Economic trends

The boom in the Norwegian economy has intensified so far in 2006. In recent quarters, economic growth measured by mainland GDP has been close to 4 per cent on an annual basis. Unemployment has shown a clear fall over several quarters and the unemployment level is now almost as low as at the time of the cyclical peak towards the end of the 1990s. A reduction in average working hours has amplified the fall in unemployment in recent months. Growth in the Norwegian economy has been broadly based, with high growth in demand in the mainland economy, investment demand in the petroleum sector and demand from abroad. This is also reflected in the distribution of growth by industry where value added in most mainland industries is growing. The cyclical upturn has now spanned three years and the Norwegian economy has been in a boom period since 2005.

So far, developments in the real economy have not translated into high price and cost inflation. This is partly ascribable to relatively high productivity growth in Norway, but also to the fall in prices for many important international traded consumer goods. In spite of a sharp rise in prices for petroleum products, inflation measured by the consumer price index (CPI) has been appreciable lower than the inflation target of 2.5 per cent. The rise in prices adjusted for tax changes and excluding energy products (CPI-ATE) is now very low at about a half per cent and has in periods declined over the past year despite the strong expansion in the Norwegian economy. One reason for this may be that the supply curve in the Norwegian economy has become flatter as a result of increased mobility across EU/EEA countries, particularly since EU enlargement in May 2004. An increase in demand is generating weaker price impulses and stronger production impulses than earlier owing to increased factor mobility. In isolation, this may reduce the need for an active stabilization policy via both monetary policy and fiscal policy.

Growth has also been high internationally, particularly in non-OECD countries where growth has been buoyant in many regions, not least in Asia. Economic growth in Europe has edged up from a low level, and in the US economy continued to expand at a fairly rapid pace through the first six months as a whole.

In the OECD area, inflation is higher than in Norway. Several central banks have raised their key rates with a view to dampening the upturn out of fear that inflation may reach an excessive as a result of the indirect effects of high energy prices in addition to the ordinary effects of the cyclical expansion. Our forecast of lower GDP growth for the OECD area next year is now more in line with consensus forecasts. Both in Europe and the US, GDP growth is expected to be markedly lower in 2007 than in 2006.

With weaker external demand impulses, Norwegian exports of traditional goods and services may grow at a slower pace in 2007 and in 2008 than has been the case for a period. We still expect petroleum investment to show little change on the current high level in the years ahead. This will also contribute to curbing growth in the mainland economy. Weaker external growth and the absence of additional impetus from petroleum investment are expected to bring growth down to trend in the near future and that the interest rate hikes in Norway will come to halt early next year. We also believe this will be the case in the euro area.

The cut off date for information used in this issue was 12 September 2006.

Cyclical developments in Norway

The cyclical expansion in Norwegian economy has gained pace so far in 2006. Growth in mainland GDP was close to 4 per cent on an annual basis in the first six months of 2006. Unemployment has continued to fall. Growth in the number of employed, which quickened in 2005, continued in 2006. Average working hours have unexpectedly fallen somewhat in recent months, amplifying the decline in unemployment. In line with projections, growth in mainland demand has continued at broadly the same pace in the first six months of this year as through last year. Petroleum investment has been somewhat lower than previously projected, while growth in exports of traditional goods and not least of services excluding shipping has gained considerable momentum. This has led to a higher-than-projected increase in value added in private services.

Consumer price inflation has been moderate, particularly given the increase in energy prices. The consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has continued to fall over the past year. The very low rise in prices recorded in August has not been observed since 2004. The low

Macroeconomic indicators 2004-2006. Growth from previous period unless otherwise noted. Per cent

			Seasonally adjusted			
	2004	2005	05.3	05:4	06:1	06:2
Demand and output						
Consumption in households etc.	4.7	3.4	0.6	0.0	2.0	0.6
General government consumption	2.2	1.5	0.0	0.7	0.3	0.7
Gross fixed investment	8.1	10.9	1.9	11.0	-8.4	5.4
Mainland Norway	7.8	8.8	1.1	7.6	-5.8	6.7
Extraction and transport via pipelines	7.8	15.6	-4.5	14.7	-15.7	5.9
Final domestic demand from Mainland Norway[1]	4.5	3.8	0.5	1.5	0.1	1.7
Exports	0.6	0.7	0.9	-1.3	1.2	-0.2
Crude oil and natural gas	-0.7	-4.1	-2.0	-2.6	0.2	-3.2
Traditional goods	3.4	5.8	5.0	2.0	-0.9	2.5
Imports	8.9	7.4	3.6	1.5	0.4	3.4
Traditional goods	10.2	8.3	4.6	0.4	3.1	1.7
Gross domestic product	3.1	2.3	0.9	0.1	0.6	0.5
Mainland Norway	3.8	3.7	0.8	1.1	0.8	1.1
Labour market						
Man-hours worked	1.9	0.8	0.2	0.4	0.5	0.6
Employed persons	0.4	0.7	0.6	0.5	0.8	0.6
Labour force[2]	0.4	0.8	0.6	0.2	0.1	0.3
Unemployment rate, level[3]	4.5	4.6	4.8	4.5	3.8	3.5
Prices and wages						
Wages per standard man-year[4]	4.3	3.6	3.1	2.7	2.9	3.8
Consumer price index (CPI)[4]	0.4	1.6	1.8	1.8	2.2	2.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[4]	0.3	1.0	1.2	1.1	0.9	0.8
Export prices, traditional goods	8.4	3.5	2.1	1.5	5.4	2.9
Import prices, traditional goods	4.5	0.4	-0.1	0.6	1.8	-0.6
Balance of payment						
Current balance, bill. NOK	233.0	316.5	80.3	104.7	88.4	93.6
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	2.0	2.2	2.3	2.5	2.6	2.9
Lending rate, banks[5]	4.1	3.9	3.9	4.0	4.1	4.2
Crude oil price NOK[6]	257.3	351.4	398.9	377.1	409.7	432.2
Importweighted krone exchange rate, 44 countries. 1995=100	95.6	91.8	90.7	91.0	92.9	89.8
NOK per euro	8.37	8.01	7.88	7.88	8.02	7.83

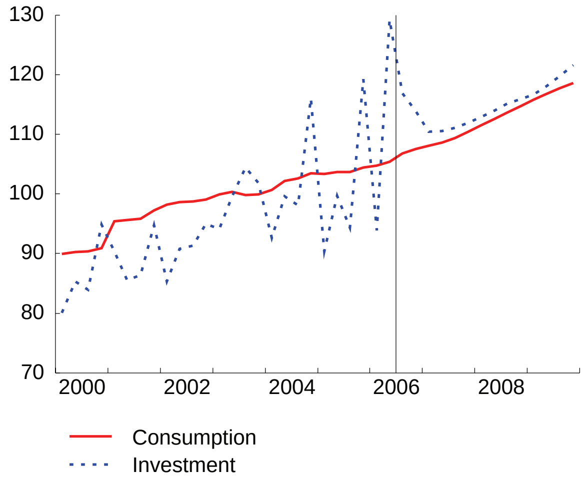
[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] Unemployed (Labour Force Survey) and employment (NA) excl. maritime personnel in ocean transport.
[3] According to Statistics Norway's labour force survey (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.

rate of inflation is not only ascribable to low imported price inflation, but also to moderate nominal unit labour costs in Norway. As a result, the rise in prices for services has also been moderate. While prices for petroleum products may have peaked, households are expected to face a sharp rise in electricity prices in the period ahead. Against this background, CPI inflation will exhibit a substantial rise in the months ahead and is projected to exceed 3 per cent before the Christmas.

With a stronger expansion in the Norwegian economy, combined with low and falling inflation, the central bank is facing a dilemma with regard to its interest-rate setting. It is not easy to invoke inflationary fears as a justification for increasing the key rate when inflation has been falling for a long period and is at the low level prevailing at present. But it is likely that domestically generated inflationary factors will come into increasing evidence ahead when the expansion has gained such strong momentum. The aim of stabilizing developments in the real economy now implies a somewhat more contractionary monetary and fiscal policy ahead. As long as the European Central Bank continues to increase its key rate, it is likely that Norges Bank will also raise its key rate. The aim of maintaining a reasonable exchange rate against the euro and hence a link to an area with moderate inflation suggests that this strategy involves little risk. The question is whether euro interest rates will show any particular rise next year as growth in the euro area moderates in line with our projection and that of most other forecasters. If oil prices continue to fall, interest rate increases may come to a halt early next year. If that is the case, we assume that interest rate increases will also be ended in Norway.

Internationally, many observers now believe that a downturn is imminent in the US, which we have assumed for some time. A number of developments in the US economy point to weak growth next year. We still assume that the US economy will experience a moderate downturn through 2007 and 2008 and that developments in the EU will also be weak next year. As a result, external impulses to the Norwegian economy will be considerably weaker over the next couple of years. Oil prices may also fall somewhat, but hardly to such a low level that investment activity on the Norwegian continental shelf will be negatively affected. We expect oil investment to remain at a high level to the end of the projection period. The impetus from fiscal policy to the Norwegian economy will not be markedly greater in 2007 than in 2006. Against this background, our calculations show that growth in the Norwegian economy will be considerably slower in the period ahead, but the activity level in 2006 is now higher than we envisaged earlier. In this situation, increased demand impulses will be more inflationary than only a year ago.

General government
Seasonally adjusted volume indices, 2003=100



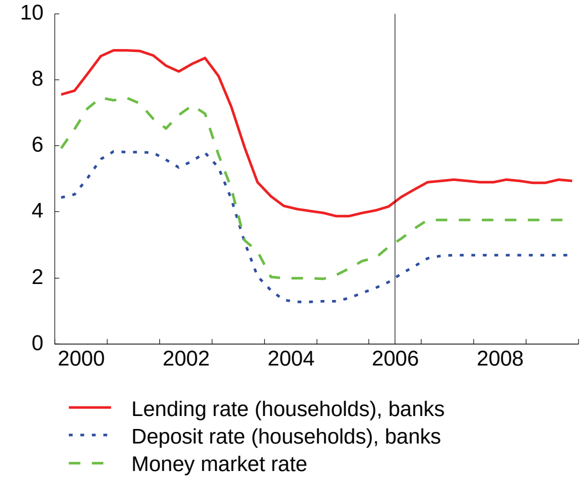
Source: Statistics Norway.

Moderate fiscal policy impulses next year – increasing thereafter

General government consumption increased by about 2 per cent in the first six months of this year compared with the same period last year, according to the quarterly national accounts (QNA). Growth in gross general government investment was considerably higher, but the substantial increase in investment in the second quarter of 2006 is ascribable to the import of a frigate for the Navy. An additional frigate is to be imported later this year, and this will contribute to bringing total investment growth in the public sector to close to 15 per cent on an annual basis in 2006. The increase in general government investment, excluding imported frigates, will be modest, however. We expect consumption growth to be somewhat higher in the latter half of this year, bringing total general government consumption to 2.5 per cent in 2006. This is in line with our previous projection and the projection in the Revised National Budget (RNB) for 2006.

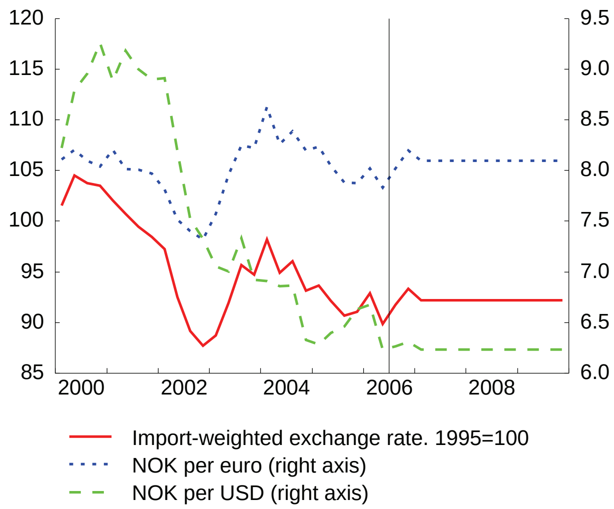
With respect to the budget programme for 2007, we assume that the fiscal rule will be followed more or less to the letter. Our projections imply a small increase in direct taxes, which will bring the tax level back to the 2004 level. Furthermore, general government consumption is projected to grow at about the same rate as in 2006, and gross general government investment is expected to show a small increase adjusting for the reduction by half of imported frigates from 2006 to 2007. The investment level for 2007 has been revised upwards somewhat on the projection in our previous report owing to an upward adjustment of tax receipts as a result of somewhat strong growth in the overall economy and general government revenues. We assume that there will not be a real increase in indirect taxes in 2007 unlike this year.

Norwegian interest rates
Per cent



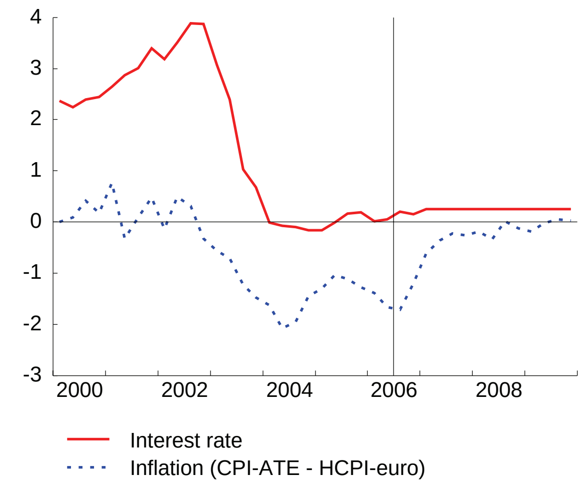
Source: Norges Bank and Statistics Norway.

Exchange rates



Source: Norges Bank.

Interest rate and inflation differential between NOK and the euro
Percentage points



Source: Norges Bank and Statistics Norway.

Higher oil prices have resulted in a considerable increase in the Government Pension Fund – Global in recent years. Even though we still assume that oil prices will fall to about USD 50 per barrel by the beginning of 2008, the Fund will increase substantially ahead. According to the fiscal rule, this will provide room for an increase in the structural, non-oil budget deficit in 2008 and 2009 as we assume that fiscal policy will remain within the limits set by the fiscal rule in 2007. We assume that the structural, non-oil deficit will increase by about NOK 10 billion both in 2008 and 2009. The tax level is assumed to remain unchanged in real terms so that the entire stimulus from fiscal policy will come in the form of increased general government purchases of goods and services. This results in a real increase in both general government spending on consumption and gross investment of 3.5-4 per cent in each of these years. This is in line with previous projections.

A further small rise in the interest rate

Norges Bank has raised the key rate in three increments of 0.25 percentage point so far this year. Money market rates have followed the key rate, moving up from 2.5 per cent in January to 3.25 per cent in August. The money market has factored in one to two additional interest rate increases of the same order in the course of 2006 and a further increases in 2007.

Norges Bank sets the interest rate against the background of an assessment of the trade-off between stabilizing inflation, the exchange rate, output and employment. The operational objective of monetary policy is annual consumer price inflation of close to 2.5 per cent over time. However, a supply side shock can lead to both low inflation and high capacity utilization, and Norges Bank must in its interest-rate setting assess the trade-off between stabilizing inflation at target and stabilize developments in output.

In August 2006, the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 0.4 per cent higher than in the same month one year earlier. Inflation is therefore markedly lower than the target of 2.5 per cent and has shown a falling tendency over the past year. The low rate of inflation suggests, in isolation, that interest rates should be kept at a low level.

Domestic credit growth, as measured by 12-month growth in gross debt to households, non-financial enterprises and municipalities (C2), was 14.4 per cent in both June and July this year. Growth in C2 has exceeded 10 per cent since April 2005. Persistent debt growth may lead to economic instability. This suggests further interest rate increases.

The European Central Bank raised its key rate by 0.25 percentage point in August, which was the third increase this year. Money market rates in Norway have closely followed money market rates in the euro area since the beginning of the year. In the US, the federal funds rate has increased steadily over the past two years. Money market rates in the US have been a little less than 2 percentage points higher than the money market rate in Norway over the past year. The interest rate differential between Norway and the US has narrowed somewhat recently as the federal funds rate was not raised at the last monetary policy meeting.

The krone has depreciated against the euro since May this year. The Norwegian krone was about 7.80 against the euro in May, while in mid-September the rate was about 8.30. At the beginning of the year, the rate was 8.00. Measured by the import-weighted exchange rate index, the krone has also depreciated since May, but by this measure the krone has weakened considerably less since beginning of the year. The main reason for this is that the US dollar has depreciated against the euro.

In the projection period, we assume that the key rate in Norway will be raised by one additional increment at the end of September and by a further increment around the end of the year. Our projections indicate that CPI-ATE inflation will increase from 0.8 per cent and vary between 1.5-2.0 per cent over the next three years. This implies an inflation rate that is lower than the target. Mainland GDP growth is projected to slow from 3.2 per cent this year to a good 2 per cent in the coming three years. This is lower than trend growth which means that the deviation will narrow somewhat ahead.

Our projections are based on the assumption that the NOK/EUR exchange rate will be 8.20 in the fourth quarter of this year and 8.10 from the first quarter of 2007 to the end of the projection period, while the NOK/USD rate is put at 6.31 in the fourth quarter of this year and 6.23 through the remainder of the projection period. This implies an appreciation of the krone in the period ahead. We assume an unchanged interest rate from the second quarter of next year to the end of the projection period given a combination of a stable economic situation, low and stable unemployment, a moderately strong krone and inflation of about 1 percentage point below target.

Money market rates are assumed to increase to 3.75 per cent as from the beginning of the year, i.e. 0.25 percentage point higher than Norges Bank's key rate. The average lending rate is expected to follow the money market rate with a mark-up of a close to 1 percentage point. New capital adequacy rules as from the beginning of the year will keep the mark-up low and may also entail a reduction in the mark-up.

For the euro area, we assume one interest rate hike towards the end of the year, which implies a money market rate of 3.5 per cent from the beginning of next year. After a long period of approximately the same interest rate in the euro area and Norway, interest rates will then be 0.25 percentage point higher in Norway in the years 2007-2009. This suggests that the krone may appreciate somewhat further ahead.

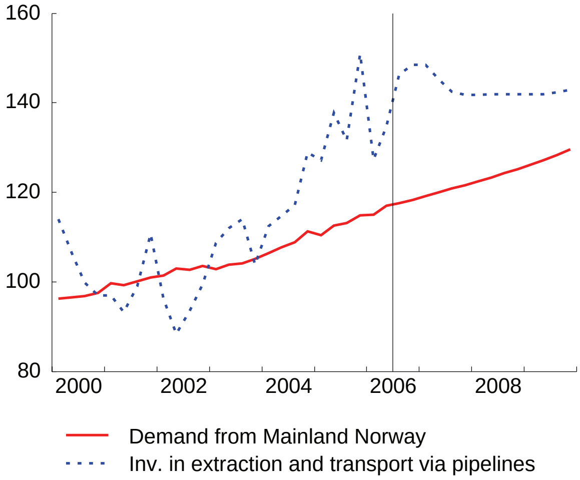
Rising exploration activity

Statistics Norway's latest investment intentions survey indicates that the value of oil investment may reach about NOK 100 billion in 2006. This is a small downward revision in relation to the May survey, and consequently we have revised down volume growth somewhat. Preliminary QNA figures show that the investment volume was about the same in the first six months of this year as in the same period one year earlier. Growth is expected to be considerably stronger through the latter half of this year, which implies that the investment volume in 2006 will be 5 per cent higher than in 2005. Even if the estimate in value terms will be record-high, there is still some margin between current volume and the peak in 1998. Measured at constant prices, investment was 7 per cent higher at that time, and measured as a share of mainland GDP the difference is even greater. In 1998, the investment share was 8 per cent, whereas the figure is now estimated at a good 6 per cent. With approximately unchanged import shares, the impulses to the Norwegian economy will therefore be weaker compared with the previous cyclical peak.

Our projections are based on a further pickup in exploration activity, but investment – at least this year and next – will be limited by rig capacity. High oil prices and oil companies' positive view of the new exploration fields are assumed to push up the level. Investment in onshore installations is expected to show a clear fall through 2007 and 2008, owing to the completion of the onshore installations linked to Ormen Lange and Snøhvit. There is some uncertainty as to magnitude of the decline in these investments, but a new onshore facility linked to Goliat might limit the decline during our projection period. Against the background of the investment intentions survey and our oil price assumption, investment in fields in operation is expected to increase further next year, and remain at a high level thereafter. Investment in field development is expected to increase somewhat in the coming year, also after the completion of the large fields Snøhvit and Ormen Lange. A number of smaller projects should be approved in the first half of 2007 so that investments relating to these projects will replace the phasing out of investments in the large fields. The development of the Goliat field could further boost these investments. All in all, our projection path after 2006 is based on the assumption that the investment volume will remain broadly unchanged.

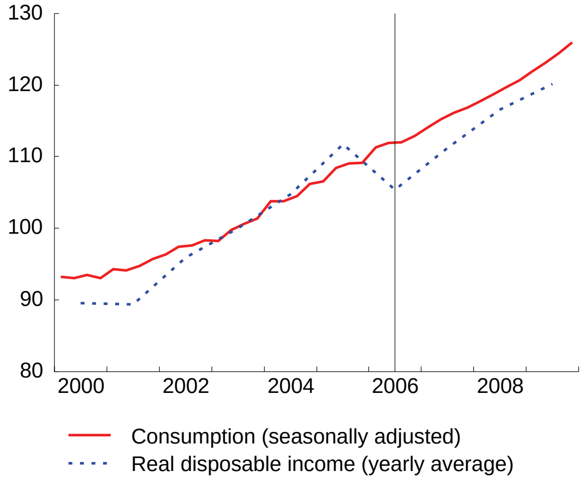
Total oil and gas production sank through last year. Preliminary QNA figures show that production in the first six months of this year was about 4 per cent low-

Domestic demand
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Income and consumption in households
Volume indices, 2003=100



Source: Statistics Norway.

er than the level in the same period one year earlier. Annual growth in 2006 is expected to show a similar decline compared with the previous year. A persistent feature is that oil production is declining while gas production is rising. We expect oil production to decline by more than 6 per cent this year, while gas production is expected to show a marginal increase. As a number of investment projects are completed and installations become operational, both oil and gas production will show a renewed increase. Oil production may increase both in 2007 and 2008, but thereafter the expected decline in production on the large existing fields will again push down production. Gas production is expected to pick up again from 2007, with an annual growth close to 10 per cent. All in all, production is expected to rise, with relatively strong growth both in 2007 and 2008. In 2009, production may edge down again.

High consumption growth ahead

Seasonally adjusted QNA figures show that consumption increased by 0.6 per cent between the first and second quarter of this year, after growing by as much as 2 per cent in the previous quarter. The wide variations reflect developments in goods consumption, while spending on services shows a more stable growth profile. Goods consumption grew by 0.6 per cent in the second quarter of this year, while consumption of services grew by 1.2 per cent. An increase in car purchases accounts for a large share of the growth in goods consumption. Household demand for leisure services, personal services and hotel and restaurant services accounts for the bulk of growth in services consumption. Total household consumption was close to 4 per cent higher in volume terms in the first six months of this year compared with the same period one year earlier. Between June and July this year, goods consumption rose by a seasonally adjusted 0.7 per cent. This indicates that the strong rate of growth in consumption in recent years is continuing through 2006.

Looking back, preliminary national accounts figures show that consumption for households and non-profit institutions rose by 3.4 per cent between 2003 and 2005. The increase in consumption in 2005 was in line with growth in household real disposable income excluding record-high dividend payments (see table). The extraordinary high dividend income, which has probably had only a marginal stimulatory impact on consumption, partly reflects tax-related adaptations to the reintroduction of tax on dividend income in 2006. In addition to income growth, the increase in consumption in 2005 must be seen in the light of the fall in the real after-tax interest rate in recent years. The household saving ratio is estimated at a record-high 12.6 per cent in 2005.

Growth in household real disposable income will probably edge down somewhat during the projection period compared with 2005, also when excluding dividend receipts. This might occur in spite of stronger growth in wage income, income from self-employment and public transfers in the period ahead. Higher consumer price inflation as a result of high energy prices in 2006 will push down real growth in household income during this period. Household debt will increase relatively sharply in relation to assets (excluding insurance claims) through the projection period. In conjunction with an expected interest rate increase, this will lead to weak growth in net capital income, which will also push down growth in disposable income. Higher direct taxes will also have a dampening impact on disposable income in the period ahead, but particularly in 2007. The real after-tax interest rate is assumed to be clearly lower in 2006 than in the two preceding years, followed by a marked rise through 2007 and 2008 before falling again to a level of close to 2 per cent in 2009. Income and interest rate developments result in a path for consumption that implies sustained growth between 3-4 per cent in the coming years.

Given the projections presented here, the saving ratio will fall from its record-high level of 12.6 per cent in 2005 to a good 4 per cent in 2006, and then range between 6-8 per cent through the period 2007-2009. The decline in the level of the saving ratio between 2005 and 2006 is reflected in a marked fall in household net lending. At current prices, household net lending is projected to fall from close to NOK 67 billion in 2005 to about -13 billion in 2006. Estimated changes in dividend payments to households account for the lion's share of the decline. In addition to the decline in the level of saving, the composition of saving will also be of significance for the decline in net lending. Households will probably continue to shift portions of their wealth away from financial assets towards real capital, which will be reflected in high housing investment.

Housing investment levels off

Buoyed by strong real income growth, low real interest rates and rising real prices for resale homes, housing investment has expanded sharply since the end of 2003. Even though housing investment was at about the same level in the second quarter of this year as in the first quarter according to seasonally adjusted QNA figures, housing investment has still increased by more than 7 per cent between the first six months of 2005 and the first six months of this year. Housing start figures at the end of last year indicate that the housing investment will remain at a high level though 2006. On an annual basis, housing investment is projected to grow by about 6 per cent in 2006, compared with as much as 14.5 per cent in 2005.

Housing wealth is now at a very high level from a historical perspective. In conjunction with prospects for higher real interest rates and slower income growth, this will contribute to restraining house price inflation and housing investment ahead. At the same time, housing starts have flattened out both with respect to number of dwellings and square metres. The levelling-off in housing investment that we have observed is thus expected to continue, with investment projected at a level of around NOK 80 billion through the projection period.

Household real disposable income. Percentage growth from the previous year

	2005	2006	2007	2008	2009
Real disposable income incl. dividends	6.7	-5.7	5.5	4.9	3.1
Real disposable income excl. dividends	3.6	2.5	3.6	4.6	2.8

Residential market
Left axis adj. indices, 2003=100, right axis per cent

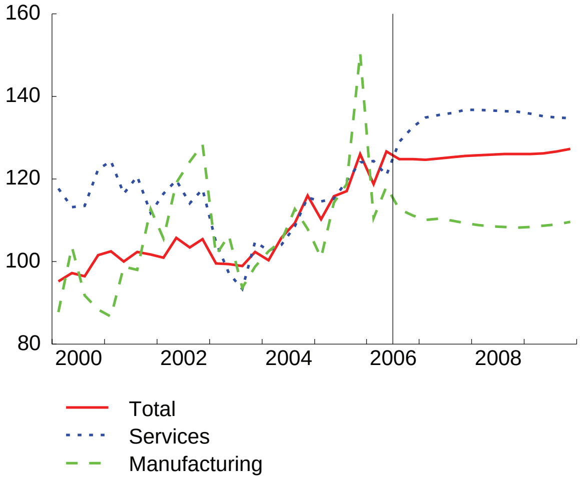
Source: Statistics Norway.

Lower investment growth in mainland industries

The strong growth in mainland gross business investment now seems to be abating somewhat after three years of buoyant growth. In the second quarter of this year, this investment component increased by 2.5 per cent compared with the same quarter one year earlier, and in the first six months the increase was about 6 per cent compared with the same period in 2005. Between 2004 and 2005, mainland business investment expanded by as much as 10 per cent. Growth in manufacturing investment has exhibited approximately the same profile as for mainland industries in total, while gross investment in primary industries has decline somewhat so far this year. It is primarily investment in service industries and electricity production that has increased markedly so far in 2006. For 2006 as a whole, we still expect investment in electricity production to rise by close to 30 per cent in line with Statistics Norway's investment intentions survey. The survey indicates, however, that investment growth for electricity production will flatten out in 2007. The high level of investment in electricity production for 2006 has not been witnessed since the 1980s. Manufacturing investment will also remain reasonably stable between 2006 and 2007 according to the survey. This implies that manufacturing investment will remain at a relatively high level in the period ahead.

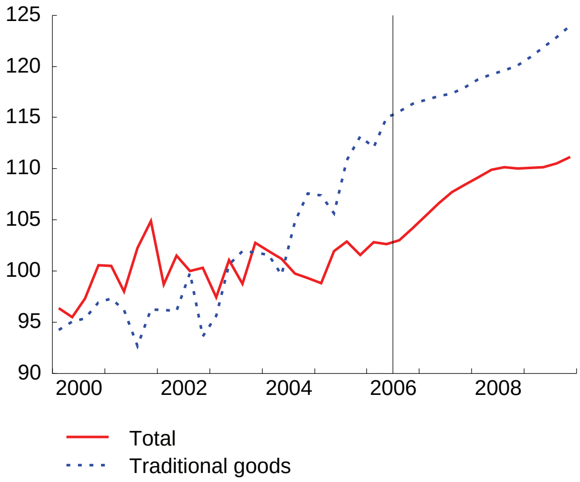
Investment in private service industries has increased markedly over the past three years and is now higher than the peak level in the previous boom. Investment growth is moderate in distributive trades and the domestic transport sector. On the other hand, there is buoyant growth in gross investment in banking and insurance and other private services. It is also in these industries where growth in value added has been high in recent periods. We expect that the rate of growth in these investment components will slow in the period

Investment, Mainland Norway
Seasonally adjusted volume indices, 2003=100



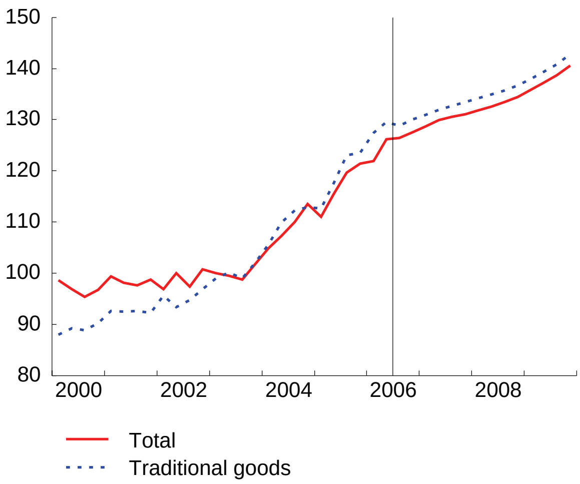
Source: Statistics Norway.

Exports
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Imports
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

ahead if growth in the mainland economy moderates in line with our projections.

On the whole, mainland business investment is projected to show continued growth in the latter half of 2006, but the annual rate of growth will be close to half of that recorded in 2005. Growth is projected to slow further in 2007, not least because growth in investment in goods- producing industries will recede in 2007. We assume that the cyclically high investment level in 2006/2007 will remain broadly unchanged in 2008 and edge down in 2009.

Export growth on the decline

Growth in traditional goods exports was high in the second quarter. The seasonally adjusted volume of exports was all of 2.5 per cent higher than in the first quarter. The increase primarily reflects strong growth in exports of manufacturing products and metals. Exports of new ships showed a marked increase. Total exports, however, declined as a result of a reduction in crude oil exports. The increase in exports of manufacturing goods reflects the high level of activity among our trading partners. Exports of services have grown at a brisk pace in the first six months, reflecting buoyant growth in exports of financial and business services, for example oil and gas-related engineering services.

Prices for traditional export products are still on the rise. Between the first and second quarter, prices rose by 2.9 per cent compared with an increase of as high a 5.4 per cent in the previous quarter. All total, the rise in prices was very high in the first six months. Developments in commodity prices, particularly metal prices, contributed to the rise. Metal prices have now increased by about 10 per cent in each of these two quarters.

Growth in traditional goods exports is expected to remain firm to the end of the year, at an annual growth rate of 5 per cent. In 2007, growth in these exports will slow as a result of slower market growth, down to 2 per cent on an annual basis. Growth in exports services from mainland Norway is also projected to show a marked decline. Total exports may pick up markedly, however, as oil and gas exports will increase sharply next year. In 2008 and 2009, growth in traditional goods and service exports will still be relatively low at a bout 2 per cent on an annual basis.

Slower import growth ahead

According to preliminary national accounts figures, the volume of traditional goodsimports increased by a seasonally adjusted 1.7 per cent between the first and second quarter compared with 3.1 per cent in the previous quarter. Total imports grew by 3.4 per cent. Manufacturing products, chemical and mineral products, and business services contributed to increased import growth, while metals and tourism contributed to pushing down growth. A strong increase in imports of new ships contributed to higher growth in total imports, with the delivery of one new frigate in the second quarter. Imported electricity increased markedly in the previous quarter owing to insufficient domestic capacity. The effect on total imports is still marginal since this component accounts for a small share of total imports.

Growth in service imports was high in the second quarter, at 4.9 per cent compared with the previous quarter. Financial and business services accounted for the largest share of the increase.

The rise in prices for total imports was 0.1 per cent in the second quarter, while it was negative for traditional goods, crude oil, natural gas, ships, platforms and aircraft.

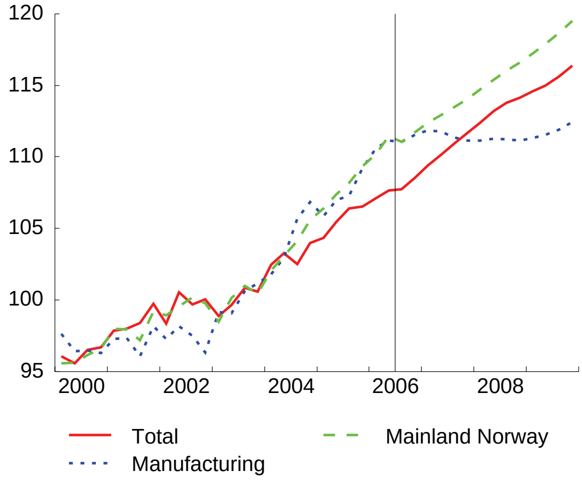
For 2006, growth in the volume of imports is estimated at 7.7 per cent for traditional goods and 8.2 per cent for total imports. In 2007, growth in imports of traditional goods is projected to fall to about 3.5 per cent owing to lower investment growth. Further ahead, growth in imports of traditional goods will be slightly higher than 2 per cent in 2008, and increase to about 3.5 per cent in 2009. The growth profile follows the same path as projected growth in total domestic demand, which is a good indicator of imports. This year, two frigates are to be imported, compared with one in each of the next three years. This will push up import growth this year and push down growth next year.

The cyclical expansion continues

Growth in mainland GDP continued at a fairly high rate in the first six months of 2006. The cyclical expansion is thus stronger than previously projected. This is reflected in a clearly tighter labour market in spite of increased inward labour migration. In particular, exports of traditional goods, especially service exports, have turned out to be higher than previously envisaged. Demand in the mainland economy has moved broadly in line with projections. The stronger-than-projected growth in exports partly reflects higher-than-expected growth in the international economy in 2006. As a result, value added in some manufacturing sectors and private services has been higher than expected.

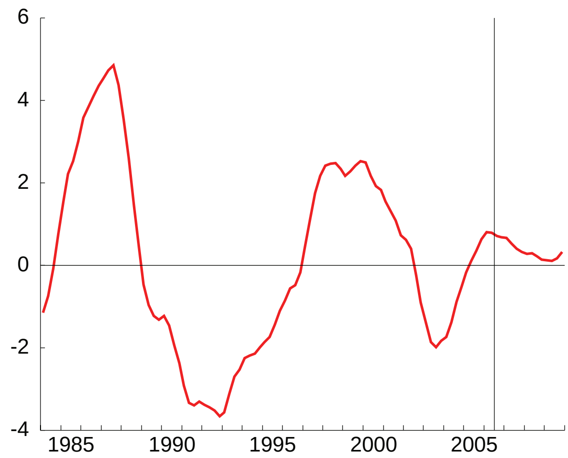
Growth in domestic demand is expected to moderate in the period ahead. Slightly higher interest rates will curb growth in household demand. Underlying high income growth will nevertheless contribute to sustaining consumption growth at the same pace in 2007 as in 2006, while housing investment is projected to grow only marginally between 2006 and 2007. This is partly because investment is now at a very high level, but also because of capacity problems in the building industry.

Gross domestic product
Seasonally adjusted volume indices, 2003=100



Source: Statistics Norway.

Output gap, Mainland Norway
Deviation from trend, per cent



Source: Statistics Norway.

Oil investment will have to increase markedly in the latter half of this year if our estimate for 2006 is to prove accurate, but the level of oil investment is expected to show little change next year. As a result, the growth impulses from a demand component that has made a substantial contribution to the upturn over the past three years will recede. The same applies to mainland business investment, which has provided considerable impetus to growth throughout the cyclical upturn and into 2006. However, the impulses from this component will fade in the period ahead and push down GDP growth next year. Fiscal policy will generate approximately the same impulses in 2007 as in 2006. Weaker global growth will lead to markedly slower growth in traditional goods and services in 2007 compared with 2006. This will contribute to reducing growth impulses to both manufacturing and many service industries. All total, growth in the main-

Main economic indicators 2005-2009. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Accounts	Forecasts								
		2006			2007		2008		2009	
	2005	SN	MoF	NB	SN	NB	SN	NB	SN	NB
Demand and output										
Consumption in households etc.	3.4	3.5	3.1	3 1/2	3.7	3 1/4	3.0	2 1/2	3.7	2 1/4
General government consumption	1.5	2.5	2.5	3	2.4	1 3/4	3.9	3 1/4	3.7	3 1/4
Gross fixed investment	10.9	7.7	7.7	..	-0.1	..	0.2	..	0.0	..
Extraction and transport via pipelines[1]	15.6	5.2	5.0	5	-1.8	0	-0.7	-5	0.0	0
Mainland Norway	8.8	7.0	9.9	8	0.5	4 3/4	0.6	2 1/4	0.4	1 1/2
Industries	9.8	4.6	8.3	..	3.4	..	-0.2	..	-1.3	..
Housing	14.5	5.8	8.1	..	-0.2	..	0.0	..	0.9	..
General government	-0.8	14.7	16.4	..	-4.8	..	3.6	..	3.7	..
Demand from Mainland Norway[2]	3.8	3.9	4.1	4 1/4	2.8	3	2.8	2 1/2	3.1	2 1/2
Stockbuilding[3]	0.2	0.2	..	..	0.0	..	0.0	..	0.0	..
Exports	0.7	1.5	1.2	..	4.7	..	2.8	..	-0.1	..
Crude oil and natural gas	-4.1	-4.1	-2.9	..	9.1	..	4.3	..	-2.7	..
Traditional goods[4]	5.8	5.0	2.7	6 1/4	1.9	3 3/4	1.9	3 1/4	2.4	3 1/4
Imports	7.4	8.2	6.1	6 1/4	3.7	3 3/4	2.0	2	3.7	2 3/4
Traditional goods	8.3	7.7	5.4	..	3.4	..	2.2	..	3.5	..
Gross domestic product	2.3	2.1	2.2	2 1/2	2.9	3 1/2	2.8	3	1.4	1 1/2
Mainland Norway	3.7	3.2	3.0	3 3/4	2.1	2 3/4	2.3	2 1/4	2.2	2 1/4
Labour market										
Employed persons	0.7	2.5	2.1	2 1/4	1.0	1	0.6	1/2	1.0	1/4
Unemployment rate (level)	4.6	3.4	3.8	3 3/4	3.3	3 1/2	3.5	3 1/2	3.3	3 3/4
Prices and wages										
Wages per standard man-year	3.6	4.0	3 1/2	4	5.0	4 3/4	4.5	4 3/4	3.5	4 3/4
Consumer price index (CPI)	1.6	2.4	2 1/4	2 1/4	1.5	1 3/4	1.1	2	1.7	2 1/2
CPI-ATE[5]	1.0	0.8	1 1/4	1	1.7	1 1/2	1.6	2	1.8	2 1/2
Export prices, traditional goods	3.5	10.9	..	..	-3.2	..	-6.9	..	2.8	..
Import prices, traditional goods	0.4	2.3	..	..	-0.9	..	-2.3	..	1.3	..
Housing prices[6]	7.9	12.8	..	..	5.1	..	2.9	..	2.8	..
Balance of payment										
Current balance (bill. NOK)	316.5	390.0	..	..	368.8	..	321.3	..	295.3	..
Current balance (per cent of GDP)	16.6	18.6	16.9	..	17.2	..	14.9	..	13.4	..
Memorandum items:										
Household savings ratio (level)	12.6	4.3	3.6	..	6.2	..	7.9	..	7.4	..
Money market rate (level)	2.2	3.1	..	3	3.8	4	3.8	4 3/4	3.8	5 1/4
Lending rate, banks (level)[7]	3.9	4.3	..	..	4.9	..	4.9	..	4.9	..
Crude oil price NOK (level)[8]	351	423	420	..	360	..	312	..	312	..
Export markets indicator	5.2	7.9	..	..	4.8	..	1.6	..	2.9	..
Importweighted krone exchange rate (44 countries)[9]	-3.9	0.1	..	-1 3/4	0.3	-1	0.0	0	0.0	1/4

[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.2 (2005-2006), (MoF), Norges Bank, forecasts based on forward interest and exchange rates, Inflasjonsrapport 2/2006 (NB).

land economy is projected to slow from a little more than 3 per cent in 2006 to a little more than 2 per cent in 2007. The projected moderation in growth in the period ahead implies that the boom will continue in 2007 even though the activity level gradually approaches trend.

In 2008 and 2009, fiscal policy will provide new and strong impulses to growth in the Norwegian economy, while moderate international economic developments will push down growth in export-oriented enterprises in 2008, both in manufacturing and services. The investment level in both the petroleum sector and the mainland economy will remain broadly unchanged during these two years, which implies that GDP growth for the mainland economy will be slightly below trend growth. Household income growth will contribute to sustaining consumption growth in spite of higher real interest rates. In this respect, it can be said that our projections indicate that growth will primarily be driven by consumption in 2008 and 2009.

Since 2001, total GDP growth has been lower than growth in mainland GDP. This will also be the case in 2006, but next year a strong increase in gas production implies that total GDP growth will again be higher than output growth for the mainland economy. We believe this will continue in 2008, while total petroleum production is not expected to show an increase in 2009. The growth rate for total GDP may then be relatively modest. Increased petroleum production will generate strong impulses to the mainland economy because inputs in the extraction sector accounts for about 4.5 per cent of mainland GDP, which is markedly higher than, for example, total gross general government investment.

Our growth forecast for 2006 has now been revised upwards over several quarters. For example, one year ago we expected the cyclical turnaround to occur in the near term. There is still no evidence of a cyclical turnaround in the figures, and growth in the first six months of 2006 does not really show any downward tendencies. We believe this will occur in the period ahead. It is primarily international economic developments that have resulted in an upward revision of our growth forecasts. To some extent, strong growth in mainland business investment has also contributed to sustaining the upturn, while the level of oil investment in 2006 seems approximately on a par with our projections a little more than one year ago. At this juncture, we do not believe that the uncertainty surrounding our projections suggest any appreciably higher impulses from the international economy, fiscal policy or the petroleum sector in 2007. To the contrary, our perception is now that a markedly more pronounced international cyclical downturn can be envisaged in relation to what we have expected for close to two years. The downturn on which we have based our projections implies that the forthcoming international downturn will be less pronounced than the downturn in 2001. At that time, the downturn was moderate, partly as a result of a marked expansionary shift in both fiscal policy and particularly monetary policy in the US. It is true that it is difficult to envisage a countercyclical policy of the same scope in the US should a downturn materialize this coming winter. On the other hand, the world economy has gradually changed in that China has become a more significant «growth engine» that will continue to be a source of stimulus even in the event of a pronounced downturn in the US.

Unparalleled fall in unemployment

According to the quarterly national accounts, employment grew by as much as 2.5 per cent between second quarter of 2005 and the second quarter of 2006, i.e. an increase of 57 000 persons. Seasonally adjusted figures show a growth rate of 0.6 per cent between the first and second quarter of this year. Employment growth has not been that strong since the boom at the end of the 1990s.

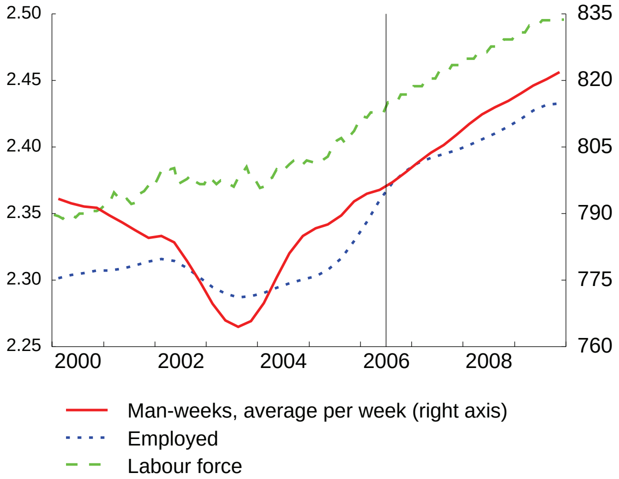
Employment has grown in most industries, but growth has been strongest in private services. Between the second quarter of 2005 and the second quarter of 2006, the number employed in business services increased by 20 300, i.e. a growth rate of as high as 8.5 per cent. In the same period, employment growth was also high in distributive trades, building and construction, the local government sector and civilian central government sector. In each of these sectors, employment rose by between 5 000 and 7 000 during the period. Seasonally adjusted figures show that the tendency over the past year has continued in the second quarter of this year, with the exception of the local government sector where employment was approximately unchanged on the first quarter.

In the defence sector, employment has continued to fall. Several manufacturing sectors are also experiencing a decline in employment, but brisk growth of 9.5 per cent in the building of ships and oil platforms between the second quarter of 2005 and the second quarter of 2006 brings employment growth in total manufacturing to 0.9 per cent in this period. Compared with the second quarter of 2002 – about the time as when the previous downturn started – manufacturing employment has declined by 24 600 up to the second quarter of this year.

According to the Labour Force Survey (LFS), the supply of labour has also grown appreciably over the past year. The LFS publishes the average of seasonally adjusted figures for three months. The figures show that the labour force increased by 26 000 between February-April 2005 and May-July 2006. This corresponds to about a third of the growth in employment in the same period. Experience shows that a cyclical increase in employment will in the course of 1-2 years translate into an extra increase in the labour force that is about half of that fraction. In this respect, the growth in the labour force recorded recently seems modest, which may seem strange particularly when taking into account indications of strong growth in the labour flows from new EU member states. The LFS is a sample survey and there is some degree of uncertainty associated with these figures. There is also reason to assume that LFS figures do not fully capture the strong growth in inward labour migration. Moreover, the changes to the LFS in January 2006 (see *Economic Survey* 1/2006, p. 86) imply added uncertainty with respect to these figures.

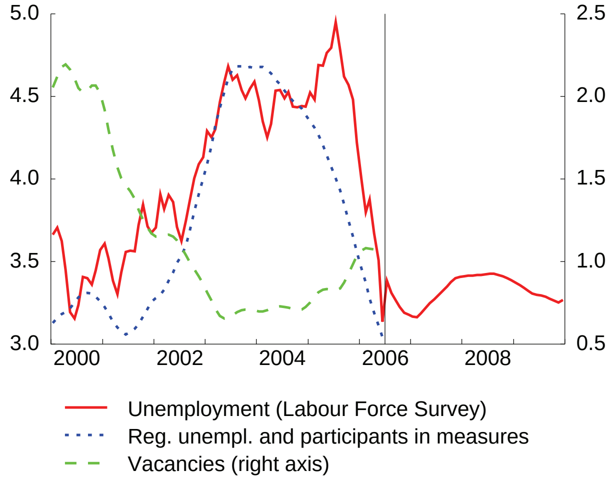
With a strong increase in employment and moderate growth in the labour force, the LFS shows a sharp decline in unemployment. The decline of 1.2 percentage point (28 000 persons) between the second quarter of 2005 and the second quarter of 2006 is the larg-

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



Source: Statistics Norway.

Unemployment and number of vacancies
Seasonally adjusted and smoothed
Per cent of labour force



Source: The Directorate of Labour and Statistics Norway.

est fall that has ever been recorded in the course of a four-quarter period in the LFS. Seasonally adjusted figures show that unemployment has fallen by 16 000 in the period between the first quarter and May-July of this year. Compared with May-July last year, the decline comes to as many as 39 000. Seasonally adjusted unemployment has thus fallen from 4.8 per cent in May-July in 2005 to 3.2 per cent in the same period this year. The average unemployment rate was 4.6 per cent in 2005.

According to NAV figures (recently merged Norwegian Public Employment Service and Social Security Administration), registered unemployment has also fallen markedly. Seasonally adjusted figures show that the sum of registered unemployed and persons participating in labour market programmes has fallen by about 2 000 in each month over the past year. Registered unemployment has shown a clear fall for all occupational groups. From August 2005 to August 2006, the percentage decline was largest in manufacturing, building and construction, engineering, ICT, management, brokerage and consultancy. The unemployment decline for these groups is more than 30 per cent. The decline is smallest for the child and youth workers.

While the number of unemployed has fallen sharply, the decline is less pronounced for the number of «available» working hours. Unadjusted figures for the second quarter this year show that the number of underemployed has increased markedly since the second quarter of last year. In the LFS, the underemployed are part-time employees that respond that they have tried to get longer working hours. This may indicate that many of those who have found employment over the past year have part-time posts, and that more part-time employees prefer increased working hours. According to the LFS, the sum of the number of working hours offered by the unemployed and the underemployed corresponded to 116 000 full-time posts in the second quarter of this year, i.e. 19 000 less than in the second quarter of last year or a decline of 14.1 per cent. In comparison, unemployment fell by 28 000 or 24.1 per cent in the same period. QNA figures also show that the number of person-hours worked has increased by considerably less than employment in this period. This is partly due to an increase in sickness absence.

After a period last year of surprisingly little improvement in the labour market, the number of unemployed has shown a pronounced decline this year. Our projection for unemployment has thus been revised downward for the entire projection period. Unemployment is now projected at 3.4 per cent in 2006 against 3.8 per cent in June (*Economic Survey* 3/2006). The downward adjustment is primarily ascribable to an unexpectedly marked reduction in the number of person-hours worked per employee. While the projection for the number employed has been revised upwards for the entire projection period, the projection for the number of person-hours worked remains broadly unchanged.

Employment in the local government sector is projected to show continued firm growth next year, and a more expansionary fiscal policy will provide a considerable boost to public employment in 2008 and 2009. A share of the increased demand for labour in the public sector will be covered by an increase in working hours among existing part-time employees. Public employment is still expected to increase by more than 50 000 between 2006 and 2009.

On the other hand, slower global growth and weaker impulses from petroleum investment imply a continued moderate employment trend in manufacturing.

Higher real interest rates, with an attendant moderation in household consumption and housing investment, will contribute to weaker growth in private services and building and construction. Employment in these industries is projected to remain broadly unchanged in the years 2007-2009.

Slower employment growth and approximately the same growth in the supply of labour during the projection period will lead to a flattening out of the sharp fall in unemployment in the latter half of this year. Against this background, average unemployment growth is projected to move down from 3.4 per cent in 2006 to 3.3 per cent in 2007, and remain at around that level in 2008 and 2009.

Wage growth picks up

Small pay increases were awarded in the wage negotiations in 2005. While some groups were awarded absolutely no pay increases then, most groups were awarded higher pay increases in the spring 2006 wage negotiations. QNA figures for wages per normal person-year illustrate this development. Measured on the same quarter one year earlier, wage growth increased by 2.9 per cent in the first quarter of this year and 3.8 per cent in the second quarter. Wage growth is expected to pick up further through the latter of this year as a result of wage drift.

Over the past year, the degree of labour market tightness has increased markedly. Unemployment has shown an appreciable fall, and according to NAV figures the number of job vacancies advertised in the media or reported to NAV increased by 40 per cent in the year to August 2006. There are indications that labour shortages will increase in several industries later this autumn. Labour market pressures will push up wage growth partly because groups with local wage determination will receive higher pay increases than those with a larger component of centralized wage determination, and partly because new employees are assigned higher salary levels. Moreover, high profitability in the business sector will probably lead to higher bonus payments and option gains for employees benefiting from such wage contracts. Overall growth in wage per normal person-year is projected at 4.0 per cent between 2005 and 2006.

This year's pay increases and rising wage drift through 2006 will, in isolation, result in a markedly higher average wage level in 2007 than in 2006. At the same time, the business sector is expected to experience another favourable year in 2007 and unemployment will remain low, but is not expected to fall further. In addition, a clear pickup in consumer prices through autumn 2006 as a result of high electricity prices will probably influence wage growth in 2007. Wage drift is expected to be approximately on a par with this year in 2007, but total wage growth is now projected at 5.0 per cent between 2006 and 2007, i.e. the highest level seen since 2002. Projected wage growth is now considerably higher than earlier projections and reflects the upward adjustment of projected CPI inflation and the downward revision of projected unemployment.

The supply of labour is expected to increase in the period ahead, primarily reflecting increased inward labour migration. At the same time, the international downturn will contribute to reducing demand for Norwegian manufactured goods in 2007 and 2008. This will also contribute to reducing profitability among manufacturing companies – a factor that is important for wage growth. Combined with markedly lower consumer price inflation, wage growth will therefore edge down somewhat in 2008 compared with 2007. Wage growth is projected at 4.5 per cent in 2008.

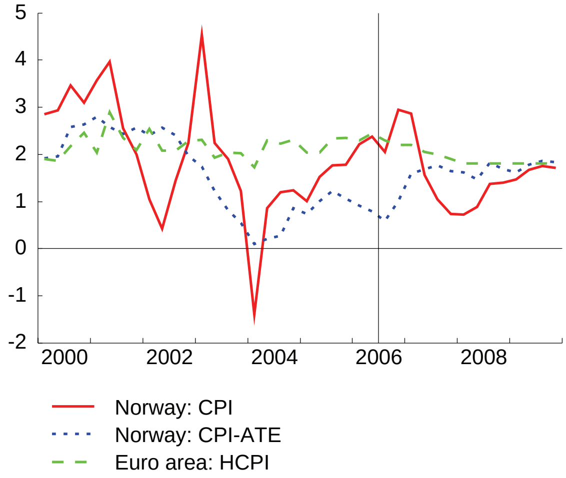
Our projections imply annual real wage growth of about 3½ per cent in 2007 and 2008. Annual growth in labour productivity is almost 2 percentage points lower in these two years. Even though prices for domestically produced goods and services increase at a slight faster pace than consumer prices, wage growth still contributes to marked reduction in profitability in the business sector in the period to 2009. Against this background, wage growth is projected to move down markedly in 2009. Wages per normal person-year is projected to grow by 3.5 per cent between 2008 and 2009. At the same time, inflation and growth in labour productivity will pick up, bringing wage growth closer into line with productivity growth.

Continued low inflation

Even though the boom is intensifying and energy prices are rising, the low rate of underlying inflation has decelerated further over the past year. The year-on-year rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has been lower than the target of 2.5 per cent for more than four years. Adjusted only for tax changes (CPI-AT), inflation has averaged 1.3 per cent during this period. In August 2006, the year-on-year rise in the CPI-ATE stood at 0.4 per cent. Owing to high energy prices and increases in excise duties from the beginning of the year, CPI inflation has been appreciably higher through this year compared with the two previous years, and in August the month-on-month rise was 1.9 per cent. Real tax changes account for 0.2-0.3 percentage point of the rise in this measure of inflation.

The appreciation of the krone, increased imports from China and other low-cost countries, low international inflation and more efficient trade in goods have contributed to the fall in retail prices for imported consumer goods. These are important explanatory factors behind the low rate of increase in the CPI-ATE over the past four years. The rate of increase in prices for

Consumer price indices
Percentage growth from the same quarter previous year



Source: Norges Bank and Statistics Norway.

domestically produced goods and services has also been low when excluding energy prices. If we exclude agricultural and fish products, prices for this group of goods was only 0.5 per cent higher than in August 2005. House rents were 2.2 per cent higher, while prices for other services were 1.1 per cent higher. A common feature of price developments for all these main groups is that the year-on-year rate of increase is low and that overall they show a gentle downward tendency. A low and falling tendency for hourly labour cost growth and high growth in labour productivity have contributed to this.

A weaker krone is expected to push up inflation somewhat through autumn. The introduction of compulsory occupational pension and somewhat higher wage drift will have the same effect. As an annual average, CPI-ATE inflation will still be as low as 0.8 per cent in 2006, or somewhat lower than in 2005. At the end of this year, the direct disinflationary effects of the reduced maximum day-care rates will unwind. This will contributed to pushing up inflation by 0.1-0.2 percentage point.

Somewhat weaker growth in the economy may also curb productivity growth somewhat. Combined with higher wage growth, this implies a mild upward tendency in inflation ahead. Overall external inflationary impulses in the form of a change in average prices for finished goods in foreign currency are likely to be modest. Unless the krone appreciates, price developments for imported consumer goods may push down inflation to a lesser extent ahead than has been observed in recent years. Interest rate hikes will gradually contribute to pushing up house rent inflation somewhat. On balance, underlying inflation measured by the CPI-ATE may edge up in the coming year. Thereafter, this measure of inflation is projected to remain at a fairly stable level of 1.5-2.0 per cent to the end of the projection period.

In the past year, we have witnessed strong inflationary impulses from energy products, and this is also expected to continue over the next year. From December last year to April this year, electricity prices charged to households, including utility rate and taxes, increased by close to 22 per cent. A clear price fall through the winter of 2005 contributed to bring the 12-month rise in April up to as high as 34.8 per cent. As a result, CPI inflation was as high as 2.7 per cent in spite of the low rate of underlying inflation. Thereafter, electricity prices edged down. In the spot market, however, electricity prices started to accelerate sharply at the beginning of May as a result of abnormally low rainfall levels. In August, this translated into higher prices for households. On the basis of the price changes reported to the Competition Authority and prices in the forward market, electricity prices are set to show a sharp increase in the coming months. The rise in electricity prices between August and September may push up CPI inflation by about 1 percentage point. As an annual average, electricity prices are now projected to rise by about 30 per cent in 2006 and close to 50 per cent as a 12-month rate around the turn of the year. Consequently, CPI inflation will increase somewhat through autumn, and is projected at 2.4 per cent on an annual basis. From February next year, however, a normalization of electricity prices will contribute to a rapid deceleration in CPI inflation.

Our projections are based on unchanged real taxes in the years ahead. On an annual basis, electricity prices are expected to rise somewhat more than other prices next year, but to fall by 5-10 per cent in 2008. The assumption of falling oil prices will push down CPI inflation in the years ahead. On balance, this indicates that CPI inflation will be somewhat lower than CPI-ATE inflation as from spring next year. On an annual basis, the rate of increase in the total CPI will be particularly low in 2008, where electricity prices and oil prices push CPI inflation in the same direction over a whole year.

Further increase in balance-of-payments surplus

The preliminary current account balance shows a surplus of NOK 94 billion in the second quarter, i.e. NOK 5 billion higher than the surplus in the first quarter. Compared with the second quarter of 2005, the surplus is NOK 38 billion higher, or an increase of 69 per cent over one year. A marked increase in prices for the export products oil, gas and metal, combined with lower import price inflation, accounts for the bulk of the large surplus. Buoyant growth in service exports and a smaller deficit on the interest and transfers balance have also made positive contributions.

The surplus on the goods and services balance has increased in the second quarter in relation to same period one year earlier. The surplus on the goods balance rose from NOK 68 billion to NOK 90 billion, while the surplus on the services balance increased from NOK 6 billion to NOK 10 billion. Compared with the strong result for the year's first quarter, however, the second-quarter surplus on the goods balance declined by 10 per cent and by 26 per cent for the services balance. Nevertheless, the total current account surplus for the second quarter shows an increase also in relation to the first quarter owing to the reduction in the deficit on the interest and services balance from NOK 27 billion to 6 billion between the first and second quarter. Considerably lower share dividend payments to foreign shareholders in the second quarter compared with the first quarter of this year explains a large portion of the improvement on the interest and transfers balance.

This year, a very high growth in export prices will make a substantial contribution to a record-high trade surplus, which may exceed NOK 400 billion. A negative interest and transfers balance is expected to push down the current account surplus to NOK 390 billion. The total current account surplus corresponds to almost one fifth of Norway's GPD this year.

For the period 2007-2009, we have assumed that international prices of many key Norwegian export products and services will decline or rise at a slower rate in pace with the cyclical downturn. Prices for major Norwegian import goods are generally not as cyclically sensitive as export prices, and we expect import prices to remain firmer than export prices. The very favourable terms-of-trade gains that Norway has experienced in recent years may thus be reversed to some extent. As the volume of imports is projected to grow at a faster pace than the volume of exports during the forecast period, this explains why the trade surplus will be reduced in each of the next three years, and probably decline to well below NOK 300 billion in 2009.

The interest and transfers balance, which has been negative in recent years, is expected to improve in each year ahead and turn positive from 2008. Nevertheless, the current account surplus is expected to fall below NOK 300 billion in 2009.

National accounts: Final expenditure and gross domestic product. At fixed 2003 prices. Million kroner

	Unadjusted		Seasonally adjusted					
	2004	2005	05.1	05.2	05.3	05.4	06.1	06.2
Final consumption expenditure of households and NPISHs	753 923	779 193	191 635	195 074	196 238	196 277	200 197	201 384
Household final consumption expenditure	722 765	745 772	183 561	186 705	187 795	187 722	191 517	192 699
Goods	394 044	404 607	99 543	101 894	102 181	101 142	103 515	104 098
Services	313 188	322 375	79 549	80 076	80 893	81 714	82 316	83 313
Direct purchases abroad by resident households	35 984	40 047	9 723	9 976	9 938	10 469	10 764	10 717
Direct purchases by non-residents	-20 451	-21 257	-5 254	-5 242	-5 217	-5 602	-5 078	-5 430
Final consumption expenditure of NPISHs	31 159	33 421	8 074	8 369	8 444	8 555	8 680	8 685
Final consumption expenditure of general government	362 156	367 604	91 535	91 797	91 823	92 492	92 775	93 379
Final consumption expenditure of central government	192 590	193 894	48 466	48 305	48 385	48 760	48 834	48 966
Central government, civilian	163 013	166 316	41 479	41 411	41 537	41 913	42 473	42 686
Central government, defence	29 577	27 579	6 987	6 894	6 848	6 847	6 361	6 281
Final consumption expenditure of local government	169 567	173 710	43 069	43 492	43 438	43 732	43 941	44 413
Gross fixed capital formation	298 950	331 663	77 963	80 521	82 051	91 096	83 489	88 018
Extraction and transport via pipelines	68 568	79 280	18 404	19 957	19 057	21 862	18 438	19 520
Service activities incidential to extraction	840	-1 635	105	-2 790	988	62	4	14
Ocean transport	9 775	14 821	3 246	4 320	2 308	4 944	4 539	3 917
Mainland Norway	219 768	239 196	56 208	59 034	59 698	64 229	60 508	64 567
Mainland Norway excluding general government	171 329	191 150	45 468	47 186	48 494	50 060	49 348	49 214
Industries	106 591	116 997	27 429	28 689	29 933	30 964	29 775	29 680
Manufacturing and mining	19 562	22 219	4 618	5 231	5 437	6 890	5 061	5 408
Production of other goods	20 855	22 009	5 209	5 743	6 113	5 000	5 598	5 672
Services	66 174	72 769	17 602	17 715	18 382	19 073	19 116	18 600
Dwellings (households)	64 738	74 153	18 039	18 497	18 561	19 096	19 573	19 535
General government	48 439	48 046	10 740	11 848	11 205	14 169	11 160	15 353
Changes in stocks and statistical discrepancies	33 108	36 007	9 910	7 913	11 782	6 581	10 877	11 298
Gross capital formation	332 058	367 670	87 873	88 434	93 833	97 677	94 365	99 316
Final domestic use of goods and services	1 448 138	1 514 467	371 043	375 305	381 894	386 446	387 338	394 079
Final demand from Mainland Norway	1 335 847	1 385 994	339 378	345 905	347 760	352 998	353 481	359 330
Final demand from general government	410 595	415 651	102 275	103 645	103 028	106 661	103 936	108 732
Total exports	640 937	645 523	157 562	162 513	164 039	161 900	163 923	163 634
Traditional goods	193 477	204 614	50 237	49 419	51 874	52 934	52 455	53 782
Crude oil and natural gas	278 867	267 301	67 055	68 426	67 090	65 332	65 438	63 363
Ships, oil platforms and planes	8 584	9 559	815	4 982	2 816	947	1 353	1 978
Services	160 010	164 049	39 456	39 687	42 259	42 687	44 676	44 510
Total use of goods and services	2 089 075	2 159 990	528 605	537 818	545 933	548 346	551 260	557 713
Total imports	463 796	498 003	118 167	122 968	127 339	129 281	129 804	134 264
Traditional goods	309 040	334 603	78 986	82 468	86 261	86 630	89 312	90 812
Crude oil and natural gas	1 511	2 355	537	404	412	1 019	347	136
Ships, oil platforms and planes	11 672	8 991	1 864	2 276	2 256	2 595	2 236	3 568
Services	141 573	152 054	36 780	37 821	38 410	39 037	37 909	39 749
Gross domestic product (market prices)	1 625 279	1 661 987	410 439	414 850	418 594	419 065	421 456	423 449
Gross domestic product Mainland Norway (market prices)	1 305 000	1 352 637	333 791	336 834	339 382	343 083	345 731	349 581
Petroleum activities and ocean transport	320 279	309 351	76 647	78 015	79 212	75 982	75 725	73 868
Mainland Norway (basic prices)	1 147 605	1 192 690	294 048	296 965	299 398	302 546	306 025	309 453
Mainland Norway excluding general government	886 447	927 417	227 955	230 671	233 028	235 971	239 215	242 542
Manufacturing and mining	164 025	167 947	41 414	41 848	41 978	42 731	43 274	43 471
Production of other goods	124 282	133 844	32 804	33 712	33 327	34 181	34 422	33 869
Services incl. dwellings (households)	598 140	625 626	153 737	155 111	157 723	159 058	161 519	165 202
General government	261 158	265 273	66 093	66 294	66 370	66 575	66 810	66 912
Correction items	157 395	159 946	39 743	39 869	39 984	40 537	39 706	40 127

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. At fixed 2003 prices. Percentage change from the previous period

	Unadjusted		Seasonally adjusted					
	2004	2005	05.1	05.2	05.3	05.4	06.1	06.2
Final consumption expenditure of households and NPISHs	4.7	3.4	0.3	1.8	0.6	0.0	2.0	0.6
Household final consumption expenditure	4.7	3.2	0.2	1.7	0.6	0.0	2.0	0.6
Goods	5.4	2.7	-0.3	2.4	0.3	-1.0	2.3	0.6
Services	3.3	2.9	0.7	0.7	1.0	1.0	0.7	1.2
Direct purchases abroad by resident households	12.3	11.3	2.7	2.6	-0.4	5.3	2.8	-0.4
Direct purchases by non-residents	8.9	3.9	1.6	-0.2	-0.5	7.4	-9.4	6.9
Final consumption expenditure of NPISHs	5.0	7.3	2.0	3.7	0.9	1.3	1.5	0.1
Final consumption expenditure of general government	2.2	1.5	-0.1	0.3	0.0	0.7	0.3	0.7
Final consumption expenditure of central government	2.9	0.7	-0.3	-0.3	0.2	0.8	0.2	0.3
Central government, civilian	3.8	2.0	0.6	-0.2	0.3	0.9	1.3	0.5
Central government, defence	-1.4	-6.8	-5.1	-1.3	-0.7	0.0	-7.1	-1.3
Final consumption expenditure of local government	1.5	2.4	0.1	1.0	-0.1	0.7	0.5	1.1
Gross fixed capital formation	8.1	10.9	-5.9	3.3	1.9	11.0	-8.4	5.4
Extraction and transport via pipelines	7.8	15.6	-1.4	8.4	-4.5	14.7	-15.7	5.9
Service activities incidential to extraction	119.3	..	-84.2	..	..	-93.8	-94.2	301.1
Ocean transport	11.7	51.6	-26.3	33.1	-46.6	114.2	-8.2	-13.7
Mainland Norway	7.8	8.8	-4.9	5.0	1.1	7.6	-5.8	6.7
Mainland Norway excluding general government	9.6	11.6	0.3	3.8	2.8	3.2	-1.4	-0.3
Industries	8.0	9.8	-1.5	4.6	4.3	3.4	-3.8	-0.3
Manufacturing and mining	7.3	13.6	-6.5	13.3	3.9	26.7	-26.5	6.9
Production of other goods	9.9	5.5	0.9	10.3	6.4	-18.2	11.9	1.3
Services	7.6	10.0	-0.9	0.6	3.8	3.8	0.2	-2.7
Dwellings (households)	12.3	14.5	3.1	2.5	0.3	2.9	2.5	-0.2
General government	1.9	-0.8	-22.1	10.3	-5.4	26.5	-21.2	37.6
Changes in stocks and statistical discrepancies	131.9	8.8	63.7	-20.1	48.9	-44.1	65.3	3.9
Gross capital formation	14.2	10.7	-1.2	0.6	6.1	4.1	-3.4	5.2
Final domestic use of goods and services	6.1	4.6	-0.1	1.1	1.8	1.2	0.2	1.7
Final demand from Mainland Norway	4.5	3.8	-0.7	1.9	0.5	1.5	0.1	1.7
Final demand from general government	2.2	1.2	-3.0	1.3	-0.6	3.5	-2.6	4.6
Total exports	0.6	0.7	-0.5	3.1	0.9	-1.3	1.2	-0.2
Traditional goods	3.4	5.8	-0.2	-1.6	5.0	2.0	-0.9	2.5
Crude oil and natural gas	-0.7	-4.1	1.4	2.0	-2.0	-2.6	0.2	-3.2
Ships, oil platforms and planes	-44.6	11.4	-35.8	511.5	-43.5	-66.4	42.9	46.2
Services	3.9	2.5	-2.9	0.6	6.5	1.0	4.7	-0.4
Total use of goods and services	4.3	3.4	-0.3	1.7	1.5	0.4	0.5	1.2
Total imports	8.9	7.4	-2.3	4.1	3.6	1.5	0.4	3.4
Traditional goods	10.2	8.3	-0.1	4.4	4.6	0.4	3.1	1.7
Crude oil and natural gas	-17.1	55.8	24.7	-24.8	1.9	147.4	-66.0	-60.8
Ships, oil platforms and planes	14.5	-23.0	-48.1	22.1	-0.8	15.0	-13.9	59.6
Services	6.2	7.4	-2.6	2.8	1.6	1.6	-2.9	4.9
Gross domestic product (market prices)	3.1	2.3	0.3	1.1	0.9	0.1	0.6	0.5
Gross domestic product Mainland Norway (market prices)	3.8	3.7	0.8	0.9	0.8	1.1	0.8	1.1
Petroleum activities and ocean transport	0.4	-3.4	-1.5	1.8	1.5	-4.1	-0.3	-2.5
Mainland Norway (basic prices)	3.6	3.9	1.0	1.0	0.8	1.1	1.2	1.1
Mainland Norway excluding general government	4.0	4.6	1.3	1.2	1.0	1.3	1.4	1.4
Manufacturing and mining	4.7	2.4	-0.9	1.0	0.3	1.8	1.3	0.5
Production of other goods	3.3	7.7	5.0	2.8	-1.1	2.6	0.7	-1.6
Services incl. dwellings (households)	3.9	4.6	1.2	0.9	1.7	0.8	1.5	2.3
General government	2.2	1.6	0.0	0.3	0.1	0.3	0.4	0.2
Correction items	5.3	1.6	-1.1	0.3	0.3	1.4	-2.1	1.1

Source: Statistics Norway.

National accounts: Final expenditure and gross domestic product. Price indices. 2003=100

	Unadjusted		Seasonally adjusted					
	2004	2005	05.1	05.2	05.3	05.4	06.1	06.2
Final consumption expenditure of households and NPISHs	100.9	102.1	101.2	101.4	102.7	103.1	102.9	104.2
Final consumption expenditure of general government	102.4	105.4	104.3	105.2	105.8	106.4	108.0	109.7
Gross fixed capital formation	103.6	107.4	106.0	107.8	107.4	108.6	109.4	111.4
Mainland Norway	103.3	105.4	104.6	104.9	105.3	106.8	106.6	108.6
Final domestic use of goods and services	101.8	104.1	101.0	105.6	105.5	104.2	104.7	107.4
Final demand from Mainland Norway	101.7	103.6	102.6	103.0	104.0	104.6	104.9	106.4
Total exports	114.3	133.6	127.0	127.5	135.0	144.1	153.6	150.2
Traditional goods	108.4	112.2	109.6	110.7	113.0	114.8	121.0	124.5
Total use of goods and services	105.6	112.9	108.7	112.2	114.4	115.9	119.2	120.0
Total imports	105.6	107.3	107.3	106.7	107.2	107.9	108.4	108.4
Traditional goods	104.5	104.9	105.0	104.8	104.7	105.3	107.2	106.5
Gross domestic product (market prices)	105.6	114.6	109.1	113.8	116.6	118.4	122.6	123.7
Gross domestic product Mainland Norway (market prices)	102.1	104.3	101.8	105.6	104.6	105.0	106.8	108.0

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted					
	2004	2005	05.1	05.2	05.3	05.4	06.1	06.2
Final consumption expenditure of households and NPISHs	0.9	1.2	-0.5	0.2	1.3	0.3	-0.1	1.2
Final consumption expenditure of general government	2.4	3.0	0.6	0.8	0.6	0.6	1.6	1.5
Gross fixed capital formation	3.6	3.7	0.8	1.7	-0.4	1.2	0.8	1.8
Mainland Norway	3.3	2.0	0.2	0.3	0.3	1.4	-0.1	1.9
Final domestic use of goods and services	1.8	2.2	-1.7	4.6	-0.1	-1.3	0.5	2.6
Final demand from Mainland Norway	1.7	1.8	-0.1	0.4	0.9	0.6	0.3	1.4
Total exports	14.3	16.9	4.4	0.4	5.9	6.7	6.6	-2.2
Traditional goods	8.4	3.5	-0.7	1.1	2.1	1.5	5.4	2.9
Total use of goods and services	5.6	6.9	0.4	3.2	1.9	1.4	2.8	0.7
Total imports	5.6	1.6	0.3	-0.6	0.4	0.6	0.5	0.1
Traditional goods	4.5	0.4	0.2	-0.3	-0.1	0.6	1.8	-0.6
Gross domestic product (market prices)	5.6	8.4	0.3	4.3	2.4	1.6	3.5	0.9
Gross domestic product Mainland Norway (market prices)	2.1	2.1	-1.3	3.8	-0.9	0.4	1.7	1.1

Source: Statistics Norway.