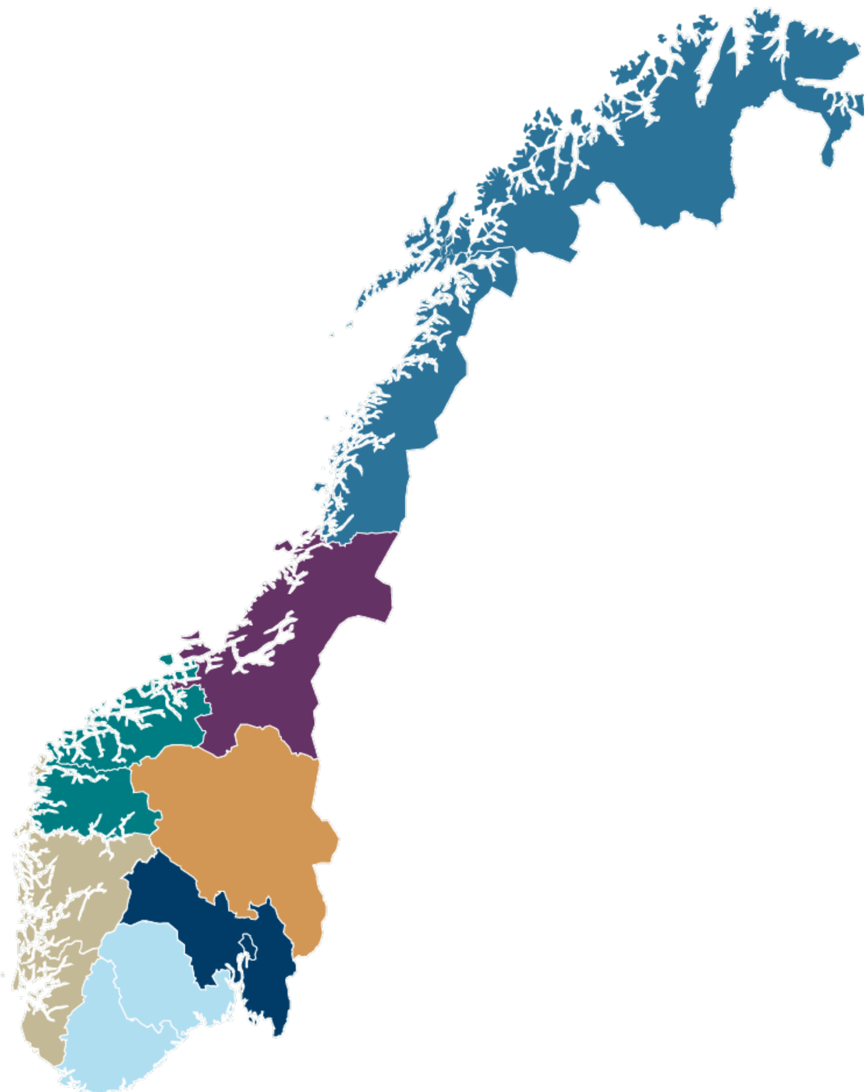
REGIONAL NETWORK

National report

NO. 4 | 2020

INTERVIEWS WERE PRIMARILY CONDUCTED IN THE PERIOD 26 OCTOBER - 13 NOVEMBER



NORGES BANK

Growth has slowed

According to Regional Network contacts, growth in the business sector has slowed through autumn. Compared with August, household services and retail trade in particular pushed down growth after unusually strong developments through summer when the relaxation of measures to contain the Covid-19 pandemic contributed to a pickup in household demand. Growth over the past three months has slowed, reflecting weak exports and reduced private commercial building construction. Stricter containment measures have also acted as a brake on growth in several sectors. At the same time, turnover in retail trade has increased further and there is demand for more services from the business sector. Contacts expect lower activity in the period ahead, but a gradual improvement towards spring. They describe uncertainty as lower than in spring, but still unusually high, and developments ahead will depend largely on infection rates and prevailing containment measures.

Since the previous survey, employment has risen somewhat, and the decline in investment plans has slowed, while capacity utilisation has fallen slightly. The estimate of 1.9% for annual wage growth in 2020 remains unchanged since August, and contacts estimate annual wage growth of 2.4% in 2021.

The outbreak of the Covid-19 pandemic and related measures to contain it led to a sharp decline in activity from mid-March (Chart 1). Through summer, activity rebounded substantially, boosted by strong growth in retail trade and household services. However, owing to a renewed rise in infection rates and stricter containment measures, growth slowed through autumn, and recently, before this interview period, some enterprises experienced falling activity levels. The overall activity level over the past three months is therefore little changed compared with the preceding three-month period. Growth has been dampened by lower activity in household services, construction, the export industry and export-oriented oil services (Chart 2). Domestically-oriented oil services, retail trade and commercial services have experienced some growth.

Chart 1

Total output growth

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

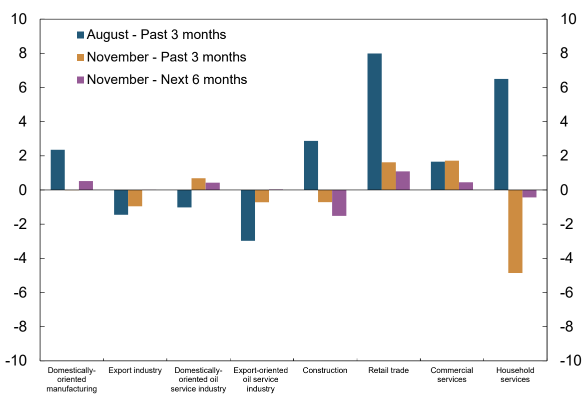
Survey period and timing

Since March, enterprises' turnover has changed considerably from month to month. In this interview period, the past three months are August, September and October. They are compared with the preceding three-month period, which therefore comprises May, June and July.

The interviews were conducted in the last week of October and the first two weeks of November when infection rates began to rise again and some business sectors had to close fully or partially. The rising infection rates through the survey period may have contributed to the slightly higher optimism among contacts interviewed during the first half of the survey period compared with those interviewed during the second half of the period.

Chart 2

Output growth. All sectors



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

Contacts expect a broadly unchanged activity level over the next six months. They are unusually uncertain about the next six months, and for many, developments depend largely on how the pandemic evolves and which containment measures are implemented. Contacts expect activity to gradually normalise ahead, and expectations of improved growth through spring 2021 in particular boost the outlook. Contacts expect higher public investment to boost growth, while private sector investment will continue to fall. Contacts believe that travel restrictions and stricter containment measures will weigh on activity in household services, but will at the same time lead to high goods consumption. Owing to steadily worsening infection rates globally, many contacts believe that export markets will take a long time to normalise, and they expect zero growth over the next six months. Oil service enterprises expect weak growth ahead following expectations of declining activity in the two previous surveys.

Index

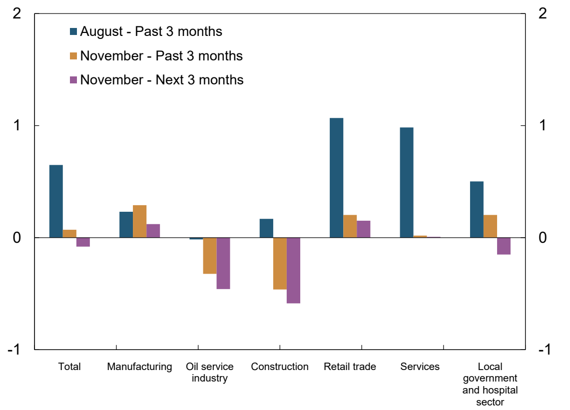
An index is used for most Regional Network survey questions. For output growth, the index ranges between -5- and +5, where -5- corresponds to a fall of at least 10% annualised and +5 corresponds to growth of at least 10% annualised. In the two previous surveys, far more contacts than before the Covid-19 pandemic reported an index of +5 and -5. Many of them experienced growth or decline in output exceeding 10%. There is therefore reason to believe that this survey has not captured the full change in enterprises' output through spring and early summer. In this survey, an unusual large number of contacts expect an unchanged activity level ahead, and the share is much higher than in previous surveys in 2020, which is probably an indication of the considerable uncertainty reported by contacts.

In the previous survey, employment increased, mainly due to the return of enterprises' employees from furlough as activity picked up in several sectors (Chart 3). Overall, employment has continued to edge up over the past three months. However, construction and oil service contacts have reduced the size of their workforces somewhat and services contacts have kept employment fairly stable. Employment has increased somewhat in the other sectors. Contacts expect a slight decrease in the employment level over the next three months, reflecting infection rates in society and new rounds of furloughs and redundancies. There are plans for workforce reductions in construction, oil services and the local government and hospital sector. Owing to new and stricter quarantine measures this autumn and a low level of orders, a number of construction contacts see a need for furloughs. Retail trade contacts anticipate the strongest growth in employment, but the increase in staffing is nonetheless expected to be moderate.

Since March, a large share of enterprises have sharply reduced investment, and in the two previous surveys, enterprises planned to reduce investment over the next 12 months compared with the preceding 12-month period. In this survey, enterprises continue to plan for a fall in investment, but the expected decline has slowed since August (Chart 4). Only oil service and service sector contacts currently expect a reduced level of investment ahead, while contacts in manufacturing, retail trade and the local government and hospital sector expect a higher level. Many enterprises have had a low level of investment over the past six-months and are not planning for a further decline in investment. In addition, some enterprises, in retail trade in particular, are now launching postponed projects. These are primarily digital projects, in addition to maintenance and upgrades. Investment in private commercial buildings continues to fall as projects are completed and few new

Chart 3

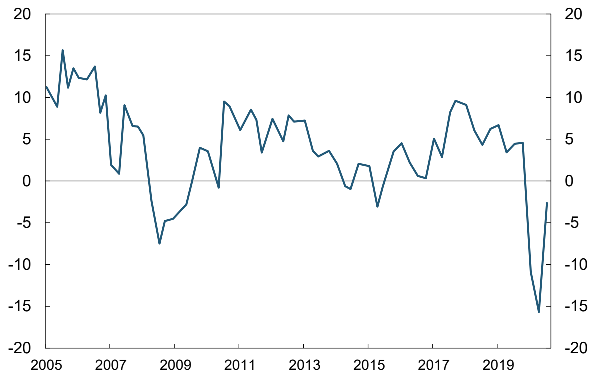
Employment growth



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

Chart 4

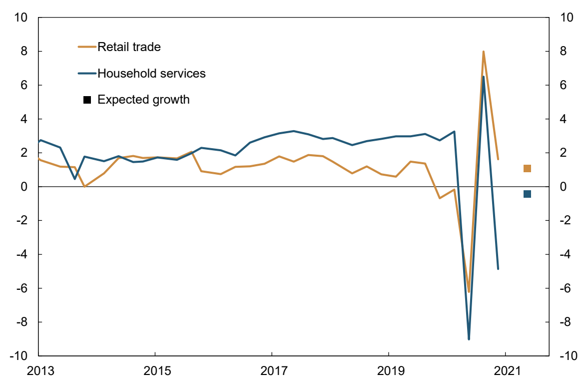
Investment growth



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 projects are being started. A number of local governments have not had the capacity to carry out all the investment they had budgeted for in 2020, which boosts investment plans for 2021.

Household demand is dampening growth the most

For many retail trade enterprises, turnover remained above 2019 levels through summer and has continued to rise through autumn, but growth has been more subdued (Chart 5). The grocery trade pushes up growth, as turnover from cross-border shopping has moved to Norwegian shops and more meals have been eaten at home. Car dealers are reporting solid demand for cars, but a shortage of cars ready for delivery is curbing sales. Turnover has also increased in specialist trades through autumn, but growth has slowed since summer. Retail trade enterprises expect turnover to increase further over the next six months, but expect growth to be somewhat weaker than previously. Grocery trade contacts are particularly optimistic. The building materials industry expects unchanged or declining turnover volume over the next six-months, but this is after turnover has increased sharply since April.

In household services, activity has fallen substantially in autumn, partly reflecting a correction after unusually strong growth in the summer months, and partly reflecting rising infection rates and stricter containment measures in recent months. Hotels, restaurants, hairdressers and passenger transport in particular have experienced a fall in growth compared with the preceding period. The largest cities are emphasised as the weakest regions. For the period to October, sales of existing and new homes have resulted in higher activity among estate agents and banks, but owing to few homes listed for sale, sales came to somewhat of a halt in November. Uncertainty surrounding infection rates and the duration of containment measures makes it exceptionally difficult for household services contacts to predict what will happen ahead.

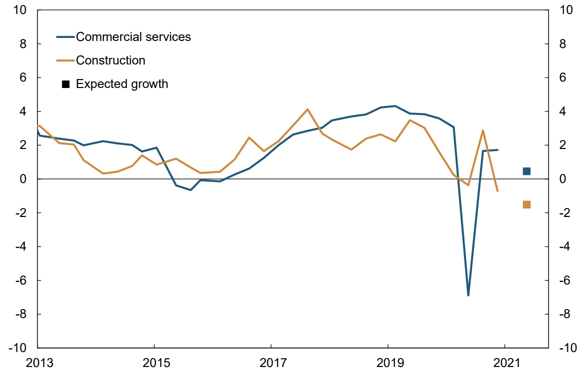
Rise in activity among commercial services enterprises

In the summer months, commercial services enterprises were less cautious, and business sector demand picked up after the steep fall in the wake of the Covid-19 outbreak in March (Chart 6). Growth has continued in this sector in recent months. As in the previous survey, demand for consultancy and IT services is solid. The purchase and sale of companies also results in higher activity. At the opposite end of the scale, the weakest developments by far are among contacts in business travel and related businesses, such as hotels and restaurants. There is considerable uncertainty surrounding developments ahead and an unusually large number of enterprises expect activity levels to remain unchanged over the next six months, including enterprises where growth has been solid in recent years, for example different types of consultancy services.

In spring, construction activity fell before rebounding this summer, in line with declining infection rates and the relaxation in quarantine measures. Growth in construction noted in the previous survey has again been

Chart 6

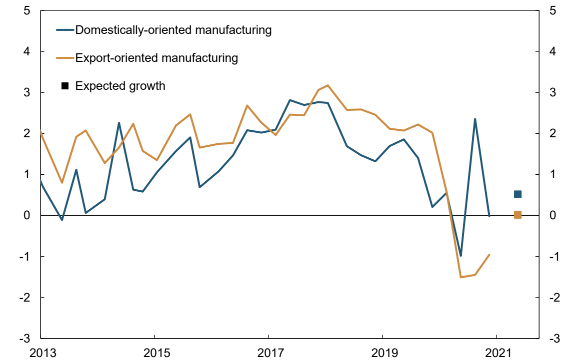
Output growth. Commercial and construction services



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

Chart 7

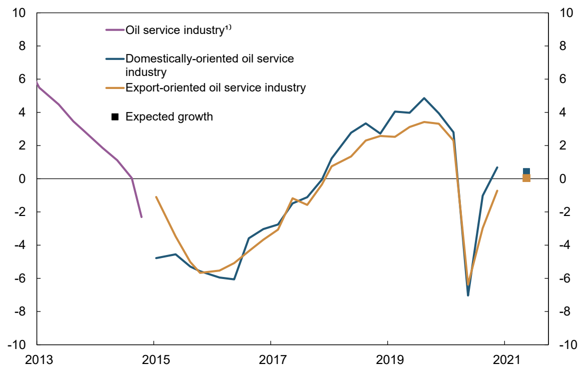
Output growth. Manufacturing



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 reversed to a fall in this survey, and contacts expect an accelerating decline in activity ahead. Private commercial building construction has almost come to a complete halt. Ongoing projects are nearing completion, but few new projects are being initiated. At the same time, owing to the new local government reform, a number of public projects have been postponed. There has also been low activity in residential construction in autumn, and there have been few housing starts after low sales figures in spring. Improved sales figures in autumn suggest, however, that housing starts will pick up ahead.

Over the past three months, manufacturing output has fallen somewhat, owing to the export industry (Chart 7). Contacts believe that it will take time for demand in export markets to normalise, but some see signs of improvement. The aquaculture sector expects that improved disease control and the introduction of new quotas will boost output through winter. In domestically-oriented manufacturing, there have been minor changes in output over the past three months, and contacts expect some growth over the next six-months. Lower demand from construction will dampen growth.

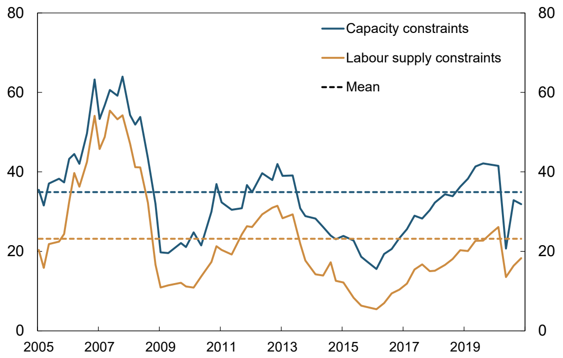
Over the past year, a gradual completion of a number of large construction projects has had a dampening effect on growth in the oil service industry, and in spring, Covid-19 led to a sharp fall in output (Chart 8). The fall slowed thereafter through summer, owing to higher oil prices and the relaxation of containment measures. Over the past three months, the decline in export-oriented oil services activity has continued, while there has been growth in domestically-oriented oil services. For several enterprises, growth is from very low levels, while others are in an intensive delivery completion phase. New tax rules for oil companies are intended to boost investment on the Norwegian shelf. It appears that these incentives are just starting to have an impact. The preliminary projects for several large projects have been launched, but no significant effect is expected before around 2022. Nevertheless, oil service contacts expect weak growth over the next six months after negative expectations in the two previous surveys.

Slight decline 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 fell sharply in March, but rose through summer (Chart 9). In this survey, 32% of enterprises report full capacity utilisation, which is slightly lower than in August and somewhat below the historical average. The difference between sectors with a high level of capacity utilisation and those with a low level has narrowed through 2020 and is now at its lowest level since 2010. This is because capacity utilisation has fallen in sectors that traditionally have high capacity utilisation, for example construction, while capacity utilisation has increased in sectors where it has traditionally been low, for example retail trade. Although construction continues to report the highest capacity utilisation, a number of enterprises have more spare capacity than in August, owing to reduced activity (Chart 10). In retail trade, there has been solid growth over the past six months, while

Chart 9

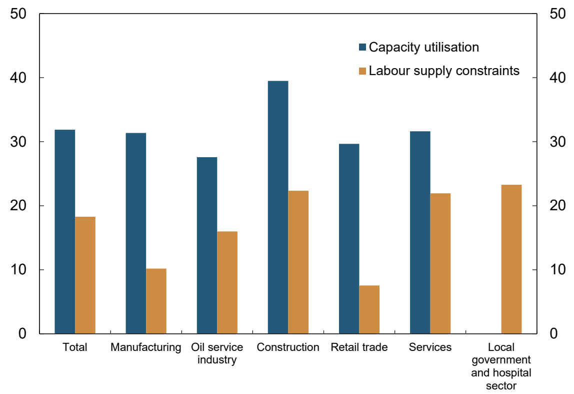
Capacity utilisation[1)] and labour supply constraints[2)]



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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employment growth has been low. Capacity utilisation has therefore risen. In addition, some retail trade enterprises are being constrained by manufacturers' long delivery times. In services, the picture is mixed: rising demand for different types of consultancy services has resulted in higher capacity utilisation, while stricter containment measures have resulted in even lower capacity utilisation in, for example, travel companies and hairdressers. In manufacturing and oil services, capacity utilisation is little changed since August.

In the two previous surveys, few enterprises report labour shortages. The share of contacts with recruitment difficulties has risen slightly since August, and in this survey 18% of contacts report that a shortage of appropriate expertise is constraining growth. As in the previous survey, construction and the local government and hospital sector have the highest share of recruitment difficulties. However, this share has fallen in both sectors, and they are now closely followed by services, where the share of contacts reporting recruitment difficulties has increased since August. The shortage of technical expertise in particular has increased.

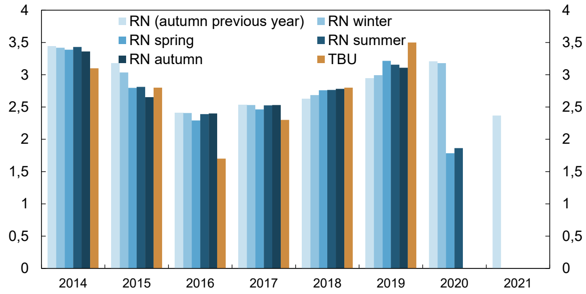
Expectations of slightly higher wage growth in 2021

Contacts expect annual wage growth in 2020 to be 1.9% (Chart 11). The estimate is unchanged since August. For 2021, contacts expect annual wage growth of 2.4%. The strongest wage growth, 2.7%, is expected by services contacts, where the estimate is being pushed up in particular by the shortage of technical expertise (Chart 12). Oil services and construction enterprises expect the lowest wage growth, 2.0% and 2.1%, respectively. Oil services contacts have reported an intensive cost focus in recent years, which will continue through 2021. However, some contacts expect a pick-up in wage growth in 2022. In construction, the estimate is affected by prospects for reduced activity and employment.

The rise in prices in retail trade picked up in the period until August, which was primarily attributed to the krone depreciation. Through autumn, this rise remained at the same high level as through summer. In addition to the krone depreciation, solid demand has resulted in lower promotional activity in parts of retail trade. Among household services enterprises, the rise in prices has slowed since summer, reflecting reduced demand. A large majority of retail trade enterprises expect moderating price increases in the coming year, while slightly more than half of household services contacts believe that they will further increase prices ahead.

Chart 11

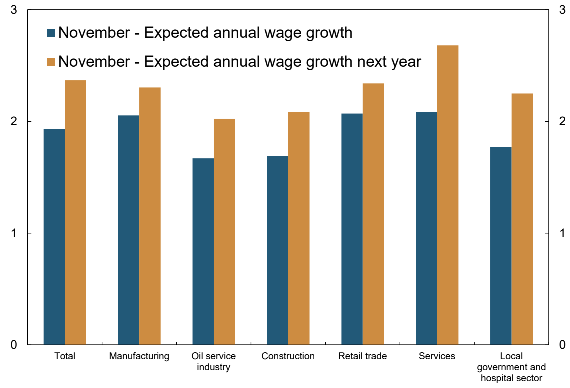
Expected annual wage growth



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	**0,3**	**2,9**
Domestically-oriented manufacturing	**0,0**	**2,4**
Export industry	**-1,0**	**-1,4**
Domestically-oriented oil service industry	**0,7**	**-1,0**
Export-oriented oil service industry	**-0,7**	**-3,0**
Construction	**-0,7**	**2,9**
Retail trade	**1,6**	**8,0**
Commercial services	**1,7**	**1,7**
Household services	**-4,9**	**6,5**
Expected output growth next six months (annualised percentage growth)		
Total	**0,2**	**0,4**
Domestically-oriented manufacturing	**0,5**	**0,0**
Export industry	**0,0**	**-0,5**
Domestically-oriented oil service industry	**0,4**	**-0,8**
Export-oriented oil service industry	**0,0**	**-2,0**
Construction	**-1,5**	**1,7**
Retail trade	**1,1**	**0,0**
Commercial services	**0,5**	**1,2**
Household services	**-0,4**	**-1,1**
Labour market and output gap		
Employment growth past three months	**0,1**	**0,6**
Expected employment growth next three months	**-0,1**	**0,0**
Labour supply constraints	**18,3**	**16,4**
Capacity constraints	**31,9**	**32,9**
Costs and prices		
Estimated annual wage growth for current calendar year (percent)	**1,9**	**1,9**
Estimated annual wage growth for next calendar year (percent)	**2,4**	