2 September 2026

Norway: Inflation and growth

- **We expect core inflation to rise to 3.1% in August, driven mainly by base effects from kindergarten prices. If we are correct, core inflation will be 0.2pp lower than Norges Bank assumed in the MPR 2/26 in June.**
- **GDP-growth remained muted in Q2, and details were on the weak side.**

Inflation. We expect core inflation to rise from 2.7% to 3.1% y/y in August. The most important reason is that kindergarten prices were cut sharply in August last year, and this effect will contribute to pulling annual growth up by about 0.3pp. Beyond this, we expect small changes, but somewhat higher price growth in food and imported goods than last year will pull annual growth up by about 0.1pp. As usual, the biggest risk is in the prices of airline tickets and ICT equipment. Anecdotical evidence suggests some downside risk to our food price expectations, but we have chosen to stick with the inflationary signals from domestic producer prices. In addition, we are still watching out for higher rents as suggested by the market-based data, but due to base effects this will probably not lift the August figures.

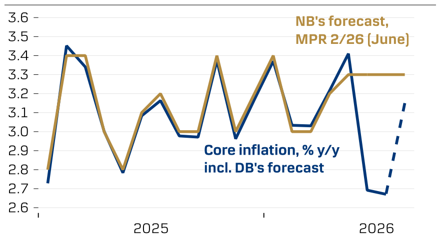
If we are correct, August core inflation will still be well below Norges Bank's estimate from the June monetary policy report of 3.3%. As a result, core inflation will end at roughly 3.0% in Q3, 0.3pp lower than in Norges Bank’s inflation path from June. Perhaps even more important, the actual underlying inflation trend is downwards, whereas NB’s path suggested a lift in Q2 and Q3 (see chart 2). This is probably because NB expected some second-round effects on core inflation from the energy shock after the closure of the SOH that so far have not materialised.

Our own model did not catch this slowdown either, but one possible explanation may be found in the quarterly wage figures. According to these, wage growth was around 4.0% y/y in Q2, well below the signals sent from the wage negotiations (4.4%). In addition, private consumption surprisingly fell again in Q2, so it even may be due to lack of pricing power from weakness in demand.

Growth. Growth in mainland-GDP was 0.3% q/q in Q2, in line with our forecast and marginally below Norges Bank’s estimate from the June MPR (0.4%). In addition, details were a bit to the downside as both private consumption and corporate investments fell short of expectations, whereas public demand and mainland-exports surprised to the upside. Hence, it seems like rate-sensitive sectors are taking a hit, whereas ‘exogenous factors’ keep the economy afloat. The only exemption was residential investments, which were a bit higher than expected. Also note that productivity growth slowed from 0.5% to 0.2% y/y, which is both a short-term (inflationary) and a long-term problem because it indicates that trend growth is declining. On the positive side, the wage share in the manufacturing sector is now approaching historical levels, which should contribute to dampen the wage growth.

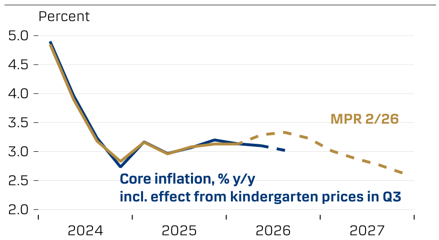
We stick to our view that NB will hike the policy rate by 25bp to 4.5% on 24 September, but if inflation surprises to the downside and/or the Regional survey suggests that the output gap is higher than expected, NB might stay on hold.

Chart 1. Inflation below expectations...



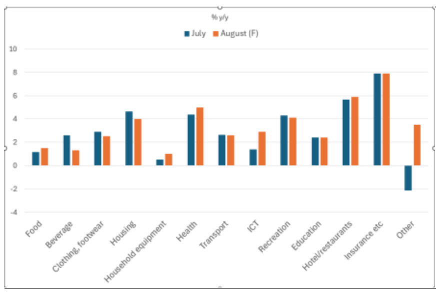
Source: Macrobond, Danske Bank

Chart 2. ...even in Q3



Source: Macrobond, Danske Bank

Chart 3. Detailed core forecast



Source: Macrobond, Danske Bank

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