

Norway Regional Network Survey

Strong growth outlook confirmed; Norges Bank to hike rates next week

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- **Norges Bank (NB) has published the February Regional Network Survey**, which is its preferred gauge of economic activity. The aggregated output index for the next six months dropped marginally to 1.46 (from 1.49) as seen on chart 1. This points to quarterly mainland GDP growth of around 0.73% going forward, which is a little higher than Norges Bank (NB) assumed in the December monetary policy report. The aggregate output score for the past three months (chart 2) rose to 1.43 suggesting Q1 growth around 0.72% q/q, highlighting that growth has been resilient at the beginning of the year.
- **Details.** First of all, the survey implies that domestic growth has been, and is expected to be, slightly higher than expected, *despite* the global slowdown. **This confirms our expectations of a March rate hike despite the weak global environment.** As expected, oil related industries contributed to the upside, but despite the expected slowdown in retail trade, there are actually no soft spots in the report looking across sectors. Capacity utilisation rises to 38.27, the highest since May 2013. Expected investments moved up from 0.43 to 0.62, signaling a continued growth in investments. Wage expectations for 2019 are a bit higher, but at 2.99% still lower than Norges Bank's forecast from December (3.2%). However, the usual adjustments throughout the year imply that NB's forecast is well in reach. **All in all, a strong report confirming our projection of a March rate hike next week.** We are currently working on a full preview of the rate path but at this stage domestic factors suggest the front-end will remain little changed and that market pricing hence is too soft. **We have just recommended selling EUR/NOK via a 2M bearish risk reversal, see [FX Strategy, Sell 2M EUR/NOK risk reversal, 12 March](#).**

Chart 1: Aggregate output score roughly unchanged at 1.46 (from 1.49) – suggests GDP growth of c. 0.73% q/q in coming quarters which is clearly higher than trend potential

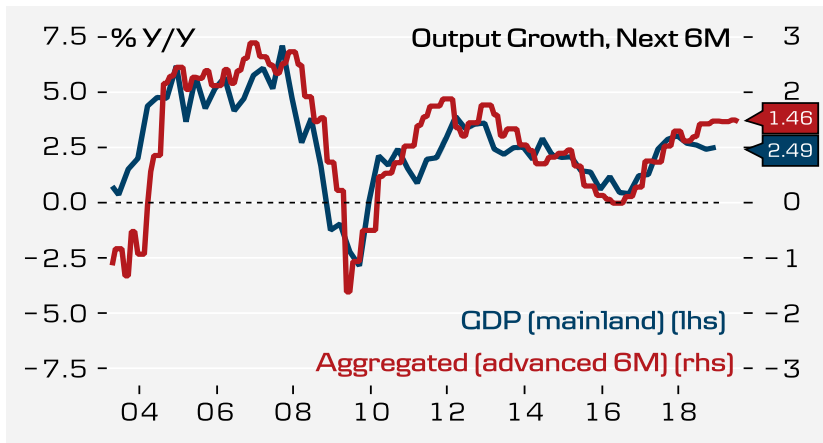
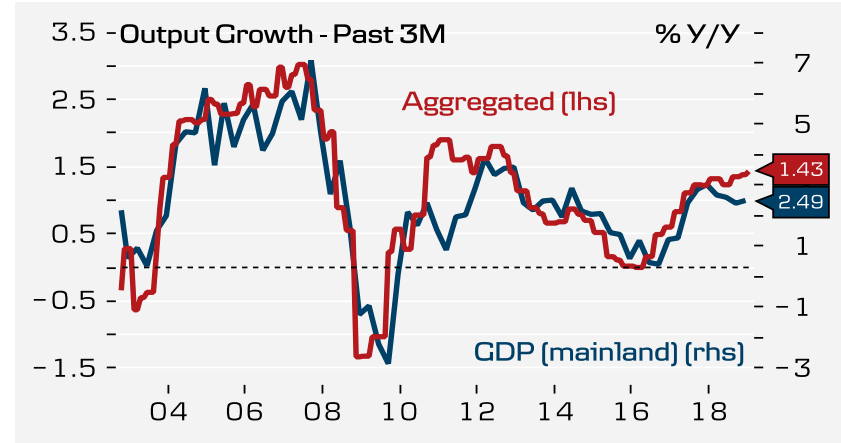


Chart 2: Reported Q1 growth to the strong side highlighting that strong Q4 18 growth was not temporary



Demand and output

Chart 3: Output growth, past 3M by sector

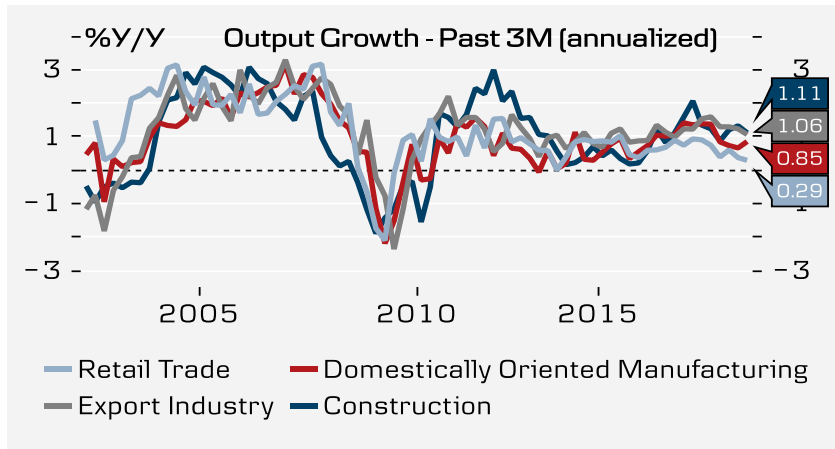


Chart 4: Construction and export industries continue to report strong growth. Retail trade is the sole weak spot.

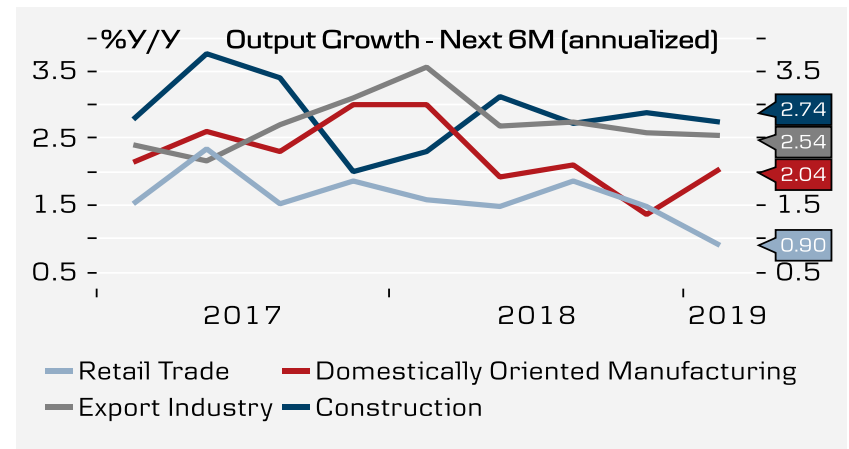


Chart 5: Oil service industries on the rise amid lower B/E costs

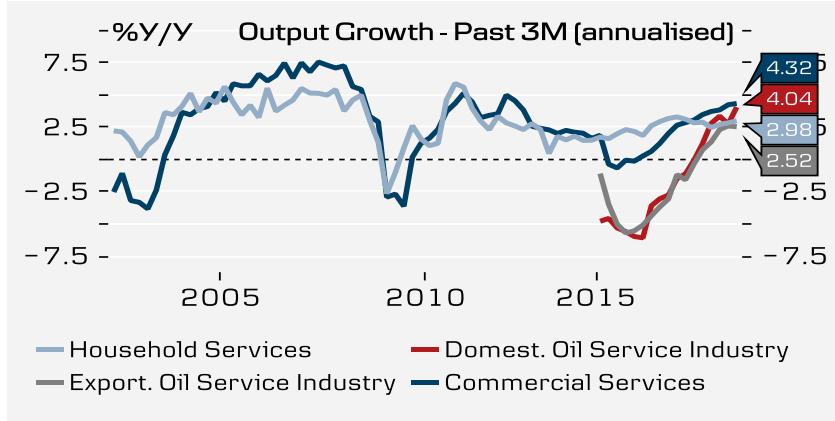
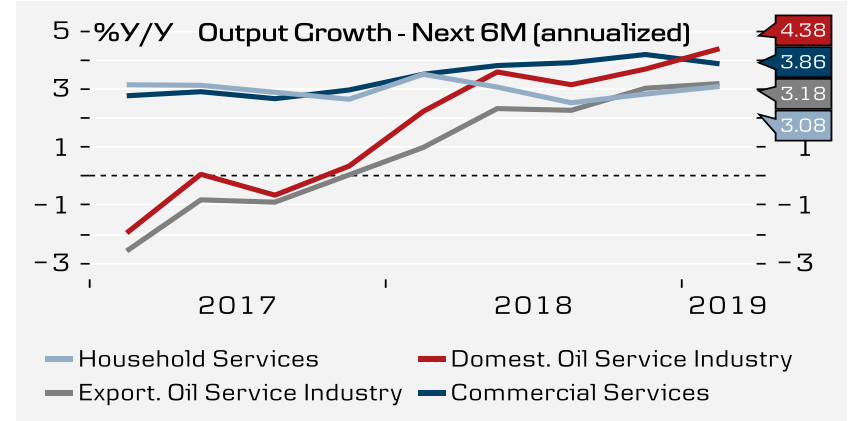


Chart 6: Commercial and oil services outlooks remain very strong.



Source [all charts]: Macrobond Financial, Norges Bank, Danske Bank Markets

Demand and output

Chart 7: Sector summary – the oil downturn is over as petroleum sector goes from drag to supportive for economy

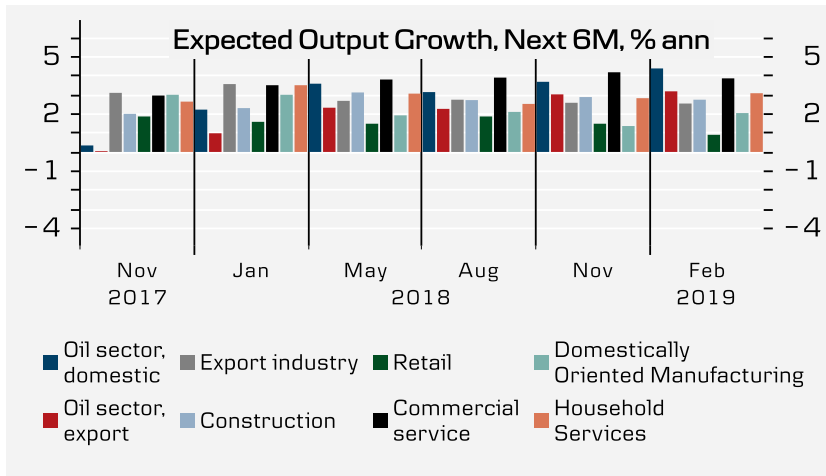


Chart 8: Growth outlook by region – very synchronised highlighting upturn is not just about oil

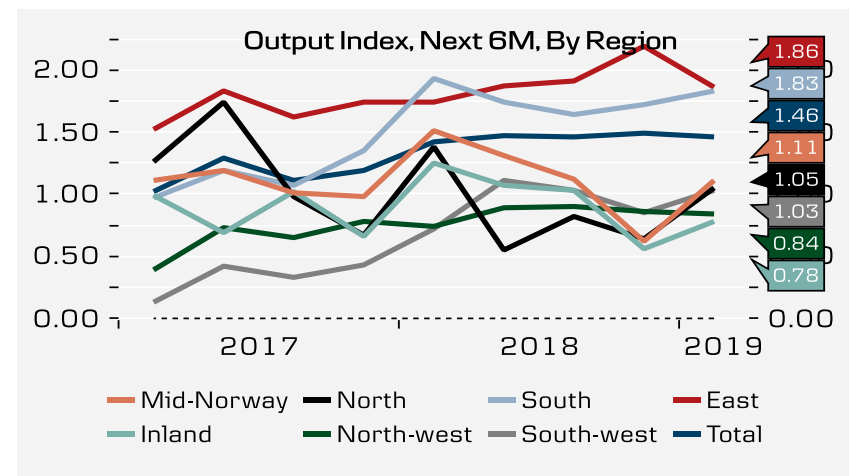
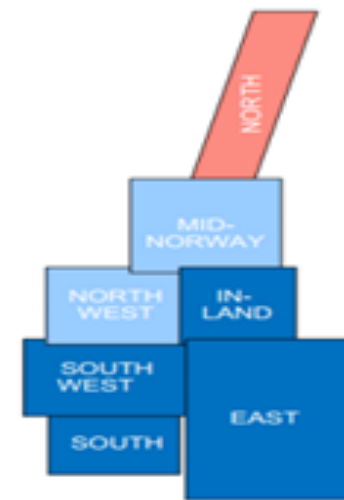
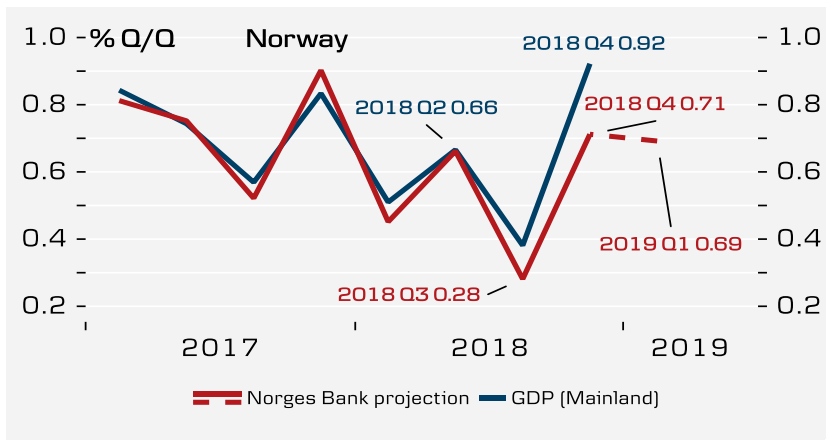


Chart 9: Regional Network Survey points to growth above Norges Bank's expectations



Source (all charts): Macrobond Financial, Norges Bank, Danske Bank Markets

Labour market, capacity constraints and wages

Chart 10: Capacity utilisation on the rise highlighting need for tighter monetary policy amid strong growth and rising inflation pressures

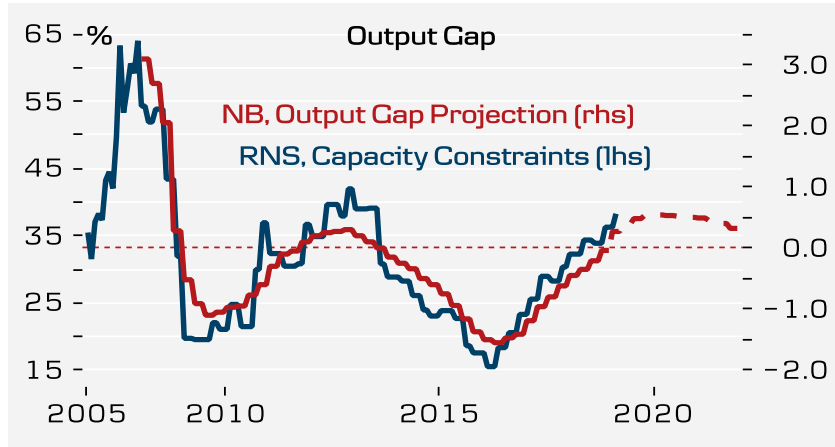


Chart 11: Wage expectations moving slightly higher, albeit not at much as indicated by other surveys and indicators

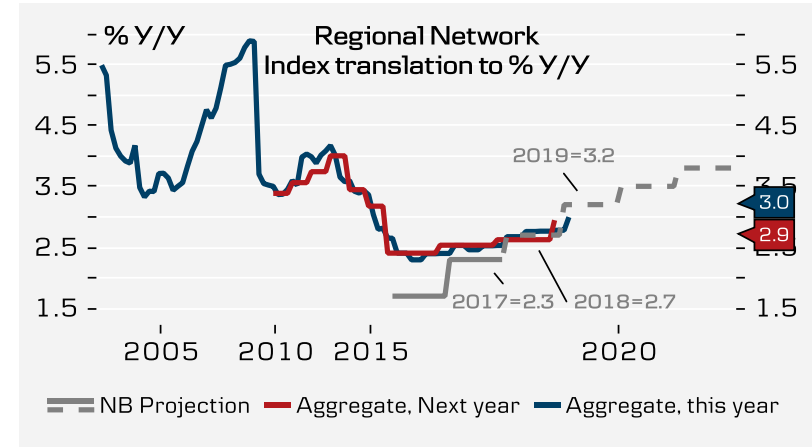


Chart 12: Labour supply constraints, by sector

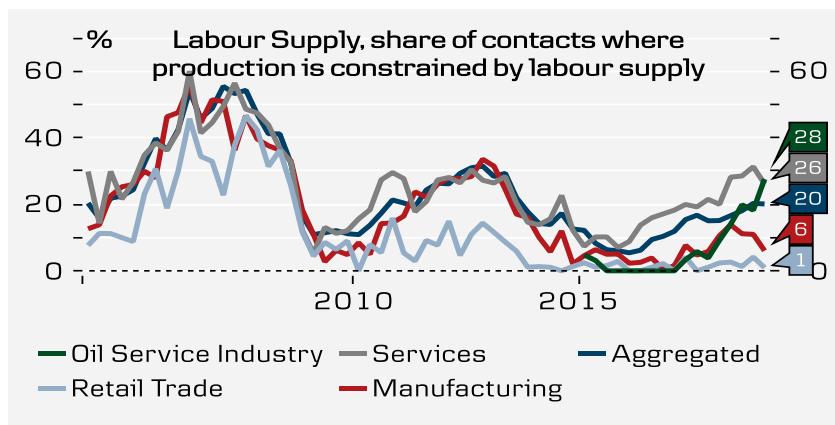
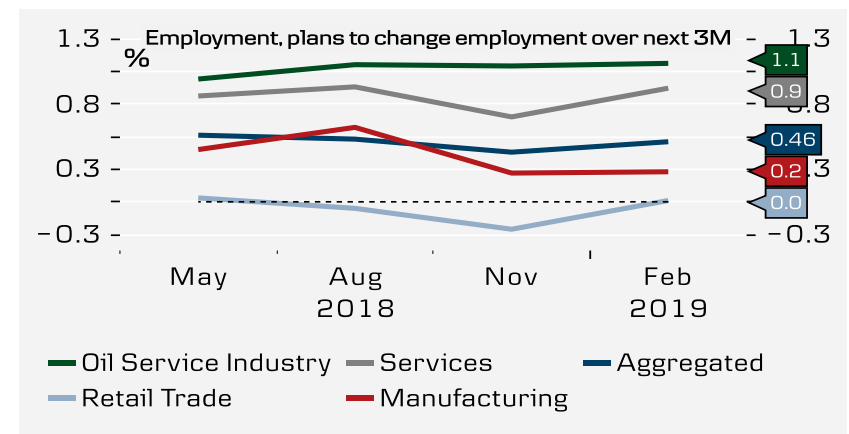


Chart 13: Expected employment growth remains strong. Aggregate index moving a little higher



Source (all charts): Macrobond Financial, Norges Bank, Danske Bank Markets

Investments

Chart 14: Overall investment plans rebounding slightly

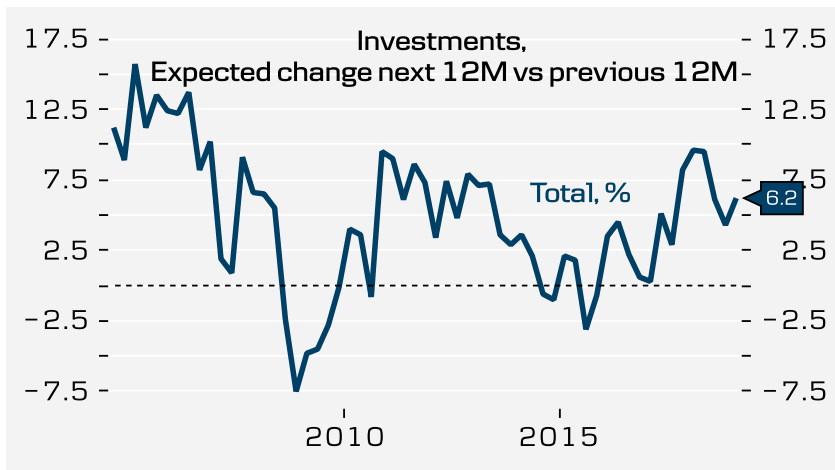


Chart 15: Investments, sector overview (1/2)

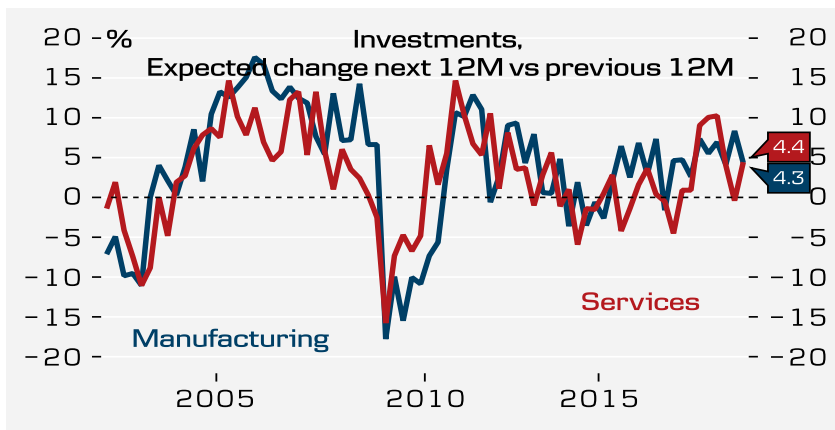
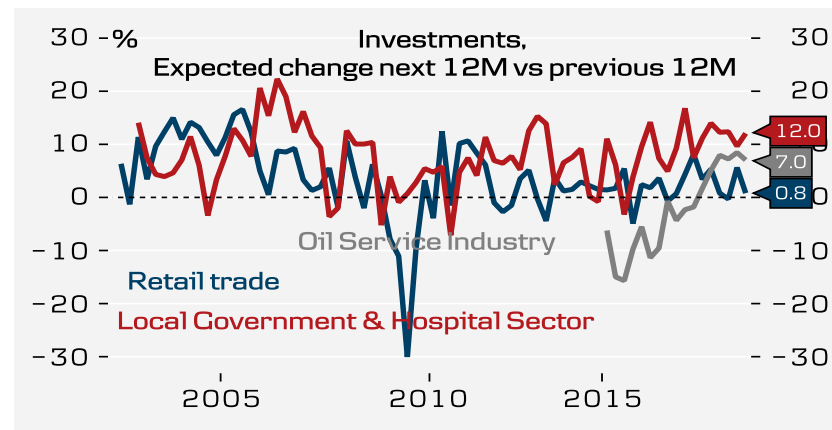


Chart 16: Investments, sector overview (2/2)



Source [all charts]: Macrobond Financial, Norges Bank, Danske Bank Markets

Profitability and selling prices

Chart 17: 'Profitability' squeezed by electricity prices and retail weakness (e.g. online shopping).

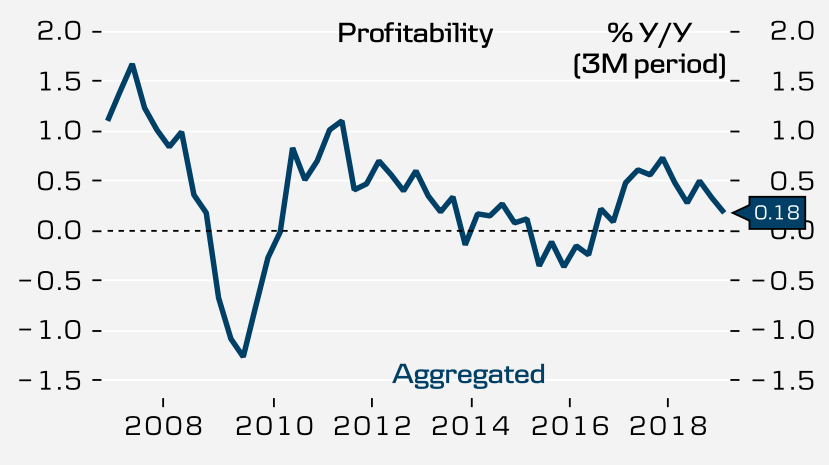


Chart 18: Selling prices, last 12M

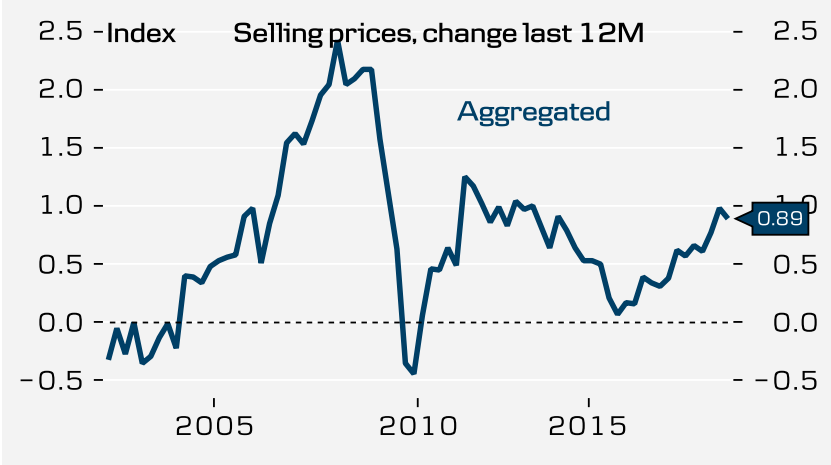
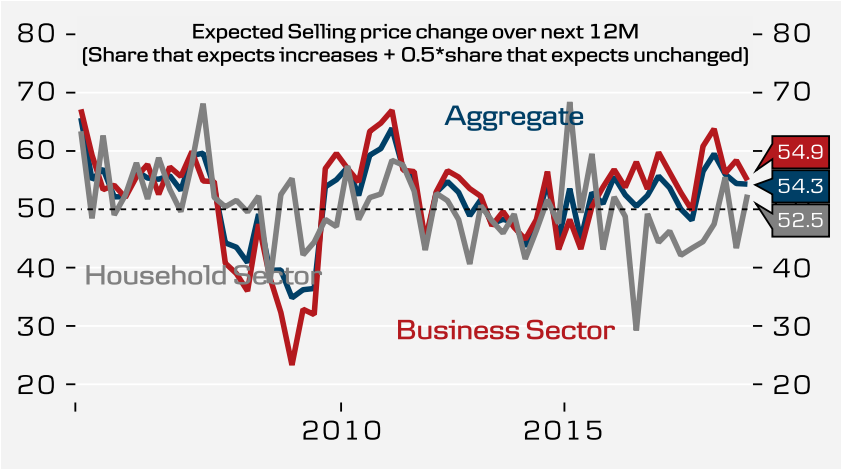


Chart 19: Selling Prices, next 12M



Source [all charts]: Macrobond Financial, Norges Bank, Danske Bank Markets

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Kristoffer Kjær Lomholt, Senior Analyst, Frank Jullum, Chief Analyst and Jostein Tvedt, Chief Strategist.

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