

# REGIONAL NETWORK

## National report

NO. 4 | 2021

INTERVIEWS WERE PRIMARILY CONDUCTED IN THE PERIOD  
25 OCTOBER - 11 NOVEMBER



NORGES BANK

## Continued growth – growing capacity constraints

According to Regional Network contacts, business sector activity continues to rise. The reopening of society is boosting demand, although contacts expect weaker growth ahead. Over half of the contacts report capacity constraints, which is the highest share since autumn 2007. Contacts are facing recruitment difficulties, as well as logistics challenges and shortages of intermediate goods. Looking ahead, enterprises are planning for solid growth in both employment and investment. The estimate for annual wage growth in 2021 has been revised up to 3.0%, from 2.9% in August. Contacts estimate that the wage level will rise by 3.3% in 2022.

### Survey periods and time of interviews

Since March 2020, there have been unusually large changes in Regional Network enterprises' turnover from month to month as infection rates and related restrictions change. August, September and October are the past three months, but a number of the interviews also included information from the first days of November. The data are compared with the preceding three months, ie May, June and July. The next six months refers to the period to April.

The interviews were conducted in the last week of October and the first two weeks of November. Since then, infection rates have risen substantially and both national and local Covid-related restrictions have been implemented.

Since March 2020, the Covid-19 pandemic and measures to contain it have weighed heavily on activity among Regional Network enterprises (Chart 1). The impact of reopening society has varied across sectors. In the previous survey, rising growth was reported in all sectors, but through autumn, sales volume in retail trade has declined and growth in manufacturing has slowed (Chart 2). Growth continues to be strongest in services.

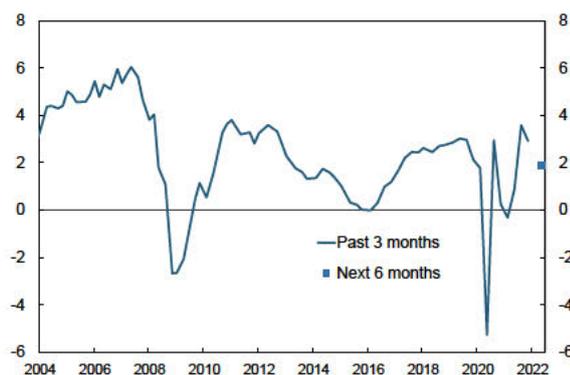
Contacts expect weaker growth through winter and spring. A number of contacts report unusual uncertainty surrounding the outlook. The uncertainty factors are primarily related to the evolution of the pandemic, raw materials shortages, freight challenges and production limitations among suppliers. In addition, many contacts expect that labour shortages and an accelerating rise in prices will restrain growth ahead. Retail trade contacts expect a further decline, while the other sectors expect growth. Services contacts also expect the strongest growth ahead, although growth is slowing. Contacts still expect growth to be strongest in commercial services.

Employment growth is at its strongest since spring 2011. Enterprises are planning for slightly weaker growth in the next three months, but still expect employment to be higher than the levels observed in the years prior to the pandemic (Chart 3). Employment growth has been most pronounced in services, which is also the sector planning for the greatest increase in staffing ahead. At the same time, a number of contacts expect a shortage of qualified labour to dampen the increase in staffing.

At the beginning of the pandemic, Regional Network contacts made substantial cuts in their investment plans (Chart 4). Through 2021, contacts

Chart 1

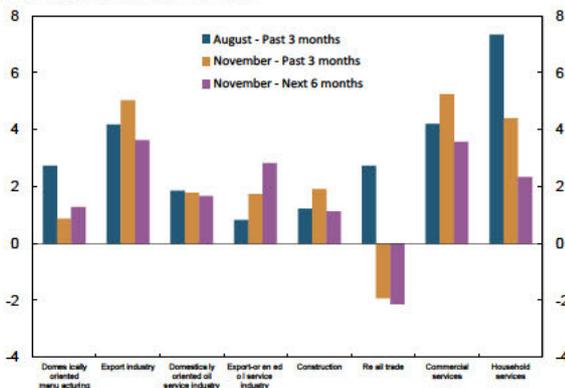
### Total output growth



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.

have gradually revised up their investment plans and now expect considerable investment growth in the coming year. All sectors are planning for higher investment levels ahead. Investment growth reflects postponed investment by many enterprises earlier in the pandemic.

### Households are buying fewer goods and more services

Sales volumes for many retail trade enterprises were at record-high levels through much of the pandemic. In line with the reopening of society, households appear to be shifting more of their demand from retail trade back to services. Sales in retail trade have therefore fallen in the most recent period, driven in part by lower turnover for groceries, home improvement and electrical goods (Chart 5). Enterprises expect sales to continue to decline ahead, and grocery trade and building materials contacts expect turnover to return to more normal levels further out, owing in part to increased cross-border trade in parts of the country. Other retail trade contacts, such as in clothing, footwear and gifts, report increasing turnover in line with an increase in the number of people returning to the office, dining out and attending in social events.

In the most recent period, the difference between demand and deliveries has been wider than normal. Certain retail segments that report declining sales are nevertheless experiencing solid demand. Electrical goods are one example, but another important example is car sales. Car sales are stable at a high level, but deliveries are declining, and contacts do not expect that delivery problems will be resolved until the latter half of 2022.

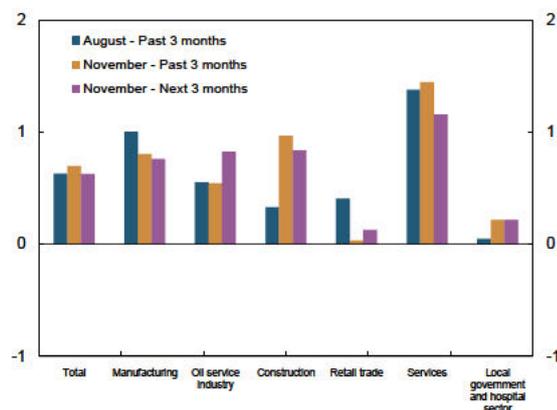
Many of the household services contacts have been hard hit by strict Covid-related measures during the pandemic. Through the summer months, a number of these contacts saw sharp growth. Further easing of Covid-related restrictions through autumn has resulted in the return of many customers to fitness centres, cinemas, restaurants and to other services that depend on people being able to gather in larger numbers. Contacts expect continued growth in household services, albeit at a slower pace. Contacts expect travel activity to pick up further in the period ahead but indicate that uncertainty is considerable. Estate agents report a decline in activity in the most recent period and that the market is now more subdued, partly owing to prospects for lower house price inflation and higher interest rates.

### Higher public and private sector demand

Commercial services have seen greater demand over the past three months, and growth in activity has picked up since the previous survey (Chart 6). The reopening of society is the main growth driver, and demand for marketing and staffing services has increased sharply. Many projects by both private and public entities that were halted during the pandemic are now well underway again. Contacts report increasing activity related to infrastructure development, projects to become more eco-friendly and not least digitalisation projects, for example. This boosts orders for technical

Chart 3

### Employment growth



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

Chart 4

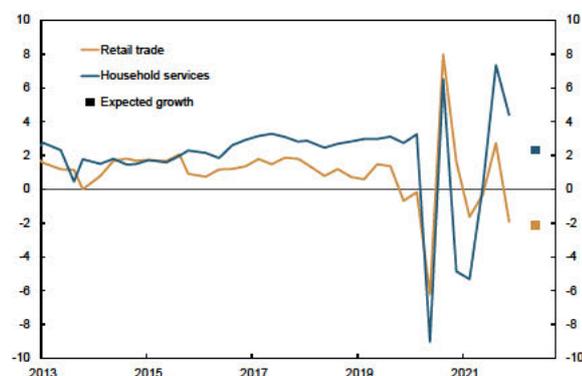
### Investment growth



Expected growth next 12 months. Percent.

Chart 5

### Output growth. Retail trade and household services



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

consultancy and IT services, which continue to report strong growth. Other sectors, such as legal and banking, are also showing positive developments.

Over the past three months, turnover among hotels, restaurants and canteens has also picked up sharply. While household customers accounted for the sharpest turnover growth for hotels in the previous survey, in this survey, corporate customers contribute the most to turnover growth. The business sector has now started spending on events, courses and conferences, but air travel and hotel occupancy rates are still at far lower levels than prior to the pandemic. Contacts do not expect that corporate customer demand will increase to the same extent ahead.

Growth in construction activity picked up through autumn, but the outlook indicates that growth will fall back over the next six months. Growth has been most pronounced among construction contractors in this survey. A number of contacts report that higher public demand and large infrastructure projects are driving developments. With regard to new building, a number of contacts expect that owing to higher construction costs and signals of higher interest rates, customers are more hesitant. Some contacts see signs of a slowdown in residential construction. Demand has shifted more towards renovation and less towards new building starts, contributing to cautious estimates about the period ahead.

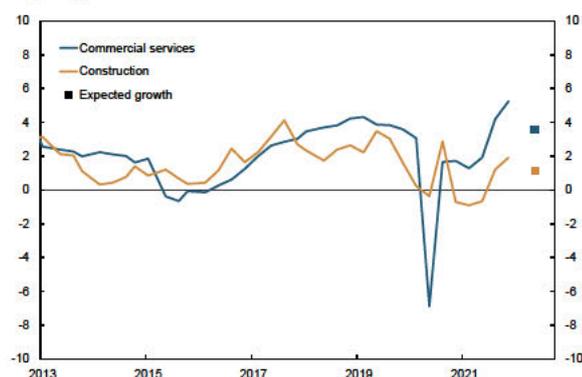
#### Growth has edged lower in manufacturing

Output growth in manufacturing picked up in the three previous surveys but has fallen back somewhat through autumn. Growth in domestically oriented manufacturing has slowed, while growth in the export industry has continued to rise (Chart 7). The reopening of society in large parts of the world was the most important reason for the pick-up in growth. Government stimulus in many countries is boosting growth, and a number of enterprises have strengthened their competitive position because external competitors have had to halt production periodically during the pandemic. Fisheries contacts report strong growth over the past three months. Moreover, increased opportunities for travelling to onsite locations and addressing considerable deferred maintenance are contributing to growth for a number of manufacturing enterprises. On the other hand, some contacts describe the market as hesitant because of very high raw materials prices. Growth in the building materials industry has slowed through autumn, and contacts believe that this partly reflects a sharp rise in selling prices. An unusually large share of manufacturing contacts report capacity constraints, which are reducing opportunities for further growth. High raw materials prices and long delivery times will likely dampen growth ahead, in both domestic and export markets.

Among oil service enterprises, activity has recently increased, and growth has picked up somewhat since August (Chart 8). In recent years, many oil service enterprises have shifted towards other markets, such as renewable energy. For these contacts, the increase in new orders is sharper in new markets than in the traditional petroleum markets.

Chart 6

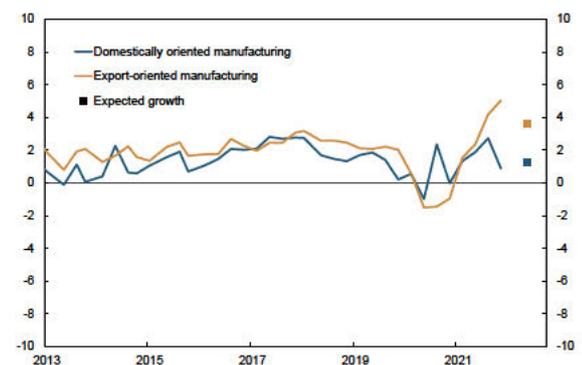
#### Output growth. Commercial and construction services



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

Chart 7

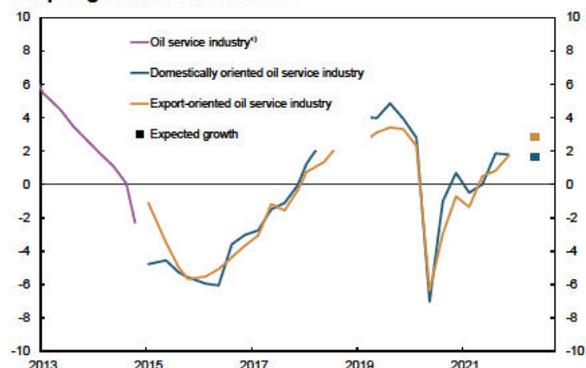
#### Output growth. Manufacturing



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

Chart 8

#### Output growth. Oil services



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

## Special topic on capacity constraints and cost pressures

In this survey, enterprises were asked additional questions about capacity constraints and cost pressures. Charts for the special topic "[Capacity constraints and cost pressures](#)" illustrate the most important findings.

### The majority of contacts report capacity constraints

In this survey, 55% of contacts report full utilisation of resources such as labour, available intermediate goods and machinery (Chart 9), an increase from 46% in the previous survey and the highest level since autumn 2007. Capacity constraints are most widespread among manufacturing contacts and service enterprises, but it is in retail trade that the share is most pronounced relative to its historical average (Chart 10).

It has become more difficult for enterprises to find employees with appropriate qualifications, and recruitment difficulties are limiting activity for 40% of contacts. Recruitment difficulties are most pronounced for service enterprises, but they are unusually pronounced in all sectors. Even though national borders have been opened, recruiting from abroad is still difficult. Many foreign workers went back to their home countries earlier in the pandemic and will now not be returning to Norway. Enterprises are seeking cooks, drivers and craftsmen, for example. The shortage of technical and digital skills also appears to have become even more pronounced.

In addition to recruitment difficulties, contacts have problems obtaining intermediate goods. Both transport problems and production bottlenecks among suppliers and competition for intermediate goods have picked up through the pandemic (Chart 3 in the special topic "[Capacity constraints and cost pressures](#)"). This results in longer delivery times and in some cases reduced activity. Among the contacts that report unusual capacity constraints, most responded that they expect them to last between six and twelve months (Chart 4 in the special topic "[Capacity constraints and cost pressures](#)"). Many contacts also expect the constraints to last between one and two years.

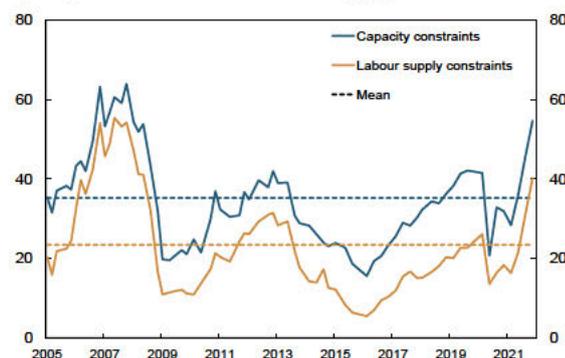
### Higher wage growth in 2022

Contacts expect annual wage growth in 2021 to be 3.0% (Chart 11). The estimate has been revised up from 2.9% in August. Contacts expect wage growth of 3.3% in 2022. Services contacts expect the highest wage growth in 2022 and estimate that wage levels will rise by 3.5% (Chart 12). The other sectors expect wage levels to rise by between 3.1% and 3.3%. Contacts expect that substantial labour shortages and expectations of an accelerating rise in prices will pull up wage growth.

High freight rates and raw materials prices lead to an accelerating rise in prices, even though the appreciation of the krone dampens some of the effect. The very high freight rates have a particular impact on large-volume, low-value goods. Three out of four enterprises report a higher rise in costs than normal (Chart 5 in the special topic "[Capacity constraints and cost pressures](#)") and the share is highest in construction and manufacturing. Thus,

Chart 9

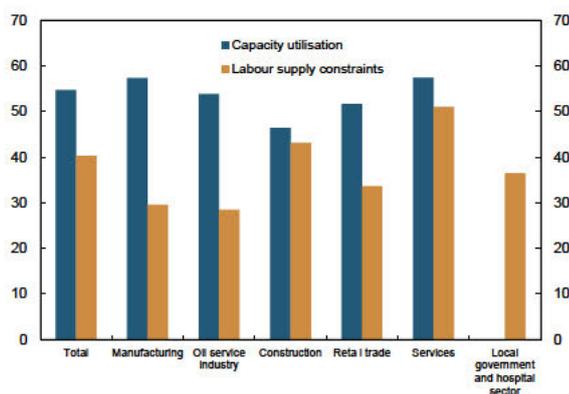
### Capacity utilisation<sup>1)</sup> and labour supply constraints<sup>2)</sup>



Percentage shares. 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 asked only of the enterprises reporting full capacity utilisation, but the series shows the share of all contacts included in the interview period. The local government and hospital sector is omitted from the capacity utilisation series, but is, however, included in the labour force series.

Chart 10

### Capacity utilisation<sup>1)</sup> and labour supply constraints<sup>2)</sup>. All sectors



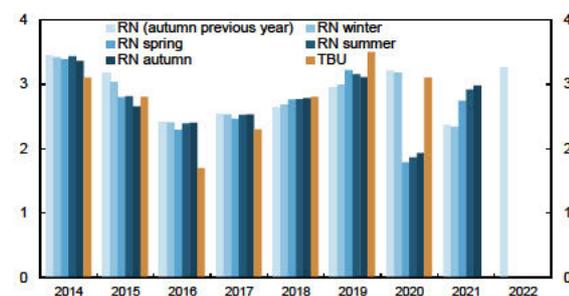
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prices increased the most in these industries. The rise in prices in retail trade has slowed slightly since the previous survey, partly driven by lower prices in the grocery trade. On the other hand, the rise in prices remains higher than normal, and the majority of retail trade contacts expect the rise to be higher over the next 12 months. Much of the stock sold from shops had been bought prior to the extraordinary cost increases. Enterprises therefore expect that selling prices ahead will increasingly reflect the recent rise in costs ahead. Household services contacts have also markedly increased their prices, partly to cover higher intermediate goods prices, but also because of higher demand. Like retail trade contacts, household services contacts expect that their prices will rise more ahead.

Profitability has risen more this autumn than in autumn 2020 on account of higher sales volume. The rate of improvement in profitability has declined since the previous survey, partly owing to weaker profitability in summer 2020 than in autumn 2020. A large number of enterprises also report a sharp rise in costs that they have not been able to pass on in full to their selling prices.

Chart 11

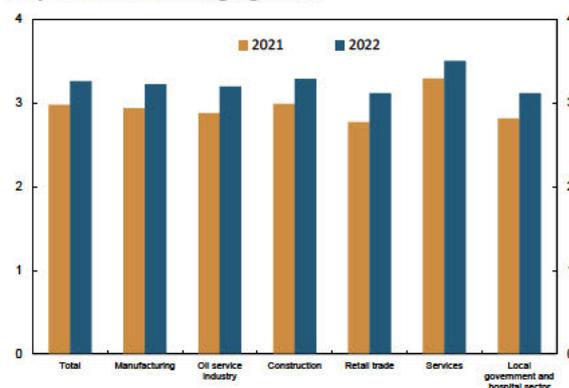
Expected annual wage growth



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

Chart 12

Expected annual wage growth



Expected annual wage growth. Percent.

**TABLE 1 Economic indicators**

	This survey	Previous survey
<b>Output and demand</b>		
<b>Output growth past three months (annualised percentage growth)</b>		
Total	2.9	3.6
Domestically oriented manufacturing	0.9	2.7
Export industry	5.0	4.2
Domestically oriented oil service industry	1.8	1.9
Export-oriented oil service industry	1.7	0.8
Construction	1.9	1.2
Retail trade	-1.9	2.7
Commercial services	5.2	4.2
Household services	4.4	7.3
<b>Expected output growth next six months (annualised percentage growth)</b>		
Total	1.9	3.3
Domestically oriented manufacturing	1.3	2.4
Export industry	3.6	2.9
Domestically oriented oil service industry	1.7	1.6
Export-oriented oil service industry	2.8	1.6
Construction	1.1	1.2
Retail trade	-2.1	-0.7
Commercial services	3.6	5.2
Household services	2.3	6.9
<b>Labour market and output gap</b>		
Employment growth past three months	0.7	0.6
Expected employment growth next three months	0.6	0.6
Labour supply constraints	40.3	31.2
Capacity constraints	54.7	45.7
<b>Costs and prices</b>		
Estimated annual wage growth for current calendar year (percent)	3.0	2.9
Estimated annual wage growth for next calendar year (percent)	3.3	