

# Verso tempi migliori?

## L'economia Norvegese e la crisi in Europa



**COMITES, Oslo**

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02.12.2016

# OUTLINE

- External conditions: International Economy  
Europe, US and Emerging markets
- KVARTS - A Quarterly Macro Econometric Model  
of the Norwegian Economy
- The Norwegian Economy  
Past, present and the future
- The Norwegian Housing Market  
Is there a bubble?

“MAY YOU LIVE IN INTERESTING  
TIMES”

CHINESE CURSE

# Slippery Schedule ahead

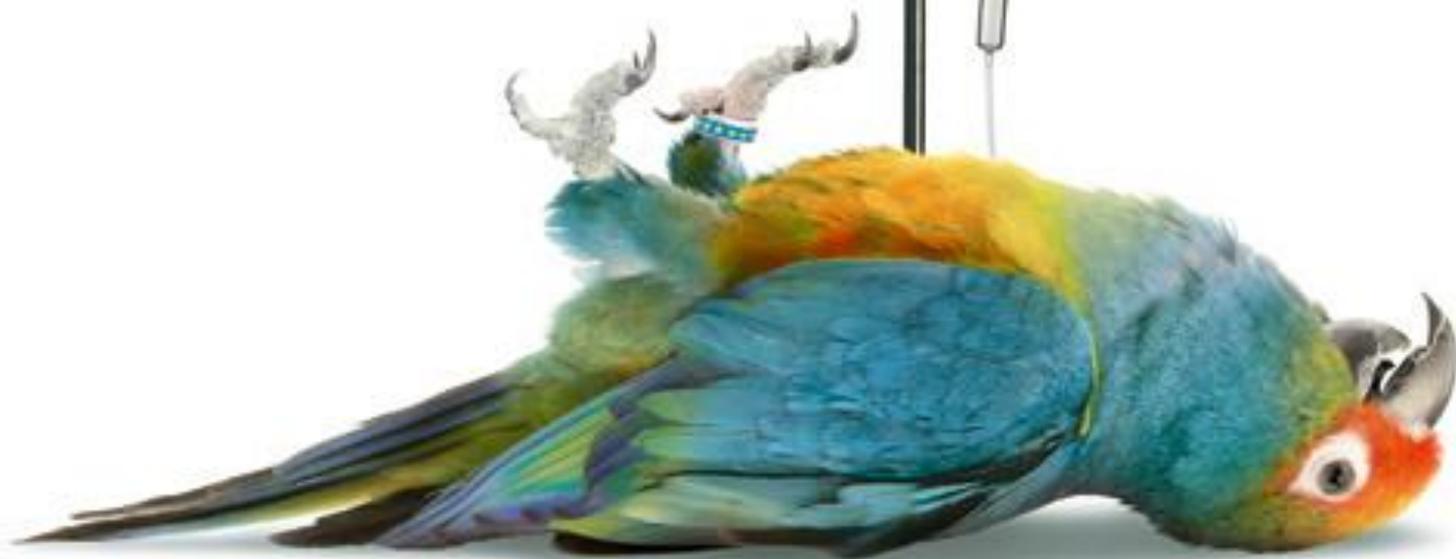
- December 5; Europe could wake up to an immediate threat of disintegration
  - Norbert Hofer
  - A “NO” in the Italian referendum
    - political chaos and pave the way for the 5\* movement
    - could be ugly in the markets for banks and national debt
- In France, the probability of a presidential election victory by Le Pen no longer a remote risk

# The biggest default in history

- 5\* and Le Pen promised to hold referendums on their countries' future in the EU
- If Frexit, or Italexit the EU would be finished the next morning. So would the euro.



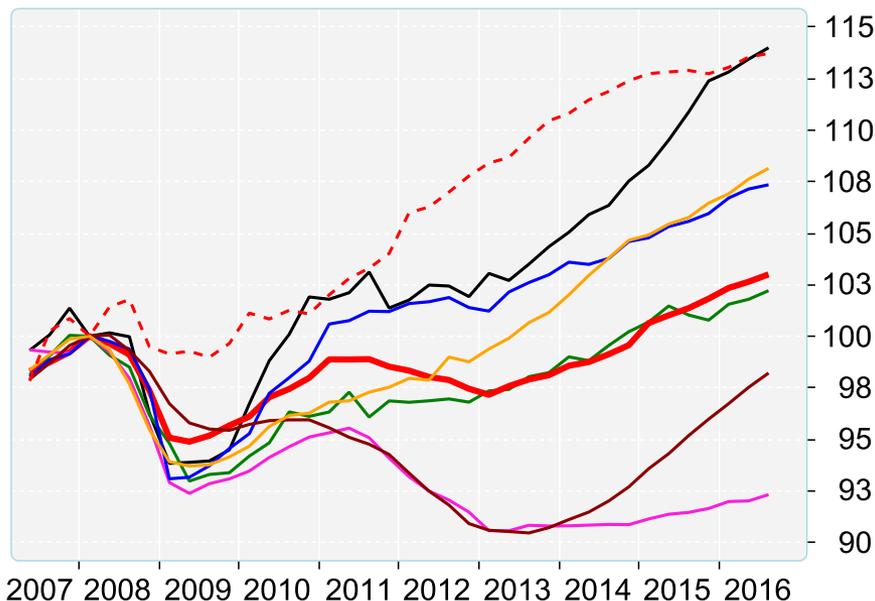
- Bring about the biggest default in history.
- Many continental banks into immediate bankruptcy. Deutsche Bank one of them.





# Moderate recovery in Europe

GDP in selected European Countries,  
2008=100



- GDP growth in the euroarea +1,4 pst. in 3. Q (yearly rate)

- Spanish economy continued to grow briskly, now also Netherlands.
- Growth abated in Germany during 2016 (3. q 0,8%, down from 2,9 in 1Q)
- Despite started to grow again, Italy still in the doldrums

- **Outside the euro area**

- Tendency to a slowdown in Sweden
- Eastern Europe: High growth in some parts while tendency of a new slowdown in others.
- UK: To date, no clear signs of downturn after the Brexit referendum

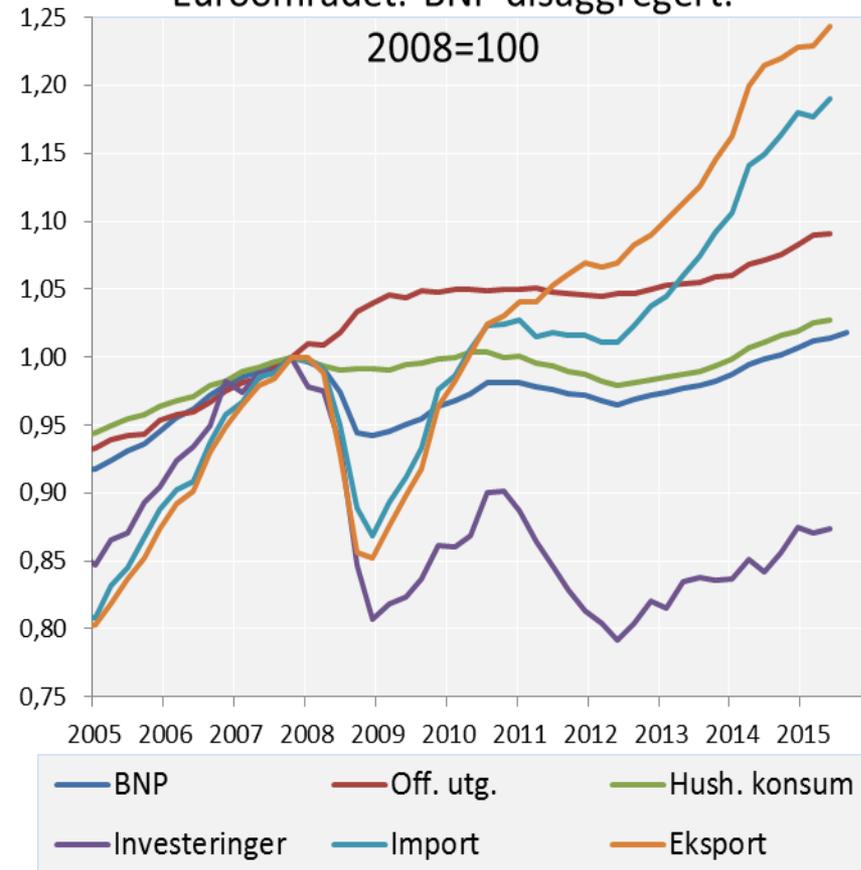
Kilde: Macrobond



# Lackluster investments in Euro area

Euroområdet. BNP disaggregert.

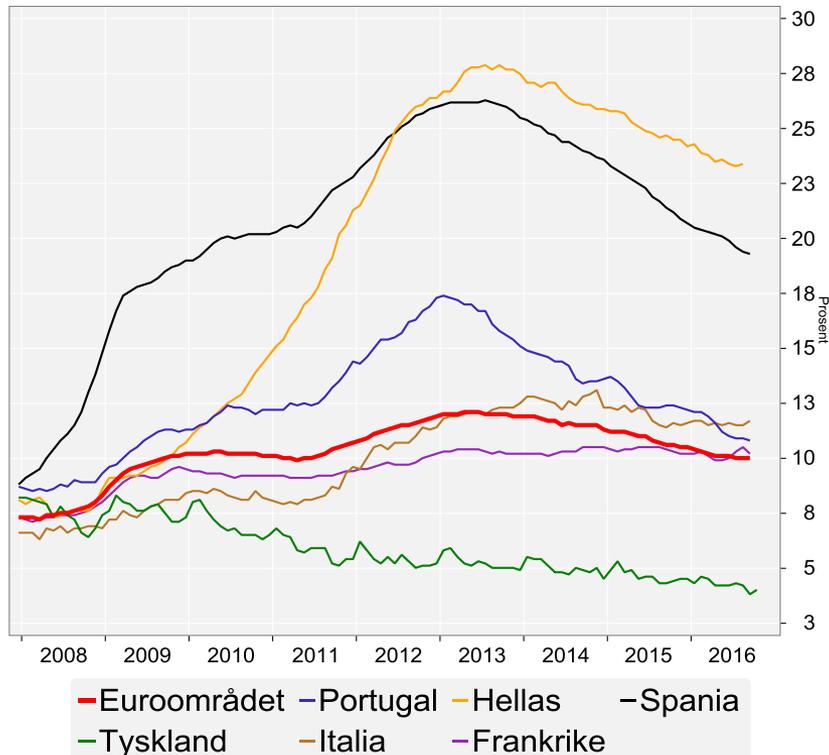
2008=100



- Since 2013: Growth broadly based with growth in
  - Exports
  - Private and Public Consumption
  - Investments
- Investments still at a very low level and momentum weak
- In our prognosis: new, moderate, upturn expected
  - Pent-up demand
  - Improved credit supply also to SMB.
- Substantial downside risk
  - Still lackluster prospects
  - High risk (political, and geopolitical)

# Unemployment has stopped falling

Arbeidsledighet (AKU)

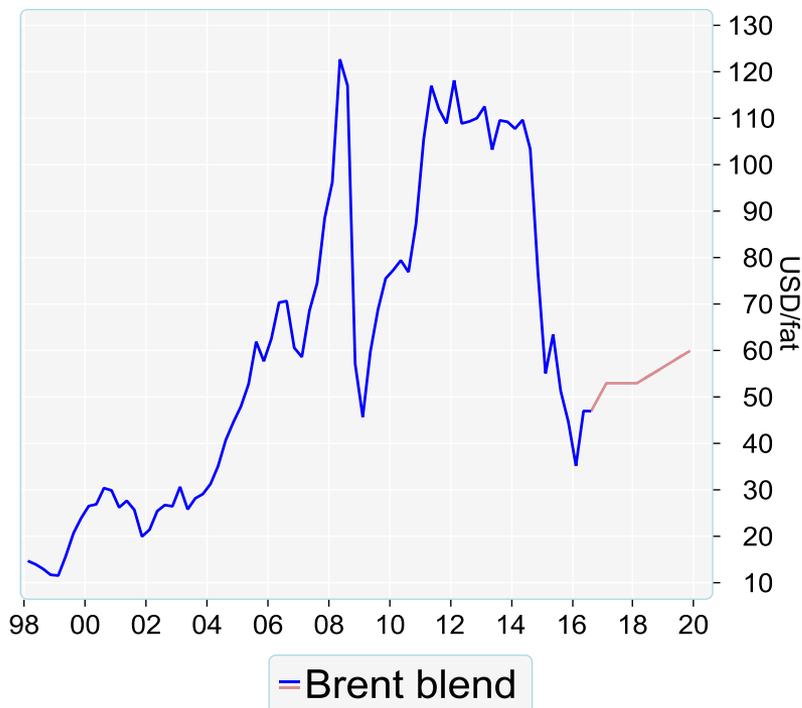


Kilde: Macrobond

- Unemployment has been at 10 per cent since April.
  - 12 pct. without Germany in September
- Big differences
  - Germany 3.8 pct.
  - Spain and Greece still around 20 pct. Youth unemployment > 40 pct.  
=>Lost generation

# International Economy

Oljepris



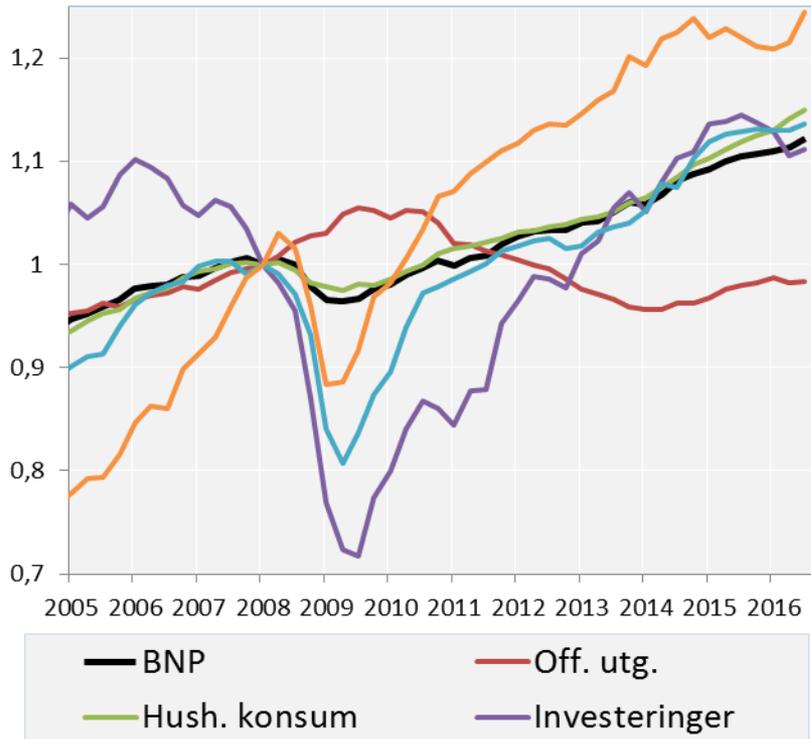
Kilde: Macrobond

- Norway's trading partners are facing a cautious economic upturn
- Donald Trump
  - Expansionary fiscal policy may give the US economy a boost
  - Increased uncertainty may dampen demand and investment
  - Protectionism dampen international trade and economic growth
- OPEC agreement on production cuts yesterday
  - => Higher oil prices - at least in the short term

# Growth picking up slightly in the United States

- GDP increased by 3.2 percent in Q3 after three subsequent weak quarters
  - Investments picked, especially due to oil and an inventory build-up.
  - Export growth up despite strong US dollar and weak global demand
  - Household demand stimulated by rising wage growth and lower unemployment
- Growth picks up ahead
  - Expansionary fiscal policy
  - Yields slightly up, but low long
  - Higher oil prices mean new growth in oil investment and production
  - Trade policy can pull down

USA. BNP disaggregert. 2008=100

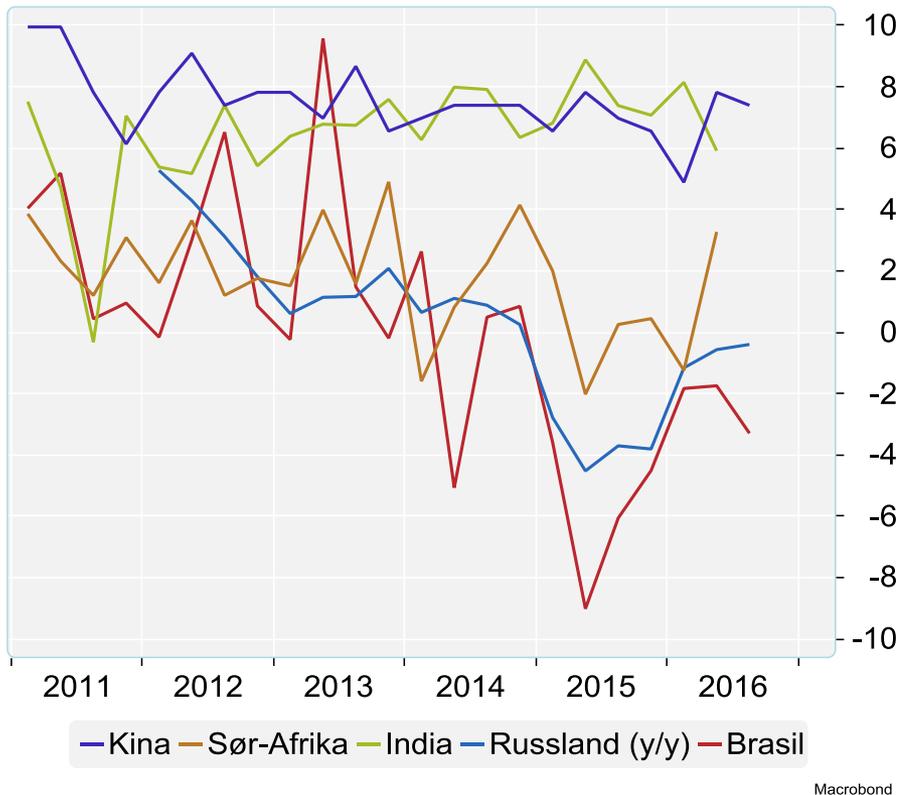


Kilde: Macrobond

# Emerging economies converge

## BNP-vekst, BRICS.

Vekst fra kvartalet før, sesongjustert, årlig rate.

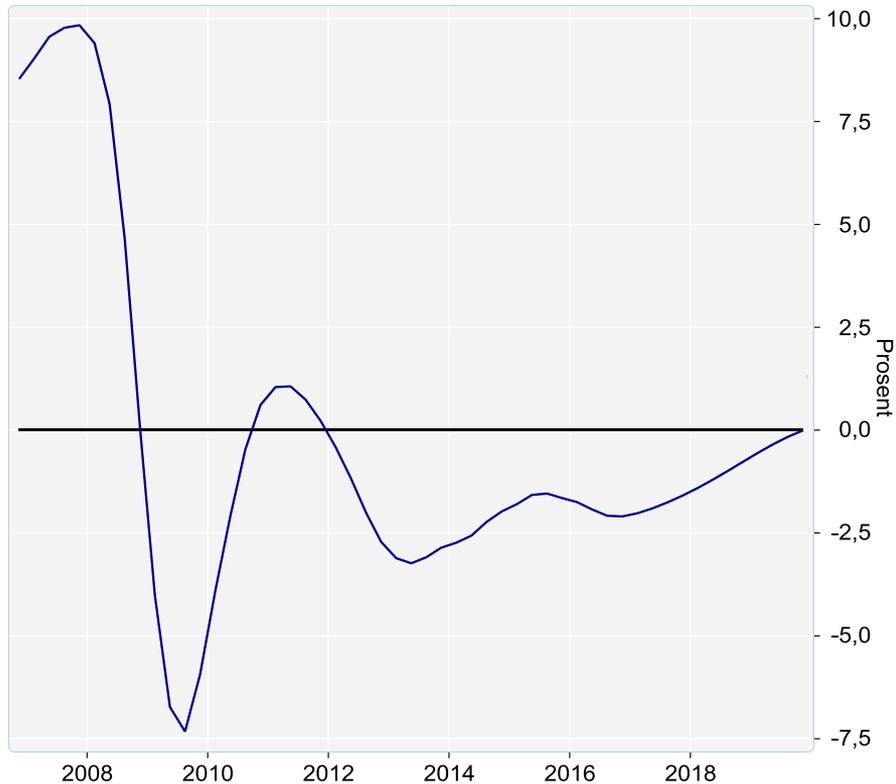


- Low commodity prices have affected differently
- The worst is over in Russia and Brazil
  - But must adapt to sustained lower oil prices
- India has profited from low oil prices
- Growth in China declines ahead
  - Overcapacity dampens investment
  - Conversion to more consumption-driven growth
  - Demands for more sustainable and environmentally friendly growth
  - Consumer "take over" for import-intensive investment => Import growth subsidizes relatively much

# Moderate upturn for Norway's trading partners

## Etterspørsel, Norges handelspartnere

Avvik fra beregnet trend i prosent



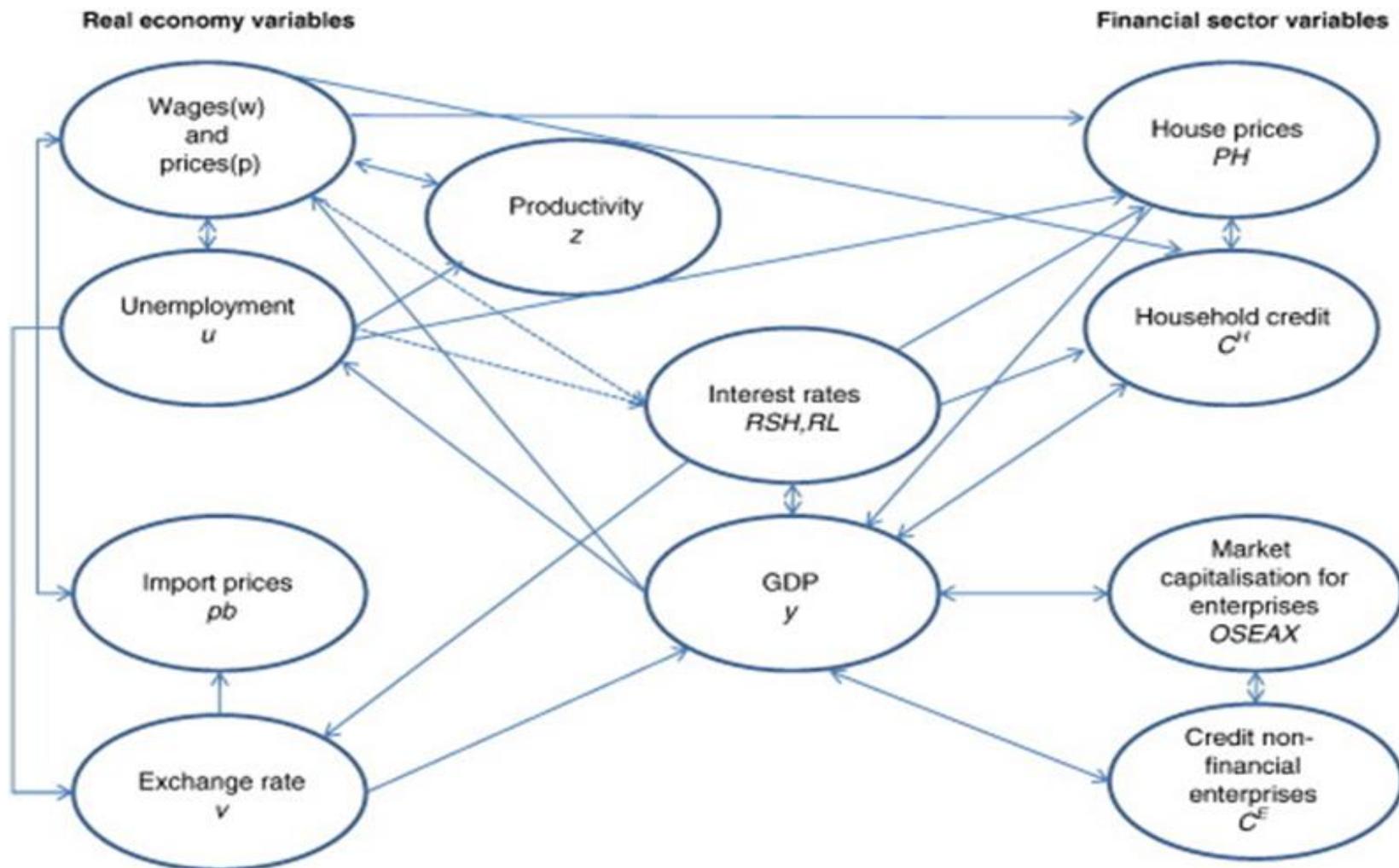
Kilde: Macrobond

- Reached the bottom
- A very weak recovery in the OECD-area
  - muted by
    - ◆ High debt in hush. and publ. sector
    - ◆ growing protectionism
    - ◆ increased uncertainty
- Slower growth in emerging economies in the long term
  - Adjustment to consumption driven growth in China
  - Low commodity prices dampen growth among commodity exporters
- Risk primarily on the downside
  - Growing protectionism in the US and Europe
  - Euro co-operation threatened

# KVARTS

A Quarterly Times Series Model  
of the Norwegian Economy

# KVARTS



# The Norwegian Economy

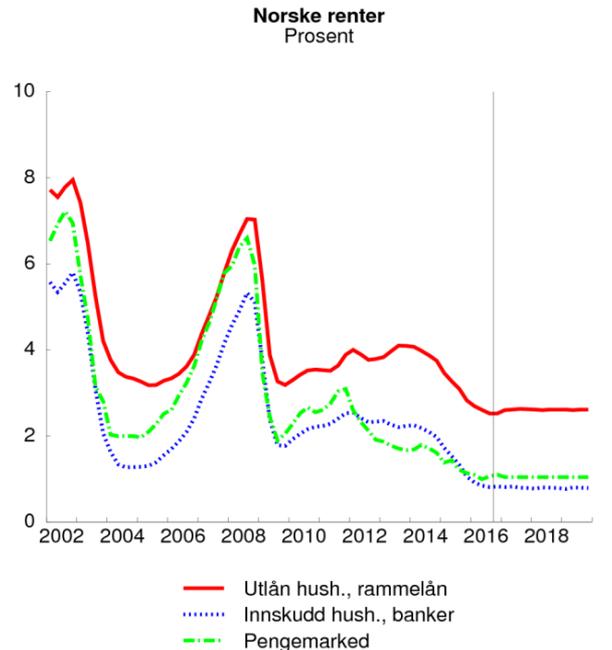
# Economic trends in December 2016?

## Economic Survey 4/2016



- household consumption subdued ahead
- Trump and a possible dissolution of the euro area will not overturn the prospects of somewhat brighter times internationally
  - But uncertainty larger than usual, and on the downside
- Oil downturn in Norway will bottom out in 2017
  - Pick-up in international growth
  - Fall in petroleum investment soon over
  - Continued expansionary fiscal policy
  - Low interest rates
  - Time Delayed effects from currency fluctuations

# Low interest rates for a long time

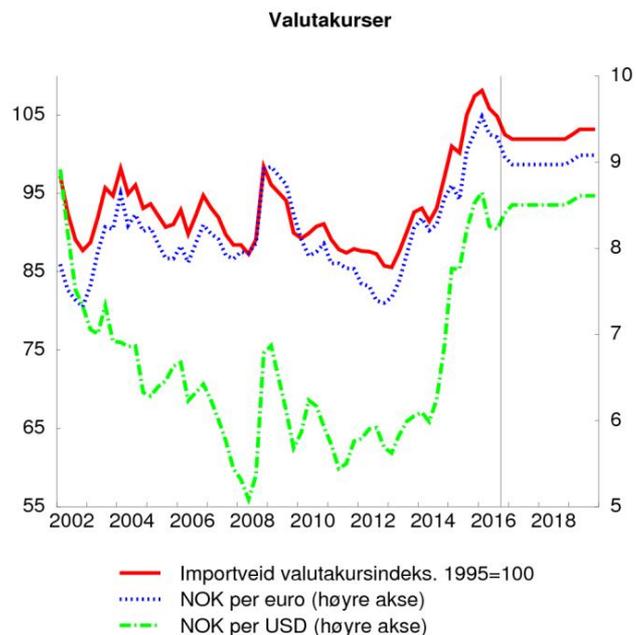


Prosent	2014	2015	2016	2017	2018	2019
3mnd. NOK	1.7	1.3	1.1	1.0	1.0	1.0
Lånerente	3.9	3.2	2.6	2.6	2.6	2.6

Kilde: Norges Bank og Statistisk sentralbyrå. f0201f03

- **Bottomed reached with the reduction of the key rate to 0.5 pct in March**
  - The money market rate is now 1.1 percent. Believed to be around 1.0 pct ahead
  - rate on lines of credit for home buyers has remained at 2.5 per cent since May. Expected to rise slightly
  - **Good news: No rate hikes next three years**
    - High unemployment and low growth now
    - Weak economic upturn ahead
    - Low interest rates abroad
- **But high house price inflation suggests that the risk is on the upside**

# Weak Krone exchange rate

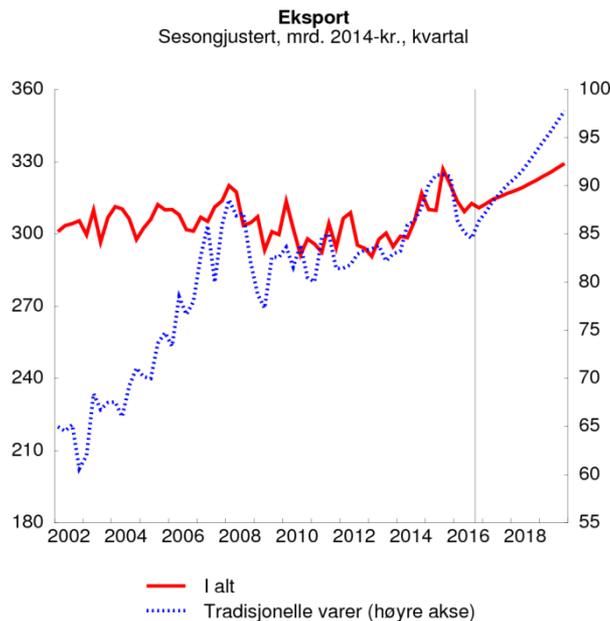


Prosentvis vekst	2014	2015	2016	2017	2018	2019
Importveid valuta	5.3	10.4	1.9	-3.2	0.0	1.1
Trad.imp.pris	4.2	4.7	0.9	0.8	1.2	2.2

Kilde: Norges Bank. f0201f04

- After krona depreciated by almost 30 pct., it has appreciated by 7 pct since New Year
- Small appreciation of the krone is expected to continue into 2017
  - Higher oil prices and reduced inflation differential against Europe
- Small weakening the krona in 2019
  - Reduced interest rate differential
- Krona 10 pct. Lower than the average in the 2000s

# Exports Decline will turn to recovery



Prosentvis vekst	2014	2015	2016	2017	2018	2019
Trad. eksport	3.1	5.8	-5.1	3.0	3.5	4.4
Trad. eksportpris	3.4	2.3	3.1	1.9	1.3	2.9
Markedsvekst	4.9	4.9	3.1	4.1	4.5	4.6

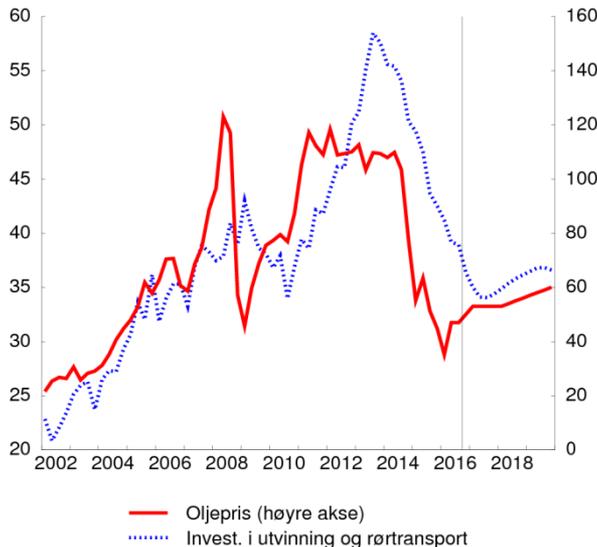
Kilde: Statistisk sentralbyrå. f0201f09

- **Traditional exports continue to fall in 2016**
  - Low market growth in general
  - Fall in international oil-related demand especially
- **Escalating growth from 2017**
  - Increasing market growth
  - Time Delayed effects of improving competitiveness

# Bottom in petroleum investments reached in 2017

- Investment has declined continuously over three years
  - Moderate fall in Q3
- Oil companies have lowered expectations for 2017 slightly
- Slightly rising oil prices and cost cutting contributes to a turnaround in growth

Petroleumsinvesteringer og oljepris i USD  
Sesongjustert, mrd. 2014-kr., kvartal



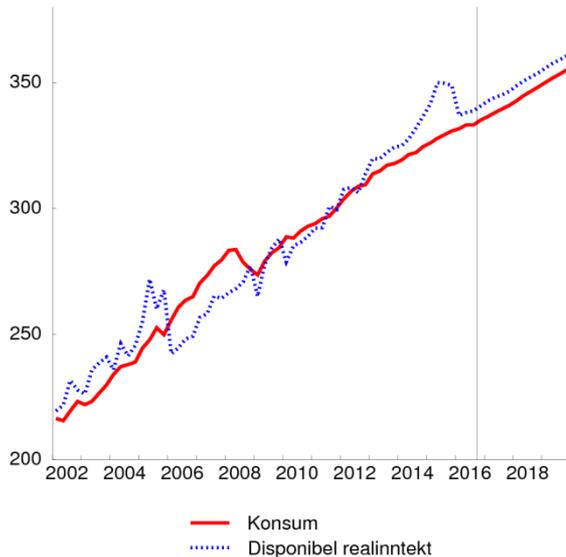
Olje	2014	2015	2016	2017	2018	2019
Pris i USD, nivå	99.5	53.6	44.8	53.0	54.5	58.5
Invest., vekst i pst.	-3.2	-15.0	-15.8	-11.8	5.1	3.7

Kilde: Statistisk sentralbyrå.

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# Brief pause in consumption growth

Inntekt og konsum i husholdninger mv.  
Sesongjustert, mrd. 2014-kr., kvartal



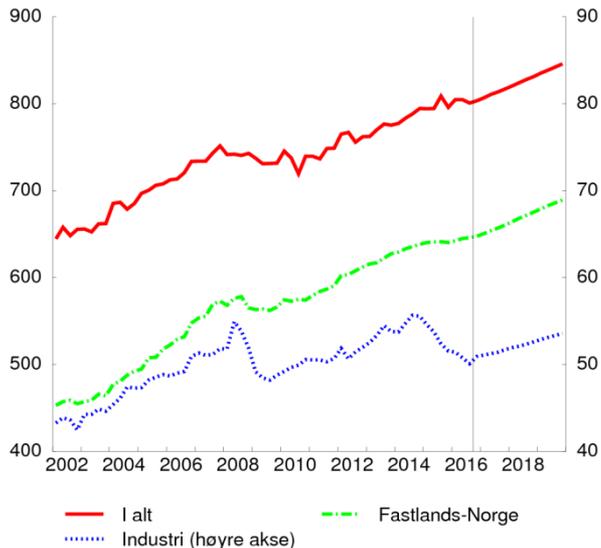
Pst. vekst/pst.	2014	2015	2016	2017	2018	2019
Realinntekt	2.7	5.2	-2.9	2.1	1.9	2.0
Konsum	1.9	2.1	1.5	1.9	2.0	2.0
Sparerate	8.2	10.4	6.5	6.6	6.5	6.4

Kilde: Statistisk sentralbyrå. f0201f05

- **Very weak real income growth this year**
  - **Due to: Fall in real wages and employment + high inflation**
- **Slightly stronger consumption growth ahead**
  - **increased revenues**
    - increasing salaries
    - Increased growth in transfers
    - lower inflation
    - Tax reductions
  - **Increased real house prices (this year and next year)**
- **Stable savings rate**

# GDP growth picks up

**Bruttonasjonalprodukt**  
Sesongjustert, mrd. 2014-kr., kvartal



Prosentvis vekst	2014	2015	2016	2017	2018	2019
BNP	1.8	1.6	0.4	1.4	1.7	1.7
BNP Fastland	2.0	1.1	0.7	1.7	2.2	2.1
Industri	3.0	-3.2	-3.9	1.0	1.8	1.9

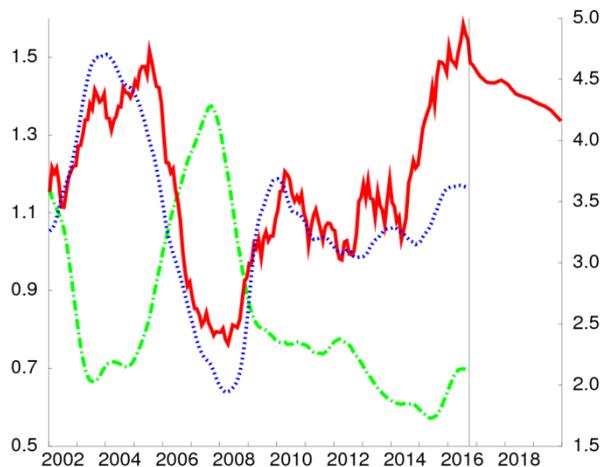
Kilde: Statistisk sentralbyrå.

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- BNP F-N has picked up slightly this year, after zero growth in the last three quarters of last year
  - But quite weak in Q3
- Continued weak growth in petroleum-related activities
  - The decline in manufacturing continued in Q3
  - Continued strong growth in construction
- Growth picks up moderately ahead
  - Fairly broad based

# Falling but still high unemployment

Arbeidsledige og tilgangen på ledige stillinger  
Prosent av arbeidsstyrken. Sesongjustert og glattet



— AKU-ledige  
 ..... Reg. ledige og pers. på arb.markedstiltak  
 - - - Tilgang ledige stillinger (venstre akse)

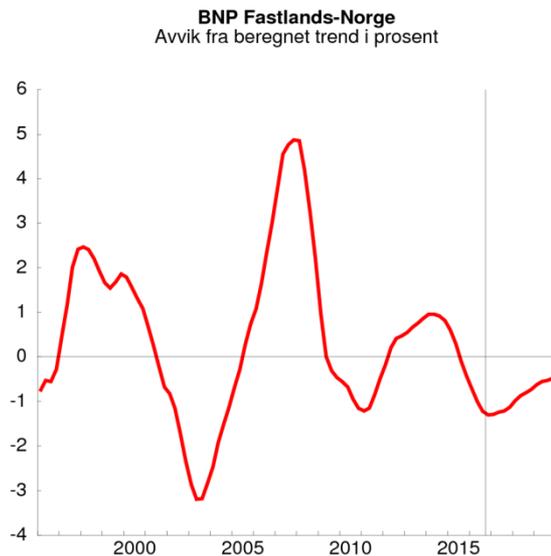
	2014	2015	2016	2017	2018	2019
Yrkesandel	71.0	71.2	70.7	70.6	70.7	70.8
Arb.ledighet	3.5	4.4	4.7	4.5	4.4	4.3

Kilde: Arbeids- og velferdsetaten og Statistisk sentralbyrå.

f0201f14

- Nearly two years of falling employment
  - Weak development in oil-related activities / industry
  - Strong in construction, hotels and restaurants
- LFS/ILO unemployment rate rose to 5.0 pct. In summer
  - Down to 4.8 percent in the period from August to October
- Stable high number of people registered unemployed at NAV
  - Major geographical and occupational variations
- Unemployment continues to fall moderately ahead

# Weak economic upturn early next year

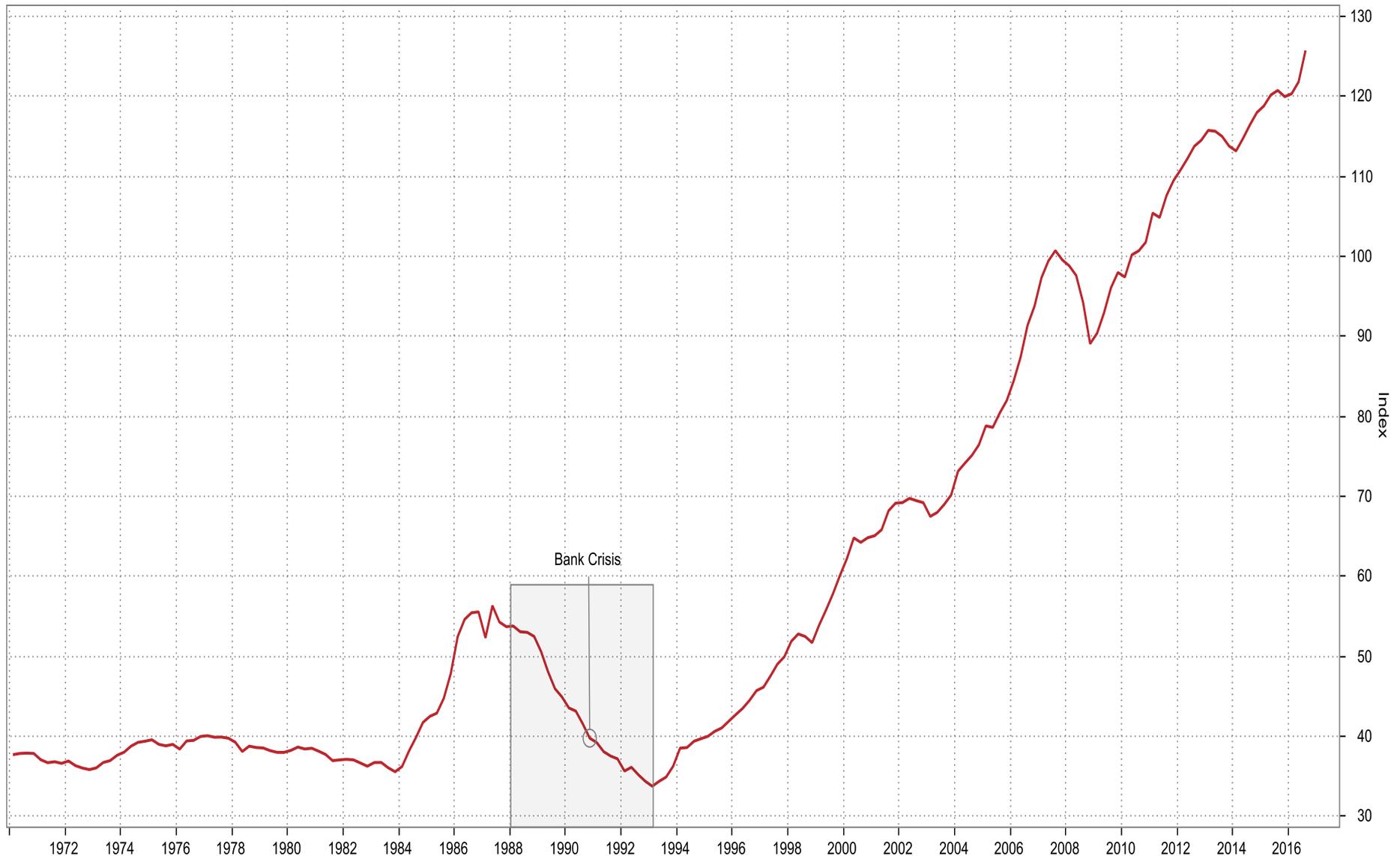


Kilde: Statistisk sentralbyrå.  
f0201f12

- **The economic downturn since the second half of 2014**
  - But we are probably near the bottom now
- **Weak economic upturn from early next year**
  - Smaller fall in petroleum investment and increased investments in the mainland industries
  - Continued expansionary fiscal policy in 2017 and still low interest rates
  - Increased growth in Norwegian export markets
  - Continued weak krone - the positive effects not exhausted

# The Norwegian Housing market

# Norwegian House prices

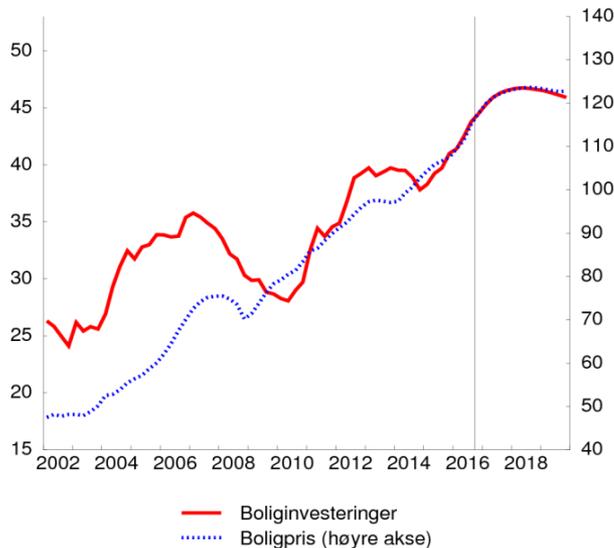


# The housing market turns in 2018

- Strong growth in housing prices last three years; Accelerated through 2016
- Lending rates have fallen further => Stimulated borrowing:
- Dampened by lower underlying revenue growth.
- Huge regional differences
- Drivers: fundamentals and non-fundamentals
  - Household's disposable real income
  - Real interest rates
  - Increased supply of dwellings
  - Expectations
- Real prices grow also through 2017, but falls in 2018 and 2019

**Boligmarkedet. Sesongjustert.**

Venstre akse mrd. 2014-kr., kvartal, høyre akse indeks, 2014=100



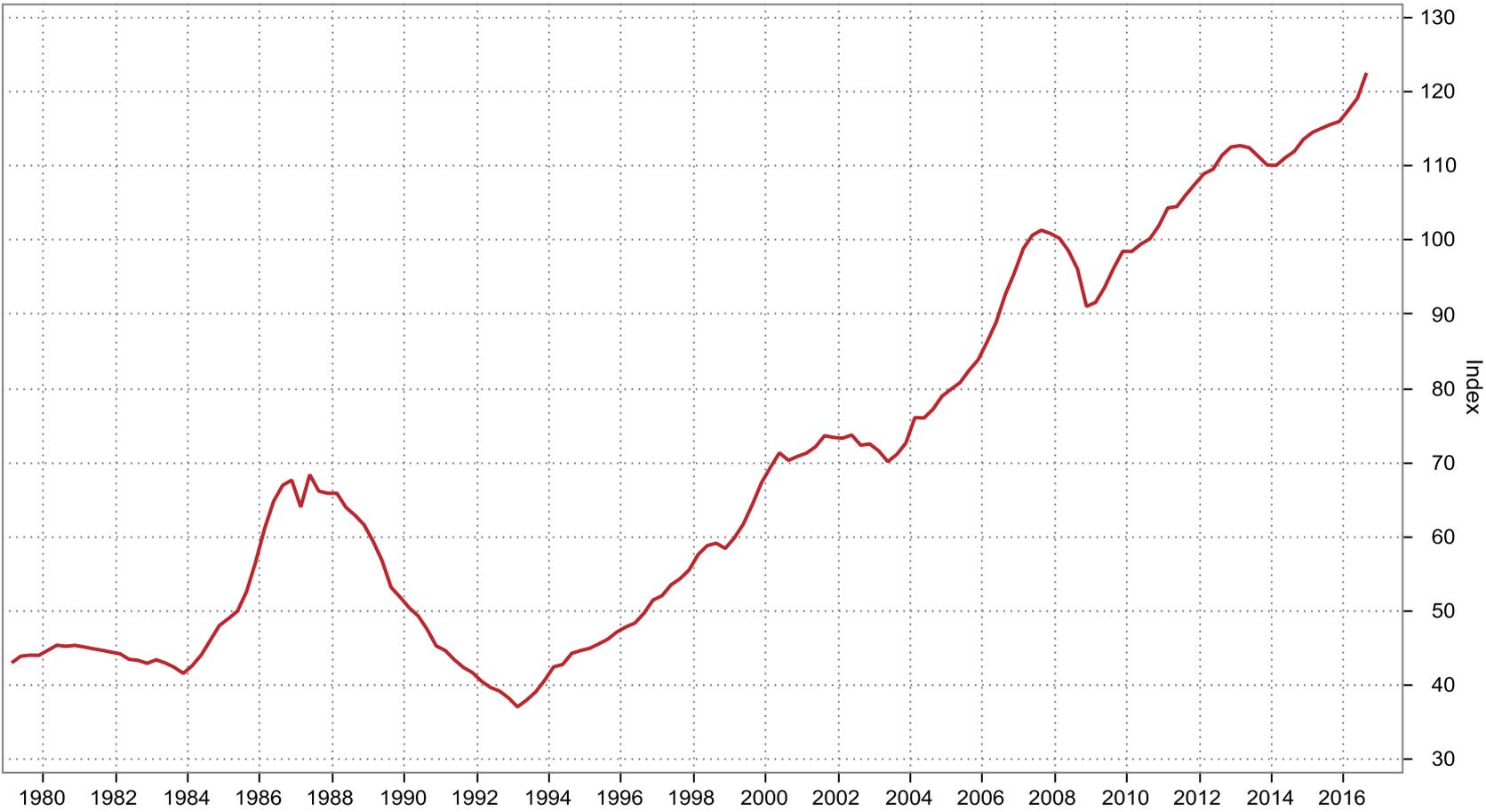
Pst. vekst/pst.	2014	2015	2016	2017	2018	2019
Boligpris	2.7	6.1	7.3	7.2	1.5	-0.7
Investeringer	-1.4	1.6	9.3	6.9	1.3	-1.1
Realrente e/s	0.8	0.1	-1.6	-0.3	-0.1	-0.4

Kilde: Statistisk sentralbyrå.

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Is there a bubble in the Housing  
market?

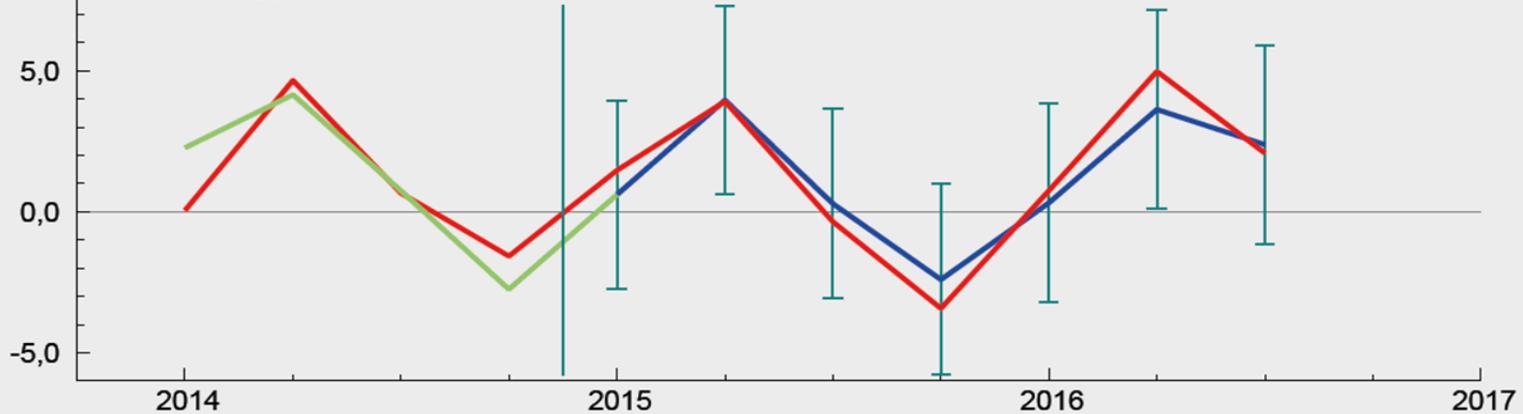
# House Price Rent ratio



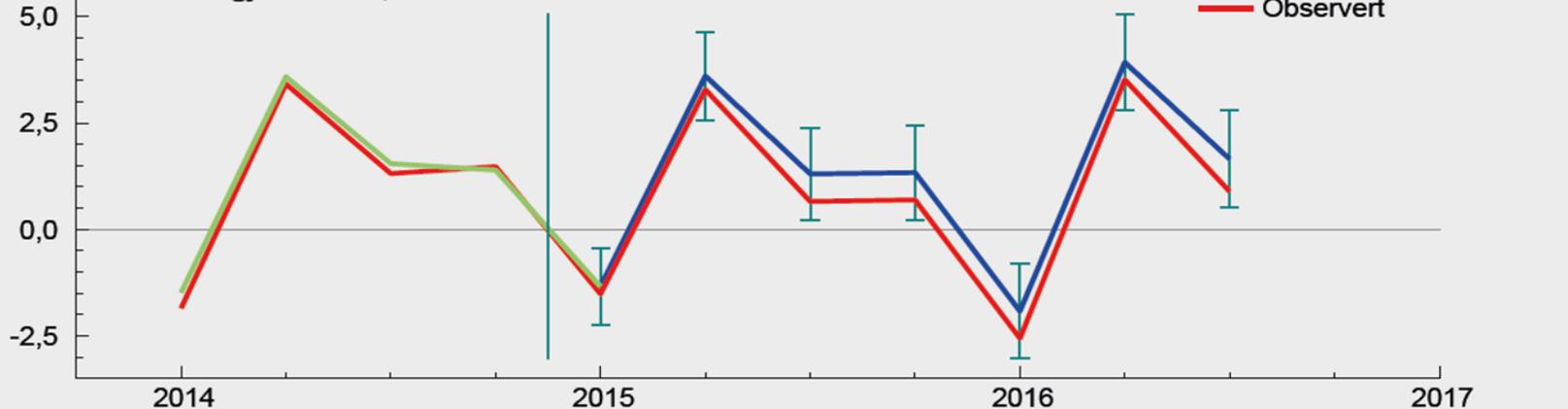
Source: **Macrobond**

# Expectation variable rescue forecasts

Prosent **Realboligprisvekst, kvartal**



Prosent **Realgjeldsvekst, kvartal**



No tree grows into heaven

