6 January, 2020

Macro Research

Weekly update 2/2020

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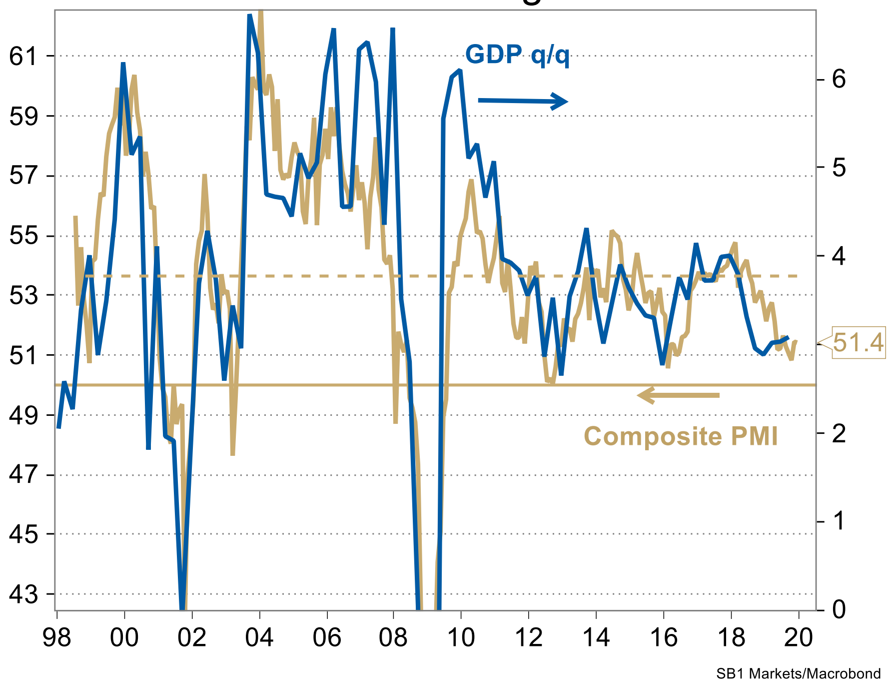
Last week – the main takes

- **Geopolitics:** Risk markets pulled back and the oil price surged after the news that a US airstrike in Baghdad, ordered by Trump, had killed a top Iranian general. The attack recharges tension in the Middle-East – and Iran quickly vowed to retaliate. No major news from the US/China **trade war** font, and the phase 1 deal will be signed in January. However, more and more are commenting on the various underlying conflicts between the two countries, which could have profound impact on the global economy the coming decades
- **Global manufacturing PMI** ticked down 0.2 p in Dec, to 50.1, 0.1 p above our estimate. The PMI points to a modest uptick in global manufacturing production, to some 1% growth. Both US and China reported marginally slower growth and the Eurozone a slightly steeper decline. **The US manufacturing ISM** once again fell short of expectations by noting a 0.9 p decline, to 47.2. Markit's PMI is much more upbeat, the gap between the two is unusually large. **Both China's composite PMIs** fell but remains at high levels. One survey reported unch growth in manufacturing activity, the other a minor decline, both indices have improved swiftly recent months
- **Global foreign trade** slowed in October and the trend is still slowly downwards. However, both global retail sales and manufacturing production probably both rose in November
- **US durable goods orders** are still not pointing towards a recovery in the manufacturing sector or in business investments. Both **new home sales** and **pending home sales** rose marginally and are trending up – and **house prices inflation** is slowly accelerating. Imports are declining, reducing the **trade deficit**, while exports have stagnated. **Conference Board consumer confidence** held steady in Dec, at a high level. **Minutes from the Fed's December meeting confirm** that the FOMC is confident with it neutral stance and will leave time to assess the full impacts of the recent rate cuts
- **Norwegian LFS unemployment** fell marginally to 3.8%, trending up since the spring. Participation and employment both retreated, following a steep upturn in the spring. LFS data are volatile, our take is that a flattening of unemployment is more likely than an increase. **Retail sales** gained pace in November, boosted by Black Friday sales, however, the Q4 GDP growth contribution was most likely muted. **Norwegian auto sales** remained low in Dec, regulatory

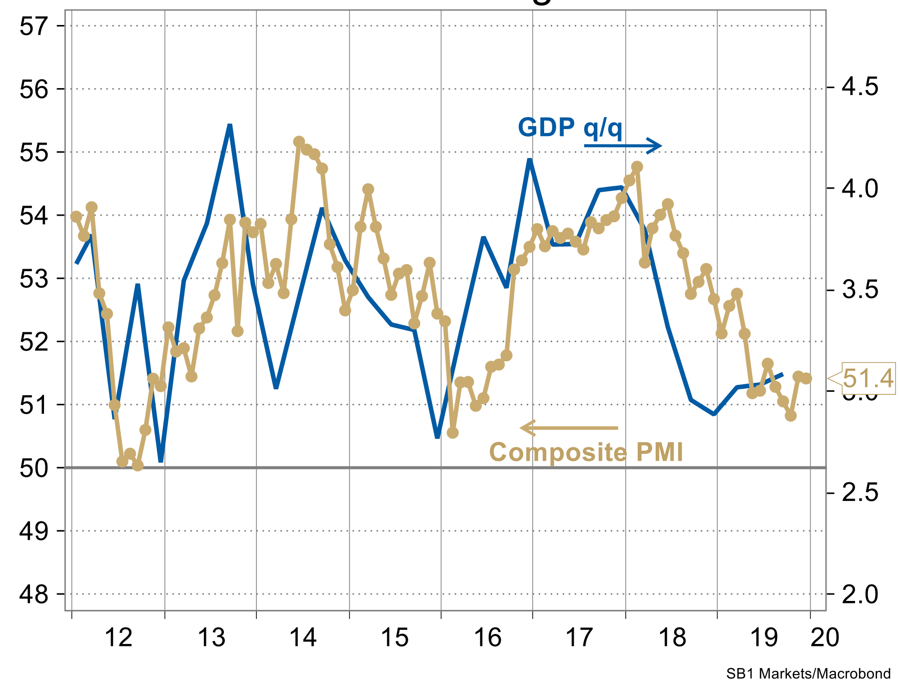
Global PMI probably close to steady in Dec, still points to a modest growth uptick

We estimate a marginal decline PMI to 51.4 in Dec, signalling 3%+ global GDP growth

Global PMI vs growth



Global PMI vs growth



- The composite PMI probably fell marginally in Dec, according to our estimate (but an unch. print is almost just as likely). The index has stabilized since the spring and suggests just above 3% global GDP growth, a small uptick from the 3% pace in Q3 – which by the way has been the (rather stable) growth rate since Q3 2018
- The PMI has fallen by more than 3 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 8 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, and US. The estimate is uncertain

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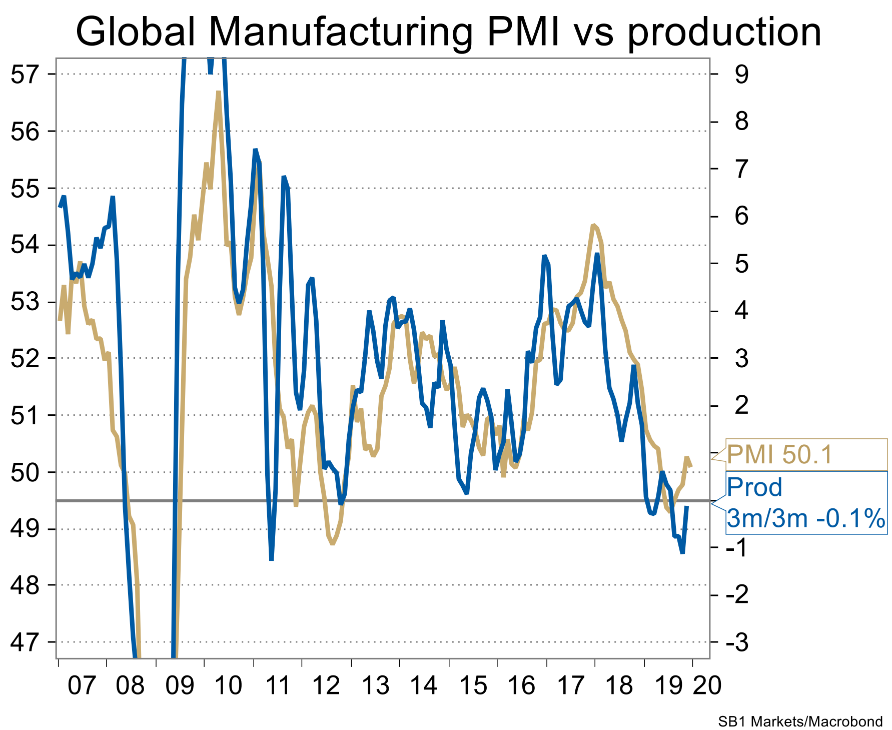
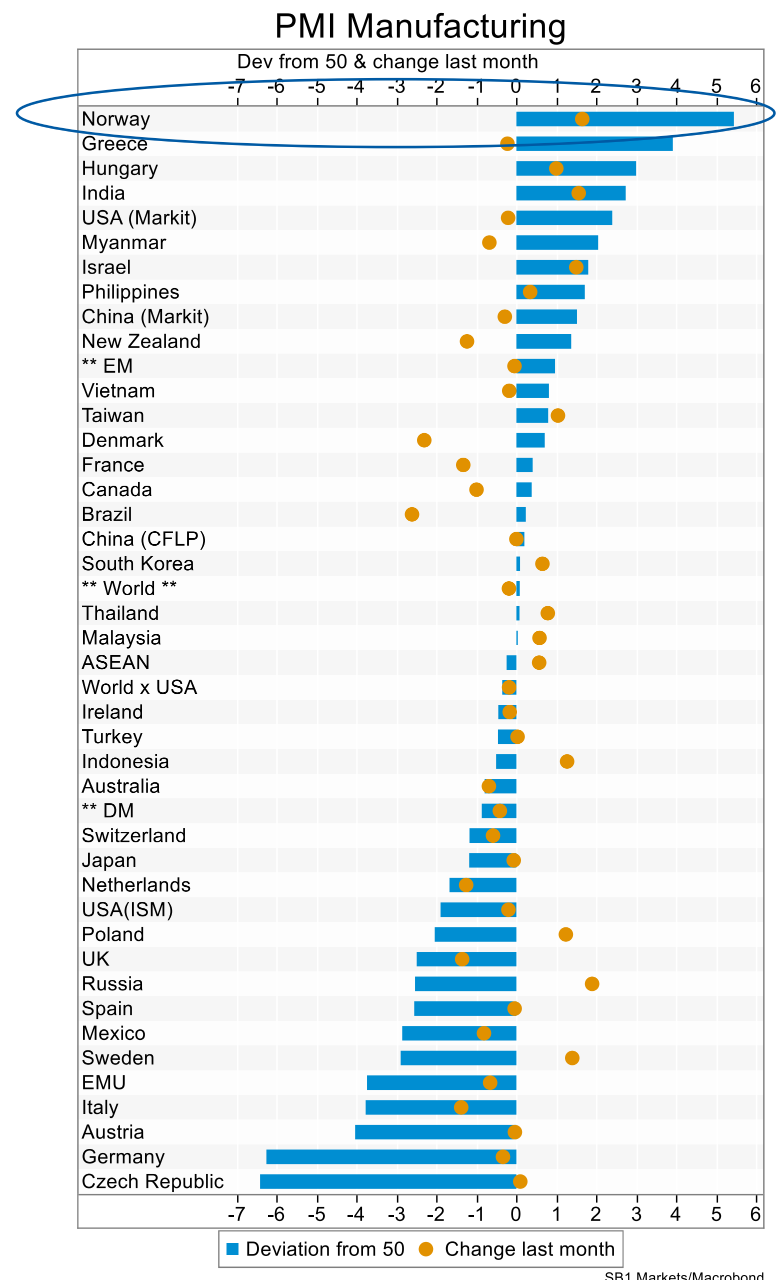
Manufacturing PMI signals 0.5 - 1% prod. growth

PMI inched down 0.2 p in Dec, after a 4 months' upturn

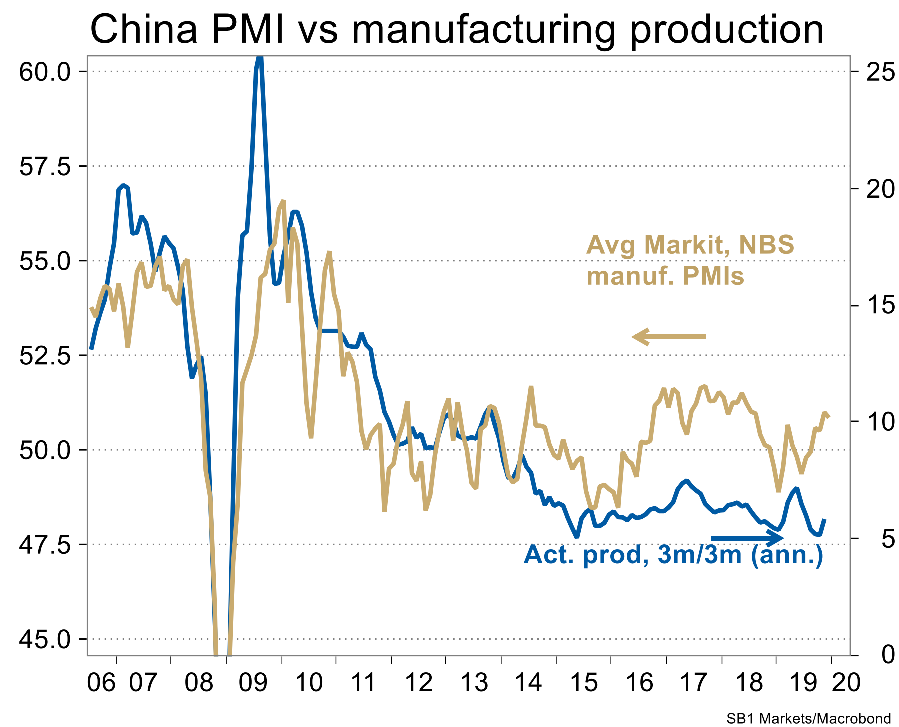




- PMI fell 0.2 p in Dec, to 50.1, we estimated -0.3 p. The slight decline comes after 4 months of steady increase, reflecting a recovering sector. The PMI points to some 0.5 - 1% increase in global manufacturing production, vs a 0.1% decline now (measured 3m/3m)
  - 16 (from 25) countries/region PMIs rose in Dec, and 23 declined (from 13)
  - 22 of 43 countries/regions are below the 50 line
  - Developed Markets edged down 0.4 p, Emerging Markets up 0.1 p
  - Norway (& Greece) at the top ☺

Manufacturing PMIs still point to a manufacturing rebound

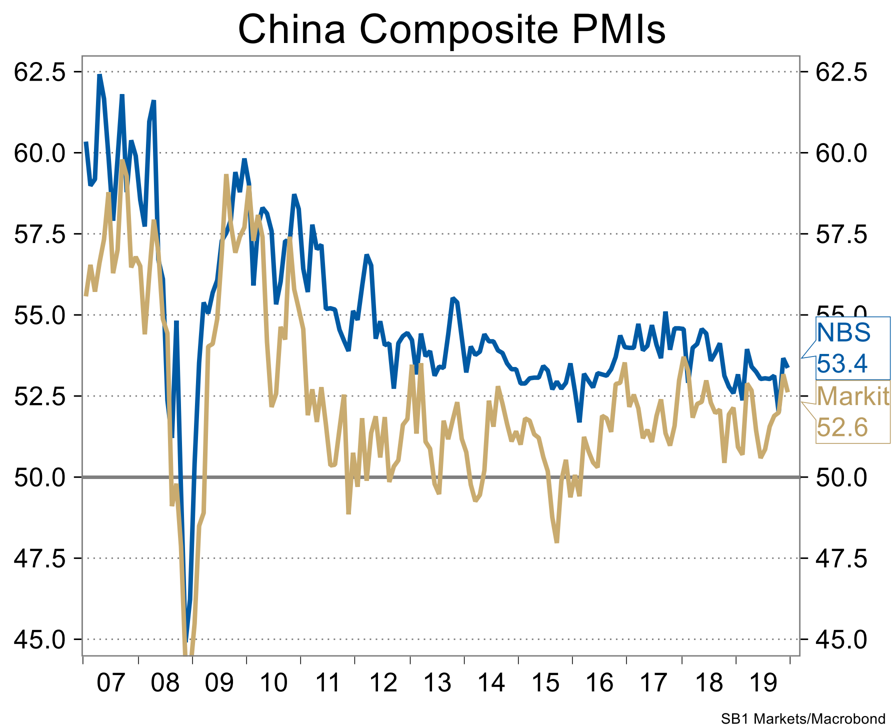
Markit's manufacturing PMI edged down 0.3 p to 51.5, NBS/CFLP steady at 50.2

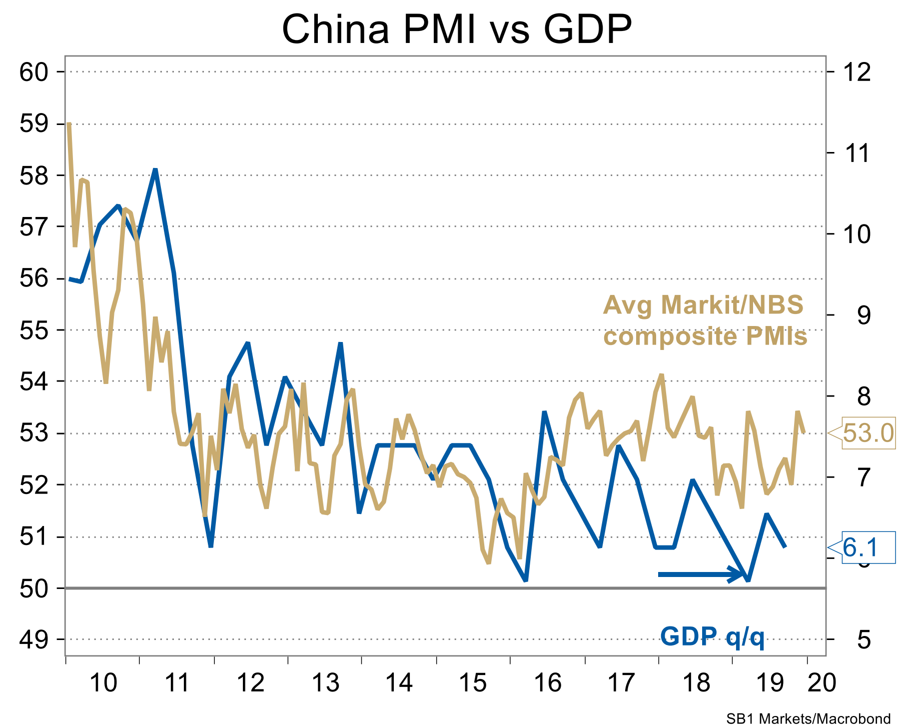


- Markit's manufacturing PMI came down 0.3 p in Dec, expected unchanged. The level is the highest in a year and far above the avg since 2012, (at 49.9, and the world has survived that pretty well..). New orders are still increasing at a fast pace, although somewhat slower in Dec
- The 'official' NBS/CFLP manufacturing PMI was unchanged at 50.2 in December, in November, the highest level since March (but still below the avg level). The index for total orders inched down to 51.2, signalling decent order growth – and the export orders PMI rebounded strongly
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs is suggesting faster growth in the manufacturing sector
- Policy implications: Less pressure to stimulate the economy, more self confidence in the trade negotiations with US

Both composite PMIs down but just marginally, and level still 'high'

The avg of PMI surveys signals higher GDP growth

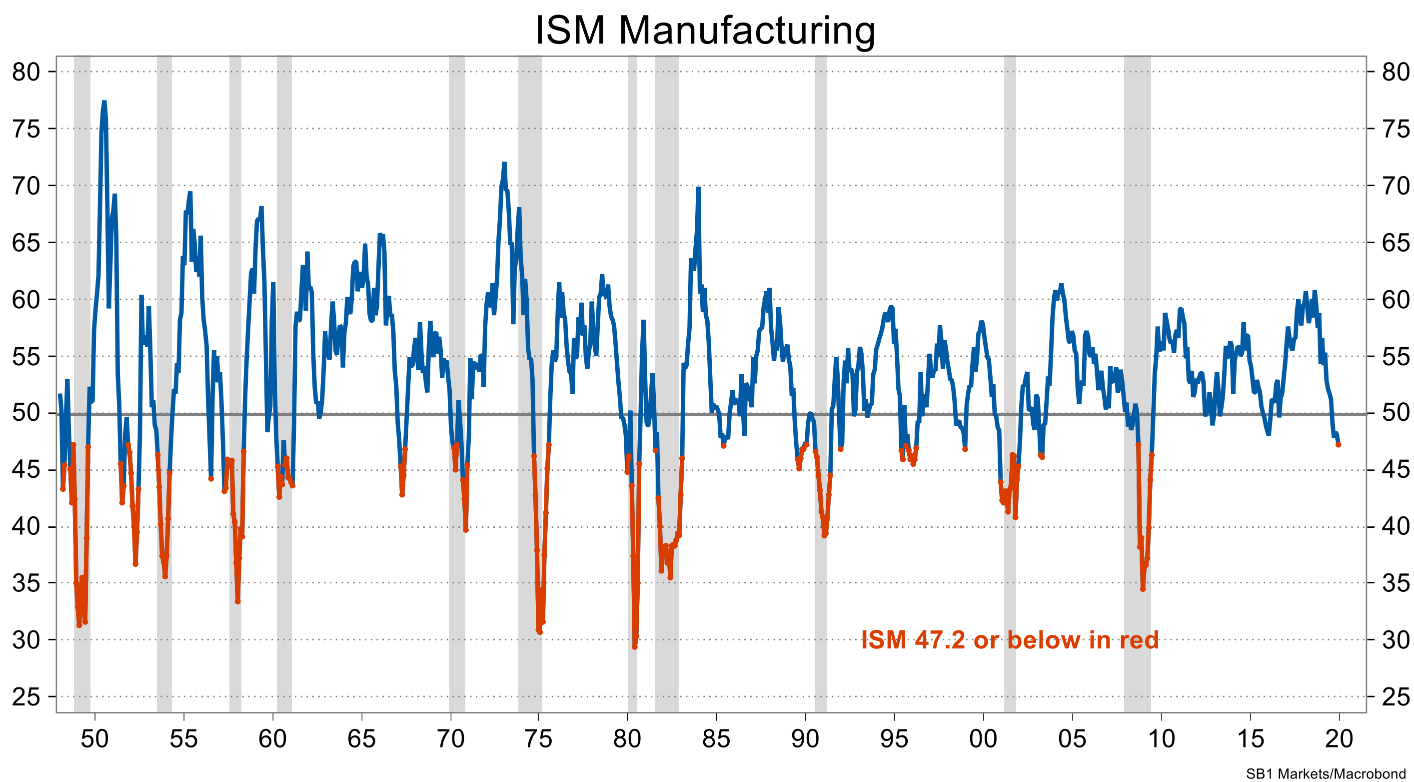




- NBS' 'official' composite PMI (CFLP) fell 0.3 p to 53.4 in Dec, as services lost some momentum (the index fell to 53.5) The composite PMI at 53.4 is still reflecting higher growth than through most of 2019
- Markit's composite PMI declined 0.6 p to 52.6 in Dec, following an increase from 50.6 in June. The service PMI fell here too
- In avg, the two PMI data sets have recovered since the early summer, and signal higher, not lower growth

Manufacturing ISM further down in December, weakest since 2009

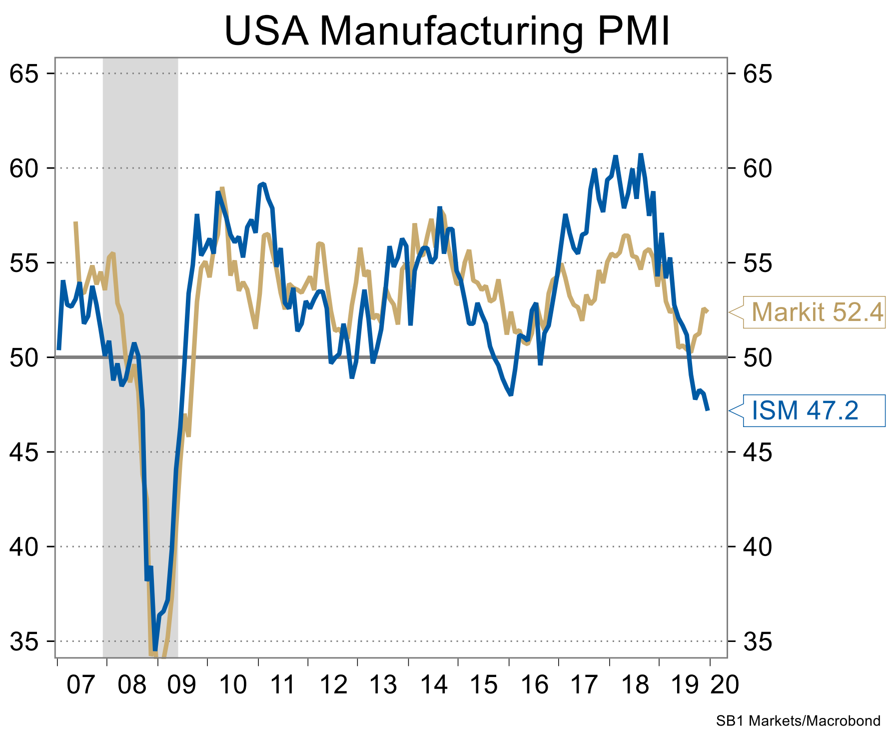
At present level, 70% recession risk, based on the history. Other surveys/data do not agree

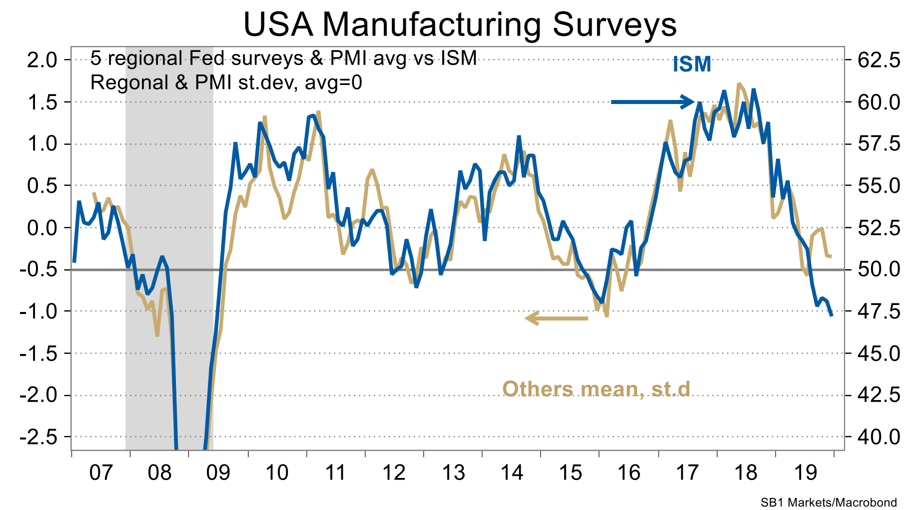


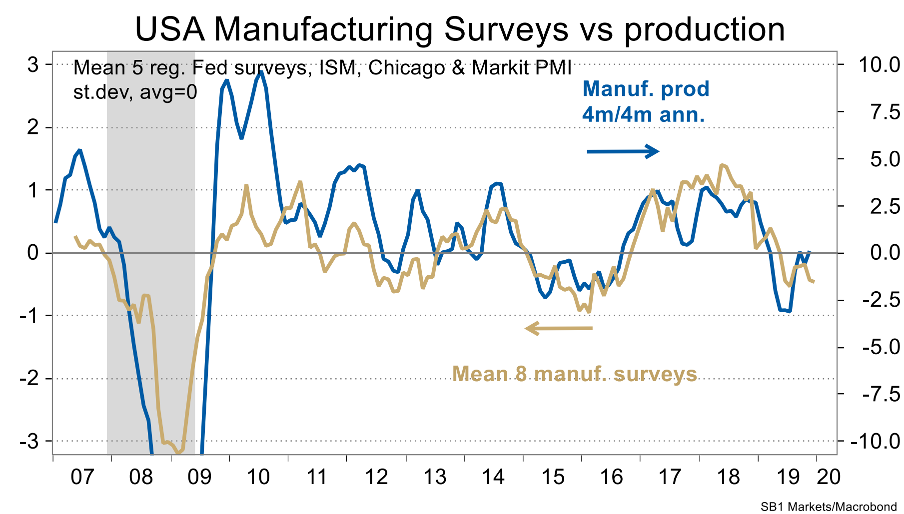
- Manuf. ISM dropped 0.9 p to 47.2 in December, a 0.9 p increase was expected. The level is the lowest since the Financial Crisis. Other surveys are not that downbeat, the gap to Markit's manufacturing PMI at 52.4 is the second largest ever (since '07)
  - » In the ISM survey, just 3 out of 18 sectors reported growth (like in Nov) and 15 (up from 13) sectors reported a contraction, a weak mix
  - » Global trade stated as an important reason for the slowdown but the demand weakness must be quite wide spread, domestic orders are tumbling too
- The manufacturing ISM has fallen to the present level (or below) some 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions, and 6 times without any outright recession. Thus, the odds are not that attractive. In addition, GDP growth slowed substantially every time the ISM fell to the present level

ISM says 47.2, the others at '51' – and Markit's PMI at 52.4

The average of 7 other manufacturing surveys equals an almost 4 p higher ISM, at 51







- Markit's manuf. PMI inched down 0.2 p in Dec, 0.1 pp more than first reported. The level 52.4 at anyway signals a recovery
- The regional surveys were mixed in Dec; 3 up, 3 down. The avg held steady at '51' (rebased to an ISM level)
- The past two years, the manufacturing ISM was much stronger than Markit's PMI. However, Markit has been closer to the ball vs actual production recent years

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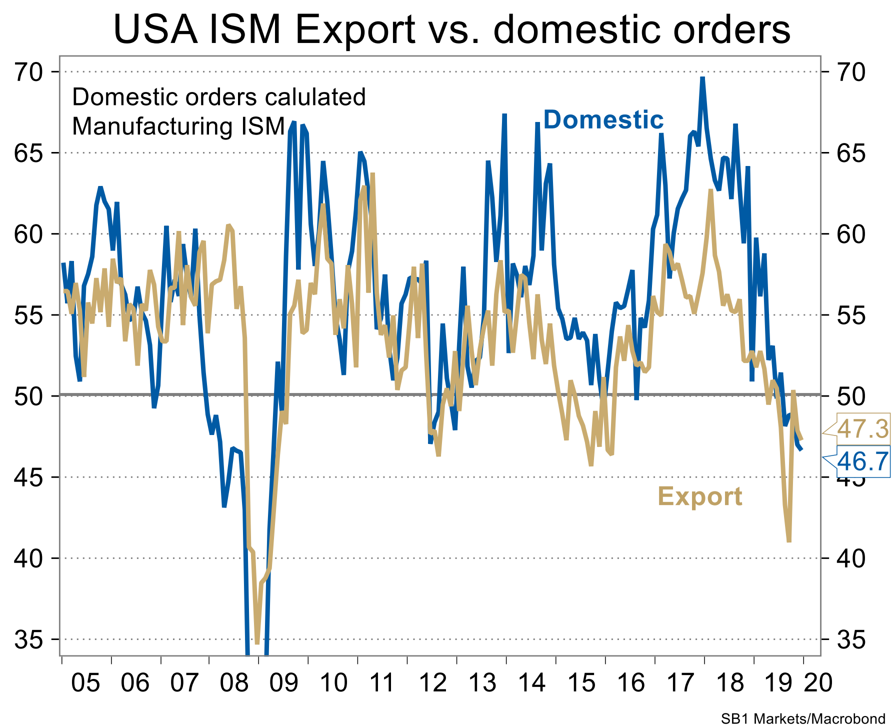
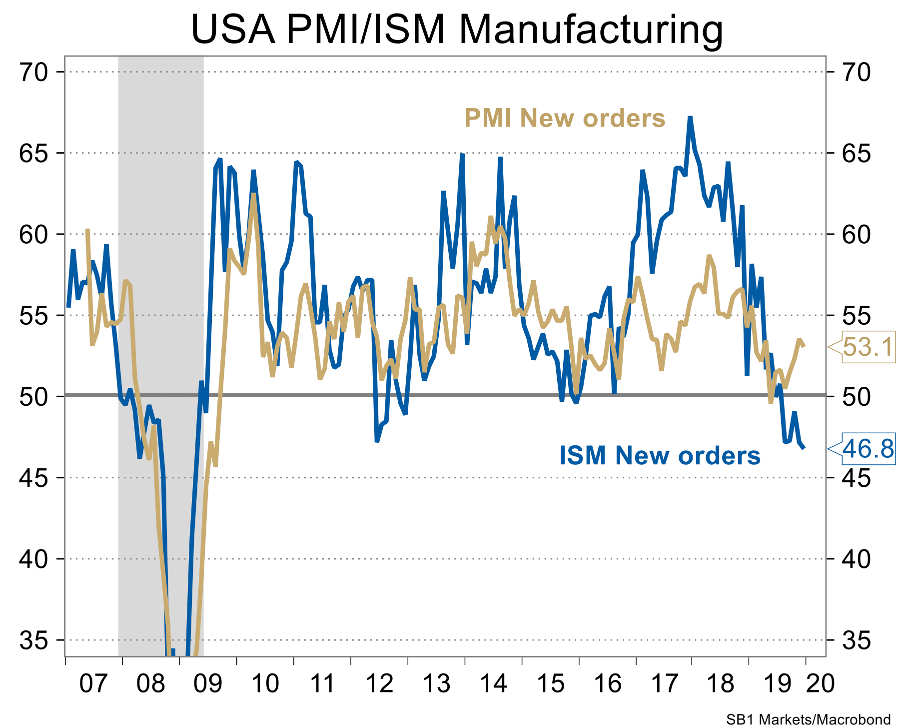
Global trade cannot take all the blame – domestic orders are even weaker

Both export orders and domestic orders fell at a steeper pace in December

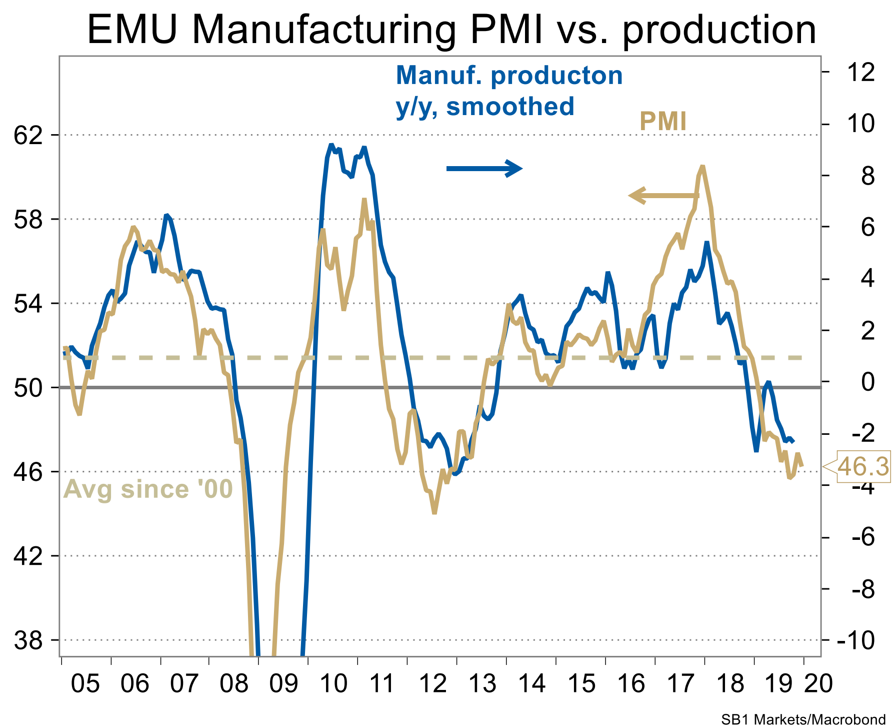


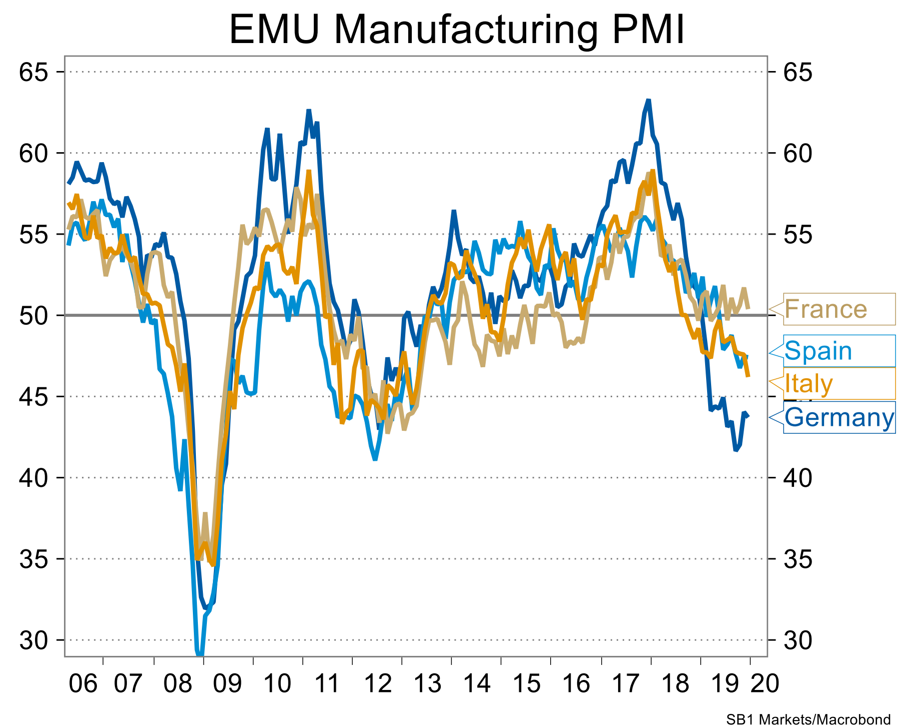


- The past months, the PMI order index has recovered, to a level at 53.1, which is marginally <u>above</u> the average. The ISM total order index, on the other hand, is much weaker than normal, and fell to 46.8 in December
- Both surveys have been reporting a recovery in export orders recent months, although the ISM is weaker than Markit, and parts of the upturn was reversed in Dec

Manuf. PMI reflects a deep manufacturing slump but may have bottomed out

Final manuf. PMI fell 0.6 p to 46.3, up 0.4 p from the first report. Germany a tad better, Italy down

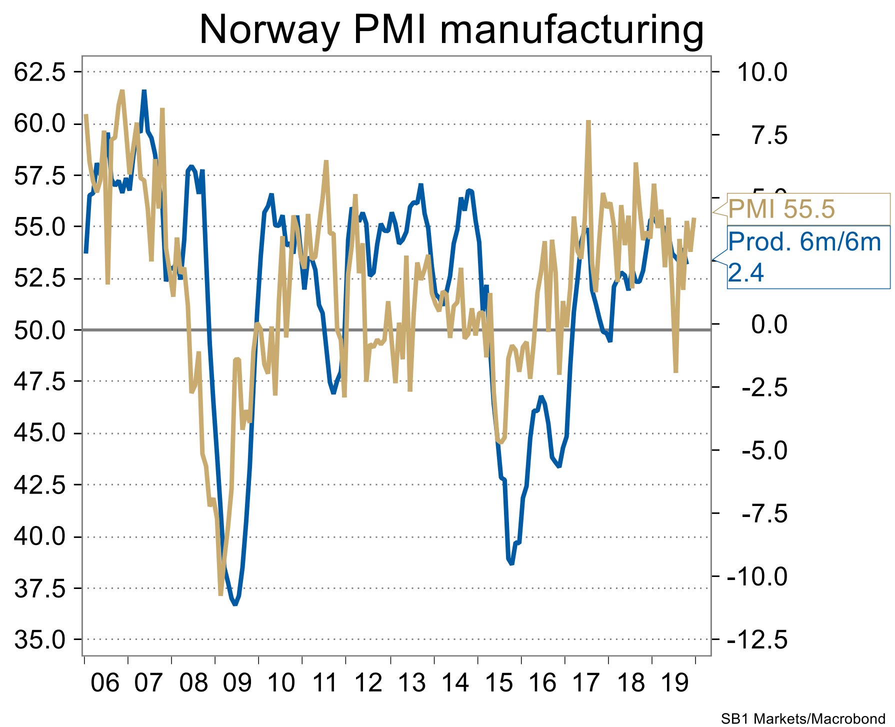


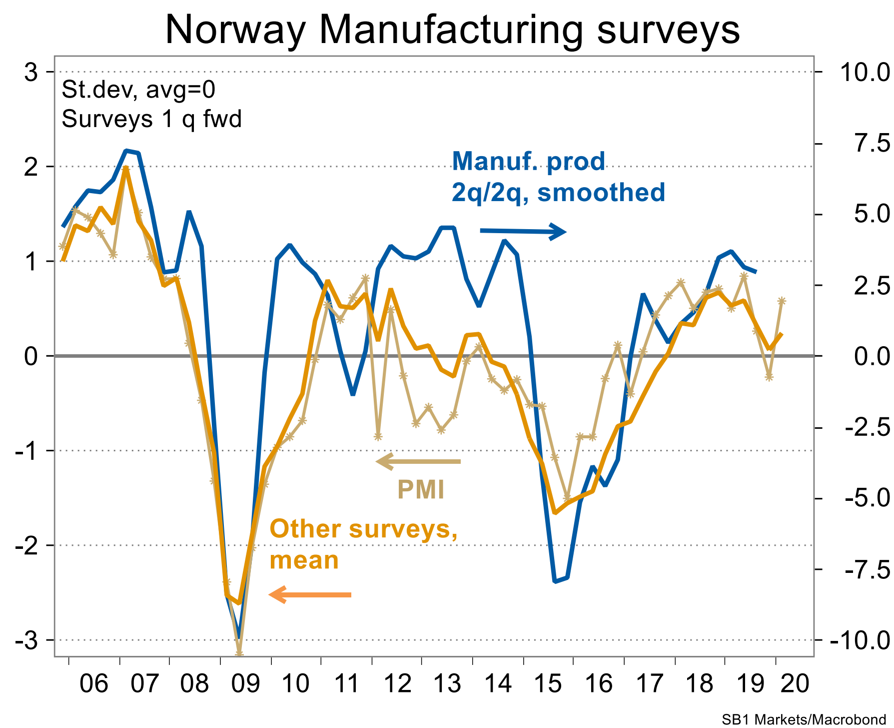


- The **manufacturing PMI** has stabilized at a low level the past few months, still reflecting a deep contraction in production, by some 3%
  - » New orders are falling at a slower pace and inventories have been adjusted, suggesting that the downturn may have bottomed out
- The slowdown is the most fierce in Germany, even as the PMI has edged up since Sept. In Dec, the PMI fell 0.4 p, 0.3 p above the first report. Activity has stagnated in France and is retreating in Italy and Spain

Manufacturing PMI edged further up in Dec, to a surprisingly elevated level

PMI rose to 55.5 in Dec, rebounding since late summer. The PMI is more upbeat than other surveys

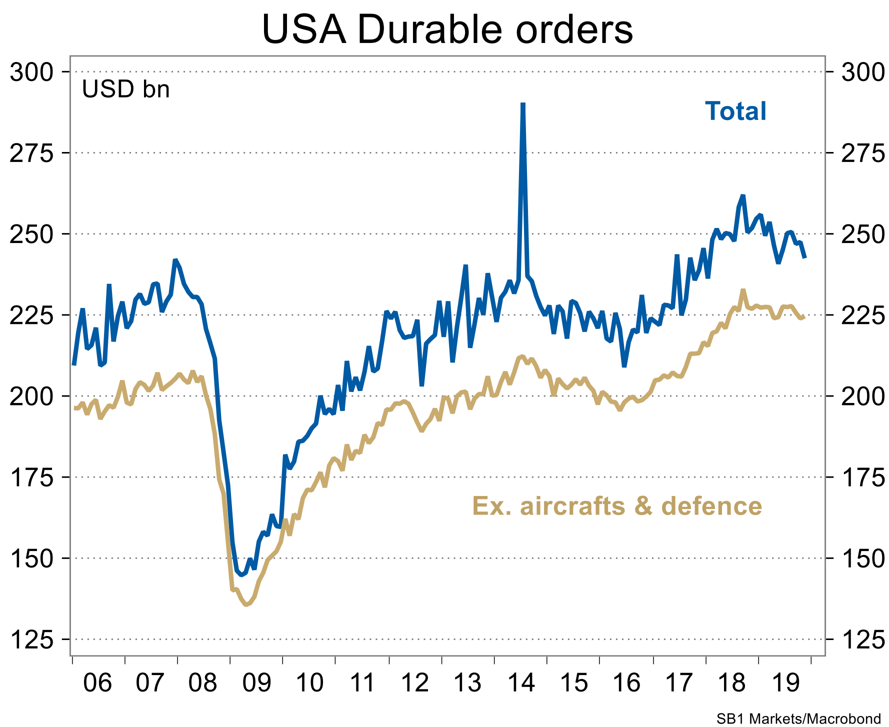


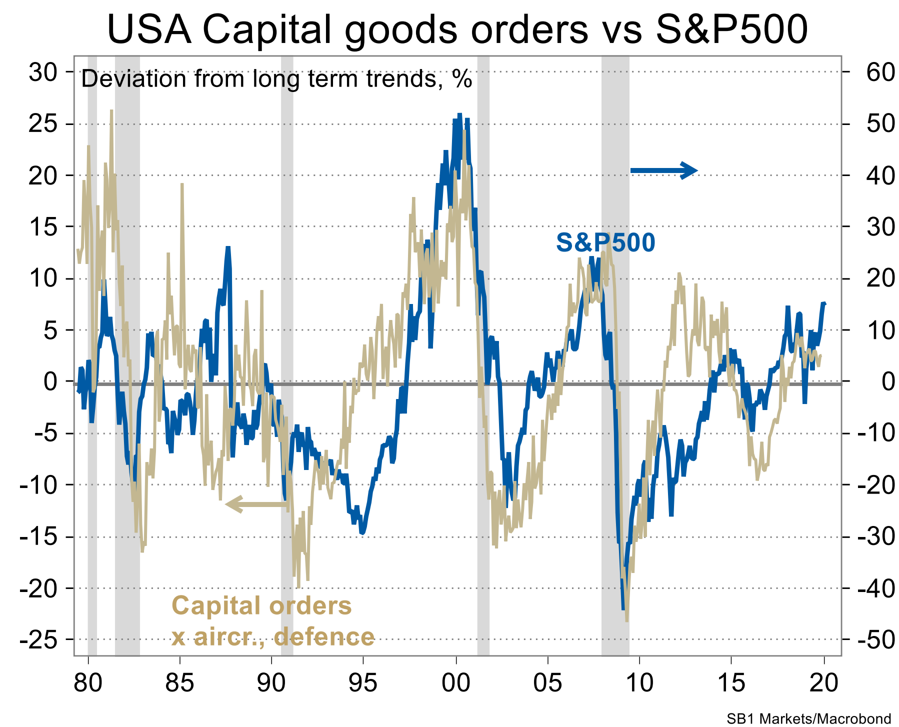


- The PMI rose by 1.7 p in Dec, the level at 55.5, well above expectations. The Norwegian PMI is very volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 54.8, the highest since May after climbing since late summer
  - » The PMI slipped in July, data collected during this month are not trustworthy. The PMI recovered in Aug and has been edging up since then
- The PMI is more volatile than other business surveys – the survey is now more upbeat than the avg of other surveys. The Regional Network reports a market slowdown and Statistics Norway's manufacturing survey is signalling zero growth
- Taken together, manufacturing surveys signals a slowdown in production, to some 2% (vs 3% in Q3)

Durable goods orders are sliding down, core orders barely flattish

Total orders down in Nov (due to defence), core slightly up. No investment setback signalled

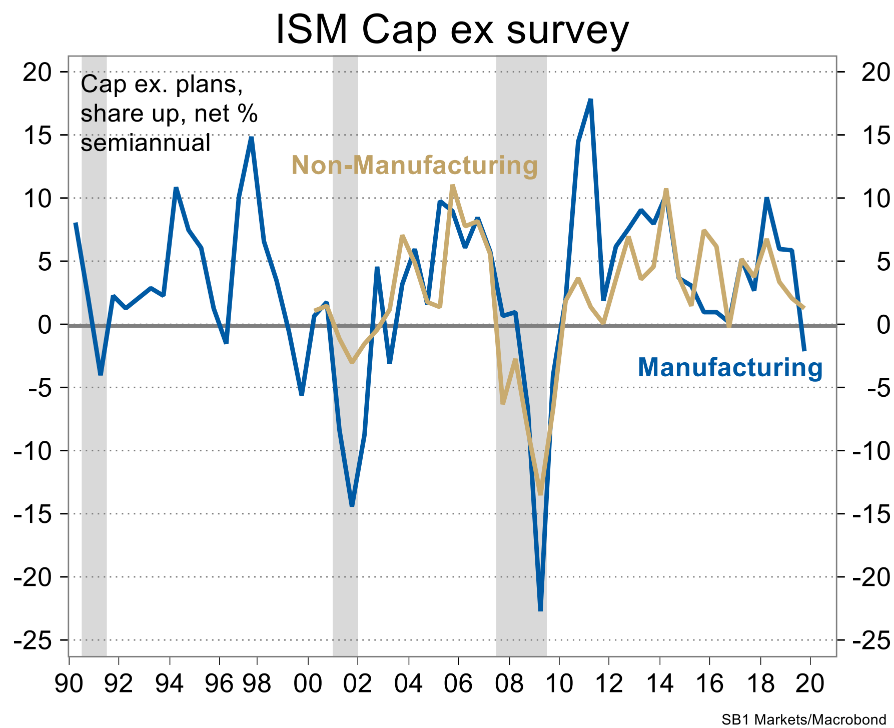


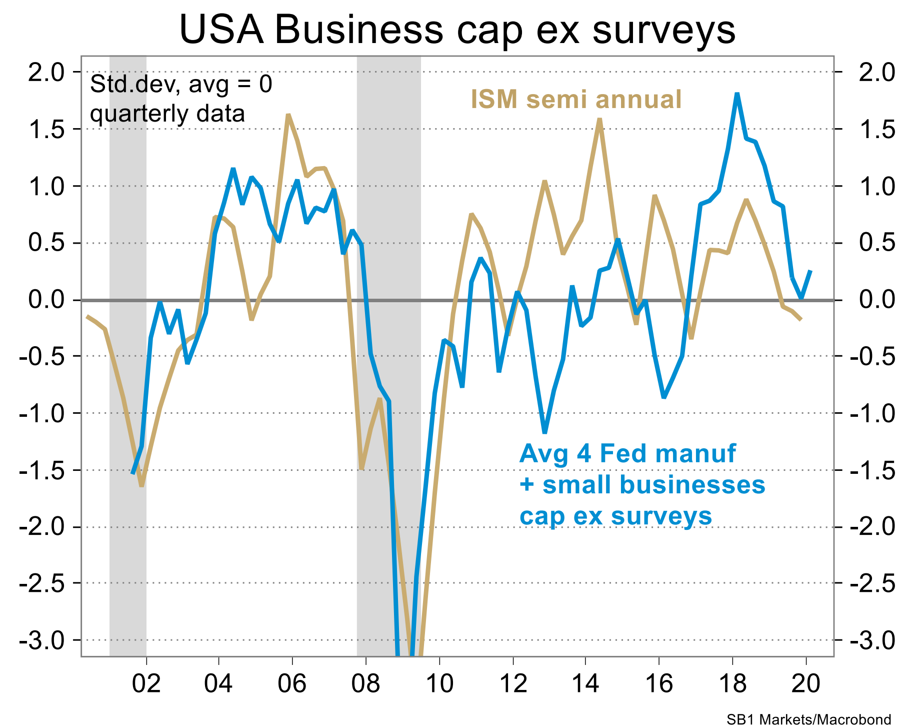


- Total durable orders fell by 2% in November, mostly due to a decline in (volatile) defence orders. Since early 2019, aircraft orders have been falling due to Boeing's troubles, which explain the downward trend in total orders
- Core orders (ex civilian aircrafts and defence orders) edged up 0.3% in Nov. Core orders have stagnated for more than a year, the 3m/3m pace is -5% (but just -0.2% 6m/6m)
- Core capital orders inched up in Nov, the trend is no better than flat. Capital goods sales fell. However, given the Oct and Nov prints, Q4 does not look that weak, for sales or business investments

Mixed investment surveys, yet none are really weak

The ISM semi-annual survey signals a further slowdown, reg. Fed surveys are slightly more upbeat

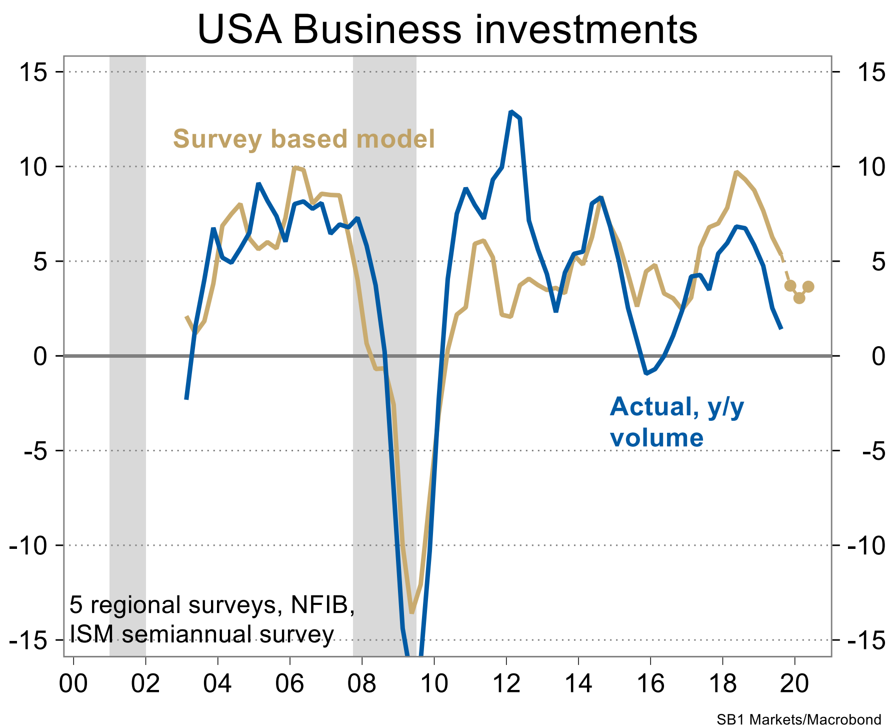




- Manufacturing companies reported a sharp decline in investment plans in December vs the H1 ISM semi-annual survey. However, they are not reporting significant cuts in investments, like they did during the 2001 and 2008 recessions (however, in line with the 1991 survey, during the recession then). Service sector companies reported a moderate slowdown, and not anything close to recession like
- The investment outlook component in regional Fed surveys are somewhat stronger than the ISM survey, and in December those who have reported have been more upbeat

Investment surveys: Still not reporting investment cuts

However, they are not that reliable



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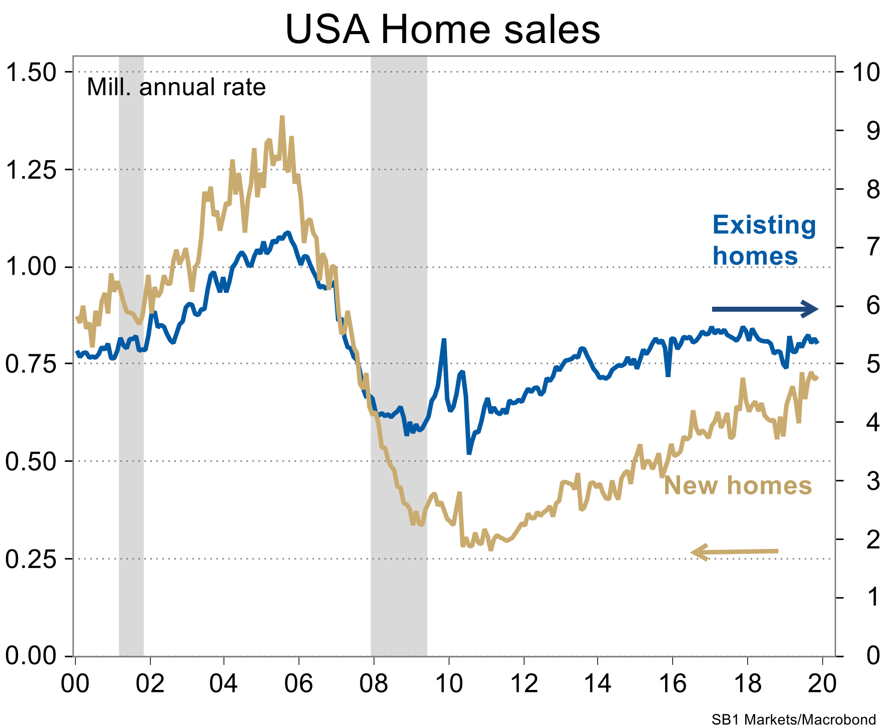
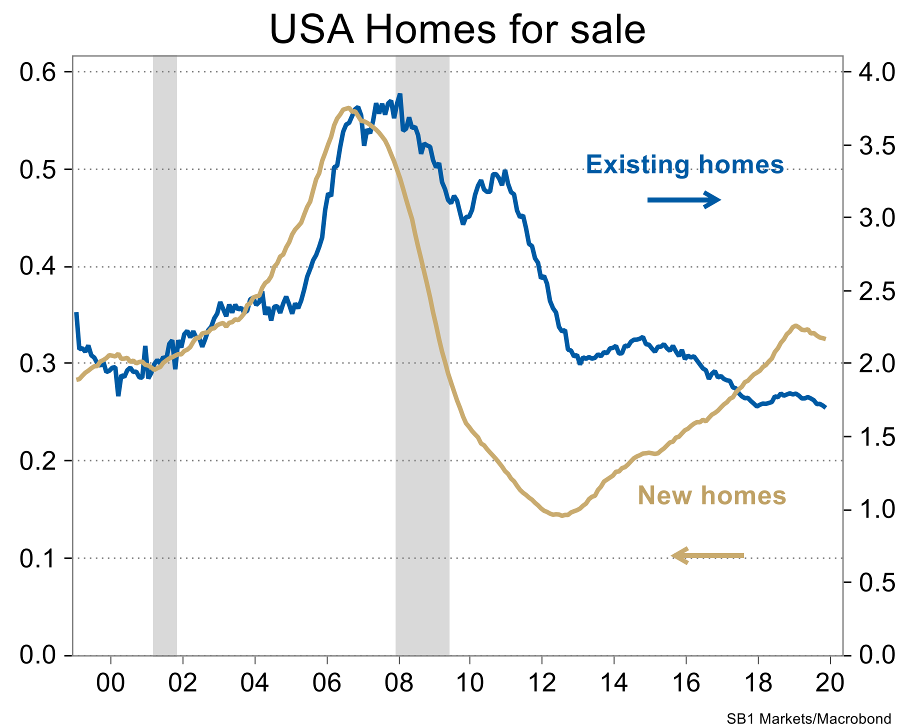
New home sales flat the past 3 months, longer term trend straight up

Sales rose marginally in Nov, after a downward revised Oct. No of homes for sale are heading down

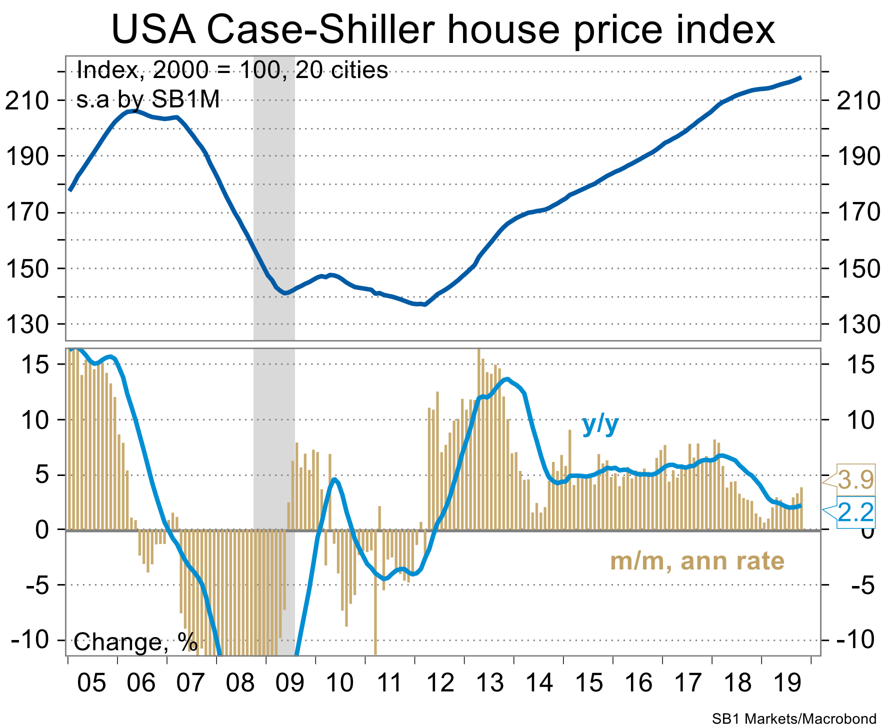


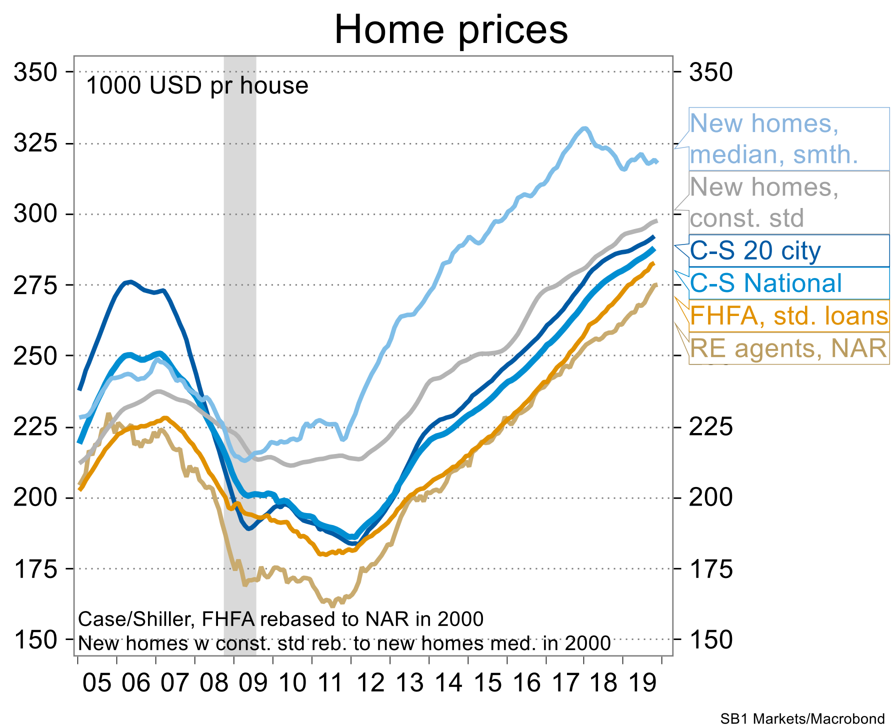


- New home sales rose 1.3% m/m in Nov, to 719'. The level is lower than expected, due to a 23' downward revision of Oct. Regardless, sales are trending straight up and are now 3% higher than the 2017 local peak! (but much lower than the pre-2008 levels)
  - » The number of unsold homes is heading down, both for new and existing, indicating strong housing demand. The number of completions have turned slowly down recent months too but are still trending up
- Existing home sales have recovered since last autumn but the level is still below the local peak in 2017

Case Shiller house price inflation is gaining pace again

C-S prices rose 3.9% annualised in Oct, highest in 1 ½ years, reflecting an upbeat housing market

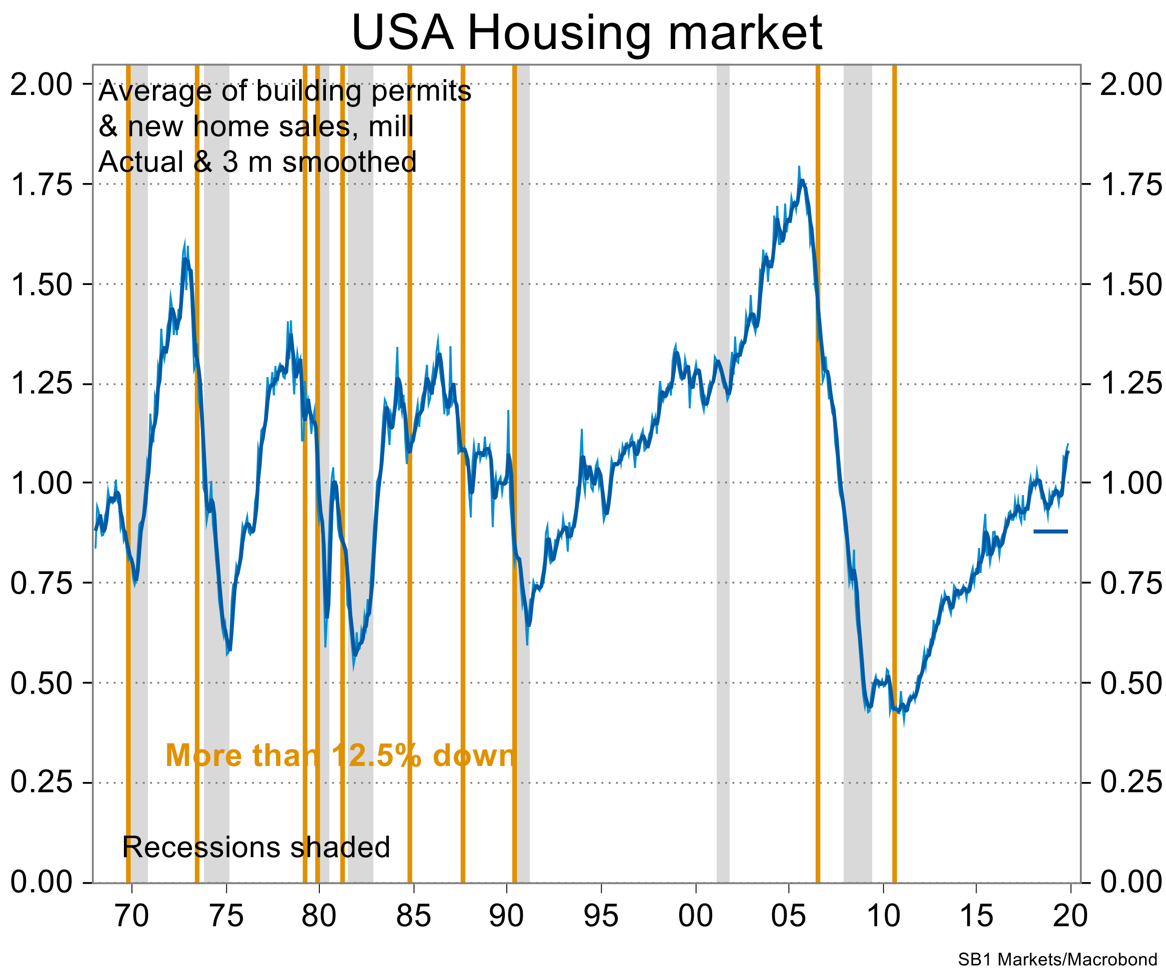


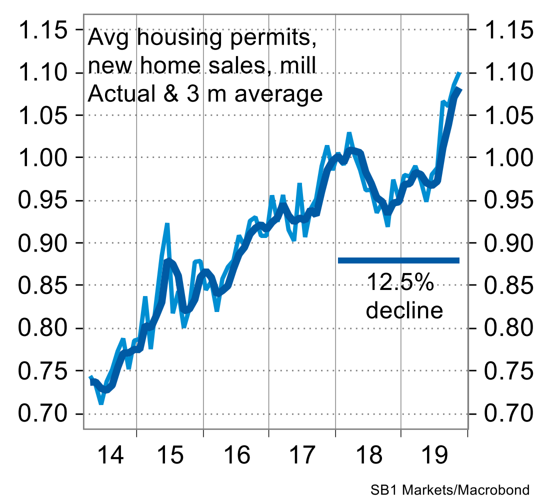


- Case-Shiller house prices rose by 0.3% m/m in October, equalling a 3.9% annualised speed (from an upward revised 3.3% in Sept). This is the highest since the summer of 2018. House price inflation has slowly accelerated since early 2019. Annual rate at 2.2%
  - » We apply our own seasonal adjustment, which is needed because there is a substantial residual seasonal pattern in the 'official' data. The official Oct figure was +0.4% m/m growth
  - » Other price indices on existing home prices confirm an upturn. However, new home prices are still declining
- The CS 20 city (nominal) avg is 6% above the 2006-peak level. The national avg (including more than the 20 cities) is 15% above the peak (while the real price levels are well below previous peak and much lower vs household income)

Housing vs. recessions: No warning sign now, to put it mildly

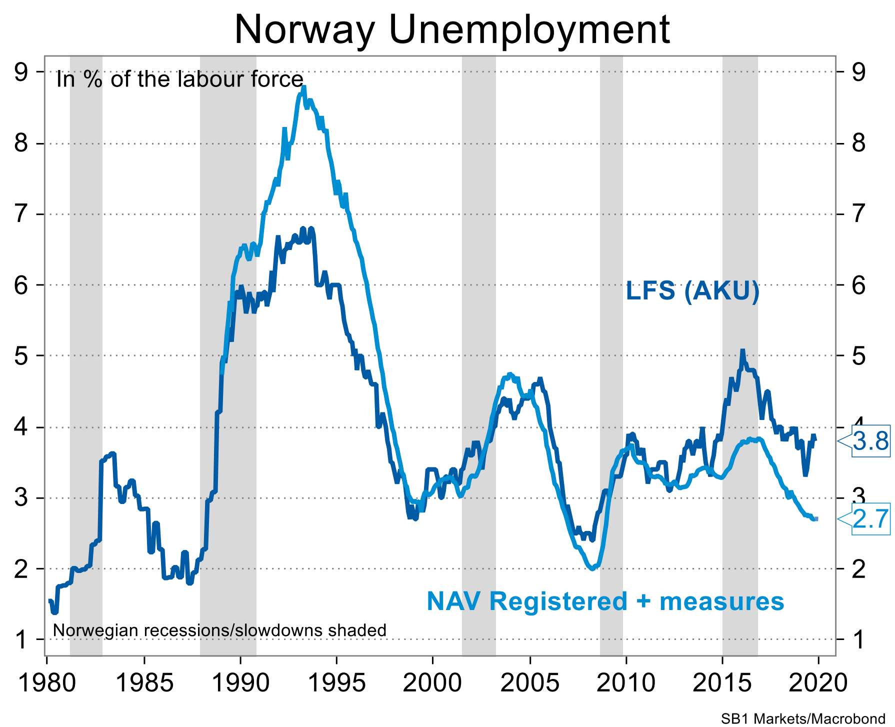
Both building permits and new home sales are heading up steeply, reflecting brisk growth in demand

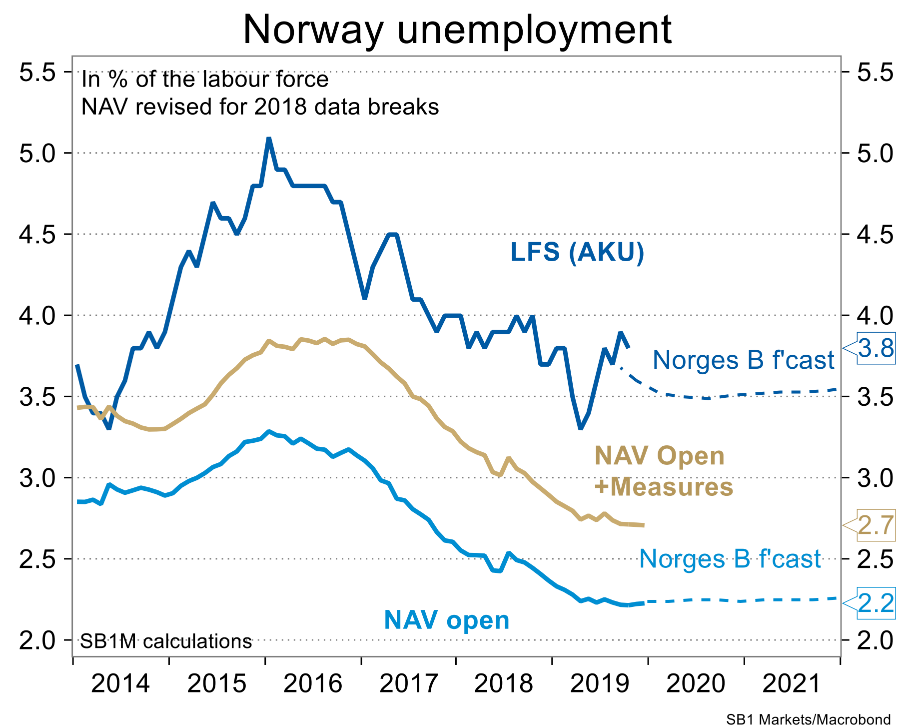




LFS unemployment inched down to 3.8%, employment growth is easing

Unempl. fell 0.1 pp in Oct, as participation edged down. Rate still up 0.5 pp since last summer

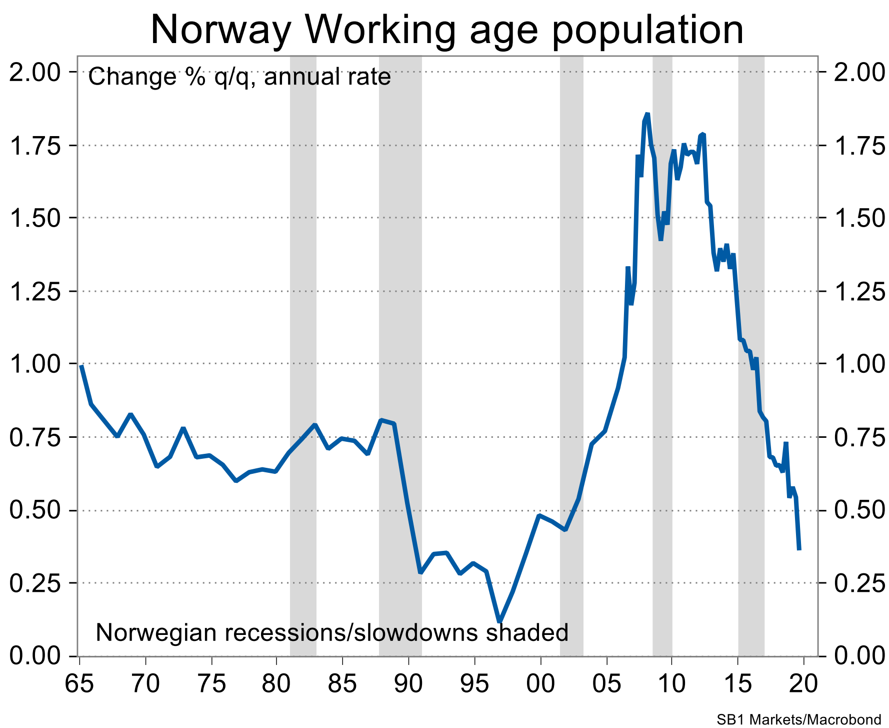


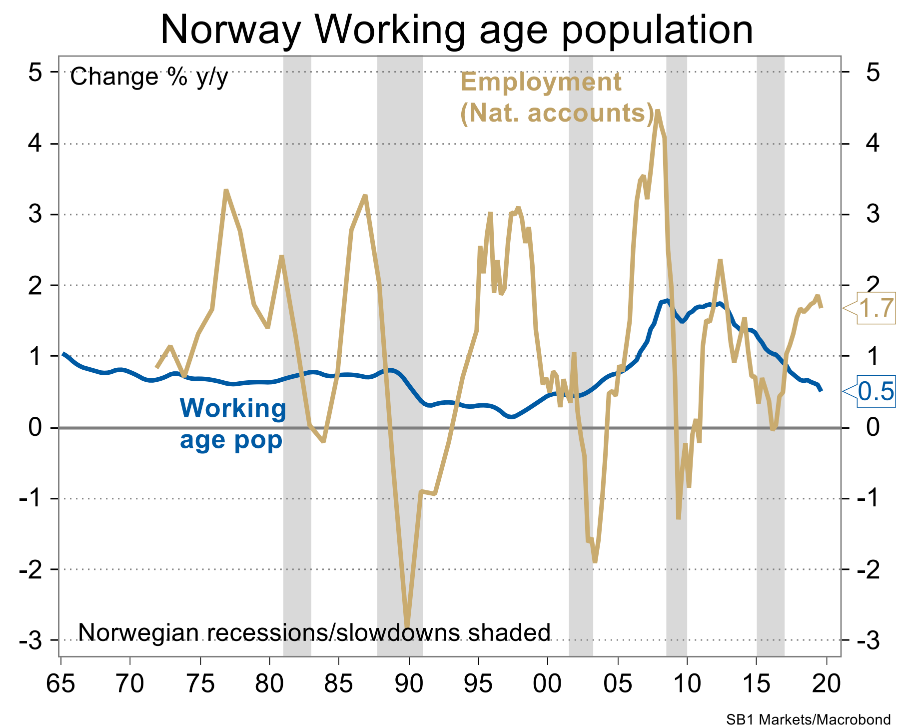


- LFS (AKU) unemployment inched down to 3.8% in October (avg Sept-Nov), in line with our f'cast (consensus unchanged), Unemployment has ticked up since early spring, to the highest levels in a year. However, these data are volatile, we doubt unemployment is trending up (and anyway not fast); a stabilization is more likely – like NAV is reporting
  - Norges Bank assumed a 3.6% unemployment rate in Oct (implicitly) and expect unemployment to head down to 3.5% the coming months Too optimistic?
- Both employment and labour market participation came down for the 2nd month; this time participation fell more than employment. The downturn in participation comes after a steep rise in the spring/summer, bringing unemployment up. Employment growth has slowed, the annual rate down to 0.8%, from 2% one year ago. Nat. Acc., which is more accurate, said 1.7% in Q3. Working age population growth is low
- NAV unemployment is flattening out, confirming a cooling labour market. Still, any sudden shift at the labour market is unlikely

Working age population growth the slowest in 2 decades

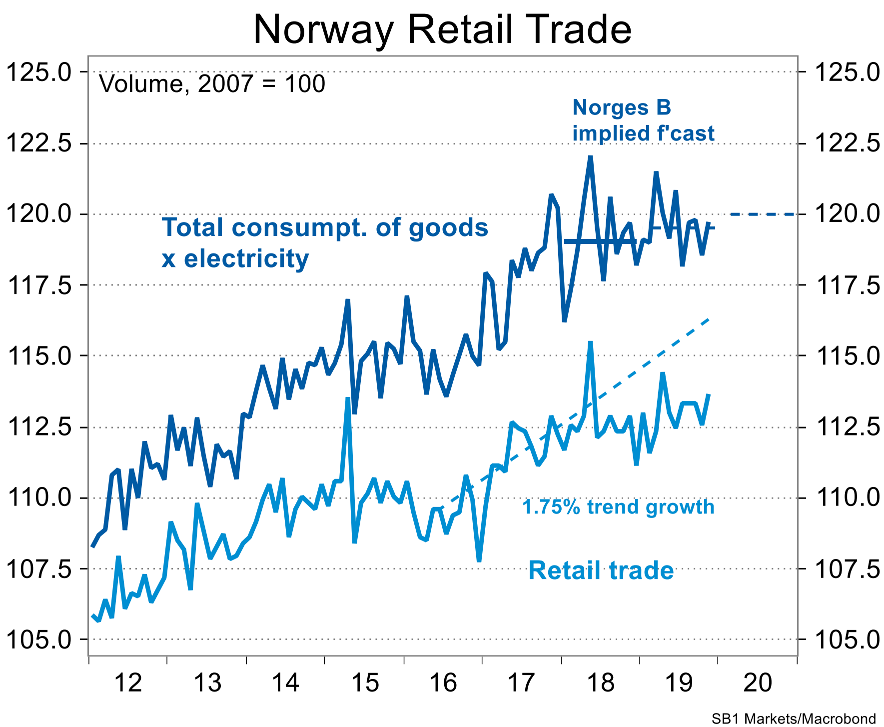
Over time, impossible to keep employment up at today's level

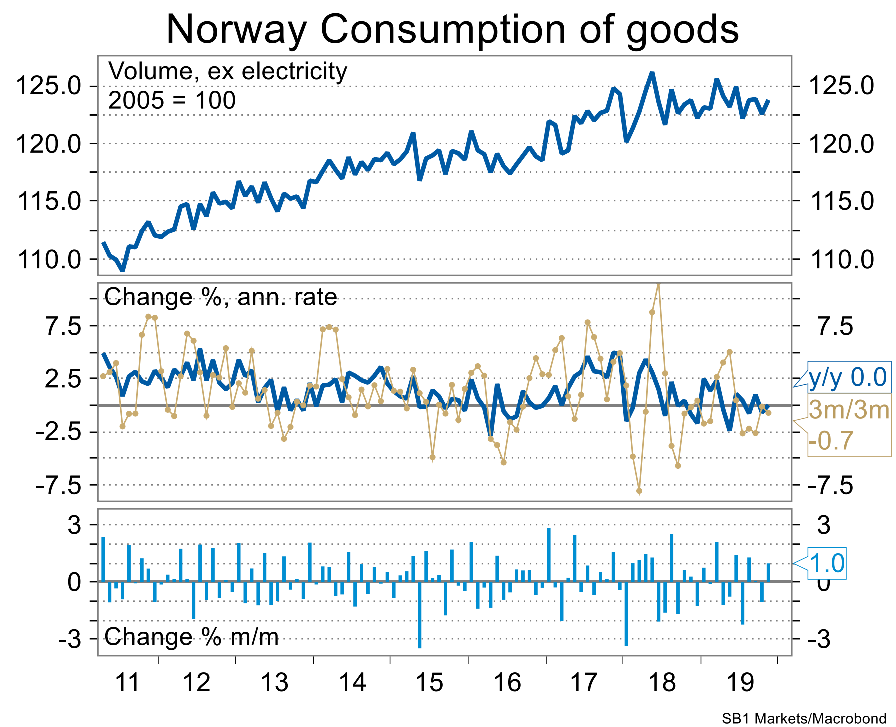




Retail sales recovered the Oct loss but remain flattish in H2

Retail sales rose 1.0% in Nov, as we expected, saved by Black Friday? Auto sales a drag on total cons.





- Retail sales volume (ex auto) increased by 1% m/m in Nov, as we expected (consensus at 0.5%). Thus, sales more than recovered from the Oct slip – we assume due to impacts from Black Friday sales, which are not yet fully integrated in the seasonal adjustments. Sales are trending slowly up but have been flat recent months. Measured 3m/3m, sales are up 0.5% (annualized) and the annual rate is 0.7%
- Total consumption of goods (ex electricity) rose equally by 1.0%. Consumption has been sliding down since the summer, partly driven by lower auto sales. The speed so far in Q4 is low, suggesting just a marginally positive GDP contribution
- Retail sales have flattened in H2 and total consumption of goods is declining. Consumer confidence is softening, as is the labour market and household credit growth. Are consumer becoming more careful? In the Dec MPR, Norges Bank nudged down the 2020 consumption f'cast to 1.6%, from 2.3%, **a substantial revision**

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The Calendar

In focus: Final Dec PMIs/ISM, US nonfarm payrolls, Norwegian house prices, credit growth, CPI

Time	Country	Indicator	Period	Forecast	Prior
TBA	CH	Total Credit Growth CNY	Dec	--	1750.0b
Monday Jan 6					
10:00	EC	Eurozone Composite PMI	Dec F	50.6	50.6
10:30	UK	Composite PMI	Dec F	48.5	48.5
11:00	NO	House Prices, m/m, sa	Dec	(0.1%)	0.2%
15:45	US	Markit Composite PMI	Dec F	--	52.2
17:00	WO	Global Composite PMI	Dec	(51.4)	51.5
Tuesday Jan 7					
01:30	JN	PMI Composite	Dec F	--	49.8
08:00	NO	Credit Growth YoY	Nov	(5.5)	5.6%
08:30	SW	PMI Composite	Dec	--	47.2
11:00	EC	Retail Sales MoM	Nov	0.6%	-0.6%
11:00	EC	CPI Core YoY	Dec P	1.3%	1.3%
14:30	US	Trade Balance	Nov	-$44.5b	-$47.2b
16:00	US	ISM Non-Manufacturing Index	Dec	54.5	53.9
Wednesday Jan 8					
08:00	GE	Factory Orders MoM	Nov	0.2%	-0.4%
08:00	NO	Manufacturing Production MoM	Nov	-0.1%(0.0)	0.0%
09:30	SW	Retail Sales MoM	Nov	0.3%	0.2%
11:00	EC	Economic Confidence	Dec	101.4	101.3
14:15	US	ADP Employment Change	Dec	160k	67k
Thursday Jan 9					
02:30	CH	CPI YoY	Dec	4.7%	4.5%
08:00	GE	Trade Balance	Nov	21.3b	21.5b
08:00	GE	Industrial Production MoM	Nov	0.8%	-1.7%
08:00	NO	GDP Mainland MoM	Nov	0.3%(0.2)	0.1%
11:00	EC	Unemployment Rate	Nov	7.5%	7.5%
13:30	US	Challenger Job Cuts YoY	Dec	--	-16.0%
14:30	US	Initial Jobless Claims	Jan-04	221k	222k
Friday Jan 10					
08:00	NO	CPI YoY	Dec	1.6%(1.6)	1.6%
08:00	NO	CPI Underlying YoY	Dec	2.0%(1.9)	2.0%
08:45	FR	Manufacturing Production MoM	Nov	--	0.5%
09:30	SW	Industrial Orders MoM	Nov	--	-1.9%
14:30	US	Nonfarm Payrolls, change m/m	Dec	158k	266k
14:30	US	Unemployment Rate	Dec	3.5%	3.5%
14:30	US	Average Hourly Earnings YoY	Dec	3.1%	3.1%

Source: Bloomberg. SB1M est. in brackets. The key data points are highlighted

- **December composite PMI**
  - » The global manufacturing index edged down 0.2 p in December, and we expect a marginal decline in the global composite PMI, to 51.4. The preliminary service sector PMI rose marginally. Prelim. PMI from the US edged up, EMU flat, Chinese PMIs (composite) slightly down, after soaring the prior months
- **US**
  - » So far, there are few signs of any labour market softness and last month, **employment accelerated** and **unemployment** ticked down. In spite a tight labour market, **wage inflation** has stalled. We doubt the annual wage inflation rate will tick up, as m/m growth was high in Dec 2018
  - » **The trade deficit** shrinks as imports have turned down and exports are flattening
- **Eurozone**
  - » **Unemployment** is stabilizing at a low level, as GDP growth eases
  - » **Retail sales** fell in October, chiefly due to a slip in German sales. We expect an upturn in November, as such sudden drops are usually reversed
  - » **Core CPI inflation** edged up 0.2 pp to 1.3% in Nov, due to base effects, a retreat to 1.0-1.1% is likely in Dec
- **Norway**
  - » **House price** inflation is rising moderately, a marginally lower inventory of homes for sale suggests price growth will pick up. We still expect just a 0.1% lift in Dec as Oslo OBOS prices surprised at the downside, big time
  - » **Core CPI inflation** is at the 2% price target and will probably remain at/slightly above the target in Q1 but we expect a dip to below 2% in Dec
  - » **A soft landing for household debt.** So far so good, credit growth is slowly abating, and the debt/income ratio has stabilised. The change in student grant/loan conversion timing will contribute to almost a 0.2 pp lift in total credit growth in Nov – still we expect a 0.1 pp decline in the published growth rate
  - » **Manufacturing production** growth is slowing and even the level may be peaking now as the growth contributions from oil related sectors are ebbing. We expect a strong Nov/Dec – but not much thereafter

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Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. The trade conflict has no doubt contributed to the slowdown, especially in the manufacturing sector. Unemployment is low, wage inflation on the way up, and not low vs. productivity. Most emerging countries (EM) x China are in recovery mode, but have been slowing somewhat too. Some hotspots EMs will get burned, as usual – but there are fewer EM imbalances than normal. The global PMI has stabilised. Barring policy mistakes, the global economy is not rigged for a *hard* downturn. Investment rates are not far too high, and there are few debt bubbles this time. **Growth has slowed to 3% from 4%, but has stabilized since Q4 2018. We expect a modest slowdown to 2.8% in 2020, even if trade conflicts are 'solved'**	Global composite PMI was close to flat in Dec (or marginally down, our est). The PMI has stabilized and points to just above 3% GDP growth. The manufacturing PMI inched down 0.2 p, to 50.1, still suggesting a mild recovery in global production
China	Growth has slowed just marginally, and will most likely not collapse in 2020 either. Surveys signals a mild recovery at the end of 2019, even without much extra policy stimulus, especially on the fiscal side. Exports to the US is down but total exports not. The invest/GDP ratio is still sliding gradually down. Debt growth has slowed, and the authorities do not want to push the accelerator barring a serious economic downturn. **A de-escalation of the trade war is fine but the real risks are the high debt level & possible over investments**	Manufacturing PMI held steady according to NBS/CFLP, Markit's a tad down, both suggest a growth rebound in manufacturing. Both composite PMIs fell but still remains 'strong'
USA	Growth will most likely not accelerate in 2020, from the 2% speed in H2. Unemployment is low, profits under pressure, and corporate debt is high. Business investments are above trend, and have yielded in H2. Households are in a much better shape, the debt burden is sharply reduced, and the savings rate is 'high'. The housing market seems balanced. Just a marginal fiscal stimulus in 2020 but the impact of 3 Fed cuts last year are not yet consumed. Price inflation is close to target, and the Fed can focus at the real economy. Recession risk is not overwhelming, short term, and further rate cuts are unlikely, barring a much weaker economy. **Risks: Trump/trade/business investments &debt, not household demand or debt**	Manufacturing ISM signals a high recession risk, other surveys/data do not! Durable/capital goods orders have flattened out but do not signal a decline in business investments. Home sales are heading up and house price inflation is slowly accelerating. Consumers are upbeat. Imports are falling, bringing trade deficit down
EMU	Growth will remain muted in 2020 but there a few signs of hard landing. The manufacturing downturn may now be easing, at least that is what some surveys are indicating, while services have been quite resilient. The labour market is tight, and labour cost infl. is back to a normal level. Investment ratios are above trend. Credit growth is increasing, but still muted. Household savings are high, still consumption has kept up well. Policy: ECB does not have that much ammunition left, barring a huge QE, and the ECB policy makers are split. Fiscal policy debate has turned, some stimulus possible. **Risks: Trade war (but less risk for a US/EU war after G7). Italy, as always**	Composite PMI remained weak in Dec, manuf. Softened marginally, services increased. Labour cost inflation has flattened out but is not low, at 2.5% y/y. Productivity marginally up the past 2 quarters
Norway	Growth has been above trend but will slow substantially in 2020. Unempl. has flattened. Wage inflation is above 3%. Oil investments probably peaked in Q4. Mainland business inv. are not low anymore, will slow substantially in '20. Mixed signals from the housing market, starts probably slowing. Electr. prices have taken the headline CPI down, core is still at target. Growth in households' debt has slowed to close to income growth. **Risks: Debt, housing. A harsh global slowdown**	LFS unemployment one inch down in Oct, trending up, due to a lift in participation, which may now be retreating. Empl. growth is slowing. Retail sales up in Nov but the trend is not more than flat. OBOS Oslo house prices slipped in Dec

Colour codes: Green=more to go. Yellow=the cycle is maturing, close to peak. Orange=at peak, downside risk. Red=recession level

In this report

Global, PMIs

- Global macro data less negative vs expectations in the last weeks of 2019
- Global foreign trade has not recovered, retail sales still struggling from VAT hike
- Global PMI probably marginally down (or steady) in December, signalling 3%+ global growth
- Manuf. PMI signals 1% growth in production
- Chinese manufacturing PMIs still point to a manufacturing rebound, the composites too
- Manufacturing ISM further down in Dec
- EMU Manuf. PMI reflects a deep manufacturing slump but may have bottomed out
- Norwegian Manufacturing PMI edged up again in Dec, to a surprisingly elevated level

US

- Minutes from Dec FOMC meeting confirm neutral stance
- Durable goods orders are sliding down, core orders barely flattish
- New home sales flat the past 3 months, longer term trend straight up
- Pending existing home sales zig-zag upwards
- CS house price inflation is gaining pace again
- Conference Board's sentiment stable in Dec, at a high level
- Jobless claims are inching up – but not more than 'usual'
- Trade deficit shrinks rapidly as imports wane
- Nowcasters signal 1.2 – 2.3% Q4 GDP growth, Nat. Act. Index at 2.2%!

Japan

- Retail sales recovered partly after VAT hike, manuf. production remained weak
- Unemployment remains very low, employment is still increasing, impressively
- Business activity index 'collapsed' following VAT increase

Norway

- LFS unemployment inched down to 3.8% but employment growth is easing
- Retail sales recovered the Oct loss but remain flattish in H2
- OBOS Oslo apartment prices dropped sharply in December
- Consumer sentiment slowly softens, level not weak

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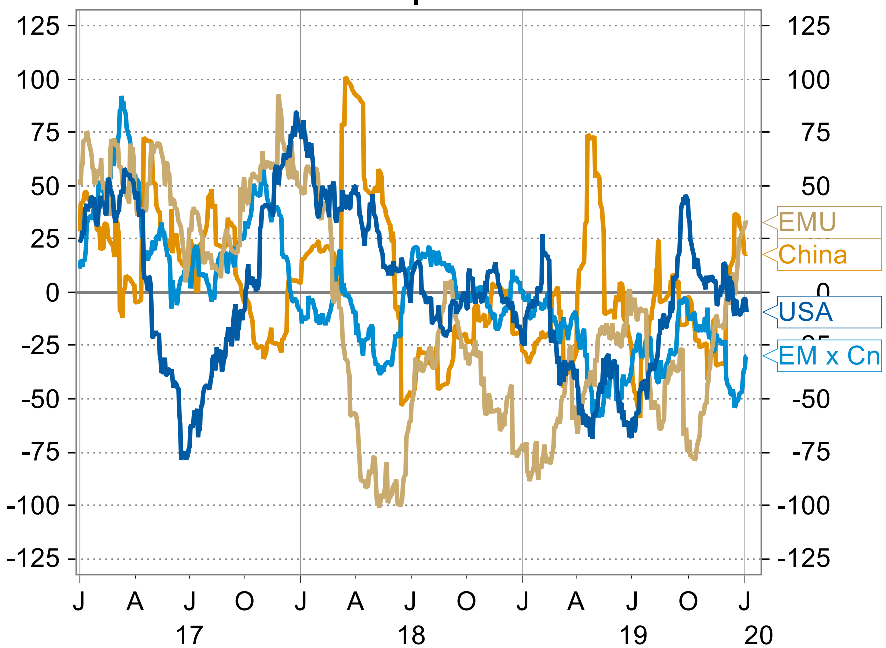
Global macro data less negative vs expectations in the last weeks of 2019

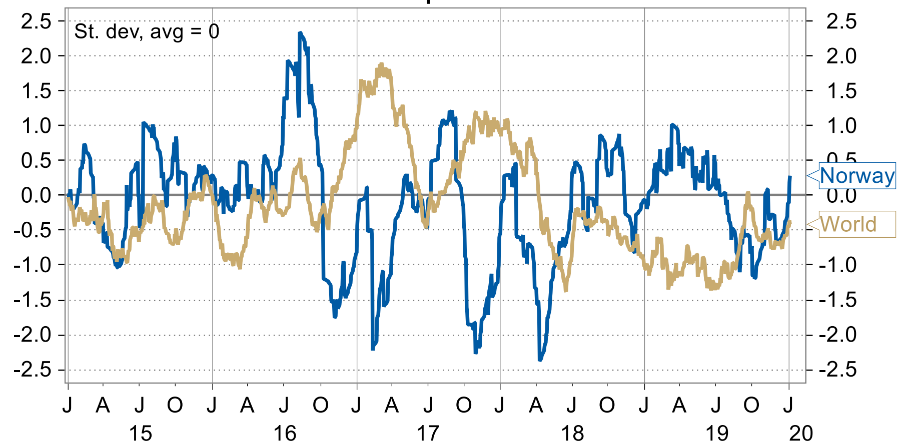
EMU data far above expectations, along with China, US neutral, and EM x China less disappointing

Citi Surprise index



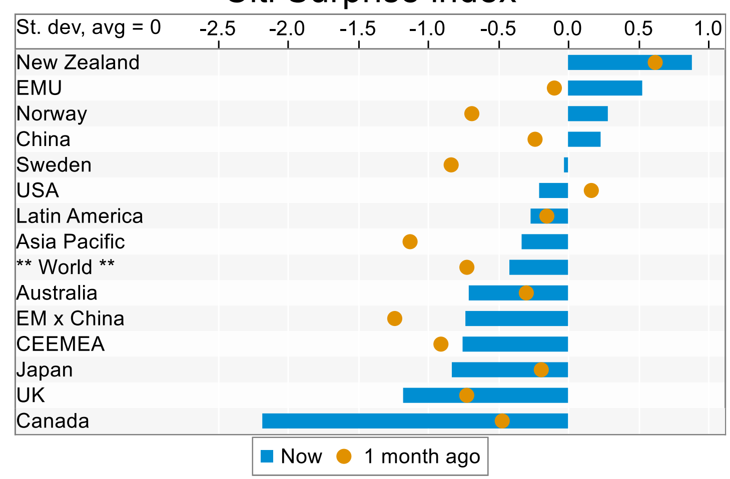
SB1 Markets/Macrobond

Citi surprise index



SB1 Markets/Macrobond

Citi Surprise index



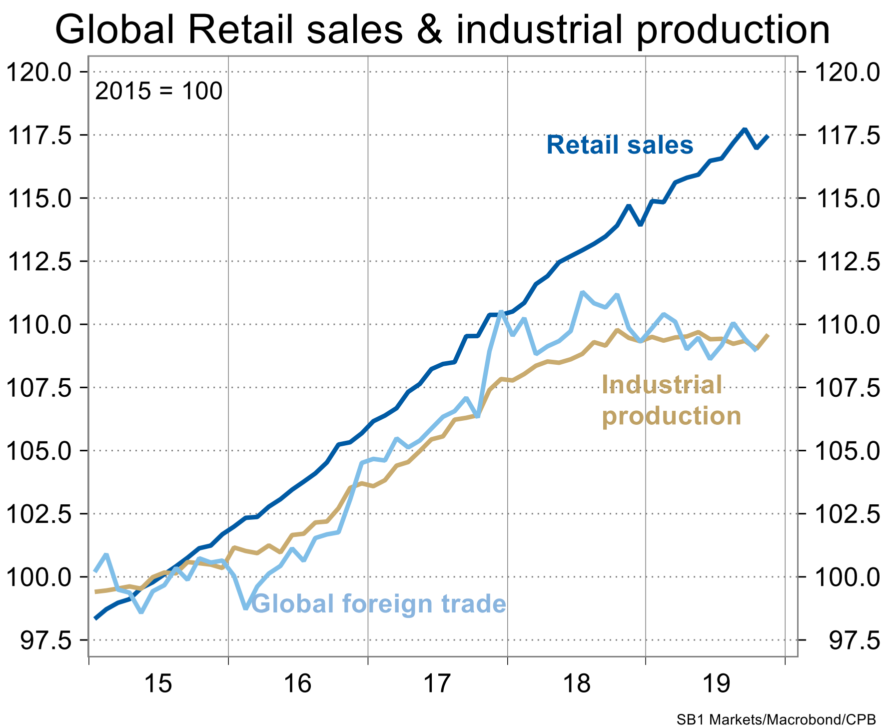
SB1 Markets/Macrobond

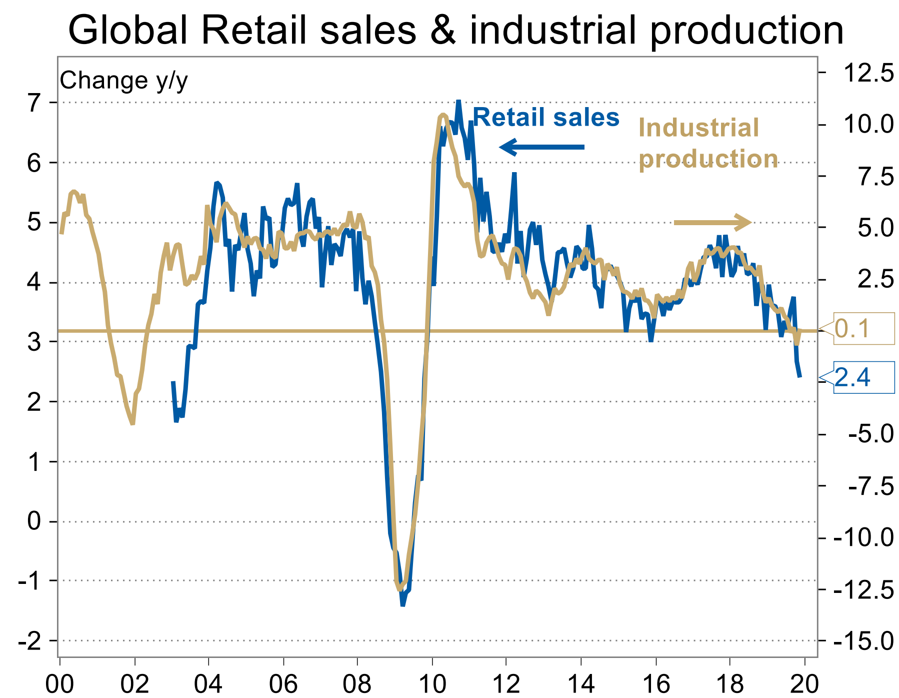
- The global surprise index has edged up the past few weeks. Global macro data have in sum been disappointing vs expectation since early 2018, barring one spike up to neutral in Sept
- Since late October, the US surprise index has been hovering around a 'neutral' level
- EMU data are beating expectations for the first time since early 2018. Due to somewhat better data – and adjusted expectations?
- China spiked on strong November data, well into positive, even if the PMIs were marginally below expectations. Other EM are much weaker – but less so the past weeks
- Norwegian data are back in positive territory, primarily lifted by an upbeat PMI

Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

Global foreign trade has not recovered, retail sales still struggling from VAT hike

Global foreign trade fell in Oct and is heading slowly down, industrial production trending flat



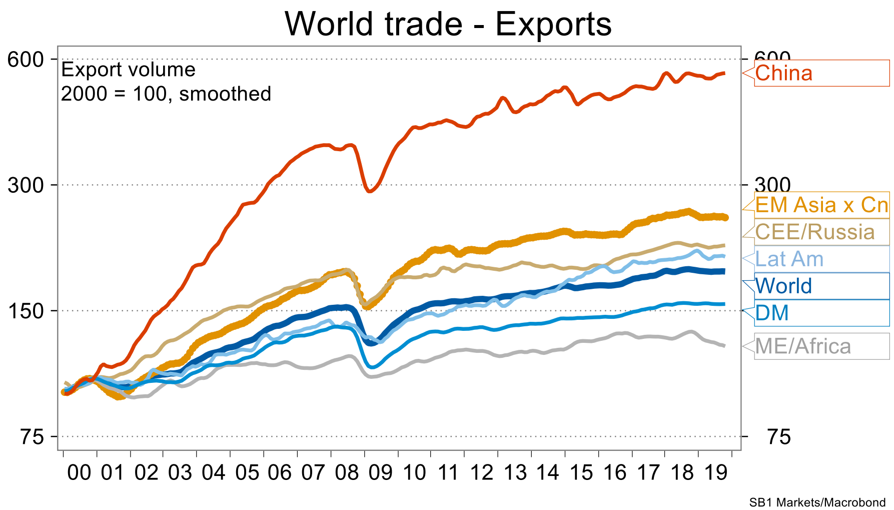


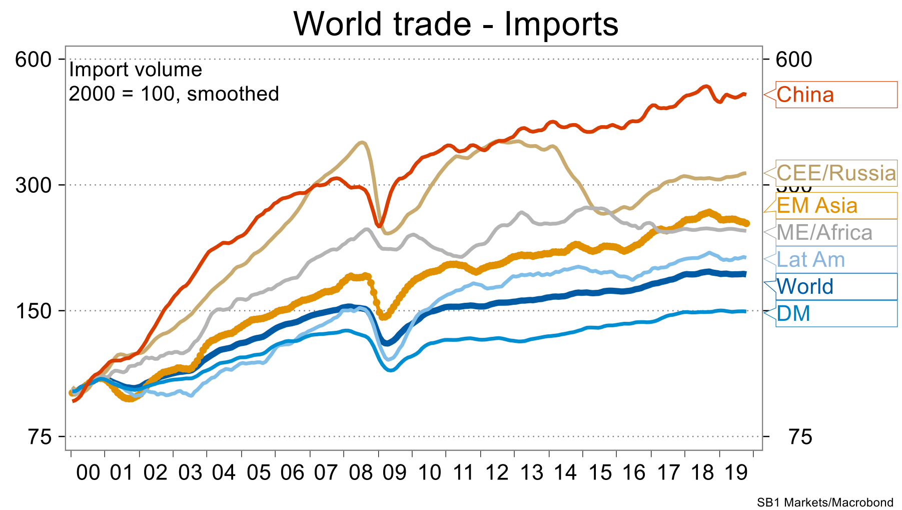
Memo: Keep in mind the different scales at the chart above

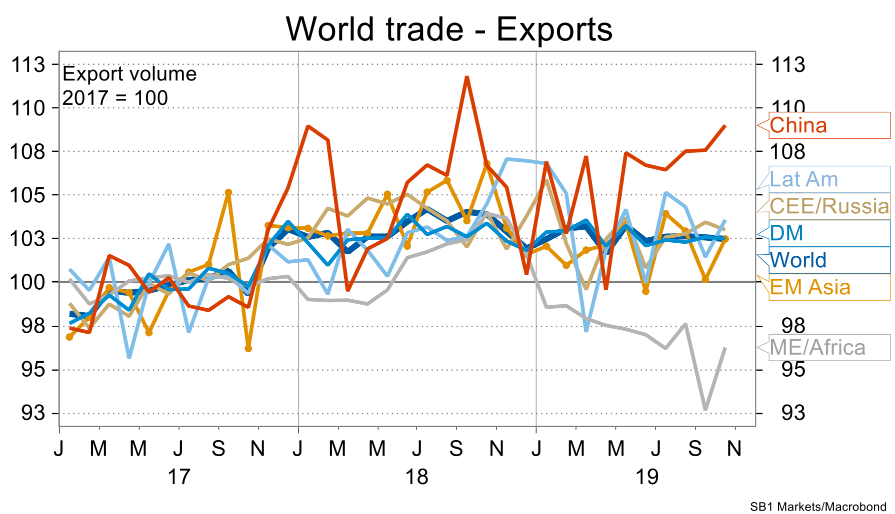
- **Global foreign trade** dropped by 0.4% m/m in October, with our seasonal adjustment (up 0.4% unadjusted). Trade flows have been sliding slowly down since Q3 2018 and the annual rate is down 2% y/y, however, following the uptick in the late summer, underlying growth has ticked up to 1% (measured 3m/3m), reflecting a stabilization since the spring
- **Global industrial production** probably rose 0.5 % in November (our estimate), bringing production almost back to the May level. If production remains unch in Dec, Q4 will be close to the Q3 level. Global PMI has recovered the past 5 months (albeit not further in Dec), now signalling a 0.5 - 1% growth pace
- **Retail sales** fell by 0.6% m/m in October and probably recovered partly in November, our very preliminary estimate yields a 0.4% m/m rise. The recent volatility is mostly due to the hike in VAT in Japan, that pushed sales forward to Aug/Sept, before they collapsed by 14% in October, like 'normal' following Japanese VAT hikes (check for more here). We expect a gradual rebound in sales the coming months

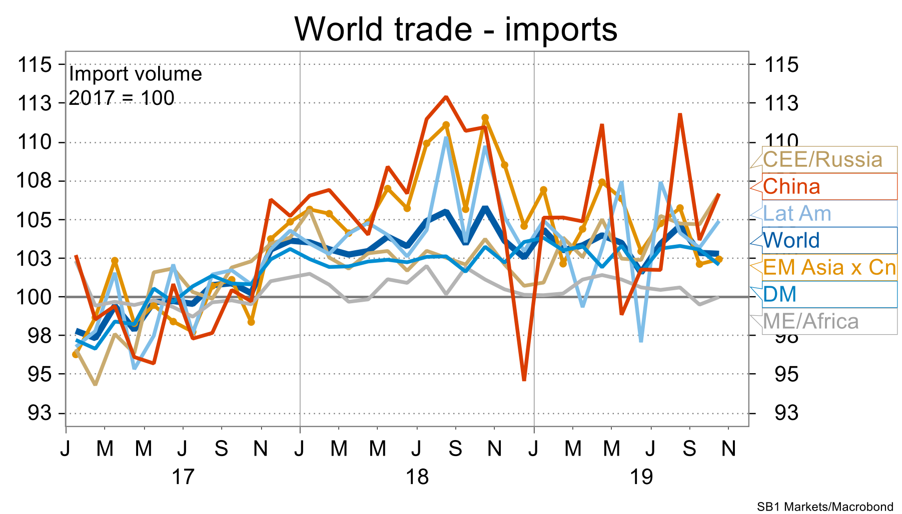
Global foreign trade flows have flattened out most places

Chinese foreign trade picks up. Exports/imports too Middle East/Africa heads down, others stable





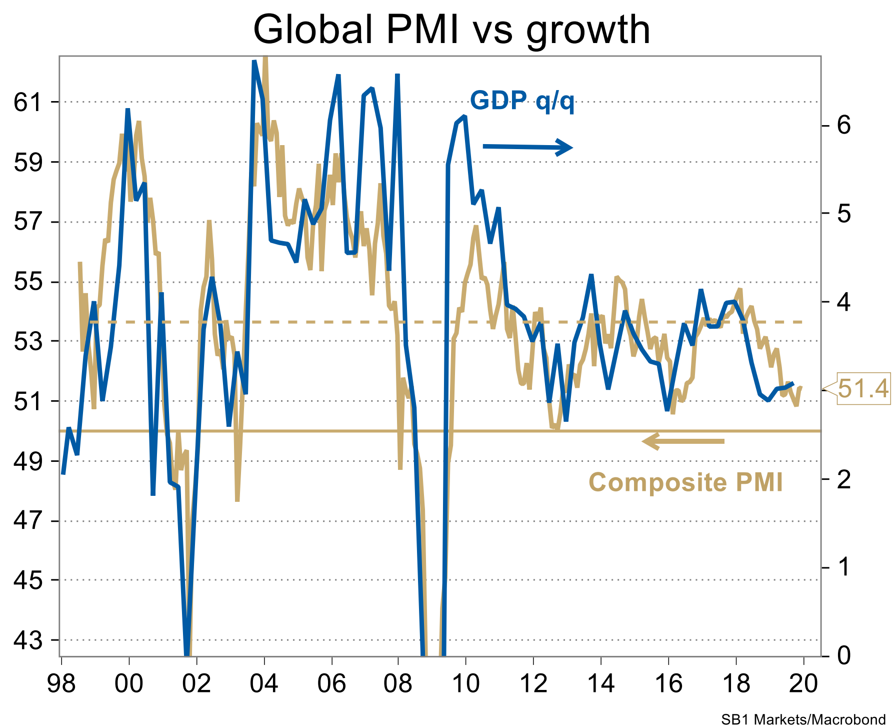


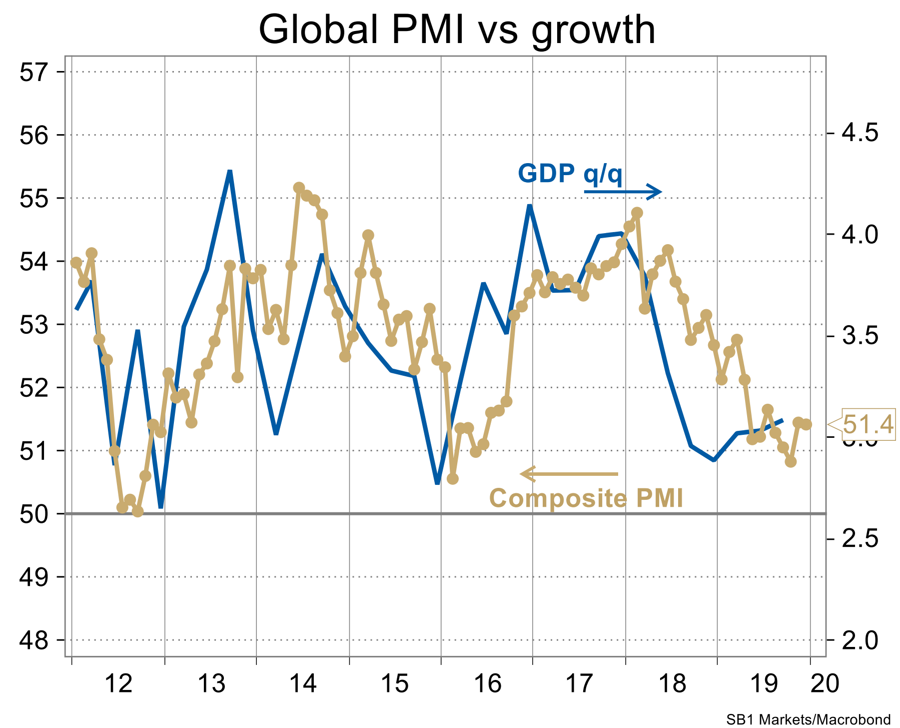


All foreign trade data from CPB, Netherlands. We have adjusted some CBP data for remaining seasonality, most important for Chinese exports

Global PMI probably close to steady in Dec, still points to a modest growth uptick

We estimate a marginal decline PMI to 51.4 in Dec, signalling 3%+ global GDP growth



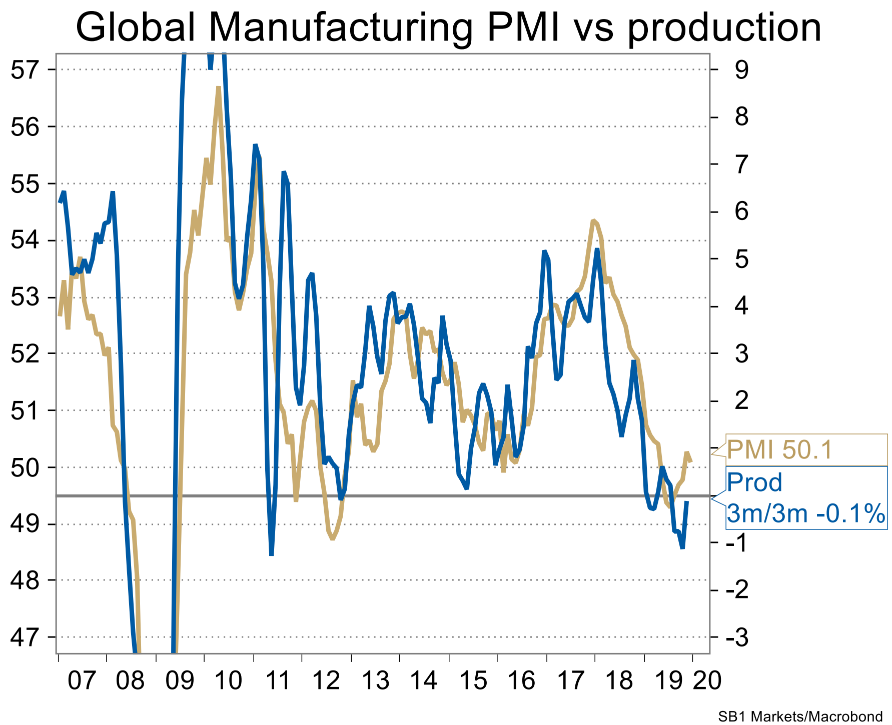


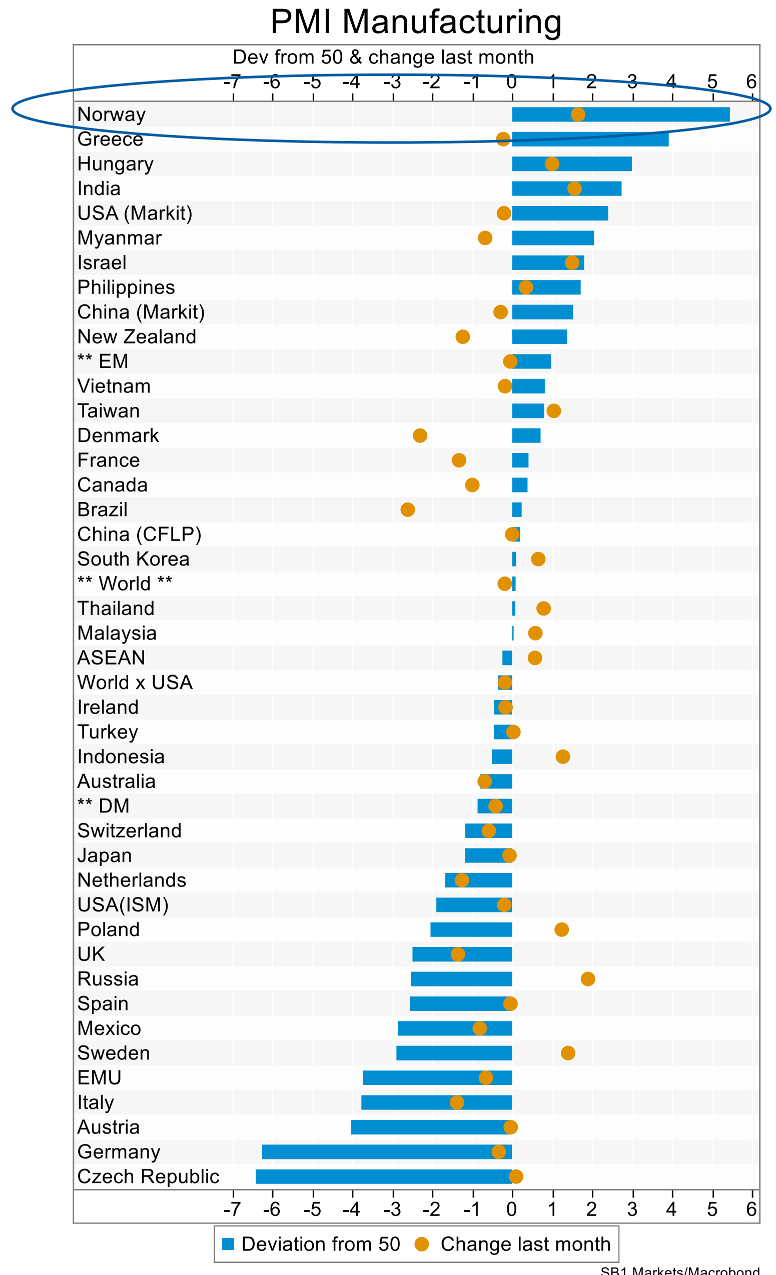
- The composite PMI probably fell marginally in Dec, according to our estimate (but an unch. print is almost just as likely). The index has stabilized since the spring and suggests just above 3% global GDP growth, a small uptick from the 3% pace in Q3 – <u>which by the way has been the (rather stable) growth rate since Q3 2018</u>
- The PMI has fallen by more than 3 points from the Jan ‘18 local peak, equalling some 1 pp slower global GDP growth (or a 8 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, and US. The estimate is uncertain

Manufacturing PMI signals 0.5 - 1% prod. growth

PMI inched down 0.2 p in Dec, after a 4 months' upturn

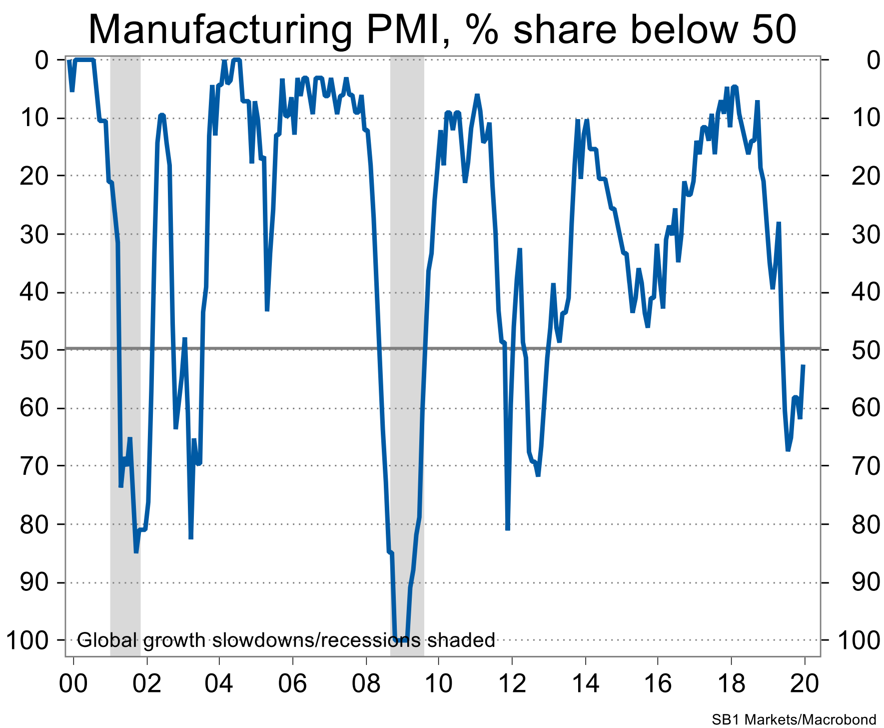


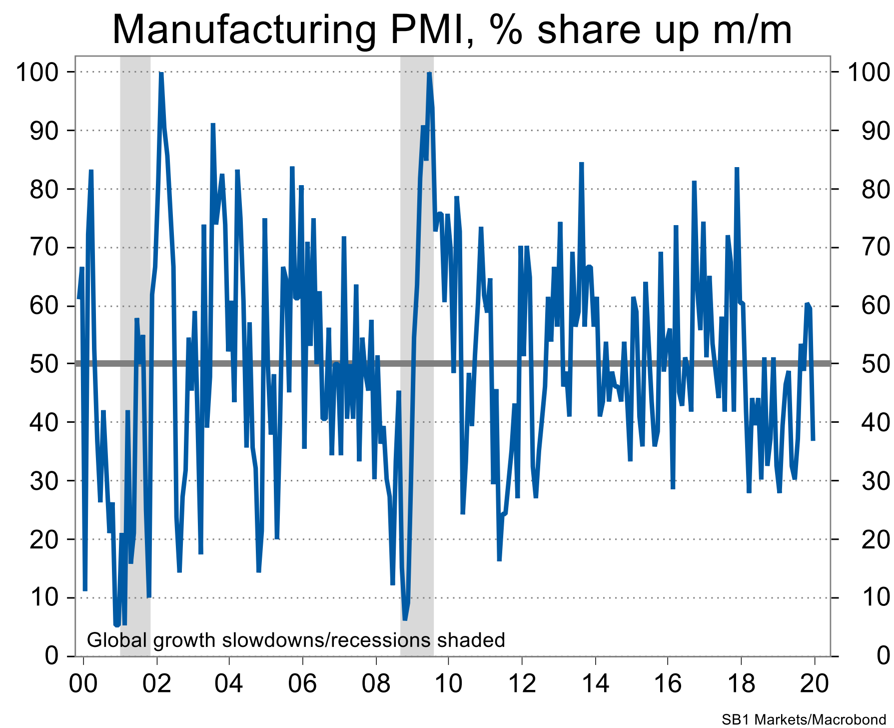


- PMI fell 0.2 p in Dec, to 50.1, we estimated -0.3 p. The slight decline comes after 4 months of steady increase, reflecting a recovering sector. The PMI points to some 0.5 - 1% increase in global manufacturing production, vs a 0.1% decline now (measured 3m/3m)
  - 16 (from 25) countries/region PMIs rose in Dec, and 23 declined (from 13)
  - 22 of 43 countries/regions are below the 50 line
  - Developed Markets edged down 0.4 p, Emerging Markets up 0.1 p
  - Norway (& Greece) at the top ☺

Most countries still below the 50 line but fewer than in the past 6 months

The m/m balance weakened in Dec, following the best print in 2 years the prior month





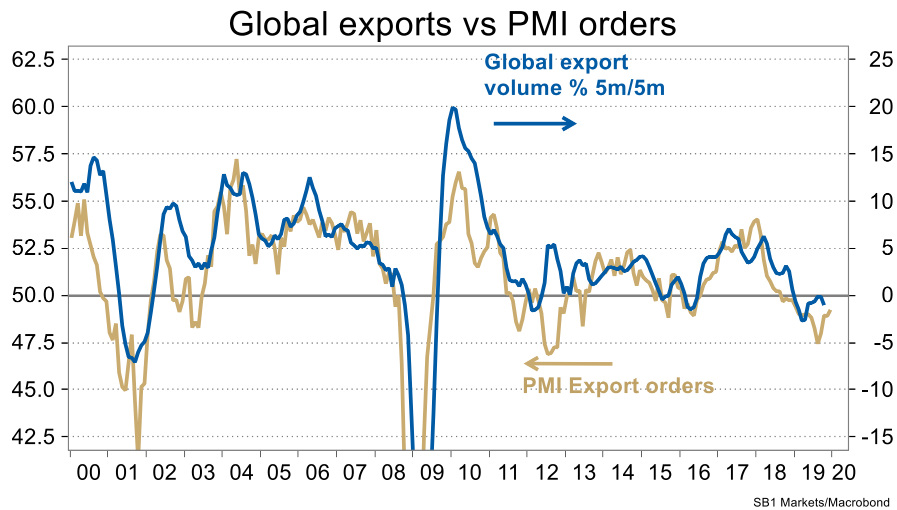
A softer inventory/order mix in Dec too, thwarting hopes of a fast recovery

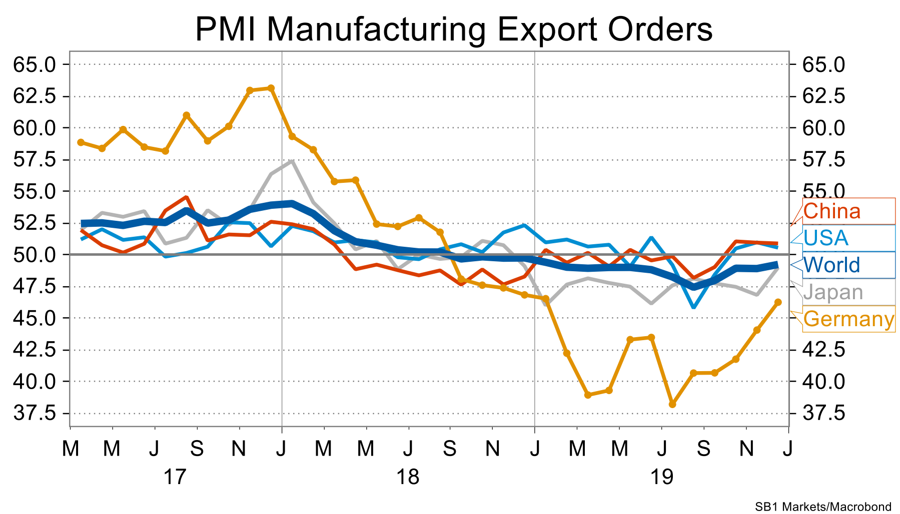
Inventory growth has been reduced but less so the past 2 months and orders are rising marginally

- In October and November, stocks were built down and new orders stabilized, and increased marginally. The December setback does not alter our view that global manufacturing is stabilizing, however, there is no signs of a swift recovery

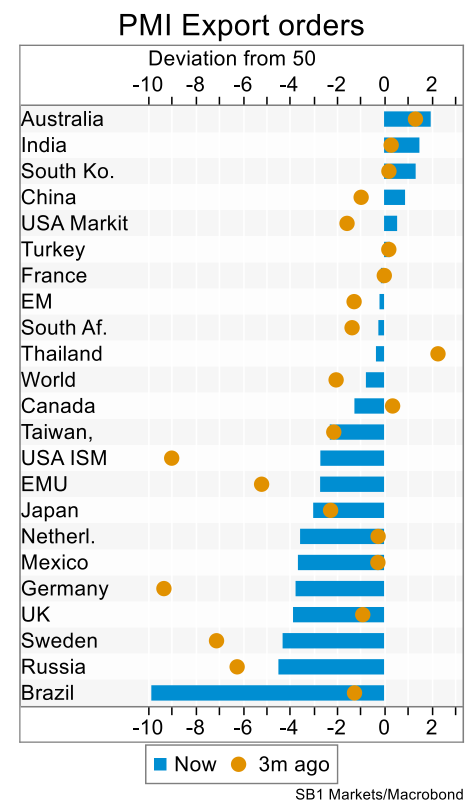
PMI export orders suggest a stabilization in global trade

Export orders PMI ticked up 0.3 p in Dec, the level at 49.2 points to a marginal decline in exports



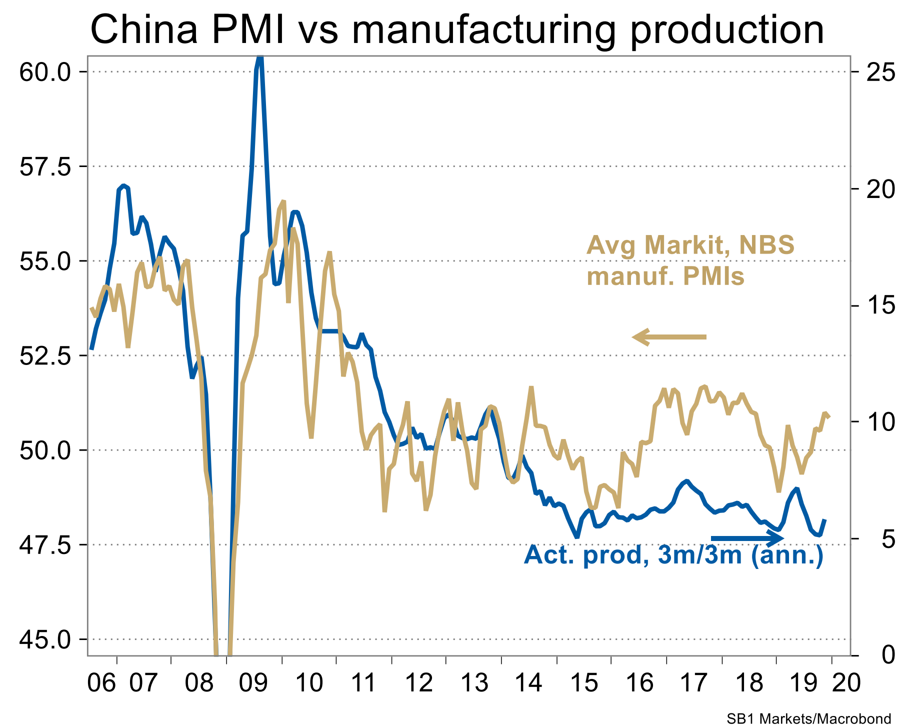


- Actual global export volumes have more or less stabilized recent months, the 5m/5m rate is down just 1%, vs 3% in the spring. The PMIs confirms a stabilization, although the level is somewhat 'lower'
- 14 of 23 countries are reporting a steeper rise or a milder decline in production vs 3 months ago, 6 a deterioration
- The German export order index has recovered substantially since June but still signals a modes decline
- Chinese exporters are reporting a modest increase in orders, the PMI (Markit) one tick down to 50.9 in Dec
- US exports orders are improving marginally too, PMI at 50.6 in Dec
- Hopes of a US/China trade deal and a soft Brexit have probably helped, and some recovery in the auto sector?



Manufacturing PMIs still point to a manufacturing rebound

Markit's manufacturing PMI edged down 0.3 p to 51.5, NBS/CFLP steady at 50.2



- Markit's manufacturing PMI came down 0.3 p in Dec, expected unchanged. The level is the highest in a year and far above the avg since 2012, (at 49.9, and the world has survived that pretty well..). New orders are still increasing at a fast pace, although somewhat slower in Dec
- The 'official' NBS/CFLP manufacturing PMI was unchanged at 50.2 in December, in November, the highest level since March (but still below the avg level). The index for total orders inched down to 51.2, signalling decent order growth – and the export orders PMI rebounded strongly
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs is suggesting faster growth in the manufacturing sector
- Policy implications: Less pressure to stimulate the economy, more self confidence in the trade negotiations with US

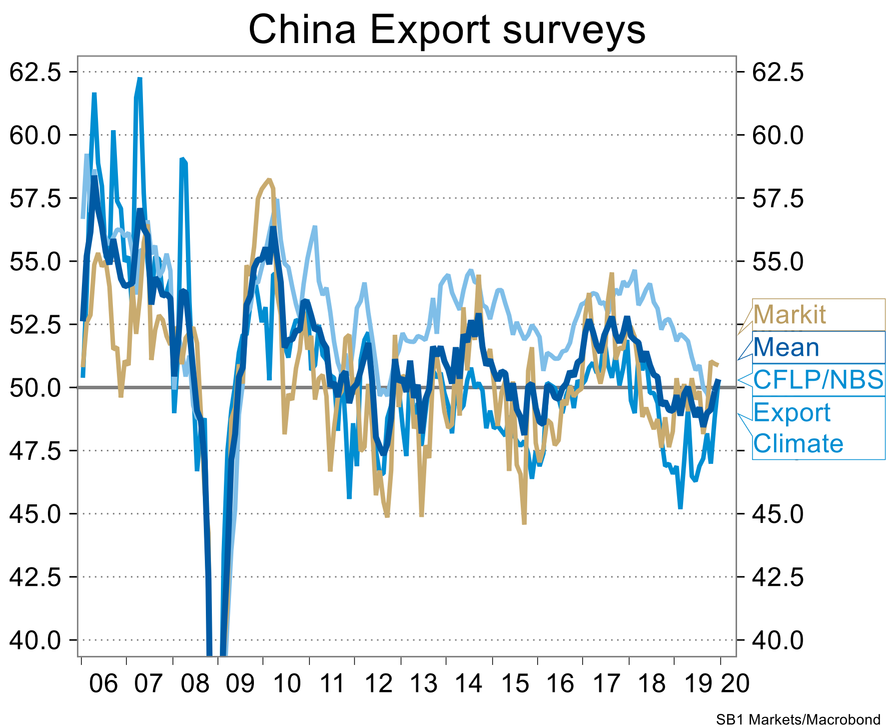
PMI order indices flat/down in Dec, after a strong recovery

Both total & export orders are increasing, Markit's index more upbeat than NBS

- The total order index in Markit's index inched down in Dec, following an upturn in Sept/Oct. The level at 52.3 signals growth well above the average recent years. Even the export component is well above the past years average, at 50.9!
- The NBS/CFLP export orders index bottomed in February, and spiked to 50.3 in December, the highest since May 2018. The total index came down marginally to 51.2, close to the average level since 2012

Export surveys have turned up, suggesting stronger exports

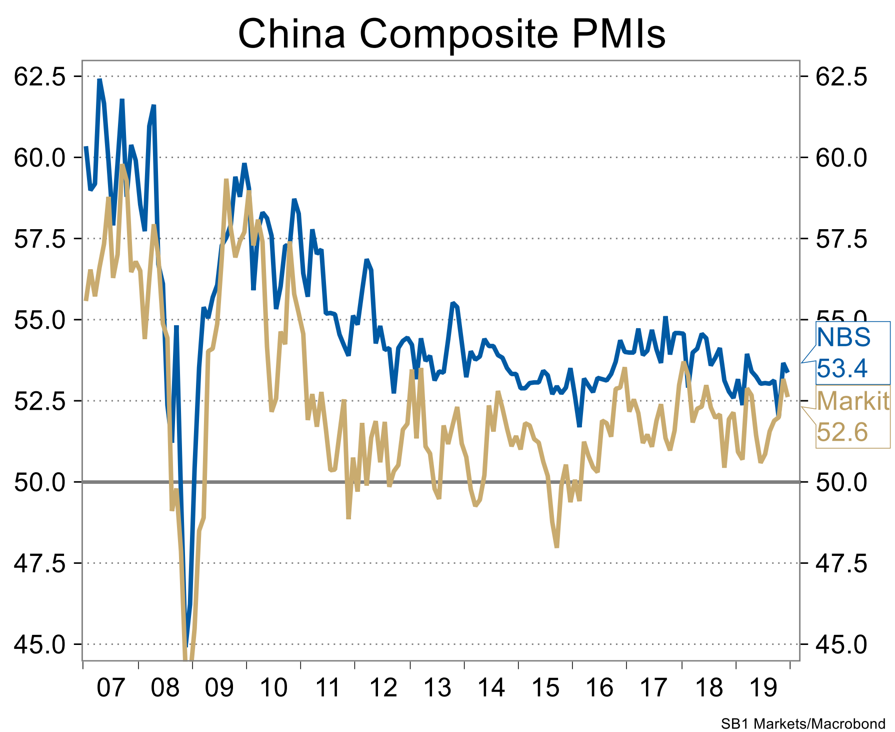
Exports surveys (2 PMIs + a climate index) have recovered recent months – and exports are steady

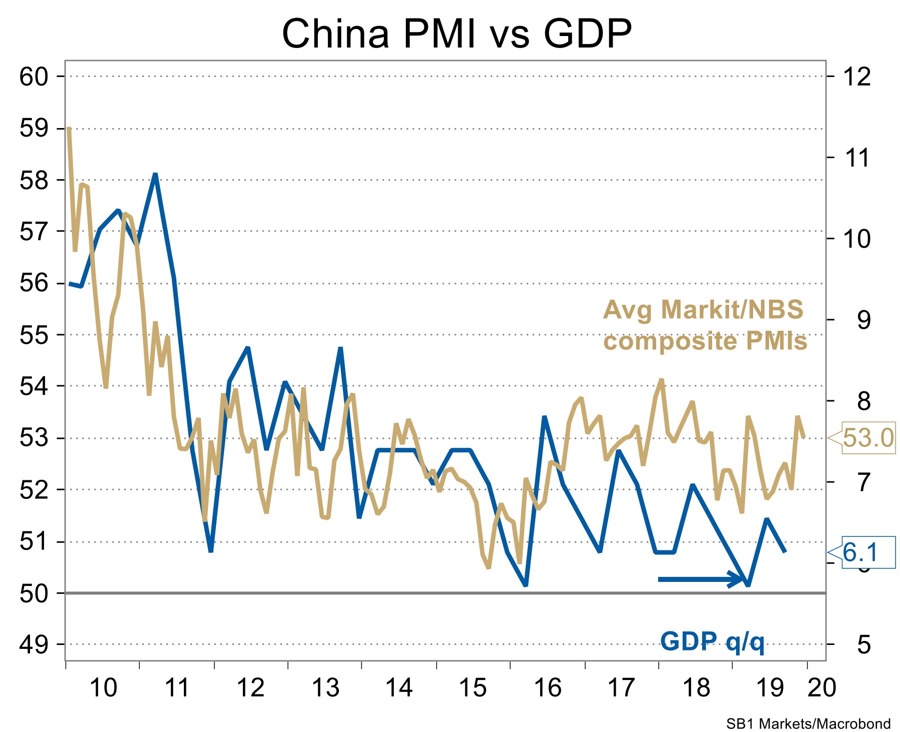


- The surveys we are following rose to 50.3 in Dec, in avg. The downturn through 2019 was milder than in 2012, 2013 and 2015 and 2016. During these periods, export volumes flattened in 2012, 2013, and fell marginally in 2015/16 – without pushing the Chinese economy into tailspin
- Export volumes fell in 2018 and have more or less stabilised in 2019. Surveys do not indicate any downturn, rather, an upswing, even as exports to the US have fallen sharply

Both composite PMIs down but just marginally, and level still 'high'

The avg of PMI surveys signals higher GDP growth



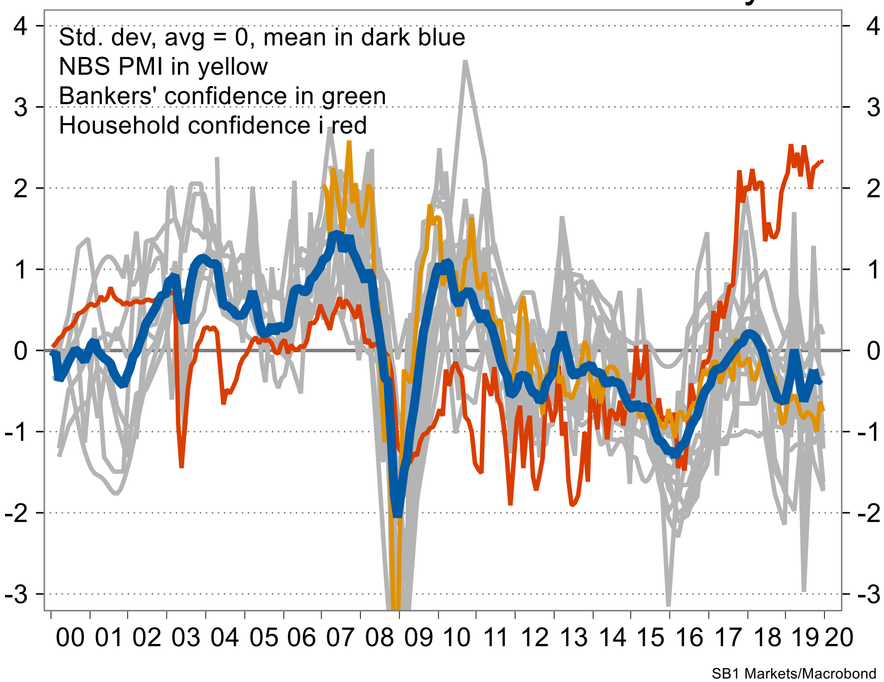


- NBS' 'official' composite PMI (CFLP) fell 0.3 p to 53.4 in Dec, as services lost some momentum (the index fell to 53.5) The composite PMI at 53.4 is still reflecting higher growth than through most of 2019
- Markit's composite PMI declined 0.6 p to 52.6 in Dec, following an increase from 50.6 in June. The service PMI fell here too
- In avg, the two PMI data sets have recovered since the early summer, and signal higher, not lower growth

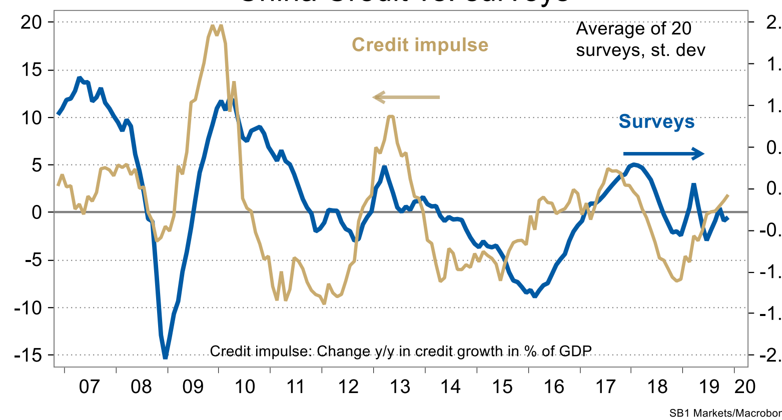
Surveys have stabilised as the authorities stimulate and trade headwinds ease

Consumer confidence is still sky-high and businesses sentiment is not weak

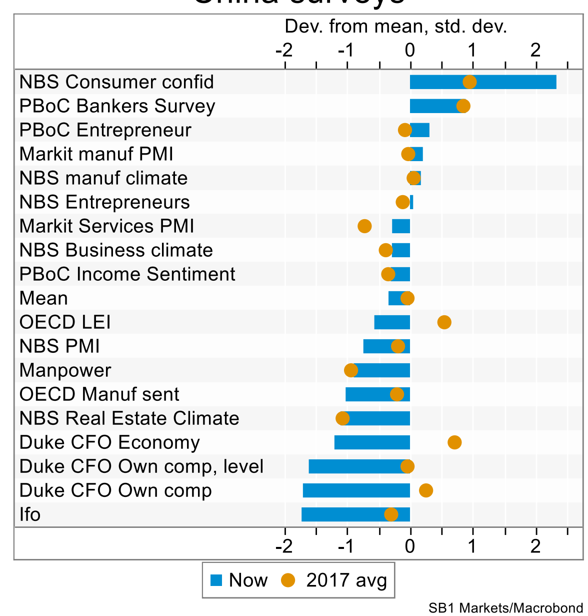
China Business & consumer surveys



China Credit vs. surveys



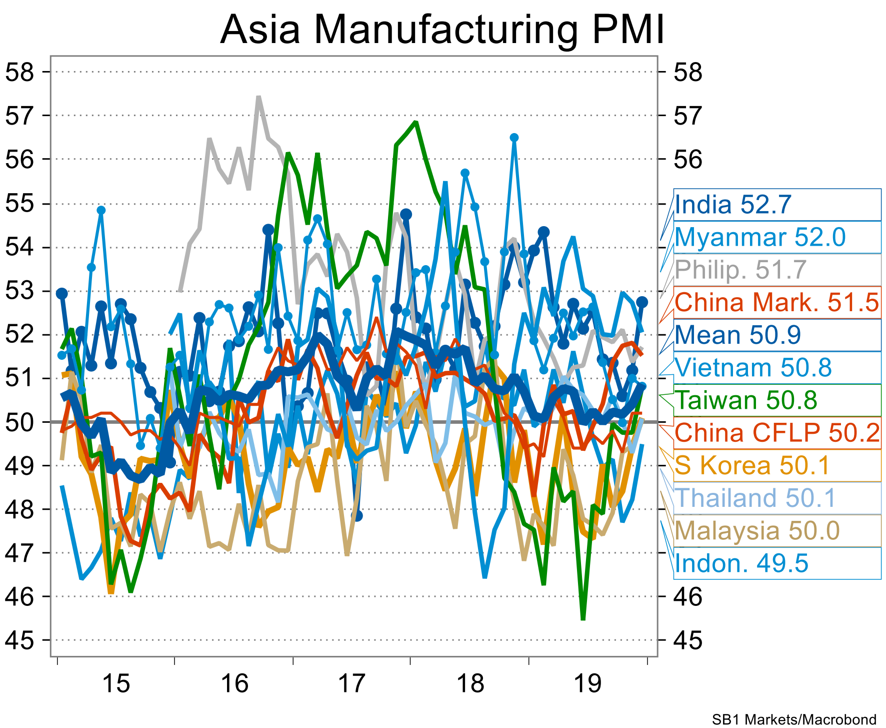
China surveys

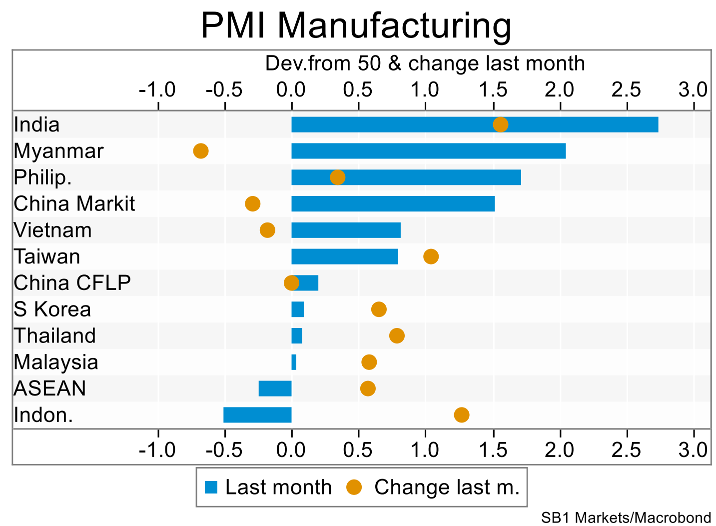


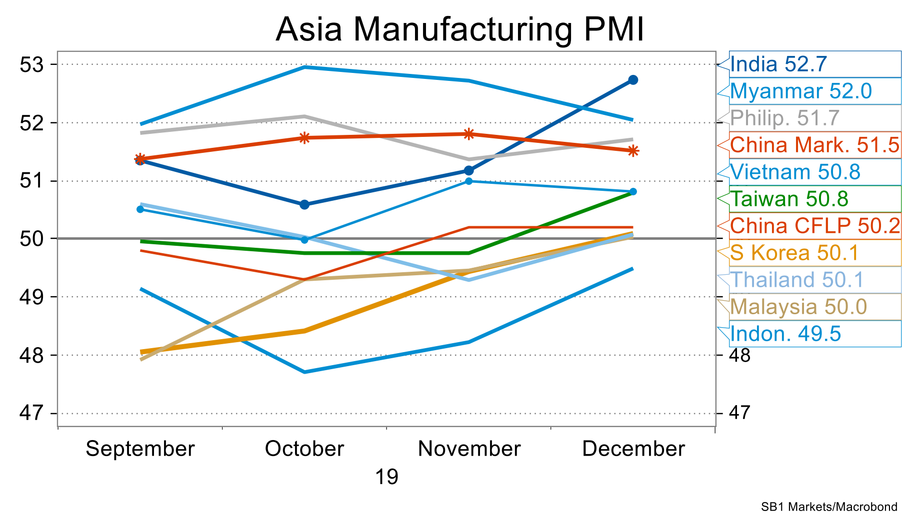
- Trade war worries partly explain the slowdown in China through 2018 but the credit tightening in 2017 (especially vs. the shadow banking marked), that dampened credit growth substantially is probably more important. The credit impulse (the 2. derivative) turned negative, and the economy slowed, as usual
- In 2019, the authorities have been pushing the credit accelerator again. The credit impulse has turned positive. In addition, fiscal policy has been turned expansionary, both by cutting taxes and increasing expenditures, especially in infrastructure (equalling 1% of GDP)

8 PMIs up and 3 down (1 flat) in Emerging Asia in December

Just 2 countries/regions remain below the 50-line. India, S-Korea, Taiwan recovered sharply in H2



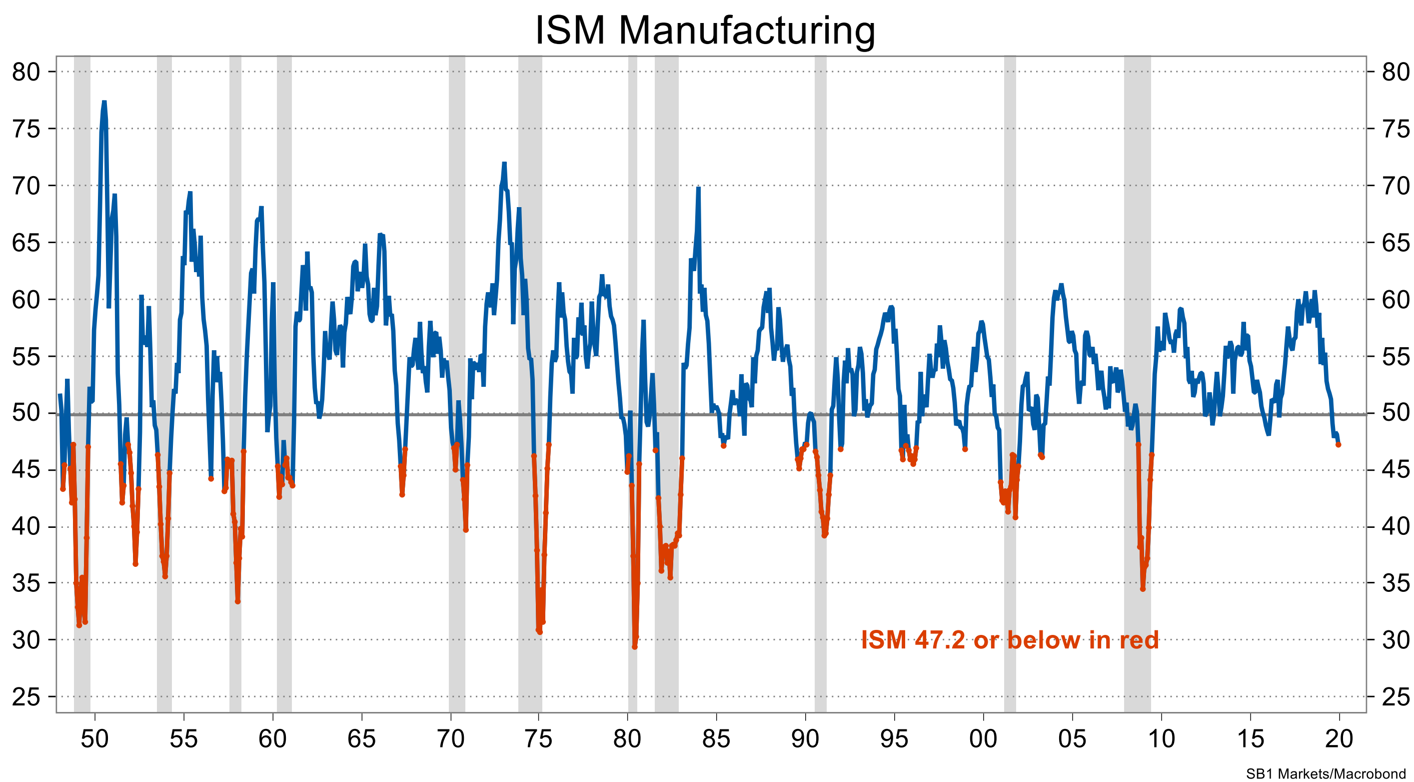




- The unweighted average of the 12 rose to 50.9 in Dec, the highest level in a year
- The Asian PMIs are producing a spaghetti chart like the one above. Take a deep breath before you draw any important conclusion based on any single observation

Manufacturing ISM further down in December, weakest since 2009

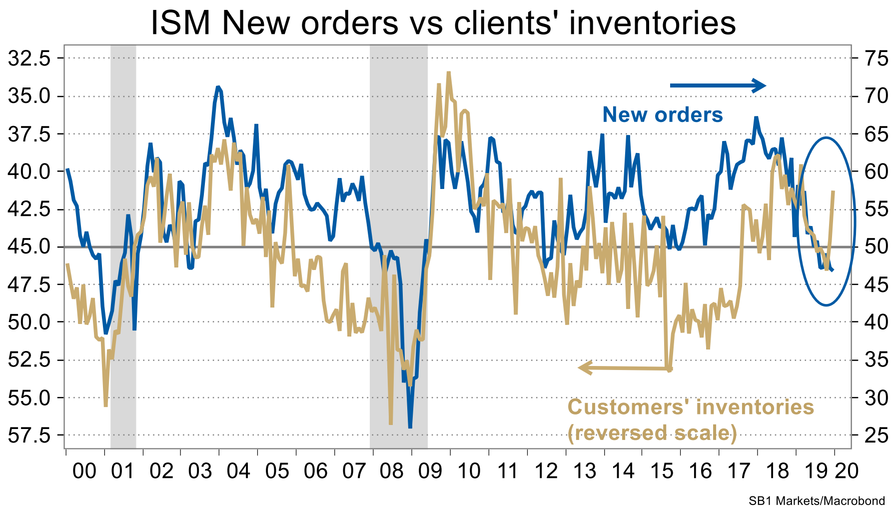
At present level, 70% recession risk, based on the history. Other surveys/data do not agree

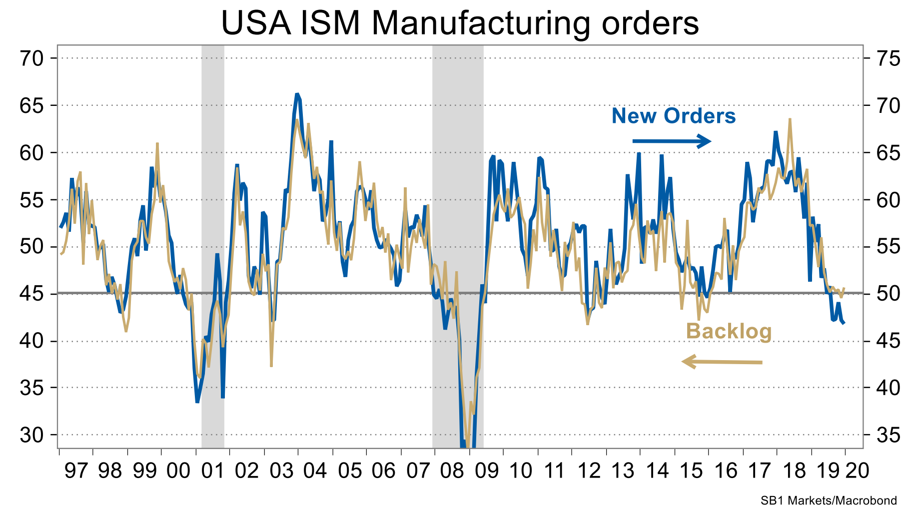


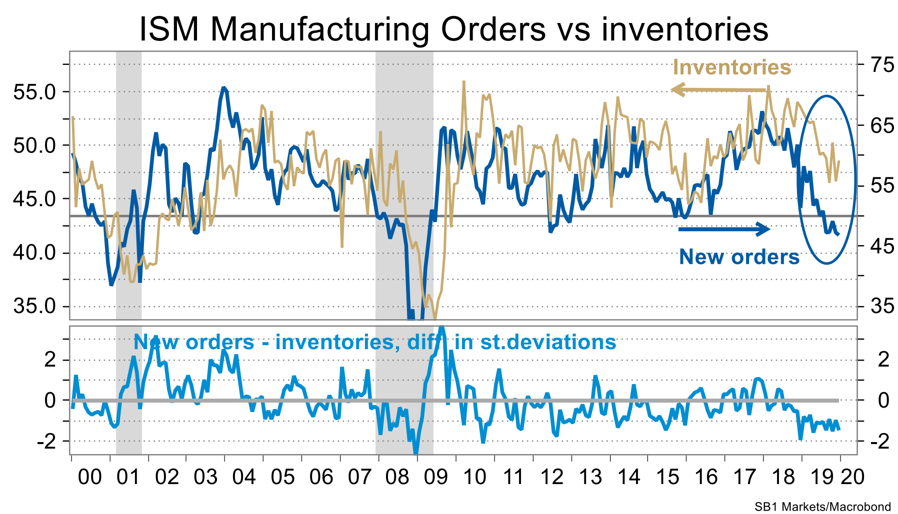
- Manuf. ISM dropped 0.9 p to 47.2 in December, a 0.9 p increase was expected. The level is the lowest since the Financial Crisis. Other surveys are not that downbeat, the gap to Markit's manufacturing PMI at 52.4 is the second largest ever (since '07)
  - In the ISM survey, just 3 out of 18 sectors reported growth (like in Nov) and 15 (up from 13) sectors reported a contraction, a weak mix
  - Global trade stated as an important reason for the slowdown but the demand weakness must be quite wide spread, domestic orders are tumbling too
- <u>The manufacturing ISM has fallen to the present level (or below) some 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions, and 6 times without any outright recession. Thus, the odds are not that attractive. In addition, GDP growth slowed substantially every time the ISM fell to the present level</u>

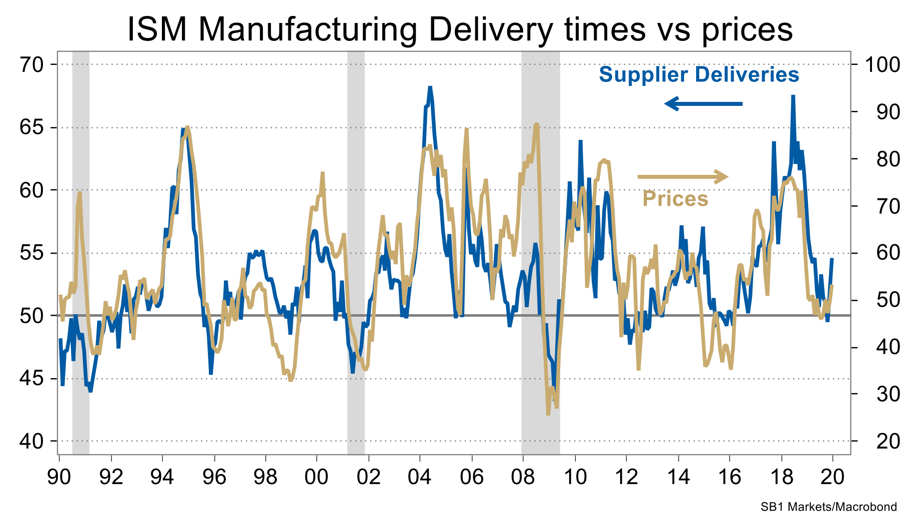
Orders are declining but customers' inventories are being reduced, some hope?

In addition, delivery times & prices turned up in Dec, do not signal weaker demand



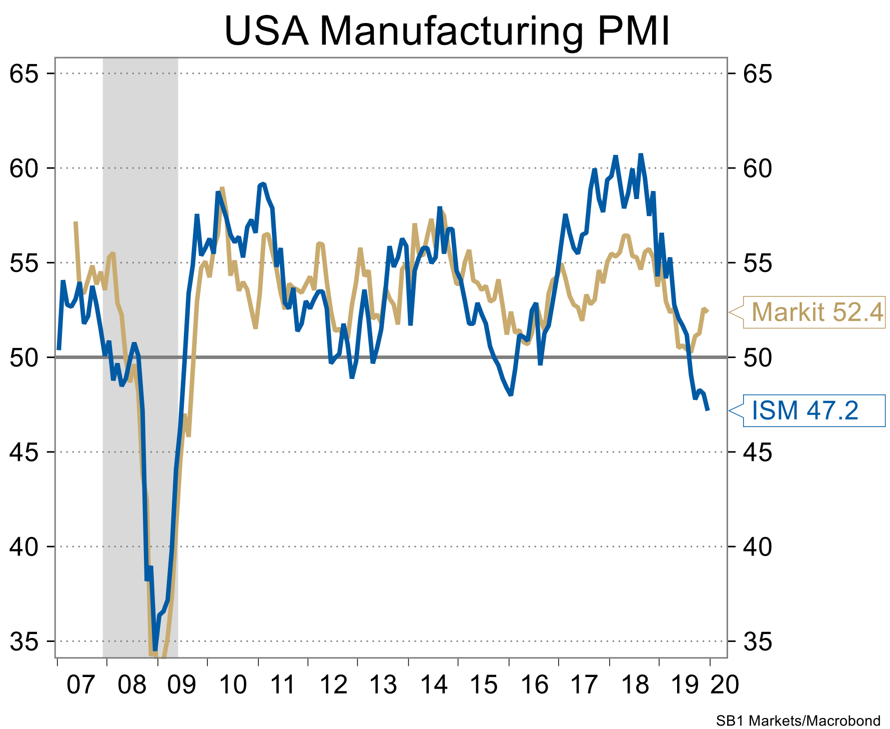


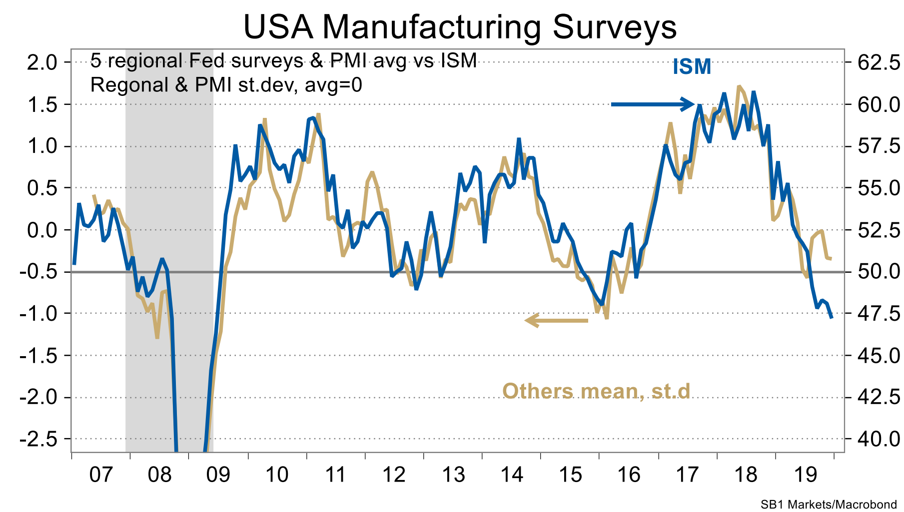


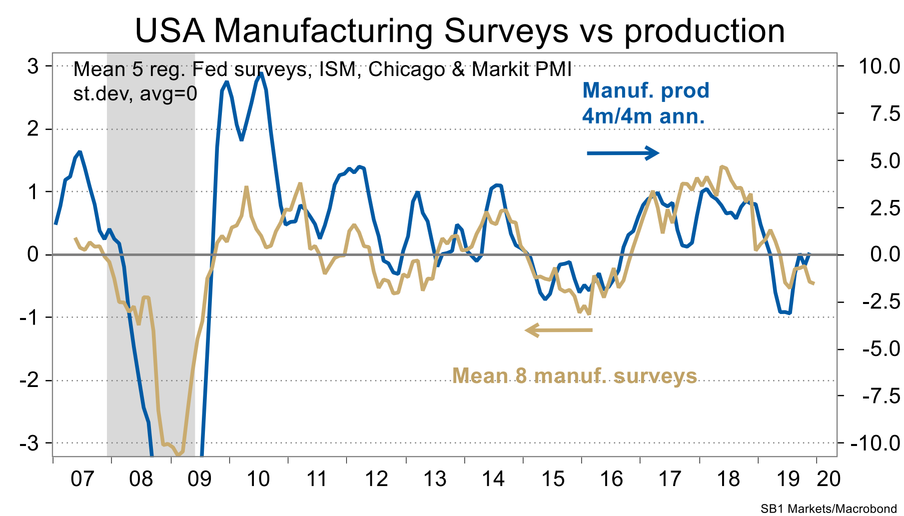


ISM says 47.2, the others at '51' – and Markit's PMI at 52.4

The average of 7 other manufacturing surveys equals an almost 4 p higher ISM, at 51





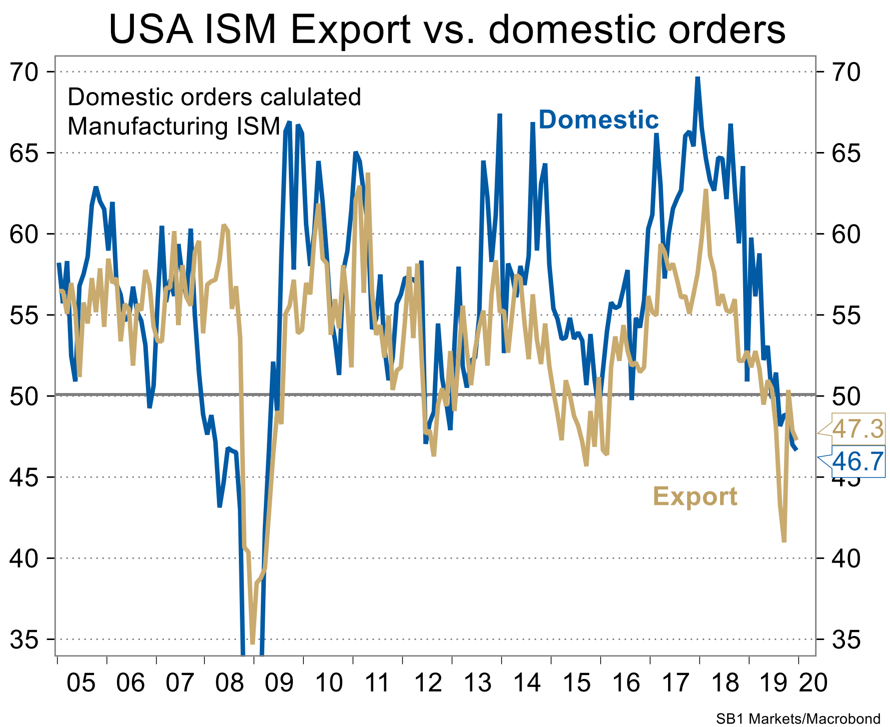


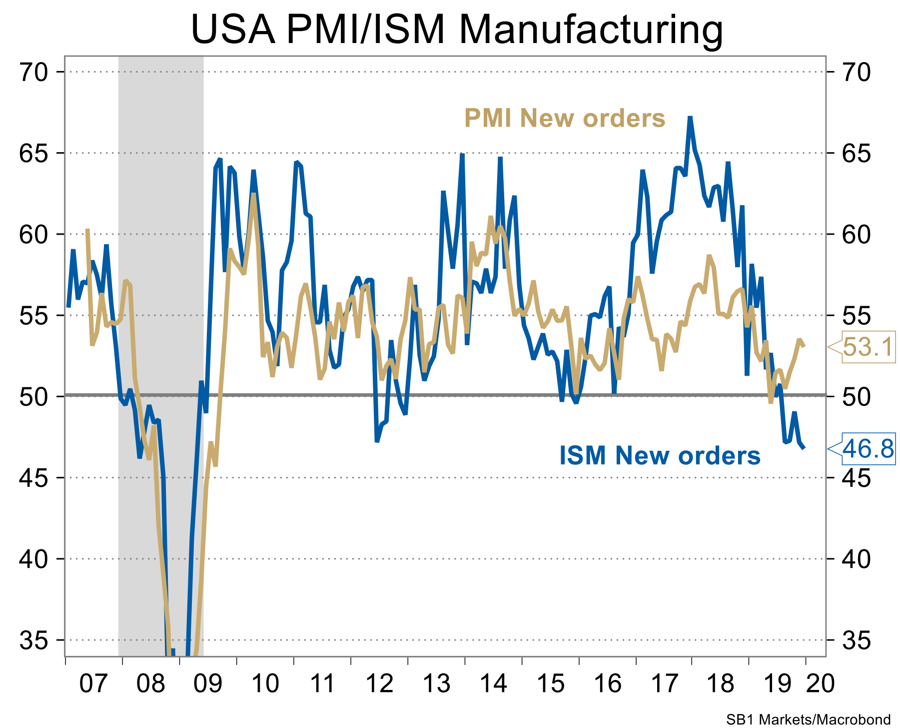
- Markit's manuf. PMI inched down 0.2 p in Dec, 0.1 pp more than first reported. The level 52.4 at anyway signals a recovery
- The regional surveys were mixed in Dec; 3 up, 3 down. The avg held steady at '51' (rebased to an ISM level)
- The past two years, the manufacturing ISM was much stronger than Markit's PMI. However, Markit has been closer to the ball vs actual production recent years

SpareBank 1 MARKETS

Global trade cannot take all the blame – domestic orders are even weaker

Both export orders and domestic orders fell at a steeper pace in December

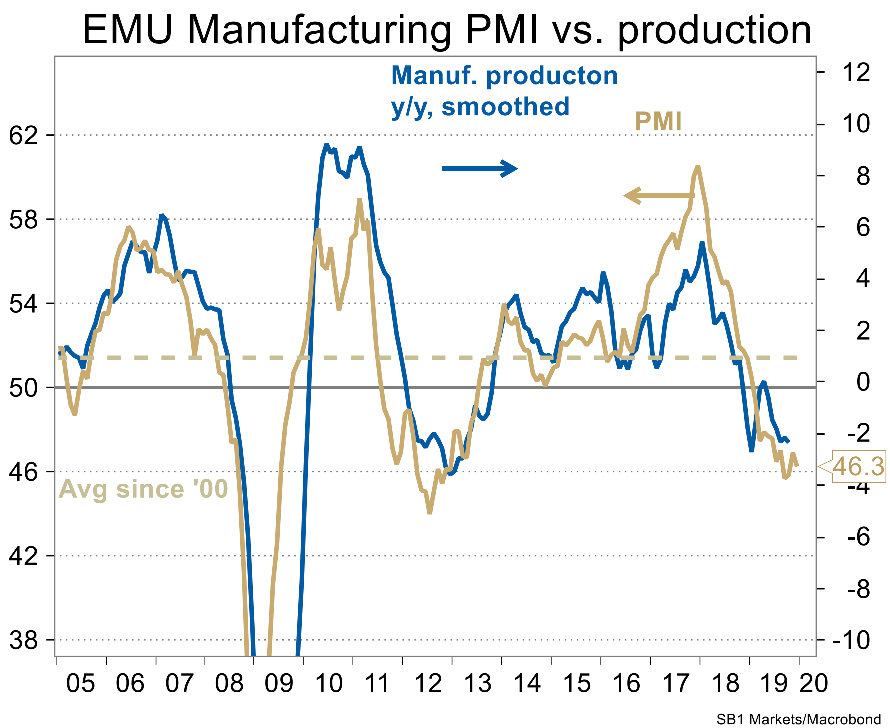


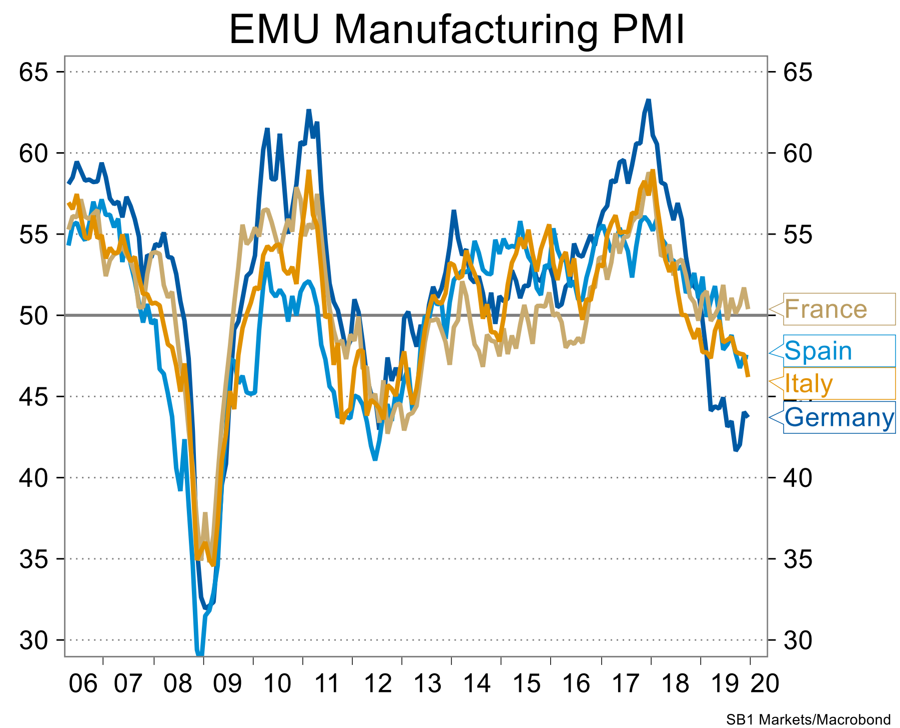


- The past months, the PMI order index has recovered, to a level at 53.1, which is marginally above the average. The ISM total order index, on the other hand, is much weaker than normal, and fell to 46.8 in December
- Both surveys have been reporting a recovery in export orders recent months, although the ISM is weaker than Markit, and parts of the upturn was reversed in Dec

Manuf. PMI reflects a deep manufacturing slump but may have bottomed out

Final manuf. PMI fell 0.6 p to 46.3, up 0.4 p from the first report. Germany a tad better, Italy down

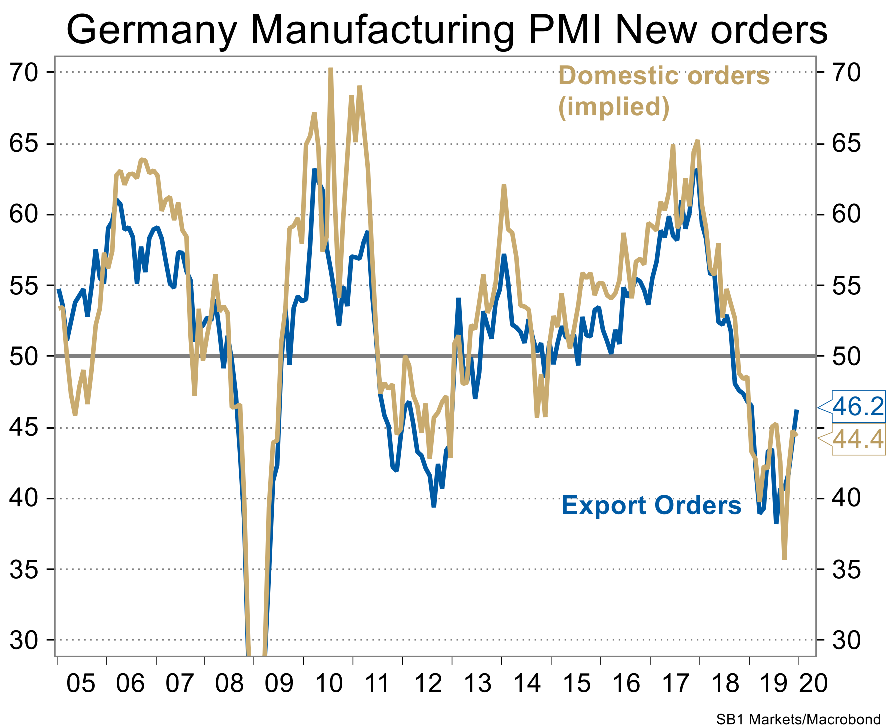


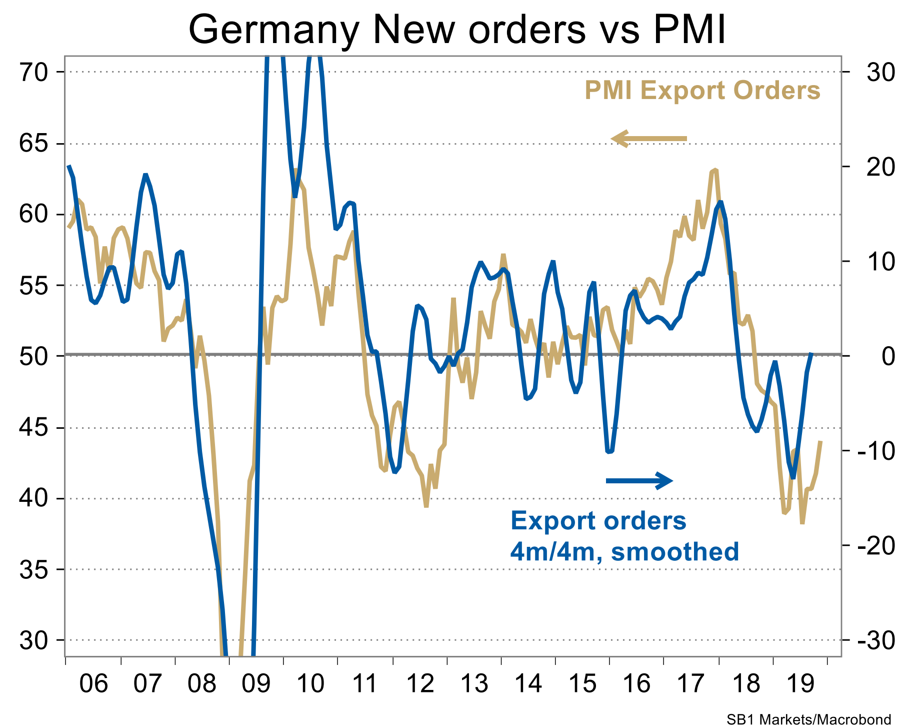


- The **manufacturing PMI** has stabilized at a low level the past few months, still reflecting a deep contraction in production, by some 3%
  - » New orders are falling at a slower pace and inventories have been adjusted, suggesting that the downturn may have bottomed out
- The slowdown is the most fierce in Germany, even as the PMI has edged up since Sept. In Dec, the PMI fell 0.4 p, 0.3 p above the first report. Activity has stagnated in France and is retreating in Italy and Spain

Orders are falling at the slowest rate in a year, early signs of bottom?

Both domestic (implicit) and exports orders PMIs have climbed. Actual exp. orders flat

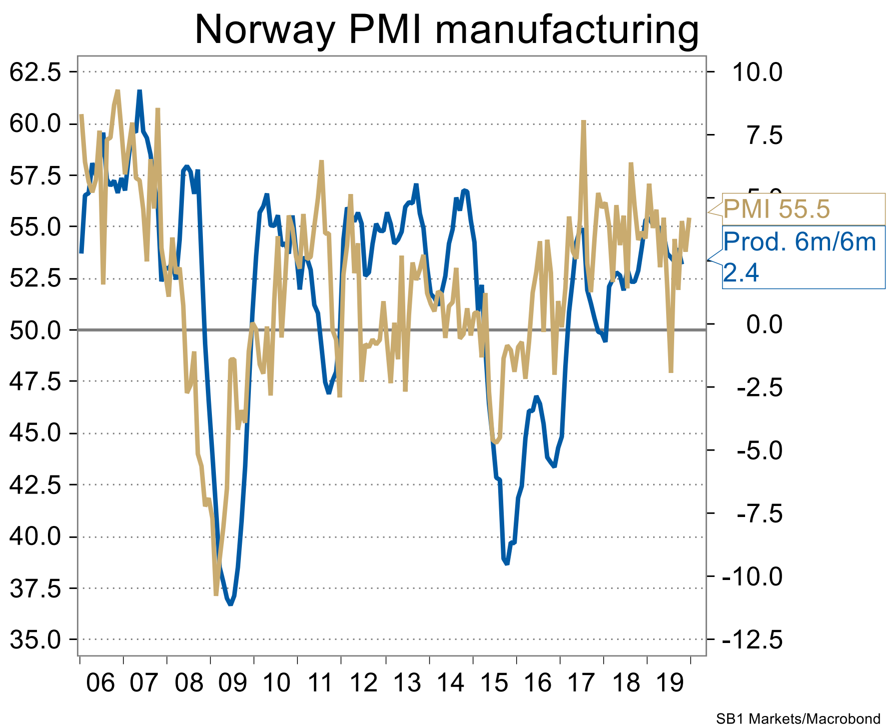


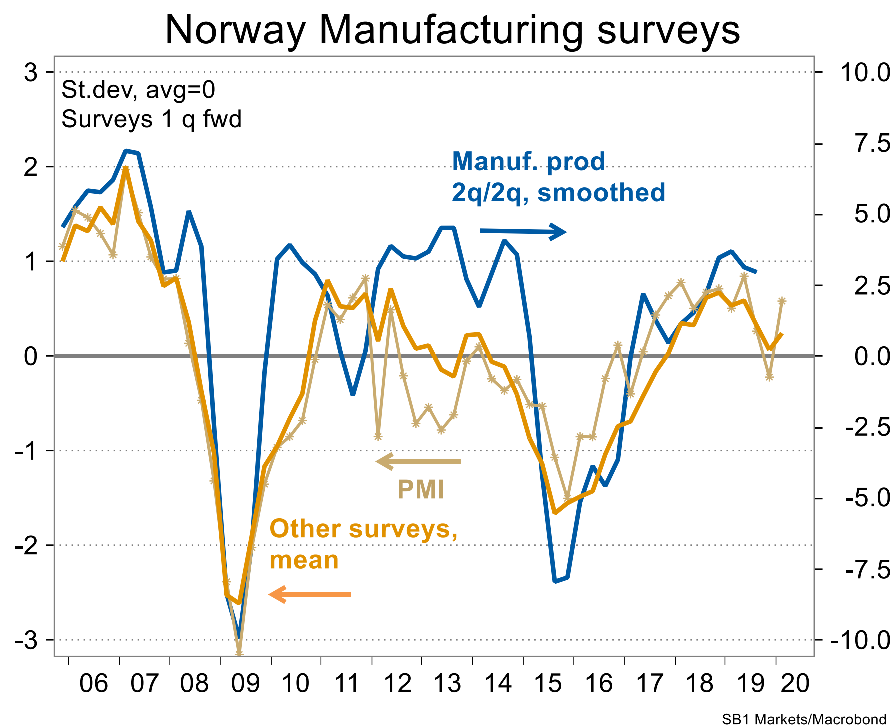


- Export orders are still signaling a steep decline in actual export orders. Actual orders have fallen through 2019 but much less than the PMI has indicated, and even stabilized recent months
- The most plausible explanation of the German slowdown is a mix of a maturing German manufacturing cycle, specific trouble in the auto industry, and global uncertainties stemming from the trade war and Brexit influencing domestic demand. <u>Now, global uncertainties have eased somewhat and the auto industry is showing some early signs of a turnaround</u>

Manufacturing PMI edged further up in Dec, to a surprisingly elevated level

PMI rose to 55.5 in Dec, rebounding since late summer. The PMI is more upbeat than other surveys

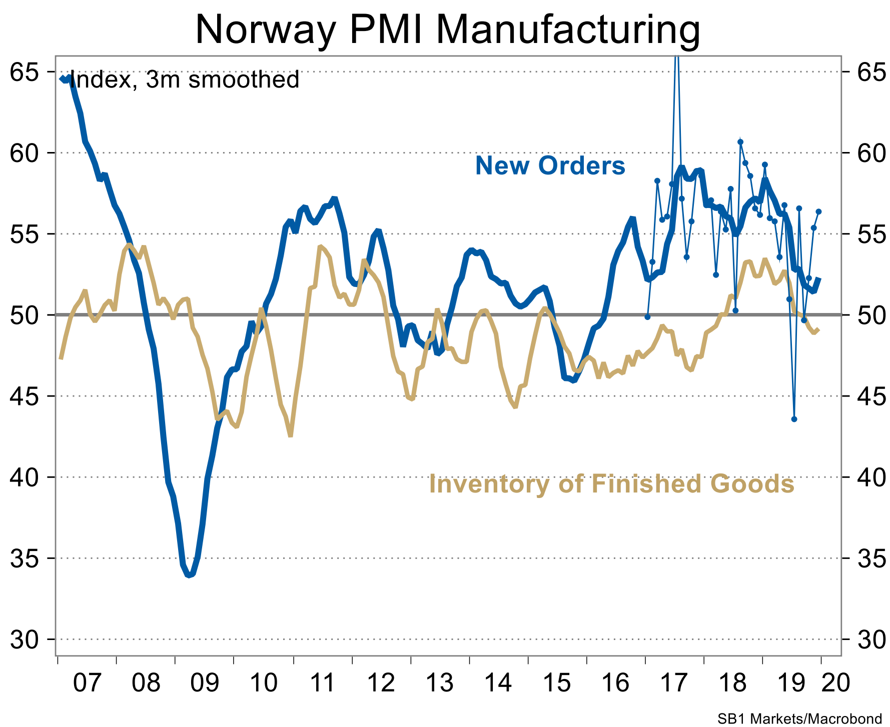


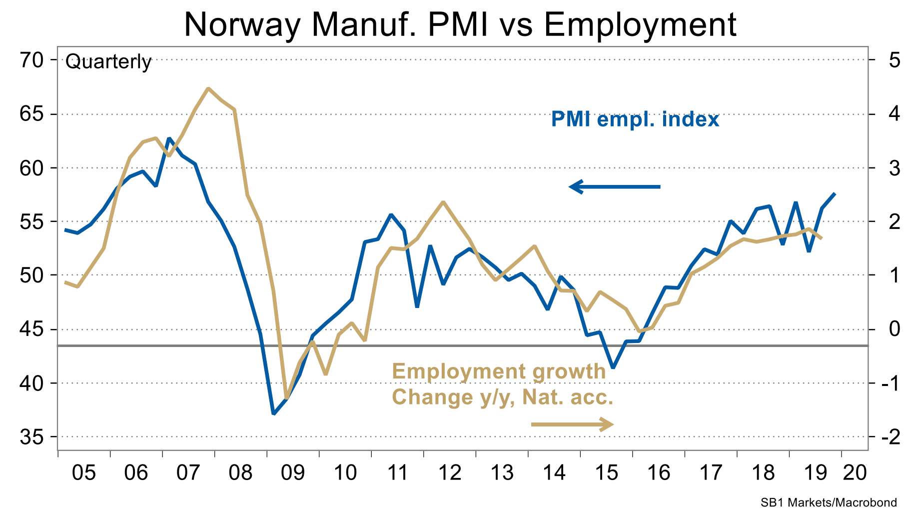


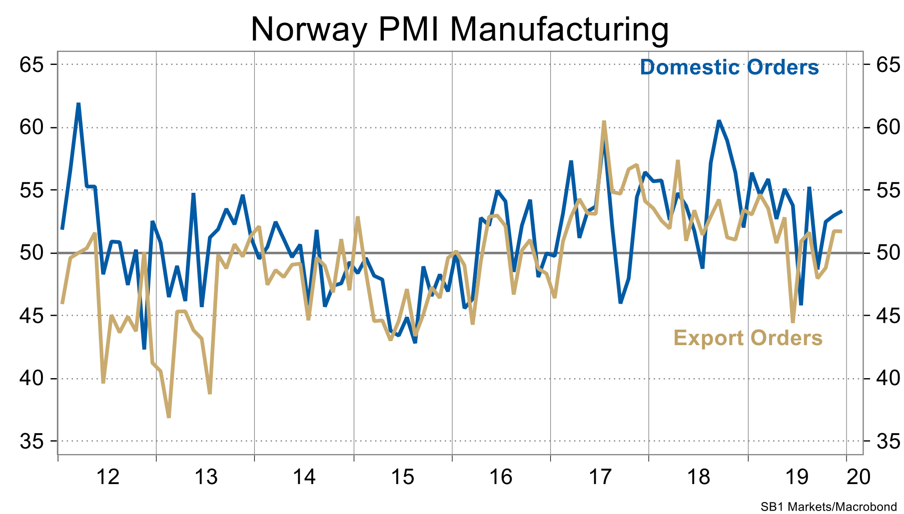
- The PMI rose by 1.7 p in Dec, the level at 55.5, well above expectations. The Norwegian PMI is very volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 54.8, the highest since May after climbing since late summer
  - » The PMI slipped in July, data collected during this month are not trustworthy. The PMI recovered in Aug and has been edging up since then
- The PMI is more volatile than other business surveys – the survey is now more upbeat than the avg of other surveys. The Regional Network reports a market slowdown and Statistics Norway's manufacturing survey is signalling zero growth
- Taken together, manufacturing surveys signals a slowdown in production, to some 2% (vs 3% in Q3)

Orders and employment indices do not point to a rapid slowdown

Orders have softened somewhat but both foreign and domestic orders are rising at a moderate pace



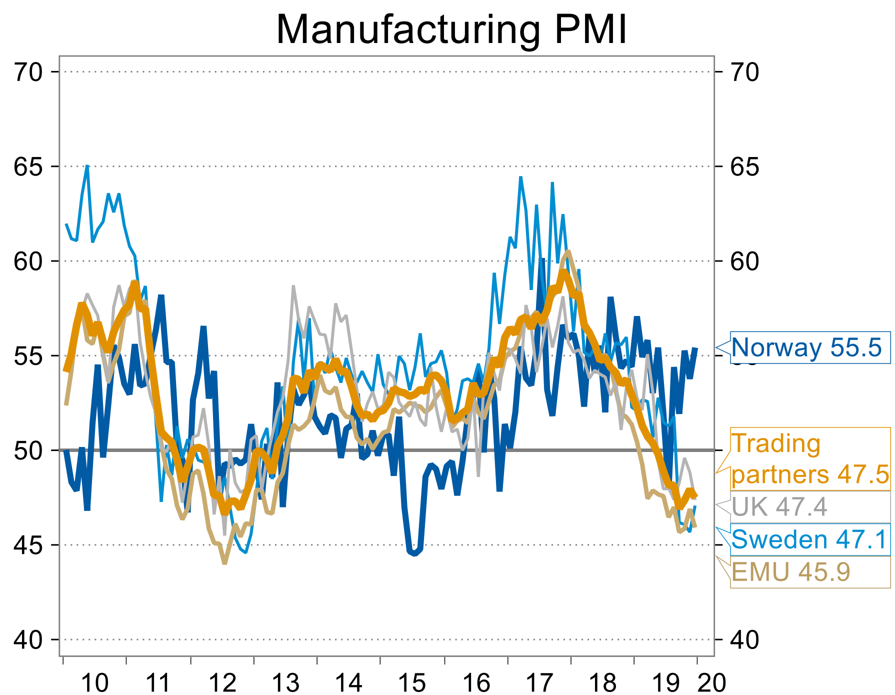




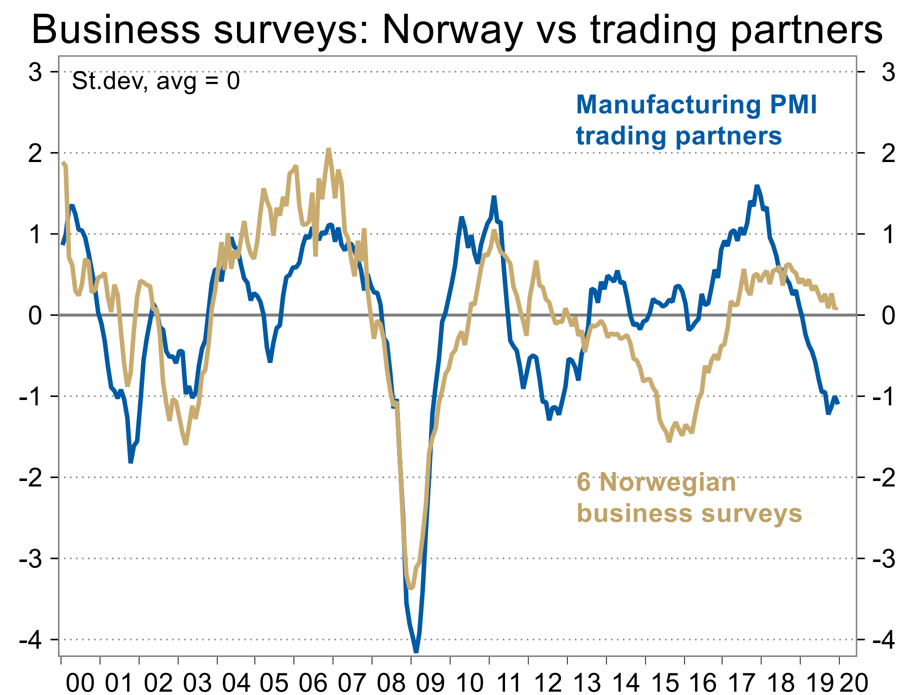
- The new orders index rose 1 p in Dec, following a jump the prior month. However, orders are increasing at a slightly softer pace, the PMI is trending down
- Both export and domestic orders have increased recently and reflect decent growth

Norway will most likely follow its trading partners down, eventually

Manufacturing is holding up much better in Norway, fueled by oil related sectors. But not for long??



SB1 Markets/Macrobond

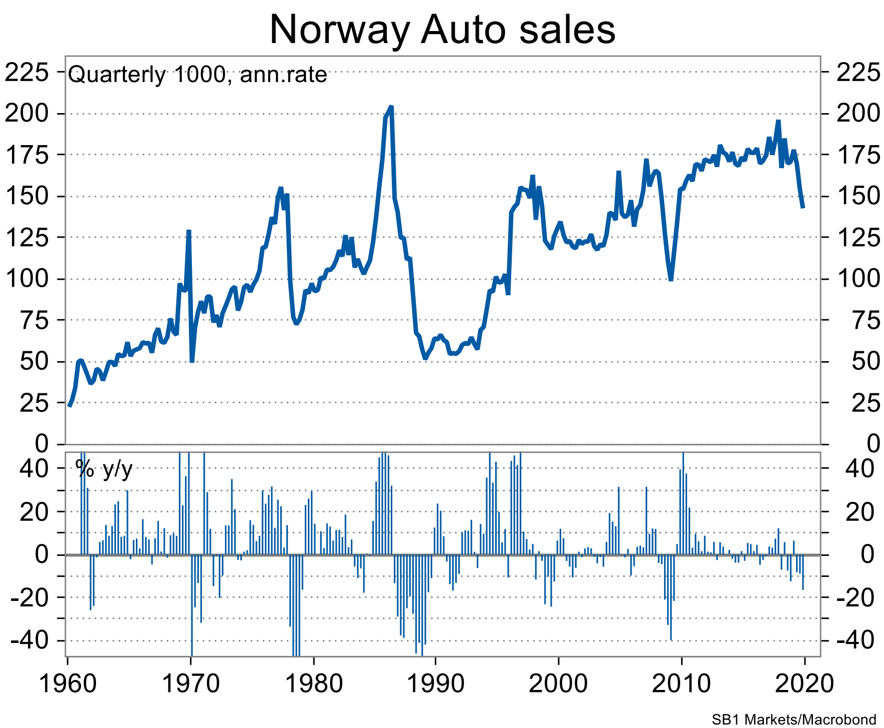


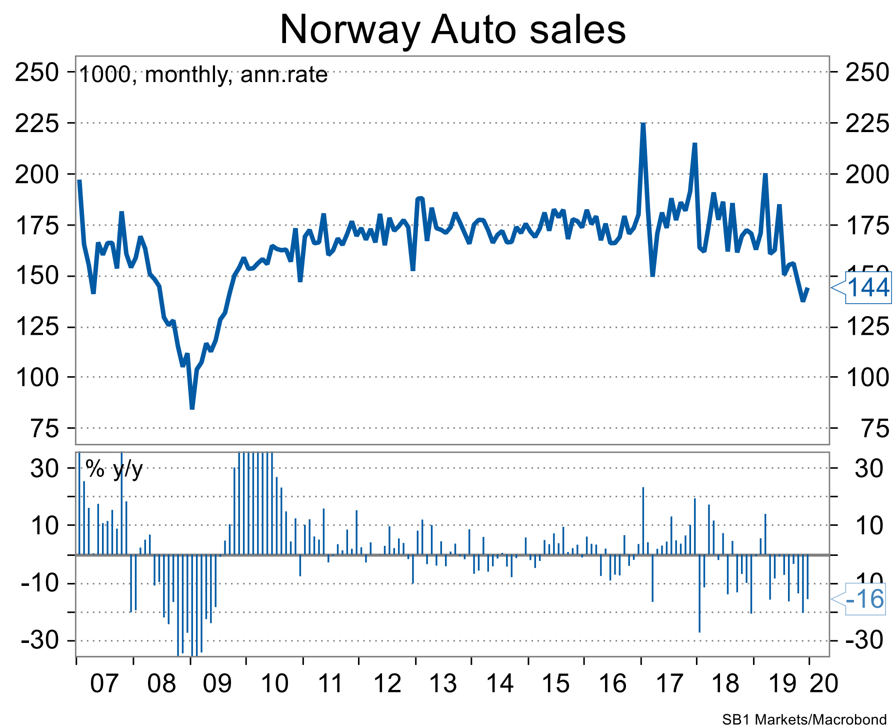
SB1 Markets/Macrobond

- The gap between the Norwegian PMI and the weighted avg of trading partners' is unusually wide, the largest on record! (which goes back to 2004). The Norwegian PMI is normally lagging our trading partners by close to one year. Other surveys are slowly turning down too
- The boost from oil & gas investments will most likely subside this year – and we expect growth in production to slow substantially the coming months/quarters

Full stop in auto sales in H2, tighter 2020 regulations partly to blame?

Sales inched up just 7' in Dec, to 144', after reaching a 10 y low in Nov. A January spike?



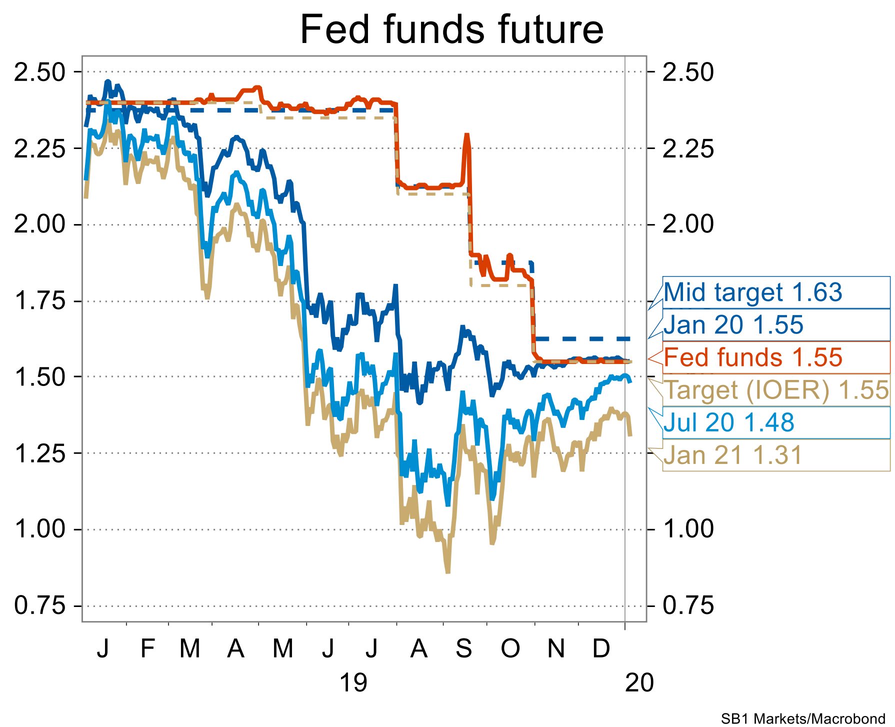


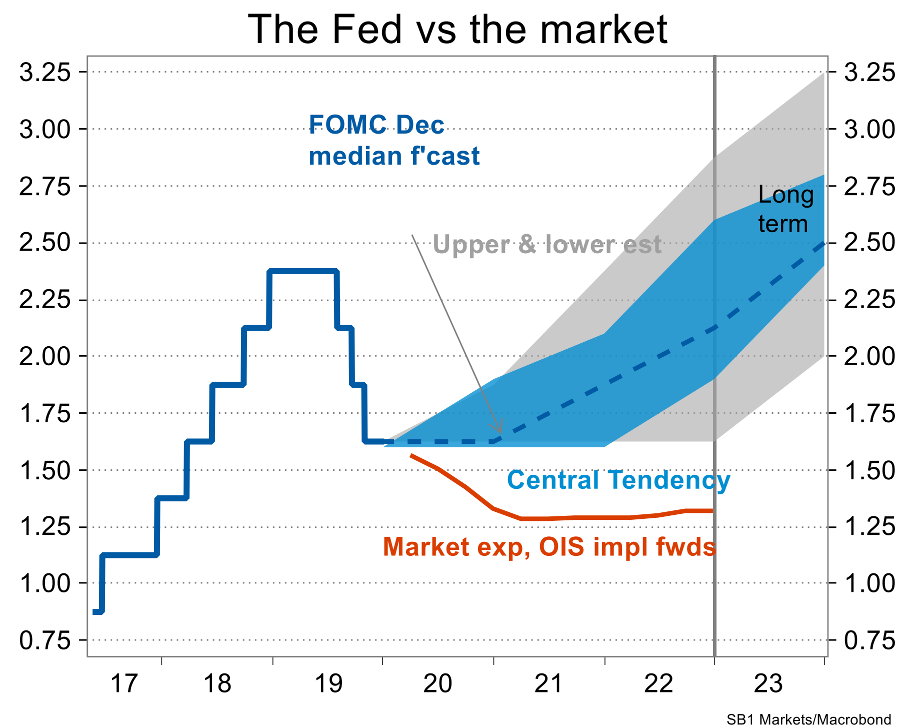
- From January 2020, the new EU emission regulation will be implemented; the maximum average emission of the new vehicle fleet for each producer will be 95g of CO_2/km. If these levels are not reached, producers will be fined. Thus, auto producers (except Tesla) have large incentives to postpone deliveries of new EVs to January. Many buyers have been reporting delayed deliveries this autumn
  - » Similar adjustments are made in other European countries, hampering sales in Q4
- In addition, expiring auto leases of hard to sell gas/diesel cars may have led to too large 2. hand inventories among dealers, keeping new car sales down
- Thus, the dip in sales may not be due to lower auto 'real' demand, if sales recover swiftly in the first months of 2020, that is

SpareBank 1 MARKETS

Minutes from Dec FOMC meeting confirm a neutral stance

Fed did not reflect on cutting further, and will remain on hold. Growth outlook still uncertain

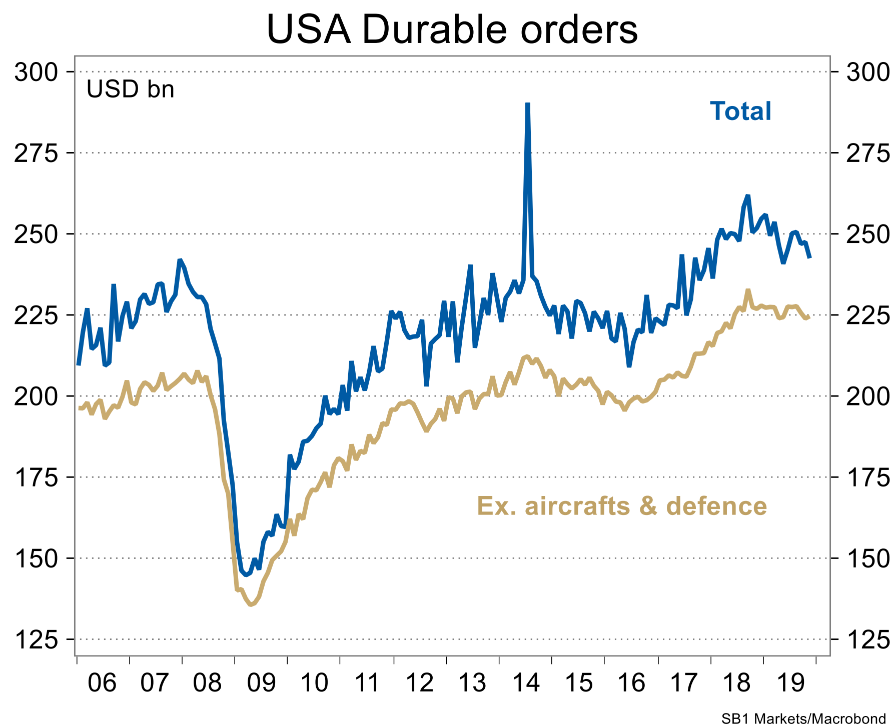


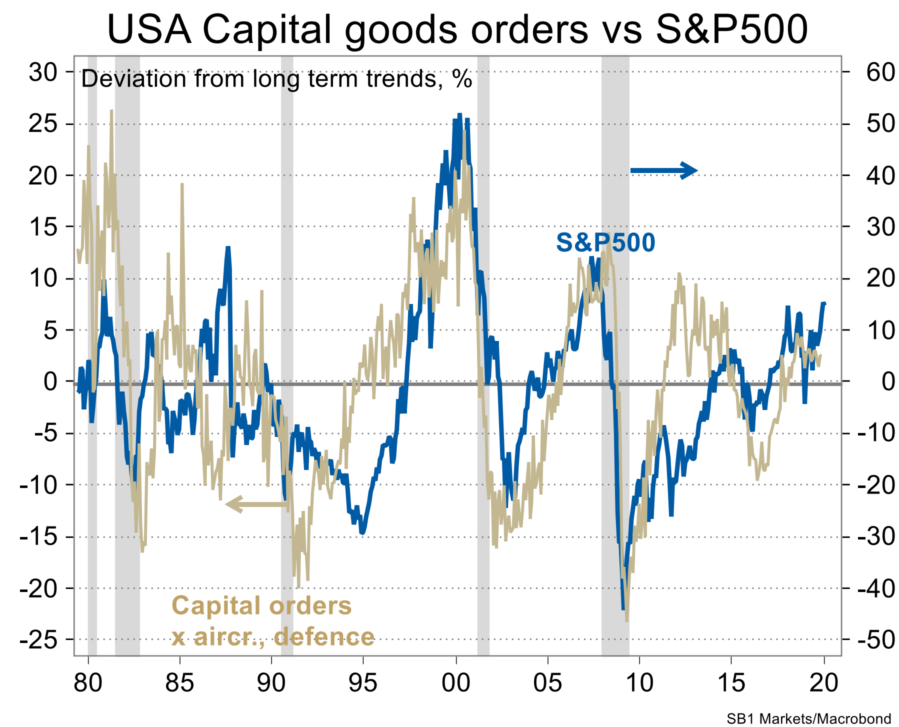


- Minutes from the Dec 11 meeting, at which the Fed kept the Fed funds rate unchanged following 3 cuts at the previous 3 meetings, did not reveal substantial news. The growth outlook is still uncertain but downside risks had eased ‘somewhat’
  - » FOMC still saw elevated risks stemming from global trade uncertainties and a softer global growth momentum, but noted that some risks had eased over the past months. Many assessed the US economy to have been showing resilience amid global headwinds
  - » FOMC seems confident in their current view and argued that maintaining the interest rate at the current level now would leave time to assess the full effects of the recent rate cuts
- Market rates fell Friday but that was due to the risk for a further escalation of the conflict with Iran

Durable goods orders are sliding down, core orders barely flattish

Total orders down in Nov (due to defence), core slightly up. No investment setback signalled

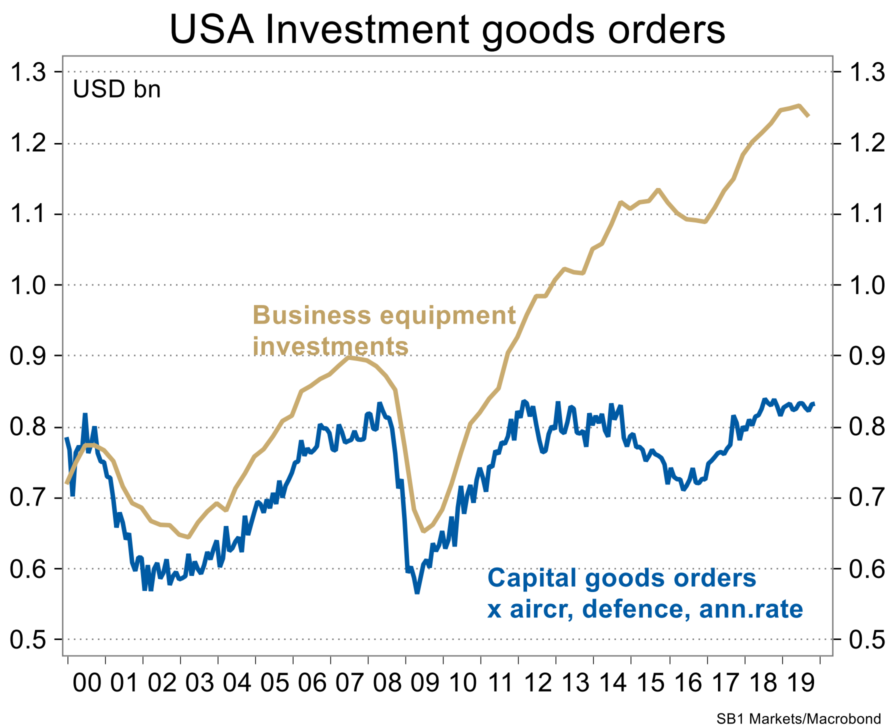


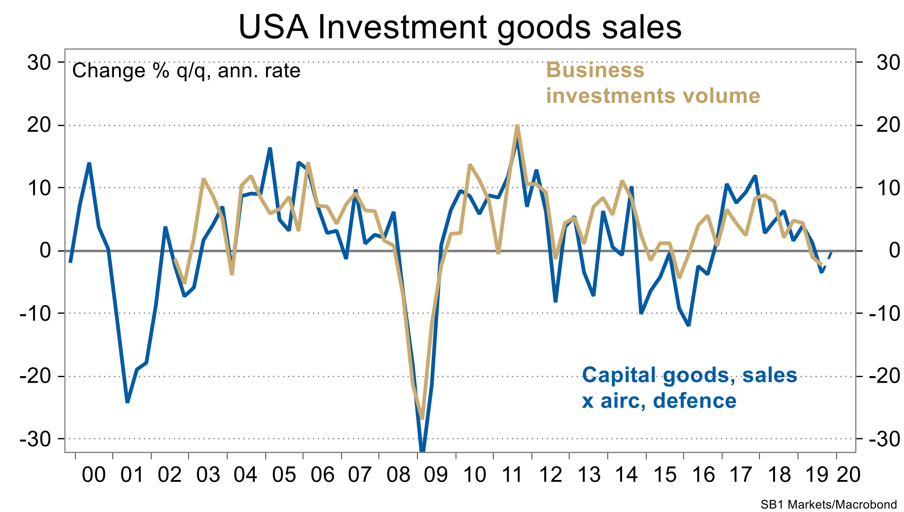


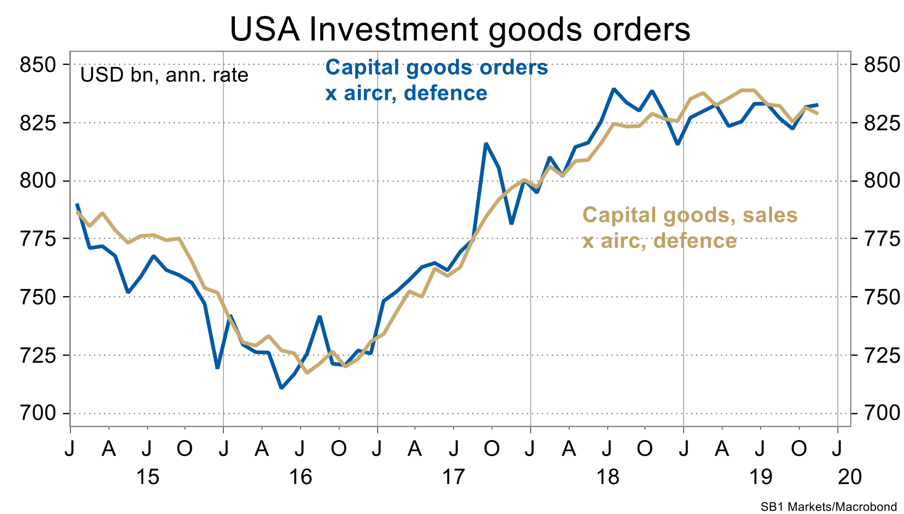
- Total durable orders fell by 2% in November, mostly due to a decline in (volatile) defence orders. Since early 2019, aircraft orders have been falling due to Boeing's troubles, which explain the downward trend in total orders
- <u>Core orders (ex civilian aircrafts and defence orders)</u> edged up 0.3% in Nov. Core orders have stagnated for more than a year, the 3m/3m pace is -5% (but just -0.2% 6m/6m)
- Core <u>capital</u> orders inched up in Nov, the trend is no better than flat. Capital goods sales fell. <u>However, given the Oct and Nov prints, Q4 does not look that weak, for sales or business investments</u>

Capital goods orders/sales do not suggest any decline in business investments

Core investment orders and sales have probably peaked but there is no abrupt downturn



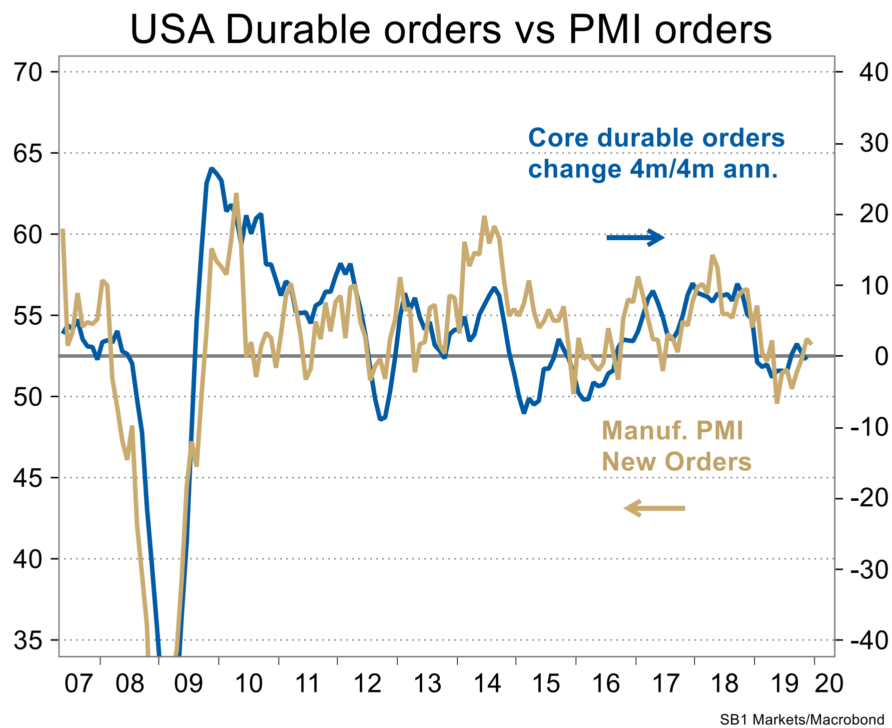


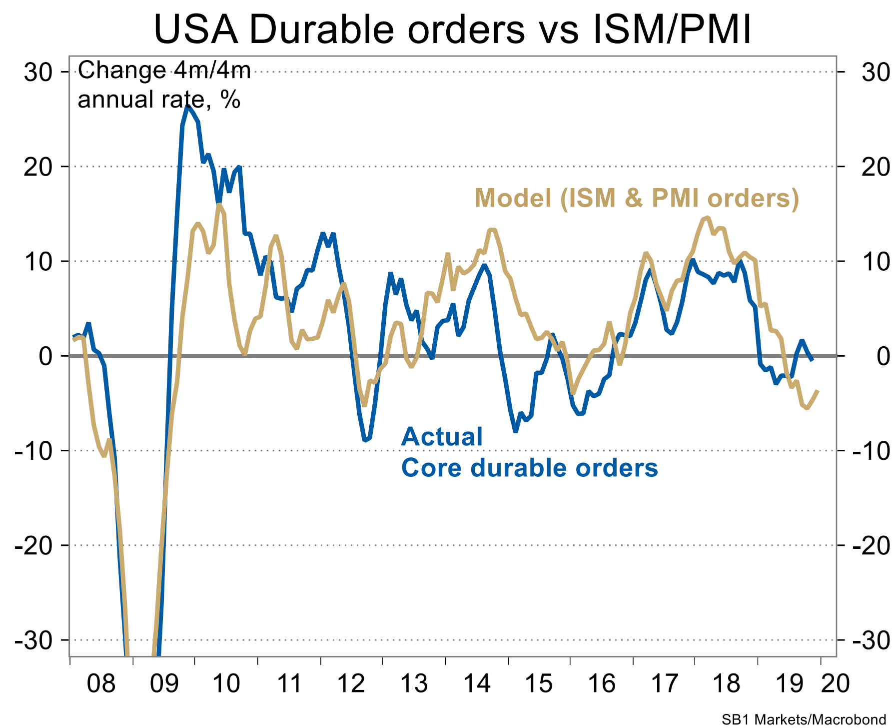


- Investment orders (core) increased by 0.1% m/m in Nov. Underlying growth is down a modest 2% (3m/3m) and the trend the past year is somewhat better
- Sales rose by 0.3% m/m in Nov and have been sliding down recent months. Sales indicate stagnant overall business investments in Q4
- The PMI/ISM orders signal a moderate decline in business orders, but less so in Nov/Dec, as the surveys have improved

Mixed signals but in sum, PMI/ISM orders point to a moderate decline

Markit's PMI reports a stabilization, the ISM a drop, but it is less correlated to actual orders

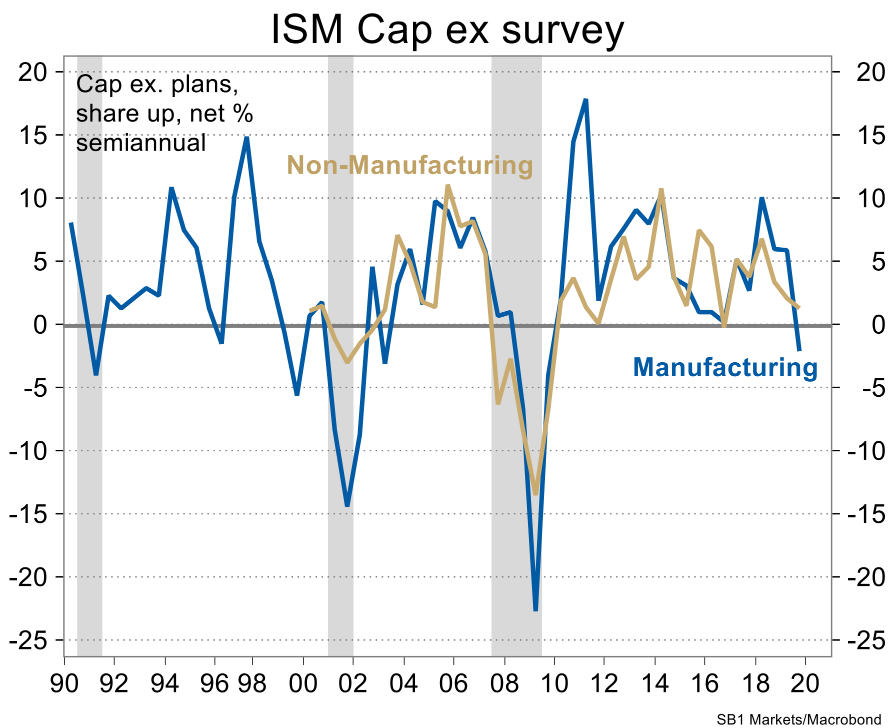


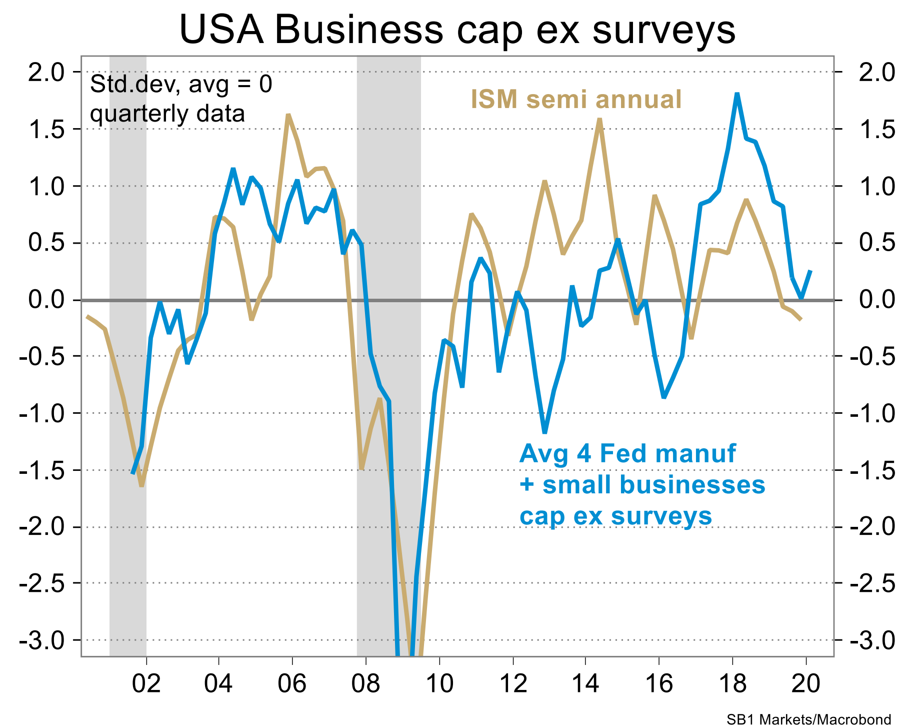


- A simple model, incorporating both surveys, signals a modest decline in core durable orders

Mixed investment surveys, yet none are really weak

The ISM semi-annual survey signals a further slowdown, reg. Fed surveys are slightly more upbeat

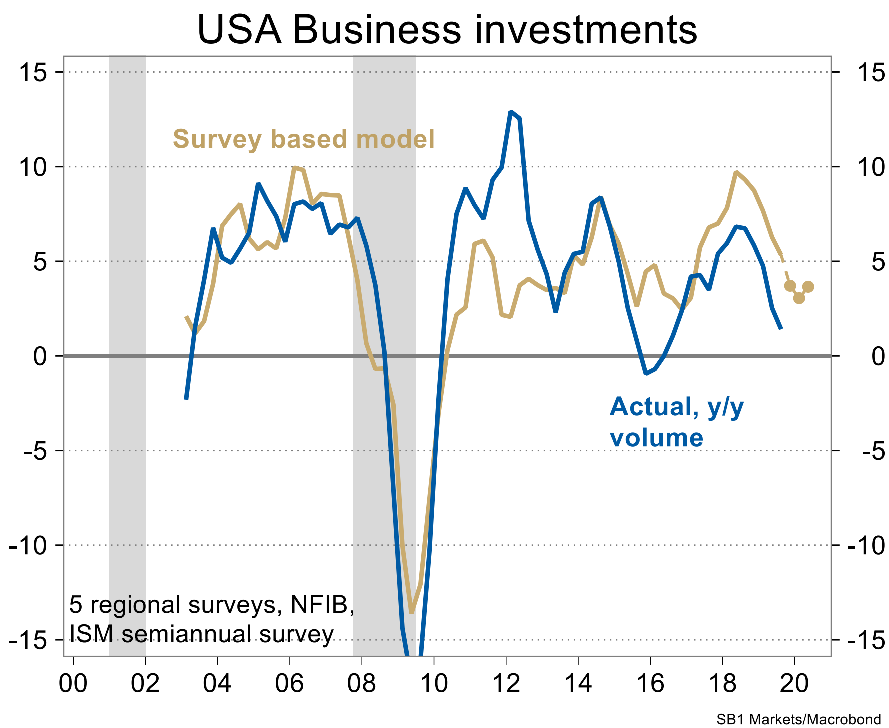




- Manufacturing companies reported a sharp decline in investment plans in December vs the H1 ISM semi-annual survey. However, they are not reporting significant cuts in investments, like they did during the 2001 and 2008 recessions (however, in line with the 1991 survey, during the recession then). Service sector companies reported a moderate slowdown, and not anything close to recession like
- The investment outlook component in regional Fed surveys are somewhat stronger than the ISM survey, and in December those who have reported have been more upbeat

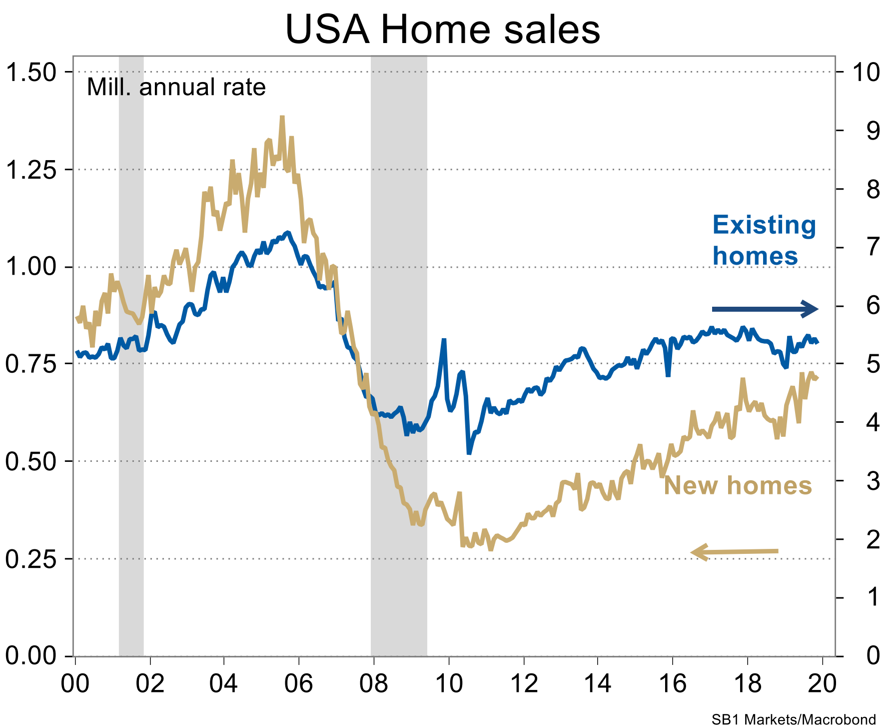
Investment surveys: Still not reporting investment cuts

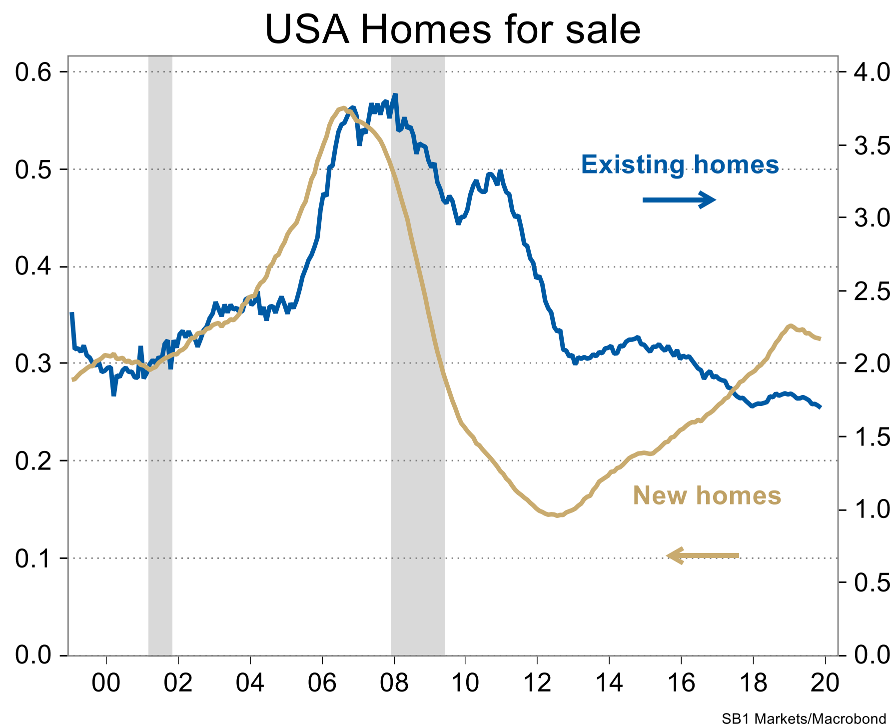
However, they are not that reliable



New home sales flat the past 3 months, longer term trend straight up

Sales rose marginally in Nov, after a downward revised Oct. No of homes for sale are heading down

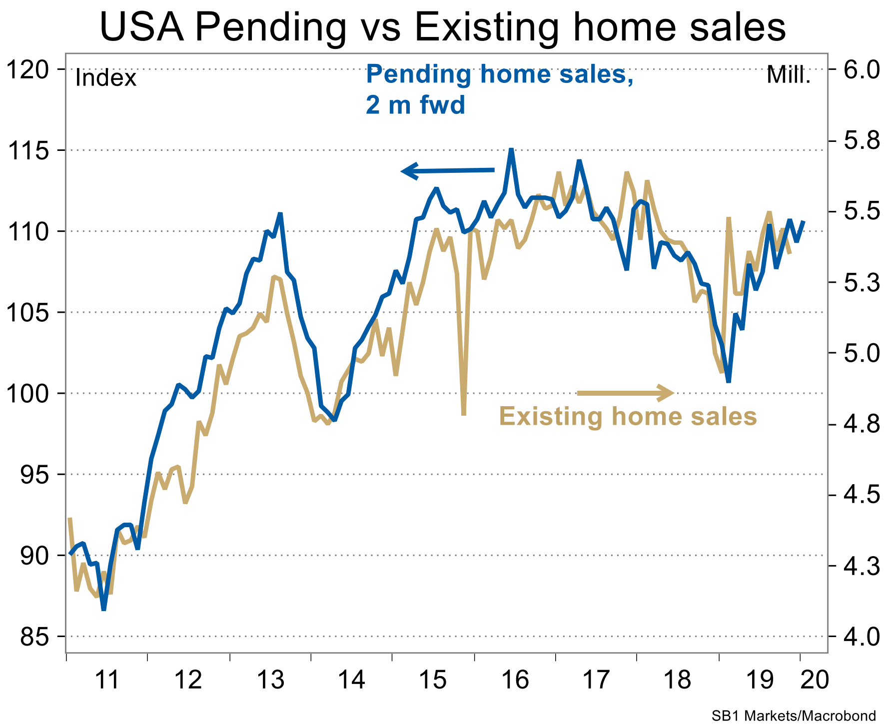


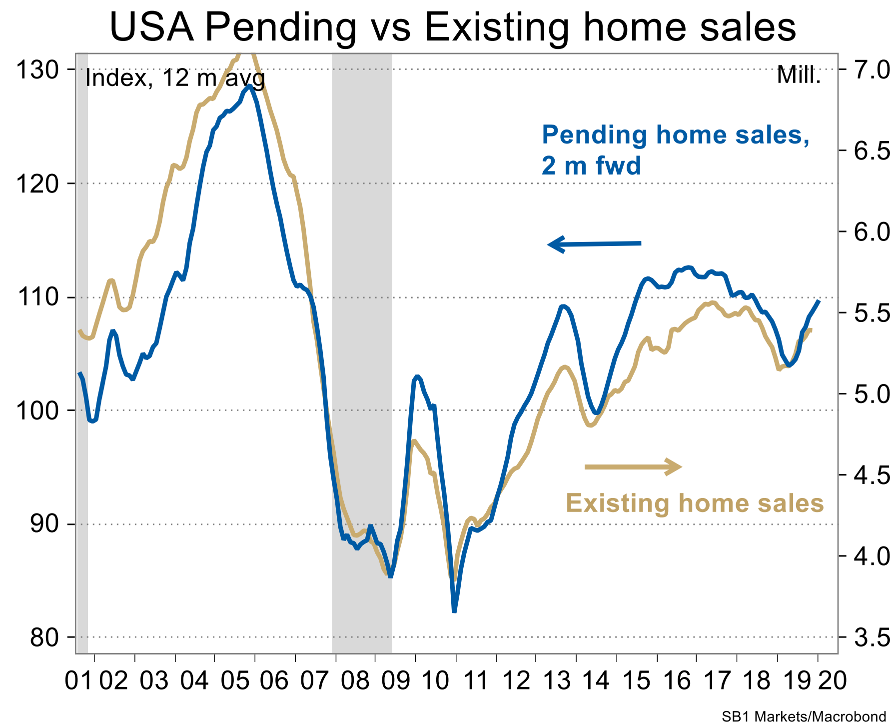


- New home sales rose 1.3% m/m in Nov, to 719'. The level is lower than expected, due to a 23' downward revision of Oct. Regardless, sales are trending straight up and are now 3% higher than the 2017 local peak! (but much lower than the pre-2008 levels)
  - » The number of unsold homes is heading down, both for new and existing, indicating strong housing demand. The number of completions have turned slowly down recent months too but are still trending up
- Existing home sales have recovered since last autumn but the level is still below the local peak in 2017

Pending existing home sales are zig-zagging upwards

Pending home sales rose by 1.2% in Nov, pointing to a slight lift in existing home sales



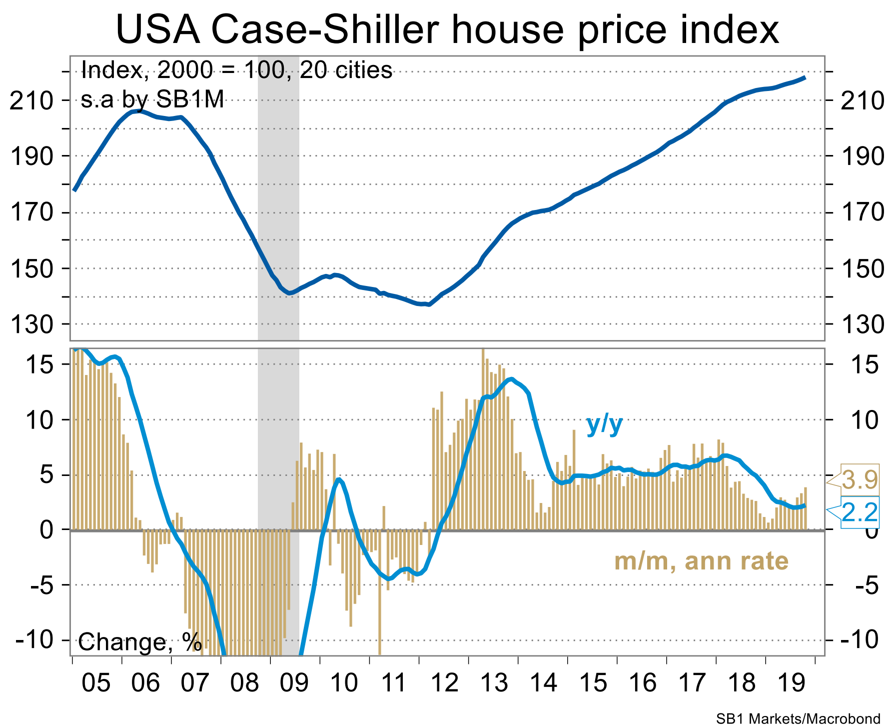


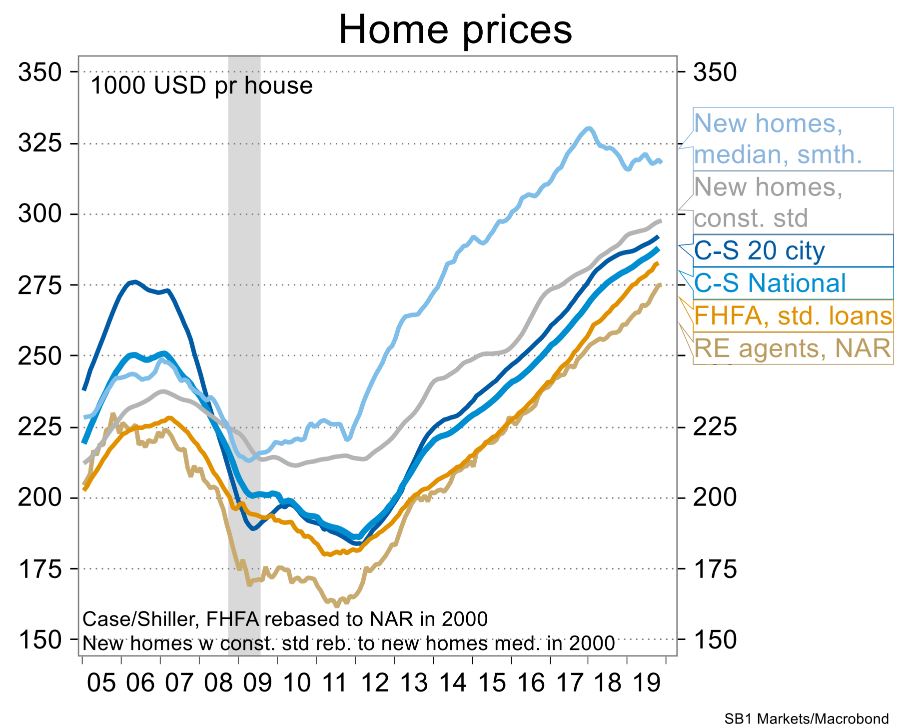
- Pending (existing) home sales rose by 1.2% m/m, marginally softer than expected. Sales are trending up and have increased by almost 10% since the bottom in December '18, following a 10% decline in 2018
- Actual existing home sales are trending up too, although the pace of increase has slowed the past few months. Pending sales are now pointing to somewhat higher existing home sales – and these are usually quite well correlated

SpareBank 1 MARKETS

Case Shiller house price inflation is gaining pace again

C-S prices rose 3.9% annualised in Oct, highest in 1 ½ years, reflecting an upbeat housing market

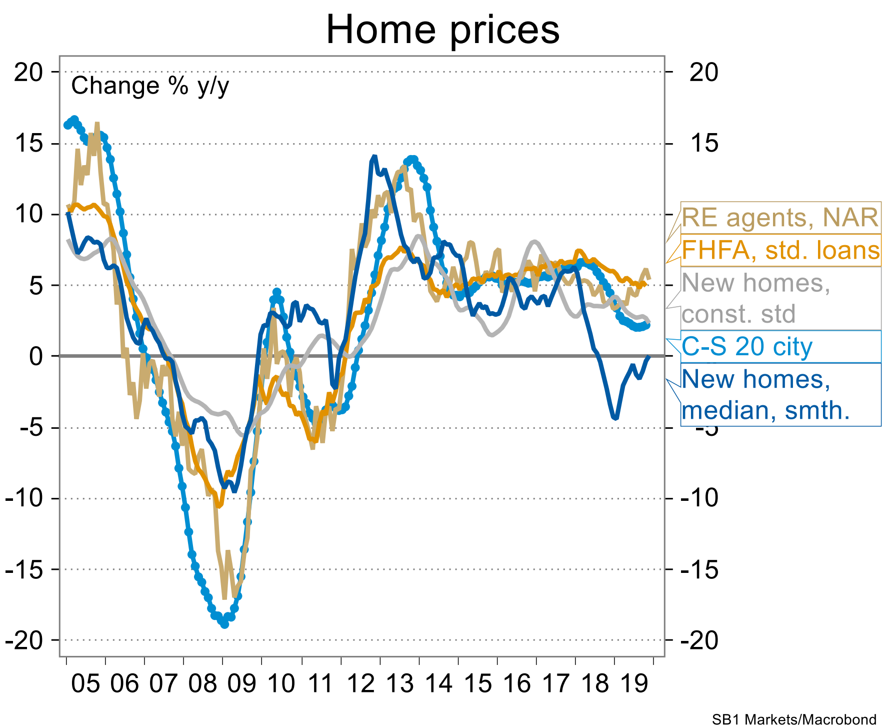


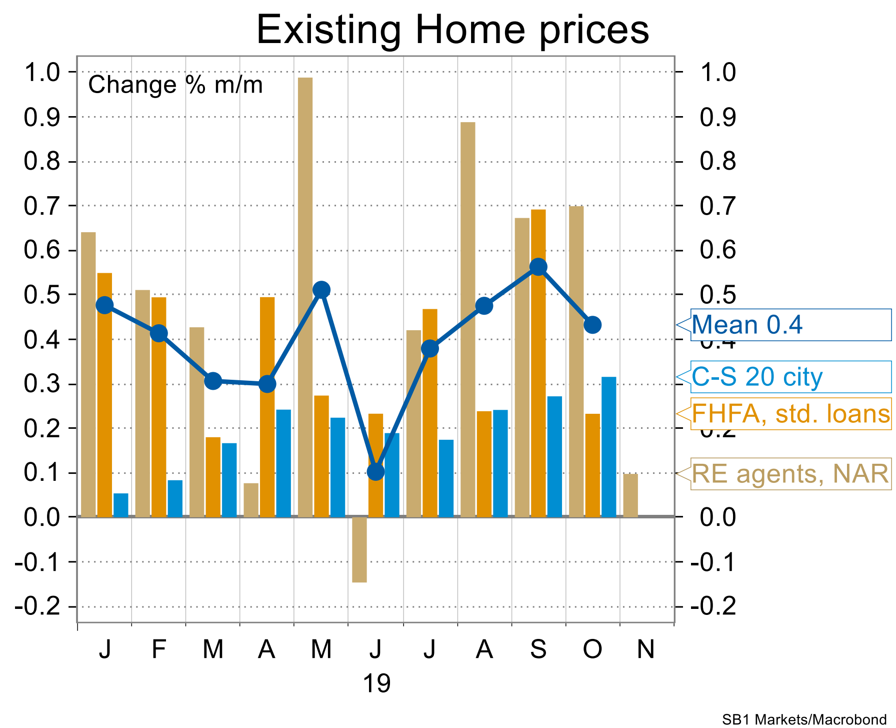


- Case-Shiller house prices rose by 0.3% m/m in October, equalling a 3.9% annualised speed (from an upward revised 3.3% in Sept). This is the highest since the summer of 2018. House price inflation has slowly accelerated since early 2019. Annual rate at 2.2%
  - We apply our own seasonal adjustment, which is needed because there is a substantial residual seasonal pattern in the ‘official’ data. The official Oct figure was +0.4% m/m growth
  - Other price indices on existing home prices confirm an upturn. However, new home prices are still declining
- The CS 20 city (nominal) avg is 6% above the 2006-peak level. The national avg (including more than the 20 cities) is 15% above the peak (while the real price levels are well below previous peak and much lower vs household income)

Existing home prices are accelerating, new home prices have stabilized

The reports are mixed, in avg up 0.4% m/m in Oct

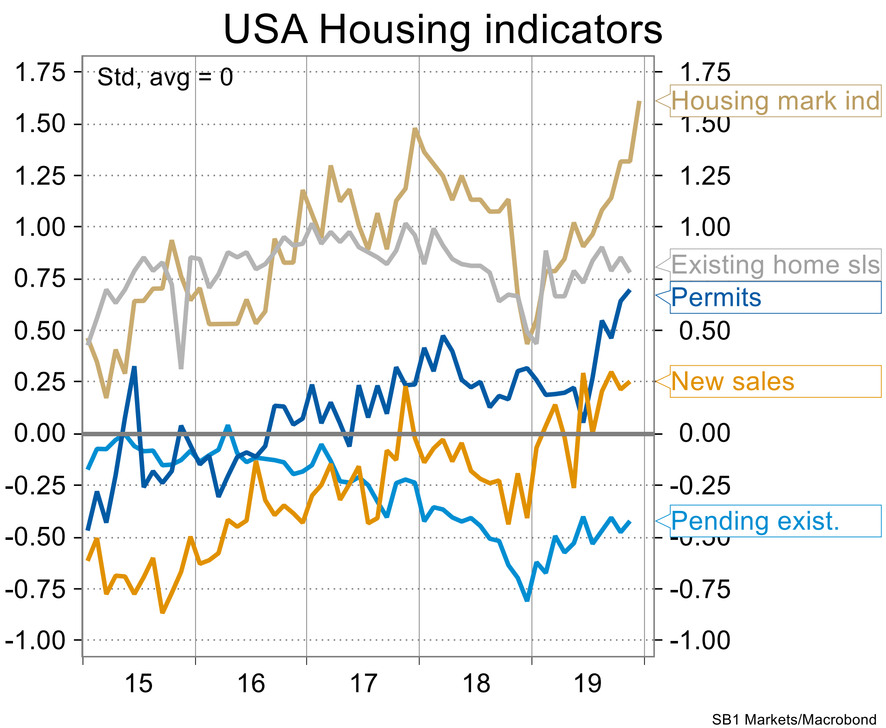




- The FHFA index (for homes financed by state guarantied loans) rose 0.2% in Oct. Underlying growth (measured 3m/3m) gained pace, up to a 4.8% speed, following a slowdown since early 2019
- The realtors' index (NAR), which is more volatile, soared in the Aug-Oct period (but just 0.1% in Nov). The 3m/3m rate is 8%, and prices are up 5.4% y/y
- The C&S index reports a more modest upswing, up 2.9% 3m/3m – slowly accelerating since the spring
- New home prices are not declining anymore – at least measured y/y, as prices have flattened out the past year

All housing market indicators have been strengthening

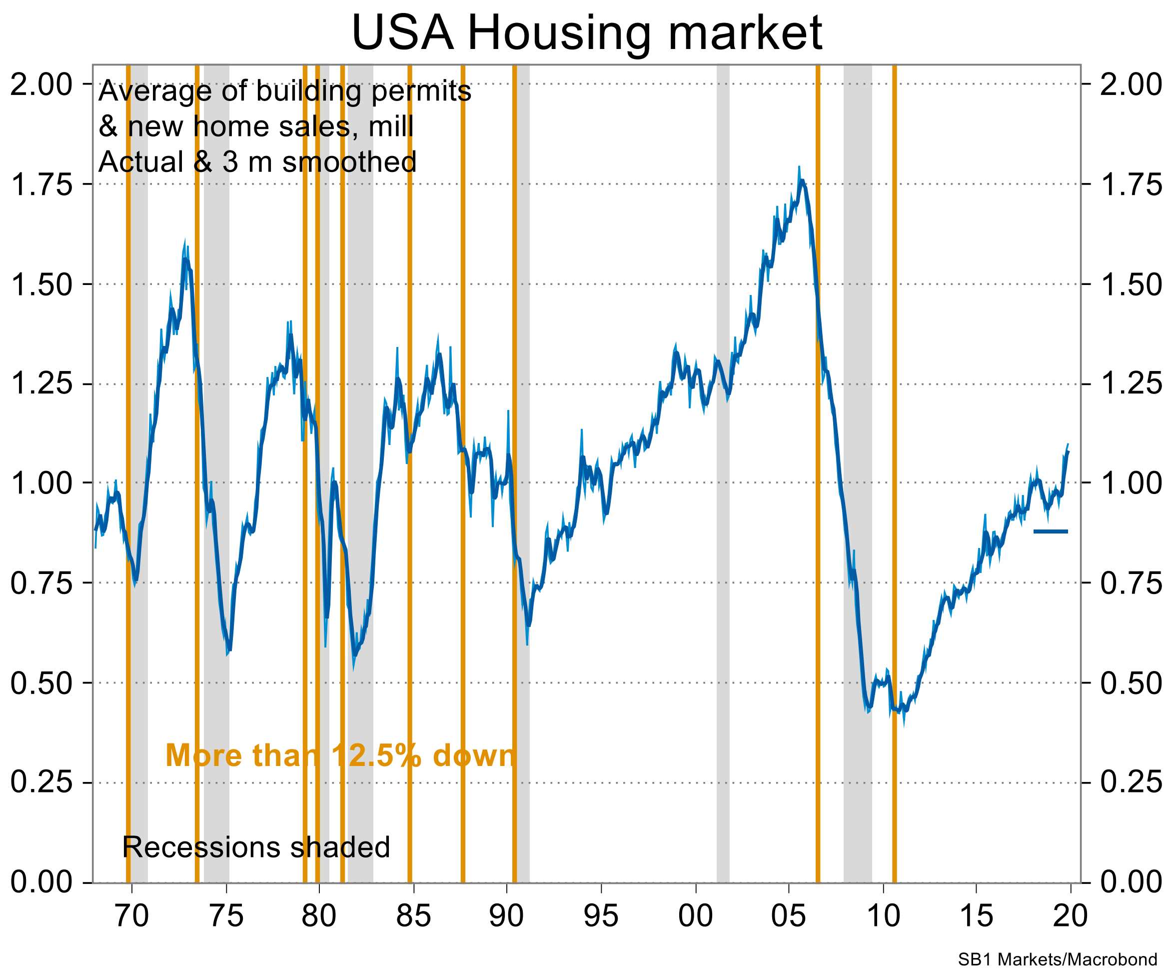
Home sales, housing starts/permits and confidence among the homebuilders are all climbing

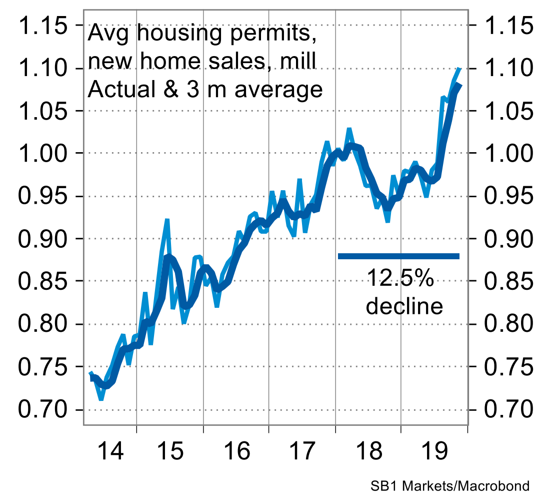


- Low mortgage demand and a strong labour market have no doubt boosted demand for housing
- Just existing home sales are showing some weakness recently but prices are increasing and inventories are shrinking

Housing vs. recessions: No warning sign now, to put it mildly

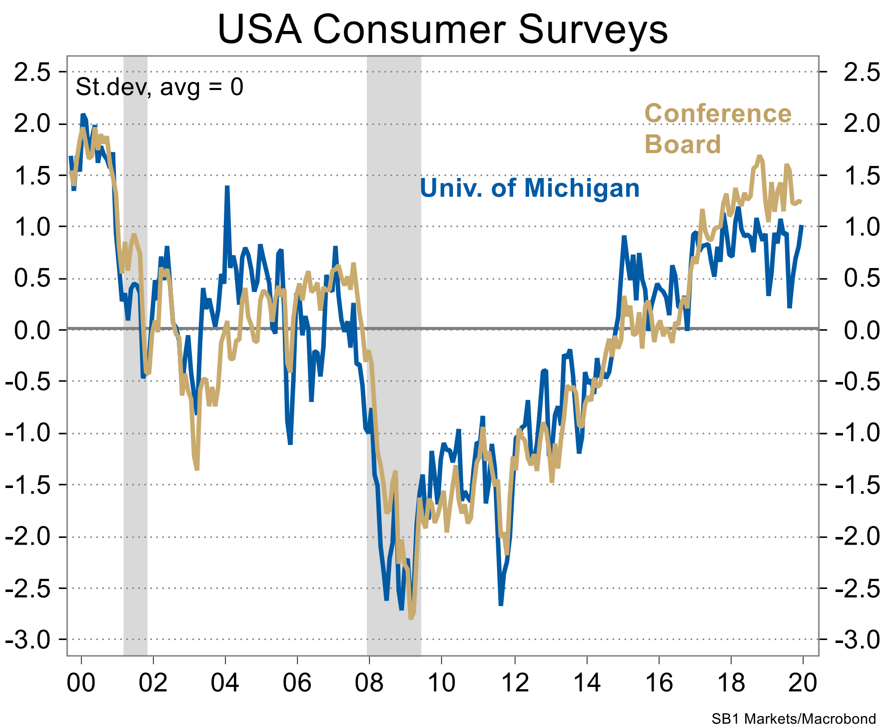
Both building permits and new home sales are heading up steeply, reflecting brisk growth in demand

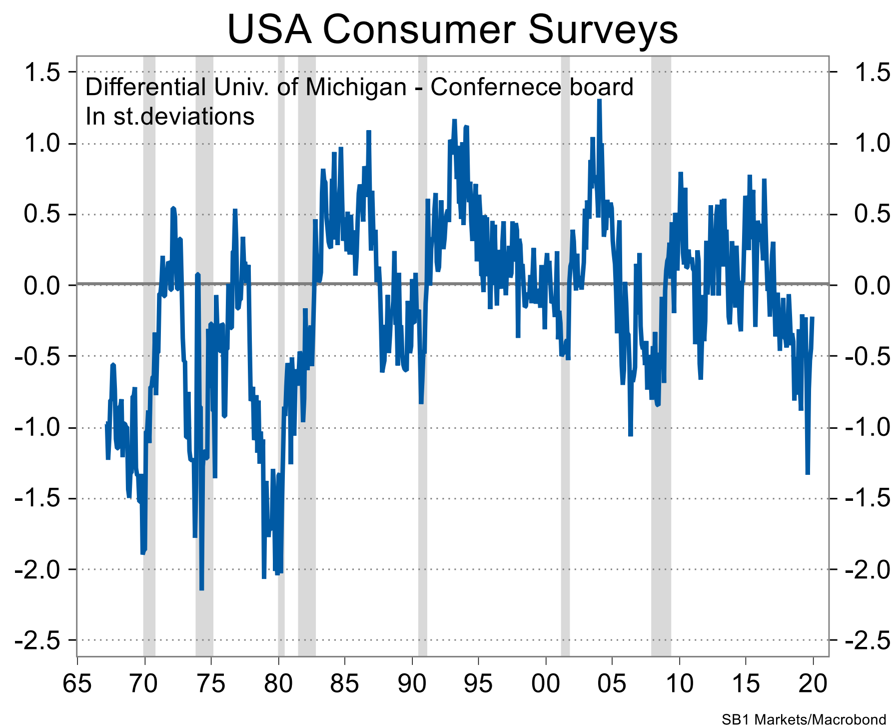




Conference Board's sentiment stable in Dec, at a high level

The Univ. of Michigan index has recovered past three months – and is also at a decent level

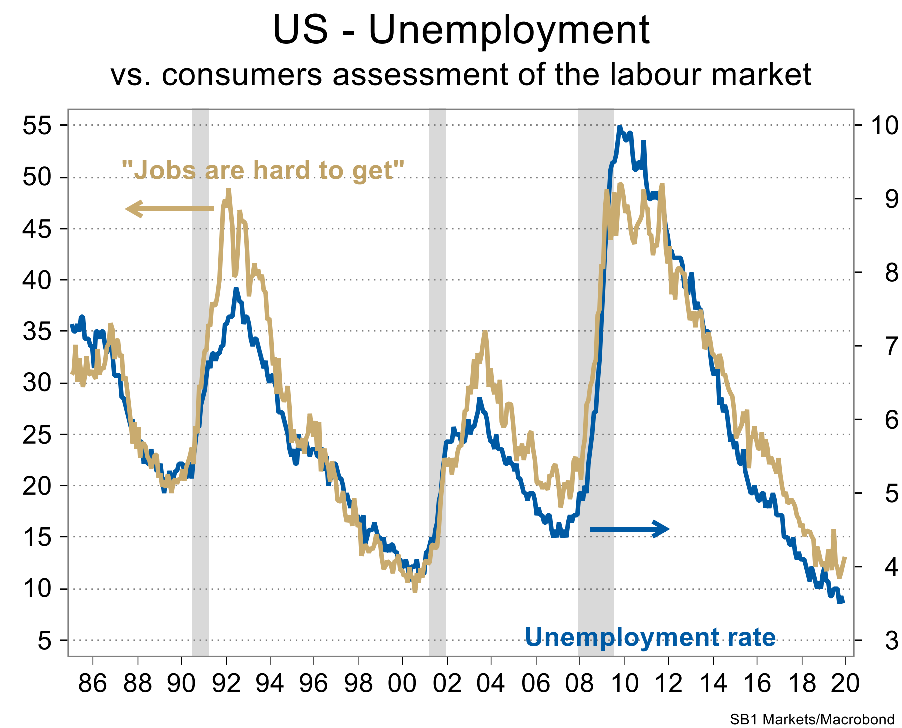


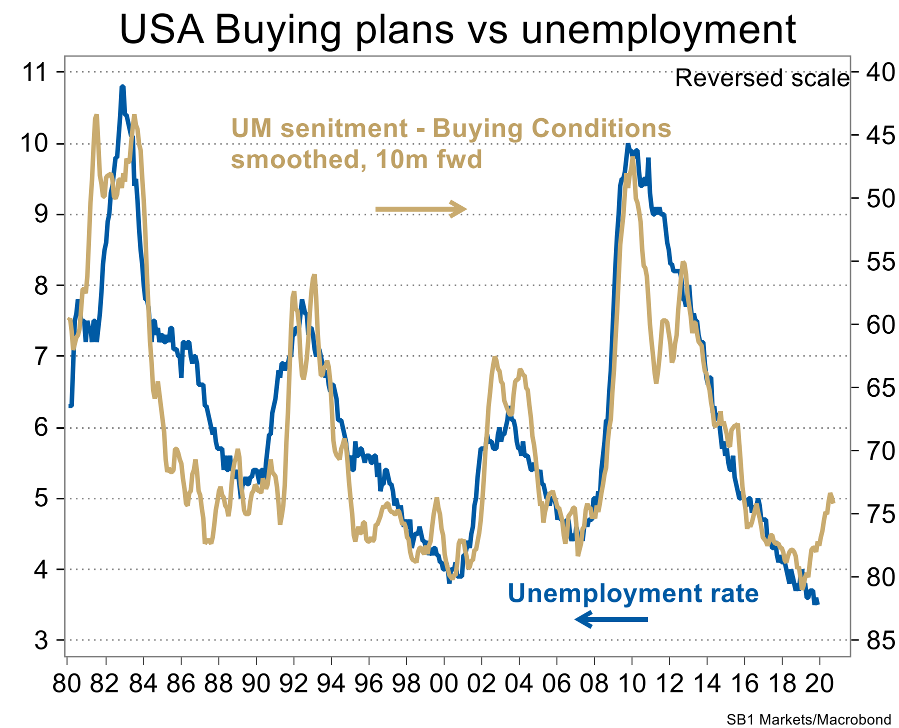


- CB's consumer confidence index fell 0.3 p in Dec, expected up more than 3 p. Confidence has been steady at an elevated level since late 2018, miles above an avg level. Expectations have flattened, the view of the present situation slides down just marginally
- University of Michigan's sentiment survey rose 2.5 p in Dec, and is almost back to the July level
  - » The gap to Conference Board's index is shrinking but remains somewhat higher than usual, which is not a signal of strength: This always happens ahead of economic downturns. However, the gap has narrowed substantially since July
- These surveys do not point to any sudden slowdown in consumption

Consumers’ assessment of the labour market does not signal any weakness

However, households’ buying plans for large durables (from UoM) may be sending a warning sign

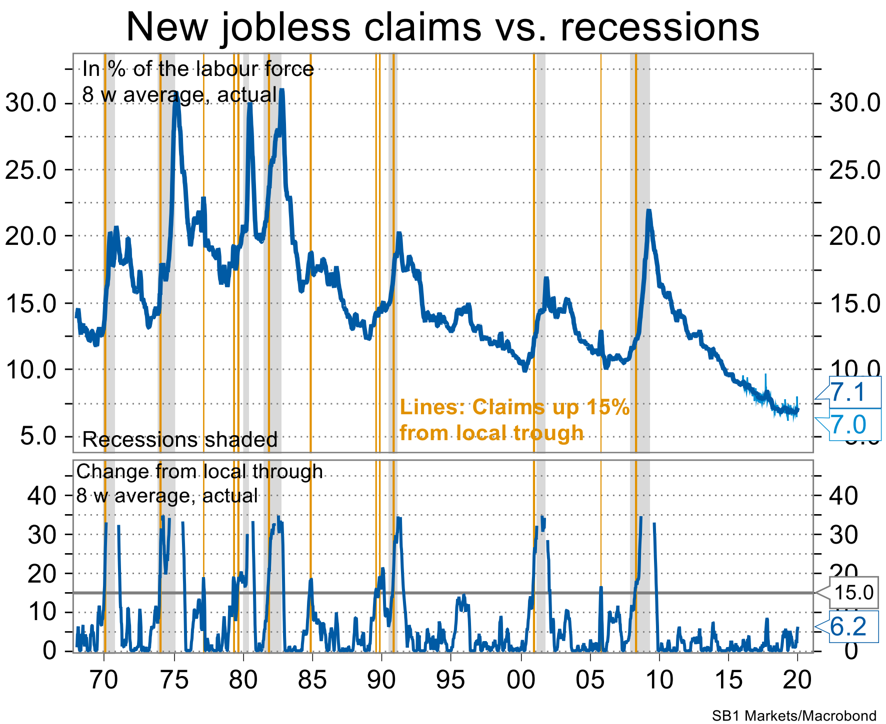


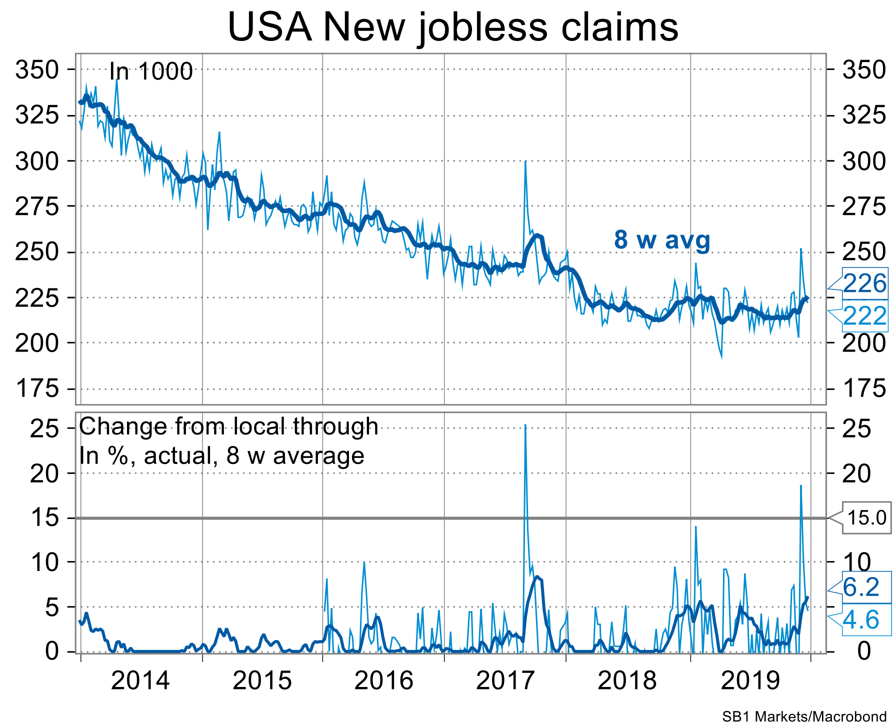


- The ‘jobs are hard to get’ index from Conference Board inched up in Dec too, however, the index is close to a record-low level and is most likely still trending slowly down. The assessment of the labour market is usually quite well correlated to actual unemployment – but it is leading by just approx. 1 month
- The measure of buying conditions from UoM has been weakening since mid-2018. This index is usually quite closely correlated to the unemployment rate, leading by 10-12 months (with a lower correlation than the jobs assessment). The chart above is surely not encouraging, although false warnings have been sent before

Jobless claims are inching up – but not more than 'usual'

Most of the Thanksgiving jump is reversed and the pattern is equal to that of the previous years

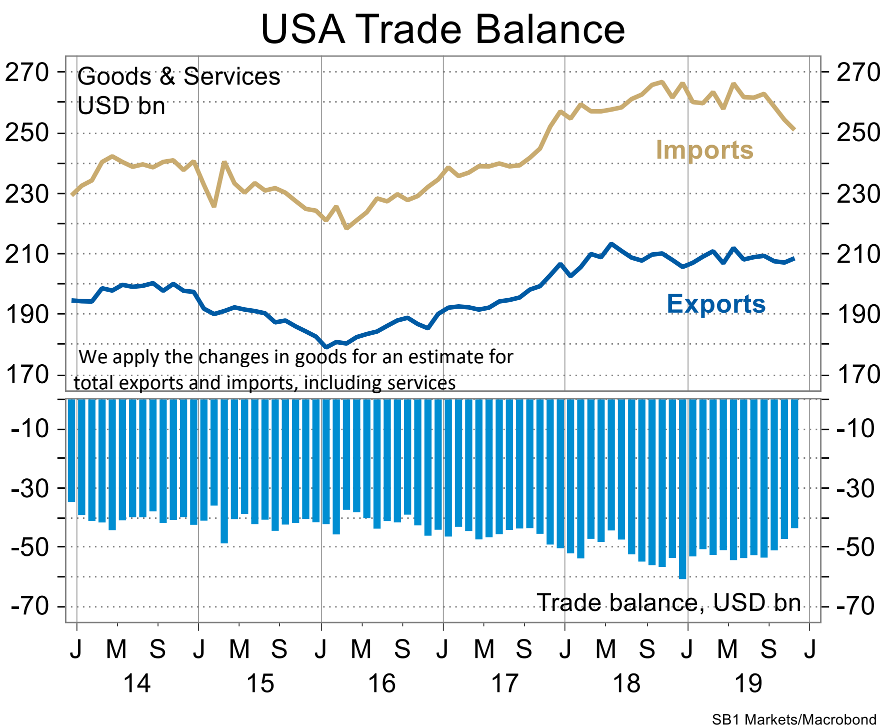


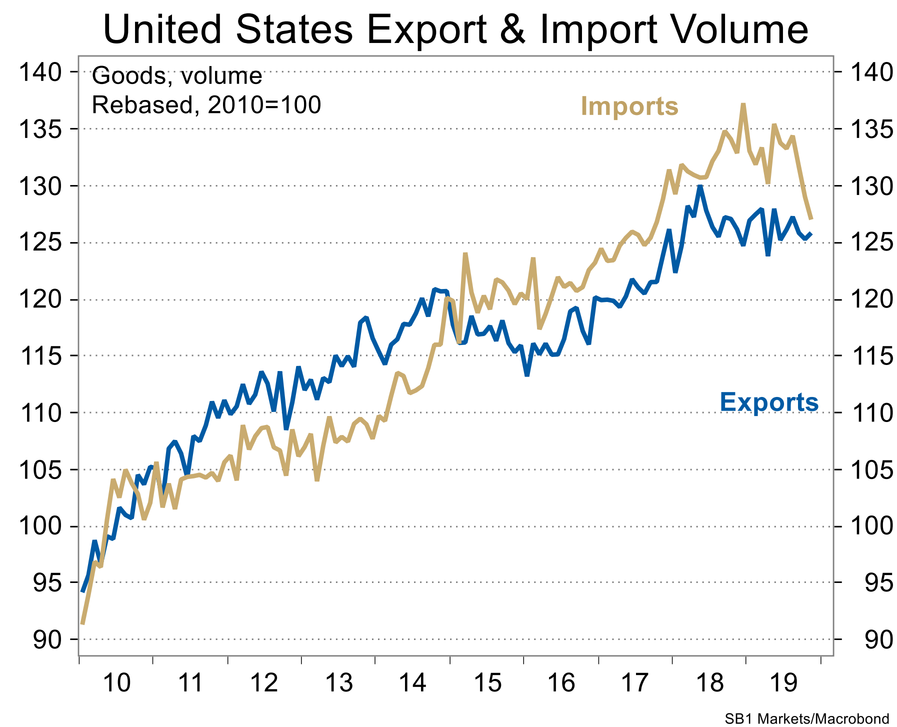


- The past few weeks, jobless claims have been distorted by a later than usual Thanksgiving holiday. During the holiday, fewer are filing their claims, and the next weeks, claims tend to soar. As Thanksgiving falls on different weeks, the seasonal adjustments are troublesome. Looking at the unadjusted data, the pattern is similar to that of the past years . Thus, the uptick since late November probably does not reflect an actual unemployment upturn
- Last week, claims inched down to 222, just below the 8 week average at 226'
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

The trade deficit is shrinking rapidly as imports wane

Imports have fallen the past 4 months, exports trending flat

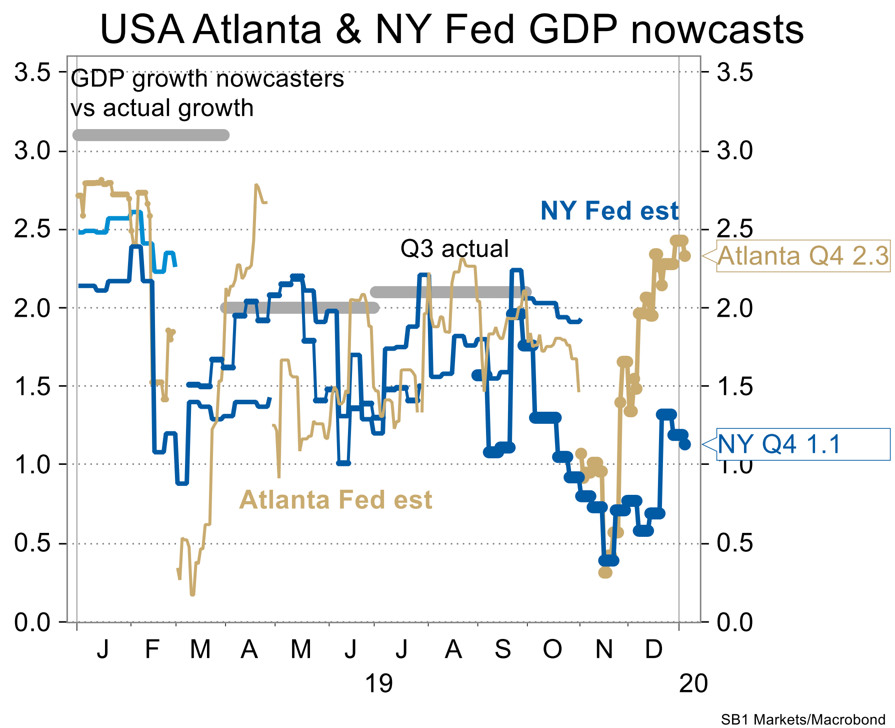


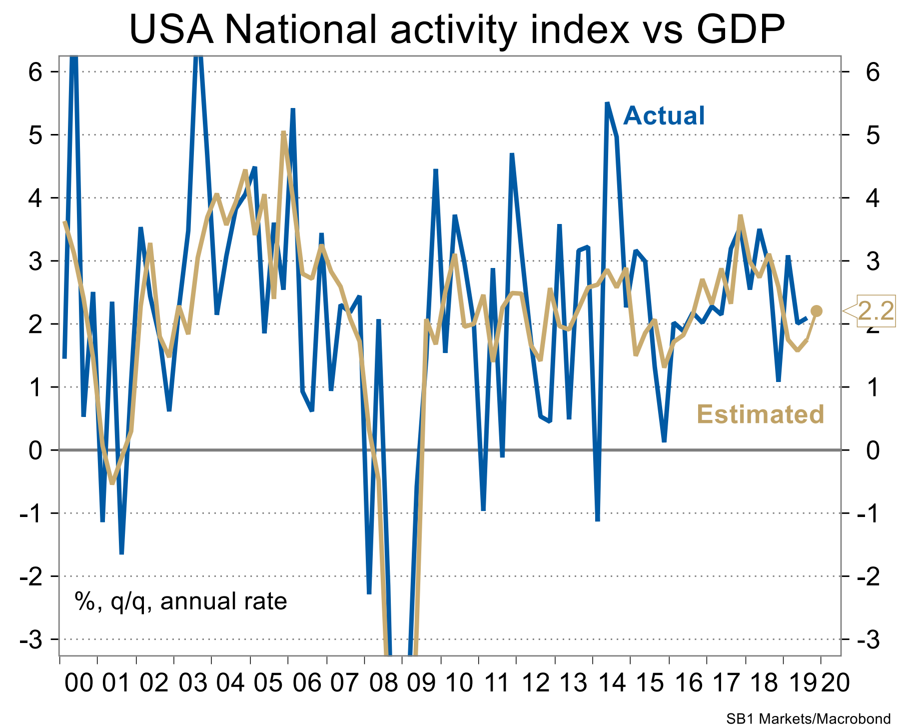


- The advanced trade deficit **in goods** shrank to USD 44 mrd in Nov, the lowest in more than two years. The deficit is trending in the past months, due to weaker imports – not rising exports
  - » Imports dropped 1.3% m/m in volume terms in November, the third month of decline. Imports have been slowly down since Dec 2018 – and faster in H2. Imports are down 4.1% y/y. A sign of crumbling domestic demand or reduced imports from China due to tariff hikes? Mostly domestic demand, the deficit to China is shrinking, but deficits vs many other countries are widening.
  - » Export volumes edged up 0.7% in Nov. Exports have completely flattened out the past year, annual growth at +0.3%
  - » Net trade is heading for a substantial positive contribution to Q4 GDP growth – it is usually a drag on growth (due to strong domestic demand)

Nowcasters signal 1.1 – 2.3% Q4 GDP growth, Nat. Act. Index at 2.2%

NY Fed's model is still well below Atlanta Fed's nowcaster, National Activity Index spiked in Nov

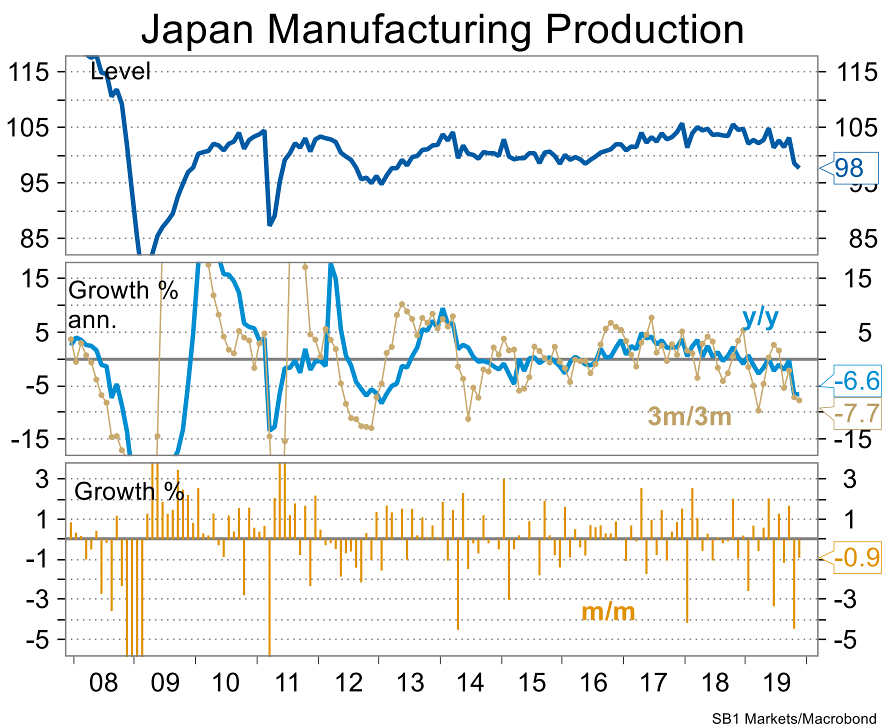


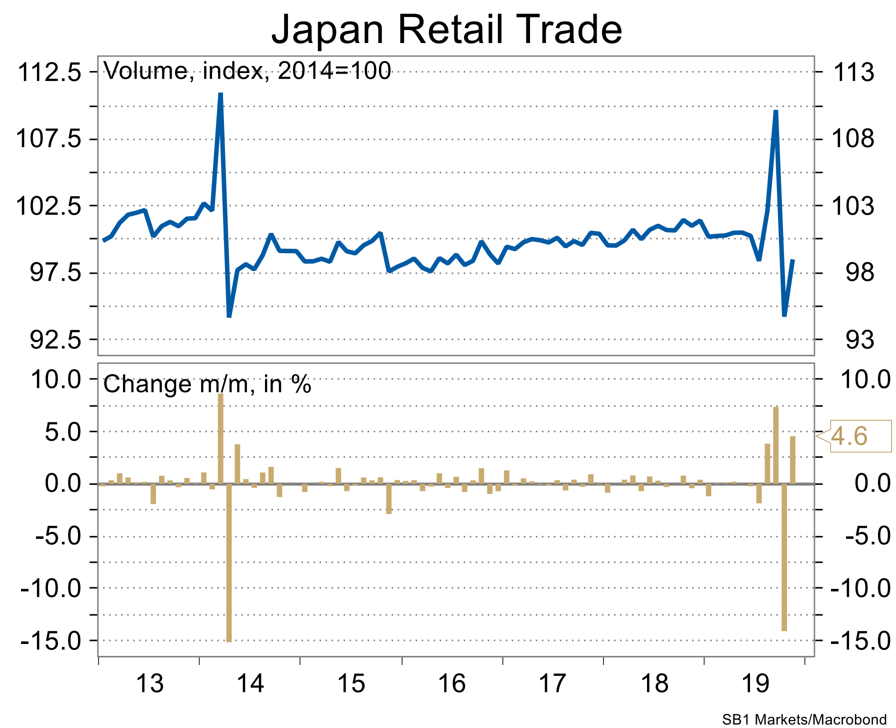


- The National Activity Index rose sharply in November and now signals 2.2% growth in Q4, up from 0.3% based on the October print

Retail sales recovered partly after VAT hike, manuf. production remained weak

Retail sales and manuf. production plunged on the VAT increase in October, a slow recovery is likely

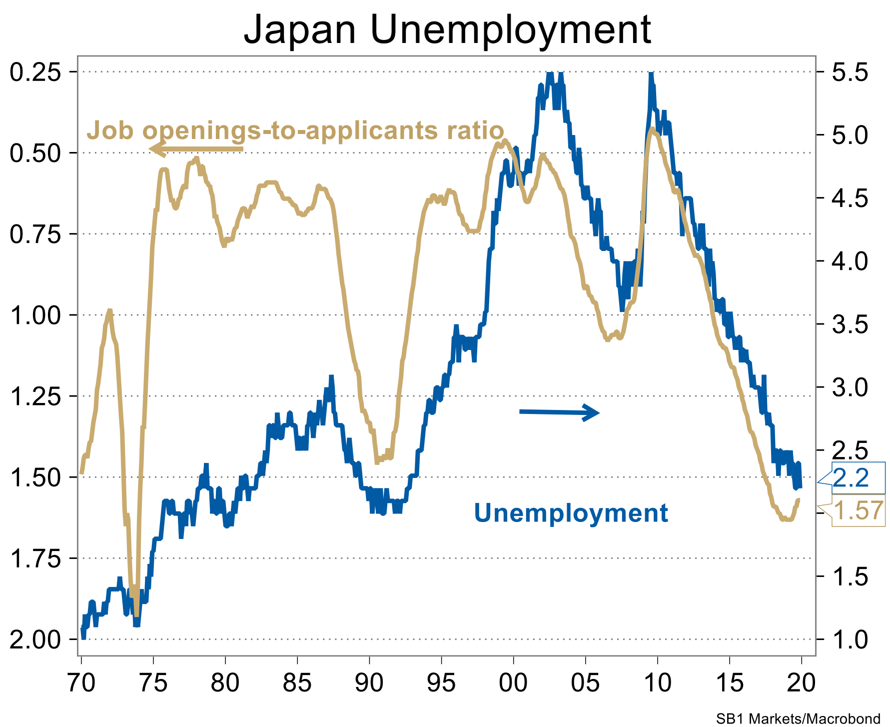


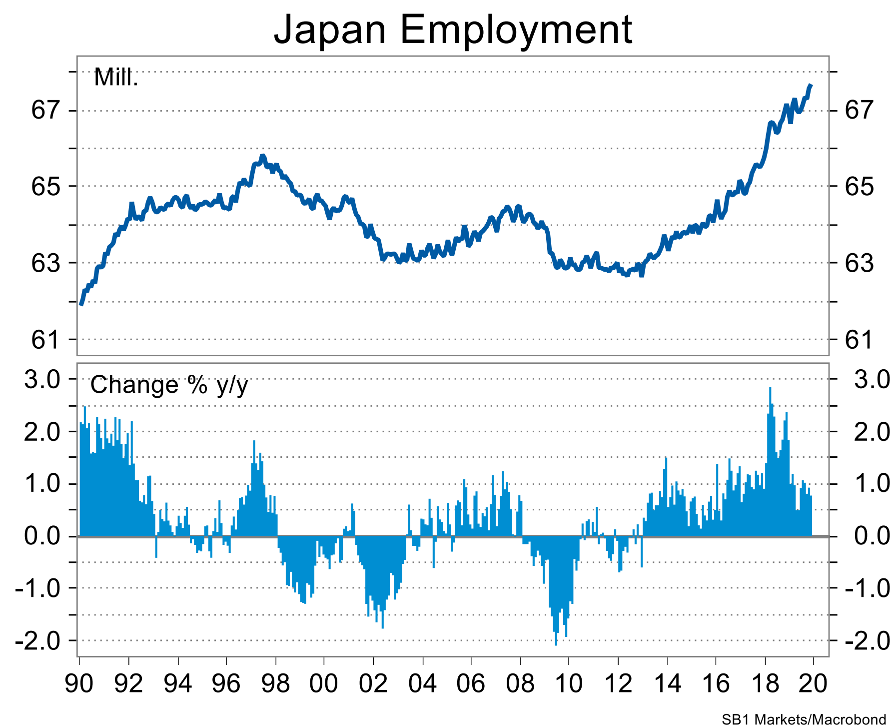


- Retail sales dropped 14% m/m in Oct, after soaring ahead of a consumer tax hike. In November, sales recovered most of the October loss, a stronger rebound than in 2014. However, in 2014, the last time the VAT was raised, sales remained lower than the pre-VAT levels the coming years. Thus, the retail sector may be off to a bumpy road
- Manufacturing production slipped 4.2% m/m in October and failed to recover in November. The steep drop in production is most likely chiefly due to the consumer tax increase, as production fell at a similar pace in 2014 when the VAT was previously raised. A soft upturn is expected the coming months. Regardless, production is not shining, the trend is slowly downwards and production was down a 2% y/y before the Oct drop. The PMI point to a moderate decline

Unemployment remains very low, employment is still increasing

Unemployment edged down to 2.2% in Nov, stabilized at a 27 y low the past year

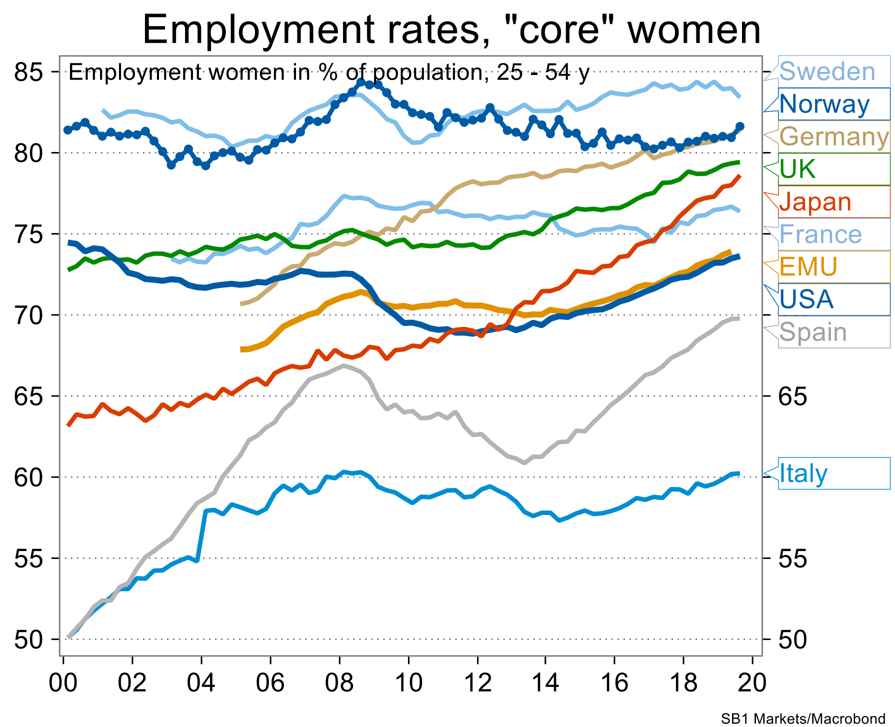


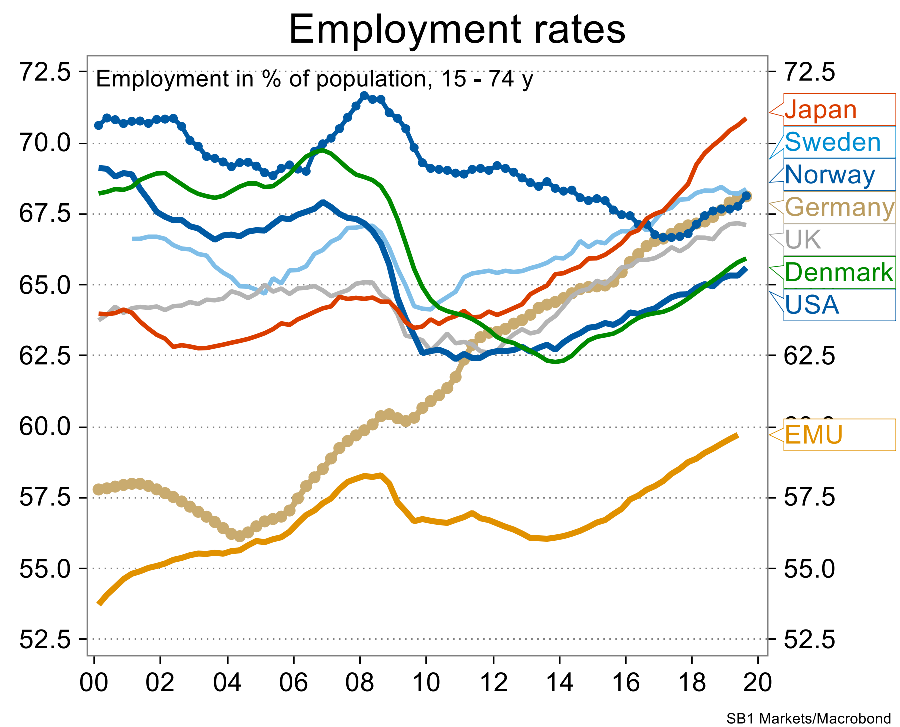


- Unemployment has flattened out the past year, at the lowest level in 27 years
  - The job openings-to-application ratio has turned down, signalling some weakness? On the other hand, the level is the highest since the 1970'ies
- Employment is still growing at a decent speed, although the annual rate has slowed to 0.8%, from 1.8-1.2% in 20198. Employment rates have been soaring, and are at record high levels for all ages/genders
- Still: Wage inflation has fallen steeply this year
- Barring the high corporate savings rate (partly offset by the public sector deficit – Japan is running a huge current account surplus) - what's really the Japanese problem – when employment is 'more than full'

If you don't have more people, make more people work

Japan (and even more Germany) have been through labour market revolutions the past 10 - 15 years

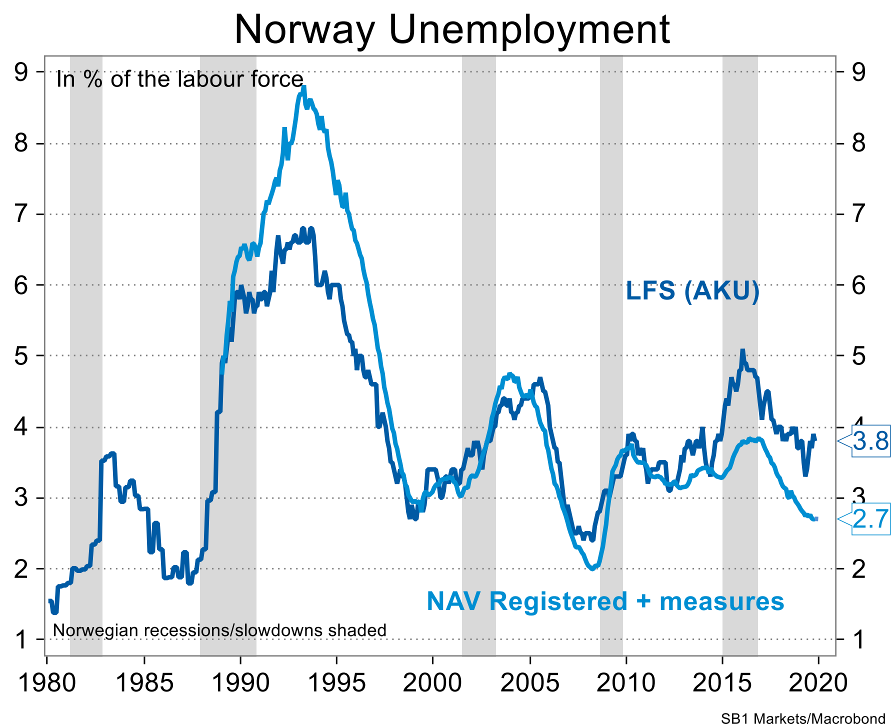


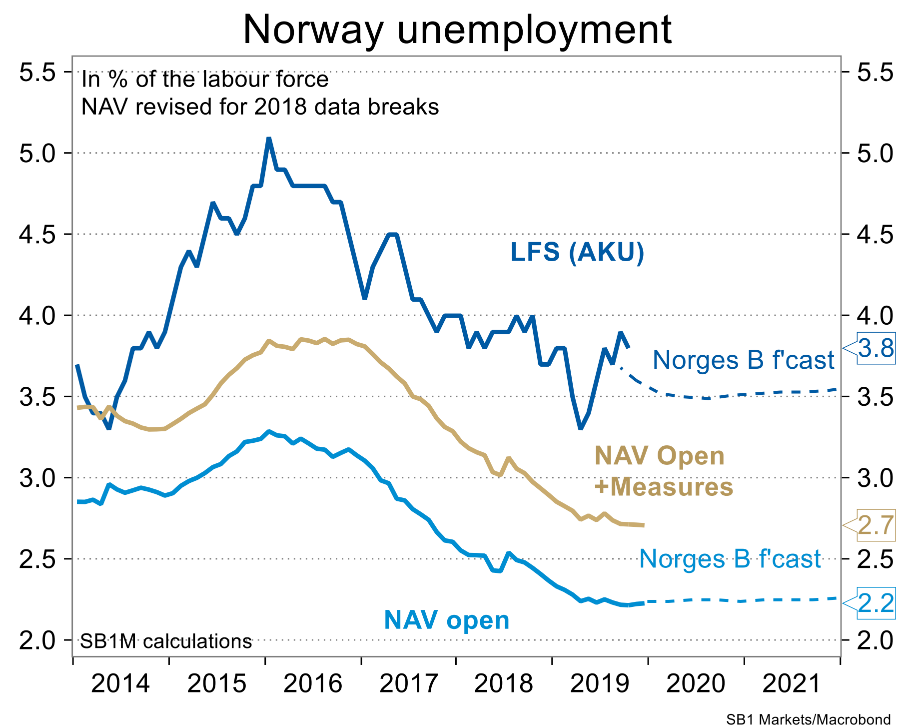


- Check the amazing increase in the overall employment rate (to the right), Japan is now in the lead, by far!
- Still, particularly Japanese women may have more to give, even after an incredible increase in their labour market participation rate
- BTW, Germany women are now overtaking Norwegian women in labour market participation. The Norwegian women had an almost 10 pp lead less than 15 years ago, in the core 25 – 54 y group! Sweden is suddenly far ahead of Norway, we used to be equal! Norway is more or less the only country with a declining employment rate for women (but it is still quite high, and ahead of the most) (and employment among men is higher in both Germany in Japan than in Norway)

LFS unemployment inched down to 3.8%, employment growth is easing

Unempl. fell 0.1 pp in Oct, as participation edged down. Rate still up 0.5 pp since last summer



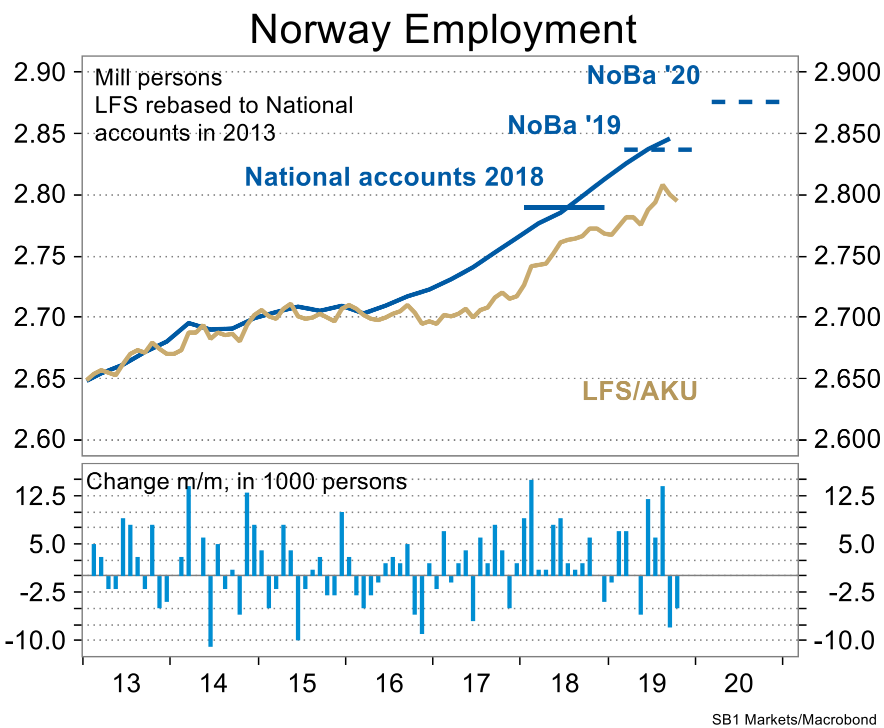


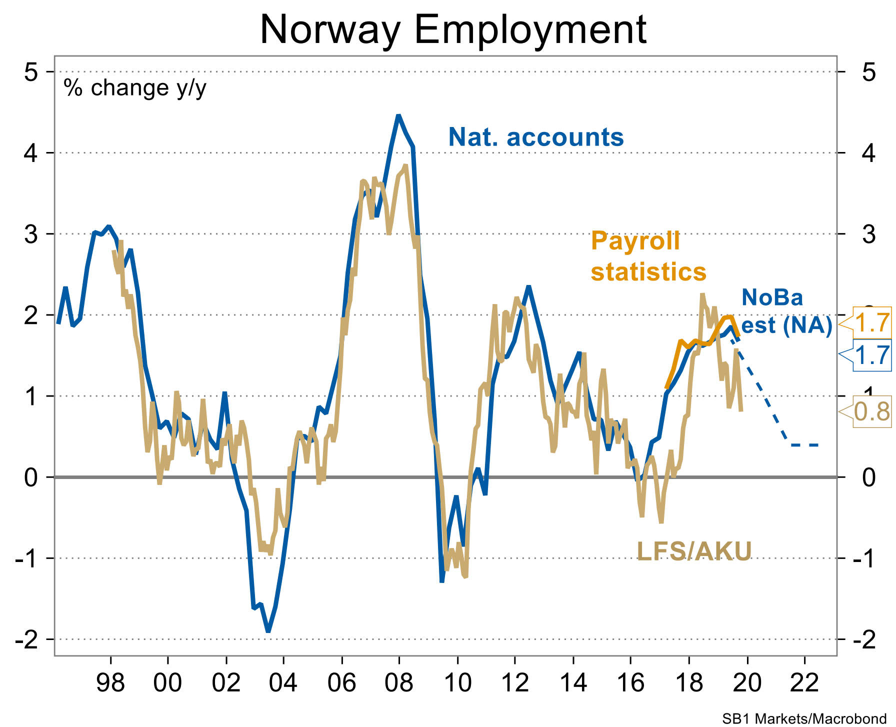
- LFS (AKU) unemployment inched down to 3.8% in October (avg Sept-Nov), in line with our f'cast (consensus unchanged), Unemployment has ticked up since early spring, to the highest levels in a year. However, these data are volatile, we doubt unemployment is trending up (and anyway not fast); a stabilization is more likely – like NAV is reporting
  - Norges Bank assumed a 3.6% unemployment rate in Oct (implicitly) and expect unemployment to head down to 3.5% the coming months Too optimistic?
- Both employment and labour market participation came down for the 2nd month; this time participation fell more than employment. The downturn in participation comes after a steep rise in the spring/summer, bringing unemployment up. Employment growth has slowed, the annual rate down to 0.8%, from 2% one year ago. Nat. Acc., which is more accurate, said 1.7% in Q3. Working age population growth is low
- NAV unemployment is flattening out, confirming a cooling labour market. Still, any sudden shift at the labour market is unlikely

SpareBank 1 MARKETS

Employment down in Sept/Oct, growth is slowing moderately

LFS empl. is up 0.8% y/y, 0.9 pp below the Q3 National Accounts and 0.7 pp below NoBa's f'cast



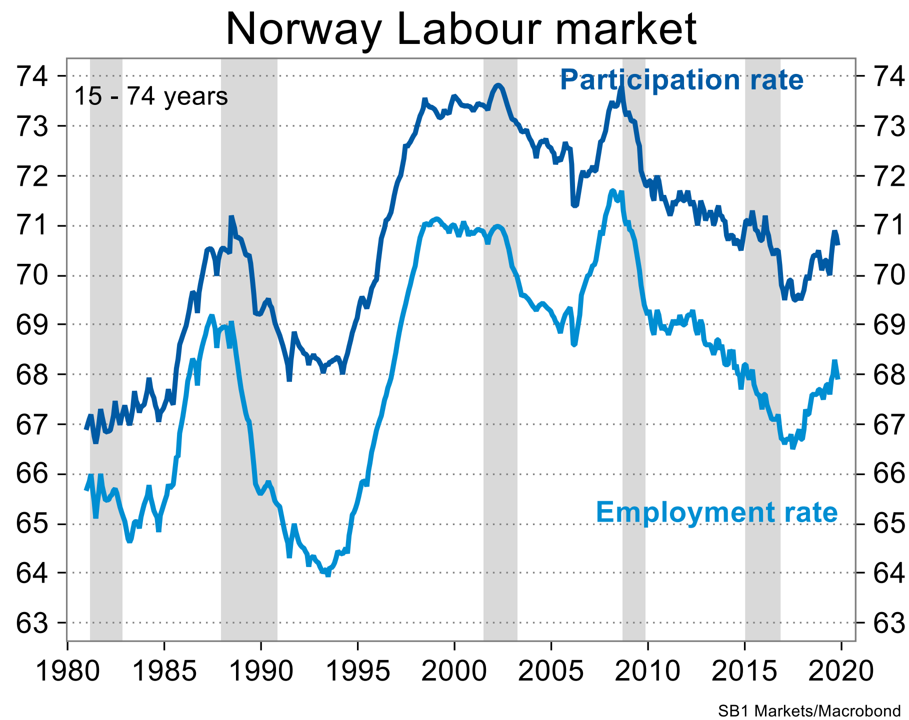


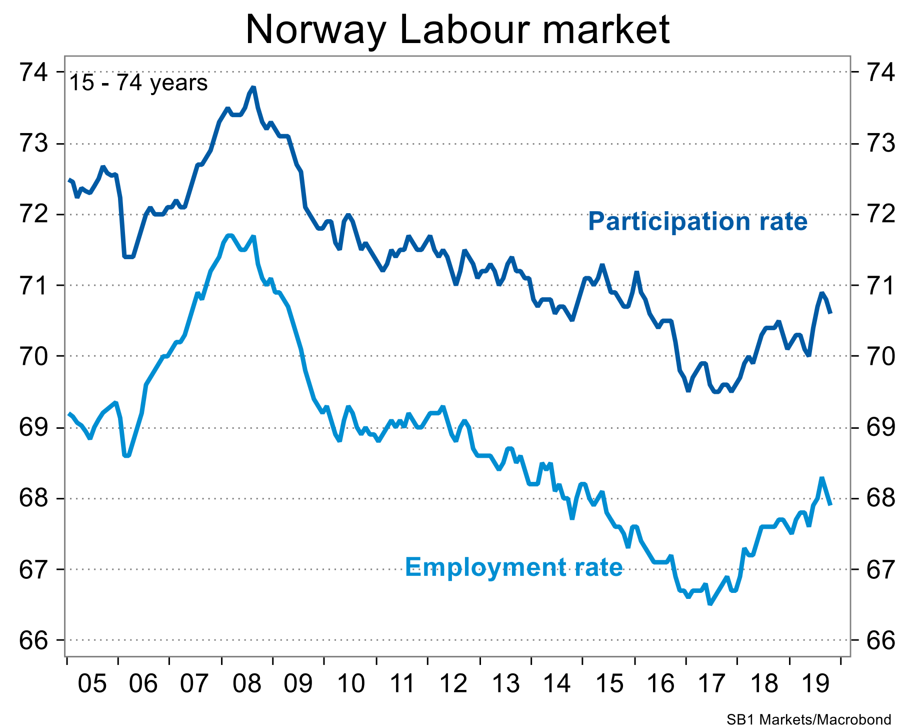
- Employment measured by the LFS accelerated through 2017 and the first half of 2018, to above 2%. Through 2019, employment has eased, to a 0.8% y/y rate in October, the lowest since January 2018
  - » National accounts' employment figures (and the new quarterly registry statistics) are no doubt more accurate than the LFS survey's volatile data. Nat. Acc. is noting higher employment growth the past year, up 1.7% y/y in Q3. Payroll statistics (also Q3) confirms 1.7% growth
  - » Norges Bank expects an average employment growth at 1.7% in 2019 and 1.1% in 2020, the estimates were revised down marginally in the Dec MPR
  - » The working age population rose 0.5% y/y in Q3. Thus, a 1.7% (or 0.8%) employment growth is far above trend, lifting the employment rate
- We expect a substantial slowdown in employment growth the coming years (as do Norges Bank), both due to supply side and demand side factors

SpareBank 1 MARKETS

Labour market participation & employment down, trends are still up

The upsurge in the summer was probably 'too' steep, participation has eased 0.3 pp in Sept/Oct

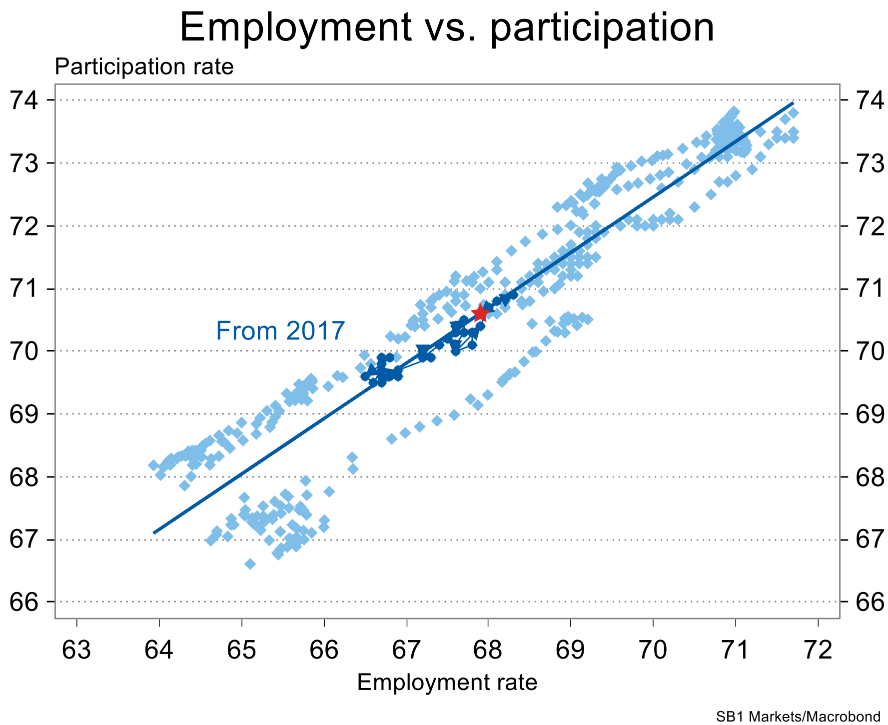


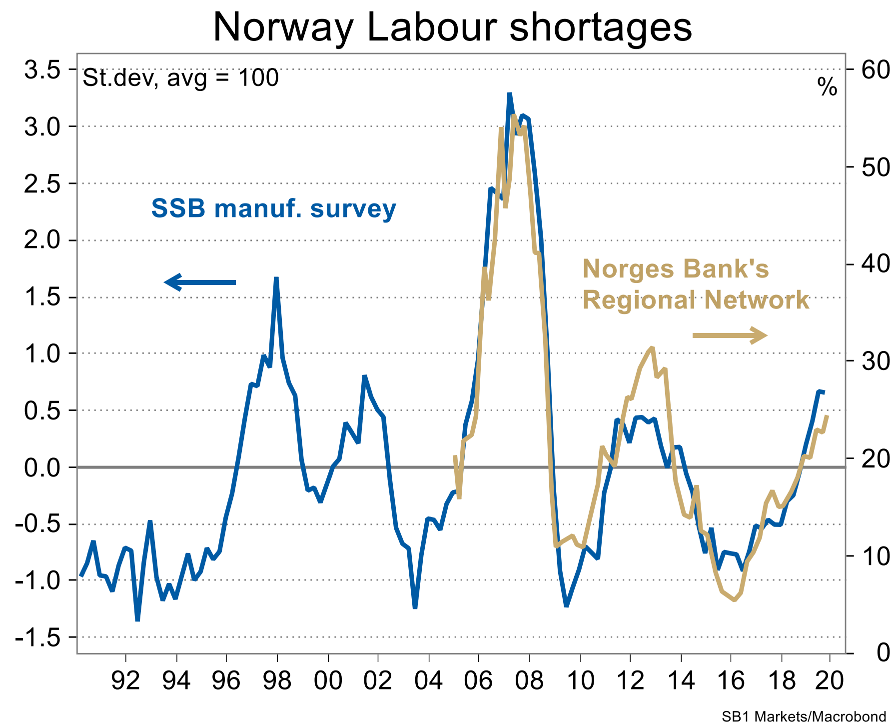


- The long term downturn in the participation rate and employment bottomed in 2017 and have turned up since then. Since the spring, participation rate has been soaring, up 0.9 pp in May-Aug. This trend was probably to strong to be sustained, and 0.3 pp of the upturn has now been reversed. A modestly rising participation is more likely
  - Demand for labour has been strong for a while now, we are unsure why supply would suddenly respond now. Moreover, the upswing may have been somewhat exaggerated due to an irregular spike among the 15-24 age group, which is now being (partly) reversed
- The employment rate has been increasing rapidly too. The past 2 months, employment has edged down 0.4 pp to. As long as employment is rising at a moderate pace, we are not worried about any sustained labour market softness

Participation rate is at a ‘normal’ level given the current employment rate

Participation was lower than usual vs employment

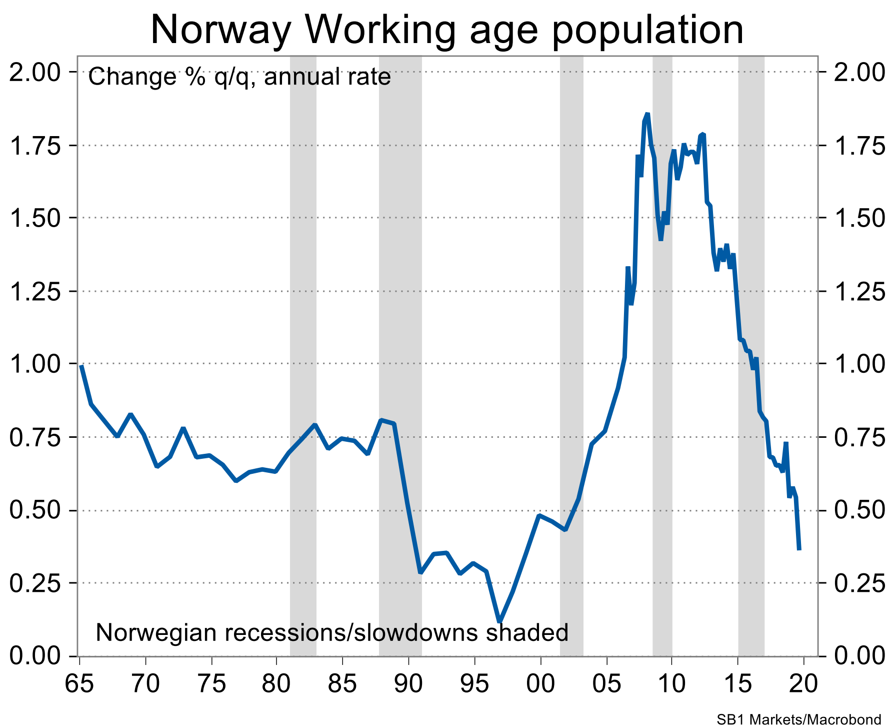


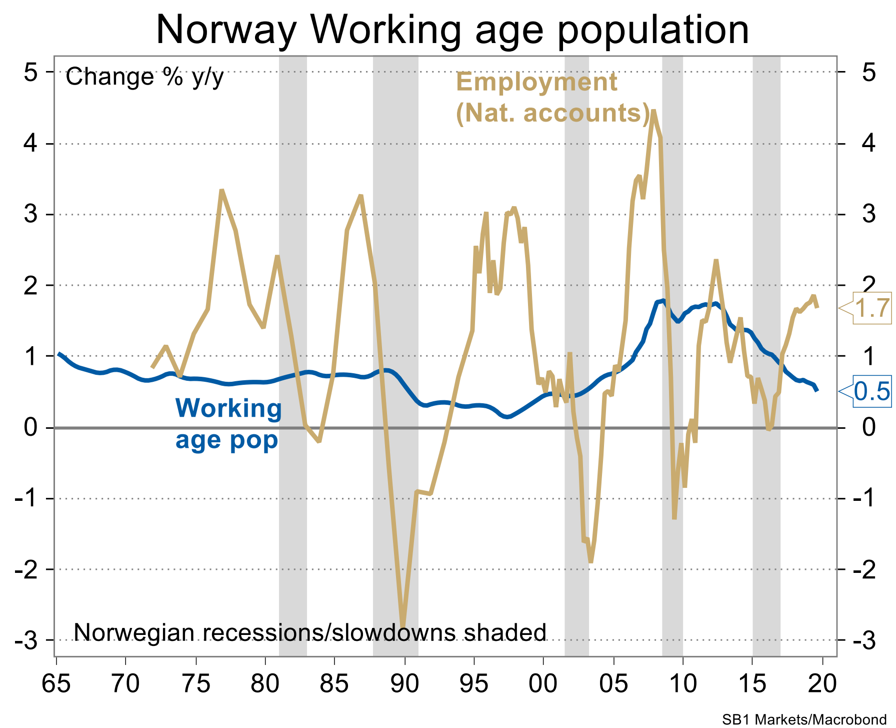


- The Norwegian unemployment rate is quite stable compared to changes in the employment rate – because the participation rate usually is quite responsive to the chances of getting a job; the employment rate. Flexible labour immigration from the EU has also contributed to keep the Norwegian unemployment rate stable
  - » In average since 1980, the labour force participation changes almost 0.9 x the change in the employment rate. Recent years, the response has been somewhat less, say 0.75. However, recent months, the participation rate has followed employment up
- Both Norges Bank’s Network and the SSB manufacturing surveys are noting increasing labour shortages, however, the levels are low given the unemployment rate, do not point to a very tight labour market

Working age population growth the slowest in 2 decades

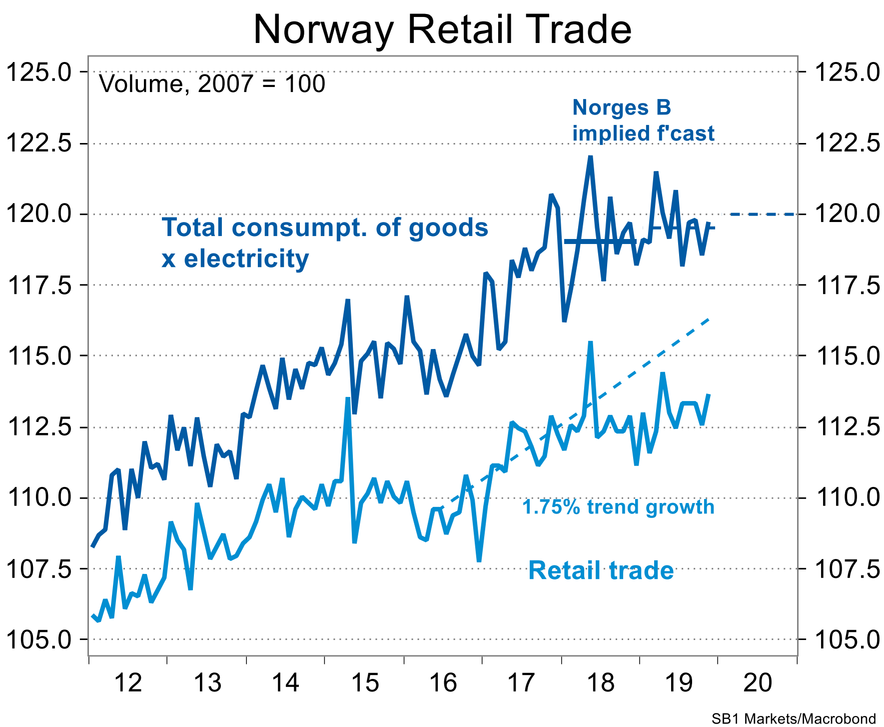
Over time, impossible to keep employment up at today's level

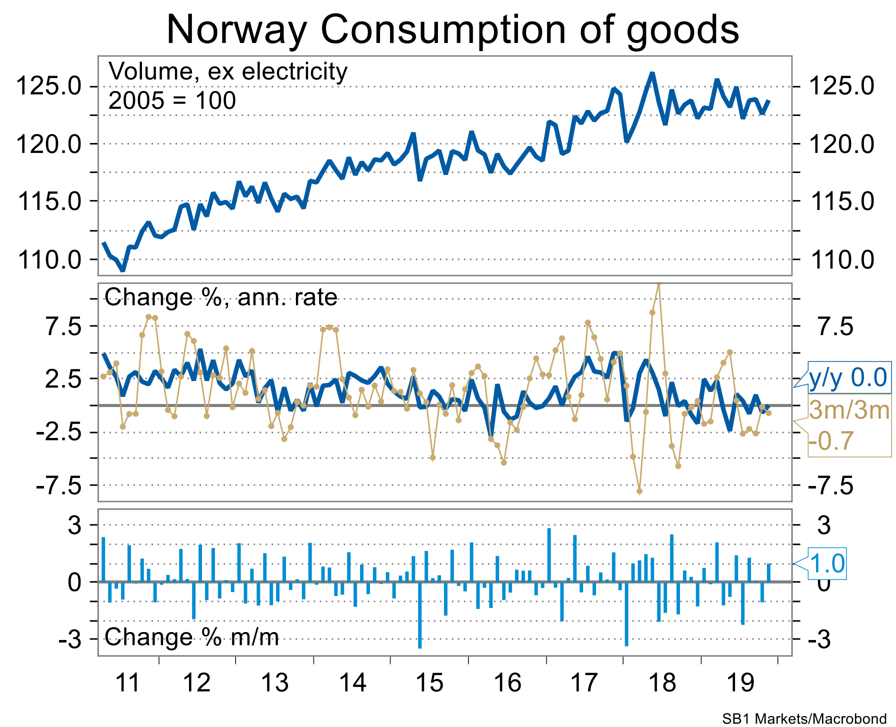




Retail sales recovered the Oct loss but remain flattish in H2

Retail sales rose 1.0% in Nov, as we expected, saved by Black Friday? Auto sales a drag on total cons.



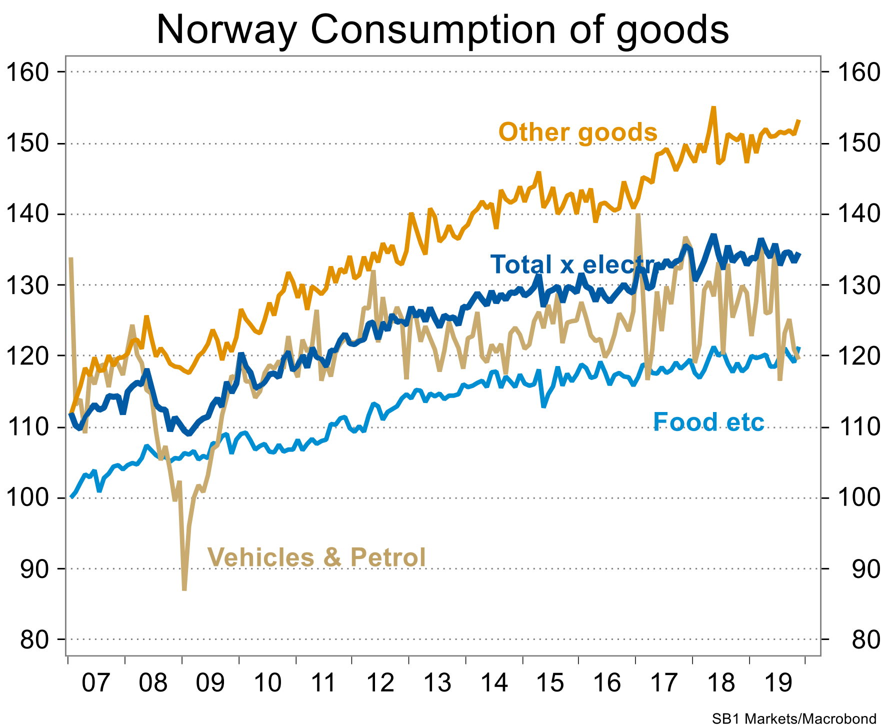


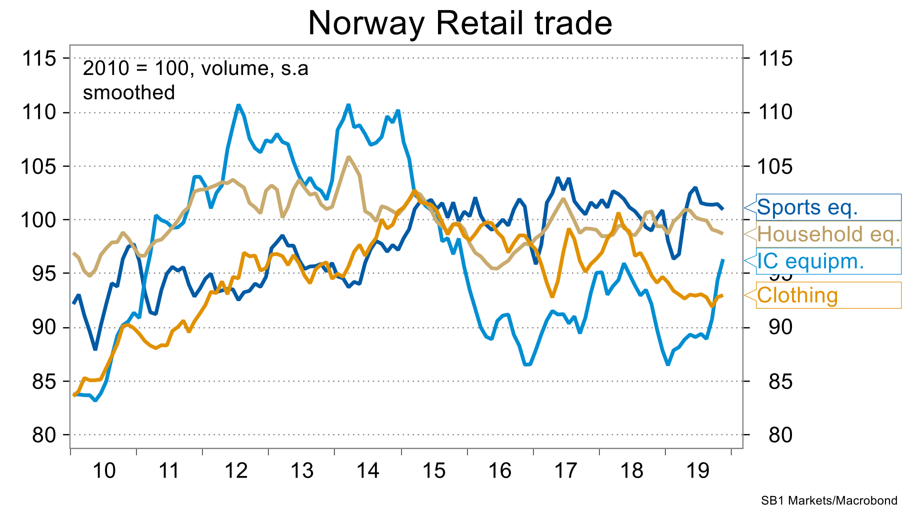
- Retail sales volume (ex auto) increased by 1% m/m in Nov, as we expected (consensus at 0.5%). Thus, sales more than recovered from the Oct slip – we assume due to impacts from Black Friday sales, which are not yet fully integrated in the seasonal adjustments. Sales are trending slowly up but have been flat recent months. Measured 3m/3m, sales are up 0.5% (annualized) and the annual rate is 0.7%
- Total consumption of goods (ex electricity) rose equally by 1.0%. Consumption has been sliding down since the summer, partly driven by lower auto sales. The speed so far in Q4 is low, suggesting just a marginally positive GDP contribution
- Retail sales have flattened in H2 and total consumption of goods is declining. Consumer confidence is softening, as is the labour market and household credit growth. Are consumer becoming more careful? In the Dec MPR, Norges Bank nudged down the 2020 consumption f'cast to 1.6%, from 2.3%, **a substantial revision**

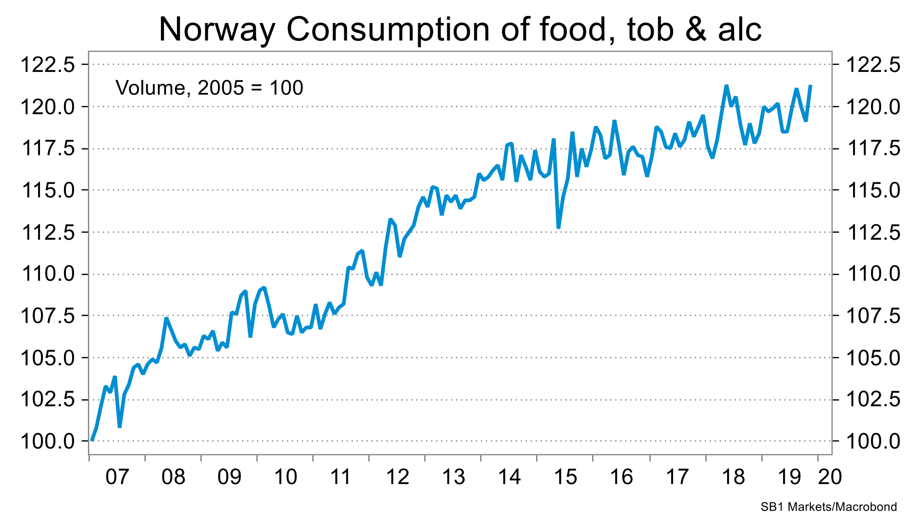
SpareBank 1 MARKETS

Consumers spend less on clothing, more on ICT

Auto sales have fallen steeply recent months. Food sales are trending slowly up



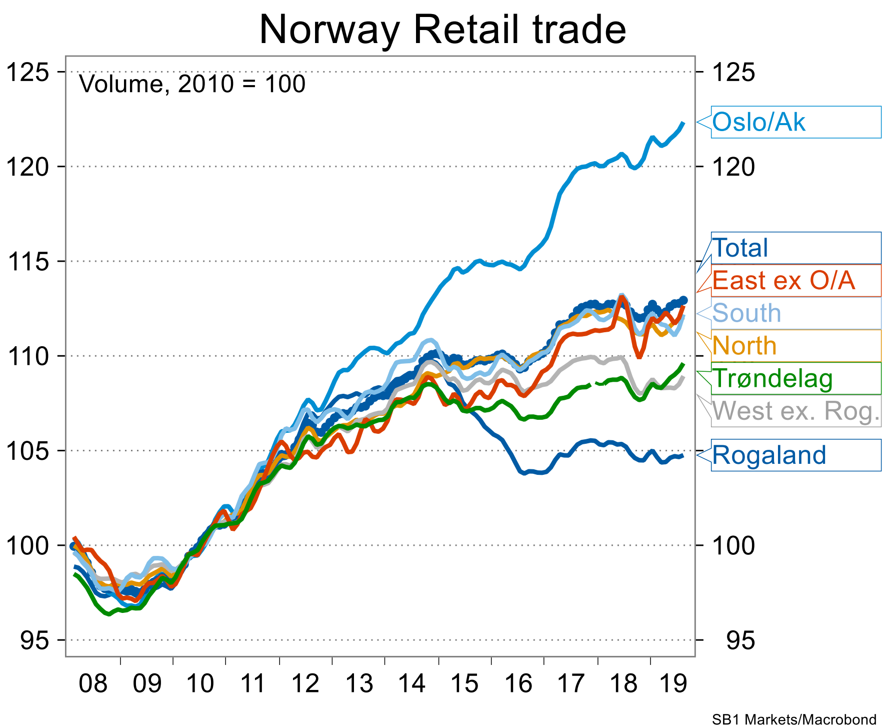


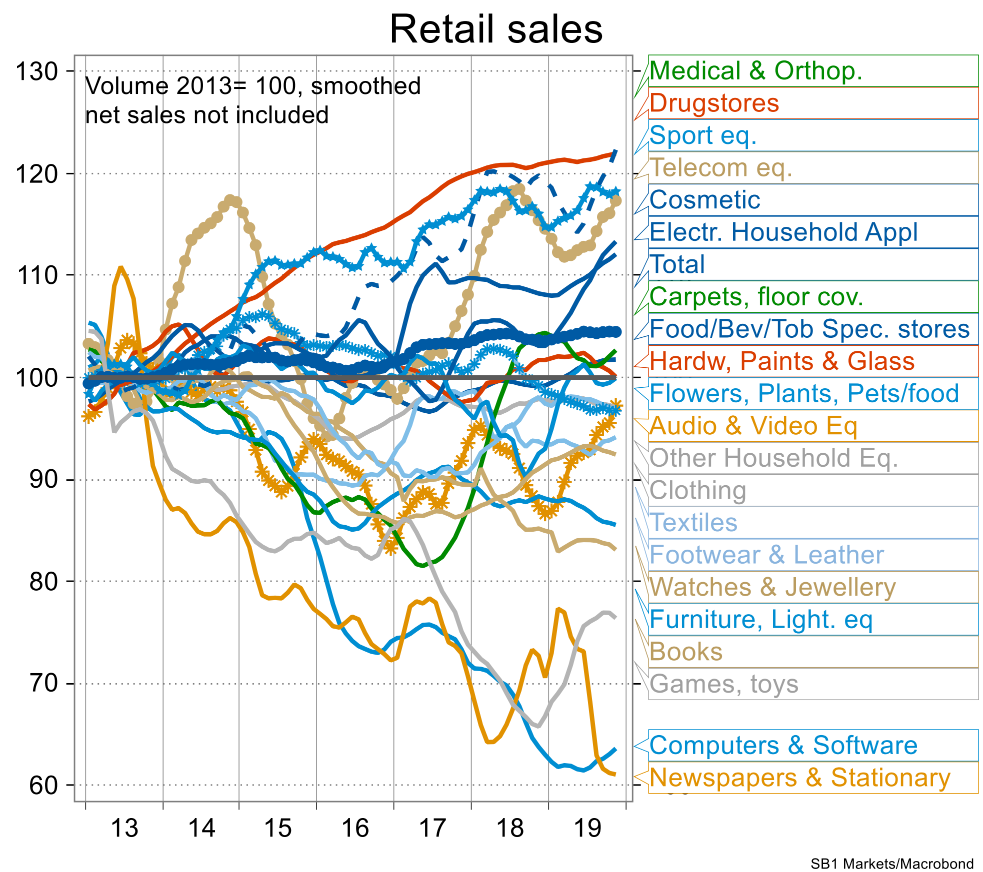


- Auto & gas sales have fallen sharply. The volatility in auto sales recently is probably due to supply bottlenecks on electrical vehicles, new regulations and expiring auto leases on diesel cars. Thus, the dip in sales may not be due to lower auto 'real' demand
- Other consumer goods are not impressive, clothing has fallen steeply since mid-2018. Household equipment have slowed the past month. ICT equipment is picking up, after a downturn in 2018. Sport equipment sales have flattened out the past month but are trending up, in volume terms, and is just marginally down in value terms – but some retailers are still struggling, and they are blaming weak sales of sport equipment

Substantial regional differences – and between branches

Oslo/Akershus (incl net sales) sharply up, most others flattish. Most branches down

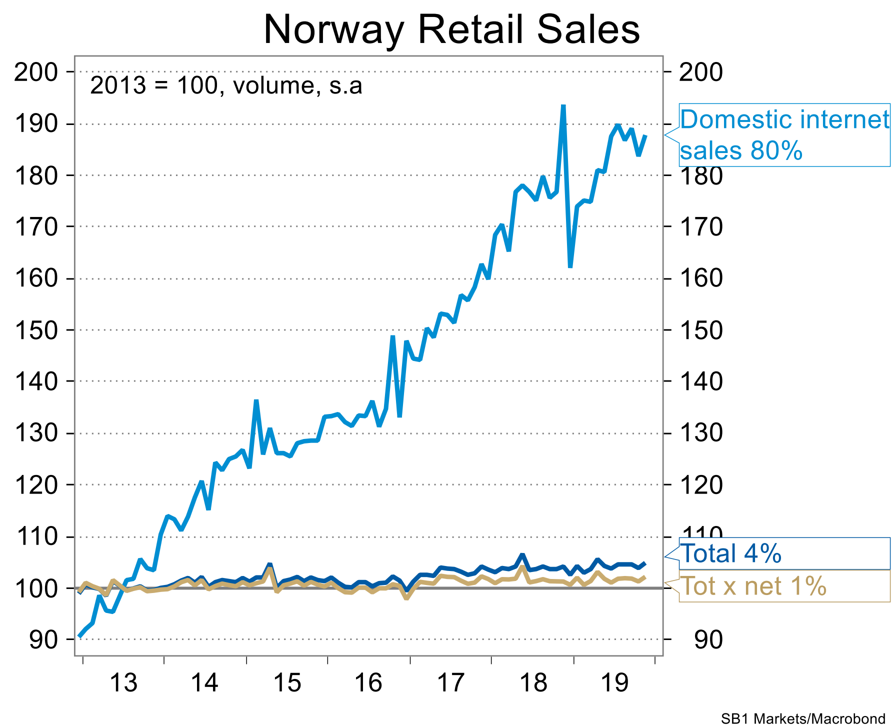


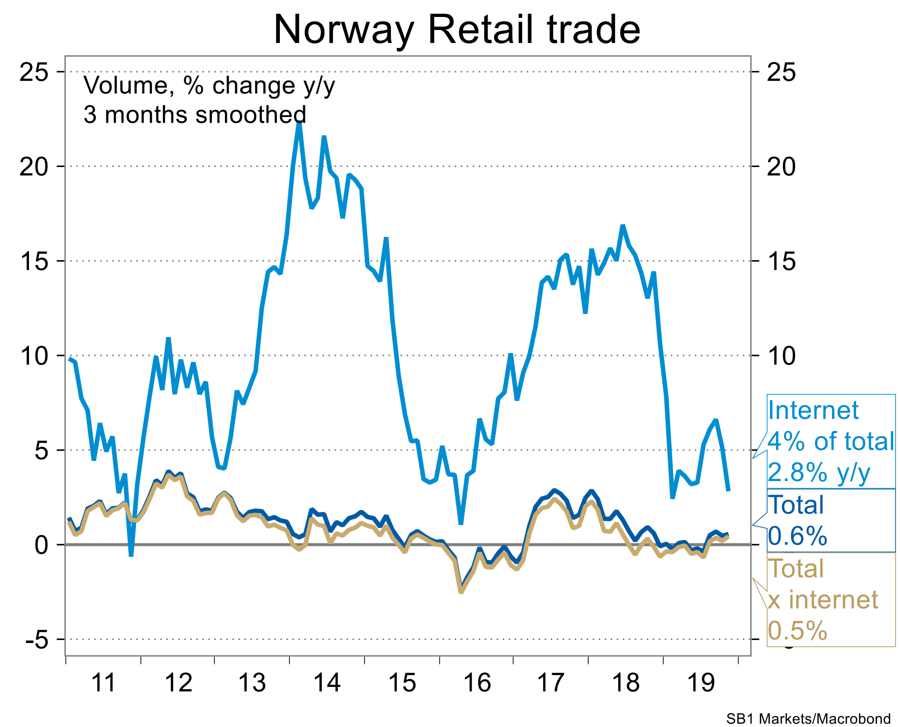


- Retail sales have been trending down in several regions past two years, just Oslo/Akershus is reporting substantially higher sales (sales from internet outlets included)

Internet sales (domestic) growth has slowed substantially, to 3% from 15%!!

Still, over the past 6 years, almost no growth in sales from physical outlets. Just 0.5% y/y growth in Nov



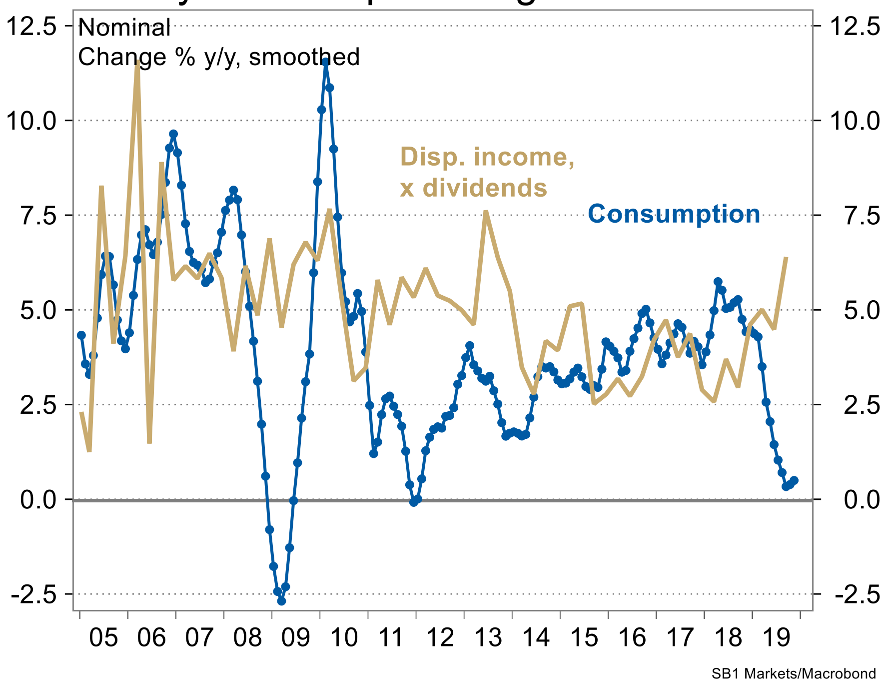


- The retail trade data cover only sales statistics from domestic outlets, not imports. From 2018, SSB included internet sales from abroad in the total consumption index but these figures are just estimates based on domestic internet sales
- SSB estimates that internet shopping from foreign sources (both services and goods) equalled NOK 40 bn in 2017, of which goods constitute the half, some NOK 20 bn. Internet import of goods have doubled past 5 years, more or less like sales from Norwegian outlets
  - » If so: 'Direct' imports have increased by NOK 10 bn since 2013, equalling more than 2% of domestic retail sales since 2013
  - » Domestic sales (in volume terms) is up 4% since 2013. If we add on an 2 pp contribution from internet sales from abroad, the total is up 6%.
  - » Out of these 6%, 1 pp is sold in ordinary shops domestically, 2.5% via domestic net outlets, and 2.5% via foreign sites

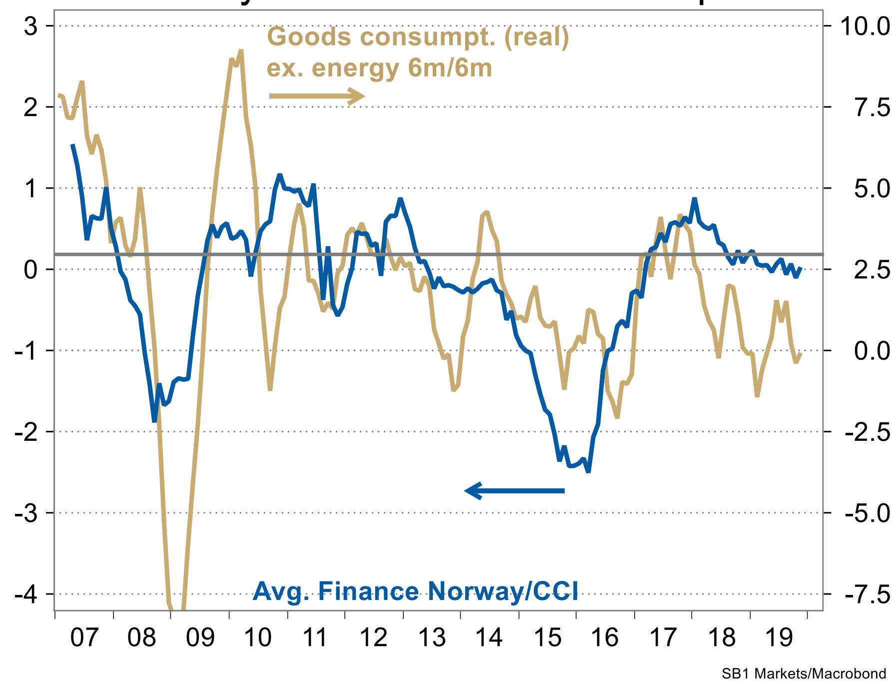
Household income signals higher consumption, confidence does not?

Disposable income growth point to a consumption rebound, while confidence is softening

Norway Consumption of goods vs income



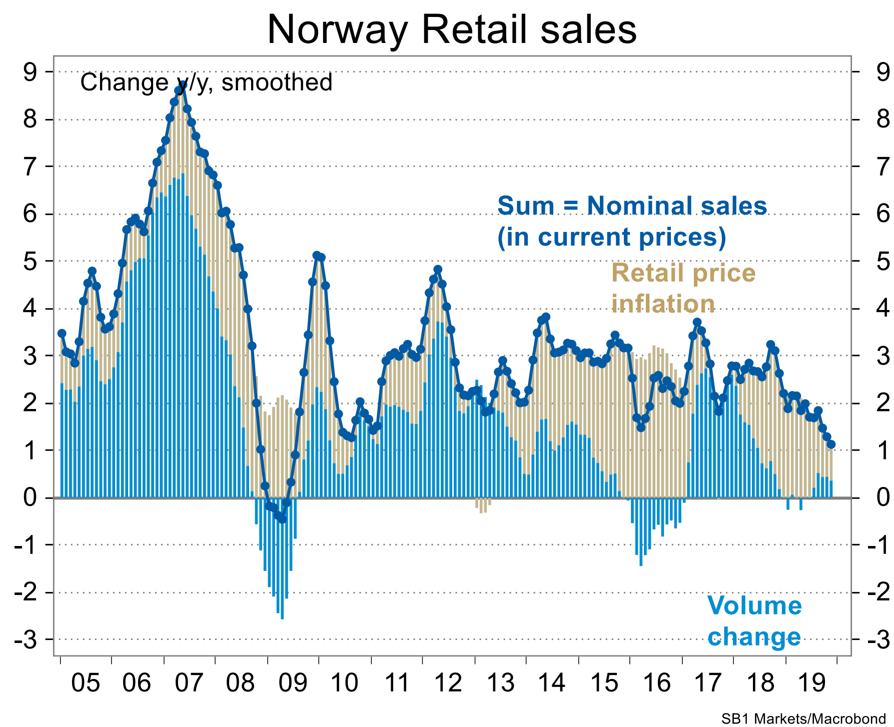
Norway Confidence vs consumption

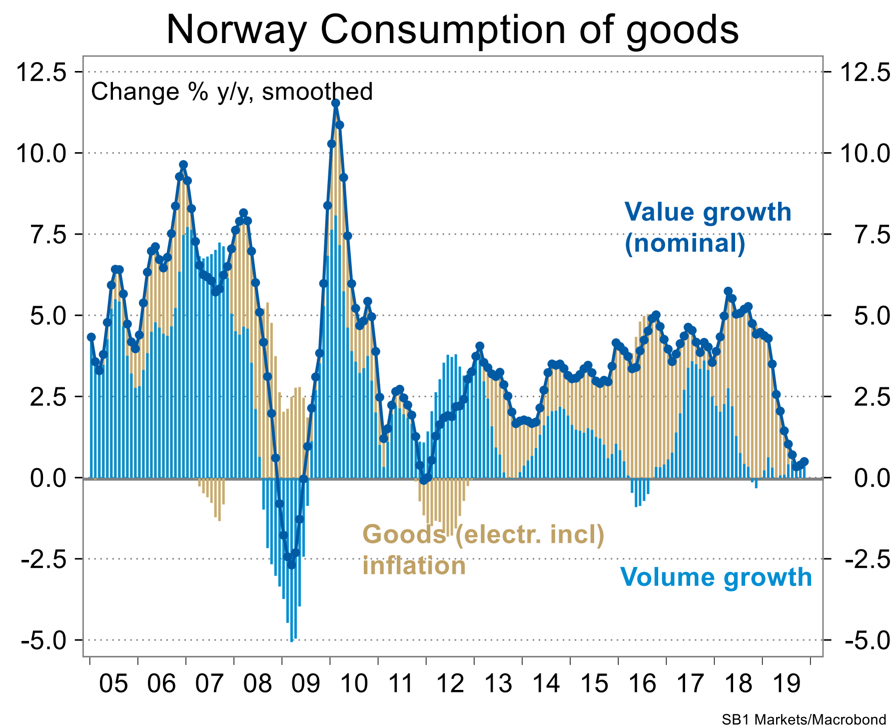


- Disposable income ex dividends was up 6.4% y/y in Q3, the highest since 2013, and the savings rate is now increasing as consumption growth is low (but higher than consumption of goods, as services are still on the way up)
- Consumer confidence is sliding down, the avg of Finance Norway and Opinion's CCIs is just below an average level. The level suggests stronger consumption than now, but the direction is probably more important (and the correlation is anyway not that strong)

Price inflation has almost vanished – will support volume growth?

Total goods inflation has slowed to 0, from 5% and retail to 0.8%, without an acceleration in volumes

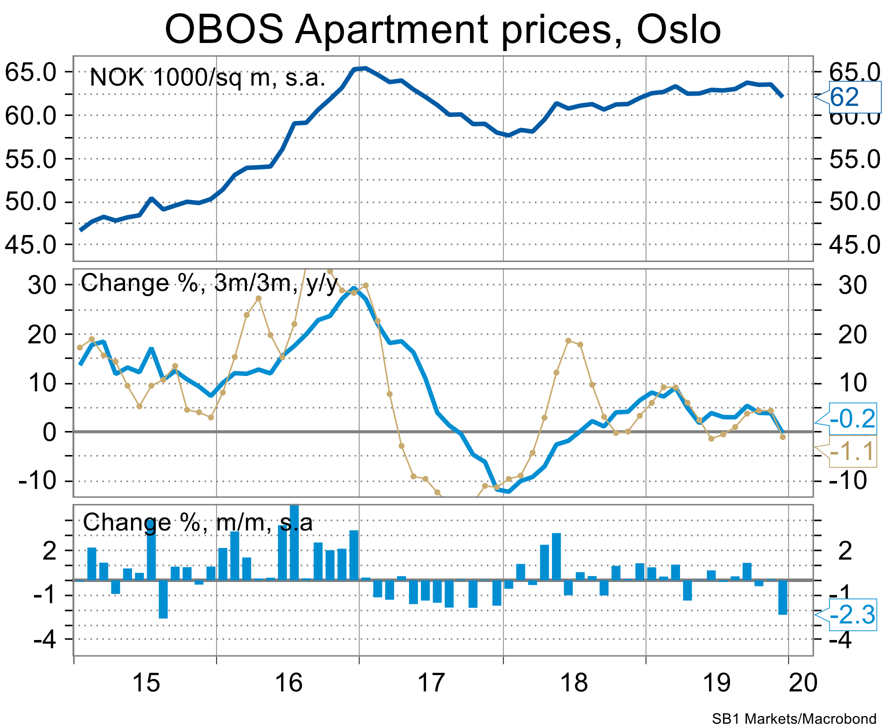


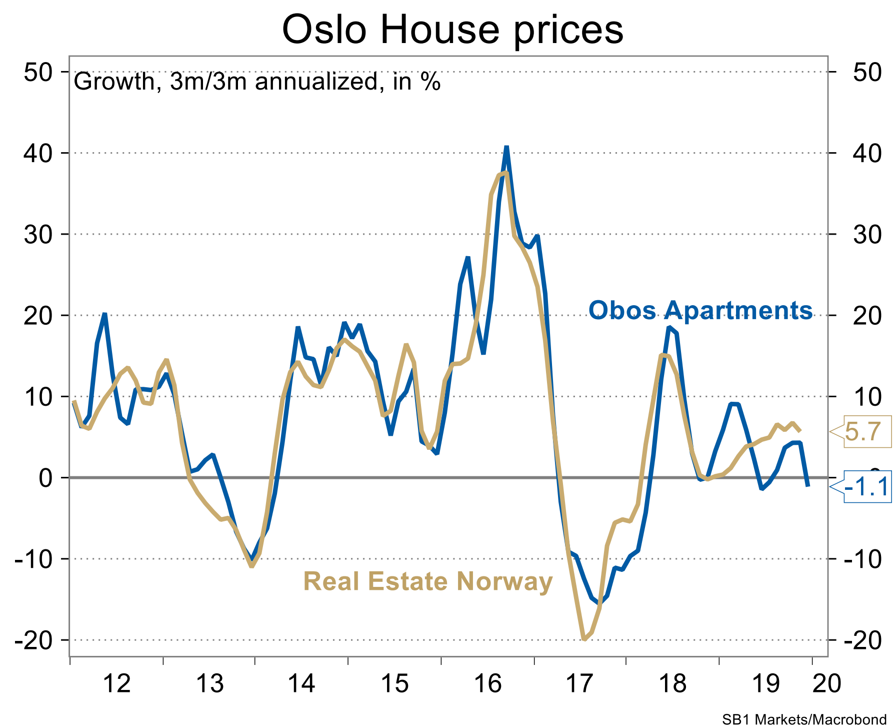


- Growth in nominal total consumption of goods has slowed rapidly, at 0.5% y/y in Nov (smoothed). Retreating price inflation, primarily due to a sharp decline in electricity prices over the past year, has sent nominal growth down. However, there is no response from higher overall volume growth, with just a 0.4% annual rate. We expect easing inflation to eventually bring volume up (but a swift acceleration is unlikely!)
- The annual growth in nominal retail sales is 1.1%. Volume growth has eased somewhat the past months, even if price inflation has fallen further

OBOS Oslo apartment prices dropped sharply in December

OBOS prices slipped 2.3% m/m in Dec, the steepest decline in 4 years

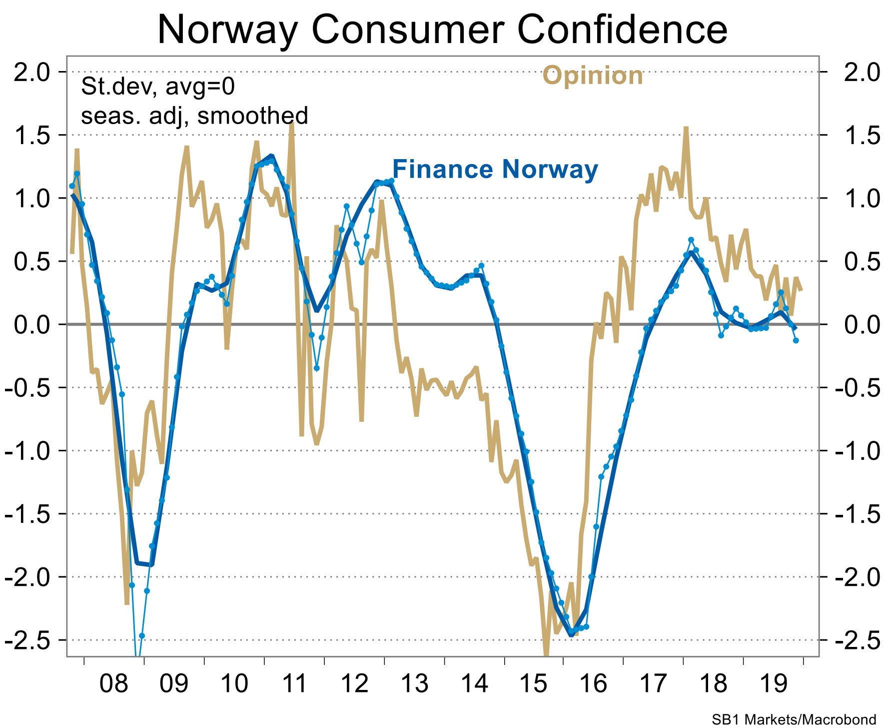


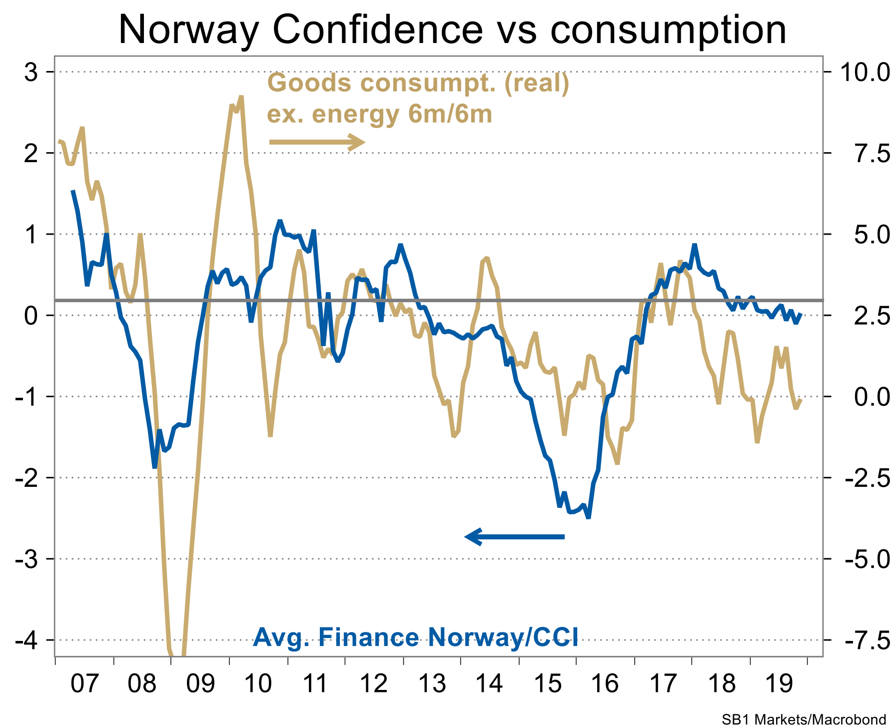


- OBOS Oslo apartment prices fell 2.3% m/m seasonally adjusted in December (5.6% unadjusted!). Prior to this steep decline, prices were rising moderately. The annual rate dropped to -0.2% this month, from 3.8% in Nov. In Q4, prices fell 1.1% (from the Q3 avg, seasonally adj). We expect a rebound the coming month, the number of unsold homes in Oslo is declining and we have no indications of a sudden stop now
  - » Prices are 5% below the ATH in January 2017 but have been heading steadily up the past year
- OBOS' monthly data are more volatile than Real Estate Norway, which are reporting December figures later today

Consumer sentiment slowly softens, level not weak

Opinion Norway's CCI fell marginally in Dec but remains just above an average level





- Opinion's monthly CCI fell by 0.1 st.dev in Dec. The index has fallen through 2019 but stabilized since late summer
- Finance Norway's quarterly consumer confidence index slipped to 12.1 p in Q4, (seasonally adjusted), from 16.8 in Q3. The trend adjusted index fell to just 0.04 st.dev below the avg level since 2007, the softest print since 2017
- The avg of the two surveys is sliding down very slowly, and does not signal any abrupt slowdown in consumption. Consumption of goods has been softer than indicated by the sentiment surveys (although the correlation is not strong). Slow growth in nominal and real income, low population growth may explain some of this gap, the 'new normal' is lower than before

Highlights

The world around us

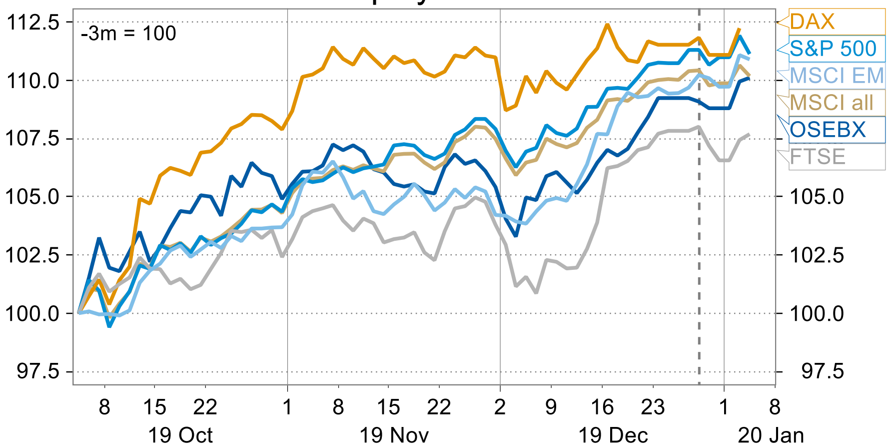
The Norwegian economy

Market charts & comments

Stock markets moderately up through the Holidays, until the Friday drop

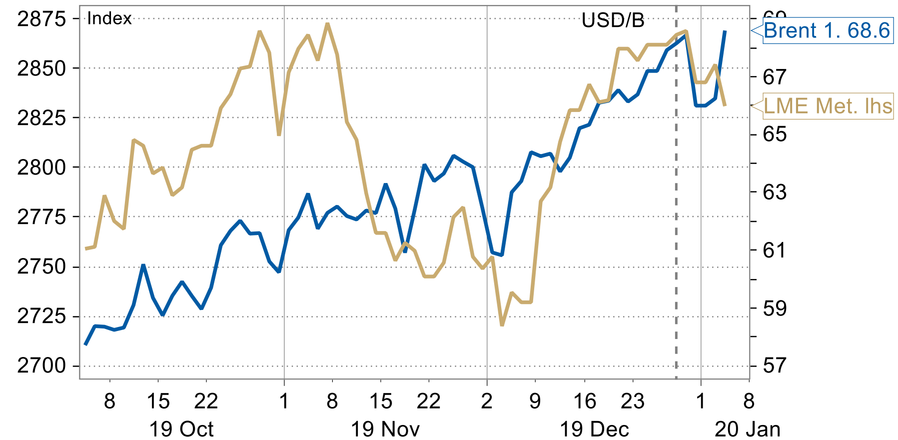
Stocks and bond yields faltered and the oil price soared after the US airstrike sparked fears of an escalation

Equity Indices



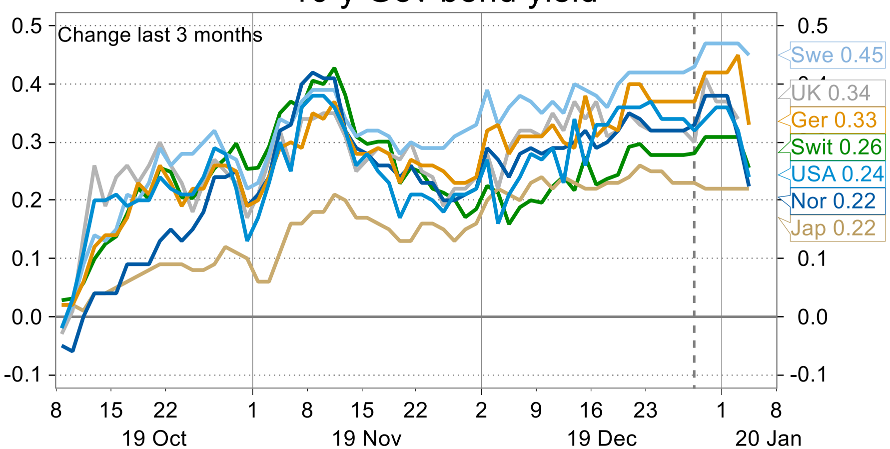
Stock markets were mostly flat through the Christmas holiday and moved up in the first days of January – until Friday

Oil vs. metals



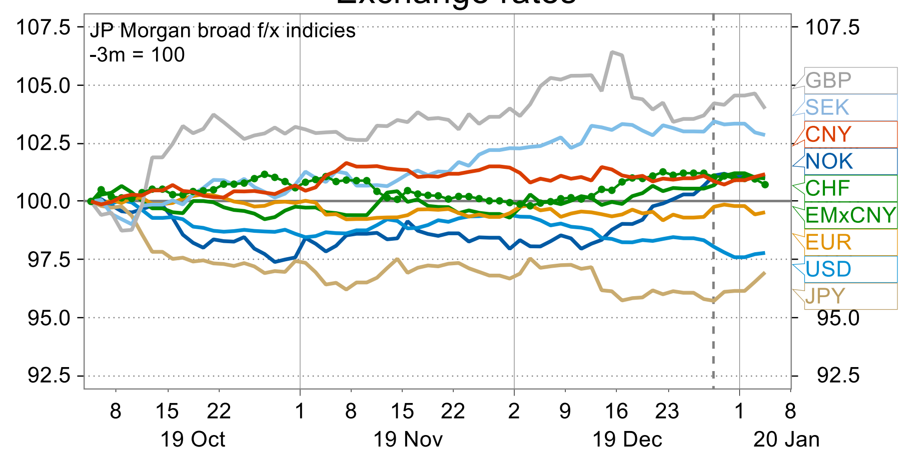
Oil price soared after the US strike in Baghdad. The attack sparked fears of escalating tension in the Middle East

10 y Gov bond yield



Bond yields have been more or less steady the past couple of weeks but 'collapsed' Friday

Exchange rates



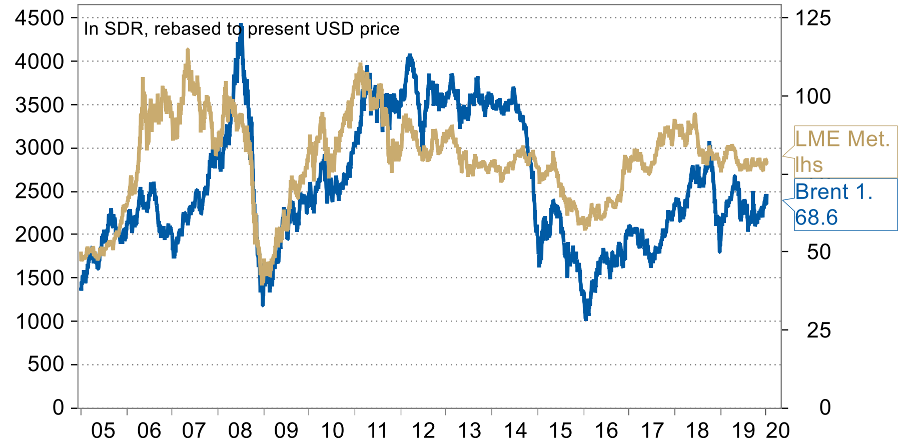
USD weakens, GBP remains volatile, and the NOK has been recovering through late December/early January

In the long run: US stocks at ATH, bond yields not that far above ATL

Raw material prices have not followed equities up, neither have bond yields

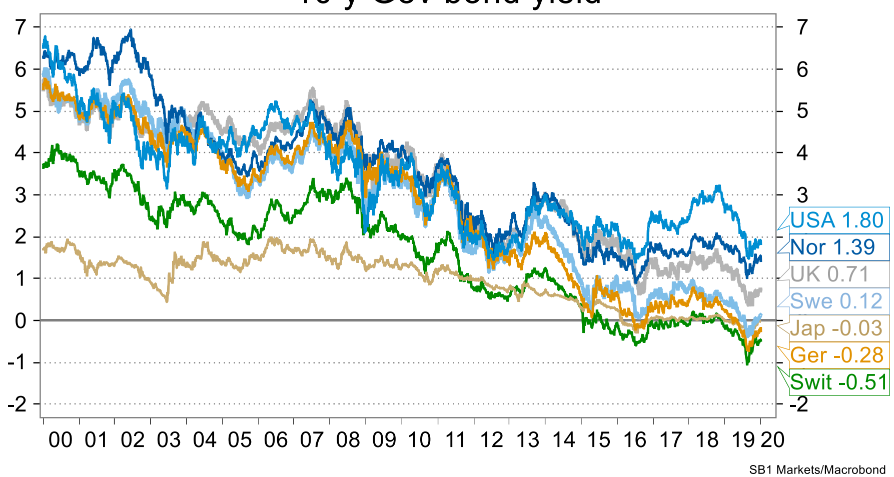
Equity Indices

Oil vs. metals

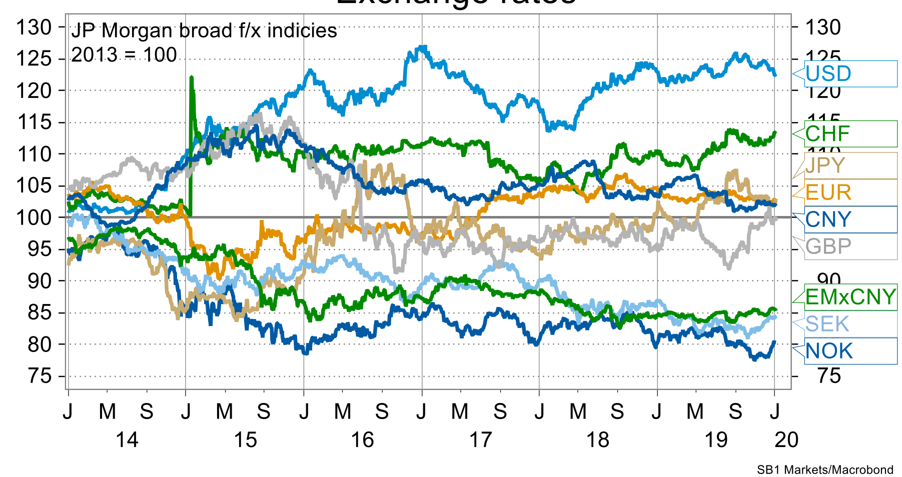


Metal prices may be trending down but slowly, and the decline from the local June 2018 peak is not large. Oil prices quite stable too

10 y Gov bond yield



Exchange rates



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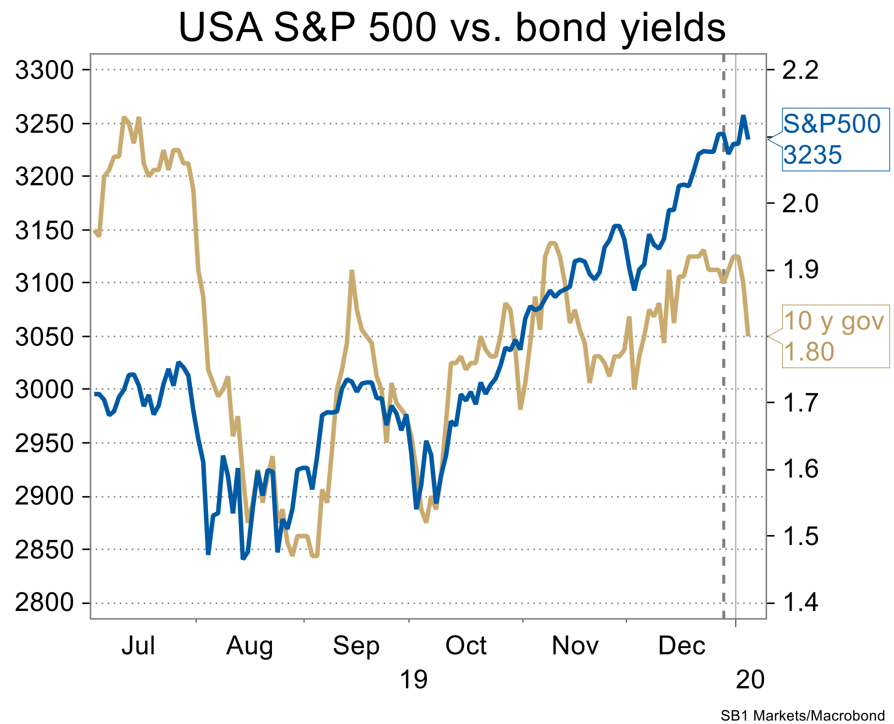
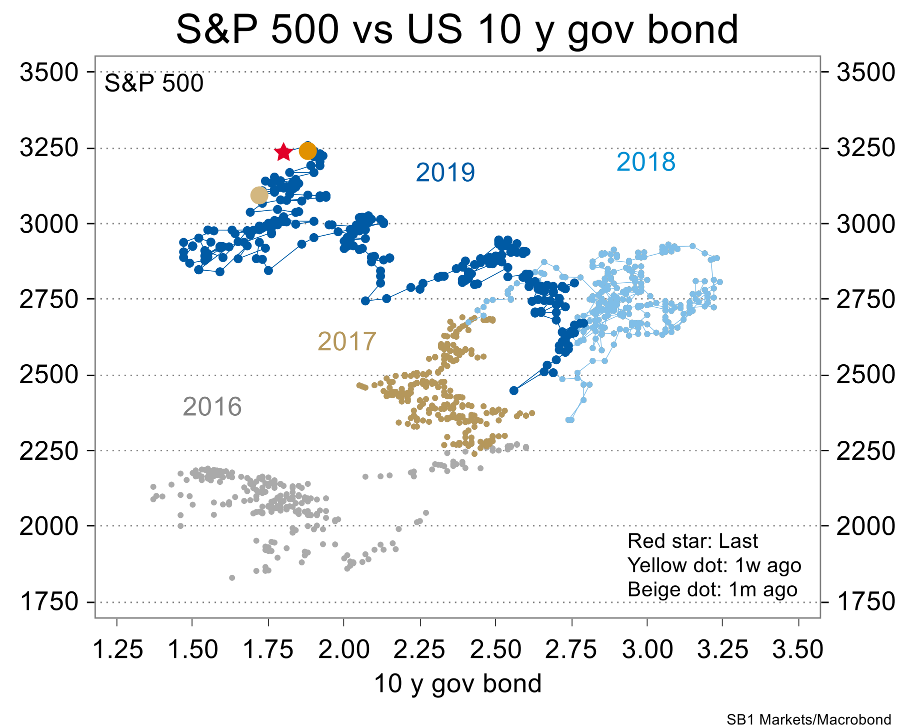
US: Stocks up, bond yields flat during the Holidays, both dropped on US/Iran

The US 10 y gov fell 8 bps (all on Friday) to 1.80%, the S&P down 0.2% last week (-0.7% Friday)

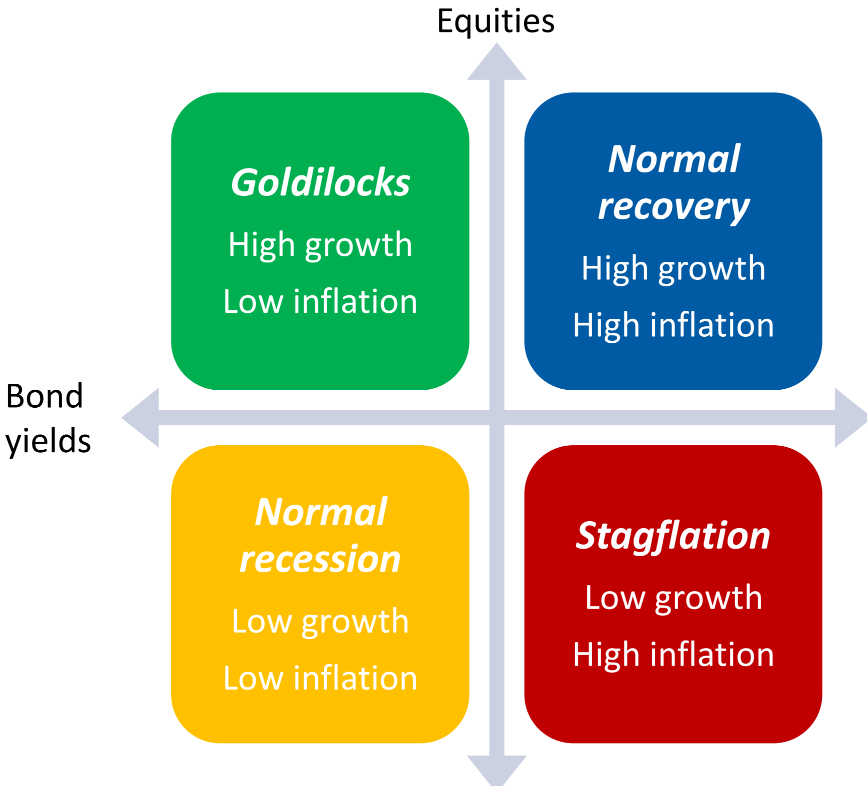


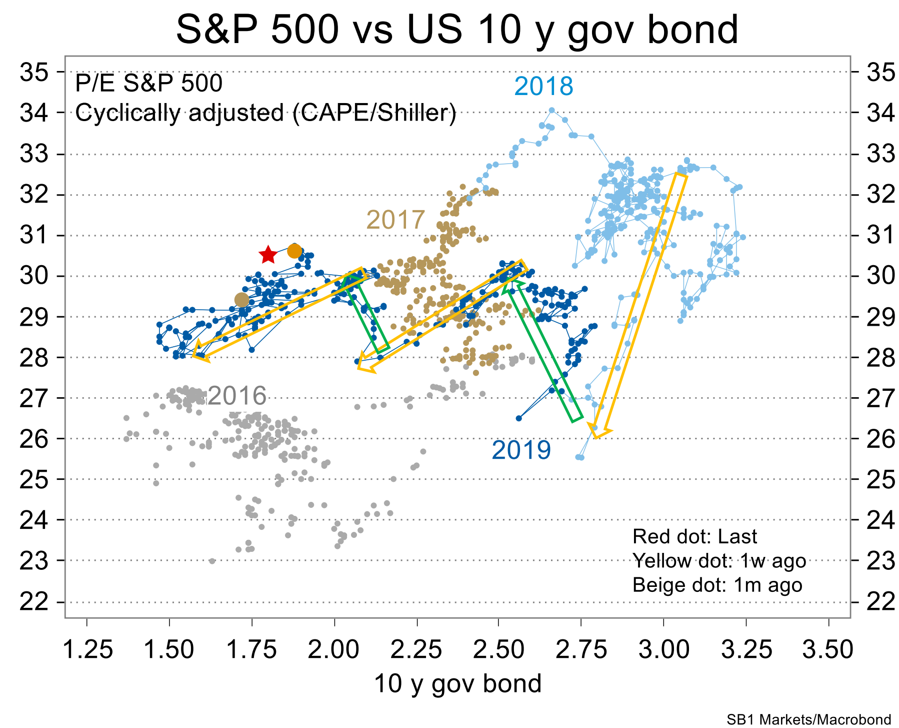


- S&P rose to a new ATH on Jan 2, after climbing slowly through the last week of December. A de-escalating trade war, prospects of an orderly Brexit after the election, some upbeat US macro data and signs of a stabilisation in global manufacturing have boosted markets the past couple of months
  - » The tide turned Friday, following the escalation of the conflict between USA and Iran
- Bond yields have not followed stock markets up the past weeks. Still, the 10 y gov yields is up 33 bps from the late summer trough

US markets mostly moving in the normal recovery direction since Aug

2019 was a 'Goldilocks', due to the Fed? A step towards 'normal recovery' the past month

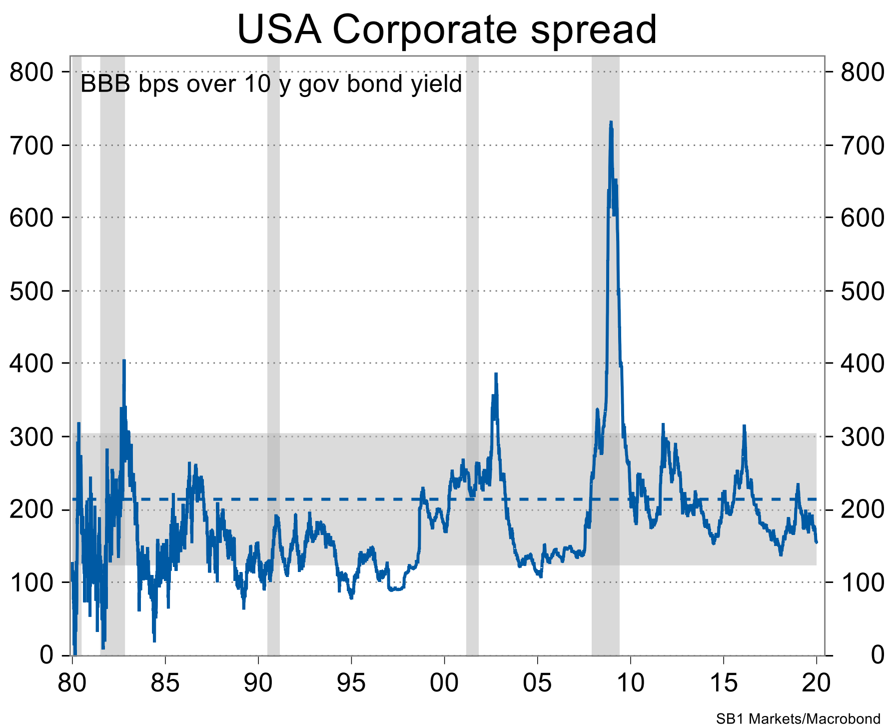


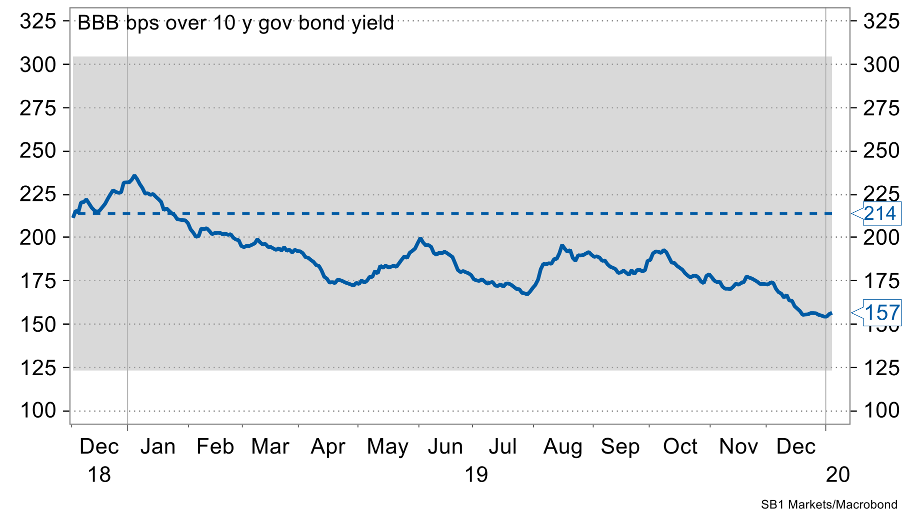


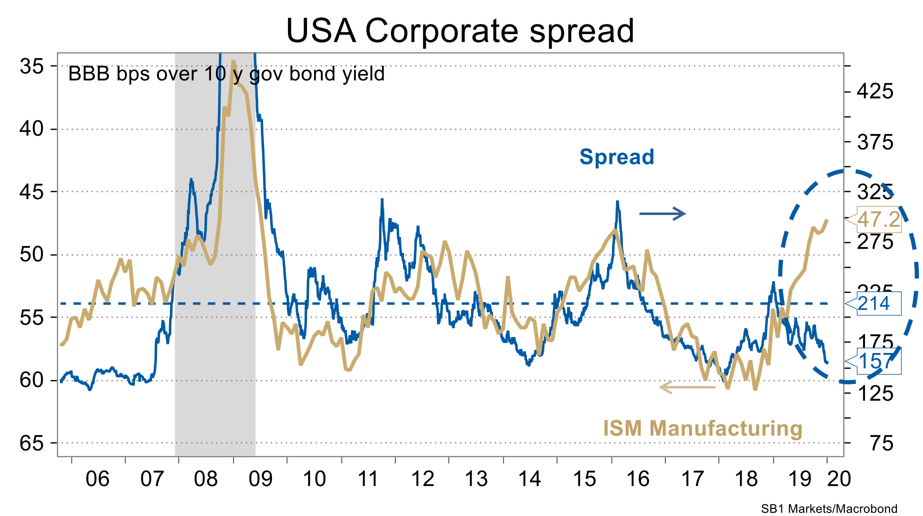
- Recent months, markets have been zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. The past week, stock markets fell, as did yields due to the setback Friday
- Earlier in 2019, stock markets increased while bond yields retreated. We do not think a long term Goldilocks scenario is likely. Should yields decline substantially, it will be due to really weak economic news, which will not be good news for the equity markets. We are not that worried for the 'Stagflation' corner either; a take off in inflation without strong growth seems unlikely. Thus, the normal recession/recovery axis is the most likely – growth will be the main driver for both markets, not inflation.

Credit spreads are very low, well below an average level

Spreads are <u>far too low</u> if the ISM is correct; that is, *<u>if growth is slowing</u>*

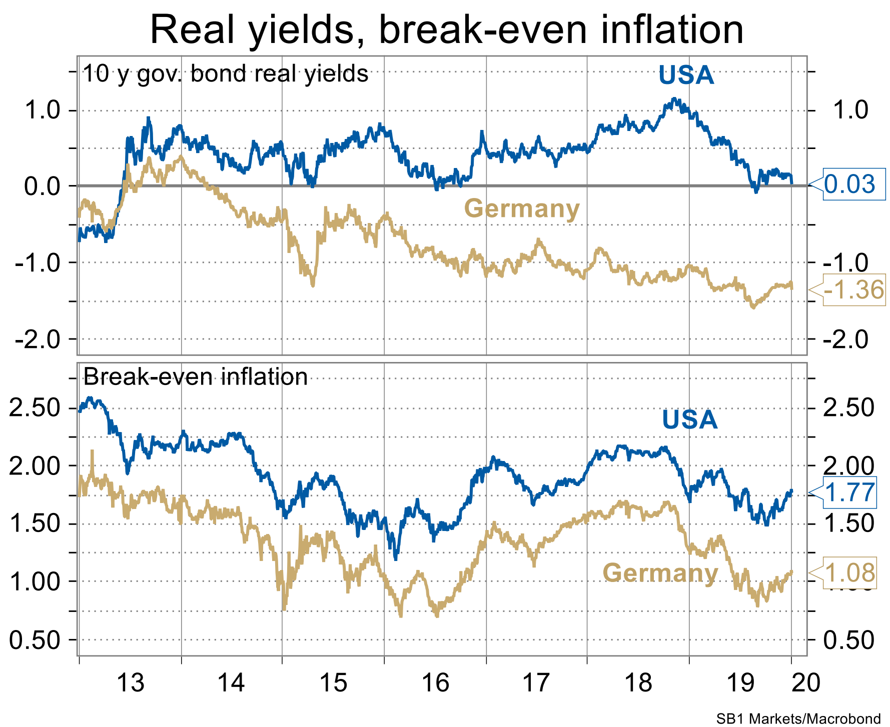


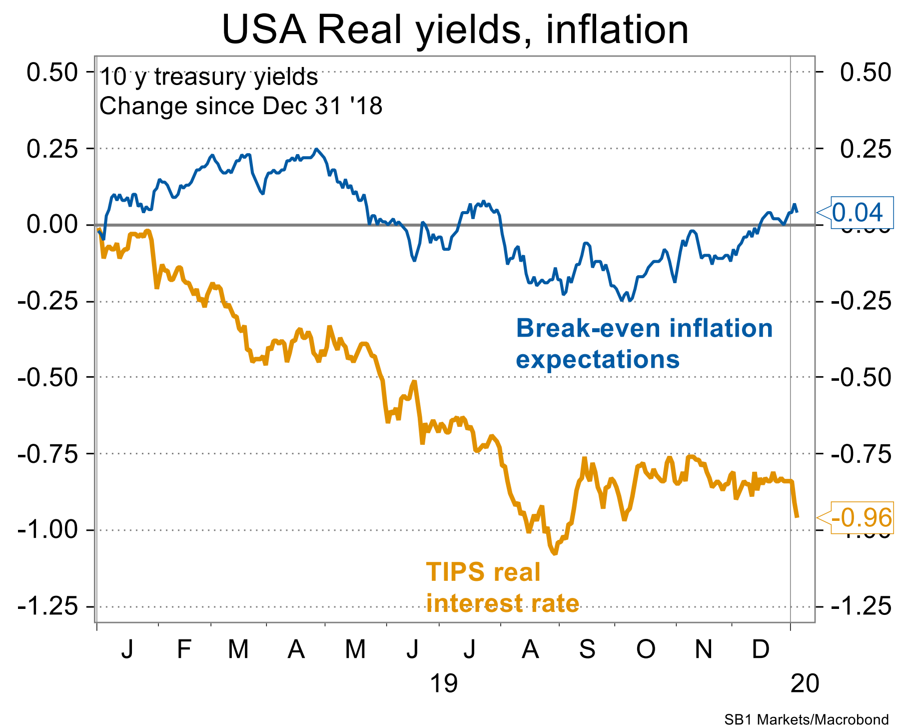




Inflation expectations are climbing (w/ the oil price), real rates have flattened

Inflation expectations up in both US and Germany the past month, while real rates have edged down

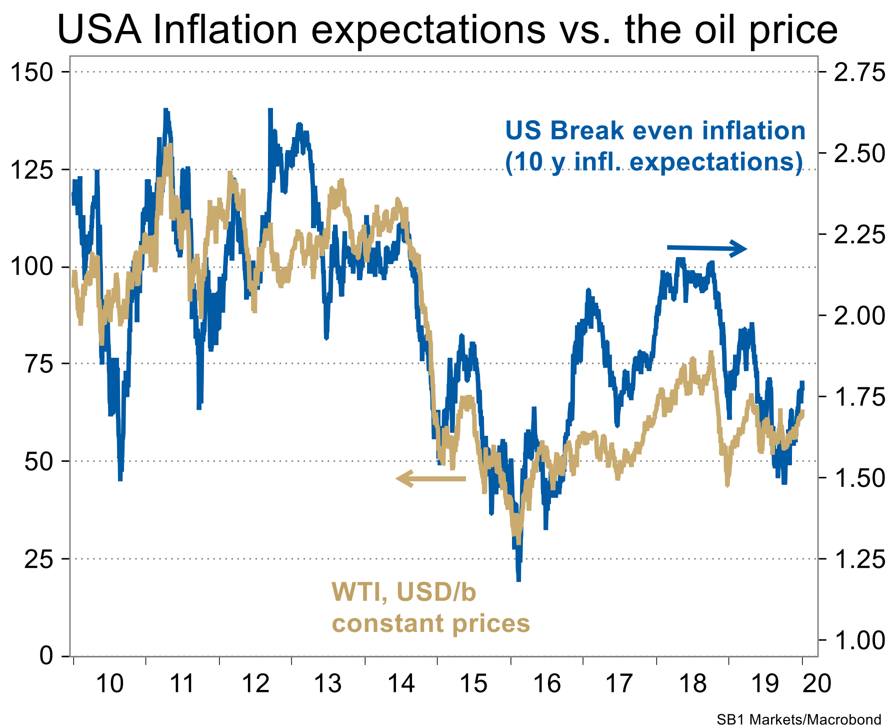


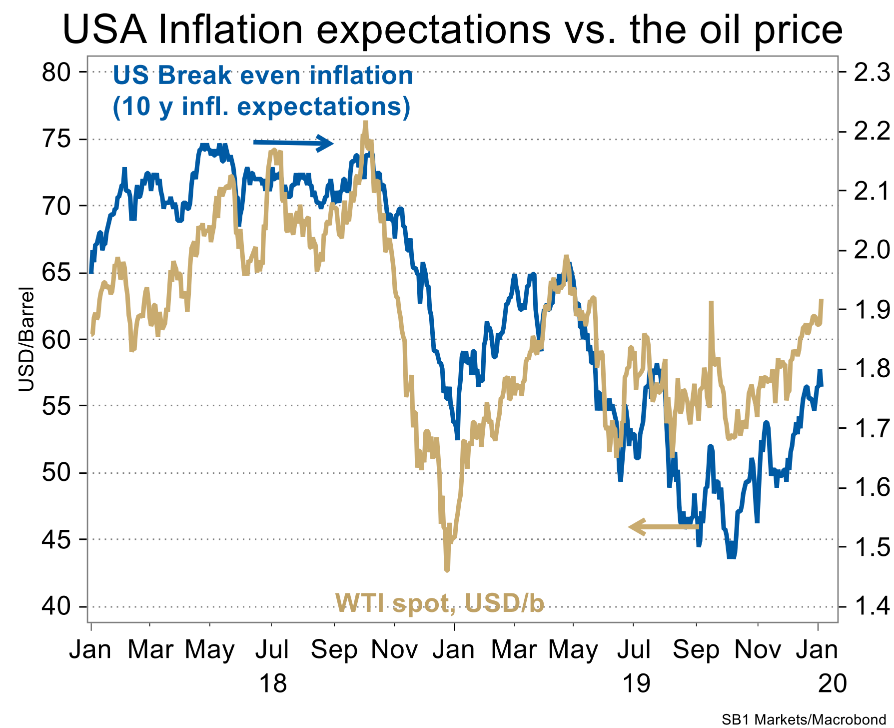


- Since the autumn, both real rates and inflation expectations have turned up in the US as in Germany, primarily due to hopes of a trade war solution and somewhat better economic data. The past month, inflation expectations have increased, while real rates have retreated slightly
- US 10y real rate dropped on the escalating US/Iran conflict last week to 0.03%. Inflation expectations are heading up and 1.77% seems reasonable
- German real rates slipped following the US airstrike in Bagdad. However, both inflation expectations and real rates are trending up and have probably bottom out. Inflation expectations at 1.08% is not that far off, although well below the ECB's price target at close to 2% - and is exposed to changes in both monetary and fiscal policy. Real yield at -1.36% is still ridiculously low

US 10 y inflation expectations are from time to time closely correlated to…

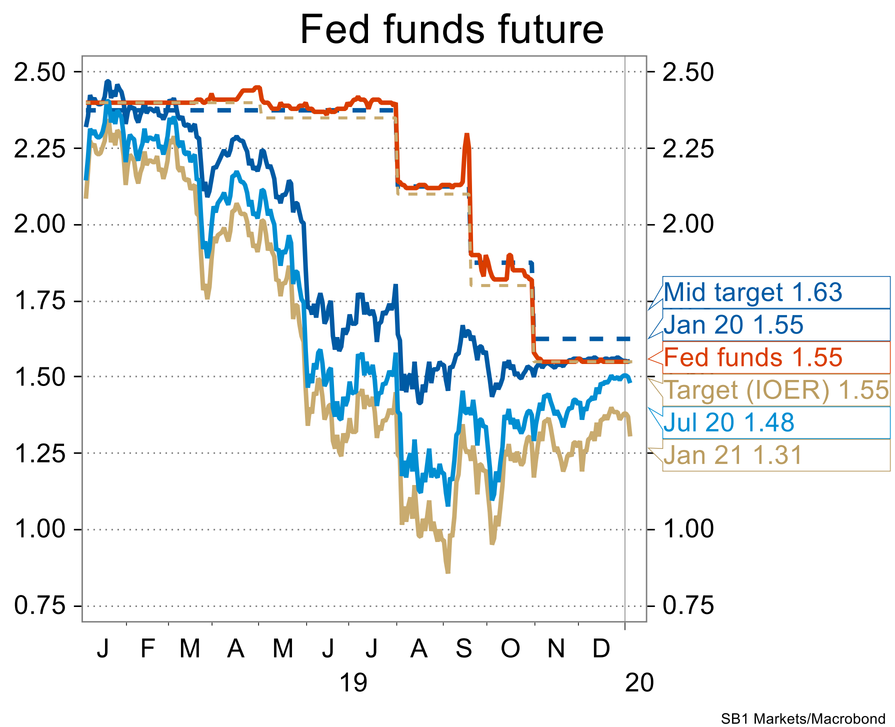
… the spot oil price, today! That seem to be the case now as well

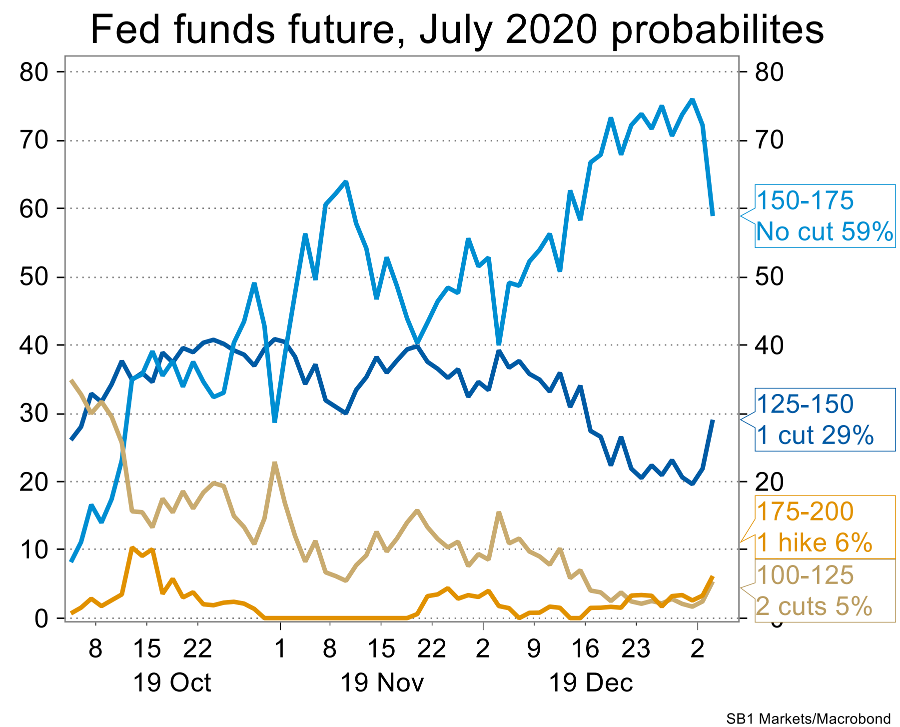




Expectations of a July 2020 cut came up Friday but are still subdued

Markets are almost fully pricing a 2020 cut (of 25 bps), from 3 expected cuts in September

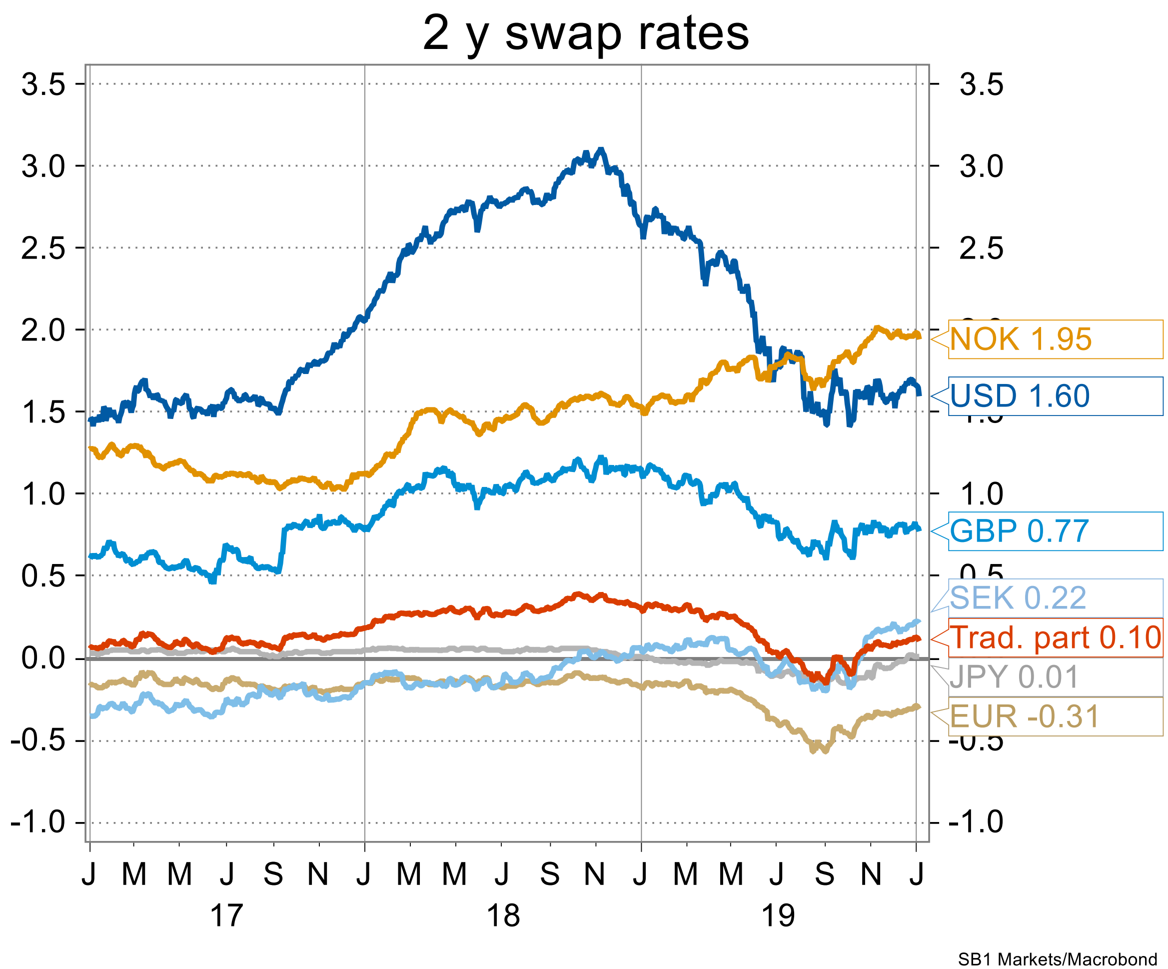


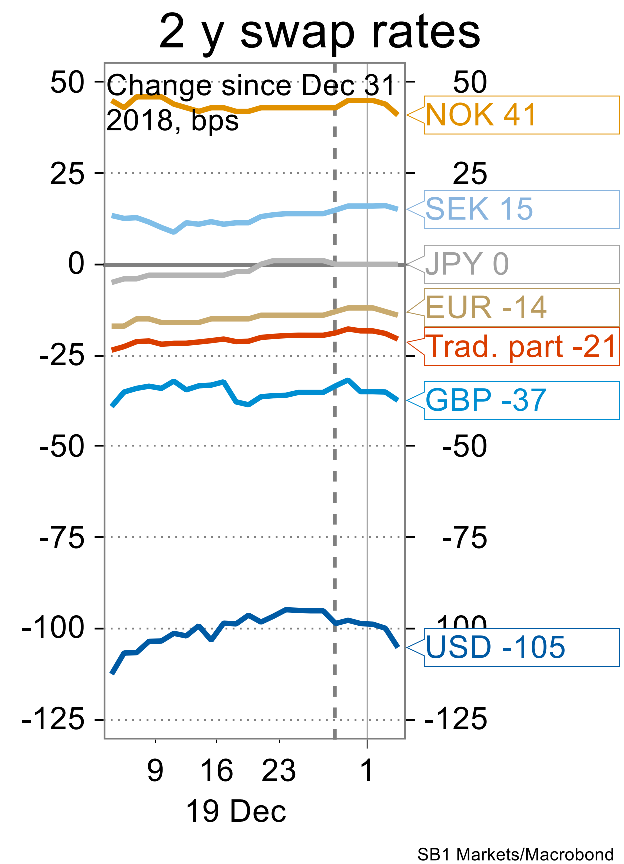


- Fed Funds futures climbed steadily through December but dropped on Friday's the news of the escalation of the conflict US/Iran. Markets are more in line with the Fed's plans (to keep interest rates on hold) than in a long time. Markets are still expecting a cut by the end of 2020 (by a 95% probability). Probabilities of a cut in H1 rose to 30% from 20%
- The actual Fed funds (daily clearing) rate remains close to the target IOER (rate on bank's excess reserves at the Fed) at 1.55%, as the Fed has gained control on the short end of the curve

Short term rates have slowly turning up – down at Friday

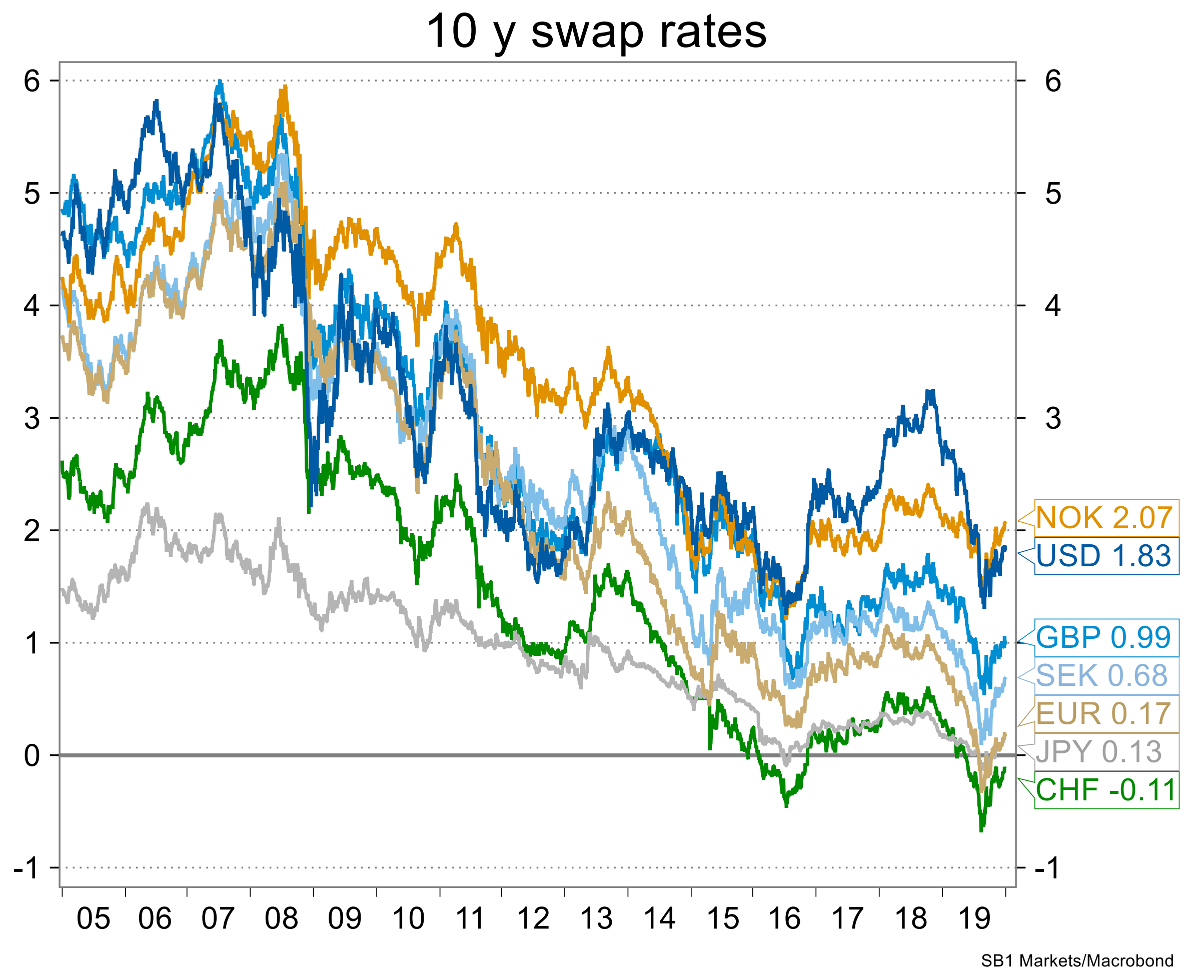
Short term rates fell all over last Friday and USD more than others, down 5 bps

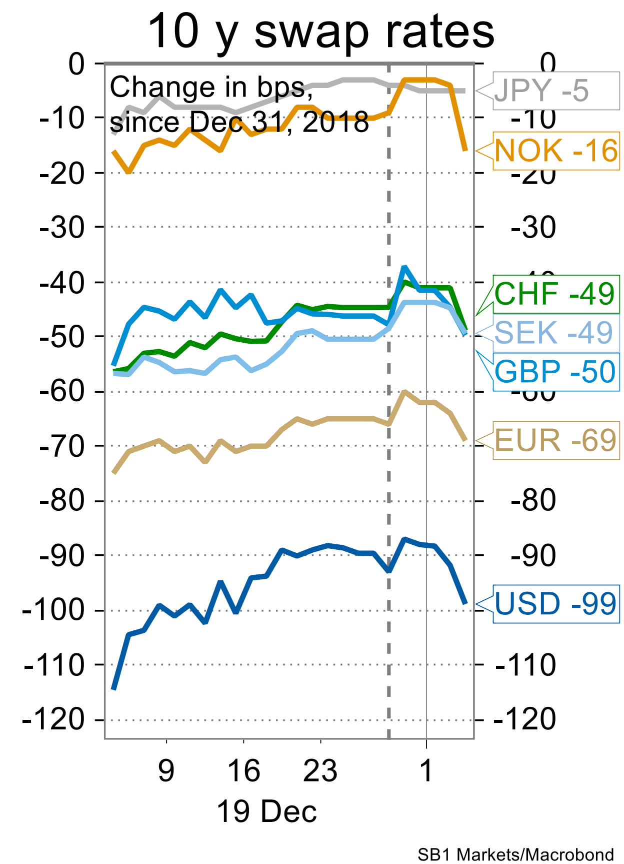




Long term swap rates are climbing, up everywhere in Dec

Then, 10 y rates slipped Friday, USD down 8 bps, NOK down 12 bps!

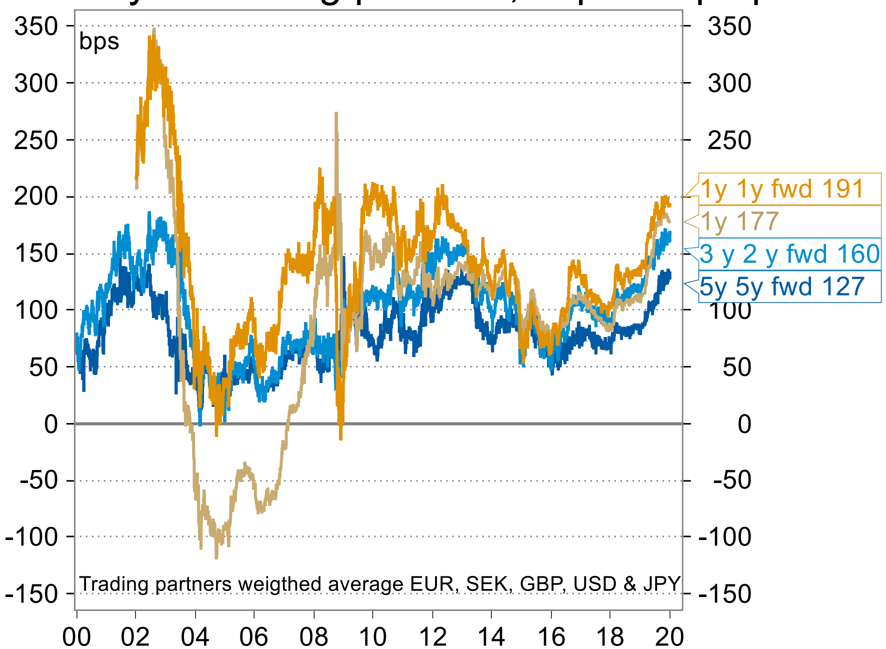




Swap spreads vs trading partners are shrinking in the short end

The long end swap spreads were trending out, until Friday, when NOK rates fell more than others

Norway vs trading partners, impl swap spreads



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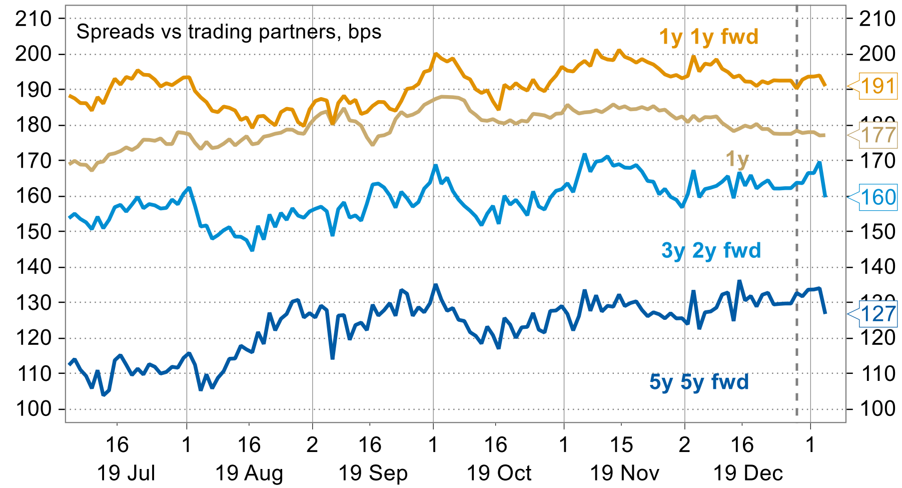

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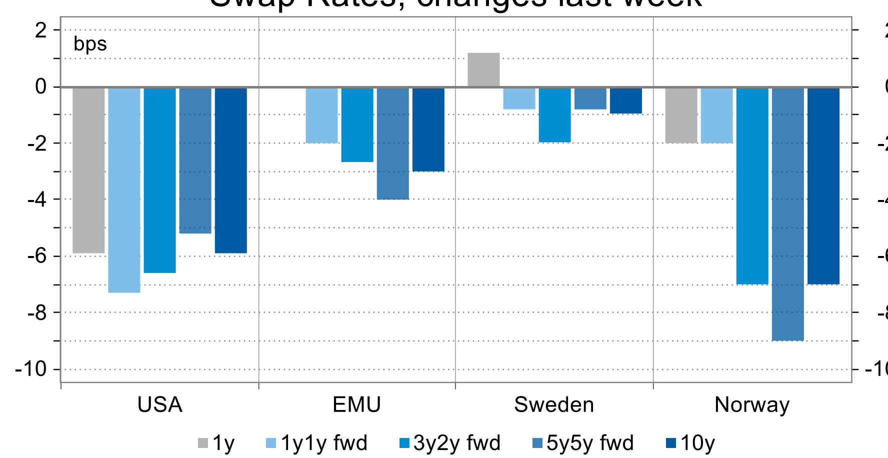
Swap Rates, changes last week



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- Swap spreads between NOK rates and our trading partners have been widening rapidly in 2019, all over the curve. In December and early January, spreads have been trending in on the short end of the curve
- While the short term spread has bee well explained, we have been surprised by the wide spread in the long end of the curve of the since March. A 5y 5y fwd spread at 127 bps is still far too wide, long term

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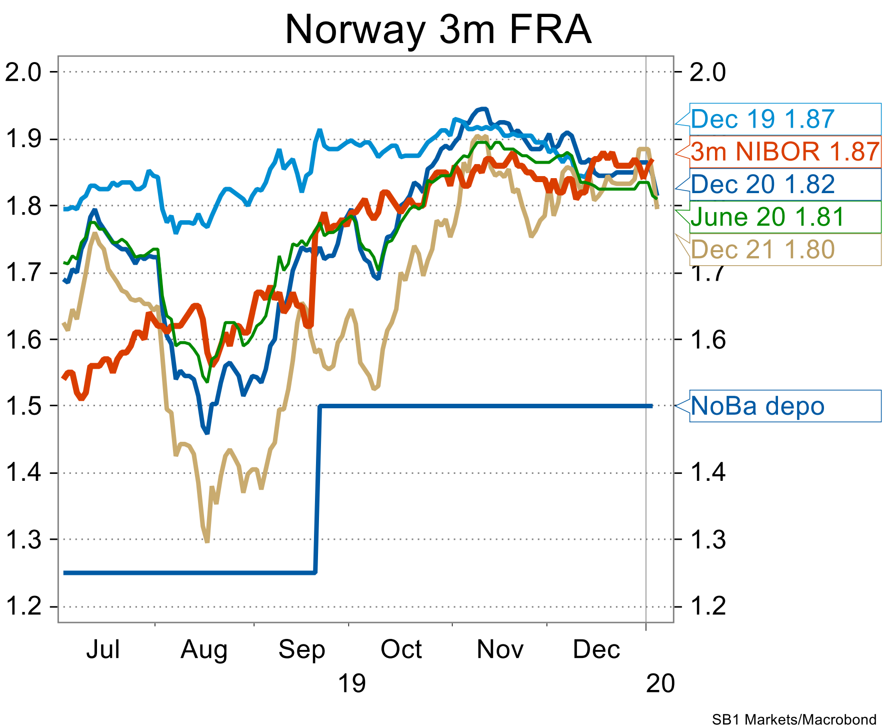
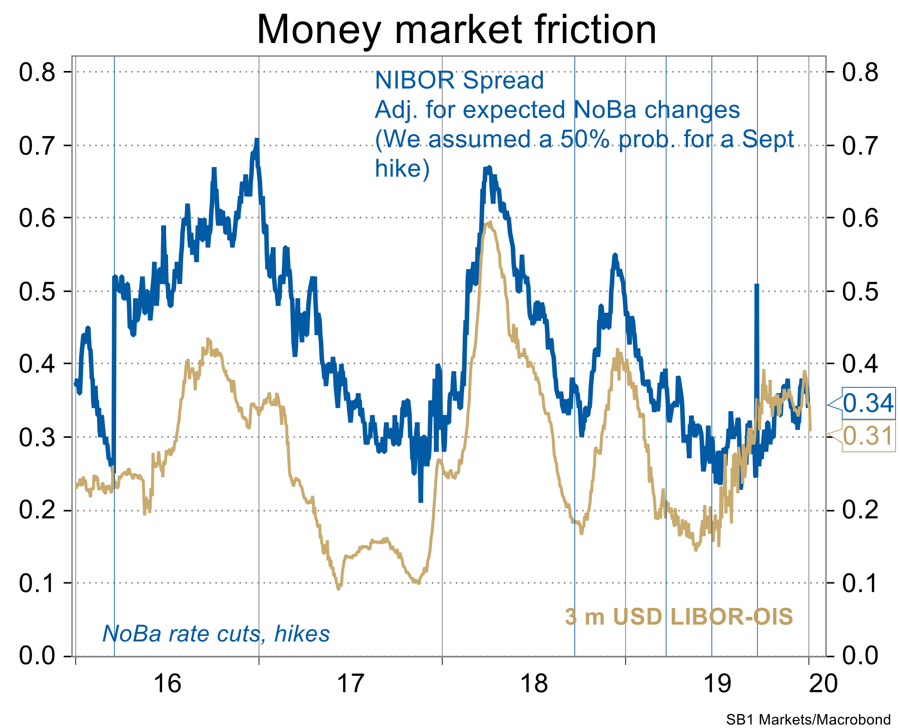
The FRA curve is close to flat, just some few bps below NoBa's new path

Interest rate expectations remains subdued, no cut is priced the coming years (just 20% in '21)

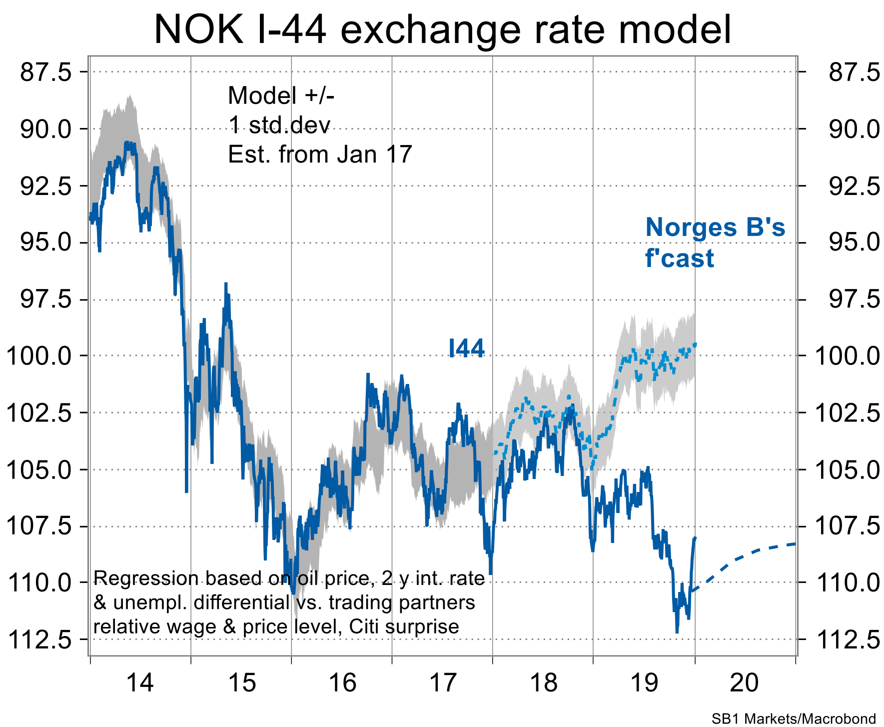


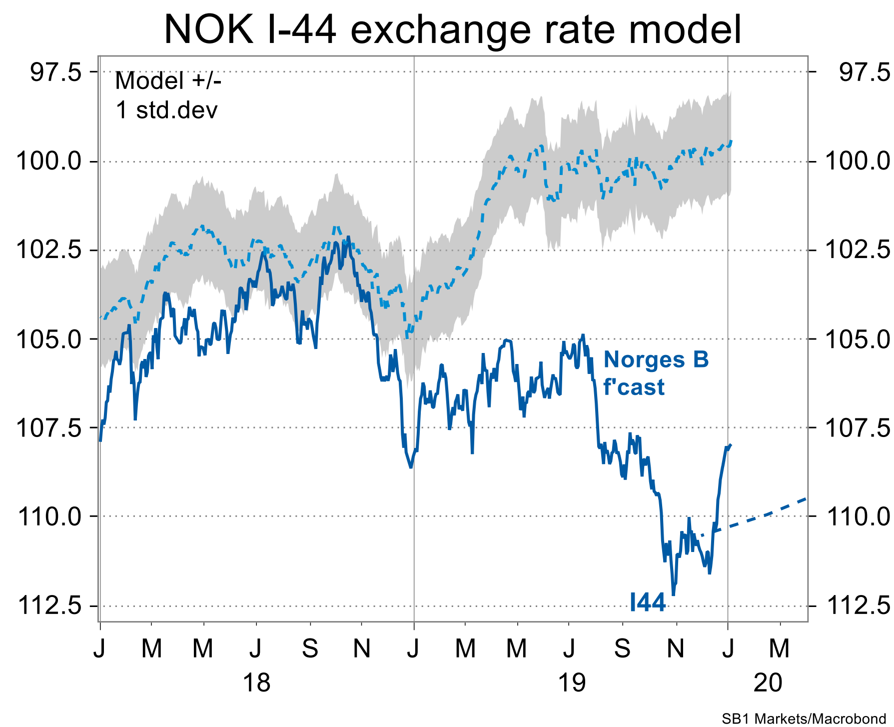


- The 3m NIBOR has inched up 1 bps to 1.87% since before the Christmas break and last week, equalling a 37 bps NIBOR spread
  - » In the December MPR, Norges Bank nudged down the money market spread forecast to 36 and 35 bps, from 40
  - » The US the LIBOR-OIS spread fell to 31bps. Historically, the NIBOR spread has been significantly wider than the LIBOR-OIS spread
- Longer dated FRAs rates edged up through December but dropped Friday on the geopolitical escalation. <u>The close to flat FRA curve still reflects expectations of an unchanged NoBa signal rate, with just some 20% probability of a 2021 cut (from below 10% the prior week)</u>

NOK up 3% since mid-December, without any substantial help

It is just that the NOK was too weak – or the season?





- NOK has strengthened by 3% since the bottom at Dec 12. The gap between the our 'old', standard model estimate and the actual I44 index narrowed to 'just 8.5%, the lowest since September (but still very high)
  - » Reduced global uncertainties following the UK election and the US/China partial trade deal may have supported the NOK, but NOK did not follow the pound or global risk markets up during the autumn when markets discounted less risk for a hard Brexit and for an escalation of the trade war
  - » NOK has very often been temporary weak in Dec, perhaps due to thin f/x markets. This year, the NOK was already 'too' weak ahead of the Holidays?
- Our 'new' models, based on the other super cyclical currencies or energy (oil) equities are far closer to the ball (check next page), and the NOK is just marginally 'too' weak vs these models now
- We stick to our **buy NOK** recommendation

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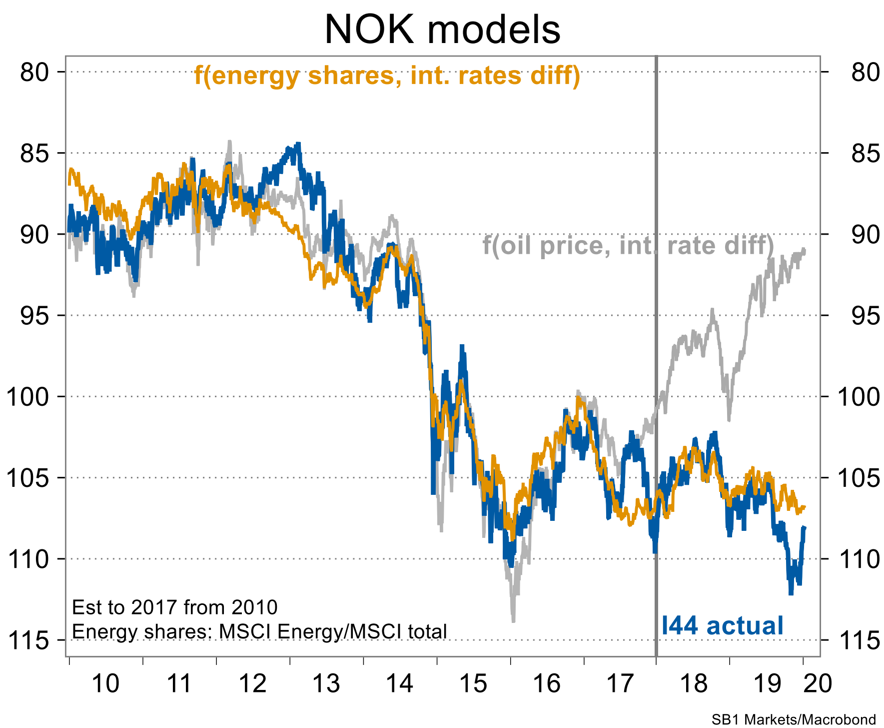
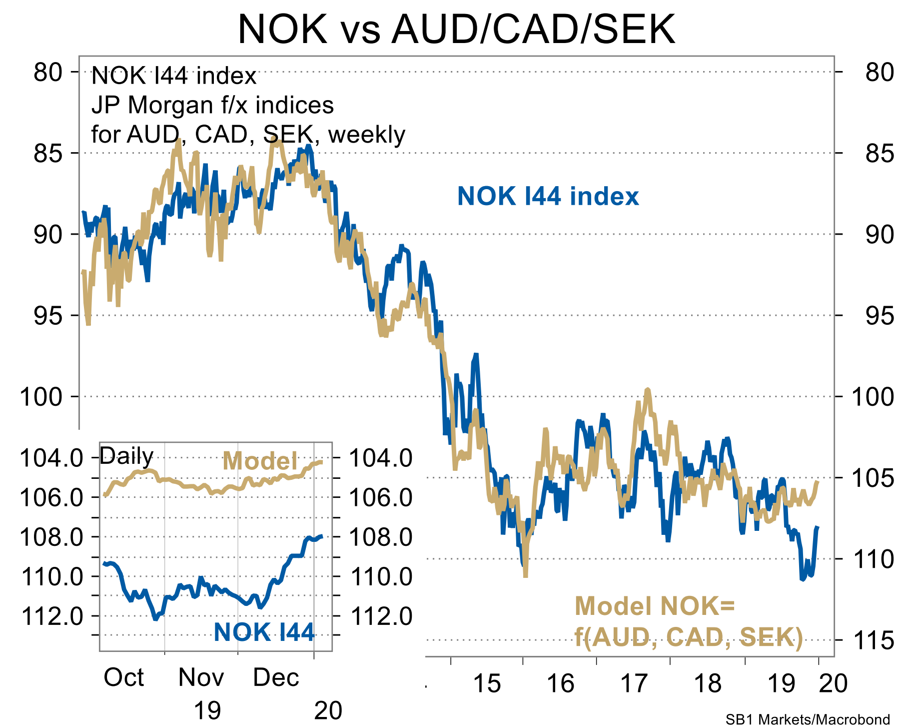
NOK strengthens, still (marginally) too weak vs our 'alternative' models

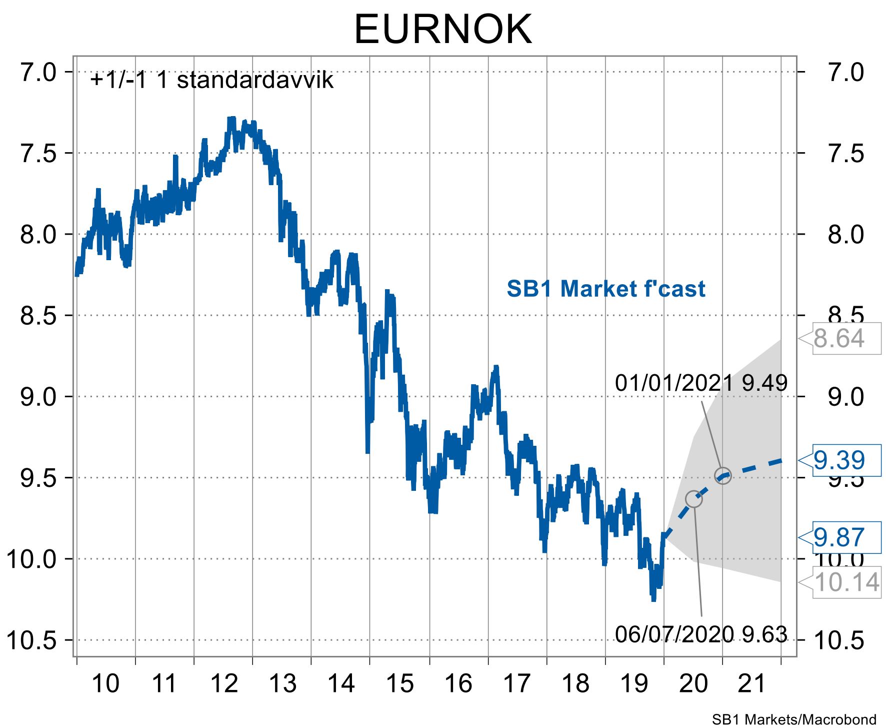
NOK is 3% too weak vs the other 'supercycle' currencies and just 1% below the oil stock price model!

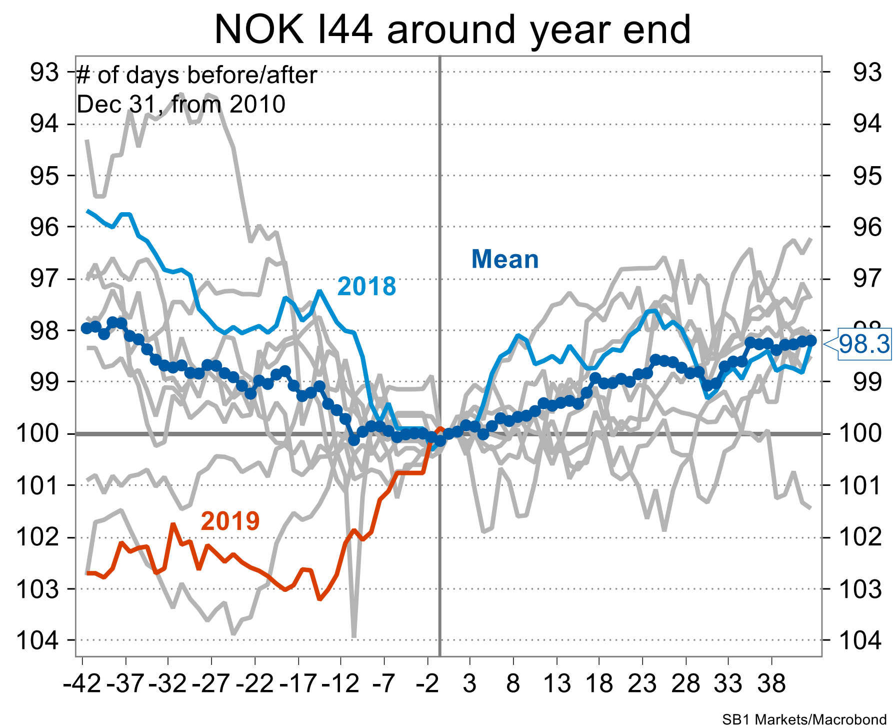




- Our NOK model based on pricing of oil companies has 'explained' the weak NOK much better than our traditional model since 2017, as have our 'supercycle' currency model (NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK. EM x CNY currency aggregate is also quite closely correlated to NOK)
- Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook
  - » CAD and SEK have been much stronger than the NOK since September. Both AUD and CAD have strengthened since mid-Dec, but less than the NOK has. SEK stable, after an appreciation

The NOK was probably too weak – is still below our targets

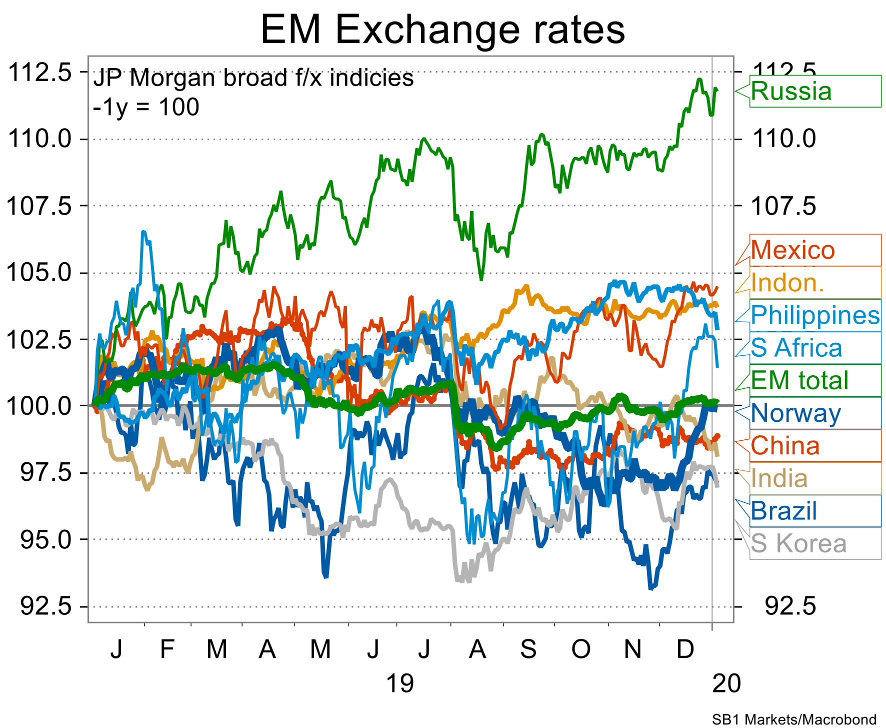


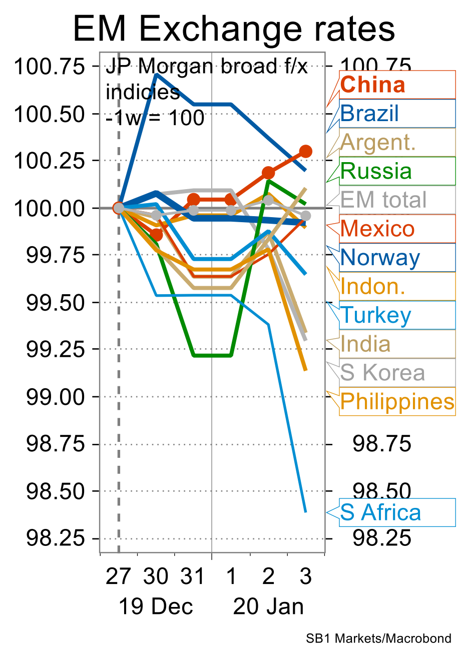


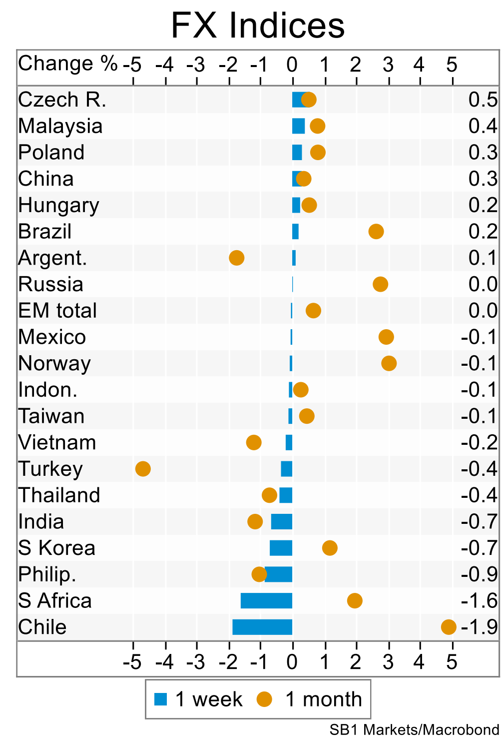
- Sure, some expect the NOK to collapse, we have seen estimates for the EURNOK down to the 15 figure (which would still take much more than 10 years even if the NOK followed 2013 - 2019 deprecation trajectory)
- Based on relative price and labour cost levels, unemployment rates and the still huge current account and public sector surplus we think a NOK collapse is very unlikely. Rather, we expect a modest appreciation from the current level – in line with what our behavioural models suggest

EM currencies appreciated through December, down on US/Iran conflict

Not that exciting now, CNY more or less flat since early November, and strengthened last week







- Most EM currencies stabilized/recovered this autumn, trade war de-escalation and signs of a slight recovery in the global manufacturing sector probably the best explanations. The past few weeks, most EM currencies have been steady

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