TALL SOM FORTELLER

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Economic Survey

2019 / 4

Economic developments in Norway

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2. Economic developments in Norway

The upturn in the Norwegian economy is continuing at a moderate pace. According to the preliminary quarterly national accounts figures (QNA), GDP growth for mainland Norway has been higher for around three years than annual trend growth, estimated at just under 2 per cent. In the current year, the Norwegian economy has been boosted by pronounced growth in petroleum and manufacturing investment. The positive impulses from the petroleum investment are not expected to continue for the next few years, viewed as a whole. The global slowdown will check demand for export-oriented activities, and hence also manufacturing investment. Given this cyclical course, interest rates will remain at the current relatively low level. Output developments in the Norwegian economy will be equivalent to normal capacity utilisation in the years up to 2022. Unemployment is unlikely to change much from the current level, and inflation will be close to target.

Fiscal policy is likely to remain almost cyclically neutral in the years ahead. Following an expansionary

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

	2017	2018	Seasonally adjusted			
			18:4	19:1	19:2	19:3
Demand and output						
Consumption in households etc.	2.2	1.9	0.3	0.5	0.3	0.4
General government consumption	1.9	1.4	0.1	1.0	0.9	0.9
Gross fixed investment	2.6	2.8	2.9	-2.1	3.1	4.8
Extraction and transport via pipelines	-5.4	1.9	4.8	-2.6	6.7	3.0
Mainland Norway	6.8	3.0	2.1	-2.0	2.1	5.3
Final domestic demand from Mainland Norway[1]	3.1	2.0	0.6	0.1	0.9	1.7
Exports	1.7	-0.2	-1.4	2.0	-0.3	-2.2
Traditional goods	1.7	2.0	3.5	2.2	-1.5	-0.3
Crude oil and natural gas	5.1	-4.8	-2.0	-3.1	-3.0	-5.4
Imports	1.9	1.9	1.1	3.1	1.5	1.2
Traditional goods	3.8	3.2	0.7	6.3	-0.6	-0.9
Gross domestic product	2.3	1.3	0.4	-0.1	0.2	0.0
Mainland Norway	2.0	2.2	1.1	0.4	0.7	0.7
Labour market						
Total hours worked. Mainland Norway	0.3	1.8	0.7	0.4	0.6	0.5
Employed persons	1.2	1.6	0.5	0.5	0.4	0.3
Labour force[2]	-0.2	1.4	0.0	0.2	-0.4	1.5
Unemployment rate. level[2]	4.2	3.8	3.7	3.8	3.4	3.7
Prices and wages						
Annual earings	2.3	2.8	..	..	..	..
Consumer price index (CPI)[3]	1.8	2.7	0.5	0.5	0.3	0.3
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	1.4	1.6	0.6	0.7	0.4	0.4
Export prices. traditional goods	5.2	5.9	0.4	-1.8	1.5	-0.8
Import prices. traditional goods	3.5	4.5	0.6	-0.8	1.1	0.9
Balance of payment						
Current balance. bill. NOK[4] D	154	254	40	73	31	..
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	0.9	1.1	1.2	1.3	1.5	1.6
Lending rate. credit loans[5]	2.6	2.7	2.7	2.8	2.9	3.1
Crude oil price NOK[6]	452	583	578	547	591	549
Importweighted krone exchange rate. 44 countries. 1995=100	104.5	104.6	104.7	106.7	106.0	107.3
NOK per euro	9.33	9.60	9.62	9.74	9.72	9.85

[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.

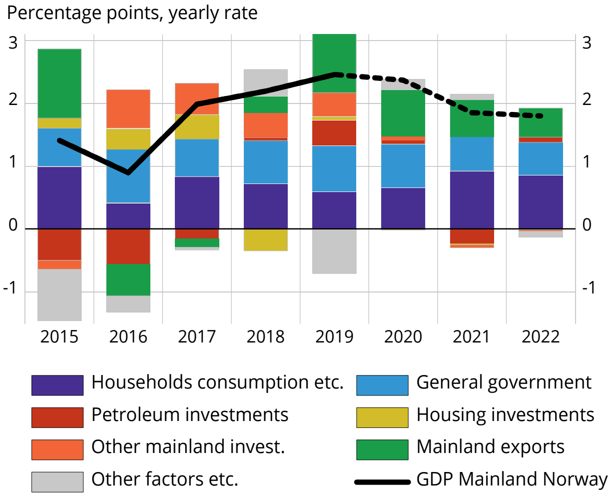
fiscal policy in the period 2014–2016, fiscal policy has had a more neutral orientation since 2017. Although growth in public sector investment and consumption is expected to be somewhat below trend, the ageing of the population will mean higher spending on old-age pensions and other benefits. On balance, these demand components are expected to increase by around 2 per cent this year, which is line with trend mainland GDP growth. In light of the combination of cyclically neutral spending growth and small changes in the taxation level, the fiscal impetus is expected to remain almost constant through the projection period. Spending of petroleum revenue will be appreciably less than 3 per cent of the value of the petroleum fund up to 2022.

Growth in petroleum investment has boosted the Norwegian economy in 2019. Whereas investment was almost halved from 2013 Q3 to 2018 Q1, it rose moderately through 2018 and has risen markedly so far this year. Growth in 2019 has been primarily driven by the fields Johan Sverdrup (Phase 2) and Johan Castberg. Delays and a greater amount of work on some development projects have generated more investment than previously assumed, and most of this additional investment is expected in 2020. Given that we additionally expect plans for development and operation to be submitted for several projects, including Balder X, Halsen Sør Øst, Breidablikk, and the further development of the Hod field, we now forecast that the investment level will rise somewhat in 2020 as well. We assume further that the commissioning and phasing down of development projects will result in a decline in investment in 2021. We expect that new developments will in their turn lead to moderate investment growth in 2022.

So far this year, business investment has featured strong growth. Despite abating somewhat compared with developments from 2015 to 2018, growth through 2019 has nonetheless been substantially higher than trend economic growth. In particular, companies in the food industry, repair and installation of machinery, and capital-intensive industries such as refined petroleum products, chemicals and pharmaceuticals manufacturing and basic metals report increased investment. From 2020, however, the global slowdown will place a damper on investment growth. Reduced manufacturing investment is expected in 2020 as a result of the completion this year of several projects in petroleum refinement and chemicals and pharmaceuticals manufacturing. According to our projections, aggregate manufacturing investment from 2020 to 2022 will remain roughly unchanged at the 2019 level.

The housing market appears still to be in balance. Housing investment began to rise from mid-2018, after falling in 2017 Q4 and the first half of 2018. Growth has been moderate for the past five quarters. House prices have risen moderately, and during this period the year-on-year rise has been around 2.5 per cent. House prices appear likely to continue rising modestly in the years ahead. The Government extended the housing loan regulation without further tightening, but moderate income growth and higher real after-tax

Figure 1. Contributions to growth in GDP Mainland Norway, import adjusted



Source: Statistics Norway

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 1/2019, Box 3. All figures are seasonally adjusted and in constant prices.

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

Other factors are defined as changes in stock and statistical deviations.

Source: Statistics Norway.

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

	QNA				Projection			
	2015	2016	2017	2018	2019	2020	2021	2022
GDP Mainland Norway	1.4	0.9	2.0	2.2	2.5	2.4	1.9	1.8
with contributions from:								
Consumption by households and non-profit organisations	1.0	0.4	0.8	0.7	0.6	0.7	0.9	0.9
General government consumption and investment	0.6	0.9	0.6	0.7	0.7	0.7	0.5	0.5
Petroleum investment	-0.5	-0.6	-0.2	0.1	0.4	0.1	-0.2	0.1
Housing investment	0.2	0.3	0.4	-0.3	0.1	-0.0	-0.0	-0.0
Other mainland investment	-0.1	0.6	0.5	0.4	0.4	0.1	-0.0	-0.0
Exports from Mainland Norway[1]	1.1	-0.5	-0.1	0.3	1.0	0.7	0.6	0.5
Other factors etc.[1]	-0.8	-0.3	-0.0	0.4	-0.6	0.2	0.2	0.1

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

Table 3. Main economic indicators 2018-2022. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Rcco-unts 2018*	Forecasts										
		2019			2020			2021			2022	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	1.9	1.6	1.8	1.8	1.8	2.3	2.7	2.5	2.1	2.9	2.3	2.2
General government consumption	1.4	2.2	1.9	1.6	2.5	1.2	1.7	1.9	1.2	..	1.8	1.2
Gross fixed investment	2.8	6.3	..	6.1	1.4	..	1.2	-1.6	..	-0.5	0.7	..
Extraction and transport via pipelines	1.9	15.0	14.5	17.8	2.0	2.5	-3.5	-7.6	-4.0	-10.4	3.1	-6.0
Industries	6.8	6.2	3.8	6.2	1.0	2.6	3.4	-0.8	0.4	2.7	-0.4	1.2
Housing	-6.2	1.1	0.9	1.4	-0.3	0.6	2.2	-0.4	1.1	0.8	-0.2	1.5
General government	7.5	3.6	..	1.3	1.1	..	0.3	1.4	..	..	1.4	..
Demand from Mainland Norway[1]	2.0	2.3	2.0	2.1	1.7	1.8	2.2	1.8	1.5	2.2	1.7	1.7
Exports	-0.2	1.6	..	2.3	7.3	..	7.3	3.2	..	3.5	1.8	..
Traditional goods[2]	2.0	5.3	5.2	5.6	4.3	2.3	5.0	3.9	2.8	5.1	3.5	3.2
Crude oil and natural gas	-4.8	-5.3	..	-2.9	14.6	..	14.0	4.1	..	4.6	1.4	..
Imports	1.9	6.6	4.3	5.4	2.6	1.2	1.8	0.7	2.5	1.3	1.8	2.4
Gross domestic product	1.3	1.1	1.3	1.8	3.5	2.2	3.8	2.1	1.9	2.3	1.7	1.6
Mainland Norway	2.2	2.5	2.7	2.7	2.4	1.9	2.5	1.9	1.3	2.0	1.8	1.3
Labour market												
Employed persons	1.6	1.7	1.8	1.6	0.9	1.2	1.0	0.6	0.3	0.6	0.2	0.3
Unemployment rate (level)	3.8	3.7	3.5	3.5	3.7	3.4	3.4	3.7	3.5	3.4	3.7	3.5
Prices and wages												
Annual earnings	2.8	3.5	3.3	3.2	3.6	3.3	3.6	3.6	3.3	..	3.2	3.4
Consumer price index (CPI)	2.7	2.3	2.2	2.3	2.1	2.0	1.9	1.9	2.2	1.8	2.1	2.2
CPI-ATE[3]	1.6	2.4	2.3	2.4	2.3	2.1	2.2	2.1	2.2	2.0	2.2	2.2
Housing prices[4]	1.4	2.4	2.2	..	1.8	3.0	..	2.2	3.2	..	2.3	3.3
Balance of payment												
Current balance (bill. NOK)[5]	252	117	..	209	225	..	246	310	..	..	344	..
Current account (per cent of GDP)	28.8	3.3	..	5.8	6.0	..	6.5	8.0	..	..	8.5	..
Memorandum items:												
Money market rate (level)	1.1	1.5	1.6	1.6	1.9	2.0	1.7	1.9	2.0	1.5	1.9	1.9
Crude oil price NOK (level)[6]	583	562	..	538	530	..	476	503	..	474	496	..
Import weighted krone exchange rate (44 countries)[7]	0.1	3.0	2.3	2.0	3.1	-0.2	0.5	0.0	-0.4	0.0	0.0	-0.1

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] 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.
[3] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[4] Norges Bank forecasts the housing price index published by Eiendom Norge.
[5] Current account not adjusted for saving in pension funds.
[6] Average spot price. Brent Blend.
[7] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN). Ministry of Finance. Meld.St.2. (2018-2019) (MoF). Norges Bank. Pengepolitisk rapport 3/2019 (NB). Kilde: Statistisk sentralbyrå (SSB). Finansdepartementet. Meld.St.1. (2019-2020) (FIN). Norges Bank. Pengepolitisk rapport 3/2019 (NB).

interest are exerting downward pressure on house price developments. Given weak movements in real house prices, housing investment is expected to remain roughly unchanged through 2020–2022, following a rise of just over 1 per cent this year. The level of housing investment will remain high nonetheless, and the supply of new dwellings will increase appreciably through the projection period.

Consumption growth has remained at around trend growth for the Norwegian economy for the past year. Consumption by households and non-profit organisations accounts for more than 50 per cent of mainland GDP, and is driven by movements in household income, wealth and interest rates. This year increased growth in real wages, coupled with slightly higher employment growth, will push up growth in real disposable income. Growth in wage income is expected to decline in the period 2020–2022 as a result of falling employment growth. As a result, growth in real disposable income is also expected to decrease, as the contribution from wage income is large. Public transfers will contribute positively to growth in real disposable income through the projection period, following weak growth in 2018. Moderate changes in tax rates are also proposed from 2019 to 2020. Given approximately unchanged real house prices, consumption growth appears likely to be slightly higher than trend mainland GDP growth in the years ahead.

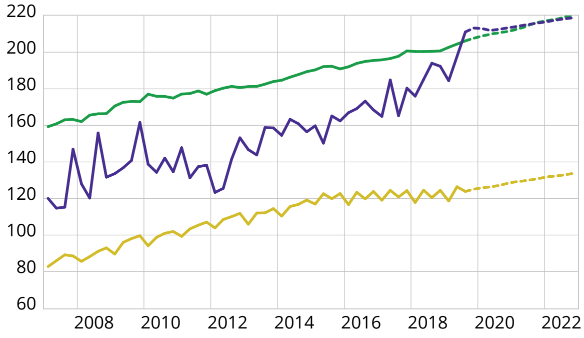
Wage growth has increased gradually through the cyclical upturn. Following record low growth in average annual wages of 1.8 per cent in 2016, wage growth rose to 2.8 per cent in 2018, and is expected to rise further in 2019, up to 3.5 per cent. The krone weakened through Q3 this year, and energy prices are falling. In isolation, this improves the profitability of export-oriented businesses, through both high earnings and lower costs. For the next few years, profitability will continue to be marked by the global slowdown. We therefore assume that wage growth will remain at around 3.5 per cent in the years 2020 and 2021 and be slightly lower in 2022 as a consequence of weaker growth internationally and slightly lower inflation in Norway.

The fall in unemployment has come to a halt. Unemployment fell almost continuously from slightly over 5 per cent in early 2016 to about 3.5 per cent in mid-2019, and has been around 3.7 per cent this autumn. Although unemployment rose to an average of 3.9 per cent for the period August-October 2019, according to Statistics Norway's labour force survey (LFS), figures from the Norwegian Labour and Welfare Organisation (NAV) show that registered unemployment has remained more or less unchanged this autumn. Employment has grown markedly in construction and in several services industries through 2019, but there are signs that growth has slowed recently. We expect unemployment to be 3.7 per cent as an annual average in 2019. In the years ahead, lower demand globally and the knock-on effects of the interest rate increases this past year will constrain demand for labour. At the same time, more labour market entries are expected as a result of the lower unemployment and the pick-up in wage growth these past two years. As a result of lower immigration, falling population growth and a smaller increase in the number of employees on short-term stays, the unemployment rate will nonetheless remain at around 3.7 per cent until 2022. In a historical perspective, this unemployment level is consistent with what we can regard as normal capacity utilisation.

The krone has been weak since 2016, and depreciated further through the summer and autumn of this year. At the beginning of December, the krone was around 7 per cent weaker than when the cyclical upturn commenced in early 2017. We have forecast unchanged exchange rates from the current level for the remainder of the projection period, but exchange rate movements going forward are shrouded in uncertainty. According to our assumptions, the import-weighed exchange rate index (I44) will weaken by around 3.0 per cent annually in 2019 and 2020, and a euro will cost just over NOK 10 until 2022.

We expect Norges Bank to keep the key policy rate unchanged in the years ahead. Norges Bank's operational objective is that the annual rise in the consumer price index adjusted for taxes and excluding energy products (CPI-ATE) shall be close to 2 per cent. Monetary policy shall also contribute to output and employment stabilising around the highest possible level that is consistent with price stability over time. Underlying inflation measured by the 12-month rise in the CPI-ATE has been stable for the past six months, and rose by 2.2 per cent in October. The after-effects of this autumn's depreciation of the krone will push up imported price inflation next year, but the effects of the depreciation will wane somewhat going forward. We project CPI-ATE inflation of 2.3 per cent next year. Given approximately unchanged wage growth and weakly increasing productivity growth for the next few years, inflation appears likely to approach the target by 2022.

Figure 2. General government
Seasonally adjusted, billion 2017 NOK, quarter



Source: Statistics Norway

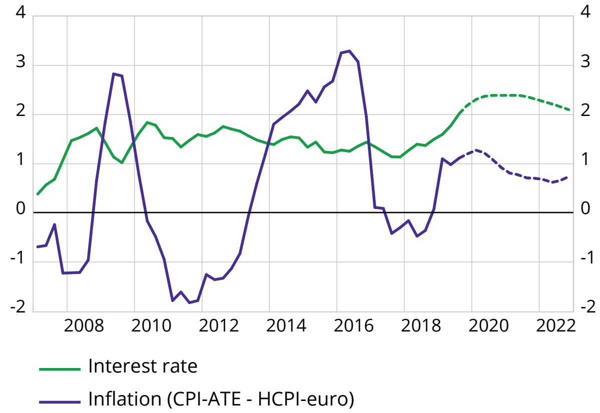
The Norwegian economy is facing a change in pace. In the course of the next 12 months, the cyclical upturn, which has lasted since the beginning of 2017, will probably be over. The global slowdown and markedly lower growth in petroleum investment are contributing to the reversal. In the years ahead, growth in the Norwegian economy is expected to be close to trend, unemployment to be in line with what we regard as normal capacity utilisation and the housing market to be in balance. The key policy rate will nonetheless be kept at a historically low level, in part because international interest rates appear likely to remain very low. On balance, output developments in Norway are expected to be consistent with normal capacity utilisation in the whole period up to 2022.

Roughly cyclically neutral fiscal policy

General government consumption increased by 1.4 per cent in 2018, which is lower than the previous year. At the same time, gross general government investment increased by 7.5 per cent, which is markedly higher than in 2017. In 2017, real growth in public sector consumption, gross investment and transfers combined was close to estimated trend mainland economic growth. In 2018, the sum of these fiscal components increased by 1.6 per cent, so that the most central expenses in public budgets generated less impetus to the Norwegian economy than in previous years. The

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

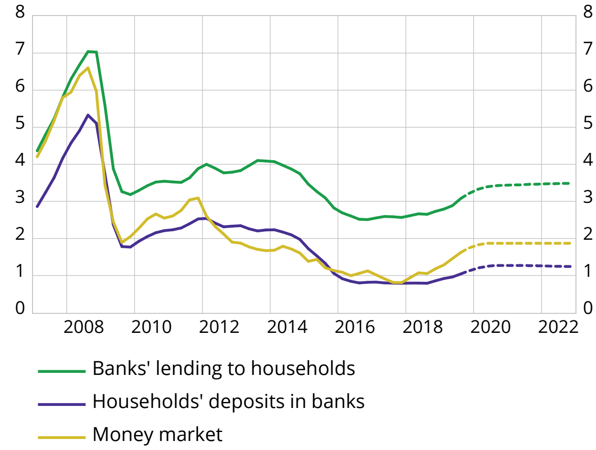
Percentage point



Source: Norges Bank and Statistics Norway

Figure 4. Norwegian interest rates

Percent



Source: Norges Bank and Statistics Norway

contractionary policy in 2018 was not planned, and was mainly due to higher than expected inflation.

Our forecasts for fiscal policy in 2019 are based on national accounts figures for the first three quarters. Second and third quarter growth in public sector spending indicates that there will be somewhat higher expenses overall in 2019 than projected in the National Budget. The higher than expected expenses this year are partly attributable to some unforeseen expenses, such as the salvaging of the KNM Helge Ingstad. In addition, national accounts figures indicate that public investment will also be somewhat higher than projected in the National Budget, particularly for transport and defence. Furthermore, there is a growing share of electric cars, which is reflected in a reduction in revenue from car taxes. Tax on ordinary income was reduced from 23 to 22 per cent in 2019, while bracket tax on personal income is regulated so that there is little change in the effect on the household taxation level.

Transfers are expected to increase in 2019 because real wage growth and the number of pensioners is increasing slightly. Overall real growth in spending on purchases of goods and services, gross investment and household transfers is expected to be 2.3 per cent in 2019, i.e. slightly more than the previous year, and higher than what we regard as trend economic growth. We forecast that fiscal policy for 2018 and 2019 as a whole will be approximately cyclically neutral, with spending somewhat lower than expected in 2018, while it appears likely to be somewhat higher than expected in 2019.

Because the financing of the Norwegian Broadcasting Corporation (NRK) is changing from licence fees to an appropriation over the government budget, there will be a jump in the national accounts series for public consumption next year. Financing NRK over the government budget will increase public spending by just over NOK 6 billion, which will largely be financed by a reduction in basic deductions (non-taxable wealth).

With respect to the remaining spending growth in the period 2020–2022, we assume that fiscal policy will continue to be approximately cyclically neutral. Our projections for growth in general government consumption and investment are based on the National Budget 2020 and thereafter mainly a continuation of growth rates that are close to trend mainland economic growth. Transfers, on the other hand, are expected to increase more, in real terms, than trend. This is attributable both to the ageing population and to increased real wages. Combined demand impulses from general government spending on goods and services, coupled with real transfers, will thus increase by about 2 per cent annually from 2020 to 2022, and contribute to maintaining economic growth at a high level in the near term.

The value of the Government Pension Fund Global (GPFG) was around NOK 10 000 billion at the beginning of December 2019. We assume that exchange rates will remain unchanged from the current level in the near term, so that the value of the fund will not change as a result of exchange rate changes in our projection scenario. There is great uncertainty as to how the value of the fund will move in the near term. If the oil price adheres to the path indicated by forward rates, increased oil production in the next few years will yield revenue from petroleum activities that will cause the fund to grow further. Given a cyclically neutral fiscal policy, the structural non-oil budget deficit (SNOBD) as a share of the value of the fund will be appreciably less than 3 per cent until 2022.

Record-weak krone

In September 2019, Norges Bank raised the key policy rate to 1.5 per cent. This was the fourth increase in the key rate in one year, from a historic low of 0.5 per cent. This year Norges Bank has increased the interest rate at each meeting at which the Monetary Policy Report has also been presented.

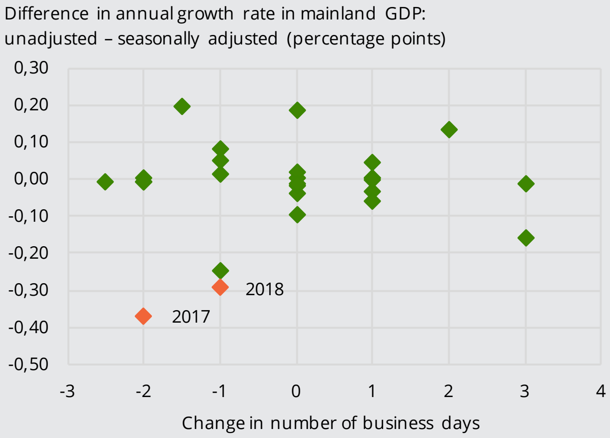
Box 1 Different measures of mainland GDP growth – the effect of business day adjustment

Most variables in the monthly and quarterly national accounts are adjusted for seasonal effects. This means that account is taken of phenomena that are repeated at about the same time each year, for example increased retail trade in the pre-Christmas period. As part of the seasonal adjustment, several variables in the national accounts are also adjusted for calendar effects. Holidays such as New Year›s Day or 1 May may fall on a weekend one year and on a weekday the next, which means that the number of working days will vary from year to year. Since a substantial amount of financial activity is affected by how many working days there are in a period, this variation will also affect overall activity developments. Adjusting for calendar effects means trying to take this into account.

The technical management of calendar effects was changed and improved when Statistics Norway's introduced monthly national accounts in autumn 2018, with figures extending back to 2016. One consequence of the change in method is that the discrepancy between adjusted and unadjusted figures in the national accounts now appears larger than previously. The figure illustrates this for the years 1990–2018. 2016 is excluded as this is the first year following the change in method. In the figure we plot the difference between two different annual growth rates for mainland GDP, calculated by summing seasonally adjusted and non-seasonally adjusted quarterly figures (which in turn are the sum of monthly figures). The differences in growth rates for the years prior to 2016 are as a rule small and insignificant. The differences for the years 2017 and 2018 are more marked, however. This can largely be attributed to the calendar effects described above. As we can see from the horizontal axis in the figure, there were two fewer working days in 2017 than in 2016. An attempt is made to eliminate the effect this has on the aggregate value added in the seasonally adjusted figures, but not in the unadjusted figures. Annual growth therefore appears to be stronger in the seasonally adjusted figures. There was one less working day in 2018 than in 2017. The difference between the two series is therefore somewhat smaller than in 2017, but with the same sign.

Most forecasters in Norway base their growth projections on unadjusted annual figures. An exception is Norges Bank, which began in the 2019/1 Monetary Policy Report to publish projections for figures adjusted for the number of business days. It may be important to bear this difference in mind when comparing the growth projections from the central bank against those emerging from other analytical environments. In 2020, for example, there will be three more working days than this year. We estimate that approximately 0.5 percentage point of the projected growth in mainland GDP of 2.4 per cent can be attributed to the increase in the number of working days. In Norges Bank's latest projections from September, growth in 2020 was projected to be 1.9 per cent. It may appear from this that the central bank expects weaker developments in activity next year, but the difference from our projections can thus be explained by the fact that we have different targets. There is no change in the number of working days in the years 2021 or 2022, however, so business days do not affect the projections either.

Mainland GDP and business days. Difference in annual growth rate[1]



[1] 2016 is excluded.
Source: Statistics Norway.

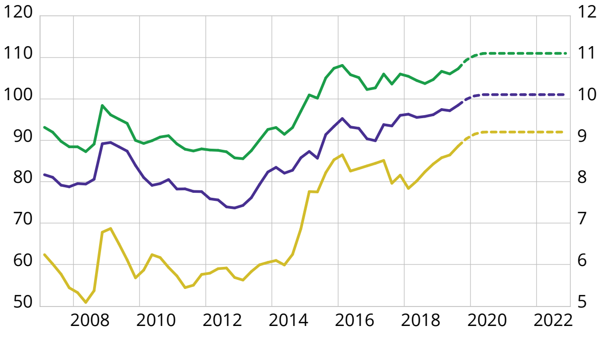
The money market rate was down to 0.8 per cent for much of the last half of 2017. It subsequently rose from about 1.0 per cent in August 2018 to over 1.8 per cent at the end of November this year.

The interest rates faced by households have also increased in recent years. In 2016, the interest rate on loans secured on dwellings that was offered by banks and mortgage companies was 2.5 per cent. The rate had risen to 2.8 per cent by the end of 2018, and rose further to 3.2 per cent at the end of Q3 this year. The deposit rate has increased less, from a level of 0.8 per cent in the period 2016 Q2 to 2018 Q3, to nearly 0.9 per cent at the end of 2018. At the end of Q3 this year, it had reached 1.1 per cent. The last increase in the key policy rate came so late that it is not yet reflected in the statistics for interest rates on current deposits and loans at the end of Q3 this year.

The krone has remained at a historically weak level in recent years, and has weakened further in the last few months. A euro has cost over NOK 10.00 since early October this year. Although the current euro exchange rate has been over 10.0 at times in the past, it was in August this year that Norges Bank first noted a euro exchange rate of over NOK 10.0 as the official rate for the day. At the end of November, the price was NOK 10.1.

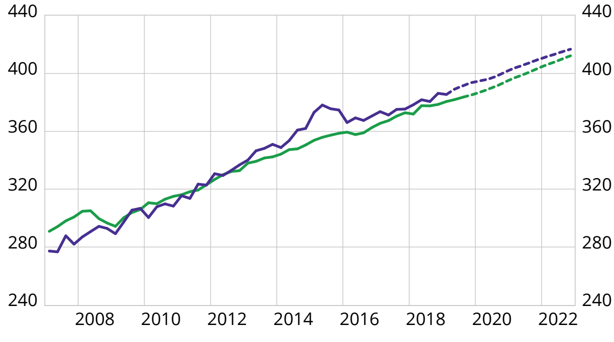
The price per USD had risen to NOK 9.2 at the end of November, compared with an average rate of NOK 8.1 in 2018. The krone has nevertheless several times been weaker in relation to the dollar than it is now, most recently in 2001. We have also seen a weaker krone in the past measured against sterling and the Swedish krone, currencies of countries with which we trade extensively. However, the import-weighted krone exchange rate

Figure 5. Exchange rates



Source: Norges Bank

Figure 6. Income and consumption in households
Seasonally adjusted, billion 2017 NOK, quarter



Source: Statistics Norway

has never been weaker in the 30-odd years in which it has been calculated.

In our previous forecasts, from the beginning of September this year, we projected an unchanged interest rate going forward. Norges Bank increased the interest rate later that same month, and at the same time forecast a flat path for the key rate for the next few years. The background to our previous interest rate projection was that we assumed very weak global developments because of the great uncertainty prevailing with regard to the Brexit process. We have now revised up our global growth outlook and, our projection for mainland GDP growth this year and next is close to trend. This is roughly the same as Norges Bank's projection when we take into account that Norges Bank bases its projections on seasonally and business-day adjusted figures; see Box 1. Given unchanged interest rates going forward, inflation will lie close to the inflation target of 2 per cent, while unemployment will be at a level that can be perceived as normal. An unchanged interest rate is consistent with what has been priced into the market. Given this flat path for the money market rate, the deposit and lending rates will nonetheless increase somewhat as a consequence of a time-lagged effect of the key rate hike in September this year.

We assume an unchanged krone exchange rate in the near term. This assumption is based partly on the fact that we have found that such a projection of the krone is more accurate than projections based on historical patterns, and partly on balancing various factors that indicate either a depreciation or an appreciation of the krone. The krone is weak in a historical perspective, and only some of its weakness can be explained by higher inflation in Norway than in the euro area. In isolation, this points to the krone appreciating in the near term. On the other hand, the theory of uncovered interest rate parity implies a further weakening of the krone against the euro, since the interest rate level in Norway is higher than in the euro area.

Higher consumption growth

Consumption by households and non-profit organisations increased by 0.4 per cent in Q3 of this year, approximately the same as in the previous three quarters.

The moderate developments in overall consumption can be largely attributed to fairly weak developments in goods consumption through the current year. Whereas goods consumption was roughly unchanged in Q3, overall growth through Q1 and Q2 was barely 1 per cent, following a slight dip in Q4 last year. The fluctuations in goods consumption are largely attributed to car purchases, which fell by as much as 5.3 per cent in Q3, lowering aggregate household consumption by 0.3 percentage point. Purchases of electric cars in particular fell in Q3 compared with the previous two quarters. This is probably because car manufacturers have begun to adapt to new emission requirements for the whole car model portfolio applying from next year. By postponing the launch of electric car models until 2020, car manufacturers can increase the share of electric cars in their portfolio next year, and thereby avoid or reduce large fines. Other goods consumption showed broad-based growth in Q3.

The goods consumption index for October shows a seasonally adjusted fall of 1.0 per cent. Car purchases contributed as much as 0.7 percentage point to the fall, a portent of weak developments in goods consumption in Q4 this year.

Conversely, consumption of services increased by 0.6 per cent in Q3, which is in line with the previous four quarters and average quarterly growth for the last two-three years. Purchases of leisure services and hotel and restaurant services contributed substantially to growth in service consumption in Q3.

Developments in consumption are largely determined by changes in household income, wealth and interest rates. With the advent of the new income accounts, growth in real disposable income in 2018, including and excluding share dividend disbursements, has been revised down by about one percentage point, to approximately 1.5 per cent. This is mainly due to an upward adjustment of direct taxes and a downward adjustment of wage income, operating profits and transfers from abroad as a result of the incorporation of new information and new sources.

Wage income, which is the primary source of household income, contributed by far the most to growth in real disposable income last year. Although growth in real wages was modest, high employment growth contributed to boosting wage income. This year increased growth in real wages, coupled with slightly higher employment growth, will push up growth in real disposable income. Growth in wage income is expected to decline in the period 2020–2022 as a result of falling employment growth. As a result, growth in real disposable income is also expected to decrease, as the contribution from wage income is large. Following weak growth in 2018, public transfers will also contribute positively to growth in real disposable income through the projection period. Growth in transfers going forward is attributable to the increased number of old-age pensioners, coupled with increased real wages. Conversely, net capital income will curb real income growth, as interest on household debt will be somewhat higher in the projection period than last year.

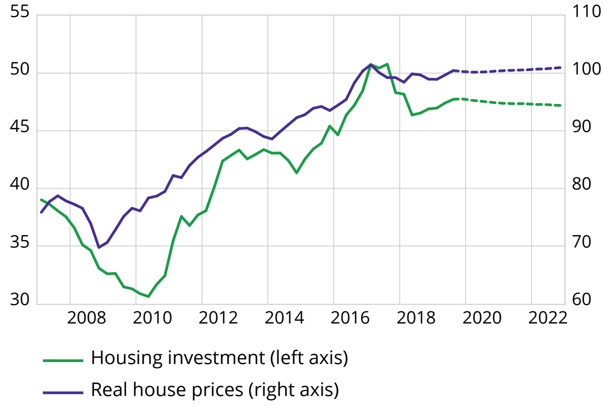
On balance, we expect growth in real disposable income of just over 3 per cent this year, up by around 1.5 percentage points on the revised annual growth last year. Growth in real disposable income will then abate to levels of between 1.5 and 2.5 per cent up to 2022. Weak developments in real house prices and overall wealth in real terms throughout the projection period will dampen consumption growth in the near term. All in all, consumption growth appears likely to be just over 1.5 per cent this year, followed by growth of just under 2 per cent in 2020. The projection for 2020 takes account of the fact that financing NRK over the government budget will reduce consumption by just over NOK 6 billion. Consumption growth will then rise to around 2.5 per cent in the years 2021 and 2022.

As a result of the revision of disposable income, the saving ratio for 2018, measured as saving as a share of disposable income including disbursements of share dividend, has been revised down from 6.5 per cent to 5.9 per cent. Our projections for income, consumption and wealth mean that the level of the saving ratio will rise by about 1.5 percentage points this year. The level of the saving ratio adjusted for disbursements of share dividend will rise from 1.5 per cent in 2018 to about 2.5 per cent this year and remain at around this level or somewhat lower for the next three years.

Weak developments in real house prices

According to Statistics Norway's quarterly house price index, the seasonally adjusted rise in house prices was 0.9 per cent in Q3 this year, approximately the same as in Q2. This growth followed weak developments through the second half of last year and Q1 of this year. From the peak in 2017 Q1, when the housing market reversal occurred, until 2019 Q3, house prices have risen cautiously by around 4 per cent. By way of comparison, house prices were about 15 per cent higher in 2017 Q1 than in 2015 Q1, after a two-year period marked by high population growth and sharply falling mortgage rates.

Figure 7. Housing market
Seasonally adjusted. Left axis: billion 2017 NOK, quarter. Right axis: index, 2017 = 100



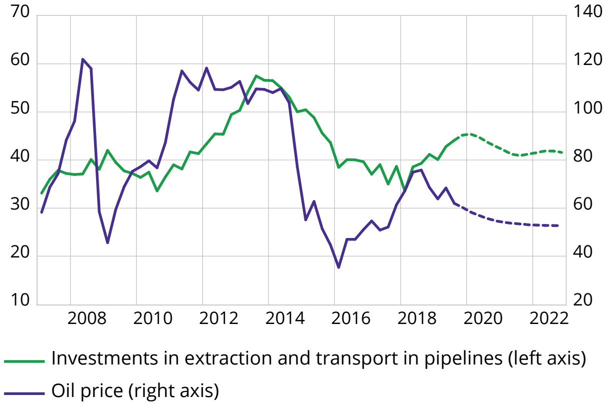
Source: Statistics Norway

The rise in house prices appears likely to be moderate also in Q4 this year. According to Real Estate Norway's monthly house price statistics, seasonally adjusted house prices showed zero change in October, despite a high level of activity in the housing market. Increased lending rates in the wake of Norges Bank's interest rate hike in September, and the introduction of the debt register for consumer loans on 1 July this year, may have curbed house prices recently.

House prices are stimulated by an increase in real disposable income and lower real interest rates, and depressed by an increased supply of dwellings and lower population growth. In the short term, house prices are also influenced by changes in households' expectations regarding both their own financial situation and the Norwegian economy. Restrictions that lead to less borrowing will also curb house prices. The new Mortgage Regulations, which will take effect on 1 January 2020 and apply until the end of the year, are a continuation of the borrowing requirements in the Mortgage Regulations of 1 July last year, and thus do not imply any further tightening of credit to households.

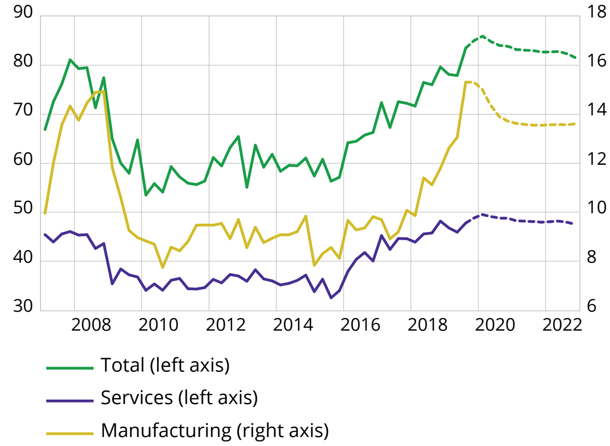
Household real disposable income will increase more going forward than it did last year. Although the lending rates facing households will increase slightly through the projection period, real interest rates as an annual average will switch from negative to positive this year and for the next three years because of lower inflation. The higher real interest rates, coupled with tightening of banks' lending practice as a consequence of the new debt register, will bring about a certain

Figure 8. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2017 NOK, quarter.
Right axis: USD per barrel



Source: Statistics Norway

Figure 9. Investments, Mainland Norway
Seasonally adjusted, billion 2017 NOK, quarter



Source: Statistics Norway

decline in household debt growth through the projection period. The most recent observation of Finance Norway's consumer confidence indicator shows less optimism regarding the future among households, and this may dampen house prices somewhat in the near term.

We assume a continued cautious rise in nominal house prices through the projection period. There is now a good balance between demand and supply in the housing market. Population growth, a factor that drives growth in housing demand, will increase less in the near term than in the years prior to the housing market downturn in 2017. As housing investment fell by as much as 6 per cent as an annual average in 2018, the supply of dwellings will also increase less going forward than in the preceding years. Our projections show that the annualised average rise in house prices will be about 2.5 per cent this year, and around 2 per cent in the years 2020–2022. With inflation close to the target of 2 per cent, real house prices will be more or less constant through the projection period.

Seasonally adjusted figures show that housing investment has reversed from a sharp fall through 2017 Q4 and the first half of 2018 to a moderate upswing through the last five quarters. However, a flat underlying trend in housing starts in recent months, coupled with weak developments in real house prices, will keep housing investment almost at a standstill through the period 2020–2022, following growth of just over 1 per cent this year. Our projections imply that the level of housing investment in 2022 will be a good 5 per cent lower than the peak level in 2017. The level of housing investment will remain high nonetheless, and the supply of new dwellings will increase appreciably through the projection period.

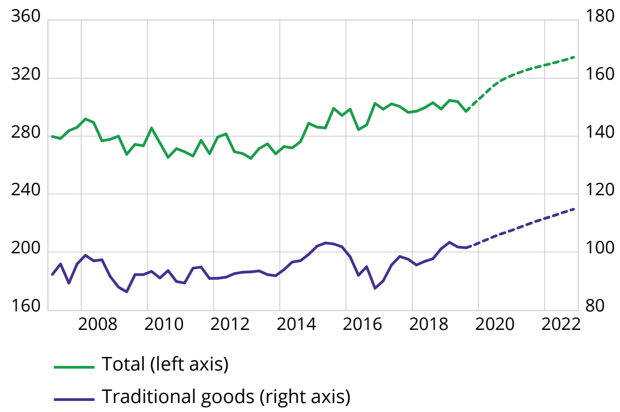
Shift of pace in petroleum investment

After falling for several years, petroleum investment increased by 1.9 per cent in 2018. In the first three quarters of 2019, petroleum investment was 14 per cent higher than the level in the same period in 2018. Preliminary seasonally adjusted figures show growth of 3.0 per cent from Q2 to Q3.

According to Statistics Norway's most recent investment survey of manufacturing companies' projections (the KIS survey), investment with a current value of NOK 183 billion is expected in 2019. This is marginally higher than the figure arrived at in the previous quarter. The projection is a full 17.7 per cent higher than the corresponding figure for 2018, published in 2018 Q4. Realisation of the present projection for 2019 presupposes investment of NOK 54.8 billion in Q4, which means investment growth of as much as 20 per cent from Q3 to Q4. For the last 21 years, the projection published in Q4 of the investment year, both as an average and as a mode, has been 2 per cent higher than the final investment total. However, according to the Norwegian Petroleum Directorate's fact pages, figures for drilling days in October and November indicate higher drilling activity in Q4 than in Q3. Although drilling activity thus far in Q4 indicates growth in investment activity compared with Q3, there is still reason to believe that some of the investment now in the plans for Q4 will be postponed until 2020. We therefore forecast that final investment in 2019 will be about 2 per cent lower than the current projection in the survey. Given an expected rise in investment prices of 3 per cent, this implies growth in investment volume of around 15 per cent in 2019.

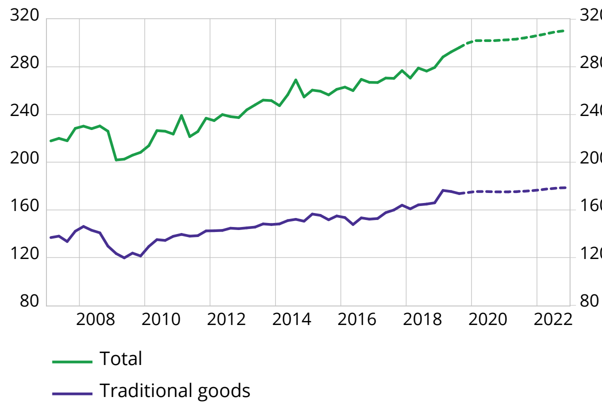
The petroleum companies' most recent investment projection for 2020 is now given as about NOK 183 billion in nominal terms, which is 4.9 per cent higher than the projection from the previous quarter. The increase is mainly due to reported substantially higher investment projections for some development projects than previously. Plans for development and operation (PDOs) are also expected to be submitted for several more projects later this year and next year. Development projects requiring a PDO are only included in the investment intentions survey once the plan has been submitted to the authorities. These include the Balder X, Halten Sør Øst

Figure 10. Exports
Seasonally adjusted, billion 2017 NOK, quarter



Source: Statistics Norway

Figure 11. Imports
Seasonally adjusted, billion 2017 NOK, quarter



Source: Statistics Norway

and Breidablikk fields and further development of Hod. The Balder X PDO is likely to be submitted for approval in December this year. This is a fairly large project in which there will probably be a relatively large amount of investment next year. Breidablikk is a project with total investment of the same order of size as Balder X, but its PDO is not expected to be delivered before 2020 Q2 at the earliest, and consequently investment in 2020 will probably be more modest. We forecast that total investment in these new projects in 2020 will amount to about NOK 9 billion. Because of the markedly higher investment projections that were reported for individual development projects in the last survey, we are revising our projections upwards, and are now assuming slight real growth in petroleum investment in 2020.

We are now forecasting a sharper fall in petroleum investment 2021 than in the previous economic report. The reason for this is that we have raised the investment level for 2020. The level has also been raised marginally for 2021, with somewhat higher investment estimates for fields in operation and for shutdown and abandonment. We expect a new round of growth in petroleum investment in 2022, mainly because there will be more developments that year, some of them large. The largest of these is Wisting. There will also be considerable investment in 2022 in the extensive Johan Castberg and Johan Sverdrup (Phase 2) developments. We accordingly project a fall in investment of about 7.5 per cent in 2021, followed by real growth of around 3 per cent in 2022.

In 2019 Q1 prices for capital goods and services were 0.5 per cent down on the same quarter the previous year, while prices showed a 4.2 per cent rise in Q2. According to preliminary QNA figures, prices rose 5.1 per cent in Q3. We are assuming a 3 per cent rise in prices this year as an annual average. Given a levelling off of demand for capital goods and services in 2020, we expect a somewhat slower rise in prices next year. In 2021 we forecast a lower, but still just positive rise in prices as a consequence of lower investment. We also expect the rise in prices to increase moderately again in 2022.

In the first three quarters of 2019, oil and gas extraction was 8 per cent lower than in the same period last year. Liquid production fell by 10 per cent, while gas production in the first three quarters of the year was 6.2 per cent lower than in the same period in 2018. The large Johan Sverdrup oil field, which came onstream in October this year, is expected to give a considerable boost to overall oil and gas production next year. Growth is expected to be positive, but more moderate, later in the projection period.

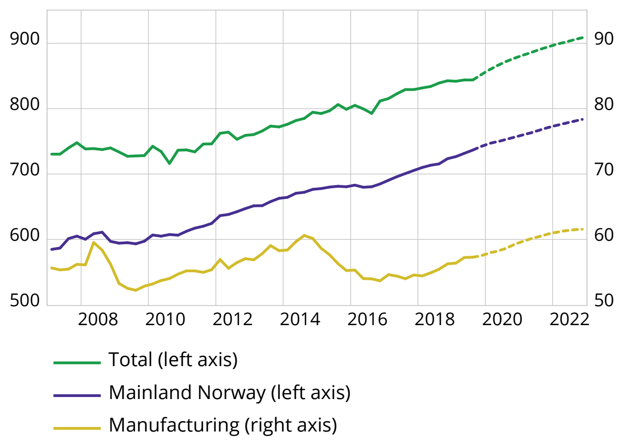
Slowdown in business investment

In 2017 and 2018, total business investment increased by 9.2 and 6.8 per cent, respectively. Seasonally adjusted QNA figures show that so far this year, total business investment has grown by 4.8 per cent. Growth from of 2018 Q3 to 2019 Q3 was about 10 per cent. If growth from 2019 Q3 to Q4 is the same as last year, growth in overall business investment will be about 8 per cent in 2019.

Manufacturing investment is the subcomponent that exhibited by far the strongest growth in the first three quarters of the year, and in Q3 investment in this industry was about 40 per cent higher than in the same quarter the previous year. Corresponding figures for power production and service industries were -5.4 and 5.1 per cent, respectively.

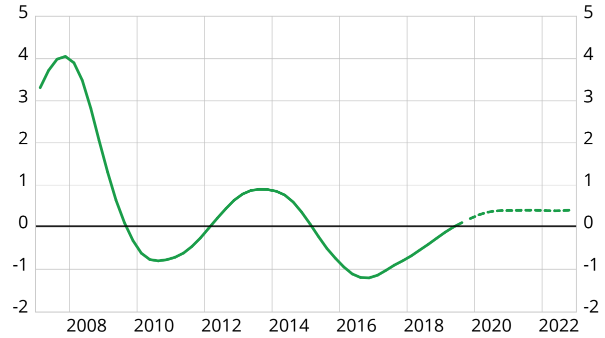
In Statistics Norway's November investment intentions survey, the projections for manufacturing investment in 2019 are about 35 per cent higher than the corresponding projections for 2018 published in November last year. This is as high as the projection for 2019 published in August. The projections are in current prices, so the survey implies somewhat lower growth, measured in constant prices, given rising investment prices. This upswing is attributable to the food industry and repair and installation of machinery in particular. Refined petroleum products, chemicals and pharmaceuticals manufacturing and basic metals are also contributing positively to the high level of investment activity in 2019. The projections for 2020 are more uncertain, but indicate now that manufacturing investment will fall

Figure 12. Gross domestic product
Seasonally adjusted, billion 2017 NOK, quarter



Source: Statistics Norway

Figure 13. Output gap, Mainland Norway
Deviation form estimated trend GDP in percent



Source: Statistics Norway

by around 8 per cent compared with the high level in 2019.

The survey shows a slight decline in power supply from the high growth in connection with the installation of AMS meters. The survey's projection in August 2019 indicated a decline of 4.3 per cent, which was supported by the latest survey, showing an expected decline of 2.9 per cent for 2019. There is some positive impetus nonetheless from production, in connection with the development of wind parks. The survey now shows a clear decline for 2020, but the projections are uncertain, and may change if new wind farm projects are initiated.

Norges Bank's regional network surveys economic developments in Norway, including expected investment, by compiling information from businesses throughout Norway. The report published in September shows that investment growth is expected in the next 12 months. All subcomponents have positive contributions, but the estimate for services is now very close to zero.

We estimate growth in total business investment of approximately 6 per cent in 2019. There has been substantial investment in several industries in 2019, but we now see signs of a turnaround in the offing. As a result of lower international demand, manufacturing investment will probably fall back from the very high level in 2019 and investment in services will level off. Given this scenario, we will pass a new investment peak at the beginning of 2020. Investment will subsequently be relatively flat, but somewhat lower than peak for the remainder of the projection period.

Oil and gas exports picking up after a decline this year

Total oil and gas exports have fallen in each of the last four quarters, according to seasonally adjusted QNA figures. The combined reduction is well over 10 per cent. Whereas oil exports fell in the preceding quarters, it was gas exports that fell in Q3 this year. The decline can be partly attributed to offshore maintenance work in September. Increased exports of liquid natural gas from the USA and Russia pushed down gas prices for the fourth consecutive quarter. The oil price also fell in Q3. With falls in both export volumes and prices, the value of combined oil and gas exports was reduced by a full 15 per cent from Q2 to Q3 this year.

Exports of traditional goods, which exclude ships and oil platforms, crude oil, natural gas and condensate, dipped slightly in Q3 this year, after a somewhat larger decline the previous quarter. Exports of refined petroleum and engineering products contributed to the fall in both quarters, while exports of basic metals contributed most to the Q3 decline. Exports of primary industry products including farmed fish exhibited solid growth in both Q2 and Q3. Manufacturing products in the category food and beverages also grew in both quarters, albeit moderately. The high rise in prices for traditional goods exports in 2017 and 2018 has not continued in 2019. If refined petroleum products, which fluctuate substantially in price, are excluded, there has been an approximately zero price rise in all three quarters so far this year. In light of the depreciation of the krone, this means that prices for Norwegian export goods calculated in foreign currency have fallen.

Service exports increased in each of the first three quarters of this year, by a total of over 9 per cent. The service groups gross freight earnings, foreigners' consumption in Norway, public transport services and financial and business services all increased their exports in each of the first three quarters of 2019. The rise in prices this year has been considerably more moderate, but so far there has been an increase through the year.

We have revised upwards our projections for global market growth compared with our previous projection. This implies increased growth in demand for Norwegian export goods and services, and hence increased growth in mainland exports. As a result of improved cost-competitiveness, Norwegian exporters are expected to win market shares in the next few years. Oil and gas exports will increase sharply in 2020, when

Box 2 Consequences for the Norwegian economy of slower global growth

The uncertainty regarding world economic developments is largely linked to the outcome of the ongoing negotiations between the USA and China. We also see other sources of risk for a more pronounced economic downturn in the USA than we have assumed in our projections. This box discusses and analyses a downside scenario of this kind.

It is difficult to predict when the next downturn in the USA will occur. Historical experience may nonetheless say something about which indicators normally give early warning. One such indicator is the interest rate differential between long and short government bond yields, which often becomes negative one or two years before a recession commences. This happened in the USA in March this year, when the interest rate differential between 10-year and 3-month government bond yields first became negative. The interest rate differential between 10-year and 2-year government bond yields has subsequently inverted several times since this first happened in August.

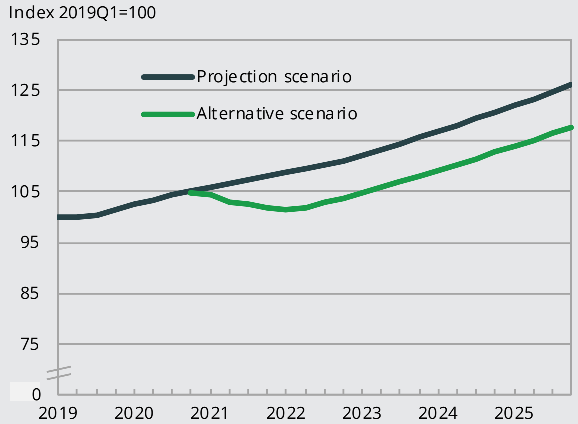
Two other, more underlying indicators, are the quality of companies' credit and their profitability. Both profit margins and credit quality have fallen recently. If profitability falls, companies' saving plans tend to involve employment cuts. If credit quality falls, it becomes more difficult for companies to obtain funding and to service their debt. This can further impact employment, which in turn may affect wages and consumption. There is still growth in real wages, albeit somewhat subdued, but working hours in manufacturing have fallen. Historically, this has often been followed by a fall in wage growth as well. At the same time, both the S&P 500 index and broader indexes such as the MSCI Mid & Large Cap have risen to record heights. However, developments in the stock market must be viewed against the backdrop of the highly expansionary monetary policy in the USA.

The Fed stopped reducing the size of its balance sheet this summer. In addition, interest rates in the interbank market for short-term loans rose to over 10 per cent in September. In order to reduce the loan costs of financial institutions, the Fed has since then injected substantial amounts of liquidity. There is speculation that one or a few financial institutions are more dependent than others on a supply of liquidity from the Fed. Lack of confidence among financial institutions is a clear risk factor for the USA. There is also a risk that this may spill over onto Europe and other important Norwegian trading partners.

Consumption accounts for almost 70 per cent of the US economy. Developments in consumption are therefore crucial to developments in the economy as a whole. According to the most widely followed consumer sentiment surveys, produced by the Conference Board and Michigan University, consumer confidence is still at a high level. However confidence has stopped increasing, and the 12-month moving average of the two surveys has begun to fall. The sentiment among households is also substantially more positive than the business sentiment, which is a typical sign of a mature economic cycle. The Conference Board sub-index that takes account of household plans to buy homes fell in November. Sales of consumer durables such as cars have also fallen almost 20 per cent on an annual basis.

In brief, there are several factors indicating that the US economy may be on the brink of a cyclical downturn. We use the KVARTS macroeconomic model to analyse the consequences this may have for the Norwegian economy. In order to illustrate the effects more fully, we extend the model projection to 2025, which is three years beyond our ordinary projection scenario. The point of departure for the analysis is a fall in the export-weighted market indicator of almost 7 per cent compared with the projection scenario (see figure). Behind this course lies a relatively strong cyclical downturn in the USA which begins at the end of 2020. The downturn in the USA is then assumed to spill over to other parts of the world, as has been the case with previous economic downturns. In addition to the fall in the market indicator, we assume that inflation in the euro zone will fall by 0.3 percentage point in 2021, 1.0 percentage point in 2022 and 0.8 percentage point in 2023. We also assume a moderate fall in the oil price, and that interest rates in the euro zone will remain at their current low level for two years longer than in the projection scenario.

Export-weighted market indicator



Source: Statistics Norway.

Effects of lower global growth. Deviation from the projection scenario in per cent

	2020	2021	2022	2023	2024	2025
Mainland GDP	0.0	-0.3	-0.4	-0.4	-0.5	-0.7
- Manufacturing	0.0	-0.7	-0.9	-0.8	-1.2	-1.8
Consumption by households etc.	0.0	-0.1	-0.2	-0.1	-0.1	-0.4
Exports excl. oil and gas	0.0	-1.5	-3.0	-3.3	-3.8	-4.2
Employment	0.0	0.0	-0.2	-0.4	-0.5	-0.7
Unemployment percentage points	0.0	0.0	0.1	0.2	0.3	0.3
Household real disposable income	0.0	-0.3	-0.4	-0.5	-0.5	-0.8
CPI	0.0	0.0	0.4	0.4	0.3	0.2
Business investment	0.0	-0.4	0.0	0.2	-0.3	-0.9
Import-weighted krone exchange rate (44 countries)	0.0	2.9	4.7	3.6	2.0	1.6
Money market interest rate (level)	0.0	-0.3	-0.4	-0.4	-0.3	-0.2
Assumptions						
Market indicator (mii)	-0.1	-3.7	-6.7	-6.6	-6.6	-6.6
Money market rate, euro (level)	0.0	0.0	-0.2	-0.4	-0.2	0.0
Consumer price, euro area	0.0	-0.3	-1.3	-2.1	-2.1	-2.1
Oil price, USD (level)	0.0	-10.0	-5.0	-2.5	0.0	0.0

Source: Statistics Norway.

The projection shows that the lower global growth dampens activity in the Norwegian economy. The direct effect is first and foremost reduced exports. This has negative knock-on effects for the mainland economy, particularly manufacturing. However, the downturn in manufacturing is checked by the depreciation of the krone as a consequence of a lower oil price and changes in inflation differences, which improves cost-competitiveness. The weaker krone also causes prices for import goods to rise, pushing up domestic inflation. Despite this, the projection shows that Norges Bank reduces the key rate by 0.4 percentage point at most. The background to the decline is the subdued activity in the Norwegian economy.

All in all, the model projection shows that mainland GDP is 0.4 per cent lower in 2022 than in the projection scenario, and 0.7 per cent lower in 2025. Unemployment increases by 0.3 percentage point towards the end of the projection period. Given the sharp fall in global demand, these effects must be said to be fairly moderate. The explanation lies largely in the depreciation of the krone and reduction of the key rate. Without these dampening mechanisms, the impact on mainland GDP would be almost twice as strong.

There are factors that we have excluded from the analysis that could have had further negative effects on the Norwegian economy. For example, we have disregarded possible turbulence in financial markets, which could have limited investment opportunities for Norwegian companies. We have also assumed that the fall in the oil price was too small to have any effect on petroleum investment. On the other hand, we have not assumed any changes in fiscal policy either. As public spending in the projection scenario is well under the limit imposed by the fiscal rule, it appears probable that fiscal policy would have been more expansionary in a scenario such as the one outlined here.

the large Johan Sverdrup (Phase 1) field attains normal production after start-up in October this year.

Following a large increase in 2019 Q1, traditional goods imports fell a little in both Q2 and Q3. Imports of primary industry products, mining and manufacturing products and electricity all contributed to the decline. Imports of electric cars declined in Q3, following high volumes in the previous two quarters. Imports of crude oil for refining, which may have large quarterly fluctuations, increased substantially. Imports of ships' hulls and three fighter aircraft contributed most to keeping growth in total goods imports positive in Q3. The rise in prices for traditional goods imports was very moderate through the first three quarters of the year.

Imports of services showed positive and increasing growth in the first three quarters of the year. Large and steady contributions to growth came from imports of petroleum-related, financial and business, construction and information services. Overall, prices for imported services increased considerably less than the volume of imports in the first three quarters of the year, despite the weaker krone exchange rate.

The growth in imports of traditional goods and services in the first half of 2019 indicates that annual growth will be high. Substantially lower growth rates are expected in the last three years of the projection period as a result of weaker demand growth in Norway.

The trade surplus increased substantially in 2018, largely owing to higher prices for oil and gas exports. Lower oil and gas prices this year, and an expected fall in prices over the next few years will reduce the trade surplus each year in the projection period. Countering this tendency are increased volumes of oil and gas exports, especially from the Johan Sverdrup field, in 2020. Higher growth in mainland exports than in imports is also expected to generate a positive growth impetus. Thus the trade balance is expected to increase again following a pronounced decline in 2019. The growing size of the petroleum fund and hence increasing transfers, coupled with a weaker krone in 2019 and 2020, will strengthen the balance of income and current transfers. The sum of the trade surplus and the balance of income and current transfers makes up the current account balance. The surplus expressed as a share of GDP is expected to rise from just over 3 per cent to over 8 per cent in the projection period.

Activity growth near trend for the next few years

Mainland GDP increased by 0.7 per cent from Q2 to Q3 this year. This is the same growth rate as in Q2, but somewhat higher than average growth from 2018 and Q1 this year. Q3 growth was also higher than estimated trend growth for the Norwegian economy of just under 2 per cent as an annual rate. According to the monthly national accounts, growth was strong in July while the activity level decreased somewhat in both August and September.

Manufacturing was hard hit by the cyclical downturn that started in 2014, but since 2017 has benefited from the turnaround in the Norwegian economy. Value added increased by over 5 per cent from 2018 Q1 to 2019 Q2. However, growth came to a halt in Q3. Nevertheless, there were major differences across the manufacturing industries. Growth was fairly high in shipbuilding and production of industrial chemicals, while the food industry and manufacture of metal products, electrical equipment and machinery fell appreciably.

Construction has been strongly on the rise for a long time, but here, too, growth came to a halt in Q3. This was admittedly to be expected, as activity was already at a very high level. Developments in other mainland goods-manufacturing industries are strongly affected by naturally occurring factors. Power production rose by as much as 4.6 per cent in Q3, thereby boosting

Figure 14. Labour market status
Percent of population in working age, LFS

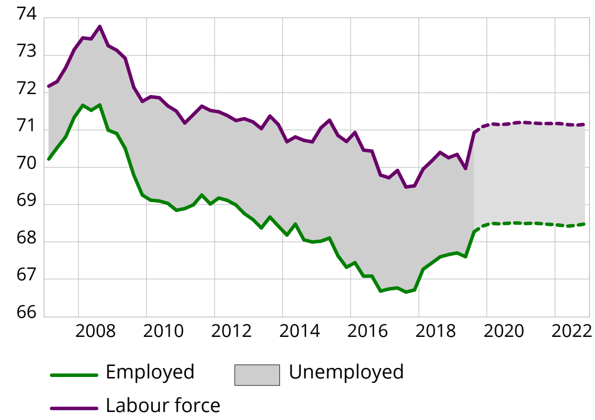


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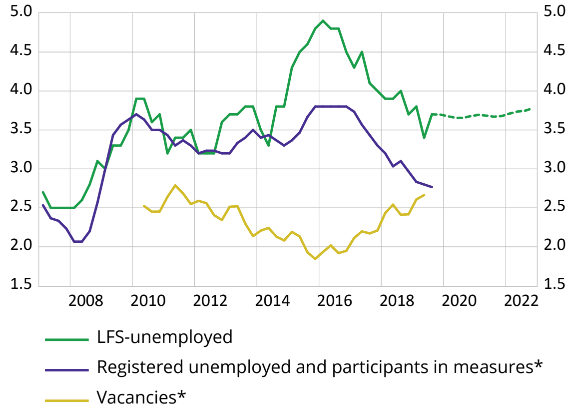
Figure 15. Unemployed and number of vacancies
Percent of labour force and of the sum of occupied and vacant positions, seasonally adjusted and smoothed



*Breaks in the statistics make the numbers incomparable before and after January 2013
Source: The Norwegian Labour and Welfare Administration and Statistics Norway

growth in mainland GDP by 0.1 percentage point. Growth was also high in fishing and aquaculture, while the level of activity in agriculture and forestry dipped.

Value added in service industries other than general government rose by 0.6 per cent in Q3, following similar growth in Q2. Growth in service production has been high for a long period, and continues to be broad-based, distributed among the various industries. This is consistent with the Norwegian economic upturn having gained a solid hold. Q3 growth was particularly strong in information and communications, and in professional, scientific and technical services. Growth in the hotel and restaurant industry has been strong for a long time. This can probably be ascribed to the relatively weak krone, which prompts more foreign tourists to come to Norway and Norwegians to spend more holidays at home.

The activity level in general government edged up 0.6 per cent in Q3. This growth is stronger than in the first two quarters of 2019, and also somewhat higher than estimated trend growth for the overall Norwegian economy.

In the years ahead, we expect activity growth to be somewhat lower than in 2019. Petroleum investment has increased strongly this year, generating positive demand impulses, also to the mainland economy (see Fig. 1). However, the positive impulses will abate from next year, depressing growth, particularly in manufacturing. The construction industry is another sector that has boosted growth in the Norwegian economy in recent years. Going forward we expect little change in housing investment, while growth in public infrastructure investment will slow. This will lead to an appreciable decline in construction growth. We also foresee that the broad-based upswing in service industries will continue, but at a somewhat slower rate. Growth in general government is expected to remain fairly stable and close to trend growth for the Norwegian economy.

On balance, our projections indicate mainland GDP growth of 2.5 per cent for the current year and 2.4 per cent for 2020. There are three more working days in 2020 than in 2019, which in isolation will push up growth by about 0.5 percentage point (see Box 1). We project mainland economic growth in 2021 and 2022 at just under 2 per cent, which is in line with trend economic growth.

We have revised upwards our projections for growth in the global economy compared with our previous projection. In Box 2 we examine the consequences for the Norwegian economy of slower global growth.

Stable unemployment

Unemployment increased weakly and at a slowing pace through the first three quarters of this year. Q3 growth was a modest 0.3 per cent. Both employment developments and the decline in vacancies reflect more subdued demand for labour in Q3 this year. This is also supported by recent changes in unemployment. From January 2018 to April 2019, LFS unemployment fell from 4.0 per cent to 3.3 per cent, measured as a 3-month centred average. Unemployment subsequently rose a little to 3.9 per cent, measured as the average for the period August-October this year.

Construction employment has grown particularly strongly through the cyclical upturn that started in early 2017. In 2018, employment in this industry rose by about 1 per cent per quarter on average, and growth remained at this level in Q1 this year, falling to 0.6 per cent in Q2 and Q3. Despite lower growth rates in construction than we have seen in recent years, the industry continues to make a positive contribution to growth in overall employment. Another industry that has long pushed up growth is administrative and support services. However, in 2019 Q3 the increase in administrative and support services was only 0.2 per cent. This is by far

Box 3 Economic downturn from 2014 and employment rate in Norway

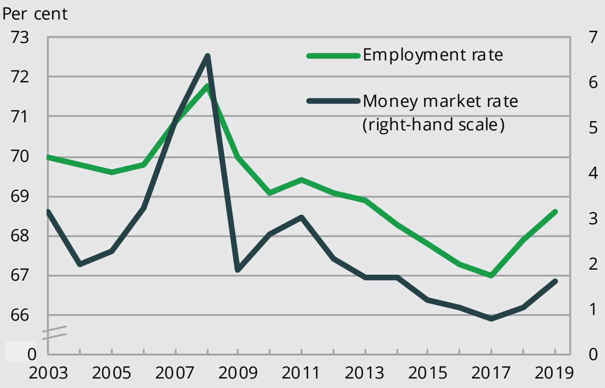
The employment rate shows employed persons in the age group 15–74 years as a share of the population in the same age group. This rate fell in Norway, from 70.0 per cent in 2003 Q3 to 67.0 per cent in 2017 Q3, and subsequently rose slightly; see Fig. 1. In this box we analyse the significance for the employment rate of the pronounced economic downturn in Norway in the years 2014–2017.

According to Brasch and Horgen (2018), the ageing of the population contributed to the 2.8 percentage point fall in the employment rate from 2003 to 2017. As older workers have a lower employment rate than workers in the age group 20–50 years, the employment rate falls when the population ages. Brasch and Horgen (2018) analysed only the effect of age on the employment rate. Bhuller and Eika (2019) also analyse how the employment rate has changed as a result of both more immigrants in the population and more people with higher education. Immigrants have a generally lower employment rate than other residents, while those with high education on average have a higher employment rate than those with low education. The results of Bhuller and Eika (2019) show that increased education has pushed up the employment rate about as much as immigration and the ageing of the population have pushed it down. Thus, after adjustment for the change in population composition that is due to age, immigration and education, around 3 percentage points of the fall in the employment rate remains unexplained. Bhuller and Eika (2019) point to cyclical factors as an important reason for the fall in the employment rate.

Figure 1 shows developments in both the employment rate and the money market rate from 2003 to 2019. The money market rate is determined in the market as an add-on to Norges Bank›s key policy rate. The key rate is often said to be the first line of defence in cyclical management. The fact that movements in the interest rate and the employment rate have paralleled one another so closely during this period may indicate that cyclical factors have played an important part in the reduction of the employment rate.

In recent years, the global economy has been marked by the Brexit process, the stepping up of trade barriers and lower global growth. Where Norway is concerned, the fall in the oil price hit the economy hard in the period 2014 to

Figure 1. Employment rate and money market rate 2003 – 2019. Persons aged 15–74. 3-month money market rate Q3



Source: Statistics Norway.

2016, and petroleum investment fell markedly. According to Brasch, Hungnes and Strøm (2018) there were around 45 000 fewer employees in jobs associated with the petroleum industry in 2016 compared with in 2013. From 2016 to 2017, this employment figure was reduced by a further 8 600 persons (Brasch, Hungnes and Strøm, 2019). The starting point of the analyses is what the petroleum industry's purchases of goods and services lead to in terms of direct deliveries from different industries in the Norwegian economy, as well as indirect deliveries from domestic subcontractors. The analysis does not consider the further knock-on effects following from households' and the government's fall in revenue from petroleum activities. Nor does it take account of the further macroeconomic impact of these knock-on effects.

To study the effect on the employment rate of changes in international outlooks and lower petroleum investment, we use statistics Norway›s KVARTS macroeconomic model. Our starting point is Statistics Norway›s projections for the global economy and petroleum investment from the beginning of 2014 (Economic Survey 2014/1) and we simulate developments in the Norwegian economy up to and including 2019 Q3.

At the beginning of 2014, the oil price was around USD 110 per barrel, and the global economy was beginning to recover from the debt crisis that marked Europe from 2010. The interest rate in the euro area had already been reduced to 0.2 per cent, but there were expectations that it would gradually increase to 1.4 per cent in 2017. Growth in demand for exports was only 1.3 per cent in 2013, but was expected to pick up to around 6 per cent in 2017. There were already signs in 2014 that the oil price would fall somewhat, but it was not expected to fall beyond USD 95 per barrel in 2015. Given this oil price level, petroleum investment in Norway, which was then at a record high, would remain approximately unchanged in the following years.

The table shows the effects on selected macroeconomic variables in the absence of the global downturn and of lower petroleum investment. Increased demand from both the petroleum industry and our trading partners would have boosted output in Norway, particularly in manufacturing. According to our projections, manufacturing value added would have been around 4 per cent higher in 2019 as a result of the higher demand. At the same time, the absence of an economic downturn would not have made it necessary for Norges Bank to reduce the interest rate – rather the reverse. The interest rate would have been around 4 per cent in 2019, which is just under 2.5 percentage points higher than the actual average this year. A higher oil price and increased interest rate point to a stronger krone. According to our projections, the krone, measured as the import-weighted exchange rate, would have been almost 8 per cent stronger in 2019. A euro would have cost just over NOK 9. A stronger kroner weakens cost-competitiveness. As Norwegian wage formation is focused on the profitability of exposed sector businesses, a stronger krone contributes to pushing down annual wages. Despite lower annual wages, the wage share would still have been somewhat higher. Given somewhat lower wages and higher interest rates, household real disposable income would also have been lower, thereby depressing consumption. House prices are very sensitive to interest rent changes, and according to our

Effects of increased global demand and higher petroleum investment[1]

	2014	2015	2016	2017	2018	2019[2]
GDP	0.1	0.5	1.0	0.9	0.6	0.3
Mainland Norway	0.2	0.6	1.2	1.1	0.8	0.4
Manufacturing and mining	0.4	1.8	3.6	3.6	3.7	3.6
Mainland demand	0.0	0.2	0.1	-0.3	-0.7	-1.2
Consumption by households etc.	0.0	0.2	0.3	-0.3	-1.0	-1.4
Business investment	0.3	0.7	-0.4	-0.4	-1.0	-1.6
Exports excl. oil and gas	-0.6	-2.1	-2.8	-2.2	-0.7	1.0
Imports	0.1	0.8	1.5	1.4	1.4	0.5
Labour force	0.0	0.0	0.1	0.5	0.9	1.2
Number employed	0.0	0.0	0.4	0.9	1.5	1.9
Manufacturing employees	0.2	0.8	3.3	3.6	4.5	4.7
Employment rate, % points	0.0	0.0	0.3	0.6	1.0	1.2
Unemployment, % points	0.0	0.0	-0.3	-0.5	-0.7	-0.7
Wage share, mainland industries (% points)	-0.1	0.0	-0.4	-0.5	0.5	1.7
Wage share, manufacturing (% points)	0.7	5.1	6.8	0.1	-1.1	1.4
Annual wages	0.0	-0.2	-0.8	-0.9	-0.6	-0.1
Household real disposable income	0.1	0.4	-0.5	-1.0	-0.6	-0.9
House prices	0.0	0.0	-1.8	-4.0	-8.9	-11.9
CPI (2015=100)	0.0	0.5	0.6	0.8	0.3	0.7
Import-weighted krone exchange rate (44 countries)	-0.9	-6.0	-7.7	-6.2	-7.1	-7.2
Money market interest rate (level)	0.0	0.3	0.9	2.0	2.1	2.3
Assumptions						
Market indicator (mii)	-1.0	-1.6	0.3	1.0	4.0	7.2
Money market rate, euro (level)	0.0	0.3	1.0	1.7	1.7	1.3
Consumer price, euro area	0.3	1.1	2.5	2.8	3.0	3.7
Oil price, USD (level)	6.0	45.6	52.7	45.0	30.3	38.9
Petroleum investment	4.2	18.1	41.0	46.3	41.0	24.8

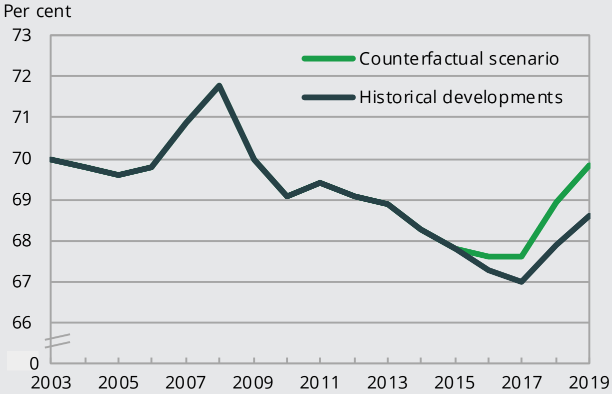
[1] Deviation from historical tendency in per cent unless otherwise stated
[2] Projection up to and including 2019 Q3
Source: Statistics Norway

projections would have been around 12 per cent lower in 2019 than they actually were.

Higher demand from the petroleum industry and our trading partners would have fuelled appreciably higher employment. For the economy as a whole, employment would have been almost 2 per cent higher in 2019, equivalent to over 50 000 employed. Employment in manufacturing would have been almost 5 per cent higher. The employment rate would accordingly have been 1.2 percentage points higher in 2019; see Fig. 2. The corollary of increased employment is that the unemployment rate would have been 0.7 percentage point lower. The reason the unemployment rate does not fall as much as employment increases is that in good times more people enter the labour market. In the counterfactual scenario, there are more than 30 000 more people in the labour market in 2019.

It is important to point out that we have let fiscal policy remain unchanged in these projections. The projections therefore consider solely some effects on the Norwegian

Figure 2. Employment rate persons aged 15–74. Historical and counterfactual developments



Source: Statistics Norway.

economy of increased global demand and higher petroleum investment. Given unchanged fiscal policy, more of the cyclical management falls to monetary policy. The above results must be interpreted bearing this in mind. It is not immediately evident how an alternative fiscal policy would have been in terms of use and dosing of instruments. It seems likely, nonetheless, that the expansionary fiscal policy conducted in the period 2014 to 2017 would have been different in the absence of the pronounced economic downturn. The appreciation of the krone would have meant that the value of the petroleum fund measured in NOK would have been lower, while a higher oil price would have increased the value of transfers to the fund. On balance, fiscal scope for manoeuvre would have been reduced, but there would still have been scope to spend roughly the same amount of the fund, also in the counterfactual scenario, without compromising the fiscal rule.

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the weakest employment growth in this industry during the current economic upturn.

Employment in services associated with the petroleum industry has increased since 2018 Q3 after falling through the first half of 2018. Higher activity in the industry contributed to strong employment growth of 3.0 per cent in 2019 Q3. Manufacturing employment has increased continuously since the latter half of 2017, and the growth rate has picked up since 2018 Q2. However, in Q3 this year manufacturing employment remained unchanged from the previous quarter. Repair and installation of machinery – a manufacturing industry that is closely linked to the petroleum industry – contributed positively to employment growth, while slowing employment in the food industry had the opposite effect.

Developments in retail trade have quite a lot to say for overall employment, as around 13 per cent of employees in Norway work in this industry. Retail trade employment was approximately unchanged through 2018. This must be viewed in light of weak developments in goods consumption last year, and the fact that productivity growth has been high in this industry for several years. In Q3 this year employment fell by 0.2 per cent, which is also the average for the first two quarters this year.

Weaker demand for labour in Q3 this year is substantiated by both subdued employment growth and a fall in vacancies. Vacancies accounted for 2.4 per cent of all positions in Q3 this year – a decline of 0.2 percentage point on the previous quarter. In all, there were 5 600 fewer vacancies in Q3, with retail trade accounting for more than half the reduction.

Gross unemployment – the sum of registered job-seekers who are fully unemployed or on NAV labour market programmes – fell through Q3 this year, from 78 400 to 76 700 in September. This figure then remained at about the same level in October and November. By way of comparison, gross unemployment fell continuously through the second half of last year. The figure for those registered as fully unemployed shows a slight increase in November this year, after falling somewhat from July to October. NAV's statistics for registered job-seekers thus indicate that the decline in gross unemployment, which began in 2017, may be tapering off. As a share of the labour force, registered job-seekers, including and excluding job-seekers on labour market programmes, have shown relatively little variation through the year. In November job-seekers made up 2.7 per cent of the labour force, while 2.2 per cent were fully unemployed.

LFS figures show that the number of man-weeks that unemployed persons wanted to work in Q3 was equivalent to 92 000 full-time jobs – a decline of 5 000 full-time jobs from 2018 Q3. However, among the underemployed the total number of unrealised man-weeks increased to the equivalent of 4 000 full-time jobs. By comparison with the same period the previous year, the number of unrealised man-weeks among the unemployed decreased through the first three quarters of this year. Conversely, the number of unrealised man-weeks among the underemployed has increased, which indicates that there is more idle capacity in the labour market than the unemployment figures might indicate.

High investment in manufacturing and petroleum-related industries is helping to maintain employment growth at a high level this year. However, the decline in vacancies points to more moderate employment developments in the immediate future. Further on in the projection period, employment growth will wane as a consequence of weaker impetus from the global economy and petroleum activities. Lower construction activity will also detract from employment growth. Given this scenario, the employment rate – employed persons in the age group 15–74 years as a share of the population of the same age group – will remain at around the current level of just over 68 per cent (see Box 3 on how the downturn that began in 2014 has affected the employment rate). According to our projections, the labour force will increase in pace with employment for the next few years, and unemployment will thus remain at around 3.7 per cent.

Moderate real wage growth

Low nominal annual wage growth in 2016 has been followed by a substantial increase in recent years. In 2017 and 2018, annual wage growth was 2.3 per cent and 2.8 per cent, respectively. Average wage growth in 2019 appears likely to increase further to 3.5 per cent, forecast subsequent to the wage leader settlement. Going forward, we expect wage growth to stabilise in pace with developments in unemployment. Given a somewhat lower rise in the CPI, this implies annual growth in real wages of 1–1.5 per cent. This is approximately in line with mainland labour productivity growth.

Growth in average annual wages can be decomposed into carry-over and contributions from pay increases and wage drift. Carry-over is the difference between the annual wage level at the end of the previous year and the average annual wage level that year. The negotiated wage increase is the wage increase resulting from central negotiations. Wage drift is the sum of all other factors that affect annual wages. According to the Technical Reporting Committee on Income Settlements (TBU), the carry-over at the beginning of 2019 was 1.1 percentage point on average for all wage bargaining areas, with variation of 0.7 to 1.9 percentage points across the different areas. The municipalities had a carry-over of 0.7 percentage point, while the central government had a carry-over of 1.5 percentage points.

The carry-over into 2019 for manufacturing was 1.1 percentage point. The norm for the wage settlement in 2019, i.e. the wage growth negotiated by the wage leader, which is normative for the rest of the economy, was 3.2 per cent. This is somewhat higher than in previous years. In manufacturing, the result of mediation in this year's main settlement contributed 0.8 percentage point to annual wage growth in 2019. This, coupled with the carry-over, results in annual wage growth from 2018 to 2019 of 1.9 per cent before the wage drift contributions. The pay increases in the main settlements of the negotiating area representing central government and the municipalities are larger. In 2019 they will contribute 1.5 and 2.0 percentage points, respectively, to wage growth, while the wage drift contribution in these two negotiating areas is limited.

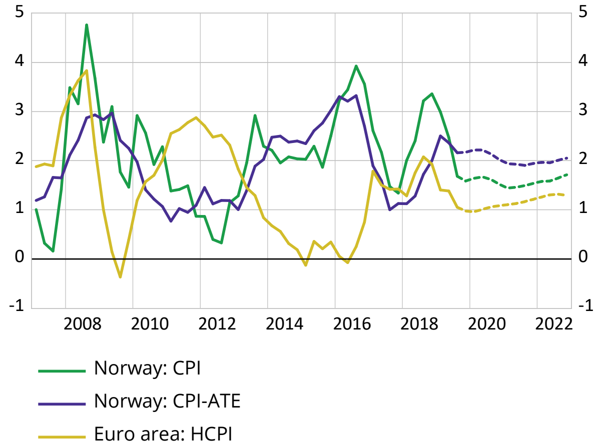
Wage statistics for Q3 indicate general basic wage growth of 3.5 per cent compared with the same quarter the previous year. There is substantial wage growth in most industries. Wage growth in manufacturing has been somewhat higher than the norm through the year, and this also applies in Q3. Both the public sector and private service production normally adhere closely to the manufacturing wage settlement, but these sectors were higher than the manufacturing norm in Q3.

The wage settlement for the health trusts was carried out somewhat earlier this year than in previous years. Last year the settlements took place in Q4 whereas this year they were disbursed in Q3. We expect this to constrain wage growth somewhat in the last quarter, following a high Q3 level. The distribution of what was formerly the December disbursement in the financial industry among all the months of the year has contributed to high wage growth in this industry in the first three quarters of the year relative to the same quarters last year, and we expect a correspondingly lower growth level in Q4. Conversely, we expect bonus payments and disbursement of wage settlements to push up wage growth in the last quarter of this year. According to our projections, annual wage growth for 2019 will be around 3.5 per cent for the year as a whole.

In the near term, we expect the profitability of undertakings to remain sound. A weak krone boosts manufacturing profitability Unemployment will be 3.7 per cent for the remainder of the projection period, and a tight labour market is helping to push wages up a little. According to our projections, wage growth will remain relatively stable at around 3.5 per cent for the next few years, before being reduced to 3.2 per cent in 2022 as a result of weaker manufacturing profitability. Given inflation of just over 2 per cent, we therefore expect real wage growth of just over 1 per cent until 2022. By way of comparison, real wage growth was around 2.4 per cent as an annual average in the period from 2000 to 2014. The fact that real wage growth in the projection period is expected to be lower than in this past period must be viewed against the backdrop of both lower productivity growth and reduced terms of trade gains.

Figure 16. Consumer price indices

Percent growth from same quarter previous year



Source: Statistics Norway

A weak krone is contributing to increased inflation.

Underlying inflation measured by the 12-month rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE) has been stable for the past half year, and appreciably lower than in early 2019. The 12-month rise in the CPI-ATE was 2.6 per cent in both February and April, with a peak of 2.7 per cent in March. In May the inflation rate fell to 2.3 per cent, and has since remained in the range 2.1–2.3 per cent. The last two observations of the CPI-ATE, from September and October, both show a 12-month rise of 2.2 per cent. The krone exchange rate has weakened further since we presented our last projection in September. For the remainder of the year the effects of a weaker krone may cause CPI-ATE inflation to rise somewhat. We now project CPI-ATE inflation of 2.4 per cent for 2019.

In 2018 the annual rise in the consumer price index (CPI) was a whole 1.1 percentage points higher than in the CPI-ATE. The difference between CPI and CPI-ATE inflation was due to developments in energy prices, particularly electricity prices, while tax changes were of lesser importance. In 2019, too, there have been considerable differences between CPI and CPI-ATE inflation, with a two-track path. In the period January-May this year, the 12-month rise in the CPI was higher than in the CPI-ATE. Between June and October this tendency was reversed, and CPI inflation has been quite considerably lower than the CPI-ATE since June. These developments largely reflect movements in the spot price for electricity, which was high in 2018 and up to January 2019, before falling. Power prices were abnormally high for the time of year in the period June to September 2018, and prices in the forward market indicated that a fall in spot prices was expected from June this year compared with 2018. In January 2019, the 12-month rise in the CPI was 3.1 per cent, a full 1.0 percentage point higher than CPI-ATE inflation. The two inflation measures approached each other from January to May. In June, the year-on-year rise in the

CPI was 1.9 per cent, and for the first time this year it was lower than the year-on-year rise in the CPI-ATE. The 12-month rise in the CPI was as low as 1.5 per cent in September, but rose to 1.8 per cent in October. The difference in CPI and CPI-ATE inflation narrowed from 0.7 to 0.3 percentage point from September to October as a result of a rise in electricity prices. Fuel prices have fallen since July, leading to the low CPI inflation of recent months. However, from October to November the guideline list prices of fuel suppliers increased significantly owing to higher purchasing prices in NOK. We assume higher prices for fuel at the pump for the remainder of the year. On the basis of spot prices for November and futures prices for December, we project that electricity prices including grid charges will be lower than last year for both months. On an annual basis, we project that energy prices as a whole will increase a little less than general price inflation. Whereas the CPI-ATE is projected to increase by 2.4 per cent from 2018 to 2019, CPI inflation is now projected to be 2.3 per cent.

The 12-month rise in the CPI-ATE has been stable overall in recent months, but the underlying picture is more mixed. A decomposition of the sub-indices in the CPI-ATE by delivery sector shows that consumption of both Norwegian and imported goods has exerted downward pressure on inflation in recent months, while aggregate service consumption has pushed inflation up. The 12-month change in the goods consumption price index fell from 2.0 to 0.9 per cent from July to October, while the service consumption price index increased from 2.6 to 3.2 per cent. According to the CPI, the service groups transport services and telecommunication services are important contributors to this high inflation. In October, the rise in prices for these groups was 7.0 and 6.3 per cent, respectively. The rise in prices for postal services was 7.9 per cent in October, and has been high all year. The 12-month rise in rents had reached 1.9 per cent in October, after being as low as 1.4 per cent in June. Rents, which account for about 20 per cent in the CPI-ATE, are still curbing underlying inflation, but are currently rising weakly.

The low 12-month rise for goods consumption in the CPI-ATE in recent months is reflected in the CPI through a low rise in prices for broad product groups such as food products and non-alcoholic beverages, clothing and footwear and household purchases of cars. Prices for cars have fallen in recent months, and the 12-month rise in October was weakly negative for the vehicle group. In the government budget, the Government submitted a proposal for new special tax

Table 4. National accounts: Final expenditure and gross domestic product. At constant 2017 prices. NOK million

	Unadjusted		Seasonally adjusted							
	2017	2018*	17.4	18.1	18.2	18.3	18.4	19.1	19.2	19.3
Final consumption expenditure of households and NPISHs	1 471 657	1 500 206	372 785	371 940	377 714	377 604	378 602	380 579	381 911	383 592
Household final consumption expenditure	1 392 635	1 417 981	352 817	351 609	357 089	356 978	357 644	359 429	360 584	362 186
Goods	635 541	640 205	162 260	159 809	162 606	161 231	160 862	161 730	162 207	162 163
Services	685 682	701 524	173 011	173 605	175 331	176 678	177 385	178 615	179 823	180 938
Direct purchases abroad by resident households	117 386	122 364	29 205	29 968	30 648	30 522	31 001	31 199	30 772	31 156
Direct purchases by non-residents	-45 974	-46 112	-11 659	-11 773	-11 495	-11 453	-11 604	-12 116	-12 218	-12 072
Final consumption expenditure of NPISHs	79 022	82 224	19 968	20 331	20 625	20 626	20 958	21 151	21 326	21 407
Final consumption expenditure of general government	791 090	801 937	200 670	200 375	200 394	200 466	200 730	202 667	204 429	206 207
Final consumption expenditure of central government	389 412	392 673	98 857	98 287	98 129	98 227	98 033	99 215	100 267	101 115
Central government, civilian	343 637	346 289	87 268	86 712	86 514	86 620	86 445	87 414	88 396	89 173
Central government, defence	45 775	46 385	11 589	11 575	11 616	11 608	11 588	11 801	11 871	11 942
Final consumption expenditure of local government	401 678	409 264	101 813	102 088	102 265	102 239	102 696	103 452	104 162	105 091
Gross fixed capital formation	809 386	832 088	204 597	197 869	207 715	210 110	216 246	211 635	218 159	228 695
Extraction and transport via pipelines	149 830	152 688	38 660	33 579	38 572	39 295	41 173	40 105	42 803	44 093
Ocean transport	944	763	310	486	16	-213	474	377	640	608
Mainland Norway	658 612	678 637	165 627	163 804	169 126	171 028	174 599	171 153	174 716	183 995
Industries	284 509	303 888	72 237	71 648	76 483	76 012	79 642	78 100	77 914	83 503
Service activities incidential to extraction	4 241	5 966	1 487	1 221	1 624	1 334	1 784	1 880	2 265	2 326
Other services	176 857	183 409	44 588	43 900	45 557	45 739	48 160	46 787	45 922	47 791
Manufacturing and mining	37 882	44 194	10 071	9 863	11 395	11 117	11 792	12 615	13 062	15 309
Production of other goods	65 529	70 318	16 091	16 664	17 908	17 822	17 905	16 818	16 665	18 078
Dwellings (households)	200 258	187 929	48 311	48 174	46 371	46 534	46 892	46 964	47 410	47 731
General government	173 845	186 820	45 079	43 982	46 272	48 482	48 065	46 089	49 392	52 761
Acquisitions less disposals of valuables	388	416	119	102	108	103	103	113	108	110
Changes in stocks and statistical discrepancies	107 471	110 952	31 323	34 750	27 314	24 247	27 681	30 297	27 789	24 330
Gross capital formation	917 245	943 456	236 038	232 722	235 136	234 459	244 030	242 045	246 056	253 135
Final domestic use of goods and services	3 179 992	3 245 599	809 494	805 037	813 245	812 529	823 362	825 291	832 396	842 934
Final demand from Mainland Norway	2 921 359	2 980 780	739 082	736 119	747 234	749 099	753 930	754 399	761 056	773 794
Final demand from general government	964 935	988 758	245 749	244 357	246 666	248 948	248 795	248 756	253 820	258 967
Total exports	1 197 311	1 194 483	296 351	297 122	299 554	303 073	298 701	304 699	303 818	297 102
Traditional goods	380 711	388 242	97 488	95 482	96 703	97 688	101 098	103 319	101 738	101 429
Crude oil and natural gas	459 695	437 789	111 091	110 009	108 555	111 203	108 994	105 623	102 477	96 960
Ships, oil platforms and planes	17 783	10 991	2 151	3 674	3 623	2 832	863	2 879	4 460	2 129
Services	339 122	357 461	85 621	87 957	90 674	91 349	87 746	92 878	95 143	96 583
Total use of goods and services	4 377 303	4 440 082	1 105 845	1 102 159	1 112 799	1 115 602	1 122 063	1 129 990	1 136 213	1 140 036
Total imports	1 081 921	1 102 205	276 823	270 577	278 902	276 442	279 440	288 187	292 474	296 092
Traditional goods	632 105	652 115	163 936	160 827	164 132	164 818	165 980	176 362	175 337	173 684
Crude oil and natural gas	13 742	19 101	4 022	4 790	4 974	4 359	4 819	4 013	3 983	5 408
Ships, oil platforms and planes	44 304	35 739	8 792	8 378	10 504	8 067	8 790	6 704	9 842	10 740
Services	391 770	395 250	100 074	96 582	99 293	99 198	99 851	101 108	103 311	106 260
Gross domestic product (market prices)	3 295 382	3 337 877	829 022	831 582	833 897	839 161	842 623	841 803	843 740	843 944
Gross domestic product Mainland Norway (market prices)	2 792 034	2 853 368	705 442	709 797	713 353	715 451	723 417	726 664	731 534	736 482
Petroleum activities and ocean transport	503 348	484 509	123 580	121 785	120 544	123 710	119 206	115 140	112 206	107 462
Mainland Norway (basic prices)	2 416 466	2 473 955	611 177	614 869	618 648	620 511	628 315	630 585	635 368	639 520
Mainland Norway excluding general government	1 805 768	1 847 520	457 139	459 634	462 579	463 403	470 309	472 178	476 377	479 537
Manufacturing and mining	216 101	217 915	54 555	54 409	54 873	55 416	56 240	56 365	57 210	57 283
Production of other goods	323 683	330 307	82 274	83 448	82 097	81 154	84 524	83 357	84 666	85 616
Services incl. dwellings (households)	1 265 984	1 299 299	320 310	321 777	325 609	326 833	329 544	332 457	334 501	336 638
General government	610 698	626 435	154 038	155 235	156 069	157 108	158 007	158 406	158 992	159 983
Taxes and subsidies products	375 568	379 413	94 265	94 928	94 705	94 939	95 102	96 079	96 166	96 962

Source: Statistics Norway.

Table 5. National accounts: Final expenditure and gross domestic product. At constant 2017 prices. Percentage change from previous period

	Unadjusted		Seasonally adjusted							
	2017	2018*	17.4	18.1	18.2	18.3	18.4	19.1	19.2	19.3
Final consumption expenditure of households and NPISHs	2.2	1.9	0.6	-0.2	1.6	0.0	0.3	0.5	0.3	0.4
Household final consumption expenditure	2.3	1.8	0.6	-0.3	1.6	0.0	0.2	0.5	0.3	0.4
Goods	2.3	0.7	1.0	-1.5	1.7	-0.8	-0.2	0.5	0.3	0.0
Services	2.3	2.3	0.6	0.3	1.0	0.8	0.4	0.7	0.7	0.6
Direct purchases abroad by resident households	2.1	4.2	-2.1	2.6	2.3	-0.4	1.6	0.6	-1.4	1.2
Direct purchases by non-residents	2.4	0.3	-1.0	1.0	-2.4	-0.4	1.3	4.4	0.8	-1.2
Final consumption expenditure of NPISHs	1.7	4.1	1.3	1.8	1.4	0.0	1.6	0.9	0.8	0.4
Final consumption expenditure of general government	1.9	1.4	1.4	-0.1	0.0	0.0	0.1	1.0	0.9	0.9
Final consumption expenditure of central government	1.9	0.8	1.5	-0.6	-0.2	0.1	-0.2	1.2	1.1	0.8
Central government, civilian	1.9	0.8	1.5	-0.6	-0.2	0.1	-0.2	1.1	1.1	0.9
Central government, defence	1.6	1.3	1.2	-0.1	0.4	-0.1	-0.2	1.8	0.6	0.6
Final consumption expenditure of local government	1.9	1.9	1.4	0.3	0.2	0.0	0.4	0.7	0.7	0.9
Gross fixed capital formation	2.6	2.8	1.6	-3.3	5.0	1.2	2.9	-2.1	3.1	4.8
Extraction and transport via pipelines	-5.4	1.9	10.4	-13.1	14.9	1.9	4.8	-2.6	6.7	3.0
Ocean transport	-92.5	-19.1	-81.0	56.8	-96.6	..	-322.3	-20.5	69.7	-5.0
Mainland Norway	6.8	3.0	0.6	-1.1	3.2	1.1	2.1	-2.0	2.1	5.3
Industries	9.2	6.8	-0.4	-0.8	6.7	-0.6	4.8	-1.9	-0.2	7.2
Service activities incidential to extraction	101.8	40.7	15.9	-17.9	33.0	-17.8	33.7	5.4	20.5	2.7
Other services	10.5	3.7	-0.1	-1.5	3.8	0.4	5.3	-2.9	-1.8	4.1
Manufacturing and mining	-0.5	16.7	9.5	-2.1	15.5	-2.4	6.1	7.0	3.5	17.2
Production of other goods	8.4	7.3	-7.8	3.6	7.5	-0.5	0.5	-6.1	-0.9	8.5
Dwellings (households)	7.3	-6.2	-4.9	-0.3	-3.7	0.4	0.8	0.2	1.0	0.7
General government	2.6	7.5	9.1	-2.4	5.2	4.8	-0.9	-4.1	7.2	6.8
Acquisitions less disposals of valuables	..	7.2	6.7	-14.1	5.3	-4.8	0.8	8.9	-4.3	1.7
Changes in stocks and statistical discrepancies	2.0	3.2	6.8	10.9	-21.4	-11.2	14.2	9.5	-8.3	-12.4
Gross capital formation	3.1	2.9	2.3	-1.4	1.0	-0.3	4.1	-0.8	1.7	2.9
Final domestic use of goods and services	2.4	2.1	1.3	-0.6	1.0	-0.1	1.3	0.2	0.9	1.3
Final demand from Mainland Norway	3.1	2.0	0.8	-0.4	1.5	0.2	0.6	0.1	0.9	1.7
Final demand from general government	2.0	2.5	2.8	-0.6	0.9	0.9	-0.1	0.0	2.0	2.0
Total exports	1.7	-0.2	-1.4	0.3	0.8	1.2	-1.4	2.0	-0.3	-2.2
Traditional goods	1.7	2.0	-1.0	-2.1	1.3	1.0	3.5	2.2	-1.5	-0.3
Crude oil and natural gas	5.1	-4.8	-4.6	-1.0	-1.3	2.4	-2.0	-3.1	-3.0	-5.4
Ships, oil platforms and planes	5.0	-38.2	20.2	70.8	-1.4	-21.8	-69.5	233.6	54.9	-52.3
Services	-2.1	5.4	2.2	2.7	3.1	0.7	-3.9	5.8	2.4	1.5
Total use of goods and services	2.2	1.4	0.6	-0.3	1.0	0.3	0.6	0.7	0.6	0.3
Total imports	1.9	1.9	2.4	-2.3	3.1	-0.9	1.1	3.1	1.5	1.2
Traditional goods	3.8	3.2	2.5	-1.9	2.1	0.4	0.7	6.3	-0.6	-0.9
Crude oil and natural gas	28.0	39.0	29.6	19.1	3.8	-12.4	10.6	-16.7	-0.8	35.8
Ships, oil platforms and planes	-12.0	-19.3	-3.8	-4.7	25.4	-23.2	9.0	-23.7	46.8	9.1
Services	0.2	0.9	2.0	-3.5	2.8	-0.1	0.7	1.3	2.2	2.9
Gross domestic product (market prices)	2.3	1.3	0.0	0.3	0.3	0.6	0.4	-0.1	0.2	0.0
Gross domestic product Mainland Norway (market prices)	2.0	2.2	0.7	0.6	0.5	0.3	1.1	0.4	0.7	0.7
Petroleum activities and ocean transport	4.6	-3.7	-3.9	-1.5	-1.0	2.6	-3.6	-3.4	-2.5	-4.2
Mainland Norway (basic prices)	1.9	2.4	0.7	0.6	0.6	0.3	1.3	0.4	0.8	0.7
Mainland Norway excluding general government	1.9	2.3	0.7	0.5	0.6	0.2	1.5	0.4	0.9	0.7
Manufacturing and mining	0.0	0.8	1.1	-0.3	0.9	1.0	1.5	0.2	1.5	0.1
Production of other goods	2.9	2.0	0.5	1.4	-1.6	-1.1	4.2	-1.4	1.6	1.1
Services incl. dwellings (households)	2.0	2.6	0.7	0.5	1.2	0.4	0.8	0.9	0.6	0.6
General government	1.6	2.6	0.9	0.8	0.5	0.7	0.6	0.3	0.4	0.6
Taxes and subsidies products	2.9	1.0	0.3	0.7	-0.2	0.2	0.2	1.0	0.1	0.8

Source: Statistics Norway.

Table 6. National accounts: Final expenditure and gross domestic product. Price indices. 2017=100

	Unadjusted		Seasonally adjusted							
	2017	2018*	17.4	18.1	18.2	18.3	18.4	19.1	19.2	19.3
Final consumption expenditure of households and NPISHs	100.0	102.2	100.7	101.2	101.7	102.4	103.2	103.7	103.9	104.0
Final consumption expenditure of general government	100.0	103.1	100.8	102.0	102.8	103.2	104.4	105.0	105.4	106.5
Gross fixed capital formation	100.0	102.3	100.1	101.5	101.8	102.6	103.4	103.6	104.7	105.3
Mainland Norway	100.0	102.7	100.9	101.6	102.3	103.3	103.6	104.4	105.0	105.4
Final domestic use of goods and services	100.0	102.5	101.4	101.7	101.8	102.5	103.8	104.2	103.9	104.5
Final demand from Mainland Norway	100.0	102.6	100.8	101.5	102.2	102.8	103.6	104.2	104.6	105.0
Total exports	100.0	113.6	103.2	108.2	112.7	117.5	116.3	111.2	108.4	105.2
Traditional goods	100.0	105.9	101.2	103.8	105.9	106.3	106.7	104.8	106.4	105.5
Total use of goods and services	100.0	105.5	101.9	103.5	104.8	106.5	107.1	106.1	105.1	104.7
Total imports	100.0	104.5	101.8	103.1	103.9	105.3	105.6	105.0	106.2	107.5
Traditional goods	100.0	104.5	101.8	102.8	103.9	105.3	105.9	105.1	106.3	107.3
Gross domestic product (market prices)	100.0	105.8	101.9	103.6	105.1	106.9	107.6	106.4	104.7	103.7
Gross domestic product Mainland Norway (market prices)	100.0	101.9	100.2	101.0	101.4	101.8	103.1	103.4	103.5	104.1

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2017	2018*	17.4	18.1	18.2	18.3	18.4	19.1	19.2	19.3
Final consumption expenditure of households and NPISHs	2.0	2.2	0.9	0.4	0.6	0.6	0.8	0.5	0.2	0.1
Final consumption expenditure of general government	2.9	3.1	0.2	1.3	0.7	0.5	1.1	0.6	0.3	1.1
Gross fixed capital formation	1.0	2.3	0.4	1.3	0.3	0.9	0.7	0.2	1.1	0.5
Mainland Norway	2.2	2.7	0.4	0.7	0.7	0.9	0.4	0.7	0.6	0.3
Final domestic use of goods and services	2.3	2.5	2.1	0.3	0.1	0.6	1.3	0.3	-0.2	0.6
Final demand from Mainland Norway	2.3	2.6	0.6	0.7	0.6	0.6	0.8	0.6	0.3	0.4
Total exports	7.2	13.6	4.8	4.9	4.1	4.2	-1.0	-4.3	-2.6	-2.9
Traditional goods	5.2	5.9	1.7	2.6	2.0	0.4	0.4	-1.8	1.5	-0.8
Total use of goods and services	3.6	5.5	2.8	1.5	1.3	1.7	0.5	-1.0	-0.9	-0.4
Total imports	2.4	4.5	2.2	1.2	0.8	1.4	0.3	-0.6	1.1	1.3
Traditional goods	3.5	4.5	2.0	0.9	1.1	1.3	0.5	-0.8	1.2	0.9
Gross domestic product (market prices)	4.0	5.8	3.0	1.6	1.4	1.8	0.6	-1.1	-1.6	-1.0
Gross domestic product Mainland Norway (market prices)	1.7	1.9	0.1	0.8	0.4	0.4	1.3	0.3	0.1	0.5

Source: Statistics Norway.

Main economic indicators 2007-2022

Accounts and forecasts. Percentage change from previous year unless otherwise noted

													Forecasts			
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*	2018*	2019	2020	2021	2022
Demand and output																
Consumption in households etc.	5.3	1.7	0.0	3.8	2.4	3.5	2.8	2.1	2.7	1.1	2.2	1.9	1.6	1.8	2.5	2.3
General government consumption	2.0	2.6	4.2	2.2	1.1	1.5	1.0	2.7	2.4	2.3	1.9	1.4	2.2	2.5	1.9	1.8
Gross fixed investment	12.3	1.1	-7.0	-6.4	7.5	7.5	6.3	-0.3	-4.0	3.9	2.6	2.8	6.3	1.4	-1.6	0.7
Extraction and transport via pipelines	9.3	5.5	2.9	-8.0	11.4	14.6	19.0	-1.8	-12.2	-16.0	-5.4	1.9	15.0	2.0	-7.6	3.1
Mainland Norway	14.2	1.0	-10.6	-6.4	5.0	7.4	2.9	0.4	-0.2	9.0	6.8	3.0	4.1	0.7	-0.1	0.2
Industries	22.7	3.1	-18.7	-9.2	1.1	10.5	-3.2	-0.7	-2.8	12.6	9.2	6.8	6.2	1.0	-0.8	-0.4
Housing	2.7	-9.0	-8.1	-1.6	17.0	10.9	5.3	-1.4	3.2	6.6	7.3	-6.2	1.1	-0.3	-0.4	-0.2
General government	8.9	7.4	7.1	-5.3	1.1	-1.8	11.8	4.5	0.2	6.4	2.6	7.5	3.6	1.1	1.4	1.4
Demand from Mainland Norway[1]	6.4	1.7	-1.4	1.2	2.5	3.7	2.3	1.9	2.0	3.1	3.1	2.0	2.3	1.7	1.8	1.7
Stockbuilding[2]	0.3	0.4	-1.6	1.3	0.2	-0.6	0.5	-0.4	0.0	-0.2	0.5	-0.1	0.0	0.0	0.0	0.0
Exports	1.4	0.1	-4.1	0.6	-0.8	1.7	-1.8	3.4	4.3	1.1	1.7	-0.2	1.6	7.3	3.2	1.8
Traditional goods	9.2	3.5	-8.0	3.3	-0.1	-0.2	1.3	3.1	6.9	-8.6	1.7	2.0	5.3	4.3	3.9	3.5
Crude oil and natural gas	-2.4	-1.3	-1.6	-6.9	-5.6	0.5	-5.5	2.7	2.1	4.9	5.1	-4.8	-5.3	14.6	4.1	1.4
Imports	10.0	3.2	-10.3	8.4	3.9	2.9	5.0	2.0	1.9	2.7	1.9	1.9	6.6	2.6	0.7	1.8
Traditional goods	7.2	1.2	-12.1	9.2	4.6	2.2	1.8	1.9	2.8	-0.2	3.8	3.2	6.8	1.0	0.2	1.5
Gross domestic product	3.0	0.5	-1.7	0.7	1.0	2.7	1.0	2.0	2.0	1.1	2.3	1.3	1.1	3.5	2.1	1.7
Mainland Norway	5.7	1.8	-1.8	1.9	1.9	3.7	2.3	2.2	1.4	0.9	2.0	2.2	2.5	2.4	1.9	1.8
Manufacturing	3.8	2.7	-7.8	2.1	1.7	2.0	3.3	2.8	-4.6	-4.2	0.0	0.8	3.6	1.7	3.4	1.9
Labour market																
Total hours worked, Mainland Norway	4.4	3.4	-1.8	0.2	1.7	1.7	0.4	1.4	0.7	0.6	0.3	1.8	2.0	2.1	0.7	0.4
Employed persons	3.8	3.2	-0.4	-0.3	1.4	2.0	1.1	1.0	0.5	0.3	1.2	1.6	1.7	0.9	0.6	0.2
Labor force	2.5	3.0	0.2	0.6	1.3	1.5	1.2	0.7	1.5	0.2	-0.2	1.4	1.0	0.9	0.5	0.3
Participation rate (level)	72.6	73.5	72.5	71.7	71.5	71.4	71.2	70.7	71.0	70.4	69.7	70.2	70.5	70.8	70.9	70.8
Unemployment rate (level)	2.5	2.7	3.3	3.8	3.4	3.3	3.8	3.6	4.5	4.7	4.2	3.8	3.7	3.7	3.7	3.7
Prices and wages																
Wages per standard man-year	5.4	6.3	4.2	3.7	4.2	4.0	3.9	3.1	2.8	1.7	2.3	2.8	3.5	3.6	3.6	3.2
Consumer price index (CPI)	0.8	3.8	2.1	2.5	1.2	0.8	2.1	2.0	2.1	3.6	1.8	2.7	2.3	2.1	1.9	2.1
CPI-ATE[3]	1.4	2.6	2.6	1.4	0.9	1.2	1.6	2.4	2.7	3.0	1.4	1.6	2.4	2.3	2.1	2.2
Export prices, traditional goods	2.4	2.8	-6.0	4.5	5.8	-1.9	2.7	3.4	2.0	4.0	5.2	5.9	0.1	2.3	1.5	1.6
Import prices, traditional goods	3.7	3.9	-1.5	0.0	4.0	0.3	1.4	4.3	4.6	1.7	3.5	4.5	2.2	2.4	1.3	1.7
Housing prices	12.6	-1.1	1.9	8.2	8.0	6.8	4.0	2.7	6.1	7.0	5.0	1.4	2.4	1.8	2.2	2.3
Income, interest rates and excange rate																
Household real income	5.7	3.2	3.4	2.8	4.3	4.4	4.0	2.3	5.4	-1.6	2.0	1.5	3.1	1.6	2.4	1.9
Household saving ratio (level)	0.2	2.9	4.5	3.7	5.8	6.9	7.2	7.7	9.8	6.9	6.6	5.9	7.3	7.6	7.5	7.1
Money market rate (level)	5.0	6.2	2.5	2.5	2.9	2.2	1.8	1.7	1.3	1.1	0.9	1.1	1.5	1.9	1.9	1.9
Lending rate, credit loans(level)[4]	5.0	6.8	4.0	3.4	3.6	3.9	4.0	3.9	3.2	2.6	2.6	2.7	3.0	3.4	3.4	3.5
Real after-tax lending rate, banks (level)	2.9	1.1	0.7	0.1	1.3	2.1	0.8	0.8	0.1	-1.6	0.1	-0.7	0.1	0.6	0.8	0.7
Importweighted krone exchange rate (44 countries)[5]	-1.8	0.0	3.3	-3.7	-2.4	-1.2	2.2	5.3	10.5	1.8	-0.8	0.1	3.0	3.1	0.0	0.0
NOK per euro (level)	8.02	8.22	8.73	8.01	7.79	7.47	7.81	8.35	8.95	9.29	9.33	9.60	9.85	10.10	10.10	10.10
Current account																
Current balance (bill. NOK)[6]	282	402	257	281	346	374	317	341	250	138	152	252	117	225	310	344
Current account (per cent of GDP)	12.0	15.4	10.6	10.8	12.4	12.6	10.3	10.8	8.0	4.5	4.6	7.1	3.3	6.0	8.0	8.5
International indicators																
Exports markets indicator	6.2	1.3	-10.5	11.1	6.1	1.0	1.9	4.9	5.3	3.8	5.5	3.2	2.8	3.3	3.0	2.9
Consumer price index, euro-area	2.1	3.3	0.3	1.6	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.1	1.1	1.2	1.4
Money market rate, euro(level)	4.3	4.6	1.2	0.8	1.4	0.6	0.2	0.2	0.0	-0.3	-0.3	-0.3	-0.4	-0.5	-0.5	-0.3
Crude oil price NOK (level)[7]	425	556	391	485	622	651	639	628	432	379	453	582	562	530	503	496

[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] CPI adjusted for tax changes and excluding energy products.
[4] Yearly average. Lending rate, secured on dwellings.
[5] Increasing index implies depreciation.
[6] Current account not adjusted for saving in pension funds.
[7] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was December 3 2019.