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Macro Research

Weekly update 27/2019

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Highlights

The world around us

The Norwegian economy

Market charts & comments

The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. Rich countries (DM) in the lead, more to go in most EM. Unemployment is low, wage inflation on the way up, not low vs. productivity. Most emerging countries (EM) x China are in recovery mode. Some hotspots EM will get burned, as usual – but there are fewer EM imbalances than normal. Barring policy mistakes, the global economy is not yet rigged for a *hard* downturn	Global composite PMI probably fell further in June, we f'cast a 0.4 p decline to 50.7, signalling well below 3% GDP growth . US and Asia the weakest links now. We think we know why
China	The governments' stimulus measures may have turned the growth momentum, at least that's what some of the data indicate. The invest/GDP ratio is declining rapidly. Debt growth has slowed, and will not accelerate much even if authorities are now, probably successfully, stimulating to counter negative impacts from the trade war/prev. tightening. Fiscal policy is also activated. Exports to US (net of interm. imp) approx 2% of GDP, and a 10% decline here is manageable. However, a full scale tech/trade war will be bad, a deal with US is important	Both PMI data sets down in June. Markits manufacturing fell most, to 49.4, NBS flat at the same level (but the composite down). Total orders more down than export orders. Both sets still above the Jan local bottom, still clearly below the average since '12
USA	Growth is now slowing substantially, from an above trend level. Employment growth has come down too but is still not too low, and unemployment is trending down while wage inflation has slowed. CPI inflation is showing signs of some easing as well. No serious overinvestments but most sectors at/above trend. Business investments are probably slowing amid trade war uncertainty. Recent housing and consumption data OK. Household debt 'low' – and the savings rate is OK, limited consumption risk. Fiscal stimulus continues into '19, but not by much. The deficit is far, far too high, given the low unemployment rate. Recession risk is increasing, but still not overwhelming, short term, and a dovish Fed may give some support. **Risk: Trump/trade/bus investments**	Core durable orders and investment orders held up in May, signal a slowdown in business investment but not much worse than in Q1. New home sales and house prices are still pointing to a soft recovery, although sales data were on the weak side. Private consumption is back on track. Jobless claims still low
EMU	Growth has slowed and recent manufacturing data are worrying but services OK. The labour market is still tightening, and labour cost infl. back to a normal level. Investment ratios on the way up but are not too high. Credit growth still muted. Household savings are high, still consumption has kept up well. Policy risk: Trade war, populist revolt. Italy 'saved' now, not forever. Even without obvious recession triggers, weak short term data signals a substantial risk for a downturn	Core CPI stable at 1%. EU ec. sentiment survey is weakening, driven by manufacturing. All surveys are pointing down. The German Ifo survey deteriorated in June
Norway	Growth is and will remain above trend – and unemployment declines further. Oil investments have more to go (we have revised our f'cast up, so has Norges Bank). Mainland business inv. not low anymore, risks balanced. Housing investments have bottomed, for now. The labour market is not tight yet, but wage inflation is above target. Electr. prices have fallen sharply, will take the headline CPI further down. Credit growth almost kept at bay just due to regulations.	NAV unemployment down in June but there are some minor cooling signs? LFS unempl. is declining rapidly, down to 3.2% in April, far below f'casts. Retail sales retreated in May, heading slowly up recent months.

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

Last week – the main takes

- **Trade truce in our time! Or at least for a while?** The Trump/Xi summit seems to have restarted the negotiations on a trade deal. In addition, Trump allowed Huawai to buy US components again, while Xi bought home some soya beans from the US. This may – or may – not be a turning point. Time will show. Trump went 12 steps into North Korea, and he and Kim Joung-un are the best friend ever (again). **Asian stock markets** and US/European cheers the progress; futures are up some 2% early Monday morning, we guess bond yield will follow suit

- **Both China PMI** data sets probably fell in June, Markit's manufacturing index the most. Still, they are not reporting an abrupt slowdown. All but one of other Asian EMs fell too, and Taiwan is ugly, South-Korea bad. The **global manufacturing PMI** most likely fell too (data out this evening), as did the global composite (data at Friday), we assume the latter to below 51, signalling growth clearly below 3% (was above 4% not that long ago)

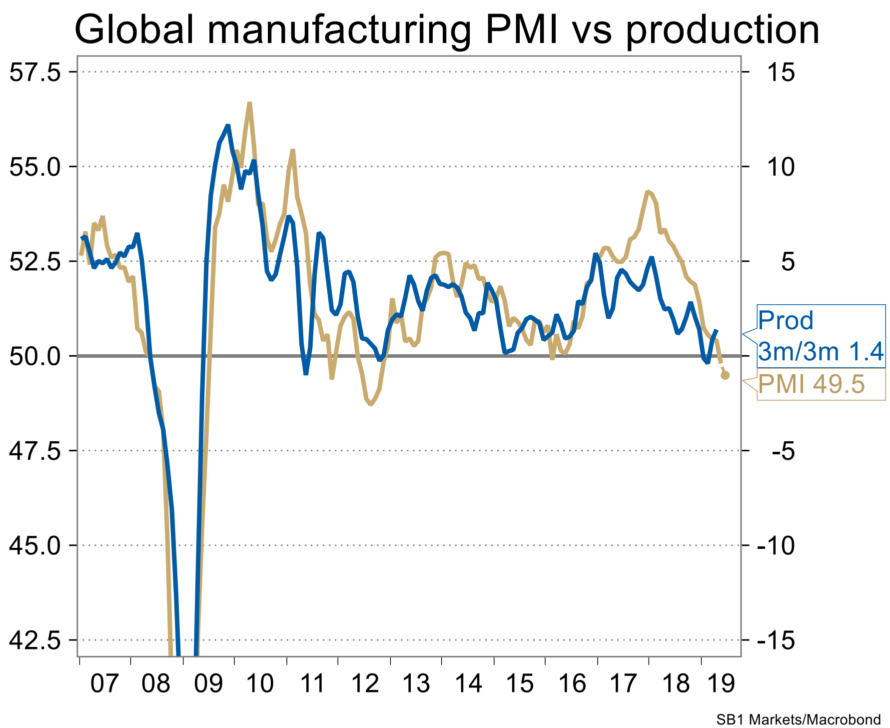
- **US durable goods orders** fell in May but core orders were flat and core capital goods orders gained marginally. Orders are no doubt signalling a slowdown in business demand, however, the May data does not imply any abrupt halt. **PCE inflation** was stable at 1.6%, and **private consumption** is back on track**. Consumer confidence** surveys are mixed; Conference Board's index dropped in June and consumers are reporting softer labour markets, a worrisome signal (but **jobless claims** did not report any significant upswing last week). On the other hand, the CCI level is still elevated and the weaker sentiment is not confirmed by UoM. **New home sales** have fallen the past 2 months, after soaring in early 2019 and the trend is still up, confirming a housing market stabilisation. So do **pending home sales**, which ticked up in May, and **house prices** (on existing homes) are slowly accelerating. **The trade deficit** widened in May and net trade will most likely be a drag on Q2 GDP growth, which the nowcasters are revised down to 1.3 – 1.5%

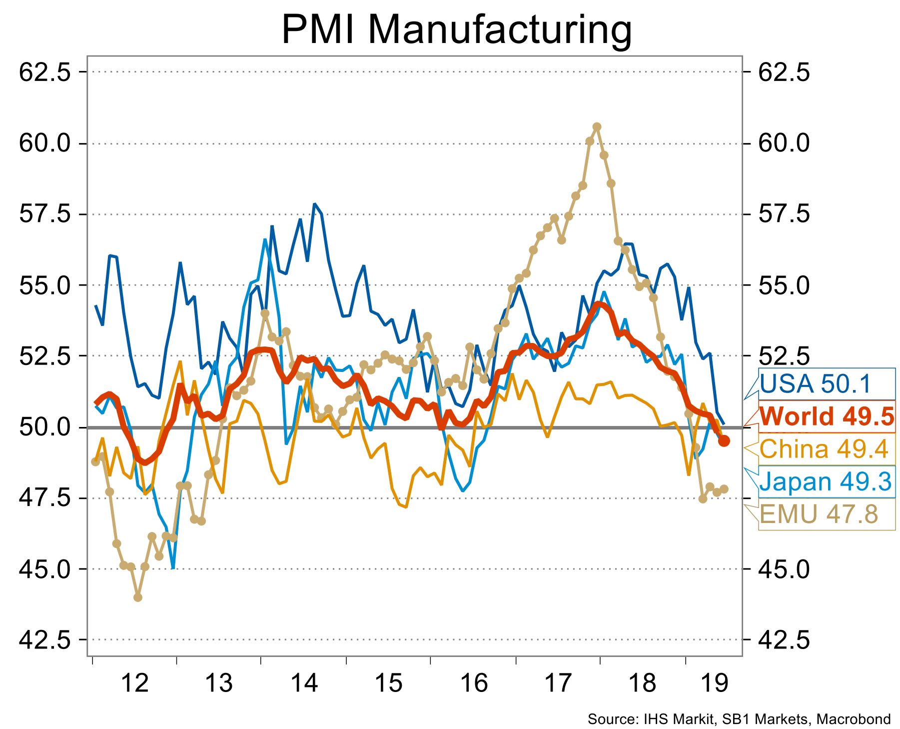
- **Core EMU CPI** inflation rose in June but the trend is completely flat at 1%**. Economic confidence** continues to weaken, according to the EU survey. The survey is more upbeat than the PMI and CERP, but the two others are leading. Expectations in the **German Ifo business survey** are deteriorating too, no signs of recovery among manufacturers. Moreover, the services are reporting slower activity too, while retail and construction are strong

- **Norwegian NAV unemployment** fell as expected in June following the increase in May. However, the rate of decline has slowed somewhat, the no of new jobless claims is not falling anymore, and the inflow of new vacancies have fallen marginally – and perhaps there are some more layoffs. However, **LFS unemployment** surprisingly plunged to 3.2% in April (Mar-May) and is down 0.5 pp the past 2 months! The drop was mostly driven by a (continued) retreating labour force, while employment is growing moderately (according to LFS, stronger according to other sources). A labour force which is not responding to increasing demand is surely an argument for a limited growth potential – and higher interest rates. **Retail sales** fell more than expected in May, down 1.3%, after the 1.9% spike in April. Regardless, sales have improved somewhat the past months. Total private consumption is still on slow upward path, our take is that ebbing price inflation will support consumption the coming months. **Credit growth** was lower than expected in May, due to just a small increase in corporate borrowing. Household credit growth may be slowing but just slowly

Ahead of the global manufacturing PMI: Down 0.3 p to 49.4, lowest since ‘12

We estimate a 0.3 p decline in the manuf. PMI in June, to the weakest level since 2012

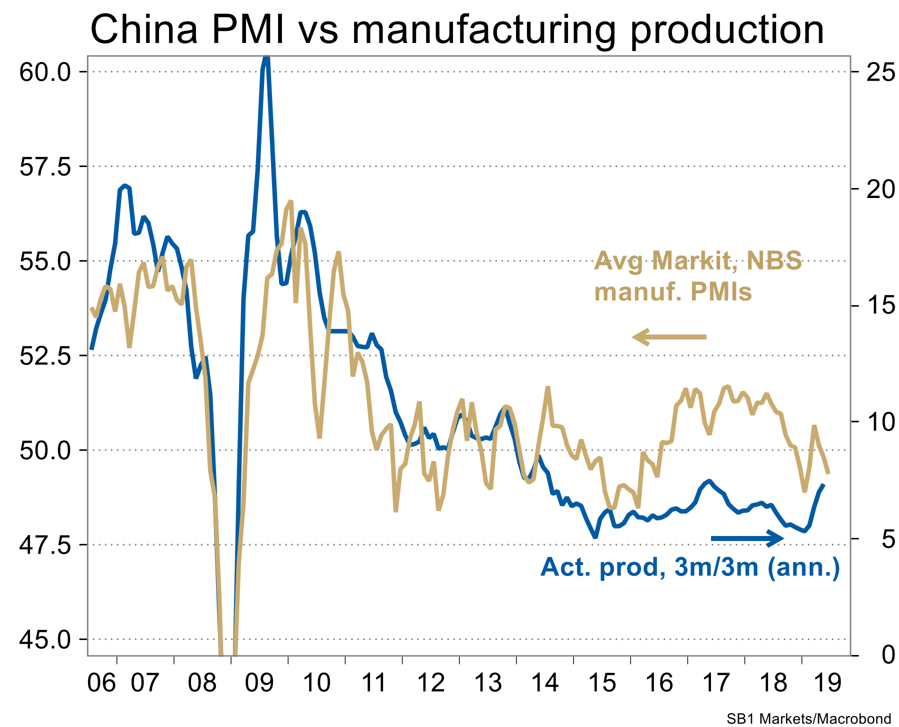




- And the global manufacturing PMI has been too upbeat the past two years…

Markits PMI sharply down again, NBS manufacturing PMI flat, both at 49.4

These surveys are not signalling a harsh manufacturing setback – but certainly no boom either…



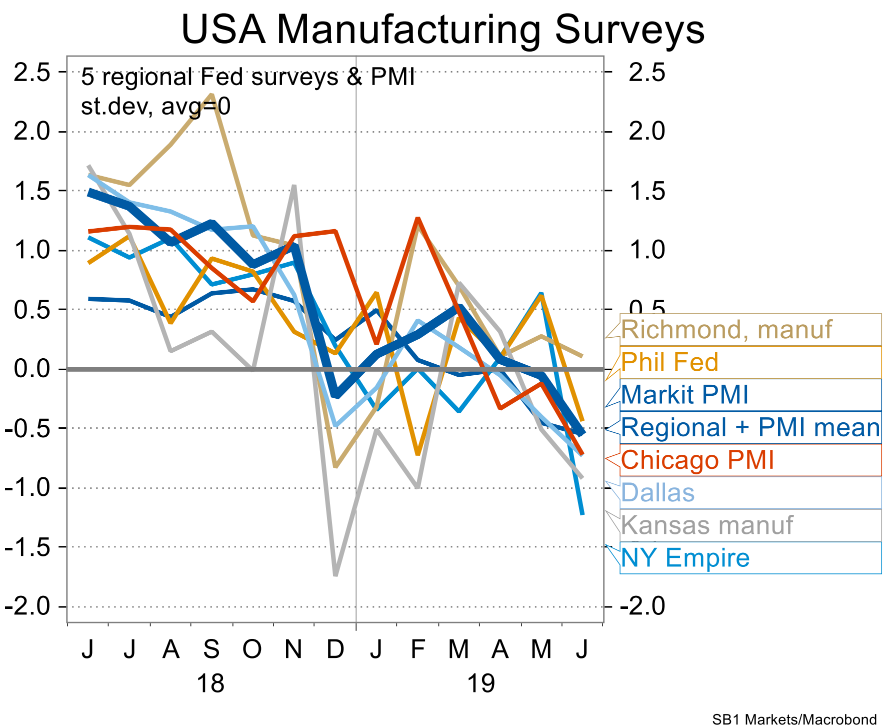
- The NBS/CFLP 'official' manufacturing PMI was unch at 49.4, expected up to 49.5. The level is just marginally above the bottom 3 months ago – but 2.2 p below the average since 2016 . Export orders weaker than domestic orders but none are shining
- Markit's manuf. PMI fell 0.8 p to 49.7, still above the Jan 18 print – but 0.5 below the average since 2012
  - » The export order index fell marginally, the total order index more, and is weaker than the export index – implying slow domestic demand
  - » 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 not reflecting any contraction manufacturing activity – which by the way has not been weak recent months

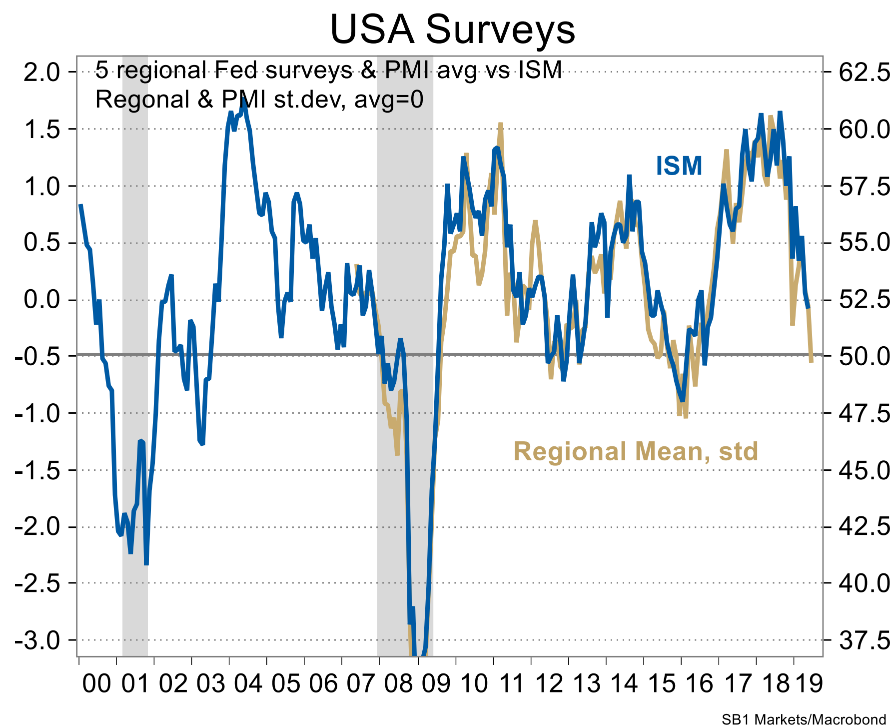
Exports not the problem in June - more weakness in total orders

… implying a slowdown in domestic orders (at least in Markit's PMI)

7 of 7 surveys down in June, in sum sharply. Will the ISM follow suit?

Most likely. Our best guess: ISM down to 50, from 52.1 in May. Consensus at 51

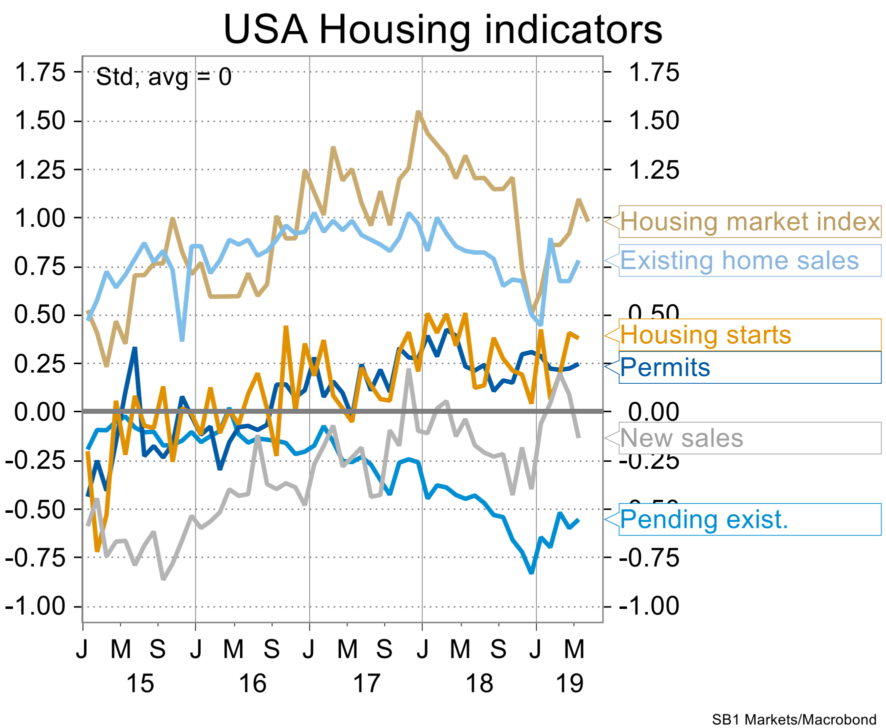


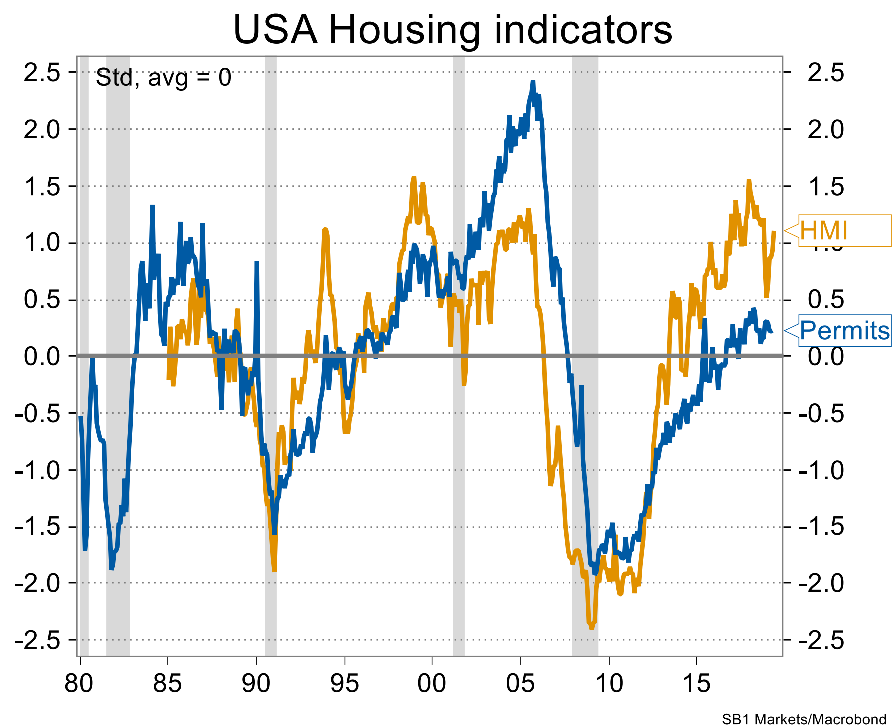


- NY Fed manuf. survey down almost 2 st.dev (half of a normal cycle!!), Phil Fed down 1 st.dev, the others 0.25 – 0.5 std. dev. At Friday the Chicago PMI was reported down 4.5 p to 49.7, a substantial decline (0.6 st.dev).
  - » All but one are below average, the average is 0.5 std. dev below avg, which is equivalent to a manufacturing ISM at 50. A model yields the same result
- Household demand has kept up rather well, as have exports while business investments probably are slowing. Still, we have no indications of an outright decline i business investments.
- It is possible that the Mexico shock in early June and stock market turbulence (before the sharp recover) have influenced manufacturing activity 'too much' in June. BTW, these surveys are not sentiment surveys or expectation surveys, even it they are often labelled as such. The companies are just reporting on changes in actual activity (order, production, sales, employment etc.) from the previous months

Recent housing market data confirm a soft recovery

Housing starts/permits are stabilised, new and existing home sales have recovered

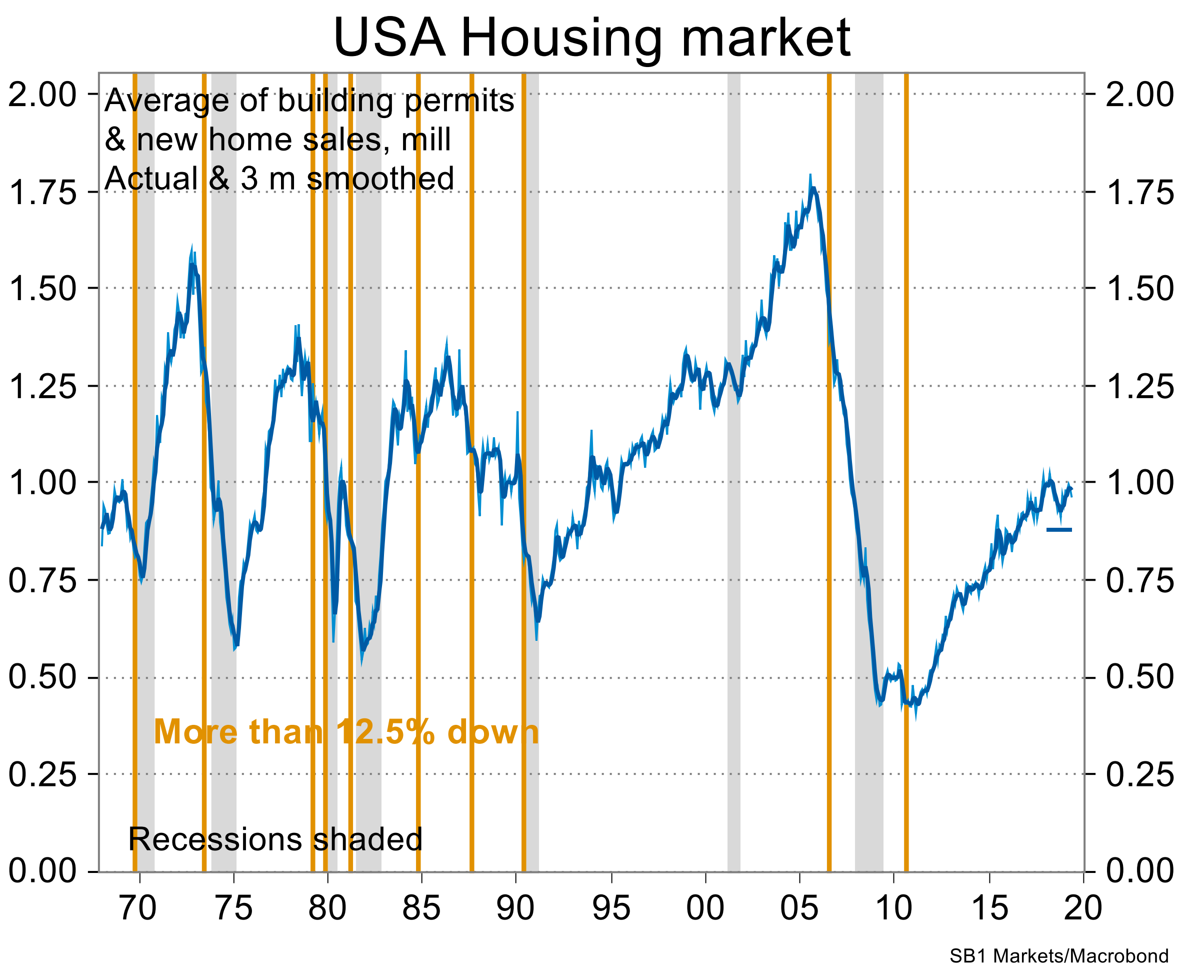


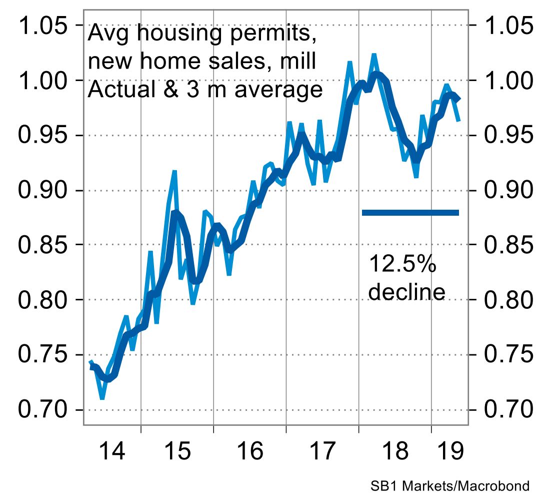


- Existing home sales ticked up in May while new home sales dropped, yet both are still well above the levels from last winter. Pending home sales rose slightly in May and are trending up, at the same speed as actual transactions
- Housing starts and permits have stabilised and the Housing Market Index confirms a soft rebound
- House price inflation has most likely turned up too, the C&S 20 city index notes 3 months of increase

Housing vs recession: Was heading towards the ground in 2018, has recovered

Home sales/building permits are up some 6% from last autumn, after an 8% decline through 2018

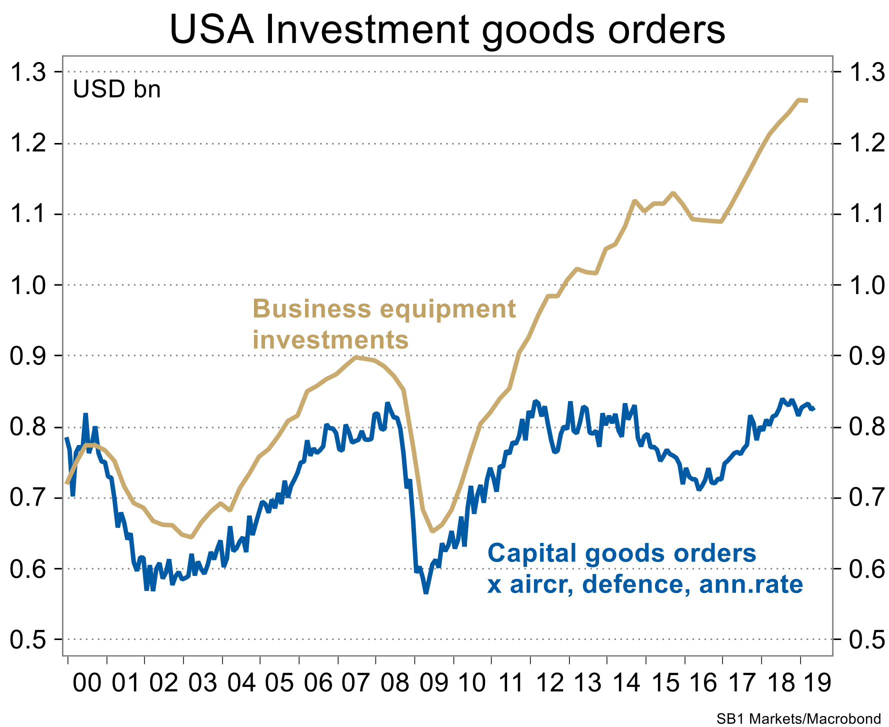


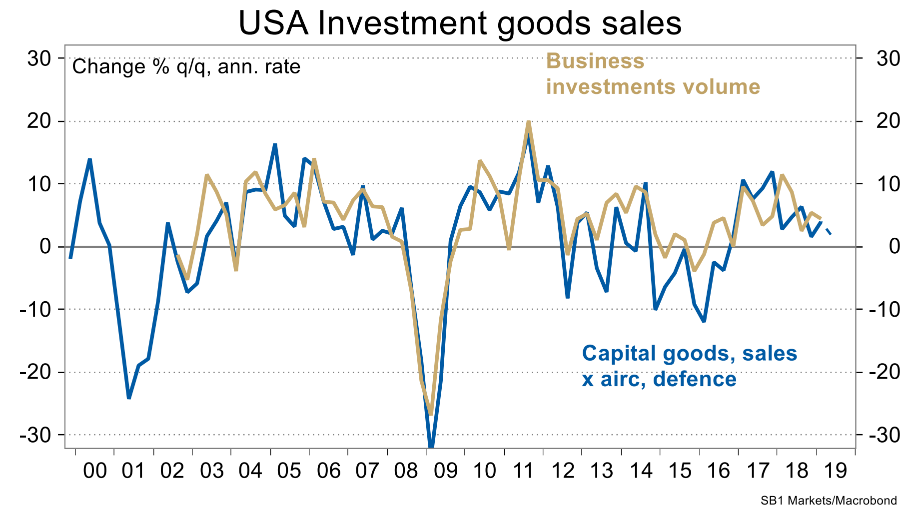


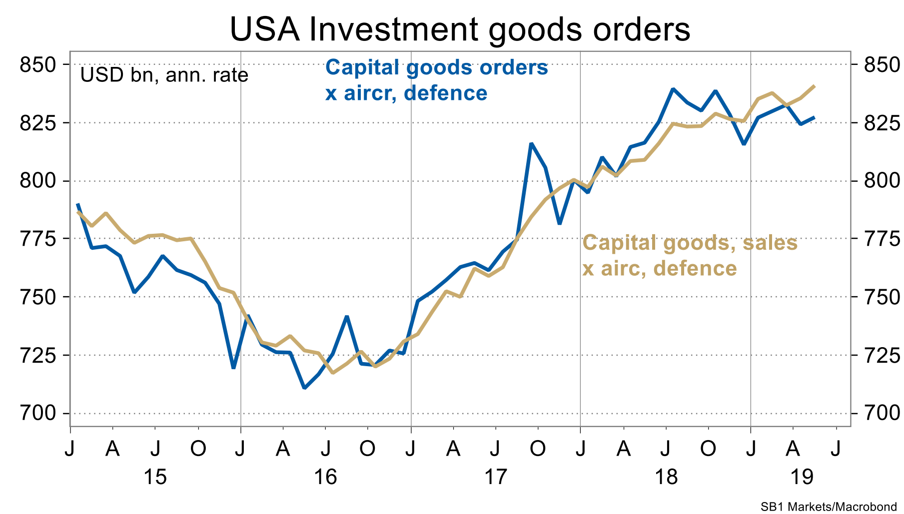
Memo: New Home sales are assumed down to 675' in in April, in line with consensus f'cast

Capital goods orders/sales signal slow growth in business investments in Q2

Core investment orders rose marginally in May and sales are climbing; investments rising modestly?



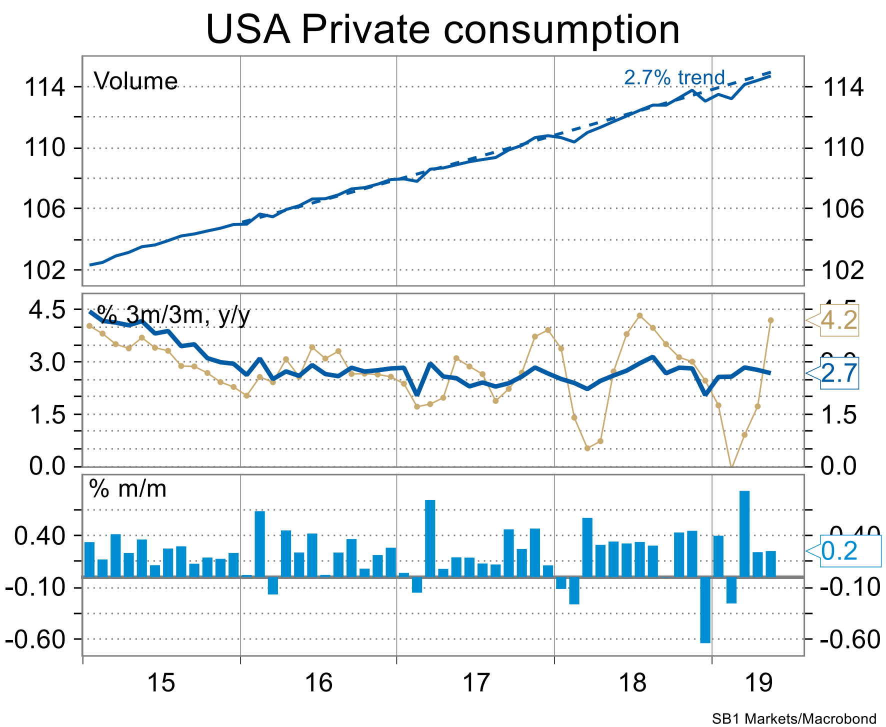


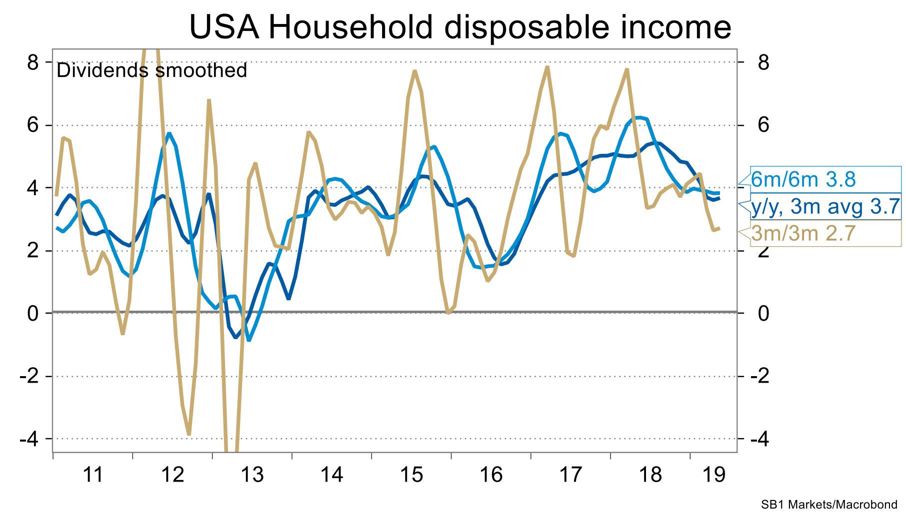


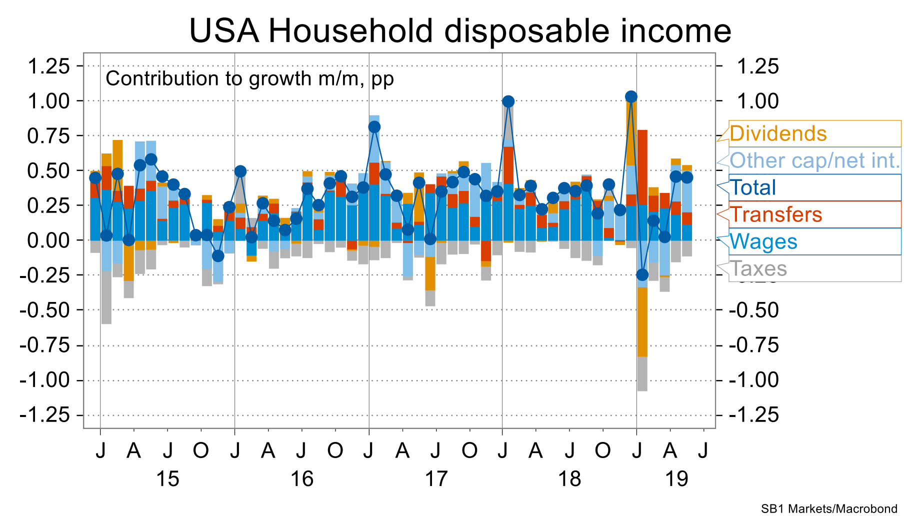
- Investment orders (core) rose 0.4% m/m in May, just above expectations and are up 1.9% 3m/3m (annualised), mostly due to the weak December. Still the trend is down since last summer
  - » Sales are keeping up better, rose 0.7% m/m in May, and are still trending slowly up. Probably not for too long, given the weak order inflow
- Orders/sales are indicating business investments just grew slowly in Q2 but do not signal any abrupt setback. Neither to business investment surveys, check next page

Private consumption back at the close to 3% track

Consumption is almost back at the 'old' trend, towards 3% growth in Q2. Income growth slowing?



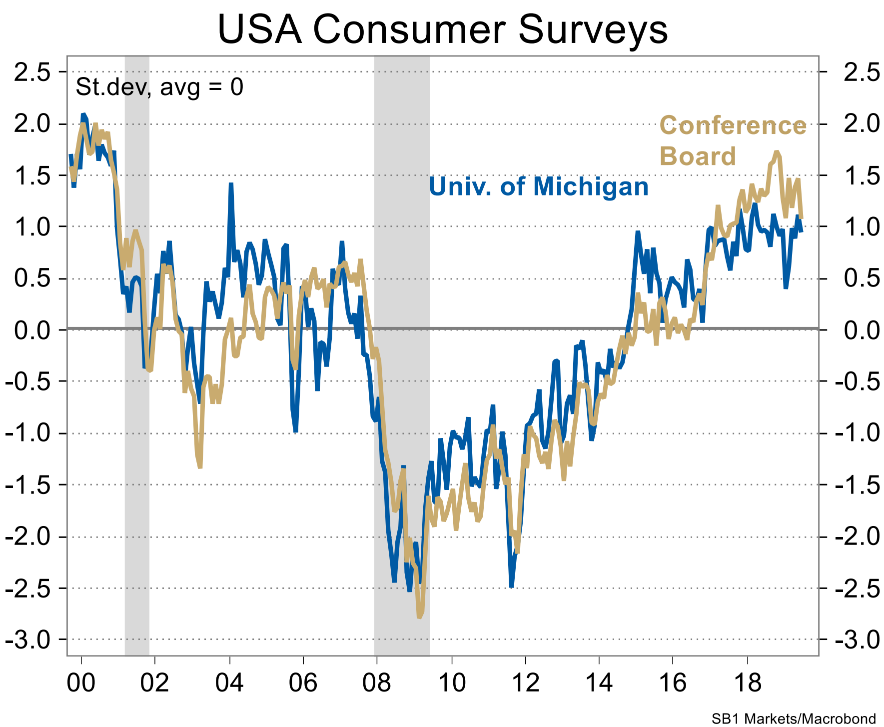


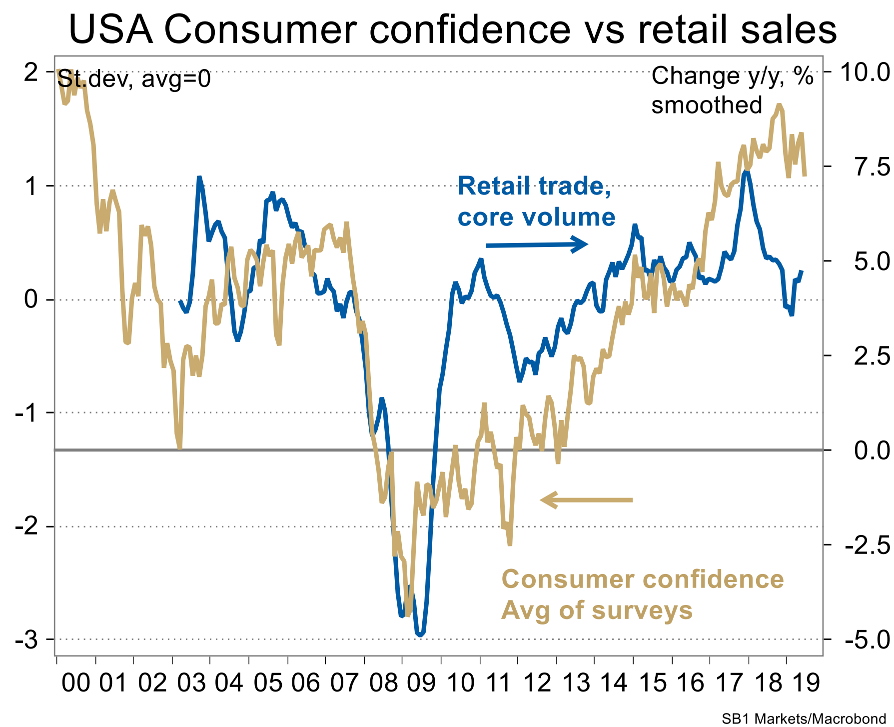


- Private consumption grew 0.2% in May, marginally below consensus but April was revised 0.2 pp up to 0.2%. Consumption har recovered from the slowdown in Q4/Q1 and is now back to the 'old' 2.7% growth track
  - » Consumer confidence has fallen somewhat but is still strong (flip to this slide for more)
- Households' nominal disposable income rose 0.4 m/m in May, like in April, and higher than expected. Still, underlying growth may have slowed in 2019. Total wage & salary income is up 4.3%, accelerating recent months but total income growth has slowed. The savings rate rose in May and is not low

Mixed consumer sentiment surveys; CB's index dropped in June

CB's index slipped in June but not dramatically, level still high. But the labour market is souring??

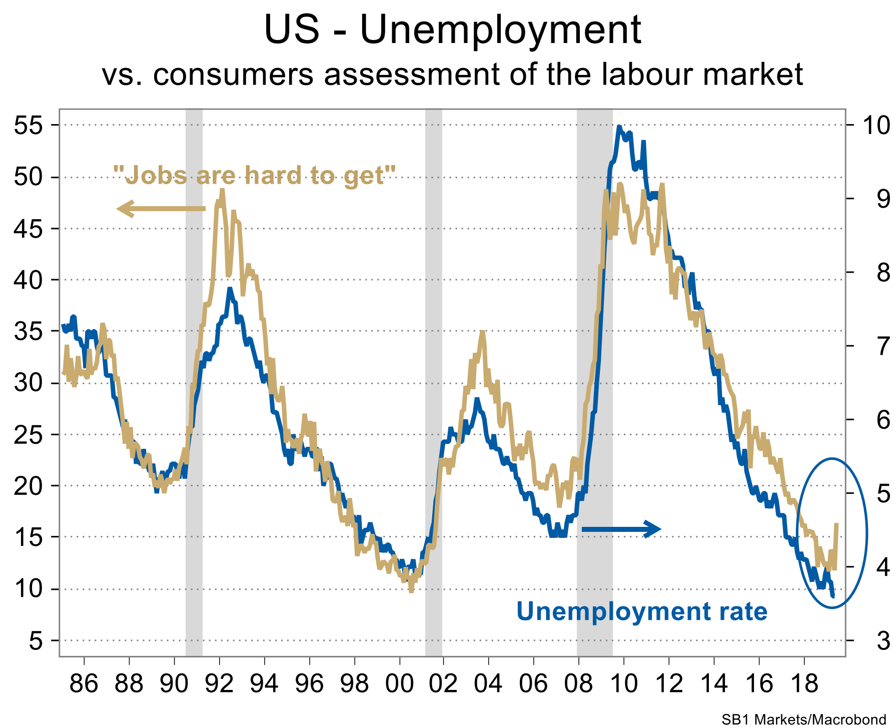


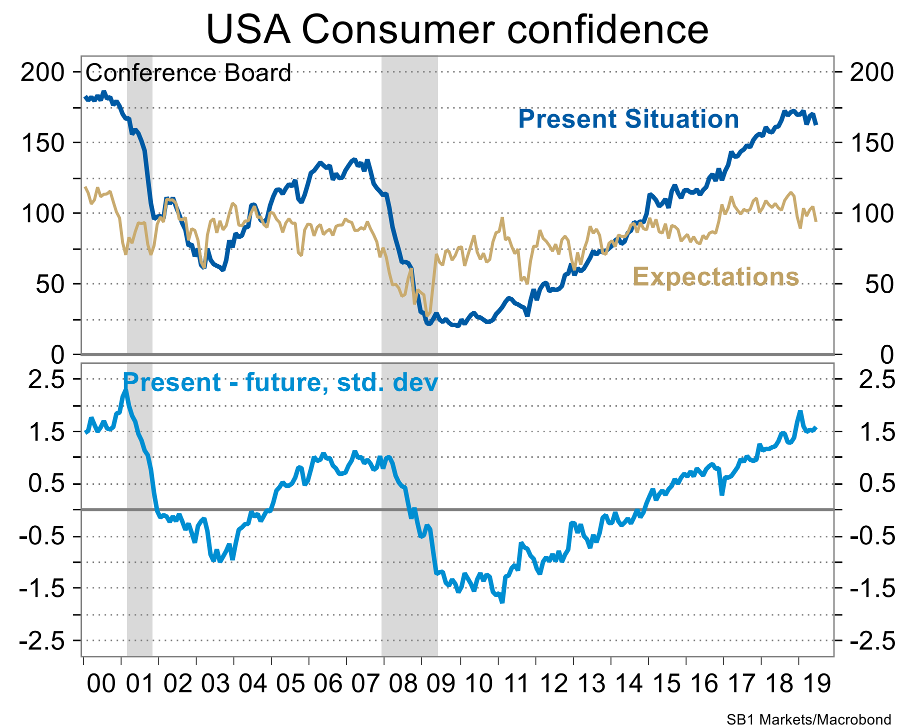


- Conference Board's consumer confidence slipped 9.8 p in June, much more than expected. The level is marginally lower than the January local through but still far above an average levels. Still, it is down from the peak – is this an early sign that the downswing in manufacturing and geopolitical risks are spreading to the consumers?
  - » Consumers suddenly reported less favourable labour market conditions and concerns about the trade disputes, check the next slide
  - » University of Michigan's consumer sentiment came down 2 p to 98 in June, after reaching the highest level in 8 months in May. The surveys reflects upbeat consumers, no signs of a consumption slowdown!
- Consumer confidence is still strong, however, the labour market weakness which the CB index report is no doubt worrisome

Consumers are reporting softer labour markets, an important warning sign

The ‘jobs are hard to get’ assessment spiked in June, the worst m/m performance since 2009

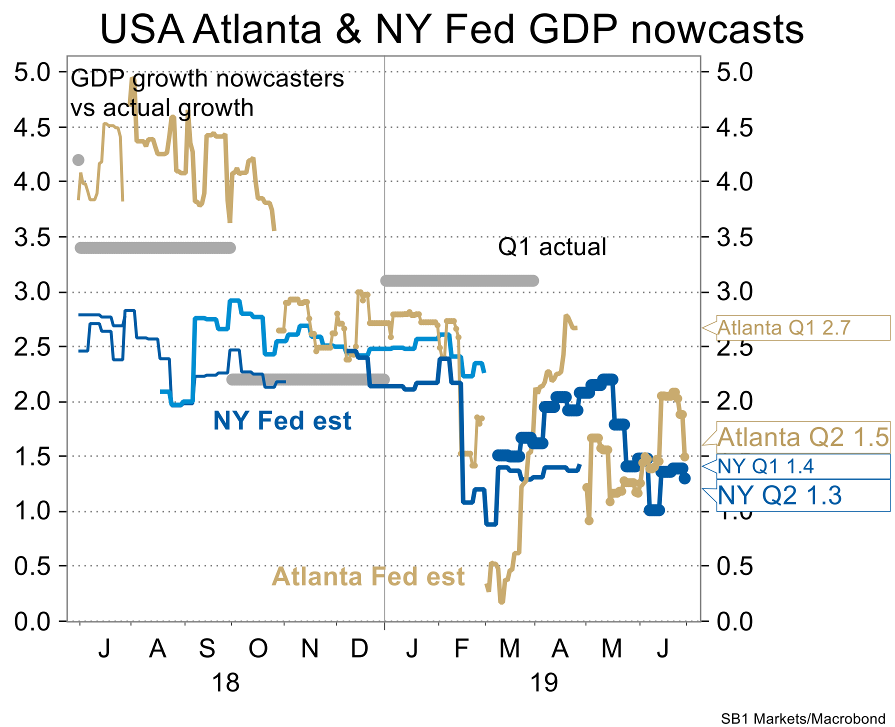


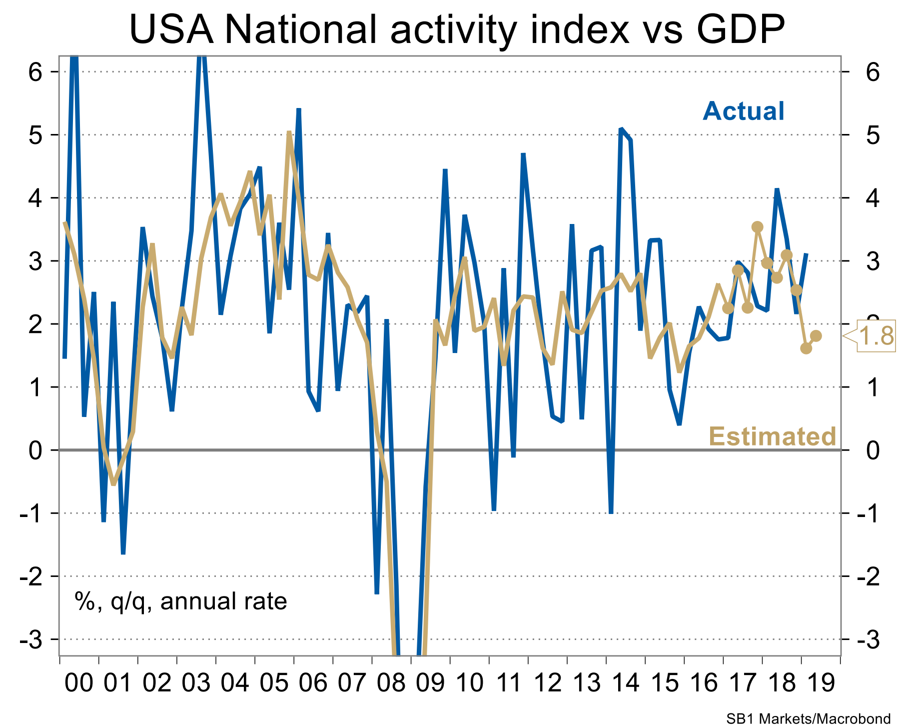


- The ‘jobs are hard to get’ assessment is quite well correlated to movements in unemployment and is usually not a lagging indicator. The index spiked 4.6 p in June, the steepest m/m rise since 2009. An obvious warning sign
  - » Still: We have not seen weakness in most other labour market indicators yet; jobless claims are still very low and are not increasing, unemployment is still on the way down. Employment slowed in May but the 2 m average is not weak
- Both expectations on the future and the assessment of the current situation weakened in June, expectations may now be trending slowly down after flattening out since late 2016

Fed nowcasters down again, say 1.3 – 1.5% in Q2

The National activity index signals 1.8% Q2 growth in May (up from the 1.1% April est)





- However, a lot of data has still to be reported – and the nowcasters often miss the target (as they change their mind through to the quarter

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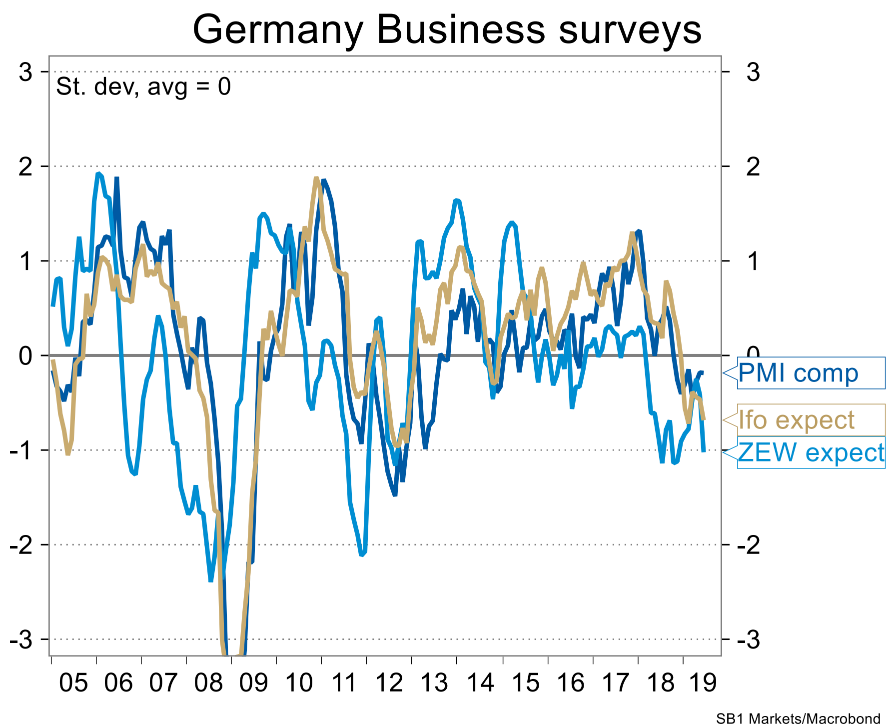
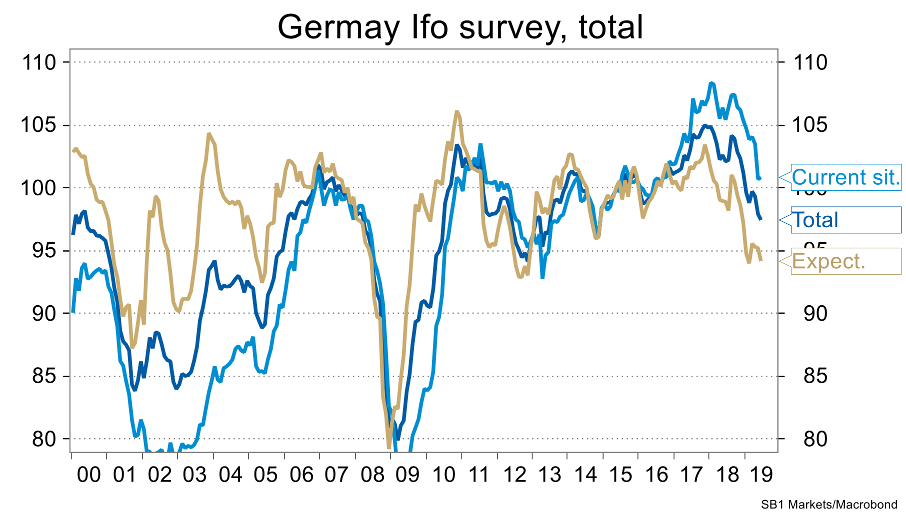
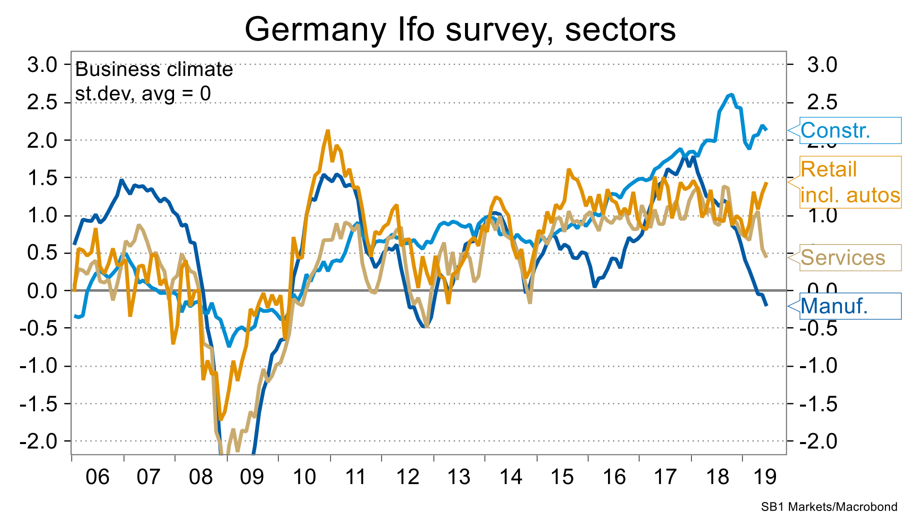
Ifo business expectation are ebbing, no signs of recovery

Sector wise, only manufacturing sentiment is really weak but services is softening





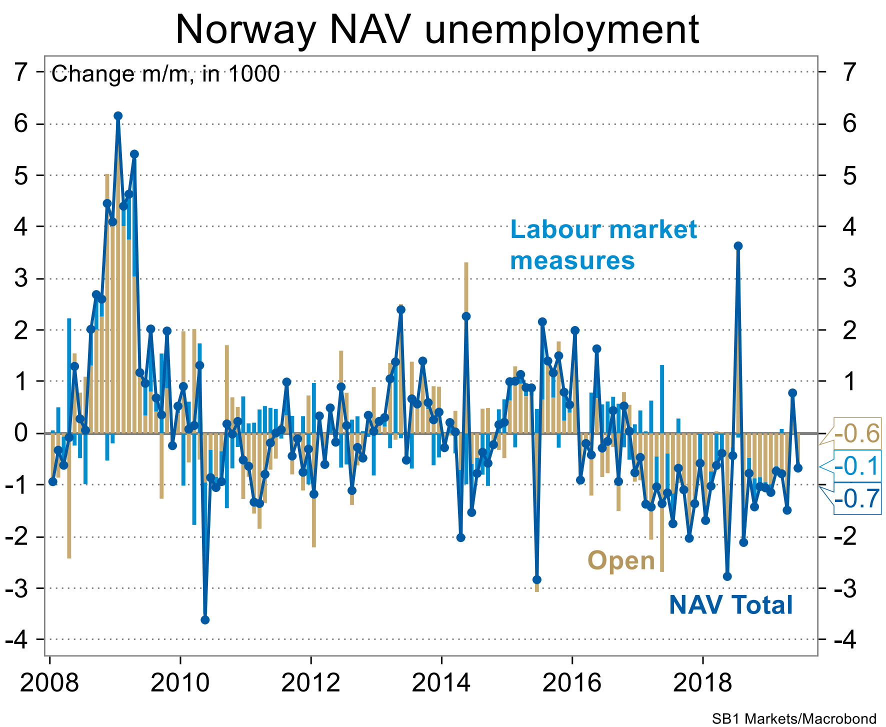


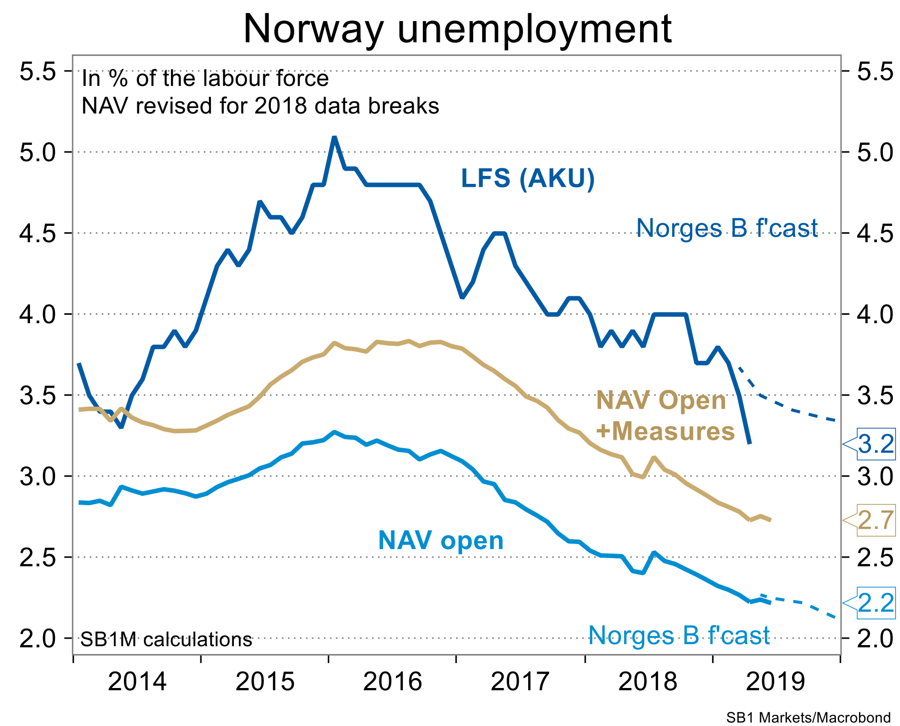
- Businesses view on the outlook weakened in June. The index has more or less stabilised since February, at the weakest level since the 2012 Euro crisis. The view on the current situation was unchanged, the gap between expectations and the current situation is large, usually not a good sign. Still, businesses are still judging the current situation to be far better than normal vs the avg level since 2000
- The slowdown is driven by struggling manufacturers. Services have slowed somewhat too, while retail and construction are strong and trending up, confirming that these sectors are resilient to the manufacturing dip

SpareBank 1 MARKETS

NAV unempl. reversed the May hike, LFS sharply down. Still, some weakening?

NAV total down by 0.7' persons, trend down. But new claims, layoffs & vacancies send a signal??

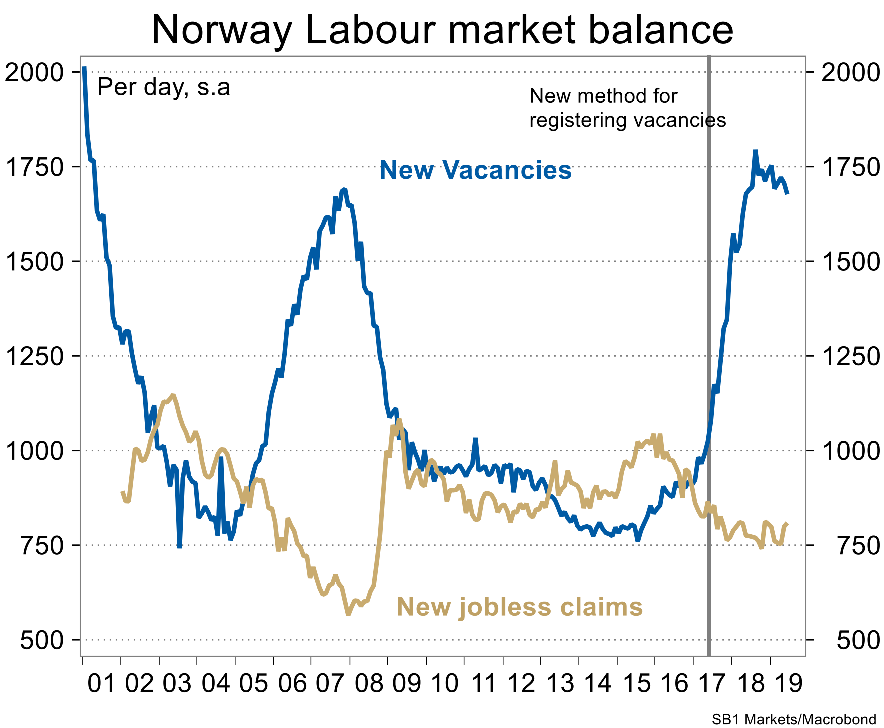


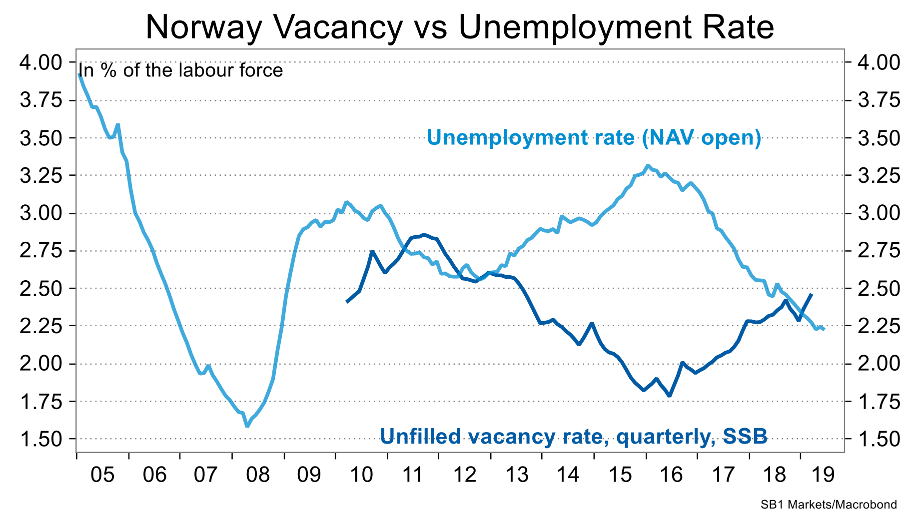


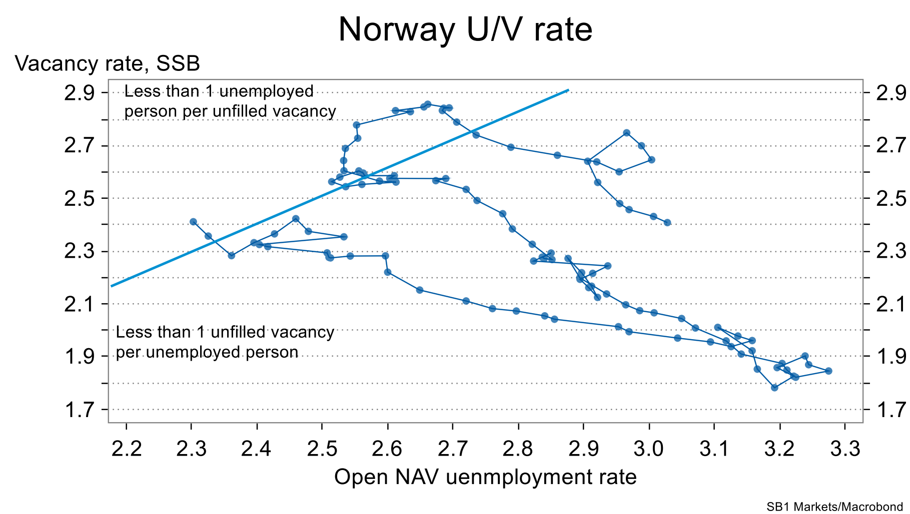
- Both open and total (incl measures) unemployment reversed the May (technical) hike in June, as we expected, down to 77,'0 from 77,7'. However, the total has fallen by less than 500 persons per month the last 3 months, vs the more than 1' decline per month the prev. 6 m. It may be just by accident but the more gradual speed of decline may be for real as well
  - » The number of new claims is not falling anymore (and has increased marginally recent months)
  - » The number of new vacancies have fallen marginally lately which may indicate weaker demand for labour
- On the other hand, the LFS unemployment rate fell 0.3 pp to 3.2% in May (exp. uch) following the decline from 4% late last year (although mostly due to a substantial decline in the participation rate, but anyway signals a tighter labour market)

No further decline in new jobless claims. Fewer (but far from few) new vacancies

Two signs of a somewhat calmer labour market. But SSB reported more unfilled vacancies, in Q1



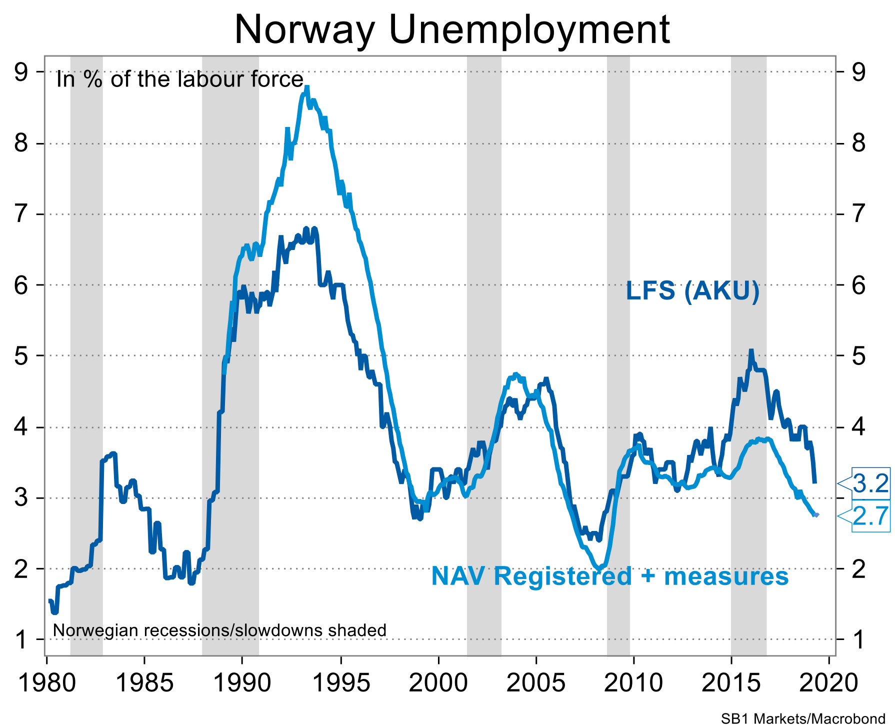


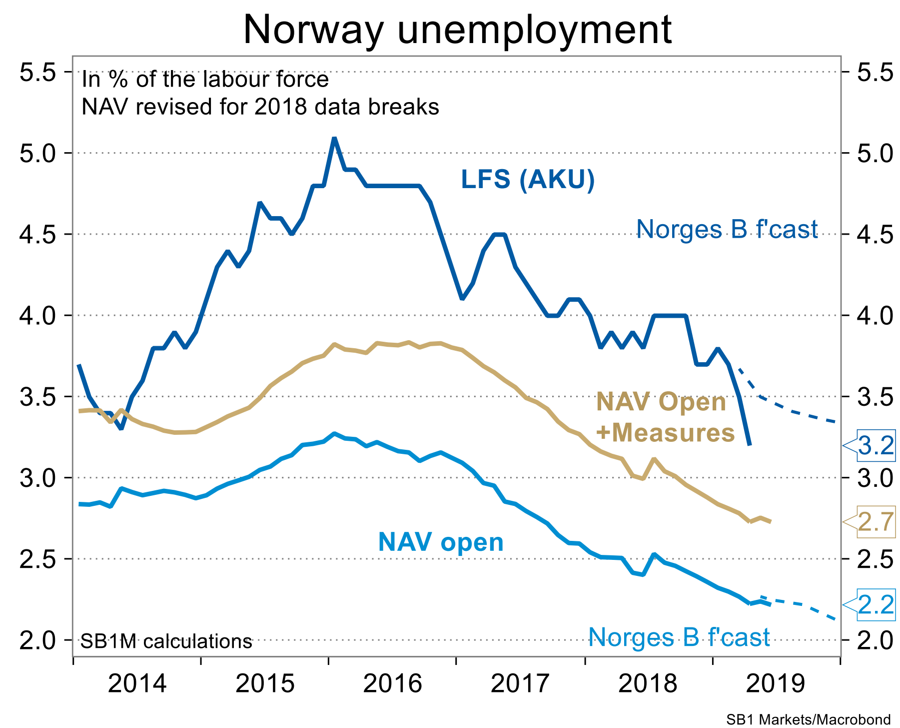


- New jobless claim rose further in May, to above 800/day. New claims have flattened out the past year, and the trend is not down anymore.
- NAV has been reporting a declining number of new vacancies since the peak last August. Due to new collection methods, the level is not comparable to old data
- On the other hand: SSB reported an increase in the no of unfilled vacancies in Q1

LFS unemployment takes another dive to 3.2% in April, below any f'cast

Unemployment dropped 0.3 pp as the labour force retreated – supporting Norges Bank's stance

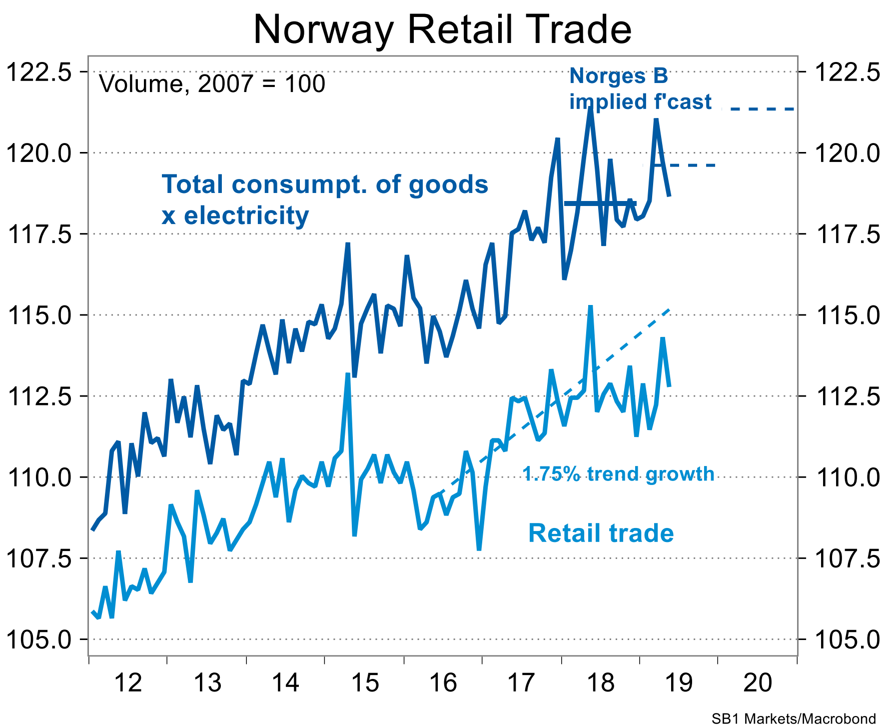


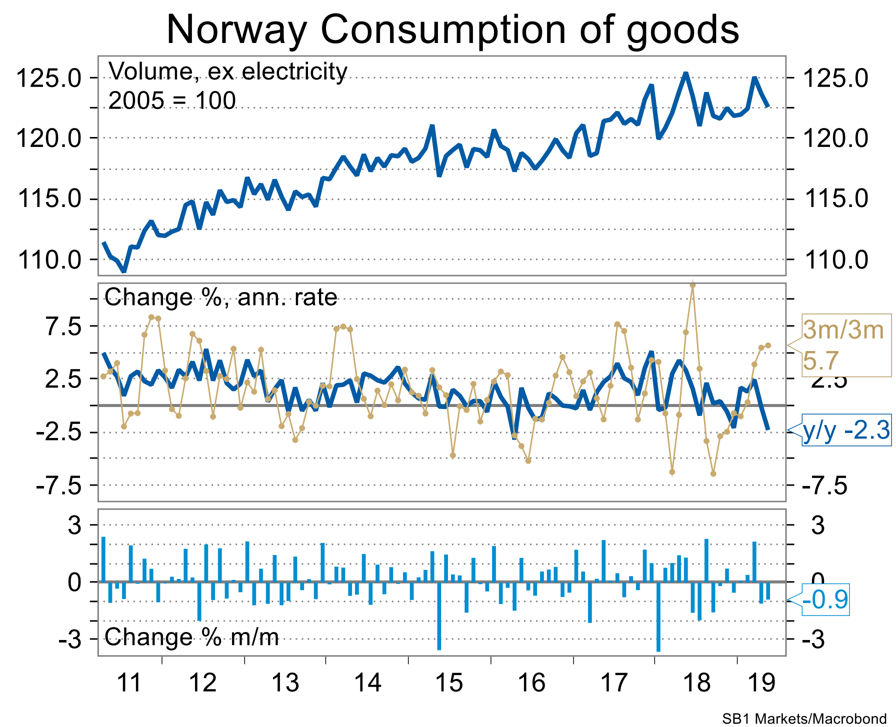


- LFS (AKU) unemployment rate surprisingly dropped to 3.2% in April (avg Mar-May), from 3.5% the prior month, an unchanged rate was broadly expected. The downswing came after a drop in March, in sum a 0.5 pp cut! This decline strongly indicates that the upswing to 4% last summer was just transitory or technical; unemployment is trending steeply down (but not as fast at over the past two months, of course
  - » Employment rose by just 1' in April and the annual rate was unchanged at 1.4%, 0.2 pp below Norges Bank's f'cast. Labour market participation fell by 8' persons, thus, the entire upswing in the participation rate the past year is reversed! Indicates that supply is 'emptied' and the labour market is becoming tighter, an argument for an aggressive Norges Bank
- The LFS data confirms the steady decline which NAV has been reporting – and the latter is much less volatile

Retail sales pulled back more than expected in May, trend still up?

Retail sales dropped 1.3%, reversing 2/3 of the April spike. Still, sales are up from Q4/Q1 trough

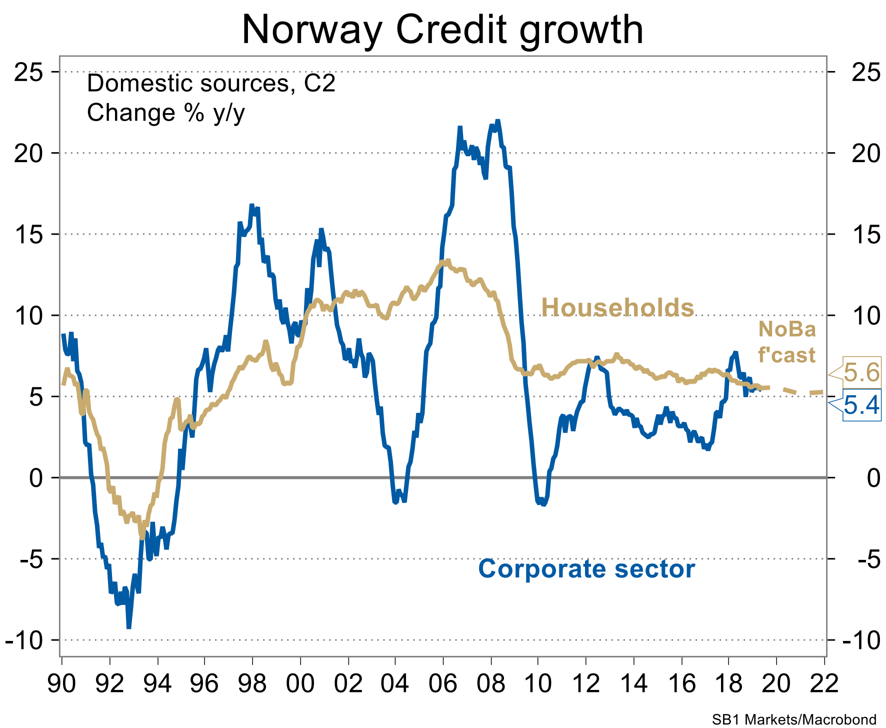


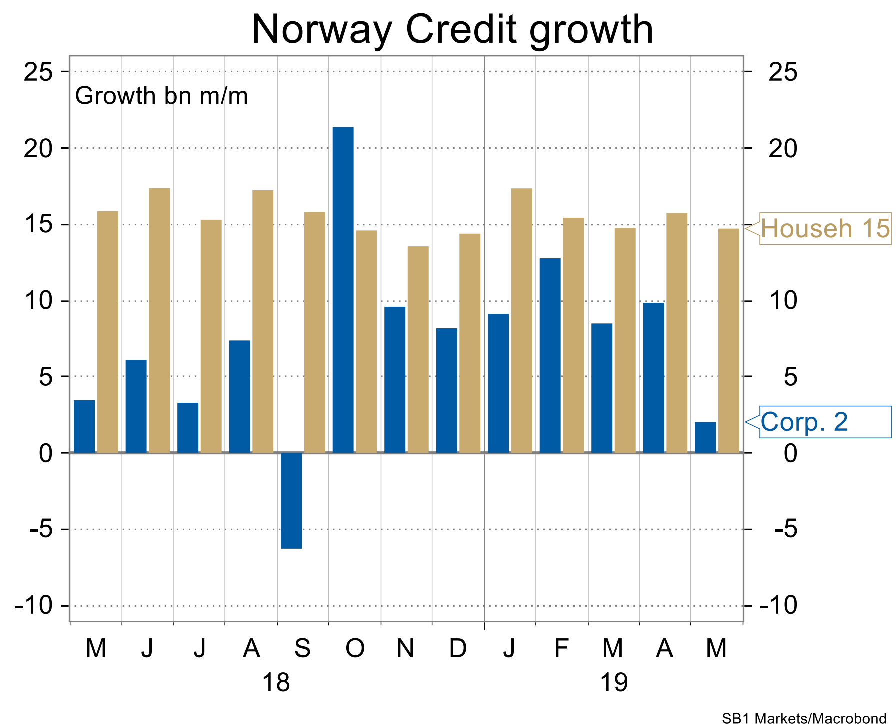


- Retail sales volume (ex auto) slipped 1.3% m/m in May, below our and consensus' f'cast. The downturn indicates that the April jump (up 1.9% m/m) may gave been caused by unadjusted Easter effects. Nonetheless, sales have improved the past 3 months, after stagnating in 2018/early 2019. Underlying growth is up 4.5% (measured 3m/3m annualised), annual rate still down 2.2% - vs the spike in May last year. Growth in net sales have slowed sharply
- Total consumption of goods (ex electricity) has slowed the past two months, down 0.9% m/m in May but is still trending up. Total consumption value softened to 2.1% y/y, from above 5% last summer, as retail price inflation has been subsiding – without an acceleration in volume growth
- Consumption is not thriving yet we expect modest growth the coming months as the effect from retreating price inflation materialises

Household credit growth is slowing but slowly

Corporates took a break in May





- Households' credit growth was stable in May, at NOK 15 bn. The y/y rate was stable at 5.6%, but it is trending slowly down, and the underlying (3m) growth rate has slowed to 5.3%. Still, household credit growth is still (marginally) above income growth – and the debt/income ratio is still inching upwards. Norw. households now 'owns' the highest debt ratio in the world
  - » The small lift in lending rates has so far not lowered credit growth visibly. The jury is still out whether more hikes will lead to a decline in demand for credit. Banks have so far not reported any weakening. Banks have announced further lifts in their lending rates, following NoBa's June hike – and more Is probably to come.
- Corporate credit growth (in C2, domestic lending) was low, at NOK 2 bn in May, vs. the NOK 10 bn 6 month average, we expected 8 bn. The annual rate fell to 0.1 pp to 5.4% but corporate demand for credit has not overall been weakening. The local municipalities also borrowed less than normal in May

The Calendar

In focus: PMIs/ISMs, US nonfarm payrolls, EMU retail sales, unempl., Norwegian house prices

Time	Country	Indicator	Period	Forecast	Prior
Monday July 1					
08:30	SW	PMI Manufacturing	Jun	52.3	53.1
09:00	NO	PMI Manufacturing	Jun	54.5 (54)	54.4
10:00	NO	OBOS Oslo Apartment Prices	Jun		0.1%
10:00	EC	Eurozone Manufacturing PMI	Jun F	47.8	47.8
10:30	UK	PMI Manufacturing	Jun	49.5	49.4
11:00	EC	Unemployment Rate	May	7.6	7.6%
15:45	US	Markit Manufacturing PMI	Jun F	50.1	50.1
16:00	US	ISM Manufacturing	Jun	51.0	52.1
16:00	US	Construction Spending MoM	May	0.1%	0.0%
17:00	WO	Global Manufacturing PMI	Jun	(49.5)	49.8
Tuesday July 2					
08:00	GE	Retail Sales MoM	Jun	0.50%	-1%
	US	Vehicle Sales	Jun	16.95m	17.30m
Wednesday July 3					
02:30	JN	PMI Composite	Jun	--	50.7
03:45	CH	Caixin/Markit PMI Composite	Jun	--	51.5
08:30	SW	PMI Composite	Jun	--	53.3
09:30	SW	Riksbank Interest Rate	Jul-03	-0.25%	-0.25%
10:00	EC	Eurozone Composite PMI	Jun F	52.1	52.1
10:30	UK	Composite PMI	Jun	51	50.9
11:00	NO	House Prices Real Estate Norway	Jun	0.30%	0.5%
13:30	US	Challenger Job Cuts YoY	Jun	--	85.9%
14:15	US	ADP Employment Change	Jun	140k	27k
14:30	US	Trade Balance	May	-$53.3b	-$50.8b
14:30	US	Initial Jobless Claims	Jun-29	220	227
15:45	US	Markit Composite PMI	Jun F	50.6	50.6
16:00	US	ISM Non-Manufacturing Index	Jun	56	56.9
17:00	WO	Global Composite PMI	Jun	(50.8)	51.2
Thursday July 4					
11:00	EC	Retail Sales MoM	May	0.4%	-0.4%
Friday July 5					
08:00	GE	Factory Orders MoM	May	-0.1%	0.3%
08:00	NO	Manufacturing Production MoM	May	-0.8%(-1)	2.2%
09:30	SW	Industrial Orders MoM	May	--	9.3%
14:30	US	Change in Nonfarm Payrolls	Jun	163k	75k
14:30	US	Unemployment Rate	Jun	3.6%	3.6%
14:30	US	Average Hourly Earnings YoY	Jun	3.2%	3.1%
14:30	US	Labor Force Participation Rate	Jun	--	62.8%

Source: Bloomberg, SB1M

- **Global composite PMI**
  - We estimate a 0.4 p downtick in the **global composite PMI** in June, based on PMIs released so far, 0.3 pp below our first estimate last week. The PMI indicates that the slowdown in GDP growth worsened in Q2, to below 3%. We expect a 0.3 p decline in the global manufacturing PMI
- **US**
  - In May, **employment growth** was ebbing and **wage growth** eased. We expect a modest rebound in employment in June, as jobless claims are very low and firms are still reporting huge problems attracting labour. However, the direction is probably set..
  - The Q2 **trade balance** is off to a weak start, as exports have softened more than imports. Hence, the trade war has so far not been successful in reducing the deficit. Surprising…
  - **Auto sales** are probably sliding slowly down, although May was not weak
- **EMU**
  - **Retail sales** are expanding modestly; consumer confidence is strong and real wages are climbing, pointing to solid growth the coming months
  - **Unemployment** keeps edging down in almost all countries, still more to go?
- **Sweden**
  - **The Riksbank** will most likely keep interest rates but lower the path and postponing the first hike, even as inflation is slowly picking up – and put the blame global uncertainties, like most others these days. However, the Swedish economy may be slowing somewhat too
- **Norway**
  - A soaring supply of homes, rising number of unsold homes and higher interest rates point to muted **house price growth** the coming months
  - **Manufacturing production** spiked in April, a downswing in April will not be surprising. Production is anyway trending up at a moderate speed

In this report

Global

- No more negative surprises in the EMU, US holds the world index down
- Manuf. production & global trade are stalling, retail sales still growing (slower)
- DM to turn south again, with the oil price? Core is sum flattish

USA

- Business investments plans are stagnating, according to the ISM, others report growth
- 7 of of 7 regional surveys/PMIs down in June, signalling a substantial decline in the ISM too
- New homes sales down in April/May, still supporting the 'mild recovery' story
- Pending existing home sales inched up in May
- House price inflation is heating again, confirm a stabilised housing market
- Durable goods orders do not confirm a rapid retreat in business demand
- Core CPI inflation stable in May
- Private consumption back on track
- Mixed consumer sentiment surveys; CB's index dropped in June, UoM stable, level still high
- Jobless claims just marginally up, no softness
- The trade deficit widened in as imports surged in May, will be a drag on Q2 GDP
- Fed nowcasters down 1.1 – 1.4% Q2 growth

China

- XXX
- Mixed export order indices, Markit's up and OK, NBS' (more) down and weak

EMU

- Core CPI inflation up 0.3 pp to 1.1% but in reality completely flat at 1.0%
- EU economic sentiment slides down, still more upbeat than other surveys
- Ifo business expectation are ebbing, no signs of recovery

Japan

- Manufacturing production sharply up in May, probably a blip
- Unemployment may have flattened out, employment growth slowing?

Sweden

- Retail sales down to a normal level in May

Norway

- NAV Unemployment down in June but..
- LFS unemployment takes another dive to 3.2% in April, below any f'casts
- Retail sales pulled back more than expected in May, trend still up?
- Credit growth weaker than expected in June, corporates slowed. Some underlying household slowing too?
- Consumer confidence a tad up in June

Highlights

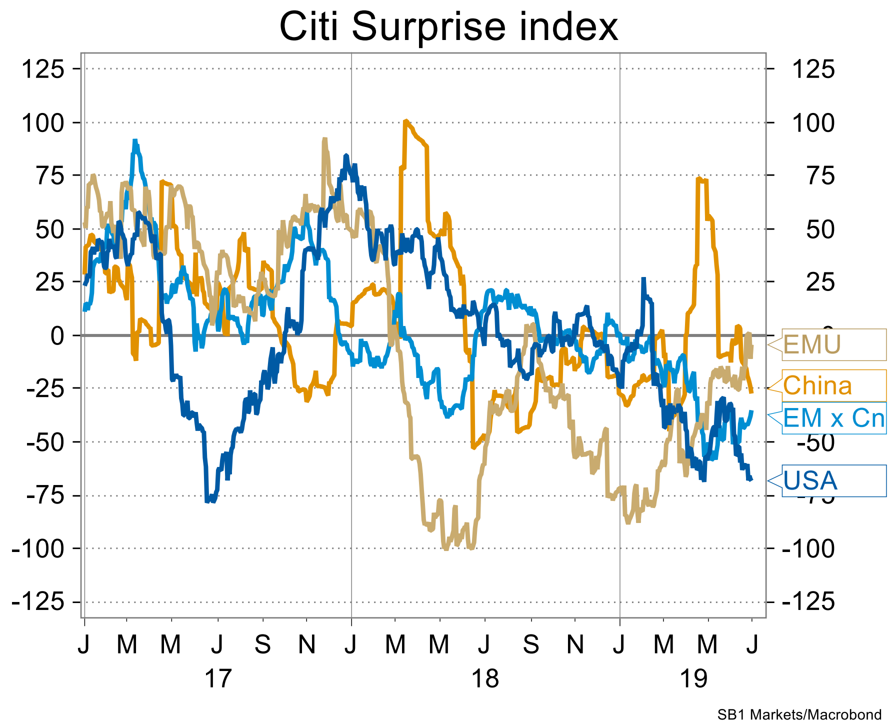
The world around us

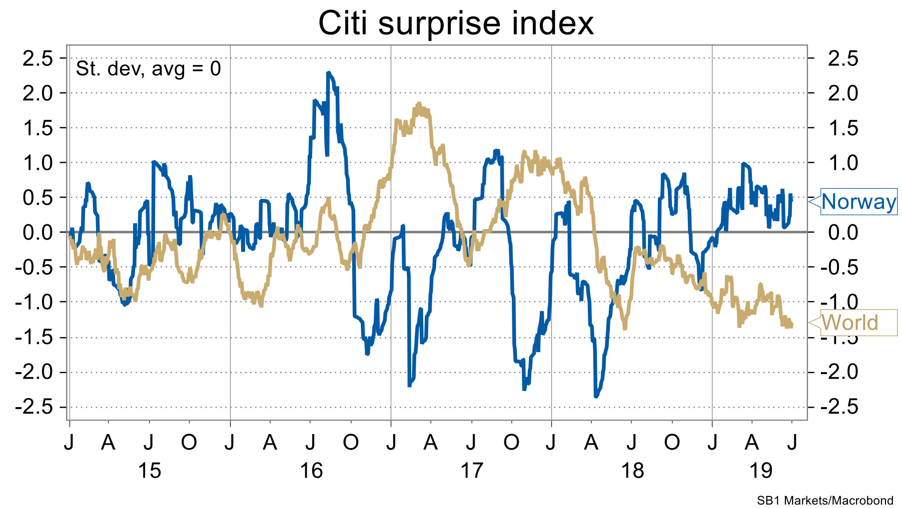
The Norwegian economy

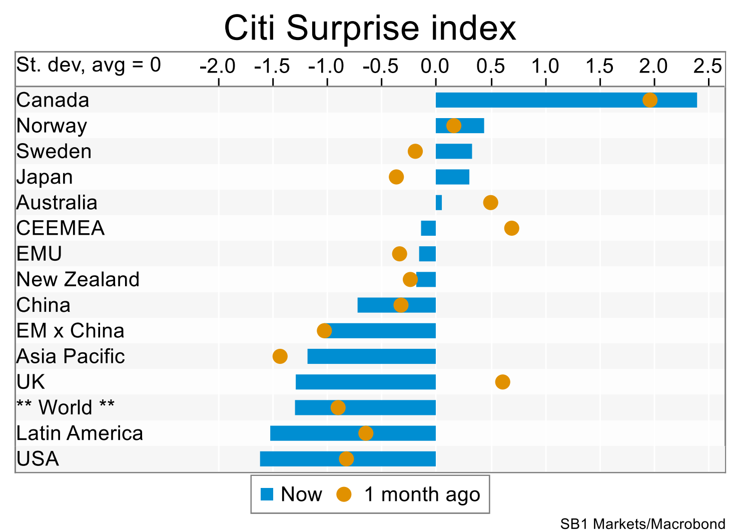
Market charts & comments

Negative surprises most places. EMU, China not that much, US the most

The US is disappointing more again. The world is also unusually slack vs. vs expectations





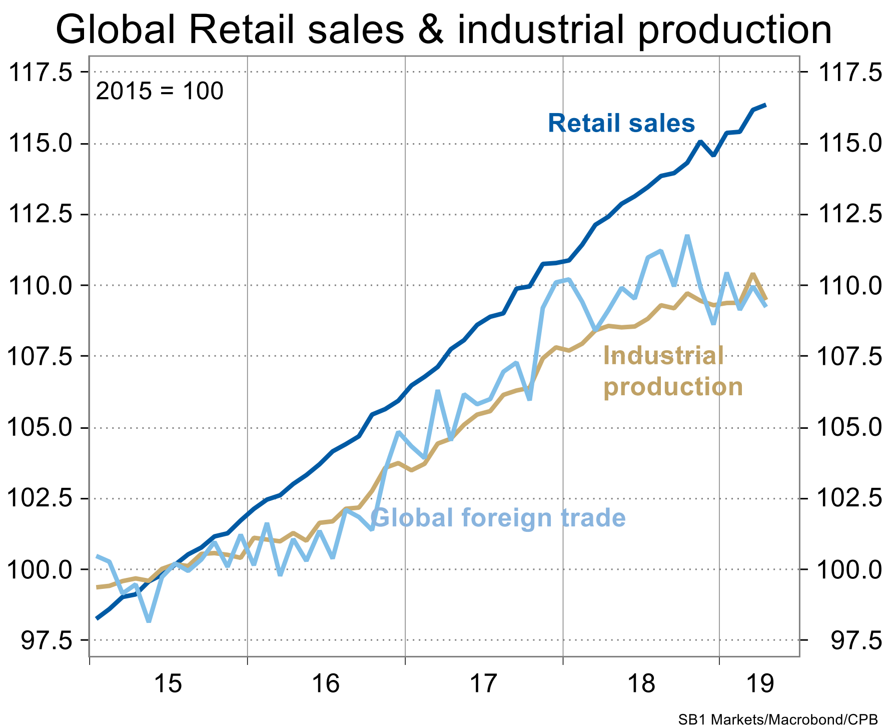


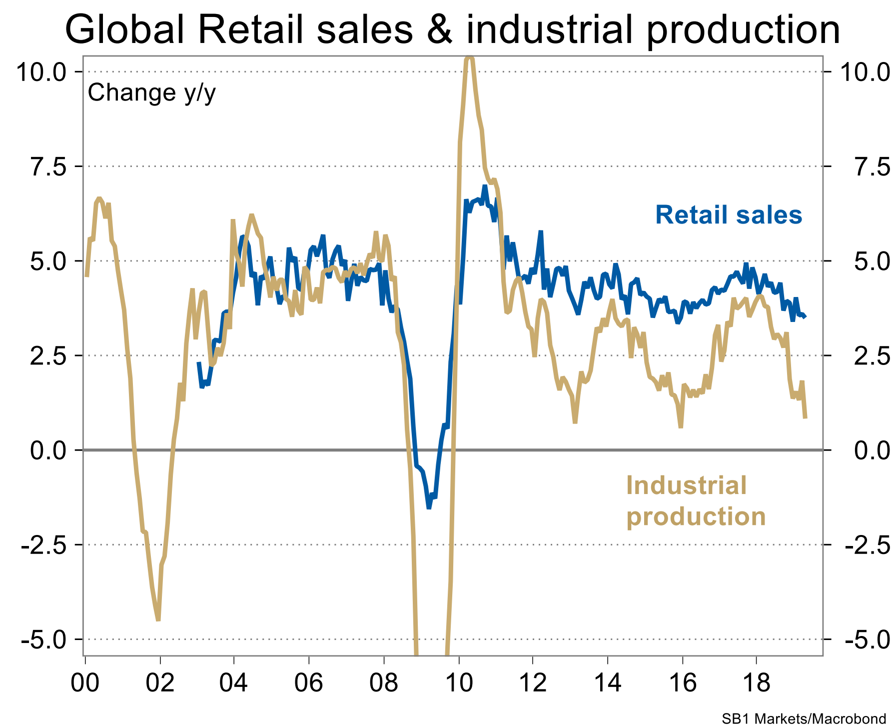
- The global surprise index has been in negative territory since last spring
- EMU is close to neutral vs expectations, for the first time since last Sept, as data have improved somewhat recently (and expectations may have been adjusted)
- The US is the most disappointing of the major indices, pulled down by weak business surveys (PMI/ISM, Fed regional surveys), consumer confidence (& housing, last week)
- Chinese data are just below a neutral territory. EM x China is gradually less disappointing
- Norwegian data turned up on a strong labour marked report. Canada, Sweden and Australia also in the lead

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

Manuf. production & global trade have stalled, retail sales still growing (slower)

Manufacturing production weaker than previously estimated in April, foreign trade not shining either

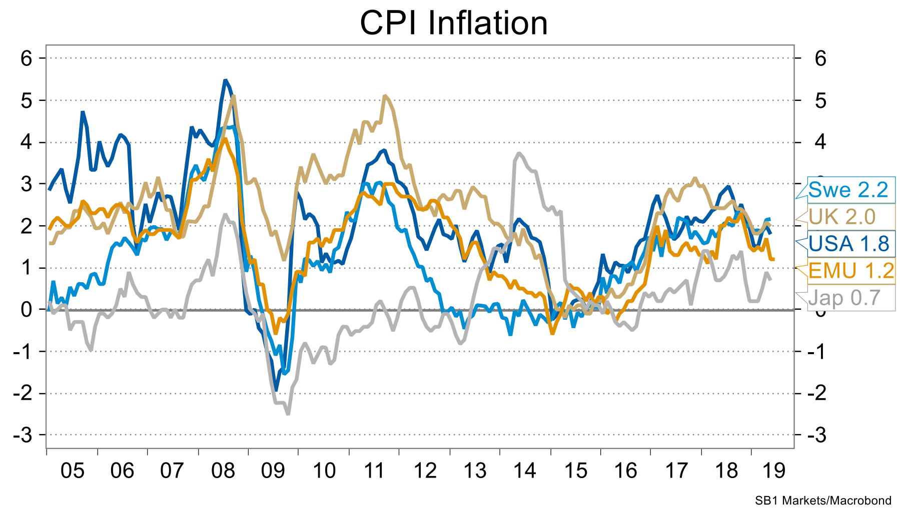


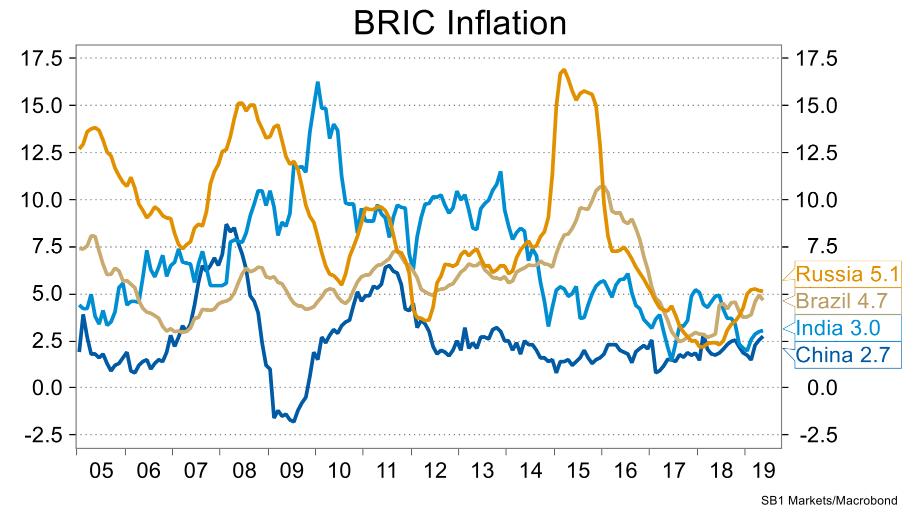


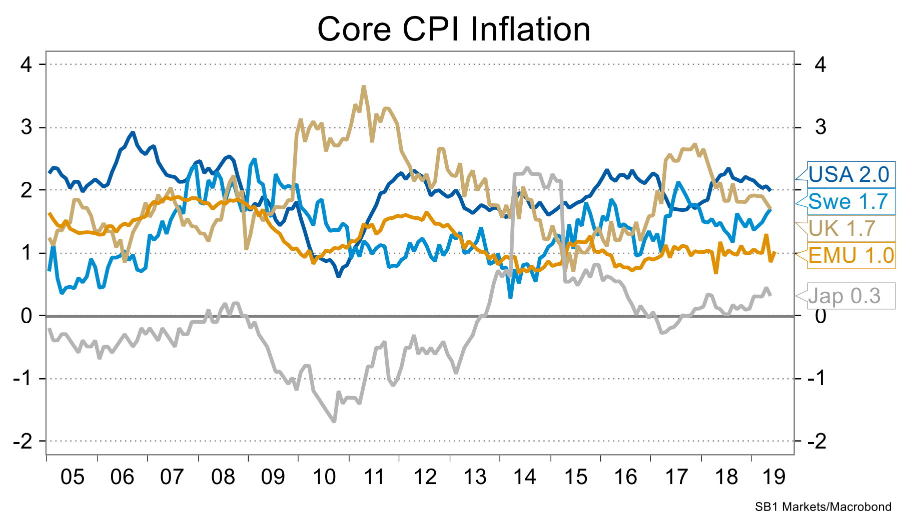
- Manufacturing production has been stagnating since last autumn. However, the slowdown has not accelerated recent months, although April came in on the weak side. The downturn the past 6 months are both due to somewhat slower growth in retail sales, a slowdown in business investments (triggered by global uncertainties?) and probably destocking following an unwarranted inventory build-up during 2018
- Global retail sales increased in April and is still trending up, at a somewhat slower pace than one year ago
- Global trade volumes fell in April and have stabilised the past 4 months, after retreating in late 2018

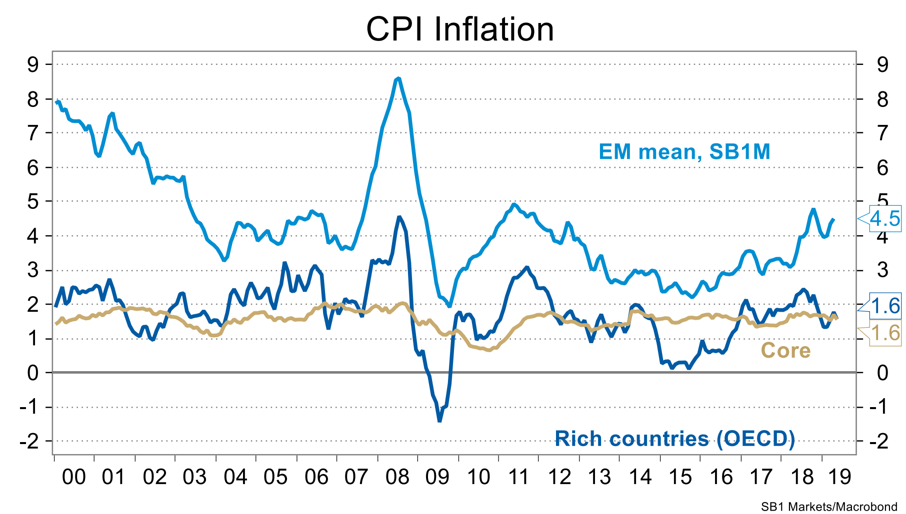
DM to turn south again, with the oil price? Core is sum flattish

Core inflation at target in US, not far below in UK, Sweden. EMU still muted. EM inflation will pick up





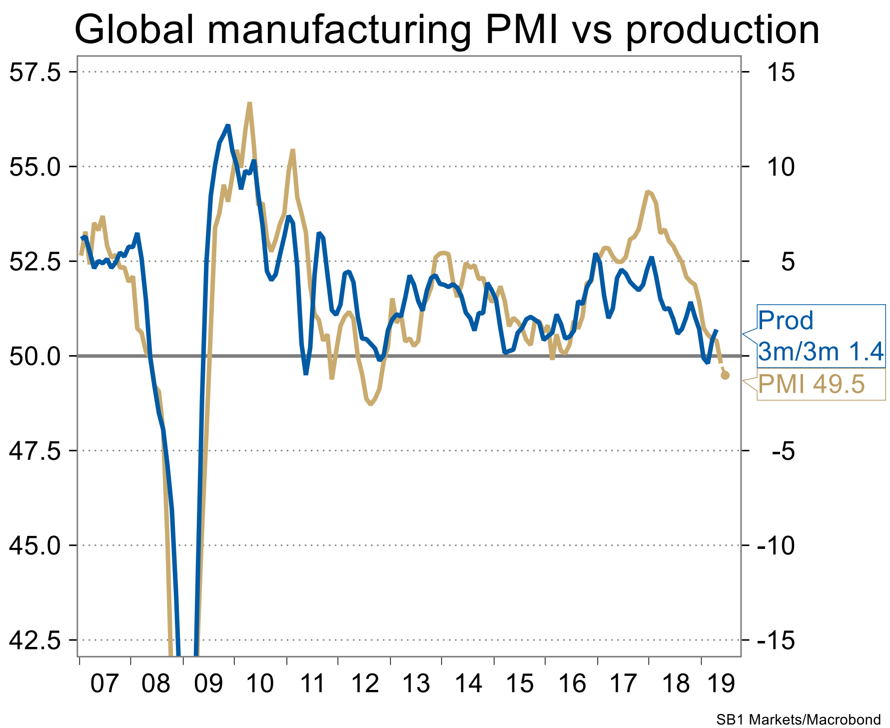


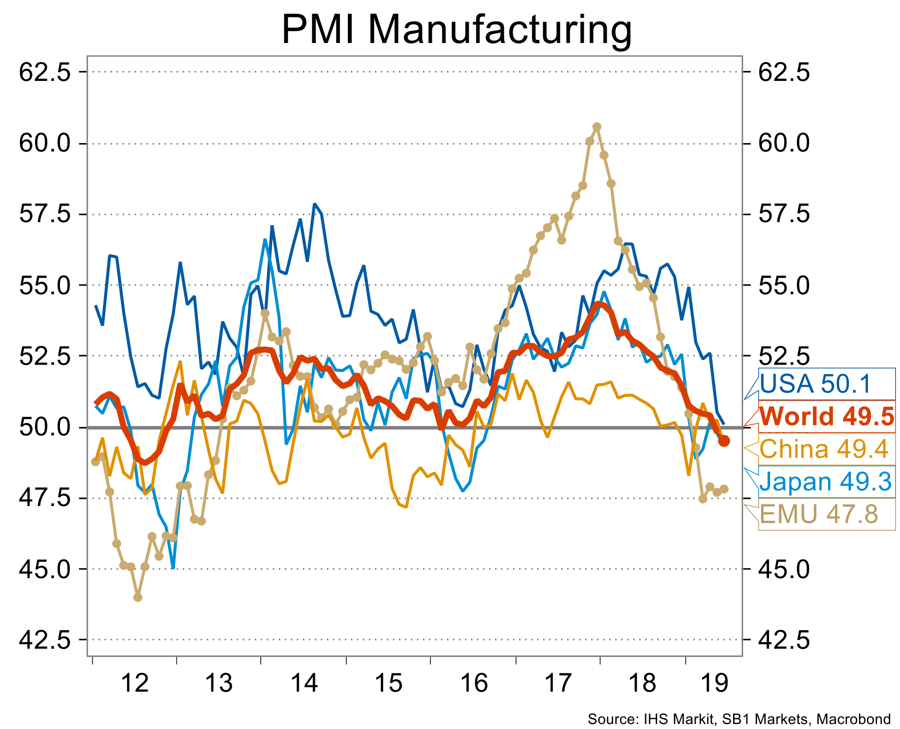


Change in % y/y in all charts. EMU core based on a seasonally adjusted price index

Ahead of the global manufacturing PMI: Down 0.3 p to 49.5, lowest since '12

We estimate a 0.3 p decline in the manuf. PMI in June, to the weakest level since 2012

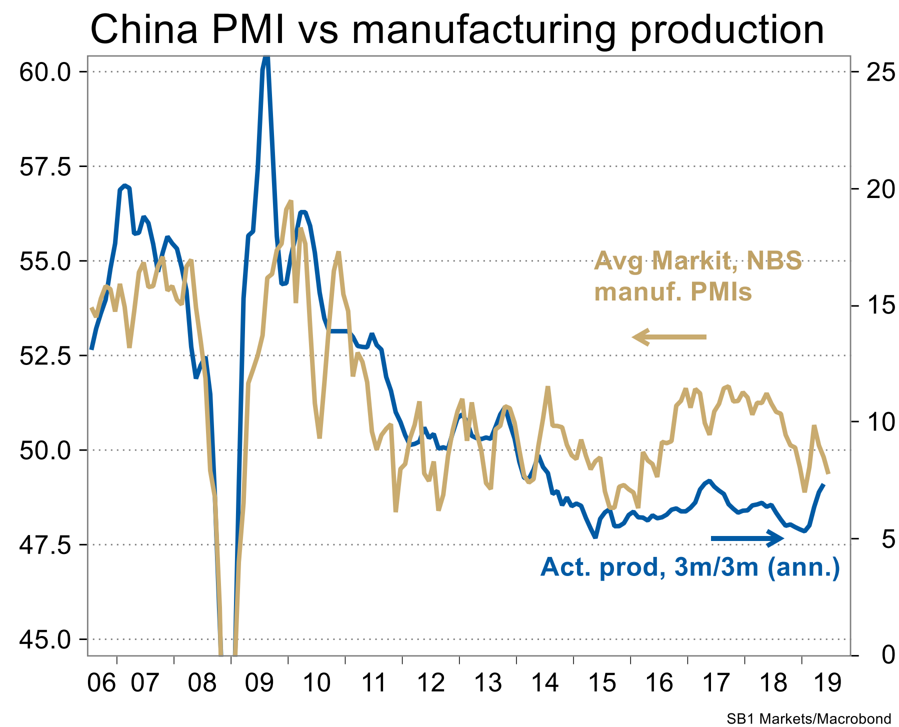




- And the global manufacturing PMI has been too upbeat the past two years…
- The global composite index fell 0.4 p, according to our latest estimate

Markits PMI sharply down again, NBS manufacturing PMI flat, both at 49.4

These surveys are not signalling a harsh manufacturing setback – but certainly no boom either…



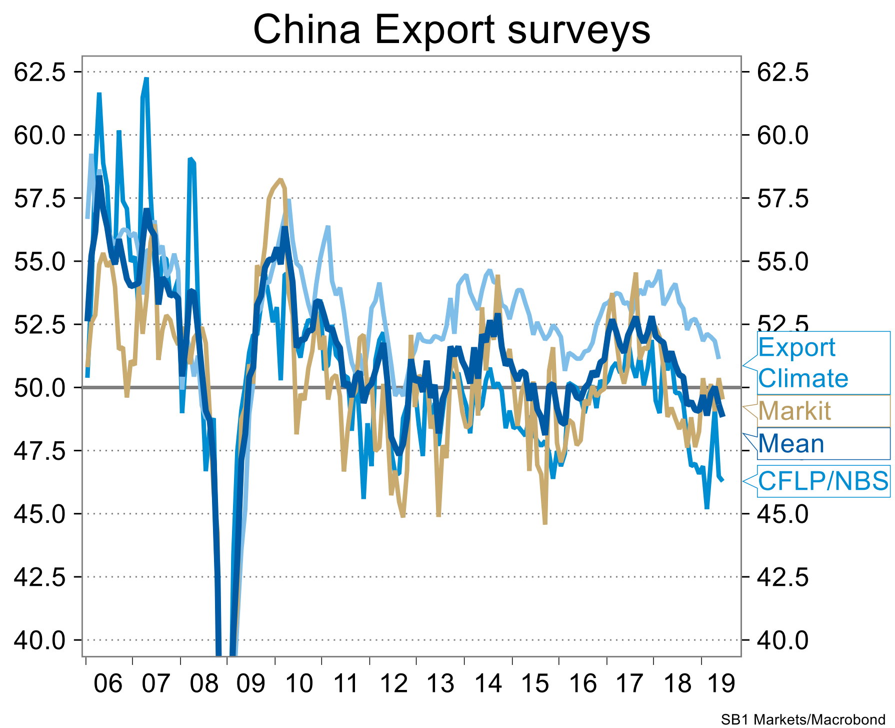
- The NBS/CFLP 'official' manufacturing PMI was unch at 49.4, expected up to 49.5. The level is just marginally above the bottom 3 months ago – but 2.2 p below the average since 2016 . Export orders weaker than domestic orders but none are shining
- Markit's manuf. PMI fell 0.8 p to 49.7, still above the Jan 18 print – but 0.5 below the average since 2012
  - » The export order index fell marginally, the total order index more, and is weaker than the export index – implying slow domestic demand
  - » 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 not reflecting any contraction manufacturing activity – which by the way has not been weak recent months

Exports not the problem in June - more weakness in total orders

… implying a slowdown in domestic orders (at least in Markit's PMI)

Export surveys have not collapsed but still signal a mild contraction

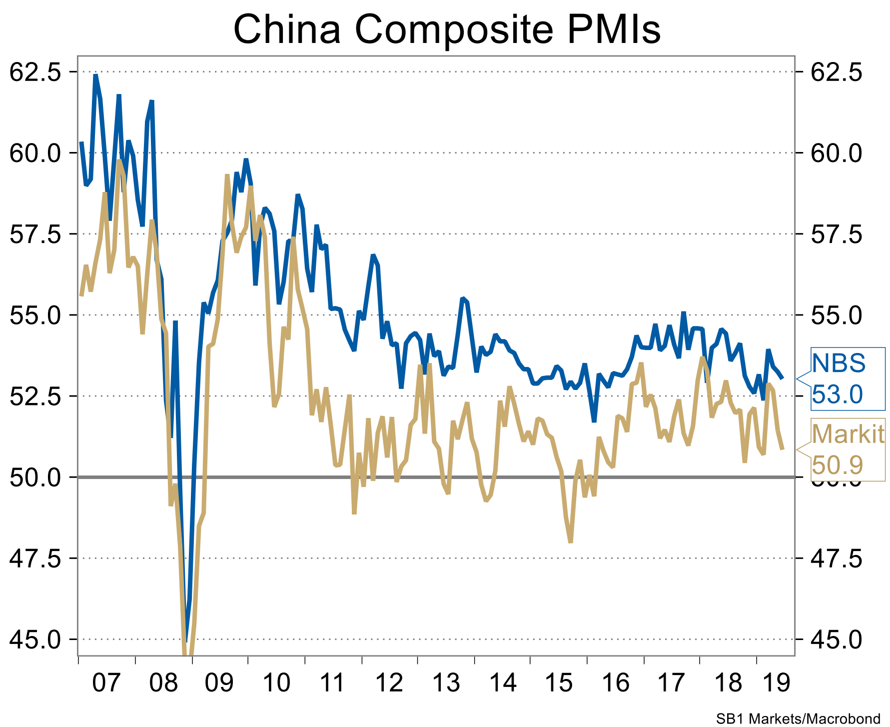
Companies are reporting marginally deteriorating export conditions

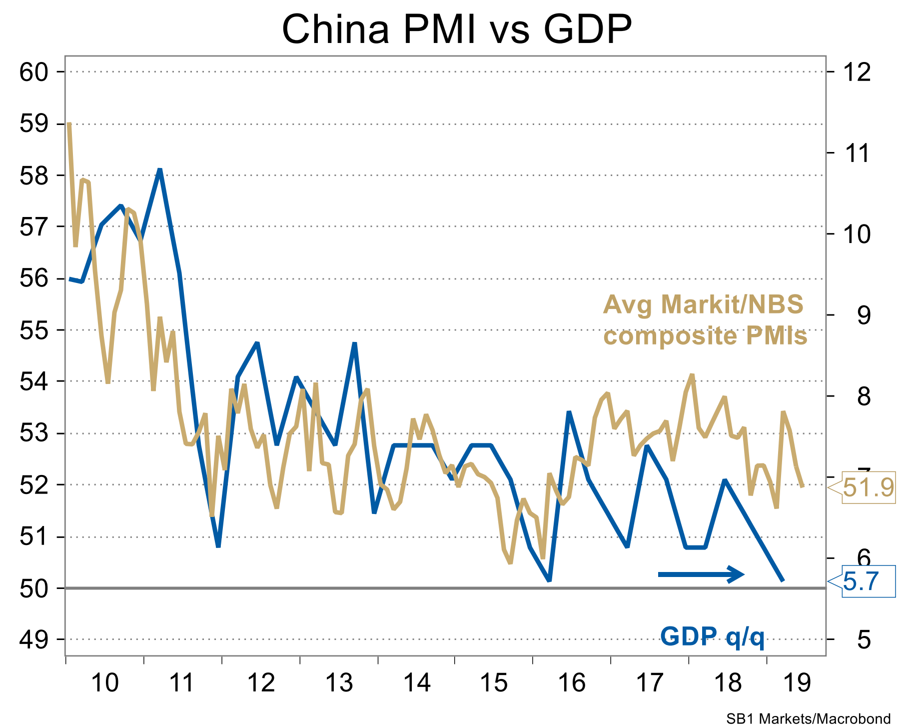


- The surveys we follow are down and below average. Still, the figures are not dramatically weak; the export orders surveys were as weak as now (or weaker) in 2012, 2013 and 2015 and 2016, without any rapid slowdown in the Chinese economy, even if export volumes flattened in 2012, 2013, and 2015/16.
- Export have more or less stabilised so far in 2019, as the export surveys have reported. It's so far not worse than that

The PMIs further down in June. The level is not that low but the trend is down

Both PMI data sets probably down in June but services are keeping up better

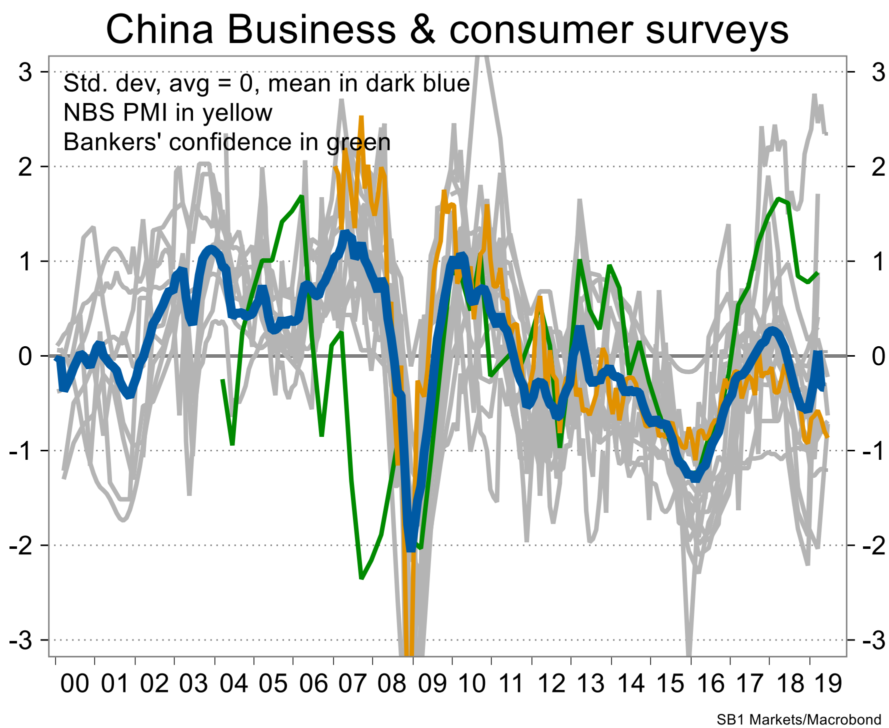


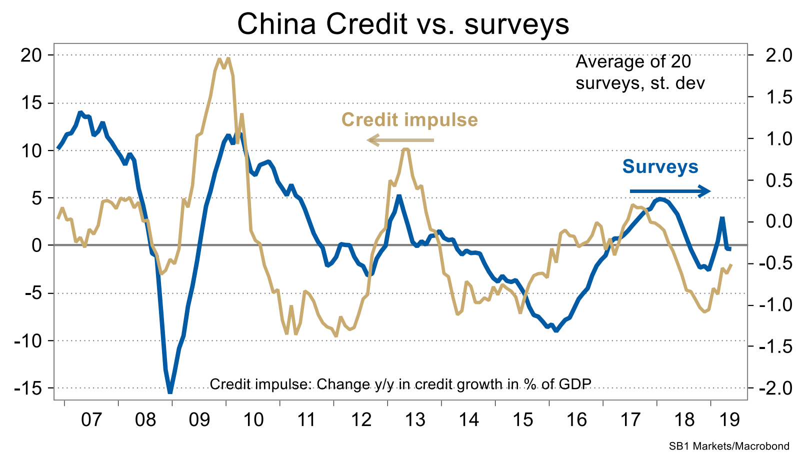


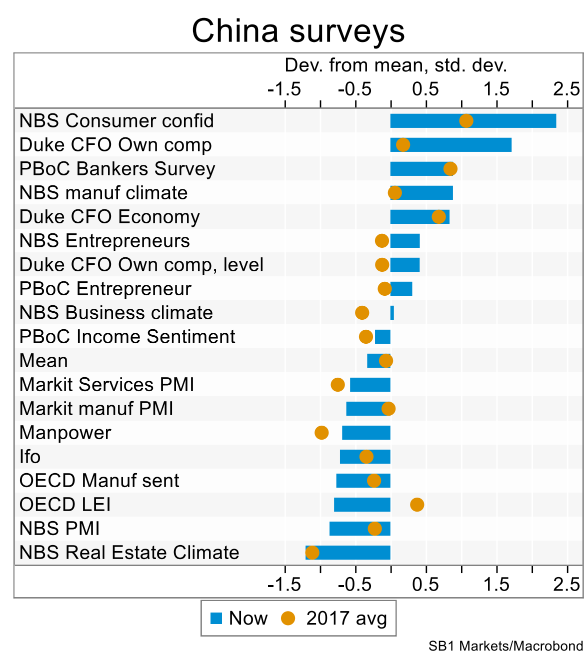
- NBS' composite PMI (CFLP) fell 0.3 p to 53.0 in June, not too hot/too cold. The manufacturing index was flat at 49.4, whereas services reported a marginal decline to 54.2, at an average level over the past years
- We do not yet have Markit's service sector PMI but (somewhat optimistic?) assuming an unchanged print, Markit composite index fell to 50.9, somewhat to the weak side
- The two PMI data sets are both above the local bottom in January and are not signalling weaker growth than in Q1 (5.7% annualised). Still, the trend since early 2018 is surely down

Most surveys have been improving as the authorities are stimulating activity

In June, the average is probably down again, so far to an average level



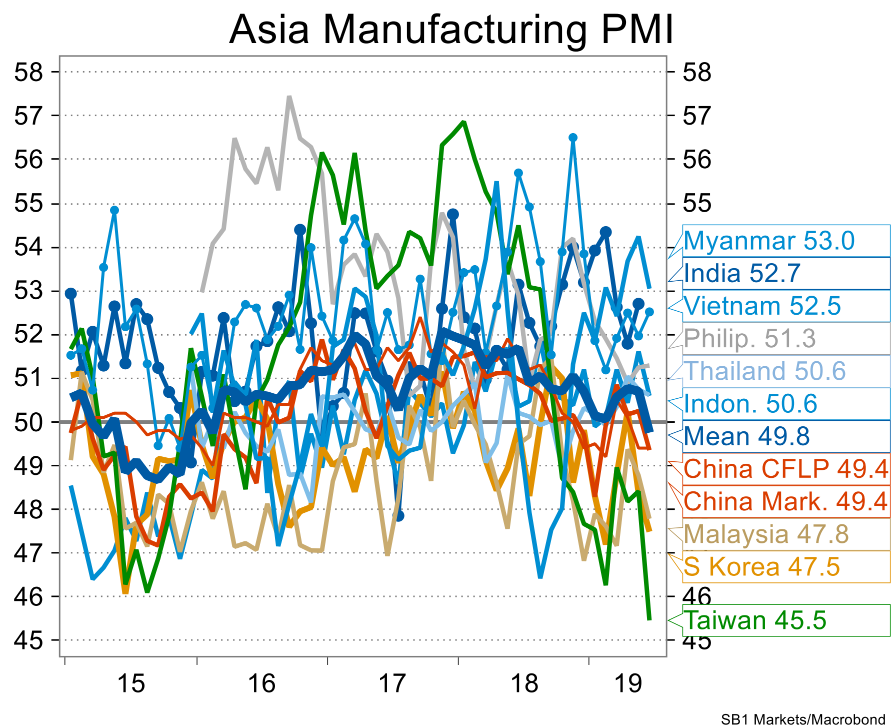


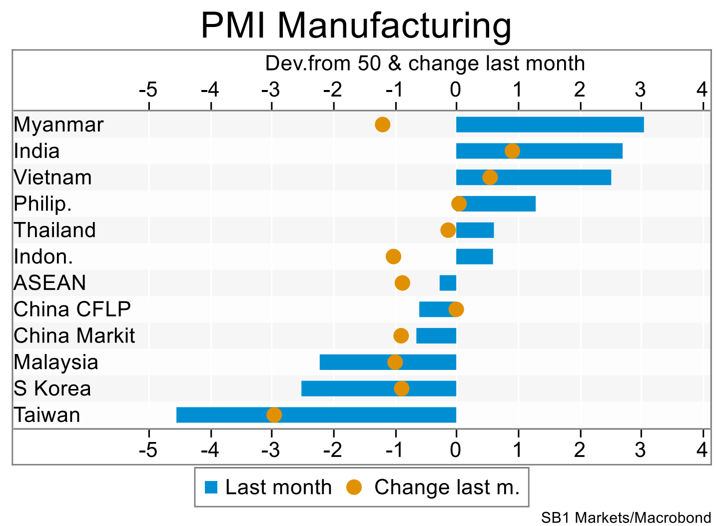


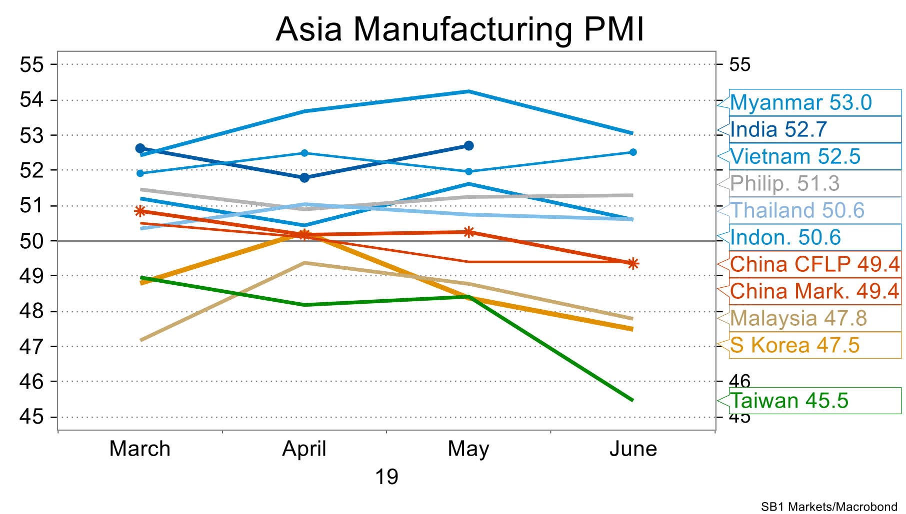
- Trade was worries may explain the slowdown in China through 2018 but the credit tightening in 2017 (especially vs. the shadow banking marked), that dampened credit growth substantially is probably more important. The credit impulse (the 2. derivative) turned negative, and the economy slowed, as usual
- The authorities are now pushing the credit accelerator. The credit impulse has turned upwards. In addition, fiscal policy has been turned expansionary, both by cutting taxes and increasing expenditures. So far with mixed results vs total total domestic demand

So far: 7 down 1 up in rest of EM Asia. Taiwan ugly, South Korea bad

Half of the group below 50. Taiwan -3p to 45.5, the weakest since 2011. SK down 1 to 47.5



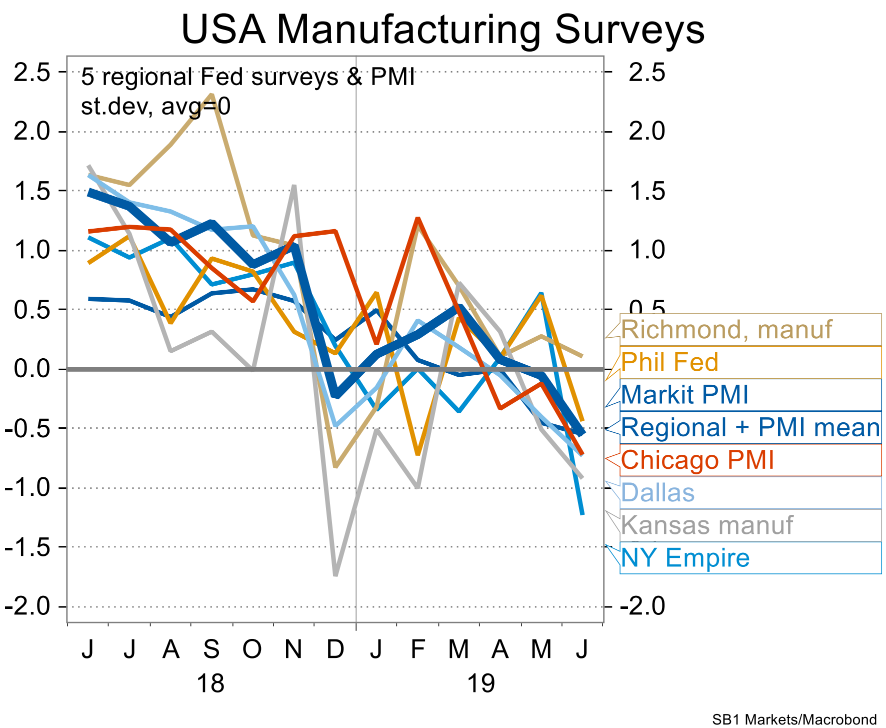


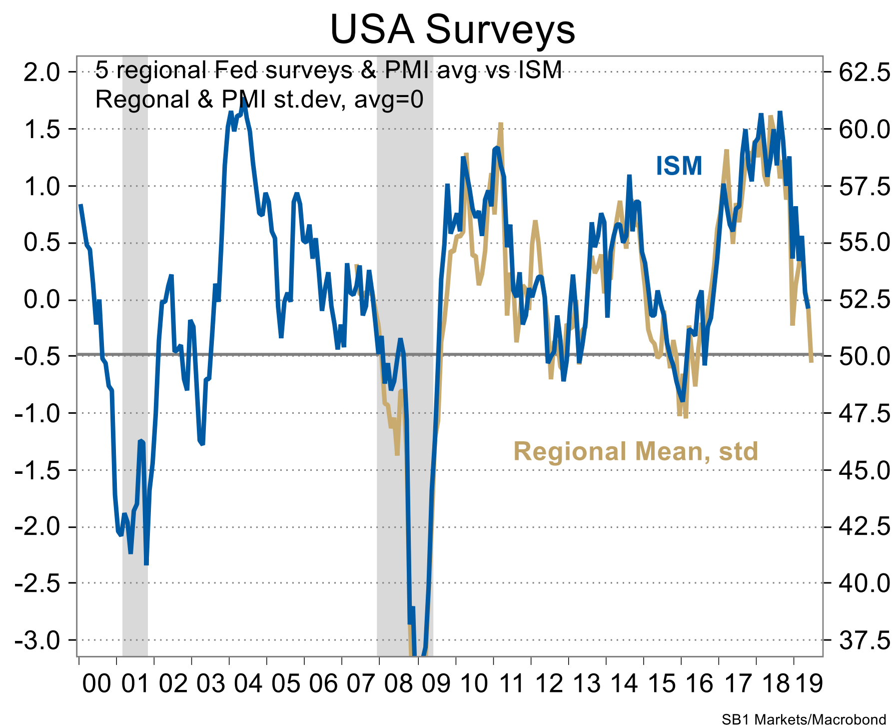


- Don’t laugh, the Asian PMIs are producing a spaghetti chart like the one above. Take a deep breath before you draw any important conclusion based on any single observation
- India has not yet reported its June data yet

7 of 7 surveys down in June, in sum sharply. Will the ISM follow suit?

Most likely. Our best guess: ISM down to 50, from 52.1 in May. Consensus at 51

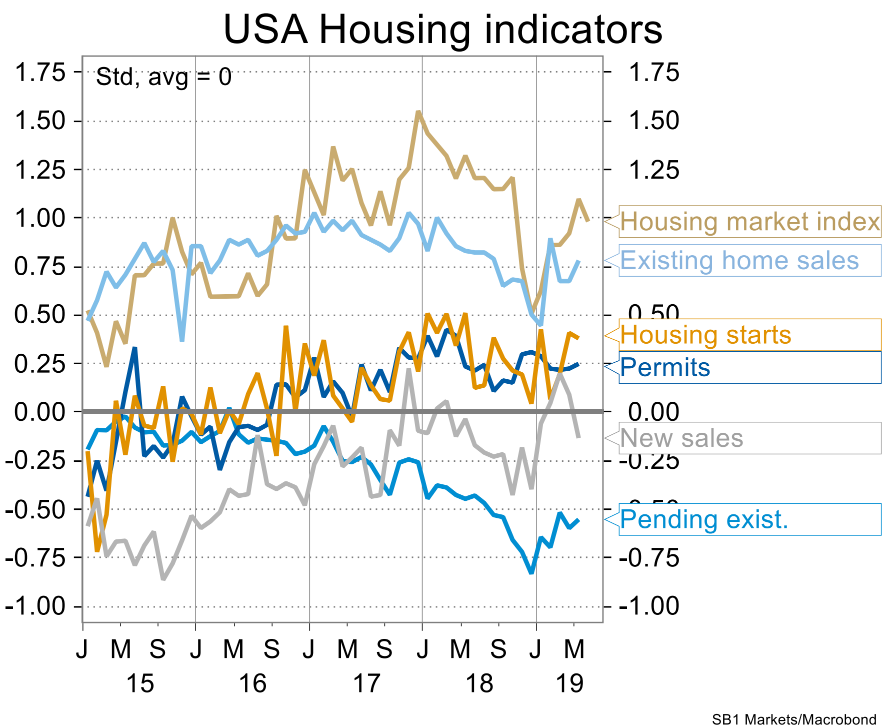


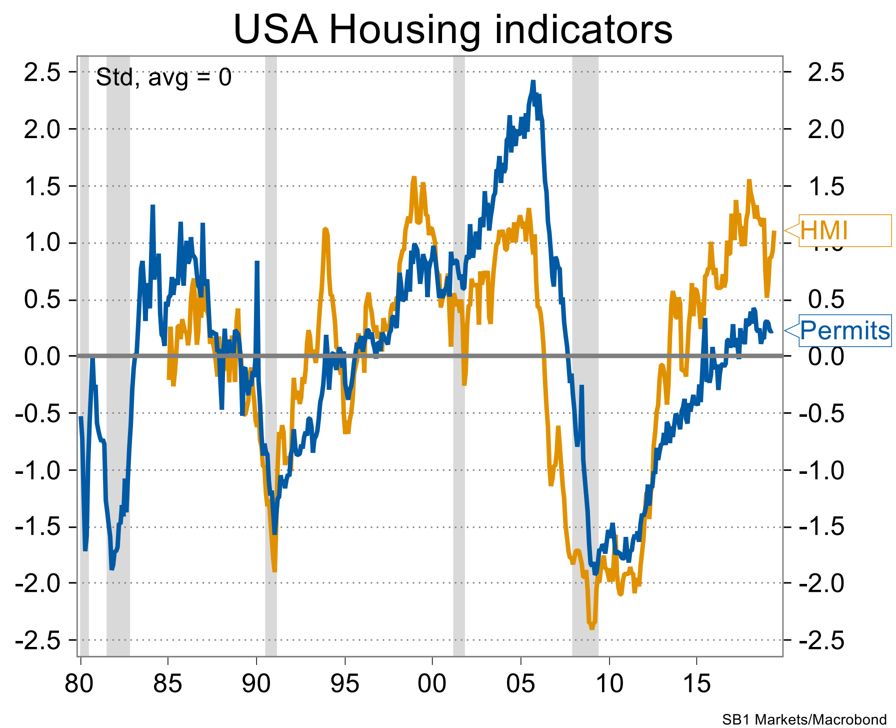


- NY Fed manuf. survey down almost 2 st.dev (half of a normal cycle!!), Phil Fed down 1 st.dev, the others 0.25 – 0.5 std. dev. At Friday the Chicago PMI was reported down 4.5 p to 49.7, a substantial decline (0.6 st.dev).
  - » All but one are below average, the average is 0.5 std. dev below avg, which is equivalent to a manufacturing ISM at 50. A model yields the same result
- Household demand has kept up rather well, as have exports while business investments probably are slowing. Still, we have no indications of an outright decline i business investments.
- It is possible that the Mexico shock in early June and stock market turbulence (before the sharp recover) have influenced manufacturing activity 'too much' in June. BTW, these surveys are not sentiment surveys or expectation surveys, even it they are often labelled as such. The companies are just reporting on changes in actual activity (order, production, sales, employment etc.) from the previous months

Recent housing market data confirm a soft recovery

Housing starts/permits are stabilised, new and existing home sales have recovered



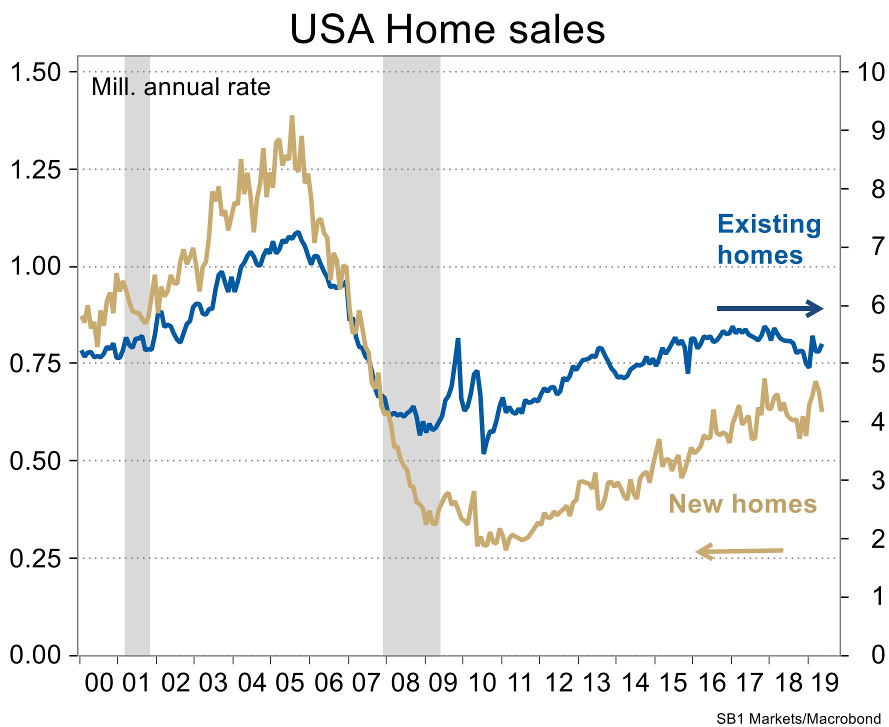


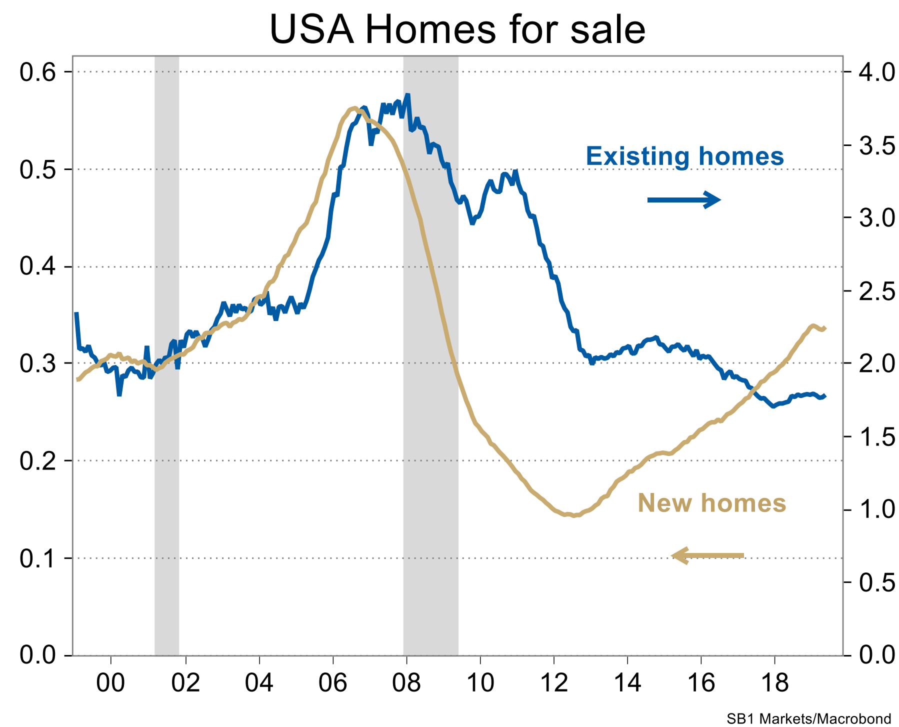
- Existing home sales ticked up in May while new home sales dropped, yet both are still well above the levels from last winter. Pending home sales rose slightly in May and are trending up, at the same speed as actual transactions
- Housing starts and permits have stabilised and the Housing Market Index confirms a soft rebound
- House price inflation has most likely turned up too, the C&S 20 city index notes 3 months of increase

SpareBank 1 MARKETS

New homes sales down in April/May, still supporting the ‘mild recovery’ story

Sales fell 8% in May, the Feb/March level was probably ‘too’ high. Still up 10% so far in 2019

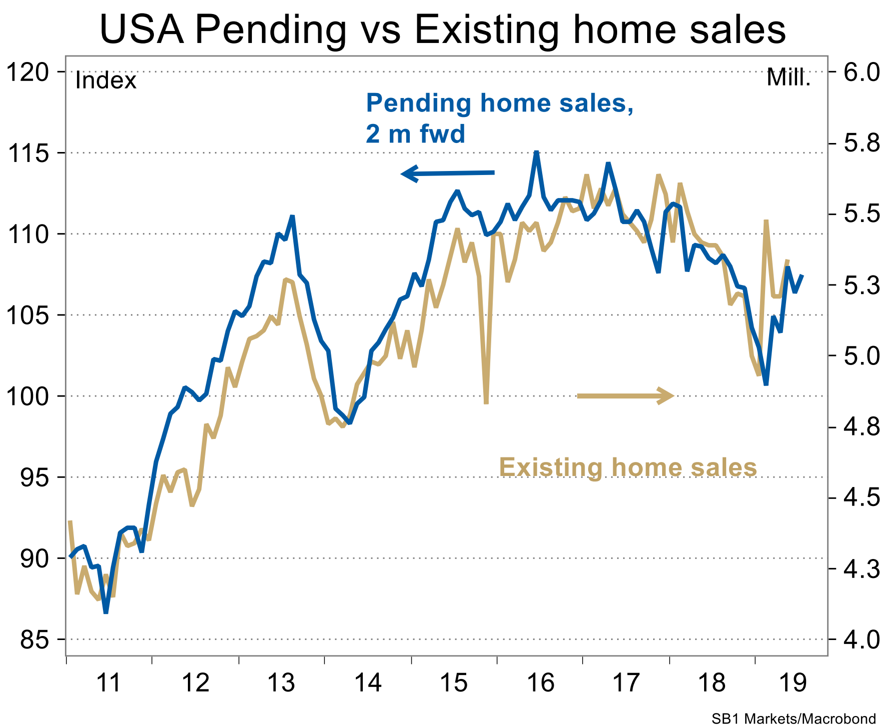


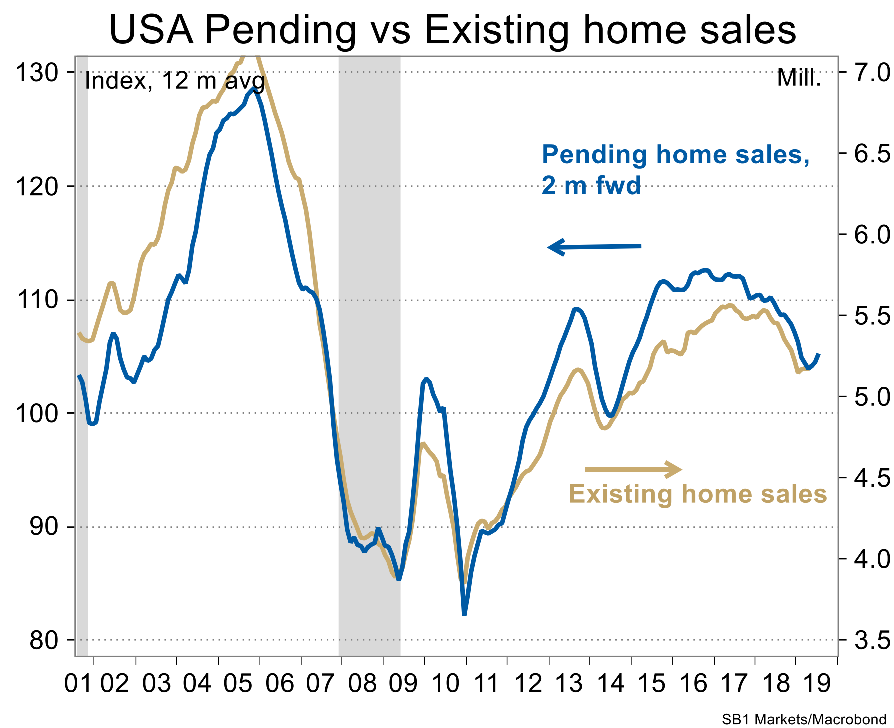


- New home sales dropped to 626’ in May (annual rate), a 7.8% m/m decline – and lower than expected. Sales have fallen the past two months, after a strong surge in Q1, which probably ended at a ‘too’ high level. Sales are still some 10% higher than at the Dec trough
  - » The number of unsold homes rose from 2012 until Feb this year but has fallen marginally the past months, a positive sign; sales are slightly higher than now projects are added (unsold incluedes not yet started, homes under construction and (some few) completed homes)
- Housing starts/permits have stabilised and the Homebuilders’ index confirms a mild housing market rebound. The 100 bps+ decline in 30 y fixed mortgage rates have no doubt supported demand recent months

Pending existing home sales inched up in May, trend straight up

Pending sales have recovered and are pointing to steady actual sales



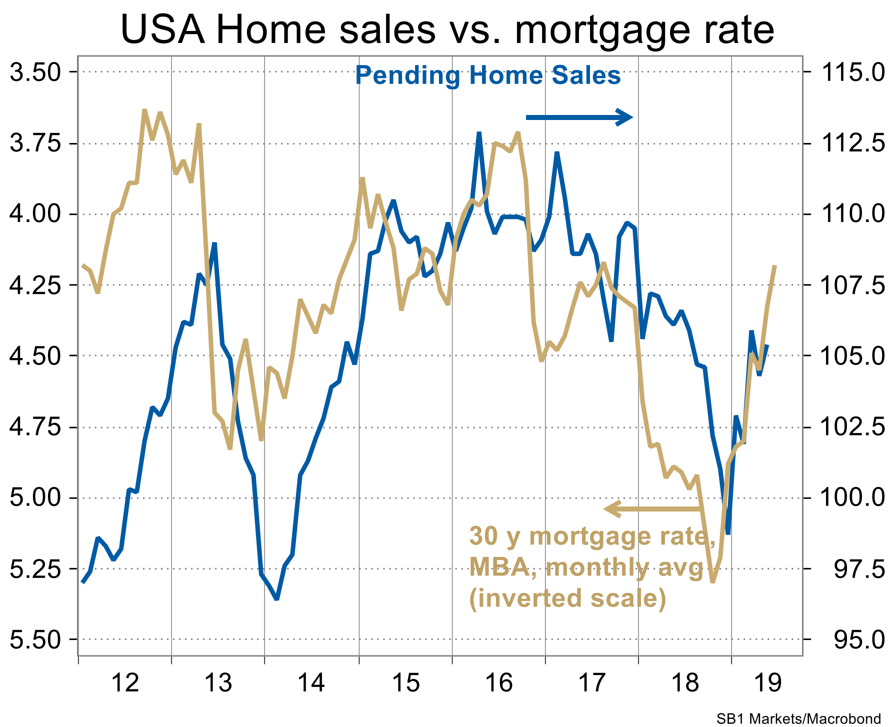


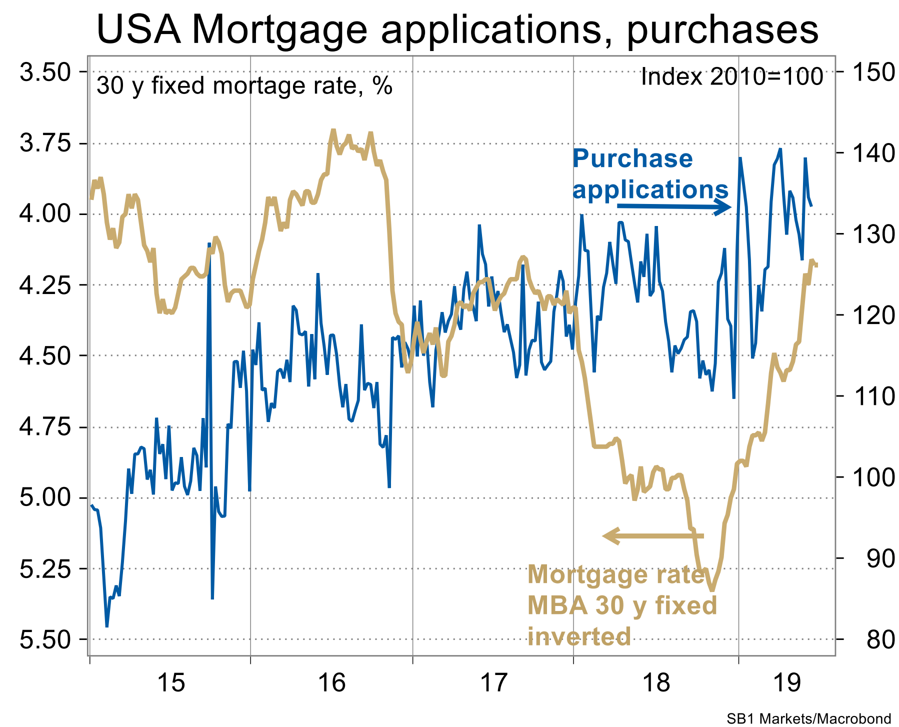
- Pending (existing) home sales rose 1% m/m in May, just in line with expectations

SpareBank 1 MARKETS

Mortgage application on the rise, 100 bps rate drop boosts loan appetite

Surely positive for the housing market, as long as the economy/labour market is not weakening

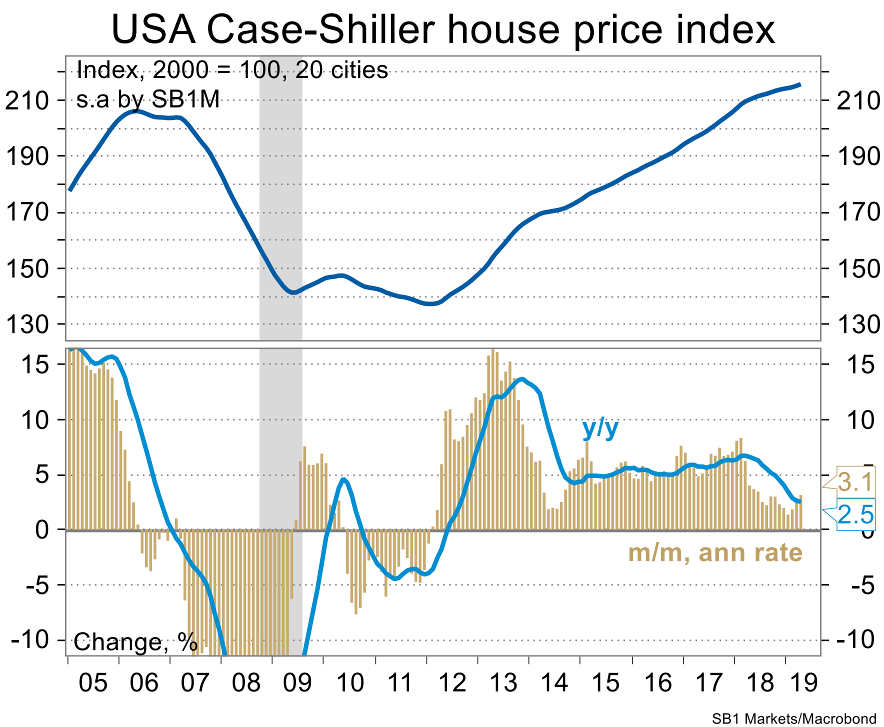


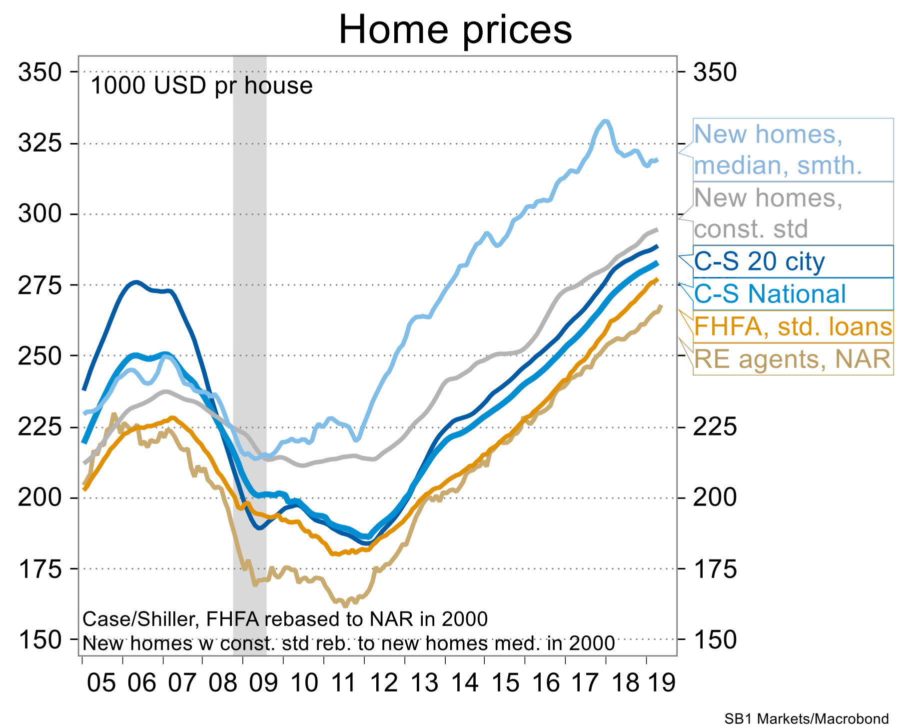


- Purchase applications came down slightly last week after a spike two weeks ago. Applications are trending up. The more than 100 bps decline in the (30 y fixed) mortgage rate has ignited the animal spirit at the housing market?
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market

House price inflation is gaining some speed again, confirms stronger demand

C-S house prices are slowly accelerating, up 0.3% m/m in April, highest in almost a year





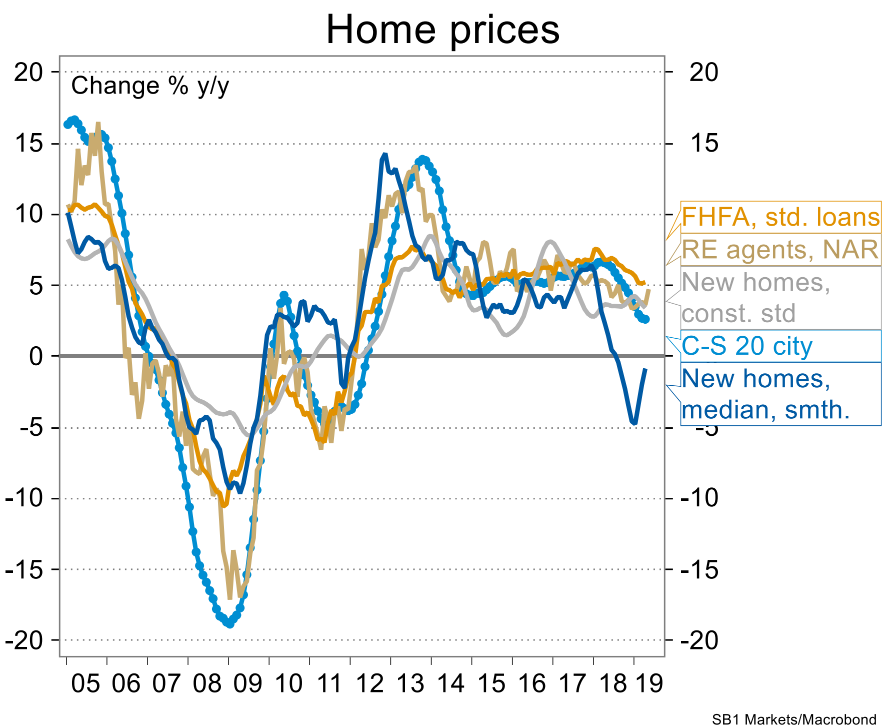
- The Case-Shiller 20 price index rose by 0.3% m/m (3.1% annualised), higher than expected and March was revised up. Inflation bottomed out in January and has turned steadily up since. April m/m growth highest since June '18. Annual growth down to 2.5%, from a 6-7% in early '18
  - » Other house price indices confirm that price growth has stabilised, although the pace of increase is mixed
- The CS 20 city (nominal) avg is some 5% above the 2006-peak level. The national avg (including more than the 20 cities) is 13% above the peak (while the real price levels are well below previous peak and much lower vs household income)

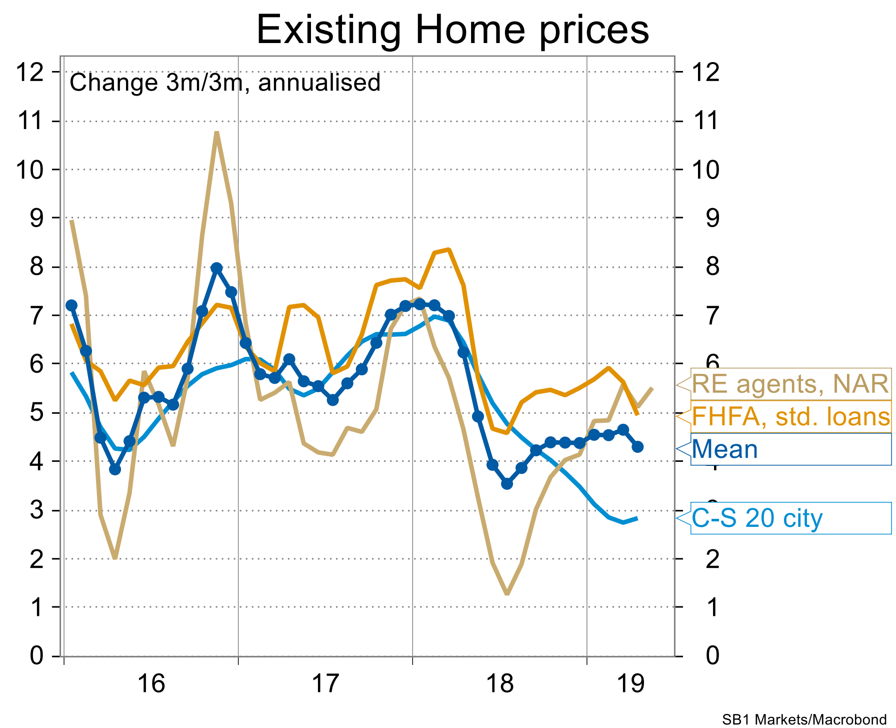
We are making an extra seasonal adjustment of the S&P Core Logic/Case-Shiller price indices as there are a significant seasonality left in the 'official' seasonally adjusted data

SpareBank 1 MARKETS

House price growth has stabilised, albeit data are mixed

The realtors (NAR) are reporting accelerating growth, FHFA a tad weaker recently, C&S has bottomed



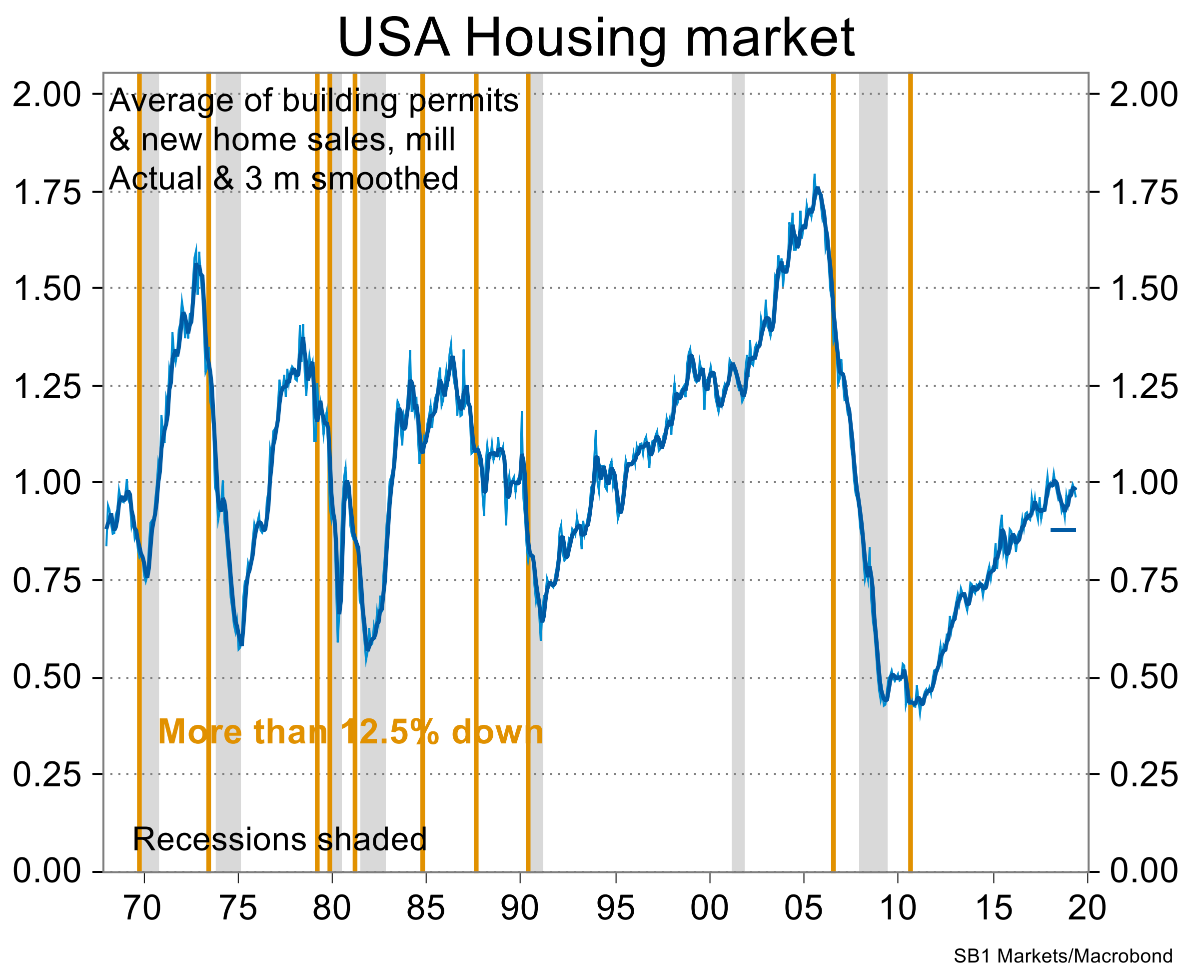


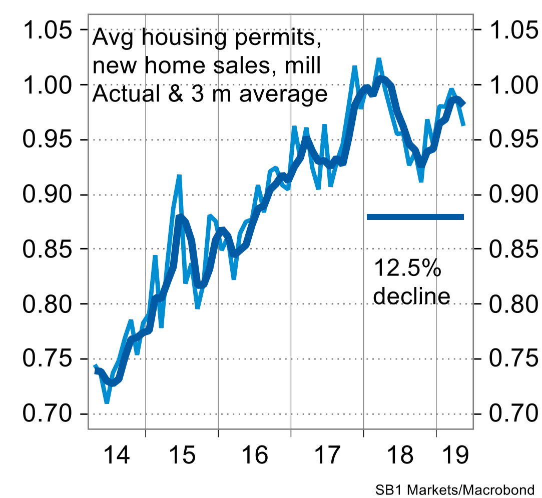
- The FHFA index (for homes financed by state guarantied loans) rose moderately in April after slowing in March. Underlying growth has slowed somewhat recent moths but is still above the 2018 trough
- The realtors' index (NAR) reported a steep price in May (these are volatile), underlying growth up to 5.5% (measured 3m/3m). The C&S index is more modest than the others (keep in mind that the 3m/3m rate above is somewhat lagging)
- New home prices have probably bottomed out too, still declining y/y

SpareBank 1 MARKETS

Housing vs recession: Was heading towards the ground in 2018, has recovered

Home sales/building permits are up some 6% from last autumn, after an 8% decline through 2018

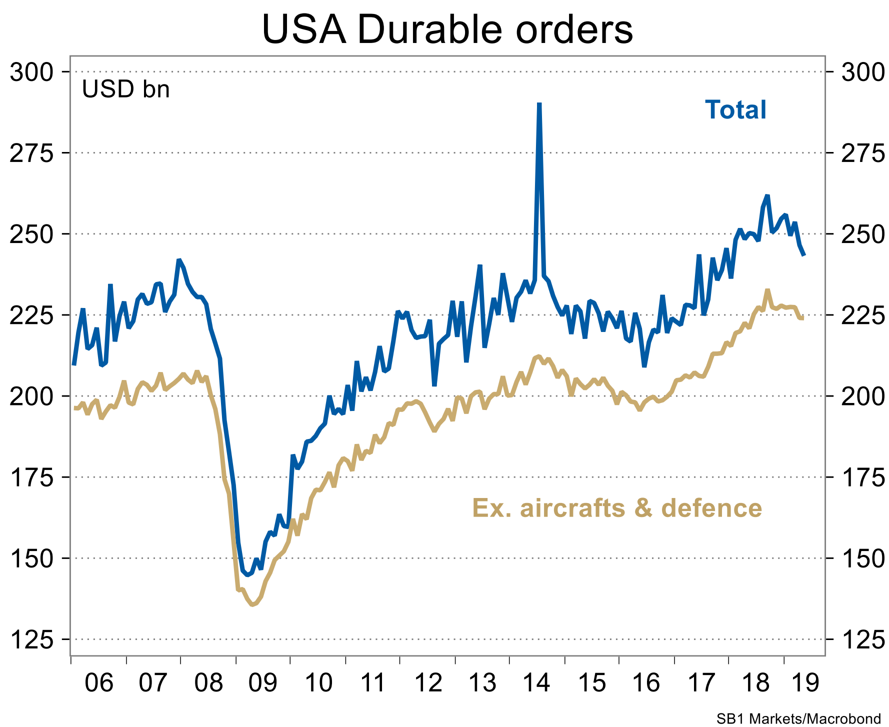


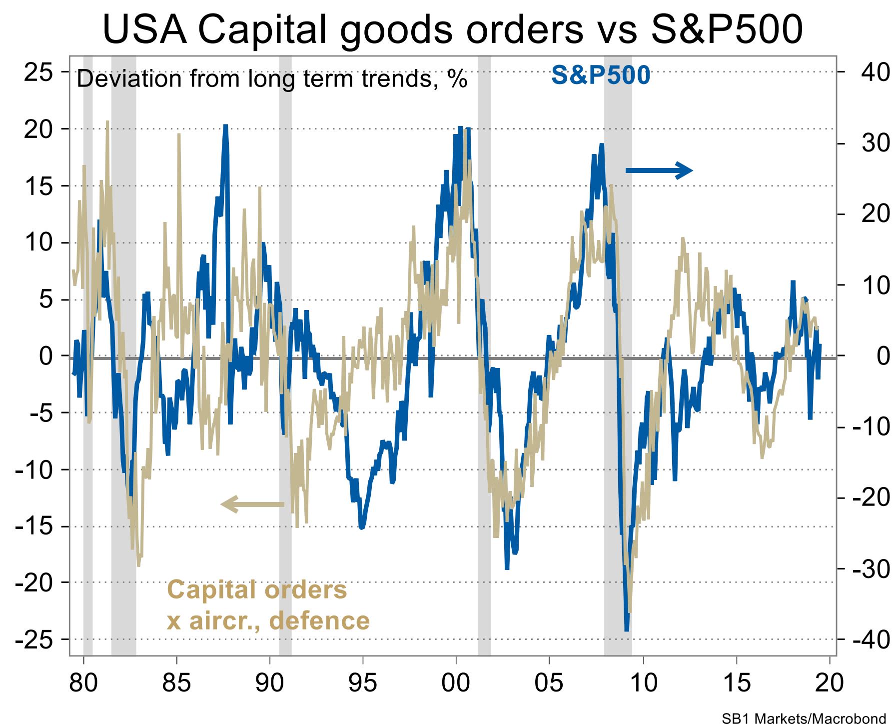


Memo: New Home sales are assumed down to 675' in in April, in line with consensus f'cast

Durable goods orders do not confirm business investment setback

Core durable orders flat in May, orders have softened; signals slower investments but no decline

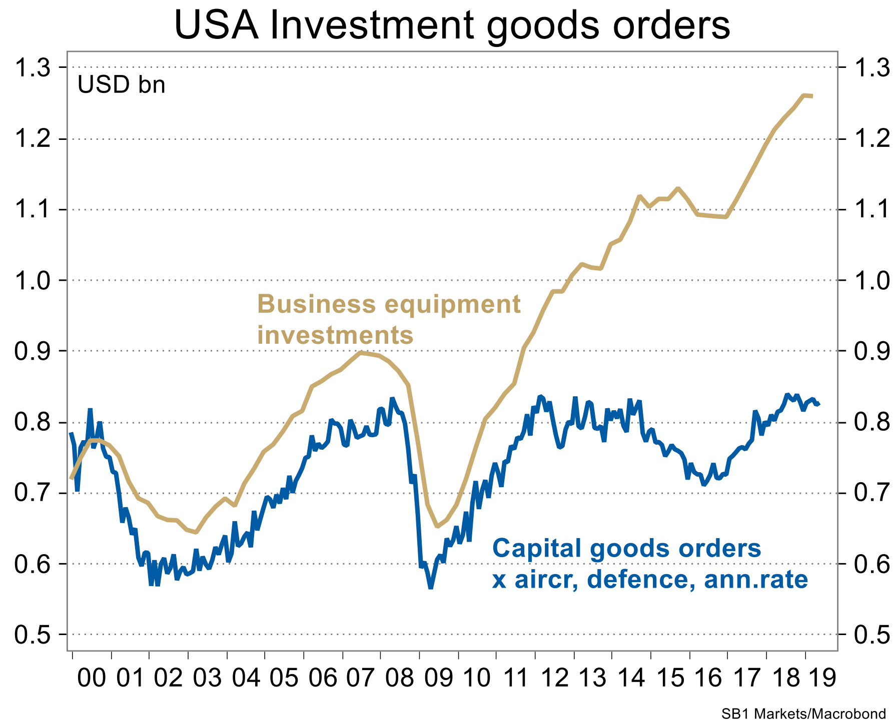


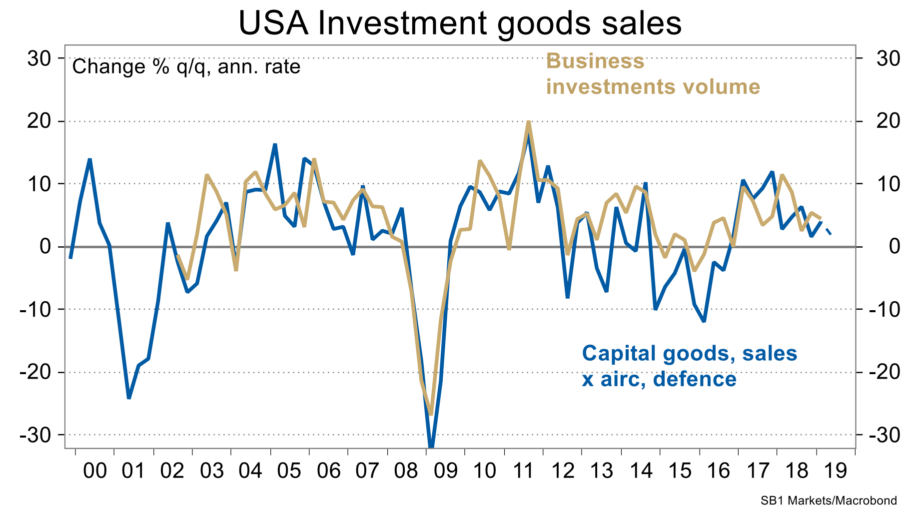


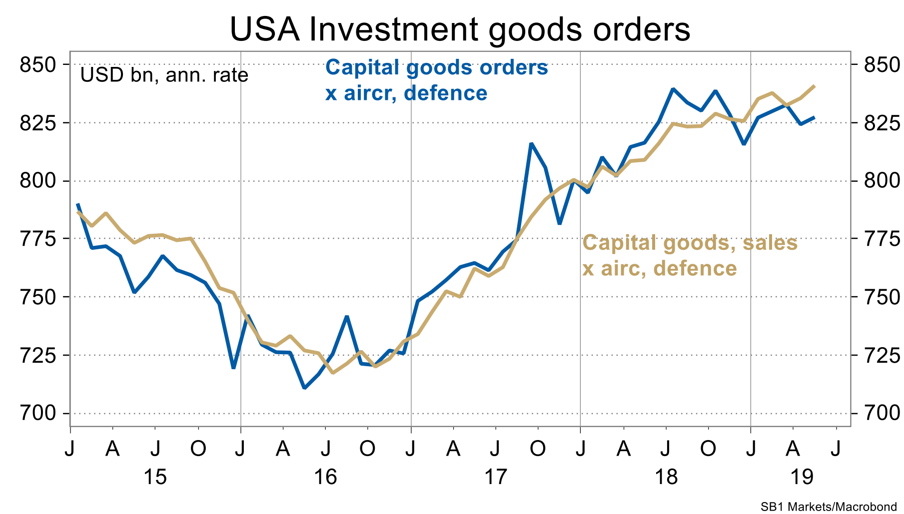
- Total durable orders fell 1.3% m/m in May. The weakness in total orders the past 2 months at least partly reflects troubles with Boeing's Max plane. Core orders (ex aircrafts and defence) were flat in May, after the decline in April. Orders have no doubt stagnated or worse since last summer, and will no doubt decline substantially in Q2, even the core
- Core capital orders rose marginally in May and sales climbed, pointing to modest growth in business investments in Q2, at some 2%. That is a marked slowdown, but not a collapse, as some manufacturing surveys almost signalled
  - Deviations in businesses' capital orders are quite well correlated to the stock market. Slower order inflows indicate a limited upside on the stock market, barring some 'suckers rallies)

Capital goods orders/sales signal slow growth in business investments in Q2

Core investment orders rose marginally in May and sales are climbing; investments rising modestly?



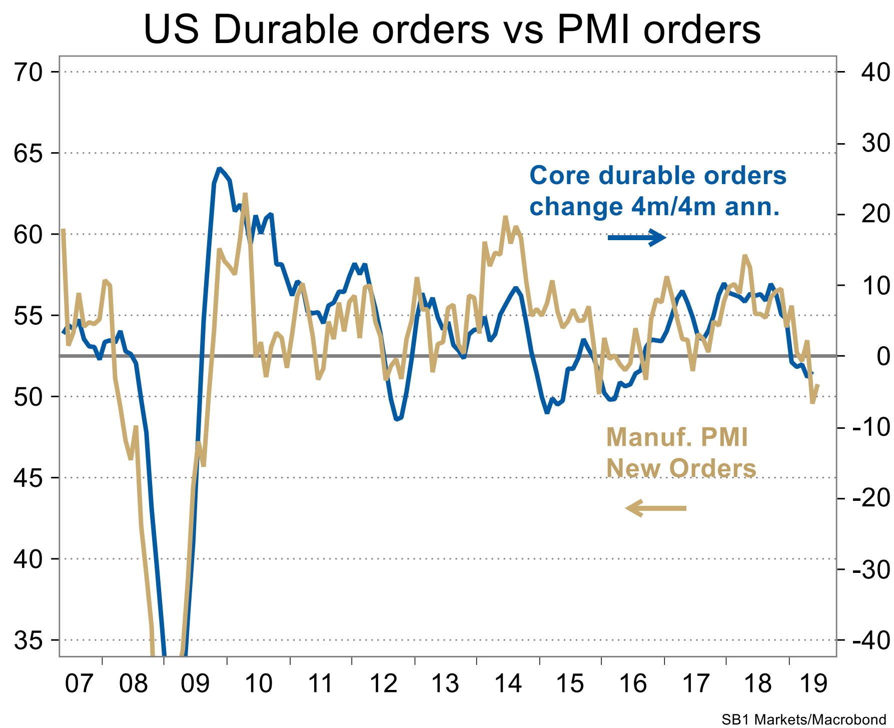


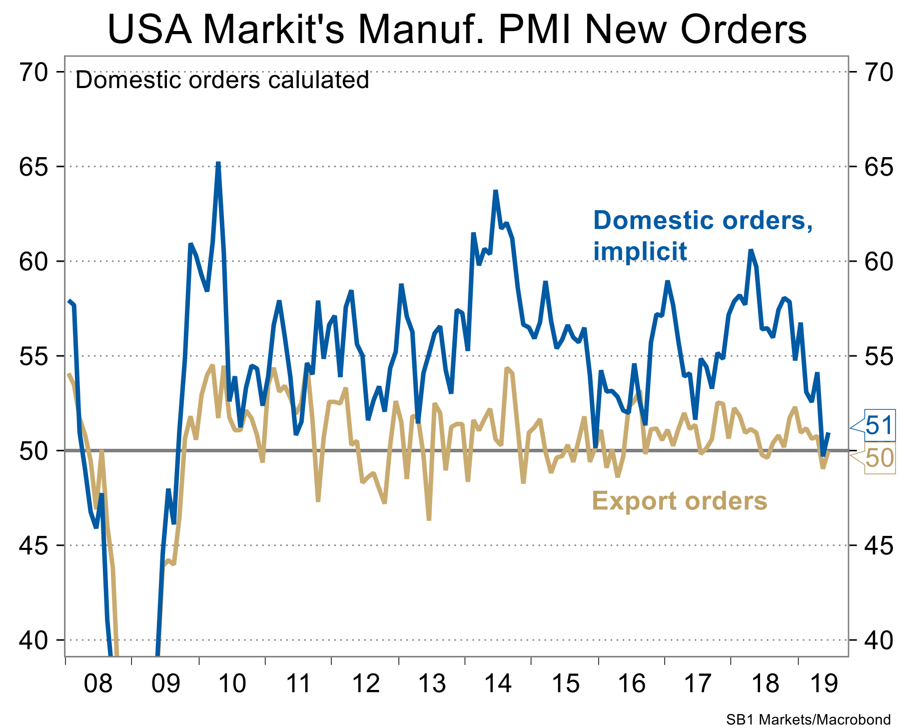


- Investment orders (core) rose 0.4% m/m in May, just above expectations and are up 1.9% 3m/3m (annualised), mostly due to the weak December. Still the trend is down since last summer
  - » Sales are keeping up better, rose 0.7% m/m in May, and are still trending slowly up. Probably not for too long, given the weak order inflow
- Orders/sales are indicating business investments just grew slowly in Q2 but do not signal any abrupt setback. Neither to business investment surveys, check next page

PMIs point to a moderate decline in order inflows

.. and the downturn is primarily driven by weaker domestic demand, <u>not exports</u>

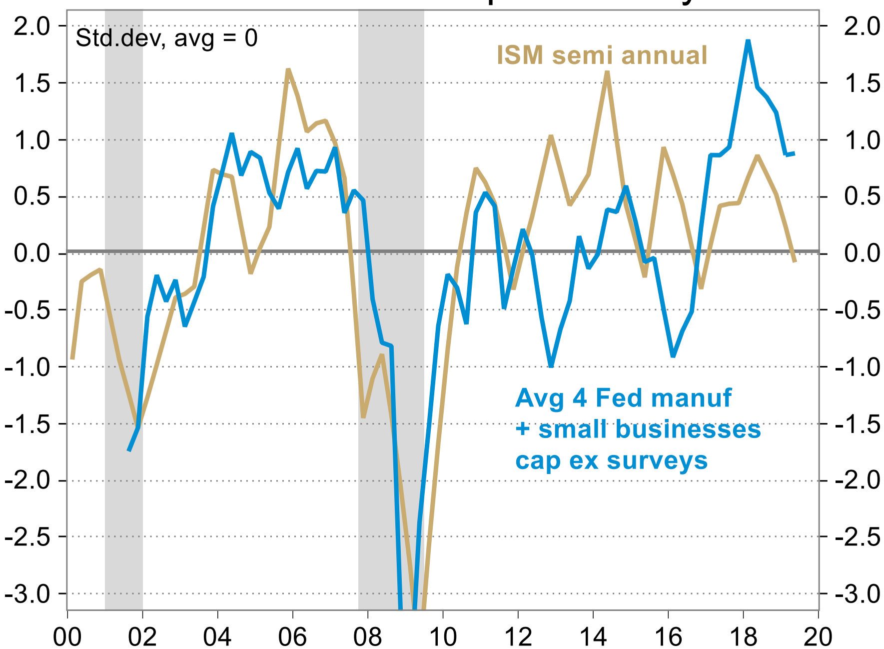




Business investment plans are stagnating, according to the ISM

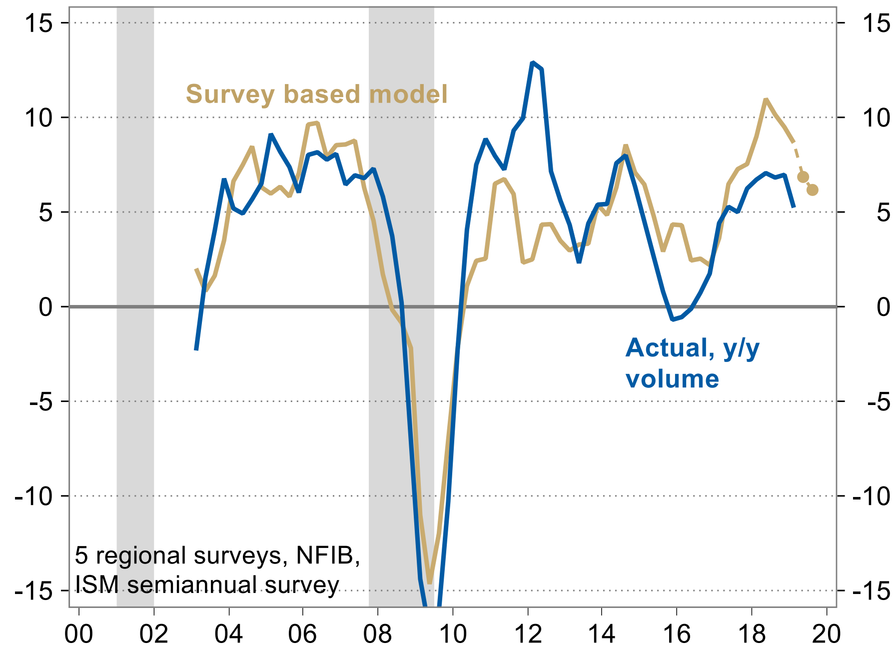
However, regional surveys are reporting a slowdown but still investment growth above trend!

USA Business cap ex surveys



SB1 Markets/Macrobond

USA Business investments



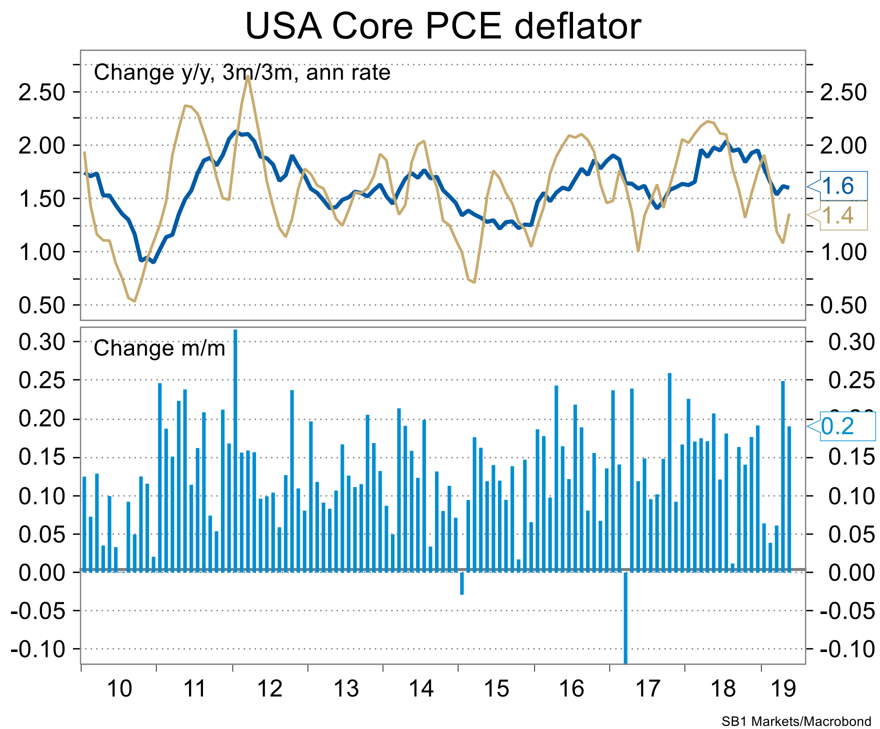
SB1 Markets/Macrobond

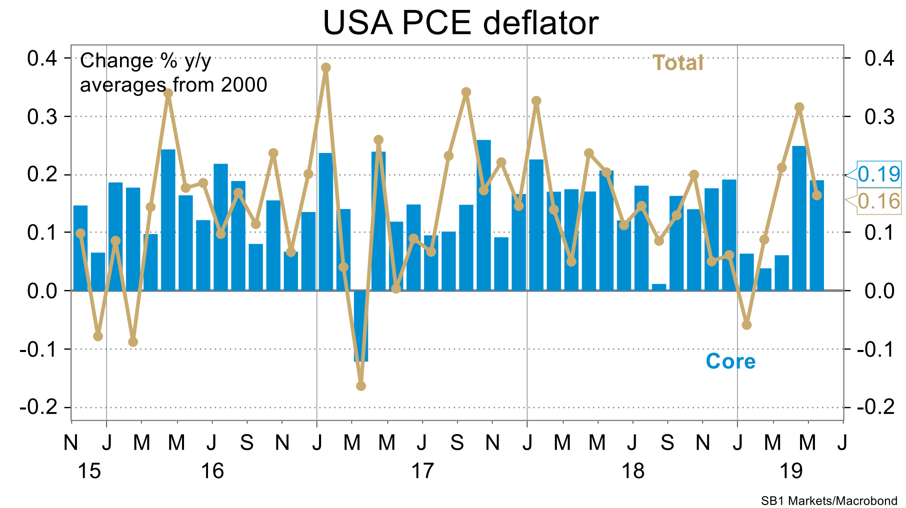
- Taken together, these surveys are indicating a continued growth in business investments

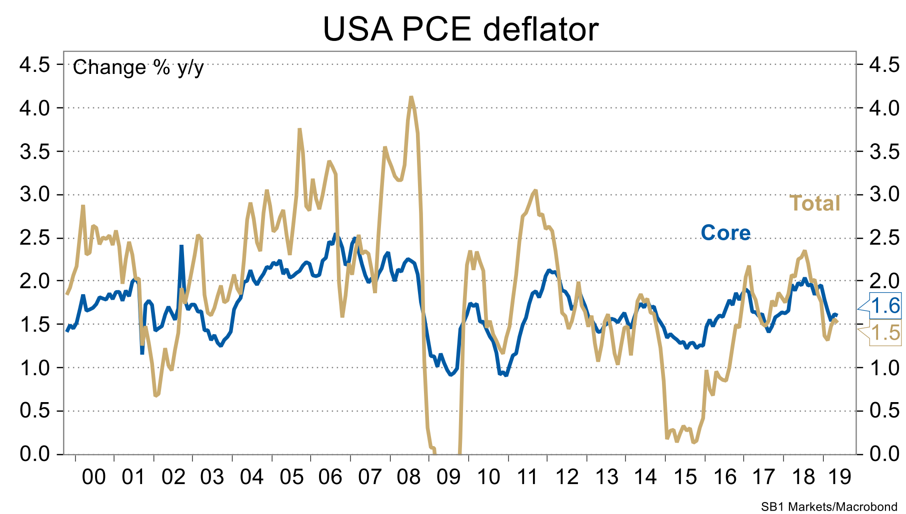
SpareBank 1 MARKETS

Core PCE prices up 0.2%, annual rate at 1.6, somewhat below Fed's 2% target

Growth in the PCE deflator has eased but it gained some speed in April & May



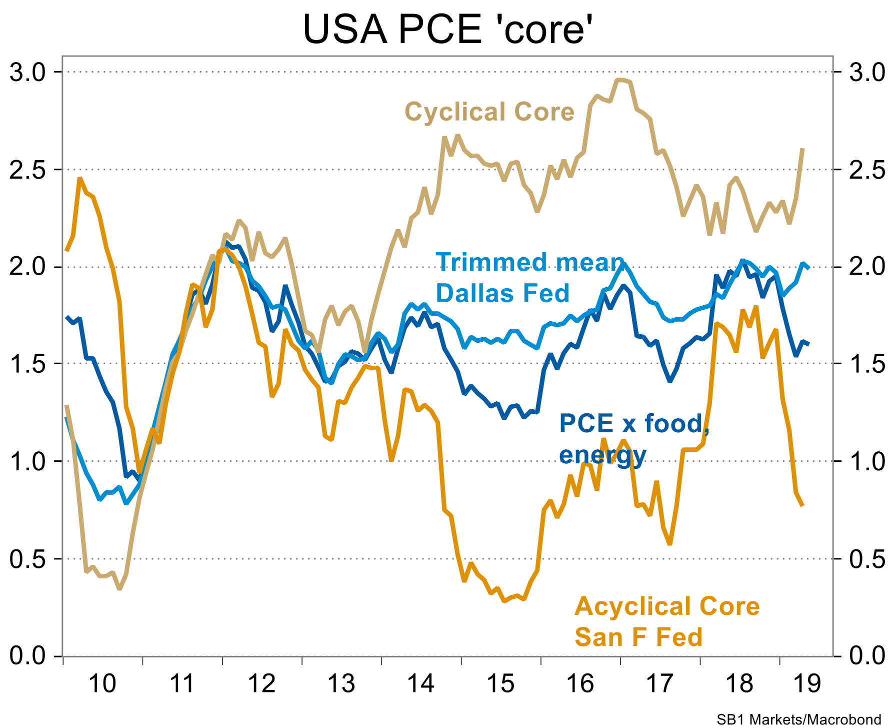


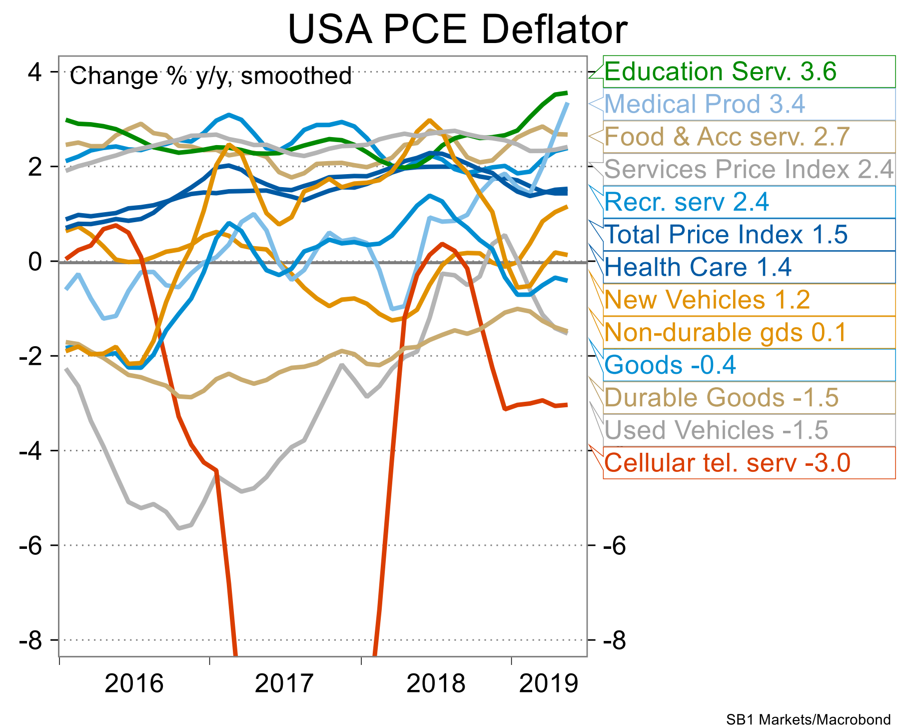


- The core price deflator rose by 0.19% m/m in April, as expected. The 3m/3m rate up to 1.4%, from 0.9% in April. The annual rate stable at 1.6%
- Total PCE inflation stable at 1.5%. Total inflation has eased rapidly since last summer (due to energy prices). Good for real income growth
- PCE has been running 'visibly' below Fed's price target at 2% for 5 months. Small changes in inflation has never been important for Fed's rate setting – but new it may be used as an 'excuse' for cutting in July

Is the decline in PCE 'for real'? Probably not. More sectors up than down

Details do not suggest a 'cyclical' inflation decline (but acceleration); not many sectors are declining

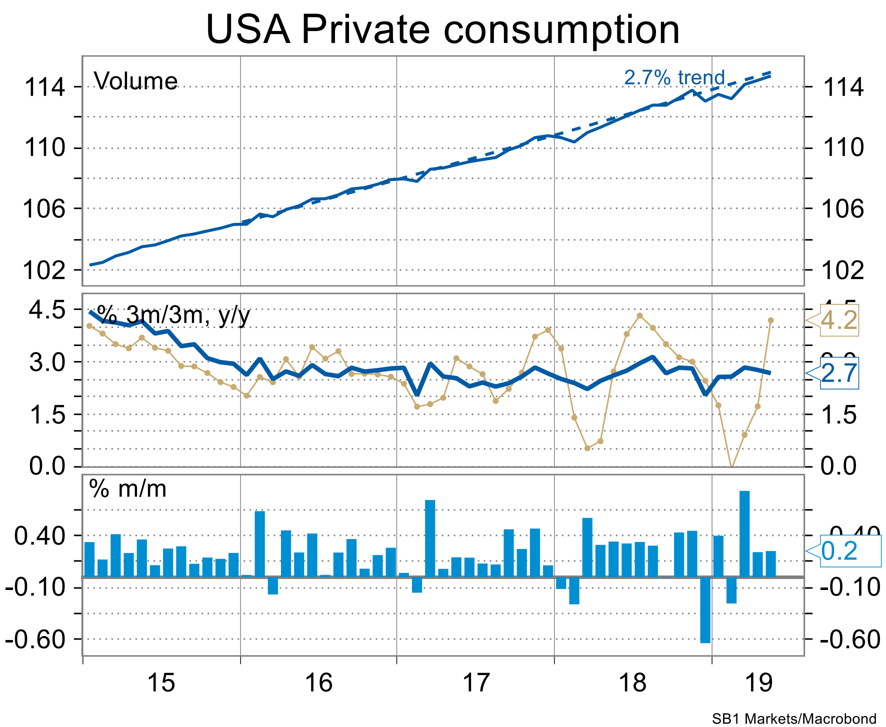


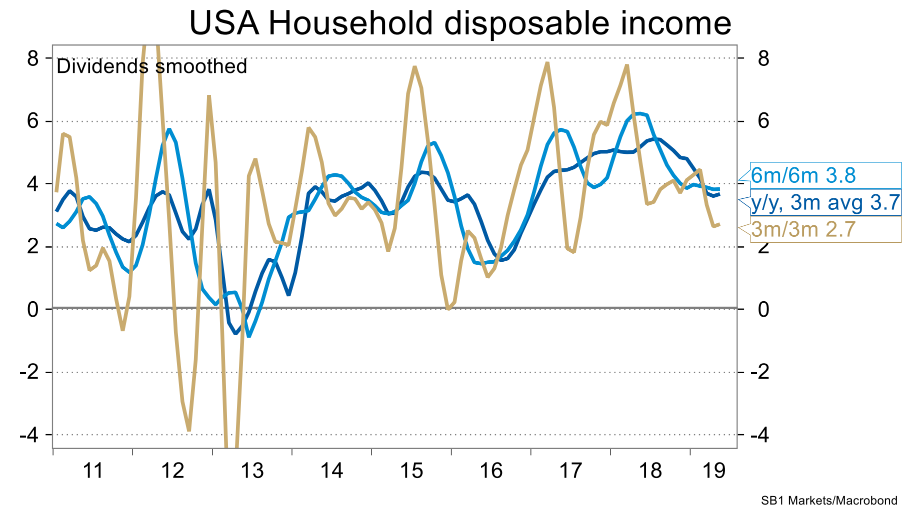


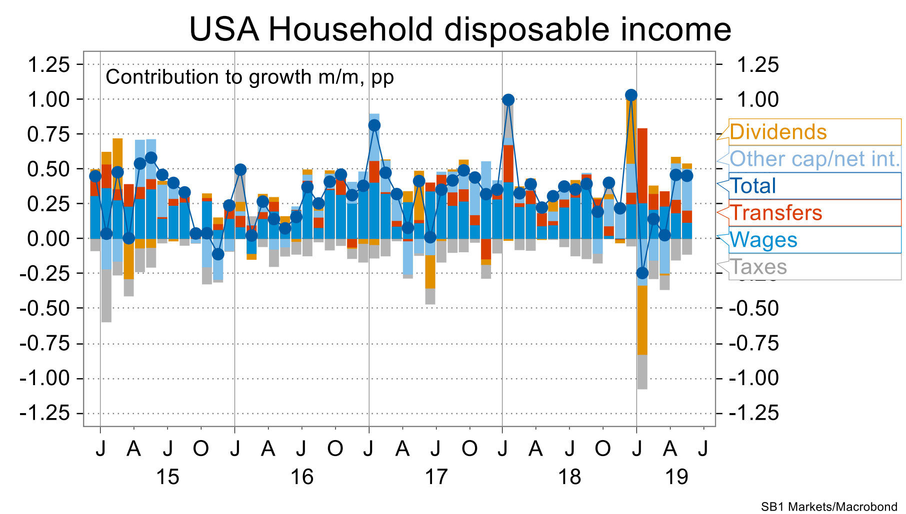
- Used vehicles and cell phones are dragging prices down

Private consumption back at the close to 3% track

Consumption is almost back at the 'old' trend, towards 3% growth in Q2. Income growth slowing?



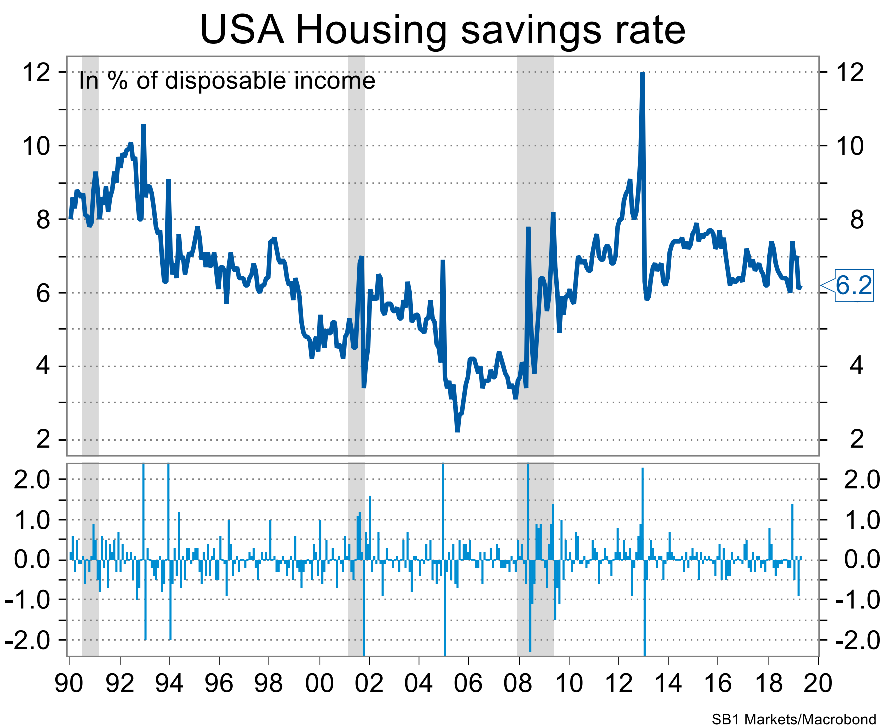


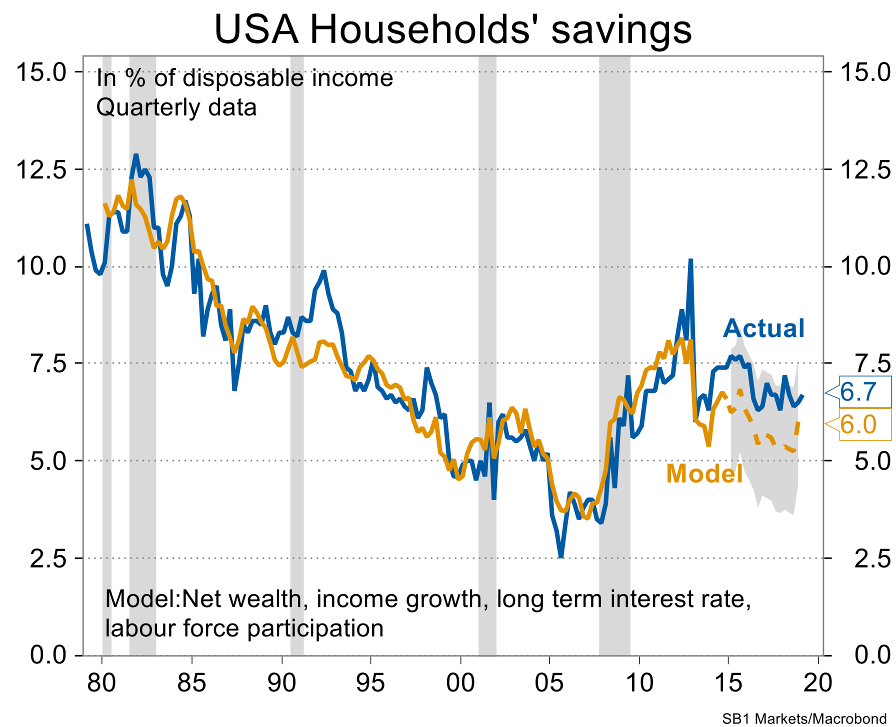


- Private consumption grew 0.2% in May, marginally below consensus but April was revised 0.2 pp up to 0.2%. Consumption har recovered from the slowdown in Q4/Q1 and is now back to the 'old' 2.7% growth track
  - » Consumer confidence has fallen somewhat but is still strong (flip to this slide for more)
- Households' nominal disposable income rose 0.4 m/m in May, like in April, and higher than expected. Still, underlying growth may have slowed in 2019. Total wage & salary income is up 4.3%, accelerating recent months but total income growth has slowed. The savings rate rose in May and is not low

Households savings down in March/April, trend flat

The savings rate up 0.1 pp to 6.2% in April, from a downwardly revised March

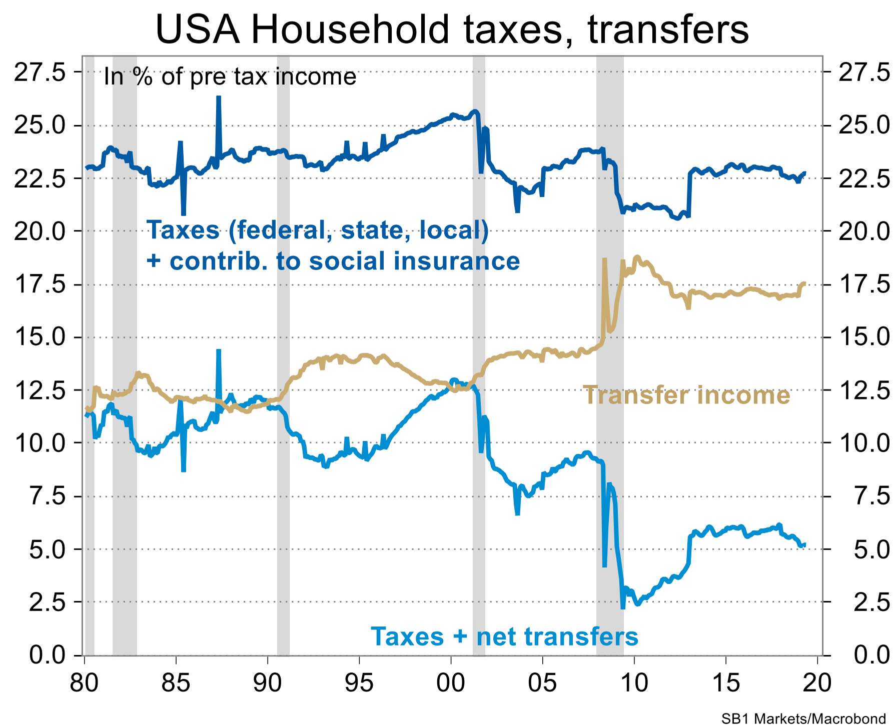


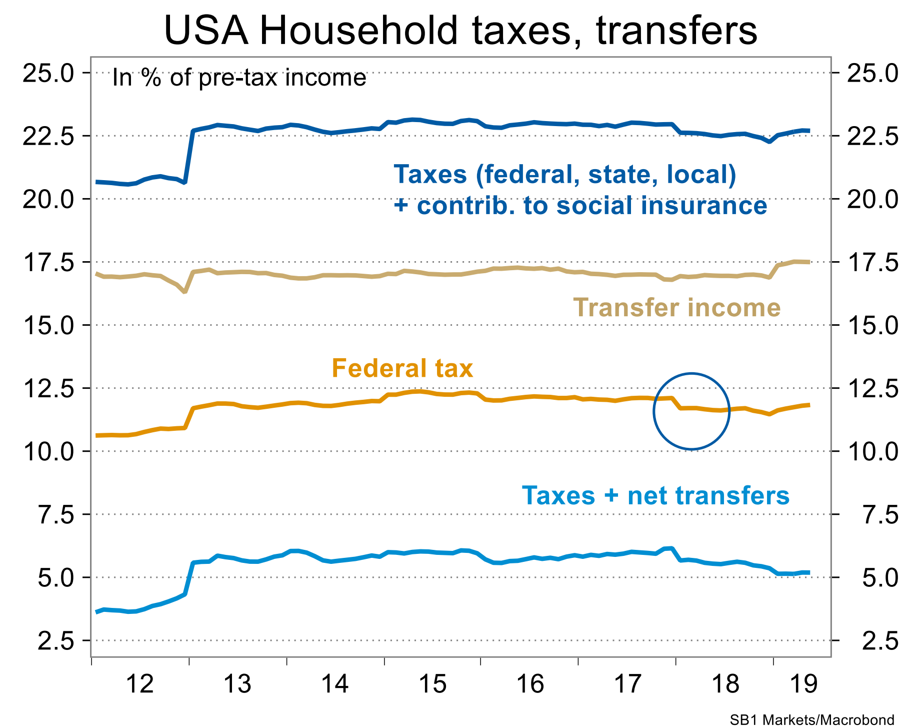


- The savings rate ticked up 0.1 pp to 6.2% in April. March was revised down by 0.4 pp to 6.1%, thus, Q1 came down to 6.7%, from 7.0%
- The savings rate is just below 1 pp above our model forecast, the gap is narrowing

The households have received their tax cuts, now they receive more transfers

The tax cuts boosted household's disp inc in Jan '18. Now transfers are rising



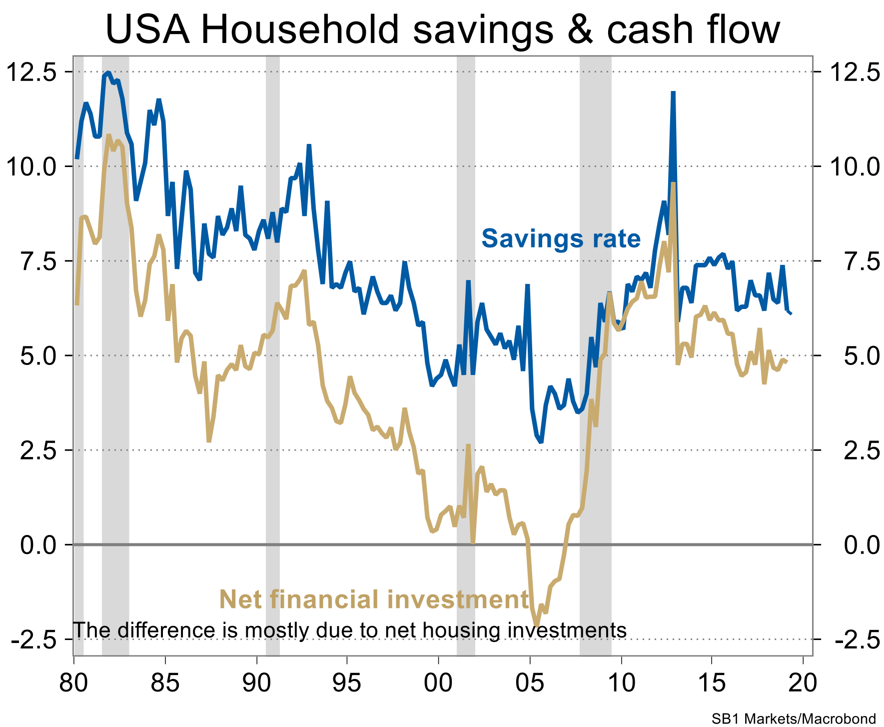


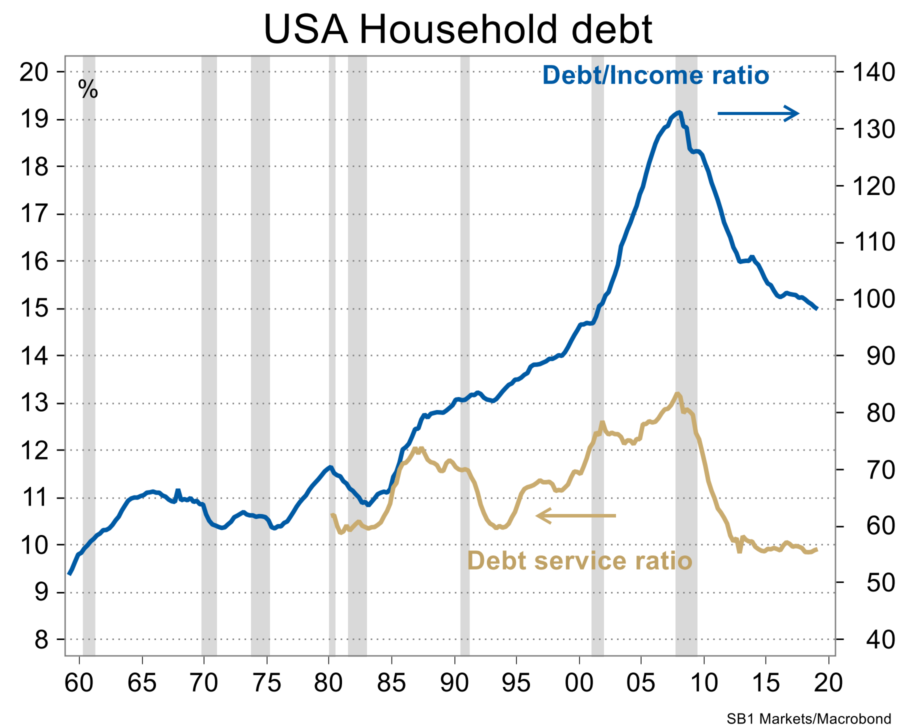
- In sum, household net taxes (taxes – transfers) are down 1% of disposable income since before the tax cuts where implemented. Not that impressive but given a strong economy in the meantime – that usually lifts net taxes substantially – the tax cut is pretty large. In the next recession, net taxes will again fall substantially, contributing to an even high public sector deficit

SpareBank 1 MARKETS

Households' savings stable, and quite high. Strong cash flow, and debt is repaid

Households are saving – and paying down debt (relative to income), debt service cost record low

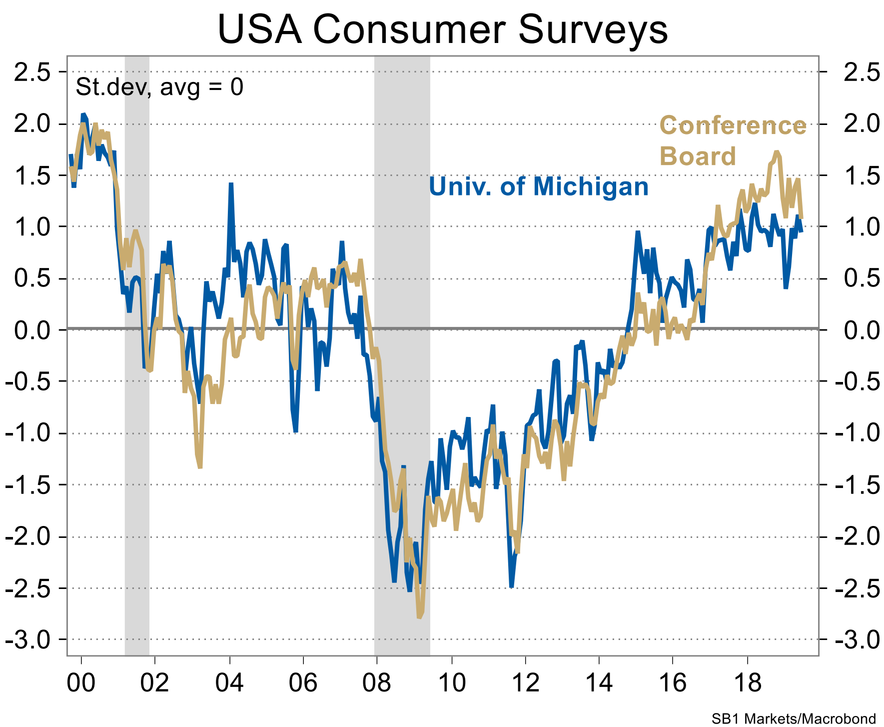


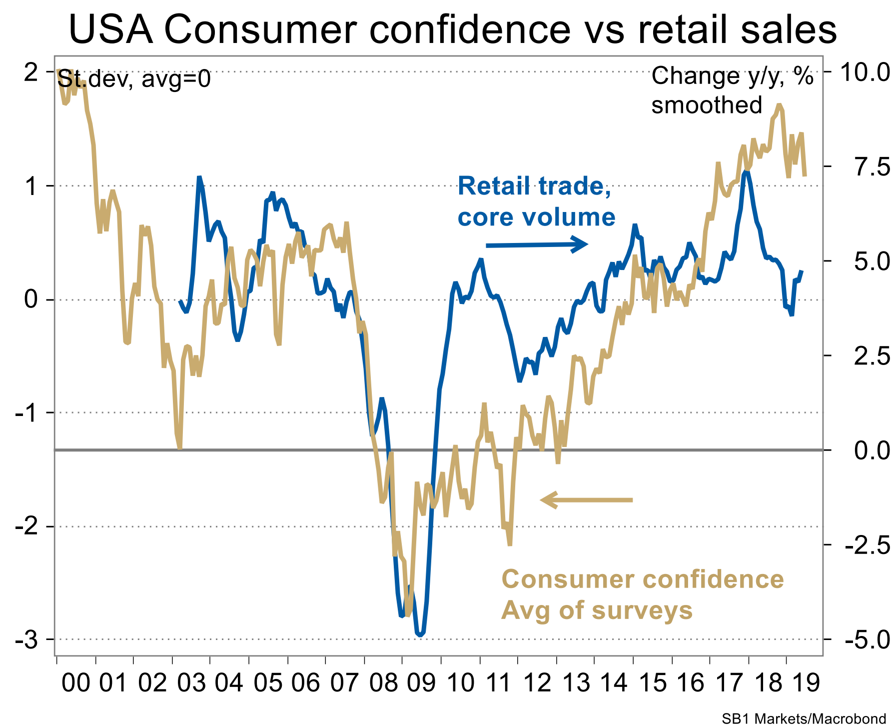


- The savings rate may have fallen marginally in Q2 but it has been rather stable the past years. The level is quite high (at least after a higher tax dodging estimate was added…) The cash surplus is at approx 5% and stable too, not a household drive recession signal
- Households are running a cash surplus at 4.8% in Q1, marginally lower than in Q4, at a rather high level
  - » Cash balance (net financial investments) = Savings – net (of depreciation) investments in fixed real capital (mostly housing)
  - » The savings rate fell to 6.1% of disp. income in Q1, the lowest since 2013 but the trend is more or less flat
- Households' debt ratio is much lower than 10 years ago and is still sliding down, almost back to a the year 2000 level
  - » There are few signs of financial stress, at least barring student loans

Mixed consumer sentiment surveys; CB's index dropped in June

CB's index slipped in June but not dramatically, level still high. But the labour market is souring??



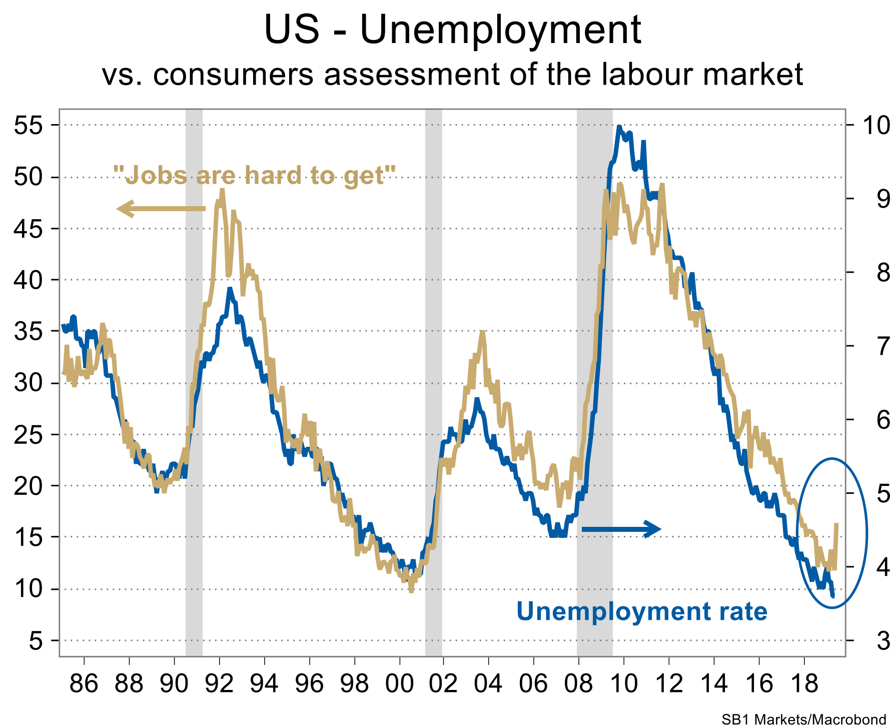


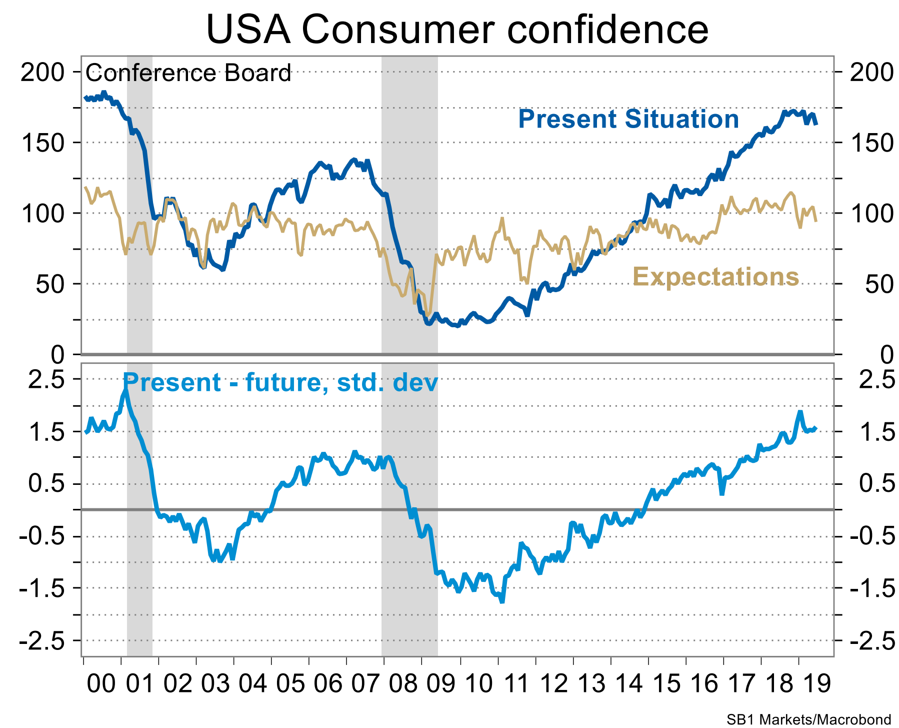
- Conference Board's consumer confidence slipped 9.8 p in June, much more than expected. The level is marginally lower than the January local through but still far above an average levels. Still, it is down from the peak – is this an early sign that the downswing in manufacturing and geopolitical risks are spreading to the consumers?
  - » Consumers suddenly reported less favourable labour market conditions and concerns about the trade disputes, check the next slide
  - » University of Michigan's consumer sentiment came down 2 p to 98 in June, after reaching the highest level in 8 months in May. The surveys reflects upbeat consumers, no signs of a consumption slowdown!
- Consumer confidence is still strong, however, the labour market weakness which the CB index report is no doubt worrisome

SpareBank 1 MARKETS

Consumers are reporting softer labour markets, an important warning sign

The 'jobs are hard to get' assessment spiked in June, the worst m/m performance since 2009

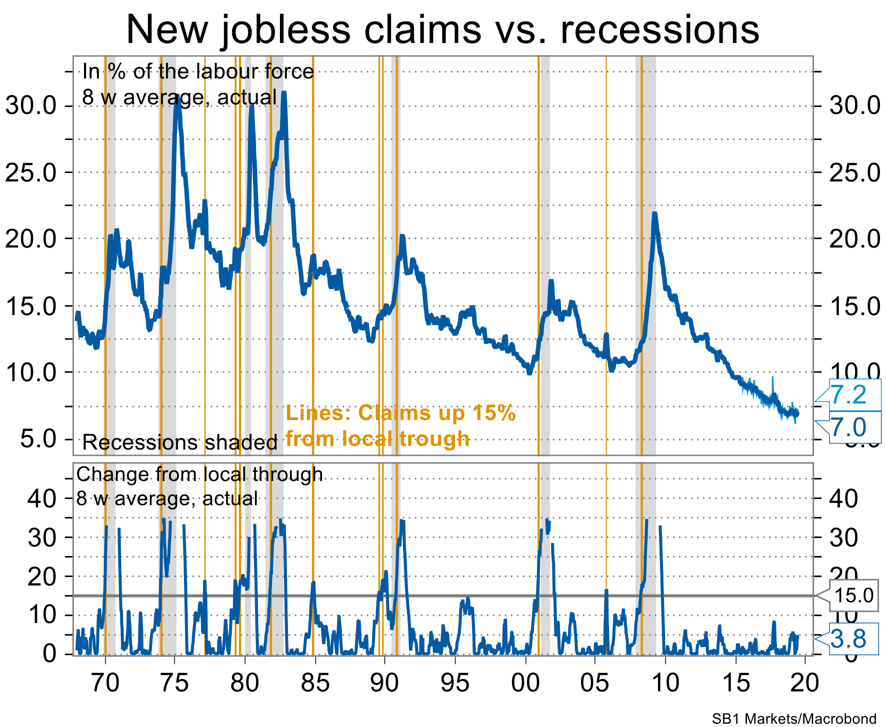


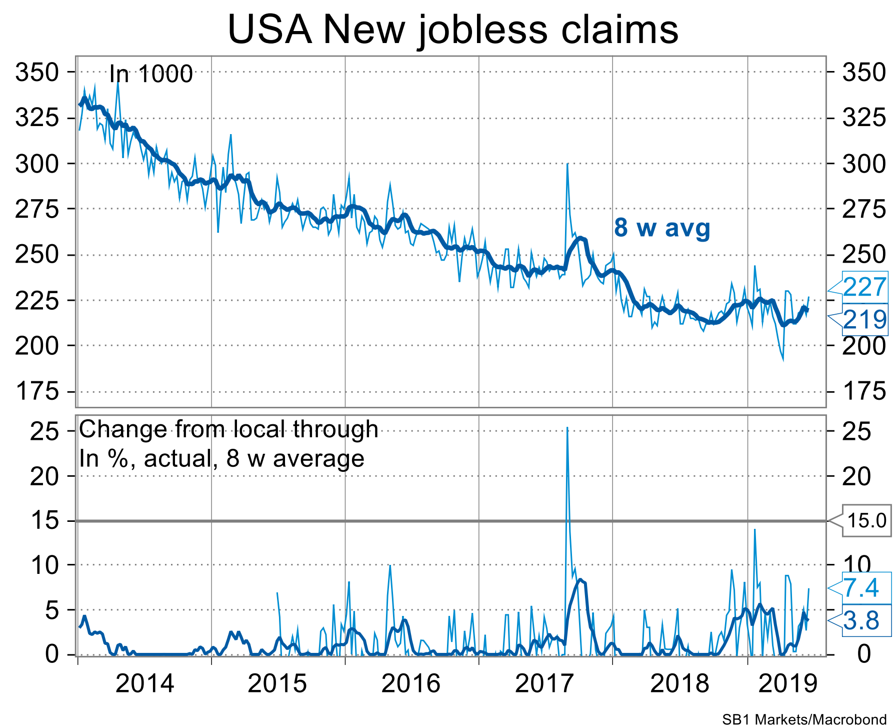


- The 'jobs are hard to get' assessment is quite well correlated to movements in unemployment and is usually not a lagging indicator. The index spiked 4.6 p in June, the steepest m/m rise since 2009. An obvious warning sign
  - » Still: We have not seen weakness in most other labour market indicators yet; jobless claims are still very low and are not increasing, unemployment is still on the way down. Employment slowed in May but the 2 m average is not weak
- Both expectations on the future and the assessment of the current situation weakened in June, expectations may now be trending slowly down after flattening out since late 2016

Jobless claims marginally up, not (yet) a signal of labour market weakness

Jobless claims edged up last week but the rise from the recent trough is still modest

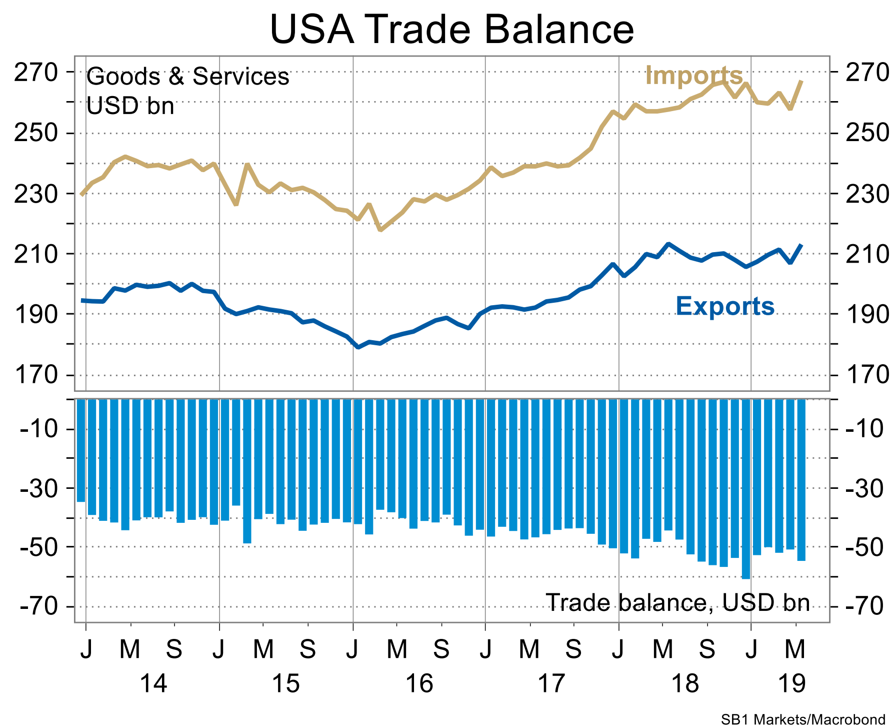


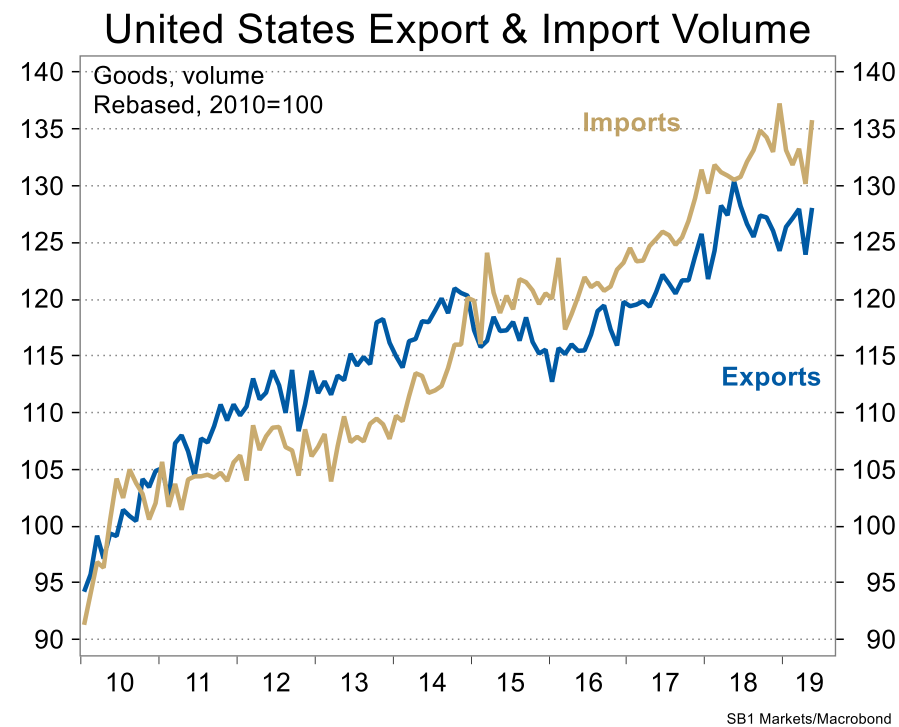


- Last week, jobless claims rose to 227', from 216' the prior week. Claims have inched up recent week but the level is still very low, the 8 week average is 219', up just slightly (below 4%) from the bottom in mid-April (the lowest since 1969!)
- A more than 15% increase in jobless claims (measured by 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 widened as imports surged in May, will be a drag on Q2 GDP

Both exports and exports bounced back in May, no signs of a shrinking trade deficit



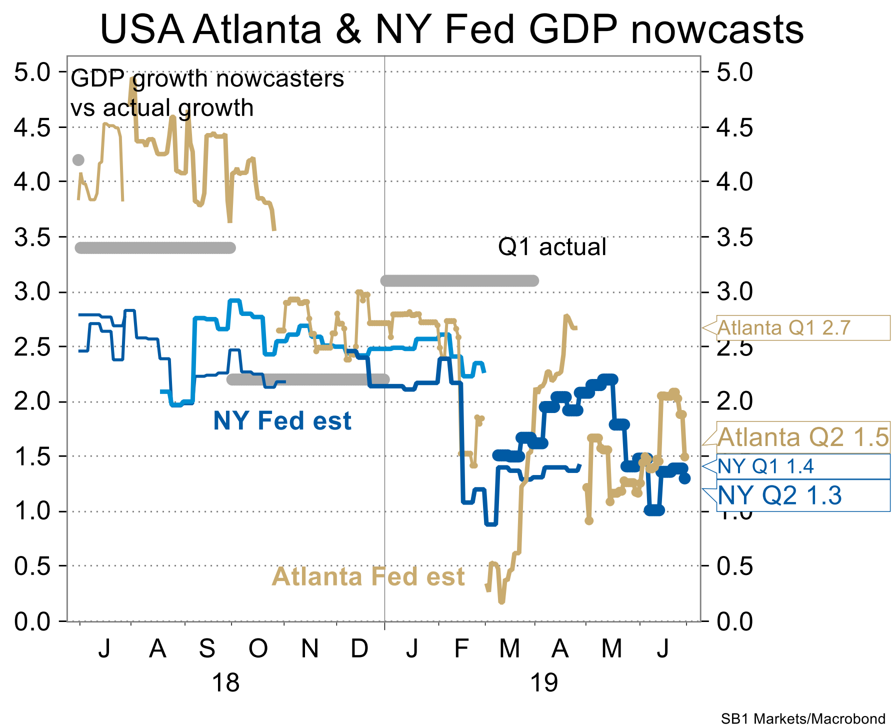


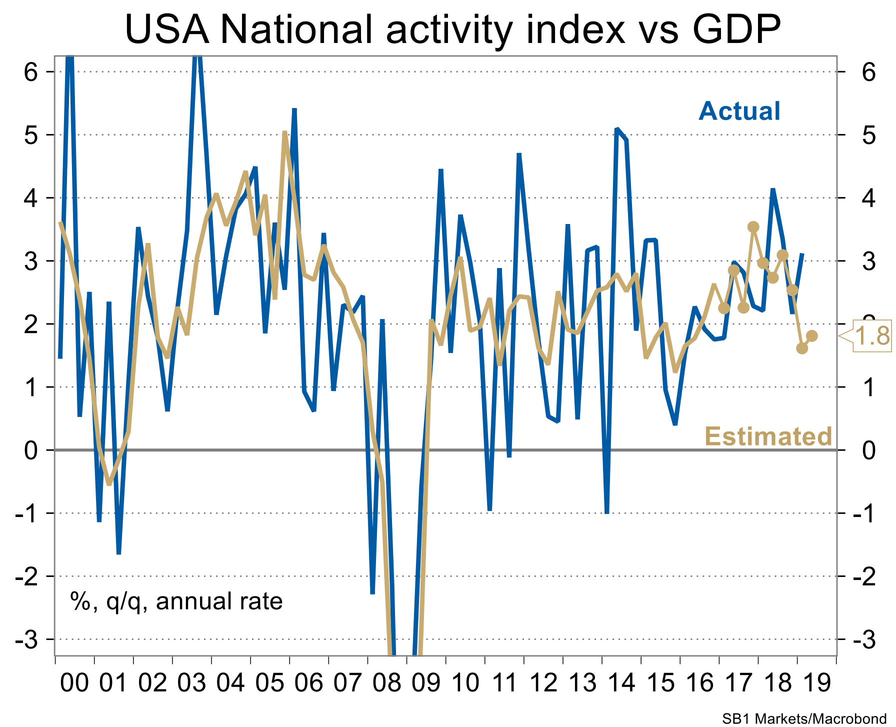
- The advanced trade data (goods only) indicates that the overall trade deficit widened to USD 57.7 bn in May, the highest since Dec
  - » Imports surprisingly spiked 4% m/m in volume terms, the highest monthly rate in 4 years. Possibly due to the escalation of the trade war
  - » Exports increased in both value and volume terms too, up 3% in volume. Exports are trending slowly down the past year – no trade war boost!
  - » Q2 is off to a weak start, net trade will most likely by a substantial drag on GDP growth
- The deficit vs. China is reduced (no May data yet), no doubt due to the trade war, as imports from China is sharply down – but the overall deficit is not cut

We apply the changes in goods for an estimate for total exports and imports, including services

Fed nowcasters down again, say 1.3 – 1.5% in Q2

The National activity index signals 1.8% Q2 growth in May (up from the 1.1% April est)



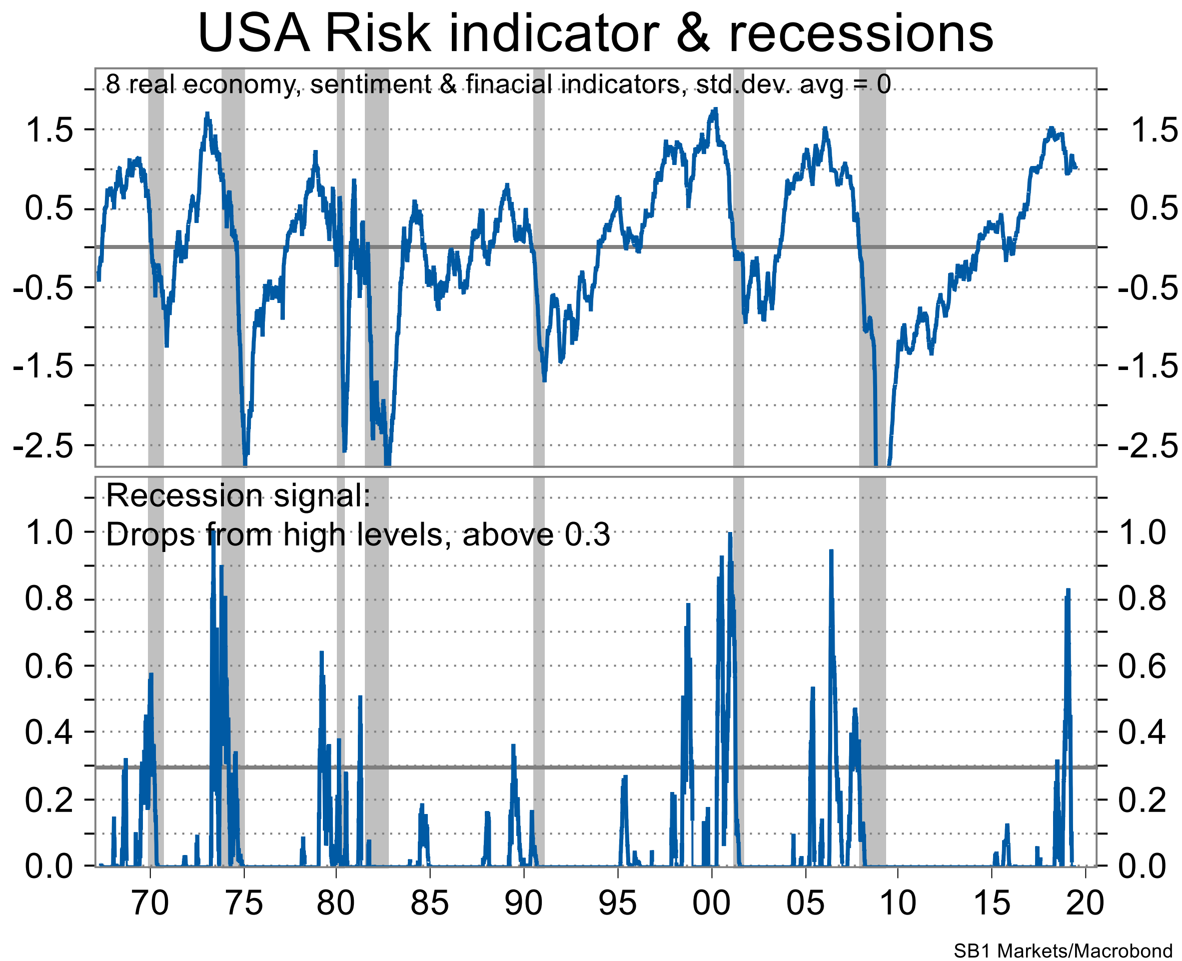


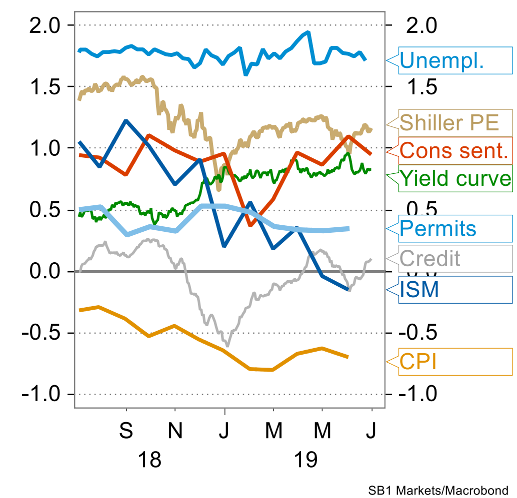
- However, a lot of data has still to be reported – and the nowcasters often miss the target (as they change their mind through to the quarter

dd

US Indicators: Not a recession warning, now

… but data are deteriorating, barring the labour market and housing. To be continued



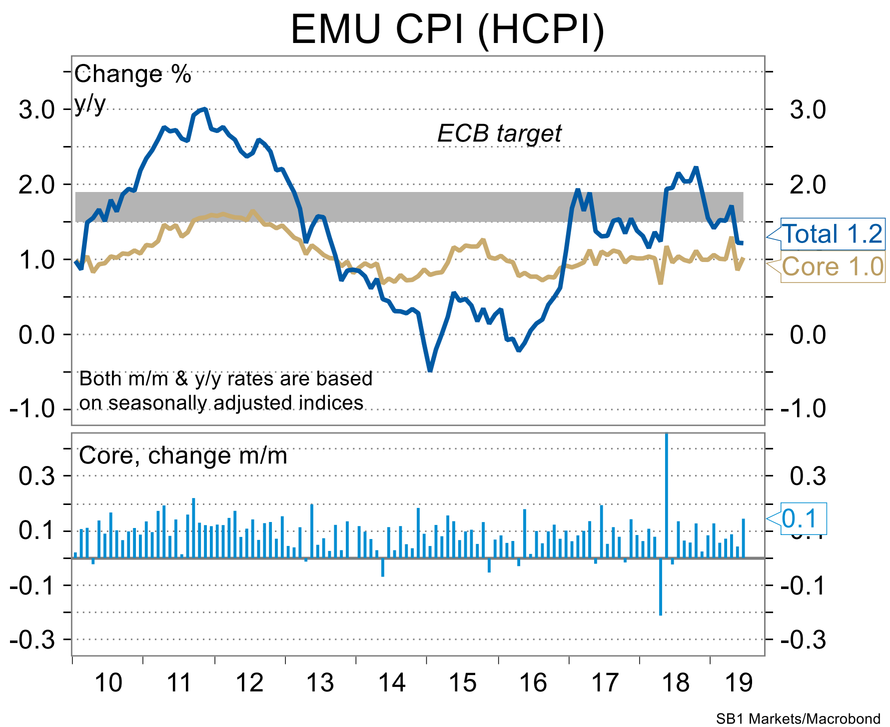


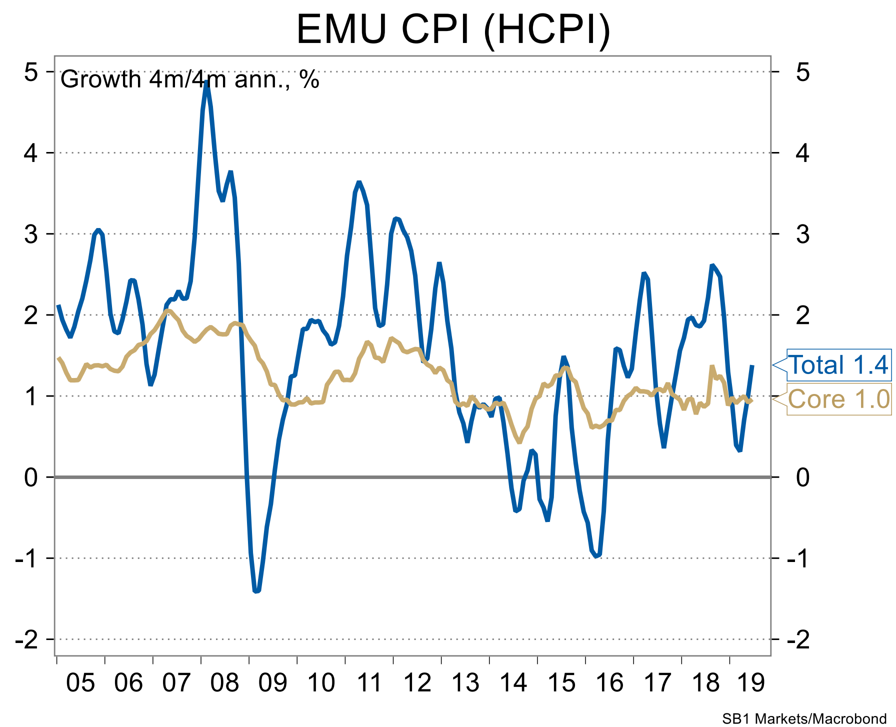
Inspired by Goldman Sachs Bull/Bear indicator. We are using jobless claims instead of unemployment, and have added housing starts, consumer sentiment, and a credit spread. In average, our Risk or Good Times Indicator leads recession starts by 18 months. The lower panel above shows changes in the squared index (if index >0) to accentuate the dangerous declines from high levels

SpareBank 1 MARKETS

Core CPI up in June but still stuck at 1%

The official rate up to 1.1% in June from 0.8% - but the trend is 100% flat, at 1.0%

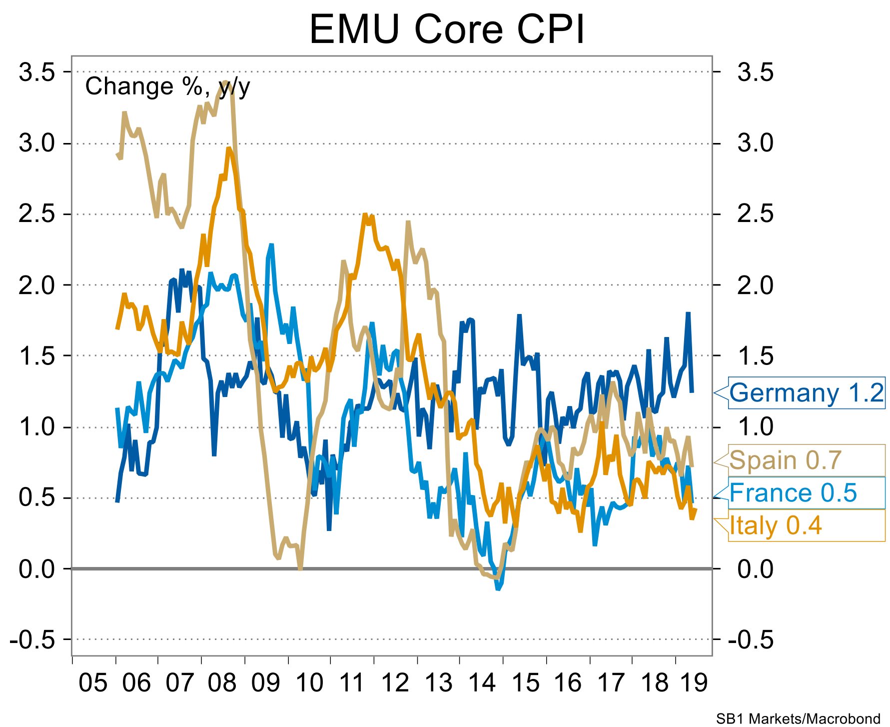


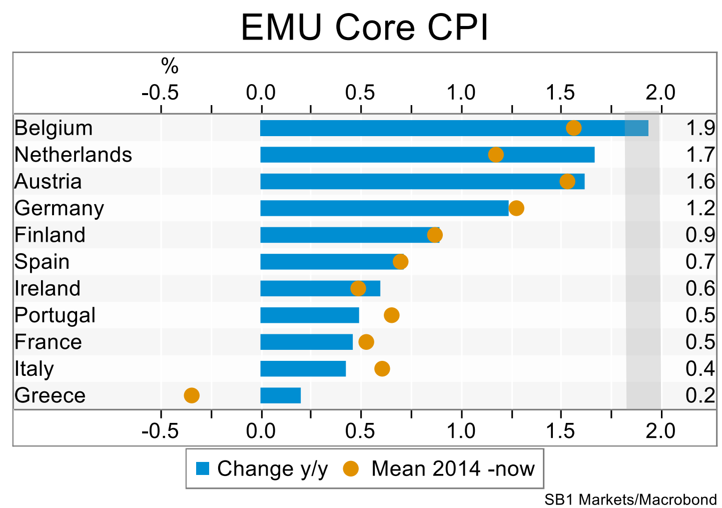


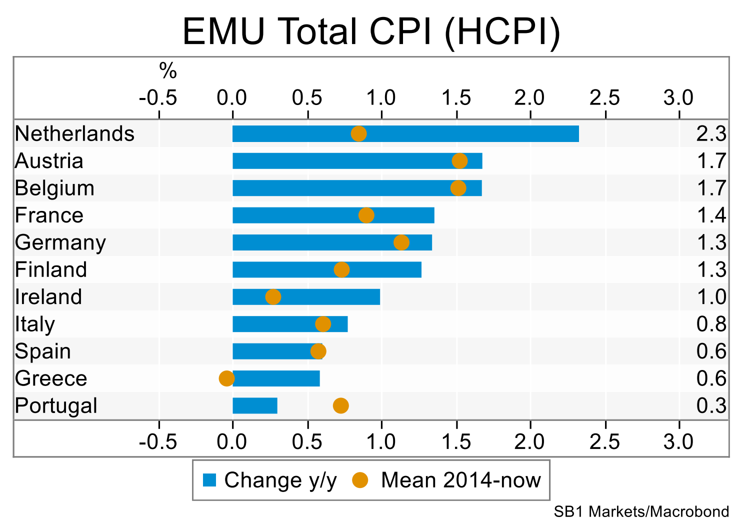
- Core CPI accelerated more than expected in June but according our seasonally adjusted data the rate rose to 1% (from 0.9%), as expected. The Easter creates some extra price volatility during the spring
  - » We core CPI y/y to decline again the during the summer, increasing the pressure on ECB to act – if the eurozone economy does not strengthen the coming weeks/months
- Total CPI growth was flat at 1.2%. If the oil price stabilises at the present level, the headline CPI will decline further the coming months – and substantially, to well below 1%

Core inflation below target almost everywhere

But it's trending down everywhere, ex Germany



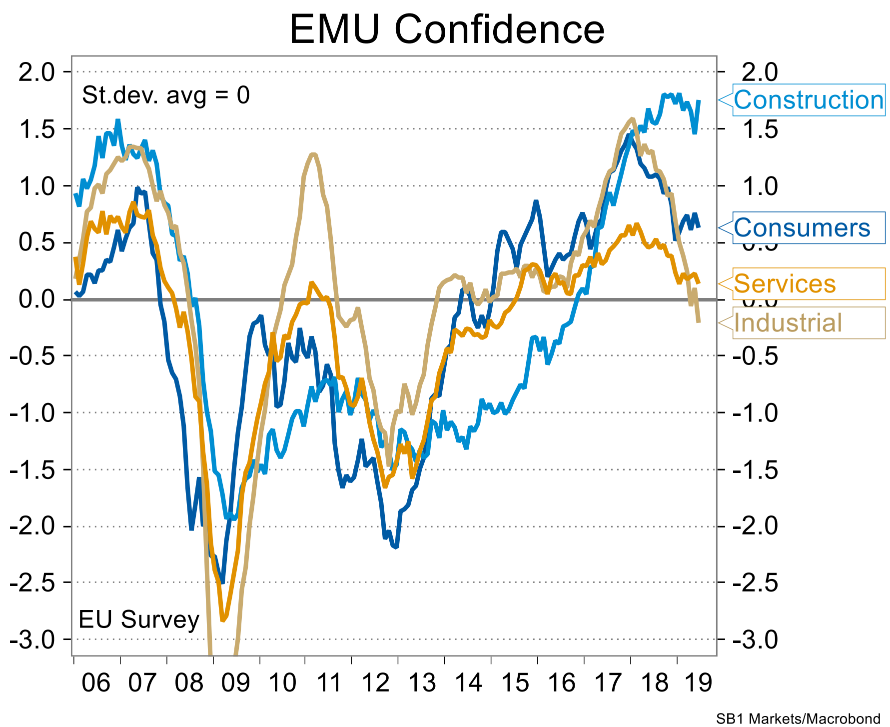


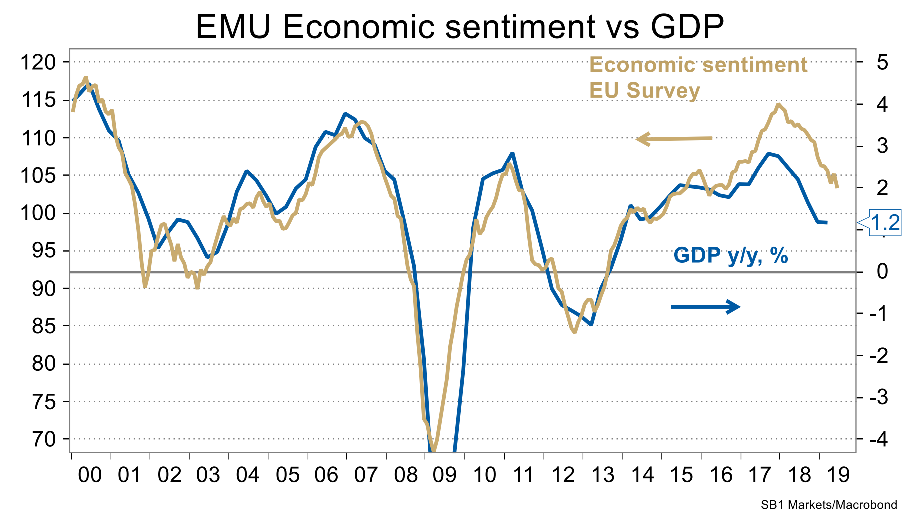


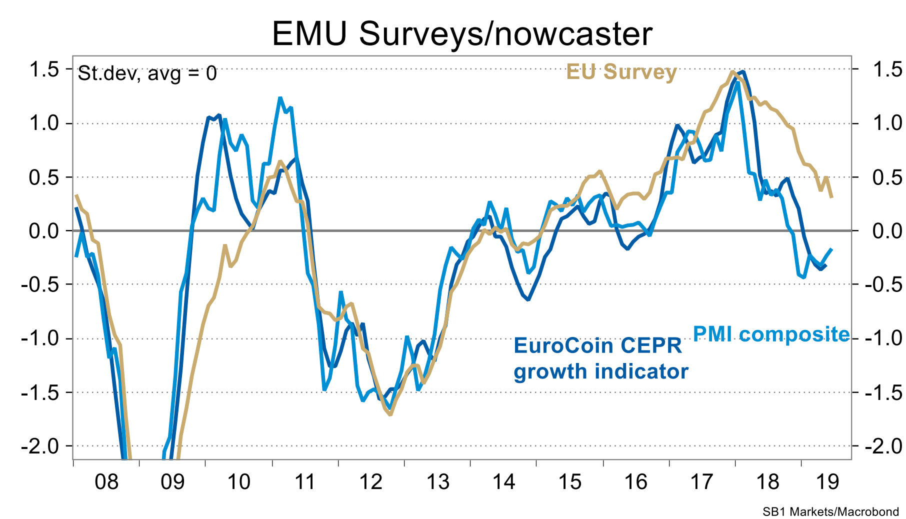
- Core inflation in Germany is up some 1.5% y/y, and has no doubt accelerated.
- In the other major countries core inflation has slowed

EU economic sentiment is sliding down, still more upbeat than other surveys

The ECI is following the PMI and CERP down, and regrettably, it is a lagging one



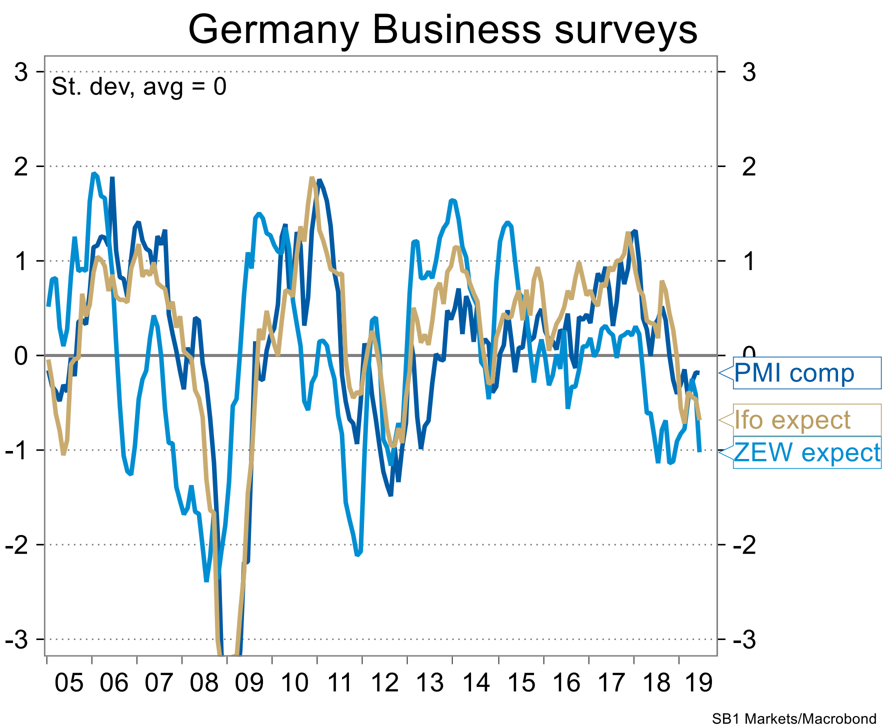


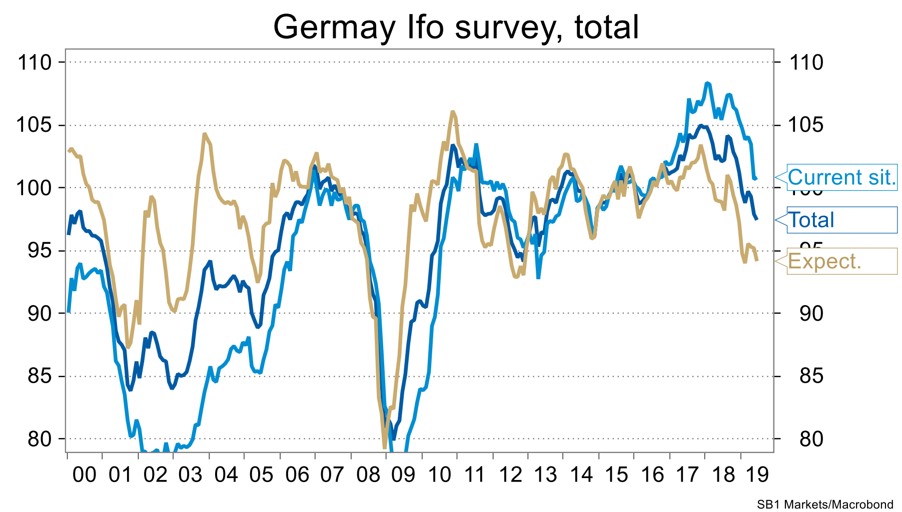


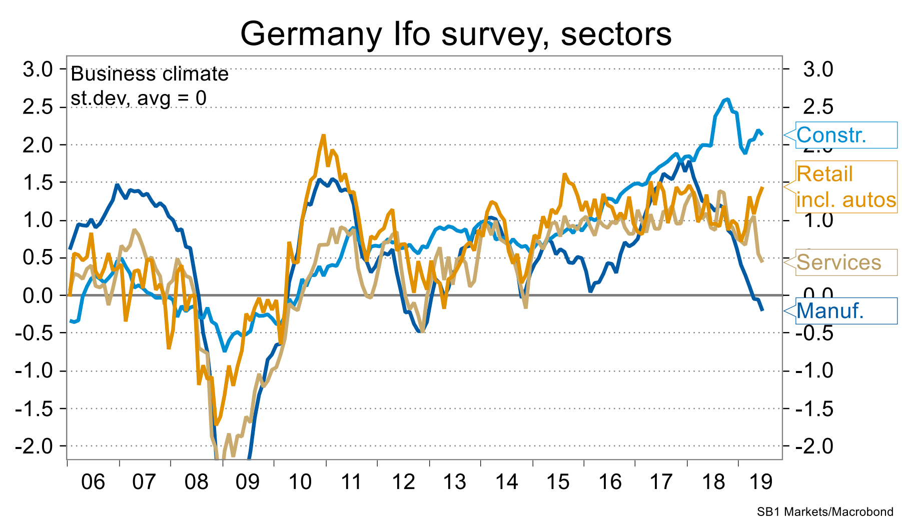
- Total sentiment fell to 103.3 in June, as a strong rebound in construction was not enough to offset slipping industrial sentiment. The survey remains above the average level, however, it has been too optimistic vs growth the past two years
  - » The survey is usually lagging the PMI and CERP
- Huge gaps between sectors; manufacturing is weak, services not strong either, while construction is soaring. Consumer confidence has recovered somewhat recently and is not weak
- The CEPR GDP nowcaster reported a 0.8% q/q GDP in May, most likely closer to the ball!

Ifo business expectation are ebbing, no signs of recovery

Sector wise, only manufacturing sentiment is really weak but services is softening







- Businesses view on the outlook weakened in June. The index has more or less stabilised since February, at the weakest level since the 2012 Euro crisis. The view on the current situation was unchanged, the gap between expectations and the current situation is large, usually not a good sign. Still, businesses are still judging the current situation to be far better than normal vs the avg level since 2000
- The slowdown is driven by struggling manufacturers. Services have slowed somewhat too, while retail and construction are strong and trending up, confirming that these sectors are resilient to the manufacturing dip

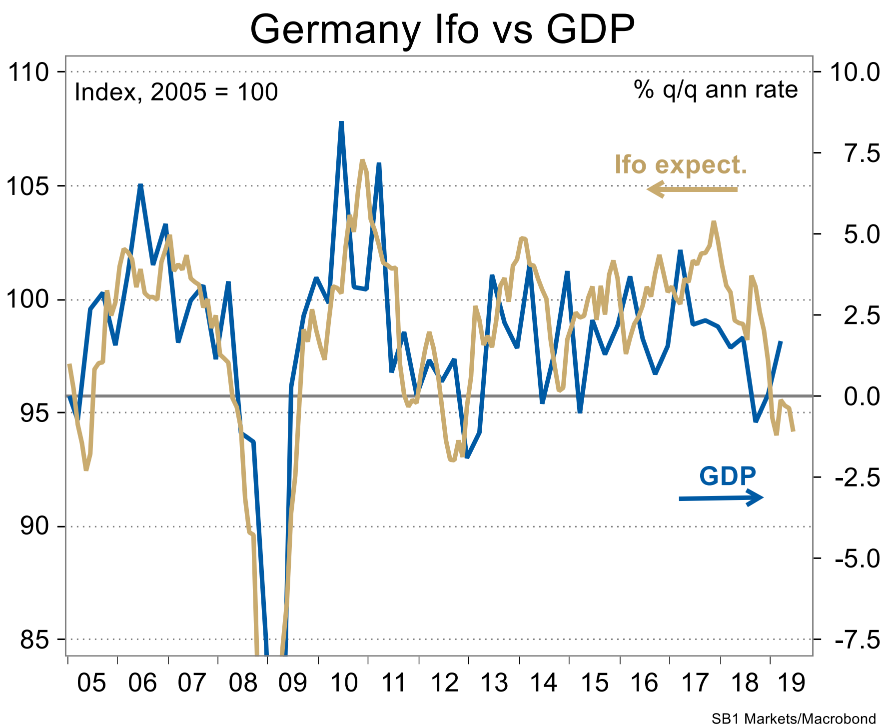
PMI/Ifo expectations signal a prolonged manufacturing contraction

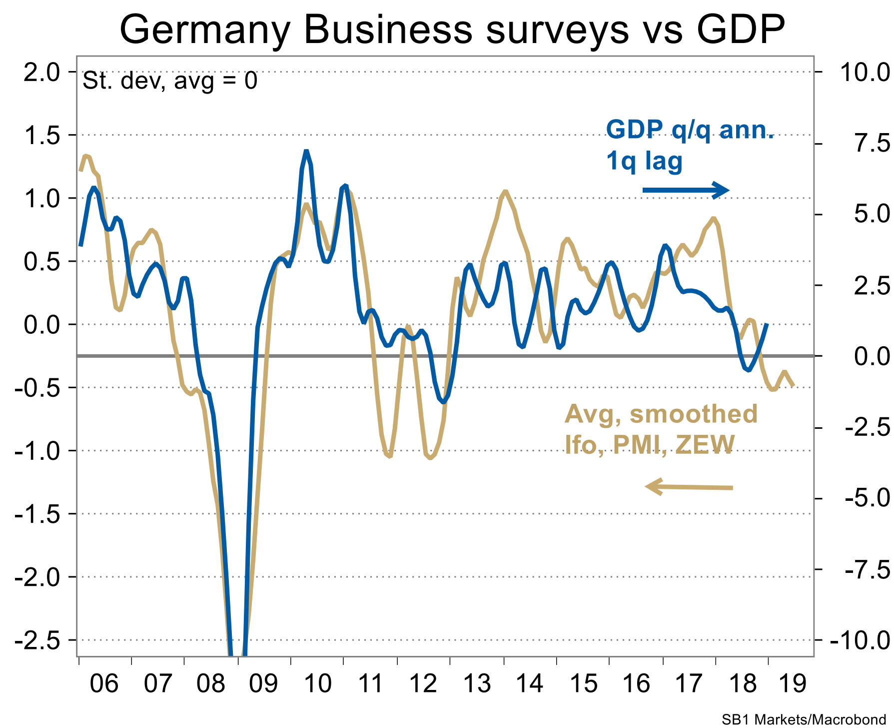
The best news are probably that the surveys have not deteriorated the past 2-3 months

- The Ifo current situation index is much more upbeat than expectations. Unfortunately, this assessment is usually lagging Ifo expectations and the PMI
- What is going on?? The most likely explanation is that global political uncertainties are causing delayed/cancelled business investment decisions, both domestic and among trading partners

Surveys are suggesting a modest decline in GDP in Q2

However, the surveys were too downbeat vs actual growth in Q1

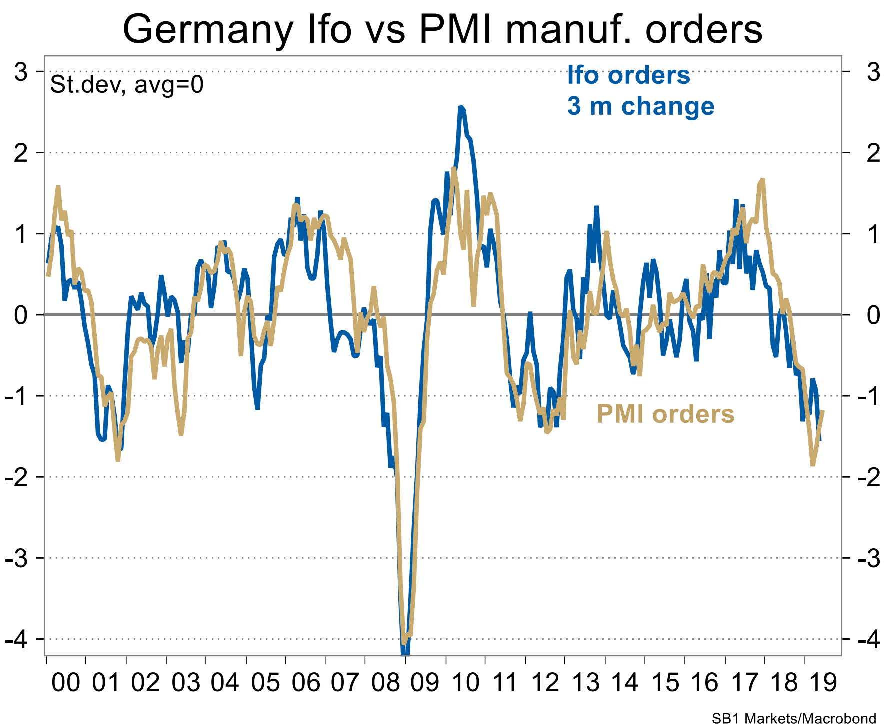


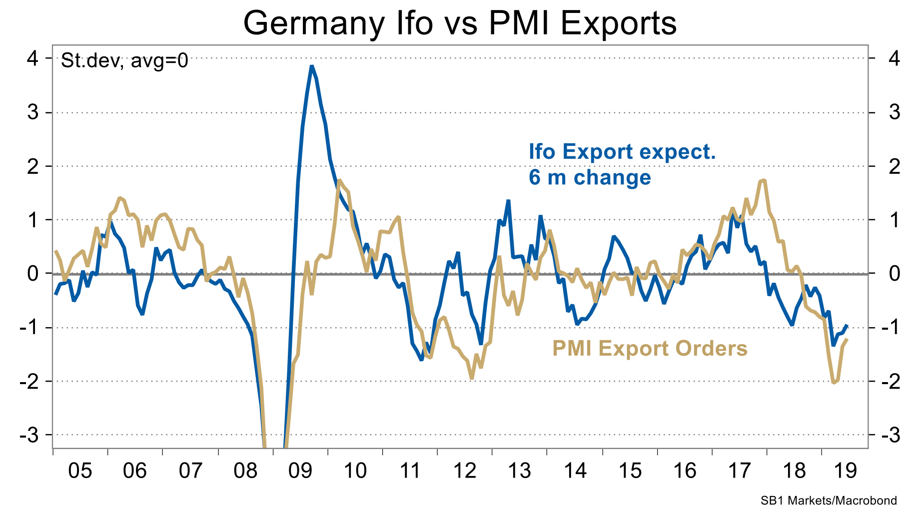


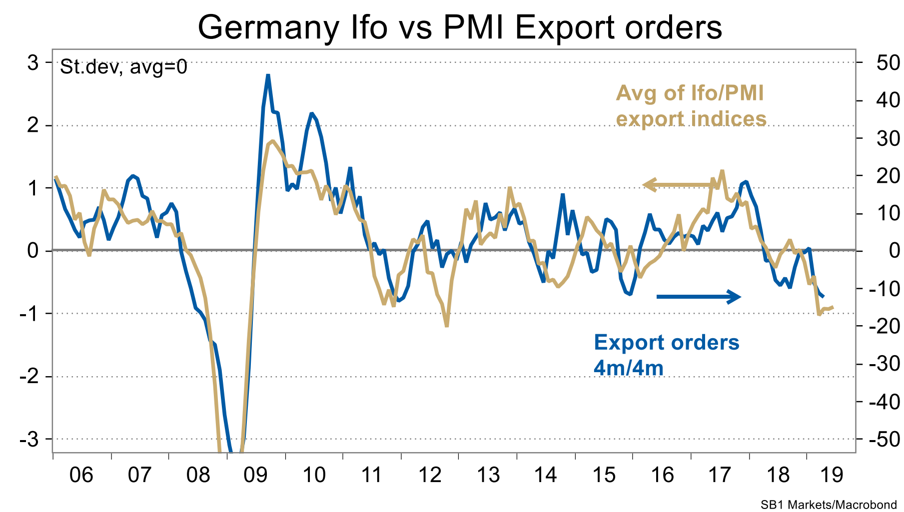
- An avg of the surveys point to a sharp slowdown in Q2, GDP growth at some -1%. Even as the surveys were far too downbeat vs GDP growth in Q1, we doubt that growth will keep up with the Q1 pace. The direction is signalling a rapid slowdown
  - » GDP rose 1.7% in Q1 and the details reveal that both household and business demand and net trade expanded in Q1, quite contradictory to the downswing the surveys have been signalling (more on GDP here)
- Both ZEW, Ifo and the composite PMI are below their average levels. ZEW and Ifo are expectations surveys, whereas PMI reflects current business conditions & order inflows

Ifo order assessments deteriorate, both domestic and export related

Underlying growth (3m change) in orders weakest since 2009, certainly not a good sign



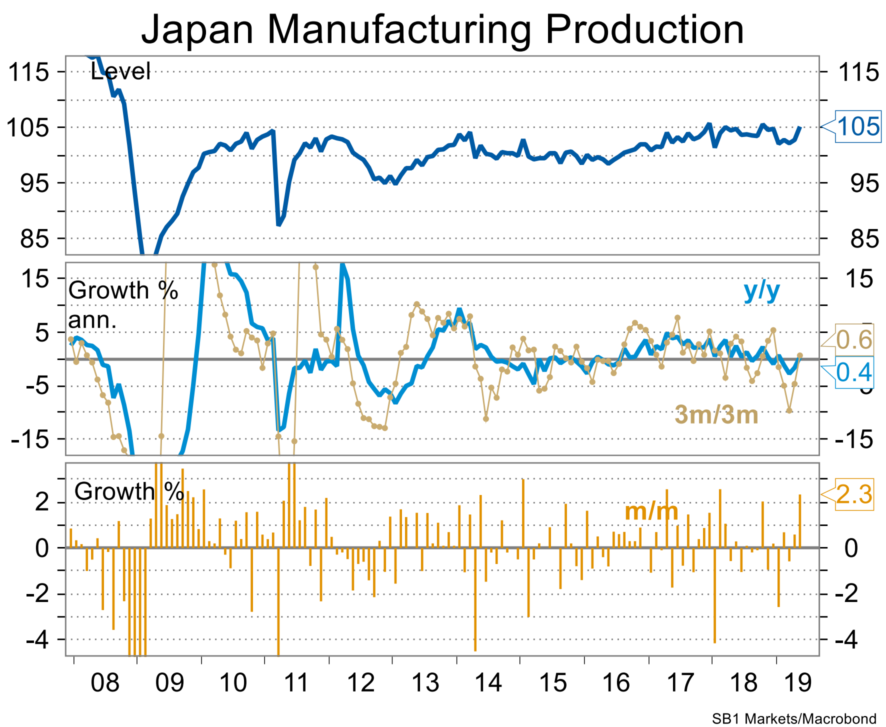


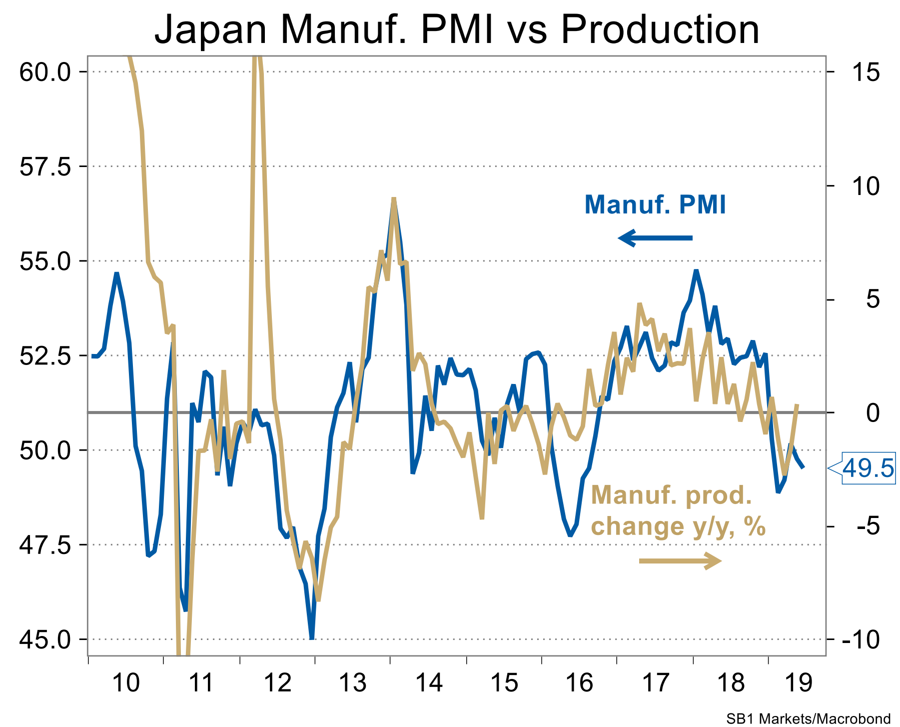


- The level of the Ifo order index is far above the PMI. However, the change in Ifo (here a 3 m change), which is closely correlated to – but usually leading – PMI orders, is falling rapidly
- Ifo export expectations fell further in June, in contradiction to the PMI which is slowly recovering. Both are pointing to declining exports. as the PMI, both pointing to a deteriorating decline in export orders

Manufacturing production sharply up in May, probably a one off

Production rose 2.3% in April, a so far mild recovery into Q2, from a 'disastrous' Q1

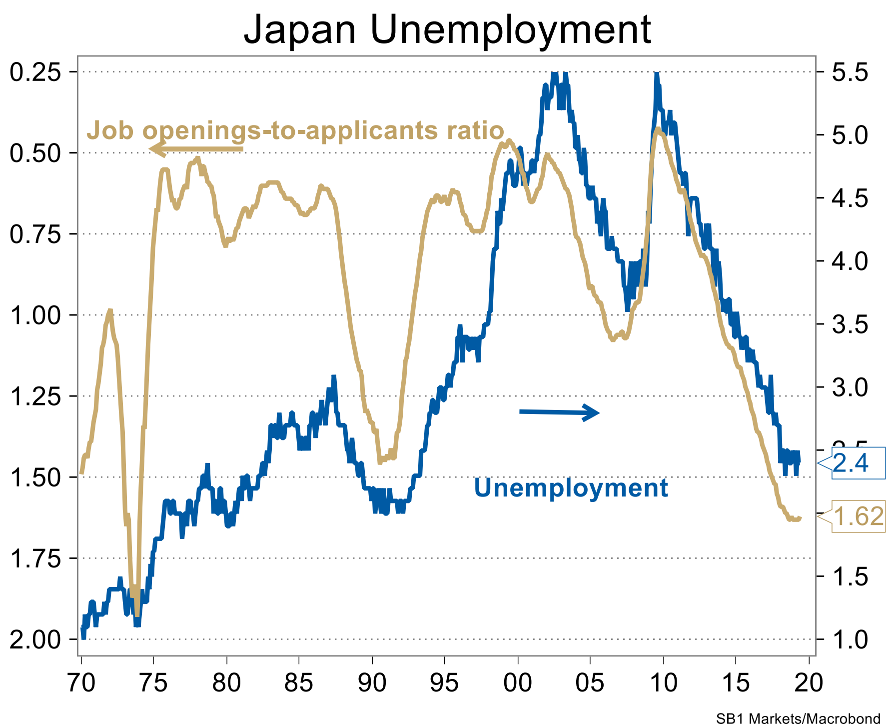


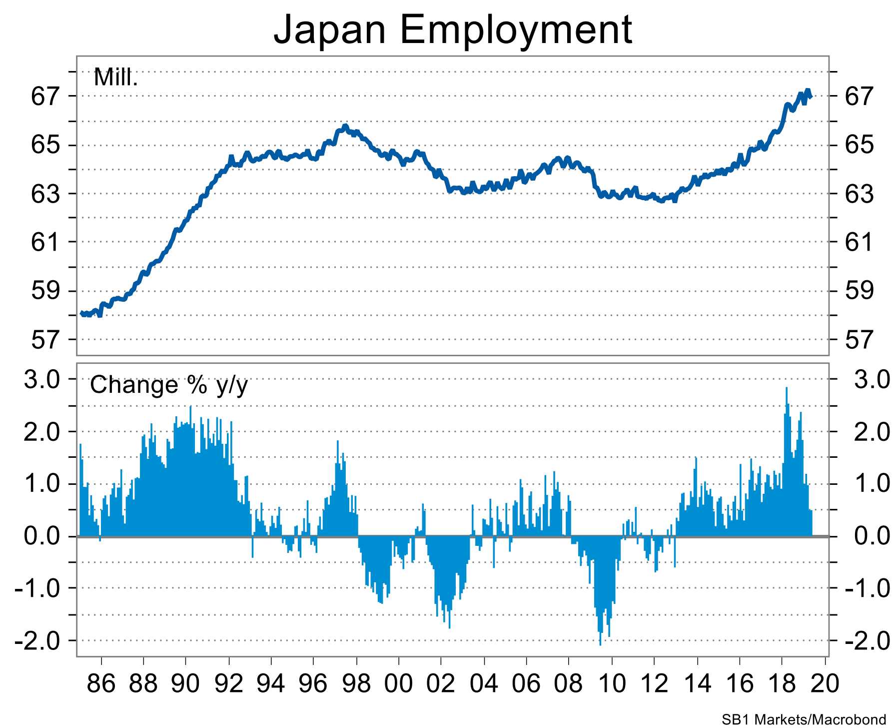


- Manufacturing production increased by 2.3% m/m in May, expected 0.7%. The previous months have been on the weak side and the 3m/3m rate is still close to zero, and production is just up 0.4% y/y. Most likely, production will decline in June (also according to the manufacturers themselves.
- Neither surveys nor orders are signalling any recovery in the Japanese manufacturing sector. Export orders and export volumes have fallen sharply – while domestic orders have kept better up

Unemployment may have flattened out, employment growth has slowed

Unemployment is very low, at 2.4%, close to the lowest level in 26 years

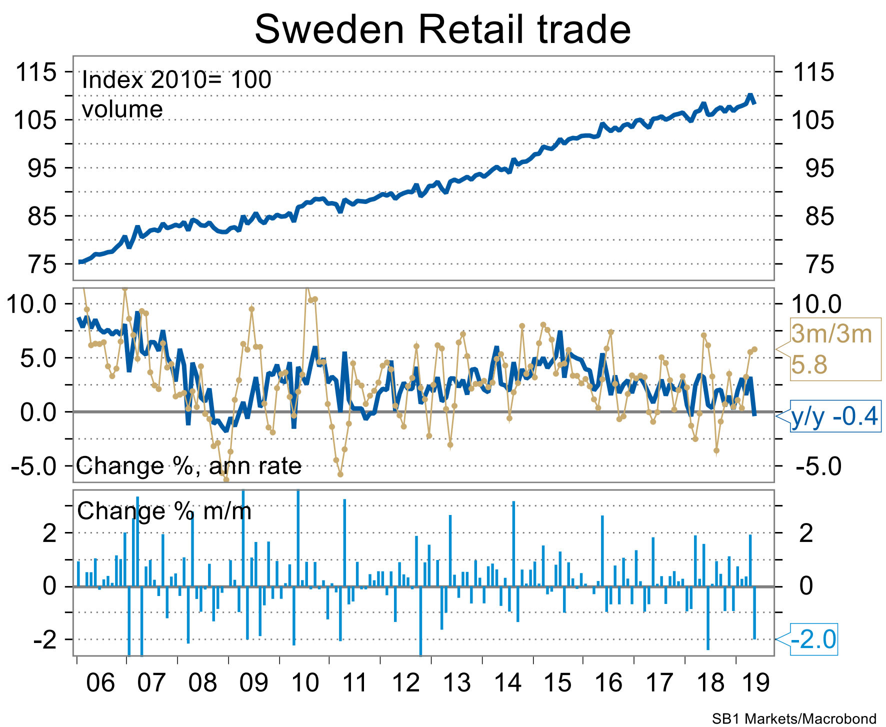




- Unemployment has been more or less flat over the past year, at the lowest level in 26 years
  - » The job openings-to-application ratio is flat at the highest since early 1970'ies, signalling a tight labour market
- Employment may have lost some steam the past months. Employment rates have been soaring, and are at record high levels for all ages/genders, with those over 55 y in the lead. And of course, participation rates straight up too
- Wage inflation has fallen recent months
- 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'?

Retail sales down to a 'normal' level in May

The close to 2% spike in April may have been an Easter story, sales fell 2% in May. Level still OK



- The unusual lift in retail sales in April was reversed in May, and the level is marginally lower than in March. Easter effects may have contributed, like in Norway. Still, sales have been slowly improving recent months and are more or less back at the 2.2% growth path, following a soft slowdown in H2 last year
- Price inflation is subsiding, supporting volume growth. More to go?
- On the other hand, consumer confidence is weakening and is not pointing to a consumption upswing. A soft housing market is not indicating brisk demand either. However, households' disposable income is rising and employment is still growing, not arguments for a slowdown in consumption

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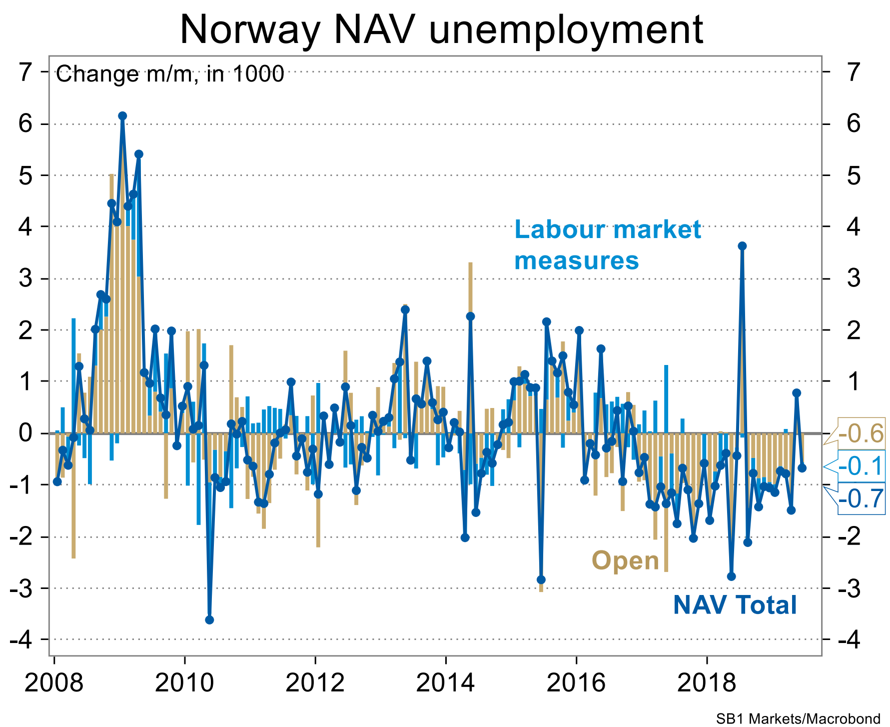
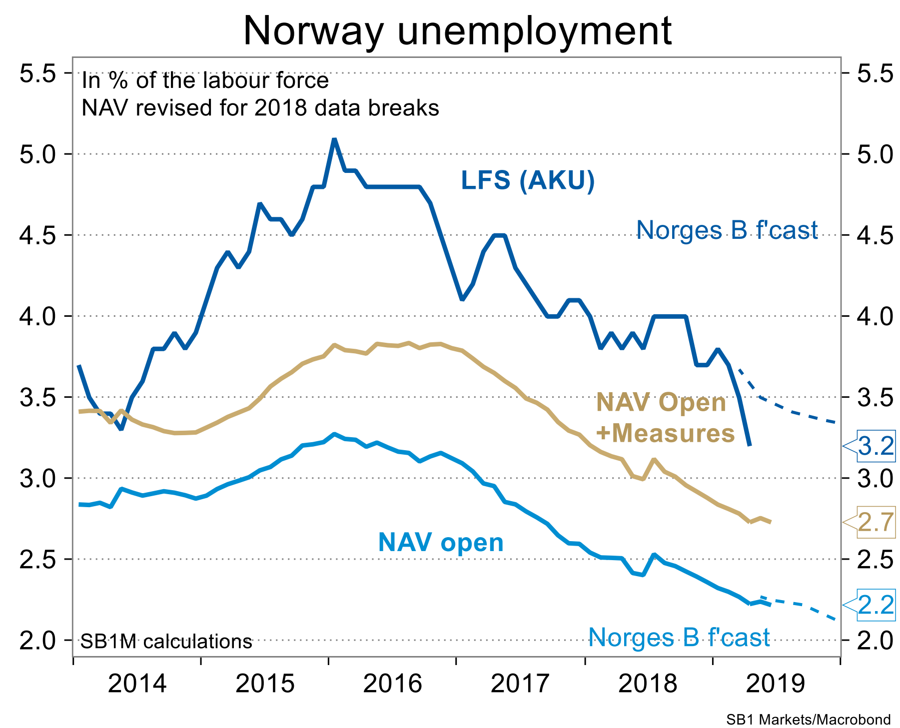
NAV unempl. reversed the May hike, LFS sharply down. Still, some weakening?

NAV total down by 0.7' persons, trend down. But new claims, layoffs & vacancies send a signal??

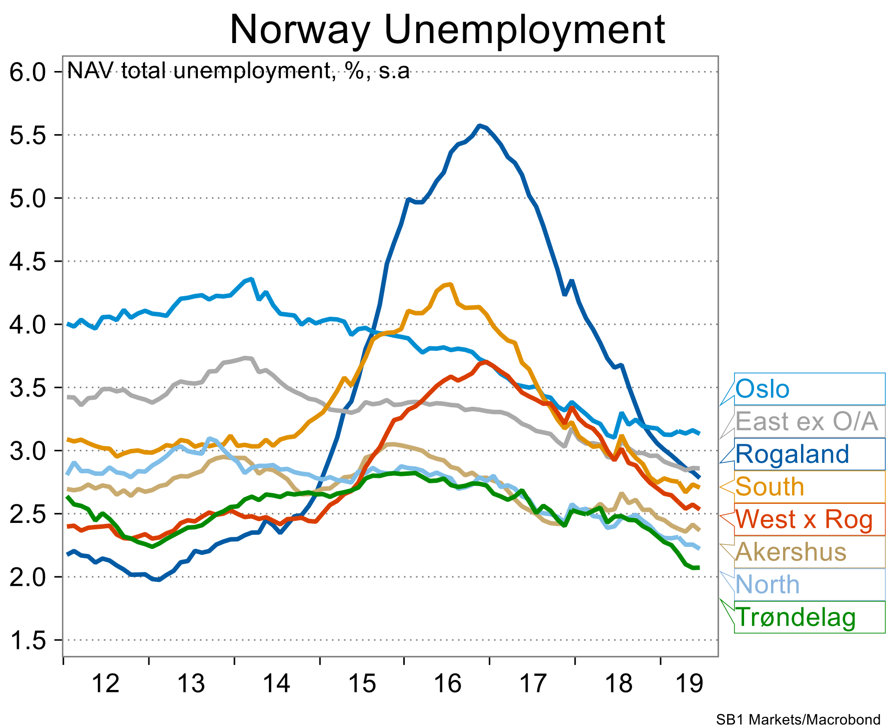


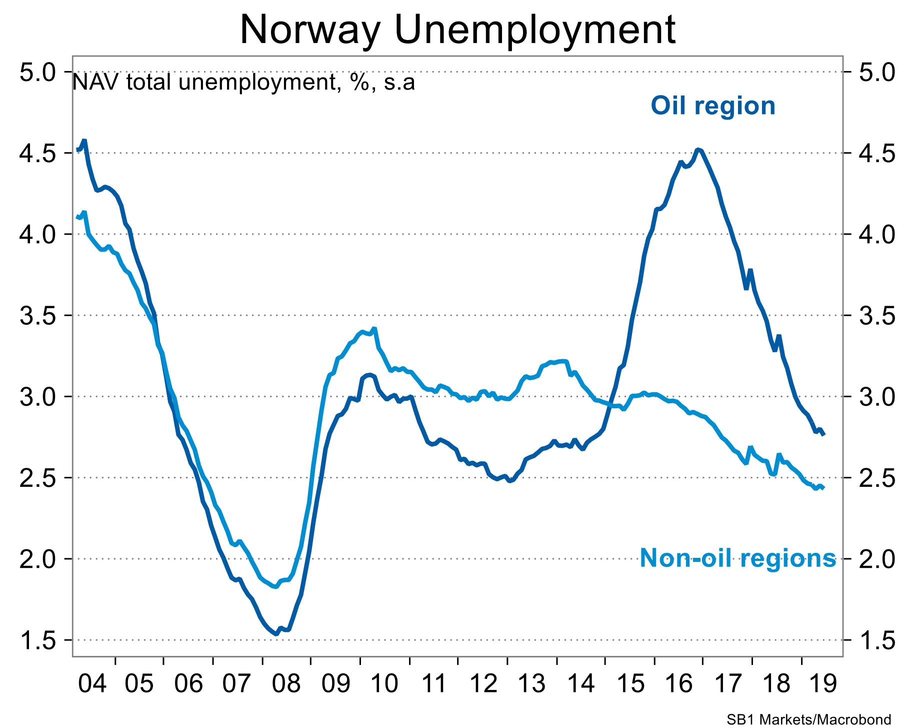


- Both open and total (incl measures) unemployment reversed the May (technical) hike in June, as we expected, down to 77,'0 from 77,7'. However, the total has fallen by less than 500 persons per month the last 3 months, vs the more than 1' decline per month the prev. 6 m. It may be just by accident but the more gradual speed of decline may be for real as well
  - » The number of new claims is not falling anymore (and has increased marginally recent months)
  - » The number of new vacancies have fallen marginally lately which may indicate weaker demand for labour
- On the other hand, the LFS unemployment rate fell 0.3 pp to 3.2% in May (exp. uch) following the decline from 4% late last year (although mostly due to a substantial decline in the participation rate, but anyway signals a tighter labour market)

Unemployment is falling everywhere – except in Oslo

Trøndelag reports the lowest unemployment rate



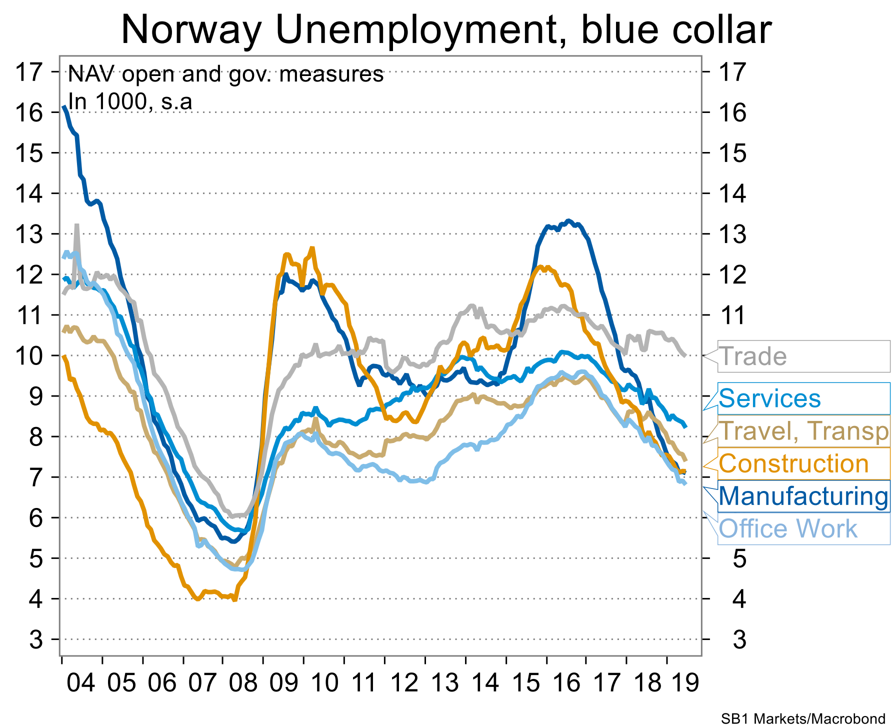


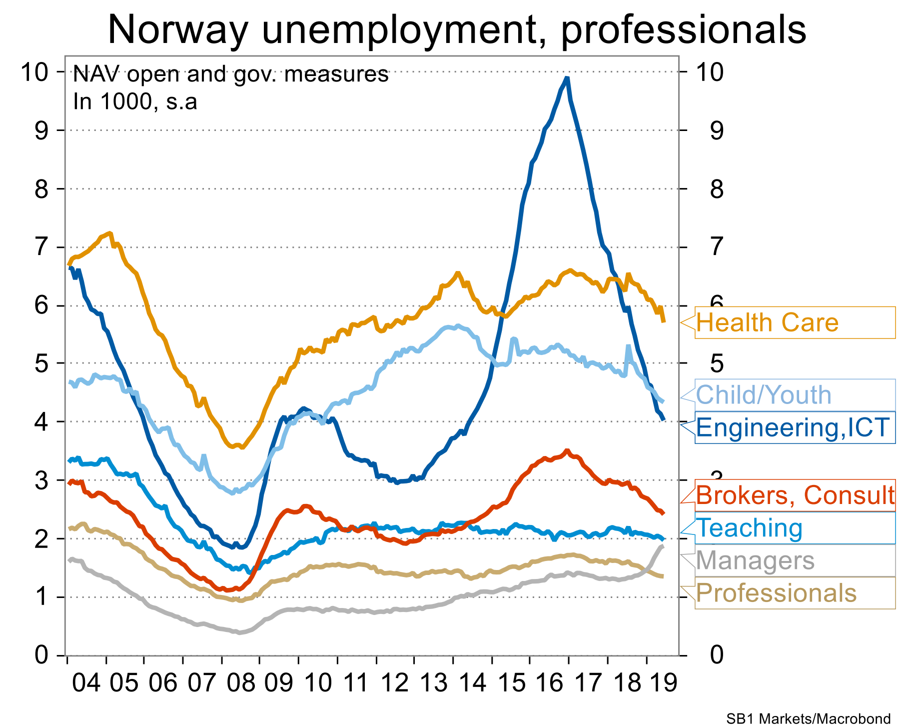
- Unemployment rates have fallen less in Oslo and Eastern counties ex. Akershus than in the rest of the country recently. Unemp. in Rogaland and the rest of the Western (oil) coast is still decreasing rapidly. The downturn in Trøndelag is accelerating, too! North at a softer pace
- The unemployment rate in the 'oil region' (Agder, Rogaland, Hordaland, Sogn & Fjordane, Møre & Romsdal) has dropped to 2.8%, from 4.5% in late 2016 and is just 0.4 pp above the non-oil regions

Regional unemployment data are not fully adjusted for 2018 changes in NAV unemployment data collection methods

Unemployment is falling among all occupancies, even in retail trade?

Engineering, manufacturing, construction are dropping. Retail struggles but may be recovering





- Unemployment in engineering & ICT sectors and manufacturing is falling rapidly
- Most other sectors are heading down, teaching just marginally – ant here is a huge increase among managers? A change in definitions explains mot of the latter
- Retail trade har has been the soft spot, no surprise given sluggish sales the past year. However, now unemployment is falling even here
- Unemployment in other 'blue collar' occupancies have dropped since 2015/2016, services somewhat slower than the others

Occupancy unemployment series are not fully adjusted for 2018 changes in NAV unemployment data collection methods

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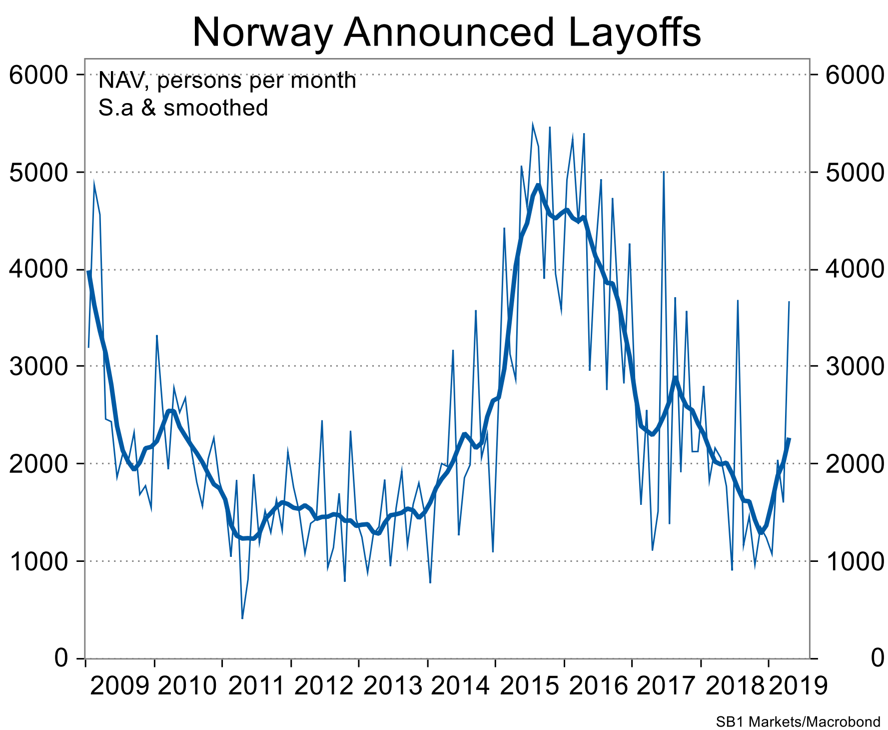
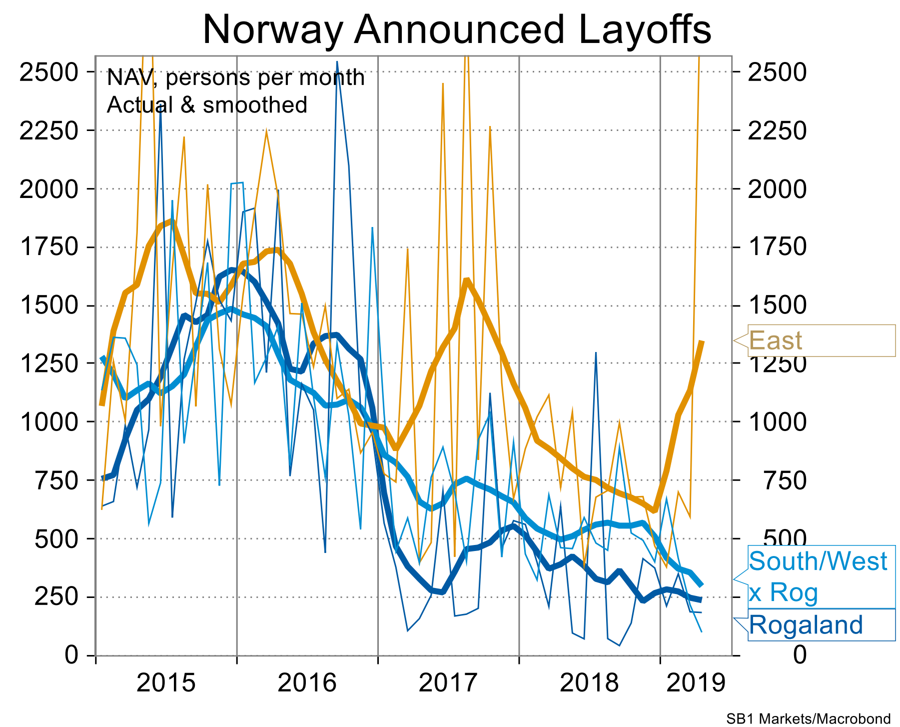
Volatile layoffs sharply up in April, due to an increase in Eastern Norway

The pervious two months also higher than the late 2018 bottom

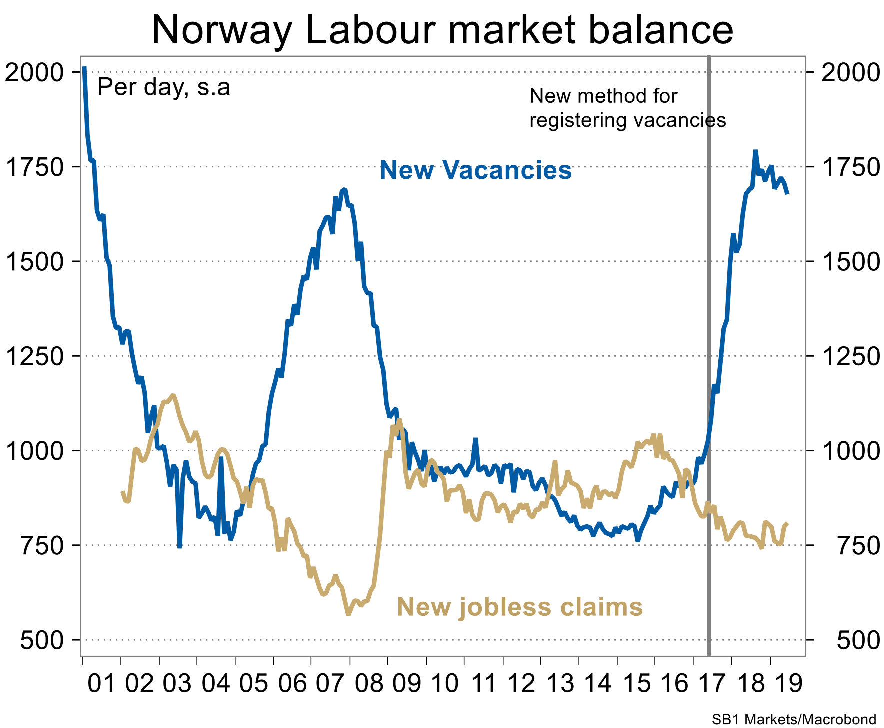


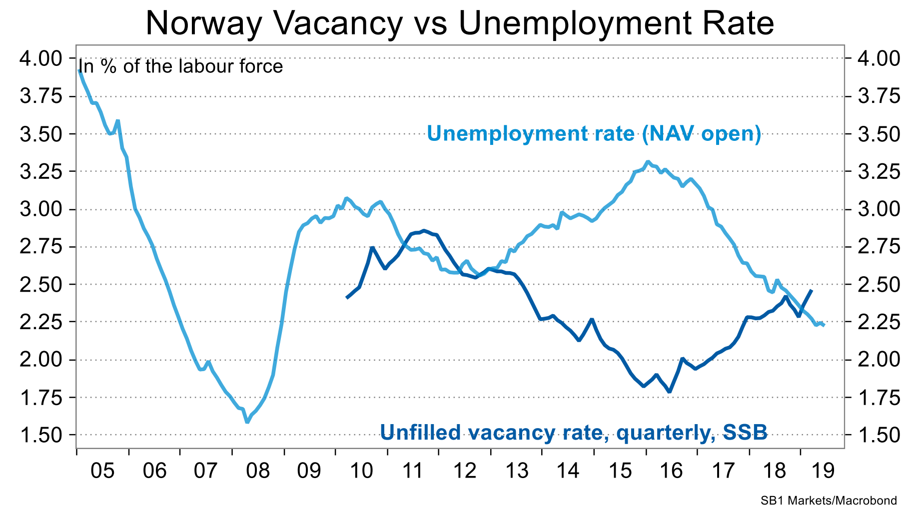


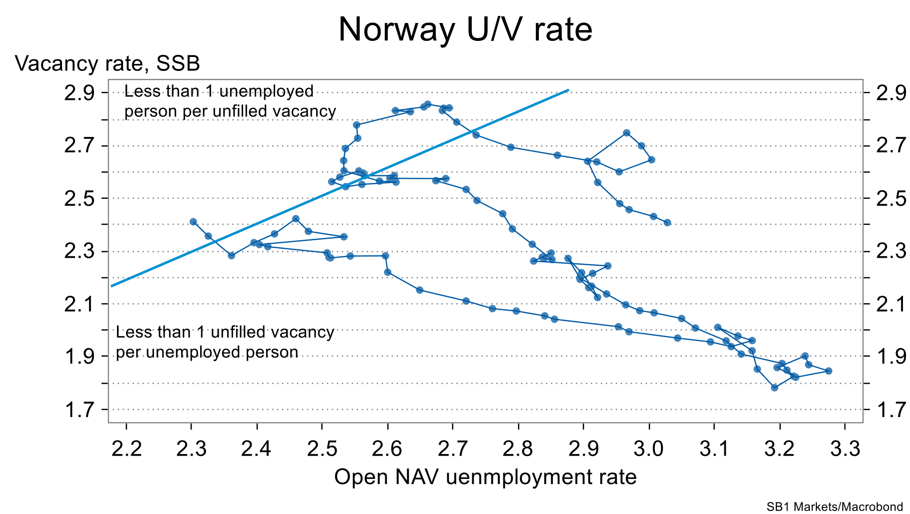
- The April level approached 4' layoffs, up from the 1'+ level late last year
  - » These monthly data are very volatile and should not be taken too literally from one month to the next
  - » Still, we may see an uptick
-

No further decline in new jobless claims. Fewer (but far from few) new vacancies

Two signs of a somewhat calmer labour market. But SSB reported more unfilled vacancies, in Q1



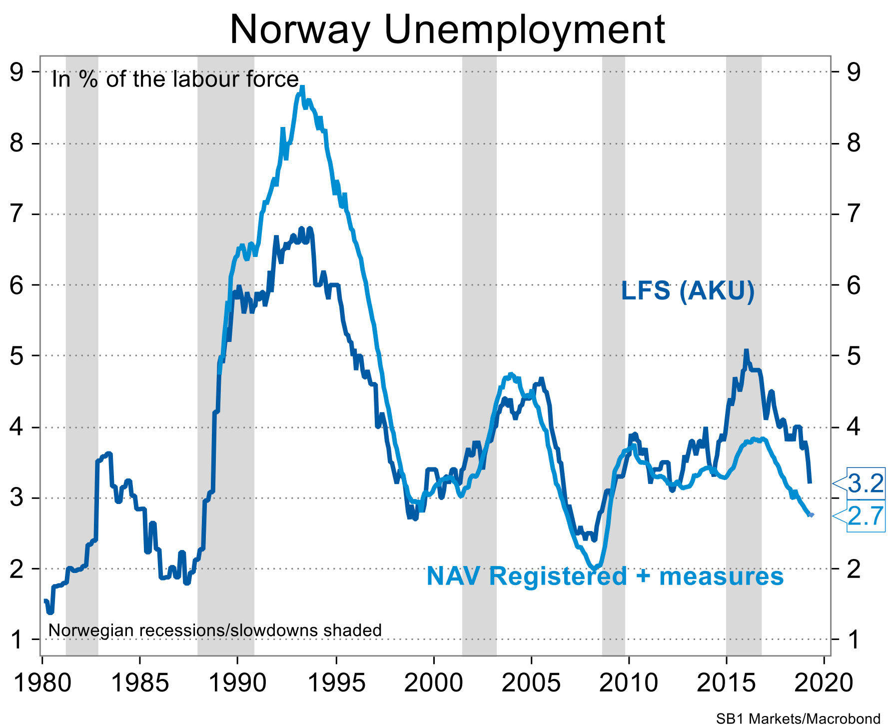


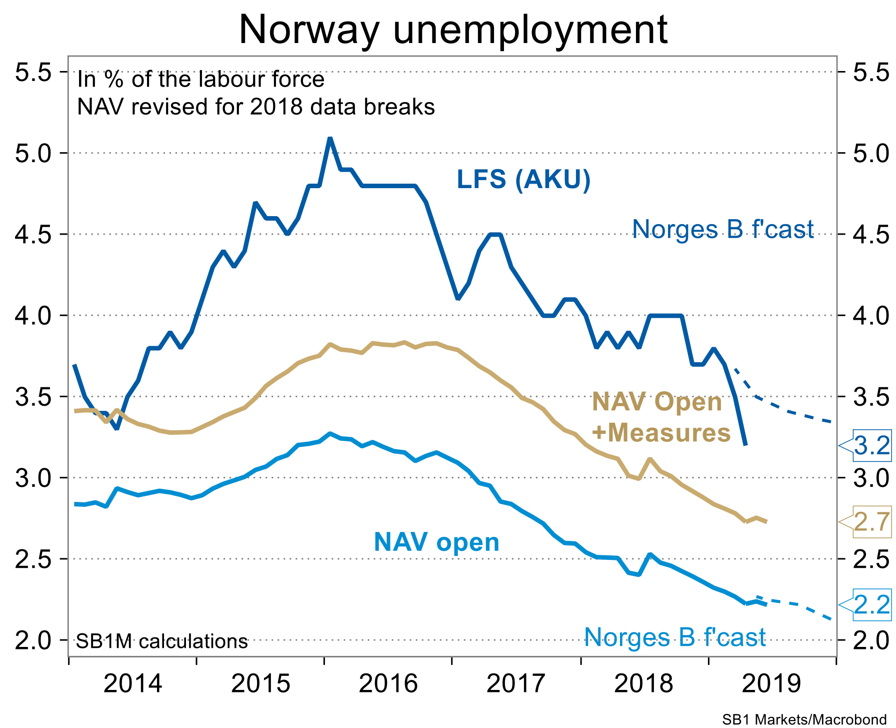


- New jobless claim rose further in May, to above 800/day. New claims have flattened out the past year, and the trend is not down anymore.
- NAV has been reporting a declining number of new vacancies since the peak last August. Due to new collection methods, the level is not comparable to old data
- On the other hand: SSB reported an increase in the no of unfilled vacancies in Q1

LFS unemployment takes another dive to 3.2% in April, below any f'cast

Unemployment dropped 0.3 pp as the labour force retreated – supporting Norges Bank's stance

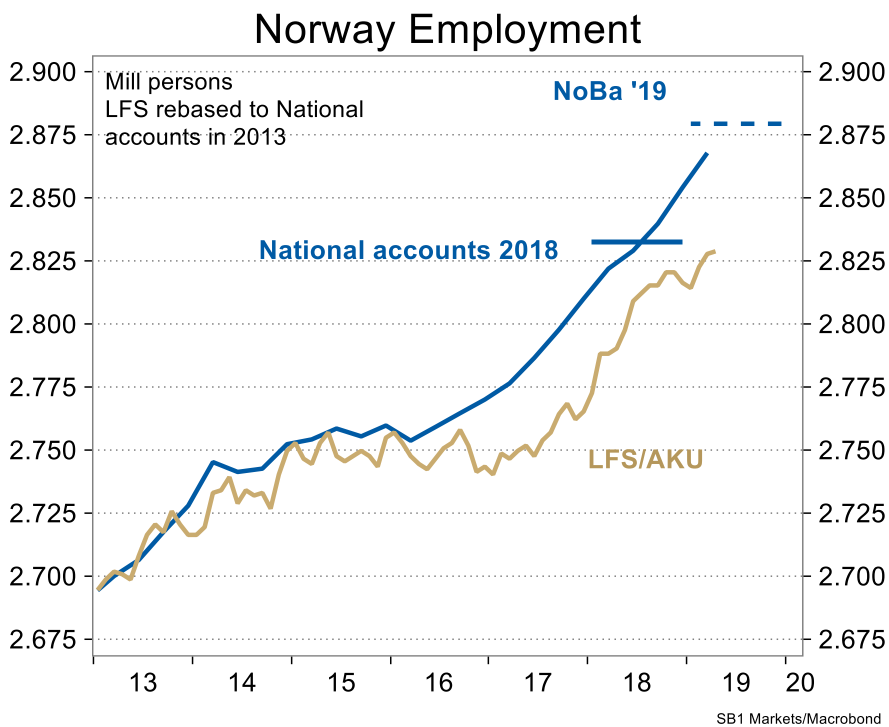


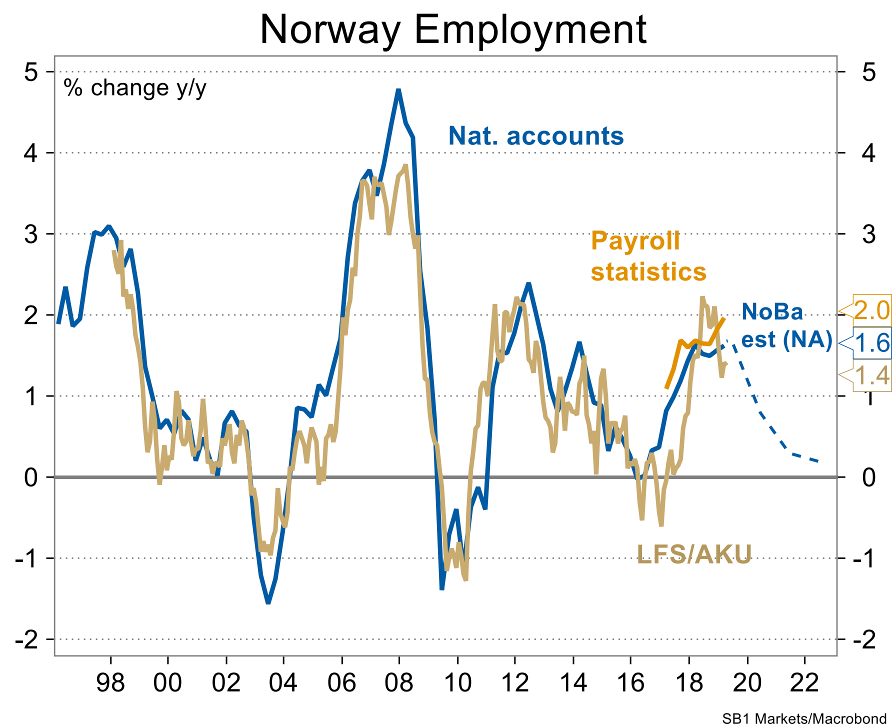


- LFS (AKU) unemployment rate surprisingly dropped to 3.2% in April (avg Mar-May), from 3.5% the prior month, an unchanged rate was broadly expected. The downswing came after a drop in March, in sum a 0.5 pp cut! This decline strongly indicates that the upswing to 4% last summer was just transitory or technical; unemployment is trending steeply down (but not as fast at over the past two months, of course
  - » Employment rose by just 1' in April and the annual rate was unchanged at 1.4%, 0.2 pp below Norges Bank's f'cast. Labour market participation fell by 8' persons, thus, the entire upswing in the participation rate the past year is reversed! Indicates that supply is 'emptied' and the labour market is becoming tighter, an argument for an aggressive Norges Bank
- The LFS data confirms the steady decline which NAV has been reporting – and the latter is much less volatile

Employment is growing strongly; LFS softer than other measures

LFS is up 1.4% y/y, 0.2 pp below the Q1 Nat. Acc., and 0.2 pp below NoBa's upwardly revised f'cast

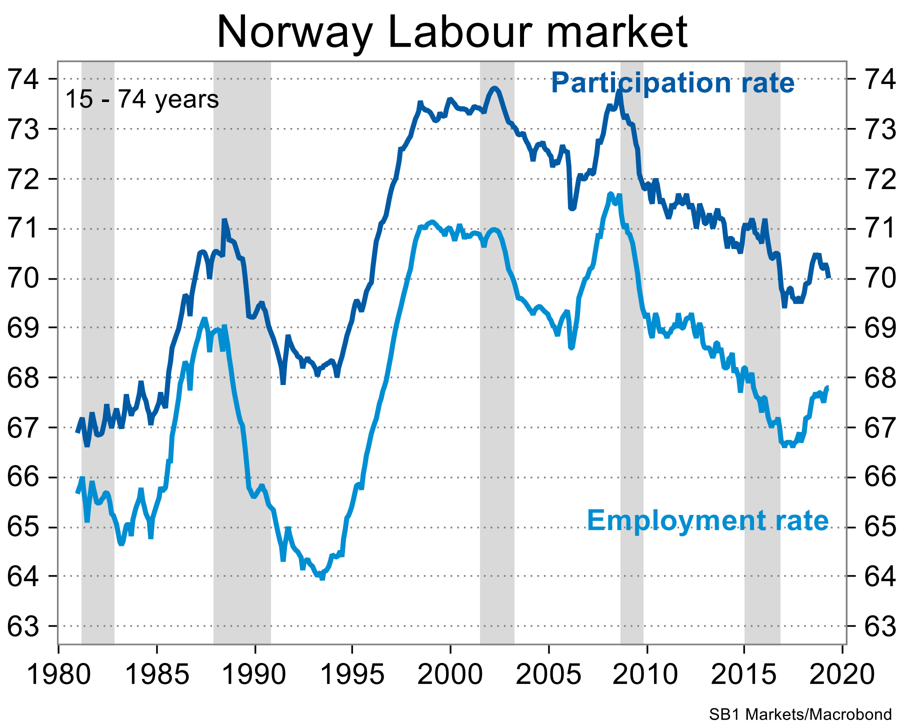


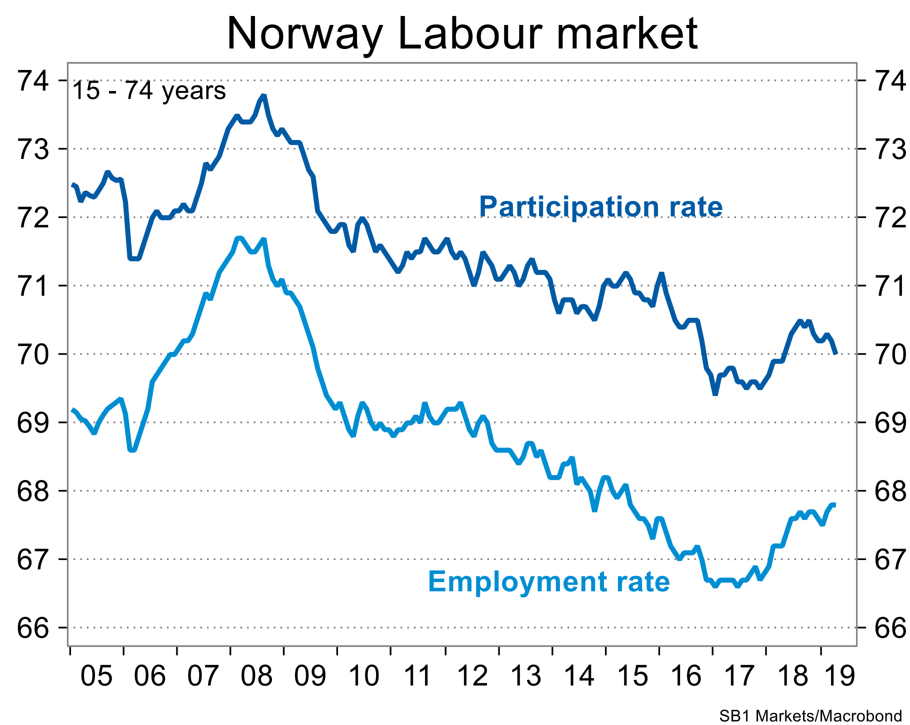


- Employment measured by the LFS accelerated through 2017 and the first half of 2018, to above 2%, has eased somewhat the past 6 months. Other data suggest a further increase in employment
- National accounts' employment figures (and the new quarterly register employee statistics) are no doubt more accurate than the LFS survey data. Nat. Acc. reported a more rapid increase in employment than LFS through 2017 and is noting stable employment growth the past year, to 1.6% in Q1. The LFS figures were probably too high last summer
- In the June MPR, Norges Bank nudged up its 2019 employment f'cast by 0.3 pp, to 1.7%
- The working age population growth has slowed to 0.6% y/y, from 1.75% at the peak in 2012. A 1.5% employment growth is far above trend

Labour market participation is retreating again! Limited growth potential?

Employment climbs while participation is softening, almost ½ of 2018 increase is reversed





- The long term downturn in the participation rate and employment bottomed one year ago and both were growing strongly through 2018, up some 1 p. However, participation has pulled back for 6 months and fell steeply in April, indicating that supply is emptied? Signs of a tighter labour market and limited growth potential (=higher interest rates!)
- Employment is still growing, although at a somewhat slower pace than one year ago, according to the LFS. As participation pulls back, unemployment falls rapidly
  - » Wage inflation is picking up, reflecting a strengthening labour market, and more is expected, according to NoBa's expectations survey

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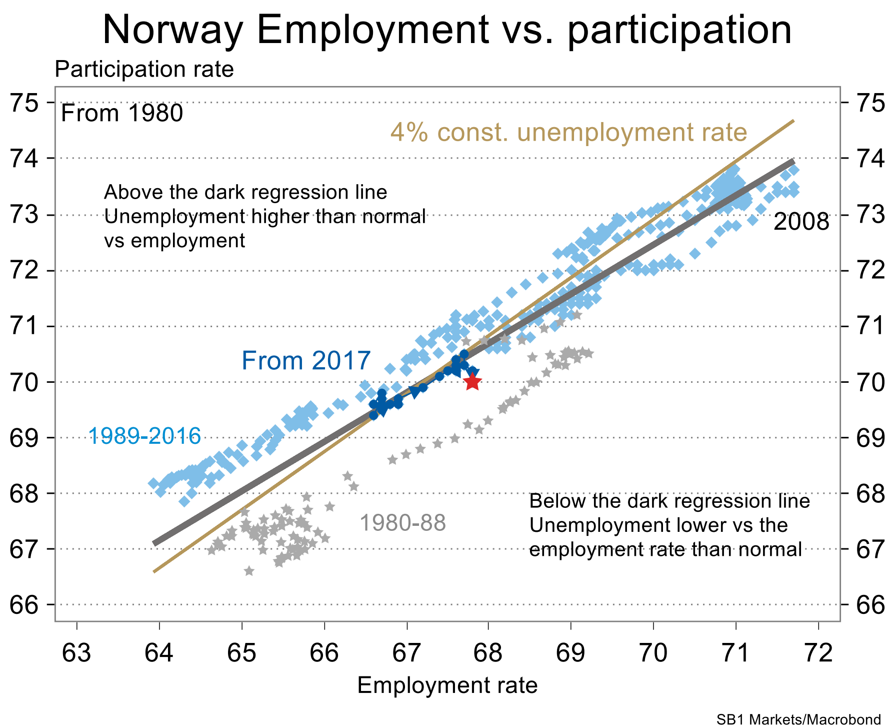
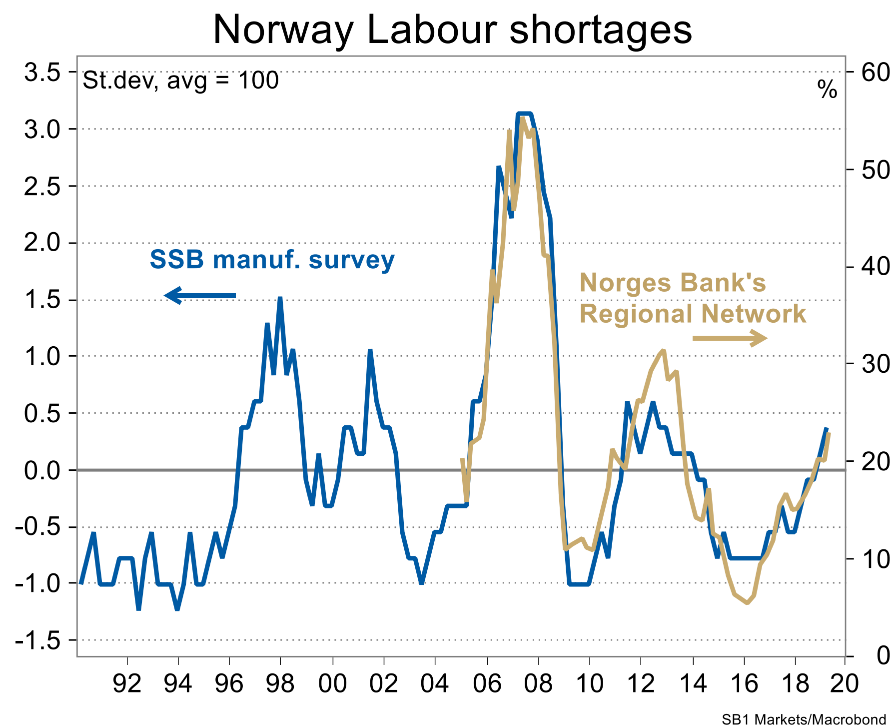
Particiaption is sagging vs. employment – signals supply constraints

Participation is not responding to increased demand for labour

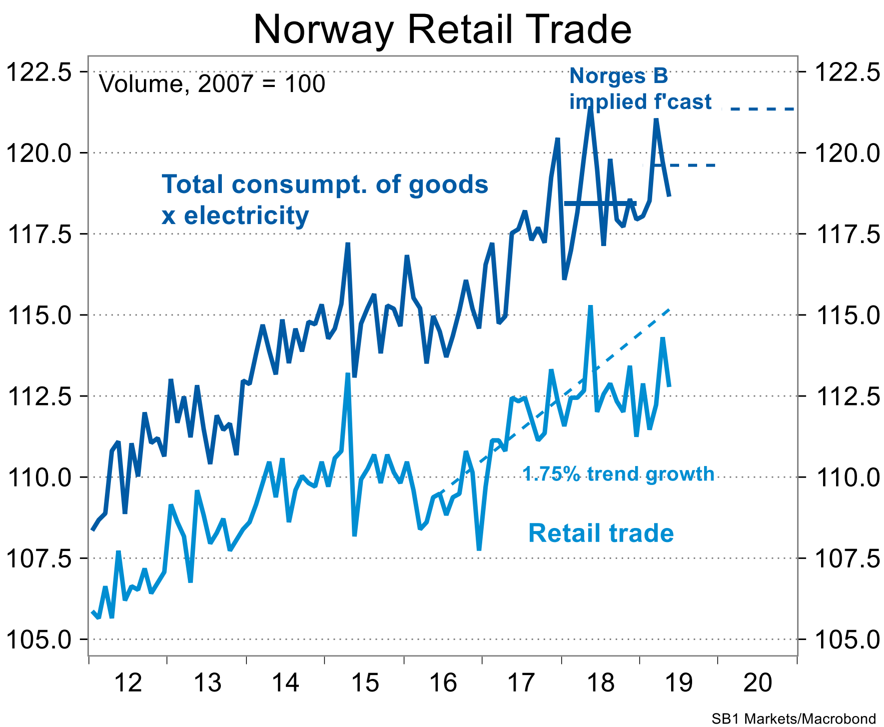


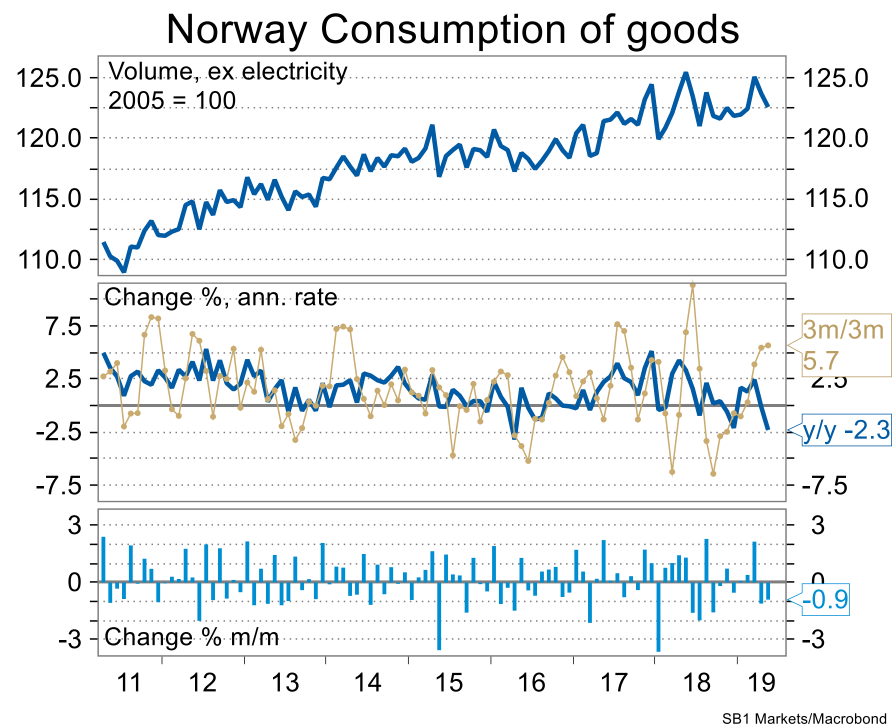


- The Norwegian unemployment rate is quite stable compared to changes in the employment rate – because the participation rate usually is quite responsive to the chances of getting a job; the employment rate. Flexible labour immigration from the EU has also contributed to keep the Norwegian unemployment 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, far in 2019, the participation rate has declined even if the employment rate has increased, we are moving south-east! Thus, the unemployment rate has become too low vs. the employment level
- Businesses are reporting increasing labour shortages, although still below previous business cycle peaks

Retail sales pulled back more than expected in May, trend still up?

Retail sales dropped 1.3%, reversing 2/3 of the April spike. Still, sales are up from Q4/Q1 trough

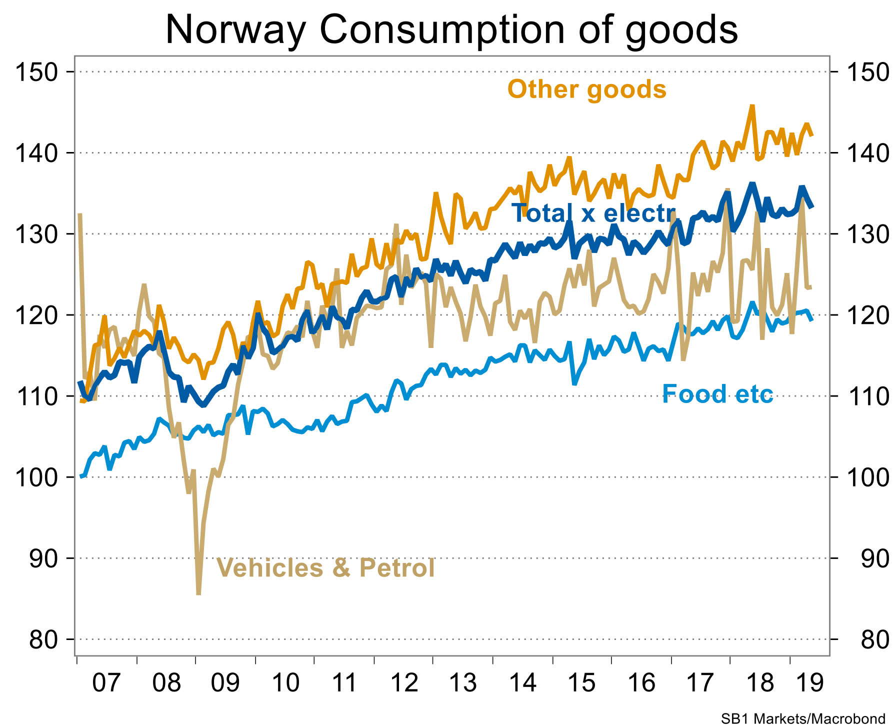




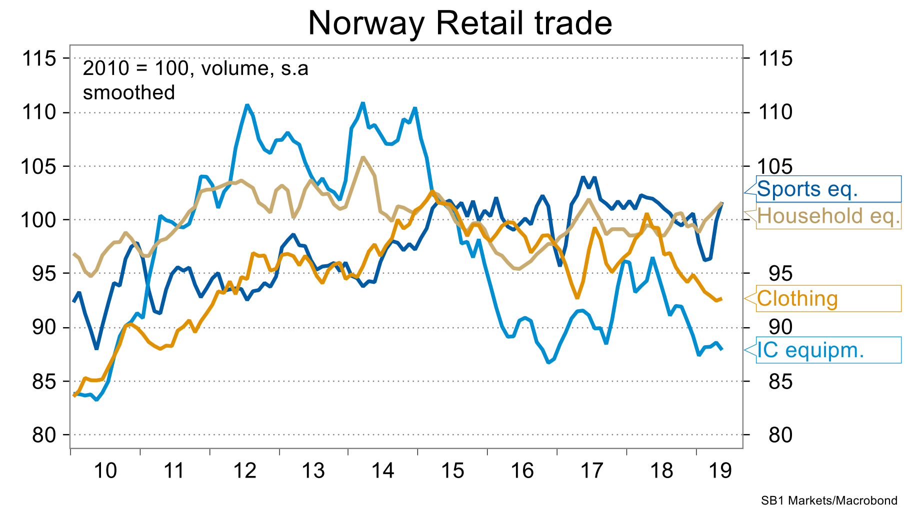
- Retail sales volume (ex auto) slipped 1.3% m/m in May, below our and consensus' f'cast. The downturn indicates that the April jump (up 1.9% m/m) may gave been caused by unadjusted Easter effects. Nonetheless, sales have improved the past 3 months, after stagnating in 2018/early 2019. Underlying growth is up 4.5% (measured 3m/3m annualised), annual rate still down 2.2% - vs the spike in May last year. Growth in net sales have slowed sharply
- Total consumption of goods (ex electricity) has slowed the past two months, down 0.9% m/m in May but is still trending up. Total consumption value softened to 2.1% y/y, from above 5% last summer, as retail price inflation has been subsiding – without an acceleration in volume growth
- <u>Consumption is not thriving yet we expect modest growth the coming months as the effect from retreating price inflation materialises</u>

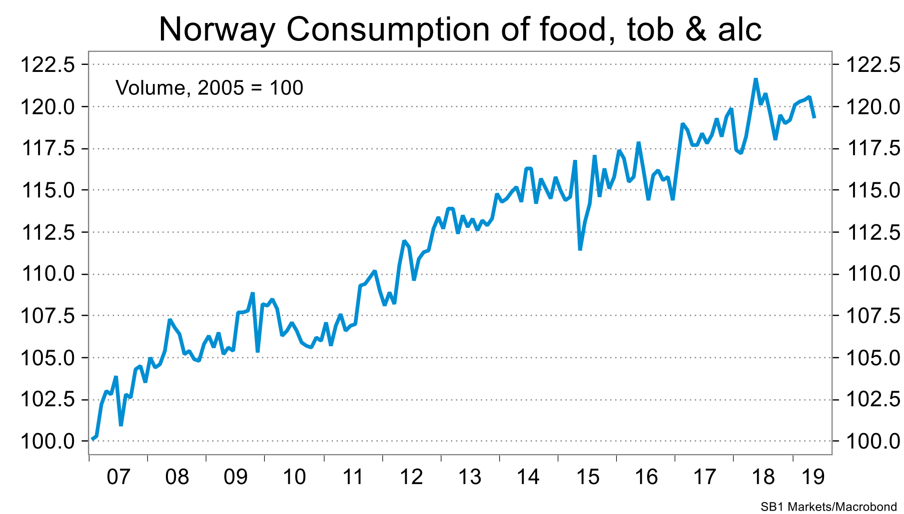
Household & sport equipment sales are improving, clothing slides down

Food sales plunged in May, trending flat (at best) the past year



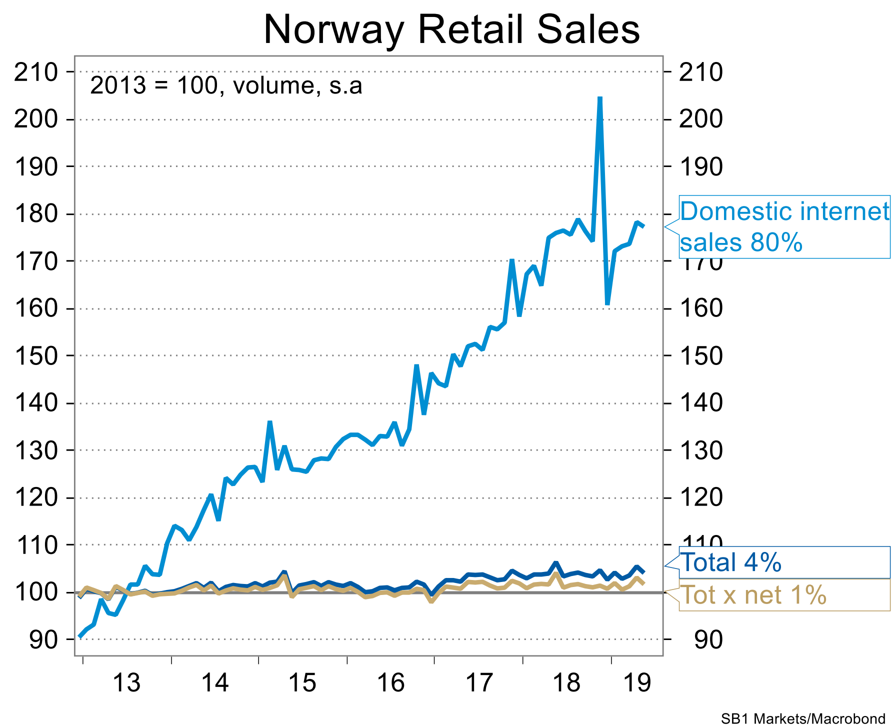
- Auto & gas sales held steady in May and is back at a 'normal' level following the March spike (the new Teslas)
- Food consumption fell steeply in May after climbing the prior months. Short term trend flat, long term increasing

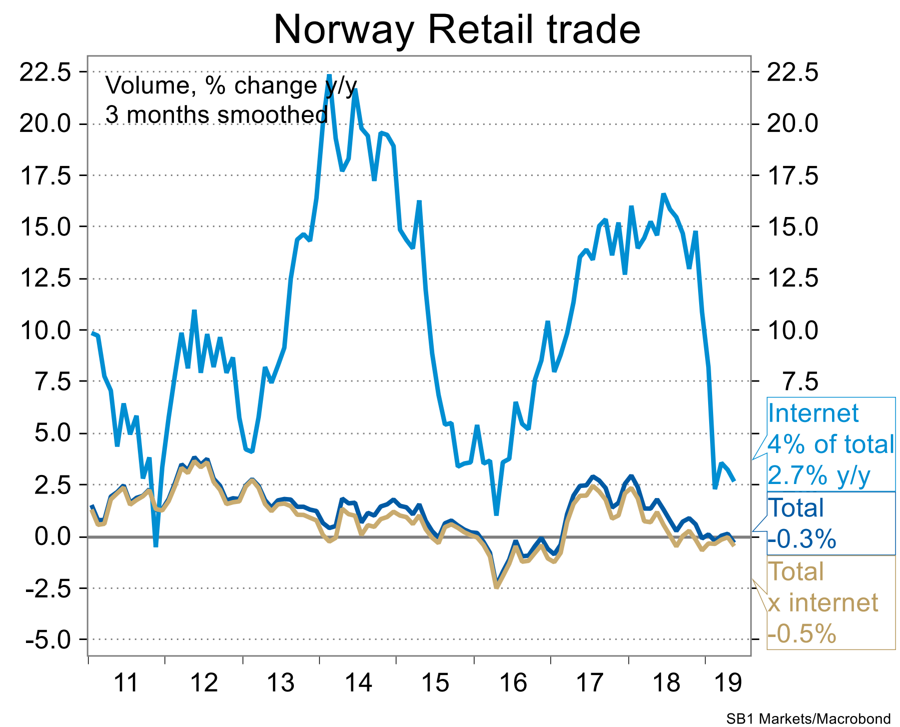




Internet sales (domestic) have slowed rapidly, up >3% y/y, from 15%

Still, over the past 6 years, almost no growth in sales from physical outlets

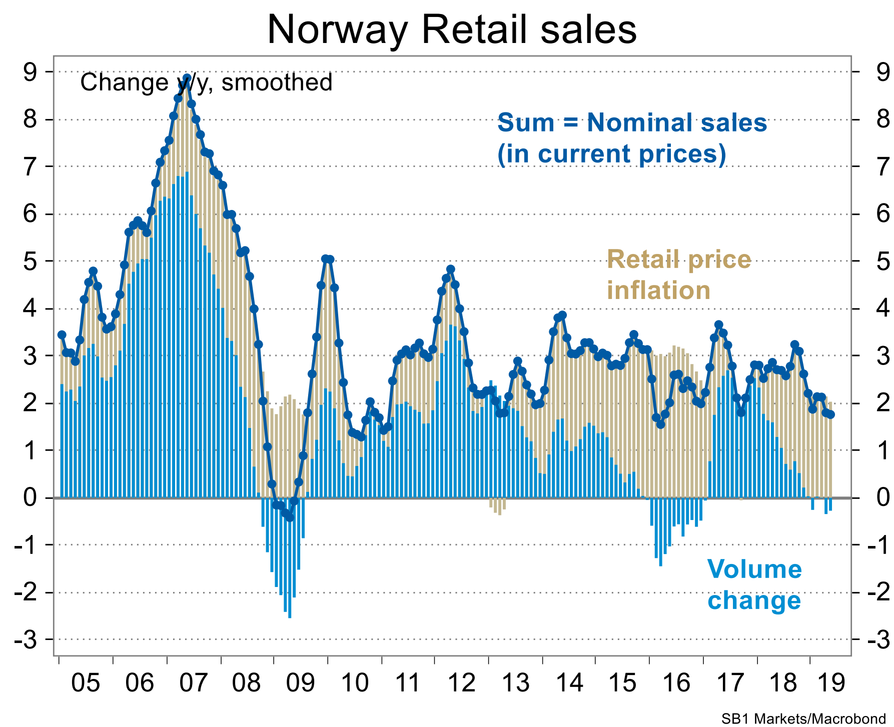


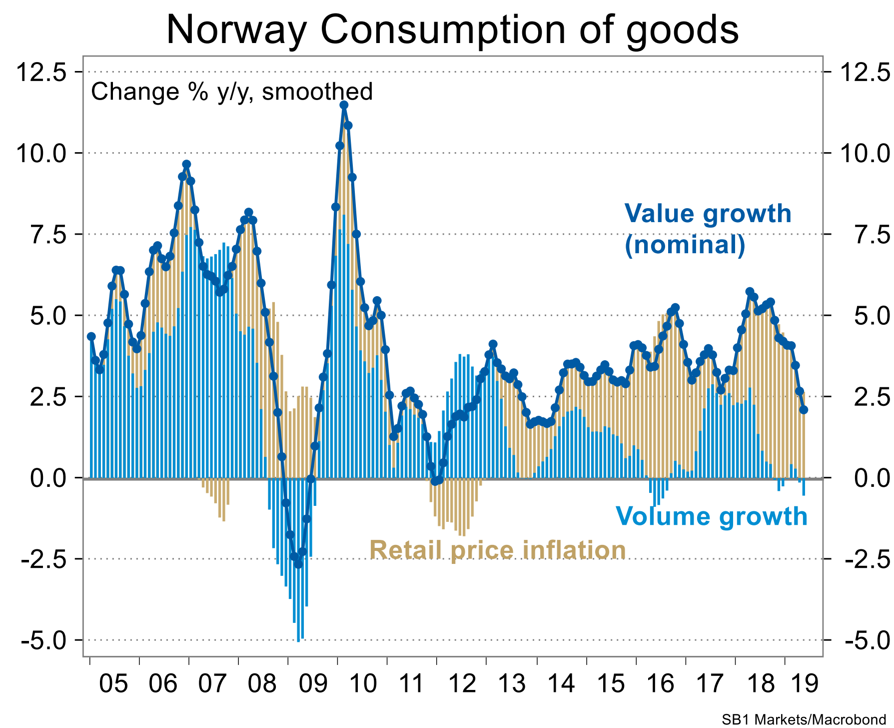


- The retail trade data cover only sales statistics from <u>domestic outlets</u>, not imports. From 2018, SSB included internet sales from abroad in the total consumption index but these figures are just estimates based on domestic internet sales
- SSB estimates that internet shopping from foreign sources (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

Retreating price inflation will come to rescue?

Retail price inflation just marginally down but total goods inflation down to 2 ½% from above 5%

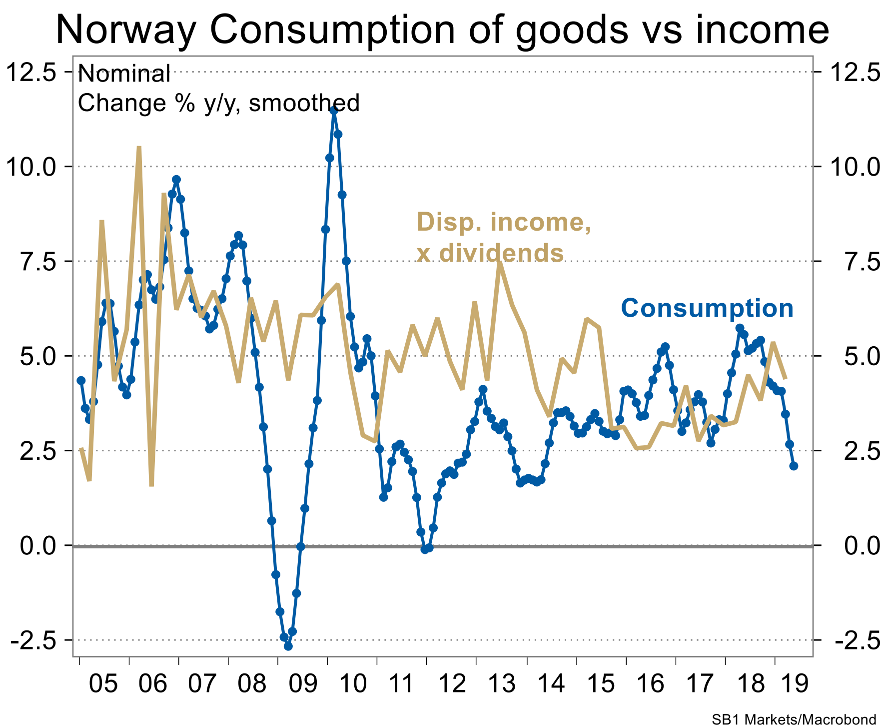


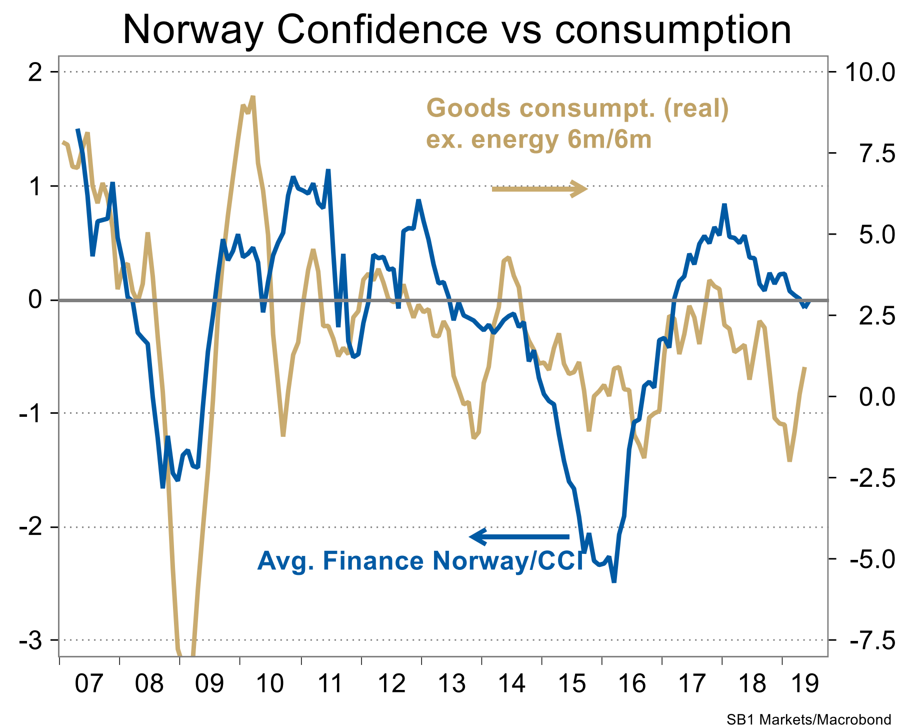


- The annual growth in nominal retail sales is being kept up just due to price inflation, total consumption down with electricity prices
  - » Nominal sales are up 1.8% in nominal terms (smoothed). Price growth constitutes 2.0%, down from some 4.5% in Q4, as electricity prices are retreating.
  - » Growth in nominal total consumption of goods has slowed recent months, due to a sharp decline in price inflastion as electricity prices have fallen
    - Recent weeks, el prices have fallen sharply again, which will take total price inflation further down. Over time, this should stimulate volume growth (for all goods)

Household income and confidence imply some consumption upside

Both disposable income, at 4.4%, and confidence are pointing to somewhat higher consumption

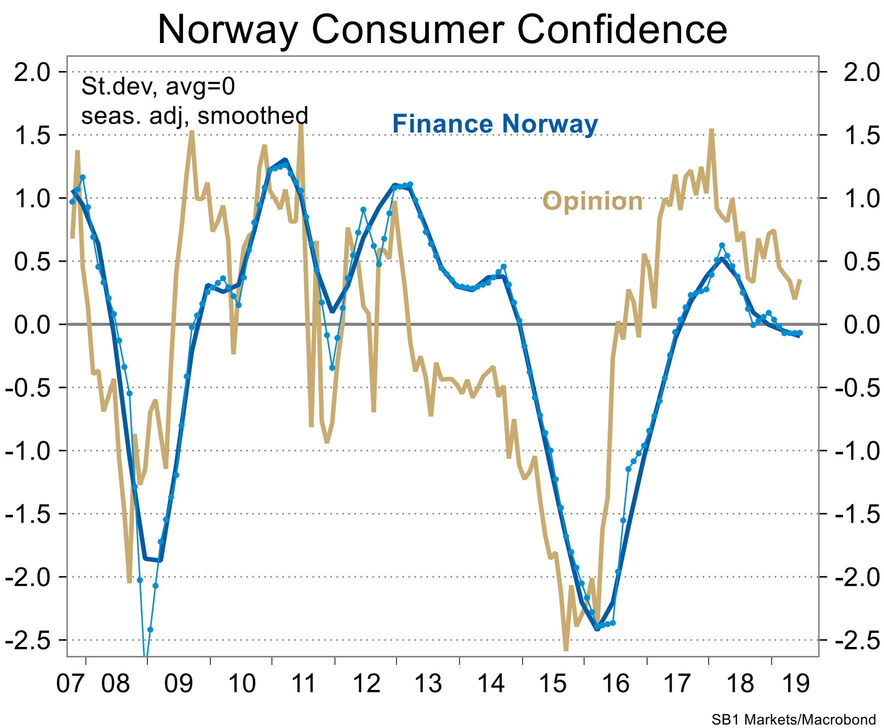


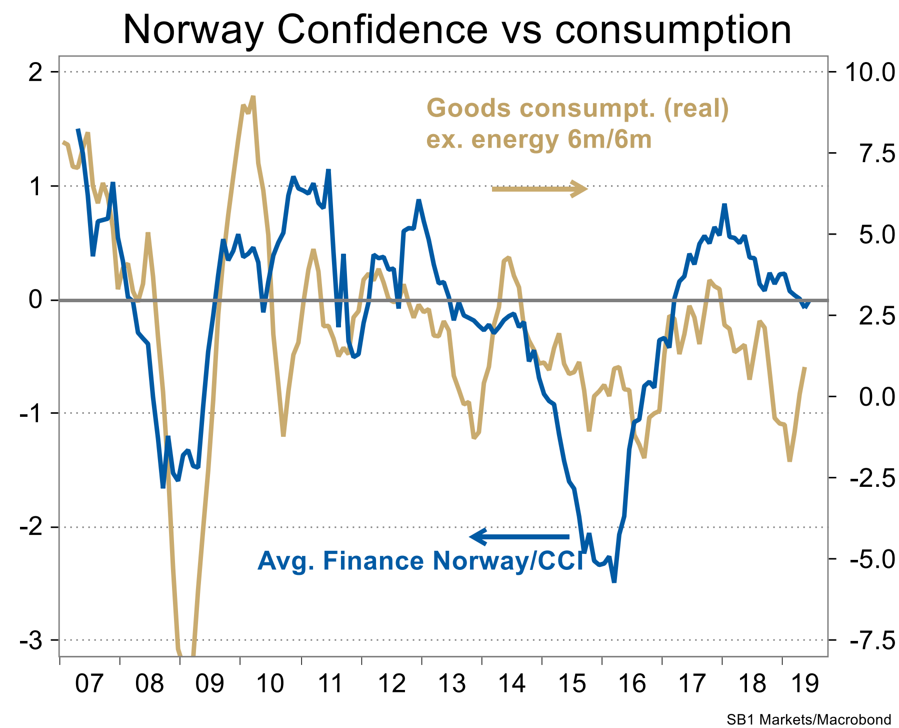


- Consumer confidence has softened, the average of Finance Norway and Opinion's consumer sentiment surveys are on the average level since 2007. Opinion's survey rose marginally in June, and is porting trust in the economy marginally above average (check next page). Our take is that CCIs point to moderate growth in consumption. However, the correlation is not impressive

Consumer confidence marginally up in June

Opinion's CCI index recovered the May loss in June, and is above average



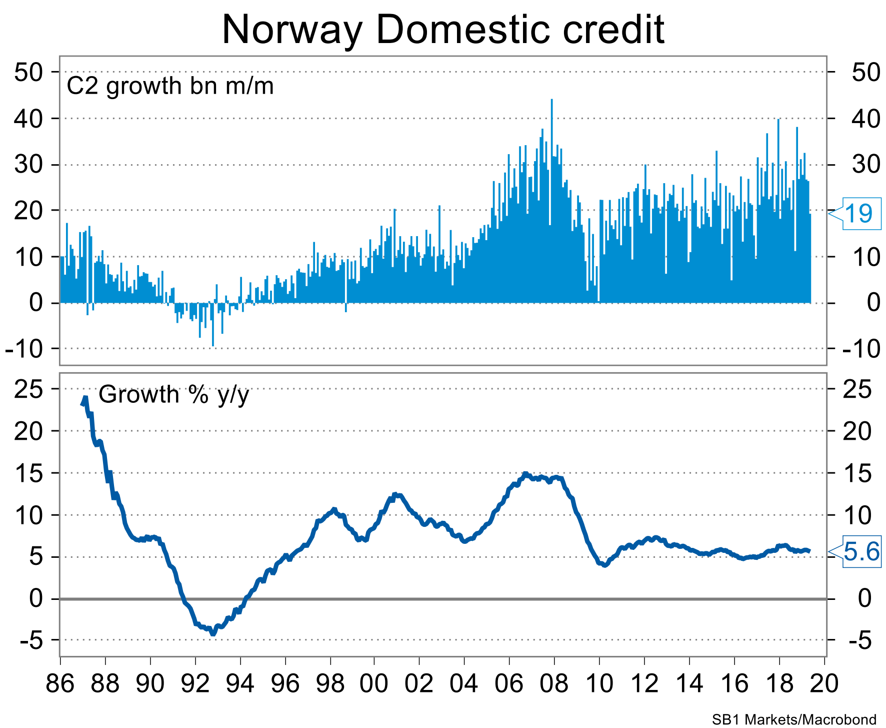


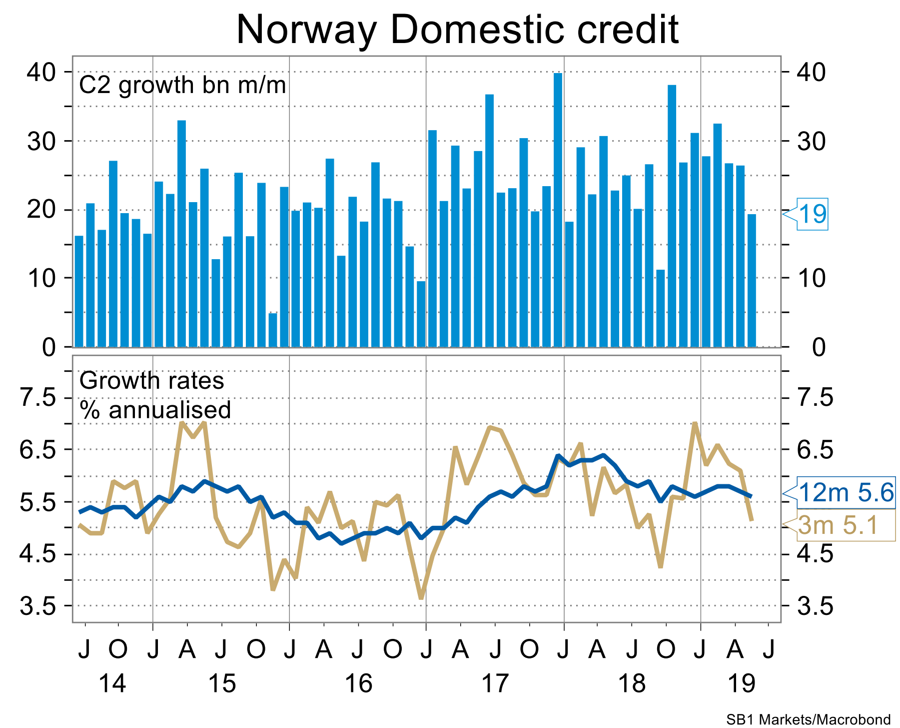
- Opinion's monthly CCI rose 1 p to -2.9 in June, and is back to the April level – which is somewhat (0.3 st.dev) above average
  - » Old news: Finance Norway's consumer conf. index rose 0.1 p to 12.9 in Q2. Confidence weakened rapidly through 2018 and the decline has slowed since, at a level just marginally below the avg since 2007. Consumers are far more optimistic than in 2015-2017
- Growth in consumption of goods has been far softer than indicated by these surveys (the correlation is not very strong). Not strange, given slow growth in nominal and even more in real income, and low population growth

SpareBank 1 MARKETS

Credit growth slowed in May, the corporate sector took a pause

Household credit growth stable in May, but is probably trending slowly down – still above income growth

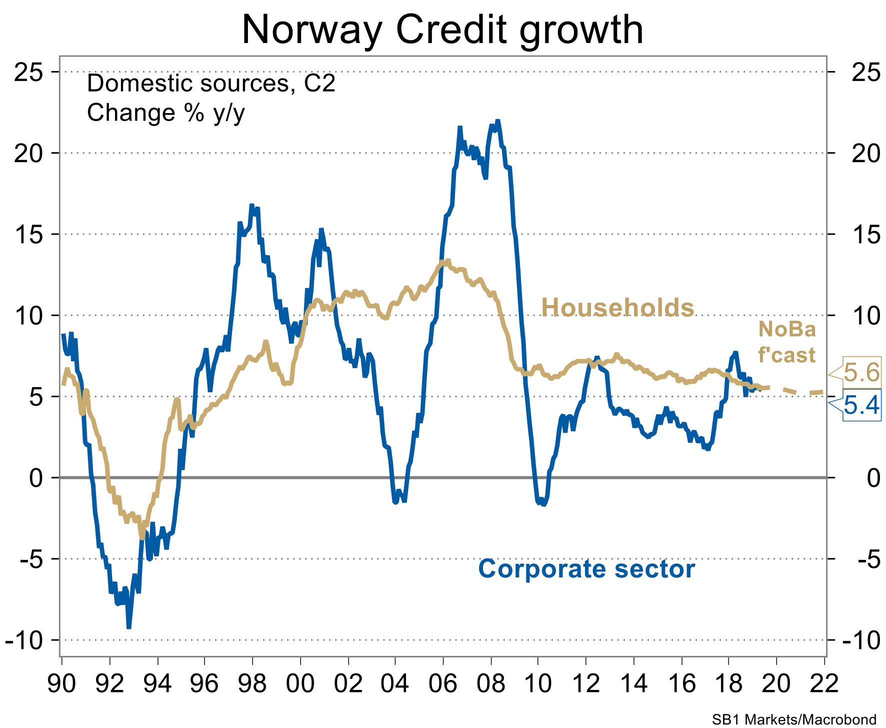


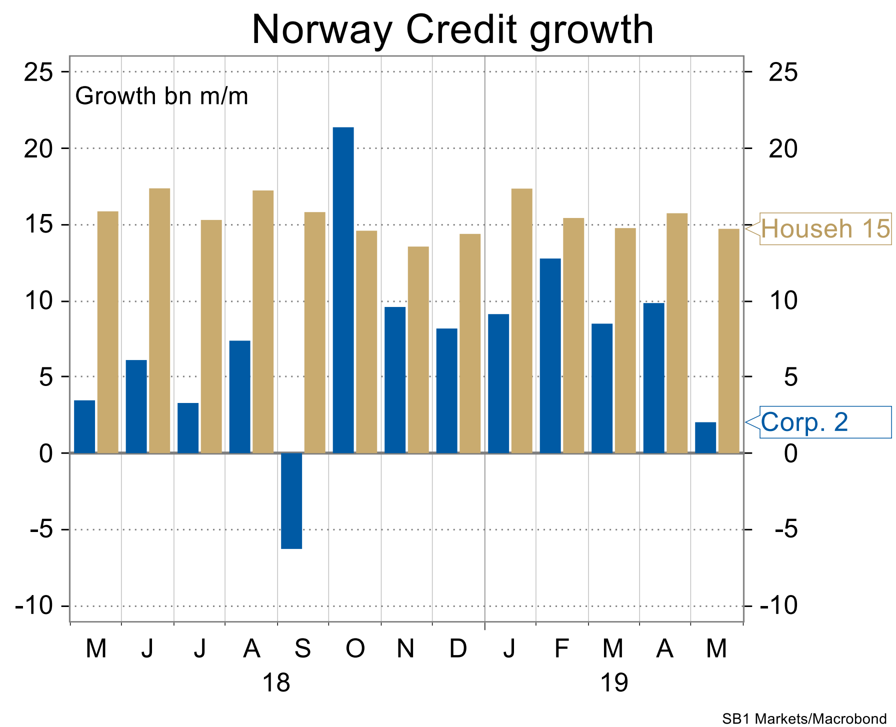


- Total domestic debt (C2) rose by NOK 19 bn m/m in May, down from 26-27 bn the two previous months, the slowest pace since last September. The annual rate inched down one notch to 5.6%, we expected an uptick to 5.8%. Average growth over the past 3 months slowed to 5%, from 6%
- Household credit growth kept up i May, and the annual rate was stable at 5.6% - but growth is probably trending slowly down – as interest rates are slowly on the way up.
- Corporate credit growth was low in May – but just in May. The annual rate fell by 0.1 pp to 5.4%. Local municipalities took on less new debt than normally in May

Household credit growth is slowing but slowly

Corporates took a break in May

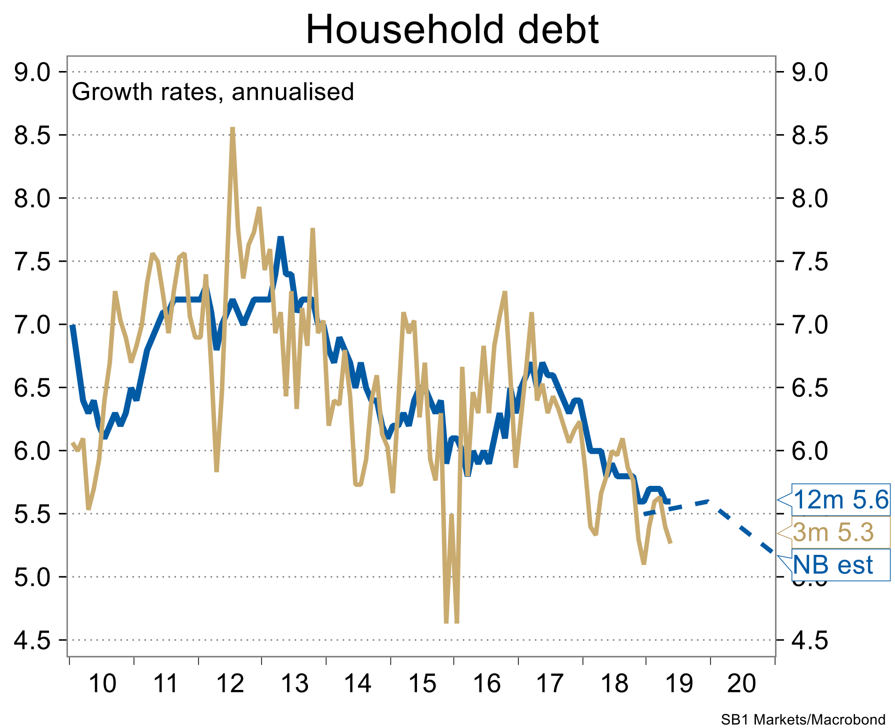


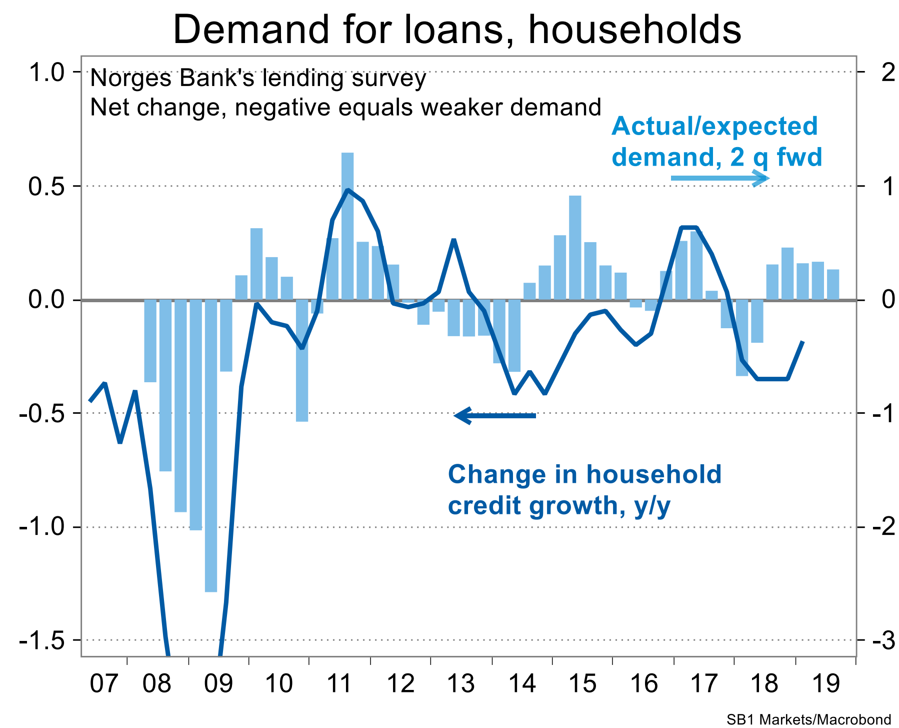


- Households' credit growth was stable in May, at NOK 15 bn. The y/y rate was stable at 5.6%, but it is trending slowly down, and the underlying (3m) growth rate has slowed to 5.3%. Still, household credit growth is still (marginally) above income growth – and the debt/income ratio is still inching upwards. Norw. households now 'owns' the highest debt ratio in the world
  - » The small lift in lending rates has so far not lowered credit growth visibly. The jury is still out whether more hikes will lead to a decline in demand for credit. Banks have so far not reported any weakening. Banks have announced further lifts in their lending rates, following NoBa's June hike – and more Is probably to come.
- Corporate credit growth (in C2, domestic lending) was low, at NOK 2 bn in May, vs. the NOK 10 bn 6 month average, we expected 8 bn. The annual rate fell to 0.1 pp to 5.4% but corporate demand for credit has not overall been weakening. The local municipalities also borrowed less than normal in May

Household credit growth is slowing but slowly

Given rising interest rates and a modest rise in house prices, the upside must be limited?

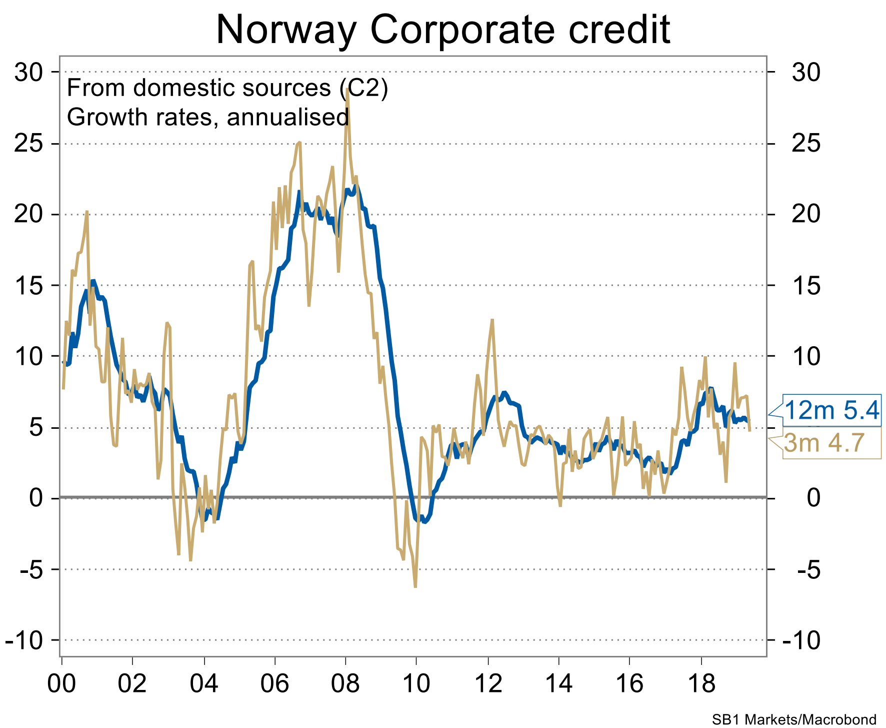


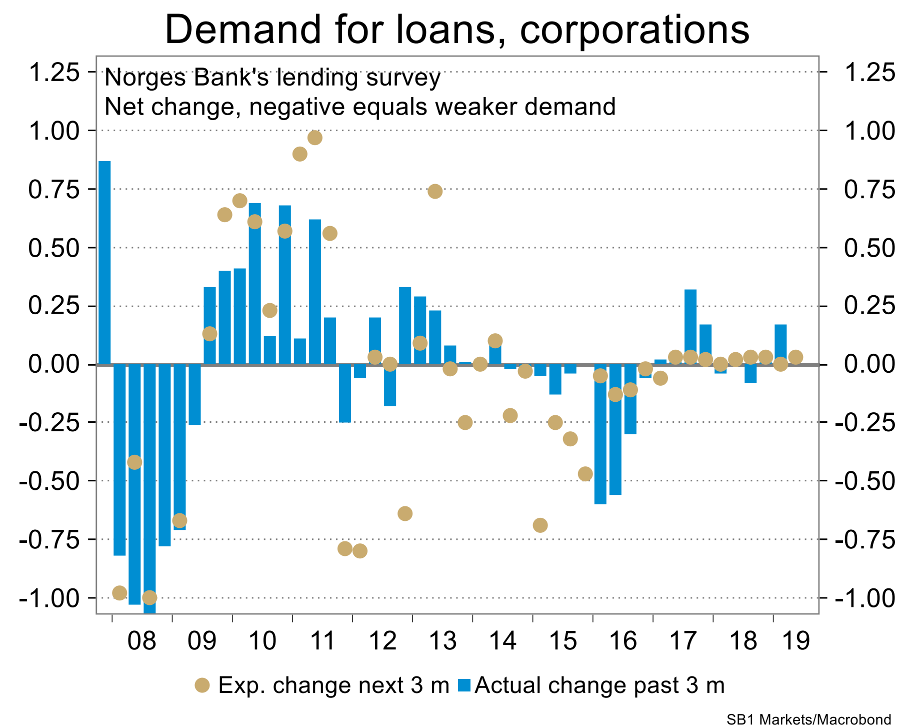


- In the longer term, household credit growth is slowing, from above 7% in 2012-2013 to some 5½% now
- Banks have not so far reported any downshift in household demand for credit
- Higher existing home sales could keep debt growth up, while higher interest rates and quite stabile house prices should dampen growth

Corporate credit growth has accelerated somewhat

Growth has gained pace after a downturn in early ‘18. Banks report unchanged demand

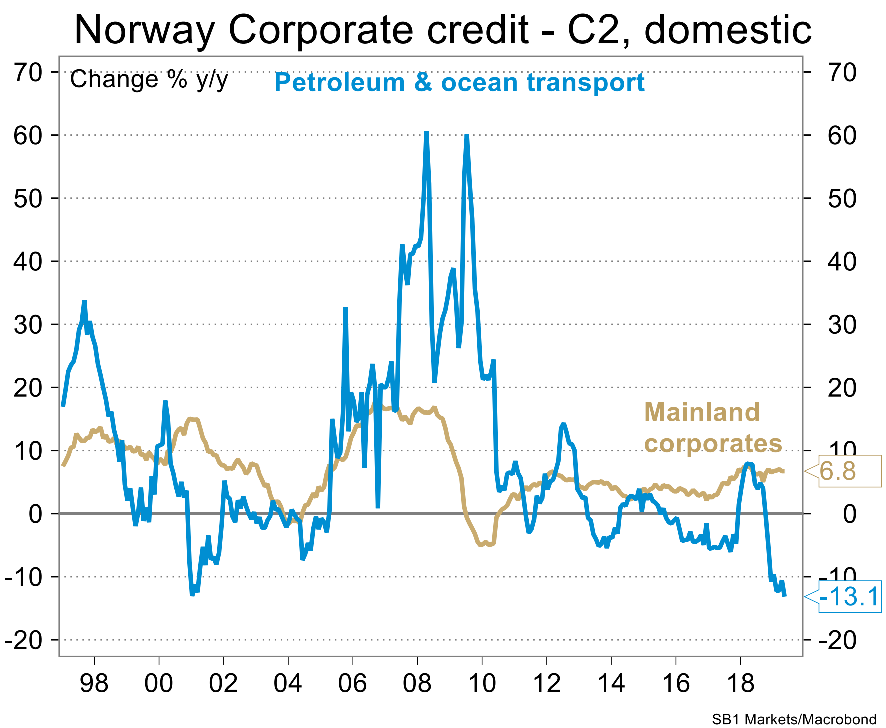


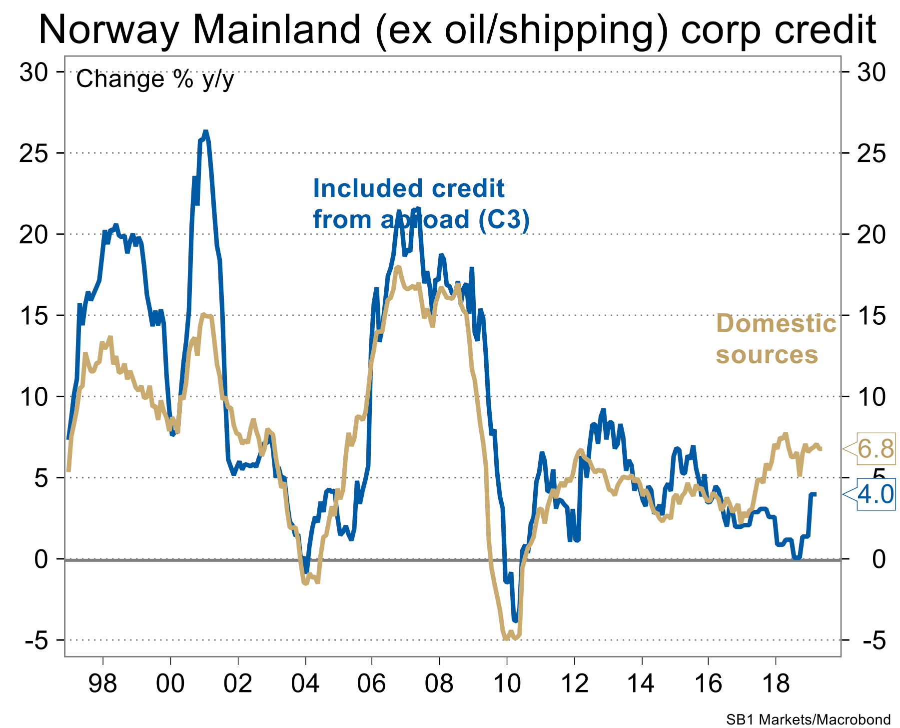


- The underlying growth rate (3m) fell to 4.7% from 7% due to the low increase in business debt in May
- The annual rate fell to 5.4%, down from 7-8% growth rates in early 2017. The lift through 2017 might have been ‘too rapid’, thus, businesses pulled back demand through early 2018. Business investments are still growing

The petroleum sector is still reducing the debt level

.. And non-oil companies are borrowing more abroad (in C3)

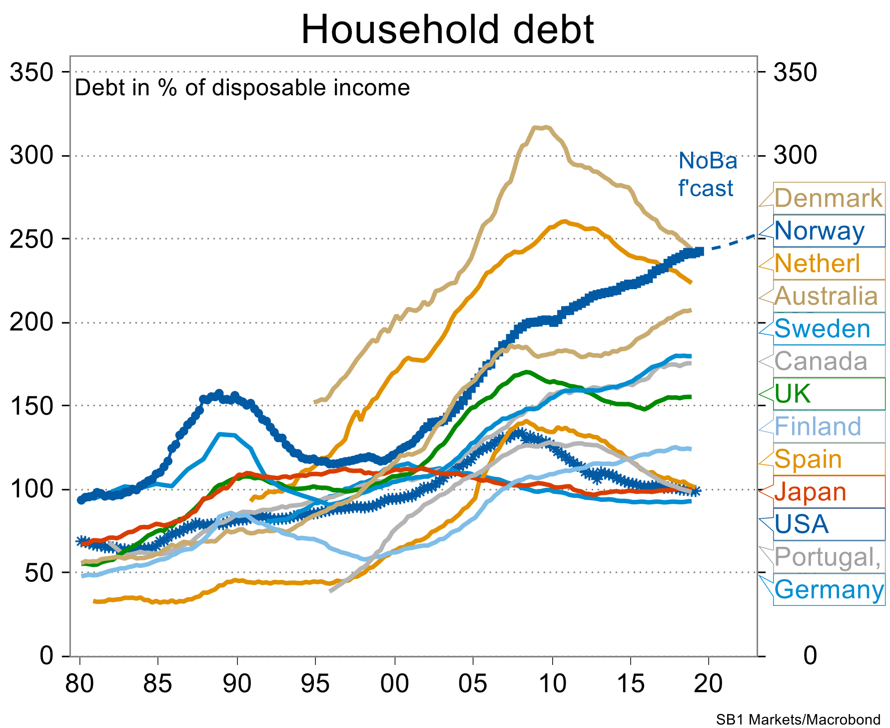


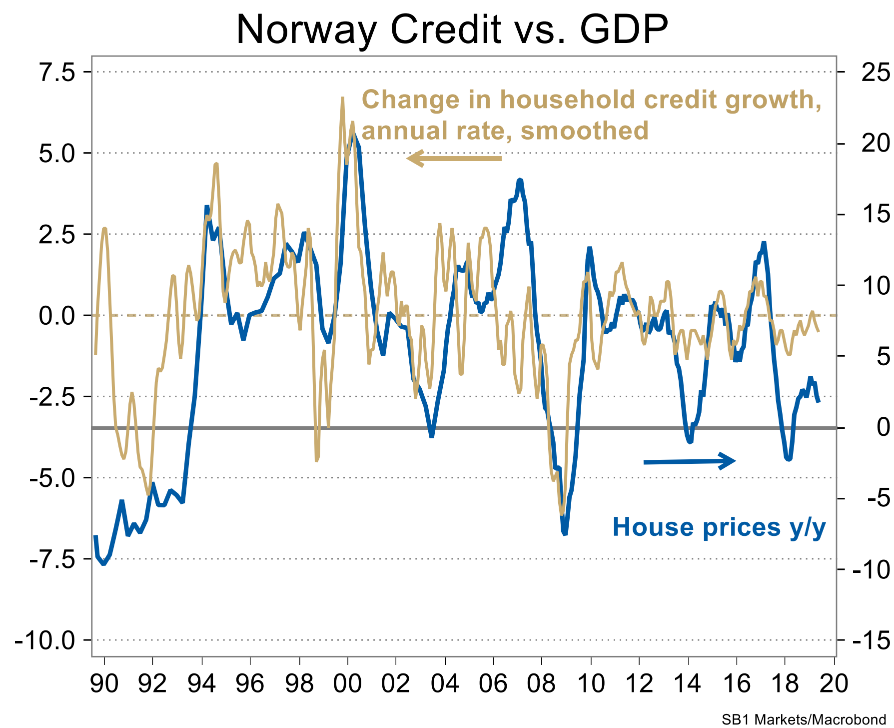


- Credit aggregates are influenced by balance adjustments in international corporations (both Norwegian and foreign owned, operating in Mainland Norway, and then categorized as Mainland corporations).
- The slow growth in Mainland corporate credit growth when borrowing from abroad is included, is probably not a 'real' figure but may be influenced by tax adjustments etc

The credit ratio will keep climbing, even with the current interest rate path

The credit ratio rises, Norway in the lead! Shouldn't credit growth outpace income growth forever??



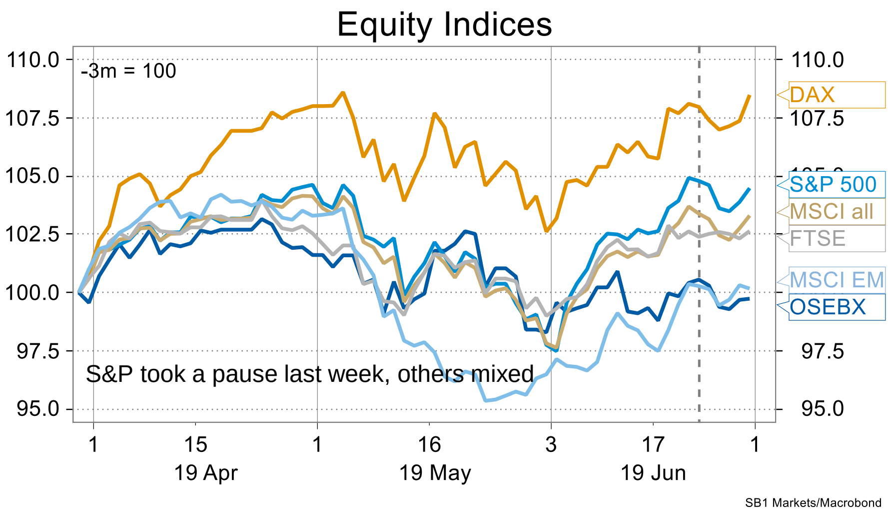


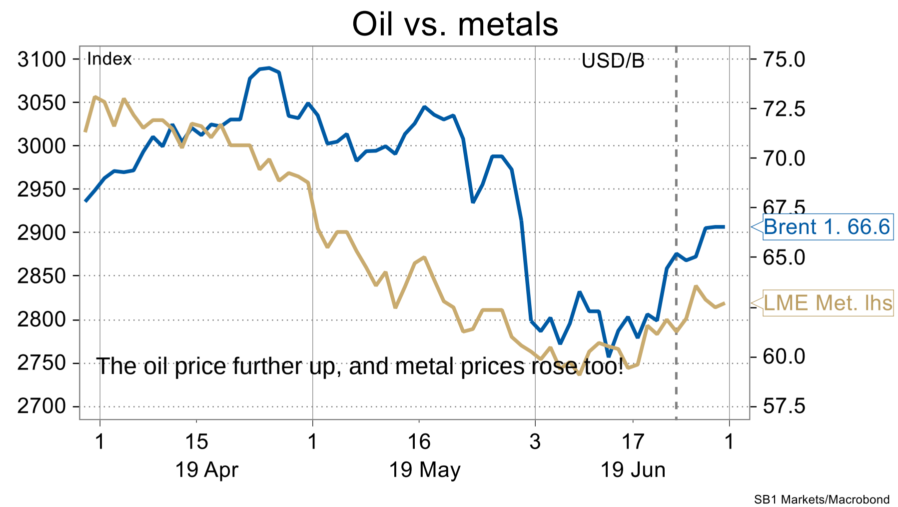
- Household debt is still growing faster than income growth, hence, the debt ratio is increasing
- At the March meeting, Norges Bank revised its 2019 credit growth f'cast to 5.6% in 2019 (from 5.4%), implying stable household credit growth. The Bank's estimate implies a further increase in the the debt/income ratio to keep climbing, to almost 250% in 2022,even as the bank is slowly pressing the brake pedal. Stronger brakes are needed to stabilise the credit ratio??
- A slow retreat will be healthy in the long run, but it might hurt short term
- *Changes* in credit growth is usually correlated to economic growth and asset markets – and the housing market. A soft housing market now points to a limited upside on credit growth

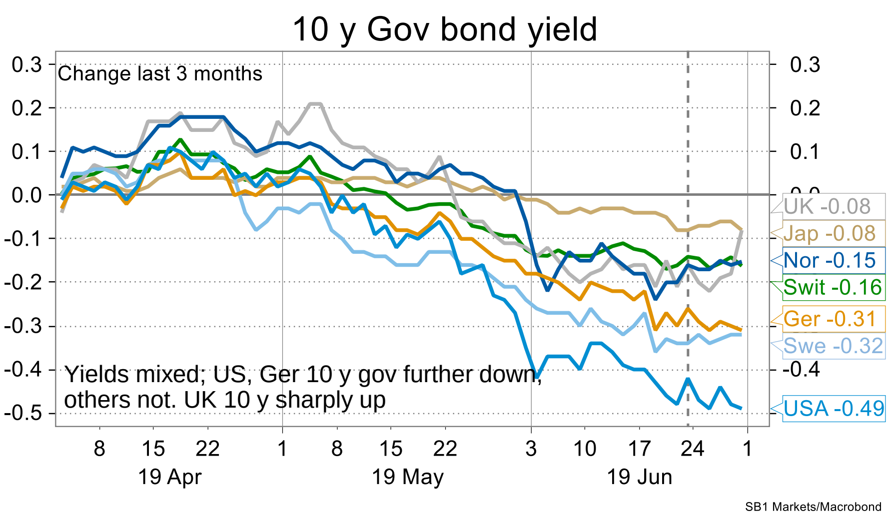
SpareBank 1 MARKETS

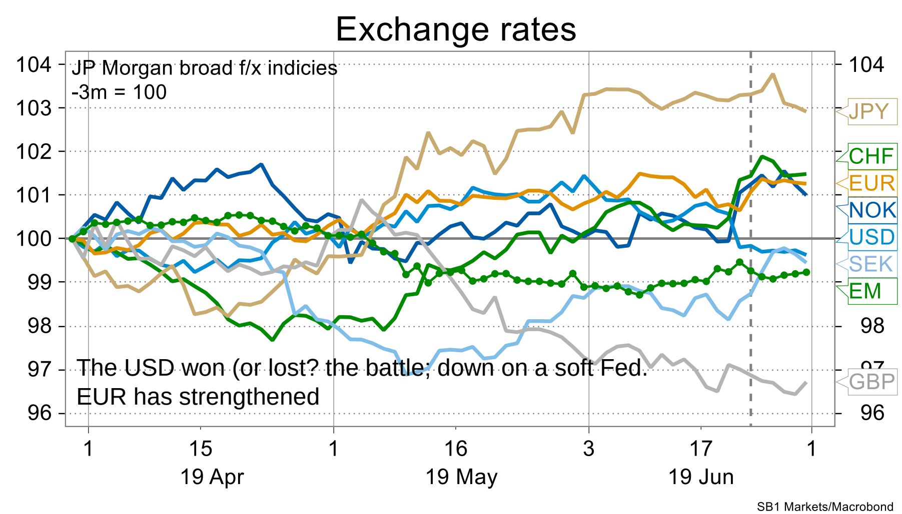
Stock markets mixed last week (but a 2% trade truce party on the way today)

Bond yields mixed last week too, will very likely climb significantly given the initial stock market response







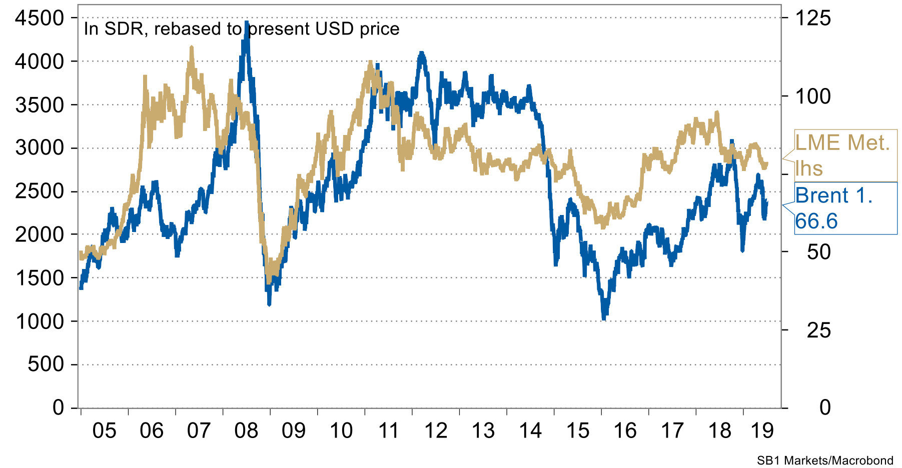


US close to ATH. It's not the economy, stupid. (It's the Fed, until further notice)

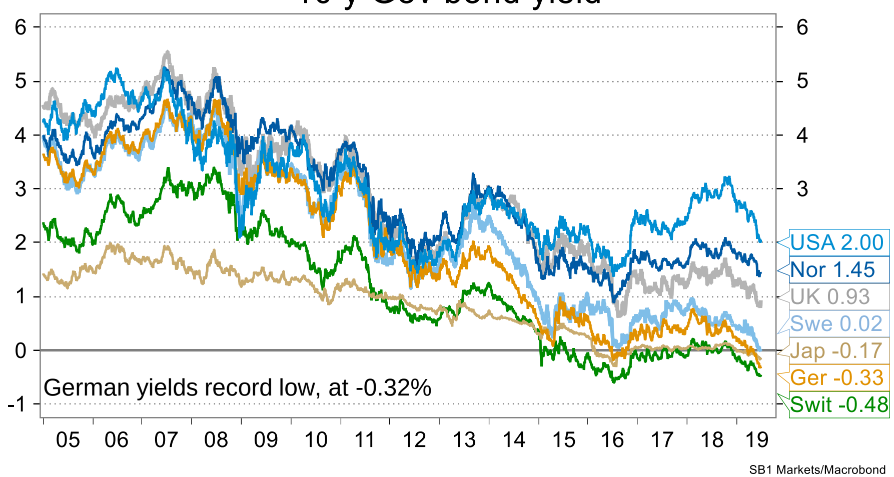
New ATHs likely today, as the trade war descaled (until further notice) during the weekend

Equity Indices

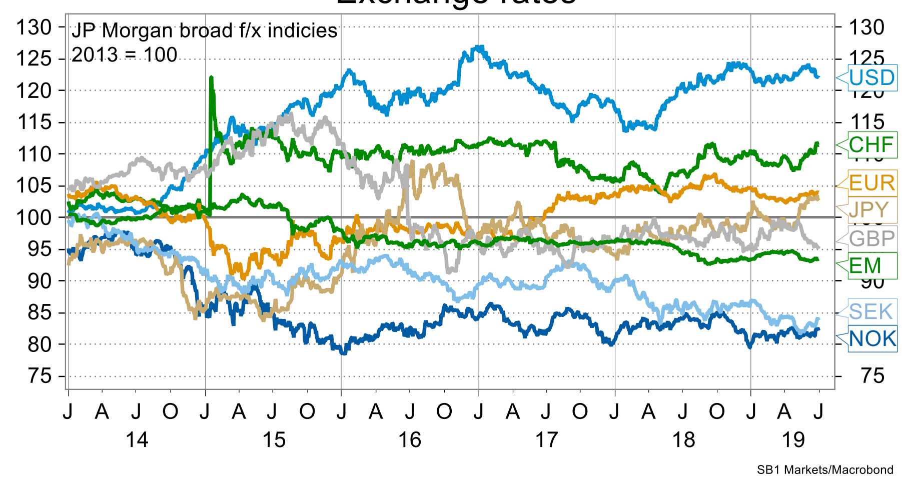
Oil vs. metals



10 y Gov bond yield

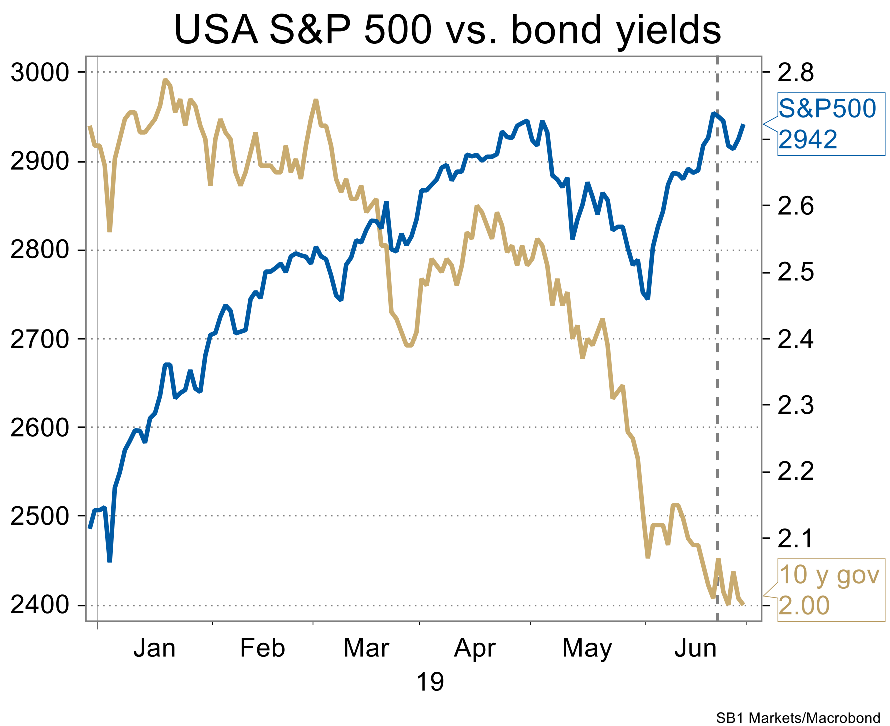


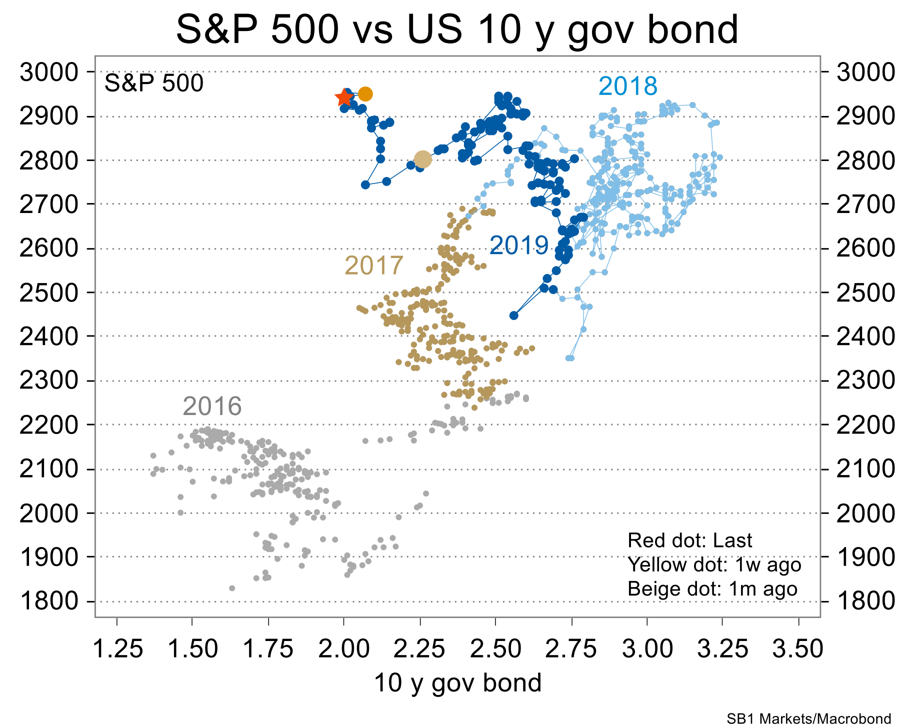
Exchange rates



Stock market, yields down last week. Another tone today?

Bond yields fell 7 bps to 2.0%, while S&P retreated marginally. Futures signals +2% today



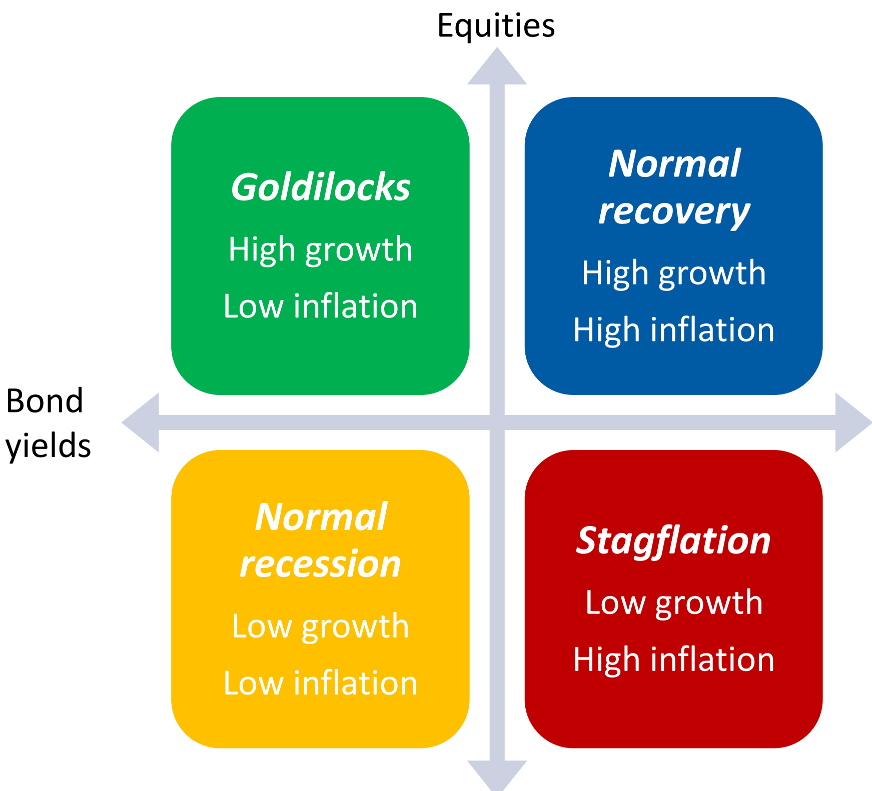


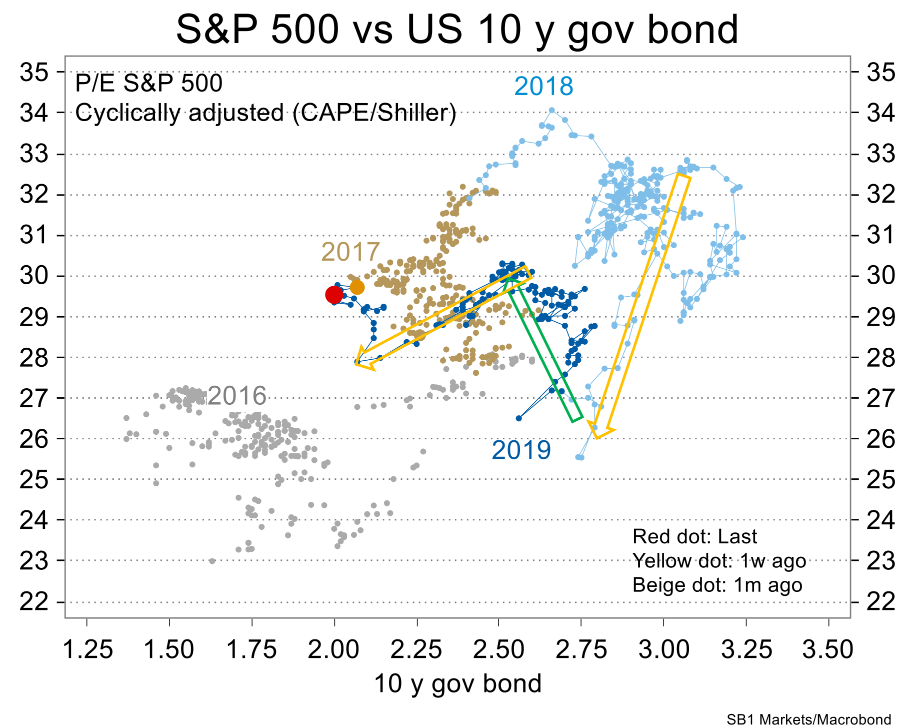
- S&P has recovered swiftly recent weeks, reversing the May downturn. The previous week, the S&P reached a new all time high, as markets are cheering the dovish signals from central banks. Today a new ATH is likely
- Yields fell again, and ended at 2,00%
- For more on the relation between stocks and bonds, check next page

SpareBank 1 MARKETS

Markets have moved towards the 'Goldilocks' scenario. But not for too long?

Last week: Rates, equities down but rates are down, equities up during July



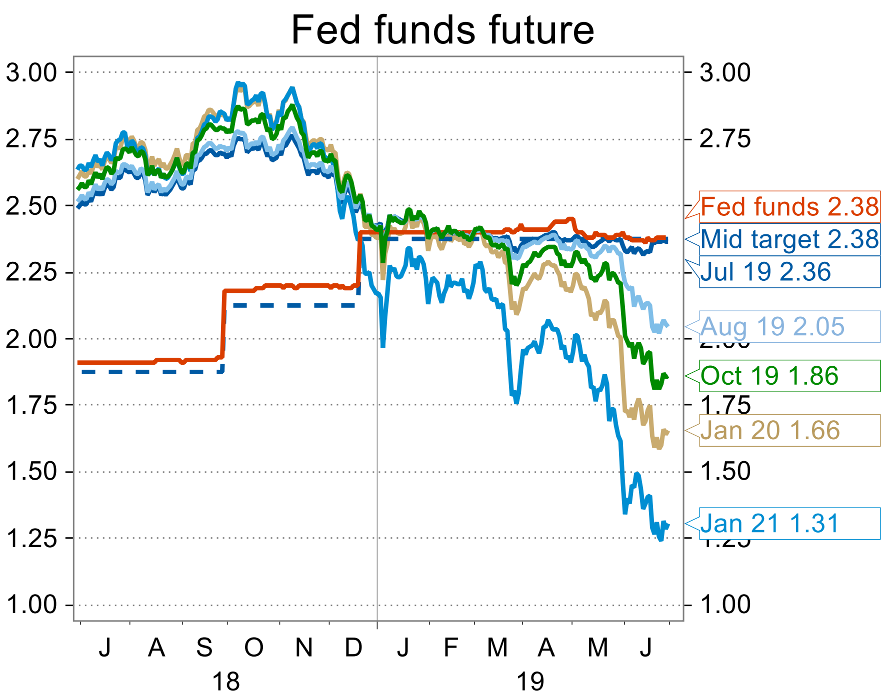


- Until one month ago, both stocks and bond yields fell sharply, towards the 'normal recession' corner. During July, stocks rose sharply, while yields fell further due to central bank's signals, Thus, back to a 'Goldilocks' scenario, similar to the movements before the trade war escalated this spring (check the green arrow)
- We are not that worried for 'Stagflation', a take off in inflation will happen only if central banks make serious policy mistakes, over time. Trump want the Fed to do just that but we doubt he will succeed
- We stick to our 'normal' axis, driven by growth, and with inflation (or at least interest rates) over time following growth up or down. The risks of a slide in the recession direction has increased significantly past weeks, primarily due to trade war escalation

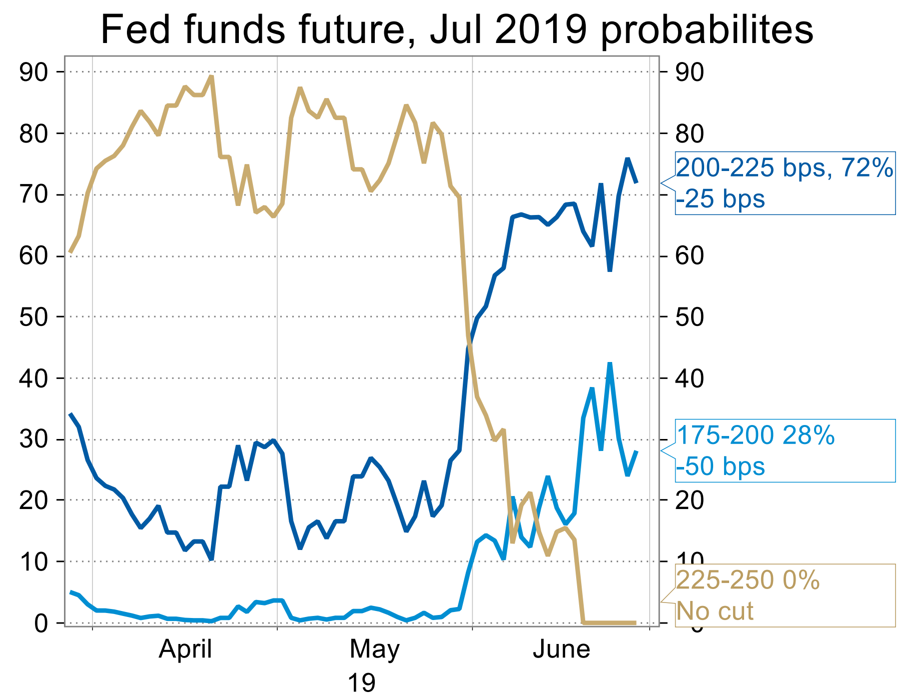
SpareBank 1 MARKETS

Fed funds futures are pricing above 60% prob. of at least 3 cuts this year

.. and markets are pricing 100% probability for at cut in July



SB1 Markets/Macrobond



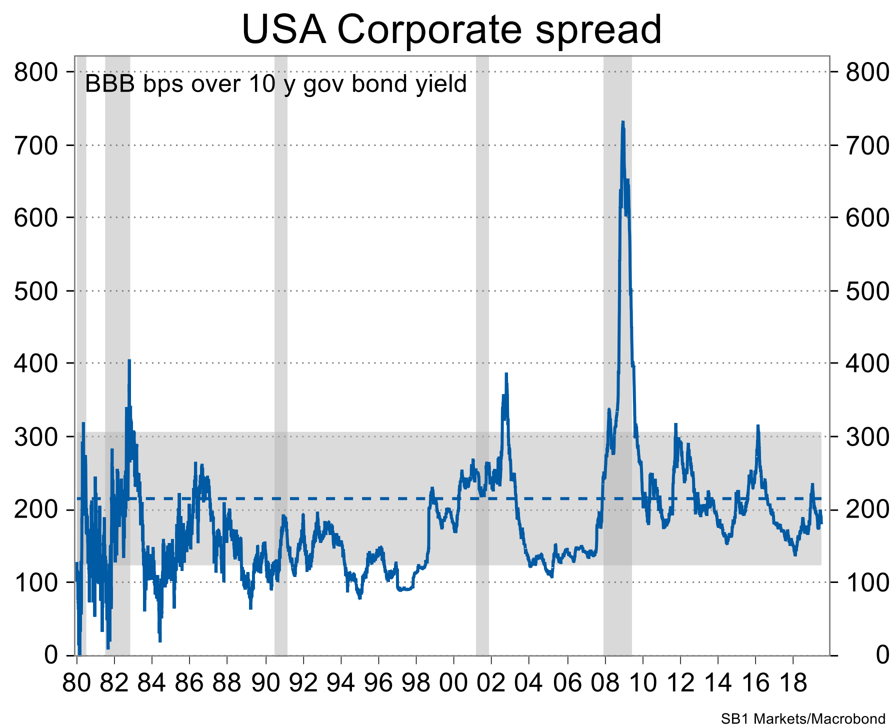
SB1 Markets/Macrobond

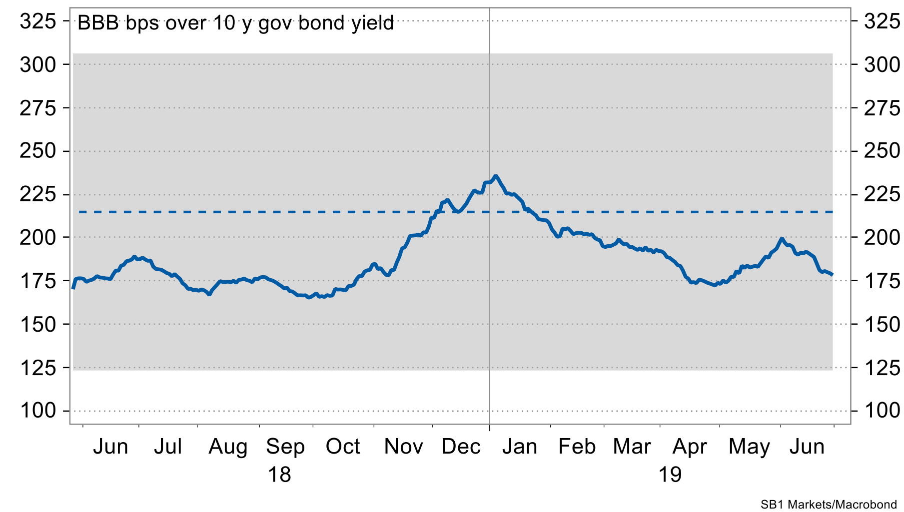
- Fed funds futures rose marginally last week but the market takes it for granted that the Fed will cut in late July
  - » The probability for a 25 cut has increased to 72 bps, while the 50 bps cut has a 28% probability, according to the market, down from 40% as even a dovish FOMC member indicated that 25 bps might be sufficient and Powell did not signal a 50 bps cut.
  - » What if risk markets responds positive to the (possible) US/China trade truce as they do this morning – and US data does not deteriorate further?

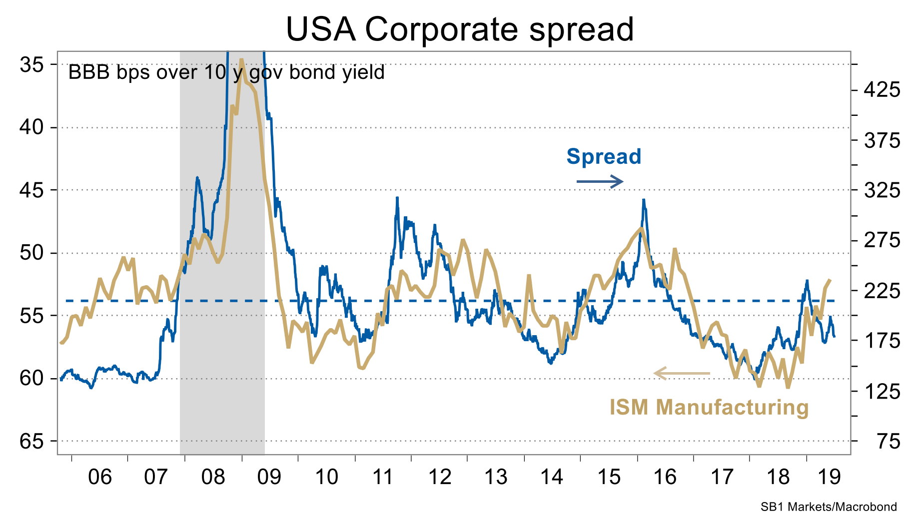
SpareBank 1 MARKETS

Credit spreads marginally further down last week – risk is on!

However, spreads are too low if the ISM and (most) other surveys are correct; <u>if growth is slowing</u>



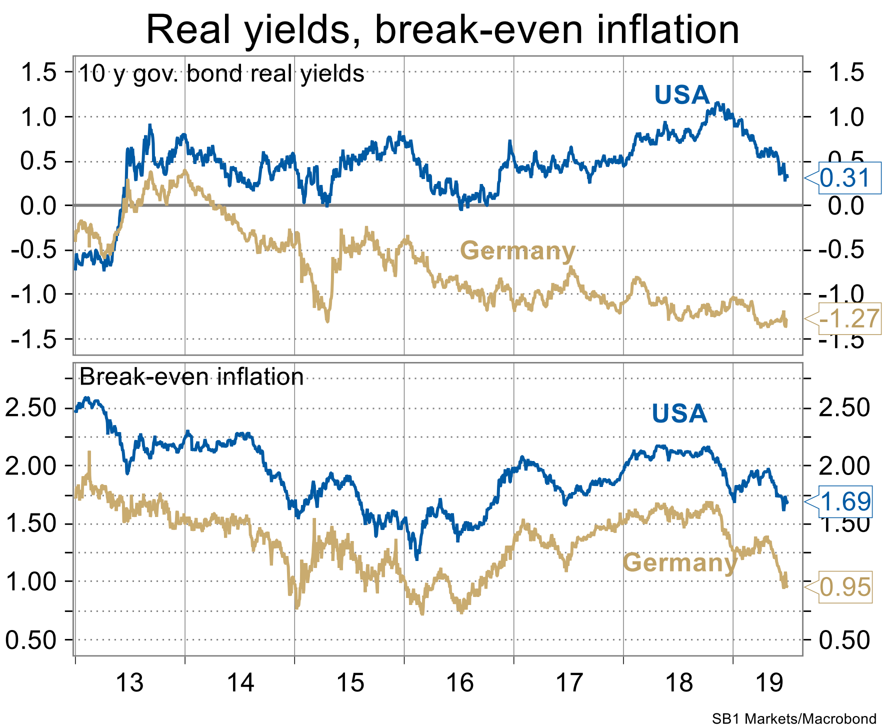


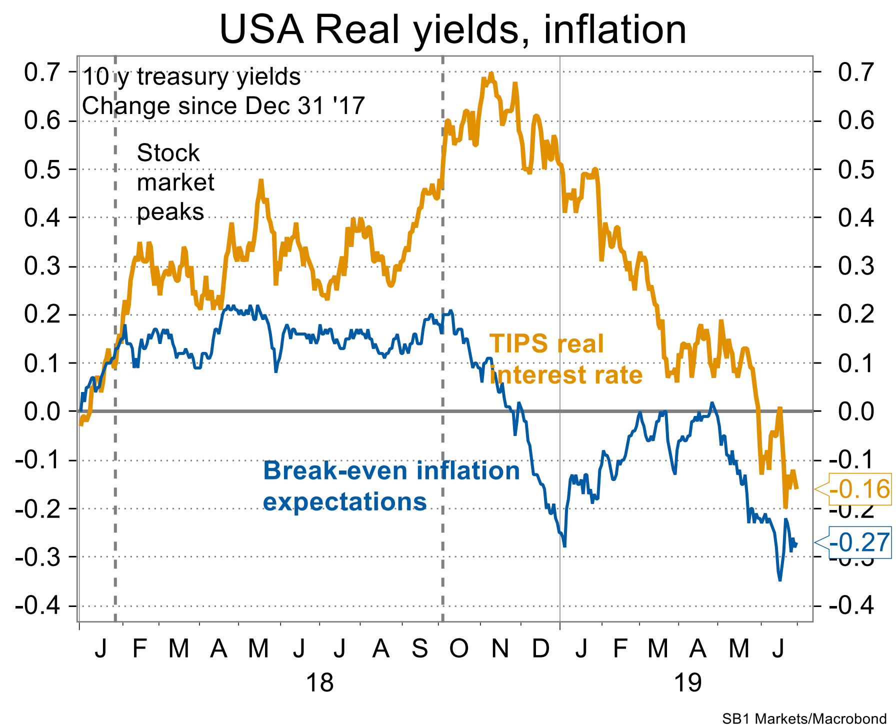


SpareBank 1 MARKETS

Some stability in real rates/inflation expectations last week

Both components of the nominal rate have fallen sharply recent months

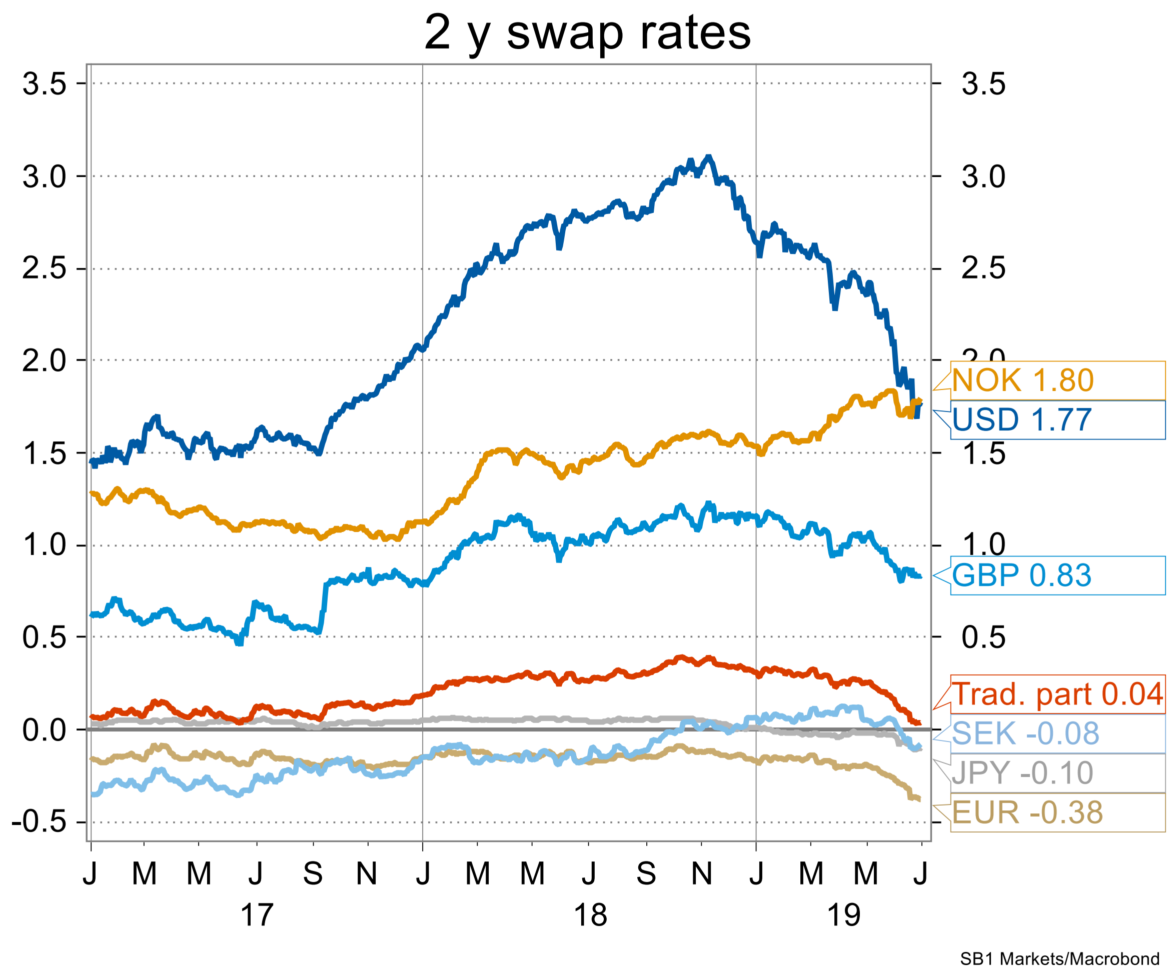


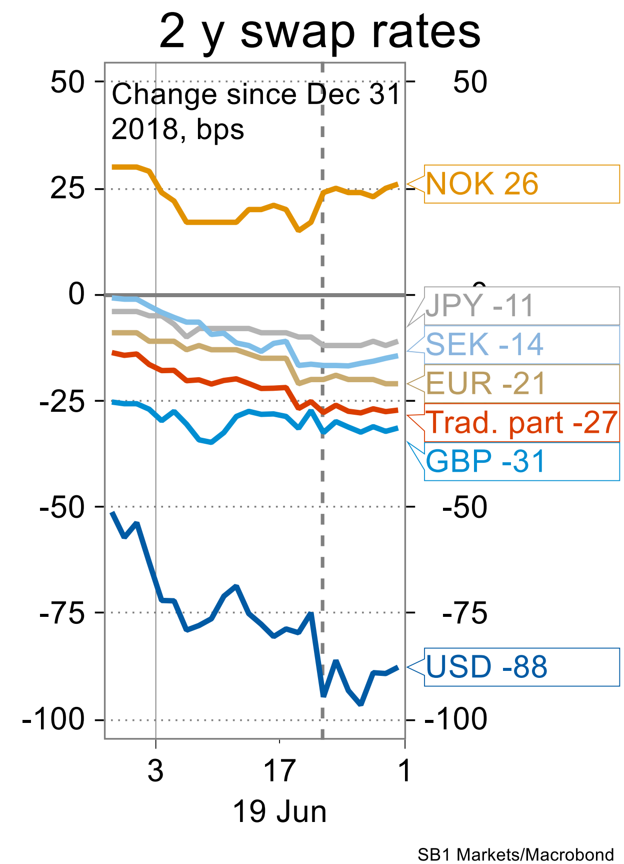


- US 10 y real rates at 0.32%, down 85 bps from the peak. 10 y inflation at 1.69%, down 57 bps - and somewhat below Fed the target
- German real rates are at 1.27%, inflation expectations at 0.95%, both very low

Norwegian short term rates edges up, others flat last week

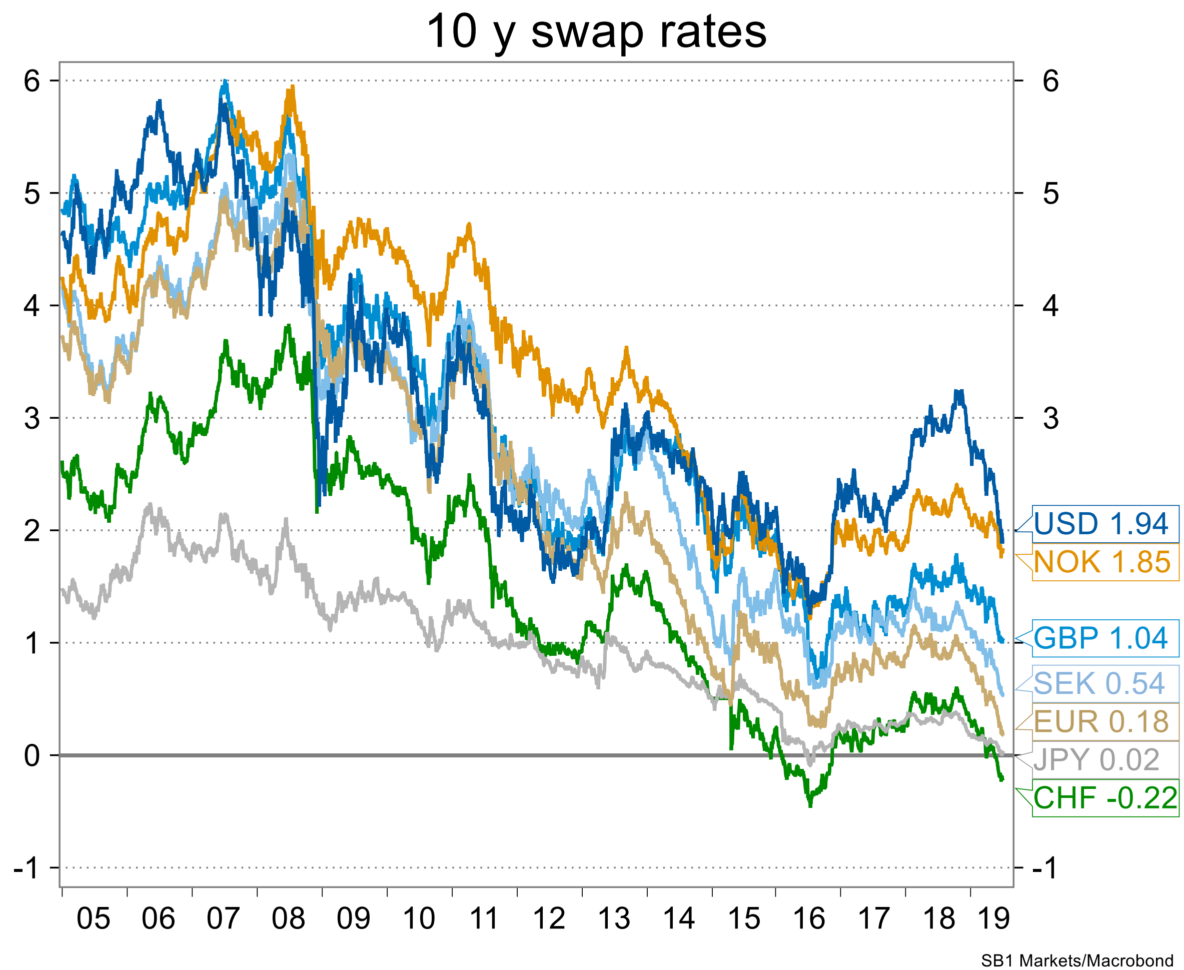
Norges Bank has sent NOK 2 y rates up 9 bps, while trading partners 2 y rates are flat

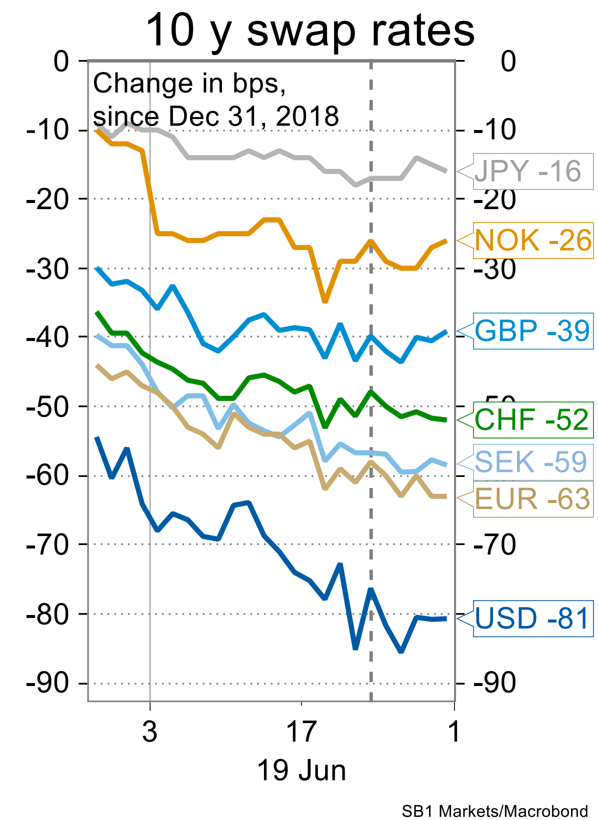




Long term rates are falling all over

Long term NOK rates are up since the 'hawkish' Norges Bank 'surprise'



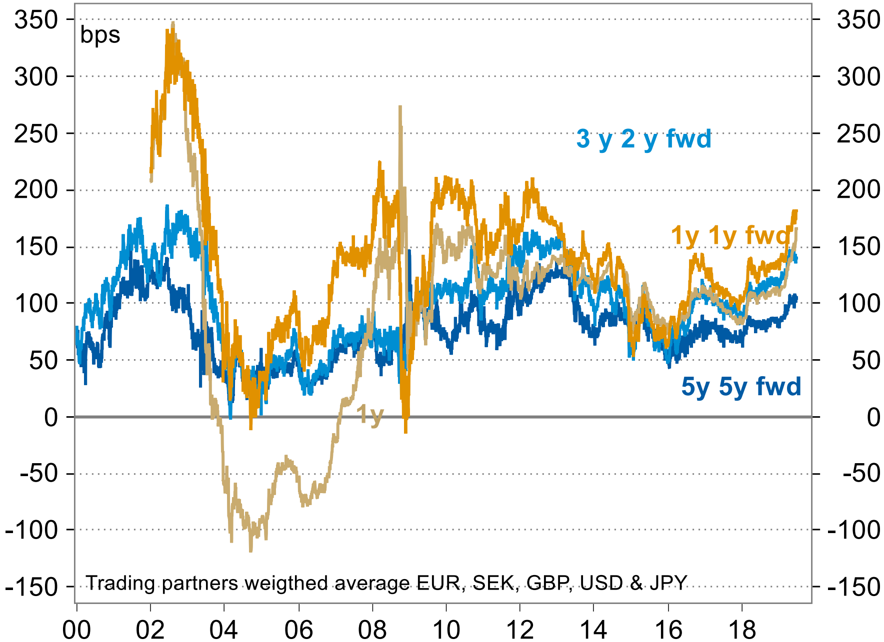


SpareBank 1 MARKETS

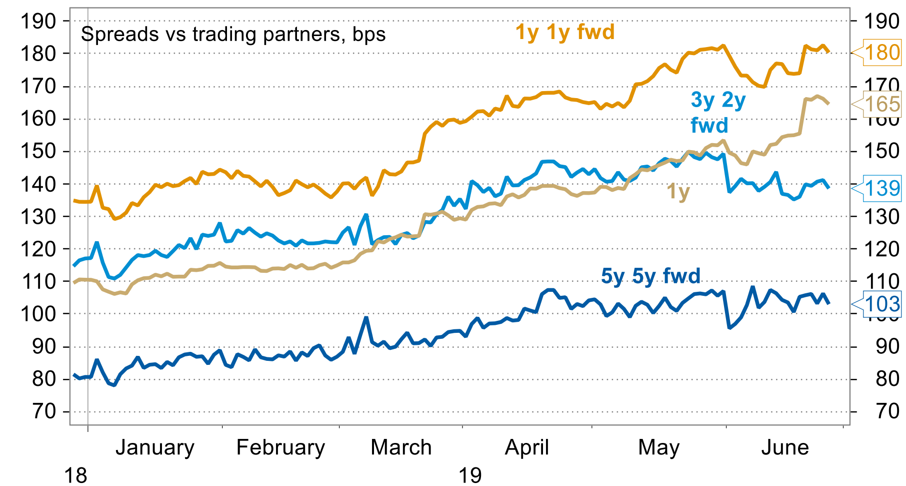
Swap spreads vs our trading partners mixed last week – but remain very high

Norges Bank walks alone, swap rates among trading partners fell broadly

Norway vs trading partners, impl swap spreads

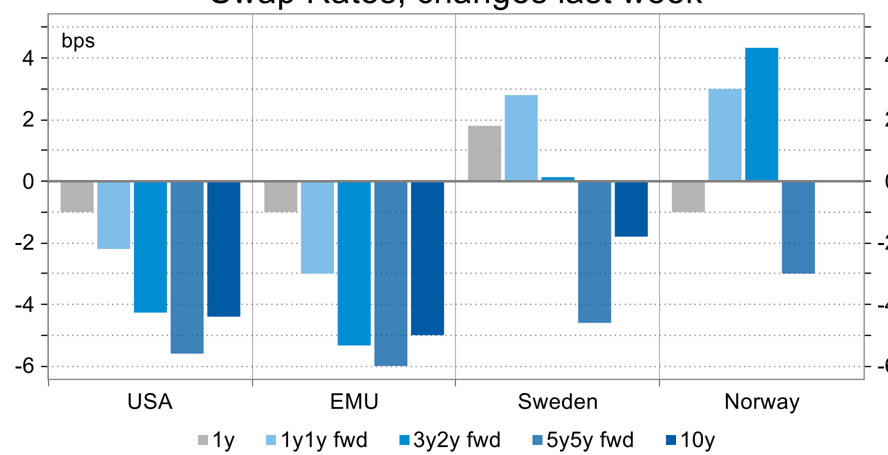


SB1 Markets/Macrobond



SB1 Markets/Macrobond

Swap Rates, changes last week

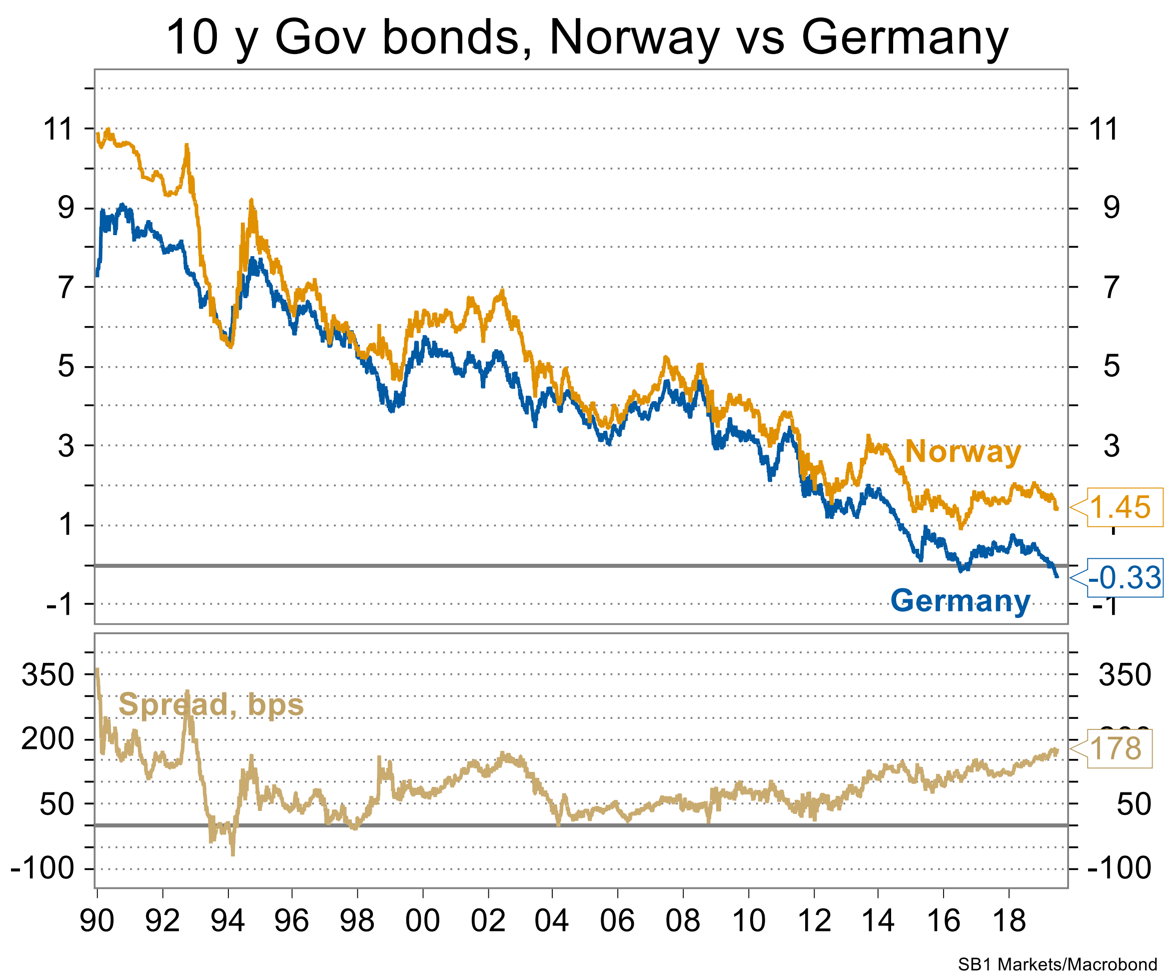


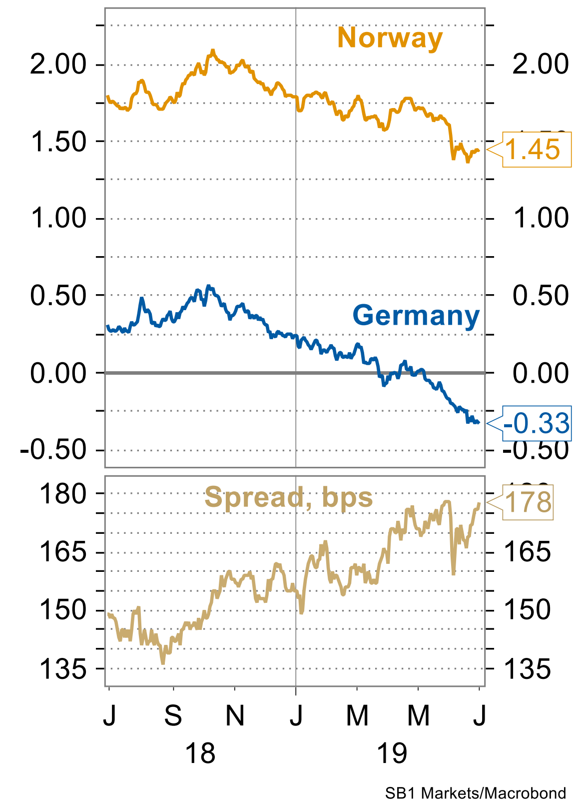
SB1 Markets/Macrobond

- A high spread is reasonable, given NoBa's stance vs Fed, ECB and the Riksbank (which is due to solid Norwegian data, not a really hawkish bank..)
- Although the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March

German Bund down to -0.33%, the lowest ever

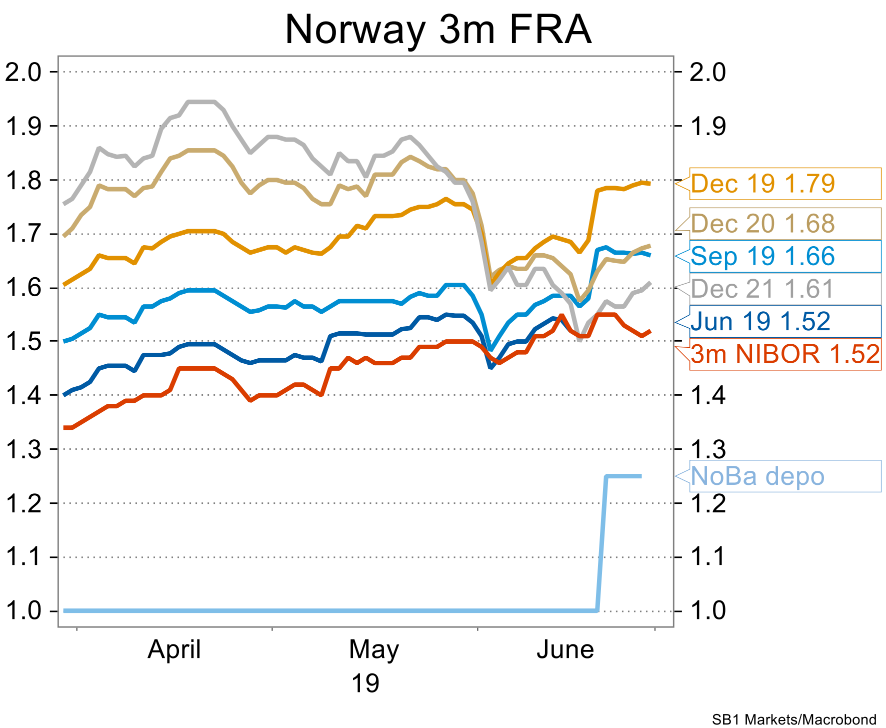
The 10 y gov spread at 178 bp is far too rich, long term

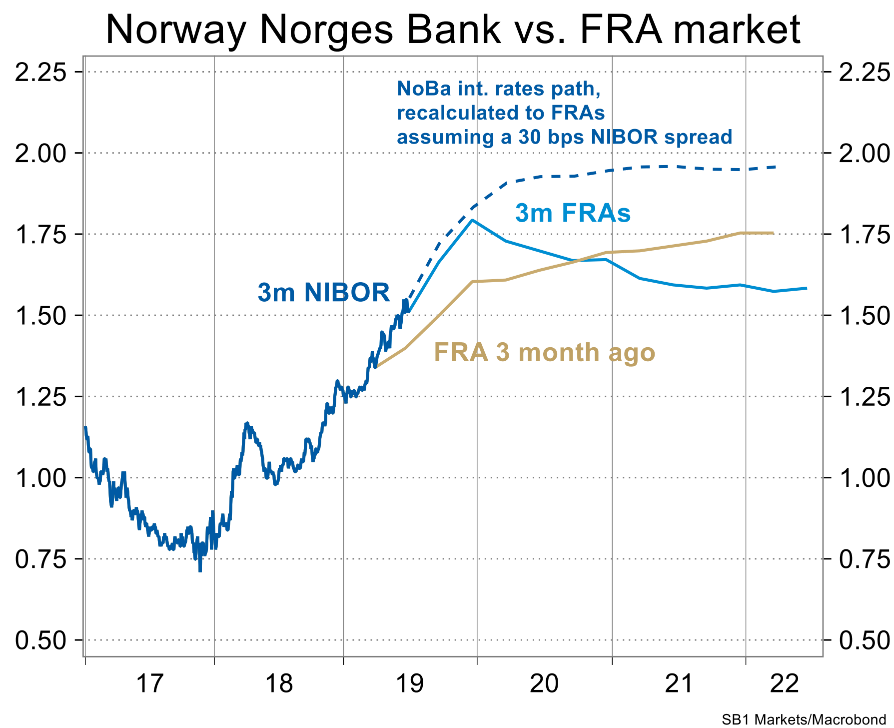




FRAs marginally up last week

FRA's implies some 2/3 probability for a Sept hike, and 96% by Dec

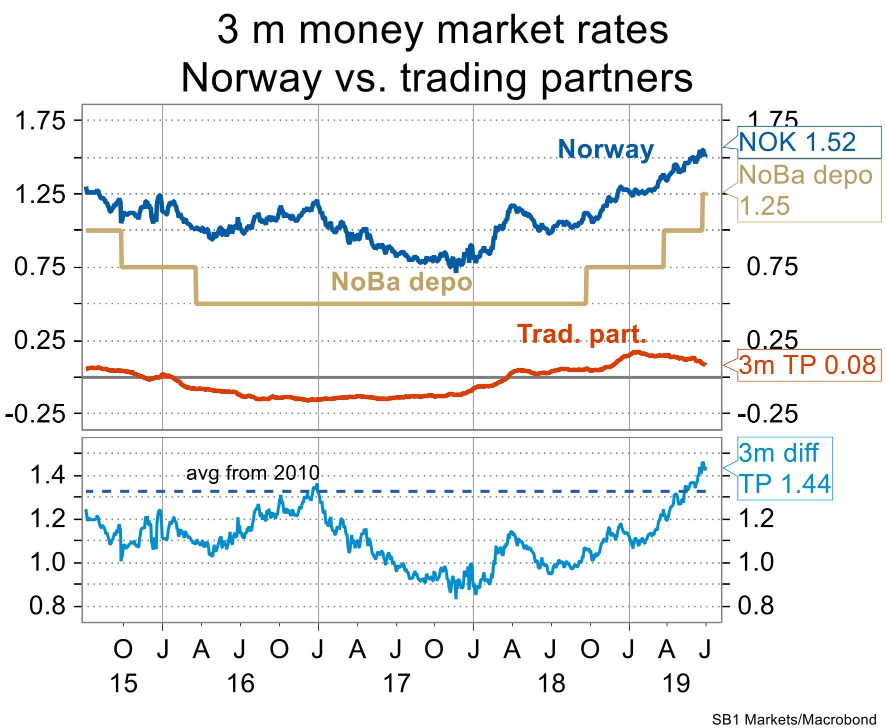


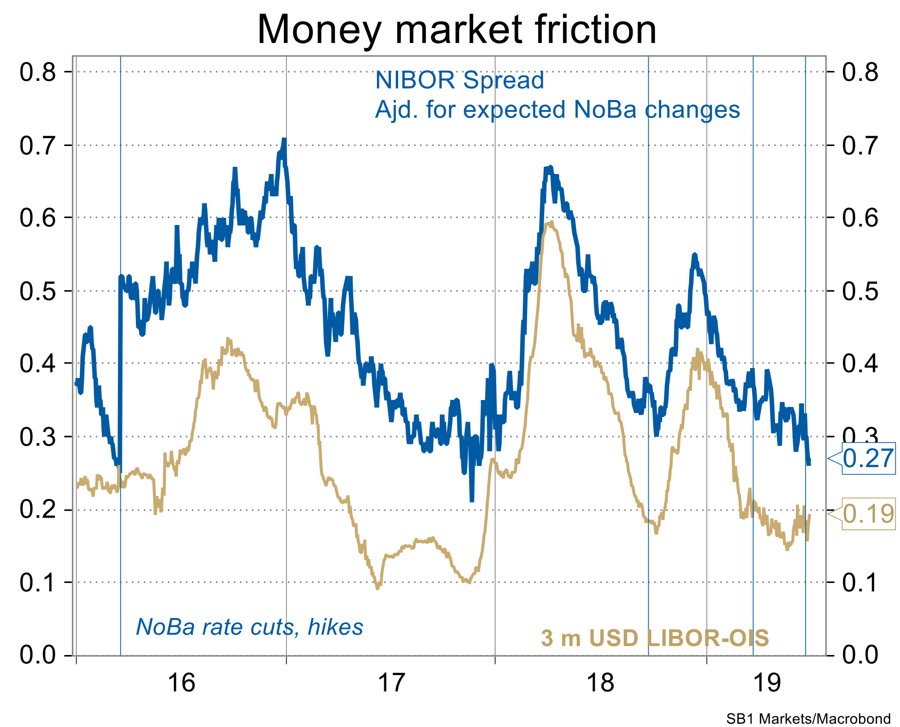


- The NIBOR Dec '19 FRA rose 9 bps following the NoBa announcement, thus, almost fully pricing in the 11 bps upward revision of the path in Q4
- The FRA curve is inverted from Dec 19 onwards, the market does not expect any hikes after 2019 (NoBa plans 1 in '20)

3m NIBOR at 1.52%, the NIBOR-NoBa spread below 30 bps

The US 3m OIS spread has widened somewhat – does not signal any further NIBOR spread narrowing

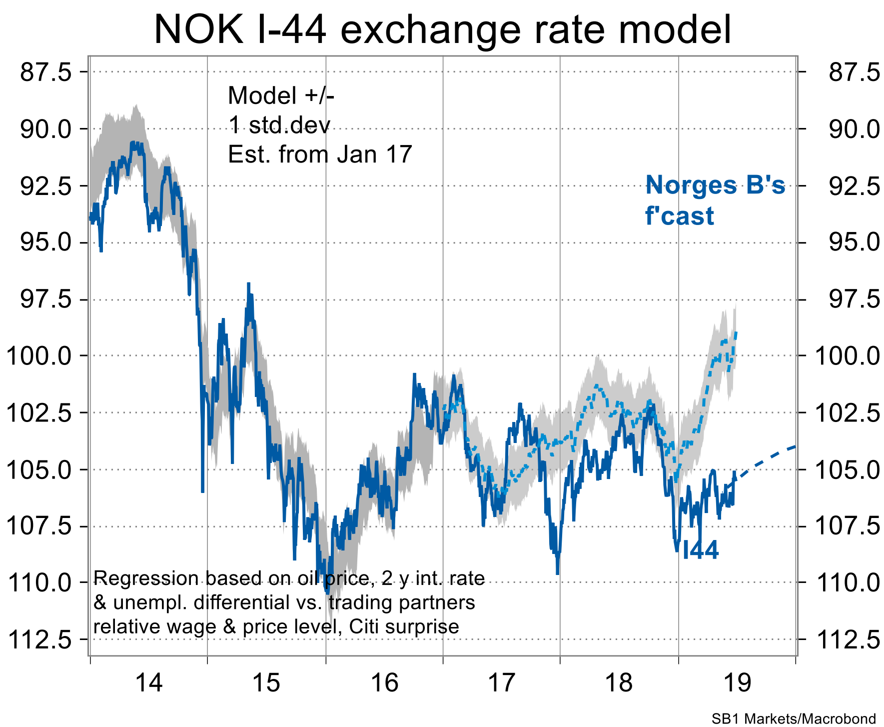


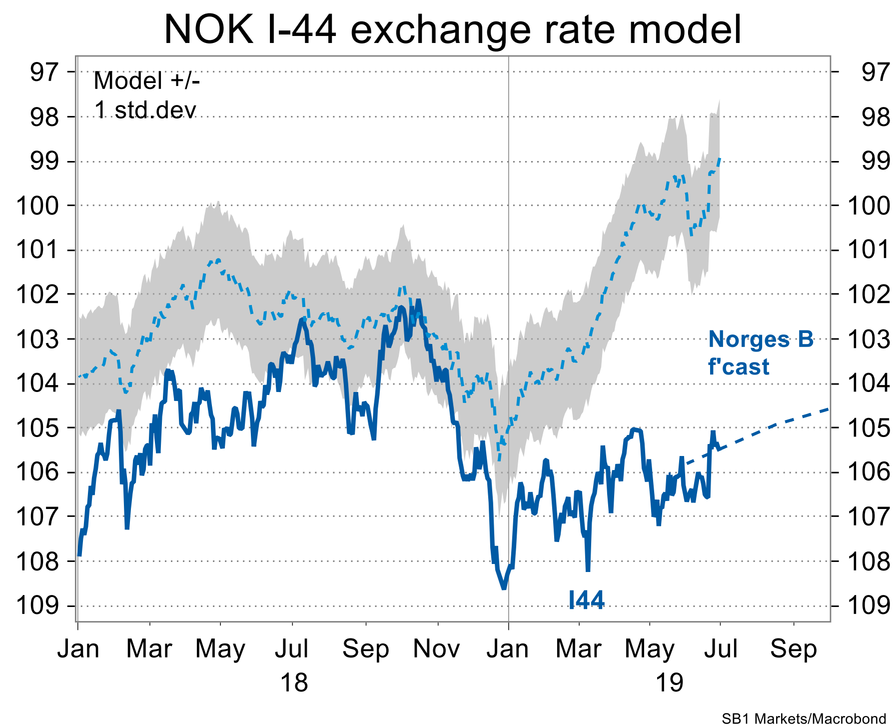


- We have for some weeks assumed a 30 bps NIBOR spread, which turned out to be the spread after NoBa's hike. Norges Bank forecast a 35 bps spread until October, and then up to 40 bps. That can of course turn out to be correct but had NoBa used our (so far better) estimate, it would have had to lift the interest rate path for the signal rate by 5 and 10 bps
- The spread between NOK and trading partners' 3 m money market rates at 1.44 bps is up some 60 bps since December 2017 and is now above the 10 past year's average – without sending the NOK into the orbit

The model says NOK up but it closed flat– the gap widened to 6%

Our NOK model suggested a 0.3% appreciation – and the discrepancy widened to 6%



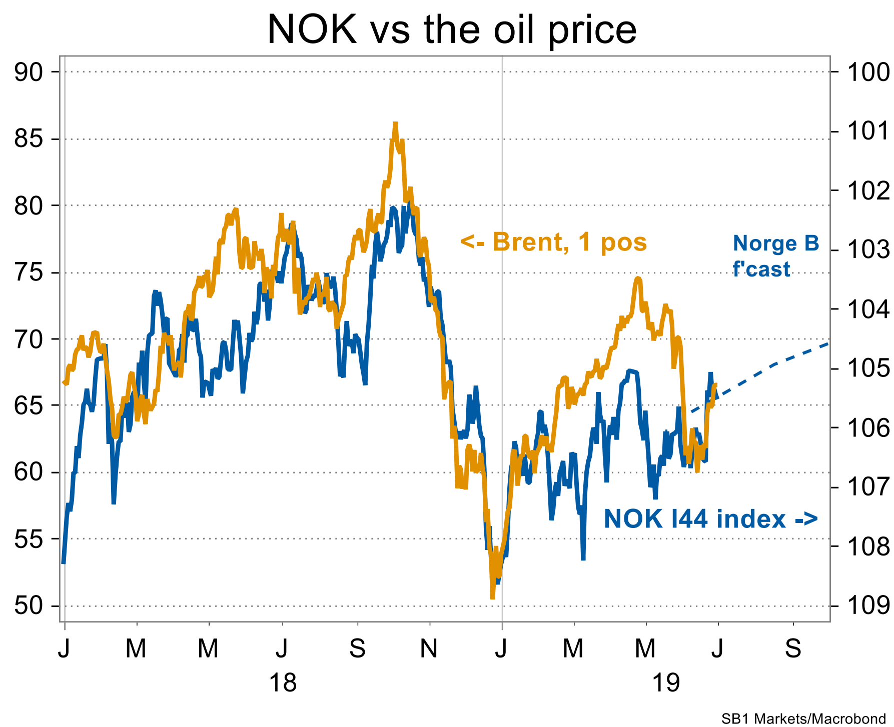


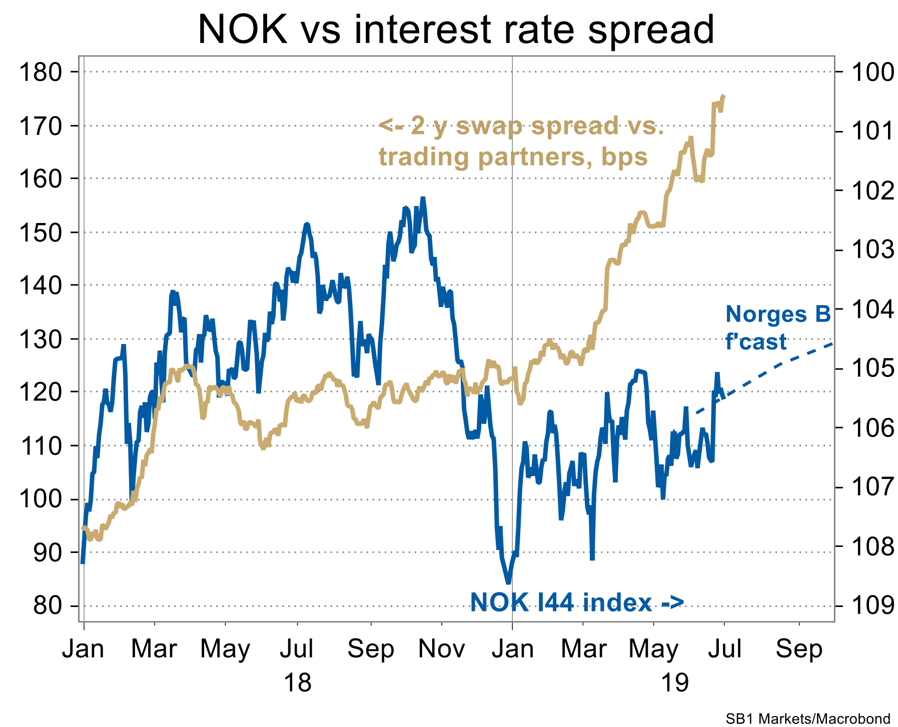
- The model forecast up with higher interest rate differential and a rising oil price. The NOK is now 6% below the model f'cast
- What explains the (extra) weakness vs the model estimate since March?
  - » No really weak Norwegian macro data, on the contrary, most data have been upbeat
  - » Risk aversion? Perhaps, yet EM currencies have not collapsed (even as many depreciated when the trade war escalated)
  - » Weakness in other supercycle currencies may be an explanation. A NOK model based on AUD, CAD & SEK, that has worked very well over time, explains the recent 'flattishness' very well – which our standard model does not
- We do not have any other recommendation than **Buy NOK**

SpareBank 1 MARKETS

NOK marginally down last week, without help from oil, the interest rate spread

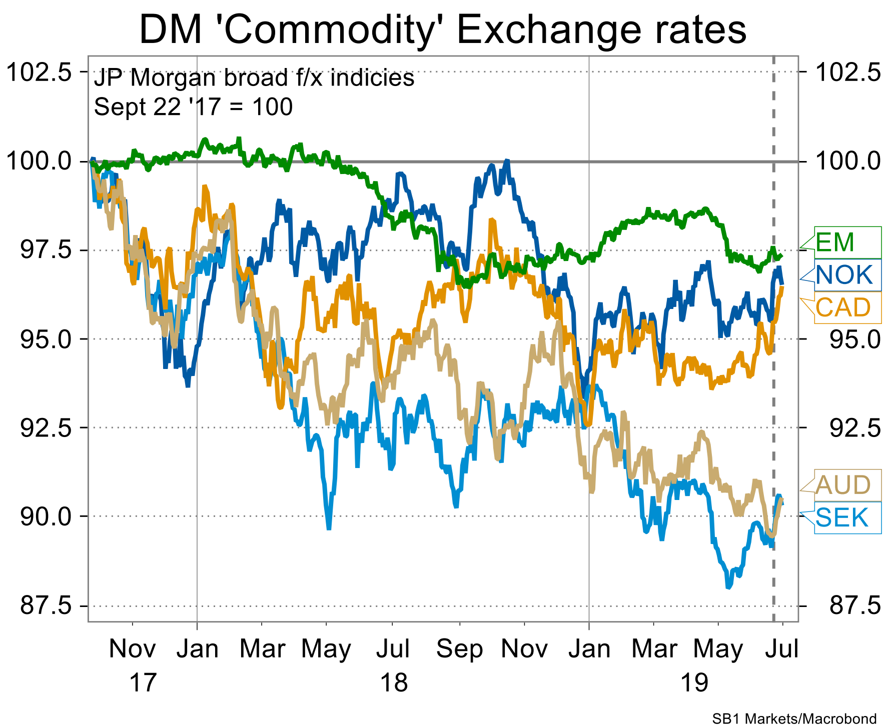
(and not from our friends either, check next page)

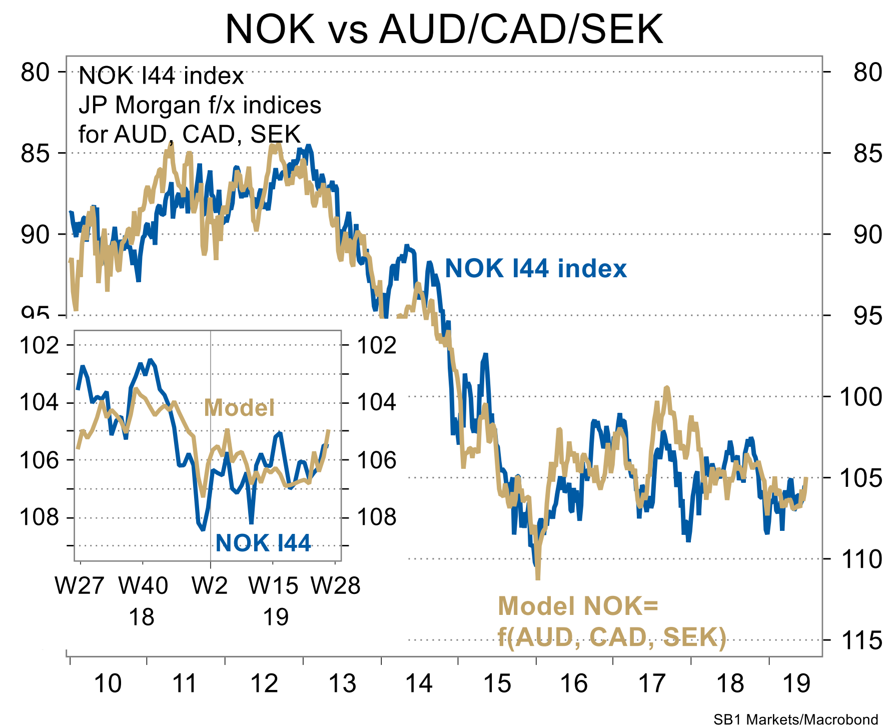




NOK follows our supercycle pals pretty well over time – and now

Forget oil, NOK interest rates and all the other factors. Just look at AUD, CAD & SEK

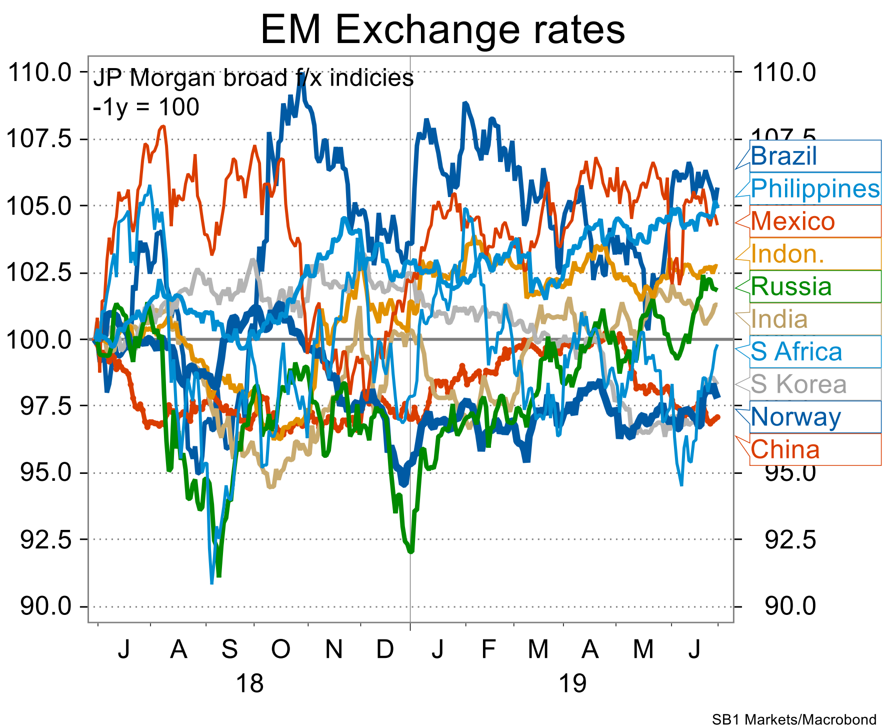


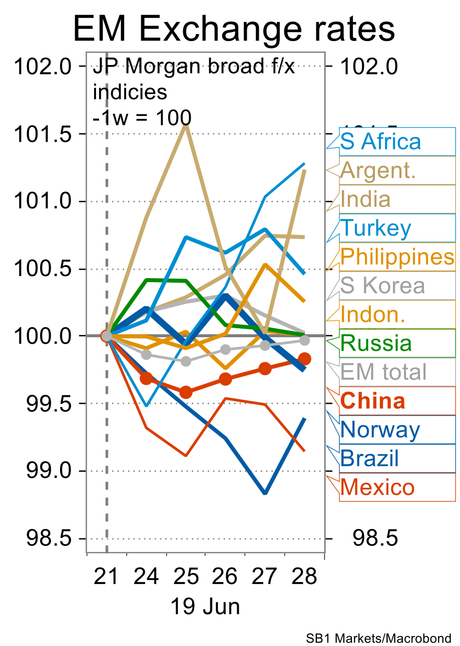


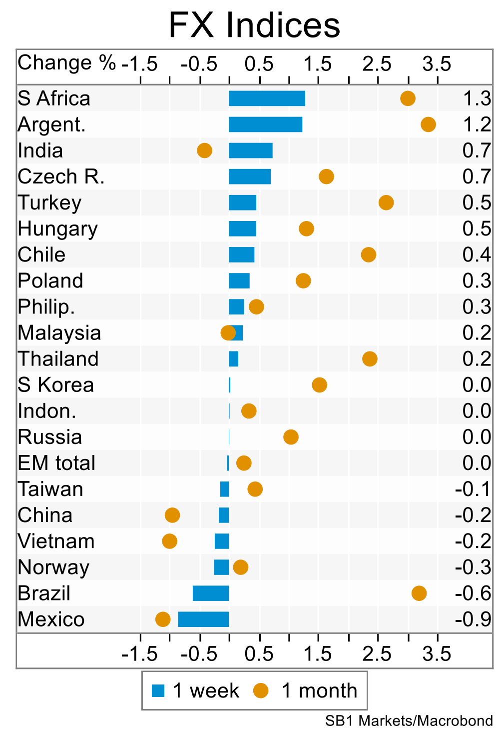
- NOK is much weaker than any our workhorse model predicts, and much lower than others' models suggests (NoBa's model miss is almost twice as large as our model's residual)
- If we just model NOK as a function of AUD, CAD and SEK indices, the 'new' NOK weakness since late 2017 is much better explained. It was the supercyclicals that fell out of favour – not the NOK
- Still, last week the supercyclicals appreciated, but the NOK fell marginally.

Quite stable EM f/x-markets recently

The CNY fell Friday, but most up on the week







- The Brazilian real has been volatile recently, a tad down last week – sharply up last month (3%)
- The South African rand has appreciated 5% from early June
- The Mexican peso down last week, but has recovered most of the immigration tariff shock

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