Norwegian inflation forecasts, June 2009

This is the 11th of a sequence of forecasts of the Norwegian rate of inflation, using a small scale econometric model to produce automatized 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 June 2009 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 2007(1) to 2009(1) is shown in the red line in the graph.

Inflation is projected to fall moderately to approximately 2.5% in the third and fourth quarters of 2009. In the following quarters, until the second half of 2010, the point forecasts are just above 2.0%. In the second part of the period, the model projects lower inflation.

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 nominal 3-month interest rate (money market rate), which is forecasted together with inflation and the other variables in the AIF forecasting model.
Earlier forecasts, and the comparison of those forecasts with the Norwegian Central Bank’s Forecasts are available on this project’s webpage.