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Economic Survey

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Economic developments in Norway

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Economic developments in Norway

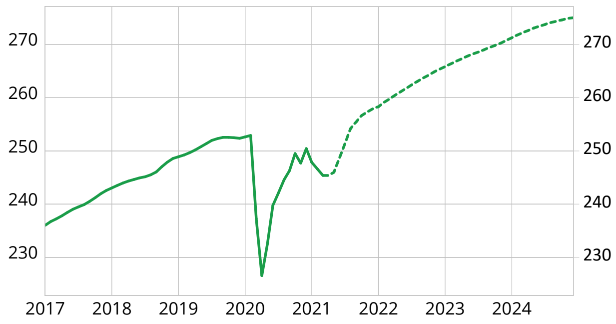
Vaccination against COVID-19 has come a long way, and the re-opening of society will give a considerable boost to economic activity in Norway. Following the first lockdown in March 2020, mainland GDP fell by over10 per cent from February to April last year, according to the monthly national accounts. Although activity picked up markedly in Q3 last year, the most recent waves of infection, both in Norway and internationally, have contributed to falling activity through the winter and spring. Activity in the Norwegian economy in March this year was around 3 per cent lower than in February 2020. At the end of May the government moved on to the second stage of the re-opening plan, which

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

	2019	2020	Seasonally adjusted			
			20:2	20:3	20:4	21:1
Demand and output						
Consumption in households etc.	1.4	-6.9	-10.1	9.2	0.1	-4.1
General government consumption	1.9	1.7	-2.2	3.1	2.4	-1.5
Gross fixed investment	4.8	-3.8	-2.1	-1.0	1.3	-1.7
Extraction and transport via pipelines	12.6	-4.1	-4.5	-4.1	3.4	-3.6
Mainland Norway	4.0	-4.1	-0.6	-1.0	0.9	-1.6
Final domestic demand from Mainland Norway[1]	2.1	-3.9	-5.7	5.0	1.0	-2.8
Exports	0.5	-0.5	-7.1	3.8	2.2	-2.9
Traditional goods	4.6	-2.2	-7.8	8.2	3.1	2.1
Crude oil and natural gas	-4.3	10.1	2.3	1.2	1.1	-7.6
Imports	4.7	-11.9	-17.2	9.7	0.4	-5.7
Traditional goods	5.7	-2.6	-7.4	12.9	1.9	-5.5
Gross domestic product	0.9	-0.8	-4.6	4.3	0.8	-0.6
Mainland Norway	2.3	-2.5	-5.8	4.9	2.0	-1.0
Labour market						
Total hours worked. Mainland Norway	1.8	-2.1	-4.8	4.0	0.3	-0.7
Employed persons	1.6	-1.3	-2.7	0.0	0.9	-0.3
Labour force[2]	1.0	0.4	-0.8	0.7	0.4	..
Unemployment rate. level[2]	3.7	4.6	4.6	5.3	5.0	..
Prices and wages						
Annual earings	3.5	3.1	..	..	..	..
Consumer price index (CPI)[3]	2.2	1.3	0.4	0.6	0.1	1.8
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	2.2	3.0	1.1	1.0	0.1	0.5
Export prices. traditional goods	0.7	-3.4	-4.3	-4.0	1.7	5.5
Import prices. traditional goods	2.5	4.2	4.1	-2.3	-0.6	2.2
Balance of payment						
Current balance. bill. NOK[4]	102	66	-3	14	9	..
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	1.1	0.4	0.1	0.0	0.0	0.0
Lending rate. credit loans[5]	0.8	0.6	2.7	2.1	2.1	2.1
Crude oil price NOK[6]	564	407	336	396	408	521
Importweighted krone exchange rate. 44 countries. 1995=100	107.6	114.9	118.5	113.3	114.1	109.2
NOK per euro	9.85	10.72	11.01	10.67	10.76	10.26

[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

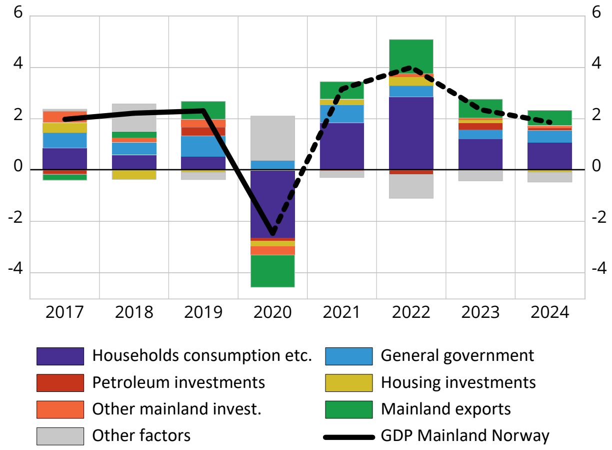
entails easing a number of infection control measures. According to the Norwegian Institute of Public Health, the entire adult population will have been offered a first dose of vaccine by early August. Economic activity is expected to pick up markedly in pace with the further re-opening, particularly in the industries that were hardest hit by the infection control measures.

Fiscal policy has dampened the negative impact of the pandemic on the Norwegian economy. In 2020, NOK 135 billion in economic measures was granted for coping with the COVID-19 pandemic, which, according to calculations, has boosted up mainland economic activity by 0.5 per cent.[1] In 2021, grants totalling NOK 94 billion have been granted or proposed for COVID-related measures. According to the Revised National Budget (RNB) these measures and the long-term effects of last year's measures will push mainland GDP up by 1.4 per cent this year. According to the fiscal rule, the use of petroleum revenue over time is to be equivalent to 3 per cent of the value of the Government Pension Fund Global (GPFG), but strong emphasis is also to be placed on smoothing fluctuations in the economy, to ensure good capacity utilisation and low unemployment, as was done in 2020 and is planned for 2021. In the RNB, the structural, non-oil budget deficit for 2021 is estimated to be NOK 402.6 billion. This is equivalent to approximately 3.7 per cent of the market value of the GPFG at the beginning of the year. In the course of 2022 and 2023 the budget deficit is expected to be reduced to approximately 3 per cent of the value of the GPFG.

Household consumption of services is expected to increase substantially in the coming months. Overall consumption as an annual average fell by as much as 6.9 per cent in 2020. This is the sharpest decline in consumption in the time series, which extends back to 1970. In the first quarter of this year, a new wave of infection with associated stringent regional and national infection control measures precipitated a fall in consumption of both goods and services. Consumption of leisure services, hotel and restaurant services and passenger transport were the main contributors to the decline. We assume that as a consequence of vaccination of the population of Norway, the re-opening of the economy and pent-up household demand, overall consumption will pick up to the same level as prior to the COVID crisis towards the end of 2021. With prospects of growth in real disposable income, but weak developments in real house prices, and hence also in real wealth, consumption is forecast to grow by just on 3 per cent as an annual average in 2023 and 2024.

House prices are still rising briskly, increasing by 12 per cent from April 2020 to April 2021 according to the house price statistics of Real Estate Norway. The high rise in prices may indicate that

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.

[1] Bjertnæs et al. (2021). COVID-19, tapt verdiskaping og finanspolitikkens rolle [COVID-19: lost value creation and the role of fiscal policy]. Reports 2021/13, Statistics Norway

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

	QNA				Projection			
	2017	2018	2019	2020	2021	2022	2023	2024
GDP Mainland Norway	2.0	2.2	2.3	-2.5	3.1	4.1	2.4	1.9
with contributions from:								
Consumption by households and non-profit organisations	0.9	0.6	0.5	-2.6	1.9	2.9	1.3	1.2
General government consumption and investment	0.6	0.5	0.8	0.4	0.7	0.5	0.4	0.5
Petroleum investment	-0.2	0.0	0.3	-0.1	-0.0	-0.2	0.3	0.1
Housing investment	0.4	-0.4	-0.1	-0.2	0.2	0.3	0.1	-0.1
Other mainland investment	0.5	0.2	0.3	-0.3	0.0	0.1	0.1	0.1
Exports from mainland Norway	-0.2	0.3	0.7	-1.3	0.7	1.3	0.8	0.6
Other factors etc.	0.1	1.1	-0.3	1.7	-0.3	-0.9	-0.4	-0.5

[1] See explanation under Figure 2.
Source: Statistics Norway.

low mortgage rates have tended to outweigh other factors such as moderate income growth and weak population growth. A record-high saving ratio and associated liquidity have probably also contributed to a higher rise in house prices in recent months. We forecast that house prices will level off over the next months, which implies an annualised average rise of between 9 and 10 per cent in 2021. House price movements going forward are shrouded in uncertainty. A moderate increase in mortgage rates in the near future is likely to dampen the rise in prices, but they are nonetheless expected to continue rising throughout the projection period. The high rise in house prices has made residential construction more profitable, and our projections show that housing investment will rise markedly next year. We therefore forecast that the real rise in house prices, adjusted for the rise in the consumer price index, will be weakly positive going forward.

Following a 4.1 per cent fall in overall petroleum investment in 2020 an upswing appears likely in 2022. The petroleum companies' investment plans imply that overall investment activity will fall a little this year and somewhat more next year. In line with market expectations, we assume that the oil price will gradually fall from the current level of around USD 70 to around USD 60 towards the end of 2024. The package of tax measures adopted by the Storting in June last year, and prospects of a relatively high oil price are likely to contribute to increased activity in 2023 and 2024. Petroleum investment is then expected to rise by 10 and 4 per cent, respectively. Given these developments, overall demand from mainland-oriented petroleum investment will push up mainland GDP growth by 0.3 percentage point in 2023 (see Table 2). The investment level in 2024 will be approximately in line with the level before the COVID crisis, but still more than 20 per cent lower than the investment peak in 2013. As a share of mainland GDP, petroleum investment is expected to be just on 6 per cent in 2024, compared with a full 9 per cent in 2013.

There is some light on the horizon for business investment. Although developments have been sluggish this past year, there are signs that investment will gradually pick up following the pronounced fall a year ago. Both manufacturing and retail enterprises report plans for increased investment next year. The other service industries and power supply report lower or unchanged investment. Companies' willingness to invest has reflected the great uncertainty concerning the economic outlook, but that uncertainty is less now than it was a year ago. On balance, we forecast that business investment will increase modestly this year, and that growth will then pick up to around 2 per cent annually up to 2024.

Following pronounced weakening in March 2020, the krone has strengthened over the past year. Measured in terms of the import-weighted krone exchange rate, the krone was worth the same at the beginning of June 2021 as it was at the beginning of 2020. At the end of May, a euro cost NOK 10.22, while the price of a dollar was NOK 8.38. We have maintained these levels in our exchange rate projections, which are at about the same level as our previous projections from March. This implies that the krone has appreciated by an annualised 5.5 per cent from 2020 to this year, following depreciation of close to 7 per cent the previous year.

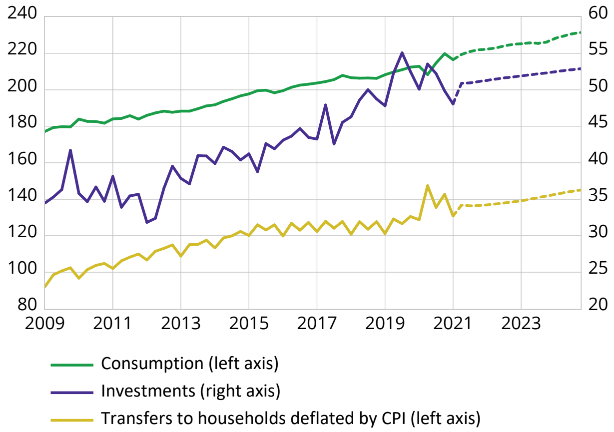
Table 3. Main economic indicators 2020-2024. Accounts and forecasts. Percentage change from previous year unless otherwise noted

	Accounts 2020	Forecasts										
		2021			2022			2023			2024	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	-6,9	5,1	4,1	4,7	7,9	9,0	..	3,3	3,2	..	3,1	2,3
General government consumption	1,7	2,7	3,3	4,3	1,6	0,3	..	1,2	0,1	..	1,7	0,1
Gross fixed investment	-3,8	0,9	..	0,2	1,4	..	..	3,1	..	..	1,3	..
Extraction and transport via pipelines	-4,1	-1,0	-4,0	-5,4	-6,0	-5,0	..	10,0	10,0	..	4,0	8,0
Industries	-6,1	0,2	-1,1	0,0	2,1	3,3	..	1,4	4,5	..	1,8	4,6
Housing	-4,0	4,4	5,2	6,4	7,1	4,4	..	2,4	2,0	..	-1,6	1,4
General government	-1,0	-1,1	..	-0,8	1,3	..	..	1,1	..	..	1,1	..
Demand from Mainland Norway[1]	-3,9	3,5	3,4	3,9	5,0	5,1	..	2,4	2,2	..	2,2	0,4
Exports	-0,5	2,9	..	4,1	7,2	..	..	4,3	..	..	2,6	..
Traditional goods[2]	-2,2	6,8	4,1	3,7	3,4	6,7	..	3,1	3,5	..	2,6	3,1
Crude oil and natural gas	10,1	0,8	..	3,3	5,9	..	..	4,3	..	..	1,7	..
Imports	-11,9	2,7	5,0	3,0	8,3	8,5	..	4,6	5,3	..	3,8	4,4
Gross domestic product	-0,8	2,8	3,8	3,7	4,3	3,4	..	2,7	1,2	..	1,8	1,0
Mainland Norway	-2,5	3,1	3,8	3,7	4,1	3,4	..	2,4	1,1	..	1,9	1,1
Labour market												
Employed persons	-1,3	0,4	0,3	0,5	1,4	2,0	..	1,0	0,7	..	1,0	0,4
Unemployment rate (level)	4,6	4,6	3,5	4,4	4,2	3,6	..	3,9	..	..	3,7	..
Prices and wages												
Annual earnings	3,1	3,1	2,4	2,4	3,1	2,6	..	3,2	3,0	..	3,6	3,3
Consumer price index (CPI)	1,3	3,1	2,8	2,8	1,8	1,1	..	1,8	1,5	..	1,9	1,7
CPI-ATE[3]	3,0	2,1	1,9	2,0	2,0	1,3	..	1,9	1,4	..	1,9	1,6
Housing prices[4]	3,9	9,2	10,1	..	3,3	3,0	..	2,0	1,2	..	1,6	2,2
Balance of payment												
Current balance (bill. NOK)[5]	66	319	..	224	379	..	..	398	..	..	362	..
Current account (per cent of GDP)	1,9	8,3	..	6,0	9,2	..	..	9,2	..	..	8,1	..
Memorandum items:												
Money market rate (level)	2,8	0,5	..	0,6	1,1	..	..	1,7	..	..	2,0	..
Crude oil price NOK (level)[6]	407	556	..	557	541	..	..	516	..	..	500	..
Import weighted krone exchange rate (44 countries)[7]	6,7	-5,6	-6,7	-5,4	0,1	-0,8	..	0,0	0,1	..	0,0	-0,3

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] Norges Bank forecasts exports of traditional goods and services from Mainland Norway. Ministry of Finance forecasts exports of goods exclusive of oil and natural gas.
[3] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[4] Norges Bank forecasts the housing price index published by Eiendom Norge.
[5] Current account not adjusted for saving in pension funds.
[6] Average spot price. Brent Blend.
[7] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN). Ministry of Finance. Meld.St.2. (2020-2021) (MoF). Norges Bank. Pengepolitisk rapport 1/2021 (NB).

Energy prices are pushing up the consumer price index (CPI). Last year underlying inflation was 3.0 per cent measured by the CPI-ATE, but the appreciation of the krone has reduced the 12-month rise in the CPI-ATE to 2.2 per cent in April. We project that the CPI-ATE will increase by an annualised average of 2.1 per cent in 2021. The rise in the CPI, which includes energy products and taxes, is expected to be 3.1 per cent this year. Whereas tax changes appear likely to push down CPI inflation by around 0.5 percentage point, rising energy prices are projected to push inflation up by about 1.5 percentage points. CPI-ATE inflation for the years 2022–2024 is projected to be close to Norges Bank's inflation target of 2 per cent. Given our assumptions about energy prices and taxes, CPI inflation will approximately shadow CPI-ATE inflation in the years ahead.

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



Source: Statistics Norway

Gradual interest rate increases are in the offing. In response to the COVID crisis, Norges Bank cut the key policy rate last year from 1.5 to 0 per cent in the course of two months. A zero interest rate is a sign of an economy in crisis. With the re-opening of Norway and expected normalisation of economic activity, it is likely that the interest rate will be raised to more normal levels in the years ahead. The first interest rate increase will probably come in the second half of this year. Interest rate hikes will subsequently come gradually, and by the end of 2024 the policy rate is expected to be 1.75 per cent, close to what Norges Bank regards as a normal level.

Growth in real wages is likely to be close to zero this year. Negotiations on this year's income settlement concluded on 11 April after overtime mediation. The consequence of the negotiations is that 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 2.7 per cent in 2021. Figures for the average basic monthly wage for 2021 Q1 show growth of 2.9 per cent compared with the same quarter last year. Wage growth in private sector and public enterprises was as much as 3.8 per cent. Although the central and local government figures do not show clear signs of rising wage growth, private sector developments are considered to indicate that wage growth will pick up somewhat this year. Our projection for annual wage growth in 2021 has therefore been revised to 3.1 per cent, up from 2.6 per cent in the previous economic report. Given a roughly similar level of inflation, real wages will probably remain unchanged.

Unemployment remains high. Registered unemployment was 4.0 per cent in April this year. Since 1948, annual registered unemployment has only topped 4 per cent in the period from 1990 to 1996 and in 2020. Labour market developments must be viewed in light of the fact that a number of the industries that have been directly affected by infection control measures are labour-intensive. The industries that have had an activity level 15 per cent lower than the level in February 2020 for at least 4 months in a row accounted for about 9 per cent of mainland GDP in 2020. Employment in these industries accounted for 19 per cent of the total number of mainland employees in 2020. We expect the labour market situation to improve when economic activity picks up after the summer, and mainly in the labour-intensive service industries. According to our projections, unemployment measured by the Labour Force Survey (LFS) will be 4.6 per cent in 2021, falling to just under 4 per cent in 2024. By way of comparison, unemployment has averaged 3.7 per cent so far in the 2000s. The share of the population in employment in the age group 15 to 74 is expected to increase from the current level of around 67.2 per cent to just over 68.5 per cent in 2024.

The COVID-19 pandemic has now set its mark on both the Norwegian and the global economy for over a year. The outbreak of the virus and subsequent infection control measures have overshadowed all other economic factors since March last year. The virus will continue to hamper activities in the immediate future, but the Norwegian economy appears to be at a turning point. The infection rate is falling, more people have been vaccinated and a gradual re-opening of society has commenced as a result. We forecast that mainland GDP will increase by 3.1 per cent this year. This rebound is somewhat weaker than projected previously, and is attributable to weak developments in activity at the beginning of the year, while large sectors of the Norwegian economy have been shut down or restricted so far in 2021. The rebound will be particularly strong in the areas that were hardest hit by the infection control measures, particularly in those labour-intensive service industries that experienced a sharp fall last year. 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. Exports, particularly of goods, will pick up in pace with the rise in economic activity among our trading partners. The long-term effects of the global downturn and the national infection control measures will mark the Norwegian economy for a long time to come, however, and we do not expect unemployment to reach what we regard as a more normal level before 2023.

There is still great uncertainty associated with future economic developments. Our projections are based on the vaccination programme being successful in keeping a check on the virus, including the mutated variants. If this assumption proves mistaken, the economic slowdown will last longer than our projections indicate at present.

The high consumption of petroleum revenue will continue

Central government consumption fell by 1.7 per cent in Q1 this year after rising 1.7 per cent in Q4 last year. Consumption was restrained by somewhat lower production of ordinary health services, partly because of the increase in infection. Local government consumption fell by 1.4 per cent in Q1 after rising 3.1 per cent in 2020 Q4. Teaching and other consumption had a negative effect. Central government investment fell by 6.4 per cent in Q1, depressed by lower investment in central government administration. Local government gross investment rose by 0.5 per cent in Q1, pushed up by investment in local government administration lower investment in the care industry had a countering effect. A number of tax changes were introduced in 2021, and these are described in more detail in the section on energy prices. The projection scenario is based on the assumption that other taxes are adjusted for inflation and that tax rates remain unchanged, while earnings-based tax thresholds rise with wages.

In RNB 2021, the government proposed expanded support measures which brought the use of petroleum revenue, measured as the structural, non-oil budget deficit, up to NOK 402.6 billion in 2021, almost NOK 90 billion more than the budget proposal last autumn. This deficit is equivalent to 3.7 per cent of the value of the GPFG. We assume that in the years 2022 and 2023, spending of petroleum revenue, measured by the structural non-oil deficit as a share of the GPFG, will be reduced to about 3 per cent.

Table 4. Coronavirus measures for 2021, adopted or proposed. Billions of NOK

	Appropriation 2021[1]
Measures for businesses	39.0
General compensation scheme	9.0
Aviation	7.2
Culture, sport and the voluntary sector	4.2
Travel and tourism	2.7
Maritime sector	0.6
National Insurance Scheme	1.7
Business sector restructuring	2.0
Other measures[2]	11.5
Measures for households	19.7
National Insurance Scheme	11.9
Training and skills	5.8
Inclusion and integration	0.5
Vulnerable groups	1.0
Other measures for households	0.4
Critical societal responsibilities	35.2
Local government sector	18.1
Health sector	13.9
Public transport	1.3
Other measures for critical societal responsibilities	1.9
Total economic measures	**93.9**

[1] Loan transactions, guarantee authorisations, deferred payment of taxes and excise and temporary changes in petroleum taxation are not included in the table.

[2] Includes the wage support scheme, the support scheme for public arrangements, the recorded effect in 2021 of reversal for tax purposes of deficits in 2020 against surpluses in 2018 and 2019 and the recorded effect in 2021 of temporary initial depreciation of 10 per cent on asset group D in 2020.

Source: Revised National Budget, published 11 May.

It is proposed extending the general compensation scheme for the business sector until the end of October this year, but in a scaled back version that will provide a greater incentive for activity. It is also proposed extending the period in which the wage support scheme can be used by two months, until 31 August this year. Support schemes targeting the business sector, cultural activities and transport are also being extended. The maximum period of exemption from the duty to pay wages and unemployment benefit during furloughing is being cut back to 26 weeks for furloughs initiated after 30 June 2021. The most important expansions of the National Insurance Scheme for the unemployed

Box 1. COVID-19 measures and mainland GDP

Bjertnæs et al. (2021) compare wealth creation in a baseline scenario that includes the effects of the pandemic with Statistics Norway's projection for the Norwegian economy published at the end of 2019, i.e. before the outbreak of the pandemic. The difference in wealth creation between the two scenarios can largely be attributed to the pandemic and society's reaction to it in the form of infection control measures, the response of private actors and the authorities' economic measures. According to calculations, in 2020 the pandemic led to a reduction in mainland GDP of NOK 145 billion, or 4.7 per cent. For the period 2020–2023 as a whole, a reduction of around NOK 330 billion is projected.

Economic policy has been largely motivated by the goals of reducing the loss of income for those affected and preventing long-term negative effects on the economy. In 2020, NOK 135 billion was granted in economic measures to deal with the pandemic. The policy has involved redistribution of losses from the private to the public sector. The calculations in Bjertnæs et al. (2021) show that fiscal policy measures alone increased mainland GDP by 0.5 per cent in 2020. According to the calculations, the mainland economy would thus have been reduced by a further 0.5 per cent in 2020 compared with what actually happened if these measures had not been implemented. However, it is pointed out that restrictive assumptions may have led to underestimation of the effects. In addition come the effects of the petroleum tax package.

The effects of the various measures are expected to persist beyond the year in which they were implemented. An example is the increased private sector saving in 2020, due largely to lower tax payments, increased transfers and lower consumption. This may result in increased consumption when the infection control measures are gradually lifted in 2021. Grants totalling NOK 94 billion have also been made or proposed in 2021 for COVID-related measures. According to the RNB, these measures and the long-term effects of last year's measures will push mainland GDP up by 1.4 per cent this year.

Source:

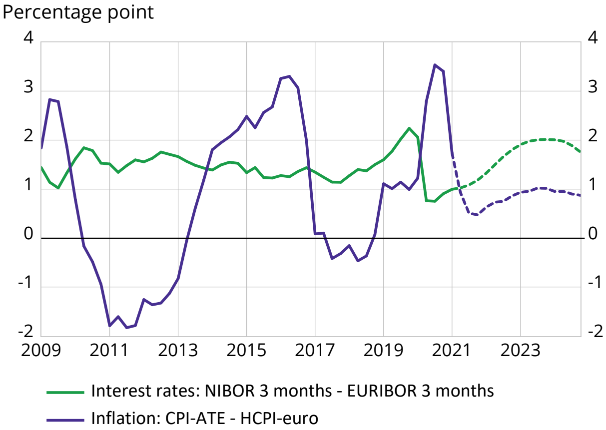
Bjertnæs, G. H. M., von Brasch T., Cappelen, Å., Holden, S., Holmøy, E., Slettebø, O., Sletten, P. and Zhulanova, J., 2021: COVID-19, tapt verdiskaping og finanspolitikkens rolle, Utredning for Koronakommisjonen [COVID-19, lost wealth creation and the role of fiscal policy: a report for the Corona Commission, Reports 2021/13, Statistics Norway.

and furloughed have already been extended to 1 October 2021. The purpose of the schemes is to curb the loss of income of those affected, and to prevent a long-term negative impact on the economy. The projections are based on the assumption that the extraordinary COVID measures will be discontinued in the course of the summer and autumn of 2021, see also Table 4.

Experience shows that infection influences behaviour and infection control measures, which in turn trigger support schemes for households and businesses, which then increases the budget deficit. Infection has declined somewhat in Norway, but remains substantial. However, the vaccination experiences of countries with a high proportion of vaccinated inhabitants are very good, and according to plan all adults will have received their first dose of vaccine by early August, according to the Norwegian Institute of Public Health. Vaccination will most probably eliminate the need for the majority of infection control measures. However, restrictions on travel into and out of Norway may have a bearing on the importing of infection and recovery of the economy. Constant waves of new, mutated variants of the virus also create uncertainty about the efficacy of vaccination, which in turn creates uncertainty regarding the level of infection control measures and budget deficit in the time ahead.

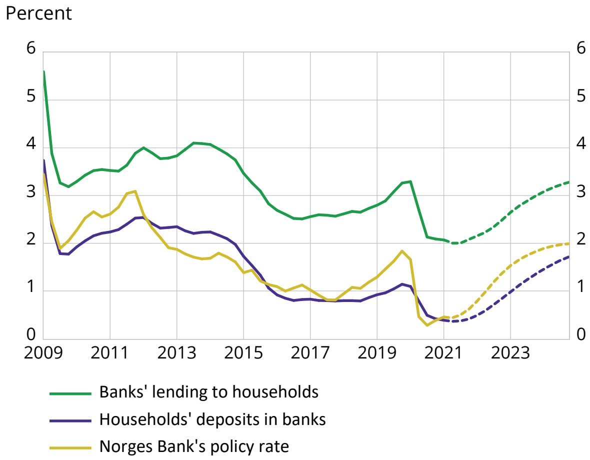
We assume in the projections that growth in the Norwegian economy will accelerate after the summer, in pace with the gradual unwinding of the infection control measures. This implies a pronounced change in fiscal policy. Reduced public transfers and increased tax revenue will reduce the budget deficit. However, there is great uncertainty associated with developments going forward. Growth in general government activity is expected to normalise in the course of the projection scenario. We project growth in general government consumption and gross investment of 2.7 and -1.1 per cent, respectively, in 2021. The consumption growth projection, which is higher than in the previous report, is somewhat lower than the growth projection in the RNB because developments in Q1 were more negative than expected. The projection for gross investment growth, which was positive in the previous projection, is more negative than in the RNB for the same reason. The growth projections for the period 2022–2024 are based on extrapolation of previous projections. Transfers, which in the previous projection were expected to grow weakly in 2021, are now expected to fall in

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



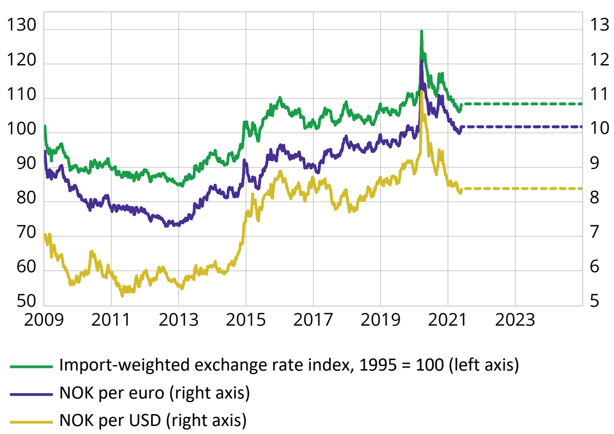
Source: Norges Bank and Statistics Norway

Figure 5. Norwegian interest rates



Source: Norges Bank and Statistics Norway

Figure 6. Exchange rates



Source: Norges Bank

real terms by 1.8 per cent in 2021. This is mainly attributable to updated information on lower transfers associated with illness. Labour market-related transfers will be gradually reduced, while pension disbursements will increase in the long term.

More interest rate increases going forward

In the course of less than two months in spring 2020, Norges Bank lowered the key policy rate by1.5 percentage points, to 0 per cent. The money market rate shadowed the policy rate, and since the last interest rate cut in May last year, has been around 0.4 per cent. In the course of May this year, the money market rate edged down to 0.25 per cent. Deposit and lending rates are also at record low levels. At the end of Q1, the average interest rate on loans secured on dwellings was 2.06 per cent, while the average deposit rate was 0.36 per cent.

For the past year and a half, the krone has largely shadowed the oil price. After depreciating sharply in March 2020, the krone has strengthened through the past year. Measured in terms of the import-weighted krone exchange rate, the krone was worth approximately the same at the end of May 2021 as it was at the beginning of 2020. A euro now costs NOK 10.22, while the price of a dollar is NOK 8.38. We have maintained these exchange rates in our projections, which are at about the same level as our previous projections from March. This implies that on an annual basis the krone has appreciated by 5.5 per cent from 2020 to this year, following a corresponding weakening the previous year.

In connection with the last interest rate cut, Norges Bank signalled that the interest rate would remain unchanged for several years to come. In subsequent editions of its Monetary Policy Report in 2020, Norges Bank foresaw a cautious rise in the interest rate from the first half of 2022. In the Monetary Policy Report of March this year, the projection for the first interest rate increase was brought forward to the second half of this year.

In line with earlier projections, we foresee a policy rate hike this year. If the spread between the policy rate and the money market rate remains narrow, vaccination proceeds according to plan and no virus mutations arise that lead to new waves of infection following the completion of vaccination, activity will pick up after the summer. Given this scenario, we expect the interest rate hike to come in September.

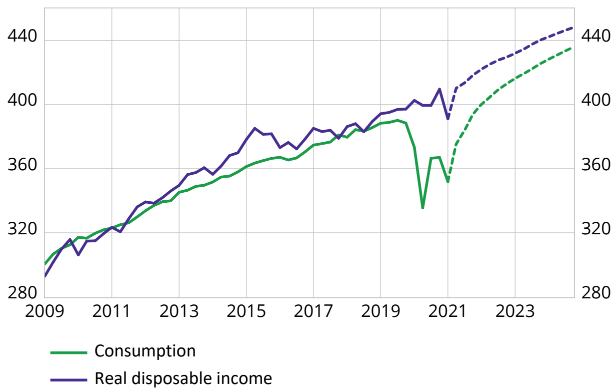
We are assuming a further three increases in 2022, bringing the policy rate to 1.0 per cent by the end of 2022. The interest rate hikes will probably continue in the following years, with the policy rate reaching 1.75 per cent by the end of 2024. We have accordingly revised our projection for the key rate at the end of 2002 by 0.25 percentage point since the previous projection. The reason for the upward revision of the interest rate path is that we believe in appreciably higher GDP growth up to 2024 than Norges Bank does, and if growth proves to match our projections, we believe that Norges Bank will revise its interest rate path upwards.

Temporary relapse in consumption

According to the quarterly national accounts, goods consumption grew by 5.6 per cent as an annual average in 2020, while services consumption fell by 10.2 per cent. These developments in consumption of goods and services, coupled with the sharp fall in Norwegians' consumption abroad, resulted in fall in overall consumption of 6.9 per cent last year. In our previous report, the decline in consumption last year was measured as 7.6 per cent. The downward revision of the fall in consumption is due to the fact that consumption of services has been revised up by NOK 12 billion in 2018-kroner, half of which is associated with cultural and leisure activities and the remainder with accommodation and food service activities.

New, stringent regional and national infection control measures caused total consumption to fall by 4.1 per cent in Q1 this year, after almost zero growth in 2020 Q4. The level is about 10 per cent lower in March this year than in February last year, the month prior to lockdown in Norway. Goods consumption exhibited weak developments in the first three months of the year, falling by 3.4 per cent in Q1. Consumption of consumer durables, such as cars, furniture and white goods made a particular contribution to the decline in goods consumption. The goods consumption level was about 6 per cent higher in March this year than in February last year, nonetheless. Consumption of services, on the other hand, fell by 5 per cent in Q1, with falls in both January and February and virtually zero growth in March. The fall in Q1 followed a partial rebound through the second half of last year from the plunge of well over 20 per cent through the first half of the year. Consumption of leisure services, hotel and restaurant services and passenger transport were hit hardest by infection control measures in Q1. In March the level of services consumption was 15 per cent lower than prior to the lockdown.

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



Source: Statistics Norway

Growth in real disposable income for households and non-profit organisations combined is estimated in the non-financial sector accounts to be around 2.5 per cent in 2020 compared with just over 1.5 per cent in the last published figures. The upward revision of the growth projection is largely due to the fact that disbursements of share dividends for 2020 were revised up by approximately NOK 21 billion in light of new information from the tax administration. At the same time, tax expenses and net transfers from household were revised up by NOK 5 billion and NOK 5.5 billion, respectively. Growth in real disposable income excluding share dividend disbursements is thus estimated to have been 2.7 per cent in 2020 compared with 3.3 per cent in the last published figures. Wage income, which is the most important source of household income, made a large negative contribution to growth in real disposable income last year as employment fell sharply due to the infection control measures and shutting down of parts of the business sector from time to time. The contribution of public transfers to growth, on the other hand, was positive at almost 3 percentage points, as a consequence of record disbursements to a large number of furloughed and unemployed workers. Reduced net interest expenses due to record low lending rates in the wake of the zero per cent key policy rate also made a clearly positive contribution to growth in real income last year. The household interest burden, i.e. interest expenses in relation to disposable income, accordingly fell from 5.5 per cent in 2019 to 4.7 per cent in 2020.

We now envisage average annual growth in real disposable income excluding share dividend disbursements of just over 2.5 per cent in the years 2021–2024, i.e. roughly the same as last year. Wage income will pick up in nominal terms in pace with a gradual normalisation of the Norwegian economy, and make large positive contributions to growth in real disposable income. Conversely, public transfers will contribute more modestly to growth in the near term when the furlough schemes lapse and unemployment gradually falls to a level slightly under 4 per cent. Net interest expenses will also curb growth in real income in the years 2022–2024, when the mortgage rates faced by households rise in pace with the increasing key policy rate. The level of the household interest burden will reach just over 6 per cent towards the end of the projection period. We assume that as a consequence of the vaccination of the population of Norway, the reopening of the business sector and pent-up household demand, overall consumption will rise to the same level as prior to the COVID crisis towards the end of 2021. Our projections are therefore based on the assumption that the dip in overall consumption in Q1 this year will be temporary. With prospects of growth in real disposable income, but weak developments in real house prices, and hence also in real wealth, consumption is forecast to grow by just on 3 per cent as an annual average in the last two years of the projection period.

As household income remained at a high level even while consumption fell sharply during the pandemic, the saving ratio, measured as saving as a share of disposable income including share dividend disbursements, rose from round 7.5 per cent in 2019 to round 15.5 per cent in 2020. Such a high annual saving ratio has not previously been recorded in the non-financial sector accounts. The saving ratio excluding share dividend disbursements increased from slightly under 3 per cent to just over 11 per cent in the same period. According to our income and consumption projections, the saving ratio will fall to around 12 per cent as an annual average this year and will gradually fall back further to around 7 per cent in 2024, which is close to the average saving ratio for the decade 2010 to 2019. The saving ratio excluding share dividend disbursements will fall to around 4 per cent towards the end of the projection period.

Continued brisk rise in house prices

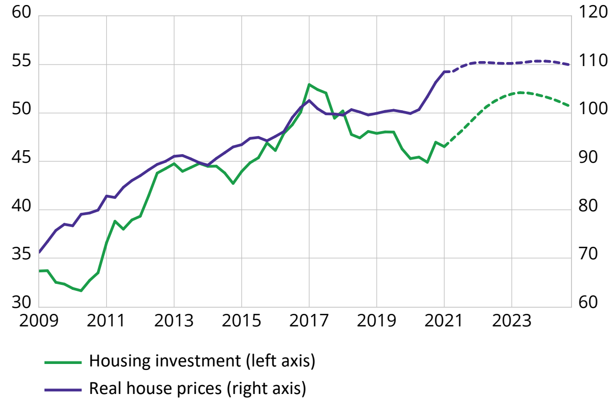
According to Statistics Norway's seasonally adjusted house price index, house prices rose by 3.4 per cent for Norway as a whole in Q1, following a rise of around 3 per cent in both Q3 and Q4 last year. House prices have thus risen by almost 11 per cent since 2020 Q1. The monthly price statistics from Real Estate Norway show a similar picture with a strong rise in prices. House prices actually remained unchanged from March to April, but had risen more than 12 per cent compared with April 2020. The rise in prices in Oslo has been even stronger.

The rise in house prices has thus been high this past year despite the COVID-19 pandemic. This may indicate that the low mortgage rates have outweighed other factors such as moderate income growth and weak population growth. The record high, partly compulsory saving resulting from the pandemic may also have added impetus to house prices.

Activity in the housing market, measured in terms of number of resale homes sold, has also been unusually high through the second half of last year and so far this year. As a result, there are now relatively few resale homes for sale, which will probably contribute to continued pressure on prices in the near term. Sales of new homes have also been high so far this year, following low sales through much of last year.

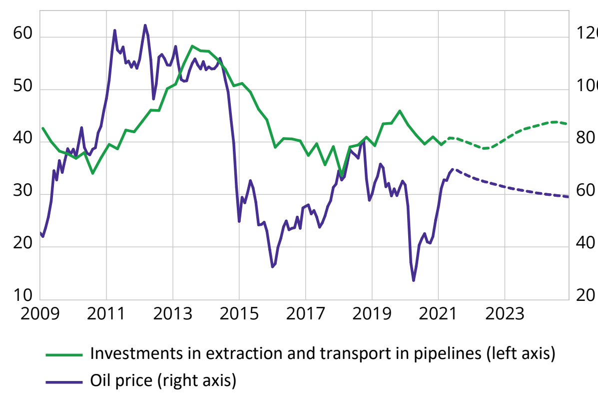
According to the national accounts, housing investment fell by 1 per cent in Q1. However, there are factors indicating that investment will increase moderately going forward. The Q1 decline followed strong growth in Q4 last year, and developments in sales of new dwellings and housing starts are positive. The strong rise in house prices and low interest rates also make residential construction more profitable. Our projections show that housing investment will rise by just on 4 per cent as an annual average this year, and by 7 per cent next year. After that growth will slow, partly as a result of higher interest rates, and become negative to-

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



Source: Statistics Norway

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



Source: Statistics Norway

wards the end of the projection period. The level of housing investment will then be approximately in line with the peak in 2017.

There is substantial uncertainty associated with house price movements in the near term. Higher housing investment leads to higher growth in the supply of dwellings, which in isolation should rein back house price inflation. At the same time, other factors point to a continued strong rise in prices. We assume that there is a reciprocal relationship between house prices and household borrowing. The low interest rates encourage increased borrowing, and hence also prompt a rise in house prices, and our figures indicate that annual debt growth will be 4–5 per cent in the projection period. A moderate increase in mortgage rates in the near future may well curb borrowing, but the interest rate level will nonetheless remain low, viewed in a historical perspective. Household income growth will moreover increase in pace with the rebound of the economy.

On balance, therefore, we forecast that house prices will rise by just on 9 per cent this year, approximately as in our previous projection. For the years ahead we assume a gradually slowing rise in house prices, from 3–4 per cent in 2022 to around 2 per cent in the years 2023 and 2024.

Fall in petroleum investment in 2022 reverses into solid growth in 2023

According to the national accounts, petroleum investment fell by 4.1 per cent in 2020, measured in constant 2018 prices. After falling through the first three quarters, seasonally-adjusted investment increased by 3.4 per cent in Q4. In Q1 this year, investment fell by 3.6 per cent compared with 2020 Q4, and was 8.8 per cent lower than in the same quarter last year. While investment prices rose by 5.9 per cent in 2020, the rise in Q1 was only 1.6 per cent higher than the same quarter last year. The strong rise in prices last year was largely driven by the depreciation of the Norwegian krone. As petroleum companies pay for much of their capital goods in USD, prices measured in NOK rise when the value of the krone falls. Similarly, the lower inflation in Q1 this year can be viewed in light of the fact that the krone was stronger in Q1 than in 2020.

According to Statistics Norway's most recent investment survey (KIS), licensees on the Norwegian continental shelf forecast nominal investment in 2021 at about NOK 182 billion, measured in current prices. This is 4.8 per cent higher than forecast in the previous survey. The increase has mainly occurred in field development and fields in operation. The projection indicates investment growth in current prices of 1 per cent this year compared with the corresponding projection for 2020 published a year ago. The previous survey indicated a fall of 6.4 per cent this year. We expect Plans for Development and Operation (PDOs) to be submitted for some development projects in the second half of 2021. These developments are relatively small. If we take into account that development projects generally have lowest investment in the first year of the development, we forecast that their combined investment in 2021 will be around NOK 1.5 billion.

The temporary tax rules adopted by the Storting in June last year are formulated such that they apply to all types of investment, apart from shutdowns and abandonment, through 2021. From 2022, investment included in PDOs that were approved before 2020 will no longer be covered by the favourable tax rules. As the fiscal impetus generated by this type of investment will be phased out by 1 January 2022, the operators have a strong incentive to get as much as possible of this type of investment completed this year. We assume that this will result in less postponement of investment from 2021 to 2022 than in a normal year. We assume somewhat higher current investment in 2021 than we forecast in the previous economic report, mainly because the last survey's projections for this year were somewhat stronger than expected. We assume that investments in current value for this year will end up 1 per cent lower than last year. In light of the low rise in prices in Q1 this year, we have revised down our projections for investment prices this year from 1.5 per cent to 0 per cent. Given these assumptions, real investment will fall by 1 per cent this year.

The projection for 2022 in the investment intentions survey has increased by 3 per cent compared with the previous survey, to approximately NOK 143 billion, which is 1.9 per cent lower than the corresponding projection for 2021 published in Q2 last year. This is an appreciably lower decline than indicated in the previous survey, when the projections pointed to a fall of 8.9 per cent for 2022. The projection for 2021 has increased by a whole 25 per cent since the survey in 2020 Q2. The 2022 projection will therefore have to increase by the same amount in order to maintain the decline of 1.9 per cent that is now indicated. Investment tends to be appreciably higher in the second year of a development project than in the first. Investment in the developments for which PDOs will probably be submitted later this year will therefore be higher in 2022 than this year. The temporary tax rules appear likely to trigger and accelerate a large number of development projects in 2022. As decisions to develop the majority of them will probably be taken late in the year, the individual projects will therefore generate relatively modest investment the same year. Since there are so many, however, we forecast that the combined investment they represent will be substantial in 2022. Although the temporary tax rules will cease to apply to investment in older PDOs at the end of 2021, the favourable rules will continue to apply to additional investment associated with any modifications to or expansions of these PDOs. This will probably contribute to markedly higher investment in fields in operation than assumed in the present projection for 2022. We now forecast a fall in the volume of petroleum investment of 6 per cent in 2022. We have revised up the investment level in 2022 moderately compared with the forecast in the previous economic report, largely because we now envisage somewhat higher investment in field developments and fields in operation.

Investment in development projects is usually highest in the second and third years of the development phase. We expect that all PDOs expected to be submitted in 2021 and 2022 will therefore entail very high development investment in 2023 and 2024. We therefore forecast a sharp increase in volume of 10 per cent in 2023 followed by more moderate growth of 4 per cent in 2024. This would make the investment level 2.1 per cent higher in 2024 than in 2019.

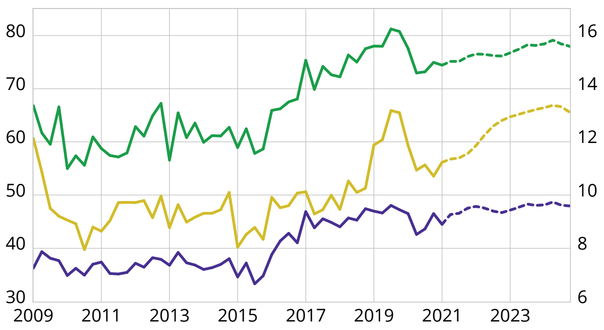
In Q1 this year, oil and gas extraction, measured as energy equivalent, was 1.3 per cent lower than in the same period last year. Liquid production increased by 3 per cent, while gas production in Q1 fell by 5.4 per cent compared with the same quarter in 2020. The Norwegian Petroleum Directorate expects a slight increase in both oil and gas production this year. Production growth is expected to be stronger next year but to follow a declining, albeit positive trend, later in the projection period. Oil and gas extraction in 2024 is expected to be roughly 4 per cent lower than in the record year of 2004.

Weak business investment – but light in the distance

Following a moderate rebound in the second half of last year, business investment dipped 0.7 per cent in Q1 this year, according to national accounts figures. Service industries contributed most to the decline, with a fall of 4.3 per cent. Manufacturing investment increased by 4.8 per cent.

Statistics Norway surveys the investment plans of manufacturing enterprises. According to the most recent projections for 2021, the expected level of manufacturing investment has been revised

Figure 10. Investments Mainland Norway
Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

upwards since the Q1 survey, and is now in line with corresponding estimates for 2020 in current value. In 2022 manufacturing companies expect a clear rise in investment, and companies project growth of over 12 per cent for manufacturing and mining combined. While the food industry expects a sharp decline in its investment in both 2021 and 2022, refined petroleum products and chemicals and pharmaceuticals manufacturing will contribute most to the recovery in 2022. Several factors create uncertainty associated with these projections. First, there is great uncertainty associated with developments in the pandemic and the oil price, which makes it difficult for enterprises to plan far ahead. Second, there are now several battery plants in the start-up or planning phase, and some companies have launched pilot facilities. If these companies are successful in their technological development, and plans for full-scale plants are realised, it will mean billions of kroner in investment over the next years.

Several large wind power developments will be completed in 2021. As a result the projection for investment in power supply in 2021 is 13 per cent lower than the corresponding projection for 2020, and a fall of a further 15 per cent is expected in 2022. However, this may change if more of the applications to the Norwegian Water Resources and Energy Directorate (NVE) are approved.

According to the March report of Norges Bank's regional network, many service industry enterprises foresee investment in 2021 remaining at the same low level as in 2020. An exception is retail trade, where there are indications of an upswing in the time ahead. However, the situation has changed since the interviews for the report were conducted. The economy is now opening gradually, and according to the Norwegian Institute of Public Health, Norway's adult population will all have been offered a first dose of vaccine by early August. Thus uncertainty about economic developments going forward is less than it was earlier this year, and according to our projections, investment in service industries will increase somewhat more than forecast in the previous economic report.

We assume that the level of investment in manufacturing and private service industries will increase in the near term. However, the upturn in overall business investment will be dampened by a sharp downturn in investment in power supply. Given these assumptions, we forecast that business investment will edge up 0.2 per cent this year. According to our projections, investment growth will be about 2 per cent in 2022 and somewhat lower in 2023 and 2024. Given these developments, the investment level towards the end of the projection period will still be slightly lower than in 2019.

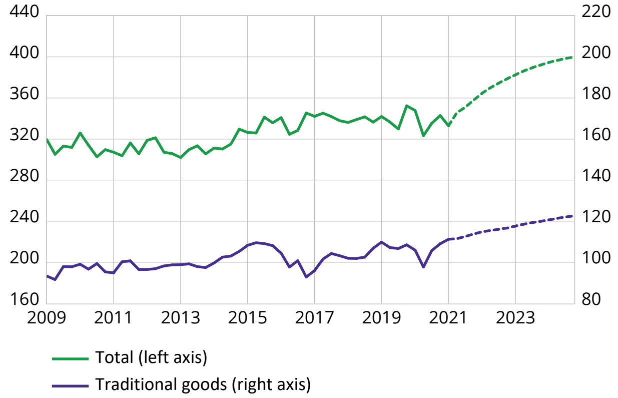
Strong increase in the trade surplus

The pandemic affects all countries, and tighter infection control measures this year have constrained global trade. After an upswing in the second half of 2020, overall exports and particularly imports, both fell in Norway in Q1 this year. Export prices increased more than import prices, yielding a terms of trade gain. The combined export surplus and terms of trade gain resulted in a record high trade surplus.

The fall in total exports in Q1 this year can be largely attributed to a sharp reduction in oil and gas exports. More stringent infection control measures resulted in a further fall in foreigners' consumption in Norway, which is classified as exports. This, coupled with reduced exports of transport services, resulted in an overall fall in service exports. Conversely, exports of traditional goods increased for the third consecutive quarter, but with a slowing growth rate. The largest contributions to growth in traditional goods exports in 2021 Q1 came from metals and fish and fish products, while lower exports of refined petroleum products pushed down growth by over one percentage point.

Figure 11. Exports

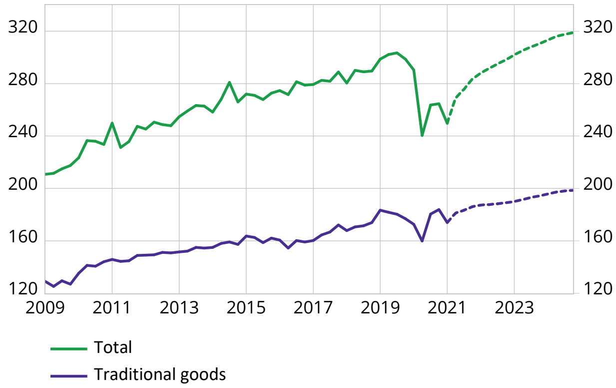
Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

Figure 12. Imports

Seasonally adjusted, billion 2018 NOK, quarter



Source: Statistics Norway

While the volume of oil and gas exports fell, the export price index rose sharply in Q1, continuing the rise in prices of the two previous quarters. Since April 2020, the oil price in USD has increased far more than the dollar has depreciated against the krone, and the price of oil in kroner has more than doubled. There was also a strong rise in prices for traditional export goods in Q1, with the rise in prices for refined petroleum products accounting for more than half of the increase. Total service exports showed a broad-based, but modest, price rise. Growth is mainly driven by the increased volume of exports, as price inflation was weak due to the fall in gross freight prices in shipping.

Imports of traditional goods and services fell markedly in Q1, following a slight rise the previous quarter. The largest decline was reported for metals and engineering products, financial and business services and information services. The rise in prices for imports of traditional goods as a whole is largely attributable to the strong rise in prices for refined petroleum products.

Also 2021 will bear the mark of the COVID-19 pandemic, but it is assumed that in the second half of the year global trade will gradually normalise as vaccination takes effect and infection control measures are rolled back. In the event, this will stimulate both exports and imports, above all travel and tourism, but also trade in services generally. The economy of many countries has been harder hit by the pandemic than Norway, and the increase in demand among our trading partners is expected to be stronger than here in Norway. This will provide an extra stimulus to exports.

We have assumed that international demand will revert to pre-pandemic levels in the course of the current year. Goods exports are expected to pick up faster than exports of services, and the same probably applies to imports. Exports of oil and gas will not increase substantially until next year. Export surpluses and terms of trade gains will boost the trade surplus this year and probably next year. This, combined with a growing income and current transfers surplus, may raise the current account surplus, measured as a share of GDP, to over 9 per cent in the 2021–2024 projection period.

Normalisation of activity level anticipated

The level of economic activity fell dramatically after the outbreak of the corona virus and infection control measures that were introduced in Norway and in the rest of the world. After a historically steep fall in March and April last year, activity in the Norwegian economy picked up again in subsequent months. A lower infection rate and subsequent relaxation of infection control measures resulted in historically strong Q3 growth. Towards the end of the year, the infection rate rose again and restrictions were reintroduced. As a result the recovery slowed in Q4. The tendency from late 2020 continued into 2021. The high infection rate led to a stepping up of national and local infection control measures, particularly focused on social distancing and prevention of imported infection.

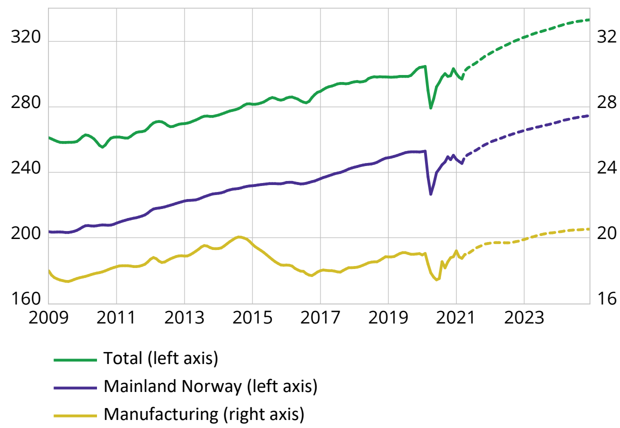
The most recent national accounts figures show that mainland GDP fell 0.5 per cent in March 2021, following a decline in both January and February. Mainland GDP fell by 1.0 per cent from 2020 Q4 to 2021 Q1. The decline was less than during the first wave of infection in 2020, nonetheless. This is due partly to activity in many of the service industries already being substantially reduced, and partly to infection control measures now being more local and targeted. Households and businesses have probably also adapted better to the infection control measures than at the beginning of the pandemic.

There is still great uncertainty associated with future economic developments. The virus will continue to restrict activities in the immediate future, but the Norwegian economy appears to be at a turning point. The infection rate is falling, more people have been vaccinated and a gradual re-opening of society has begun, a tendency also seen in many other countries. After the summer, vaccination will probably mean that more infection control measures can be eased, and that economic activity can pick up. This is conditional on infection not rising again, and on vaccines proving efficacious on all new virus mutations. Further restrictions and subsequent lockdowns may again apply the brakes to the economic recovery in both Norway and many other countries.

The recovery is expected to be particularly pronounced in the sectors that were hard hit by the infection control measures. This applies in particular to the service industries that suffered a sharp fall last year. The low domestic consumption contributed strongly to suppressing activity through 2020 and into 2021. Consumption of services was hard hit because several service industries were ordered to shut down or restrict their operations to reduce the risk of infection. The easing of infection control measures and increased normalisation will gradually boost domestic consumption, which in turn will push up activity this year and for the remainder of the projection period.

Developments in Norway will also depend on general developments abroad. Many of our trading partners have experienced far deeper slumps in economic activity than Norway as a result of the pandemic. As a result of a falling infection trend and increased vaccination, a number of countries are re-opening their economies. Our projections show that a higher level of activity among our trading partners will push up activity in Norway. Manufacturing is expected to benefit from the gradual pick-up of growth abroad, and from the fact that the krone remains at a historically low level, despite appreciating somewhat since spring 2020.

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



Source: Statistics Norway

After several years of solid growth and a high level of activity, production in the construction industry slumped after the outbreak of the virus, but it is likely to pick up again over the next few years given increased housing investment. General government activity is expected to remain fairly stable.

We forecast that mainland GDP will increase by 3.1 per cent this year. This rebound is somewhat weaker than previously projected as a result of weak developments in activity at the beginning of the year, while large sectors of the economy have been shut down or restricted also during the first two months of Q2. 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. Growth in the mainland economy is then assumed to pick up further, to 4.1 per cent in 2022, before falling back for the remainder of the projection period.

Continued high unemployment

The COVID virus and subsequent infection control measures continue to affect the labour market a year after the first outbreak of infection. Unemployment remains at a historically high level, and the share of long-term unemployed is rising. Registered unemployment increased from 3.8 per cent in December 2020 to 4.0 per cent in April 2021, but has fallen somewhat from the January 2021 level of 4.4 per cent. Such a seasonal pattern through the winter is usual. Since 1948, annualregistered unemployment has only been 4 per cent or higher in the period from 1990 to 1996 and in 2020. The share of the unemployed experiencing long-term unemployment, defined as unemployment lasting more than 26 weeks, increased from 27.7 per cent in January 2021 to 30.3 per cent in April. The easing of national measures and re-opening of Oslo in May 2020 led to registered unemployment falling to 3.3 per cent, with furloughed employees returning to work accounting for around two-thirds of the reduction. The decline was most pronounced among employees working in retail and sales.

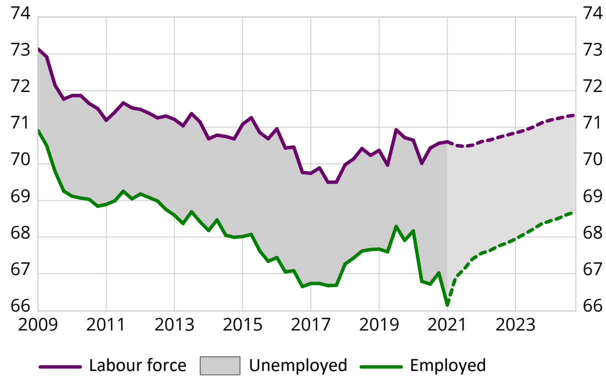
According to the LFS, average labour force participation fell from 4.8 per cent in 2020 Q3 to 5.0 per cent in 2021 Q1, an increase of 1.4 percentage points on the same quarter the previous year. A new revised version of the LFS was implemented in 2021 Q1. Changes include an altered panel sampling plan, a new target population and a new estimation method. There is therefore a break in the time series.[2] LFS unemployment is usually higher than the unemployment figures registered with the Norwegian Labour and Welfare Organisation (NAV) because some persons in the LFS survey say they want work, but have not registered with NAV.

The NAV registered unemployment figures classify those furloughed as unemployed, while most furloughed persons are not included in the LFS unemployment figures. We therefore expect that the decline in registered unemployed in May, when many furloughed employees returned to work, will not have as strong an effect on LFS unemployment figures for the same period.

The number of furloughed persons who are fully unemployed increased from 37 500 persons in January 2021 to 40 000 in April, which is equivalent to 1.4 per cent of the labour force. This is the highest number of fully unemployed furloughed persons observed since July 2020. At the peak, in March 2020, 184 000 furloughed persons were fully unemployed, but the number fell fairly swiftly to 53 000 in July 2020. The reduction in the number of unemployed in May has brought the number of fully unemployed furloughed persons down to 26 900.

Figure 14. Labour market status

Percent of population in working age, LFS



* Unemployment is measured as share of population in working age

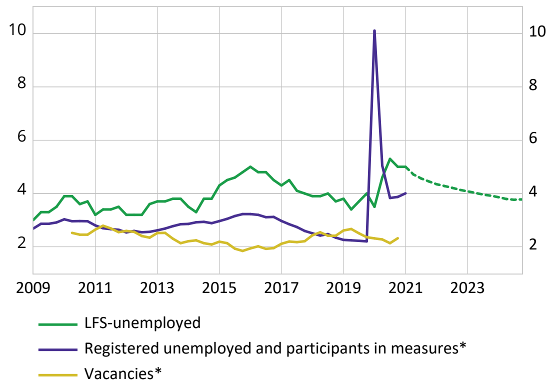
Source: Statistics Norway

The labour force as a share of the population aged 15–74 years increased slightly in 2021 Q1, edging up 0.3 percentage point compared with the previous quarter, to a level that was 0.4 percentage point higher than the same quarter the previous year. According to the national accounts, employment dipped 0.3 per cent and hours worked dipped 0.7 per cent from 2020 Q4 to 2021 Q1. As a result, the employment level in 2021 Q1 was 2.1 per cent lower than in the same quarter the previous year, while the number of hours worked was 4.5 per cent lower. That the fall in hours worked is larger than for employment reflects the fact that hours worked takes account of furloughing and other absence from the workplace, while the full-time furloughed are included in the national accounts among the employed for the first 90 days that they are furloughed. The fall in hours worked has been especially large in industries that were particularly hard hit by the infection control measures. For accommodation and food service activities, the number of hours worked in Q1 was 41.9 per cent lower than in the same period the previous year. Hours worked in administrative and support service activities were 12.1 per cent lower, in transport 10.6 per cent lower and in cultural activities, entertainment and other services, 11.6 per cent lower than in the same period the previous year.

Vaccination of the population is now well under way, and the infection control measures are being eased. This, combined with a continued expansionary fiscal policy and low interest rates, will boost the labour market in the near term. We expect global economic activity to improve concurrently.

[2] See the article https://www.ssb.no/en/arbeid-og-lonn/artikler-og-publikasjoner/stable-employment.

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

We nevertheless assume that it is likely to be several years before the labour market is back to where it was before the COVID crisis. The fall in hours worked was more pronounced than the fall in employment, and when the economy recovers again we therefore expect hours worked to increase more strongly than employment. For 2021 and 2022 we forecast growth in hours worked of 1.5 per cent and 2.3 per cent, respectively, while we expect employment growth of 0.4 per cent and 1.4 per cent, respectively. These figures are a little weaker than expected in the previous economic report. We foresee more similar developments in hours worked and employment in 2023 and 2024. We do not expect employment to reach the level observed in 2019 until 2022. We foresee average LFS unemployment of 4.6 per cent in 2021 followed by a gradual fall to just under 4.0 per cent in 2022 and 2023. By way of comparison, unemployment has averaged 3.7 per cent so far in the 2000s. As demand for labour picks up, the labour supply will also grow from the end of 2021. The percentage of the population in employment is expected to increase from the current level of around 67.2 per cent to over 68.5 per cent in 2024.

Stable wage developments

Mediation in manufacturing was concluded on 11 April, and the Confederation of Norwegian Enterprise (NHO), in agreement with the Norwegian Confederation of Trade Unions (LO), ended by estimating that annual wage growth in overall manufacturing under the NHO will be 2.7 per cent in 2021. Contributions to this are annual wage carry-over into 2021 of 1.0 percentage point for manufacturing workers and 1.5 percentage point for clerical employees in manufacturing. The negotiated wage increases, for their part, are estimated to contribute 0.7 percentage point. The negotiated wage increases consist of a general pay increase of NOK 2.25 per hour for all, and a low-wage supplement of NOK 1 per hour for employees on agreements with an average wage that is lower than 90 per cent of an average manufacturing worker's wage. The remainder of the parties' projected annual wage growth is wage drift, defined as the sum of all factors that influence annual wages other than the contributions from carry-over and pay increases. The central government and Oslo municipality agreed on upper limits for annual wage growth of just over 2.7 per cent and 2.8 per cent, respectively.

Figures for the average basic monthly wage for 2021 Q2 show growth of 2.9 per cent compared with the same quarter last year. This is an increase on the corresponding growth rate of 2.2 per cent in 2020 Q4. Growth in 2021 Q1 in private sector and public enterprises was 3.8 per cent, while corresponding growth rates in central and local government were 1.3 and 0.8 per cent, respectively, in Q1.[3] As private sector and public enterprises account for about 65 per cent of all jobs, much of the increased growth rate in 2021 Q1 is attributable to growth in this sector.

At the same time, the number of jobs fell by 2.9 per cent in 2021 Q1 relative to the same quarter last year, i.e. more than the fall of 1.7 per cent in 2020 Q4.[4] The percentage decline in the number of jobs was greatest in accommodation and food service activities, where infection control measures at the beginning of the year had a strong effect on the activity level. This decline in the number of jobs in industries with a wage level below average contributed to pushing up wage growth in 2021 Q1. This may explain some of the high growth in average monthly basic earnings in private sector and public enterprises.

Even with this "composition effect" on monthly wages across industries, there was still underlying growth in average monthly basic earnings in

[3] See the article https://www.ssb.no/arbeid-og-lonn/artikler-og-publikasjoner/stabil-sysselsetting (in Norwegian).
[4] See the article: https://www.ssb.no/arbeid-og-lonn/artikler-og-publikasjoner/en-av-fire-jobber-som-ble-borte-under-pandemien-tilhorte-ikke-bosatte (in Norwegian).

private sector and public enterprises in 2021 Q1.[5] In construction and in retail trade, where there were no major changes in the number of jobs in Q1, and which together account for about one fifth of all jobs, growth in average monthly basic earnings was 3.1 and 3.4 per cent, respectively. This is up on the corresponding growth rates of 2.6 and 2.8 per cent in 2020 Q4.

Although the figures for central and local government do not show clear signs of rising wage growth, or that a downscaling of infection control measures could reverse some of the composition effect described above, we consider developments in the private sector to be an indication that wage growth will pick up somewhat this year. Our projection for annual wage growth for 2021 has therefore been revised to 3.1 per cent, up from 2.6 per cent in the previous report, the greatest uncertainty being whether we will see a reversal of composition effects. As the projection for the rise in the consumer price index (CPI) is being revised up to 3.1 per cent in 2021, our projections indicate that real wages will remain approximately unchanged in the current year. In the near term, we expect a rise of about 2 per cent in the CPI, and thus growth in real wages of just over 1 per cent leading up to 2024.

Energy prices are raising the CPI

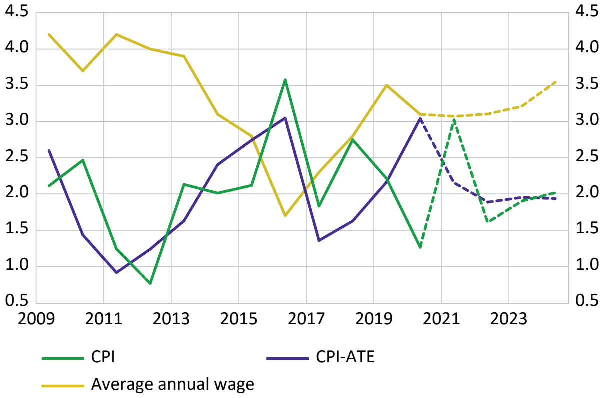
Over the past year, movements in underlying inflation measured by the 12-month rise in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) has largely been linked to movements in the krone exchange rate and imported price inflation, but other factors have also influenced the course of inflation. The rise in prices for some groups of services has been particularly weak, which has also pushed down the rate of underlying inflation. So far this year, inflation developments have been roughly as expected. In April the 12-month rise in the CPI-ATE dipped to 2.0 per cent, after remaining stable at 2.7 per cent for the first three months of the year. The monthly rise was 0.4 per cent from March to April. The decrease of 0.7 percentage point in the 12-month rise from March to April this year must be viewed bearing in mind a similar rise of 0.7 percentage point from March to April last year, when a very weak krone at the start of the pandemic contributed to underlying inflation gathering pace. In April last year, the annual rise in the CPI-ATE was 2.8 per cent, and it then increased gradually to peak at 3.7 per cent in August. Towards the end of the year, and in the first few months of this year, the rate has slowed. With an annual rise of 2.0 per cent in April, the underlying inflation rate, measured by the CPI-ATE, had reverted to the same level as in February and March last year.

The average rise in the consumer price index (CPI) was 3.0 per cent in Q1 compared with the same period the previous year. The difference between the CPI and the CPI-ATE was thus 0.3 percentage point in Q1. In Q1, energy prices contributed 1.0 percentage point to inflation, while tax cuts pushed down inflation by 0.7 percentage point. The 12-month rise in the CPI was 3.0 per cent in April, and thus in line with the annual rise in Q1. With a fall in the CPI-ATE, the difference between these measures of inflation increased to 1.0 percentage point last month. If energy products are excluded from the CPI (CPI-AE), the 12-month rise in March and April was 1.9 and 1.3 per cent, respectively. The contribution of energy prices to CPI inflation increased from 1.2 percentage points to 1.7 percentage points. Electricity prices, including grid charges, make a particular contribution to inflation, but fuel prices also contributed to an increase in April. This is because fuel prices fell in the course of spring last year, while this year they have risen. Tax reductions will continue to curb inflation, but the effects of reductions will wane somewhat from Q2 and for the rest of the year. In particular, the reduction in the low VAT rate, which applied from 1 April 2020, will no longer curb inflation on an annual basis.

The COVID-19 pandemic has affected both access to data and the computation of the CPI. In some periods, inflation has been estimated for services that were shut down or when consumption came to virtually a complete halt. In April this year, these accounted for about 2.5 per cent of the weight basis of the CPI, while the missing data at the same time last year constituted over 10 per cent. Although most services are available and included in the normal way in the CPI, some services associated with travel, for instance, continue to be treated separately. For example, there is great uncertainty associated with developments in prices for consumer groups such as air transport and package tours until the price base is large enough for them to be included in the CPI again.

[5] See Box 2 in Economic Survey 2020/3 for a discussion on composition effects

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



Source: Statistics Norway

Underlying inflation measured by the 12-month rise in the CPI-ATE fell by 1.7 percentage points from the peak in August last year to April this year. According to the CPI-ATE sub-indices by supplier sector, 0.8 percentage point of the decline is related to imported consumer goods, 0.3 percentage point to Norwegian goods and 0.6 percentage point to services. A moderate rise in prices globally and a strengthening of the krone through 2020, coupled with moderate wage growth, were important reasons for the decline in the rate of underlying inflation in the second half of last year. Because of a time lag in the price-setting, these are factors that have also affected inflation at the beginning of this year. Movements in prices for import goods have an indirect effect on domestically produced goods and services because they affect the costs of the intermediate inputs. Lower imported inflation has the effect of dampening prices for intermediate inputs for the business sector, and this in turn may result in a lower rise in prices for goods produced in Norway.

In our projections, the krone exchange rate is kept unchanged at the current level for the remainder of the projection period. The krone will then appreciate by an annualised average of 5.5 per cent from 2020 to 2021. Given a moderate global rise in prices for consumer goods, the inflationary impulses from imported goods and services will be low this year. We now assume that wage growth will be higher than forecast in the previous report. In isolation this, coupled with the high rise in prices for energy products, will lead to increased costs for goods and services produced in Norway. Higher prices for intermediate commodities have the same effect. Domestic inflationary impulses affect all goods and services that are sold. There is a considerable degree of domestic production, through transport margins and retail mark-ups, also in consumer goods that are imported directly for consumption. We assume that the rise in prices for goods will remain low through Q3, but that it will pick up a little again towards the end of the year. Box 2 provides a closer look at how higher intermediate commodity prices influence inflation developments in Norway.

The rise in prices for services has been weaker than assumed in the previous economic report. According to the CPI-ATE, the annual rise in rents (paid and imputed) was 1.0 and 0.9 per cent, in March and April, respectively. With a weight of over 20 per cent, rent significantly depresses underlying inflation. Existing rental contracts are largely regulated according to the CPI, and in the projection scenario we have assumed that growth picks up somewhat from the current levels. The rise in prices for services other than rent has also been low since the beginning of the year. Transport, postal and telecommunications services, in particular, have exerted downward pressure. The service industries include travel and service industries where capacity utilisation has been very low and where inflation has been partly estimated in the CPI. The estimated developments in prices for air travel have contributed to the low annual rise in prices for services. We assume that the rise in prices for services as a whole will pick up somewhat in the course of the year, when society gradually returns to normal and demand for services increases.

Norwegian electricity prices are linked to European power prices through power exchange among the Nordic countries and Europe. In addition, Norwegian electricity prices are affected by precipitation quantities and temperatures. Internal bottlenecks in the grid have contributed to price differences between the southern price areas in Norway and the other price areas in the Nordic countries. Electricity prices in northern Norway have been far lower than in the south of the country. A cold winter and spring have contributed to electricity prices in southern Norway being very high so far this year compared with last year's low prices. Realised spot prices for power were particularly high for the time of year in May, and prices in both April and May were far higher than indicated by the prices in futures contracts in the previous economic report. In-

Box 2. Increased commodity prices and inflationary impulses

Prices for important intermediate inputs for manufacturing and agriculture have risen appreciably this year. Measured by the World Bank Commodity Price Index, prices for energy products have risen by 26 per cent since December 2020. This development was driven by supply-side disturbances, such as production cuts by OPEC (oil), weather conditions in Australia (coal) and increased demand due to cold weather in the US, Europe and Asia (gas). The same source shows a 16 per cent rise in the index for metal and mineral prices, driven by the post-pandemic economic recovery, and by expectations of greater demand for these intermediate inputs as a consequence of the green restructuring. At the same time, access to copper and iron ore has been low in periods because of disruptions in deliveries from Chile and Australia. The price indices for agricultural products and fertilizer have risen by 8 and 29 per cent, respectively, since December 2020. All the above commodity price indices are at a higher level than at the beginning of 2020. Demand for commodities is expected to rise in the near term in pace with the economic recovery, particularly in the commodity-intensive Chinese economy.

In this box we use the KVARTS macro-model to analyse the effects of higher commodity prices on the Norwegian economy. We exclude prices for crude oil, natural gas (including refined products) and other energy products from the analysis, as these prices influence the Norwegian economy through very specific mechanisms (see Box 5 in Economic Survey 2019/1). Instead, we analyse the effect of a permanent price rise of 20 per cent, from 2021 Q3, on non-processed food products, including fish, timber and pulp and paper products, minerals and metals, and industrial chemicals. In KVARTS, these products are produced in the “primary industries” and in the manufacturing sector “Production of metals, industrial chemicals and pulp and paper”. Activity among Norway's trading partners is kept constant, so that the analysed price increases can be interpreted as supply-side shocks. We present separate model projections for the two sectors.

In the first scenario, we increase the prices of primary industry products. This includes products for export (largely fish, including farmed fish), but also products not produced in Norway. Some of these goods go directly to consumers, as unprocessed food products. When international prices increase, Norwegian consumer prices will thus also be raised directly. However, the bulk of the products for domestic consumption go to the food industry. An increase in prices for these goods will be reflected in increased costs, which are passed through to Norwegian prices for processed food products. The distribution of inflationary impulses from imported and domestically produced primary industry products is largely governed by the input-output structure in the base year, which is adjusted somewhat as a consequence of changes in the relationship between prices for imported products and variants produced in Norway. In addition come the price-setting and cost pass-through mechanisms as they are built into the model. The increase in costs in manufacturing (wage leader segment) is passed through to wages, and moderates wage growth so that annual wages are 0.6 per cent lower than in the benchmark scenario in 2024.

Table 1. Effect of higher prices on primary industry products
Deviation from baseline scenario in per cent unless otherwise indicated

	2021	2022	2023	2024
Mainland Norway (market value)	0.0	0.0	-0.1	-0.1
Primary industries	0.7	1.5	2.0	2.3
Manufacturing and mining	0.0	-0.1	-0.1	-0.1
Exports excl. oil and gas	0.1	0.2	0.2	0.3
Imports	0.0	0.1	-0.1	-0.3
Annual wages	0.0	-0.1	-0.4	-0.6
Consumer price index (CPI)	0.1	0.3	0.3	0.4
Import-weighted krone exchange rate (44 countries)	-0.1	-0.6	-0.4	-0.2
Money market rate (level)	0.0	0.2	0.2	0.2
Wage share Mainland Norway (percentage points)	-0.1	-0.4	-0.5	-0.6
Primary industries (percentage points)	-3.5	-9.3	-8.8	-8.7
Manufacturing (percentage points)	0.6	1.5	1.4	1.2
Operating profit. Mainland Norway	0.8	1.8	2.1	2.5
Primary industries	13.6	24.5	26.3	28.0
Manufacturing	-4.8	-9.9	-9.5	-8.9
Assumptions				
Prices for primary industry products	9.9	20.0	20.0	20.0

Source: Statistics Norway.

Table 2. Effects of higher prices for manufacturing products
Deviation from baseline scenario in per cent unless otherwise indicated

	2021	2022	2023	2024
Mainland Norway (market value)	0.0	0.0	0.0	0.1
Primary industries	0.1	0.1	-0.1	-0.3
Manufacturing and mining	0.0	0.2	0.4	0.4
Exports excl. oil and gas	0.0	0.1	0.2	0.1
Imports	0.0	0.1	0.1	0.2
Annual wages	0.0	0.3	0.7	1.1
Consumer price index (CPI)	0.1	0.2	0.3	0.4
Import-weighted krone exchange rate (44 countries)	-0.1	-0.4	-0.4	-0.3
Money market rate (level)	0.0	0.1	0.2	0.2
Wage share Mainland Norway (percentage points)	0.0	-0.1	0.1	0.3
Primary industries (percentage points)	0.3	0.8	0.9	1.1
Manufacturing (percentage points)	-0.7	-2.4	-2.2	-2.0
Operating profit. Mainland Norway	0.3	0.6	-0.1	-0.5
Primary industries	-0.4	-1.0	-1.3	-1.4
Manufacturing	5.8	17.3	16.3	16.6
Assumptions				
Prices for manufacturing products	9.9	20.0	20.0	20.0

Source: Statistics Norway.

The projection shows that the consumer price index (CPI) in Norway is pushed up 0.1 per cent in 2021, and up towards 0.4 per cent in 2023 and 2024 compared with the baseline scenario. In consequence, the level of domestic interest rates is raised, and the Norwegian krone appreciates. This causes both exports of traditional goods and domestic demand to fall slightly, making the effects on mainland GDP weakly negative.

In the second scenario, we increase the international prices of goods produced by the manufacturing sector "production of metals, industrial chemicals and pulp and paper". This manufacturing sector, which produces semi-manufactured goods such as metals, only has negligible deliveries to Norwegian consumers. The effects on Norwegian consumer prices thus come indirectly through two channels. First, prices for intermediate inputs rise. An increase in prices for semi-manufactured goods such as fertilizer will increase costs and prices in agriculture, while increased metal prices will push up costs in the engineering industry and in construction. Second, higher global market prices will increase the operating profit and hence the profitability of manufacturing, and since manufacturing profitability is an explicit factor in the wage negotiations of the wage leader segment, the increase in labour costs will also feed through to the rest of the economy through wage formation. In 2024, annual wages and consumer prices are increased by 1.1 per cent and 0.4 per cent, respectively, relative to the baseline scenario. The projection shows that these indirect channels have about the same effect on consumer price inflation in Norway as in the projection for the primary industries.

The observed rise in commodity prices has been broad-based. Figure 1 shows changes in the projections for the consumer price index and annual wages, given a 20 per cent rise in prices for both types of commodity goods. Whereas both types of commodity prices result in higher consumer prices due to higher costs, increased commodity prices tend to have countervailing effects on annual wages. The figure shows clearly the difference between the effects of a price increase on primary industry products and on manufacturing products. Overall, we get a balancing effect on developments in annual wages due to the wage formation mechanism.

Figure 1. Annual wages. Deviation from the baseline scenario in per cent

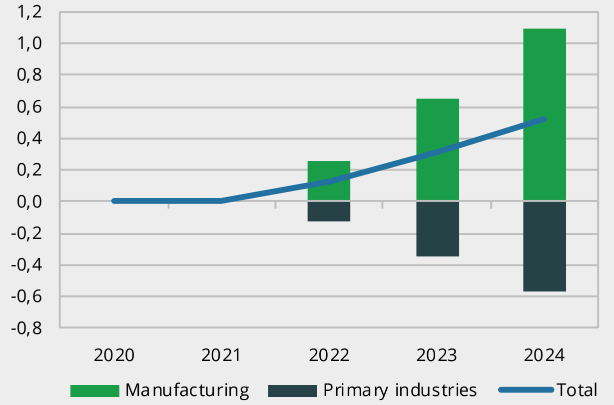
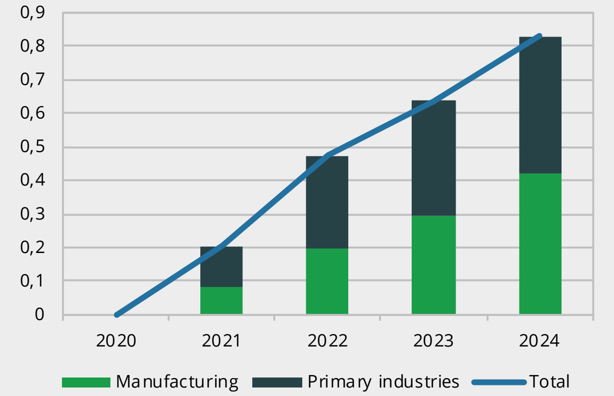


Figure 2. Consumer price index (CPI). Deviation from the baseline scenario in per cent



creased export capacity to the Continent may also be one reason for the high prices in the south. The first of two new cables for power exchange with other countries – the NordLink - between Norway and Germany, came on-stream in December. In the course of the year the Norwegian-British cable North Sea Link will begin operating. Record-high carbon prices on the Continent have pushed up European electricity prices, and affect Norwegian prices through the power exchange. In addition to realised power prices being higher than expected, forward prices in the power market have also increased for 2021 since the previous economic report. On the basis of forward rates at the end of May, we now assume that the average Norwegian spot price will be 43 øre/kWh in 2021, a rise of 11.5 øre/kWh since the previous economic report. The rise in price for electricity, including grid charges, from 2020 to 2021 is about 46 per cent. The futures price for annual contracts in the power market next year is 34 øre/kWh, indicating that the market expects power prices to fall. The price for annual contracts for the next few years is a little over 30 øre/kWh, and stable. On the basis of the futures rates we assume that the price of electricity including grid charges will fall back somewhat in 2022 and 2023 following this year's rise and will subsequently shadow general inflation in 2024. In recent months prices for petrol and diesel have risen from relatively low levels in December. In our projection, last year's reduction in fuel prices is reversed this year. Fuel prices will then largely reflect developments in the oil price in the years ahead, and will fall back somewhat next year. We assume that energy products will add 1.5 percentage point to CPI inflation this year. This is 0.5 percentage point higher than in the previous economic report. In 2022 and 2023, energy products will push down inflation somewhat, while they will have a neutral effect on CPI inflation in 2024.

Special taxes on beer, wine, snus and non-alcoholic beverages were reduced with effect from 1 January 2021. The tax on chocolate and sugar products was also discontinued. The exemption from air passenger tax is being extended for the remainder of the year. One of the measures in connection with the COVID pandemic is a halving of the low VAT rate with effect from 1 April 2020. In the RNB, the Government proposes extending the period with the low VAT rate up to 30 September before it is reversed. We now assume that combined tax changes will reduce CPI inflation by 0.5 percentage point in 2021. In 2022, the reversal of the VAT reduction and exemption from air passenger tax will increase CPI inflation by 0.2 percentage point. We have adjusted the rates of the other special taxes for inflation for the years 2022–2024, assuming that these special taxes will have a neutral effect on CPI inflation in the years 2022–2024.

As a result of reduced inflationary impulses from imported products, CPI-ATE inflation in our projections falls from 3.0 per cent in 2020 to 2.1 per cent in 2021. Because tax changes are expected to reduce CPI inflation by 0.5 percentage point, and energy products will add 1.5 percentage points to CPI inflation, the difference between CPI and CPI-ATE inflation will be 1.0 percentage point. CPI inflation is accordingly projected to be 3.1 per cent for 2021. The 0.4 percentage point increase in the CPI projection in the previous economic report is largely due to the increase in electricity prices.

CPI-ATE inflation for the years 2022–2023 is projected to be close to Norges Bank's inflation target of 2 per cent. Given our assumptions about energy prices and taxes, CPI inflation will approximately shadow CPI-ATE inflation in the years ahead.

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

	Unadjusted		Seasonally adjusted							
	2019	2020	19.2	19.3	19.4	20.1	20.2	20.3	20.4	21.1
Final consumption expenditure of households and NPISHs	1 548 015	1 440 755	388 869	390 181	388 432	373 263	335 554	366 467	367 003	351 903
Household final consumption expenditure	1 465 262	1 367 789	368 101	369 323	367 505	353 089	318 991	348 628	348 971	335 212
Goods	668 007	705 595	169 162	168 525	167 340	163 952	173 888	183 851	185 856	179 622
Services	724 766	650 911	180 874	181 974	183 631	175 033	145 878	163 862	165 218	156 951
Direct purchases abroad by resident households	122 752	27 444	30 609	31 310	29 663	25 068	674	3 785	2 059	1 556
Direct purchases by non-residents	-50 264	-16 161	-12 546	-12 486	-13 128	-10 965	-1 449	-2 870	-4 162	-2 917
Final consumption expenditure of NPISHs	82 753	72 965	20 768	20 857	20 926	20 174	16 563	17 839	18 033	16 691
Final consumption expenditure of general government	841 508	855 679	209 804	211 035	212 422	212 921	208 321	214 689	219 840	216 517
Final consumption expenditure of central government	411 130	423 323	102 502	103 098	103 782	105 509	103 134	106 473	108 240	106 449
Central government, civilian	361 203	371 683	90 086	90 584	91 028	92 795	90 302	93 505	95 117	93 112
Central government, defence	49 927	51 640	12 416	12 513	12 754	12 714	12 832	12 968	13 124	13 337
Final consumption expenditure of local government	430 378	432 356	107 302	107 938	108 640	107 412	105 187	108 216	111 600	110 069
Gross fixed capital formation	891 426	857 248	222 321	228 710	226 370	218 091	213 411	211 268	214 061	210 347
Extraction and transport via pipelines	172 306	165 167	43 462	43 580	45 908	43 277	41 308	39 621	40 974	39 501
Ocean transport	2 642	4 683	596	818	920	1 853	181	1 361	1 288	1 833
Mainland Norway	716 478	687 398	178 263	184 311	179 541	172 961	171 921	170 286	171 799	169 013
Industries	318 274	298 842	77 969	81 207	80 774	77 594	72 962	73 156	74 961	74 433
Service activities incidential to extraction	3 766	2 511	984	1 003	964	764	708	615	427	496
Other services	189 001	179 271	46 636	48 042	47 245	46 504	42 587	43 628	46 507	44 487
Manufacturing and mining	50 293	44 688	12 073	13 175	13 099	11 865	10 936	11 132	10 710	11 228
Production of other goods	75 214	72 373	18 276	18 987	19 466	18 461	18 732	17 781	17 318	18 223
Dwellings (households)	190 300	182 659	48 032	48 029	46 283	45 289	45 431	44 896	46 976	46 525
General government	207 904	205 897	52 262	55 075	52 485	50 079	53 528	52 233	49 862	48 055
Acquisitions less disposals of valuables	378	151	93	94	94	85	12	38	17	9
Changes in stocks and statistical discrepancies	145 788	109 593	39 590	38 335	29 879	35 660	16 308	29 168	21 803	33 240
Gross capital formation	1 037 592	966 992	262 004	267 139	256 342	253 836	229 730	240 474	235 880	243 596
Final domestic use of goods and services	3 427 114	3 263 426	860 676	868 354	857 196	840 020	773 606	821 630	822 724	812 016
Final demand from Mainland Norway	3 106 001	2 983 832	776 936	785 527	780 395	759 145	715 797	751 442	758 642	737 433
Final demand from general government	1 049 412	1 061 577	262 066	266 110	264 907	263 000	261 849	266 922	269 702	264 572
Total exports	1 356 582	1 350 429	336 579	329 762	352 340	347 832	323 160	335 401	342 776	332 909
Traditional goods	429 387	419 917	107 155	106 688	108 446	105 900	97 678	105 673	108 989	111 231
Crude oil and natural gas	544 745	599 843	133 096	127 682	148 299	145 396	148 783	150 536	152 136	140 602
Ships, oil platforms and planes	12 195	8 143	4 496	2 565	2 008	3 264	1 651	2 128	1 101	1 098
Services	370 256	322 526	91 832	92 827	93 587	93 272	75 048	77 065	80 550	79 978
Total use of goods and services	4 783 697	4 613 855	1 197 255	1 198 116	1 209 535	1 187 852	1 096 766	1 157 032	1 165 500	1 144 925
Total imports	1 199 522	1 057 130	302 222	303 402	298 712	290 390	240 395	263 690	264 644	249 675
Traditional goods	718 462	699 651	181 750	180 300	176 900	172 622	159 833	180 428	183 903	173 873
Crude oil and natural gas	25 396	22 547	5 085	7 510	7 307	7 229	5 126	4 844	5 629	5 765
Ships, oil platforms and planes	33 015	30 180	10 378	9 556	6 574	9 161	8 232	7 893	4 894	4 808
Services	422 650	304 752	105 010	106 036	107 930	101 379	67 204	70 526	70 218	65 230
Gross domestic product (market prices)	3 584 175	3 556 725	895 032	894 714	910 824	897 462	856 370	893 341	900 856	895 250
Gross domestic product Mainland Norway (market prices)	3 003 219	2 929 236	752 077	757 399	757 470	742 312	698 893	732 969	747 674	739 851
Petroleum activities and ocean transport	580 956	627 489	142 955	137 315	153 354	155 150	157 477	160 372	153 182	155 399
Mainland Norway (basic prices)	2 605 506	2 539 976	652 757	657 390	657 765	645 870	606 153	634 321	647 160	642 926
Mainland Norway excluding general govern-ment	1 949 758	1 889 434	489 338	493 039	492 451	482 797	449 752	470 200	480 255	477 604
Manufacturing and mining	224 468	218 702	57 123	57 134	57 129	56 411	52 868	54 209	56 139	56 773
Production of other goods	358 099	359 632	89 896	91 470	89 803	89 217	87 626	89 897	91 440	92 101
Services incl. dwellings (households)	1 367 192	1 311 100	342 319	344 435	345 519	337 169	309 257	326 094	332 677	328 730
General government	655 748	650 541	163 418	164 351	165 314	163 073	156 401	164 121	166 905	165 322
Taxes and subsidies products	397 713	389 260	99 320	100 009	99 705	96 441	92 740	98 648	100 514	96 925

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							
	2019	2020	19.2	19.3	19.4	20.1	20.2	20.3	20.4	21.1
Final consumption expenditure of households and NPISHs	1,4	-6,9	0,1	0,3	-0,4	-3,9	-10,1	9,2	0,1	-4,1
Household final consumption expenditure	1,3	-6,7	0,1	0,3	-0,5	-3,9	-9,7	9,3	0,1	-3,9
Goods	0,0	5,6	0,3	-0,4	-0,7	-2,0	6,1	5,7	1,1	-3,4
Services	2,8	-10,2	0,4	0,6	0,9	-4,7	-16,7	12,3	0,8	-5,0
Direct purchases abroad by resident households	0,9	-77,6	-2,0	2,3	-5,3	-15,5	-97,3	462,0	-45,6	-24,4
Direct purchases by non-residents	4,2	-67,8	1,0	-0,5	5,1	-16,5	-86,8	98,0	45,0	-29,9
Final consumption expenditure of NPISHs	3,0	-11,8	0,6	0,4	0,3	-3,6	-17,9	7,7	1,1	-7,4
Final consumption expenditure of general government	1,9	1,7	0,7	0,6	0,7	0,2	-2,2	3,1	2,4	-1,5
Final consumption expenditure of central government	1,9	3,0	0,7	0,6	0,7	1,7	-2,3	3,2	1,7	-1,7
Central government, civilian	1,6	2,9	0,6	0,6	0,5	1,9	-2,7	3,5	1,7	-2,1
Central government, defence	3,8	3,4	1,4	0,8	1,9	-0,3	0,9	1,1	1,2	1,6
Final consumption expenditure of local government	1,9	0,5	0,8	0,6	0,7	-1,1	-2,1	2,9	3,1	-1,4
Gross fixed capital formation	4,8	-3,8	4,2	2,9	-1,0	-3,7	-2,1	-1,0	1,3	-1,7
Extraction and transport via pipelines	12,6	-4,1	10,6	0,3	5,3	-5,7	-4,5	-4,1	3,4	-3,6
Ocean transport	-68,2	77,3	93,8	37,2	12,4	101,5	-90,2	651,2	-5,3	42,3
Mainland Norway	4,0	-4,1	2,6	3,4	-2,6	-3,7	-0,6	-1,0	0,9	-1,6
Industries	5,6	-6,1	-0,1	4,2	-0,5	-3,9	-6,0	0,3	2,5	-0,7
Service activities incidential to extraction	38,7	-33,3	21,1	1,9	-3,9	-20,7	-7,3	-13,2	-30,5	16,1
Other services	3,5	-5,1	-0,7	3,0	-1,7	-1,6	-8,4	2,4	6,6	-4,3
Manufacturing and mining	24,4	-11,1	1,6	9,1	-0,6	-9,4	-7,8	1,8	-3,8	4,8
Production of other goods	-0,6	-3,8	-0,4	3,9	2,5	-5,2	1,5	-5,1	-2,6	5,2
Dwellings (households)	-1,7	-4,0	0,3	0,0	-3,6	-2,1	0,3	-1,2	4,6	-1,0
General government	7,2	-1,0	9,3	5,4	-4,7	-4,6	6,9	-2,4	-4,5	-3,6
Acquisitions less disposals of valuables	5,8	-60,1	-5,4	1,5	-0,5	-9,2	-86,2	221,6	-54,7	-47,5
Changes in stocks and statistical discrepancies	-0,5	-24,8	-2,9	-3,2	-22,1	19,3	-54,3	78,9	-25,3	52,5
Gross capital formation	4,1	-6,8	3,1	2,0	-4,0	-1,0	-9,5	4,7	-1,9	3,3
Final domestic use of goods and services	2,3	-4,8	1,2	0,9	-1,3	-2,0	-7,9	6,2	0,1	-1,3
Final demand from Mainland Norway	2,1	-3,9	0,9	1,1	-0,7	-2,7	-5,7	5,0	1,0	-2,8
Final demand from general government	2,9	1,2	2,3	1,5	-0,5	-0,7	-0,4	1,9	1,0	-1,9
Total exports	0,5	-0,5	-1,6	-2,0	6,8	-1,3	-7,1	3,8	2,2	-2,9
Traditional goods	4,6	-2,2	-2,4	-0,4	1,6	-2,3	-7,8	8,2	3,1	2,1
Crude oil and natural gas	-4,3	10,1	-2,5	-4,1	16,1	-2,0	2,3	1,2	1,1	-7,6
Ships, oil platforms and planes	1,4	-33,2	43,8	-43,0	-21,7	62,5	-49,4	28,9	-48,3	-0,2
Services	3,5	-12,9	-0,8	1,1	0,8	-0,3	-19,5	2,7	4,5	-0,7
Total use of goods and services	1,8	-3,6	0,4	0,1	1,0	-1,8	-7,7	5,5	0,7	-1,8
Total imports	4,7	-11,9	1,2	0,4	-1,5	-2,8	-17,2	9,7	0,4	-5,7
Traditional goods	5,7	-2,6	-0,9	-0,8	-1,9	-2,4	-7,4	12,9	1,9	-5,5
Crude oil and natural gas	5,0	-11,2	-0,2	47,7	-2,7	-1,1	-29,1	-5,5	16,2	2,4
Ships, oil platforms and planes	-12,9	-8,6	59,5	-7,9	-31,2	39,4	-10,1	-4,1	-38,0	-1,8
Services	4,7	-27,9	1,3	1,0	1,8	-6,1	-33,7	4,9	-0,4	-7,1
Gross domestic product (market prices)	0,9	-0,8	0,1	0,0	1,8	-1,5	-4,6	4,3	0,8	-0,6
[Gross domestic product Mainland Norway (market prices)	2,3	-2,5	0,6	0,7	0,0	-2,0	-5,8	4,9	2,0	-1,0
Petroleum activities and ocean transport	-6,1	8,0	-2,4	-3,9	11,7	1,2	1,5	1,8	-4,5	1,4
Mainland Norway (basic prices)	2,5	-2,5	0,7	0,7	0,1	-1,8	-6,1	4,6	2,0	-0,7
Mainland Norway excluding general government	2,6	-3,1	0,8	0,8	-0,1	-2,0	-6,8	4,5	2,1	-0,6
Manufacturing and mining	2,7	-2,6	1,5	0,0	0,0	-1,3	-6,3	2,5	3,6	1,1
Production of other goods	1,5	0,4	1,3	1,8	-1,8	-0,7	-1,8	2,6	1,7	0,7
Services incl. dwellings (households)	2,8	-4,1	0,5	0,6	0,3	-2,4	-8,3	5,4	2,0	-1,2
General government	2,2	-0,8	0,5	0,6	0,6	-1,4	-4,1	4,9	1,7	-0,9
Taxes and subsidies products	1,4	-2,1	0,1	0,7	-0,3	-3,3	-3,8	6,4	1,9	-3,6

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2019	2020	19.2	19.3	19.4	20.1	20.2	20.3	20.4	21.1
Final consumption expenditure of households and NPISHs	102,3	103,9	101,9	102,3	103,1	103,4	103,8	104,0	104,1	105,5
Final consumption expenditure of general government	103,2	105,8	102,5	103,8	104,3	105,3	108,0	105,4	104,8	108,5
Gross fixed capital formation	102,6	105,8	102,4	102,8	103,3	104,6	106,3	105,8	106,5	107,2
Mainland Norway	102,4	104,8	102,3	102,5	102,9	103,9	105,1	105,0	105,4	106,7
Final domestic use of goods and services	102,5	105,1	101,7	102,5	103,7	104,6	104,8	104,6	106,0	106,6
Final demand from Mainland Norway	102,5	104,7	102,2	102,8	103,4	104,0	105,4	104,6	104,6	106,6
Total exports	95,6	82,2	96,0	93,9	94,2	88,6	76,3	81,0	82,9	99,1
Traditional goods	100,7	97,3	101,0	99,8	102,0	102,3	97,9	94,0	95,6	100,9
Total use of goods and services	100,5	98,4	100,1	100,2	100,9	99,9	96,4	97,7	99,2	104,4
Total imports	103,3	106,5	102,8	103,6	105,0	105,5	108,2	106,0	106,2	107,9
Traditional goods	102,5	106,8	102,2	102,7	103,8	105,0	109,3	106,8	106,2	108,5
Gross domestic product (market prices)	99,6	96,0	99,2	99,0	99,6	98,1	93,1	95,3	97,2	103,4
Gross domestic product Mainland Norway (market prices)	102,2	103,9	101,6	102,4	103,2	104,1	104,4	103,5	103,7	105,6

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2019	2020	19.2	19.3	19.4	20.1	20.2	20.3	20.4	21.1
Final consumption expenditure of households and NPISHs	2,3	1,6	0,5	0,4	0,8	0,2	0,4	0,2	0,1	1,3
Final consumption expenditure of general government	3,2	2,6	0,6	1,2	0,5	0,9	2,6	-2,5	-0,5	3,5
Gross fixed capital formation	2,6	3,1	0,6	0,4	0,5	1,3	1,6	-0,5	0,6	0,6
Mainland Norway	2,4	2,4	0,3	0,2	0,4	1,0	1,2	-0,1	0,3	1,3
Final domestic use of goods and services	2,5	2,6	0,0	0,8	1,1	0,9	0,1	-0,2	1,4	0,5
Final demand from Mainland Norway	2,5	2,1	0,5	0,6	0,6	0,6	1,3	-0,7	0,0	2,0
Total exports	-4,4	-14,0	-1,7	-2,2	0,4	-5,9	-13,9	6,1	2,4	19,6
Traditional goods	0,7	-3,4	1,8	-1,2	2,3	0,3	-4,3	-4,0	1,7	5,6
Total use of goods and services	0,5	-2,1	-0,5	0,0	0,8	-1,0	-3,6	1,4	1,5	5,2
Total imports	3,3	3,1	1,2	0,8	1,4	0,5	2,5	-2,1	0,2	1,7
Traditional goods	2,5	4,2	1,1	0,5	1,0	1,1	4,1	-2,3	-0,5	2,1
Gross domestic product (market prices)	-0,4	-3,6	-1,0	-0,2	0,6	-1,5	-5,2	2,4	2,0	6,4
Gross domestic product Mainland Norway (market prices)	2,2	1,7	0,3	0,8	0,8	0,9	0,3	-0,9	0,2	1,8

Source: Statistics Norway.

Table 9. Main economic indicators 2012-2024. Accounts and forecasts.
Percentage change from previous year unless otherwise noted

										Projection			
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Demand and output													
Consumption in households etc.	3.5	2.8	2.1	2.7	1.1	2.2	1.6	1.4	-6.9	5.1	7.9	3.3	3.1
General government consumption	1.5	1.0	2.7	2.4	2.3	1.9	0.5	1.9	1.7	2.7	1.6	1.2	1.7
Gross fixed investment	7.5	6.3	-0.3	-4.0	3.9	2.6	2.2	4.8	-3.8	0.9	1.4	3.1	1.3
Extraction and transport via pipelines	14.6	19.0	-1.8	-12.2	-16.0	-5.4	0.7	12.6	-4.1	-1.0	-6.0	10.0	4.0
Mainland Norway	7.4	2.9	0.4	-0.2	9.0	6.8	1.5	4.0	-4.1	0.9	3.2	1.6	0.6
Industries	10.5	-3.2	-0.7	-2.8	12.6	9.2	3.1	5.6	-6.1	0.2	2.1	1.4	1.8
Housing	10.9	5.3	-1.4	3.2	6.6	7.3	-6.5	-1.7	-4.0	4.4	7.1	2.4	-1.6
General government	-1.8	11.8	4.5	0.2	6.4	2.6	8.1	7.2	-1.0	-1.1	1.3	1.1	1.1
Demand from Mainland Norway[1]	3.7	2.3	1.9	2.0	3.1	3.1	1.3	2.1	-3.9	3.5	5.0	2.4	2.2
Exports	1.7	-1.8	3.4	4.3	1.1	1.7	-1.2	0.5	-0.5	2.9	7.2	4.3	2.6
Traditional goods	-0.2	1.3	3.1	6.9	-8.6	1.7	1.5	4.6	-2.2	6.8	3.4	3.1	2.6
Crude oil and natural gas	0.5	-5.5	2.7	2.1	4.9	5.1	-5.0	-4.3	10.1	0.8	5.9	4.3	1.7
Imports	2.9	5.0	2.0	1.9	2.7	1.9	1.4	4.7	-11.9	2.7	8.3	4.6	3.8
Traditional goods	2.2	1.8	1.9	2.8	-0.2	3.8	2.9	5.7	-2.6	4.0	3.4	2.5	2.9
Gross domestic product	2.7	1.0	2.0	2.0	1.1	2.3	1.1	0.9	-0.8	2.8	4.3	2.7	1.8
Mainland Norway	3.7	2.3	2.2	1.4	0.9	2.0	2.2	2.3	-2.5	3.1	4.1	2.4	1.9
Manufacturing	2.0	3.3	2.8	-4.6	-4.2	0.0	1.7	2.7	-2.6	5.4	2.4	2.5	1.4
Labour market													
Total hours worked. Mainland Norway	1.7	0.4	1.4	0.7	0.6	0.3	1.6	1.8	-2.1	1.6	2.3	0.4	1.4
Employed persons	2.0	1.1	1.0	0.5	0.3	1.2	1.6	1.6	-1.3	0.4	1.4	1.0	1.0
Labor force	1.5	1.2	0.7	1.5	0.2	-0.2	1.4	1.0	0.4	0.3	0.6	0.7	0.9
Participation rate (level)	71.4	71.2	70.7	71.0	70.4	69.7	70.2	70.5	70.4	70.5	70.7	71.0	71.3
Unemployment rate (level)	3.3	3.8	3.6	4.5	4.7	4.2	3.8	3.7	4.6	4.6	4.2	3.9	3.7
Prices and wages													
Wages per standard man-year	4.0	3.9	3.1	2.8	1.7	2.3	2.8	3.5	3.1	3.1	3.1	3.2	3.6
Consumer price index (CPI)	0.8	2.1	2.0	2.1	3.6	1.8	2.7	2.2	1.3	3.1	1.8	1.8	1.9
CPI-ATE[2]	1.2	1.6	2.4	2.7	3.0	1.4	1.6	2.2	3.0	2.1	2.0	1.9	1.9
Export prices. traditional goods	-1.9	2.7	3.4	2.0	4.0	5.2	6.2	0.7	-3.4	5.8	3.3	2.5	1.9
Import prices. traditional goods	0.3	1.4	4.3	4.6	1.7	3.5	4.6	2.5	4.2	1.3	1.3	1.2	1.4
Housing prices	6.8	4.0	2.7	6.1	7.0	5.0	1.4	2.5	3.9	9.2	3.3	2.0	1.6
Income. interest rates and excange rate													
Household real income	4.4	4.0	2.3	5.4	-1.6	2.0	1.0	2.3	2.5	0.9	3.5	2.2	2.4
Household saving ratio (level)	6.9	7.2	7.7	9.8	6.9	6.6	5.9	7.6	15.4	11.9	7.9	7.5	7.2
Norges Bank's policy rate (level)	2.2	1.8	1.7	1.3	1.1	0.9	1.1	1.6	0.7	0.5	1.1	1.7	2.0
Lending rate. credit loans(level)[3]	3.9	4.0	3.9	3.2	2.6	2.6	2.7	3.0	2.6	2.0	2.3	2.8	3.2
Real after-tax lending rate. banks (level)	2.1	0.7	0.8	0.1	-1.6	0.1	-0.7	0.2	0.7	-1.4	0.0	0.4	0.6
Importweighted krone exchange rate (44 countries)[4]	-1.2	2.2	5.3	10.5	1.8	-0.8	0.1	2.9	6.7	-5.6	0.1	0.0	0.0
NOK per euro (level)	7.47	7.81	8.35	8.95	9.29	9.33	9.6	9.85	10.72	10.21	10.22	10.22	10.22
Current account													
Current balance (bill. NOK)[5]	374	317	341	250	138	180	283	102	66	319	379	398	362
Current account (per cent of GDP)	12.6	10.3	10.8	8.0	4.5	5.5	8.0	2.8	1.9	8.3	9.2	9.2	8.1
International indicators													
Exports markets indicator	1.1	1.9	4.7	5.4	3.9	5.6	4.0	2.7	-8.6	9.5	8.4	4.7	4.2
Consumer price index. euro-area	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	1.9	1.5	1.9	2.0
Money market rate. euro(level)	0.6	0.2	0.2	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.6	-0.5	-0.3	0.0
Crude oil price US dollar (level)[6]	112	109	100	53	45	55	72	64	43	66	65	62	60
Crude oil price NOK (level)[6]	650	639	627	431	379	452	583	564	407	556	541	516	500

[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 2 June 2021.