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.	Category not applicable
..	Data not available
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-	Nil
0 } 0.0 }	Less than half the final digit shown

## NOTHING IS WITHOUT LIMITS?

The current cyclical upturn in Norway will continue as long as there is growth in demand and an available supply of resources in the economy. Thus far in the upturn the sharp growth in production has been sustained by an ample supply of resources both in and outside the labour market without an overheating of the economy.

Developments in recent months have prompted the question of how long this situation can continue. In February the number of vacancies reached 21 000, which is a twofold increase on the figure recorded 14 months ago. At the peak of the previous cyclical upturn in May 1987 the number of registered unemployed was 27 000 in Norway. The projections in this *Inflation Report* indicate that unemployment will approach this level towards the end of 1999. One may question whether it is possible for unemployment to decline to the lowest levels recorded in the 1980s.

In the light of growing labour market pressures, price and wage inflation may accelerate at an earlier stage than we have projected so far. Once inflation has flared up, substantial sacrifices will probably have to be made to reverse the situation and bring inflation under control.

All experience shows that a more effective

approach is to smooth cyclical fluctuations at an early stage, which is still possible in Norway. However, this cannot be achieved without a tightening of economic policy.

Norges Bank is not alone in pointing to the need for fiscal retrenchment. Both the OECD and the IMF have recently presented their assessment of the Norwegian economy. Both institutions conclude that pressures in the economy have reached excessive levels and that fiscal policy is too expansionary to avoid an acceleration in price and wage inflation. The OECD and the IMF recommend that fiscal policy be tightened in the near future. The IMF emphasises that fiscal policy should be strengthened through a reduction in expenditure rather than further increases in the level of taxation.

At the end of the previous expansion some observers, both in private and political circles, tended to place greater emphasis on their satisfaction over the upturn we had experienced rather than the consequences to be faced around the next bend. We must hope and believe that we as a nation are able to act with greater foresight and restraint this time around. It is still the case that nothing is without limits.

*Kjell Storvik*

### NORGES BANK'S INFLATION REPORT

Pursuant to the Norges Bank Act, the central bank has an advisory function in the area of monetary, credit and foreign exchange policy. In its executive capacity, Norges Bank shall ensure the stability of the krone's value measured against European currencies. Sustained low price and wage inflation in line with or lower than that of trading partners is a necessary condition for a stable krone exchange rate.

The *Inflation Report* provides a survey of price trends and factors that influence price and wage inflation. It contains a broad review of the situation in the Norwegian economy and provides Norges Bank's professional evaluation of the outlook for prices for the next two years. In the leader above, the Governor provides a summary of Norges Bank's assessment of the situation.

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*Effects of the fall in oil prices*

*High degree of conformity between historical wage growth and modelled wage growth in RIMINI*

*Is the household sector less exposed to interest rate changes today than in the 1980s?*

The cut-off date for the *Inflation Report* was 11 March 1998.

# 1 SAMMENDRAG

Norges Bank projects consumer prices to rise by 2¾% in 1998 and 3% in 1999. The inflation projections are virtually unchanged in relation to the December *Inflation Report*.

The Asian crisis has led to drop in international commodity prices, which has resulted in reduced price inflation among our trading partners and lower import prices in Norway. However, the effect on domestic inflation has been offset by a continued depreciation of the krone in the first months of 1998.

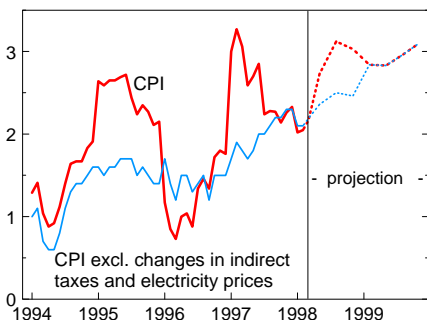
Price inflation was lower than expected in January and February, primarily reflecting lower prices during the sales after Christmas this year compared with 1997. In isolation, lower CPI prices at the beginning of the year reduce the estimate for price inflation. On the other hand, growing labour market pressures and a slight upward revision of aggregate demand are expected to push up price inflation through 1998. All in all, the inflation projection from the December *Inflation Report* remains unchanged. Excluding changes in indirect taxes and electricity prices, underlying inflation is projected at 2½% in 1998 and 3% in 1999.

Total domestic demand has been revised upwards by a small margin in this *Inflation Report*, mainly because the estimate for petroleum investment is substantially higher than in the December *Inflation Report*. Although imports account for a growing share of petroleum investment, this will generate added demand stimulus in the mainland economy. Moreover, the spillover effects of the Asian crisis are expected to have a dampening impact on export growth.

Wage growth was somewhat higher than projected, which probably reflects higher-than-expected wage drift towards the end of 1997. Since the December *Inflation Report* labour market pressures have continued to intensify, partly reflecting a marked fall in unemployment in January and February. Unemployment is now at the same level prevailing at the beginning of 1985, and the number of vacancies has shown a twofold increase over the last 14 months. The projections in this report point towards growing labour shortages and a continued fall in unemployment through 1998.

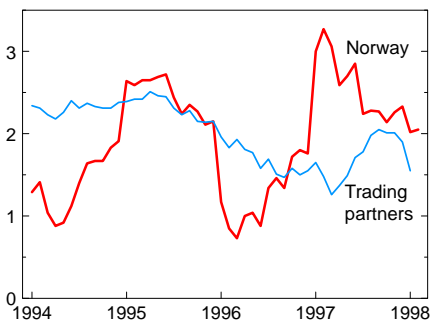
Based on the historical information embodied in the RIMINI model, average wage growth in 1998 is projected at 5¼%, ie ¼ percentage point higher than the estimate in the December *Inflation Report*. The higher estimate reflects developments in the labour market and somewhat higher growth in domestic demand than projected earlier. If the model-based wage estimates are accurate, price inflation may be slightly higher in Norway than among trading partners in coming years.

**Chart 2.1** *CPI, total and excluding indirect taxes and electricity prices. Historical figures and projections. 12-month rise in per cent*



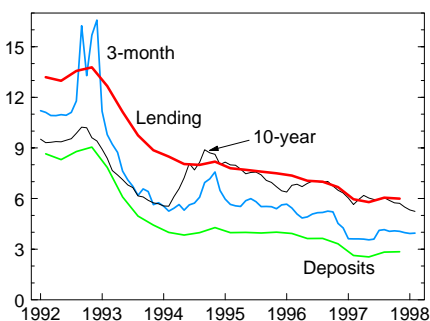
Source: Statistics Norway and Norges Bank

**Chart 2.2** *Consumer prices in Norway and abroad. 12-month rise in per cent*



Source: Statistics Norway and OECD

**Chart 2.3** *Interest rate movements in Norway. Banks' average deposit and lending rates, 3-month euro-kroner rate and 10-year government bond yield*



Source: Norges Bank

## 2.1 Price trends

*Price inflation slightly lower in early 1998, but unchanged price projection for 1998 as a whole*

Consumer prices rose by an average 2.6% in 1997, whereas the underlying rise in prices, excluding changes in indirect taxes and electricity prices, averaged 2.0%. In February, the 12-month rise in the CPI was 2.0%. In the first two months of 1998 price inflation was lower than in the baseline scenario in the December *Inflation Report*. This primarily reflects lower-than-expected prices for clothing and footwear during the seasonal sales in addition to falling petrol prices. The general decline in prices must be seen in connection with a mild winter and a lower-than-expected turnover in the retail industry before Christmas. The decline in clothing and footwear prices is expected to be temporary, with prices projected to rise again after the winter sales.

Excluding changes in indirect taxes and electricity prices, price inflation was 2.1% in February. The underlying rise in prices moved on an upward trend last year, levelling off in the first two months of 1998. Over the last twelve months the rise in house rents and services prices have shown the sharpest rise, whereas the rise in goods prices has been stable. The rise in import prices has been moderate over the last year, reflecting low price inflation among trading partners and a strong krone in 1997.

According to the EU's harmonised consumer price index price inflation in Norway is still somewhat higher than in the EU. The harmonised index rose by 1.3% in the EU in the year to January 1998, while the corresponding index for Norway rose by 1.6%.

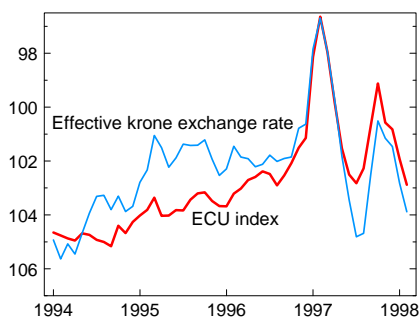
In January, the Technical Reporting Committee on Income Settlements estimated annual wage growth at 4¼% in 1997. This estimate is used as a basis for wage negotiations and does not include overtime. Wage growth per normal person year (which includes overtime) is estimated at 4.6% for 1997 by Statistics Norway. This estimate is based on a broader selection of wage data, indicating that the estimate of the Technical Reporting Committee on Income Settlements will be revised upwards.

## 2.2 Exchange rates, interest rates and monetary variables

*Weaker exchange rate and stable interest rates*

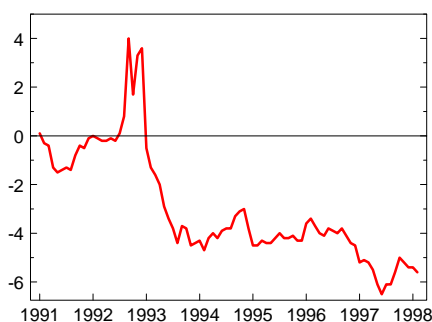
Since the December *Inflation Report* short-term money market rates have fallen in a number of European countries, whereas interest rates in Norway have edged upwards. Norwegian interest rates are still slower than the ECU rate, but

**Chart 2.4** ECU index and manufacturing industry's effective krone exchange rate. Rising curve denotes appreciation



Source: Norges Bank

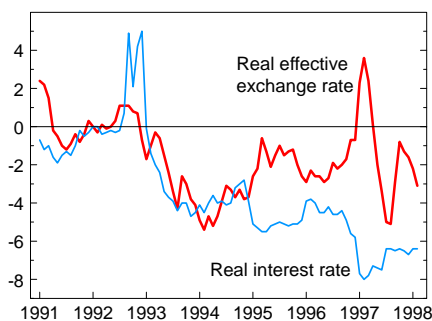
**Chart 2.5** Norges Bank's Monetary Conditions Index (MCI). January 1992 = 0



When aggregating, the real interest rate is given a weight of  $\frac{3}{4}$  and the real effective exchange rate a weight of  $\frac{1}{4}$ .

Source: Norges Bank

**Chart 2.6** Components of the MCI. January 1992 = 0



Source: Norges Bank

the differential has narrowed from 0.8 to 0.4 percentage point. The drop in European interest rates must be seen in connection with convergent interest rates in the period ahead of the third stage of EMU. Developments in Asia may also have curbed upward pressures on interest rates in Europe and the US.

The three-month euro-krone rate rose to 4% when Norges Bank raised key rates in the summer of 1997, and edged down in the last six months of 1997. Since January the three-month rate has moved up by a small margin to a little more than 4% at present. Following a rapid adjustment by banks to the increase in interest rates last summer, interest rates on loans to the private sector have remained relatively stable over the last six months. Lending rates are still 0.7 percentage point lower than at the beginning of 1997.

Since the December *Inflation Report* the krone has depreciated by 2% measured against the ECU index. The effective exchange rate has depreciated by a slightly greater margin, ie by a little more than 3%, reflecting the recent appreciation of USD. The depreciation of the krone in recent months may reflect the sharp fall in oil prices. Oil prices are now 30% below the average for 1997. The uncertainty associated with the outcome of this spring's wage negotiations may also have had an impact.

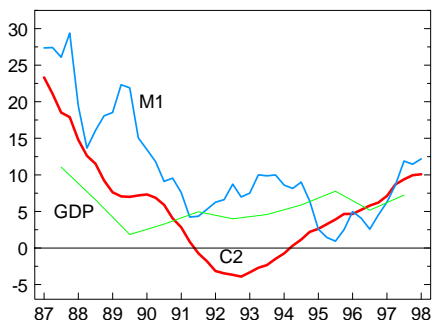
Norges Bank's Monetary Conditions Index (MCI) summarises the effect of changes in the real exchange rate and real interest rates on domestic demand. A fall in the index indicates that interest and exchange rate movements are having a more expansionary effect on the real economy. Measured by the MCI, monetary policy has had an expansionary effect on the economy since the beginning of 1996. The depreciation of the exchange rate since the December *Inflation Report* has to some extent intensified the expansionary effect of monetary policy.

The expansionary monetary stance is further reflected in higher rates of growth for monetary aggregates and credit demand than nominal GDP. Gross domestic credit (C2) has been rising steadily since 1992, up 10% in the year to end-January. The pronounced growth in credit is probably adding to the pressures in the Norwegian economy.

A breakdown of credit by borrowing sector shows that non-financial enterprises account for the largest share of the increase in debt. The year-on-year growth in the domestic debt of these enterprises was about 18% at the end of 1997. The household sector's domestic debt is also rising, at a year-on-year rate of 8% at the end of last year.

The 12-month rise in M2 was slightly lower in the fourth quarter of 1997, but jumped to 8.1% in January, which is the highest growth rate recorded since the summer of 1992. Distributed by source, the central government's revenue surplus contributed to reducing monetary growth over the last year, whereas bank lending was the dominant source of

**Chart 2.7** Total domestic credit (C2), money supply (M1) and nominal mainland GDP. Growth from same period previous year



Source: Statistics Norway and Norges Bank

increased monetary growth. Narrow money M1 (M2 less time deposits) has exhibited sharp growth over the last year, reaching a year-on-year rate of 12.6% in January, which is markedly higher than nominal GDP growth and M2 growth.

## 2.3 Developments in the real economy

### *Higher-than-expected demand growth*

Current statistics for the real economy underline a high level activity in the Norwegian economy, with no signs of moderation this year.

Output growth was stronger in 1997 than projected in the December *Inflation Report*. Mainland GDP rose by almost 4% between 1996 and 1997 according to preliminary quarterly national accounts figures.

Private consumption showed slower-than-expected growth. Consumption of goods and services rose by 2.6% between 1996 and 1997, while a sharp increase in household holiday consumption pushed total consumption growth up to 3%, which is more or less in line with income growth. One explanation for the relatively moderate growth in consumption may be that households have given somewhat higher priority to housing investment, which grew by 9% in 1997, rather than consumption.

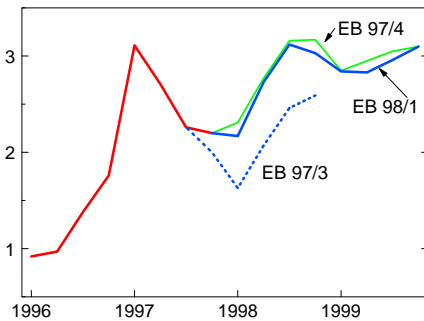
Petroleum investment has been revised upwards by a substantial margin for 1998 and 1999. Assuming that about half of the upward revision relates to domestic production, mainland GDP growth may be  $\frac{1}{4}$ - $\frac{1}{2}$  percentage point higher in 1998 than projected in the December *Inflation Report*.

Labour market pressures continued to grow in 1997 and developments so far this year indicate that pressures are reaching new heights. Employment rose by 62 000, or 2.9%, between 1996 and 1997.

Employment growth was particularly strong in the construction and service industry. LFS figures for the fourth quarter of last year show that unemployment declined by 0.8 percentage point on the same period one year earlier, to 4.1% on average for 1997. In the December *Inflation Report* unemployment was estimated to drop to an average  $3\frac{1}{4}$ % for 1998 based on LFS figures. Figures for registered unemployment thus far in 1998 confirm this. Pressures in the labour market are underlined by the February figure for vacancies registered at employment offices, which was 21 000. This is a doubling of the figure recorded in the autumn of 1996 and is an historical peak.

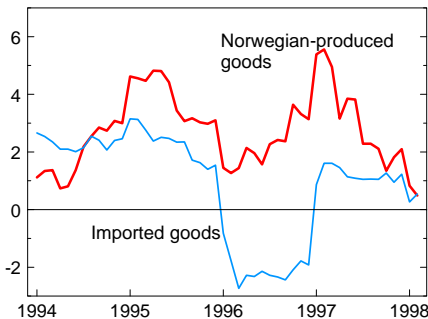


**Chart 3.1** Current and earlier projections for consumer price inflation. 12-month rise in per cent



Source: Statistics Norway and Norges Bank

**Chart 3.2** Consumer prices. Norwegian-produced goods and imported goods. In per cent



Source: Statistics Norway and Norges Bank

**Table 3.1** Consumer prices. Norges Bank's projections. Percentage change from previous year

	1997	1998	1999
US	2 ¼	2	2 ¼
Japan	1 ¾	¾	¾
Germany	1 ¾	2	2 ¼
UK	3	3	2 ¾
Sweden	1	2	2 ½
Finland	1 ¼	2 ¼	2 ½
Denmark	2 ¼	2 ½	2 ½
Norway's trading partners	2	2	2 ¼
EU-12-countries <sup>1)</sup>	2	2	2 ¼

<sup>1)</sup> ECU index weights.

Source: Norges Bank

## 3.1 Norges Bank's inflation projections

Average price inflation in Norway is projected at 2¾% in 1998 and 3% in 1999, the same as in the December *Inflation Report*. The increase in indirect taxes will, in isolation, push up consumer price inflation by almost 0.4 percentage point this year. So far electricity prices have been substantially lower than in the same period last year, and will thereby have a slightly dampening effect on consumer price inflation in 1998.

Excluding changes in indirect taxes and electricity prices, underlying price inflation is projected to rise from 2½% in 1998 to 3% in 1999. The projection for 1999 is based on the technical assumption that indirect taxes are changed in pace with the general rise in prices, entailing that these taxes will not make a direct contribution to price inflation next year.

### *More subdued external price impulses offset by a weaker krone*

The Asian crisis has resulted in lower demand for exports from the rest of the world economy and reduced the growth prospects for Europe and the US. Price inflation among trading partners is now projected at 2% in 1998 and 2¼% next year, ie slightly lower than in the last *Inflation Report*. The downward revision also reflects an unexpectedly sharp fall in international commodity prices in the wake of the Asian crisis. Temporary changes in global weather conditions as a result of El Niño may also have had an impact. As a result of the decline in commodity prices, prices for Norway's traditional merchandise imports, measured in foreign currency, have been revised downwards by a substantial margin.

This has been offset, however, by a continued depreciation of the krone through the first few months of 1998. The import-weighted krone exchange rate is now 2.8% weaker than in December. As in previous reports, the underlying technical assumption is that the average exchange rate prevailing in the previous month will remain constant through the projection period. This entails an average depreciation of the Norwegian krone of 2¾% between 1997 and 1998.

Overall, externally generated price inflation is expected to remain unchanged compared with the December *Inflation Report*. Import prices for traditional goods are expected to rise by 1% this year and by 1½% next year. This nevertheless implies that external price impulses in the period ahead will be somewhat stronger than we have witnessed in recent years.

## *Tighter labour market and slightly higher wage growth*

In recent years the labour market has been characterised by brisk growth in employment, a sharp expansion of the labour force and a steady decline in unemployment. Some features of the labour market indicate, however, that it will be more difficult to continue on a balanced path hereafter. Unemployment has fallen at a faster pace over the past year while the number of vacancies has increased sharply.

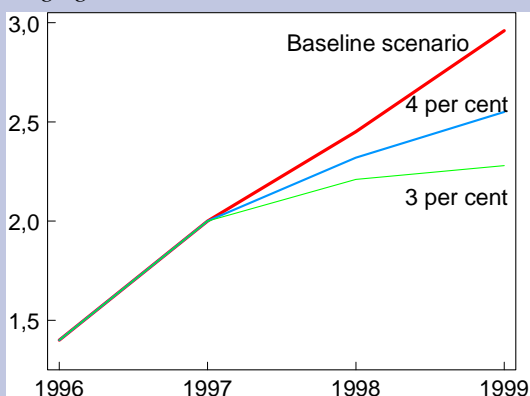
Wage growth through 1997 was slightly higher than expected, probably because we underestimated wage drift towards the end of the year. This means that we enter 1998 with slightly higher wage growth than was previously envisaged. Falling commodity prices may have a dampening effect on profitability in some manufacturing sectors, although experience shows that it usually takes one to two years before this effect feeds through.

Annual wage growth is now estimated at 5¼% in 1998, which is ¼ percentage point higher than in the December *Inflation Report*. The projection for wage growth entails that the inflationary impetus from the labour market will increase marginally compared with the last *Inflation Report*.

### Price inflation based on different assumptions regarding wage growth

The estimates in this report indicate that inflation may be accelerating in Norway. The rate of inflation is still fairly moderate, but inflation among competing countries is far lower

*Point estimate for annual underlying inflation based on different assumptions regarding wage growth*



In the baseline scenario, wage inflation is projected at 5% this year and 6% next year. In the shift scenarios, wage inflation is assumed to be 4% in both 1998 and 1999, or 3% in both years.

Source: Statistics Norway and Norges Bank

today than it was in the 1970s and 1980s.

Thus far in the 1990s price inflation in Norway has been moderate, primarily due to low international inflation, a fairly stable exchange rate and moderate pay increases.

This report underlines growing pressure in the Norwegian economy and points out that neither monetary nor fiscal policy are contributing to alleviating these pressures to any notable extent. Based on historical information about relationships in the Norwegian economy, we expect underlying consumer price inflation (the CPI, excluding indirect taxes and electricity prices) to rise to 2½% this year and 3% next year. This scenario is based on 5¼% wage growth in 1998 and 6% in 1999.

Lower wage growth would, to some extent, contribute to reducing inflation in the short term. The chart below, which is based on the relationships embodied in the RIMINI model, shows annual consumer price inflation in 1998 and 1999 when different wage growth assumptions are applied. According to these estimates, wage growth in the range of 3 to 4% both this year and next - ceteris paribus - will help to stabilise underlying inflation below 2½%.

In a separate box we examine how different assumptions concerning wage growth affect prices. The labour market and wage growth are discussed further in section 4.

### *Fluctuations in electricity prices*

Low precipitation level in the winter of last year led to a surge in electricity prices, but as the situation in the reservoirs normalised, electricity prices fell through 1997.

At the beginning of March, water levels in reservoirs were marginally higher than is normal for this time of year. In recent years we have also seen a fairly sharp rise in the demand for electricity. Our forecasts are based on the assumption that electricity prices will move in pace with the general rise in prices. However, as a result of developments in 1997, electricity prices will continue to make a negative contribution to the year-on-year rise in consumer prices the next few months, followed by a positive contribution in the second half of the year.

### *House rents edge up in pace with the general rise in prices*

As a result of mounting pressures in the housing market combined with a levelling off of interest rates following several years of decline, house rents rose at a faster pace in 1997 than in the previous three years. House rents are expected to continue to increase in step with the general rise in prices in the period ahead.

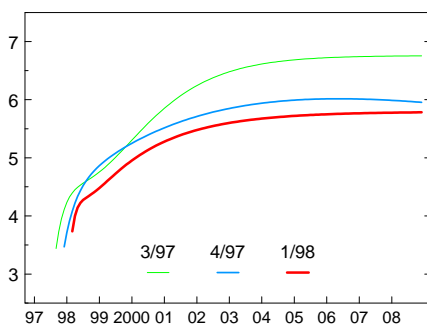
## **3.2 Inflation expectations**

### *Minor changes in inflation expectations compared with December Inflation Report*

Statistics Norway's general business tendency survey indicates that enterprises expect higher prices in the next quarter. According to the fourth-quarter survey, 31% of enterprises expected higher prices in the first quarter of 1998 for products sold on the domestic market. The percentage of enterprises expecting higher prices in the next quarter has risen since the last survey.

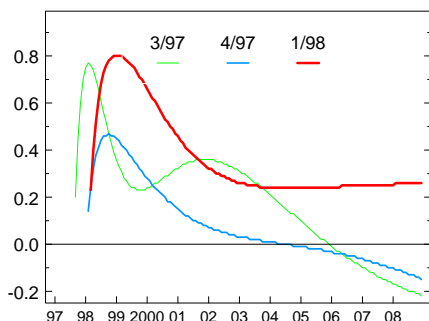
Market participants' expectations concerning future short-term interest rates are reflected in the forward rate curve in money and foreign exchange markets. Forward rates may - under certain conditions - be viewed as the sum of the expected real rate of interest and expected future inflation. In the short term, inflation is assumed to be given, entailing that the forward rate curve is dominated by expectations concerning Norges Bank's key rates, which in turn are influenced by expectations concerning movements in the exchange rate. Chart 3.3 indicates that market participants expect key rates to rise over the next year, but by a smaller margin than in the last *Inflation Report*.

**Chart 3.3** *Forward rates in Norway. Expected short-term rates. In per cent*



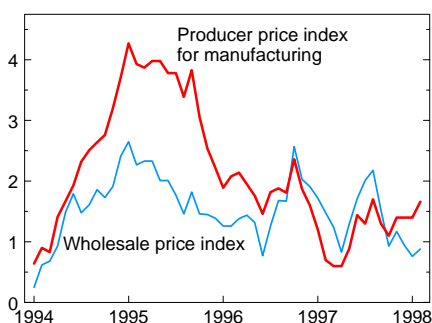
Source: Norges Bank

**Chart 3.4** *Differential between expected short-term rates in Norway and Germany in percentage points*



Source: Norges Bank

**Chart 3.5** *Wholesale and producer prices. 12-month rise in per cent*



Source: Statistics Norway

**Table 3.2** *Various institutions' projections for consumer price inflation in Norway in 1998 and 1999<sup>1)</sup>. Percentage change from previous year*

	1998	1999
Ministry of Finance	2½	-
Statistics Norway	2.5	2.6
OECD <sup>2)</sup>	2.8	3.1
IMF	2.5	-
Norges Bank	2¾	3
Private institutions <sup>3)</sup>		
highest estimate	3.3	3.7
average	2.8	3.0
lowest estimate	2.4	2.7

<sup>1)</sup> Latest official projections from the respective institutions.

<sup>2)</sup> Consumption deflator.

<sup>3)</sup> Based on projections from 13 private institutions for 1998 and 12 private institutions for 1999.

Medium-term forward rates, which are influenced by expectations concerning key rates and inflation expectations, have edged down since the last *Inflation Report*. The fall in both short and medium-term forward rates the last few months partly reflects a downward revision of interest rate expectations internationally as a result of the turbulence in Asian financial markets. A comparison of Norwegian and German short and medium-term forward rates indicates, however, that Norwegian forward rates have fallen less than German rates. Higher inflation expectations in Norway than in Germany in coming years may be partly ascribable to the divergence of cyclical positions in the two economies.

Long-term forward rates reflect market participants' confidence in economic policy. However, since bond yields are heavily influenced by international trends, it may be more relevant to look at movements in the forward rate differential against, for example, Germany. Chart 3.4 shows that the differential between Norwegian and German long-term forward rates has widened since the December report. The chart indicates waning confidence in the orientation of Norway's economic policy towards shadowing price inflation in Europe.

Producer and wholesale prices can also provide an indication of future price movements. The rise in producer prices in manufacturing has been moderate the past year, with prices for goods produced for the domestic market rising by 1½%, see Chart 3.5. The rise in wholesale prices has slowed in recent months, and in February these prices rose by a little less than 1% compared with the same month one year earlier.

Norges Bank collects inflation projections from 13 private institutions. On average these institutions expect prices to rise by 2.8% in 1998 and 3.0% in 1999, see Table 3.2. All in all, the indicators above point to minor changes in inflation expectations this year and next compared with the previous quarter.

### 3.3 The risks to the inflation outlook

#### *Projection for consumer price inflation uncertain due to moderate inflation in January and February*

The projections in this report are based on our macroeconomic model RIMINI. If changes in key variables prove to be different from that assumed, the price scenario may be another. The inflation projection for 1998 as a whole is slightly more uncertain this time than usual, particularly due to a lower-than-expected rise in prices in the first two months of the year. The projection for the annual rise in consumer prices may have to be revised downwards if the moderate rise in January and February continues in the next months.

Several forces are now having a dampening effect on price inflation:

- There is considerable uncertainty concerning the indirect

effect of the Asian crisis on prices. The crisis has resulted in lower international commodity prices, which have contributed to curbing inflation among our trading partners and lower import prices for Norway. So far this has been offset by a weaker Norwegian krone. It is not inconceivable, however, that the international drop in prices will have a greater impact on the Norwegian economy than assumed. Lower petrol prices in particular - as witnessed in February - may have a substantial dampening effect on consumer price inflation.

- The low rise in consumer prices in January and February largely reflects sales of seasonal goods. Prices for seasonal goods showed a steeper decline than last year when the fall in prices was less than normal. Sales this year may probably be ascribed to low demand as a result of the mild winter and perhaps lower-than-expected turnover before Christmas. The possibility that prices for seasonal goods will remain low in coming months can therefore not be ruled out.

However, some underlying supply and demand conditions in the economy may neutralise the forces above and possibly point to higher price inflation than estimated:

- Wage growth through 1997 was higher than expected, probably as a result of higher wage drift in the second half of the year. This may entail that we have underestimated the effect of a tighter labour market. Swiftly declining unemployment and a sharp rise in the number of vacancies may prompt the question of whether resources in the labour market are being exhausted. Following a period of fairly high unemployment it may prove demanding to reach the low unemployment figures recorded in the 1980s. Any constraints on the supply side of the economy might result in lower output growth and higher wage growth than envisaged in our baseline scenario.
- There is considerable uncertainty concerning how early retirement schemes, post-education reforms and cash grants for families with small children will affect the labour supply the next few years. So far it appears that a greater number than expected have opted for early retirement. Any reduction in the labour force as a result of such reforms may translate into greater-than-expected pressures in the labour market. The introduction of such schemes at this stage of the business cycle may have effects on the labour market similar to the reduction in working hours in 1987, both as regards the timing and the attendant effects on the labour market.
- Statistics Norway's fourth-quarter general business tendency survey indicates that many sectors are experiencing capacity problems, particularly input goods-producing sectors which include traditional export industries. We may have overestimated capacity in these industries.

# 4 CYCLICAL DEVELOPMENTS

**Table 4.1** *Supply and use of goods and services. Percentage growth from previous year*

	1997	1998	1999
Mainland demand	4.0	3 ¾	3 ¼
Private consumption	3.1	4	4 ¼
Public consumption	2.5	2	2 ½
Mainland fixed investment	9.2	5 ¼	0
Fixed investment in oil and pipeline transport	24.7	15	-13
Exports	4.1	7 ¼	4 ¾
Of which:			
Oil, gas and pipeline transport	2.2	12 ½	6 ½
Traditional goods	9.1	5 ¼	4
Imports	11.9	5 ¼	2
Traditional goods	9.1	5 ¾	2 ¼
GDP	3.5	5 ¼	3 ¼
Mainland GDP	3.9	3 ¾	2 ½

Source: Norges Bank

## 4.1 Main features of economic developments

### *Continued brisk growth the next two years*

This report contains projections up to the end of 1999. The projections for petroleum investment have been revised upwards by a considerable margin since the previous report, contributing to both higher mainland demand and higher imports. The Asian crisis has also prompted a slight downward revision of our projection for export growth. All in all, however, the pressures on production resources are expected to be somewhat greater than indicated in the last *Inflation Report*.

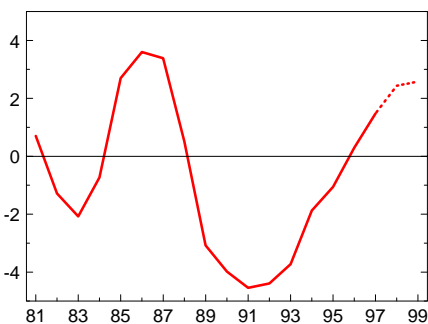
Output growth was stronger than expected last year. Preliminary figures from the national accounts show that mainland GDP expanded by 3.9% between 1996 and 1997. This was higher than the level indicated by the quarterly accounts through the year, but more consistent with the brisk employment growth recorded in 1997.

Demand growth is expected to remain buoyant in 1998 and 1999. Mainland GDP is now projected to grow by 3¾% this year, half a percentage point higher than estimated in the last *Inflation Report*. LFS unemployment is expected to be reduced to 3¼%. Growth may slow in 1999, with mainland GDP expanding by an estimated 2½% and LFS unemployment declining to 2¾%. Chart 4.1 indicates that the potential for further above-trend output growth has been reduced. As indicated by Statistics Norway's general business tendency survey, see Chart 4.2, manufacturing industry appears to be experiencing greater capacity problems.

Household consumption is expected to rise in volume terms by about 4% this year and next. This robust consumption growth is approximately on a par with the growth in household real disposable income. It has then been assumed that higher transfers to pensioners and families with small children, in keeping with the Storting's resolution last autumn, will contribute to boosting consumption growth. If households look upon income growth this year and next as transitory, the saving ratio may rise. On the other hand, experience indicates that higher housing wealth has the opposite effect. It is likely that both these effects will be seen, entailing that the overall saving ratio will remain unchanged between 1997 and 1999.

Enterprises are usually expected to increase their fixed investment at a relatively early stage of the business cycle so that investment growth during the current stage of the cycle will make a smaller contribution to total output growth. Following fairly high investment growth the last four years, business fixed investment has now reached a high level compared with corporate earnings. Mainland

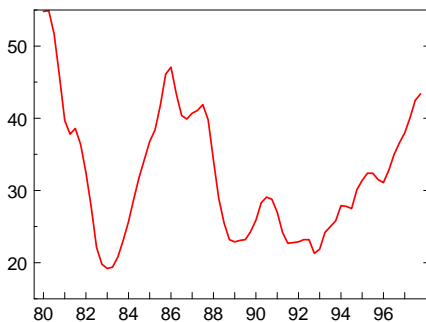
**Chart 4.1** *Output gap. Difference between actual and trend GDP in mainland Norway. Percentage points*



Source: Statistics Norway and Norges Bank



**Chart 4.2** Indicators of resource shortages in manufacturing industry according to the general business tendency survey. Per cent of enterprises experiencing production constraints



Source: Statistics Norway

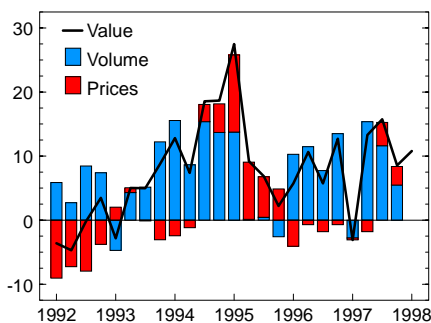
**Table 4.2** Projected GDP. Percentage change from previous year

	1997	1998	1999
USA	3 ¾	2 ½	2
Japan	1	¼	1
Germany	2 ¼	2 ½	2 ¾
UK	3 ¼	2 ¼	2
Sweden	2	2 ¾	2 ¾
Finland	5 ½	3 ½	3
Denmark	3	3	2 ½
Norway's trading partners <sup>1)</sup>	2 ¾	2 ½	2 ½

<sup>1)</sup> Weighted by export weights.

Source: Norges Bank

**Chart 4.3** Traditional merchandise exports according to External Trade Statistics. Volume, price and value. Percentage rise from same quarter previous year



Source: Statistics Norway

business fixed investment is therefore expected to show more moderate growth in 1998 and a slight decline in 1999.

## 4.2 The international environment and the balance of payments

### Lower international growth as a result of the Asian crisis

GDP growth among trading partners is estimated at 2½% in 1998 and 1999. In the previous *Inflation Report* the estimate for 1998 was a quarter percentage point higher. The downward adjustment reflects the spillover effects of the Asian crisis, with an erosion of competitiveness and lower exports to countries which are directly affected by the crisis. Among major industrial countries, Japan is particularly hard hit.

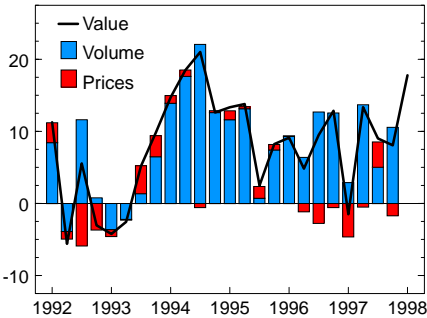
In recent years traditional merchandise exports in Norway have shown stronger growth than economic growth among trading partners would in isolation indicate. Volume growth was 7.4% in 1997 and over 10% in 1996. Exports to Europe and the US accounted for the bulk of the growth in 1997, whereas in 1996 growth in exports to Asian countries was particularly strong. Exports to the NICs in Asia which have been hit by the crisis only account for about 3% of the total value of Norwegian exports, which suggests that the direct effects of the Asian crisis on Norwegian exports will be relatively moderate.

Following several years of strong growth, the expansion in the US and the UK is expected to moderate, whereas activity in Germany and France is set to pick up. Although the recent depreciation of the krone is associated with a price advantage for Norwegian exports, total export growth is expected to be somewhat slower than projected in the December *Inflation Report*, primarily as a result of the Asian crisis. Traditional merchandise exports are projected to grow by 5¼% in 1998 and 4% in 1999.

Traditional merchandise imports rose by a little more than 9% in 1997. Continued strong growth in domestic demand will contribute to bolstering import growth, but we expect some decline in the growth rate in the period ahead. Lower export growth also implies slower growth in imports, as Norwegian exports include a large component of raw materials imports. The upward revision of the estimate for petroleum investment has the opposite effect as the import component here is expected to rise. All total, traditional merchandise imports are projected to rise by 5¾% in 1998 and 2¼% in 1999.

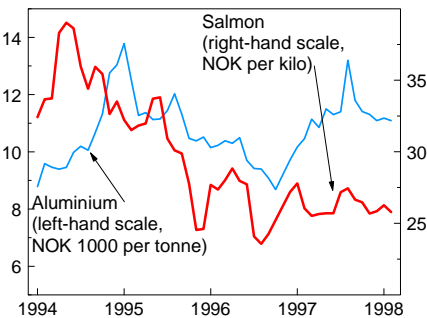
Prices for traditional export goods rose by 0.5% in 1997. Commodity prices exhibited a sharp rise up to August of last year, but have since dropped by a fairly substantial margin. The decline in prices reflects expectations of lower global demand for raw materials partly because of the

**Chart 4.4** *Traditional merchandise imports according to External Trade Statistics. Volume, price and value. Percentage rise from same quarter previous year*



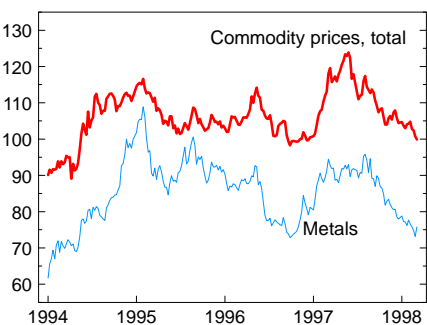
Source: Statistics Norway

**Chart 4.5** *Prices for aluminium and salmon. In NOK*



Source: Statistics Norway and Financial Times

**Chart 4.6** *Commodity prices measured in SDRs, total and metals. Index 1990 = 100*



Source: The Economist

financial crisis in Asia. Commodity prices are thus expected to move on a weak trend in the period ahead. For the share of traditional exports which include a smaller share of raw materials, prices are expected to exhibit a moderate rise. The depreciation of the krone implies higher prices calculated in NOK. All total, the rise in prices for traditional merchandise exports is projected at 1% in 1998, whereas a moderate rise in commodity prices in conjunction with an unchanged exchange rate will contribute to pushing up the rise to 2½% in 1999.

## Effects of the fall in oil prices

Oil prices have fallen by more than 30% since October 1997, and in mid-March the price was NOK 95 p/b (USD 12.5). The underlying assumption in this *Inflation Report* is that oil prices will remain at NOK 105 p/b (1998 kroner) this year and in 1999, which is marginally lower than the average so far this year. By way of comparison, the average oil price was NOK 133 p/b in 1996 and NOK 135 p/b in 1997.

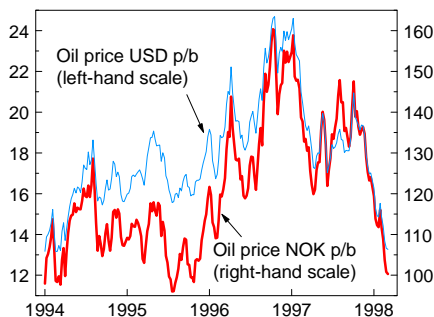
Changes in oil prices are of primary importance to central government revenues and the current-account balance. According to our projected oil price of NOK 105, the fall in oil prices may, in isolation, entail that central government oil revenues are nearly NOK 20bn lower than calculated in the National Budget for 1998, and revenues in 1999 could be reduced by almost NOK 25bn. If oil prices remain as low as the level prevailing at mid-March, the reduction will be even greater. However, as a result of the tax system applying to oil companies, the bulk of the effect on central government revenues will not occur until next year.

The trade surplus and current-account surplus will also deteriorate substantially when the value of oil and gas exports declines. In the baseline scenario, the current-account surplus is projected at NOK 40bn in 1998 and NOK 58bn in 1999. This is a considerable downward adjustment in relation to the December *Inflation Report*, largely due to lower oil prices and higher imports. If oil prices had remained at the same level as in 1997, the current-account surplus would have been nearly NOK 40bn higher than the projection in the baseline scenario. And if oil prices this year remain at the lowest level recorded in March (NOK 95 p/b), the current-account surplus will fall to NOK 24bn in 1998 and NOK 37bn in 1999.

It must be emphasised that these are technical calculations where we have only focused on the value of oil exports, and disregarded any other possible effects of such a price fall, including changes in household consumption and corporate investment.

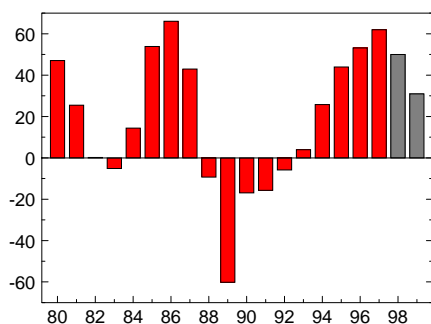


**Chart 4.7** Oil prices in NOK and USD



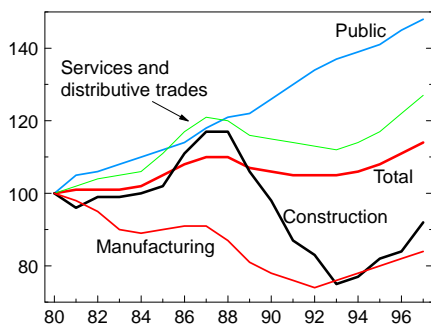
Source: Norges Bank

**Chart 4.8** Number employed. Change from previous year. 1000 persons



Source: Statistics Norway and Norges Bank

**Chart 4.9** Employment growth distributed by sector. 1980 = 100



Source: Statistics Norway

Prices for traditional merchandise imports fell by 1.5% in 1997. In the period ahead subdued price rises internationally will contribute to keeping import prices at a moderate level. However, this will be offset by the depreciation of the krone for Norwegian importers. Calculated in NOK, the rise in import prices is projected at 1% in 1998 and 1½% in 1999.

The estimate for the trade surplus and the current-account surplus has almost been halved compared with the December *Inflation Report*. The surplus on the current account is estimated at NOK 40bn in 1998 and 58bn in 1999. The downward revision of the surplus is mainly due to the drop in oil prices, but also to slower growth in traditional merchandise exports and higher growth in imports. See box on the influence of oil prices on our estimates for central government revenues and balance of payments.

### 4.3 The labour market

*Continued robust growth in employment in 1998, with a sharp fall in unemployment in the period ahead*

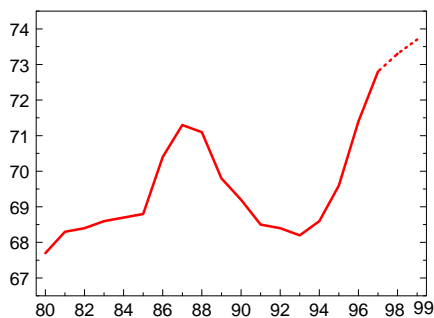
Employment exhibited sharp growth last year. According to preliminary national accounts figures, employment rose by 62 000, or 2.9% during the year. Growth in the construction and service industries was particularly vigorous, while it was more moderate in the public sector, largely as a result of unchanged employment in the central government sector. In the local government sector, employment growth was in line with the average. During the same period, the labour force grew at a somewhat slower pace than employment, with the result that unemployment edged down by 0.8 percentage point.

In the fourth quarter of 1997, the working age population in employment reached an all-time high. Much of the increase in labour force participation since 1988 is due to increased participation among women.

The unemployed made up 3.3% of the labour force in the fourth quarter. According to Statistics Norway's Labour Force Survey (LFS), the average unemployment rate for 1997 was 4.1%. Figures from the Directorate of Labour indicate a steady fall in registered unemployment during 1997, which continued into the first two months of this year. In February, registered unemployment was 2.7%. This is 1 percentage point lower than the figure a year ago, and on a par with the figure recorded at the beginning of 1988. The decline in unemployment is broad-based, and has been particularly pronounced in the construction industry.

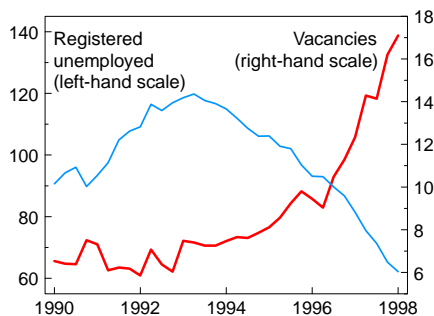
In January 1998, 27% of the unemployed were long-term unemployed, ie persons who are continuously unemployed for more than six months. The share they represent of the total has dropped considerably since the peak in 1992. In

**Chart 4.10** *Participation rates. Labour force as a share of the working-age population (16-74 years)*



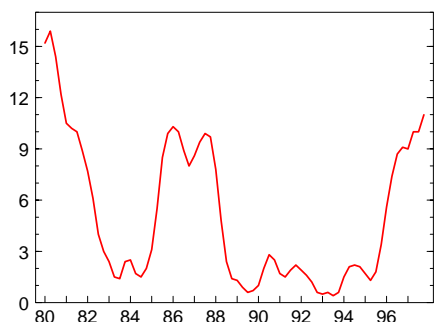
Source: Statistics Norway

**Chart 4.11** *Number of registered unemployed and vacancies. 1000 persons. Seasonally adjusted*



Source: Directorate of Labour

**Chart 4.12** *Indicator of labour shortages. In per cent*



Source: Statistics Norway

other countries it has proved difficult for the long-term unemployed to find work, even when the economic situation improves.

Although there is probably still some potential for an increase in labour force participation, it is now difficult to envisage any significant further growth in the labour force from today's high level beyond what purely demographic factors would indicate. In isolation, early retirement schemes, the post-education reform and the introduction of cash grants for families with small children might curb labour force participation. On balance, we estimate growth in employment at 2¼% this year and 1¼% next year. In line with the declining trend in average working hours seen in recent years, part-time employment is expected to account for some of the growth in employment. Registered unemployment is projected to fall from about 3.3% in 1997 to an average of about 2¼% this year, and 1¾% in 1999. The LFS unemployment rate is accordingly expected to drop to 3¼% in 1998 and 2¾% in 1999.

While the number of unemployed has been sharply reduced, the number of vacancies has shown a marked increase recently (see Chart 4.11), and has now reached a record high. This indicates a growing mismatch between the qualifications of the labour force and market demand. According to Statistics Norway's general business tendency survey, almost 11% of manufacturing enterprises report that a shortage of qualified labour is limiting or will limit production. In certain sectors, procuring qualified labour has already been a problem for some time. If it should prove more difficult for enterprises to recruit qualified job-seekers from the unemployment queue than we have anticipated, it may mean that unemployment will remain at a higher level, particularly in 1999, than we have projected. In such case, these constraints in the labour market may also result in lower production and employment growth as early as in 1999.

## 4.4 Wages

### *Higher wage growth*

Wage growth in 1997 is now estimated at 4½%, somewhat higher than previously anticipated. Some of the negotiated wage increases from last year became effective relatively late in the year, which means that the wage level at the start of 1998 was already substantially higher than the average for last year. According to the Technical Reporting Committee on Income Settlements, if no pay increases are granted during the year, the average wage in 1998 will be about 1½% higher than in 1997.

Among special groups who were awarded particularly high pay increases in 1997 are workers in the construction and engineering industries and in the oil and gas industry, where the labour market is particularly tight.

## High degree of conformity between historical wage growth and modelled wage growth in RIMINI

The consequences of the changeover to new national accounts from 1995 for the RIMINI model were discussed in a box in the December *Inflation Report*. As a result of the changeover, the model's predictive properties in the wage equation for the manufacturing and construction industries have improved. However, it appeared that the model had overpredicted wage growth in 1997. New figures from the quarterly national accounts show that wage growth was greater than projected in the last report, which means that the model's overprediction was reduced.

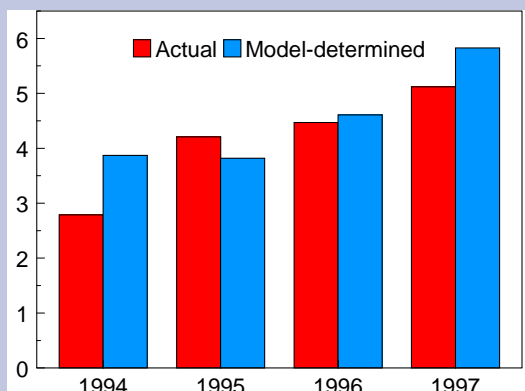
In RIMINI, the manufacturing and construction sector (MC) influences wage formation in other sectors of the economy (private and public service sectors). Wage growth in MC is therefore decisive for total wage growth. The chart below shows model-determined and historical wage growth for MC in the period 1994 to 1997. The analysis in RIMINI is carried out by simulating wage growth one year ahead, based on data from the fourth quarter of the previous year, with the residual set at zero. For example, model-determined wage growth in 1994 is calculated based on data to the fourth quarter of

1993. All other variables are set at historical levels, ie uncertainty attached to these variables is disregarded.

The chart shows that the greatest difference between model-determined and actual wage growth occurred in 1994, when the model overpredicted wage growth by around 1 percentage point. The introduction of the government-subsidised early retirement scheme had a significant impact on the wage settlement in that year, which may have contributed to lower nominal increases. Such conditions will naturally not be captured in the model. In 1995, use of RIMINI would have resulted in an underprediction of wage growth of around 0.4 percentage point. The model's predictions were extremely close to actual wage growth in 1996, whereas the model once again overpredicted wage growth in 1997. One possible reason for the deviation in 1997 could be that the privately financed phasing-in of the early retirement scheme had a dampening effect on wage growth that year.

Overall, RIMINI has tended to overpredict wage growth in MC in the last four years. It should, however, be emphasised that a complete set of figures is not yet available for the years 1994 and 1997. The greatest deviations occur in these years, and in both years pension reforms played an important role in wage settlements. All in all, our assessment of the predictive properties of the wage equation for MC is that they are satisfactory. Norges Bank's projections are assessed in more detail and compared with projections from other institutions in the article "Evaluation of Norges Bank's projections from 1994 to 1996" in this issue of *Economic Bulletin*. The comparisons confirm that wage projections based on the RIMINI model have been relatively accurate in recent years.

*Model-determined and historical wage growth in the manufacturing and construction industries. Per cent*



Source: Norges Bank

In the previous *Inflation Report*, annual wage growth was projected at around 5% in 1998. This projection was based on historical information about wage formation during a cyclical upturn, as embodied in Norges Bank's macroeconomic model, RIMINI. Our baseline scenario assumes that pressure in the labour market rises in the projection period. Since the previous inflation report, petroleum investment has been adjusted upwards substantially for 1998 and 1999. In isolation, this adds to the pressure in the economy, but it is counteracted to some extent by lower export growth and lower prices for commodities and other international manufactured goods.

Estimates based on our macroeconomic model, RIMINI, indicate annual wage growth of 5¼% this year and 6% next year. We have assumed that wages will move in step with historical wage formation trends. This means that wage growth will be particularly influenced by unemployment, productivity and profitability in the enterprise sector. At the same time, we have assumed that early retirement schemes will have some moderating effect on wage growth over the next few years. The predictive properties of the wage equation in the RIMINI model are discussed in a separate box.

## 4.5 Domestic demand

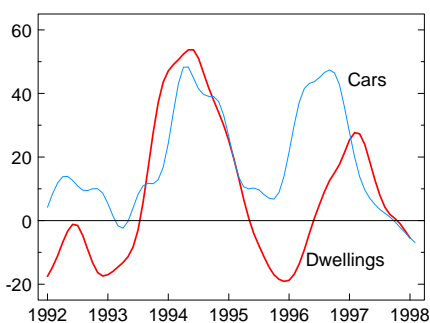
*Continued growth in employment and high real wage growth will contribute to strong growth in household real disposable income and consumption in the next few years*

After vigorous growth in private consumption in 1996, real growth declined to about 3% in 1997, according to preliminary national accounts figures. The fall in the growth rate from 1996 to 1997 must be viewed in the light of the sharp increase in car sales in 1996 as a result of reductions in indirect taxes. Last year car sales remained high, but only made a small contribution to total consumption growth. Growth in consumption in 1997 was in line with growth in household real disposable income, with the saving ratio remaining virtually unchanged.

Growth in employment and high real wage growth will contribute to a continued sharp rise in household real disposable income over the next few years. Higher minimum pensions from 1 May, and the introduction of cash grants to families with one year-olds without government-subsidised day-care from 1 August, will substantially increase transfers to households this year and next when the full effect of these measures feeds through. Growth in household real disposable income is projected at around 4% in 1998 and in 1999, providing continued impetus to relatively high growth in consumption.

At the same time, households' financial position is stronger than ever. Positive net lending in recent years in

**Chart 4.13** *New car registrations and housing starts. Smoothed. 12-month growth in per cent*



Source: Statistics Norway

## Is the household sector less exposed to interest rate changes today than in the 1980s?

Household net assets have increased substantially over the last 10 years. It may therefore appear that households are better positioned to cope with a turnaround in the economy than they were towards the end of the last cyclical upturn. In this box, we will show that there are at least two aspects to this question. It is reasonable to assume that households' credit risk has fallen, thereby reducing the likelihood of a new debt crisis. On the other hand, a growing share of household assets is invested in securities with interest-rate risk. The value of these securities will fall if interest rates increase. This may indicate that interest rate changes will now have a greater impact on households' financial position than previously.

Last autumn, household net assets amounted to over NOK 280bn, a substantial improvement on end-1988, when households recorded net liabilities totalling NOK 17bn. Household net financial wealth can be broken down roughly as follows:

- net debt (loans less bank deposits)
- insurance claims
- shares and securities funds

In the past 10 years, household net debt has risen from NOK 275bn to NOK 315bn. As a share of disposable income, however, net debt has fallen from around 80% to just under 60%. As long as household sector debt exceeds deposits, higher interest rates will have a negative income effect on household liquidity, and thereby on household demand. Although the net debt to disposable income ratio has fallen in the past 10 years, there are still some factors which imply that interest rate changes will now have a greater impact on household liquidity than previously. Changes in money market rates today have a swifter impact on bank rates charged to the household sector, among other things because competition in the banking sector is stronger and public credit institutions' interest rates are to a greater extent market-determined. In addition, tax rules have been revised since the 1980s, and deductions for debt interest are now lower. Household sector borrowing is currently growing at a far brisker pace than household deposits, which implies an increase in net debt. This could amplify the effects of a change in interest rates on household liquidity.

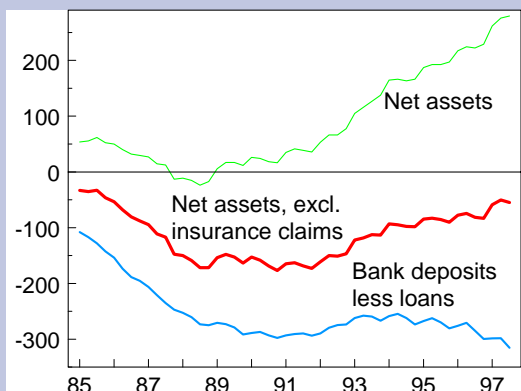
The improvement in household wealth is largely due to increased financial assets in the form of

shares and securities funds. A rise in interest rates will not have any obvious income effect on these assets in the short term. On the other hand, higher interest rates will result in capital losses, thereby reducing household net wealth. Experience has shown that such a decline in wealth leads to slower growth in household demand. At the end of the third quarter of 1997, NOK 168bn was invested in shares and securities funds. Nine years ago household investment in such assets amounted to only NOK 55bn. The fact that over half the increase in equity wealth is ascribable to a rise in value and not to transactions demonstrates that share prices influence wealth.

Similar wealth effects also apply to households' insurance claims. Around one third of total gross assets are included in this item, which is invested in bonds and shares primarily through group schemes in insurance companies. Higher interest rates will also result in capital losses on these investments in the short term. However, insurance claims are not particularly liquid for households and therefore probably have less influence on households' choice between saving and consumption in the short term.

Overall, it seems difficult to conclude that households are less exposed to interest rate changes than previously. A growing share of wealth is invested in shares and securities funds, which do not have any positive income effect if interest rates rise, but rather a negative wealth effect. It can therefore not be ruled out that household net wealth may in fact be more exposed to interest rate changes than previously.

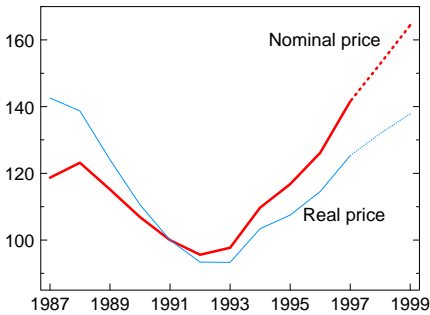
*Household sector assets. In billions of NOK*



Source: Norges Bank

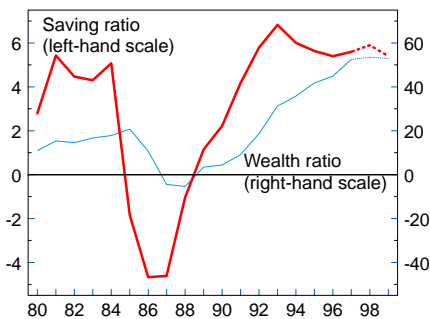


**Chart 4.14** *Resale home prices.*  
Index 1991 = 100



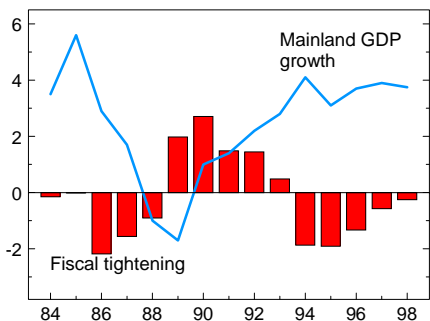
Source: Statistics Norway and ECON

**Chart 4.15** *Household saving ratio and wealth/disposable income ratio*



Source: Statistics Norway and Norges Bank

**Chart 4.16** *Cyclically-adjusted surplus and mainland GDP growth*



Source: Statistics Norway, the Ministry of Finance and Norges Bank

conjunction with considerable valuation gains on financial wealth, have increased household net financial assets. Household sensitivity to interest rate changes over the past ten years is discussed in a separate box.

The value of housing wealth has continued to increase in pace with the rise in house prices. Continued low real interest rates are expected to stimulate a further rise in house prices and further boost household wealth in the next few years. In the 1980s, increased housing wealth fuelled growth in consumption. So far in the 1990s, this effect has been less pronounced. It may be because households have learned from the previous upturn, and are thus more cautious now. Another possible interpretation is that they have regarded some of the income growth of recent years as temporary, and therefore wanted to save a share of this income. On the basis of an overall assessment, the saving ratio is projected to remain more or less unchanged over the next two years. Growth in private consumption is projected at around 4% in both 1998 and 1999.

In isolation, household income and wealth gains tend to result in increased housebuilding activity. A continued rise in resale home prices will also contribute to higher building activity as the difference between prices for existing and new homes is reduced. On the other hand, there are clear capacity constraints in the construction sector. A shortage of skilled labour may press up wages in this sector, thereby increasing building costs. This could have the effect of curbing investment growth. The low level of housing starts in the second half of 1997 also underlines this. Growth in housing investment is projected at just under 10% both this year and next.

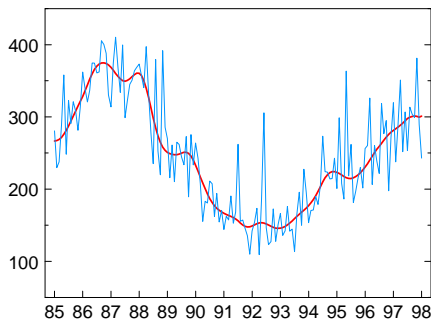
### *Fiscal policy less tight in 1998 than earlier in the cyclical upturn*

Our projections are based on the adopted budget for 1998. Underlying central government expenditure is projected to increase by 2¼% from 1997 to 1998, and the tightening effect of the budget is estimated at about ¼% of mainland GDP, measured in terms of the non-oil cyclically-adjusted budget surplus net of interest payments. Fiscal policy is less contractionary than it was earlier in this cyclical upturn (see Chart 4.16). This year the effect of fiscal policy on aggregate demand is virtually neutral.

According to preliminary estimates, general government consumption, measured at constant prices, rose by 2.5% from 1996 to 1997. The volume of general government gross fixed investment rose by over 12% in 1997, with high levels of local government investment primarily as a result of the primary school reform.

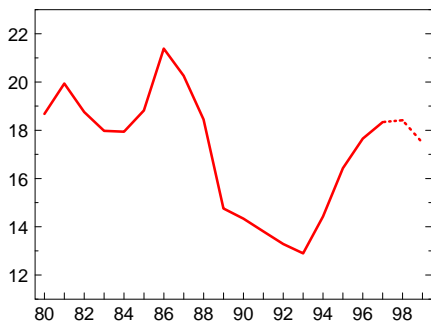
Employment growth in the public sector was somewhat weaker than total employment growth last year. Since this

**Chart 4.17** *Commercial building starts. 1000 sq.m. Seasonally adjusted and trend*



Source: Statistics Norway

**Chart 4.18** *Investment rate for mainland enterprises. In per cent*



Source: Statistics Norway and Norges Bank

economic upturn began in 1993, employment growth in the public sector has been somewhat slower than growth in employment generally.

*Lower mainland investment growth, higher petroleum investment*

Preliminary national accounts figures show that mainland business fixed investment generated roughly the same demand impetus in the Norwegian economy in 1997 as in 1996. Whereas investment growth in manufacturing industry was relatively weak, major public construction projects, such as the new international airport at Gardermoen and the new National Hospital contributed to substantial investment growth in service industries.

The completion of these large projects will reduce investment growth among mainland enterprises this year and next. In manufacturing, however, the investment intentions survey in the first quarter indicates substantially higher investment growth in 1998. High capacity utilisation, expectations of low real interest rates, and relatively solid earnings are all factors that support such a scenario. Mainland business fixed investment is projected to grow by 4½% in 1998. Steadily rising costs due to stronger wage growth in Norway than among our trading partners will gradually push down investment growth. An expected fall in petroleum investment next year, which in isolation will reduce the need for new investment among mainland enterprises, will also have a dampening effect. Mainland investment may therefore show a decline from 1998 to 1999.

The Ministry of Petroleum and Energy's review of oil companies' investment plans for petroleum activities this year and next revealed a substantial increase compared with previous estimates. Because of the strong pressures in the economy, the Government proposed postponing all field development projects under consideration for one year, which in isolation will curb investment this year and next. In spite of this, the projections for petroleum investment will have to be revised upwards significantly compared with the estimates in the December *Inflation Report*. We project 15% growth in petroleum investment in 1998, and a 13% reduction in 1999. Approximately half of petroleum investment is expected to be concentrated in the mainland economy.

## MAIN MACROECONOMIC AGGREGATES

*Percentage change from previous year, if not otherwise stated*

	1997	1998	1999
<b>Real economy</b>			
Private consumption	3	4	4 ¼
Public consumption	2.5	2	2 ½
Total gross investment	15.1	7	-3 ½
Oil extraction and pipeline transport	24.7	15	-13
Mainland Norway	9.1	5 ¼	0
Enterprises	8.3	4 ½	-3
Dwellings	8.9	10 ½	9 ¼
General government	12.1	3 ¼	1
Mainland demand	4.0	3 ¾	3
Exports	4.1	7 ¼	4 ¾
Oil, gas and pipeline transport	2.2	12 ½	6 ½
Traditional goods	7.4	5 ¼	4
Imports	11.9	5 ¼	2
Traditional goods	9.1	5 ¾	2 ¾
GDP	3.5	5 ¼	3 ¼
Mainland Norway	3.9	3 ¾	2 ½
<b>Labour market</b>			
Employment	2.9	2 ¼	1 ¼
Labour force, LFS	2.2	1 ¼	¾
Unemployment, LFS	4.1	3 ¼	2 ¾
<b>Prices and wages</b>			
Consumer prices	2.6	2 ¾	3
Annual wages	4¼	5 ¼	6
Import prices, traditional goods	-1.5	1	1 ½
Export prices, traditional goods	0.5	1	2 ½
Crude oil prices, NOK (level)	134	105	108
<b>External account</b>			
Trade surplus, NOKbn (level)	79.5	56	73
Current account surplus, NOKbn (level)	59.9	40	58
Current account surplus, % of GDP (level)	5.5	3 ½	4 ¾
<b>Memo</b>			
Household saving ratio	5.6	6	5 ½