

REGIONAL NETWORK

National summary

NO. 4 | 2014

INTERVIEWS WERE CONDUCTED IN THE PERIOD
13 OCTOBER - 7 NOVEMBER



NORGES BANK

NATIONAL SUMMARY

DEMAND, OUTPUT AND MARKET PROSPECTS

Network enterprises reported that output growth has been fairly moderate over the past 3 months, though growth has slowed slightly since the previous survey. Developments so far have been somewhat weaker than contacts expected in August. Lower activity in the petroleum sector in particular had a dampening effect on growth, while some growth in housing construction and rising public sector investment has helped to support growth. Overall, contacts expected growth to be fairly stable over the next 6 months, albeit somewhat weaker than expected in the previous survey. The export industry and oil industry suppliers in particular expected slower growth ahead, while contacts in construction envisaged slightly higher growth.

In this survey, contacts in *domestically oriented manufacturing* reported weak growth. Output growth was approximately the same as in August and in line with contacts' expectations. Overall, domestically oriented manufacturing expected minor changes in growth ahead. Contacts continued to report increased import competition. Several building materials manufacturers also referred to increased uncertainty in the construction sector as a consequence of the cutbacks in the petroleum sector.

Export industry contacts reported fairly moderate growth. Growth has slowed since the previous survey, in line with expectations. The petroleum industry in particular had a dampening effect on growth, although several contacts also referred to continued weak demand from European markets. Contacts reported growth in the traditional export industry, but growth was dampened by high capacity utilisation in sectors such as the fishing industry and segments of the processing industry. Overall, export industry contacts expected growth to slow further, driven in particular by weak order intake in petroleum-related exports.

The *oil industry supplier* sector reported a moderate decline in production volumes. Contacts reported that developments have been weaker than envisaged in August, citing major projects that have been postponed. Several contacts also reported that oil companies' cutbacks have had a more rapid impact than they had previously assumed. Overall, contacts expected a fairly pronounced decline in activity over the next 6 months.

Contacts in the *construction industry* reported fairly moderate growth over the past 3 months. Growth has picked up somewhat since August, approximately as expected in the previous survey. Contacts referred to increased housing construction and rising growth related to transport projects. Sustained growth in renovation and public building continued to boost activity. Contacts expected that production growth will pick up over the next 6 months, driven in particular by a further pickup in housing construction and infrastructure projects.

Retail trade reported continued moderate growth over the past 3 months. Growth in turnover volumes showed little change since August, and developments were approximately as contacts envisaged in the previous survey. Retail trade contacts expected continued stable growth over the next 6 months.

The *service sector* reported fairly moderate growth. Growth has been weaker than contacts' expectations in August. In commercial services, growth has edged down since the previous

survey, especially owing to lower demand from petroleum-related manufacturing. Service sector contacts expected approximately unchanged growth ahead, and the outlook has been revised down from August.

INVESTMENT

Contacts planned for little change in the level of investment over the next 12 months, as in the previous survey. All sectors planned for an approximately stable investment level ahead. Compared with the previous survey, manufacturing contacts have revised up their investment plans somewhat, but plans continue to be dampened by lower investment in petroleum-related manufacturing. The local government and hospital sector and retail trade have revised down their investment plans marginally compared with August.

CAPACITY UTILISATION AND LABOUR SUPPLY

The share of network contacts reporting that they would have some or considerable difficulty accommodating a rise in demand was 23 percent, compared with 24 percent in the previous survey. Several contacts have increased capacity utilisation by reducing their workforces. Capacity utilisation has slowed in the service sector and picked up in manufacturing and in construction. In retail trade, capacity utilisation has shown little change since August.

The share of network contacts citing labour supply as a constraint on activity was 13 percent, down from 17 percent in the previous survey. Manufacturing and services in particular reported that labour supply has improved. For the other sectors, labour supply showed little change.

EMPLOYMENT AND LABOUR MARKET

Overall, employment has shown weak growth over the past 3 months, lower than contacts' expectations in August. Most sectors reported little change in employment levels. Overall, contacts still expected little change in employment levels over the next 3 months. Manufacturing and construction sector contacts planned for some reduction in employment, while employment was expected to remain stable in retail trade and the local government and hospital sectors. Service sector contacts expected slight growth in employment ahead.

COSTS, PRICES AND PROFITABILITY

Contacts estimated that annual wage growth in 2014 would be slightly above 3¼ percent, approximately as in the previous survey. For 2015, contacts expected annual wage growth of slightly below 3¼ percent. Services and the local government and hospital sector reported the highest estimates, of 3¼ percent, while the other sectors estimated wage growth of slightly above 3 percent. Contacts thought that improvements in the labour supply and weaker growth prospects in the Norwegian economy might dampen wage growth.

The rise in prices has been fairly moderate over the past 12 months, and was slightly lower than in August. The rise in prices has edged down in household-oriented industries and in construction and domestically oriented manufacturing. Slightly more than half of the contacts expected the rise in prices to slow ahead. Retail trade envisaged a somewhat higher rise in prices over the coming year, and a number of contacts referred to the weak krone exchange rate.

Network contacts as a whole reported a weak improvement in margins, slightly lower than reported in August. Oil industry suppliers and service sector contacts reported a decline in

margins, while construction sector contacts reported that margins were virtually unchanged. Profitability for the other sectors was reported to have increased.