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Economic Survey

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Economic developments in Norway

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Economic developments in Norway

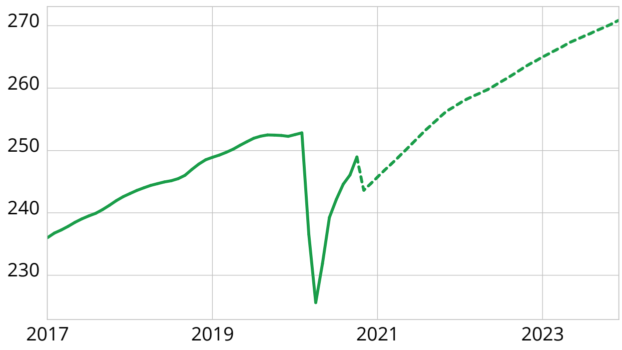
The Norwegian economy is once again impacted by some sectors of economic activity being shut down or severely reduced. As a result of the lockdown in March, mainland GDP was around 11 per cent lower in April than in February, according to monthly national accounts. Activity picked up markedly towards the summer, and the rebound continued through the third quarter. In October it was still 1.5 per cent lower than in February, nonetheless. The second round of wide-reaching infection control measures was introduced in November, in the wake of rising infection both in Norway and globally. Although it will soon be possible to distribute effective vaccines in Norway, it will probably be several months before large sections of the population are vaccinated. Our projections are therefore based on the assumption that there will be no pronounced increase in activity before summer next year, when large sections of the population have been

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

	2018	2019	Seasonally adjusted			
			19:4	20:1	20:2	20:3
Demand and output						
Consumption in households etc.	1.6	1.4	-0.3	-4.3	-10.8	9.5
General government consumption	0.5	1.9	0.7	0.2	-2.0	3.0
Gross fixed investment	2.2	4.8	-0.6	-4.8	-1.8	-1.1
Extraction and transport via pipelines	0.7	12.6	5.3	-6.0	-4.6	-4.6
Mainland Norway	1.5	4.0	-2.1	-5.0	-0.1	-0.4
Final domestic demand from Mainland Norway[1]	1.3	2.1	-0.5	-3.2	-5.9	5.2
Exports	-1.2	0.5	6.8	-1.5	-7.8	4.7
Traditional goods	1.5	4.6	1.4	-2.7	-8.0	8.8
Crude oil and natural gas	-5.0	-4.3	16.3	-2.4	1.0	2.6
Imports	1.4	4.7	-1.4	-3.4	-17.5	10.3
Traditional goods	2.9	5.7	-1.6	-1.7	-7.7	12.6
Gross domestic product	1.1	0.9	1.7	-1.5	-4.7	4.6
Mainland Norway	2.2	2.3	-0.0	-2.1	-6.0	5.2
Labour market						
Total hours worked. Mainland Norway	1.6	1.8	0.0	-2.2	-4.3	3.4
Employed persons	1.6	1.6	0.1	0.1	-2.5	-0.4
Labour force[2]	1.4	1.0	-0.1	0.1	-0.8	0.6
Unemployment rate. level[2]	3.8	3.7	3.9	3.5	4.6	5.3
Prices and wages						
Annual earings	2.8	3.5	..	..	..	..
Consumer price index (CPI)[3]	2.7	2.2	0.4	0.1	0.4	0.6
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	1.6	2.2	0.5	0.9	1.1	0.9
Export prices. traditional goods	6.2	0.7	2.4	0.5	-4.5	-4.0
Import prices. traditional goods	4.6	2.5	1.0	0.5	4.2	-1.9
Balance of payment						
Current balance. bill. NOK[4]	283	91	12	51	3	10
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	0.6	1.1	1.5	1.3	0.1	0.0
Lending rate. credit loans[5]	0.7	0.8	3.3	3.3	2.7	2.1
Crude oil price NOK[6]	583	564	568	484	336	396
Importweighted krone exchange rate. 44 countries. 1995=100	104.6	107.6	110.4	114.1	118.5	113.3
NOK per euro	9.60	9.85	10.09	10.47	11.01	10.67

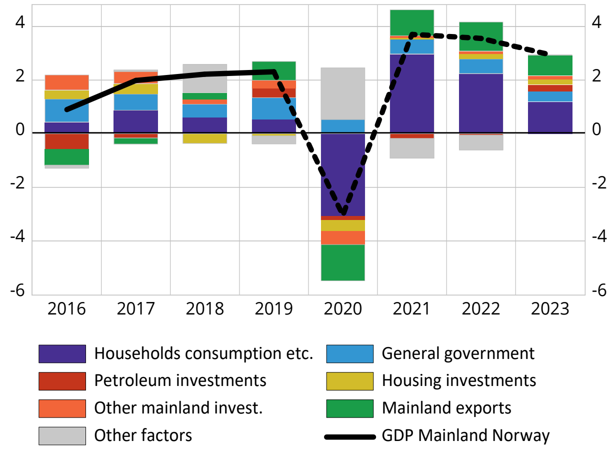
[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] According to Statistics Norway›s labour force survey (LFS).
[3] Percentage change from the same period the previous year.
[4] Current account not adjusted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

Figure 1. Gross domestic product Mainland Norway
Seasonally adjusted and smoothed, billion 2018 NOK, month



Source: Statistics Norway

Figure 2. Contributions to growth in GDP Mainland Norway, import adjusted
Change from previous year in percent



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.

vaccinated and the infection pressure has subsided. The knock-on effects of the infection control measures will nonetheless mean that the Norwegian economy is not back to what we regard as a more normal level before 2022.

Fiscal policy has contributed to reducing the negative impact of the pandemic on the Norwegian economy. In connection with the second wave of infection, the Norwegian government has submitted proposals for compensation schemes for companies with steep falls in turnover, compensation to municipalities for extra costs and reduced income, and expansion of income-support schemes for individuals. The structural, non-oil budget deficit for 2020 is projected at NOK 392.5 billion in the Final Budget. This is equivalent to approximately 3.9 per cent of the market value of the Government Pension Fund Global (GPFG), at the beginning of 2020. According to the Fiscal Rule, the use of petroleum revenue over time is to constitute 3 per cent of the value of the GPFG, but strong emphasis is also to be placed on smoothing fluctuations in the economy, to ensure good capacity utilisation and low unemployment. The expansionary policy in 2020 therefore adheres to the fiscal rule. We assume that the use of petroleum revenue, measured by the structural non-oil budget deficit as a share of the value of the GPFG will fall towards 3 per cent in 2022 and 2023, in pace with normalisation of activity in the Norwegian economy.

The household consumption pattern has changed significantly since the outbreak of the COVID-19 pandemic in March. While goods consumption has grown strongly through the last three quarters, consumption of services has shown far weaker developments due to the infection control measures. As a result, the level of household consumption is lower than prior to the outbreak of the virus. We forecast an overall fall in consumption of around 8 per cent this year, and a saving ratio of around 15 per cent. Such a high annual saving ratio has not previously been recorded in the non-financial sector accounts. Further growth in consumption of services is expected going forward. However, overall consumption is only expected to return to the level before the COVID-19 crisis impacted the Norwegian economy towards the end of 2021. Consumption is forecast to grow by around 8 per cent in 2021 and around 6 per cent in 2022, before approaching a more normal growth rate in 2023.

Petroleum investment continues to fall, and in 2020 an overall reduction of around 5 per cent appears likely. Petroleum companies report continued low investment activity in 2021, but now with a far smaller decline than previously reported. This must be viewed against the backdrop of the package of tax measures adopted by the Storting in June. In addition, all investment in developments for which plans for development and operation (PDOs) are submitted in the period between June this year and the end of 2022 will be subject to the same favourable tax rules. A significant increase in petroleum investment is expected in 2023, as there will be substantial investment in the second and third years of the development phase of new projects. Overall demand from mainland-oriented petroleum investment is expected to push up mainland GDP growth by 0.3 percentage point in 2023. We assume that the oil price will remain at around USD 50 per barrel in the years ahead.

Business investment has fallen through most of 2020, and we forecast that it will be reduced by around 9 per cent this year. A number of companies have cut their investment plans as a result of weak growth prospects and great uncertainty. This applies first and foremost to manufacturing, but service industries also report

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

	QNA				Projection			
	2016	2017	2018	2019	2020	2021	2022	2023
GDP Mainland Norway	0.9	2.0	2.2	2.3	-3.0	3.7	3.6	2.9
with contributions from:								
Consumption by households and non-profit organisations	0.4	0.9	0.6	0.5	-3.1	3.0	2.2	1.2
General government consumption and investment	0.9	0.6	0.5	0.8	0.5	0.6	0.5	0.4
Petroleum investment	-0.6	-0.2	0.0	0.3	-0.1	-0.2	-0.1	0.3
Housing investment	0.3	0.4	-0.4	-0.1	-0.4	0.0	0.2	0.2
Other mainland investment	0.6	0.5	0.2	0.3	-0.5	0.1	0.1	0.1
Exports from Mainland Norway[1]	-0.6	-0.2	0.3	0.7	-1.4	1.0	1.1	0.8
Other factors etc.[1]	-0.1	0.1	1.1	-0.3	1.9	-0.7	-0.6	0.0

[1] See explanations to Figure 2.
Source: Statistics Norway.

a reduction in investment next year. In the years ahead, investment in power supply will be reduced as a consequence of the lapse of support schemes ('green certificates') for the development of renewable energy. On balance, however, we expect business investment to remain at between 1 and 3 per cent from 2021 to 2023, in pace with increased economic activity, both in Norway and abroad. Should this scenario become reality, the investment level will be about 3 per cent lower in 2023 than in 2019.

The krone depreciated sharply in the second half of March. Subsequently the weakening has been partly reversed. At the beginning of December, a euro cost about NOK 10.6, while the price for a dollar was NOK 8.8. We assume in our projections that the exchange rates will remain at this level throughout the projection period. The exchange rate projections imply a krone that is roughly as weak as forecast in our last report.

Underlying inflation seems likely to slow next year. Inflation measured by the CPI is expected to be 1.3 per cent in the current year. The relatively low inflation is partly attributable to low energy prices. Underlying inflation (the CPI-ATE) is expected to be 3.0 per cent 2020. Developments in the CP-ATE have largely driven the depreciation of the krone earlier this year and the subsequent rise in prices for imported consumer goods, but prices for goods manufactured in Norway have also contributed to the rise. Next year, moderate wage growth, increased productivity growth and weaker inflationary impulses from imported products will cause CPI-ATE inflation to fall to 2.2 per cent. Our projections show CPI inflation of 2.5 per cent. While changes in indirect taxes are expected to push down CPI inflation by around 0.3 percentage point next year, rising energy prices will probably push inflation up by about 0.6 percentage point. Wage growth picks up later in the projection scenario, but productivity growth and low imported inflation curb the effects of the increased wage growth on inflation. Inflation measured by the CPI-ATE is expected to be around 2 per cent in 2022 and 2023. As a result of the reversal of temporary tax relief associated with the COVID-19 pandemic, the CPI will be 2.4 per cent in 2022.

The record-low interest rate level will persist for a while yet. In the course of just under two months this spring, Norges Bank cut the key policy rate by a total of 1.5 percentage points, to 0 per cent. The sharp rise in house prices since March will probably help to bring forward the date of the first increase in the interest rate. We expect the key policy rate to be raised gradually from mid-2021, to 1.00 per cent in 2023. The money market rate will then be around 1.4 per cent by the end of 2023. This is still lower than what can be regarded as a normal level, which Norges Bank estimates to be between 2 and 3 per cent. As a result, the real interest rate, measured as the difference between the money market rate and inflation, is likely to remain negative for the next few years.

The record-low interest rate has given impetus to the housing market. Despite a historically sharp slowdown, house prices rose by 8.3 per cent from March to November. The reduction of the key rate from 1.5 per cent in March to 0 per cent in May, coupled with the central bank's signals that the rate will remain at this level for a long time, has probably prompted the sharp rise in prices. The record-high saving ratio with associated liquidity may also have contributed to a higher rise in house prices in recent months. We forecast that house prices will rise by an annualised average of 4 per cent this year. House price movements are largely determined by developments in income, debt, the population, the supply of dwellings and real interest rates. A moderate increase in mortgage rates in the near future may curb the rise in house prices, but household income growth will gradually improve in pace with the rebound after the COVID-19 pandemic. We therefore assume an annual rise in house prices of some 3–4 per cent in the years ahead. The rise in real house prices will therefore remain positive throughout the projection period.

Unemployment has been at a very high level in recent months. According to the Labour Force Survey unemployment, measured as the average from August to October, was 5.2 per cent. It is the industries that have been directly affected by infection control measures that have borne the brunt of the decline in

Table 3. Main economic indicators 2019-2023. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Rcco-unts 2019	Forecasts										
		2020			2021			2022			2023	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	1.4	-8.0	-7.5	-6.0	8.1	7.7	7.8	5.9	5.4	..	3.1	3.2
General government consumption	1.9	1.7	1.7	2.2	1.9	4.5	1.1	1.9	0.8	..	1.3	0.9
Gross fixed investment	4.8	-5.4	..	-5.0	0.5	..	1.0	1.5	..	..	3.9	..
Extraction and transport via pipelines	12.6	-4.8	-3.0	-2.2	-6.0	-12.0	-11.5	-2.0	-2.0	..	10.0	8.0
Industries	5.6	-8.9	-12.6	-10.6	1.6	-7.6	5.4	2.2	5.8	..	2.8	5.4
Housing	-1.7	-8.5	-5.7	-6.9	1.0	5.3	4.9	4.1	4.1	..	4.2	3.3
General government	7.2	2.0	..	4.5	1.1	..	1.1	1.1	..	..	1.1	..
Demand from Mainland Norway[1]	2.1	-4.8	-4.9	-4.2	4.7	5.0	5.7	4.0	3.8	..	2.5	2.6
Exports	0.5	-2.2	..	-2.1	6.5	..	4.3	5.7	..	..	3.6	..
Traditional goods[2]	4.6	-3.6	-8.7	-4.4	3.2	2.6	3.5	5.3	5.5	..	4.1	4.2
Crude oil and natural gas	-4.3	6.5	..	9.0	9.0	..	6.3	4.1	..	..	2.4	..
Imports	4.7	-13.2	-12.5	-10.6	6.3	4.7	4.7	6.0	6.7	..	3.5	4.8
Gross domestic product	0.9	-1.6	-1.8	-1.5	4.4	3.8	4.5	3.7	2.9	..	2.8	1.9
Mainland Norway	2.3	-3.0	-3.6	-3.1	3.7	3.7	4.4	3.6	2.7	..	2.9	1.8
Labour market												
Employed persons	1.6	-1.6	-2.0	-1.6	0.7	0.5	0.6	1.5	1.7	..	0.8	1.0
Unemployment rate (level)	3.7	4.8	3.5	4.7	4.5	3.5	4.4	3.9	3.6	..	3.9	..
Prices and wages												
Annual earnings	3.5	2.4	1.9	1.7	2.1	2.1	2.2	3.6	2.3	..	3.9	2.8
Consumer price index (CPI)	2.2	1.3	1.6	1.1	2.5	3.1	3.5	2.4	1.9	..	2.1	1.6
CPI-ATE[3]	2.2	3.0	3.1	2.7	2.2	2.3	2.2	2.1	1.7	..	2.1	1.5
Housing prices[4]	2.5	4.0	3.0	..	3.9	3.3	..	3.7	3.4	..	3.7	..
Balance of payment												
Current balance (bill. NOK)[5]	91	33	..	64	94	..	125	136	..	..	175	..
Current account (per cent of GDP)	2.5	0.9	..	1.9	2.6	..	3.4	3.5	..	..	4.3	..
Memorandum items:												
Money market rate (level)	6.2	0.7	..	0.7	0.5	..	0.4	0.8	..	..	1.2	..
Crude oil price NOK (level)[6]	564	404	..	408	425	..	424	420	..	..	418	..
Import weighted krone exchange rate (44 countries)[7]	2.9	6.8	6.9	5.7	-2.0	-1.4	-2.4	0.0	-1.0	..	0.0	-0.8

[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.1. (2020-2021) (MoF). Norges Bank. Pengepolitisk rapport 3/2020 (NB).

employment. Examples are accommodation and food services, along with arts, entertainment and other service activities. Although unemployment is unlikely to fall much in the next few months, we expect the labour market situation to improve when economic activity picks up later in 2021. According to our projections unemployment, measured by the Labour Force Survey, will be 4.8 per cent in 2020, and then fall gradually to around 4 per cent in 2022 and 2023. By way of comparison, unemployment has been 3.7 per cent on average so far in the 2000s.

Annual wage growth appears to be higher in 2020 than previously assumed. In the deferred income settlement, the Confederation of Norwegian Enterprise (NHO), in agreement with the Norwegian Confederation of Trade Unions (LO), has estimated that annual wage growth in overall manufacturing under the NHO will be 1.7 per cent in 2020. As the impact of the economic crisis has been uneven, and many of those who have lost their jobs or been furloughed come from low-wage occupations, this will contribute to pushing up projected annual wages this year. Underlying wage growth in the private sector was also relatively high in both Q1 and Q3 (see Box 1). We have therefore revised up the projection for annual wage growth in 2020 from 2.0 to 2.4 per cent, but there is great uncertainty concerning this projection. Next year annual wage growth is expected to be 2.1 per cent, but higher inflation may cause real wages to fall slightly. In 2022 and 2023, real wage growth is expected to be between 1 and 2 per cent.

The second wave of infection in Norway has again led to a strong reduction in many spheres of economic activity. The situation looks far brighter, nonetheless, than immediately after the first wave. The assessment of the Norwegian Institute of Public Health in May was that vaccination of the population could take place in autumn 2021 at the earliest. As a consequence of rapid development and production by several vaccine candidates, it now looks as though vaccination can start straight after the New Year in Norway. Although vaccination is in the offing, it will probably take several months before large sections of the population are vaccinated. There is thus great uncertainty associated with the further course of the virus in the short term, and how long it will be necessary to continue the infection control measures in question. We assume that from summer 2021 economic activity will increase markedly, in pace with vaccination of the population and abatement of the infection pressure. The repercussions of the infection control measures will still set their stamp on the Norwegian economy for a long time to come, and only in 2022 will unemployment have reverted to what we regard as a more normal level.

Substantially increased use of petroleum revenue as a result of the pandemic

Autumn 2020 started optimistically with a low infection level and a policy for stimulating the economy as it emerges from the crisis. A new round of wage support was proposed for companies that found jobs for their own furloughed employees in October, November and December. It was nonetheless proposed that the furlough period be extended to 52 weeks. New compensation schemes were proposed for travel, cultural activities and collective transport, as these industries were hard hit by the crisis.

Central government spending rose 3.3 per cent in Q3 according to the monthly national accounts. The rebound in the healthcare industry explains most of the third quarter growth. Local government consumption rose 2.6 per cent in Q3, pushed up by spending on teaching and pre-school services. General government investment, with contributions from investments in county roads and municipal buildings, fell by 1.4 per cent in Q3.

In October, however, it became clear that the infection was increasing again, both in Norway and abroad. A number of measures designed to restrict social contact were introduced to reduce the spread of infection. More stringent rules were also introduced for travel into Norway, including the requirement of a negative COVID-19 test for foreigners.

In Supplement 1 to Prop. 1 S (the Budget Bill) published on 10 November, the government submitted proposals for new measures amounting to a total of NOK 17.7 billion. These measures include NOK 5 billion for a new, broad-based compensation scheme for businesses with a steep fall in sales, NOK 6.2 billion to municipalities as compensation for extra expenses and reduced revenue, and NOK 1.05 billion in compensation to county authorities. The measures will primarily have fiscal consequences for 2021, even though the schemes apply partly to activity in late 2020. Minor revisions were also made to the ex post revised budget .

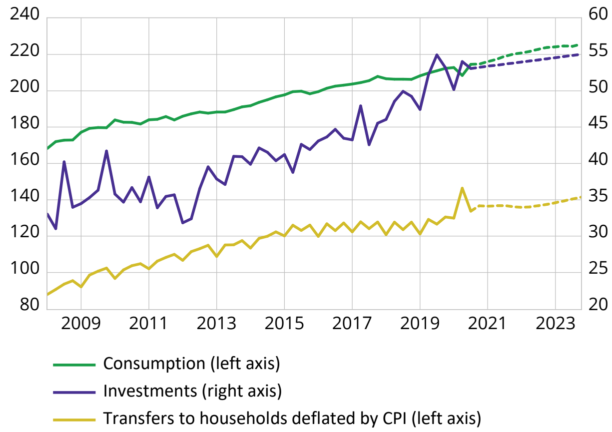
In a compromise with the Progress Party, the package of compensation schemes was expanded to NOK

Table 4. COVID-19 measures for 2020, adopted or proposed. Billions of NOK

	Appropriation 2020
Measures targeting businesses	67.3
Counter income shortfall for businesses, etc.[1]	35.9
Compensation scheme for businesses suffering large sales reductions	7.0
Aviation sector, incl. loss provision for guarantee scheme	14.3
Loss provision, government loan guarantee scheme via banks	10.0
Expansions of income support schemes for individuals	15.8
Other compensation schemes[2]	11.1
Measures for sectors with duties of critical importance to society[3]	29.8
Other measures	7.0
Total economic measures	131.0

[1] Includes reduced obligation for employers to pay salaries to furloughed workers, reduced employer liability for care benefit and COVID-19-related sickness absence, temporary tax reductions and the support scheme for getting furloughed employees back to work.
[2] Includes compensation for cultural activities, charities and sports and for national road ferries, rail transport and other public transport.
[3] Includes appropriations for the health sector, local government, the police and the Norwegian Labour and Welfare Administration.
Source: Final Budget, Prop. 56 S (2020–2021), published 27 November

Figure 3. General government
Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

22.1 billion. The compromise, reached on 1 December, implies cuts in taxes on beer, wine, chewing tobacco, chocolate, sugar and soft drinks, as well as increased transfers to pensioners. The compromise means an increase of NOK 14.6 billion in the budget deficit.

In the originally adopted budget for 2020, the use of petroleum revenue, measured as the structural non-oil budget deficit, was projected to be about NOK 244 billion. Since 12 March, tabled bills and budget allocation propositions have led to a substantial rise in public expenditure over the National Budget; see Table 1.

A number of direct and indirect tax measures were also implemented in connection with the pandemic. At one point in May/June, tax deferments amounted to about NOK 130 billion, according to the Revised National Budget 2020. New, permanent tax relief schemes amounting to NOK 2.8 billion were also adopted after the adoption of the 2020 budget in December 2019. Also adopted were substantial tax deferments and temporary tax relief for the petroleum industry. It is estimated that the measures will improve liquidity in 2020 and 2021 by a total of NOK 100 billion. The structural, non-oil budget deficit in 2020 is projected in the Final Budget to be NOK 392.5 billion. This deficit is equivalent to 3.9 per cent of the value of the Government Pension Fund Global (GPFG) at the beginning of the year.

The extraordinary measures in the draft budget for 2021 amount to less than in 2020, but the use of oil revenue is still significantly higher than before the crisis. Including the proposals in Prop. 1 Supplement 1, the government's draft fiscal budget for 2021 entails spending petroleum revenue, measured by the structural, non-oil deficit, in the amount of NOK 331.1 billion. This is NOK 17.7 billion more than in the original draft budget. The compromise with the Progress Party will increase the budget deficit by a further NOK 14.6 billion. The budget agreement means that the use of petroleum revenue in 2021 will be around 3.2 per cent of the value of the GPFG. In 2022 and 2023, the use of petroleum revenue, measured as the structural non-oil deficit as a share of the GPFG, is expected to be reduced to 3 per cent.

General government activity is expected to normalise in the last part of the projection period. This will result in growth in general government consumption and gross investment in 2021 of 1.9 and 1.1 per cent, respectively. The growth projections for the period 2022 to 2023 are based on extrapolation of previous projections. Transfers are expected to increase by 7.8 per cent in real terms in 2020, and the high level of transfers is expected to persist through the projection period.

Our projections are based on the infection situation going forward not creating a need to lock Norway down again, and on an effective vaccine making it possible to gradually dismantle infection control measures in the course of next spring. The possibility of new outbreaks, and the question of when vaccination will be fully effective, is creating uncertainty for fiscal policy projections.

Vaccination will result in higher interest rates

In the course of less than two months last spring, Norges Bank lowered the key policy rate by a total of 1.5 percentage points, to 0 per cent. In connection with the last cut, in May, the central bank signalled that the interest rate would remain unchanged for several years to come. In the two subsequent editions of its Monetary Policy Report, Norges Bank foresaw a cautious rise in the interest rate in 2022 and 2023.

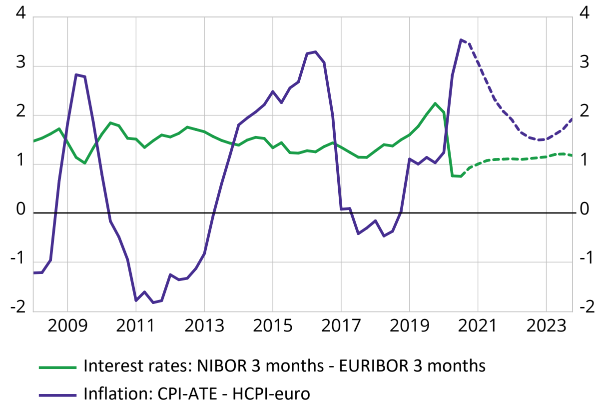
Money market rates have gradually shadowed the key rate, and at the beginning of December the three-month money market rate was close to 0.35 per cent. Lending rates have also been cut sharply, and the change in money market rates has fed through into these rates faster than normal. From the end of 2020 Q1 to the end of Q2 the interest rate on home equity lines of credit fell by over one percentage point, from 3.23 per cent to 2.16 per cent. By the end of Q3 this year, it had edged down further, to 2.10 per cent. The average deposit rate more than halved through the last two quarters, from 1.01 per cent to 0.42 per cent.

The krone depreciated sharply in the second half of March. Subsequently the weakening has been partly reversed. At the beginning of December, a euro cost about NOK 10.6, while the dollar was priced at NOK 8.8. We assume in our projections that exchange rates will remain at this level throughout the projection period. Because of the historic movements in 2020, the krone will appreciate by an annualised 2 per cent from 2020 to 2021, measured in terms of the import-weighted exchange rate. The exchange rate projections imply a krone that is roughly as strong as forecast in the last report.

We forecast that the first interest rate hike will come in mid-2021. We assume that large sections of the population will have been vaccinated by then, paving the way for relatively rapid normalisation of the economy. We therefore also expect Norges Bank to raise the interest rate three more times before the end of 2023. The money market rate will then have risen to 1.35 per cent, which is one percentage point higher than the current level. This means that in 2023 we will end up at an interest rate level that is somewhat higher than signalled by Norges Bank, but lower than what the central bank estimates to be a normal level. Even given the projected interest rate hikes, the real interest rate, measured as the difference between the money market rate and inflation, is likely to remain negative for the next few years.

Figure 4. Interest rate and inflation differential between NOK and euro

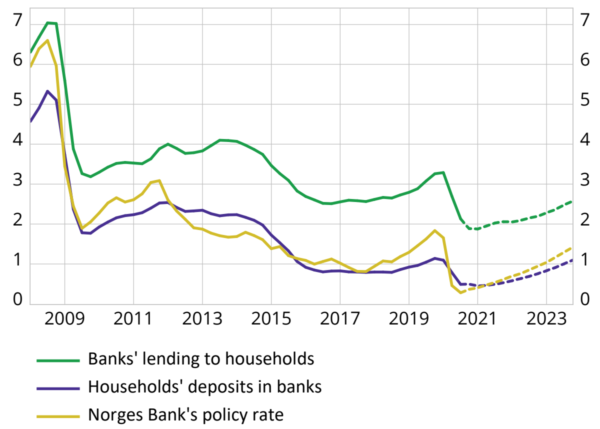
Percentage point



Source: Norges Bank and Statistics Norway

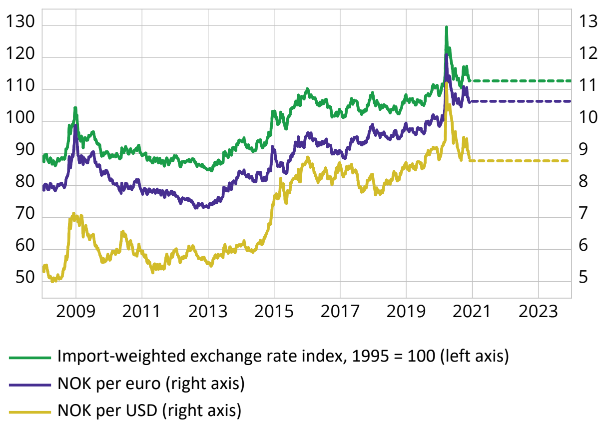
Figure 5. Norwegian interest rates

Percent



Source: Norges Bank and Statistics Norway

Figure 6. Exchange rates



Source: Norges Bank

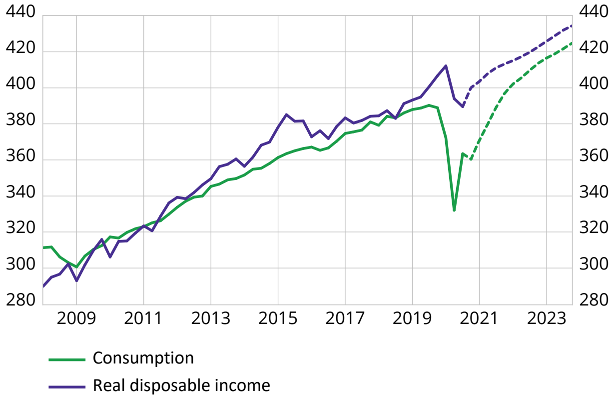
Consumption is picking up further

The household consumption pattern has changed significantly since the outbreak of the COVID-19 pandemic in March. While goods consumption, according to the quarterly national accounts, has grown strongly through the last three quarters, the infection control measures have led to far weaker developments in consumption of services in the same period. Although consumption of services climbed by a full 12.4 per cent in Q3, in pace with a gradual re-opening of businesses, it was not enough to compensate for a total fall of some 23 per cent in Q1 and Q2. According to the monthly national accounts, goods consumption rebounded rapidly after the 4.2 per cent decline in March, and by May already was at a higher level than prior to the outbreak of the pandemic. Consumption of services, however, fell by over 30 per cent through March and April. Much of this fall was reversed in the following five months, to the extent that in September the level of consumption of services was about 12 per cent lower than prior to the outbreak. In October overall consumption remained unchanged. The level of household consumption is thus still lower than prior to the outbreak of the virus.).

In the non-financial sector accounts, growth in real disposable income in 2019 is estimated to be about 3 per cent. Even when we adjust for disbursements of share dividends, which were sharply reduced this year, growth in real disposable income in 2020 will be lower than this. Growth in wage income will be about 2 per cent this year as a result of weak wage developments attributable to a substantial decline in employment during the COVID-19 crisis. On the other hand, government transfers, which have grown sharply as a result of increased disbursements to a large number of furloughed and unemployed workers, will help to keep growth in real disposable income at a high level. So will lower net capital expenses, owing to record-low mortgage rates. Given the low borrowing rates, the household interest burden, i.e. interest expenses in relation to disposable income, will fall from over 5 per cent last year to around 4.5 per cent this year. In nominal terms, wage income for the years 2021 to 2023 will rise in pace with a gradual normalisation of the Norwegian economy. Government transfers will not provide any significant contribution to growth in real disposable income going forward, when furlough schemes under the COVID-19 crisis gradually lapse and unemployment falls to a more normal level. On balance, we foresee annual growth in real disposal income, exclusive of dividend disbursements, of about 3 per cent next year and around 2.5 per cent as an annual average for 2022 and 2023.

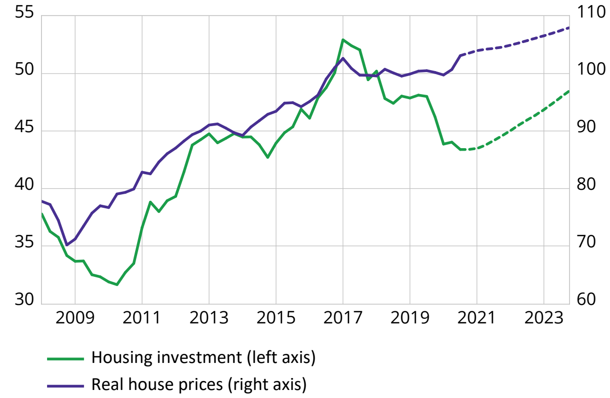
We now project a fall in consumption of round 8 per cent as an annual average for 2020, compared to around 7 per cent in our previous economic report. The reason for this is that in the last report we did not foresee the new wave of infection this autumn, and the reintroduction of several infection control measures. However, we still assume that total consumption

Figure 7. Income and consumption in households
Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

Figure 8. Housing market
Seasonally adjusted. Left axis: billion 2018 NOK, quarter
Right axis: index, 2018 = 100



Source: Statistics Norway

towards the end of 2021 will have rebounded to the level before the crisis, in pace with vaccination of the population. With prospects of growth in real disposable income and real house prices, and hence also in real wealth, consumption is forecast to grow by around 4.5 per cent as an annual average in the last two years of the projection period.

The saving ratio, measured as saving as a share of disposable income including disbursements of share dividends, increased from just under 6 per cent in 2018 to close to 8 per cent in 2019. The fall in overall consumption through the first half of the year resulted in a sharp increase in the saving ratio, to levels of around 15 and 20 per cent in Q1 and Q2, respectively. On account of the strong growth in consumption in Q3, the saving ratio fell back to a level of 12 per cent in that quarter, so that our projection for the saving ratio as an annualised average is around 15 per cent. Such a high annual saving ratio has not previously been recorded in the non-financial sector accounts. Next year we estimate that the saving ratio will fall to around 10 per cent, and further to about 7 per cent in 2022 and 2023, which will be in line with the average saving ratio for the years 2010 to 2019.

Brisk rise in house prices, subdued housing investment

According to Statistics Norway's seasonally adjusted price index, house prices rose by 2.5 per cent in Q3, following a rise of 1.3 per cent in Q2 and 0.2 per cent in Q1. So despite the ongoing pandemic, the rise in house prices has been high. This is confirmed by the monthly price statistics from Real Estate Norway: House prices did fall by 1.4 per cent in March, but in the period May–November, the average monthly rise in prices has been 1 per cent, equivalent to an underlying annual rise of close to 14 per cent. The monthly rise in October and November was 1.1 per cent and 0.8 per cent, respectively. The strong rise in house prices since April indicates that the very low real interest rate has outweighed other factors, such as weak income and population growth. The record-high saving ratio, with associated liquidity, may also have contributed to a higher rise in house prices in recent months.

Sales of resale homes have been high in parallel with the strong rise in resale home prices. Conversely, sales figures for new dwellings, according to the Norwegian Homebuilder Association, have not been as weak as this year's since 2010. It would appear that part of the market has shifted from the market for new dwellings to the resale homes market. This may well be attributable to the great financial uncertainty characterising 2020, which may have reduced the willingness of buyers to bind themselves to contracts for new residences scheduled for completion far in the future.

According to the national accounts, housing investment fell by 1.5 per cent in Q3, following weak positive growth in Q2 and a fall of over 5 per cent in Q1. The investment level has thus been reduced by over 10 per cent since the previous peak, which was in 2017. Developments in sales of new dwellings so far this year may indicate that growth in housing investment will remain weak for a good while to come. Our projections now show housing investment falling by 8–9 per cent as an annual average this year, and then rising only moderately in the following years. Given these developments, the level of housing investment in 2023 will still be considerably lower than the peak level in 2017.

In our KVARTS macroeconomic model there is a reciprocal effect between house prices and the supply of dwellings. Lower housing investment means less growth in the supply of dwellings which, in isolation, will mean higher house prices in the years ahead. The model also contains a reciprocal relationship between house prices and household borrowing. Our projections indicate that average annual debt growth will be just over 5 per cent in the projection period, which is consistent with debt growth so far this year.

On balance we now forecast that house prices will rise by 4 per cent this year, and by about the same in 2021.

A moderate rise in mortgage rates in the near future may curb the rise in house prices, but the interest rate level will nonetheless remain low, viewed in a historic perspective. At the same time, household income growth will gradually improve in pace with the rebound after the COVID-19 pandemic. We accordingly assume an annual rise in house prices of 3–4 per cent in 2022 and 2023 as well. The rise in real house prices will therefore remain positive throughout the projection period.

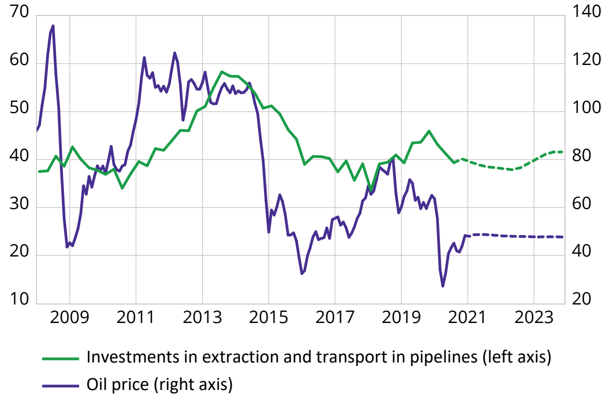
Petroleum investment will reverse into growth in 2023

After falling for several years, petroleum investment increased by 0.7 and 12.6 per cent in 2018 and 2019, respectively. Seasonally adjusted QNA figures show that in 2019 Q4 investment was at its highest level since 2015 Q3. Investment has fallen in the first three quarters of this year and, according to preliminary figures, the activity level in Q3 was 14.3 per cent lower than in 2019 Q4. According to the national accounts, the volume of petroleum investment in the first three quarters of 2020 was 2.2 per cent lower than in the same period last year.

Petroleum companies were impacted by the pandemic from early March, directly through Norwegian infection control measures and indirectly through a sharp fall in the oil price. The fall in the oil price led to many petroleum companies on the Norwegian continental shelf reporting substantial investment cuts. In order to counter this, the Storting adopted a package of tax measures in June that included immediate deduction of investment from the basis for special tax, plus a 24 per cent increase in uplift for investment taking place this year and next. In addition, all investment in developments for which plans for development and operation (PDOs) are delivered in the period from June this year to the end of 2022 is to be covered by the same favourable tax rules. Already before the pandemic, petroleum investment appeared likely to level off in 2020 following the strong growth in 2019, and a significant fall in investment was also expected in 2021. As a consequence of the strong stimulus for investment the package of tax measures appears likely to provide, our projections for the whole projection period are now higher overall than we envisaged just before the pandemic, despite the fact that the oil prices we are now assuming are substantially lower than before the crisis occurred.

In Statistics Norway's last investment survey (KIS) of November, operators on the Norwegian continental shelf project nominal investment of NOK 182.5 billion in 2020. This is about the same level as the corresponding projection for 2019 published in Q4 last year. The projection for this year implies that investment in Q4 is forecast to be 16 per cent higher than in Q3. However, according to the Norwegian Petroleum Directorate's fact pages, figures for drilling days in Q4 indicate higher drilling activity in Q4 than in Q3. Extraction and exploration drilling account for just under half of total

Figure 9. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2018 NOK, quarter
Right axis: USD per barrel



Source: Statistics Norway

petroleum investment. Although drilling activity so far in Q4 indicates growth in investment compared with Q3, historical figures indicate that final investment figures will be lower than the last projection of the survey. We forecast that investment will increase by 9 per cent, to about NOK 47 billion in Q4, resulting in nominal growth of 1.2 per cent in 2020. There has so far been a sharp rise in prices for investment goods and services in the extraction industry from last year to this year. This is partly attributable to the sharp depreciation of the Norwegian krone against the US dollar this year. Given an expected 6 per cent rise in investment prices, a nominal rise of 1.2 per cent means a 4.8 per cent fall in investment volume in 2020.

The petroleum companies' last investment projection for 2021 is now about NOK 166 billion in current prices. This is a full 12 per cent more than the projection in the previous survey, but nonetheless 9 per cent lower than the projection for 2020 published at the same time last year. The increase since the last survey is mainly due to significant cost overruns being reported for several development projects. In addition, a PDO has been submitted for the Breidablikk project. PDOs for several projects will also be submitted next year. We expect many of them only to come late in the year, and we forecast that total investment in these new projects in 2021 will only amount to about NOK 4 billion. There is also reason to believe that the favourable temporary tax rules will encourage petroleum companies to increase their investment in fields in operation next year over and above what is included in the survey as it stands at present. Because of the markedly higher cost projections that were reported for several development projects in the last survey, we are revising up our projections, and are now assuming a fall in investment of about 6 per cent in real terms in 2021.

The package of tax measures appears to be triggering and accelerating more development projects in 2022 than assumed in our previous economic report. In order for companies to secure favourable tax conditions throughout the project development phase, PDOs must be submitted in the course of 2022. Wisting and Noaka are the biggest of these projects. Decisions to develop most of these projects will probably be made very late in the year. The individual projects will therefore account for modest investment that same year. We now project a moderate fall in petroleum investment in 2022, whereas moderate growth was forecast in our previous report. The reason for the downward revision is primarily that the investment level in 2021 has been raised. However, we expect strong growth in petroleum investment in 2023. Investment in development projects is usually highest in the second and third years of the development phase. The very large number of developments for which PDOs are expected to be submitted in 2021 and 2022 will therefore mean a strong rise in development investment in 2023. Only minor changes are expected in the other investment categories from 2022 to 2023. We accordingly expect a 2 per cent fall in the volume of investment in 2022, followed by growth in volume of around 10 per cent in 2023. If this scenario for the years 2020–2023 plays out, the investment level in 2023 will be about 3.5 per cent lower than it was in 2019.

In the first three quarters of 2020, oil and gas extraction was 8.4 per cent higher than in the same period last year. Liquid production increased by as much as 20.5 per cent, while gas production in the first three quarters of the year was 1.9 per cent lower than in the same period in 2019. The big Johan Sverdrup oilfield, which came onstream late last year, is driving the strong growth in liquid production this year. Growth is expected to be positive, but more moderate and abating, later in the projection period.

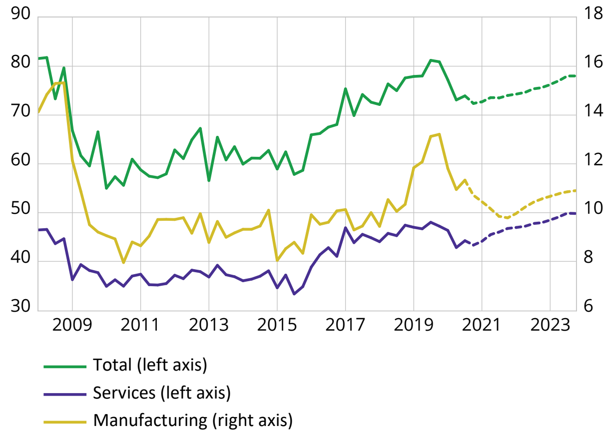
Weak business investment

After two quarters of sharp falls, which together reduced mainland business investment by over 8 per cent in the first half of the year, there was weak positive growth of just over 1 per cent in Q3. Developments have been strongly impacted by the COVID-19 pandemic, with the initiation of various infection control measures and uncertainty about the future, both in Norway and among our trading partners.

According to the manufacturing industry's investment plans, which are surveyed by Statistics Norway each quarter, companies project 16 per cent lower investment in 2020. The industry groups refined petroleum products, chemicals and pharmaceuticals manufacturing, and repair and installation of machinery are contributing most to the decline in investment. These industry groups are also expected to continue to cut their investment in the coming year, and overall investment is expected to be reduced by 12 per cent in 2021. However, the food, beverages and tobacco industry, which made a positive contribution to investment in 2020, is expected to make the largest negative contribution in 2021, particularly in fish processing and preservation. The low projections for manufacturing

Figure 10. Investments Mainland Norway

Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

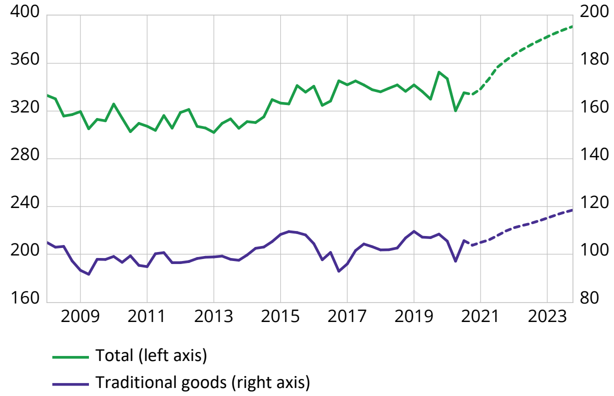
investment must be viewed in light of the high investment growth in 2019. A number of large investment projects that were launched in 2019 will enter a final phase this year or in 2021. In a normal year we could therefore have expected a fall in investment regardless. The COVID-19 pandemic, with the ensuing fall in oil prices and greater uncertainty about the future, has further impacted the investment outlook for Norwegian manufacturing.

Investment associated with power supply in 2020 is projected to be at approximately the same level as last year. A fall of 7 per cent is expected in 2021, however. This must be viewed in light of the fact that several large wind farms are being completed in 2020. 2021 is also the last year for the 'Green certificate' support scheme for the development of renewable energy. Weak developments in power supply are therefore expected going forward.

The service industries have been hit particularly hard by the infection control measures. Great uncertainty concerning the economic outlook, and lack of funding due to liquidity constraints, particularly in industries such as travel and tourism and cultural activities, have affected companies' willingness to invest. According to the December report from Norges Bank's regional network, which surveys enterprises' views of economic developments in Norway, a reduction in the investment level of service industries is still expected in the period ahead. However, the expected reduction is less than forecast in the September report, as some enterprises, particularly in retail trade, envisage an increased level of investment and are now starting up deferred projects.

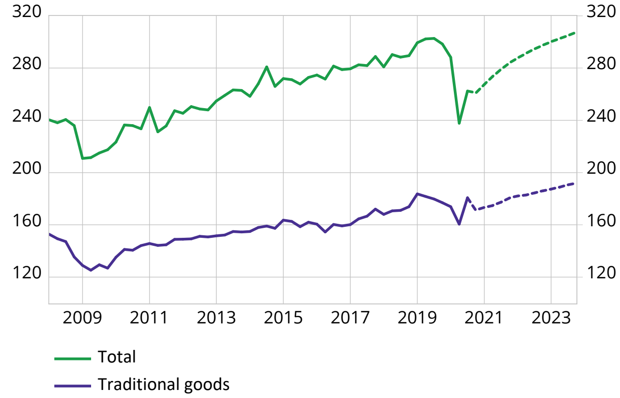
We project that business investment will fall by just under 9 per cent this year. Positive news about vaccines, but continued great uncertainty regarding future economic developments, point to a moderate rebound in the period ahead. According to our projections, investment growth will gradually increase from 1.6 per

Figure 11. Exports
Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

Figure 12. Imports
Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

cent in 2021 to around 3 per cent in 2023. Given this scenario, the investment level will be about 3 per cent lower in 2023 than in 2019.

Temporary improvement in foreign trade

Exports of traditional goods and services began to fall in Q1 this year and continued falling in Q2 when infection control measures in Norway and most countries placed a damper on global trade. Oil and gas exports were affected to a lesser extent. In Q3 this year, infection control measures were relaxed to varying degrees in Norway and among trading partners, and exports increased. Imports have followed a similar course this year. In Q3, the volume of total exports excluding oil and gas was about 9 per cent lower than in Q4 last year. Total imports showed a similar decline. While export prices fell in the first three quarters of the year, import prices, conversely, have risen, partly due to the depreciation of the krone. The overall effect on the trade balance has been negative, resulting in deficits in Q2 and Q3 this year.

There was a full rebound in Q3 following the fall in exports of tradition goods in Q2, and the volume ended nearly 3 per cent lower than the level for 2019 Q4. Both the decline in Q2 and the rebound in Q3 were broad-based. Refined petroleum products contributed most to both the decline and the rebound. As with crude oil and natural gas, the export volume of electricity was little affected by the pandemic and infection control measures this year. The exports of both product groups have increased in the course of the past two or three quarters and are higher than the volumes in 2019 Q4.

Service exports have been hit far harder by the pandemic and the infection control measures than exports of goods. After a fall of over 20 per cent in the course of March and April, exports of services increased a few per cent in July and August. The upswing was far from as broad-based as the decline. Reduced gross freight receipts in shipping, which accounted for almost 1/3 of service exports in Q3, was responsible for over 2/3 of the upswing. A temporary increase in foreigners' consumption in Norway also accounted for a large portion of the increase in service exports in Q3.

In Q3, a sharp rise in the oil price was reflected in an increase in the price index for total exports, despite lower export prices for traditional goods and services alike.

Infection control measures that are tightened and relaxed with the fluctuations in the infection figures will continue to constrain global trading until life and activity are gradually normalised by vaccination. Developments in mainland exports will be weaker in Q4 than in Q3, and are expected to remain weak in the first half of 2021 until vaccination is well under way. We expect demand from our most important trading partners to pick up in the next three years, and lift exports back to pre-pandemic levels. A weak krone and improved cost-competitiveness will boost export growth. Exports of oil and gas will increase as a result of increased production.

Imports have followed, and are expected to continue following a course similar to that for exports. There was a sharp decline in Q1 and Q2 this year, and a somewhat less pronounced upswing in Q3. Weak growth is also forecast for Q4 this year and the first half of next year, followed by a rebound in growth in 2021–2023. Imports of many consumer goods do not appear to have been negatively impacted by the pandemic and infection control measures, while imports of production equipment, intermediate goods and means of transport fell substantially in Q2 – and increased in Q3. Service imports have fallen most, and the largest rebound in growth is expected for them, aided by the fact that travel-hungry Norwegians will probably be able to satisfy this pent up need in the second half of 2021.

Mainland Norway's foreign trade will continue with a deficit because imports of both goods and services will exceed goods and service exports in value in the period ahead. Since the turn of the millennium, the value of oil and gas exports has been so high that overall foreign trade has resulted in fairly large surpluses nonetheless.

With the exception of this year, when oil and gas prices plummeted and will reduce the value of petroleum exports by over 25 per cent, oil and gas exports are expected to ensure a trade surplus for the remainder of the projection period. Given a sustained income and current transfers surplus, we forecast that the current account surplus as a share of GDP will increase from just under 1 per cent this year to just over 4 per cent in 2023.

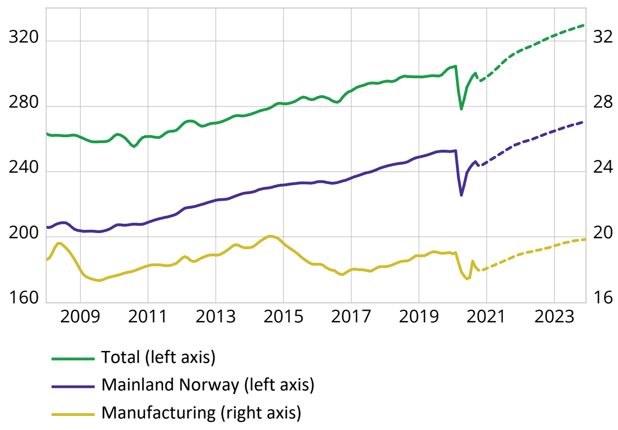
Norwegian economy rebounds

Activity in the Norwegian economy fell dramatically after the outbreak of the COVID-19 pandemic and the subsequent infection control measures that were introduced in Norway and in the rest of the world. After a historic plunge in March and April, activity in the Norwegian economy picked up again in subsequent months. The relaxation of infection control measures resulted in strong growth in May and June. Although third quarter growth as a whole was strong, growth declined through the quarter. The most recent figures in the monthly national accounts show that much of the fall since February was recovered in the months up to October. Overall, the economy dipped 1.5 per cent from February to October.

The upswing in production has been particularly strong in some service industries, both market-oriented and public sector. Several of the service industries that experienced the steepest falls in March and April also saw the strongest upswing. Industries such as arts, entertainment and other service activities, accommodation and food service activities, and transport excluding shipping experienced strong growth in activity after the infection control measures were relaxed. Activity in these industries is nevertheless slower now than in February. Manufacturing also felt the effects of the COVID-19 outbreak, which hit labour-intensive segments particularly hard. However, strong growth in August has led to manufacturing output approaching normal levels. Day-care centres, schools and educational institutions opened with reduced capacity through Q2 and with almost normal opening hours since June. This explains much of the upswing in Q3. Activity in several health and care services has also increased.

The sharp downturn in the Norwegian economy thus appears to be over, and much of the fall has been recouped. At the same time, future developments in the economy are shrouded in uncertainty. The COVID-19 will continue to restrict activities in the immediate future. The resurgence of the virus, with subsequent lockdowns has applied the brakes to economic recovery in many countries. When the infection figures began to rise again in October and infection control measures were tightened, activity in the Norwegian economy was still lower than its normal level. The tightened restrictions are likely to inhibit growth in the last two months of the year, but going forward the decline in the virus, the roll-out of a vaccine and granting of economic support packages may accelerate a further recovery.

Figure 13. Gross domestic product
Seasonally adjusted, billion 2018 NOK, month



Source: Statistics Norway

Many of our trading partners are experiencing a far more severe fall in economic activity than Norway, and domestic developments will depend on general developments globally. Our projections show that low activity among our trading partners, and particularly weak domestic consumption, are depressing activity this year. This contraction will be broad-based across industries.

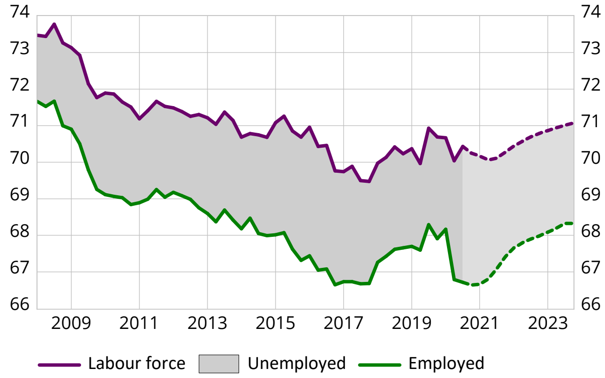
Manufacturing is expected to benefit from growth gradually picking up among our trading partners. A continued weak krone also improves the prospects for manufacturing in the years ahead. After several years of solid growth and a high level of activity, production in the construction industry slumped after the outbreak of the virus. The lack of new investment projects during an uncertain time, combined with falling housing investment is depressing activity this year, but it is expected to increase in the years ahead. The service industries will experience an abrupt fall in activity this year before they, like most other industries, grow later in the projection period. General government activity is expected to remain fairly stable.

Even when the current infection control measures are gradually phased out, the after-effects, coupled with weak global developments, are likely to constrain the Norwegian economy for a good while to come. We forecast that mainland GDP will fall by 3 per cent this year. The growth in seasonally adjusted figures is projected to be about 0.6 percentage point weaker than the unadjusted figures. This is attributable to seasonal adjustment for calendar variations, and there were three more business days in 2020 than in 2019. Mainland economic growth is then expected to rise to over 3.5 per cent in both 2021 and 2022 before slowing slightly in 2023. The upturn in the mainland economy appears likely to be broad-based, and by the end of 2021 activity is expected to revert to the same level as prior to the outbreak of the virus in February 2020.

Furlough numbers are falling and unemployment is rising

The outbreak of the COVID-19 and the subsequent infection control measures impacted the labour market in Q2 and Q3. According to the national accounts, employment fell by 2.0 per cent in Q2 compared with the same quarter the previous year, while it was 2.8 per cent lower in Q3. The fall in employment was relatively moderate at the beginning of the crisis because furloughed employees are counted among the employed in both the national accounts and the Labour Force Survey (LFS). In both cases fully furloughed employees are regarded as employed for the first 90 days that they are on furlough. With falling furlough numbers, this moderating effect has abated.

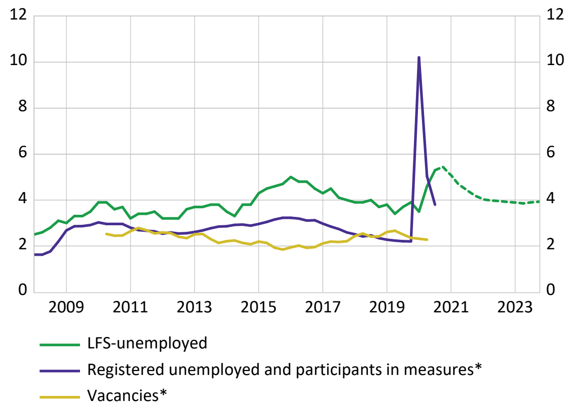
Figure 14. Labour market status
Percent of population in working age, LFS



* Unemployment is measured as share of population in working age
Source: Statistics Norway

Hours worked take into account furloughs and other absence from the workplace, and therefore fell more than employment figures. In Q2 the number of hours worked was 4.8 per cent lower than the same quarter the previous year, while in Q3 it was 3.4 per cent lower. The decline in hours worked was largest in the industries that were hardest hit by the infection control measures. From 2019 Q3 to 2020 Q3, hours worked in commercial services fell by 15.2 per cent, and in accommodation and food service activities by 20.9 per cent. Hours worked in arts, entertainment and other service activities fell sharply in Q2, to 17.1 per cent lower than the previous year, but rose in Q3 to a level only 4.7 per cent lower than 2019 Q3. These are the largest negative and positive changes from one quarter to the next that have been observed for this sector since 1996. The sector is nonetheless characterised by relatively large quarterly fluctuations in man-hours worked. For example, hours worked rose by 11.2 per cent from 2019 Q3 to 2019 Q4.

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

There was a slight decrease in the labour force in Q2 and Q3. In Q2 the labour force as a share of the population was 0.1 percentage point lower than in the same quarter the previous year. In Q3 the percentage of the population in the labour force was 70.9 per cent, a decline of 0.4 percentage point on 2019. One group that has been hard hit by the infection protection measures consists of those who work in Norway, but are domiciled in another country. The number of persons in this group fell by 21.7 per cent from 2019 Q3 to 2020 Q3 (some of the decline started before the COVID-19 crisis). The number of immigrant workers who were wage earners decreased less, by 1.9 per cent from 2019 Q3 to 2020 Q3.

The registered unemployment figures of the Norwegian Labour and Welfare Administration (NAV) classify those on furlough as unemployed. In Q2, the NAV figures were therefore a better indicator than the LFS unemployment figures of how many were involuntarily prevented from working. The number registered with NAV as unemployed increased from 2.4 per cent of the labour force at the end of January to 10.6 per cent at the end of March, followed by a decline to 5.0 per cent in June and further to 3.5 per cent in October.

Because LFS unemployment figures do not include the majority of those furloughed, the level of LFS unemployment was lower than the NAV figures for the first months of the COVID-19 crisis. In Q3, however, the LFS figures showed higher unemployment than NAV, reflecting the fact that there are some persons in the LFS survey who say they want work, but who have not registered with NAV. LFS unemployment in Q3 was 5.4 per cent, an increase of 0.8 percentage point on Q2 and 1.6 percentage points higher than the same quarter in 2019.

The number furloughed has changed sharply through the year. The furlough rules were changed in March to help both employers and employees. From a level of 4 700 furloughed employees reported to NAV in January this year, the number peaked at 272 800 persons in April with a subsequent drop to 54 700 in October. Of those furloughed in October, 21 800 were fully unemployed.

We do not know yet how the labour market will react to the infection control measures that were introduced at the beginning of November. In the slightly longer term, we assume that global economic activity will improve. Vaccination of the population combined with a continued expansionary fiscal policy and low interest rates may boost the labour market from the middle of next year. However, only at the end of the period, when petroleum investment is expected to increase again, do we expect employment to be as high as in 2019. We assume that annualised average LFS unemployment will be 4.8 per cent in 2020 and then fall gradually to just under 4 per cent in 2022 and 2023. As demand for labour picks up, the labour supply will also start growing at the end of 2021.

Wage growth this year revised up

Growth in average basic monthly wage in 2020 Q3 was 2.4 per cent compared with the same quarter last year. This is a decline from a corresponding growth rate of 4.2 per cent in 2020 Q2. Some of the reason for the low growth in Q3 was that more furloughed wage-earners with lower than average wages returned to work when infection control measures were relaxed as the infection situation eased in the course of the summer and autumn. At the same time, the increases from the deferred income settlements have not been realised, which pushes down growth in average basic monthly salary.

The relatively low growth in 2020 Q3 was therefore broad-based across most industries. Growth in large industries such as health and social services and retail trade and repair of motor vehicles was 2.1 per cent. In teaching, growth in average basic monthly salary was only 1.2 per cent in the last quarter. The growth rate in accommodation and food service activities in particular slowed in Q3. In 2020 Q2, this industry saw a rise in average basic monthly salary of 6.9 per cent. The fact that it was primarily wage-earners with low wages who were furloughed is probably an important reason for the high wage growth in this period (see also Box 2 in Economic Survey 2/2020). In 2020 Q3, growth in this industry was only 1.6 per cent compared with the same quarter last year, partly because of the return to work of low-salaried furloughed employees.

In connection with the deferred income settlement, the Confederation of Norwegian Enterprise (NHO), in agreement with the Norwegian Confederation of Trade Unions (LO), estimated that annual wage growth in overall manufacturing under the NHO will be 1.7 per cent in 2020. This growth can be decomposed into carry-over, 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 same year. The carry-over was estimated at 1.2 percentage points for manufacturing workers and 1.3 percentage points for clerical employees in manufacturing, while the pay increases from the wage settlement were estimated to contribute 0.3 percentage point. The remainder of the projected annual wage growth from the wage settlement, wage drift, is the sum of all factors other than the contributions from carry-over and pay increases that influence annual wages.

At the same time, calculations based on the quarterly wage statistics reveal that underlying wage growth in the private sector and public enterprises in 2020 is higher than previously estimated, even when is taken of compositional changes in the labour market due to furloughs (see Box 1). In consequence of this, and a lower estimated unemployment rate in 2020 than in the previous report, our projection for growth in average annual wages for 2020 is being revised up to 2.4 per cent. Given a rise in the CPI of 1.3 per cent for the current year, growth in real wages will therefore be 1.1 per cent in 2020.

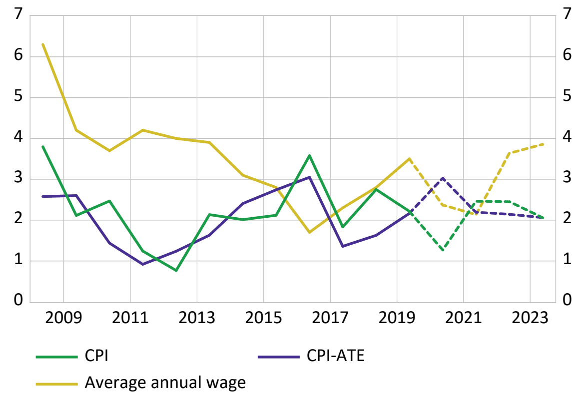
In 2021 we forecast growth in average annual wages of 2.1 per cent and CPI inflation of 2.5 per cent, so that real wages will fall by 0.4 per cent in 2021. Moving forward to 2023, business profitability will increase somewhat and unemployment will gradually fall back to a more normal level. Thus we forecast growth in real wages of between 1 and 2 per cent in 2022 and 2023.

Underlying inflation will slow next year

Underlying inflation measured by the 12-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) picked up markedly from March to August, but has subsequently slowed somewhat. With the exception of the January index for 2020, which showed an annual rise of 2.9 per cent, the inflation rate measured by the CPI-ATE remained at around 2 per cent from July 2019 to March this year, when the rise was 2.1 per cent. April saw a change in the inflation rate when the annual rise in the CPI-ATE was noted at 2.8 per cent, and it then increased gradually to a peak of 3.7 per cent in August. The last two observations of the CPI-ATE, from September and October, showed a 12-month rise of 3.3 and 3.4 per cent, respectively.

The annual rise in the consumer price index (CPI) has been appreciably lower than the rise in the CPI-ATE through the whole of 2020. The difference between CPI and CPI-ATE inflation is due to movements in energy prices, particularly electricity prices, but tax changes have also contributed. The average rise in the period January–October compared with last year was 3.0 per cent for the CPI-ATE and 1.3 per cent for the CPI. The difference between the CPI-ATE and the CPI thus averaged 1.7 percentage points for this period. The electricity spot price in November was very low for the time of year. For the year as a whole, we assume that the difference between the CPI-ATE and the CPI will be 1.7 percentage points, including a contribution of 0.3 percentage point attributable to temporary tax relief

Figure 16. Consumer price indices and annual wage
Change from previous year in percent



Source: Statistics Norway

related to the COVID-19 crisis. Whereas the CPI-ATE is projected to increase by 3.0 per cent from 2019 to 2020, CPI inflation is projected to be 1.3 per cent.

Developments in underlying inflation can be related to the depreciation of the krone earlier this year and a subsequent rise in prices for imported consumer goods, but prices for goods produced in Norway have also contributed to the rise in the rate of underlying inflation. The increase in prices for import goods is reflected in the categories furniture, household articles and equipment, as well as means of transport which, according to the sub-indices for these consumption groups in the CPI-ATE have risen sharply in price during the last six months. For these groups, there is a considerable carry-over in prices into 2021. For clothing and footwear, 12-month price inflation measured by the CPI-ATE has been negative for the past two months, and is probably being curbed by extensive online trading.

According to the CPI-ATE, the 12-month rise in prices in the consumer group food products and non-alcoholic beverages rose 4.6 per cent in October, and the rise in prices for this group has been relatively high for the past six months. A large share of goods produced in Norway is included in this group. One factor contributing to higher price inflation for goods produced in Norway is probably imports of intermediate inputs, which have imposed higher unit costs on Norwegian industries as a result of the weak krone.

According to the CPI-ATE, the 12-month rise in the sub-index for goods consumption excluding rents has slowed somewhat in recent months. Price inflation for the service group accommodation services has been clearly negative compared with 2019, which is attributable to low occupancy rates in many regions as a result of the pandemic. Capacity utilisation in segments of service industries has been very low during periods of this year. Cultural and sports arrangements and segments of the transport industries have been particularly hard hit by lockdown and restrictions. The uncertainty associated with price movements going forward is greater than usual for many service groups as a consequence of the restrictions.

On the basis of forward prices in the power market, we now expect electricity prices, including grid charges, to fall by about 30 per cent as an annual average from 2019 to 2020. We assume that this year's decline will reverse into an increase of about 20 per cent next year, which will cause a rise in CPI inflation. For 2022, we assume that electricity prices including grid charges will increase by a further 6 per cent, and subsequently slightly more than CPI inflation for the remainder of the projection period. Fuel prices are forecast to fall by about 6 per cent as an annual average in the current year. A carry-over from Q1 this year will push down annualised average fuel prices a little further next year. We assume that in the years ahead fuel prices will shadow movements in the price of crude oil in Norwegian kroner. Given the projected price movements, energy prices as a whole will push down CPI inflation by about 1.4 percentage points this year and contribute to a rise in the CPI of about 0.6 percentage point next year.

The Storting will consider the programme of direct and indirect taxes for 2021 on 15 December. We have taken the rates in the budget compromise between the government parties and the opposition as the basis for special taxes in the projection for 2021. The budget compromise means that special taxes on beer, wine, chewing tobacco and non-alcoholic beverages will be lowered. It is also proposed that the tax on chocolate and sugar products should be abolished. Environmental charges on fuel will increase next year, but will be offset by a lower road tax, so that fuel prices at the pumps are expected to remain unchanged. One of the measures in connection with the COVID-19 pandemic was a reduction in the low value-added tax rate from 12 to 6 per cent from 1 April 2020. This reduction will be continued through the first half of 2021. The temporary exemption from air passenger tax is being extended through 2021. Other special tax rates for 2021 are adjusted for inflation. On balance, these tax changes are expected to reduce CPI inflation by 0.3 percentage point next year. In our projections, the reversal of the temporary low value-added tax rate and exemption from air passenger tax will increase CPI inflation by 0.2 percentage point in 2022. We have adjusted the rates of the other special taxes for inflation for the years 2022–2023, which means that these special taxes have a neutral effect on CPI inflation in the last two year of the projection period.

In our projection, the krone exchange rate remains unchanged through 2023. In the long term, the inflationary impulses generated by a weak krone will wane, an important factor that will cause underlying inflation to fall next year. We also assume that the global rise in prices for imported consumer goods will be weak in the

Box 1 Calculating the annual wage projection for 2020

The projection for growth in annual wages from 2019 to 2020 has been revised up from 2.0 per cent in Economic Survey 2/2020 published on 11 September to 2.4 per cent in this report. The projection for annual wage growth in 2020 is more uncertain than usual because of the different effects of the COVID-19 pandemic on employment and wages, particularly the extensive furloughing in some service industries such as accommodation and food services.

In the national accounts, the annual wage is defined as the wage normally received by a wage-earner in the calendar year if he or she works full time, does not work overtime and has full pay during absence (holidays, sickness absence and other temporary absences). It is assumed that the number of vacation days taken is equal to the number of days for which holiday pay has been earned. Payment in kind and severance pay are not included. The annual wage is unaffected by changes in the number of business days from one year to the next.

There is a certain difference in Statistics Norway's calculations of annual wages between calculations associated with the national accounts and calculations associated with wage statistics. Whereas a worker who is put on full-time furlough for up to 3 months retains a full weighting in the annual wage calculations in the national accounts, the worker in question is only assigned a weighting for the period for which wages are paid when annual wages are calculated in the wage statistics. Since there has been a tendency in 2020 for furloughed employees to be relatively low wage-earners, the wage statistics will tend to show a rise in wages for the remaining workforce. In the annual wage calculations in the national accounts, however, furloughed employees are technically assigned a salary as long as they are regarded as employed, and such effects therefore do not arise as long as the employment relationship applies. In the national accounts' calculation of annual wages, greater weight is thus placed on measuring underlying wage developments, but in the national accounts other shifts in employment tendencies across industries may also affect average annual wage growth for the economy as a whole.

The upwardly revised projection of 2.4 per cent for annual wage growth from 2019 to 2020 relates to the measurement of annual wage growth in the national accounts, and is for the Norwegian economy as a whole. Projected annual wage growth in the national accounts forms the basis for any retrospective adjustment of pensions if the preliminary wage growth projection in the national insurance settlements was lower or higher than revealed retrospectively by the statistics. Adjustment of the basic amount and pensions of 1 May 2020 was based on assumed wage growth of 1.7 per cent, which is the same norm that formed the basis for the wage settlement for the wage leader. Higher than forecast wage growth in 2020 could imply substantial retrospective adjustment of pensions in spring 2021.

The underlying data for calculating annual wages, for both the national accounts and the wage statistics, are data reported to the Norwegian Tax Administration's "A-ordning scheme". The figures for growth in accrued annual wages for 2020 will be published in the usual way in February 2021. The preliminary projection of 2.4 per cent is based on extensive calculations for the first three quarters of 2020, in

Table. Basic monthly salary in private sector and public enterprises by quarter1 [1]

		NOK per month	Growth on same quarter previous year (per cent)
2018	Q1	42 910	..
	Q2	43 010	..
	Q3	43 050	..
	Q4	43 880	..
2019	Q1	44 320	3.3
	Q2	44 560	3.6
	Q3	44 590	3.6
	Q4	45 470	3.6
2020	Q1	45 840	3.4
	Q2	46 570	4.5
	Q3	45 820	2.8
	Q4	..	..

[1] Private sector and public enterprises refers to the sector "Private sector, public enterprises and unspecified" in Table 11655

Source: Statistics Norway

which the aforementioned aspects of furloughing are treated separately. But these detailed calculations can also be supported and substantiated with more aggregated figures based directly on the quarterly wage statistics, last published on 4 November.1

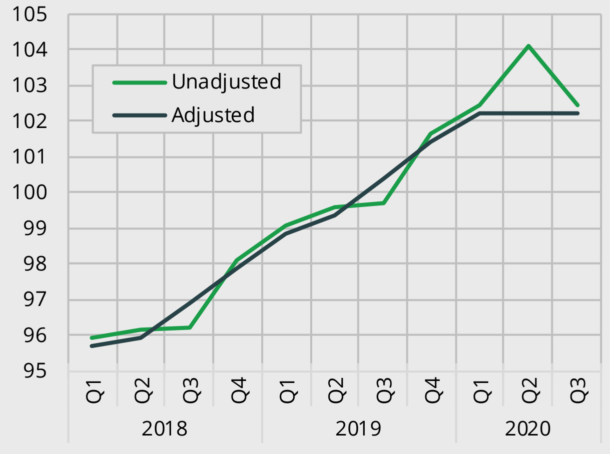
The observation time for the quarterly figures is the middle month of each quarter, i.e. February, May, August and November. In the table we have limited ourselves to the concept basic monthly salary, partly in order to avoid seasonal variations in bonuses and variable supplements. Basic monthly salary consists of the fixed wage (converted into monthly salary) that is disbursed whether it is defined as an hourly, monthly or weekly wage.

We have also focused on the private sector. In general government there are often large and varying lags in accruals between the time of the wage settlement and the time of observation in the statistics. From the table we find that wage growth through the quarters in 2019 and into 2020 Q1 was around 3.5 per cent overall for the business sector excluding general government. Basic monthly salary then rose sharply to 4.5 per cent in 2020 Q2, but fell back to 2.8 per cent in Q3 as the amount of furloughing declined.

In order to be able to use the table as a starting point for measuring underlying private sector wage growth, we make some technical adjustments: We exclude the observation for 2020 Q2 because of the effect of extensive furloughing. The figures for 2018 Q3 and 2019 Q3 are replaced with figures from the annual survey statistics for wage levels in September. The effects of the wage settlement are assumed to be reflected to a greater extent in the statistics in this annual survey. We have also assumed that the effect of the wage settlements agreed upon in August and September 2020 is not yet reflected in the underlying statistics.

Figure 1 shows the raw data in the table as an unrevised series, while the revised series shows developments with the aforementioned adjustments. Both are indexed to 2019 (annual average) = 100.

Figure 1. Developments in basic monthly salary in the private sector. Index 2019=100



Note that the revised series is exclusive of the wage settlement that was negotiated in August 2020. The figure provides evidence that even before this wage settlement, underlying annualised wage growth from 2019 to 2020 can be estimated at well over 2 per cent.

Several factors contribute to this result. The wage carry-over from 2019 to 2020, i.e. the wage level in Q4 in relation to the annual average for 2019, is estimated to be as high as 1.4 percentage points. Furthermore, the strong rise in wages through 2019 continued uninterrupted in 2020 Q1, although economic growth otherwise levelled off from mid-2019. A third factor, which is not evident from the table or Figure 1, is that there have been substantial changes in employment composition among industries from 2019 to 2020. The Norwegian economy also experienced large compositional changes in 2016, in the wake of the fall in the oil price. In 2016, changes in employment composition contributed to pushing annual wage growth down by 0.3 percentage point as a consequence of the fact that at that time there were fewer employees with a higher wage level than the average.2 In 2020 the changes have been in the opposite direction, in that there have been fewer employees with a lower wage level than the average. Our preliminary projection is that the overall compositional effect will push up wages by 0.3 percentage point in 2020.

Technical accounting exercises for the business economy as a whole, as described here, with the addition of expected effects of agreed wage settlements in August, provide evidence for an estimate of overall annual wage growth of 2.4 per cent from 2019 to 2020. However, it must still be stressed that there is great uncertainty attached to the estimate.

[1] See https://www.ssb.no/arbeid-og-lonn/statistikker/arblonn/kvartal/2020-11-04.
[2] Box 5, Economic Survey 1/2017, Statistics Norway

years ahead. As a result of the time-lagged effects of the depreciation of the krone, inflationary impulses from import goods will persist for a good while to come, but in the long term imported price inflation will tend towards the global rise in prices for imported products. Next year, moderate wage growth, higher productivity growth accompanying the increase in output, and lower inflationary impulses from imported products will contribute to CPI-ATE inflation falling to 2.2 per cent. Given the energy prices and taxes upon which the projections are based, CPI inflation for 2021 is expected to be 2.5 per cent, which is 0.3 percentage point higher than CPI-ATE inflation. In 2022 and 2023, CPI-ATE inflation is projected to approximately line up with Norges Bank's inflation target. When the reversal of temporary tax exemption associated with the COVID-19 pandemic is taken into account, the CPI is projected to be 2.4 per cent in 2022. Given our assumptions, CPI inflation will be close to CPI-ATE inflation in 2023. Wage growth will gather pace later in the projection scenario, but productivity growth and low imported inflation will dampen the effects of the higher wage growth on inflation.

Table 5. National accounts: Final expenditure and gross domestic product. At constant 2018 prices. NOK million

	Unadjusted		Seasonally adjusted								
	2018	2019	18.3	18.4	19.1	19.2	19.3	19.4	20.1	20.2	20.3
Final consumption expenditure of households and NPISHs	1 526 877	1 548 015	383 352	386 119	387 963	388 736	390 302	388 966	372 289	332 017	363 447
Household final consumption expenditure	1 446 535	1 465 262	363 267	365 753	367 378	367 949	369 403	367 984	352 168	315 444	345 592
Goods	668 301	668 007	167 880	168 372	168 649	169 001	168 617	167 622	164 555	173 587	184 077
Services	704 739	724 766	177 507	178 113	179 867	180 855	182 075	183 817	173 389	142 318	159 964
Direct purchases abroad by resident households	121 710	122 752	29 968	31 268	31 289	30 633	31 180	29 731	24 906	675	3 779
Direct purchases by non-residents	-48 215	-50 264	-12 087	-11 999	-12 427	-12 540	-12 470	-13 187	-10 681	-1 135	-2 228
Final consumption expenditure of NPISHs	80 342	82 753	20 084	20 366	20 585	20 788	20 899	20 981	20 121	16 573	17 855
Final consumption expenditure of general government	826 111	841 508	206 430	206 336	208 290	209 816	210 996	212 385	212 788	208 440	214 614
Final consumption expenditure of central government	403 644	411 130	100 984	100 646	101 681	102 474	103 125	103 864	105 286	103 029	106 422
Central government, civilian	355 562	361 203	88 965	88 671	89 442	90 057	90 610	91 109	92 565	90 191	93 482
Central government, defence	48 082	49 927	12 019	11 975	12 239	12 417	12 515	12 754	12 722	12 838	12 940
Final consumption expenditure of local government	422 467	430 378	105 446	105 690	106 608	107 342	107 871	108 522	107 502	105 411	108 192
Gross fixed capital formation	850 304	891 426	212 004	217 818	212 830	222 356	228 573	227 142	216 335	212 493	210 153
Extraction and transport via pipelines	153 077	172 306	39 438	40 937	39 299	43 442	43 607	45 906	43 168	41 201	39 325
Ocean transport	8 318	2 642	236	2 024	308	596	818	919	1 927	174	463
Mainland Norway	688 909	716 478	172 330	174 858	173 223	178 318	184 148	180 317	171 239	171 118	170 365
Industries	301 448	318 274	74 981	77 592	77 910	78 010	81 190	80 899	77 191	73 077	73 917
Service activities incidential to extraction	2 715	3 766	670	697	820	982	1 000	958	777	705	635
Other services	182 608	189 001	45 279	47 424	46 967	46 675	48 025	47 219	46 335	42 854	44 226
Manufacturing and mining	40 425	50 293	10 053	10 339	11 838	12 082	13 119	13 210	11 806	10 943	11 333
Production of other goods	75 700	75 214	18 979	19 132	18 286	18 271	19 046	19 512	18 273	18 575	17 723
Dwellings (households)	193 519	190 300	47 411	48 037	47 875	48 121	48 013	46 234	43 869	44 029	43 386
General government	193 942	207 904	49 938	49 229	47 437	52 188	54 944	53 184	50 179	54 013	53 062
Acquisitions less disposals of valuables	357	378	89	89	98	93	94	93	85	12	38
Changes in stocks and statistical discrepancies	146 479	145 788	39 210	37 230	42 430	40 438	37 807	27 331	35 974	19 234	32 724
Gross capital formation	997 140	1 037 592	251 302	255 137	255 358	262 887	266 474	254 567	252 393	231 738	242 915
Final domestic use of goods and services	3 350 128	3 427 114	841 084	847 591	851 611	861 440	867 772	855 918	837 471	772 195	820 976
Final demand from Mainland Norway	3 041 897	3 106 001	762 111	767 313	769 476	776 871	785 445	781 668	756 317	711 575	748 426
Final demand from general government	1 020 053	1 049 412	256 368	255 565	255 727	262 004	265 940	265 569	262 967	262 452	267 677
Total exports	1 349 476	1 356 582	341 800	336 467	341 883	336 395	329 927	352 502	347 073	320 171	335 340
Traditional goods	410 429	429 387	102 617	106 812	109 549	107 175	106 945	108 394	105 490	97 085	105 672
Crude oil and natural gas	569 275	544 745	146 300	140 177	136 715	132 946	127 567	148 371	144 848	146 300	150 163
Ships, oil platforms and planes	12 027	12 195	3 048	1 129	3 126	4 496	2 565	2 008	3 262	1 644	1 852
Services	357 745	370 256	89 835	88 349	92 494	91 779	92 851	93 729	93 473	75 143	77 654
Total use of goods and services	4 699 604	4 783 697	1 182 883	1 184 058	1 193 494	1 197 835	1 197 699	1 208 419	1 184 544	1 092 366	1 156 316
Total imports	1 145 704	1 199 522	288 380	289 431	299 417	302 331	302 648	298 424	288 222	237 849	262 447
Traditional goods	680 013	718 462	171 086	173 923	183 729	181 763	179 804	176 951	173 883	160 563	180 741
Crude oil and natural gas	24 178	25 396	5 381	5 888	5 107	5 100	7 505	7 279	7 358	5 146	4 142
Ships, oil platforms and planes	37 883	33 015	9 428	7 979	6 506	10 378	9 556	6 574	8 196	8 306	7 464
Services	403 630	422 650	102 485	101 640	104 075	105 090	105 784	107 620	98 785	63 835	70 101
Gross domestic product (market prices)	3 553 900	3 584 175	894 503	894 627	894 077	895 504	895 051	909 996	896 321	854 517	893 869
Gross domestic product Mainland Norway (market prices)	2 935 378	3 003 219	735 612	744 202	747 743	752 221	757 320	757 191	741 369	696 730	732 815
Petroleum activities and ocean transport	618 522	580 956	158 891	150 425	146 335	143 283	137 730	152 805	154 952	157 786	161 054
Mainland Norway (basic prices)	2 543 022	2 605 506	637 291	645 759	648 478	652 857	657 335	657 557	645 621	605 143	634 657
Mainland Norway excluding general government	1 901 234	1 949 758	476 644	484 481	485 779	489 412	492 996	492 296	482 977	449 704	470 491
Manufacturing and mining	218 578	224 468	55 566	56 411	56 326	57 101	57 099	57 167	56 449	52 884	54 186
Production of other goods	352 825	358 099	86 433	90 141	88 715	89 961	91 526	89 651	89 284	87 921	90 510
Services incl. dwellings (households)	1 329 831	1 367 192	334 645	337 929	340 738	342 350	344 372	345 478	337 244	308 899	325 795
General government	641 788	655 748	160 648	161 278	162 698	163 445	164 339	165 261	162 645	155 439	164 166
Taxes and subsidies products	392 356	397 713	98 321	98 444	99 265	99 364	99 985	99 634	95 748	91 588	98 159

Source: Statistics Norway.

Table 6. National accounts: Final expenditure and gross domestic product. At constant 2018 prices. Percentage change from previous period

	Unadjusted		Seasonally adjusted								
	2018	2019	18.3	18.4	19.1	19.2	19.3	19.4	20.1	20.2	20.3
Final consumption expenditure of households and NPISHs	1.6	1.4	-0.2	0.7	0.5	0.2	0.4	-0.3	-4.3	-10.8	9.5
Household final consumption expenditure	1.7	1.3	-0.2	0.7	0.4	0.2	0.4	-0.4	-4.3	-10.4	9.6
Goods	2.5	0.0	-0.9	0.3	0.2	0.2	-0.2	-0.6	-1.8	5.5	6.0
Services	1.1	2.8	0.8	0.3	1.0	0.5	0.7	1.0	-5.7	-17.9	12.4
Direct purchases abroad by resident households	0.9	0.9	-1.7	4.3	0.1	-2.1	1.8	-4.6	-16.2	-97.3	460.2
Direct purchases by non-residents	1.8	4.2	1.0	-0.7	3.6	0.9	-0.6	5.7	-19.0	-89.4	96.3
Final consumption expenditure of NPISHs	-0.5	3.0	-0.3	1.4	1.1	1.0	0.5	0.4	-4.1	-17.6	7.7
Final consumption expenditure of general government	0.5	1.9	0.0	0.0	0.9	0.7	0.6	0.7	0.2	-2.0	3.0
Final consumption expenditure of central government	-0.1	1.9	0.1	-0.3	1.0	0.8	0.6	0.7	1.4	-2.1	3.3
Central government, civilian	-0.1	1.6	0.1	-0.3	0.9	0.7	0.6	0.6	1.6	-2.6	3.6
Central government, defence	0.3	3.8	-0.2	-0.4	2.2	1.5	0.8	1.9	-0.3	0.9	0.8
Final consumption expenditure of local government	1.1	1.9	0.0	0.2	0.9	0.7	0.5	0.6	-0.9	-1.9	2.6
Gross fixed capital formation	2.2	4.8	-0.8	2.7	-2.3	4.5	2.8	-0.6	-4.8	-1.8	-1.1
Extraction and transport via pipelines	0.7	12.6	1.0	3.8	-4.0	10.5	0.4	5.3	-6.0	-4.6	-4.6
Ocean transport	738.3	-68.2	-87.7	759.2	-84.8	93.8	37.2	12.4	109.6	-91.0	166.2
Mainland Norway	1.5	4.0	-0.2	1.5	-0.9	2.9	3.3	-2.1	-5.0	-0.1	-0.4
Industries	3.1	5.6	-1.8	3.5	0.4	0.1	4.1	-0.4	-4.6	-5.3	1.1
Service activities incidential to extraction	-37.1	38.7	-10.2	3.9	17.7	19.7	1.8	-4.3	-18.9	-9.2	-10.0
Other services	0.7	3.5	-1.0	4.7	-1.0	-0.6	2.9	-1.7	-1.9	-7.5	3.2
Manufacturing and mining	4.0	24.4	-4.6	2.9	14.5	2.1	8.6	0.7	-10.6	-7.3	3.6
Production of other goods	11.6	-0.6	-2.0	0.8	-4.4	-0.1	4.2	2.4	-6.3	1.6	-4.6
Dwellings (households)	-6.5	-1.7	-0.9	1.3	-0.3	0.5	-0.2	-3.7	-5.1	0.4	-1.5
General government	8.1	7.2	2.9	-1.4	-3.6	10.0	5.3	-3.2	-5.7	7.6	-1.8
Acquisitions less disposals of valuables	-5.2	5.8	-3.5	-0.4	10.5	-5.0	1.3	-1.0	-8.9	-85.9	214.9
Changes in stocks and statistical discrepancies	20.0	-0.5	11.0	-5.1	14.0	-4.7	-6.5	-27.7	31.6	-46.5	70.1
Gross capital formation	4.3	4.1	0.9	1.5	0.1	2.9	1.4	-4.5	-0.9	-8.2	4.8
Final domestic use of goods and services	2.1	2.3	0.2	0.8	0.5	1.2	0.7	-1.4	-2.2	-7.8	6.3
Final demand from Mainland Norway	1.3	2.1	-0.2	0.7	0.3	1.0	1.1	-0.5	-3.2	-5.9	5.2
Final demand from general government	1.9	2.9	0.6	-0.3	0.1	2.5	1.5	-0.1	-1.0	-0.2	2.0
Total exports	-1.2	0.5	0.8	-1.6	1.6	-1.6	-1.9	6.8	-1.5	-7.8	4.7
Traditional goods	1.5	4.6	0.8	4.1	2.6	-2.2	-0.2	1.4	-2.7	-8.0	8.8
Crude oil and natural gas	-5.0	-4.3	3.2	-4.2	-2.5	-2.8	-4.0	16.3	-2.4	1.0	2.6
Ships, oil platforms and planes	-33.0	1.4	-20.6	-62.9	176.7	43.8	-43.0	-21.7	62.4	-49.6	12.6
Services	2.4	3.5	-1.9	-1.7	4.7	-0.8	1.2	0.9	-0.3	-19.6	3.3
Total use of goods and services	1.2	1.8	0.4	0.1	0.8	0.4	0.0	0.9	-2.0	-7.8	5.9
Total imports	1.4	4.7	-0.7	0.4	3.5	1.0	0.1	-1.4	-3.4	-17.5	10.3
Traditional goods	2.9	5.7	0.2	1.7	5.6	-1.1	-1.1	-1.6	-1.7	-7.7	12.6
Crude oil and natural gas	37.1	5.0	-15.5	9.4	-13.3	-0.1	47.1	-3.0	1.1	-30.1	-19.5
Ships, oil platforms and planes	-16.7	-12.9	-16.2	-15.4	-18.5	59.5	-7.9	-31.2	24.7	1.3	-10.1
Services	-0.2	4.7	0.5	-0.8	2.4	1.0	0.7	1.7	-8.2	-35.4	9.8
Gross domestic product (market prices)	1.1	0.9	0.7	0.0	-0.1	0.2	-0.1	1.7	-1.5	-4.7	4.6
[Gross domestic product Mainland Norway (market prices)	2.2	2.3	0.2	1.2	0.5	0.6	0.7	0.0	-2.1	-6.0	5.2
Petroleum activities and ocean transport	-5.0	-6.1	2.9	-5.3	-2.7	-2.1	-3.9	10.9	1.4	1.8	2.1
Mainland Norway (basic prices)	2.3	2.5	0.2	1.3	0.4	0.7	0.7	0.0	-1.8	-6.3	4.9
Mainland Norway excluding general government	2.9	2.6	0.2	1.6	0.3	0.7	0.7	-0.1	-1.9	-6.9	4.6
Manufacturing and mining	1.7	2.7	0.8	1.5	-0.1	1.4	0.0	0.1	-1.3	-6.3	2.5
Production of other goods	1.2	1.5	-1.2	4.3	-1.6	1.4	1.7	-2.0	-0.4	-1.5	2.9
Services incl. dwellings (households)	3.5	2.8	0.4	1.0	0.8	0.5	0.6	0.3	-2.4	-8.4	5.5
General government	0.8	2.2	0.4	0.4	0.9	0.5	0.5	0.6	-1.6	-4.4	5.6
Taxes and subsidies products	1.5	1.4	0.2	0.1	0.8	0.1	0.6	-0.4	-3.9	-4.3	7.2

Source: Statistics Norway.

Table 7. National accounts: Final expenditure and gross domestic product. Price indices. 2018=100

	Unadjusted		Seasonally adjusted								
	2018	2019	18.3	18.4	19.1	19.2	19.3	19.4	20.1	20.2	20.3
Final consumption expenditure of households and NPISHs	100.0	102.3	100.4	101.1	101.5	101.9	102.3	103.0	103.7	104.0	104.1
Final consumption expenditure of general government	100.0	103.2	100.2	101.2	102.4	102.7	103.7	103.9	106.3	109.2	106.0
Gross fixed capital formation	100.0	102.6	100.6	101.3	101.9	102.4	102.7	103.3	104.7	106.4	105.8
Mainland Norway	100.0	102.4	100.7	101.2	102.1	102.3	102.4	102.9	103.9	105.2	105.0
Final domestic use of goods and services	100.0	102.5	100.8	101.0	101.6	101.7	102.6	103.7	104.5	104.8	104.7
Final demand from Mainland Norway	100.0	102.5	100.4	101.1	101.9	102.2	102.7	103.2	104.5	105.8	104.9
Total exports	100.0	95.6	103.4	101.4	97.6	96.1	93.9	94.2	89.5	77.1	80.1
Traditional goods	100.0	100.7	100.6	100.4	99.4	100.9	99.6	102.0	102.5	97.9	94.0
Total use of goods and services	100.0	100.5	101.5	101.2	100.5	100.1	100.2	100.9	100.1	96.7	97.6
Total imports	100.0	103.3	100.8	100.8	101.5	102.8	103.6	105.0	105.2	108.6	107.0
Traditional goods	100.0	102.5	100.9	100.9	101.0	102.2	102.8	103.8	104.3	108.7	106.6
Gross domestic product (market prices)	100.0	99.6	101.8	101.3	100.1	99.2	99.1	99.6	98.4	93.3	94.8
Gross domestic product Mainland Norway (market prices)	100.0	102.2	100.2	101.4	101.3	101.7	102.5	103.1	104.2	104.8	103.6

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted								
	2018	2019	18.3	18.4	19.1	19.2	19.3	19.4	20.1	20.2	20.3
Final consumption expenditure of households and NPISHs	2.2	2.3	0.8	0.7	0.4	0.4	0.3	0.7	0.6	0.3	0.1
Final consumption expenditure of general government	3.9	3.2	0.4	1.0	1.1	0.3	1.0	0.2	2.3	2.7	-2.9
Gross fixed capital formation	2.8	2.6	1.1	0.8	0.6	0.5	0.3	0.5	1.3	1.7	-0.6
Mainland Norway	3.0	2.4	1.1	0.4	0.9	0.2	0.1	0.5	1.1	1.2	-0.2
Final domestic use of goods and services	3.2	2.5	1.1	0.2	0.6	0.1	0.9	1.0	0.8	0.3	0.0
Final demand from Mainland Norway	2.8	2.5	0.7	0.7	0.7	0.3	0.5	0.5	1.2	1.3	-0.9
Total exports	14.1	-4.4	4.3	-1.9	-3.7	-1.6	-2.2	0.3	-5.1	-13.8	3.9
Traditional goods	6.2	0.7	0.2	-0.2	-1.0	1.5	-1.3	2.4	0.5	-4.4	-4.0
Total use of goods and services	6.1	0.5	2.0	-0.4	-0.7	-0.4	0.1	0.7	-0.8	-3.4	1.0
Total imports	4.4	3.3	1.2	0.1	0.7	1.2	0.8	1.3	0.2	3.3	-1.6
Traditional goods	4.6	2.5	1.1	0.0	0.1	1.2	0.6	1.0	0.5	4.2	-1.9
Gross domestic product (market prices)	6.7	-0.4	2.3	-0.5	-1.1	-0.9	-0.1	0.5	-1.2	-5.2	1.6
Gross domestic product Mainland Norway (market prices)	2.8	2.2	0.7	1.2	0.0	0.3	0.8	0.6	1.1	0.5	-1.1

Source: Statistics Norway.

Main economic indicators 2010-2023

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

											Forecasts			
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Demand and output														
Consumption in households etc.	3.8	2.4	3.5	2.8	2.1	2.7	1.1	2.2	1.6	1.4	-8.0	8.1	5.9	3.1
General government consumption	2.2	1.1	1.5	1.0	2.7	2.4	2.3	1.9	0.5	1.9	1.7	1.9	1.9	1.3
Gross fixed investment	-6.4	7.5	7.5	6.3	-0.3	-4.0	3.9	2.6	2.2	4.8	-5.4	0.5	1.5	3.9
Extraction and transport via pipelines	-8.0	11.4	14.6	19.0	-1.8	-12.2	-16.0	-5.4	0.7	12.6	-4.8	-6.0	-2.0	10.0
Mainland Norway	-6.4	5.0	7.4	2.9	0.4	-0.2	9.0	6.8	1.5	4.0	-5.6	1.3	2.4	2.6
Industries	-9.2	1.1	10.5	-3.2	-0.7	-2.8	12.6	9.2	3.1	5.6	-8.9	1.6	2.2	2.8
Housing	-1.6	17.0	10.9	5.3	-1.4	3.2	6.6	7.3	-6.5	-1.7	-8.5	1.0	4.1	4.2
General government	-5.3	1.1	-1.8	11.8	4.5	0.2	6.4	2.6	8.1	7.2	2.0	1.1	1.1	1.1
Demand from Mainland Norway[1]	1.2	2.5	3.7	2.3	1.9	2.0	3.1	3.1	1.3	2.1	-4.8	4.7	4.0	2.5
Exports	0.6	-0.8	1.7	-1.8	3.4	4.3	1.1	1.7	-1.2	0.5	-2.2	6.5	5.7	3.6
Traditional goods	3.3	-0.1	-0.2	1.3	3.1	6.9	-8.6	1.7	1.5	4.6	-3.6	3.2	5.3	4.1
Crude oil and natural gas	-6.9	-5.6	0.5	-5.5	2.7	2.1	4.9	5.1	-5.0	-4.3	6.5	9.0	4.1	2.4
Imports	8.4	3.9	2.9	5.0	2.0	1.9	2.7	1.9	1.4	4.7	-13.2	6.3	6.0	3.5
Traditional goods	9.2	4.6	2.2	1.8	1.9	2.8	-0.2	3.8	2.9	5.7	-4.6	2.6	4.4	3.4
Gross domestic product	0.7	1.0	2.7	1.0	2.0	2.0	1.1	2.3	1.1	0.9	-1.6	4.4	3.7	2.8
Mainland Norway	1.9	1.9	3.7	2.3	2.2	1.4	0.9	2.0	2.2	2.3	-3.0	3.7	3.6	2.9
Manufacturing	2.1	1.7	2.0	3.3	2.8	-4.6	-4.2	0.0	1.7	2.7	-3.5	2.3	3.8	2.9
Labour market														
Total hours worked. Mainland Norway	0.2	1.7	1.7	0.4	1.4	0.7	0.6	0.3	1.6	1.8	-2.3	2.4	1.7	0.7
Employed persons	-0.3	1.4	2.0	1.1	1.0	0.5	0.3	1.2	1.6	1.6	-1.6	0.7	1.5	0.8
Labor force	0.6	1.3	1.5	1.2	0.7	1.5	0.2	-0.2	1.4	1.0	0.3	-0.2	1.0	0.8
Participation rate (level)	71.7	71.5	71.4	71.2	70.7	71.0	70.4	69.7	70.2	70.5	70.3	70.0	70.6	71.0
Unemployment rate (level)	3.8	3.4	3.3	3.8	3.6	4.5	4.7	4.2	3.8	3.7	4.8	4.5	3.9	3.9
Prices and wages														
Wages per standard man-year	3.7	4.2	4.0	3.9	3.1	2.8	1.7	2.3	2.8	3.5	2.4	2.1	3.6	3.9
Consumer price index (CPI)	2.5	1.2	0.8	2.1	2.0	2.1	3.6	1.8	2.7	2.2	1.3	2.5	2.4	2.1
CPI-ATE[2]	1.4	0.9	1.2	1.6	2.4	2.7	3.0	1.4	1.6	2.2	3.0	2.2	2.1	2.1
Export prices. traditional goods	4.5	5.8	-1.9	2.7	3.4	2.0	4.0	5.2	6.2	0.7	-3.1	2.2	4.3	3.1
Import prices. traditional goods	0.0	4.0	0.3	1.4	4.3	4.6	1.7	3.5	4.6	2.5	3.7	0.6	1.5	1.5
Housing prices	8.2	8.0	6.8	4.0	2.7	6.1	7.0	5.0	1.4	2.5	4.0	3.9	3.7	3.7
Income. interest rates and excange rate														
Household real income	2.8	4.3	4.4	4.0	2.3	5.4	-1.6	2.0	1.0	3.1	0.3	2.6	2.0	2.9
Household saving ratio (level)	3.7	5.8	6.9	7.2	7.7	9.8	6.9	6.6	5.9	8.0	14.7	10.0	6.9	7.1
Norges Bank's policy rate (level)	2.5	2.9	2.2	1.8	1.7	1.3	1.1	0.9	1.1	1.6	0.7	0.5	0.8	1.2
Lending rate. credit loans(level)[3]	3.4	3.6	3.9	4.0	3.9	3.2	2.6	2.6	2.7	3.0	2.5	2.0	2.1	2.4
Real after-tax lending rate. banks (level)	0.1	1.3	2.1	0.8	0.8	0.1	-1.6	0.1	-0.7	0.2	0.7	-0.9	-0.8	-0.2
Importweighted krone exchange rate (44 countries)[4]	-3.7	-2.4	-1.2	2.2	5.3	10.5	1.8	-0.8	0.1	2.9	6.8	-2.0	0.0	0.0
NOK per euro (level)	8.01	7.79	7.47	7.81	8.35	8.95	9.29	9.33	9.60	9.85	10.73	10.63	10.63	10.63
Current account														
Current balance (bill. NOK)[5]	281	346	374	317	341	250	138	152	283	91	33	94	136	175
Current account (per cent of GDP)	10.8	12.4	12.6	10.3	10.8	8.0	4.5	4.6	8.0	2.5	0.9	2.6	3.5	4.3
International indicators														
Exports markets indicator	11.1	6.1	1.1	1.9	4.8	5.4	3.9	5.6	4.0	2.6	-10.8	9.3	9.5	4.1
Consumer price index. euro-area	1.6	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	0.7	1.5	1.9
Money market rate. euro(level)	0.8	1.4	0.6	0.2	0.2	0.0	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.3	0.0
Crude oil price US dollar (level)[6]	80	111	112	109	100	53	45	55	72	64	43	48	48	48
Crude oil price NOK (level)[6]	485	622	650	639	627	431	379	452	583	564	406	425	420	418

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[2] CPI adjusted for tax changes and excluding energy products.
[3] Yearly average. Credit lines, secured on dwellings.
[4] Increasing index implies depreciation.
[5] Current account not adjusted for saving in pension funds.
[6] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was December 9 2020.