

Meeting 14 March 2012

New information since the October 2011 Monetary Policy Report (3/11)¹

International economy

- According to preliminary figures, GDP for Norway's main trading partners fell by 0.2 percent between the third and the fourth quarter. Euro area growth has been weaker than expected, while developments in the US have been more favourable than expected. Overall developments among trading partners have been weaker than projected in the October 2011 *Monetary Policy Report* (3/11).
- Uncertainty related to the sovereign debt crisis in the euro area heightened further last autumn and spread to other countries and regions through a fall in international trade and increased turbulence in global financial markets.
- Since the beginning of 2012, market turbulence has diminished and current economic indicators now suggest that growth is picking up.
- Greece secured a debt restructuring agreement.
- EU leaders have agreed to approve the new loan programme for Greece. All the EU member states except the UK and the Czech Republic have signed the new fiscal compact, the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, which sets out a balanced-budget requirement. Agreement has not been reached on an expansion of the EU lending facilities EFSF/ESM² from EUR 500 billion. However, EU members have agreed to reassess lending capacity before the end of March.
- The year-on-year rise in consumer prices is still high among many of Norway's trading partners, but it is slowing. OECD year-on-year inflation fell from 3.3 percent in September to 2.8 percent in January. In the euro area, underlying inflation has remained approximately unchanged, while it has drifted up in the US. In Sweden and the UK, underlying inflation has slowed.
- Long-term inflation expectations are unchanged among most of Norway's trading partners. In Europe, short-term inflation expectations have fallen somewhat.

¹ Unless otherwise specified, all figures are changes since 19 October 2011. All market data are as at 12 March 2012

² European Financial Stability Facility/European Stability Mechanism

Financial markets

Equities and commodities

- Equity markets have risen considerably since the October 2011 *Report*. In the US, the S&P 500 index has risen to its highest level since 2008.
- Oil prices have increased by 12 percent and are now over USD 125 per barrel.
- *The Economist* weekly commodity-price index has increased by 4 percent in XDR terms³.

Interest rates

- The ECB has conducted two three-year liquidity operations, with total lending amounting to more than EUR 1 trillion.
- Spanish ten-year government bond yields have fallen by close to 40 basis points, while corresponding Italian yields have fallen by around 90 basis points. Portuguese ten-year government bond yields have risen by 180 basis points.
- Long-term US and German government bond yields remain at low levels and have fallen further since the October 2011 *Report*. Yields on long-term Norwegian government bonds have also fallen.
- European money market risk premiums have decreased since the October 2011 *Report*. The ECB reduced its key rate by 0.25 percentage point to 1.25 percent in November. The key rate was reduced by a further 0.25 percentage point to 1 percent at the monetary policy meeting in December.
- Market participants expect central bank key rates to be kept low for a long period ahead. For most of the main currencies, no interest rate increases are expected over the next twelve months. In some countries, a cut in the key rate is expected in the course of the coming year.
- In Norway, the spread between three-month money market rates and the expected key policy rate (the premium) has narrowed since the October *Report*. So far in the first quarter of 2012, the premium has been considerably higher than assumed in October.
- The interest rate differential against trading partners, as measured by the three-month money market rate, has fallen since October and stands at around 1.4 percentage points.
- According to figures from Norsk Familieøkonomi, the weighted average interest rate on new residential mortgages⁴ is 4.01 percent, an increase of 0.14 percentage point since the October *Report*.
- Risk premiums for Spanish and Italian covered bonds have declined by 0.2 and 0.3 percentage point, respectively, since the October *Report*, and by 0.8

³ Special drawing rights, IMF. As at 12 March, XDR 1 = NOK 8.76

⁴ New variable-rate residential mortgages of NOK 1 million, within 60 percent of the purchase price.

and 1.2 percentage point since the previous monetary policy meeting. The risk premiums are now 2.6 percentage points for both countries.

- Average CDS prices for European financial institutions, as measured by the iTraxx index⁵, have fallen by approximately 30 basis points.

Exchange rates

- The effective exchange rate for the US dollar (USD) has appreciated by 3.3 percent and the pound sterling (GBP) by 1.4 percent, while the euro (EUR) has depreciated by 2.8 percent.
- The Japanese yen (JPY) depreciated markedly after the Bank of Japan in mid-February announced a JPY 10 billion increase in its asset purchase programme. The effective yen exchange rate has depreciated by 5.2 percent.
- Commodity currencies such as the Canadian (CAD), New Zealand (NZD) and Australian (AUD) dollar have appreciated since the *October Report*.
- The effective krone exchange rate as measured by the I-44 has appreciated to close to its strongest levels since September 2011. Measured by the I-44, the krone exchange rate has averaged 87.7 so far in the first quarter. This is somewhat stronger than projected in the *October Report*.

Norwegian economy

Prices

- In the year to February 2012 the consumer price index (CPI) rose by 1.2 percent. This is 0.1 percentage point higher than projected in the *October Report*.
- Adjusted for tax changes and excluding temporary changes in energy prices (CPIXE), consumer prices rose by 1.2 percent in February, unchanged on January. This is 0.2 percentage point lower than projected in the *October Report*. Inflation adjusted for tax changes and excluding energy products (CPI-ATE) was 1.3 percent in February, 0.1 percentage point lower than projected. Other indicators of underlying inflation were between 1.3 and 1.9 percent in February.
- In January, the enterprises in Norges Bank's regional network reported moderate price increases over the past 12 months. Enterprises expected the rise in prices to pick up ahead.

Output and demand

- According to quarterly national accounts, mainland GDP grew by a seasonally adjusted 0.6 percent between the third and fourth quarter. Private consumption

⁵ The iTraxx financial index contains the CDS spreads of 25 major European financial institutions.

also increased by 0.6 percent. Mainland investment rose by over 4 percent in the fourth quarter, while exports of traditional merchandise goods fell by about 5 percent.

- Mainland GDP increased by 2.6 percent between 2010 and 2011. In the October *Report*, growth was projected to be 2.7 percent.
- Household spending on goods, adjusted for seasonal variations, increased by 2.2 percent between December 2011 and January 2012, after declining in November and December. Purchases of cars, food and clothing showed the strongest rise.
- In February, Opinion Perduco's Consumer Confidence Index (CCI) rose for the second consecutive month. The index rose from 2.3 in January to 4.0 in February. Confidence in the economy and in lower unemployment, but also consumers' confidence in their own financial situation, rose in particular.
- TNS Gallup's trend indicator, which measures households' assessments and expectations concerning their financial situation and the Norwegian economy, increased from a seasonally adjusted 13 to 15.5 between the fourth quarter of 2011 and the first quarter of 2012.
- Figures from institutional sector accounts show a rise in household nominal disposable income of 5.4 percent between 2010 and 2011. The household saving ratio, excluding dividend income, was 5.2 percent in 2011.
- According to building statistics, housing starts were 7 percent lower in the period between November 2011 and January 2012 than in the period between August and October 2011, adjusted for seasonal variations. At end-January 2012, 39 649 homes were under construction. Housing completions numbered 20 046 in 2011, an increase of 11 percent on the previous year.
- Adjusted for seasonal variations, manufacturing output was 0.3 per cent higher in the period between November 2011 and January 2012 than in the period between August and October 2011. Working-day adjusted manufacturing output rose by 1.7 per cent in the year to January 2012.
- The Norwegian PMI (Purchasing Managers Index) rose from 54.7 in January to 56.9 in February, adjusted for seasonal variations. The subindices for output and new orders showed the strongest rise. These subindices were close to 60 in February.
- According to Statistics Norway's investment intentions survey, investment in manufacturing, mining and electricity is estimated at NOK 38.4 billion in 2012. This is 8 percent higher than the corresponding estimate for 2011 and 14 percent higher than actual investment for 2011.
- According to Statistics Norway's investment intentions survey for the petroleum sector, the value of petroleum investment is estimated at NOK 186.0 billion in 2012. This is 32 percent higher than the corresponding estimate for 2011 and 27 percent higher than actual investment for 2011.

- In January, the enterprises in Norges Bank's regional network reported that output growth had been somewhat higher than envisaged in November, but the contacts expect slightly slower growth over the next 6 months.

Labour market and wages

- Registered unemployment was a seasonally adjusted 2.5 percent of the labour force in February, approximately unchanged on January.
- According to Statistics Norway's labour force survey (LFS), seasonally adjusted unemployment was 3.3 percent of the labour force in December. Employment increased by 9 000 and the labour force by 6 000 between November and December.
- According to the enterprises in Norges Bank's regional network, employment growth was slightly lower than in the previous round, in line with expectations in November. The enterprises in the network expected somewhat lower growth ahead.
- In November, regional network contacts expected annual wage growth of slightly below 4 percent in 2012.

Domestic credit and house prices

- Gross domestic debt in the private and municipal sector (C2) rose by 6.9 percent in the year to January 2012, up from twelve-month growth of 6.7 percent in December 2011. Debt growth for non-financial corporations was 5.8 percent in the year to January 2012, up from twelve-month growth of 5.4 percent in December. Household debt rose by 7.2 percent in the year to January 2012, down from twelve-month growth of 7.3 percent in December.
- According to house price statistics from the real estate industry, house prices increased by 7 percent in the year to February 2012, down from 8.6 percent in January. House prices remained unchanged between January and February after increasing by 0.6 percent the previous month, adjusted for seasonal variations.