

REGIONAL NETWORK

National report

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INTERVIEWS WERE CONDUCTED IN THE PERIOD
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NORGES BANK

Stronger growth

Regional Network contacts report that output growth has picked up since February. Growth over the past three months is the highest since autumn 2012. Activity is increasing most in the oil service sector, services and construction, but has also picked up in retail trade. Higher oil investment, purchases of technology-related services and large-scale public investment are the strongest contributors to growth. Capacity utilisation and employment have increased further and more enterprises report difficulty recruiting qualified labour. Contacts have revised up their estimate for annual wage growth in 2019 to 3.2%. Enterprises expect output growth to remain firm ahead and are planning for solid investment growth.

Strong growth in output and employment

Output growth has picked up over the past year among Regional Network enterprises, and in this survey, they report annual output growth of 3% (Chart 1). Growth has increased in most sectors, and was highest in oil services sector, services and construction (Chart 2).

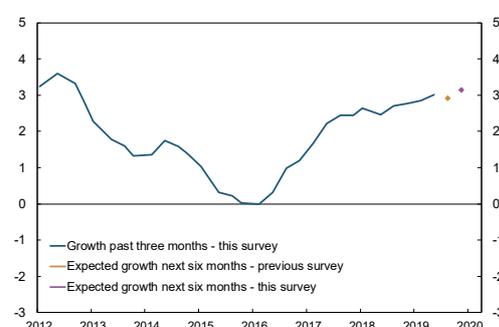
At the same time, the strong growth in employment continues. Since the beginning of 2018, employment has increased by between 0.4% and 0.5% per quarter and enterprises expect corresponding growth through summer. Employment growth was reported in all sectors except retail trade, where the number of employed has shown little change over the past year (Chart 3). Higher oil investment, purchases of technology-related services and large-scale public investment are particularly lifting growth in output and employment.

The first time that oil services reported output growth after the fall in oil prices was in January 2018, and growth has picked up in every survey since. Higher oil prices have contributed to increased activity among oil companies, and solid growth is reported in oil services, both in Norway and abroad. Growth in the domestic market has shown little change since the previous survey, while growth in the export market has picked up. Enterprises expect growth in both markets to pick up in the next six months. Even if oil services report rising demand, at the same time, the impression is that the oil industry is focusing on keeping costs low.

Higher activity in the oil industry also has positive spillovers to the rest of the business sector, particularly for services, which have reported strong growth over the past two years. Commercial services also report strong demand for consultancy services. Among enterprises there is widespread demand for assistance in adapting to changes such as digitalisation and new requirements and regulations. At the same time, the communications industry is feeling the impact of changes in media habits, and the transport sector is changing in pace with the strong growth in online shopping.

Chart 1

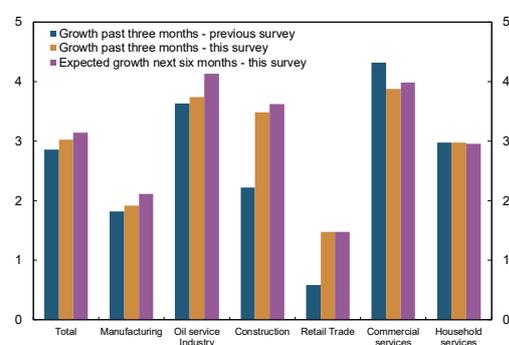
Total output growth



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

Chart 2

Output Growth. All sectors



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

In construction, large-scale road and rail investment is still largely driving growth. At the same time, demand for new housing is solid in eastern Norway, where residential construction has now begun to pick up again since the decline in prices in 2017. Elsewhere in the country there are signals of a more saturated housing market, and in some areas the housing market is still affected by the repercussions of the fall in oil prices. Few contacts believe that policy rate hikes have so far had a significant impact on housing demand, but many expect higher interest rates ahead to have a dampening impact on home sales. In addition, a comprehensive register of unsecured debt will be in place in summer and many are anxious about its potential impact on household access to credit. Demand for office space is rising, particularly in Oslo, but contacts report little growth in commercial construction so far.

Growth in retail trade has been weak over the past year, but favourable weather in April and large deliveries from electric car manufacturers have contributed to a rise in recent months. Low growth in the grocery trade and trade leakages to foreign online retailers are nevertheless still cited as considerable underlying challenges. At the same time, a growing number of retail trade contacts report that they are investing in developing and improving their own online shopping solutions in order to meet the competition from abroad. A number of contacts also point out that market trends like sustainability and recycling are also having a dampening effect on consumption growth, particularly among youth, but environmental considerations so far do not appear to be reducing Norwegians' travel activity.

Overall manufacturing growth has shown little change over the past year. The food industry has reported the weakest developments, partly as a result of weak growth in the grocery trade. In the export industry, growth has slowed somewhat since the turn of the year. At the same time, only a small number of enterprises report that the uncertainty surrounding Brexit or the trade tensions between the US and China have weighed on activity. In the longer term, some nevertheless fear that increased protectionism will curb demand for Norwegian export goods. Some also cite the greater attention to environmentally-friendly products and manufacturing processes.

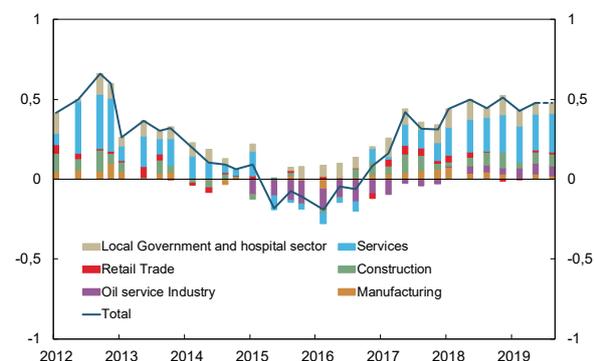
Further investment growth

Contacts have expected solid investment growth since spring 2017, and they plan for solid investment growth also next year. All sectors expect increased investment, but the local government and hospital sector expects the strongest growth.

The municipality mergers taking place in 2020 appear to be giving a boost to local government sector investment in 2019, while some large construction projects are lifting growth in hospital investment. At the same time, capacity expansion in the private sector is needed in response to the upturn in the

Chart 3

Employment growth. Growth contribution per sector



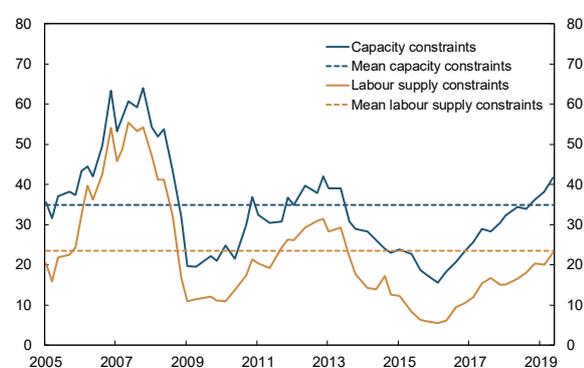
Growth past three months and expected growth next three months. Seasonally adjusted. Percent.

CAPACITY UTILISATION AND LABOUR MARKET

Enterprises are asked whether they can increase output without adjusting the number of employees or production equipment. The enterprises that do need to make such adjustments are said to have full capacity utilisation and capacity constraints. If an enterprise has full capacity utilisation, they are asked whether the supply of qualified labour is a constraint on output growth. If this is the case, the enterprise is said to experience recruitment difficulties. When a large number of enterprises experience recruitment difficulties, it is an indication of labour shortages and a tight labour market.

Chart 4

Capacity utilisation* and labour supply**



Percentage shares.

* The local government and hospital sector is omitted from the capacity utilisation series. ** The question about labour is asked only of the enterprises reporting full capacity utilisation, but the series shows the share of all enterprises included in the interview round.

Norwegian economy. Increased online shopping is generating greater demand for warehouse capacity, while manufacturing enterprises are investing in more environmentally friendly production.

Contacts continue to intensify their focus on digital technologies like online shopping and robotisation. However, for the most part, contacts' spending on digitalisation is not counted as investment, but as operating expenses like wages and licences.

Higher capacity utilisation and tighter labour market

Since the beginning of 2016, contacts have reported rising capacity utilisation and increasing difficulty recruiting qualified labour (Chart 4). In this survey, 42% of contacts report that they are unable to increase output without modifying equipment or making work force adjustments, and more enterprises report recruitment difficulties as constraint on activity. Oil service and construction sector contacts report the highest capacity utilisation and experience the greatest difficulty recruiting qualified labour. Regional differences are considerable, and capacity utilisation and recruitment difficulties are most pronounced in eastern Norway and least in northern and southern Norway.

In this survey, contacts were asked to respond to some follow-up questions on whether capacity utilisation and the labour market had changed over the past year. The responses suggest that capacity utilisation has risen since 2018 and that the labour market has tightened. Approximately one-third of enterprises report that capacity utilisation is higher and an equal number report that the labour market is perceived as tighter. Just under 10% of contacts report that capacity utilisation declined over the past year, and under 5% report a more ample labour supply.

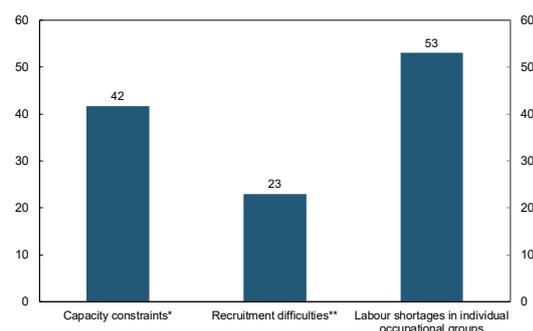
Further, contacts were asked more specifically if they had difficulty recruiting certain types of labour, irrespective of whether or not it was a constraint on growth (Chart 5). Some of the enterprises reporting no capacity constraints also report shortages of certain types of specialised labour. Over half of contacts reported labour shortages in individual occupational groups. The main shortages are in different types of technical expertise, project managers and skilled workers such as cooks, electricians and mechanics. The recovery of the oil industry has resulted in a tighter labour market, and the supply of foreign labour has declined owing to lower labour immigration. Local governments are experiencing teacher shortages and report that recruitment has become more difficult since the introduction of a new norm for student-teacher ratios in autumn 2018.

Higher wage and price increases

Contacts expect annual wage growth for 2019 to be 3.2% (Chart 6). The estimate has been revised up from 3.0% in the previous survey. A large proportion of enterprises report that the main wage settlement norm will guide wage growth

Chart 5

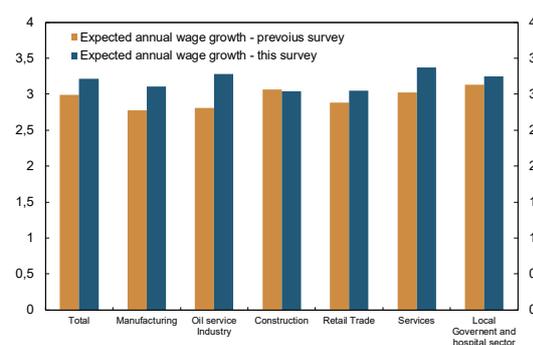
Capacity constraints and labour market



All sectors. Percentage shares. * The ordinary series for capacity utilisation. ** The ordinary series for labour market.

Chart 6

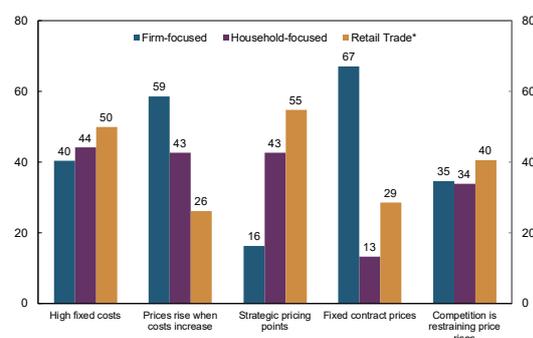
Annual wage growth



Expected wage growth for 2019. Percent.

Chart 7

What best describes selling prices in your enterprise?



Percentage shares. Retail trade is also included in the category household-focused enterprises.

in their enterprises. Labour shortages are expected to lift wage drift in 2019. This is particularly evident among service providers, but also for individual oil service companies.

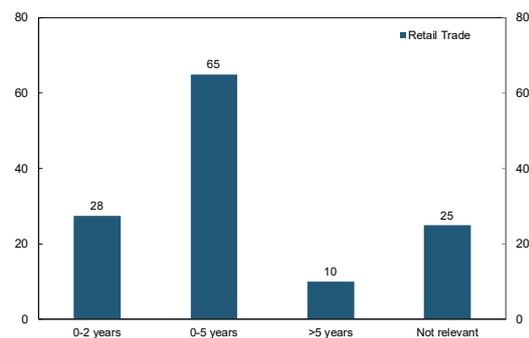
Solid growth in demand has lifted the rise in prices since the previous survey and the increase is the highest since spring 2011. The upward revision is broadly based across all sectors, but the rise is clearly higher in the firm-focused sector than in the household-focused sector. Some retail trade contacts report cost growth owing to the krone depreciation, particularly against USD, but for the majority, competition is so strong that the pass-through from the weaker krone to a higher rise in selling prices has been limited. On the other hand, a number of contacts report less promotional activity this spring.

In this survey, enterprises were also asked some extra questions about prices. For example, contacts were asked to tick the statement that best describes their selling prices (Chart 7). Among firm-focused enterprises, fixed contract prices and cost-driven price increases were most common. Among household-focused enterprises as a whole, most responded that they use strategic pricing points, that they have a high proportion of fixed costs and that they raise prices in response to higher costs. Among retail trade contacts, cost developments appear less important in price-setting.

Retail trade contacts were also asked how online shopping affects their selling prices. Close to half of retail trade contacts responded that online shopping was a restraint on price rises. Further, online shopping is leading to more frequent price changes among one-third of retail trade contacts. In the past five years in particular, retail trade enterprises have noticed significant competition from online shopping. Close to 30% report that they first noticed competition from online shopping in the past two years (Chart 8).

Chart 8

When did you start to notice significant competition from online shopping?



Percentage shares

TABLE 1 Economic indicators

	This survey	Previous survey
Output and demand		
Output growth past three months (annualised percentage growth)		
Total	3.0	2.9
Domestically-oriented manufacturing	1.9	1.7
Export industry	2.1	2.1
Domestically-oriented oil service industry	4.0	4.0
Export-oriented oil service industry	3.1	2.5
Construction	3.5	2.2
Retail trade	1.5	0.6
Commercial services	3.9	4.3
Household services	3.0	3.0
Expected output growth next six months (annualised percentage growth)		
Total	3.1	2.9
Domestically-oriented manufacturing	2.1	2.0
Export industry	2.1	2.5
Domestically-oriented oil service industry	4.3	4.4
Export-oriented oil service industry	3.6	3.2
Construction	3.6	2.7
Retail trade	1.5	0.9
Commercial services	4.0	3.9
Household services	3.0	3.1
Labour market and output growth		
Employment growth past three months	0.5	0.4
Expected employment growth next three months	0.5	0.5
Labour supply constraints	23.0	20.1
Capacity constraints	41.7	38.3
Costs and prices		
Estimated annual wage growth for current calendar year (percent)	3.2	3.0