Economic survey

Perspectives

2007 proved to be a booming year for the Norwegian economy. The economy continued to expand at a brisk pace, inflation was low, employment increased sharply and unemployment fell to a level that has not been seen in Norway for several decades. Buoyant growth in the world economy has resulted in strong growth in traditional Norwegian export goods and prices for many important export products have increased markedly. Household consumption has been very high in Norway, but at the same time gross investment has increased at a faster rate than consumption over several years. While the increase in petroleum investment was particularly high in the beginning phase of the recovery that started in 2003, growth in mainland investment has gradually taken over as a key driving force behind the upturn. Developments ahead will probably be marked by lower economic growth owing to supply- side constraints and weaker international developments.

The integration of global financial markets is an important part of globalization. It has supported the strong growth in the world economy over several years by facilitating investment financing and risk diversification. However, financial markets have obviously failed to take sufficient account of the build-up of imbalances, particularly in the US economy. Last autumn, global uncertainty heightened, triggered by the turbulence in financial markets caused by falling US house prices and rising defaults on home mortgages. The turbulence in international financial markets has continued into this year, and there is now a risk of a considerable cooling of the world economy. Such a development will influence the Norwegian economy through both lower market growth and a probable decline in prices for Norwegian export goods.

The Norwegian economy still seems to be in a position to weather a setback in the international economy. In the current economic situation, the challenge over the past few years has been to prevent aggregate domestic demand from growing too rapidly. Monetary policy has accordingly been tightened through interest rate hikes, which has contributed to a stronger krone exchange rate. The interest rate level in the US is now considerably higher than a year ago, and there has been an abrupt expansionary shift in economy policy. In Europe, however, interest rates have shown little change. Should the downturn in the US spread to other regions, interest rates are also likely to be lowered in the euro area. That will lead to downward pressure on Norwegian interest rates to prevent the krone exchange rate from becoming too strong.

The economic expansion has also resulted in a less expansionary fiscal stance, as measured by the structural, non-oil budget deficit, than provided for by the fiscal rule in isolation. The fiscal response is appropriate in relation to the cyclical situation, and is in line with the fiscal policy guidelines. Even with lower global growth, it is highly unlikely that the economy will shift into a recession in the next few years. Slower external growth may almost provide some breathing space in demand management. However, a pronounced international setback may result in a more cyclically neutral situation in Norway in 2009. A moderate expansionary shift in economic policy may then be appropriate.

During a period of economic growth, imbalance may arise in the composition of the supply of goods and services. In Norway, public services account for a large share of total services production, where activity is subject to approved budget limits. Expenditure is limited by a given level of tax revenues, and hence also the room for growth in the supply of public services. Pressures on spending related to a number of key government-financed services, e.g. health and care services, are amplified by that fact that services are free of charge or at a low price. However, in the light of petroleum revenues and the fiscal rule governing petroleum revenue spending, an unchanged tax level is not a tight constraint on activity growth in the public sector in Norway, at least not in the coming years. With the projected accumulation of capital in Government Pension Fund – Global, the fiscal rule provides room for real expenditure growth of around 3-4 per cent annually at an unchanged tax level. This implies strong growth impulses to the economy. In a situation with full capacity utilization, the result may easily be high cost growth and an undesired scaling back of internationally exposed industries. The expansionary effect of phasing in petroleum revenues in line with the fiscal rule may be mitigated if the considerable share of the increased fiscal leeway ahead is used for investment and measures that also boost the restructuring and growth capacity of the economy in the long term.

The combination of favourable economic conditions in Norway and EU enlargement in 2004 have made it possible for job-seekers from new EU countries to participate in the Norwegian labour market. Net inward migration to Norway has been at an unprecedented high level over the past two years. Increased labour market flexibility owing to labour migration has curbed pressure tendencies in the economy and amplified and prolonged the cyclical upturn. There is reason to believe that the inflow of labour will decline if growth in the Norwegian economy shows a pronounced slowdown. It is therefore highly unlikely that unemployment will exhibit a dramatic increase.

The substantial inflow of labour also amplifies another demographic phenomenon – the low share of the population that is now older (than 62 years of age). This is the result of the low birth rate during the interwar period and during World War II. As a result of the low share of older persons, Norway is in a favourable situation with regard to current public finances. Demographic developments do not therefore imply a need for tax-based financing of an increase in public expenditure over the next decade.

This picture changes considerably after 2020, when a rise in the number of pensioners and heavy users of health and care services may contribute to markedly faster growth in public expenditure than the tax base. In the event, this will require a higher tax level and/or user fees to maintain the same scale and quality of public services and transfer schemes as at present, unless oil prices and hence petroleum revenues remain at a very high level. This is a problem that is difficult to remedy through growth because public expenditure is closely linked to labour costs, directly through spending in public production and indirectly through indexed transfers to households.

A number of adaptations are necessary to address the challenges facing public finances. First, it is important to limit growth in pension and social security expenditure that will accompany an ageing population. This is a key objective of the pension reform. Compared with today's social security system, the new system provides incentives to prolong working life. The main elements of the pension reform have been approved by the Storting (Norwegian parliament). But adaptations remain outstanding with regard to several associated pension and social security schemes and their formulation, which are crucial for the pension reform to have the intended effect on the supply of labour and long-term public finances.

Second, the cost increase in the public sector can be limited by a more efficient organization of services production. Developments in the Norwegian economy since 1990 have dispelled the myth that there is limited scope for reaping productivity gains in services production. On the contrary, it has been demonstrated that strong productivity growth in private services, combined with a modernization of public services production, has been essential to prosperity in Norway over the past 15 years. There is little reason to believe that this will no longer be the case.

Third, growth in demand for welfare services can be financed to a greater extent through an increase in user fees. User fees have already been introduced in health and care services, for example within nursing and social care services. When users finance a substantial share of costs, it has a dampening impact on growth in demand compared with tax-based financing. Efficiency losses associated with user-fee financing are thus smaller than in the case of a general increase in the tax level. The gains must be weighed against distribution considerations.

A fourth possibility for financing increased public expenditure is to increase the general tax level. The general income tax level in Norway is high relative to comparable countries. The need for higher taxes or user fees to finance an increase in expenditure linked to an ageing population is however just as great as in these countries. Furthermore, government revenues will probably be increasingly be based on tax sources other than income tax in the years ahead. Relevant alternatives are property tax and environmental taxes.

The fiscal rule is designed to ensure a gradual phasing in of petroleum revenues into the Norwegian economy. This can be said to represent a fairly ambitious saving plan. Projections of government revenues and expenditure nevertheless show that the return on the accumulated capital in the Government Pension Fund – Global is hardly sufficient to finance expenditure growth in the long term. Accordingly, adaptations must be made in one or several of the areas mentioned above. The tax level must not necessarily be raised. But if the possibilities for increasing efficiency or applying user fees are limited or not used, the tax level will probably have to be increase in the long run. From what level will be decided by the priorities defined in the years ahead.

Cyclical developments in Norway

The Norwegian economy has experienced a strong cyclical upturn since 2003 and growth has accelerated over the past two years. In 2007, mainland GDP increased by all of 6 per cent compared with the previous year, the fastest rate of growth recorded since the beginning of the 1970s. Total GDP growth has been considerably lower primarily due to a continued fall in petroleum production. Growth in the mainland economy has been broad based both in terms of the main demand components and measured by production by industry. Employment growth was also record high in 2007, and unemployment continued to fall and now seems to be close to a trough. Inflation measured by the consumer price index (CPI) was low in 2007, primarily reflecting a fall in electricity prices. Underlying inflation measured by the CPI-ATE was 1.4 per cent and clearly lower than the inflation target for the fifth consecutive year. In light of the strong growth in the Norwegian economy in recent years, the low level of inflation is noteworthy. The main explanatory factors are most

Table 1. **Macroeconomic indicators 2006-2007. Growth from previous period unless otherwise noted. Per cent**

	2006	2007	Seasonally adjusted			
			07:1	07:2	07:3	07:4
Demand and output						
Consumption in households etc.	4.7	6.4	2.7	1.2	1.1	1.4
General government consumption	2.9	3.2	0.7	0.9	1.2	0.3
Gross fixed investment	7.3	9.6	-1.1	4.3	4.5	8.2
Mainland Norway	7.6	9.2	-1.5	2.7	1.0	11.1
Extraction and transport via pipelines	2.9	6.6	-5.3	7.7	8.1	-0.8
Final domestic demand from Mainland Norway[1]	4.8	6.1	1.4	1.4	1.1	2.9
Exports	0.4	3.2	2.3	-2.7	2.8	1.1
Crude oil and natural gas	-6.6	-2.4	3.8	-6.4	3.2	-2.7
Traditional goods	6.2	9.0	4.5	0.1	2.5	4.3
Imports	8.1	8.6	-0.8	1.7	3.3	6.3
Traditional goods	9.6	8.2	1.3	0.4	1.1	3.5
Gross domestic product	2.5	3.5	0.7	1.1	1.5	1.3
Mainland Norway	4.8	6.0	1.4	1.9	1.9	0.9
Labour market						
Man-hours worked	2.6	4.0	1.2	1.3	0.7	0.9
Employed persons	3.4	3.8	1.0	1.3	1.0	0.8
Labour force[2]	2.2	2.9	0.9	1.1	1.0	0.8
Unemployment rate, level[3]	3.4	2.5	2.7	2.5	2.5	2.5
Prices and wages						
Wages per standard man-year[4]	4.9	5.6	6.1	5.7	5.4	5.3
Consumer price index (CPI)[4]	2.3	0.8	1.0	0.3	0.2	1.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[4]	0.8	1.4	1.2	1.4	1.6	1.6
Export prices, traditional goods	11.4	2.4	-1.7	2.0	-3.0	0.6
Import prices, traditional goods	4.7	3.5	0.0	0.6	-2.0	-0.8
Balance of payment						
Current balance, bill. NOK	373.4	390.6	86.3	78.1	101.3	124.8
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	3.1	5.0	4.2	4.6	5.2	5.8
Lending rate, banks[5]	4.3	..	5.3	5.6	6.1	..
Crude oil price NOK[6]	413.8	423.4	360.4	414.1	435.3	483.2
Importweighted krone exchange rate, 44 countries, 1995=100	92.5	90.8	93.2	92.0	89.8	88.4
NOK per euro	8.05	8.02	8.17	8.10	7.92	7.88

[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.

likely favourable supply-side conditions and low imported inflation.

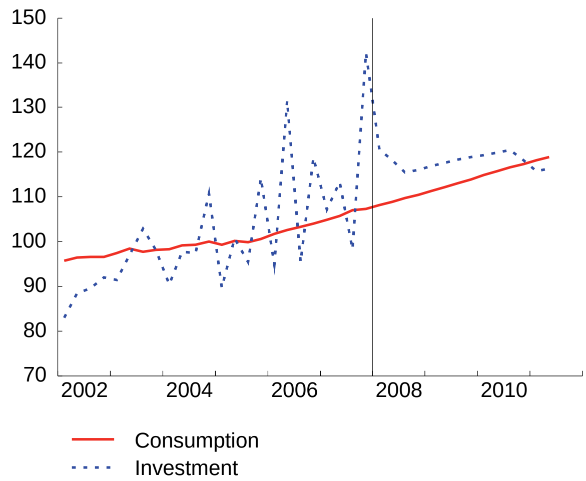
With full capacity utilization in the economy, it is reasonable to expect the mainland economy to grow at a slower rate ahead than in recent years. However, with increased integration in Europe and high labour mobility, it is not easy to identify the capacity limits in the Norwegian economy. Several conditions on the demand side also suggest that growth prospects are weak. The strong growth in household demand observed in recent years is not likely to continue at the same pace in the years ahead, primarily because the household saving ratio is now low, which points to a correction in household spending when growth prospects weaken. Moreover, Norges Bank has tightened monetary policy by raising its key policy rate over the past two years. Housing starts fell through 2007, which will translate into lower housing investment ahead. In addition to slower growth in household demand, we are also seeing the negative impulses from the international economy. Norwegian export-oriented industries will therefore experience weaker impulses from international markets ahead. This development will be amplified by a possible further appreciation of the krone exchange rate and higher cost growth in Norway relative to our trading partners. An appreciation of the krone will have a dampening impact on inflation and contribute to reducing pressures in the labour market. This will gradually translate into lower wage growth, which will also curb inflation.

A period of weaker growth in the Norwegian economy will not pose a considerable challenge to economy policy. In a certain respect, the opposite, i.e. continued strong growth and intensified boom in the Norwegian economy, would have posed a greater challenge. In the near term, Norges Bank's dilemma consists of weighing an excessive appreciation in the krone against its aim of preventing inflation from becoming too high (see Box 1 on page 14). However, the increase in inflation that is now recorded, and which will continue in 2008, partly reflects supply-side conditions and temporary disturbances to which the central bank gives less weight in interest-rate setting. Fiscal policy is assumed to generate stable growth impulses ahead. Should the downturn be perceived as too pronounced, the authorities have substantial leeway to stimulate the economy in line with the existing economic policy guidelines.

Steady growth in public demand

General government purchases of goods and services increased by a good 3 per cent between 2006 and 2007, or at a about the same rate as the previous year when excluding the defence sector's frigate purchases. Growth in the real value of transfers to households, which account for around a third of current general government expenditure, increased at about the same pace. On the whole, real growth is assumed to continue at this rate throughout the projection period up to and including 2011. As previously, real tax rates are

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



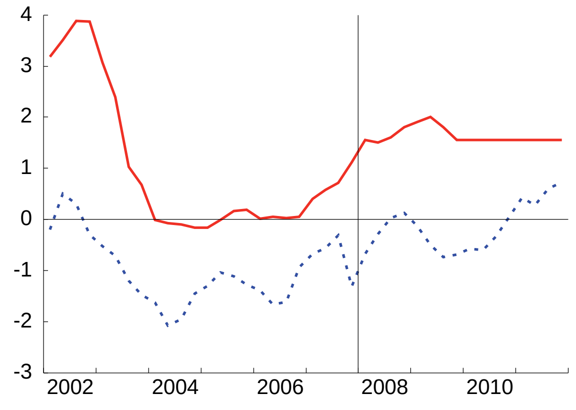
Source: Statistics Norway.

assumed to remain unchanged after this year in the calculations where approved tax rates are incorporated.

The final budget for 2007 showed an upward revision of the non-oil budget deficit, and the budget is now roughly in balance. This primarily reflects and upward revision of tax revenues as a result of strong growth in the Norwegian economy. As a result, there was almost no need for transfers from the Government Pension Fund – Global to the central government budget in 2007. The central government budget has not shown such a favourable balance since 2001. When the Ministry of Finance adjusts budget revenues and expenditure for cyclical conditions, the structural, non-oil budget deficit will probably show a deficit that is slightly lower than estimated in the National Budget for 2008. Since the introduction of the fiscal rule, 2007 was the first year that less was spent than the expected real return on the Government Pension Fund – Global's value at the beginning of the year. In 2006, precisely the expected real return on the Fund was spent.

According to the National Budget for 2008, the fiscal policy programme for 2008 also entails transfers from the Government Pension Fund – Global that are lower than the expected real return. The revised figures for 2007 show an improvement in the budget that further confirms this picture. In the light of the current boom in the Norwegian economy, the budget programme is in line with the fiscal rule's intention of gradually phasing in the Fund's returns while taking into account the cyclical situation. If growth in general government expenditure continues at about the same pace as in recent years, our estimate implies that less than 4 per cent of the Fund's capital will be spent throughout the projection period. The value of the Government Pension Fund – Global at the beginning of 2008 is estimated at about NOK 2.1 trillion, or a good 90 per cent of GDP for 2007. The Fund will most likely reach a value at the end of 2008 that is very close to GDP for that year. The

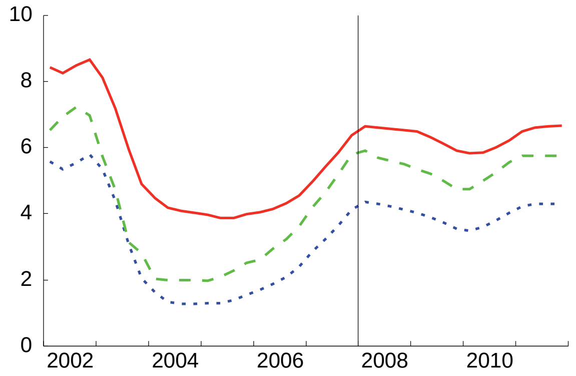
Figure 2. **Interest rate and inflation differential between NOK and the euro. Percentage points**



Interest rate
Inflation (CPI-ATE - HCPI-euro)

Source: Norges Bank and Statistics Norway.

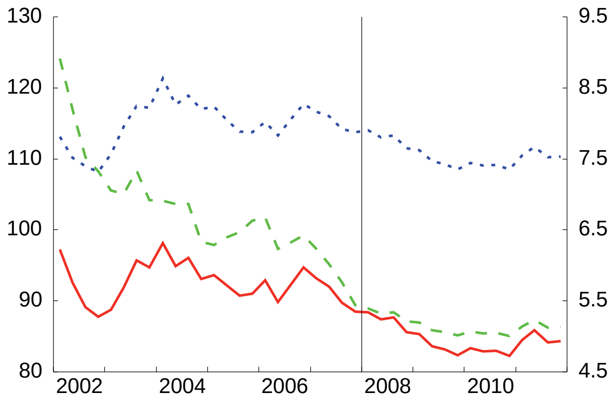
Figure 3. **Norwegian interest rates. Per cent**



Lending rate (households), banks
Deposit rate (households), banks
Money market rate

Source: Norges Bank and Statistics Norway.

Figure 4. **Exchange rates**



Import-weighted exchange rate. 1995=100
NOK per euro (right axis)
NOK per USD (right axis)

Source: Norges Bank.

turbulence in global financial markets, combined with an appreciation in the krone exchange rate, will result in a smaller increase in the value of the Fund than projected earlier, while slightly higher budget surpluses in 2007 suggest stronger growth in the Fund.

At constant real tax rates in the period to 2011 and our assumption concerning expenditure growth, there is financial scope, within the framework of the fiscal guidelines, for a further weakening of the budget balance. However, we apply the assumption of steady and moderate real growth in spending because pressures in the Norwegian economy suggest moderate fiscal impulses. If the downturn in the Norwegian is more pronounced than projected in this report, there is room for weakening the budget balance to stimulate the economy even without exceeding the 4 per cent rule.

Lower interest rates in 2008 and 2009

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 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 5.25 per cent in December 2007. Money market rates have followed the key rate with a small premium. The premium has over time hovered around ¼ percentage point, but is somewhat higher when interest rates are expected to rise. However, since summer 2007 the premium has been considerably higher owing to the turbulence in financial markets. In mid-February 2008, the money market rate stood at 6.0 per cent. The premium increase associated with the financial turbulence is expected to unwind in the course of the year.

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 September 2006. Inflation has since gradually picked up, and in January 2008 the year-on-year rise in the CPI-ATE was 1.9 per cent.

Domestic credit growth, as measured by 12-month growth in private sector gross debt (C2), was 14.5 per cent in December 2007. Twelve-month growth has been higher than 14 per cent over the past 18 months, and there are no signs of slower growth in spite of higher interest rates. Growth in household debt has softened somewhat over the past 5 months, and twelve-month growth was 11.3 per cent, which is the lowest 12-month growth recorded since 2004.

The European Central Bank (ECB) raised its key rate by 0.25 percentage point to 4.0 per cent in June 2007. Money market rates in the euro area stood at about 4.8 per cent at the end of December, while they fell to 4.3 per cent in the first half of February this year. The difference between Norwegian money market rates and euro-area money market rates was thus about 1.7 percentage points in mid- February.

In 2007, the krone varied between a little less than 7.70 and 8.50 against the euro, with the annual average for the year at about NOK 8. In January and the first half of February 2008, the krone hovered around 8 against the euro. The US dollar fell in value against most other currencies through 2007. While the krone stood at about 6.40 against the US dollar in January 2007, the US dollar fell in value to around NOK 5.40-5.50 in October 2007 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 5 per cent between end-2006 and January 2008.

The projections are based on the assumption of unchanged exchange rates between our main trading partners. Owing to a higher interest rate level in Norway, the krone will appreciate against other currencies. On an annual basis, the krone is expected to appreciate by 4 per cent this year and a further 4 per cent next year, as measured by the import-weighted krone exchange rate. This implies an appreciation in the krone against the euro to around NOK 7.35, depreciating somewhat thereafter, reaching an annual average of 7.40 in 2010 and 7.60 in 2011.

An international downturn is expected to lead to lower interest rates in the euro area. Money market rates in the euro area are expected to move down to 3.2 per cent at the end of 2009 and the first quarter of 2010. The key rate is then expected to be raised gradually again in pace with an improvement in the global economy, and reach today's level in 2011. At unchanged interest rates in Norway, the external decline in interest rates will result in a very wide interest rate differential against the euro area for example, and this will contribute to a strong appreciation in the krone. In order to avoid severe negative consequences for Norway's industry structure and for the Norwegian economy, it is also assumed that Norges Bank will reduce the key rate gradually to 4.5 per cent in autumn 2009, before it is gradually increased again during the upturn in the period to 2011. The money market rate is assumed to be a quarter percentage point higher than the key rate in the period to mid-2008, falling to 4.75 per cent at the beginning of 2010 and moving up to 5.75 per cent in 2011. The money market rate will thus be about 1.5-2 percentage points higher than euro-area money market

Box 1. Which interest rate path will result in an inflation rate of 2.5 per cent?

In 2001, Norges Bank was assigned a new monetary policy mandate. The operational target is annual consumer price inflation of close to 2.5 per cent over time, and monetary policy shall also contribute to stabilizing developments in the krone exchange rate, output and employment. The inflation target is commonly linked to the rate of increase in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE). In 2007, annual CPI-ATE inflation was more than 1.0 percentage point below this target for the fifth consecutive year. According to our macroeconomic projections, inflation will move very close to the target in 2008. Over the next two years, we project that inflation will again move down to well below 2.5 per cent. In our view, this is a reasonable path given the interest rate policy we believe Norges Bank will pursue. A stronger krone exchange rate will more than counteract higher domestic inflationary impulses.

Which interest rate path will put inflation on target throughout the projection period? Under our projections (including the orientation of fiscal policy), we find that an interest rate path that is close to 1.5 percentage points lower than that assumed in the projections will result in inflation settling around target. This implies a clear decline in interest rates in Norway this year and next, and an interest rate differential against the euro area of 0.5 percentage point in the years 2009 to 2011. The effect on inflation will work through the krone exchange rate in the first round because the krone will then be considerably weaker than in our projected path. While the krone appreciates sharply under the projected interest rate path, the alternative interest rate path implies that the krone will lie very close to level from mid-February 2008 to the end of the projection period.

In the projected path, activity growth in the mainland economy slows markedly. This can be perceived as a desired path in order to bring the economy onto a more cyclically balanced path. In the alternative scenario, where interest rate policy is solely geared towards attaining the inflation target from 2009, activity growth also slows, but to a considerably smaller extent than in the projected path. Wage growth picks up, partly owing to a tighter labour market.

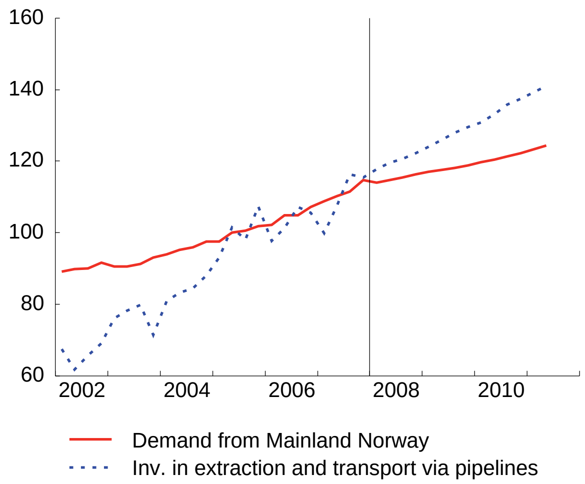
The effects of attainment of inflation target as from 2009. Deviation from projected path in per cent. unless otherwise stated

	2008	2009	2010	2011
Household consumption	0	0.9	2.1	1.9
Gross investment, mainland Norway	0	0.8	2.4	4.1
Exports, traditional goods	0.2	1.2	1.5	1.1
GDP, mainland Norway	0.1	0.9	1.6	1.6
LFS unemployment (level)	0.0	-0.2	-0.4	-0.3
Wage per normal person-year	0.0	0.7	1.8	2.5
Import-weighted krone exchange rate (44 countries)	0.8	5.9	7.5	4.1
Money market rate (level)	-0.25	-1.25	-1.38	-0.75
Inflation, CPI-ATE (level)	0.1	1.0	0.9	-0.1

rates throughout the projection period. An alternative interest rate path is described in Box 1.

In *Economic Survey* 3/2007, we described the effect of an isolated Norwegian interest rate change on inflation, mainland GDP and the krone exchange rate among other variables. According to the calculations, a one percentage point interest rate increase will reduce inflation by 1.1 percentage points after one year, while GDP growth slows by 1.0 per cent. The effect on inflation and GDP growth is gradually reduced, while the effect GDP level doubles after three years. The effect on GDP primarily works through household behaviour and the krone exchange rate, while the entire inflation effect works through the krone exchange rate. The Norwegian krone appreciates by more than 5 per cent in each of the first three years after the interest rate increase.

Figure 5. **Domestic demand. Seasonally adjusted volume indices, 2005=100**



Source: Statistics Norway.

Oil investment continues to fuel growth in mainland economy

In 2007, the volume of investment in production and pipeline transport increased for the fifth consecutive year. After expanding relatively strongly through 2004 and 2005, growth slackened somewhat through 2006. The latest QNA figures indicate that volume growth picked up again, at almost 7 per cent between 2006 and 2007. Investment in on-shore installations and pipeline transport largely showed a clear drop through 2007, while investment in exploration, production drilling and platforms picked up markedly. Investment in on-shore installations fell sharply between the third and fourth quarter with the completion of the installations linked to the Ormen Lange and Snøhvit fields. Investment in pipeline transport has been falling more or less steadily since mid-2005. Exploration investment has increased over several years, with a marked increase between the third and fourth quarter of last year. Investment in platforms and drilling also expanded sharply last year, as in the previous years. Investment is projected to continue to expand at approximately the same rate through the remainder of the projection period.

Oil companies' exploration willingness has been high for a period, but has been limited by rig capacity. Exploration willingness has been stimulated by expectations of high oil prices over a long period ahead and by the prospect of promising remaining exploration areas. The discovery rate was relatively high in 2007, with many small and medium-sized discoveries close to existing infrastructure. It is assumed that extraction here will be cheaper and faster than at more mature fields. Exploration is expected to increase further as rig capacity expands. Our projection is based on the assumption that this will have an impact on investment in field development.

Investment in fields in operation is also expected to increase in the years ahead. This partly reflects the profitability of tail production at existing fields thanks to the high oil prices of recent years. New discoveries close to existing fields are also expected to boost investment linked to existing infrastructure. The Vega, Tyrihans, Gjøa, Goliat and Skarv/Idun fields are among the largest new fields that are expected to be either fully or partly developed during the projection period. Several small field development projects will probably also commence. With relatively high discovery rates so far, the upswing in field development over the past two years is likely to continue. On-shore investment is expected to show a considerably weaker trend, however. As the on-shore installations linked to the Snøhvit and Ormen Lange fields are now largely completed, there are no signs of new on-shore installations of any significance that can prevent a marked fall in on-shore investment. Investment in pipeline transport is also likely to continue to fall, but may increase somewhat later in the projection period.

The previous investment peak in 1998 was already passed in 2007, and investment is projected to remain higher than this level throughout the projection period. The relative contribution will nevertheless be smaller than in 1998 – measured as a share of mainland GDP investment came to about 8 per cent in 1998 compared with a good 6 per cent in 2007. Even at a clearly higher investment level in 2011, the share will remain well below 7 per cent. With falling on-shore investment in the period ahead, the import share in investment will probably be higher than recorded in recent years, which implies relatively weaker impulses to the mainland economy. Developments in oil investment in the projection will make an estimated contribution to mainland GDP growth of 0.1 percentage point in 2008, moving up to 0.2 percentage point in 2009, 2010 and 2011.

QNA figures show that oil and gas production was almost 5 per cent lower in 2007 than in 2006. Adjusted for normal seasonal variations, production showed a clear decline in the first six months of 2007, followed

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	NB	SN	NB	SN
Demand and output									
Consumption in households etc.	6.4	3.9	3.5	3 1/2	3.2	2	3.2	2 1/4	3.8
General government consumption	3.2	3.2	2.3	2 3/4	3.0	..	3.1	..	2.7
Gross fixed investment	9.6	3.5	1.3	..	1.1	..	1.4	..	2.7
Extraction and transport via pipelines[1]	6.6	7.6	0.0	7 1/2	6.3	7 1/2	6.4	7 1/2	5.0
Mainland Norway	9.2	2.6	1.8	3 1/4	-0.5	..	0.1	..	2.1
Industries	13.2	6.0	4.0	..	0.5	..	-0.2	..	3.9
Housing	6.3	-2.7	-1.8	..	-4.5	..	-0.5	..	2.1
General government	4.1	1.9	2.0	..	2.5	..	1.8	..	-2.8
Demand from Mainland Norway[2]	6.1	3.5	2.9	3 1/4	2.5	2	2.6	2 1/4	3.2
Stockbuilding[3]	-1.3	0.0	..	..	0.0	..	0.0	..	0.0
Exports	3.2	0.4	5.1	..	1.2	..	1.8	..	3.8
Crude oil and natural gas	-2.4	-3.4	5.4	..	1.4	..	0.9	..	1.9
Traditional goods[4]	9.0	4.8	4.3	4	0.9	..	2.9	..	6.2
Imports	8.6	4.7	3.8	4 3/4	3.8	..	3.4	..	4.5
Traditional goods	8.2	5.2	3.3	..	3.1	..	3.7	..	5.5
Gross domestic product	3.5	1.8	3.1	3 3/4	1.6	1 3/4	2.1	1 3/4	3.0
Mainland Norway	6.0	2.8	2.8	2 3/4	1.5	1 3/4	2.3	2	3.3
Labour market									
Employed persons	3.8	1.3	1.0	1 1/4	1.0	1/4	0.6	0	1.1
Unemployment rate (level)	2.5	2.7	2 1/2	2 1/2	2.8	3	3.1	3 1/2	3.0
Prices and wages									
Wages per standard man-year	5.6	6.0	5	5 3/4	4.7	5 1/4	4.3	5	5.2
Consumer price index (CPI)	0.8	3.5	2 1/2	3 1/4	1.5	2 1/4	1.6	2 1/2	2.6
CPI-ATE[5]	1.4	2.2	2	1 3/4	1.5	2 1/4	1.6	2 1/2	2.5
Export prices, traditional goods	2.4	-6.3	-2.0	..	-3.5	..	4.2	..	7.1
Import prices, traditional goods	3.5	-3.9	-1.5	..	-2.4	..	1.9	..	3.1
Housing prices[6]	12.3	2.9	..	..	0.2	..	0.3	..	4.8
Balance of payment									
Current balance (bill. NOK)	390.6	406.2	263.2	..	343.5	..	350.9	..	415.2
Current balance (per cent of GDP)	17.0	16.6	11.4	..	13.9	..	13.6	..	14.9
Memorandum items:									
Household savings ratio (level)	-1.2	1.0	1/2	..	2.0	..	3.0	..	2.2
Money market rate (level)	5.0	5.7	5.9	5 1/2	5.1	5 1/2	5.1	5 1/4	5.8
Lending rate, banks (level)[7]	5.710	6.6	..	..	6.2	..	6.0		6.6
Crude oil price NOK (level)[8]	423	444	360	..	382	..	397	..	440
Export markets indicator	7.6	4.1	..	..	2.2	..	5.1	..	8.5
Importweighted krone exchange rate (44 countries)[9]	-1.7	-3.9	-0.3	-2 1/2	-4.2	1 1/2	-0.9	1 1/2	2.3

[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] Households' borrowing rate in private financial institutions. Yearly average.
[8] Average spot price, Brent Blend.
[9] Increasing index implies depreciation.
Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.1 (2007-2008), (MoF), Norges Bank, Pengepolitisk rapport 3/2007 (NB).

by a pick-up in the latter half of the year. This primarily reflects higher gas production in connection with the start of commercial operation of the Snøhvit and Ormen Lange fields.

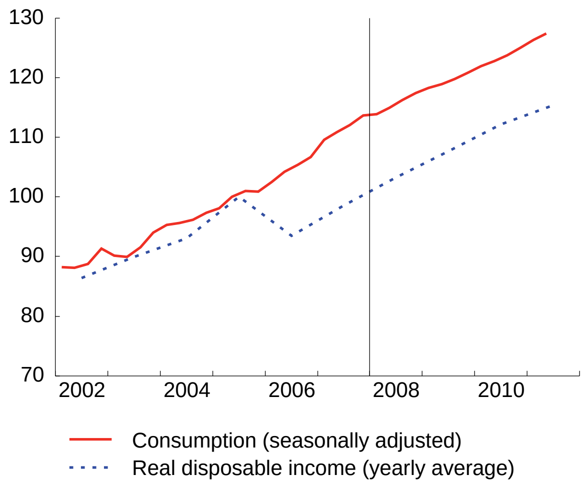
Oil production is projected to fall at even faster pace in 2008 than in 2007, and is then expected to stabilize at about this level through the remainder of the projection period. Gas production is projected to increase by about 10 per cent annually both this year and next, followed by a more moderate increase in 2010 and 2011. The projections imply a moderate fall in total production in 2008 and a moderate increase in the years to 2011. Gas production will thus account for a growing share of petroleum production. In value terms, gas production accounted for a little less than 22 per cent of total petroleum production in 2005. This share will probably increase to a good 36 per cent already in 2009, and remain at that level to the end of the projection period.

Slower consumption growth

According to fresh national accounts figures, real disposable income for households and non-profit institutions rose by 5.5 per cent in 2007, primarily reflecting very low inflation combined with a strong cyclical upturn. Household wage income made the clearly strongest contribution to income growth in 2007, with high growth in both real wages and the number employed. In spite of reduced unemployment benefits, the increase in pension payments and sick pay was so strong that public transfers also made a considerable contribution to growth in real disposable income. However, net capital expenses made a negative contribution to income growth in 2007, reflecting higher interest rates and faster growth in household debt than in interest-bearing assets. As a result of higher income and little change in real taxes, tax expenses pushed down growth in real disposable income last year. The growth contribution from wage earnings for the self-employed was relatively modest.

According to the latest QNA figures, consumption for households and non-profit institutions increase by all of 6.4 per cent in 2007, or the highest rate recorded since 1985. The high rate of growth in 2007 primarily reflects strong growth in spending on goods. A sharp increase in car purchases as a result of the change in car taxes at the beginning of 2007 made a significant contribution to overall consumption growth. Developments in consumer spending last year must be seen against the background of high underlying income growth over many years. The saving ratio, i.e. saving as percentage of disposable income, dropped to a very low level of -1.2 per cent in 2007. As a result, household consumption increased at a faster pace than household income for the first time since 1988. If purchases of durable consumer goods, including cars, are counted as investment and not consumption, the saving ratio came to 2.7 per cent in 2007.

Figure 6. **Income and consumption in households. Volume indices, 2005=100**



Source: Statistics Norway.

Table 3. **Household real disposable income. Percentage growth from theprevious year**

	2007	2008	2009	2010	2011
Totalt	5.5	4.8	4.2	4.2	2.8
Excl. dividends	4.8	2.9	3.9	3.2	2.5

Source: Statistics Norway.

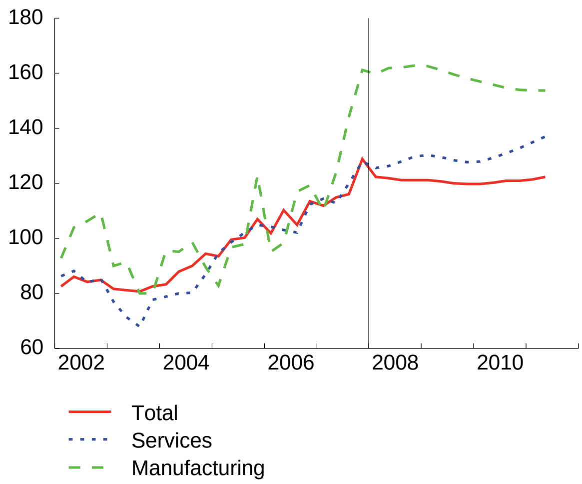
Growth in household real disposable income is projected at close to 5 per cent in 2008 and at slightly higher than 3.5 per cent as an annual average to the end of the projection period. This development reflects sustained strong growth in household wage income, but also in wage earnings for the self-employed and public transfers, primarily old-age pension from the national insurance scheme. Higher consumer price inflation will, however, have a dampening impact on household income. At the same time, household debt will increase in relation to household interest-bearing assets (excluding insurance claims) through the projection period. Combined with higher interest rates, this will translate into lower net interest income, which pushes down growth in real disposable income. The real interest rate (after tax) is estimated at around 1¼ per cent in 2008, clearly lower than in 2007, rising to 2.5 per cent as an annual average in the period 2009-2011. The income and interest rate assumptions applied here result in consumption growth of about 4 per cent in 2008 and around 3.5 annually in the following three years. Our projections thus imply continued high growth in consumer spending, albeit at a more moderate pace than in 2007.

The saving ratio is projected to increase from a level of -1.2 per cent in 2007 to a good 2 per cent in 2011. The upward trend in saving through the projection period correlates with a positive development in household net lending, which moves up from a negative NOK

Figure 7. **Residential market. Left axis adj. indices, 2005=100, right axis per cent**

Source: Statistics Norway.

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



Source: Statistics Norway.

80 billion in 2007. At current prices, household net lending will increase by about NOK 37 billion through the projection period. According to our projections, households will shift portions of their wealth away from financial capital towards housing capital, which is reflected in the projected high level of housing investment ahead.

Slowdown in housing investment
According to preliminary national accounts figures, housing investment increased by 6.3 per cent in 2007, against 6.6 per cent the previous year. By comparison, growth was 16.3 per cent in 2004 and 10.8 per cent in 2005. The strong growth in housing investment since the end of 2003, which has been driven by strong real income growth, lower interest rates and the real rise in prices for resale homes, has shown a clear deceleration. Housing start statistics, measured by both the number of dwellings and utility floor space, show a downward trend in building activity. According to preliminary figures, housing starts came to 32 402 in 2007, a decline of 1.1 per cent compared with the previous year. In December, housing starts came to 1 982, i.e. a sharp decline of 45.8 per cent on December 2006, which is also reflected in the figures for utility floor space.

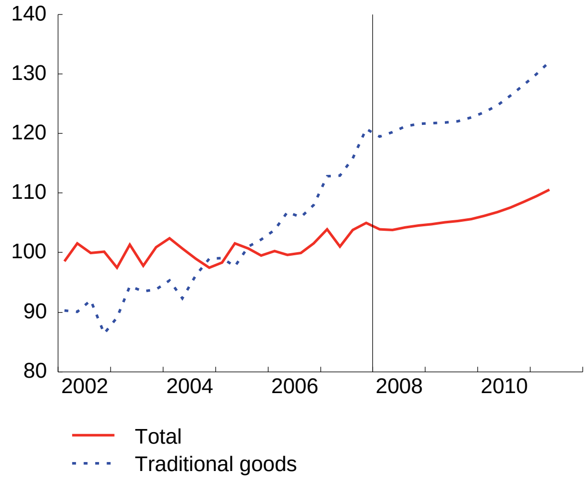
A very high level of housing capital and slower building activity through 2007 indicate a clear slowdown in housing investment ahead. Prospects for sustained high growth in real disposable income and moderate real interest rates still indicate that housing investment will remain low. Housing investment is expected to move down in 2008 and the following two years, edging up again in 2011. The real rise in prices for resale homes is set to decelerate from about 11.5 per cent in 2007 to a rate of little less than zero through the projection period.

Continued high investment
Mainland business investment increased by close to 60 per cent between 2003 and 2007. Between 2006 and 2007, investment rose by 13.2 per cent. Mainland business investment increased throughout 2007, and seasonally adjusted QNA figures showed a rise of 4.2 per cent between the third an fourth quarter. Investment in manufacturing and mining/quarrying expanded by close to 12 per cent between the third and fourth quarter and as an annual average growth was as high as 23.4 per cent. According to seasonally adjusted QNA figures, investment in services rose by 6.6 per cent between the third and fourth quarter.

According to Statistics Norway's latest investment intentions survey from December 2007, investment manufacturing will continue to expand in 2008. A 20 per cent increase is projected this year. This is somewhat higher than indicated by the latest investment intentions survey, but still implies a decline in investment growth from 2007. In light of the high investment growth during the period 2003-2008, investment will remain at a high level, despite a slight decrease from 2009 to the end of the projection period. After expanding by 40 per cent during the past two years, investment in the power sector is projected to rise by only 4 per cent this year. Moreover, investment in this sector is expected to remain at that level to the end of the projection period.

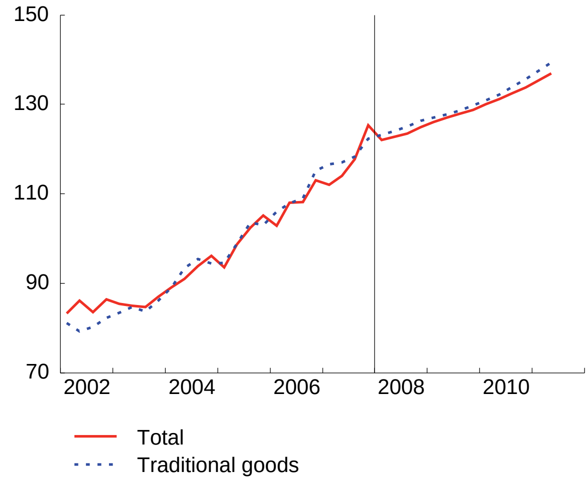
Strong investment growth through the entire cyclical upturn has caused capital stock in mainland private service industries to increase by 15 per cent over four years. Against the background of this high level of capital stock, combined with weaker economic conditions, investment in these sectors is expected grow at a considerably slower pace than last year's growth rate of just above 13 per cent. For mainland industries as a whole, investment growth is estimated at about 6 per

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



Source: Statistics Norway.

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



Source: Statistics Norway.

cent this year, followed by a slight rise through the projection period, in pace with slower growth in production. Somewhat higher real interest rates will also contribute to curbing investment growth.

Weaker export growth

High demand among our trading partners contributed to a rise in traditional goods exports of as much as 9 per cent in 2007. This is a clear increase compared with growth of 6.2 per cent in 2006. Seasonally adjusted QNA figures show that growth was strongest in the first and fourth quarter. Growth was 4.5 and 4.3 per cent, respectively, in those quarters. The most important contribution to growth can be attributed to engineering products, with a rise of 14.2 per cent in 2006. This is still lower growth than in 2006, when exports of engineering products increased by 15.9 per cent. Growth was particularly strong in the fourth quarter of 2007, with quarterly growth of 11.2 per cent seasonally adjusted. Overall exports rose at a clearly slower pace than traditional exports in 2007, reflecting a 2.4 per cent decline in exports of crude oil and natural gas. An increase in service exports of 7.3 per cent dampened the impact.

Prices for traditional export goods rose by 2.4 per cent between 2006 and 2007. This represents a considerable decline from 2006 when prices climbed by 11.4 per cent. Metal prices increased sharply in 2007, but at a considerably slower pace than in 2006. However, metal prices have fallen since the second quarter. Oil and natural gas prices rose by 2.4 per cent, which means that prices have remained at a record-high level throughout 2007.

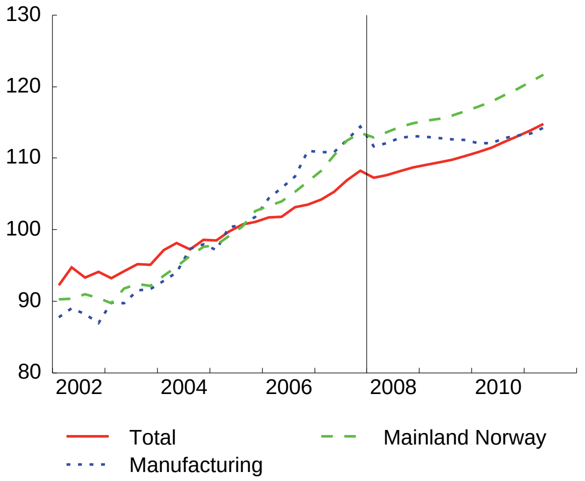
Our projections are based on markedly slower demand growth among our main trading partners through the next two years. Combined with weaker cost competitiveness and considerably lower electricity exports, traditional goods exports are projected to grow by close to 5 per cent this year and around 1 per cent in 2009. The time it takes for the decrease in market growth and increased costs to feed through to Norwegian exports explains the sharp decline in 2009. In 2010 and 2011, growth in the international economy is expected to pick up. As a result, growth in traditional export goods will reach about 6 per cent at the end of the projection period.

Oil and natural gas exports are also expected to fall in 2008, thereafter rising slightly during the following years. Service exports are projected to grow at about the same pace as traditional goods exports. As a result, total exports will show a small increase this year. Thereafter, growth is expected to pick up gradually in the following years.

Slower import growth

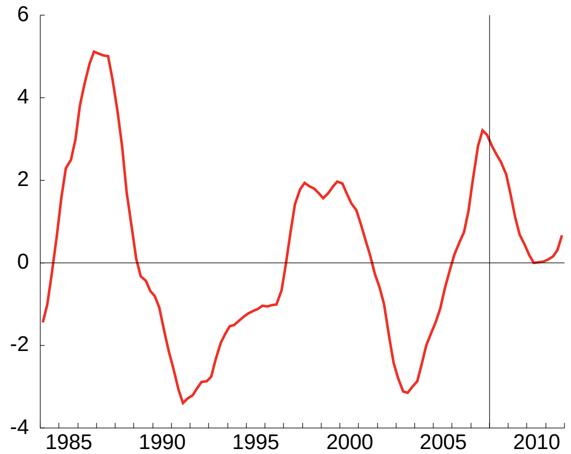
According to the latest QNA figures, the volume of imports grew by 8.6 per cent in 2007. This is the fourth year in a row with an annual growth rate of more than 8 per cent, indicating that the Norwegian economy is in a strong and long-lasting cyclical upturn with strong pressures on demand. Growth in traditional goods imports has generally followed the same profile, with growth rates well above 7 per cent during the same period. Imports of engineering products, clothing and footwear, and cars expanded rapidly in 2007. However, service imports have shown wider swings. In the past two years service imports increased by close to 5 per cent annually, while growth was higher than 10 per cent in 2005. According to the latest national accounts figures, growth was high between the third and fourth quarter for traditional goods imports and service imports, increasing by a seasonally adjusted 3.5 and 7.2 per cent, respectively. Combined, these groups account for over 95 per cent of total imports, which thus increased by 6.3 per cent in the last quarter. This is the strongest seasonally adjusted quarterly growth registered during the cyclical upturn.

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.

Compared with the previous year, overall import prices rose by 3.1 per cent in 2007. This is in line with growth in 2006, despite the registration of a moderate seasonally adjusted price fall during the previous year's last two quarters 2006. Prices for traditional goods imports increased by 3.5 per cent through 2007, largely driven by prices for food imports, operating expenses in shipping and metal imports in particular. Metal imports are fairly large, but since metal exports are relatively higher, metal prices have a greater impact on the value of exports than the value of imports. Prices for clothing and footwear declined during the second half of 2007, resulting in a moderate annual rise of 0.3 per cent. The price decline probably explains a share of the volume increase in imports of these finished goods. Service prices moved up by 2.9 per cent in 2007.

Oil investment has a high import content, and a sharp expansion in this activity has generated positive growth impulses since 2003. Oil investment is expected to continue to expand in the years ahead. Investment will increasingly be concentrated in the off-short sector, which requires higher imports than investment in the on-shore sector. As a result, impulses to imports from oil activity will also be considerable in the years to come. Investment in the aviation industry is also expected to increase through the projection period. Moreover, a stronger krone exchange rate will result in a shift in consumption towards cheaper, imported goods. The impact of lower demand will still dominate import developments ahead. Demand from mainland Norway is expected to slow from close to 6 per cent this year, down to growth rates around 3 per cent annually in the following years. This also results in a marked decline in import growth. We also expect a shift in the composition of demand. Even though oil investment will continue to grow, the overall investment level will represent a smaller share of demand, thereby dragging down import growth. Consumption will also continue to grow at a slower pace than over the past four years.

Overall imports are expected to increase by a little less than 5 per cent in 2008 and just below 4 per cent in 2009. The growth rate is thus projected to be halved in the years ahead. Import growth is expected to slacken further in 2010, picking up slightly in 2011 in line with the cyclical profile.

We assume that a new frigate will be delivered each year up to 2010, so that the effect on import growth is neutral in these years. In 2011, this will contribute to pushing down total imports. In the period to 2011, growth rates will thus be nowhere near the rates witnessed in recent years.

More moderate GDP growth

Preliminary figures for 2007 show that total GDP grew by 3.5 per cent between 2006 and 2007. Mainland GDP growth was as high as 6 per cent, or the highest growth rate recorded since 1971. The rate of economic growth has been particularly high as from the latter half of 2006. QNA figures show somewhat lower growth in the fourth quarter of 2007 compared with the previous quarters, but these figures are more uncertain than earlier figures. Mainland growth has been broad based with high growth in consumption, investment and exports. Figures for value added by industry show high growth in primary industries, manufacturing, building and construction, retail trade and private service production. There are some industries, such as wood processing and textile and clothing, where production fell in 2007, but they are among the exceptions. Value added in the public sector showed more moderate growth. Petroleum production fell markedly in 2007. Combined with weak growth in value added in shipping, total GDP was thus clearly lower than mainland growth. As a result of variations in the production and distribution of electricity between 2005 and 2007, mainland GDP growth was a good 2 per cent lower and that much higher in 2007 compared with a situation

Box 2. **Real economic effects of a sharp decline in equity prices**

Equity prices have decline by more than 10 per cent in many countries since the turn of the year, and by as much as 20 per cent since the peak last summer. In Norway, the Oslo Stock Exchange has fallen by close to 20 per cent since the beginning of the year, after a strong upswing since 2003. Such a fall can have repercussions on the real economy. A distinction can be made between direct wealth effects and indirect effects via expectations formation among economic agents. It has been said that the stock predicts nine of four recessions. There may be several factors behind the decline in equity prices, but it may just as well be an indication of an emerging cyclical turnaround.

First, equity prices react to changes in real economic conditions. Second, equity prices can have an impact on the real economy by influencing household wealth and institution's portfolio values, valuation of companies and their scope for raising new capital. In addition, they have an impact on economic agents' expectations. The causal relationships between the real economy and financial markets are thus two-way relationships. What started as a correction last autumn in one segment of the US housing market spread to the rest of the world through international financial markets and will probably have real economic consequences for many countries.

In Norway, household wealth is largely made up of housing wealth and only a small share of wealth in the form of equity holdings. This means that the wealth effects of a decline in equity prices will be limited. Since households only have limited investments in the stock market, it also means that their awareness of developments in the stock market is relatively low. The impact on households of a stock market decline is thus likely to be limited.

An international stock market decline may also lead to a decline in the value of Government Pension Fund – Global. In principle, a stock market decline may thus influence fiscal policy, but the guidelines clearly stipulate that adaptations in the event of extraordinary large changes in the Fund's capital are to be spread over several years.

All in all, the direct effect of a decline in equity prices is thus likely to be relatively modest for the Norwegian economy. On the other hand, the impact may be different for many other countries. Via international contagion, the international stock market turbulence may nevertheless have considerable repercussions for the Norwegian economy.

with unchanged electricity production in the same two years.

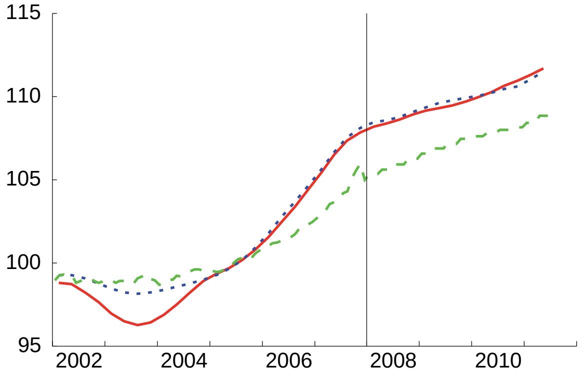
Economic growth is projected to be moderate in the quarters ahead. The turnaround in growth will have a particularly strong impact on household consumption, which grew rapidly throughout 2007. Saving has now declined to a low level while interest rates increased markedly in 2007. This suggests lower consumption growth ahead. Housing investment grew at a moderate pace in 2007, but the carry-over from 2006 was considerable and the annual rate of growth was still high. Slower growth in household demand will translate into weaker growth in retail sales and building activity, with a decline in residential construction in 2008.

Another main component of total GDP that is expected to show moderate growth ahead is exports. A clear slowdown in global growth will influence market prospects for many Norwegian industries, and not only manufacturing. Internationally exposed industries will not only be adversely affected by slower growth in the world economy, but also by relatively high cost growth in Norway and the appreciation in the krone. As a result, competitiveness will weaken and enterprises will probably lose market shares both abroad and at home. This will lead to markedly slower growth in manufacturing production in 2008 and the years thereafter. However, we do not expect a setback that leads to a sharp decline in manufacturing production. Continued growth in petroleum investment will in isolation contribute to bolstering manufacturing activity, but the increase in petroleum investment is not likely to offset the effect of an international downturn and loss of market shares. The same applies to developments in private services, which are adversely impacted by weaker international growth, but favourably influenced by growth in petroleum investment. This part of the economy will be influenced by lower consumption growth ahead. Growth in private services is thus also projected to slacken considerably.

Mainland growth is projected at close to 3 per cent in 2008, which is only slightly lower than the projection in the previous report. In light of the downward revision of oil and gas investment in 2008, total GDP growth is no longer expected to be higher than mainland GDP growth in 2008, but to moderate to below 2 per cent this year. This is a clear downward adjustment of the growth projection published a quarter ago.

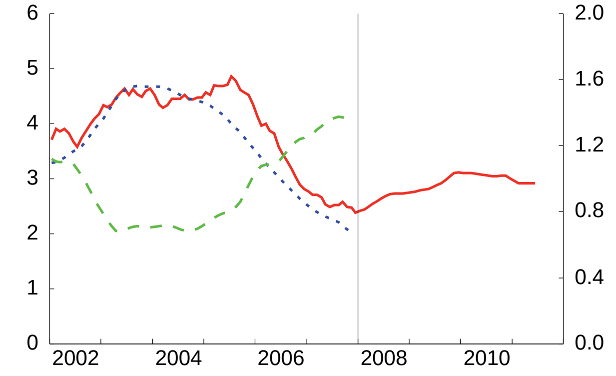
In 2009, the Norwegian economy will feel the full impact of the international cyclical downturn. According to our projections, growth in traditional goods exports will come to a halt and may even fall in some quarters. Exports of services will fall, while oil and gas exports may edge up. Combined with slower growth in mainland investment, GDP growth will decelerate to 1½ per cent, which is clearly lower than trend growth. If our

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.

projections prove to be accurate, growth will still be relatively high considering the cyclical downturn.

With slower growth in the mainland economy ahead, investment growth will also abate after a period. As a result, growth in building activity will soften. As the economy is not projected to shift into a clear recession, building activity will not decline. Even though residential construction will show a small decline, we do not envisage a sharp contraction. However, the engineering industry, which will be adversely affects by both weaker cyclical developments and weak growth investment growth, may experience a fall in production ahead.

Towards the end of 2009, the international cyclical downturn is expected to draw to an end and shift to an upturn in 2010. Manufacturing and other export-oriented industries will then benefit from improved market conditions. In spite of this, manufacturing production is not projected to grow rapidly, reflecting the loss of market shares. As a result, market growth will be considerably higher in 2010 and 2011 than growth in traditional goods exports. The same applies to exports of services, excluding shipping. Against this background, growth in the mainland economy will pick up only moderately. Nevertheless, the rate of growth will move up somewhat between 2009 and 2010 owing to fairly stable growth impulses from consumption growth throughout the period 2008-2011. In 2010, growth is projected to move up to trend growth towards the end of the year so that the cyclical trough is reached around the beginning of 2011.

With somewhat faster GDP growth, investment will again start to move up while export growth continues to pick up. We assume that monetary policy will be tightened in the course of the upturn, which will curb growth in consumption and investment. As a result, the upturn in 2011 will be moderate, with mainland GDP growth projected at a good 3 per cent.

Strong pressures in the labour market

Unemployment exhibited a pronounced decline through 2006 and 2007. From 2005 to 2007, the number employed increased by 173 000, i.e. at a rate of 7.4 per cent. In both 2006 and 2007, annual employment growth was higher than that registered for more than 40 years. During the cyclical expansions in the 1970s, 1980s and 1990s, the maximum registered increase was about 60 000.

The public sector, private service sector and construction industry account for the largest share of employment growth. Manufacturing has also seen an increase in employment in recent years, after falling in each year in the period 1998-2004.

Since EU enlargement to include new East European member states on 1 May 2004, inward labour migration to Norway has increased sharply. At the end of 2007, the number of valid work permits issued by the Norwegian Directorate of Immigration stood at 80 000, compared with 20 000 at end-2003. In addition, there has been record-high growth in the number of immigrants who have established residence in Norway. According to Statistics Norway's estimate, the population increase for 2007 came to 55 700, or 1.2 per cent, with immigration accounting for two-thirds of the increase.

The increase in inward labour migration has contributed to a strong expansion in the labour force. In addition, labour force participation among Norwegian nationals has increased thanks to improved labour market conditions. According to LFS figures, the labour force increased by 39 000 in 2006 and 60 000 in 2007, and between the fourth quarter of 2006 and the fourth quarter of 2007 the labour force increased by as many as 88 000 persons. The increase was strongest for the age groups 15-24 and 40-64, and was evenly distributed between women and men. Since men make up the bulk of inward labour migration, Norwegian women most likely account for the lion's share of the increase in labour force participation among women.

In spite of the increase in the labour force, labour market tightness increased considerably through 2006 and into 2007. The LFS publishes seasonally adjusted figures as a three-month moving average, and in the period November 2006 to January 2007 seasonally adjusted unemployment drifted down to 2.7 per cent, compared with 4.3 per cent one year earlier. The decline in the unemployment rate has since levelled off and has remained stable at 2.5 per cent since May 2007, which was also the annual average for 2007. The number of unemployed registered at the Norwegian Labour and Welfare Administration has primarily followed the same development, but the decline also continued through 2007. At the end of January 2008, close to 44 700 persons were fully unemployed, i.e. a decrease of 11 200 on the previous year. This corresponded to 1.8 per cent of the labour force.

The fact that LFS unemployment has flattened out while employment growth has picked up indicates that it is difficult to bring down unemployment to a lower level and that there are strong pressures in the labour market. Some unemployment must be expected. The present level can be referred to as full employment. Another illustration of labour market pressures is that the number of job vacancies advertised in the media or notified to the Norwegian Labour and Welfare Administration has doubled between 2004 and 2007. According to Statistics Norway's business tendency survey, 18 per cent of the business leaders surveyed responded that labour was a constraint on production in the fourth quarter of 2007. Two years earlier the figure was 8 per cent. Growth in inward labour migration has probably eased labour market pressures, but it is still likely that there is now a shortage of several categories of labour skills.

The downturn projected over the next few years will probably have an impact on industry structure. While the upturn in the Norwegian economy since 2003 has been broad based, the downturn will have a particularly strong impact on certain industries. Profitability in international exposed industries that compete with foreign companies will be adversely affect through sever channels according to our projections. First, wage growth will lead to an increase in costs. Second, the appreciation in the krone will further reduce competitiveness. Third, the international cyclical downturn will drag down demand growth in export markets. Finally, prices for our export products will fall sharply. On the other hand, domestic demand growth will remain fairly buoyant, which will be beneficial for private service industries. We also expect continued growth in the public sector, owing both to increased need and possibilities.

Between 2007 and 2011, employment is projected to increase by 100 000. Employment growth is relatively evenly distributed between private and public sector services. However, manufacturing employment will fall by almost 10 000 during the period. Growth in inward labour migration will probably level off as both wages and job opportunities have improved in many East European countries. Nevertheless, unemployment is projected to increase somewhat through 2008, 2009 and 2010. Measured as annual average, the unemployment rate is projected at 2.7, 2.8 and 3.1 per cent in these three years, respectively. The rise in unemployment will then flatten out, with the unemployment rate projected at 3.0 per cent in 2011.

A turnaround in the economy will bring down wage growth next year

After four years of relatively moderate wage growth, wages per normal person-year increased by 5.6 per cent in 2007. Such a high rate of wage growth has not been registered since 2002. The Technical Reporting Committee on Income Settlements estimates that pay increases in 2007 pushed up annual wages in some of the large negotiating areas in the private sector by only 1-1½ per cent. Unlike wages per normal person-year, annual wages include overtime pay and benefits in kind. According to the Technical Reporting Committee on Income Settlements, the increase in wage growth in 2007 primarily reflected higher wage drift.

Wage statistics from Statistics Norway, which measure average monthly wage earnings for full-time employees at a given time each year, show that among the large mainland industries wage growth was particularly high in manufacturing, construction and financial services in 2007. Monthly pay increased by 6 per cent in manufacturing and construction in the year to 1 October 2007. In addition, overtime pay increased. In financial services, where measurement took place on 1 September, the increase in pay was 6.3 per cent. As a result of higher bonus payments, monthly pay increased more than contractual pay in these industries, which explains a share of the increase in wage drift last year.

The high level of wage drift must be seen in the light of a tight labour market and high profitability in most business sectors. A high capacity to pay in the business sector intensifies the competition for labour. Since it is easier to use pay as a recruitment tool for groups whose pay is primarily determined by local settlements, it may be that the high level of wage drift is an indication that wage growth has been lower for groups that have to a greater extent received pay increases determined by collective bargaining. This will probably draw focus to wage differences between groups of wage earners in this year's main settlement. In addition, the recent years' tightening of labour market conditions will also mark this year's collective wage negotiations, even though an international cyclical turnaround has already occurred. In the event, this implies a lag before changes in the labour market translate into a change in wage growth, which is consistent with Statistics Norway's wage models.

Another theme that will mark this year's wage settlements is how the contractual early retirement scheme should be adapted to the proposed pension reform *Modernisert folketrygd* [A modernized social security system]. The projection for wage growth this year and labour cost growth in the years ahead will depend on the outcome of the negotiations on this matter. A continued favourable contractual early retirement scheme can conceivably be achieved if employee organizations accept lower pay increases. As an alternative, they can demand compensation for a less favourable scheme than the current one. Another approach to assessing the implications for wage growth is to look upon changes in the contractual early retirement scheme as a matter to be negotiated between employees and the government authorities, and that employers' are only affected to a limited extent by the outcome. The point that must be agreed is then how much government should contribute to the early retirement scheme in the future and how the scheme should be formulated. In that case, wage growth and companies' pension provisions will be influenced to only a limited extent. We consider the last solution to be the most likely outcome. In line with this, we have assumed that the issue of the contractual early retirement scheme will have little influence on wage growth or the factors that determine wage growth in our wage models. This is also consistent with the marginal effects of changes in incomes tax rates on wage growth observed in the past.

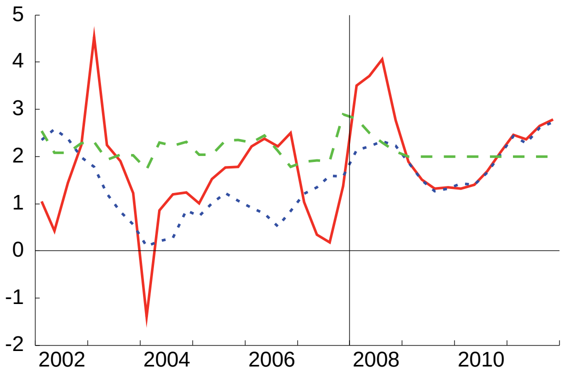
Wage growth is now estimated at 6.0 per cent between 2007 and 2008. The acceleration in wage growth in 2007 and 2008, combined with weaker market conditions for Norwegian export firms and falling prices for important Norwegian export products, will have a dampening impact on employment growth and push up unemployment. These factors will bring down pay increases in 2009. The pay increases that will be awarded in the collective wage negotiations this spring will, however, also make a substantial contribution to wage growth from 2008 to 2009. Wage growth is projected at 4.7 per cent in 2009 and 4.3 per cent in 2010. This is a downward revision of about ¾ percentage point on the previous report, and reflects even weaker developments in Norwegian export markets and a stronger krone exchange rate than assumed earlier.

Market conditions for Norwegian export companies are likely to improve through 2010 and 2011. At the same time, the rise in unemployment will level off and consumer price inflation will edge up. These conditions suggest somewhat higher wage growth again, with wage growth projected at 5.2 pr cent in 2011.

Electricity prices push up inflation in 2008

Inflation measured by the 12-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) reached an annual average of 1.4 per cent in 2007. The cyclical expansion at home and abroad has contributed to pushing up inflation over the past 18 months, from 0.4 per cent in August 2006 to 1.9 per cent in January this year. A sharp fall in electricity prices between 2006 and 2007 resulted in a rise of only 0.8 per cent in the total consumer prices index (CPI) in 2007.

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



Source: Norges Bank and Statistics Norway.

The domestic cyclical upturn is reflected in the figures for inflation in that the rise in prices for domestically produced goods and services excluding energy products and house rents have shown a clear increase, particularly over the past 18 months. House rent inflation has shown little change over the past four years and has been very close to CPI-ATE inflation over the past year. Prices for imported consumer goods have been declining for a long period and have made a substantial contribution to the lower rate of increase in the CPI-ATE. The price decline reflects a stronger krone, steadily lower global prices for finished goods and increased productivity in retail trade.

The growth in hourly labour costs almost doubled between 2004 and 2007 and will probably increase this year. Productivity growth seems to have edged down in 2007, and growth is expected to be weak this year and next. Domestic cost growth will thus push up inflation ahead. In addition, high energy prices and rising food prices internationally are fuelling inflation. On the other hand, a strong appreciation in the krone exchange rate will have a dampening impact on inflation. Between 2007 and 2008, the import-weighted krone exchange rate is expected to appreciate on average by almost 4 per cent. The isolated effect of the krone appreciation is expected to push down CPI-ATE inflation by 0.6 percentage point this year.

The fall in food prices internationally primarily reflects the increasing integration of low-cost countries such as China and India into the world economy. However, the negative price impulses from increased imports from low-cost countries are expected to soften in the period ahead. Inflation is rising in these countries, and the import shift must be expected to unwind over time. According to our calculations, CPI-ATE inflation will reach an annual average of 2.2 per cent this year and remain around 1.5 per cent in the following two years. A continued appreciation in the krone and the lagged effects of the krone appreciation that has already taken place explain to a large extent the deceleration in inflation between 2008 and 2009. In addition, the deceleration in inflation is ascribable to domestic and external cyclical developments, with among other things lower wage growth. The fast rise in food prices on the world market is not expected to persist. Indirect effects of energy prices also point to lower inflation somewhat further ahead.

A projected cyclical shift towards higher growth translates into higher inflation in the last years of the projection period. This tendency will be amplified as the krone appreciation comes to a halt in 2010 and depreciates somewhat in 2011. CPI-ATE inflation is thus projected to move up to an average of 2.5 per cent 2011.

It is the rate of increase in the total CPI that influences household purchasing power and which is thus the relevant measure of inflation. Recently, electricity prices have been the predominant single factor behind the variations in CPI inflation. In September 2007, electricity prices were almost 43 per cent lower than in the same month a year earlier according to the CPI, bringing the 12-month rate of decline in the CPI to -0.3 per cent. Electricity prices have since risen sharply and were almost 27 per cent higher in January 2008 than the same month a year earlier. As a result, CPI inflation moved up to a 12-month rate of 3.7 per cent. Electricity spot prices have fallen somewhat recently. Nevertheless, electricity prices, as measured in the CPI, are expected to increase by more than 30 per cent on an annual basis this year. Forward prices in the electricity market point to a continued increase in 2009, albeit at a considerably slower rate. We put the price increase at about 8 per cent, while prices are not expected to increase further in the following two years.

The oil price in NOK terms is projected to be about 5 per cent higher in 2008 than in 2007. In 2009, we expect a relatively clear fall in oil prices in NOK terms, down by more than 12 per cent. In isolation, this will push down CPI inflation by ¼ per cent that year. In the final years of the projection period, oil prices are expected to edge up again.

The approved indirect tax programme for 2008 will have a neutral impact on inflation. It is also assumed that no real indirect tax changes will be made during the remainder of the projection period. Under these assumptions, the calculations result in CPI inflation of 3.5 per cent in 2008, which is clearly higher than CPI-ATE inflation. Thereafter, the calculations show a virtual convergence of CPI inflation and CPI-ATE inflation, i.e. between 1 and 2 per cent in 2009 and 2010, while inflation moves up to 2.6 per cent in 2011 as a result of higher oil prices.

Current account subject to cyclical fluctuations

The latest current account figures show a record high surplus in the fourth quarter of last year. In relation to the previous quarter, exports increased twice as fast as imports in volume terms, and seven times as fast in value terms. The surpluses are also higher compared with the fourth quarter of 2006 and 2005. High oil and gas prices made a substantial contribution to the surplus on the trade balance, which came to NOK 100 billion in the fourth quarter of 2007. The sizeable surplus on the interest and transfers balance was attained again in the fourth quarter, bringing the current account surplus to more than NOK 120 billion.

For 2007 as a whole, the trade surplus came to NOK 377 billion, which is NOK 16 billion lower than in 2006. The large trade surplus in fourth quarter of 2007 was not sufficient to prevent a break in the growth trend from 2002. The interest and transfers balance, however, showed an annual surplus for the first time since 2000, at NOK 13 billion. As a result, the current account ran a record-high surplus of NOK 390 billion. The surplus has doubled over five years.

In 2008, the trade balance is expected to strengthen, largely thanks to higher oil prices and lower import prices. The surplus may reach close to NOK 400 billion. In 2009, the trade balance will be reduced to close to NOK 320 billion owing to weaker international cyclical developments, a general deterioration in the terms of trade (export prices versus import prices), lower oil prices and a stronger krone. The trade balance will not improve again until 2011. Boosted by higher oil prices and higher demand for Norwegian export goods, the surplus may then reach the 2007 level again.

A cyclical downturn that occurs both earlier and with greater intensity abroad than in Norway will probably have a negative impact on the interest and transfers balance in the coming years. A stronger krone exchange rate may also contribute to weakening the balance. The accumulation of capital in the Government Pension Fund – Global will have the opposite effect. As interest on securities and share dividend payments vary and are not proportional to the size of the Fund, there may be considerable swings in returns. We still expect that growth in the size of the Fund will result in a trend increase in the interest and transfers balance, so that the surplus recorded in 2007 will continue to increase in the years ahead. Adding the trade surplus to this, the surplus on the current account will be substantial, possibly reaching well above NOK 400 billion this year and - after a cyclical downturn in 2009 and 2010 – again in 2011, i.e. the last year of the projection period.

Tabell 5. **National accounts: Final expenditure and gross domestic product. At fixed 2005 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2006	2007	06.1	06.2	06.3	06.4	07.1	07.2	07.3	07.4
Final consumption expenditure of households and NPISHs	864 839	920 527	211 670	215 192	217 574	220 305	226 250	228 884	231 392	234 578
Household final consumption expenditure	828 966	882 728	202 838	206 281	208 556	211 185	217 002	219 539	221 855	224 896
Goods	428 799	461 681	105 128	106 558	108 055	109 311	113 672	114 930	116 528	117 020
Services	371 049	387 949	90 736	92 294	92 983	94 844	95 265	96 451	97 090	99 083
Direct purchases abroad by resident households	52 544	57 331	12 484	13 214	13 381	13 231	13 924	14 181	14 274	15 065
Direct purchases by non-residents	-23 426	-24 234	-5 511	-5 785	-5 863	-6 201	-5 859	-6 022	-6 037	-6 272
Final consumption expenditure of NPISHs	35 873	37 800	8 833	8 911	9 018	9 121	9 248	9 345	9 538	9 682
Final consumption expenditure of general government	398 571	411 256	98 462	99 264	100 039	100 728	101 470	102 335	103 545	103 860
Final consumption expenditure of central government	207 093	211 220	51 341	51 675	51 882	52 175	52 512	52 628	52 952	53 118
Central government, civilian	179 907	183 006	44 615	44 901	45 080	45 294	45 474	45 597	45 908	46 020
Central government, defence	27 186	28 214	6 726	6 773	6 802	6 881	7 038	7 031	7 044	7 098
Final consumption expenditure of local government	191 478	200 037	47 122	47 589	48 157	48 554	48 959	49 707	50 593	50 742
Gross fixed capital formation	392 400	430 070	92 463	100 233	98 311	100 941	99 792	104 093	108 799	117 760
Extraction and transport via pipelines	90 799	96 794	21 510	22 294	23 616	23 234	21 993	23 685	25 611	25 415
Service activities incidential to extraction	-259	-1 167	-733	-152	449	178	-403	9	-845	73
Ocean transport	16 381	22 588	4 247	5 074	4 718	2 306	4 144	4 344	7 184	6 924
Mainland Norway	285 479	311 855	67 439	73 017	69 529	75 223	74 058	76 055	76 849	85 349
Mainland Norway excluding general government	227 167	251 131	54 892	55 639	56 911	59 524	59 898	61 082	63 846	66 551
Industries	139 305	157 741	33 468	33 887	34 874	36 812	36 689	37 799	40 333	42 869
Manufacturing and mining	23 943	29 549	5 226	5 412	6 438	6 558	6 049	6 825	7 936	8 864
Production of other goods	25 745	27 082	6 059	6 560	6 714	6 385	6 324	7 006	6 862	6 798
Services	89 616	101 110	22 183	21 914	21 722	23 870	24 317	23 968	25 535	27 208
Dwellings (households)	87 862	93 391	21 423	21 752	22 037	22 712	23 209	23 283	23 513	23 681
General government	58 312	60 724	12 548	17 379	12 619	15 699	14 160	14 974	13 003	18 798
Changes in stocks and statistical discrepancies	59 525	46 576	15 788	12 142	17 185	15 785	7 665	14 078	12 184	14 011
Gross capital formation	451 924	476 645	108 251	112 375	115 496	116 726	107 457	118 171	120 983	131 771
Final domestic use of goods and services	1 715 335	1 808 429	418 383	426 831	433 109	437 760	435 178	449 390	455 921	470 209
Final demand from Mainland Norway	1 548 889	1 643 639	377 572	387 474	387 142	396 256	401 779	407 274	411 786	423 787
Final demand from general government	456 883	471 980	111 010	116 643	112 658	116 427	115 630	117 308	116 548	122 659
Total exports	872 004	899 772	217 750	216 419	217 025	220 621	225 620	219 460	225 572	228 112
Traditional goods	243 615	265 540	59 497	61 215	60 724	61 878	64 665	64 704	66 345	69 189
Crude oil and natural gas	399 603	389 825	103 466	99 123	99 593	97 716	101 440	94 906	97 975	95 331
Ships, oil platforms and planes	12 608	12 514	3 287	1 840	3 357	4 124	2 549	3 811	4 073	2 080
Services	216 177	231 893	51 500	54 240	53 350	56 904	56 965	56 038	57 179	61 512
Total use of goods and services	2 587 339	2 708 201	636 133	643 249	650 134	658 381	660 798	668 850	681 492	698 321
Total imports	592 414	643 139	141 006	148 007	148 241	154 853	153 627	156 294	161 474	171 720
Traditional goods	384 920	416 495	93 095	94 747	95 735	101 060	102 344	102 729	103 835	107 441
Crude oil and natural gas	1 899	4 660	554	232	235	888	774	1 913	674	1 294
Ships, oil platforms and planes	14 907	20 258	3 250	5 844	3 808	2 005	2 828	3 274	5 897	8 260
Services	190 688	201 725	44 108	47 183	48 463	50 901	47 682	48 378	51 069	54 725
Gross domestic product (market prices)	1 994 924	2 065 062	495 127	495 242	501 893	503 528	507 170	512 556	520 019	526 601
Gross domestic product Mainland Norway (market prices)	1 520 691	1 611 731	374 927	377 186	381 981	387 298	392 860	400 372	408 014	411 840
Petroleum activities and ocean transport	474 233	453 331	120 200	118 057	119 912	116 230	114 310	112 184	112 005	114 762
Mainland Norway (basic prices)	1 296 145	1 373 146	319 610	321 765	324 264	330 296	334 462	340 491	347 307	351 445
Mainland Norway excluding general government	1 013 216	1 081 111	249 554	251 202	253 382	258 914	262 513	267 883	273 814	277 520
Manufacturing and mining	185 585	194 194	45 207	45 840	46 525	48 064	47 992	47 999	48 724	49 550
Production of other goods	144 921	155 949	37 133	35 944	35 581	36 069	37 397	38 901	40 416	39 573
Services incl. dwellings (households)	682 709	730 968	167 214	169 418	171 277	174 780	177 124	180 982	184 675	188 397
General government	282 929	292 035	70 056	70 563	70 882	71 383	71 949	72 609	73 493	73 925
Product taxes and subsidies	224 547	238 585	55 317	55 420	57 717	57 002	58 398	59 880	60 706	60 395

Source: Statistics Norway.

Tabell 6. **National accounts: Final expenditure and gross domestic product. At fixed 2005 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2006	2007	06.1	06.2	06.3	06.4	07.1	07.2	07.3	07.4
Final consumption expenditure of households and NPISHs	4.7	6.4	1.7	1.7	1.1	1.3	2.7	1.2	1.1	1.4
Household final consumption expenditure	4.6	6.5	1.7	1.7	1.1	1.3	2.8	1.2	1.1	1.4
Goods	4.1	7.7	1.7	1.4	1.4	1.2	4.0	1.1	1.4	0.4
Services	4.1	4.6	0.5	1.7	0.7	2.0	0.4	1.2	0.7	2.1
Direct purchases abroad by resident households	13.1	9.1	8.0	5.8	1.3	-1.1	5.2	1.8	0.7	5.5
Direct purchases by non-residents	4.0	3.4	-3.2	5.0	1.3	5.8	-5.5	2.8	0.2	3.9
Final consumption expenditure of NPISHs	6.5	5.4	1.9	0.9	1.2	1.1	1.4	1.0	2.1	1.5
Final consumption expenditure of general government	2.9	3.2	1.1	0.8	0.8	0.7	0.7	0.9	1.2	0.3
Final consumption expenditure of central government	1.7	2.0	0.1	0.7	0.4	0.6	0.6	0.2	0.6	0.3
Central government, civilian	2.5	1.7	0.3	0.6	0.4	0.5	0.4	0.3	0.7	0.2
Central government, defence	-3.3	3.8	-0.8	0.7	0.4	1.2	2.3	-0.1	0.2	0.8
Final consumption expenditure of local government	4.4	4.5	2.2	1.0	1.2	0.8	0.8	1.5	1.8	0.3
Gross fixed capital formation	7.3	9.6	-7.6	8.4	-1.9	2.7	-1.1	4.3	4.5	8.2
Extraction and transport via pipelines	2.9	6.6	-9.0	3.6	5.9	-1.6	-5.3	7.7	8.1	-0.8
Service activities incidential to extraction	-74.2	351.5	-209.1	-79.3	-395.1	-60.3	-326.4	-102.2	..	-108.6
Ocean transport	25.3	37.9	-13.0	19.5	-7.0	-51.1	79.7	4.8	65.4	-3.6
Mainland Norway	7.6	9.2	-4.8	8.3	-4.8	8.2	-1.5	2.7	1.0	11.1
Mainland Norway excluding general government	7.0	10.5	-1.6	1.4	2.3	4.6	0.6	2.0	4.5	4.2
Industries	7.3	13.2	-2.9	1.2	2.9	5.6	-0.3	3.0	6.7	6.3
Manufacturing and mining	8.3	23.4	-22.7	3.6	18.9	1.9	-7.8	12.8	16.3	11.7
Production of other goods	13.8	5.2	12.6	8.3	2.3	-4.9	-0.9	10.8	-2.1	-0.9
Services	5.3	12.8	-0.6	-1.2	-0.9	9.9	1.9	-1.4	6.5	6.6
Dwellings (households)	6.6	6.3	0.5	1.5	1.3	3.1	2.2	0.3	1.0	0.7
General government	10.1	4.1	-16.8	38.5	-27.4	24.4	-9.8	5.8	-13.2	44.6
Changes in stocks and statistical discrepancies	28.1	-21.8	10.2	-23.1	41.5	-8.2	-51.4	83.7	-13.5	15.0
Gross capital formation	9.7	5.5	-5.4	3.8	2.8	1.1	-7.9	10.0	2.4	8.9
Final domestic use of goods and services	5.5	5.4	-0.4	2.0	1.5	1.1	-0.6	3.3	1.5	3.1
Final demand from Mainland Norway	4.8	6.1	0.3	2.6	-0.1	2.4	1.4	1.4	1.1	2.9
Final demand from general government	3.8	3.3	-1.3	5.1	-3.4	3.3	-0.7	1.5	-0.6	5.2
Total exports	0.4	3.2	0.8	-0.6	0.3	1.7	2.3	-2.7	2.8	1.1
Traditional goods	6.2	9.0	1.6	2.9	-0.8	1.9	4.5	0.1	2.5	4.3
Crude oil and natural gas	-6.6	-2.4	-1.4	-4.2	0.5	-1.9	3.8	-6.4	3.2	-2.7
Ships, oil platforms and planes	13.5	-0.7	200.4	-44.0	82.5	22.8	-38.2	49.5	6.9	-48.9
Services	8.1	7.3	0.1	5.3	-1.6	6.7	0.1	-1.6	2.0	7.6
Total use of goods and services	3.8	4.7	0.0	1.1	1.1	1.3	0.4	1.2	1.9	2.5
Total imports	8.1	8.6	-2.1	5.0	0.2	4.5	-0.8	1.7	3.3	6.3
Traditional goods	9.6	8.2	3.0	1.8	1.0	5.6	1.3	0.4	1.1	3.5
Crude oil and natural gas	-50.9	145.4	-66.6	-58.1	1.2	277.9	-12.9	147.2	-64.8	92.0
Ships, oil platforms and planes	24.1	35.9	-7.8	79.8	-34.8	-47.4	41.1	15.8	80.1	40.1
Services	5.4	5.8	-9.1	7.0	2.7	5.0	-6.3	1.5	5.6	7.2
Gross domestic product (market prices)	2.5	3.5	0.6	0.0	1.3	0.3	0.7	1.1	1.5	1.3
Gross domestic product Mainland Norway (market prices)	4.8	6.0	0.7	0.6	1.3	1.4	1.4	1.9	1.9	0.9
Petroleum activities and ocean transport	-4.1	-4.4	0.3	-1.8	1.6	-3.1	-1.7	-1.9	-0.2	2.5
Mainland Norway (basic prices)	4.8	5.9	0.7	0.7	0.8	1.9	1.3	1.8	2.0	1.2
Mainland Norway excluding general government	5.5	6.7	0.6	0.7	0.9	2.2	1.4	2.0	2.2	1.4
Manufacturing and mining	7.1	4.6	2.6	1.4	1.5	3.3	-0.1	0.0	1.5	1.7
Production of other goods	-0.7	7.6	-1.3	-3.2	-1.0	1.4	3.7	4.0	3.9	-2.1
Services incl. dwellings (households)	6.5	7.1	0.5	1.3	1.1	2.0	1.3	2.2	2.0	2.0
General government	2.2	3.2	0.9	0.7	0.5	0.7	0.8	0.9	1.2	0.6
Product taxes and subsidies	5.0	6.3	1.1	0.2	4.1	-1.2	2.5	2.5	1.4	-0.5

Source: Statistics Norway.

Tabell 7. **National accounts: Final expenditure and gross domestic product. Price indices. 2005=100**

	Unadjusted		Seasonally adjusted							
	2006	2007	06.1	06.2	06.3	06.4	07.1	07.2	07.3	07.4
Final consumption expenditure of households and NPISHs	102.1	102.8	101.0	102.0	102.6	103.0	102.4	102.4	102.6	103.9
Final consumption expenditure of general government	104.2	108.7	102.3	103.9	104.9	105.9	107.1	108.3	109.1	110.3
Gross fixed capital formation	104.3	110.3	101.8	103.0	105.8	106.1	108.1	110.1	111.9	110.7
Mainland Norway	103.9	109.7	102.2	102.7	105.2	105.4	107.6	108.7	110.9	111.2
Final domestic use of goods and services	103.1	105.7	101.6	103.0	104.4	103.1	104.9	105.3	105.7	105.7
Final demand from Mainland Norway	103.0	105.6	101.6	102.6	103.7	104.2	104.5	105.1	105.7	106.9
Total exports	115.3	118.1	115.7	114.6	114.2	116.7	113.9	118.9	114.8	125.0
Traditional goods	111.4	114.1	106.1	109.5	115.0	116.1	114.2	116.4	112.9	113.5
Total use of goods and services	107.2	109.8	106.5	106.9	107.6	107.6	108.0	109.8	108.7	112.0
Total imports	103.3	106.6	100.8	101.0	104.1	107.3	107.3	107.9	105.8	105.5
Traditional goods	104.7	108.4	102.3	102.1	105.0	109.2	109.3	109.9	107.7	106.8
Gross domestic product (market prices)	108.4	110.8	108.1	108.7	108.7	107.7	108.2	110.3	109.6	114.1
Gross domestic product Mainland Norway (market prices)	103.6	106.0	102.3	103.9	104.2	103.9	105.8	105.7	104.9	107.1

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2006	2007	06.1	06.2	06.3	06.4	07.1	07.2	07.3	07.4
Final consumption expenditure of households and NPISHs	2.1	0.7	0.5	1.0	0.6	0.4	-0.6	0.0	0.2	1.3
Final consumption expenditure of general government	4.2	4.3	1.5	1.6	1.0	1.0	1.2	1.1	0.7	1.2
Gross fixed capital formation	4.3	5.8	1.8	1.1	2.7	0.3	1.9	1.8	1.6	-1.1
Mainland Norway	3.9	5.5	2.0	0.5	2.5	0.2	2.1	1.0	2.0	0.3
Final domestic use of goods and services	3.1	2.5	1.3	1.3	1.4	-1.2	1.8	0.3	0.4	0.0
Final demand from Mainland Norway	3.0	2.5	1.0	1.0	1.0	0.5	0.3	0.5	0.7	1.1
Total exports	15.3	2.4	6.0	-0.9	-0.4	2.2	-2.4	4.4	-3.5	8.8
Traditional goods	11.4	2.4	2.9	3.2	4.9	1.0	-1.7	2.0	-3.0	0.6
Total use of goods and services	7.2	2.4	3.0	0.4	0.7	0.0	0.3	1.6	-1.0	3.0
Total imports	3.3	3.1	0.2	0.2	3.1	3.1	0.1	0.5	-1.9	-0.3
Traditional goods	4.7	3.5	2.2	-0.3	2.9	4.0	0.0	0.6	-2.0	-0.8
Gross domestic product (market prices)	8.4	2.3	3.8	0.5	0.0	-0.9	0.4	2.0	-0.7	4.1
Gross domestic product Mainland Norway (market prices)	3.6	2.3	1.0	1.6	0.2	-0.3	1.8	-0.1	-0.7	2.0

Source: Statistics Norway.