Euler Hermes Economic Research

Country Report

Norway

Fighting low-for-longer oil prices

General Information

GDP	USD500.103bn (World ranking 27, World Bank 2014)
Population	5.14mn (World ranking 117, World Bank 2014)
Form of state	Constitutional Monarchy
Head of government	Erna SOLBERG
Next elections	2017, legislative

Strengths

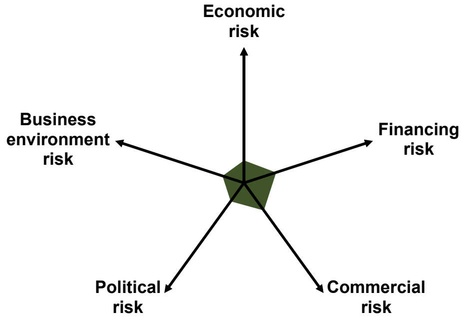
- Healthy public finances
- Strong business environment
- Second highest per capita income in Europe after Luxembourg
- Highly skilled and educated workforce

Weaknesses

- High dependency on oil
- Low diversification of the economy
- Very high household debt burden

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
United Kingdom	21%	1	15%	Sweden
Netherlands	14%	2	13%	Germany
Germany	11%	3	8%	China
Sweden	8%	4	7%	Denmark
Belgium	6%	5	7%	United Kingdom

By product (% of total)

Exports		Rank		Imports
Crude Oil	34%	1	6%	Cars And Cycles
Natural Gas	25%	2	5%	Miscellaneous Hardware
Meat	7%	3	4%	Electrical Apparatus
Refined Petroleum Products	5%	4	4%	Refined Petroleum Products
Non Ferrous Metals	4%	5	4%	Ships

Source: Chelem (2014)

Economic Overview

The weakest annual mainland GDP growth rate since 2009

Norway's GDP in Q4 2015 – excluding oil and shipment activity – expanded only slightly (+0.1% q/q) after a stagnant Q3. If domestic consumption grew by +0.6% q/q compared to +0.3% the past quarter, investment continued to decline in Q4, for the 3rd consecutive quarter. It was driven down not only by the oil sector but also by the manufacturing sector (-1.3% q/q) and general government investment (-2.7% q/q). The strong fall in oil prices (-68% since the June-2014 peak) have caused a sharp reduction in Norway's overall exports, 70% of which is gas and petroleum. These latter contracted by -16% in 2015 putting a drag on overall export performance – see Figure 2.

Mainland GDP growth (excl. oil) thus stood at +1.1% in 2015, the weakest annual rate since 2009 and overall GDP at +1.7%. Going further, we expect the low-for-longer oil prices will cost the country 0.4 point of its GDP growth. Investments, especially those in the extractive industry, were scaled down as producers cut back on capex (-2.0% in 2015). This should continue in 2016 as offshore investment is not expected to pick up.

Unemployment remains low, at 4.4% in 2015 but employment growth is much weaker than in 2014 (+0.5% against +1.1%). We expect the workforce to expand only by + 0.2% in the year ahead due to the slowdown in offshore activities.

Companies are increasingly showing signs of weakness

The corporate sector is impacted by this economic slowdown. Turnover in the manufacturing companies is on a downside trend since 2014. The hardest hit sub-sectors are shipments, machinery and oil and extraction-linked activities (see Figure 4). Meanwhile, credit to non-financial corporations is rising at a slower pace. Heightened financial risk for corporations may mean a tightening of credit conditions in 2016 which could further restrain credit in the Norwegian economy.

Supportive fiscal policies and dovish monetary policies should help face it off

In order to counter the negative consequences of lower oil prices, the Norwegian government put together a supportive 2016 budget which represents an impulse equivalent to +0.7% of GDP. The budget is made of incentives that should boost consumption and help the economy transition towards a more balanced model which is less reliant on offshore activities. The corporate tax will be reduced from 27% to 25%. All in all, tax reductions for enterprises and individuals should represent NOK 9.1 billion in 2016. The government is also increasing spending in infrastructure (mainly transport) and R&D in order to address the need for restructuring of the Norwegian economy.

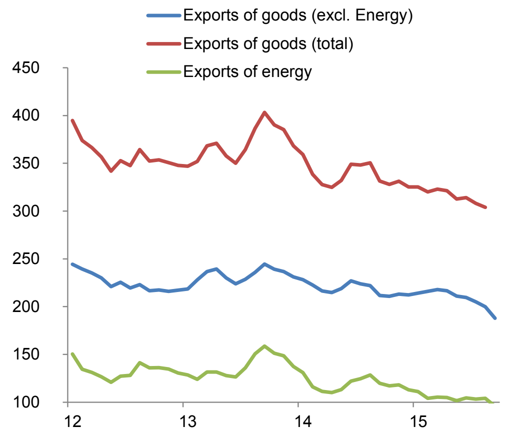
Figure 1 – Key economic forecasts

Norway		share	2014	2015	2016	2017
GDP		100%	2.2	1.7	1.0	1.6
Consumer Spending		40%	1.7	2.1	2.0	2.0
Public Spending		21%	2.9	1.8	2.1	1.9
Investment		22%	0.1	-4.0	-2.2	0.2
Stocks	*	5%	0.5	0.5	-0.3	0.0
Exports		40%	2.2	2.6	2.3	2.4
Imports		28%	1.7	0.5	1.4	2.0
Net exports	*	12%	0.4	0.9	0.5	0.4
Current account	**		377	283	279	297
Current account (% of GDP)			*11.9*	*9.0*	*8.7*	*8.9*
Employment			1.1	0.5	0.2	0.4
Unemployment rate			3.5	4.4	4.3	4.2
Wages			2.6	2.8	2.0	2.1
Inflation			2.1	2.3	2.6	2.9
General government balance	**		279	189	198	225
General government balance (% of GDP)			*0.1*	*0.1*	*0.1*	*0.1*
Public debt (% of GDP)			*28.1*	*28.4*	*28.5*	*29.5*
Nominal GDP	**		3 153	3 141	3 200	3 346

Change over the period, unless otherwise indicated:
*contribution to GDP growth
**NOK bn

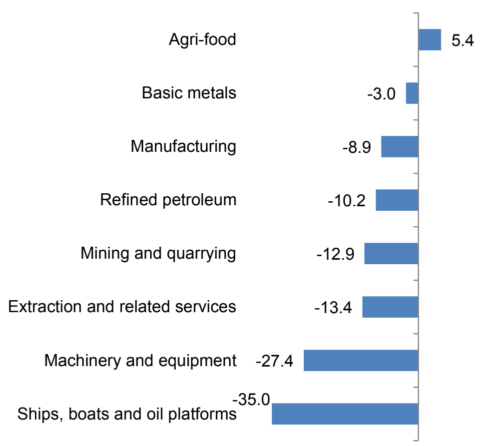
Sources: National sources, IHS, Euler Hermes

Figure 2 – Exports of goods



Sources: National sources, IHS, Euler Hermes

Figure 3 – Turnover by sector, 12M/12M change, November 2015 / November 2014



Sources: National sources, Euler Hermes

Meanwhile, the Central Bank has cut rates again in March (-25bp to 0.5%) and is likely to announce further rate cuts in 2016 as the Norwegian Krone continues to depreciate against the euro (-14% since June 2014 – see Figure 5).

Households show resilience

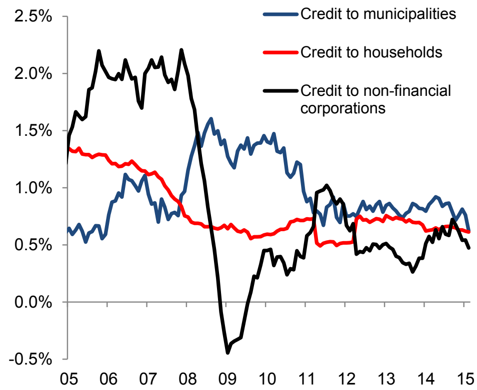
The households' savings rate stood at 15% of gross disposable income in the end of 2015 while credit to households (Figure 4) continues to expand. The increasingly supportive stand of the Central Bank as well as moderate wage growth continues to support the housing market. House prices briefly leveled out in late 2013 and are on an increasing trend since (+5% in 2015). Household debt remains on watch as it stands at very high levels (220% of disposable income).

Business insolvencies remain 1.5x above the 2007 levels

Business insolvencies entered a downward trend in 2015 (-7%) after many consecutive years of strong increases. Prospects remain dampened by the fall in oil prices and the deteriorating outlook for external demand (notably within the emerging markets). Slower wage growth and the depreciating real effective exchange rate help improving firms' competitiveness and partly offset the slowdown in GDP growth. In addition, the resilience of households' spending is also a positive driver.

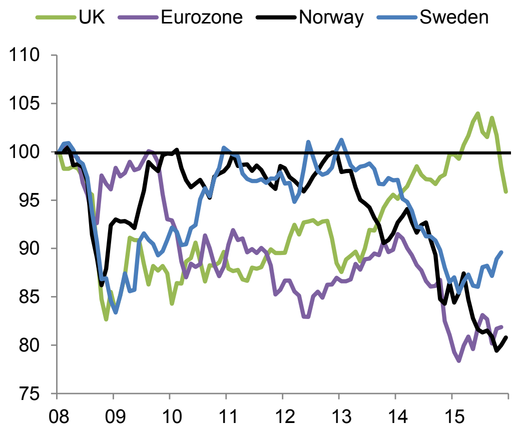
We expect business insolvencies to continue to fall in 2016 and 2017, by -3% in each year, to reach 4,200 cases in 2017 (see Figure 6).

Figure 4 – Credit growth, y/y



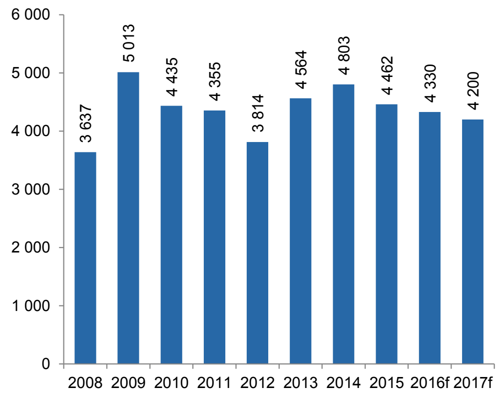
Sources: National sources, Euler Hermes

Figure 5 – Real effective exchange rate, Jan 2008 = 100



Sources: IHS, Euler Hermes

Figure 6 – Business insolvencies, total cases



Sources: National sources, Euler Hermes

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