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Economic developments in Norway

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Economic developments in Norway

Interest rate hikes, stagnation of activity and slowing inflation characterised the Norwegian economy in 2023. It was also the year in which residential construction abruptly came to a virtual halt. The high labour market pressures eased somewhat through the year, and unemployment has now reached a level in line with the average for the 2010s. The key policy rate was raised by as much as 1.75 percentage points last year and is currently 4.5 per cent. Activity in the Norwegian economy is expected to pick up a little going forward, but growth through 2024 will still be slightly lower than

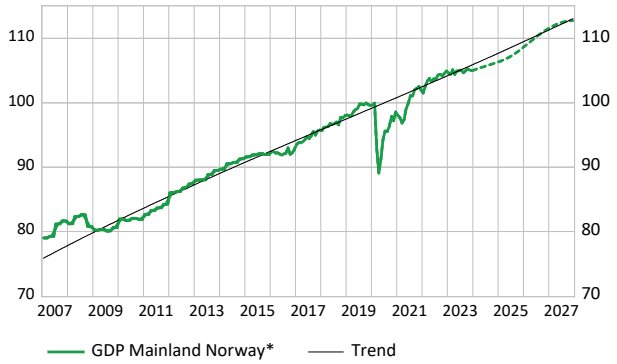
Table 1. Main macroeconomic aggregates. Accounts figures. Change from previous period. Per cent

	2022	2023	Seasonally adjusted			
			23:1	23:2	23:3	23:4
Demand and output						
Consumption in households etc.	6.2	-0.7	-4.8	0.7	-0.1	0.7
General government consumption	1.1	3.6	0.8	1.1	1.2	1.0
Gross fixed investment	5.2	0.3	-0.9	0.4	0.1	1.8
Extraction and transport via pipelines	-7.1	10.5	-2.0	6.7	7.7	7.8
Mainland Norway	7.6	-0.8	1.4	-0.6	-2.1	-0.8
Final domestic demand from Mainland Norway[1]	5.1	0.5	-1.8	0.5	-0.2	0.5
Exports	4.5	1.4	0.0	1.0	-1.3	3.3
Traditional goods	-2.5	6.1	1.7	2.6	-1.7	3.7
Crude oil and natural gas	1.3	-1.1	-1.0	0.5	-0.4	3.7
Imports	12.5	0.7	-2.5	2.5	-4.0	-0.7
Traditional goods	3.4	-3.7	-4.7	1.3	-3.9	-2.6
Gross domestic product	3.0	0.5	0.3	-0.3	-0.4	1.5
Mainland Norway	3.7	0.7	0.2	0.0	0.1	0.2
Labour market						
Total hours worked. Mainland Norway	3.9	0.8	0.4	0.1	0.2	0.4
Employed persons	3.9	1.3	0.4	0.0	0.1	0.1
Labour force[2]	1.4	1.3	0.7	0.5	0.5	-0.1
Unemployment rate. level[2]	3.2	3.6	3.7	3.4	3.6	3.7
Prices and wages						
Annual earnings	4.3	5.2	..	..	..	..
Consumer price index (CPI)[3]	5.8	5.5	1.2	1.6	0.3	1.3
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	3.9	6.2	1.6	1.7	1.1	1.2
Export prices. traditional goods	30.2	-0.4	0.8	-2.0	-3.5	2.1
Import prices. traditional goods	15.6	5.8	3.0	0.4	-2.0	4.4
Balance of payment						
Current balance. bill. NOK[4]	1 722	909	305	176	193	235
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	1.3	3.5	2.8	3.2	3.9	4.3
Lending rate. credit loans[5]	0.7	1.3	4.4	4.8	5.3	5.7
Crude oil price NOK[6]	951	867	840	832	897	897
Importweighted krone exchange rate. 44 countries. 1995=100	110.0	119.4	116.8	122.3	117.7	121.0
NOK per euro	10.10	11.42	10.99	11.66	11.40	11.66

[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 2021 = 100

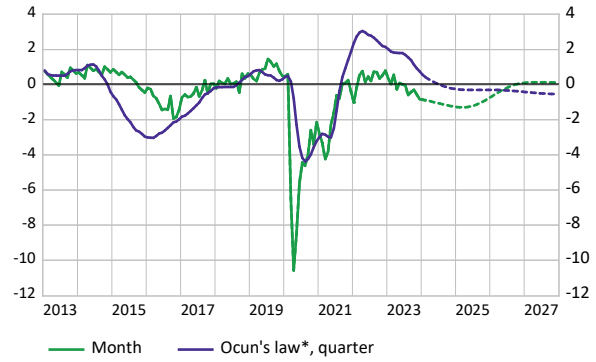


* Quarterly figures before 2016, monthly after. The trend is estimated by an HP-filter (lambda = 40 000 quarterly), but such that the trend is not directly affected by the developement of economic activity in 2020 and 2021.

Source: Statistics Norway

Figure 2. Output gap, Mainland Norway

Deviation form estimated trend GDP in percent, monthly and quarterly frequency

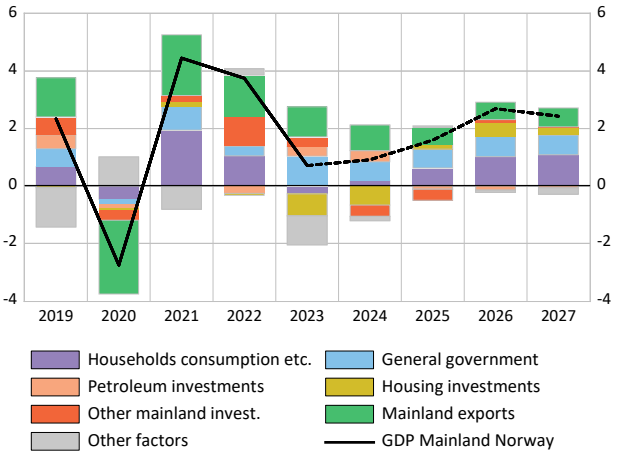


* The series «Okun's law» is based on a one-to-one correspondence between the rate of unemployment and the output gap, cf. box 2.1 i ES 4/2022. The rate of unemployment ris measured relative to the historical average 2010-2020.

Source: Statistics Norway

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 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.

the 1.6 per cent that we regard as trend mainland economic growth. Inflation is expected to move down towards 3 per cent by the beginning of 2025. This is far lower than the peak of 7.5 per cent in October 2022, but still well over Norges Bank's inflation target of 2 per cent. High interest rates, low growth among many of Norway's trading partners, and the fact that Ukrainians are increasingly registering in the labour market means that unemployment is likely to continue increasing slightly the next few years.

The krone is still weak in a historical perspective, although it has strengthened a little since the publication of our last economic report. The weak krone has made imported goods more expensive. In 2022, 1 euro cost NOK 10.10 on average. In 2023 the price of a euro rose to NOK 11.40, an increase of almost 13 per cent. In mid-March 2024, the price of a euro was NOK 11.40, down from over NOK 11.80 prior to the December interest rate hike. Exchange rate movements are shrouded in uncertainty. Research has shown an unchanged exchange rate to be a sound prognosis, and we assume that the rate will remain at its mid-March level in the years ahead.

Inflation is falling. Consumer price inflation in recent years has been high in a historical perspective, at a level not seen since the 1980s. Underlying inflation, measured as the rise in the CPI-ATE, was especially high in the first half of last year, peaking at 7.0 per cent in June. It then slowed gradually to 5.3 per cent in January 2024 before falling further to 4.9 per cent in February. CPI-ATE inflation is forecast to be 4.3 per cent from 2023 to 2024, significantly lower than last year's rate of 6.2 per cent. It is then expected to fall back gradually to 2 per cent in 2027. The depreciation of the krone through 2023 means that it will take a little longer for inflation to fall in Norway than among many of our trading partners. Energy prices as a whole will fall this year, bringing the expected rise in the consumer price index (CPI) to 4 per cent. Prices for energy products are expected to increase slightly less than the rise in the CPI-ATE in the years ahead, so that CPI inflation will be slightly lower than CPI-ATE inflation in the years 2025–2027.

The policy rate was raised from 0 per cent in September 2021 to 4.5 per cent in December 2023, a level not seen since 2008. The real interest rate,

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

	QNA				Projection			
	2020	2021	2022	2023	2024	2025	2026	2027
GDP Mainland Norway	-2.8	4.5	3.7	0.7	0.9	1.6	2.7	2.4
with contributions from:								
Consumption by households and non-profit organisations	0.0	2.6	0.5	-0.9	0.2	0.9	1.5	1.5
General government consumption and investment	-0.2	0.8	0.4	1.1	0.7	0.7	0.7	0.7
Petroleum investment	-0.1	0.0	-0.3	0.3	0.4	-0.1	-0.1	-0.1
Housing investment	-0.1	0.2	-0.1	-0.8	-0.7	0.2	0.5	0.3
Other mainland investment	-0.4	0.2	1.1	0.4	-0.4	-0.4	0.1	0.0
Exports from mainland Norway[1]	-3.4	2.8	1.9	1.4	1.2	0.7	0.8	0.9
Other factors etc.[1]	1.4	-2.1	0.2	-0.7	-0.3	-0.4	-0.8	-0.9

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

i.e. the interest rate adjusted for general price inflation, is still very low, however. Norges Bank sets the key policy rate primarily to stabilise inflation at around 2 per cent and to ensure financial stability. The central bank also takes into account that a higher interest rate affects activity in the Norwegian economy. Norges Bank has signalled that it will keep the policy rate at the current level for a good while to come. We expect the key rate to remain at 4.5 per cent for the second half of 2024 before being gradually reduced, but a little later than among our trading partners. The policy rate is expected to come down towards 3 per cent in 2027.

The National Budget 2024 (NB 24) forecast spending of petroleum revenue in 2024, measured as the structural, non-oil budget deficit, at NOK 409.8 billion. Projections in NB 24 show that the proposed fiscal policy will have an almost neutral effect on economic activity. In the settlement with the Socialist Left, allocations over the government budget were increased by roughly NOK 11 billion. The increase was financed with resources from the loss provision fund and through minor adjustments in taxes and other allocations. Going forward, we expect defence projects to entail extensive investment. Spending of petroleum revenue is nonetheless expected to remain well under the 3 per cent prescribed by the fiscal rule. The market value of the Government Pension Fund Global has increased from NOK 15 800 billion at the end of 2023 to NOK 17 000 billion krone in mid-March. We have assumed that use of petroleum revenue will be kept below the 3 per cent limit in the years ahead because of the uncertainty associated with share prices and exchange rates, coupled with a growing funding requirement in the slightly longer term.[1]

Household consumption, which accounts for around half of mainland GDP, fell slightly from 2022 to 2023 after growing by over 6 per cent in 2022. Developments from 2022 to 2023 reflected a normalising of the household spending pattern following the coronavirus (Covid-19) pandemic. The weak developments in consumption through 2023 were dominated by low growth in purchases of furniture, white goods and cars, which should be viewed bearing in mind the high purchases of these goods during the pandemic, coupled with the rise in both the cost of living and interest rates. According to our projections, overall consumption will slow to around 0.5 per cent in 2024. During the projection period, consumption growth will gradually pick up, to around 3.5 per cent in both 2026 and 2027. The upswing in overall consumption will be driven by increasing growth in real disposable income but constrained by fairly weak developments in real house prices and higher real interest rates.

There was a particularly sharp fall in housing investment last year. Investment fell by 21 per cent through 2023. Such a sharp fall over such a short period has not previously been recorded in the quarterly national accounts, which go back to 1978. Housing investment accounts for approximately 20 per cent of mainland investment, and the sharp fall contributes to pushing down activity in the

[1] The funding requirement is described in more detail in Chapter 4 of the report *Utfordringer for lønnsdannelsen og norsk økonomi* [*Challenges for wage formation and the Norwegian economy*]. Report for the Wage Leader Model Committee, edited by G. H. M. Bjertnæs, P. Boug, T. v. Brasch and T. C. Vigtel. Reports 2023/47, Statistics Norway.

Table 3. Main economic indicators 2023-2027. Accounts and forecasts.
Percentage change from previous year unless otherwise noted

	Acco-unts 2023	Forecasts										
		2024			2025			2026			2027	
		SN	NB	MoF	SN	NB	MoF	SN	NB	MoF	SN	NB
Demand and output												
Consumption in households etc.	-0,7	0,6	0,2	1,1	2,2	1,8	2,0	3,4	2,7	..	3,3	..
General government consumption	3,6	2,1	1,2	1,8	1,8	1,4	..	2,0	1,1	..	2,3	..
Gross fixed investment	0,3	-1,2	..	-1,9	-1,3	..	-0,4	3,0	..	..	1,3	..
Extraction and transport via pipelines	10,5	11,0	7,0	7,2	-3,0	-1,0	-1,0	-4,0	-2,0	..	-2,1	..
Industries	4,9	-5,5	-3,2	-2,5	-5,7	2,2	-3,8	1,5	1,0	..	0,3	..
Housing	-15,6	-16,1	-6,4	-13,2	5,2	5,0	14,1	13,4	6,9	..	6,9	..
General government	2,8	2,5	..	0,6	3,9	..	..	4,2	..	..	1,7	..
Demand from Mainland Norway[1]	0,5	-0,5	-0,2	0,1	1,4	1,8	1,3	3,3	2,2	..	2,8	..
Exports	1,4	3,1	..	2,4	4,2	..	3,8	1,3	..	..	1,0	
Traditional goods[2]	6,1	3,8	2,1	3,7	3,0	2,4	2,7	3,2	3,8	..	3,4	..
Crude oil and natural gas	-1,1	1,6	..	0,1	4,2	..	4,3	-1,3	..	..	-2,2	..
Imports	0,7	2,1	-0,3	1,9	2,0	2,2	1,8	3,5	2,4	..	3,3	..
Gross domestic product	0,5	1,1	0,8	0,8	2,2	1,2	2,1	1,9	0,7	..	1,5	..
Mainland Norway	0,7	0,9	0,1	0,9	1,6	1,2	1,6	2,7	1,5	..	2,4	..
Labour market												
Employed persons	1,3	0,0	-0,1	0,5	-0,1	0,4	0,5	0,7	0,7	..	0,2	..
Unemployment rate (level)	3,6	4,1	..	3,8	4,2	..	3,9	4,2	..	..	4,2	..
Prices and wages												
Annual earnings	5,2	5,2	5,0	4,9	3,9	4,3	..	4,0	3,7	..	3,5	..
Consumer price index (CPI)	5,5	4,0	4,4	3,8	2,6	2,8	2,5	2,3	2,5	..	1,9	..
CPI-ATE[3]	6,2	4,3	4,8	4,1	2,8	3,5	2,7	2,4	2,5	..	2,0	..
Housing prices[4]	-0,5	2,0	1,0	..	1,9	5,1	..	3,3	6,5	..	2,9	..
Balance of payment												
Current balance (bill. NOK)[5]	909	708	..	997	831	..	..	771	..	..	717	..
Current account (per cent of GDP)	17,7	13,8	..	18,8	15,4	..	..	13,8	..	..	12,5	..
Memorandum items:												
Money market rate (level)	4,2	4,6	..	4,8	3,7	..	4,3	3,3	..	..	3,2	..
Crude oil price NOK (level)[6]	867	814	..	845	785	..	..	757	..	..	736	..
Import weighted krone exchange rate (44 countries)[7]	8,5	-0,6	1,5	-1,8	0,1	-0,8	0,0	0,0	0,0	..	0,0	..

[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.
Source: Statistics Norway (SN). Ministry of Finance. Nasjonalbudsjettet 2024 (MoF). Norges Bank. Pengepolitisk rapport 4/2023 (NB).

Norwegian economy as a whole. The fall in housing investment may well not be over in the immediate future. Housing start figures, which are the leading housing investment indicator, show a reduction of almost 30 per cent in the number of square metres of housing starts last year compared with the previous year. The reduction in residential construction will in due course exert upward pressure on house prices. After falling a little through the second half of 2023, house prices rose a fair amount in early 2024 according to Real Estate Norway's house price statistics. Further developments in the housing market are shrouded in uncertainty. There is uncertainty associated with such factors as the movement flows of Ukrainian refugees, and the extent to which the high interest rate level will affect prices. According to our calculations, nominal house prices will rise by just over 2.5 per cent per year on average up to 2027, which means approximately unchanged real house prices in this period.

After growing strongly for the past three years, business investment fell through the second half of 2023. Overall, business investment accounts for about 13 per cent of mainland GDP, but because it is relatively volatile, it normally contributes more to economic developments than this share would suggest. Service providers and wholesale and retail trade report somewhat lower investment this year, according to Norges Bank's Regional Network in December. Manufacturing companies report reduced investment this year, according to Statistics Norway's quarterly investment intentions survey (KIS). The decline is due to the completion of some large projects in basic metals and in computer and electrical equipment in 2023, and to others being in the final stages in early 2024. There are reports of increased investment in power supply, particularly in electricity transmission and distribution. Weaker demand and higher real interest rates will lead to investment falling further in the years ahead. Even then, the investment level will remain higher through the entire projection period than the level prior to the pandemic.

Petroleum investment increased by a whole 10.5 per cent last year. Activity growth was driven by investment in oil production platforms, drilling rigs and modules in particular, but also in production wells and oil and gas pipelines. High investment projections in the most recent KIS survey have prompted us to revise our growth projection for this year up by 3 percentage points, to 11 per cent. However, the projection means that the investment level will peak in the first half of 2024 and then fall back slightly through the rest of the year. On the basis of the initial KIS projection for 2025, we assume that investment will fall through the next few years, but leaving investment in 2027 still roughly at the level in 2023. Although almost half of the deliveries of capital goods for the petroleum industry are imported from abroad, the deliveries also involve considerable demands on mainland Norway. The reduction in petroleum investment in the years ahead will thus also contribute to dampening mainland economic growth.

There was virtually no real wage growth in Norway from 2015 to 2023. Nominal wage growth last year was 5.2 per cent, which means a slight reduction in real wages. The profitability of the wage leader sector will be in focus when the social partners negotiate the framework for this year's wage settlement. Preliminary national accounts figures indicate that the labour share, which is a measure of the percentage of wealth creation in the economy that accrues to workers, is estimated to be 71.6 per cent for manufacturing in 2023. This is substantially lower than the average of 82.2 per cent for the period 2009–2021. In isolation, the low labour share exerts upward pressure on wages. At the same time, there is great variation in profitability among the various activities that constitute the wage leader sector, which may contribute to curbing wage growth. We forecast that annual wage growth this year will be 5.2 per cent before falling to somewhat under 4 per cent towards 2027. In this scenario, the labour share will pick up a little, but will nonetheless remain under 80 per cent in the entire period up to 2027. Real wage growth in the years 2024–2027 will then average just over 1 per cent annually.

Unemployment is rising. A year ago, unemployment measured by the Labour Market Survey (LFS) was just over 3 per cent. Unemployment increased through 2023, and in January 2024 was 3.9 per cent, which is in line with the average for the 2010s. However, unemployment among young people aged between 15 and 24 is almost the lowest observed since the financial crisis. In 2022 and 2023, around 65 000 Ukrainian citizens immigrated to Norway. The Norwegian Labour and Welfare Organisation (NAV) reports that Ukrainians accounted for 40 per cent of the increase in the wholly unemployed and job-seekers on labour market programmes in 2023. In the Norwegian Directorate of Immigration's medium-term scenario of t6 March this year, it is estimated that a further 20 000 to 40 000 Ukrainians may arrive in 2024. We expect that the immigration of asylum-seekers from Ukraine will increase both the labour force and unemployment going forward, but it is uncertain how large the increase will be, in terms of both how many come and how many return to Ukraine in due course. The sudden halt in residential construction also means that there will be more unemployment in the construction industry. Our projections show unemployment increasing to 4.1 per cent this year and then rising further to around 4.2 per cent in 2025.

The fall in prices for oil and gas exports in 2023 resulted in the trade surplus being more than halved compared with the record year of 2022. Neverthe-

less, it was the second highest trade surplus ever. Given the expected reduction in oil and gas prices in the next few years, we expect the trade surplus to fall, but to remain at a high level nonetheless. Adding in a growing net factor income and transfers surplus as a result of the rising value of the Government Pension Fund Global (the petroleum fund), the current account surplus, measured as a share of GDP, is forecast to be in the range 12–16 per cent for the years 2024–2027.

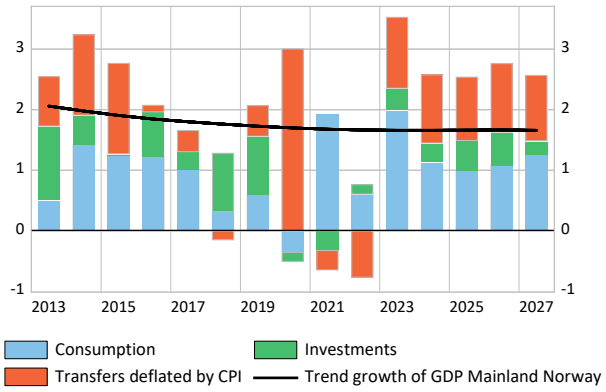
The Norwegian economy has been characterised by stagnation for the past year, and mainland economic activity as a whole did not grow through 2023. Although inflation is falling, it is still high. Interest rate hikes and increased construction costs have brought residential construction to a sudden halt. However, going forward there are several factors indicating that economic activity will pick up. Demand among our trading partners is expected to increase, the interest rate will probably be gradually reduced from this autumn, and increased real wages will stimulate household demand. In addition, high growth in public consumption and investment is expected, amongst other things as a consequence of investment in defence. The upturn will not be very strong, however, and activity in the Norwegian economy is expected to approach what we regard as a cyclically neutral situation from 2026.

Increased investment in defence will be reflected in fiscal policy

General government consumption and investment increased appreciably in 2023 Q4. General government consumption grew by 1.0 per cent in 2023 Q4, while growth from 2022 to 2023 amounted to 3.6 per cent. Central government consumption grew by 3.2 per cent, while local government consumption grew 4.1 per cent. Consumption in administration, public transport, the fire department, roads etc. accounted for most of the upswing. In our previous economic report, we forecast that general government consumption would increase by 2.6 per cent in 2023. Gross general government investment grew by a whole 7.5 per cent in 2023 Q4, as against 2.8 per cent from 2022 to 2023. Donations of defence materiel to Ukraine pushed down investment, while growth in other central government investment pushed it up. Local government investment fell by 1.8 per cent, largely due to lower investment in the education sector. In

Figure 4. Contributions to growth in general government

Change from previous year in percent



Source: Statistics Norway

our previous report, we forecast that general government investment would increase by 0.2 per cent in 2023. The difference between our forecast and realised growth is primarily due to the unforeseen high growth in Q4. The level of general government investment is high in a historical perspective.

The National Budget 2024 (NB 24) forecast spending of petroleum revenue in 2024, measured as the structural, non-oil budget deficit, at NOK 409.8 billion. In the budget settlement with the Socialist Left, allocations over the government budget were increased by roughly NOK 11 billion. The increase was financed with resources from the loss provision fund and through minor adjustments to taxes and other allocations. According to Norges Bank Investment Management (NBIM), the market value of the petroleum fund at the beginning of 2024 was NOK 15 765 billion. Given the current budget proposal, withdrawals from the fund are thus estimated to be 2.6 per cent of the value of the petroleum fund at the beginning of 2024, i.e. well within the fiscal rule's limit. Spending of fund resources, measured as a percentage of trend mainland GDP, has increased in recent years, and is forecast to be 10.3 per cent in 2024. The projections presented in NB 24 produced with the KVARTS and NORA macroeconomic models indicate that, in isolation, the budget proposal for 2024 will have a virtually neutral effect on mainland economic activity next year. If the budgets for the years 2022–2024 are viewed combined, the effect on activity in the Norwegian economy will be moderately expansionary, according to the projections.

Subsequent to the budget proposal, the Støre Government has announced a ramping up of in-

Box 1. Age limits in the Norwegian National Insurance Scheme

Life expectancy adjustment was introduced through the pension reform of 2011. It means that when life expectancy increases, disbursement of accumulated pension has to be distributed across more years. Given the same accrued pension, this means that the annual pension level will be lower. This gave the individual a financial incentive to postpone drawing a pension and leaving the labour market, to ensure that they secured a reasonable pension.

However, the 2011 reform left some unanswered questions, in particular the following: What happens when this life expectancy adjustment dictates that one must work substantially longer than the lower age limit in order to secure a reasonable pension, and how can one ensure that old-age pensioners previously on disability pensions secure a reasonable pension when they themselves are not able to compensate by working longer.

In Official Norwegian Report NOU 2022: 7, the Pension Reform Committee considered possible adaptations of the pension system to ensure economic and social sustainability. The Støre Government followed up the committee's main conclusions in the Storting report Meld. St. 6 (2023–2024). This report proposed that the age limits in the National Insurance Scheme should increase in pace with changes in life expectancy. At the same time, the government wanted to give old-age pensioners previously on disability pensions some protection from the effects of the life expectancy adjustment, and to strengthen the regulation of the lowest levels in the National Insurance Scheme.

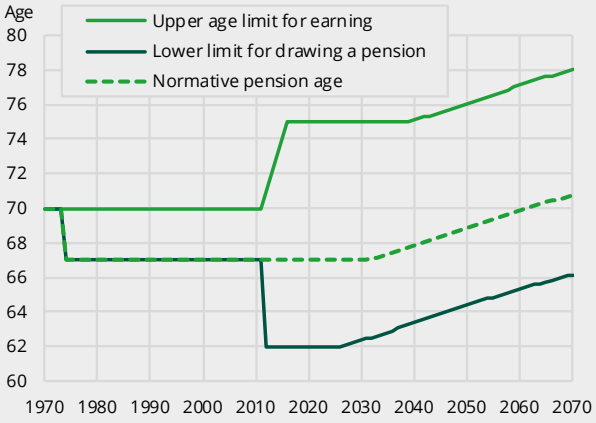
On 29 February 2024, a broad-based political settlement was reached in the Storting when seven parties joined forces to support the Government's proposal for some minor reforms. As a result of the settlement, the age limits in the Norwegian National Insurance Scheme will increase from 2026 and will cover cohorts born in 1964 or later. Figure 1 shows an outline of how the age limits could increase, based on projections of the annuity divisor ("delingstall") in the MOSART model and the population projections' middle alternative.

In our projections for public transfers we have now assumed that the regulatory framework will be as described in Meld. St. 6 (2023–2024). We have not included the part of the settlement that considers the supplement to the early retirement pension ("slitertillegg") because it has not been fully examined. The settlement set the limit for the supplement at 0.25 G per individual (about NOK 30 000 in 2023), and stipulated that the scheme is to be based on the model for the early retirement pension supplement in the private sector. The settlement also aims for an increase in the ordinary age limit for job security in the public sector from 70 to 72, thereby bringing it up to that in the private sector. The regulatory framework for increasing age limits has several effects on our projections. Raising the lower age limit for drawing a pension has the effect of delaying the costs of old-age pensions, which reduces costs in the short term. In the somewhat longer term, beyond our projection period, the effect of more people having longer earning periods will offset this. In addition, protection of old-age pensions for the disabled and more favourable regulation of minimum benefits will impact expenses in the longer term.

In Figure 2 we have used the microsimulation model MOSART to calculate the increase in costs the Government's proposal entails. The increase in costs is associated with several of the public transfers, and a full decomposition is provided in Meld. St. 6 (2023–2024). More favourable regulation of minimum benefits and protection of those previously on disability pensions play a particular part in pushing up the increase in costs further ahead.

In addition to increased transfer expenses, the reform is likely to have a positive effect on tax receipts due to the labour provided by the elderly. This will lead in the short term, particularly when the lower age limit increases, to more people having to postpone their exit from the labour market to some extent. For the first cohort, the increase in the age at which it is possible to exit the labour market will be about 1 month. The age limits will increase by about one year for every tenth annual cohort. This will result in an increase in hours worked as more elderly people have to delay their exit. Some of this increase may be reduced by the fact that a later exit inhibits the provision of labour by younger people, but there is little empirical evidence for this. However, the Pension Reform Committee also assumed that the rising age limits would have a normative effect, in that the labour supply may increase more than merely as a result of the purely mechanical effect of some workers having to postpone their exit. It is uncertain how strong this effect will be.

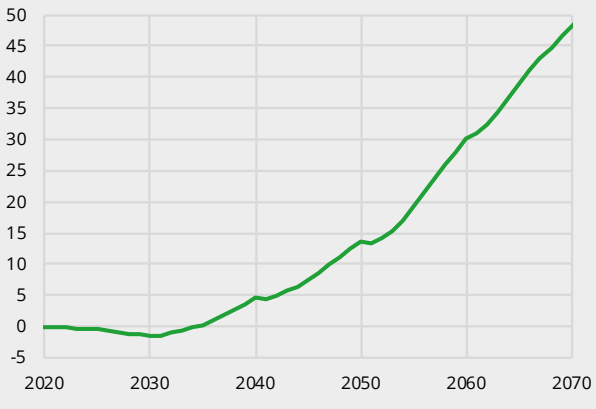
Figure 1. Age limits in the Norwegian National Insurance Scheme. By year



Source: MOSART, Statistics Norway

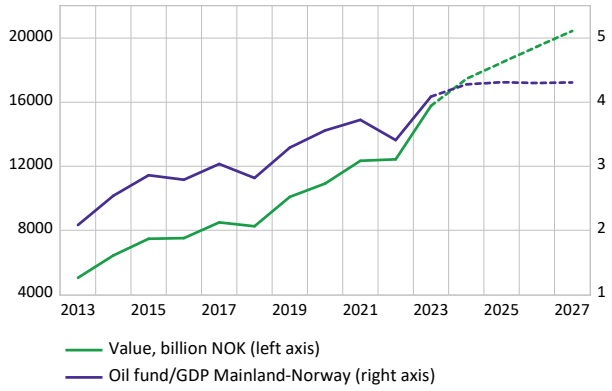
Figure 2. Growth in costs for old age pensions from the Norwegian National Insurance Scheme and additional expenses for disability pension, work assessment allowance, surviving spouse's pension and short-term benefits compared with a continuation of the current regulatory framework. By year

Billions of 2023-kroner (wage-deflated)



Source: MOSART, Statistics Norway

Figure 5. The Norwegian Oil Fund / Government Pension Fund Global
Value, measured in billion NOK and in terms of GDP Mainland-Norway, year



Source: NBIM and Statistics Norway

vestment in defence from 2025 in order to counter threats to security and to meet the NATO target of spending at least 2 per cent of GDP on defence. We expect army, navy and air force programmes to entail extensive investment in the projection period. Increased Imports of military defence materiel, such as fighter aircraft, will have little impact on activity in the Norwegian economy. However, purchases of defence materiel produced in Norway, as well as investment in and upgrading of the defence infrastructure in Norway, will stimulate economic activity. We expect this stimulus to counter the decline in construction. An increasing need for health and care workers is also expected in the time ahead.

According to NBIM, the value of the petroleum fund at the beginning of 2023 was NOK 12 429 billion. Net capital added in 2023, i.e. capital added from petroleum activities less capital withdrawals and remuneration for management amounted to NOK 704 billion. The value of the fund at the end of 2023 was NOK 15 765 billion, which means that the total return was NOK 2 632 billion. The depreciation of the krone increased the value of the fund by a little over NOK 409 billion. Income from interest and dividends plus exchange gains and losses that cannot be related to exchange rate movements thus amount to roughly NOK 2 222 billion. NB 24 forecasts net cash flow from petroleum activities in 2024 at NOK 832 billion. The value of the fund at the beginning of 2025 is forecast to be NOK 16 581 billion. We assume that the real return on the fund will be 3 per cent, and that the inflows will be based on oil and gas prices that reflect forward prices. The result will be developments in the fund further into the projection period that create greater fiscal scope for manoeuvre. We have assumed that spending of petroleum revenue will be kept under the 3 per cent limit, despite the increased investment in defence in the time ahead.

In our previous report, we forecast growth in general government consumption and gross investment of 2.1 and 2.8 per cent, respectively, in 2024. NB 24 projected growth in general government consumption and gross investment of 1.4 and -0.5 per cent, respectively. In this report, we forecast increases in general government consumption and gross investment in 2024 of 2.1 and 2.5 per cent, respectively. Growth in gross investment has been revised up in the projection scenario with effect from 2025 as a consequence of increased investment in defence. New national accounts figures reveal that the level of public consumption has been higher than previously assumed. We forecast approximately the same growth in the years ahead as in our previous report. Growth will be kept buoyant by an active anti-cyclical policy, among other things. Public consumption will increase by about 2 per cent annually further into the projection period. The real value of transfers, measured by the consumer price index, is expected to increase by 3.5 per cent in 2024. They are projected to grow by about 3.5 per cent in subsequent years.

Norges Bank is waiting for the Fed and the ECB before making interest rate cuts

In December 2023, Norges Bank raised the key policy rate to 4.5 per cent, signalling at the same time that it expected to keep the policy rate "at that level for some time ahead". They maintained that signal at the monetary policy meeting in January this year. The policy rate path published in the Monetary Policy Report in December 2023 indicates that the first rate cut will not come before the second half of this year.

The money market rate normally follows the key rate with a premium. However, the money market rate did not increase in connection with the December rate hike. This may be because some of the increase in the policy rate had already been priced into the money market rate. The premium may also have been reduced. The 3-month money market rate has remained almost unchanged at around 4.7 per cent since the beginning of August last year. In summer 2021, the 3-month money market rate was 0.2 per cent.

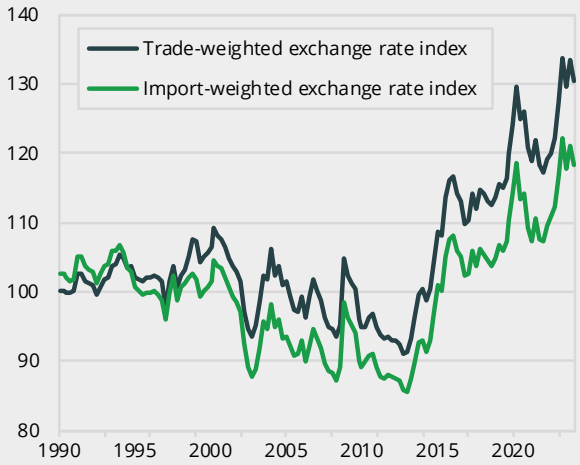
Box 2. The import-weighted krone exchange rate and the trade-weighted exchange rate index

Approximately two thirds of Norway's foreign trade in traditional goods takes place with countries that are not in the EU monetary union. Traditional goods consist of goods excluding oil, gas, ships and platforms. It is therefore important to supplement the krone/euro exchange rate with alternative exchange rate indicators that provide a more accurate expression of the breadth of Norway's trading pattern. Examples of these are the trade-weighted exchange rate index (TWI) and the import-weighted krone exchange rate (I44).

The trade-weighted exchange rate index is calculated from the exchange rates of the Norwegian krone against the currencies of Norway's 25 most important trading partners, based on both imports and exports, and is a geometrical average based on current OECD trade weights. The weights in the import-weighted krone exchange rate are calculated from the composition of imports of traditional goods from Norway's 44 most important trading partners. Both indices are structured in such a way that high values mean a weak krone and low values a strong krone.

In the figure, both indices show that the krone was consistently weaker in the 1990s than from the early 2000s and up to 2013. The krone was record-strong in early 2013, then depreciated markedly, partly as a result of the decline in the petroleum industry. However, the paths of the two indices do not coincide completely. For example, in January 2013 the krone measured by the import-weighted exchange rate was around 20 per cent stronger than the average for the 1990s, whereas according to the trade-weighted index it was only 13 per cent stronger. This reflects the fact that the two indices are constructed for somewhat different purposes. The weights in the trade-weighted exchange rate index are intended to reflect the competitiveness of Norwegian manufacturing in both the export and the domestic market, and not merely to have relevance for the domestic market and Norwegian prices. The different paths are due to the fact that on balance the krone strengthened more in relation to countries from which Norway has substantial imports than in relation to countries to which it has substantial exports. The international purchasing power of the krone was accordingly strengthened more than the extent to which the international competitiveness of Norwegian manufacturing, viewed in isolation, was weakened by the exchange rates. This trend was particularly pronounced from 1993 to 2004.

Exchange rates



Source: Statistics Norway

In recent years, the two indices have provided a somewhat similar picture of the krone's movements. From January 2013 to February 2024, the import-weighted exchange rate index strengthened by 39 per cent, which corresponds to a 28 per cent depreciation of the krone. Measured by the trade-weighted exchange rate index, the krone weakened a little more in the same period, by 31 per cent.

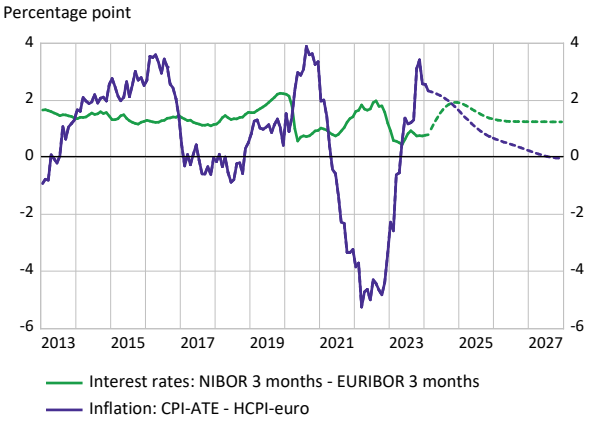
Deposit and lending rates from banks and financial institutions have increased from record low levels in 2021 Q2 and Q3. The average interest rate on loans secured on dwellings has risen by close to 4 percentage points in just over two years, from 2.0 per cent at the end of 2021 Q3 to 5.9 per cent at the end of 2023 Q4. During the same period, the average deposit rate increased by just under 3 percentage points, to 3.2 per cent. The interest rate differential between lending and deposit rates is thus approximately 2.8 percentage points, the highest since Statistics Norway began publishing separate rates for loans secured on dwellings in 2006. If we measure the interest rate differential between banks' and mortgage companies' average lending and deposit rates of all types, it is found to be the highest since 2004.

Norges Bank sets the interest rate primarily to stabilise inflation at around 2 per cent and to ensure financial stability. The central bank also takes into account that the setting of the interest rate influences the krone exchange rate, and thereby imported inflation. It also takes into account that the interest rate level affects activity in the Norwegian economy.

Inflation measured by the 12-month rise in the consumer price index (CPI) was 4.5 per cent in February this year. The 12-month rise in the consumer price CPI, adjusted for tax changes and excluding energy products (CPI-ATE) was 4.9 per cent in February, down from 6 per cent in October 2023. The inflation rate is thus substantially higher than the inflation target but appears to be falling.

The krone has depreciated sharply in recent years. As a result imported goods have become more expensive, which has contributed to the high inflation in Norway. In 2022, one euro cost NOK 10.10 on average. In 2023, the price of a euro rose to NOK 11.40, an increase of almost 13 per cent. In mid-March 2024, the price of 1 euro was NOK 11.40, after it had been priced at NOK 11.80 prior to the December 2023 interest rate decision. The US dollar became almost 10 per cent more expensive from 2022 to 2023, and the exchange rate is now roughly the same as in 2023. Thus the krone exchange rate in isolation has contributed to goods from abroad becoming about 10 per cent more expensive from 2022 up to the present. We assume that exchange rates will remain unchanged in the near term.

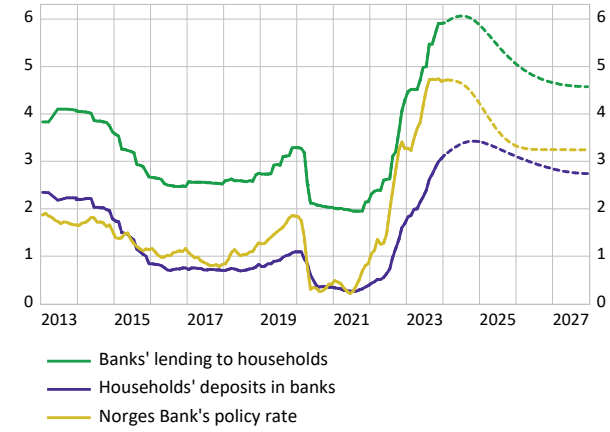
Figure 6. Interest rate and inflation differential between NOK and euro



Source: Norges Bank and Statistics Norway

Norges Bank will probably attempt to prevent a renewed depreciation of the krone. This means that it will not begin cutting policy rates before other countries have cut theirs. Our projections indicate that the first rate cut in Europe will come before the summer, while in the US we expect rate cuts to begin in the second half of the year. The first rate cut in Norway is therefore not expected before the end of 2024. The rate cuts will continue in 2025, and in 2026 the money market rate will fall to 3.2 per cent, 1.5 percentage points lower than now. This corresponds to 5–6 policy rate cuts, each of 0.25 percentage point. The interest rate on loans secured on dwellings, forecast to be 6.0 per cent this year, will then fall by almost 1.5 percentage points by 2027.

Figure 7. Norwegian interest rates

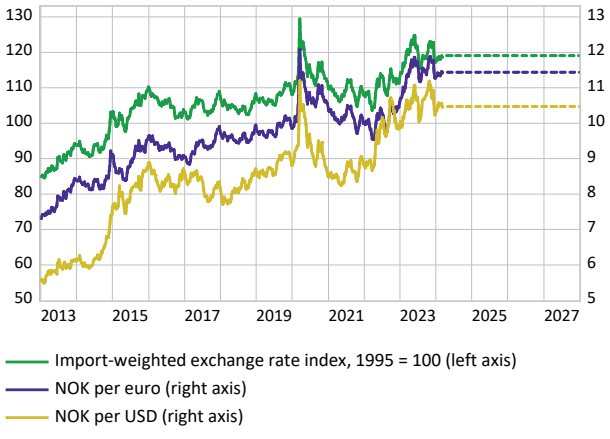


Source: Norges Bank and Statistics Norway

Saving ratio towards normal levels

According to the preliminary non-financial sector accounts, the real disposable income of households and non-profit organisations, both including and excluding share dividends, fell by just over 1.5 per cent in 2023. This is roughly what was forecast in our last publication. Since our last report, net interest expenses for 2023 have in fact been revised down by more than an annualised NOK 20 billion in light of new data from the household income and wealth statistics. At the same time, the rise in the price index for private consumption has been revised up by just under 0.5 percentage point in the national accounts. Developments in real disposable income in 2023 were driven by higher wage income due to growth in wages and employment, increased public transfers partly due to higher old-

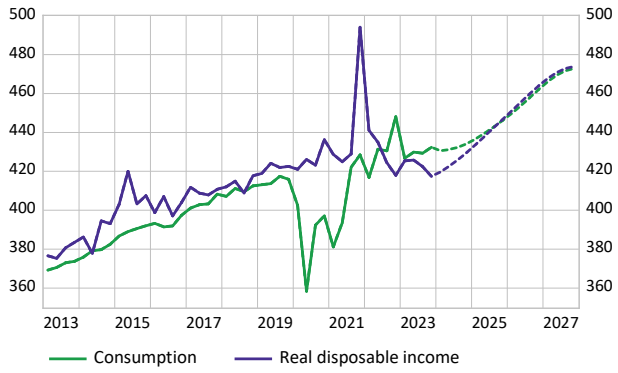
Figure 8. Exchange rates



Source: Norges Bank

Figure 9. Income and consumption in households

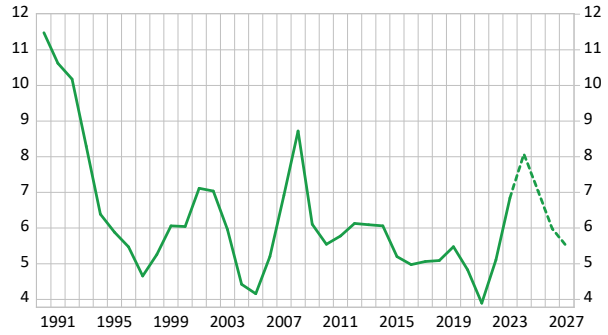
Seasonally adjusted, billion 2021 NOK, quarter



Source: Statistics Norway

Figure 10. Household interest burden

Interest expenses after tax as a share of disposable income in percent, year



Source: Statistics Norway

age pensions, higher net interest expenses due to higher borrowing rates, and increases in prices for a number of goods and services.

According to the preliminary national accounts, total consumption by households and non-profit organisations decreased by just over 0.5 per cent in 2023, following growth of over 6 per cent in 2022. Developments from 2022 to 2023 reflected a normalising of the household spending pattern following the Covid pandemic, with the greatest changes taking place through 2022. Whereas goods consumption was depressed by product groups (furniture, white goods and cars) purchased in abnormally high quantities during the pandemic years, consumption of services was pushed up by service groups (hotel and restaurant, leisure and transport services) that were purchased to an abnormally limited extent when restricted by infection control measures. In the course of 2022, the ratio between goods and service consumption, apart from the record high car purchases prior to the introduction of tax on electric vehicles in January 2023, reverted to the ratio in 2019, the year before the Covid pandemic. Norwegians' consumption abroad also grew strongly in the same period, resulting in an overall consumption level that was around 4.5 per cent higher in 2022 than in 2019.

On the other hand, the weak developments in consumption through 2023 were dominated by low purchases of furniture, white goods and cars, which should be viewed bearing in mind the high purchases of these goods during the pandemic together with the rise in both the cost of living and interest rates. The largest positive contribution last year was from Norwegians' consumption abroad which, despite the weak krone, picked up further from 2022 to 2023 to close to the same level as prior to the pandemic.[2] The goods consumption index for January 2024 shows a seasonally adjusted fall of 1.4 per cent, and points to continued weak developments in overall consumption in Q1 this year. Car purchases, which fell by as much as 9 per cent, made a particular contribution to this fall.

Consumption in current prices was higher than disposable income in the second half of 2022 and much of 2023. Consequently the saving ratio, measured as saving as a share of disposable income, fell from a record level of around 14 per cent in 2021 to around 5 per cent in 2022. The ratio excluding share dividends fell from around 5.5 per cent to around 0.5 per cent in the same period. From 2022 to 2023, the saving ratio, both including and excluding share dividend, fell by about a further half a percentage point, to levels of around 4.5 and 0 per cent, respectively.

We now forecast that real disposable income, both including and excluding share dividends, will increase a little this year and by around 3.5 per cent as an annual average for the years 2025–2027. Both wage income and public transfers will pick up in real terms in pace with substantially lower inflation than in 2023 through the whole projection period. A fall in net interest expenses will also contribute to income growth as mortgage rates are reduced due to cuts in the policy rate. The level of the household interest burden, measured as interest expenses after tax as a share of disposable income, is projected to rise from around 7 per cent in 2023 to around 8 per cent in 2024. This projec-

[2] A more detailed account of developments in overall consumption from 2022 to 2023 is provided in section 3.8 of Økonomiske analyser 1/2024 (Norwegian text).

tion is about 1.5 percentage points lower than in our previous publication and must be viewed in light of the downward revision by over NOK 20 billion of net interest expenses in the non-financial sector accounts last year. The interest burden will fall gradually to around 5.5 per cent from 2024 to 2027. By way of comparison, the average annual interest burden was 5.5 per cent in the 10-year period 2010–2019. The interest burden assumed for 2024 is the highest since the financial crisis in 2008.

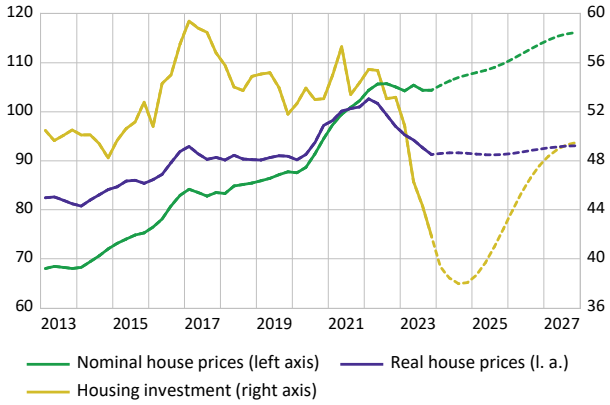
We forecast that total consumption will grow by around 0.5 per cent in 2024, roughly half a percentage point higher than forecast in our last report. The upward revision is mainly because consumption is likely to be somewhat less expensive this year than previously forecast. During the projection period, consumption growth will gradually pick up, to around 3.5 per cent in both 2026 and 2027. The upswing in overall consumption in the years 2024–2027 will be driven by increasing growth in real disposable income, but constrained by fairly weak developments in real house prices and higher real interest rates.

Given our projections for income and consumption, coupled with forecasts for saving in collective pension funds, the saving ratio including and excluding share dividends will rise from around 5 and 0.5 per cent, respectively, this year, to around 6.5 and 2 per cent as annual averages for the years 2025–2027. Our projections imply that the saving ratio, both including and excluding share dividends, will then be fairly close to its average annual level in the 10-year period 2010–2019.

Housing investment remains weak

According to Statistics Norway's price index for resale homes, these prices remained unchanged from 2023 Q3 to Q4 This resulted in negative growth in house prices of 0.5 per cent from 2022 to 2023. The fall in real house prices ended at around 7 per cent over the same period. If we measure from the peak in 2022 Q2, real house prices have fallen by about 14 per cent, and have more or less reverted to the real price level at the beginning of 2020. Nominal prices have fallen by 6.4 per cent in the same period. A sharper fall in house prices through the autumn did not occur despite a steadily increasing household interest burden. That resale home prices did not fall more must be viewed bearing in mind that sales of advertised resale

Figure 11. Housing market
Seasonally adjusted. Left axis: index, 2021 = 100
Right axis: billion 2021 NOK, quarter



Source: Statistics Norway

homes were weaker towards the end of the year, and that they are relatively more sought after than new dwellings that have increased in price.

Real Estate Norway's monthly price figures for January 2024 show that the negative tendency of the autumn has not continued into the new year. While the supply of new objects is stagnating, the turnover volume of already advertised homes is good. In other words, sales are at a normal January level, while the supply is abnormally low. The supply is now at the same low level as observed in January 2022, when changes in the Sale of Real Property Act created bottlenecks for the real estate business. This may be part of the reason that Real Estate Norway recorded a house price rise of as much as 0.7 per cent in January this year. In our previous report we referred to positive price movements in October and November, and discussed challenges associated with seasonal adjustment of house price statistics since the pandemic (see Box 3 in Economic Survey 4/2023). Real Estate Norway has subsequently employed a new seasonal adjustment method and has revised its historical house price statistics, which now show a negative or zero rise in prices for the whole second half of 2023. January is thus the first month with positive house price movements since May 2023. Last year ended with weakly negative growth of 0.1 per cent in December. House prices continued to rise in February, by 0.7 per cent. The volume of unsold dwellings fell through the month and is now more on a level with the volume sold.

Housing investment fell sharply through 2023, by 15.6 per cent according to preliminary national ac-

counts figures. A similar fall in housing investment has not been seen since the 1990s banking crisis. There is little to indicate that the fall that began last year is now over. The housing start figures show a reduction of almost 30 per cent in the number of square metres of starts last year compared with 2022. The reduction in housing starts will affect housing investment as measured in the national accounts for several years to come. According to the same figures, housing starts in 2023 Q3 were at almost the same level as the trough during the financial crisis. However there are clear differences between the situation following the financial crisis and the present macroeconomic picture. For example, it is unlikely that mitigating measures will be applied through monetary or fiscal policy, as happened last time.

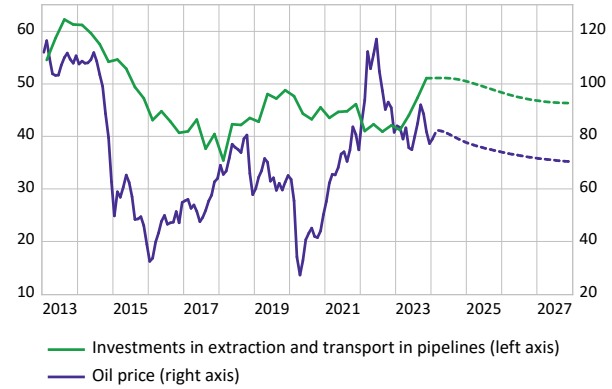
The Norwegian Homebuilder Association's monthly statistics, published in February, also show a decline in housing starts, with 31 per cent fewer housing unit starts in the last three months of 2023 than in the same period the previous year. A comparison shows that the number of starts on apartment projects in the last 12 months is 50 per cent lower than in the same period in 2022. Starts in January this year were the lowest reported since 2010 and 17 per cent lower than in January 2023. Sales of new homes, an indicator of future housing starts, were 12 per cent higher in January this year than recorded in the same month a year previously. However, sales in the last 12 months have been 27 per cent lower than in the same period the previous year. There may be several underlying reasons for this development. Uncertainty regarding the economic situation, a high household interest burden, and relatively cheaper comparable resale homes may have contributed to the fall in sales of new homes. According to Statistics Norway's price index for new homes, the rise in prices for new homes has been far higher than for resale homes in recent years. The price increase for new homes has probably been driven up by a high rise in prices for construction materials. Statistics Norway's construction cost index for residential dwellings shows that the rise in prices for construction materials has eased since the peak in 2021 and was 3.7 per cent in January. The construction business is dependent on access to credit for launching housing projects, and banks stipulate requirements regarding sales rate when granting a construction loan. Thus a fall in sales of new homes has probably affected housing starts. We therefore maintain our projection for housing investment in 2024, which implies a reduction of about 16 per cent. In our projection scenario we forecast that housing investment will pick up from its low level next year already. In anticipation of a rise in sales of new homes this year, we also foresee that housing starts will pick up in the years ahead.

In our house price projections, we take particular account of expected movements in the interest rate level, households' access to credit and real disposable income. We foresee weak developments in household real disposable income, and debt growth has been revised somewhat compared with our previous report. Real after-tax interest is now expected to rise faster than previously forecast. All in all, there are prospects of weaker house price movements this year. On the other hand, the household interest burden has been revised down compared with our previous report. The figures in Finance Norway's February consumer confidence indicator also show that Norwegian households are far more optimistic regarding their own financial situation this coming year than they were in the last quarter. The expectation that the interest rate has peaked may be one reason for greater household optimism. At the same time, the low housing investment will result in a shortage of homes in the period ahead, particularly in central Eastern Norway. This will exert upward pressure on house prices in the short to medium term. We therefore forecast that house prices will rise by about 2 per cent in 2024 before the rise gathers some pace from next year but remains moderate through the projection period. Real house prices will probably bottom out this year, with a fall of about 2 per cent, before rising weakly for the remainder of the projection period as consumer price inflation slows. However our house price projections are uncertain, as important factors that influence the housing market, such as migration flows into and out of Norway and expectations are shrouded in uncertainty.

Growth in petroleum investment continues this year

Following 14.3 per cent growth in 2019, petroleum investment fell by a total of 11 per cent over the next three years. According to preliminary national accounts figures, investment increased by 10.5 per cent in 2023, which is 1.5 percentage points higher

Figure 12. Petroleum investments and oil price
Seasonally adjusted. Left axis: billion 2021 NOK, quarter
Right axis: USD per barrel



Source: Statistics Norway

than estimated in our last economic report. Growth was driven by higher investment, especially in oil production platforms, drilling rigs and modules, but also in production wells and oil and gas pipelines. Investment in oil and gas exploration was lower in 2023 than in 2022, and this contributed to curbing growth in overall petroleum investment last year. Investment in 2023 almost reached the 2019 level again, but is still way off the record year of 2013, when the investment level was 29 per cent higher than in 2023.

A seasonally adjusted fall of 2 per cent in 2023 Q1 reversed into growth of 6.7 per cent in Q2. The growth rate increased to just under 8 per cent in both Q3 and Q4. The strong investment growth through 2023 clearly reflects the delivery of plans for development and operation (PDOs) for a large number of new development projects in December 2022. The reason for the delivery of so many PDOs at the same time is the Storting package of tax measures adopted in June 2020 to assist the industry in tackling the sharp fall in oil prices early in the Covid pandemic. The package offered favourable taxation for all development projects for which PDOs were submitted before the end of 2022.

Statistics Norway surveys the petroleum companies' investment plans for the current year and the following year through the quarterly survey of intended investment in oil and gas, manufacturing, mining and power supply (KIS). The nominal projection for 2024 in the last investment intentions survey from February is NOK 244 billion. This is a 5 per cent increase on the figure in the November survey.

We assume that there will be moderate investment in 2024 in projects for which PDOs have not yet been delivered, and which are therefore not yet included in the survey. Experience of previous developments indicates that there is a risk of some of the ongoing developments incurring somewhat higher costs than those in the initial investment plans. On the other hand, there is also a risk that not all the investments planned for this year will be completed, so that they have to be postponed until next year. Investment in 2024 in some of the other categories, particularly fields in operation, is also expected to be somewhat higher than the figures in the last survey.

We assume that the strong investment growth through 2023 will continue into early 2024 before beginning to fall back somewhat. The carry-over from last year will nonetheless give rise to substantial annualised growth this year.

We are raising our investment growth projection from 8 per cent in our previous report to 11 per cent, largely because of the strong investment forecast for 2024 in the last survey. Since growth in 2023 was also somewhat higher than estimated last time, this means that we have raised our projection for the investment level in 2024 by 4.2 per cent.

The initial projection for 2025 estimates total investment in pipeline transport and oil and gas extraction at NOK 205 billion, which is 15 per cent higher than the corresponding projection for 2024 published a year ago. Since then, the projection for 2024 has in fact increased by a full 36 per cent, which is unusually high. It is unlikely that the projections for 2025 will increase correspondingly in coming surveys. Experience of previous developments indicates that it is likely, nonetheless, that some of the new ongoing developments may also incur higher costs than those in the current investment plans. These may be due both to higher than expected investment prices and to the raising of the real capital requiring more investment activity than previously envisaged.

Some older developments and the smallest of the new ongoing developments will be completed or phased down during the year or early next year. These will have markedly lower investment in 2025 than this year, and new developments will only

partly compensate for the decline. According to our calculations, the other investment categories will have somewhat higher investment next year than in 2024, but this will probably not prevent a decline in overall investment. We forecast that real investment will fall by 3 per cent in 2025.

The remaining ongoing developments will be completed in the course of 2026 and 2027. In a bid to qualify for the Storting's package of favourable tax measures for the petroleum industry, operators on the Norwegian continental shelf had plans to deliver PDOs for more developments than they actually succeeded in doing by the end of 2022 deadline. Some of the project plans were not completed by the deadline, and it was decided to postpone others to avoid tight supplier markets that would push up the costs of the developments. Many of these projects, of which Wisting is the biggest, will probably come about over the next few years. Two new joint developments are also planned for a number of discoveries around the Fram field. In addition there are many investment plans for existing fields and development of other discoveries. These projects will curb the decline in 2026 and 2027. We forecast falls in investment of 4 and 2 per cent, respectively, for these years.

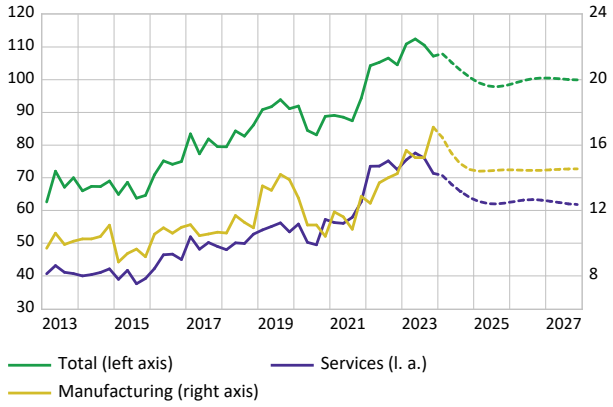
Petroleum extraction in 2023 ended up 0.1 per cent higher than in 2022. Liquid production increased by 6.1 per cent while gas production fell by 5.3 per cent. The reduced supply of Russian gas in 2022, resulting in very high gas prices, led to an 8.3 per cent increase in Norwegian gas production that year. The high production made it necessary to postpone planned maintenance that requires a halt in production. A less tight gas market in 2023, coupled with an accumulated need for maintenance, led to a fall in gas production last year. The Norwegian Petroleum Directorate forecasts almost flat production developments this year, while growth in 2025 is forecast to be 4.2 per cent. Petroleum production is then expected to fall by 2.2 and 2.6 per cent in 2026 and 2027, respectively.

Business investment record high, but lower growth in 2024

The upswing in business investment continued in 2023, with growth of 4.9 per cent according to preliminary national accounts figures. This followed record high growth of 17.1 per cent in 2022. Growth in manufacturing and in mining and quarrying were the primary drivers pushing business investment as a whole to a historical high. Investment in manufacturing and in mining and quarrying increased by 12.2 per cent in Q4 after levelling off in the two previous quarters. Overall growth in manufacturing and in mining and quarrying was as much as 16.3 per cent in 2023, following already high growth of 15.2 per cent in 2022. After an upturn in the first half of 2023, investment in service industries and other goods production was weak in the second half, with particularly weak developments in Q4.

Figure 13. Investments Mainland Norway

Seasonally adjusted, billion 2021 NOK, quarter



Source: Statistics Norway

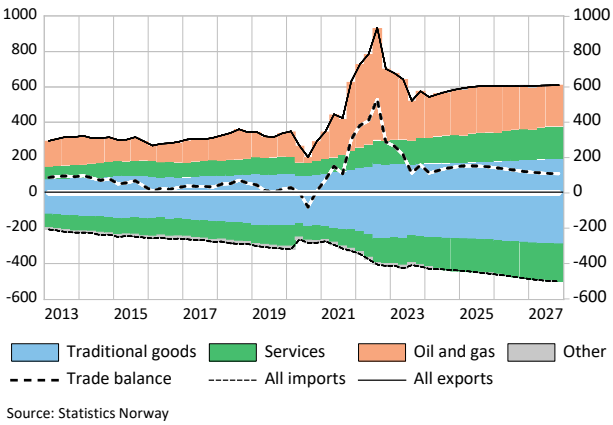
Businesses in manufacturing, mining and quarrying, power supply and oil and gas report regularly to Statistics Norway's investment intentions survey on planned and completed investment. The final survey figures show that overall investment in manufacturing amounted to NOK 45.3 billion in current value. Several investment projects that contributed to growth in 2023 were focused on restructuring processes designed to reduce emissions and increase energy efficiency. These projects also have varying degrees of government investment subsidies.

The projection for manufacturing investment in 2024 indicates a decline. This is attributable to some projects reaching completion towards the end of 2023 or being in the final phase in early 2024 without new ones emerging. Any large new individual projects that might emerge could contribute to reversing this projection, however.

Investment in power supply also increased in 2023. In all, investments amounting to NOK 26.9 billion in

current value were made in 2023. Electricity distribution in particular pushed up growth, but district heating and other power supply also displayed solid growth. Investment in electricity production fell somewhat, largely due to lower investment in wind power. The most recent projections for 2024 indicate that growth will continue, particularly in electricity transmission and distribution, but also in production. Large, government-subsidised projects such as Sørlige Nordsjø II may push up growth further. There is reason to expect more such projects, given that Norway has a target of reducing its greenhouse emissions by 55 per cent by 2030 compared with the level in 1990.

Figure 14. Foreign trade
Exports (positive axis), imports (negative axis) and balance of trade
Value (current prices), seasonally adjusted, billion NOK, quarter



Source: Statistics Norway

Norges Bank's Regional Network's survey in 2023 Q4 of businesses' prospects shows that business investment is expected to fall somewhat in 2024. Service providers and wholesale and retail trade report reduced investment due to weaker demand, higher interest rates and expectations of reduced prices for capital goods. Some investments have already been initiated, however, which will check the fall somewhat. Businesses are investing in particular in automation, improving energy efficiency and restructuring to reduce emissions. There is less focus on uncertainty regarding future economic developments than in the last Regional Network report.

We forecast that business investment as a whole will be substantially reduced in 2024, but from a historically high level. The investment volume will therefore be very high regardless, and still higher than the pre-pandemic level. The decline is broad-based, but somewhat dampened by increased investment in power supply. The knock-on effects of the interest rate hikes, weak growth prospects, lower demand and global downturn are having a particular impact on investment growth.

Large, but declining trade surplus

Exports of traditional goods, crude oil and natural gas and of services increased in Q4 last year, following a third quarter decline. Increased exports of engineering products and basic metals, along with basic chemicals and chemical and mineral products contributed most to growth in exports of traditional goods in Q4, while exports of electricity detracted most. Growth in service exports received substantial contributions from financial and business services, foreigners' consumption in Norway and gross freight from shipping. Oil exports dipped slightly, but higher gas exports boosted overall exports of crude oil and natural gas in Q4 following relatively flat developments through the first three quarters of 2023.

Prices for exports of traditional goods, oil and gas and services increased in 2023 Q4. Food products and beverages and electricity contributed most to the rise in prices for traditional export goods. The rise in price for gas exports increased much more than the export price of oil, following a substantial fall in prices through the previous four quarters. The rise in prices for service exports was broad-based.

Reduced imports of traditional goods in Q4 last year pushed down overall imports, as they did in Q3. The reduction in Q4 was smaller than in the previous quarter because imports of services increased. Reduced imports of cars and of ships, platforms and aircraft accounted for most of the decline in goods imports. An increase in service imports in Q4 was broad-based.

Exports of traditional goods expanded substantially from 2022 to 2023, but only half of the growth took place through 2023. The remainder is due to growth in the latter half of 2022, which raised the level into 2023. Engineering products, including military equipment donated to Ukraine, contributed considerably to growth. Reduced gas exports in the first half of 2023 and reduced oil exports in the second half of the year reduced overall oil and gas exports somewhat compared with 2022. Foreigners' consumption in Norway and financial and

Box 3. Import shares

Consumption of goods and services can be decomposed into final deliveries – i.e. for consumption, investment and exports – and intermediate inputs, which constitute a production factor. Some of the final deliveries consist purely of imports. The remainder are delivered by Norwegian manufacturers, who use imported intermediate inputs to varying degrees.

We have previously calculated import shares for the Norwegian economy by means of a static input-output model broken down by product group and industry which is used in the KVARTS macroeconomic model, most recently in Box 3 in Economic Survey 1/2023. The model used in these calculations has been based on the input-output model in the national accounts. As we have divided the economy into far fewer products and industries in KVARTS, the import shares we calculate will differ somewhat from those obtained using the breakdown into products and industries in the national accounts. In Chapter 4.4 of Økonomiske analyser 4/2023 (Norwegian text) the import shares for 2021 are calculated on the basis of the product and industry breakdown used in the national accounts. The analysis takes account of imported intermediate inputs, also from subcontractors, in addition to direct imports of final deliveries. However, the static input-output model does not take account of changes in relative prices, the knock-on effects of changes in earnings, any need for changes in production capacity (investment) or changes in interest and exchange rates.

Consumption accounts for a little more than half of final deliveries. In 2021, household consumption had an import share of 29.3 per cent, more than 3 percentage points less than in 2019. The decline is largely due to a sharp reduction in household consumption abroad as a result of the Covid pandemic. Household consumption abroad is regarded in its entirety as imports. Goods consumption accounts for a far higher import share than service consumption. Vehicles represent a substantial share of imports, as few cars are manufactured in Norway. The reason their import share is not even higher than 59.6 per cent is that mark-ups and taxes account for a large share of the costs of vehicle purchases. Public consumption, which consists largely of labour costs, has a low import share.

Investment is the final delivery category with the highest import share. On average, 35.5 per cent of investment in 2021 was covered by imports. Shipping is the industry in which investment has by far the highest import share, while housing investment has the lowest.

Final export deliveries are also partly delivered through imports. In 2021, 22.0 per cent of final deliveries were covered by imports. This is a clear decline compared with 2019, the year before the Covid pandemic. Much of the decline in import share can be ascribed to Norwegians' consumption abroad being reduced by about NOK 100 billion.

Import shares in final consumption 2020 and 2021
Current prices. Per cent

	2020	2021
Consumption		
Households	32,5	29,3
Goods	38,8	40,4
Food and beverages	32,2	33,3
Energy products,	7,9	7,0
Own vehicles	55,2	59,6
Services	14,1	13,2
Norwegians' consumption abroad	100,0	100,0
Foreigners' consumption in Norway	15,3	15,9
Non-profit organisations	14,4	13,7
General government	8,9	9,6
Investments		
Fixed capital	35,2	35,5
Oil extraction and pipeline transport	41,7	39,3
Shipping	69,0	90,6
Fixed capital, mainland Norway	32,6	33,8
Manufacturing and mining	46,7	45,6
Other goods production	47,8	46,9
Other services	41,9	45,9
General government	26,9	28,5
Housing	18,5	18,6
Exports		
Total exports	23,4	17,4
Foreigners' consumption in Norway	15,3	15,9
Total final consumption	25,5	22,0

Source: Statistics Norway

business services contributed most to an increase in service exports in 2023. About half of the reduction in goods imports last year can be attributed to a fall in imports of cars. Imports of services in 2023 were again characterised by a catch-up after the pandemic, although to a lesser extent than in 2022. There was high growth in both volume and price, not least with respect to Norwegians' travel abroad.

A halving of the gas price and sharp fall in the oil price slashed the value of oil and gas exports by over 40 per cent, or NOK 820 billion, from 2022 to 2023. A weaker krone caused a rise in prices for export goods priced in Norwegian kroner, including oil and gas. Thus the depreciation of the krone curbed the reduction in the export value of oil and gas, but at the same time led to more expensive imports. On the other hand, the depreciation of the krone has strengthened the competitiveness of differentiated export products. The fall in prices for oil and gas exports in 2023 meant that the trade surplus was more than halved compared to the record year of 2022. It was the second highest trade surplus ever, nonetheless. The abrupt changes in oil and gas prices in the years 2021–2023 revealed how crucial these prices are for the balance of

trade. Foreign trade excluding oil and gas continues with a growing deficit. In 2023 import prices for traditional goods and services increased more than the corresponding export prices. As a result mainland Norway suffered a terms of trade loss in relation to our trading partners. On the other hand, total exports excluding oil and gas increased in volume more than total imports, thereby reducing the mainland export deficit.

On the assumption of a constant weak exchange rate in the projection period 2024–2027, we expect a lower rise in prices for mainland exports than for imports. This will boost competitiveness. For the next four years, we forecast that total mainland exports of goods and services will grow slightly faster than demand from our trading partners. This means that Norway will win market shares. Production and export of oil and gas will increase for the first two years and then appear likely to slow somewhat.

Given an expected reduction in oil and gas prices through the projection period (see Box 1.1 in Konjunkturtendensene 2024/1 (in Norwegian)), we therefore forecast a reduction in the trade surplus, which will nonetheless remain high. Taking account of a growing net factor income and transfers surplus as a result of the rising value of the petroleum fund, the current account surplus, measured as a share of GDP, is forecast to be in the range 12–16 per cent for the next four years.

Soft landing ahead

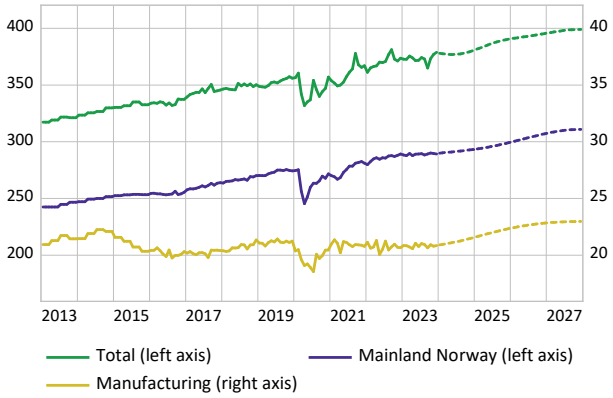
The most recently published quarterly national accounts showed mainland GDP growth of 0.2 per cent in 2023 Q4. In consequence, preliminary figures indicate annual mainland growth of 0.7 per cent from 2022 to 2023, which was also the forecast in our previous report.

Normalisation of prices for petroleum products after the record prices in 2022 led to a fall in overall GDP of a whole 10.2 per cent in 2023, measured in current prices. At the same time prices for goods and services increased significantly for most mainland industries, and the value of mainland GDP rose by 5.8 per cent.

The Norwegian economy is in a moderate cyclical downturn. Inflation and interest rate increases have contributed to this slowing of the economy.

Figure 15. Gross domestic product

Seasonally adjusted, billion 2021 NOK, month



Source: Statistics Norway

There was little growth in volume in mainland GDP through 2023, but the business sector situation is mixed. These are especially challenging times for construction, and there are large differences across manufacturing segments. Most service industries grew through 2023.

Maintenance of the gas infrastructure on the Norwegian continental shelf led to reduced production in the extraction industry in 2023 Q2 and Q3, but production had reverted to normal levels towards the end of last year. At the same time, offshore investment activity is high. Favourable tax conditions and high oil and gas revenue led to many new applications for field developments being submitted late in 2022. This has given oil-related manufacturing and services many new assignments.

The supplier industry, including construction of oil platforms and ships, grew substantially through 2023. However, according to the business tendency survey for manufacturing, mining and quarrying in 2023 Q4, industrial leaders report that order stocks among oil suppliers are falling and that activity associated with field development projects will peak in 2024. Production is thus expected to continue growing in Q1, but at a slower pace than previously.

Preliminary national accounts figures show a general decline among other manufacturing segments in 2023, and in the business tendency survey industry leaders report weak developments in production and demand. Through the whole of 2023, the diffusion indices for total production and new orders from domestic and export markets

remained under the switching point value of 50 that separates decline from growth. The outlook for 2024 Q1 is largely pessimistic.

The normalisation of post-pandemic household consumption, combined with increased consumer prices and interest expenses, has contributed to a decline in household-oriented manufacturing segments such as the furniture and food industries in 2023. At the same time, declining residential construction has reduced demand for construction materials and depressed activity in the wood and wood products industry, as well as in rubber, plastic and mineral products.

The national accounts figures for 2023 show negative developments for export-oriented manufacturing segments such as basic metals and production of industrial chemicals. However, the industrial leaders in the business tendency survey report that new orders from the export market are expected to improve somewhat in 2024 Q1.

Developments in other goods-producing industries were also weak last year. Some of these developments relate to non-cyclical factors, however: Fisheries were hampered in 2023 by reduced quotas of some important types of fish, and agriculture was impacted by drought in the early summer followed by extreme weather and high precipitation in the late summer. At the same time the precipitation resulted in strong growth in hydropower production. Conversely, windpower production was lower in 2023 than the previous year. Limited investment in new windpower production since the investment peak in 2019 and 2020 means that variations in weather and wind conditions now cause greater fluctuations in windpower production than before.

With a decline of 2.1 per cent, the construction industry was among those that contributed most to depressing mainland GDP growth in 2023. Gross product in the industry has fallen in each consecutive quarter since Q1 last year. This is largely attributable to reduced demand for new buildings due to the interest rate hikes of recent years. So far, however, the decline in the construction industry is relatively moderate given the fall in the volume of assignments and in household demand. According to Statistics Norway's building statistics, the number of housing start permits fell by 23.4 per cent in 2023, while the national accounts figures reveal a 15.6 per cent fall in household housing investment. In the most recent publication from Norges Bank's Regional Network, businesses report satisfactory activity in infrastructure projects and rehabilitation, which is helping to buoy up construction activity. However, the construction industry is announcing layoffs from after Easter, and we expect the decline in the industry to gather pace this year.

Activity in most service industries increased from 2022 to 2023. This is partly due to a rebound after the pandemic among household-oriented service industries such as accommodation and food services, cultural activities and passenger transport. Growth in these industries slowed through 2023 but remained positive through the year. This is due both to Norwegians' consumption of services remaining buoyant to a greater extent than their goods consumption, and to an increase in foreigners' consumption in Norway, largely thanks to the weak krone. There was also a high level of activity and steady growth through 2023 in financial and insurance activities, and in business services such as professional, scientific and technical services and information services. Companies in the Regional Network do report that activity growth in several of these industries has declined somewhat recently.

Gross product in wholesale and retail sales has fallen these past two years, as reduced household demand has depressed retail and car sales. Some of the decline in wholesale and retail sales is attributable to the normalisation of goods consumption, which was high during the Covid pandemic, while consumption of some product groups, such as cars and furniture, is now lower than before the pandemic.

The introduction of tighter rules for hire of labour has depressed activity in recruitment agencies. National accounts figures show that the gross product of aggregate administrative and support services, which include recruitment agencies, fell sharply in each consecutive quarter last year.

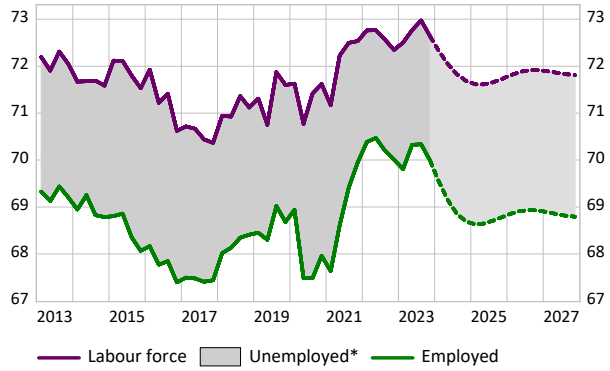
According to our projections, mainland GDP will rise by 0.9 per cent this year, roughly the same figure as published previously. As indicated in our last report, the weak growth projection is largely due to the fact that the fall in construction activity will increase. However we expect a soft landing,

and an upturn in the years ahead, such that the economy is in a close to cyclically neutral situation from 2026.

Unemployment will rise somewhat

Unemployment is still low, while the labour force participation rate is edging down. Going forward, we expect low economic growth to lead to rising unemployment and after a while a somewhat higher unemployment rate than the historical average. The labour force as a share of the population will fall somewhat but will remain at a high level. High immigration of refugees from Ukraine will increase both the labour force and unemployment.

Figure 16. Labour market status
Percent of population in working age, LFS



* Unemployment is measured as share of population in working age

Source: Statistics Norway

According to the Labour Force Survey (LFS), seasonally adjusted unemployment rose from 3.6 per cent in 2023 Q3 to 3.7 per cent in Q4, after lying at between 3.2 and 3.3 per cent through the whole of 2022. This is somewhat lower than the average unemployment rate of 3.9 per cent in the 2010s. Monthly figures for January show slightly rising unemployment. According to trend LFS figures, unemployment increased from 3.4 per cent at the beginning of 2023 to 3.8 per cent in December and 3.9 per cent in January 2024. The seasonally adjusted 3-month moving average for December to January exhibited a corresponding increase, to 3.9 per cent, from 3.6 per cent in the previous 3-month period. The trend figures represent the long-term tendency of the monthly figures.

LFS unemployment among persons aged 15–24 rose from 11.1 per cent in 2023 Q3 to 11.4 per cent in Q4. Unemployment in this age group is still close to the lowest observed since the financial crisis, while quarterly figures for the labour force participation and employment rates are historically high.

Seasonally adjusted registered unemployment as published by the Norwegian Labour and Welfare Organisation (NAV) bottomed out at 1.6 per cent in the period July–September 2022. It subsequently rose steadily, to 1.9 per cent in August 2023, and has remained at this level for 7 months, up to and including February 2024. The number of temporarily laid off persons is still low, accounting for 0.2 per cent of the labour force in February 2024.

After rising through most of 2023, seasonally adjusted employment according to the LFS dipped 0.1 per cent from 2023 Q3 to Q4. Growth compared with the same quarter the previous year was 1.2 per cent. In 2023 Q4, 69.9 per cent of the population aged 15–74 years was employed, down from 70.7 per cent in Q3. This is still higher than the average of 68.8 per cent for the 10-year period 2010–2019.

The labour force participation rate among persons aged 15–24 years has remained high. The monthly employment rate figure for this group, measured as a 3-month moving average, was 57.6 per cent in December 2023 after peaking in May 2023 at 59.3 per cent. By way of comparison, the average in the period 2010–2019 was 52.3 per cent.

Employment has increased in recent years among immigrants, i.e. residents born abroad with foreign parents and grandparents. In 2023 Q4, the number of wage-earners classified as immigrants was higher than ever, with growth of 1.1 per cent on Q3 and of 4.3 per cent compared with the same quarter the previous year.

In 2022 and 2023 respectively, 32 500 and 33 100 Ukrainian citizens immigrated to Norway. Immigration figures are expected to be equally high in 2024, but there is great uncertainty associated with these projections. Roughly a third of the immigrants from Ukraine were under 20 years old. According to figures from Statistics Norway's statistics on number of jobs and earnings, 11 000 immigrants from Ukraine were in work and received wages in January 2024. Of these, 6 600 had immigrated after the war began in 2022. They accounted for approximately 18 per cent of Ukrainians aged between 20 and 66 who have im-

migrated since the outbreak of the war. The low participation rate is partly due to many taking part in the introduction programme for newly arrived refugees before they look for work. NAV reports that Ukrainians accounted for 40 per cent of the increase in the fully unemployed and job-seekers on labour market programmes this past year. It will take time before immigration from Ukraine is reflected in LFS figures, mainly because refugees who live at reception centres or other kinds of non-private households are not included in the survey, and because the sample on which the survey is based is replaced gradually (1/8 of the sample is replaced every quarter).

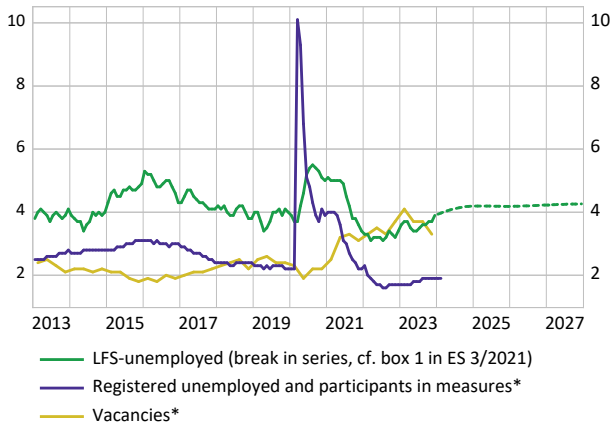
The national accounts show subdued growth in both employment and hours worked. Employment edged up 0.1 per cent from 2023 Q3 to Q4, while hours worked increased by 0.3 per cent. Employment growth in the past three quarters is the weakest since the end of 2021. Employment in 2023 Q4 was 0.7 per cent higher than in 2022 Q4, and hours worked were 1.0 per cent higher.

Hours worked in administrative and support services fell by 7.3 per cent from 2022 Q4 to 2023 Q4. Hours worked in construction fell by 0.2 per cent in the same period, and are still at a markedly higher level than in 2019. Whereas residential construction has fallen, other types of construction have remained buoyant. Administrative and support services include recruitment of labour for other industries, such as construction. The labour recruitment rules were tightened in April 2023, but it is unclear how much effect this has had. It is clear, however, that it has affected the number of clerical and blue collar workers finding work through recruitment agencies. This may have resulted in workers being moved in the statistics from administrative and support service activities to construction work.

The number of foreign commuters (non-resident wage-earners) fell by 8.7 per cent from 2023 Q3 to Q4, to 88 000 persons. This is nonetheless roughly the fourth quarter average for the period 2016–2019, but 4.7 per cent lower than 2022 Q4.

The labour force dipped slightly from 2023 Q3 to Q4, but is still at a historically high level, 1.2 per cent higher than in the same quarter in 2022. The participation rate, i.e. the labour force as a share of the population, was 72.7 per cent in December

Figure 17. 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

2023, calculated as a seasonally adjusted 3-month moving average. This is close to the highest level observed since 2010.

Demand for labour was high in 2021 and 2022 but fell through 2023. According to NAV, the supply of vacancies increased substantially in January 2024, to 63 000, which was 2.1 per cent higher than in January 2023. This is close to the historically high supply registered in 2022.

Statistics Norway publishes figures for the ratio between the stock of vacancies and the total number of jobs based on a questionnaire circulated among businesses.[3] This survey includes more types of announcements than are covered by NAV's figures. According to the survey, the number of vacancies in 2023 Q1 was at the highest level recorded since the start of the survey in 2010. The share of vacancies was then 4.3 per cent. The share sank through 2023, and was 3.3 per cent in Q4, which is still a high number of vacancies.

The labour market has been tight through 2022 and 2023. Almost no employment growth is expected in 2024 and 2025. Thereafter we expect low growth for the remainder of the projection period up to 2027. We expect that the immigration of asylum-seekers from Ukraine will increase both the labour force and unemployment somewhat in the projection period. How pronounced the increase will be is uncertain, with respect to both

[3] See Rothe, J. S. and Gading, R. (2023): Stabilt tal på ledige stillingar [Stable vacancy figures].

Box 4. Unemployment and labour market flows

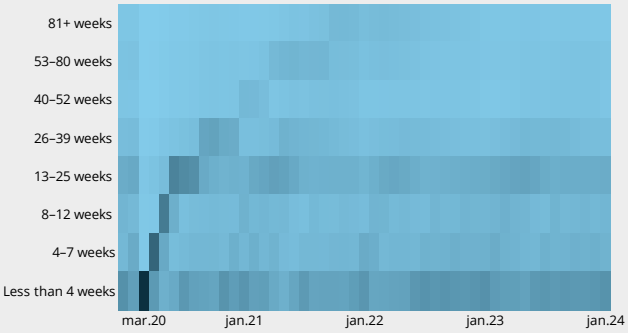
Unemployment usually varies through the business cycle, increasing in economic downturns and falling during upturns. In the course of a business cycle, many lose their jobs and many find new jobs. This brings about changes in the number of unemployed. In this box we try to quantify whether inflows into or ouflows from unemployment contribute most to the change in the unemployment rate.

If we disregard movements into and out of the labour force, the change in the number of unemployed is defined as the sum of employed persons transitioning from employment to unemployment (which takes place at a rate s) less unemployed persons transitioning from unemployment to employment (which takes place at a rate *f*).[1] The transition rates (s and f) are not directly observable from macro figures, but can be derived using the method described in Elsby et al. (2013) together with data on the rate and duration of the unemployment. We use NAV figures for the number of persons registered as fully unemployed (as a share of the labour force), and the distribution of durations among those registered as fully unemployed (in weeks).

We can identify the outflow from unemployment from the change in the unemployment rate and data on the distribution of durations among those registered as fully unemployed. For example, Figure 1 shows how the distribution of durations among those registered as fully unemployed with NAV changed in the period January 2020–January 2024. In March 2020, over 300 000 persons were registered as fully unemployed as a consequence of the lockdown in connection with the Covid pandemic, and about 83 per cent of them thus had a duration of less than 4 weeks. In March 2021 the number registered as fully unemployed had fallen to slightly over 119 000, and about 25 per cent of them had been unemployed for less than 4 weeks. During the same period, the share of those registered as fully unemployed for a duration of 40–52 weeks had risen from 1 per cent to 9 per cent, which indicates that many were still registered as fully unemployed a year after the first lockdown.

Since actual unemployment can be well approximated by the implied unemployment rate in the absence of net labour market flows, we can decompose the change in unemployment (measured in percentage points) into contributions from flows into and out of unemployment.[2] This decomposition, carried out for each year in the period 1986–2022, is shown in Figure 2. We see that the change in the unemployment rate is largely driven by inflow to unemployment (blue columns) but that the contribution has varied over time. For example, inflow led to unemployment increasing by 3.4 percentage points from 2019 to 2020, while outflow reduced it by 0.7 percentage

Figure 1. Duration of being registered as fully unemployed with NAV
Number of weeks. January 2020 – January 2024



[1] The darker blue indicates a larger percentage of those registered as fully unemployed in the duration category. Source: NAV

point. In other words, the large increase in unemployment in connection with the start of the pandemic was driven by a pronounced increase, and then a sharp fall, in the inflow to unemployment rather than by the inflow increasing as much as the outflow fell.

Between January 2023 and February 2024, the number of persons registered as fully unemployed, measured as a seasonally adjusted share of the labour force, increased from 1.7 per cent to 1.9 per cent. Figure 3 shows the same decomposition as in Figure 2, but for the period 2023 Q1 to 2024 Q1.[3] The change here is expressed as change relative to the same quarter the previous year, as figures for duration of being registered as fully unemployed are not published as seasonally adjusted data series.

We see a marked change in the composition of contributors to the change in the unemployment rate. From 2022 Q1 to 2023 Q1, lower inflow to unemployment reduced the change in the unemployment rate by just over 1 percentage point. Conversely, from 2023 Q1 to 2024 Q1, the inflow pushed up the change in unemployment by 0.6 percentage point. Although the change in fully unemployed numbers was as large in 2023 Q4 as in 2024 Q1, the inflow in 2024 Q1 contributed considerably more, in relative terms, to the change.

References

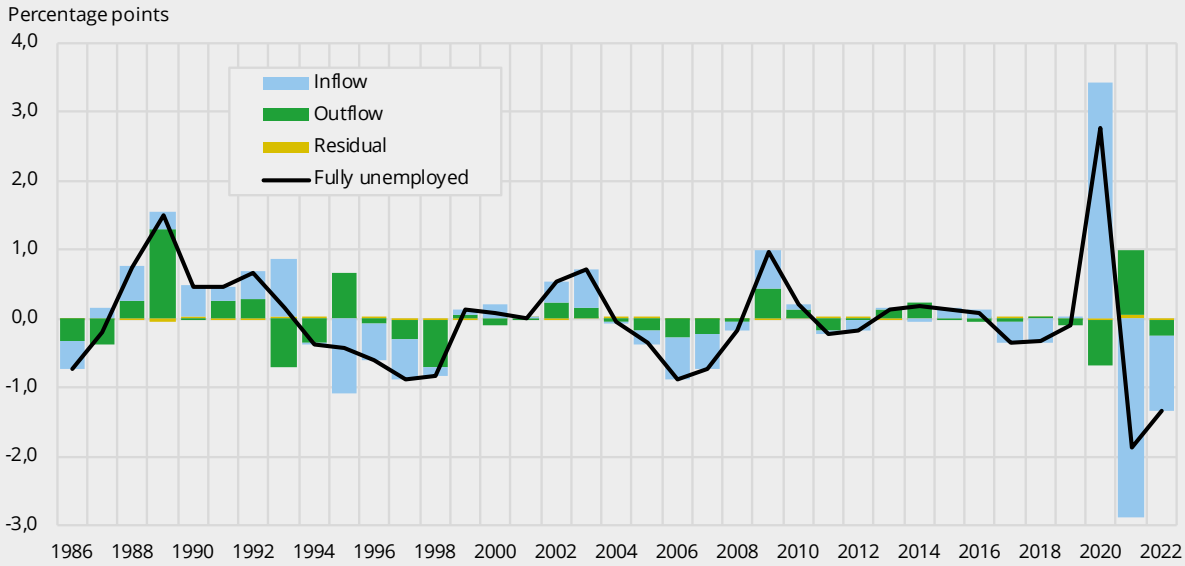
Elsby, M., Hobijn, B. and Şahin, A. (2012): Unemployment Dynamics in the OECD, *The Review of Economics and Statistics,* 95(2), 530–548.

[1] The change in the unemployment rate (u), measured as a share of the labour force, can be expressed as: $\dot{u}_t = s_t(1-u_t) - f_t u_t$. We do not distinguish between different states outside unemployment (employment and economic inactivity), and thus assume implicitly that there is no growth in the labour force from one period to the next.

[2] The implied unemployment rate in the absence of net labour market flows, measured as a share of the labour force, can be expressed as: $u_t^* = s_t/(s_t + f_t)$. Note that there may still be large gross flows between labour market states when the implied unemployment rate is calculated. In our data, the correlation between actual unemployment (u) and the implied unemployment rate in the absence of net flows (u^*) is equal to 0.999.

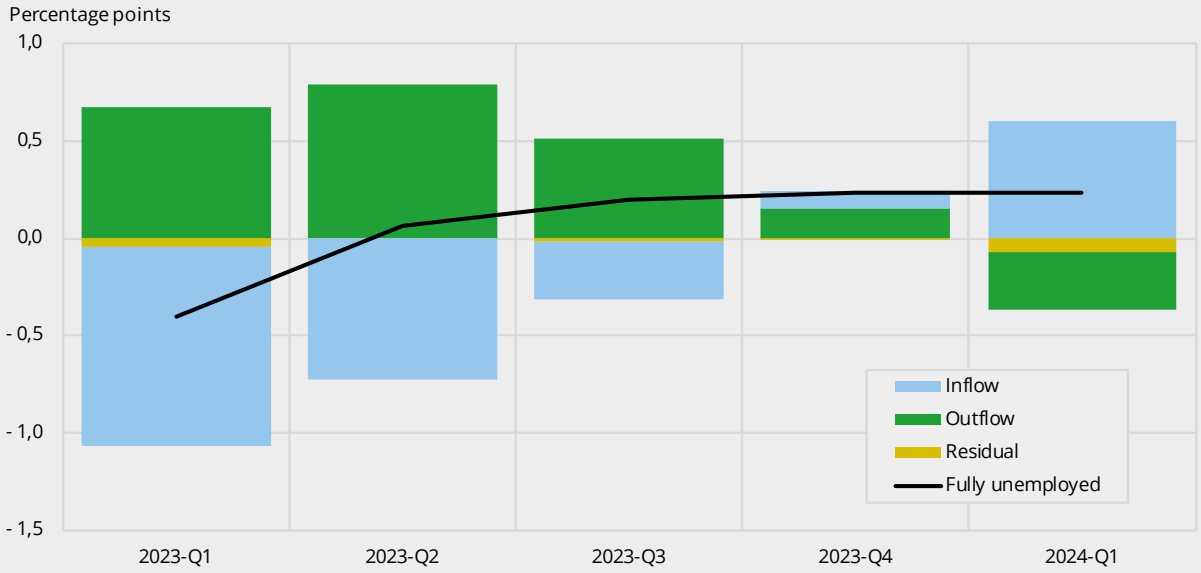
[3] The quarterly figures are based on the average of monthly figures (unadjusted) and duration of being fully unemployed. The quarterly figure for 2024 Q1 is based on monthly observations for January and February 2024.

Figure 2. Decomposition of change in the unemployment rate
Fully unemployed as a share of the labour force. Change from previous year. Percentage points. 1986–2022[1]



[1] The residual is the difference between the change in unemployment and the change in the implied unemployment rate in the absence of net labour market flows
Sources: NAV and Statistics Norway

Figure 3. Decomposition of change in the unemployment rate
Fully unemployed as a share of the labour force. Change on same quarter previous year. Percentage points. 2023 Q1–2024 Q1[1]



[1] The residual is the difference between the change in unemployment and the change in the implied unemployment rate in the absence of net labour market flows.
Sources: NAV and Statistics Norway

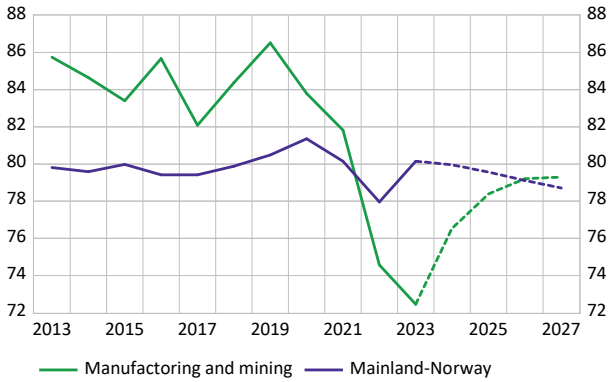
how many will come in the future and how many will return home in due course. Employment will not keep pace with the increase in the working age population, with the result that the employment rate will fall somewhat and unemployment will rise. We foresee 4.1 per cent unemployment in 2024, and then a slight rise to around 4.2 per cent in the period up to 2027. The sudden halt in residential construction will put more construction workers out of work. The labour force will increase by 0.4 per cent in 2024 then exhibit weak growth through the remainder of the projection period.

Real wage growth this year

National accounts figures show growth in average annual wages of 5.2 per cent from 2022 to 2023. Assuming a rise of 5.5 per cent in the consumer price index (CPI) in the same period, this means a 0.3 per cent reduction in average real wages in 2023. This was the third consecutive year with either zero or negative growth in average real wages.

Preliminary national accounts figures indicate that the labour share, which is a measure of the percentage of wealth creation in the economy that accrues to workers, is estimated to be 71.6 per cent for manufacturing in 2023. This figure is down from 73.8 per cent in 2022 and substantially lower than the average of 82.2 per cent for the period 2009–2021. In manufacturing, the industry group food, beverages and tobacco products, which accounts for 30.0 per cent of the operating profit and 19.4 per cent of labour costs in manufacturing as a whole, pushed down the average labour share in 2023.[4] We forecast that the labour share in manufacturing will pick up to about 75 per cent in 2024 and up further to around 78 per cent by the end of the projection period; see Figure 18.[5] The rise is largely attributable to lower operating results in the near term compared with recent years, but there is great variation across manufacturing segments. See Box 5 for a discussion of how inflation may be affected if annual wage growth increases more than our projection.

Figure 18. Wage share
Calculations based on factor income adjusted for income of self-employed, percent



Source: Statistics Norway

The Technical Reporting Committee on Income Settlements (TBU) calculates annual wage growth for the largest negotiating areas. Preliminary estimates by the TBU show annual wage growth for manufacturing workers in businesses under the Confederation of Norwegian Enterprise (NHO) of 5.0 per cent from 2022 to 2023, while the corresponding growth rate for clerical employees in manufacturing was 4.0 per cent. Annual wage growth for NHO manufacturing businesses overall from 2022 to 2023 is calculated to be 4.8 per cent. This is 0.4 percentage point lower than the norm of 5.2 per cent estimated by the NHO, in agreement with the Norwegian Confederation of Trade Unions (LO), for the 2023 wage settlement.

Growth in average annual wages can be decomposed into contributions from carry-over, pay increases and wage drift. The carry-over is the difference between the annual wage level at the end of the previous year and the average annual wage level that year, and provides important information about annual wage growth for the current year. The negotiated pay increase is the wage increase arising from central negotiations. Wage drift is the sum of all factors that affect annual wages other than carry-over and negotiated pay increase.

For manufacturing employees in NHO businesses, the carry-over was 1.4 percentage points, the negotiated pay increase 1.9 percentage points and wage drift 1.7 percentage points in 2023. For clerical employees in manufacturing, wage drift was 2.0

[4] Note that the operating result figures in 2023 are more uncertain than normal because of large fluctuations in prices for production and intermediate goods. See Engum, J. and Slaatsveen, I. (2024): Weak development in the Norwegian economy, Statistics Norway.

[5] The labour share in manufacturing that is discussed in this chapter corresponds to the national accounts definition of manufacturing, and is not adjusted for the self-employed, whereas the labour share in manufacturing shown in Figure 18 also includes mining and quarrying and is adjusted for the self-employed.

percentage points, and lower bonus disbursements are initially estimated to push down growth by 0.5 percentage point. For this group, wage drift made a smaller contribution to annual wage growth in 2023 than it did in 2022.

The TBU's preliminary estimate of the carry-over into 2024 for manufacturing employees in NHO businesses overall is 1.7 percentage points, with 1.6 percentage points for manufacturing workers and about 1.8 percentage points for clerical employees. The carry-over from 2023 to 2024 is 2.5 percentage points for central government employees and 1.8 percentage points for local government employees. A preliminary estimate of the combined carry-over into 2024 is 1.9 percentage points, which is somewhat higher than the average for the period 2019–2023.

According to our projections, annual wage growth will be 5.2 per cent in 2024 before falling to just under 4 per cent towards 2027. Given forecast CPI inflation of 4.0 per cent for 2024, the projections indicate real wage growth of slightly over 1 per cent in the current year. Our projections indicate real wage growth of around 1.5 per cent for the years 2025–2027.

Inflation is slowing

The annual rise in the consumer price index (CPI) ended at 5.5 per cent in 2023, and inflation was thus only slightly lower than in 2022, when the CPI rose by 5.8 per cent. In recent years, consumer price inflation has been high in a historical perspective, at a level not seen since the 1980s. In 2022, the annual rise in underlying inflation measured by the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was the highest since Statistics Norway began measuring underlying inflation in the early 2000s, and it increased further in 2023. Inflation measured by the CPI-ATE was as high as 6.2 per cent in 2023, a 2.3 percentage point increase on 2022, when annual inflation was 3.9 per cent. The difference between the rates of increase of the CPI and the CPI-ATE in recent years is mainly due to movements in energy prices, while tax changes have contributed to only a limited extent. I 2022 high prices for energy products added an annualised 1.7 percentage points to CPI inflation, while in 2023 lower energy prices reduced the annual rise in the CPI by 0.8 percentage point. Energy support for households, which was introduced in December 2022, has dampened the fluctuations in CPI inflation.

Global inflation accelerated after the pandemic. With lower Russian gas exports to Europe in the late summer and autumn of 2021, electricity prices in Europe and Southern Norway surged. The price rise spilled over to other energy products and the global rise in prices for energy-intensive products such as aluminium and fertiliser increased further. The rise in prices for many commodities peaked around the time war broke out in Ukraine, in February 2022. An already strained supply situation in the European gas market was exacerbated by the war in Ukraine, and contributed to an explosive increase in the price of natural gas, which fed through into higher prices for electricity and other energy carriers, both in Norway and globally. With lower global economic growth, prices for commodities in the world market began to fall through 2022. The blowing up of the Nord Stream 1 and 2 gas pipelines in September 2022 did cause a renewed strong upswing in natural gas prices, which were immediately reflected in electricity prices in both the European and the Nordic markets. At the beginning of 2023, Europe had managed to compensate for the loss of Russian gas by partly using floating terminals to store LNG. Electricity prices fell in both Europe and Norway thanks to a mild winter. Because of the fall in electricity prices in spring 2023 there were prospects of lower inflation in both Europe and Norway. Inflation was relatively high at the start of 2023, and because there is a time lag in the pass-through of prices from intermediate goods to finished goods, it takes time before a reduction in production costs brings down the inflation rate. The global consumer price index also fell last year, while a marked depreciation of the krone in the spring was reflected in Norwegian inflationary developments through 2023.

The import-weighted krone exchange rate weakened by 8.5 per cent from 2022 to 2023. The Norwegian economy features a high content of imports in both intermediate products and consumption, and much of last year's consumer price inflation can be attributed to a weakened krone. Wage growth picked up somewhat from 2022 to 2023, entailing higher costs for the business sector. According to our calculations, productivity growth, which helps to curb the effects of higher wage growth on businesses' costs, was weak last year. In

Box 5. Will one percentage point higher wage growth result in high inflation?

The labour share in manufacturing, which is a key variable in wage negotiations, has fallen considerably in recent years and is now well under the average so far in the 2000s. Good profitability in manufacturing industries provides scope for high wage growth. However, inflation is still high, even after a considerable decline through 2023. Norwegian households have experienced falling real wages for two consecutive years, even though nominal wage growth in 2023 was the highest since the economic expansion around 2008. At the same time, the interest rate level has increased substantially, which has further reduced the purchasing power of households with debt. Unemployment is also rising.

One of the requirements from the employee unions in this year's wage negotiations is growth in real wages which translates into higher purchasing power. At the same time, high wage growth without a corresponding increase in productivity will exert further inflationary pressures, which may lead to more interest rate hikes.

In this box, we consider how wage growth affects inflation measured by the consumer price index (CPI). To do so, we compare the projection scenario with an alternative scenario in which annual wage growth is 1 percentage point higher in 2024 than in the projection scenario; see Figures 1a and 1b. In the alternative scenario, the level of annual wages remains 1 per cent higher than in the projection scenario throughout the projection period. In order to illustrate how wage growth affects consumer prices, we consider a number of variants with different assumptions about the krone exchange rate, import prices and import shares, and the rate of price pass-through. The analysis is based on the KVARTS macroeconomic model.[1] In order to isolate the effects of wage growth on inflation, we assume that monetary and fiscal policy, as well as global economic developments, are the same as in the projection scenario.

According to our calculations, a 1 percentage point increase in annual wage growth in 2024 will result in a 0.2 percentage point rise in both the price level and inflation the same year. Provided that the krone exchange rate remains unchanged, the price level will gradually rise, and after four years the CPI level will be 0.4 per cent higher than in the projection scenario. Inflation will gradually fall back to the projection scenario level and from 2026 the difference will be less than 0.1 percentage point. However, a change in the krone exchange rate as a result of higher domestic inflation may change this picture. In the absence of a central bank response, the depreciation of the krone will lead to inflation remaining at 0.1 percentage point over the level in the projection scenario. In the following, we consider the different channels by which wage growth affects consumer prices.

Various factors are used in the production process to make a product or provide a service. Labour is one such factor. Another factor is intermediate inputs, which consist of goods and services that businesses either import or buy from other Norwegian businesses.

In KVARTS, businesses set their short to medium range prices by means of add-ons to the variable unit costs; see Boug et al. (2017, 2023). The variable unit costs include those associated with both labour and intermediate inputs, and are affected by changes in capital intensity and higher total factor productivity in the individual industries. The add-on ensures cost coverage and that businesses achieve a profit margin. When the price of an intermediate input rises, businesses will adjust prices for their goods and services to compensate for the increase in the variable unit costs, so that they preserve their profit margin. Higher product prices will also increase the user cost of capital because investment prices will increase. In isolation, capital intensity is thus reduced, which leads to lower productivity, higher unit costs and hence a further increase in product prices.

How much wage increases are reflected in consumer prices depends on how large a share wages represent of the cost base of affected industries and the industries' contributions to the CPI. Labour costs for manufacturing represent about 15 per cent of the variable unit costs, while the share is 50–60 per cent for most non-traded sectors. One exception is housing services, which include rent and have a weighting of about 20 per cent in the CPI. There are no employees in this industry, and the price of housing services is therefore not directly

Figure 1a. Annual wages.
Percentage change

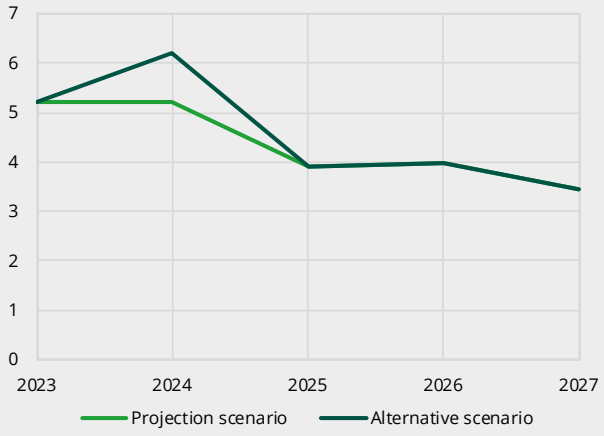
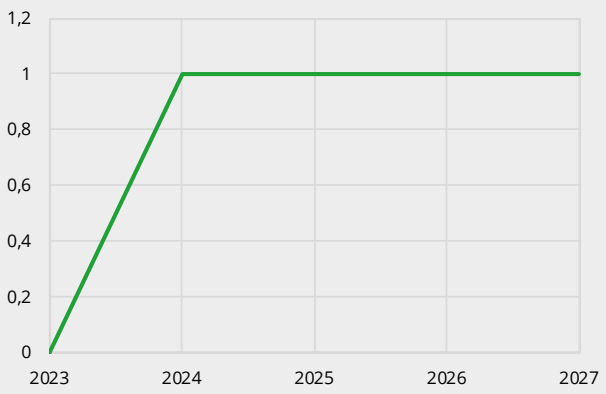


Figure 1b. Annual wages.
Deviation from the projection scenario in percentage points



[1] See Boug et al. (2023) for a more detailed description of KVARTS.

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Figure 2 . The CPI.
Effects of 1 percentage point higher annual wage growth. Deviation from the projection scenario in per cent. Exogenous monetary and fiscal policy

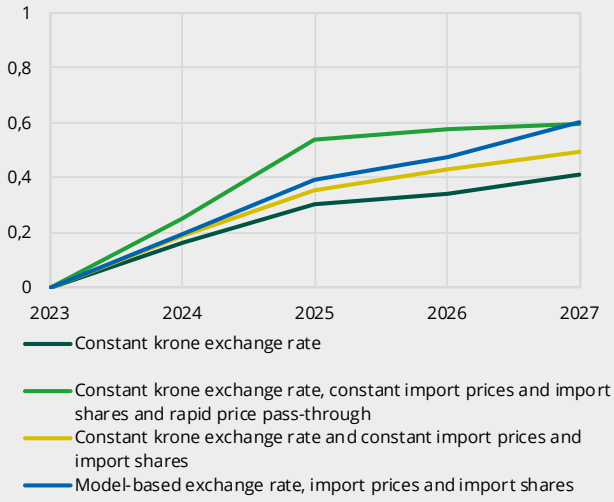
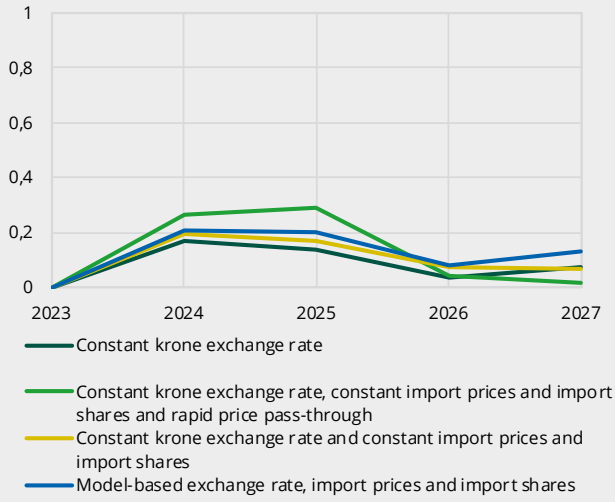


Figure 3. Inflation.
Effects of 1 percentage point higher annual wage growth. Deviation from the projection scenario in percentage points. Exogenous monetary and fiscal policy



affected by increased labour costs. However, the price is affected indirectly, as rental prices are largely index-regulated in pace with CPI inflation. Although labour costs make up 38 per cent of the total variable unit costs of mainland businesses, this share is only 29 per cent when industries are weighted on the basis of their contribution tor the CPI.

The consumer price index defines around 30 per cent of products as imported consumer goods. However, the prices of these products also include the wholesale and retail trade's gross mark-ups and taxes, as well as transport margins; see Box 3. According to our calculations, these constitute around 10 per cent of the CPI. This means that about 20 per cent of the CPI is determined by prices for imported consumer goods.[2]

Assuming that businesses rapidly adjust their prices to the increase in labour costs, and that import prices, businesses' import shares and exchange rates remain unchanged, an increase in labour costs of 1 percentage point means a 0.3 per cent rise in the CPI, as shown in Figure 2 (light green line)[3]. The CPI will increase by 0.6 percentage point in 2026 as a consequence of a further cost increase due to all industries adjusting up their prices, which will gradually make intermediate inputs more expensive. The increase in the CPI will remain around 0.6 per cent until the end of the projection period.

Assuming unchanged import prices and import shares, but slower price pass-through, CPI inflation will still be lower in 2027 than in the case of more rapid price pass-through (yellow line).[4] [5]

Import prices are largely determined by changes in the krone exchange rate and inflationary developments abroad. However, foreign exporters also take account of the situation in the Norwegian market, and all else being equal, will increase their prices when inflation rises in Norway.[6] This factor in isolation increases inflationary pressures in Norway. However, businesses can reduce their costs by using in their production more imported intermediate products, which become relatively cheaper than goods produced in Norway when domestic labour costs increase. The pressure on prices is therefore reduced when the import shares in production increase for a given krone exchange rate. In accordance with these assumptions, in 2027 the CPI will be 0.1–0.2 percentage point lower than when both import shares and import prices remain unchanged (dark green line).

So far, changes in the krone exchange rate have not been taken into account. There is great uncertainty as to what determines the exchange rate at any time. The projections in this box are based on a re-estimated version of the exchange rate relationship in Benedictow and Hammersland (2023). This relationship is based on a departure from the hypothesis of uncovered interest rate parity in the form of a risk premium that takes account of several types of risk. The blue line illustrates the effect of the depreciation of the krone. An increase in annual wages leads to a weakening of the krone. In 2024, the increase in both the price level (Figure 2) and inflation (Figure 3) is 0.2 percentage point , which is the same as the alternative with an unchanged krone exchange rate.[7] However, the depreciation leads to considerable pressure on consumer prices as a result of more expensive imports, and at the end of the projection period the price level is 0.6 percentage point

[2] Providing that all domestic market prices remain unchanged, a 1 per cent increase in import prices will increase inflation by 0.2 percentage point.
[3] This is consistent with labour costs constituting around 30 per cent of the variable unit costs, weighted according to their effect on the CPI, as described above.
[4] Sticky prices are a known phenomenon in the literature; see Nakamura et al. (2013).
[5] The model projections show that CPI inflation only reaches 0.6 percentage point compared with the projection scenario in 2028.
[6] According to the pricing-to-market hypothesis, businesses price the same product differently in different markets after adjusting for exchange rate changes and other costs; see Boug et al. (2013).
[7] A similar exercise has been conducted with the NORA macroeconomic model. A change in the trade union's reference benefit in the model which leads to a 1 percentage point increase in nominal wage growth expressed as an annual average in the initial year results in a 0.12 per cent rise in the CPI in the same period. The NORA model is documented in Gundersen et al. (2024).

higher than in the projection scenario. In the absence of a central bank response, inflation will remain 0.1 percentage point higher than in the projection scenario, and the difference in price level will thus continue to rise further.[8]

Since the start of the pandemic, inflation has varied from 1.3 per cent in 2020 to 5.8 per cent in 2022. Significant factors underlying inflationary trends in recent years include changes in energy prices, price movements among our trading partners, and the depreciation of the krone. The analysis presented here shows that a temporary increase in wage growth, and hence a permanent increase in the wage level, have a relatively limited effect on inflation, provided that the krone exchange rate remains unchanged. A 1 percentage point permanently higher wage level results in only a 0.2 percentage point increase in inflation the first year, and less in subsequent years. However, the projections show that in the absence of a monetary policy response, the weakening of the krone as a consequence of the increase in annual wages will lead to inflation lying 0.1 percentage point higher than the level in the projection scenario. There is always uncertainty associated with these projections, and the KVARTS macroeconomic model represents a simplified description of the mechanisms in the economy.[9]

[8] It is assumed in the analysis that annual wage growth increases by 1 percentage point more than in the projection scenario in 2024 alone, but that growth is consistent with the projection for the rest of the period. The increase in export prices resulting from the krone depreciation will increase profitability for Norwegian exporters which, viewed in isolation, will push up wage growth. This will place further pressure on prices. If this channel is activated, the CPI is raised further and remains lying 0.7 per cent higher than in the benchmark scenario in 2027. See Box 2 in Economic Survey 4/2023 for further details of how depreciation of the krone affects price and wage inflation.

[9] So far, for example, economic literature has not identified a holistic theory that links businesses' expectations to their pricing. See for example Born et al. (2023).

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the economy, all industries are interwoven through the purchase and sale of products, which in their turn are used as inputs into the production of a good or service. Cost increases spread as a result of knock-on effects through the entire economy, leading to increased prices for goods and services. In recent years, the business sector appears to have largely succeeded in passing cost increases through into higher selling prices. Because of the time lag in the setting of consumer prices, lower energy prices appear to have been one reason why the inflation rate, measured by the 12-month rise in the CPI-ATE, slowed through 2023.

Prices for both goods and services contributed to pushing annual CPI-ATE inflation up further from 2022 to 2023. The rise in underlying inflation was particularly pronounced in the first half of the year. The 12-month rise in the CPI-ATE increased from 6.4 per cent in January 2023 to a peak of 7.0 per cent in June. It then slowed gradually to 5.3 per cent in January 2024 and fell further to 4.9 per cent in February. Decomposing the 12-month rise in January into half-yearly contributions, we find that the CPI-ATE rose 4.9 percentage points from January to July 2023, but by no more than 0.4 percentage point from July 2023 to January 2024.

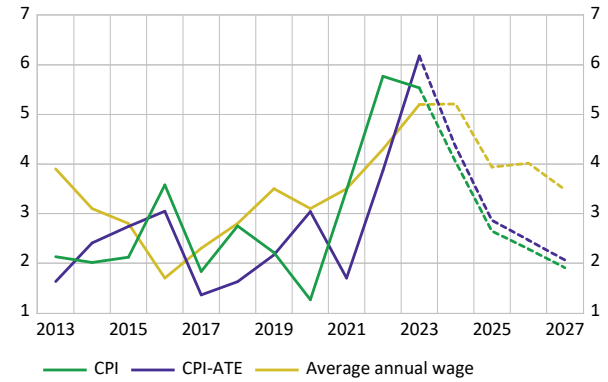
According to the CPI-ATE, the rise in prices for food and non-alcoholic beverages was 10 per cent from 2022 to 2023, up further on the previous year. There was moreover a significant rise in prices for both Norwegian and imported agricultural products. Prices in this product group, which rose at a particularly high pace from January to July, were the primary driver of inflation in the first half of the year and of the further rise of prices in the CPI-ATE through the year. The year-on-year rise peaked at 13.6 per cent in June, but fell back to 9.1 per cent in July. The actual price level for food and non-al-

coholic beverages peaked in July and, according to the CPI-ATE, prices were subsequently lower than in July for the whole period from August 2023 up to and including February 2024. With lower prices, the inflation rate for this product group has also fallen, and in January 2024 ended at 8.7 per cent. February and July have traditionally been the months when food prices rise most. Due to an unusual fall in the price level from January to February, the 12-month rise in prices for food and non-alcoholic beverages fell further to 6.3 per cent in February. A high carry-over caused inflation to remain high at the beginning of the year. There was a particularly high rise from 2022 to 2023 in prices in the product group fruit and vegetables. In addition to the weak krone, the year 2023 featured drought and poor harvests in both Norway and Europe. The poor grain harvest in Norway last year increased the need for grain imports. According to the Norwegian Agriculture Agency, global prices for grain and some other important agricultural products were lower than the Norwegian price level at the beginning of the year. We assume in our projections that lower energy and fertiliser costs will contribute to slowing the rise in food prices, both domestically and globally. Given the krone exchange rate that forms the basis for our projection, and taking account of the abnormally high prices observed for these products last year, the rise in prices for fruit and vegetables is likely to fall in the first half of the year. This will lead to the 12-month rise in the CPI-ATE continuing to slow.

According to the CPI-ATE by supplier sector, prices for imported goods excluding agricultural products rose by 6.1 per cent from 2022 to 2023. This, too, was an increase on the previous year, when inflation was 3.9 per cent. The rise in prices for furniture and household equipment was high in both 2022 and 2023, while the rise for other product groups with a high import content, such as clothing and footwear, audiovisual equipment and IT equipment, was higher in 2023 than in previous years. In early 2024, weak movements in car prices are helping to curb the rise in prices for import goods. The electric vehicle market is characterised by low demand and many new operators. There is now greater price competition than previously in a market with a short delivery time for new EVs. A number of carmakers conducted sales campaigns at the beginning of the year. We have assumed that car prices will continue to move weakly through 2024.

Figure 19. Consumer price indices and annual wage

Change from previous year in percent



Source: Statistics Norway

Given the global rise in prices for finished products forming the basis for our projections, the rate of price inflation on other import goods will also slow in the course of the year if the krone is kept constant at the current level.

According to the CPI-ATE, the rise in the rental price index increased by 3.9 per cent in 2023 compared with 2.0 per cent in 2022. With increased interest rates, a high rise in municipal charges, strong population growth and high demand for rental accommodation, the rise in rental prices was expected to accelerate last year. The 12-month rise in the rent index gathered pace through the year, from 2.9 per cent in January 2023 to 4.6 per cent in December, and was well over 4 per cent in both January and February 2024. Many of the factors contributing to higher rents in 2023 still apply in 2024, and demand for rental homes is expected to remain buoyant. Rents under existing leases are mainly adjusted according to the rise in the CPI. Although CPI inflation is expected to fall in 2024, we assume in our projection that the increase in rents will be high this year too. Overall, rents account for more than 20 per cent by weight of the CPI-ATE.

According to the CPI, the rise in prices for charter tours and air travel was very high in 2023. Although the price level is not expected to fall from 2023 to 2024, we expect the rate of price rises in this segment to be appreciably lower. In other services, the Storting has decided that the maximum price for parents' contribution to day-care centres is to be changed from 1 August 2024. The monthly rates for parents' contribution will be cut from this date, slightly reducing the rise in the CPI-ATE for service groups in which labour is a dominant factor.

Table 4. The consumer price index – goods and services by consumption group

	Weight[1]	Change on previous year. per cent					
		2020	2021	2022	2023	Jan.2024	Feb. 2024
Total	1 000	1.3	3.5	5.8	5.5	4.7	4.5
Food and non-alcoholic beverages	121.4	3.2	-2.0	6.5	9.8	8.7	6.3
Alcoholic beverages and tobacco	39.0	2.7	-1.8	3.7	5.0	4.7	5.6
Clothing and footwear	48.0	-1.7	-1.3	0.6	3.8	4.1	6.9
Housing, lighting, fuels	239.4	-3.5	10.0	6.7	1.9	3.1	3.3
Of which: Electricity including grid charges	34.9	-29.4	70.8	19.0	-7.1	-3.6	-3.0
Furnishings, household equipment	66.0	6.8	3.7	6.5	8.5	7.0	5.1
Health	34.1	2.9	3.0	2.5	3.7	3.8	4.1
Transport	147.5	1.6	2.1	8.9	7.1	1.6	2.5
Of which: Purchase of vehicles	62.2	1.8	2.0	4.3	7.4	-2.0	0.3
Communications	20.1	4.8	1.5	1.0	5.6	2.8	1.4
Recreation and culture	124.2	3.4	3.1	4.1	8.4	7.2	8.5
Education	4.6	3.1	1.9	2.1	3.1	5.4	5.4
Restaurants and hotels	73.2	2.1	3.3	7.4	6.7	6.3	3.7
Miscellaneous goods and services	82.5	3.6	2.6	2.5	2.0	3.8	3.1

[1] The weights apply from January 2024 to December 2024.
Source: Statistics Norway

Table 5. The consumer price index adjusted for tax changes and excluding energy products (CPI-ATE). by supplier sector

	Weight[1]	Change on previous year. per cent					
		2020	2021	2022	2023	Jan. 2024	Feb. 2024
Total	**1 000**	**3.0**	**1.7**	**3.9**	**6.2**	**5.3**	**4.9**
Norwegian products	134.7	3.0	1.4	6.0	8.4	7.4	5.4
Imported goods	345.5	2.9	1.5	4.1	6.6	4.3	5.0
Rent	214.8	1.5	1.3	2.0	3.9	4.5	4.3
Services excluding rent	305.0	4.1	2.3	4.1	6.3	6.2	5.0
- with wages as dominant price factor	94.3	3.0	3.6	3.0	3.1	3.5	3.7
- with other important price components as well	210.7	4.6	1.7	4.7	7.8	7.4	5.5

[1] The weights apply from January 2024 to December 2024.
Source: Statistics Norway

The average electricity spot price in Norway was more than halved from 2022 to 2023. Like 2022, the year 2023 was characterised by considerable price differences across the country, with Southern Norway generally having the highest price level. Average spot prices fell from 2023 Q1 to Q2. High precipitation and winds led to extensive unregulated electricity production and a further fall in prices from the summer and into the autumn, with extreme weather causing very low spot prices at times. Cold weather pushed spot prices up again from October and for the remainder of the year before they fell across the board from December last year and into 2024 in all Norwegian price areas. According to the aggregated gas storage inventory (AGSI), Europe's gas stocks were 62 per cent full at the beginning of March, and contained 40 TWh more stored gas than at the same time last year. The combination of low gas prices and cheaper CO2 quotas has lowered production costs for gas-powered electricity in Europe. Forward prices indicate that prices for gas power will remain low. This has fed through into prices for Nordic forward contracts, which have fallen considerably since the beginning of December. Developments in electricity spot and forward prices indicate that electricity prices will fall further from 2023 to 2024. Developments in grid charges, including excise duty on electricity, are having a countering effect, and we have assumed a substantial rise from 2023 to 2024. On balance, we assume that household electricity prices, including grid charges and excise, will fall by about 5 per cent from 2023 to 2024. The absence of energy support means that the fall in the price of electricity used in cabins and leisure homes will be larger than for primary homes once again this year. It is assumed, in accordance with the Storting decision, that energy support for households for the whole of 2024 will be based on the spot price from hour to hour, and that there will be a 90 per cent deduction from spot prices of over 73 øre/kWh all year with a monthly consump-

tion cap of 5 000 kWh. The threshold for receiving energy support has been raised from 70 to 73 øre per kilowatt hour from 2023 to 2024, but is otherwise somewhat more generous than last year, when energy support from January to August was based on monthly average prices. The average energy support rate was 90 per cent last year, except for April and May, when the rate was 80 per cent.

The Norwegian Energy Regulatory Authority (RME) has established an income cap for ordinary electricity supply companies excluding the system operator of the Norwegian power system, Statnett, of NOK 24.9 billion for 2024, which is somewhat lower than in 2023, when the cap was NOK 25.3 billion. The income cap limits the grid charges the electricity suppliers can impose on their customers. With the high spot prices of recent years, electricity companies have seen a considerable rise in costs related to losses in the transmission network, where losses are covered at market prices. To reduce the probability of increased grid charges, interim regulations on the use of bottleneck income were put into effect on 1 November 2022. The purpose of the regulations is to reduce the likelihood of grid charges increasing because of high electricity prices through redistribution of bottleneck income. This income arises because of price differentials between different price areas, and in principle national bottleneck income accrues to Statnett. In the course of 2022 and 2023, Statnett transferred a total of NOK 8.5 billion to underlying electricity supply companies throughout Norway as a consequence of the interim arrangement, and this has contributed to curbing increases in grid charges. The RME has decided that Statnett is not to disburse bottleneck income to underlying electricity companies in 2024 Q1. Statnett is to report bottleneck income available for Q2 by 15 March 2024. As a consequence of the uncertainty associated with the amount of this income, there is greater uncertainty than usual associated with grid charge developments.

In our forecast, we have assumed that the current schemes with reduced excise in the months January–March and energy support based on hour-to-hour prices will be extended through the projection period, and that both the excise duty on electricity and the threshold value for receiving energy support will be adjusted up with inflation. At the beginning of March, annual contracts for Nordic Power were priced in the financial market at about EUR 40/MWh for the years 2025–2027. We use this as the basis for our projections for developments in power prices in the years ahead, with adjustments for price differentials in the different price areas. According to the RME, the increase in electricity companies' income limits is partly driven by the higher interest rate level. With a lower expected level in the coming years, we have assumed a moderate rise in grid charges in the years ahead, but investment in the transmission network in connection with the green transition may accelerate this rise. Given our assumptions about electricity prices and grid charges, households' average electricity price will rise by about 2 per cent annually in the period 2025–2027.

In the approved fiscal budget for 2024, most special taxes have been adjusted by about 3.8 per cent. Higher carbon taxes on fuel will be offset to some extent by reduced road use taxes. The biofuel quota obligation for road transport is being increased from 17 to 19 per cent in 2024. On balance, the policy measures will lead to a rise in fuel costs in 2024. Fuel prices largely shadow the crude oil price with a premium consisting of excise duties. Price increases attributable to the policy measures are offset in our calculations by a decline in the crude oil price measured in NOK, with the result that prices at the pump expressed as annual averages are expected to remain roughly unchanged from 2023 to 2024. Given our assumptions, energy products will contribute to bringing down CPI inflation in 2024 by 0.3 percentage point, measured as the difference between the CPI and the consumer price index excluding energy products (CPI-AE). The tax advantage for plug-in hybrid cars in the one-off charge was discontinued at the beginning of the year, but this has little impact as the share of hybrid cars is small. Increases in taxes on products other than energy products are forecast to have a neutral effect, measured as the difference between the CPI-ATE and the CPI-AE, on CPI inflation in 2024. The overall difference between the CPI and the CPI-ATE will thus be -0.3 percentage point in 2024.

In our projections, an assumed fall in the oil price in the period up to 2027 causes some reduction in fuel prices in the years ahead. On balance, we assume that the annual rise in energy prices will increase slightly less than underlying inflation in the

years 2025–2027. We have adjusted the special tax rates for inflation for these years and expect them to have a neutral effect on CPI inflation. The inflation projections for the years ahead are broadly in line with those in our previous economic report in December. Prices for energy products have fallen a little more than expected, and the krone exchange rate upon which the forecast has been made is a little stronger than at the time of the last report. An expected decline in global inflation will also contribute to lower consumer price inflation in the coming years. As usual, the exchange rate is kept constant at the current level in our calculations, and in the medium term up to 2027 we still assume that the rise in import prices will gradually fall to a more normal level of around 2 per cent. Low imported inflation and stable developments in energy prices coupled with lower wage growth will make crucial contributions to inflation gradually falling to the inflation target in 2027.

A high price carry-over has meant that underlying inflation measured by the 12-month rise in the CPI-ATE has remained at a high level into 2024. Because of time lags in the setting of consumer prices, we assume that inflationary impulses from earlier cost increases will continue to affect prices into 2024 before gradually abating. CPI-ATE inflation is forecast to be 4.3 per cent from 2023 to 2024, significantly lower than last year's rate of 6.2 per cent. It will then slow gradually to 2 per cent in 2027. Energy prices as a whole will fall this year, contributing to bringing CPI inflation to 4 per cent. Household energy prices are expected to increase less than the rise in underlying inflation going forward, such that CPI inflation will be slightly lower than CPI-ATE inflation in the years 2025–2027.

Uncertainty surrounding the projections

Statistics Norway presented its first quantified projections for the Norwegian economy in 1988, and since 1990 has with few exceptions published quarterly projections for at least two years ahead in the publication Economic Survey. The following is an evaluation of our forecasting activities. Our evaluation considers three key macroeconomic variables: growth in mainland gross domestic product (mainland GDP), inflation measured by the consumer price index (CPI), and the unemployment level as a percentage of the labour force (LFS unemployment). The focus is on whether the projections have deviated systematically from the ex post outturn, and on the spread of the deviations. The analysis is also used to say something about the uncertainty surrounding Statistics Norway's projections for 2024 and 2025.

There are often differences between the preliminary GDP figures published in February the year following the accounting year and the final figures, which are normally only available almost two years later.[6] The "final" figures may also be revised in connection with periodic revisions when new statistics are incorporated or when the calculation principles are changed. We nevertheless use provisional GDP figures from the preliminary accounts as ex post outturns for three reasons. First, the final accounts figures are not available for the years after 2021. The projections for these years must therefore be compared with preliminary accounts figures regardless. Second, the projections are made on the basis of preliminary – not final – accounts figures for the recent past. Third, changes were made in definitions in connection with the main revisions in 1995, 2002, 2006 and 2014, which means that projections and final figures are not associated with the same measuring system.[7] For example, our projections for mainland GDP in 2013, made before the main revision in 2014, would have been different if we had used the new definition at the time of making the projections. Final figures for the CPI and for LFS unemployment are available shortly after the end of the year.

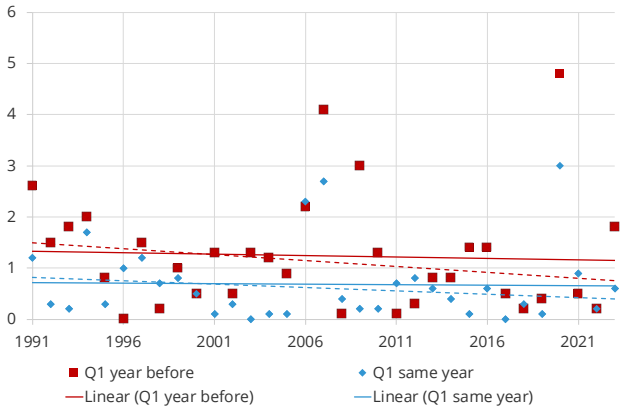
How accurate have our projections been?

Figures 20, 21 and 22 show developments over time in the absolute deviations between projections and preliminary accounts figures for mainland GDP growth, CPI inflation and LFS unemployment. We have also included some linear trends which show how the deviation has developed over time. Since the deviations for mainland GDP growth and LFS unemployment were very large for 2020, we made two trend lines for each forecast horizon: one based on all projection years from 1991 up to and including 2023 (solid line) and one in which we excluded the projections for 2020 (broken line). The deviations from CPI inflation in 2022 based on forecasts we made at the beginning

[6] See Helliesen, M. K., H. Hungnes, and T. Skjerpen (2022): Revisions in the Norwegian National Accounts: accuracy, unbiasedness and efficiency in preliminary figures, *Empirical Economics*, 62(3), 1079–1121.

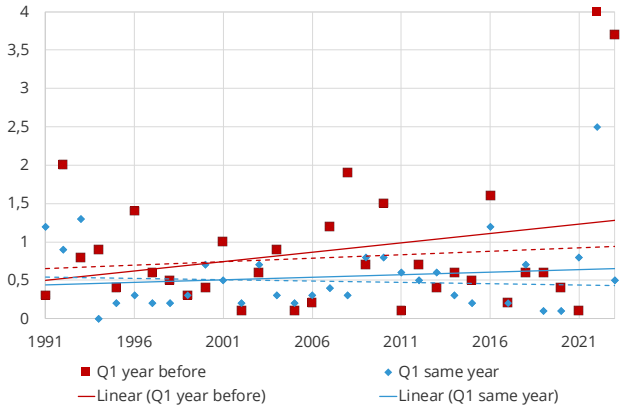
[7] The main revision in 2011 did not result in major changes in macro figures.

Figure 20. Projections of the percentage change in mainland GDP. Absolute deviation from preliminary accounting figures



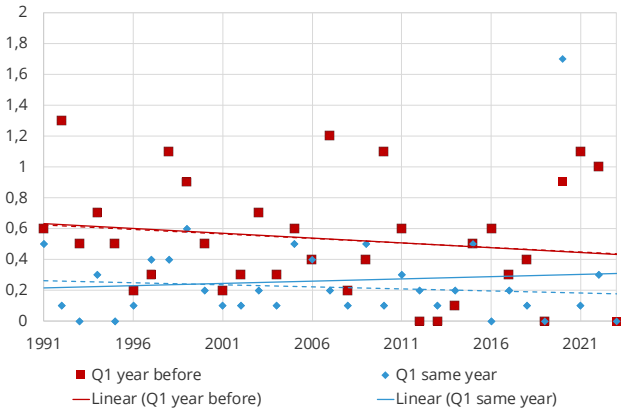
Source: Statistics Norway

Figure 21. Projections of the percentage change in CPI. Absolute deviation from published figures



Source: Statistics Norway

Figure 22. Projections of unemployment (LFS). Absolute deviation from published figures



Source: Statistics Norway

of 2021 and 2022 are also large. We therefore also made two trend lines for each forecast horizon here to: one based on all projection years from 1991 to 2022 inclusive (solid line) and one excluding the projections for 2022 (broken line).[8]

If we exclude the projections for 2020, the broken blue line in Figure 20 shows that the deviations for mainland GDP growth have diminished over time. This applies to both the projections published the previous year (broken red line) and those published the same year (broken blue line). The solid lines show developments when the GDP projections for 2020 are also included. These also decline over time, but not as much as when the GDP projections for 2020 are not included.

The broken blue line in Figure 21 shows that the projections for CPI inflation published early the same year have become more accurate with time, if we exclude the projections for 2022. However the deviations for 2022 were so large that the projections now show increasing deviations over time. The projection for CPI inflation in 2022 published in early 2021 was 4.0 percentage points too low, while that for CPI inflation in 2022 published early the same year was 2.5 percentage points too low.

If we exclude the projections for 2020, the broken lines in Figure 22 show that the unemployment projections have become more accurate over time. The projections for LFS unemployment published the year before the projection year have become more accurate over time even when the figures for 2020 are included. This despite the fact that the projection for unemployment in 2020 made in March 2019 deviated from the accounting figure by 0.9 percentage point. The projection made in April the same year (which was the first published projection in 2020) was far too pessimistic and overestimated unemployment by 1.7 percentage points. This deviation was so large that when the projection for 2020 is included, it is no longer the case that the LFS projections made early the same year have become more accurate with time.

In the next figures we look at different aspects of the uncertainty associated with projections made

[8] The projections for CPI inflation in 2023 made early in 2022 also deviated substantially from observed CPI inflation in 2023. We have not made separate projections in which we adjust for this deviation.

at different times. These are based on historical differences between our projections and the accounts figures, where we take into consideration the deviations for 2020 (for mainland GDP and LFS unemployment) and 2022 (for CPI inflation).

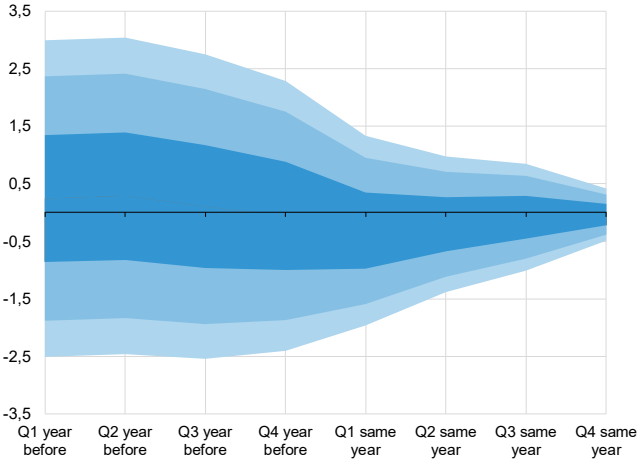
Figures 23, 24 and 25 show the average differences between projections made at different times and accounts figures for growth in mainland GDP, CPI inflation and the unemployment level measured as a percentage of the labour force. The figures also provide an indication of the spread in the deviations, by including three intervals around the average. These intervals are estimated on the basis of the historical spread. They do not say anything about how many of the deviations actually lie within these intervals. Under given conditions, the probabilities that the deviations between future projections and accounts figures lie within these intervals are 50, 80 and 90 per cent, respectively.[9] We have only used the projections for the years from 1995 onwards when calculating the intervals. The deviations for 2020 (for mainland GDP and LFS unemployment) and 2022 and 2023 (for CPI inflation) are thus included in the basis for calculating the uncertainty intervals, which has led to the latter being larger than previously estimated.

Have there been systematic deviations?

The aggregate of the deviations between our projections, made at various times, and the accounts figures for GDP growth has been close to zero; see Figure 23. On average, the projections made the previous year (with the exception of the projections made in November/December the previous year) have been too high. This applies particularly to the projections made in February/March and May/June the preceding year, when the projections averaged 0.2–0.3 percentage point more than the ex post outturn. Conversely, the GDP projections made the same year were too low. This applies in particular to the first projections made in the projection year, which were 0.3 percentage point too low on average. The deviation for 2020 has made a large contribution to this picture. The projections for mainland GDP growth made in February/March and May/June the preceding year are almost according to expectations if we do not include the projections for 2020.

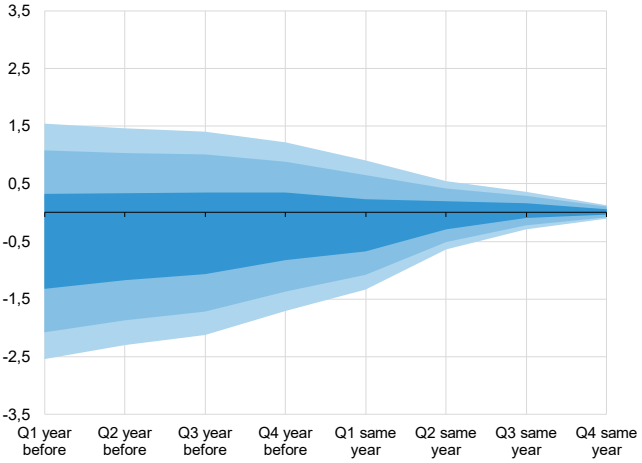
[9] It is assumed that all deviations form part of a given statistical distribution (a Student's *t* distribution with the same expectation and spread) and are independent.

Figure 23. Projections of the percentage change in mainland GDP. Absolute deviation from preliminary accounting figures and the spread in these. The intervals show 50, 80 and 90 per cent confidence intervals



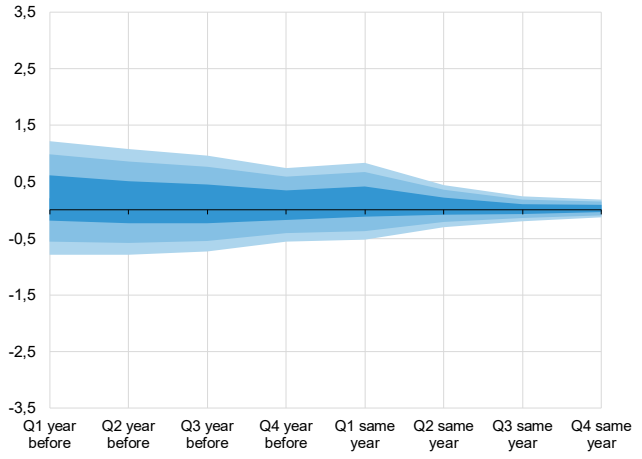
Source: Statistics Norway

Figure 24. Projections of the percentage change in CPI. Absolute deviation and the spread in these. The intervals show 50, 80 and 90 per cent confidence intervals



Source: Statistics Norway

Figure 25. Projections of unemployment (LFS). Absolute deviation and the spread in these. The intervals show 50, 80 and 90 per cent confidence intervals



Source: Statistics Norway

The projections for CPI inflation have on average been a little lower than actual CPI inflation; see Figure 24. The average deviation between projections and accounts figures for CPI inflation is reduced from -0.5 percentage point in February/March of the year prior to the projection year to -0.2 percentage point in February/March of the projection year. The CPI projections made in the last three quarters of the year they apply to have all been according to expectations.

Unemployment projections have had a tendency to be systematically somewhat too high; see Figure 25. The projections made in February/March in the year prior to the projection year are on average 0.2 percentage point too high. The average deviation subsequently is approximately 0.1 percentage point up to and including the projections made in May/ June the same year. After this the deviations are virtually zero on average.

In view of the large spread in these projections, the results indicate that there are no large systematic deviations between our projections and the accounts figures for the three main variables.

The spread in the projections

There has been a relatively large spread in the deviations between the projection for GDP growth made in the first three analyses in the year prior to the projection year and the preliminary accounts figure. Of the 29 projections from and including 1995 that we made in February/March the previous year, 12 are more than one percentage point off the preliminary accounts figure. Only once was the projection completely accurate – the one for 1996. The projections in 1998, 2008, 2011, 2012, 2018 and 2022 were also very accurate, differing by only 0.1–0.3 percentage point. The variation in the deviations is considerably less, on average, in the projections made in December the previous year, but 8 out of 29 projections are still more than 1 percentage point off the mark. Despite possessing ever more information about economic developments in the year for which projections are made, the spread in the deviations is therefore relatively wide right up to and including the projections in September the same year. One important reason for this is that the quarterly GDP figures have often been revised quite considerably through the projection year. The last projections we make before the outturn is available again show a distinct decline in the spread of the deviations. The GDP projections made in November/December the same year have deviated by a maximum of 0.6 percentage point (for 1995), but the deviation was 0.5 percentage point for three years (1997, 2015 and 2020).

We find a similar pattern in the projections for annual CPI inflation. There is substantial variation between the first three projections and the outturn, then the spread decreases gradually. As the CPI is not revised, this reflects the fact that uncertainty lessens through the year as the actual development of the CPI gradually emerges.

The spread in the deviation between the unemployment projection and the outturn also declines as the projection horizon shortens. The average absolute deviation is 0.5 percentage point in February/March the preceding year and 0.3 percentage point in November/ December of the preceding year. After that the spread continues to narrow gradually, measured by the average absolute deviation. The deviation for unemployment is substantially reduced in the last two projections before the outturn is available, with a maximum deviation of 0.3 percentage point (in 1997). As in the case of the CPI, this is because the figure is not revised but gradually emerges in the course of the year.

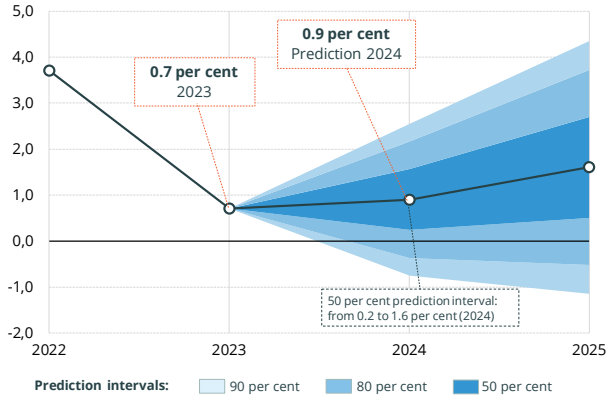
Projections for 2024 and 2025 are uncertain

The uncertainty associated with our projections for 2024 and 2025 is illustrated in Figures 26, 27 and 28. Mainland GDP growth is now projected at 0.9 per cent in 2024 and 1.6 per cent in 2025. In light of the historical deviations for the years 1995–2022, there is a 50 per cent likelihood that mainland GDP growth will be between 0.2 and 1.6 per cent in 2024 and between 0.5 and 2.7 per cent in 2025. Intervals of a total of 3.3 percentage points in 2017 and 5.5 percentage points in 2024 cover the ex post increase with a probability of 90 per cent.

CPI inflation was 5.5 per cent in 2023. In 2024 and 2025 it is forecast to be 4.0 and 2.6 per cent, respectively. There is an 80 per cent probability that the projections for 2024 and 2025 will not be more than 0.9 and 1.6 percentage point, respectively, off the mark.

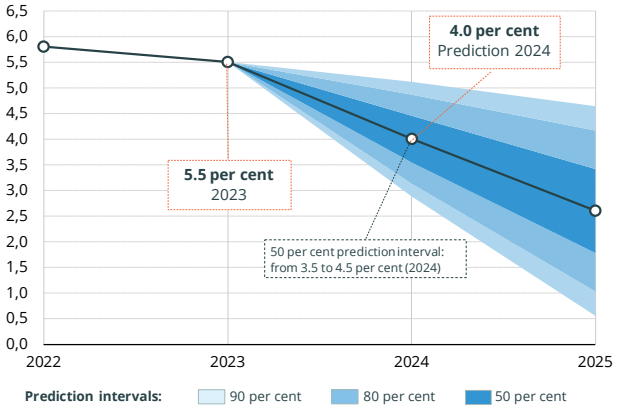
Unemployment averaged 3.6 per cent in 2023, and is forecast in our projections to be 4.1 per

Figure 26. Projected percentage change in mainland GDP



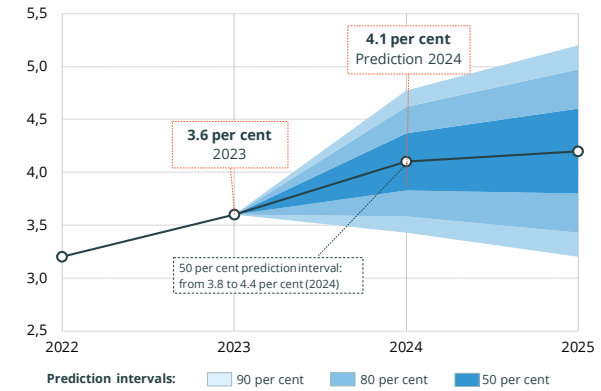
Source: Statistics Norway

Figure 27. Projected percentage change in CPI



Source: Statistics Norway

Figure 28. Projected percentage change in unemployment (LFS)



Source: Statistics Norway

cent in 2024 and 4.2 per cent in 2025. Historical deviations indicate an 80 per cent probability that the accounts figure will not deviate more than 0.5 percentage point from our projection for 2024. In 2025, on the other hand, there is an 80 per cent probability that unemployment will lie within an interval of 0.8 percentage point above or below the projection.

How accurate were Statistics Norway Norway's projections for 2023?

Table 6 shows projections for 2023 that were presented in Economic Survey in March 2021, March 2022, and in all the editions published in 2023. These projections are arrayed alongside the preliminary national accounts figures for 2023. The depreciation of the krone, high energy prices, low productivity growth and high inflation have contributed to economic developments being weaker than indicated by the projections early in 2021 and 2022.

In the projections for 2023 presented in Economic Survey 1/2021, we assumed that activity in the Norwegian economy would normalise after the pandemic. The projections showed growth for all real economic variables and a 1.9 per cent increase in the consumer price index.

The picture looked fairly similar in Economic Survey 1/2022. Although Russia had just invaded Ukraine, there was great uncertainty with respect to the scope and duration of the war.[10] Global electricity prices and some commodity prices were already rising, but they increased far more than expected after the outbreak of the war. In our forecasting work, the key policy rate is forecast on the basis of Norges Bank's statements about the interest rate scenario, and developments abroad are estimated on the basis of consensus projections, but when there are large changes in inflation over a short period of time it is difficult to assess how the global economy will develop. Norges Bank and central banks in other countries raised policy rates to combat rising inflation and this, coupled with higher prices and weak real wage developments, reduced household purchasing power and consumption. Along with increased interest rates and high construction costs, profitability in the new homes

[10] The report outlined an alternative scenario to illustrate the forecasting uncertainty due to the war; see Economic Survey 1/2022, Box 1.

Table 6. Forecasts for 2023 given at various times and preliminary national accounts figures for 2023. Percentage growth unless otherwise noted

	2021/1	2022/1	2023/1	2023/2	2023/3	2023/4	NR 2023
Demand and output							
Consumption in households etc.	3.1	3.3	1.2	0.6	-0.7	-1.1	-0.7
General government consumption	1.2	1.2	1.2	1.4	2.7	2.6	3.6
Gross fixed investment	3.1	4.3	1.8	0.6	-0.2	-1.0	0.3
Extraction and transport via pipelines	10.0	9.0	5.0	6.0	8.0	9.0	10.5
Mainland Norway	1.6	3.4	0.2	-0.9	-2.1	-2.1	-0.8
Demand from Mainland Norway	2.3	2.7	0.9	0.4	-0.1	-0.3	0.5
Exports	4.1	3.5	4.8	5.0	5.2	1.5	1.4
Imports	4.1	4.3	3.5	2.9	3.0	1.9	0.7
Gross domestic product	2.6	2.7	1.6	1.5	1.2	0.2	0.5
Mainland Norway	2.4	2.5	1.3	1.3	1.0	0.7	0.7
GDP in current prices (NOK billion)	..	..	..	4 964	5 030	5 076	5 129
Labour market							
Employed persons	1.0	0.8	0.6	1.2	1.4	1.3	1.3
Labor force	0.7	1.2	0.8	0.6	0.9	1.3	1.3
Participation rate (level)	70.9	73.0	72.7	72.3	72.5	72.8	72.8
Unemployment rate (level)	4.0	3.6	3.6	3.7	3.5	3.6	3.6
Prices and wages							
Wages per standard man-year	3.3	3.8	5.0	5.3	5.5	5.6	5.2
Consumer price index (CPI)	1.9	1.8	5.0	5.6	5.8	5.6	5.5
CPI-ATE[4]	2.0	2.0	5.4	6.0	6.3	6.3	6.2
House prices	2.8	3.6	-2.8	-1.4	-0.3	-0.6	-0.5
Income, interest rates and excange rate							
Household real disposable income	2.4	3.1	-2.8	-1.5	-0.3	-1.6	-1.7
Household saving ratio (level)	8.4	8.6	0.8	3.0	5.7	4.1	4.5
Money market rate (3 month NIBOR) (level)	1.6	1.7	3.5	3.8	4.2	4.2	4.2
Importweighted krone exchange rate (44 countries)[6]	0.0	-0.2	7.5	11.4	8.1	8.7	8.5
NOK per euro (level)	10.20	9.90	11.14	11.62	11.41	11.44	11.42
Current account							
Current balance (bill. NOK)[7]	450	811	829	730	889	888	909
Current account (per cent of GDP)	10.5	16.7	16.6	14.7	17.7	17.5	17.7
International indicators							
Exports markets indicator	4.8	4.8	1.8	1.5	0.7	1.3	0.8
Consumer price index, euro-area	1.9	1.2	5.5	5.0	5.6	5.5	5.4
Money market rate, euro (level)	-0.3	0.5	3.6	3.3	3.6	3.4	3.4
Crude oil price US dollar (level)[8]	59.0	86.0	82.0	78.0	83.0	82.0	82.0

Source: Statistics Norway

market was reduced, and this contributed to a steep fall in housing investment. A similar decline has not been seen since the housing market crisis in the early 1990s.

In the same period, the depreciation of the krone led to higher than expected domestic inflation and annual inflation. According to Norges Bank's imported-weighted krone exchange rate, the krone depreciated by about 15 per cent in the period from March 2022 to May 2023, and then remained more or less unchanged for the remainder of the year. Since we, in making the projection, assume a future exchange rate equal to the last value observed, changes in the krone exchange rate will give rise to deviations between our projection and the "final" accounts figures. The weakening of the krone results in higher inflation, in that imported goods become more expensive. It also improves the profitability of export-oriented industry, which in accordance with the wage-leader model, results in higher wage growth.[11] The depreciation of the krone in recent years is part of the reason why the projections for the CPI and annual wages in Economic Survey 1/2022 were so much lower than the ex post outturns.

[11] See Box 2 in Economic Survey 4/2023 for an analysis of the depreciation of the krone.

Economic growth among our trading partners and domestic productivity growth were considerably lower through 2023 than assumed in the projections published in 2023. Mainland economic activity was thus lower than forecast. Offshore activity, on the other hand, was higher than expected, partly because some investments, originally planned for 2024 and 2025, were brought forward. The deviation in housing investment in the first half of the year was largely attributable to a substantial upward revision of the housing investment figures for 2022 in the last quarter of 2023, which resulted in a far greater and steeper fall.

Table 7. National accounts: Final expenditure and gross domestic product. At constant 2021 prices. NOK million

	Unadjusted		Seasonally adjusted							
	2022	2023	22:1	22:2	22:3	22:4	23:1	23:2	23:3	23:4
Final consumption expenditure of households and NPISHs	1 727 495	1 714 932	416 907	431 357	430 579	448 185	426 679	429 866	429 305	432 390
Household final consumption expenditure	1 625 287	1 611 418	392 502	405 922	404 794	422 319	401 107	404 207	403 359	406 199
Goods	781 498	741 303	195 038	194 101	190 353	206 768	185 208	186 647	184 522	188 205
Services	780 832	797 026	187 552	195 535	196 997	197 831	197 762	198 863	200 448	200 735
Direct purchases abroad by resident households	113 245	129 476	19 777	29 277	30 649	30 836	31 572	32 317	32 714	33 049
Direct purchases by non-residents	-50 288	-56 388	-9 865	-12 991	-13 205	-13 115	-13 434	-13 621	-14 325	-15 789
Final consumption expenditure of NPISHs	102 208	103 514	24 404	25 435	25 784	25 865	25 571	25 659	25 946	26 191
Final consumption expenditure of general government	981 460	1 017 101	243 125	244 250	245 670	248 219	250 101	252 744	255 742	258 309
Final consumption expenditure of central government	494 542	510 289	120 957	123 061	124 211	126 131	125 769	126 675	128 074	129 635
Central government, civilian	435 820	448 555	106 415	108 442	109 583	111 196	110 703	111 361	112 438	113 915
Central government, defence	58 722	61 734	14 543	14 619	14 628	14 935	15 065	15 314	15 636	15 721
Final consumption expenditure of local government	486 918	506 812	122 167	121 190	121 459	122 088	124 332	126 069	127 668	128 674
Gross fixed capital formation	1 044 012	1 046 969	260 330	261 109	260 514	261 984	259 652	260 699	260 974	265 575
Extraction and transport via pipelines	166 315	183 720	41 013	42 320	40 907	42 083	41 222	43 997	47 390	51 097
Ocean transport	16 827	9 359	6 386	3 122	1 566	5 754	1 272	898	2 345	4 846
Mainland Norway	860 870	853 890	212 931	215 667	218 042	214 147	217 158	215 803	211 239	209 632
Industries	420 582	441 110	104 307	105 307	106 595	104 539	110 921	112 465	110 588	107 225
Service activities incidential to extraction	4 791	5 611	1 005	1 373	1 077	1 327	1 147	1 270	1 416	1 770
Other services	294 708	300 420	73 521	73 568	75 163	72 504	75 500	77 576	76 009	71 353
Manufacturing and mining	54 322	63 203	12 445	13 691	14 004	14 253	15 680	15 238	15 235	17 101
Production of other goods	66 761	71 876	17 336	16 675	16 350	16 455	18 594	18 381	17 927	17 001
Dwellings (households)	217 072	183 306	55 459	55 375	53 063	53 187	50 890	46 280	44 309	41 829
General government	223 217	229 474	53 165	54 984	58 385	56 420	55 346	57 058	56 342	60 578
Acquisitions less disposals of valuables	226	244	56	61	59	51	68	62	60	56
Changes in stocks and statistical discrepancies	127 459	106 065	28 046	31 248	30 583	26 346	42 553	35 402	19 954	8 033
Gross capital formation	1 171 696	1 153 278	288 432	292 417	291 156	288 381	302 273	296 163	280 988	273 663
Final domestic use of goods and services	3 880 651	3 885 311	948 464	968 025	967 404	984 784	979 052	978 772	966 035	964 363
Final demand from Mainland Norway	3 569 825	3 585 923	872 963	891 274	894 291	910 550	893 937	898 413	896 286	900 332
Final demand from general government	1 204 677	1 246 575	296 290	299 235	304 055	304 639	305 447	309 802	312 084	318 888
Total exports	1 944 590	1 972 767	465 321	476 905	511 396	489 078	489 159	494 232	487 874	503 874
Traditional goods	481 077	510 539	117 374	113 687	124 651	123 344	125 410	128 681	126 552	131 271
Crude oil and natural gas	994 142	983 687	240 444	248 368	260 646	245 801	243 271	244 548	243 502	252 468
Ships, oil platforms and planes	11 048	5 986	1 642	2 394	5 294	1 719	851	1 564	2 811	760
Services	458 322	472 555	105 861	112 456	120 805	118 215	119 627	119 440	115 009	119 376
Total use of goods and services	5 825 241	5 858 077	1 413 785	1 444 929	1 478 800	1 473 863	1 468 211	1 473 005	1 453 909	1 468 237
Total imports	1 371 348	1 381 287	321 136	338 155	349 959	356 226	347 187	355 832	341 761	339 224
Traditional goods	843 366	812 159	202 300	206 981	213 737	217 095	206 920	209 571	201 475	196 266
Crude oil and natural gas	14 483	16 510	2 340	4 569	3 433	4 471	4 374	3 627	4 465	4 317
Ships, oil platforms and planes	24 707	24 002	8 458	4 950	5 112	6 187	4 226	10 018	6 178	3 580
Services	488 793	528 615	108 038	121 655	127 677	128 473	131 666	132 616	129 642	135 061
Gross domestic product (market prices)	4 453 893	4 476 791	1 092 649	1 106 774	1 128 842	1 117 637	1 121 024	1 117 173	1 112 148	1 129 013
Gross domestic product Mainland Norway (market prices)	3 439 615	3 463 910	847 212	856 356	860 714	864 310	865 786	866 098	867 059	868 850
Petroleum activities and ocean transport	1 014 277	1 012 880	245 437	250 419	268 128	253 327	255 238	251 074	245 089	260 164
Mainland Norway (basic prices)	3 002 125	3 031 896	738 414	746 813	751 981	755 225	756 402	758 644	759 692	760 634
Mainland Norway excluding general government	2 244 804	2 262 888	552 215	557 985	561 129	563 892	564 778	566 588	567 669	567 366
Manufacturing and mining	247 933	248 369	62 475	61 866	62 436	62 310	62 404	62 388	62 609	62 561
Production of other goods	419 389	417 401	105 408	104 867	103 751	103 193	104 492	104 970	105 140	103 268
Services incl. dwellings (households)	1 577 482	1 597 118	384 332	391 252	394 943	398 389	397 882	399 230	399 920	401 537
General government	757 321	769 008	186 198	188 829	190 851	191 333	191 623	192 056	192 024	193 268
Taxes and subsidies products	437 490	432 015	108 799	109 543	108 734	109 085	109 385	107 454	107 366	108 216

Source: Statistics Norway.

Table 8. National accounts: Final expenditure and gross domestic product. At constant 2021 prices. Percentage change from previous period

	Unadjusted		Seasonally adjusted							
	2022	2023	22:1	22:2	22:3	22:4	23:1	23:2	23:3	23:4
Final consumption expenditure of households and NPISHs	6.2	-0.7	-2.7	3.5	-0.2	4.1	-4.8	0.7	-0.1	0.7
Household final consumption expenditure	5.9	-0.9	-2.6	3.4	-0.3	4.3	-5.0	0.8	-0.2	0.7
Goods	-3.8	-5.1	-5.2	-0.5	-1.9	8.6	-10.4	0.8	-1.1	2.0
Services	10.2	2.1	-0.1	4.3	0.7	0.4	0.0	0.6	0.8	0.1
Direct purchases abroad by resident households	265.1	14.3	10.0	48.0	4.7	0.6	2.4	2.4	1.2	1.0
Direct purchases by non-residents	199.4	12.1	13.2	31.7	1.7	-0.7	2.4	1.4	5.2	10.2
Final consumption expenditure of NPISHs	11.9	1.3	-4.8	4.2	1.4	0.3	-1.1	0.3	1.1	0.9
Final consumption expenditure of general government	1.1	3.6	-0.8	0.5	0.6	1.0	0.8	1.1	1.2	1.0
Final consumption expenditure of central government	2.7	3.2	-1.2	1.7	0.9	1.5	-0.3	0.7	1.1	1.2
Central government, civilian	2.5	2.9	-1.5	1.9	1.1	1.5	-0.4	0.6	1.0	1.3
Central government, defence	4.0	5.1	1.5	0.5	0.1	2.1	0.9	1.6	2.1	0.5
Final consumption expenditure of local government	-0.5	4.1	-0.4	-0.8	0.2	0.5	1.8	1.4	1.3	0.8
Gross fixed capital formation	5.2	0.3	2.1	0.3	-0.2	0.6	-0.9	0.4	0.1	1.8
Extraction and transport via pipelines	-7.1	10.5	-11.1	3.2	-3.3	2.9	-2.0	6.7	7.7	7.8
Ocean transport	26.4	-44.4	36.7	-51.1	-49.9	267.5	-77.9	-29.4	161.0	106.7
Mainland Norway	7.6	-0.8	4.2	1.3	1.1	-1.8	1.4	-0.6	-2.1	-0.8
Industries	17.1	4.9	10.6	1.0	1.2	-1.9	6.1	1.4	-1.7	-3.0
Service activities incidential to extraction	146.8	17.1	60.4	36.7	-21.5	23.2	-13.6	10.8	11.5	24.9
Other services	26.6	1.9	17.4	0.1	2.2	-3.5	4.1	2.7	-2.0	-6.1
Manufacturing and mining	15.2	16.3	-3.3	10.0	2.3	1.8	10.0	-2.8	0.0	12.2
Production of other goods	-13.6	7.7	-4.8	-3.8	-2.0	0.6	13.0	-1.1	-2.5	-5.2
Dwellings (households)	-1.4	-15.6	2.0	-0.2	-4.2	0.2	-4.3	-9.1	-4.3	-5.6
General government	1.3	2.8	-4.3	3.4	6.2	-3.4	-1.9	3.1	-1.3	7.5
Acquisitions less disposals of valuables	74.9	8.3	27.4	9.6	-3.8	-12.1	31.3	-8.5	-3.6	-6.2
Changes in stocks and statistical discrepancies	37.8	-16.8	89.4	11.4	-2.1	-13.9	61.5	-16.8	-43.6	-59.7
Gross capital formation	8.0	-1.6	6.9	1.4	-0.4	-1.0	4.8	-2.0	-5.1	-2.6
Final domestic use of goods and services	5.4	0.1	0.6	2.1	-0.1	1.8	-0.6	0.0	-1.3	-0.2
Final demand from Mainland Norway	5.1	0.5	-0.5	2.1	0.3	1.8	-1.8	0.5	-0.2	0.5
Final demand from general government	1.1	3.5	-1.4	1.0	1.6	0.2	0.3	1.4	0.7	2.2
Total exports	4.5	1.4	-3.0	2.5	7.2	-4.4	0.0	1.0	-1.3	3.3
Traditional goods	-2.5	6.1	-3.0	-3.1	9.6	-1.0	1.7	2.6	-1.7	3.7
Crude oil and natural gas	1.3	-1.1	-2.6	3.3	4.9	-5.7	-1.0	0.5	-0.4	3.7
Ships, oil platforms and planes	-45.0	-45.8	-79.4	45.8	121.1	-67.5	-50.5	83.7	79.8	-73.0
Services	25.1	3.1	1.9	6.2	7.4	-2.1	1.2	-0.2	-3.7	3.8
Total use of goods and services	5.1	0.6	-0.6	2.2	2.3	-0.3	-0.4	0.3	-1.3	1.0
Total imports	12.5	0.7	0.4	5.3	3.5	1.8	-2.5	2.5	-4.0	-0.7
Traditional goods	3.4	-3.7	1.9	2.3	3.3	1.6	-4.7	1.3	-3.9	-2.6
Crude oil and natural gas	-26.3	14.0	-38.1	95.3	-24.9	30.3	-2.2	-17.1	23.1	-3.3
Ships, oil platforms and planes	-34.1	-2.9	-28.0	-41.5	3.3	21.0	-31.7	137.1	-38.3	-42.1
Services	41.2	8.1	2.1	12.6	4.9	0.6	2.5	0.7	-2.2	4.2
Gross domestic product (market prices)	3.0	0.5	-0.7	1.3	2.0	-1.0	0.3	-0.3	-0.4	1.5
Gross domestic product Mainland Norway (market prices)	3.7	0.7	0.2	1.1	0.5	0.4	0.2	0.0	0.1	0.2
Petroleum activities and ocean transport	0.6	-0.1	-3.8	2.0	7.1	-5.5	0.8	-1.6	-2.4	6.2
Mainland Norway (basic prices)	4.0	1.0	0.3	1.1	0.7	0.4	0.2	0.3	0.1	0.1
Mainland Norway excluding general government	4.4	0.8	0.5	1.0	0.6	0.5	0.2	0.3	0.2	-0.1
Manufacturing and mining	-0.5	0.2	-0.1	-1.0	0.9	-0.2	0.2	0.0	0.4	-0.1
Production of other goods	0.7	-0.5	1.2	-0.5	-1.1	-0.5	1.3	0.5	0.2	-1.8
Services incl. dwellings (households)	6.2	1.2	0.4	1.8	0.9	0.9	-0.1	0.3	0.2	0.4
General government	3.0	1.5	-0.2	1.4	1.1	0.3	0.2	0.2	0.0	0.6
Taxes and subsidies products	1.9	-1.3	-0.4	0.7	-0.7	0.3	0.3	-1.8	-0.1	0.8

Source: Statistics Norway.

Table 9. National accounts: Final expenditure and gross domestic product. Price indices. 2021=100

	Unadjusted		Seasonally adjusted							
	2022	2023	22:1	22:2	22:3	22:4	23:1	23:2	23:3	23:4
Final consumption expenditure of households and NPISHs	105.1	112.2	101.7	103.9	106.4	108.3	109.4	111.9	112.6	114.4
Final consumption expenditure of general government	105.7	110.6	104.5	105.6	106.3	106.5	108.1	109.4	111.1	113.7
Gross fixed capital formation	107.6	114.6	104.3	106.9	108.7	110.6	112.2	114.2	114.8	117.1
Mainland Norway	107.8	113.9	104.4	107.1	109.1	110.6	111.8	113.6	114.1	116.1
Final domestic use of goods and services	105.4	112.6	101.6	105.3	110.6	106.2	108.4	110.1	116.4	116.9
Final demand from Mainland Norway	105.9	112.1	103.1	105.1	107.0	108.3	109.6	111.6	112.5	114.6
Total exports	162.8	122.7	156.4	164.7	182.9	143.6	138.5	130.0	106.9	114.3
Traditional goods	130.2	129.7	123.3	131.7	134.4	132.2	133.3	130.7	126.1	128.7
Total use of goods and services	124.6	116.0	119.7	124.9	135.6	118.6	118.4	116.8	113.2	116.0
Total imports	113.0	120.6	107.8	111.5	116.0	116.2	118.9	120.2	119.8	123.0
Traditional goods	115.6	122.3	109.5	114.8	119.9	118.3	121.8	122.3	119.8	125.1
Gross domestic product (market prices)	127.4	113.6	123.2	129.0	141.7	119.4	118.2	115.7	111.2	113.9
Gross domestic product Mainland Norway (market prices)	105.0	110.1	103.7	105.7	107.2	107.5	109.4	110.8	112.0	113.3

Source: Statistics Norway.

Table 10. National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period

	Unadjusted		Seasonally adjusted							
	2022	2023	22:1	22:2	22:3	22:4	23:1	23:2	23:3	23:4
Final consumption expenditure of households and NPISHs	5.1	6.7	0.5	2.1	2.4	1.8	1.0	2.3	0.7	1.5
Final consumption expenditure of general government	5.7	4.6	2.7	1.1	0.6	0.2	1.5	1.3	1.5	2.4
Gross fixed capital formation	7.6	6.5	1.8	2.6	1.7	1.7	1.5	1.8	0.5	2.1
Mainland Norway	7.8	5.6	1.5	2.6	1.9	1.4	1.1	1.6	0.5	1.7
Final domestic use of goods and services	5.4	6.8	2.4	3.6	5.0	-3.9	2.0	1.6	5.7	0.5
Final demand from Mainland Norway	5.9	5.9	1.4	1.9	1.8	1.2	1.2	1.8	0.8	1.8
Total exports	62.8	-24.7	18.8	5.3	11.0	-21.5	-3.6	-6.1	-17.8	6.9
Traditional goods	30.2	-0.4	12.1	6.8	2.1	-1.6	0.8	-1.9	-3.5	2.0
Total use of goods and services	24.6	-6.9	8.6	4.4	8.5	-12.5	-0.2	-1.3	-3.1	2.5
Total imports	13.0	6.7	4.6	3.4	4.0	0.2	2.3	1.1	-0.4	2.7
Traditional goods	15.6	5.8	5.2	4.8	4.4	-1.3	3.0	0.4	-2.0	4.4
Gross domestic product (market prices)	28.4	-10.8	9.4	4.8	9.8	-15.7	-1.0	-2.1	-3.9	2.4
Gross domestic product Mainland Norway (market prices)	6.1	4.9	1.8	1.9	1.4	0.3	1.8	1.3	1.0	1.2

Source: Statistics Norway.

Table 11. Main economic indicators 2015-2027. Accounts and forecasts[1, 2]

										Forecasts			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Demand and output													
Consumption in households etc.	2.7	1.1	2.2	1.4	1.0	-6.2	5.1	6.2	-0.7	0.6	2.2	3.4	3.3
General government consumption	2.4	2.3	1.9	0.6	1.1	-0.5	3.6	1.1	3.6	2.1	1.8	2.0	2.3
Gross fixed investment	-4.0	3.9	2.6	2.2	9.5	-4.1	0.7	5.2	0.3	-1.2	-1.3	3.0	1.3
Extraction and transport via pipelines	-12.2	-16.0	-5.4	0.7	14.3	-3.3	-0.9	-7.1	10.5	11.0	-3.0	-4.0	-2.1
Mainland Norway	-0.2	9.0	6.8	1.5	6.3	-3.1	1.6	7.6	-0.8	-5.7	-0.8	4.8	2.2
Industries	-2.8	12.6	9.2	3.1	10.3	-5.3	3.2	17.1	4.9	-5.5	-5.7	1.5	0.3
Housing	3.2	6.6	7.3	-6.5	-1.1	-1.6	3.5	-1.4	-15.6	-16.1	5.2	13.4	6.9
General government	0.2	6.4	2.6	8.1	7.5	-1.1	-2.5	1.3	2.8	2.5	3.9	4.2	1.7
Demand from Mainland Norway[3]	2.0	3.1	3.1	1.2	2.3	-3.9	3.9	5.1	0.5	-0.5	1.4	3.3	2.8
Exports	3.9	0.4	1.6	-1.5	2.1	-2.3	6.1	4.5	1.4	3.1	4.2	1.3	1.0
Traditional goods	6.5	-11.2	0.9	2.0	5.1	-0.8	6.7	-2.5	6.1	3.8	3.0	3.2	3.4
Crude oil and natural gas	1.3	5.4	5.2	-4.6	-2.9	10.5	0.2	1.3	-1.1	1.6	4.2	-1.3	-2.2
Imports	1.9	1.9	1.8	1.4	5.3	-9.9	1.8	12.5	0.7	2.1	2.0	3.5	3.3
Traditional goods	2.7	-1.4	3.5	2.8	6.2	-2.7	5.4	3.4	-3.7	1.2	1.4	3.7	3.5
Gross domestic product	1.9	1.2	2.5	0.8	1.1	-1.3	3.9	3.0	0.5	1.1	2.2	1.9	1.5
Mainland Norway	1.4	0.9	2.2	1.9	2.3	-2.8	4.5	3.7	0.7	0.9	1.6	2.7	2.4
Manufacturing	-4.4	-4.1	-0.1	1.6	2.1	-5.7	5.6	-0.5	0.2	1.4	3.7	3.2	1.8
GDP in current prices (NOK billion)	3 130	3 116	3 323	3 577	3 597	3 462	4 324	5 708	5 129	5 126	5 401	5 586	5 741
Labour market													
Total hours worked. Mainland Norway	0.6	0.6	0.5	1.6	1.5	-2.1	2.4	3.9	0.8	0.2	0.4	1.2	1.3
Employed persons	0.4	0.3	1.1	1.6	1.6	-1.5	1.1	3.9	1.3	0.0	-0.1	0.7	0.2
Labor force	1.5	0.2	-0.2	1.4	1.0	0.4	2.2	1.4	1.3	0.4	0.0	0.7	0.3
Participation rate (level)	71.0	70.4	69.7	70.2	70.5	70.4	72.1	72.6	72.8	72.0	71.7	71.9	71.9
Unemployment rate (level)	4.5	4.7	4.2	3.8	3.7	4.6	4.4	3.2	3.6	4.1	4.2	4.2	4.2
Prices and wages													
Wages per standard man-year	2.8	1.7	2.3	2.8	3.5	3.1	3.5	4.3	5.2	5.2	3.9	4.0	3.5
Consumer price index (CPI)	2.1	3.6	1.8	2.7	2.2	1.3	3.5	5.8	5.5	4.0	2.6	2.3	1.9
CPI-ATE[4]	2.7	3.0	1.4	1.6	2.2	3.0	1.7	3.9	6.2	4.3	2.8	2.4	2.0
Export prices, traditional goods	2.6	4.5	4.7	5.1	0.1	-3.5	12.6	30.2	-0.4	-0.5	0.6	1.4	1.7
Import prices, traditional goods	5.0	2.5	3.2	4.1	2.5	4.3	5.0	15.6	5.8	1.5	1.1	1.1	1.3
House prices	6.1	7.0	5.0	1.4	2.5	4.3	10.5	5.2	-0.5	2.0	1.9	3.3	2.9
Income, interest rates and excange rate													
Household real disposable income	5.3	-1.6	2.0	0.9	2.0	1.1	4.1	-3.3	-1.7	0.5	3.7	3.9	3.0
Household saving ratio (level)	9.8	6.9	6.6	5.9	7.1	12.9	13.8	4.9	4.5	5.3	6.6	6.9	6.5
Money market rate (3 month NIBOR) (level)	1.3	1.1	0.9	1.1	1.6	0.7	0.5	2.1	4.2	4.6	3.7	3.3	3.2
Lending rate, credit loans (level)[5]	3.2	2.6	2.6	2.7	3.0	2.6	2.1	2.9	5.0	6.0	5.4	4.8	4.6
Real after-tax lending rate, banks (level)	0.1	-1.6	0.1	-0.7	0.2	0.7	-1.8	-3.3	-1.5	0.6	1.2	1.7	1.5
Importweighted krone exchange rate (44 countries)[6]	10.5	1.8	-0.8	0.1	2.9	6.7	-5.3	1.2	8.5	-0.6	0.1	0.0	0.0
NOK per euro (level)	8.95	9.29	9.33	9.60	9.85	10.72	10.16	10.10	11.42	11.43	11.44	11.44	11.44
Current account													
Current balance (bill. NOK)[7]	282	163	210	320	136	38	644	1 722	909	708	831	771	717
Current account (per cent of GDP)	9.0	5.2	6.3	9.0	3.8	1.1	14.9	30.2	17.7	13.8	15.4	13.8	12.5
International indicators													
Exports markets indicator	5.3	3.8	5.6	4.2	3.4	-7.5	10.0	8.3	0.8	1.8	1.9	3.7	3.8
Consumer price index, euro-area	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.4	2.2	1.8	2.0	2.0
Money market rate, euro (level)	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.1	2.0	2.0	2.0
Crude oil price US dollar (level)[8]	53	45	55	72	64	43	71	99	82	77	74	72	70
Crude oil price NOK (level)[8]	431	379	452	583	564	407	609	951	867	814	785	757	736

[1] Percentage change from previous year unless otherwise noted.
[2] Some time series may have been revised after the publication of the Economic Survey.
[3] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.
[4] CPI adjusted for tax changes and excluding energy products.
[5] Yearly average. Credit lines. secured on dwellings.
[6] Increasing index implies depreciation.
[7] Current account not adjusted for saving in pension funds.
[8] Average spot price Brent Blend.
Source: Statistics Norway. The cut-off date for information was 13 March 2024.