

REGIONAL NETWORK

National report

NO. 1 | 2021

INTERVIEWS WERE PRIMARILY CONDUCTED IN THE PERIOD
25 JANUARY - 12 FEBRUARY



NORGES BANK

Decline in activity – improved outlook

According to Regional Network contacts, business sector activity has declined slightly this winter. Higher infection rates and stricter containment measures have led to lower turnover volume in both household services and retail trade. In addition, commercial building construction and deliveries to the petroleum sector have slowed further. On the other hand, improved export markets have dampened the decline. Contacts expect activity to pick up again, and they are more optimistic than in November, primarily owing to the roll-out of vaccines.

Since the previous survey, employment has fallen somewhat, and contacts expect a slight increase in investment for the first time since February 2020. Capacity utilisation has fallen, while the estimate for annual wage growth in 2021 is 2.3%.

Since March 2020, activity among Regional Network contacts has been substantially affected by the outbreak of the Covid-19 pandemic and related containment measures. Through spring, activity fell sharply, but picked up again through summer (Chart 1). Growth slowed through autumn, and this winter, activity has declined slightly. In particular, higher infection rates and stricter containment measures in recent months have dampened turnover among household-oriented sectors (Chart 2). Activity has also fallen in construction and among oil service contacts. Growth has slowed in commercial services, while manufacturing output has increased in both domestic and export markets. There are wide regional differences, and developments are clearly weakest in Region East, where many local governments have had stricter local containment measures than those applying at the national level (Chart 3).

Survey period and timing

Since March, enterprises' turnover has changed considerably from month to month. In this interview period, the past three months are November, December and January, but many of the interviews also include information from the first half of February. The data are compared with the preceding three-month period, which comprises August, September and October.

The interviews were conducted in the last week of January and the first two weeks of February. Just before the survey period, the spread of Covid variants led to considerably stricter containment measures at both national and regional levels. The immediate effects of these containment measures have been captured in most of the interviews.

Contacts expect higher activity levels over the next six months, and prospects have improved compared with expectations in November, primarily owing to the roll-out of vaccines. Most sectors expect a pick-up in activity through spring and summer. Construction and oil service contacts expect the decline to slow ahead.

Employment has fallen somewhat over the past three months, partly owing to an increase in the number of enterprises that have had to furlough employees after another lockdown in many parts of Norway (Chart 4). Employment rose in manufacturing. In the local government and hospital sector, there have been minor changes, while the remaining sectors have

Chart 1

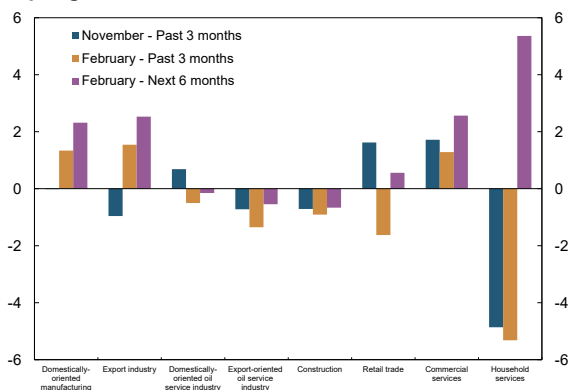
Total output growth



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

reduced employment since November. Contacts expect a rise in the employment level over the next three months. In manufacturing, employment will increase owing to expectations of higher activity, while in retail trade and services, employment growth is related to expectations of a reopening of closed businesses. Construction contacts expect to continue to furlough employees ahead as they expect that the low level of orders in the construction sector will continue. The local government and hospital sector expects a stable level of employment in the coming months.

When the pandemic hit Norwegian businesses, Regional Network contacts made substantial cuts in their investment plans for the coming year (Chart 5). In the previous survey, contacts expected less pronounced cuts, partly because many had already considerably reduced investment. In this survey, contacts are planning for a slight increase in the level of investment for the first time since February 2020. All sectors, with the exception of oil services, expect higher investment in 2021 than in 2020. Investment in digitalisation and climate-friendly solutions boosts investment plans. Retail trade is planning for the largest investment increase, partly owing to solid earnings in 2020. Some retail contacts are also taking the opportunity to carry out minor refurbishments of shops, as they nevertheless have to stay closed. Many contacts in services expect that investment will remain at the same low level as in 2020, for example investment related to commercial buildings, such as hotels, restaurants and office premises. In the local government and hospital sector, contacts are planning for higher investment levels, and these plans have shown little change over the past year.

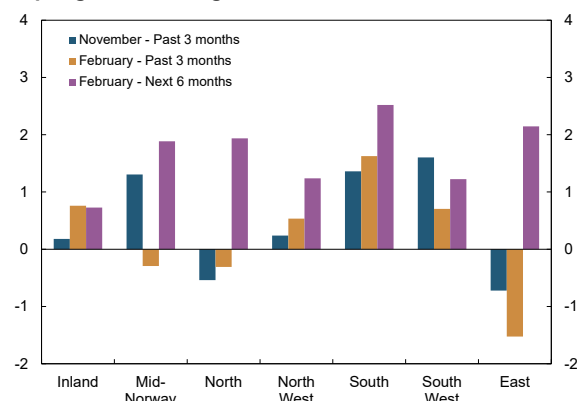
Closed shops lead to a fall in retail trade

Many of the retail trade contacts experienced strong turnover growth between 2019 and 2020. Sales of home furnishings, sports and leisure equipment and groceries have been at a high level since spring 2020, while sales of clothing, shoes and travel goods have been weak. The shift towards online shopping continues, and most consumers started their Christmas shopping earlier than previously. Closed shops and shopping centres in a number of places in Norway have contributed to the recent decline in turnover volume (Chart 6). Retail trade contacts expect turnover volume to increase once closed shops and shopping centres reopen. At the same time, they believe that customers will return to their previous shopping patterns as other containment measures are also eased. A large share of enterprises therefore expect lower turnover volume in 2021 than in 2020.

In household services, activity fell substantially when strict containment measures were introduced in spring 2020. Turnover recovered for many enterprises in the course of summer 2020 because most Norwegians holidayed in Norway. With rising infection rates and stricter containment measures, activity fell again through autumn, and activity has fallen even more in recent months. Several contacts point out that even though they are permitted to remain open, households are hesitant to make use of their services. Most contacts believe that demand will return as soon as a sufficient

Chart 3

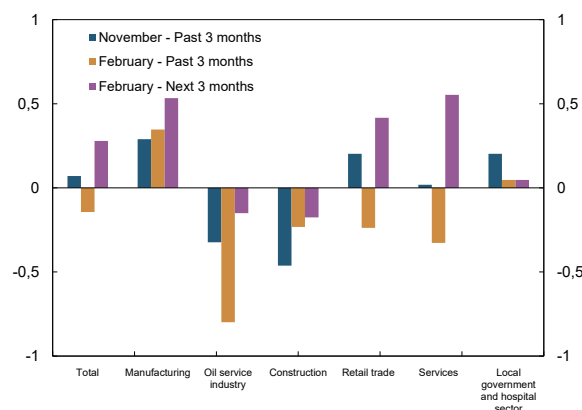
Output growth. All regions



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

Chart 4

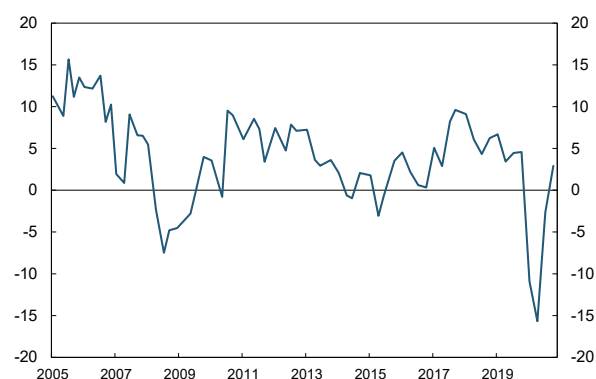
Employment growth



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

Chart 5

Investment growth



Expected growth next 12 months. Percent

percentage of the population is vaccinated, and they expect solid growth towards summer 2021. Estate agents are experiencing strong demand for housing, but the low stock of unsold homes is having a dampening effect on demand growth. Owing to prospects for a small number of new home completions in 2021, estate agents expect lower activity over the next six months.

Activity among commercial service enterprises has risen recently, but the increase has slowed slightly since the two previous surveys (Chart 7). The weakest developments are reported by contacts in business travel and related businesses, such as restaurants and hotels. Closed shops and increased remote working also contribute to falling activity in commercial real estate leasing and management. A low willingness to invest in some business sectors has dampened new orders through 2020 for a number of different types of consultancy services. On the other hand, there is continued high demand for IT-related services. Enterprises expect activity growth to pick up as containment measures are relaxed, and only a few enterprises expect lower activity levels over the next six months.

Ban on entry of foreign workers

When Norges Bank conducted the interviews, there were only a few enterprises who, for the time being, had experienced a fall in output owing to the ban on entry of foreign workers. However, a number of contacts feared that the ban would lead to delays and a decline in output if the situation persisted. Concerns were highest in construction and among shipyards.

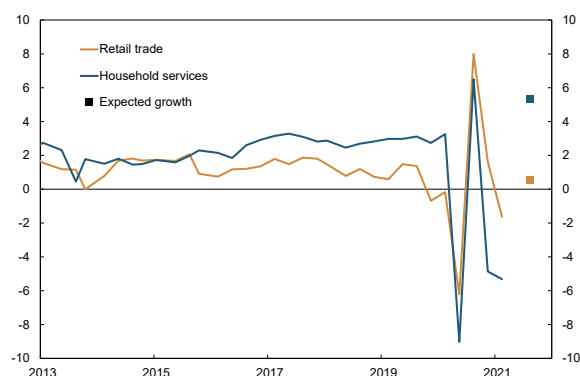
In construction, activity has declined further since November. Few new projects for new construction and commercial building renovation, such as office buildings and hotels, were started through 2020. Some enterprises also report that the level of orders from the public sector has fallen. Most enterprises expect more residential construction ahead, while they expect a further decline in private commercial building construction. Some enterprises believe that some postponed public sector projects will start in 2021, but a number point out that it is difficult to start large projects from home offices. Moreover, activity ahead will be affected by the duration of the ban on entry of foreign workers, and enterprises expect the decline in activity to continue over the next six months.

Better times for manufacturing

Manufacturing started 2020 with fairly weak growth, and output fell through spring (Chart 8). Through summer, output rose, boosted in particular by strong demand for food and building materials. During autumn, manufacturing output slowed and in November enterprises expected weak growth over the next six months. However, through winter, there has been solid growth in output, and the export industry has experienced growth for the first time since before the pandemic began in earnest. A number of

Chart 6

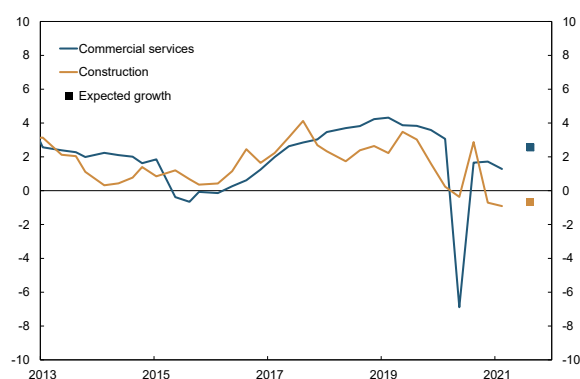
Output growth. Retail trade and household services



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

Chart 7

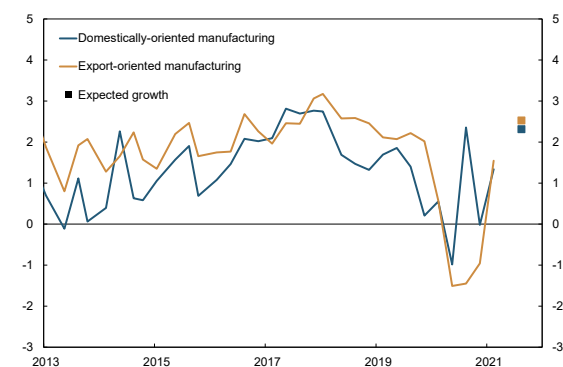
Output growth. Commercial and construction services



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

Chart 8

Output growth. Manufacturing



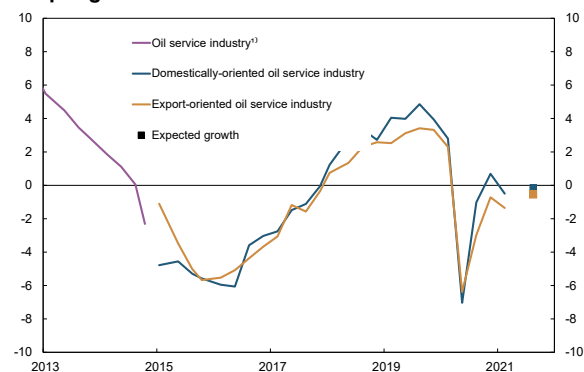
Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent

contacts report that projects that had been halted earlier in 2020 were then restarted towards the end of 2020. There are signals that the European automotive industry is on the road to recovery, and some contacts point to low inventories of, for example, steel in Europe. The spread of remote working in many parts of the world has resulted in higher demand for stay-at-home products, such as furniture and sports equipment. The green transition also appears to boost growth among Norwegian manufacturing enterprises. Some contacts are experiencing higher demand for their products as these are perceived as more environmentally-friendly, and a number of contacts have been awarded renewable energy projects. Manufacturing contacts are optimistic and expect growth to continue to rise over the next six months, in both domestic and export markets.

One year ago, oil service contacts envisaged lower activity through 2020, owing to the completion of large construction projects. However, activity in spring 2020 declined far more than expected as containment measures limited their ability to follow up many of these projects, and some projects were put on hold (Chart 9). During summer 2020, a number of containment measures were relaxed, and through autumn activity increased slightly. In recent months, increased travel restrictions have dampened activity, and a number of projects are nearing completion. New tax rules for oil companies are intended to boost investment on the Norwegian shelf, and as a result, several large projects have been started. So far, these projects are at a stage where they generate relatively little activity. Activity is expected to gradually increase, but not until towards the end of 2021. Export market demand has been weaker than domestic market demand, and many contacts' export share has fallen. Some contacts point out that higher oil prices provide grounds for growing optimism, but they have so far seen little effect on new orders. Despite higher oil prices and more optimism, some of the oil service contacts have started to shift towards other markets, such as renewable energy, carbon capture and aquaculture.

Chart 9

Output growth. Oil services



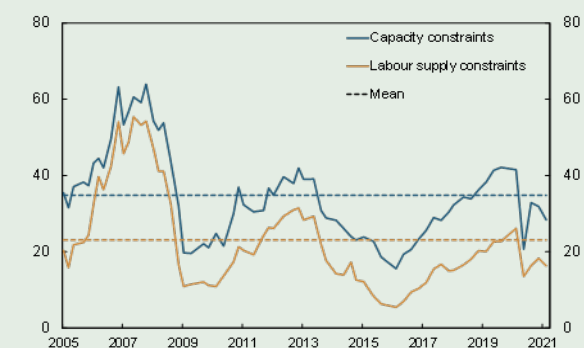
Growth past three months and expected growth next six months. Seasonally adjusted. Annualised. Percent. 1) Discontinued series

Lower capacity utilisation

The indicator for enterprises' capacity utilisation shows the share reporting full utilisation of resources such as labour, available intermediate goods and machinery. In this survey, 28% of enterprises report full capacity utilisation (Chart 10), which is lower than in November and somewhat below the historical average. Services and construction make the strongest contribution to the downward adjustment since the previous survey, and for the first time since May 2008, it is mostly service contacts that report spare capacity (Chart 11). Capacity utilisation has increased in manufacturing, and this is the sector with the highest capacity utilisation. This may reflect the fact that output growth has been most pronounced in manufacturing over the past three months and has outpaced employment growth. Capacity utilisation has also increased somewhat for oil service contacts since the previous survey because employment has fallen more than output in recent months.

Chart 10

Capacity utilisation¹⁾ and labour supply constraints²⁾



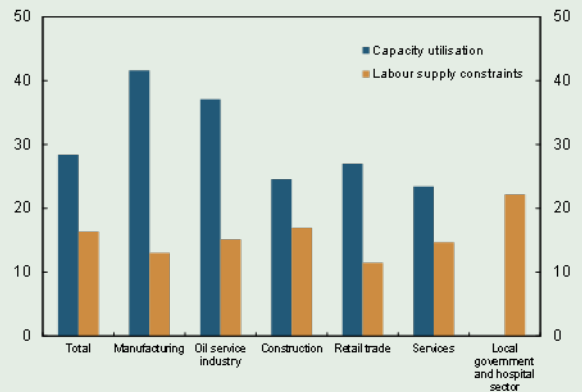
Percentage shares. 1) Share of contacts that will face some or considerable difficulty increasing output/sales without committing additional resources such as labour or machinery. 2) Share of contacts citing shortage of labour as a constraint on production/sales. The question about labour is asked only 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.

The normal indicator for capacity utilisation shows the share reporting full utilisation of production capacity, but it does not measure how much spare capacity there is in enterprises that do not report full capacity utilisation. For that reason, it has not completely captured the substantial fall in capacity utilisation for some enterprises in connection with the Covid-19 outbreak. In this survey, Norges Bank therefore asked Regional Network contacts about capacity utilisation relative to a normal situation (Chart 12). Contacts were asked similar questions in some previous surveys, including at the end of 2014 and at the beginning of 2020. The responses indicate that far more contacts are now significantly below normal capacity utilisation compared with both the end of 2014 and the beginning of 2020. This is despite the current higher share of enterprises reporting full capacity utilisation compared with 2014.

The share of enterprises reporting labour supply constraints has risen steadily since spring 2020, but fell back somewhat to 16% in this survey. The local government and hospital sector reports the highest share of recruitment difficulties. The supply of nurses has been a challenge over a long period, but a number of contacts point out that this has become even more difficult with Covid-19 because various measures to deal with the pandemic lay claim to both personnel and treatment space.

Chart 11

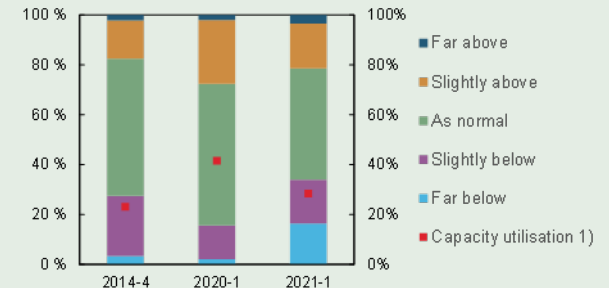
Capacity utilisation1) and labour supply constraints2). All sectors



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 12

Capacity utilisation1) and capacity utilisation relative to a normal situation



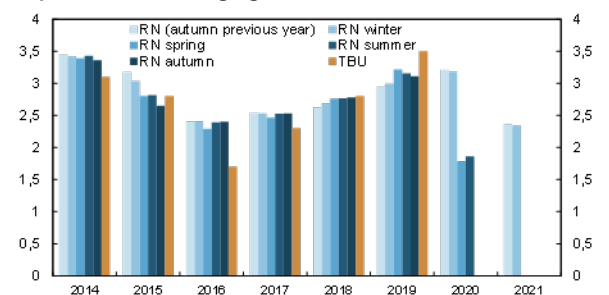
Percentage shares. 1) Share of contacts that will face some or considerable difficulty increasing output/sales without committing additional resources such as labour or machinery.

Expected wage growth little changed

Contacts expect annual wage growth in 2021 to be 2.3% (Chart 13). The estimate is little changed since November. There are small variations in wage estimates among the sectors in this survey. The wage expectations of service contacts have been the highest, but in this survey they are close to the all-sector average (Chart 14). Many service contacts cite the economic situation and cost-cutting measures as reasons for the downward revision of wage expectations. Oil services contacts expect the lowest wage growth, 2.2%, which is revised up slightly since the previous survey, and contacts point out that the wage settlement for employees in the petroleum industry may not be as moderate in 2021 as in 2020.

Chart 13

Expected annual wage growth



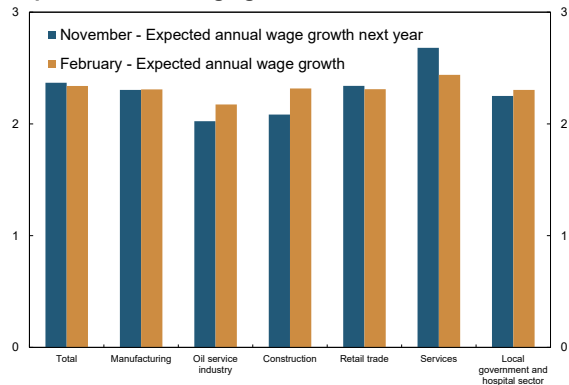
Technical Reporting Committee for Wage Settlements (TBU) and Regional Network (RN). Percent

The rise in prices in retail trade has remained at a stable high level through autumn, primarily owing to the krone depreciation, but has shown a somewhat slower increase in recent months. In addition to the krone depreciation, solid demand and higher commodity prices have resulted in higher prices in retail trade. The rise in prices among household services enterprises remains weak, which may reflect reduced demand. Retail trade contacts expect a lower rise in prices in the coming year, while household service contacts expect the rise in prices to remain broadly unchanged.

Over the past three months, profitability as measured by operating margin has deteriorated slightly compared with the same period in 2020. Margins have been weakened, primarily owing to loss of income in combination with additional costs related to containment measures. Some enterprises have managed to improve profitability by reducing, for example, costs related to travel and events.

Chart 14

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	0,3
Domestically-oriented manufacturing	1,3	0,0
Export industry	1,5	-1,0
Domestically-oriented oil service industry	-0,5	0,7
Export-oriented oil service industry	-1,4	-0,7
Construction	-0,9	-0,7
Retail trade	-1,6	1,6
Commercial services	1,3	1,7
Household services	-5,3	-4,9
Expected output growth next six months (annualised percentage growth)		
Total	1,8	0,2
Domestically-oriented manufacturing	2,3	0,5
Export industry	2,5	0,0
Domestically-oriented oil service industry	-0,1	0,4
Export-oriented oil service industry	-0,5	0,0
Construction	-0,7	-1,5
Retail trade	0,6	1,1
Commercial services	2,6	0,5
Household services	5,4	-0,4
Labour market and output gap		
Employment growth past three months	-0,1	0,1
Expected employment growth next three months	0,3	-0,1
Labour supply constraints	16,3	18,3
Capacity constraints	28,4	31,9
Costs and prices		
Estimated annual wage growth for current calendar year (percent)	2,3	2,4