OUTLOOK FOR THE HOUSING MARKET AND THE NORWEGIAN ECONOMY

GOVERNOR ØYSTEIN OLSEN
Oslo, 7 November 2017
Topics

- Outlook for the Norwegian economy
- The housing market
- Monetary policy
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Main trading partners’ economies improve

Quarterly growth.¹) Percent

1) Three-quarter moving average
Source: Thomson Reuters
Policy rates abroad have bottomed out

Policy rates and estimated forward rates at 6 November 2017

1) ECB’s deposit rate. Eonia from 2017 Q3
Sources: Bloomberg, Thomson Reuters and Norges Bank
Norway: Growth has picked up

Four-quarter percentage change

1) GDP projection for 2017 Q3 and 2017 Q4 from MPR 3/17

Sources: Statistics Norway and Norges Bank
The krone has tracked the oil price
USD per barrel Brent Blend and import-weighted exchange rate index\(^1\)

1) A positive slope denotes a stronger krone exchange rate.
Sources: Thomson Reuters and Norges Bank
Improved competitiveness

Labour costs in Norway relative to trading partners’ labour costs

1) Hourly labour costs in manufacturing. Index 1995 = 100.
Sources: Statistics Norway, Norwegian Technical Calculation Committee for Wage Settlements (TBU) and Norges Bank
Economic policy has contributed

Key policy rate. Percent

Forecast, September 2017
Forecast, March 2014
Key policy rate

Budget deficit. Percent of trend mainland GDP

Structural non-oil deficit
3% of the Government Pension Fund

Source: Norges Bank
Sources: Ministry of Finance and Norges Bank
Shift in driving forces
Share of mainland GDP$^{1)}$

Sources: Statistics Norway and Norges Bank
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Correlation in the housing market

House prices. Twelve-month percentage change

Sources: Eiendomsverdi, Finn.no, Real Estate Norway, Statistics Norway and Norges Bank
Regional differences

Twelve-month percentage change

Sources: Eiendomsverdi, Finn.no and Real Estate Norway
House prices are high relative to income

Index. 1998 Q4 = 100.

Sources: Eiendomsverdi, Finn.no, Norwegian Association of Real Estate Agents (NEF), Real Estate Norway, Statistics Norway and Norges Bank
More new dwellings than households

Number of housing starts and change in number of households

1) Projections for housing starts and change in number of households for 2017.
Sources: Statistics Norway and Norges Bank
Some tightening of credit standards
Households. 2/1 = Substantial/moderate rise/easing, 0 = Approximately unchanged, -1/-2 = Substantial/moderate decline/tightening

Source: Norges Bank
Indebtedness remains high

Household debt ratio

Debt as a percentage of disposable income

Projections, MPR 3/17

Sources: Eiendomsverdi, Finn.no, Real Estate Norway, Statistics Norway and Norges Bank
Risk of fall in household consumption

Share of households. Percent

- High LTV ratio: Net debt exceeding the market value of the dwelling
- High DTI ratio: Debt exceeding five times gross income
- Low debt-servicing capacity: Less than one month’s income remaining after payment of interest, minimum principal and ordinary consumption expenditures (on an annual basis)

Sources: Norwegian Mapping Authority, SIFO, Statistics Norway and Norges Bank
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Monetary policy in Norway

- Low and stable inflation
- Stable developments in output and employment
- Monetary policy must be robust

Sources: Statistics Norway and Norges Bank
Monetary policy

Projections in Monetary Policy Report 3/17

1) CPI adjusted for tax changes and excluding energy products.
Sources: Statistics Norway and Norges Bank
On the basis of an overall assessment, the Executive Board decided to keep the key policy rate unchanged at 0.5%.

The Executive Board’s current assessment of the outlook and the balance of risks suggests that the key policy rate will remain at today’s level in the period ahead.
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