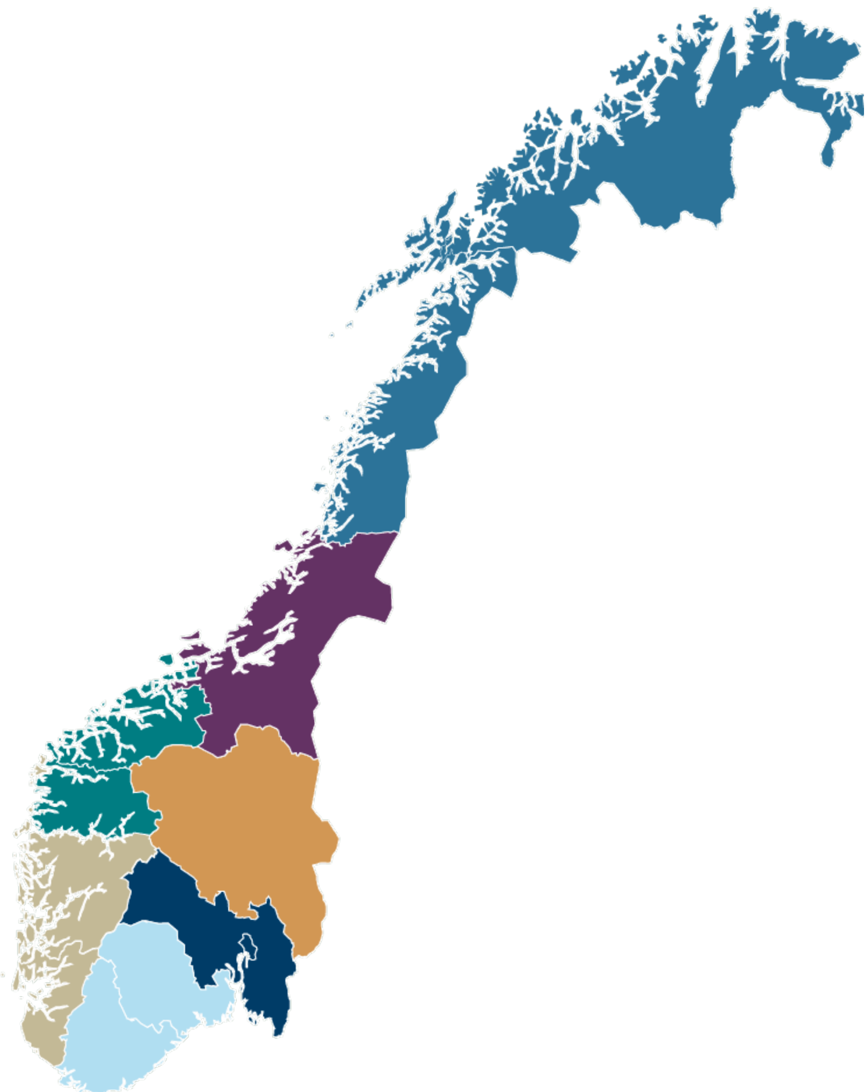
REGIONAL NETWORK

National report

NO. 3 | 2020

INTERVIEWS WERE PRIMARILY CONDUCTED IN THE PERIOD
3 - 21 AUGUST



NORGES BANK

Rebound in activity

The Covid-19 pandemic and measures to contain it led to a sharp fall in activity this spring. According to Regional Network contacts, activity has risen through summer. Owing in part to the relaxation of containment measures, both household and corporate demand have picked up. In addition, an unusually large proportion of Norwegians spent their holidays in Norway, which has resulted in a good summer for many household-oriented enterprises. Nevertheless, enterprises expect low activity growth over the next six months. They describe uncertainty as unusually high, and developments ahead will depend largely on infection rates and containment measures. Contacts expect a strengthened housing market, increased public investment and continued high goods consumption to sustain economic activity. On the other hand, contacts believe that low demand from other countries and from the oil sector will dampen growth ahead.

Since the previous survey, both employment and capacity utilisation have increased, while investment plans have been revised down further. The estimate for annual wage growth in 2020 is 1.9%.

The Covid-19 pandemic and measures to contain it led to a sharp decline in activity from mid-March (Chart 1). Over the past three months, activity has increased by an annual rate of 2.9%. Strong growth in retail trade and household services in particular is boosting growth, although growth was also reported in construction, domestically-oriented manufacturing and commercial services (Chart 2). However, activity among oil service enterprises and in the export industry continued to fall.

Survey period and timing

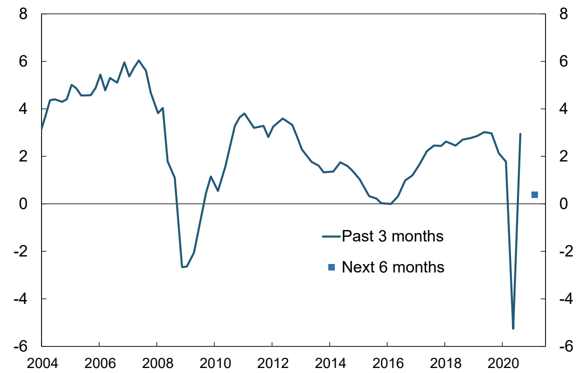
Over the past six months, enterprises' turnover has changed considerably from month to month. For many enterprises, April was the weakest month and turnover has increased gradually since then. In this interview period, the last three months are May, June and July. They are compared with the preceding three-month period, which therefore comprises February, March and April.

The interviews were conducted in the first three weeks of August, when infection rates began to rise again. The rising infection rates through the survey period may have contributed to the slightly higher optimism among contacts interviewed during the first week than those interviewed during the last two weeks.

Enterprises expect fairly weak growth ahead. They are unusually uncertain about the next six months, and for many, developments depend largely on infection rates and the containment measures implemented. Construction and commercial services expect rising activity ahead, while oil services and the export industry expect a further decline in activity. Household-oriented services also expect a lower level of activity over the next six months. In retail trade and domestically-oriented manufacturing, enterprises expect activity to remain approximately unchanged. Enterprises expect higher public investment, particularly in buildings and infrastructure, to contribute to growth. On the other hand, private sector investment is expected to fall. Contacts believe that travel restrictions will lead to continued high goods consumption, while a drop in foreign tourists will dampen activity in household services. Further, a number of contacts believe that export markets

Chart 1

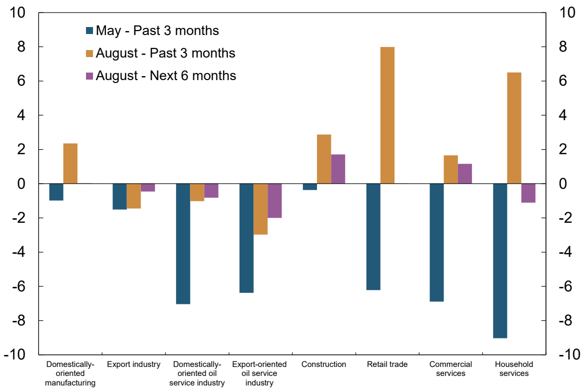
Total output growth



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 will take a long time to recover and therefore expect output to continue to fall over the next six months. New oil industry tax rules are intended to boost investment in the oil industry, and contacts expect activity to pick up gradually. Nevertheless, contacts believe that it will take time for the new tax changes to become fully effective, and they therefore anticipate a further decline in activity over the next six months.

Index

An index is used for most Regional Network survey questions. For output growth, the index ranges between -5- and +5, where -5- corresponds to a fall of at least 10% annualised and +5 corresponds to growth of at least 10% annualised. In this survey, far more contacts than before the Covid-19 pandemic reported an index of +5. Many of them experienced growth in output exceeding 10%. The opposite was the case in May, when a large share of enterprises reported a decline in output that was greater than 10%. There is therefore reason to believe that growth among enterprises is underestimated in this survey, but to a lesser extent than the underestimation of the fall in output in the previous survey. In particular, growth in retail trade and household services is underestimated. In retail trade, over half of enterprises have experienced turnover increases of at least 10% in the past three months. Among household services contacts, approximately one-third report such an increase.

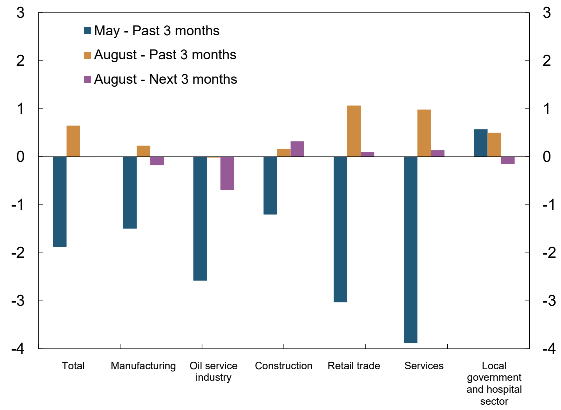
With regard to expected growth ahead, there are more expectations at both extremes than before the Covid-19 pandemic but the number expecting a substantial fall is approximately equal to the number expecting strong growth.

This spring, employment fell sharply as many enterprises furloughed parts of their workforces (Chart 3). In this survey period, employment has increased, mainly due to the return of enterprises' employees from furlough. Over half of contacts furloughed parts of their workforce in spring, while more than a quarter of enterprises still have furloughed employees today. Employment has risen less than enterprises envisaged in May, despite higher-than-expected increase in output. The strongest growth in employment was reported in retail trade and services. Employment has also increased somewhat in the other sectors. The exception is in oil services, where the level of employment has remained fairly stable. Looking ahead, enterprises expect little change in the employment level. In manufacturing, oil services and the local government and hospital sector, there are plans for workforce reductions. Construction contacts anticipate the strongest growth in employment, but the increase in staffing is expected to moderate.

In the previous survey and for the first time since 2015, enterprises planned to reduce investment in the year ahead (Chart 4). In this survey, enterprises' investment plans have been revised down further. All of the private sector industries will reduce investment ahead, with services planning for the largest reduction. Substantial uncertainty regarding the economic outlook is

Chart 3

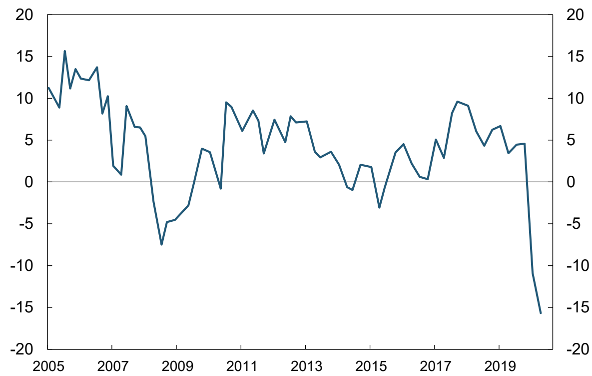
Employment growth



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

Chart 4

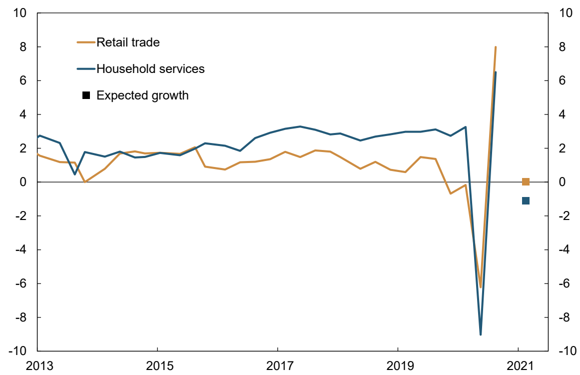
Investment growth



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 dampening the willingness to invest in office space, while expectations of low travel activity are leading to a fall in hotel investment. The local government and hospital sector is planning somewhat higher investment in the year ahead.

Household demand has increased from a low level

During the last two weeks of March, turnover fell considerably in large segments of retail trade (Chart 5). The fall continued in April, but turnover volumes recovered gradually thereafter for most retail trade enterprises. For many enterprises through summer, turnover remained above 2019 levels. Developments in grocery trade diverge slightly from most other retail trade segments as turnover increased sharply during the last weeks of March and remained at a high level through spring. During summer, turnover was also unusually high since far fewer Norwegians than usual took their holidays abroad. On the other hand, growth has slowed somewhat compared with spring, partly owing to a recovery in household restaurant dining and partly because the Swedish border was open for a few weeks in July and August. Retail trade enterprises do not expect turnover to increase further, but they do expect that the maintenance of travel restrictions will contribute to sustaining turnover volume over the next half year.

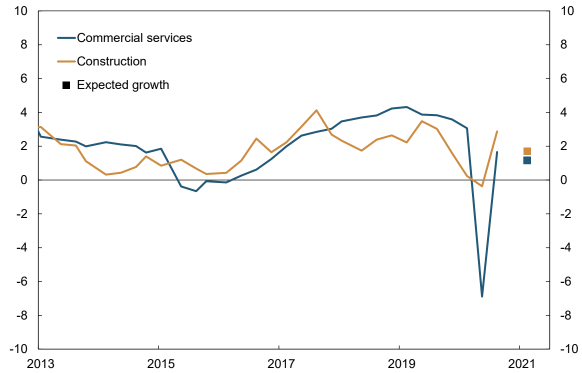
In household services, activity has increased substantially in recent months, following a sharp decline in activity in the wake of the Covid-19 outbreak. Hotels, restaurants and tourist attractions have experienced a sharp rise compared with the preceding period, albeit from very low levels. June was still below normal, while July was better for a number of enterprises. There appear to be wide regional differences, and Oslo and Bergen are emphasised as the weakest regions. Strong growth in existing, and then new, home sales has resulted in higher activity among both estate agents and banks. Uncertainty surrounding infection rates and containment measures make it exceptionally difficult for household services contacts to predict what will happen ahead.

Business and public sector demand have picked up slightly

In spring, large segments of the business sector came to a halt and many commercial service enterprises experienced a sharp decline in activity (Chart 6). Demand has now picked up and enterprises are less cautious. Many are again spending money on staffing, different types of consultancy services and marketing, for example. However, it is worth noting that few enterprises have launched new large projects in, for example, IT and real estate. The weakest developments by far are among contacts in business travel and related businesses such as hotels and conference organisers. Even though travel activity has picked up somewhat over the past three months, it remains at very low levels. Order intake among travel industry contacts is weak and enterprises envisage a recovery during 2021 at the earliest. In this survey, enterprises were asked additional questions about the impact and consequences of Covid-19 and the measures to contain it. Eight of ten

Chart 6

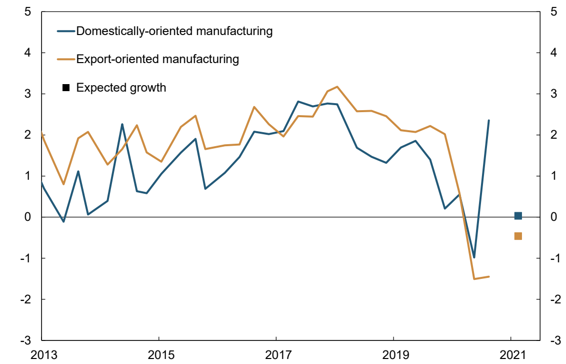
Output growth. Commercial and construction services



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

Chart 7

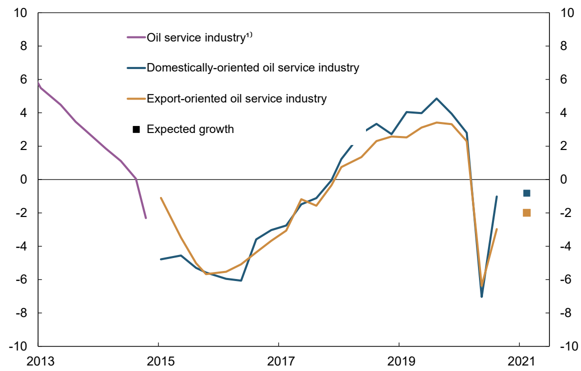
Output growth. Manufacturing



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.

contacts reported that they expect reduced travel activity in the coming year owing to Covid-19.

In construction, growth slowed through 2019 and in spring, activity fell. The decline partly reflects lower productivity at construction sites owing to containment measures. In addition, some new projects were put on hold. In May, construction contacts therefore expected activity to fall more over the subsequent six months. Instead, activity over the past three months has increased. This growth partly reflects reduced sickness absence and a relaxation of containment measures, but also new construction projects. The new projects are primarily public sector initiatives and housing starts are beginning to increase. New home sales have recently improved substantially and homebuilders believe that the number of homes under construction will increase through autumn. The willingness to invest in private commercial property, however, has virtually disappeared over the past six months, which construction enterprises believe will dampen growth ahead.

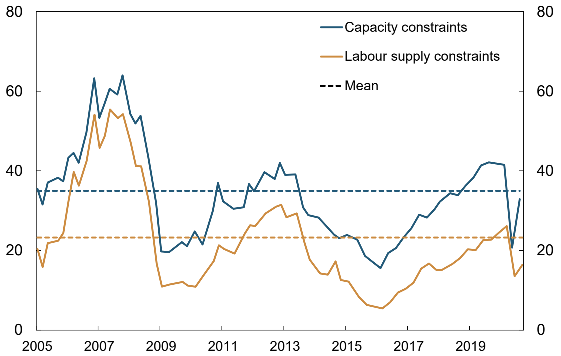
Over the past two years, growth in manufacturing has slowed, and output fell in the previous survey (Chart 7). In the past three months, output increased again somewhat, with domestically-oriented manufacturing contributing to growth. Output is being pulled up in particular by solid demand from building materials and grocery trade and a pick-up in demand from the food service segment. Output is at a high level in many segments of domestically-oriented manufacturing, and contacts believe output will remain high over the next six months.

Since March, new orders have been weak in many segments of the export industry and resulted in a further decline in output. European aerospace and automotive industries continue to face significant challenges, and production in these industries has slowed further. Travel restrictions make it difficult to follow up on projects outside Norway and many projects have been postponed. In the seafood sector, however, output volumes are fairly stable. Enterprises believe it will take time for demand in export markets to recover but expect the fall to slow in the next six months.

In the two previous years, a number of large construction projects have contributed to solid growth in the oil service industry (Chart 8). Over the past year, however, a gradual completion of these projects has had a dampening effect on growth. In spring, Covid-19 led to a sharp fall in output, and oil service enterprises envisaged even sharper falls over the next six months. Following the previous survey, oil prices have risen and containment measures have been relaxed. The latter has been of particular importance for offshore and shipyard activity. The fall over the past three months has therefore slowed. Contacts still expect a fall in activity ahead, but prospects are less negative than they were in May. The new tax rules intended to boost investment have already resulted in an increase in new orders for a number of enterprises. However, most believe that output will not be affected until 2021 at the earliest.

Chart 9

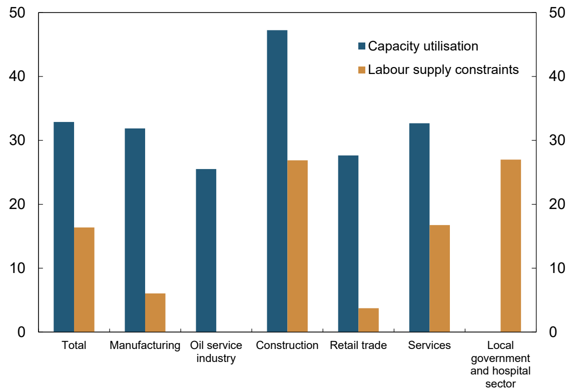
Capacity utilisation[1)] and labour supply constraints[2)]



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[1)] and labour supply constraints[2)]. All sectors



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Pick-up in capacity utilisation

The indicator for enterprises' capacity utilisation shows the share reporting full utilisation of resources such as labour, available intermediate goods and machinery. The indicator has edged up again after having fallen in May (Chart 9). Capacity utilisation is now 33%, which is slightly below the historical average. With the exception of oil service and manufacturing enterprises, capacity utilisation is higher in all sectors compared with the previous survey, and the strongest increase is in retail trade and services. Higher capacity utilisation is primarily the result of increasing activity. In addition, containment measures are capacity contraints for services such as restaurants, hotels and tourist attractions. A number of retail trade contacts have reduced their workforces to a minimum in order to cut costs and some are experiencing production and delivery delays. Close to half of construction enterprises have a high level of capacity utilisation and cite labour as a capacity contraint (Chart 10).

There are somewhat more enterprises than in May that are experiencing recruitment difficulties. Construction and the local government and hospital sector are facing the greatest recruitment difficulty. As in previous surveys, construction enterprises report problems recruiting project managers, in addition to, for example, carpenters and electricians. Among local governments and hospitals, approximately one-third are experiencing recruitment problems, and as before, with a particular shortage of nurses. The indicator has fallen the most among oil service enterprises, and none of the contacts in this sector report recruitment problems. Recruiting foreign labour has again become less difficult, and as long as there are prospects for falling output, a number of oil service enterprises will not find it necessary to increase their workforces.

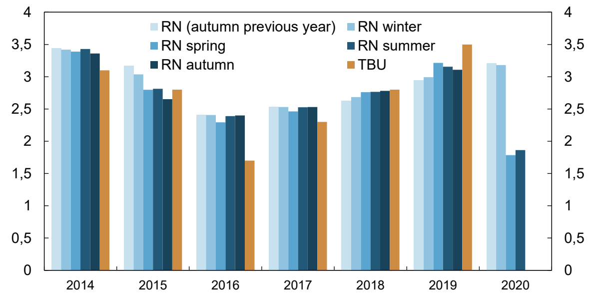
Continued low wage expectations and high inflation

Contacts expect annual wage growth in 2020 to be 1.9% (Chart 11). In May, contacts expected it to be 1.8%. A large share of enterprises have expected a zero settlement in 2020, where wage growth will only consist of the overhang from 2019. Service sector contacts report the highest estimate, at 2.0%, while oil services, again in this survey, report the lowest estimate, 1.7%. (Chart 12).

The rise in prices in retail trade has accelerated in recent months and primarily reflects the krone depreciation through winter and spring. A majority of retail trade enterprises are planning for unchanged or lower inflation ahead as they do not believe the krone depreciation will continue at the same pace. Nor do contacts believe there is scope for further price increases given all the uncertainty in the market. In household services, prices have also continued to rise. A majority of household services contacts expect unchanged or lower inflation ahead. As in the previous survey, reduced demand has resulted in lower prices in both oil services and the export industry.

Chart 11

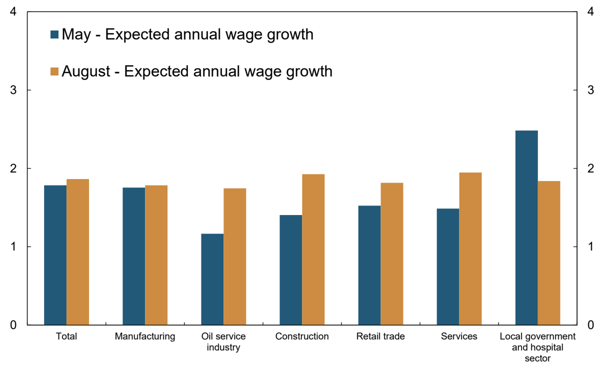
Expected annual wage growth



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
Output and demand		
Output growth past three months (annualised percentage growth)		
Total	2,9	-5,3
Domestically-oriented manufacturing	2,4	-1,0
Export industry	-1,4	-1,5
Domestically-oriented oil service industry	-1,0	-7,0
Export-oriented oil service industry	-3,0	-6,4
Construction	2,9	-0,4
Retail trade	8,0	-6,2
Commercial services	1,7	-6,9
Household services	6,5	-9,0
Expected output growth next six months (annualised percentage growth)		
Total	0,4	0,2
Domestically-oriented manufacturing	0,0	-0,7
Export industry	-0,5	-1,6
Domestically-oriented oil service industry	-0,8	-9,0
Export-oriented oil service industry	-2,0	-8,4
Construction	1,7	-2,1
Retail trade	0,0	4,1
Commercial services	1,2	0,3
Household services	-1,1	6,6
Labour market and output gap		
Employment growth past three months	0,6	-1,9
Expected employment growth next three months	0,0	0,8
Labour supply constraints	16,4	13,5
Capacity constraints	32,9	20,7
Costs and prices		
Estimated annual wage growth for current calendar year (percent)	1,9	1,8