Economic Survey

Statistics Norway

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Economic developments in Norway

The Norwegian economy has been in a moderate cyclical upturn for about a year and a half. According to preliminary seasonally adjusted figures from the quarterly national accounts (QNA), average quarterly mainland GDP growth has been 0.6 per cent for the last seven quarters. This is equivalent to annual growth of 2.6 per cent, which is higher than estimated trend growth of about 2 per cent. The upturn has been boosted by an expansionary fiscal policy, weak krone exchange rate, low wage growth and low interest rates. These factors are expected to become more neutral going forward, or even to become contractionary. The global cyclical upturn and an upswing in petroleum investment will then drive the upturn forward.

Fiscal policy will be approximately neutral in the years ahead. Public consumption and investment increased by around 2.5 per cent annually in the period from 2014 to 2017, prompting a pronounced increase in public sector demand. Fiscal policy in conjunction with

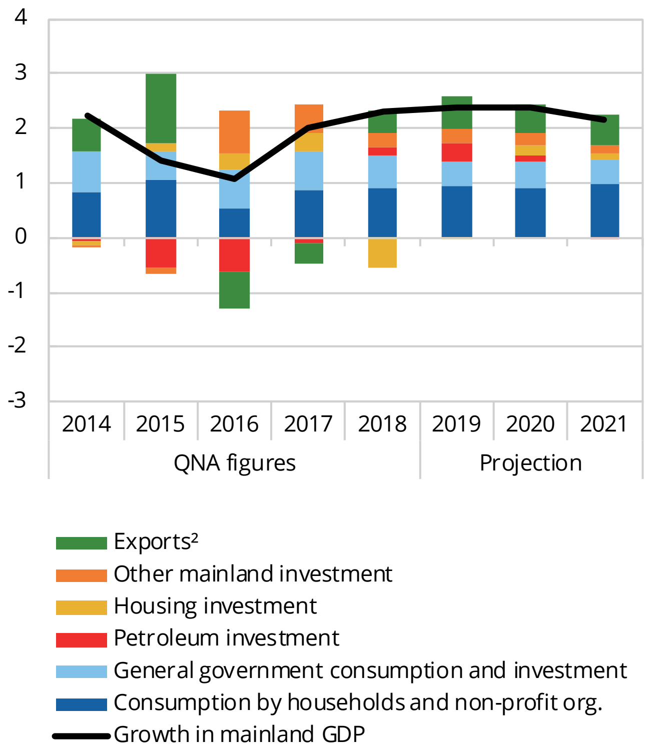
Table 1. Main macroeconomic aggregates. Accounts figures. Change from previous period. Per cent

	2016*	2017*	Seasonally adjusted			
			17:3	17:4	18:1	18:2
Demand and output						
Consumption in households etc.	1.3	2.2	0.6	0.7	0.1	1.1
General government consumption	2.1	2.5	0.6	1.3	0.0	0.4
Gross fixed investment	5.2	3.6	0.0	1.3	-6.4	5.4
Extraction and transport via pipelines	-16.0	-3.8	-8.9	12.2	-14.1	13.1
Mainland Norway	10.7	7.0	1.7	0.0	-4.8	4.1
Final domestic demand from Mainland Norway[1]	3.5	3.3	0.9	0.7	-1.1	1.5
Exports	1.1	-0.2	-1.2	-2.1	0.6	1.5
Traditional goods	-8.6	1.7	1.3	1.1	-0.8	0.5
Crude oil and natural gas	4.9	1.5	-1.5	-6.1	-1.4	1.5
Imports	3.3	1.6	-0.4	1.9	-2.0	4.3
Traditional goods	-0.1	2.7	0.4	2.4	-0.6	3.2
Gross domestic product	1.2	2.0	0.7	0.1	0.2	0.4
Mainland Norway	1.1	2.0	0.7	0.8	0.4	0.5
Labour market						
Man-hours worked	0.4	0.3	0.3	0.6	0.8	0.4
Employed persons	0.2	1.1	0.3	0.5	0.5	0.3
Labour force[2]	0.2	-0.2	-0.2	0.2	0.7	0.3
Unemployment rate. level[2]	4.7	4.2	4.1	4.0	3.9	3.8
Prices and wages						
Annual earings	1.7	2.3				
Consumer price index (CPI)[3]	3.6	1.8	1.5	1.3	2.0	2.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	3.1	1.4	1.0	1.1	1.2	1.2
Export prices. traditional goods	4.0	5.4	-0.9	3.0	2.1	1.8
Import prices. traditional goods	1.8	3.7	0.2	2.2	1.0	-0.9
Balance of payment						
Current balance. bill. NOK[4]	124.3	186.2	32.9	33.8	75.1	80.9
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	1.1	0.9	0.8	0.8	1.0	0.9
Lending rate. credit loans[5]	2.6	2.6	2.6	2.6	2.6	2.5
Crude oil price NOK[6]	378	445	433	414	473	439
Importweighted krone exchange rate. 44 countries. 1995=100	105.4	104.6	106.0	103.6	106.0	105.5
NOK per euro	9.29	9.33	9.38	9.35	9.60	9.63

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] According to Statistics Norway's labour force survey(LFS).
[3] Percentage change from the same period the previous year.
[4] Current account not adjusted for saving in pension funds.
[5] Period averages.
[6] Average spot price. Brent Blend.
Source: Statistics Norway and Norges Bank.

tax relief that has largely benefited companies has thus generated substantial expansionary impulses. The fiscal impulse, measured as the change in the structural non-oil budget deficit as a share of trend GDP, amounted to a total of 1.6 percentage points during this period. We expect appreciably lower growth in public consumption and investment going forward. It is assumed nonetheless that fiscal policy will be roughly cyclically neutral in the years ahead as a consequence of the aging population, coupled with the fact that real wage growth means higher expenses for old-age pensions and other transfers. According to our calculations, the fiscal impulse will remain virtually unchanged through the projection period, and spending of petroleum revenue will be in line with the fiscal rule.

Figure 1. Growth in mainland GDP and contributions from demand components.[1] Percentage points, annual rate



[1] The demand contributions are calculated by finding the change in each variable, extracting the direct and indirect import shares, and then dividing by the mainland GDP level for the previous period. The import shares used are documented in Economic Survey 1/2018, Box 3. All figures are seasonally adjusted and in constant prices.

[2] The export variable is defined as total exports excluding exports of crude oil, gas and shipping.

Source: Statistics Norway.

We assume that the krone will strengthen in the years ahead. The depreciation of the krone from 2013 to the beginning of 2016 generated positive impulses to the real economy. Since 2016 the krone, measured by the imported-weighted exchange rate, has been at a historically weak level. The current weak krone and an oil price that is assumed to remain at around USD 75 per barrel point to a strengthening of the krone. An appreciation of the krone will moderate the cyclical upturn by weakening the competitiveness of internationally exposed enterprises. We assume that a euro will cost around nine kroner in 2021. This is around 60 øre less than the current level, but nonetheless 90 øre higher than the historic average since the introduction of the euro in 1999.

The housing market is also slowing the upturn. House prices fell through most of 2018 after several years of surging prices that led to a high level of residential construction. According to our calculations, both housing investment and house prices will increase at a moderate rate in the years ahead. The rise in house prices is driven by higher income, but dampened by somewhat lower population growth and higher interest rates. Although house prices will probably rise in nominal terms, real house prices are expected to be lower in 2021 than at the peak in 2017. In general, the housing market now appears to be more in balance than in the last few years.

Petroleum investment is on the rise. The fall in petroleum investment has gradually levelled off since 2016. According to operators on the Norwegian continental shelf, increased investment is expected in the near term. This is largely attributable to the Phase 2 development of the Johan Sverdrup field. Lower costs and expectations of a high oil price are making more petroleum investment profitable. Large new developments are now being planned, but in many cases it is uncertain when they will come about (see Box 1). We believe

Table 2. Growth in mainland GDP and contributions from demand components.[1] Percentage points, annual rate

	QNA				Projection			
	2014	2015	2016	2017	2018	2019	2020	2021
Consumption by households and non-profit organisations	0.8	1.0	0.5	0.9	0.9	0.9	0.9	1.0
General government consumption and investment	0.7	0.5	0.7	0.7	0.6	0.5	0.5	0.5
Petroleum investment	-0.1	-0.5	-0.6	-0.1	0.1	0.3	0.1	0.0
Housing investment	-0.1	0.1	0.3	0.3	-0.6	0.0	0.2	0.1
Other mainland investment	0.0	-0.1	0.8	0.5	0.3	0.3	0.2	0.1
Exports	0.6	1.3	-0.7	-0.3	0.4	0.6	0.5	0.6
Growth in mainland GDP	2.2	1.4	1.1	2.0	2.3	2.4	2.4	2.2

[1] See footnotes to Figure 1.
Source: Statistics Norway.

petroleum investment will pick up markedly over the next few years, and thereby take over as an important driver of the moderate cyclical upturn. Nevertheless, the fall in petroleum investment in recent years means that the investment peak we foresee in 2020 will be around 17 per cent lower than the record level of 2013.

Mainland business investment will continue to grow, but at a more moderate pace. An increase in investment in power supply is expected in the current year, mainly as a consequence of the development of more wind farms, but also as a result of further upgrading of the main grid and the installation of smart electricity meters. A marked increase in manufacturing investment is expected this year and next, largely in connection with the industrial grouping refined petroleum products, chemicals and pharmaceuticals manufacturing. According to Norges Bank's regional network, the service sector is also reporting increased investment. We forecast growth in mainland business investment of around 5 per cent in the next few years.

Household consumption growth will be moderate. Consumption growth has picked up again following a hiatus in the first quarter of this year. The hiatus must be viewed in light of weak developments in vehicle purchases through the first three months of this year. Higher real income is pushing up consumption, but weak developments in wealth and higher interest rates will contribute to keeping annual growth at under 3 per cent in the years ahead. The growth we foresee is in line with average consumption growth over the past 30 years, and considerably lower than in previous cyclical upturns.

Wage growth is increasing. Annual wage growth in 2016 was only 1.7 per cent, which meant a 1.8 per cent decrease in real wages. Wage growth picked up again in 2017, also in real terms. We expect nominal wage growth to rise further in pace with the improved economic situation, higher petroleum-related activity and lower unemployment. In 2018, real wage growth is being moderated by the fact that higher energy prices are pushing up inflation. As corporate profitability improves, real wage growth is expected to rise to 2 per cent in 2021.

Unemployment will fall a little more in the years ahead. According to Statistics Norway's Labour Force Survey (LFS) unemployment has now fallen to under 4 per cent after peaking at over 5 per cent in early 2016. The fall in unemployment is broad-based throughout Norway. We expect unemployment as an annual average to be 3.9 per cent in 2018, and then to fall gradually to 3.7 per cent in 2021. The main reason for unemployment not falling more is that more people are entering the labour market. The participation rate is expected to increase from 69.7 per cent last year to over 71 per cent in 2021.

The key policy rate is likely to be raised at the Monetary Policy Meeting in September, after being kept unchanged at a record low 0.5 per cent since March 2016. Norges Bank's operational target is annual consumer price inflation of close to 2 per cent over time. In addition, monetary policy is intended to contribute to output and employment stabilising around the highest possible targets that are consistent with price stability over time. There are now prospects that the Norwegian economy will emerge from the slump towards the end of 2019. Given a somewhat tighter labour market, it is reasonable to assume that wage growth will pick up, and with it domestic cost inflation. Given this economic scenario, we expect the key rate to be raised gradually. The interest rate increases will slow the upturn and help to bring inflation close to target. We assume six interest rate hikes, each of 0.25 percentage point, by the end of 2021. According to our computations, the lending rate for home equity lines of credit will be 3.8 per cent in 2021, more than one percentage point higher than the level in 2017. The fact that real interest rates are expected to remain at historically low levels until well into the upcoming expansion must be viewed in light of the fact that productivity growth still looks likely to be low, and that population growth will fall off in the years ahead.

The economic picture is characterised by a change in pace across industries. The construction industry has long had increasing activity as a result of large public investment projects and high growth in residential construction. In the near term, however, a markedly lower rate of growth in both housing and public sector investment will place a damper on activity in this industry. At the same time, manufacturing has been characterised for many years by low activity as a consequence of lower petroleum sector demand. In the period ahead, manufacturing will experience an upswing, both because many manufacturing enterprises have adapted their output to new markets, and because petroleum sector demand is increasing again. A stronger krone, increasing wage growth, slightly rising interest rates, and close to cyclically neutral global development mean nonetheless that the upswing in the Norwegian economy will be moderate on balance. We forecast that next year the Norwegian economy will be in an approximately cyclically neutral situation. However, given slower growth in global demand (see Box 2), the slump may last through 2021.

Moderate fiscal impulses

Revised national accounts figures for 2017 show that general government consumption increased by 2.5 per cent from 2016 to 2017, which is a little higher than previously projected. Conversely, gross general government investment increased by almost one percentage point less than previously projected, so that growth in the two components combined has not been revised to any particular extent. Consumption growth into 2018 has been weak, but because of a large carry-over from 2017, we have increased annual growth in 2018 a little

Table 3. Main economic indicators 2017-2021. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Accounts 2017*	Forecasts.									
		2018			2019			2020		2021	
		SN	NB	MoF	SN	NB	MoF	SN	NB	SN	NB
Demand and output											
Consumption in households etc.	2.2	2.5	2.5	2.6	2.6	2.3	2.9	2.5	1.9	2.6	1.8
General government consumption	2.5	1.8	1.5	1.4	1.7	1.5	..	1.8	1.4	1.7	1.3
Gross fixed investment	3.6	0.6	..	3.3	4.0	..	3.4	3.1	..	1.6	..
Extraction and transport via pipelines	-3.8	4.3	2.8	5.2	10.1	8.7	8.0	3.9	4.2	-0.4	1.1
Mainland Norway	7.0	-0.1	..	..	2.3	..	..	2.9	..	2.2	..
Industries	9.2	4.7	5.3	5.6	4.7	5.3	5.6	3.5	1.5	2.5	-0.1
Housing	7.0	-10.3	-7.8	-5.2	-0.2	-0.8	-1.7	4.4	1.1	2.9	1.1
General government	3.6	3.0	..	1.6	0.4	..	..	0.6	..	1.0	..
Demand from Mainland Norway[1]	3.3	1.7	1.7	2.2	2.3	2.1	2.3	2.4	1.6	2.3	1.4
Stockbuilding[2]	0.1	0.8	..	..	0.0	..	..	0.0	..	0.0	..
Exports	-0.2	0.6	..	2.5	2.2	..	2.2	3.6	..	3.8	..
Traditional goods3	1.7	3.4	4.1	4.6	3.2	5.1	4.9	3.5	3.5	3.4	3.0
Crude oil and natural gas	1.5	-3.1		-2.3	0.0		-3.0	5.2	..	5.3	..
Imports	1.6	2.7	3.6	4.0	3.7	3.3	3.8	2.9	3.0	2.6	2.7
Traditional goods	2.7	3.8	..	..	4.1	..	..	3.2	..	2.9	..
Gross domestic product	2.0	1.8	2.0	1.9	2.1	1.6	1.9	2.6	2.2	2.5	1.8
Mainland Norway	2.0	2.3	2.6	2.5	2.4	2.3	2.6	2.4	1.6	2.2	1.3
Labour market											
Employed persons	1.1	1.4	1.8	1.3	1.4	1.0	1.1	1.2	0.5	0.8	0.3
Unemployment rate (level)	4.2	3.9	3.7	3.8	3.8	3.3	3.7	3.7	3.2	3.7	3.2
Prices and wages											
Annual earnings	2.3	2.8	2.9	2.8	3.3	3.3	..	3.6	3.8	4.0	3.9
Consumer price index (CPI)	1.8	2.8	2.3	2.1	1.7	1.6	1.7	1.5	1.6	2.0	1.9
CPI-ATE[4]	1.4	1.5	1.3	1.6	1.7	1.5	2.0	1.8	1.6	2.0	1.9
Export prices, traditional goods	5.4	6.9	..	..	1.1	..	..	-0.5	..	0.4	..
Import prices, traditional goods	3.7	2.9	..	..	1.2	..	..	0.9	..	1.5	..
Housing prices[5]	5.0	1.2	1.3	..	0.9	2.8	..	1.1	2.1	1.2	2.5
				..			..				..
Balance of payment				..			..				..
Current balance (bill. NOK)	186	309	..	192	337	..	..	347	..	362	..
Current account (per cent of GDP)	5.7	8.7	..	3.9	9.1	..	4.5	9.0	..	9.0	..
				..			..		..		..
Memorandum items:				..			..		..		..
Household real disposable income	1.6	2.5	..	..	3.1	..	..	3.4	..	3.0	..
Household savings ratio (level)	6.9	6.9	..	..	7.3	..	..	8.7	..	9.1	..
Money market rate (level)	1.0	1.1	1.1	1.1	1.4	1.5	1.4	1.9	2.0	2.4	..
Lending rate, credit loans (level)[6]	2.6	2.7	..	..	3.1	..	..	3.4	..	3.8	..
Crude oil price NOK (level)[7]	445	568	..	519	598	..	484	586	..	583	..
Export markets indicator	4.8	3.6	..	..	4.9	..	..	4.6	..	4.5	..
Importweighted krone exchange rate (44 countries)[8]	-0.8	-0.2	-1.2	0.9	-1.6	-3.9	1.0	-1.9	-1.1	-0.5	-0.1

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] Change in stockbuilding. Per cent of GDP.
[3] Norges Bank forecasts exports of traditional goods and services from Mainland Norway. Ministry of Finance forecasts exports of goods exclusive of oil and natural gas.
[4] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[5] Norges Bank forecasts the housing price index published by Eiendom Norge.
[6] Current account not adjusted for saving in pension funds.
[7] Yearly average.
[8] Average spot price, Brent Blend.
[9] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN), Ministry of Finance, Meld.St.2. (2017-2018) (MoF), Norges Bank, Pengepolitisk rapport 2/2018 (NB).

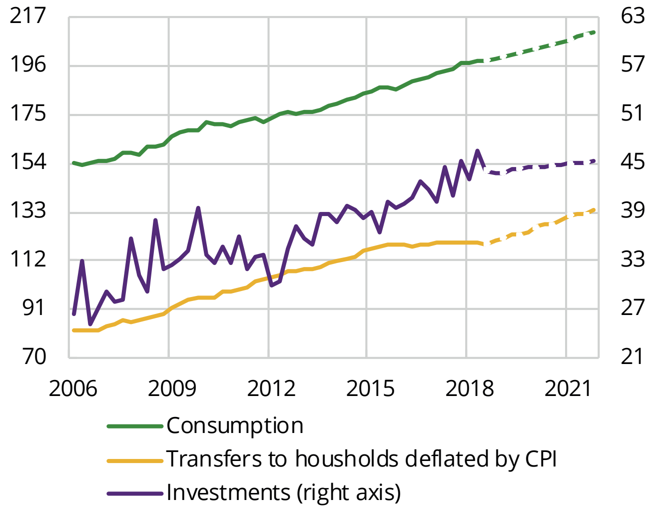
compared with the growth projection in the Revised National Budget 2018 (RNB2018). Gross general government investment increased by 3.6 per cent from 2016 to 2017, i.e. somewhat less than previously projected. Growth in general government investment is now being affected by when deliveries of military fighter aircraft take place. Three new aircraft arrived in the second quarter of 2018, so growth was high, whereas none arrived in the first quarter, so that growth was low. Growth in civil infrastructure investment is somewhat higher so far in 2018 than previously assumed, and also higher than the projections in RNB2018. We now assume that growth in general government investment from 2017 to 2018 will be about 3 per cent. Total growth in general government consumption and investment from 2017 to 2018 will then be 2 per cent, a little higher than previously assumed.

Transfers to households increased nominally by only 3.1 per cent in 2017, and real growth was thus 1.3 per cent. Growth in transfers has continued to fall so far in 2018, and as a result of higher inflation, transfers were lower in real terms in the first half of 2018 than in the same period in 2017. RNB2018 projects that growth in transfers will be 3.3 per cent in 2018, which is appreciably lower than earlier projections, partly because of a reduction in sickness benefit costs. Growth so far in 2018 indicates that annual growth may be even lower. Given higher consumer price inflation in 2018 as a result of substantially higher energy prices, real growth in transfers could therefore be almost zero. Real growth in consumption, gross investment and transfers combined was about 2 per cent in both 2016 and 2017, close to estimated trend growth in the mainland economy. The sum of these fiscal components will only increase by 1.2 per cent in 2018, so that the three most central expenses on public budgets are generating appreciably reduced impulses to the Norwegian economy compared with the preceding two years.

The tax rate on the ordinary income of companies (excluding the financial sector) and personal taxpayers has been reduced from 24 to 23 per cent in 2018. The petroleum and electricity taxation system has been adjusted so that these two industries are not appreciably affected by the tax change. Bracket tax on high personal income has been increased, so that most of the revenue loss on personal taxpayers due to reduced tax on ordinary income will be recouped through an increase in other income taxes. There were no major changes in the tax rules in RNB2018. Tax increases are forecast to increase CPI inflation by 0.2 percentage point in 2018. On balance, it therefore looks as though fiscal policy will reduce growth in the mainland economy slightly in 2018.

Fiscal policy in the period 2019–2021 is based on projections for growth in general government consumption and investment that are a little lower than trend growth in the mainland economy. Transfers, on the other hand, will increase slightly more than trend growth, mainly

Figure 2. General government
Seasonally adjusted, billion 2016 NOK, quarter



Source: Statistics Norway

as a result of higher real wage growth. Growth in the number of old-age pensioners will increase slightly more going forward than in previous years. As a result of higher real wage growth, the overall demand from general government purchases of goods and services, as well as real transfers, will generate slightly expansionary impulses from 2020. We assume increased indirect taxes in the form of higher environmental taxes equivalent to a revenue increase of NOK 1.5 billion in 2020 and 2021. Higher prices for crude oil and electricity have a similar contractionary effect to tax increases, while at the same time large shares of the increased energy revenue accrue to the government. On balance, the projections imply a roughly cyclically neutral fiscal policy in the projection scenario, in line with the fiscal rule.

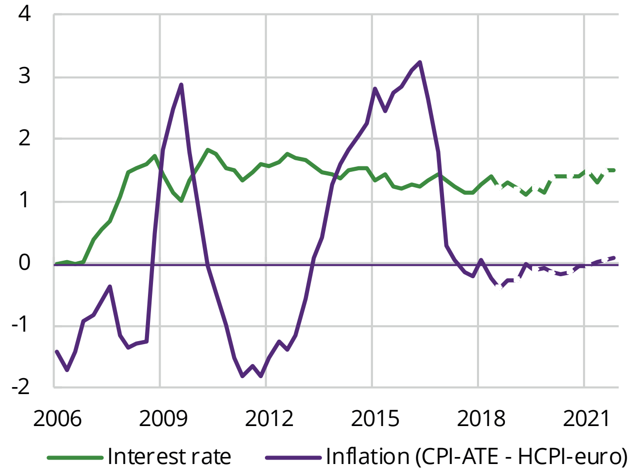
The current value of the Government Pension Fund Global (GPFG) is now close to NOK 8 700 billion. The krone is still weak, and is expected to appreciate a little overall in the near term. In isolation, this will have a negative impact on the GPFG measured in Norwegian kroner. The price of crude oil has increased substantially so far in 2018. There is great uncertainty as to how it will move going forward. If the oil price should remain at the level at the beginning of September this year for a few years to come, increased oil production in the next few years would result in a substantial increase in the Norwegian state's cash flow from petroleum activities. The GPFG would then increase in the near term.

Interest rate increases going forward

The key policy rate has been at a record low 0.5 per cent for two years, since the last cut in March 2016. The money market rate, expressed as an annual average, was less than 0.9 per cent in 2017. The rate increased through the first quarter from 0.8 per cent to almost 1.2 per cent, but has since fallen back somewhat, and at the end of August was just over 1.0 per cent. The krone appreciated through the first half of 2018, but about

Figure 3. Interest rate and inflation differential NOK and the euro

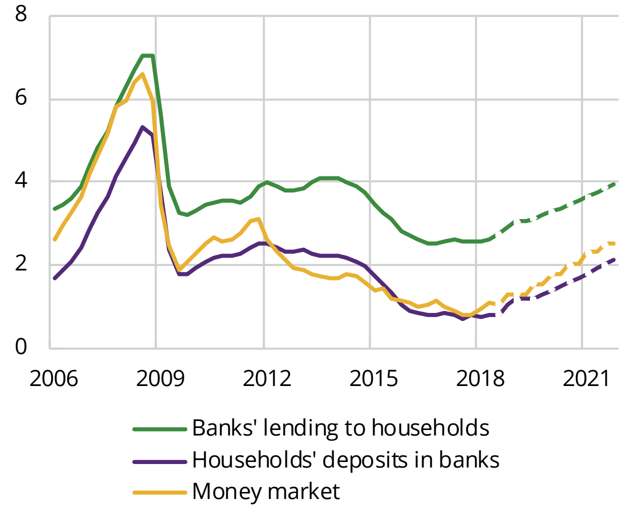
Percentage point



Source: Norges Bank and Statistics Norway

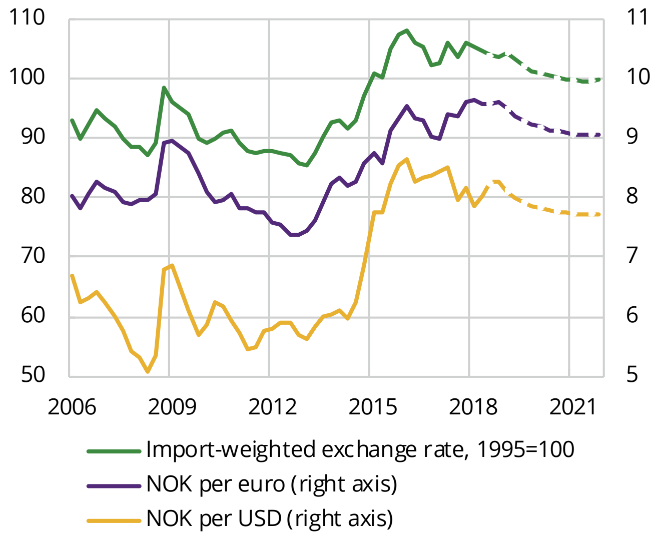
Figure 4. Norwegian interest rates

Percent



Source: Norges Bank and Statistics Norway

Figure 5. Exchange rates



Source: Norges Bank

half of the appreciation, as measured by the import-weighted krone exchange rate, reversed in the course of July and August.

Interest rates on forward rate agreements, FRA rates, have shadowed developments in money market rates. At the end of August, the three-month FRA rate for September 2018 was around 1.1 per cent, while the three-month FRA rate for December this year was 1.2 per cent. Both these rates are unchanged from our previous economic report, meaning that an increase in the key rate in the course of the autumn is still priced into the FRA market.

Yields on Norwegian government bonds rose through the first quarter of this year. The yield on government bonds with a 3-year residual maturity was 1.2 per cent at the end of August, roughly the same as in March. The running yield on government bonds with longer maturities has fallen since March. The yield on government bonds with a 5-year residual maturity fell from 1.5 per cent in March to 1.4 per cent at the end of August, while the yield on government bonds with a 10-year residual maturity fell in the same period from 2.0 per cent to 1.8 per cent.

According to our projections, the money market rate will rise gradually to 2.5 per cent at the end of the projection period, in 2021. This represents six interest rate hikes of 0.25 percentage point, which is more or less consistent with the interest rate scenario published by Norges Bank in June. We believe the first rise in the key policy rate will come in September already. New QNA figures show that mainland GDP growth has remained at about trend level so far this year, following somewhat higher growth through 2017. We expect growth to remain above trend both this year and next, so that we are out of the slump towards the end of 2019. According to our projections, unemployment will fall from 3.9 per cent in the second quarter of this year to an annual average of 3.7 per cent in 2021. Given the interest rate hikes in our projections, inflation will remain close to the new inflation target of 2 per cent, while house prices will only change weakly in nominal terms going forward. Interest rates are also rising abroad, so the interest rate differential between Norway and the EU will remain almost unchanged over the next few years. Despite the interest rate hikes, real interest rates appear likely to remain at a low level for the next three years.

We forecast that the krone will strengthen somewhat in the near term. We assume the annualised value of the krone, measured by the import-weighted krone exchange rate, will remain unchanged from 2017 to 2018. In the years ahead we expect the krone to appreciate moderately, but only to the extent that the EUR/NOK exchange rate will be just over 9.0 in 2021. The current weak krone, moderate inflation in 2019 and an oil price that is assumed to remain at around USD 75 per barrel point to this strengthening of the krone.

Table 4. Real disposable income by households and non-profit organisations. Percentage growth compared with previous year

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total	6.0	3.4	3.2	2.3	4.1	4.4	3.9	2.9	5.5	-1.7	1.7	2.5	3.1	3.4	3.0
Excl. share dividends	4.8	2.7	3.4	1.8	4.1	4.3	3.8	2.4	2.4	0.0	1.8	2.0	2.9	3.3	2.8

Source: Statistics Norway.

Moderate consumption growth

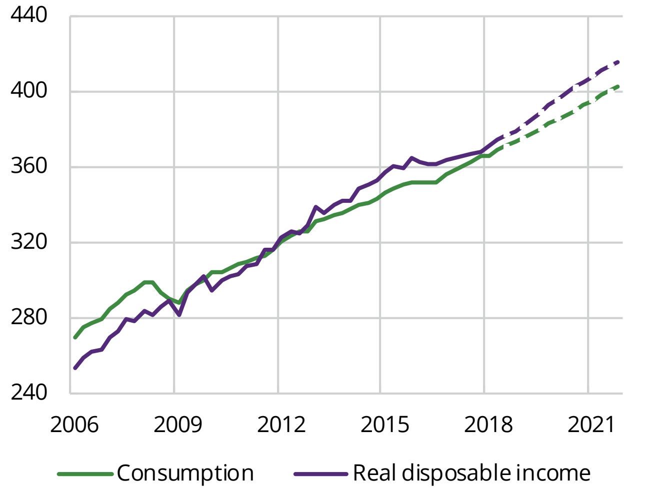
Consumption by households and non-profit organisations has picked up appreciably following the weak growth through the first half of 2016. The QNA does show that seasonally adjusted consumption was approximately unchanged in the first quarter of this year, largely as a result of a 0.6 per cent decline in goods consumption. Much of this fall is attributable to a sharp decline in vehicle purchases, which must be viewed in light of the very high purchases through the second half of last year due to the expected tax increases in 2018. Purchases of food and non-alcoholic beverages also fell markedly in the first quarter, probably as a result of the increased tax on sugar. In the second quarter, however, both vehicle purchases and purchases of food and non-alcoholic beverages showed a corresponding upswing. The goods consumption index for July shows a seasonally adjusted fall of as much as 2.1 per cent, and is due to a sharp decline in vehicle purchases. This points to weak growth in household consumption in the third quarter. With the exception of electricity consumption, which fell substantially as a result of a warm spring and early summer, goods consumption showed a broad-based increase of a full 1.5 per cent in the last quarter. The growth rate for goods consumption has not been this high since the first quarter of 2013. Growth in consumption of services has been relatively stable, however, remaining for the most part between 0.5 and 1.0 per cent for the past three years. Service consumption showed broad-based growth of 0.7 per cent in the second quarter, compared with 0.4 per cent the previous quarter.

Developments in consumption are largely determined by changes in household income and wealth and interest rates. If we exclude share dividend disbursements, which fell from 2015 to 2016 because of increased taxation of this income, real disposable income increased by a bare 2 per cent in 2017, against almost zero growth the previous year. Wage income, which is the most important source of household income, contributed most to growth in real disposable income last year. This is a consequence of real wage growth, albeit weak viewed in a historical perspective, and employment growth of just over 1 per cent. Public transfers also made a definite contribution to growth in real income last year, while net capital income did not contribute significantly to growth.

We now project approximately zero growth in average real wages in the current year. In the years 2019 to 2021 we foresee that positive and increasing growth in real wages, coupled with employment growth in line with or somewhat higher than last year's, will push up growth in real disposable income. Public transfers will also contribute positively to growth in real disposable income through the projection period, following weak growth in 2018. The growth is partly due to increased old-age pensions. Conversely, net capital income will detract somewhat from growth in real income, as the interest rates facing households will increase in the next few years.

Figure 6. Income and consumption in households

Seasonally adjusted, billion 2016 NOK, quarter



Source: Statistics Norway

We expect average annual growth in real disposable income of around 3 per cent in the projection period. The stronger growth in real income will have a stimulating effect on consumption. Weak annualised developments in real house prices throughout the projection period will curb consumption growth going forward, however. Overall, we forecast consumption growth of about 2.5 per cent or slightly higher this year and for the next three years. During the economic expansion prior to the financial crisis, consumption increased by about 5 per cent annually, i.e. about double what we envisage in the current economic upturn.

Household saving in the form of financial and real capital increased substantially in the years following the financial crisis, probably as a result of precautionary saving and the pension reform that was introduced in 2011. Saving as a share of disposable income increased from just over 3.5 per cent in 2008 to over 8 per cent in 2014. Because of the high share dividend disbursements, the saving ratio increased further to around 10.5 per cent in 2015. The saving ratio excluding share dividends increased by about 3.5 percentage points from 2008 to 2015. However, as a consequence of the fall in income and smoothing of consumption that year, the saving ratio both including and excluding share dividends fell through 2016, to annual averages of around 7 and 3 per cent, respectively. The saving ratio remained at about these levels in 2017 as well. Our projections for income, consumption and wealth imply that the saving ratio will gradually rise by about 2 percentage points through the projection period. This increase in the saving ratio is attributable to increased real interest rates and weak developments in wealth.

House prices cautiously up

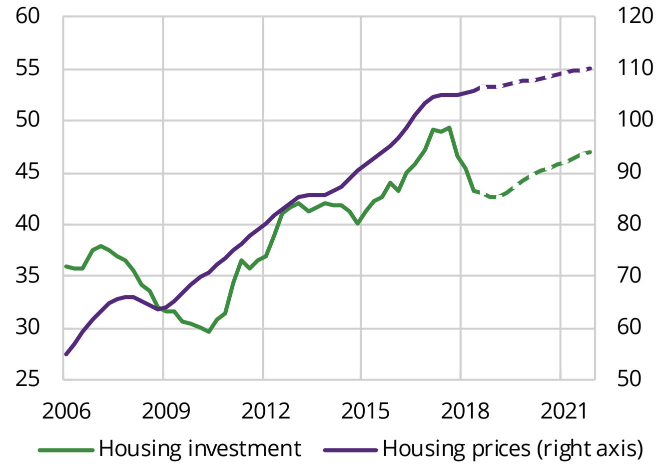
Several years of sharply rising house prices gave way to a clear reversal through 2017, largely as a consequence of housing investment and the supply of dwellings reaching a record high level. At the same time, housing demand was gradually curbed by the high prices and by slowing population growth as a result of lower immigration. The tightening up of the Mortgage Regulations with effect from 1 January 2017 may also have had a dampening effect on house prices last year. According to Statistics Norway's resale home price index, house prices as an annual average were 5 per cent higher in 2017 than in 2016, nonetheless.

Seasonally adjusted figures show that the fall in prices has come to a halt and reversed into a new price rise. According to Statistics Norway's index, house prices in the second quarter of this year were a good 1 per cent higher than the peak level in the first quarter of 2017. Just as developments in prices for flats in the Oslo area contributed substantially to the fall in prices for Norway as a whole through 2017 and in the first quarter of this year, the new price rise in the second quarter is dominated by a strong rise in prices for the same type of dwelling in the same region. The monthly house price statistics of Real Estate Norway show a seasonally adjusted fall in house prices of almost 3 per cent from March 2017 to January this year. These statistics show an overall rise in house prices of almost 3 per cent from January to May this year. In subsequent months, house prices have remained approximately unchanged and, according to Real Estate Norway's index, are therefore at roughly the same level as the peak in March 2017.

We assume that house prices are stimulated in the long term by an increase in household real disposable income and by lower real interest rates, and dampened by an increase in the supply of dwellings. At the same time, household borrowing and house prices mutually influence one another, so that measures that curb borrowing also restrain house price inflation. The Ministry of Finance has adopted new Mortgage Regulations, in force from 1 July this year until 31 December 2019, which largely maintain the requirements for loans in the Mortgage Regulations of 1 January 2017. In the short term, house prices are also influenced by changes in households' expectations regarding developments in both their own financial situation and the Norwegian

Figure 7. Housing market

Seasonally adjusted. Left axis: billion 2016 NOK, quarter. Right axis: index, 2016 = 100



Source: Statistics Norway

economy. While growth in real disposable income will pick up going forward, lending rates will increase in pace with higher money market rates. Higher lending rates will curb borrowing for housing purposes, with the result that growth in household debt will gradually decrease from around 6 per cent in 2017 to around 4.5 per cent in 2021. Finance Norway's consumer confidence indicator for the third quarter of this year shows a clear fall in household optimism concerning the future, albeit from a high level. Advance warning from Norges Bank of an interest rate hike and increasing uncertainty about global economic developments may explain the fall.

We assume that house prices will edge up cautiously in nominal terms through the second half of this year and for the remainder of the projection period. One important reason for this is that the housing market will be reasonably well balanced. As housing investment has now fallen sharply, the supply of dwellings will increase less going forward than in the last few years. According to the QNA, housing investment rose 7.0 per cent as an annual average in 2017. Seasonally adjusted figures show that growth in housing investment declined through 2017 in line with a slowing trend in housing starts, measured in terms of area, since March last year. Housing investment fell by as much as 5.4 per cent in the fourth quarter of 2017. A similar fall has not been seen since the financial crisis in 2008. Housing investment continued to fall in the first and second quarters of this year, by 2.6 per cent and 4.6 per cent, respectively. Although there are now signs that the fall in housing starts has come to a halt, weak developments in real house prices will place a damper on housing investment in the near term. We forecast an annualised average fall in housing investment of more than 10 per cent this year. After close to zero growth next year, housing investment will again rise at a moderate rate through the last two years of the projection period. Our projections indicate that the level of housing investment in 2021 will be around 4 per cent lower than the peak level in 2017.

Petroleum investment is increasing

The volume of petroleum investment has fallen markedly since the third quarter of 2013. In the first quarter of this year, investment was only NOK 35.8 billion in constant 2016 prices, which is 40 per cent lower than the level in the third quarter of 2013. According to preliminary QNA figures, investment increased to NOK 40.5 billion in the second quarter of 2018. The sharp upswing is due to increased investment in drilling for oil and in platforms, modules and drilling rigs. The activity in many fields for which plans for development and operation (PDOs) were submitted before Christmas 2017 picked up in the second quarter, and investment in these fields will probably increase for several quarters to come. There is therefore reason to believe that petroleum investment bottomed out in the first quarter of this year. Revised QNA figures show that almost NOK 151 billion in current value was invested in the industries pipeline transport and oil and gas extraction in 2017. This implies a downward adjustment from the previous QNA publication.

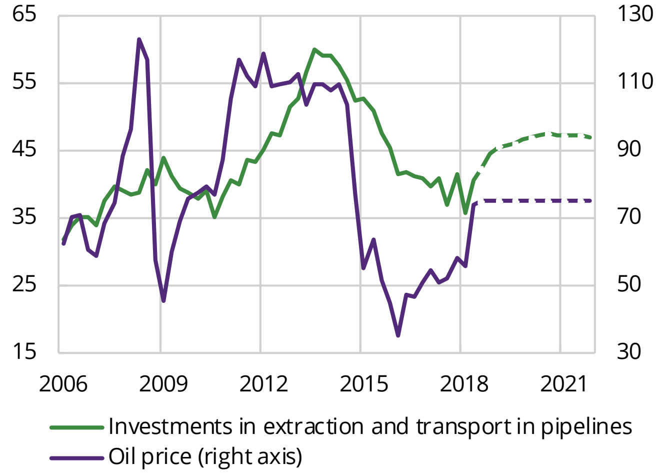
According to Statistics Norway's investment intentions survey, companies are expected to make investments worth about 156 billion kroner in current value in 2018. This is the same level arrived at in the previous quarter. The projection is also approximately consistent with projections made for 2017. Just after the publication of the survey, Equinor submitted a PDO for Phase 2 of the Johan Sverdrup project. This is a large project in which, according to Equinor, a total of NOK 41 billion is expected to be invested in the years 2018–2022, the bulk of it in the period 2020–2022.

Historical survey figures show that it is usual not to succeed in making all the investments in the third quarter plans for the current year, so that some of the activities planned for this year are gradually carried forward to the next year. We believe that the final investment figures for 2018 will be lower than projected in the survey, but still somewhat higher than investment in 2017 (see Box 1).

The investment intention survey's projections for 2019 increased by 6 per cent compared with the previous quarter. The whole increase is in fields in operation and field developments. In the next survey, Johan Sverdrup Phase 2 will also be included in the projection. A number of smaller developments are also expected to be approved for next year. This will further increase the development investment for 2019. The projections indicate a clear upturn, also in exploration activities, in 2019.

Our projections are based partly on the investment intentions survey, but we also use generally known information from the media, government institutions

Figure 8. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2016 NOK, quarter. Right axis: USD per barrel



Source: Statistics Norway

and oil companies. Several developments are expected to start up in 2020 and 2021. We assume that Johan Sverdrup Phase 2 and all the developments that start up in 2019–2021 will offset the decline in investment in fields that are completed between now and 2020. Investment in field developments in 2020 is therefore projected to be about the same level as in 2019, but to fall moderately in 2021. Fields in operation and exploration are the investment categories that are by far the most sensitive to oil prices. If the oil price remains at about USD 75 per dollar in the next few years, as assumed in our projections, gradual growth in these categories is likely in the years 2019–2021. We assume that investment in onshore activities, pipeline transport and permanent shutdowns and dismantling will pick up gradually in 2020 and 2021 from low levels this year and next. We assume growth in investment volume of around 4 per cent in 2020 and approximately zero growth in 2021.

The costs associated with petroleum investment have fallen markedly in recent years. According to the QNA, investment prices fell by a full 5.2 per cent in 2017. Prices continued to fall in the first two quarters of the year, albeit somewhat more moderately. We assume a moderate decline in prices this year, a levelling off next year, and subsequently a moderate, but increasing rise in prices later in the projection period.

Oil and gas extraction, measured in energy equivalent, fell in the second quarter of 2018 compared with the previous quarter. Oil and gas extraction in the first half of this year was 3.6 per cent lower than in the first half of 2017. Because of higher product prices this year, the value of oil and gas exports was appreciably higher in the first half of this year than in the same period last year. According to the Norwegian Petroleum Directorate, oil and gas extraction is expected to decrease moderately both this year and next. Extraction

Box 1 A closer look at projections for petroleum investment

Our projections for petroleum investment in the period 2018–2012 are based on Statistics Norway's quarterly survey of investment in extraction and pipeline transport (the investment intentions survey), which reports the total of oil companies' own investment projections for the current year and the following year. The operators' overall projections are collected in seven quarters, starting from the second quarter of the year prior to the investment year. The projections are then updated each quarter, before final investment figures for the whole year are reported in the first quarter after the end of the investment year. The table below shows average investment projections as percentages of final investment reported at different times for the years 1986–2017.

	Mai t-1	Aug t-1	Nov t-1	Feb t	Mai t	Aug t	Nov t	Feb t+1
1986-2017	83.7	93.7	99.1	100.2	103.0	104.4	102.0	100.0

The table shows that the projections are lower than actual investment in the first three quarters. The projection error is also apparently decreasing. An important source of underestimation of the investment volume in early phases is that the statistics do not capture all development projects within the projection horizon of the survey. Development projects are not included in the survey until a plan for development and operation (PDO) has been submitted to the authorities. The extent of the underestimation varies mainly according to whether and in the event when in the survey's projection cycle development projects are added. The size of the projects naturally also plays a part. A large development that is only included in the survey in February of the investment year may have considerable investment that year and hence, in isolation, lead to underestimation in the early projection stages.

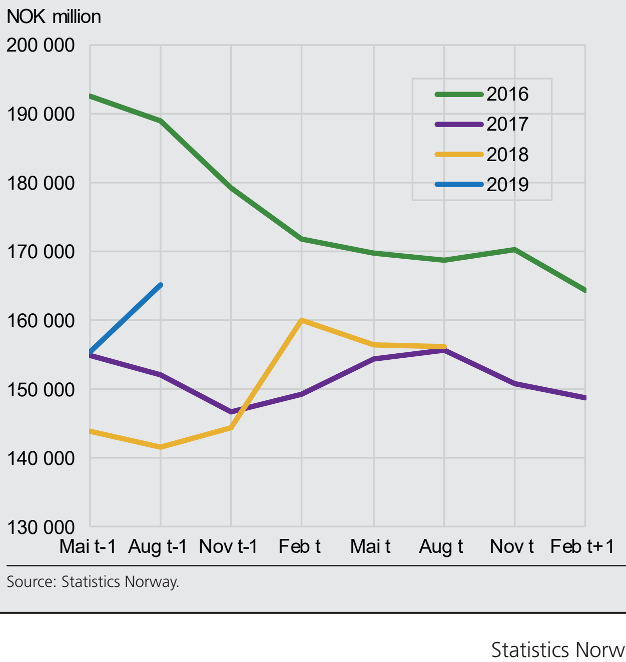
There is also systemic error in the investment projections for the current year. In the first three projections in the investment year, investment has historically been overestimated, increasingly up to August of year t, and then declining in the last projection in November of year t. The main source of overestimation in the investment year is the overoptimism of companies in their assessments of what they will achieve before year-end. Not until November do they realise this, whereupon they carry forward investment plans to the following year. This moving of investment plans has contributed historically to an increased projection for the next year in the November survey (Nov t-1).

Figure 1 shows the whole projection cycle for 2016 and 2017, and developments in the projection for 2018 and 2019 as it appeared in the last publication of the investment intentions survey. Investment for 2016 and 2017 was overestimated in the early projection phases. This is at odds with the normal projection pattern, and must be seen in conjunction with the sharp decline in investment in these years. The projection for 2018, made in August 2018, is marginally higher than the corresponding projection made for 2017. Final investment for 2017 ended 4.4 per cent lower than the projection made in August last year, in line with a historic pattern. The investment made in the first half of this year is 7.4 per cent lower than investment made in the first half of 2017. Given actual investment of NOK 69.5 billion in the first half of this year, realisation of the present projection for 2018 is conditional on investment growth of a full 25 per cent from the first to the second half of the year. Such a strong increase in the second half of the year has not occurred since 1991. The Norwegian Petroleum Directorate's FactPages publish current information about both exploration and production drilling on the Norwegian continental shelf. This information shows that the number of drilling days in the first two months of the third quarter indicates a distinct increase in drilling activity from the second to the third quarter. When exploration and production drilling costs account for over 40 per cent of petroleum investment, the drilling figures provide an indication of third quarter investment growth. Continued available capacity in the supplier industry indicates that the ability to carry through investment plans should be relatively high. Oil price movements in the last six months, including the market's expectations of a relatively stable oil price level in the years ahead, point to several projects being profitable to realise. Johan Sverdrup Phase 2 was approved on 27 August, and will therefore be included in the fourth quarter investment intentions survey. This project is projected to make about NOK 2 billion in realised investment this year, and will thus reduce the effect of any postponement until next year of planned investment in other projects.

In August, the investment projection for 2019 increased by 6 per cent compared with the figure in the previous survey, carried out in May. The increase will come about in fields in operation and field developments. The increase in the projection is attributable to the fact that this month the operators on the Norwegian continental shelf have delivered preliminary budgets for fields and licences for next year. The increase in connection with field development is partly attributable to a new development project that has been included since the last survey. The projection for 2019 indicates growth of a full 16.5 per cent compared with the projection made for 2018 at the same time a year ago. The comparison with the projection made for 2018 a year ago will be artificially high because the 2018 projection, made in the third quarter of 2017, did not include the many new developments that were approved before Christmas last year. The exploration projection is NOK 31.3 billion, and is based on preliminary licence budgets. In the budget process through the autumn and winter, the investment aspirations in the licences are adjusted in relation to the total investment frames of the oil companies. As a result, a preliminary exploration budget is usually higher than the budget that is adopted in February.

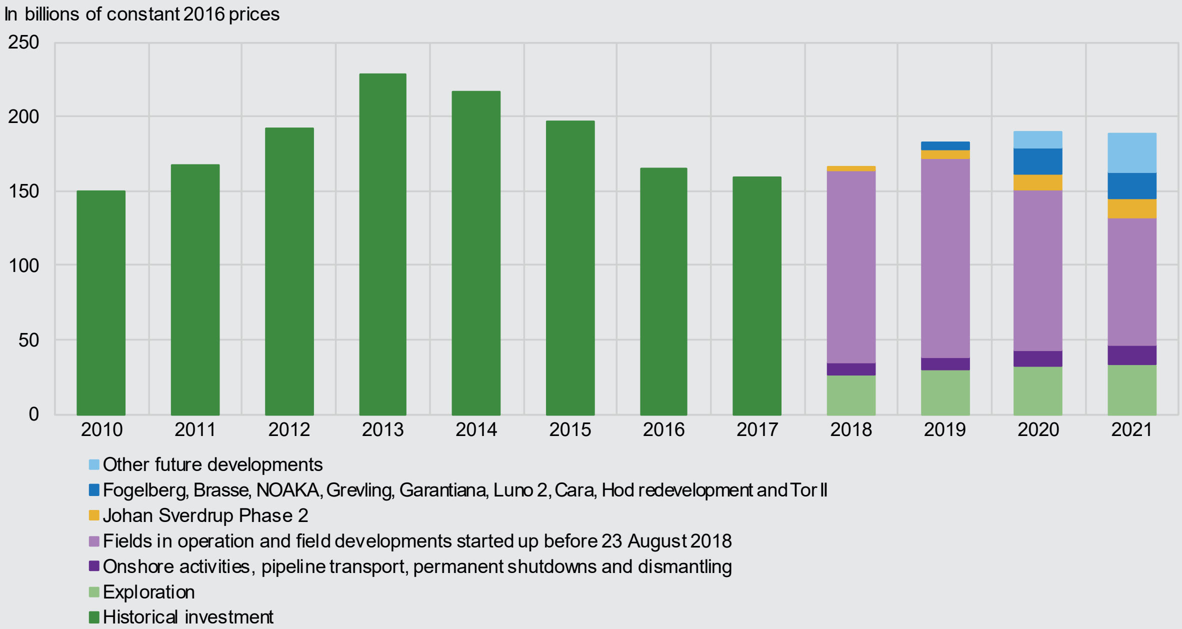
In Figure 2, our projections for petroleum investment are decomposed into some main categories and by different groupings of future fields that we believe will become relevant in the period 2018–2021. The historic figures for the period 2010–2017 are obtained from the national accounts, and are in constant 2016 prices. The projections for the period 2018–2021 are based on the investment intentions survey. They are in current prices, and are then deflated to constant 2016 prices on the basis of our expectations of how prices for petroleum investment will develop. The national accounts figures for the petroleum investment for which we make projections deviate somewhat in terms of definition from the figures in the investment intentions survey. Whereas the national accounts figures are based on gross investment, including R&D but excluding acreage fee, the survey uses new investment including acreage fee but excluding R&D. Historically, the national accounts figures have been marginally higher than the investment figures from the survey as a result of these differences in definition. This difference is taken

Figure 1. Investment. Extraction and pipeline transport. Annual projections made at different times



Source: Statistics Norway.

Figure 2. Petroleum investment. Historical figures and projections



Source: Statistics Norway.

into account in our projections for the period 2018–2021. We also take account in our projections of the fact that it is very common in the final projection phases for investment plans to be carried forward to the following year. We also use generally known information from media, government institutions and oil companies to form a picture of probable approval dates and the scope of future development projects.

There appears to be capacity to carry out many projects in 2018. High oil price expectations, a pronounced increase in third quarter drilling activity and good performance capability due to continued good supplier stage capacity indicate that the degree of transfer of investment plans from this year to next will be lower than usual. Some of what is carried forward will be covered by investment in Johan Sverdrup Phase 2, which will be included in the next survey. Our volume growth projection of 4.3 per cent in 2018 is based on prices for petroleum investment falling by 1 per cent this year.

There is likely to be a marked increase in investment in 2019. We forecast investment of about NOK 6 billion in Johan Sverdrup Phase 2 in 2019. In addition, we expect several new developments to be granted approval for next year, and that they will have investment totalling some NOK 4 billion in 2019. As is usual with budgeting, it is likely that the exploration projections will gradually be revised down, but exploration activity appears nonetheless likely to be appreciably higher in 2019 than in 2018. The effect of postponement of investment plans from 2018 to 2019 on investment in 2019 will probably be neutralised by similar postponements of plans from 2019 to 2020. The overall effect in the event will be investment growth of about 10 per cent in 2019 in current prices. Prices for next year are assumed to remain roughly unchanged, so that investment growth next year will also be about 10 per cent in volume.

The investment level appears likely to peak in 2020. Given our oil price assumption of USD 75 per barrel until the end of 2021, investment in fields in operation and exploration will probably increase gradually in 2020 and 2021. We assume that investment in onshore activities, pipeline transport and permanent shutdowns and dismantling will also pick up gradually in 2020 and 2021 from low levels this year and next. Many new development projects will probably also be approved in 2020 and 2021. In addition, the largest investments in Johan Sverdrup Phase 2 and in the developments that are expected to start up in 2019 will be made in 2020 and 2021. In 2020, these development investments will compensate for the approaching decline in investment from fields in operation and field developments commenced before 23 August 2018. This decline will be a consequence of a number of large field developments being completed before 2020, among them Aasta Hansteen, Johan Sverdrup Phase 1 and Martin Linge. A number of developments will also be completed in 2020. We assume that the lower investment that these will represent will be equivalent to the increase in investment in new developments and growth in the other categories. We therefore do not assume any further investment growth in 2021 following expected growth in investment volume of around 4 per cent in 2020.

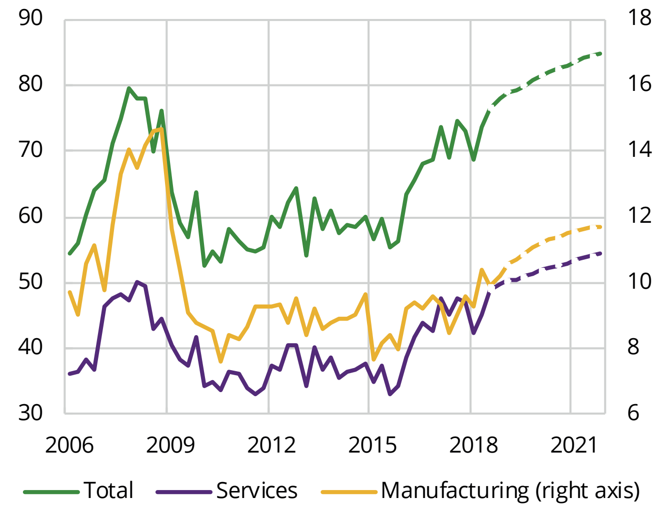
is expected to increase substantially in 2020 and 2021. The main reason for the increase in extraction from 2020 is that, according to plan, Johan Sverdrup will begin operating.

Moderate investment growth going forward

According to the QNA, mainland business investment increased by 16.5 per cent in 2016 and 9.2 per cent in 2017. After falling in the fourth quarter of 2017 and the first quarter of this year, investment increased again in the second quarter.

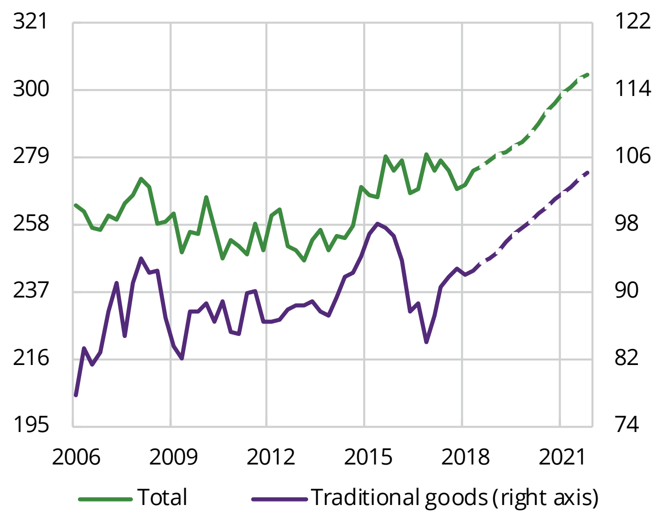
The manufacturing investment projection published in August in Statistics Norway's investment intentions survey for 2018 is about 13 per cent higher than the corresponding projections for 2017 made in August last year. The projections are in current prices, so the survey implies somewhat lower growth in manufacturing investment measured in constant prices. Refined petroleum products, chemicals and pharmaceuticals manufacturing are contributing most to the rise in manufacturing investment in 2018. Basic metals is one of the industries that are restraining the upturn.

Figure 9. Investments. Mainland Norway
Seasonally adjusted, billion 2016 NOK, quarter



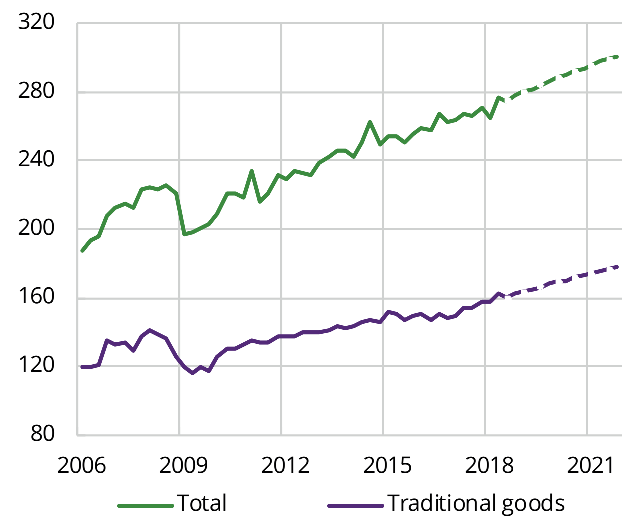
Source: Statistics Norway

Figure 10. Exports
Seasonally adjusted, billion 2016 NOK, quarter



Source: Statistics Norway

Figure 11. Imports
Seasonally adjusted, billion 2016 NOK, quarter



Source: Statistics Norway

In the investment intentions survey, manufacturing companies also report projections for investment the following year. The manufacturing industry's investment projections for 2019 were as much as 24 per cent higher than the corresponding projections for 2018 made in August last year. The upswing can largely be attributed to the industrial groupingrefined petroleum products, chemicals and pharmaceuticals manufacturing, and to the food industry, with increases of 41 and 33 per cent, respectively. Large individual projects in paper and paper products manufacturing and in the repair and installation of machinery are contributing to a very positive outlook for manufacturing investment in 2019.

The investment intentions survey for power supply indicates a sharp increase in investment this year. The projections for this year are a full 23 per cent higher than the projections for 2017 made one year ago. Growth in electricity production is making a particular contribution to the upswing. This is attributable to an increase in windpower development. A further 10 per cent increase in power supply investment is expected in 2019. Investment in electricity production is expected to increase by as much as 50 per cent because of further development of wind farms. A decline is recorded for investment in electricity distribution. This must be viewed in light of the fact that the installation of smart meters is to be completed in the course of 2018.

Norges Bank's regional network reports on economic developments in Norway, including expected investment, by compiling information from businesses throughout Norway. The most recent report, which was published in June this year, also shows increased manufacturing investment. The report also indicates investment growth in the service industries.

We expect total mainland business investment to grow by about 5 per cent this year. As the business cycle in Norway reaches maturity and interest rates increase, investment growth is expected to be halved through the projection period. This is a very modest development compared with previous cyclical upturns, which have frequently featured double-figure growth rates.

Declining growth in exports of traditional goods

According to seasonally adjusted QNA figures, growth in the volume of traditional goods exports declined through 2017 and almost levelled off in the first half of 2018. Strong growth in refined petroleum products curbed the slow-down in 2017. So far this year, zero growth coupled with weak and reduced growth in exports of fish and fish products, metals and electricity have contributed most to the levelling off. During the last four quarters the rise in prices for overall traditional goods exports has picked up appreciably, with substantial contributions due to a strong rise in prices for refined petroleum products, metals and electricity.

The volume of oil and gas exports combined increased in 2016 and in 2017 on an annual basis, but fell sharply in the last half of 2017 and in the first quarter of 2018. The decline was largely due to temporary maintenance work that reduced production. In the second quarter, a large increase in gas exports led to combined oil and gas exports growing again. The oil price rise in USD and the stronger US dollar have contributed to a major price rise in terms of NOK over the past three quarters. In the second quarter of 2018, the value of oil and gas exports was the highest for four years.

A negative trend in service exports through 2016 and 2017 was interrupted in the first quarter of 2018. Pronounced growth in volume in the first and second quarters this year can be attributed to large increases in exports of petroleum-related services, and to financial and business services. Prices for total service exports moved the other way. Prices for exports of petroleum-related services and transport and communication services in particular have shown a negative tendency so far this year.

We are now assuming somewhat lower global market growth – particularly this year, but also for the next three years – than we did three months ago. Weak GDP and import figures for the first half of the year among several trading partners and political unrest in Europe and the USA, which may negatively impact global trade and economy, have led us to revise down growth in mainland exports for 2018–2021. Our projections are nonetheless markedly higher than growth in 2016 and 2017. Exports of goods and petroleum-related services will benefit from the oil price remaining at the current relatively high level, as it is expected to do. Exports of oil and gas will fall a little until the big Johan Sverdrup field begins production in 2019/2020.

Preliminary QNA figures reveal strong growth in imports of both goods and services in the second quarter compared with a decline in the first quarter of this year. Imports of fighter aircraft vary from one quarter to the next and contribute substantially to fluctuations in goods imports. Imports of metal goods increased sharply in the second quarter, while imports of petroleum-related services have increased by about 20 per cent so far this year. A higher oil price and growth in petroleum investment will stimulate import growth this year and next, while domestic demand and a weak krone are not expected to do so.

The decline in the current account surplus reversed into strong growth in 2017, albeit from a relatively low level in 2016. The growth is continuing this year and will probably continue at a declining rate through the projection period. A higher oil price and weak krone have contributed to and will continue to contribute to growth this year and next. Developments in the net mainland export deficit and terms of trade gains are also expected to contribute to growth in the trade surplus in 2018 and 2019.

The balance of income and current transfers has increased markedly in recent years, and the surplus in 2016 was larger than the trade surplus. A strengthening of the Norwegian economy compared with other countries will result in increased disbursements to other countries. This will reduce the growth in the balance of income and current transfers surplus, which a growing petroleum fund will presumably continue to add to. The current account surplus, calculated as a share of GDP, is expected to be around 9 per cent in the projection period.

Continued moderate growth in activity

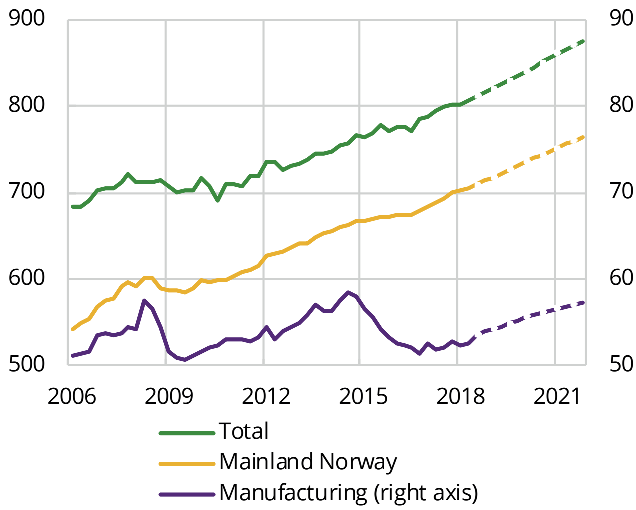
Mainland GDP rose 0.5 per cent from the first to the second quarter of 2018. This is stronger than the first quarter growth, but weaker than average growth last year. Quarterly growth as an annual rate is marginally higher than estimated trend growth in the Norwegian economy of about 2 per cent. If we exclude electricity production and fishing and aquaculture, however, growth was 0.3 percentage point higher – and thus clearly higher than trend growth. The Norwegian economy can therefore still be said to be in a moderate cyclical upturn.

Manufacturing has benefited from this upturn, even though growth since the trough in 2016 must be described as moderate. Value added edged up 0.4 per cent in the second quarter of this year, after falling 1 per cent in the first quarter. Second quarter growth was largely driven by the food industry, which rose by almost 4 per cent. The activity level in most other manufacturing industries was approximately the same as in the first quarter, however. Although Norwegian manufacturing has picked up in the second half of the year, it is worth noting that the activity level is still more than 10 per cent below the peak level in 2014.

The construction industry has been growing strongly for a long time, mainly due to low interest rates and

Figure 12. Gross domestic product

Seasonally adjusted, billion 2016 NOK, quarter



Source: Statistics Norway

Box 2 Effects on the global and Norwegian economies of heightened trade tensions

The heightened global trade tensions constitute a downside risk for our projections. We have therefore used the KVARTS macroeconomic model to study the effects on the Norwegian economy of increased tariff rates and reduced global trade. There is great uncertainty associated with the outcome of a possible "trade war" for global markets. We have therefore chosen to focus on factors that are of particular importance to the Norwegian economy. We have made the following assumptions:

- Increased trade tensions will lead to annual import growth among Norway's trading partners being 2 percentage points lower with effect from the first quarter of 2019.
- Global equity prices will fall by 20 per cent in the first quarter of 2019. Developments thereafter will follow developments in the projection scenario. We have not assumed a change in Norwegian fiscal policy as a consequence of the fall in value of the Government Pension Fund Global (GPFG). For an account of effects of this kind, see Kjelsrud (2017).
- Euro area inflation, which is an exogenous variable in KVARTS, is assumed to be unaffected by the trade tensions. However, producer prices are assumed to fall somewhat, so that Norwegian exporters meet sharpened price competition.
- In the projection scenario, the three-month money market rate in the euro area rises to 1 per cent in the course of 2021. We assume here that the interest rate increase will be halved, so that the interest rate level only rises to 0.5 per cent.
- We assume initially that the oil price is not affected by the trade tensions. Then we analyse a scenario where, in addition to the above assumptions, the oil price is reduced by USD 25 per barrel.

The tables below show the effects of the above assumptions on some key macroeconomic variables. The effects are greatest for Norwegian exports. In 2021, the level of traditional goods exports is more than 4 per cent lower than in the projection scenario – primarily because of reduced global demand, but also as a consequence of lower producer prices abroad. Manufacturing is impacted by this, and in 2021 value added is 1.7 per cent lower than in the projection scenario. Employment in the manufacturing and export industries is affected, but as they only account for a small share of total employment, the aggregate effect on the labour market is small.

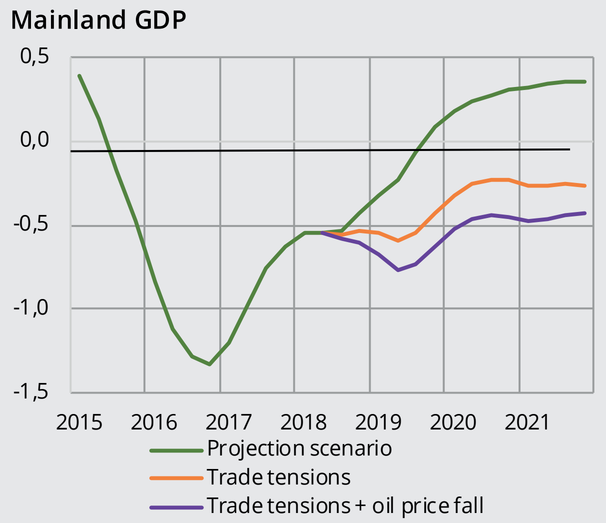
Monetary policy responds by cutting interest rates, so that the interest rate differential against the euro area remains fairly stable. The impact on the krone exchange rate is therefore marginal. However, the lower interest rates do not prevent a reduction in domestic investment. In 2019, mainland business investment falls by 1.5 per cent compared with the projection scenario. This is largely because equity prices on the Oslo Stock Exchange fall, making it more difficult and more expensive for Norwegian companies to finance investment through the equity market. Household wealth is reduced for the same reason, and this leads to lower consumption in 2019. As the interest rate level falls, however, consumption increases faster than in the projection scenario, so that the level in 2021 is approximately the same. Overall, the calculations show that mainland GPD is reduced by 0.6 per cent by 2021, while the unemployment rate rises by 0.1 percentage point.

It is unclear how the oil price will react to reduced global growth and heightened trade tensions in the current situation. However, we have assumed in an extra model calculation that the oil price falls to USD 50 per barrel in the first quarter of 2019, and remains at that level through 2021. This means a reduction of USD 25 compared with the projection scenario. We also assume that petroleum investment, which is not directly modelled in KVARTS, is reduced somewhat. However, in view of large cost cuts in recent years and the high oil price level, we have assumed a smaller investment response than, for example, that the Holden III committee arrived at (NOU, 2013). Petroleum investment in 2021 is assumed to be about 11 per cent lower than in the projection path.

The fall in petroleum investment and the ripple effects this creates will lead to the overall activity level being reduced more than in the scenario above. In 2021, mainland GDP is 0.8 per cent lower than in the projection path. A substantial depreciation of the Norwegian krone will curb the decline, however. The exchange rate effect is particularly favourable for Norwegian manufacturing which, in contrast to the above scenario, shows an increase in value added compared with the projection scenario. This leads to somewhat higher wages, despite the fact that employment as a whole is reduced.

In the short term, inflation in Norway is curbed by the lower oil price, but in the longer term the effect of the weaker krone predominates, so that inflation is higher than in the projection scenario. Despite this, however, the central bank responds by cutting interest rates. The reason for this is, as in the scenario above, the reduced interest rates abroad. Business investment, for its part, falls more than in the scenario without the fall in oil prices. The main reason for this is that equity prices on the Oslo Stock Exchange, which historically are correlated with movements in the oil price, fall further. This leads to a major reduction in household wealth, causing consumption also to be reduced further.

The calculations indicate that the Norwegian economy is capable of handling trade tensions and lower demand from abroad for imports. The effects are nonetheless sufficient to cancel the expected expansion (see figure). Note also that the calculations do not include the fiscal policy changes ensuing from a reduction in the GPFG. At the beginning of September, the Fund is worth almost NOK 8700 billion, and about 70 per cent of this is invested in equities. A global fall in equity prices would therefore lead to fiscal scope for manoeuvre being reduced by over NOK 35 billion (somewhat less in the scenario with a lower oil price, because in this case the GDFG falls less in terms of Norwegian kroner). A strict interpretation of the fiscal rule could reduce the level of activity in the Norwegian economy further.



Source: Statistics Norway.

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NOU (Official Norwegian Report) 2013: 13 "Lønnsdannelsen og utfordringer for norsk økonomi" [Wage formation and challenges for the Norwegian economy] (the Holden III committee)

Table 1. Effects of heightened trade tensions with unchanged oil price and investment. Deviation from baseline scenario in per cent unless otherwise indicated

	2019	2020	2021
Mainland GDP	-0,4	-0,5	-0,6
- Manufacturing	-0,7	-1,2	-1,9
Mainland business investment	-1,5	-1,1	-0,8
Employment	-0,1	-0,1	-0,2
Wages	0,0	-0,1	-0,3
Unemployment rate, percentage points	0,1	0,1	0,1
Household consumption	-0,6	-0,2	0,0
Household real disposable income	-0,1	-0,1	0,0
Import-weighted krone exchange rate	-0,1	-0,2	-0,5
Exports, traditional goods	-1,4	-2,8	-4,3
Consumer price index	0,0	0,0	-0,1
Money market rate, percentage points	-0,1	-0,3	-0,5
Norwegian equity price index	-19,0	-14,3	-11,7
Assumptions			
Export market indicator	-2,0	-4,0	-5,9
Global equity price index (MSCI)	-20,0	-20,0	-20,0
Money market rate abroad, percentage points	-0,1	-0,3	-0,5

Table 2. Effects of heightened trade tensions and lower oil price and investment. Deviation from baseline scenario in per cent unless otherwise indicated

	2019	2020	2021
Mainland GDP	-0,6	-0,7	-0,8
- Manufacturing	0,1	0,4	0,4
Mainland business investment	-1,8	-1,7	-1,4
Employment	0,0	-0,1	-0,2
Wages	0,1	0,2	0,3
Unemployment rate, percentage points	0,0	0,1	0,1
Household consumption	-0,9	-0,9	-0,8
Household real disposable income	-0,1	-0,2	-0,2
Import-weighted krone exchange rate	3,5	5,4	6,3
Exports, traditional goods	-0,9	-1,9	-3,1
Consumer price index	0,4	0,8	1,2
Money market rate, percentage points	-0,1	-0,3	-0,5
Norwegian equity price index	-27,0	-29,5	-28,2
Additional assumptions			
Oil price, USD/barrel.	-25	-25	-25
Petroleum investment	-4	-7,5	-11

large public investment projects in buildings and infrastructure. The high level of construction activity has thus been an important driver of the Norwegian economic upturn. Previously published national accounts figures showed that activity growth came to a halt in the first quarter of this year. These figures have now undergone a considerable upward revision. At the same time, the latest figures show that the increase in activity continued with undiminished strength in the second quarter, with growth of a whole 1.5 per cent. This is surprising – partly because the housing market has cooled, but also because growth in infrastructure investment has levelled off.

Developments in the remaining goods-producing industries are largely controlled by naturally occurring factors. Power production fell by a full 7.8 per cent from the first to the second quarter, owing to unusually dry spring and summer weather. Value added in fishing and aquaculture also fell substantially in the second quarter. These two industries combined pushed down mainland GDP growth by as much as 0.3 percentage point. When we consider the economic situation, there is reason to disregard these negative contributions. The activity level in agriculture and forestry remained unchanged in the second quarter.

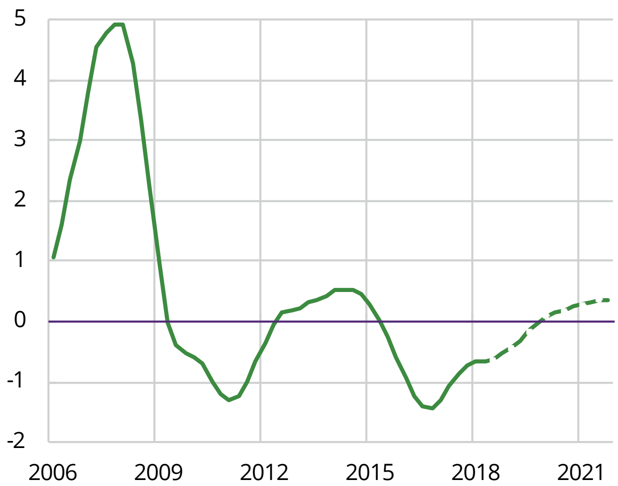
Value added in service industries excluding general government increased by 1.1 per cent in the second quarter. This is appreciably higher than the growth rate through 2017, and also considerably higher than second-quarter growth in the mainland economy as a whole. Growth in service industries appears to be broad-based, which indicates that the economic upturn has taken hold. In particular, growth has been strong in professional, scientific and technical services. Growth in the hotel and restaurant industry has also been strong, boosted by the relatively weak krone. This prompts more foreign tourists to come to Norway, and Norwegians to holiday at home to a greater extent.

The activity level in general government increased by 0.5 per cent in the second quarter. This is somewhat stronger than first quarter growth, but in line with growth through 2017, and also with our estimate of trend growth for the Norwegian economy as a whole.

In the near term, we expect activity growth in the Norwegian economy to remain at approximately the level we have seen for the last few quarters. The negative petroleum sector demand impulses have reversed into growth, and this sector will generate positive growth impulses going forward. Manufacturing, which has reported moderate growth for over a year, will benefit from this reversal.

Figure 13. Output gap. Mainland Norway

Deviation from estimated trend GDP in percent



Source: Statistics Norway

The construction industry has recorded a strong upswing in recent years, but our projections indicate that growth will now decline. This is mainly because residential construction is continuing to fall, while growth in public infrastructure investment is being reduced. Increased mainland business investment is having a countering effect, and may offset some of the reduction in demand.

We assume further that the broad-based upswing in service industries will persist, as the moderate economic upturn continues. Growth in general government is expected to remain fairly stable and slightly below trend, estimated at about 2 per cent. In sum, we forecast mainland GDP growth of 2.3 per cent in 2018 and a growth rate at this level for the next three years. Our projections therefore imply that the cyclical upturn we are now experiencing will last until the end of the projection period, which extends to 2021.

Our projections also indicate that the Norwegian economy will be out of the slump towards the end of next year. However, in the event of slower growth in global demand than we have assumed in the projection scenario (see Box 2), the Norwegian economy may remain in a slump until the end of 2021.

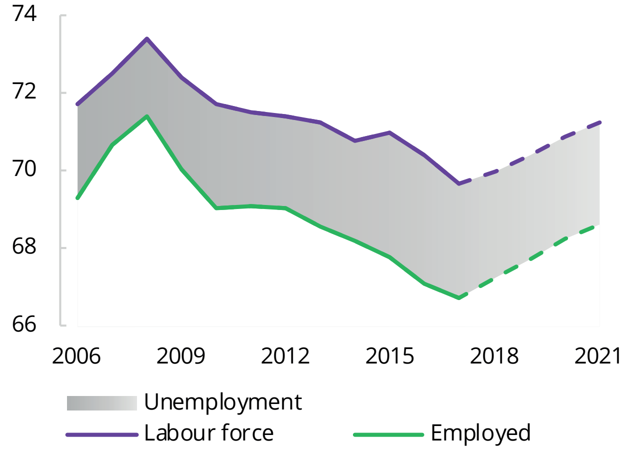
Persistent employment growth

The labour market became somewhat tighter through 2017 due to both employment growth and a fall in unemployment. In the current year the labour force has increased somewhat. This has led to a relatively stable unemployment, which has remained at around 3.9 per cent so far this year. Employment growth edged down in the second quarter, to 0.3 per cent, following growth of 0.5 per cent in the two previous quarters. Persistent growth in employment and in vacancies coupled with slightly lower unemployment point to a somewhat tighter labour market going forward.

In recent years, the construction and hotel and restaurant industries, general government and commercial services have contributed to maintaining overall employment at a high level. This trend has continued so far this year, with general government playing an important part. Employment growth in the second quarter of 2018 was lower than in the previous quarter, and this must be viewed in light of falling general government employment growth. Slightly higher petroleum sector activity in the second half of 2017 contributed to employment growth in services incidental to crude petroleum and natural gas extraction, and to slowing the decline in employment in crude petroleum and natural gas extraction. This tendency reversed again in the course of the first two quarters of this year into a decline in employment. Overall manufacturing employment edged up 0.1 per cent in the second quarter of the year after three consecutive quarters of positive growth.

Figure 14. Share of population by labour market status

Percent of population in working age, based on AKU, year



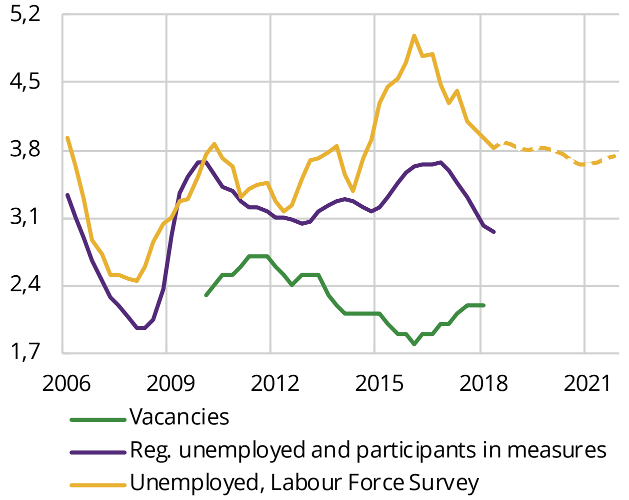
Source: Statistics Norway

Unemployment measured by the LFS fell from 4.5 per cent in April (average for March–May) last year to 4.0 per cent in September (average for August–October) last year, and remained stable for the rest of the year. Unemployment fell further through the first four months of this year, to 3.8 per cent. In June (average for May–July) this year, unemployment was 3.9 per cent. Figures from LFS and the national accounts show weak, but still positive employment growth so far this year. A slight increase in unemployment in recent months is due to the labour force increasing slightly.

According to the Norwegian Labour and Welfare Organisation (NAV), the sum of the fully unemployed and persons on labour market programmes fell through 2017 and the first half of this year. Following an increase in the fully unemployed and persons on labour market measures totalling 3 900 persons in July, a fall to 2 400 persons was observed in August. Of the labour force, 2.4 per cent were fully unemployed in both July and August, while the share was 2.3 per cent in May and June. The sum of the wholly unemployed and persons on labour market programmes was 2.9 per cent of the labour force in August.

The strong growth in hours worked this year indicates that employment will grow both this year and in the period ahead to 2021. Employment growth appears likely to be relatively broad-based in the years ahead. At the same time, a shift of pace across industries appears likely. Employment growth in construction will decline because of weaker near-term developments in the housing market. We forecast that employment in private service production will increase as a share of overall employment, partly as a consequence of higher consumption of private services. The improved economic situation will also lead to an increase in the labour force, which will moderate the fall in unemployment. According to our

Figure 15. Unemployed and number of vacancies
Percent of labour force, seasonally adjusted and smoothed



Source: The Norwegian Labour and Welfare Service and Statistics Norway

calculations, unemployment will be 3.9 per cent this year before falling to around 3.7 per cent towards the end of the projection period.

Higher wage growth

The low annual wage growth of recent years is largely due to the weak petroleum sector developments since 2014. The decline in employment in petroleum-related industries contributed to pushing down average wage growth, as did low overall demand and higher unemployment. There is now a higher level of activity in the petroleum sector, and we forecast increased employment in this industry. Increased petroleum-related employment will push up average wage growth. A more robust economic upturn points the same way. We expect the labour market to become tighter in the near term, and wage growth to rise to 4 per cent in 2021.

Growth in average annual wages can be decomposed into carry-over, negotiated wage increase and wage drift. Carry-over reflects the difference between the annual wage level at the end of the previous year and the average annual wage level for that year. Pay increases include wage increases resulting from central negotiations. Wage drift is the sum of all other factors that influence annual wages, such as local wage negotiations and changes in the composition of those employed.

The Technical Reporting Committee on Income Settlements (TBU) has calculated the carry-over into 2018 for several areas of negotiations. The average carry-over for manufacturing workers is approximately the same as last year, at 1.1 percentage points, and varies in the other areas from 0.6 to 1.4 percentage points. The carry-over for retailers in the Enterprise Federation of Norway (Virke) is 0.8 percentage point, and the carry-overs in central and local government are 0.7 and 1.4 percentage points, respectively. The carry-over for the past two years has been relatively low compared with previous years, due to low wage growth.

The Confederation of Norwegian Enterprise (NHO), with the agreement of the Norwegian Confederation of Trade Unions (LO), estimated overall wage growth in manufacturing in the area represented by NHO at 2.8 per cent in 2018. For manufacturing workers, this year's main settlement implies a pay increase of 0.5 percentage point which, together with the carry-over, yields annual wage growth from 2017 to 2018 of 1.6 per cent prior to wage drift. The carry-over for manufacturing as a whole is projected to be 1.2 per cent. The contractual early retirement pension scheme (AFP) was also a central topic for negotiations in this year's wage settlement, and in the mediation the Norwegian Confederation of Trade Unions (LO) and NHO agreed on improvements in the current AFP scheme with respect to the three-year rule. A special "struggler supplement" has been agreed on for those who are granted AFP within the scope of the severance package scheme and retire at the age of 62, 63 or 64 and are without wage income. Other private sector segments have also agreed on frameworks that are in line with the norm for the wage leader segment. For employees under the Norwegian Association of Local and Regional Authorities (KS) who mainly have central wage formation, the carry-over and pay increase mean annual wage growth from 2017 to 2018 of 2.6 per cent before contributions from wage drift. For the municipal sector as a whole, annual wage growth appears likely to be 2.4 per cent before wage drift. The mediation between the Norwegian government as employer and the government employee unions LO Stat and YS Stat and the Confederation of Unions for Professionals (UNIO) lasted until the end of May. The parties disagreed on the distribution between central and local increases. The settlement ended with 1.25 per cent being given in general increases and 1.9 per cent of the wage pool being allocated to local negotiations. The government and the Federation of Norwegian Professional Associations (Akademikerne) agreed that 2.8 per cent of the wage pool should be allocated to local negotiations.

Developments so far point to a moderate increase in contractual wages. In addition, annual wage growth includes wage drift and bonuses. Wage growth was particularly low for central government employees in the second quarter of this year due to a large portion of the wage pool being negotiated locally. Local negotiations proceed mainly in the third quarter, and are thus not recorded in the second half of the year. Bonuses are expected to push up annual wage growth in 2018, as wages as a share of labour costs are at a relatively moderate level.

Because of a tighter labour market, we forecast higher wage growth this year than in the previous two years. Expected higher activity in petroleum-related activities, lower unemployment and lower inward labour migration will contribute to a further increase in wage growth in the years ahead. The labour market is expected to become tighter in pace with the economic upturn, and real wage growth is forecast to rise towards 2 per cent in the course of the projection period. Given these developments, the wage share in manufacturing will be slightly higher towards the end of the projection period, and somewhat higher than the historical average for the period 1980 to 2017.

Energy prices push up the CPI

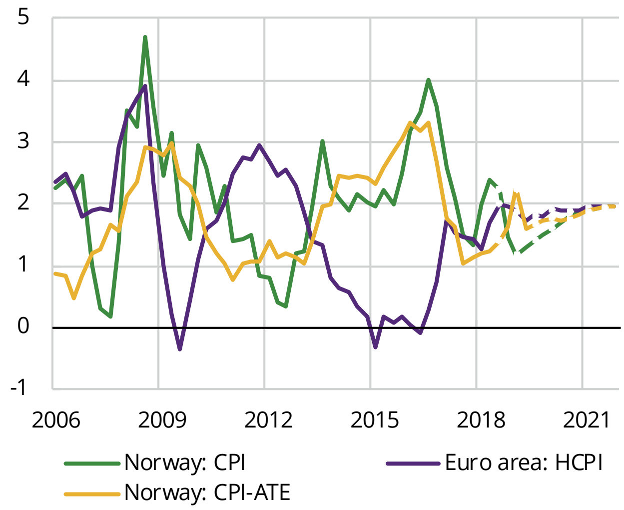
Energy price movements are the main reason that the 12-month rise in the consumer price index (CPI) has increased markedly through the year. In July the 12-month rise in the CPI was 3.0 per cent, compared with 1.6 per cent in January. The rise in the CPI excluding energy products (CPI-AE) in July was 1.7 per cent, compared with 1.4 per cent in January. The contribution of energy prices to CPI inflation has increased gradually, from 0.2 percentage point in January to 1.3 percentage points in July. Fuel prices have increased as a consequence of higher oil prices and a strong US dollar. Electricity prices have been far higher all year than in 2017. The dry, hot weather with reduced inflow to the water reservoirs was one reason for electricity prices being unusually high this summer. The year-on-year price for electricity including grid charges was as much as 37 per cent in July. Fuel prices rose 10 per cent in the same period.

Viewed against a backdrop of rising wage growth, higher energy prices and a weak krone, the increase in the rate of underlying inflation measured in terms of the 12-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has been surprisingly low so far this year. The 12-month rise in the CPI-ATE was 1.4 per cent in July, up on 1.1 per cent the previous month. By way of comparison, average inflation in the first seven months of the year was 1.2 per cent compared with the same period in 2017. The low CPI-ATE inflation this year can largely be attributed to developments in prices for imported consumer goods, where the rise in prices has been low for a long time. However, decomposition of the CPI-ATE for goods and services by supplier sector shows that the upswing in the 12-month rise in August can be attributed to a rise in all sectors that supply goods, both Norwegian products and imports, while the rise in the service groups as a whole fell slightly. However, the CPI-ATE by consumer group shows that there is great variation across product groups. Whereas the rate of price inflation for alcoholic beverages and tobacco products and furniture and household equipment has increased in recent months, developments in prices for clothing and footwear continue to be negative.

The volume of online trading is growing, and purchasing habits are changing rapidly. Online price-comparing services make it easier for consumers to orientate themselves in markets, which leads to pressure on prices and retail margins. In the struggle for market shares in competition with online trading, large segments of retail trade are characterised by adaption and cost-efficiency measures, with established operators incorporating new product segments and supplementing physical retail outlets with online shopping websites. According to the CPI, prices for imported consumer goods such as clothing and footwear, electronics and sporting goods have become cheaper compared with 2017, even given higher costs and a weak krone exchange rate. The pressure on prices has caused many established operators to struggle to make a profit. The pressure on prices will continue, but in order to survive, enterprises have to have satisfactory earnings. As in our previous projections, we assume that prices for imported goods will rise for a good while to come. Next year the anticipated strengthening of the exchange rate will gradually curb the inflationary impulses from imported goods. Because of sticky pricing, this will not take place until well into 2019.

Figure 16. Consumer price indices

Percentage growth from the same quarter previous year



Source: Statistics Norway

The underlying sub-indices in the CPI-ATE show that the fall in 12-month service price inflation last month can be primarily attributable to developments in rents, where the 12-month rise dipped from 1.8 to 1.6 per cent from June to July. Another important contributor was prices for air travel, which fell by 4.2 per cent compared with the same period in 2017. Prices for air travel have picked up in recent months. The negative 12-month inflation is due to prices for air travel being high in summer 2017. Higher fuel prices will lead to higher air travel prices in the near term.

Forward prices in the power market for deliveries in the autumn and winter have risen in recent months. According to the Norwegian Water Resources and Energy Directorate (NVE), the rise in prices is partly due to the fact that reservoir levels are now considerably lower than normal following the dry, hot summer. Another factor that pushes up inflation is high prices for coal, gas and CO_2 quotas in Europe, which push up European electricity prices and affect Norwegian electricity prices through exchange of power with other countries. At the beginning of 2019, the EU will introduce a market stability reserve designed to reduce the surplus of CO_2 quotas and contribute to balance in the quota market. The reform has caused quota prices to more than triple in the course of a year. Higher carbon prices mean that imported power from polluting power plants in Europe becomes more expensive. Warnings of continued dry weather and higher forward prices for coal deliveries in Europe next year led to prices for forward power contracts rising further towards the end of August. According to projections from NVE, reservoir levels may fall to a historic low towards the end of the winter, although delivery reliability will not be threatened. The market prices in that the hydrological situation will improve through the coming year. In the forward power market, prices are higher in the fourth quarter of 2018 and the first quarter of 2019 than in the subsequent quarters of 2019. In addition to the price of the power itself, the electricity price to consumers consists of grid charges and taxes. NVE projects that grid charges will increase by up to 30 per cent by 2025 because of investment in the main grid. Judging by forward prices in the power market, we now expect the price of electricity, including grid charges, to increase by just over 28 per cent as an annual average from 2017 to 2018. Even given higher grid charges, some of the price rise will be reversed in 2019 and 2020 leading to a reduction in CPI inflation for these years. In 2021 we have assumed that electricity prices including grid rental will shadow CPI inflation.

Our projections for the oil price and USD/NOK exchange rate also mean that the rise in prices for refined petroleum products will be high for the remainder of the year. In sum, we project that developments in energy prices will contribute to pushing up CPI inflation by 1.1 percentage point in 2018. Although the average price for refined petroleum products will increase from 2018 to 2019, the assumed fall in electricity prices through the year will result in annualised average energy prices on balance shadowing the CPI in 2019. A further fall in electricity prices in 2020 will cause energy prices to push the CPI down by 0.4 percentage point for that year. In 2021 it is assumed that overall energy prices will broadly shadow general price inflation.

The fundamental inflation drivers have changed little in recent months, and the rise in prices presented in this projection is close to the movements presented in the previous economic analysis. Developments in labour costs, energy prices and import prices still point towards a rise in underlying inflation measured by the CPI-ATE, for both goods and services, for the remainder of 2018.

In the years 2019–2021 wage growth will increase further, which in isolation will push inflation up further. However, the strengthening of the krone further along the projection pathway will substantially weaken import price inflation, despite rising inflation abroad. The direct and indirect effects of a low rise in import prices coupled with reduced inflationary impulses from energy prices will contribute to slowing the rise in the inflation rate for the remainder of the projection period.

The effect of aggregate real tax changes on the CPI is projected to be 0.2 percentage point for 2018. The tax rules for the following year are laid down in the autumn in the central government budget and adopted by the Storting. We have chosen to retain the tax rules for the coming year as they were incorporated in our previous projection. We assumed then that there would be no real tax increases in 2019, and have only adjusted rates for special taxes in line with general inflation for the year. In 2020 and 2021, we assume that increased environmental taxes will push the CPI up by 0.1 percentage point.

If energy prices and special taxes develop as projected, CPI inflation in 2018 will be 2.8 per cent, which is 1.3 percentage point higher than CPI-ATE inflation. Given our assumptions concerning developments in import prices, wages and productivity growth, underlying inflation is expected to gradually rise somewhat in the years ahead. CPI-ATE inflation is projected to be 1.7 per cent in 2019, and then to rise gradually to 2.0 per cent in 2021. CPI inflation is projected to shadow CPI-ATE inflation next year. Lower energy prices will contribute to lowering CPI inflation to 1.5 per cent in 2020, while the CPI will rise at the same rate as the CPI-ATE in 2021.

Table 5. National accounts: Final expenditure and gross domestic product. At constant 2016 prices. NOK million

	Unadjusted		Seasonally adjusted							
	2016*	2017*	16.3	16.4	17.1	17.2	17.3	17.4	18.1	18.2
Final consumption expenditure of households and NPISHs	1 412 437	1 443 445	351 977	355 956	358 605	360 535	362 801	365 517	365 706	369 614
Household final consumption expenditure	1 335 785	1 364 740	332 966	336 733	339 210	340 996	343 072	345 589	345 458	349 042
Goods	616 187	625 914	153 514	154 694	155 914	156 789	157 793	159 152	158 139	160 551
Services	653 016	669 032	163 060	164 110	165 573	166 843	167 878	168 702	169 320	170 438
Direct purchases abroad by resident households	110 297	113 236	27 370	28 583	28 114	27 985	28 531	28 715	29 107	28 875
Direct purchases by non-residents	-43 715	-43 441	-10 977	-10 655	-10 392	-10 620	-11 129	-10 981	-11 109	-10 822
Final consumption expenditure of NPISHs	76 652	78 704	19 011	19 224	19 395	19 539	19 729	19 927	20 248	20 571
Final consumption expenditure of general government	759 622	778 468	190 583	191 467	192 568	193 672	194 833	197 428	197 365	198 133
Final consumption expenditure of central government	384 318	391 089	96 369	97 080	96 689	97 418	97 897	99 086	99 098	99 596
Central government, civilian	339 917	346 231	85 291	86 028	85 559	86 230	86 683	87 761	87 701	88 147
Central government, defence	44 401	44 858	11 078	11 052	11 131	11 187	11 215	11 325	11 397	11 449
Final consumption expenditure of local government	375 304	387 379	94 214	94 387	95 878	96 254	96 936	98 342	98 267	98 537
Gross fixed capital formation	790 306	818 871	203 340	202 316	203 669	204 241	204 141	206 820	193 683	204 223
Extraction and transport via pipelines	165 374	159 147	41 224	41 022	39 646	40 750	37 113	41 638	35 771	40 451
Ocean transport	12 272	3 902	5 330	3 641	1 000	1 000	1 853	50	758	139
Mainland Norway	612 660	655 822	156 786	157 653	163 023	162 491	165 175	165 133	157 155	163 633
Industries	265 758	290 345	68 080	68 649	73 509	68 978	74 746	73 112	68 731	73 666
Service activities incidential to extraction	2 101	2 436	251	453	374	417	821	824	717	811
Other services	164 823	185 026	43 769	42 156	47 270	44 611	46 881	46 265	41 631	44 270
Manufacturing and mining	37 387	36 450	9 225	9 565	9 343	8 475	9 017	9 615	9 273	10 405
Production of other goods	61 447	66 434	14 835	16 475	16 523	15 475	18 028	16 408	17 110	18 179
Dwellings (households)	181 394	194 017	45 839	47 282	49 144	48 895	49 318	46 661	45 452	43 344
General government	165 508	171 460	42 866	41 722	40 370	44 618	41 112	45 360	42 972	46 624
Acquisitions less disposals of valuables	392	414	100	100	107	97	103	107	107	113
Changes in stocks and statistical discrepancies	105 366	107 799	18 184	16 580	21 982	24 145	28 512	32 456	40 283	35 634
Gross capital formation	896 064	927 084	220 389	218 799	225 650	228 386	232 653	239 276	233 966	239 857
Final domestic use of goods and services	3 068 123	3 148 996	763 785	766 309	776 823	782 593	790 287	802 220	797 036	807 604
Final demand from Mainland Norway	2 784 719	2 877 734	699 346	705 077	714 195	716 698	722 809	728 077	720 225	731 380
Final demand from general government	925 130	949 927	233 449	233 189	232 937	238 290	235 944	242 788	240 337	244 757
Total exports	1 098 601	1 096 104	269 344	279 811	274 825	277 831	274 635	268 974	270 668	274 599
Traditional goods	355 679	361 646	88 525	84 119	87 059	90 596	91 805	92 843	92 107	92 595
Crude oil and natural gas	373 694	379 333	90 211	97 531	95 641	97 431	95 945	90 138	88 886	90 246
Ships, oil platforms and planes	17 240	14 459	3 140	9 325	7 468	2 934	1 883	2 174	3 559	3 191
Services	351 988	340 666	87 467	88 836	84 658	86 870	85 001	83 818	86 115	88 567
Total use of goods and services	4 166 724	4 245 100	1 033 235	1 046 123	1 051 648	1 060 424	1 064 921	1 071 194	1 067 704	1 082 203
Total imports	1 047 428	1 064 025	266 997	262 200	263 857	266 602	265 535	270 696	265 346	276 797
Traditional goods	597 231	613 190	150 767	147 646	149 702	153 803	154 391	158 058	157 096	162 072
Crude oil and natural gas	8 683	10 974	2 556	1 882	2 333	2 696	2 894	3 188	3 709	3 701
Ships, oil platforms and planes	50 718	49 624	15 841	14 523	15 345	13 132	10 351	10 446	7 122	11 116
Services	390 796	390 237	97 833	98 150	96 478	96 972	97 899	99 005	97 420	99 909
Gross domestic product (market prices)	3 119 296	3 181 071	770 580	784 231	787 791	793 821	799 386	800 498	802 358	805 405
Gross domestic product Mainland Norway (market prices)	2 712 752	2 767 631	675 261	678 664	684 469	689 033	694 119	699 848	702 351	706 102
Petroleum activities and ocean transport	406 544	413 440	95 318	105 567	103 321	104 788	105 268	100 650	100 006	99 303
Mainland Norway (basic prices)	2 353 989	2 398 334	586 056	588 493	592 434	596 996	601 412	607 071	609 723	613 285
Mainland Norway excluding general government	1 767 119	1 797 869	438 615	440 682	443 645	447 220	451 172	455 420	457 489	460 340
Manufacturing and mining	208 315	208 289	52 167	51 377	52 467	51 794	52 079	52 890	52 382	52 542
Production of other goods	307 695	316 783	76 270	76 797	76 947	78 547	79 864	81 092	81 479	80 609
Services incl. dwellings (households)	1 251 109	1 272 797	310 178	312 508	314 232	316 879	319 228	321 439	323 628	327 189
General government	586 870	600 464	147 442	147 810	148 789	149 775	150 241	151 651	152 234	152 945
Taxes and subsidies products	358 763	369 297	89 205	90 171	92 035	92 037	92 706	92 777	92 628	92 818

Source: Statistics Norway.

Table 6. National accounts: Final expenditure and gross domestic product. At constant 2016 prices. Percentage change from previous period

	Unadjusted		Seasonally adjusted							
	2016*	2017*	16.3	16.4	17.1	17.2	17.3	17.4	18.1	18.2
Final consumption expenditure of households and NPISHs	1.3	2.2	0.0	1.1	0.7	0.5	0.6	0.7	0.1	1.1
Household final consumption expenditure	1.2	2.2	0.0	1.1	0.7	0.5	0.6	0.7	0.0	1.0
Goods	0.5	1.6	0.1	0.8	0.8	0.6	0.6	0.9	-0.6	1.5
Services	2.5	2.5	0.6	0.6	0.9	0.8	0.6	0.5	0.4	0.7
Direct purchases abroad by resident households	0.7	2.7	-3.1	4.4	-1.6	-0.5	2.0	0.6	1.4	-0.8
Direct purchases by non-residents	8.1	-0.6	1.6	-2.9	-2.5	2.2	4.8	-1.3	1.2	-2.6
Final consumption expenditure of NPISHs	2.5	2.7	0.4	1.1	0.9	0.7	1.0	1.0	1.6	1.6
Final consumption expenditure of general government	2.1	2.5	0.5	0.5	0.6	0.6	0.6	1.3	0.0	0.4
Final consumption expenditure of central government	2.7	1.8	0.7	0.7	-0.4	0.8	0.5	1.2	0.0	0.5
Central government, civilian	3.1	1.9	0.8	0.9	-0.5	0.8	0.5	1.2	-0.1	0.5
Central government, defence	-0.5	1.0	-0.3	-0.2	0.7	0.5	0.2	1.0	0.6	0.5
Final consumption expenditure of local government	1.5	3.2	0.4	0.2	1.6	0.4	0.7	1.5	-0.1	0.3
Gross fixed capital formation	5.2	3.6	3.8	-0.5	0.7	0.3	0.0	1.3	-6.4	5.4
Extraction and transport via pipelines	-16	-3.8	-1.3	-0.5	-3.4	2.8	-8.9	12.2	-14.1	13.1
Ocean transport	..	-68.2	109.6	-31.7	-72.5	0.0	85.4	-97.3	..	-81.7
Mainland Norway	10.7	7.0	3.4	0.6	3.4	-0.3	1.7	0.0	-4.8	4.1
Industries	16.5	9.3	3.6	0.8	7.1	-6.2	8.4	-2.2	-6.0	7.2
Service activities incidential to extraction	-57.3	15.9	-52.5	80.4	-17.5	11.6	97.0	0.4	-13.0	13.1
Other services	22.4	12.3	6.4	-3.7	12.1	-5.6	5.1	-1.3	-10.0	6.3
Manufacturing and mining	16.3	-2.5	-1.6	3.7	-2.3	-9.3	6.4	6.6	-3.6	12.2
Production of other goods	9.1	8.1	0.9	11.1	0.3	-6.3	16.5	-9.0	4.3	6.3
Dwellings (households)	6.6	7.0	1.9	3.1	3.9	-0.5	0.9	-5.4	-2.6	-4.6
General government	6.7	3.6	5.0	-2.7	-3.2	10.5	-7.9	10.3	-5.3	8.5
Acquisitions less disposals of valuables	4.0	5.5	-0.3	-0.7	7.3	-9.3	6.3	3.8	0.4	5.1
Changes in stocks and statistical discrepancies	-11.9	2.3	-33.6	-8.8	32.6	9.8	18.1	13.8	24.1	-11.5
Gross capital formation	2.8	3.5	-1.3	-0.7	3.1	1.2	1.9	2.8	-2.2	2.5
Final domestic use of goods and services	2.0	2.6	-0.1	0.3	1.4	0.7	1.0	1.5	-0.6	1.3
Final demand from Mainland Norway	3.5	3.3	0.9	0.8	1.3	0.4	0.9	0.7	-1.1	1.5
Final demand from general government	2.9	2.7	1.3	-0.1	-0.1	2.3	-1.0	2.9	-1.0	1.8
Total exports	1.1	-0.2	0.7	3.9	-1.8	1.1	-1.2	-2.1	0.6	1.5
Traditional goods	-8.6	1.7	1.0	-5.0	3.5	4.1	1.3	1.1	-0.8	0.5
Crude oil and natural gas	4.9	1.5	-0.2	8.1	-1.9	1.9	-1.5	-6.1	-1.4	1.5
Ships, oil platforms and planes	44.9	-16.1	15.6	196.9	-19.9	-60.7	-35.8	15.4	63.7	-10.3
Services	5.1	-3.2	0.8	1.6	-4.7	2.6	-2.2	-1.4	2.7	2.8
Total use of goods and services	1.7	1.9	0.1	1.2	0.5	0.8	0.4	0.6	-0.3	1.4
Total imports	3.3	1.6	3.5	-1.8	0.6	1.0	-0.4	1.9	-2.0	4.3
Traditional goods	-0.1	2.7	2.5	-2.1	1.4	2.7	0.4	2.4	-0.6	3.2
Crude oil and natural gas	-5.2	26.4	16.6	-26.4	24.0	15.6	7.4	10.1	16.3	-0.2
Ships, oil platforms and planes	42.6	-2.2	45.3	-8.3	5.7	-14.4	-21.2	0.9	-31.8	56.1
Services	5.4	-0.1	-0.1	0.3	-1.7	0.5	1.0	1.1	-1.6	2.6
Gross domestic product (market prices)	1.2	2.0	-0.7	1.8	0.5	0.8	0.7	0.1	0.2	0.4
Gross domestic product Mainland Norway (market prices)	1.1	2.0	0.2	0.5	0.9	0.7	0.7	0.8	0.4	0.5
Petroleum activities and ocean transport	1.8	1.7	-6.7	10.8	-2.1	1.4	0.5	-4.4	-0.6	-0.7
Mainland Norway (basic prices)	0.9	1.9	0.3	0.4	0.7	0.8	0.7	0.9	0.4	0.6
Mainland Norway excluding general government	0.6	1.7	0.1	0.5	0.7	0.8	0.9	0.9	0.5	0.6
Manufacturing and mining	-4.9	0.0	-0.4	-1.5	2.1	-1.3	0.6	1.6	-1.0	0.3
Production of other goods	1.6	3.0	0.1	0.7	0.2	2.1	1.7	1.5	0.5	-1.1
Services incl. dwellings (households)	1.4	1.7	0.1	0.8	0.6	0.8	0.7	0.7	0.7	1.1
General government	1.9	2.3	0.8	0.3	0.7	0.7	0.3	0.9	0.4	0.5
Taxes and subsidies products	2.0	2.9	-0.3	1.1	2.1	0.0	0.7	0.1	-0.2	0.2

Source: Statistics Norway.

Table 7. National accounts: Final expenditure and gross domestic product. Price indices. 2016=100

	Unadjusted		Seasonally adjusted							
	2016*	2017*	16.3	16.4	17.1	17.2	17.3	17.4	18.1	18.2
Final consumption expenditure of households and NPISHs	100.0	102.0	100.3	100.7	101.0	101.8	102.1	102.8	103.1	103.9
Final consumption expenditure of general government	100.0	102.4	100.0	101.1	101.4	102.2	102.8	103.4	104.0	104.6
Gross fixed capital formation	100.0	100.7	100.1	100.3	100.1	100.9	100.5	101.3	102.1	102.2
Mainland Norway	100.0	102.1	100.3	100.6	101.1	102.1	102.1	103.0	103.9	104.4
Final domestic use of goods and services	100.0	101.6	100.7	100.6	101.1	101.2	101.7	102.0	102.9	103.4
Final demand from Mainland Norway	100.0	102.1	100.2	100.8	101.1	102.0	102.3	103.0	103.5	104.2
Total exports	100.0	109.2	100.7	103.1	108.4	107.0	107.3	114.1	116.3	122.3
Traditional goods	100.0	105.4	100.9	104.0	104.4	105.5	104.5	107.6	109.9	111.9
Total use of goods and services	100.0	103.6	100.7	101.3	103.0	102.7	103.2	105.0	106.3	108.2
Total imports	100.0	102.7	100.1	99.2	101.1	102.4	102.5	104.6	105.6	104.9
Traditional goods	100.0	103.7	100.5	99.7	102.5	103.1	103.3	105.6	106.7	105.7
Gross domestic product (market prices)	100.0	103.9	100.3	101.9	103.7	102.8	103.4	105.2	106.5	109.3
Gross domestic product Mainland Norway (market prices)	100.0	101.1	100.2	101.2	100.7	100.9	101.4	101.2	102.1	102.3

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2016*	2017*	16.3	16.4	17.1	17.2	17.3	17.4	18.1	18.2
Final consumption expenditure of households and NPISHs	3.0	2.0	0.4	0.4	0.3	0.8	0.3	0.7	0.3	0.8
Final consumption expenditure of general government	2.0	2.4	0.2	1.1	0.2	0.8	0.7	0.5	0.6	0.6
Gross fixed capital formation	1.3	0.7	0.1	0.2	-0.2	0.8	-0.4	0.9	0.8	0.1
Mainland Norway	2.3	2.1	0.6	0.3	0.5	0.9	0.0	0.9	0.9	0.5
Final domestic use of goods and services	2.3	1.6	0.2	-0.1	0.5	0.1	0.5	0.3	0.9	0.5
Final demand from Mainland Norway	2.6	2.1	0.4	0.6	0.3	0.8	0.3	0.7	0.5	0.7
Total exports	-7.6	9.2	2.5	2.5	5.1	-1.3	0.3	6.3	2.0	5.1
Traditional goods	4.0	5.4	1.5	3.1	0.3	1.1	-1.0	2.9	2.2	1.8
Total use of goods and services	-0.5	3.6	0.8	0.6	1.7	-0.3	0.4	1.8	1.2	1.8
Total imports	1.3	2.7	-0.1	-0.9	1.9	1.3	0.0	2.0	1.0	-0.6
Traditional goods	1.8	3.7	0.4	-0.8	2.8	0.6	0.2	2.2	1.0	-0.9
Gross domestic product (market prices)	-1.1	3.9	0.8	1.6	1.7	-0.8	0.5	1.7	1.3	2.6
Gross domestic product Mainland Norway (market prices)	2.4	1.1	0.4	1.0	-0.5	0.3	0.4	-0.1	0.9	0.1

Source: Statistics Norway.

Table 9. Main economic indicators 2006-2021. Accounts and forecasts. Percentage change from previous year unless otherwise noted

													Forecasts			
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	2017*	2018	2019	2020	2021
Demand and output																
Consumption in households etc.	5.0	5.3	1.7	0.0	3.8	2.3	3.5	2.8	2.1	2.6	1.3	2.2	2.5	2.6	2.5	2.6
General government consumption	1.9	2.0	2.4	4.1	2.2	1.0	1.6	1.0	2.7	2.4	2.1	2.5	1.8	1.7	1.8	1.7
Gross fixed investment	9.1	12.2	1.1	-6.8	-6.4	7.5	7.6	6.3	-0.3	-4.0	5.2	3.6	0.6	4.0	3.1	1.6
Extraction and transport via pipelines	3.2	9.3	5.5	2.9	-8.0	11.4	14.6	19.0	-1.8	-12.2	-16.0	-3.8	4.3	10.1	3.9	-0.4
mainland Norway	9.3	14.2	0.9	-10.4	-6.4	5.0	7.4	2.9	0.4	-0.2	10.7	7.0	-0.1	2.3	2.9	2.2
Industries	12.7	22.7	3.1	-18.4	-9.5	1.1	10.5	-3.2	-0.7	-2.8	16.5	9.3	4.7	4.7	3.5	2.5
Housing	4.0	2.7	-9.0	-8.1	-1.6	17.0	10.9	5.3	-1.4	3.2	6.6	7.0	-10.3	-0.2	4.4	2.9
General government	8.4	8.7	7.2	7.7	-4.8	1.1	-1.8	11.8	4.4	0.2	6.7	3.6	3.0	0.4	0.6	1.0
Demand from Mainland Norway[1]	5.1	6.4	1.7	-1.4	1.2	2.5	3.7	2.3	1.9	2.0	3.5	3.3	1.7	2.3	2.4	2.3
Stockbuilding[2]	1.0	0.5	-0.2	-2.1	3.7	-0.3	-0.3	0.3	-0.1	-0.5	-0.4	2.3	0.8	0.0	0.0	0.0
Exports	-0.8	1.4	0.1	-4.1	0.6	-0.8	1.6	-1.7	3.1	4.7	1.1	-0.2	0.6	2.2	3.6	3.8
Traditional goods	6.1	9.2	3.5	-8.0	3.3	-0.1	-0.2	1.3	3.1	6.9	-8.6	1.7	3.4	3.2	3.5	3.4
Crude oil and natural gas	-6.6	-2.4	-1.3	-1.6	-6.9	-5.6	0.5	-5.5	2.7	2.1	4.9	1.5	-3.1	0.0	5.2	5.3
Imports	9.1	10.0	3.2	-10.3	8.4	3.9	3.0	5.0	2.4	1.6	3.3	1.6	2.7	3.7	2.9	2.6
Traditional goods	11.6	7.2	1.2	-12.1	9.2	4.6	2.6	2.3	2.1	3.2	-0.1	2.7	3.8	4.1	3.2	2.9
Gross domestic product	2.4	3.0	0.5	-1.7	0.7	1.0	2.7	1.0	2.0	2.0	1.2	2.0	1.8	2.1	2.6	2.5
Mainland Norway	5.0	5.7	1.8	-1.7	1.9	1.9	3.7	2.3	2.2	1.4	1.1	2.0	2.3	2.4	2.4	2.2
Manufacturing	2.6	3.8	2.7	-7.8	2.1	1.7	2.0	3.3	2.8	-4.6	-4.9	0.0	2.8	2.6	2.5	1.6
Labour market																
Total hours worked, Mainland Norway	3.5	4.8	3.6	-2.0	0.2	1.7	1.8	0.3	1.4	0.7	0.4	0.3	1.3	1.4	1.2	0.8
Employed persons	3.4	4.1	3.2	-0.5	-0.5	1.5	2.1	1.1	1.2	0.4	0.2	1.1	1.4	1.4	1.2	0.8
Labor force[3]	1.6	2.5	3.4	0.0	0.5	1.0	1.8	1.0	1.1	1.4	0.2	-0.2	1.1	1.3	1.2	0.9
Participation rate (level)[3]	72.0	72.8	73.9	72.8	71.9	71.4	71.5	71.2	71.0	71.2	70.4	69.7	69.9	70.4	70.9	71.2
Unemployment rate (level)[3]	3.4	2.5	2.6	3.2	3.6	3.3	3.2	3.5	3.5	4.4	4.7	4.2	3.9	3.8	3.7	3.7
Prices and wages																
Wages per standard man-year	4.1	5.4	6.3	4.2	3.7	4.2	4.0	4.0	3.1	2.8	1.7	2.3	2.8	3.3	3.6	4.0
Consumer price index (CPI)	2.3	0.8	3.8	2.1	2.5	1.2	0.8	2.1	2.0	2.1	3.6	1.8	2.8	1.7	1.5	2.0
CPI-ATE[4]	0.8	1.4	2.6	2.6	1.4	0.9	1.2	1.6	2.4	2.7	3.1	1.4	1.5	1.7	1.8	2.0
Export prices, traditional goods	11.2	2.5	2.8	-5.9	44.0	5.8	-1.9	2.6	3.4	2.0	3.6	5.4	6.9	1.1	-0.5	0.4
Import prices, traditional goods	3.9	3.8	4.0	-1.5	-0.1	4.0	0.3	1.5	4.4	4.7	1.8	3.6	2.9	1.2	0.9	1.5
Housing prices	13.7	12.6	-1.1	1.9	8.2	8.0	6.8	4.0	2.7	6.1	7.0	5.0	1.2	0.9	1.1	1.2
Income, interest rates and excange rate																
Household real disposable income	-6.6	6.0	3.4	3.2	2.3	4.1	4.4	3.9	2.9	5.5	-1.7	1.6	2.5	3.1	3.4	3.0
Household saving ratio (level)	-0.4	0.9	3.8	5.2	4.0	5.9	7.1	7.4	8.2	10.3	7.1	6.9	6.9	7.3	8.7	9.1
Money market rate (level)	3.1	5.0	6.2	2.5	2.5	2.9	2.2	1.8	1.7	1.3	1.1	0.9	1.1	1.4	1.9	2.4
Lending rate, credit loans(level)[5]	4.3	5.0	6.8	4.0	3.4	3.6	3.9	4.0	3.9	3.2	2.6	2.6	2.7	3.1	3.4	3.8
Real after-tax lending rate, banks (level)	0.2	2.9	1.1	0.7	0.1	1.3	2.1	0.7	0.8	0.1	-1.6	0.1	-0.7	0.7	1.2	0.9
Importweighted krone exchange rate (44 countries)[6]	0.6	-1.7	0.0	3.3	-3.8	-2.4	-1.2	2.2	5.3	10.4	1.9	-0.8	-0.2	-1.6	-1.9	-0.5
NOK per euro (level)	8.05	8.02	8.22	8.73	8.01	7.79	7.47	7.81	8.35	8.95	9.29	9.33	9.59	9.34	9.17	9.12
Current account																
Current balance (bill. NOK)[7]	358	287	408	261	284	346	371	316	331	246	124	186	309	337	347	362
Current account (per cent of GDP)	16.1	12.2	15.7	10.7	10.9	12.4	12.5	10.3	10.5	8.1	4.0	5.7	8.7	9.1	9.0	9.0
International indicators																
Exports markets indicator	9.8	6.6	1.8	-9.6	11.1	6.5	1.4	2.0	5.2	5.1	4.0	4.8	3.6	4.9	4.6	4.5
Consumer price index, euro-area	2.2	2.1	3.3	0.3	1.6	2.7	2.5	1.4	0.4	0.0	0.2	1.5	1.7	1.8	1.9	2.0
Money market rate, euro(level)	3.1	4.3	4.6	1.2	0.8	1.4	0.6	0.2	0.2	0.0	-0.3	-0.3	-0.2	0.3	0.5	0.9
Crude oil price NOK (level)8	423	422	539	388	485	621	650	639	622	431	378	445	568	598	586	583

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[2] Change in stockbuilding. Per cent of GDP.
[3] According to Statistics Norway›s labour force survey(LFS). Break in data series in 2006.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Yearly average. Lending rate, banks until 2006
[6] Increasing index implies depreciation.
[7] Current account not adjusted for saving in pension funds.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 4 September 2018.

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Economic Survey 3/2018

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