

# REGIONAL NETWORK

## National summary

NO. 1 | 2019

INTERVIEWS WERE CONDUCTED IN THE PERIOD  
28 JANUARY – 25 FEBRUARY



NORGES BANK

## Continued solid growth

The upswing among the enterprises in Norges Bank's regional network continues. Increased oil investment, digitalisation and high public investment contribute to lifting growth. Continued weak growth in retail trade and lower residential construction are having a dampening impact. Capacity utilisation has picked up, and employment is rising.

Output growth is expected to remain firm over the next half year. Enterprises estimate annual wage growth of 3.0% in 2019.

### 1. Output and demand

#### Continued upturn in the Norwegian economy

Regional Network contacts report that activity levels continue to pick up, as has been the case since spring 2016 (Chart 1). Annual output growth is now close to 2.9% and has shown little change since the November round of interviews. Solid growth in commercial services and further recovery in the oil service sector have contributed to lifting growth over the past three months. Higher oil investment, digitalisation and public investment are boosting activity levels for commercial services. Increased deliveries to field development in Norway and abroad have led to a further upswing for oil service contacts. At the same time, high public investment in infrastructure and construction is pushing up growth in construction. Activity in domestically-oriented manufacturing has picked up since the November survey, driven in particular by the upswing in the building materials industry.

Weak growth in retail trade is having a dampening effect on overall growth. Grocery business volumes remain low owing to border trade and low population growth. Increased online shopping from foreign websites is also dampening sales, particularly retail sales. Overall growth is also being restrained by a further decline in residential construction, weaker developments in the food industry and slightly lower growth in the traditional export industry.

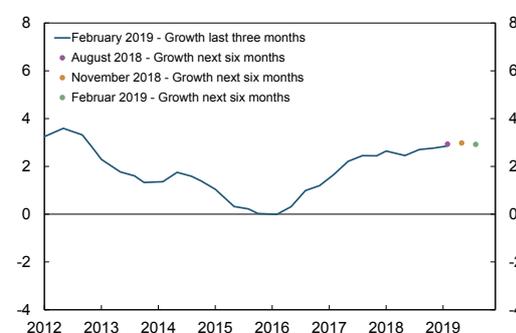
Enterprises expect output growth to remain firm over the next half-year. Oil service contacts expect higher domestically-oriented output growth and higher export-oriented output growth. Residential construction is expected to pick up ahead and improve market prospects for the construction industry. Overall growth expectations are reducing capacity constraints in commercial services.

#### Prospects for solid investment growth

Contacts plan to increase investment by a little more than 6% over the next 12 months. Planned growth is slightly stronger since the previous survey. All sectors expect investment to increase from 2018 to 2019. The local government and hospital sector expects the strongest growth, while retail trade expects the weakest growth.

Chart 1

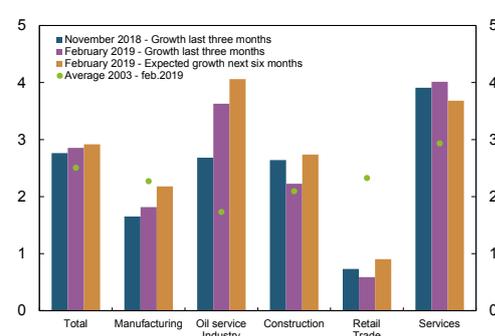
#### Output growth



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

Chart 2

#### Output growth



Growth past three months and expected growth next six months. Annualised. Seasonally adjusted. Percent. \*Up to and including 2014, the oil service industry series also includes petroleum-specific deliveries of goods to other countries.

## 2. Capacity utilisation and labour market

### Capacity utilisation has continued to rise

The share of enterprises reporting full capacity utilisation rose through 2018 and has continued to rise over the past three months (Chart 3). In this survey, 38% of contacts report that output cannot be increased without making adjustments to equipment or employment. Capacity pressures are highest in the oil service sector, where more than half of the enterprises are operating close to capacity. There are wide regional differences, and the biggest capacity challenges are in southeastern Norway.

A shortage of skilled labour is a constraint on output growth among one-fifth of the contacts (Chart 3). This share has remained unchanged since November. At the same time, labour shortage challenges have become greater for enterprises that have long had recruitment problems. It is particularly difficult to find employees with IT skills.

### Employment growth remains solid

Employment increased by between 0.4% and 0.5% in each of the surveys conducted in 2018, with the pace of growth continuing into 2019 (Chart 4). Contacts also expect a corresponding increase in employment growth through spring. Employment growth is strongest in the oil service sector and services. Changes in employment in manufacturing and retail trade are minor.

## 3. Costs and prices

### Slightly higher wage growth

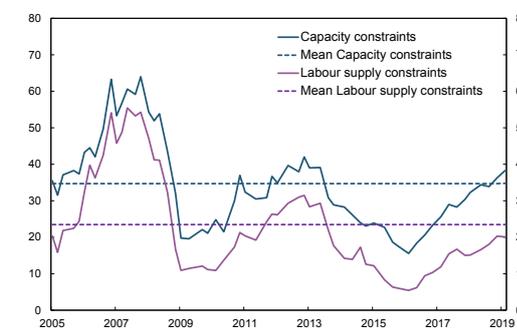
Enterprises as a whole estimate wage growth of 3.0% in 2019, compared with 2.9% in the previous survey (Chart 5). There are minor differences across sectors. A number of contacts point to slightly higher expectations regarding this year's main wage settlement, driven by higher inflation. The estimates have been revised up and are highest for the public sector and construction.

### Online shopping is restraining price rises

Regional Network enterprises report that the rise in prices has slowed slightly over the past year. The increase in online shopping and fierce competition are cited as curbing factors, particularly in retail trade where the rise in prices has shown the most pronounced decline. Prices will need to be raised to reflect higher labour and electricity costs, and both the business- and household-oriented sectors expect the rise in prices to pick up slightly ahead.

Chart 3

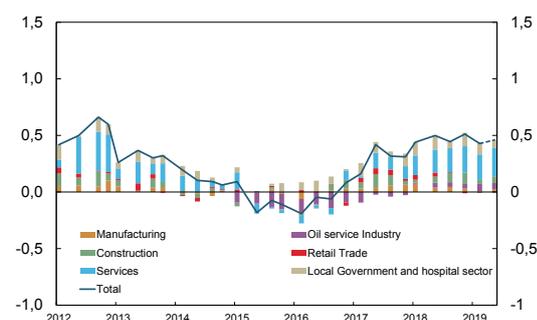
#### Capacity and labour supply constraints



All sectors. Percent

Chart 4

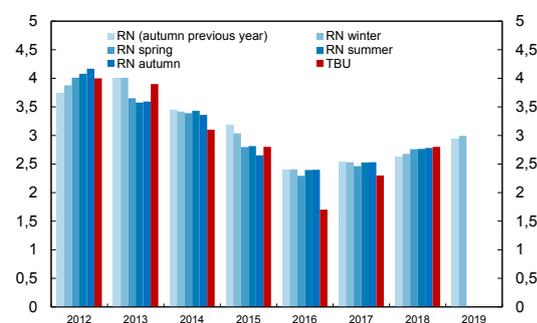
#### Employment growth



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

Chart 5

#### Annual wage growth



All sectors. Norwegian Technical Calculation Committee for Wage Settlements (TBU) and Regional Network (RN). Percent

TABLE 1 Economic indicators

	This survey	Previous survey
<b>Output and demand</b>		
<b>Output growth past three months (annualised percentage growth)</b>		
Total	2.9	2.8
Domestically-oriented manufacturing	1.7	1.3
Export industry	2.1	2.5
Domestically-oriented oil service industry	4.0	2.7
Export-oriented oil service industry	2.5	2.6
Construction	2.2	2.6
Retail trade	0.6	0.7
Commercial services	4.3	4.2
Household services	3.0	2.8
<b>Expected output growth next six months (annualised percentage growth)</b>		
Total	2.9	3.0
Domestically-oriented manufacturing	2.0	1.4
Export industry	2.5	2.6
Domestically-oriented oil service industry	4.4	3.7
Export-oriented oil service industry	3.2	3.0
Construction	2.7	2.9
Retail trade	0.9	1.5
Commercial services	3.9	4.2
Household services	3.1	2.8
<b>Labour market and output growth</b>		
Employment growth past three months	0.4	0.5
Expected employment growth next three months	0.5	0.4
Labour supply constraints	20.1	20.3
Capacity constraints	38.3	36.3
<b>Costs and prices</b>		
Estimated annual wage growth for current calendar year (percent)	3.0	2.9