Norway: Solid growth but core inflation softens

Norwegian inflation and GDP data were a mixed bag. While growth is solid and the labour market is firming up, core inflation was weaker than expected

A mixed bag

Norwegian inflation data this morning were surprising in a couple of ways. Most importantly, core inflation fell to 1.1%, considerably weaker than expectations of 1.5%. Headline inflation was stronger, in line with expectations at 1.6%. That means that energy and food prices were stronger than anticipated, with stronger oil prices and a weaker Norwegian krone feeding through more than anticipated. The big miss in core inflation can largely be attributed to seasonal effects, which were more pronounced than normal. Prices in January tend to be weak due to post-holiday sales, and that effect seems more pronounced this year. Clothing, household furniture, and transport prices were all weaker than historical averages.

On the growth front, the story is better. Q4 GDP grew by 0.6%, in line with expectations. Q1 was revised down and Q3 up by 0.1% due to seasonal adjustment effects; full-year GDP growth came to 1.8%. The underlying story looks unchanged: increasing investment (1.6% QoQ) and solid consumption (up 0.8% QoQ) is driving growth, which suggests momentum in the Norwegian economy is picking up. Non-hydrocarbon exports were also strong, suggesting the Norwegian exporters are benefitting from the global upswing and the weaker NOK. Employment and wages both improved in Q4, confirming the pick up seen in Q3.

What it means for interest rates

For Norge's Bank, today's data is unlikely to change the outlook very much. The overall picture for the Norwegian economy looks good, with growth picking up and the labour market firming. The weak core inflation figure is worrying, but one weak data point will not be enough to derail their plan to hike rates at the end of the year. Given the seasonal nature of the inflation surprise, they will wait to see whether this month is a blip or signals a weaker trend.