

English Summary

Assessment of Short-term Economic Trends and Special Topics

Chapter I Short-term Economic Trends Assessment Autumn 2017

The Economic Council and Statistics Faroe Islands have jointly estimated growth in GDP in current prices for the years 2016 – 2018. Provisional figures for GDP for the years 2014 – 2015 are now available as well, the compilation of which was based on the supply/production side of the GDP. According to the most recent data, the growth in GDP in actual prices for 2014 is somewhat higher than estimated in the previous report. On the other hand, the estimated growth for the years 2015 – 2018 is somewhat lower than projected last Spring. The amended estimates for economic growth for the years 2016 – 2018 are based on new conditions that stem from the consequences of a decline in the price of oil and new estimates regarding the export of services. In the main, economic growth in 2017 in current prices is driven by private consumption, public investment and export.

	2014	2015	2016	2017	2018
Estimated growth of GDP in current prices	7.5%	5.6%	6.8%	6.0%	4.1%

This economic trends assessment follows the demand side (expenditures side) of the GDP. The demand for goods and services is derived from two sources: from domestic demand for consumption and investment, and foreign demand for net export (*i.e.* export minus import).

Consumption has been the most stable element of domestic demand, while investment has been the most inconstant component.

At the beginning of the 2008 financial crisis, the balance of trade was a negative DKK 1.517 million, excluding vessels. Today, the balance of trade has recovered to a positive DKK 1.895 million, excluding vessels. This represents an improvement of some DKK 3.4 billion.

Economic indicators over the last half-year clearly suggest an upward moving business cycle trend, characterized by low unemployment, high employment, immigration, housing shortages in the central region of the country and economic growth. The prospect is for a surplus in the national accounts for 2017 and 2018.

Chapter II Analyses of Special Conditions Impacting Short-term Economic Trends

In this report, the Economic Council has explored the conditions present in the construction industry and the housing market, and, in addition, the special circumstances relative to the financial management of the municipalities.

During the recent year, the Faroese construction industry has experienced significant wage drift. Construction companies have so much work in the pipeline that they are now engaged in a competitive bidding war to attract the most skilled and experienced workers. This is indicative of a major bottleneck within the construction industry that impacts the current economic trends.

The major population growth observed over the last few years has resulted in a surge in the Faroese population in 2017 to over 50,000 with a concomitant increase in the demand for housing. The data indicates that this population growth can mainly be explained by the the upward moving business cycle trend. We can never exclude that this soaring economic trend shifts to a declining trend, such that net immigration swings to net emigration with the consequential result that the population of the Faroe Islands again declines. Undoubtedly, this net immigration is one of the

conditions that has exacerbated the pressure on the housing market, especially because the growth in population happened so quickly.

After 2012, the number of new-built homes declined, while at the same time the number of employees in the construction industry increased. One possible explanation for this dichotomy could be the major public and private investment projects that occurred throughout the country since 2013, which were not focused on investment in housing. These investment projects engaged a growing number of carpenters and related trades people, both local Faroese and foreigners. Thus, we can state that the substantial combined private and public investment occurring since 2013, to a large degree, has curtailed home construction, while at the same time accelerating the growth in costs associated with housing construction and renovation.

The construction industry work force can be subdivided into three main groups, namely those who work and reside in the Faroe Islands, those who reside in the Faroe Islands and work abroad, and foreigners who work in the Faroe Islands. The Economic Council notes that foreign workers account for around 240-300 or 12-15% of the nearly 2,000 wage earners in the construction industry.

Analyses of the national and municipal accounts, grounded in data from the Faroese financial management system for the public sector, reveals that there is a need for a coordinated and harmonized management of the entire public economy. It is especially important to ensure that the economy of the municipalities comes under the spending ceiling framework that now only applies for the economy of the central government.

The data suggests that fiscal policies that correlate positively with the economic cycles are once again present. The Economic Council did not warn against the average yearly size of the investment expenditures. What the Economic Council did warn against was the uneven levels of annual investment that follows from a fiscal policy that correlates positively with the economic cycles. Such a policy reduces the macro-economic stability of the country by making the swings in the economic trends greater than they otherwise would be.