8 July, 2019

Macro Research

Weekly update 28/2019

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

Synne Holbæk-Hanssen
Phone : (+47) 24 13 36 31
Mobile : (+47) 40 49 55 48
E-mail : shh@sb1markets.no

SpareBank 1 Markets
Phone : (+47) 24 14 74 18
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PostBox 1398 Vika, 0114 Oslo

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

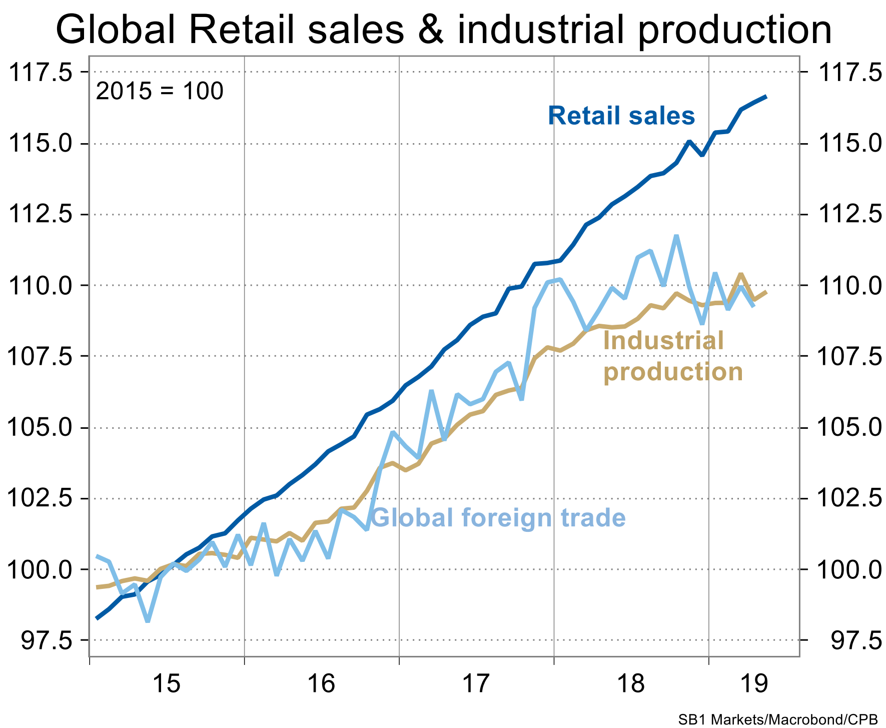
Our main views

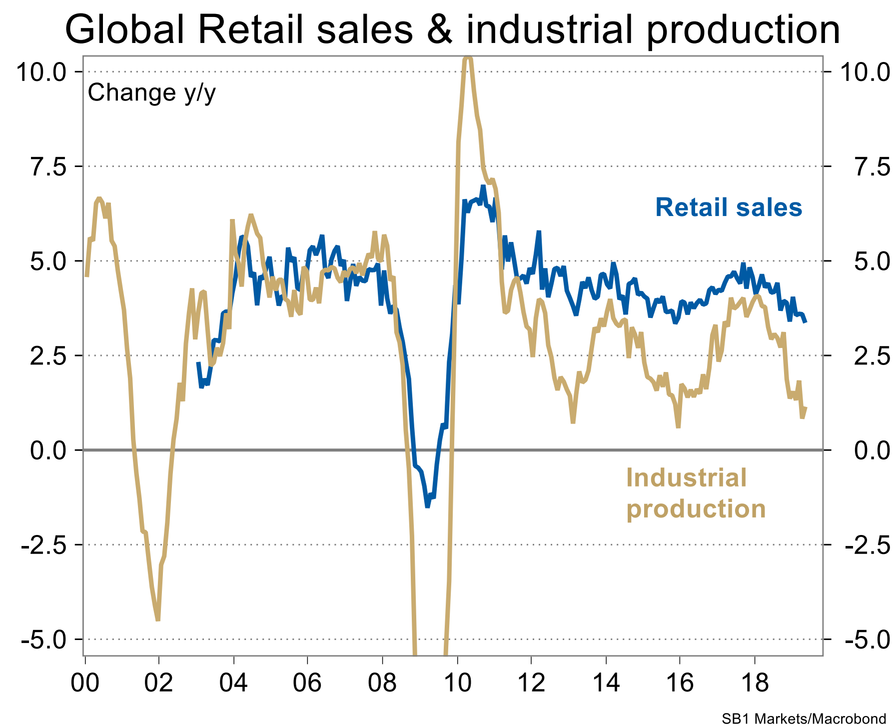
	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. Rich countries (DM) in the lead, more to go in most EM. Unemployment is low, wage inflation on the way up, not low vs. productivity. Most emerging countries (EM) x China are in recovery mode. 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 stabilised in June, at 51.2, we expected a 0.4 p decline. The PMI signals just below 3% GDP growth. US and Asia the weakest links now. We think we know why
China	The governments' stimulus measures may have stabilised the economy but surveys and data do not point to any swift turn of growth momentum. The invest/GDP ratio is declining rapidly. Debt growth has slowed, and will not accelerate much even if authorities are trying to stimulate credit in order to compensate for the negative impacts from the trade war/previous tightening. Fiscal policy is also activated, strongly. Exports to US (net of interm. imp) approx 2% of GDP, and a (so far) 10% decline here is manageable. However, a full scale tech/trade war will be bad, a deal with US is important	Markit's composite PMI fell back to recent troughs. The manuf. index fell the most, to 49.4, NBS flat (but the composite down). The PMIs are not disturbingly weak but may indicate that the stimulus measures have not shifting the growth momentum
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 are 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. **Risks: Trump/trade/bus investments**	The comp. ISM fell, Markit's PMI stabilized after upward revisions. The avg is pointing to 1% growth. Both manuf. surveys fell less than expected yet both are reflecting waning activity. Employment bounced back more than f'casted, reflecting a solid labour market – without accelerating wage growth. Net trade will be pull Q2 GDP growth down
EMU	Growth has slowed and manufacturing data are worrying while services remain resilient. 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	Composite PMI is still at a decent level, while manufacturing is tumbling. Unemployment keeps declining in spite the weaker growth momentum. Retail sales were probably muted in Q2, although still trending up
Norway	Growth is and will remain above trend – and unemployment declines further. Oil investments have more to go. 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. **Risks: Debt, housing.**	House prices rose more than expected in June, as in May, up 0.6% m/m. Broad upturn. Manufacturing production held up in May, Q2 will be strong. Still, manufacturing PMI is weakening, may signal production at peak

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

Manuf. production & global trade are stalling, retail sales still growing (slower)

Manufacturing production probably rose marginally in May (our est), retail sales are climbing

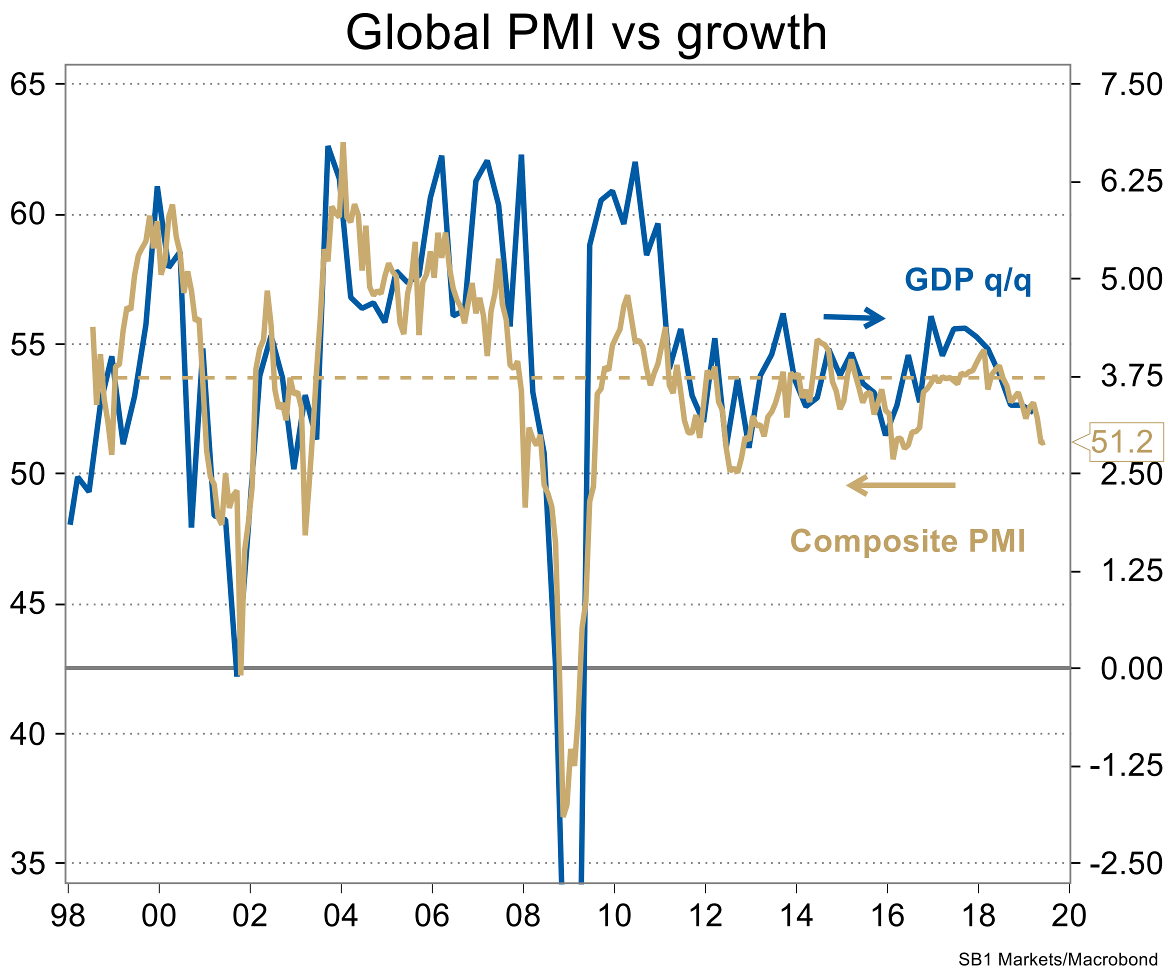


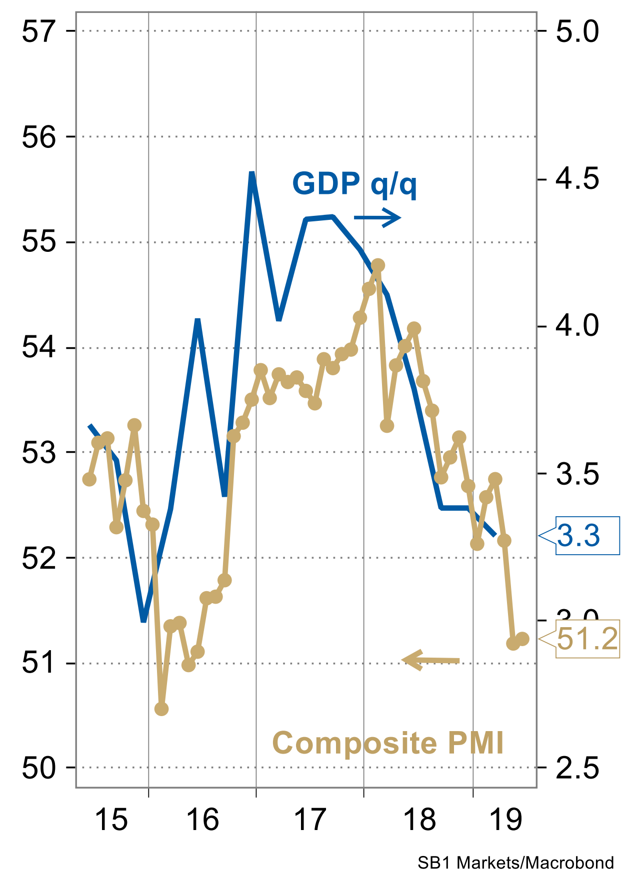


- Manufacturing production has been stagnating since last autumn. However, the slowdown has not accelerated recent months, and production probably increased softly in May. The downturn the past 6 months are both due to somewhat slower growth in retail sales, a slowdown in business investments (triggered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

Global PMI stabilised in June, better than we assumed. Still says below 3% GDP

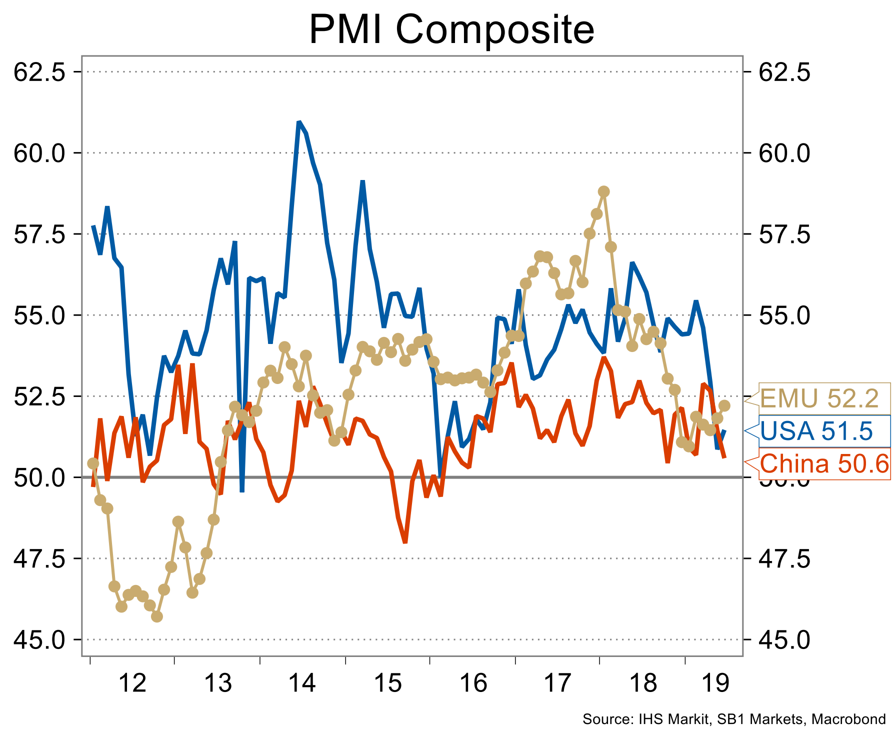
Composite PMI flat at 51.2, (we f'casted -0.4 p) following the 1 p May drop

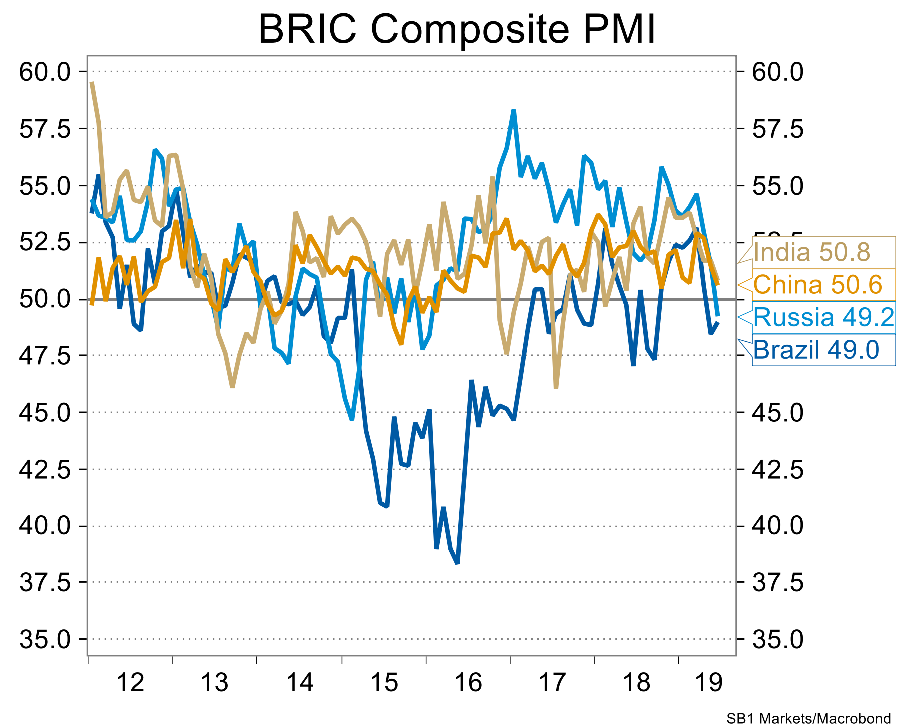




US better than first reported, up 0.6, not down 0.5; still weak. EMU up too…

Mixed in rest of the world, China and most other EMs down

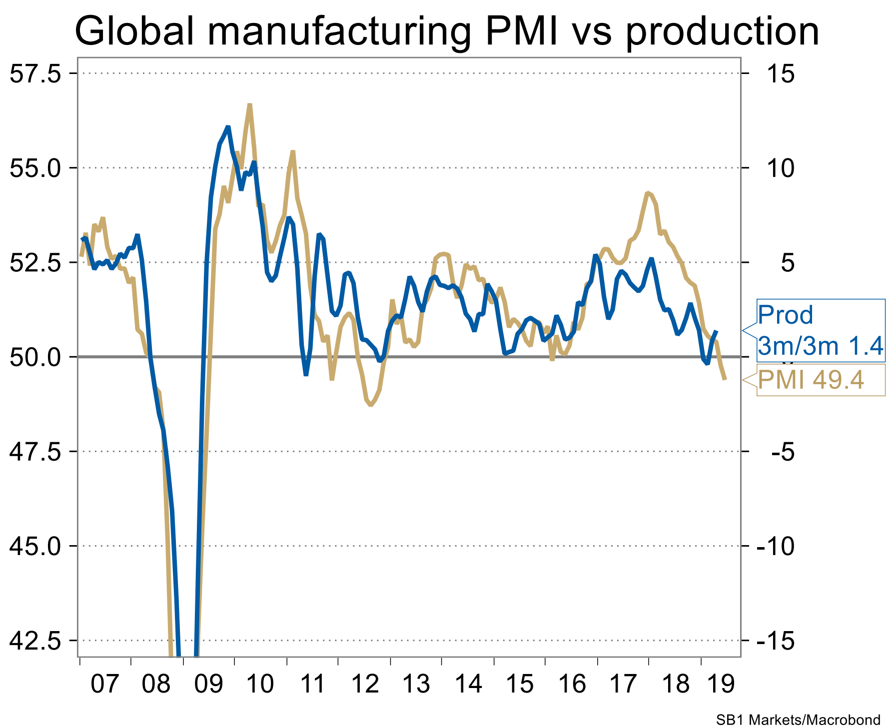


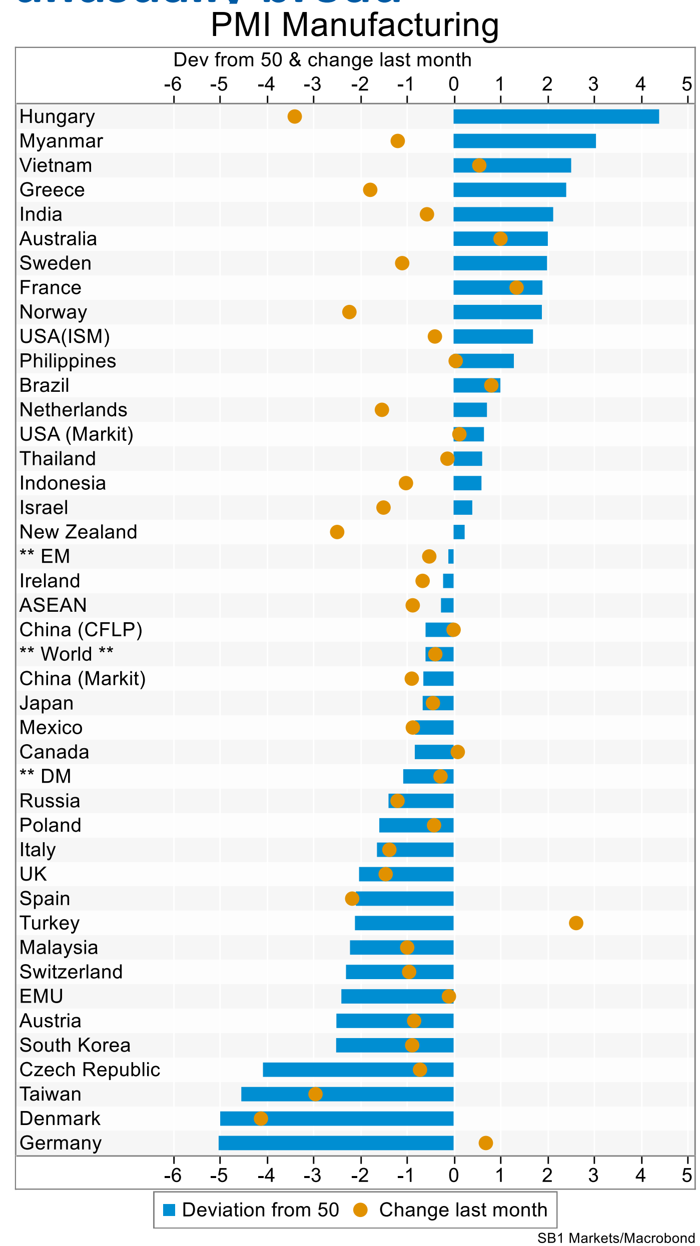


- Following the almost 3 p decline in US Markit's PMI to May from February, the index rose in June to 51.5, a substantial revision from the first estimate – signalling that 'something' may have turned up during the month. (However, the ISM indices both fell). Domestic orders are the weak link, not export orders
- The EMU PMI rose further in June – and it at the best level in 7 months, still at a muted level (52.2, above the US)
- Both Chinese PMI data sets down in June. Markit's PMI down to 50.6, the second lowest in this 'downturn'. The level was below the 50-line both in 2012, 13, 14, 15 and 16
- The Brazilian PMI rose marginally but remains below 50 – where the Russian index ended in June. India (as China) down

Manufacturing PMI further down to 7 y low in June, unusually broad

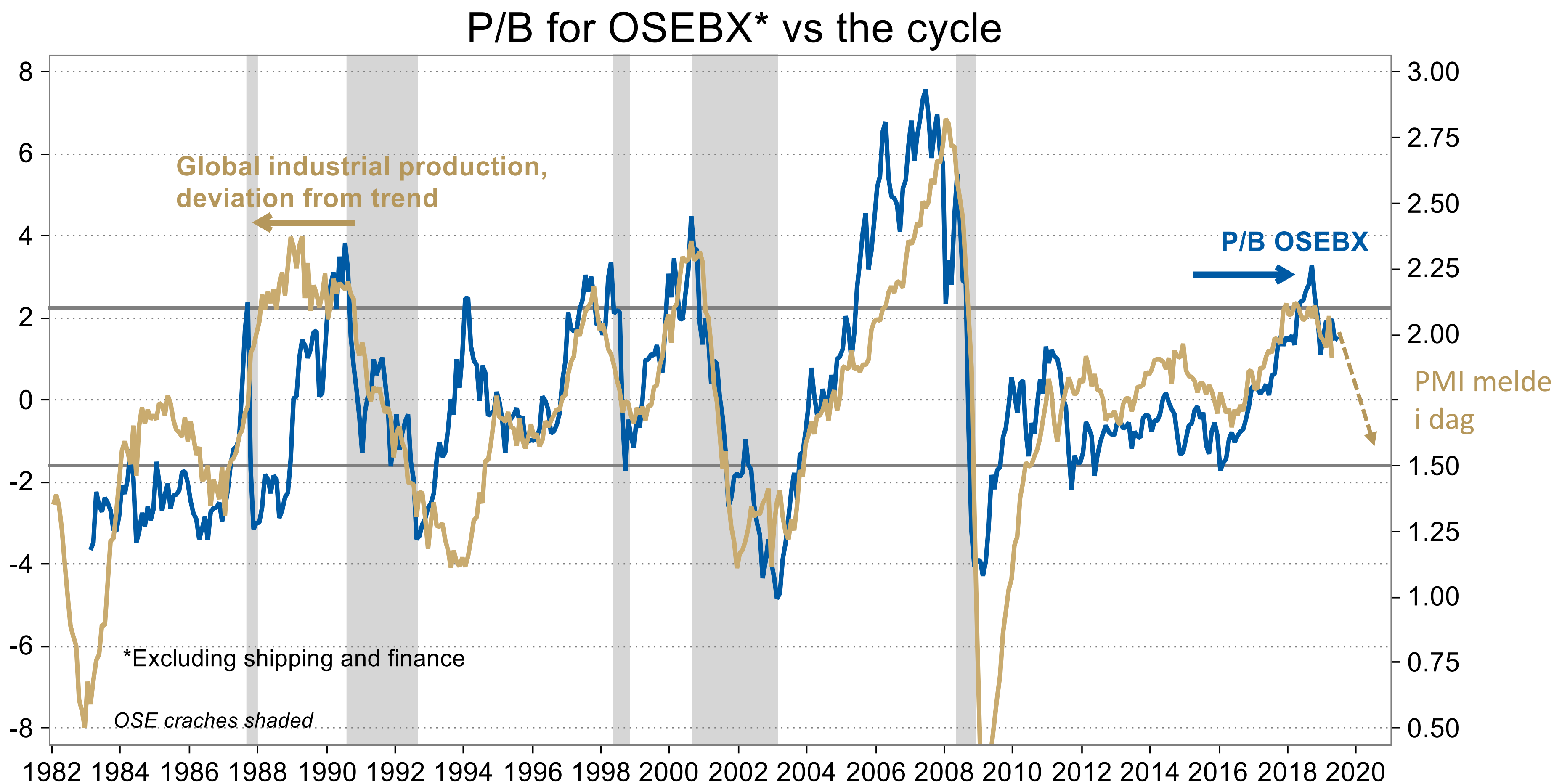
The index fell 0.4 p to 49.4, just 7 out of 43 up





- The decline was 0.1 p larger than we assumed-based on the preliminary results from some countries. **The index has fallen for 14 consecutive months and is now signalling a decline in global manufacturing production**
  - » 34 (22 in May) countries/regions down in June and just 7 up (15)
  - » More than half of the countries/regions are reporting declining output; 25 countries/regions are below the 50 line. Germany still at the bottom
  - » Developed Markets fell 0.3 p in average, less than the 1 p drop in May. Emerging Markets down 0.5 p (from -0.1 in May)

Oslo Børs needs better data than we now have at hand to stay afloat

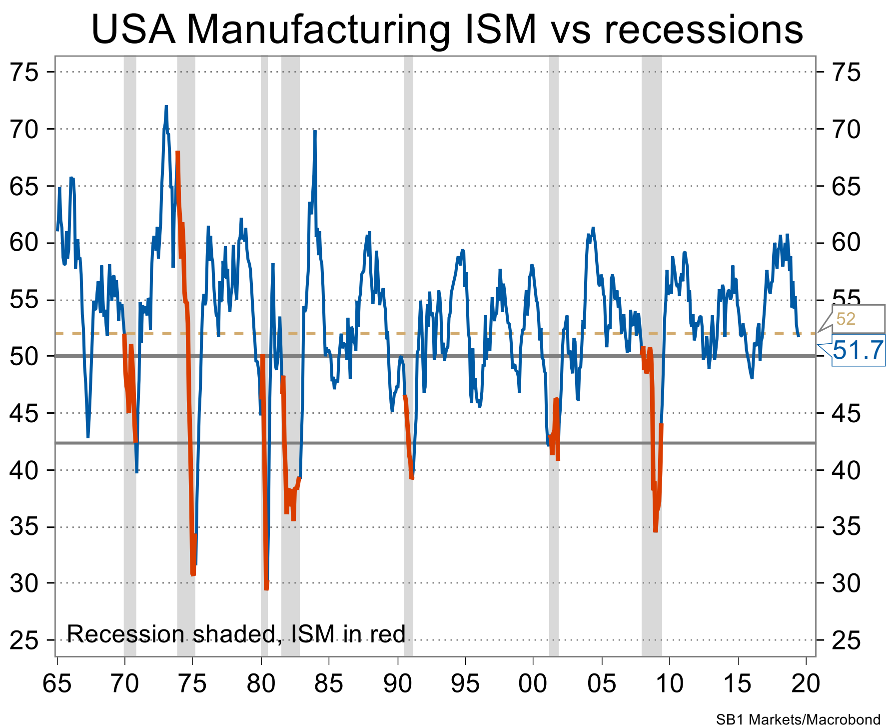


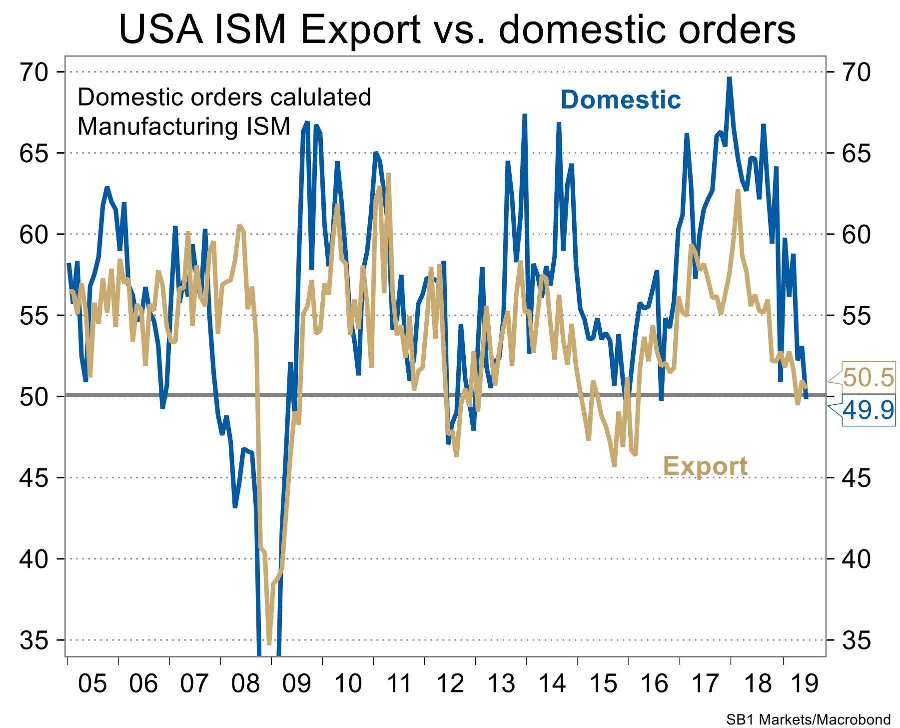
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

SpareBank 1 MARKETS

Manufacturing ISM above expectations in June but the details are rather soft

ISM fell 0.4 p to 51.7, less than regional surveys suggested. However, orders, prices are stagnating



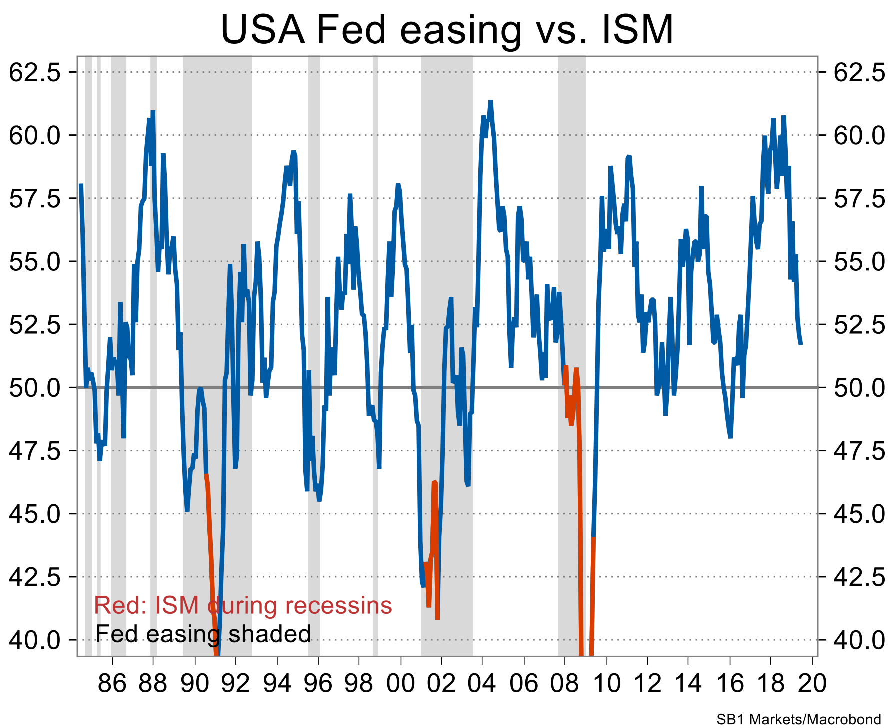


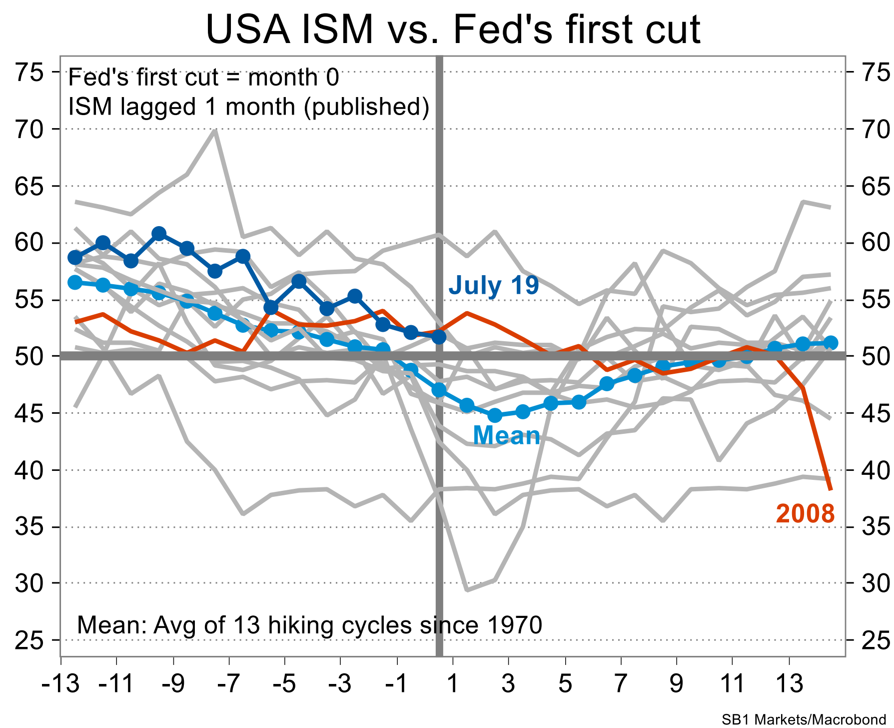
- Manuf. ISM fell to 51.7 in June, from 52.1, far better than the regional surveys suggested (50.0) and above consensus f'cast at 51.0. However, the level is below the long term average (at 52.9) and the speed down is no doubt worrisome, particularly as other surveys confirms the steep drop
  - » In the ISM survey, 12 out of 18 manufacturing sectors reported growth (up from 11 in May) and 5 (from 6) sectors reported a contraction – not than bad. Businesses reported that concerns about the global trade dispute and the Mexico conflict in early June dampened activity, indicates some upside next month??
- Businesses report stagnating order inflows, now mostly due to a decline in (implicit) domestic orders component to below 50. The export order index fell marginally, remains above the 50 line. The inventory index fell further but remains elevated, signalling an inventory adjustment ahead. Delivery times are shrinking and prices are easing. On the positive note: The manufacturers' customers are not reporting increasing inventories
- The bad news: ISM at/below 52 may be an early warning of a recession (in 6 of 20 times, at least). The good news: it usually takes some months

SpareBank 1 MARKETS

When will the Fed start cutting?

Well, when it believes the economy has slowed (or will slow…) sufficiently

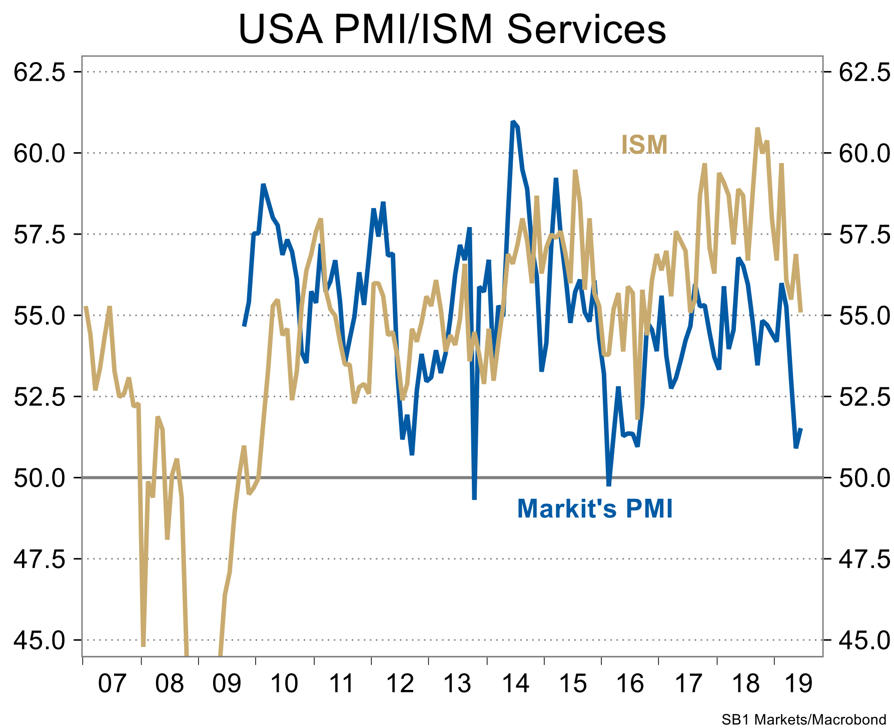


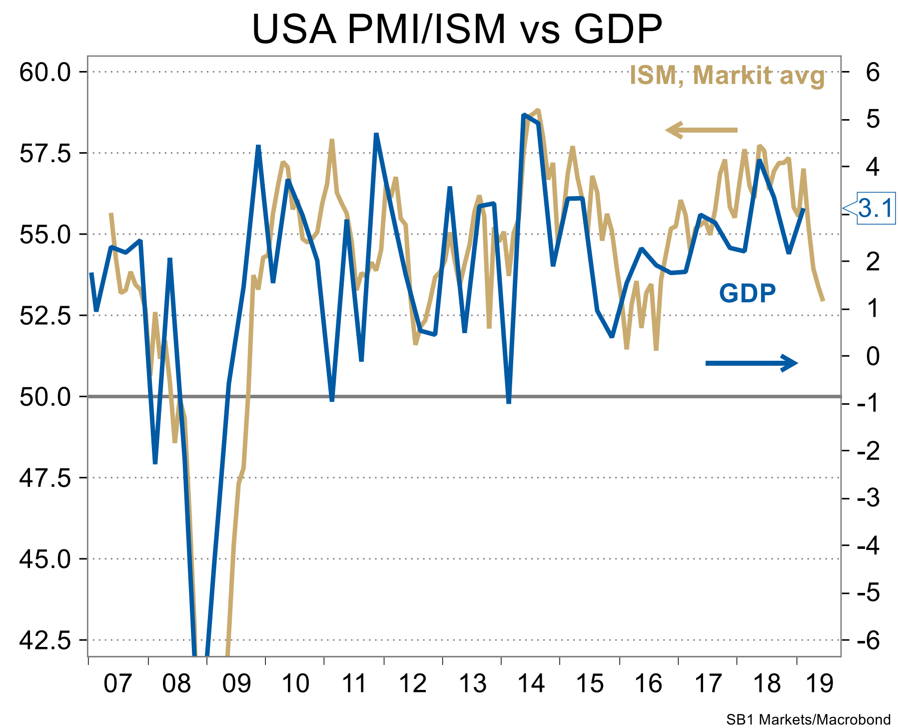


- In average the Fed starts cutting when the manufacturing ISM has fallen below 50 – but has started easing even if the survey is at far higher level – like in Sept 2007 when the (Aug) ISM was at 52.2 (and like now, and with unemployment still heading down). However, at that stage there were 'some' stress in US housing market and in some pockets of the financial market…
- Fed has engaged in some 13 easing cycles since early 1970, while US has had 'just' six recessions. So, the first hike does not signal a recession

'Services' ISM weakens, Markit's PMI improved more than first reported

Non-manuf. ISM fell to 55.1, a 2 y low. Avg of composite Markit/ISM signals a substantial slowdown

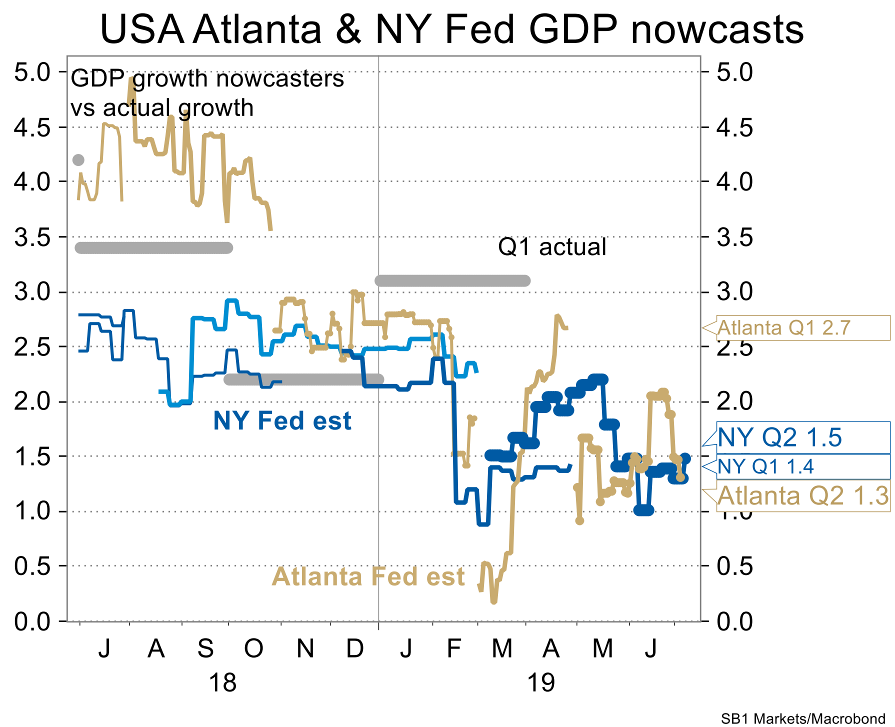


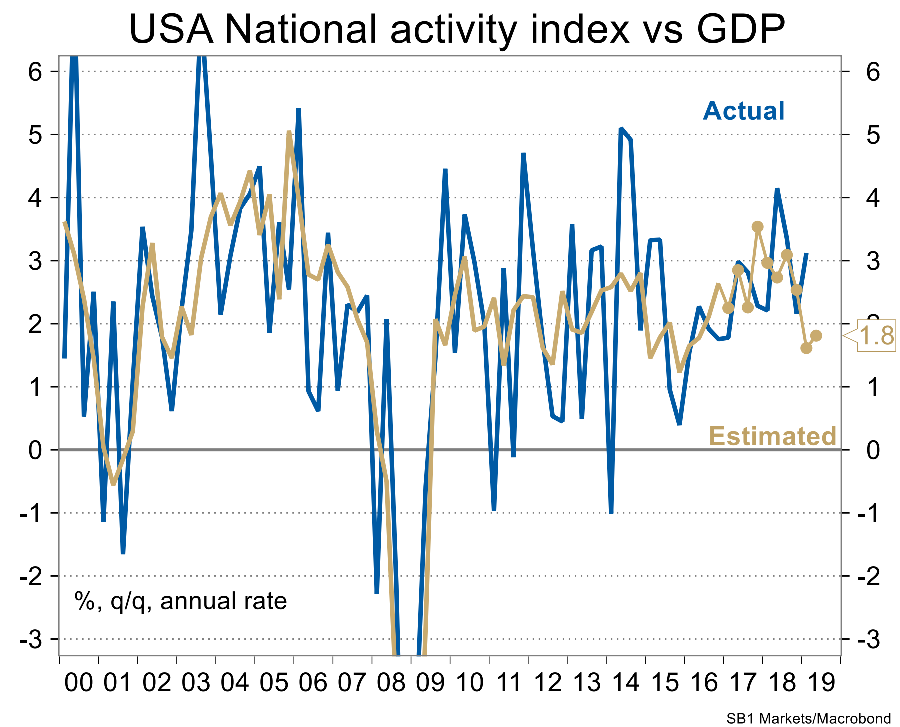


- Non-manuf. ISM came in below expectations in June, down 1.8 p to 55.1, expected at 56.0. Even if the index have fallen from close to 60 a few months ago, the level remains above average. The 'composite' ISM fell to 54.5, which is not a weak level either
  - » 15 of 18 non-manufacturing sectors reported growth, just one reported a decrease. Non-manufacturing orders are slowing rapidly but still growing. Orders are indicating that demand is not crumbling in service sectors, but it may in manufacturing! 'Composite' orders fell to 54.6
- Markit's service sector PMI came in at 51.5, 0.8 p above the first estimate – and the composite index was revised up to 51.5, a decent level
- **The avg of the composite indices points to a substantial slowdown in GDP growth, down to 1% in Q2. Moreover, the ISM has been too optimistic vs actual growth the past couple of years. The ISM/PMI GDP is weaker than the nowcasters which note 1.3-1.5% growth**

Fed nowcasters say 1.3-1.5% growth in Q2

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

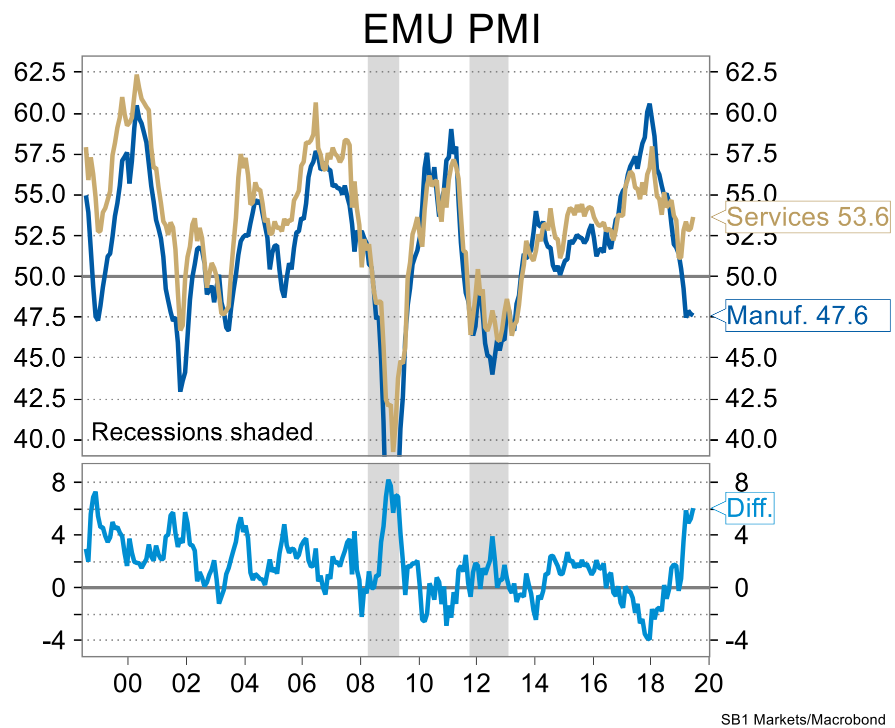


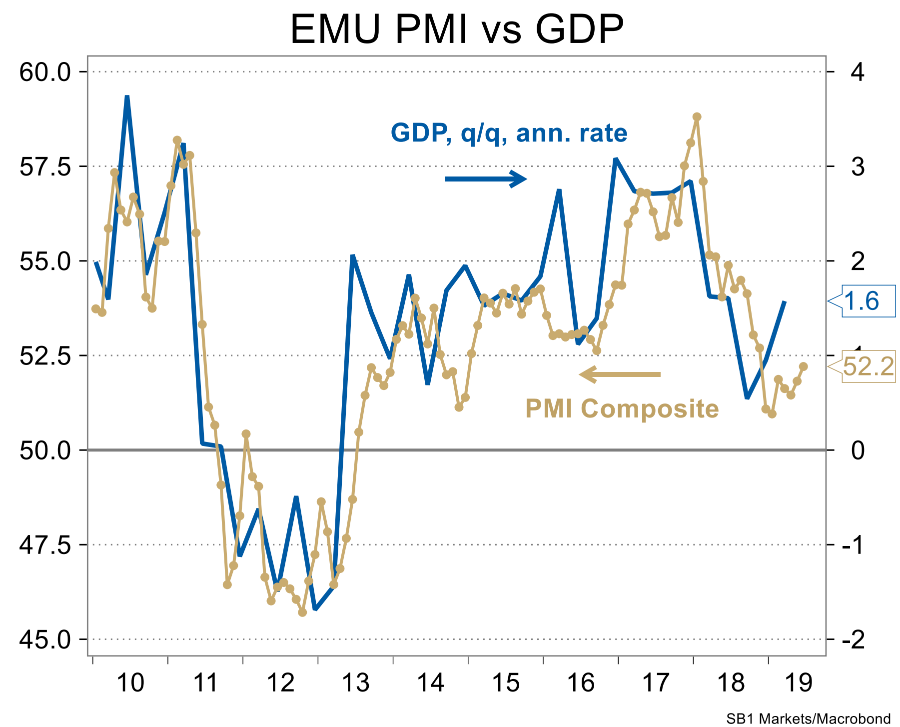


- However, the nowcasters often miss the target (as they change their mind through to the quarter)

Composite PMI showing signs of a modest uptick, to a 1% growth rate

Composite PMI 0.1 p above the 1. est, at 52.2. Gap in sector performance rose as services edged up

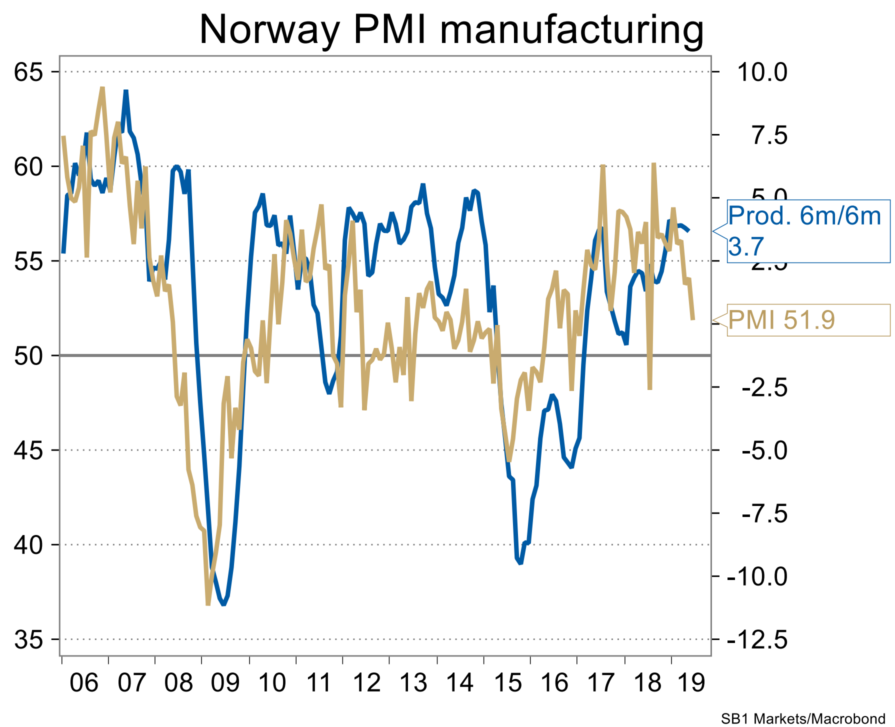


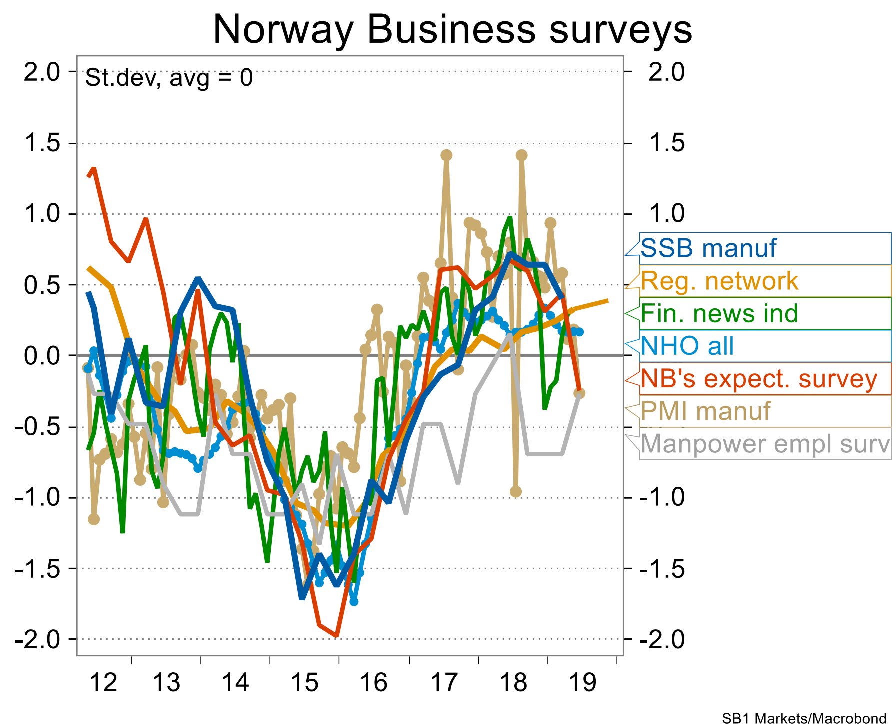


- **The final composite index** came in at 52.2 in June, a marginal lift from the first estimate, +0.4 p from May and the best in 7 months, due to improved performance in services. Nonetheless, the survey is not reflecting a thriving economy, composite PMI points to 1% GDP growth in Q2, at best
  - » Manufacturing PMI fell marginally to 47.6, indicating a continued contracting activity, while service industries are still growing moderately
- **Any hope?** Households are still optimistic, and other fundamentals do not indicate a recession now, and Q1 GDP growth was much stronger than the PMIs were indicating. Unemployment is still declining and is not record low, wage inflation is slowly accelerating, and there is no credit boom. So it may all come down to the trade war, Italy's politicians, Brexit…

Manufacturing PMI slides down, more downbeat than most surveys

The volatile PMI dropped to 51.9 in June, a 2.2 p decline. The index is in the low range of surveys

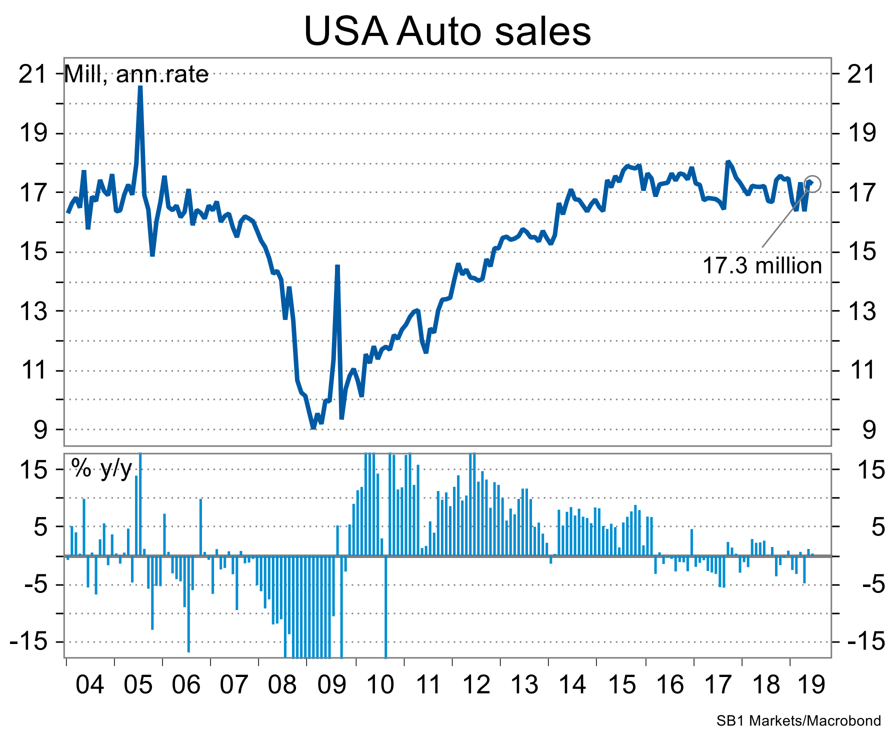


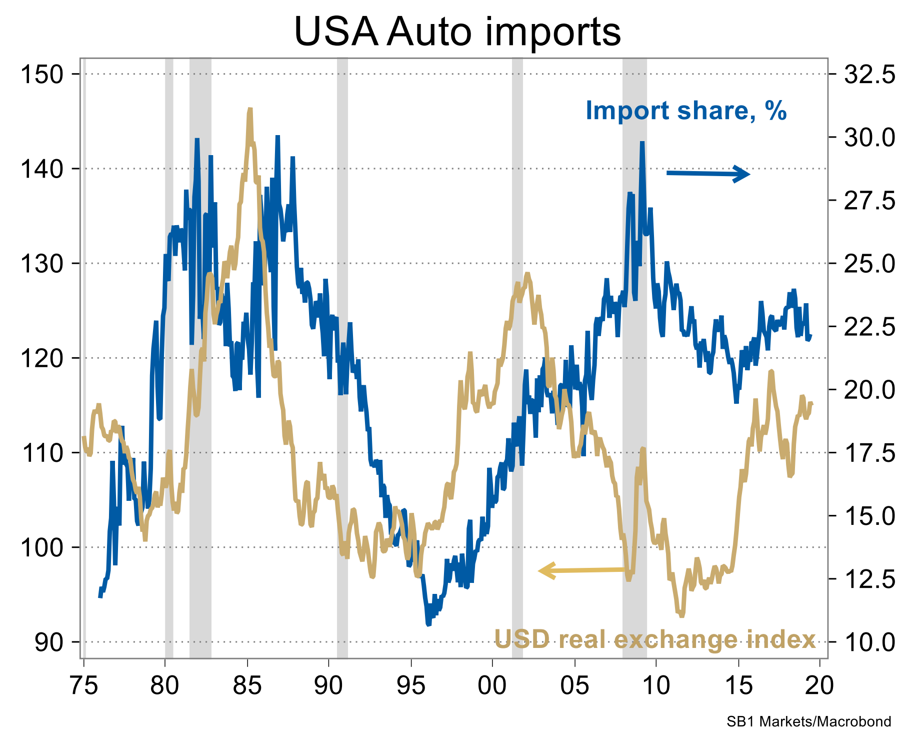


- The PMI slipped to 51.9 in June and is no doubt heading down, even if these monthly data are volatile. 3m average at 53, down from 56 three months ago
- The PMI is pointing to a substantial slowdown in manufacturing production, which has accelerated the past 2 months. The smoothed index signals decent growth. However, the correlation is not impressive in the short term –and the June level does not signal much growth

Auto sales flat in June, trend still slowly downward?

Sales have recovered from the April slump, and was better than expected in June

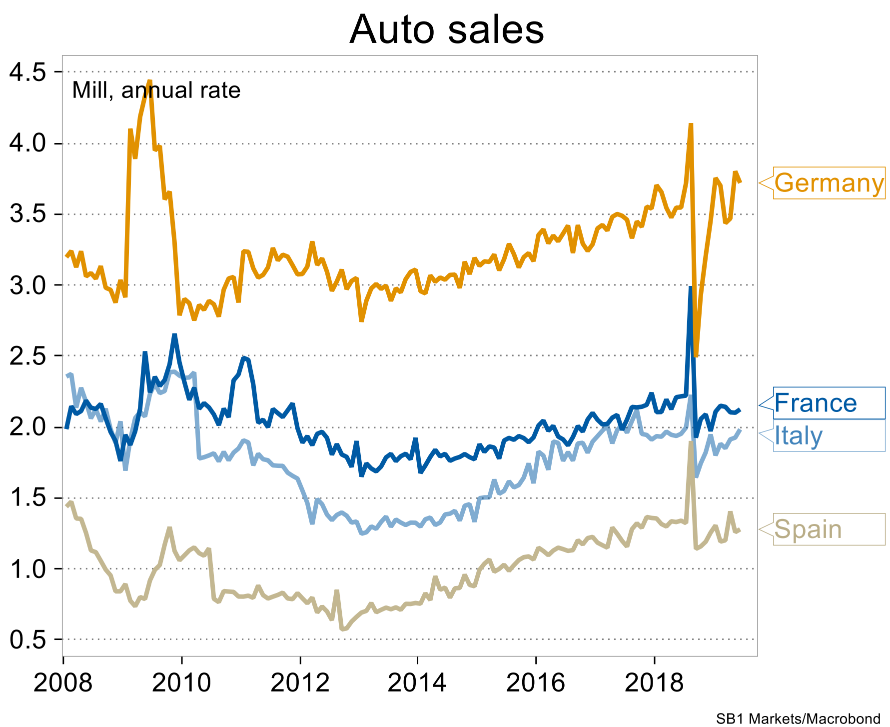


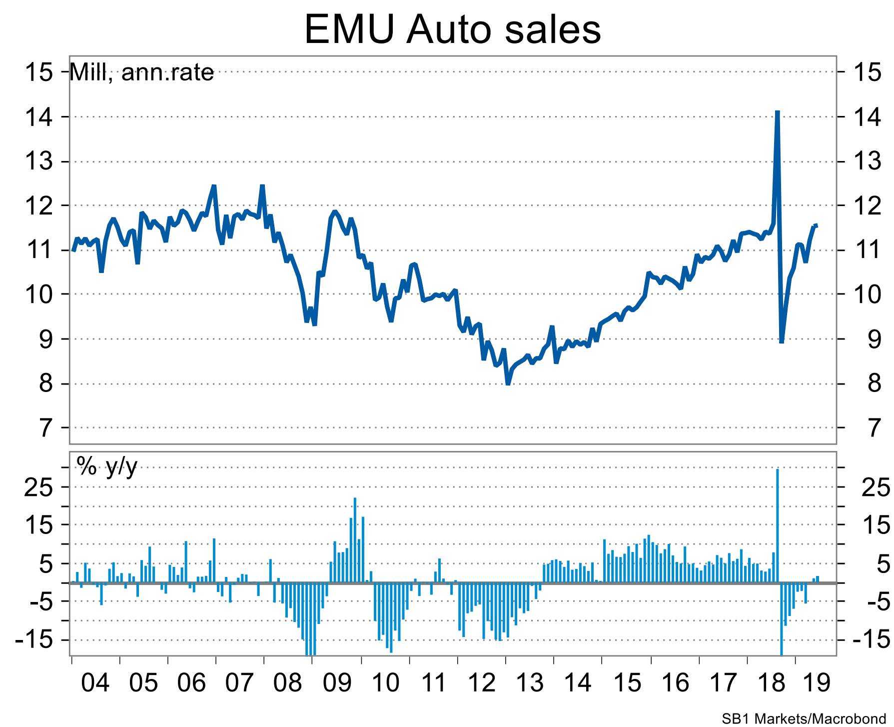


- Sales rose just marginally in Q2, after a weak Q1 and are down 1.3% y/y. The trend is pointing marginally down
- The import share rose marginally in May (no June data yet). The share has increased somewhat past 3 years, and at 22% it is above the long term average – but it has been far higher several times before. The sharp USD appreciation to 2017 from 2012 may explain the increase. The USD is some few % above the long term average
- In May, Trump announced a 6 months postponement of the decision whether 25% tariffs should be applied to auto imports (excluding from Mexico and Canada)

EMU: Auto sales probably close so stable June, Q2 almost back at 2018 level!

Sales rose in France, Spain and Italy, a moderate decline in Germany dampened total EMU growth

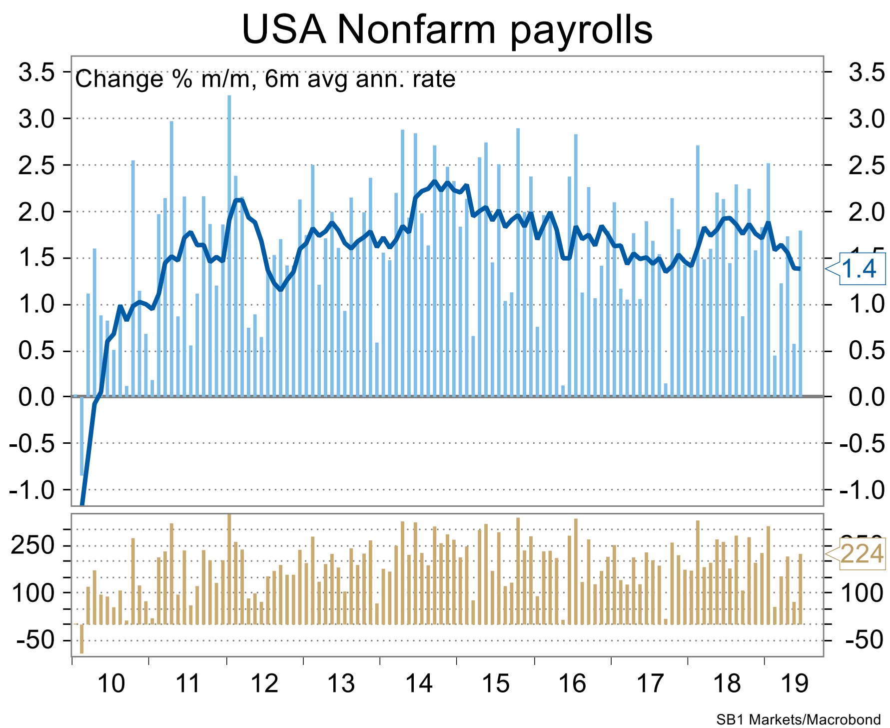


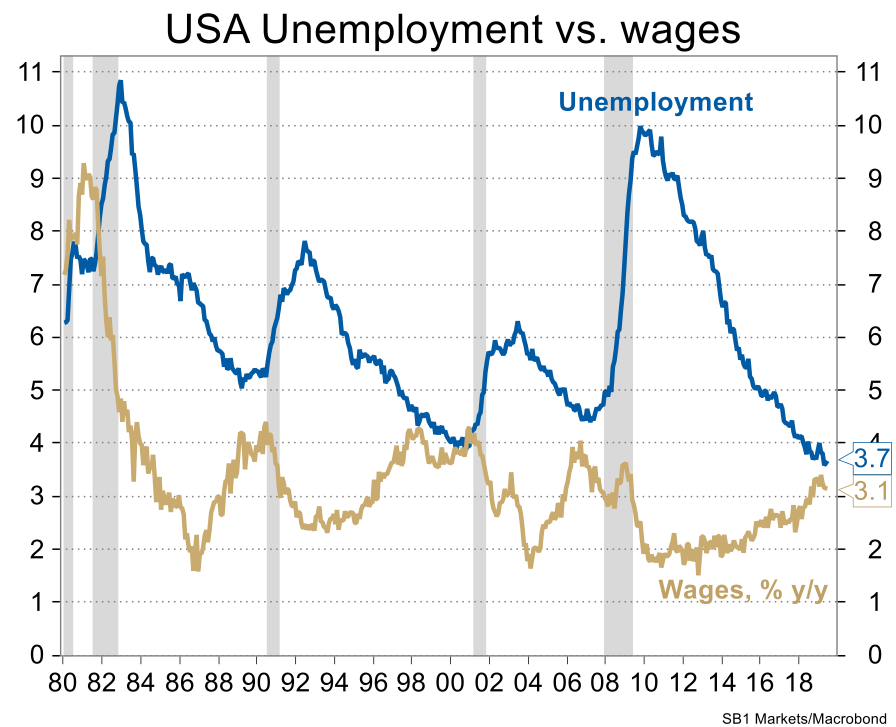


- German May sales were the highest since the pre emission rule change last September – and then the highest since the heavily subsidized record high sales after the financial crisis. The trend is clearly up – and has been so since the local bottom in late 2012
  - » Italian sales are trending up too (!) but just since last autumn, while sales in France and Spain are flattish
- EMU sales are not at or even slightly above the level before the emission regulations hit last summer. German auto production is some 16% below the pre-regulation level. Incredible!

Employment bounced back, dents expectations of Fed July cut, at least a 50 bps

Employment up 224’ in June, easing fears of a labour market slowdown. Wage growth flat at 3.1%

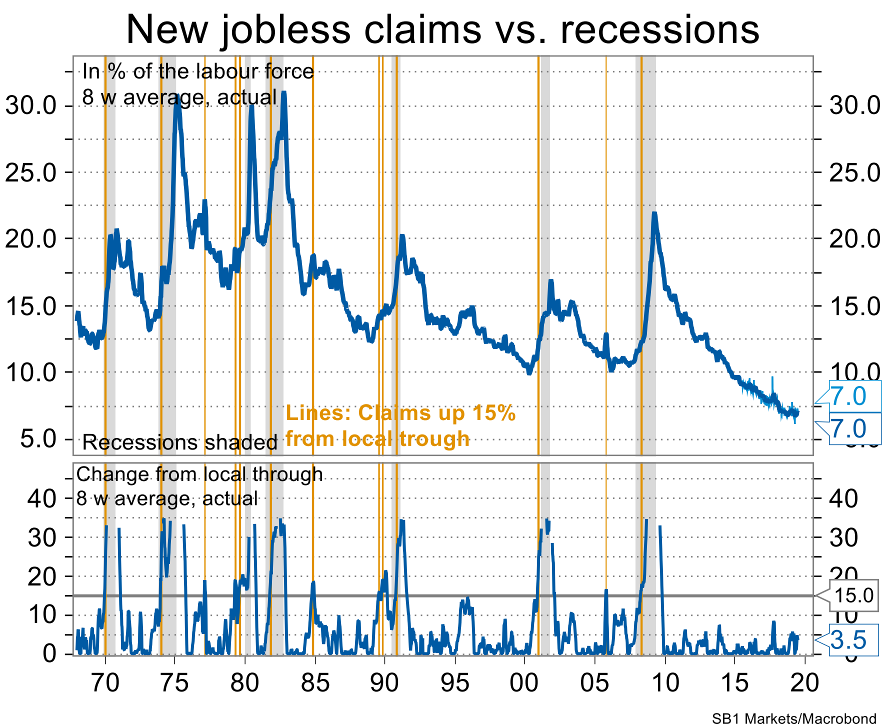


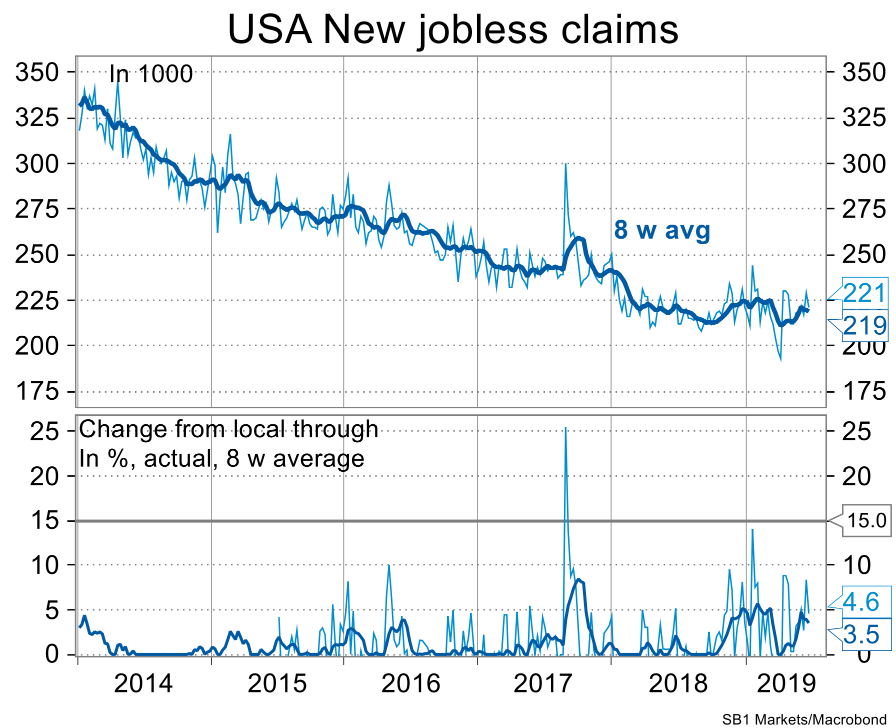


- **Employment** rose by 224’ in June, well above expectations at 160’, following the disappointing 72’ May reading (revised down 3’). In avg, employment rose by solid 148’ persons in May/June. Still, growth has no doubt slowed gradually, the 6m m/m average was flat at 1.4%, down from 1.8% one year ago
- **The unemployment rate** ticked up to 3.7%, from 3.6%, but the increase was just 0.05 pp – and the trend is still down
- The uptick in unemployment was due to a marginal increase in the labour market **participation rate**, to 62.9%, as the employment rate was flat. The participation trend is still completely flat, <u>the labour market is tight but the aggregate supply side is not responding</u>
- **Wages** rose just 0.2% m/m 0.1 pp less than expected. The annual rate held steady at 3.1%, wage inflation has eased somewhat recently, broadly
- Overall, these data confirms that the **labour market is still strong**. In fact, the June reading may have been ‘too hot’ for risk markets (equities fell, bond yields spiked following the report), as it casts some doubt on the expected Fed cut on July 31. A 50 bps cut should now completely off the table. **Under doubt, we still expect a 25 bps cut in July, because so many FOMC members has hinted so. The market takes 20 bps for granted**

Jobless claims remain low, no signs of labour market weakness

Jobless claims (2 m avg) have been record low lately, reflecting a tight labour market

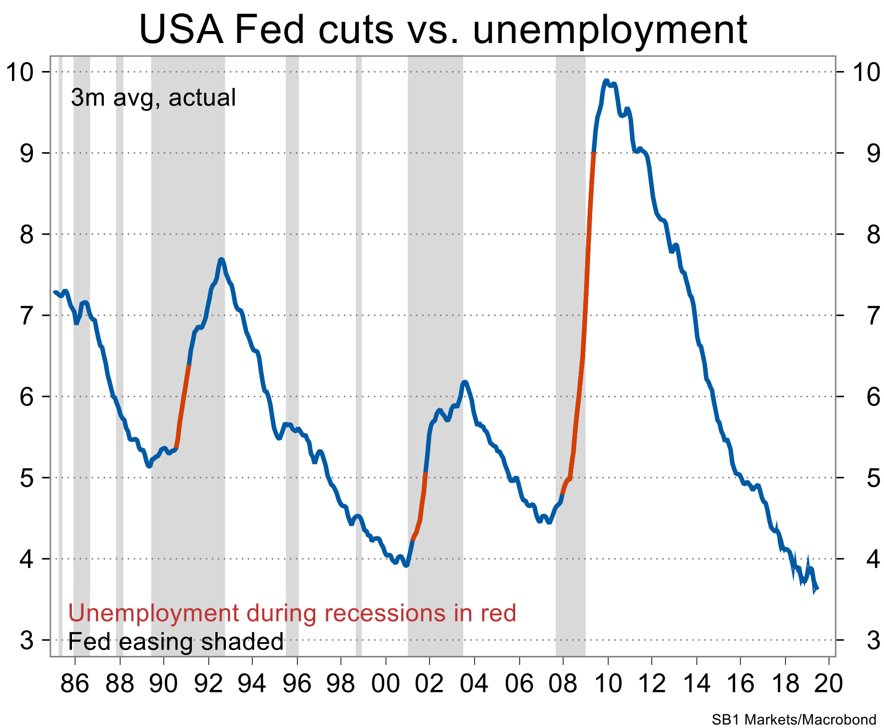


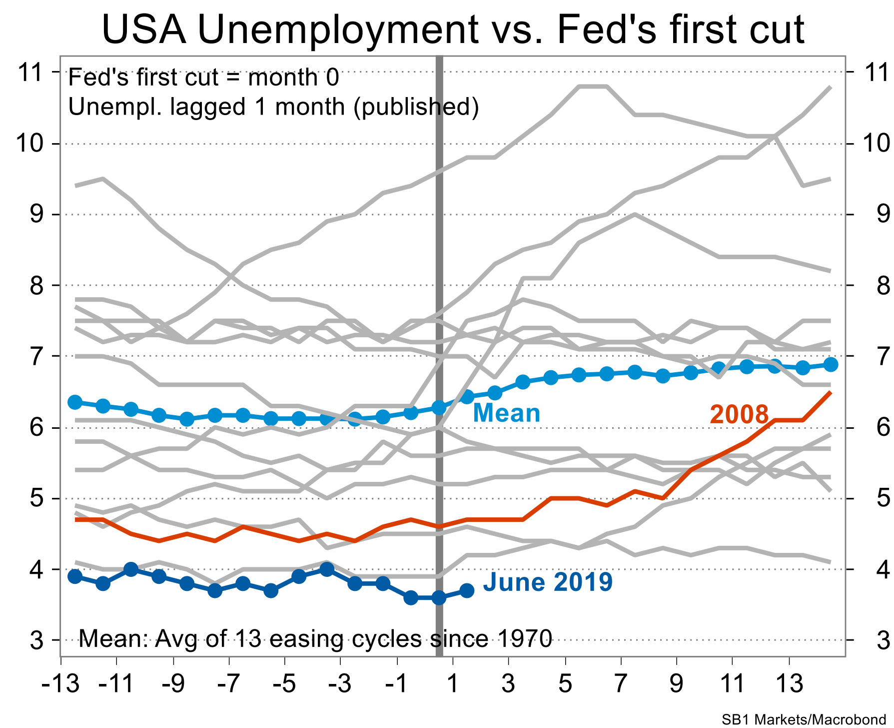


- Last week, jobless claims fell marginally to 221’ last week, from 229’ the prior week and up just slightly from the bottom at 193’in mid-April (the lowest since 1969!) The 8 week average is still very low, at 219’
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually 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?

When can the Fed start cutting: It can, now

In average, Fed waits until uemployment has edged up but *has often cut before any weakness is seen*

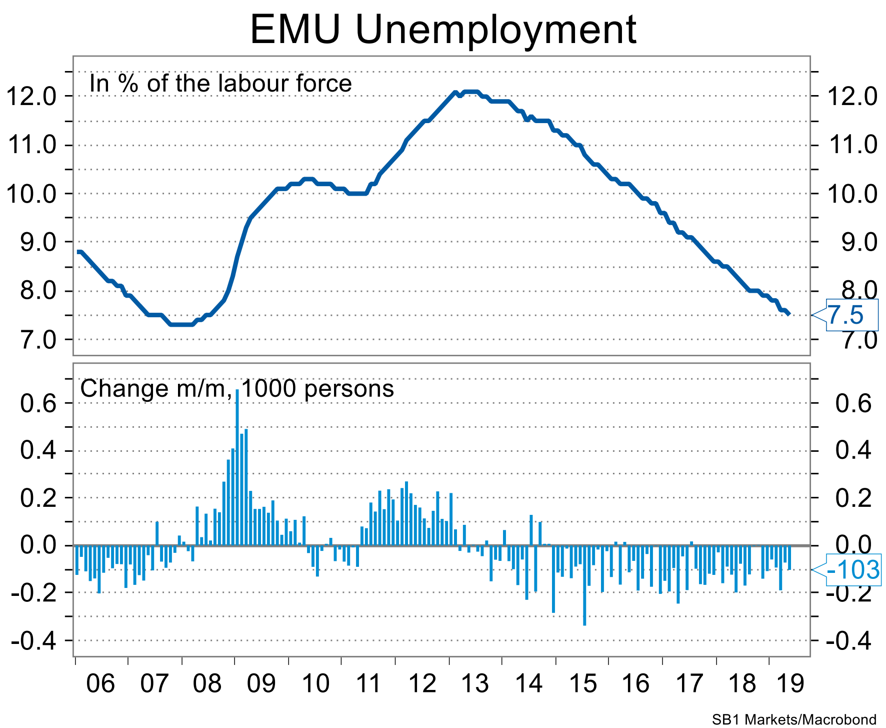


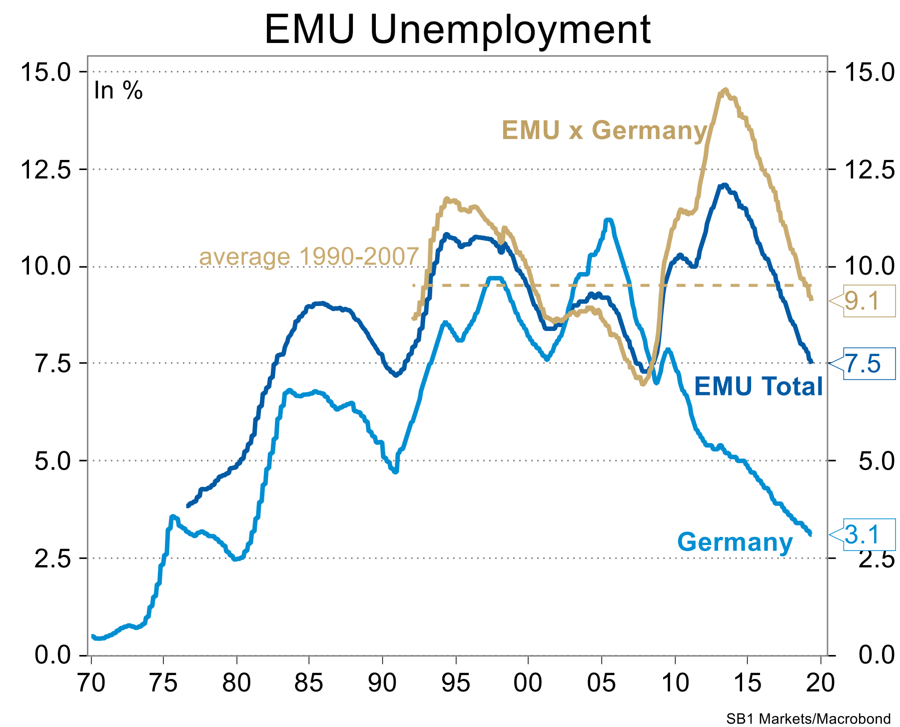


SpareBank 1 MARKETS

Unemployment continues down, at 11 y low. Soon 40 y low??

Unemployment ticked down to 7.5% in May, below f'casts. A promising sign or a lagging indicator?



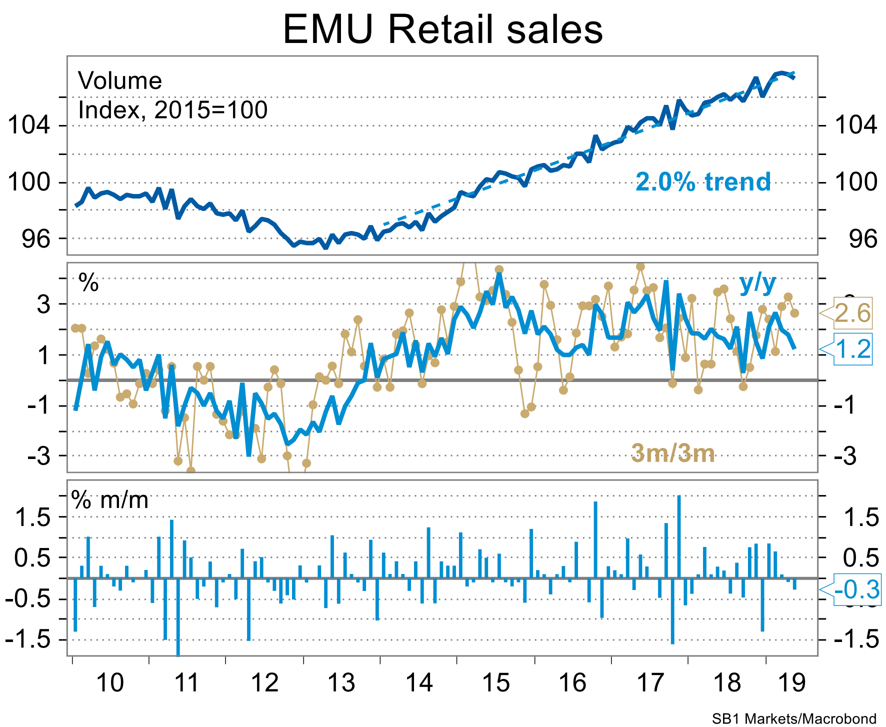


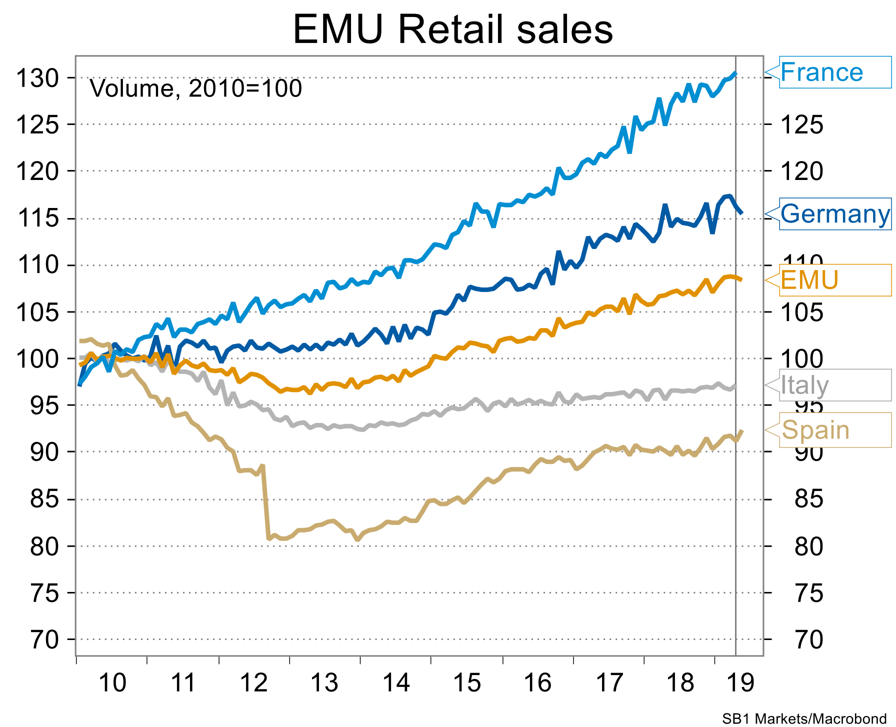
- The unemployment rate fell 0.1 pp in May, expected unchanged at 7.6%. The number of unemployed fell by 103' persons, a moderate decline. Barring a spike in March, unemployment has fallen at a somewhat softer pace than the past years
- Unemployment is falling steadily in spite the soft patch that the Eurozone is in (some sectors, at least). Unfortunately, unemployment is not a leading indicator, it is at best a coincident one. Nonetheless, the persistent decline during the economic slowdown may also mirror that other sectors so far are persistent to the dip in manufacturing
- Unemployment in total EMU is well below the 1990-2007 avg, and it has fallen just below the average in EMU ex Germany too
  - In Germany, the unemployment rate fell to 3.1% in May, the lowest level in almost 40 years (and the uptick in registered unempl. was not confirmed)

SpareBank 1 MARKETS

Retail sales likely to have slowed in Q2, although still on a decent trend path

Retail sales fell 0.3% in May, after a slight decrease in April, implying zero GDP contribution in Q2

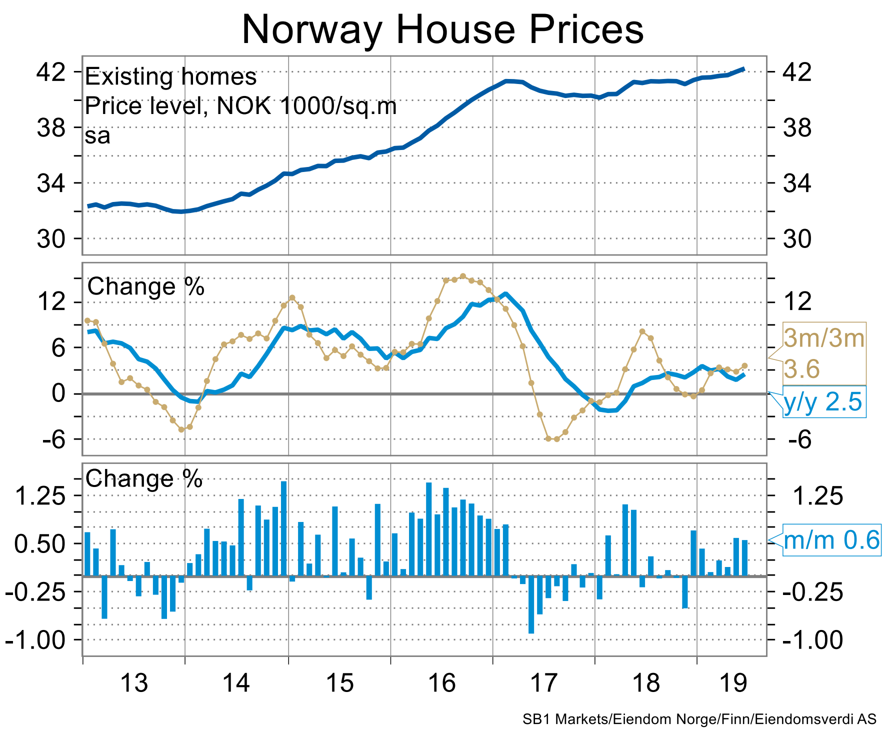


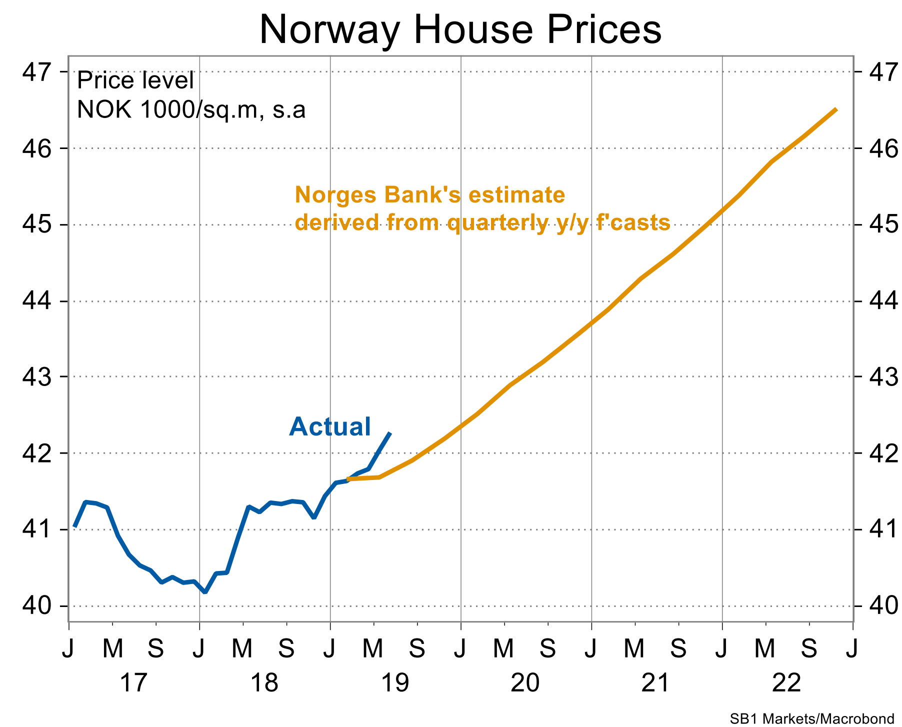


- Retail sales volume ticked down 0.3% m/m in May, much weaker than expected. However, April was revised up by 0.3 pp to -0.1% (German April sales ware much better than first reported)
  - » Underlying growth (3m/3m) is still solid at 2.6% but Q2 has been weak this far; If sales are flat in June Q2 will be flat too, following the 2.9% lift in Q1. However, the 2% trend growth is still intact, not that bad during these days of growth angst
  - » Germany reported a 0.6% decline, but sales are trending up. Spain is gaining speed, up 1.3% in May. No other country details yet
- Volume growth has fallen in Q2, in spite lower retail price inflation than during 2018. We expect moderate growth the coming months, as real wages and employment are supporting consumption - and consumer confidence is not weak

House prices beating expectations for the 2nd month in June

Prices rose 0.6% s.a in June, underlying growth at 1 y high. Market dynamics indicate softer growth

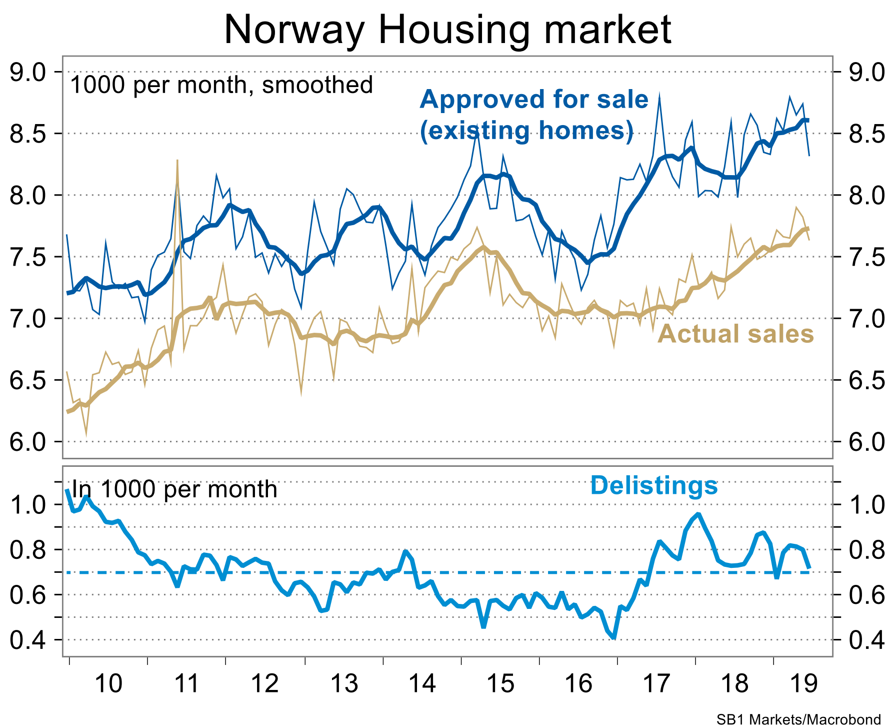


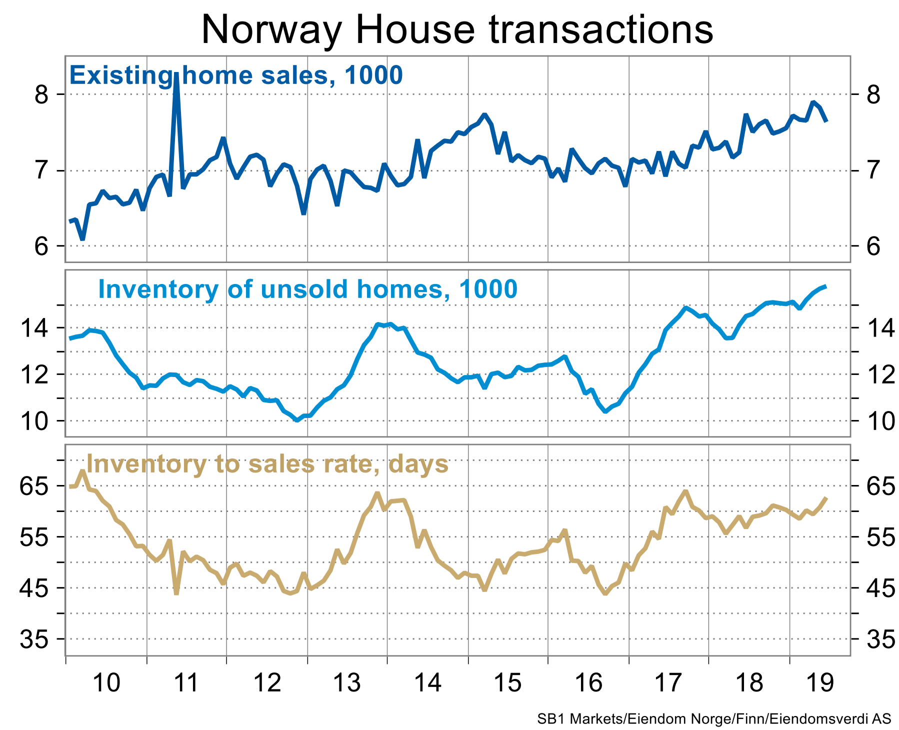


- **House prices** climbed 0.6% m/m seasonally adjusted in June (-0.2% unadjusted, prices usually decline at this time), following an equal speed in May (revised up marginally). Underlying growth has increased to 3.6% measured 3m/3m, the highest since August last year. The annual growth rate came up to 2.5%. Prices are already substantially higher than Norges Bank implicit forecast from June
  - » A broad upswing among regions; prices rose m/m in almost all cities in June. Recent months, prices have climbed in regions, Tromsø, Bodø at the top
- **The number of unsold homes** is soaring, the highest in 10 years. The high inventory is not due to lack of demand but to a steep rise in the number of new listings (of existing homes), barring a decline in June. The number of transactions fell too but is trending steeply upwards
- **Higher interest rates have so far not dampened demand – yet short term dynamics signal meagre price growth the coming months**

A buyers' market? New listings are climbing, very high no of unsold homes

Not demand weakness but many homes approved for sale is lifting the inventory

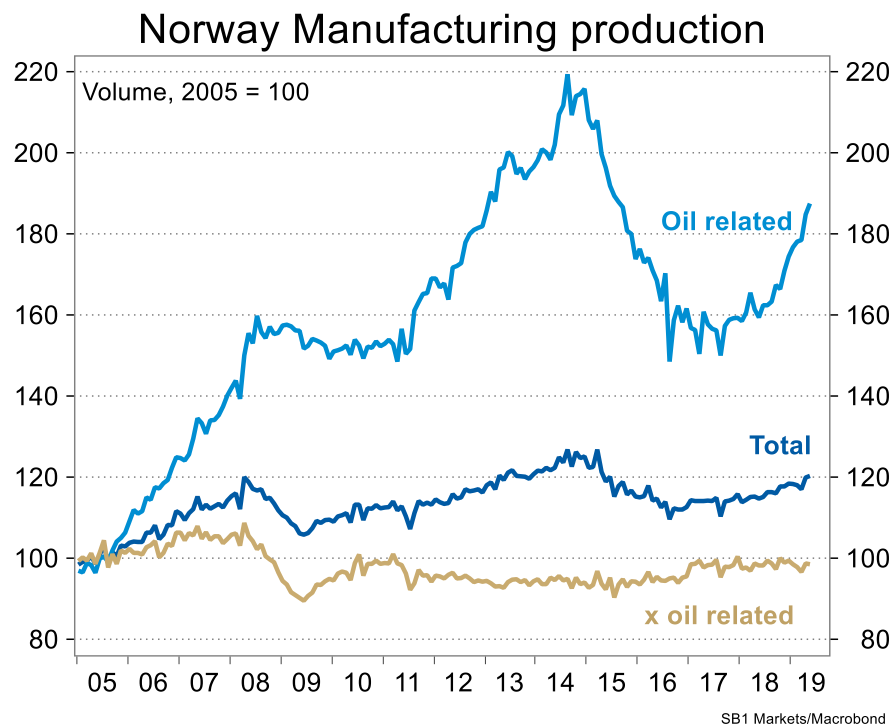


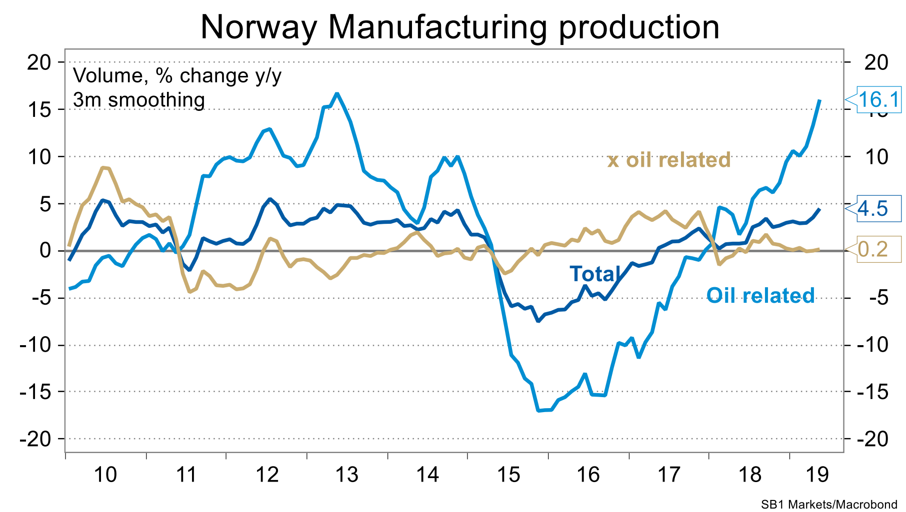


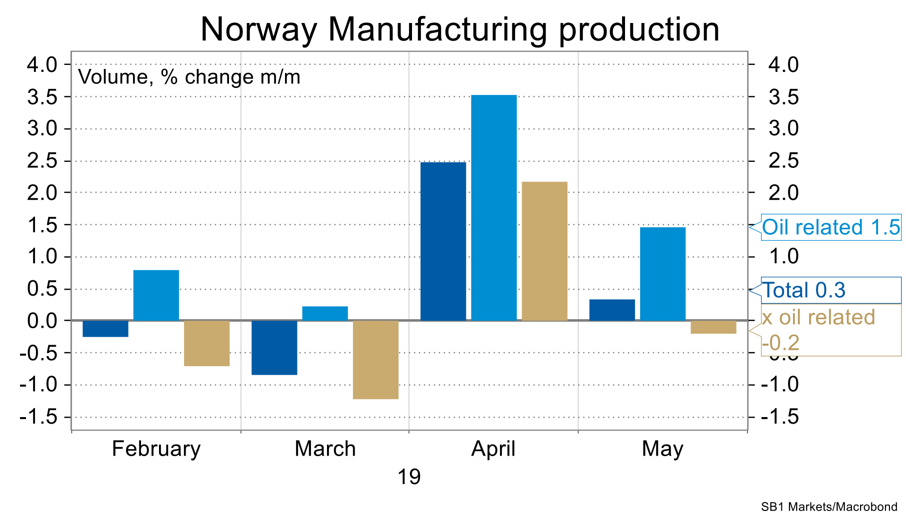
- **New listings of existing homes** decreased in June but is trending steeply up and it will most likely remain high for some time
- **The number of sales** is climbing too, barring a dip in June, and is reflecting strong demand. However, demand is not sufficient to absorb the supply of homes; thus, the **number of homes for sale (inventory)** is rising. The inventory edged up to another 10 year high in June. The inventory to sales ratio (turnaround) is quite flat but above the avg level (at 63 days vs avg at 53 days). The number of delistings has come down, probably reflecting a well balanced housing marked
- The flow balance on the housing market indicates modest price growth the coming months, check next page

Manufacturing production surprised on the upside in May, oil related is soaring!

Production inched up in May after a spike in April, lifted by oil related sectors. <u>Q2 will be strong</u>







- Total manuf. production rose 0.3% m/m in May, far below expectations (our f'cast -1.0%), after a 2.5% jump in April. Production is up 4.5% y/y smoothed, the highest since 2013! Q2 will be strong – even with a sizeable decline in June – boosting GDP growth
- The upturn is merely driven by oil-related manufacturers, which are up 16% y/y, the same speed as at the 2013 growth peak! Oil companies indicate that growth will continue to accelerate in 2019 and into 2020
- Non-oil related sectors have been completely flat the past 2 years
- Surveys have softened somewhat, suggesting that growth is peaking

Last week – the main takes

- **The US/China trade negotiations** are to restart this week, at first by phone talks. **Trump** announced that he will nominate two members to the Fed board, another step in trying to take control of monetary policy (as Powell is hammered for incompetence on a daily basis). One of the nominees, Judy Shelton, is a prominent critic of the Fed and recently said interest rates should be cut 'as fast as possible' (while she argued for higher rates and no QE when unemployment was very high...) **Christine Lagarde has been nominated to lead the ECB,** markets are making the assumption that she will sustain Mario Draghi's dovish stance. Marked applauded. In Turkey, president fired the central bank governor for not cutting rates (the lira -2% today)

- **Global composite PMI** held steady at 51.2 in June, we f'casted a 0.4 p decline. Still, it signals below 3% global growth. Markit's China PMI fell to 50.6 (NBS stronger, as usual) but it was offset by modest improvements in services in both EMU and the US PMIs. Mixed surveys from **the US** as the 'composite' ISM fell substantially (but manufacturing ISM less than feared, while Markit's rose marginally. Still, both US surveys are suggesting a softening growth momentum. **Eurozone PMIs** have inched up recent months but are not indicating more than a 1% GDP rate. Manufacturing is crumbling, services still strong. The UK PMI the lowest since the Brexit referendum. **The Norwegian PMI** fell sharply, mostly due to crumbling exports

- **European auto sales** are back to the pre emission regulations were tightened last summer. **US auto sales** were flat in June, level OK

- **The US nonfarm payrolls report** noted a stronger employment comeback in June than expected, up 224'. The June data confirms that the labour market remains strong, even as unemployment rose marginally to 3.7%. Wage inflation softened slightly for the 4th month. Stock markets did not cheer the strong employment report as it dashes hopes of an aggressive Fed cut on July 31, and bond yields spiked among all maturities. The market's assessment of the probability of a cut later in July was reduced to 98.5%, from 100%, and a 50 bps cut is not likely anymore. **The trade deficit** widened in May as imports rose strongly, net trade will be a drag on Q2 GDP growth. Hence, the trade war has so far not been successful in cutting the US deficit

- **EMU retail sales** came in below expectations in May, down -0.3% m/m. If sales are flat in June, zero growth in Q2, following the Q1 jump, which suggests that GDP growth slowed. **Unemployment** fell 0.1 pp to 7.5%, the labour market keeps improving in spite a weaker growth momentum. **German manufacturing orders** continue to fall, indicating a bleak outlook

- **The Swedish Riksbank** held the repo rate unchanged at -0.25% and made no changes to the rate path, indicating a hike in late 2019 or early 2020. Markets predict that the interest rate will be held unchanged this year and are starting to consider a cut in H1 2020, Riba future contracts imply some 20% probability

- **Norway house prices** jumped 0.6% m/m seasonally adjusted (-0.2% unadjusted), we expected a 0.3% speed. Prices have increased more than market dynamics indicate the past 2 months, the interest rate hikes have so far not dampened demand. Supply remains elevated and the number of unsold homes is high, we expect slow growth the coming months. **Manufacturing production** came in well above f'casts in May, up 0.3% m/m after a 2.5% spike in April. The upswing is merely driven by oil related sectors, which are up 16% y/y, the same speed as at the 2013 peak (although the level is much lower)

The Calendar: Key macro data in July

In focus: Powell goes to Congress, Fed minutes, ECB, PMIs, China June data, US 2Q GDP

Time	Country	Indicator	Period	Forecast	Prior
Monday July 8					
08:00	GE	Industrial Production MoM	May	0.3%	-1.9%
08:00	GE	Trade Balance	May	17.0b	17.9b
Tuesday July 9					
08:00	NO	GDP Mainland MoM	May	--	0.3%
12:00	US	NFIB Small Business Optimism	Jun	103	105
16:00	US	JOLTS Job Openings	May	--	7449
Wednesday July 10					
03:30	CH	CPI YoY	Jun	2.7%	2.7%
08:00	NO	CPI YoY	Jun	2.1(1.9)	2.5%
08:00	NO	CPI Underlying YoY	Jun	2.3(2.3)	2.3%
10:30	UK	Manufacturing Production MoM	May	2.2%	-3.9%
20:00	US	FOMC Meeting Minutes	Jun-19	--	--
Thursday July 11					
09:30	SW	CPIF Excl. Energy YoY	Jun	1.8%	1.7%
14:30	US	CPI Ex Food and Energy MoM	Jun	0.2%	0.1%
14:30	US	CPI Ex Food and Energy YoY	Jun	2.0%	2.0%
14:30	US	Initial Jobless Claims	Jul-06	220k	221k
20:00	US	Monthly Budget Statement	Jun	--	-$207.8b
Friday July 12					
	CH	Exports YoY	Jun	-0.6%	1.1%
08:00	NO	Trade Balance	Jun	--	11.3b
11:00	EC	Industrial Production MoM	May	0.2%	-0.5%
14:30	US	PPI Ex Food, Energy, Trade YoY	Jun	--	2.3%
Monday July 15					
	CH	Aggregate Credit	Jun	1900.0b	1400.0b
04:00	CH	Investments YoY	Jun	5.6%	5.6%
04:00	CH	Industrial Production YoY	Jun	5.3%	5.0%
04:00	CH	Retail Sales YoY	Jun	8.5%	8.6%
04:00	CH	GDP SA QoQ	2Q	1.5%	1.4%
06:00	SW	Unemployment Rate, Registered	Jun	--	3.4%
14:30	US	NY Empire Manufacturing Survey	Jul	6	-8.6
Tuesday July 16					
10:30	UK	Average Weekly Earnings YoY	May	--	3.1%
11:00	GE	ZEW Survey Expectations	Jul	--	-21.1
14:30	US	Retail Sales Core (Control Group)	Jun	--	0.5%
15:15	US	Manufacturing Production	Jun	--	0.2%
16:00	US	NAHB Housing Market Index	Jul	--	64

Time	Country	Indicator	Period	Forecast	Prior
Wednesday July 17					
14:30	US	Housing Starts	Jun	1260k	1269k
14:30	US	Building Permits	Jun	1300k	1294k
20:00	US	Fed's Beige Book			
Thursday July 18					
14:30	US	Phil Fed Business Outlook	Jul	--	0.3
14:30	US	Initial Jobless Claims	Jul-13	--	--
16:00	US	Leading Index	Jun	--	0.0%
Friday July 19					
16:00	US	U. of Mich. Sentiment	Jul P	--	98.2
Monday July 22					
14:30	US	Chicago Fed Nat Activity Index	Jun	--	-0.05
Tuesday July 23					
08:00	NO	SSB Industrial Confidence Survey	2Q	(3)	6.9
08:00	NO	Housing Starts	Jun		35'
16:00	EC	Consumer Confidence	Jul A	--	-7.2
16:00	US	Existing Home Sales	Jun	--	5.34m
Wednesday July 24					
02:30	JN	Manufacturing PMI	Jul P	--	49.3
10:00	EC	Eurozone Composite PMI	Jul P	--	52.2
15:45	US	Markit US Composite PMI	Jul P	--	51.5
16:00	US	New Home Sales	Jun	--	626k
Thursday July 25					
08:00	NO	Unemployment Rate LFS	May	(3.3)	3.2%
09:30	SW	Unemployment Rate LFS	Jun	--	6.4%
10:00	GE	IFO Expectations	Jul	--	94.2
13:45	EC	ECB Deposit Facility Rate	Jul-25	--	-0.4%
14:30	US	Durable Goods Orders	Jun P	--	-1.3%
14:30	US	Cap Goods Orders Nondef. Ex Air	Jun P	--	0.5%
14:30	US	Trade Balance Advance Goods	Jun	--	-$74.5b
14:30	US	Initial Jobless Claims	Jul-20	--	--
Friday July 26					
14:30	US	GDP Annualized QoQ	2Q A	--	3.1%
14:30	US	Personal Consumption	2Q A	--	0.9%

Source: Bloomberg, SB1M
Our take on the most important indicators are highlighted

In this report

Global PMIs + Auto Sales

- Negative surprises most places. EMU neutral, China and the US below f'casts
- Manuf. production & global trade are stalling, retail sales still growing (slower)
- Global PMI stabilised in June, better than we assumed. Still says below 3% GDP
- Weakening Chinese PMI offset by a small rise in DM. EM x China slightly down
- China composite PMIs down in June, pointing to a modest slowdown in activity
- US ISM and Markit's PMI above expectations, still down, painting a bleak picture
- Eurozone Composite PMI showing signs of a modest uptick, to a 1% growth rate
- UK Composite PMI fell below 50 for the first time since the Brexit referendum
- Norwegian Manufacturing PMI slides down, more downbeat than most Norw. surveys
- US auto sales flat in June, trend slowly downward
- EMU: Auto sales probably close to stable June, Q2 back at the 2018 level!
- 'Full stop' in Germany auto production in June, even if EMU sales strong
- Market charts and comments

US

- Employment bounced back in June, dents expectations of Fed July cut, at least a 50 bps
- Wage growth is cooling somewhat, missing f'casts once again in June
- Jobless claims remain low, no signs of labour market weakness
- The trade deficit widened as imports surged in May, will be a drag on Q2 GDP
- Fed nowcasters say 1.3 -1.5% growth in Q2
- US Indicators: Not a recession warning, now

EMU

- Unemployment continues down, at 11 y low
- Retail sales likely to have slowed in Q2, although still on a decent trend path
- German Manufacturing orders tumble, undermining hopes of a growth rebound

Norway

- House prices beating expectations for the 2nd month in June, up 0.6% m/m
- OBOS Oslo apartment prices up in June but growth has cooled somewhat
- Manufacturing production surprised on the upside in May, oil related is soaring!

Highlights

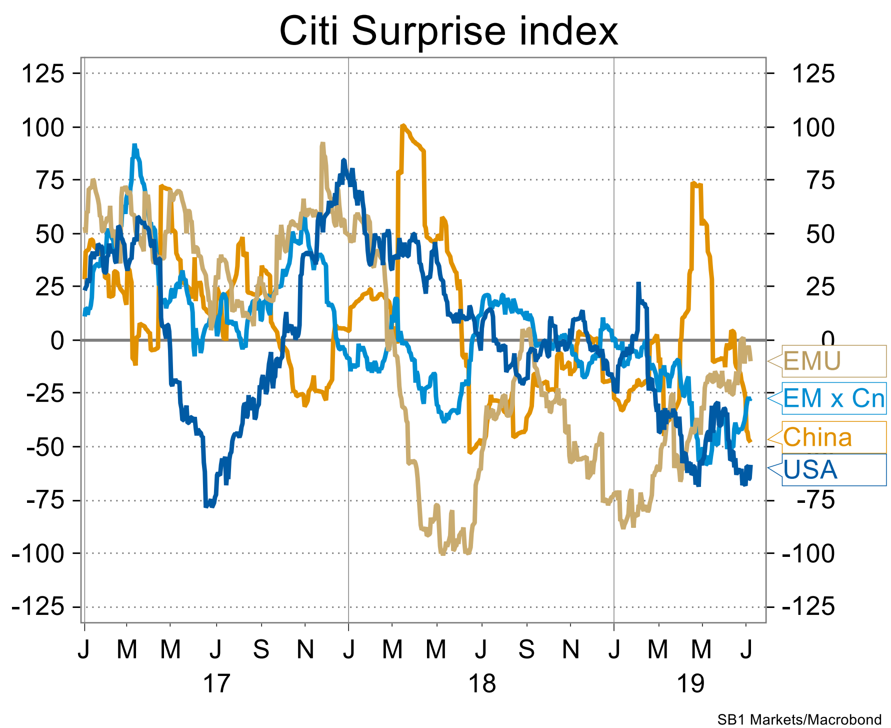
The world around us

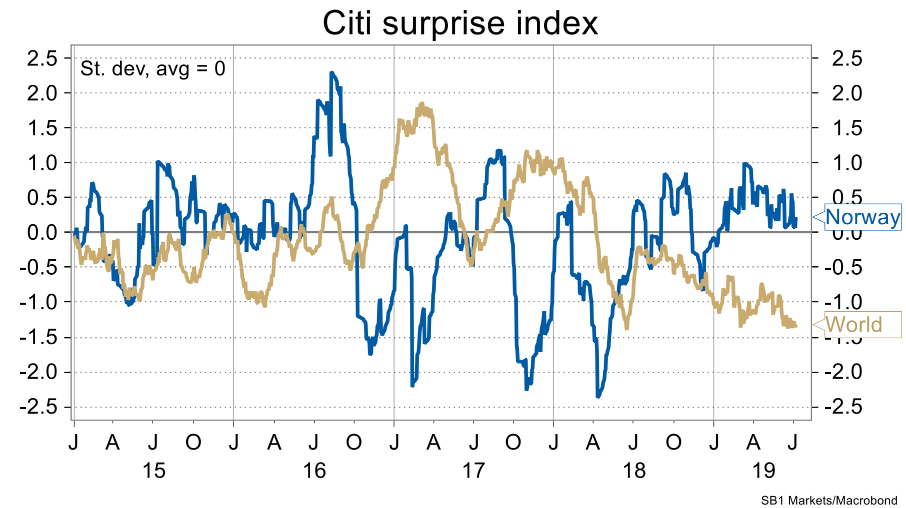
The Norwegian economy

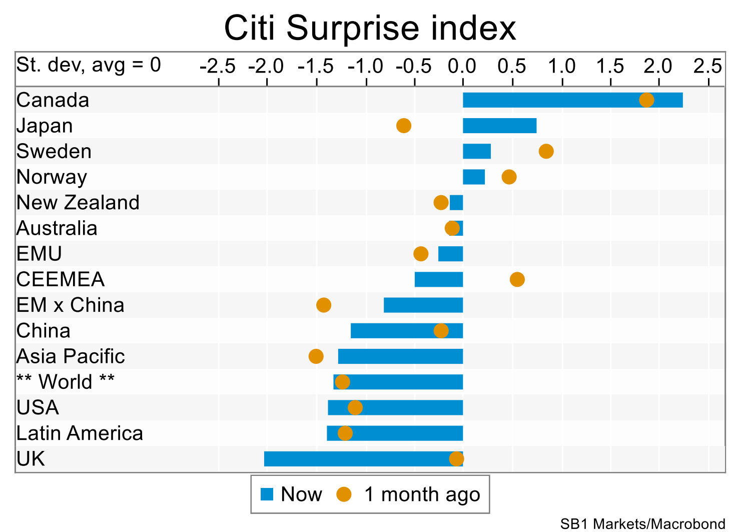
Market charts & comments

Negative surprises most places. EMU neutral, China and the US below f'casts

China dragged down by weaker PMIs. US stable in negative territory, EMU no longer disappointing







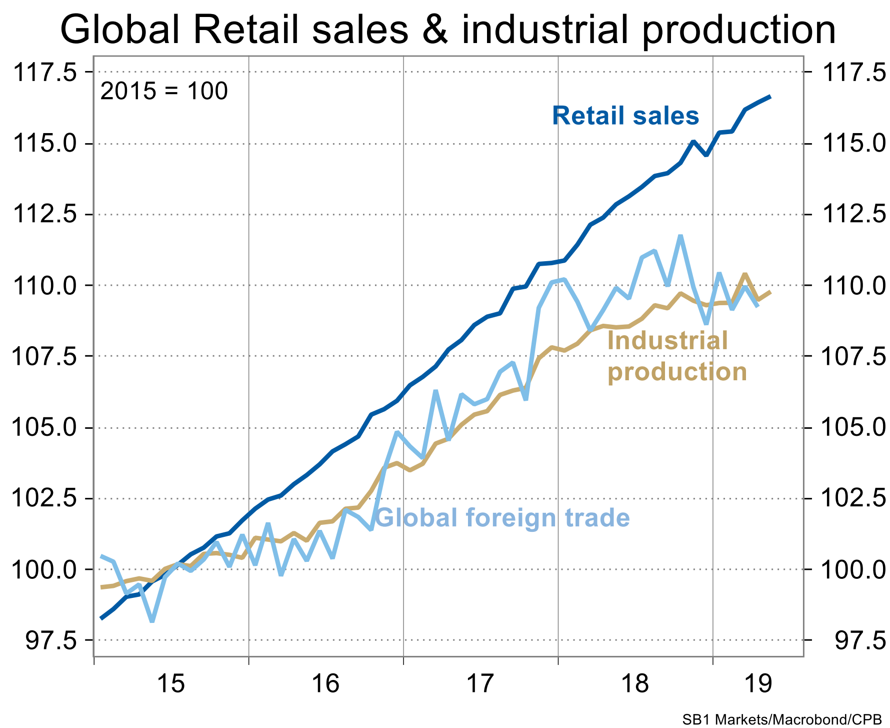
- The global surprise index has been in negative territory since last spring
- EMU is now neutral vs expectations, for the first time since last Sept, as data have improved somewhat recently (and expectations have probably been adjusted)
- The US is the most disappointing of the major indices, pulled down by weak business surveys (PMI/ISM, Fed regional surveys), consumer confidence, but it stabilised last week
- Chinese data are back in negative territory, pulled down by weaker PMIs the past two weeks. EM x China is gradually less disappointing
- Norwegian data neutral. Canada in the lead, UK at the bottom (f'casts were too optimistic!)

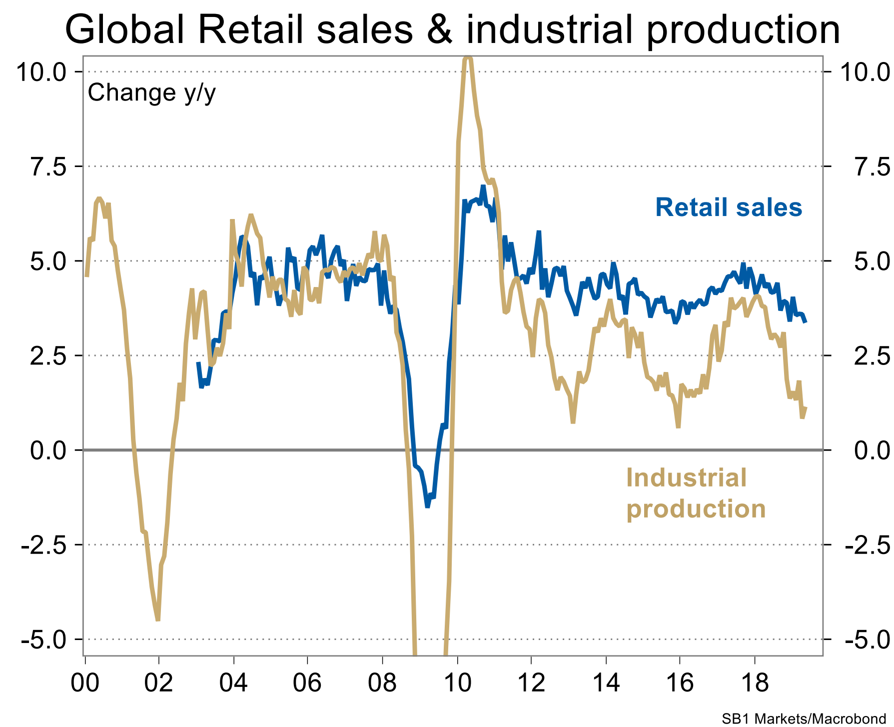
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

SpareBank 1 MARKETS

Manuf. production & global trade are stalling, retail sales still growing (slower)

Manufacturing production probably rose marginally in May (our est), retail sales are climbing

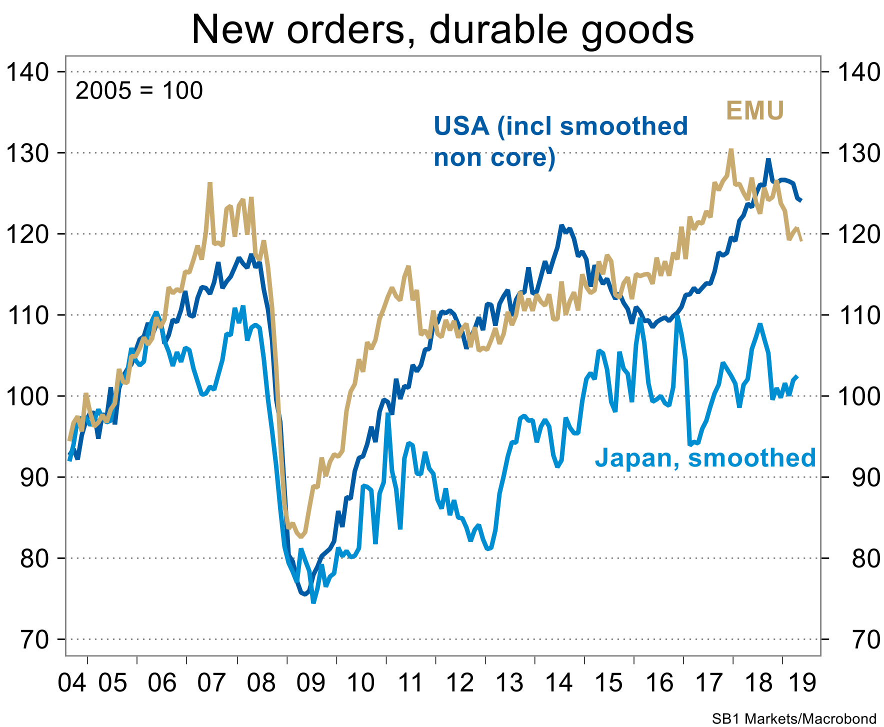


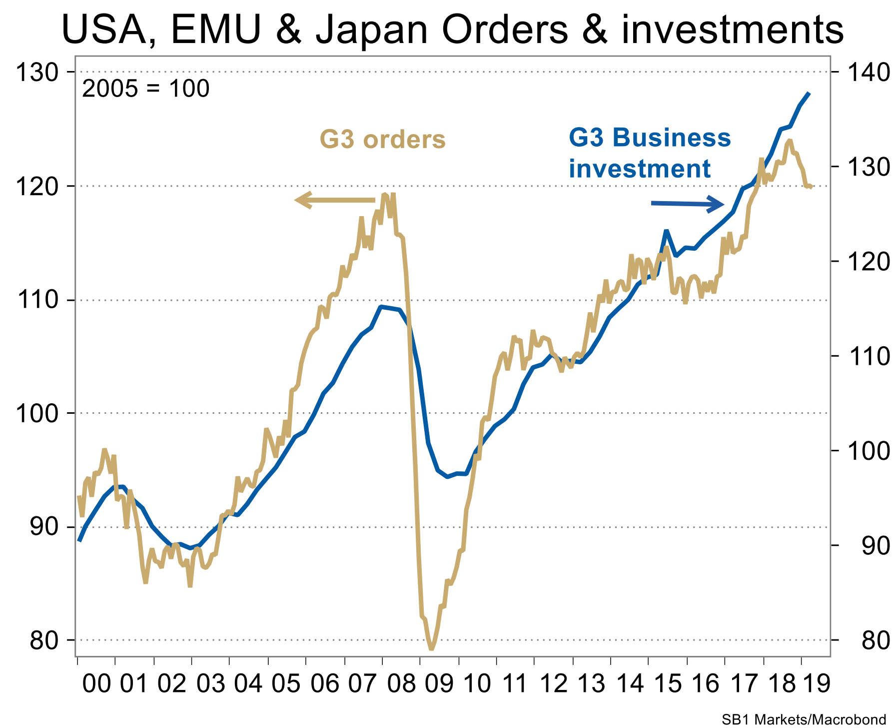


- Manufacturing production has been stagnating since last autumn. However, the slowdown has not accelerated recent months, and production probably increased softly in May. The downturn the past 6 months are both due to somewhat slower growth in retail sales, a slowdown in business investments (triggered by global uncertainties?) and probably destocking following an unwarranted inventory build-up during 2018
- Global retail sales increased in May (our est.) and is still trending up, at a slightly 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 orders: Softening everywhere?

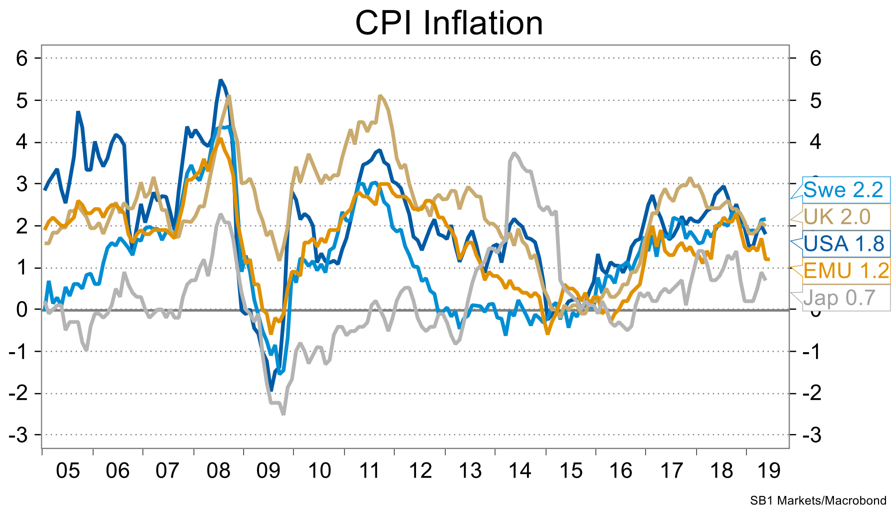
Something must be happening with investments, somewhere

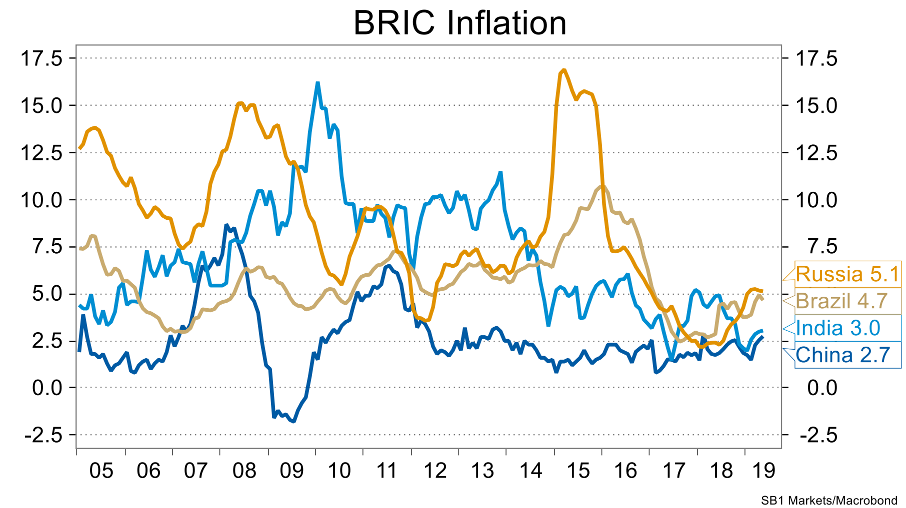


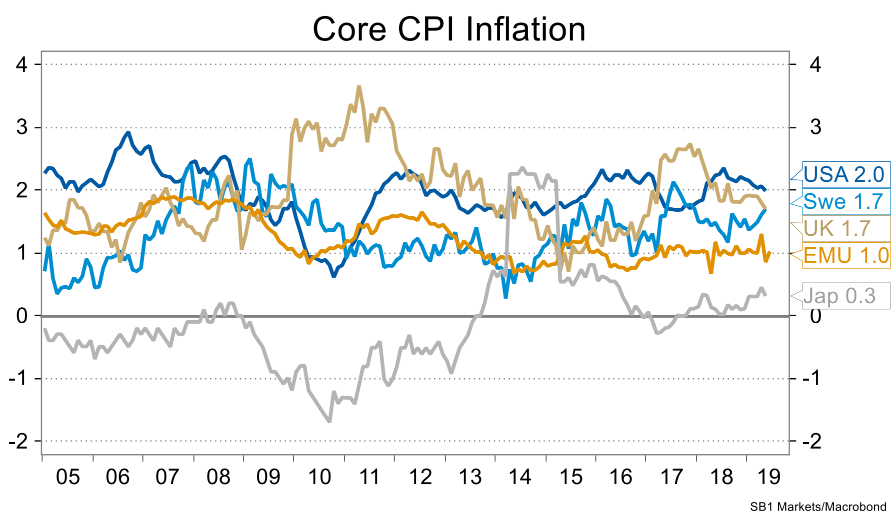


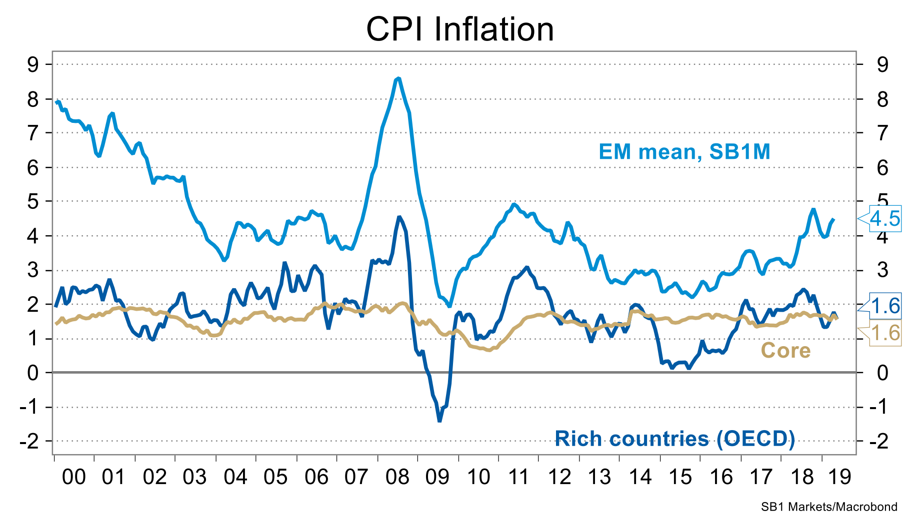
DM to turn south again, with the oil price? Core is sum flattish

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





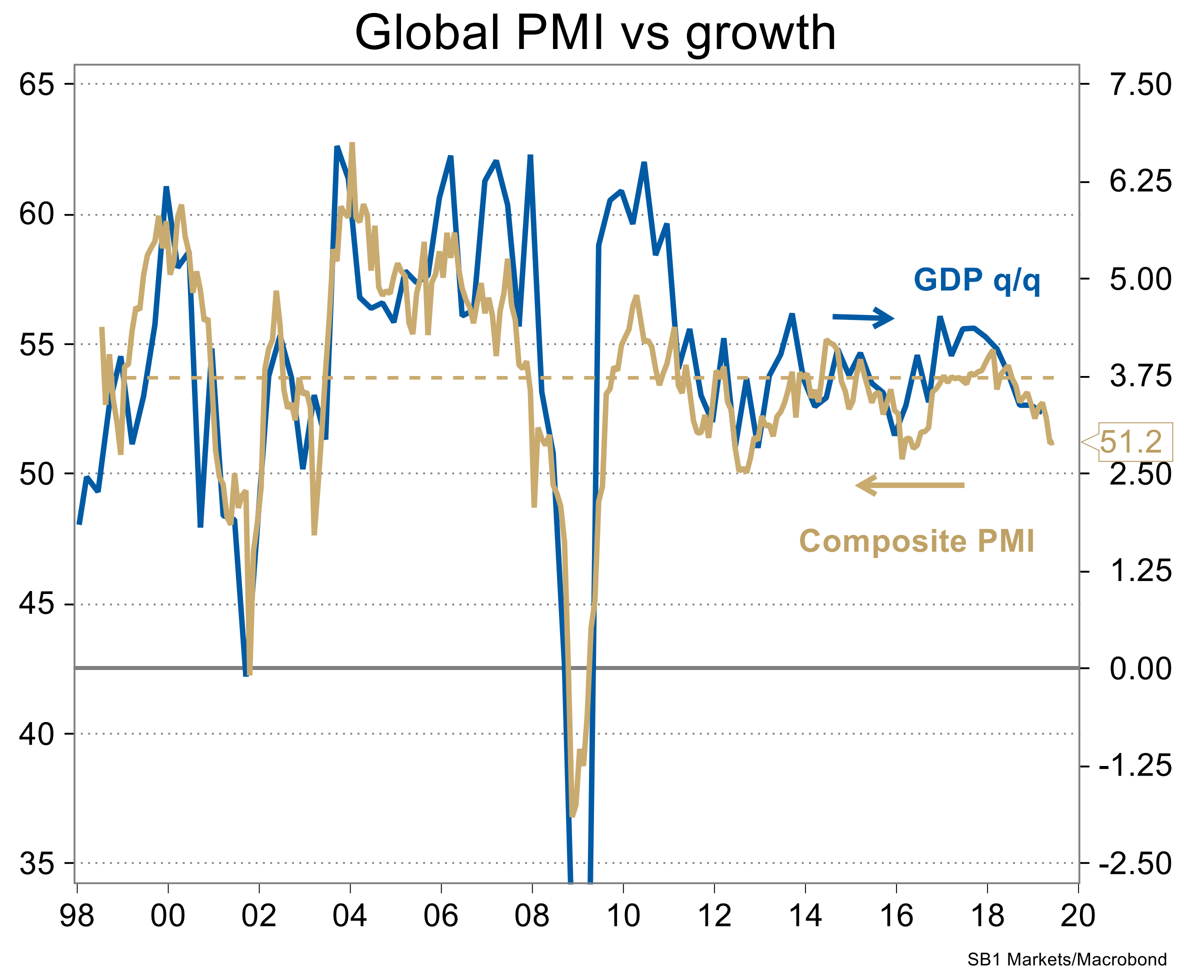


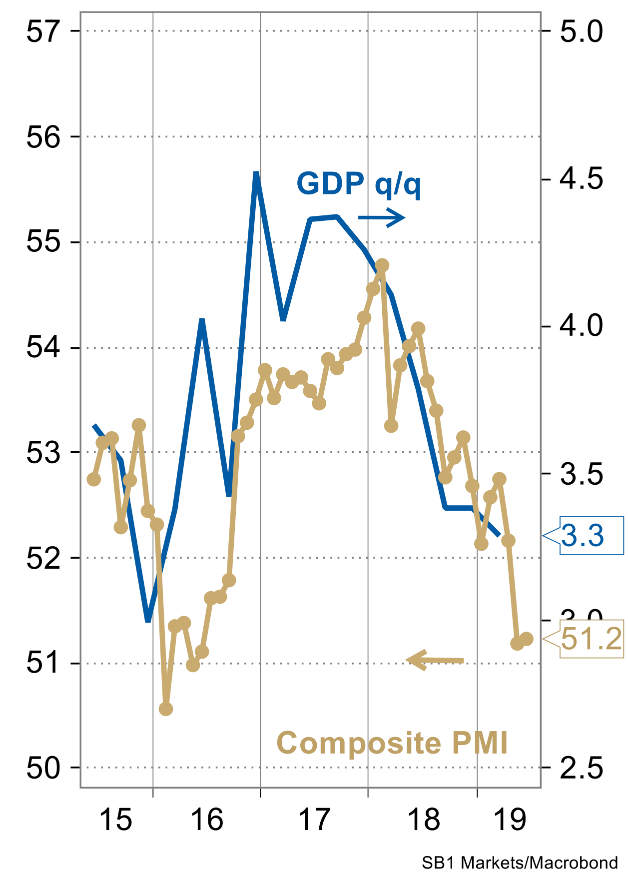


Change in % y/y in all charts. EMU core based on a seasonally adjusted price index

Global PMI stabilised in June, better than we assumed. Still says below 3% GDP

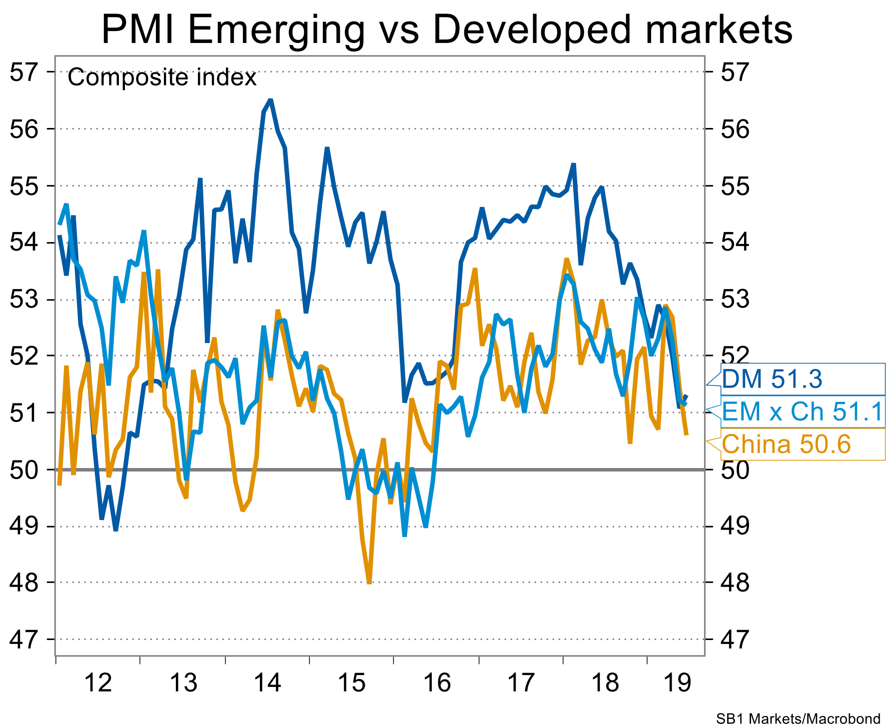
Composite PMI flat at 51.2, (we f'casted -0.4 p) following the 1 p May drop

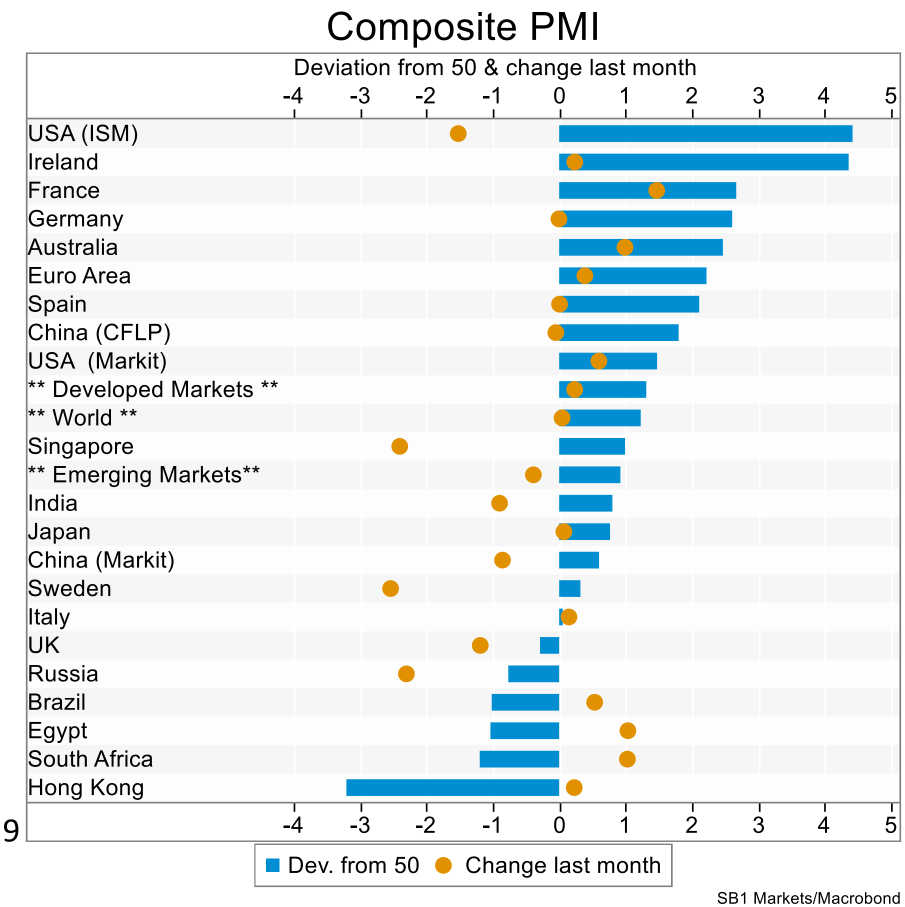




Weakening Chinese PMI offset by a small rise in DM. EM x China slightly down

Developed markets stabilised in June, Emerging a tad down as China slows again

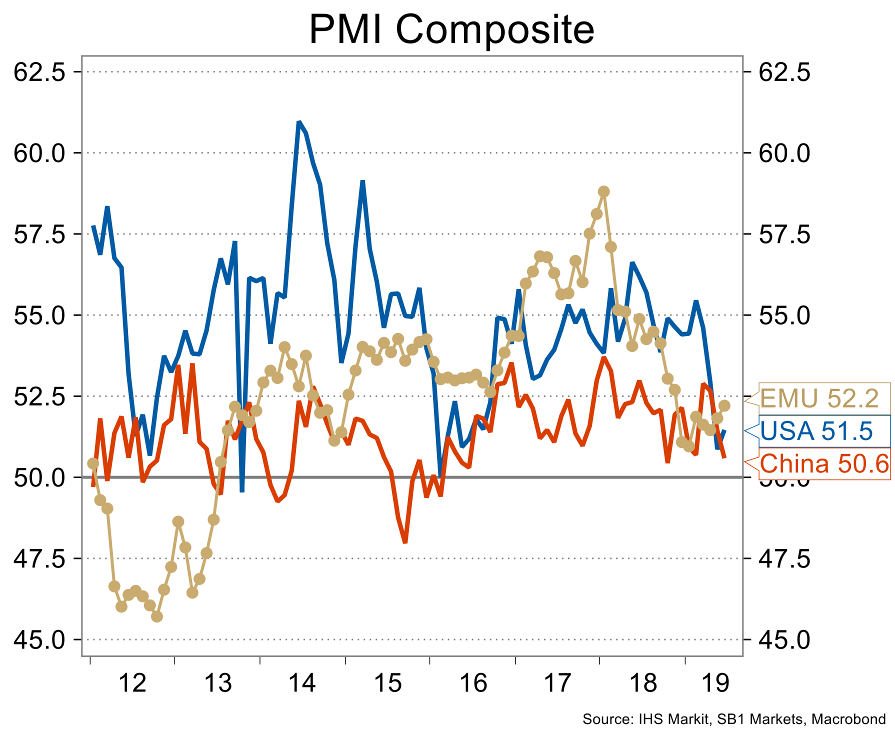


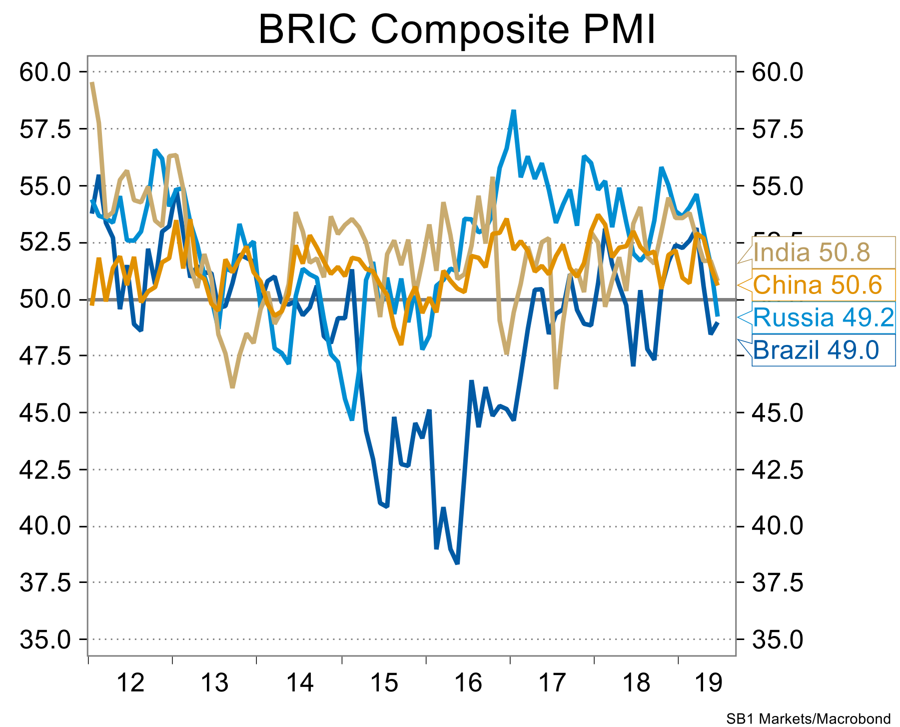


- 11 countries/regions reported a higher PMI in June than in May (thus, activity accelerated or fell at a slower pace), from 8 in May. 9 weakened (from 13). In that sense, June was better than May
- However, 6 (from 4) countries were below the 50-line in June
- DM average up 0.2 p to 51.3, signalling slow growth. EM x China down 0.4 p. China down to 50.6, the lowest since last autumn, and below the past 6 y avg

US better than first reported, up 0.6, not down 0.5; still weak. EMU up too…

Mixed in rest of the world, China and most other EMs down

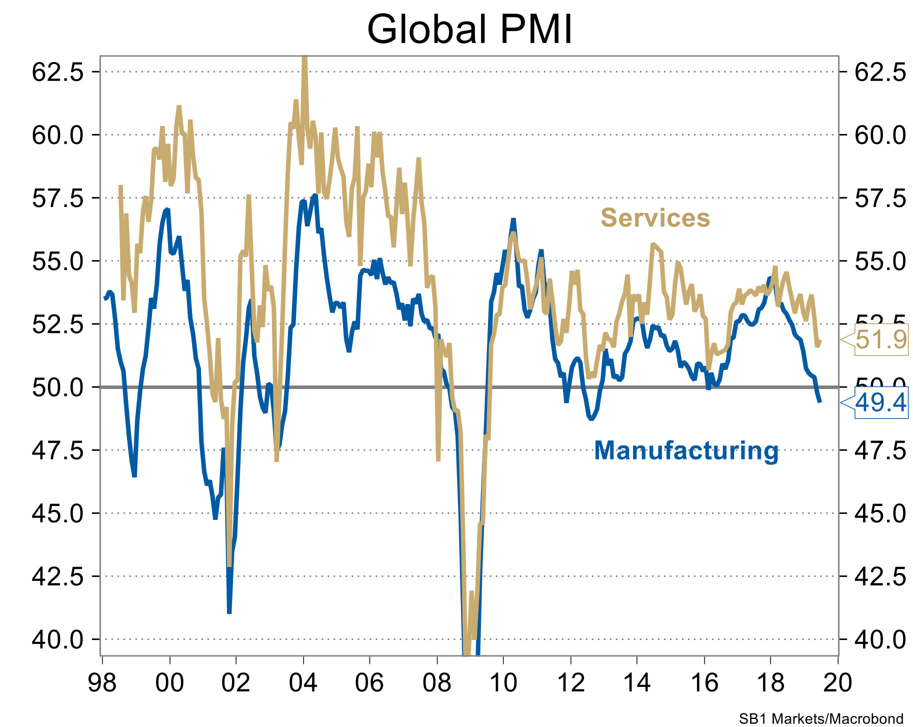


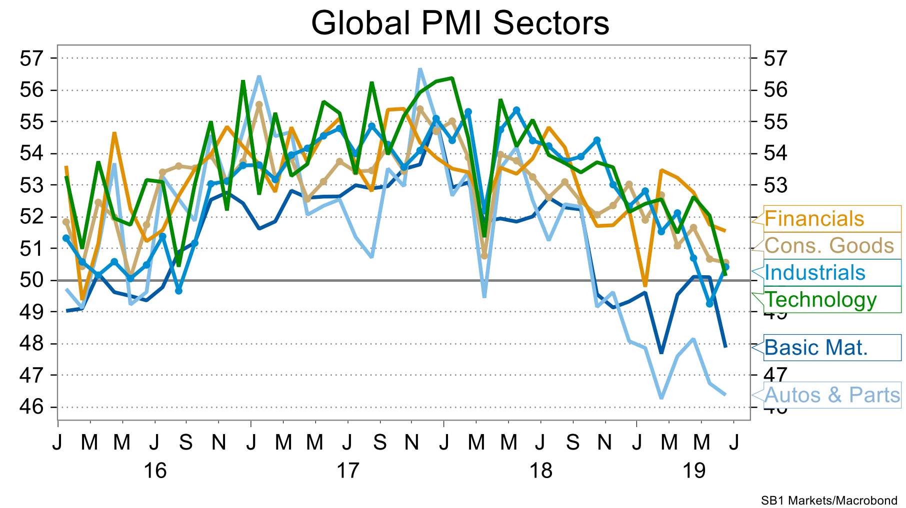


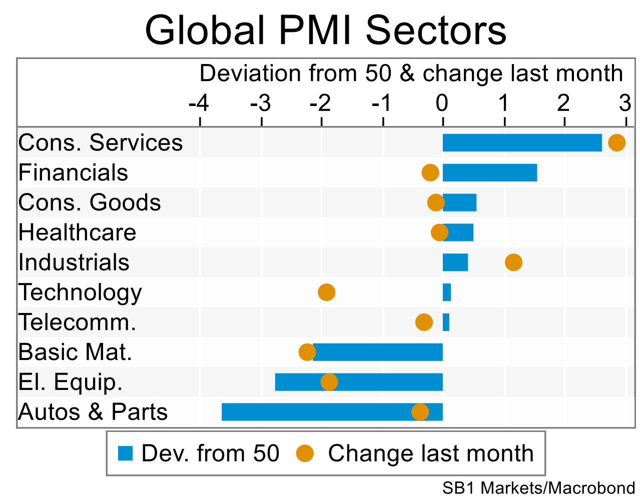
- Following the almost 3 p decline in US Markit's PMI to May from February, the index rose in June to 51.5, a substantial revision from the first estimate – signalling that 'something' may have turned up during the month. (However, the ISM indices both fell). Domestic orders are the weak link, not export orders
- The EMU PMI rose further in June – and it at the best level in 7 months, still at a muted level (52.2, above the US)
- Both Chinese PMI data sets down in June. Markit's PMI down to 50.6, the second lowest in this 'downturn'. The level was below the 50-line both in 2012, 13, 14, 15 and 16
- The Brazilian PMI rose marginally but remains below 50 – where the Russian index ended in June. India (as China) down

Manufacturing is taking a hit, services PMI a tad up in June but has fallen too

Sectors: Consumer services strong; basic materials, electrical equipm, autos down & weak. Tech down



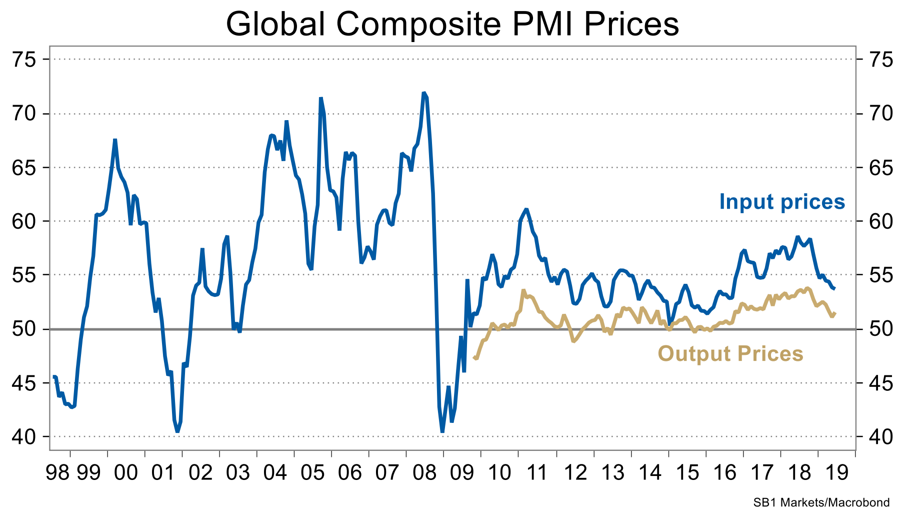


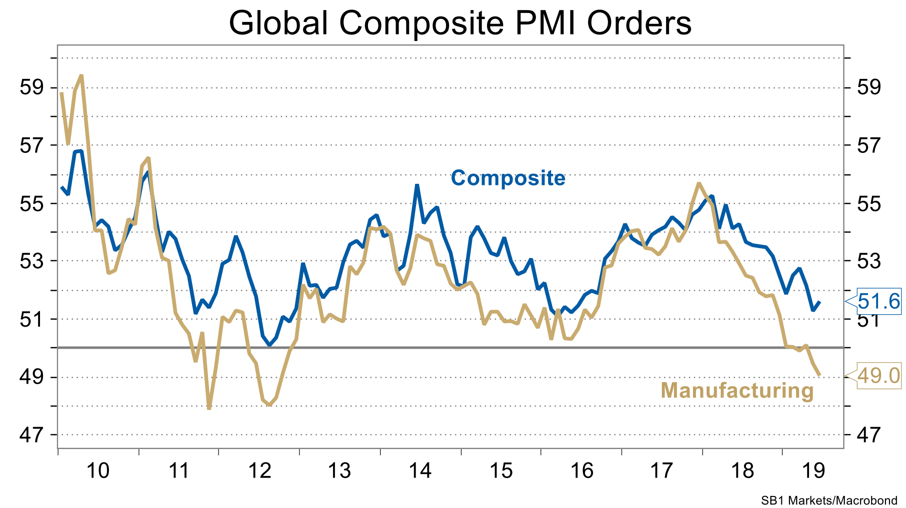


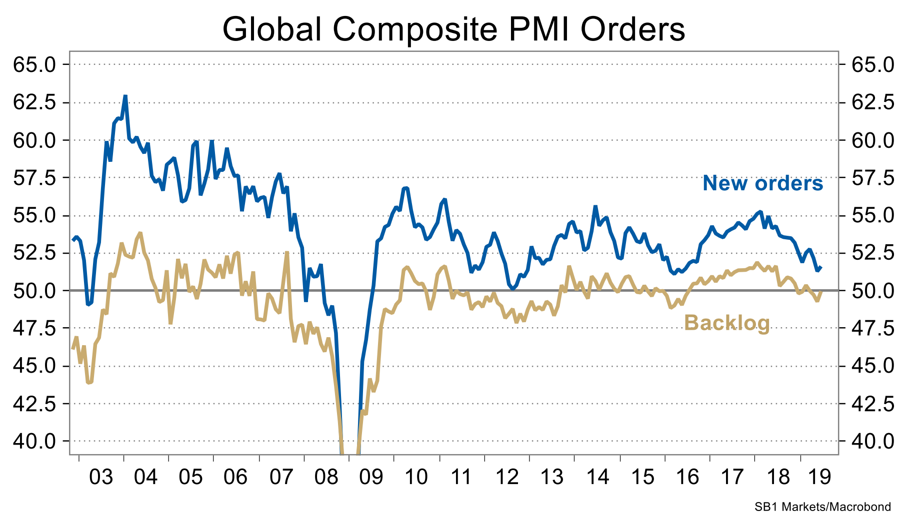
- Manufacturing has no doubt been hurt by uncertainties caused by the trade war, as business investments and trade have suffered. The PMI at the lowest level since 2012
- Services have slowed, especially during the spring. No further weakening in June tough
- The auto industry is the weakest link in the chain but basic materials and electrical equipment report rapid contraction

Composite orders and prices are still rising, at a softer pace

New composite orders stabilised in June, manufacturing deteriorated, weakest since 2012



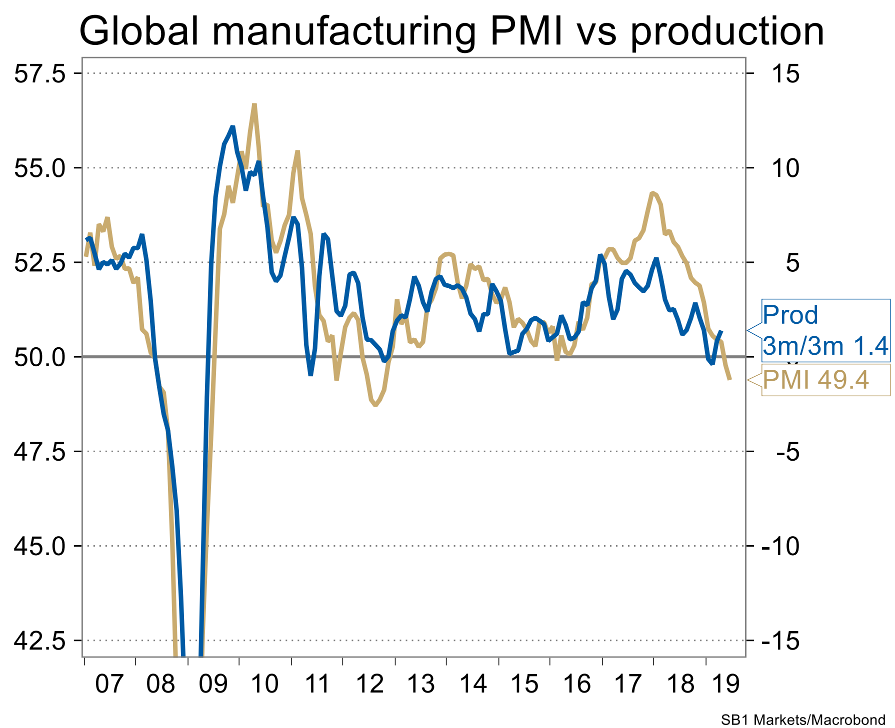


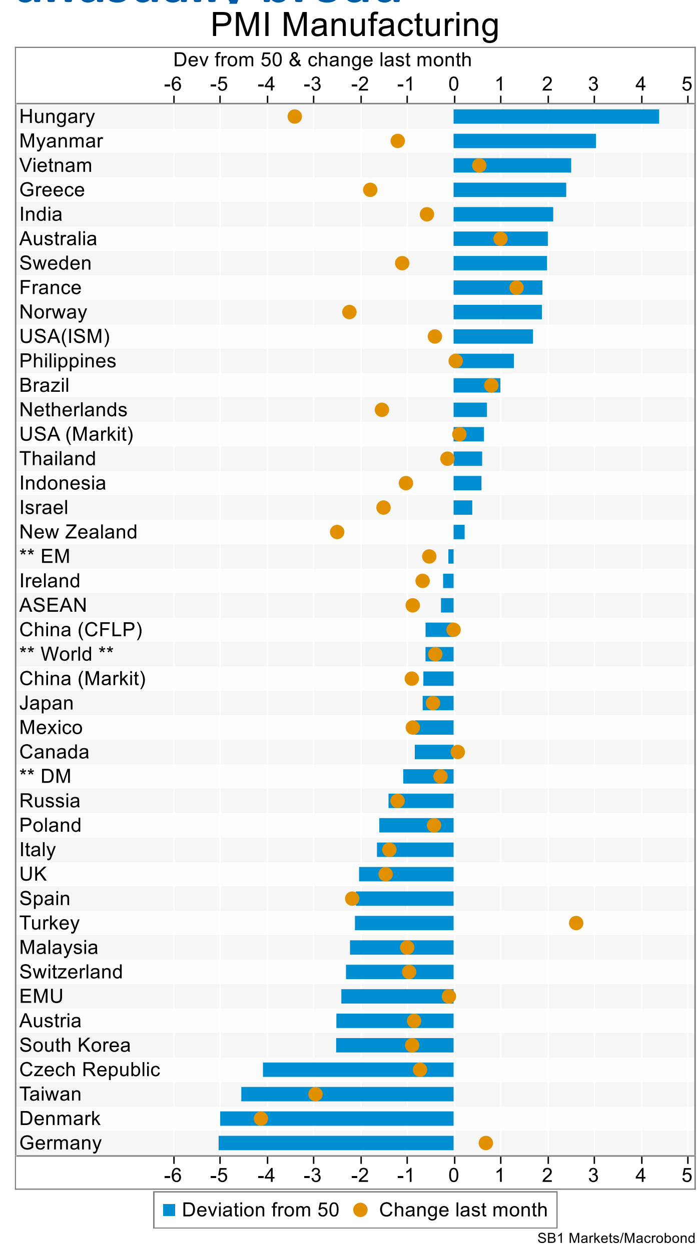


- Manufacturing orders index signals a moderate contraction in activity. Service sectors are so far quite resilient to the slump in manufacturing, even though growth has slowed here too
- The global input price index inched down in June and is still at a decent level (53.7) yet both input and output prices are easing. <u>Signs of a maturing cycle, and not just from the demand side</u>

Manufacturing PMI further down to 7 y low in June, unusually broad

The index fell 0.4 p to 49.4, just 7 out of 43 up

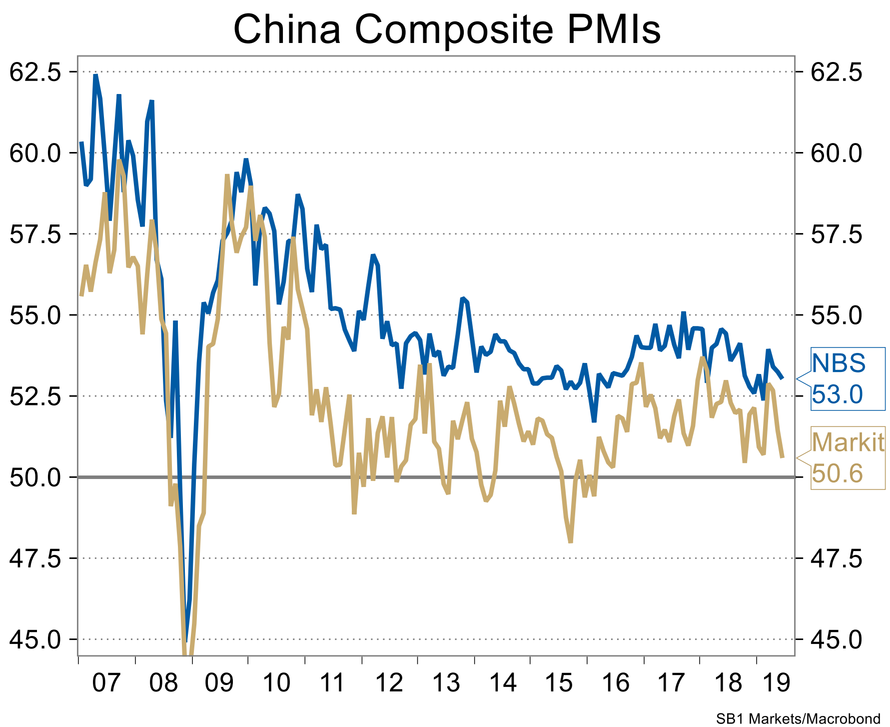


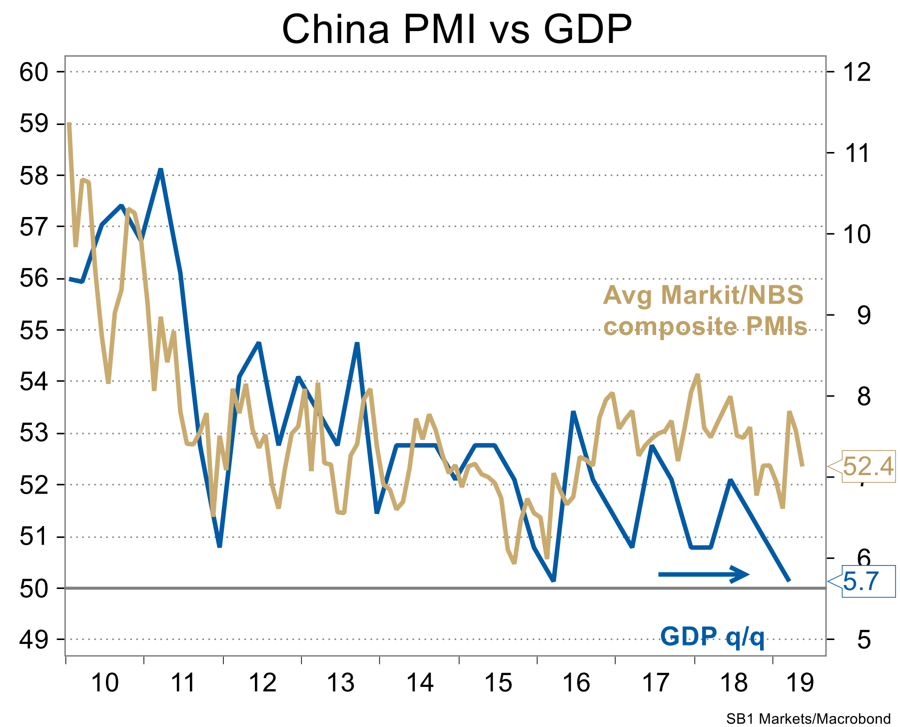


- The decline was 0.1 p larger than we assumed-based on the preliminary results from some countries. **<u>The index has fallen for 14 consecutive months and is now signalling a decline in global manufacturing production</u>**
  - » 34 (22 in May) countries/regions down in June and just 7 up (15)
  - » More than half of the countries/regions are reporting declining output; 25 countries/regions are below the 50 line. Germany still at the bottom
  - » Developed Markets fell 0.3 p in average, less than the 1 p drop in May. Emerging Markets down 0.5 p (from -0.1 in May)

The composite PMIs down in June, pointing to a modest slowdown in activity

Both services and manufacturing came down, Markit's survey is more downbeat than the NBS



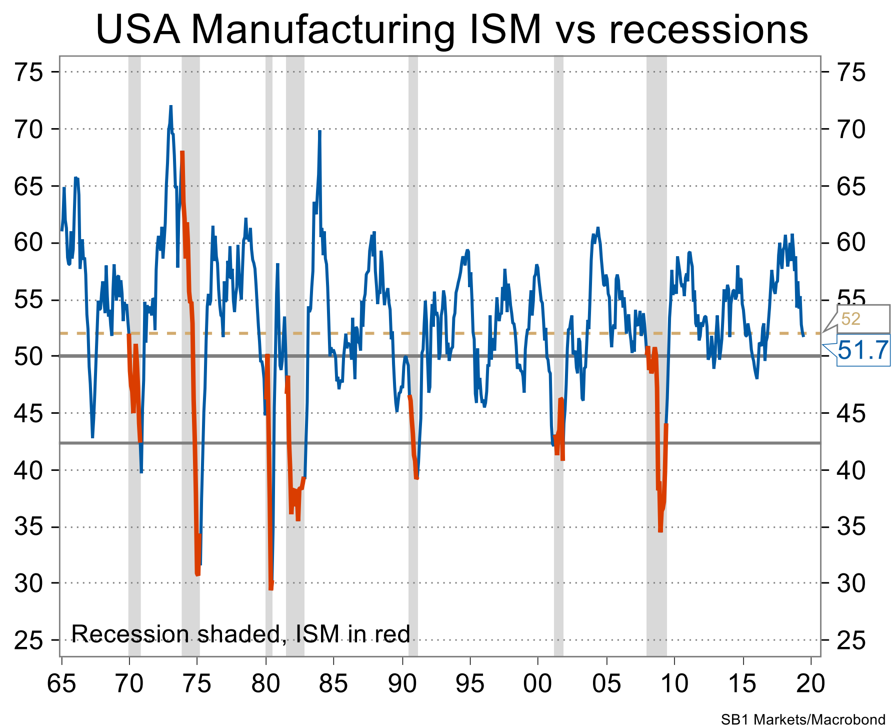


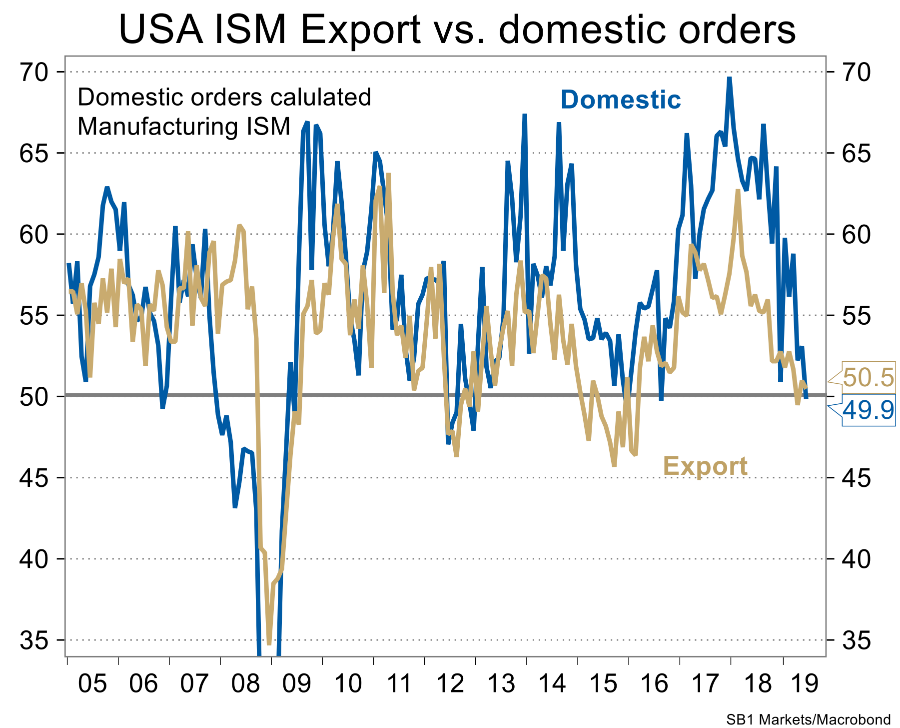
- Markit's PMI composite PMI fell to 50.6 in June, a 0.9 p decline, and just marginally above the recent troughs. Both service businesses and manufacturers reported a moderation; services are still reporting decent growth rates while the manufacturing index fell below 50. However, manuf. PMI is still indicating positive growth rates when calibrated to manufacturing production
- NBS' composite PMI (CFLP) fell 0.4 to 53.0 in June, manufacturing activity expanded at a steady speed, services marginally weaker. The level is still above the early 2019 bottom
- The two PMI data sets do not signal any rapid slowdown in the Chinese economy – however, they may indicate that the massive stimulus measures which the government has imposed are not sufficient to bring growth up

SpareBank 1 MARKETS

Manufacturing ISM above expectations in June but the details are rather soft

ISM fell 0.4 p to 51.7, less than regional surveys suggested. However, orders, prices are stagnating

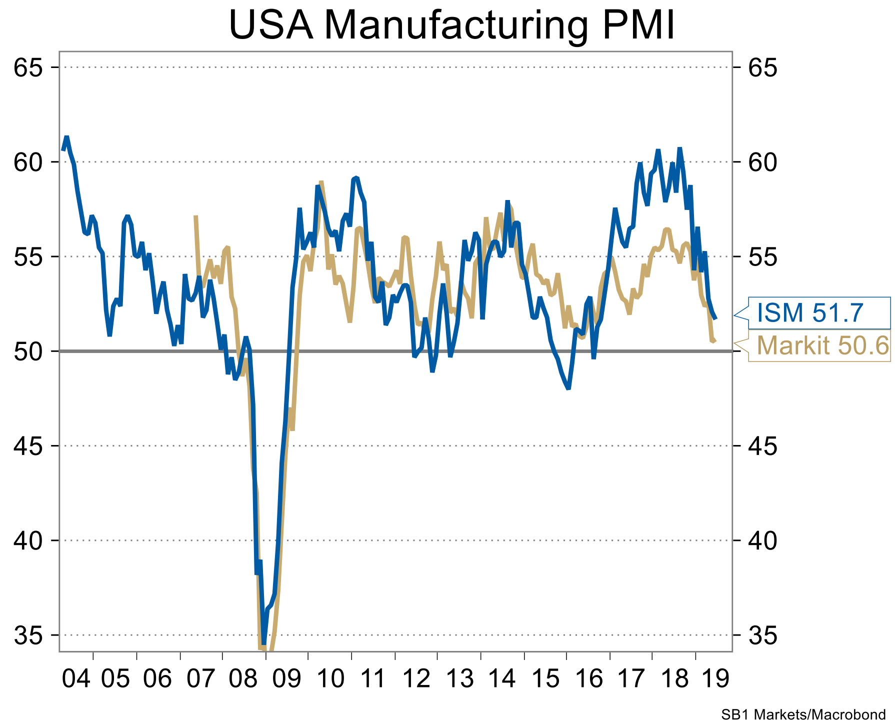


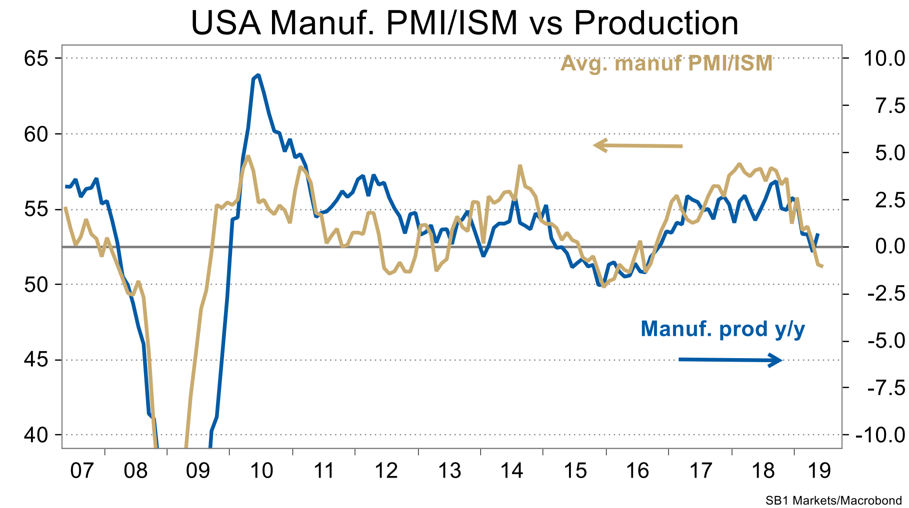


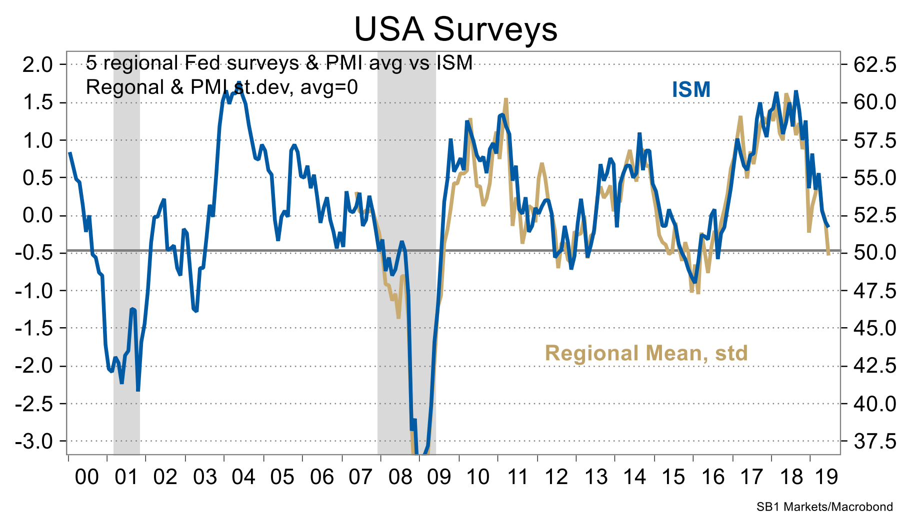
- Manuf. ISM fell to 51.7 in June, from 52.1, far better than the regional surveys suggested (50.0) and above consensus f'cast at 51.0. However, the level is below the long term average (at 52.9) and the speed down is no doubt worrisome, particularly as other surveys confirms the steep drop
  - » In the ISM survey, 12 out of 18 manufacturing sectors reported growth (up from 11 in May) and 5 (from 6) sectors reported a contraction – not than bad. Businesses reported that concerns about the global trade dispute and the Mexico conflict in early June dampened activity, indicates some upside next month??
- Businesses report stagnating order inflows, now mostly due to a decline in (implicit) domestic orders component to below 50. The export order index fell marginally, remains above the 50 line. The inventory index fell further but remains elevated, signalling an inventory adjustment ahead. Delivery times are shrinking and prices are easing. On the positive note: The manufacturers' customers are not reporting increasing inventories
- <u>The bad news: ISM at/below 52 may be an early warning of a recession (in 6 of 20 times, at least). The good news: it usually takes some months</u>

ISM and Markit's PMI above expectations, yet painting a bleak picture

Markit's PMI came in 0.5 p above the first report, at 50.6, while regional surveys crumbled





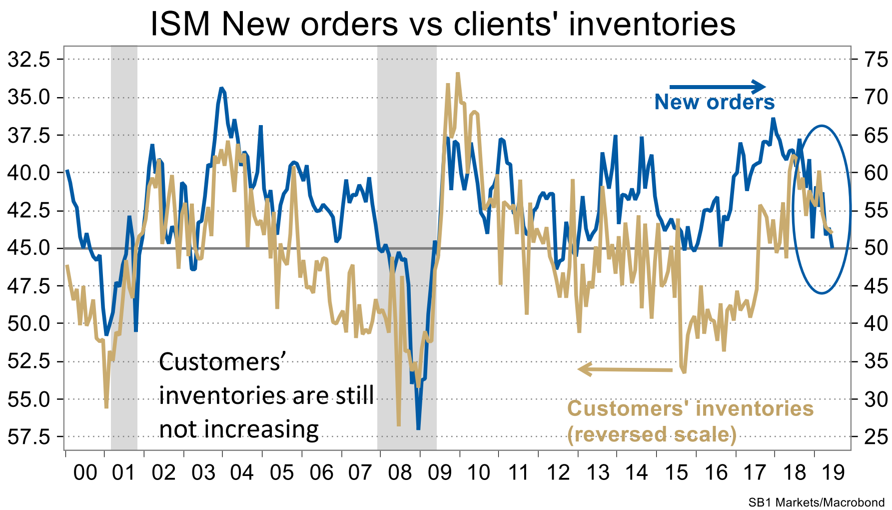


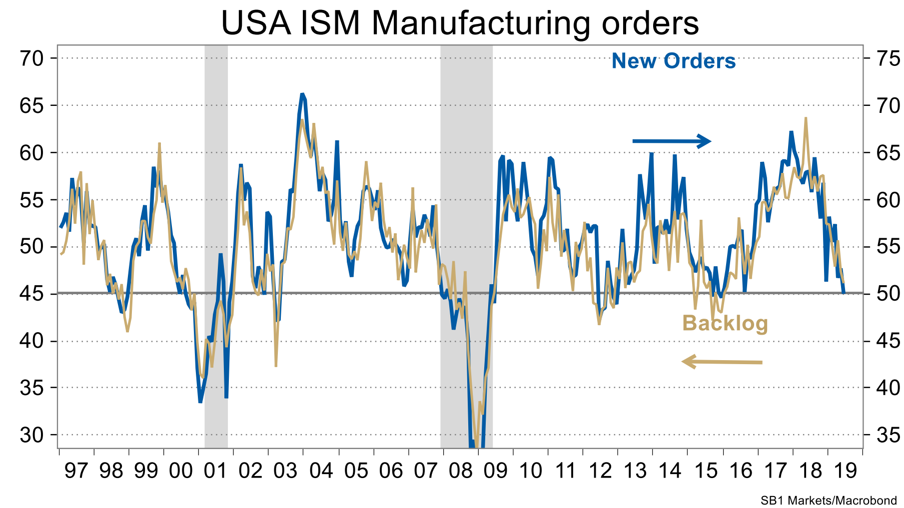
- Markit's PMI fell less than first reported perhaps because business conditions strengthened from a low point at the start of the month. Fed's regional surveys confirmed the slowdown in June, they all fell
- The avg of ISM/PMI is signalling a contraction in manufacturing – which has fallen so far in 2019
- Manufacturing ISM has been much stronger than Markit's PMI the past 2 years but Markit has been closer to the ball vs actual production. Now both are sliding down fast

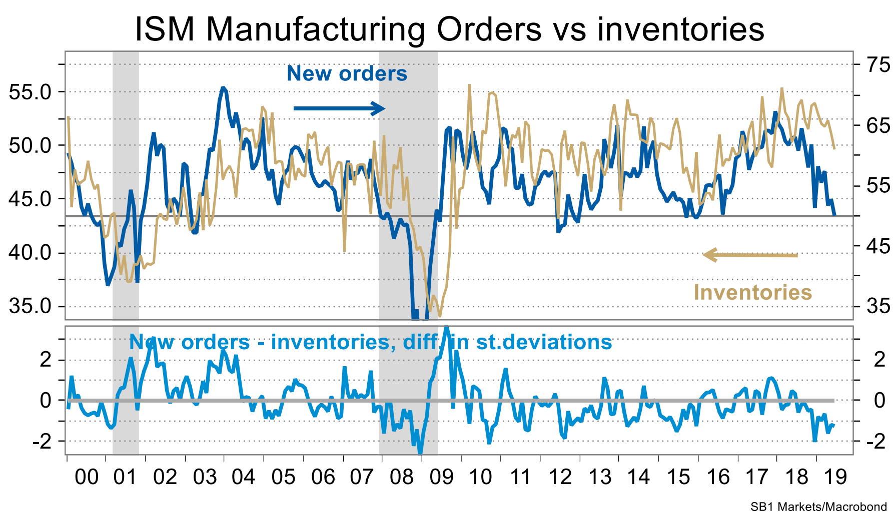
SpareBank 1 MARKETS

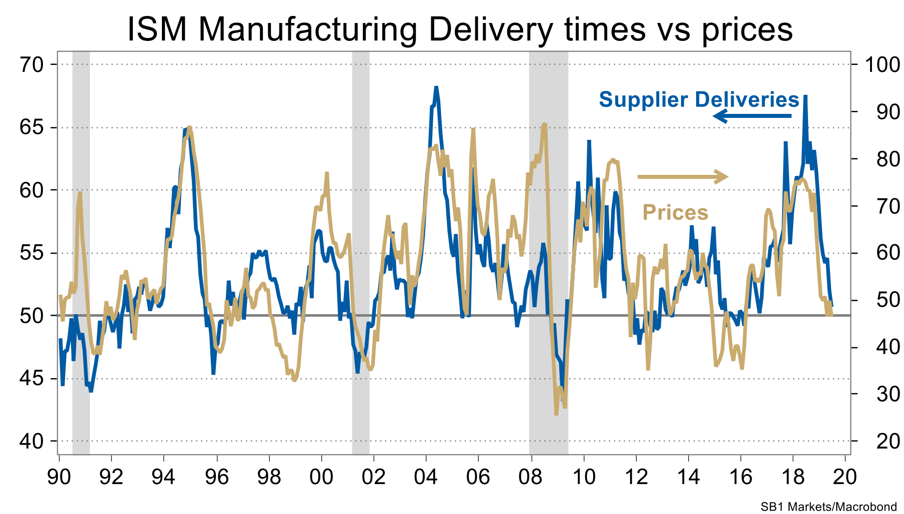
Stagnating orders, less capacity constraints, decreasing prices. Inventories up

Delivery times are not expanding anymore and prices are stalling or worse, echoing weaker demand



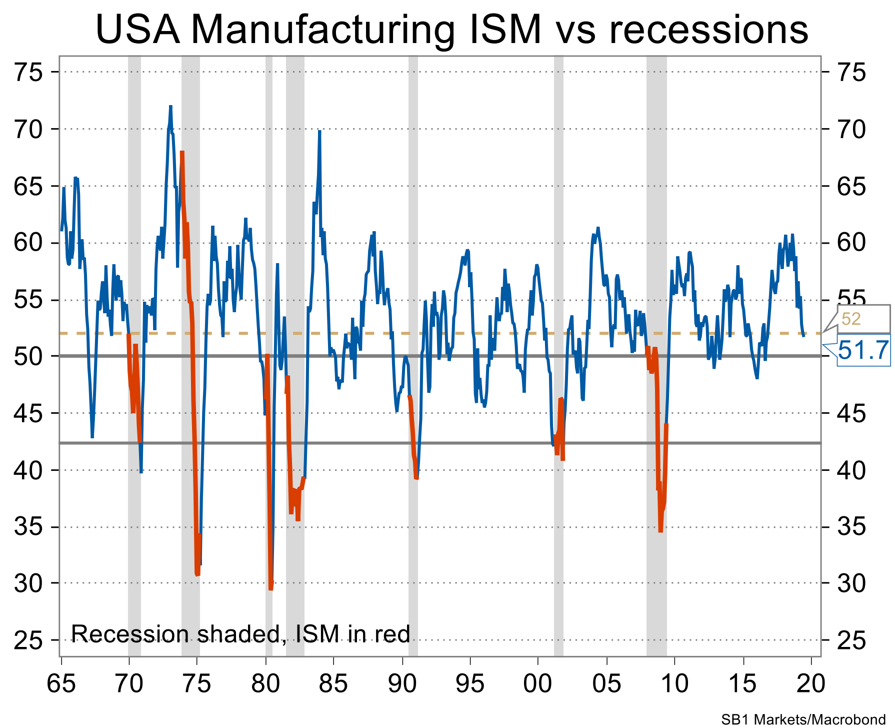


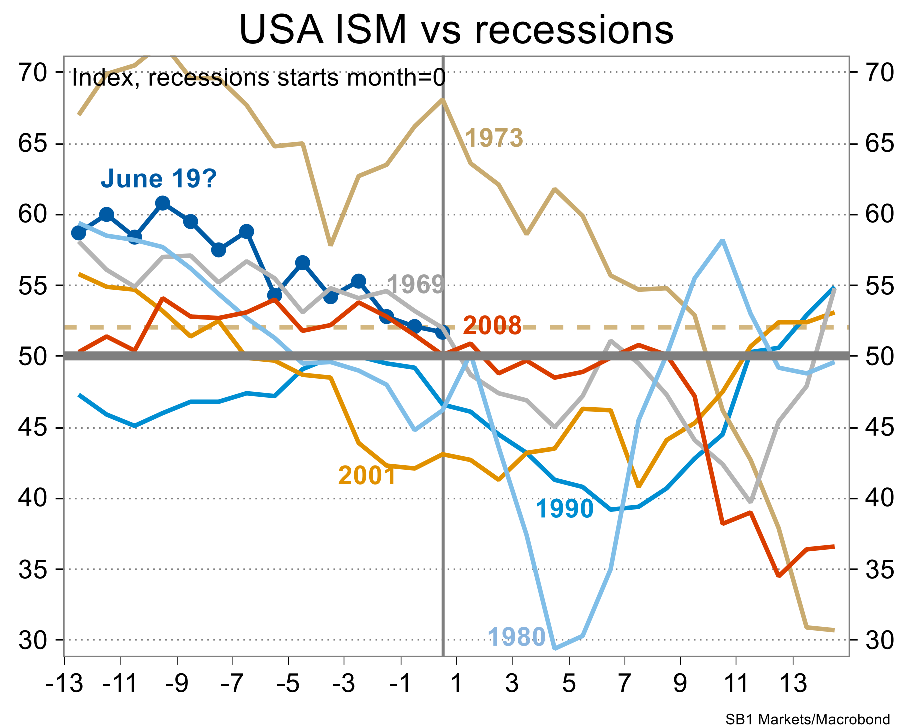




ISM vs recessions: 14 false positives, 6 correct positives, and 1 false negative

What happens if the ISM falls below 52? The ISM is a good cycle indicator but far from perfect.

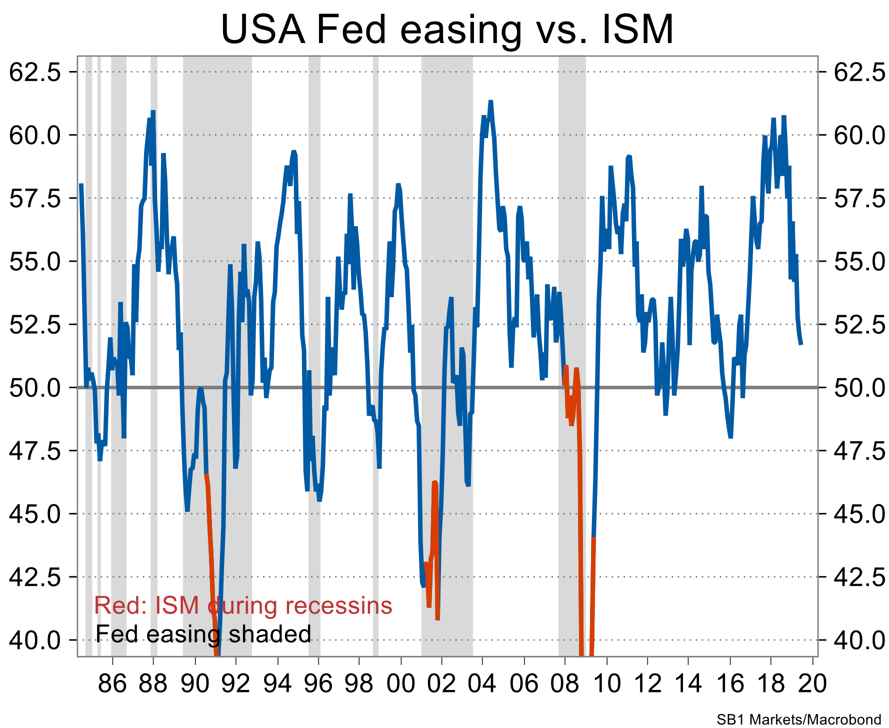


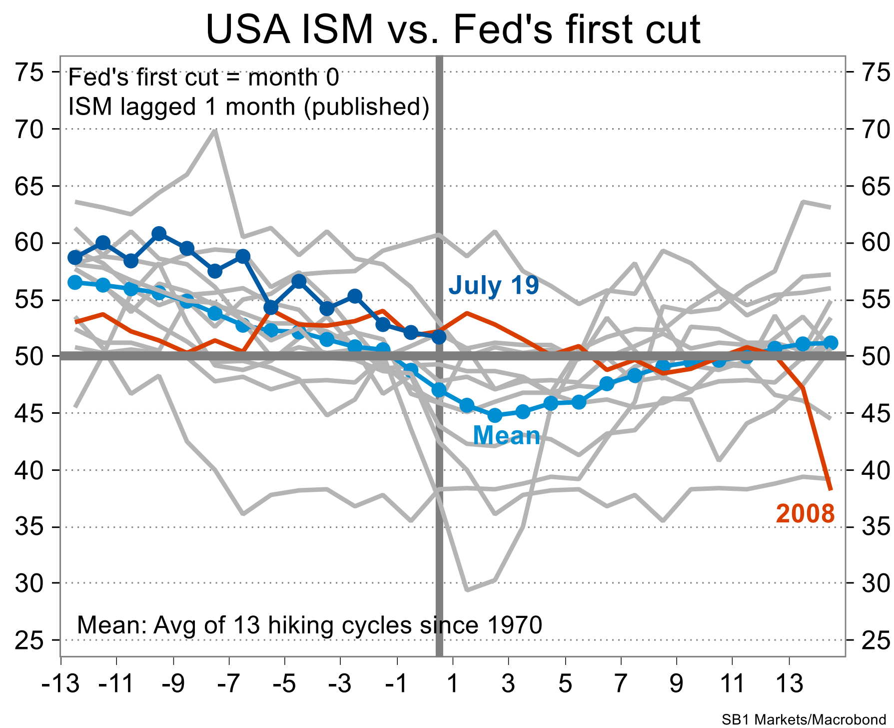


- One recession, in 1973 following the 3 x increase in the oil price, was not flagged by the ISM (1 false negative)
- The ISM fell below 52 in 1969, and then below the 50 line at 5 other occasions before the recession hit (6 positive, correct signals)
- However, the ISM has fallen below the 52 threshold line 14 times since 1965 without a recession (14 false positives)
- So, the ISM is not a perfect warning indicator – and a recession is not yet a done deal.
  - » However, if the cycle is maturing, say with an unemployment rate below 5.7%, the risk is much higher for a near term recession if the ISM at the same time falls below 52. Just 6 false signals, 6 correct

When will the Fed start cutting?

Well, when it believes the economy has slowed (or will slow…) sufficiently



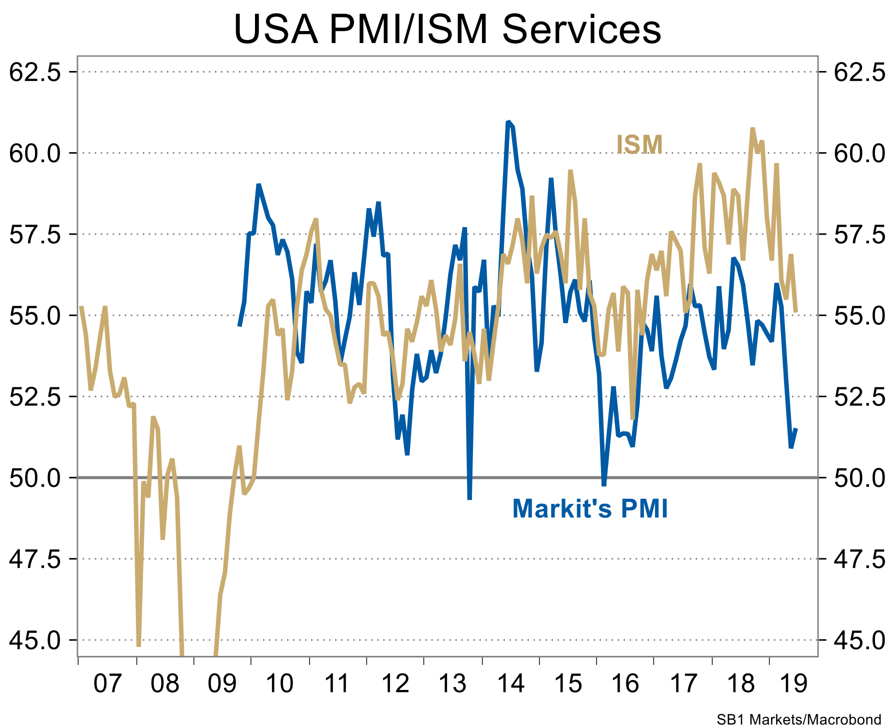


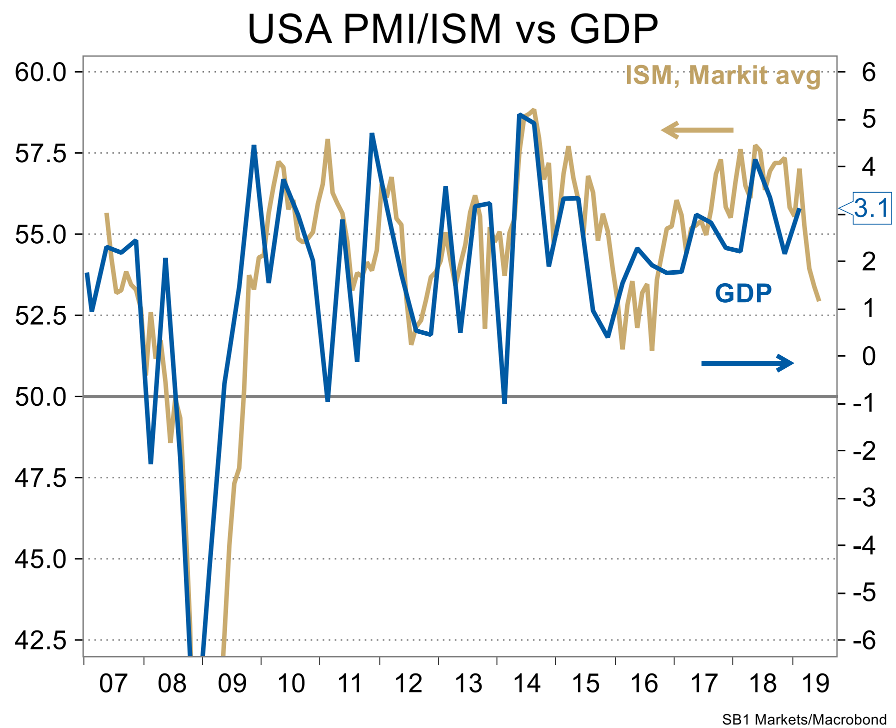
- In average the Fed starts cutting when the manufacturing ISM has fallen below 50 – but has started easing even if the survey is at far higher level – like in Sept 2007 when the (Aug) ISM was at 52.2 (and like now, and with unemployment still heading down). However, at that stage there were 'some' stress in US housing market and in some pockets of the financial market…
- Fed has engaged in some 13 easing cycles since early 1970, while US has had 'just' six recessions. So, the first hike does not signal a recession

SpareBank 1 MARKETS

'Services' ISM weakens, Markit's PMI improved more than first reported

Non-manuf. ISM fell to 55.1, a 2 y low. Avg of composite Markit/ISM signals a substantial slowdown

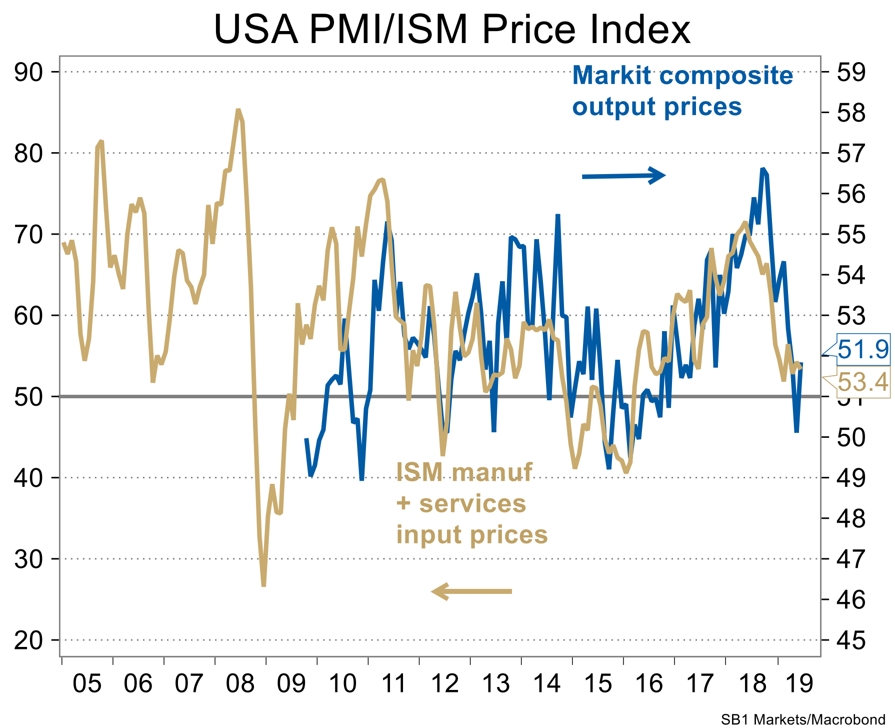


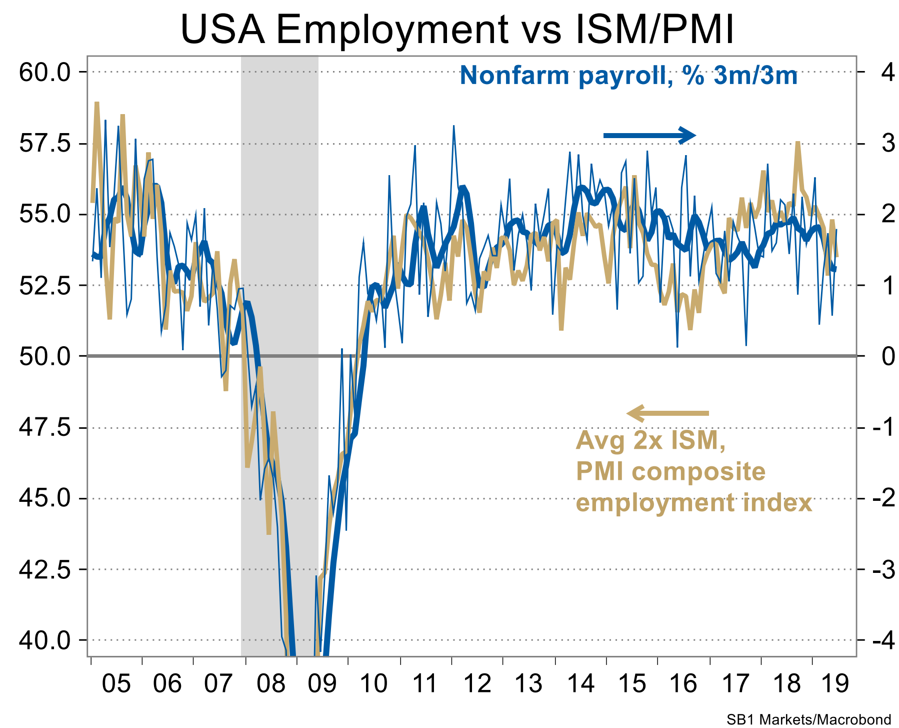


- Non-manuf. ISM came in below expectations in June, down 1.8 p to 55.1, expected at 56.0. Even if the index have fallen from close to 60 a few months ago, the level remains above average. The 'composite' ISM fell to 54.5, which is not a weak level either
  - » 15 of 18 non-manufacturing sectors reported growth, just one reported a decrease. Non-manufacturing orders are slowing rapidly but still growing. Orders are indicating that demand is not crumbling in service sectors, but it may in manufacturing! 'Composite' orders fell to 54.6
- Markit's service sector PMI came in at 51.5, 0.8 p above the first estimate – and the composite index was revised up to 51.5, a decent level
- **The avg of the composite indices points to a substantial slowdown in GDP growth, down to 1% in Q2. Moreover, the ISM has been too optimistic vs actual growth the past couple of years. The ISM/PMI GDP is weaker than the nowcasters which note 1.3-1.5% growth**

PMI/ISM are not indicating any substantial slowdown in employment

Yet prices have slowed, capacity constraints must be declining (due to weaker demand)

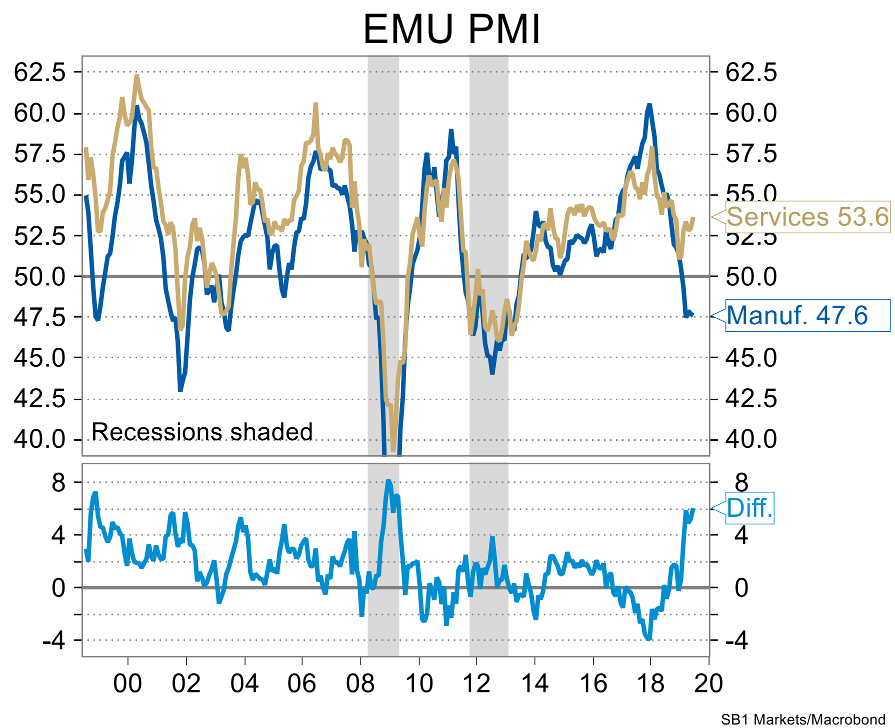


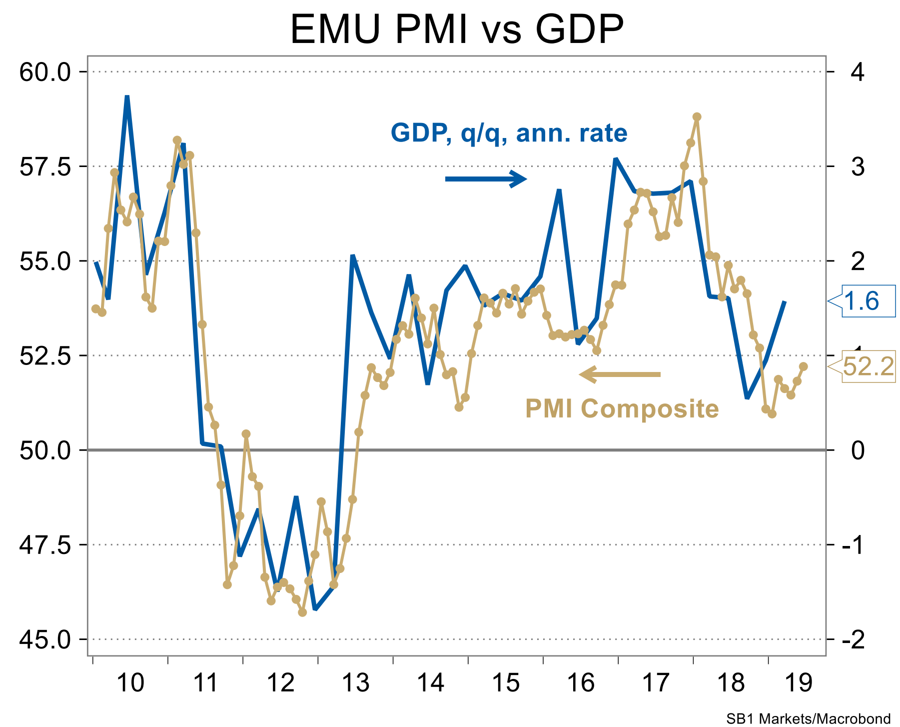


- The avg of the ISM/PMI employment indices came down in June, however the level does not signal any rapid downturn
- Markit is reporting a slowdown in output prices, although the index turned up in June and is still signaling rising prices. The composite ISM price index (input prices) is stabilized at 53-54 the past 3 months

Composite PMI showing signs of a modest uptick, to a 1% growth rate

Composite PMI 0.1 p above the 1. est, at 52.2. Gap in sector performance rose as services edged up



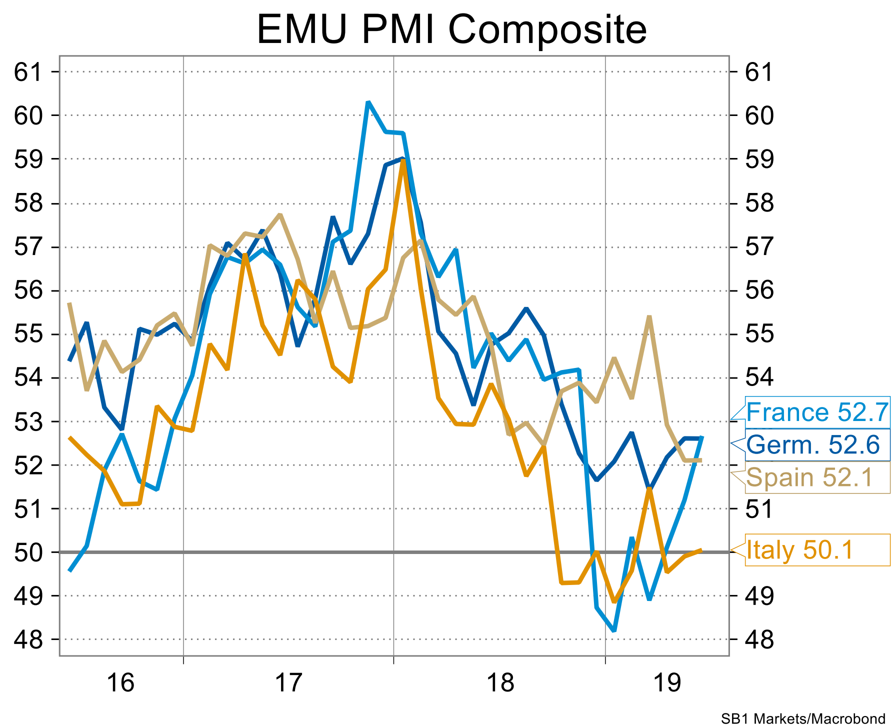


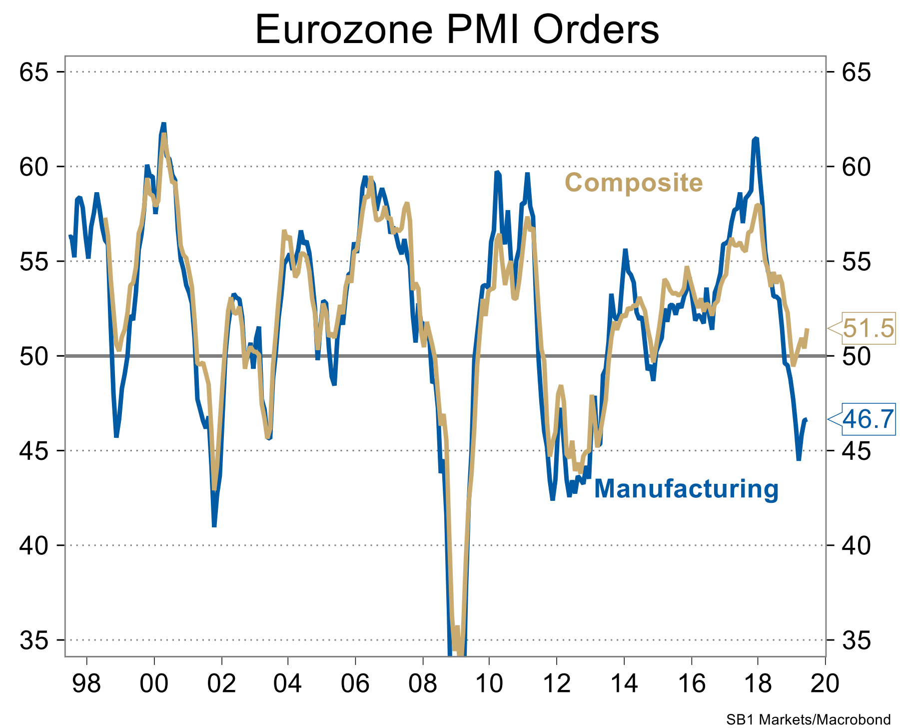
- **The final composite index** came in at 52.2 in June, a marginal lift from the first estimate, +0.4 p from May and the best in 7 months, due to improved performance in services. Nonetheless, the survey is not reflecting a thriving economy, composite PMI points to 1% GDP growth in Q2, at best
  - Manufacturing PMI fell marginally to 47.6, indicating a continued contracting activity, while service industries are still growing moderately
- **Any hope?** Households are still optimistic, and other fundamentals do not indicate a recession now, and Q1 GDP growth was much stronger than the PMIs were indicating. Unemployment is still declining and is not record low, wage inflation is slowly accelerating, and there is no credit boom. So it may all come down to the trade war, Italy's politicians, Brexit…

SpareBank 1 MARKETS

France recovering, Germany growing modestly, Spain losing some momentum?

.. And then there is Italy, which has strengthened somewhat but still remains fragile

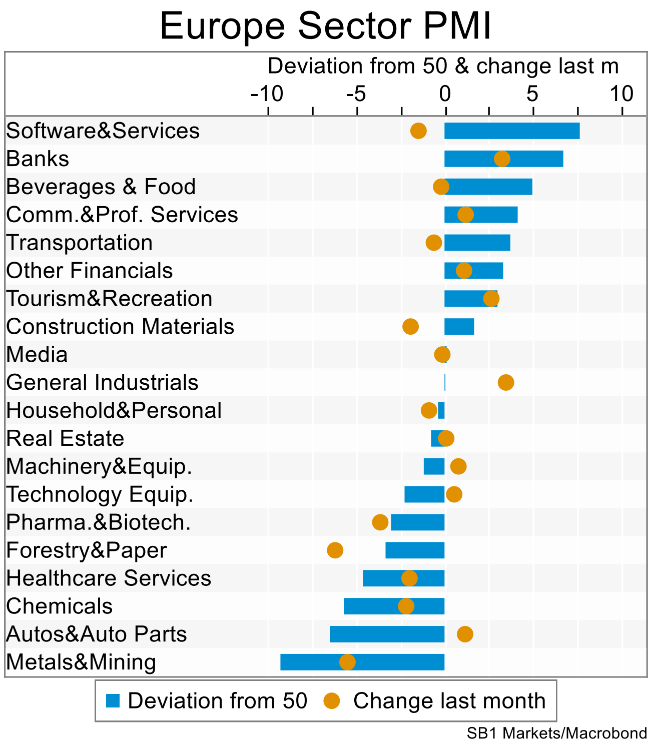


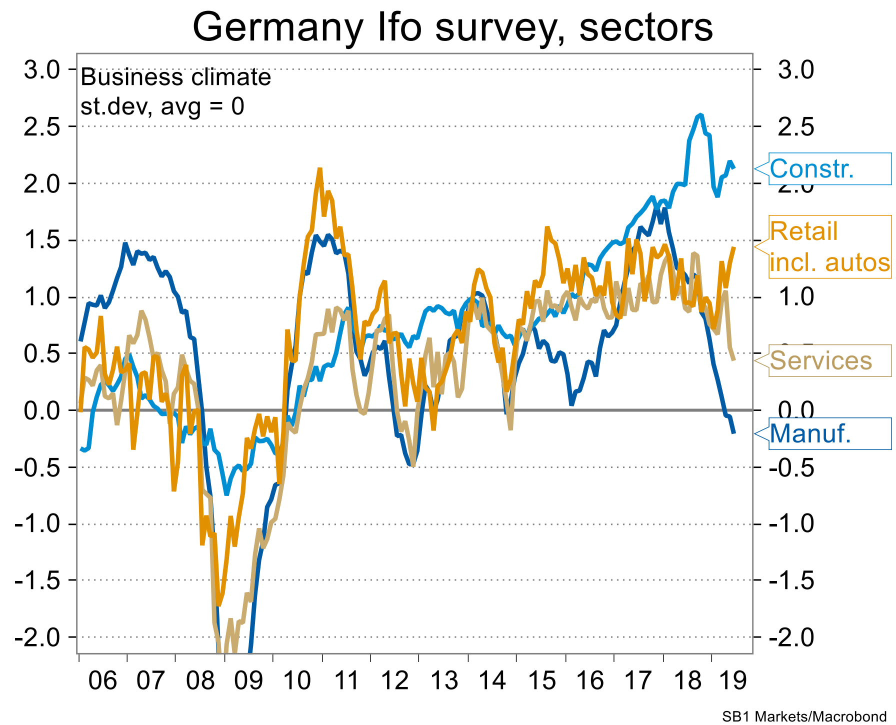


- More up than down in June (as in May): France reached the highest level since before the protests began, at 52.7 (0.2 p weaker than the first estimate). Germany is split; manufacturing tumbles while service sectors remain solid, in sum flat in June. Spain is reporting a slowdown but still decent growth rates. Italy is stagnating but no longer in contraction
- The manufacturing orders index rose marginally in June and has recovered somewhat the past 3 months, suggesting that the worst may be behind us? However, the level at 46.7 is signalling <u>still sharply falling </u>order inflows. Composite orders are expanding modestly, service orders growing

Sectors: Manufacturing crumbles, retail and construction still OK

The auto sector explains some but not all. Sector details point to a broader cyclical downturn

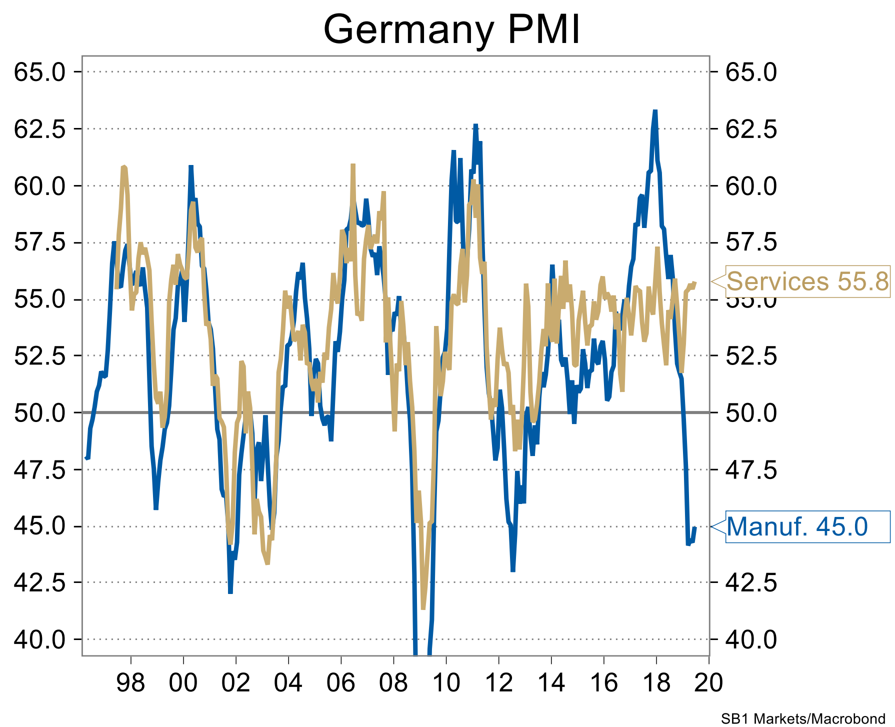


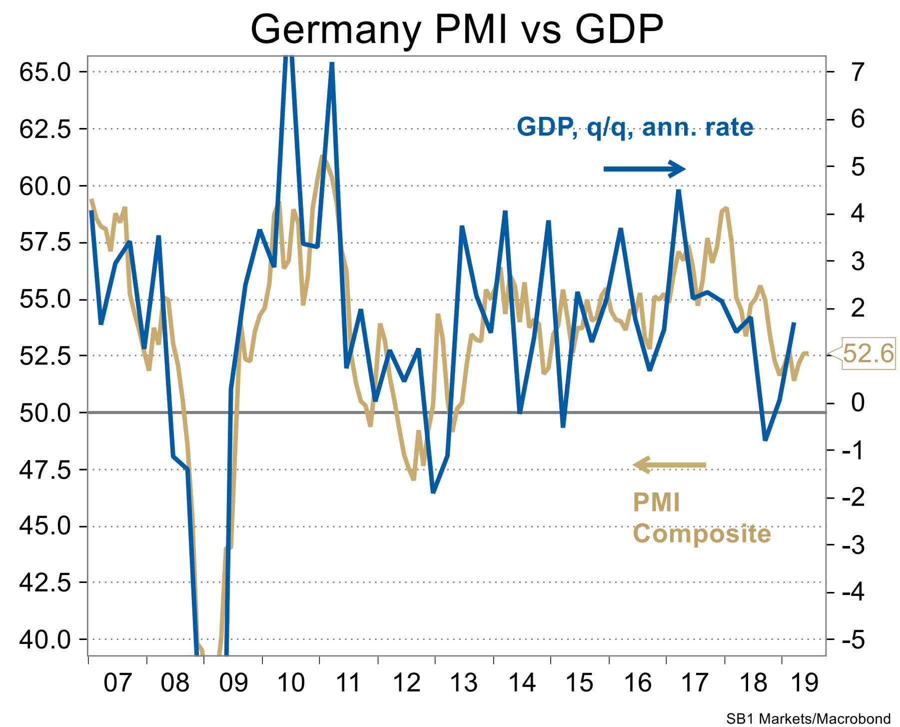


- Both the Europe sector PMI (not Eurozone) and the German Ifo business survey are reporting similar sector patterns

Manufacturing PMI signals a continued sharp contraction, services still strong

Composite PMI flat at 52.6, points to 1% GDP growth. Manuf. stable the past 3 m, at a very low level

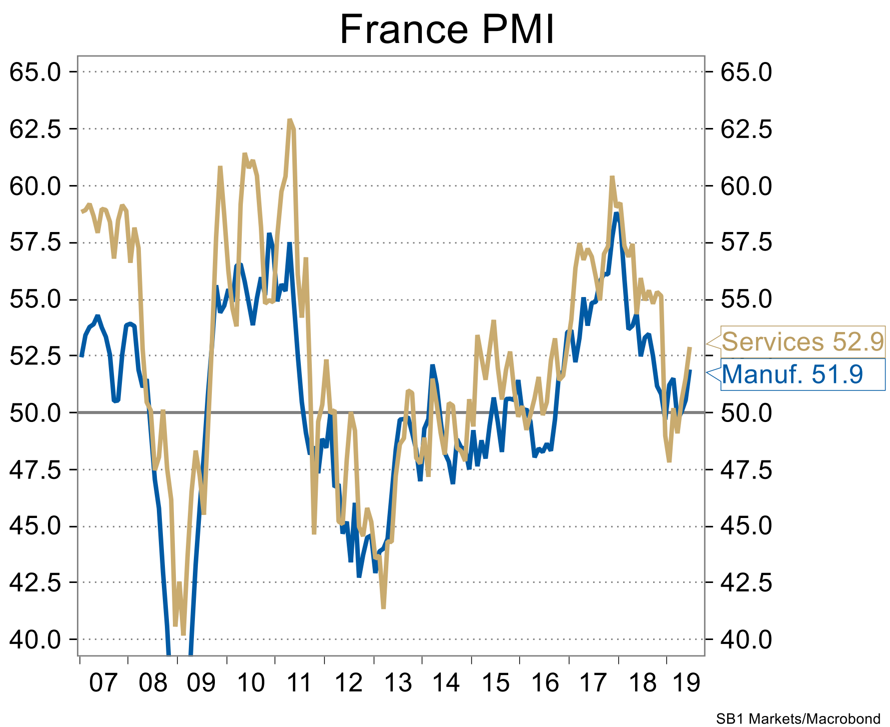


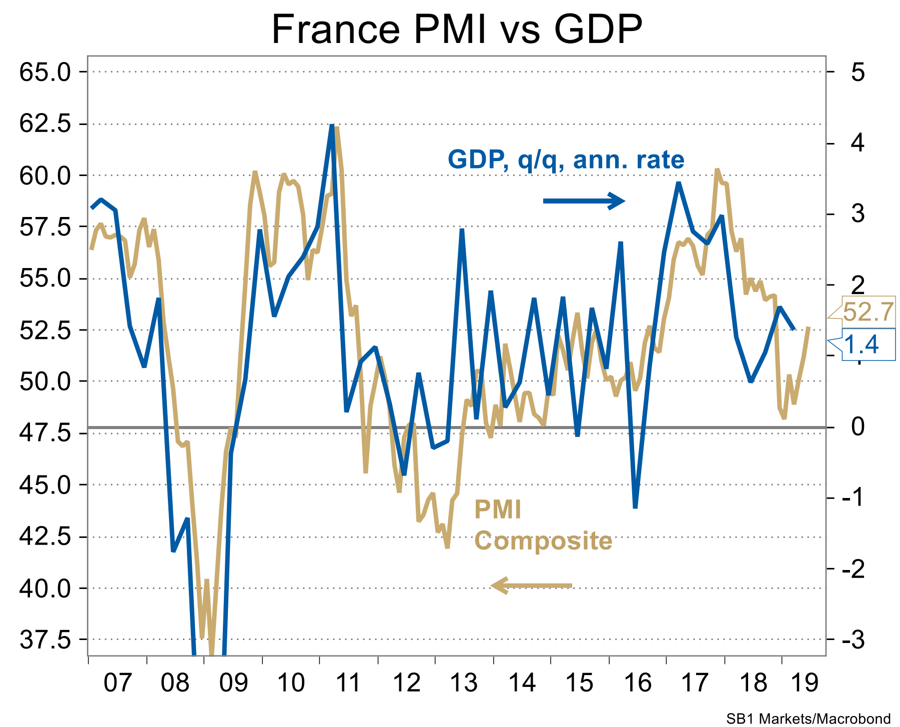


- The manuf. PMI rose 0.7 p in June, 0.4 p less than first reported. The level at 45.0 is no doubt signalling a deep contraction in the manuf. sector. This partly reflects an auto industry which is struggling after the implementation of the WLTP regulations but also a much broader loss of demand, due to both global uncertainties and domestic demand
- The services index ticked up to 55.8 and is so far fully resilient to the manufacturing turmoil! The level is well above avg. The gap between manufacturing and services are unusually large, and (of far) unprecedented if the service sector PMI is strong
- The composite PMI at 52.6 signals 1% growth in the German economy in Q2, vs the upswing to 1.7% in Q1

PMIs are recovering as impacts from the 'yellow vests' protests wane

Composite PMI rose to 52.7 in June (down 0.2 p from the first est), suggesting stable GDP growth

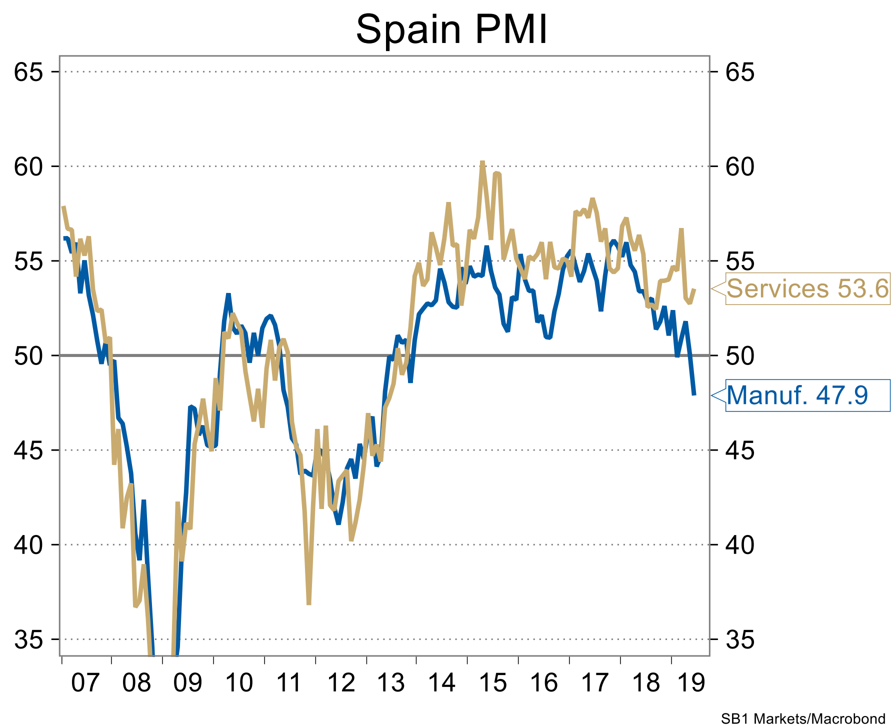


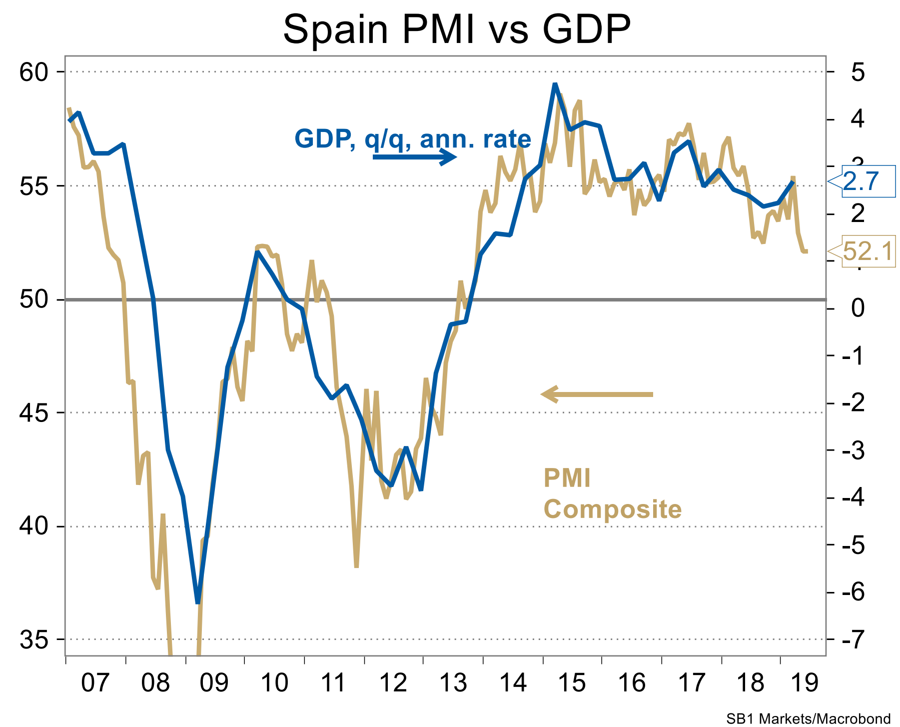


- Both PMIs fell into stagnation territory early in 2019. Service sectors were brought down most likely as the 'yellow vest' protests were hampering activity. Now, these have faded and the PMI climbs
- Manufacturers noted an upswing in June too, to the highest level since late 2018. The composite index at 52.7 is pointing a GDP growth at some 1.5%, approx at trend

Spain: Manufacturing deteriorates sharply, services still growing moderately

The composite PMI was unchanged at 52.1, suggesting a slowdown to 1% GDP growth, from 2.7%

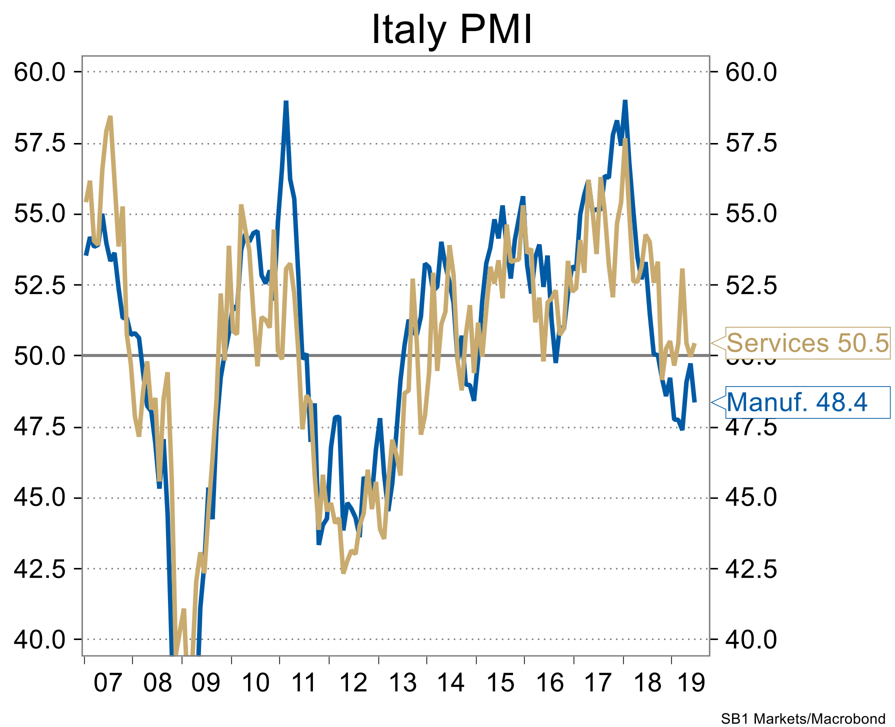


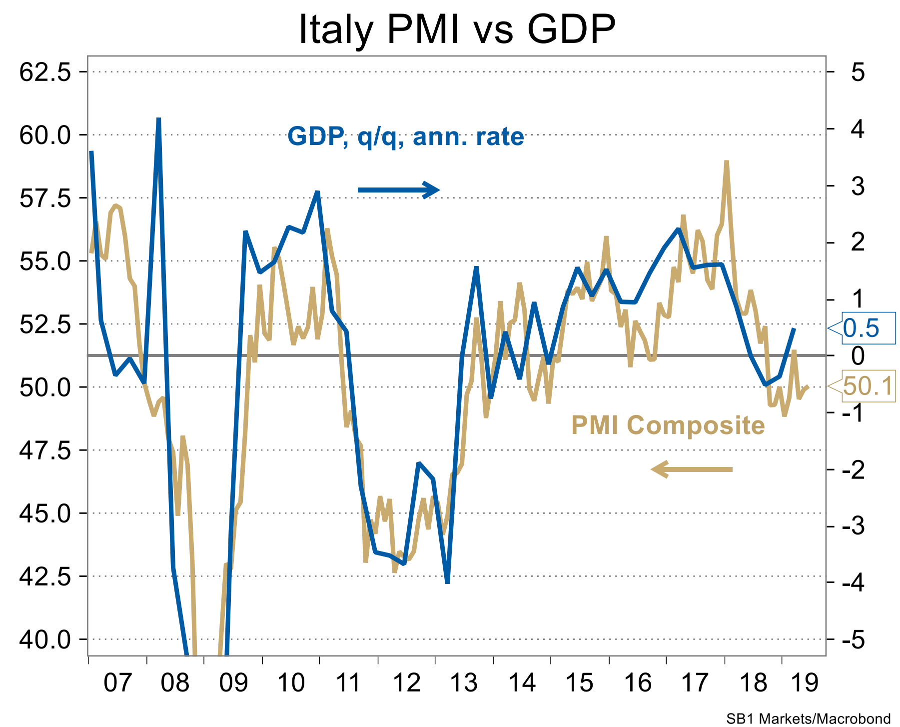


- The composite PMI held steady in June, as declining manufacturing activity was offset by an uptick in service sectors
- Manufacturing businesses are struggling here too, weakest PMI since 2012

Italy: Composite PMI is still pointing to a GDP contraction

Manufacturing weakened in June, services a tad up, and marginally in growth territory

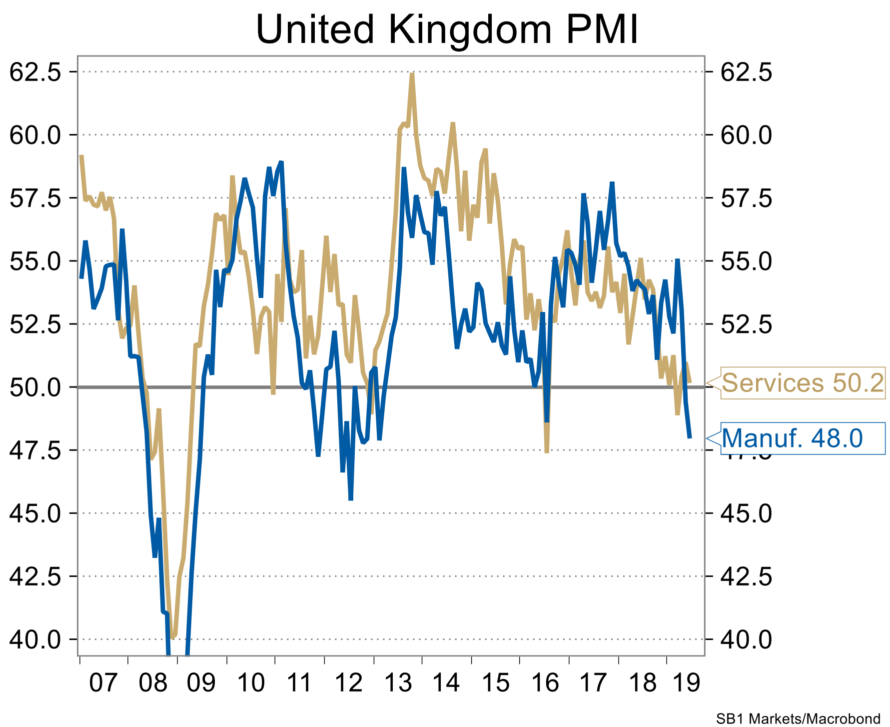


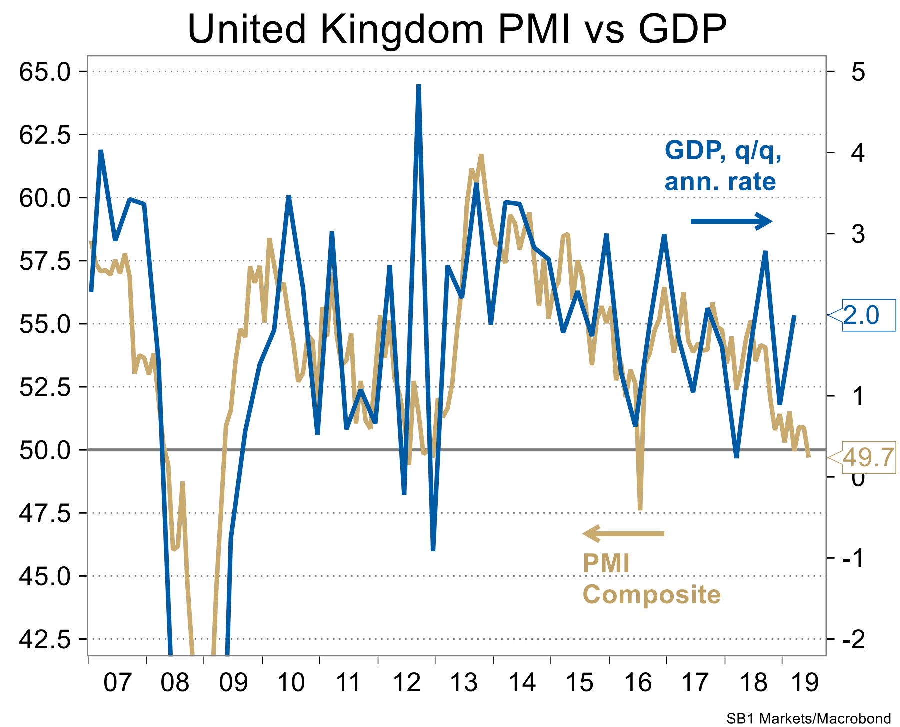


- The composite PMI rose marginally to 50.1 in June. PMI points to a modest contraction in the Italian economy. Actual GDP growth recovered in Q1 after sliding into a technical recession in Q3/Q4. The PMI suggests that the upswing might have been temporary, however, the correlation to actual growth is not that strong in the short term
- The government expects 1.5% growth in 2019, to keep the budget deficit (almost) in check. Seems very unlikely at this point – and the deficit will widen substantially, even without the extra spending the Government wants

Composite PMI fell below 50 for the first time since the Brexit referendum

Manufacturing plunged to 48.0 as companies stop (but not yet reverse) pre-Brexit stockpiling

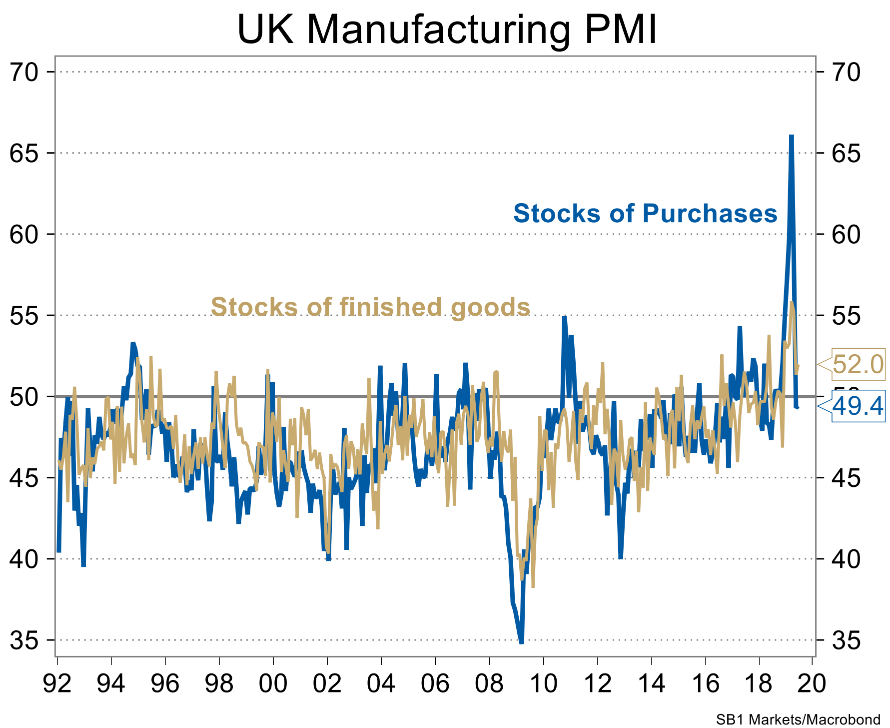


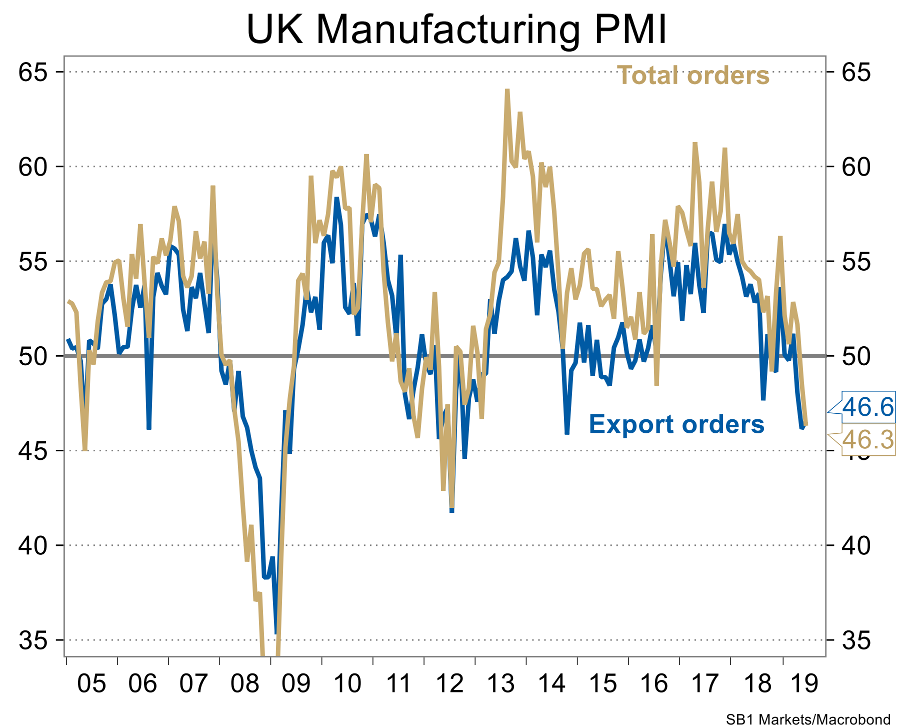


- Manuf. PMI tumbled to 48.0, below the 2016 Brexit referendum level. Manufacturing activity has been held up by massive efforts to purchase materials ahead of the original Brexit deadline, check the next slide for more. These inventories are not being build further up but have not been wound down either; the inventory indices are still above normal levels. One day, the extra inventories will be cut back, hurting production
- The service sector PMI fell to 50.2, from 51.0. Businesses have been reporting more or less stagnating activity since November last year, as Brexit uncertainties have been causing postponed/cancelled spending and investment decisions
- The composite PMI at 49.7 is pointing towards halting GDP growth. The British PMI is rather reliable

Brexit stockpiling is easing rapidly and orders are cut back

Businesses were stockpiling ahead of the March Brexit deadline, propping up activity. Now...

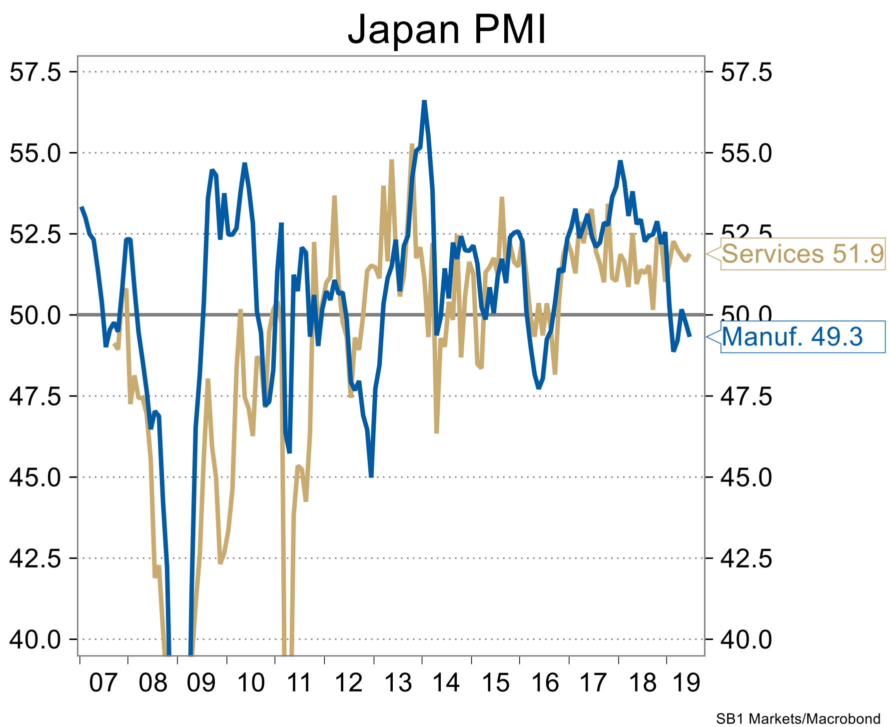


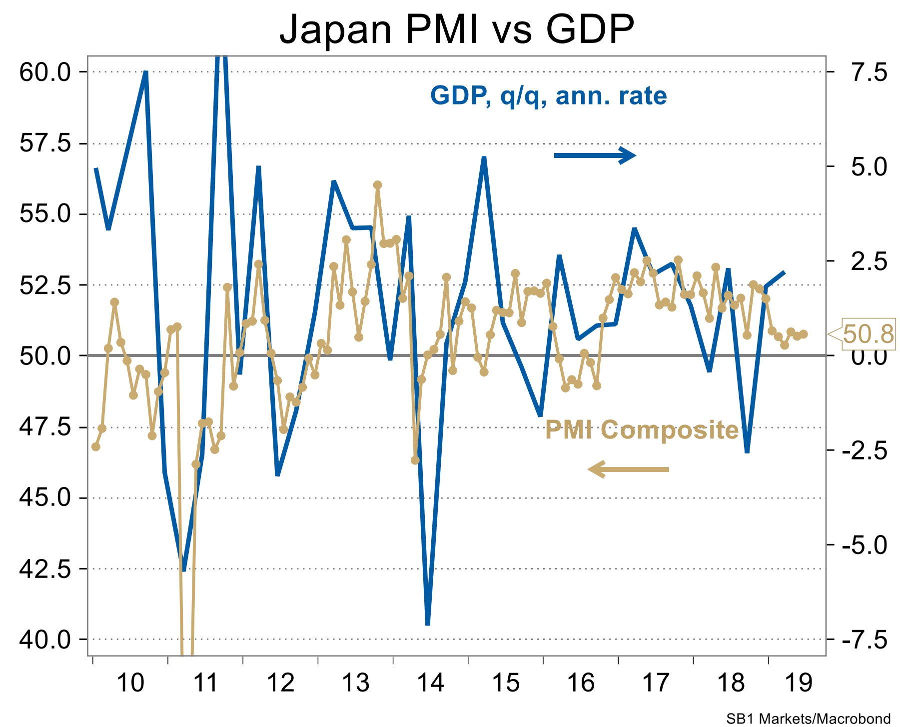


- Businesses are reporting a 2.3 p drop in the new order index, to a 7 year low at 46.3. Export orders fell at a marginally slower pace than in May, while the (implicit) domestic orders deteriorated sharply, echoing weak demand
  - » Export orders are pulling back as foreigners may be starting to find new supply chain routes amid Brexit worries. If so, bleak outlook
- Massive stockpiling ahead of the original March Brexit deadline helped support growth in orders and production during the spring. The stocks of purchases index fell sharply in May and marginally in June but the index level is still well above average. The same goes for stocks of finished goods. There is a significant downside risk here; the huge inventories built up since Jan will have to be to built down, and both inventory indices are still far are above a neutral level, signaling a continued inventory buildup. One day…

Manufacturing reports a slump in activity, services not

Both PMIs have stabilised recent months, the composite index a tad up in June, signals a stagnation

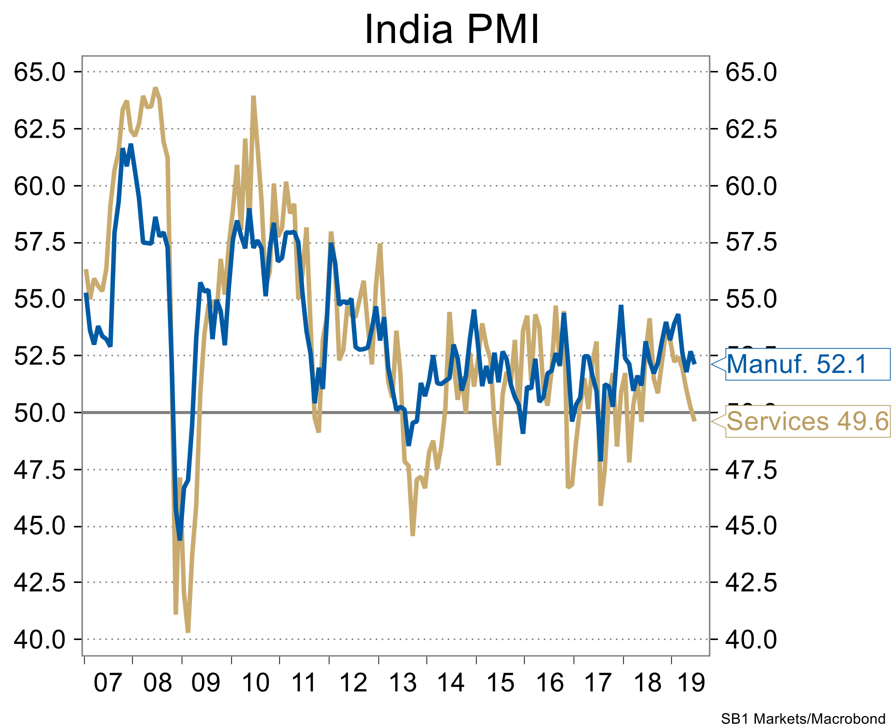


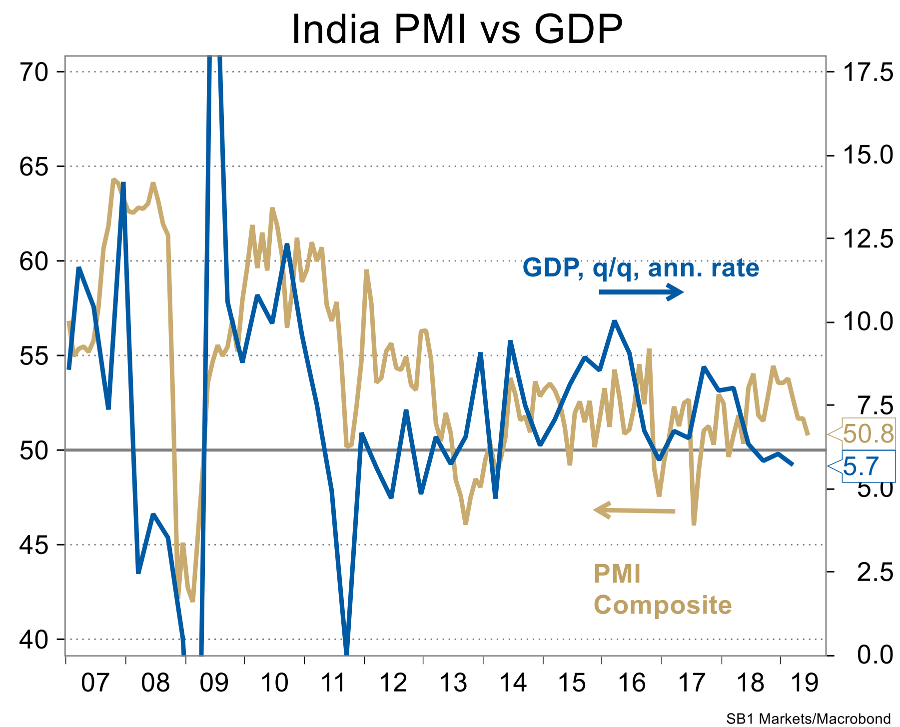


- The composite PMI rose marginally to 50.8 in June, stabilised the past 5-6 months. The index is pointing to muted GDP growth, close to zero, down from at 2%+ growth the two previous quarters
  - » However, the correlation to actual growth is not impressive at all, especially in the near term
- Other Japanese surveys have softened but are not signalling any abrupt slowdown

Composite PMI slides down but not signalling deteriorating GDP growth?

Services are struggling, while the manufacturing remains at an OK level

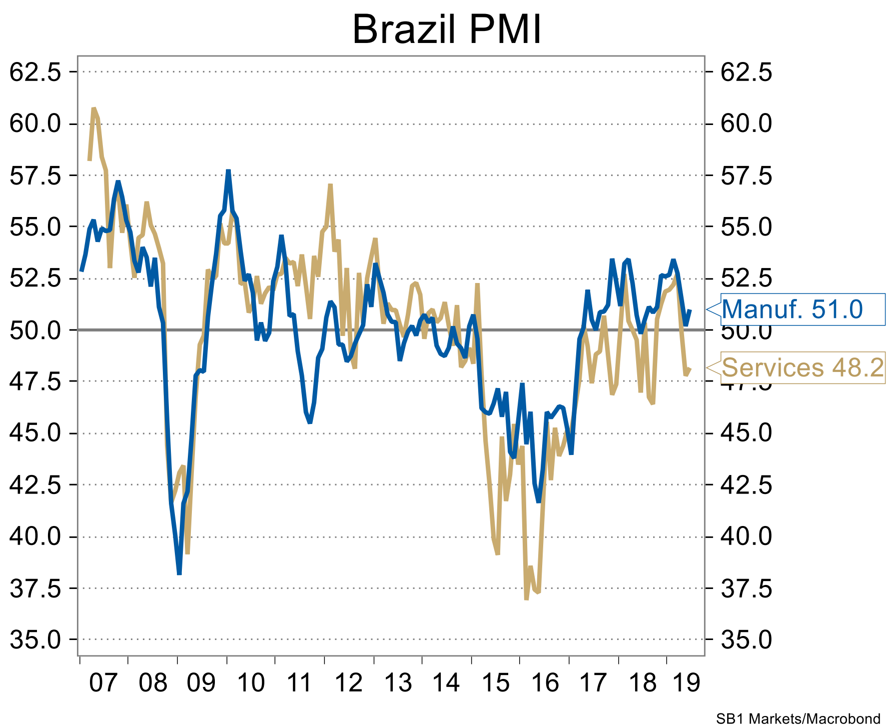


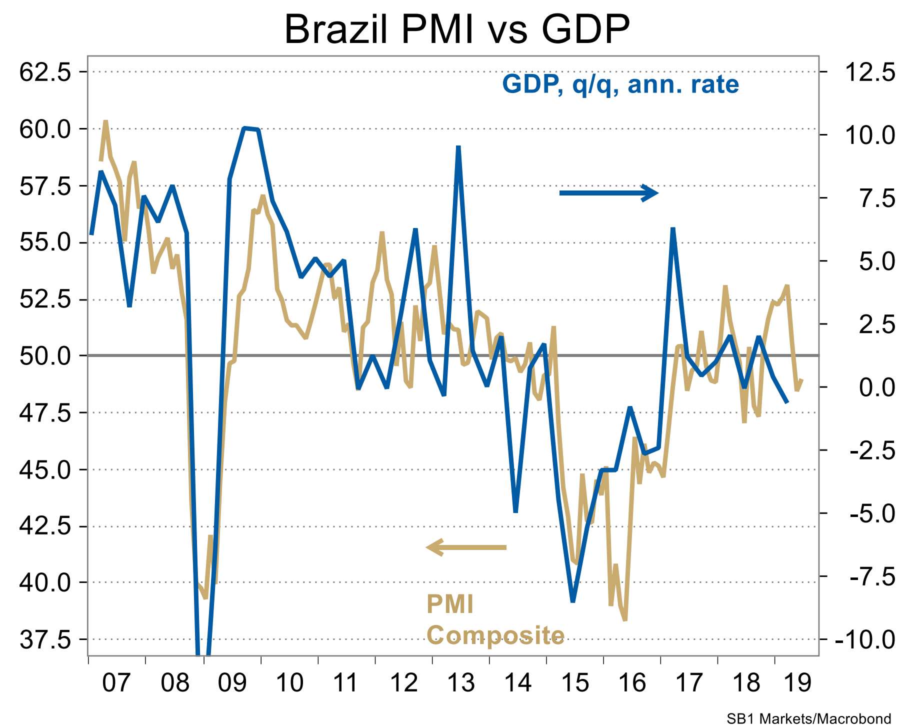


- The correlation between PMI and GDP is not very close but the PMI indicates growth above 6%, above the 5.7% recorded growth rate in Q1 (which was revised down substantially, from 8%)
- Indian GDP growth has been substantially revised down the two previous quarters, in Q1 to 5.7% from 8.0%, which led to a downward revision even for our global GDP estimate

PMI marginally up in June, weak services PMI signals zero growth

The PMI points to a decline in GDP in Q2 – and in Q1. If so, a new ‘technical recession’

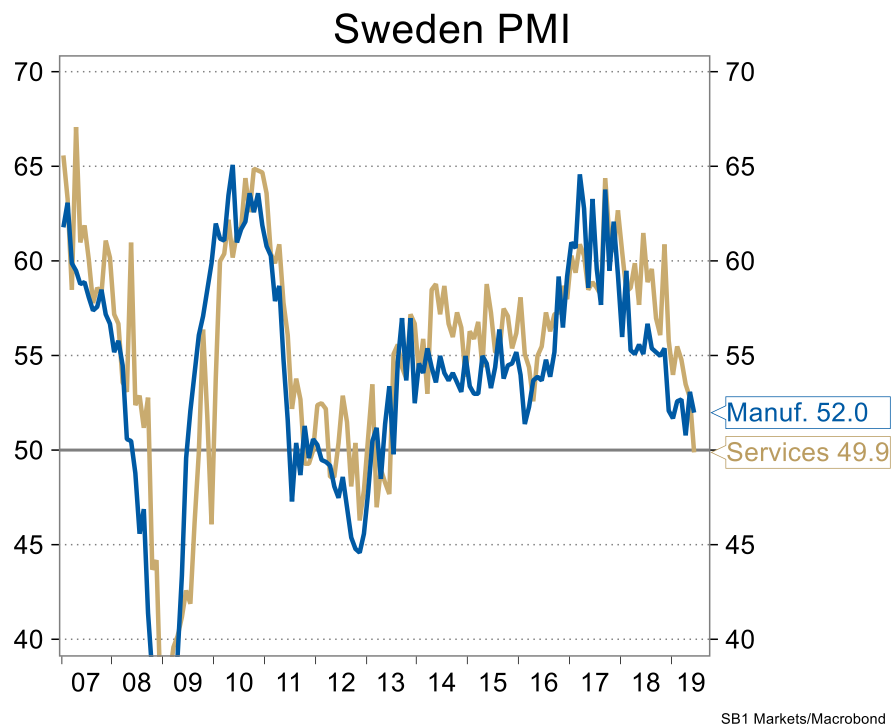


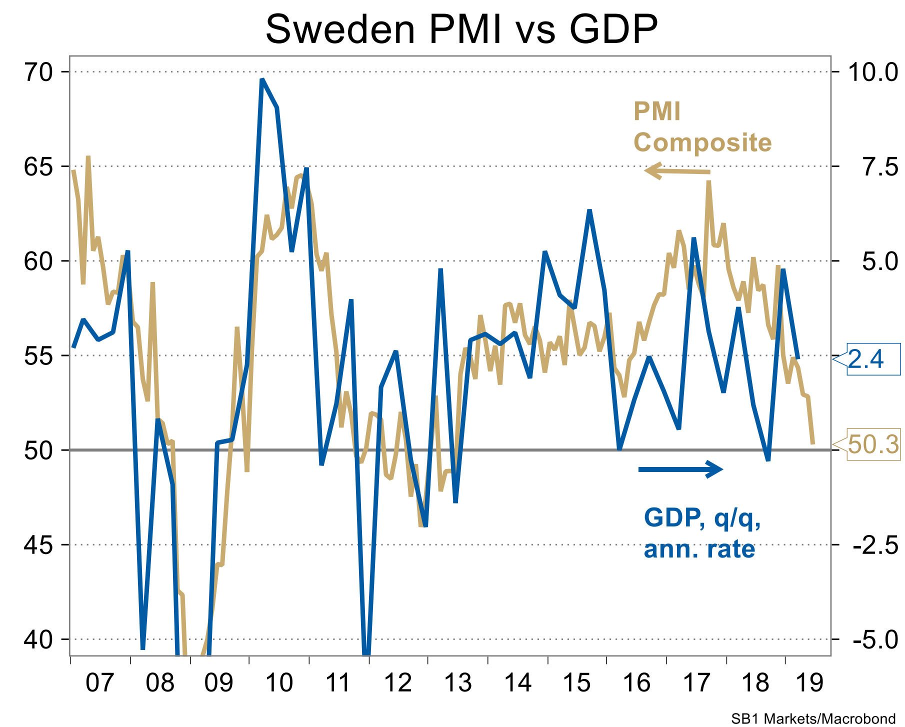


- GDP growth fell 0.6% q/q (ann. rate) in Q1, the Brazilian economy has been troubled by political and financial challenges. The PMI signals a further – if not sharp – contraction
- Disclaimer: The Brazilian PMI is rather volatile –and does not predict quarterly GDP data precisely

Manufacturing still (almost) OK, services PMI tumbled to below 50 in June

Weak services dragged the composite PMI down to a 6 y low, signalling stalling growth

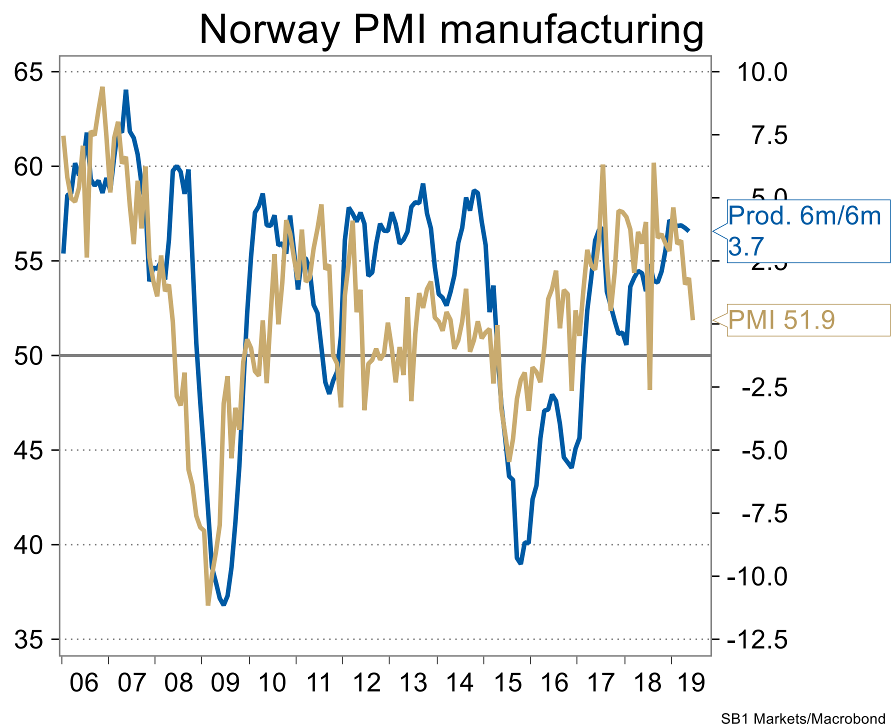


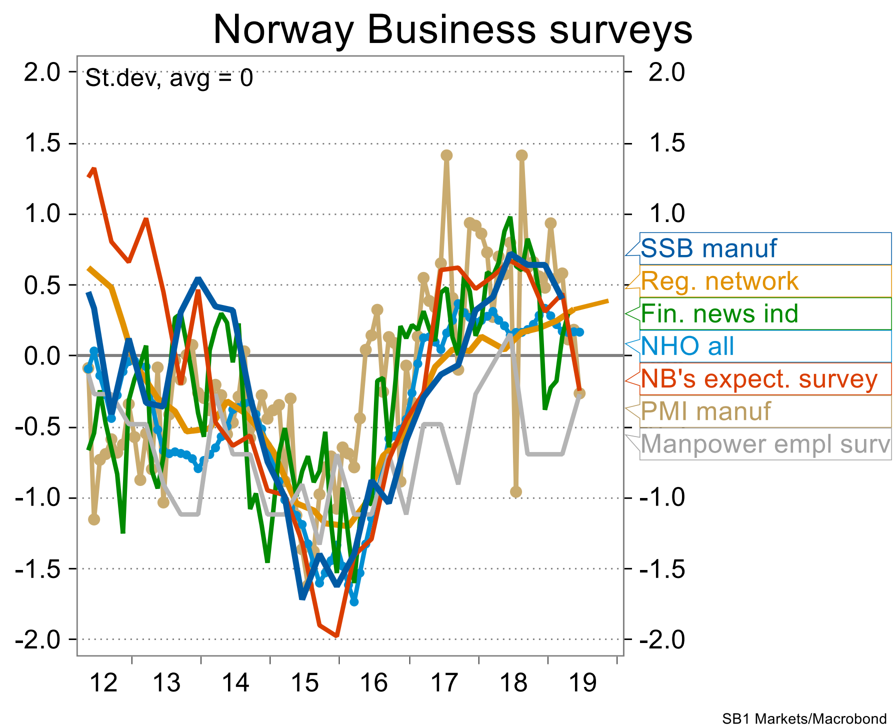


- The composite PMI fell 2.6 p to 50.3, the lowest level since 2013. The PMI points to a rapid slowdown in GDP, to zero growth, vs the 2.4% in Q1. Also, the PMI has been too optimistic vs actual growth the past 2-3 years..
- The weakness in services is broad (component wise). Order inflow halted and delivery times are shrinking. In addition, the companies are reporting a significant downgrade of the outlook (this index is not a part of the usual PMIs we are using)

Manufacturing PMI slides down, more downbeat than most surveys

The volatile PMI dropped to 51.9 in June, a 2.2 p decline. The index is in the low range of surveys

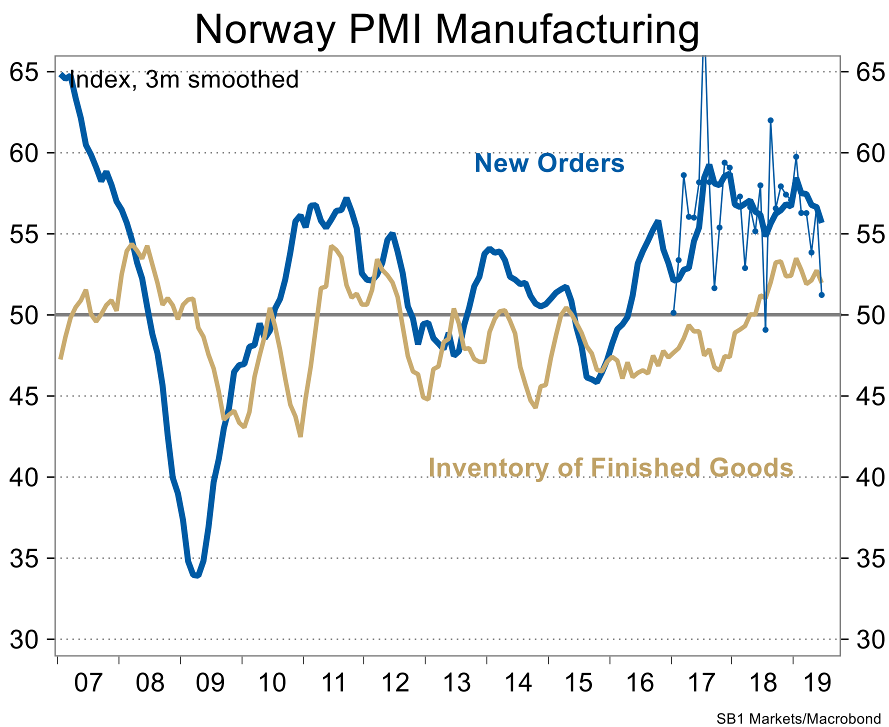


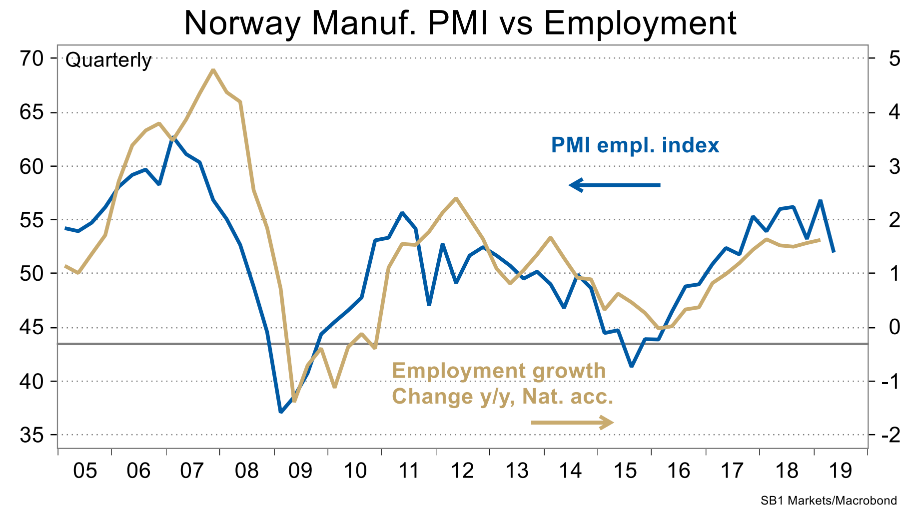


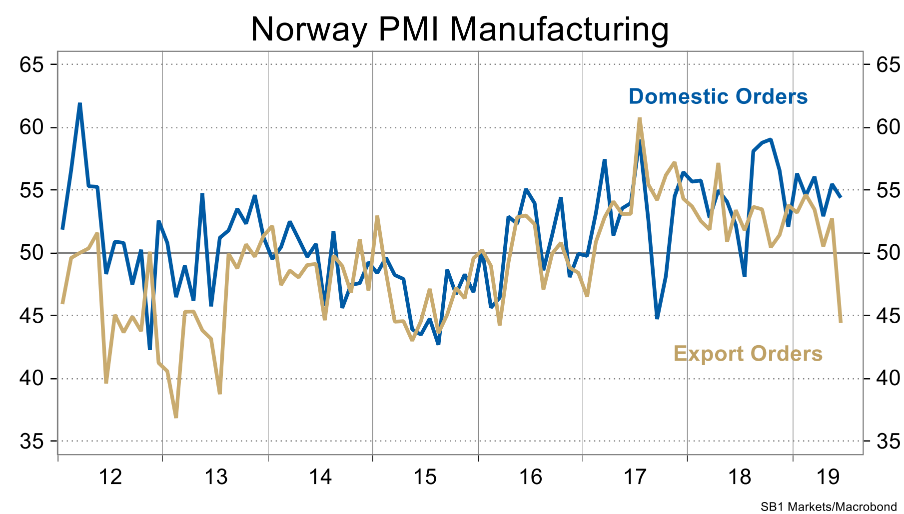
- The PMI slipped to 51.9 in June and is no doubt heading down, even if these monthly data are volatile. 3m average at 53, down from 56 three months ago
- The PMI is pointing to a substantial slowdown in manufacturing production, which has accelerated the past 2 months. The smoothed index signals decent growth. However, the correlation is not impressive in the short term –and the June level does not signal much growth

PMI orders are slowing, dragged down by waning export orders

Data are volatile but may of course signal that something is happening in foreign markets…



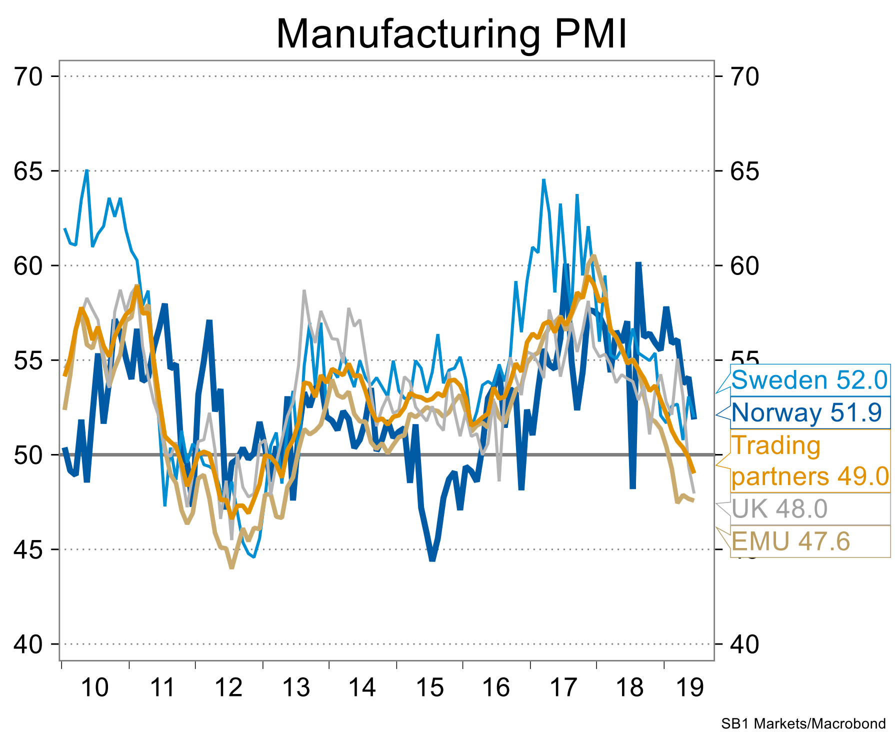


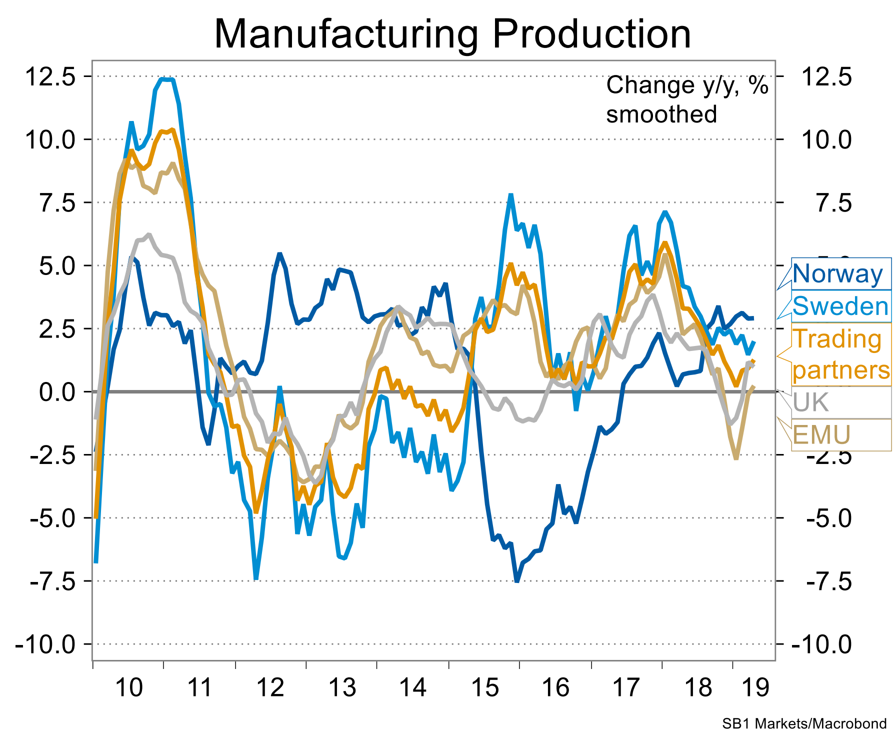


- The decline in the export order index may just be a data blip but may also signal that slower growth abroad is also being felt among Norwegian exporters
  - » Norges Bank's Regional Network did not detect any slowdown in the May survey, while NHO's survey reported just marginally slower growth (and well still above average)
- Domestic orders are still growing rapidly, according to the PMI

Manufacturing PMI slowing but still better than among trading partners

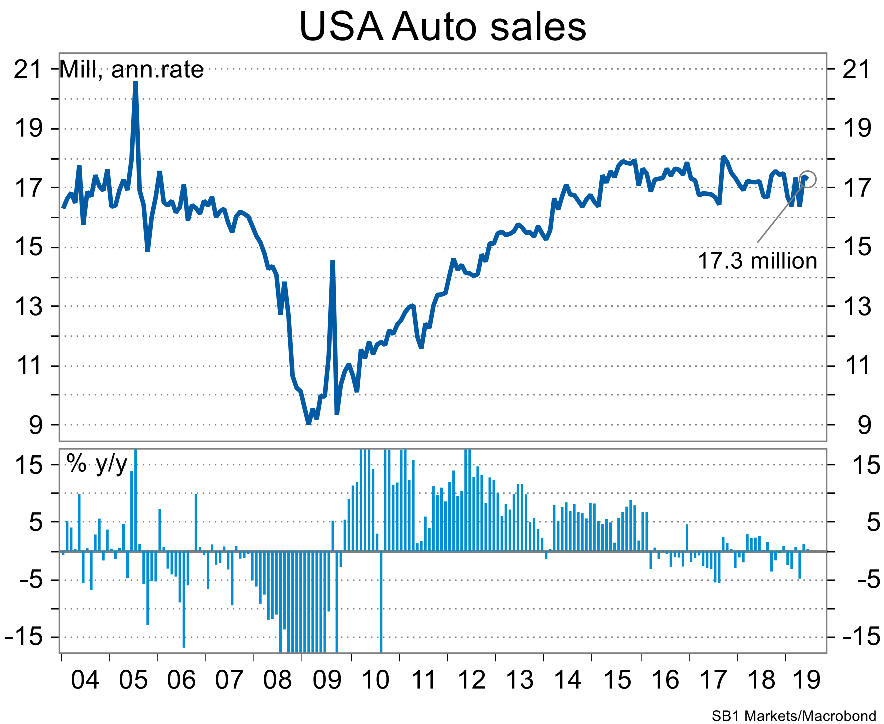
However, the speed of decline in the Norwegian PMI recent months is rather high…

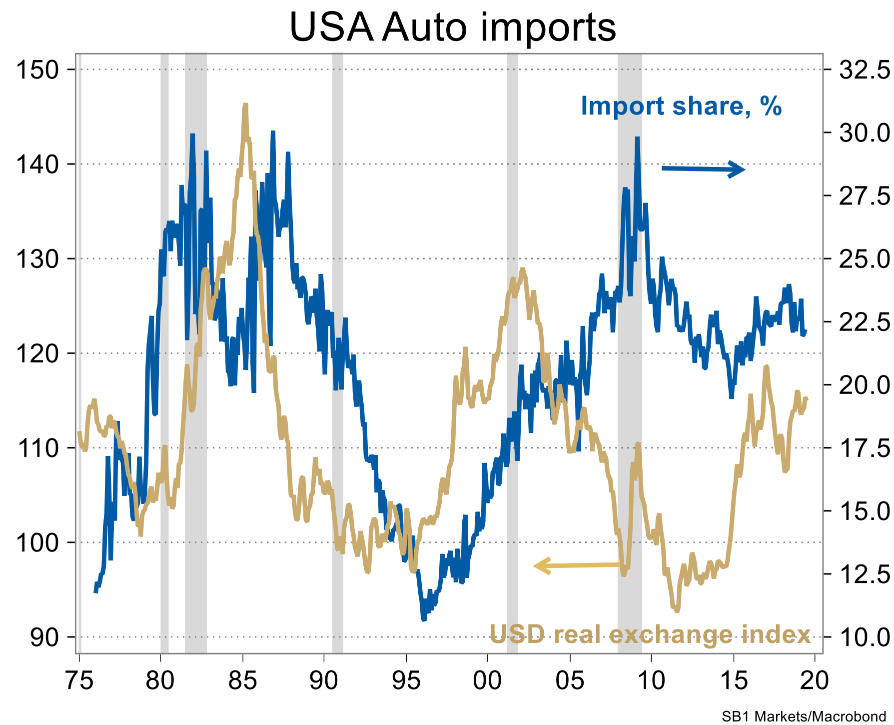




Auto sales flat in June, trend still slowly downward?

Sales have recovered from the April slump, and was better than expected in June



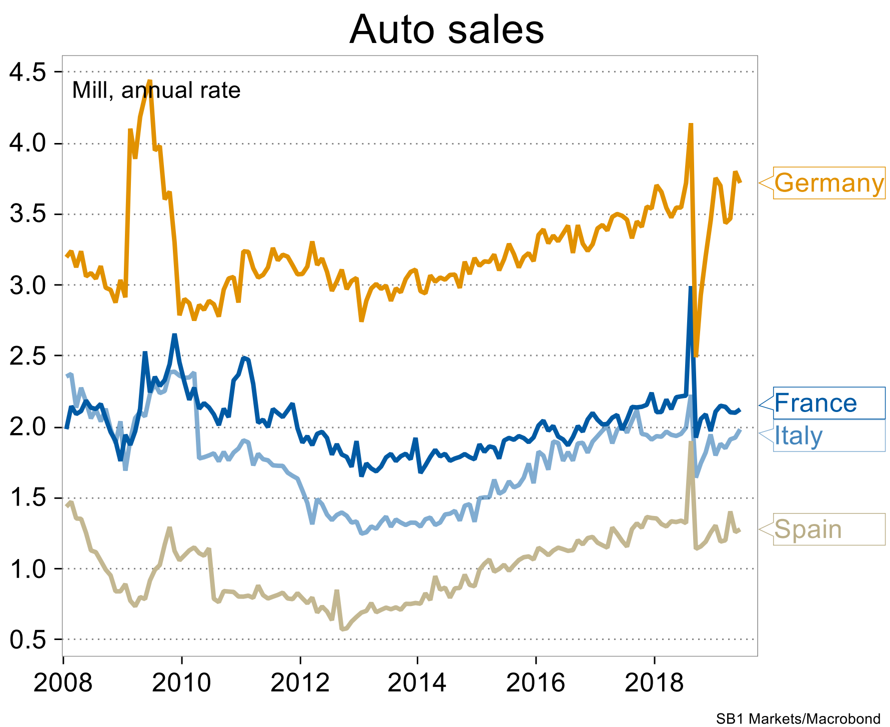


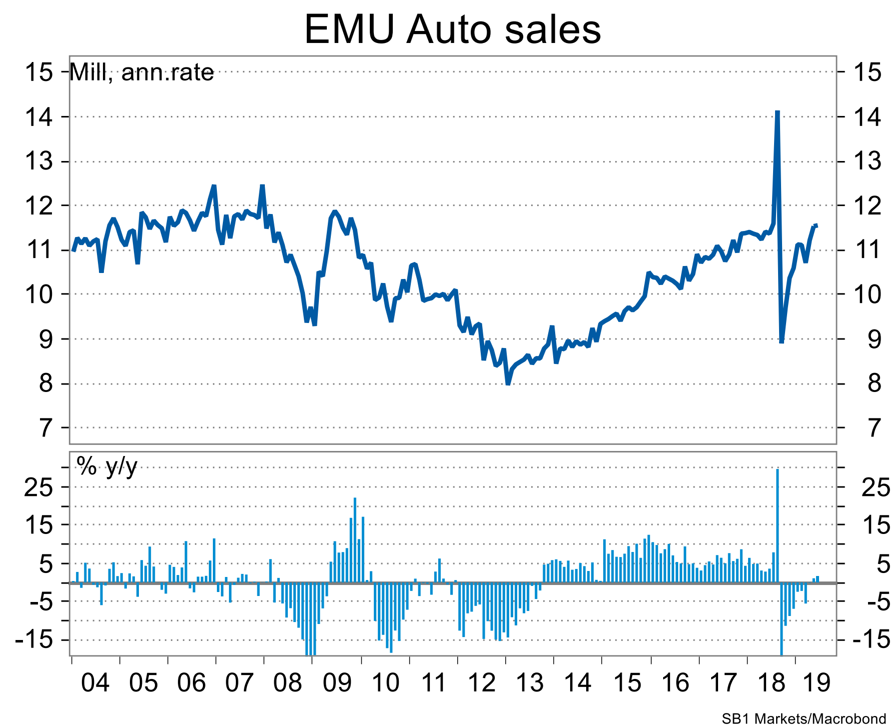
- Sales rose just marginally in Q2, after a weak Q1 and are down 1.3% y/y. The trend is pointing marginally down
- The import share rose marginally in May (no June data yet). The share has increased somewhat past 3 years, and at 22% it is above the long term average – but it has been far higher several times before. The sharp USD appreciation to 2017 from 2012 may explain the increase. The USD is some few % above the long term average
- In May, Trump announced a 6 months postponement of the decision whether 25% tariffs should be applied to auto imports (excluding from Mexico and Canada)

SpareBank 1 MARKETS

EMU: Auto sales probably close so stable June, Q2 almost back at 2018 level!

Sales rose in France, Spain and Italy, a moderate decline in Germany dampened total EMU growth

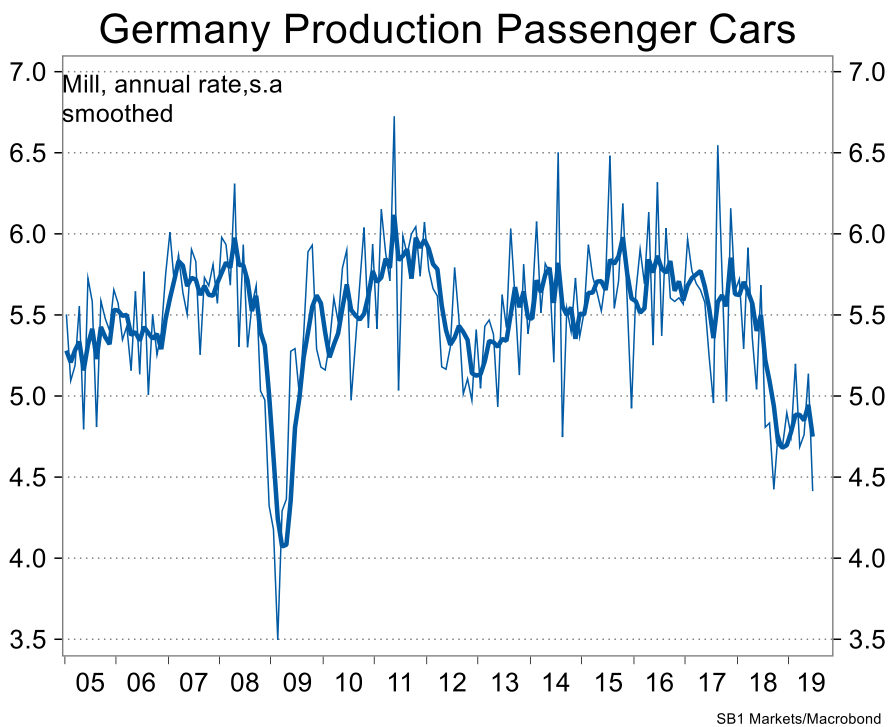


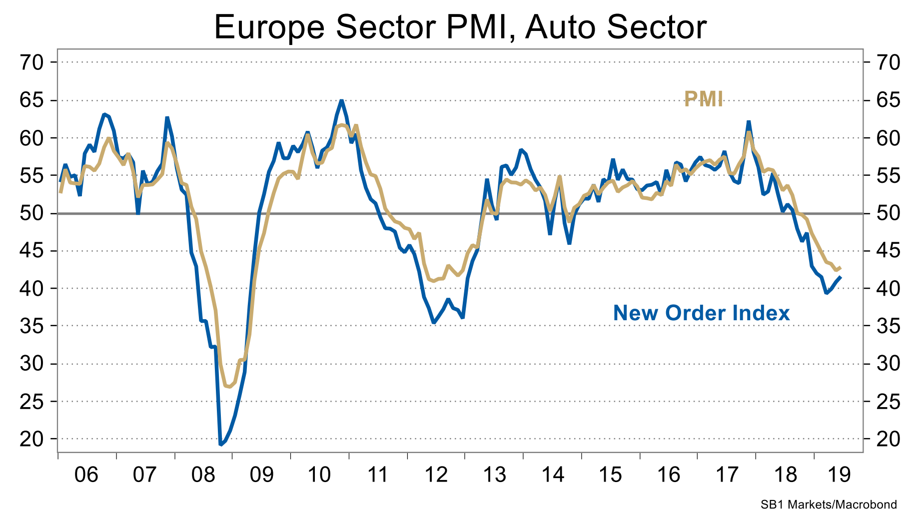


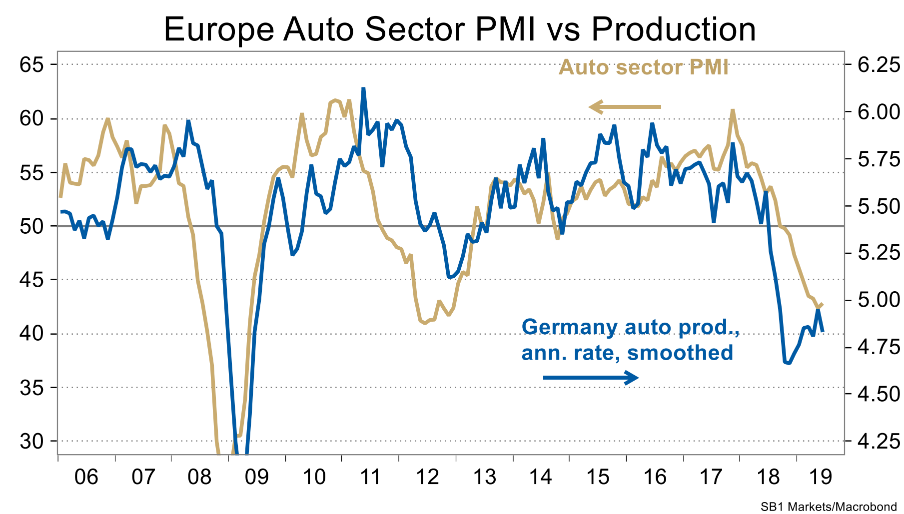
- German May sales were the highest since the pre emission rule change last September – and then the highest since the heavily subsidized record high sales after the financial crisis. The trend is clearly up – and has been so since the local bottom in late 2012
  - » Italian sales are trending up too (!) but just since last autumn, while sales in France and Spain are flattish
- EMU sales are not at or even slightly above the level before the emission regulations hit last summer. German auto production is some 16% below the pre-regulation level. Incredible!

'Full stop' in Germany auto production in June, even with high EMU sales

In June, German auto production was down 23% from last summer, while EMU sales are up!



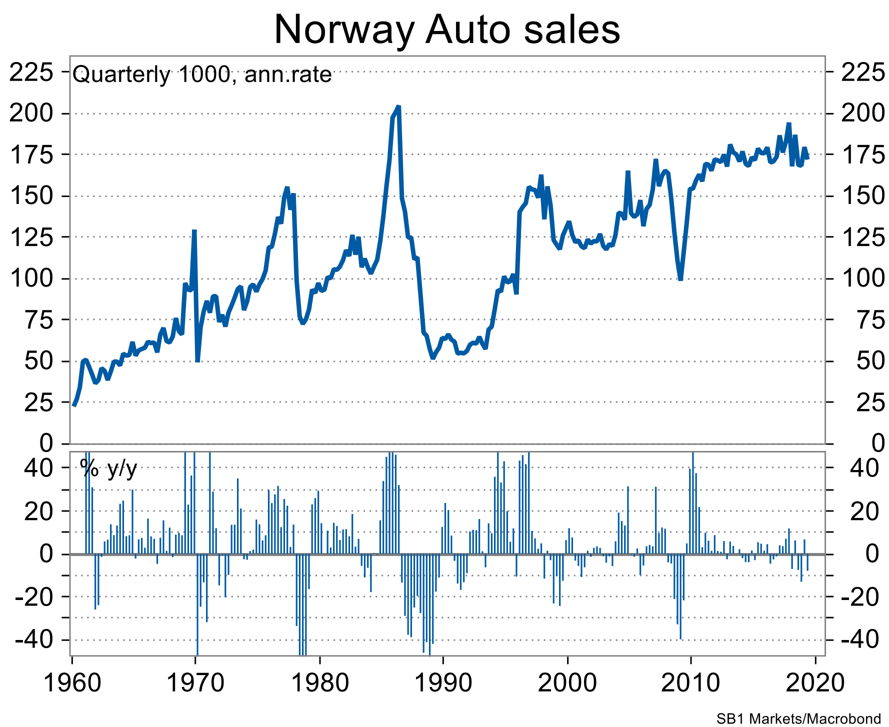


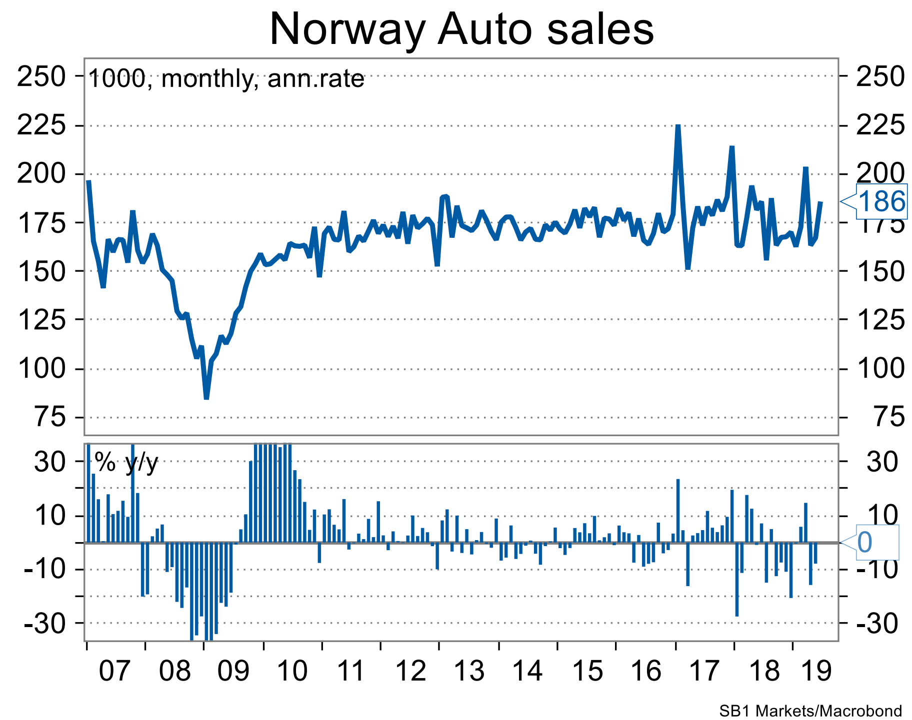


- German auto production is down some 16% if we smooth data somewhat, still an incredible number, given auto sales in Germany, EMU or even the world
- The EMU auto sector PMIs are not reporting any recovery, at least not in May

Auto sales up in June but slightly down in Q2

Monthly sales are osculating due to supply bottlenecks – which also may explain a downward trend

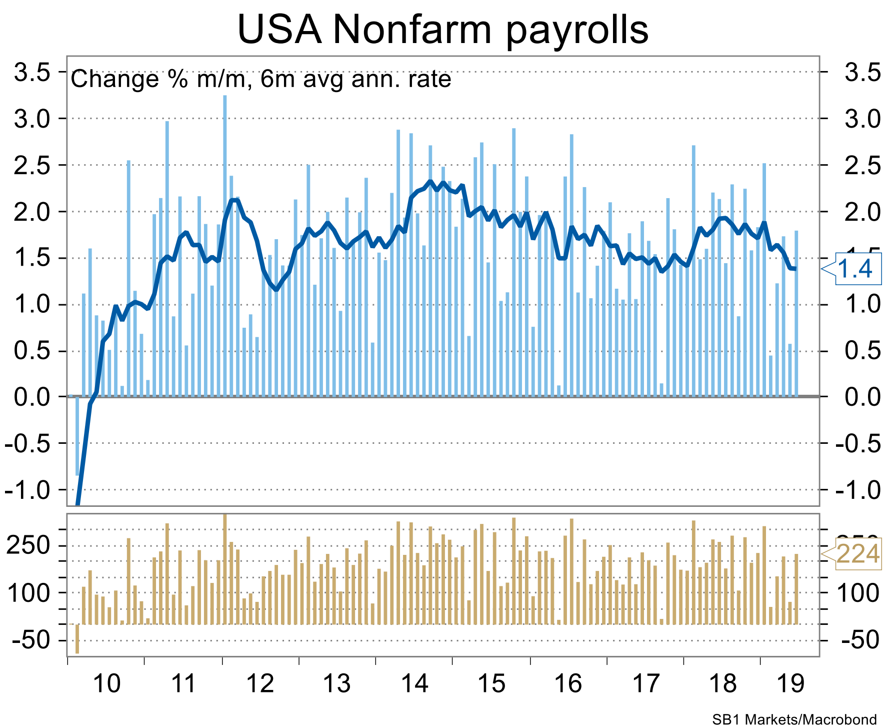


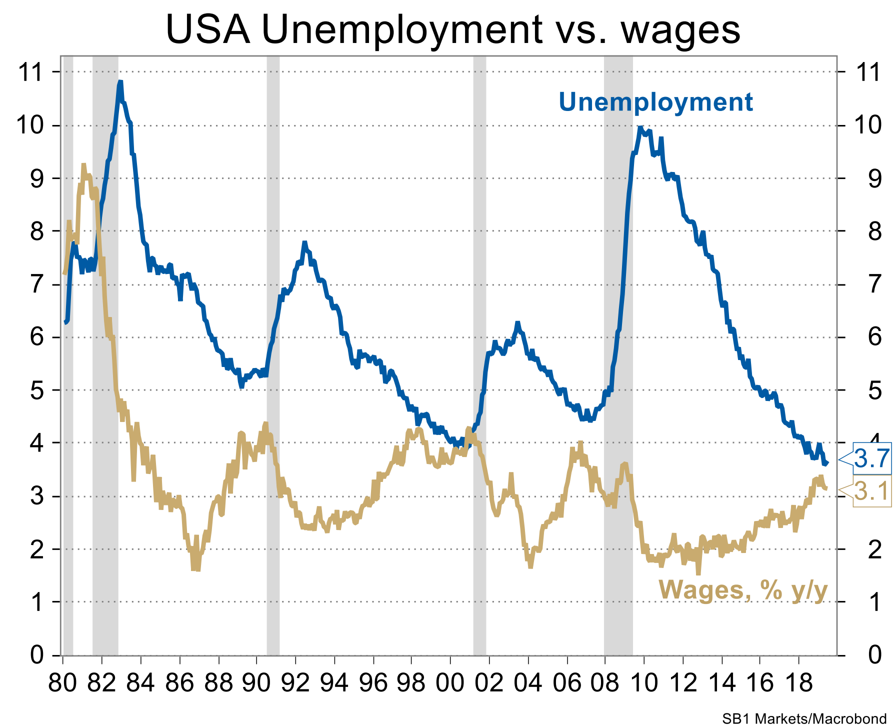


- First time registrations rose to 186' in June, from 167'in May
  - » Monthly registration figures have been more volatile than normal (barring impacts from changes in taxes in some December/Januarys) due to heavy supply bottlenecks, especially for the popular EVs that now constitutes almost half of auto sales – probably the highest share in the world
  - » There are still long waiting lists for many popular electrical vehicles, and the actual level of new registrations may still be lower than the actual sales rate – at least there are many cars to be delivered coming months
- Still, the trend in sales are pointing softly down the past year and is flat since 2011-2012

Employment bounced back, dents expectations of Fed July cut, at least a 50 bps

Employment up 224' in June, easing fears of a labour market slowdown. Wage growth flat at 3.1%

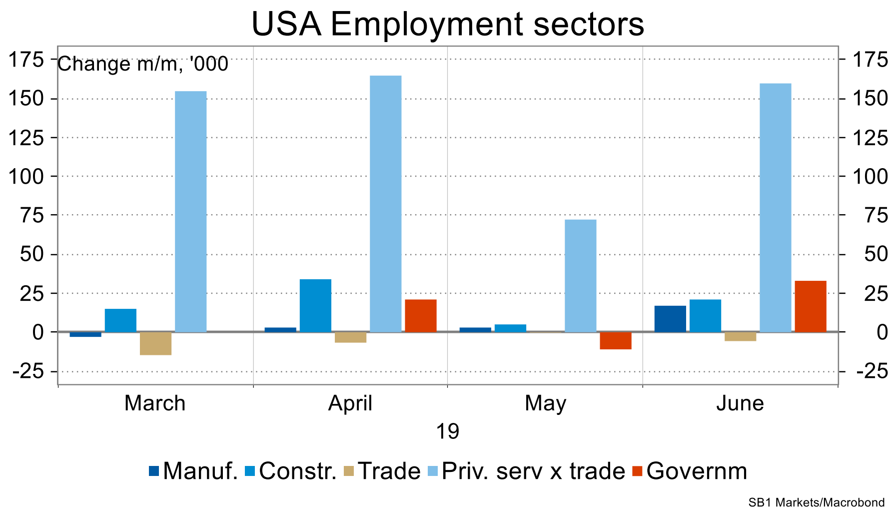


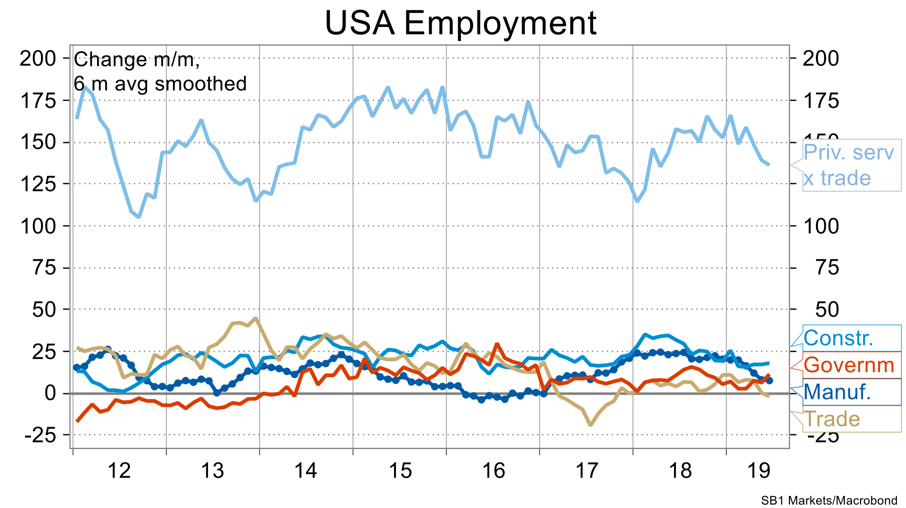


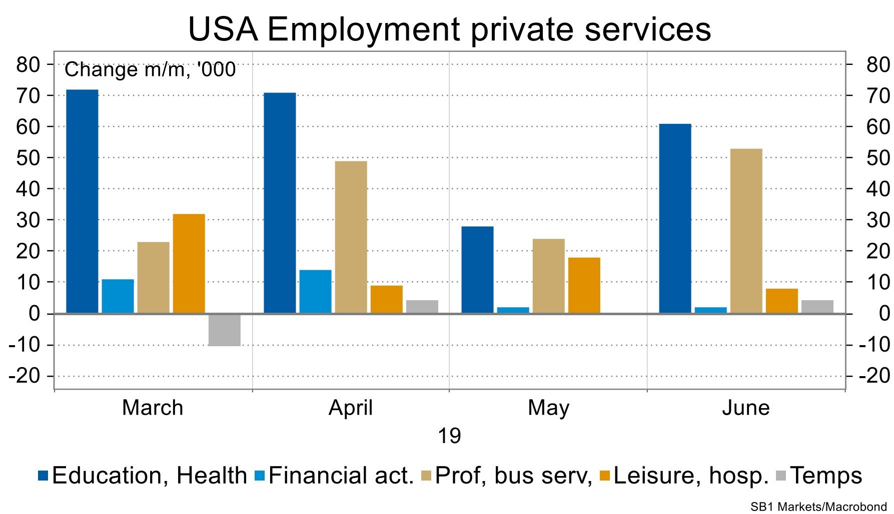
- **Employment** rose by 224' in June, well above expectations at 160', following the disappointing 72' May reading (revised down 3'). In avg, employment rose by solid 148' persons in May/June. Still, growth has no doubt slowed gradually, the 6m m/m average was flat at 1.4%, down from 1.8% one year ago
- **The unemployment rate** ticked up to 3.7%, from 3.6%, but the increase was just 0.05 pp – and the trend is still down
- The uptick in unemployment was due to a marginal increase in the labour market **participation rate**, to 62.9%, as the employment rate was flat. The participation trend is still completely flat, <u>the labour market is tight but the aggregate supply side is not responding</u>
- **Wages** rose just 0.2% m/m 0.1 pp less than expected. The annual rate held steady at 3.1%, wage inflation has eased somewhat recently, broadly
- Overall, these data confirms that the **labour market is still strong**. In fact, the June reading may have been 'too hot' for risk markets (equities fell, bond yields spiked following the report), as it casts some doubt on the expected Fed cut on July 31. A 50 bps cut should now completely off the table. **Under doubt, we still expect a 25 bps cut in July, because so many FOMC members has hinted so. The market takes 20 bps for granted**

Broad employment upswing in June, just retail trade weak

Private services back to a 'normal' speed, strong growth in government hiring



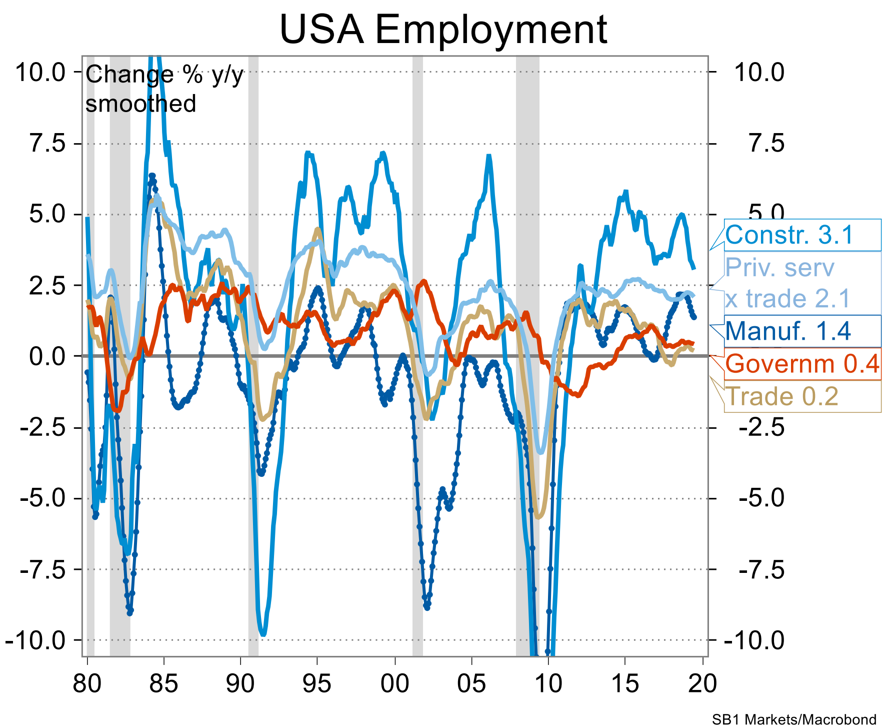


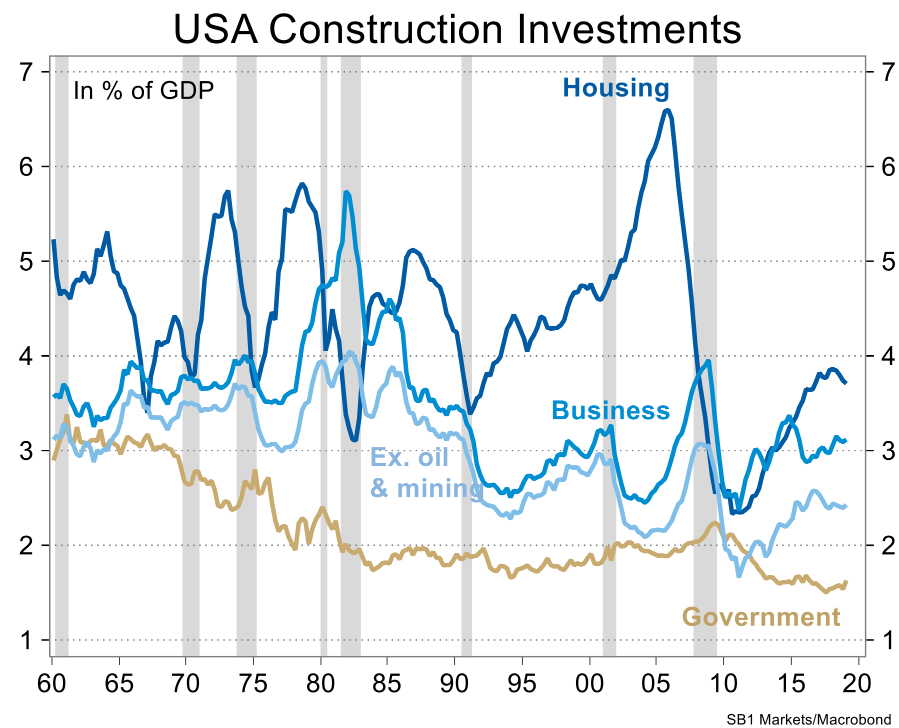


- **In June:** Private services bounced back (health/educ & prof. serv), manufacturing and constriction showed solid gains too. Government employment expanded more than usual. Just retail trade sectors fell
- **Recent months:** Employment is still growing in all sectors but trade, which is stagnating. Both manufacturing and private services have slowed, construction is easing somewhat too. Government stable
- **Big picture:** Manufacturing, construction both peaked in H1 '18, but construction is still growing faster than normal. Private services x trade recovered last year but is now slowing again. Trade has been week since 2016

Construction is still the fastest growing sector (in %). For how long?

Housing investments have most likely peaked, just oil has kept business construction invest. up…

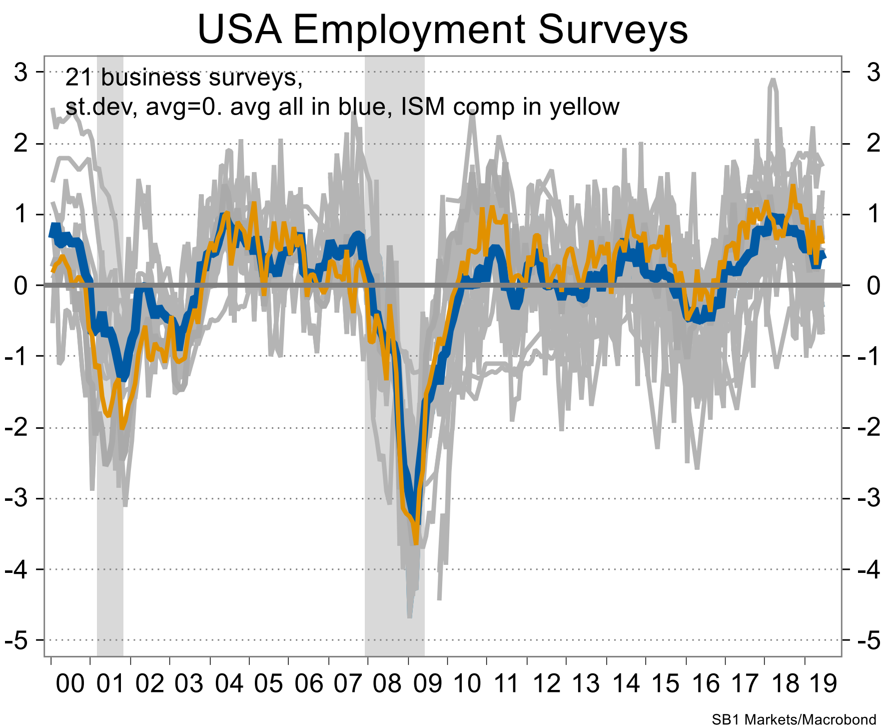


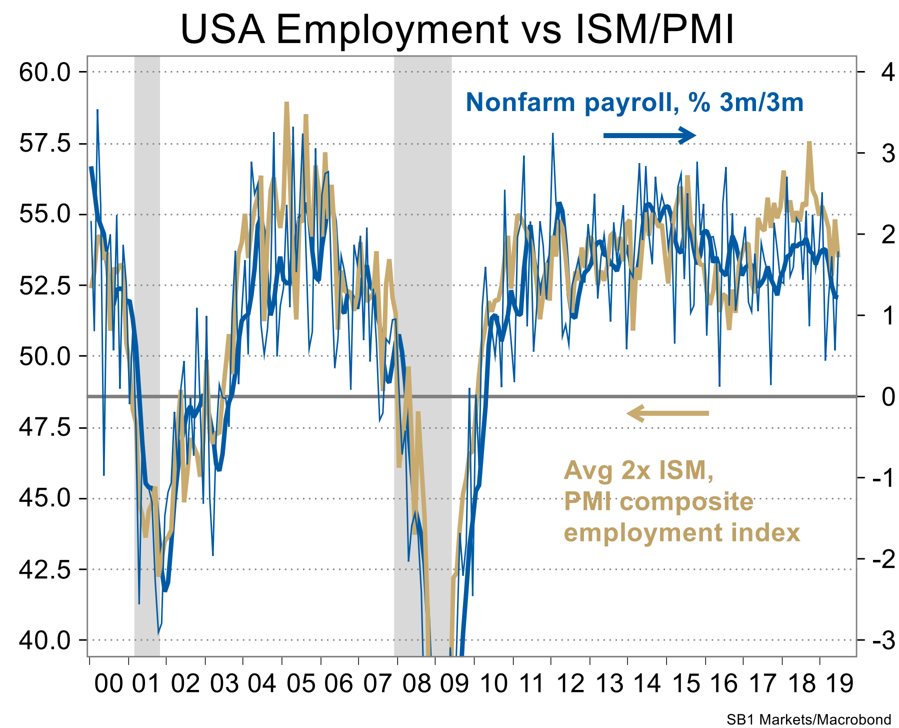


- Public construction is probably too low, but will most likely remain low – as long as nobody will pay taxes to pay for them
  - » … and growth in government employment is not that impressive either

Employment surveys are softening but still well above average

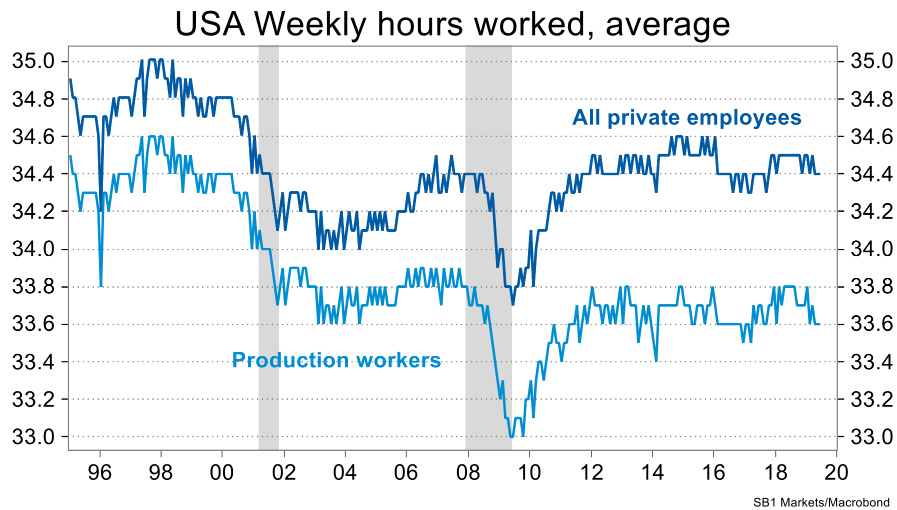
… and they are still signaling employment growth above average

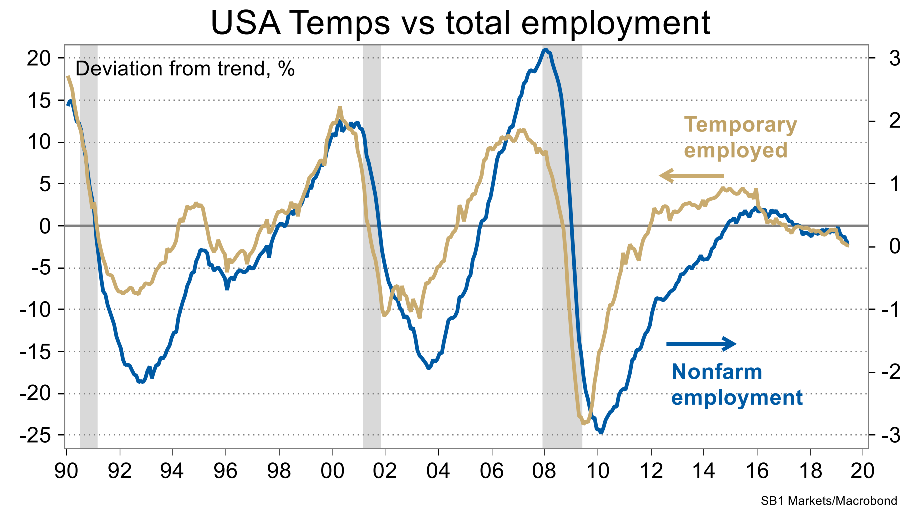


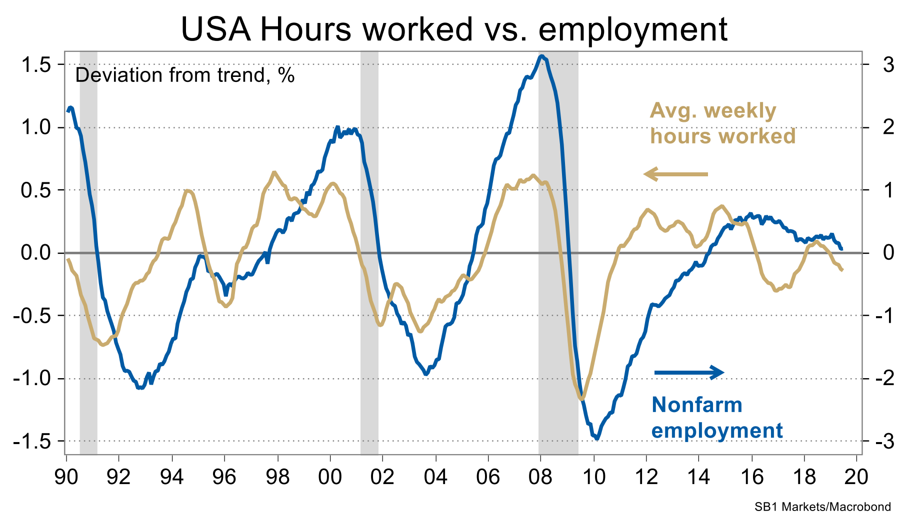


Weekly average hours unchanged, slightly down recently

The long term trend (from 2012) is quite flat



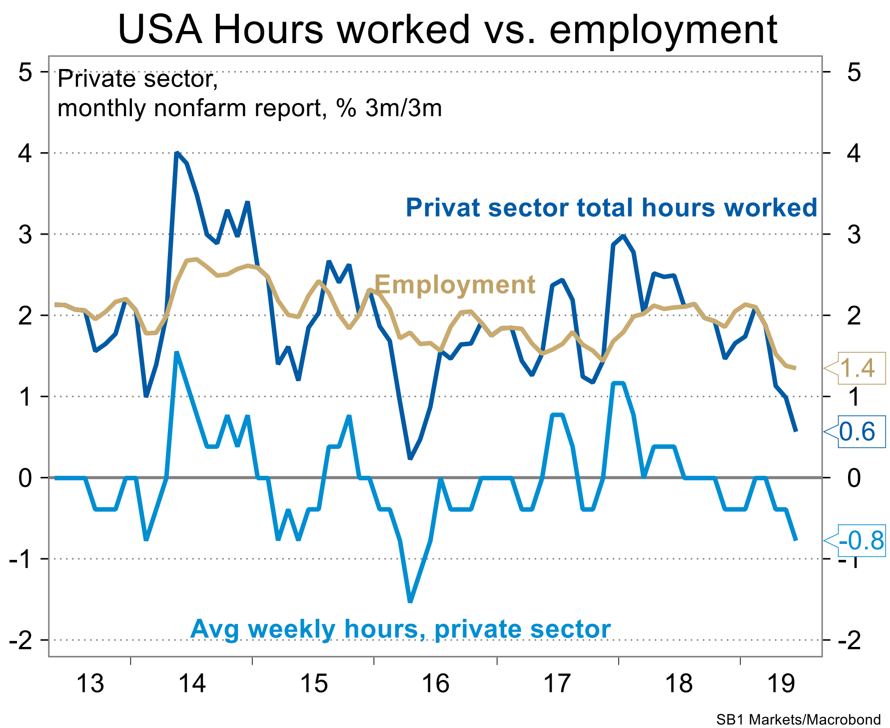


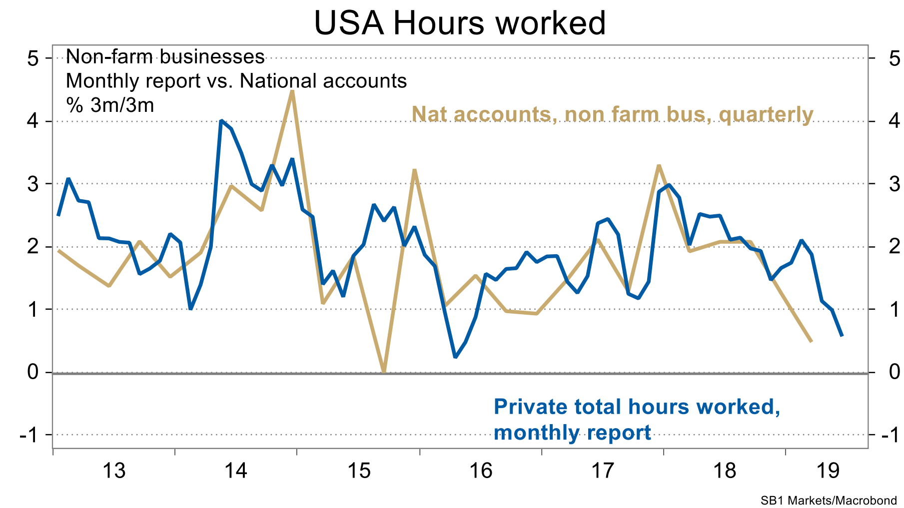


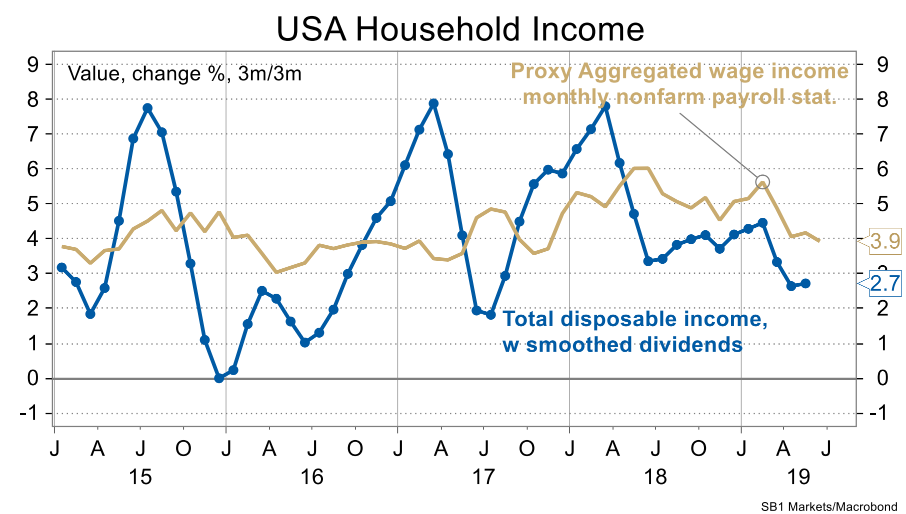
- Average weekly hours worked have slowed since last summer and is now growing just below trend
- The number of temps is waning, usually a leading indicator for future slower total employment growth

Avg hours are declining, employment is slowing: Q2 hours worked up just 0.6%

National accounts may report a different figure but growth in hours worked & wage income slow

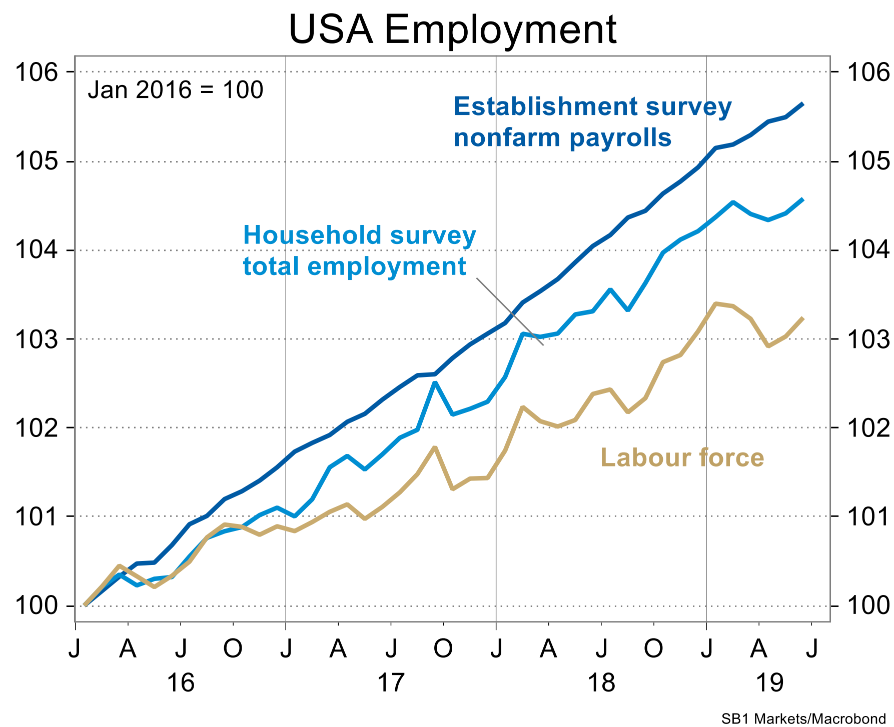






Household survey confirms somewhat slower employment growth

Total employment rose by 247' according to the Household survey, after slowing in the spring

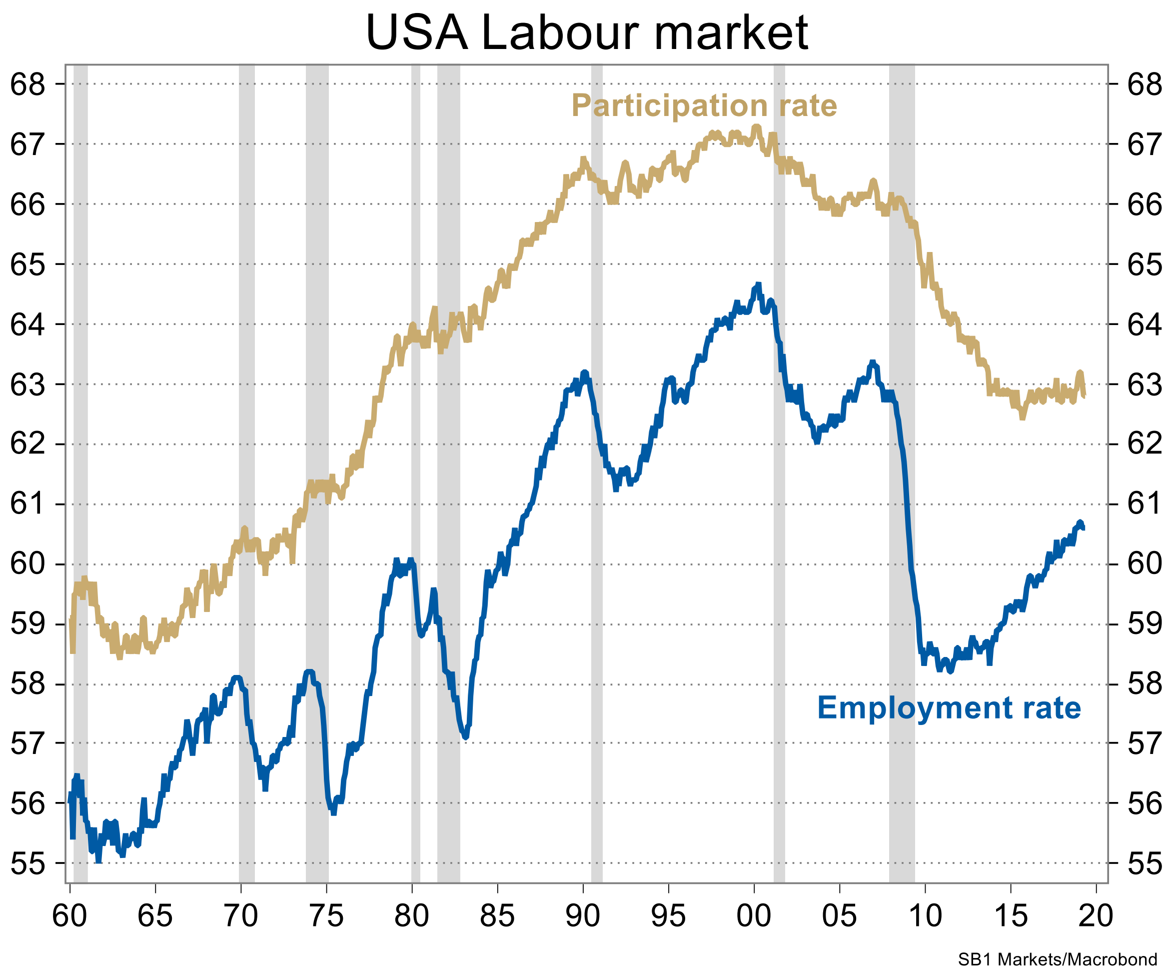


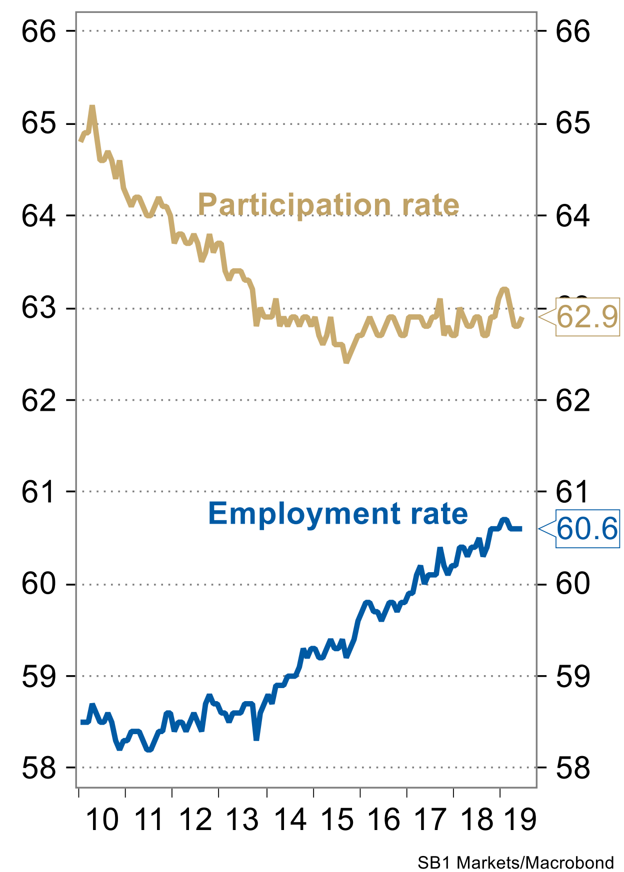
- Household data have reported a marginally slower growth in employment than payrolls, but growth has not slowed dramatically
  - » Total employment grew by 247' according to the LFS ('AKU'), while employment defined as the payroll report fell by 596'
- The labour force rose in June, but just trending flat so far in 2019. The participation rate has fallen back to a normal level, check next page
- Monthly household survey employment data are more volatile than nonfarm payrolls data, and not useful from month to month (and in some months the payrolls data are not representative either!)

Household survey data are adjusted for the 800.000 downward revision of the 16+ year population from Jan. 2019 (due to lower immigration than assumed)

Participation inched up in June, trend still dead flat – at a rather low level

The participation rate was turning up, now all of it is reversed! Supply is not responding at all?

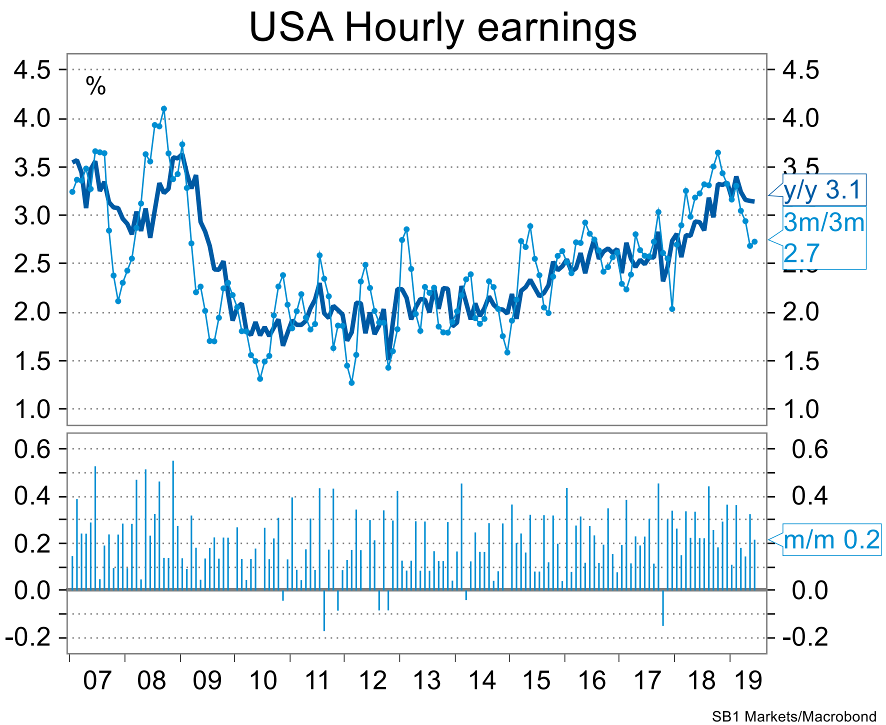


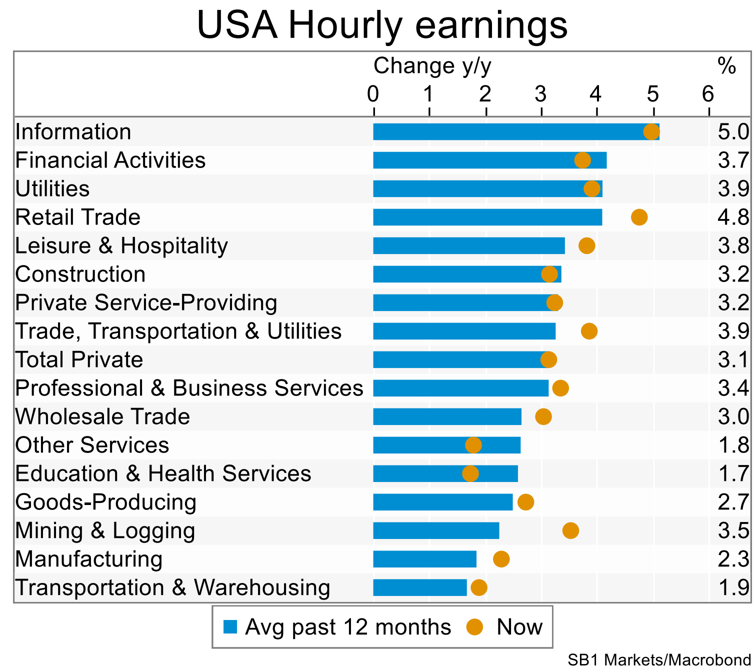


The employment rate has been unchanged at 60.6% the past 3 months. The level is well below the pre-financial crisis levels

Wage growth is cooling somewhat, missing f'casts once again in June

Wages rose 0.2% m/m, 0.1 pp below expectations and the annual rate was unchanged at 3.1%



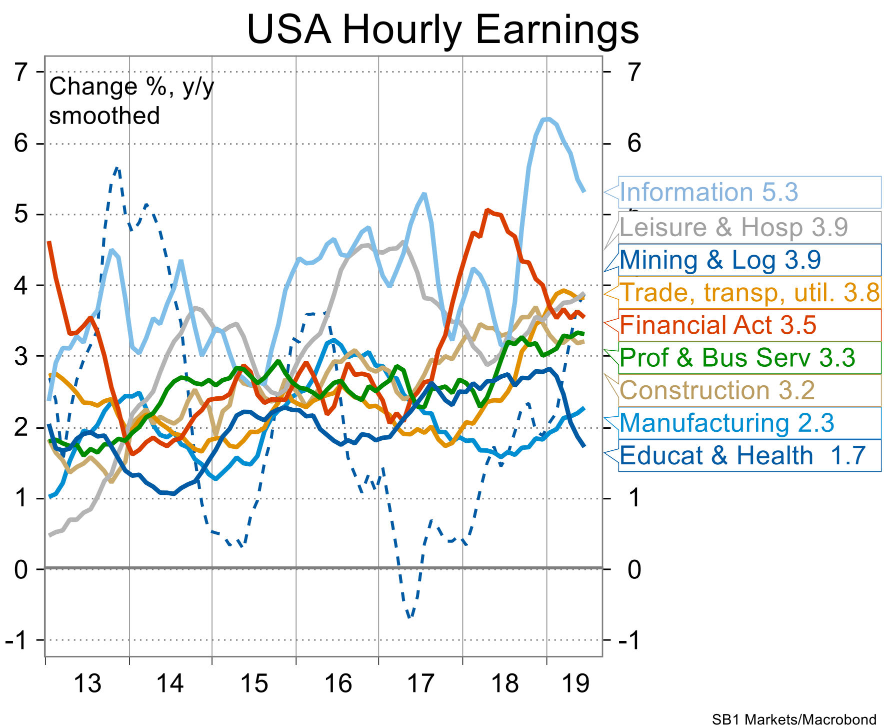


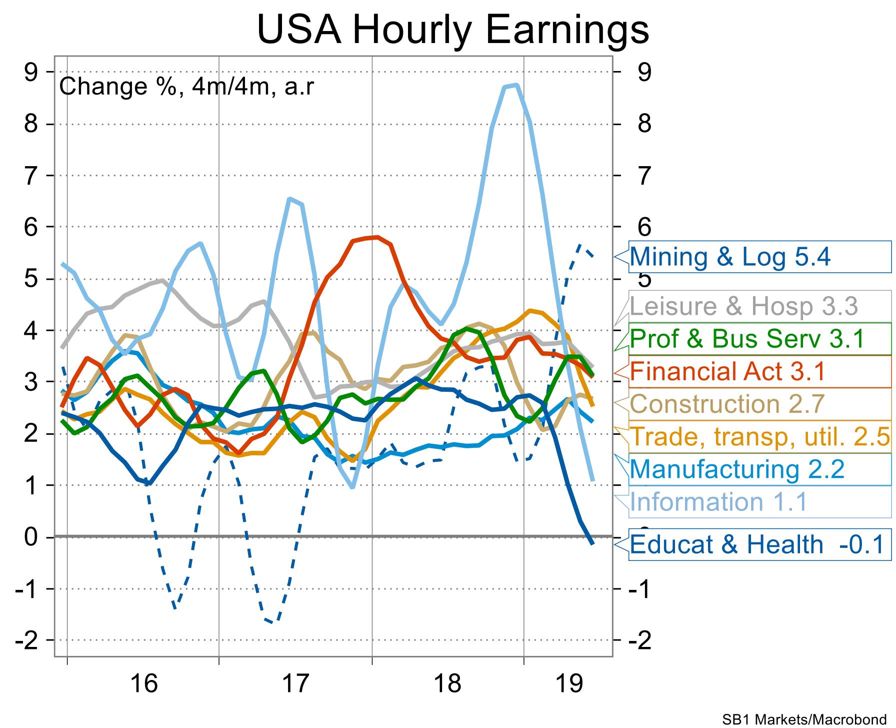
- Wage inflation is not high vs historical standards but it is not low vs. underlying CPI inflation and probably not vs productivity growth, see three pages further out. In addition, companies are not reporting slower wage growth to surveys, and a measure of median wage growth (Atlanta Fed) is not showing any weakness

- Measured by the 3m/3m, wage growth has cooled to 2.7% (unchanged in June) the lowest in more than a year, and down from a 9 y high at 3.7% in October
- Annual wage inflation is accelerating vs. a year ago in 6 sectors and slowing in 9 sectors (vs just 3 last month). Wages are still increasing the most in information and financial activities

Weakness in wage inflation in almost all sectors recently

Monthly wage inflation has slowed in <u>all sectors </u>ex mining & lodging

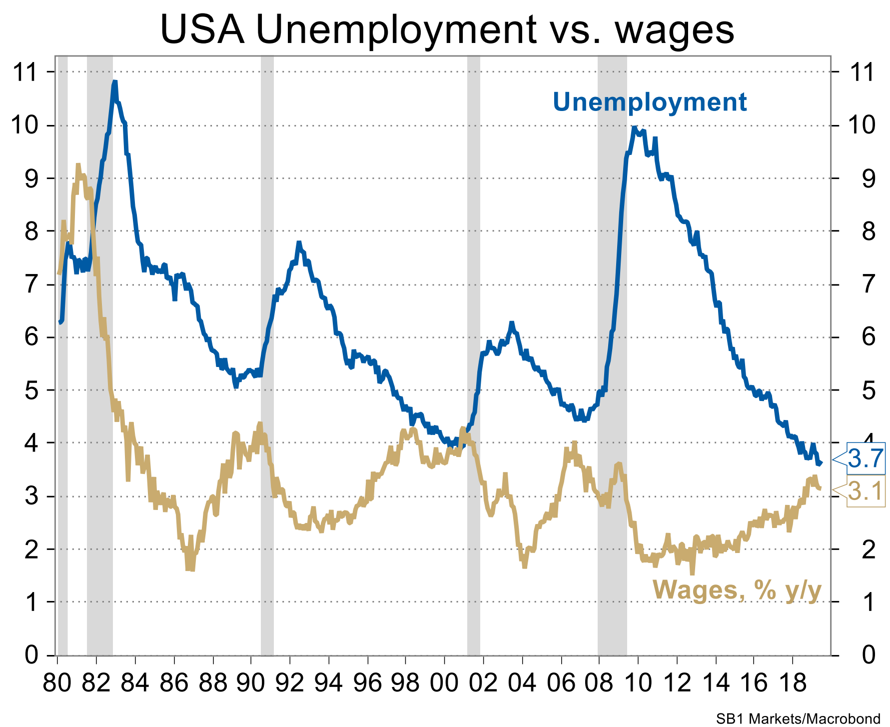


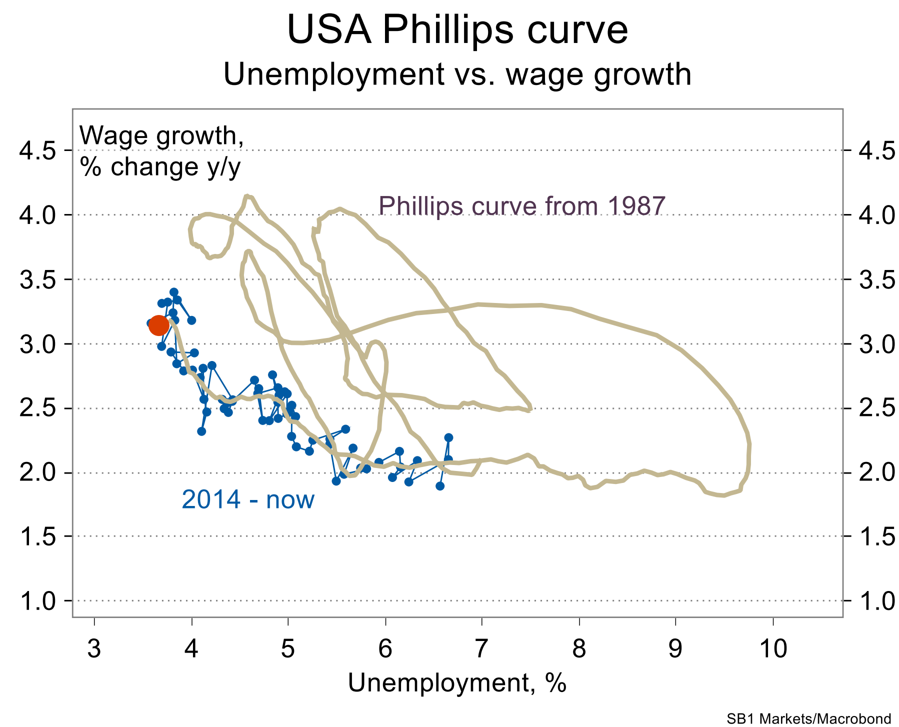


SpareBank 1 MARKETS

Wage inflation still somewhat lower than 'usual' vs. the unemployment rate

Even if the Phillips curve is flatter than before <u>it is definitely not flat</u>

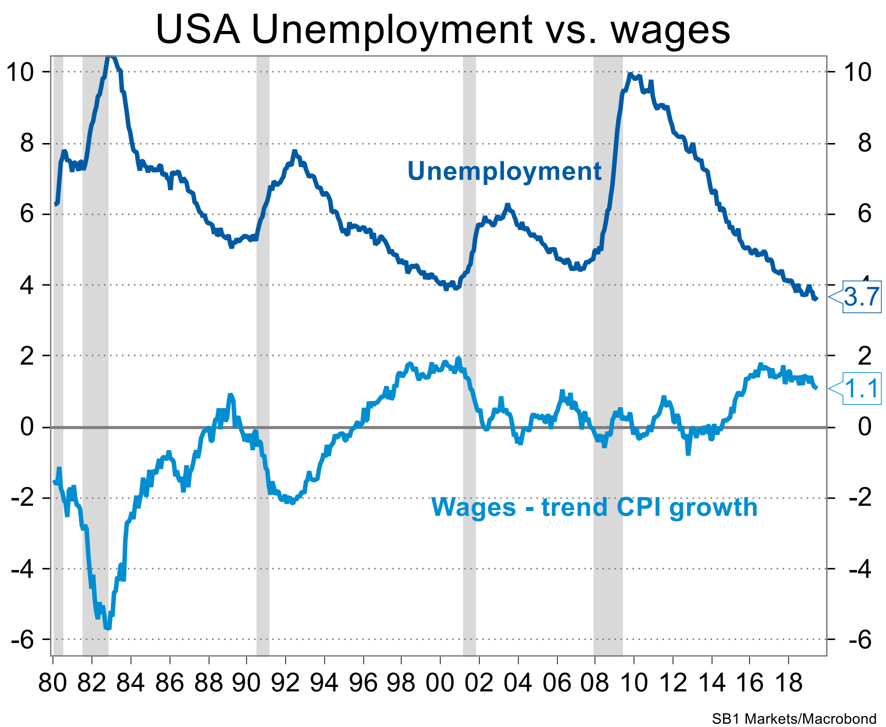


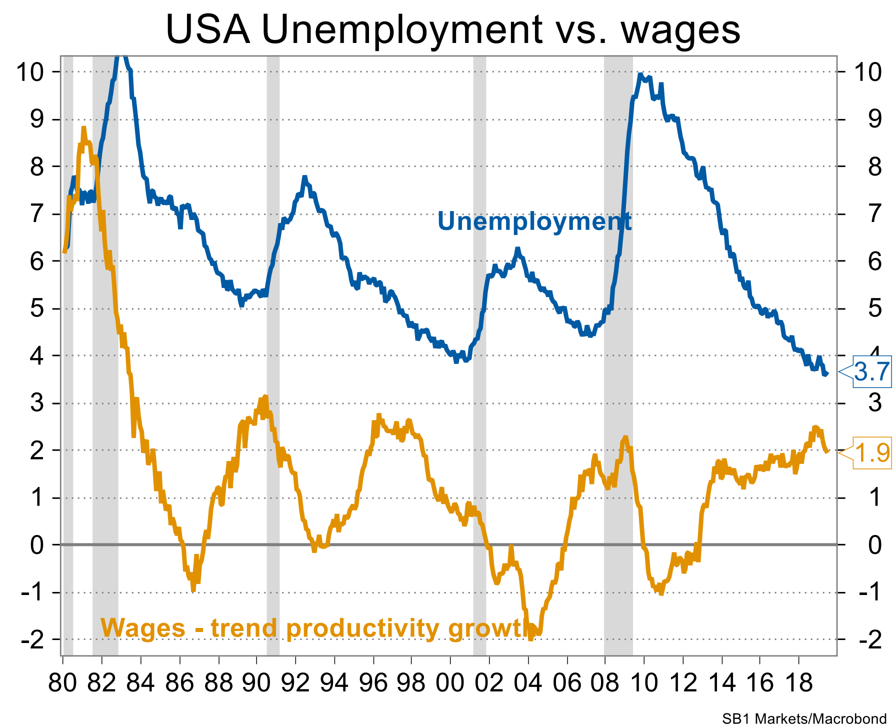


- However, we would not have guessed a wage growth at 3.1% y/y if we were told 6 m ago that the unemployment rate should decline to 3.7%
- On the other hand, if we calculate the Phillips curve using the employment rate, or the core (25-55y) employment rate, the Phillips curve is either far to the 'right' (and not to the 'left' as at the chart above) or just pretty normal

Wage inflation is not low vs. prices or productivity

In fact, real wages are increasing faster than normal, and more than normal vs. productivity

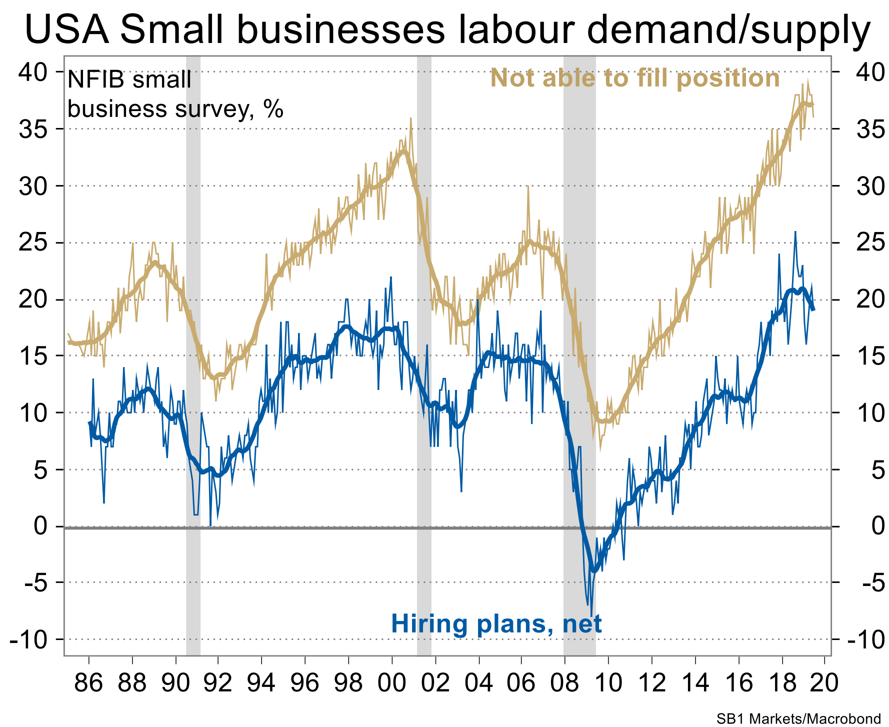


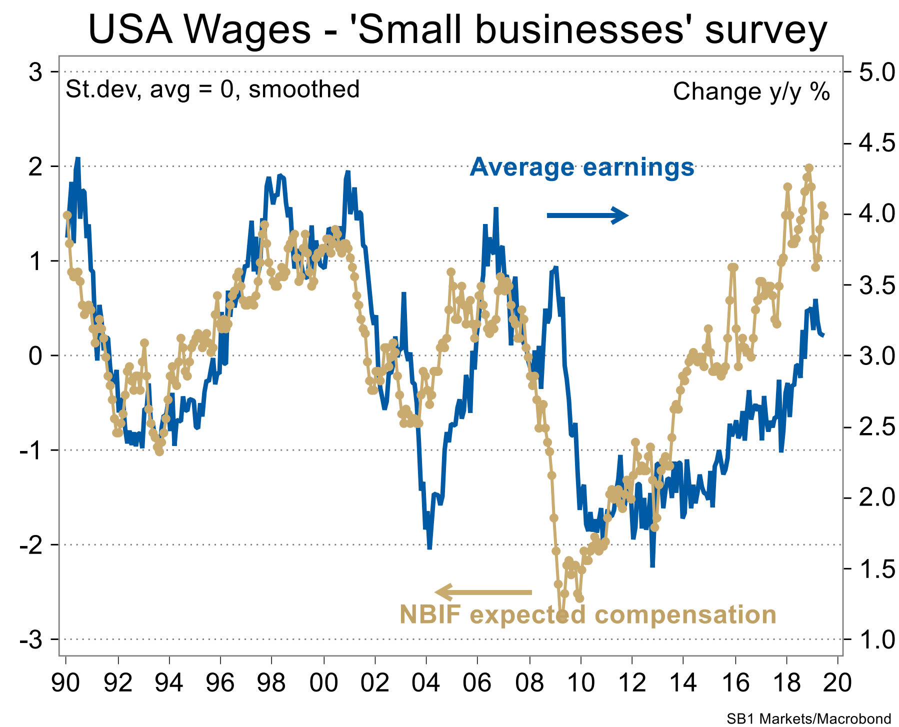


- In Q1, the wage – productivity gap, or labour cost per unit produced (ULC, unit labour cost, using the monthly wage data) fell to 2% y/y, as wage inflation slowed marginally and productivity growth picked up somewhat (we apply a 3 y average productivity growth, in order to smooth volatile quarterly productivity data). Less price pressure?

Small companies are reporting tight labour market but hiring plans have peaked?

Businesses still unable to fill vacancies and are reporting high, but not higher compensation plans

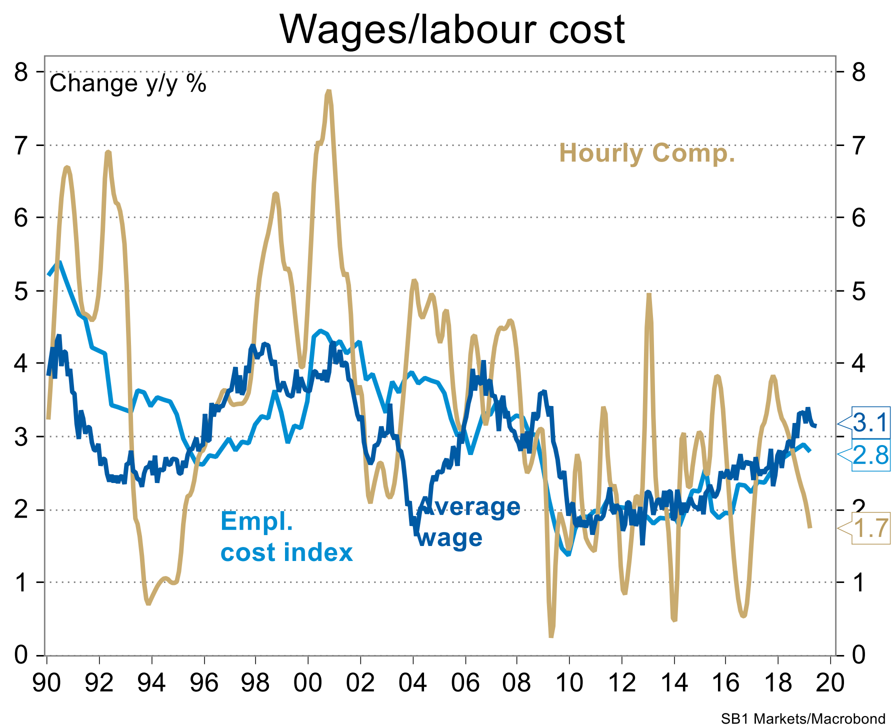


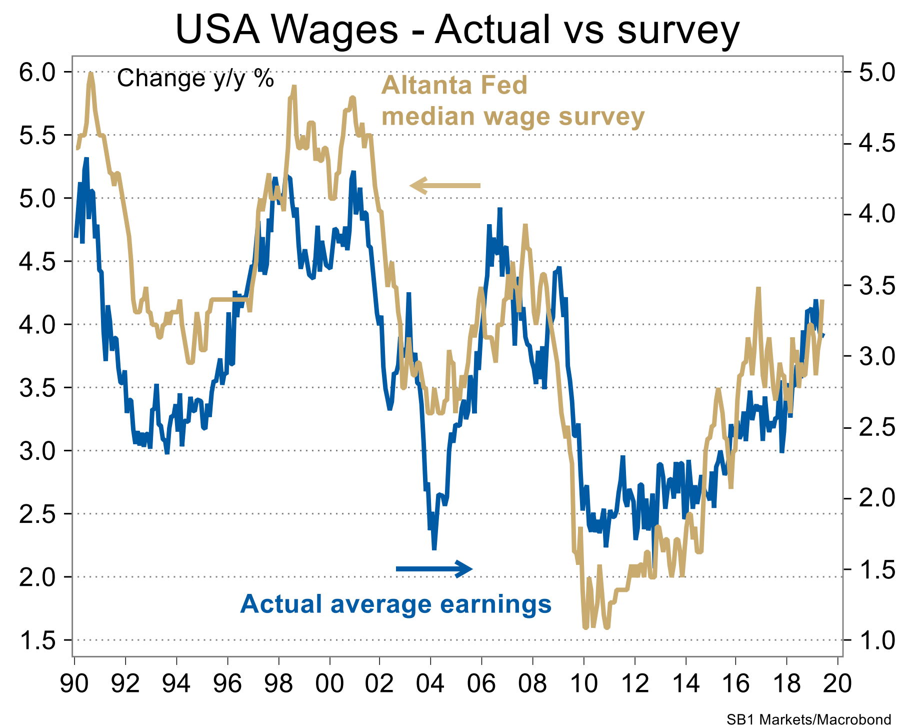


- SME companies have been reporting somewhat less aggressive hiring plans so far this year, compared to the late 2018 levels. An early sign of demand weakness? These data are volatile – and the level is still close to ATH
  - » Most likely, companies will scale back their hiring plans before they start reporting that it's easier to fill vacancies and the unemployment rate will turn up – some months before the US economy really slows (or worse)
- The companies are still not able to fill their vacancies (the share of companies that are saying so are close to record high), which may be a reason for less aggressive hiring plans. An increasingly uncertain outlook have probably contributed as well. Compensation plans were shifted down marginally in June, but remains at an unusual high level, signalling a tight labour market. However, compensation plans have not accelerated since late 2018

The long term view: Wage growth has been rising, according to all measures

Still, wage inflation has not accelerated the most recent months

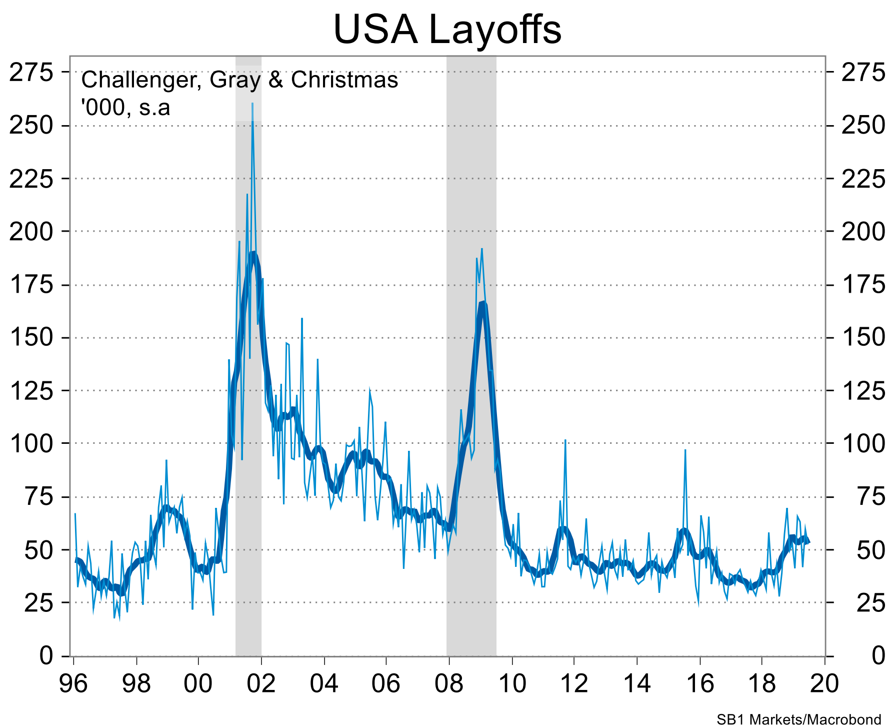


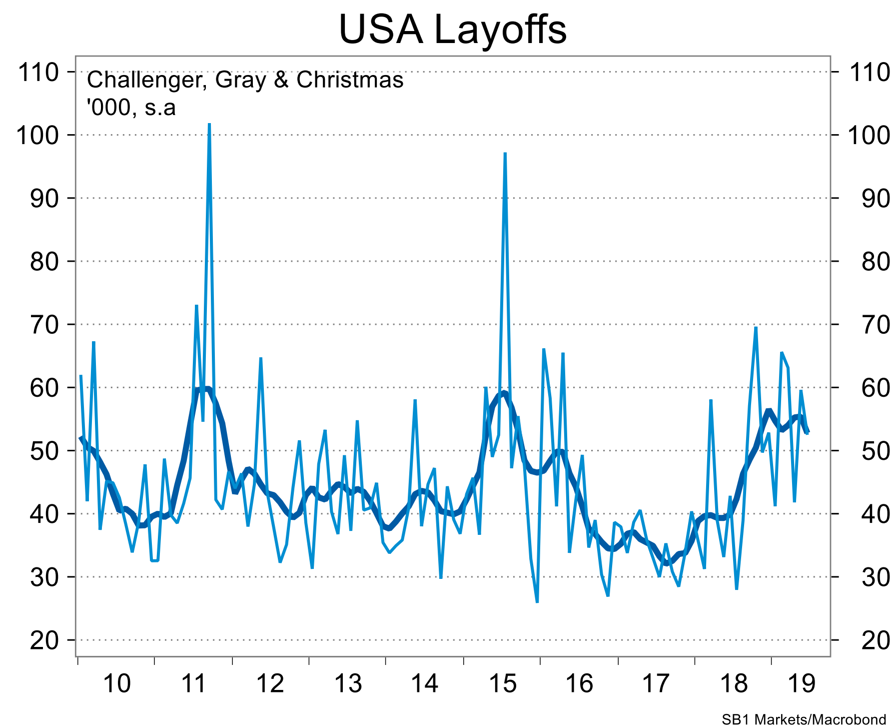


- The monthly employment cost index reports 3.1% y/y wage growth
- The Employment cost index rose 3.0% q/q annualised in Q1, up from 2.7% in Q4 and was up 2.8% y/y – is clearly accelerating
- Hourly compensation (from National Accounts) is the final assessment of all sorts of labour compensation. It is much more volatile than other labour cost measures. It rose 1.7% q/q in Q1 (from 3.9% in Q4) and the same speed y/y
- Atlanta Fed's wage survey reports 3.9% median wage growth, which normally equals the present growth in actual wages

The number of layoffs is not low anymore, could be a warning sign

Layoffs have stabilised recent months but is clearly above the normal level since the Fin. crisis

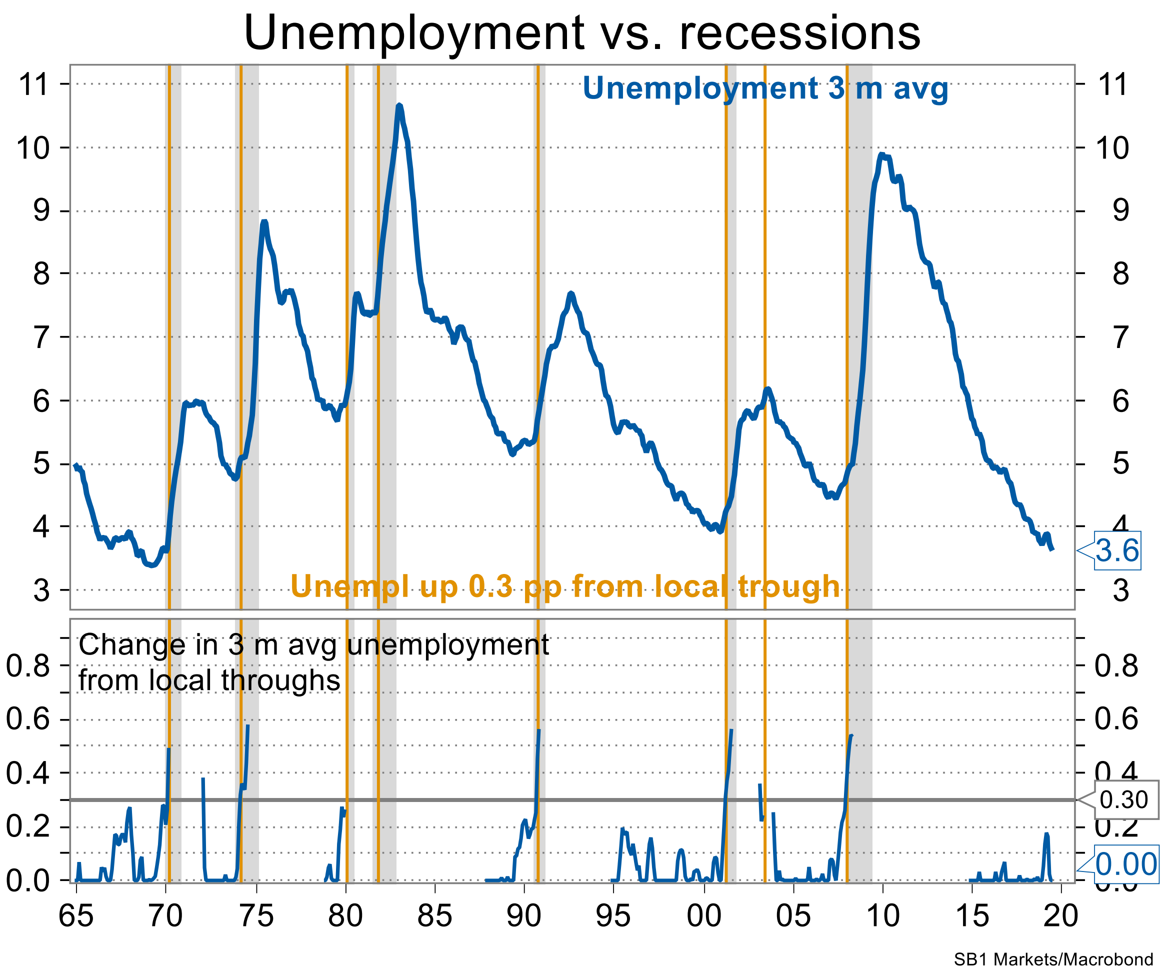




- The number of announced layoffs has been increasing since early 2018, and the level H2 19' was the highest on the way up since H1 2008. However, layoffs have flattening out the past 6 months, and the level is not particularly high. Still, the increase may signal some weakness in the labour market. Regrettably, the indicator is not consistently leading; in 2008 layoffs started to increase after the recessions started (but it was not yet declared)
- Layoffs turned up in both 2011 and 2015, both times up 50-60%. Now, we are up some 65% from the trough

Unemployment not up yet, no recession now?

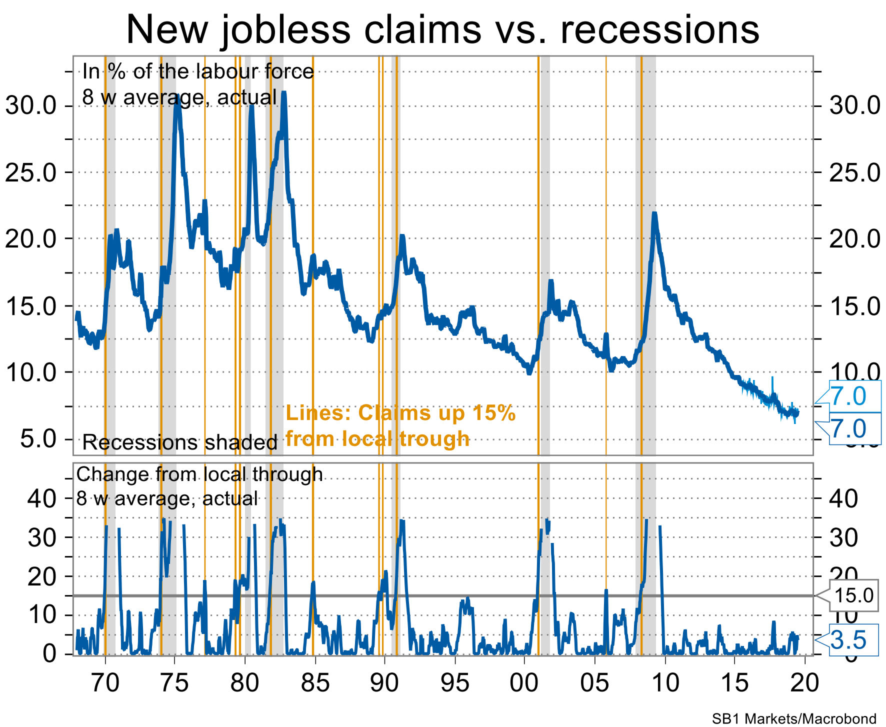
Unempolyment usually turns up as the recession hits (but not before)

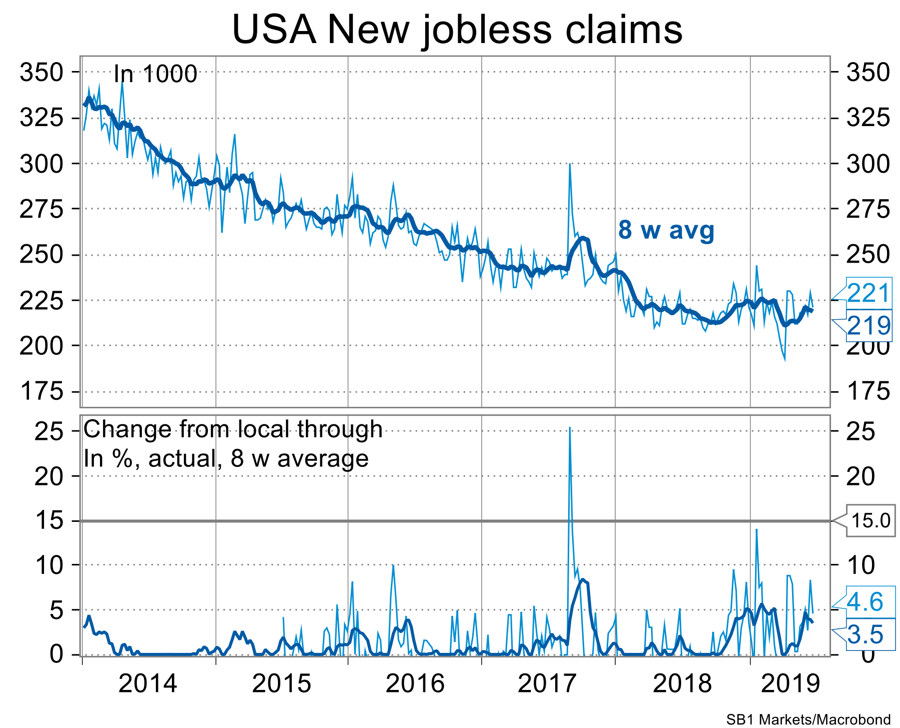


- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession signal, but has not been a good recession pre-warning
  - » Unemployment always increases substantially during recessions
  - » The often used threshold for signalling a recession is a 0.3 pp increase in the 3 month moving average of the unemployment rate
    - Just once since 1965, in 2003, unemployment rose more than 0.3 pp without a recession underway. The 7 recessions were all detected
  - » However, the 'signal' have always come too late to warn for a coming recession, at the best it has been coincident, rising 0.3 pp from a local trough at the same time as the recession starts
    - That's not that bad, as recessions are often recognised long after the fact
  - » Other transformations of the unemployment rate yield the same result
    - Sure, unemployment increases marginally before recessions, but unemployment increases quite often, without any recession around, creating many false signals if not smoothed somewhat, or the threshold lifted
  - » New jobless claims is marginally better as at recession warning indicator but not by much – and is not signalling any recession now

Jobless claims remain low, no signs of labour market weakness

Jobless claims (2 m avg) have been record low lately, reflecting a tight labour market

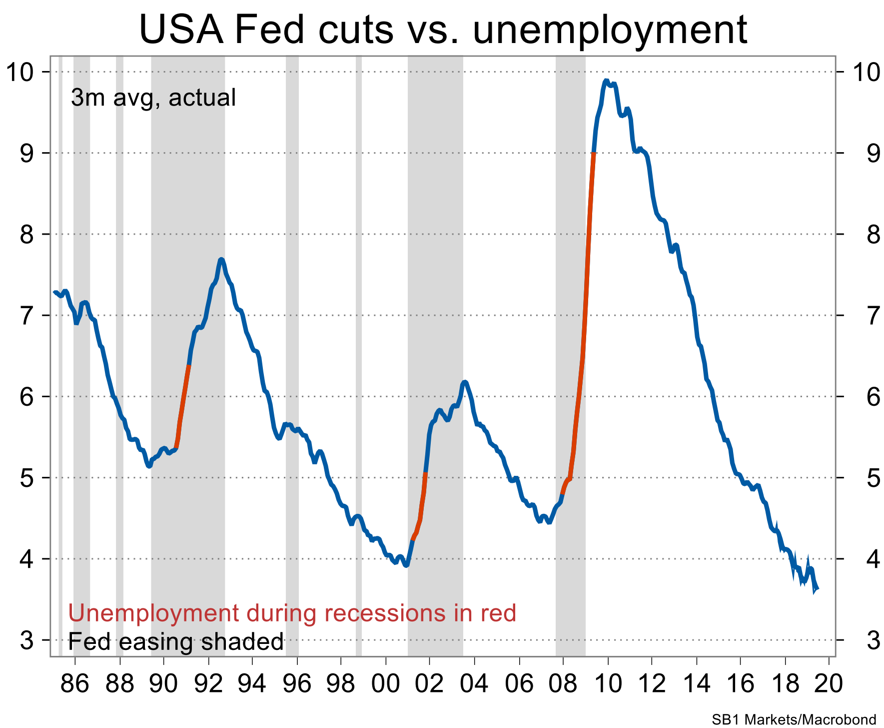


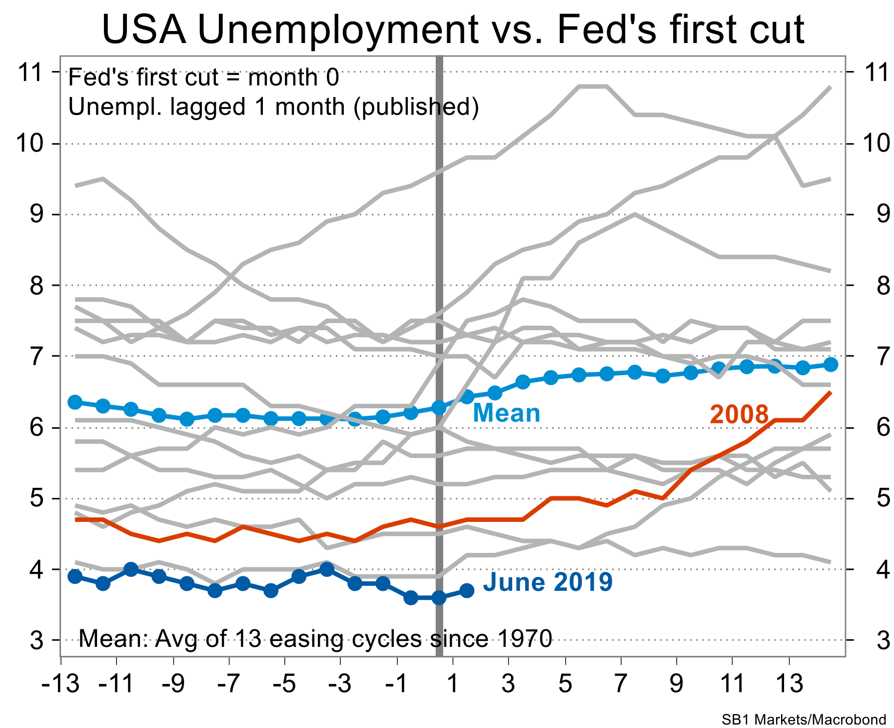


- Last week, jobless claims fell marginally to 221' last week, from 229' the prior week and up just slightly from the bottom at 193'in mid-April (the lowest since 1969!) The 8 week average is still very low, at 219'
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually 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?

When can the Fed start cutting: It can, now

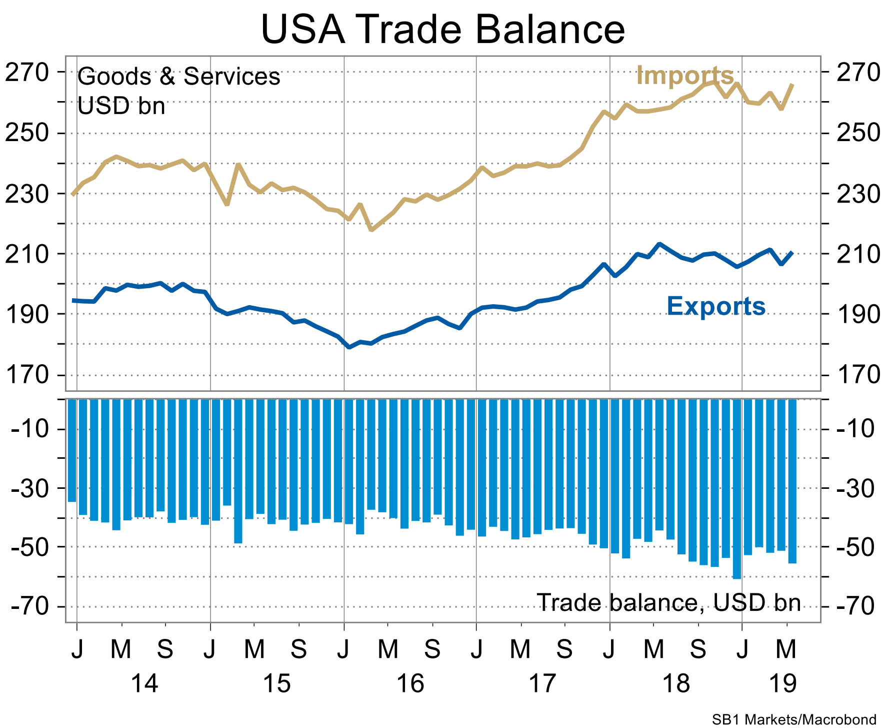
In average, Fed waits until uemployment has edged up but *has often cut before any weakness is seen*

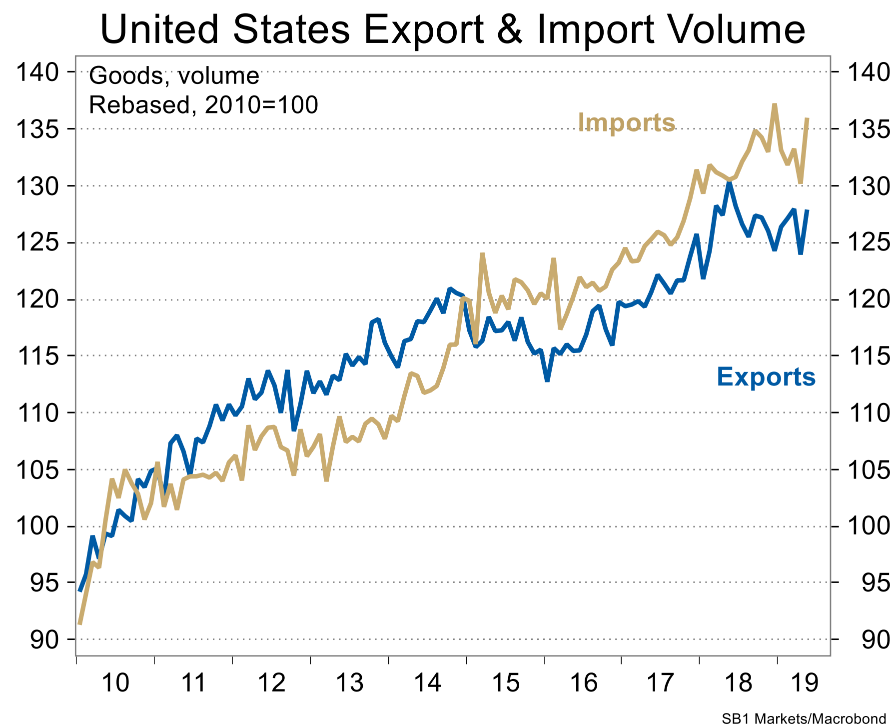




The trade deficit widened in May as imports surged; will be a drag on Q2 GDP

Imports rose more than exports in May, no signs of a shrinking trade deficit

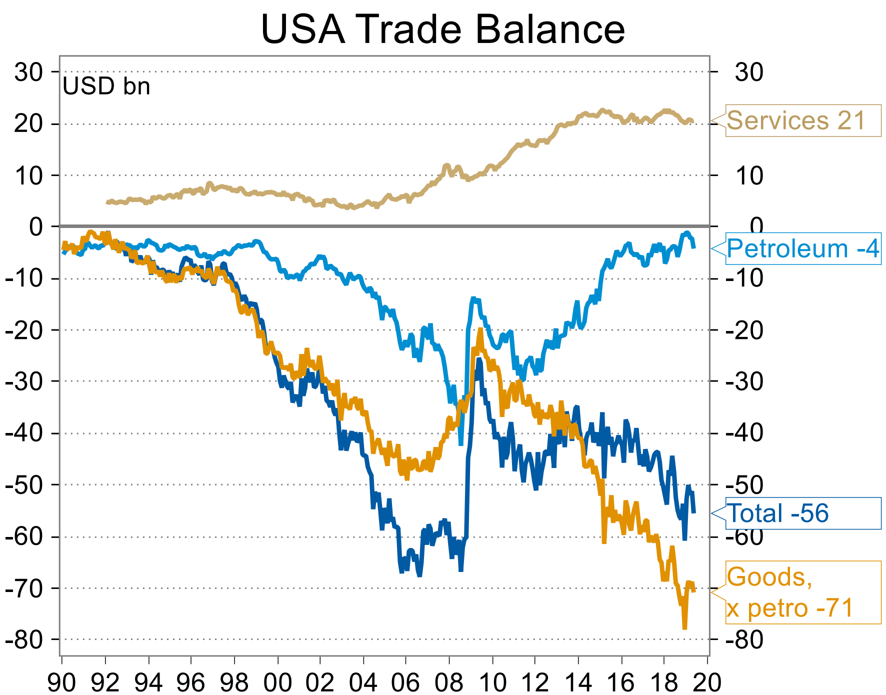




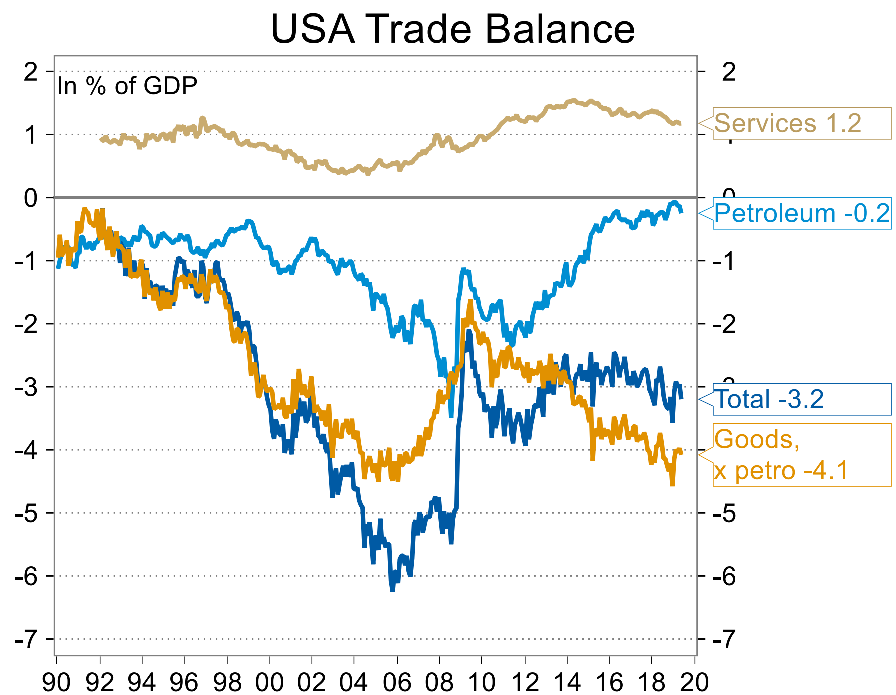
- The overall trade deficit widened to USD 55.5 bn in May, the highest since Dec, net trade will be a substantial drag on Q2 GDP growth
  - » Imports spiked 3.3% m/m in volume terms, the highest monthly rate in 4 years. Possibly due to the escalation of the trade war
  - » Exports increased in both value and volume terms too, up 2% in volume. Exports are trending slowly down the past year – no trade war boost!
- The deficit vs. China is reduced (albeit it has widened somewhat the past two months), no doubt due to the trade war, as imports from China is sharply down – but the overall deficit is not cut

If not for petroleum, a ‘catastrophe’, total deficit 3.2% of GDP, it used to be 6

The goods deficit ex petroleum is still very large, at 4.1% of GDP



SB1 Markets/Macrobond

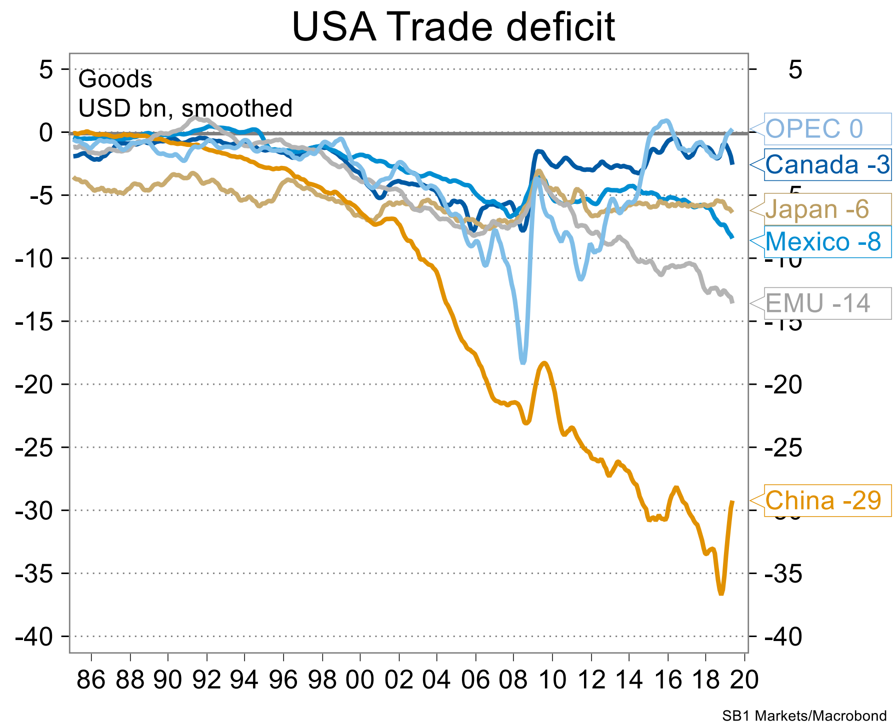


SB1 Markets/Macrobond

- In May, the goods deficit widened marginally to USD -71 bn, or 4% of GDP, after reaching an ATH in Dec ’18
- The deficit in petroleum trade is shrinking, at USD -4 bn in May
- The US has a surplus in services at USD 21 bn, equalling 1.2% of GDP (but it is now trending slowly down)

The deficit vs. China has narrowed, due to lower imports from China

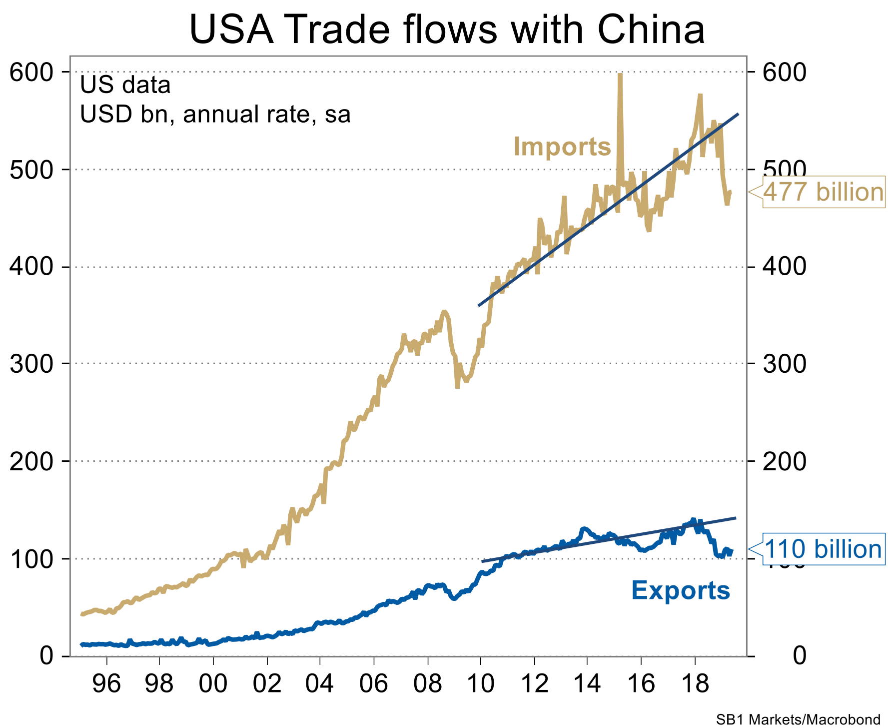
Imports from China are falling, reducing the deficit. Deficit vs Mexico and EMU is trending out

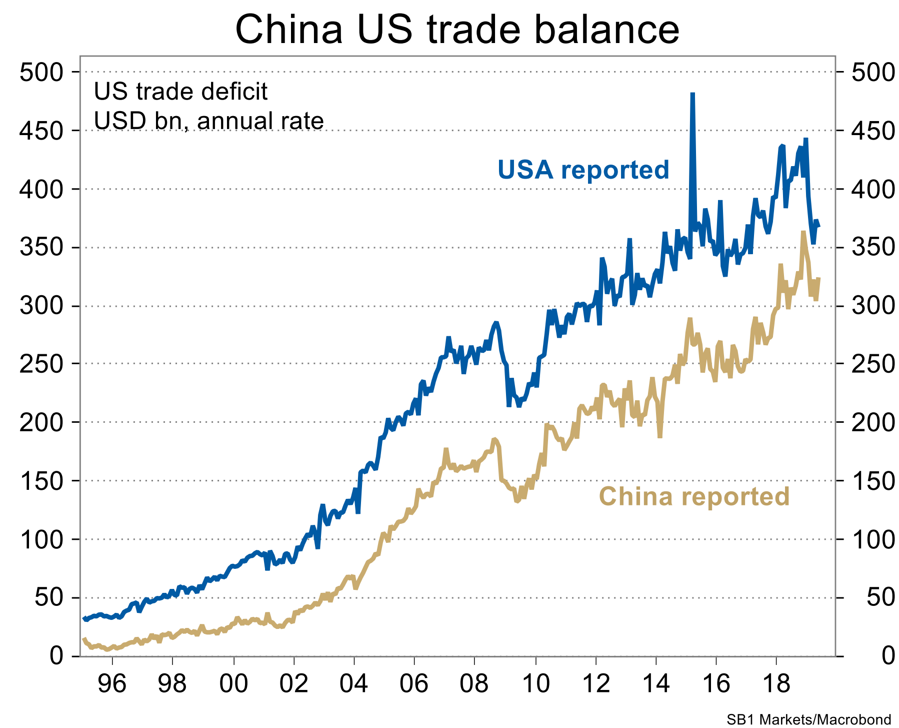


- The US deficit vs China equals 40% of the total deficit in goods, from 50% last autumn, before imports were reduced
- The deficit vs Mexico has widened markedly the past 1 ½ year, vs EMU it trending out too
- Deficits vs OPEC is closed, Canada has widened somewhat but is trending flat, close to balance

US imports from China have fallen more than exports to China

Tariffs have hurt bilateral trade significantly, and Chinese exports more than the US exports



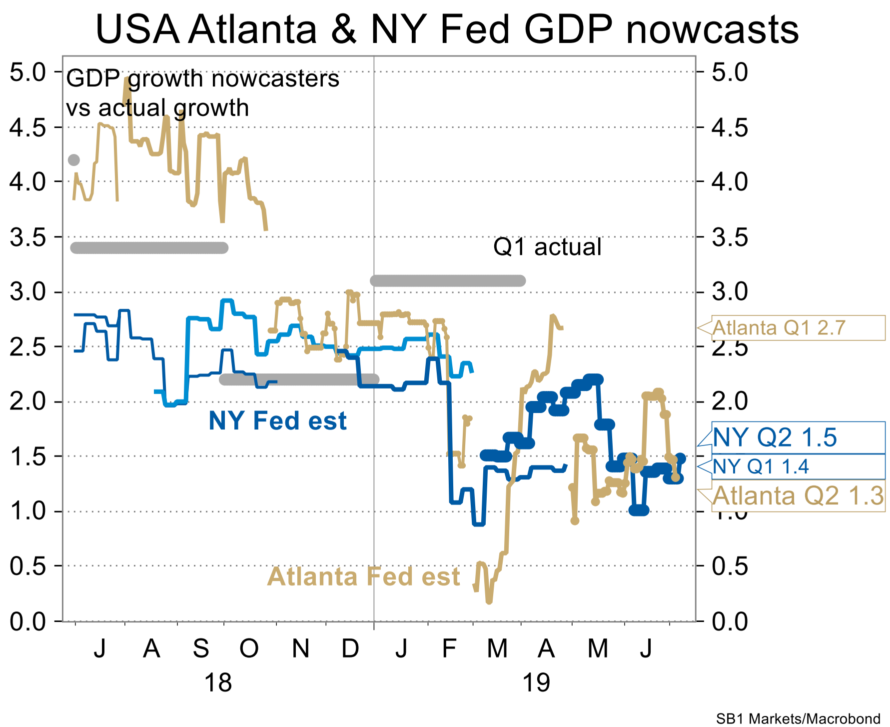


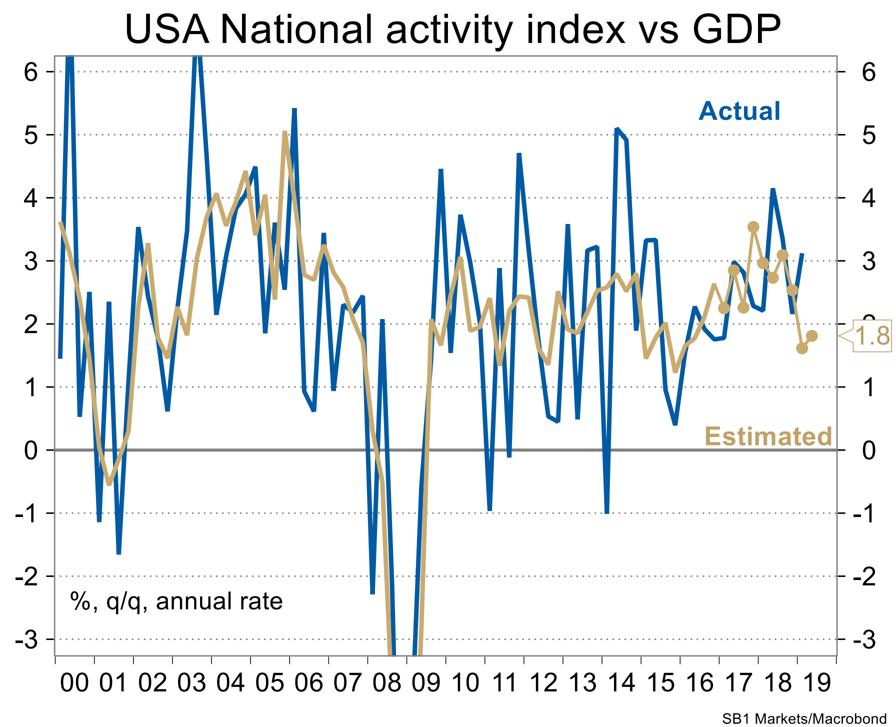
- The Chinese are reporting a smaller decline in the surplus vs. US, than US reported decline in deficit vs. China. FOB exports vs. CIF exports explains some of the difference between the two measures of 'the same'

SpareBank 1 MARKETS

Fed nowcasters say 1.3-1.5% growth in Q2

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

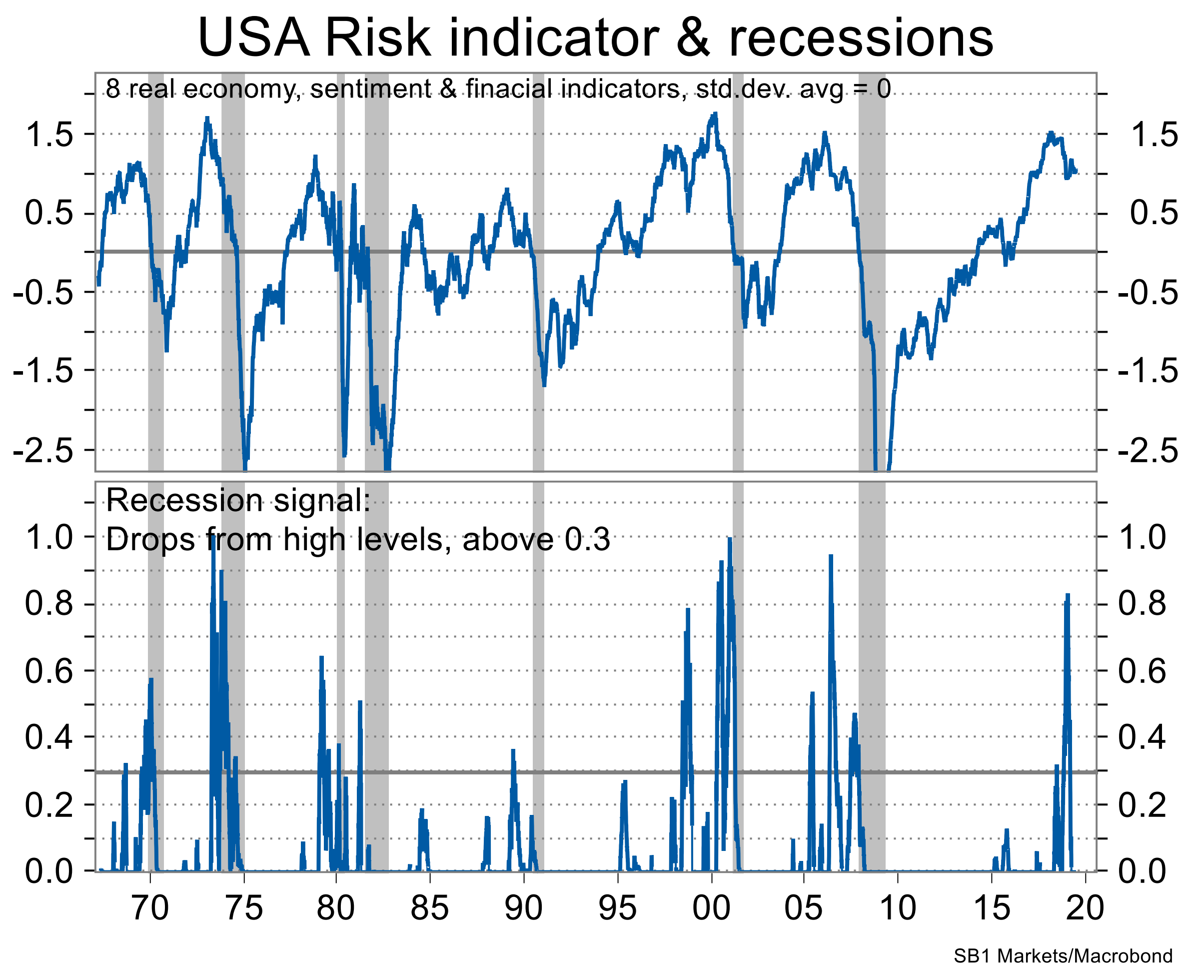


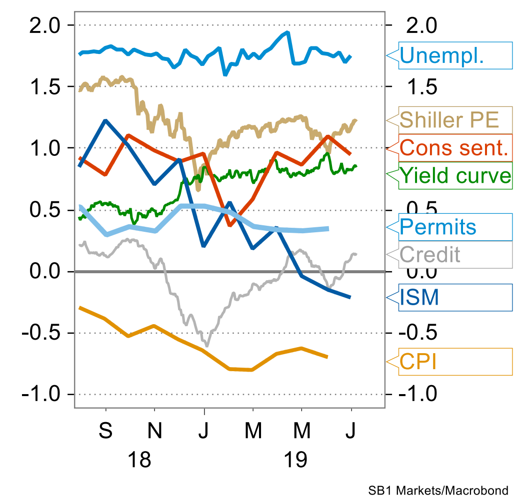


- However, the nowcasters often miss the target (as they change their mind through to the quarter)

US Indicators: Not a recession warning, now

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

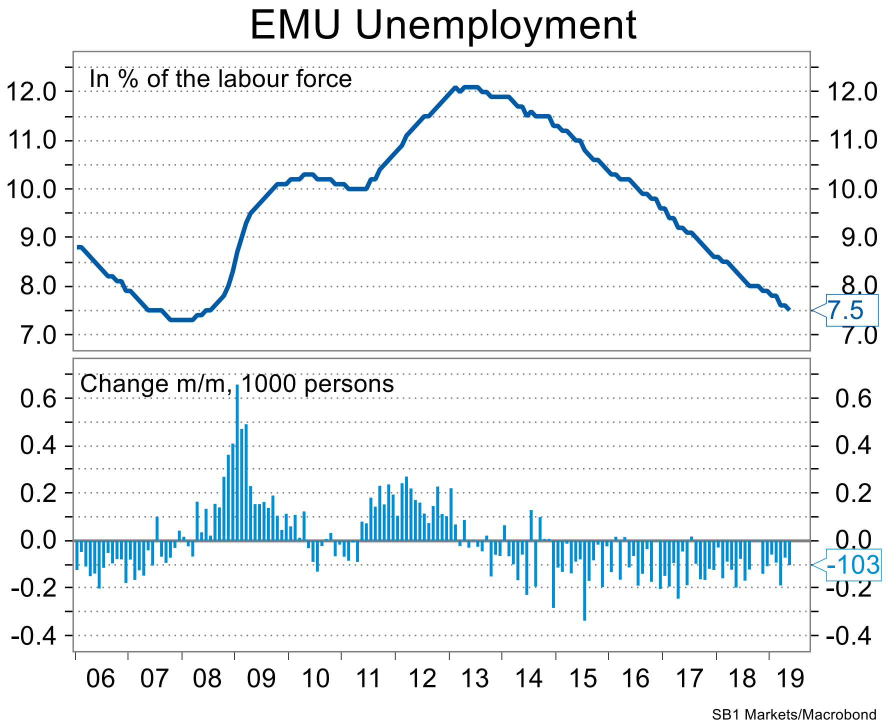


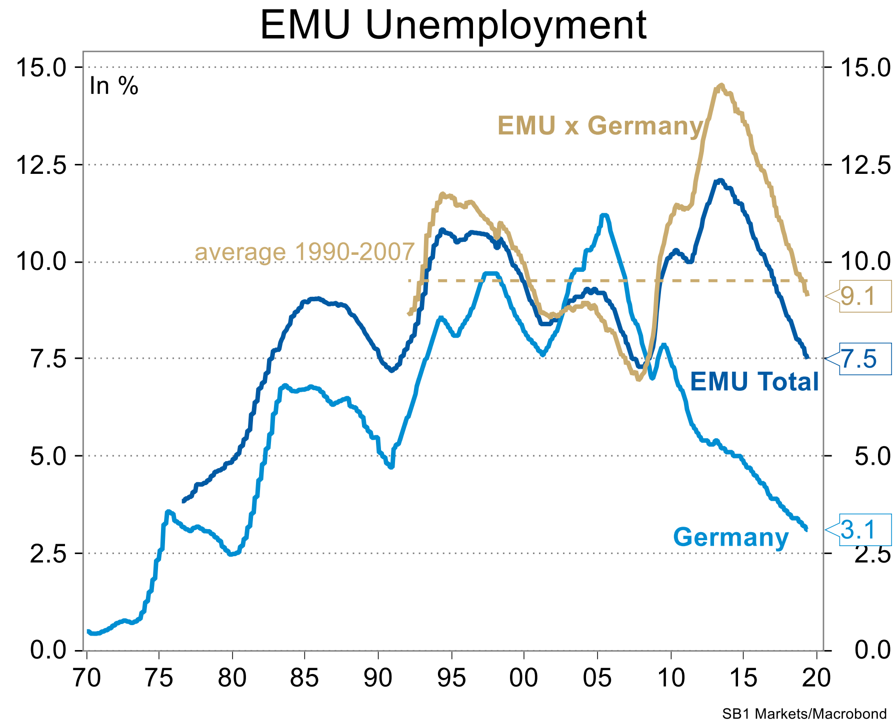


Inspired by Goldman Sachs Bull/Bear indicator. We are using jobless claims instead of unemployment, and have added housing starts, consumer sentiment, and a credit spread. In average, our Risk or Good Times Indicator leads recession starts by 18 months. The lower panel above shows changes in the squared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

Unemployment continues down, at 11 y low. Soon 40 y low??

Unemployment ticked down to 7.5% in May, below f'casts. A promising sign or a lagging indicator?

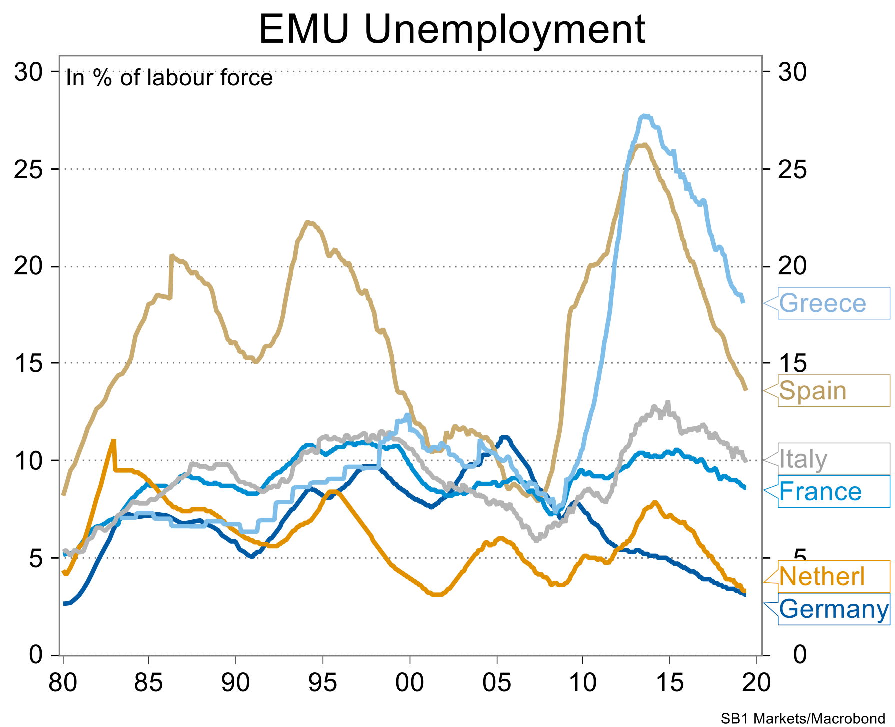


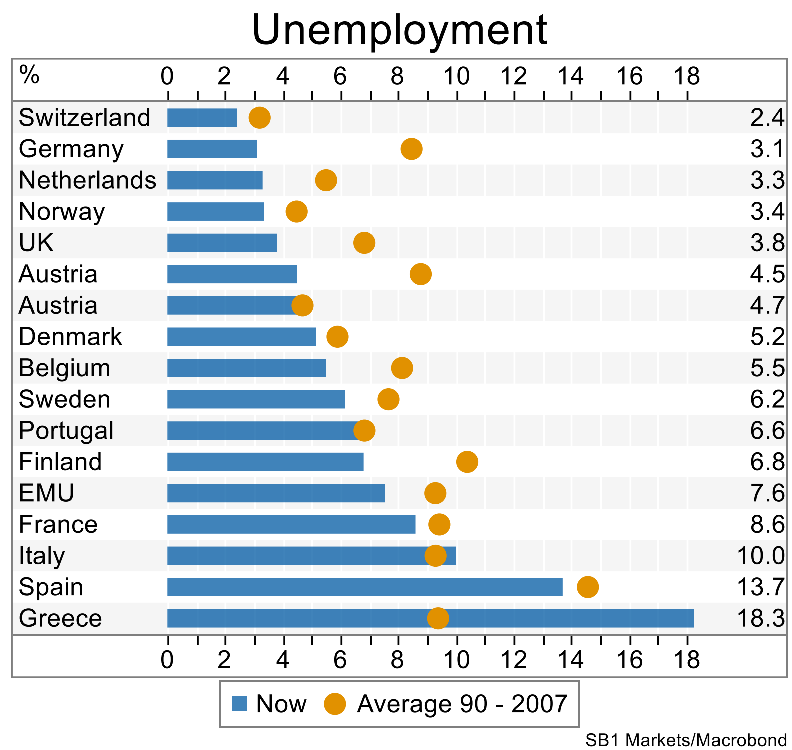


- The unemployment rate fell 0.1 pp in May, expected unchanged at 7.6%. The number of unemployed fell by 103' persons, a moderate decline. Barring a spike in March, unemployment has fallen at a somewhat softer pace than the past years
- Unemployment is falling steadily in spite the soft patch that the Eurozone is in (some sectors, at least). Unfortunately, unemployment is not a leading indicator, it is at best a coincident one. Nonetheless, the persistent decline during the economic slowdown may also mirror that other sectors so far are persistent to the dip in manufacturing
- Unemployment in total EMU is well below the 1990-2007 avg, and it has fallen just below the average in EMU ex Germany too
  - In Germany, the unemployment rate fell to 3.1% in May, the lowest level in almost 40 years (and the uptick in registered unempl. was not confirmed)

Unemployment is declining everywhere

Higher than 'normal' (avg 1990 – 2007) only in Greece and slightly in Italy

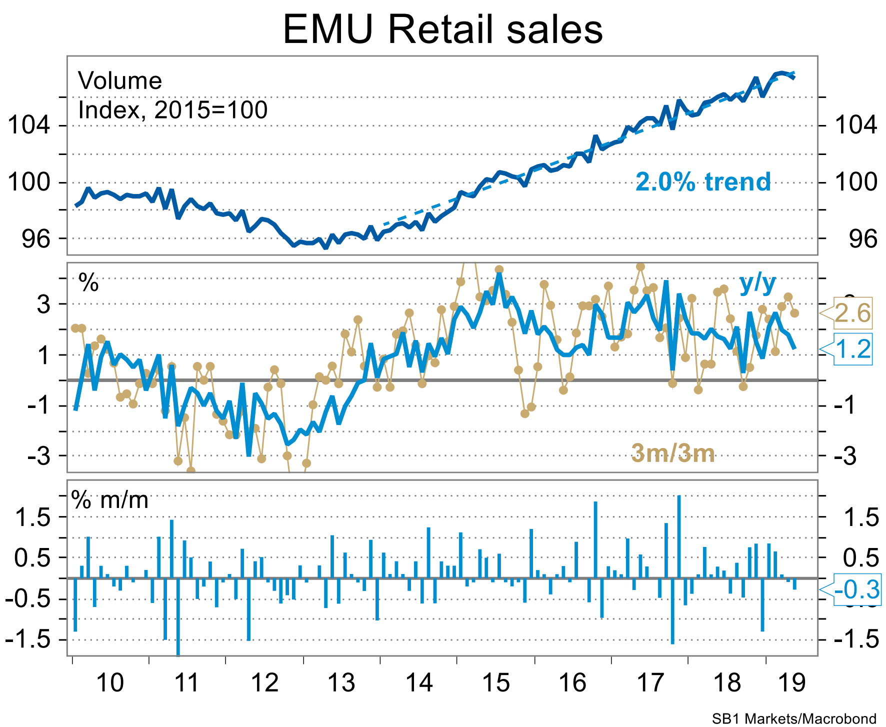


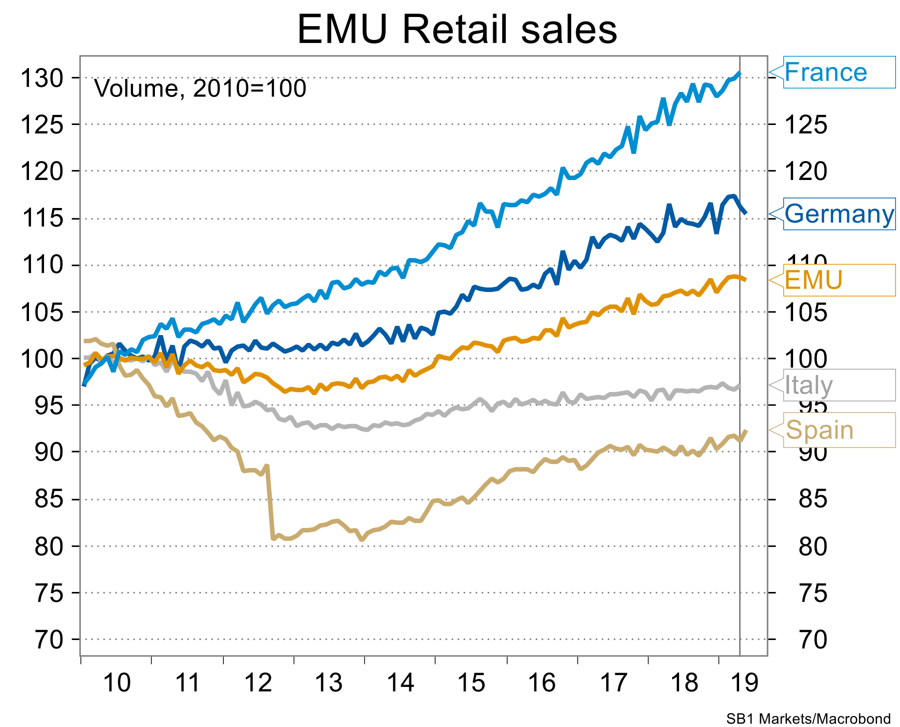


- Unemployment rates in Greece and Spain have fallen sharply since 2013, from awfully high levels. Unemployment is still very high in Greece, at 18% (down from 28% in 2013!). Spain down from 26% to 14%
- Soft spot: Italy may have flattened out, at 10%
- Unemployment in Germany and the Netherlands have fallen to very low levels, limited downside potential!

Retail sales likely to have slowed in Q2, although still on a decent trend path

Retail sales fell 0.3% in May, after a slight decrease in April, implying zero GDP contribution in Q2



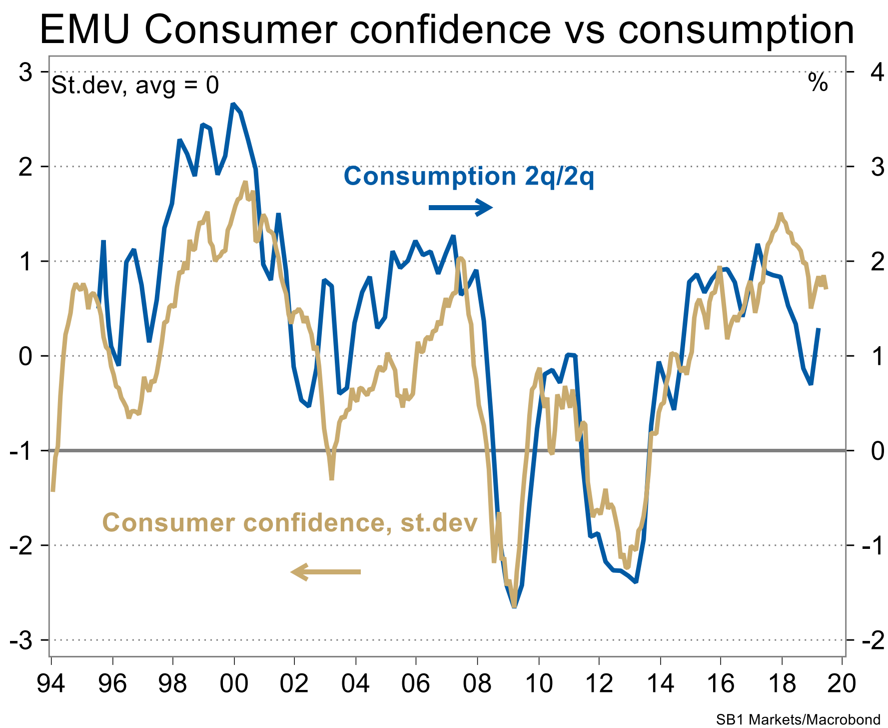


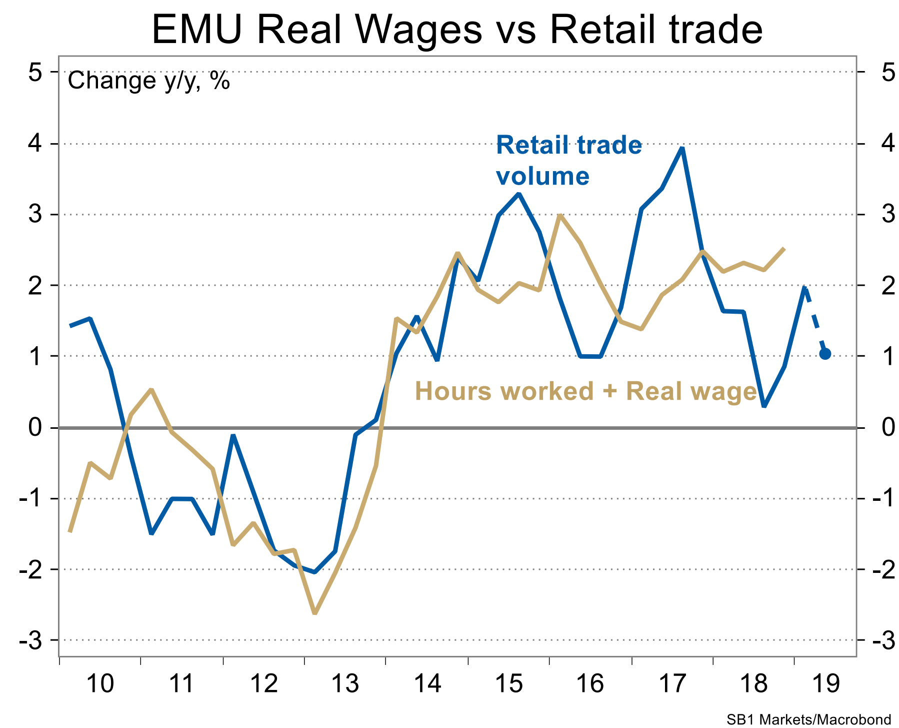
- Retail sales volume ticked down 0.3% m/m in May, much weaker than expected. However, April was revised up by 0.3 pp to -0.1% (German April sales ware much better than first reported)
  - » Underlying growth (3m/3m) is still solid at 2.6% but Q2 has been weak this far; If sales are flat in June Q2 will be flat too, following the 2.9% lift in Q1. However, the 2% trend growth is still intact, not that bad during these days of growth angst
  - » Germany reported a 0.6% decline, but sales are trending up. Spain is gaining speed, up 1.3% in May. No other country details yet
- Volume growth has fallen in Q2, in spite lower retail price inflation than during 2018. We expect moderate growth the coming months, as real wages and employment are supporting consumption - and consumer confidence is not weak

SpareBank 1 MARKETS

Consumer confidence, income signal moderate consumption growth

.. The upside is probably limited but a decent growth pace should be within reach

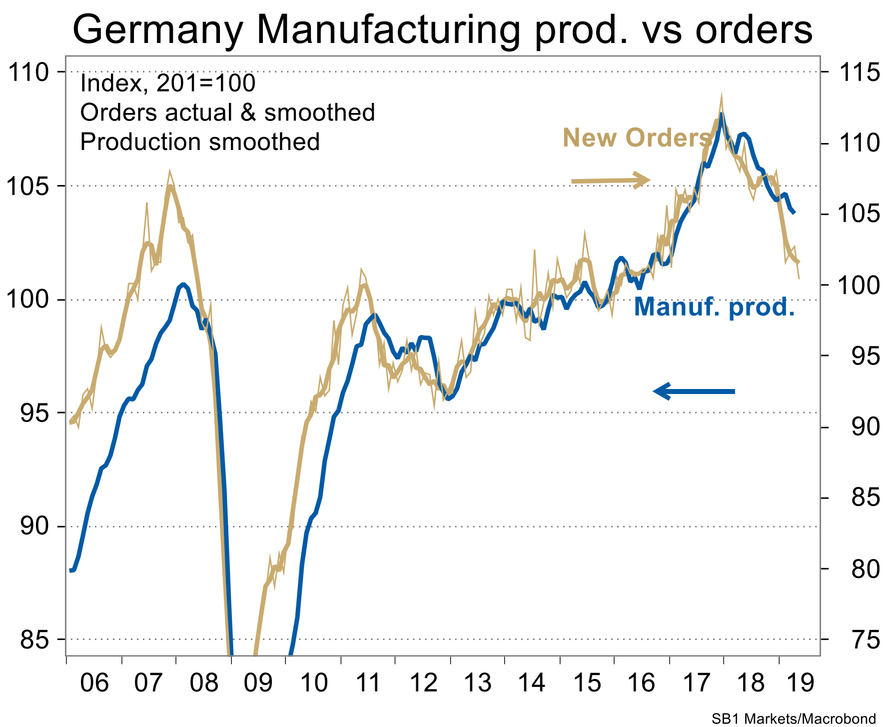


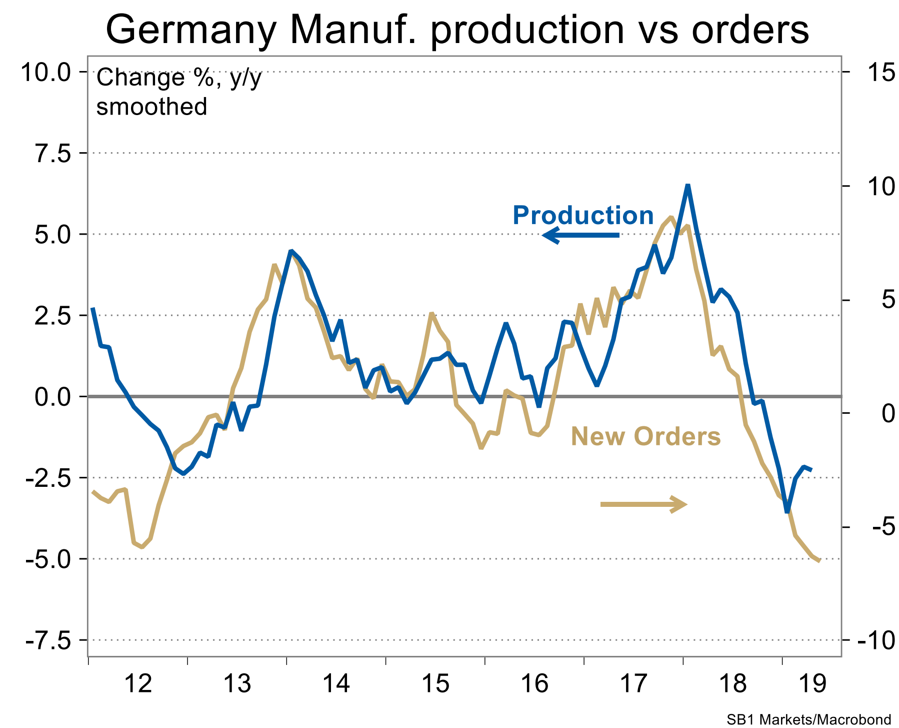


- Consumer confidence has improved and the level is not low, even if the index fell rapidly through 2018
- Real wages + hours worked, a good proxy of total disposable income is expanding faster than retail sales

Manufacturing orders tumble, undermining hopes of a growth rebound

New orders dropped in May, pointing to an accelerating decline in production

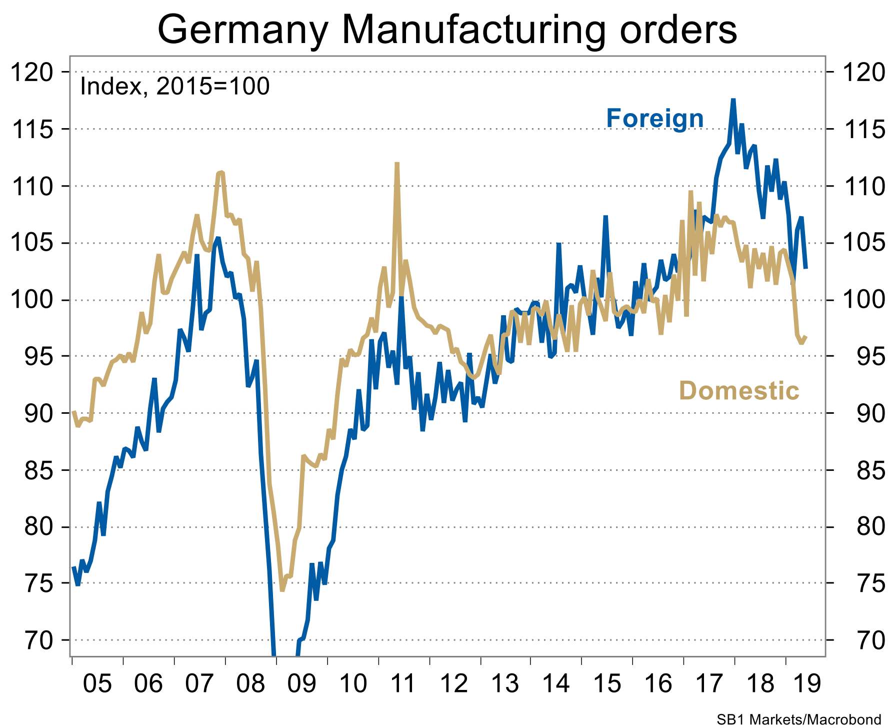


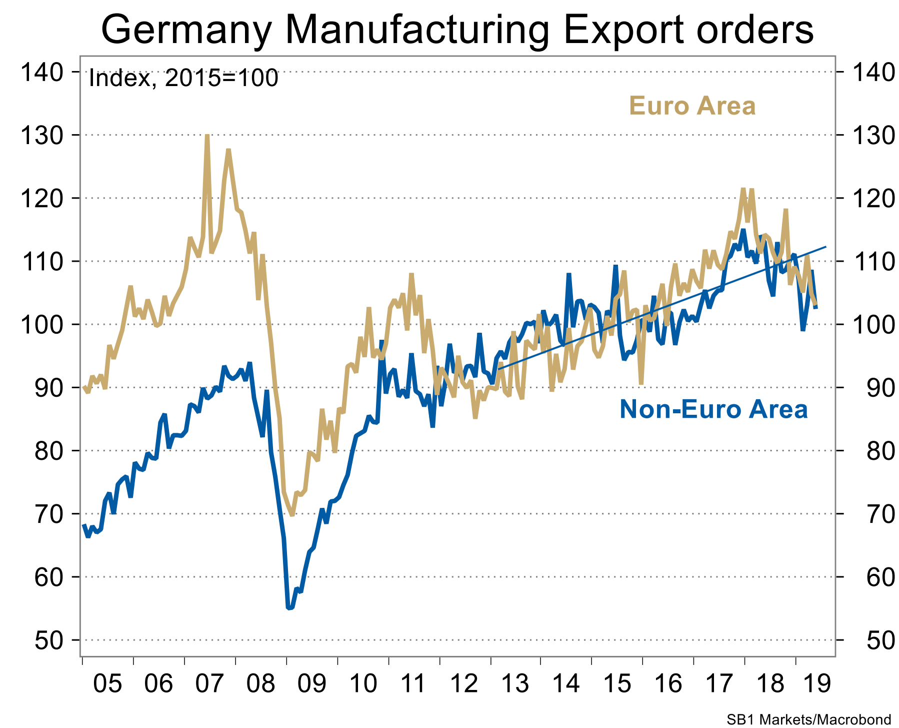


- Total manufacturing orders fell 2.2% m/m in May. Orders are down 8.7% y/y (smoothed rate), the steepest decline since 2009, pointing to a deeper contraction in manufacturing output
- The German manufacturing sector have been hit by a slump in foreign orders, primarily non-EU orders. However, domestic orders have been nosediving recent months, foreign orders not. Thus, the weakness cannot merely be directly attributed to global uncertainties and trade wars, there must be a domestic problems as well, including of course impacts of global uncertainties. However, both capital goods orders and consumer goods orders are down (as is intermediate demand), and a wide range of items are weak.

Demand is weakening both domestically and globally

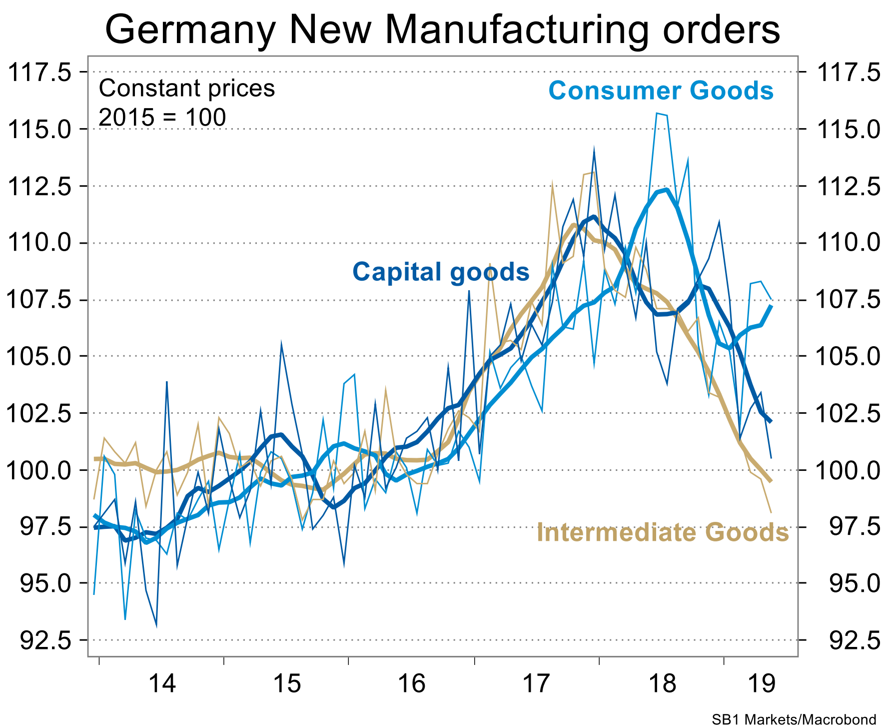
Now, orders from within Germany are plummeting, what's the problem??





- German data are quite contradictory these days; manufacturing surveys and orders are pointing to a deep downturn, production has slowed markedly to. However, Q1 GDP was strong and revealed that domestic demand is expanding at solid rates, both business investments and private consumption increased. Barring trouble in the auto industry, why is domestic demand waning?

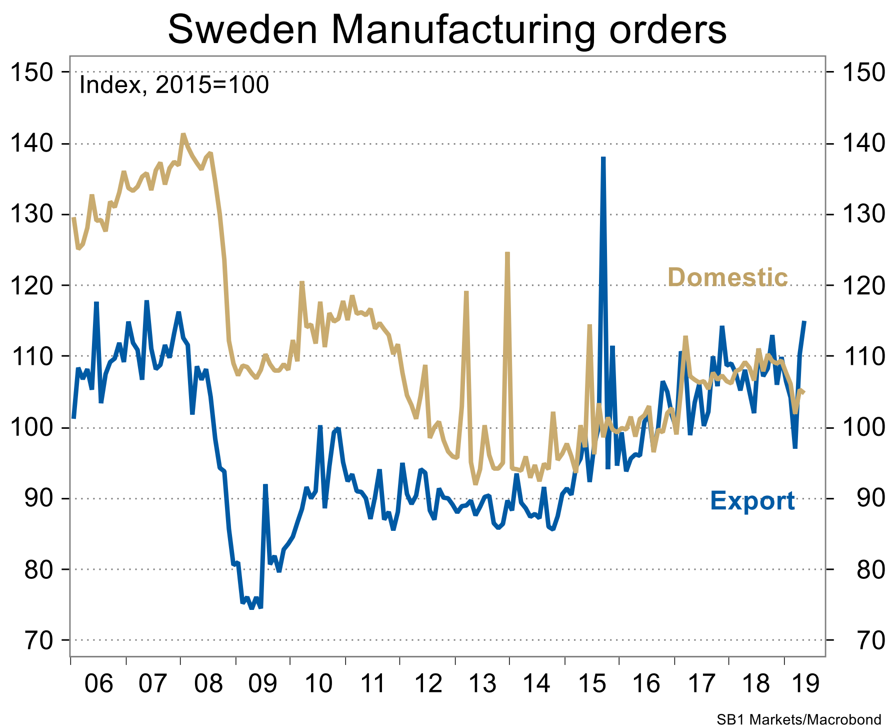
Broad weakness in manufacturing orders – capital goods worse than consumer g

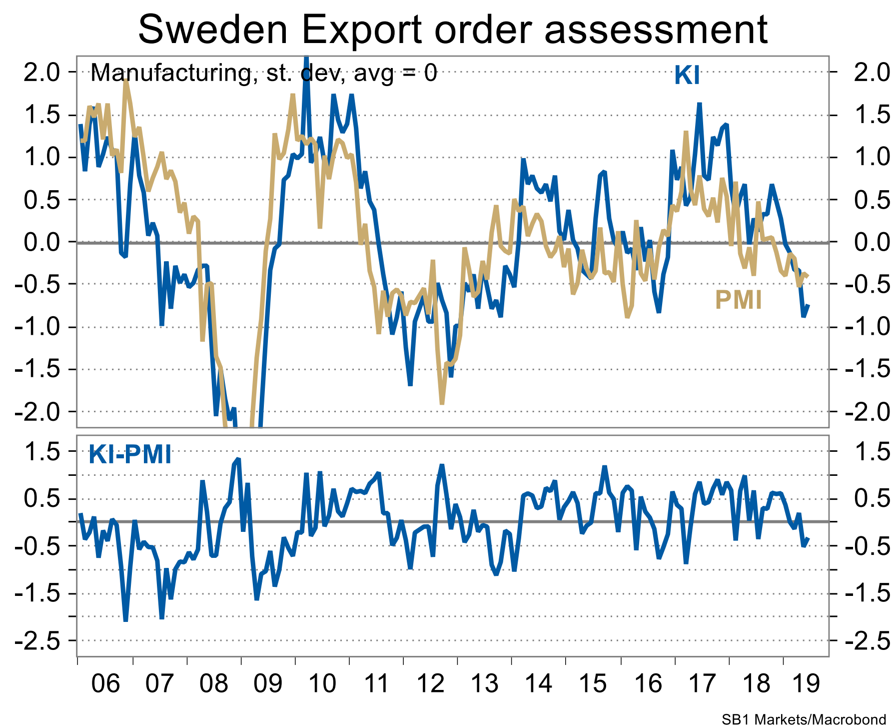


- Capital goods down 8% (from late 2017, based on smoothed data), still falling rapidly
- Consumer goods down 5% (from mid '18), have recovered somewhat
- Intermediate goods down 10% (from late '17), still falling rapidly

Export orders straight up!

Strong export orders in April and May, Q1 weakness reversed. Domestic orders still 5% down





- Exports orders recovered in April and May, following the steep decline in Q1. These data are quite volatile, and surveys have not reported an export order turnaround. The KI survey is well below average, the PMI somewhat

Highlights

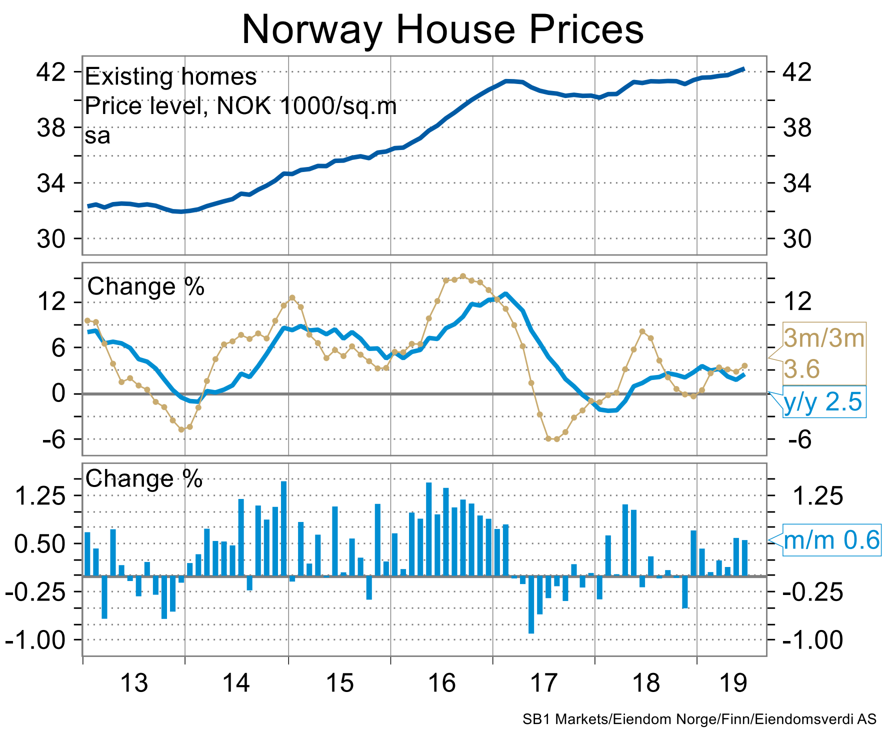
The world around us

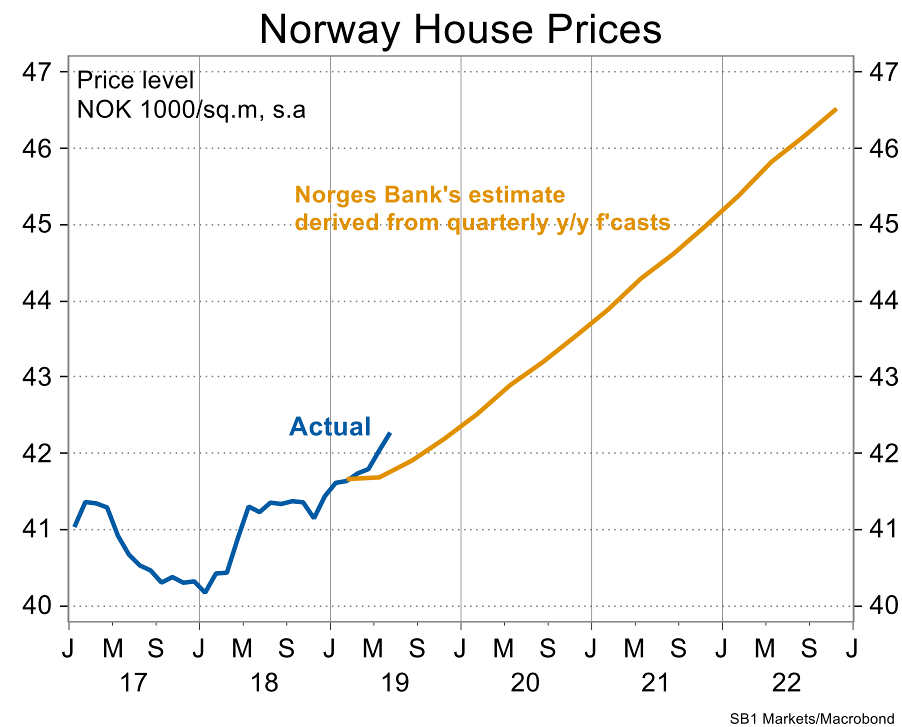
The Norwegian economy

Market charts & comments

House prices beating expectations for the 2nd month in June

Prices rose 0.6% s.a in June, underlying growth at 1 y high. Market dynamics indicate softer growth

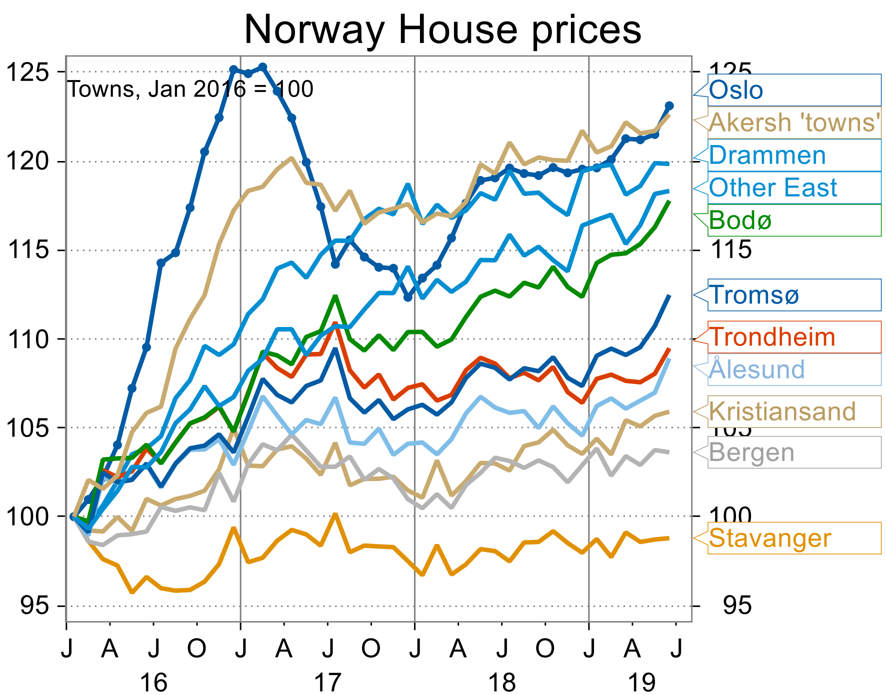




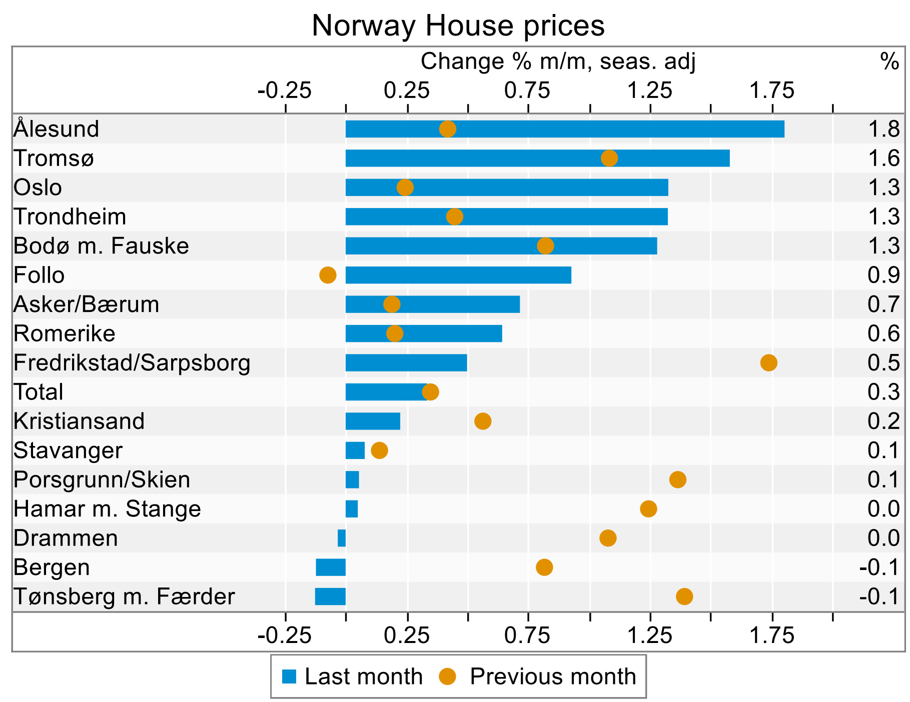
- **House prices** climbed 0.6% m/m seasonally adjusted in June (-0.2% unadjusted, prices usually decline at this time), following an equal speed in May (revised up marginally). Underlying growth has increased to 3.6% measured 3m/3m, the highest since August last year. The annual growth rate came up to 2.5%. Prices are already substantially higher than Norges Bank implicit forecast from June
  - » A broad upswing among regions; prices rose m/m in almost all cities in June. Recent months, prices have climbed in regions, Tromsø, Bodø at the top
- **The number of unsold homes** is soaring, the highest in 10 years. The high inventory is not due to lack of demand but to a steep rise in the number of new listings (of existing homes), barring a decline in June. The number of transactions fell too but is trending steeply upwards
- **Higher interest rates have so far not dampened demand – yet short term dynamics signal meagre price growth the coming months**

A broad upswing in June, just Bergen, Tønsberg & Drammen down

Prices are zig-zagging on a monthly basis, just noise



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

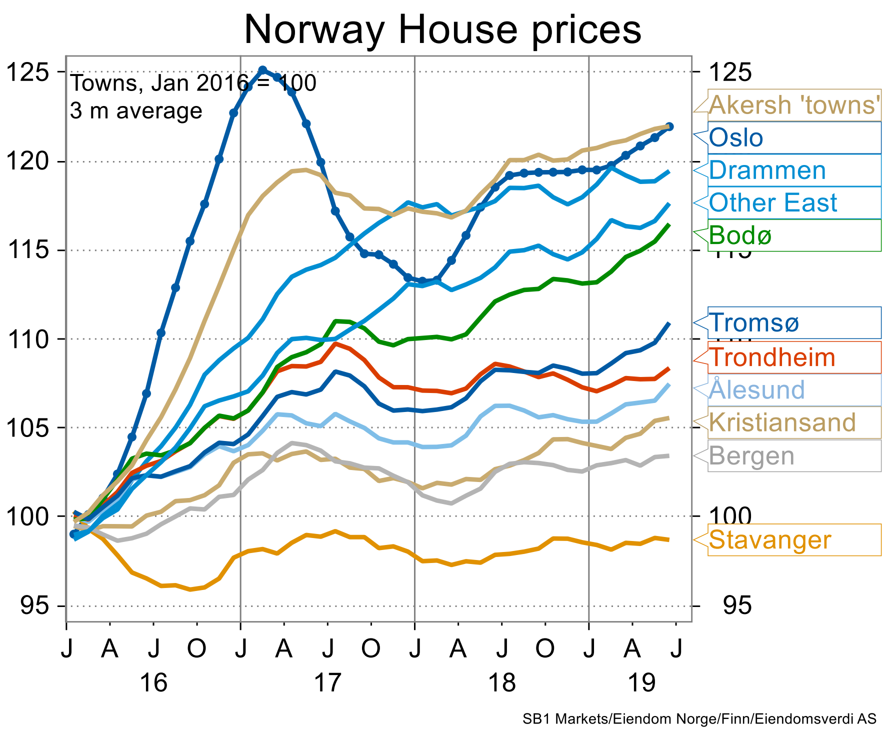


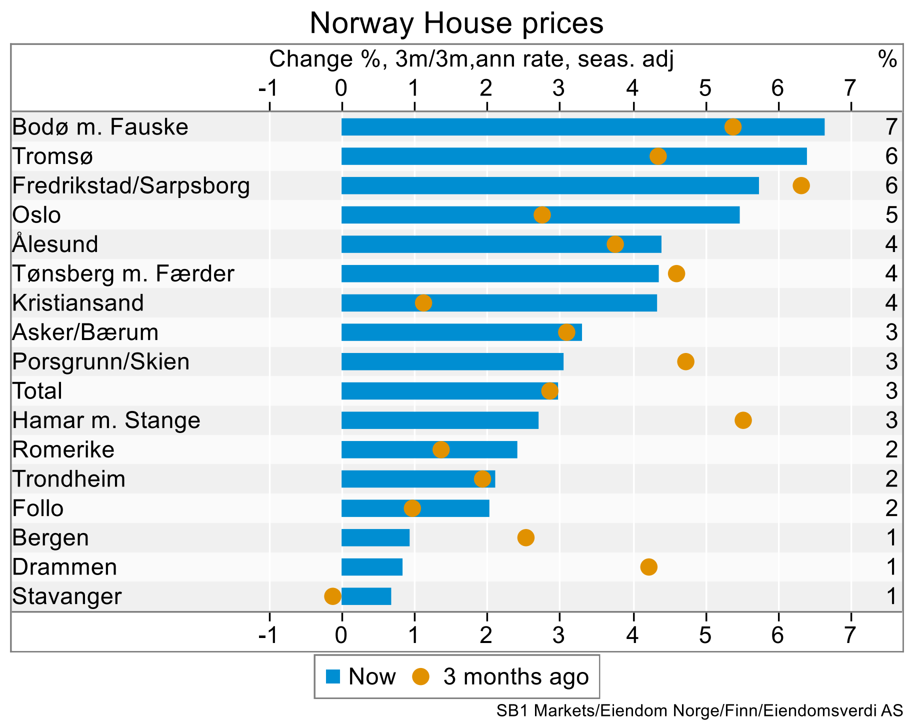
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- The monthly data are too volatile, <u>check the much more ‘relevant’ 3 month averages next page</u>

Recent months: Prices are climbing in all cities, accelerating in most

Prices are rising everywhere (fastest in Trømsø/Bodø); accelerating in 11 cities, slowing in 6

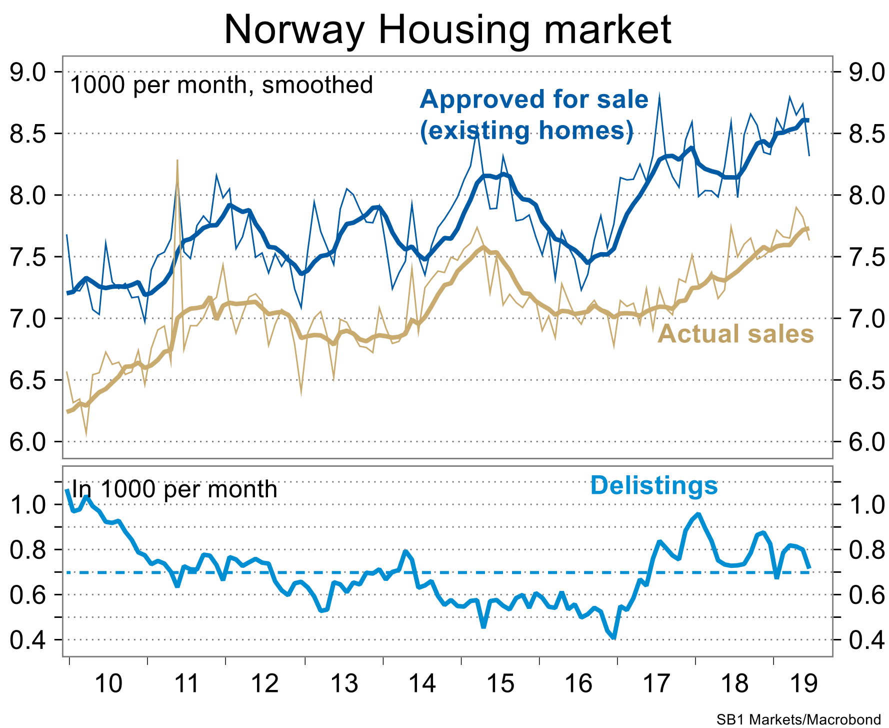


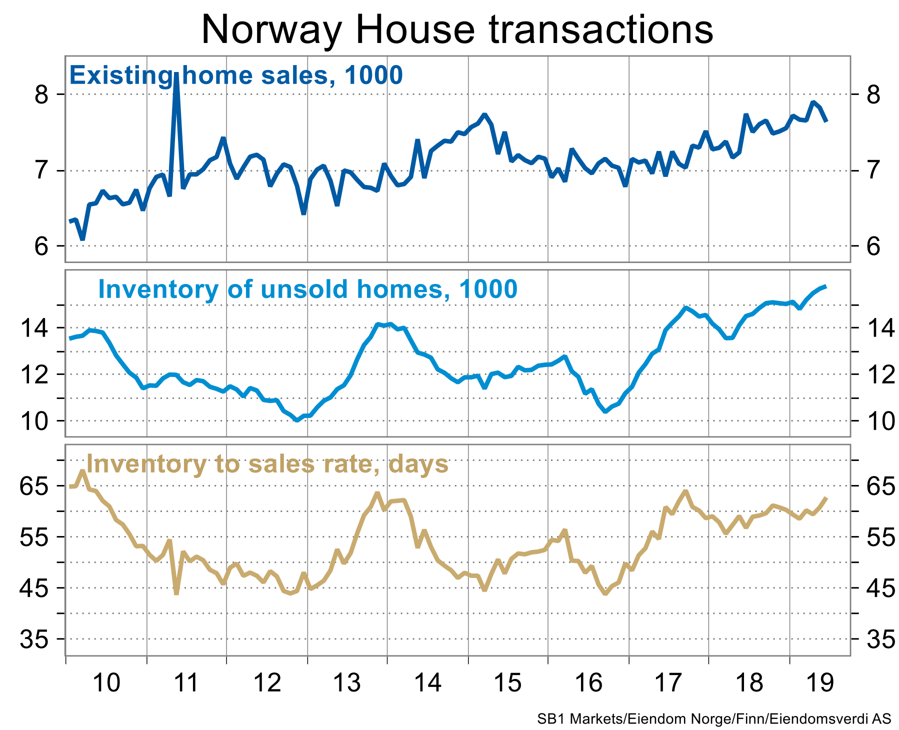


- Measured 3m/3m annualised, prices are now rising in all cities. Bodø and Tromsø have really gained speed recent months, Oslo is accelerating too, up to a 5% pace. Stavanger, Bergen, Drammen are experiencing the lowest price growth
  - » Compared to 3 months ago, prices are rising in all cities, accelerating in 11 cities, slowing in 6
- Prices in most cities are now above the local 2017 peak.
  - » Oslo is still some 2% below the (very high) peak, and Bergen 1% below. Stavanger is 13% below the 2013 peak
  - » Eastern towns ex Oslo/Akerhus and Bodø have increased the most since the level in H1 2017 (where most but not all peaked)

A buyers' market? New listings are climbing, very high no of unsold homes

Not demand weakness but many homes approved for sale is lifting the inventory

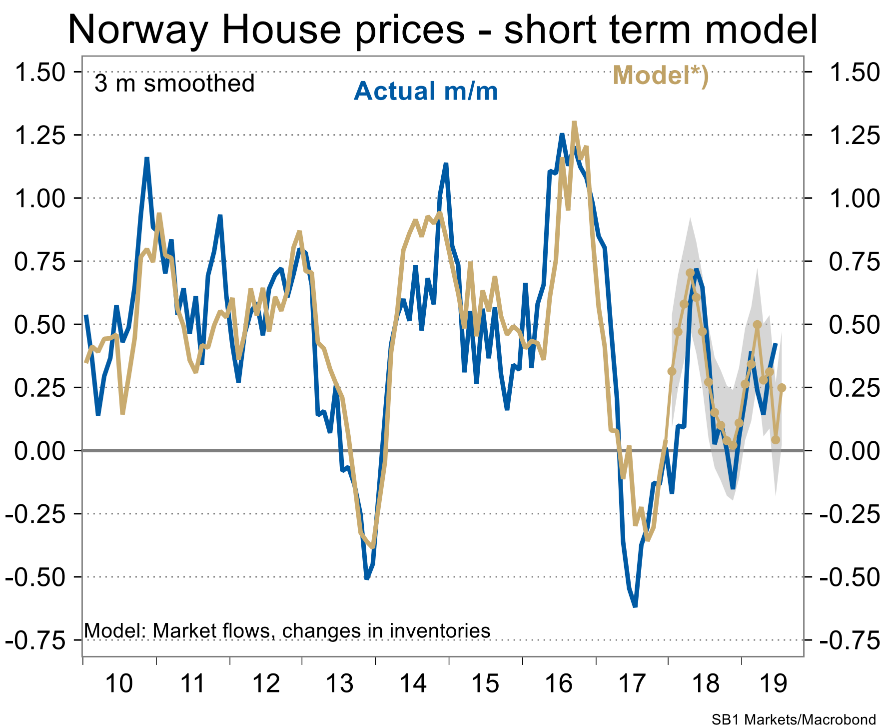


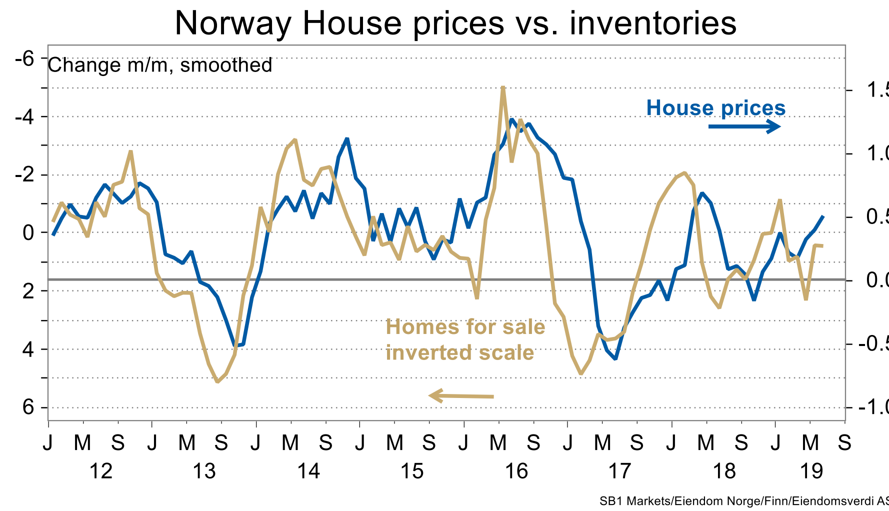


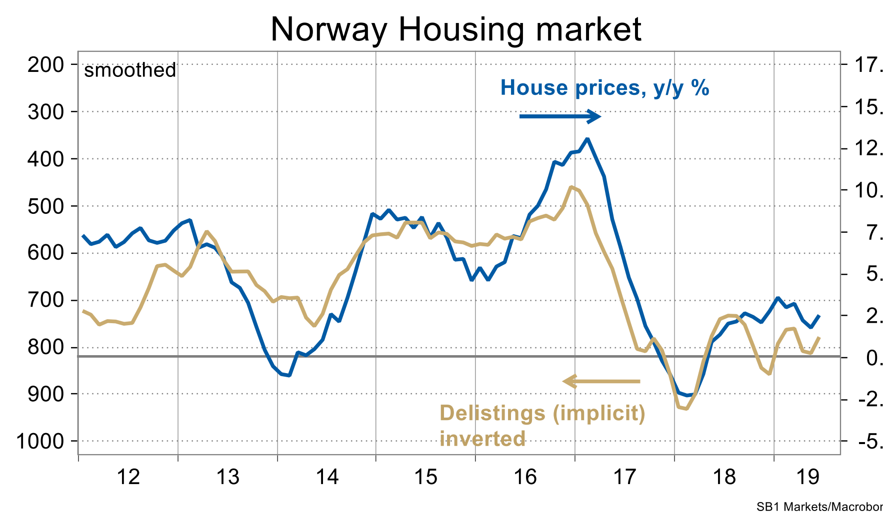
- **New listings of existing homes** decreased in June but is trending steeply up and it will most likely remain high for some time
- **The number of sales** is climbing too, barring a dip in June, and is reflecting strong demand. However, demand is not sufficient to absorb the supply of homes; thus, the **number of homes for sale (inventory)** is rising. The inventory edged up to another 10 year high in June. The inventory to sales ratio (turnaround) is quite flat but above the avg level (at 63 days vs avg at 53 days). The number of delistings has come down, probably reflecting a well balanced housing marked
- The flow balance on the housing market indicates modest price growth the coming months, check next page

Market flows signal modest price growth the coming months

A rising inventory does not indicating strong growth – and interest rates are rising…



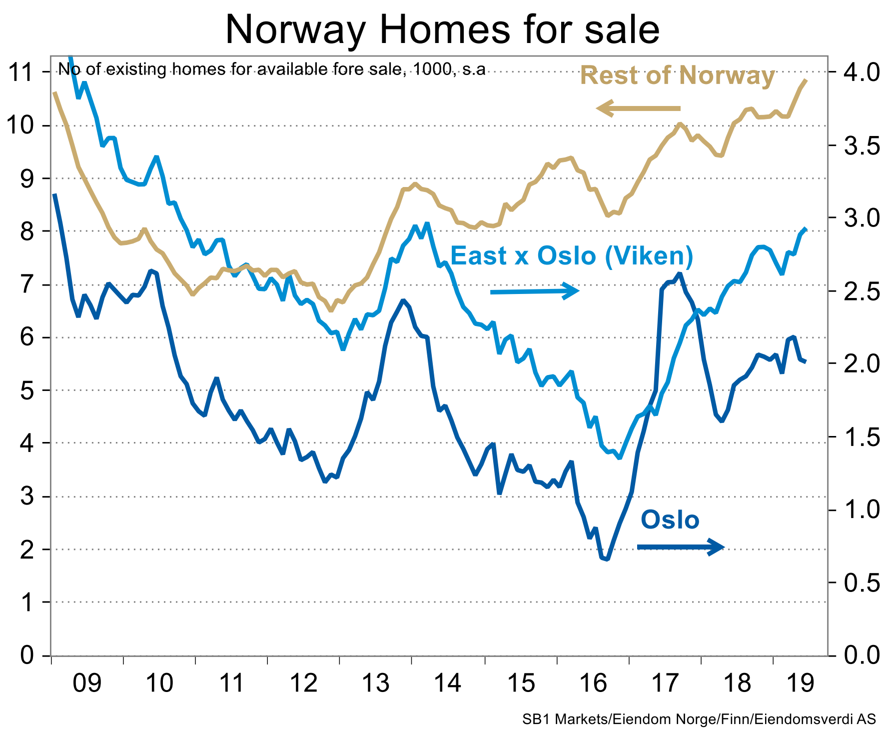


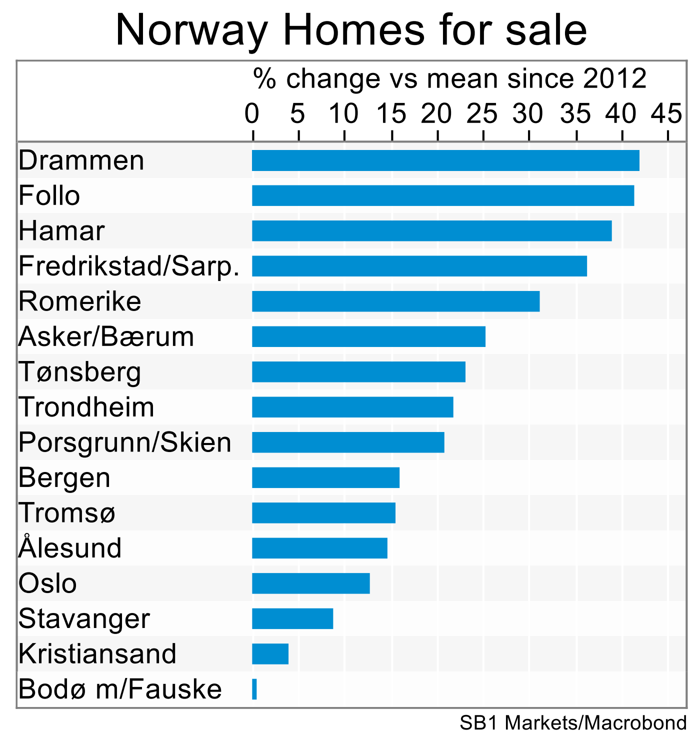


- Strong supply of new homes for sales and an increased inventory suggest modest growth the coming months. The two past months, price growth has exceeded our model forecast
- *This is not a long term price model, just a short term price model based on flows of approved and actual sales, and changes in the inventory of unsold homes (taking account of delistings)*

The number of homes for sale is higher than 'normal' in all cities

... even as inventories in Oslo are still well below the 2017 level. Rest of Norway is soaring!

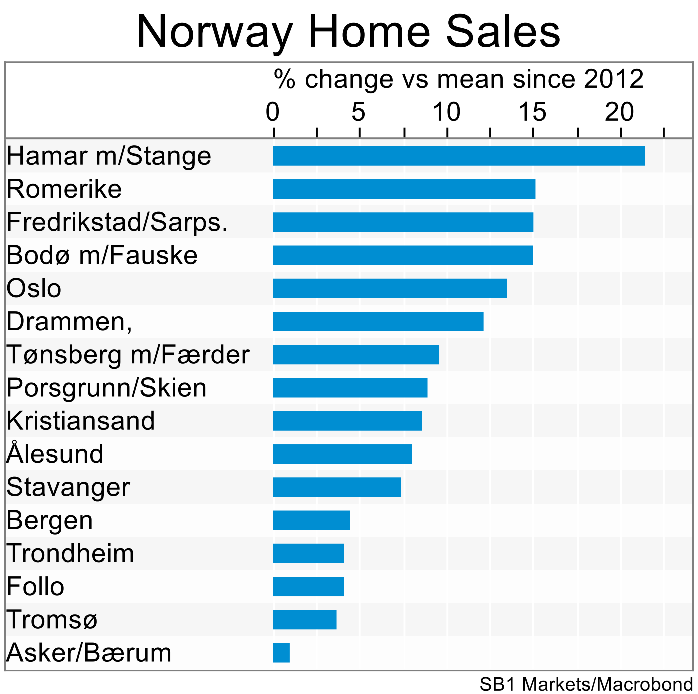


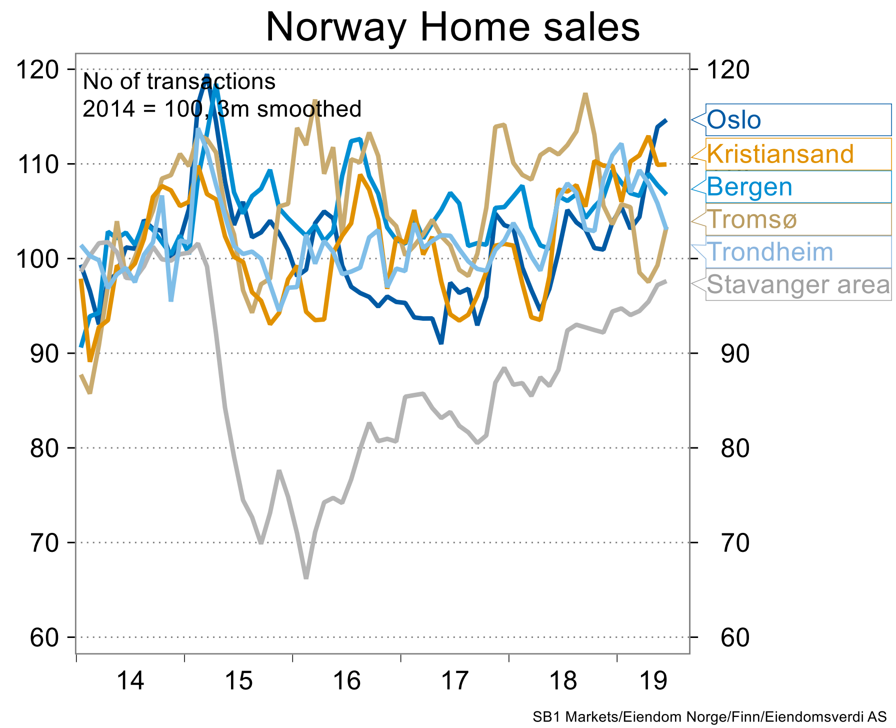


- The number of homes for sale have been increasing all regions recent years, higher than the avg since 2012 (x Bodø)
- Norway outside Viken (Akershus, Buskerud, Østfold; or East x Oslo) & Oslo reports record high number for existing homes for sale (data from 2009). The inventory in Viken is increasing rapidly too, at the highest level since 2014. Drammen, Follo, Hamar are at the top of the listings ranking vs the average since 2021
- The Oslo inventory is trending up but is still well below the 2017 peak level

Sales are surging in Oslo, Tromsø improving

The number of transactions are higher than the avg since 2012 in all regions



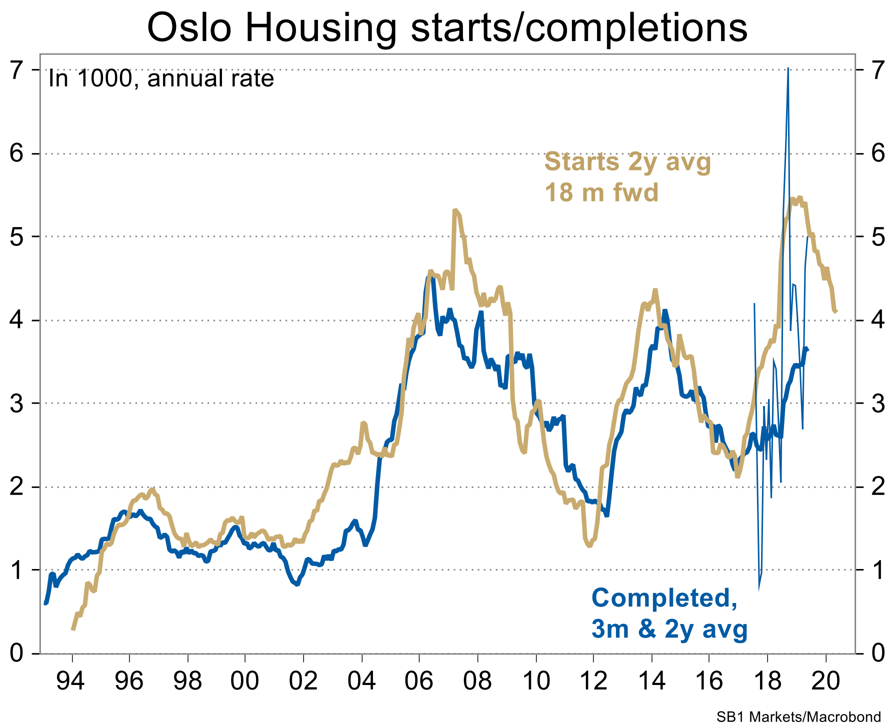


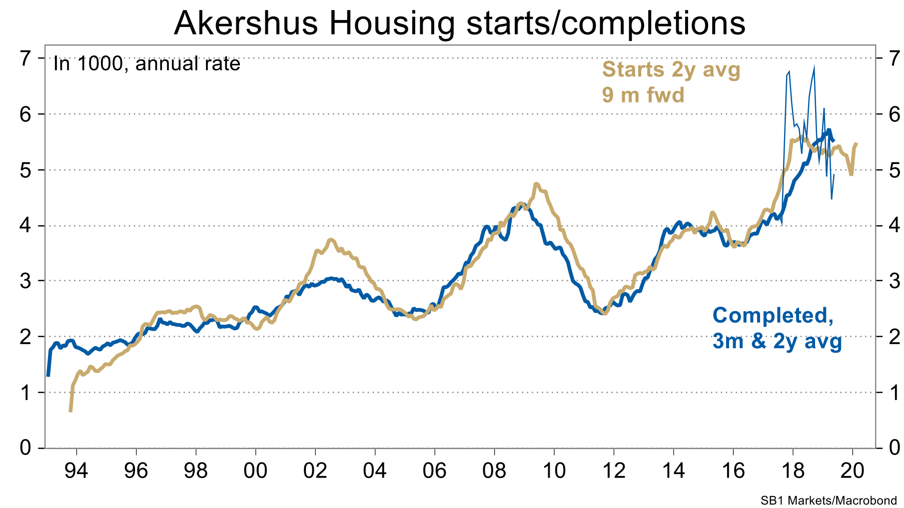
- In Tromsø, sales declined rapidly through H2 2018, and until the spring. Now, sales have turned up and price inflation is accelerating; demand must be improving
- Oslo demand is strong (even as the supply is even higher thus, the number of homes for sale is climbing)

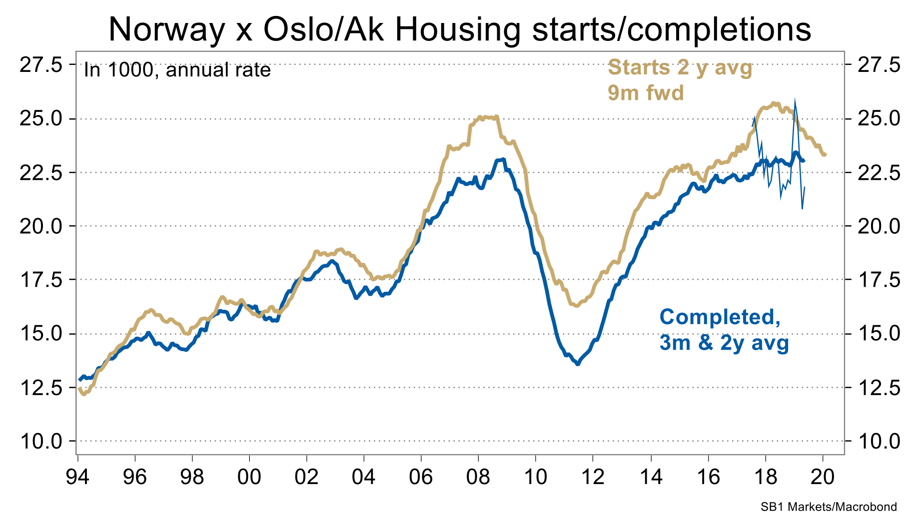
SpareBank 1 MARKETS

Still a lot of new homes to be filled up, yet supply may be close to peak

The no of completed homes is soaring and will remain high in Oslo, not much upside elsewhere?





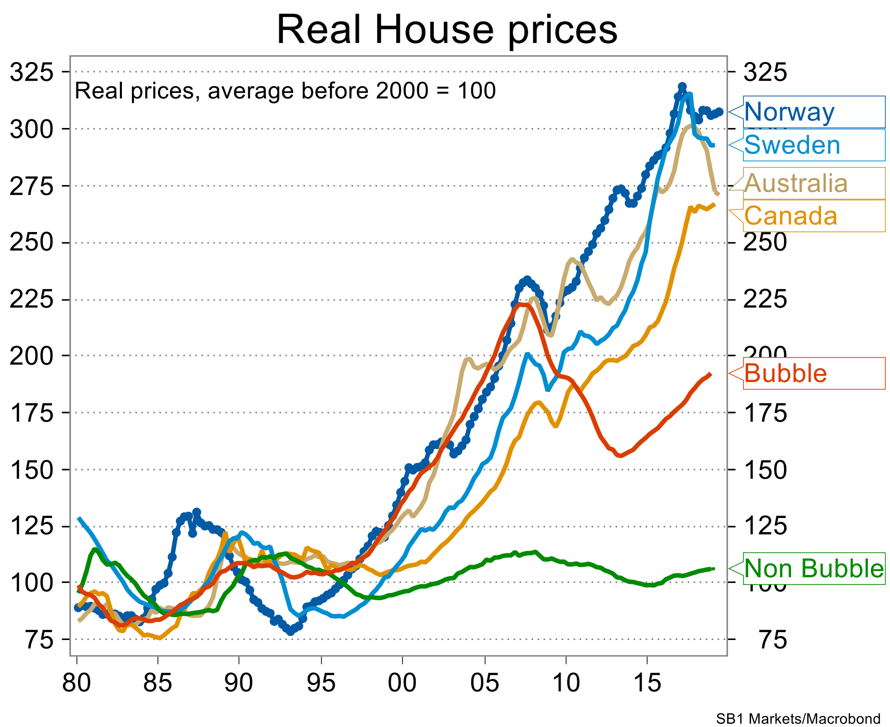


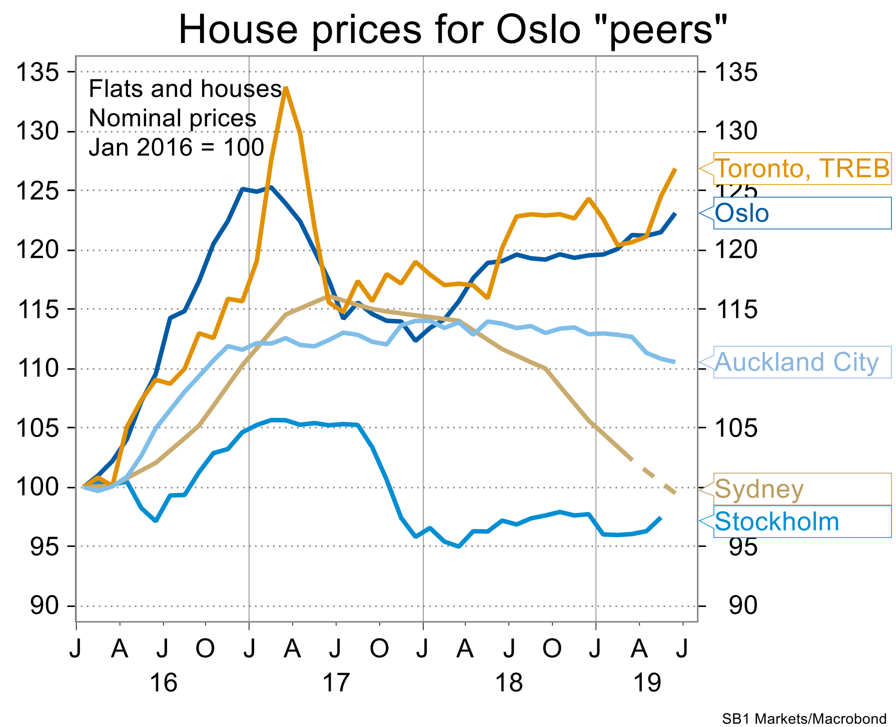
- Due to a high level of housing starts in Oslo in 2016–17, the number of completions has increased rapidly and will stay at a high level the coming year or more
  - » Supply have probably peaked Akershus but the coming deliveries in Oslo are larger than a marginal decline in Akershus
- Supply of completed houses in Norway x Oslo/Akershus is slowly rising but will soon peak. However, the level is still unusually high at the same time is population growth has slowed, income growth muted, and interest rates are coming up… Interesting

SpareBank 1 MARKETS

Some housing weakness the 'super cycle' countries

Real prices in Norway, Sweden and Australia have fallen, Canada has flattened

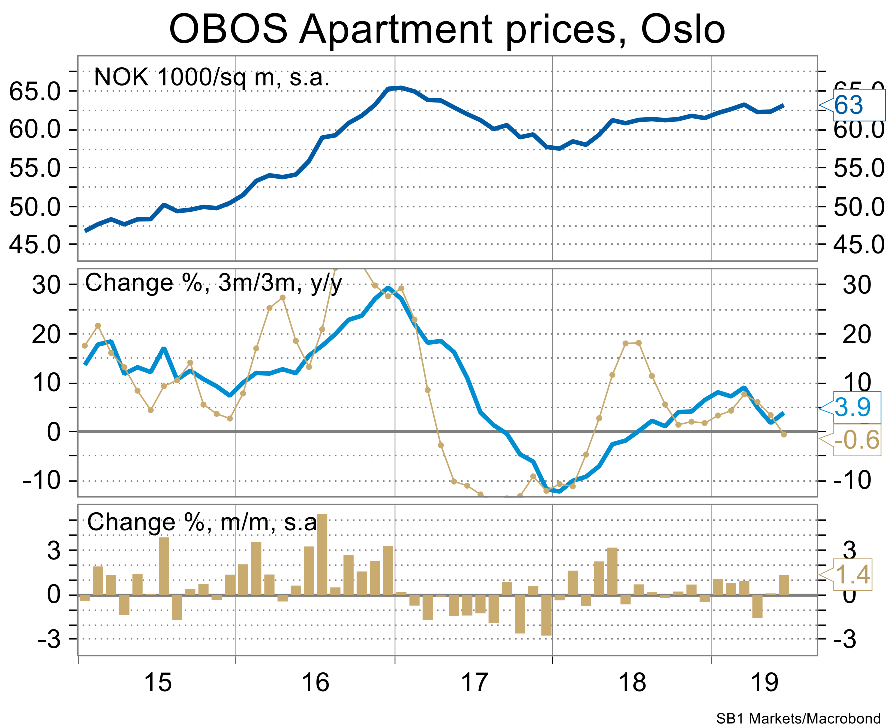


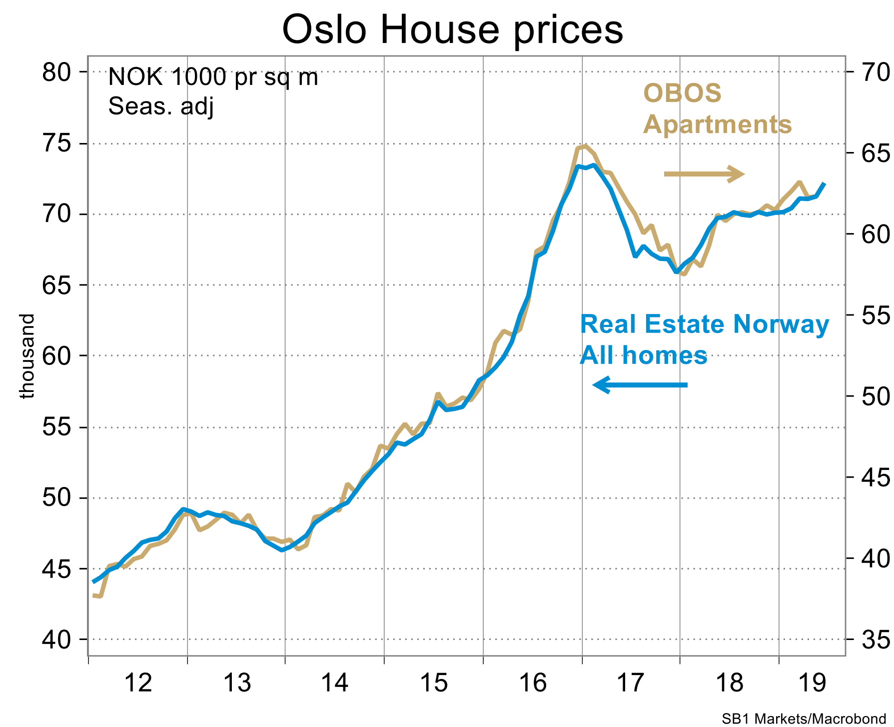


- However, mixed among the super guys recently: Oslo slowly on the way up again, Stockholm flat and has gained some pace recent months. Auckland is trending down while Sydney is falling sharply, down 12% from the peak in Q2 2017, in nominal terms! Toronto has gained some pace most recently
- New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – may have created 'some turbulence' – prices have slowed/declined since 2017
- No surprise, household debt is high and rising in these countries, with Norway in the lead, at some 240% of disp. income (it has nothing to do with low interest rates, right??)

OBOS Oslo apartment prices up in June but growth has cooled somewhat

OBOS prices rose 1.4% m/m in June (s.a). Prices are trending slowly up but not stable

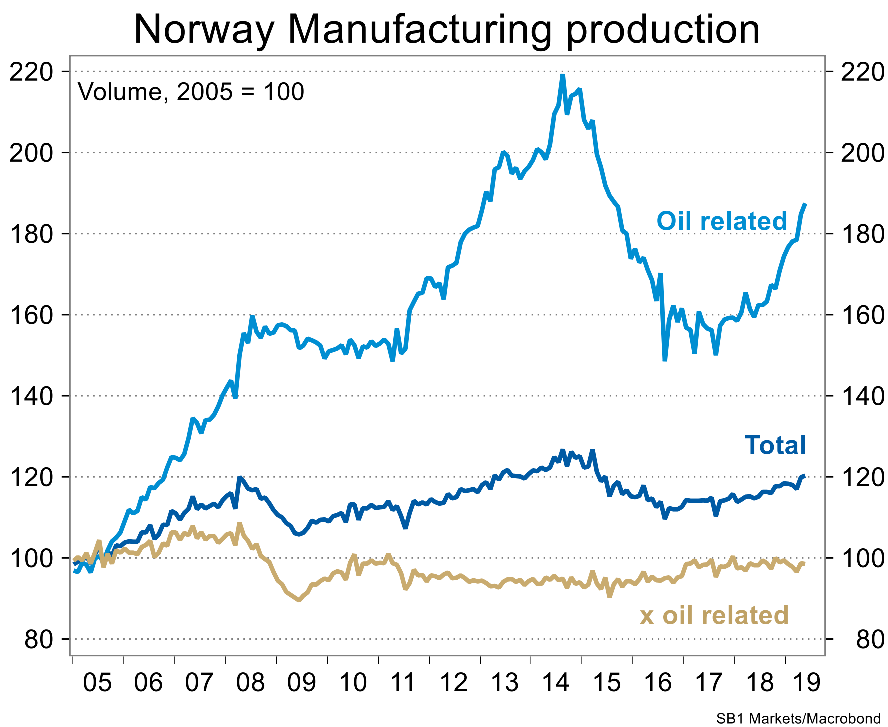


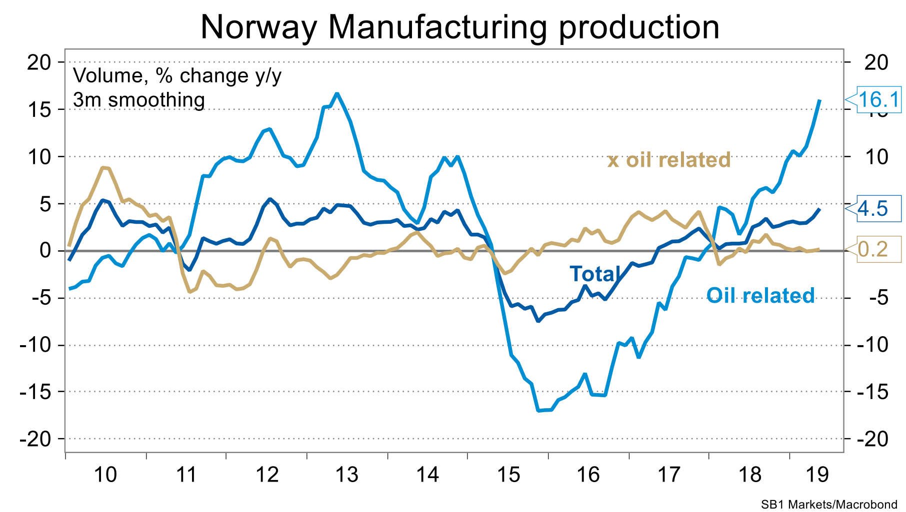


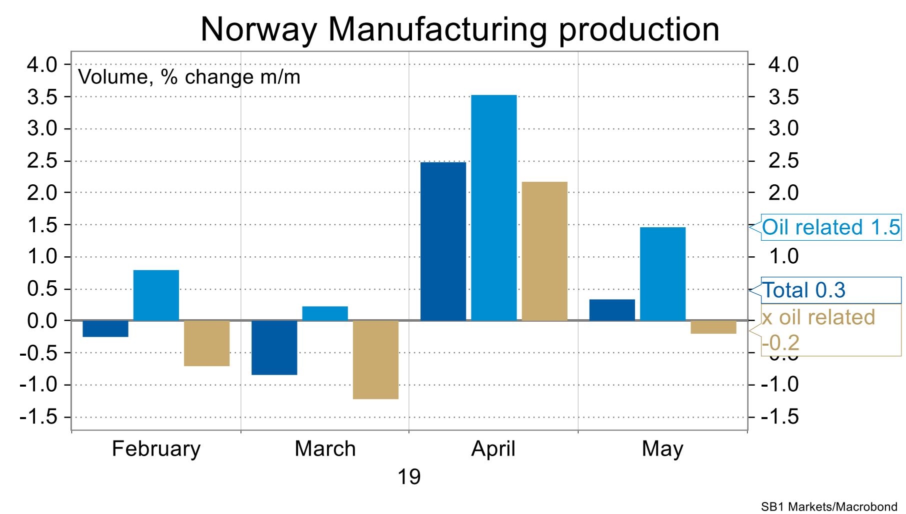
- OBOS Oslo apartment prices rose 1.4% m/m in June (seasonally adjusted, +0.4% unadjusted), the highest monthly speed in a year. Prices have turned slowly up since last spring, flattening out the past 5 months. Underlying growth is down 0.6% (3m/3m annualised), annual rate up 3.9%
  - » Prices are still some 3% below the ATH in January 2017. The real price is down more than 8%. That's something
- OBOS' monthly data are more volatile than Real Estate Norway. RE's Oslo prices (all houses, not just apartments) have gained pace recent months, up 1.3% m/m in June, close to the change in OBOS' prices

Manufacturing production surprised on the upside in May, oil related is soaring!

Production inched up in May after a spike in April, lifted by oil related sectors. <u>Q2 will be strong</u>



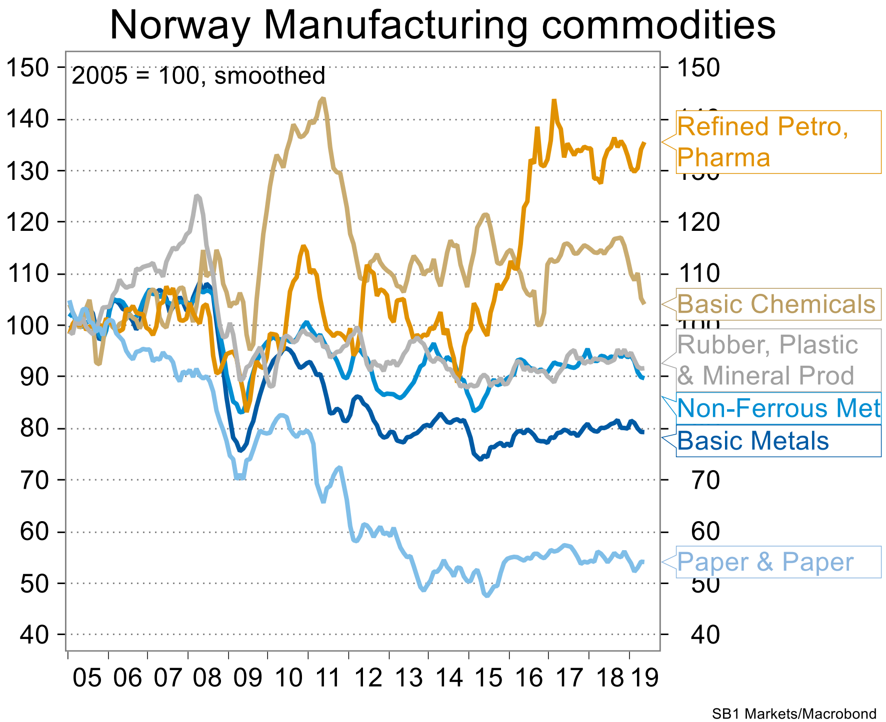


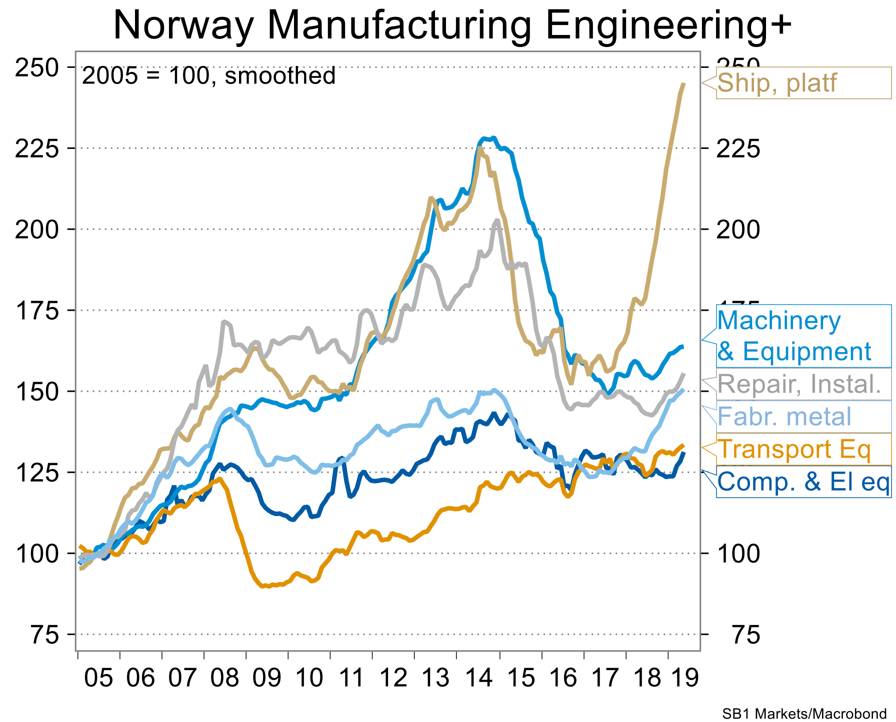


- Total manuf. production rose 0.3% m/m in May, far below expectations (our f'cast -1.0%), after a 2.5% jump in April. Production is up 4.5% y/y smoothed, the highest since 2013! Q2 will be strong – even with a sizeable decline in June – boosting GDP growth
- The upturn is merely driven by oil-related manufacturers, which are up 16% y/y, the same speed as at the 2013 growth peak! Oil companies indicate that growth will continue to accelerate in 2019 and into 2020
- Non-oil related sectors have been completely flat the past 2 years
- Surveys have softened somewhat, suggesting that growth is peaking

Production of ships & platforms is soaring, commodity sectors not impressive

Most commodities have lost steam recent months, while engineering sectors are thriving



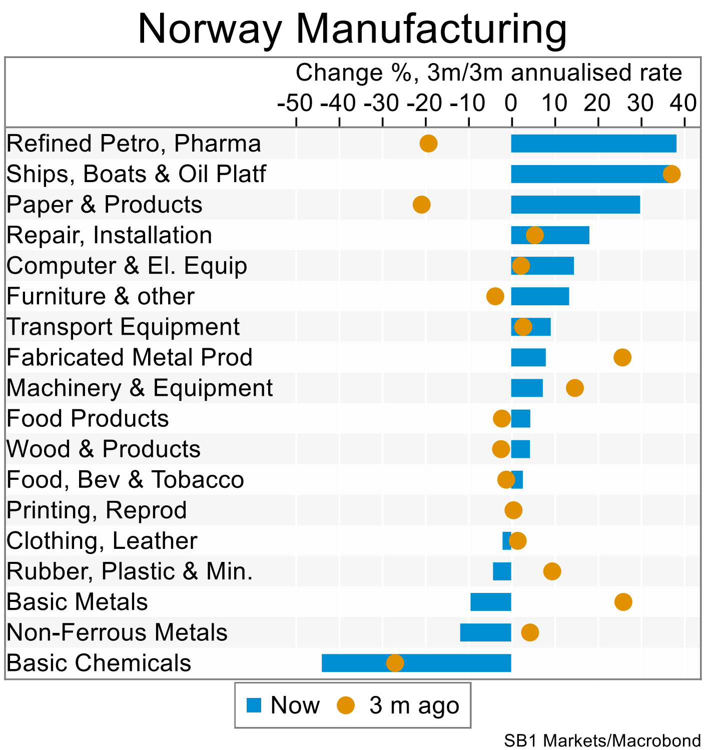


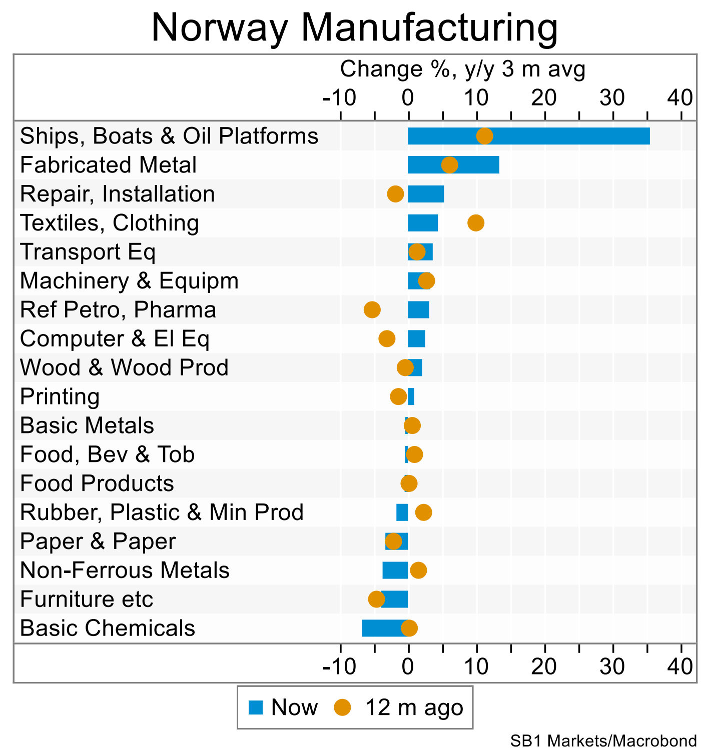
- It's almost as we do not believe it, production of ships and platforms are almost 10% higher than at the 2014 peak, in volume terms. However, the overall petro related manufacturing and support activities are down 14% from the peak in volume terms, and by 23% in value terms (as prices are lowered by almost 10%)
- Engineering sectors: ships & platforms are surging, followed by other partly oil-related sectors; both fabricated metals, machinery & equipment and repair & installation are accelerating. Computer equip. turning slowly up too?
- Commodities: All sectors ex refined petroleum and pharmaceuticals have softened recently. Metal production may still be trending very slowly up

SpareBank 1 MARKETS

Production of ships & platforms is boosting growth, not impressive elsewhere

Production is increasing in 12 sectors and accelerating in 8, while 5 sectors are declining

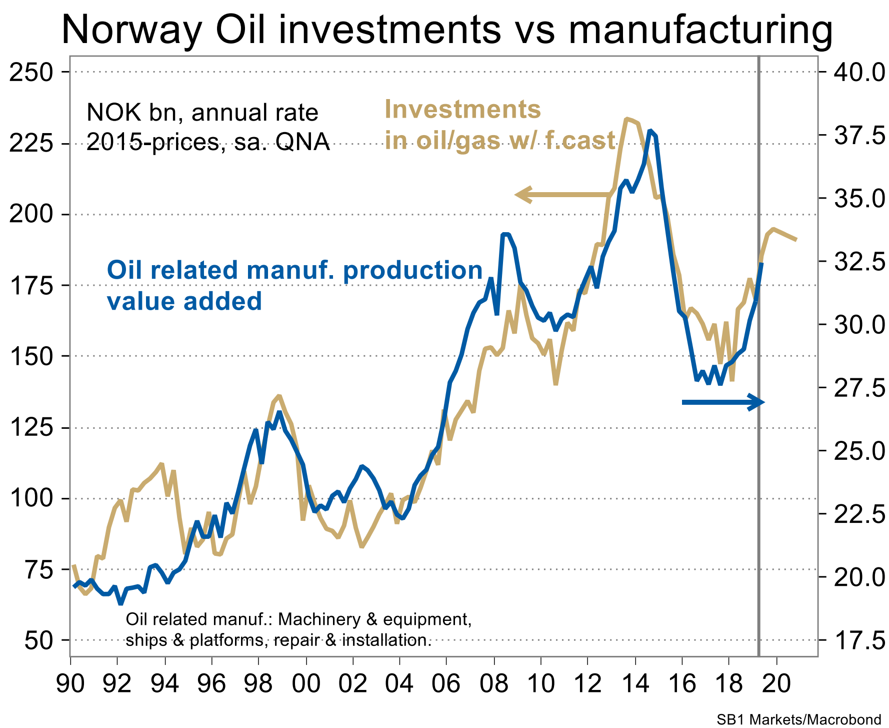




- Ships/platforms production is up 35% y/y (smoothed), an acceleration from 10% one year ago
- Not that impressive in other oil related sectors; machinery +3% y/y, repair & installation up 5%
- Production of baric chemicals, furniture, paper and non-ferrous metals are declining y/y. Refined petro & pharmaceuticals are picking up

How large is the upside in oil related industries? Not that much after the Q2 surge

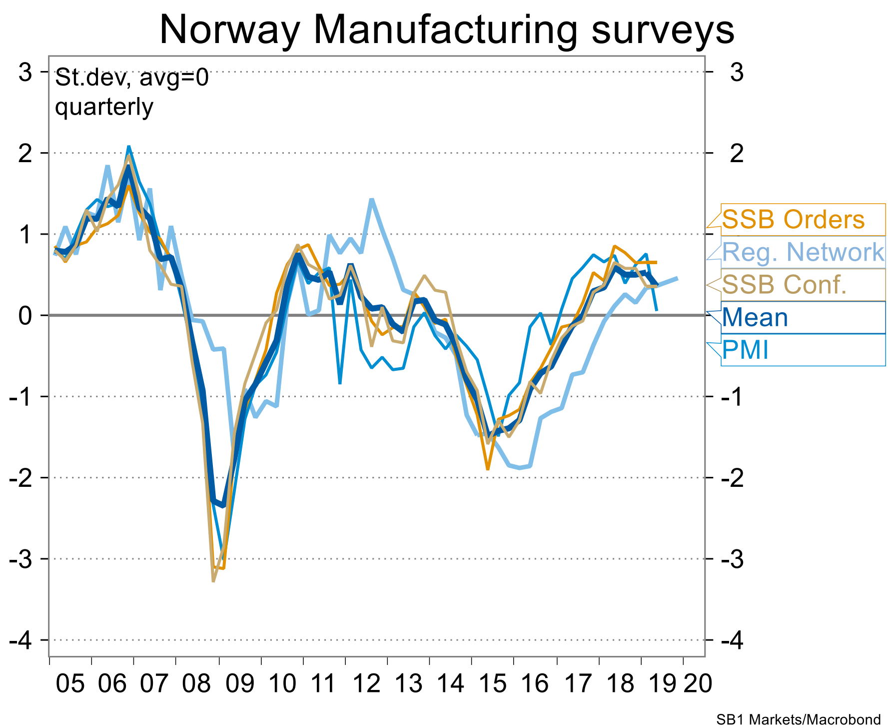
Oil companies have revised up their 2019 & 2020 investment plans but…

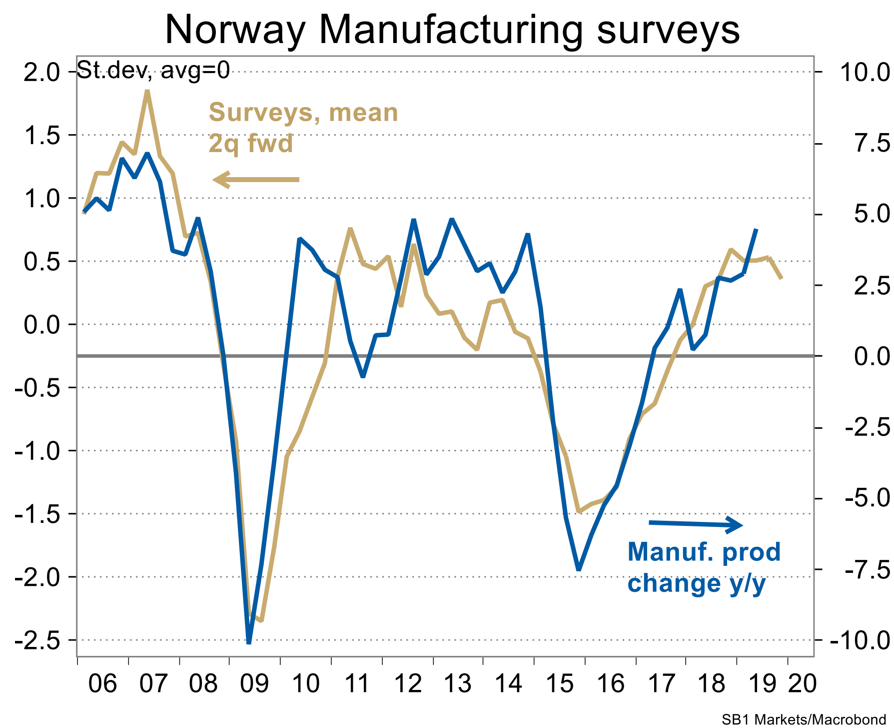


- Oil companies revised their 2019 & '20 forecasts up more than we expected in the Q2 oil & gas investment survey. Thus, the upside from the National Accounts Q1 investment level (which was – as we signalled – revised sharply down), is substantially larger than we previously assumed. We assume the investment peak (later in 2019) is some 15% above the downward revised Q1 calculated level
- However, as production in oil related manufacturing sectors have surged recent months, the likely production level in Q2 is not far below what we assume it will be, even with our (rather upbeat) estimates for investments in the oil and gas sector.
  - » It seems unlikely that higher sales abroad (less than 1/3rd of total sales or oil related manufacturing products) cannot compensate it the peak in domestic spending is as close as we assume

Manufacturing surveys do not signal an acceleration from here

SSB's confidence survey, orders and PMI have softened, suggesting production is peaking now?





- The PMI is the weakest of the surveys (and the most volatile), all others are above their respective averages, signalling still solid growth
- Unlike the others, Norges Bank's Q2 Regional Network reported accelerating growth. This survey is probably the most trustworthy and also the one which NoBa prefers

Highlights

The world around us

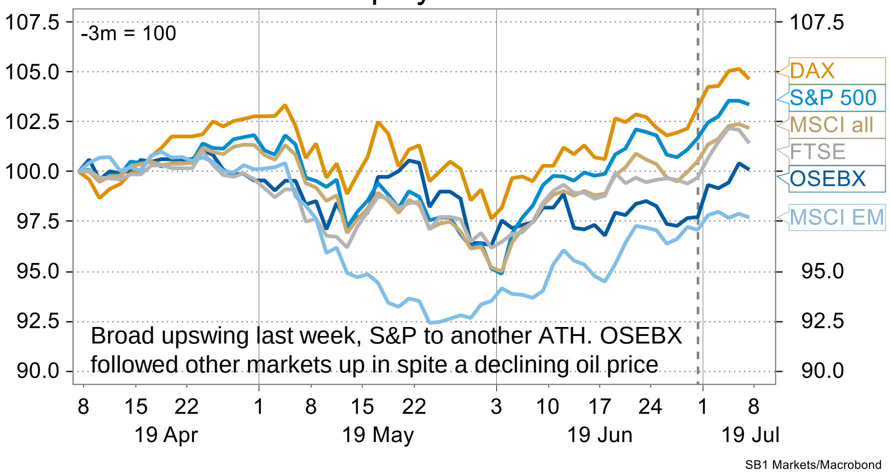
The Norwegian economy

Market charts & comments

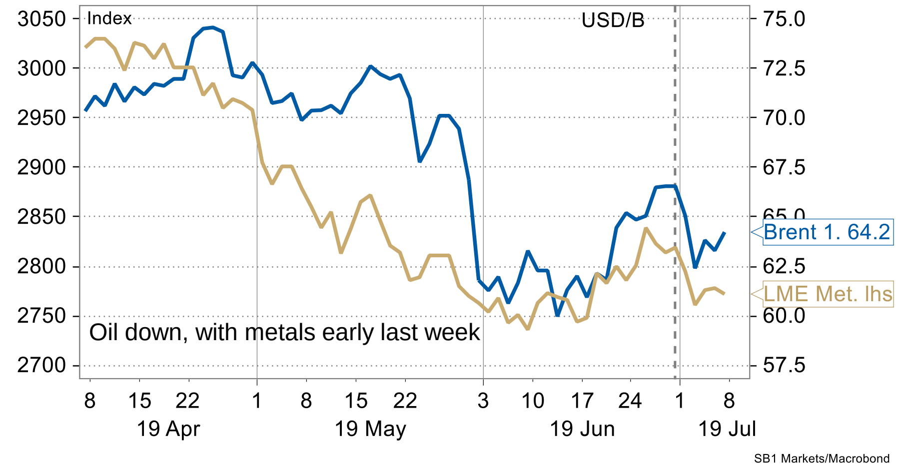
Stock markets up, bond yields fell on dovish central banks. Then came jobs report

Fed & ECB nominations sparket a rally in stock and bond markets, strong US labour market data reversed it

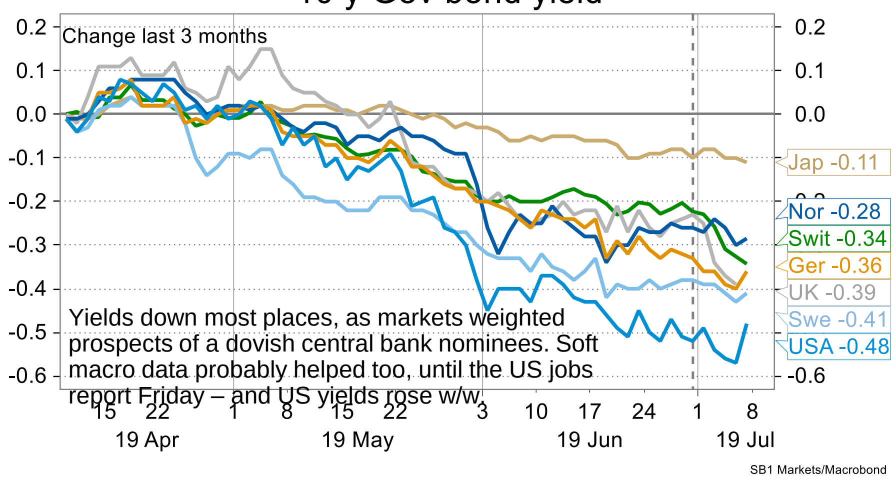
Equity Indices



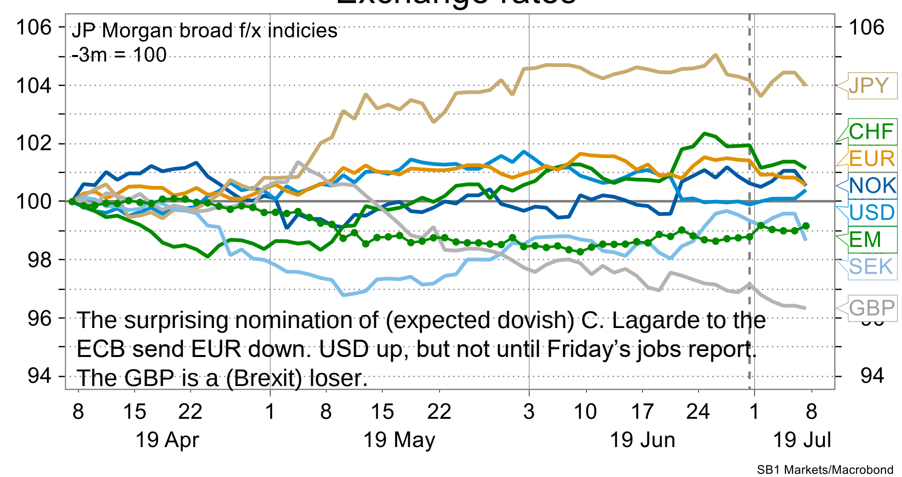
Oil vs. metals



10 y Gov bond yield



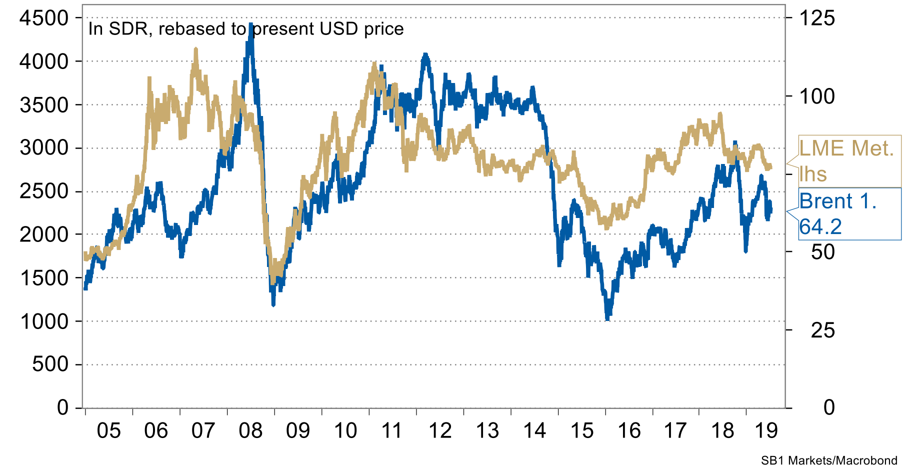
Exchange rates



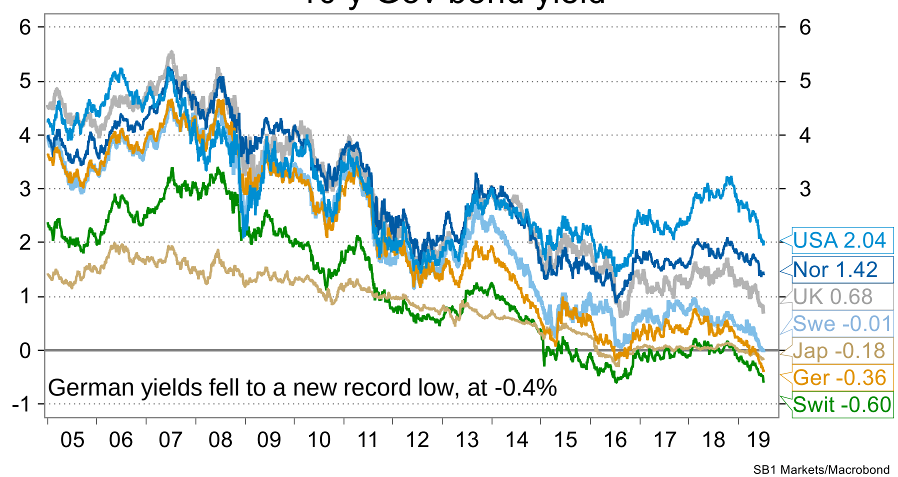
US at new ATH. It's not the economy, stupid. (It's the Fed, until further notice)

Equity Indices

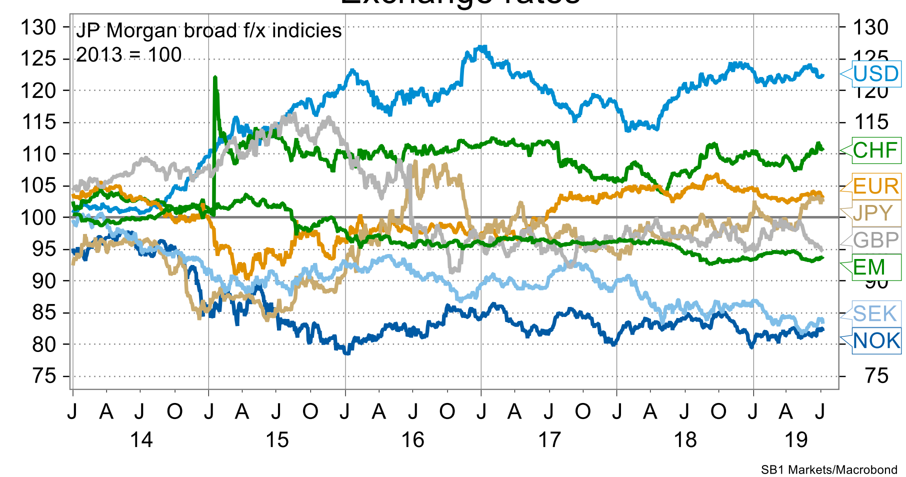
Oil vs. metals



10 y Gov bond yield



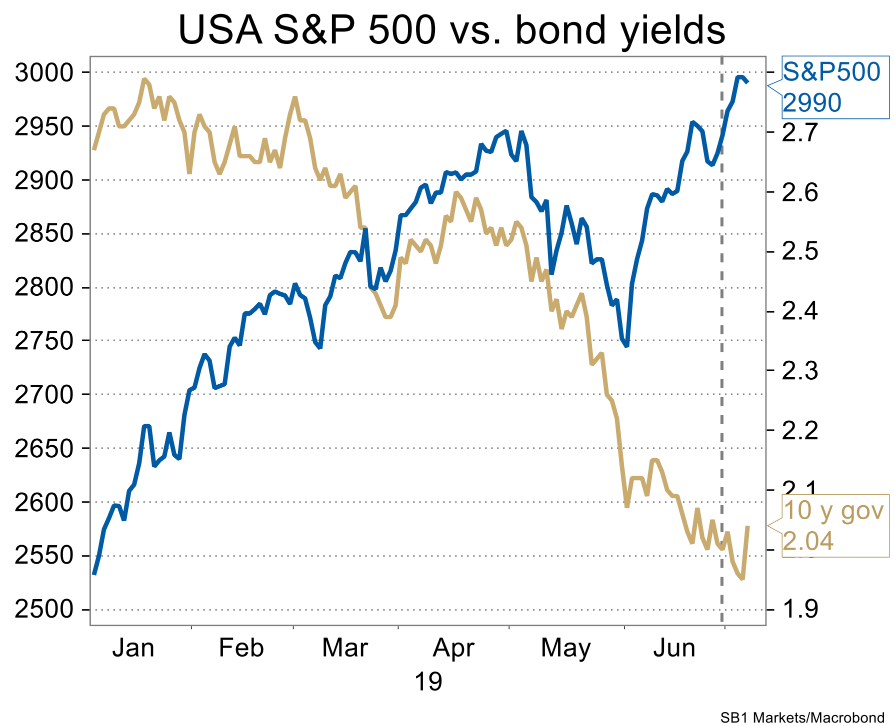
Exchange rates

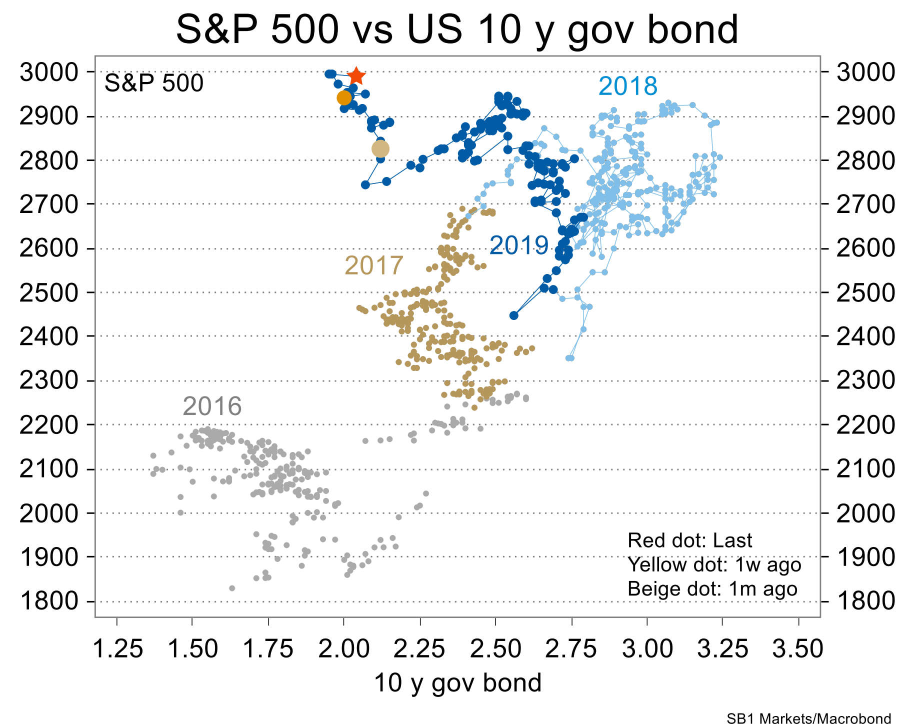


SpareBank 1 MARKETS

Yields finally up, stocks struggled a little – up on the week

Bond yields up 4 bps, to 2.05 (but hit 1.95%) for the job report. S&P500 up 1.7%

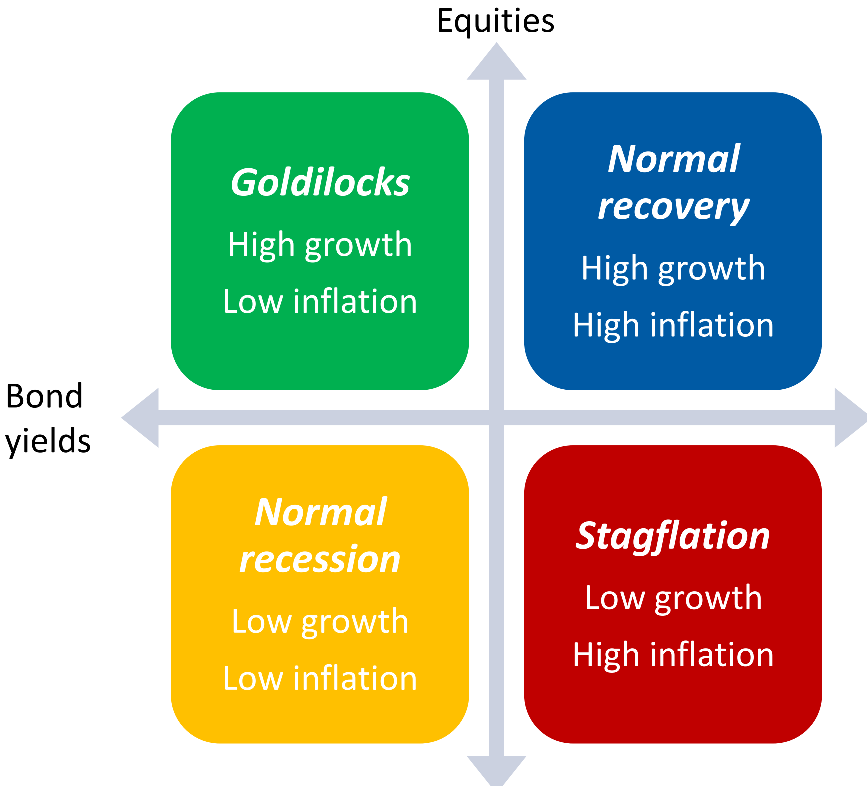


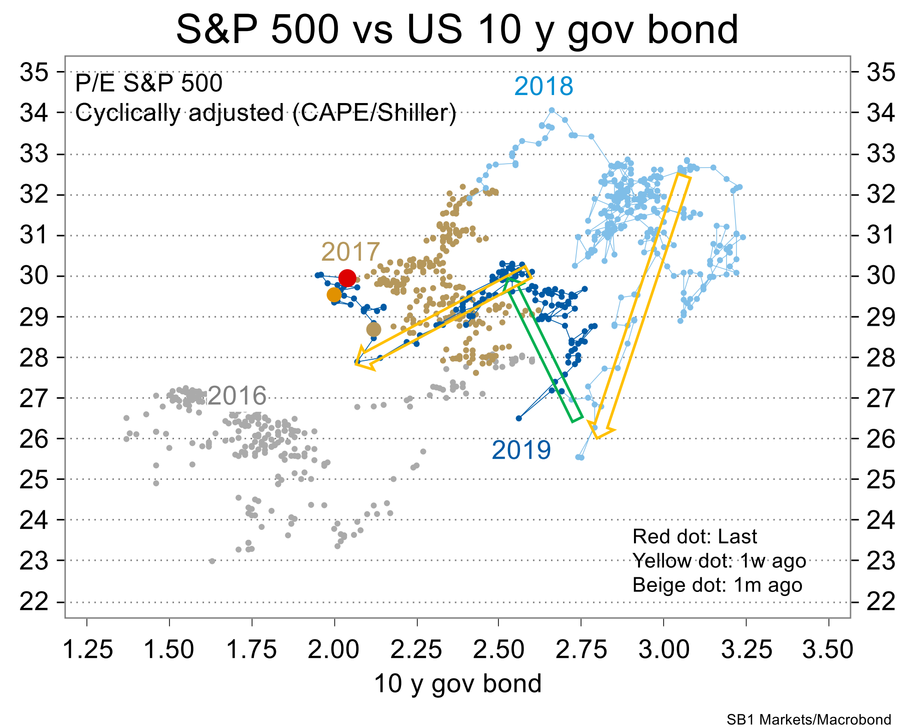


- S&P has recovered swiftly since end of May and soared to new ATHs last week, as markets are cheering prospects of a dovish central banks. Trump's announced nomination of two new Fed members, whereas one is an outspoken Fed critic, sent the S&P steeply up Thursday. The nomination of Christine Lagarde to the ECB supported equities too; she is expected to continue Draghi's dovish stance. At Friday, the job report sent yields up close to 10 bps, and the stock market took a break
- <u>For more on the relation between stocks and bonds, check next page</u>

Markets towards 'normal recovery' last week: Yields, equities up

The move in the Goldilocks' direction is done for now? Only a Fed surprise can repeat the trick?



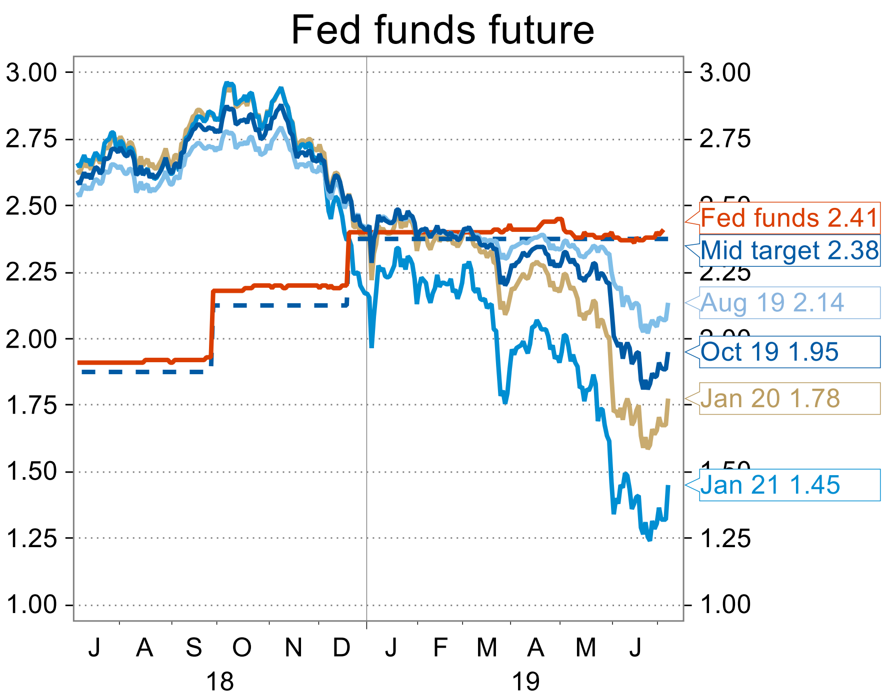


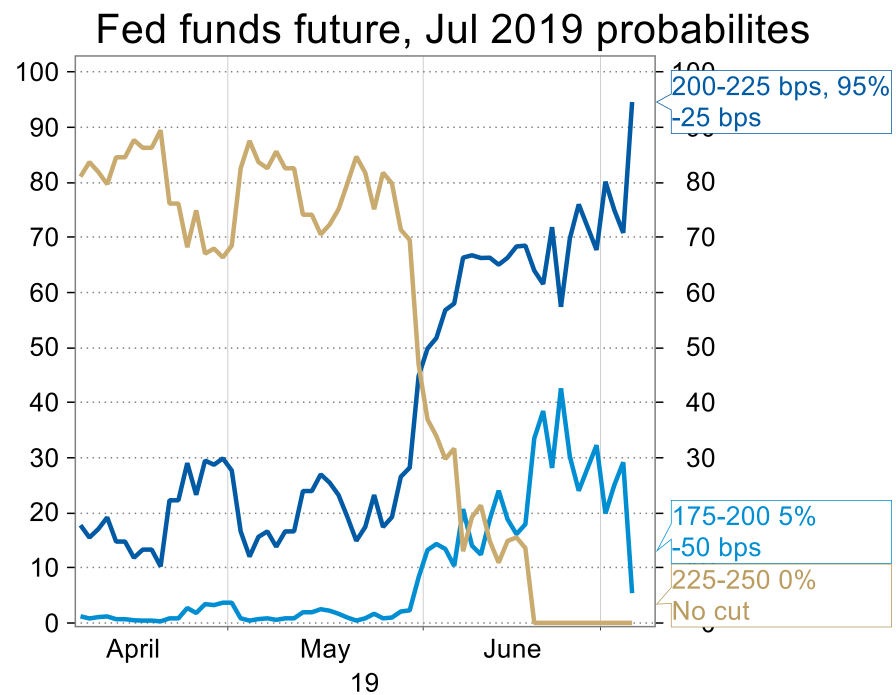
- During May, both stocks and bond yields fell sharply, towards the 'normal recession' corner. The 'yielding' signals from the Fed (and other central banks) during June then pushed bond yields further down, and stock markets up – in the Goldilocks direction.
- Last week both yields and stock markets rose, due to better growth signals (even if the sharp increase in yields following the job report was too much for the stock market – and we cannot rule out more of the same if macro data are strong.
- However, we still think 'normal' axis, driven by growth, and with inflation (or at least interest rates) over time following growth up or down. (the yellow/blue axis)
- We are – longer term – not that worried for the 'Stagflation' corner, 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

SpareBank 1 MARKETS

Fed funds futures turning up, and a 50 bps July cut is ulikely. But 25? For sure!

Prob. of a 50 bps cut is reduced to 5%! Markets are still expecting at least 3 cuts this year by 60%

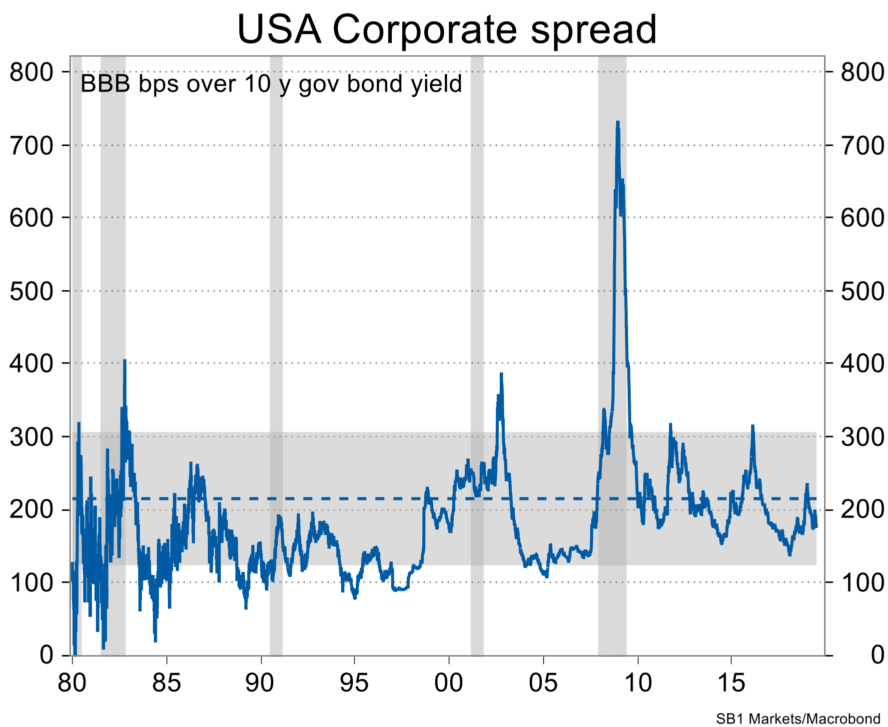


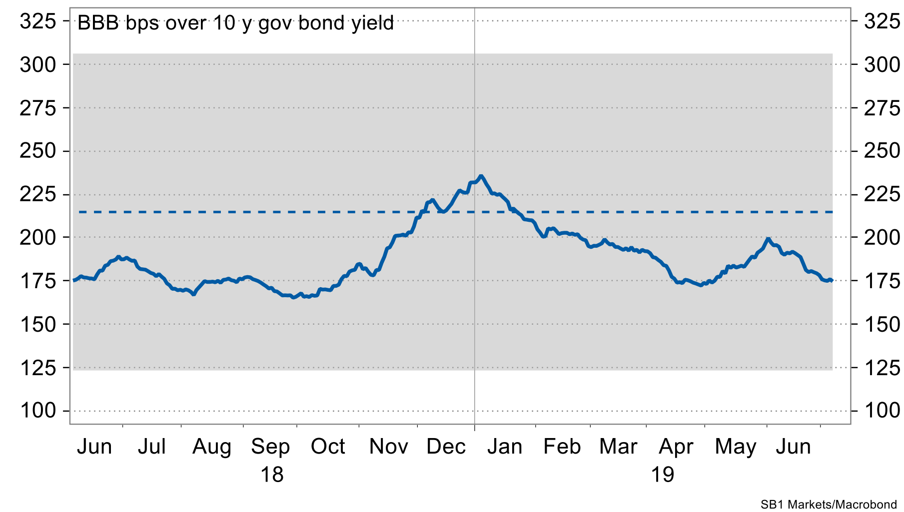


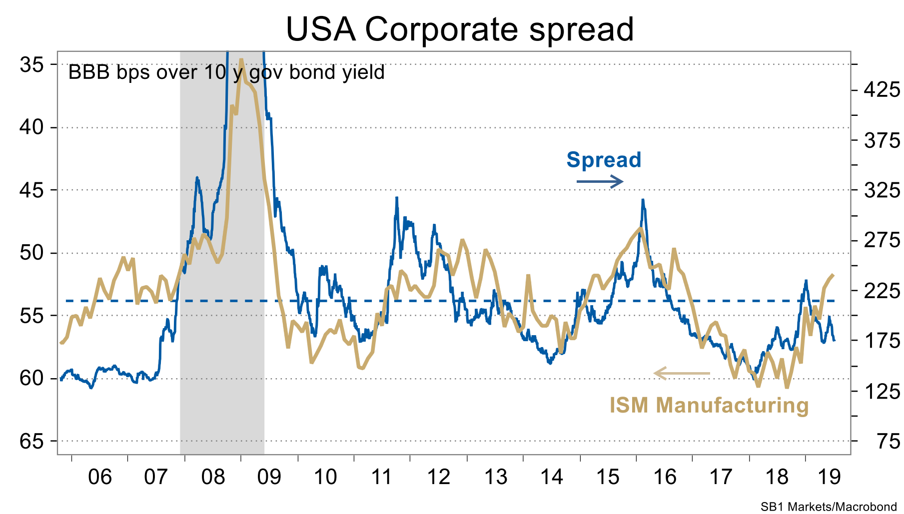
- Fed funds future were on the way up before Friday – and then got a 5 – 15 bps lift, due to the 'strong' payroll report
- The market still take it for granted that Fed will cut the signal rate at the end of July meeting, but the probability of a 50 bsp cut has fallen from above 40% two weeks ago, via 29% Thursday and down to 5% after the jobs report Friday
- Further cuts are expected before end of year, the market puts a 41% probability for at least 3 cuts, and just 15% for 1 cut (and completely rules out no cut)
- We still think the market is too optimistic. Sure, the Fed may cut several times – but that requires a much weaker economy

Credit spreads marginally 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>

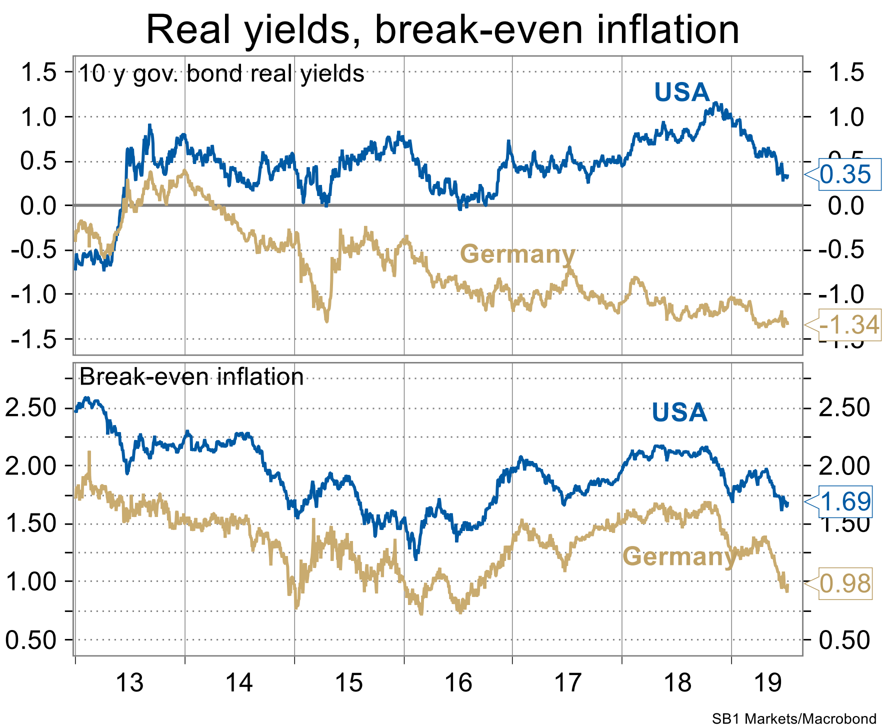


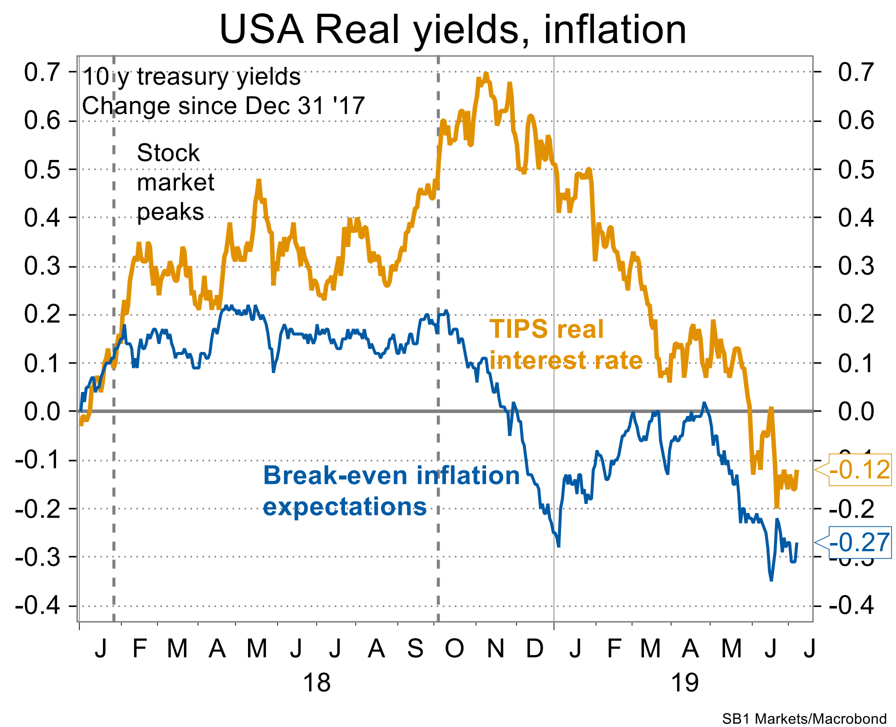




Lion's share of drop in nominal rates is due to real rates, thus, central banks

Growth concerns, easing inflation + oil price, dovish central banks have sent yields down this year



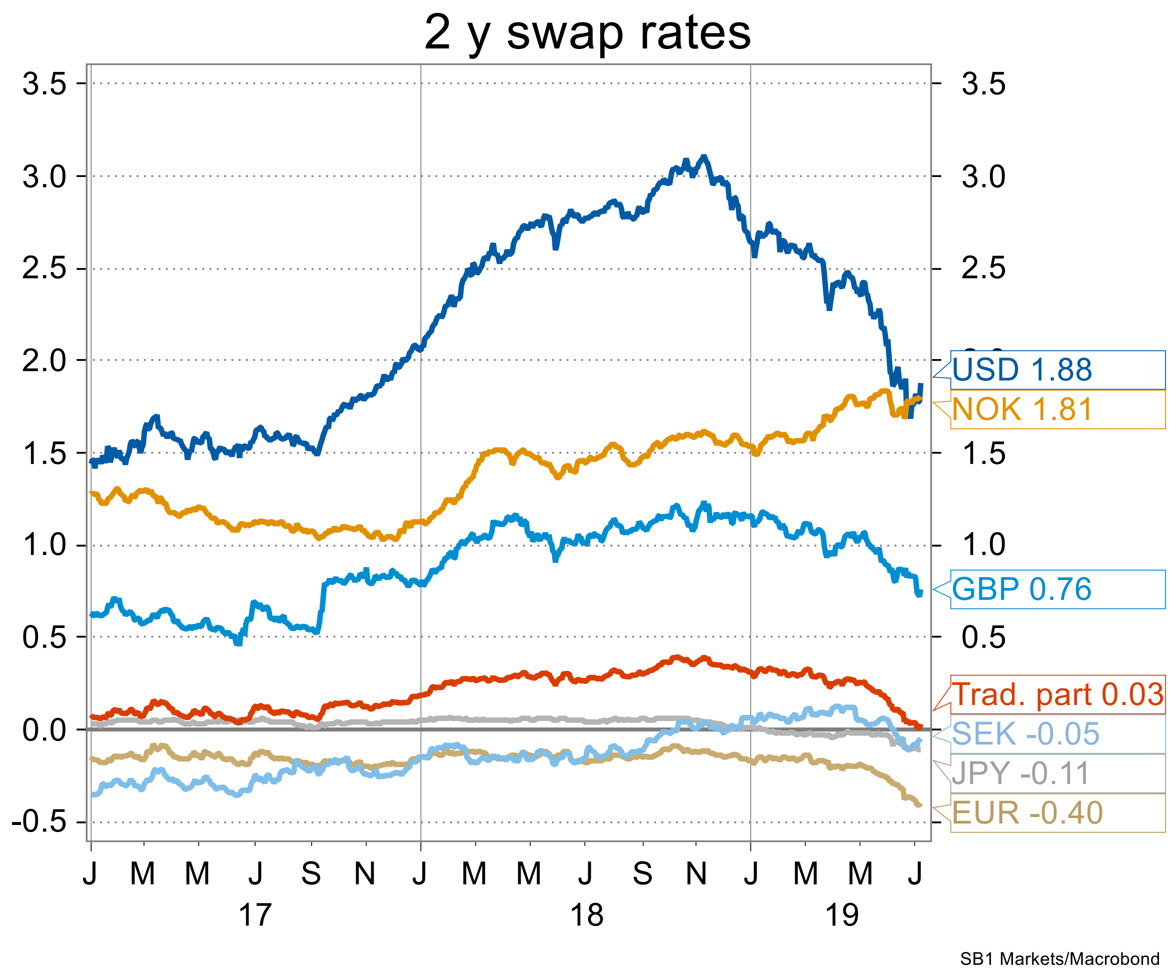


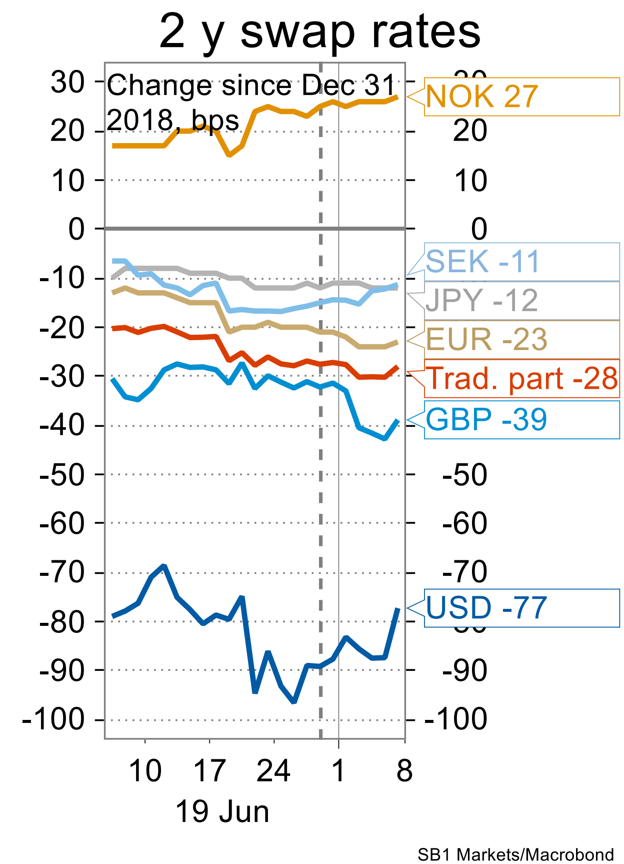
- Some stability in real rates/inflation expectations recent weeks. Last week, both rose marginally
- US 10 y real rates at 0.35%, down 82 bps from the peak in November 2018. 10 y inflation are 1.69%, down 48 bps - and somewhat below Fed the target
- German real rates have fallen to -1.34%, inflation expectations at 0.98%, both very low

SpareBank 1 MARKETS

US, Swedish, Norwegian short term rates up, down elsewhere

Last week, US 2 y rates were held up by reduced short term cut expectations, while EUR, GDP slipped

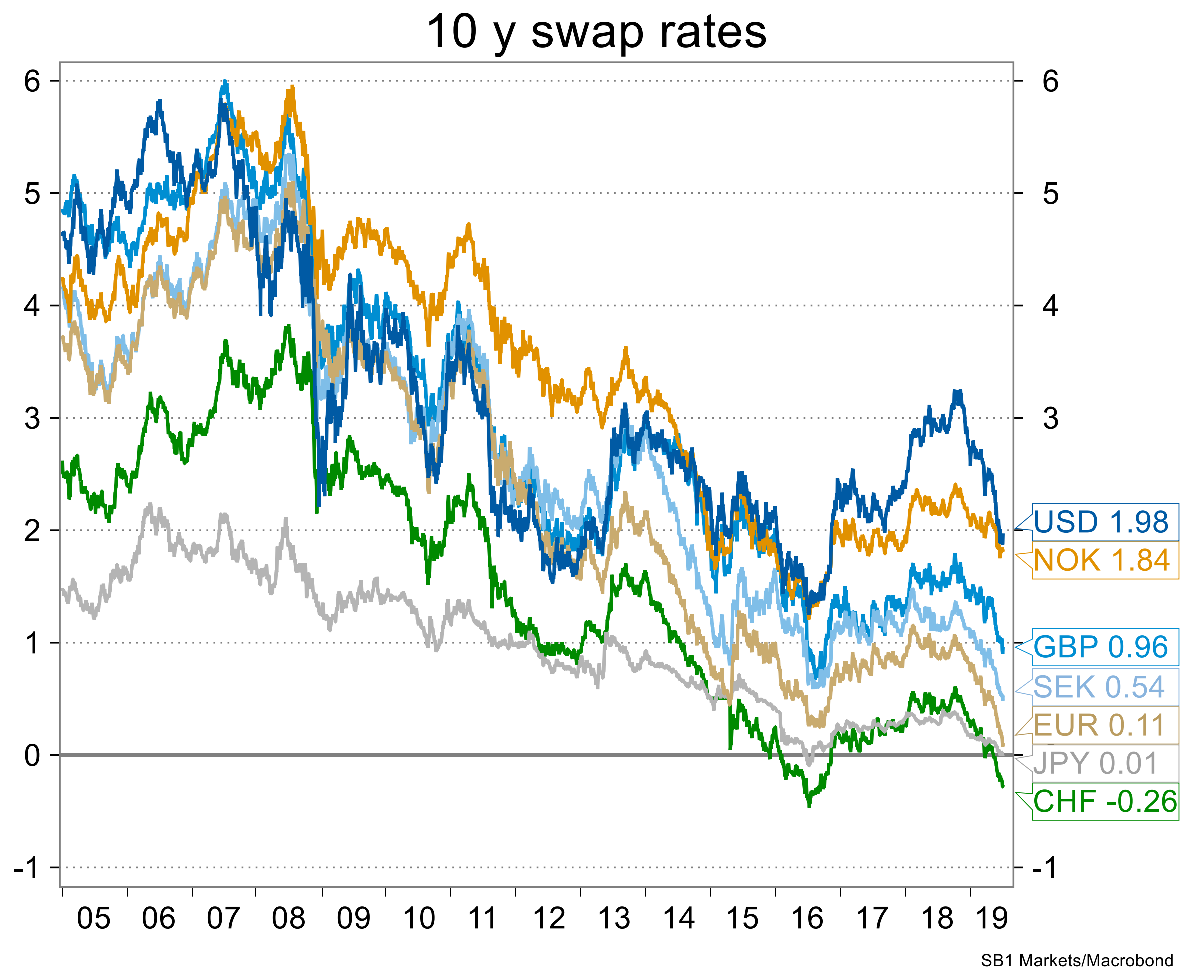


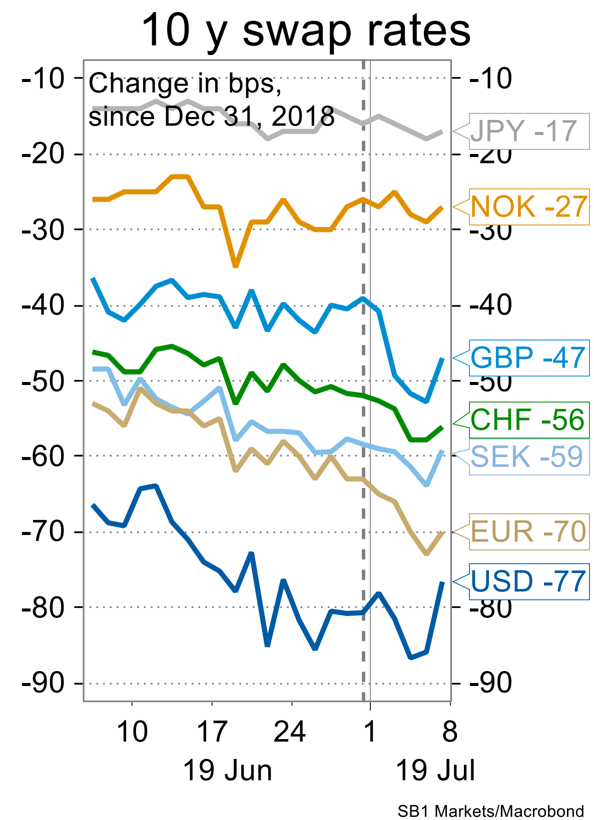


SpareBank 1 MARKETS

US long term swap rates up, down elsewhere

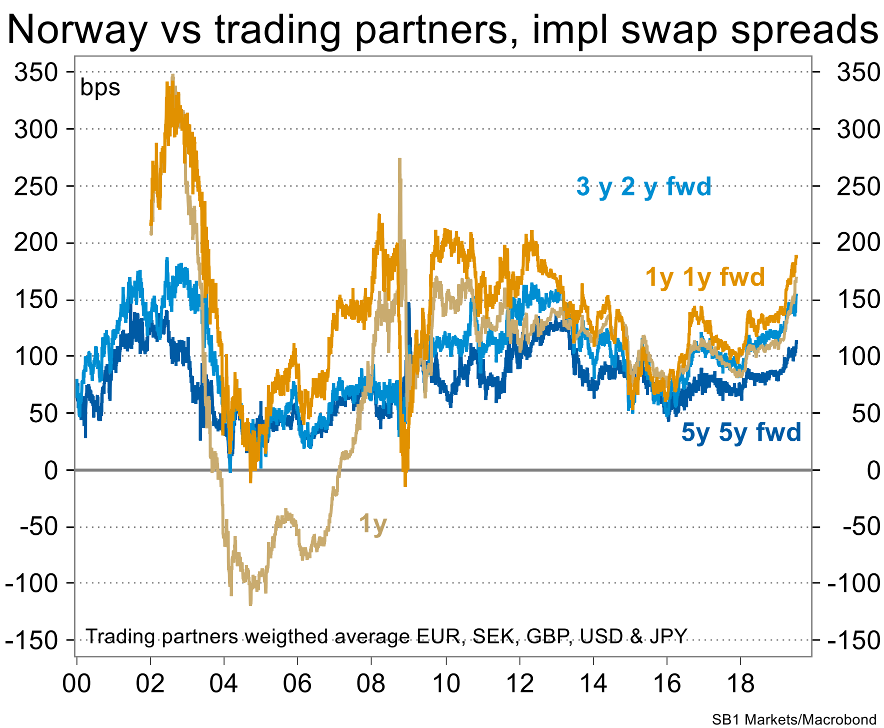
Still, over the recent months, US rates have fallen more then other places

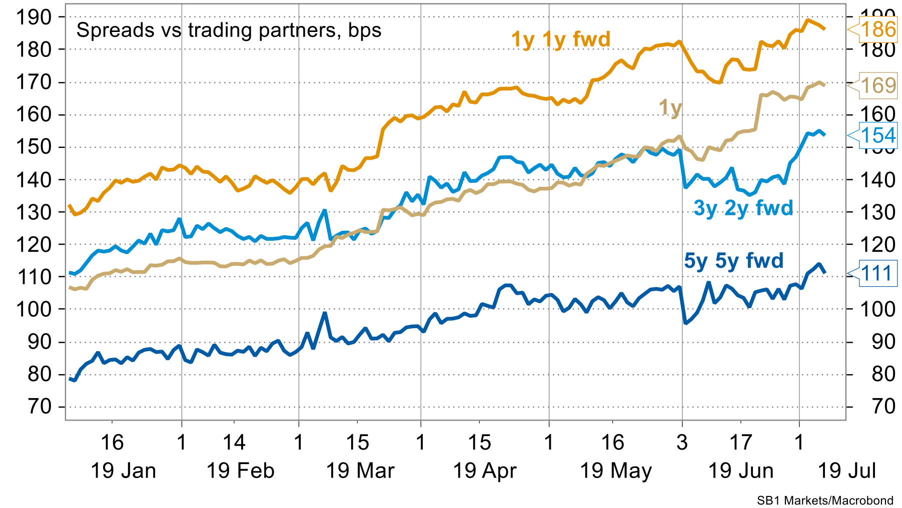


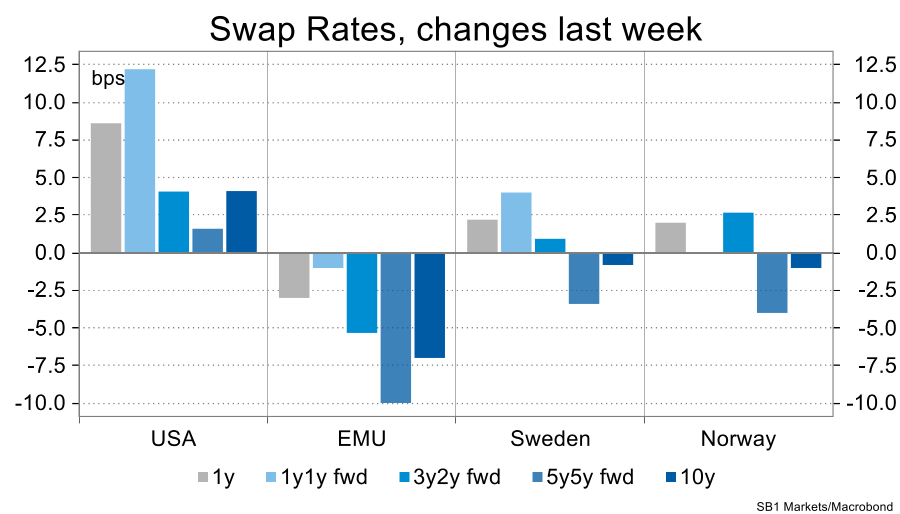


Swap spreads up all over the curve – and too high from 3y onwards

Norges Bank walks alone, trading partners' long swap rates are falling (but not short rates last week)





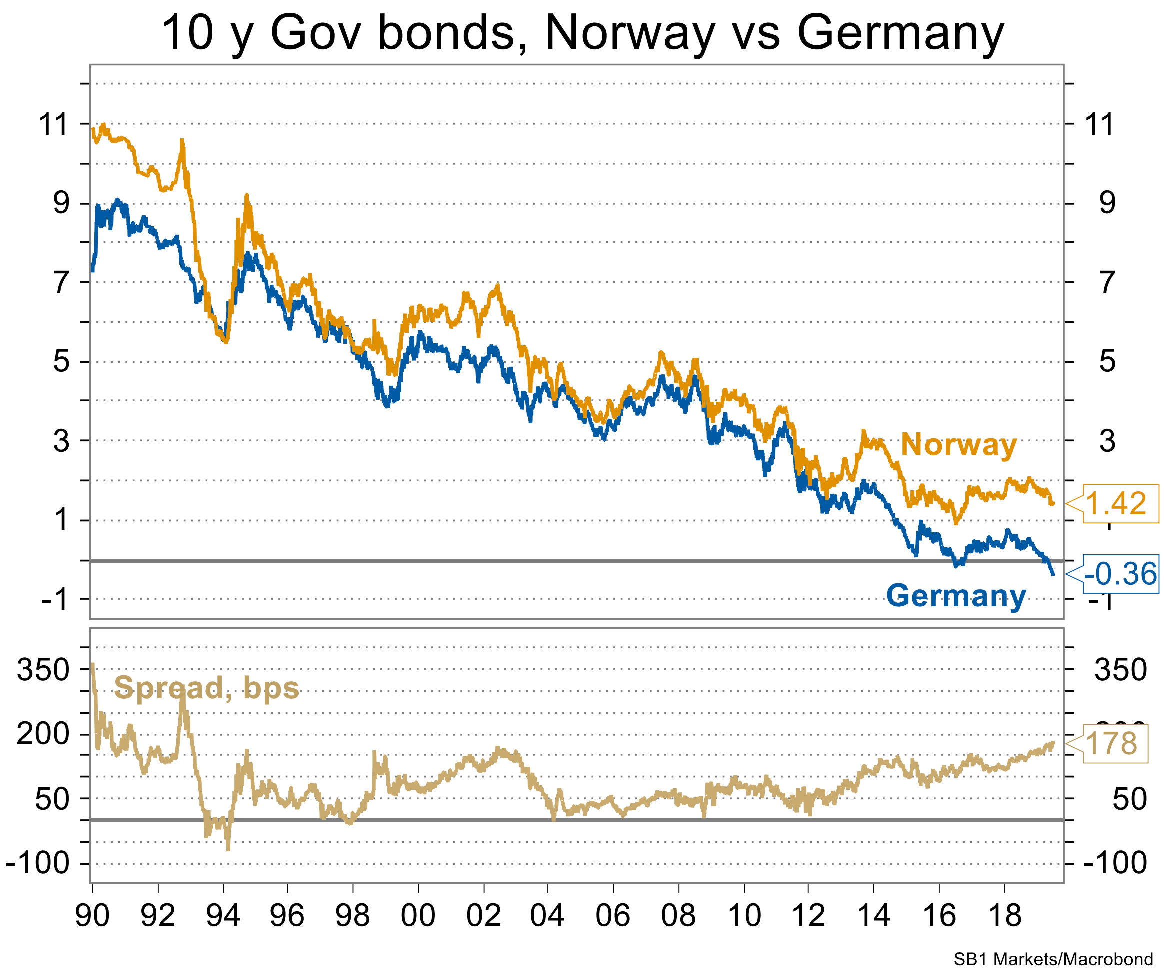


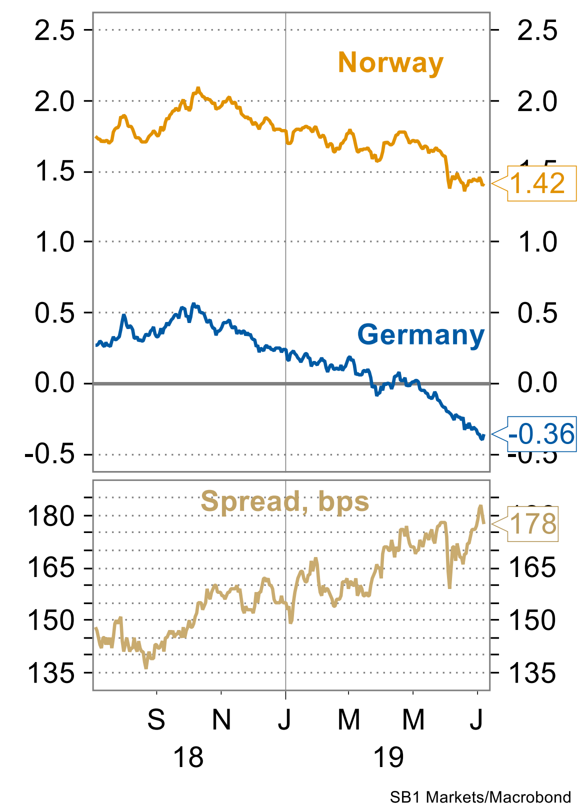
- A high spread is reasonable, given NoBa's stance vs Fed, ECB and the Riksbank (which is due to solid Norwegian data, not a really hawkish bank..)
- Although the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March

SpareBank 1 MARKETS

German Bund down to -0.40%, a new all time low (but up to -0.36% Friday)

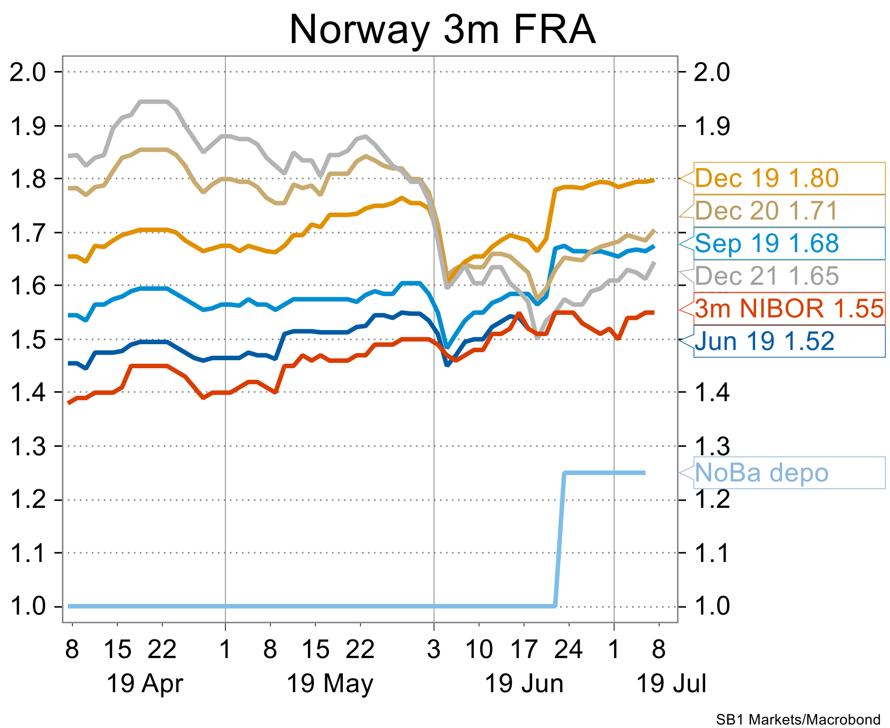
NOK 10 y gov down to 1.42 - the spread at 178 bp is far too rich, long term

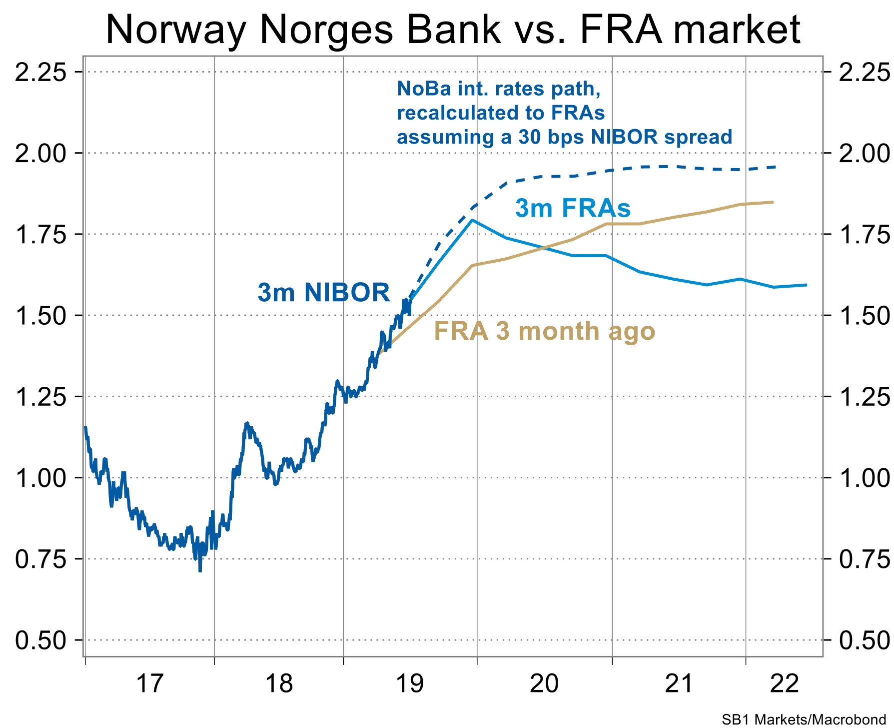




Norwegian FRAs climb, Sept '19 contract implies close to 50% prob. of a Sept hike

FRA's are edging up, the market is fully expecting another '19 hike (given a 30 bps NIBOR spread)



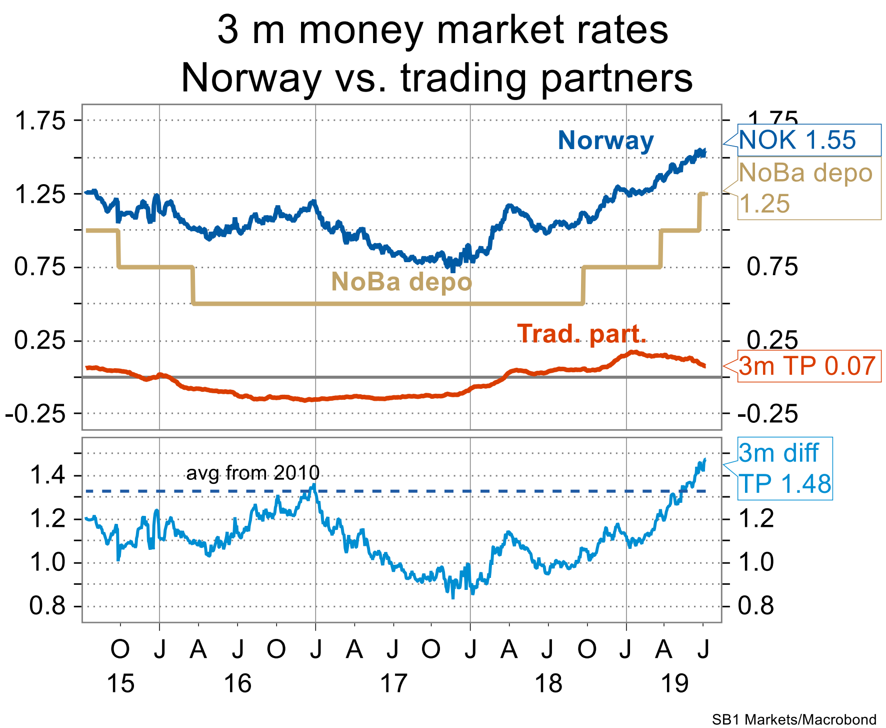


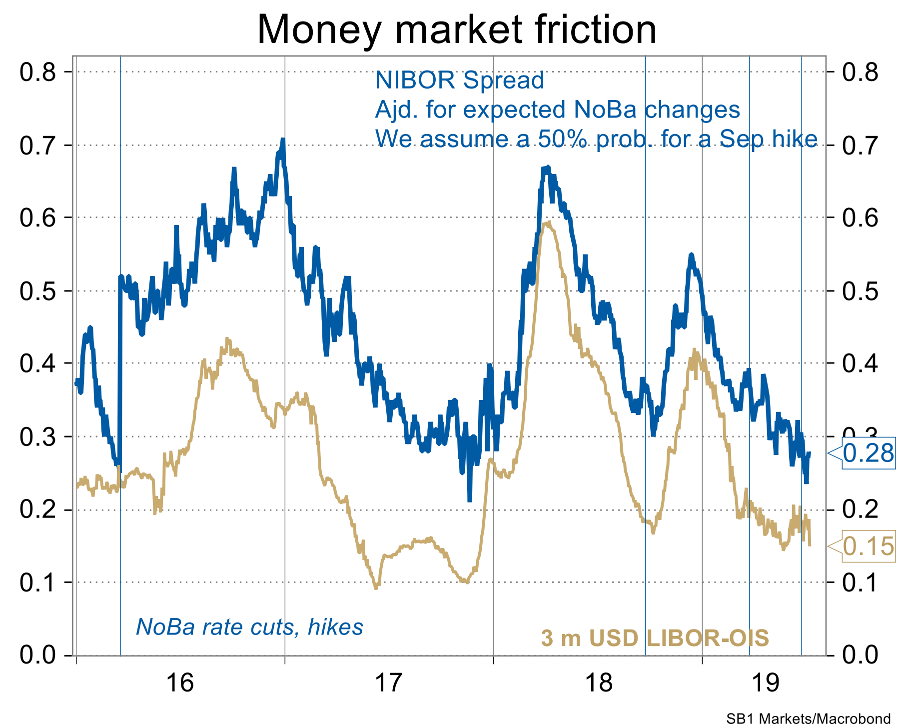
- The NIBOR Dec '19 FRA rose marginally last week, to 1.80%, thus, fully pricing a NoBa hike in late 2019, if assuming a unchanged money market spread, at 30 bps – which now seems very reasonable.
  - » The spread is 5 bps below NoBa's f'cast (and it remains stable, 10 bps lower than NoBa assumed from October onwards
- The FRA curve is inverted from Dec 19 onwards, the market does not expect any hikes after 2019 (NoBa plans 1 in '20)

SpareBank 1 MARKETS

3m NIBOR back at 1.55%, as the market is starting to discount a Sept hike

The US 3m OIS spread down last week

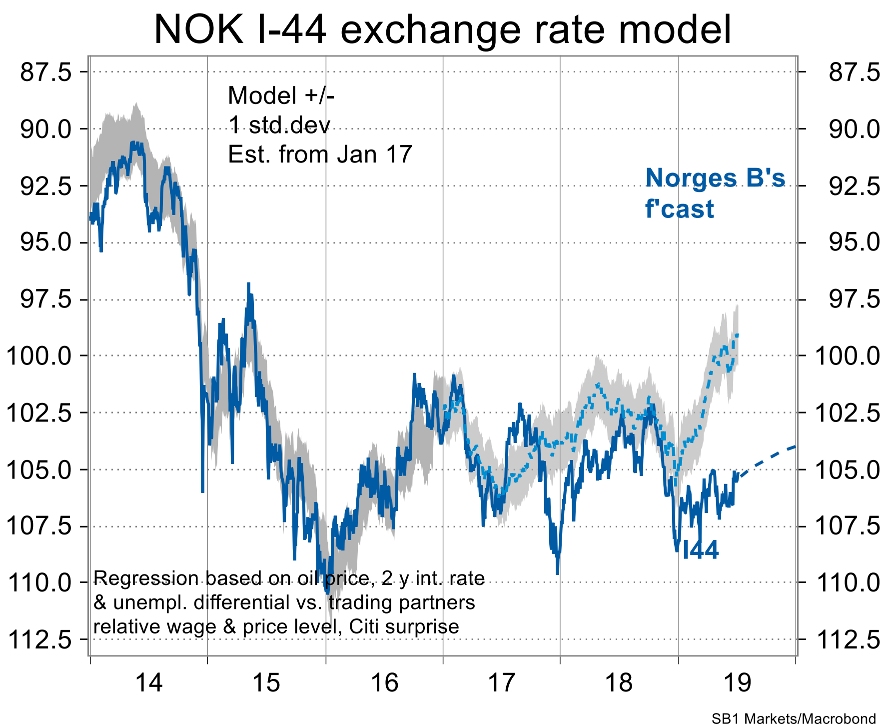


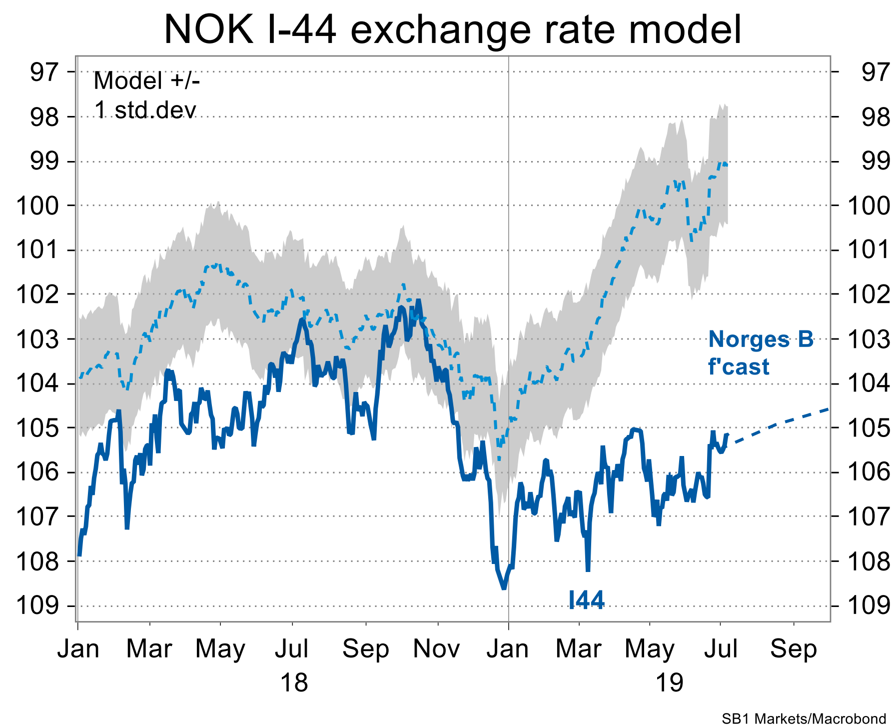


- The spread between NOK and trading partners' 3 m money market rates at 1.48 bps is up almost 70 bps since December 2017 and is above the 10 past year's average – without sending the NOK into the orbit

NOK appreciated marginally – the gap is still 6%

The NOK remains low even if the interest rate spread vs trading partners is high

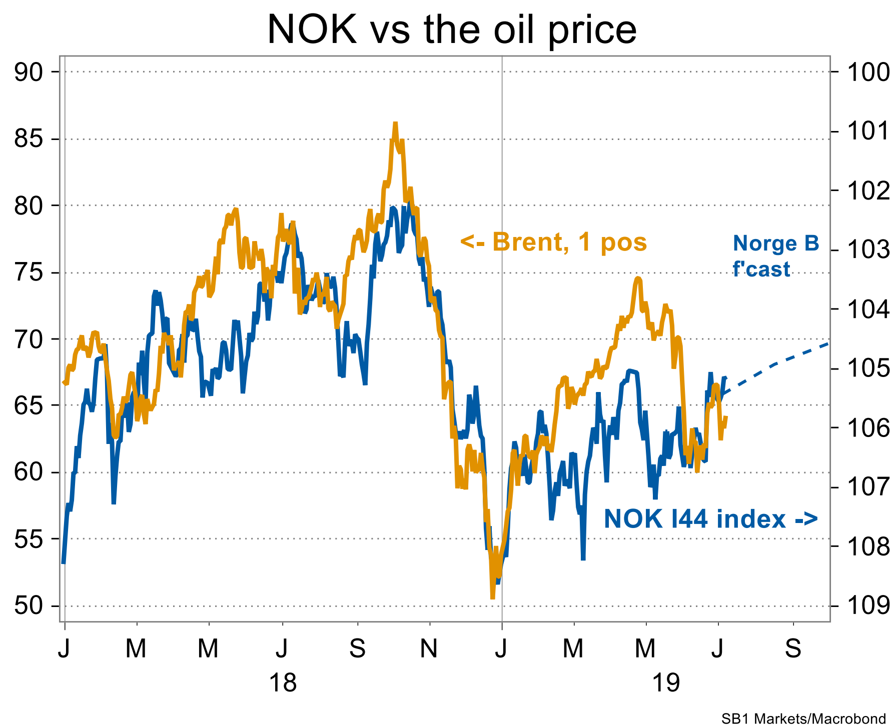


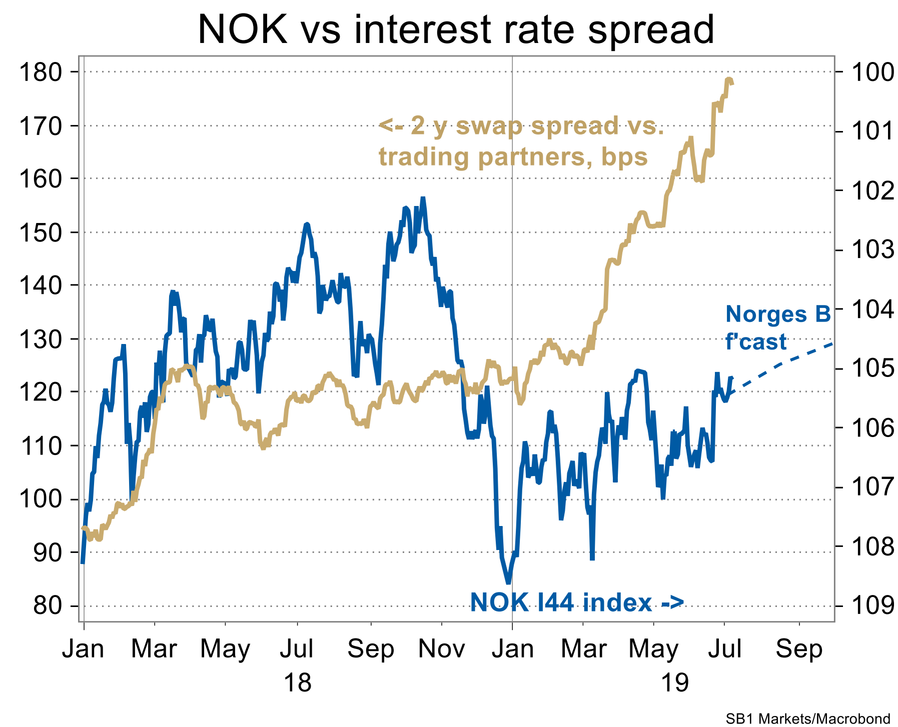


- The model forecast up with higher interest rate differential and a rising oil price recent weeks (but stable last week). The NOK appreciated marginally last week but is still 6% below the model f'cast
- What explains the (extra) weakness vs the model estimate since March?
  - » Norwegian macro data has not been weak, especially vs. other countries
  - » Risk aversion? Well, stock markets, EM currencies are up
  - » Weakness in other supercycle currencies may be an explanation. A NOK model based on AUD, CAD (& the SEK, even if it is not really needed in the model) 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**

NOK is weak vs the interest rate spread, not so much vs the oil price

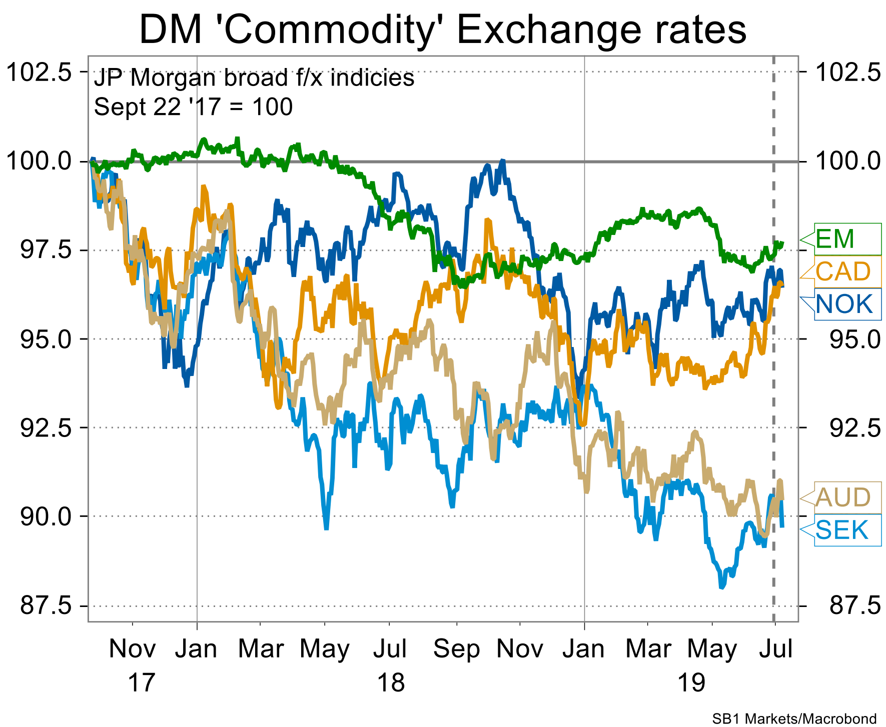
… at least vs the short term oil price/NOK correlation

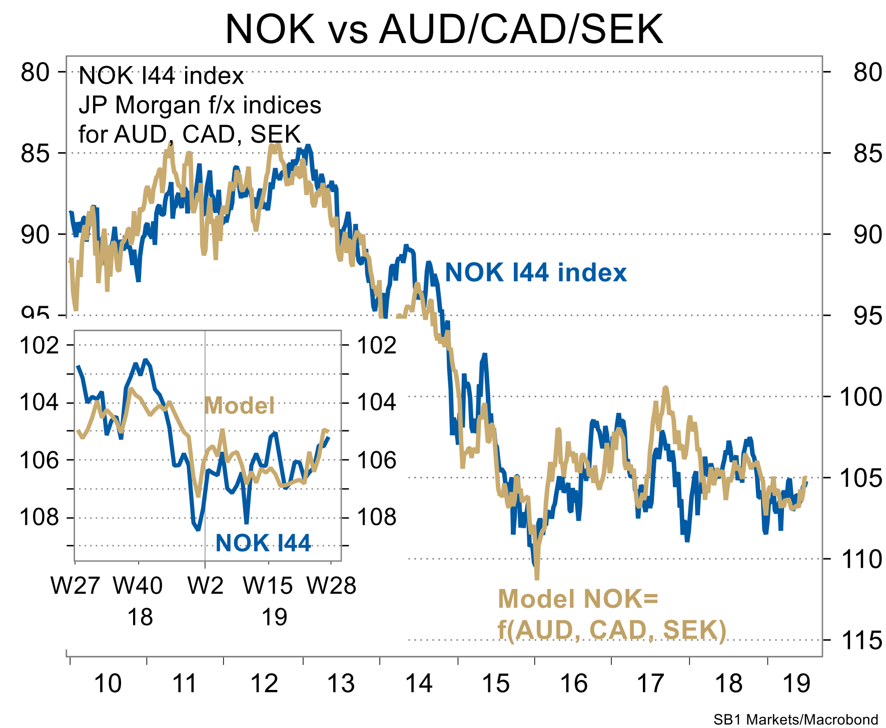




NOK follows our supercycle pals pretty well over time – and now

Forget oil, NOK interest rates and all the other factors. Just look at AUD, CAD (& SEK, but not needed)

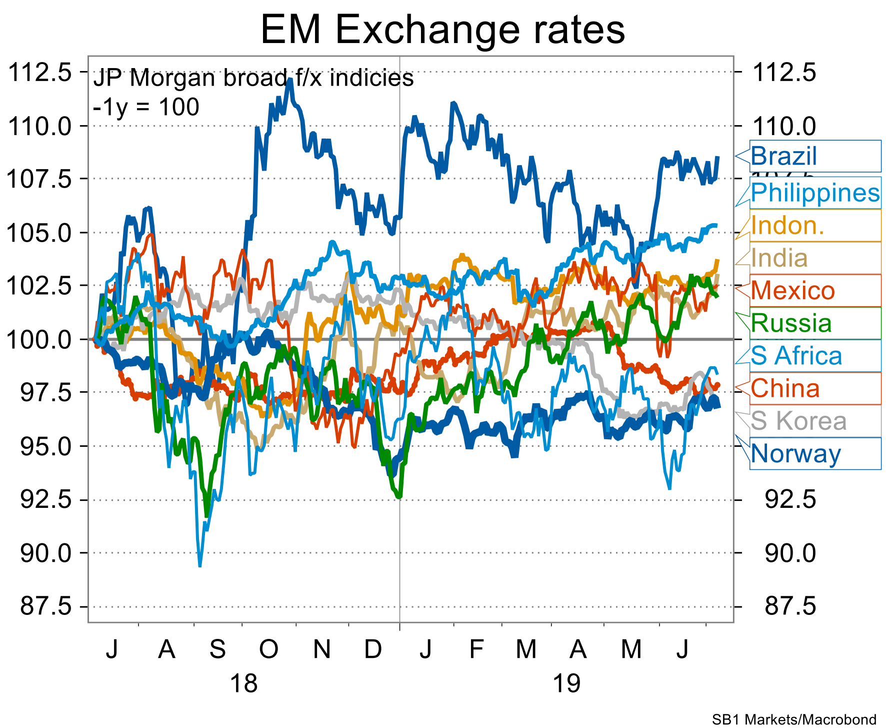


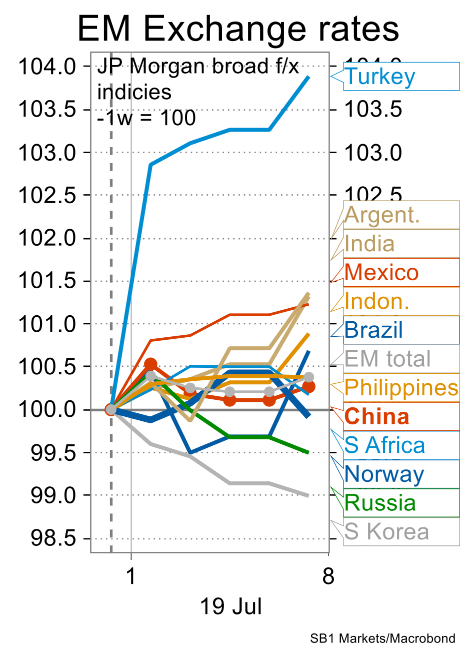


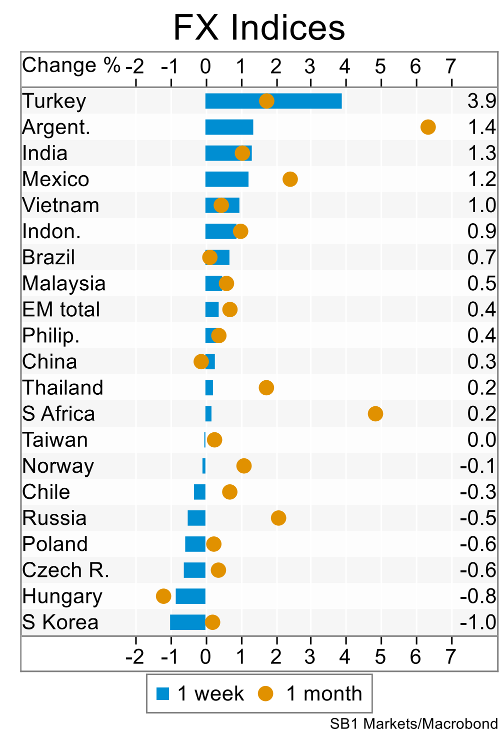
- NOK is much weaker than our workhorse model predicts, and much lower than others' models suggests (NoBa's model miss is almost twice as large as our model's residual)
- If we just model NOK as a function of AUD, CAD and SEK indices, the 'new' NOK weakness since 2017 is much better explained. It was the supercyclicals that fell out of favour – not the NOK (except for some extra NOK weakness late 2017)
- What is the common factor for these currencies? It could be raw material prices, but they do not explain it. Quite similar bubble economies w/ debt & housing risk? China risk?

Most EM f/x up last week. The Turkish lira won last week (but not this week?)

Pres Erdogan sacked the Turkish central bank governor during the weekend, he was too hawkish…







- This morning, the lira is down 2% - still higher than one week ago. But that could change…
- Another president is continuously criticising 'his' central bank governor for being totally incapable, but so far not given him the pink slip. But that's outside the EM universe
- Quite unusual: Only the and the Hungarian forint is significantly down over the past month (the CNY is marginally down). An obvious risk on signal

DISCLAIMER

DISCLAIMER

SpareBank 1 Markets AS ("SB1 Markets")

This report originates from SB1 Markets' research department. SB1 Markets is a limited liability company subject to the supervision of The Financial Supervisory Authority of Norway (Finanstilsynet). SB1 Markets complies with the standards issued by the Norwegian Securities Dealers Association (VPFF) and the Norwegian Society of Financial Analysts.

No investment recommendation

Any views and opinions relating to securities mentioned in this report should be interpreted as general market commentary, and not as investment recommendations within the meaning of section 3-10 of the Norwegian Securities Trading Act.

No personal recommendation

The information contained in this publication is general and should not be construed as a personal recommendation within the meaning of the Norwegian Securities Trading Act, section 2-3 (4). It does not provide individually tailored investment advice regarding a particular financial situation, investment experience, risk profile or preferences of the persons who may receive this report. For tailored investment advice regarding stocks mentioned in this publication, please consult our brokerage desk or your individual investment advisor.

Research for the purposes of unbundling

This report is deemed to constitute a minor non-monetary benefit for the purposes of the inducement rules under MiFID II. The report is publicly available on our website (no log-in required).

Conflicts of interest

SB1 Markets, affiliates and staff may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) in any stock mentioned in this publication. To mitigate possible conflicts of interest and counter the abuse of confidential information and insider knowledge, SB1 Markets has set up effective information barriers between divisions in possession of material, non-public information and other divisions of the firm. Our research team is well versed in the handling of confidential information and unpublished research material, contact with other divisions, and restrictions on personal account dealing. The views expressed in this report accurately reflect the analyst's personal views about the companies and the securities that are subject of the report, and no part of the research analyst's compensation is related to the specific recommendations or views expressed in this report.

Accuracy of sources

All opinions and statements in this publication are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication and may be subject to change without notice. SB1 Markets has taken all reasonable steps to ensure that the information contained in this report is true and not misleading. Notwithstanding such efforts, we make no guarantee as to its accuracy or completeness.

Risk information

Return on investments is inherently exposed to risks. The value of an investment position may both rise and fall during the investment period. If the return on investments is positive at one time, there is no guarantee that it will remain such in future. In certain cases, losses may exceed the sum of the original investment.

Limitation of liability

Any use of information contained in this report is at your own individual risk. SB1 Markets assumes no liability for any losses caused by relaying on the information contained in this report, including investment decision taken on the basis of this report.

Limitation on distribution

This publication is not intended for, and must not be distributed to, individuals or entities in jurisdictions where such distribution is unlawful.