

REGIONAL NETWORK

National report

NO. 2 | 2021

INTERVIEWS WERE PRIMARILY CONDUCTED IN THE PERIOD
26 APRIL - 11 MAY



NORGES BANK

Reopening boosts optimism

According to Regional Network contacts, business sector activity has increased in recent months. Business sector demand has risen, while strict containment measures have dampened household demand through spring. Contacts expect substantial output growth ahead as the measures ease through summer. Public building and infrastructure projects will amplify growth.

Stringent travel restrictions have contributed to a rise in labour shortages and increased capacity constraints through spring. Contacts are planning for considerable growth in both employment and investment ahead, while the estimate for annual wage growth in 2021 has been revised up to 2.7% from 2.3% in February.

Since March 2020, the Covid-19 pandemic and the related containment measures have weighed heavily on activity among Regional Network enterprises (Chart 1). Activity fell sharply through spring 2020 and, following a rebound through summer and autumn, declined in winter. Activity rose in the course of spring 2021, in manufacturing and commercial services in particular (Chart 2). At the same time, turnover fell in retail trade and construction. In the other sectors, activity levels have shown little change since February. There are still wide regional variations, reflecting differences in infection rates and containment measures, with the largest rise in Region North and the smallest rise in Region East (Chart 3).

All sectors expect activity growth to pick up over the next six months, in pace with the reopening of society, with household service contacts expecting the largest increase.

Survey periods and time of interviews

Since March 2020, enterprises' turnover has varied substantially from month to month because of changes in infection rates and related restrictions. In this survey, the past three months are February, March and April, but many of the interviews also include information from the first half of May. The data are compared with the preceding three months, ie November, December and January. The next six months refers to the period to October.

Employment increased in the past three months (Chart 4). Contacts in construction and oil services reported a fall in employment, while the remaining sectors have increased their workforces since February. All sectors expect a rise in the employment level over the next three months, reflecting expectations of solid economic activity ahead. Service and construction enterprises expect to increase employment most over the next three months.

When the pandemic broke out, Regional Network contacts made substantial cuts in their investment plans for the coming year (Chart 5). In the previous survey, contacts planned to increase investment somewhat, and in this survey,

Chart 1

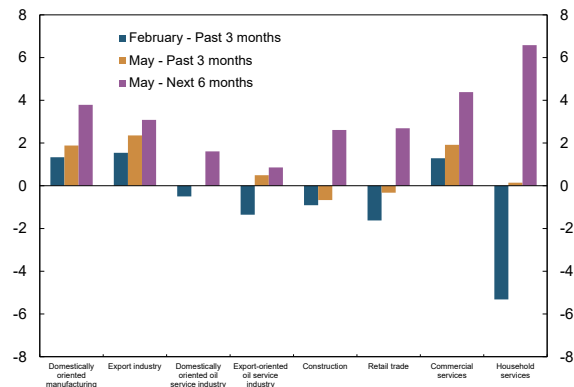
Total output growth



Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent.

Chart 2

Output growth. All sectors



Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent.

contacts are planning for slightly stronger growth. All sectors expect to increase investment ahead, with manufacturing enterprises planning for the sharpest rise. The increase partly reflects the low level of investment by many contacts over the past year. A large number of contacts postponed investment in 2020 owing to market uncertainty. In addition, some investments were difficult to carry out owing to containment measures. Planned investment is being pulled up in particular by investment in digitalisation and climate-friendly solutions. Moreover, contacts are increasingly investing in warehousing and logistics properties, while interest in other commercial buildings remains low.

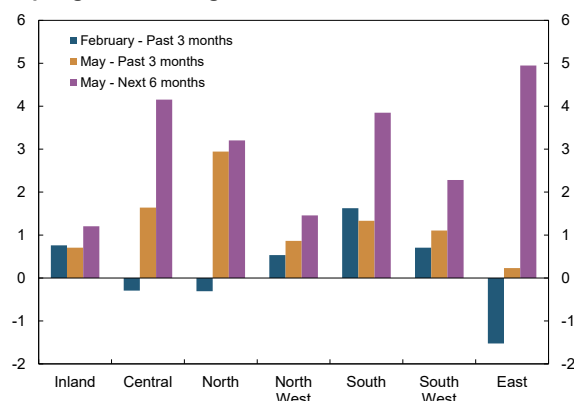
Many household-oriented enterprises have been closed

Much of the retail trade sector posted record-high sales in 2020. At the beginning of 2021, stricter containment measures led to a decline in sales of retail goods (Chart 6). Containment measures have periodically been very strict in recent months, with shops and shopping centres closed in many parts of Norway. The sales volume of retail goods has therefore continued to edge down in recent months. Strong growth in online shopping and click-and-collect options have partly compensated for the fall in sales in physical shops. Grocery trade sales remain at a high level. Some contacts report that the grocery trade has picked up some of the turnover lost by closed shops, for example from shops with a wide range of goods. Demand for cars has risen considerably through the pandemic. This trend is attributed to a reduction in the use of public transport, the demand for electric cars and the fact that many people have had more money to spend on a car. At the same time, there have been delays in deliveries of the most popular car models. Retail trade contacts expect solid growth in the period ahead since most of the shops that have been closed have recently been permitted to reopen. Prospects that a large number of Norwegians will be holidaying in Norway also boost expectations for the summer. Retail trade contacts expect a decline in sales through autumn as national borders open and services normalise.

Many of the household services contacts have been hard hit by the containment measures implemented in winter and spring 2021, and activity has recently remained at the same low level as reported in the previous survey. In recent months, many enterprises in sectors such as travel and tourism and health and fitness have largely been closed. A number of contacts saw signs of improvement in April and May, and the majority of these enterprises expect strong growth over the next six months. With many Norwegians holidaying in Norway this summer, the positive effect on sales is expected to be substantial. Enterprises offering services for home use, such as streaming services and take-away food, have reported solid developments during the pandemic, and growth has continued in the past three-month period. In addition, estate agents have reported higher sales over the past three months. The number of listings has risen, which has led to slightly weaker house price developments, but also to a rise in the number of sold homes.

Chart 3

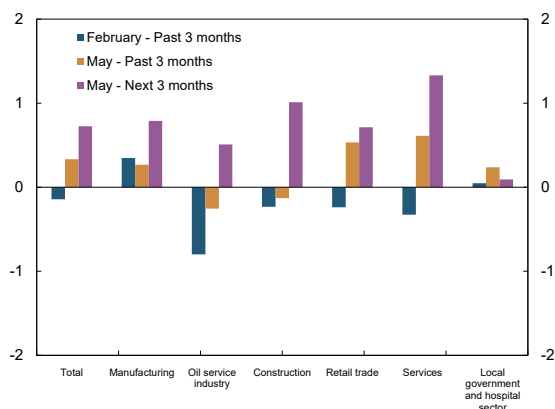
Output growth. All regions



Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent.

Chart 4

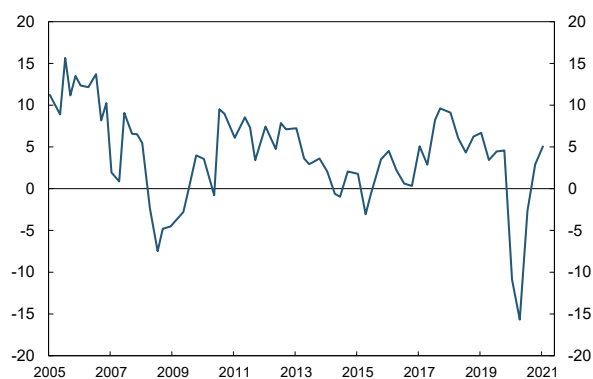
Employment growth



Growth past three months and expected growth next six months. Seasonally adjusted. Percent.

Chart 5

Investment growth



Expected growth next 12 months. Percent.

Business sector preparing for the reopening of society

Commercial services activity has continued to rise over the past three months, and output growth has picked up since the previous survey (Chart 7). A number of contacts reported a weak start to 2021, with a gradual improvement through spring. Much of the business sector is now preparing for the reopening of society, and demand for marketing and staffing services for example has risen. Enterprises need help to adapt to an everyday reality where both technology and climate-related factors are becoming increasingly important, and this is resulting in solid growth for consultancy firms. Some enterprises also reported output growth from the provision of accounting and control services relating to Covid-19 support payments from the Government. Goods transport has increased recently, and strong growth in online shopping has contributed most to the increase. The weakest developments continue to be reported by contacts in business travel and related businesses, such as restaurants and hotels, and a number have seen a further fall in sales in the past three-month period. These contacts expect an improvement over the next six months and some refer to pent-up business travel demand. Other contacts expect that it will take time before business travel activity returns to pre-pandemic levels.

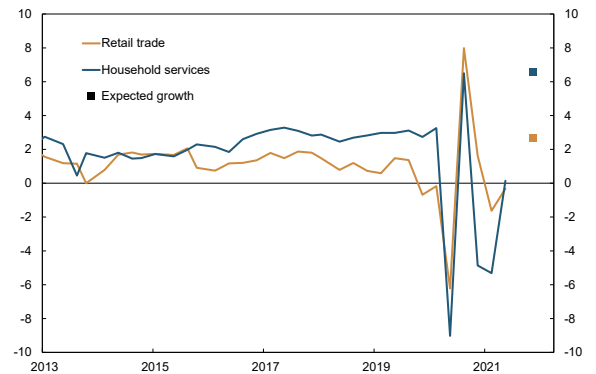
Construction activity has declined further since February, dampened by weak order intake in 2020 from both the public and private sector. Orders from the public sector have been dampened by a number of factors, including the new county and municipal reforms and the reorganisation of the Norwegian Public Roads Administration. It has also been difficult to start large projects from home offices. However, a large number of public tenders have recently been released, and contacts expect brisk growth in public sector construction ahead. Residential construction is also picking up, and some contacts are already seeing strong growth in this segment. Some construction enterprises report falling activity owing to strict containment measures and difficulties in maintaining the supply of foreign labour.

Solid growth in manufacturing

Contacts report that the increase in manufacturing output reported in the previous round picked up pace in this round, in both domestic and export markets (Chart 8). Manufacturing contacts expect higher growth ahead, and the outlook is the strongest since autumn 2007. The widespread use of remote working in many parts of the world has resulted in solid demand for stay-at-home products, such as sports equipment and home furnishings. Large infrastructure projects are also being launched, for example in road, rail and telecommunications, which is resulting in solid growth for manufacturing enterprises. Several contacts also referred to an increase in the number of orders related to public projects in other countries. Growth conditions for fish have been favourable this winter in many parts of Norway, and the fishing industry has recently increased output. Through the pandemic, restaurant demand for fish has been weak, and fish has to a far

Chart 6

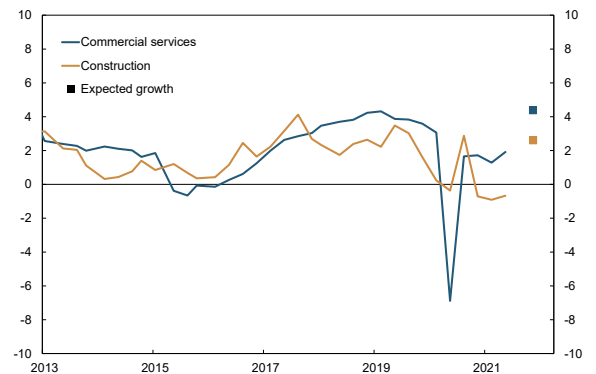
Output growth. Retail trade and household services



Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent.

Chart 7

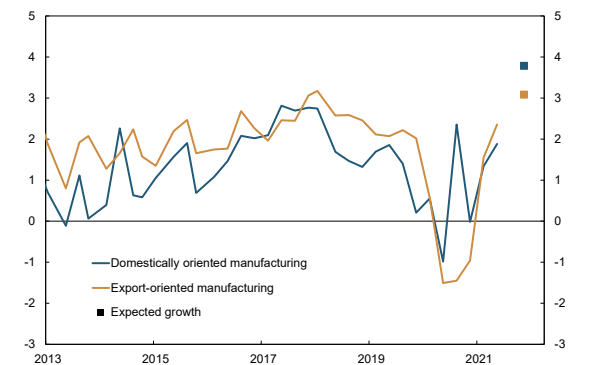
Output growth. Commercial and construction services



Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent.

Chart 8

Output growth. Manufacturing



Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent.

greater extent than previously been sold to supermarkets, where prices are substantially lower. However, this provides at the same time better opportunities for the fish processing industry. Production levels have been lower for only a few manufacturing contacts, but some contacts have had difficulties related to shipping, both with regard to obtaining factor inputs and shipping their own goods. For some, this has led to output constraints, while others have primarily faced high freight rates.

Oil service activity has increased slightly over the past three months (Chart 9), although from low levels for some contacts. Travel restrictions continue to dampen activity among many oil service enterprises. However, some have introduced new working methods that replace traditional methods to a larger or lesser extent. In any case, an easing of travel restrictions will lift activity ahead. Higher oil prices also boost oil companies' willingness to invest and oil company demand. In the Norwegian market, the tax changes presented in summer 2020 are expected to push up activity ahead. The changes have already had a slight effect on some enterprises early in the value chain, but the effect for most enterprises is not expected until 2022.

Higher capacity utilisation

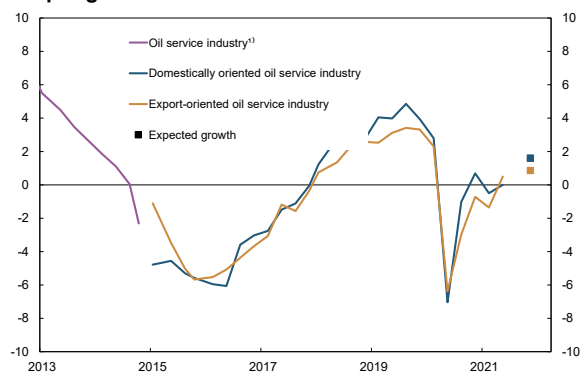
The indicator for enterprises' capacity utilisation shows the share reporting full utilisation of resources such as labour, available intermediate goods and machinery. In this survey, 36% of enterprises report full capacity utilisation (Chart 10), which is higher than in February and slightly above the historical average for the first time since the pandemic broke out in 2020. All sectors report higher capacity utilisation in this survey than in the previous survey. Construction, oil services and services enterprises are contributing most to the upward adjustment since the previous survey, with oil service contacts reporting the highest capacity utilisation (Chart 11). This reflects labour supply constraints owing to closed borders and workforce reductions in many enterprises during the pandemic.

The usual indicator for capacity utilisation shows the share reporting full utilisation of production capacity, but it does not measure the level of spare capacity in enterprises that do not report full capacity utilisation. In this survey, Norges Bank asked Regional Network contacts about capacity utilisation relative to a normal situation (Chart 12). Contacts were asked similar questions in some previous surveys, most recently in the previous survey in February. The responses indicate that fewer enterprises are now significantly below normal capacity utilisation compared with February. Approximately one-third of contacts are above normal capacity utilisation, which is more than the number with lower-than-normal capacity utilisation and higher than ever measured before.

The share of enterprises reporting labour supply constraints has risen steadily since spring 2020 (Chart 10). The indicator fell back somewhat in February, but shows a rise to 22% in this survey. Construction enterprises in particular are facing recruitment difficulties. Tight restrictions on entry into Norway are

Chart 9

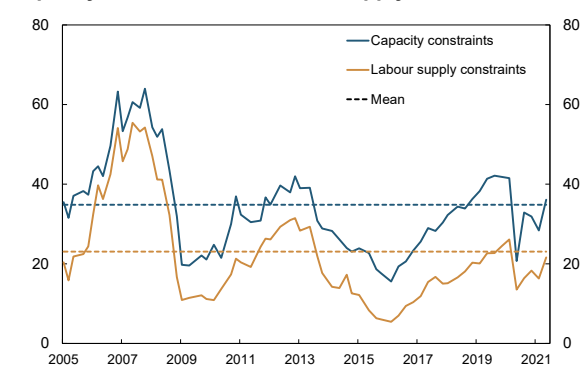
Output growth. Oil services



Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent. 1) Discontinued series.

Chart 10

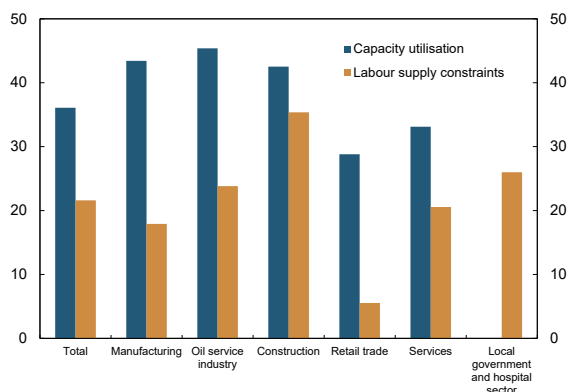
Capacity utilisation¹⁾ and labour supply constraints²⁾



Percentages. 1) Share of contacts that will face some or considerable difficulty increasing output/sales without committing additional resources, such as labour or machinery. 2) Share of contacts citing shortage of labour as a constraint on production/sales. The question about labour is posed only to the enterprises reporting full capacity utilisation, but the series shows the share of all contacts interviewed in the survey. The local government and hospital sector is not included in the capacity utilisation series, but is included in the labour force series.

Chart 11

Capacity utilisation¹⁾ and labour supply constraints²⁾. All sectors



Percentages. 1) Share of contacts that will face some or considerable difficulty increasing output/sales without committing additional resources, such as labour or machinery. 2) Share of contacts citing labour shortages as a constraint on production/sales. The question about labour is posed only to the enterprises reporting full capacity utilisation, but the series shows the share of all contacts interviewed in the survey. The local government and hospital sector is not included in the capacity utilisation series, but is included in the labour force series.

a key explanation, as well as the difficulty of recruiting project managers, engineers and different types of skilled workers.

Expected wage growth revised up

Contacts expect annual wage growth in 2021 to be 2.7% (Chart 13). The estimate has been revised up from 2.3% in February. There are small variations in wage estimates across the different sectors in this survey and many contacts point out that they follow the wage norm set in the annual wage settlement (Chart 14).

Prices for retail goods rose at a rapid pace through autumn, primarily owing to the krone depreciation in 2020. The rise in prices has been somewhat slower so far in 2021, but remains fairly high. Many contacts refer to increased commodity prices and higher freight rates. Increased demand for goods, while supply has been limited by closed factories and logistics challenges, has driven up retail goods prices. The rise in prices among household services enterprises remains weak, which may reflect reduced demand. Contacts in both retail trade and household services expect the rise in prices to remain broadly unchanged in the year ahead.

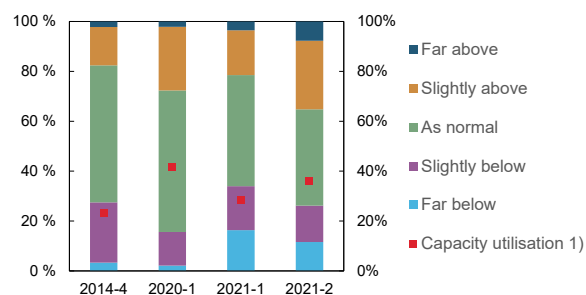
Over the past three months, profitability, as measured by operating margins, has improved compared with the same period in 2020. The improvement is primarily because this survey compares profitability with the level at the beginning of the pandemic, when many contacts experienced large income losses without being able to reduce costs as quickly. Over the past year, a number of contacts have reduced their labour costs and most have spent less money on travel and events. At the same time, the profitability of a number of enterprises continues to be weak owing to low turnover, higher commodity prices and increased costs related to containment measures. This suggests that the increase in profitability in this survey is far smaller than the corresponding fall in profitability one year ago.

New weights

The weights used for the Regional Network have been updated in this survey. The weights have been calculated based on the regional accounts, as in the previous versions. The changes in the weights have had minimal impact on survey scores. The new weights are being published together with the results of the 2/2021 survey.

Chart 12

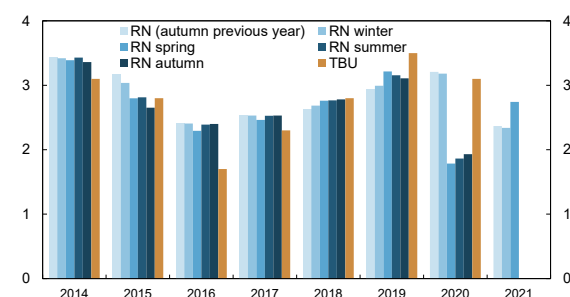
Capacity utilisation¹⁾ and capacity utilisation relative to a normal situation



Percentages. 1) Share of contacts that will face some or considerable difficulty increasing output/sales without committing additional resources such as labour or machinery.

Chart 13

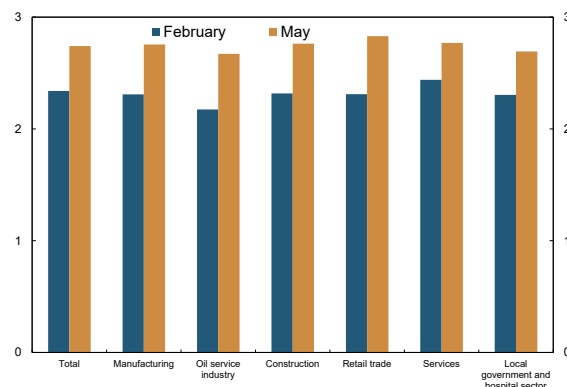
Expected annual wage growth



Technical Reporting Committee for Wage Settlements (TBU) and Regional Network (RN). Percent.

Chart 14

Expected annual wage growth



Expected annual wage growth. Percent.

TABLE 1 Economic indicators

	This survey	Previous survey
Output and demand		
Output growth past three months (annualised percentage growth)		
Total	0.9	-0.3
Domestically oriented manufacturing	1.9	1.3
Export industry	2.4	1.5
Domestically oriented oil service industry	0.0	-0.5
Export-oriented oil service industry	0.5	-1.4
Construction	-0.7	-0.9
Retail trade	-0.3	-1.6
Commercial services	1.9	1.3
Household services	0.1	-5.3
Expected output growth next six months (annualised percentage growth)		
Total	3.8	1.8
Domestically oriented manufacturing	3.8	2.3
Export industry	3.1	2.5
Domestically oriented oil service industry	1.6	-0.1
Export-oriented oil service industry	0.9	-0.5
Construction	2.6	-0.7
Retail trade	2.7	0.6
Commercial services	4.4	2.6
Household services	6.6	5.4
Labour market and output gap		
Employment growth past three months	0.3	-0.1
Expected employment growth next three months	0.7	0.3
Labour supply constraints	21.6	16.3
Capacity constraints	36.1	28.4
Costs and prices		
Estimated annual wage growth for current calendar year (percent)	2.7	2.3