

18 February 2008

THE NORWEGIAN TECHNICAL CALCULATION COMMITTEE FOR WAGE SETTLEMENTS

MAIN POINTS OF THE INTERIM REPORT ON THE 2008 WAGE BARGAINING ROUND: THE BASIS FOR WAGE SETTLEMENTS IN 2008

This report outlines recent years' developments in pay, earnings, prices and competitiveness. The Committee also presents a projection of consumer price growth from 2007 to 2008 and briefly describes prospects for the international and Norwegian economy. The report is based partly on preliminary figures and estimates for 2007. Parts of the report will therefore be updated in late March/early April. This applies to the trend in pay, women's versus men's pay, pay in terms of education and managers' pay. New national accounts figures with a bearing on parts of the report will also be available at that point.

1. Pay

Average **annual pay growth from 2006 to 2007** for all groups as a whole is estimated at 5.4 per cent compared with 4.1 per cent in 2006. Pay growth last year was the highest since 2002, and clearly higher than the average of 4.7 per cent for the past decade.

Annual pay growth from 2006 to 2007 at firms affiliated to the Confederation of Norwegian Enterprises (Næringslivets Hovedorganisasjon, NHO) is put at about 5½ per cent for manual manufacturing employees and about 5¾ per cent for non-manual manufacturing employees. Average wage growth in this area was about 5½ per cent. Annual wage growth at firms affiliated to the Federation of Norwegian Commercial and Service Enterprises (Handels- og Servicenæringens Hovedorganisasjon, HSH) is estimated at 5.0 per cent. In financial services, which include some groups in addition to those making up the banking-and-insurance negotiating area, wage growth in 2007 is estimated at 5.2 per cent. For employees in the central and local government sector wage growth is provisionally estimated at about 5 per cent and 4½ per cent respectively. Annual wage growth in companies affiliated to the Employers Association, Spekter, excluding the health trusts, is estimated at 5.3 per cent. The Committee will be coming back to the annual wage growth at health trusts in March/April.

The Committee puts the **wage carry-over** into 2008 at 2 per cent for all groups as a whole. This is higher than the carry-over in the three preceding years which averaged 1.5 per cent, but about the same as the carry-over into 2007. For manual manufacturing employees the carry-over is put at 1¾ per cent and for non-manual manufacturing employees at 2½ per cent. The carry-over for employees of HSH companies in wholesale and retail trade is estimated at 1.6 per cent and for employees in financial services at 1.3 per cent. In Spekter-affiliated firms excluding health trusts the carry-over is put at 1.3 per cent. For employees in the central and local government sector the carry-over is provisionally estimated at 1½ per cent and 1¼ per cent respectively.

2. *Prices*

Consumer prices (CPI) increased by an average of 0.8 per cent from 2006 to 2007, compared with 2.3 per cent the previous year. On a 12-month basis, price growth in 2007 varied between -0.3 per cent (September) and 2.8 per cent (December). Electricity prices alone pushed down growth in consumer prices by almost 1 percentage point from 2006 to 2007. From January 2007 to January 2008 CPI rose by 3.7 per cent. The increased 12-month growth in CPI towards the end of 2007 and into 2008 is primarily ascribable to movements in electricity and fuel prices. In the last five years consumer prices have risen by an average of 1.5 per cent annually compared with 2.4 per cent in the previous five-year period.

Consumer price index adjusted for taxes and excluding energy products (CPI-ATE) picked up slightly early in 2007 and thereafter hovered around 1.5 per cent. In December 2007 the rate of increase in CPI-ATE was up to 1.8 per cent. In January 2008 the 12-month rate of growth showed a further slight increase to 1.9 per cent, the highest rise in CPI-ATE since February 2003.

The Committee has analysed the price growth outlook in 2008 using an economic model incorporating assumptions for the krone exchange rate, import prices, crude oil prices, electricity prices and domestically-produced agricultural goods. The tax programme adopted by the Storting for 2008 is not assumed to affect overall price growth.

Based on its calculations and assumptions, the Committee estimates an **average price growth of about 3½ per cent from 2007 to 2008**. The uncertainty in the estimate for 2008 relates above all to electricity prices where a substantial increase from 2007 to 2008 is incorporated in the model calculation. Much uncertainty also attends the degree to which increased food and energy prices on the world market will affect growth in food prices in Norway.

3. *Manufacturing competitiveness*

Cost competitiveness in **manufacturing**, measured by relative hourly wage costs in manufacturing in a common currency, has weakened over the past three years. Relative hourly wage costs in manufacturing in a common currency are estimated to have risen by 2.9 per cent in 2007.

Average hourly wage costs in manufacturing in Norway in 2007 are estimated to be about 25 per cent higher than a trade-weighted average of our EU trading partners. For manual manufacturing employees alone Norwegian costs were a good 41 per cent higher. Uncertainty and weaknesses attend such comparisons. Pension costs are only partially included in the statistics.

4. *Earnings*

According to standard calculations, **real after-tax pay** for wage earners increased by about 4.5 per cent from 2006 to 2007 compared with 1.9 per cent the previous year. Growth for main groups of wage earners varied between 3¾ and 4½ per cent.

According to preliminary national accounts for the first three quarters of 2007, **real disposable income** for Norway was just over 3 per cent higher than in the same period of 2006, compared with a growth of 6.9 per cent the previous year. Viewed over a longer

period, overall real incomes have grown considerably: from the cyclical trough in 2003 up to 2007 real disposable income for Norway appears to have risen by about 32 per cent.

While improved terms of trade, particularly through higher oil prices, explain much of the strong income growth in the years 2004-2006, the key contributor to the overall rise in income in 2007 was vigorous production growth in mainland (non-oil) industries.

According to preliminary national accounts for the first three quarters of 2007, **households'** real disposable income apart from share dividends was 3.1 per cent higher than in the same period of the previous year. The main explanation for the upswing was strong employment growth combined with growth in real wages. On a per capita basis, households' real disposable income rose by 2.1 per cent in the same period.

Pensions for single persons and married couples receiving minimum pension rose in real terms by 4.5 per cent from 2006 to 2007. In 2007 the minimum pension averaged NOK 117,476 for single persons and NOK 215,304 for married couples.

Contact person for further information: Committee chairman Øystein Olsen, Statistics Norway (Statistisk sentralbyrå), tel. 47 21 09 49 90 / 47 918 27 944 or e-mail: oyo@ssb.no