



Status and trends for the economy in northern Norway and the most important industries in the region for 2017 - 2018

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According to Statistics Norway, the annual growth in the North Norwegian economy was nearly 1 percent higher than the rest of the country in the period 2008-2013. It may not seem a lot, but in the long run the numbers add up significantly. KB's calculations show that the difference in growth has increased after 2013. The main drivers in the north are the growth in seafood and travel industries, increased export from the process industries, and notably, that the North of Norway to a large extent has been shielded from the 'oil brake'. The key question is if this trend continues, and the answer is yes.

Most indicators predict continued high growth the coming two years. At the same time, the region suffers from insufficient capacity. Many industries fail to attract the expertise the companies demand, a fact that influences the productive work, at least in the near future.

	North Norway				Norway			
	2015	2016	2017	2018	2015	2016	2017	2018
Private Consumption	2.70 %	3.00 %	3.00 %	3.50 %	2.10 %	2.00 %	2.50 %	3.00 %
Public Consumption	2.60 %	3.00 %	2.50 %	2.50 %	2.10 %	3.00 %	2.00 %	2.00 %
Gross Investments in Real Estate	2 %	4.00 %	4.50 %	3.50 %	-3.80 %	-2.40 %	1.40 %	2.60 %
Foreign Export	7.00 %	7.00 %	4.00 %	4.00 %	3.70 %	-0.10 %	-0.30 %	1.30 %
Foreign Import	4.00 %	3.00 %	3.00 %	3.50 %	1.60 %	1.00 %	2.50 %	2.90 %
Export to the rest of the Domestic Market	1.00 %	3.00 %	2.00 %	2.50 %				
Import from the rest of the Domestic Market	3.70 %	3.00 %	3.00 %	3.00 %				
Gross Regional Product (Wealth Creation)	1.70 %	4.40 %	3.00 %	3.10 %	1.10 %	1.00 %	2.00 %	2.40 %
Growth in Number of Jobs (Weighted Average)	-0.70 %	0.00 %	0.50 %	0.50 %	0.30 %	0.00 %	50.00 %	1.00 %
Registered Unemployment	2.50 %	2.50 %	2.50 %	2.50 %	2.90 %	3.00 %	3.00 %	2.50 %

Private Consumption

Household consumption grows faster in the North of Norway than in the rest of the country. There is good reason to believe that the trend will continue. The annual growth rate in the retail and wholesale trade was as high as 11 % in the first half of 2016. At the same time the level of unemployment is low, without any indication of a rise in the near future. Together with low interest rates and a high rise in housing prices in the larger towns in the North of Norway, the overall picture shows a strong increase in the private consumption the coming two years. Following an expected strengthened Norwegian krone, imported goods will become cheaper, leading to further increase in consumption.

Investments

Investment growth in North of Norway is substantial. Since companies in the region are not heavily exposed to the oil and gas industries, the companies' investments will grow faster in the north than in the south. According to the Bank of Norway's regional network, enterprises in the North of Norway expect a higher growth in investments than the rest of the country. There is reason to believe that many companies will try to use investments to compensate for insufficient availability of qualified workers.

Housing investments will continue to grow at high pace. Growth in housing construction is significantly higher than in the rest of the country and the backlog in the construction sector is large. Calculations from the building and construction industry show pronounced rises in the level of activity. This must be interpreted as a strong increase in investments in building and construction.

The sharp increase in investments in the construction sector is partly driven by the increase in the housing prices. New country wide prognosis from the Norwegian Association of Real Estate Agents estimate an increase in prices in Nordland, Troms and Finnmark counties of 21, 17 and 15 percent respectively, for the period 2016 to 2018.

Also municipal and state investments are expected to rise significantly. New forecasts for the municipalities' investments shows an annual increase of 4 percent.

KB expects that the investments rise by some 4 percent next year. Reduced growth impulses from the export oriented enterprises leads to a somewhat lower increase in 2018.

Prospects of the Export Oriented Industries in the Next Two Years

The export achievements from companies in the north of Norway will continue throughout 2018. According to Statistics Norway, the export revenue from Northern Norway was 11 percent higher in the first eight months than the same period last year. KB predicts that this year real export will increase by 7 percent. The coming years will show a moderate increase in exports, partly as a result of lower volumes from the seafood industries, partly from a strengthened Norwegian kroner.

The export of seafood from Northern Norway this year is 25 percent higher than last year, which constitutes a record increase in the industry. The export value of Norwegian salmon so far this year is 35 percent higher than in 2015, exclusively due to higher prices. The export volume has in actually fallen by 5 percent. Looking ahead, one must expect that production volumes will be subdued by the need to fight *Gyrodactylus salaris* (salmon lice). The lice issue is beginning to influence the industry in Northern Norway, particularly in Nordland County, where the problem seems to increase. New fish farm licences that could boost the production capacity are not planned. The global supply of fresh salmon shows moderate growth. Hence, there is reason to expect that the price of salmon will stay high for a long period.

Export from the tourism industries grows fast. The winter season generated some 15 to 20 percent increase in overnight stays compared to 2015. The main cause was foreign tourists seeking northern light and arctic adventures. Even the summer months show substantial growth. Travel industry suppliers in Lofoten report 20 percent increase in the number of tourists, but all of North Norway experience the growing demand. A travel habit survey carried out by Avinor for the year 2015 shows that leisure time travels in Norway increase substantially, while the number business travels, particularly domestic flights¹, is reduced. In 2015 Avinor's international traffic increased by 1.5 percent, to 22.6 passengers. The growth in the number of travels from abroad is mainly due to foreigners' leisure travels to Norway. The flights from Oslo to North Norway are heavily influenced by the increased interest in arctic adventures.

Foreign demand of tourist experiences in Norway is quite sensitive to the currency exchange rate. In the study "A knowledge based travel industry" it was shown that 80 percent of the changes in the travel industry exports is attributed to reduced costs, where the exchange rate is the main factor. When the Norwegian krone is strengthened, it is likely that the high growth in North Norway's travel industries will be somewhat reduced in 2017 and 2018.

Export figures from the energy-intensive industries in Nordland County show an anticipated growth of 5.5 percent this year, raising the export revenues to more than 20 milliards kroner. The weakened krone and cheap electric energy has strengthened the competitive ability of the Norwegian process industry. Access to qualified workers is improved due to the layoffs in the oil and natural gas industries.

The Paris Agreement and EU's climate policy will heavily influence the prospects of the industries in European countries. Simultaneously the demand for metals and minerals will increase. The change causes growth impulses to a relatively clean Norwegian industry. However, when the Norwegian krone regains its strength, one must expect a reversal of the competitive advantage the industry has seen the last two years. A reduced growth in the exports from the industries is anticipated in 2017 and 2018. Higher export prognosis is dependent on increased demand from China. However, in the long run one must expect reduction in the export volumes and substantial lower prices of metals and minerals than what is the situation now.

The total growth in exports will diminish over time, particularly because of the decrease difficulties affecting farmed fish. The travel industries have experienced substantial growth, partly due to the weak Norwegian krone, but when the krone is strengthened, the growth will be reduced approaching 2018. KB estimates that the total annual growth in exports will be approximately 4 percent the next few years.

¹ We use the term *flight* to clarify Avinor's business nature to foreign readers.

Growth Prospects of other industries

Boiling in the Building and Construction Industries

Building and construction enterprises enjoy prosperity, and the high growth rate does not seem to stop in the near future. Figures of backlog show higher growth in North Norway than in the rest of the country, particularly in the building industries. As for building homes, the growth is highest in the counties of Troms and Finnmark. There are well founded reasons to expect a growth in revenues exceeding 10 percent in the industries, both in 2017 and 2018.

Building homes increased 59 percent compared to the same period in 2015, while in the south of Norway, the increase was 22 percent. All the North Norwegian counties have seen a substantial growth, with Finnmark in the lead with 139 percent more homes than the previous year. Troms has seen the largest growth in the building industries as a whole, showing an increase of 125 percent.

The growth in the construction activities estimated to increase by 2.6 milliard kroner next year. The growth comes mainly from road construction and energy plants, but even the maritime infrastructure will see a substantial increase next year.

The industries still experience challenges in recruiting workers like skilled labourers, technicians and engineers. As previously presented in KB, the scale of the contracts represent a major challenge to North Norwegian construction enterprises. In spite of intense efforts to develop the industries, many of the present and future contracts are way beyond the reach of the regional enterprises. The size of the assignments have increased quickly, a fact that in the long term may lead to a general reduction in the overall competence in the regional construction industries.

Mining Industries

The overall mining industry has been significantly scaled down in North Norway the last 3 years, notably after the close down of the company Sydvaranger Gruve. Collectively the employment has been reduced by 30 percent since 2012. Presently we see new, concrete establishments and initiatives that may re-vitalize the mineral industry in the region. During the next two years a number of projects will be finalized that may increase the revenues of the mineral industries in the long run.

- Sibelco Nordic plan expansions
- Elkem opens a new quartzite quarry
- The re-opening of SVG is planned
- A number of clarifications regarding copper mining in the island Stjernøya (NUSSIR)

Public Sector

The last 5 years in excess of 4000 additional people have been employed in the North Norwegian public sector. Some 50 percent were employed in state sector, primarily in the Troms County. The other 50 percent were employed in the municipalities, again with a substantial larger increase in Troms County compared to the other counties. In Finnmark County, only 66 new persons were employed in municipal management during the period 2010 to 2015.

In 2015 the employment in public sector increased by 2 percent, significantly higher than in the private sector. Still the public sector may compete with private enterprises when it comes to salaries, and as long as the public budgets continue to increase, it is expected that the rise in public employment will follow throughout 2018. In Tromsø and Bodø in particular, the growth will be substantial, as a result of the rise in the population.

Employment, Unemployment and Demographics in North Norway

Presently, the demand for workers is high in North Norway. The situation is illustrated by low unemployment

figures and reports on lack of qualified workers in the industries. The official level of unemployment – as calculated by NAV, the Norwegian Labour and Welfare Administration – is now 2.5 percent for the region as a whole, which is lower than the national average. The rate has slowly decreased lately, but there are limitations as to how low the level can be. The level of unemployment is still somewhat higher in Finnmark County than in Nordland both of which are higher than in Troms County. The pattern has been stable for a long period of time.

In the Bank of Norway's regional network, only the companies located in the south eastern part of Norway report capacity problems. The companies participating in the survey are in general not concerned by the availability of workers, but other tendencies indicate that many companies in North Norway are struggling to employ qualified workers, in particular when it comes to skilled and qualified labour and engineers.

While the high growth in the economy is maintained, it is difficult to foresee a rise in the level of unemployment. But to meet the high demand for workers, the level of employment must increase. However, the region approaches a major problem: The demographic development over the last three years points in the wrong direction. The increase in population slows down, people are aging, and the younger inhabitants below thirty years of age are moving away. Over the last ten years the immigrants have represented the growth and consequently, the growth in the level of employment in North Norway. In particular, the immigrants have been important for the rural and sparsely populated municipalities. Also in the future, the region depends on attracting workers from abroad.

Statistics Norway's figures of growth in the rate of employment are hard to interpret. Figures from different analyses show conflicting trends. If the level of immigration is maintained, one may expect a minor increase in employments in 2017 and 2018. At the same time the demographic changes point in the opposite direction. It is therefore important that both public and private sectors do their utmost to make the region more attractive both in terms of living and working conditions.

Investments in the region of 635 milliards Kroner in North Norway

In the autumn of 2016 KB has carried out a survey of planned major investments in North Norway during the next 8 years. Both public and private investments are included, showing that 635 milliard kroner are expected to be invested, of which 200 milliard kroner are related to offshore oil and gas activities in the Norwegian Sea and the Barents Sea.