

REGIONAL NETWORK

National summary

NO. 3 | 2015

INTERVIEWS WERE CONDUCTED IN THE PERIOD
10 AUGUST - 27 AUGUST



NORGES BANK

SUMMARY

DEMAND, OUTPUT AND MARKET PROSPECTS

Output growth has been weak over the past 3 months. Growth was little changed from May, in line with expectations in the previous survey. Output has fallen at a faster pace in the oil service sector and commercial services. In construction, output growth has slowed, while growth has picked up in household-oriented industries and traditional manufacturing. Overall, network contacts envisaged little change in activity levels over the next 6 months. The fall in oil prices and lower activity in the petroleum industry have weakened growth prospects in most sectors, but retail trade and the export industry expected continued moderate growth.

Contacts in *manufacturing* have experienced moderate output growth. Also in this survey, growth was strongest in the export industry. Enterprises referred to improved competitiveness owing to the weaker krone and increased demand from European and US markets. Sector contacts as a whole expected somewhat lower growth over the next 6 months. Some enterprises expected that uncertainty surrounding developments in China would dampen Norwegian export growth. In domestically oriented manufacturing, growth has continued to increase since May. Growth was primarily generated by infrastructure development, but several contacts also reported higher demand from traditional Norwegian manufacturing. Contacts in domestically oriented manufacturing expected the pace of growth to slow slightly over the next 6 months. The building materials industry in particular expected weaker developments ahead. Enterprises expected the decline in the petroleum industry to result in lower growth in housing construction and fewer commercial building projects.

The *oil service sector* reported a substantial fall in output. The decline has gathered pace since May and has been more pronounced than expected. Enterprises reported that both Norwegian and foreign oil companies have introduced extensive savings measures. Enterprises expected a continued decline in activity ahead, with prospects overall little changed since the previous survey. Contacts envisaged that activity could fall more in the export market than in the domestic market. Several enterprises expected that Johan Sverdrup will dampen the fall in production on the Norwegian continental shelf.

Contacts in the *construction industry* reported weak growth over the past 3 months. Growth has slowed slightly since May, and has so far been weaker than expected in the previous survey. Regional differences have increased, with housing and private sector commercial construction in southern and western Norway in particular curbing growth. Contacts reported solid growth in public sector construction projects. Enterprises expected that rising activity growth related to public sector transport projects will contribute to stronger growth over the next 6 months.

In *retail trade*, turnover volume has risen moderately over the past 3 months. Growth was slightly stronger than in the previous surveys. Contacts expected little change in growth ahead.

Service sector contacts continued to report zero growth, approximately as in the previous survey. Commercial services experienced somewhat lower activity, and the decline has intensified since May. Contacts cited weaker demand, particularly from oil-related enterprises. Several contacts also referred to increased competition from foreign companies, and some reported relocating functions abroad. Prospects have weakened since May, and enterprises

envisaged a slightly more pronounced decline in activity ahead. Growth has been moderate in household services. Parts of the tourism industry reported growth in demand, partly owing to a weaker krone. Enterprises expected somewhat lower growth ahead, relating the slowdown to increased uncertainty regarding developments in Norway.

INVESTMENT

In this survey, contacts reported plans for a weak decline in investment over the next 12 months. As in May, the steepest decline in investment ahead was planned by contacts in the oil service sector. Contacts in manufacturing and retail trade planned for some investment growth over the coming year, while the other industries expected some decline in investment.

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 19 percent. This is the lowest level since the series began in 2005. Capacity utilisation has moved down sharply in construction and among oil service sector contacts, while it has moved up considerably in manufacturing, particularly the export industry.

In this survey, 6 percent of contacts responded that labour supply was a constraint on further output growth, down from 8 percent in May. Labour supply has improved especially in construction. Other industries reported only minor changes in labour supply.

EMPLOYMENT AND LABOUR MARKET

Employment has shown little change over the past 3 months, and developments have been in line with contacts' expectations in May. Oil service contacts reported a substantially lower level of employment. In construction and in manufacturing, employment growth was weak, while the other sectors reported a virtually unchanged employment level. Over the next 3 months, contacts expected that employment overall will remain stable. Oil service contacts planned for a continued substantial reduction in employment. Construction envisaged some growth in employment, while the other sectors expected employment to remain approximately unchanged.

COSTS, PRICES AND PROFITABILITY

Contacts estimated annual wage growth in 2015 at slightly above 2¾ percent, little changed since May. The local government and hospital sector reported the highest estimate, of slightly above 3 percent, while the oil service sector reported the lowest estimate, of slightly above 2 percent. The other sectors estimated wage growth of between 2½ percent and 3 percent.

Contacts overall reported that price inflation has been low over the past 12 months. The oil service sector continued to report an accelerating decline in prices, while prices rose moderately in retail trade. Overall, contacts expected a fairly stable rise in prices over the coming year.

Network contacts as a whole reported somewhat weaker operating margins compared with the same period in 2014.