse this tendency. On the other hand, wage growth for groups with locally determined pay in the private sector is expected to be relatively high this year. Since total wage growth accelerated rapidly last year in spite of moderate centrally negotiated pay increases, locally negotiated pay increases were probably very high last autumn. This year, the full-year effect of these increases will come into evidence. Coupled with a continued ample ability to pay in the business sector and a tight labour market, this is will probably contribute to pushing overall wage growth in the private sector closer to wage growth in the public sector this year. As in the previous report, growth in wages per normal person for the whole economy is projected at 6.0 per cent in 2008.

Profitability in the business sector has been high throughout the 2000s, particularly after 2003. Over the past four years as a whole, labour costs as a share of total factor income in market-oriented businesses, excluding oil and gas extraction, has not been lower since 1970. The marked improvement in profitability partly reflects the sharp rise in prices for important Norwegian export products, but also reflects high productivity growth. The slowdown in the world economy, weaker productivity growth and higher wage growth will, however, contribute to a normalization of labour cost shares this year. The full-year effects of the pay increases that have been awarded so far this year still imply relatively high wage growth on an annual basis from 2008 to 2009, and the labour market will remain tight. Wage growth is projected at 4.8 per cent in 2009.

After 2009 unemployment is projected to stabilize at around 3 per cent. Profitability in the business sector will also be at a more normal level. Consumer price inflation will move down to 2 - 2.5 per cent as the contributions from higher energy and food prices diminish. Without further strong cyclical impulses, wage growth is expected to slow further in 2010 and is projected at 4.2 per cent. In the course of 2010, the global economy will experience a renewed cyclical upturn. The rise in prices for traditional export goods is then likely to pick up, with an improvement in manufacturing enterprises' profitability. This will again result in higher wage growth in 2011, with projected growth at 5.2 per cent.

Higher inflation

Inflation measured by the year-on-year increase in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has increased gradually over close to two years. In September 2006, inflation was as low as 0.4 per cent, while it had moved up to 2.4 per cent in April. From the end of last year to April this year, inflation increased by 0.6 per cent. A breakdown of the CPI-ATE by supplier sector shows that inflationary impulses increased from all main groups during this period. Prices for domestically produced goods, including agricultural and fish products, quickened at the fastest pace, while changes in prices for imported consumer goods have been modest.

The rate of increase in the total consumer price index (CPI) is the relevant measure when assessing household purchasing power. CPI movements have been dominated by electricity prices for a long period. Late summer last year very low electricity prices in relation to the same period one year earlier contributed to negative CPI inflation. Between August 2007 and January this year, electricity prices rose by more than 60 per

Effects of higher energy prices

Over a longer period, there has been a clear tendency for energy prices to rise at a faster pace than prices for other goods and services. Over the past five years, oil prices have moved on a fairly steady upward trend, while electricity prices have shown wide fluctuations, but around a rising trend. Energy products account for a large share of household budgets. The product groups fuel, lubricants, electricity, heating fuel, etc. have a combined weight of about 8 per cent in the CPI. When energy prices rise, it is not only the direct price increase for these products that influence the prices charged to households. Energy products are used as inputs in all types of production, and prices for a large majority of products will thus rise after a period as a result of higher energy prices. Energy prices also have an impact on wages, and through this channel on prices. Higher energy prices will thus push up the general price level.

Our calculation has been made with focus on domestic wage and price formation in order to shed light on these indirect effects. We have used a special version of the KVARTS model where it is assumed that the interest rate and exchange rate are not influenced. We have also stripped out the wage effects caused by changes in possible labour market pressures in order to focus on the nominal effects via price and wage formation.

The recent sharp rise in electricity prices through the fourth quarter of last year and the latest jump in oil prices started at about the same time from a level of USD 75 or NOK 435 per barrel. In this analysis, actual developments extended with our projections in the baseline scenario in this report are compared with a counter-actual path where oil prices in NOK terms and electricity prices are held constant from the fourth quarter of 2007.

As shown in the table, after the third quarter of last year energy price inflation pushes up CPI inflation by more than 2 percentage points in 2008 and close to 1.5 percentage points the following year before the effects unwind through the end of the estimation period. Energy price increases account for the largest share of the change, but the indirect effects are also considerable: Inflation measured by the CPI-ATE moves up by around a half percentage point in both 2008 and 2009. The inflation projections fro 2009 are revised up appreciably in relation to our previous report. Higher energy price projections explain a considerable portion of this increase for both the CPI and the CPI-ATE which excludes energy products.

The reason why the CPI-ATE rises as a result of higher energy prices is that higher living costs trigger demands for higher wages to compensate for the rise in living costs. Higher wage and energy costs in the business sector are partially passed on to product prices. Somewhat further out, lower profitability in the business sector curbs wage growth again, and after rising both this year and next wage growth slows markedly toward the end of the estimation period.

It is important to note that this is a partial analysis: Excluding energy products, world market prices have shown little change. Global economic developments are not affected. According to the standard model, the oil price also influences the exchange rate. This is not embodied in the model. Nor is the interest rate response that can be expected from Norges Bank incorporated in the calculations.

Effects of **actual and assumed changes in energy prices after Q3 2007. Difference between level in baseline scenario and alternative path in per cent. and between growth rates in percentage points**

	2007	2008	2009	2010	2011
Electricity prices charged to households	8.3	49.8	78.3	77.3	77.3
Oil prices in NOK	2.9	33.1	36.8	38.3	38.4
CPI inflation	0.3	2.2	1.4	0.2	0.0
CPI-ATE inflation	0.0	0.5	0.6	0.2	0.0
Wage growth	0.0	0.9	0.6	-0.1	-0.6

cent according to the CPI, which pushed CPI inflation up to 3.7 per cent. Electricity prices declined thereafter, pushing down CPI inflation to 3.1 per cent in April despite higher oil prices and an increase in CPI-ATE inflation.

A number of factors explain the increase in inflation in Norway. The cyclical upturn has led to higher labour cost growth. Towards the end of the cyclical upturn and at the start of the downturn productivity growth also fell. Higher energy prices push up production costs in all business sectors, and increased commodity prices, including food, are having the same effect. The price-restraining effects of a steadily growing share of imports from low-cost countries have diminished. This may reflect that this trade shift has become less pronounced and that the cost level in low-cost countries is rising.

It is likely that inflation will continue to drift up in the months ahead owing to higher hourly labour costs and weak productivity growth. The observed increase in world food prices, in addition to higher maximum prices for Norwegian agricultural products, is also pushing up inflation. The appreciation of the krone will counter these upward pressures. The import-weighted krone exchange rate was about 8 per cent stronger in mid-May than around the turn of the year 2006-2007. The appreciation is probably already reflected in lower prices for imported consumer goods, but probably not to the full extent. Moreover, the krone is expected to appreciate further towards summer next year.

As an annual average, CPI-ATE inflation is projected to reach Norges Bank's inflation target of 2.5 per cent this year. According to our calculations, inflation will remain unchanged or slightly lower thereafter. The cyclical downturn will result in somewhat lower growth in labour costs and productivity growth will gradually pick up. We assume that global energy and commodity prices will not continue to accelerate at the current pace, but drift down somewhat over the next few years.

A slower rise in these prices will be countered by a somewhat faster rise in international prices for finished goods and a somewhat weaker krone from the latter half of 2009.

The projections are based on an increase in crude oil prices of NOK 150 between 2007 and 2008. This pushes up CPI inflation by an estimated ¾ per cent. Large volumes of snow in mountain areas, relatively high temperatures and technical problems linked to electricity transport abroad have contributed to a sharp fall in electricity prices in southern Norway this spring. However, Nord Pool forward prices indicate that electricity prices will jump up through autumn. We assume that electricity prices, as measured in the CPI, will increase by about 30 per cent on annual basis this year. This could push up the CPI by about 1¼ per cent. Forward prices imply rising electricity prices again in 2009, but at a somewhat slower rate than in 2008. Electricity prices are then assumed to remain approximately unchanged after 2009.

The approved indirect tax programme for 2008 is assessed to be broadly inflation neutral. Moreover, we assume that real indirect taxes will remain largely unchanged through the remainder of the projection period. Based on these assumptions, CPI inflation will be 3.9 per cent in 2008, i.e. considerably higher than CPI-ATE inflation of 2.5 per cent. CPI inflation is also projected to be higher than CPI-ATE inflation, at 3.1 per cent and 2.3 per cent respectively. Thereafter, approximately unchanged energy prices will result in a slower rate of increase in the CPI than in the CPI-ATE.

Record-high current account surplus

The surplus on the trade balance, excluding oil and gas exports, shrank between 2006 and 2007. Developments in both prices and volume worked in the same direction. At the same time, the value of oil and gas exports fell. All in all, this resulted in a 10 per cent reduction in the surplus on the balance of trade. The growth trend from 2002 has thus been broken. However, we expect that the surplus will show renewed growth in the years ahead. Preliminary QNA figures for the first quarter of this year show a strong increase in the trade surplus. This primarily reflects a fall in imports of services and traditional goods and a sharp increase in oil prices on the previous quarter. The trade surplus, which came to more than NOK 120 billion, has thus increased by a good NOK 12 billion over one quarter.

High and rising oil prices have contributed to the sizeable trade surpluses recorded over several years. Oil prices in USD terms have increased at such a fast pace that this has dominated a depreciating US dollar exchange rate and somewhat lower production and export volumes. These price and exchange rate developments are expected to flatten out this year. A very high oil prices at around an annual average of NOK 575 per barrel will result in an increase in the trade surplus from NOK 356 billion in 2007 to almost NOK 522 billion in 2008, i.e. a record increase of 46 per cent. In 2009, the surplus is estimated to increase by close to 16 per cent. As a result of several years of heavy investment in oil and gas extraction, the volume of oil and gas export is expected to increase for the first time since 2002, followed by an unchanged level to the end of the projection period. Combined with record-high oil prices and rapidly rising prices for traditional export goods, this will bring the trade surplus to a good NOK 600 billion in 2010 and 2011.

The annual deficits on the interest and transfers balance since 2000 are expected to turn into a surplus next year as a result of strong growth in the Government Pension Fund – Global in pace with rising government petroleum revenues. As a result of higher surpluses on the interest and transfers balance in 2010 and 2011, the current account surpluses will be considerably higher than NOK 600 billion in the last years of the projection period.

Tabell 4. **National accounts: Final expenditure and gross domestic product. At fixed 2005 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2006	2007	06.2	06.3	06.4	07.1	07.2	07.3	07.4	08.1
Final consumption expenditure of households and NPISHs	864 839	920 108	215 220	217 351	220 013	226 821	228 866	231 317	233 641	234 349
Household final consumption expenditure	828 966	882 331	206 311	208 332	210 895	217 560	219 508	221 801	223 989	224 559
Goods	428 799	461 680	106 541	107 900	109 127	114 178	114 903	116 314	116 787	116 606
Services	371 049	387 552	92 334	92 896	94 786	95 314	96 433	97 227	98 470	98 885
Direct purchases abroad by resident households	52 544	57 331	13 220	13 394	13 157	13 972	14 189	14 290	14 969	15 180
Direct purchases by non-residents	-23 426	-24 232	-5 784	-5 858	-6 175	-5 905	-6 017	-6 030	-6 238	-6 113
Final consumption expenditure of NPISHs	35 873	37 778	8 910	9 019	9 119	9 261	9 359	9 516	9 653	9 790
Final consumption expenditure of general government	398 571	412 731	99 270	100 038	100 709	101 450	102 539	104 016	104 674	105 356
Final consumption expenditure of central government	207 093	211 241	51 675	51 882	52 175	52 420	52 591	52 998	53 221	54 189
Central government, civilian	179 907	183 027	44 901	45 080	45 294	45 389	45 562	45 949	46 121	47 096
Central government, defence	27 186	28 213	6 773	6 802	6 881	7 031	7 029	7 049	7 100	7 093
Final consumption expenditure of local government	191 478	201 490	47 595	48 156	48 534	49 030	49 947	51 018	51 453	51 166
Gross fixed capital formation	392 400	428 803	100 174	97 699	100 697	100 932	104 293	109 078	114 562	109 115
Extraction and transport via pipelines	90 799	95 816	22 340	23 248	23 049	22 574	23 665	25 194	24 257	23 840
Service activities incidential to extraction	-259	-1 605	-152	449	178	-403	9	-845	-366	-258
Ocean transport	16 381	22 361	5 094	4 558	2 213	4 372	4 371	7 051	6 557	6 397
Mainland Norway	285 479	312 231	72 893	69 444	75 257	74 389	76 248	77 677	84 114	79 136
Mainland Norway excluding general government	227 167	249 376	55 783	56 707	59 649	59 778	61 184	63 740	64 775	64 791
Industries	139 305	156 684	33 985	34 757	37 047	36 299	37 747	40 379	42 119	43 440
Manufacturing and mining	23 943	29 191	5 422	6 344	6 651	6 020	6 848	7 654	8 704	8 280
Production of other goods	25 745	27 681	6 629	6 705	6 435	6 211	7 088	7 414	6 860	7 505
Services	89 616	99 812	21 934	21 708	23 961	24 067	23 812	25 311	26 554	27 655
Dwellings (households)	87 862	92 692	21 798	21 950	22 602	23 479	23 437	23 361	22 656	21 351
General government	58 312	62 855	17 110	12 737	15 609	14 611	15 064	13 938	19 339	14 345
Changes in stocks and statistical discrepancies	59 525	53 830	12 006	17 355	15 728	8 943	12 919	11 567	20 717	18 956
Gross capital formation	451 924	482 633	112 180	115 054	116 425	109 875	117 213	120 644	135 279	128 071
Final domestic use of goods and services	1 715 335	1 815 473	426 670	432 443	437 147	438 146	448 618	455 977	473 595	467 776
Final demand from Mainland Norway	1 548 889	1 645 070	387 383	386 833	395 979	402 661	407 653	413 011	422 429	418 841
Final demand from general government	456 883	475 586	116 380	112 775	116 317	116 062	117 603	117 954	124 013	119 701
Total exports	872 004	896 529	216 591	217 056	220 844	224 551	219 536	225 990	225 637	227 807
Traditional goods	243 615	265 463	61 195	60 701	62 146	64 499	64 743	66 377	69 292	69 437
Crude oil and natural gas	399 603	388 490	99 247	99 719	97 743	101 231	94 338	97 796	95 067	97 236
Ships, oil platforms and planes	12 608	12 837	1 840	3 357	4 124	2 548	3 808	4 019	2 462	1 844
Services	216 177	229 739	54 311	53 279	56 831	56 273	56 646	57 799	58 816	59 290
Total use of goods and services	2 587 339	2 712 001	643 262	649 499	657 991	662 698	668 154	681 967	699 232	695 583
Total imports	592 414	644 130	147 901	148 267	155 006	153 654	156 307	161 731	172 433	167 669
Traditional goods	384 920	416 197	94 654	95 768	101 311	102 181	102 703	103 802	107 420	109 787
Crude oil and natural gas	1 899	4 786	235	235	880	776	1860	674	1463	264
Ships, oil platforms and planes	14 907	19 812	5 844	3 808	2 005	2 891	3 275	5 954	7 692	6 270
Services	190 688	203 334	47 168	48 457	50 810	47 805	48 469	51 301	55 859	51 348
Gross domestic product (market prices)	1 994 924	2 067 872	495 361	501 231	502 984	509 044	511 846	520 236	526 799	527 914
Gross domestic product Mainland Norway (market prices)	1 520 691	1 615 455	377 308	381 332	386 709	394 448	400 461	408 167	412 605	413 404
Petroleum activities and ocean transport	474 233	452 416	118 053	119 899	116 275	114 596	111 385	112 070	114 195	114 511
Mainland Norway (basic prices)	1 296 145	1 375 482	321 654	323 512	330 501	335 805	341 140	346 927	351 718	353 869
Mainland Norway excluding general government	1 013 216	1 083 356	251 102	252 611	259 078	263 901	268 459	273 402	277 743	278 808
Manufacturing and mining	185 585	194 216	45 940	46 339	48 009	48 336	47 857	48 544	49 497	49 710
Production of other goods	144 921	158 393	35 852	35 384	36 095	38 110	39 603	40 763	40 165	40 123
Services incl. dwellings (households)	682 709	730 747	169 310	170 888	174 974	177 455	181 000	184 095	188 082	188 975
General government	282 929	292 126	70 552	70 901	71 423	71 904	72 681	73 524	73 975	75 062
Taxes and subsidies products	224 547	239 973	55 654	57 821	56 208	58 643	59 322	61 240	60 886	59 534

Source: Statistics Norway.

Tabell 5. **National accounts: Final expenditure and gross domestic product. At fixed 2005 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2006	2007	06.2	06.3	06.4	07.1	07.2	07.3	07.4	08.1
Final consumption expenditure of households and NPISHs	4.7	6.4	1.5	1.0	1.2	3.1	0.9	1.1	1.0	0.3
Household final consumption expenditure	4.6	6.4	1.5	1.0	1.2	3.2	0.9	1.0	1.0	0.3
Goods	4.1	7.7	1.1	1.3	1.1	4.6	0.6	1.2	0.4	-0.2
Services	4.1	4.4	1.7	0.6	2.0	0.6	1.2	0.8	1.3	0.4
Direct purchases abroad by resident households	13.1	9.1	5.6	1.3	-1.8	6.2	1.6	0.7	4.8	1.4
Direct purchases by non-residents	4.0	3.4	4.5	1.3	5.4	-4.4	1.9	0.2	3.4	-2.0
Final consumption expenditure of NPISHs	6.5	5.3	0.9	1.2	1.1	1.6	1.1	1.7	1.4	1.4
Final consumption expenditure of general government	2.9	3.6	0.8	0.8	0.7	0.7	1.1	1.4	0.6	0.7
Final consumption expenditure of central government	1.7	2.0	0.7	0.4	0.6	0.5	0.3	0.8	0.4	1.8
Central government, civilian	2.5	1.7	0.6	0.4	0.5	0.2	0.4	0.8	0.4	2.1
Central government, defence	-3.3	3.8	0.7	0.4	1.2	2.2	0.0	0.3	0.7	-0.1
Final consumption expenditure of local government	4.4	5.2	1.0	1.2	0.8	1.0	1.9	2.1	0.9	-0.6
Gross fixed capital formation	7.3	9.3	7.4	-2.5	3.1	0.2	3.3	4.6	5.0	-4.8
Extraction and transport via pipelines	2.9	5.5	1.8	4.1	-0.9	-2.1	4.8	6.5	-3.7	-1.7
Service activities incidential to extraction	-74.2	520.8	-79.3	-395.1	-60.3	-326.4	-102.2	..	-56.7	-29.4
Ocean transport	25.3	36.5	14.4	-10.5	-51.5	97.6	0.0	61.3	-7.0	-2.4
Mainland Norway	7.6	9.4	7.9	-4.7	8.4	-1.2	2.5	1.9	8.3	-5.9
Mainland Norway excluding general government	7.0	9.8	1.8	1.7	5.2	0.2	2.4	4.2	1.6	0.0
Industries	7.3	12.5	2.1	2.3	6.6	-2.0	4.0	7.0	4.3	3.1
Manufacturing and mining	8.3	21.9	3.7	17.0	4.8	-9.5	13.7	11.8	13.7	-4.9
Production of other goods	13.8	7.5	11.9	1.1	-4.0	-3.5	14.1	4.6	-7.5	9.4
Services	5.3	11.4	-0.8	-1.0	10.4	0.4	-1.1	6.3	4.9	4.1
Dwellings (households)	6.6	5.5	1.2	0.7	3.0	3.9	-0.2	-0.3	-3.0	-5.8
General government	10.1	7.8	34.0	-25.6	22.5	-6.4	3.1	-7.5	38.8	-25.8
Changes in stocks and statistical discrepancies	28.1	-9.6	-18.0	44.6	-9.4	-43.1	44.5	-10.5	79.1	-8.5
Gross capital formation	9.7	6.8	4.0	2.6	1.2	-5.6	6.7	2.9	12.1	-5.3
Final domestic use of goods and services	5.5	5.8	2.0	1.4	1.1	0.2	2.4	1.6	3.9	-1.2
Final demand from Mainland Norway	4.8	6.2	2.5	-0.1	2.4	1.7	1.2	1.3	2.3	-0.8
Final demand from general government	3.8	4.1	4.6	-3.1	3.1	-0.2	1.3	0.3	5.1	-3.5
Total exports	0.4	2.8	-0.4	0.2	1.7	1.7	-2.2	2.9	-0.2	1.0
Traditional goods	6.2	9.0	3.2	-0.8	2.4	3.8	0.4	2.5	4.4	0.2
Crude oil and natural gas	-6.6	-2.8	-3.9	0.5	-2.0	3.6	-6.8	3.7	-2.8	2.3
Ships, oil platforms and planes	13.5	1.8	-44.0	82.5	22.8	-38.2	49.4	5.5	-38.8	-25.1
Services	8.1	6.3	5.3	-1.9	6.7	-1.0	0.7	2.0	1.8	0.8
Total use of goods and services	3.8	4.8	1.2	1.0	1.3	0.7	0.8	2.1	2.5	-0.5
Total imports	8.1	8.7	5.0	0.2	4.5	-0.9	1.7	3.5	6.6	-2.8
Traditional goods	9.6	8.1	1.8	1.2	5.8	0.9	0.5	1.1	3.5	2.2
Crude oil and natural gas	-50.9	152.0	-57.7	0.3	274.2	-11.8	139.7	-63.8	117.1	-82.0
Ships, oil platforms and planes	24.1	32.9	79.8	-34.8	-47.4	44.2	13.3	81.8	29.2	-18.5
Services	5.4	6.6	6.8	2.7	4.9	-5.9	1.4	5.8	8.9	-8.1
Gross domestic product (market prices)	2.5	3.7	0.1	1.2	0.3	1.2	0.6	1.6	1.3	0.2
Gross domestic product Mainland Norway (market prices)	4.8	6.2	0.6	1.1	1.4	2.0	1.5	1.9	1.1	0.2
Petroleum activities and ocean transport	-4.1	-4.6	-1.7	1.6	-3.0	-1.4	-2.8	0.6	1.9	0.3
Mainland Norway (basic prices)	4.8	6.1	0.6	0.6	2.2	1.6	1.6	1.7	1.4	0.6
Mainland Norway excluding general government	5.5	6.9	0.6	0.6	2.6	1.9	1.7	1.8	1.6	0.4
Manufacturing and mining	7.1	4.7	1.6	0.9	3.6	0.7	-1.0	1.4	2.0	0.4
Production of other goods	-0.7	9.3	-3.9	-1.3	2.0	5.6	3.9	2.9	-1.5	-0.1
Services incl. dwellings (households)	6.5	7.0	1.3	0.9	2.4	1.4	2.0	1.7	2.2	0.5
General government	2.2	3.3	0.8	0.5	0.7	0.7	1.1	1.2	0.6	1.5
Taxes and subsidies products	5.0	6.9	0.9	3.9	-2.8	4.3	1.2	3.2	-0.6	-2.2

Source: Statistics Norway.

Tabell 6. **National accounts: Final expenditure and gross domestic product. Price indices. 2005=100**

	Unadjusted		Seasonally adjusted							
	2006	2007	06.2	06.3	06.4	07.1	07.2	07.3	07.4	08.1
Final consumption expenditure of households and NPISHs	102.1	102.8	102.0	102.6	103.1	102.1	102.4	102.7	104.0	105.0
Final consumption expenditure of general government	104.2	108.9	103.9	104.9	105.9	107.3	108.5	109.2	110.5	111.9
Gross fixed capital formation	104.3	110.3	102.9	106.0	106.5	107.9	110.4	111.8	111.0	112.5
Mainland Norway	103.9	109.7	102.7	105.0	105.7	107.8	109.2	110.2	111.3	112.3
Final domestic use of goods and services	..	..	103.3	104.5	103.3	104.8	105.9	106.1	106.0	106.5
Final demand from Mainland Norway	103.0	105.6	102.6	103.6	104.3	104.5	105.2	105.7	107.1	108.1
Total exports	115.3	116.3	114.2	114.0	116.7	112.1	115.1	112.8	125.3	128.8
Traditional goods	111.4	113.9	109.6	114.8	115.7	114.5	116.4	112.4	112.9	111.8
Total use of goods and services	..	..	107.0	107.7	107.8	107.3	108.9	108.3	112.2	113.8
Total imports	103.3	106.5	100.9	104.0	107.5	107.1	107.9	105.8	105.6	107.5
Traditional goods	104.7	108.3	102.0	105.0	109.6	109.0	109.8	107.6	106.8	109.0
Gross domestic product (market prices)	108.4	110.1	108.8	108.7	107.8	107.3	109.2	109.1	114.4	115.9
Gross domestic product Mainland Norway (market prices)	103.6	106.1	103.9	104.2	104.0	105.7	105.8	105.5	107.4	106.8

Source: Statistics Norway.

Tabell 7. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted							
	2006	2007	06.2	06.3	06.4	07.1	07.2	07.3	07.4	08.1
Final consumption expenditure of households and NPISHs	2.1	0.7	1.1	0.6	0.5	-1.0	0.3	0.3	1.4	1.0
Final consumption expenditure of general government	4.2	4.5	1.6	1.0	1.0	1.3	1.1	0.7	1.2	1.3
Gross fixed capital formation	4.3	5.8	1.7	3.0	0.5	1.2	2.3	1.3	-0.7	1.3
Mainland Norway	3.9	5.6	0.8	2.2	0.7	2.0	1.2	1.0	1.0	0.9
Final domestic use of goods and services	..	..	1.9	1.1	-1.2	1.5	1.0	0.3	-0.1	0.5
Final demand from Mainland Norway	3.0	2.6	1.2	1.0	0.7	0.1	0.7	0.5	1.3	1.0
Total exports	15.3	0.9	-1.7	-0.2	2.4	-3.9	2.7	-2.0	11.1	2.8
Traditional goods	11.4	2.2	2.9	4.7	0.8	-1.1	1.7	-3.4	0.4	-0.9
Total use of goods and services	..	..	0.5	0.6	0.1	-0.5	1.5	-0.5	3.6	1.4
Total imports	3.3	3.1	0.2	3.1	3.4	-0.4	0.7	-1.9	-0.2	1.7
Traditional goods	4.7	3.4	-0.2	2.9	4.4	-0.5	0.7	-2.0	-0.8	2.1
Gross domestic product (market prices)	8.4	1.6	0.6	-0.1	-0.8	-0.5	1.8	-0.1	4.8	1.3
Gross domestic product Mainland Norway (market prices)	3.6	2.4	1.4	0.3	-0.2	1.6	0.1	-0.2	1.7	-0.6

Source: Statistics Norway.