Norwegian inflation forecasts, February 2010

This is the 12th of a sequence of forecasts of the Norwegian rate of inflation, using a small scale econometric model to produce automatic inflation forecasts, AIFs. The methodological approach of this project was presented in Nymoen (2005).

The forecasted variable is the 4 quarter rate of change in the Norwegian consumer price index, adjusted for taxes and energy prices (CPI-ATE). The February 2010 AIF forecast is shown in the fan-chart below. The point forecasts are shown as a black line, and the 90% prediction intervals are indicated by the symmetric fans. The recent inflation history, from 2006(1) to 2009(4), is shown in the red line in the graph.

Inflation is projected to fall below 2.0% early in 2010 and to be reduced further, to 1% by mid 2011. The forecast stabilizes at that level.

The forecasting mechanism used (the AIF model) consists of an equation for the rate of inflation (CPI-ATE), and 8 equations which are needed to forecast the explanatory variables of inflation: the rate of unemployment, productivity growth, the nominal and the real exchange rates, foreign inflation (in foreign currency), domestic and foreign interest rates and oil prices.

The figure on the next page shows the inflation forecast together with forecasts for three other variables in the AIF model. Unemployment is projected to fall again in the course of 2010. The real exchange rate stays at low level, so a real depreciation is not expected in this forecast. Finally, the 3-month interest rate is forecasted to increase in 2010, but later in the forecast period it is reduced a little again, in the AIF model this is due to the persistent low inflation in the forecast period.
Earlier forecasts, and comparisons of those forecasts with the Norwegian Central Bank’s forecasts are available on this project’s [webpage](#).