

The labour market, business cycles and monetary policy

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Monetary policy in Norway

Objective:

- Low and stable inflation – approximately 2.5 per cent over time

Implementation:

- A flexible inflation-targeting regime
- The interest rate is set with a view to stabilising inflation close to target in the medium term
- The horizon will depend on the disturbances to which the economy is exposed

The labour market and monetary policy

Monetary policy operates through three channels:

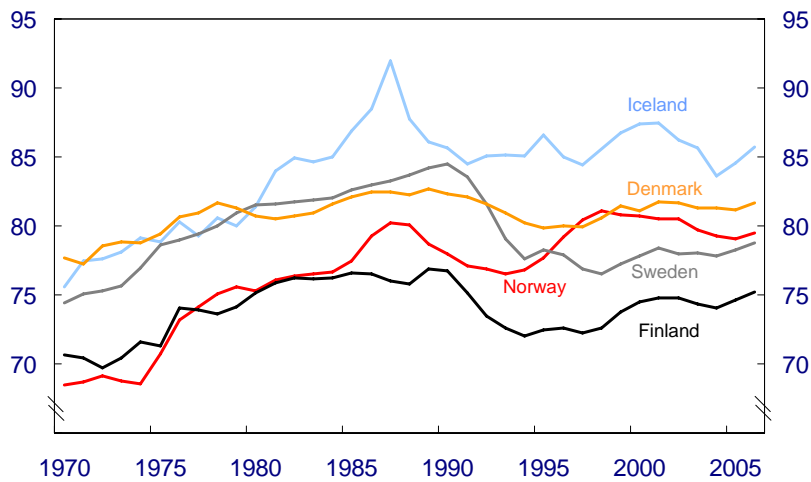
- Aggregate demand
- The exchange rate
- Expectations

The labour market affects the conduct of monetary policy:

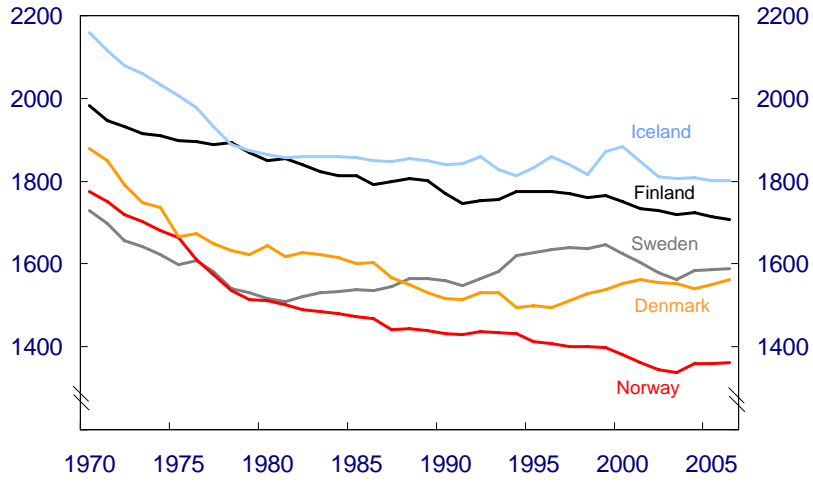
- A tight labour market implies high capacity utilisation, higher wage growth and higher inflation

Labour force participation rates

Labour force as share of population aged 15–64. Per cent.



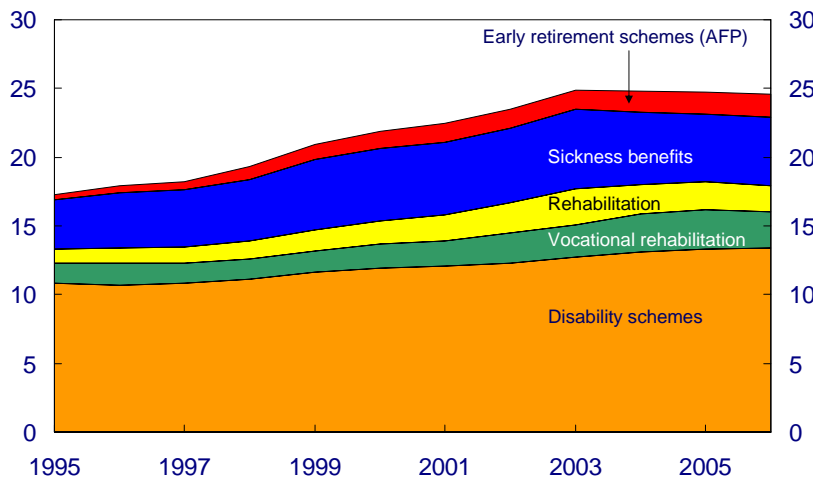
Average annual working hours per employee 1970-2006



Source: OECD

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Persons on benefit and early retirement schemes Per cent of labour force. 1995 – 2006

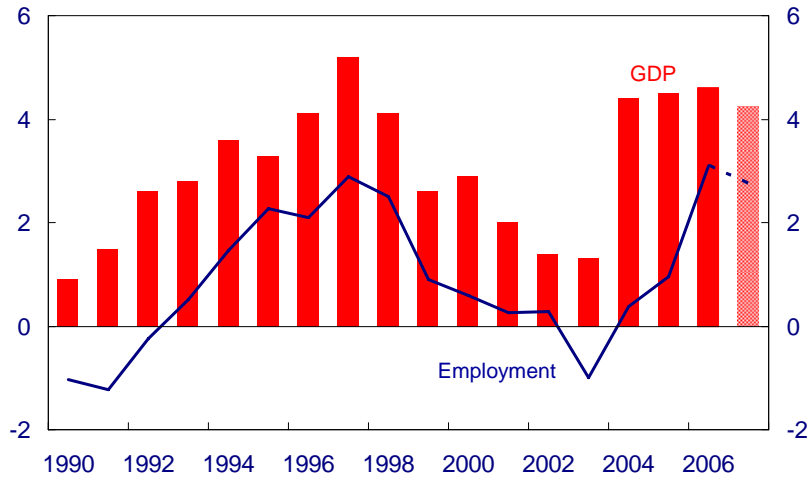


Source: Norwegian Labour and Welfare Organisation (NAV)

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Employment and mainland GDP

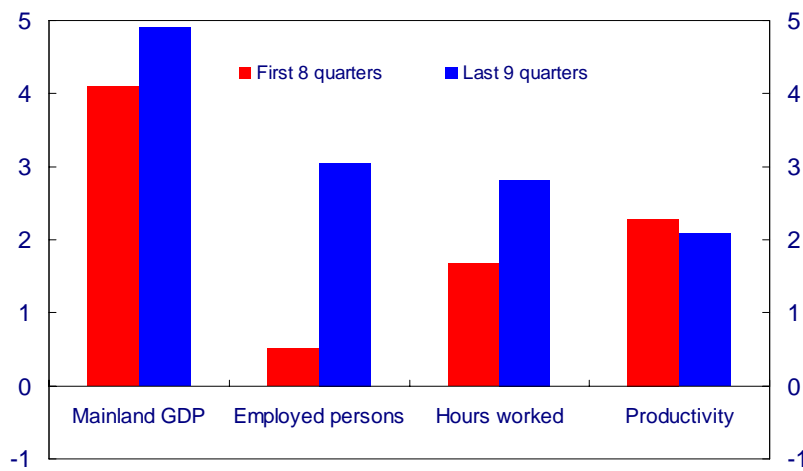
Annual growth. Per cent.



Sources: Statistics Norway and Norges Bank 7

Mainland GDP, employment and productivity

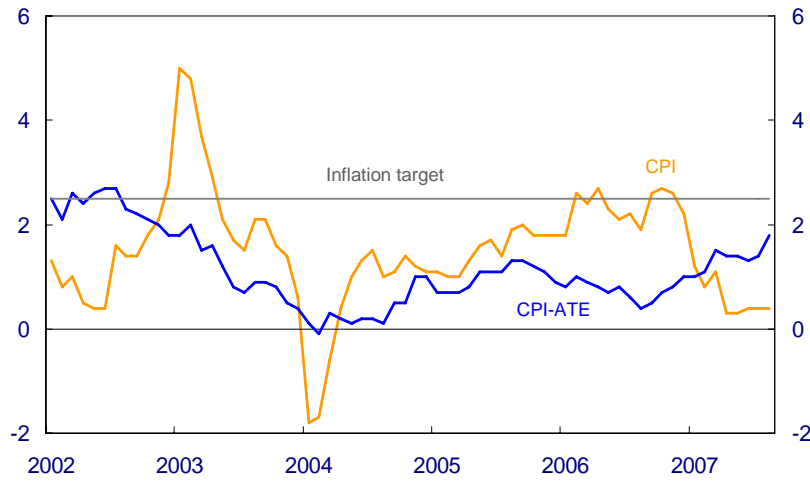
Average quarterly growth rates (annualised) during expansion since 03 Q2. Per cent



Sources: Statistics Norway and Norges Bank 8

Inflation

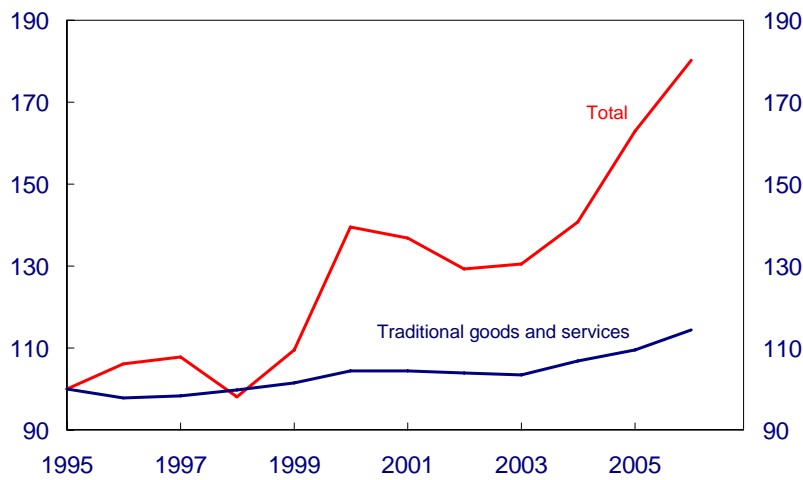
CPI and CPI-ATE. 12-month change. Per cent



Source: Statistics Norway 9

Terms of trade

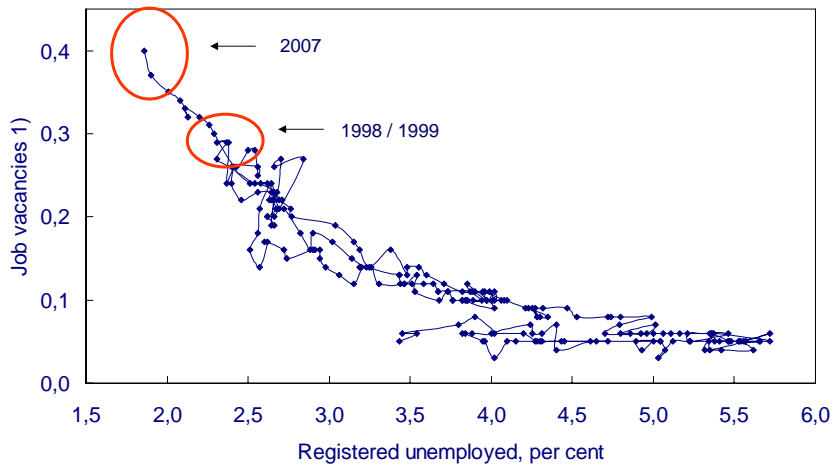
Index, 1995 = 100. Annual figures. 1995 – 2006



Sources: Statistics Norway and Norges Bank 10

Tight labour market

Job vacancies and unemployment. January 1989 until June 2007

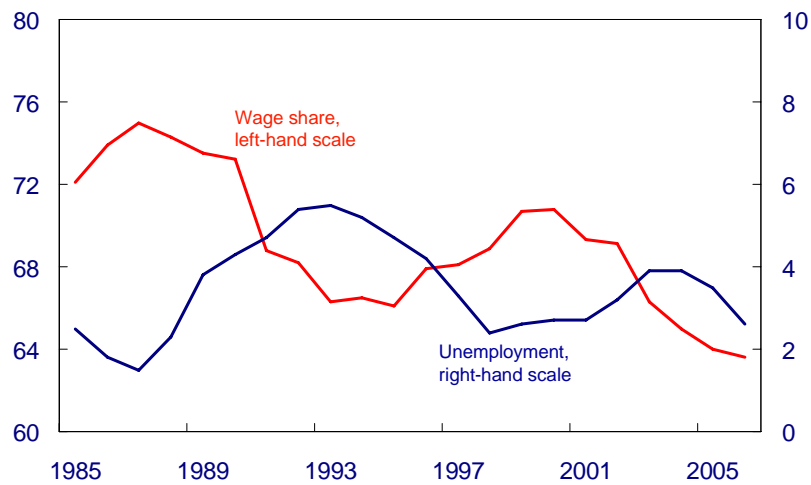


¹⁾ (Job vacancies/labour force)*1000

Sources: Statistics Norway, Norwegian Labour and Welfare Organisation (NAV) and Norges Bank 11

Wage share¹⁾ and registered unemployment

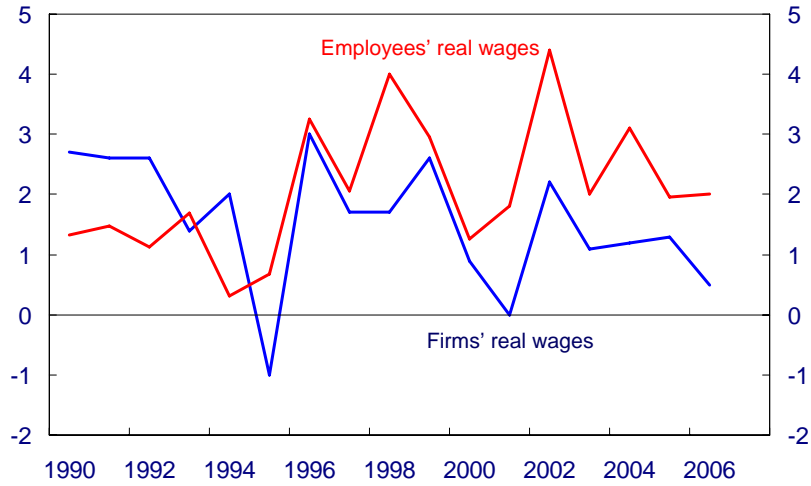
Per cent. 1985 – 2006



¹⁾ Labour costs as share of factor income. Market-oriented enterprises in mainland Norway.

Sources: Statistics Norway, Norwegian Labour and Welfare Organisation (NAV) and Norges Bank 12

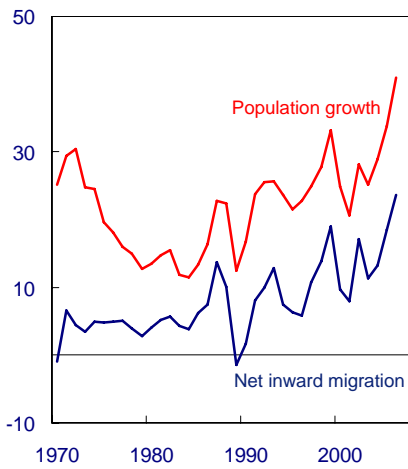
Employees' and firms' real wages Percentage growth



Sources: Statistics Norway and Norges Bank 13

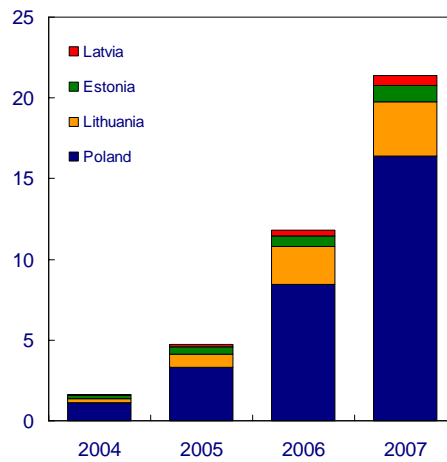
Population growth and net inward migration

In thousands. 1970-2006



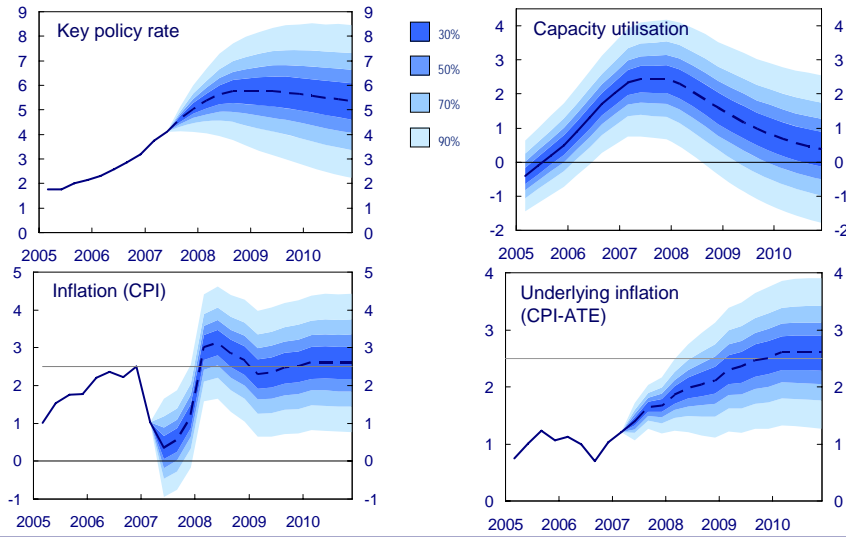
Registered employees from new EU countries

1000s of persons in the period Jan-May



Sources: Statistics Norway and Central Office - Foreign Tax Affairs 14

Baseline scenario in *Monetary Policy Report 2/07* Per cent. 2005 Q1 – 2010 Q4



Sources: Statistics Norway and Norges Bank 15