Arrival of a well announced upturn

Business analyses and indicators are finally indicating stronger growth in GDP in Mainland Norway. The economic forecasts published by Statistics Norway have for some time foretold a change in the business cycle this year, for example in the forecasts from December 2016, and more confidently in March 2017.   The same picture, of the mainland economy emerging from the troubles created by the sharp drop in petroleum related business activity, have been painted in Norges Bank's Monetary policy reports, from last autumn and this winter.

Statistics Norway's early forecast about higher growth in Mainland Norway in 2017, are now corroborated by nowcasting measures. Earlier in May, Finance Norway published their economic expectations survey with the Dickensian headline «Great expectations». A new *Financial News Index* (FNI), based on a broad reading of financial and business news and features in Norwegian newspapers, shows that «growth is increasing in the Norwegian economy right now» (Dagens Næringsliv 23 May). Importantly, the official national accounts data for the first quarter of 2017 also show higher growth than for a long time. The annual growth numbers are influenced by the late Easter this year (higher number of working days in the first quarter), but also the seasonally adjusted GDP numbers are regarded as strong by Statistics Norway.

The national accounts are also important input in the macro econometric model NAM (Norwegian Aggregate Model). When the model is updated with the new data, the model forecasts indicate a broad upturn in the economy. GDP Mainland Norway could be set for two percent growth in 2017. If this should become a reality, it would be the highest growth rate since 2014 (in 2016 GDP grew by 0.9 percent). The model forecasts for the main industries shows a change from negative to positive numbers for manufacturing, and that the construction sector may be heading for another year with growth higher than two percent. Most important for the overall growth rate is however a forecasted jump in private service production and retail trade, from the meagre growth rate of 0.3 percent in 2016.

The NAM forecasts also indicate that the upturn may not be just a short wave. The graph shows increasing annual growth rates in 2019 and 2020. The uncertainty of these forecasts is however large, as the 70 percent confidence intervals show.
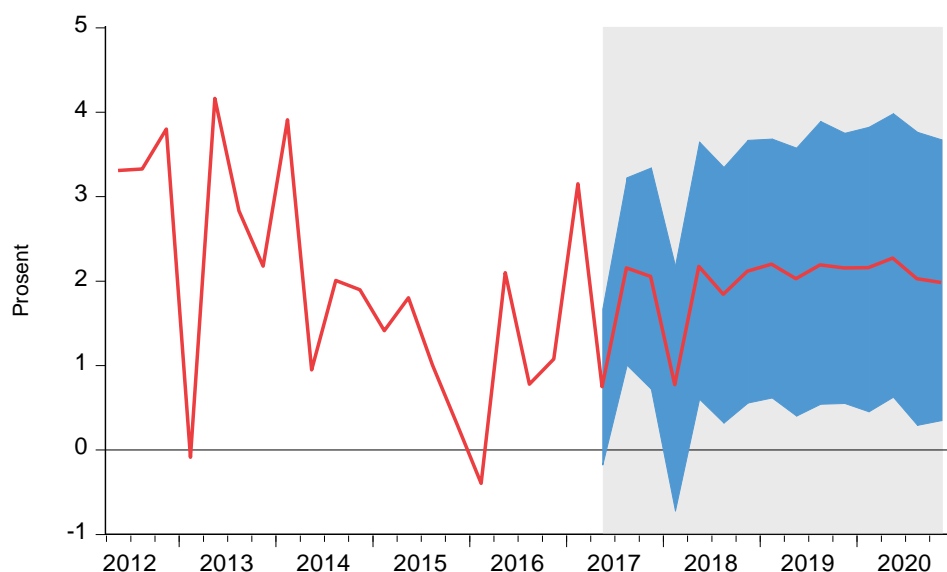

Figure: Annual change in GDP Mainland-Norway, in percent. The blue fan shows 70-percent confidence intervals for the forecast period 2017(2)-2020(4). Source: SSB and NAM.

A relatively large part of the uncertainty is due to the fact that the annual growth rates are affected by seasonal variation, that do not repeat itself in exactly the same way each year. To some extent, this has a mundane explanation, like the mentioned variation in the number of working days. If we perform a technical seasonal adjustment of the model, a graph with a narrower forecast uncertainty band emerges. This shows that there is a an important degree of negative autocorrelation between the annual growth rates, in the data and in the forecasts.
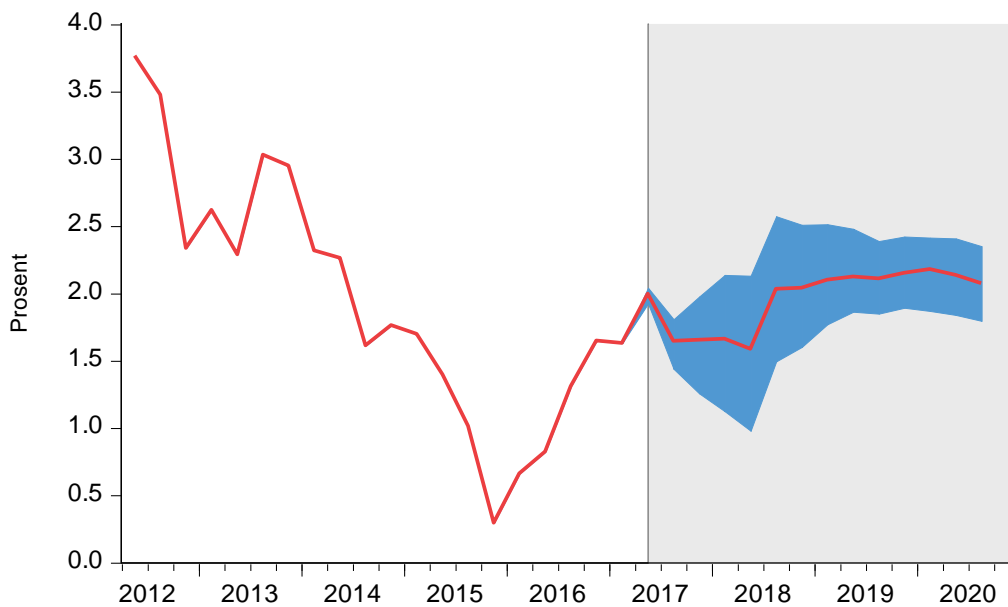
Figure: Annual change in GDP Mainland-Norway, in percent. Seasonally adjusted numbers. The blue fan shows 70-percent confidence intervals for the forecast period 2017(2)-2020(4). Source: SSB and NAM.

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