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Economic developments in Norway

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Economic developments in Norway

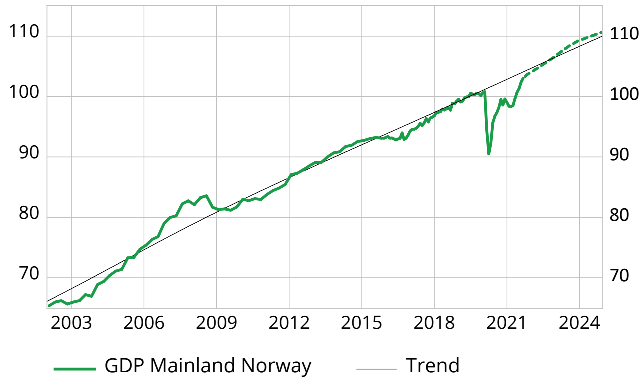
Activity in the Norwegian economy picked up considerably through the summer and autumn. As a result of lower infection rates, increased vaccination and the easing of national restrictions, mainland GDP had already rebounded by June to the same level as before the pandemic struck in March last year. The reopening of society in autumn and some temporary factors such as increased mackerel fishing intensified the upturn. The activity level in September was over 2 per cent higher than before the pandemic. Activity in September was still somewhat lower than what we regard as a trend level for the economy, but the gap was closing. The economic growth is expected to continue

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

	2019	2020	Seasonally adjusted			
			20:4	21:1	21:2	21:3
Demand and output						
Consumption in households etc.	1.1	-6.6	1.1	-3.6	2.9	6.0
General government consumption	1.3	1.8	2.6	-1.7	0.9	1.3
Gross fixed investment	9.5	-5.6	1.6	-0.5	-0.2	1.1
Extraction and transport via pipelines	14.3	-4.1	2.7	-3.1	6.9	5.5
Mainland Norway	6.3	-3.6	1.4	-0.0	-0.9	0.0
Final domestic demand from Mainland Norway[1]	2.3	-3.6	1.6	-2.2	1.4	3.3
Exports	1.1	-1.2	1.8	-1.1	1.8	6.5
Traditional goods	4.9	-2.5	2.3	3.6	-0.9	0.7
Crude oil and natural gas	-3.7	11.9	1.5	-4.4	5.1	6.1
Imports	5.1	-11.9	0.8	-4.9	4.7	5.8
Traditional goods	5.6	-2.5	2.3	-4.0	5.8	2.1
Gross domestic product	0.7	-0.7	0.6	-0.2	1.0	3.8
Mainland Norway	2.0	-2.3	1.9	-0.7	1.1	2.6
Labour market						
Total hours worked. Mainland Norway	1.5	-2.1	1.1	-0.3	0.4	2.1
Employed persons	1.6	-1.5	1.2	-0.4	-0.0	2.2
Labour force[2]	1.0	0.4	0.4	-0.8	1.8	0.3
Unemployment rate. level[2]	3.7	4.6	5.0	4.7	5.0	4.0
Prices and wages						
Annual earings	3.5	3.1	..	..	..	..
Consumer price index (CPI)[3]	2.2	1.3	0.1	1.8	0.2	1.3
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	2.2	3.0	0.2	0.4	0.1	0.4
Export prices. traditional goods	0.7	-3.4	1.6	4.8	4.7	7.1
Import prices. traditional goods	2.5	4.2	-0.3	1.5	1.4	4.2
Balance of payment						
Current balance. bill. NOK[4]	102	67	5	92	93	..
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	1.1	0.4	0.0	0.0	0.0	0.0
Lending rate. credit loans[5]	0.8	0.6	2.1	2.1	2.0	2.0
Crude oil price NOK[6]	564	407	408	521	577	641
Importweighted krone exchange rate. 44 countries. 1995=100	107.6	114.9	114.1	109.2	107.4	110.6
NOK per euro	9.85	10.72	10.76	10.26	10.09	10.33

[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.

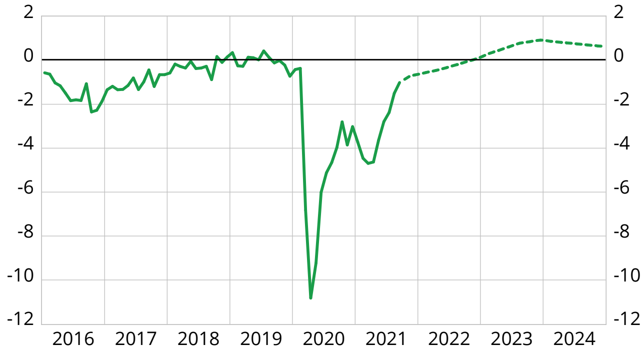
Figure 1. GDP Mainland Norway and estimated trend
Seasonally adjusted, index 2019 = 100



* Quarterly figures before 2016, monthly after. The trend is estimated by an HP-filter (lambda = 40 000 quarterly), but such that the trend is not directly affected by the developement of economic activity in 2020 and 2021

Source: Statistics Norway

Figure 2. Output gap, Mainland Norway
Deviation form estimated trend GDP in percent, monthly frequency



Source: Statistics Norway

going forward, but at a considerably slower pace than in recent months. The pandemic is not over. In the short term, the spread of the new omicron variant and the new infection control measures are likely to dampen economic activity somewhat. We assume that the need for the new measures is temporary, and expect economic activity to continue to pick up in 2022, particularly in many of the industries that have been hardest hit by the infection control measures.

When economic developments normalise, there will no longer be a need for extraordinary fiscal measures. According to the National Budget 2022, NOK 233 billion has been spent on measures to counter the pandemic. Computations with the KVARTS and NORA macroeconomic models indicate that the expansionary fiscal policy has contributed 1 per cent to mainland GDP in 2021. We forecast that growth in public consumption and investment next year will be lower than trend growth in the economy, which in isolation will have the effect of curbing economic developments. The long-term effects of the support measures in 2020 and 2021 will probably compensate for this, and contribute to the overall effect of fiscal policy being positive next year nonetheless. The budget is designed to bring the structural non-oil budget deficit to NOK 322 billion in 2022. This is equivalent to approximately 2.6 per cent of the value of the Government Pension Fund Global (the oil fund), and spending of petroleum revenue will thus be lower than the Fiscal Rule’s limit of 3 per cent.

Household consumption in September exceeded the level from before the outbreak of the pandemic. According to our projections, the increase in consumption will continue, and we expect growth of around 8.5 per cent in 2022. During the pandemic, households shifted a good deal of their consumption from services to goods. Our projections imply that households will choose a more normal composition of goods and service consumption in the course of 2022. With prospects of growth in real disposable income but increased real interest rates and weak developments in real house prices, consumption growth is expected to slow to around 2 per cent in 2024. If this scenario is realised, the current high saving ratio will shrink relatively rapidly.

The rise in house prices has been high but declining this past year. Prices in Q3 this year were just over 10 per cent higher than in 2020 Q3, but the rise in prices from Q2 to Q3 this year was a more moderate 4.6 per cent, calculated as an annual rate. Housing investment has grown since bottoming out in 2020 Q3, but dipped slightly again in Q3 this year. The strong rise in house prices has made residential construction more profitable, but higher building costs push down profitability. Housing investment is expected to pick up again going forward, but as a result of the higher building costs, growth has now been revised slightly down compared with our previous economic report. Higher interest rates and low population growth will exert downward pressure on the rise in house prices, which according to our projections will slow to around 1.5 per cent towards 2024.

Petroleum investment has picked up through the year after falling by 4.1 per cent in 2020. After continuing to fall for the first months of this year,

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	2.0	-2.3	4.1	4.1	2.4	1.9
with contributions from:								
Consumption by households and non-profit organisations	0.8	0.5	0.5	-0.6	1.8	2.3	0.9	0.6
General government consumption and investment	0.6	0.5	0.7	0.4	0.7	0.3	0.4	0.6
Petroleum investment	-0.2	0.0	0.4	-0.1	-0.1	-0.2	0.3	0.2
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	0.6	-0.3	0.1	0.4	0.2	0.2
Exports from mainland Norway	-0.2	0.2	0.7	-1.6	1.0	1.2	0.7	0.6
Other factors etc.	0.0	1.2	-0.8	0.2	0.5	-0.1	-0.3	-0.3

[1] See explanation under Figure 3.
Source: Statistics Norway.

investment has picked up again. Petroleum-related businesses are planning a further increase in investment at the end of the year. Next year several plans for development and operation appear likely to be submitted, but these new projects will probably not result in markedly increased investment before 2023 and 2024. Investment is expected to increase by about 10 per cent in 2023, which will boost mainland GDP by 0.3 percentage point (see Table 2). Even if investment picks up going forward to 2024, the long-term trend is nonetheless that the importance of the petroleum sector for the Norwegian economy will lessen steadily over time. Petroleum investment as a share of mainland GDP is projected to be between 5 and 6 per cent in 2024, compared with 9 per cent in 2013.

Business investment looks set to grow appreciably in the years ahead. Increased investment in both services and manufacturing is planned for next year. Many enterprises also appear to be moving in a greener direction, and several battery factories and hydrogen plants have been either started or planned. Investment in power supply is declining, however, partly because several large windpower developments are expected to be completed by the end of 2021. On balance, business investment is expected to increase modestly this year before picking up substantially next year, boosted by some large individual projects, higher domestic activity and the further increase in global demand.

The krone depreciated sharply in March 2020, from around NOK 10.0 per euro prior to the outbreak of COVID-19 in Norway, to over NOK 12.0. The krone subsequently appreciated steadily up to October, when a euro cost NOK 9.7. It has since weakened a little, and at the beginning of December a euro cost around NOK 10.2. Our projections are based on an unchanged krone exchange rate in the near term.

The volatile energy prices are contributing to wide fluctuations in inflation. The 12-month rise in the consumer price index (CPI) was 3.5 per cent in October, and the annual rise this year is projected to be 3.4 per cent. Surging energy prices will push up CPI inflation by just over 2 percentage points this year, while reduced taxes will cut inflation by half a percentage point. The high energy prices are expected to be temporary, and we assume that inflation will gradually be reduced. Underlying inflation, which has been low recently as a consequence of the appreciation of the krone, is expected to rise to around 2.5 per cent next year and then fall back to around 2 per cent in 2023 and 2024, to approximately the inflation target.

The key policy rate was raised to 0.25 per cent in September after remaining at 0 per cent for a little over a year. As economic activity normalises, we expect the interest rate to be raised to a more normal level. We anticipate a further increase in the interest rate in December already, but after that Norges Bank is likely to move more cautiously with its interest rate hikes. In 2022 we expect three interest rate hikes, and only in 2023 will the key rate be back at the pre-COVID-19 crisis level, when it was 1.5 per cent.

There are currently strong pressures in the labour market. In mid-2020, unemployment reached 5.2 per cent according to the Labour Force Survey (LFS), and it has fallen markedly through the summer and autumn of 2021. Unemployment adjusted for breaks and seasonal variations fell to an average of 3.6 per cent for the period August to Oc-

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.	-6.6	4.2	3.6	4.0	8.5	9.6	11.1	3.4	3.6	..	2.1	1.5
General government consumption	1.8	3.1	2.4	3.9	1.0	1.5	-0.2	1.5	0.2	..	1.7	0.5
Gross fixed investment	-5.6	0.4	..	0.9	3.5	..	-0.4	3.8	..	..	2.8	..
Extraction and transport via pipelines	-4.1	-2.0	-2.0	1.0	-8.0	-8.0	-14.4	10.0	10.0	..	6.0	9.0
Industries	-5.0	1.5	1.1	0.9	6.1	3.8	4.4	3.8	6.3	..	2.3	6.2
Housing	-4.0	3.6	5.1	4.2	5.7	3.3	4.1	2.0	0.9	..	1.1	1.0
General government	-1.1	-2.8	..	-2.5	1.3	..	-0.2	1.2	..	..	3.0	..
Demand from Mainland Norway[1]	-3.6	3.1	3.0	3.4	5.5	5.8	6.0	2.7	2.6	..	2.0	0.5
Exports	-1.2	4.3	..	5.2	5.9	..	7.1	4.3	..	..	2.4	..
Traditional goods[2]	-2.5	7.1	4.2	6.4	2.3	6.7	9.9	3.0	3.5	..	2.7	2.5
Crude oil and natural gas	11.9	2.5	..	3.5	4.5	..	4.8	5.3	..	..	1.5	..
Imports	-11.9	1.6	0.6	3.7	8.7	10.2	10.6	5.0	6.2	..	3.4	4.8
Gross domestic product	-0.7	3.7	3.0	3.8	4.2	3.8	4.0	2.8	1.3	..	1.8	0.9
Mainland Norway	-2.3	4.1	3.9	3.9	4.1	4.5	3.8	2.4	1.2	..	1.9	0.8
Labour market												
Employed persons	-1.5	0.9	0.7	0.8	1.6	2.6	1.4	0.6	0.5	..	0.6	0.2
Unemployment rate (level)	4.6	4.6	3.5	4.7	3.7	3.6	4.1	3.9	..	..	3.9	..
Prices and wages												
Annual earnings	3.1	3.3	3.0	2.8	3.3	3.1	3.0	3.5	3.4	..	3.3	3.3
Consumer price index (CPI)	1.3	3.4	3.2	2.8	2.6	1.5	1.3	1.5	1.2	..	2.2	1.9
CPI-ATE[3]	3.0	1.7	1.6	1.8	2.5	1.4	1.6	1.7	1.6	..	2.0	1.8
Housing prices[4]	3.9	10.4	9.2	..	4.0	1.7	..	1.4	1.2	..	1.5	3.0
Balance of payment												
Current balance (bill. NOK)[5]	67	497	..	281	590	..	212	571	..	..	506	..
Current account (per cent of GDP)	2.0	12.3	..	7.3	13.5	..	5.3	12.7	..	..	10.9	..
Memorandum items:												
Money market rate (level)	2.8	0.5	..	0.5	1.2	..	1.1	1.8	..	..	1.9	..
Crude oil price NOK (level)[6]	407	610	..	568	644	..	559	613	..	..	596	..
Import weighted krone exchange rate (44 countries)[7]	6.7	-5.4	-5.2	-6.4	0.8	-2.6	-0.3	0.0	-1.6	..	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. 1 (2021-2022) (MoF). Norges Bank. Pengepolitisk rapport 3/2021 (NB).

tober, which is lower than the average from 2000 to 2019. The combination of a strong increase in demand from those services industries that have been hard hit by the infection control measures, coupled with fewer non-residents in Norway, has opened up employment opportunities for young people. There are a record number of vacancy announcements, and more people have entered the labour market. The improvement in the labour market is expected to continue going forward, but at a considerably slower rate than in recent months. In 2022, LFS unemployment will be 3.7 per cent according to our projections. Inward labour migration is expected to pick up gradually, which will reduce the pressures in the labour market. In 2023 and 2024 we project that unemployment will be around 3.9 per cent.

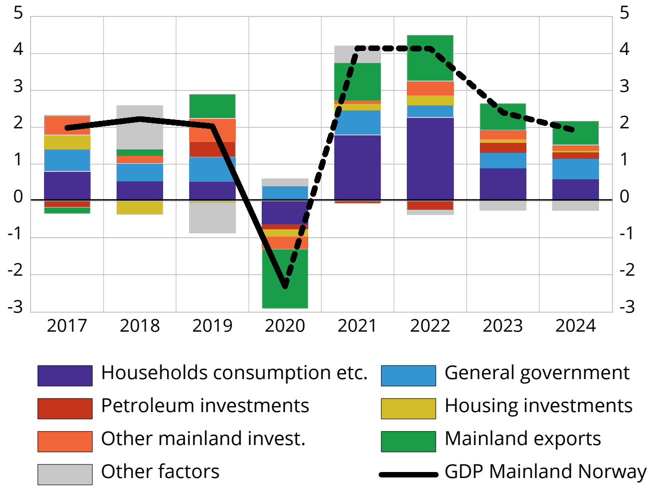
Real wages are likely to remain unchanged this year. In this year’s wage negotiations, the Confederation of Norwegian Enterprise (NHO), in agreement with the Norwegian Confederation of Trade Unions (LO), estimated that annual wage growth in overall manufacturing under the NHO will be 2.7 per cent in 2021. This established a norm for the other wage bargaining areas. Wage statistics through the year have pointed towards somewhat higher annual wage growth. As a result of the current strong pressures in the labour market, we have revised our wage growth projection for this year to 3.3 per cent, approximately the level that inflation is likely to be. In the years ahead, real wage growth is expected to pick up gradually to 1.5 per cent. Even given relatively strong pressures in the labour market, wage growth is expected to be depressed for the next few years, as high prices for intermediate goods are detracting from the profitability of the businesses that constitute the wage leader segment.

Growth in the Norwegian economy has been higher this year than we foresaw at the beginning of the year. The most recent national accounts figures show that the rebound of the Norwegian economy remained vigorous, and overall mainland GDP growth in Q3 ended at 2.6 per cent. According to our projections, activity in the Norwegian economy at the beginning of December is almost normal, and it is expected to remain roughly cyclically neutral in the years ahead (see Figure 1). Our description of the economy as back to a more normal situation must be interpreted in light of the production potential of mainland businesses and the extent to which there is available labour. Developments in mainland GDP provide a good description of macroeconomic developments, but are not a good indicator of the changes that have taken place in society through the pandemic. Although the Norwegian economy is currently close to cyclically neutral, society is not back to normal.

We are experiencing a new wave of infection. Increasing numbers of people with COVID-19 have been hospitalised and the health service is under pressure. The vaccination rate in Norway is relatively high, but the protection provided by the vaccine appears to weaken over time. There are therefore plans for the entire adult population to given a booster dose, and everyone over the age of 65 will be offered this before Christmas, while everyone over the age of 18 will be offered it before Easter. Experience from Israel may indicate that the current wave of infection will subside when sufficient numbers have received a booster dose. The projections in this report are based on the assumption that the current infection control measures will be temporary, but there is uncertainty associated with this assumption. The spread of the new omicron variant has brought to the fore concern for mutated variants of the coronavirus against which today's vaccines are not effective. There therefore seems to be a greater probability of things getting worse rather than better in the Norwegian economy than our projections now show. In Box 1 we use an alternative scenario to show how developments in the Norwegian economy could take a more negative turn.

Figure 3. 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. A normalised fiscal policy

Central government consumption rose by 1.9 per cent in 2021 Q3 following growth of 1.0 per cent in Q2 and a fall of just over 3 per cent in Q1. The return to normal activities at hospitals pushed up consumption. Local government consumption rose by 0.8 per cent in Q3 following similar growth in Q2. The reopening of cultural institutions such as museums, libraries and cinemas, and increased activity associated with COVID vaccination, testing and tracking and tracing pushed up consumption.

Box 1. Could developments in the Norwegian economy take a more negative turn?

Recent developments with increased infection pressure, more hospitalisations and a new variant of the virus, the omicron variant, have created great concern for the World Health Organization and the Norwegian authorities. With as yet limited knowledge of the transmissibility of the omicron variant and its resistance to existing vaccines, there is great uncertainty regarding future developments in the pandemic.

Against this backdrop, we have pointed out in this economic report that the likelihood of developments in the Norwegian economy taking a more negative turn than our projections now indicate may be greater than that things will go better. We therefore construct an alternative scenario that illustrates potential developments in the Norwegian economy if the authorities should decide on another shutdown of the private sector in a situation where new variants of the virus could create too great a disease burden. The alternative is based on a serious scenario in which today's vaccines are not sufficiently effective against new variants of the virus. Given the Corona Commission's message that "One thing we seem to have learnt is that if there is a risk of a serious epidemic getting out of control, measures should be initiated at an early stage rather than waiting until there is widespread infection", we assume that the authorities will initiate radical measures at the end of the year, and in practice shut down a number of service industries, as was the situation with the delta variant last winter. At the same time, the Corona Commission has pointed out that children and young people have borne a heavy burden during the pandemic, and the consequences may prove to affect their lives for a long time. We therefore assume that the shutdown from the end of the year will not include childcare centres or schools.

The companies Pfizer and BioNTech recently stated that they can start delivering a new and effective vaccine against new virus variants within 100 days. We assume that it will take around 8 months before a large portion of the adult population is vaccinated with a new vaccine, and that the shutting down of some business segments will be of a temporary nature through the first half of next year. In the alternative scenario, we also assume that our most important trading partners will shut down segments of their economies in the same period. Foreign demand targeting the Norwegian economy will therefore be substantially weaker in the shutdown period than our forecasts in this report. A new shutdown would also mean that Norges Bank would have to be more cautious in its setting of interest rates for 2022.

There are a number of factors we do not consider in the alternative scenario. We assume that the state will bear much of the costs of the shutdown, as it has done through the pandemic so far, but we do not assume increased public investment or consumption as a consequence of the temporary shutdown. Nor do we assume changed petroleum investment.

We have used the KVARTS macroeconomic model to perform the alternative calculation with specific assumptions about household consumption, foreign demand, Norges Bank's setting of interest rates and the exchange rate. The individual effects of these factors on the Norwegian economy in 2022 are measured as difference between the alternative scenario and the projection scenario (our projections in this report).

In the alternative scenario we have reduced household consumption sharply in the first half of 2022 compared with the projection scenario. The consumption level is accordingly only about 2 per cent higher in the first half of 2022 than it was in the same period in 2021. In 2022 Q3, household consumption gradually begins to normalise, so that in 2022 Q4 consumption is back to the same level as in the projection scenario. In the alternative scenario we have also kept the composition of goods and service consumption and consumption abroad in 2022 the same as that projected for 2021.

All in all, these assumptions imply a 5.4 per cent downward revision of consumption by households and non-profit organisations in 2022. In our model, this pushes mainland GDP down by 1.6 per cent. We have not assumed extensive furloughing of employees in our calculations. Unemployment nonetheless increases by an annualised 0.4 percentage point. In the event of an extension of the furlough scheme, the increase in unemployment would be higher. The higher unemployment would lead to lower pay increases. Annual wages therefore rise 0.2 per cent less in the alternative scenario than in the projection scenario.

Effects in 2022 of a more serious pandemic course with subsequent shutdown

	Consumption[1]	+ MII[2]	+ Interest rate[3]	+ Exchange rate[4]
Mainland GDP (market value)	-1.6	-2.0	-1.9	-1.8
CPI	0.0	-0.1	-0.1	0.1
Unemployment rate (level), percentage points	0.4	0.4	0.4	0.4
Money market rate (level), percentage points	0.0	0.0	-0.5	-0.5
Annual wages	-0.2	-0.3	-0.3	-0.2
Export market indicator (MII)	0.0	-4.0	-4.0	-4.0
Consumption by households etc.	-5.4	-5.5	-5.3	-5.3
NOK per euro (level)	0.0	0.0	0.0	0.2

[1] Only downward revision of consumption by households and non-profit organisations, unchanged interest rate and exchange rate
[2] Downward revision of consumption and reduction in foreign demand, unchanged interest rate and exchange rate
[3] Downward revision of consumption and reduction in foreign demand with lower money market rate, unchanged exchange rate
[4] Downward revision of consumption and reduction in foreign demand with lower money rate and changed exchange rate
Source: Statistics Norway

A new, major infection wave would also affect other countries, resulting in reduced imports from our trading partners. We have therefore also looked at the effect of a reduction in foreign demand. This was done by reducing the export market indicator (MII) by 6 per cent for each of the first two quarters in 2022 and by 3 per cent in Q3, in relation to the projection scenario. The downward revision means that the market indicator is about 3 per cent higher in the first half of 2022 than it was in the first half of 2021. The downward revision of international demand pushes down mainland GDP by a further 0.4 per cent, leaving mainland GDP growth 2.0 per cent lower than in the projection scenario in 2022. The reduced demand leads to unemployment increasing marginally. In combination, the decline in consumption and fall in international demand lead to annual wages being pushed down by 0.3 per cent in 2022, causing household consumption to edge down even further.

So far in the alternative scenario we have assumed that interest rates and the exchange rate are the same as they are in the projection scenario. We now look at what happens to the Norwegian economy when the money market rate is assumed to be 0.5 percentage point lower than in the projection scenario for the whole of 2022. This could lead to both consumption and investment being higher than in the case of an unchanged interest rate level. The lower interest rate level will ease the fall in household consumption relative to the projection scenario by 0.2 percentage point. Mainland GDP is then raised by 0.1 per cent in 2022 as a consequence of the interest rate response. The overall effect of altered assumptions about household consumption, foreign demand and Norges Bank's setting of interest rates will be that mainland GDP will be 1.9 per cent lower than in the projection scenario for 2022.

We have excluded many factors that can affect the exchange rate from the alternative scenario. We have not taken into account that a large wave of infection and shutdowns of the economies of our trading partners may result in a lower oil price and lower international inflation, which could affect the value of the Norwegian krone. In the alternative scenario, the krone depreciates slightly against the euro because of the lower Norwegian interest rate compared with the projection scenario. A weaker krone means more expensive imports and higher prices for exports. Both improve the competitiveness of internationally exposed industries. In isolation, this yields 0.1 percentage point higher growth in mainland GDP in 2022. In addition it leads to inflation, measured by the consumer price index, being 0.1 percentage point higher than in the projection scenario in 2022.

We have seen that the assumptions in the alternative scenario could lead to a more negative outcome for the Norwegian economy compared with the projection scenario in 2022. In combination, the real economic costs in the wake of the more severe pandemic scenario would amount to around NOK 60 billion, approximately the same as the costs of reduced activity in the first three quarters of this year. The real economic costs of the pandemic, from February 2020 to September this year, have been around NOK 225 billion, measured as the difference between actual developments in mainland GDP and an estimated trend (see Figure 1). The costs were greatest at the start of the pandemic, with several measures such as closure of daycare centres and schools. However, there is great uncertainty associated with the need for a new shutdown in a more serious scenario such as we have looked at here.

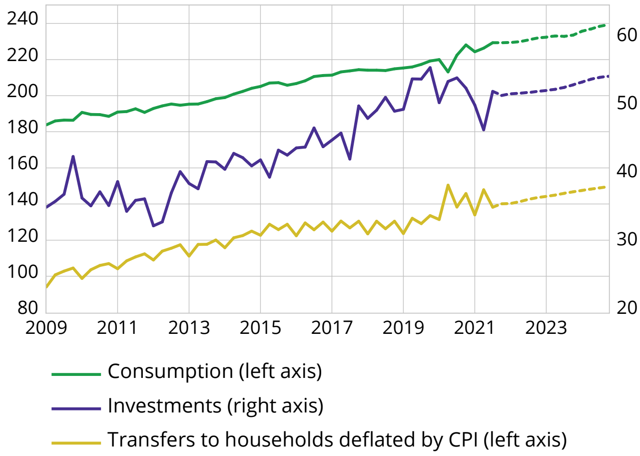
General government investment rose by 12 per cent in 2021 Q3 after falling by about the same amount through the previous two quarters. Investment has fallen by 5.9 per cent so far in 2021 compared with the first three quarters of 2020. For a more detailed account, see Chapter 3.3 in the Norwegian report.

In Proposition 1 S Supplement 1 (2021-2022) (the Budget Bill), the new Støre Government proposes revisions that do not change the spending of petroleum revenue compared with the National Budget 2022 prepared by the Solberg government. The settlement agreement with the Socialist Left party has the same ambition, and is helped by higher electricity prices, which increase tax and dividend income. The use of petroleum revenue, measured by the structural non-oil budget deficit, will amount to NOK 322.4 billion in 2022. Projections also show that fiscal policy in 2020 and 2021 will continue to contribute positively to economic activity in 2022. In 2022 this deficit is equivalent to 2.6 per cent of the value of the Government Pension Fund Global (the oil fund). Withdrawals well under the long-term guideline of 3 per cent reduce vulnerability to a fall in the value of the fund. However, growth in the fund's value in recent years implies increased use of petroleum revenue measured in NOK. Spending of petroleum revenue in 2022 will account for 9.5 per cent of trend mainland GDP, which is higher than prior to the pandemic, when spending amounted to 7.7 per cent. In the projections for 2023 and 2024, we assume that spending of petroleum revenue, measured as the structural non-oil budget deficit as a share of the value of the fund, will be reduced to just under 3 per cent, given normal developments in the value of the fund.

In Proposition 1 LS Supplement 1 (2021-2022) the Støre Government proposes more redistributive taxation of income and wealth. The proposal includes a 0.1 percentage point reduction in the social insurance contribution on wages and self-employed income, and a 0.1 percentage point increase in bracket tax on income in excess of NOK 651 250. In the settlement agreement with the Socialist Left, the bracket tax thresholds are reduced so that those who earn over NOK 643 000 incur higher tax. A new level is also being introduced which increases the tax of those who earn over NOK 2 million. Dividend tax, which is mainly paid by high-income households, is increased by raising the upward adjustment factor for dividend tax from 1.44 to 1.6. The Støre Government proposes increasing the wealth tax rate from 0.85 to 0.95 per cent, and increasing the basic deduction from NOK 1.5 million to NOK 1.65 million. This is to be combined with increased valuation of working capital, expensive primary dwellings, secondary dwellings and leisure homes. In the agreement with Socialist Left, the basic deduction is increased to NOK 1.7 million. A new level is also being introduced which implies a tax rate of 1.1 per cent on wealth in excess of NOK 20 million. The Støre Government additionally proposes tax changes which are to have a green profile while also being socially beneficial. The CO2 tax on the non-ETS sector is being increased by 28 per cent in excess of consumer price inflation. This is to be combined with a reduced road tax on fuel, equivalent to about 65 per cent of the increase in the CO2 tax. An increased purchase tax on fossil fuel and hybrid vehicles is also proposed, and a road traffic insurance tax and transfer of registration tax for electric vehicles. The reintroduction of the air passenger tax is also a part of the green profile. The social profile is to be strengthened by reducing the electricity tax by 8 øre per kWh in the period January-March next year, and by 1.5 øre per kWh for the remainder of 2021. The above proposals for changes are to be combined with a number of minor adjustments in the taxation system. A more detailed account of other details of tax changes to be introduced for 2022 is provided in section 11. In the projection scenario it is also assumed that other taxes are adjusted for inflation, tax rates remain unchanged, and tax thresholds are earnings-based.

Figure 4. General government

Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

We assume in our projections that infection control measures are oriented so as to have little impact on economic activity. We take into account, however, that viewed in isolation the redistribution appears expansionary because of the higher marginal propensity to consume by low-income households. However, uncertainty concerning the efficacy of vaccination, new variants of the virus and a higher infection rate create uncertainty regarding economic growth and the budget deficit in the near term.

We assume in our projections that growth in general government activity will normalise in the course of the projection scenario. We project percentage changes in general government consumption and gross investment of 1 and 1.3 per cent, respectively, in 2022, which is somewhat more optimistic than the projections in the National Budget. The projections are roughly the same as in the previous forecast. The growth projections for the period 2023–2024 are extrapolations of previous projections, with stable deliveries of fighter aircraft. Transfers, which in our previous projection were expected to increase by 1.6 per cent in 2022, are now expected to increase by 0.8 per cent, but from a somewhat higher level. Labour market-related transfers decrease gradually in the projection period, while pension disbursements increase. Investment in green restructuring may result in a more expansionary fiscal policy. In the long term, more restricted room for manoeuvre may place a damper on the expansionary policy.

2. The rise in interest rates continues

In September Norges Bank raised the key policy rate by 0.25 percentage point after it had been at a record low 0 per cent for over a year. The interest rate hike is the first of a series that will come in the next few years. At the same time, the Central Bank is likely to proceed cautiously with its interest rate hikes, and only in 2023 will the key rate be back at its pre-coronavirus crisis level of 1.5 per cent.

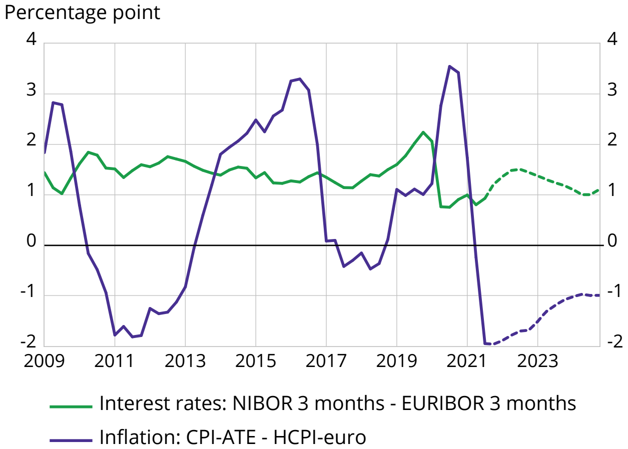
Money market rates shadow the key rate as it rises. The three-month money market rate was 0.2 per cent in summer and had risen to 0.5 per cent by the time of the policy rate increase in September. At the beginning of December the money market rate has risen to 0.8 per cent, which suggests that the market has already priced in a December increase in the policy rate.

Deposit and lending rates have been at record low levels in 2021. At the end of Q2 this year, the average interest rate on loans secured on dwellings was 2.02 per cent, while the average deposit rate was 0.31 per cent. The interest rate on loans secured on dwellings fell slightly to 2.00 per cent at the end of Q3, while the deposit rate increased slightly to 0.35 per cent in the same period.

The krone depreciated sharply around the time of the lockdown in Norway, in March 2020. A week after lockdown, the price of a euro was more than NOK 12.30 and that of a US dollar NOK 11.40, according to the official daily exchange rates noted by Norges Bank. The krone subsequently appreciated steadily up to October, when a euro cost NOK 9.70, but has recently weakened somewhat again, and at end-November one euro cost NOK 10.20, while one US dollar was worth NOK 9.00. In our projections, based on exchange rates at the end of November, we assume an unchanged krone exchange rate going forward. On an annual basis, this implies a strengthening of the krone from 2020 to this year, and an almost unchanged rate from this year to next year. The appreciation this year measured in terms of the import-weighted krone exchange rate is 5.3 percent.

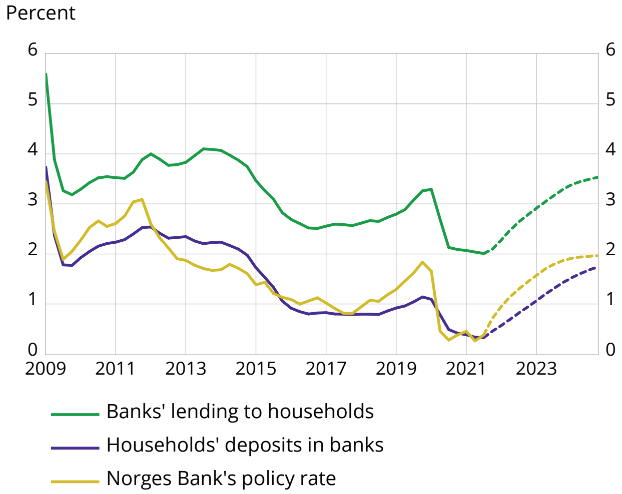
We expect the key rate to be raised further in December, and followed by three further interest rate increases in 2022. This is an upward adjustment of one interest rate increase compared with

Figure 5. Interest rate and inflation differential between NOK and euro



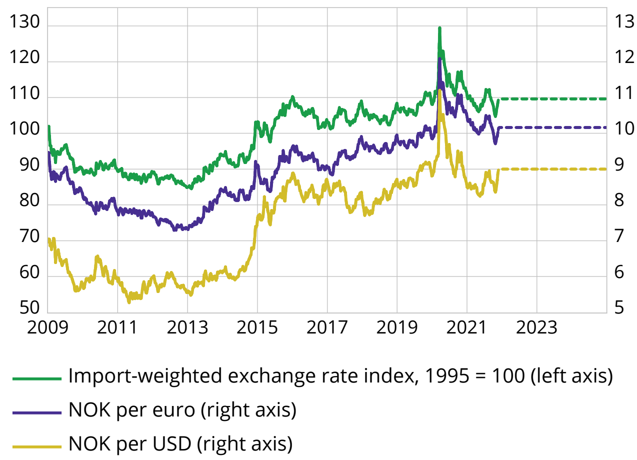
Source: Norges Bank and Statistics Norway

Figure 6. Norwegian interest rates



Source: Norges Bank and Statistics Norway

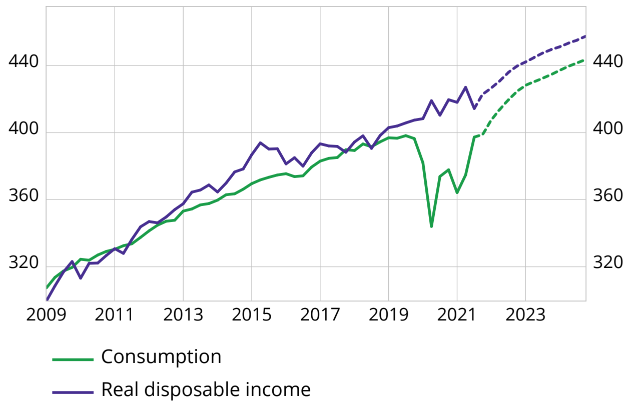
Figure 7. Exchange rates



Source: Norges Bank

the previous economic report. By the end of 2022, the key rate is expected to be up to 1.25 per cent, which is 0.25 percentage point lower than it was at the start of the COVID-19 crisis. The interest rate increases will continue in 2023 and 2024. By the end of 2024, the money-market rate will have reached 2.0 per cent. The rise in interest rates is a result of the normalisation of the economy after the COVID-19 crisis. Unemployment has reverted to a normal level, and in the course of the projection period mainland GDP will rise above what we estimate to be a trend level (see Figure 1). Inflation will also be close to Norges Bank's inflation target. The average interest rate on loans secured on dwellings will then rise to 3.5 per cent in 2024.

Figure 8. Income and consumption in households
Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

3. Consumption up further on the pre-pandemic level

Overall consumption by households and non-profit organisations was hard hit by the pandemic in 2020. According to the quarterly national accounts, consumption fell by a record 6.6 per cent as an annual average in 2020. Following a 3.6 per cent fall in Q1 this year compared with the previous quarter, consumption rose sharply by 2.9 per cent in Q2 and 6.0 per cent in Q3. As a consequence of the gradual easing of infection control measures and the reopening of society, consumption has risen for six consecutive months, and in September was slightly higher than the level prior to the pandemic in February 2020.

When infection control measures placed stringent restrictions on consumption of services, households adapted by increasing their consumption of goods. The level of goods consumption has risen substantially through the pandemic, and was about 13 per cent higher in September this year than in February 2020. The goods consumption index for October fell by a seasonally adjusted 1.6 per cent. Excluding car purchases, which fell by almost 9 per cent, goods consumption was roughly unchanged in October. Consumption of services has increased each month since April this year, resulting in strong growth in overall consumption in the same period. Consumption of services grew by a full 8.6 per cent in Q3 following growth of 2.2 per cent in Q2. Growth was particularly strong in August and continued in September as a result of a sharp rise in accommodation and food service activities. This service category grew by as much as 55 per cent in Q3. The growth must be viewed in light of the lifting of infection control measures and easing of travel restrictions, which resulted in increased tourism from other countries. Leisure services and passenger transport also contributed to growth in service consumption in Q3. Although consumption of services has now grown for several consecutive months, the September level remains about 2 per cent lower than in February last year.

The easing of travel restrictions also led to a five-fold increase of Norwegians' consumption abroad in Q3, while foreigners' consumption in Norway almost doubled in the same period. However, the levels for these consumer categories remain far lower than prior to the pandemic.

Growth in household real disposable income including and excluding share dividend disbursements is estimated in the non-financial sector accounts to have been around 2 and 2.5 per cent, respectively, in 2020. Wage income, which is the most important source of household income, displayed weak developments last year, as employment fell sharply due to infection control measures and the periodic shutting down of parts of the business sector. Public transfers, on the other hand, grew substantially in 2020 as a result of disbursements to a large number of furloughed and unemployed workers. Very low lending rates also reduced household interest expenses last year. The household interest burden, i.e. interest expenses measured as a share of disposable income, fell from round 5.5 per cent in 2019 to round 4.5 per cent in 2020.

We now assume that growth in real disposable income excluding share dividend disbursements will be around 2.5 per cent as an annual average this year, like last year, as well as in the years 2022–2024. Wage income will rise in pace with higher employment as the Norwegian economy normalises. Public transfers, on the other hand, will fall in real terms this year as a consequence of higher inflation and fewer furloughed and unemployed workers than in 2020. In the years ahead, transfers will increase in pace with the increase in the number of old-age pensioners. Net interest expenses will curb growth in real income in the years 2022–2024 when the mortgage rates faced by households rise in pace with an increasing key policy rate. Towards the end of the projection period, the level of the household interest burden will rise to around 6 per cent, which is in line with the average for the past 20 years.

We envisage that overall consumption growth will be slightly more than 4 per cent as an annual average this year and around 8.5 per cent in 2022. Underlying these projections, which represent a slight upward revision since our last economic report, are expectations of further vaccination of the population, no new business sector shutdowns and that pent-up household demand is not exhausted. Our projections imply that a more normal composition of goods and service consumption may be arrived at in the course of 2022. We forecast that consumption will increase by just over 2.5 per cent as an annual average in the last two years of the projection period. Developments in these years will be driven by growth in real disposable income but curbed by higher real after-tax interest rates and weak developments in real house prices.

As household income remained at a high level 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 around an annualised average of 7 per cent in 2019 to a record high 14.3 per cent in 2020. The saving ratio for 2020 has been revised down by around one percentage point compared with our last economic report as a consequence of the incorporation of new figures in the non-financial sector accounts. The saving ratio excluding disbursements of share dividend increased from around 2 per cent in 2019 to around 10 per cent in 2020. According to our projections for developments in income and consumption, the saving ratio will fall to 13 per cent this year, and further to around 8 per cent in 2024. The saving ratio adjusted for share dividend disbursements will fall to just under 4 per cent towards the end of the projection period, which is in line with the average annual saving ratio in the four-year period 2012–2015, when the Norwegian economy was close to cyclically neutral.

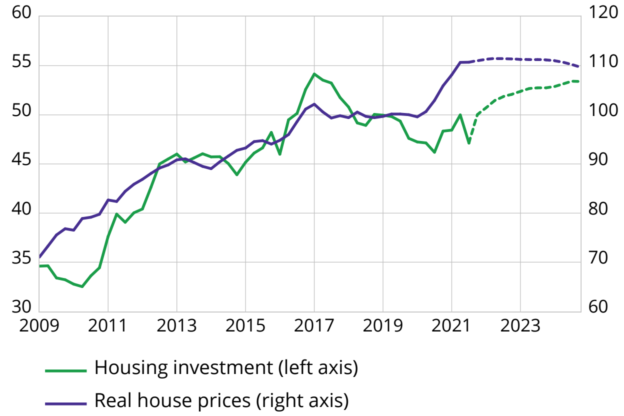
4. Slowing house price inflation

Price inflation in the housing market has been very high through the COVID crisis. Since the end of 2019, house prices have risen by over 15 per cent, measured by Statistics Norway's house price index. However, the strong rise in prices has been abating through 2021. Prices in Q3 this year were 10.5 per cent higher than in Q3 last year.

According to Real Estate Norway’s monthly statistics, the rise in house prices was 0.2 per cent in both September and October. A more moderate rise in house prices must be viewed in light of the interest rate increase in September, prospects of further interest rate increases, and that house prices have reached a high level.

Activity in the housing market, measured in terms of number of resale homes sold, has decelerated slightly since the summer after being unusually high through the second half of last year and the first half of 2021. The turnover time has nonetheless been lower since June than in the same period in the last four years, probably because there were relatively few resale homes on the market. This shortage has probably helped to maintain a positive movement in house prices. Moreover, many households are still staying at home for infection control reasons, which has contributed to increased demand for housing services during the pandemic. This may indicate that house prices will increase slightly in the period ahead. On the other hand, sales of new homes have been falling in recent months, and in October were at a historically low level, according to the Norwegian Homebuilders’ Association. The Homebuilders’ Association reports that sales of new homes and housing starts as low as in 2021 Q3 have never been recorded. This sluggish activity may be partly attributable to expectations of future interest rate hikes and general uncertainty concerning the economic situation. The most recent surveys of Finance Norway and

Figure 9. Housing market
Seasonally adjusted. Left axis: billion 2019 NOK, quarter
Right axis: index, 2019 = 100



Source: Statistics Norway

Kantar TNS reveal subdued household optimism regarding their own financial situation.

According to the quarterly national accounts, housing investment fell by 5.7 per cent in Q3. In the period ahead we foresee that high house prices will lead to increased residential construction and higher investment. Growth will nonetheless probably be moderate and constrained by higher costs for materials. According to our projections, housing investment will rise by over 3.5 per cent this year, and by around 6 per cent next year. Growth will slow subsequently, partly in response to higher interest rates, and we anticipate growth of 1–2 per cent towards the end of the projection period.

House price movements going forward are shrouded in uncertainty. In our KVARTS macroeconomic model, there is a reciprocal effect between house prices and the supply of dwellings. Higher housing investment means higher growth in the supply of dwellings which, in isolation, will mean lower house prices in the years ahead. On the other hand, and despite the fact that Norges Bank has started gradually raising the key rate, interest rates will remain at a historically low level in the near term. Low interest rates coupled with prospects of income growth will continue to stimulate borrowing. The model also contains a reciprocal relationship between house prices and household borrowing. Our projections indicate that annual debt growth will be in the range 4–5 per cent throughout the projection period.

Increased residential construction, higher interest rates and low population growth exert downward pressure on the rise in house prices. On balance we estimate a rise of 10.4 per cent this year. For the years ahead we assume a gradually slowing rise in house prices, from 4 per cent in 2022 to around 1.5 per cent in the years 2023 and 2024.

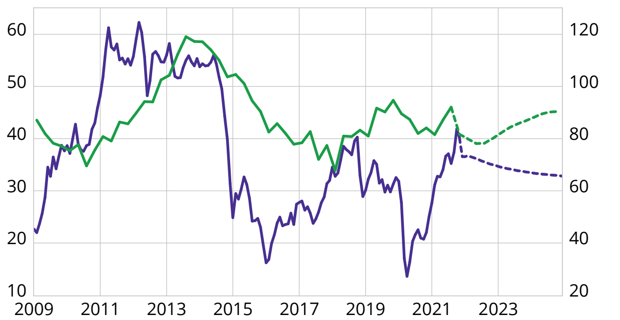
5. Growth in petroleum investment in 2023 and 2024

According to new national accounts figures, growth in petroleum investment in 2019 has been revised up from 12.6 per cent to 14.3 per cent. The strong growth was followed by a fall of 4.1 per cent in 2020. Last year's fall was eased by the Storting's adoption of temporary tax rules for the petroleum industry. Following a further fall in Q1 this year, investment has again picked up somewhat.

Statistics Norway surveys the petroleum companies' investment plans through the quarterly survey of intended investment in oil and gas, manufacturing, mining and power supply (KIS). In the last survey, conducted in November, investment this year is projected to be NOK 181.5 billion in current value. This is a marginal upward revision compared with the previous survey, and at about the same level as corresponding projections for 2020 published in November last year. There is appreciably less field development activity this year compared with last year. This is counterbalanced by growth in all the other investment areas, particularly in exploration and fields in operation. Exploration activity has picked up again this year after slumping last year as a consequence of very low oil prices attributable to the pandemic. Investment activity in fields in operation this year has been largely driven up by high oil and gas prices and favourable tax rules.

If the projection from the last investment intentions survey for 2021 is to be realised, nominal investment will have to increase by 14.4 per cent from Q3 to Q4. Although investment tends to be highest in the last quarter of the year, growth is seldom as strong as that. For the past 21 years, the projection for the year published in Q4 of the investment year has been 2.3 per cent higher on average than the final investments, and in only two of these years has the projection for the year published in Q4 been lower than the final investments. This gives reason to believe that some of the investment planned for Q4 will be postponed until next year, but that the postponements will

Figure 10. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2019 NOK, quarter
Right axis: USD per barrel



Source: Statistics Norway

be somewhat less than the historical average. We therefore forecast that nominal investment this year will be about 1 per cent lower than in 2020. With an assumed rise in prices for capital goods of around 1 per cent, real investment will fall by about 2 per cent this year, which is in line with our projections in the last economic report.

The nominal projection for 2022 in the last investment intentions survey is approximately NOK 154.4 billion. This is about 9 per cent higher than the projection in the last survey, but is nonetheless 7.2 per cent lower than the projection for 2021 published at the same time last year. The increase compared with the last survey is mainly due to substantial cost overruns being reported for several development projects. In addition, plans for development and operation (PDOs) have been submitted for the Frosk and Tommeliten Alpha projects.

The temporary tax rules appear likely to prompt and accelerate a very large number of development projects in 2022. However, since decisions to develop most of these are only expected for Q4 next year, we assume that substantial investment in them will not accrue in 2022, particularly in view of the fact that there tends to be lowest investment in projects in the first development year. Since the last economic report, some of the projects for which it was planned submitting PDOs next year have also been postponed. 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 changes or expansions in the PDOs. This, coupled with high product prices, will probably lead to somewhat higher investment in fields in operation than appear in the survey's projections for 2022. Given these assumptions, we forecast an 8 per cent decline in the volume of petroleum investment in 2022, which is the same as in the previous report.

The large numbers of PDOs expected to be submitted in 2022 are likely to generate very high investment in field development in 2023 and 2024. The reason for this is that investment in development projects is usually highest in the second or third year of developments, depending a little on the scope of the project. As in our previous report, we forecast a 10 per cent increase in volume in 2023. Lower investment costs in 2023 as a consequence of postponed development projects is counteracted by higher investment in ongoing developments than forecast in the last report. We have revised up growth in 2024 from 5 to 6 per cent. Although some projects have not come into being, the higher costs of some ongoing developments and increased scope of investment for some of the other upcoming projects prompts us to raise our projection for investment in 2024. This would make investment in 2024 marginally higher than in 2019.

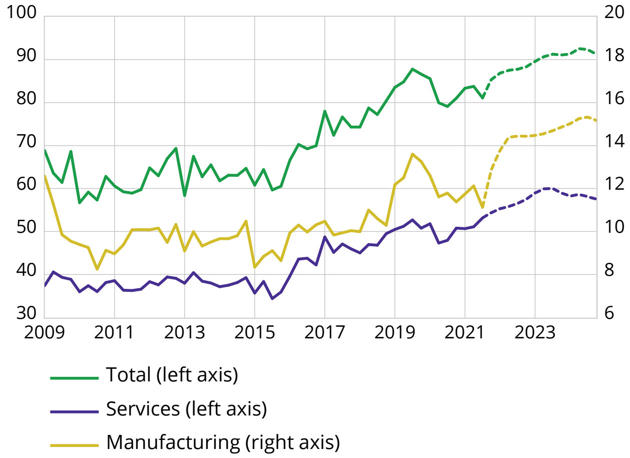
In the first three quarters of 2021, oil and gas extraction was on the same level as in the same period last year. Liquid production increased by 0.6 per cent, while gas production in the first three quarters of the year was 0.6 per cent lower than in the same period in 2020. If the Petroleum Directorate's Q4 forecast proves accurate, oil and gas extraction will increase by 1.3 per cent this year. Extraction is expected to grow by about 5 per cent in both 2022 and 2023. The Petroleum Directorate also expects petroleum production to increase by about 1 per cent and peak in 2024 before gradually falling back in the second half of the decade. The production level in 2030 is expected to be 14 per cent lower than in 2024.

6. Marked growth in business investment next year

According to national accounts figures, seasonally adjusted business investment fell by 3.2 per cent in 2021 Q3 following three quarters of growth. The level of business investment in Q3 was higher than in the same period in 2020. Third quarter developments reveal a dividing line between industries, with manufacturing and mining and other goods production on the one side and service industries on the other. Investment in manufacturing and mining fell by 8.2 and in other goods production by 19.1 per cent. As a result of the sharp Q3 fall for these industries, the investment level is lower than in the same quarter last year. The two industry groups combined account for almost 40 per cent of business investment. Investment in extraction-related services and other services increased by 10.3 and 4 per cent, respectively, in 2021 Q3. The investment level in both industries is higher than in the same quarter last year.

Figure 11. Investments Mainland Norway

Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

Statistics Norway surveys businesses' investment intentions for the current and coming year in manufacturing, mining and power supply. The most recent publication in November shows that projected manufacturing investment in the current year is 2 per cent lower than shown by the survey in the previous quarter, and indicates a 2 per cent decline in manufacturing investment compared with last year. Developments vary widely across the different manufacturing segments. There are substantial downward revisions for machinery and equipment and for rubber, plastic and mineral products, while non-ferrous metals and computer and electrical equipment are contributing to keep, the assumed investment level high. Forecast manufacturing investment for 2022 increases by 36 per cent compared with the corresponding projection for 2021 published in November last year. Annual growth from 2021 to 2022 shows promise of being strong. The increase is broad-based, with basic metals accounting for over half the increase. Growth in non-ferrous metals is particularly strong, implying more than a doubling of the investment level, and accounts for well over half of the increase in investment in basic metals.

The expected fall in investment in power supply continues because of the completion of several windpower developments. Businesses report that planned and actual investment this year will be 18 per cent lower than last year. The negative tendency is forecast to continue in 2022 with a fall of 24 per cent.

Norges Bank published its Regional Network Report in September. In the report, Norges Bank asks enterprises how much they plan to invest in the next twelve months. Service enterprises expect higher investment growth than previously. The upward revision of growth expectations is the fourth in a row, and expected investment growth has not been higher since 2018 Q2. Expected growth in investment in wholesale and retail trade has fallen for the last two quarters, but is still positive.

In the years ahead, investment may be significantly affected by a climate-related transition to renewable energy. On balance, such a transition will result in increased investment in mainland activities. Several battery factories and hydrogen plants are already in the start-up and planning phase, and some companies have launched pilot facilities. If the companies have success with the technological innovation and the plans for full-scale production are realised, it will result in investment for tens of billions of kroner.

On the basis of the above considerations, we forecast growth in business investment of 1.5 per cent for the current year. The projection entails a minor downward revision compared with our previous report, and can be attributed to negative developments in manufacturing and mining and in other goods production in Q3 this year. For 2022 we project growth in business investment of 6.1 per cent, driven by increased demand from our trading partners, particularly high investment in manufacturing and positive prospects for services. As economic activity reverts to normal, both in Norway and among our trading partners, growth in business investment is expected to fall to around 2.5 per cent at the end of the projection period.

7. Large current account surplus

The volume of traditional goods exports grew minimally in Q3 this year following a second quarter reduction, according to seasonally adjusted national accounts figures. Exports of fish and fish products and of metals grew most, while exports of refined petroleum products, engineering products and electric power declined most. Exports of oil and gas increased substantially in Q3, and more than in Q2. Whereas oil exports increased sharply in Q2, this was true of gas exports in Q3. Exports of services also increased considerably in Q3 following a decline in Q1 and Q2, repeating the pattern from 2020. Exports of services have been more negatively impacted by the pandemic than goods exports. In Q3, when society had largely reopened, the largest contributions to growth came from foreigners' consumption in Norway, petroleum-related services and shipping.

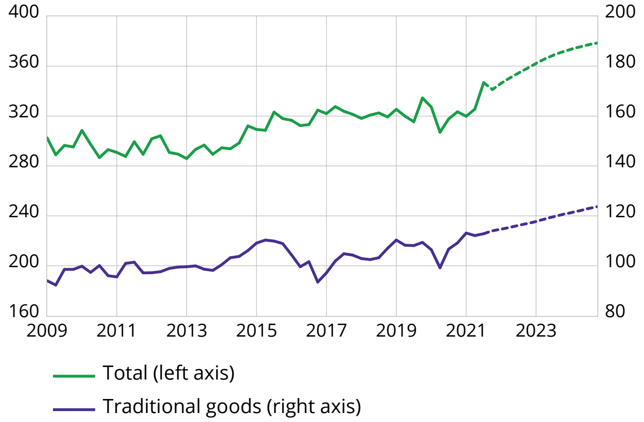
There has been a strong rise in export prices so far this year. Some of the extra high rise in export prices in NOK in Q3 this year can be attributed to a quarterly weakening of the krone, but most is due to a particularly high rise in prices on the global market for important Norwegian export products such as gas, oil, electricity, fish and metals. The enormous rise in gas prices this year has caused the value of gas exports to double from Q1 to Q3 this year, thereby moving from 2/3 to 4/3 of the value of oil exports in the same quarters. The rise in oil and gas prices accounted for over half of the increase in the value of total exports from Q2 to Q3.

Imports of both goods and services rose in Q3 this year. Three fighter aircraft and engineering products contributed most to the growth in goods imports, but Norwegians' consumption abroad accounted for a good half of the high and otherwise broad-based growth in service imports. The depreciation of the krone contributed to high third quarter prices for imports of goods, with far the highest rise in prices for refined petroleum products and Norwegians' consumption abroad. Import prices for other services showed a fairly broad-based decline in prices, despite the third quarter depreciation of the krone.

Developments in foreign trade going forward will continue to depend on the COVID situation among our trading partners. This makes our projections

Figure 12. Exports

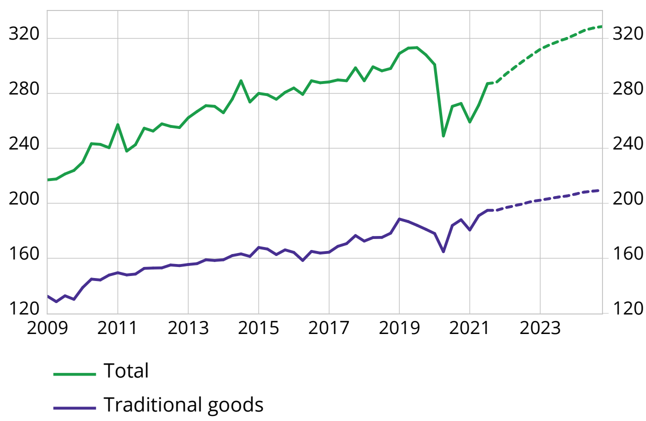
Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

Figure 13. Imports

Seasonally adjusted, billion 2019 NOK, quarter



Source: Statistics Norway

more uncertain than usual. In 2022, mainland goods exports are expected to grow less than this year. We have assumed that service exports will continue to increase towards the pre-pandemic level, which may result in very high, but declining annual growth from next year. Exports of oil and gas are expected to increase less this year and in the coming three years than in 2020, as the large Johan Sverdrup field has come onstream.

Higher growth of exports than imports coupled with a large terms of trade gain, and higher oil and gas prices than we previously envisaged will result in a very large trade surplus this year and next, compared with a deficit last year. We do not believe these favourable trading conditions will persist, so the trade surplus is expected to decline somewhat in the last two years of the projection period. A growing oil fund and a krone that is expected to remain weak will result in large income and current transfers surpluses through the projection period. We therefore forecast that the current account balance, which is the sum of the trade balance and the balance of income and current transfers, measured as a share of GDP, will reach 12 per cent this year and be slightly higher next year before falling back to 11 per cent in 2024.

8. The upturn in output continues

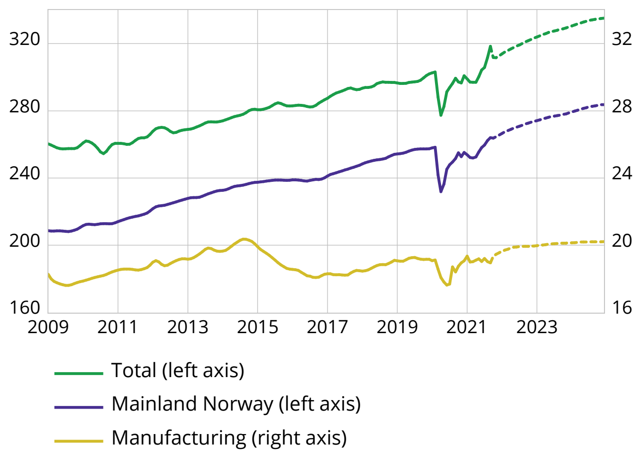
In June, mainland GDP was higher than the level in February 2020, the last month before the pandemic reached Norway in full force. The most recent national accounts figures show that the rebound of the Norwegian economy continued strongly in Q3 and that activity increased in each of the three months of the quarter. Overall, mainland GDP growth was 2.6 per cent in Q3. The growth was largely attributable to a rebound in several hard hit service industries. Some temporary factors, such as increased mackerel fishing, also boosted the upturn, while a fall in electricity production reduced growth.

Although third quarter mainland GDP was higher than prior to the pandemic, the activity level was a little lower than what we regard as the trend level for the economy (see Figure 1). This is because there was lower output from several industries compared with pre-pandemic output. Service industries such as accommodation and food services, transport and cultural services have been hard hit since March 2020. Despite a further upswing through Q3 this year, activity in these industries remained lower than normal in September.

There is still great uncertainty associated with future economic developments. The pandemic persists in Norway and abroad, and the new infection control measures are likely to restrict activities in the near term. Although there is great uncertainty surrounding the new omicron variant of the coronavirus, we expect the economic upturn to continue.

The low domestic consumption contributed strongly to inhibiting activity through 2020 and into 2021. However, the easing of infection control measures has lifted consumption since April this year. Increased normalisation will boost domestic consumption further and contribute to pushing up activity this year and for the remainder of the projection period.

Figure 14. Gross domestic product
Seasonally adjusted, billion 2019 NOK, month



Source: Statistics Norway

The continuing upturn is expected to be particularly pronounced in the areas that were hardest hit by the infection control measures. This applies in particular to those service industries that have experienced a steep fall in production through the pandemic, but we expect an upturn in other areas, too. 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 in pace with increased housing investment. General government activity is also expected to remain buoyant.

Developments here at home will depend on developments abroad. The international rebound has been strong and the vaccination rate among our closest trading partners is high. However, the spread of infection has escalated recently, which may dampen economic growth going forward. We have assumed that this most recent wave of infection will impact the economy less than previously, and that the rebound will continue. . Manufacturing will benefit from continued growth abroad and a weak krone exchange rate.

The upturn in the Norwegian economy is therefore expected to continue, but this presupposes that infection is kept under control and that the vaccines prove effective against any new virus mutations. New restrictions could again rein in the economic recovery, both in Norway and in many other countries. We forecast that mainland GDP will increase by 4.1 per cent this year. This upturn is somewhat stronger than forecast in our previous economic report, and is attributable to stronger developments in activity through Q3. Growth in the mainland economy is expected to continue at the same pace next year, before slowing for the remainder of the projection period. Given this scenario, activity in the Norwegian economy is expected to remain almost cyclically neutral in the years ahead.

9. Unemployment back to a normal level

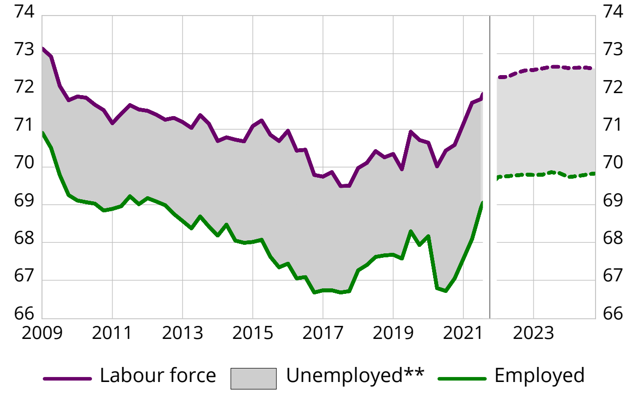
After having been at a high level since the outbreak of COVID-19, unemployment fell in Q3 to a level close to the average for the past 10 years. According to the Labour Force Survey (LFS), unemployment in 2021 Q3 was 4.2 per cent, a decline from around 5 per cent in the preceding two quarters. Unemployment adjusted for breaks and seasonal variation was 4.0 per cent compared with 3.7 per cent in 2019 Q3 and a historical average of 3.9 per cent for the decade prior to the pandemic. It is necessary to adjust for breaks when comparing with previous years because a restructured LFS came into effect in 2021 Q1, with changes in questionnaire, panel sampling plan, target population and estimation method.[1] Adjusted unemployment fell further in September to 3.6 per cent. See Box 2 for an explanation of how we take into account the restructuring of the LFS in our projections.

Employment rose by 1.4 per cent, while the labour force edged up 0.4 per cent from 2021 Q2 to Q3. The rise in employment was particularly strong in the age group 15–24 years, with an increase of 5.2 per cent on the same quarter the previous year. Growth in the service industries, coupled with a 30% fall in the number of jobs carried out by non-resident wage-earners (workers resident outside Norway) may have opened up job opportunities for younger workers. In 2019 Q3, 3.7 per cent of all jobs were occupied by non-residents, while in the corresponding quarter in 2021 this figure had fallen to 2.5 per cent. The labour force has increased during the year reaching a new historically high level, with growth of 1.4 per cent from 2019 Q3. The break- and seasonally adjusted participation rate was 71.4 per cent, which is close to the highest observed since 2012.

[1] When calculating the seasonal pattern, figures from the COVID-19 crisis (from March 2020) are excluded from the seasonal adjustment process. Break adjustment is carried out using preliminary break estimates. Quarterly figures are calculated as the seasonally adjusted 3-month average for the middle month of the quarter.

Figure 15. Labour market status

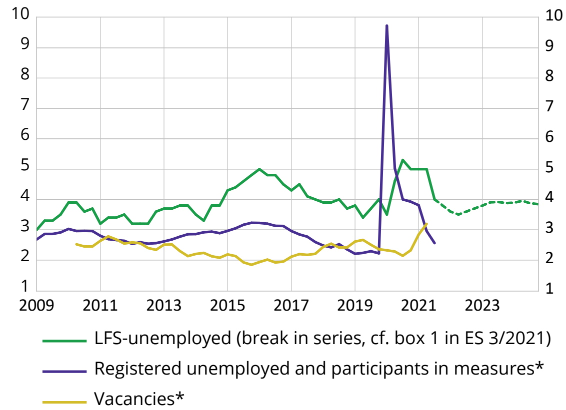
Percent of population in working age, LFS*



* Break in LFS data series from 1. quarter 2021, cf. box 2
** Unemployment is measured as share of population in working age
Source: Statistics Norway

Figure 16. 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

The number of vacancies has been rising as the economy has opened up. In 2021 Q3 the number of vacancies was 56 per cent higher than in the same quarter of 2020, and 40 per cent higher than in 2019.

The unemployment statistics of the Norwegian Labour and Welfare Organisation (NAV) confirm the impression that unemployment has reverted to a more normal level. Registered unemployment has fallen steadily through the year, and in October was 2.2 per cent of the labour force. By way of comparison, unemployment in October averaged 2.6 per cent in the period 2010–2019. The number of long-term unemployed, i.e. those who have been unemployed for more than 26 weeks, has fallen somewhat, and in October was at the lowest level so far this year, at 24 800 persons. They

Box 2. Restructuring of the LFS results in breaks in some variables

The Labour Force Survey was restructured with effect from January 2021.[1] A new questionnaire is being used. The target population has also been changed to private households. This means amongst other things that persons on initial military service are not a part of the sample. A number of other changes have also been made.

The old questionnaire was last used to interview the LFS sample in 2020 Q4. That same quarter, a small sample of people were interviewed using the new questionnaire. On the basis of a comparison of the responses on the old and the new questionnaires, Statistics Norway indicated in April this year that the restructuring appears to yield minor changes in the unemployed figure and that the change for employed persons appeared to be somewhat larger.[2]

Through 2021, Statistics Norway has updated the estimated effect of the break resulting from the restructuring on numbers of unemployed and employed. Data from the 2020 Q4 survey using both old and new questionnaires were used to calculate the break. In addition, LFS time series around the time of the break have been compared with other time series that have covaried strongly with the LFS series, and which are not assumed to have had a break at the same time as the LFS series.[3] On the basis of these estimates, Statistics Norway has published monthly break- and seasonally adjusted LFS figures, as 3-month moving averages. In these, the data series from January 2021 onwards are adjusted for the estimated breaks.

The most recent estimation of the breaks for LFS unemployed and employed was based on LFS surveys up to and including October.[4] In this connection Statistics Norway also published the estimated breaks. The preliminary estimate for the employment break is that the “new” LFS shows 22 000 more employed than the ”old” LFS, and that the new LFS shows 5 000 more unemployed than the old one. This means that the new LFS shows a labour force that is 27 000 higher than the labour force in the old survey. Statistics Norway has also published estimates of changes in the target population. According to surveys up to and including September, the target population has been reduced by 27 000.[5]

When the breaks in employment and unemployment are finally quantified, Statistics Norway will adjust the LFS figures prior to 2021. Taking the preliminary break estimates as the starting point for our projections, we have made projections for unemployment and occupation rate according to the LFS. The projections are made for the level we expect these variables to have after Statistics Norway has back-calculated the pre-2021 LFS figures. This can be illustrated by looking at unemployment measured by means of the LFS. Here the break is now estimated to be 5 000 persons. This means that the preliminary break-adjusted monthly LFS unemployment figures have been revised down by about 5 000 persons in every month so far in 2021. If this proves to be the final break estimate for the unemployed, the historical unemployed series will be revised up accordingly (adjusted for changes in the population). The monthly LFS figures for 2021 will not be revised downwards, and will thus be about 5 000 higher than those last published. Given a labour force of about 2 900 000, this means a break of about 0.2 percentage point in the unemployment rate. When we then estimate unemployment of 4.6 per cent in 2021, the estimate is based on the new LFS. In order to compare our projections from 2021 to 2024 with historical LFS figures for the unemployment rate, we have to revise down the projections by 0.2 percentage point.

For the participation rate, the restructuring of the LFS means that account has to be taken of the change in the target population, which is reduced by 27 000 persons. Given a population of about 4 000 000 aged 15-74 years, this alone will push up the employment rate by about 0.5 percentage point with the new LFS. In addition, the labour force in the new LFS is 27 000 more than the old LFS. This will push up the participation rate by a further 0.7 percentage point. Overall, the restructuring of the LFS thus means that the participation rate increases by about 1.2 percentage points. When we then estimate that the participation rate increases by 1.9 percentage points from 2020 to 2021, just over 1 percentage point of this increase can be explained by the restructuring of the LFS. For the employment rate, which is employment in relation to the LFS population as shown in Figure 15, the restructuring means an increase of about 1 percentage point.

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[1] See https://www.ssb.no/arbeid-og-lonn/artikler-og-publikasjoner/ny-aku [Thew LFS]

[2] See https://www.ssb.no/arbeid-og-lonn/artikler-og-publikasjoner/ny-aku-gir-brudd-i-tidsseriene [New LFS causes breaks in time series]

[3] See https://www.ssb.no/arbeid-og-lonn/artikler-og-publikasjoner/bruddberegninger-av-aku-omleggingen [Calculating breaks due to restructuring of the LFS]

[4] See See https://www.ssb.no/arbeid-og-lonn/sysselsetting/statistikk/arbeidskraftundersokinga-sesongjusterte-tal/artikler/auke-i-sysselsettinga-og-nedgang-i-arbeidsloysa [Increased employment and decline in unemployment]

[5] See See https://www.ssb.no/arbeid-og-lonn/sysselsetting/statistikk/arbeidskraftundersokelsen/artikler/beskrivelse-av-brudd-i-sentrale-variabler-i-aku [Description of breaks in key variables in the LFS]

nonetheless account for a large share, 39 per cent, of the unemployed.

Many furloughed workers are not included in the LFS unemployment figures.[2] According to NAV, 0.4 per cent of the labour force was furloughed in August 2021. This amounted to 11 500 persons, which is higher than the level before the outbreak of COVID-19, with for example 800 persons fully furloughed in August 2019. The number of unemployed furloughed fell to 7 400 in October. The extended furlough scheme comes to an end at the end of 2021.

Employment is now at the same level as before the COVID-19 outbreak. According to the national accounts, employment was 3.0 per cent higher in 2021 Q3 than in the same quarter the previous year, and 0.2 per cent higher than in 2019 Q3. The number of hours worked was 3.5 per cent higher than the previous year and 0.9 per cent lower than in 2019 Q3. The increase from 2020 Q3 to 2021 Q3 was particularly strong in industries that had been particularly hard hit by infection control measures. Hours worked in accommodation and food service activities increased by 10.7 per cent, in culture, entertainment and other services by 8.3 per cent and in administrative and support service activities by 6.9 per cent. The number of hours worked in accommodation and food service activities was still 13.7 per cent lower than in 2019 Q3, and in administrative and support service activities 12.5 per cent lower. However, hours worked in culture, entertainment and other services were at about the same level as prior to the outbreak of the pandemic, declining only 0.6 per cent compared with 2019 Q3.

We expect increased growth in both hours worked and employment in 2021 and 2022. We foresee that LFS unemployment will average 4.6 per cent in 2021 and then fall to 3.7 per cent in 2022 and remain at below 4 per cent in 2023 and 2024. This is a lower level of unemployment than expected in the previous economic report, and we now expect that unemployment will gradually fall to a level below the average observed during the past decade.

In our projections we take into account that the restructuring of the LFS will probably lead to a break of around 0.2 percentage point. The labour force is expected to increase in the period to 2024.

10. Unchanged real wages this year

Growth in average monthly basic earnings for 2021 Q3 was 3.2 per cent compared with the same quarter last year, an increase of 1.1 percentage point on the growth rate in 2021 Q2. Growth was driven by the private sector and public enterprises, where growth was 3.7 per cent, while growth in the central and local government sectors was more moderate. Wage growth in local government was nonetheless pronounced compared with the previous quarter, and was 2.1 per cent in 2021 Q3 compared with 0.3 per cent in 2021 Q2.

The growth rates for 2021 Q3 must be interpreted with some caution as they are calculated relative to 2020 Q3, when the level of average monthly basic earnings fell across all sectors compared with the previous quarter. This low starting point meant that growth in average monthly basic earnings in the private sector and public enterprises was high in 2021 Q3 even though the level of average monthly basic earnings fell from 2021 Q2 to Q3.

The wage level reduction in the private sector and public enterprises from 2021 Q2 to 2021 Q3 must be viewed bearing in mind that there were more jobs in accommodation and food service activities and personal services, two industries that have been hard hit by the pandemic and that have a lower than average wage level. Preliminary seasonally adjusted monthly figures for number of jobs for April to October 2021 show growth of 61.6 and 11.1 per cent, respectively, for these two industries. The fact that there are now more jobs in these industries contributes to pushing down wage growth, and therefore constitutes a reversal of the previously mentioned composition effects that pushed up wage growth in 2020.[3]

It is uncertain whether these composition effects have been fully reversed. Although the number of jobs is now at the highest level that has been observed in the monthly jobs statistics, the level is still below the trend before the pandemic impacted the Norwegian economy. Thus there may be scope

[2] In the new LFS, those laid off for a period of over 3 months who satisfy specific criteria with respect to seeking employment and availability are classified as unemployed, while the remainder are classified as outside the labour force. Persons laid off for less than 3 months are classified as employed, but temporarily absent, in line with international definitions.

[3] See discussion in Box 2 in Economic Survey 2020/3

for composition effects to push wage growth down further this year.

In 2021 Q3 the number of non-resident wage-earners (who commute to Norway to work) did not rise to the level observed before the pandemic, despite some easing of entry restrictions.[4] This may lead to labour shortages in some industries in the near term, with the result that employers in these industries may have to offer higher wages in order to meet their labour needs. That there are pressures in the labour market is reflected by the record numbers of vacancies in 2021 Q3.[5] Increased labour market pressures may push up wage growth in the current year.

We revise our projections for wage growth in 2021 to 3.3 per cent. The revision in relation to the previous economic report is based on steadily increasing labour market pressures which may push up wage growth in Q4, while there is also a possibility that further composition effects in the labour market may push fourth quarter wage growth down somewhat. Given an upwardly revised projection for the rise in the consumer price index (CPI) to 3.4 per cent, wage growth nonetheless appears likely to result in unchanged real wages this year. In the period up to 2024 our projections indicate stable nominal wage growth of slightly over 3 per cent, driven by gradually falling unemployment. Assuming CPI inflation of about 2 per cent in the same period, this translates into real annual wage growth of slightly more than 1 per cent in the years 2022–2024.

11. High electricity prices mean high CPI inflation this year and next

Higher energy prices, with particularly high prices for electricity, have contributed to a rise in overall inflation measured by the consumer price index (CPI) through 2021. The 12-month rise in the CPI admittedly dipped in October in response to lower electricity prices than in September, but these prices picked up again in November. Fuel prices have also increased, contributing to high overall CPI inflation, but at more moderate rates than the rise in electricity prices. Conversely, underlying Inflation, measured by the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE), continued to fall through 2021. The 12-month rise in October was reduced to 0.9 per cent, compared with annual inflation of 2.7 per cent at the beginning of the year. The difference between CPI and CPI-ATE inflation was thus 2.6 percentage points in October compared with only half a percentage point in January. The difference is now almost entirely due to the energy price component, while tax changes have little effect. The temporary low VAT rate on services was reversed with effect from October. In addition, all special treatment of prices for individual services in the statistics ceased with effect from September, so that these prices are now based on current observations. The difference between the CPI and the CPI-ATE was also large in 2020, but then with the opposite sign, as a consequence of a fall in electricity prices.

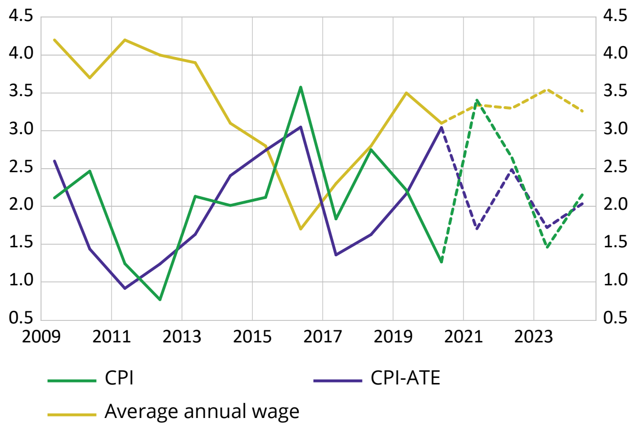
The low rise in the CPI-ATE is partly due to the krone appreciating. We now forecast that the import-weighted krone exchange rate will strengthen by just over 5 per cent this year compared with 2020. Despite a strong rise in food commodity prices according to the UN Food and Agriculture Organization (FAO), this has not yet fed through into the food product sub-index of the CPI. FAO's Food Price Index looks set to increase by close to 30 per cent from 2020 to 2021. Despite this, on the whole there have been small changes in consumer prices for various food products through 2021, and prices for imported food products have fallen. The rise in prices for a number of other typical import products has also been low. Higher commodity prices are expected to feed through into prices for consumer goods in the months ahead. High energy prices will also gradually push up prices for finished products and services, but how much they increase will depend on how long the energy prices remain high. The increase in prices is expected to be particularly pronounced from January 2022, as this is normally the time when major price adjustments take place.

Observed and imputed rents, which account for almost 20 per cent of consumption and the CPI, have increased a little through 2021. The annual rise in rents slowed through 2020 and up to summer this

[4] See the article: https://www.ssb.no/arbeid-og-lonn/sysselsetting/statistikk/antall-arbeidsforhold-og-lonn/artikler/na-er-det-hoyere-antall-jobber-enn-for-koronautbruddet [There are now more jobs than before the COVID-19 outbreak].

[5] See the article: https://www.ssb.no/arbeid-og-lonn/sysselsetting/statistikk/ledige-stillingar/artikler/rekordmange-ledige-stillingar-trass-i-noksa-hog-arbeidsloyse [Record number of vacancies despite fairly high unemployment].

Figure 17. Consumer price indices and annual wage
Change from previous year in percent



Source: Statistics Norway

year. Now rents are increasing somewhat more than before, pushing up CPI-ATE inflation towards the inflation target. Higher construction costs and nominal interest rates will help to maintain the rise in rents in the near term.

The situation in the power market indicates that spot prices will remain high this winter. Futures prices in late November/early December indicate that prices in 2022 Q1 will remain high. It is not until April/May that prices fall significantly. Electricity prices are expected to gradually normalise through 2022. The authorities are planning slightly lower electricity taxation in 2022, but the proposed tax reduction is modest compared with the changes in the electricity spot price. Even given normalisation of power prices through 2022, energy prices will contribute to the CPI rising faster than the CPI-ATE. The Norwegian Water Resources and Energy Directorate (NVE) has substantially increased the income limits of the grid companies next year, and this may raise grid charges excluding taxes by over 10 per cent on an annual basis. When the normalisation of power prices has fed through, CPI inflation will fall to below CPI-ATE inflation. That is estimated to take place from the second half of 2022 and will be particularly visible in our annual projections for 2023.

The projection for developments in the price of crude oil follows futures prices, which indicate that the nominal oil price will fall in the near term. The oil price is currently just over USD 70 per barrel, and in 2024 we forecast that it will be roughly USD 65 per barrel. This will tend to curb fuel prices in the near term, while increased taxes may have the opposite effect. We assume that the price of natural gas will follow the oil price downwards, easing the pressure on European energy markets to some extent. This may also lead to lower electricity prices in Norway.

We assume an unchanged krone exchange rate in the projection period, i.e. from late November/early December and through 2024. Movements in international prices for both commodities and finished goods will gradually feed through into the Norwegian economy. A key factor for inflationary developments in Norway will be the global rise in prices for commodities and finished goods in the period ahead. We assume that prices for food products will normalise in 2022 and not remain higher permanently. The last time we experienced a strong rise in food commodity prices was after the financial crisis of 2008–2009. The high price level then persisted in the period from 2011 to the price fall in early 2014. Prices were at a moderate level from 2015 to 2020, also in a historical context. We interpret the current situation as reflecting random weather events and consequences of the pandemic, and forecast that the high commodity prices will not persist after 2022. In the short term, however, it is reasonable to assume that the rise in import prices will remain high. This will lead to a higher rise in the CPI-ATE this winter, which will therefore remain a little higher than the inflation target for a period. The increased inflation among Norway's trading partners will lead to higher prices for finished goods and push up prices for imported goods. Since we expect these impulses to be temporary, inflation will gradually fall to more moderate levels of around 2 per cent from 2023.

It is difficult to forecast developments in domestic costs going forward. The pandemic has resulted in low productivity growth. Following the dismantling of most measures against the pandemic, we have seen rapid growth in both output and employment. We also expect a normalisation of productivity in the economy, and that growth in real wages will become positive, particularly when we reach 2023. Next year high electricity prices will contribute to weak growth in real wages, as has also been the case this year. Slightly stronger growth in real labour costs from 2023 will maintain inflation at a high level in 2023 and 2024, even when energy prices fall and the inflationary impulses in the global market abate.

Our projections thus imply overall CPI inflation in 2021 of 3.4 per cent. This is 0.1 percentage point higher than our September projection. The projection for CPI-ATE inflation this year has been revised down by 0.2 percentage point, to 1.7 per cent. The difference between these two inflation figures is 1.7 percentage points, with energy prices accounting for 2.2 percentage points and taxes subtracting half a percentage point. We have revised upward our projection for CPI inflation in 2022, to 2.6 per cent, compared with approximately 2 per cent previously. This is because of the substantial upward adjustment of electricity prices from the beginning of 2022. The projections for 2023 and 2024 are little changed, and the projections for both the CPI and the CPI-ATE for 2024 are roughly the same as the inflation target. We have assumed higher real tax rates on fuel, which in isolation will increase CPI inflation by 0.1 percentage point from 2023.

Table 4. National accounts: Final expenditure and gross domestic product. At constant 2019 prices. NOK million

	Unadjusted		Seasonally adjusted							
	2019	2020	19:4	20:1	20:2	20:3	20:4	21:1	21:2	21:3
Final consumption expenditure of households and NPISHs	1 579 081	1 475 350	396 469	381 962	344 024	373 825	377 842	364 218	374 768	397 306
Household final consumption expenditure	1 493 616	1 399 898	374 864	361 080	326 919	355 434	359 247	346 701	356 202	375 487
Goods	680 414	724 943	171 117	169 359	177 208	188 261	193 032	187 982	193 324	195 029
Services	740 248	663 908	186 990	177 619	150 546	166 364	168 409	160 278	163 852	177 999
Direct purchases abroad by resident households	124 824	27 918	30 367	25 566	684	3 811	2 119	1 473	1 427	7 137
Direct purchases by non-residents	-51 870	-16 871	-13 611	-11 464	-1 519	-3 002	-4 313	-3 032	-2 401	-4 678
Final consumption expenditure of NPISHs	85 465	75 452	21 606	20 882	17 105	18 391	18 595	17 517	18 565	21 819
Final consumption expenditure of general government	867 706	883 555	219 209	219 956	213 144	222 407	228 102	224 283	226 336	229 327
Final consumption expenditure of central government	424 011	437 404	107 587	108 585	105 028	110 861	113 038	109 399	110 477	112 591
Central government, civilian	373 600	384 686	94 841	95 668	91 964	97 589	99 570	95 990	96 980	99 109
Central government, defence	50 411	52 718	12 747	12 917	13 065	13 272	13 467	13 408	13 497	13 482
Final consumption expenditure of local government	443 695	446 151	111 621	111 371	108 116	111 546	115 065	114 884	115 859	116 735
Gross fixed capital formation	957 750	903 710	247 907	230 412	224 974	222 235	225 772	224 608	224 216	226 726
Extraction and transport via pipelines	178 797	171 482	47 335	44 753	43 678	40 965	42 055	40 760	43 586	46 004
Ocean transport	25 053	5 625	10 486	2 136	346	1 618	1 525	1 663	122	149
Mainland Norway	753 900	726 603	190 086	183 523	180 949	179 652	182 192	182 185	180 508	180 572
Industries	342 966	325 798	86 607	85 550	79 976	79 102	80 998	83 354	83 768	81 073
Service activities incidential to extraction	4 176	2 708	1 139	860	757	621	465	584	612	675
Other services	205 140	197 898	50 765	51 814	47 334	47 941	50 785	50 667	51 104	53 155
Manufacturing and mining	51 582	47 435	13 256	12 603	11 617	11 786	11 383	11 748	12 123	11 128
Production of other goods	82 068	77 757	21 447	20 272	20 268	18 753	18 365	20 356	19 929	16 116
Dwellings (households)	196 764	188 904	47 604	47 239	47 140	46 177	48 337	48 443	49 984	47 114
General government	214 170	211 901	55 876	50 734	53 834	54 373	52 857	50 388	46 757	52 384
Acquisitions less disposals of valuables	405	158	106	86	9	40	24	1	42	104
Changes in stocks and statistical discrepancies	105 738	90 245	10 769	34 026	10 984	23 962	12 126	19 339	21 986	22 636
Gross capital formation	1 063 893	994 113	258 876	264 523	235 967	246 237	237 922	243 947	246 244	249 465
Final domestic use of goods and services	3 510 680	3 353 017	874 566	866 441	793 135	842 468	843 866	832 448	847 347	876 098
Final demand from Mainland Norway	3 200 687	3 085 508	805 764	785 442	738 118	775 883	788 136	770 686	781 612	807 205
Final demand from general government	1 081 876	1 095 456	275 084	270 691	266 978	276 780	280 959	274 671	273 093	281 711
Total exports	1 292 230	1 276 402	334 554	327 183	307 044	317 714	323 348	319 749	325 606	346 811
Traditional goods	433 623	422 840	109 349	106 414	99 205	106 682	109 120	113 062	112 078	112 847
Crude oil and natural gas	463 255	518 501	127 600	123 258	130 275	129 896	131 817	126 012	132 499	140 632
Ships, oil platforms and planes	12 405	8 333	2 017	3 333	1 690	2 183	1 126	1 879	3 038	7 593
Services	382 947	326 728	95 588	94 179	75 874	78 953	81 285	78 796	77 991	85 738
Total use of goods and services	4 802 910	4 629 419	1 209 099	1 193 625	1 100 179	1 160 182	1 167 215	1 152 197	1 172 953	1 222 909
Total imports	1 239 426	1 091 492	308 015	300 830	248 987	270 577	272 616	259 134	271 402	287 015
Traditional goods	736 304	717 639	180 979	177 994	164 708	183 810	187 962	180 513	190 906	194 918
Crude oil and natural gas	24 378	22 214	7 082	6 967	5 021	4 722	5 492	4 493	8 131	2 902
Ships, oil platforms and planes	35 787	32 766	7 029	9 985	8 865	8 581	5 335	6 109	5 615	10 374
Services	442 957	318 872	112 925	105 884	70 393	73 463	73 826	68 019	66 750	78 821
Gross domestic product (market prices)	3 563 484	3 537 927	904 325	892 794	851 193	889 605	894 599	893 063	901 551	935 894
Gross domestic product Mainland Norway (market prices)	3 062 974	2 992 002	771 876	758 061	713 459	748 931	762 973	757 936	766 105	786 000
Petroleum activities and ocean transport	500 510	545 925	132 449	134 733	137 734	140 674	131 626	135 127	135 446	149 894
Mainland Norway (basic prices)	2 664 333	2 601 672	671 789	661 420	620 554	649 990	662 292	659 299	665 379	682 345
Mainland Norway excluding general government	1 989 104	1 929 791	501 824	493 045	459 111	480 387	489 805	488 688	492 776	505 900
Manufacturing and mining	226 565	220 897	57 553	56 794	53 516	54 799	56 765	57 380	57 334	57 176
Production of other goods	359 304	361 249	89 631	89 600	88 264	90 308	91 479	92 600	92 718	93 651
Services incl. dwellings (households)	1 403 235	1 347 645	354 641	346 650	317 331	335 280	341 560	338 708	342 723	355 074
General government	675 229	671 881	169 965	168 376	161 443	169 603	172 487	170 611	172 603	176 445
Taxes and subsidies products	398 641	390 330	100 087	96 641	92 905	98 942	100 681	98 637	100 726	103 655

Source: Statistics Norway.

Table 5. National accounts: Final expenditure and gross domestic product. At constant 2019 prices. Percentage change from previous period

	Unadjusted		Seasonally adjusted							
	2019	2020	19:4	20:1	20:2	20:3	20:4	21:1	21:2	21:3
Final consumption expenditure of households and NPISHs	1.1	-6.6	-0.4	-3.7	-9.9	8.7	1.1	-3.6	2.9	6.0
Household final consumption expenditure	1.1	-6.3	-0.5	-3.7	-9.5	8.7	1.1	-3.5	2.7	5.4
Goods	0.2	6.5	-0.4	-1.0	4.6	6.2	2.5	-2.6	2.8	0.9
Services	2.6	-10.3	0.5	-5.0	-15.2	10.5	1.2	-4.8	2.2	8.6
Direct purchases abroad by resident households	-1.2	-77.6	-4.0	-15.8	-97.3	457.4	-44.4	-30.5	-3.1	400.0
Direct purchases by non-residents	5.0	-67.5	5.4	-15.8	-86.8	97.6	43.7	-29.7	-20.8	94.8
Final consumption expenditure of NPISHs	1.6	-11.7	0.3	-3.3	-18.1	7.5	1.1	-5.8	6.0	17.5
Final consumption expenditure of general government	1.3	1.8	0.9	0.3	-3.1	4.3	2.6	-1.7	0.9	1.3
Final consumption expenditure of central government	1.7	3.2	1.3	0.9	-3.3	5.6	2.0	-3.2	1.0	1.9
Central government, civilian	1.5	3.0	1.3	0.9	-3.9	6.1	2.0	-3.6	1.0	2.2
Central government, defence	2.9	4.6	0.7	1.3	1.1	1.6	1.5	-0.4	0.7	-0.1
Final consumption expenditure of local government	0.9	0.6	0.5	-0.2	-2.9	3.2	3.2	-0.2	0.8	0.8
Gross fixed capital formation	9.5	-5.6	1.8	-7.1	-2.4	-1.2	1.6	-0.5	-0.2	1.1
Extraction and transport via pipelines	14.3	-4.1	4.9	-5.5	-2.4	-6.2	2.7	-3.1	6.9	5.5
Ocean transport	184.4	-77.5	47.3	-79.6	-83.8	367.4	-5.8	9.0	-92.6	22.0
Mainland Norway	6.3	-3.6	-0.7	-3.5	-1.4	-0.7	1.4	0.0	-0.9	0.0
Industries	10.3	-5.0	-1.3	-1.2	-6.5	-1.1	2.4	2.9	0.5	-3.2
Service activities incidential to extraction	48.4	-35.1	3.4	-24.5	-12.1	-17.9	-25.1	25.5	4.8	10.3
Other services	8.9	-3.5	-3.6	2.1	-8.6	1.3	5.9	-0.2	0.9	4.0
Manufacturing and mining	23.0	-8.0	-2.5	-4.9	-7.8	1.5	-3.4	3.2	3.2	-8.2
Production of other goods	5.6	-5.3	5.1	-5.5	0.0	-7.5	-2.1	10.8	-2.1	-19.1
Dwellings (households)	-1.1	-4.0	-3.6	-0.8	-0.2	-2.0	4.7	0.2	3.2	-5.7
General government	7.5	-1.1	3.1	-9.2	6.1	1.0	-2.8	-4.7	-7.2	12.0
Acquisitions less disposals of valuables	-10.6	-61.0	2.7	-19.1	-90.0	374.5	-41.6	-96.2	..	150.4
Changes in stocks and statistical discrepancies	-26.2	-14.7	-65.7	216.0	-67.7	118.1	-49.4	59.5	13.7	3.0
Gross capital formation	4.3	-6.6	-5.9	2.2	-10.8	4.4	-3.4	2.5	0.9	1.3
Final domestic use of goods and services	2.1	-4.5	-1.8	-0.9	-8.5	6.2	0.2	-1.4	1.8	3.4
Final demand from Mainland Norway	2.3	-3.6	-0.1	-2.5	-6.0	5.1	1.6	-2.2	1.4	3.3
Final demand from general government	2.4	1.3	1.3	-1.6	-1.4	3.7	1.5	-2.2	-0.6	3.2
Total exports	1.1	-1.2	6.1	-2.2	-6.2	3.5	1.8	-1.1	1.8	6.5
Traditional goods	4.9	-2.5	1.2	-2.7	-6.8	7.5	2.3	3.6	-0.9	0.7
Crude oil and natural gas	-3.7	11.9	16.9	-3.4	5.7	-0.3	1.5	-4.4	5.1	6.1
Ships, oil platforms and planes	0.6	-32.8	-22.9	65.2	-49.3	29.1	-48.4	66.8	61.7	149.9
Services	4.5	-14.7	-0.1	-1.5	-19.4	4.1	3.0	-3.1	-1.0	9.9
Total use of goods and services	1.8	-3.6	0.3	-1.3	-7.8	5.5	0.6	-1.3	1.8	4.3
Total imports	5.1	-11.9	-1.7	-2.3	-17.2	8.7	0.8	-4.9	4.7	5.8
Traditional goods	5.6	-2.5	-1.6	-1.6	-7.5	11.6	2.3	-4.0	5.8	2.1
Crude oil and natural gas	2.6	-8.9	-2.6	-1.6	-27.9	-5.9	16.3	-18.2	81.0	-64.3
Ships, oil platforms and planes	-11.5	-8.4	-32.7	42.1	-11.2	-3.2	-37.8	14.5	-8.1	84.7
Services	6.0	-28.0	1.2	-6.2	-33.5	4.4	0.5	-7.9	-1.9	18.1
Gross domestic product (market prices)	0.7	-0.7	1.4	-1.3	-4.7	4.5	0.6	-0.2	1.0	3.8
[Gross domestic product Mainland Norway (market prices)	2.0	-2.3	0.0	-1.8	-5.9	5.0	1.9	-0.7	1.1	2.6
Petroleum activities and ocean transport	-5.3	9.1	10.2	1.7	2.2	2.1	-6.4	2.7	0.2	10.7
Mainland Norway (basic prices)	2.3	-2.4	0.0	-1.5	-6.2	4.7	1.9	-0.5	0.9	2.5
Mainland Norway excluding general government	2.8	-3.0	-0.2	-1.7	-6.9	4.6	2.0	-0.2	0.8	2.7
Manufacturing and mining	2.0	-2.5	-0.2	-1.3	-5.8	2.4	3.6	1.1	-0.1	-0.3
Production of other goods	0.8	0.5	-2.4	0.0	-1.5	2.3	1.3	1.2	0.1	1.0
Services incl. dwellings (households)	3.4	-4.0	0.3	-2.3	-8.5	5.7	1.9	-0.8	1.2	3.6
General government	1.0	-0.5	0.5	-0.9	-4.1	5.1	1.7	-1.1	1.2	2.2
Taxes and subsidies products	0.2	-2.1	0.1	-3.4	-3.9	6.5	1.8	-2.0	2.1	2.9

Source: Statistics Norway.

Table 6. National accounts: Final expenditure and gross domestic product. Price indices. 2019=100

	Unadjusted		Seasonally adjusted							
	2019	2020	19:4	20:1	20:2	20:3	20:4	21:1	21:2	21:3
Final consumption expenditure of households and NPISHs	100.0	101.7	100.9	101.2	101.2	101.9	102.0	103.3	103.6	104.7
Final consumption expenditure of general government	100.0	102.5	101.0	102.1	104.7	102.2	101.2	105.4	105.5	105.2
Gross fixed capital formation	100.0	103.1	100.8	101.6	103.9	103.2	103.8	104.5	106.4	108.3
Mainland Norway	100.0	102.5	100.5	101.1	103.1	102.8	102.8	104.2	106.3	108.7
Final domestic use of goods and services	100.0	102.6	101.9	101.8	102.1	102.2	103.7	103.9	105.8	107.6
Final demand from Mainland Norway	100.0	102.1	100.8	101.4	102.7	102.2	102.0	104.1	104.8	105.7
Total exports	100.0	86.2	97.5	92.0	80.1	85.8	86.8	101.7	110.8	132.3
Traditional goods	100.0	96.6	101.2	101.3	96.8	93.7	95.2	99.8	104.5	111.9
Total use of goods and services	100.0	98.0	100.7	99.1	96.0	97.7	99.0	103.3	107.2	114.6
Total imports	100.0	103.4	101.9	102.2	104.4	103.0	104.0	105.3	106.8	110.1
Traditional goods	100.0	104.2	101.6	102.2	105.8	104.5	104.2	105.8	107.3	111.8
Gross domestic product (market prices)	100.0	96.4	99.9	98.1	93.5	96.1	97.5	102.7	107.3	116.0
Gross domestic product Mainland Norway (market prices)	100.0	101.7	100.8	101.9	102.2	101.5	101.3	103.4	104.6	105.2

Source: Statistics Norway.

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

	Unadjusted		Seasonally adjusted							
	2019	2020	19:4	20:1	20:2	20:3	20:4	21:1	21:2	21:3
Final consumption expenditure of households and NPISHs	2.3	1.7	0.6	0.4	0.0	0.7	0.1	1.3	0.2	1.1
Final consumption expenditure of general government	3.7	2.5	0.2	1.0	2.5	-2.3	-1.0	4.1	0.1	-0.3
Gross fixed capital formation	2.9	3.1	0.6	0.8	2.3	-0.7	0.6	0.7	1.9	1.8
Mainland Norway	2.9	2.5	0.3	0.6	2.0	-0.3	0.0	1.4	2.0	2.2
Final domestic use of goods and services	2.7	2.6	1.8	-0.1	0.3	0.0	1.5	0.2	1.8	1.8
Final demand from Mainland Norway	2.8	2.1	0.4	0.6	1.2	-0.5	-0.2	2.1	0.6	0.9
Total exports	-5.3	-13.8	-1.0	-5.7	-13.0	7.2	1.2	17.2	8.9	19.4
Traditional goods	0.7	-3.4	2.0	0.1	-4.4	-3.2	1.5	4.8	4.7	7.1
Total use of goods and services	0.4	-2.0	1.0	-1.6	-3.2	1.8	1.4	4.3	3.8	7
Total imports	2.9	3.4	1.3	0.3	2.2	-1.4	1.0	1.2	1.4	3.2
Traditional goods	2.5	4.2	1.0	0.6	3.6	-1.2	-0.2	1.5	1.4	4.2
Gross domestic product (market prices)	-0.5	-3.6	0.5	-1.8	-4.6	2.7	1.5	5.4	4.5	8.1
Gross domestic product Mainland Norway (market prices)	2.3	1.7	0.5	1.0	0.3	-0.7	-0.2	2.0	1.2	0.6

Source: Statistics Norway.

Table 8. 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	1.1	-6.6	4.2	8.5	3.4	2.1
General government consumption	1.5	1.0	2.7	2.4	2.3	1.9	0.5	1.3	1.8	3.1	1.0	1.5	1.7
Gross fixed investment	7.5	6.3	-0.3	-4.0	3.9	2.6	2.2	9.5	-5.6	0.4	3.5	3.8	2.8
Extraction and transport via pipelines	14.6	19.0	-1.8	-12.2	-16.0	-5.4	0.7	14.3	-4.1	-2.0	-8.0	10.0	6.0
Mainland Norway	7.4	2.9	0.4	-0.2	9.0	6.8	1.5	6.3	-3.6	0.8	4.6	2.6	2.2
Industries	10.5	-3.2	-0.7	-2.8	12.6	9.2	3.1	10.3	-5.0	1.5	6.1	3.8	2.3
Housing	10.9	5.3	-1.4	3.2	6.6	7.3	-6.5	-1.1	-4.0	3.6	5.7	2.0	1.1
General government	-1.8	11.8	4.5	0.2	6.4	2.6	8.1	7.5	-1.1	-2.8	1.3	1.2	3.0
Demand from Mainland Norway[1]	3.7	2.3	1.9	2.0	3.1	3.1	1.3	2.3	-3.6	3.1	5.5	2.7	2.0
Exports	1.7	-1.8	3.4	4.3	1.1	1.7	-1.2	1.1	-1.2	4.3	5.9	4.3	2.4
Traditional goods	-0.2	1.3	3.1	6.9	-8.6	1.7	1.5	4.9	-2.5	7.1	2.3	3.0	2.7
Crude oil and natural gas	0.5	-5.5	2.7	2.1	4.9	5.1	-5.0	-3.7	11.9	2.5	4.5	5.3	1.5
Imports	2.9	5.0	2.0	1.9	2.7	1.9	1.4	5.1	-11.9	1.6	8.7	5.0	3.4
Traditional goods	2.2	1.8	1.9	2.8	-0.2	3.8	2.9	5.6	-2.5	6.5	4.0	2.7	2.3
Gross domestic product	2.7	1.0	2.0	2.0	1.1	2.3	1.1	0.7	-0.7	3.7	4.2	2.8	1.8
Mainland Norway	3.7	2.3	2.2	1.4	0.9	2.0	2.2	2.0	-2.3	4.1	4.1	2.4	1.9
Manufacturing	2.0	3.3	2.8	-4.6	-4.2	0.0	1.7	2.0	-2.5	3.7	4.4	0.8	0.6
Labour market													
Total hours worked. Mainland Norway	1.7	0.4	1.4	0.6	0.6	0.5	1.6	1.5	-2.1	1.4	2.3	0.2	1.2
Employed persons	2.1	1.1	1.0	0.4	0.3	1.1	1.6	1.6	-1.5	0.9	1.6	0.6	0.6
Labor force	1.5	1.2	0.7	1.5	0.2	-0.2	1.4	1.0	0.4	2.1	0.9	0.7	0.5
Participation rate (level)	71.4	71.2	70.7	71.0	70.4	69.7	70.2	70.5	70.4	72.0	72.4	72.6	72.7
Unemployment rate (level)	3.3	3.8	3.6	4.5	4.7	4.2	3.8	3.7	4.6	4.6	3.7	3.9	3.9
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	3.3	3.3	3.5	3.3
Consumer price index (CPI)	0.8	2.1	2.0	2.1	3.6	1.8	2.7	2.2	1.3	3.4	2.6	1.5	2.2
CPI-ATE[2]	1.2	1.6	2.4	2.7	3.0	1.4	1.6	2.2	3.0	1.7	2.5	1.7	2.0
Export prices. traditional goods	-1.9	2.7	3.4	2.0	4.0	5.2	6.2	0.7	-3.4	10.9	5.1	0.8	0.7
Import prices. traditional goods	0.3	1.4	4.3	4.6	1.7	3.5	4.6	2.5	4.2	4.2	2.5	0.9	1.5
Housing prices	6.8	4.0	2.7	6.1	7.0	5.0	1.4	2.5	3.9	10.4	4.0	1.4	1.5
Income. interest rates and excange rate													
Household real income	4.4	4.0	2.3	5.4	-1.6	2.0	1.0	2.1	2.1	2.1	2.9	2.9	1.9
Household saving ratio (level)	6.9	7.2	7.7	9.8	6.9	6.6	5.9	7.0	14.3	12.9	8.0	8.1	8.1
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	1.2	1.8	1.9
Lending rate. credit loans(level)[3]	3.9	4.0	3.9	3.2	2.6	2.6	2.7	3.0	2.6	2.1	2.5	3.1	3.5
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	-1.7	-0.6	1.0	0.5
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	-5.4	0.8	0.0	0.0
NOK per euro (level)	7.47	7.81	8.35	8.95	9.29	9.33	9.60	9.85	10.72	10.17	10.16	10.16	10.16
Current account													
Current balance (bill. NOK)[5]	374	317	341	250	138	180	283	102	67	497	590	571	506
Current account (per cent of GDP)	12.6	10.3	10.8	8.0	4.5	5.5	8.0	2.9	2.0	12.3	13.5	12.7	10.9
International indicators													
Exports markets indicator	1.0	1.8	4.8	5.4	3.8	5.6	4.1	3.1	-8.5	9.1	8.6	5.3	4.7
Consumer price index. euro-area	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6	3.2	2.0	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	-0.3	0.5	1.0
Crude oil price US dollar (level)[6]	112	109	100	53	45	55	72	64	43	70	72	68	66
Crude oil price NOK (level)[6]	650	639	627	431	379	452	583	564	407	608	644	613	596

[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 December 2021.