

REGIONAL NETWORK

National summary

NO. 2 | 2015

INTERVIEWS WERE CONDUCTED IN THE PERIOD
20 APRIL - 12 MAY



NORGES BANK

SUMMARY

DEMAND, OUTPUT AND MARKET PROSPECTS

Output growth has been weak over the past 3 months. Growth has slowed since January, and has been lower than contacts' expectations. Many contacts referred to falling demand from oil-related enterprises, and several reported that uncertainty regarding oil price developments ahead had a dampening effect on activity. Growth has slowed slightly in traditional manufacturing, especially in the export industry. Household-oriented industries reported stable growth. Overall, network contacts envisaged continued weak growth ahead. Prospects were somewhat weaker than in January.

Contacts in *manufacturing* reported moderate output growth. Export industry enterprises experienced the strongest growth and referred to improved competitiveness owing to a weaker krone. Some contacts also reported growth in demand from the US market. Furthermore, several enterprises reported that they were increasing production capacity. Export industry enterprises expected a further pick-up of growth ahead. In domestically-oriented manufacturing, the building materials industry in particular reported increased growth since January. Contacts in domestically-oriented manufacturing expected the pace of growth to slow again slightly over the next six months.

The oil service sector reported a marked fall in output. The decline was more pronounced than contacts envisaged in January, with domestically-oriented output falling more than export-oriented output. In particular, enterprises reported declines in exploration, new field development and in operation, maintenance and modification of existing fields. A lower level of activity was also reported in offshore vessel construction, rig maintenance and offshore services and equipment manufacturing. A declining order backlog contributed to expectations of a continued marked fall in output over the next 6 months. Contacts assessed growth prospects as weaker than in the previous survey.

Contacts in the *construction industry* reported moderate growth over the past 3 months. Growth has picked up slightly since January, and has so far been stronger than expected in the previous survey. Contacts overall reported rising growth in housing construction, but indicated that there were considerable regional differences. Growth in public sector construction projects remained solid, but contacts reported that foreign contractors continue to take increased market share. Contacts expected moderate growth over the next 6 months, and several contacts envisaged rising growth in housing construction.

Retail trade reported continued moderate growth over the past 3 months. Growth was slightly stronger than expected in January, but contacts expected growth to edge down again over the next 6 months.

Service sector contacts overall reported that the level of activity over the past 3 months was virtually unchanged. Commercial services reported somewhat lower activity, with the hotel and restaurant industry and enterprises providing transport and consultancy services contributing in particular to the decline. Several of these contacts explained the decline by stating that they now noticed spillover effects of oil sector cost reductions. Commercial services expected a

further fall in output over the next half-year. Household services have experienced moderate growth, and contacts expected growth to remain steady ahead.

INVESTMENT

Contacts reported plans for weak investment growth over the next 12 months. As in January, strongest investment growth ahead was planned by contacts in the local government and hospital sector. The oil service sector planned for a marked reduction in the level of investment, while the other industries planned for some investment growth.

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, approximately as in the previous survey. Capacity utilisation has edged down in manufacturing. Among oil service and construction sector contacts, capacity utilisation was in line with the level in January.

In this survey, 8 percent of contacts responded that labour supply was a constraint on further output growth, the lowest level since the series began in 2005. In the previous survey, the share was 12 percent. Labour supply has improved especially in construction and the local government and hospital sector. Other industries report that labour supply continues to be ample.

EMPLOYMENT AND LABOUR MARKET

Employment has fallen slightly over the past 3 months, and developments have been weaker than contacts envisaged in January. Oil service, manufacturing and services sector contacts reported a lower level of employment, with the most pronounced decrease in the oil service sector. In construction, employment growth was marginal, while the other sectors reported an unchanged employment level. Overall, network contacts expected a further decline in employment over the next 3 months. Oil service contacts planned for a substantial reduction in employment, while the local government and hospital sector planned for a marginal decrease. Construction envisaged some growth in employment, while the other sectors expected employment to remain approximately unchanged ahead.

COSTS, PRICES AND PROFITABILITY

Contacts estimated annual wage growth in 2015 of about 2¾ percent. The estimate was revised down from January, when contacts expected wage growth of around 3 percent in 2015. The local government and hospital sector reported the highest estimate, of 3¼ percent, and the oil service sector the lowest estimate, of 2¼ percent. The other sectors estimated wage growth of between 2½ percent and 2¾ percent.

Price inflation has been low over the past 12 months and was little changed since the two previous surveys. The rise in prices was highest in retail trade and commercial services. The oil service sector reported a marked fall in prices. Overall, contacts expected a fairly stable rise in prices over the coming year.

Network contacts as a whole reported reduced operating margins, compared with a slight improvement in the previous survey.