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# Macro Research

## Weekly update 32/2019

**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

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*The elements on the the page "In this report" are linked*
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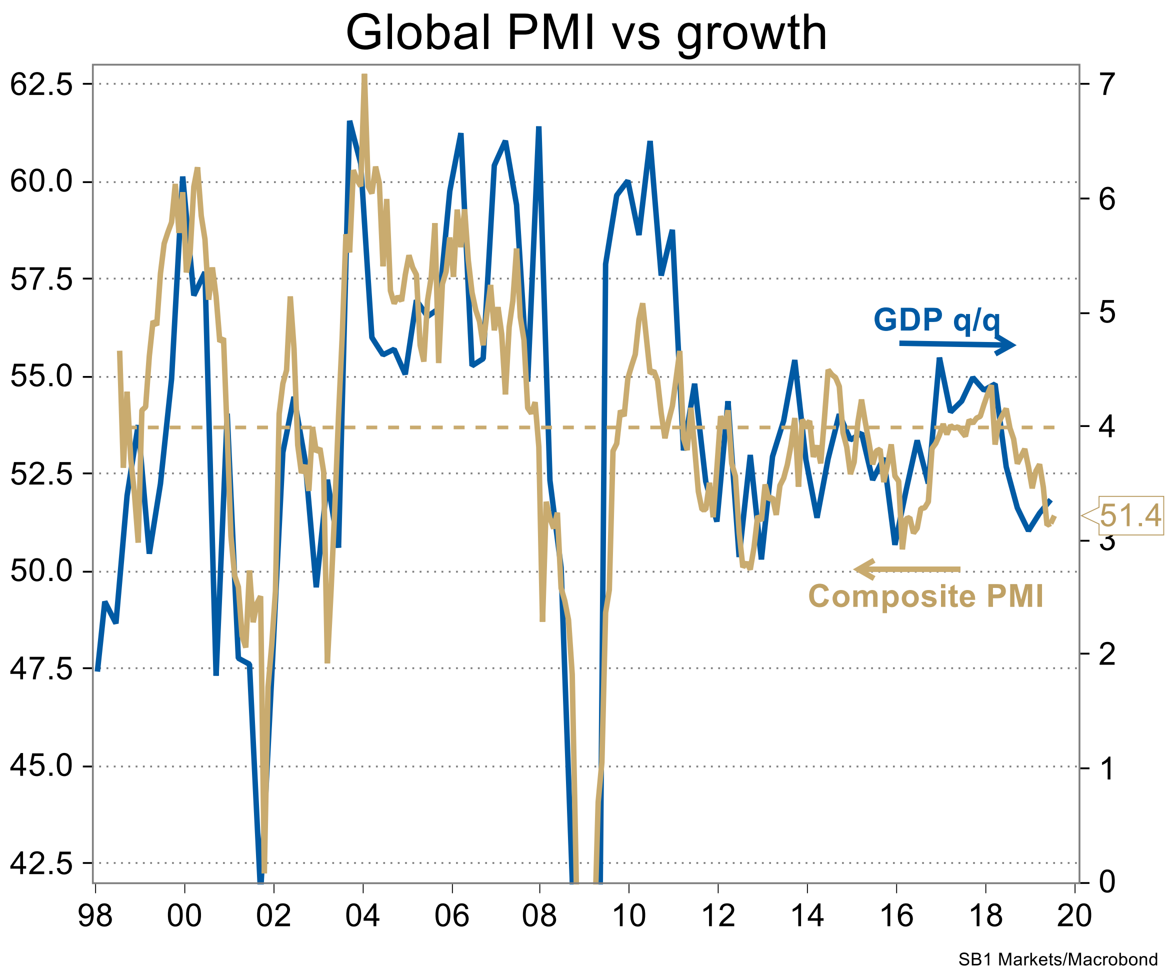
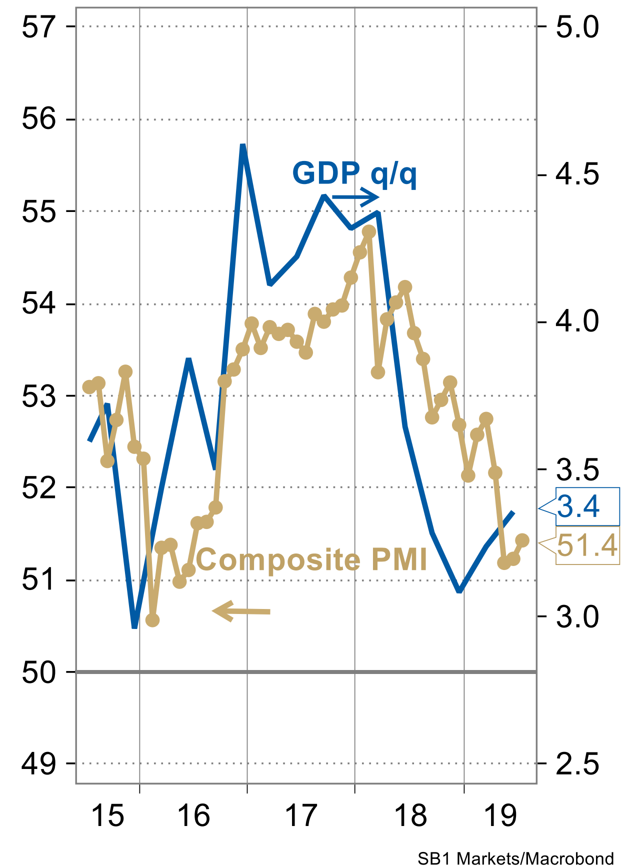
# Last week – the main takes

- **Here we go again:** At Thursday, Trump suddenly decided to impose **10% tariffs on all remaining imports from China**, USD 300 bn, in addition to the 25% on USD 250 bn already implemented. Risk markets, commodities sold off sharply, while bond yields 'collapsed'. Luckily, at Friday US and EMU announced a **great beef trade deal** where EU over the coming 7 years will increase the quota for beef (hormone free) imports from US equalling 0.3% of US beef production (from 0.1% now), with a gross production value equalling 0,002% of US GDP! The risk for an auto trade war must be massively reduced?
- **Global manufacturing PMI** fell just 0.1 pp in July, to 49.3. The PMI is no doubt pointing to a contraction in global manufacturing production. A broad downturn, with the Eurozone in the lead. Markit's PMI from the US ended at 50.4, 0.4 p above the preliminary estimate, while the **ISM** declined to 51.2, a 0.5 p decrease**. Eurozone manufacturing PMI** confirmed soft at 46.5. **Both Chinese manufacturing PMIs** recovered somewhat, suggesting a demand stabilization, while the service sector PMIs fell marginally
- **US auto sales** fell in July, as expected. Trend most likely slowly down. **EMU sales** were probably flat to marginally up, still 5% below the level last summer, before emission rule changes, while German auto production is down 20%+. **Norwegian sales** fell sharply
- **The US FOMC** cut the signal rate by 0.25 pp, as expected, but Powell did not signal a long string of cuts, at least not if not needed. Markets were disappointed. The July **labour market** report signals slower but far from slow employment growth. Unemployment was stable, and wage inflation accelerated. Not a 'cut report'**. The core PCE deflator** rose 1.6% y/y, up 0.1 pp from a downwardly revised level but prices have increased faster recent months. Robust growth in **personal consumption in June**. More surprisingly, **consumer confidence** soared in July. **Pending home sales** spiked in June, suggesting higher actual existing home sales, one of the better US housing market news recently. **House prices** rose steadily at 3.9% m/m annualized
- **Eurozone GDP** softened to 0.8% q/q annualized in Q2, as expected, and broadly, bolstering the case for the ECB to act in Sept. **Moreover, core CPI inflation** slowed to 0.9% in July and total inflation retreats. On the positive note, **unemployment** keeps creeping down, albeit at a slightly slower pace. Another positive data point; **retail sales** surprisingly soared 1.1% in June, lifted by a spike in German sales; the weakness is on the business investment side, as in the US. **The economic confidence index** continues to weaken, following other surveys in signalling a gloomy outlook
- **The Bank of England** did no changes to its monetary policy, as expected, ahead of a Brexit solution. The pound and UK bond yields have been taking a beating recent weeks as the risk of a no-deal Brexit has increased. However, expectations of a more expansionary fiscal policy has kept the long end of the curve up
- **Swedish 2Q GDP** fell 0.3% q/q annualized, expected +1.2%. Sagging business investments were the major drag on growth but households have been cutting back over the past year. Can the Riksbank exit from negative interest rates now??
- **Norwegian registered unemployment (NAV)** surprisingly spiked in June, the total up by 1.200 persons. April/May data were soft as well, may be an indication of a weakening labour market. Strange, as overall growth is solid and businesses have not reported any labour market slowdown. **Retail sales** proved disappointing once again in June, down 0.4% m/m. Sales are no doubt sagging, albeit improving somewhat from the 2018/late 2019 through. On the positive note; total goods consumption rose briskly in June, helped by auto sales, and is still trending up. Thus, no argument for Norges Bank to abandon it's hike plans. **Credit growth** held steady at 5.7% y/y in June, no signs of any sudden slowdown in household credit demand. **OBOS Oslo house prices** were flat m/m in July

# Composite global PMI probably rose marginally in July. 3%+ growth

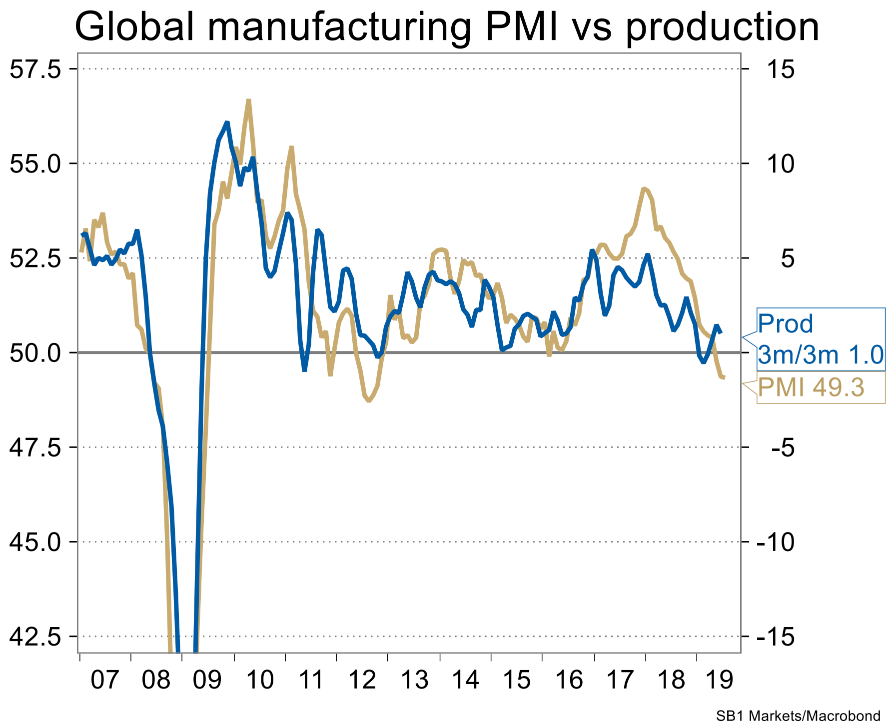
We expect an 0.2 p uptick to 51.4, following the stabilisation in June

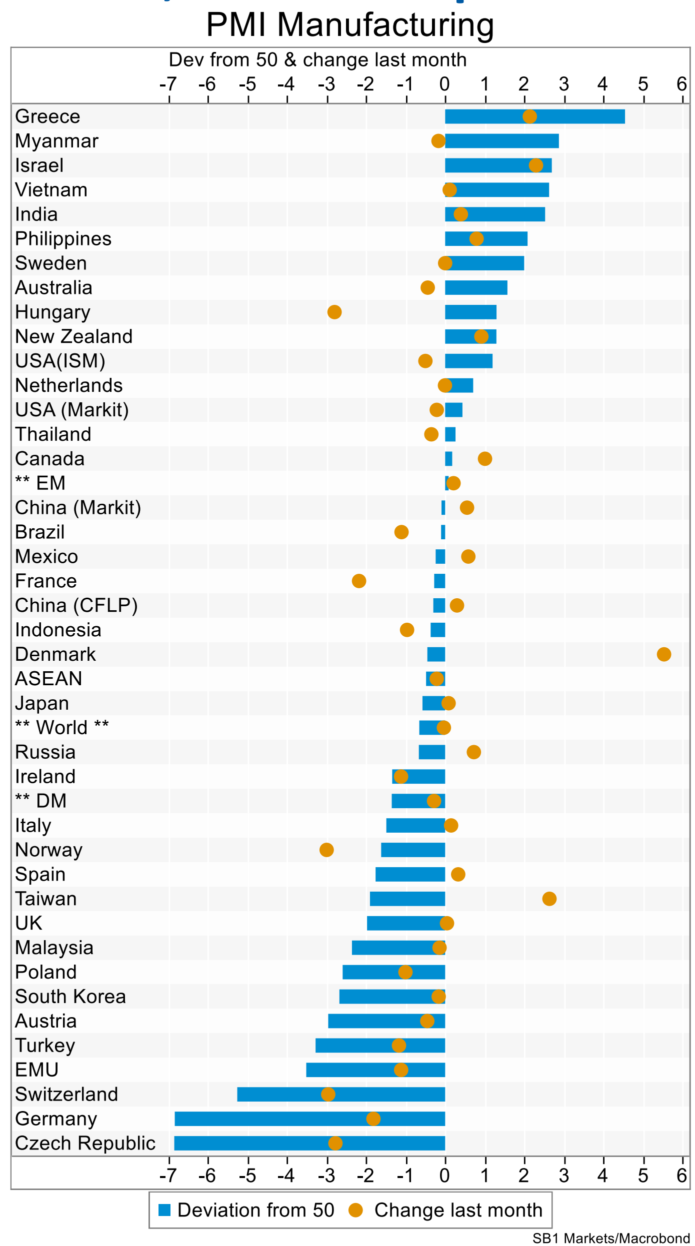


# Manufacturing PMI just marginally down in July; DM down, EM a tad up

The index fell 0.1 p to 49.3. 27 of 43 <50, 22 down m/m




- The decline was 0.2 p smaller than we assumed (based on the preliminary results from EMU/JP/US). **The index has fallen for 15 consecutive months and is now signalling a decline in global manufacturing production**
  - 22 (34 in June) countries/regions down in July and 16 up (from 7)
  - 27 of 43 countries/regions are below the 50 line. Germany and EMU at the bottom
  - Developed Markets fell 0.3 p in average, like in June. Emerging Markets up 0.1 p (from -0.5 in June)

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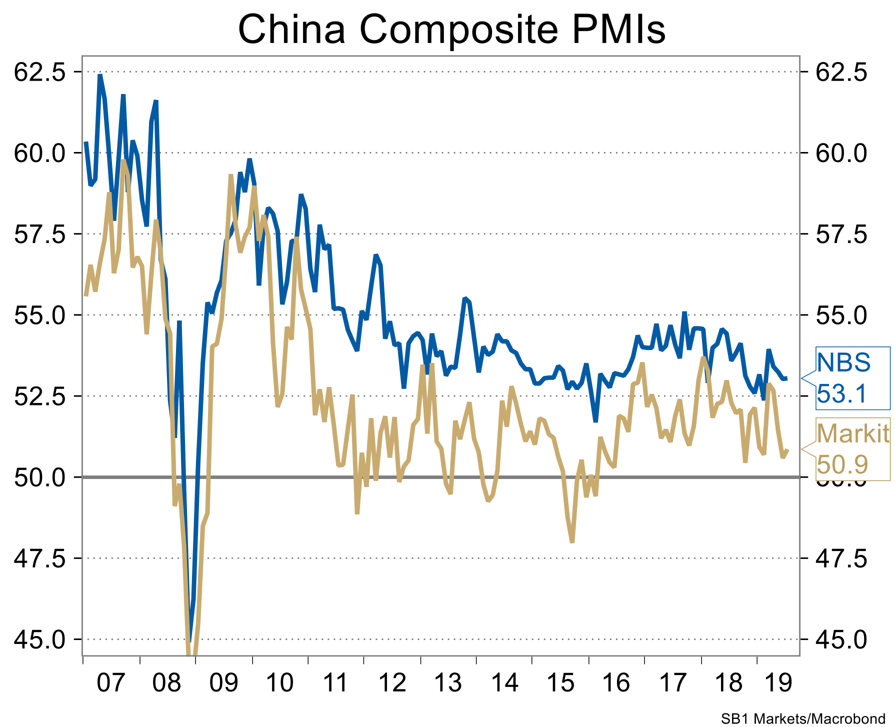
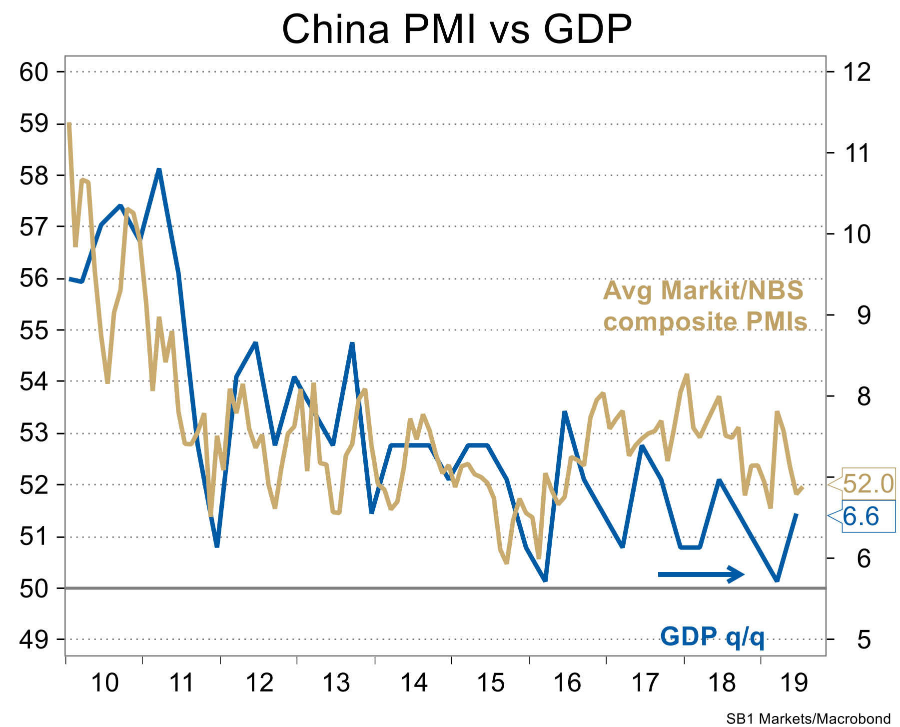
# The PMIs stabilised in July, level not impressive but do not signal full stop

## Both manufacturing & composite PMI indices marginally up




- NBS' composite PMI (CFLP) increased marginally to 53.1 in July, not too hot/too cold. The manufacturing index rose 0.3 p, stabilising recent months, while service businesses reported a small slowdown, to 53.7
- Markit's composite PMI also rose marginally, to 50.9. The manufacturing index rose 0.4 p to 49.9, while the service index fell to 51.6 from 52.0
- The NBS service sector PMI is approx at the average over the past 5 years but is trending slowly down. Markit's volatile service sector PMI is trending flattish, while the level now is below average
- The two PMI data are at the 4th lowest level over the past year but do not signal any abrupt halt in the Chinese economy

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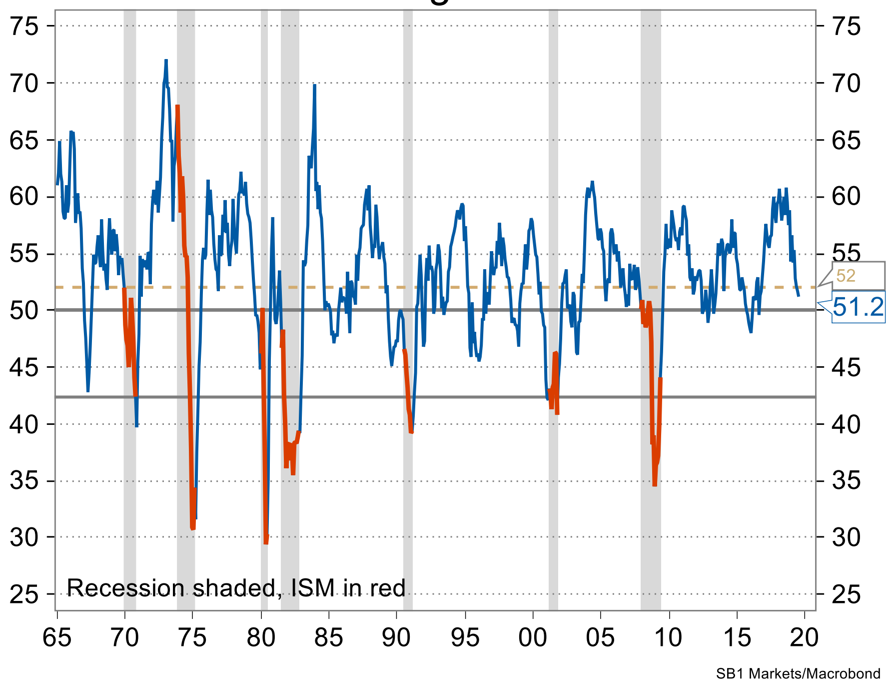
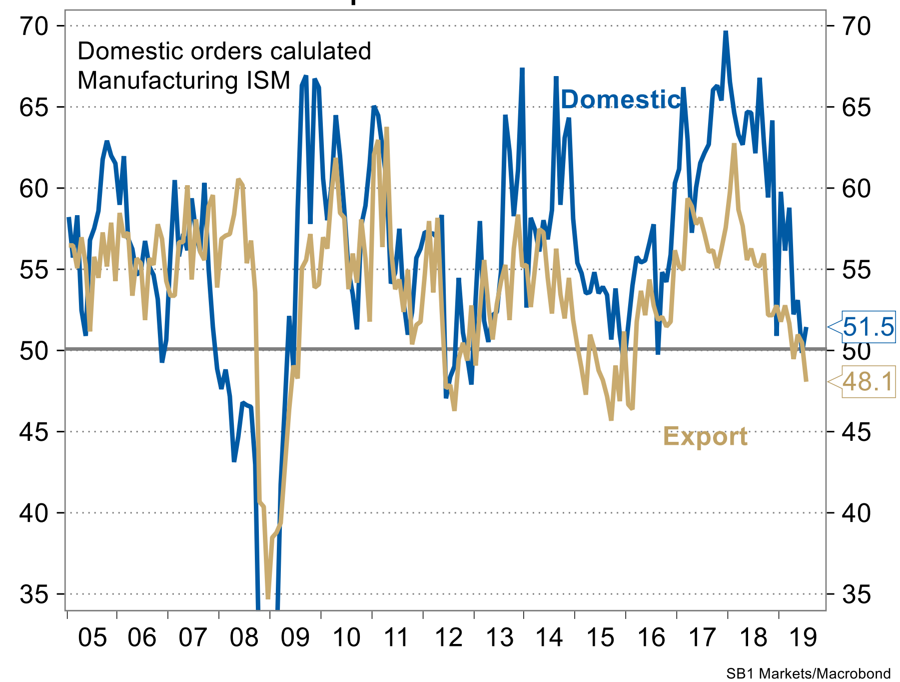
# Manufacturing ISM slides further down but less than many feared

## ISM fell to 51.2, a 0.5 p decline. Export orders dropped but domestic demand has fallen the most

USA Manufacturing ISM vs recessions



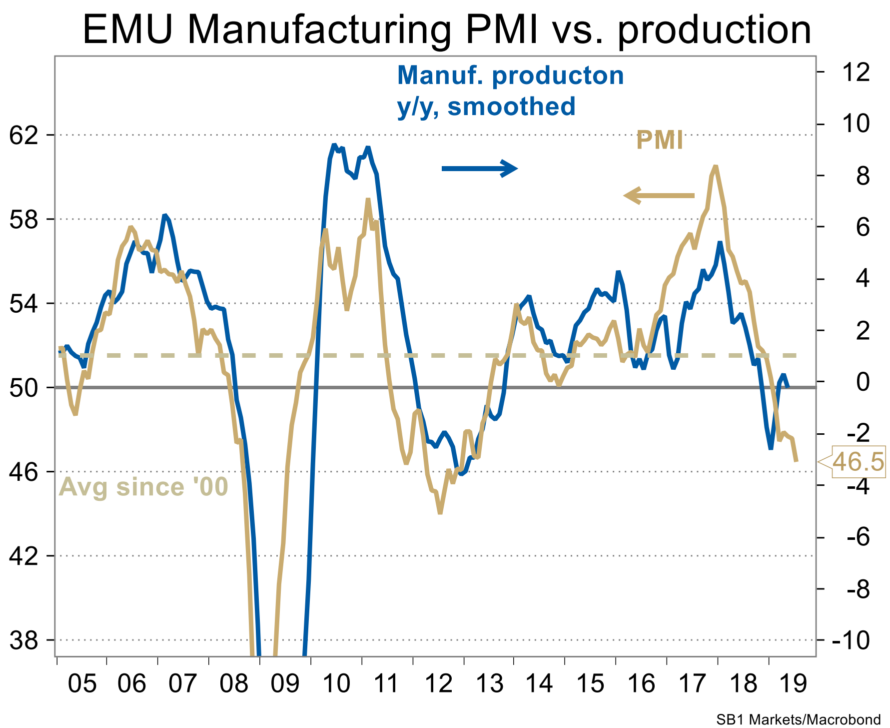

USA ISM Export vs. domestic orders

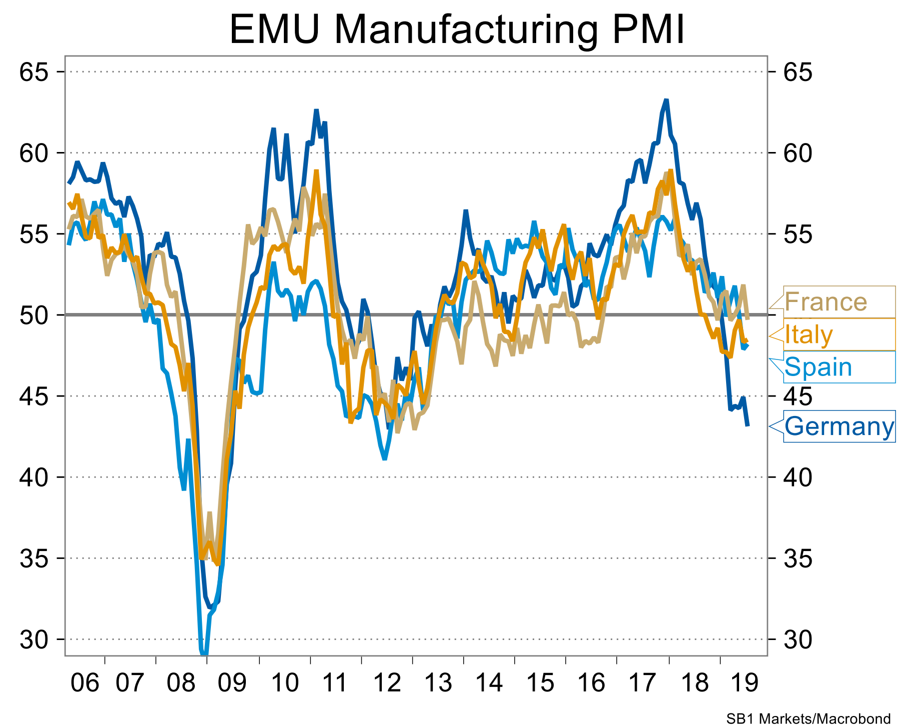



- Manuf. ISM fell to 51.2 in July, from 51.7, expected up to 52.0, yet at a higher level than other surveys in avg. The ISM is below the long term average (at 52.9) and the speed down is no doubt worrisome, particularly as other surveys confirm the drop
  - » In the ISM survey, 9 out of 18 sectors reported growth (up from 12 in June) and 9 (from 5) sectors reported a contraction – much weaker than before
- Businesses report stagnating order inflows, this month due to a decline in export orders, to 48.1. Domestic orders (implicit) recovered but have fallen rapidly since last autumn (down some 12 p), no doubt reflecting softening domestic demand. (Export orders down 8 p)
- <u>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>

# Manuf. PMI down to 46.5, reflecting a deep manufacturing downturn

Final manuf. PMI came in at 46.5, up 0.1 p from the first report. Germany further into contraction

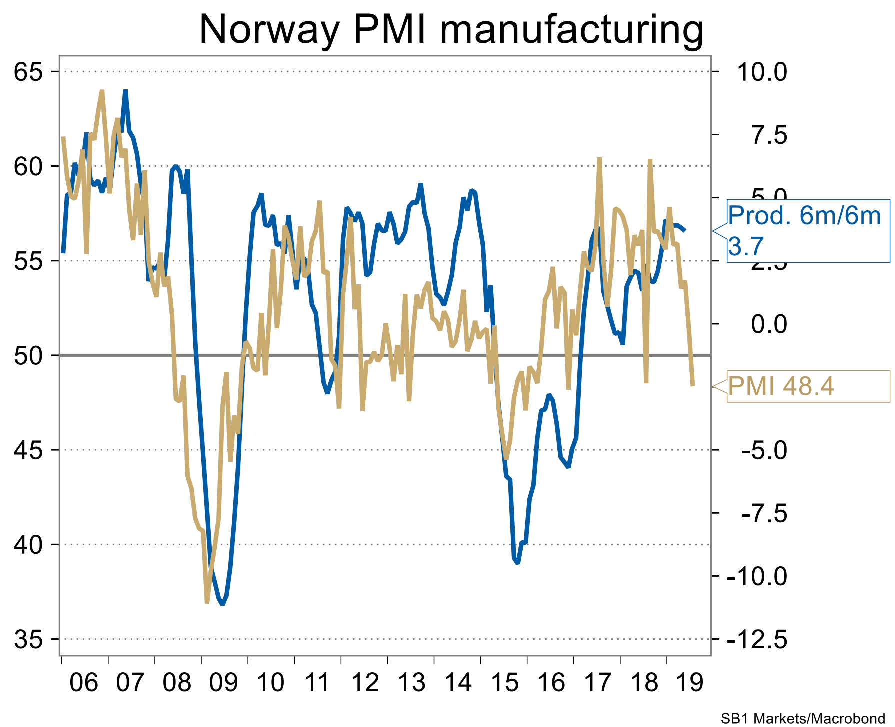


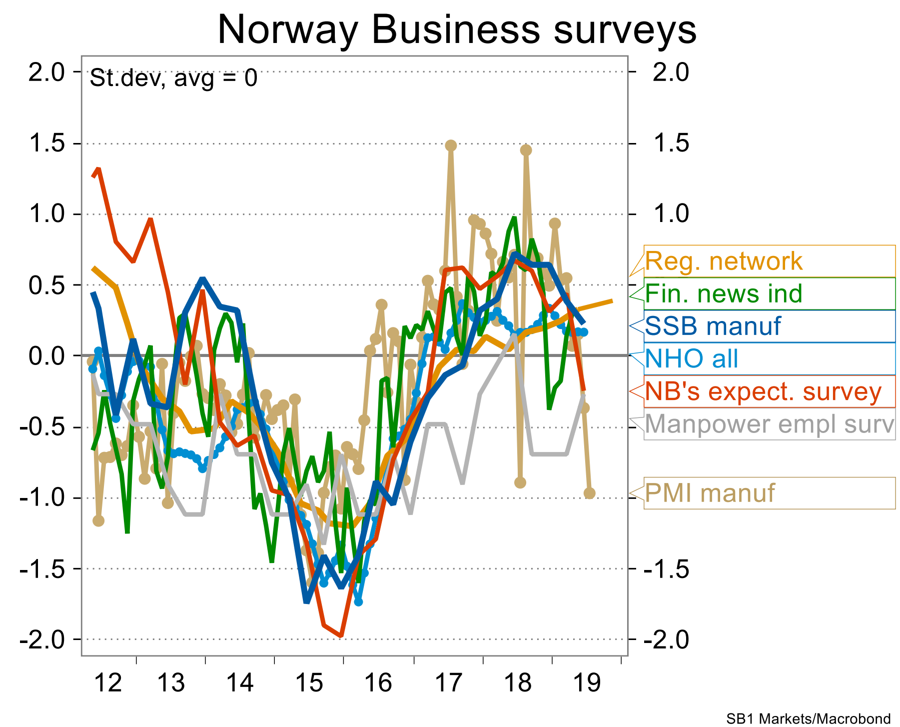




- **The manufacturing PMI** slipped 1.1 p in July, 0.1 pp less than the prelim. report. The PMI is in 'free fall', businesses are reporting the worst manuf. conditions on 6 years. Actual production has recovered somewhat, PMI signals much worse
- The slowdown is the most fierce in Germany, the PMI slipped to 43.2 (0.1 pp higher than in the first report). Activity has stagnated in France and is retreating modestly in Italy and Spain
  - » The slowdown in manuf. sector reflects a broad demand weakness. The demand softness is partly due to global political uncertainties and protectionism, as well as weaker foreign demand. Trouble in the auto industry has no doubt taken a toll on growth too

# Manufacturing PMI down the drain but July data are useless

PMI plunged to 48.4, similar to last July. However, the direction is set and most other surveys are softening

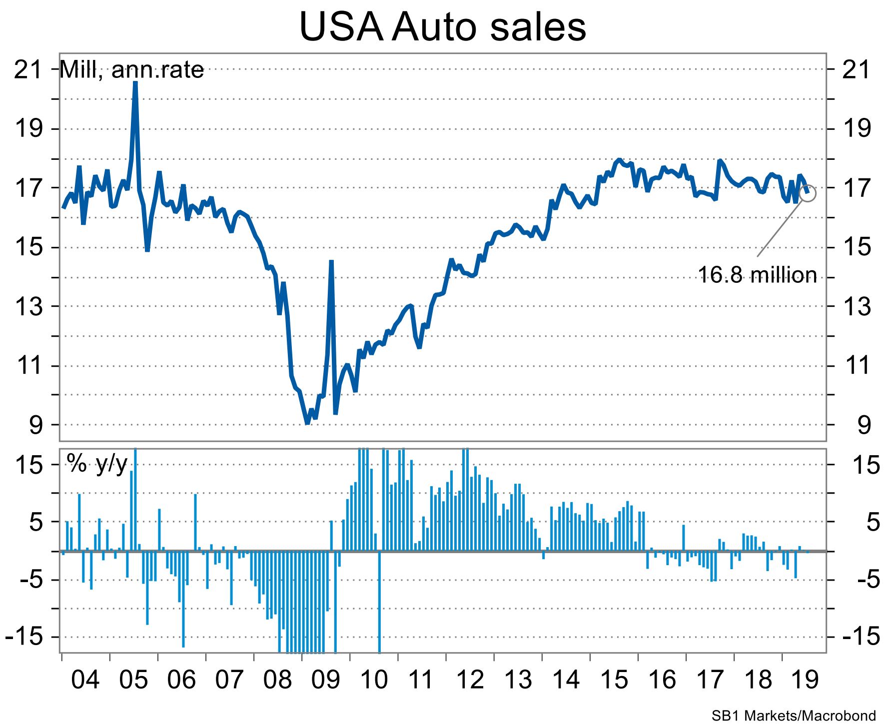


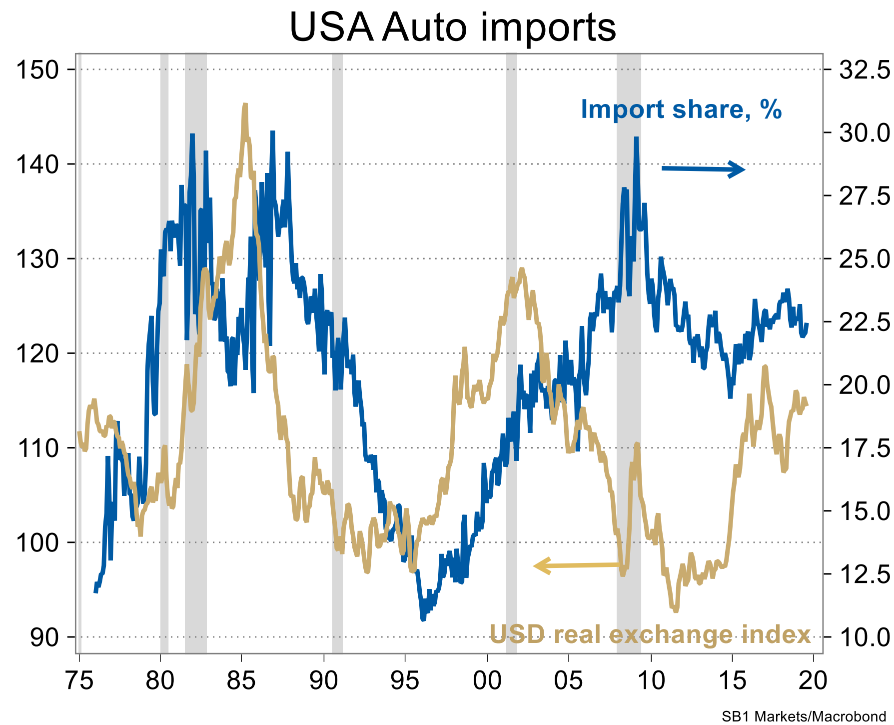




- The PMI slipped 3 p in July, to the weakest level since one month in 2016. Last July, the PMI nosedived 8 p (and rose 12 in August) , data this month is rather useless as the number of respondents is halved
- However, the PMI is no doubt weakening, the survey fell steeply in June too and the 3m average is 51.2, from above 55 in the spring. The PMI is much weaker (and more volatile) than the other Norwegian business surveys but several are pointing to a soft slowdown in manufacturing
  - » SSB's industrial confidence survey, published two weeks ago, noted a mild downswing in Q2. Actual manuf. production has accelerated the past months, SSB's survey signals some 2% y/y growth, from 3.5%

# Auto sales fell moderately in July, trending slowly downward?

## More than half of the May recovery is reversed, July sales just below expectations




- Sales fell marginally in July (-0.5 mill) to 16.8 mill (annual rate), as in June (-0.3 mill). Sales are flat y/y, while trend is pointing slightly down
- The import share rose marginally July but the share has fallen slightly recent months, following an increased the previous 3 years. 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). At Friday US/EU announced a deal on US meat exports to Europe, which does not increase the risk for a full blown trade war with Europe too

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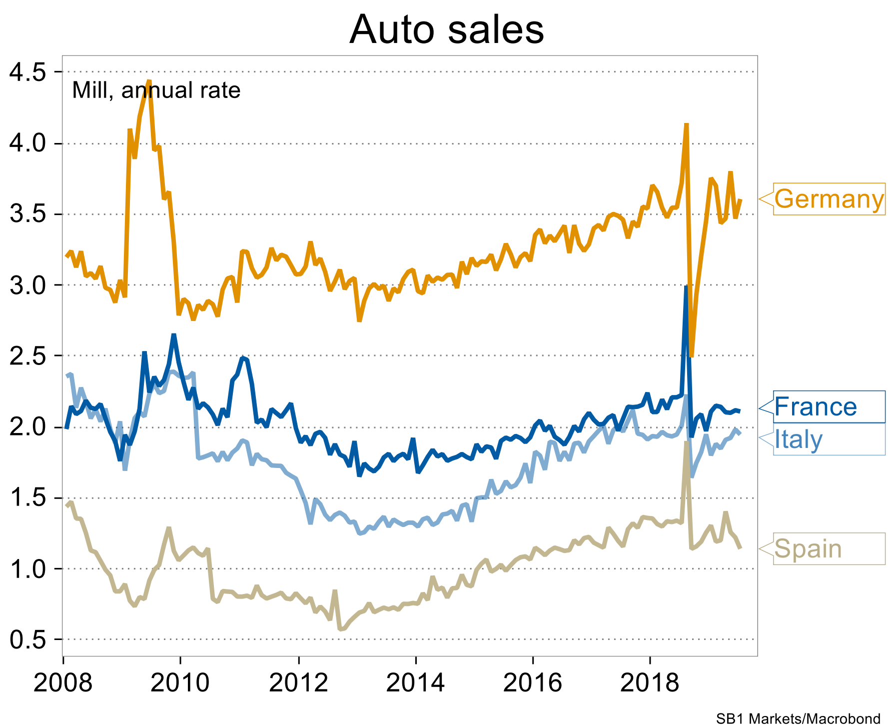
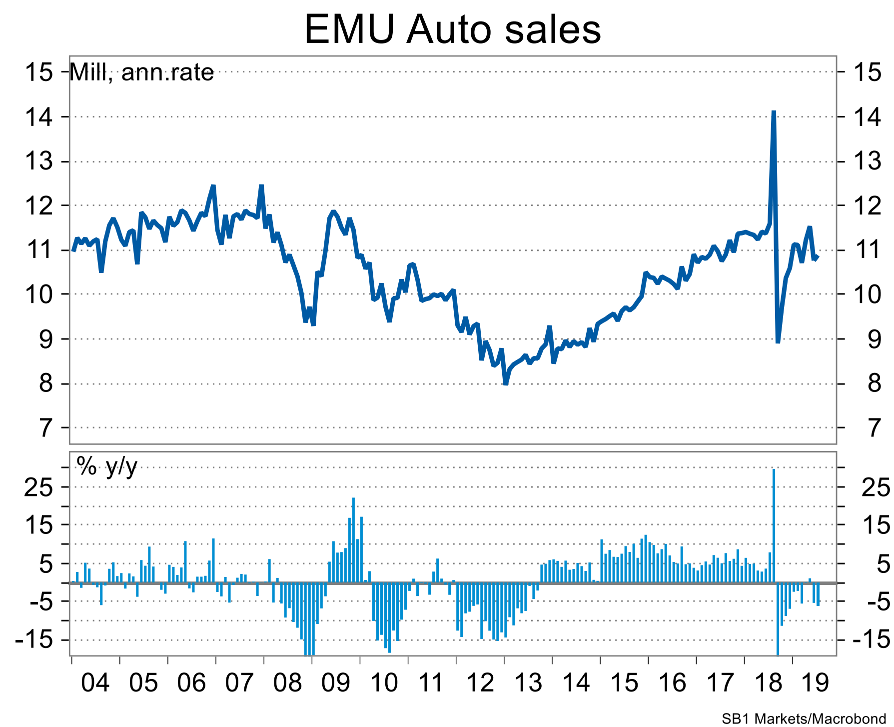
# Auto sales probably close to stable July, level still below pre rule change last year

Sales rose in Germany, but fell slightly in both France, Italy and somewhat more in Spain

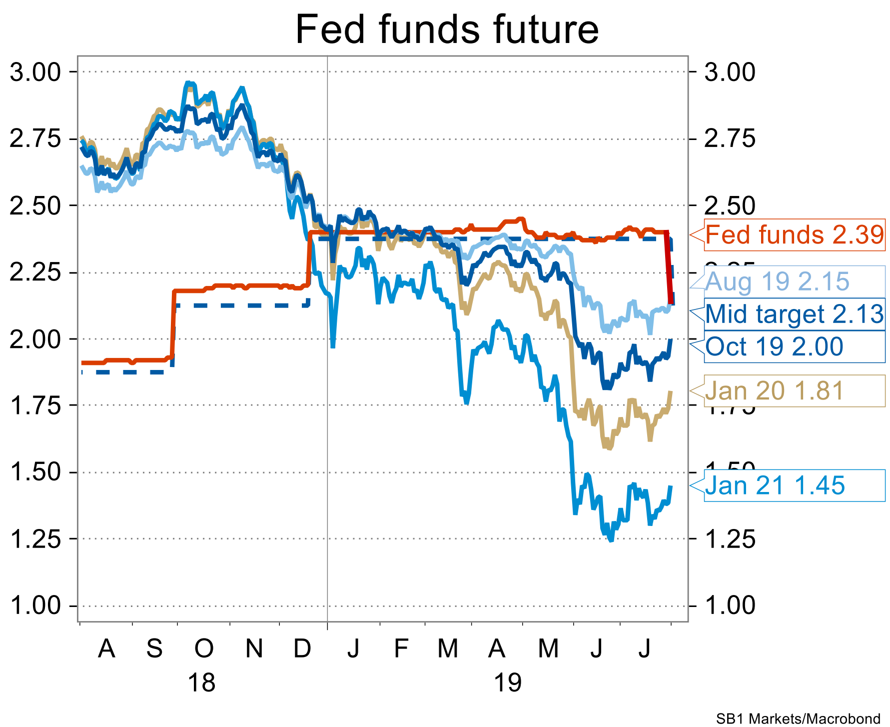


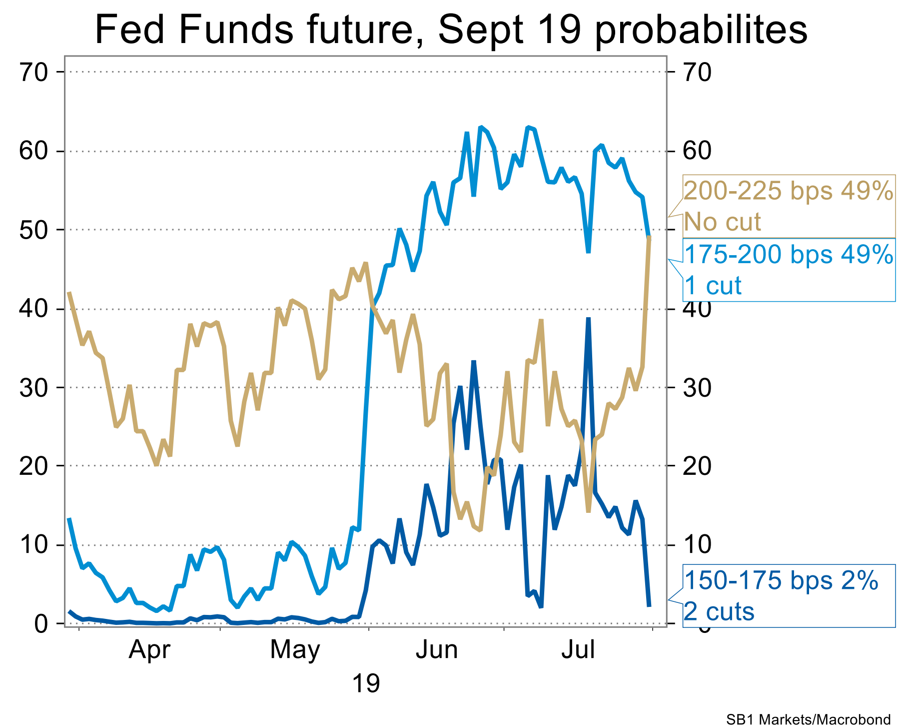




- German trade are trending flattish, and is close to the level before the new emission rules were introduced last summer. Sales in France are flat too, somewhat below last summer's level. In Italy, sales is trending up and is not far below last year's level. Sales in Spain have fallen past three months.
- Sales in EMU were probably flat (but a decline in 'others' in June may be reversed, if so an uptick following a quite large decline in June. EMU sales are some 5% below the level before the emission regulations hit last summer the two past months (while sales in May were in line).
  - » At the same time, German auto production is more than 20% below the pre-regulation level. Incredible! Check next page

# The Fed cut 25 bps, as 'promised'. Will cut more but only if needed

## Markets disappointed by Powell's remarks on the 'mid-cycle cut' and no promise of further cuts

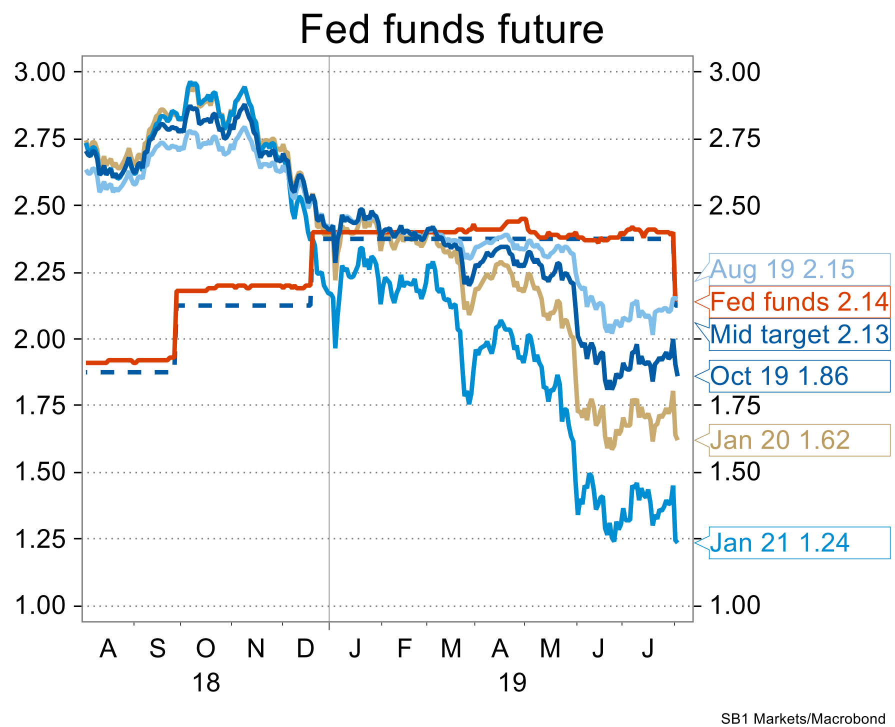


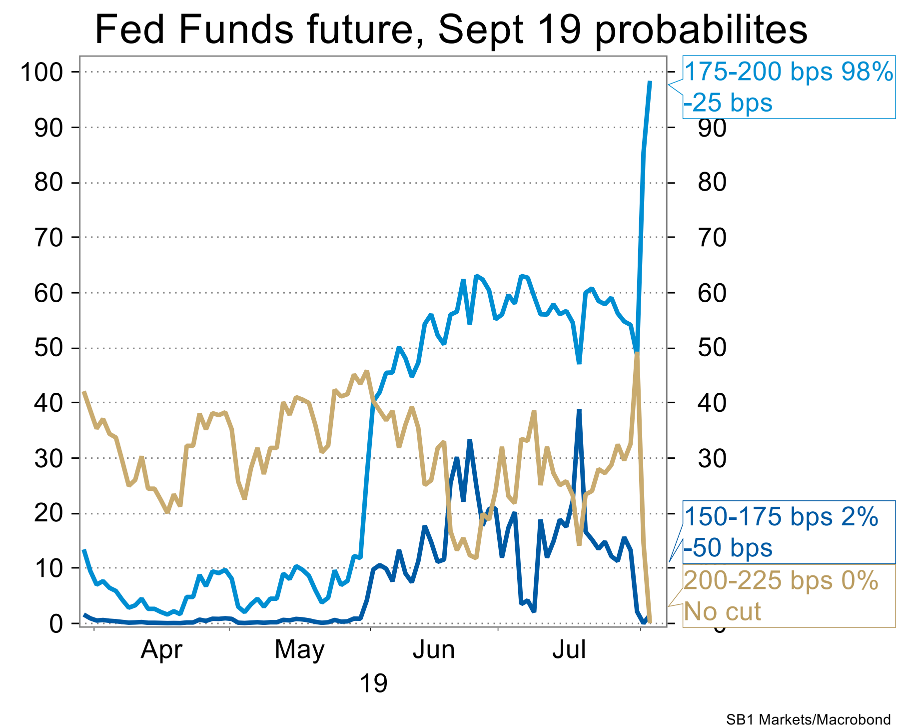




- The FOMC delivered the 25 bps cut to 2.0-2.25%, as expected. The market had reduced the probability for a 50 bps cut less than 20% ahead of the meeting, and 'no one' expected the FOMC to keep rates unchanged. However, at the press conference, chairman Powell took a cautious approach and stated that the cut was a 'mid-cycle adjustment' and most likely not the start of a lengthy and aggressive cut cycle. As we expected, Powell had to emphasise that the US economy is still growing solidly, labour markets are favourable and consumer spending and confidence are strong
  - » The cut was chiefly a result of downside risks on the outlook, a precautionary move to support the economy amid rising global trade uncertainties and softer global growth. Moreover, Powell emphasized that inflation is running below the 2% target
- Markets interpreted Powells comments as hawkish; The short end of the curve rose 5 -7 bps, and the probability for another cut in in Sept fell to almost 50%, and the USD strengthened. However, implied yields from 2-3 years onward fell, the 10 y by – as the market assumes the Fed is falling behing the curve. Stock markets sold off
- We view the FOMC's cautious approach to be reasonable, the bank had no choice but to deliver a cut, but could no way 'promise' a long string of cuts, now

# Then Trump escalated the trade war with China. Rates collapsed

## Trump surprisingly announced 10% tariffs on USD 300 bn of imports from China from Sept 1

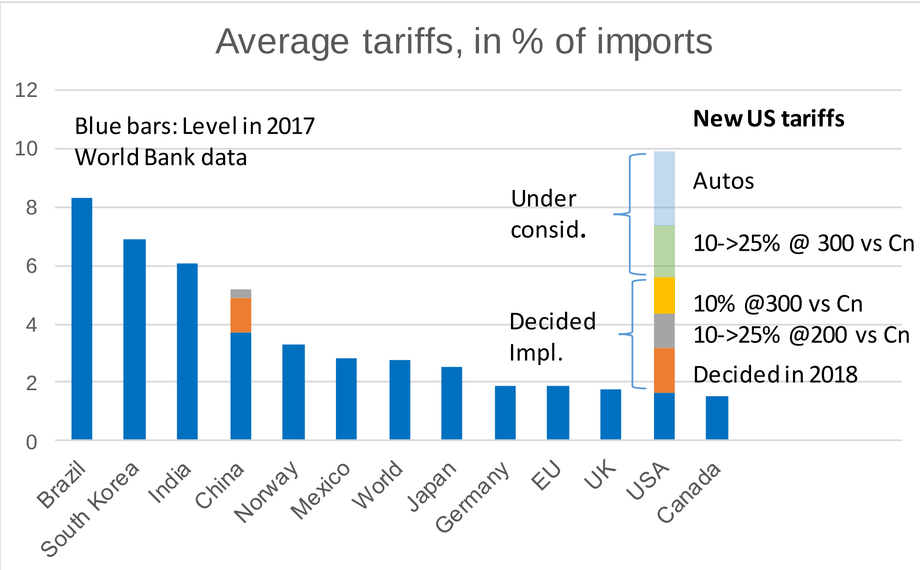



- … And then the market reckoned that the Fed will have to cut the signal rate again in September, the probability rose to 98%, from 50%!
- The USD 300 bn represents almost everything of Chinese exports to US not yet covered by the 25% import tariffs on the first USD 250 bn. The average tariff rate has increased to 17% from approx. 2%! The Chinese will most likely respond
  - » Trump says he can increase the tariff, or cut it back – depending on trade negotiations going forward
  - » The problem is that he probably believes what he says, that China pays the 'tax', and US is benefiting from these tariffs. Not many economist agree with him
- The average US import tariff has now been increased to 6% from below 2% before Trump started. Check next page

# Tariffs: Another twist, US tariffs up to 5.7% in average, from 1.7%

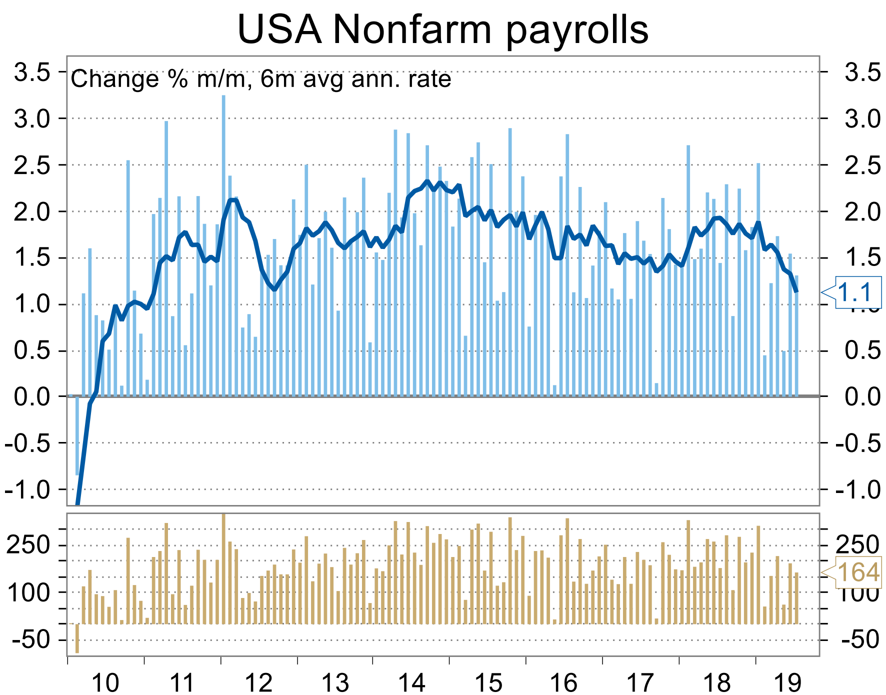
## US tariffs have become quite high

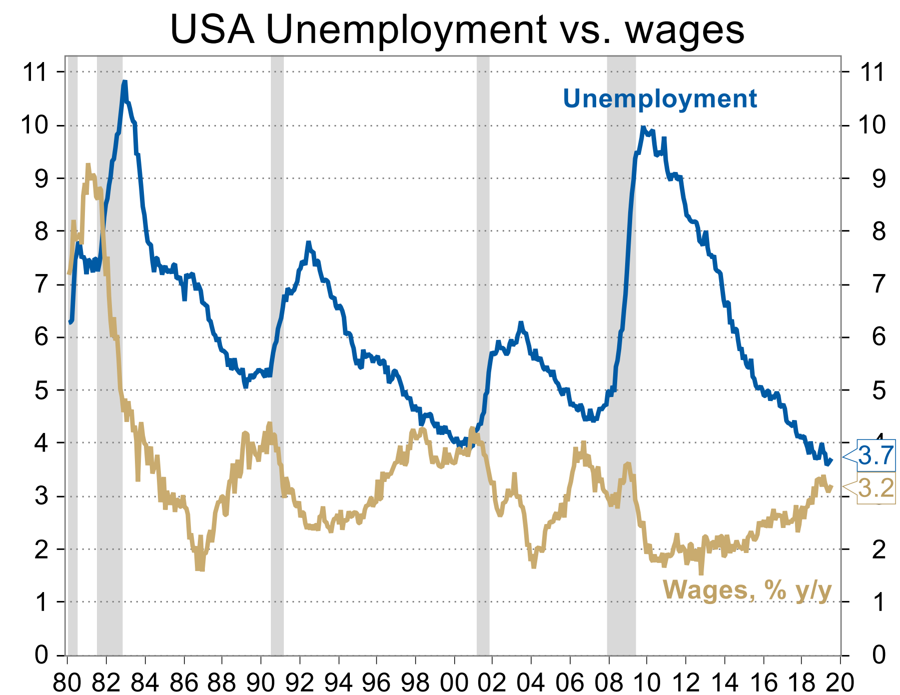



- A 10% tariff will be implemented on approx USD 300 bn imports into US from China from Sept 1, if Trump does not change his mind
  - » Tariffs may be lowered or hiked. Time will show. No indications yet that the Chinese will yield to US pressure
  - » This time, consumer goods will be included, they have so far been free of tariffs
- The average tariff rate for exports to US from China now equals some 17%
- The total tariff rate for US has increased to 5.7% vs the starting point at 1.7% before the trade war started
  - » No other industrial country has a higher average tariff rate
- The total bill is USD 140 bn, equalling 0.7% of GDP. Much will be paid by US consumers and businesses. We expect a minor, but visible impact on the CPI
  - » Should all tariffs on Chinese goods be hiked to 25%, the total tariff rate will increase to 7.4%. And if autos are included, the rate will approach 10%
- Trump says the US is profiting from these tariffs, makes it easier for him to continue
- The most import impact is very likely via business investments, due to the increased uncertainty on the future trade regime

# Employment growth slows, but underlying at least as fast as population growth

## Employment up 164’ in July, as expected, unemployment flat & wage inflation up. No cut arguments

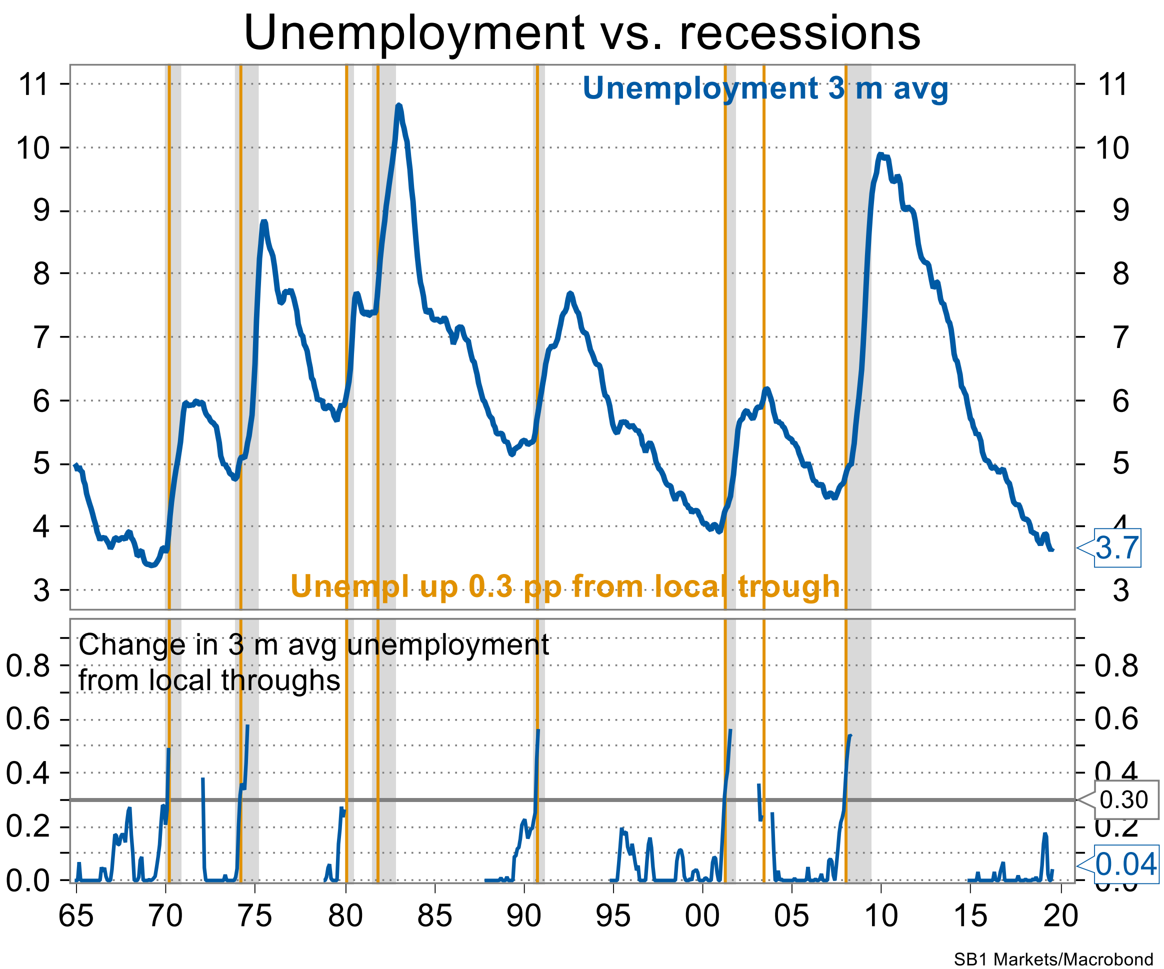



- **Employment** rose by 164’ in July, as expected, while history was revised down by some 40’. Growth has no doubt slowed, the 6m m/m avg fell 0.3 pp to 1.1%, the slowest growth since 2007 (on the way down), from close to 2% when the economy received the fiscal stimulus early 2018
- **The unemployment rate was unch at** 3.7%, expected down to 3.6%. The trend is still down, but slower
  - » The uptick in unemployment was due to a marginal increase in the labour market **participation rate**, to 63.0%, and more than the employment rate grew. The participation trend is still close to flat, <u>the labour market is tight but the aggregate supply side is not responding</u>
- **Wages** rose 0.3% m/m, 0.1 pp more than expected, and June was revised up to 0.3%. The annual rate accelerated to 3.2%, still trending down recent months
- Overall, these data confirms that the **labour market is not weak**, and interest rates initially rose following the report, as **<u>it did not present any clear case for another Fed cut</u>**

# Unemployment not up yet, no recession now?

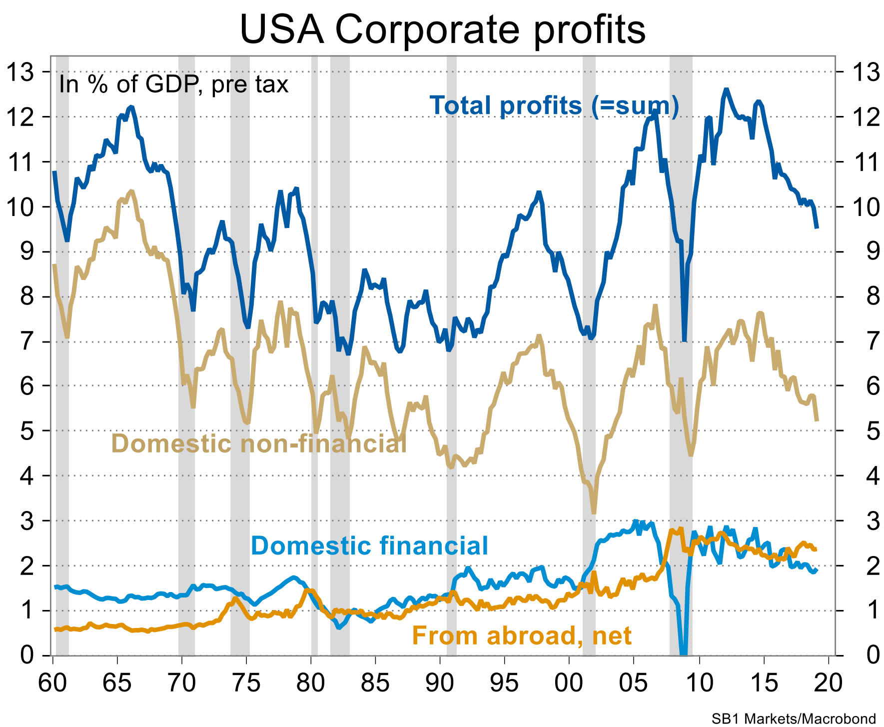
## Unempolyment usually turns up as the recession hits (but not before)

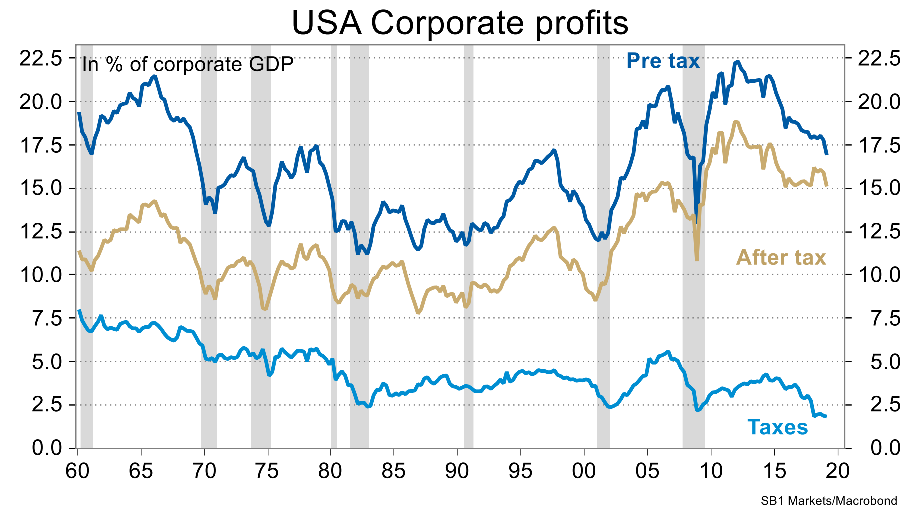


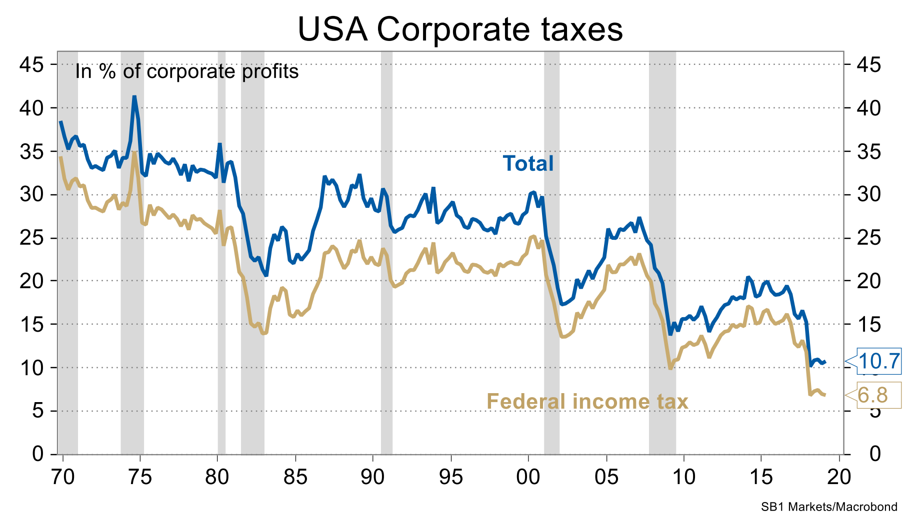

- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession confirmation, but has not been a good recession pre-warning
  - » Unemployment always increases substantially during recessions
  - » The often used threshold for signalling a recession is a 0.3 pp increase in the 3 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

# Profit shares have been revised sharply down too

Profit in domestic non-financial companies in % of GDP down to 5.2%, from 6.4%, now below avg!



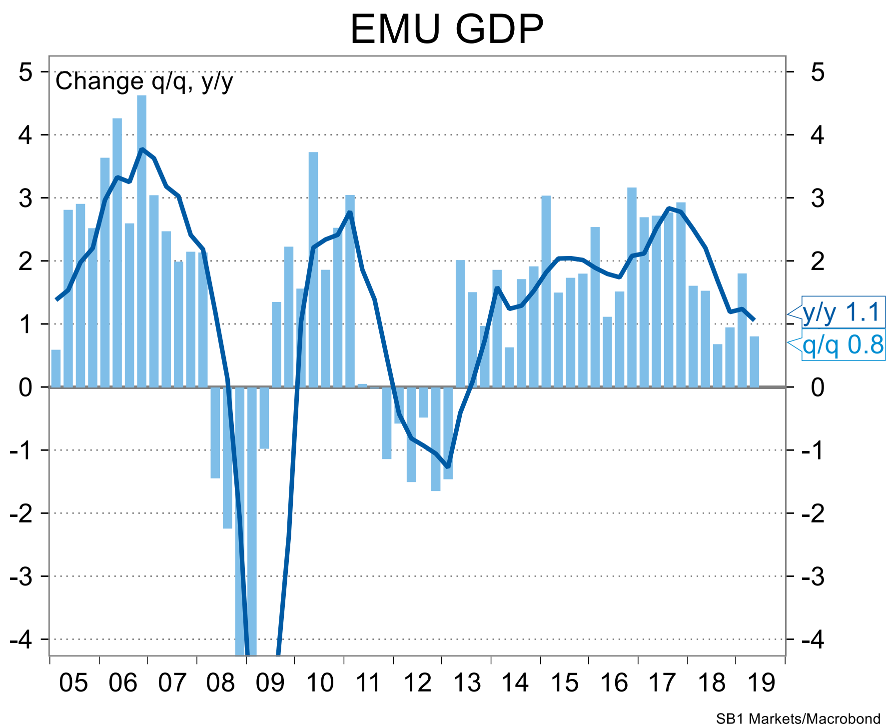



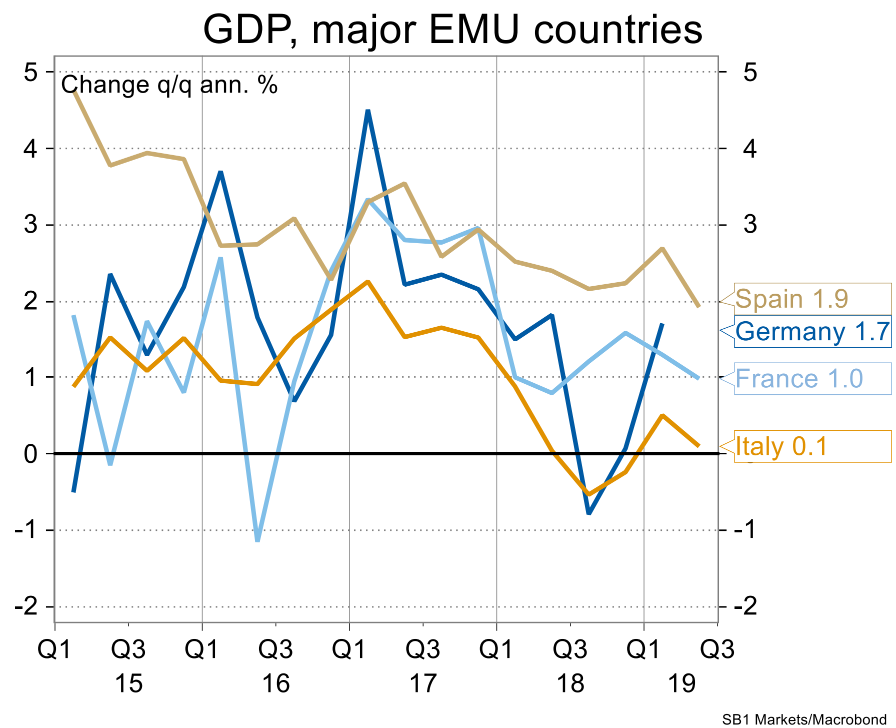




- Again, check the next page for the previously published data!
- The tax cuts have lowered the corporate tax rate to 10% from 20% of pre tax profits, or to 2% from 4% of GDP. That's the main reason for the huge increase in the public sector budget deficit

# GDP growth cooled to 0.8% in Q2, as predicted

GDP rose 0.2% q/q (0.8% annualised), down from 1.8%. All big 4 slowed, but all above zero



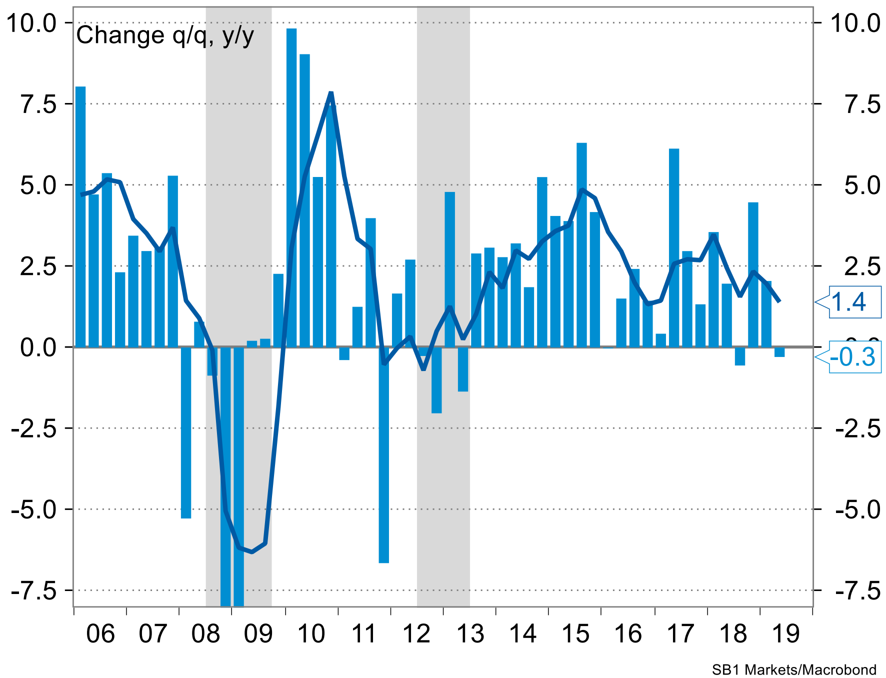




- GDP rose 0.8% q/q annualized, just in line with expectations. Q1 revised up to 1.8%, from 1.6%
  - Meagre Q2 GDP strengthens the case for the ECB to loosen monetary policy at the September meeting. A 10 bps interest rate cut is almost fully expected (by some 85% probability)
- Both France, Italy and Spain has reported slower GDP growth in Q2 than in Q1. Germany has not yet reported Q2 data, but we assume growth slowed to 0.8%, from 1.7% in Q1, in line with the average slowdown in the Eurozone

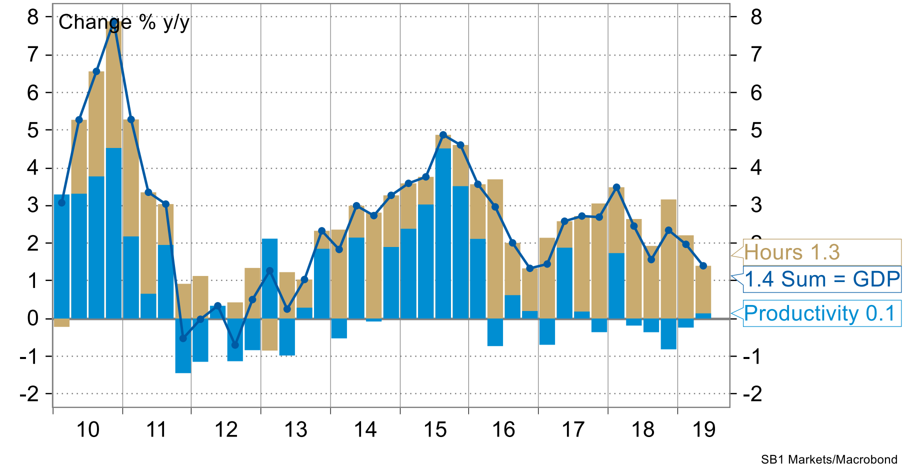
# GDP contracted marginally in Q2, adding to signs of a sagging economy

## GDP fell 0.3% q/q (ann.), far below f'casts – and productivity growth remains disturbingly weak

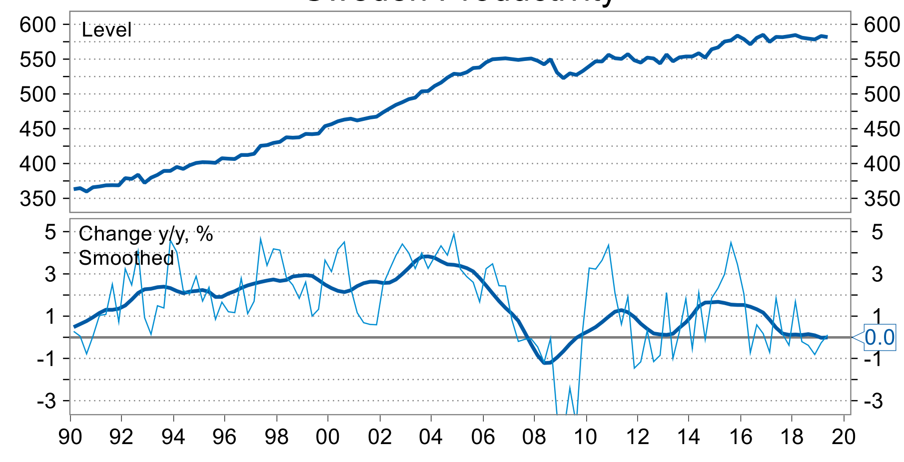
Sweden GDP




Sweden Productivity & growth



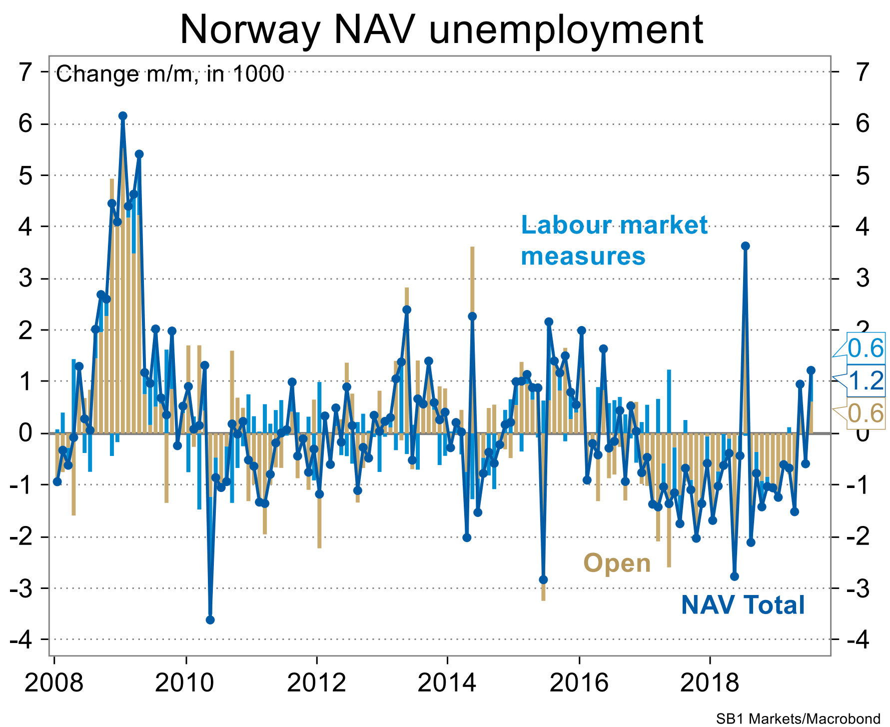

Sweden Productivity

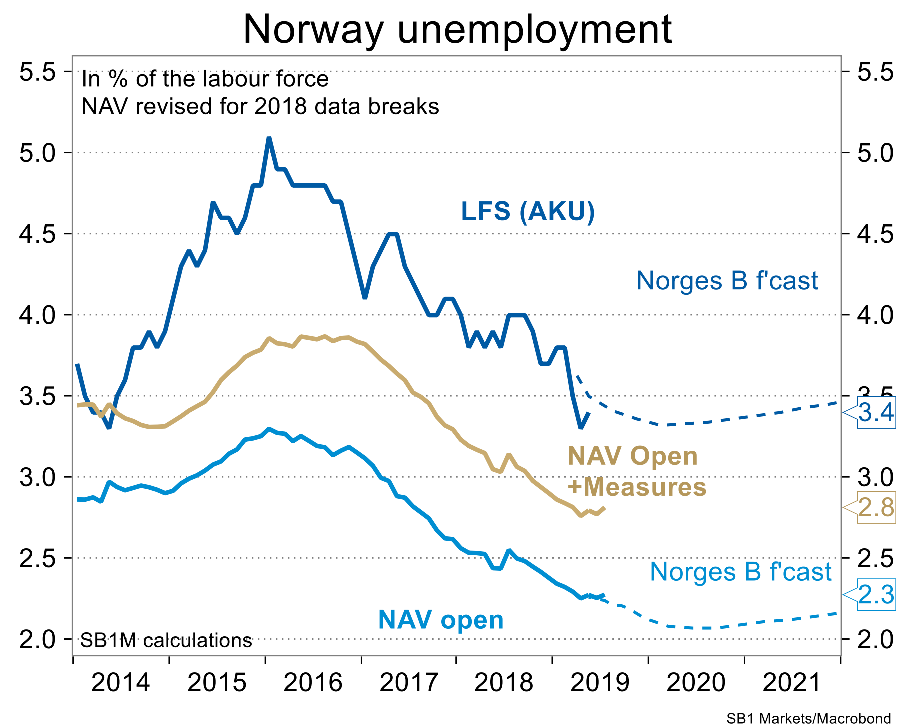



- GDP fell by 0.1% q/q (-0.3% annualised), vs expectations at +0.3%! The annual rate slowed to 1.4% from 2% growth in Q1 (was initially reported to 2.3%)
  - » A moderate rise in household demand was offset by (another) decline in business investments. Net exports increased marginally
  - » Weak growth data casts further doubt on the Riksbank's hiking plans
- Productivity rose 0.1% y/y, hours worked up 1.3%, signals a limited growth potential! Productivity has been flat since 2016, (even worse than in Norway…)

# Unemployment ticks up: Signs of a weakening labour market or just noise?

## NAV total unempl. surprisingly rose by 1.2’ persons in June. New jobless claims, layoffs turned down

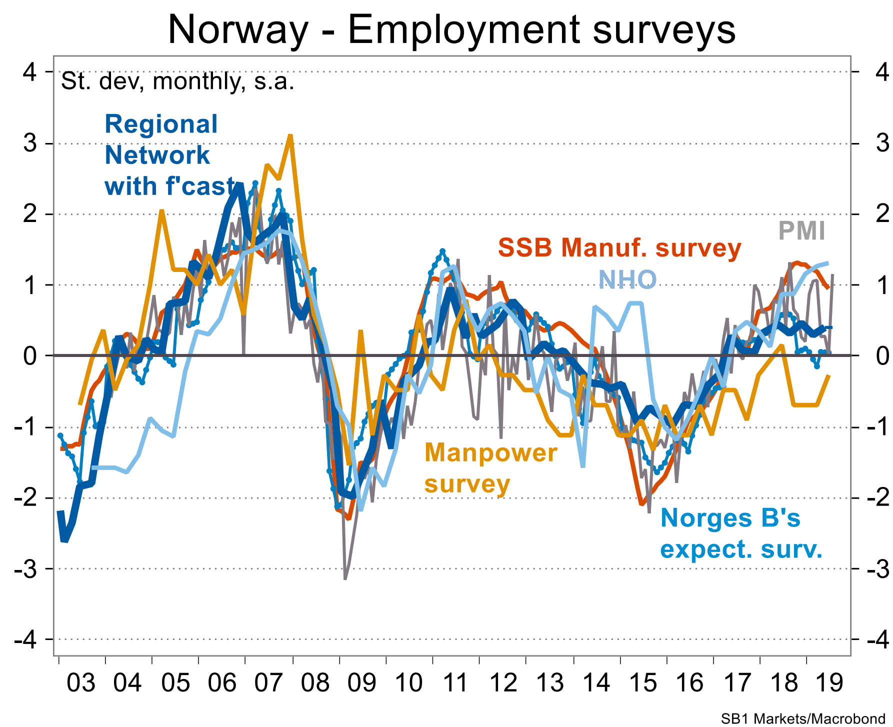


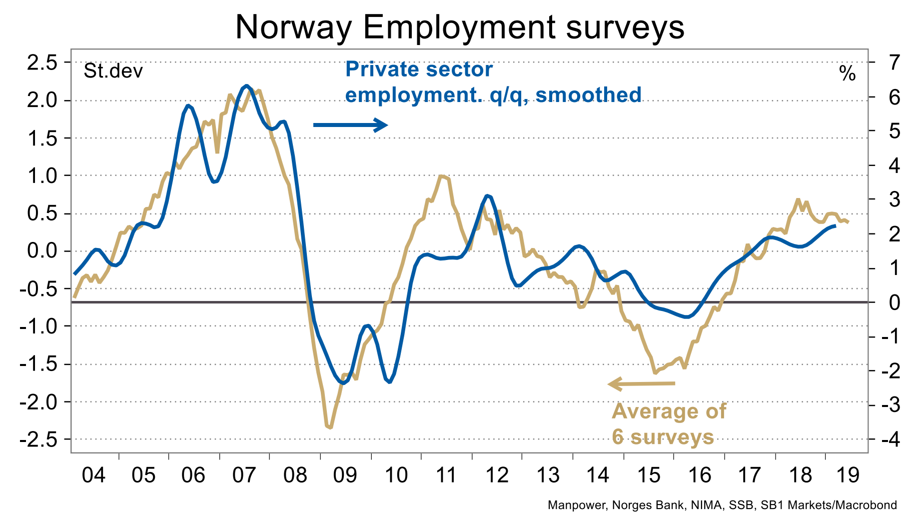



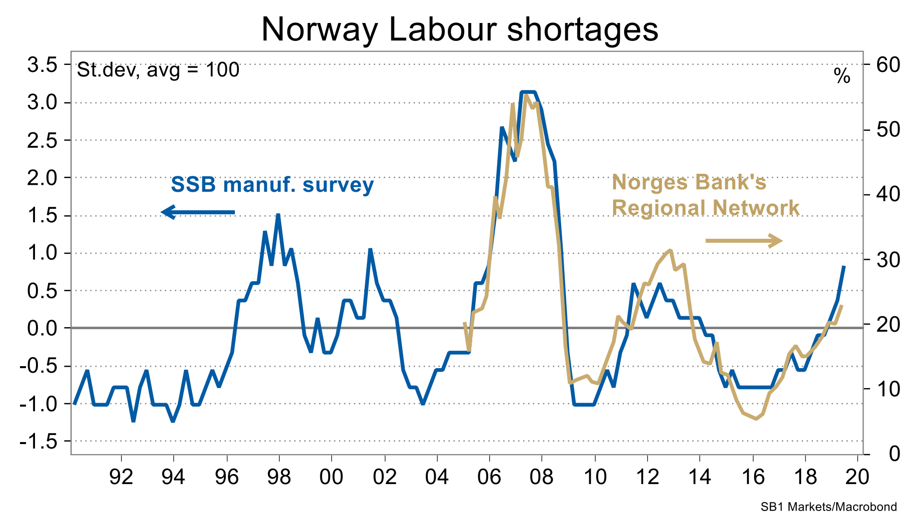

- NAV open unemployment increased by 600 persons in June, total unempl. (incl measures) by 1.200, far above expectations. The 3 month average is up 300 persons. The open unempl. rate rose marginally to 2.3%, and is now marginally above NoBa’s f’cast (check a close-up next page). Has the labour market turned down? Some other labour market data may confirm a weakening:
  - » The number of new claims fell in June but claims have not fallen the past year. The number of new vacancies have fallen marginally lately
- On the other hand, the LFS unemployment rate rose in May, but it has fallen sharply this spring. Most of the drop is due to a decline in the participation rate, but it is anyway a signal of a tighter labour market. Businesses have not reported any sudden employment weakness, and more manufacturing companies are reporting lack of labour (SSB quarterly manuf. Survey)
- We stick with our view that Norges Bank will hike again in September, as long as other data do not soften significantly

SpareBank 1 MARKETS

# Surveys report more lack of labour, not lower demand



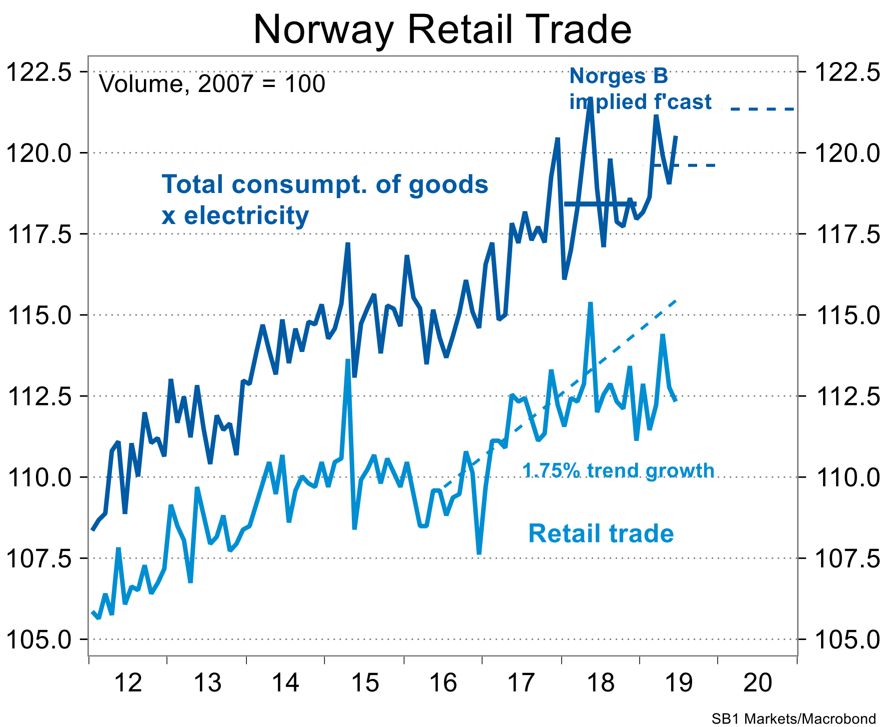



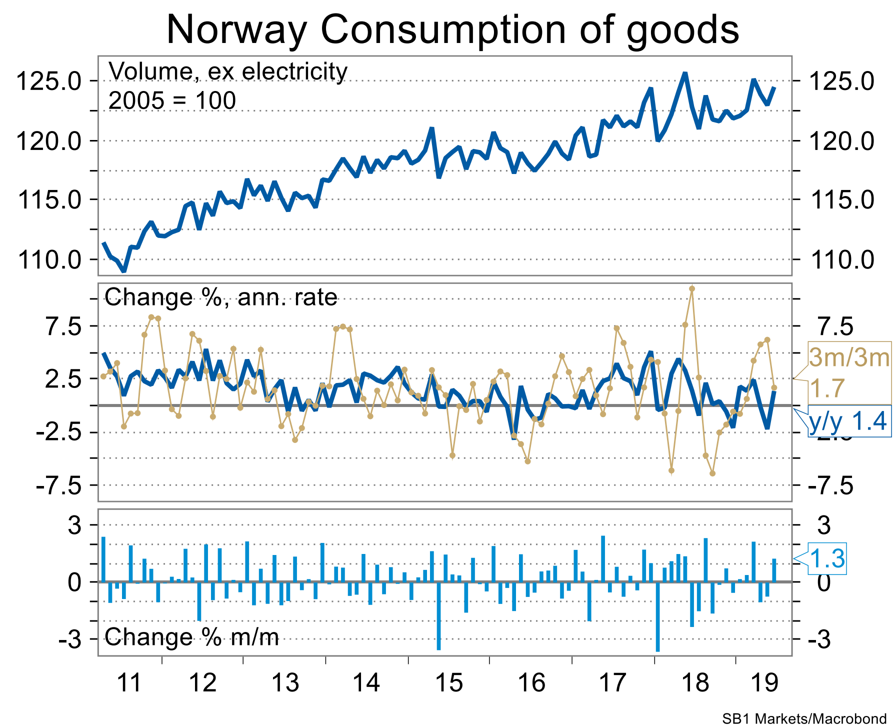



SpareBank 1 MARKETS

# Retail sales are sagging, total goods consumption not that bad in Q2

Retail sales fell further in June but are still up from Q4/Q1. Total cons. is doing better, thanks to autos

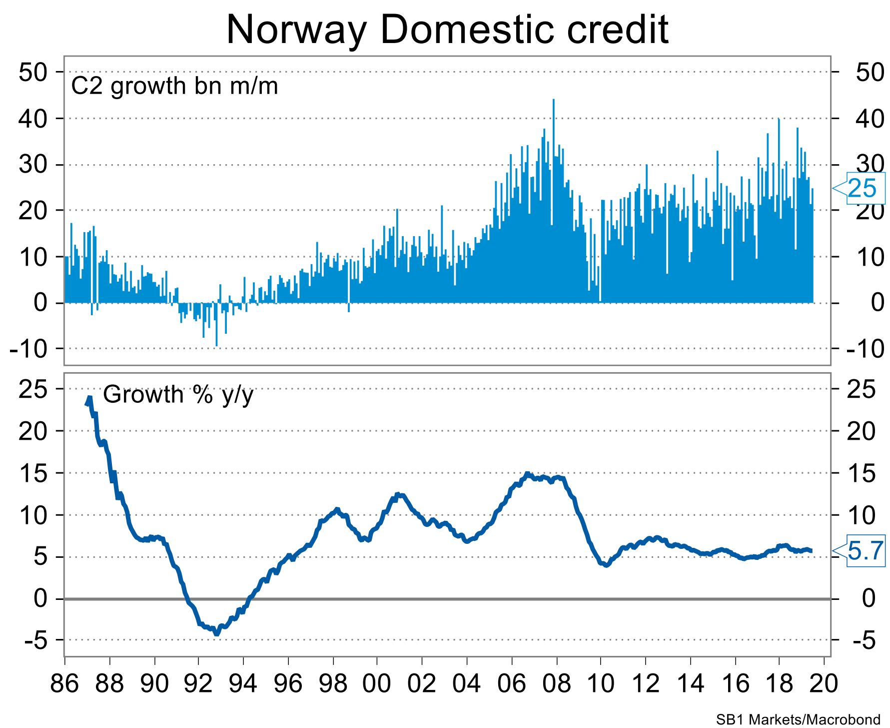


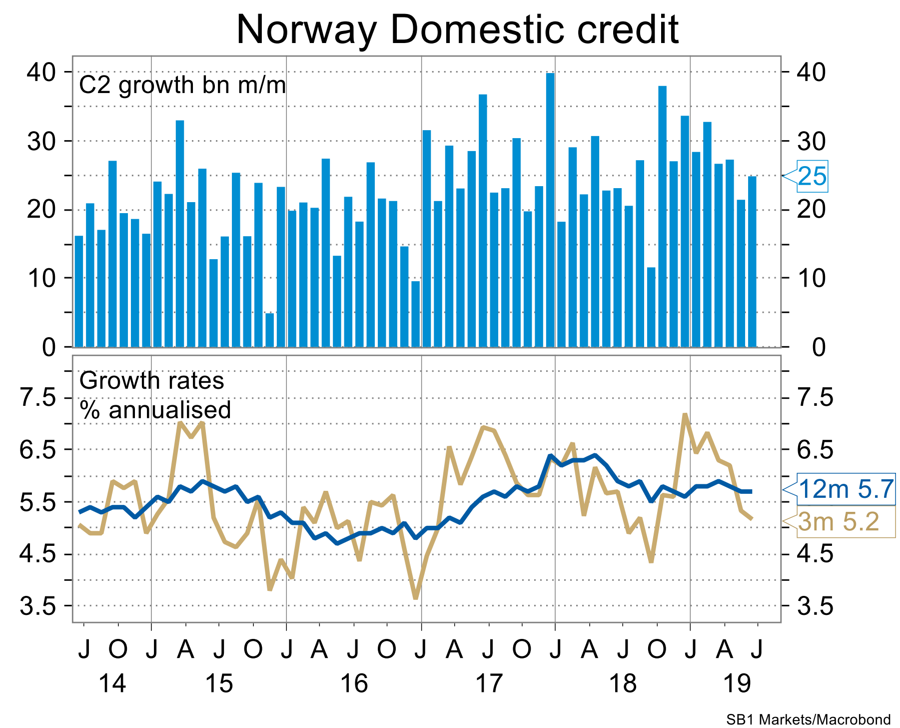




- Retail sales volume (ex auto) fell 0.4% m/m in June, far below our f'cast at +0.5% and consensus (0.6%), following a sharp retreat in May. Sales are certainly not thriving, trending more or less flat over the two past years. However, sales have improved somewhat from the downswing in 2018/early 2019 and Q2 sales are up 3.6% (q/q annualised) from the weak Q1. The annual rate is up meagre 0.3%
- Total consumption of goods (ex electricity) bounced back in June, up 1.3% m/m and is no doubt trending up. The increase is driven by brisk auto sales. Consumption was up 1.7% Q2 (q/q, annualised), thus, a moderately positive contribution to Q2 GDP growth. Subsiding price inflation will probably support volume growth the coming months. <u>Total consumption is anyway at Norges Bank's 2019 (implied) estimate, hence, household's goods demand is no argument for abandoning the hiking plans</u>

# Credit growth steady at 5.7% in June

Total domestic credit growth has slowed marginally, trending flat. Households have survived NoBa's first tests




- Total domestic debt (C2) rose by NOK 25 bn m/m in June. The annual rate was unchanged at 5.7%, as May was revised up by 0.1 pp. Average growth over the past 3 months slowed to 5%, from 6% some months ago. Overall, growth has held steady since 2013
- Household credit growth kept up in June, as the prior months, although the annual rate inched down to 5.5%
- Corporate credit growth grew moderately, the annual rate rose to 5.8%, from an 0.2 pp upward revised 5.6% in May

# Our main views

| | Main scenario | Recent key data points |
|---|---|---|
| Global growth cycle | The cycle is maturing, in the real economy, markets. Rich countries (DM) in the lead, more to go in most EM. Unemployment is low, wage inflation on the way up, not low vs. productivity. Most emerging countries (EM) x China are in recovery mode. Some hotspots EM will get burned, as usual – but there are fewer EM imbalances than normal. Barring policy mistakes, the global economy is not yet rigged for a *hard* downturn | Global composite PMI probably rose marginally in July too but is signalling no more than GDP 3% growth. Global manufacturing PMI one inch down to 49.3 |
| 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 | July manufacturing PMIs both improved, to 49.9 and 49.7 (and the composite PMIs rose too), adding to signs of a stabilization – before the further escalation of the trade war |
| USA | Growth has slowed, from well above trend. Employment growth has come down too but is still not too low, and unemployment is trending down while inflation is just marg. below target. No serious overinvestments but most sectors at/above trend. Business investments has slowed amid trade war uncertainty. Recent consumption data are OK, housing mixed. Another substantial upward revision of household savings, limited consumption risk. Fiscal stimulus continues 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** (we told you so ☺) | The labour market does not signal any abrupt halt in the US economy. The Fed delivered the 25 bps cut (they had no choice!) but did not signal many more cuts. Private consumption is blooming and consumer confidence rebounding. Still, core PCE inflation is running below the target, 1.6% in June. |
| 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 | Data confirm a weak spring/summer; GDP growth slowed to 0.9% annualized in Q2 and core CPI inflation fell to 0.9% in July. The EU survey deteriorates. However, unempl. continues to fall and retail sales are solid |
| 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.** | Registered unemployment surprisingly increased, 3 past months weak. Retail sales fell again in June, trending flat, while total consumption is doing better. Steady credit growth from both households and corporations |

# The Calendar

## In focus: Final composite PMI/ISM, China trade balance, Norwegian CPI, lending survey, house prices

| Time | Country | Indicator | Period | Forecast | Prior |
|---|---|---|---|---|---|
| TBA | CH | Aggregate Financing CNY | Jul | 1650b | 2260.0b |
| **Monday Aug 5** | | | | | |
| 08:30 | SW | Composite PMI | Jul | | 50.5 |
| 10:00 | EC | Composite PMI | Jul F | 51.5 | 51.5 |
| 10:30 | UK | Composite PMI | Jul | 49.8 | 49.7 |
| 11:00 | NO | House Prices Real Estate Norway | Jul | 0.4% | 0.6% |
| 15:45 | US | Markit Composite PMI | Jul F | | 51.6 |
| 16:00 | US | ISM Non-Manufacturing Index | Jul | 55.5 | 55.1 |
| 17:00 | WO | Global Composite PMI | Jul | (51.4) | 51.2 |
| **Tuesday Aug 6** | | | | | |
| 08:00 | GE | Factory Orders MoM | Jun | 0.5% | -2.2% |
| 09:30 | SW | Industrial Orders MoM | Jun | | 1.1% |
| 16:00 | US | JOLTS Job Openings | Jun | 7400 | 7323 |
| **Wednesday Aug 7** | | | | | |
| 08:00 | GE | Industrial Production MoM | Jun | -0.50% | 0.3% |
| **Thursday Aug 8** | | | | | |
| | CH | Exports YoY | Jul | -0.2% | -1.3% |
| 08:00 | NO | Manufacturing Production MoM | Jun | 0.3% (0) | 0.3% |
| 10:00 | NO | NoBa 2Q Bank Lending Survey | | | |
| 14:30 | US | Initial Jobless Claims | Aug-03 | 215k | 215k |
| **Friday Aug 9** | | | | | |
| 01:50 | JN | GDP Annualized QoQ | 2Q | 0.6% | 2.2% |
| 03:30 | CH | CPI YoY | Jul | 2.7% | 2.7% |
| 08:00 | NO | CPI YoY | Jul | 1.8% (1.6) | 1.9% |
| 08:00 | NO | CPI Underlying YoY | Jul | 2.2% (2.1) | 2.3% |
| 08:00 | GE | Trade Balance | Jun | 19.5 | 20.6b |
| 08:45 | FR | Manufacturing Production MoM | Jun | -1.20% | 1.6% |
| 10:30 | UK | GDP QoQ | 2Q | 0.0% | 0.5% |
| 10:30 | UK | Manufacturing Production MoM | Jun | -0.2% | 1.4% |
| 14:30 | US | PPI Final Demand YoY | Jul | 1.7% | 1.7% |
| 14:30 | US | PPI Ex Food and Energy YoY | Jul | 2.3% | 2.3% |

- **The global composite PMI** most likely rose marginally in July, we expect a 0.2 p uptick to 51.4
- **China**
  - » The trade dispute has not sent Chinese exports to its knees, both **exports and imports** have stabilized recent months. However, the trade surplus to the US has been reduced significantly
- **USA**
  - » **A high number of unfilled vacancies** and a continued low level of **new jobless claims** indicate that the labour market remains tight
- **EMU**
  - » Plummeting manufacturing PMIs and other surveys signal an intensifying downswing in **industrial output.** June data from Germany and France are reported this week
- **Norway**
  - » We expect **core CPI** inflation to slow to 2.1%, and a further decline in headline inflation, pulled down by electricity prices
  - » **House prices** have increased more than expected recently, even as market dynamics keeps suggesting slowing price growth. We expect a modest decline in the growth rate in July
  - » Surveys have moderated somewhat, indicating that **manufacturing production growth** may have peaked
  - » All eyes on **Norges Bank's Q2 lending survey,** which will provide new information as to whether rising interest rates are dampening households' credit appetite. Risks are no doubt tilted to the downside

Source: Bloomberg. SB1M est. in brackets

# In this report

## Global + PMIs

- US data less disappointing, EMU deteriorates, China close to neutral
- Rays of light? Retail sales still OK, manuf. production probably OK in June
- Manufacturing PMI just marginally down in July
- Both China manuf. PMIs report a stabilisation
- ISM fell further, r
- EMU Manuf. PMI confirmed at 46.5, reflecting a deep manufacturing downturn
- US auto sales down, EMU close to flat, Norwegian sales sharply down

## USA

- The Fed cut 25 bps, as 'promised'. Will cut more but only if needed
- Then Trump escalated the trade war with China
- Employment is not yet weak, flat unempl & wage inflation up. No cut signal
- Core PCE inflation remains below Fed's target
- Private consumption back on track, or better, and income growth gains speed
- Corporate profits revised sharply down
- Pending existing home sales soared in June House prices reflects a mild housing recovery
- Conference Board's consumer confidence bounced back in July
- A stable June trade deficit but it widened in Q2

## EMU

- GDP growth cooled to 0.8% in Q2, as predicted
- Retail sales spiked in June, bringing Q2 up to a decent speed
- Unemployment still slides down amid growth slowdown, at 11 year low
- Core CPI stalled in July, trending flat at best
- EU economic sentiment follows PMI and other surveys down

## Japan

- Manufacturing production plunged in June. Trend down as PMIs have noted
- Unemployment may have flattened out, employment growth slowing

## Sweden

- GDP contracted marginally in Q2, adding to signs of a sagging economy

## Norway

- Unemployment ticks up: Signs of a weakening labour market or just noise?
- Retail sales are sagging, total goods consumption not that bad in Q2
- Credit growth steady at 5.7% in June
- OBOS Oslo apartment prices unchanged in July, flattening out since early spring

Highlights

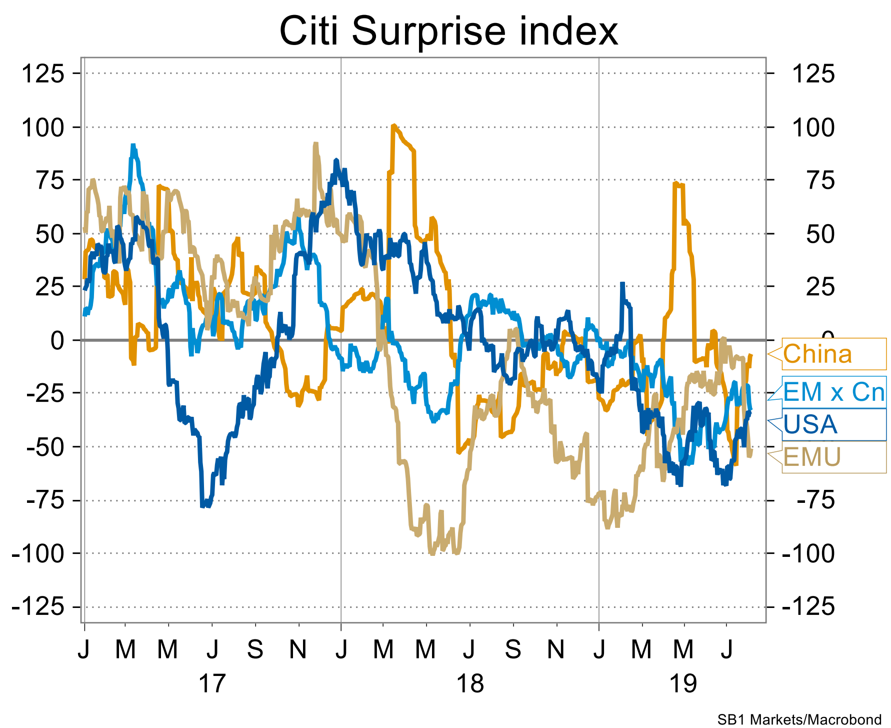
The world around us

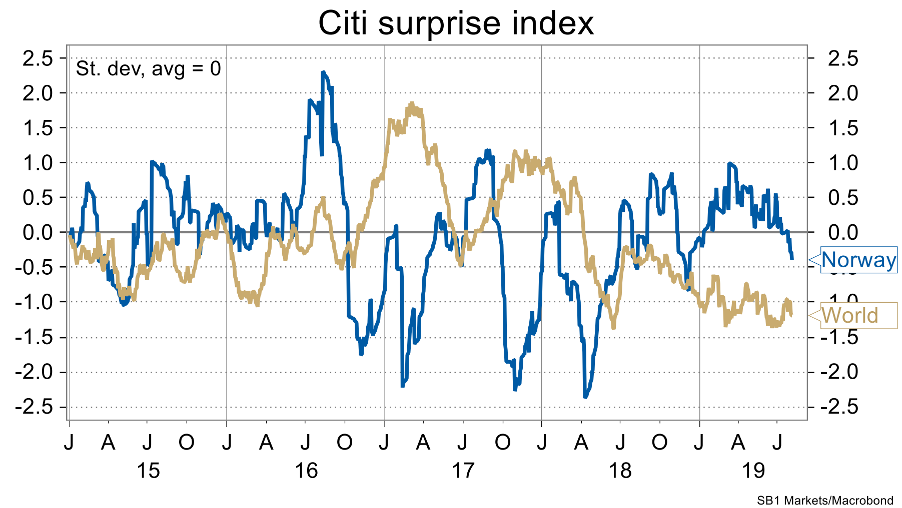
The Norwegian economy

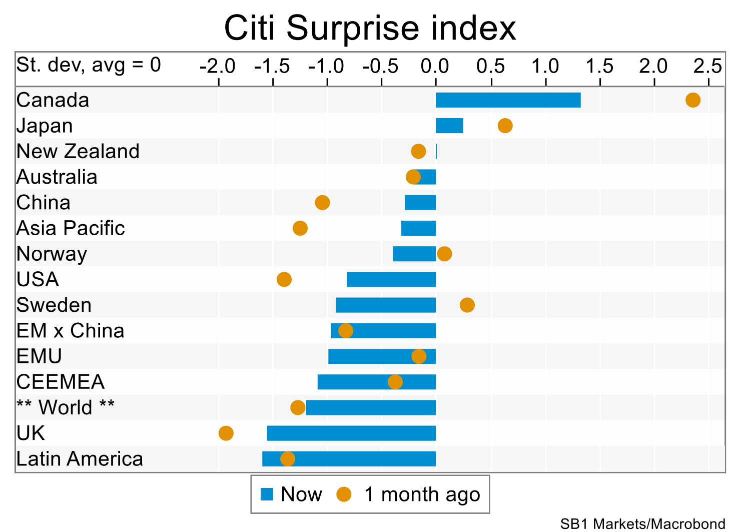
Market charts & comments

# US data less disappointing, EMU deteriorates, China close to neutral

## All major regions are reporting data below par, world index a tad weaker last week



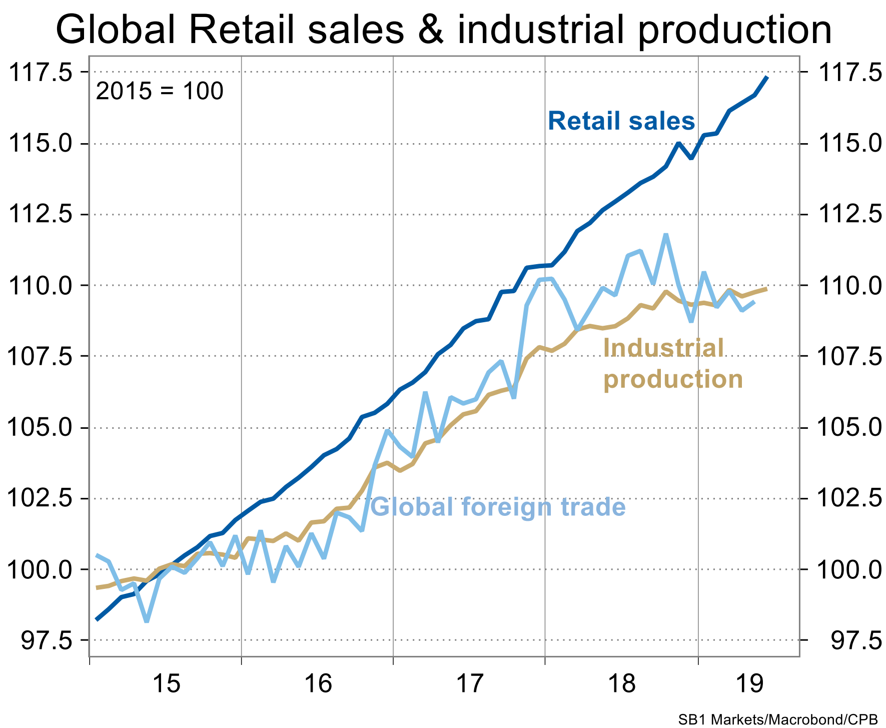



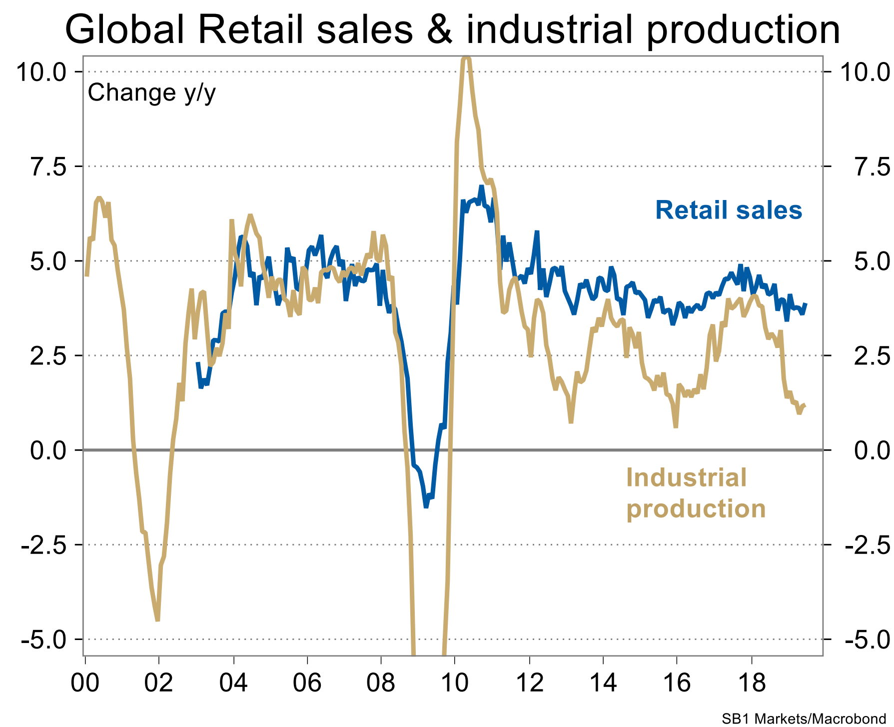

- The global surprise index has been in negative territory since last spring
- The EMU surprise index has fallen sharply recently due to weak PMIs and muted inflation
- The US date still negative over the 4 last months period, but less so the past 3 weeks
- Chinese June/Q2 data and PMIS better than expected, and surprise index turned up
- EM x China stable in negative territory, down last week
- Norwegian data are not surprising on the upside anymore. Canada at the top, UK & LatAm at the bottom

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

# Rays of light? Retail sales still strong, manuf. production probably OK in June

## Global foreign trade rose in May but has been trending down since Q3 last year

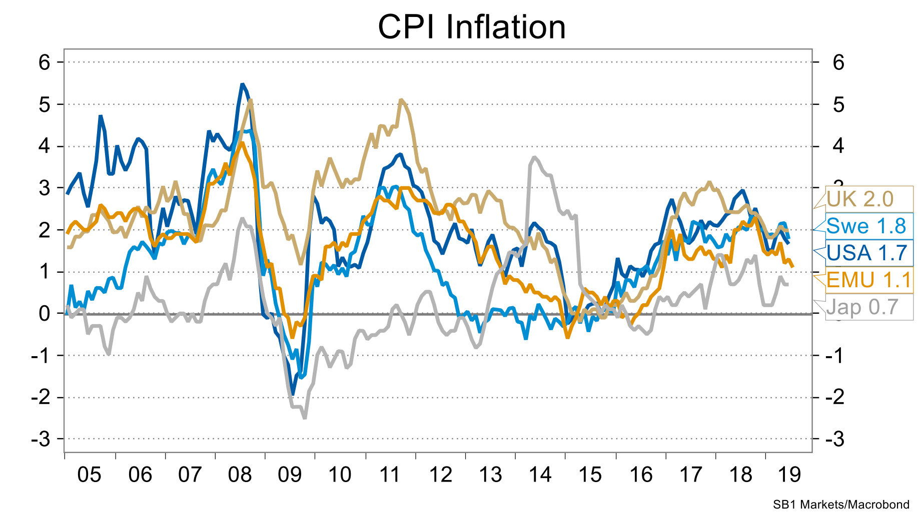


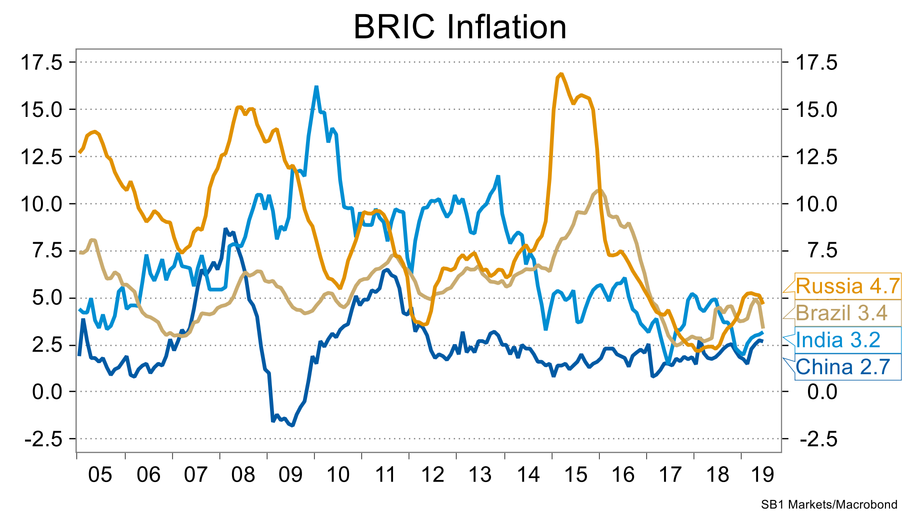



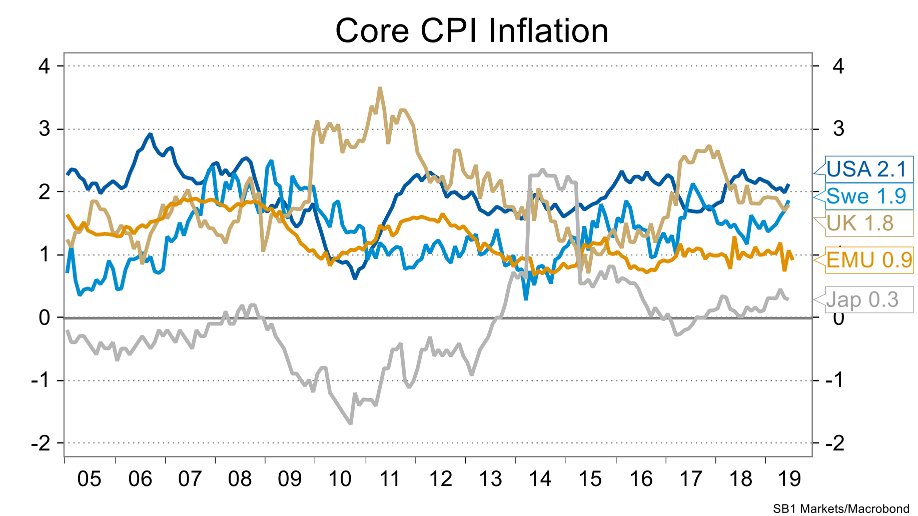

- We still have still too few data point for retail sales and manufacturing production in June but our estimate implies that industrial production increased marginally from May. Retail sales probably accelerated and signals that consumption is still supporting the global economy – even if it has slowed somewhat

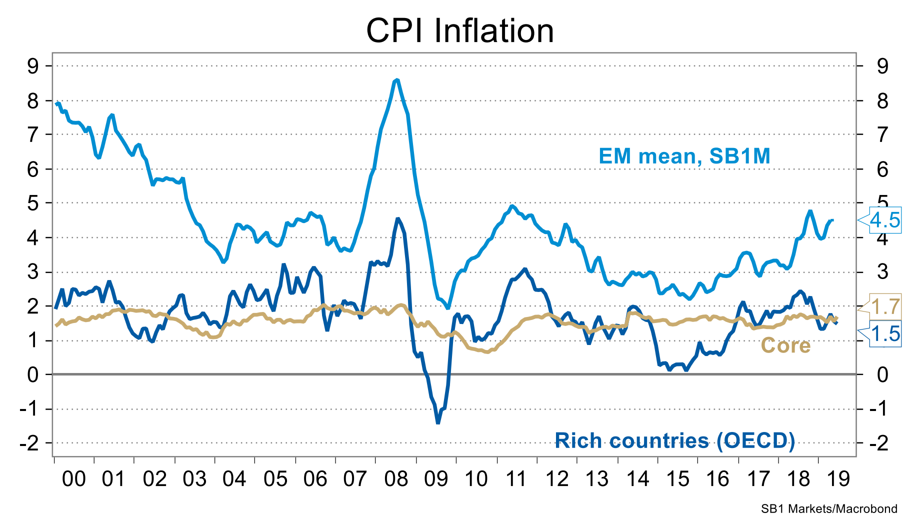
# DM CPI has turned south, with the oil price. Core is sum flattish

## Core inflation at target in US, not far below in UK, Sweden. EMU still muted. EM inflation not low



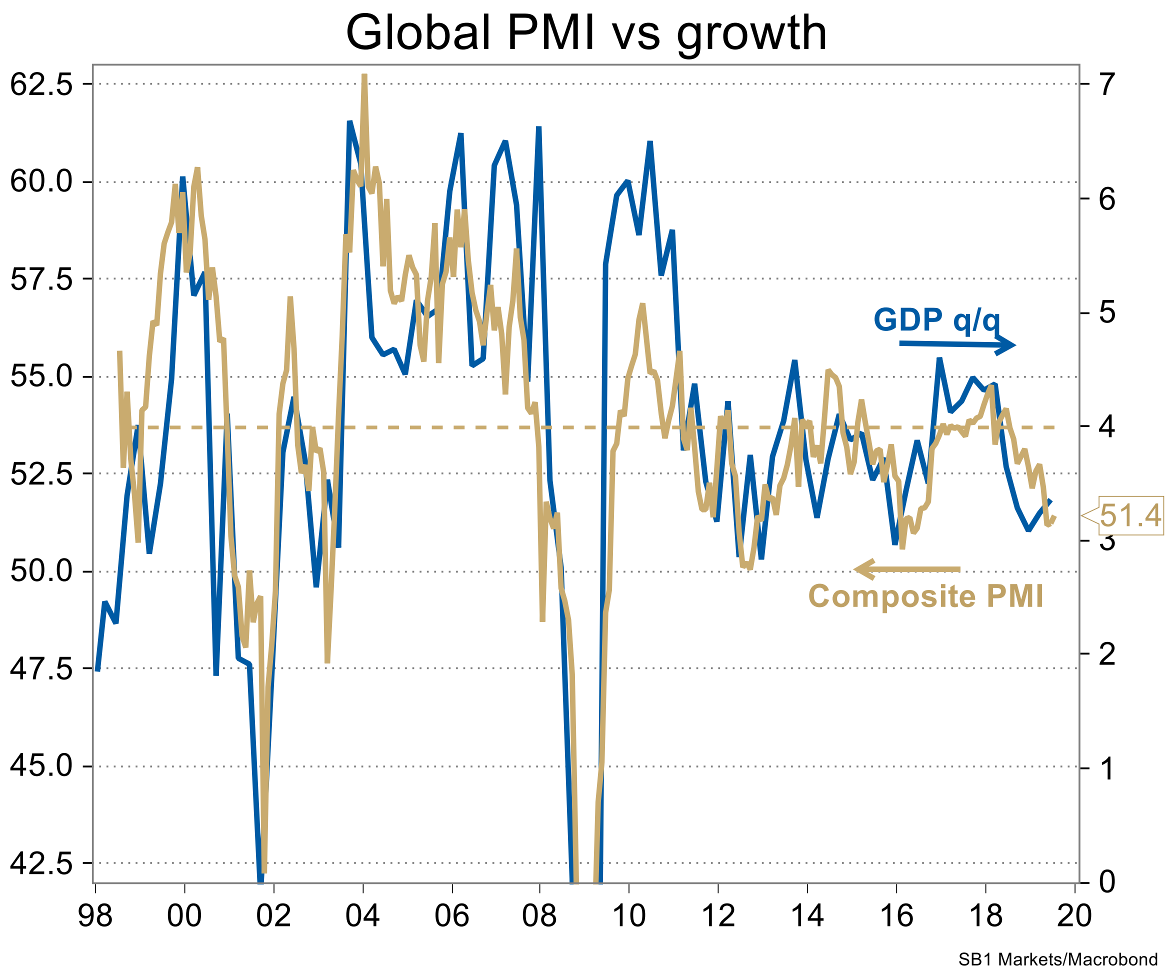



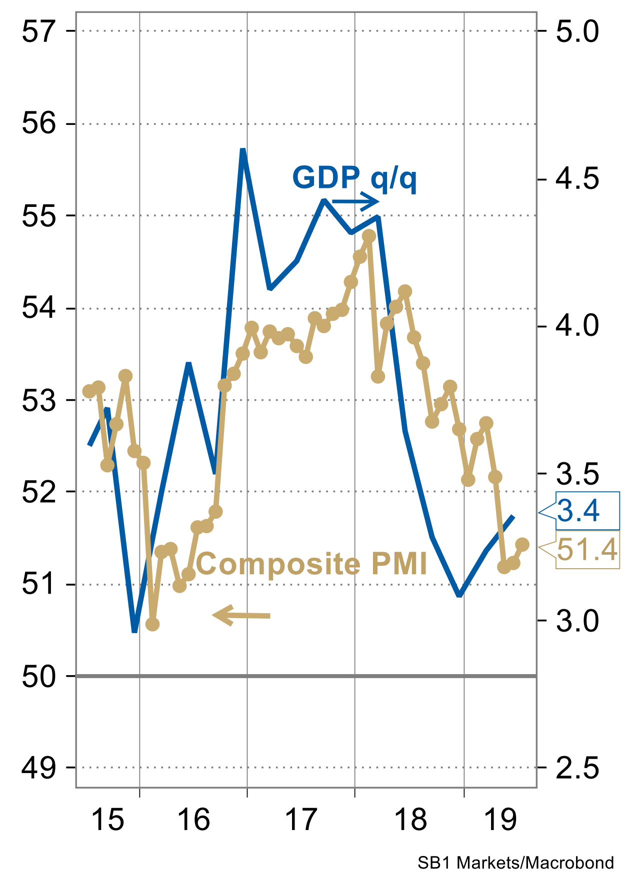




Change in % y/y in all charts. EMU core based on a seasonally adjusted price index

# Composite global PMI probably rose marginally in July. 3%+ growth

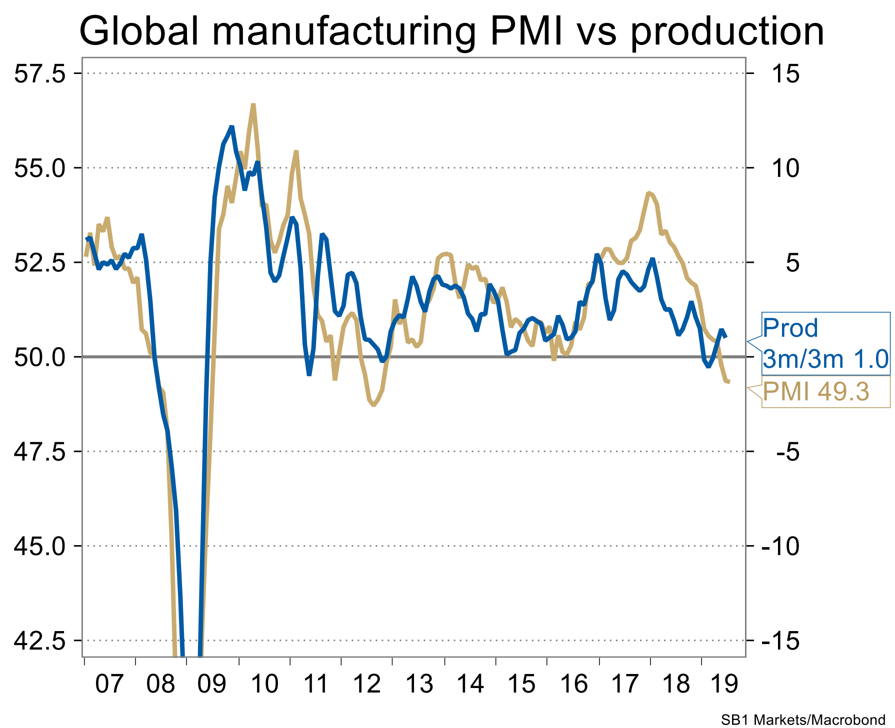
We expect an 0.2 p uptick to 51.4, following the stabilisation in June

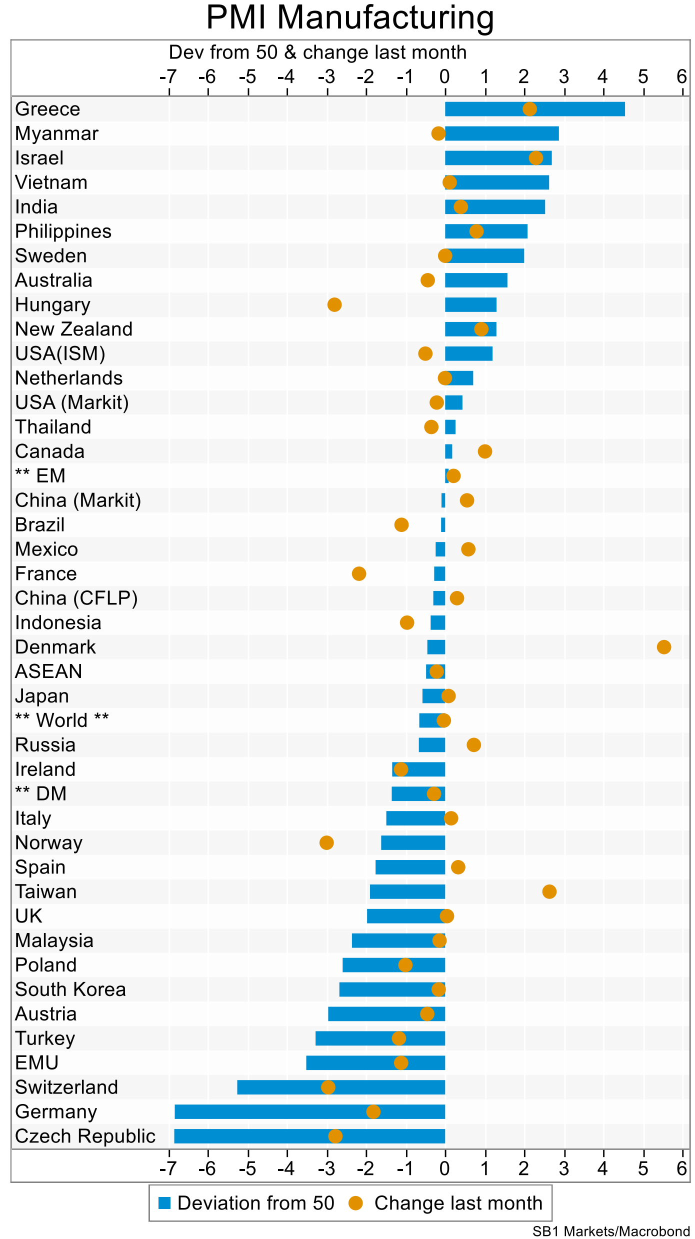


# Manufacturing PMI just marginally down in July; DM down, EM a tad up

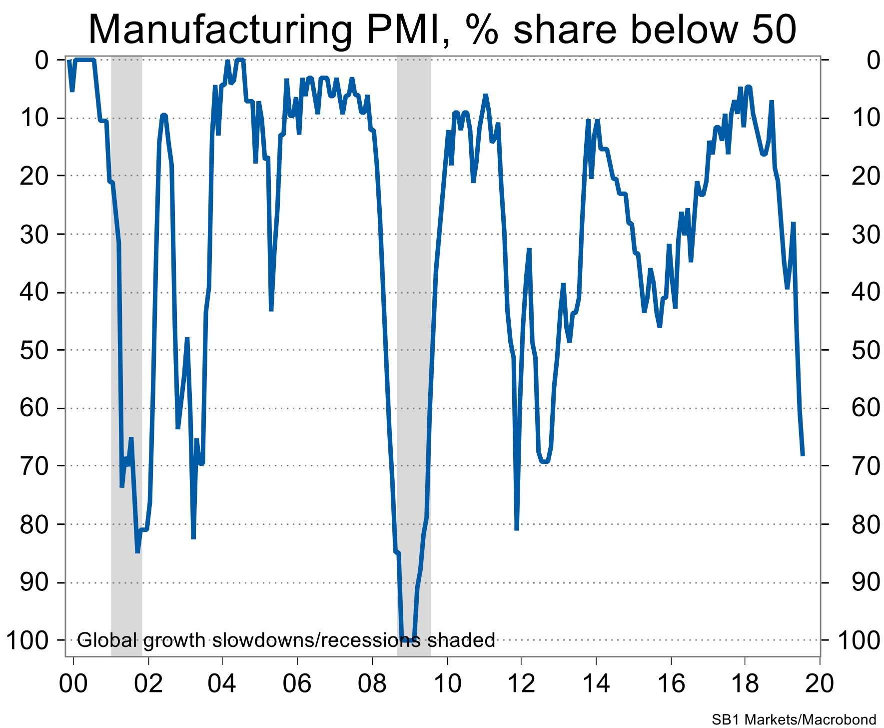
## The index fell 0.1 p to 49.3. 27 of 43 <50, 22 down m/m

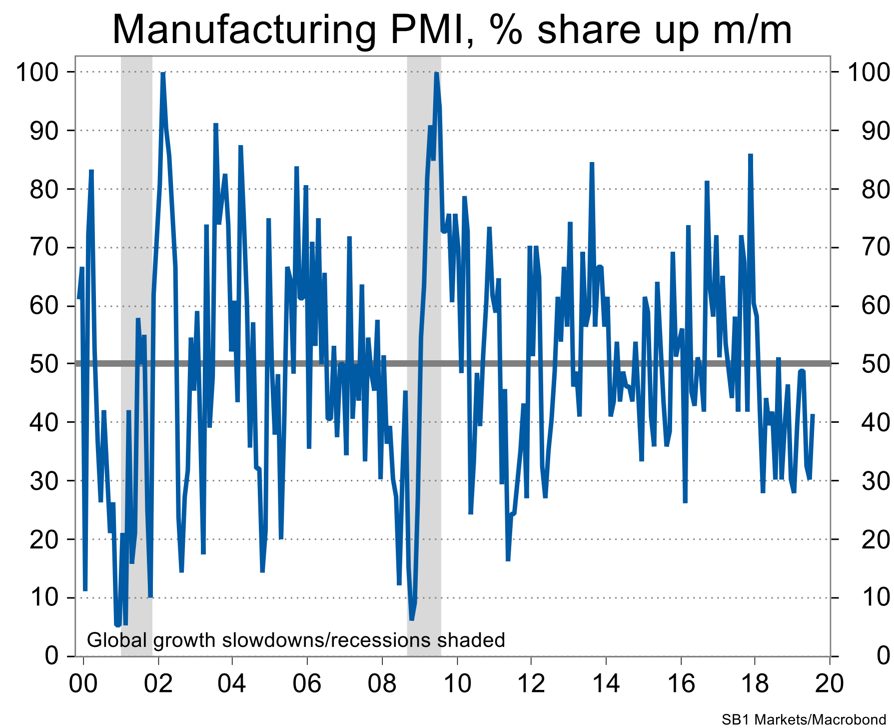



- The decline was 0.2 p smaller than we assumed (based on the preliminary results from EMU/JP/US). **<u>The index has fallen for 15 consecutive months and is now signalling a decline in global manufacturing production</u>**
  - » 22 (34 in June) countries/regions down in July and 16 up (from 7)
  - » 27 of 43 countries/regions are below the 50 line. Germany and EMU at the bottom
  - » Developed Markets fell 0.3 p in average, like in June. <u>Emerging Markets up 0.1 p (from -0.5 in June)</u>

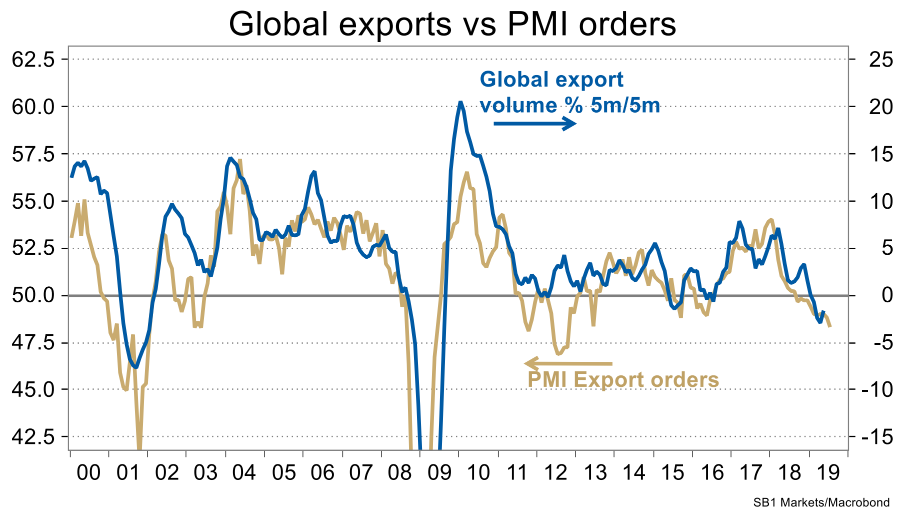
# A broad based slowdown, 70% under 50, 60% down in July

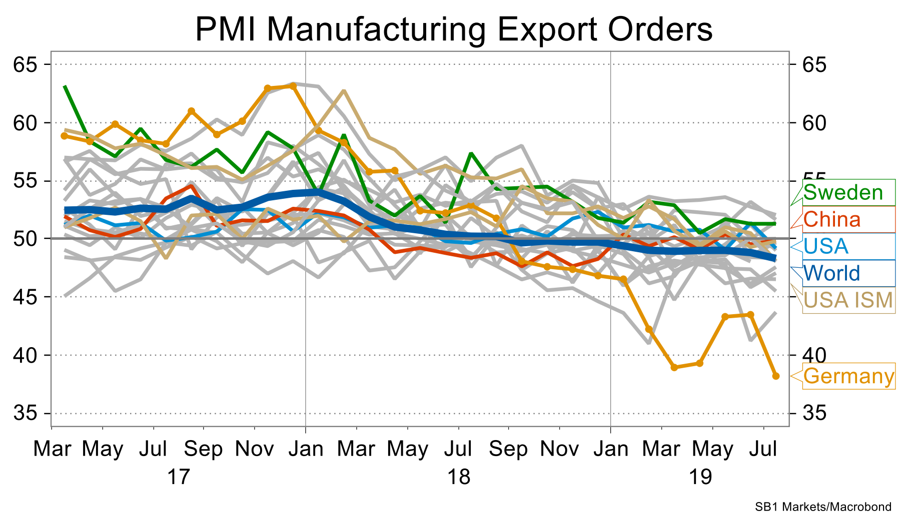


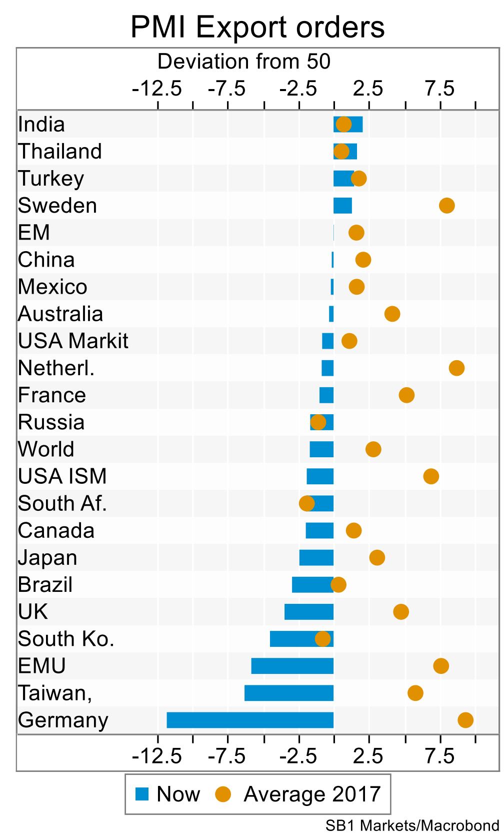
# PMI export orders are still on the way down, and faster

## Export orders index fell 0.5 p to 48.3. German manufacturers still at the deep bottom, at 38!!



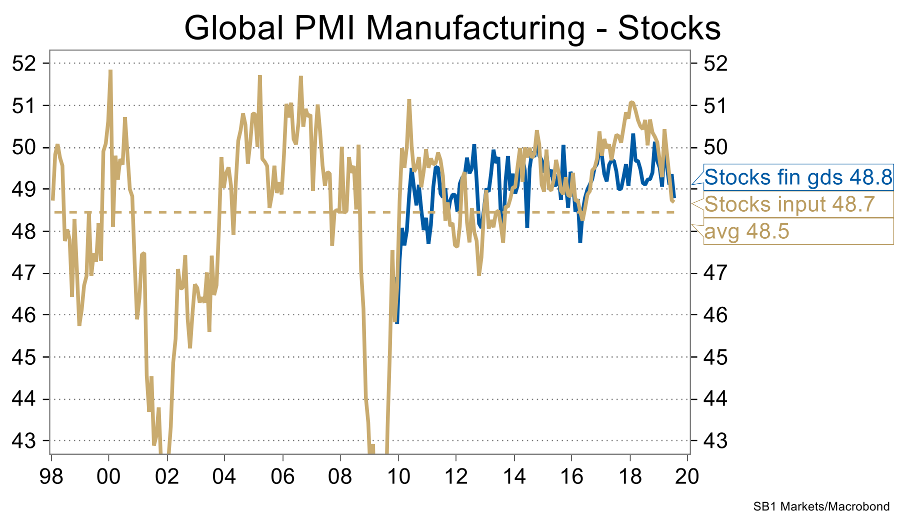



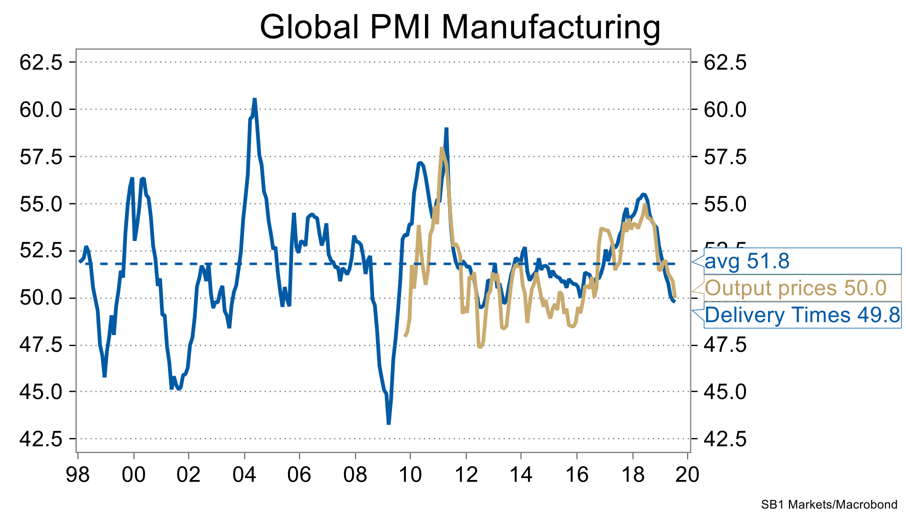

- Actual global export volumes have fallen recent months
- A large majority of countries is now reporting declining export orders, and just a couple are above the 2017 average.
- Political uncertainties regarding the trade war + Brexit has no doubt taken its toll on export demand. Chinese slowdown (which now may be turning) and the Eurozone slump may partly be blamed, too
- Germany is much weaker than any other country, trouble in the auto industry is just partly to blame; there must be other factors too
- Chinese exporters are reporting unch export orders in July, from a decline

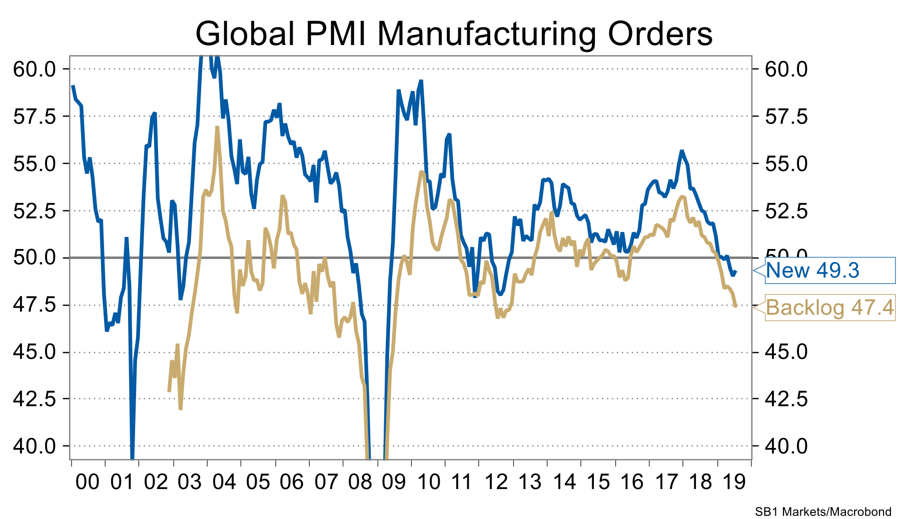


# Manufacturing orders, prices declining but growth in inventories slows

## Demand, not capacity constraints is slowing global manufacturing output – delivery times down



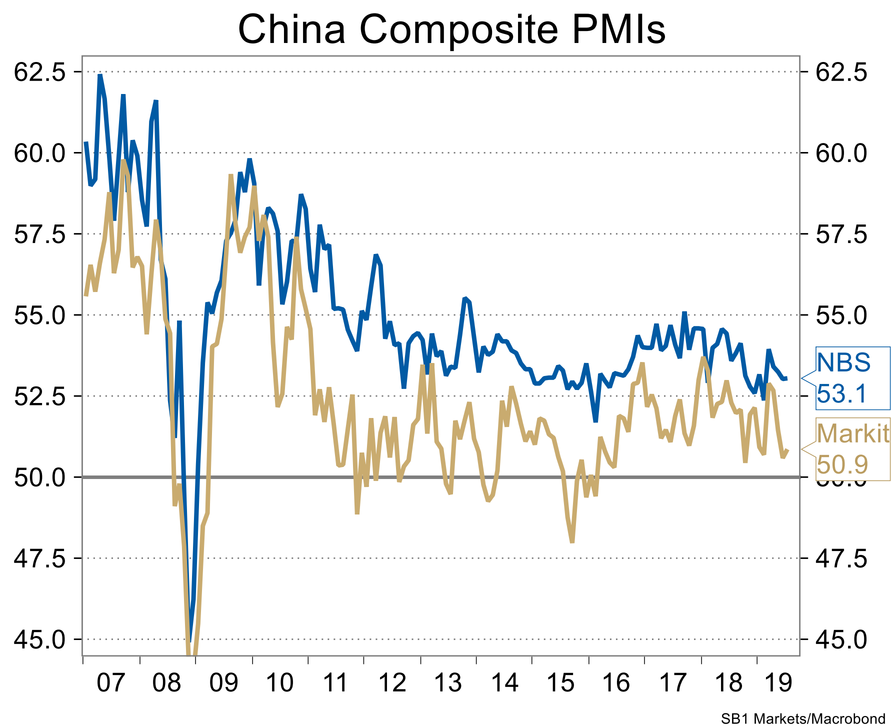



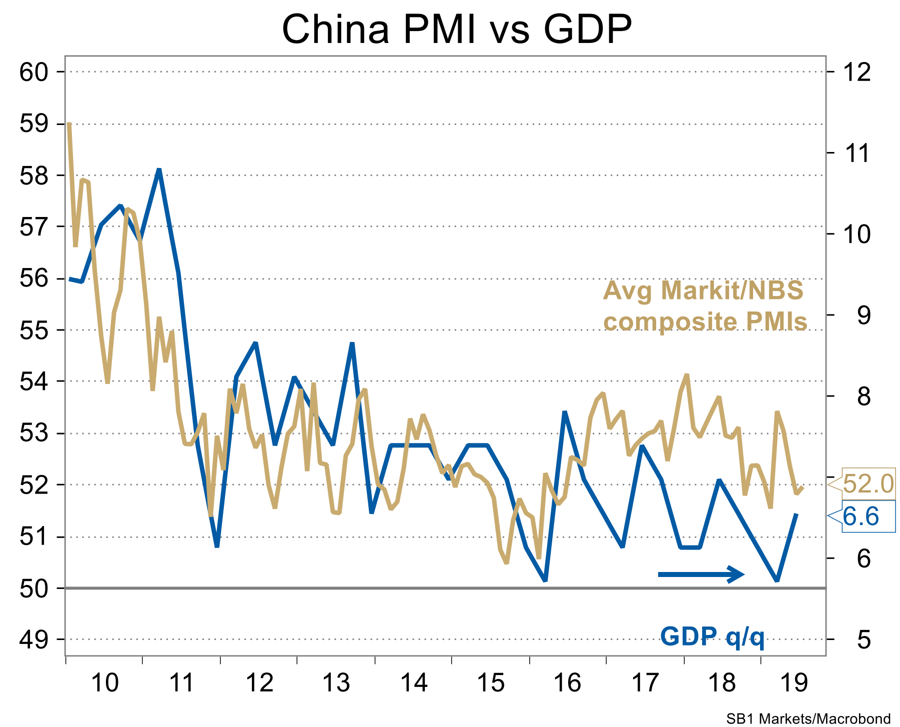




- The manufacturing new order index rose marginally to 49.3 in July. The backlog index has fallen to 47.4
- Businesses noted a continued increase in inventories in July, but at a slower pace than previous months. We expect the inventory index soon to fall below avg, signalling an inventory build-down
  - » In UK and EMU the possible Brexit has led to an inventory build-up as businesses panic-bought materials
- Delivery times and output prices are declining. This confirms that the momentum in manufacturing is due to weaker demand

# The PMIs stabilised in July, level not impressive but do not signal full stop

## Both manufacturing & composite PMI indices marginally up

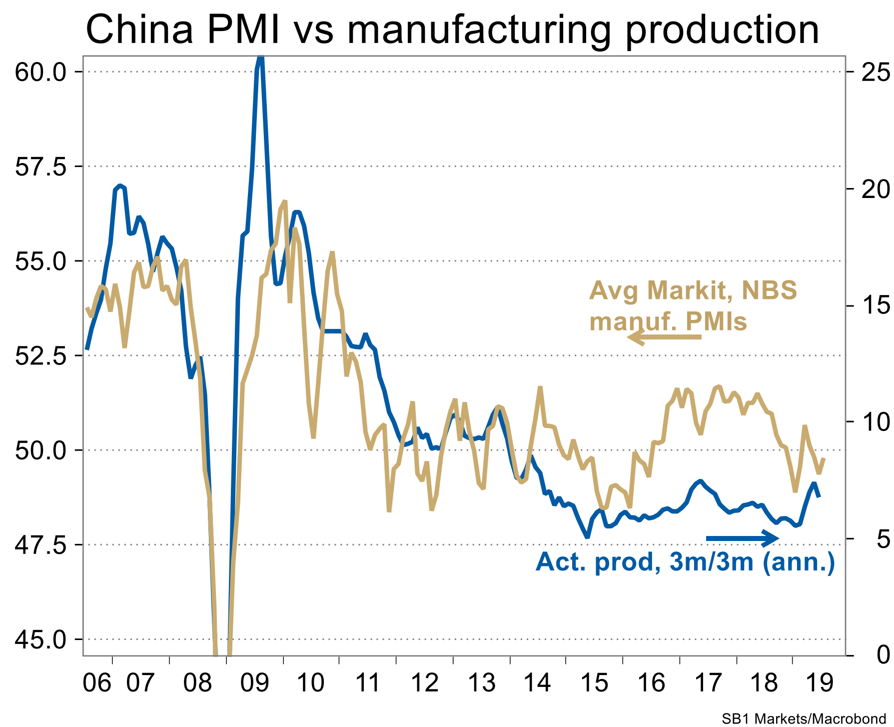



- NBS' composite PMI (CFLP) increased marginally to 53.1 in July, not too hot/too cold. The manufacturing index rose 0.3 p, stabilising recent months, while service businesses reported a small slowdown, to 53.7
- Markit's composite PMI also rose marginally, to 50.9. The manufacturing index rose 0.4 p to 49.9, while the service index fell to 51.6 from 52.0
- The NBS service sector PMI is approx at the average over the past 5 years but is trending slowly down. Markit's volatile service sector PMI is trending flattish, while the level now is below average
- The two PMI data are at the 4th lowest level over the past year but do not signal any abrupt halt in the Chinese economy

# Both manufacturing PMIs report a stabilisation in July, Markit's at 8 y average

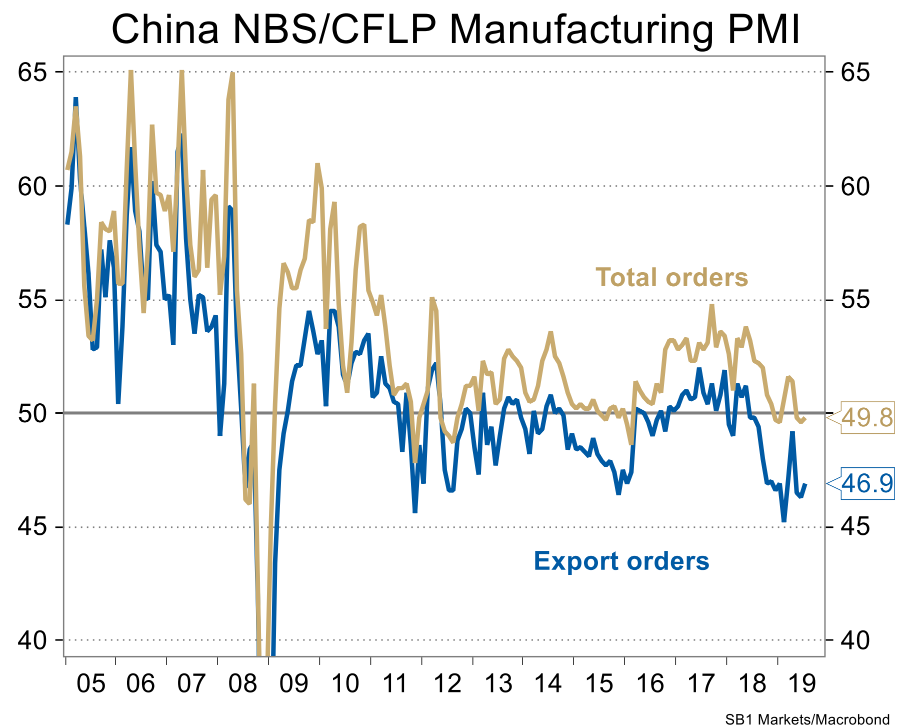
Markit's PMI rose to 49.9, CFLP to 49.7; suggesting a mild demand recovery, domestically & abroad


- The NBS/CFLP 'official' manufacturing PMI inched up 0.3 p in July, close to expectations. The PMI is just slightly higher than at the May bottom but the soft upswing the past 2 months is at least indicating a stabilization. Export orders are still the weak link
- Markit's manuf. PMI rose 0.6 p to 50.2, well above expectations and is back to a 'neutral' level, the average since 2012 is precisely 49.9
  - » The export order index improved marginally, to 49.9, total orders strengthened to 50.2
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller'privately owned companies
- The avg of the NBS/Markit PMIs is not reflecting any rapid slowdown in manufacturing activity – which by the way has not been weak recent months

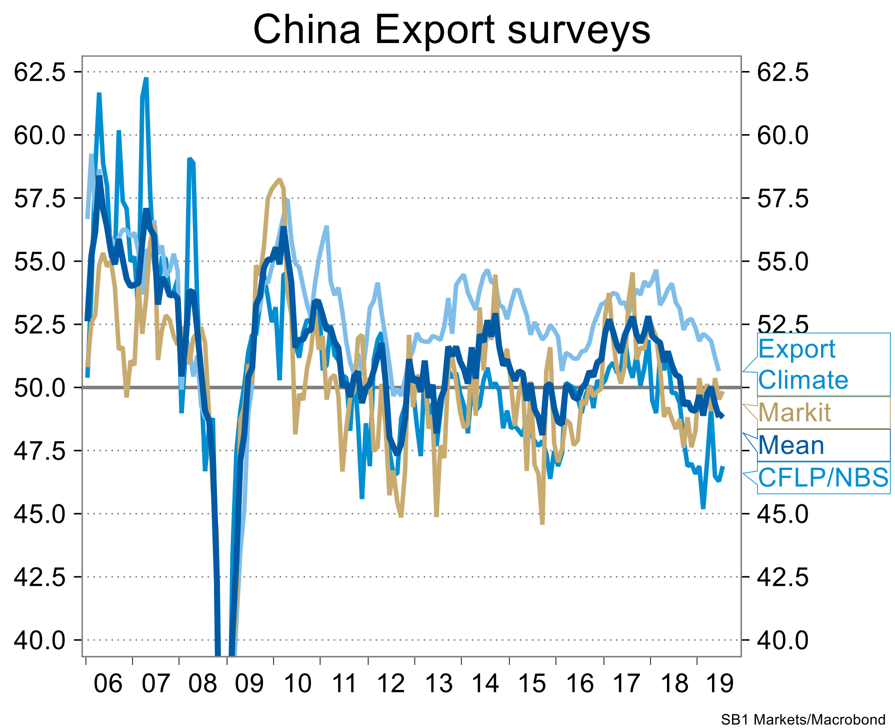
# Mixed export order indices but both have stabilised

The CFLP export order index is still far weaker than normal, Markit's is not. Domestic orders OK

# Export surveys have not collapsed, neither have exports

## Companies are reporting modestly deteriorating export conditions



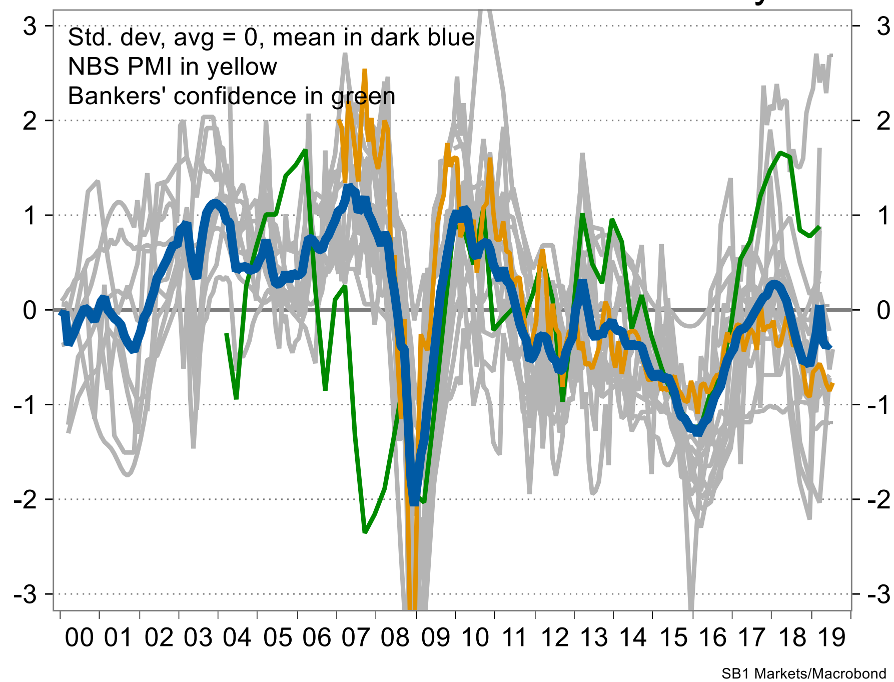


- The surveys we follow are down and below average. Still, the figures are not dramatically weak; the export orders surveys were as weak as now (or weaker) in 2012, 2013 and 2015 and 2016, without any rapid slowdown in the Chinese economy, even if export volumes flattened in 2012, 2013, and 2015/16.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

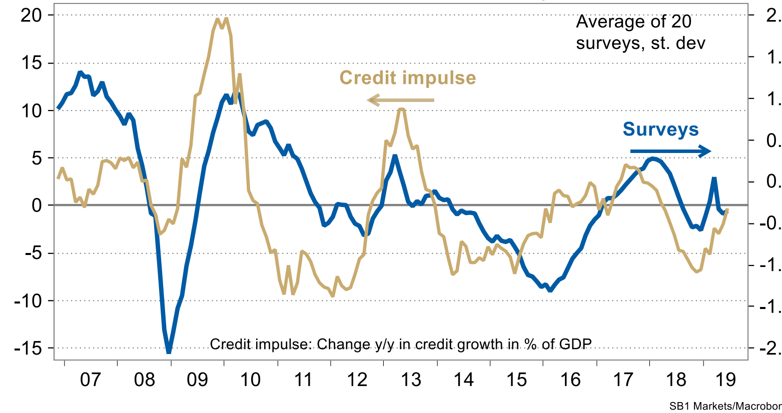
# Most surveys have improved/stabilised as the authorities are stimulating activity

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

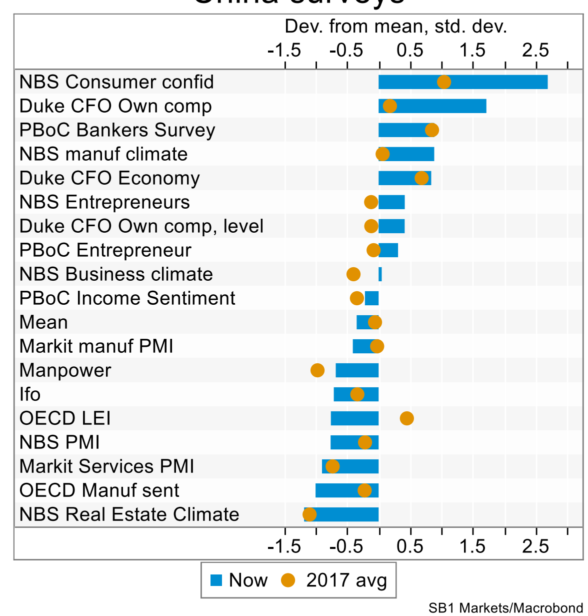
China Business & consumer surveys




China Credit vs. surveys



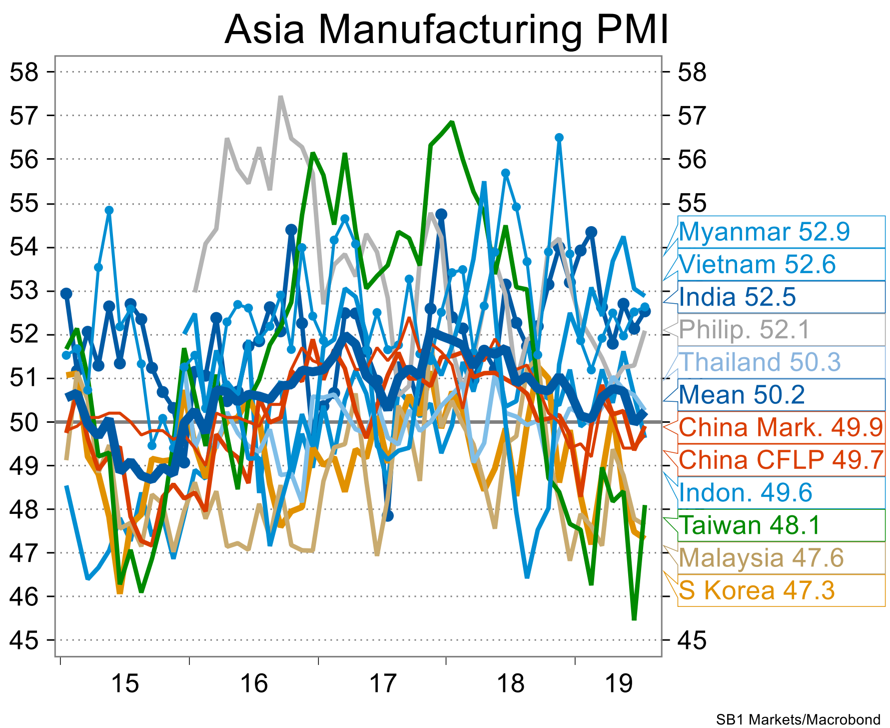

China surveys

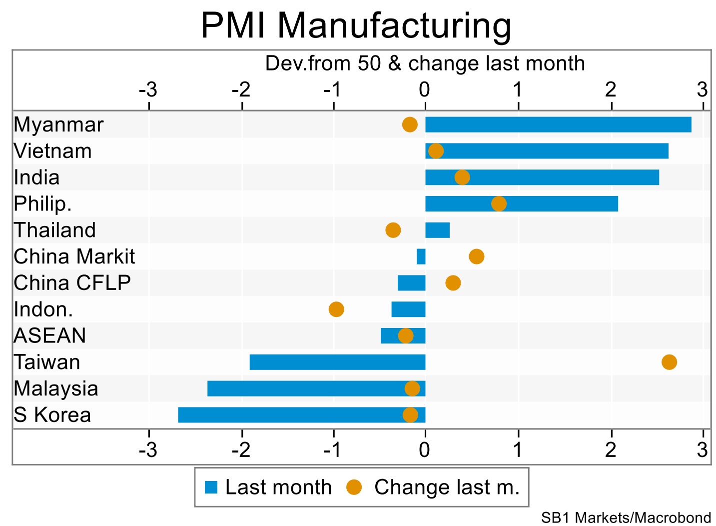


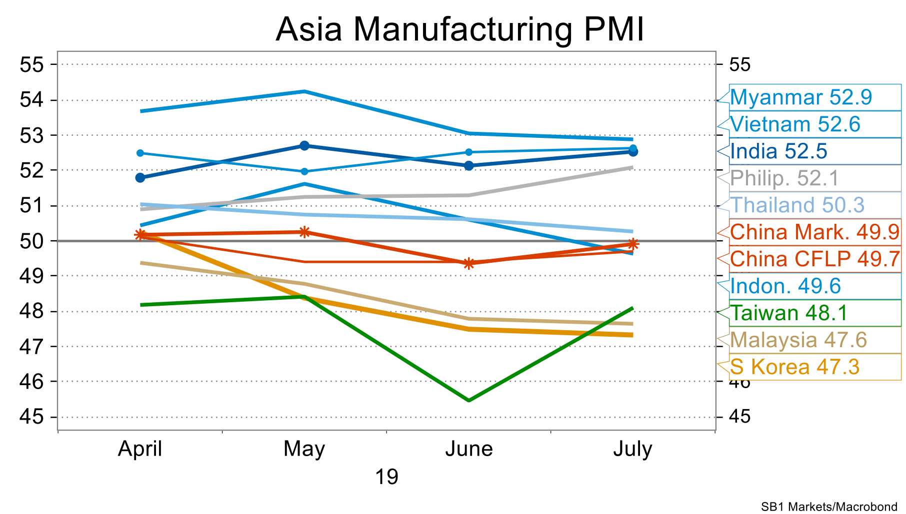

- Trade was worries may explain the slowdown in China through 2018 but the credit tightening in 2017 (especially vs. the shadow banking marked), that dampened credit growth substantially is probably more important. The credit impulse (the 2. derivative) turned negative, and the economy slowed, as usual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

# 6 PMIs up and 6 down in rest of EM Asia

7 countries are now below the 50-line, South Korea at the bottom, Taiwan most up. India not weak



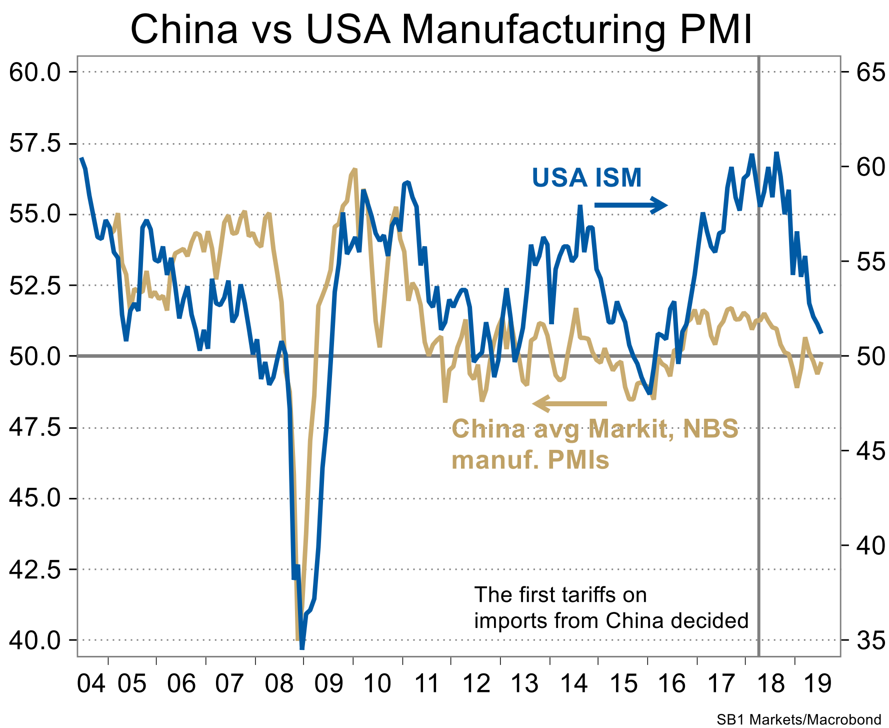




- The Asian PMIs are producing a spaghetti chart like the one above. Take a deep breath before you draw any important conclusion based on any single observation

# BTW, who has slowed the most, US or China?

Sure, trade war and tariffs are not the only game in town. But still, a funny chart??




- Don't forget: The manufacturing PMIs in both US and China were weaker in 2015/16, as in 2012.
  - » 2008/9 was much worse, but that's (hopefully) an irrelevant comparison
- The biggest decline in the PMI has been in the EMU

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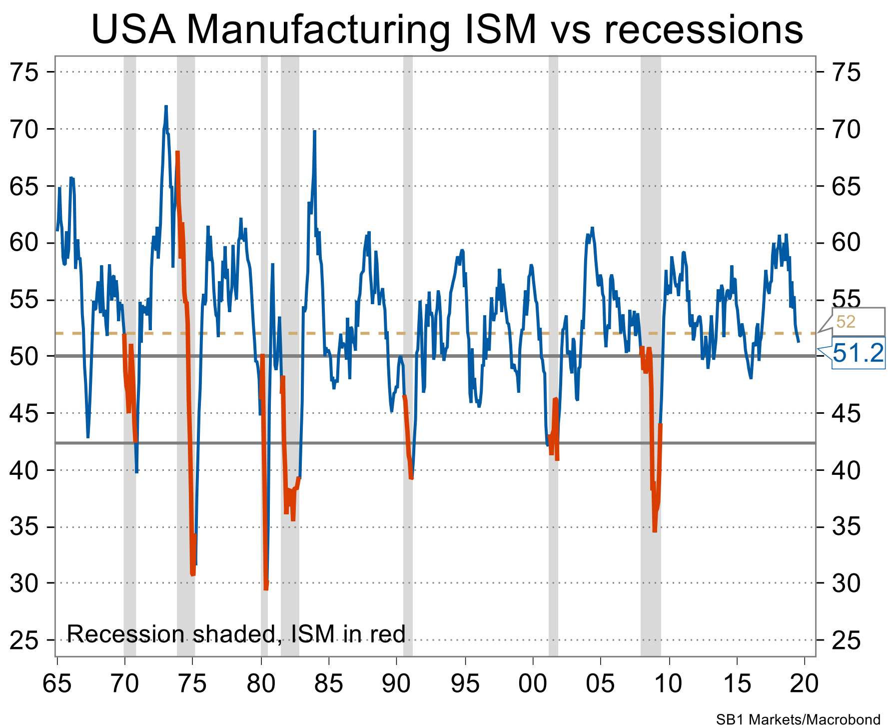
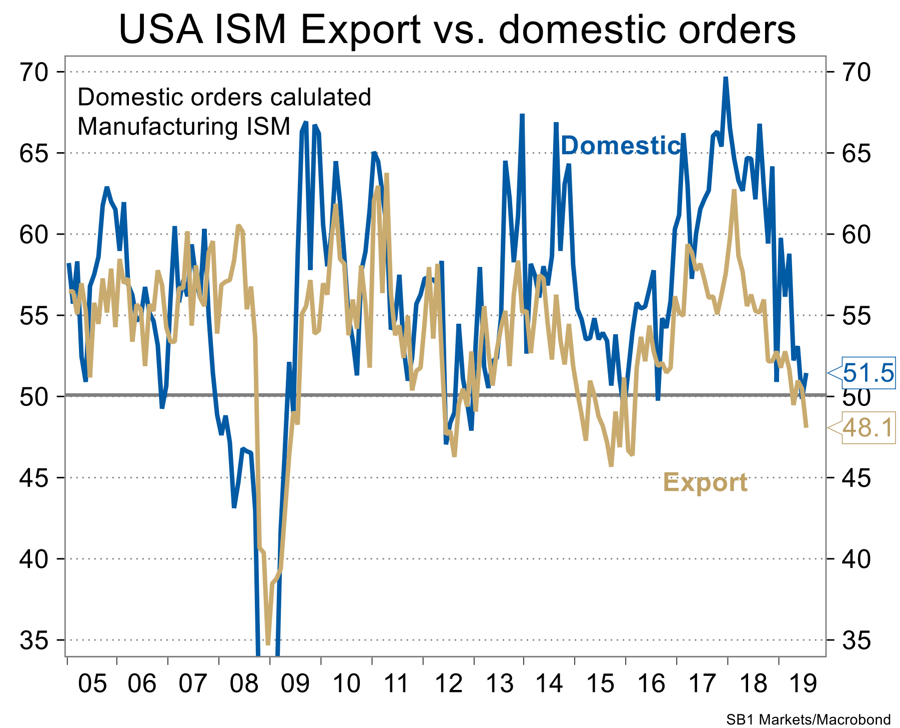
# Manufacturing ISM slides further down but less than many feared

ISM fell to 51.2, a 0.5 p decline. Export orders dropped but domestic demand has fallen the most

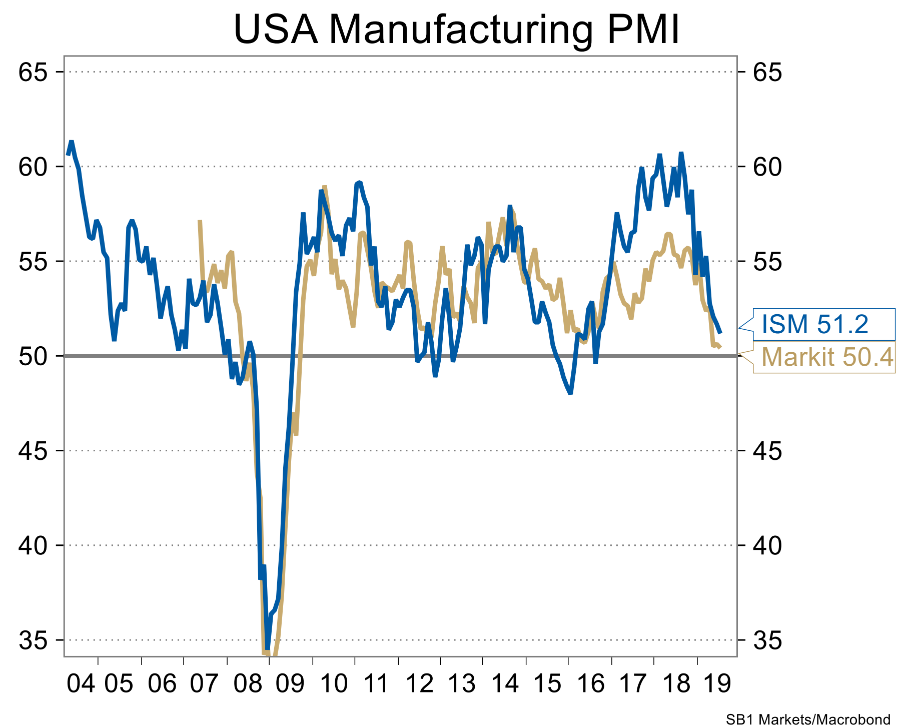


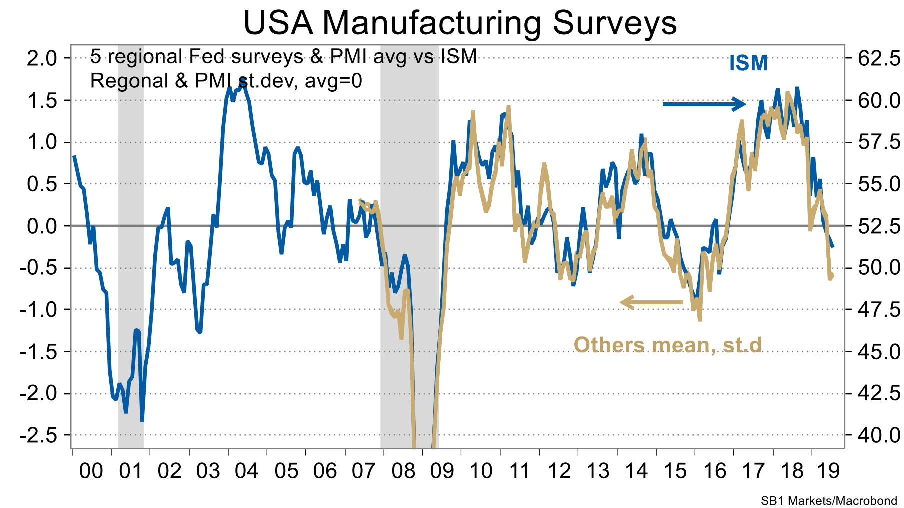



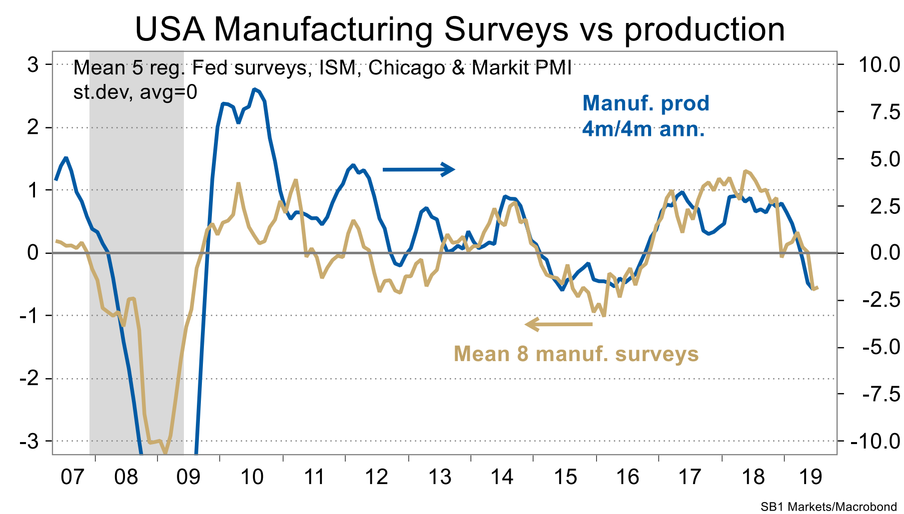

- Manuf. ISM fell to 51.2 in July, from 51.7, expected up to 52.0, yet at a higher level than other surveys in avg. The ISM is below the long term average (at 52.9) and the speed down is no doubt worrisome, particularly as other surveys confirm the drop
  - » In the ISM survey, 9 out of 18 sectors reported growth (up from 12 in June) and 9 (from 5) sectors reported a contraction – much weaker than before
- Businesses report stagnating order inflows, this month due to a decline in export orders, to 48.1. Domestic orders (implicit) recovered but have fallen rapidly since last autumn (down some 12 p), no doubt reflecting softening domestic demand. (Export orders down 8 p)
- 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

# Both ISM and Markit's PMI down in July – and recent months

## Markit's PMI came in 0.4 p above the first report, at 50.4, while regional surveys rose marginally




- Markit's PMI fell less than first reported, business conditions must have strengthened from a low point at the start of the month. The same occurred in June. Fed's regional surveys were mixed in July, in avg a tad up (even if the weak Chicago PMI is included)
- The avg of manufacturing surveys is signalling a contraction in manufacturing – which has stagnated recent months
- 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. And both are falling and are below average now

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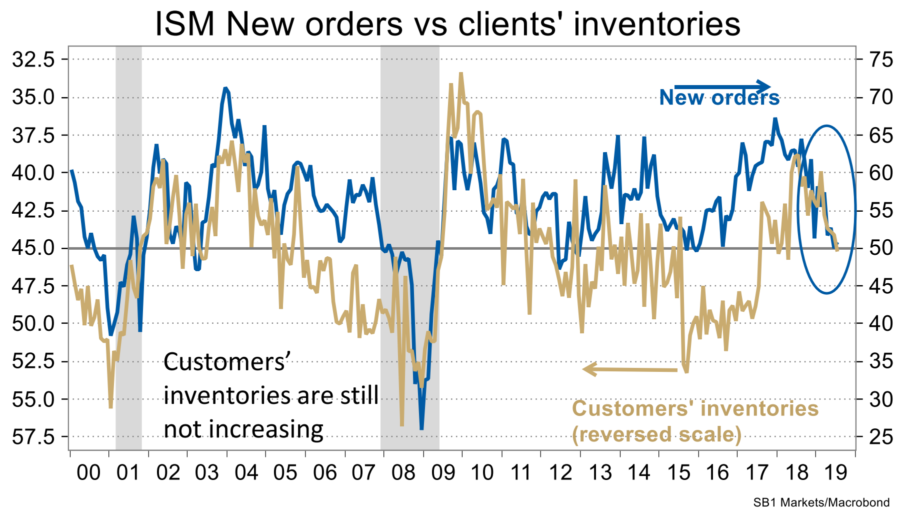
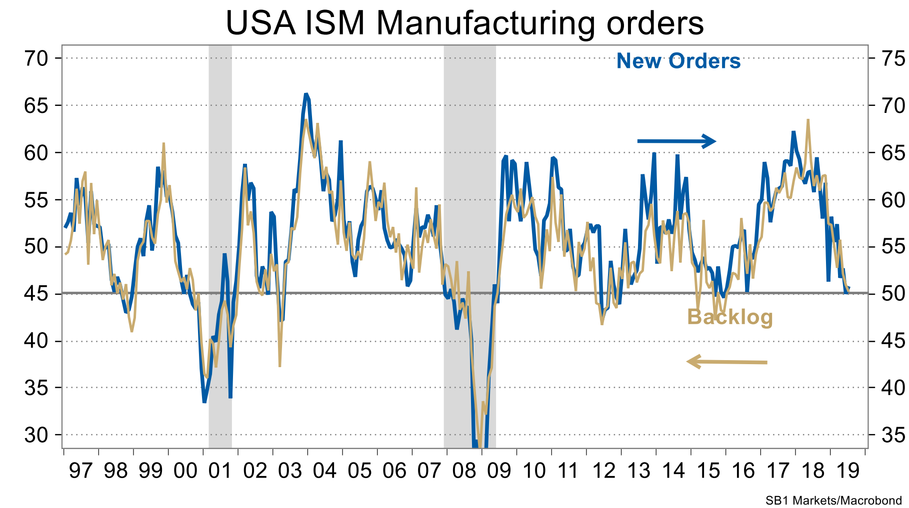
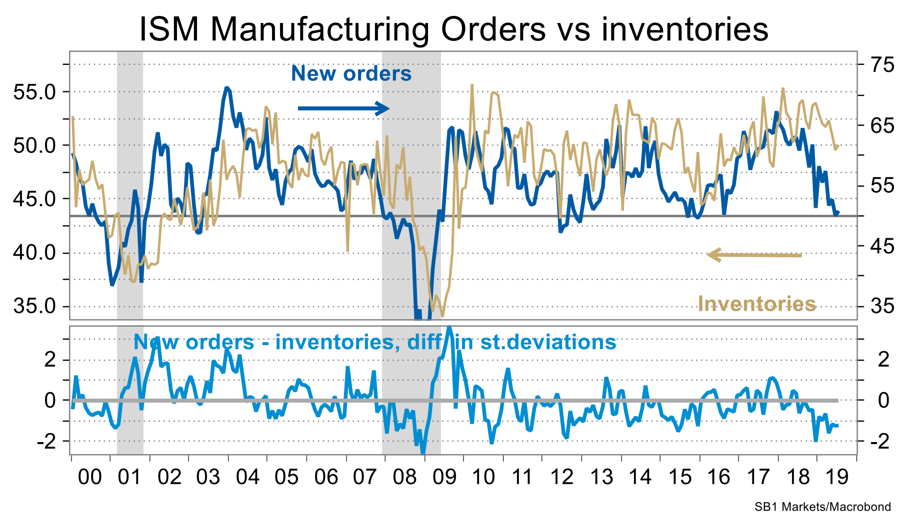
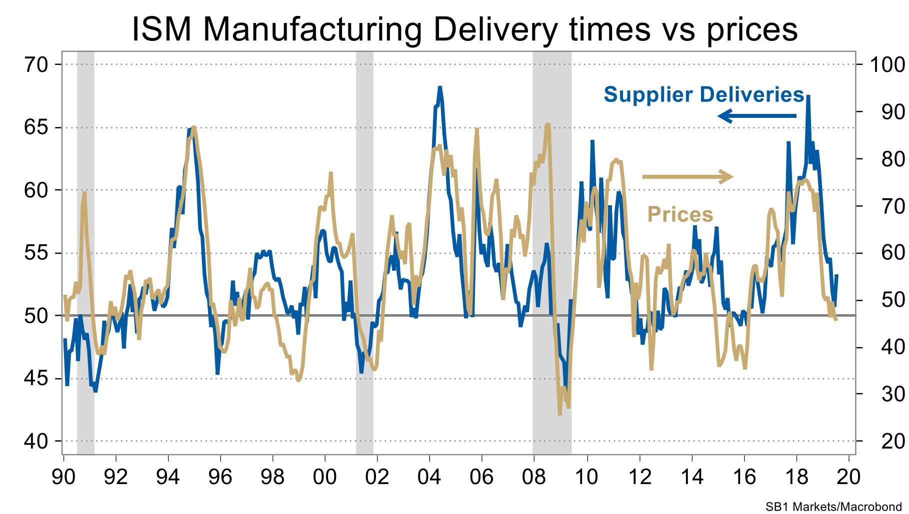
# Stagnating orders, less capacity constraints, decreasing prices. Inventories still up

Delivery times expanded at a faster pace but prices are stalling or worse, echoing weaker demand



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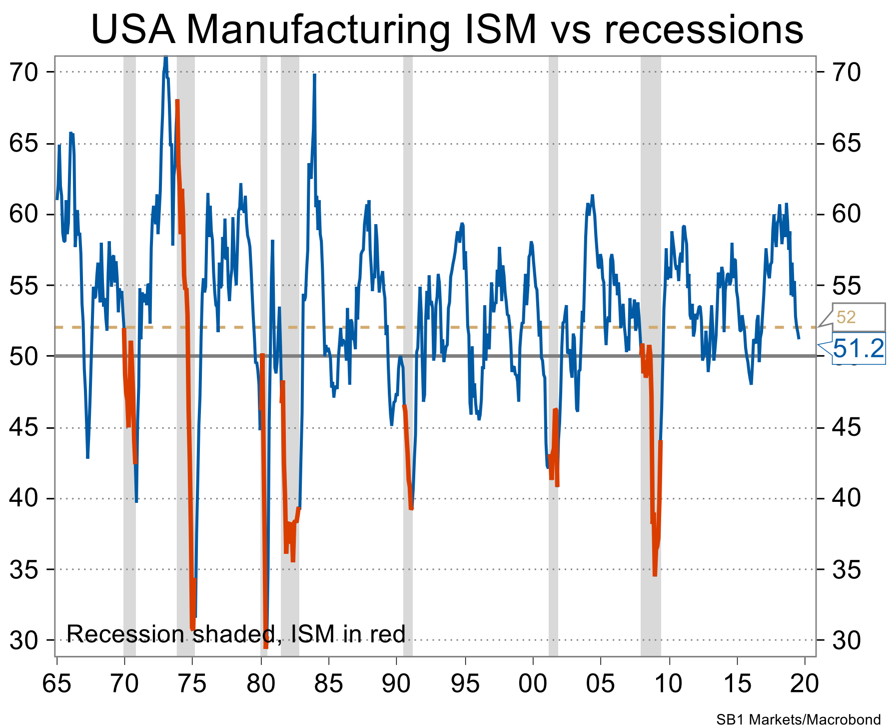
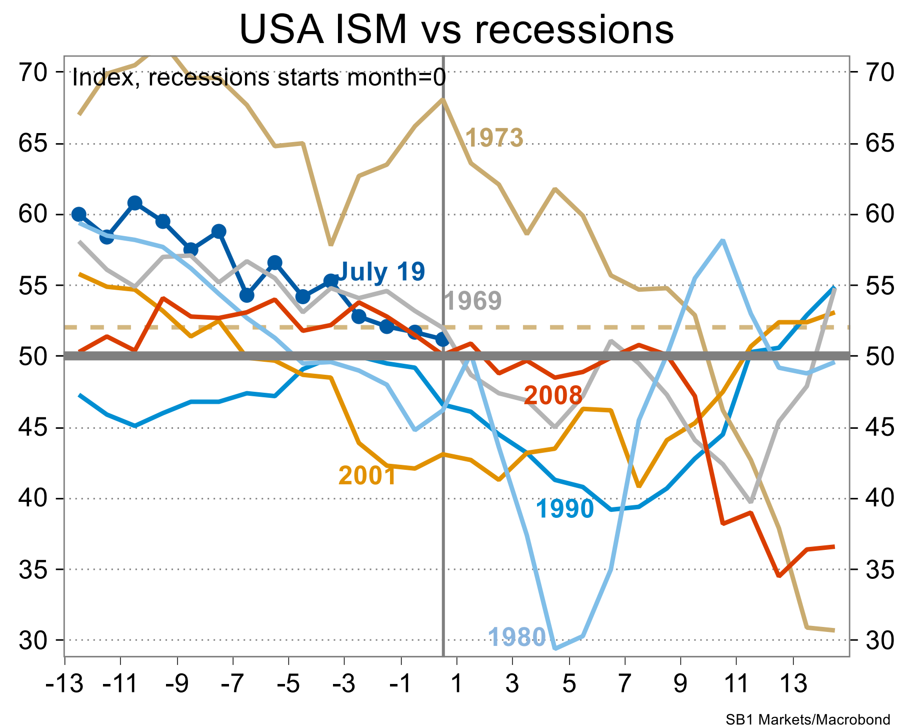
# ISM vs recessions: 14 false positives, 6 correct positives, and 1 false negative

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

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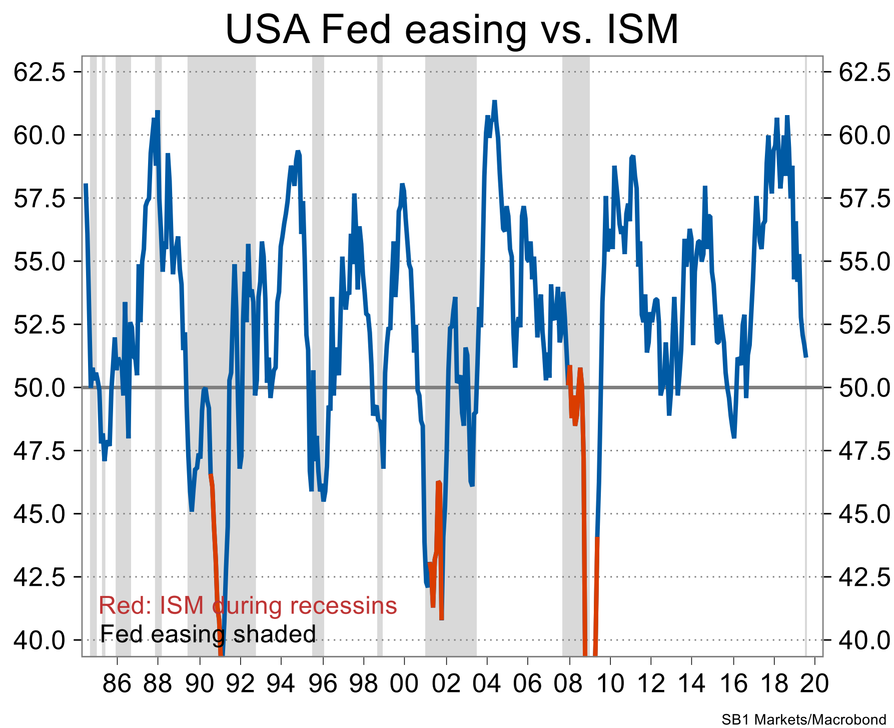
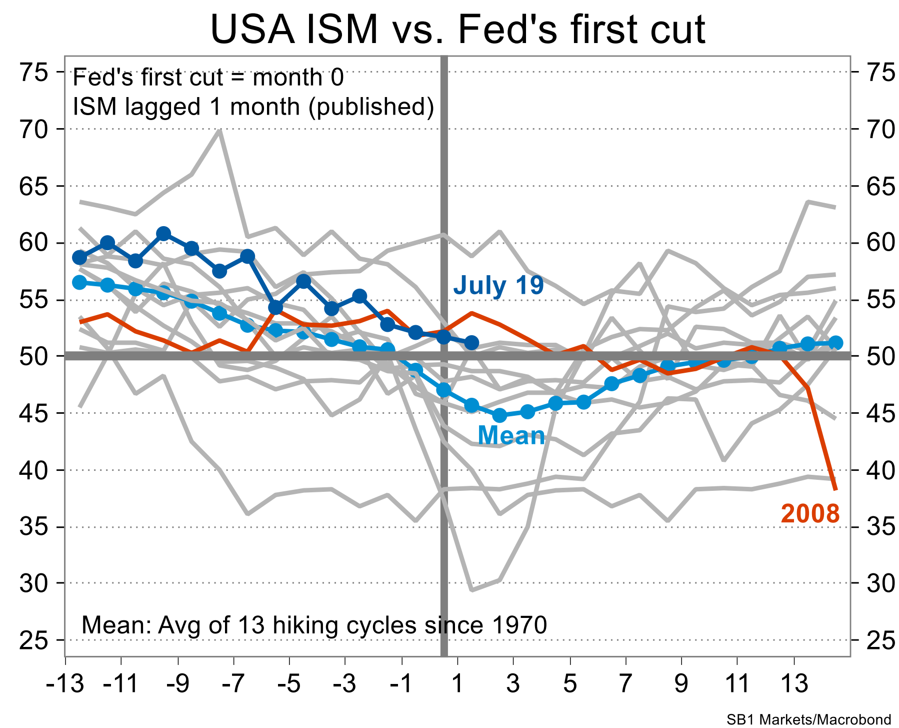
# When does the Fed usually start cutting?

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

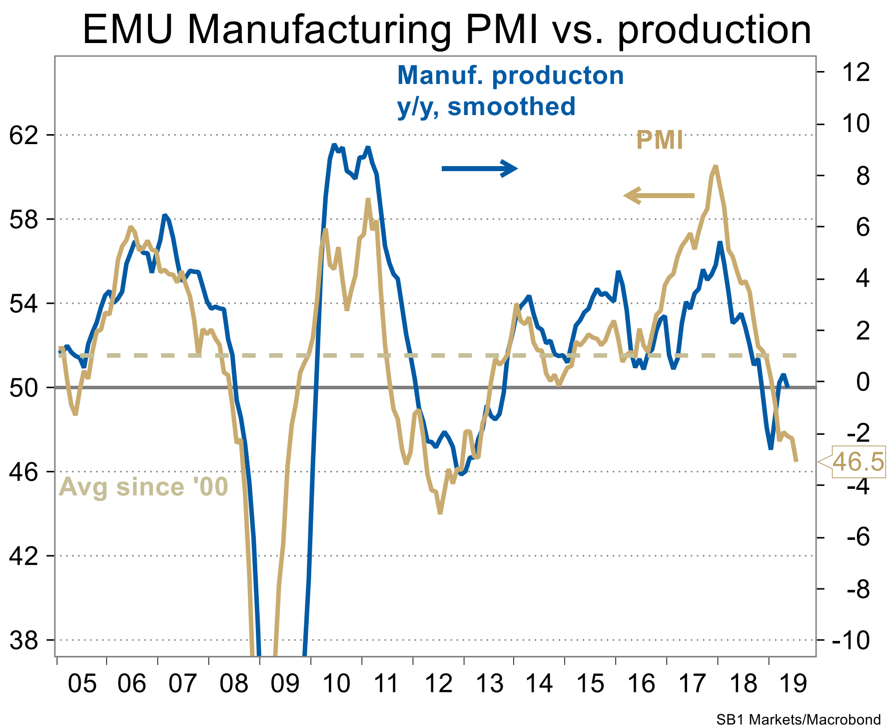


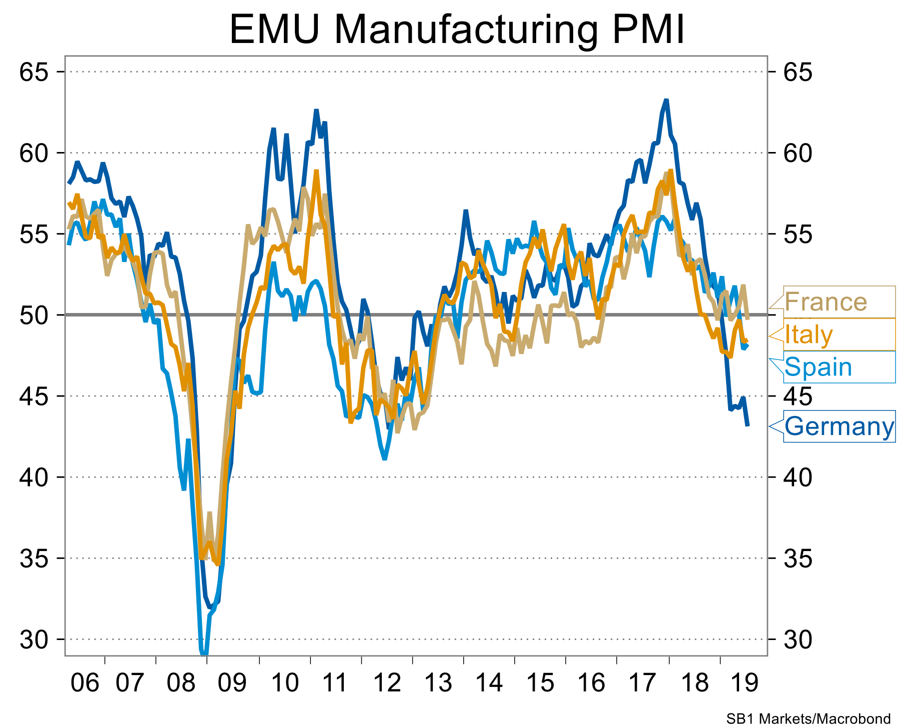




- In average the Fed starts cutting when the manufacturing ISM has fallen below 50 – but has started easing even if the survey is at far higher level – like in Sept 2007 when the (Aug) ISM was at 52.2 (and like now, and with unemployment still heading down). However, at that stage there were 'some' stress 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

# Manuf. PMI down to 46.5, reflecting a deep manufacturing downturn

Final manuf. PMI came in at 46.5, up 0.1 p from the first report. Germany further into contraction

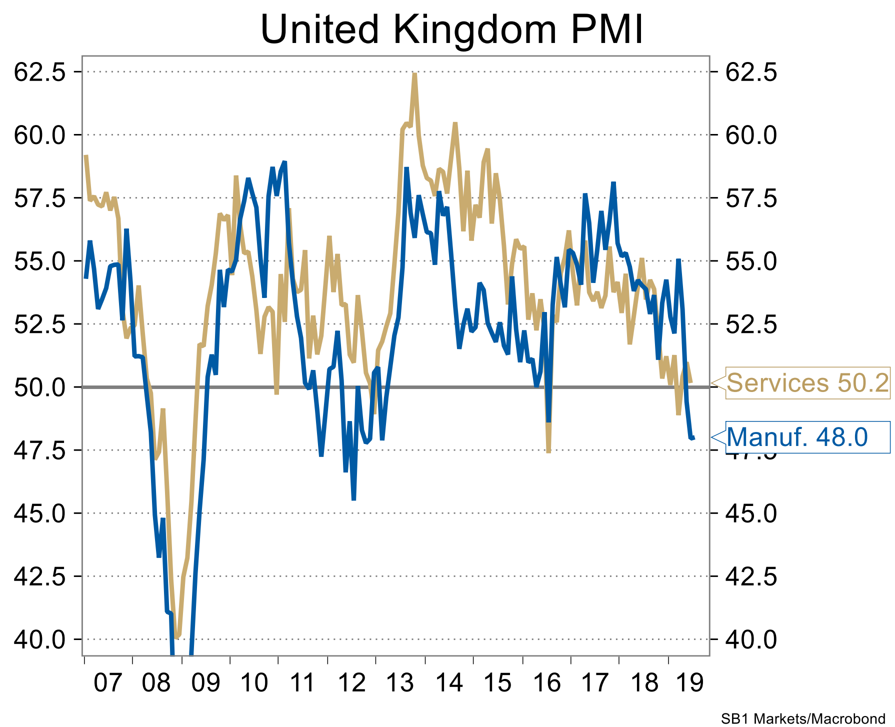


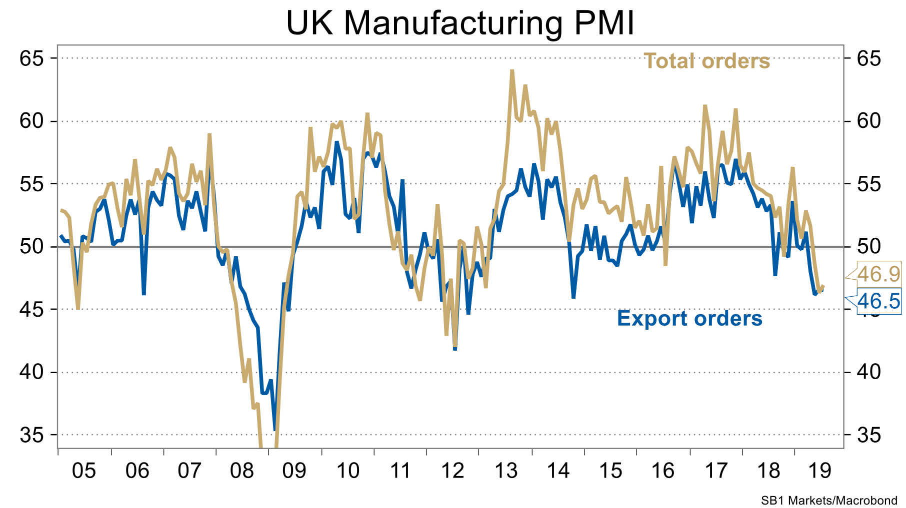



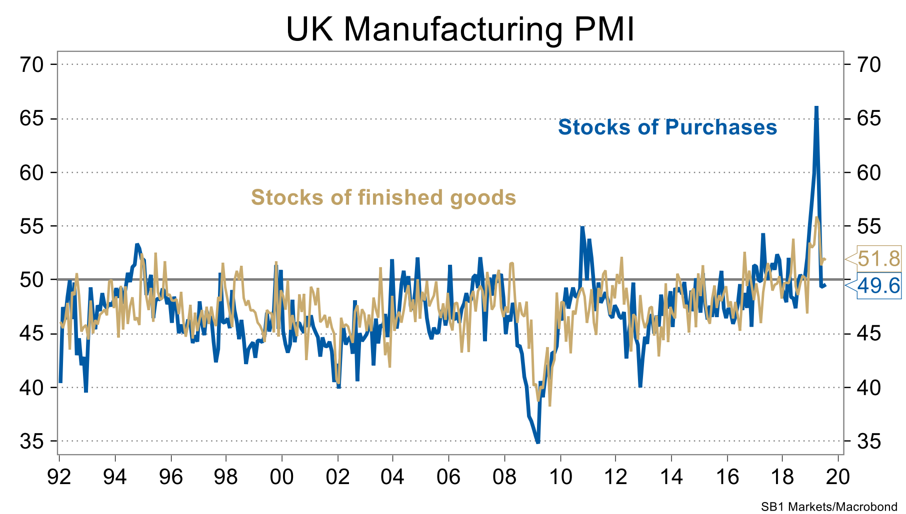

- **The manufacturing PMI** slipped 1.1 p in July, 0.1 pp less than the prelim. report. The PMI is in 'free fall', businesses are reporting the worst manuf. conditions on 6 years. Actual production has recovered somewhat, PMI signals much worse
- The slowdown is the most fierce in Germany, the PMI slipped to 43.2 (0.1 pp higher than in the first report). Activity has stagnated in France and is retreating modestly in Italy and Spain
  - » The slowdown in manuf. sector reflects a broad demand weakness. The demand softness is partly due to global political uncertainties and protectionism, as well as weaker foreign demand. Trouble in the auto industry has no doubt taken a toll on growth too

# Manufacturing PMI stuck at 48, orders remain in the doldrums

UK manufacturers are struggling in the aftermath of pre-Brexit stockpiling, and more will come..



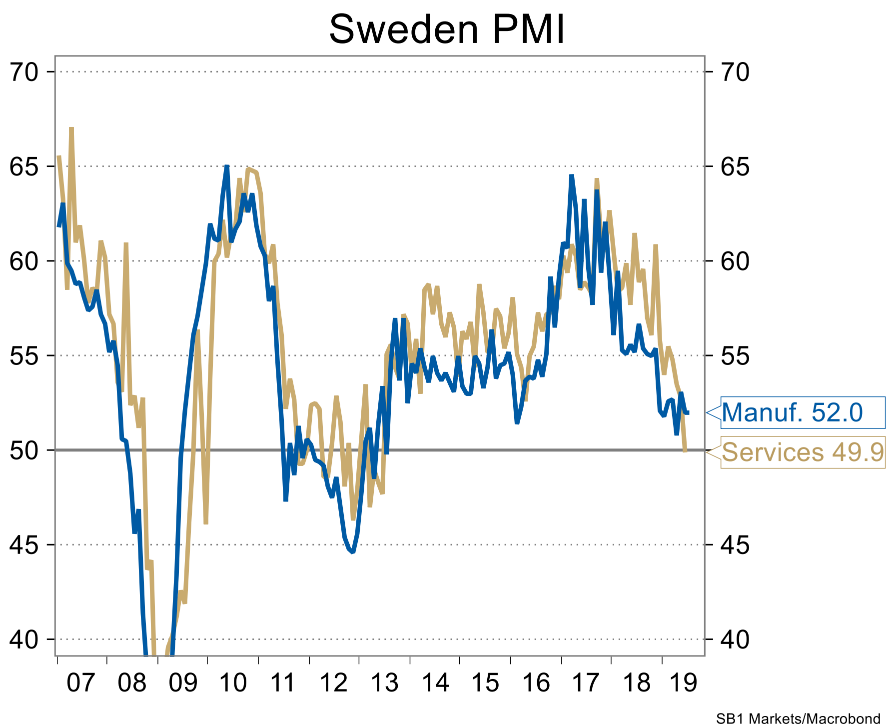



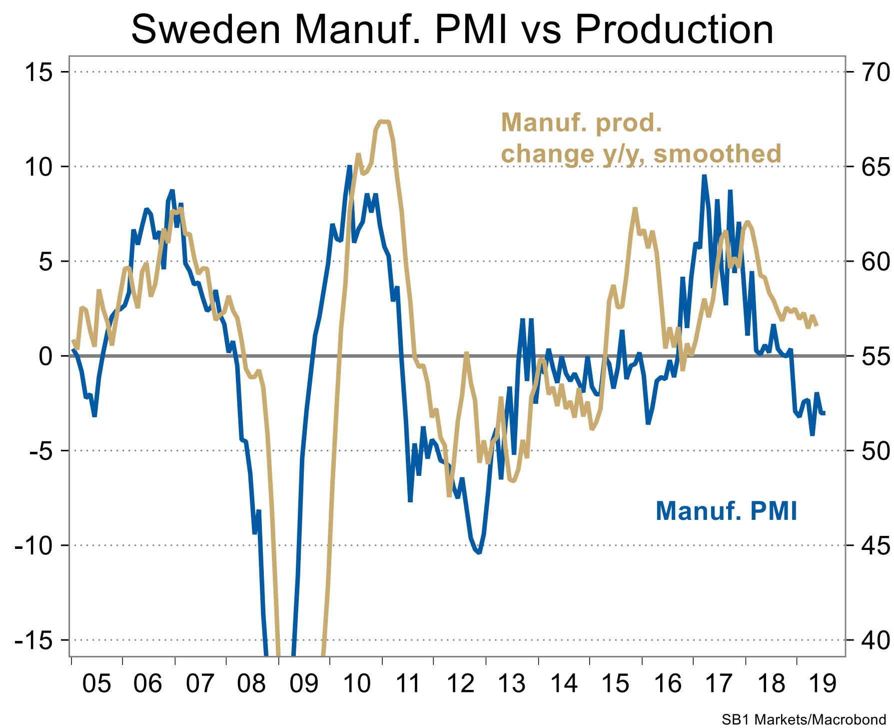




- Manuf. PMI held steady at 48, below the 2016 Brexit referendum level. Activity has been held up by massive efforts to purchase materials ahead of the original Brexit deadline. Inventory indices are still above normal levels; inventories are not being build further up but are not being cut back either. One day, they <u>no doubt</u> will, hurting production
- Both export and domestic orders are declining

# Manufacturing stable in July, level not too bad, at 52

The steep drop since early 2018 confirms the slowdown in the Swedish economy, not a recession

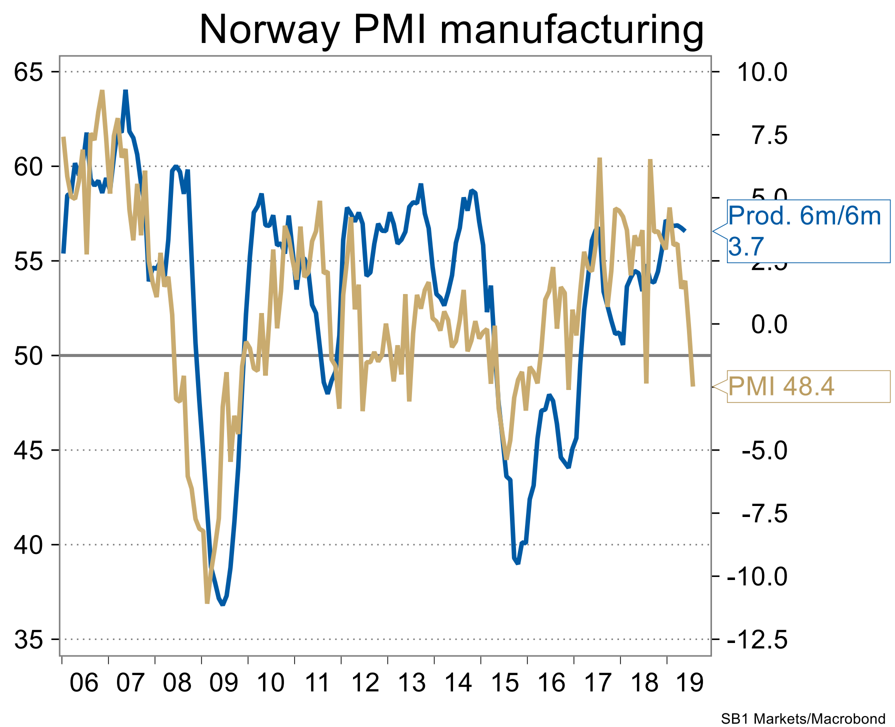


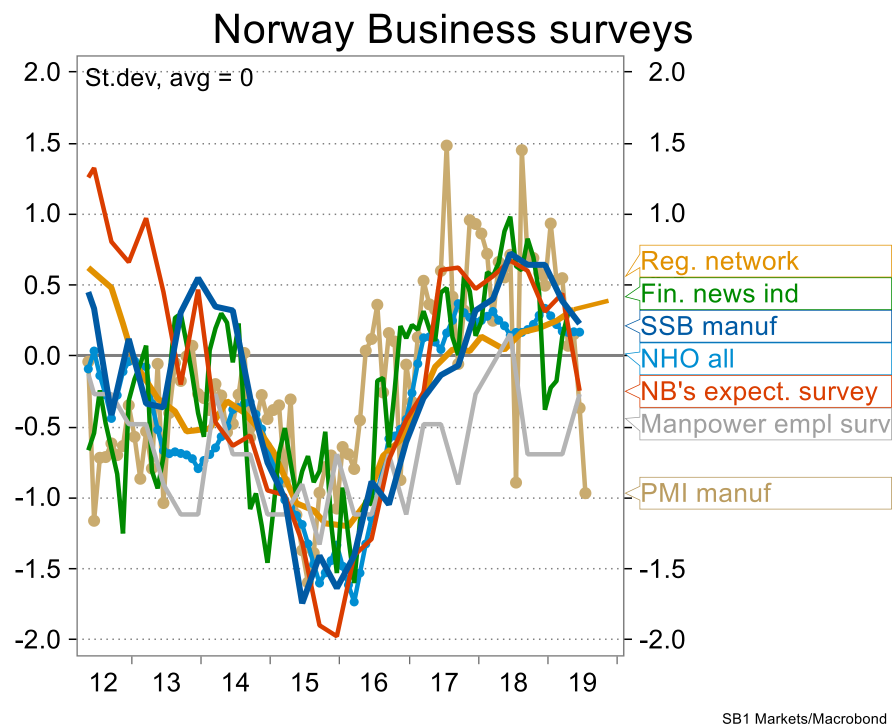




- The manufacturing PMI held steady at 52.0 in July, stabilising at a modest level since January. The PMI fell rapidly through 2018 and is most likely pointing to weaker manufacturing output (although we admit that the correlation is not solid)
- Services PMI (no July data yet) has been running weaker than manufacturing recently. Most likely, both business and consumer demand is weakening, as the Q2 GDP figures indicate

# Manufacturing PMI down the drain but July data are useless

PMI plunged to 48.4, similar to last July. However, the direction is set and most other surveys are softening

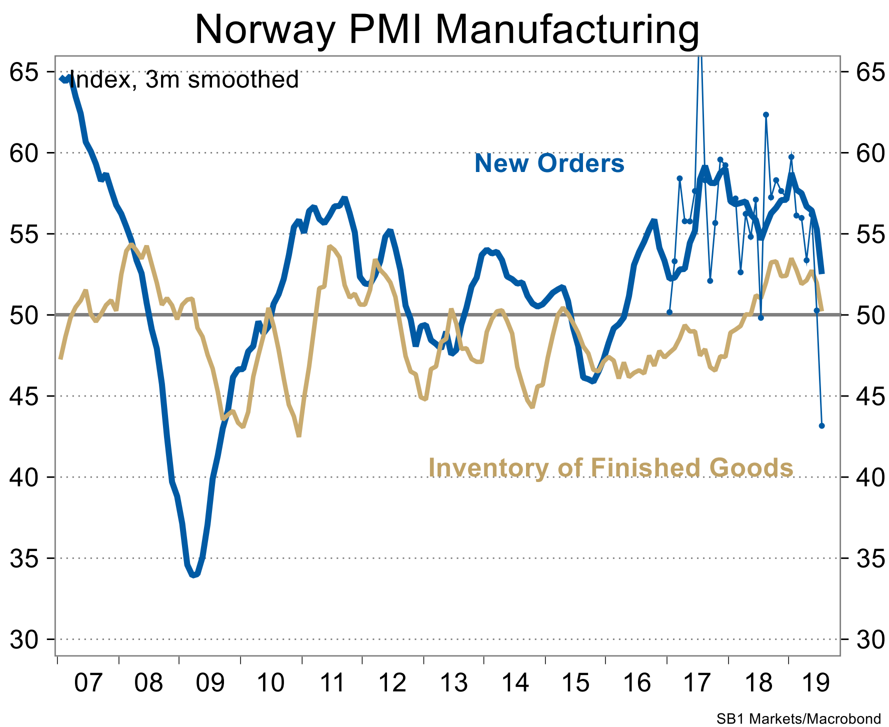


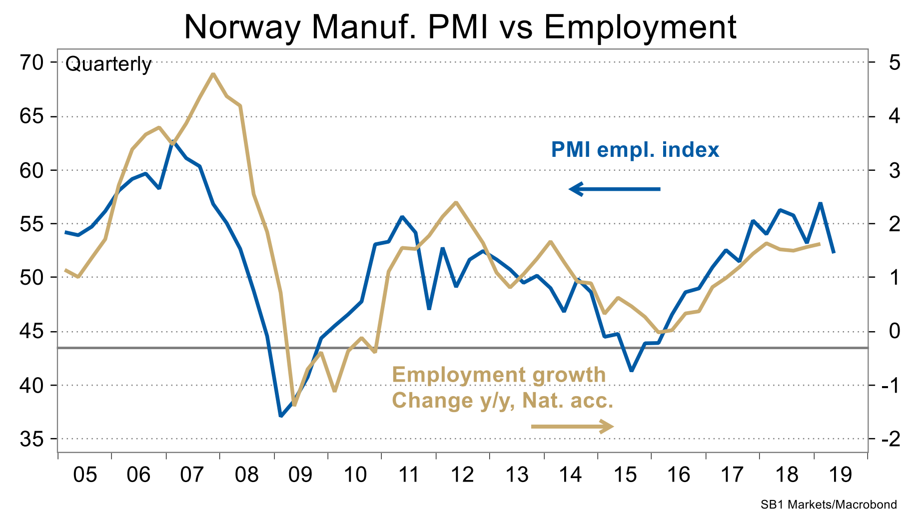



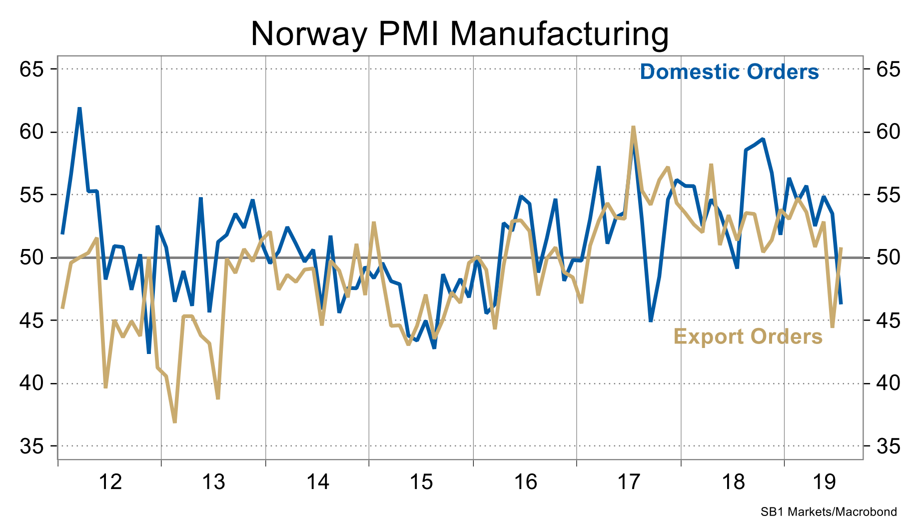

- The PMI slipped 3 p in July, to the weakest level since one month in 2016. Last July, the PMI nosedived 8 p (and rose 12 in August) , data this month is rather useless as the number of respondents is halved
- However, the PMI is no doubt weakening, the survey fell steeply in June too and the 3m average is 51.2, from above 55 in the spring. The PMI is much weaker (and more volatile) than the other Norwegian business surveys but several are pointing to a soft slowdown in manufacturing
  - SSB's industrial confidence survey, published two weeks ago, noted a mild downswing in Q2. Actual manuf. production has accelerated the past months, SSB's survey signals some 2% y/y growth, from 3.5%

# PMI orders are slowing, employment growth stable

Data are too volatile, we doubt the slump in domestic orders is correct (and the rise in exports)



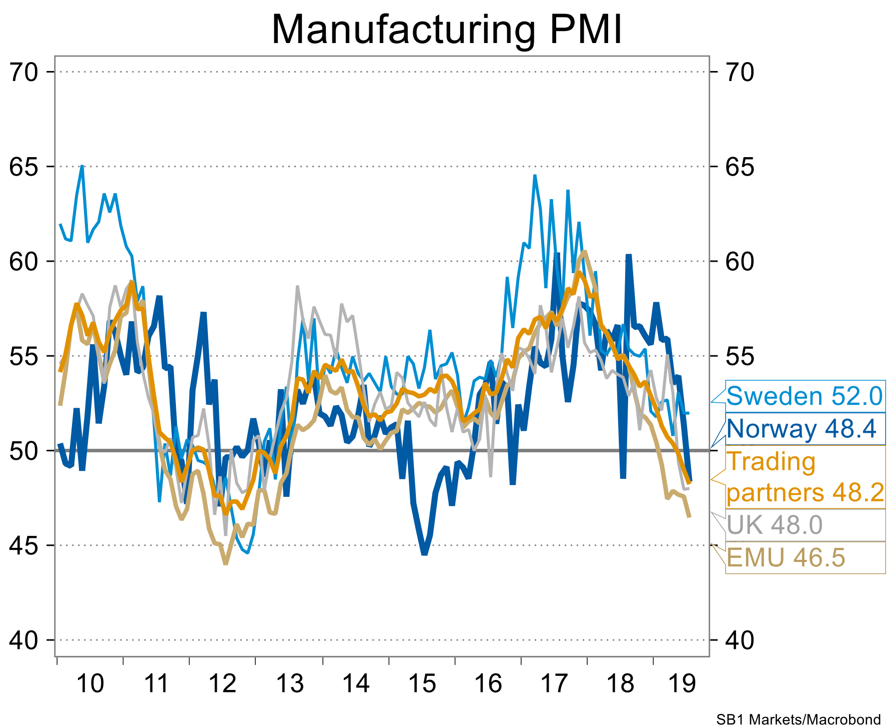



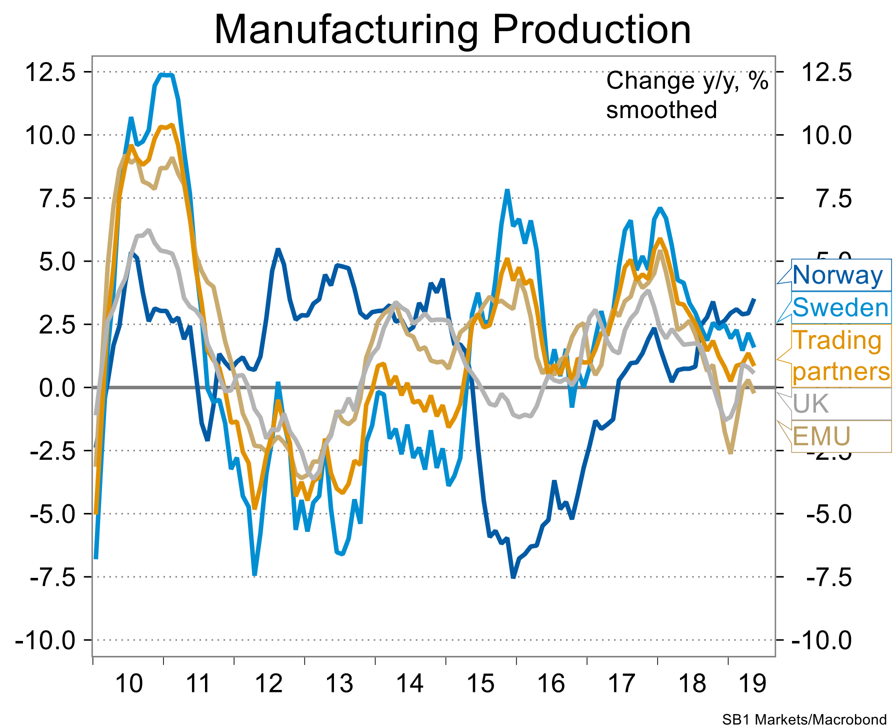




- Even if the July data are not accurate, orders slowed rapidly the prior months and does no doubt reflect a demand slowdown. Until this month, the downswing was driven by weaker export orders (while this sub index rose in July)
  - » Declining export orders probably signals that slower growth abroad is also being felt among Norwegian exporters
  - » Domestic orders were OK until the July dip

# Manufacturing PMI down to the trading partners' low level

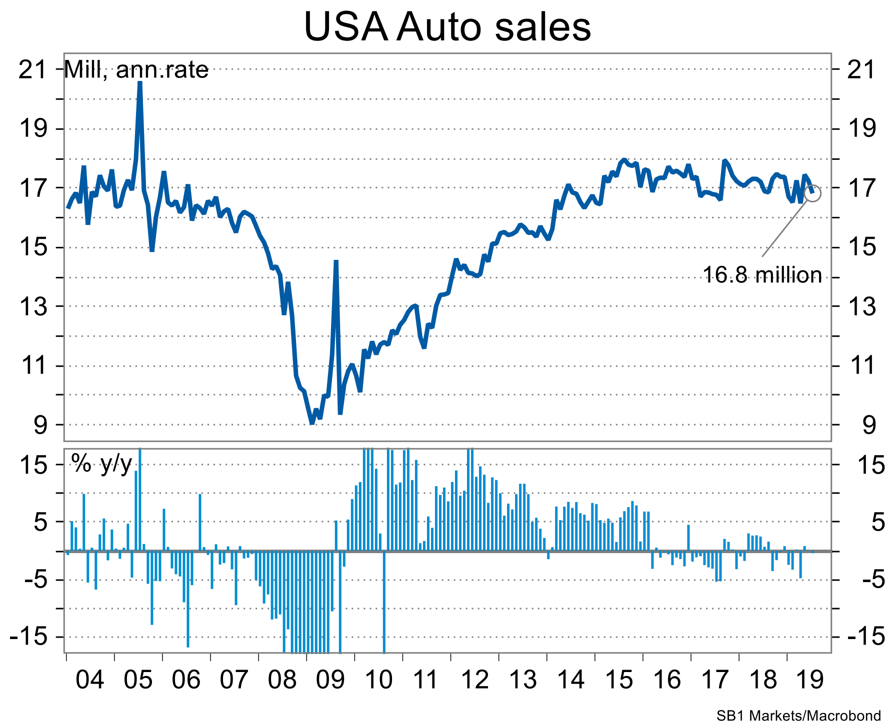
… if you believe in the July observation

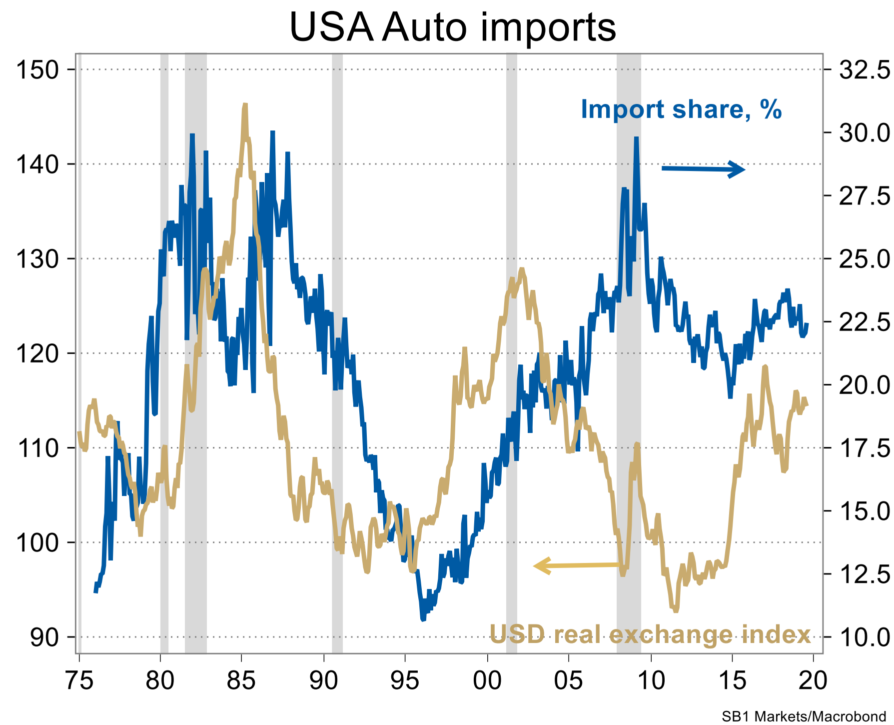


# Auto sales fell moderately in July, trending slowly downward?

## More than half of the May recovery is reversed, July sales just below expectations




- Sales fell marginally in July (-0.5 mill) to 16.8 mill (annual rate), as in June (-0.3 mill). Sales are flat y/y, while trend is pointing slightly down
- The import share rose marginally July but the share has fallen slightly recent months, following an increased the previous 3 years. 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). At Friday US/EU announced a deal on US meat exports to Europe, which does not increase the risk for a full blown trade war with Europe too

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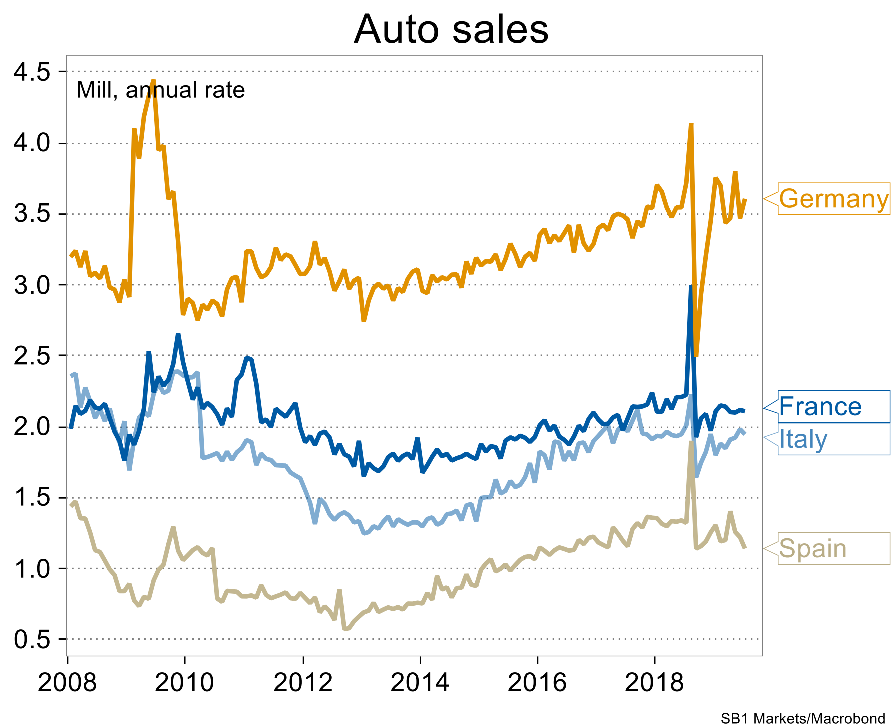
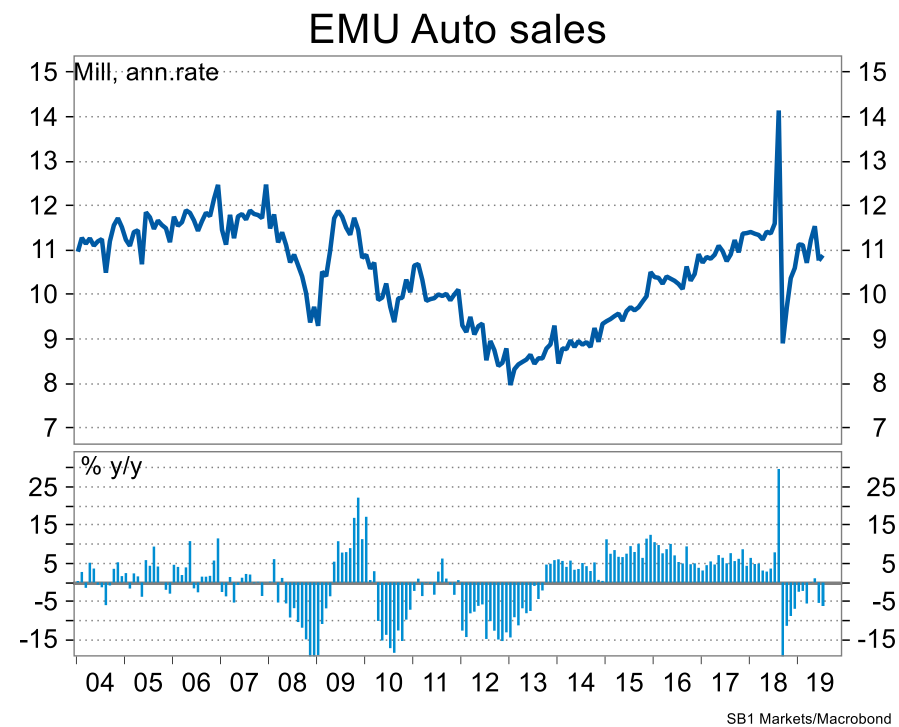
# Auto sales probably close to stable July, level still below pre rule change last year

Sales rose in Germany, but fell slightly in both France, Italy and somewhat more in Spain

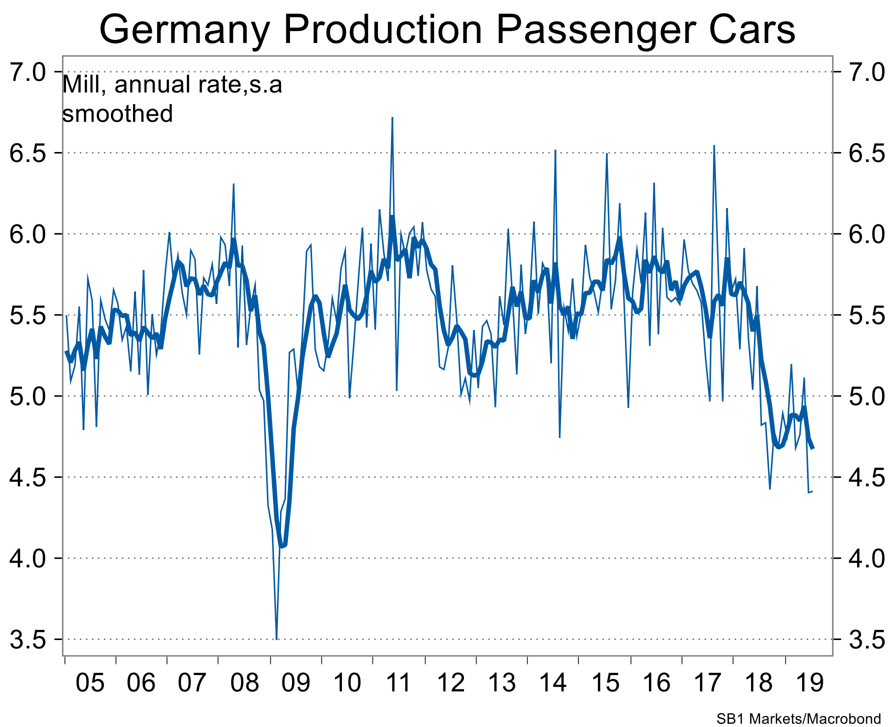


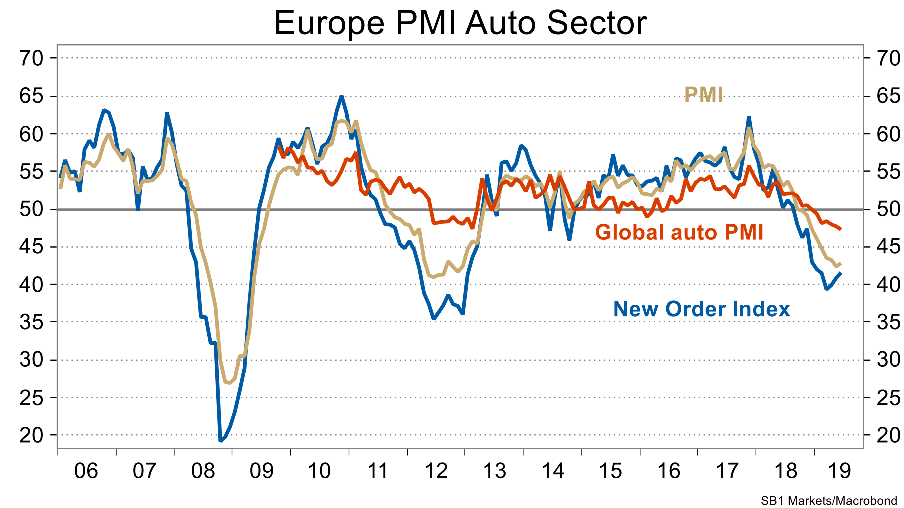



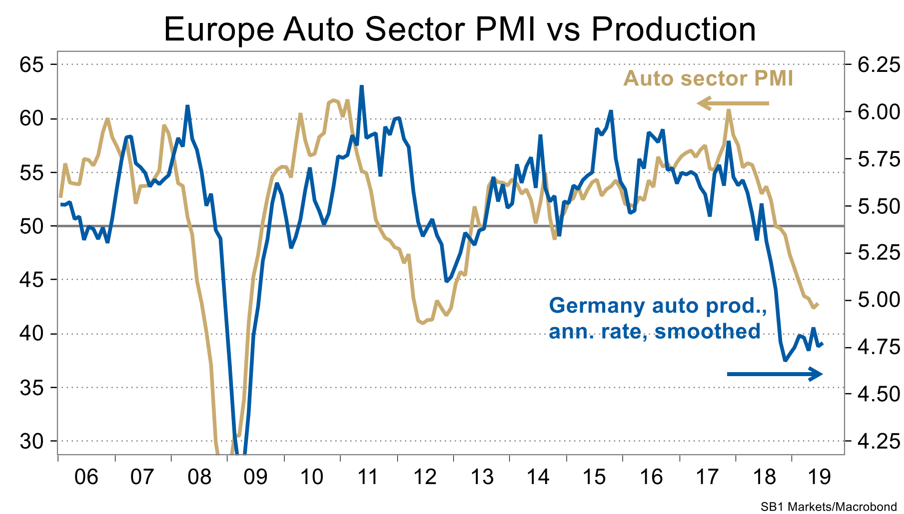

- German trade are trending flattish, and is close to the level before the new emission rules were introduced last summer. Sales in France are flat too, somewhat below last summer's level. In Italy, sales is trending up and is not far below last year's level. Sales in Spain have fallen past three months.
- Sales in EMU were probably flat (but a decline in 'others' in June may be reversed, if so an uptick following a quite large decline in June. EMU sales are some 5% below the level before the emission regulations hit last summer the two past months (while sales in May were in line).
  - » At the same time, German auto production is more than 20% below the pre-regulation level. Incredible! Check next page

# ‘Full stop’ in Germany auto production in June/July

German auto production down more than 20% from last summer, while EMU sales are down 5%



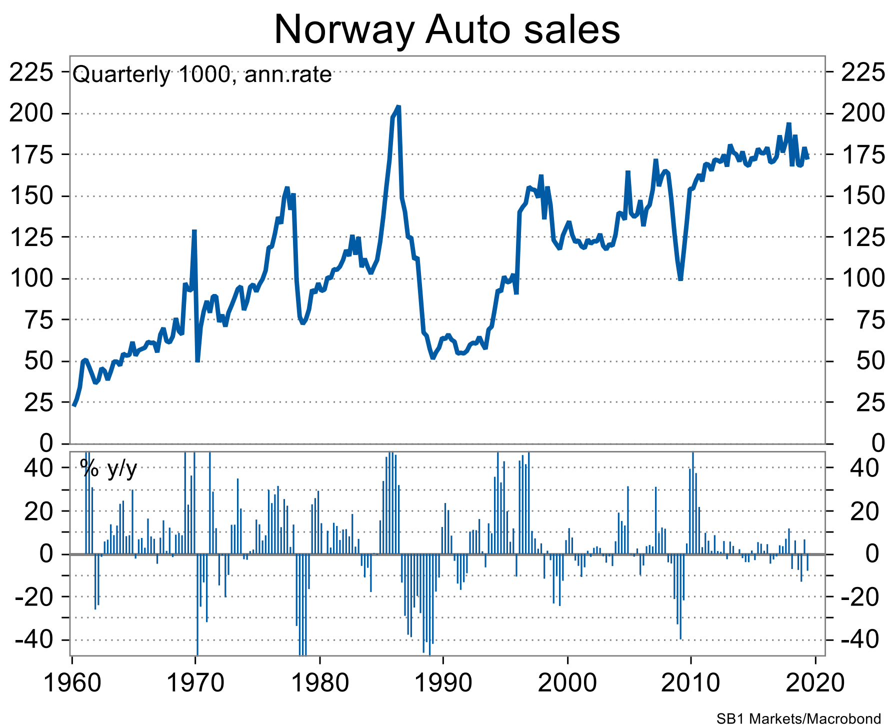



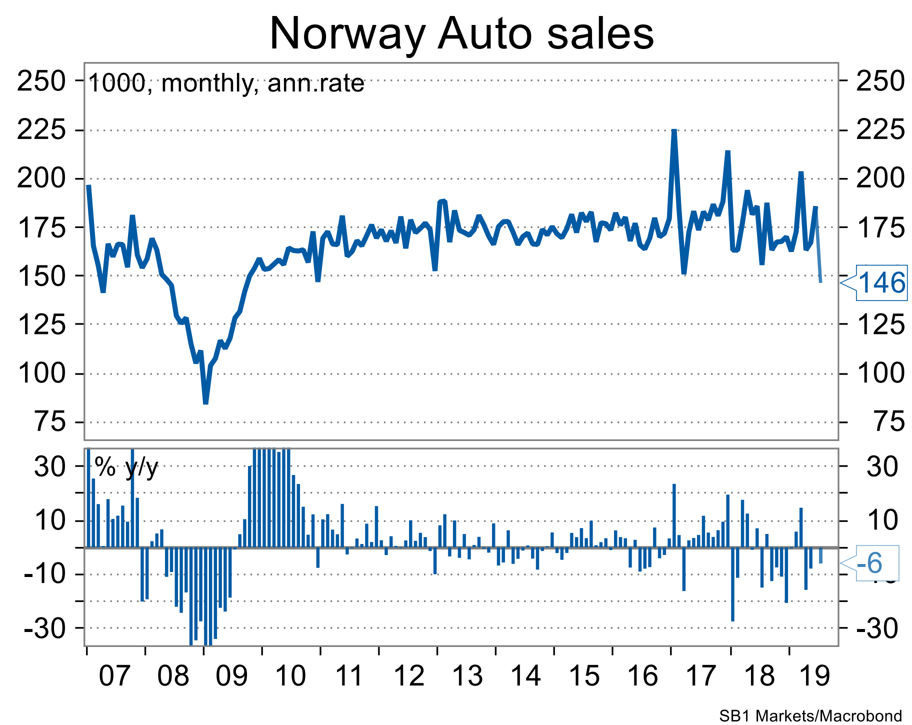




- German auto production is down less than 20% if we smooth data somewhat, still an incredible number, given auto sales in Germany, EMU or even the world
- The European auto sector PMIs are not reporting any recovery, at least not in May. The European auto PMI is much weaker than the global auto PMI – without European sales being slower than global sales

# Auto sales sharply down in July

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

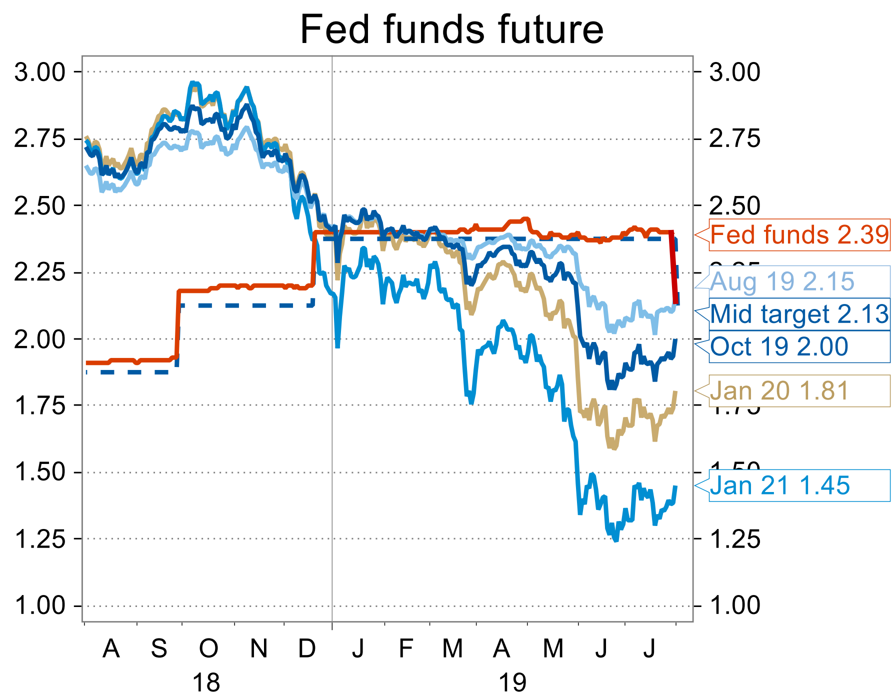


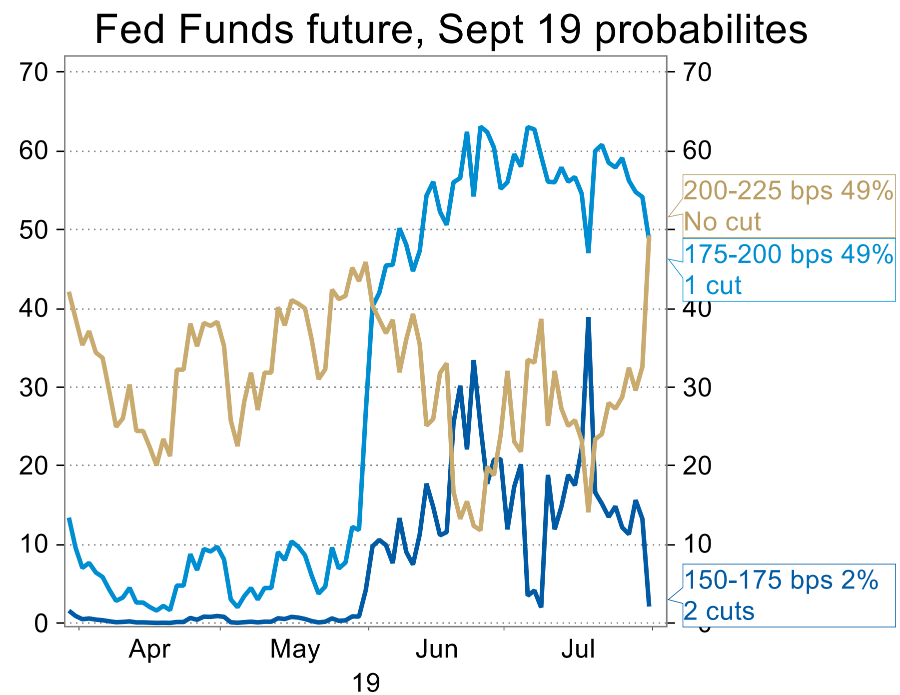




- First time registrations (incl. 2. hand imported cars) fell to 146' in July, from 186' in June, the slowest sale in 10 years – and down 6% y/y (July data preliminary)
  - » Monthly registration figures have been more volatile than normal (barring impacts from changes in taxes in some December/Januarys) due to heavy supply bottlenecks, especially for the popular EVs that now constitutes 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 – and the July figure did not change that conclusion

# The Fed cut 25 bps, as ‘promised’. Will cut more but only if needed

## Markets disappointed by Powell’s remarks on the ‘mid-cycle cut’ and no promise of further cuts

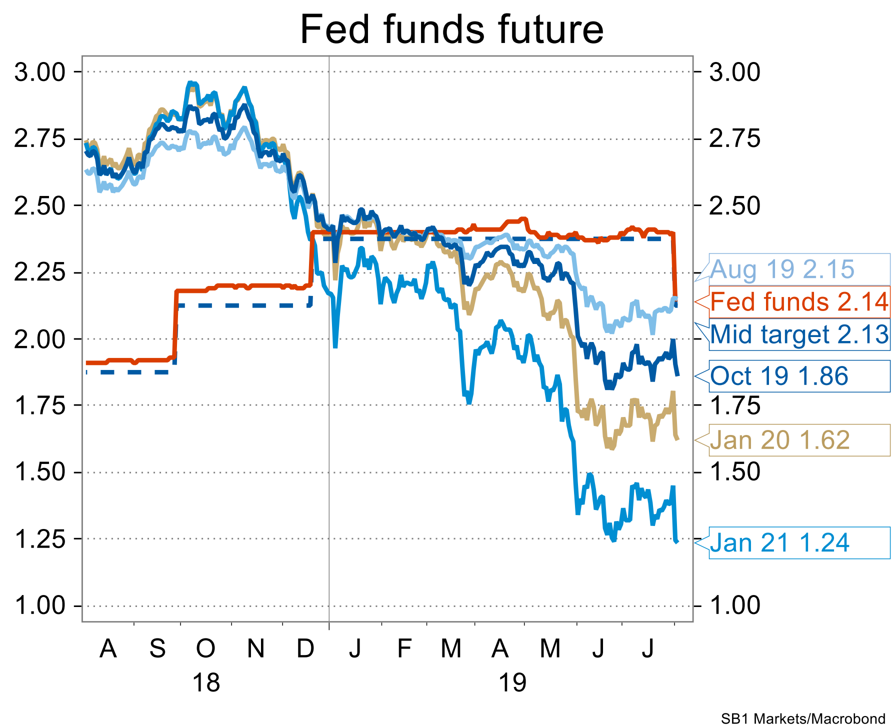


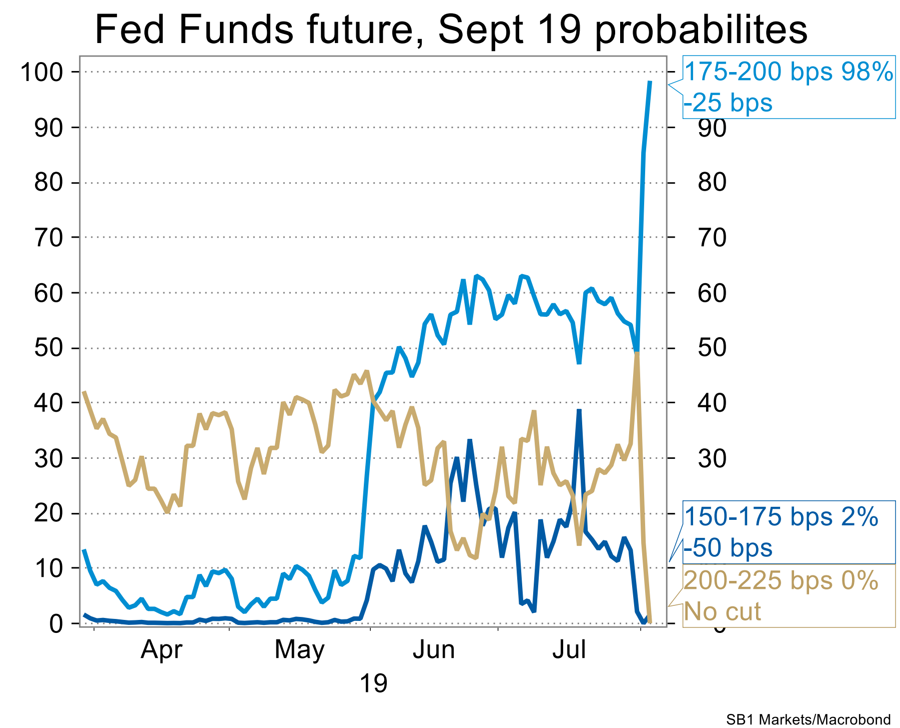




- The FOMC delivered the 25 bps cut to 2.0-2.25%, as expected. The market had reduced the probability for a 50 bps cut less than 20% ahead of the meeting, and ‘no one’ expected the FOMC to keep rates unchanged. However, at the press conference, chairman Powell took a cautious approach and stated that the cut was a ‘mid-cycle adjustment’ and most likely not the start of a lengthy and aggressive cut cycle. As we expected, Powell had to emphasise that the US economy is still growing solidly, labour markets are favourable and consumer spending and confidence are strong
  - The cut was chiefly a result of downside risks on the outlook, a precautionary move to support the economy amid rising global trade uncertainties and softer global growth. Moreover, Powell emphasized that inflation is running below the 2% target
- Markets interpreted Powells comments as hawkish; The short end of the curve rose 5 -7 bps, and the probability for another cut in in Sept fell to almost 50%, and the USD strengthened. However, implied yields from 2-3 years onward fell, the 10 y by – as the market assumes the Fed is falling behing the curve. Stock markets sold off
- We view the FOMC’s cautious approach to be reasonable, the bank had no choice but to deliver a cut, but could no way ‘promise’ a long string of cuts, now

# Then Trump escalated the trade war with China. Rates collapsed

## Trump surprisingly announced 10% tariffs on USD 300 bn of imports from China from Sept 1

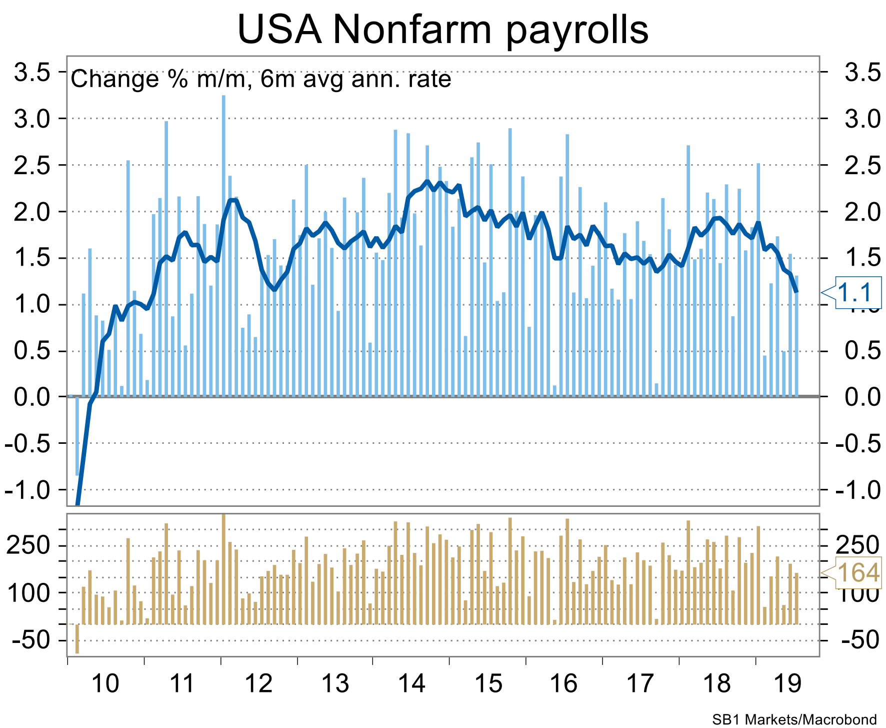


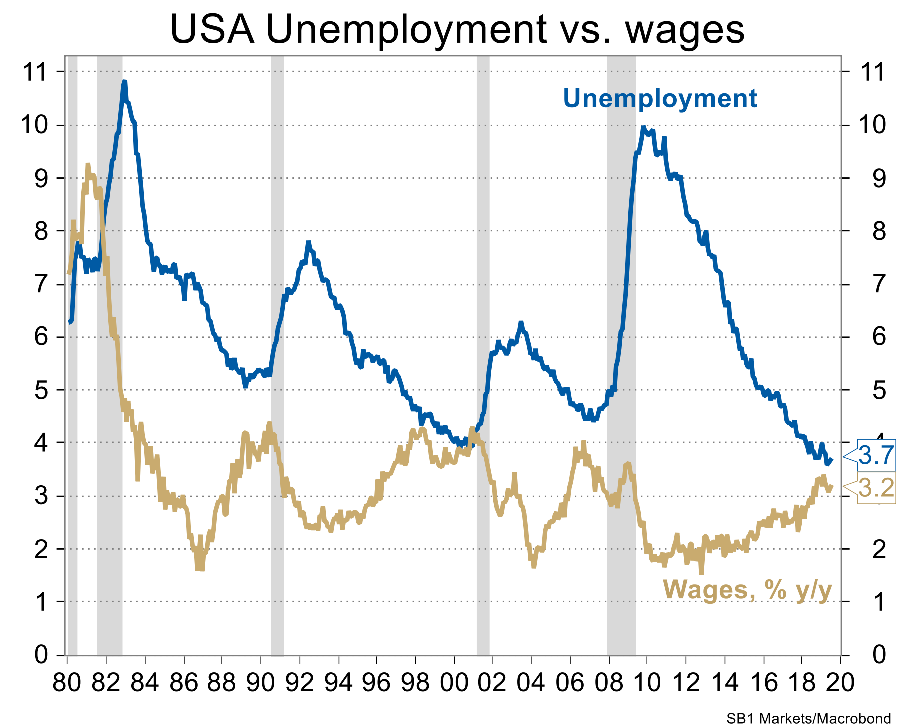




- … And then the market reckoned that the Fed will have to cut the signal rate again in September, the probability rose to 98%, from 50%!
- The USD 300 bn represents almost everything of Chinese exports to US not yet covered by the 25% import tariffs on the first USD 250 bn. The average tariff rate has increased to 17% from approx. 2%! The Chinese will most likely respond
  - » Trump says he can increase the tariff, or cut it back – depending on trade negotiations going forward
  - » The problem is that he probably believes what he says, that China pays the 'tax', and US is benefiting from these tariffs. Not many economist agree with him
- The average US import tariff has now been increased to 6% from below 2% before Trump started. Check next page

# Employment growth slows, but underlying at least as fast as population growth

## Employment up 164’ in July, as expected, unemployment flat & wage inflation up. No cut arguments

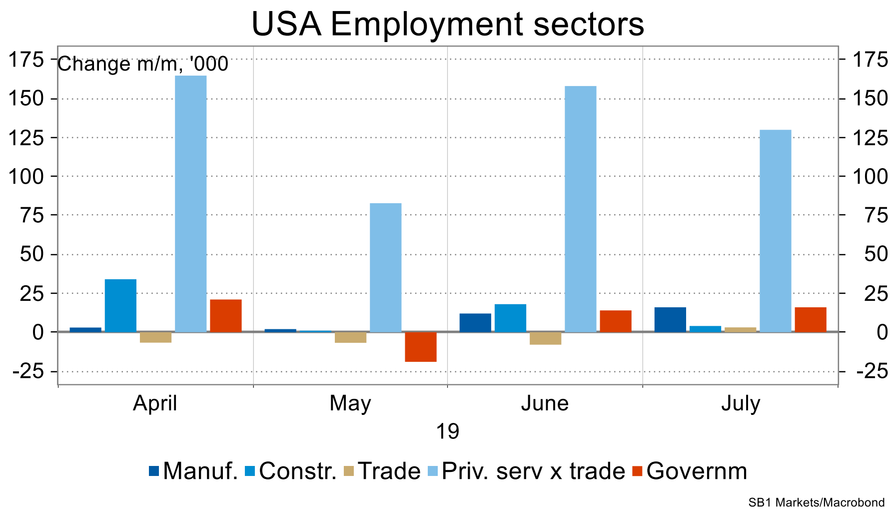


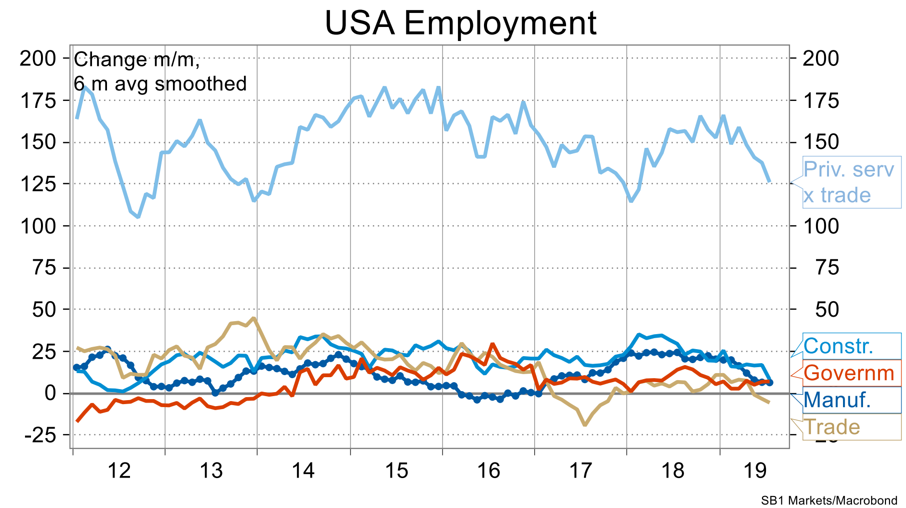



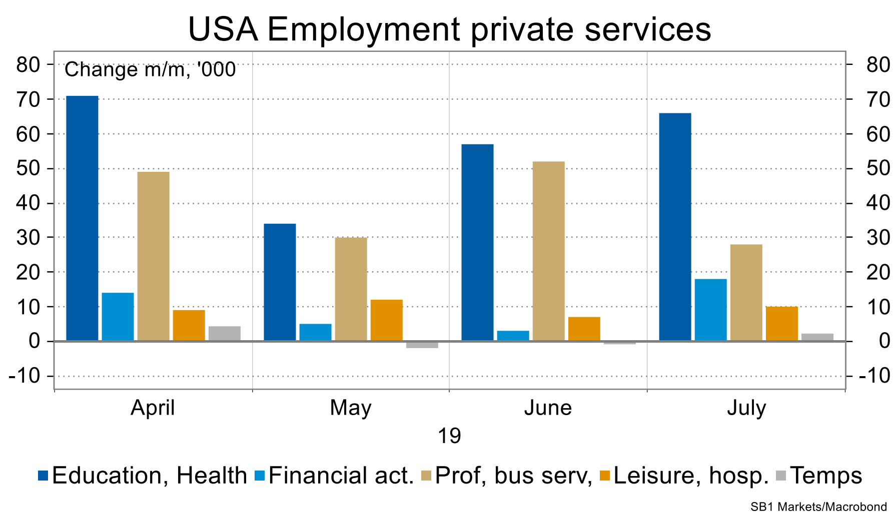

- **Employment** rose by 164’ in July, as expected, while history was revised down by some 40’. Growth has no doubt slowed, the 6m m/m avg fell 0.3 pp to 1.1%, the slowest growth since 2007 (on the way down), from close to 2% when the economy received the fiscal stimulus early 2018
- **The unemployment rate was unch at** 3.7%, expected down to 3.6%. The trend is still down, but slower
  - » The uptick in unemployment was due to a marginal increase in the labour market **participation rate**, to 63.0%, and more than the employment rate grew. The participation trend is still close to flat, <u>the labour market is tight but the aggregate supply side is not responding</u>
- **Wages** rose 0.3% m/m, 0.1 pp more than expected, and June was revised up to 0.3%. The annual rate accelerated to 3.2%, still trending down recent months
- Overall, these data confirms that the **labour market is not weak**, and interest rates initially rose following the report, as **<u>it did not present any clear case for another Fed cut</u>**

# Education & health saved the day (+66'), others on the weak side

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



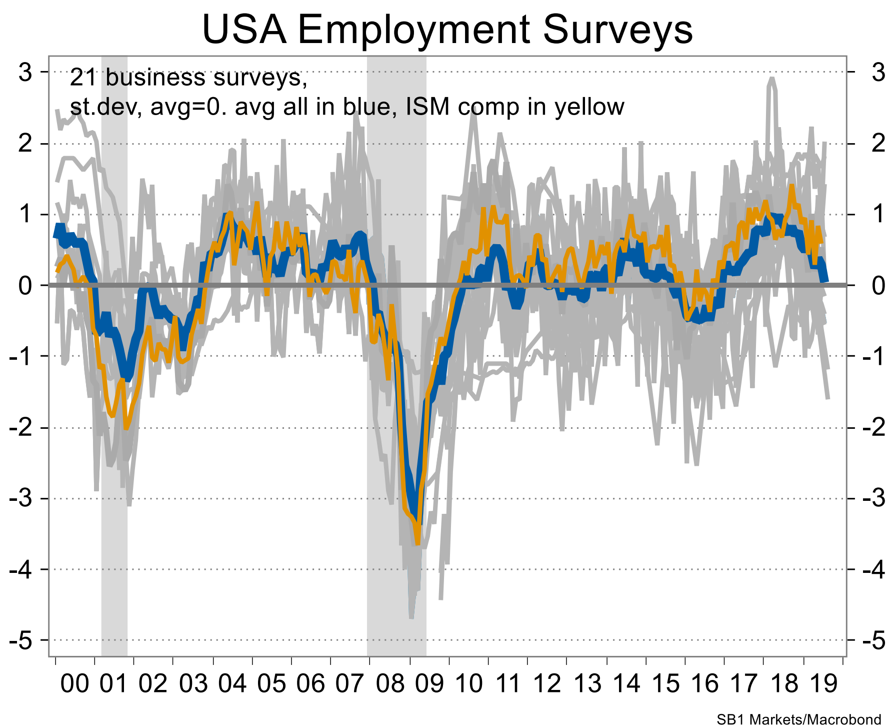



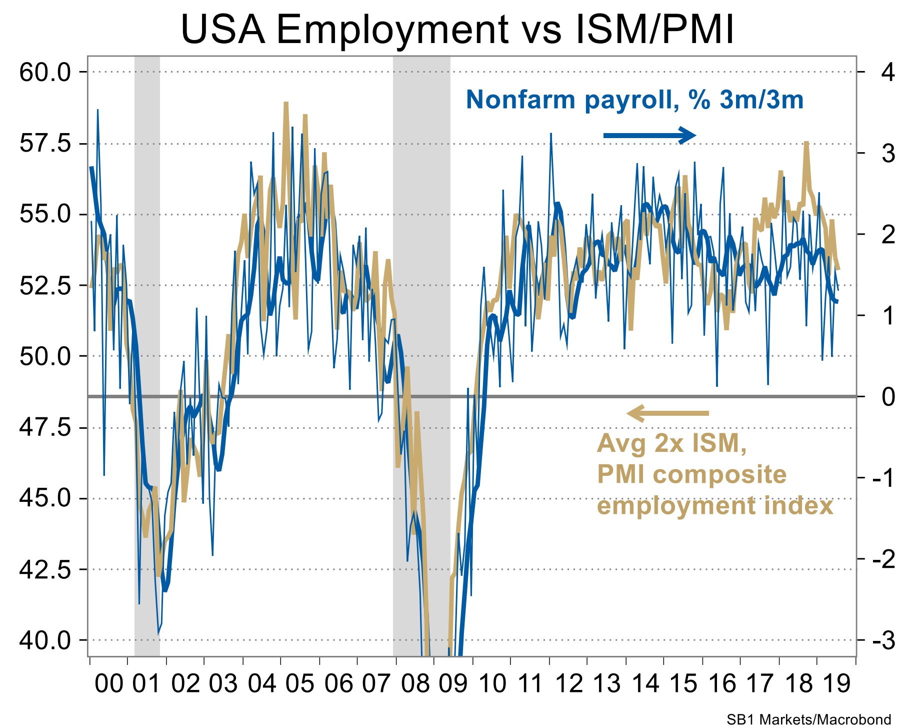




- **In July:** Private services, +130', of which the half in educ/health. Manufacturing a tad up, construction close to flat. Government employment expanded more than usual. Trade close to zero
- **Recent months:** Employment is still growing in all sectors but trade. Both manufacturing and private services have slowed, construction has eased sharply. Government stable, and well into plus
- **Big picture:** Manufacturing, construction both peaked in H1 '18, construction most recently. Private services x trade empl. recovered last year but is slowing sharply again. Trade has been week since 2016, is now declining

# Employment surveys are softening but still well above average

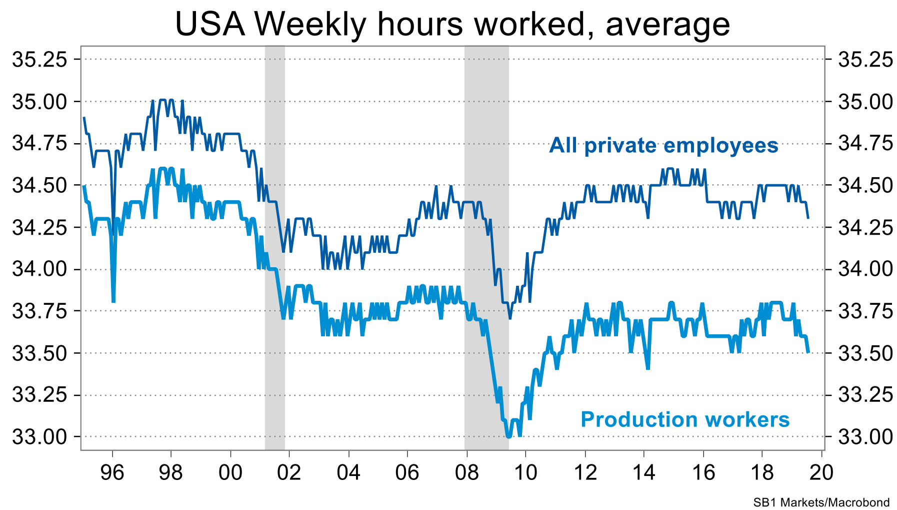
… and they are still signaling employment growth above average

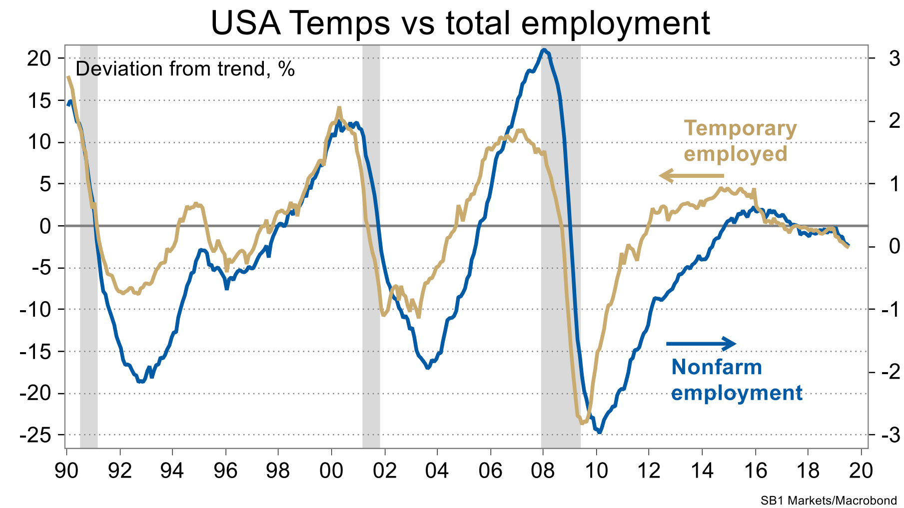


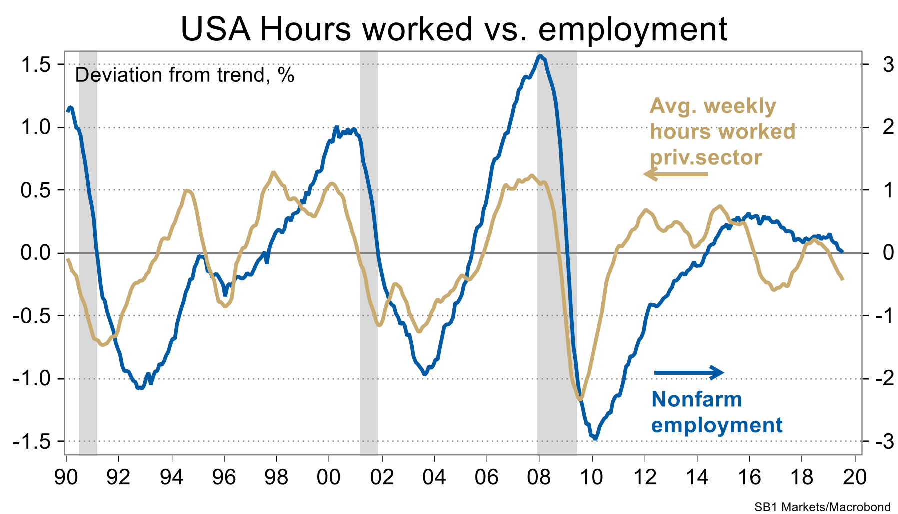



# Weekly average hours further down, normally the ‘first response’

## Demand for temps are slowing too, normally not a good sign either



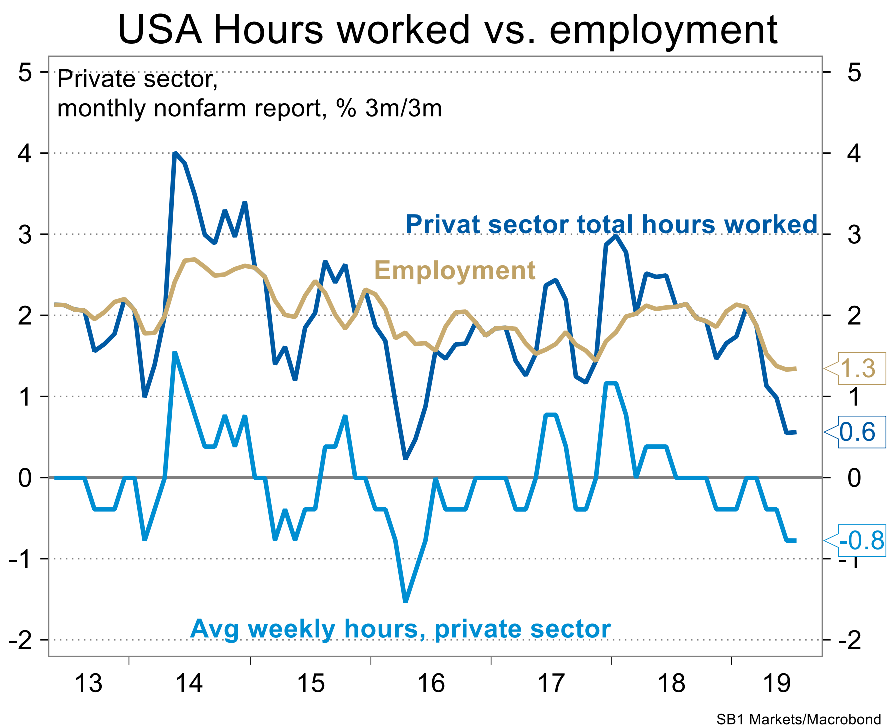



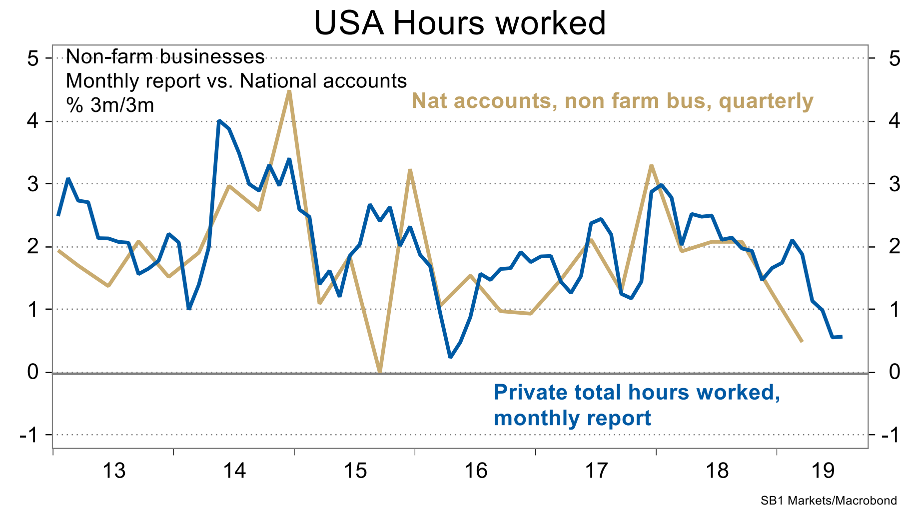



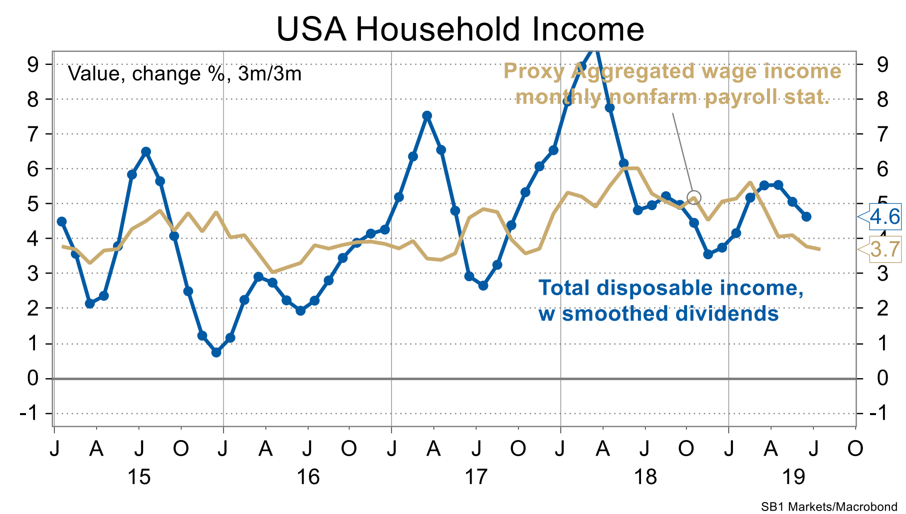

- Average weekly hours worked have fallen 0.6% since last autumn
- The number of temps is waning, usually a leading indicator for future slower total employment growth

# Avg hours are declining, employment is slowing: Hours worked growth at 0.6%

## Income growth is most likely slowing even if Nat. Accounts data have been revised sharply up




- Underlying growth in hours worked in the private sector has slowed to 0.6% now, from 2% early 2019. Employment growth is slowing, and average weekly hours is falling
- Household disposable income was substantially revised up (and profits down, check here) in the annual GDP revision. The recent months growth was revised up more than 2 pp to 5% (growth was doubled)!

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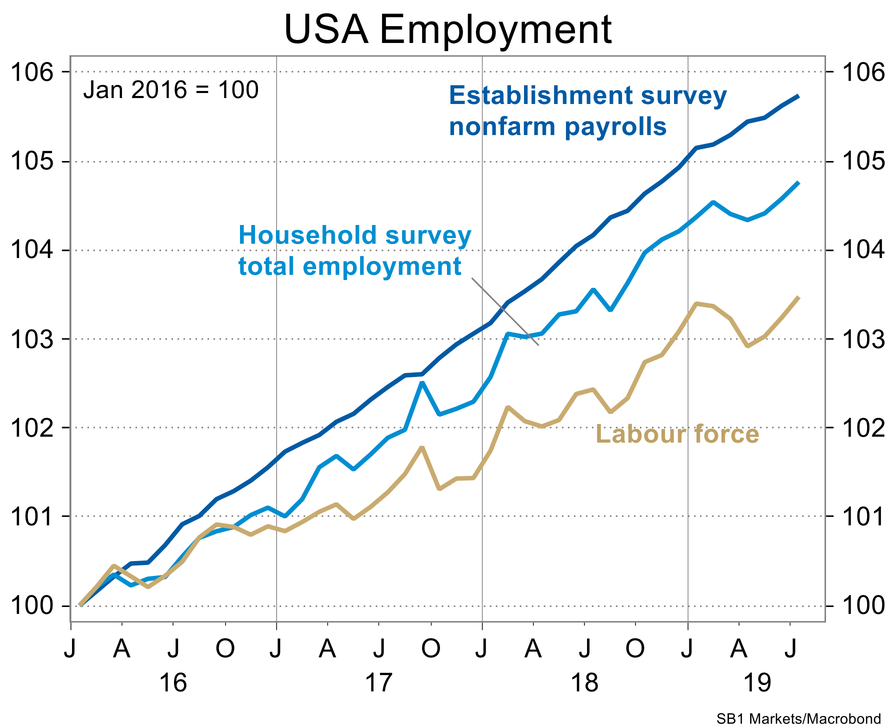
# Household survey confirms somewhat slower employment growth

## Total employment rose by 283’ according to the Household survey, after slowing in the spring

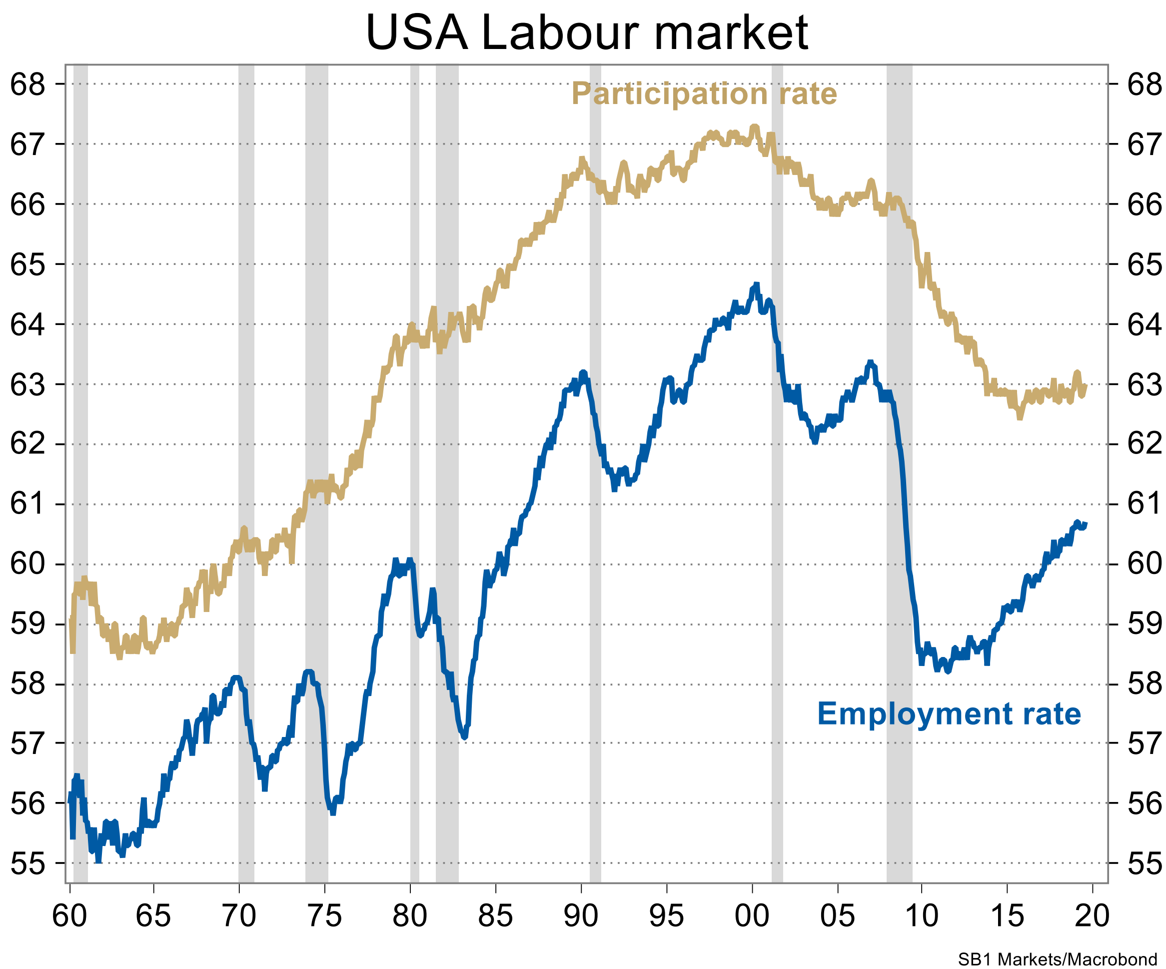


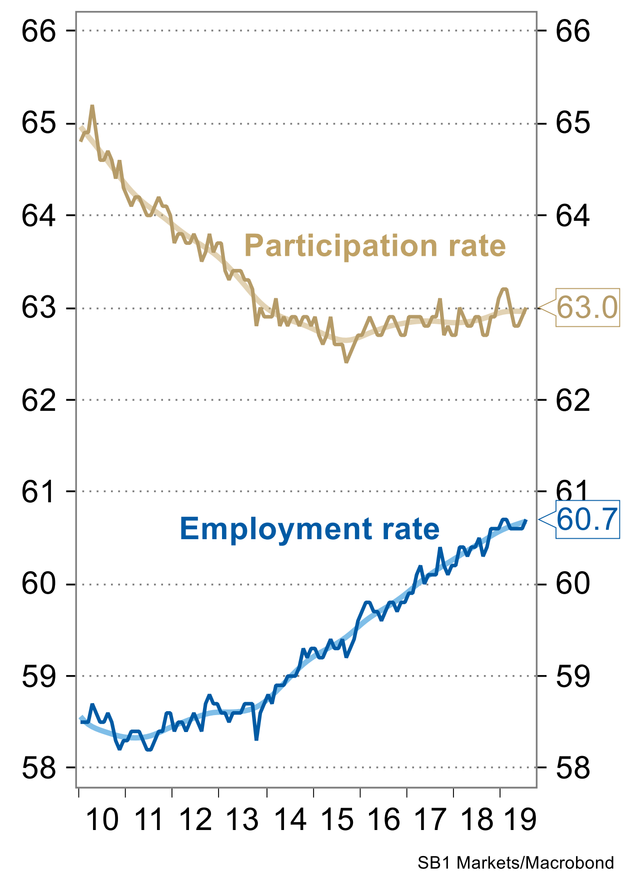

- Household data have reported a marginally slower growth in employment than payrolls, but growth has not slowed dramatically
  - » Total employment grew by 283’ according to the LFS (‘AKU’), while employment defined as the payroll report rose by 60’
- The labour force rose by 370’ in July,. The participation rate rose, but is far from impressive, check next page
- The monthly household survey employment data are more volatile than nonfarm payrolls data, and not useful from month to month

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 July too, trend still almost flat – at a rather low level

The participation rate was turning up, but not much is left now. Employm. rate slowly up

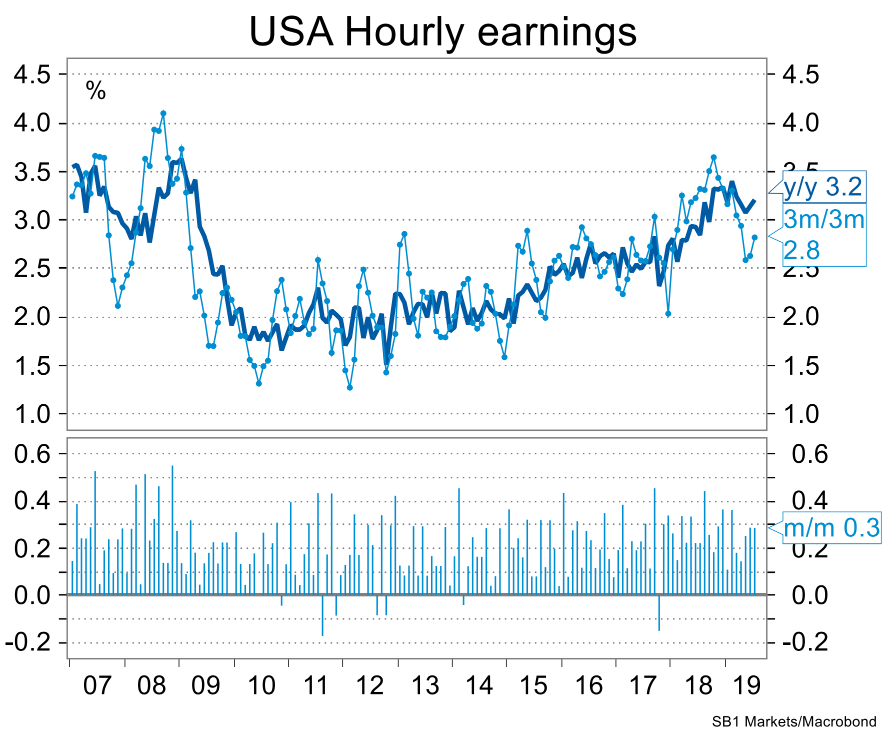


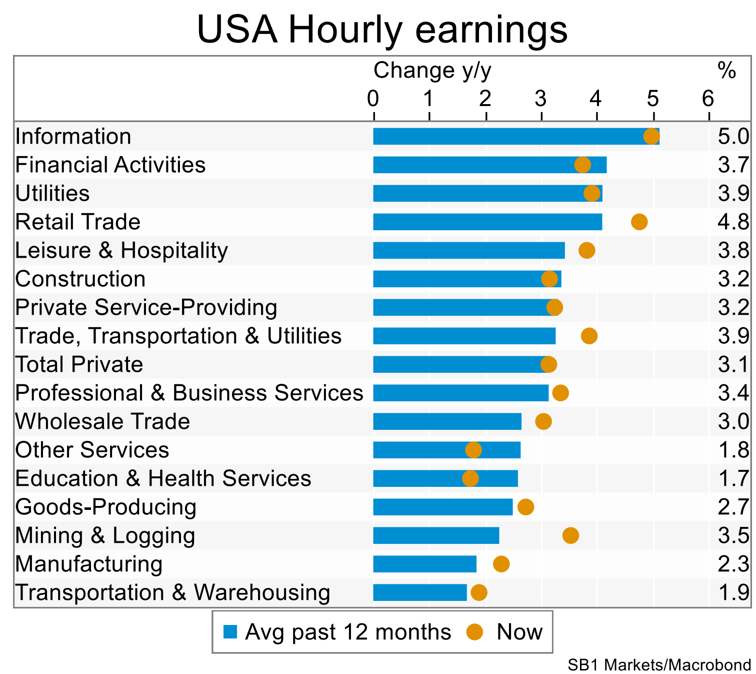

The employment rate rose 0.1 pp to 60.7% in July. The trend is still (probably) slightly upwards. The level is well below the pre-financial crisis levels. For the core age group, employment is back to a normal level. Youngsters and the oldies contributes on the downside

# Wage growth higher than expected in July but it is still down from the peak

## Wages rose 0.3% m/m, 0.1 pp above expectations and the annual rate rose to 3.2%




- 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 much slower wage growth to surveys, and a measure of median wage growth (Atlanta Fed) is still accelerating




- June m/m wage inflation was revised upwards to 0.3%, but May revised down. Underlying growth is still below 3%
- Annual wage inflation is accelerating vs. the average over the past year in 9 sectors/aggregates and slowing in 5 (and unch in 2). Wages are still increasing the most in information and financial activities – and retail trade as advanced on the ranking!

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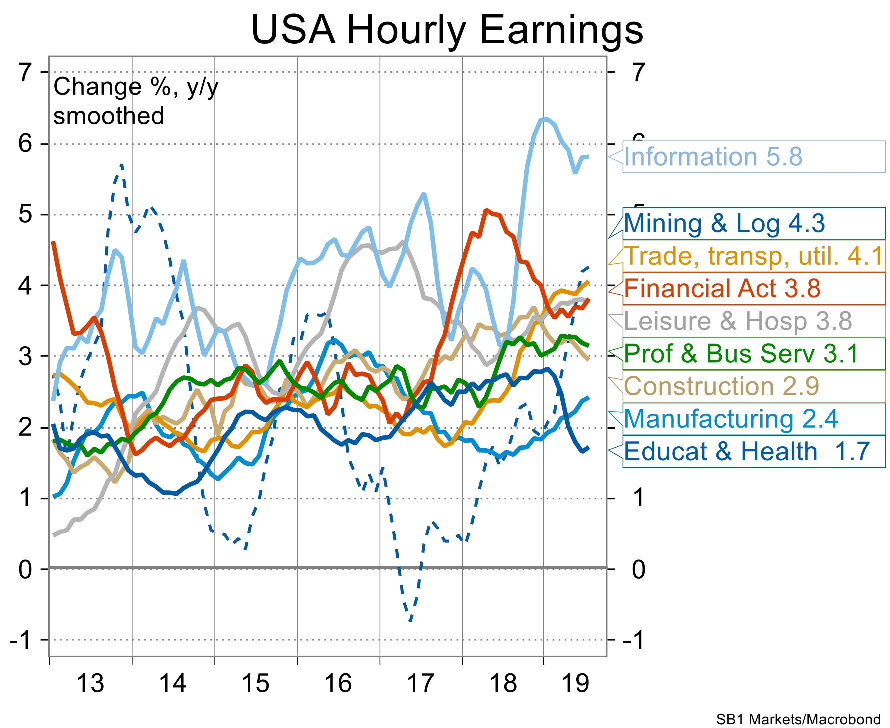
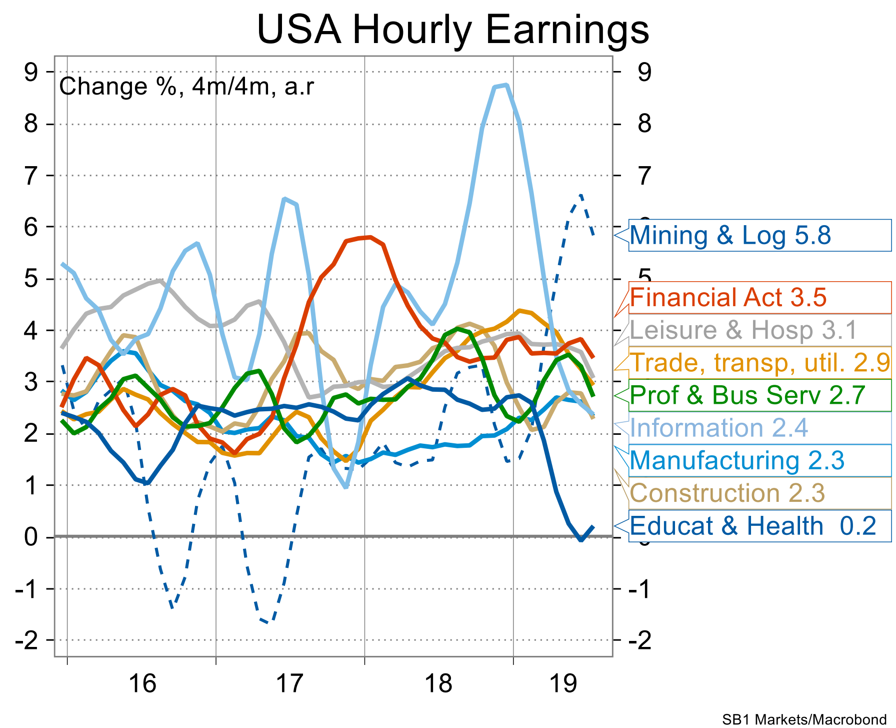
# Weakness in wage inflation in almost all sectors recently

Monthly wage inflation has slowed in <u>all sectors</u> ex mining & lodging. And down to 0 in educ/health



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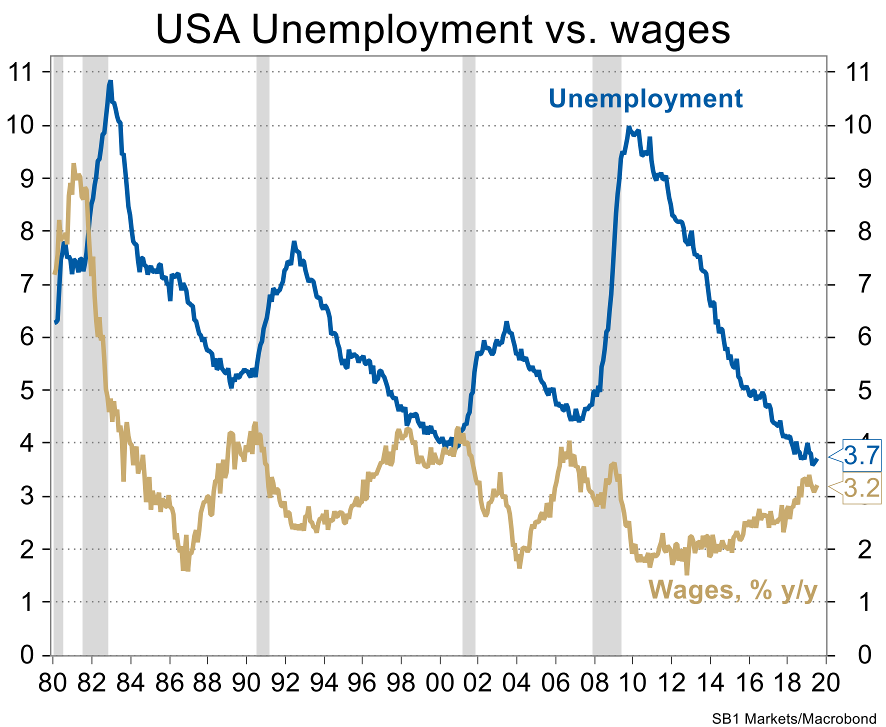
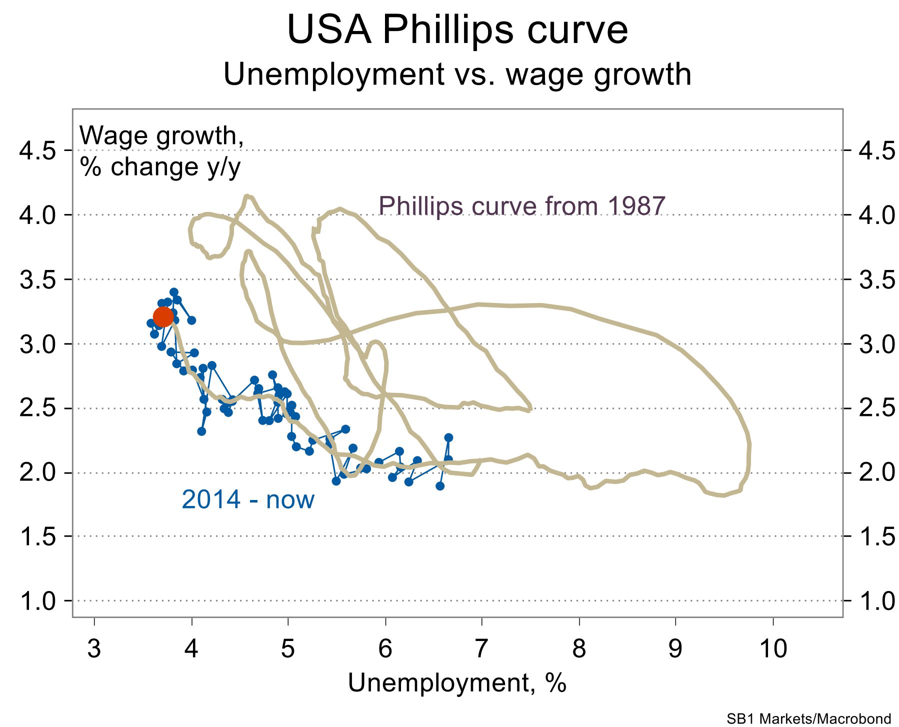
# Wage inflation still somewhat lower than 'usual' vs. the unemployment rate

Even if the Phillips curve is flatter than before it is definitely not flat

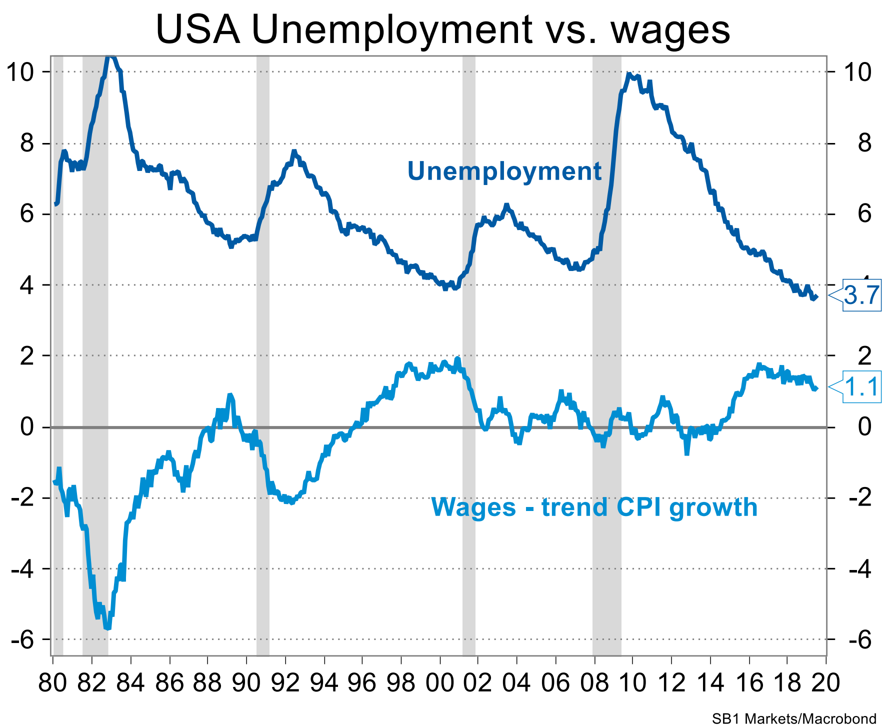


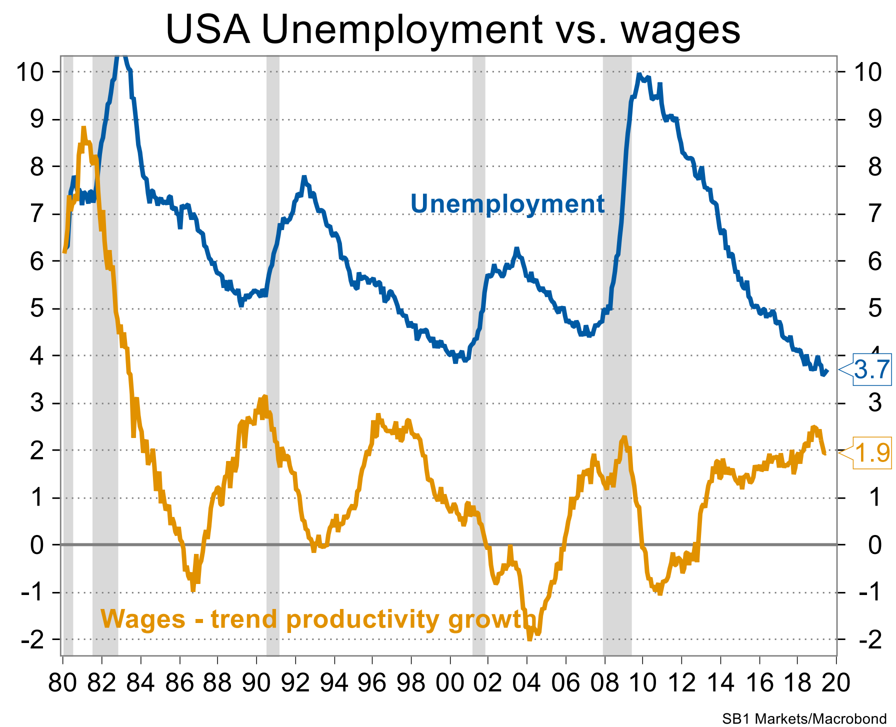




- However, we would not have guessed a wage growth at 3.2% y/y if we were told 6 m ago that the unemployment rate should decline to 3.7%
- On the other hand, if we calculate the Phillips curve using the employment rate, or the core (25-55y) employment rate, the Phillips curve is either far to the 'right' (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

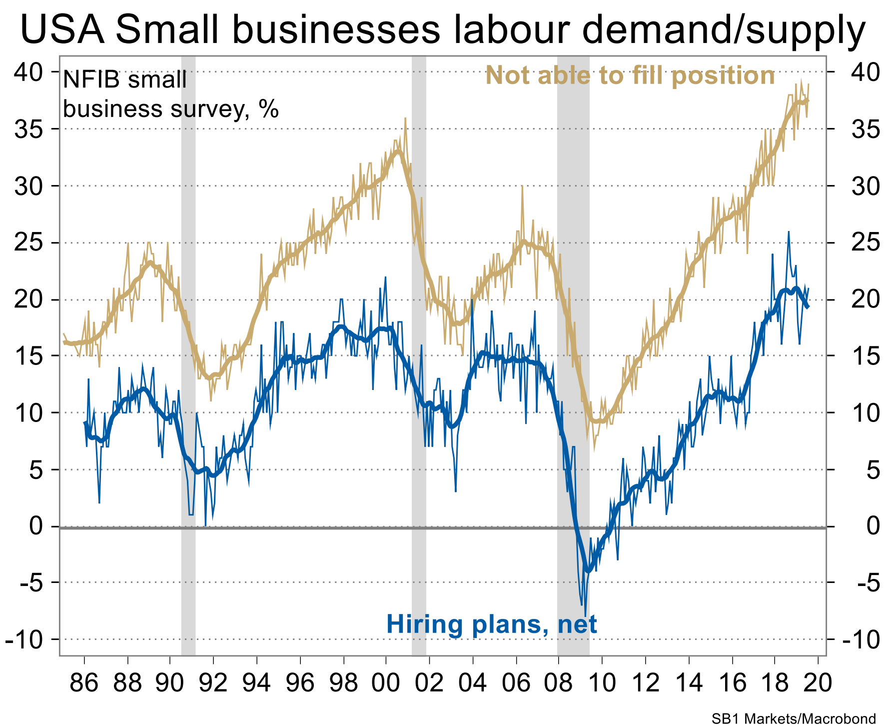


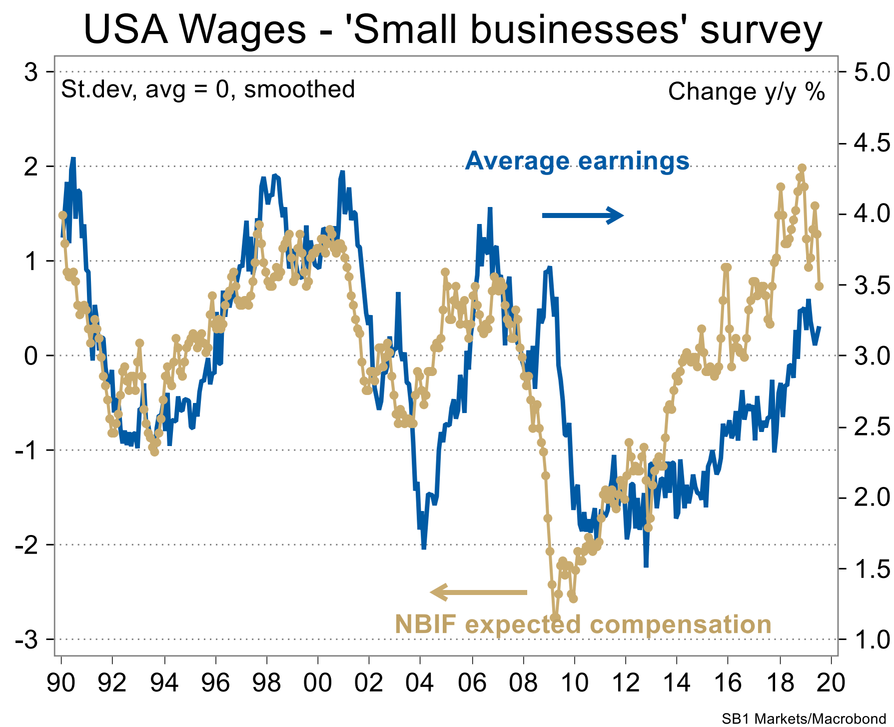




- In Q1, the wage – productivity gap, or labour cost per unit produced (ULC, unit labour cost, using the monthly wage data) fell to 2% y/y, as wage inflation slowed marginally and productivity growth picked up somewhat (we apply a 3 y average productivity growth, in order to smooth volatile quarterly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

# Small companies are reporting tight labour market but are scaling back pay plans

They are not signalling lower wage inflation than the current rate but still. Hiring plans have peaked?

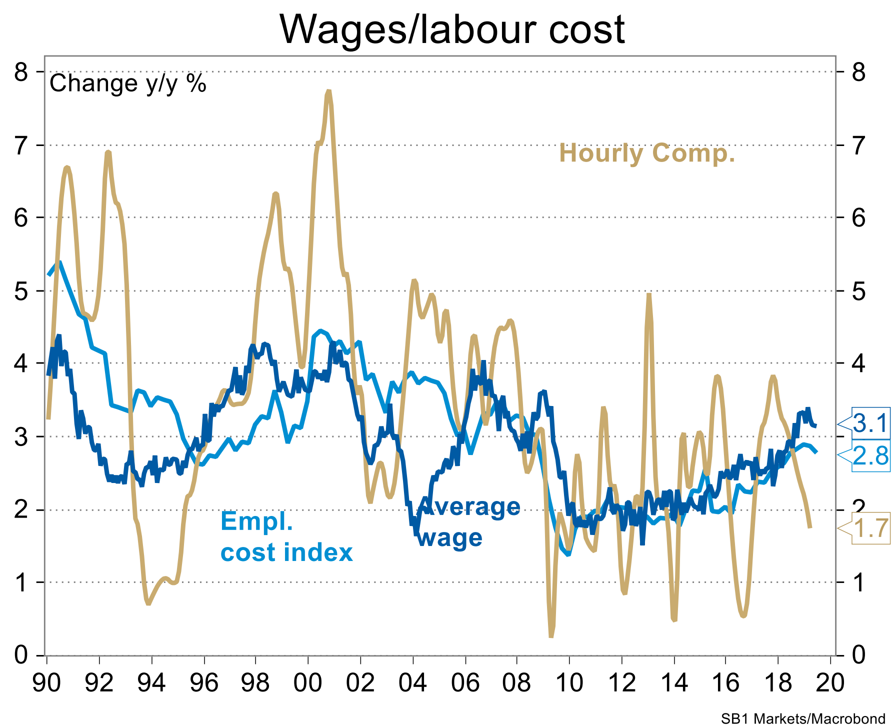


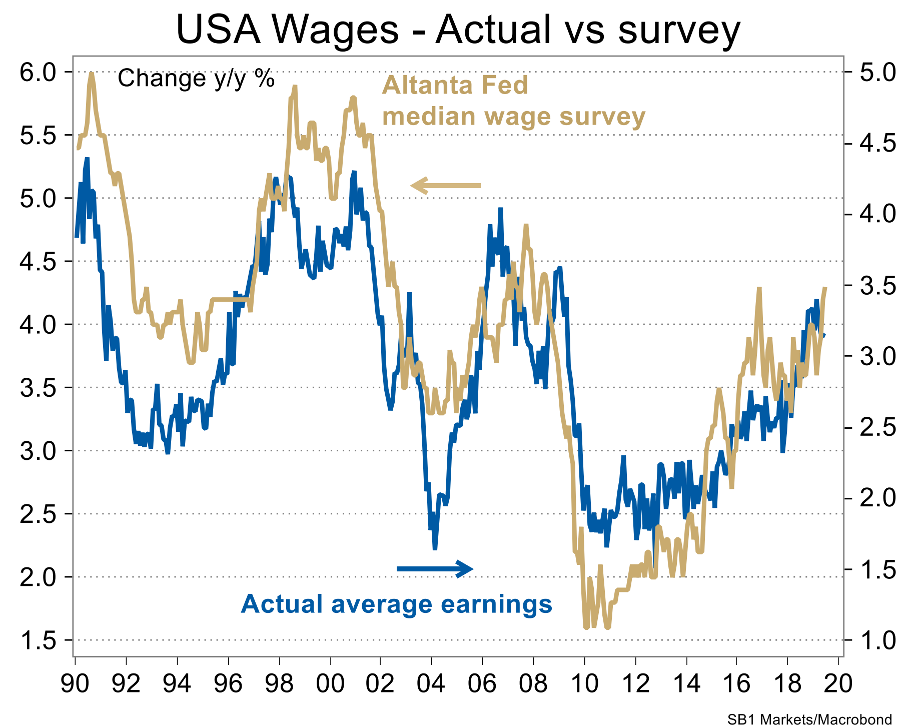




- SME companies have been reporting somewhat less aggressive hiring plans so far this year, compared to the late 2018 levels. An early sign of demand weakness? These data are volatile – and the level is still close to ATH
  - » Most likely, companies will scale back their hiring plans before they start 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 recent months, and quite sharply in July. However, the level is still quite high and does not necessarily signal slower wage growth

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

## Still, wage inflation has not accelerated the most recent months

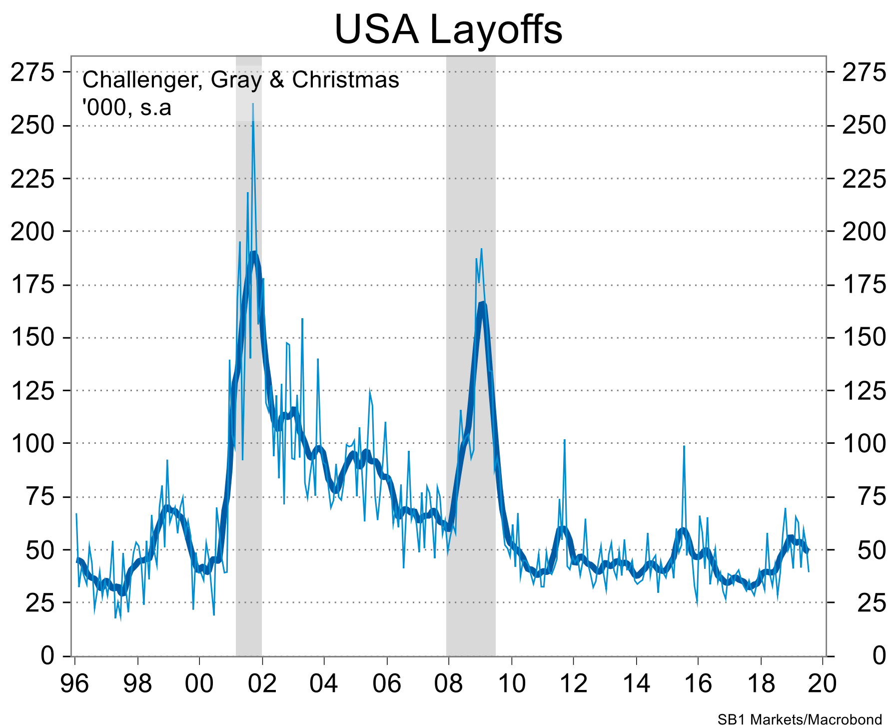


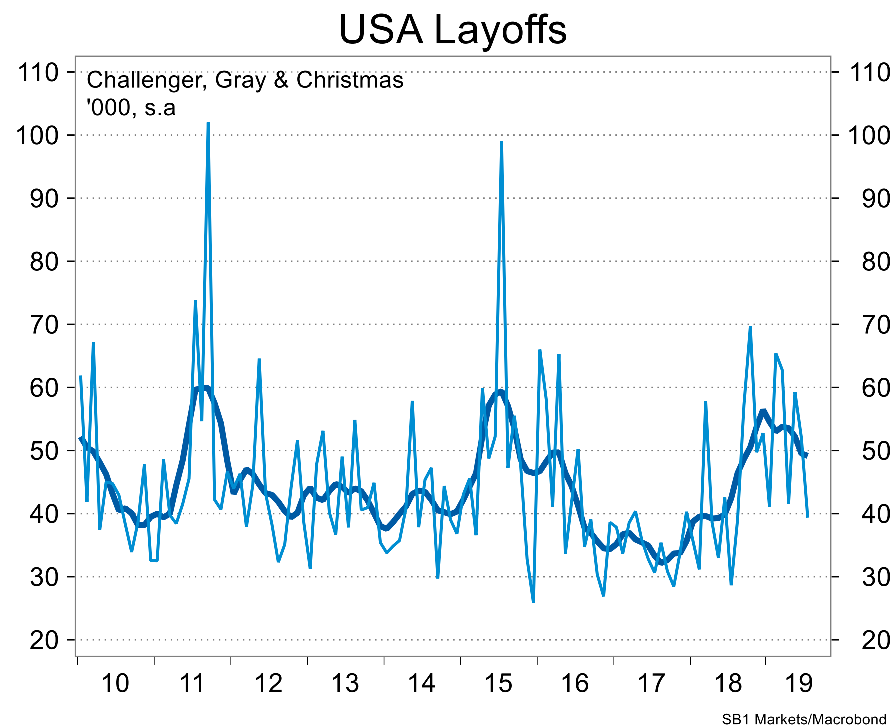




- The monthly employment cost index reports 3.2% y/y wage growth
- The Employment cost index slowed to 2.4% q/q annualised in Q2, the lowest in 2 years, from 3% in Q1. The annual rate came down to 2.8%, growth may have peaked in Q4 2018, at 2.9%
- Hourly compensation (from National Accounts) is the final 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. We suspect these hourly compensation data to be revised upwards, as a part of the annual GDP revision
- Atlanta Fed's wage survey reports 4.3% median wage growth – and still on the way up – which normally do not signal average wage inflation below 3%

# The number of layoffs down in July but level not that low recent months

## Layoffs have ticked down recent months, from an above the normal level (since the Fin. Crisis)

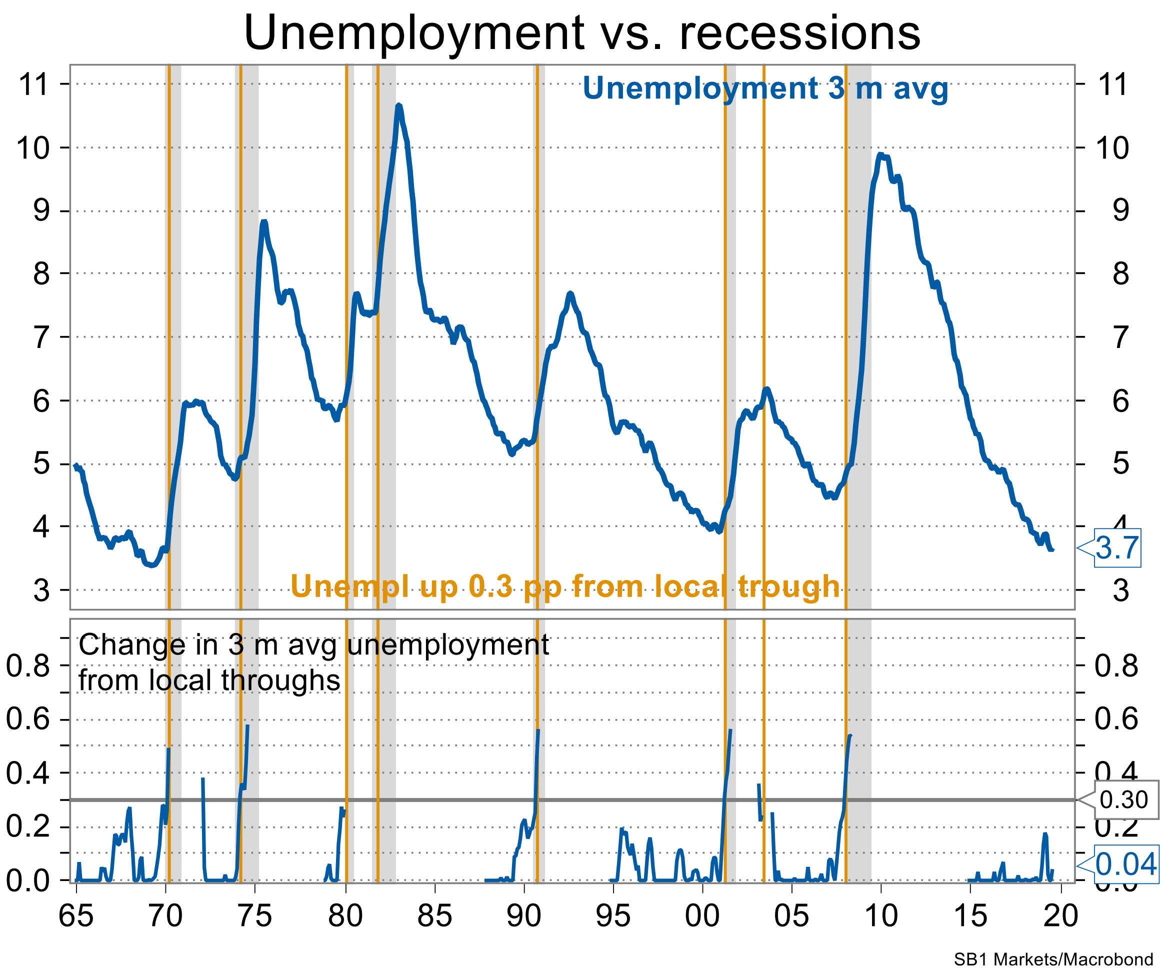



- The number of announced layoffs dropped in July, and has been trending down since late 2018. Layoffs turned up through 2018, and the level is not low, may reflect some weakness in the labour market. However, as the direction has turned downward and other labour market measures are solid, we are not too worried
- Layoffs turned up in both 2011 and 2015, both times up 50-60%. Now, we are up some 50% from the trough

# Unemployment not up yet, no recession now?

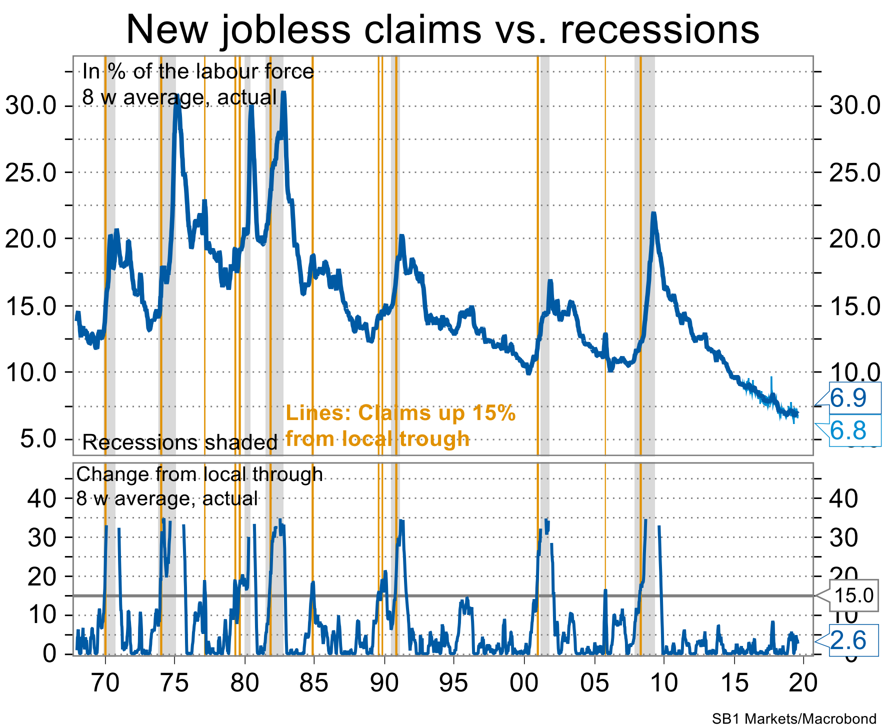
## Unempolyment usually turns up as the recession hits (but not before)

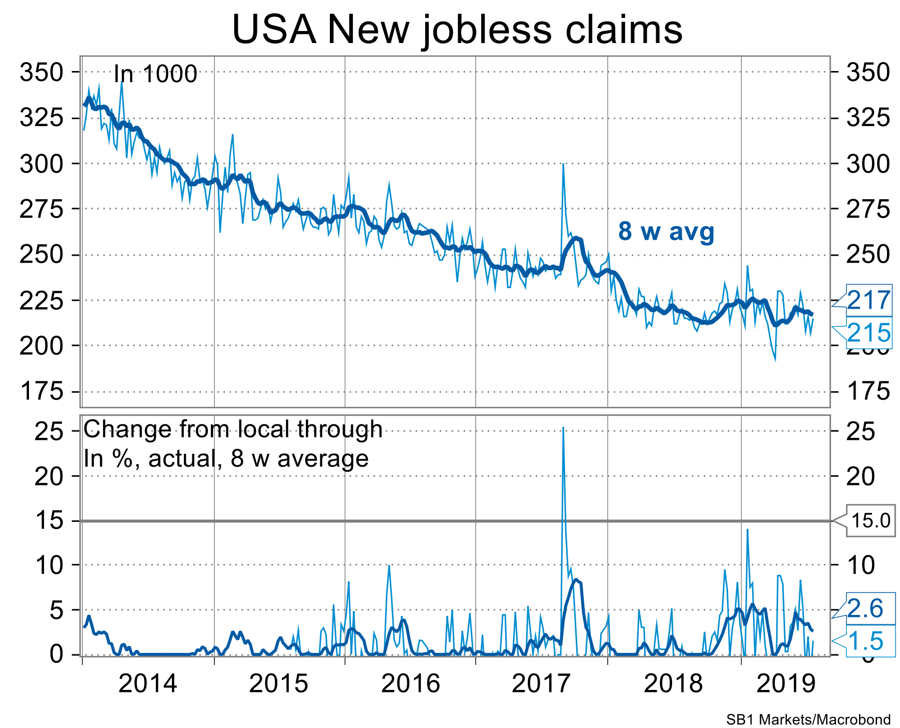



- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession confirmation, but has not been a good recession pre-warning
  - » Unemployment always increases substantially during recessions
  - » The often used threshold for signalling a recession is a 0.3 pp increase in the 3 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 still on the way down, no signs of weakness

Jobless claims inched up to 215’ last week, the 8 w average is very low, at 217’

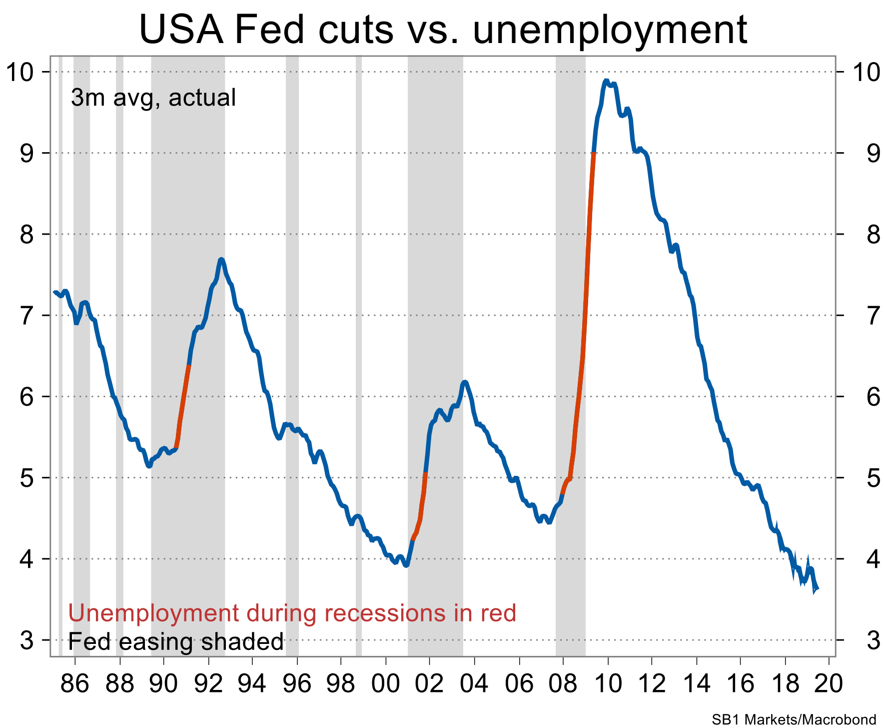


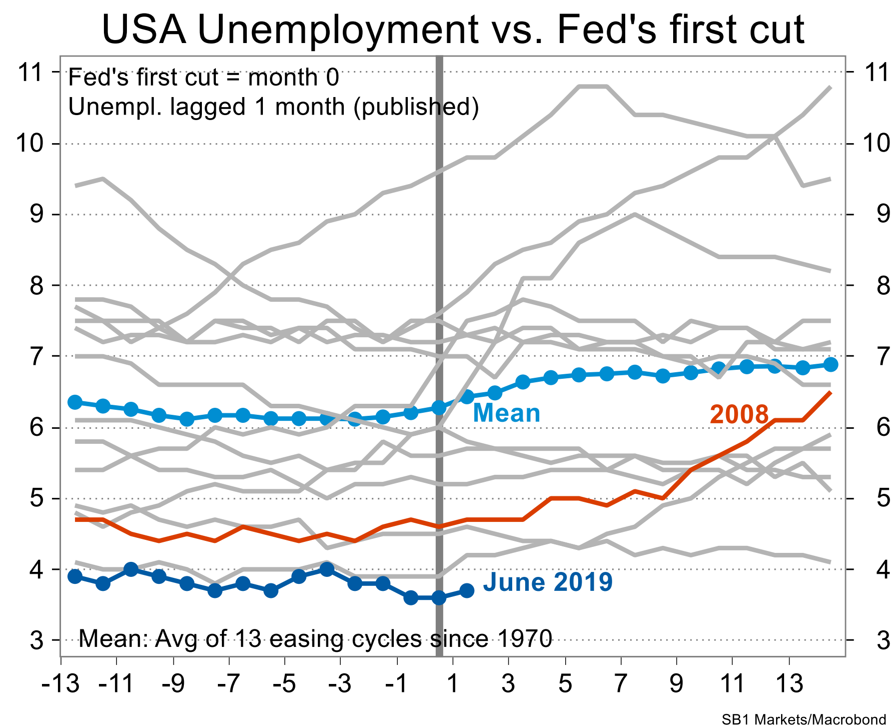




- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow ‘recession’ warning line is to be drawn, check the chart to the left. So, no reason to worry now?

# When can the Fed start cutting: It can now (and did it)

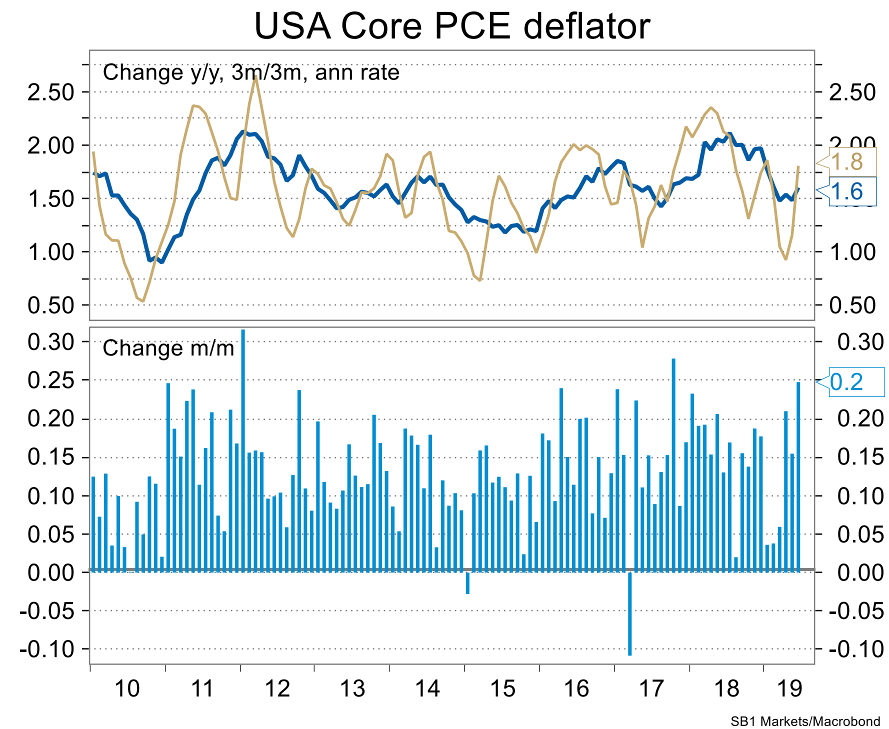
In average, Fed waits until unemployment has edged up but *has often cut before any weakness is seen*

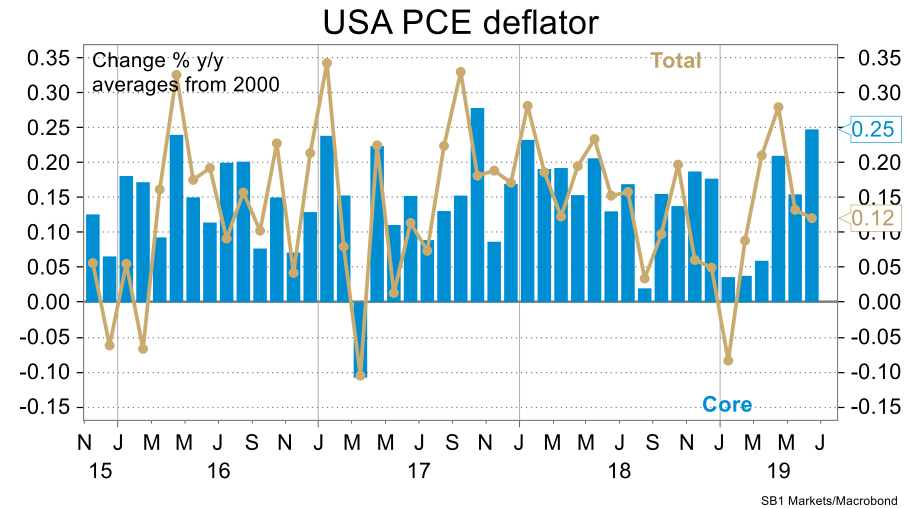


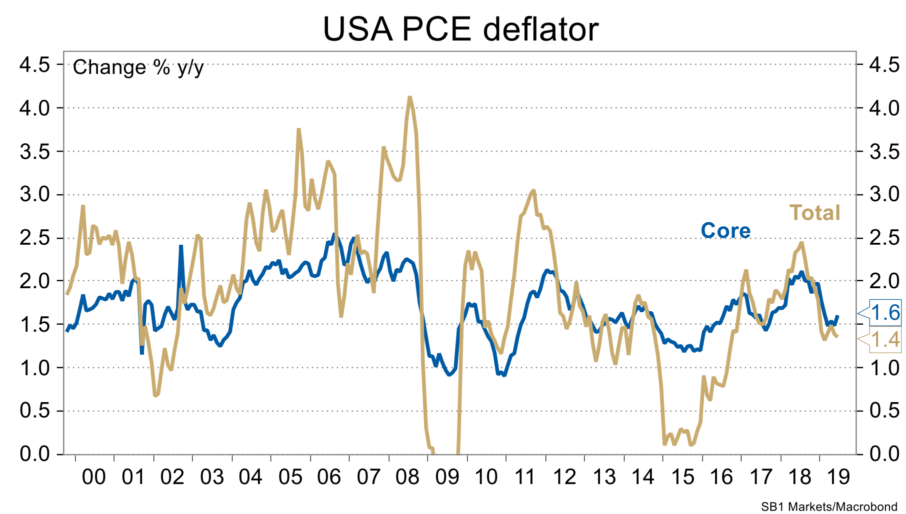



# Core PCE inflation remains below Fed's target, underlying growth is rising

Core PCE deflator ticked up to 1.6% in June, prior months revised down. Q2 up 1.8%, after Q1 easing



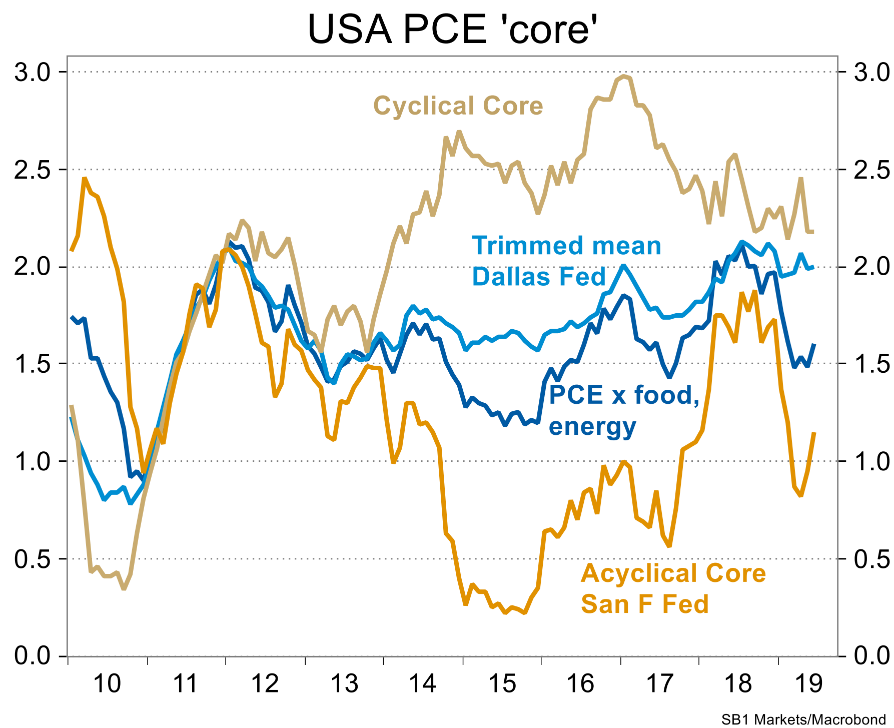



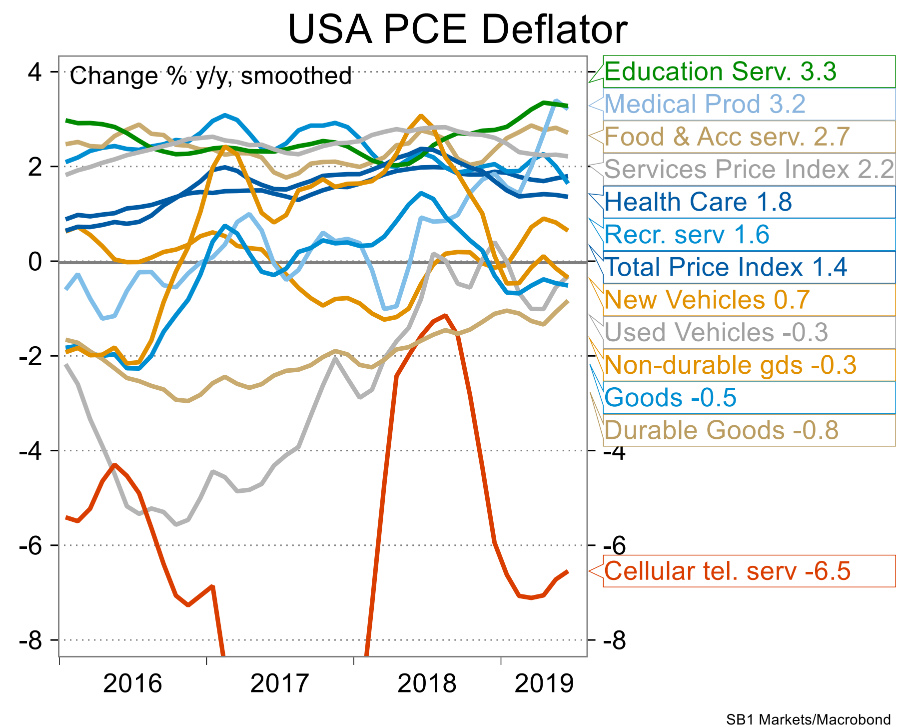




- The core price deflator rose by 0.2(5)% m/m in June, as expected and May/April were revised down by some 0.05 pp. The annual rate came in at 1.6%, up 0.1 pp from a downward revised level. Q2 up to 1.8% but prices have increased at a 2.5% pace over the 3 past months
- Total PCE inflation inched down to 1.4% y/y, as energy prices have been retreating. Good for real income growth
- PCE has been running 'visibly' below Fed's price target at 2% for 6 months. Small changes in inflation has never been important for Fed's rate setting – but new can be used as an 'excuse' for a cut, like now

# Is the decline in PCE 'for real'? Perhaps not, yet cyclical 'PCE' is slowing

## Many sectors have flattened/slowed

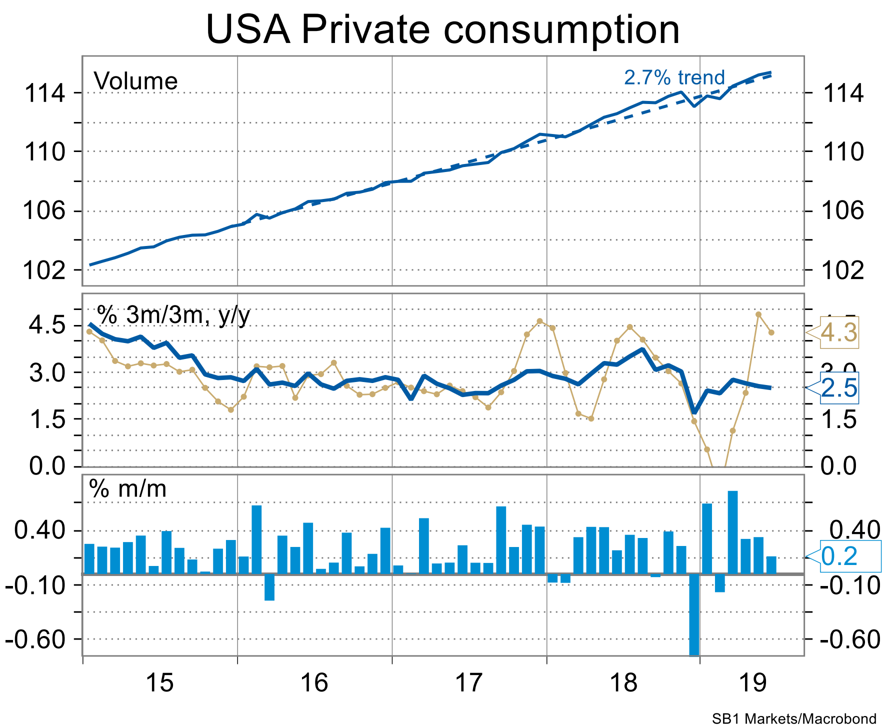


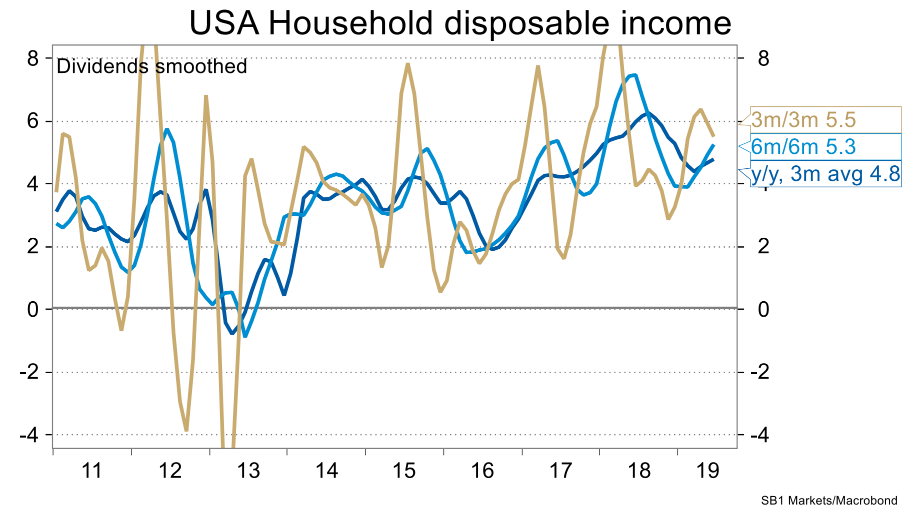

- Durable goods and cell phones are dragging prices down

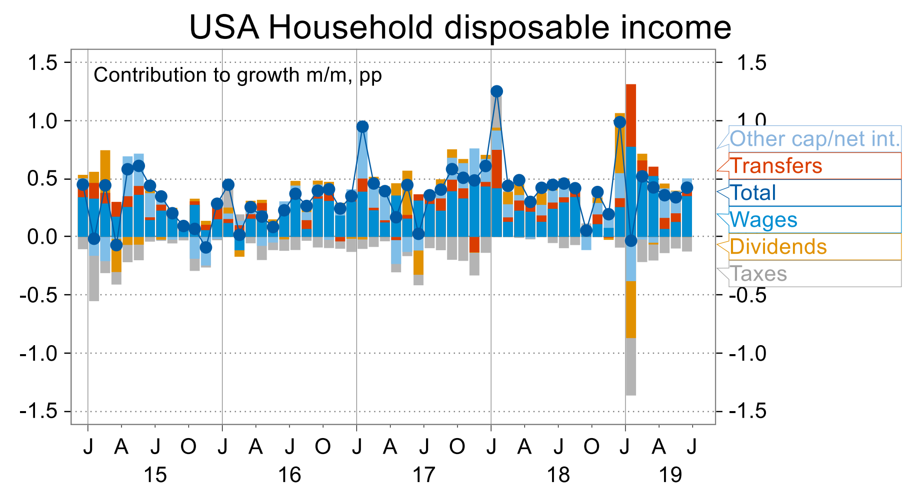
# Private consumption back on track, or better, and income growth gains speed

## Consumption rose 0.2% in June and the history was revised up, as for disposable income



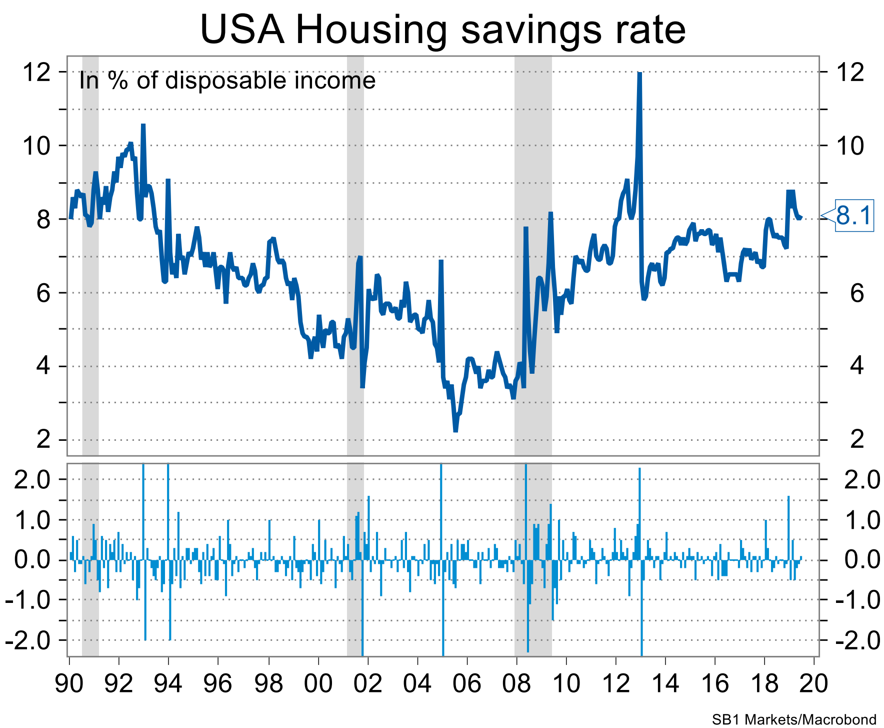

- Private consumption grew 0.2% in June, below expectations but recent months have been revised up. Consumption rose 4.3% q/q in Q2, a solid speed, more than recovering from the Q4/Q1 slump
  - » Consumer confidence is still strong (flip to this slide for more)
- Households' nominal disposable income rose 0.5 m/m, just above expectations. Underlying growth has picked up steam this year, at 5.5% 3m/3m. Total wage & salary income is up 4.9%. As a result of the annual revisions of the national accounts, historical data have been revised. The two past months were revised down while the 2018 rates have been lifted. The savings rate has been revised up considerably, check the next slide for more

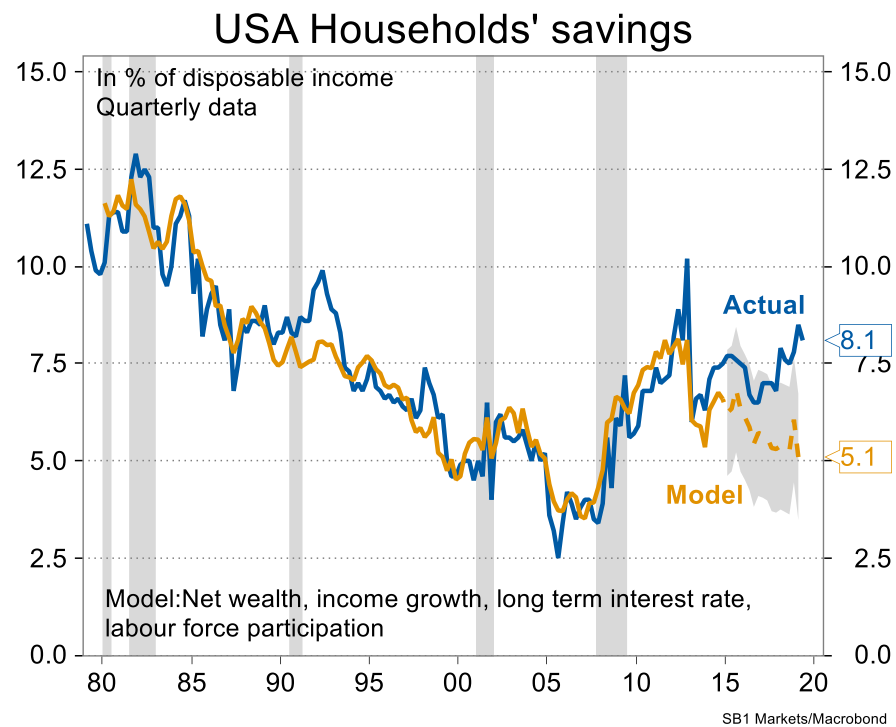


# Households savings at 8.1% in June, following another huge upward revisions

## The savings rate inched up in June and the history was revised up considerably



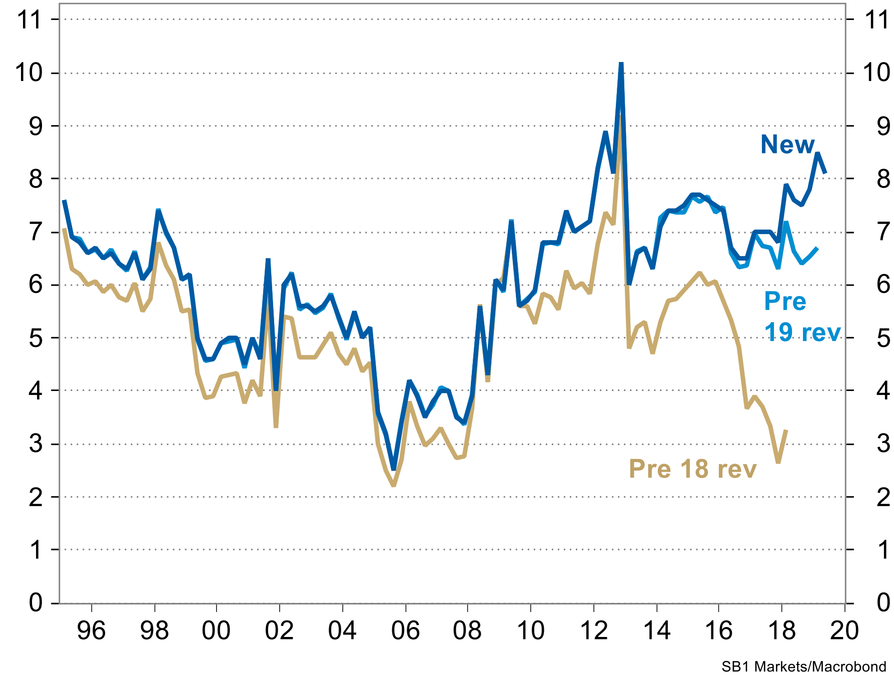




- More on the revisions on the next slide
- Following the adjustments, the savings rate is 3 pp above our model forecast! The rise in savings indicate that the tax cuts have largely been saved, and not spent

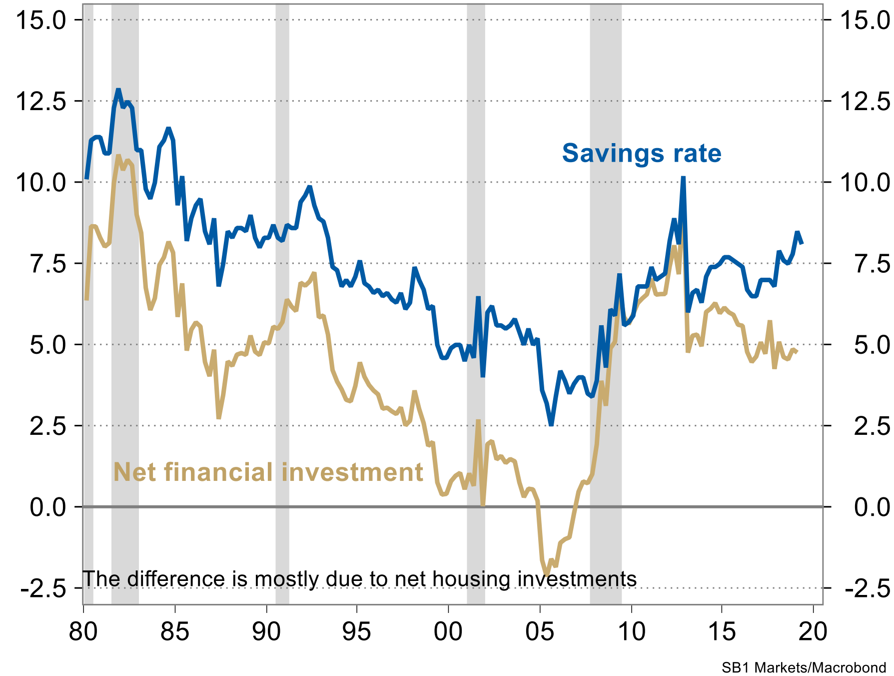
# The savings rate has been revised to 8% from 3%, via 6.5%

## Savings are the discrepancy between two large numbers – and is a moving target…

USA Household savings rate



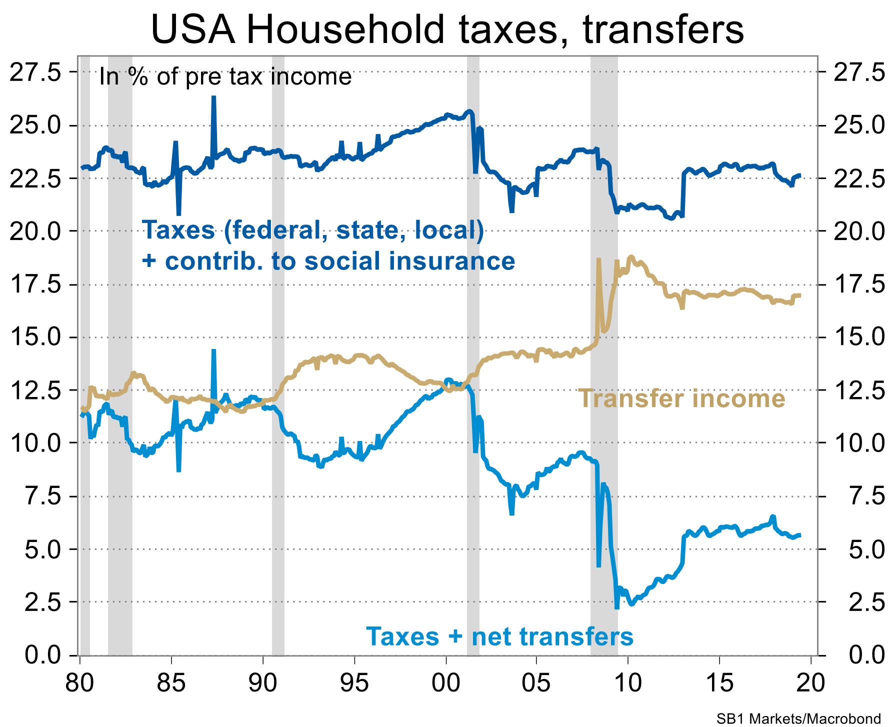

USA Household savings & cash flow

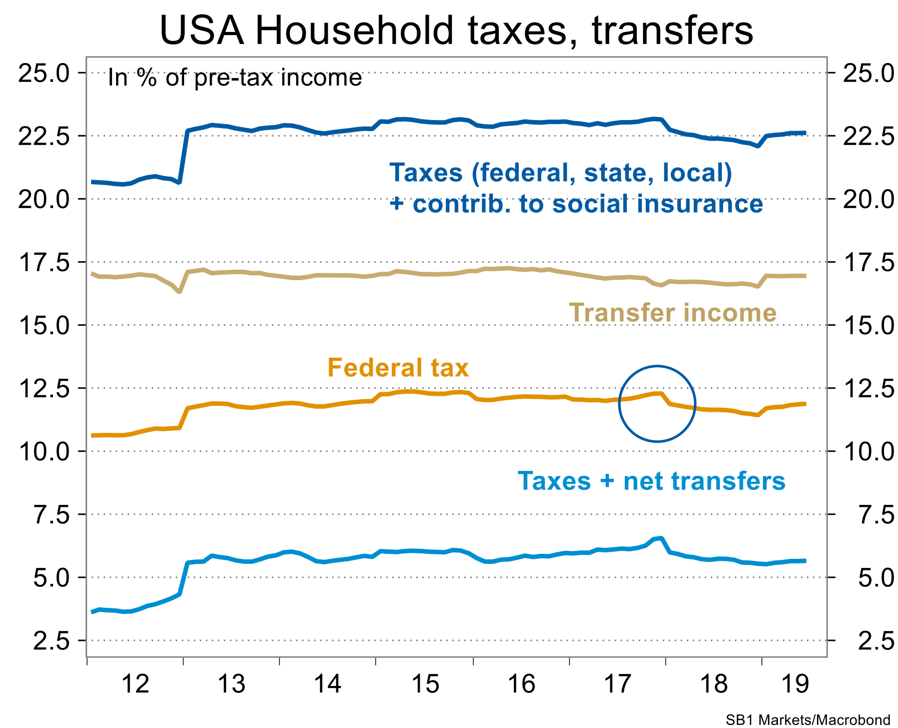



- Household income growth was revised up in the 2019 annual revision, and more than consumption. The Q1 savings rate was revised from 6.7% to 8.5% and Q2 ended at 8.1%
- More of the tax cuts have been saved – and households are more robust than the previous data indicated; the new savings rate is well above the average of the past decades, at above 8%. The increase in household net financial investment rate explains why the huge increase in the public sector deficit has not sent the current account deficit down the drain

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

The tax cuts boosted household's early 2018. Now transfers are rising

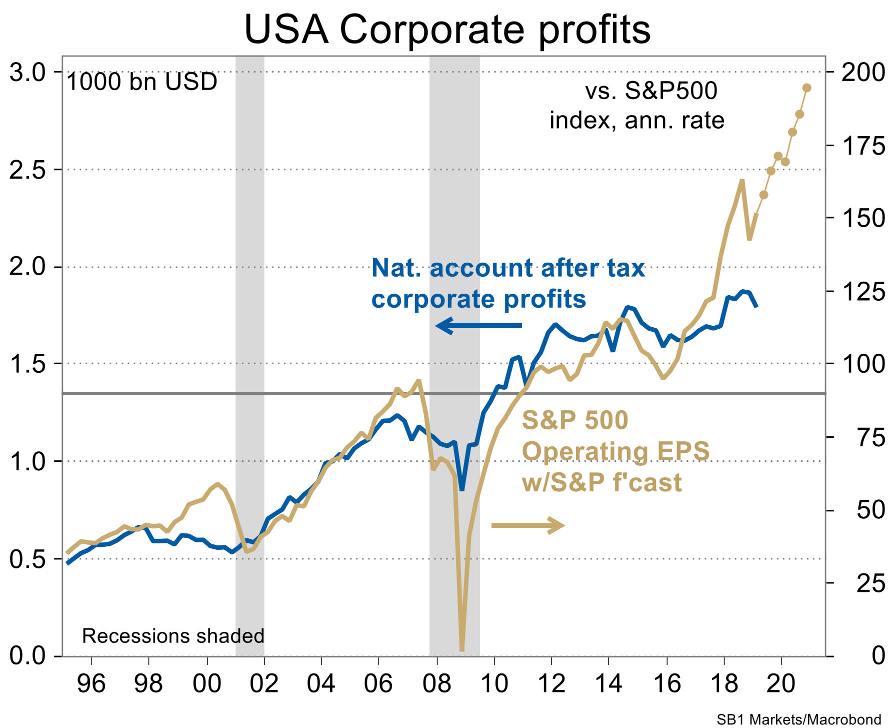


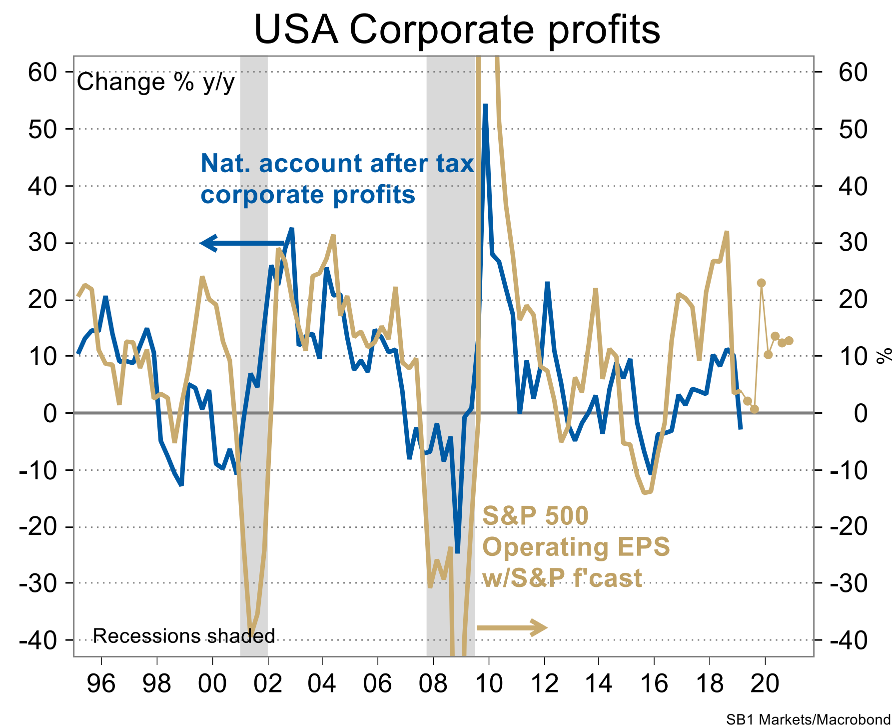




- In sum, household net taxes (taxes – transfers) are down 1% of disposable income since before the tax cuts were implemented. Not that impressive but given a strong economy in the meantime – that usually lifts net taxes substantially – the tax cut is pretty large. In the next recession, net taxes will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

# Corporate profits revised sharply down, gap to S&P earnings unusually large

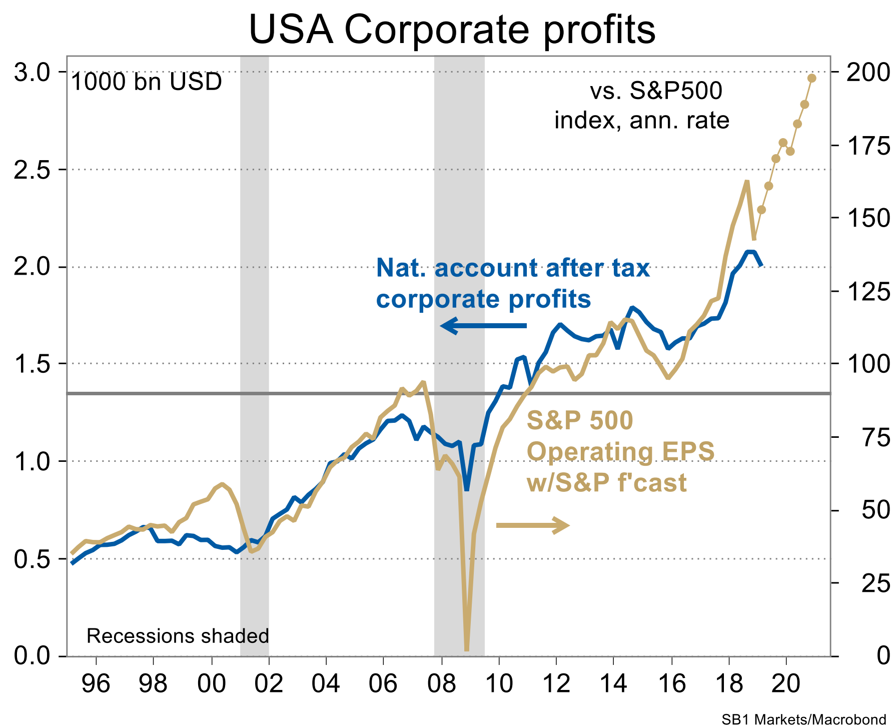
Profit level revised down by 10%! The gap to S&P 500 earnings are unusually large

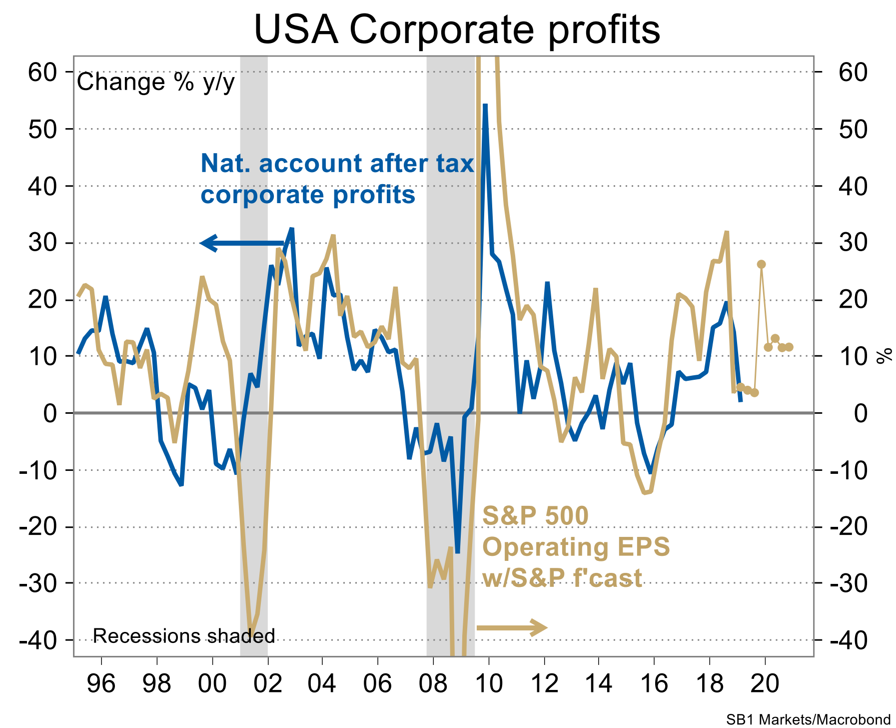



- Profits are now reported down y/y in Q1 – and growth last year was mostly due to the tax cuts. Check the previously published data on the next page

# The pre revision data painted a different picture!

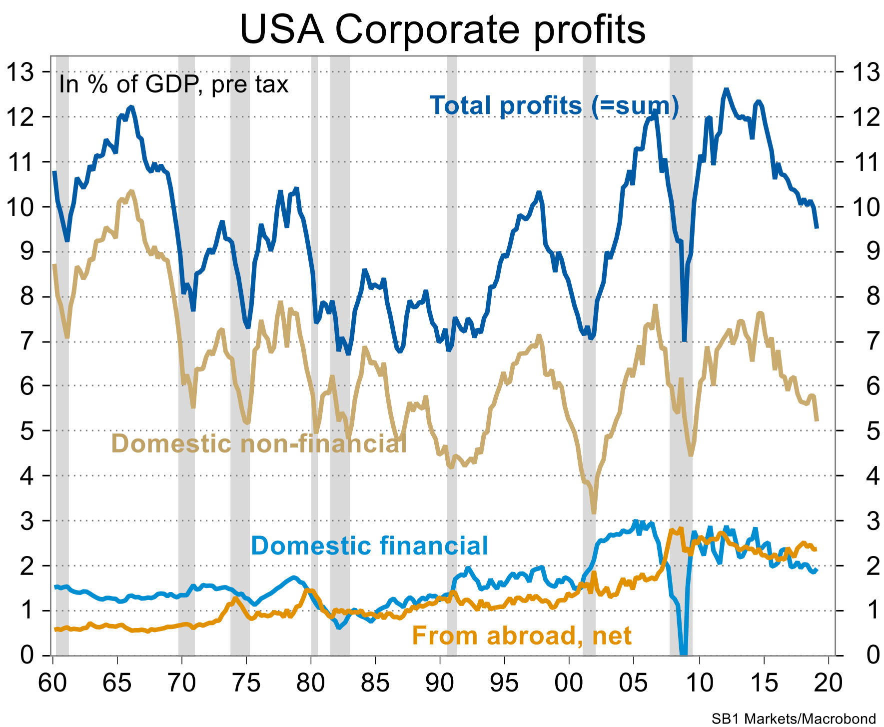


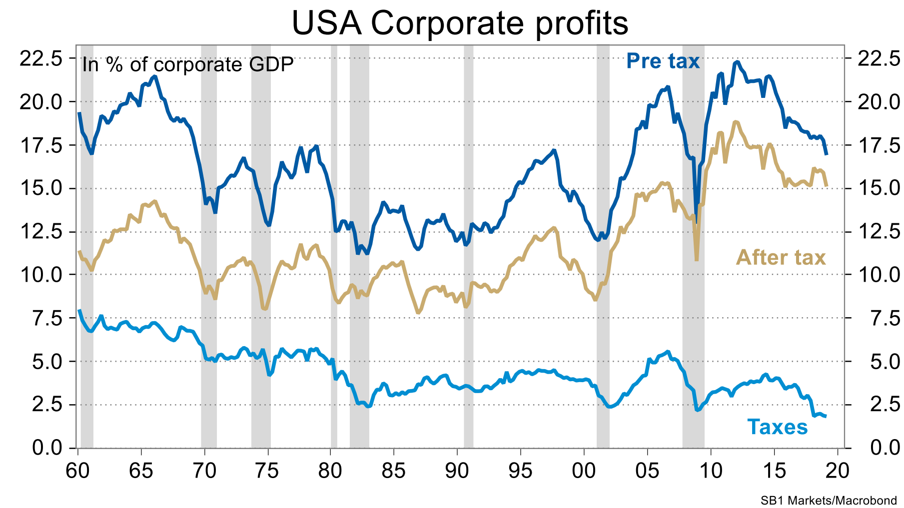



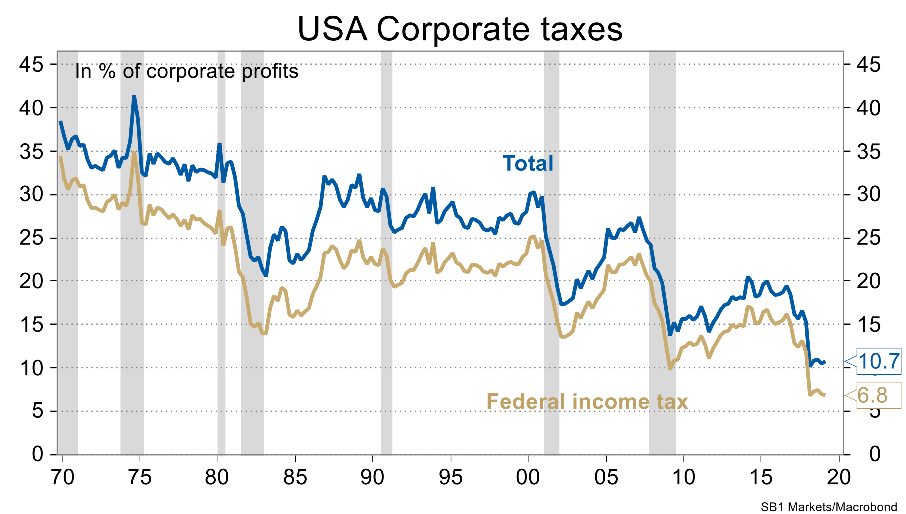

- S&P500 earnings forecasts have been revised down too
- The EPS forecasts are not ours…

# Profit shares have been revised sharply down too

## Profit in domestic non-financial companies in % of GDP down to 5.2%, from 6.4%, now below avg!

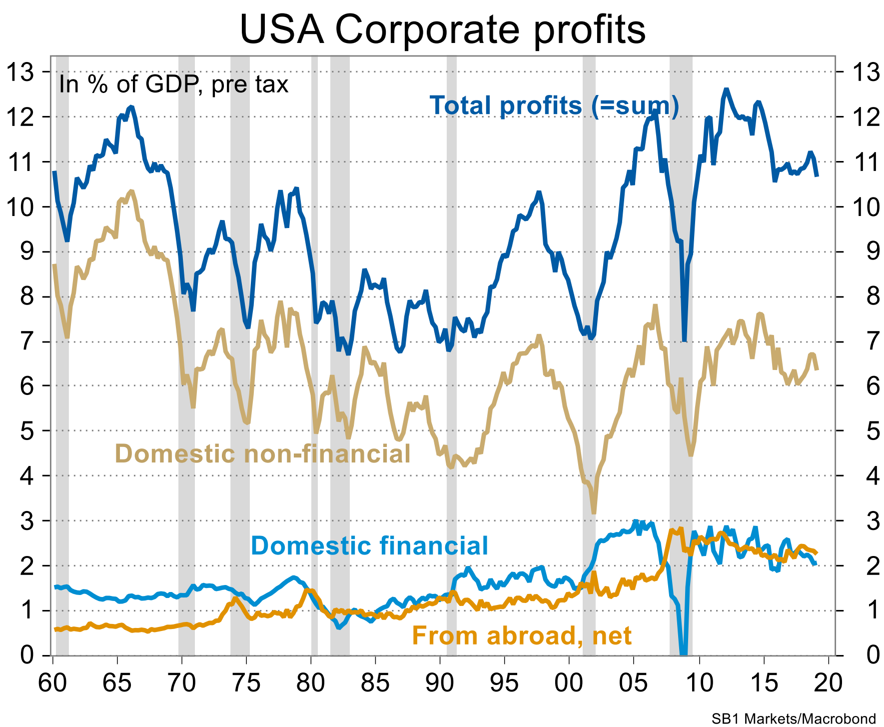


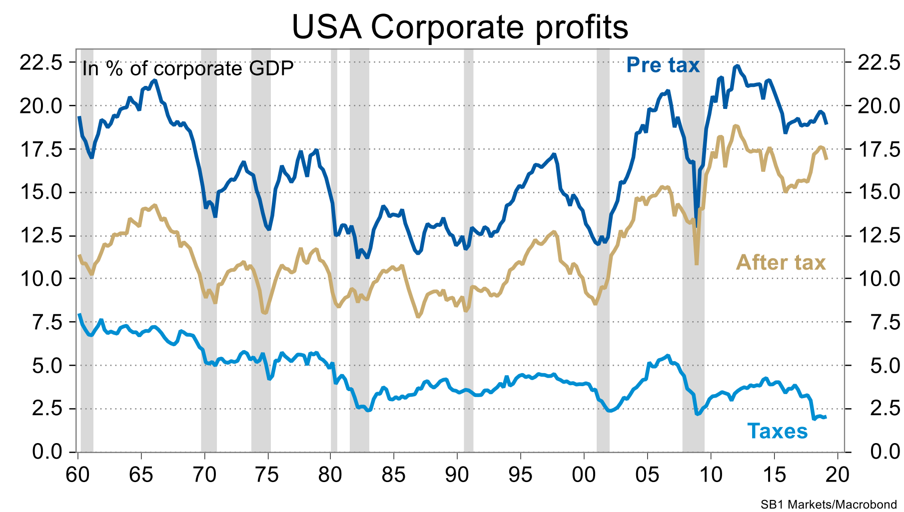



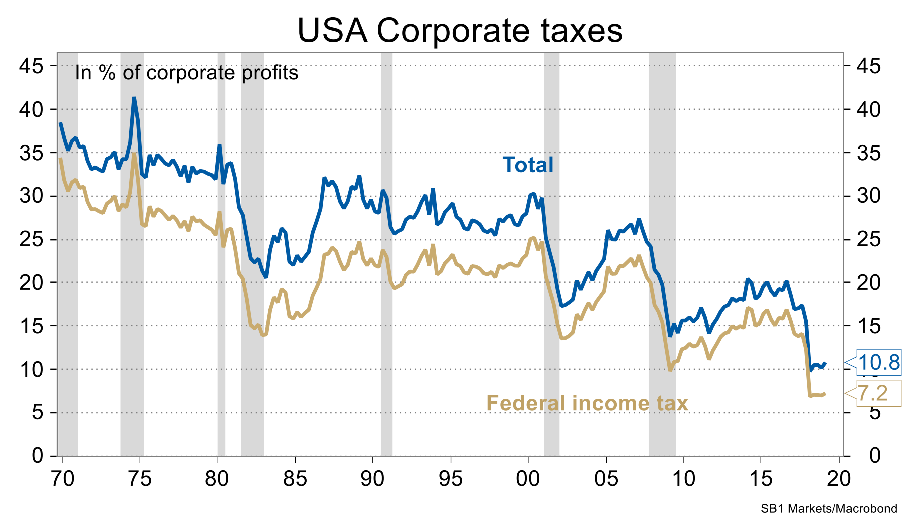




- Again, check the next page for the previously published data!
- The tax cuts have lowered the corporate tax rate to 10% from 20% of pre tax profits, or to 2% from 4% of GDP. That's the main reason for the huge increase in the public sector budget deficit

# The pre revision data painted a different picture!



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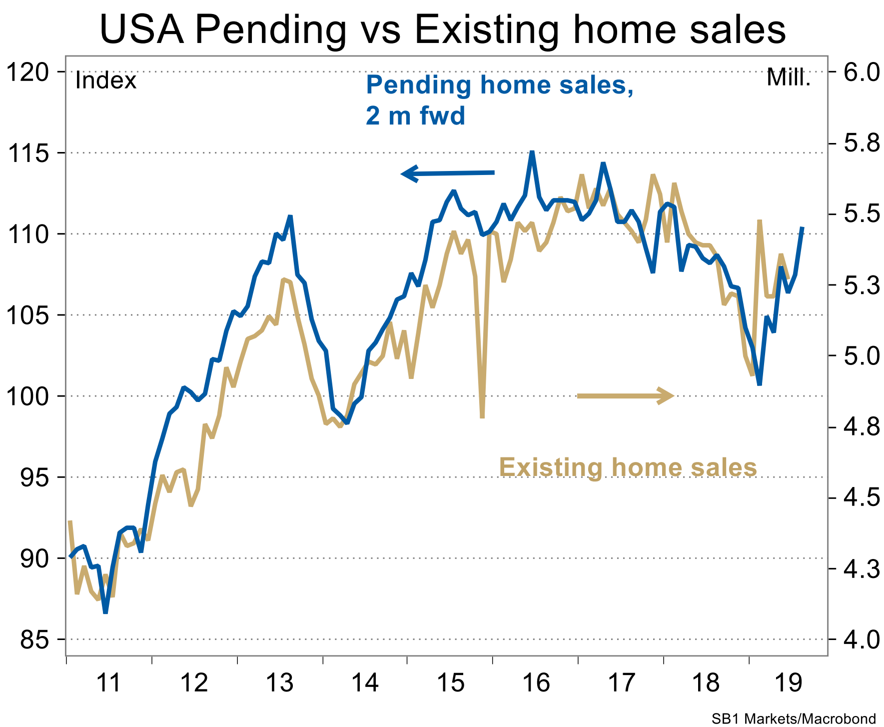
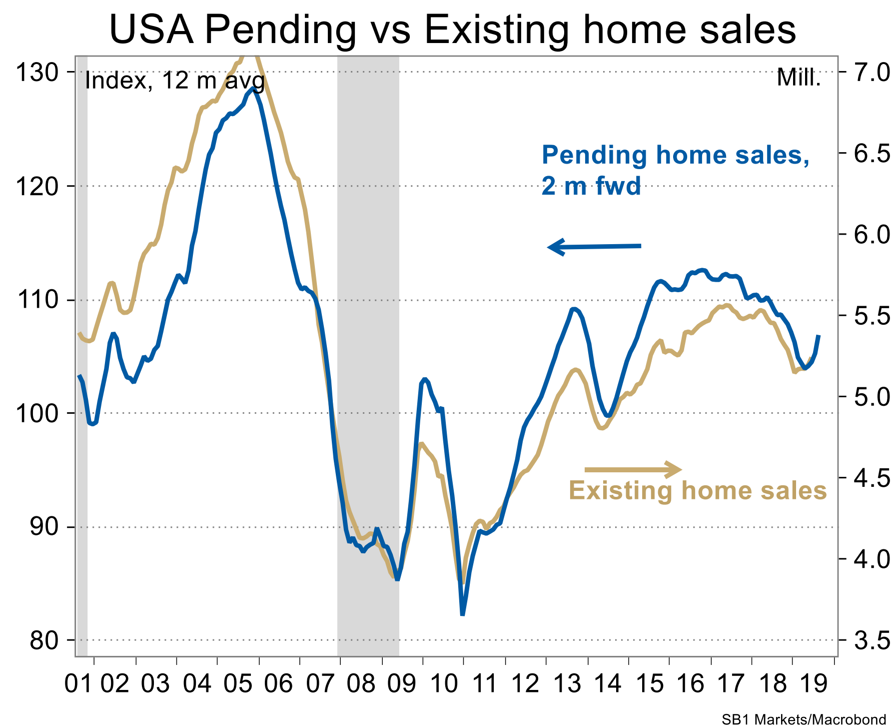
# Pending existing home sales soared in June, pointing to stronger actual sales

Pending sales rose 2.8% in June and are trending steeply up, no demand weakness spotted here

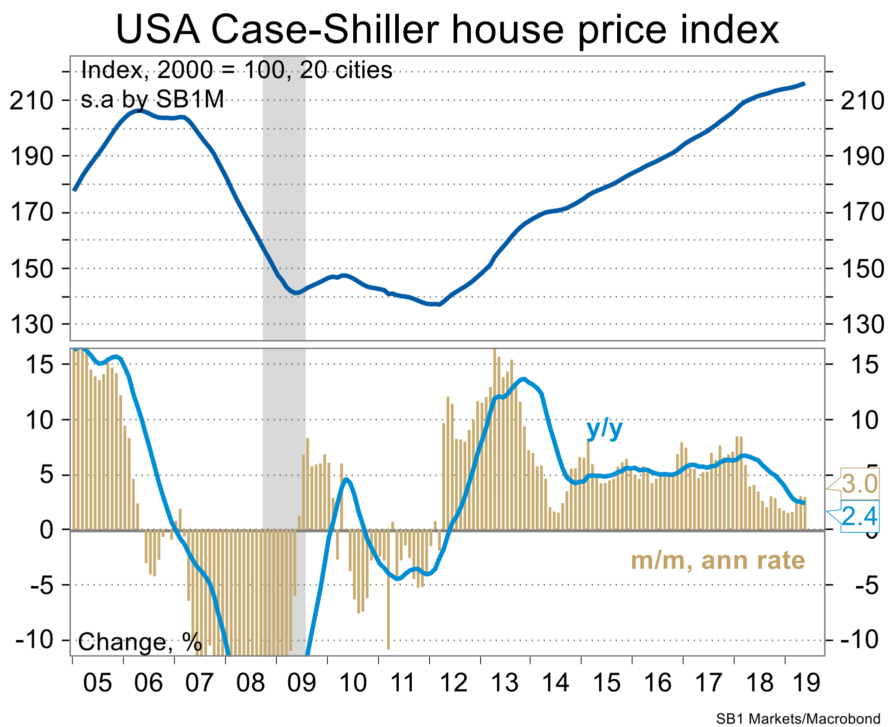


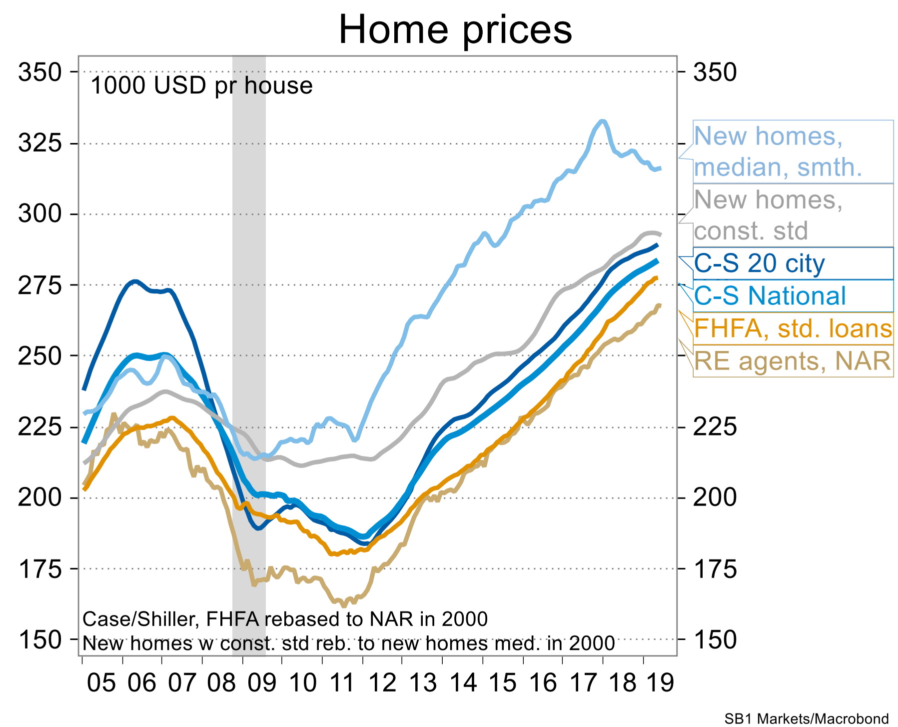




- Pending (existing) home sales rose far more than expected in June, up 2.8% m/m, while actual existing sales fell 1.7% (reported two weeks ago). Pending and actual sales are usually quite well correlated
- Mixed housing market data recent weeks; building permits unexpectedly slipped in June, heading slowly down, and new home sales have weakened, while existing sales are trending moderately up. The Homebuilders are reporting solid demand and does not indicate any downswing in demand

# House price inflation reflects a mild housing market recovery

C-S house prices rose 0.2% in May, the same speed as in April. Other price indices are mixed



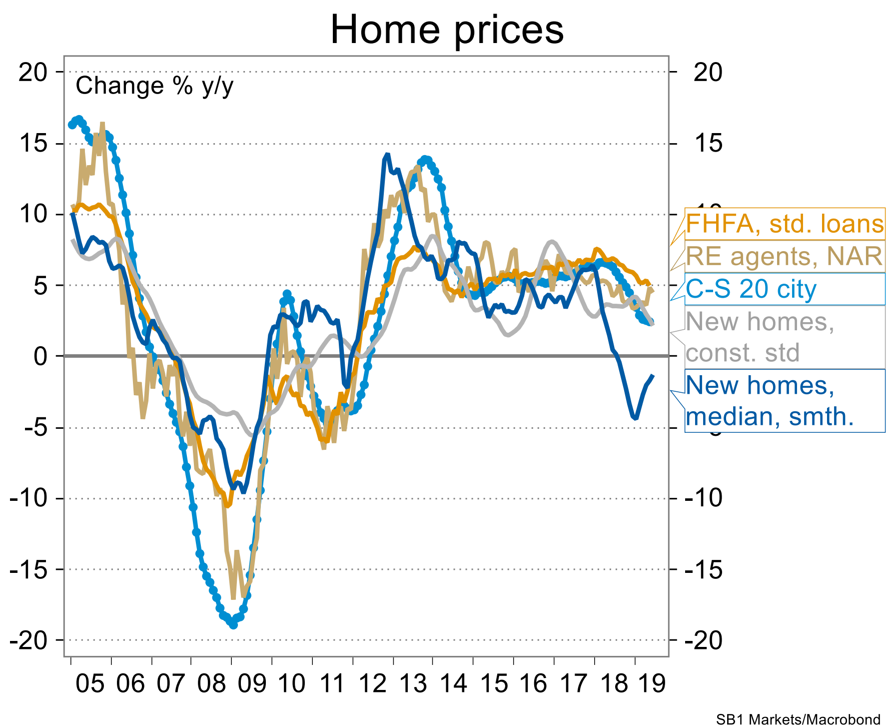



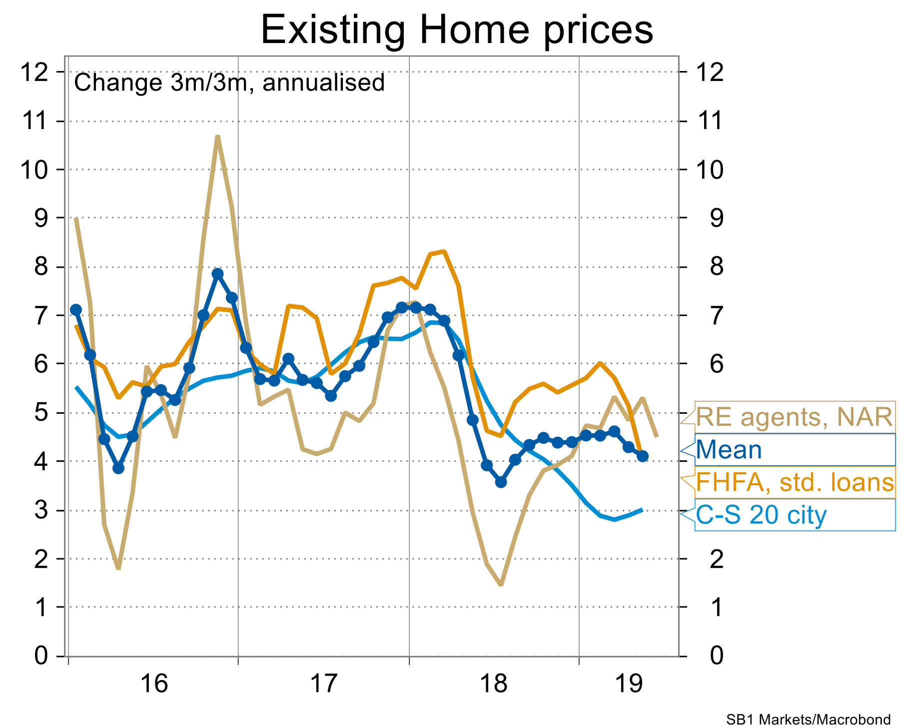

- The Case-Shiller 20 price index rose by 0.2% m/m (3.0% annualised), in line with expectations. Inflation bottomed out in January and has turned slowly and steadily up since. Annual growth down to 2.4%, from a 6-7% in early '18
  - » Other house price indices confirm that price growth has stabilised, although the pace of increase is mixed
- The CS 20 city (nominal) avg is some 5% above the 2006-peak level. The national avg (including more than the 20 cities) is 13% above the peak (while the real price levels are well below previous peak and much lower vs household income)

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

# House price growth has stabilised, albeit data are mixed

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

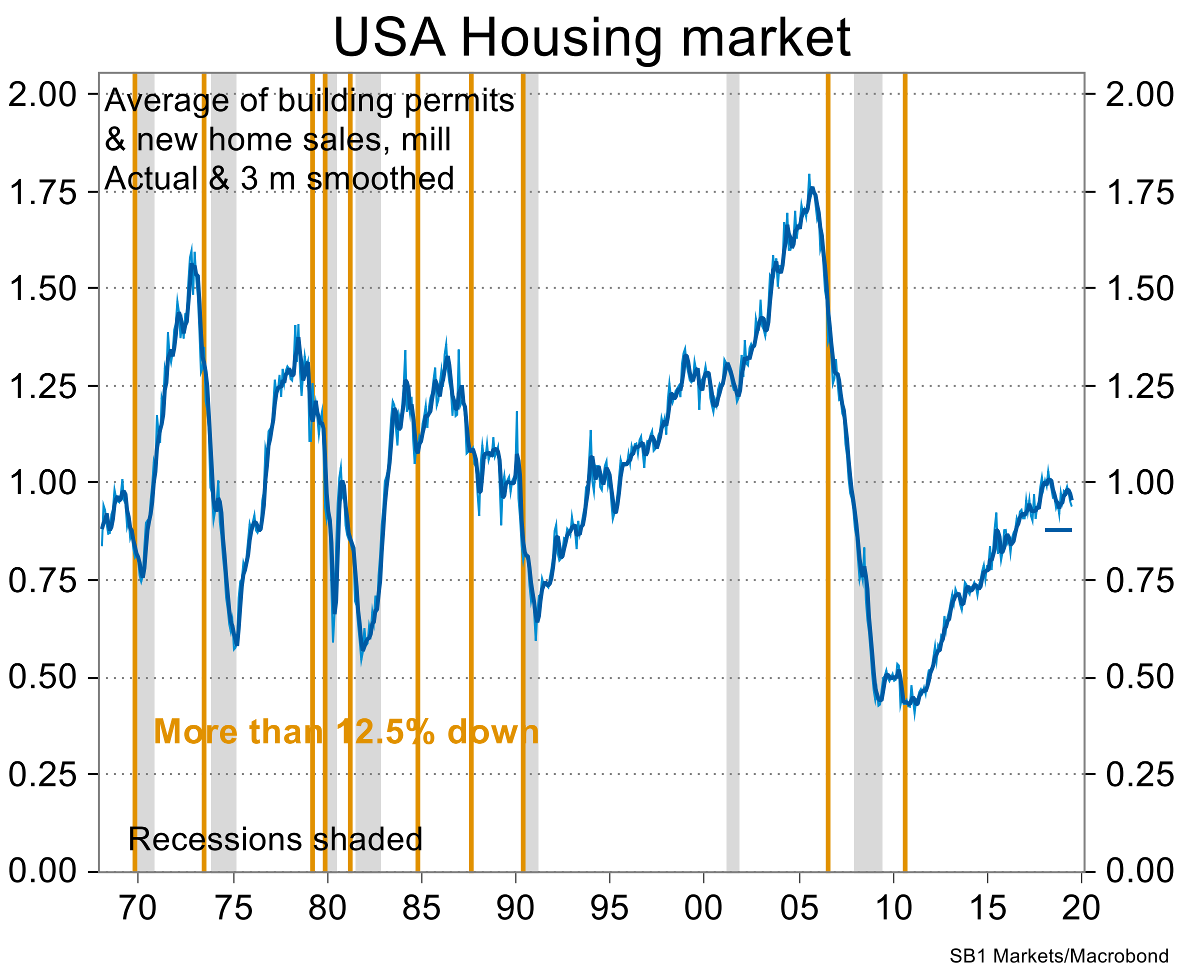


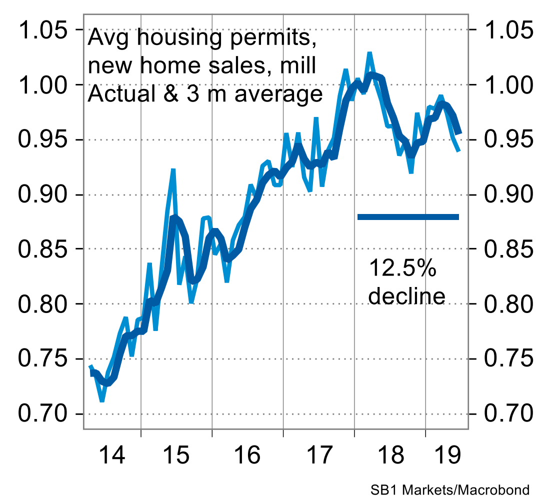




- The FHFA index (for homes financed by state guarantied loans) rose moderately in April after slowing in March. Underlying growth has slowed to below the 2018 trough
- The realtors' index (NAR) reported a steep price in May (these are volatile) and a small retreat in June, with underlying growth at 4.5% (3m/3m). The C&S index is more modest than the others. Keep in mind that the 3m/3m rate above is somewhat lagging
- New home prices have bottomed out too, still declining y/y

# Housing vs recession: Not reassuring past months but still no recession in sight

The market recovered in Q4 but has lost speed since

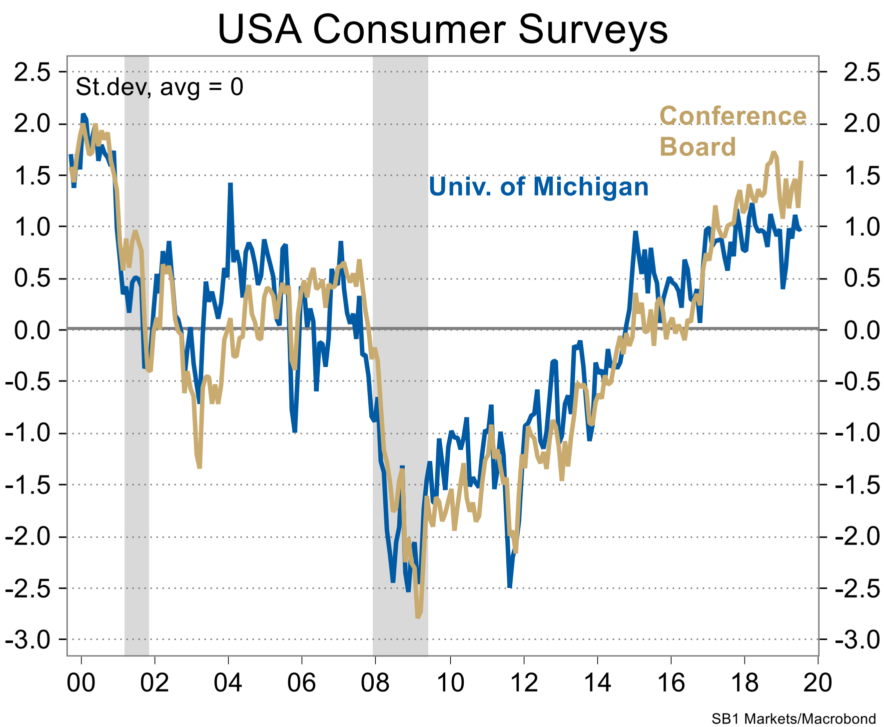


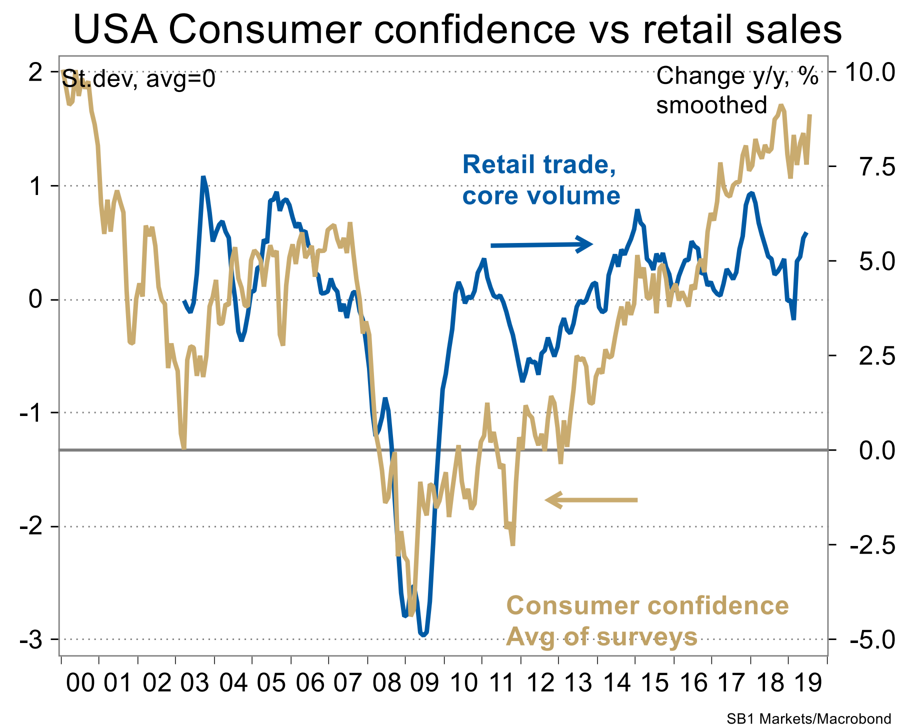




Memo: New Home sales are assumed down to 675' in in April, in line with consensus f'cast

# Conference Board's consumer confidence bounced back in July

## Conf. Board's index rebounded sharply, confirms the blooming sentiment which UoM reports

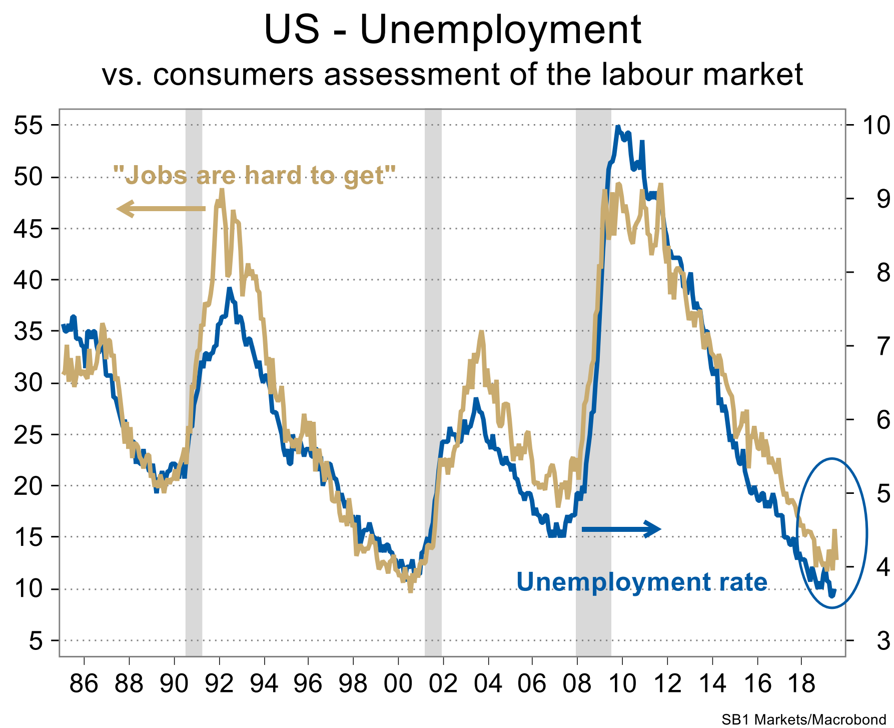


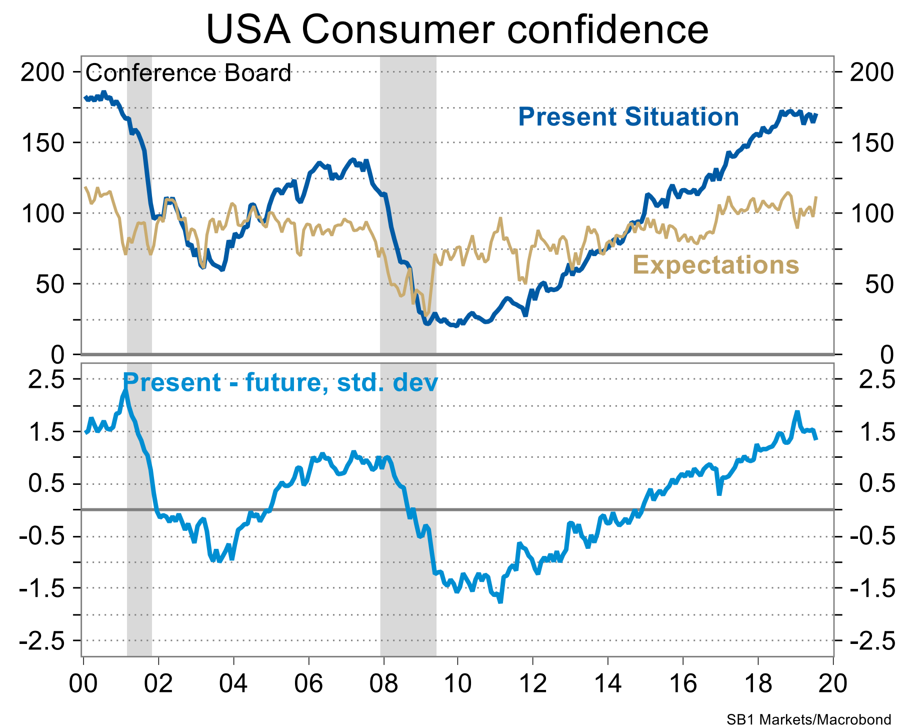




- The sentiment index delivered the steepest monthly increase since 2011, after a steep decline in June
- Renewed hope of a US/China trade deal (at least since early June, before the negotiations restarted) and still favorable labour and equity market conditions drove confidence up
  - » Both the view of the present situation and expectations improved in July, the latter increased the most
- Strong consumer confidence should support spending the coming months

# Consumers are reporting favorable labour markets and upbeat expectations

## The ‘jobs are hard to get’ assessment fell back down in July, after a worrisome increase in June

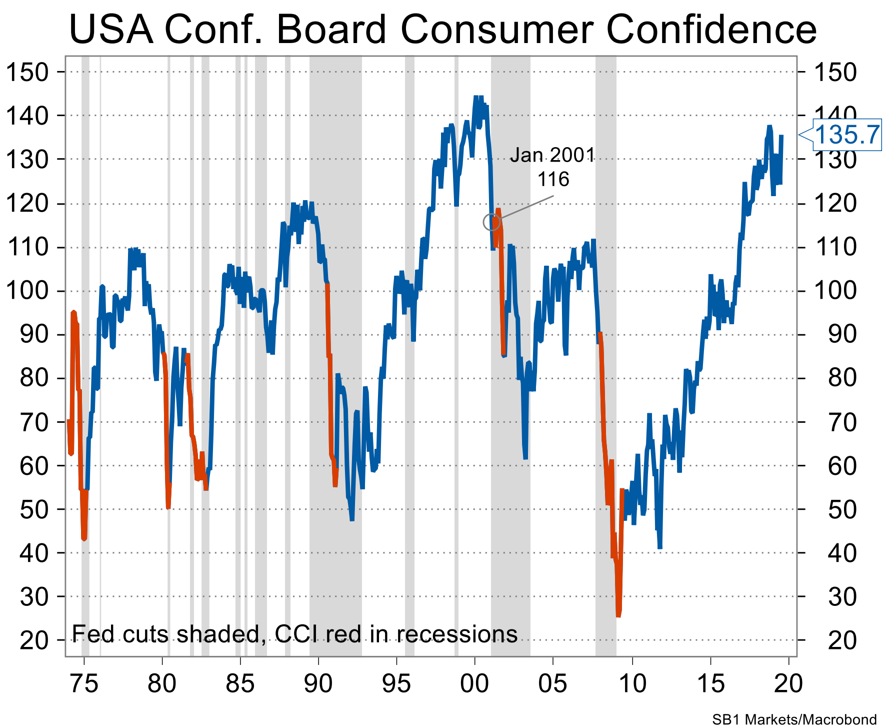


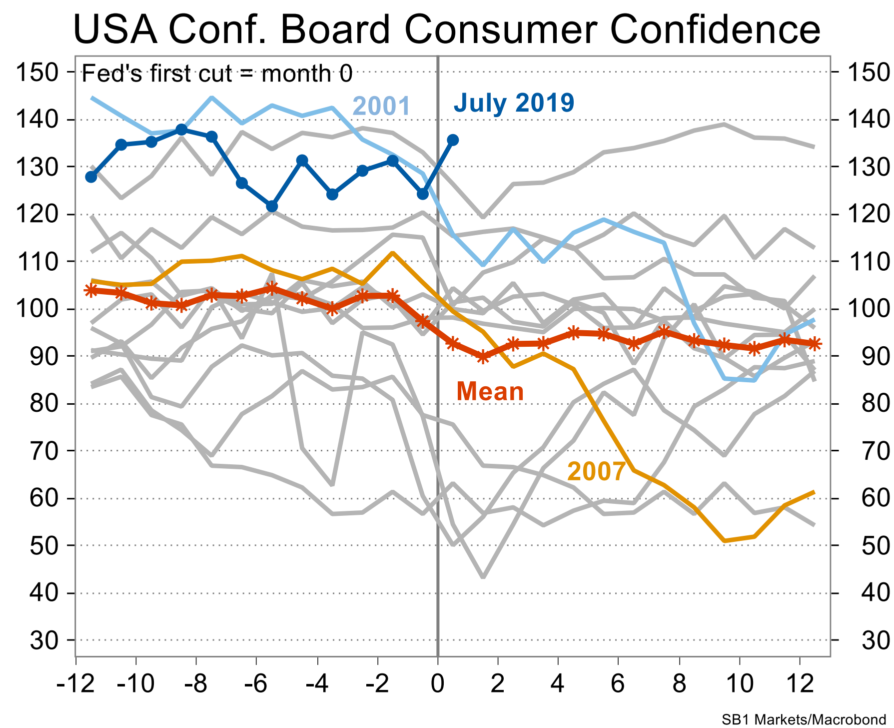




- The ‘jobs are hard to get’ assessment is quite well correlated to movements in unemployment and is usually not a lagging indicator. The index dropped 3 p in July, partly reversing the steep rise in June. The level is very low and does not imply any rapid labour market softening
  - » We have not seen weakness in most other labour market indicators yet; jobless claims are still very low and are not increasing, unemployment is still on the way down. Employment growth has slowed somewhat but is not weak
- Both expectations on the future and the assessment of the current situation improved, expectations rose the most

# The Fed has never before started cutting rates when confidence is this high

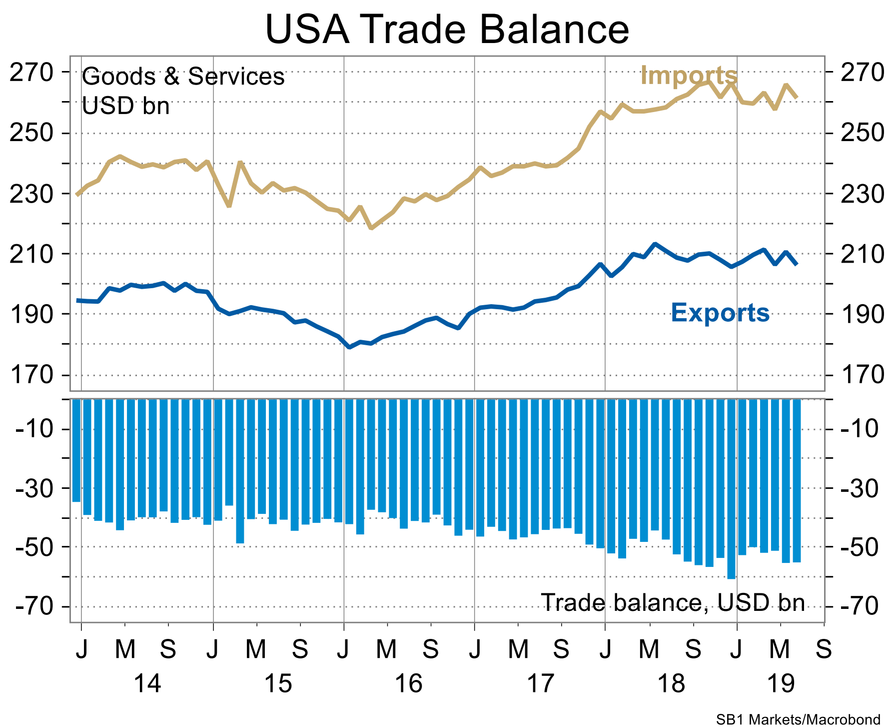
.. and sentiment often falls steeply after the Fed starts easing (due to a weaker economy, of course)

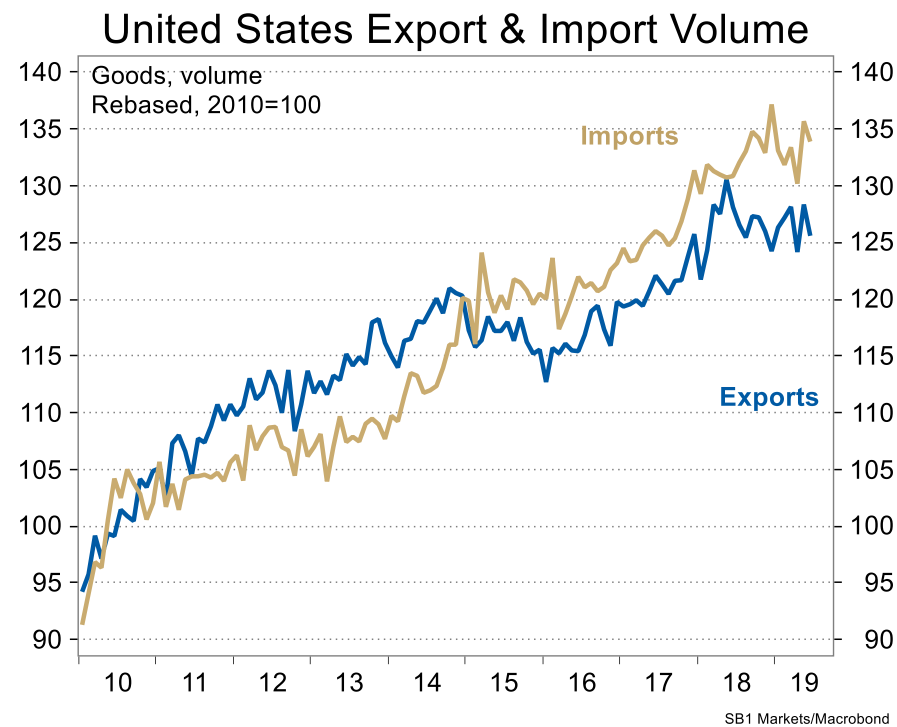


# The trade deficit stable in June, both imports & exports down

## Export volumes fell in Q2 – and underlying growth in imports have slowed too




- The overall trade deficit was unch at USD 55.5 bn in June
  - » Imports declined 2% m/m in volume terms, following the May hike
  - » Exports fell 2.7%. Exports have been trending slowly down the past year – no trade war boost!
  - » Net trade contributed on the downside to GDP growth in Q2, as export fell
- 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

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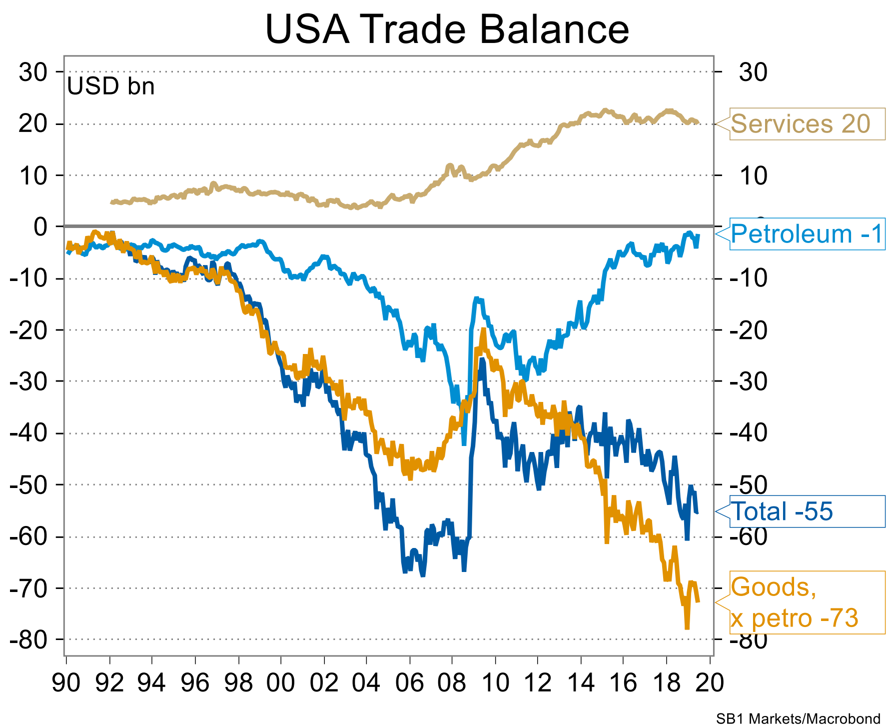
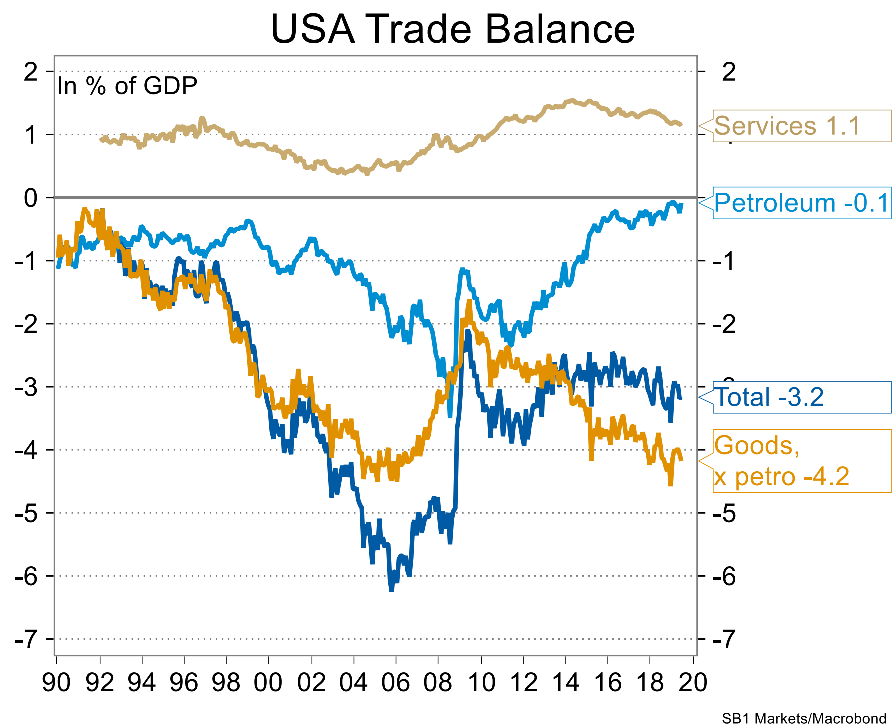
# If not for petroleum, a 'catastrophe', total deficit 3.2% of GDP, it used to be 6

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



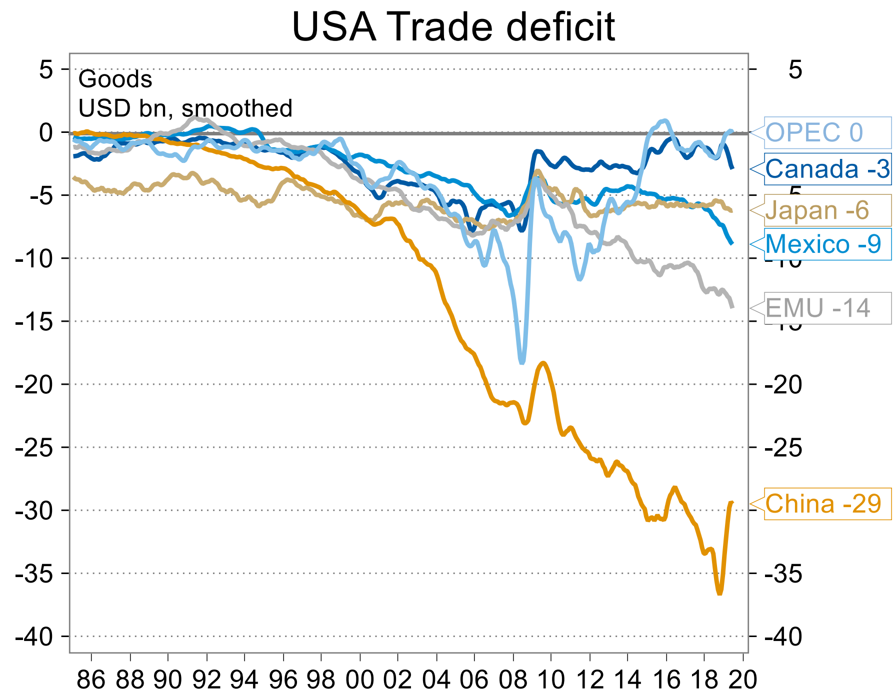




- In June, the goods x petro deficit widened marginally to USD -72 bn, or 4.2% of GDP, after reaching an ATH in Dec '18
- The deficit in petroleum trade is shrinking, at USD -1 bn in May
- The US has a surplus in services at USD 20 bn, equalling 1.1% of GDP (but it is now trending slowly down)

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

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


SB1 Markets/Macrobond

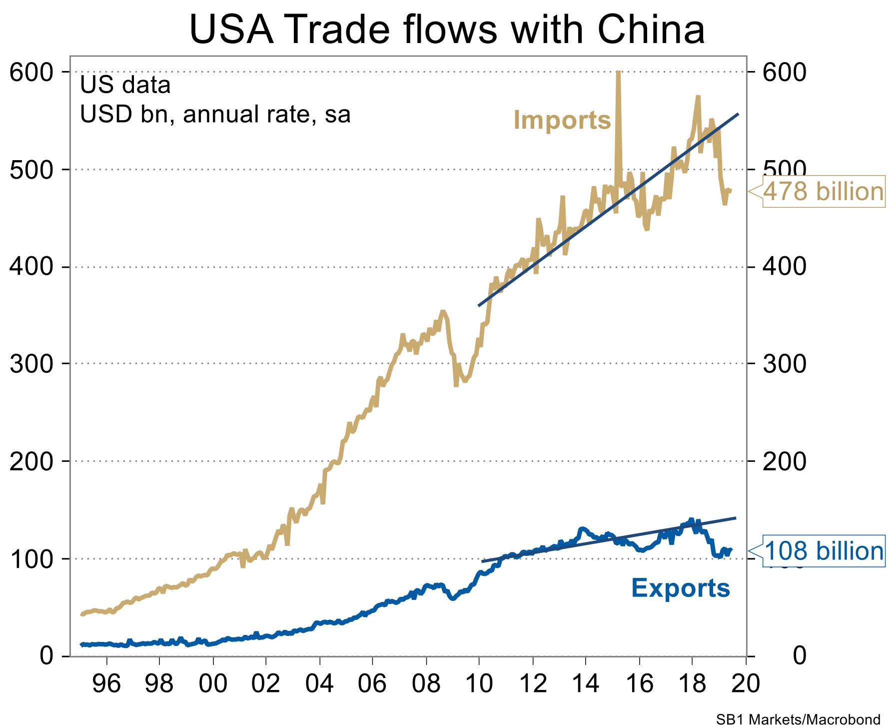


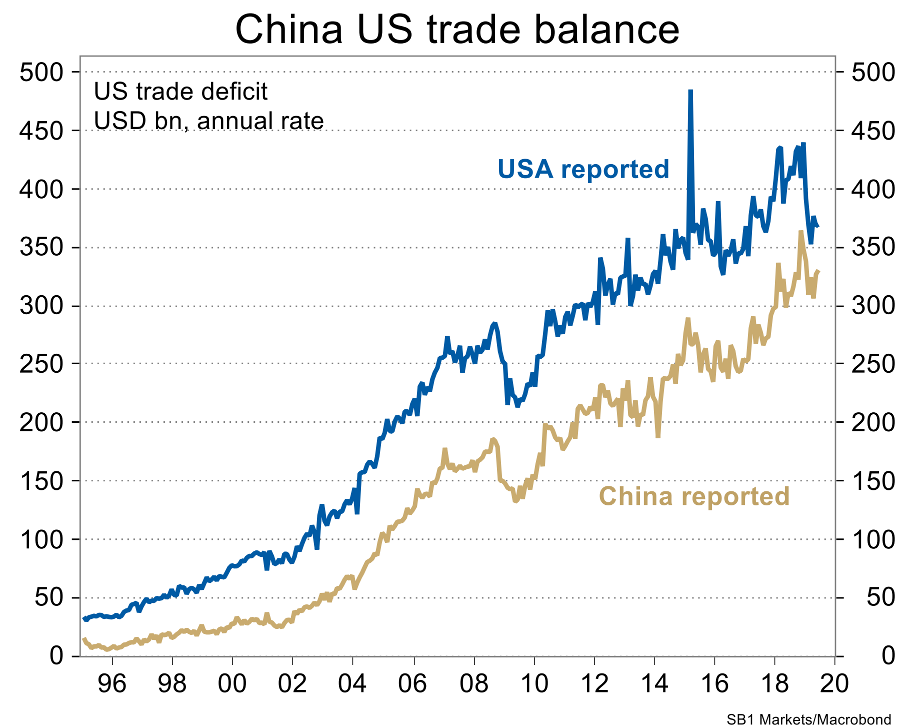

SB1 Markets/Macrobond

- 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'

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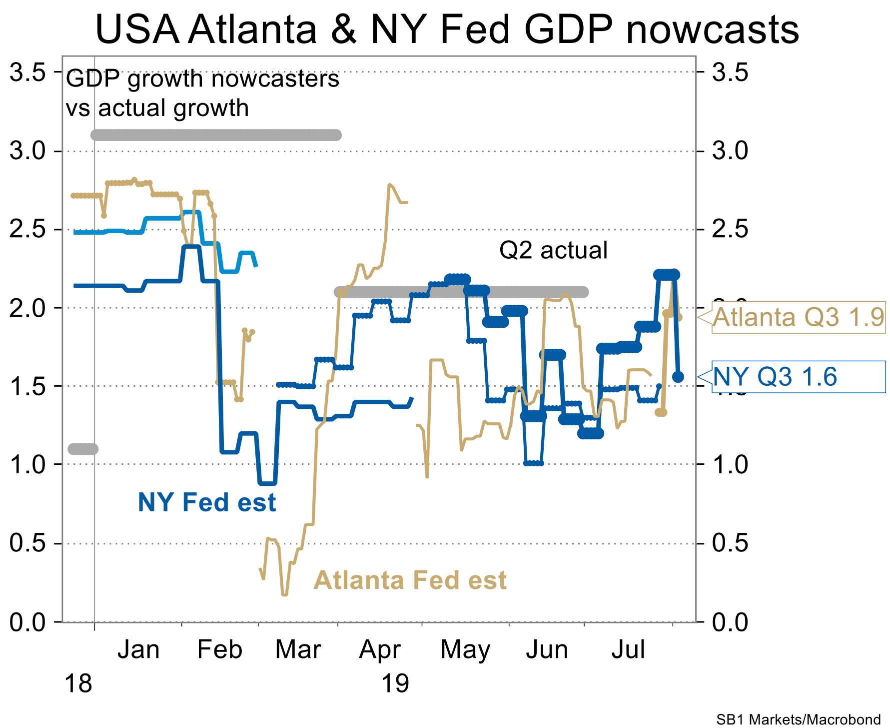
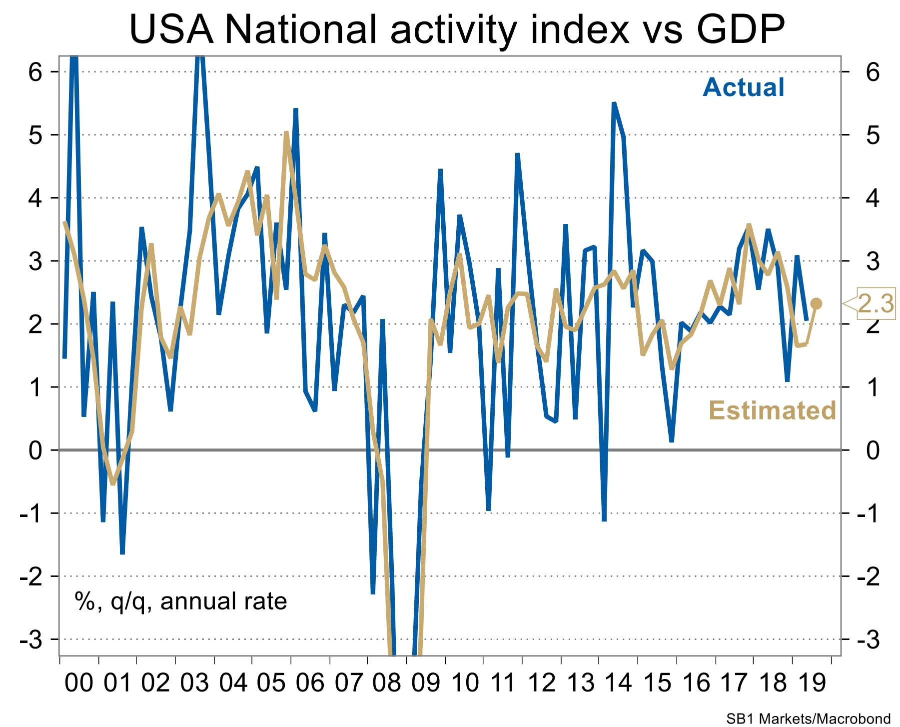
# Q3 growth below 2%. The nowcasters say so, at 1.6 – 1.9%

## Nowcasters said 1.3-1.4% inn Q2. The first official estimate at 2.1%



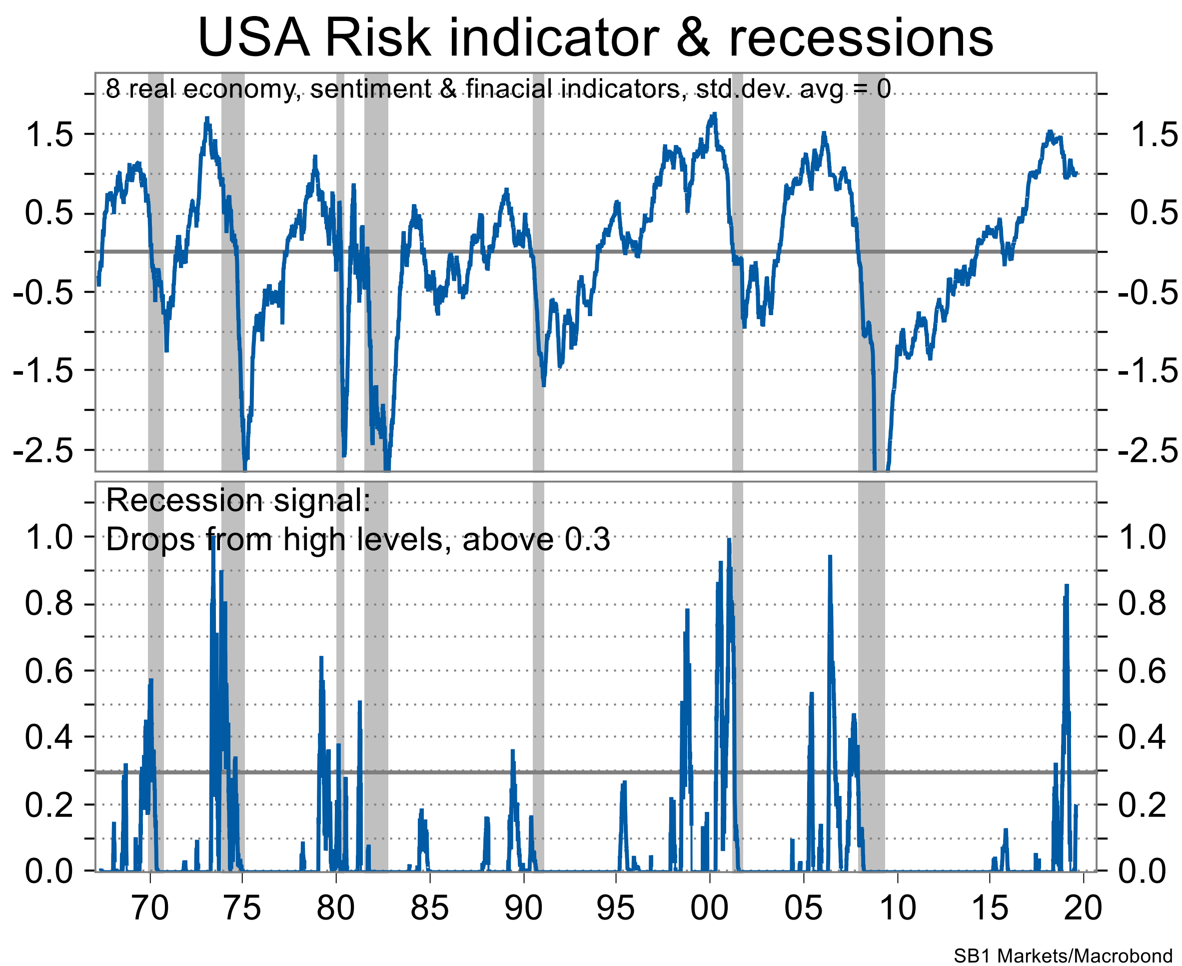




- The National activity reported 1.7% growth in Q2, and a 2.3% speed into Q3 (June level)

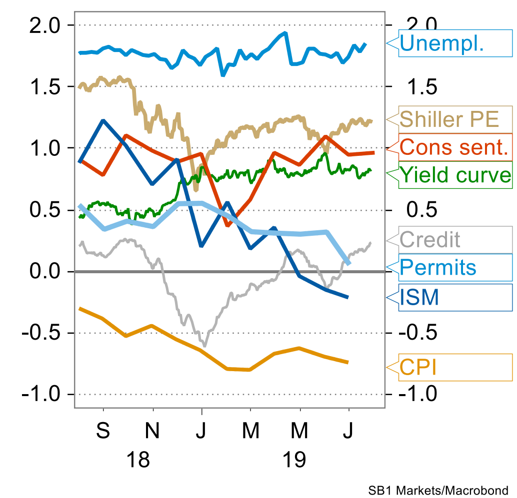
dd

# US Indicators: Not a recession warning, now

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








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

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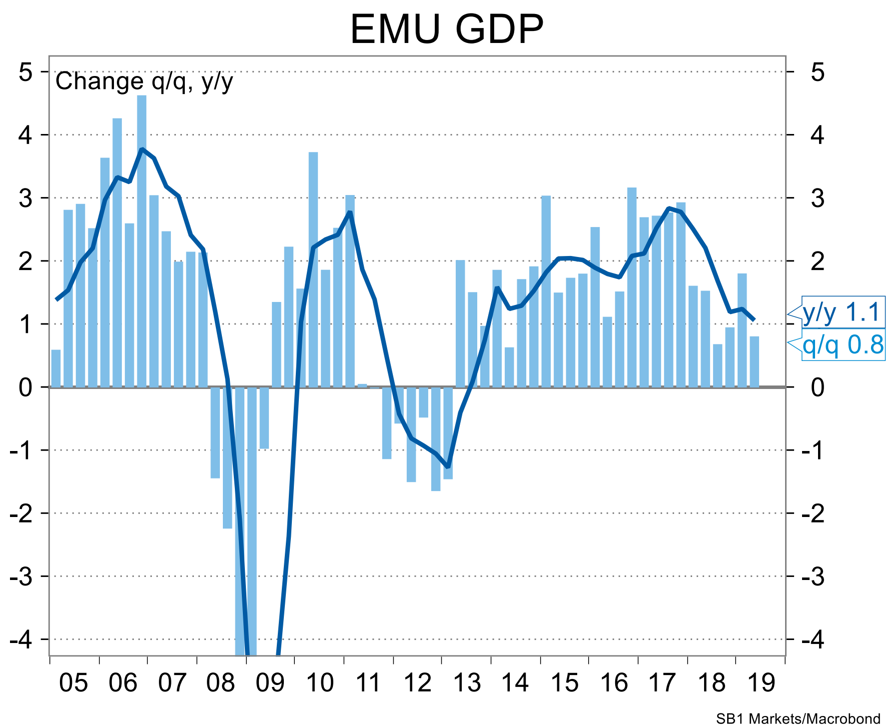
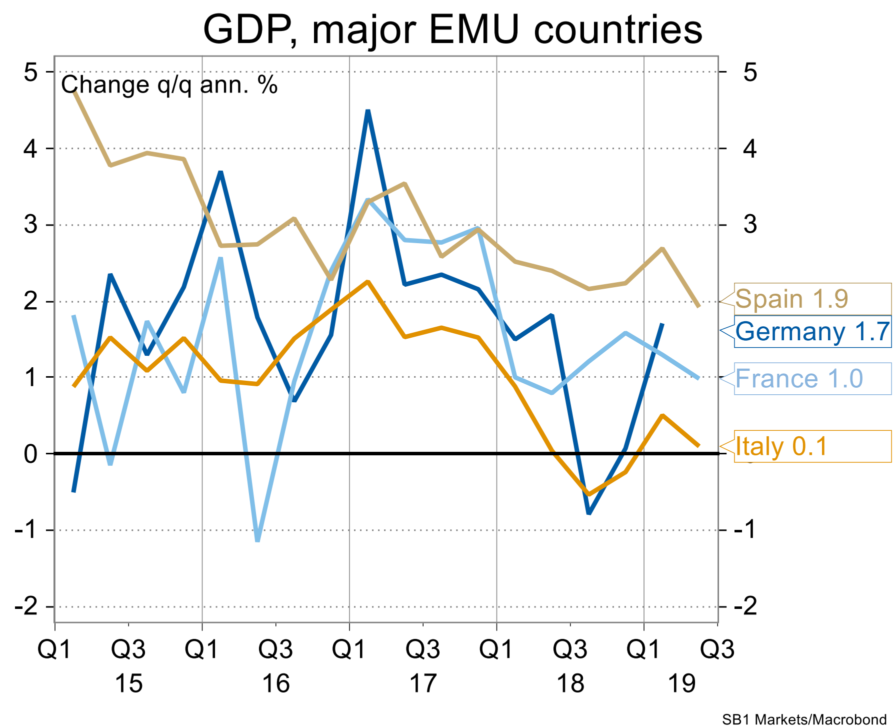
# GDP growth cooled to 0.8% in Q2, as predicted

GDP rose 0.2% q/q (0.8% annualised), down from 1.8%. All big 4 slowed, but all above zero

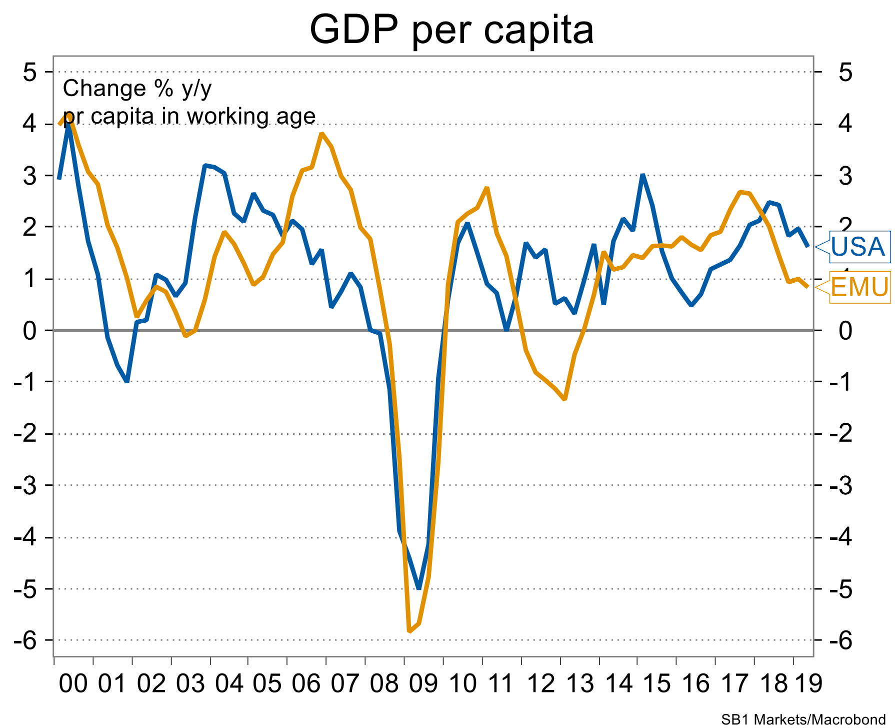


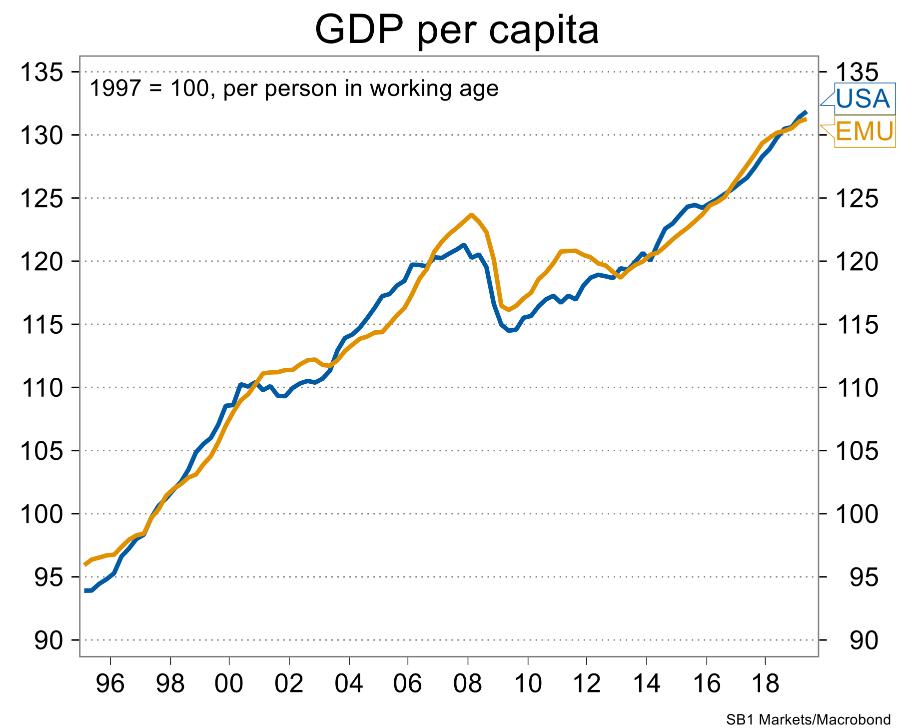




- GDP rose 0.8% q/q annualized, just in line with expectations. Q1 revised up to 1.8%, from 1.6%
  - » Meagre Q2 GDP strengthens the case for the ECB to loosen monetary policy at the September meeting. A 10 bps interest rate cut is almost fully expected (by some 85% probability)
- Both France, Italy and Spain has reported slower GDP growth in Q2 than in Q1. Germany has not yet reported Q2 data, but we assume growth slowed to 0.8%, from 1.7% in Q1, in line with the average slowdown in the Eurozone

# EMU vs US: Spot any important differences?

US has been growing faster the past 5 quarters (not adjusted for fiscal or monetary policy difference)

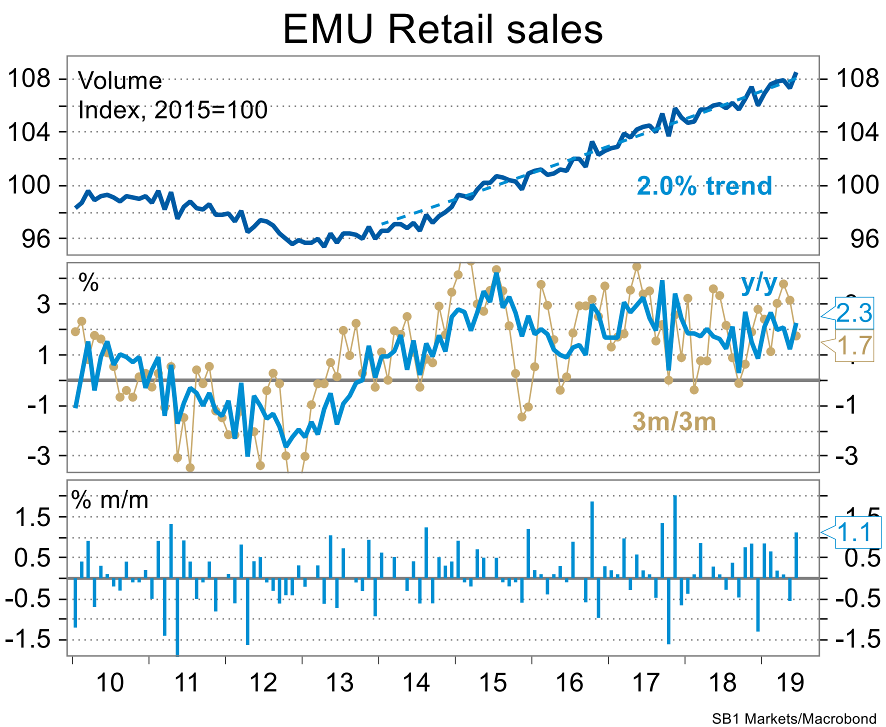


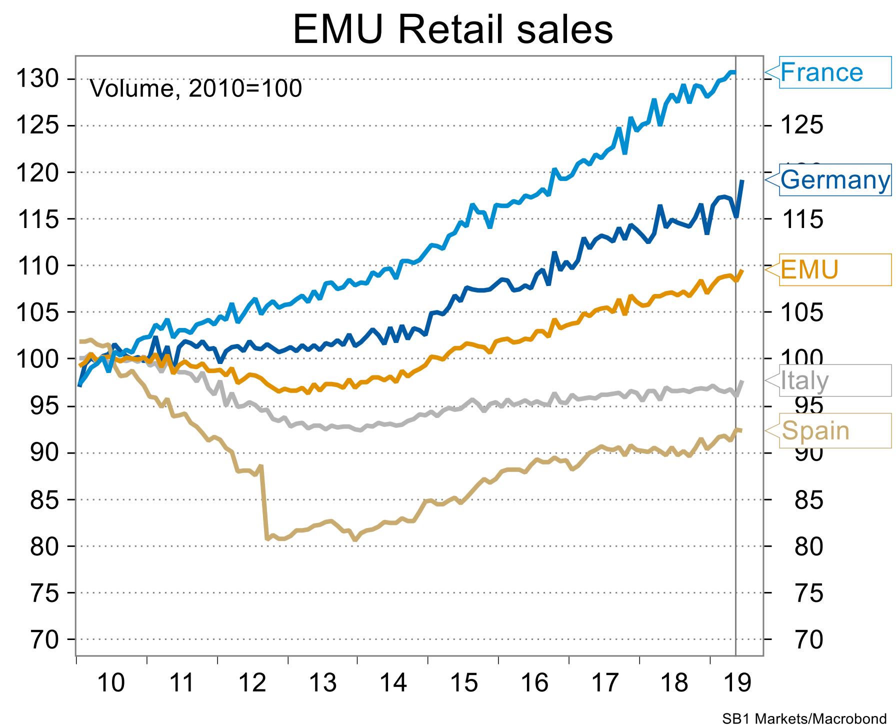




- However, over the past 20 years – or more – GDP per person in working age has been growing at exactly the same speed, just with some unimportant +/- differences through the cycles

# Retail sales spiked in June, bringing Q2 up to a decent speed

Retail sales increased 1.1% m/m, thanks to a strong rebound in Germany (and a spike in Italy!)

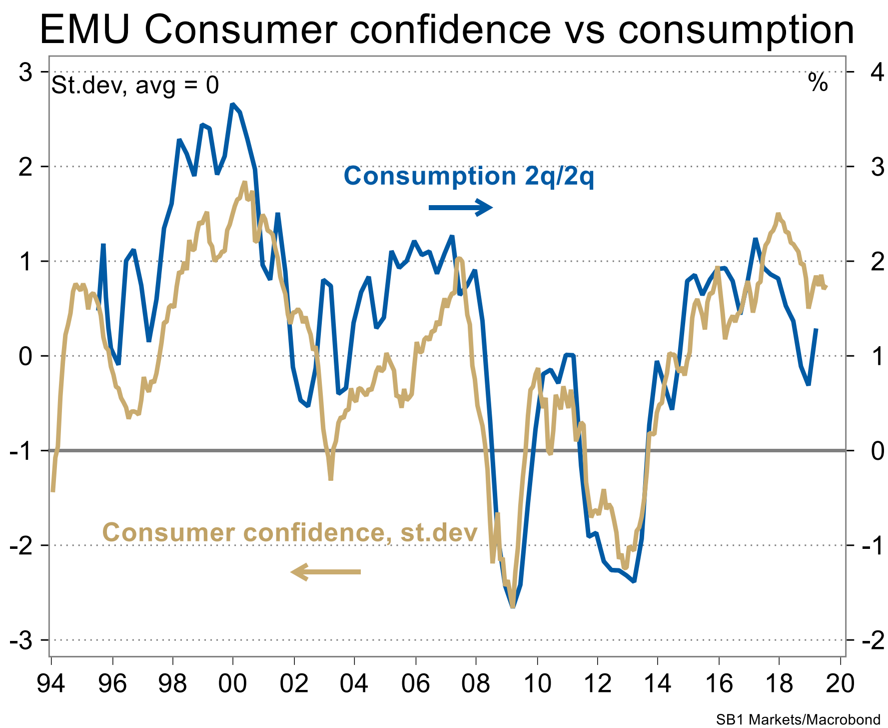


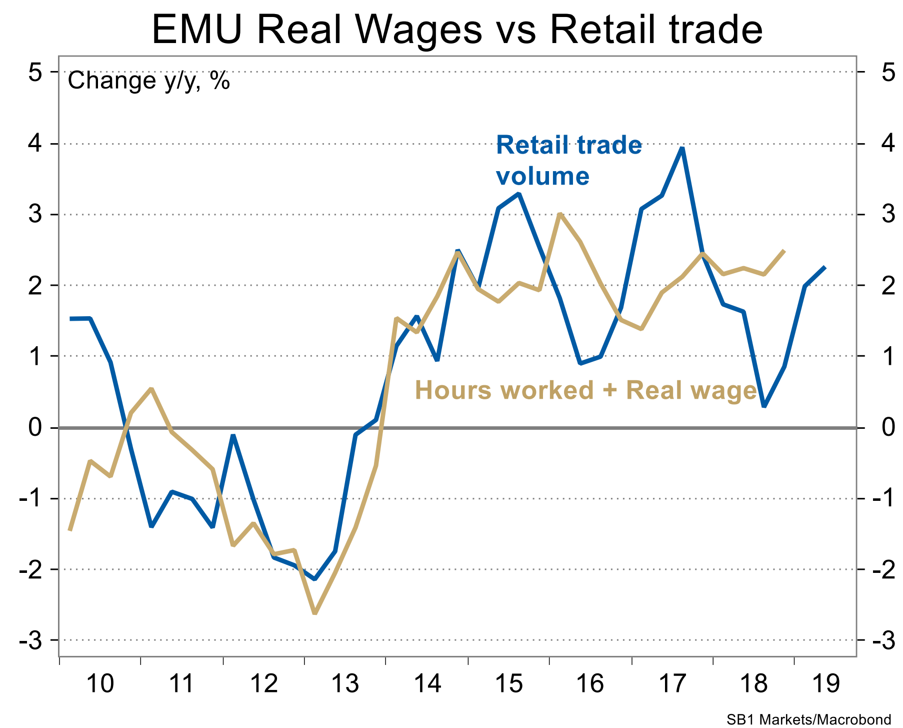




- Retail sales volume came in far above expectations in June, up 1.1% m/m. Strong June sales sent Q2 up to 1.7% annualised, thus, contributing moderately to Q2 GDP growth (which grew 0.8%). The 2% trend path is more than intact, indicating that the weakness in the Eurozone is not stemming from slower household demand (as PMIs/other surveys also signal)
  - » Germany reported a 3.5% spike, a correction is likely in July but sales are anyway trending up. Italy soared too, Spain flat
- Lower price inflation is probably supporting consumption, as well as rising real wages and employment

# Consumer confidence, income signal moderate consumption growth

.. However, the upside is probably limited

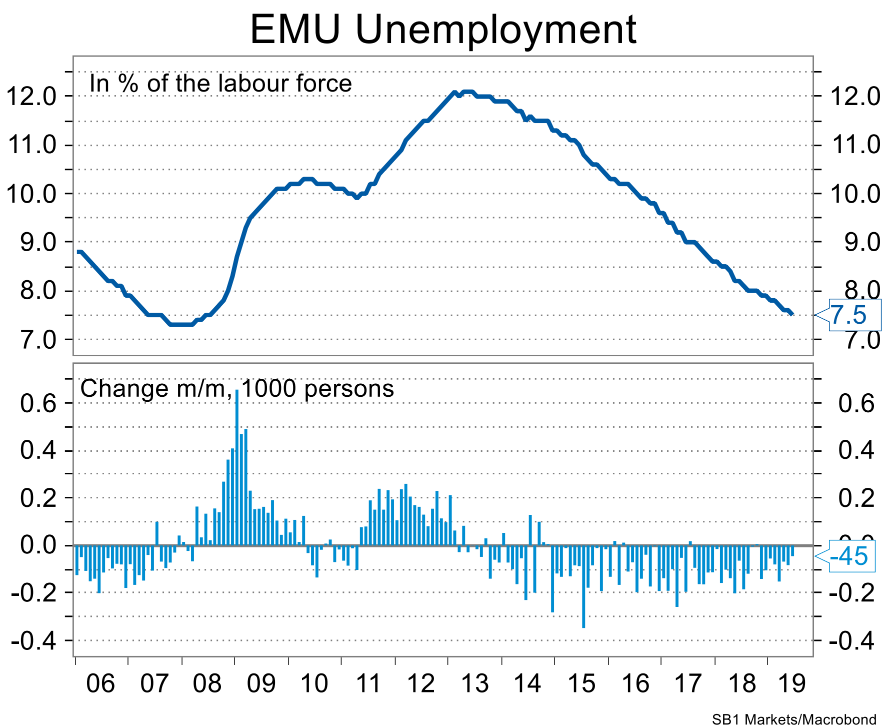


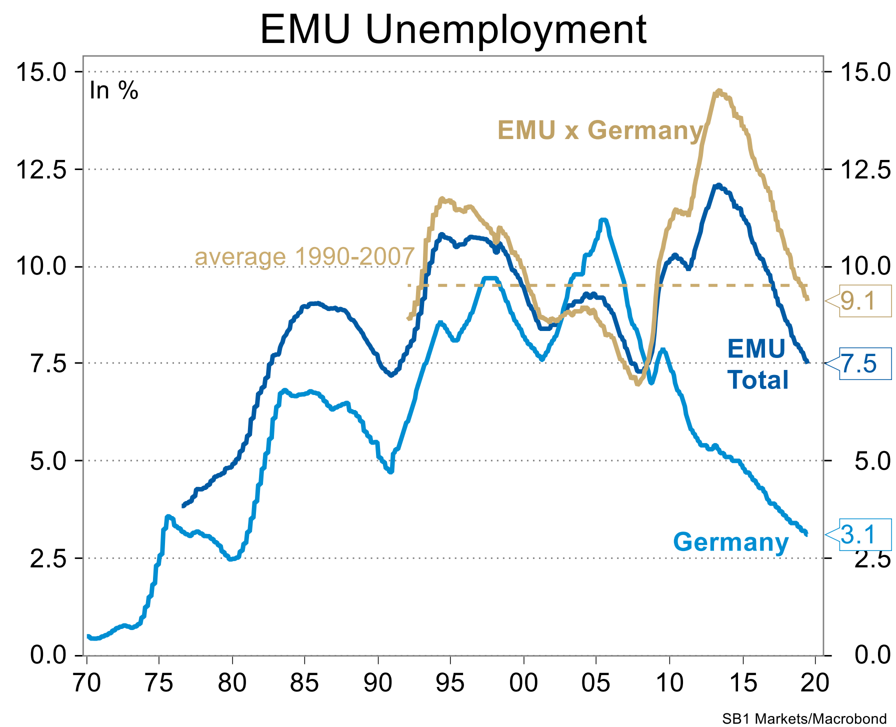




- Consumer confidence has improved and the level is not low, even if the index fell rapidly through 2018
- Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed as sales

# Unemployment still slides down amid growth slowdown, at 11 year low

However, the pace of decline may be easing. Unemployment fell to 7.5% in June, May revised up

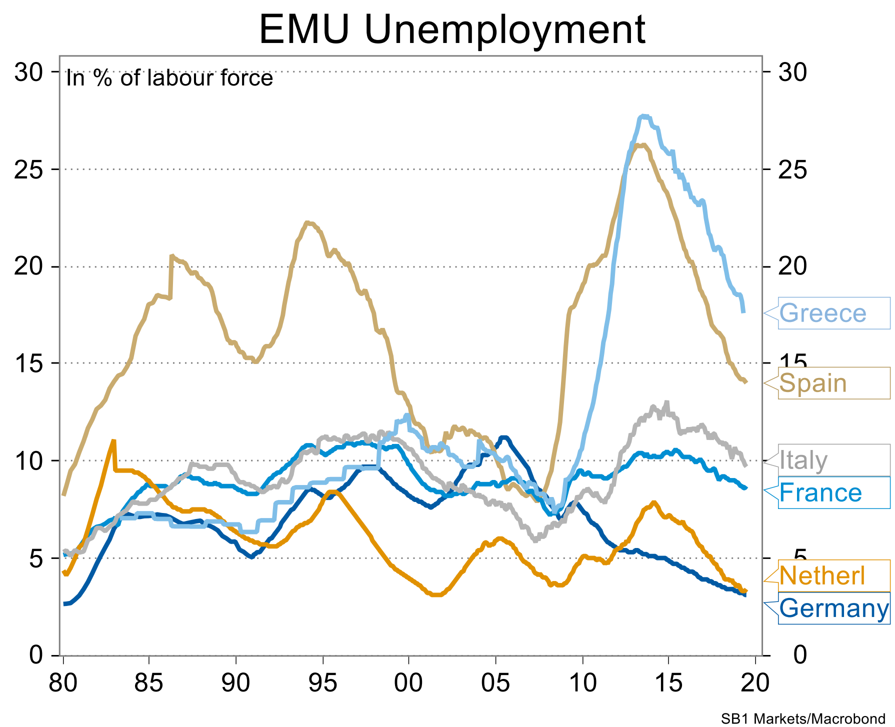


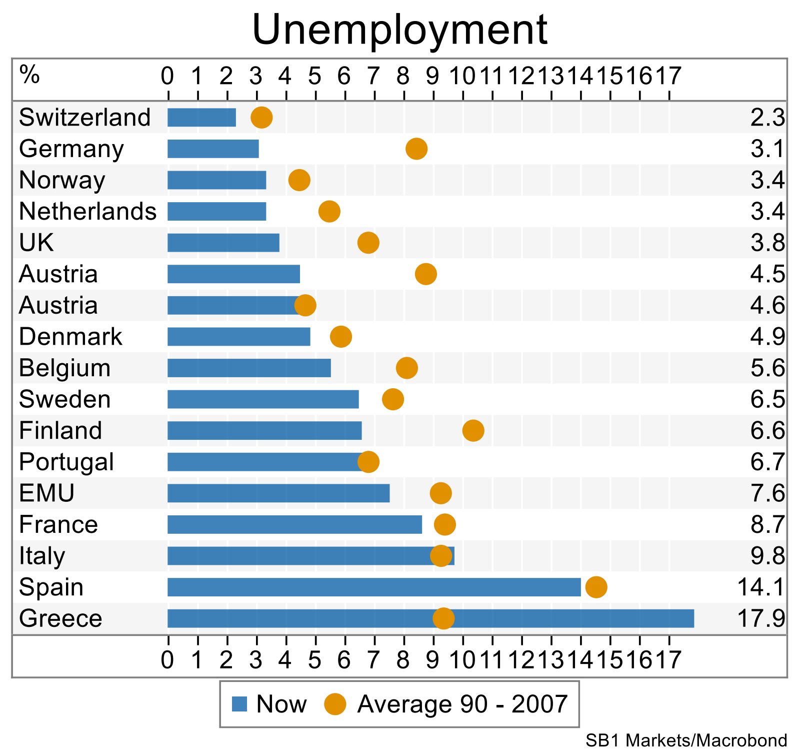




- The unemployment rate inched down to 7.5% in June, in line with expectations, albeit prior months were revised up by 0.1 pp. The number of unemployed fell by 45' persons, a modest decline. Unemployment is still falling steadily, however, the pace of decline has softened somewhat
  - » Unemployment is sliding down 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 was flat at 3.1% in June, the lowest level in almost 40 years

# Unemployment is heading down everywhere

## Unempl. is higher than ‘normal’ (avg 1990 – 2007) only in Greece and marginally Italy

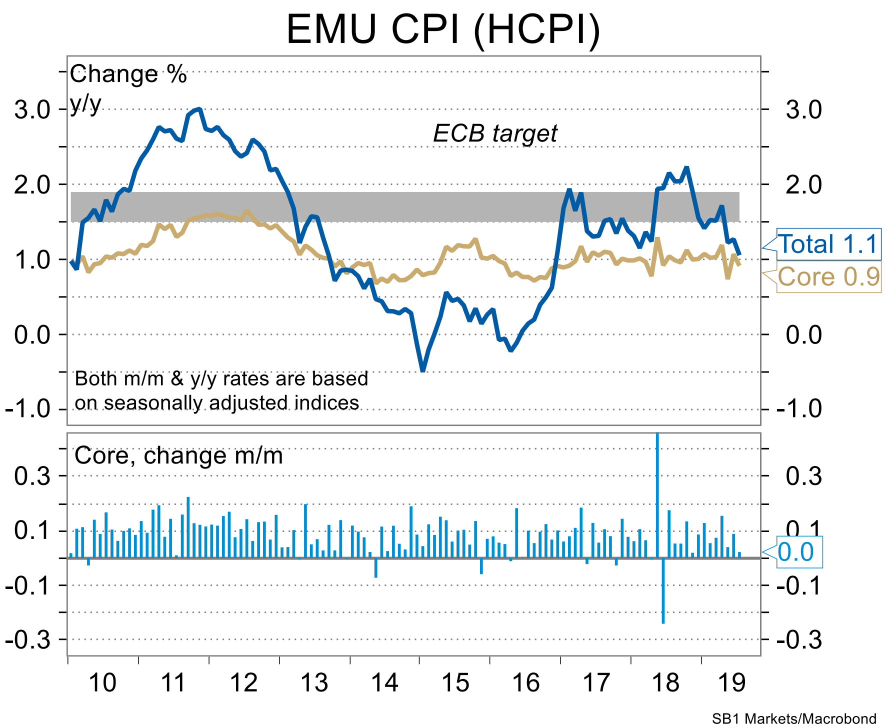


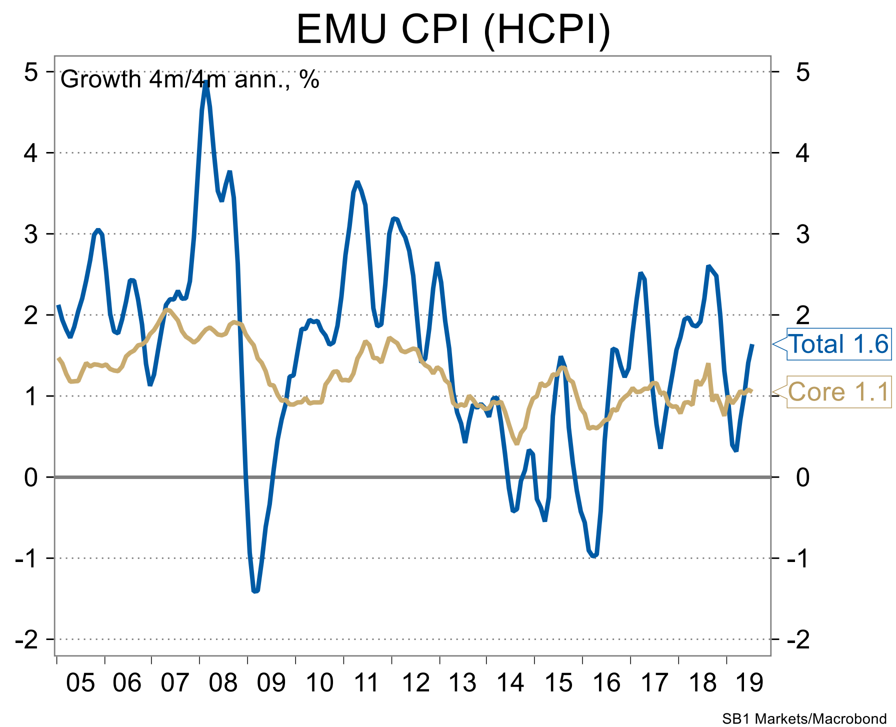




- Unemployment rates in Greece and Spain have fallen sharply since 2013, from awfully high levels. Unemployment is still very high in Greece, at 18% (down from 28% in 2013!). Spain down from 26% to 14%
- Unemployment in Germany and the Netherlands have fallen to very low levels, limited downside potential!

# Core CPI stalled in July, trending flat at best

Core inflation ticked down to 0.9% and total CPI fell to 1.1%, bolstering the case for the ECB to act

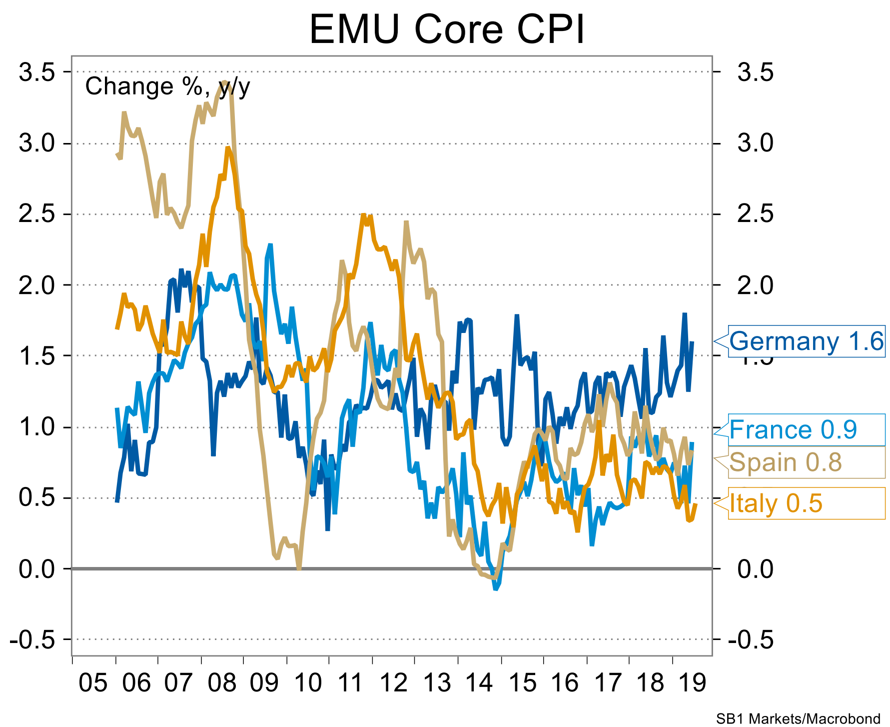


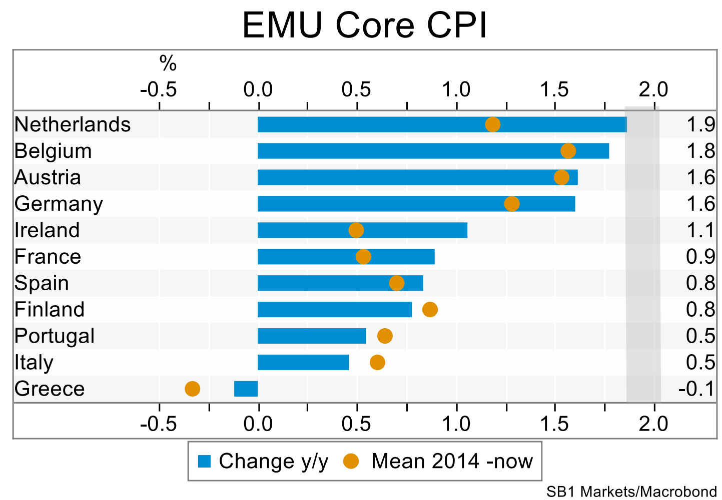



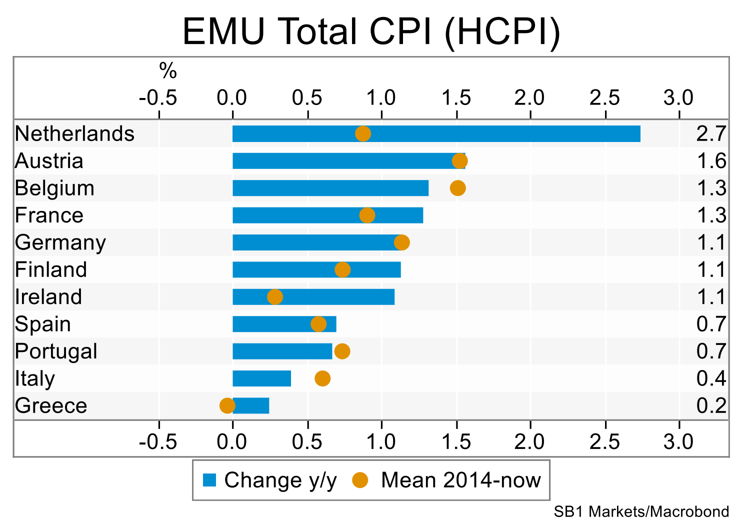

- Core CPI was muted m/m in July. The annual rate fell to 0.9%, a 0.1 pp decline, was expected unchanged. Core inflation is trending flat (and even downward recent months) and growth measured 4m/4m is meagre
  - » Subdued inflation is increasing the pressure on ECB to step up support – if the eurozone economy does not strengthen substantially until September (which we have no indications of)
- Total CPI growth fell marginally to 1.1%. The oil price decline in the spring has sent total inflation down from above 1.5%. We expect headline inflation to decline further the coming months, to well below 1%

# Core inflation below target almost everywhere

## However, inflation is lower than 'normal' in just Italy, Portugal and Finland. Germany heading up



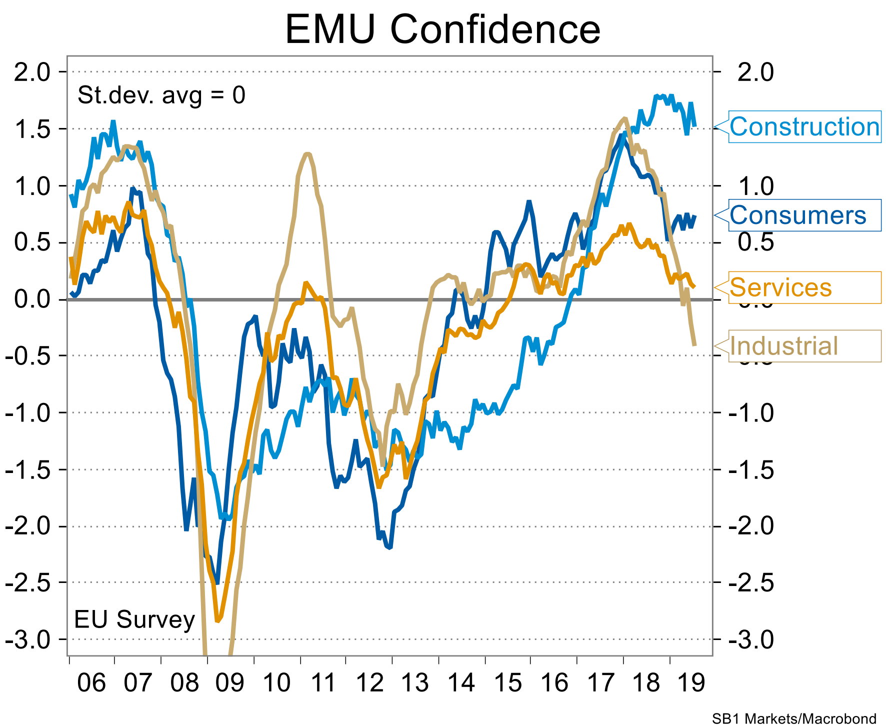



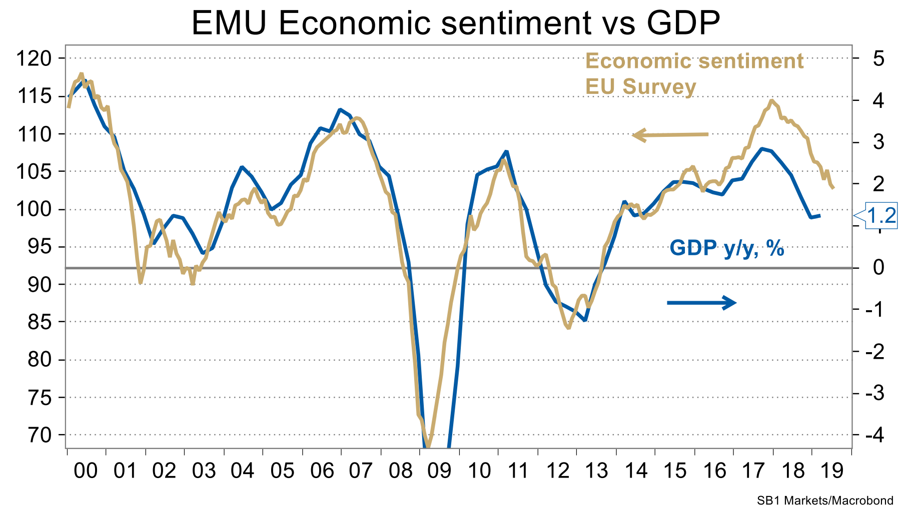



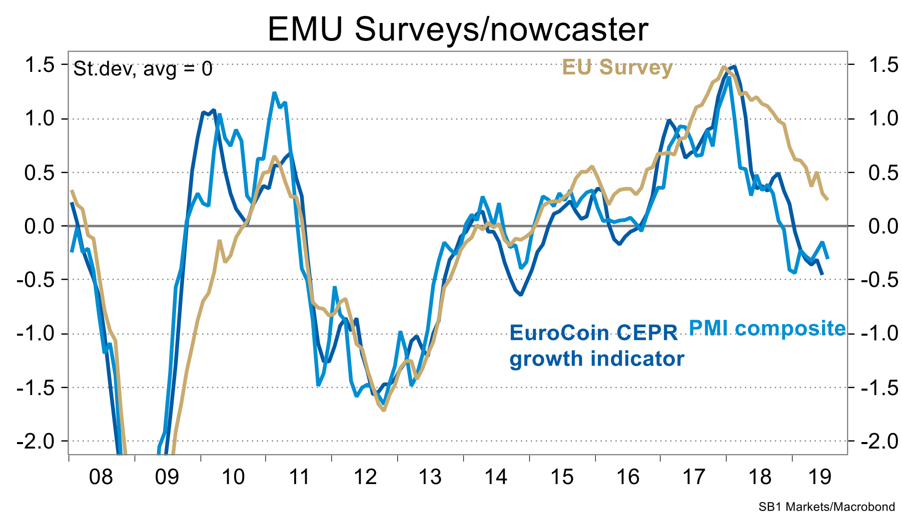

- Core inflation in Germany is up some 1.6% y/y, and has no doubt accelerated
- In France, inflation is meagre at 0.9%, albeit increasing swiftly in June
- In the other major countries core inflation has slowed

# EU economic sentiment follows PMI and other surveys down

## Just like other surveys, the ECI reporting deteriorating manufacturing conditions




- Total sentiment fell to 102.7 in July, as expected. The survey is still above the average level, however, it has been far too optimistic vs growth the past two years; the direction is probably more essential
  - » The survey is usually lagging the PMI and CERP
- Huge sector deviations; manufacturing is plummeting and services are not strong either, while construction is still soaring. Consumer confidence is stable and not weak, well above avg level
- The CEPR GDP nowcaster reported a 0.6% q/q GDP in June, most likely closer to the ball!

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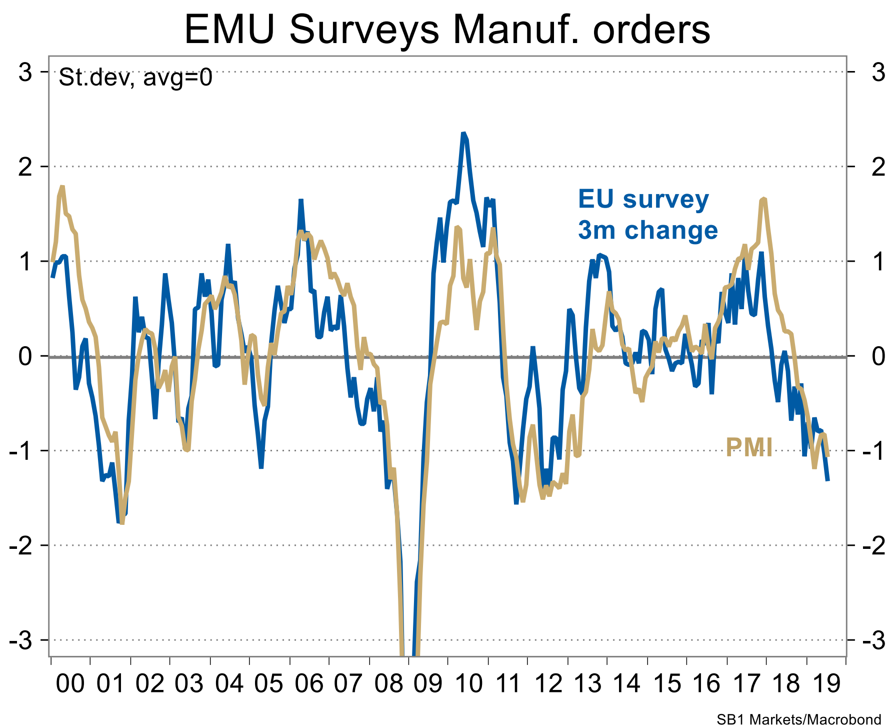
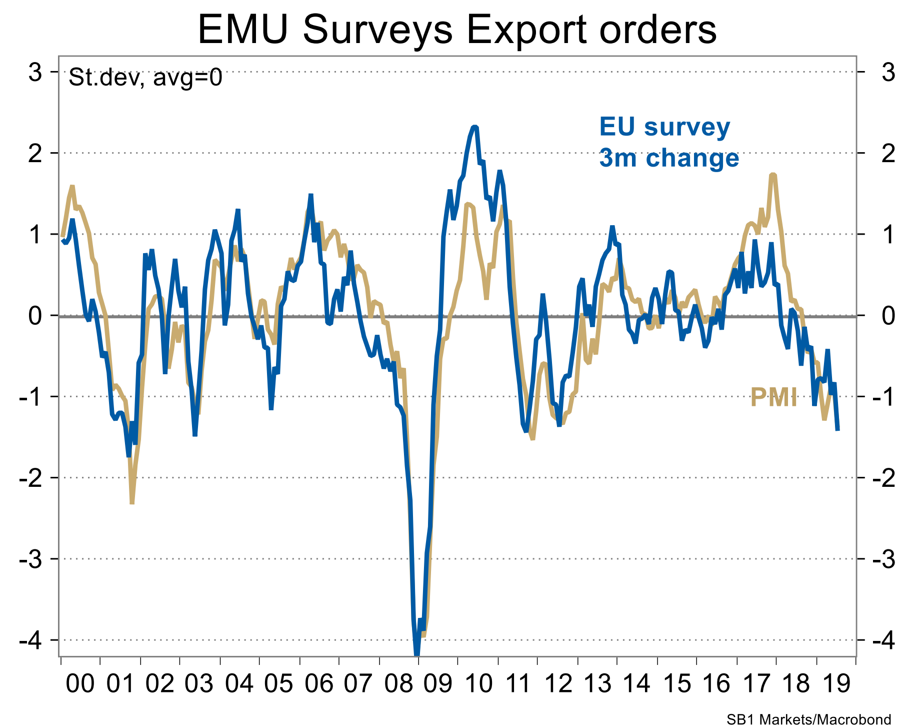
# EU survey reports contracting manufacturing orders and a drop in export orders

Both PMI and the EU survey are at the weakest levels since the 2012 euro crisis

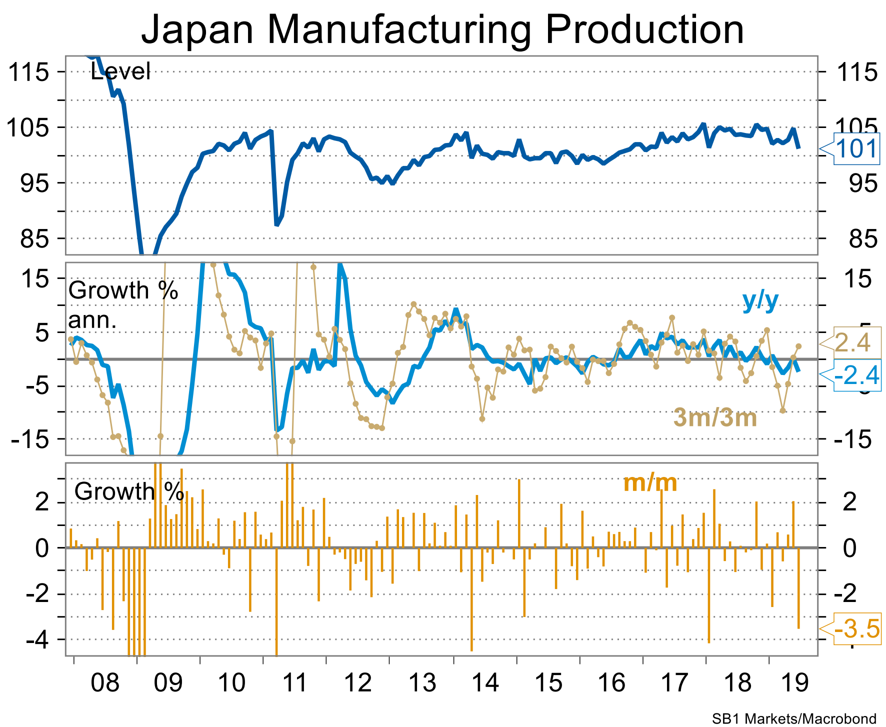


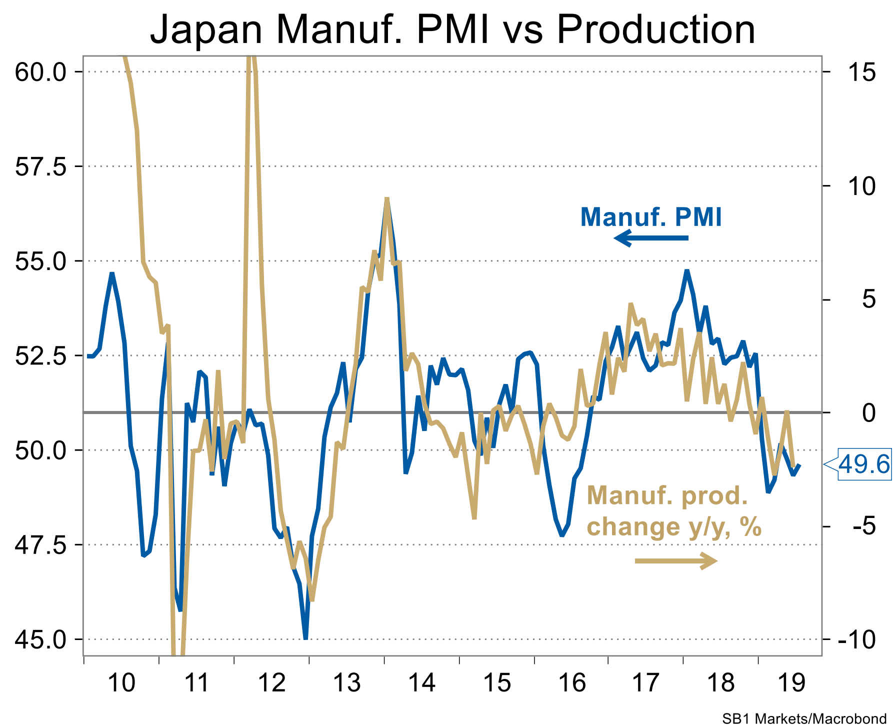




- Both total and foreign manufacturing orders have slipped
- At the charts above, we compare the 3 m change in the EU order index to the PMI

# Manufacturing production plunged in June. Trend down as PMIs have noted

Production slipped 3.5%, confirming the May jump was a one off. A mild recovery in Q2, trend down

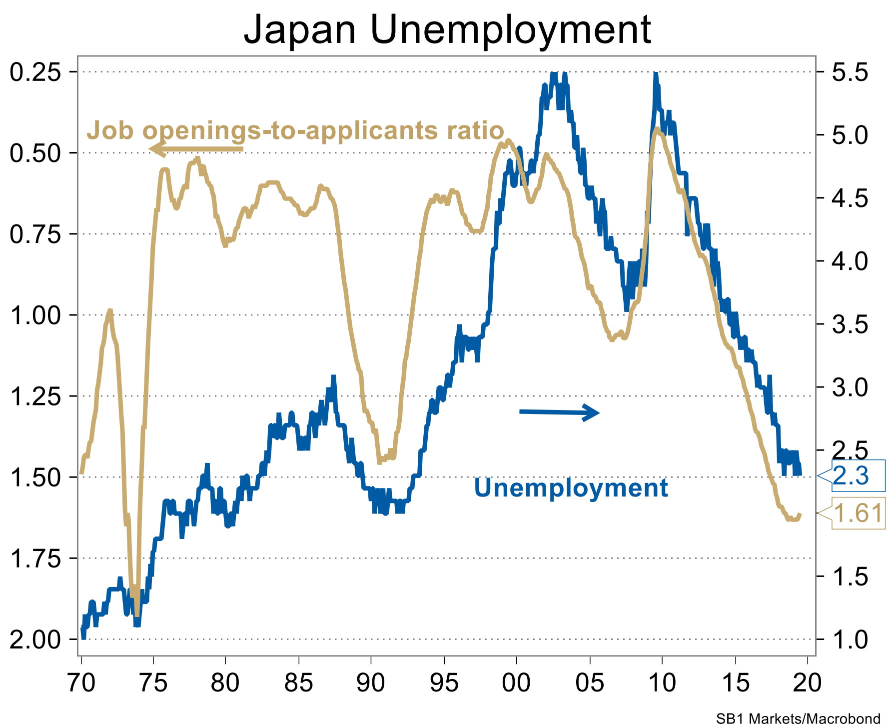


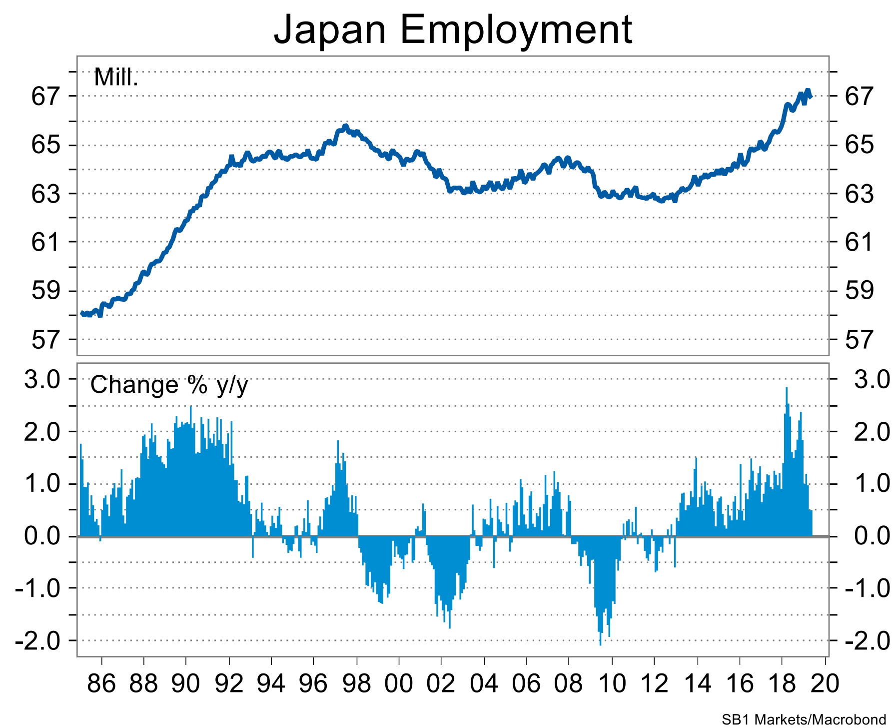




- Manufacturing production plummeted 3.5% m/m in June, much worse than expected, although a decline was anticipated after the surprising lift in May. With the weak June reading, Q2 ended up 2.4% annualised, a mild recovery from the 'disastrously' weak Q1. Still, production is trending slowly down over the past year
- Neither surveys nor orders are signalling any recovery in the Japanese manufacturing sector. Export orders and export volumes have fallen sharply – while domestic orders have kept up somewhat better

# Unemployment may have flattened out, employment growth slowing

## Unemployment inched down to 2.3%, to the lowest level in 26 years




- Unemployment has been more or less flat over the past year, at the lowest level in 26 years
  - » The job openings-to-application ratio is flat at the highest since early 1970'ies, signalling a tight labour market
- Employment growth ticked up in June after losing some steam the prior months. Employment rates have been soaring, and are at record high levels for all ages/genders, with those over 55 y in the lead. And of course, participation rates straight up too
- Wage inflation has fallen recent months
- Barring the high corporate savings rate (partly offset by the public sector deficit – Japan is running a huge current account surplus) - what's really the Japanese problem – when employment is 'more than full'?

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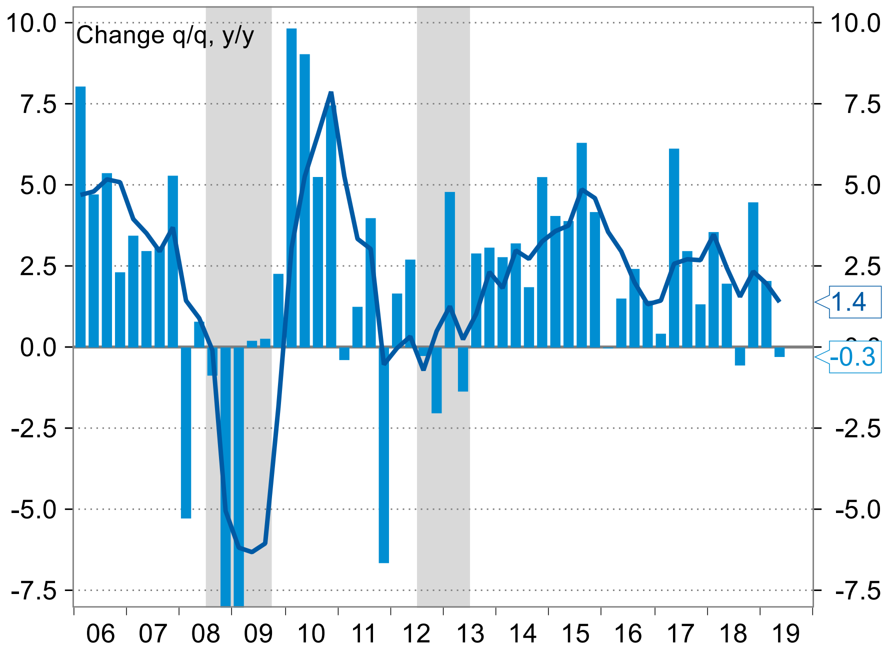
# GDP contracted marginally in Q2, adding to signs of a sagging economy

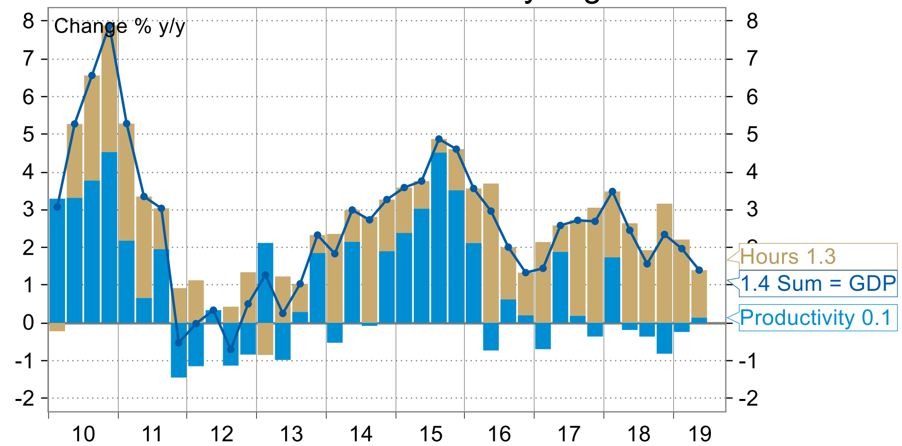
## GDP fell 0.3% q/q (ann.), far below f'casts – and productivity growth remains disturbingly weak

Sweden GDP



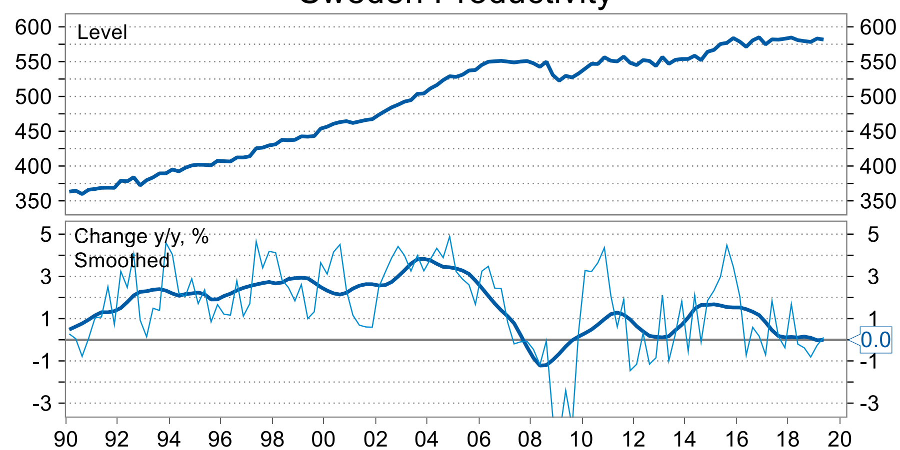

SB1 Markets/Macrobond

Sweden Productivity & growth




SB1 Markets/Macrobond

Sweden Productivity




SB1 Markets/Macrobond

- GDP fell by 0.1% q/q (-0.3% annualised), vs expectations at +0.3%! The annual rate slowed to 1.4% from 2% growth in Q1 (was initially reported to 2.3%)
  - » A moderate rise in household demand was offset by (another) decline in business investments. Net exports increased marginally
  - » Weak growth data casts further doubt on the Riksbank's hiking plans
- Productivity rose 0.1% y/y, hours worked up 1.3%, signals a limited growth potential! Productivity has been flat since 2016, (even worse than in Norway…)

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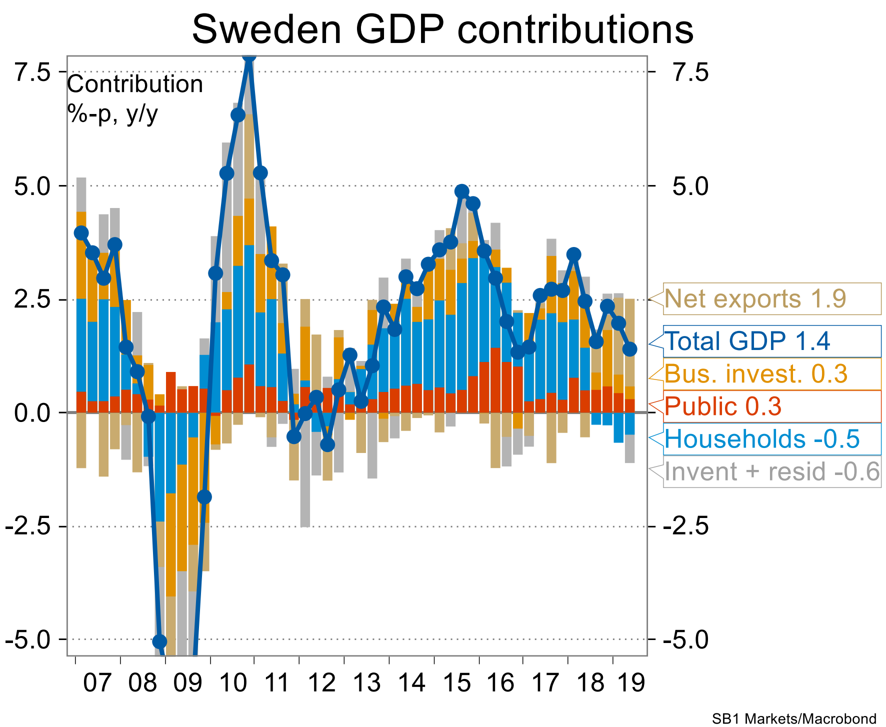
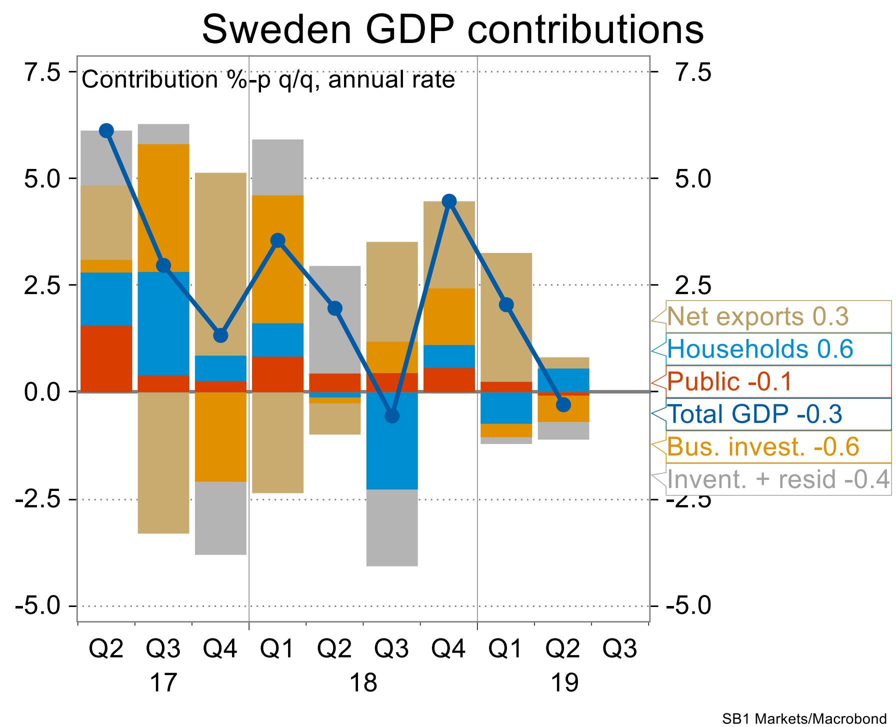
# Households, businesses are taking growth down, net exports still in plus

## Household demand is falling y/y and just net exports is lifting the annual rate significantly

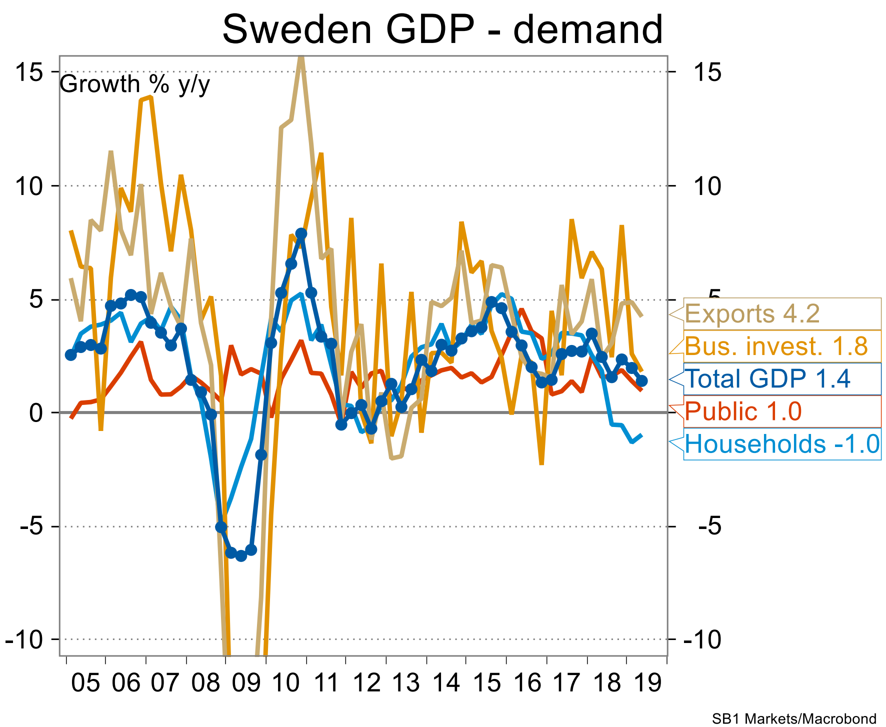


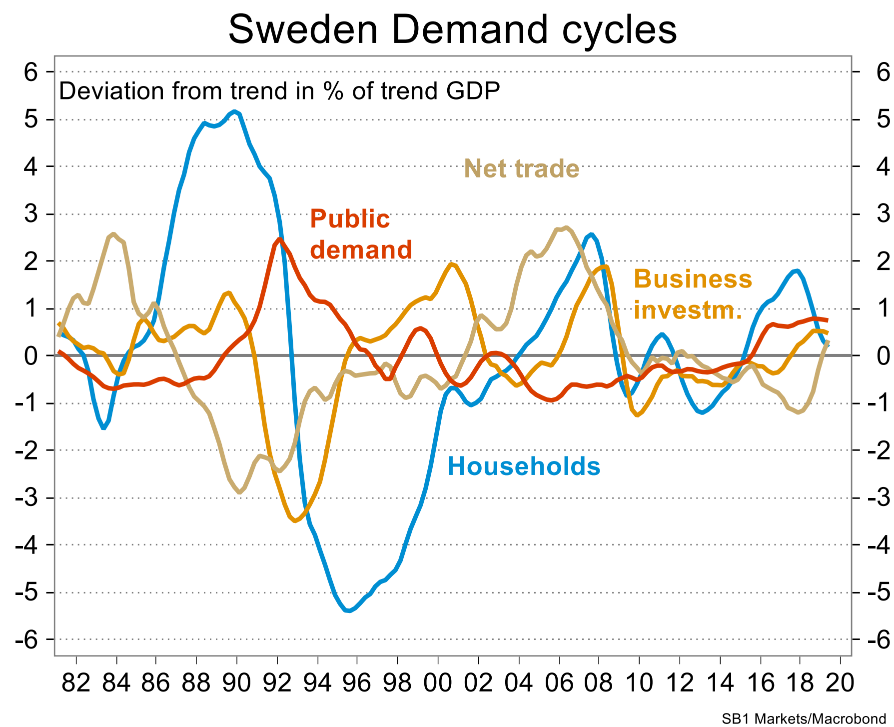




- Household demand (consumption+housing) lifted growth q/q by 0.6 pp (annualised, vs total -0.3%), a moderate contribution. However, household demand but is down y/y, deduction 0.5 pp from total GDP growth! Housing investments have declined by 12%, subtracting 0.7 pp from growth, and consumption has slowed, up just 0.4%, contributing by 0.2 pp to total GDP growth
- Business investments declined once again in Q2 and was the major drag on growth. Are global uncertainties and trade wars making businesses more cautious? Most likely – and sagging private consumption is probably to blame too. Companies have been reporting weaker order inflows from both domestic and foreign markets. Business investments are still up y/y
- Net exports made a marginally positive growth contribution in Q2 as imports fell more than exports – and over the past year net exports have contributed by 1.9 pp, more than overall growth in GDP!!

# Household demand is waning, net trade climbs

Not a good sign, as households are usually the first on the way down



Highlights

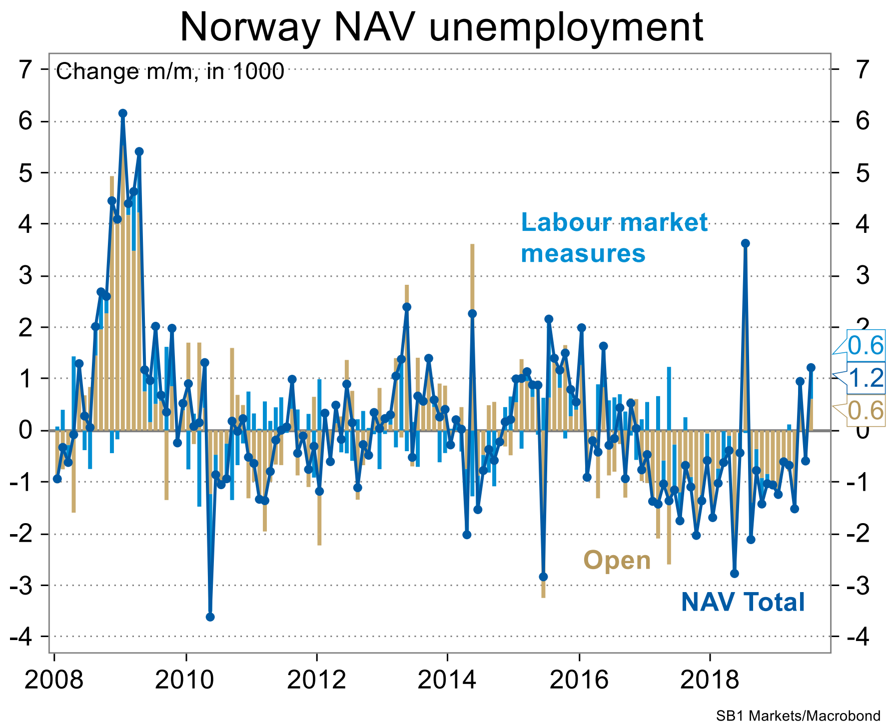
The world around us

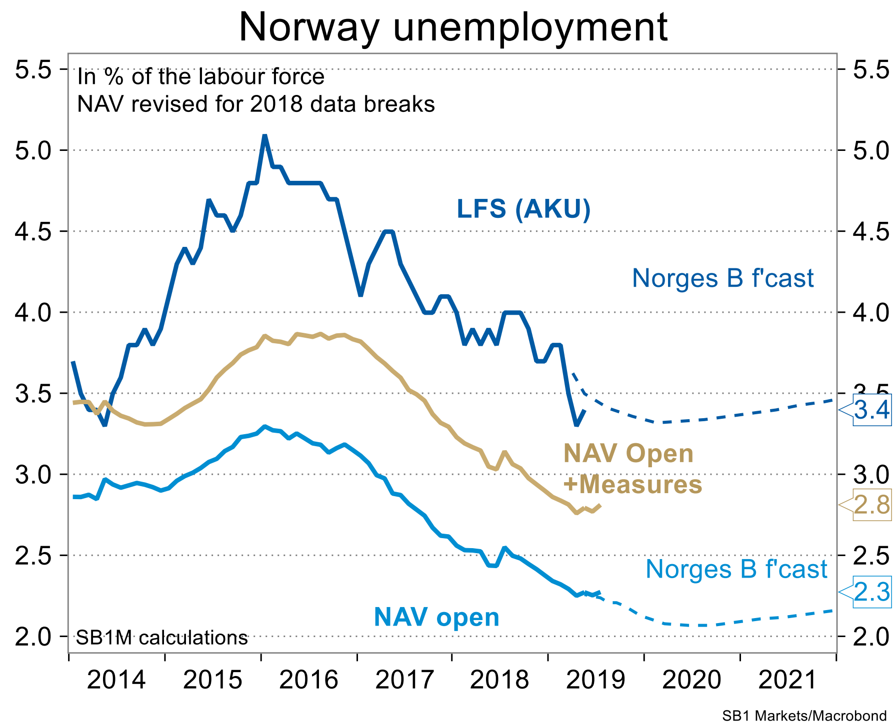
The Norwegian economy

Market charts & comments

# Unemployment ticks up: Signs of a weakening labour market or just noise?

NAV total unempl. surprisingly rose by 1.2' persons in June. New jobless claims, layoffs turned down




- NAV open unemployment increased by 600 persons in June, total unempl. (incl measures) by 1.200, far above expectations. The 3 month average is up 300 persons. The open unempl. rate rose marginally to 2.3%, and is now marginally above NoBa's f'cast (check a close-up next page). Has the labour market turned down? Some other labour market data may confirm a weakening:
  - » The number of new claims fell in June but claims have not fallen the past year. The number of new vacancies have fallen marginally lately
- On the other hand, the LFS unemployment rate rose in May, but it has fallen sharply this spring. Most of the drop is due to a decline in the participation rate, but it is anyway a signal of a tighter labour market. Businesses have not reported any sudden employment weakness, and more manufacturing companies are reporting lack of labour (SSB quarterly manuf. Survey)
- We stick with our view that Norges Bank will hike again in September, as long as other data do not soften significantly

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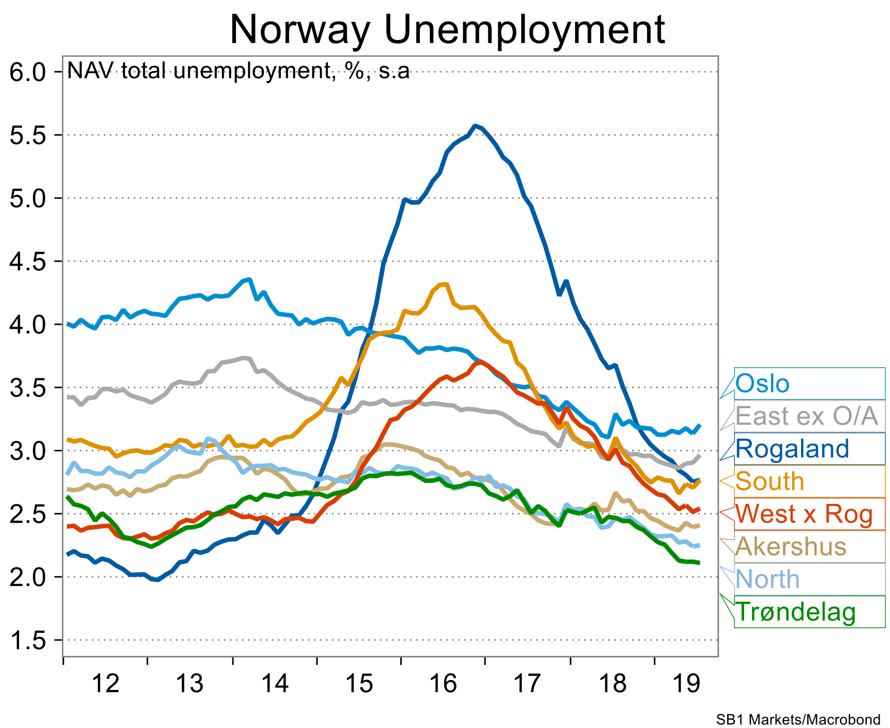
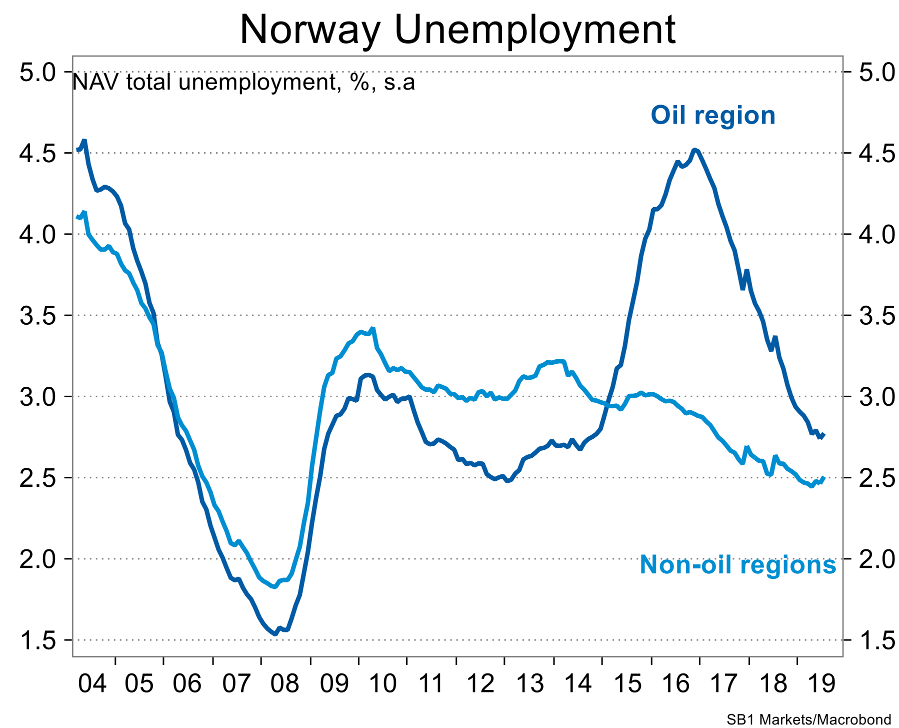
# Soft spots in several regions recent months – mostly in non-oil regions

## Unempl. marginally up in Oslo, other East, South. Rogaland still heading down



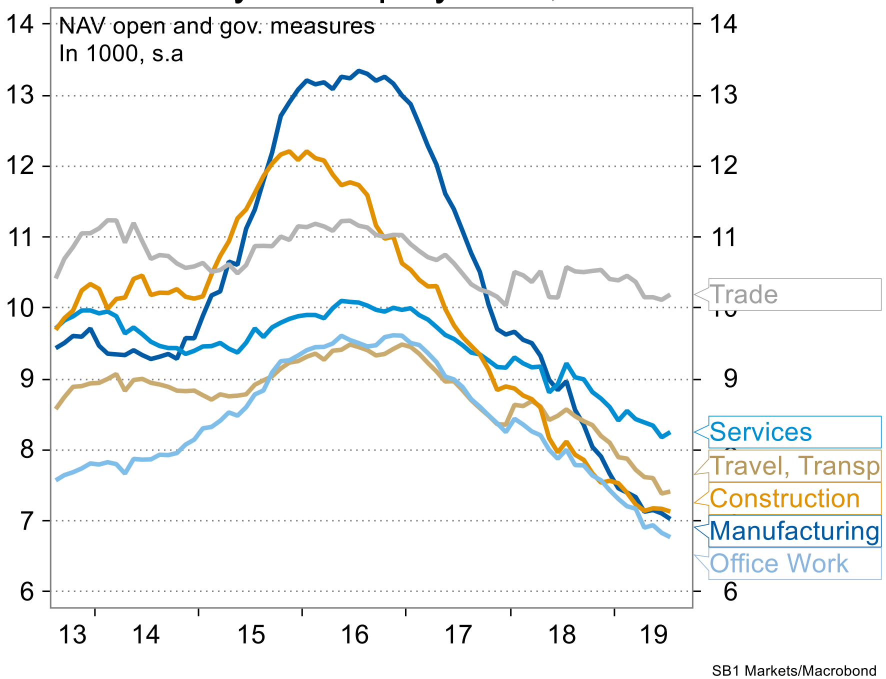

- Unemployment rates have flattened out/inched up in Oslo and Eastern counties, and Akershus is not falling anymore? Some weakness in the South too
- Unemp. in Rogaland and the rest of the Western (oil) coast is still decreasing. Trøndelag flat, North still sliding down?
- The unemployment rate in the 'oil region' (Agder, Rogaland, Hordaland, Sogn & Fjordane, Møre & Romsdal) has dropped to 2.8%, from 4.5% in late 2016 and is just 0.3 pp above the non-oil regions

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

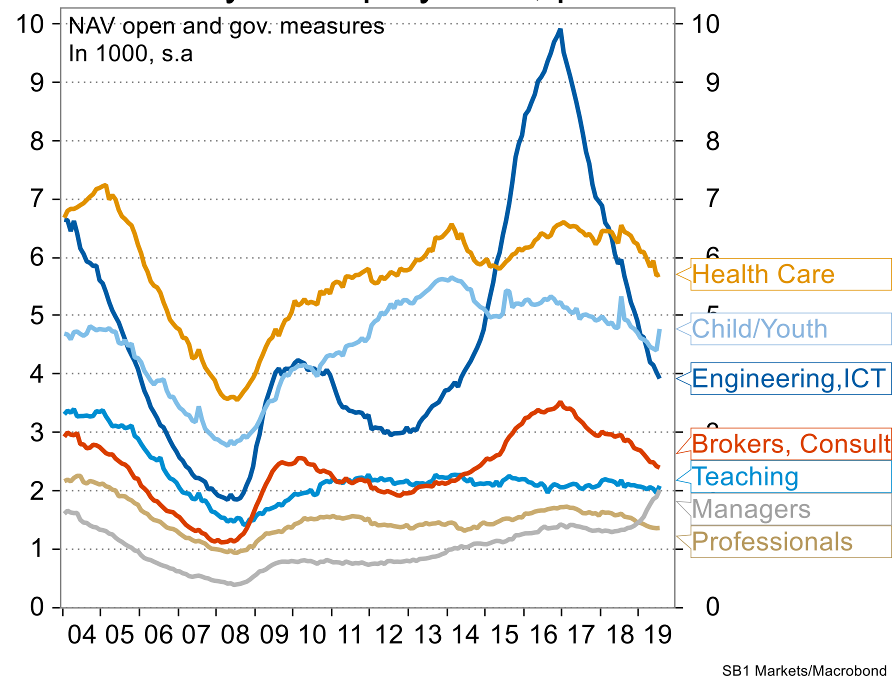
# Unemployment is still falling among most occupancies, even in retail trade?

Engineering, manufacturing, construction are dropping. Managers, child/youth work are heading up

Norway Unemployment, blue collar




Norway unemployment, professionals




- Unemployment in engineering & ICT sectors and manufacturing is falling rapidly
- Most other sectors are heading down, teaching just marginally – and it increased in June. What is going on among managers and child/youth workers? A change in definitions probably explains mot of the increase among managers
- Retail trade har has been the soft spot, no surprise given sluggish sales the past year. Flat the past 3 months
- Unemployment in other 'blue collar' occupancies have dropped since 2015/2016, services somewhat slower than the others

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

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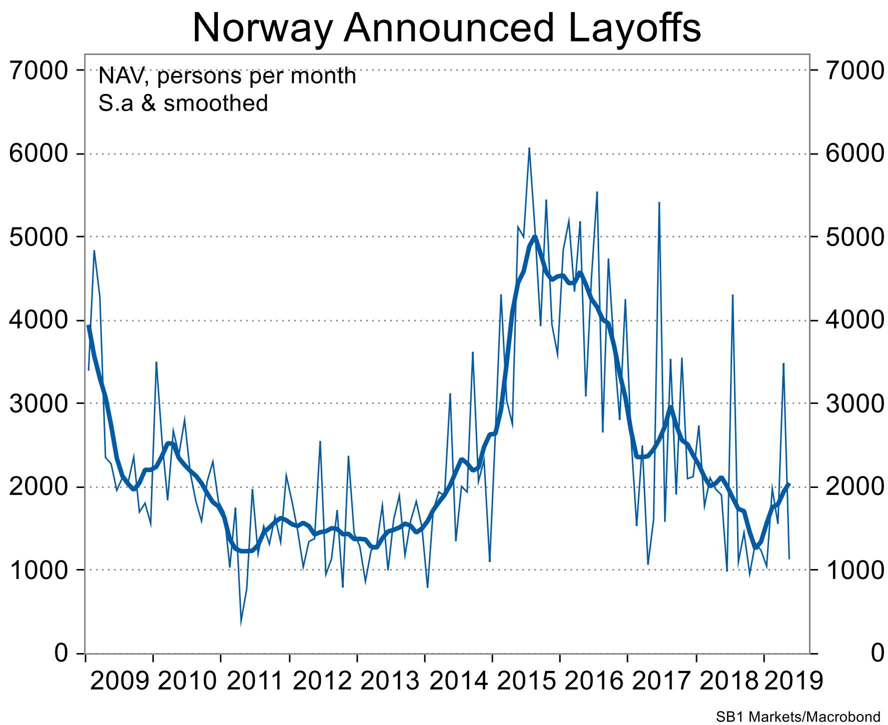
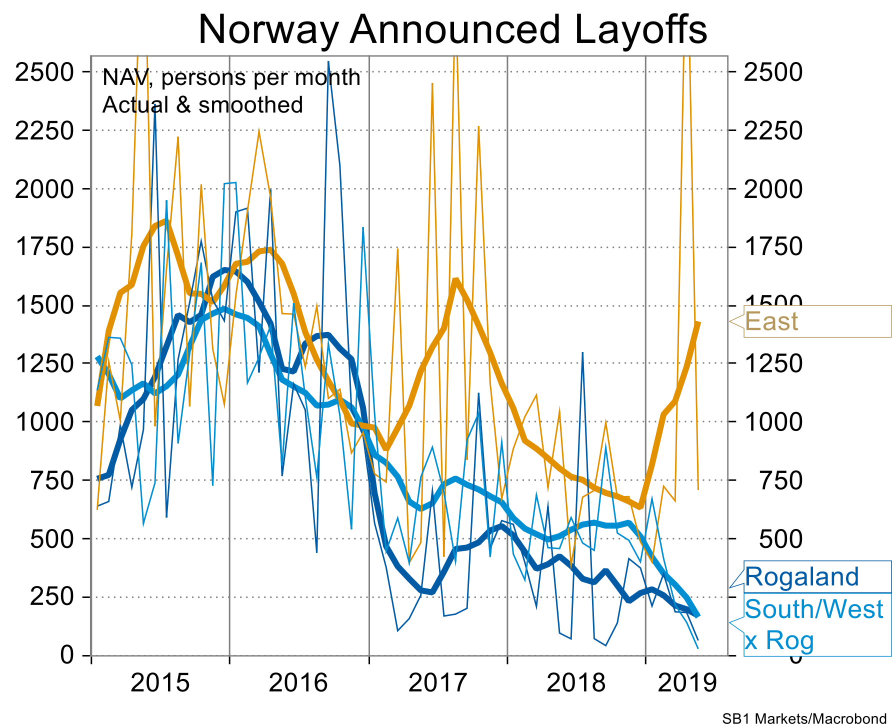
# Volatile layoffs came back down in June, no obvious warning sign spotted here

## Still, the number of layoffs may be heading slowly up from the late 2018 bottom

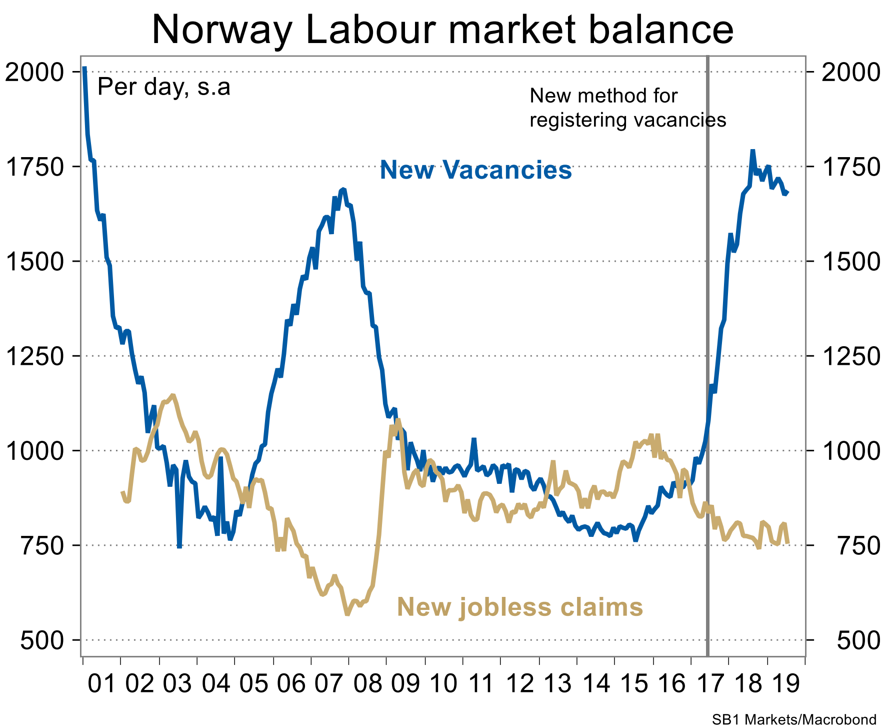


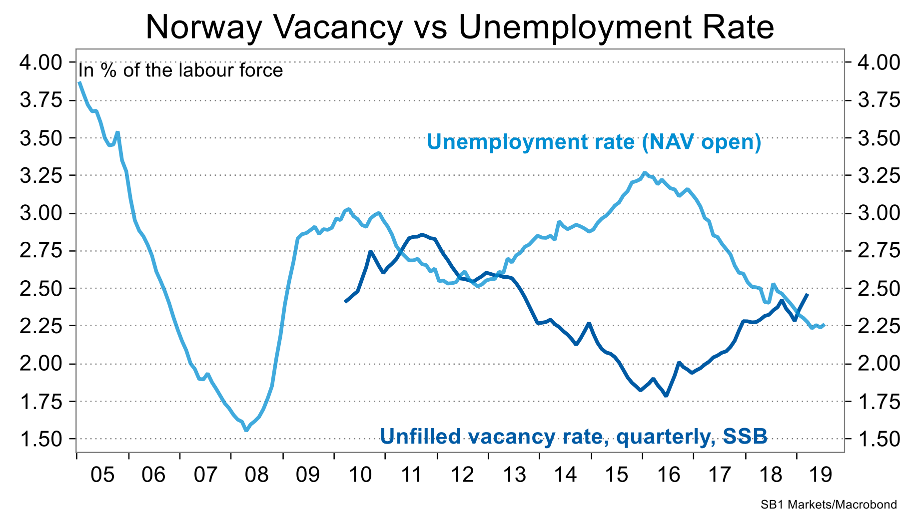



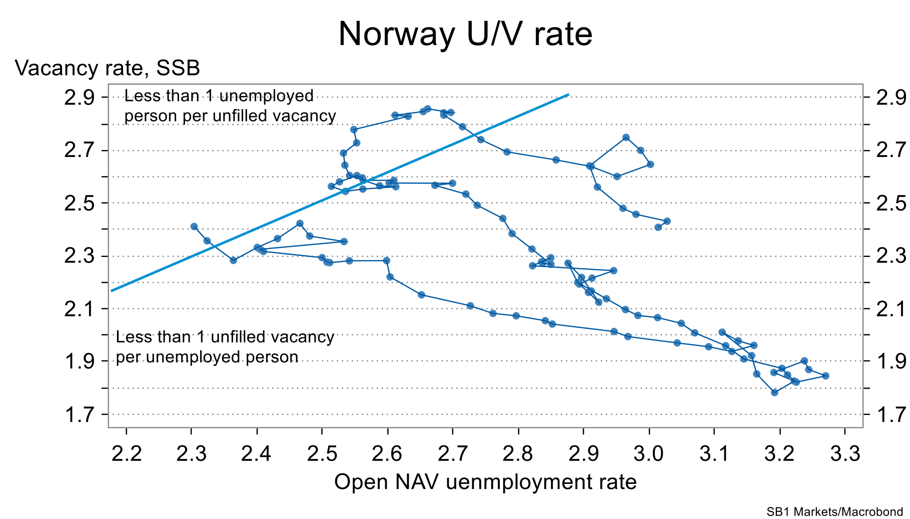

- These monthly data are very volatile and should not be taken too literally from one month to the next
  - » The steep rise in May made us a bit worried. Now, the increase is more than reversed

# New jobless claims down, trend flat. Fewer (but far from few) new vacancies

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

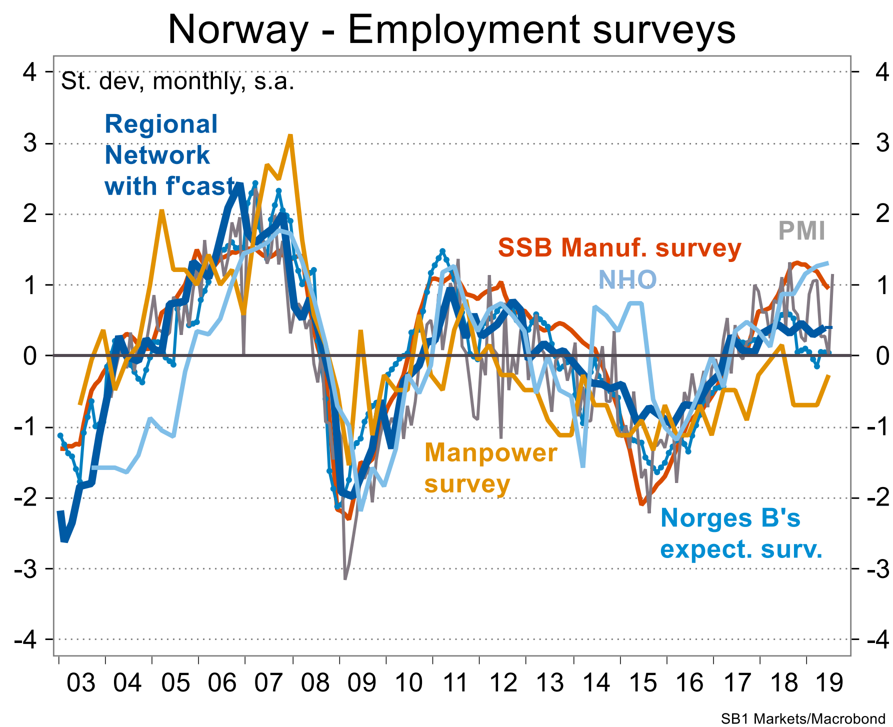


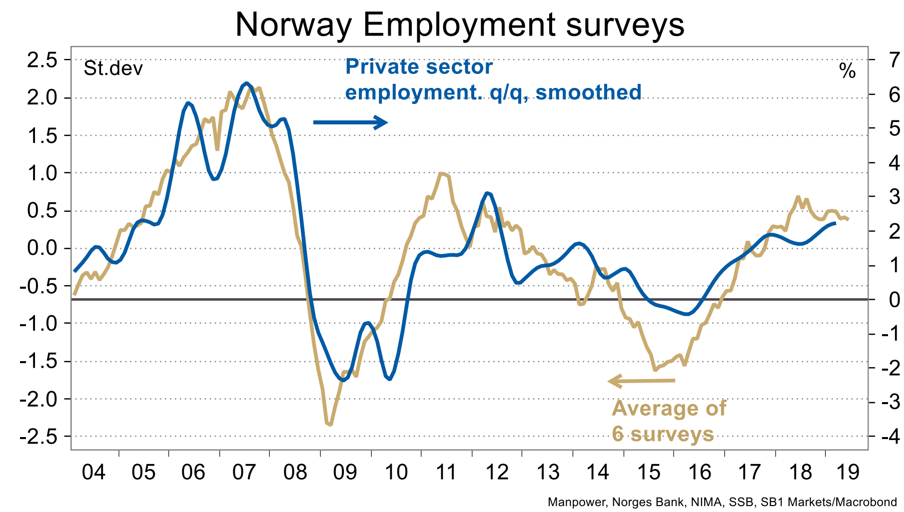



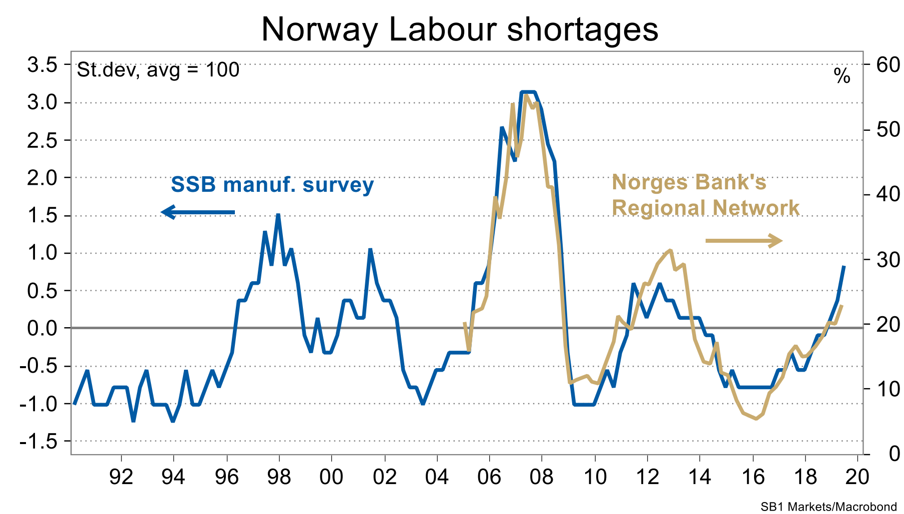




- New jobless claim fell in May, to just above 750/day. New claims have flattened out the past year, and the trend is not down anymore – but it is not up either
- NAV has been reporting a slowly declining number of new vacancies since the peak last August. Due to new collection methods, the level is not comparable to old data – but the decline is so far probably marginal
- On the other hand: SSB reported an increase in the no of unfilled vacancies in Q1

# Surveys report more lack of labour, not lower demand

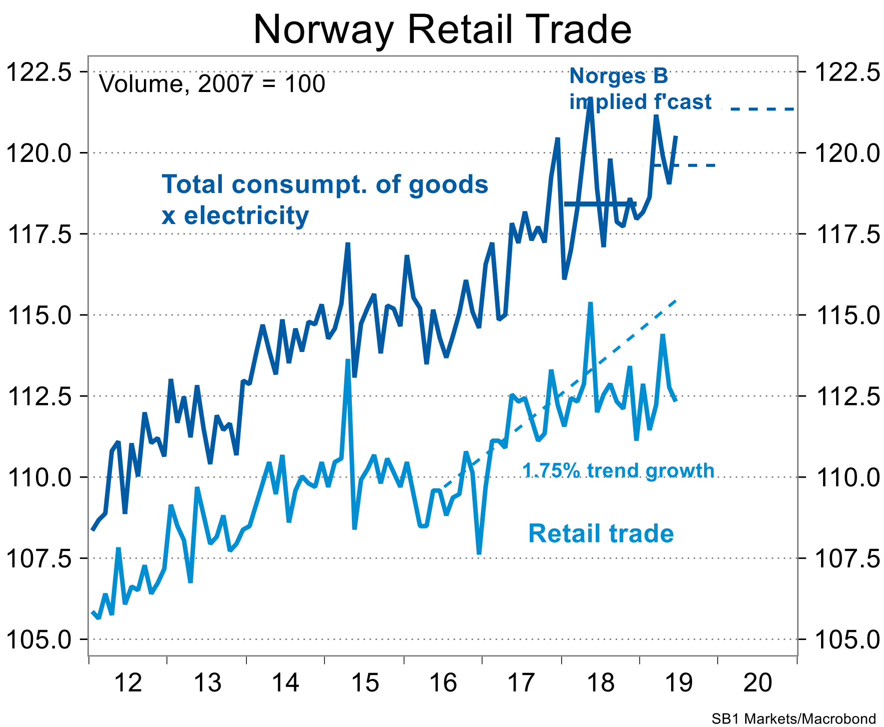


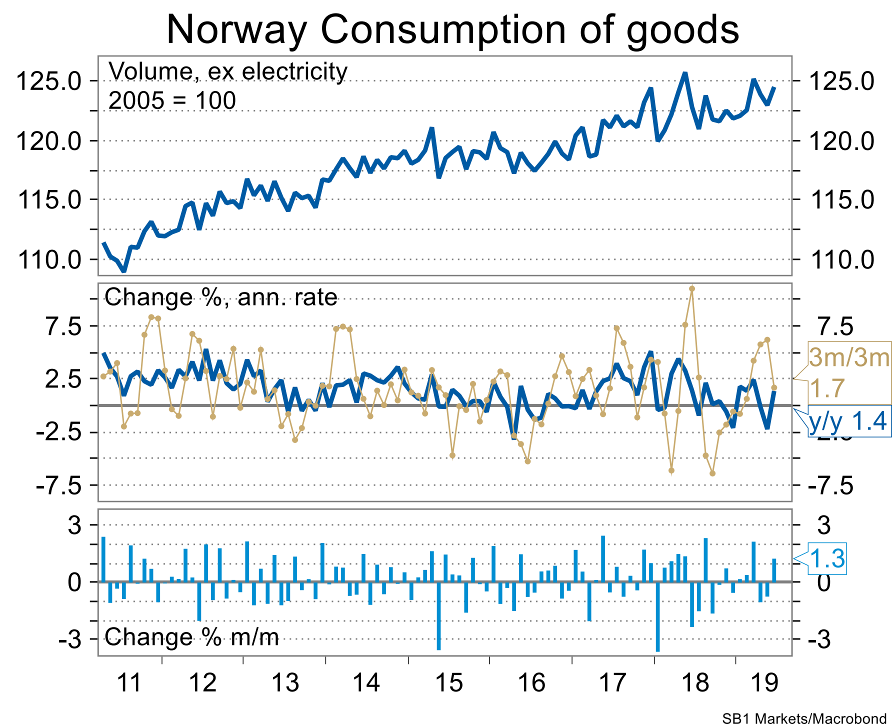



# Retail sales are sagging, total goods consumption not that bad in Q2

Retail sales fell further in June but are still up from Q4/Q1. Total cons. is doing better, thanks to autos




- Retail sales volume (ex auto) fell 0.4% m/m in June, far below our f'cast at +0.5% and consensus (0.6%), following a sharp retreat in May. Sales are certainly not thriving, trending more or less flat over the two past years. However, sales have improved somewhat from the downswing in 2018/early 2019 and Q2 sales are up 3.6% (q/q annualised) from the weak Q1. The annual rate is up meagre 0.3%
- Total consumption of goods (ex electricity) bounced back in June, up 1.3% m/m and is no doubt trending up. The increase is driven by brisk auto sales. Consumption was up 1.7% Q2 (q/q, annualised), thus, a moderately positive contribution to Q2 GDP growth. Subsiding price inflation will probably support volume growth the coming months. Total consumption is anyway at Norges Bank's 2019 (implied) estimate, hence, household's goods demand is no argument for abandoning the hiking plans

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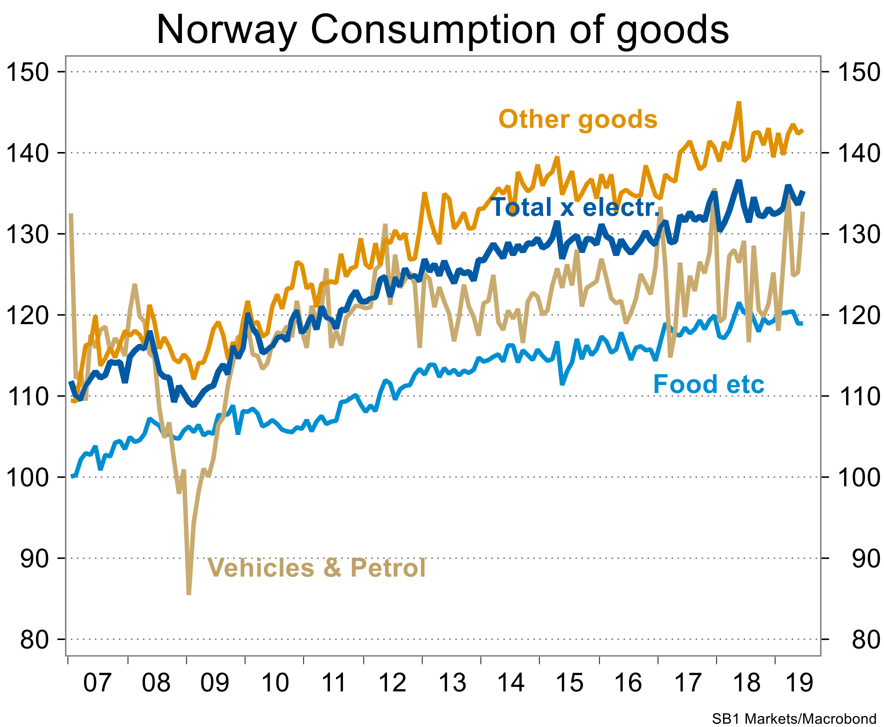
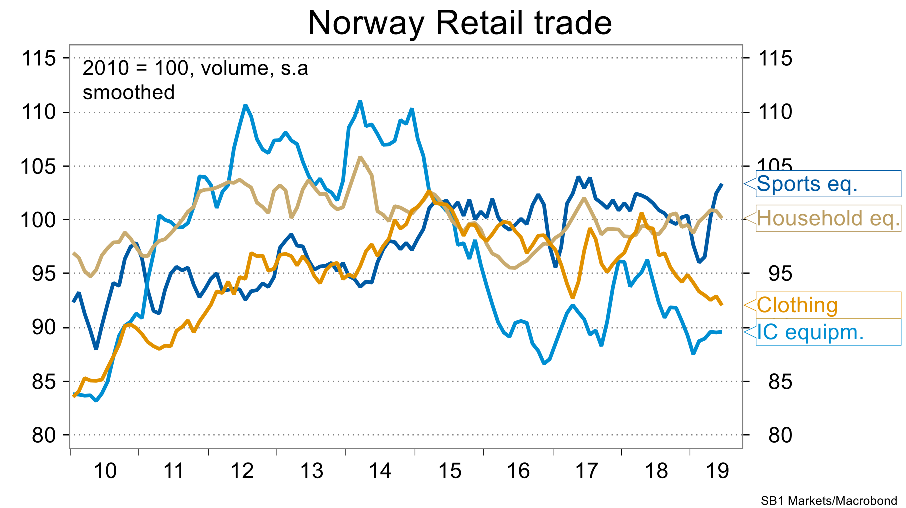
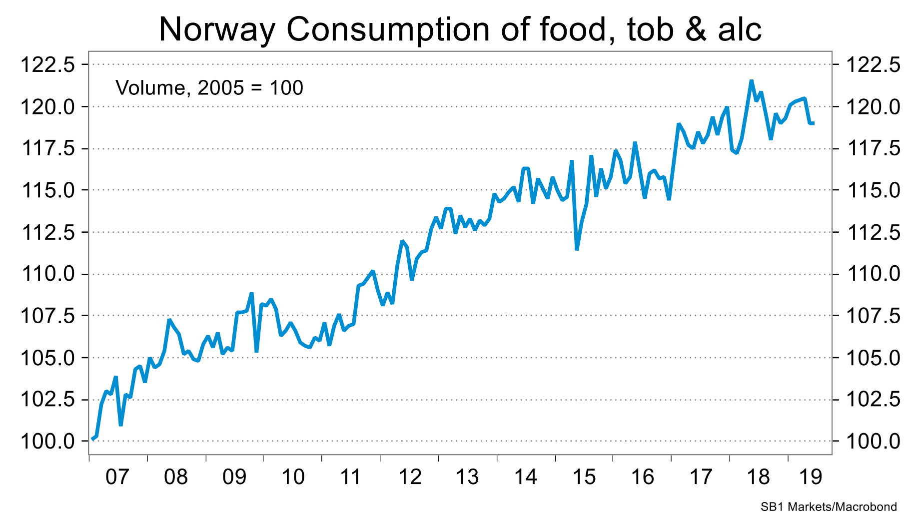
# Consumers are buying more sport equipment, less clothing

## Auto sales are heading up. Food sales flat in June, trending flat (at best) the past year



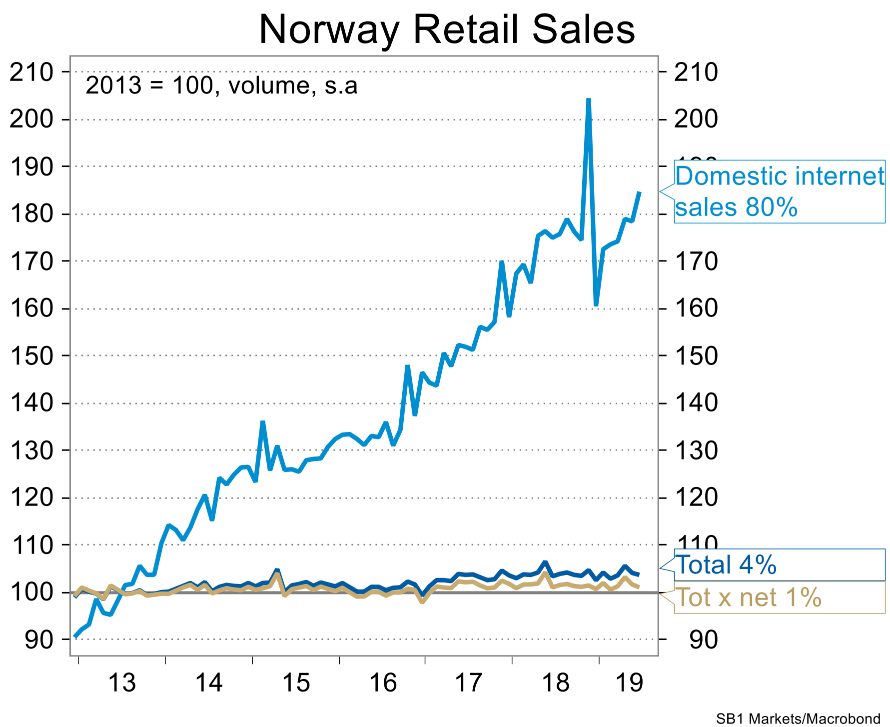



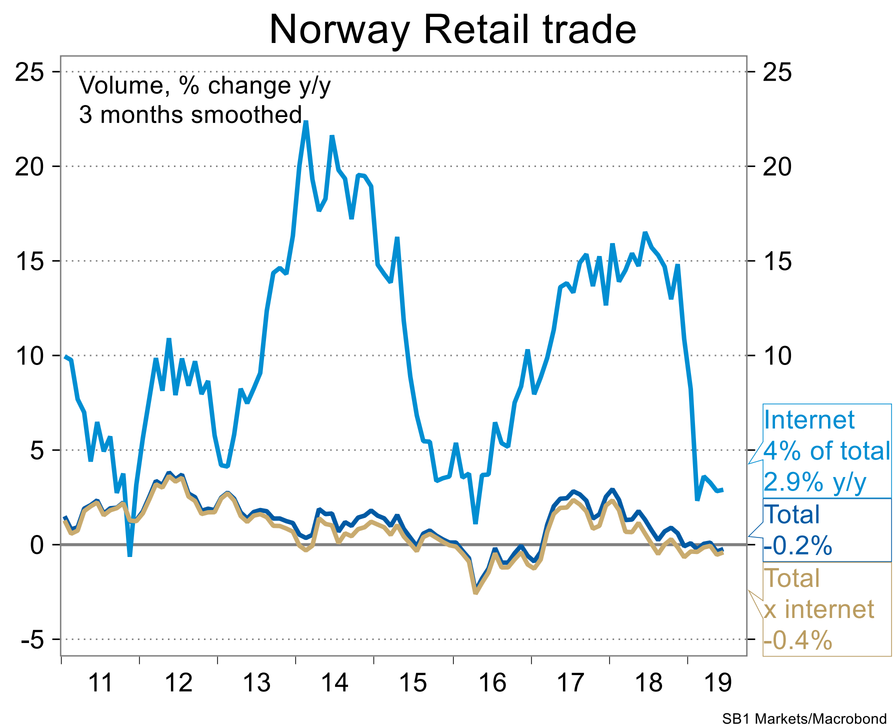




- Auto & gas sales held bounced back in June, not far below the March level. The upswing is driven largely by electric cars (like in March)
- Food consumption did not recover in June after a steep decline in May. Short term trend flat, long term increasing

# Internet sales (domestic) up in June, but growth has slowed

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

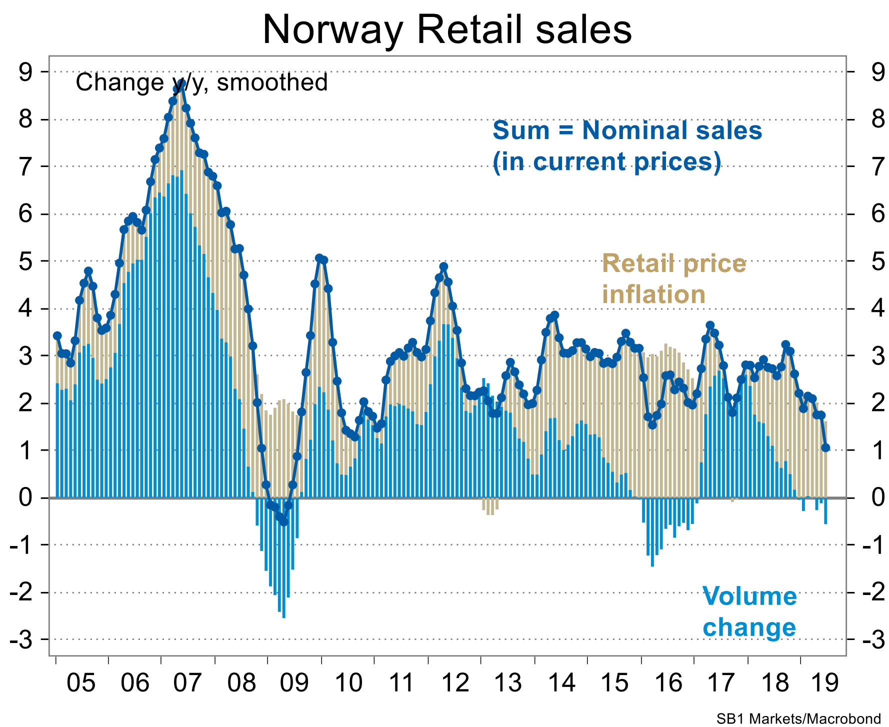


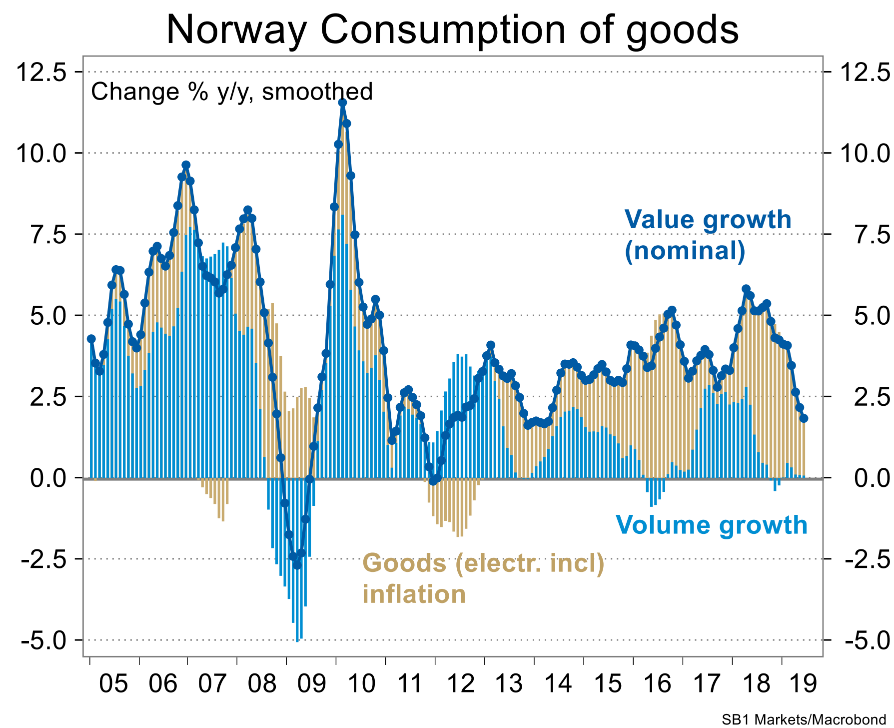




- The retail trade data cover only sales statistics from domestic outlets, not imports. From 2018, SSB included internet sales from abroad in the total consumption index but these figures are just estimates based on domestic internet sales
- SSB estimates that internet shopping from foreign sources (both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

# Retreating price inflation has not boosted consumption (yet)

Total goods inflation has slowed to <2%, from 5%, but the cash impact probably limited, so far




- Growth in nominal total consumption of goods has slowed sharply recent months, to 1.8% y/y in June, from above 5% due to a sharp decline in electricity prices, which have taken overall goods inflation down. Regardless, volume growth remains meagre, at 0.1% y/y
  - » The decline in electricity prices have probably not yet been fully felt by consumers due to the lag between changes in prices, and households' actual payments which anyway are mostly done automatically, through their bank accounts. Thus it will take time for consumers to recognise the gain – and start spending the money saved on the electricity bill
- The annual growth in nominal retail sales has fallen by 2 pp to 1.1%, as both retail price inflation and volume growth has slowed – the latter now in negative territory

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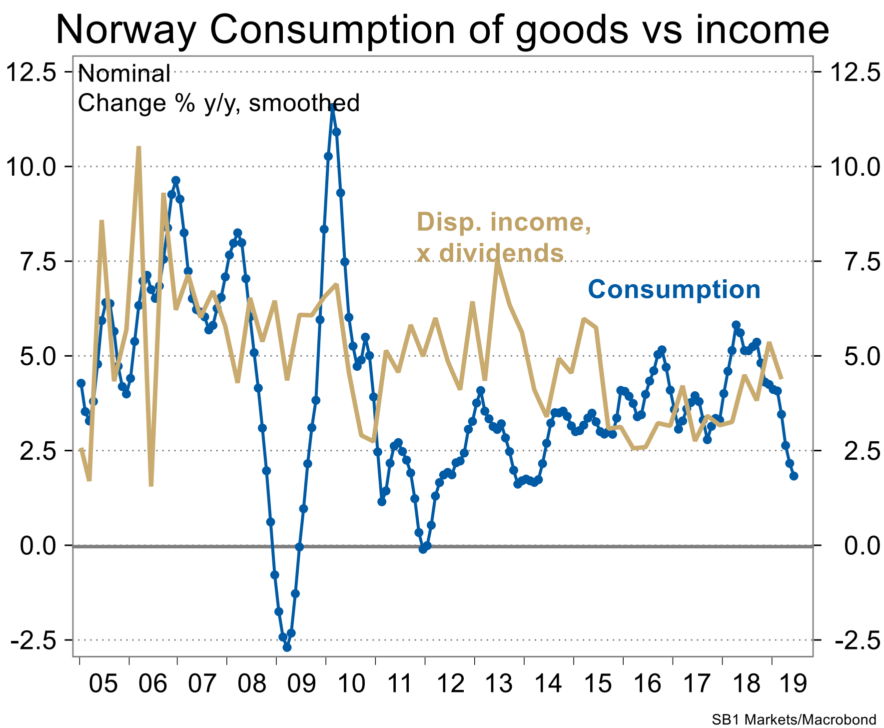
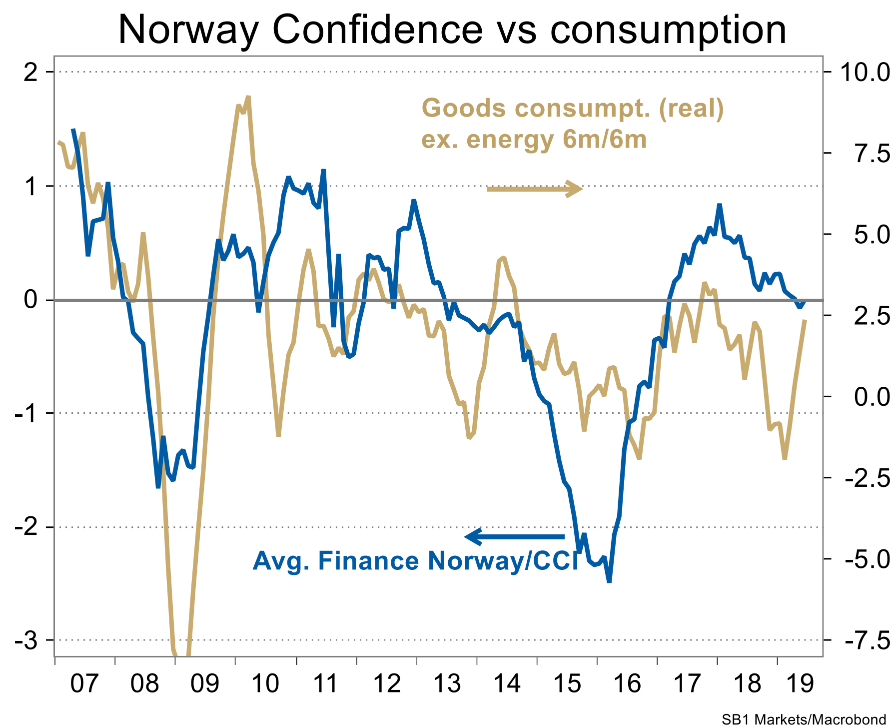
# Household income and confidence do not signal a rapid consumption slowdown

Both disposable income growth, and confidence are pointing to somewhat higher consumption

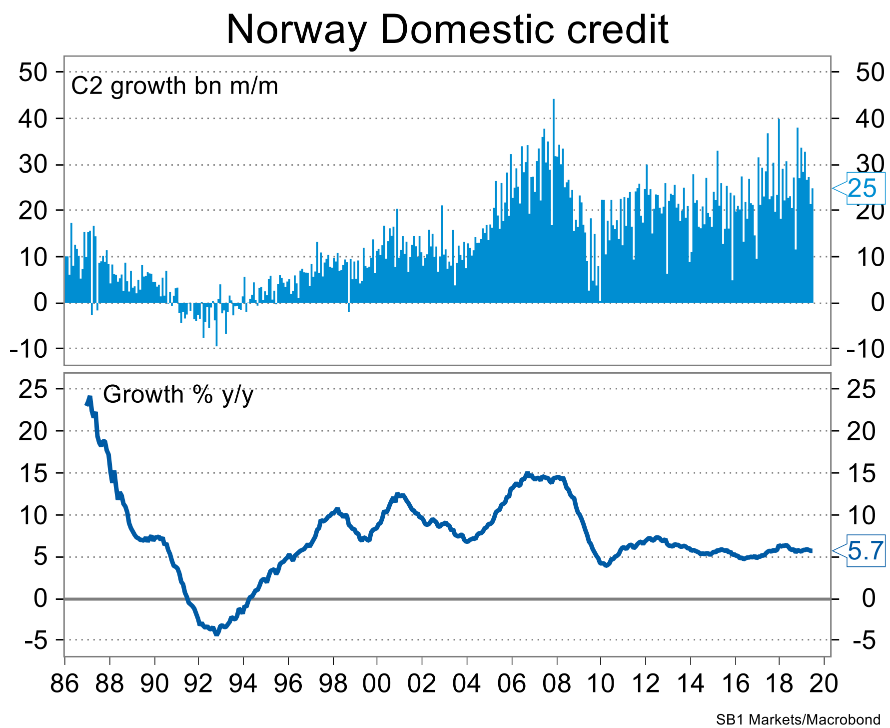


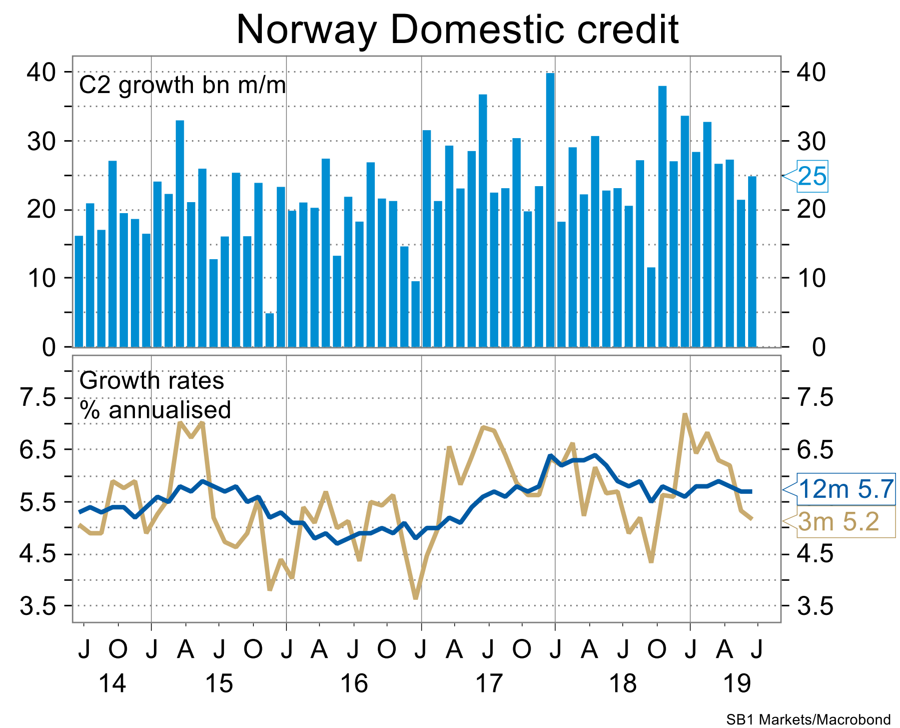




- Disposable income ex dividends is up 4.4 y/y
- Consumer confidence has softened, the average of Finance Norway and Opinion's consumer sentiment surveys are on the average level since 2007, and our take is that CCIs point to moderate growth in consumption. However, the correlation is not impressive

# Credit growth steady at 5.7% in June

Total domestic credit growth has slowed marginally, trending flat. Households have survived NoBa's first tests

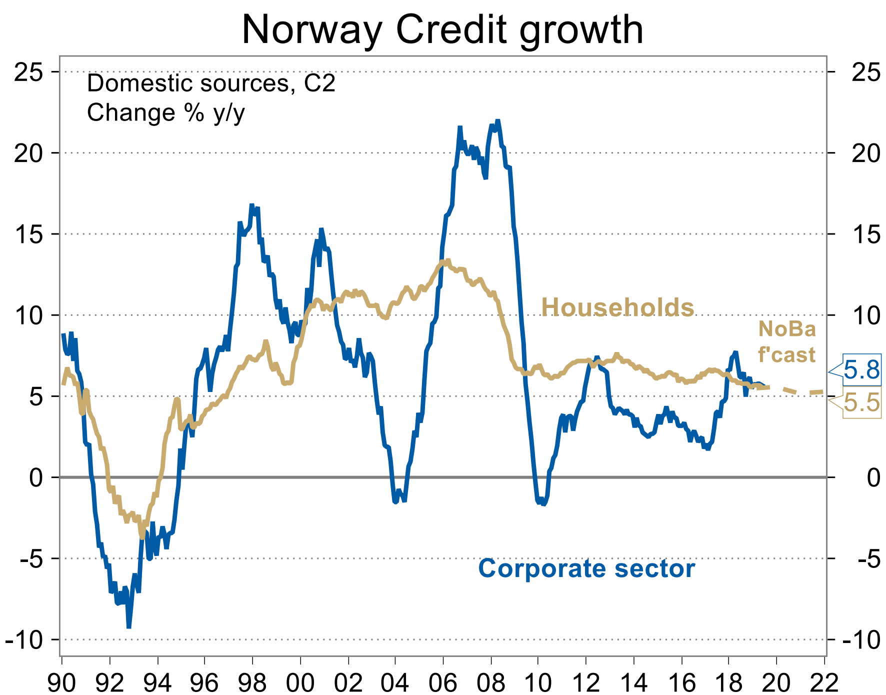


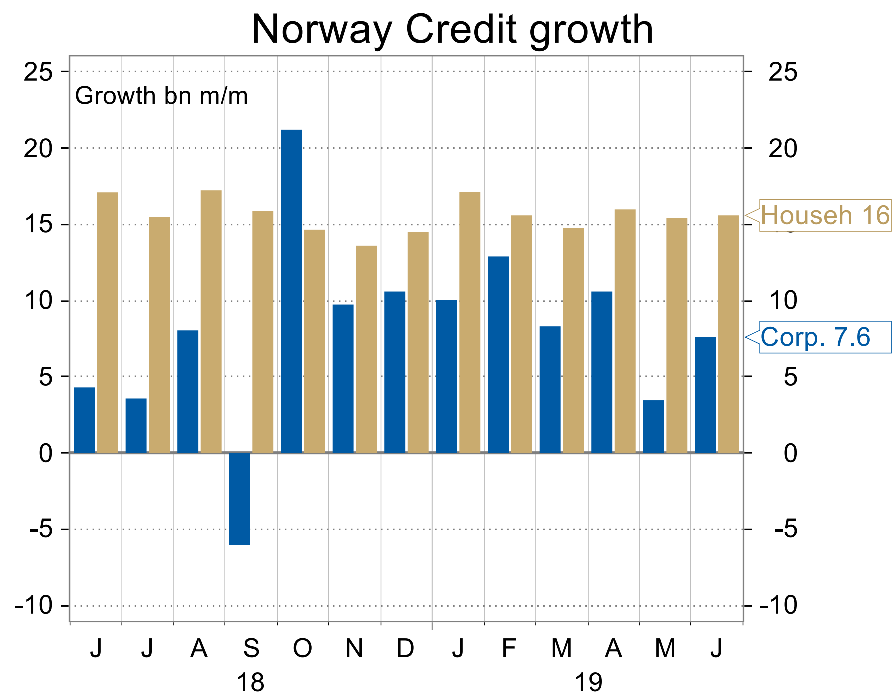




- Total domestic debt (C2) rose by NOK 25 bn m/m in June. The annual rate was unchanged at 5.7%, as May was revised up by 0.1 pp. Average growth over the past 3 months slowed to 5%, from 6% some months ago. Overall, growth has held steady since 2013
- Household credit growth kept up in June, as the prior months, although the annual rate inched down to 5.5%
- Corporate credit growth grew moderately, the annual rate rose to 5.8%, from an 0.2 pp upward revised 5.6% in May

# Household credit appetite survived two hikes. What about the next 2?

## No signs of curbing household credit growth, although the annual rate slides down. Corp. steady too

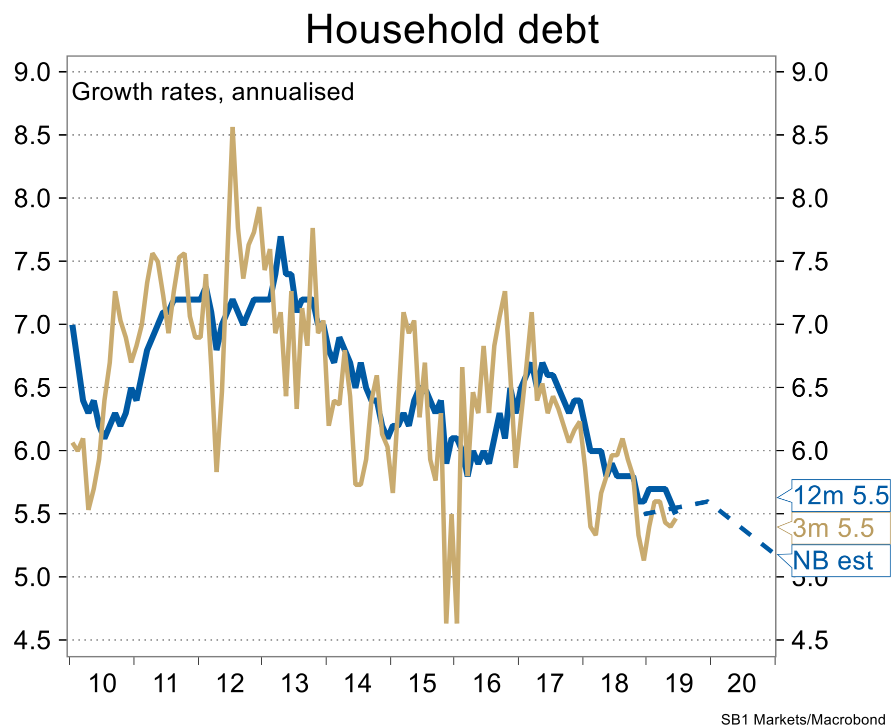


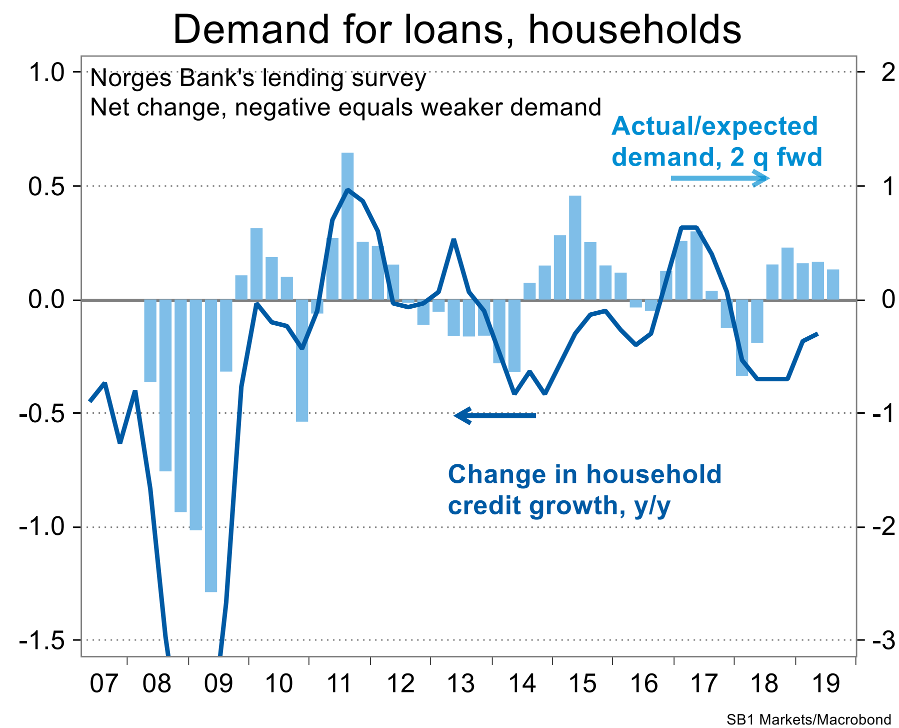




- Households' credit growth was stable in June, at NOK 16 bn, which is the average m/m growth the past year. The y/y rate inched down to 5.5%, trending slowly down. Still, household credit growth is (marginally) above income growth – and the debt/income ratio is still inching upwards, as Norges Bank expects it to do the coming years. Norw. households now 'owns' the highest debt ratio in the world
  - » The small lift in lending rates (Sept18/March19 hikes) has so far not lowered credit growth visibly. The jury is still out whether the June hike and most likely a 4th hike in H2 will have any impact on households' demand for credit. Banks have announced further lifts in their lending rates, following NoBa's June hike, most taking effect from August
- Corporate credit growth (in C2, domestic lending) accelerated to NOK 7.6 bn in June, not an impressive rebound from a weak May. Still, corporate demand for credit has not overall been weakening. The annual rate ticked up to 5.8%, from an upward revised 5.6% in May

# Household credit growth is slowing, so far at a very modest pace

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

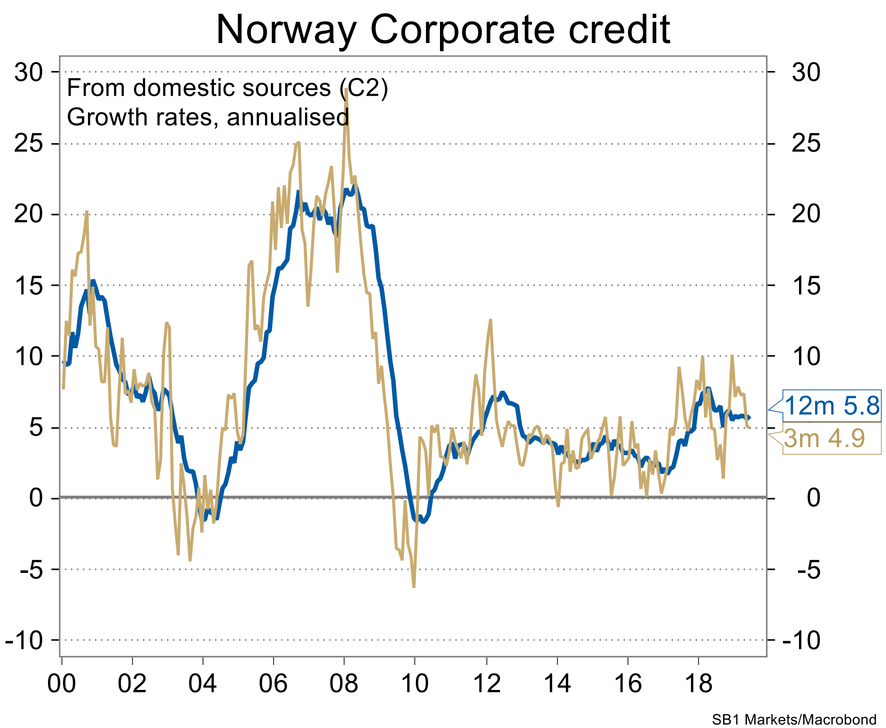


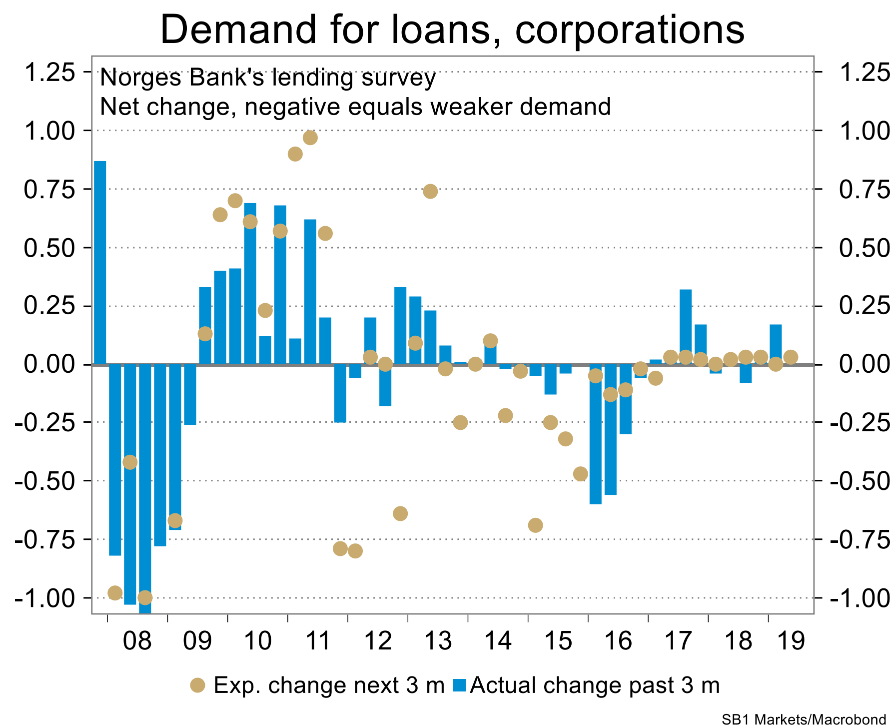




- In the longer term, household credit growth is slowing, from above 7% in 2012-2013 to some 5½% now
- Banks have not so far reported any downshift in household demand for credit, the Q2 survey is released this week
- Higher existing home sales could keep debt growth up, while higher interest rates and quite stabile house prices should dampen growth

# Corporate credit growth quite stable below 6%

## Annual rate steady at 5.5-6%, well above the 2013-2017 level (yet far below prior peaks)

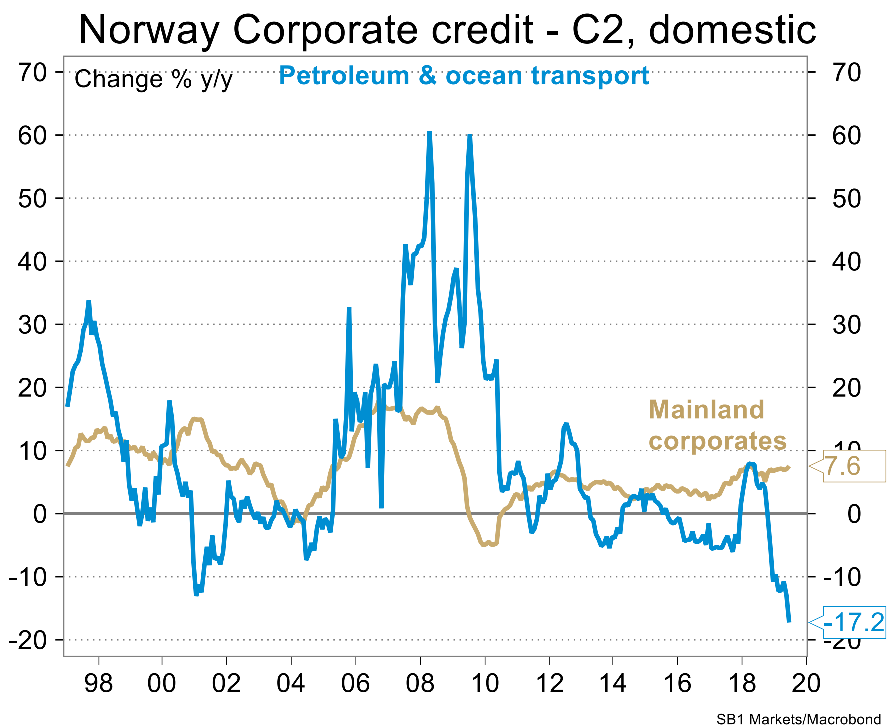


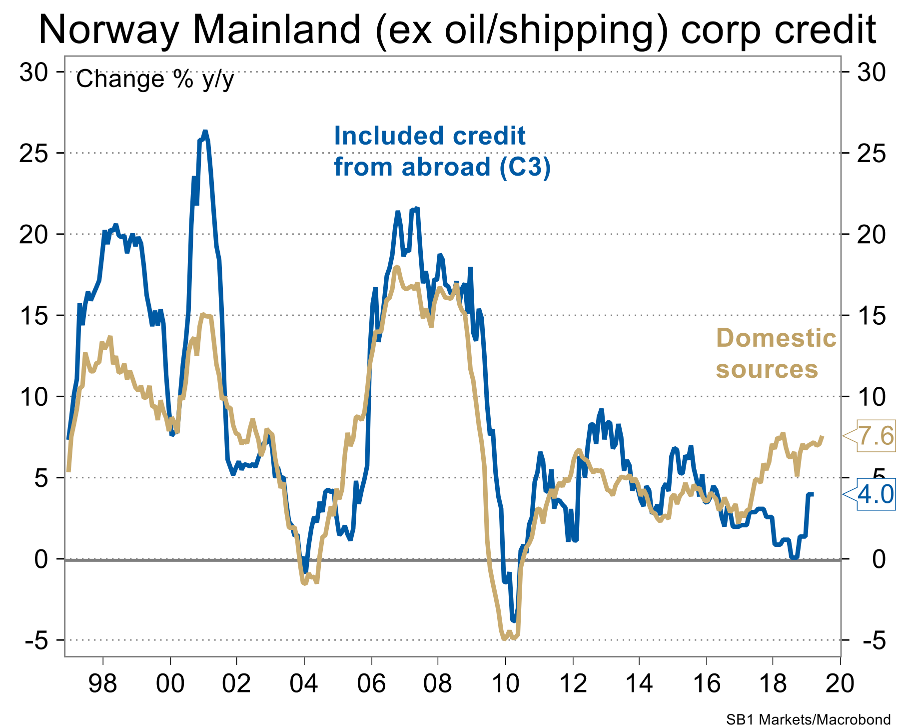




- The underlying growth rate (3m) fell to 4.9% in June, following a strong rebound in early 2019
- The annual rate rose to 5.8%, down from 7-8% growth rates in early 2017. The lift through 2017 might have been 'too rapid', thus, businesses pulled back demand through early 2018. Business investments are still growing

# The petroleum sector is still reducing the debt level

.. And non-oil companies are borrowing more, at least at home

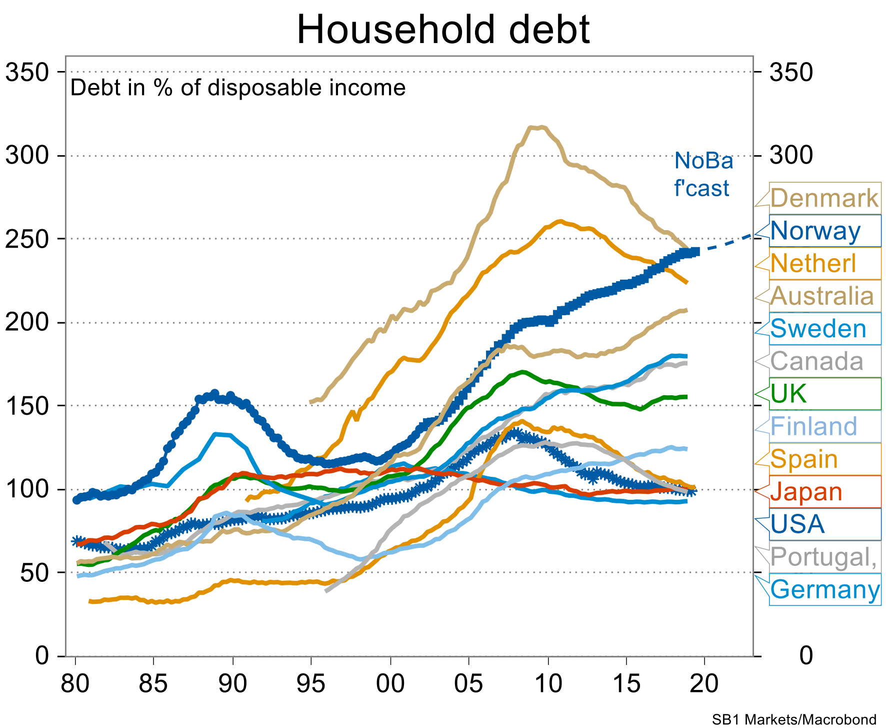


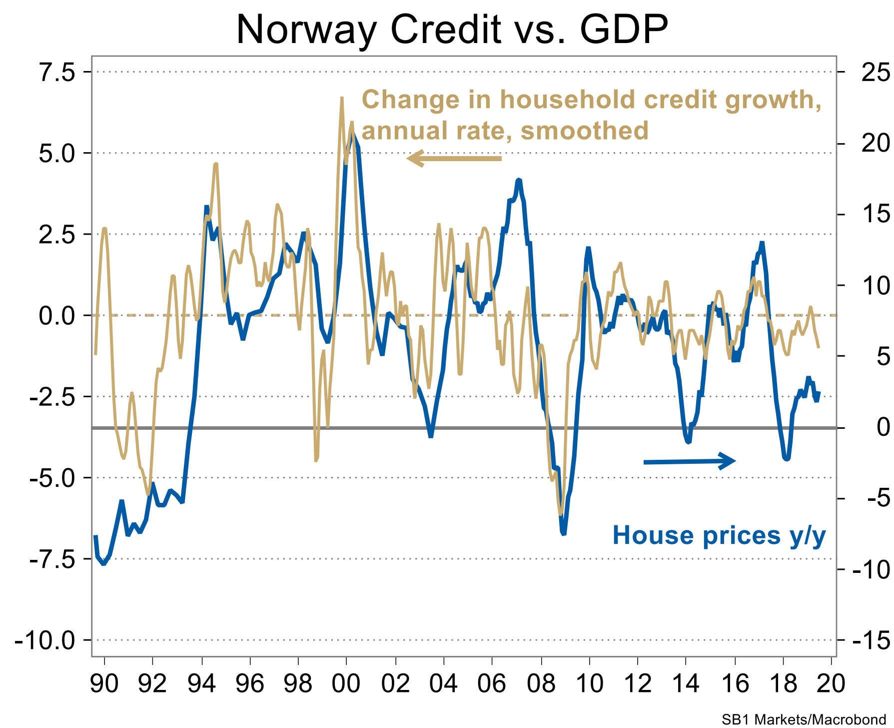




- Credit aggregates are influenced by balance adjustments in international corporations (both Norwegian and foreign owned, operating in Mainland Norway, and then categorized as Mainland corporations).
- The slow growth in Mainland corporate credit growth when borrowing from abroad is included, is probably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

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

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

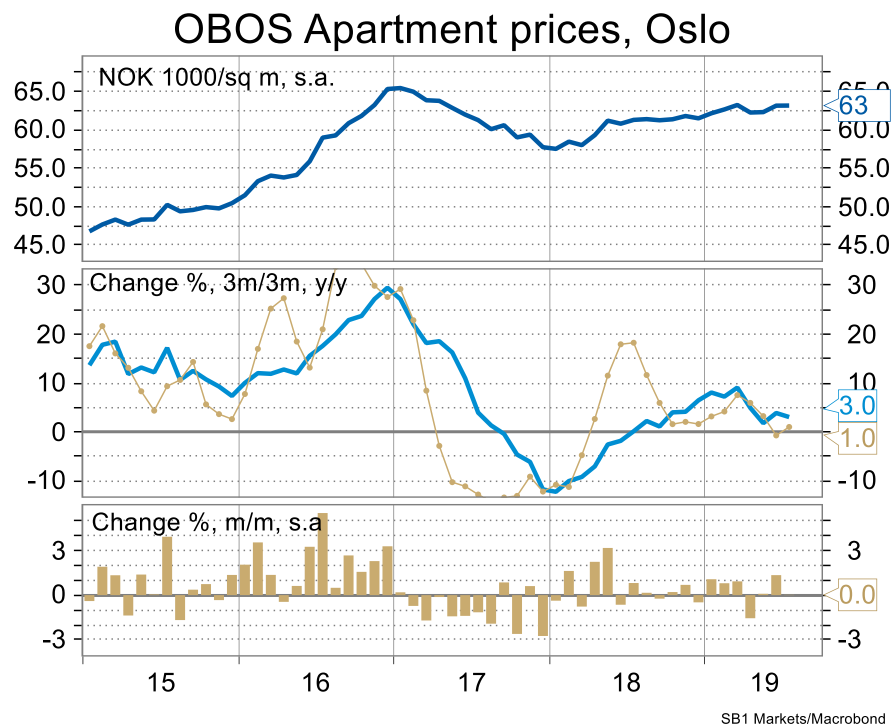


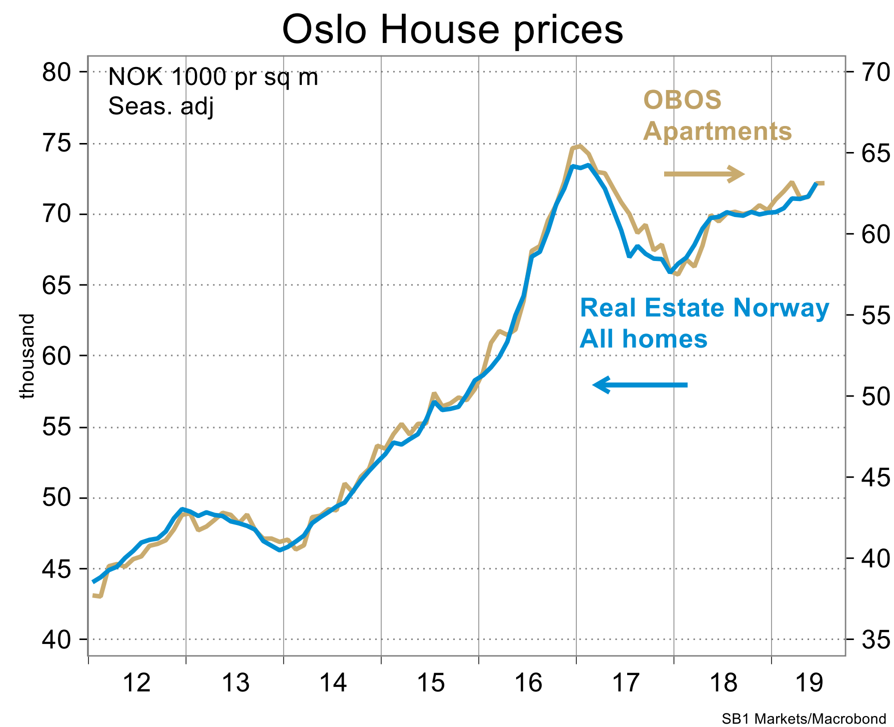




- Household debt is still growing faster than income growth, hence, the debt ratio is increasing
- Norges Bank expects a 5.6% household credit growth rate in 2019. The Bank's estimate implies a further increase in the the debt/income ratio to keep climbing, to almost 250% in 2022,even as the bank is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

# OBOS Oslo apartment prices unchanged in July, flattening out since early spring

## OBOS prices were flat m/m seasonally adjusted, underlying growth has slowed to 1%




- OBOS Oslo apartment prices were flat m/m in June (seasonally adjusted, +0.3% unadjusted). Prices have been slowly climbing since the spring of 2018, flattening out the past 4-5 months. Underlying growth has cooled to 1.0% (3m/3m annualised), annual rate up 3.0%
  - » 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, rose 1.3% m/m in June. July data are released later today

Highlights

The world around us

The Norwegian economy

Market charts & comments

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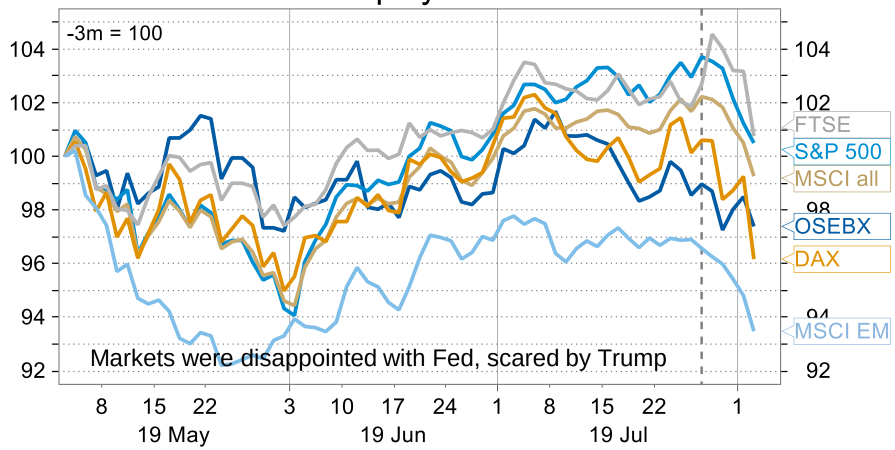
# Wow, Fed disappointed, Trump scared us again. ‘Everything’ down.

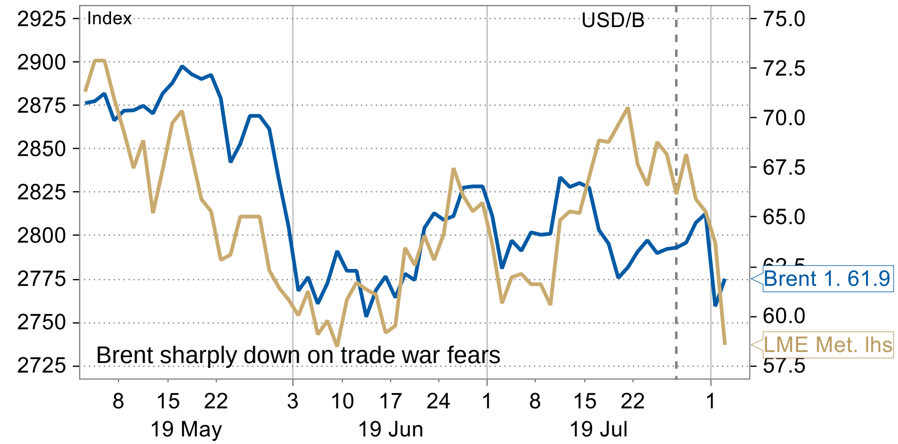
The biggest blow came from Trump. In UK, Boris/Brexit sent the GBP straight down. US yields sharply dwn

## Equity Indices



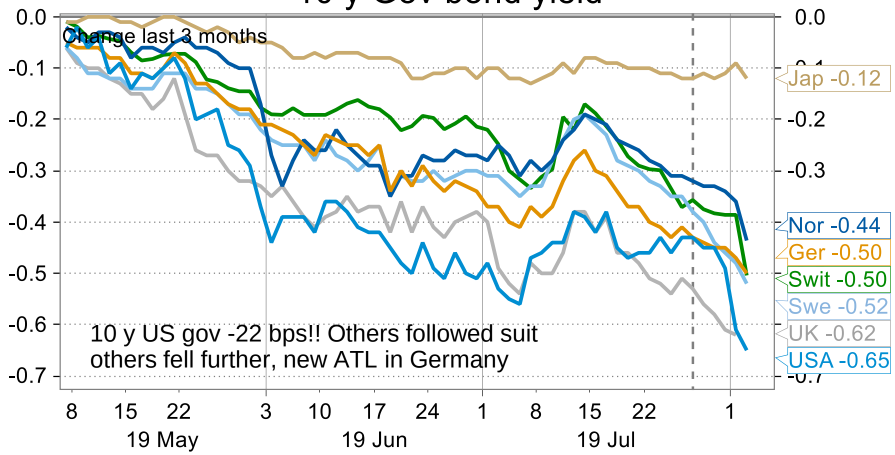

SB1 Markets/Macrobond

## Oil vs. metals



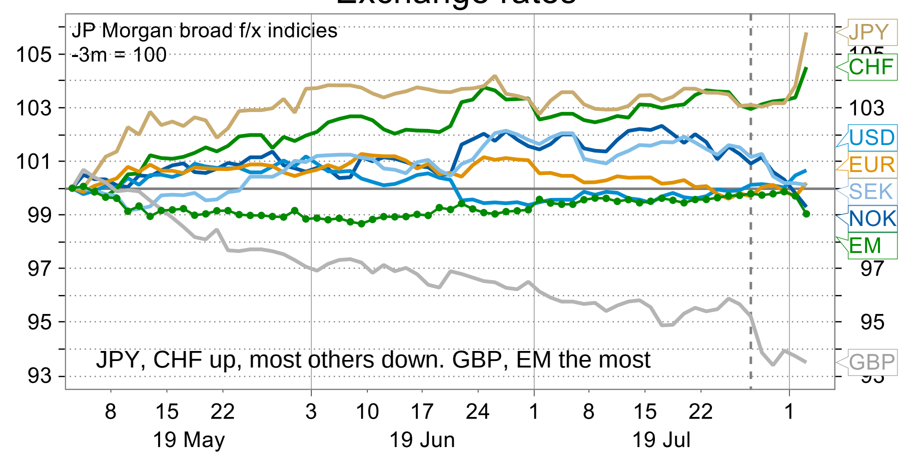

SB1 Markets/Macrobond

## 10 y Gov bond yield




SB1 Markets/Macrobond

## Exchange rates




SB1 Markets/Macrobond

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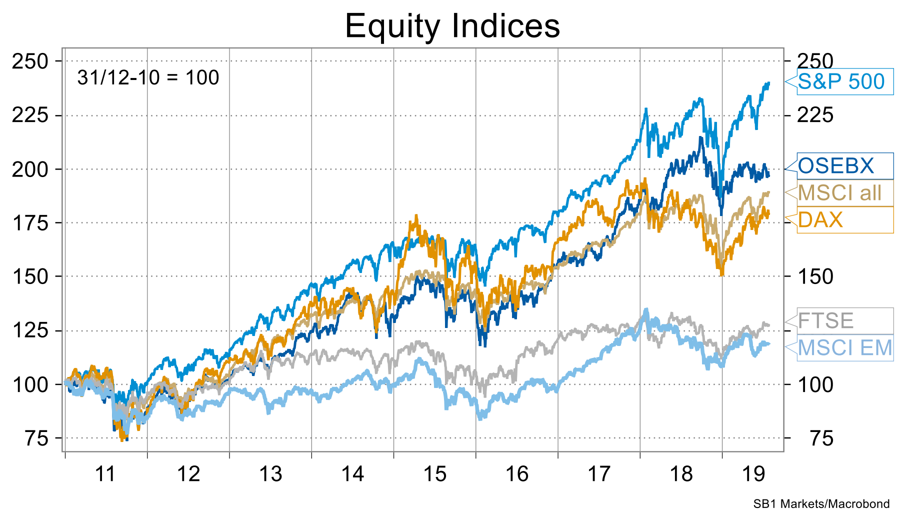
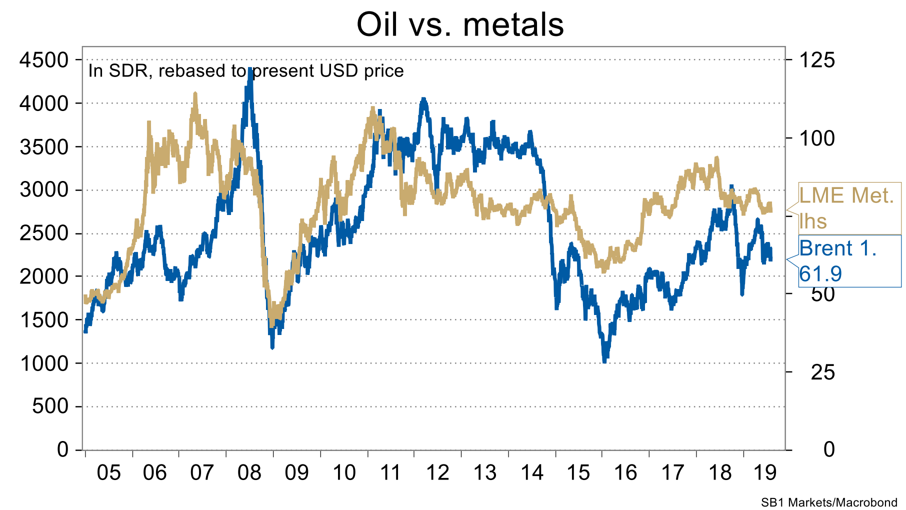
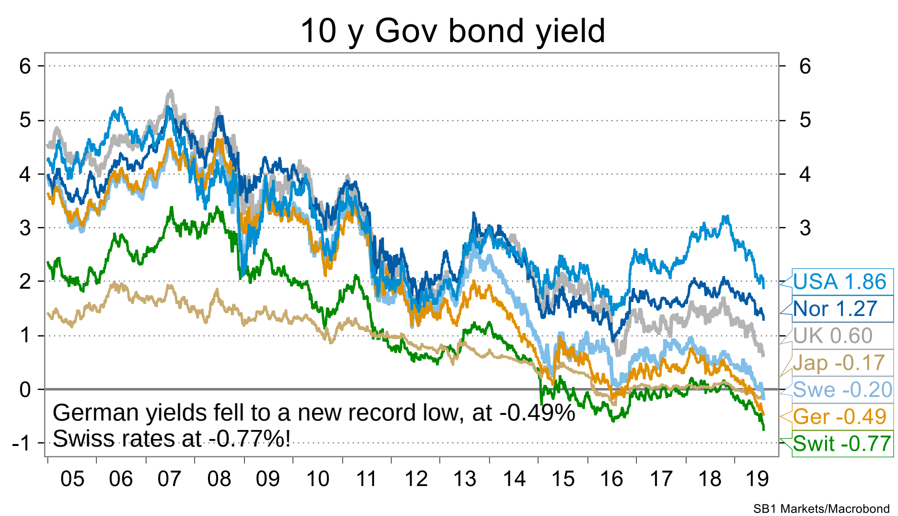
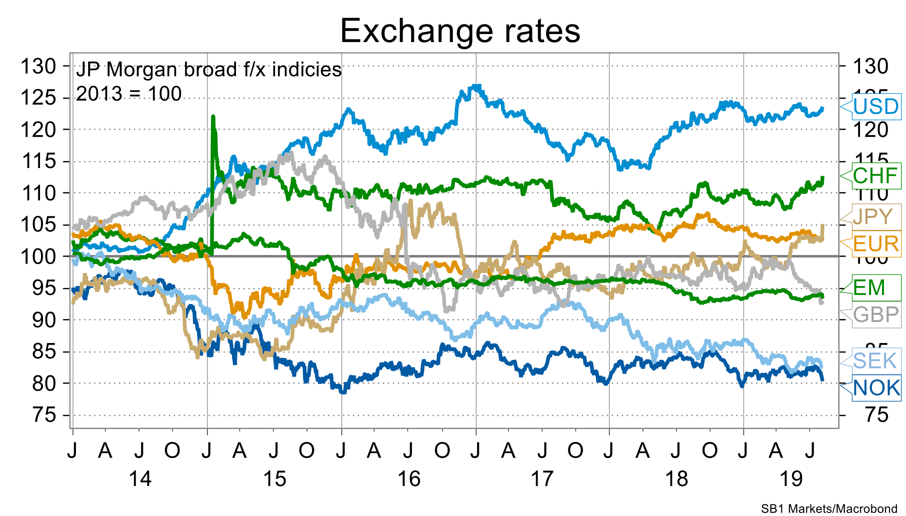
# German bunds at new ATL, the setback at stock market not yet 'visible'



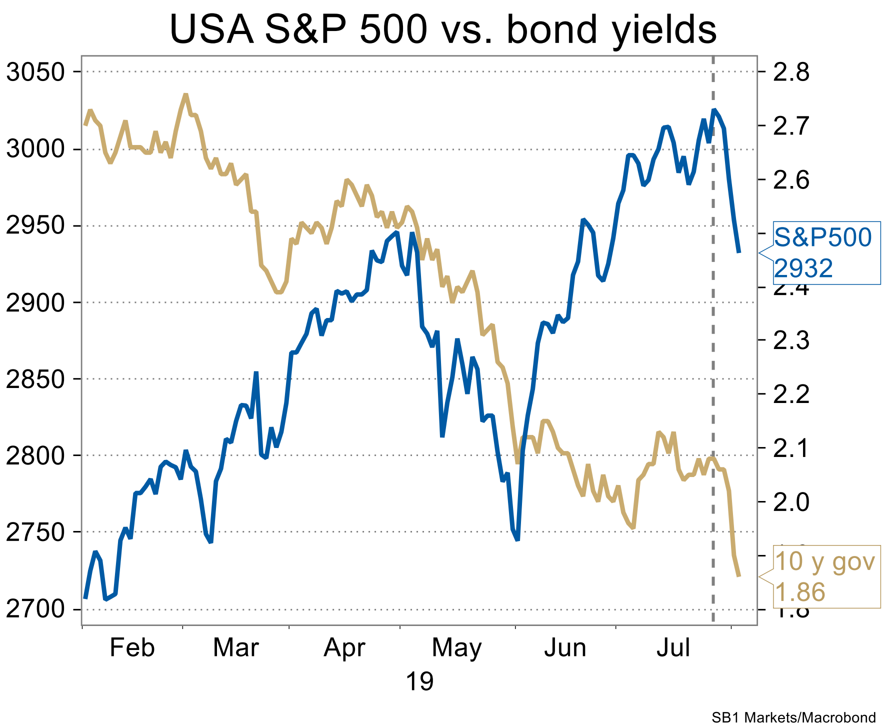



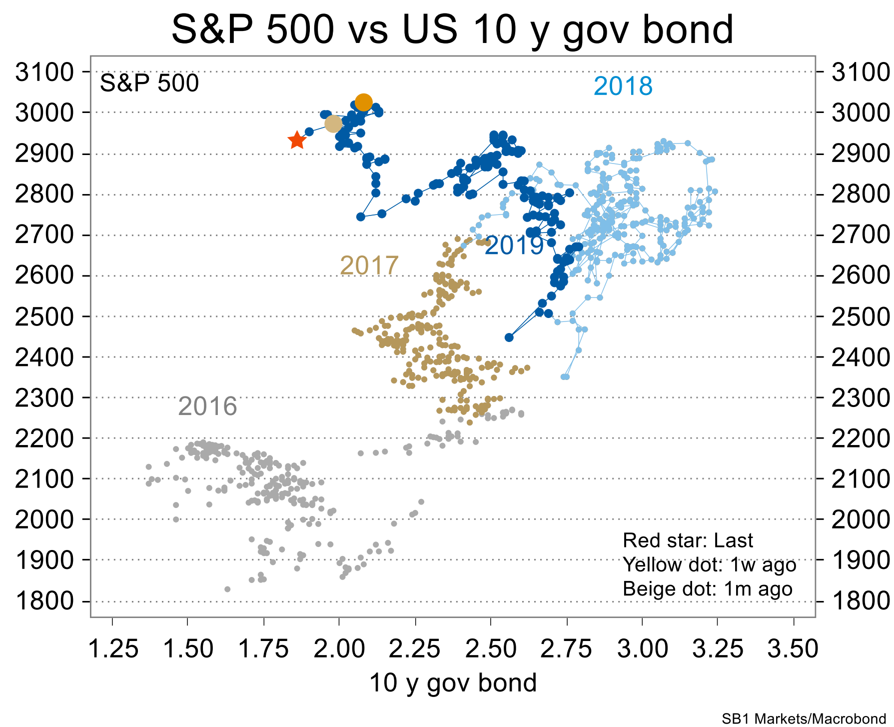



# US (& everywhere): Risk off

Bond yields down 22 bps, to 1.86%, lowest since 2016. S&P500 down 3.1, from ATH

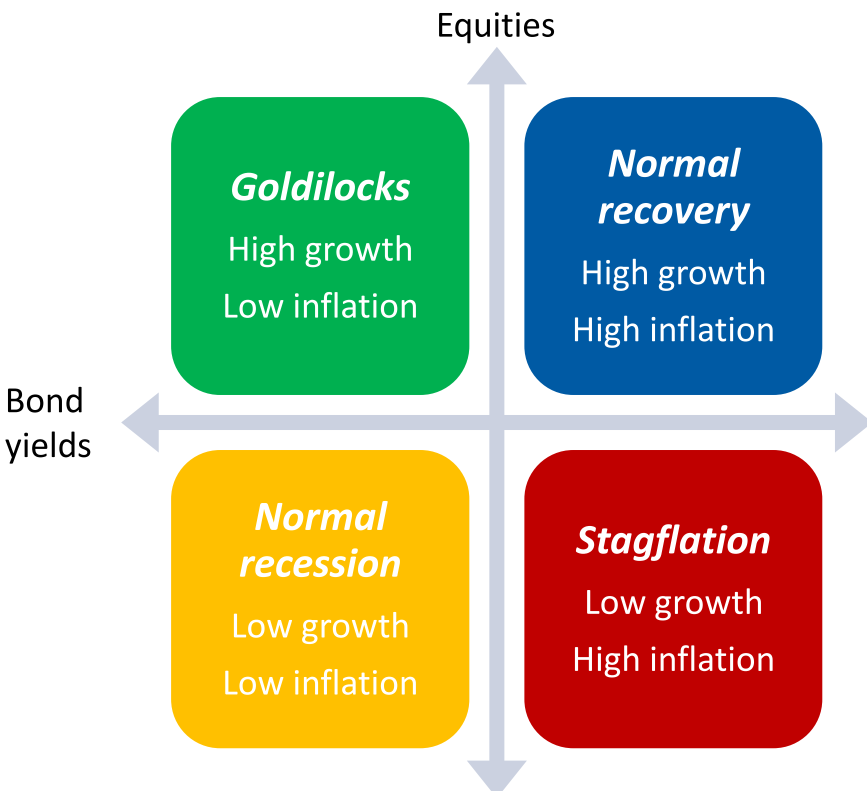


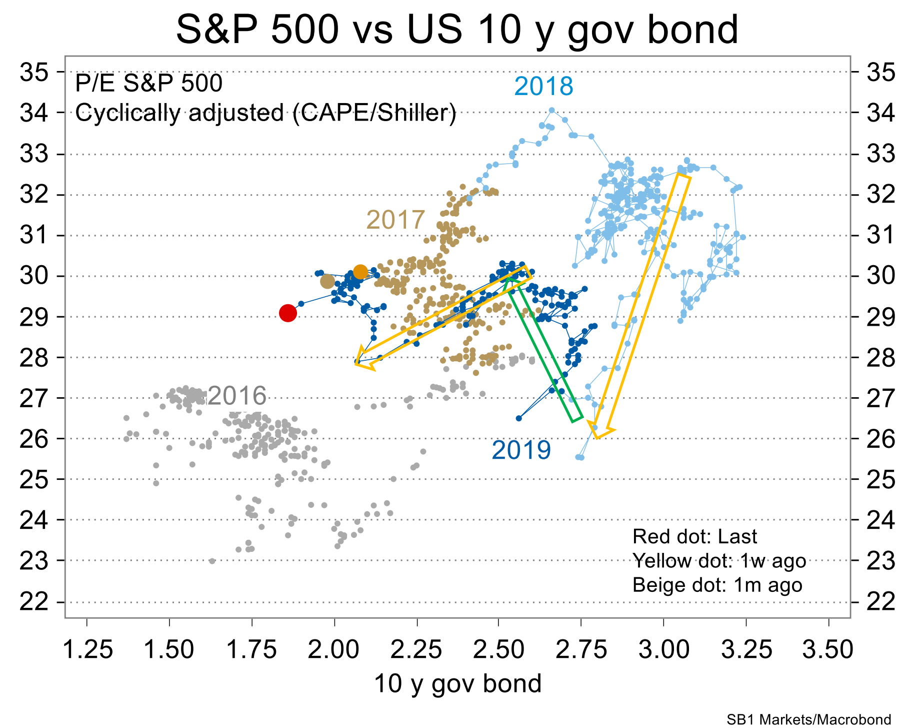




- For more on the relation between stocks and bonds, check next page

# USA markets towards the lower growth/recession corner last week

## The yield curve down, due to lower growth expectations – and stock fell for the same reason

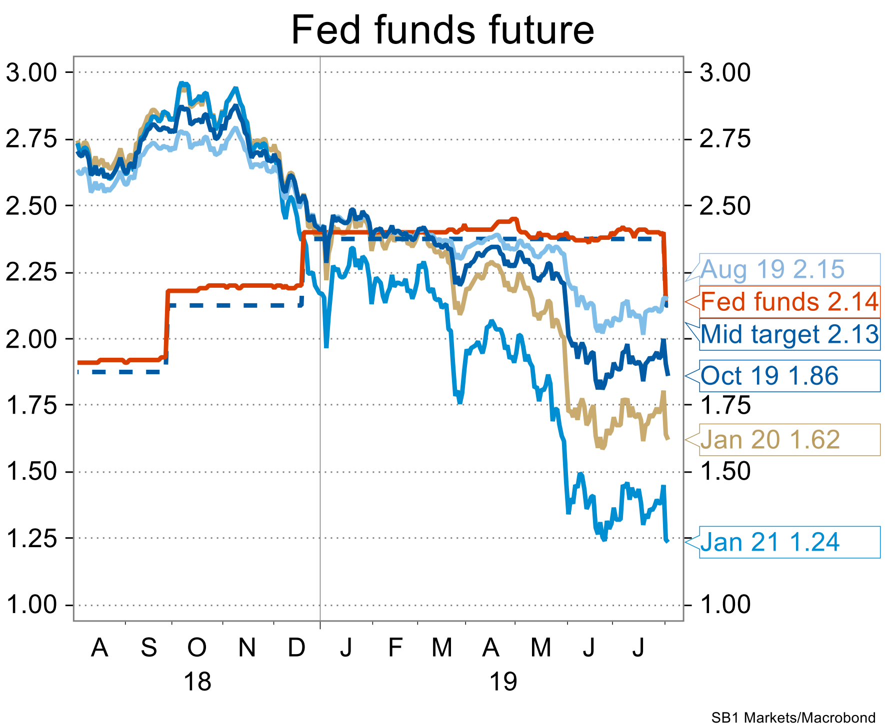


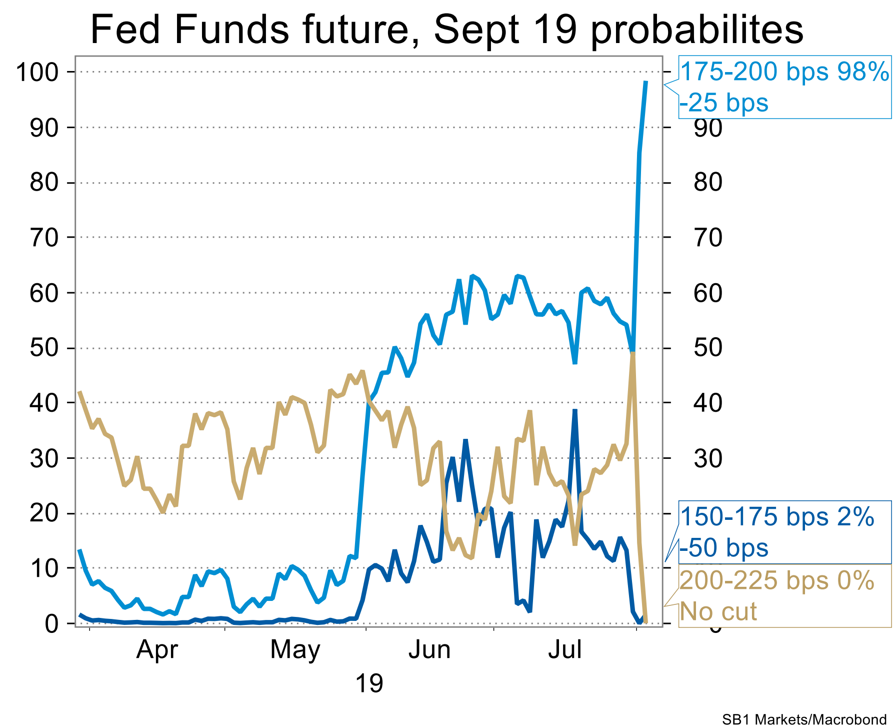




- During May, both stocks and bond yields fell sharply, towards the ‘normal recession’ (yellow) corner. The ‘yielding’ signals from the Fed (and other central banks) during June then pushed bond yields further down, and stock markets up – in the Goldilocks direction.
- During July, the market fluctuated along the normal recession/normal recovery axis, and last week towards the recession corner
- 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

# And suddenly another 25 bps cut in September is a done deal

As we assumed, the Fed would disappoint the market – but the trade war cleared the deck




- US GDP growth has slowed slightly but it is still above or at trend, supported by growth in consumption. Inflation is not far below the target. The real Fed funds rate is just above zero. Yes, there are clouds at the horizon but is still not raining. The USD is stronger than normal but not by that much. In June, most FOMC members expected the Fed funds rate to be kept unchanged trough H2
- Since then, trade news have been at the positive side and risk markets have recovered substantially. The S&P 500 was at all time high some days ago, and credit spreads are still low. So therefore, at Fed has no choice but cutting the signal rate…

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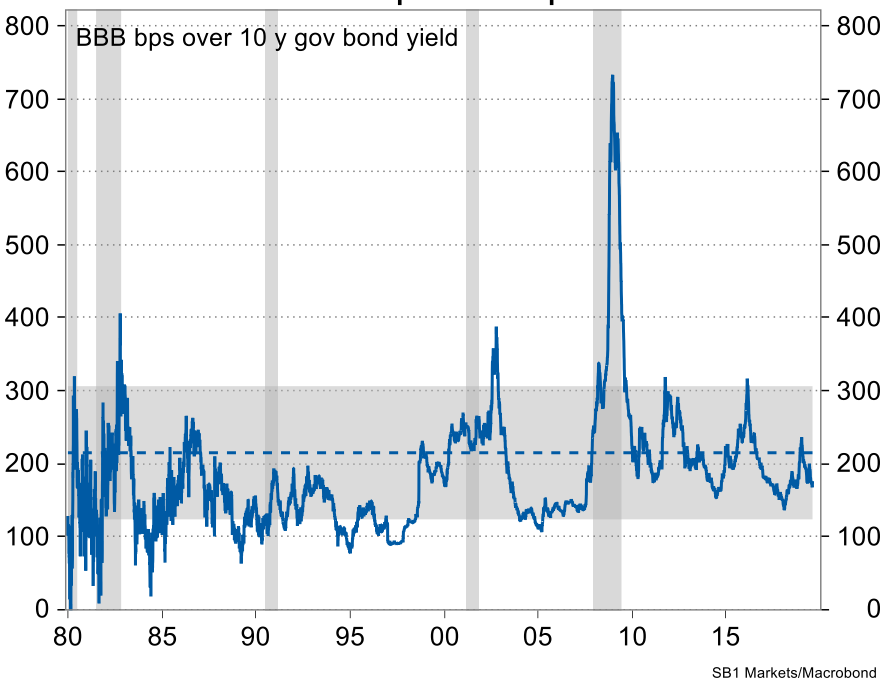
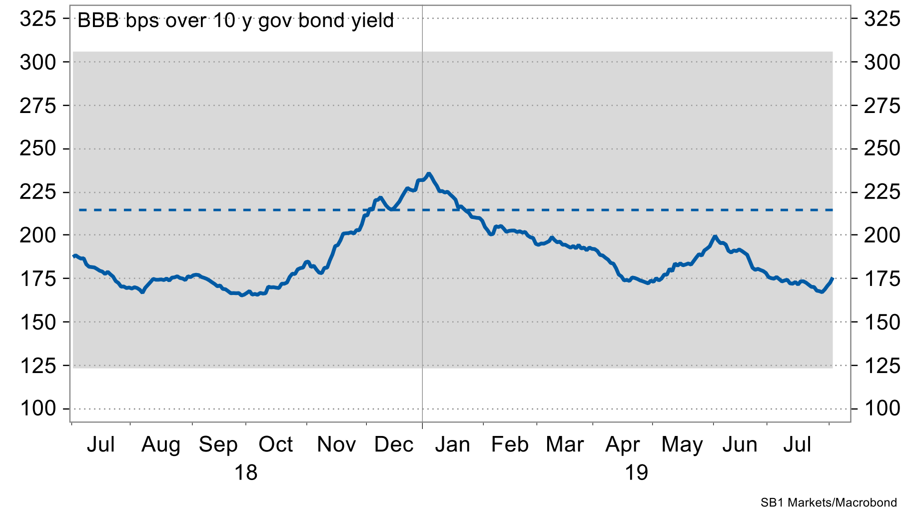
# Credit spreads widened last week but remain (too?) low?

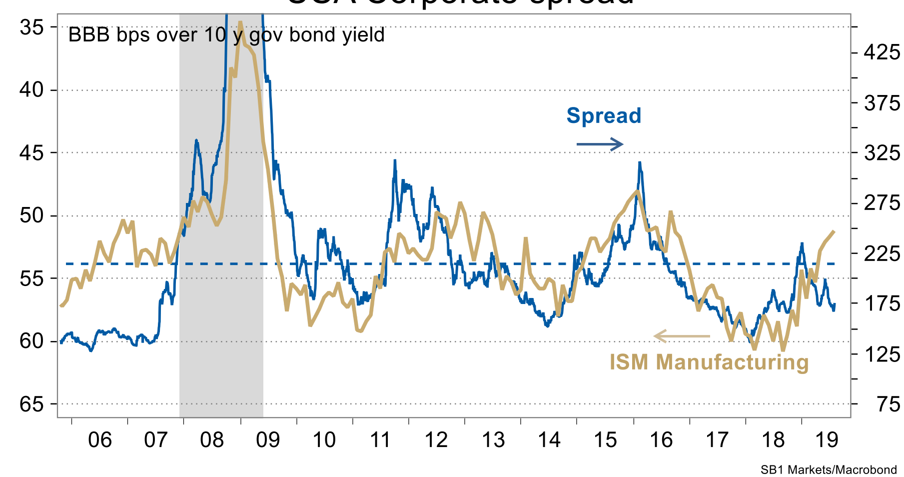
## Spreads are too low if the ISM and (most) other surveys are correct; <u>if growth is slowing</u>

USA Corporate spread




USA Corporate spread



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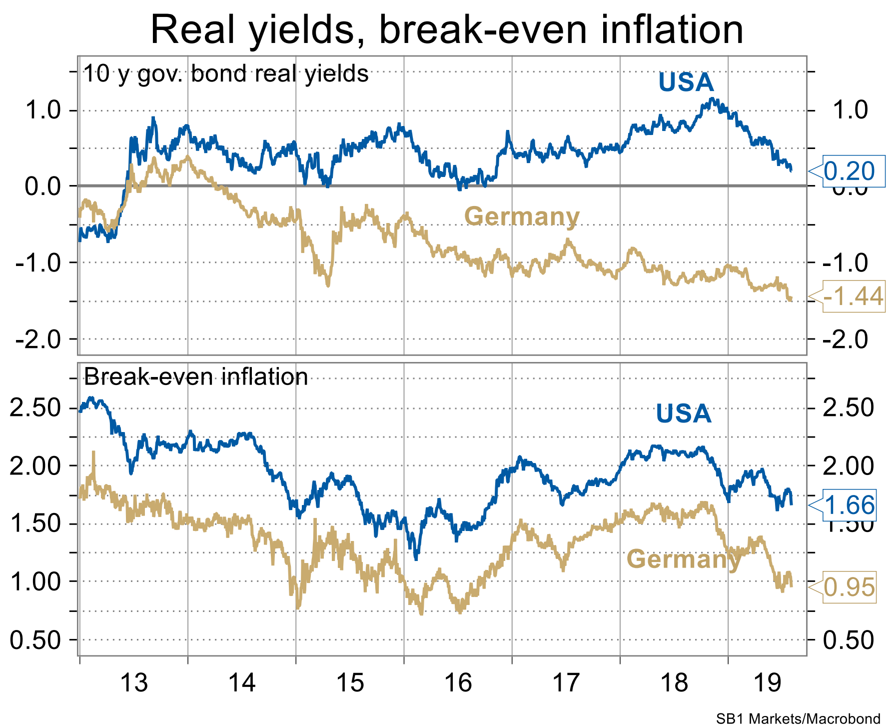
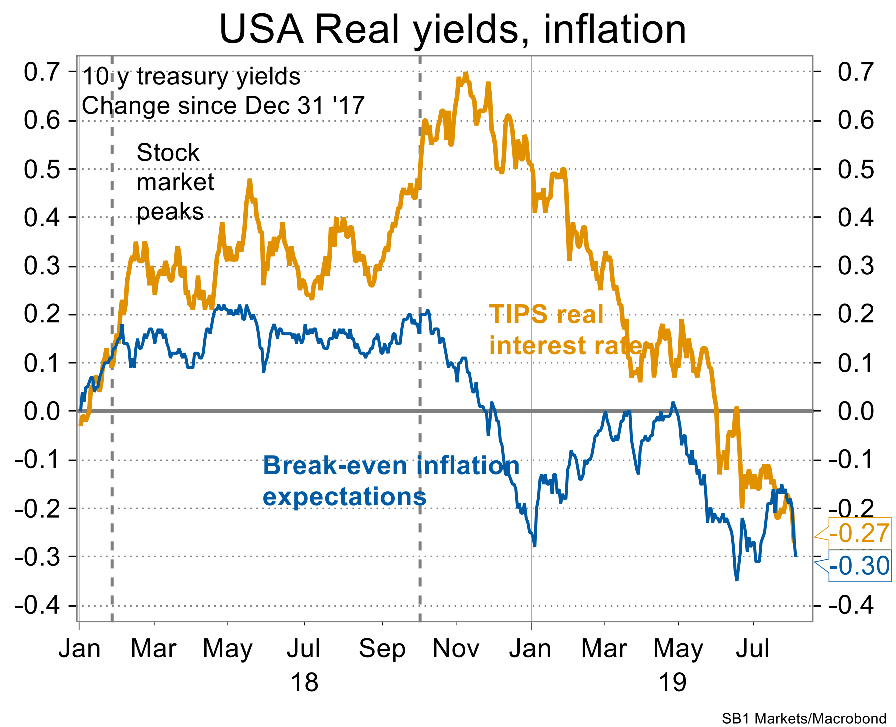
# Real rates, inflation expectations, the term spread – everything down, down

... With the strange exception of German real rates but they remain extremely low, at -1.44%




- US 10 y real rate down 10 bps to 0.20%, inflation expectations (measured by CPI) down 12 bps to 1.66%

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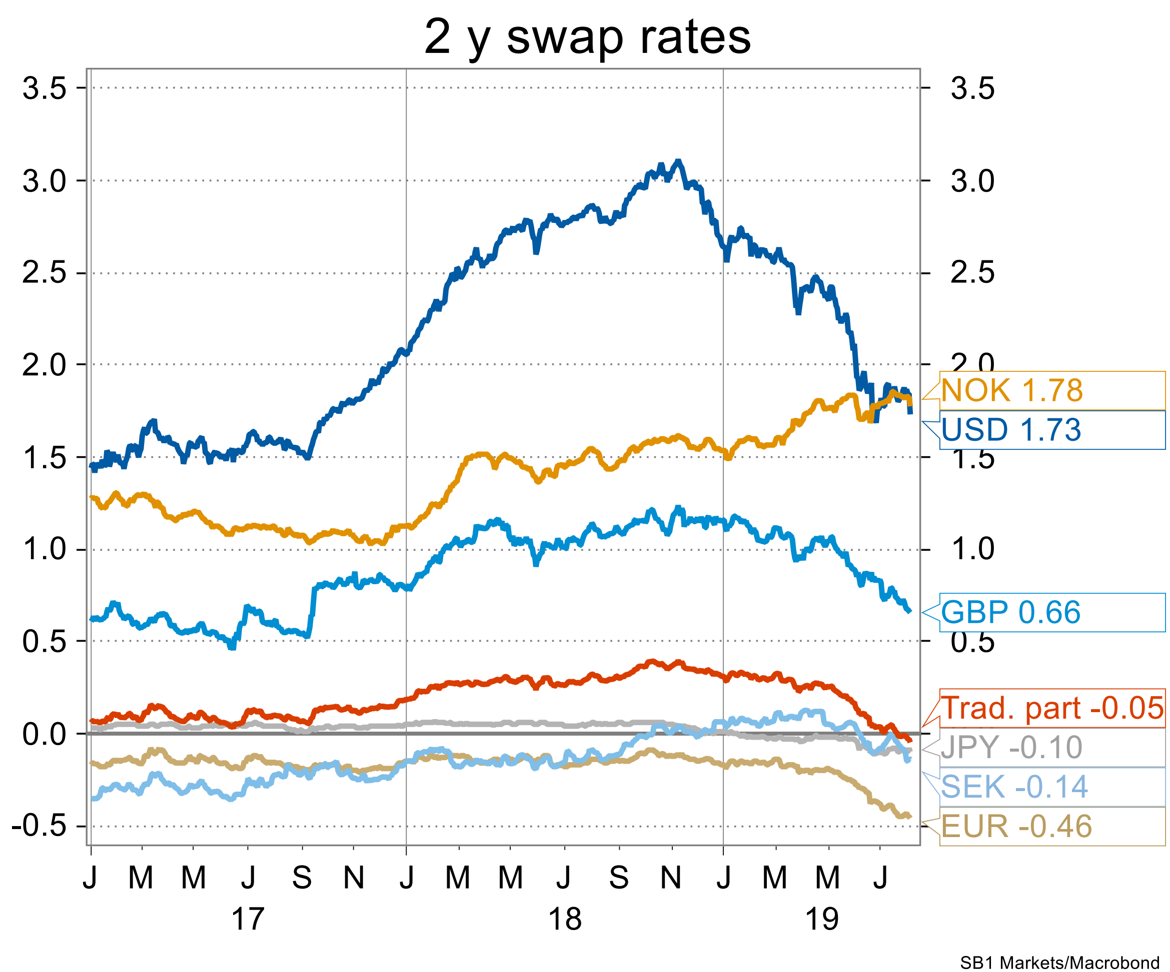
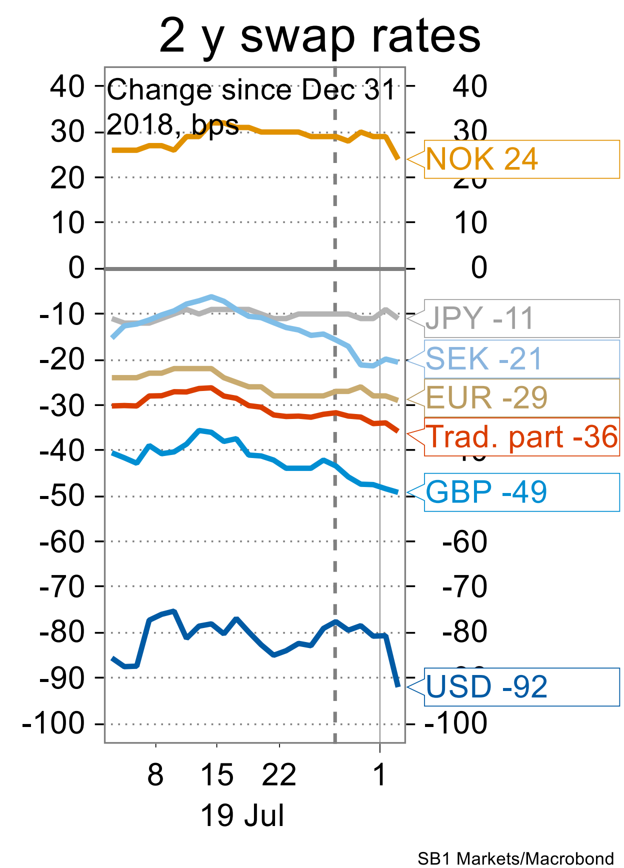
# Even Norwegian short term rates fell last week

The big decline came in the US, after the tariff announcement (and no other explanations are likely)



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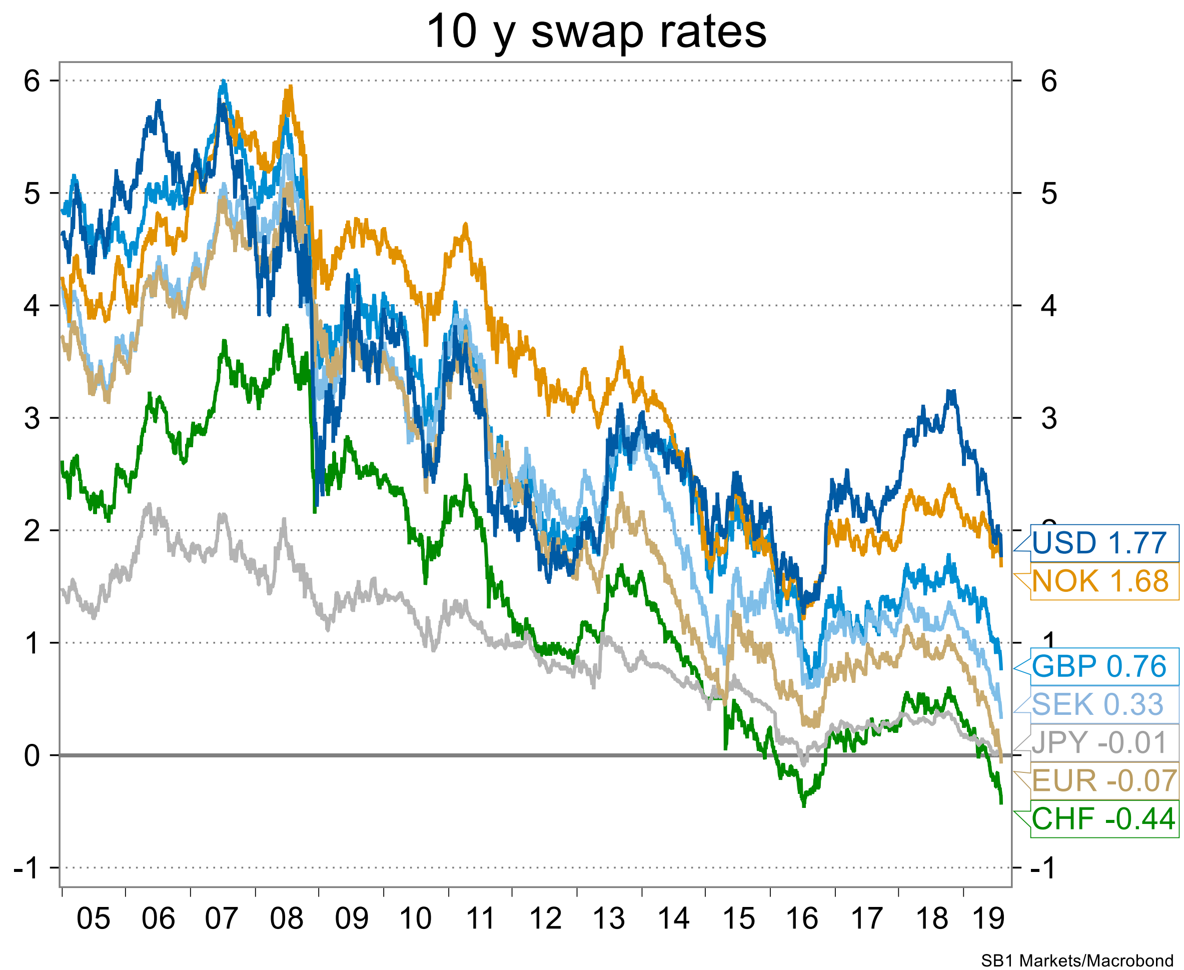
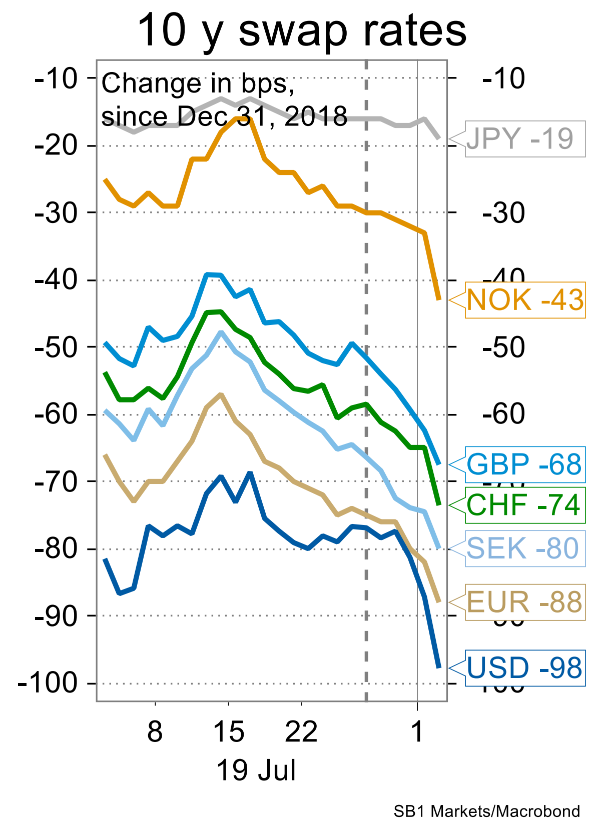
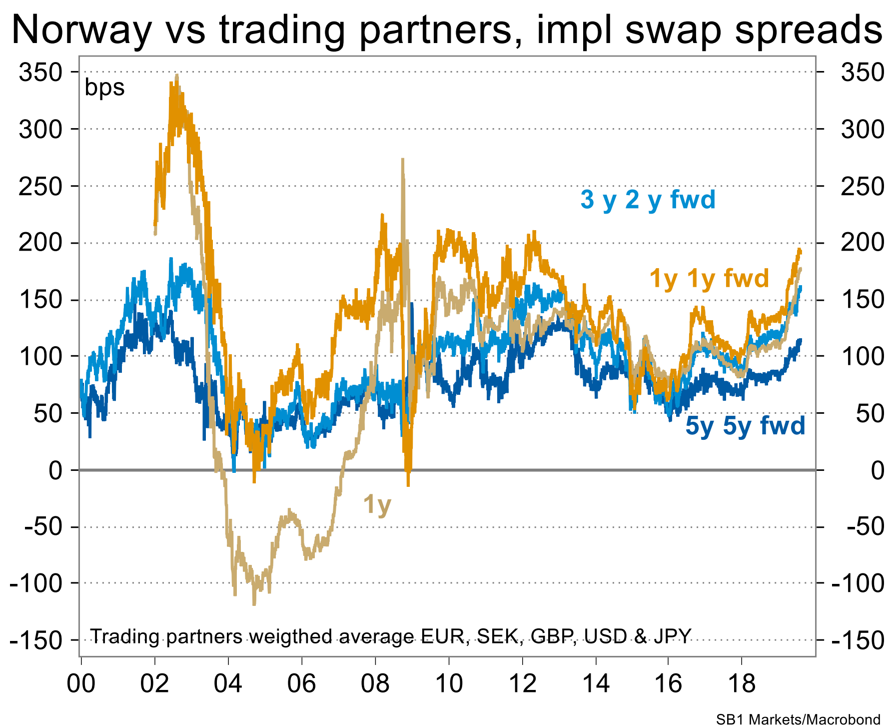
# Long term swap rates down everywhere, and most in the US

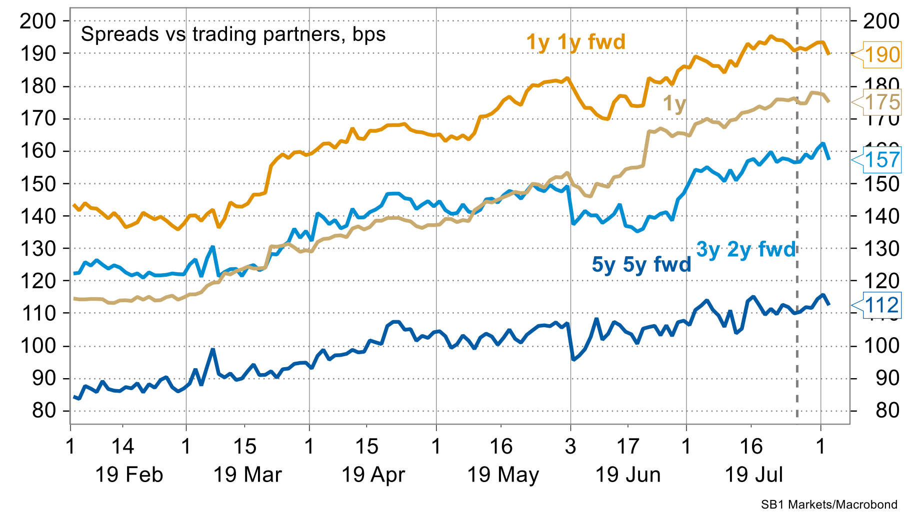
10y EUR swap rates fell into negative territory, for the first time ever.

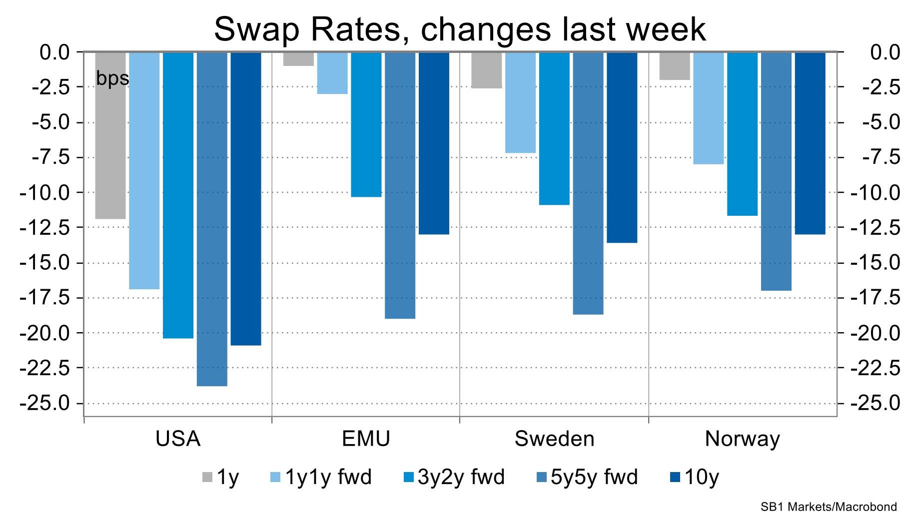


# NOK swap spreads vs trading partners close to flat last week




- 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

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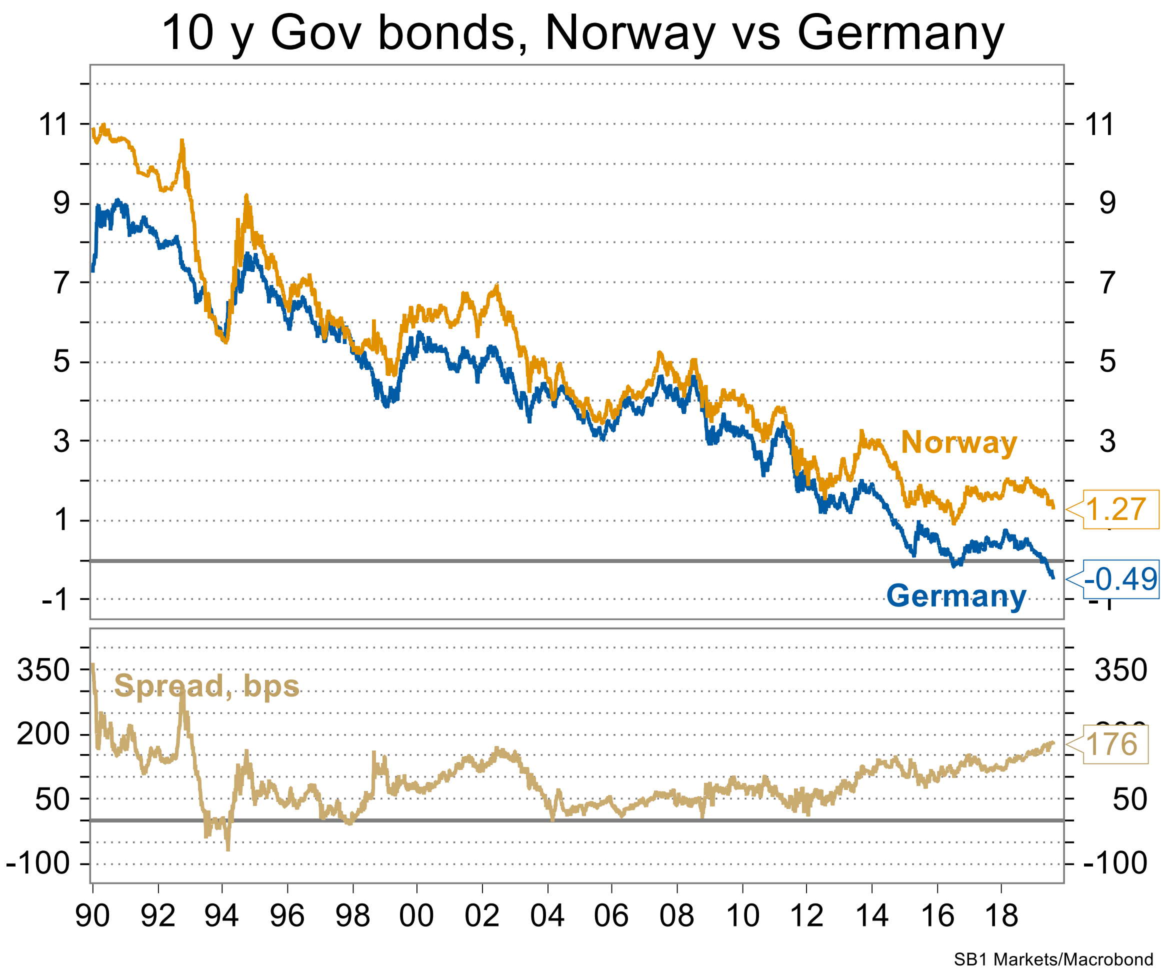
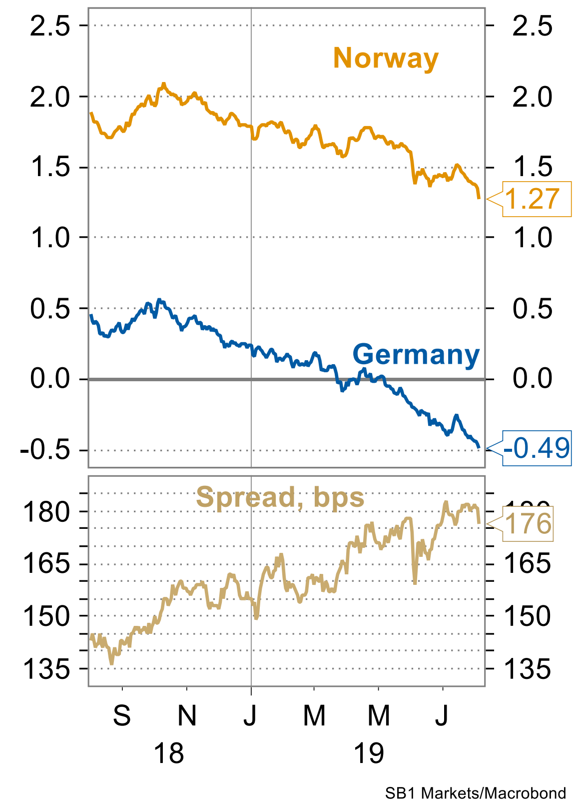
# Long gov bond yields down, more in Norway than in Germany

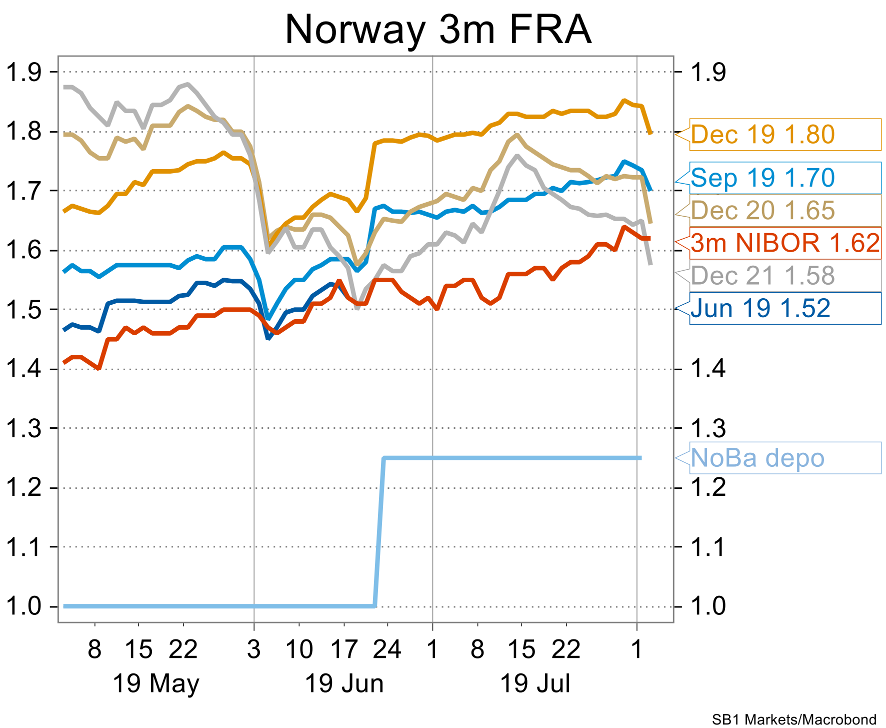
NOK 10 y gov down 11 bps to 1.27%, the German bund -5 bps to -0.49, a new ATL, again.

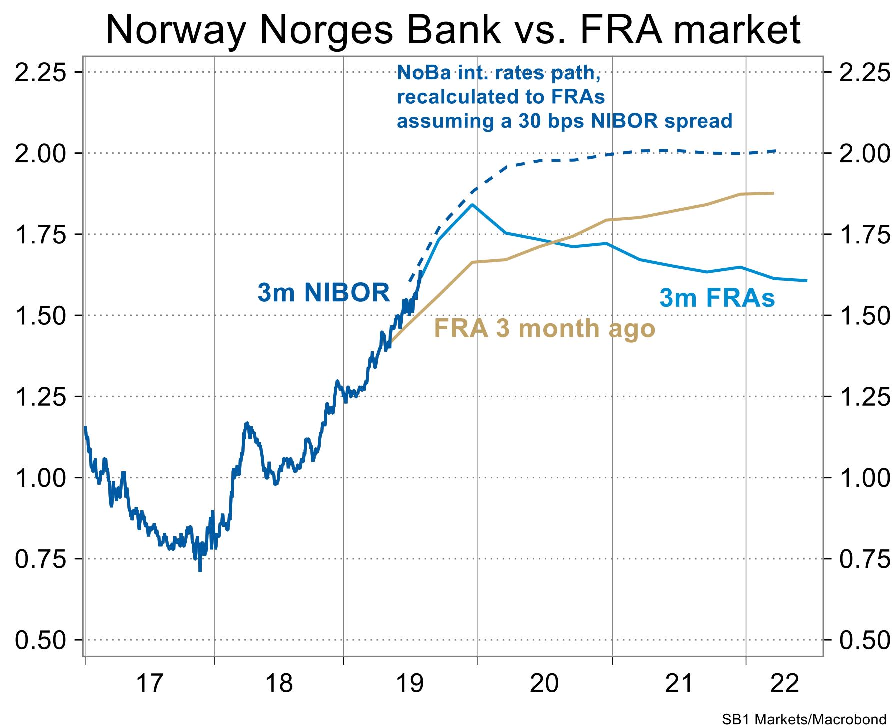


# Norwegian short FRAs climb, longer FRAs follow foreign rates down

## The NIBOR spread may have widened somewhat, but market puts at least 50% prob. for a Sept hike

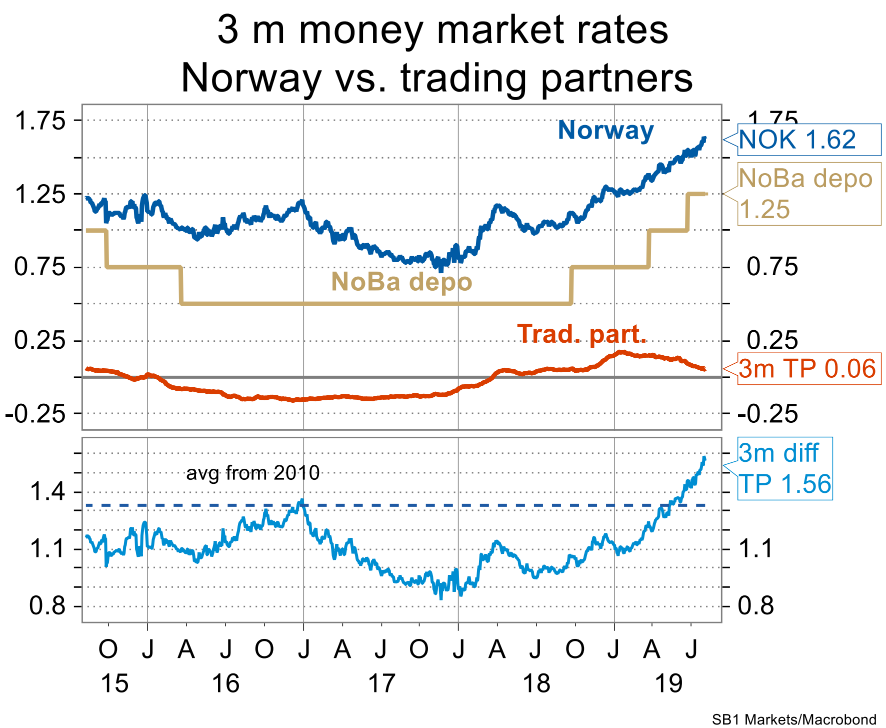


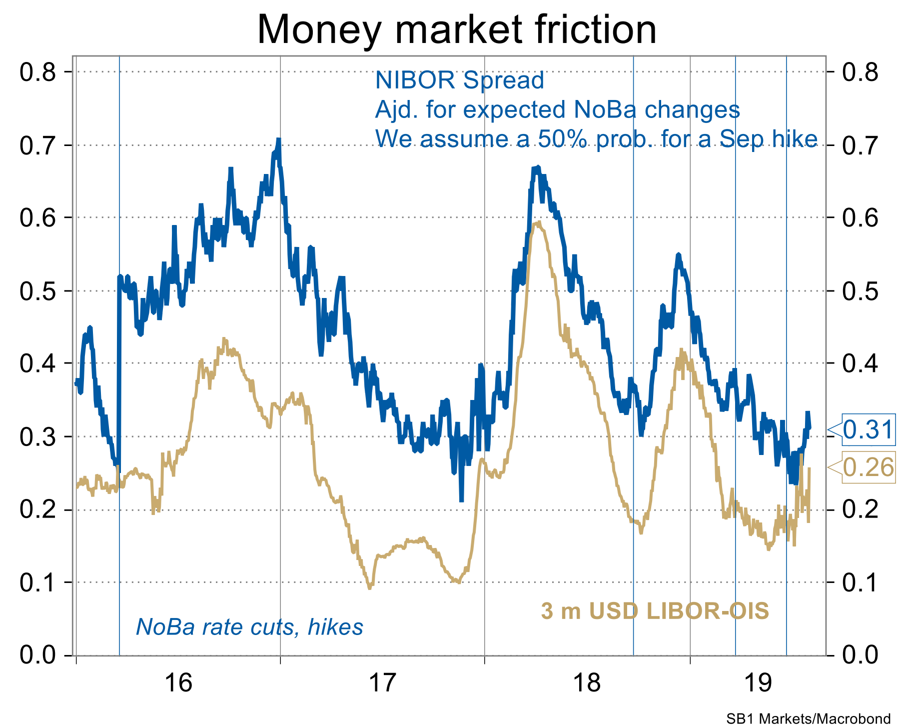




- The Sept 19 3m FRA fell 5 bps through Thursday and Friday, most likely because the market revised the probability for a Sept hike. IF the NIBOR spread was unchanged, the probability for a hike fell by 20 pp. IF we assume a 35 bps NIBOR (forward) spread, the probability fell to 40%, from 60%. Given the same spread assumption, the market puts a 80% probability for a hike before Christmas
- The FRA curve is inverted from Dec 19 onwards, the market does not expect any hikes after 2019 (NoBa plans 1 in '20)

# 3m NIBOR up to 1.62%, due to higher spreads?

## The US 3m OIS (as the TED) has widended – probably the NIBOR spread too

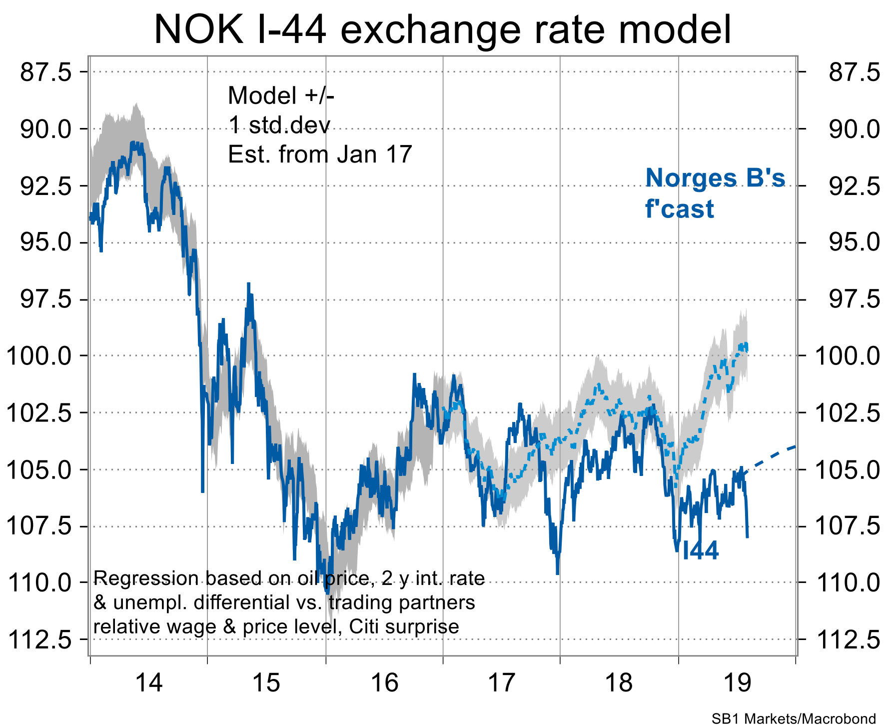


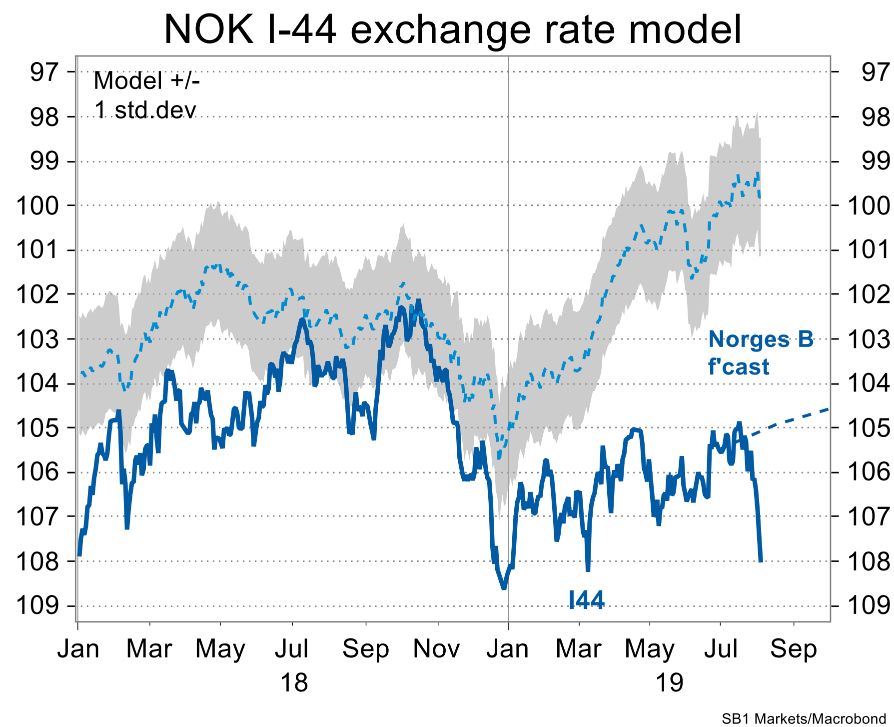




- The spread between NOK and trading partners' 3 m money market rates at 1.55 bps, above the 130 bps avg since 2010 – without sending the NOK into the orbit
- For calculations of the probability for a Sept hike, see the discussion on the Sept 19 3m FRA next page

# NOK down 1.7% last week. Our model explained 0.2 pp of it

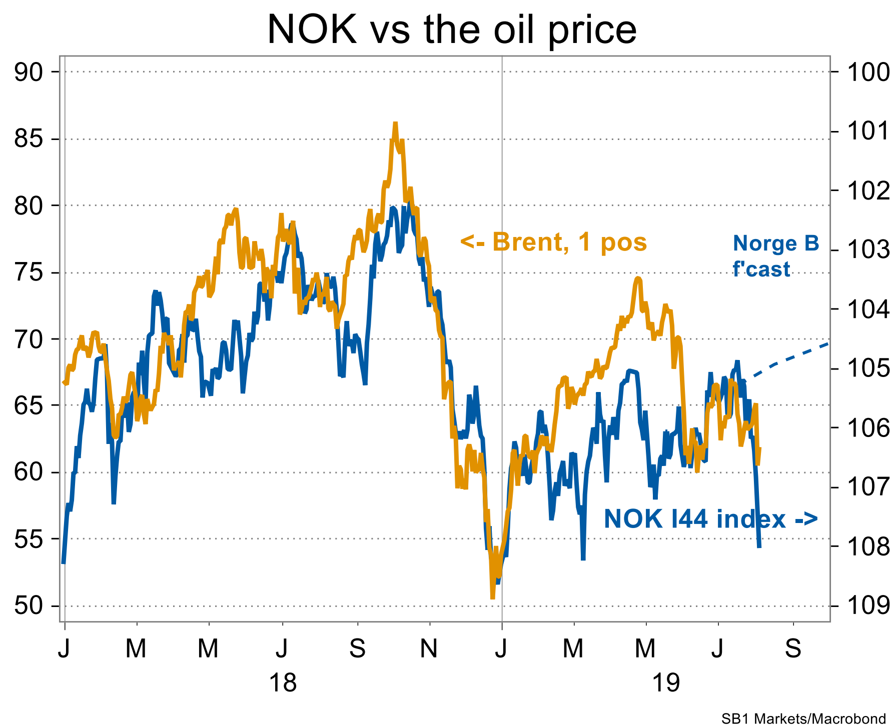
The NOK is 8% below our model's f'cast. Never seen that before!!

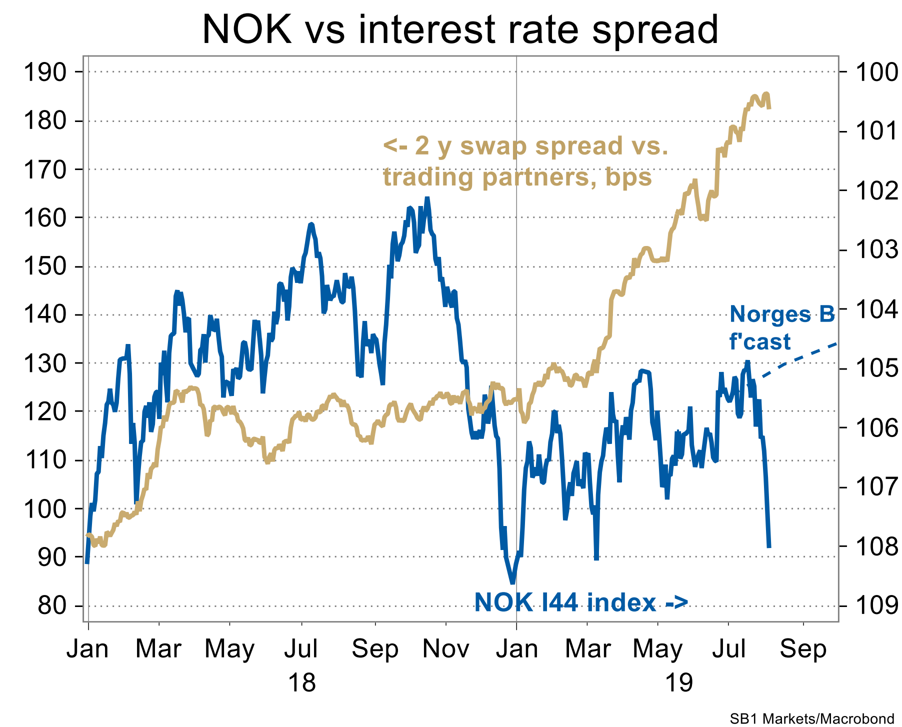



- The modest decline in our model forecast was due to the decline in the oil price
- Even our super-cycle f/x model did not catch the NOK decline. The AUD & SEK fell 1% (JPM f/x indices), but the CAD (surprisingly?) rose
- We do not have any other recommendation than **Buy NOK**

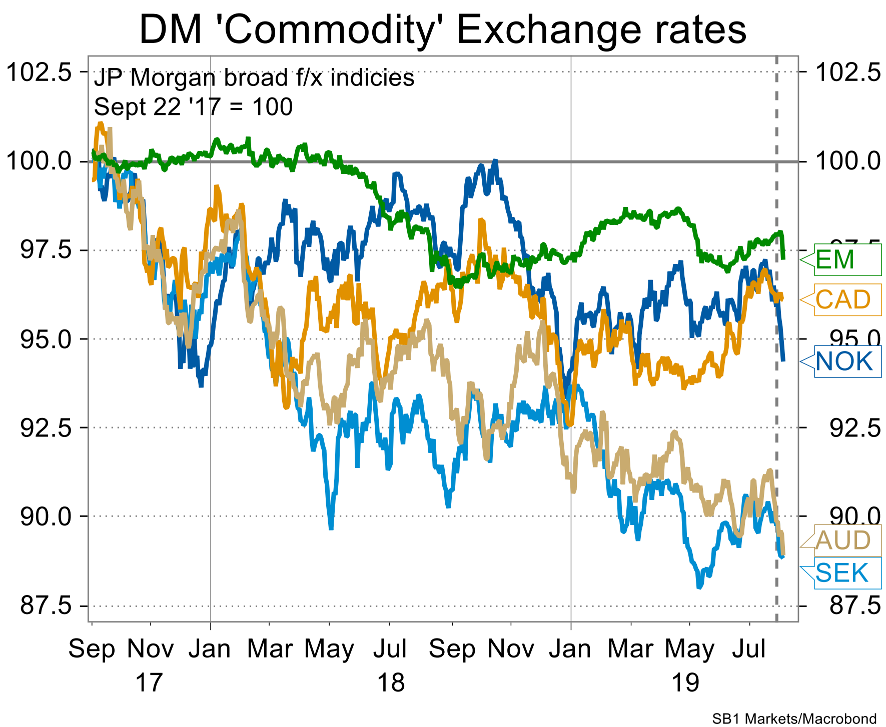
# NOK down more than the oil price last week

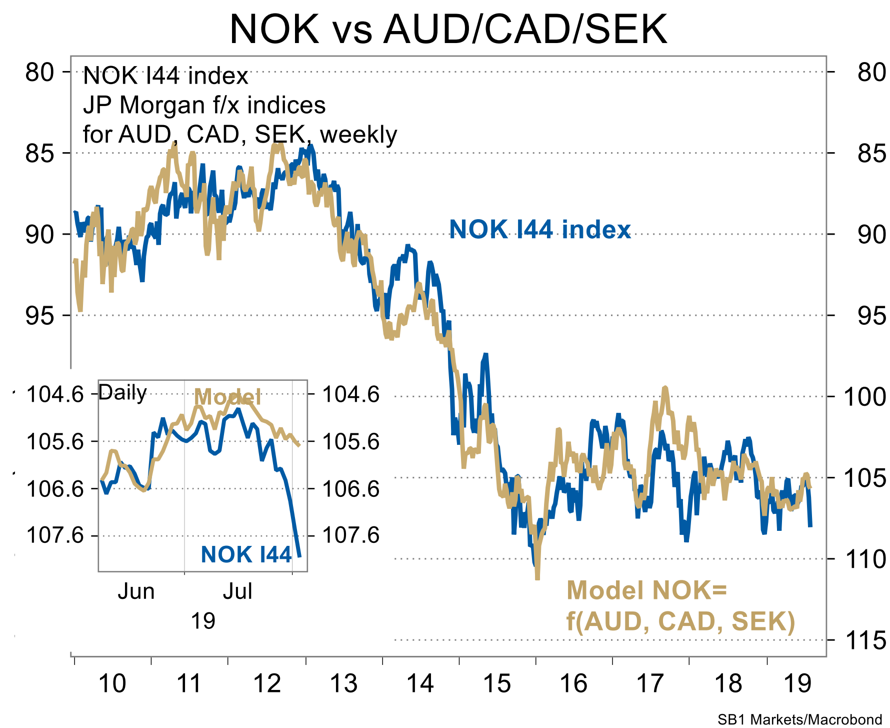


# NOK follows our supercycle pals pretty well over time – but not last week

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

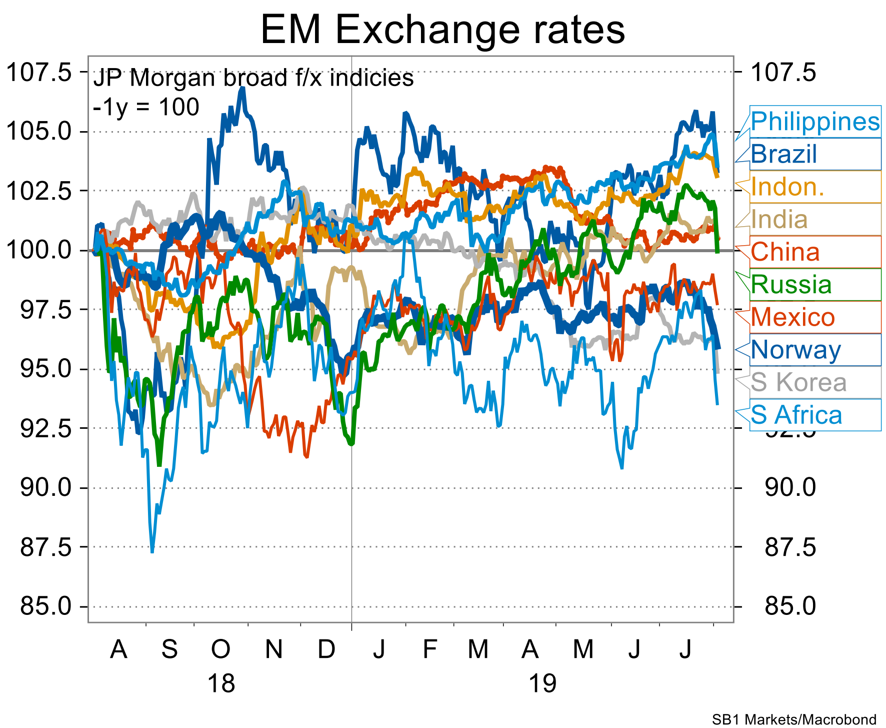


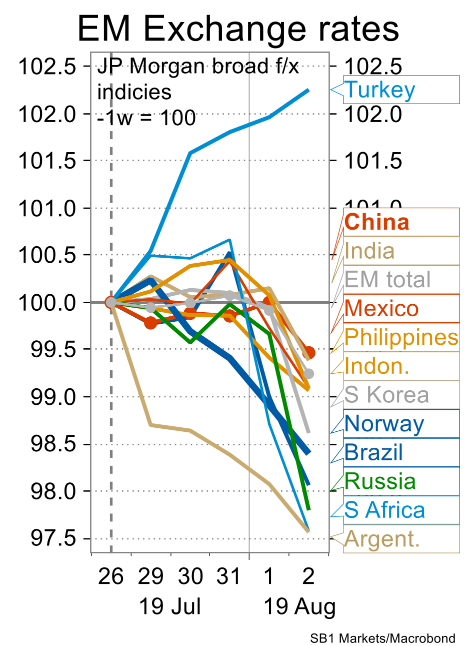



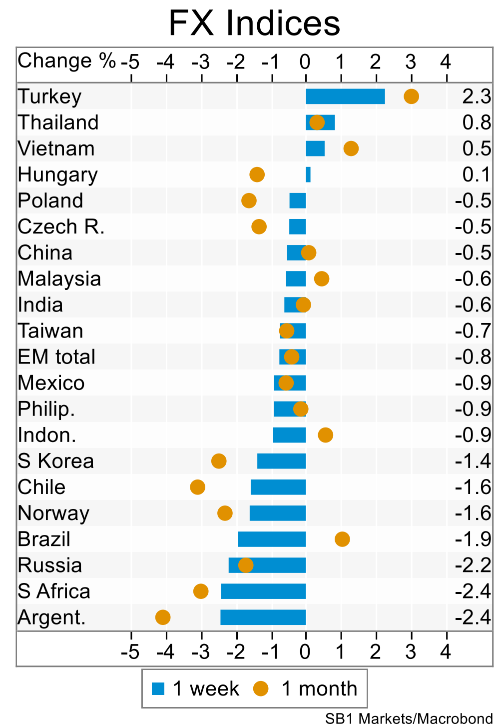

- Last week the CAD rose marginally – and the CAD is the most important index in our super-cycle f/x model. Thus, the model did not explain the steep decline in the I44 index any better than our traditional NOK-model (based on oil and interest rate differential, among other things). Over time however, a NOK model based on these other currencies has performed better the traditional model.
  - » 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?

# EM f/x: Trump's trade war escalation lowered EM currencies

… but not that much. The CNY down 0.5% (but others somewhat more)




- The South African rand has been unstable, just as it usually is

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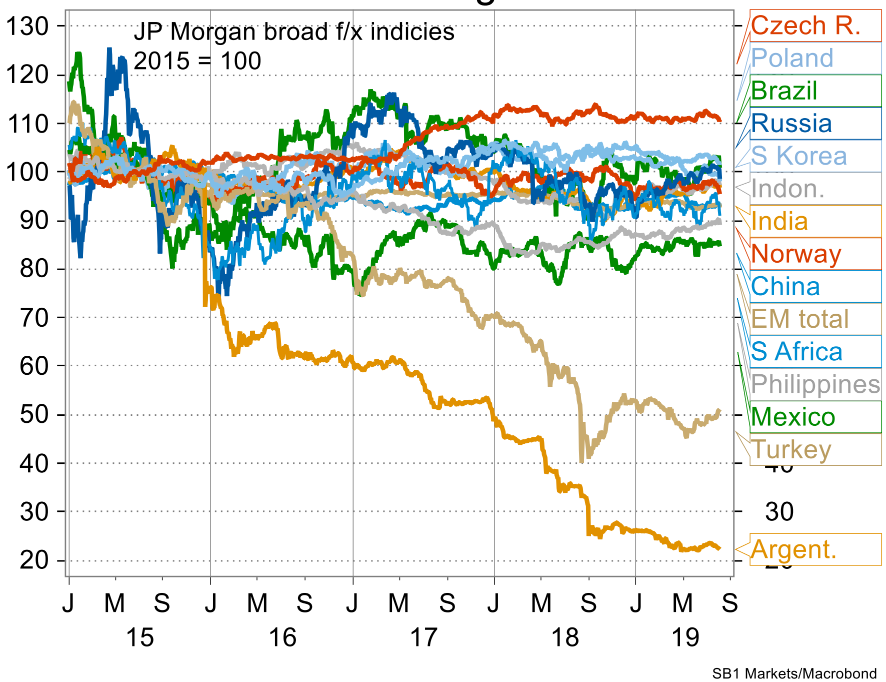
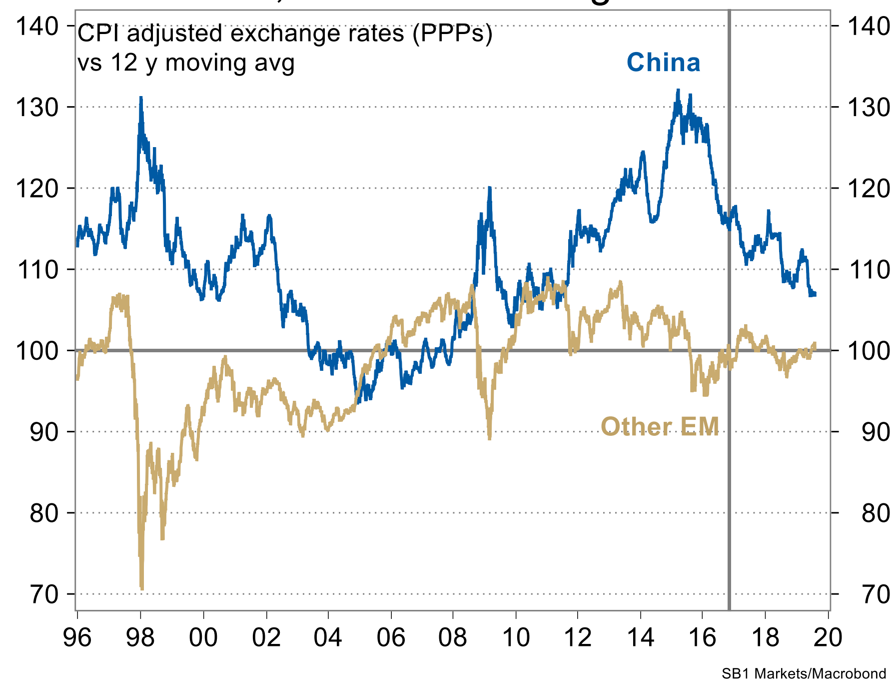
# EM f/x, a long term view: Not that exciting, now

## With a (normal) couple of notable exceptions, EM currencies have been stable recent years

EM Exchange rates




China, EM real exchange rates




- The real CNY exchange rate was (too) strong in 2015/16, most likely contributing to the slowdown in the Chinese economy. China had a huge surplus at the current account 10 years ago (10%+). Now, the C/A is close to balance; goods are still in surplus, while there is deficit at the service balance
- Other EM currencies have in average been quite stable the recent years, even if some have run into problems, like always. This time Argentina and Turkey have struggled, for good reasons. They have both stabilised recent months – but the lira has lost 50% of its value and the peso 75% since 2015

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