26 August, 2019

Macro Research

Weekly update 35/2019

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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Last week – the main takes

- **Trade wars are good, and easy to win**. Well, it did not look like that on Friday. As 'promised' China retaliated to US tariffs by hiking tariffs by 5 -10 pp on 2/3 of imports from the US. Then Trump 'ordered' US companies to plan for leaving China, and in the afternoon (after Wall Street close) announced another 5 pp hike on Chinese imports, up to max 30%. At Sunday, Trump said that he (maybe) regret the escalation of the trade war, later the White House said he regret he did not hike tariffs even more at Friday. Trump once more **scolded Fed's Powell** for doing nothing (even if Powell just was speaking at the central bankers' conference in Jackson Hole), and wondered if Powell was not an even bigger enemy than president Xi (who btw is Trump's best friend). And anyway, Trump tweeted Sunday that trade negotiations with China are going very well, even if the US does not need China and, frankly, could be far better off without them. No **serious disasters at G7** in France but it seems unclear if the participants had taken part in the same meetings, at least one of them.

- **Global composite PMI** most likely came marginally down in August, the preliminary PMIs from the US, EMU and Japan point to a 0.3 p decline. The PMI has stabilized the past 4 months, indicating a slowdown to some 3% global GDP growth. **The US PMI** was the most disappointing data point, the service sector reported a slowdown and the services PMI fell 2.1 p. Manufacturing inched down to contraction mode (49.9), for the first time since the financial crisis! **Eurozone PMI** confirmed a stabilization but manufacturers are still noting a deep contraction, particularly in Germany. **Japan manuf. PMI** came marginally up, to 49.5

- **Minutes from the Fed July meeting** revealed a divided FOMC with no consensus on the way forward. 'Several' members favored an unchanged interest rate, two preferred a 50 bps cut over the 25 bps cut. The market expects a 25 bps cut in September (but the probability of 50 bps cut spiked, now to 30%). At Jackson Hole, **Powell signaled willingness to cut again**, due to increase trade policy uncertainty. **New home sales** was much better than expected in June/July, and is trending up**.** **Existing home sales** rose in July and confirm solid demand. **The leading index** bounced back in July but the 3% GDP growth which the index signals is probably not within reach

- **The Swedish labour market** is showing several signs of weakness. The LFS unemployment rate spiked to 6.8% in July, from 6.3% in early 2019. Even more worrisome, employment is declining rapidly, and faster than the labour force retreats

- **The Norwegian oil & gas investment survey** came in slightly below our expectations in Q3. We f'cast a 14% volume growth in 2019 vs 2018, and most of it has already taken place. The oil companies' 2020 f'cast was lifted just marginally, and we revise our 2020 volume f'cast down to 4%, from 6%. If so, investments will peak in H2 2019, implying zero contribution to GDP growth going forward, from 1 pp now! **Manufacturing investments** are set to decline substantially in 2020, as will investments in power supply, both from high levels. **LFS unemployment** ticked up to 3.6% in June, may be confirming some labour market softness, as NAV data have been noting. On the other hand, employment spiked and the employment rate is trending up. **Population growth** has bottomed, total population rose 0.6% q/q in Q2, down from an upwardly revised 0.7%. **Housing starts** are climbing, according to the SSB, however, adjusted for a huge lift in student housing, starts have most likely turned down

SpareBank 1 MARKETS

What a stormy Friday. A fraction of the tweets below

US companies are ordered to leave China, US tariffs lifted (as China did), and Powell named an enemy

Donald J. Trump
@realDonaldTrump

Our Country has lost, stupidly, Trillions of Dollars with China over many years. They have stolen our Intellectual Property at a rate of Hundreds of Billions of Dollars a year, & they want to continue. I won't let that happen! We don't need China and, frankly, would be far....

....better off without them. The vast amounts of money made and stolen by China from the United States, year after year, for decades, will and must STOP. Our great American companies are hereby ordered to immediately start looking for an alternative to China, including bringing..

....your companies HOME and making your products in the USA. I will be responding to China's Tariffs this afternoon. This is a GREAT opportunity for the United States. Also, I am ordering all carriers, including Fed Ex, Amazon, UPS and the Post Office, to SEARCH FOR & REFUSE,....

4:59 PM · Aug 23, 2019 · Twitter for iPhone

Donald J. Trump
@realDonaldTrump

...unfair Trading Relationship. China should not have put new Tariffs on 75 BILLION DOLLARS of United States product (politically motivated!). Starting on October 1st, the 250 BILLION DOLLARS of goods and products from China, currently being taxed at 25%, will be taxed at 30%...

...Additionally, the remaining 300 BILLION DOLLARS of goods and products from China, that was being taxed from September 1st at 10%, will now be taxed at 15%. Thank you for your attention to this matter!

11:00 PM · Aug 23, 2019 · Twitter for iPhone

Donald J. Trump
@realDonaldTrump

As usual, the Fed did NOTHING! It is incredible that they can "speak" without knowing or asking what I am doing, which will be announced shortly. We have a very strong dollar and a very weak Fed. I will work "brilliantly" with both, and the U.S. will do great...

4:57 PM · Aug 23, 2019 · Twitter for iPhone

Donald J. Trump
@realDonaldTrump

....My only question is, who is our bigger enemy, Jay Powell or Chairman Xi?

10:57 AM · Aug 23, 2019 · Twitter for iPhone

We promise, we will not start retweeting Trump's messages but we just had to list some very few of Friday's rants, which had 'some' market impacts.

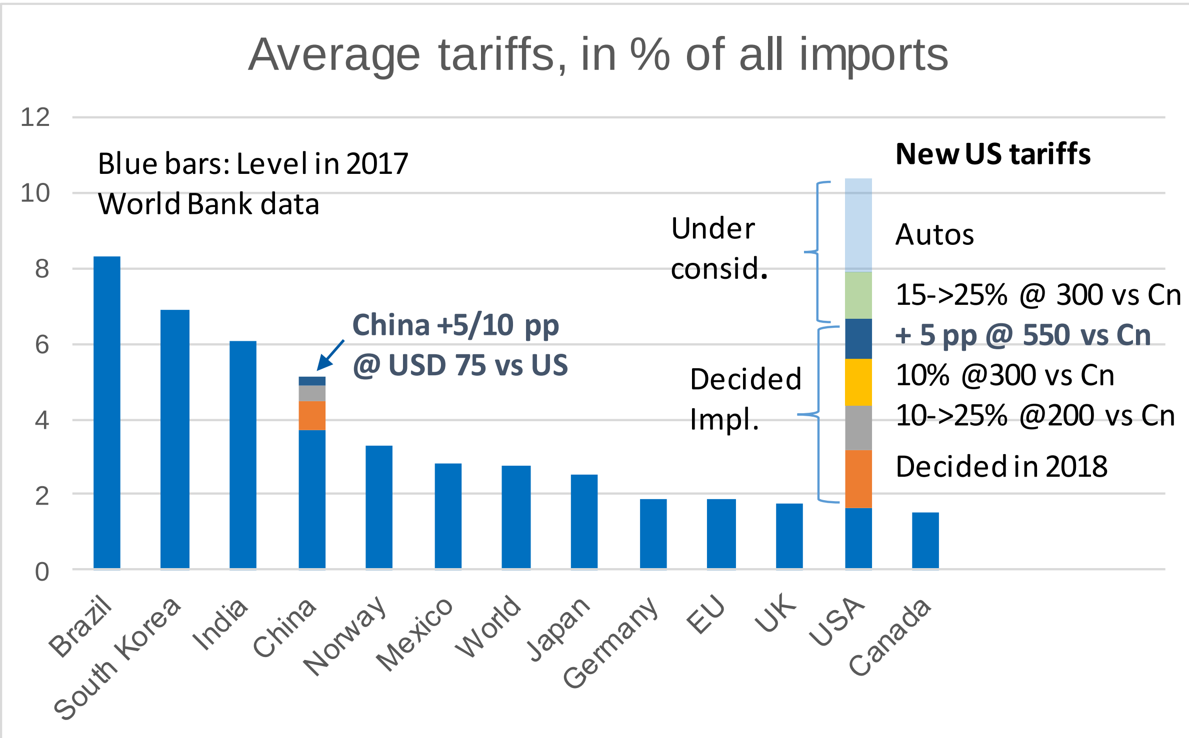
The last ones, on hiking US tariffs on Chinese imports came after the stock market closed Friday

Guess Trump's critic on Fed (an everyday procedure these days) was directed towards Powell's speech at Jackson Hole, which was not a FOMC decision meeting. But anyway, Powell may be a bigger enemy than Xi (but wasn't Xi his best friend??)

And at Sunday the trade talks with China went very well .He just regret he did not hike tariffs more at Friday…

Friday's escalation: China +6% @ USD 75 bn, US +5% @ USD 550 bn

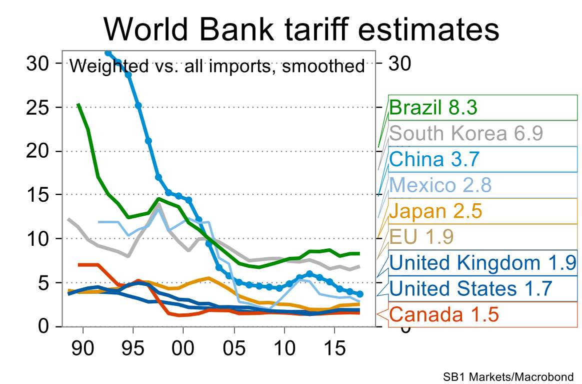
As pre-warned, China retaliated (moderately) at the US Aug 1 round. Trump hit back, +5 pp…



- And at Sunday Trump said at he regret he did not lift tariffs even more Friday night
- The well pre-warned Chinese retaliation was not that aggressive, half of US exports was covered by the hike (goods that that were already tariffed and which China easily can buy elsewhere)
  - » However, some auto/auto part tariffs were included earlier.
  - » Aircraft and most tech are still not included
- Trump Friday 'ordered' US companies to plan for leaving China. The legal status for this order is unclear, at least it requires a US national emergency. '*We don't need China, and – frankly – would be far better without them'.* Then, on Sunday, Trump tweeted that the trade talks went well

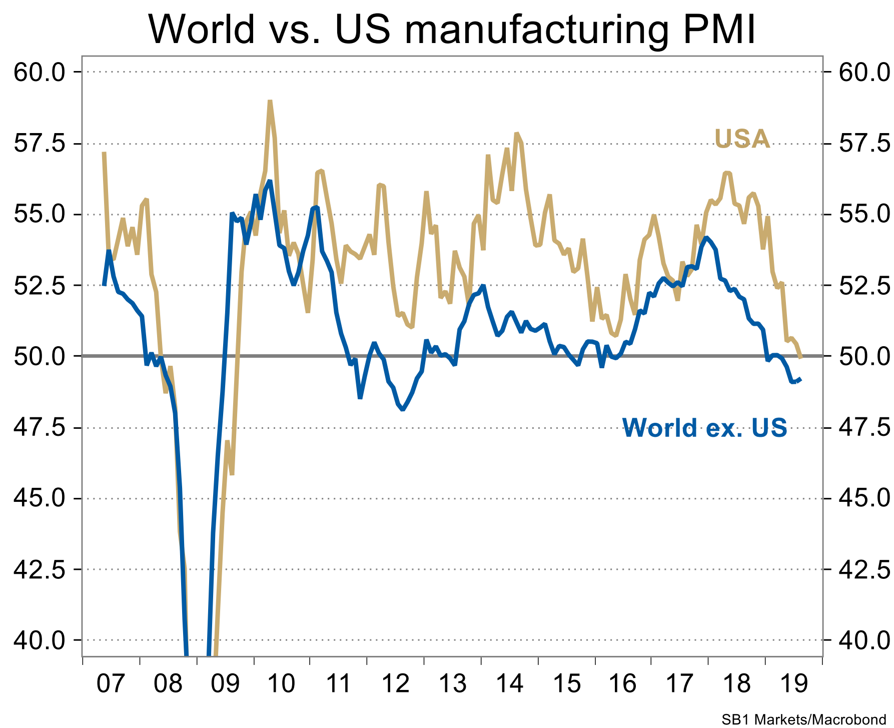
- Total US tariffs (if the announced tariffs Sept 1/Dec 15 are implemented) will equal 6.7%, up from 1.7% early 2018. The extra tariff cost (before trade adjustments) at USD 125 bn, equalling 0.6% of GDP
- That's some sand in the machinery but the real problem is the impact on business investments in a mature phase of the business cycle. Reports from the corporate sector signals a wait and see attitude in face of the uncertainty on the future trade system

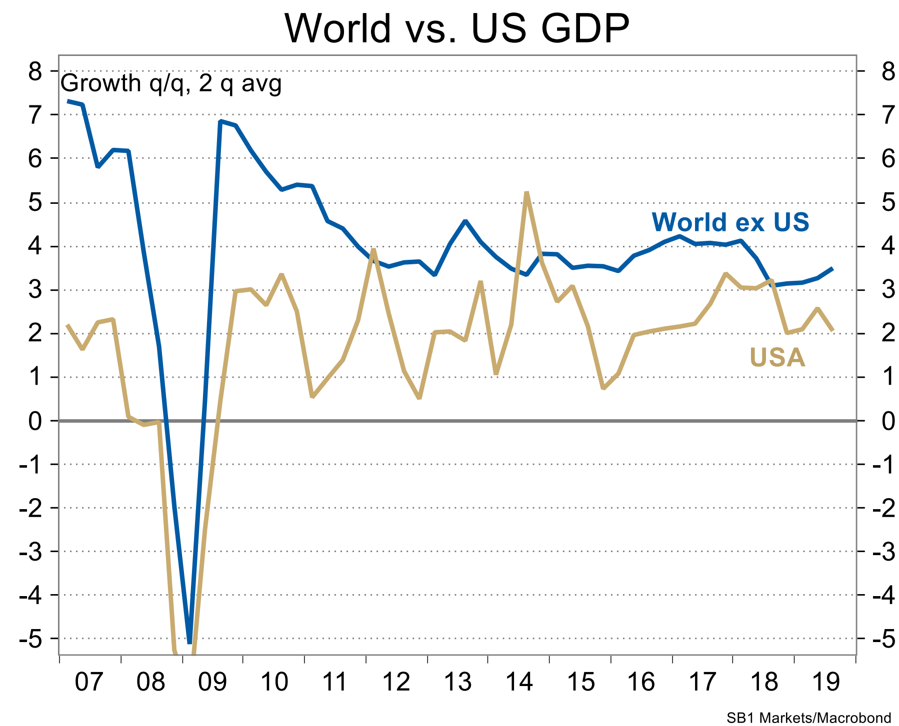
World Bank, SB1 Market calculations



Trade frictions not that serious yet but higher uncertainty is hurting investments

Even US 22% avg. tariffs on Chinese imports will not directly hurt the global economy that much

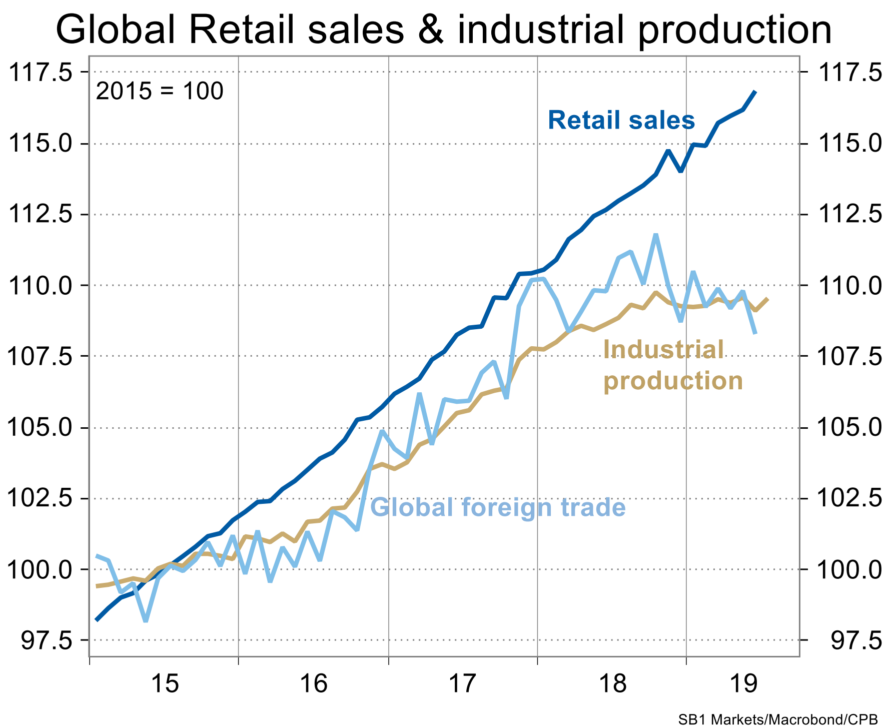


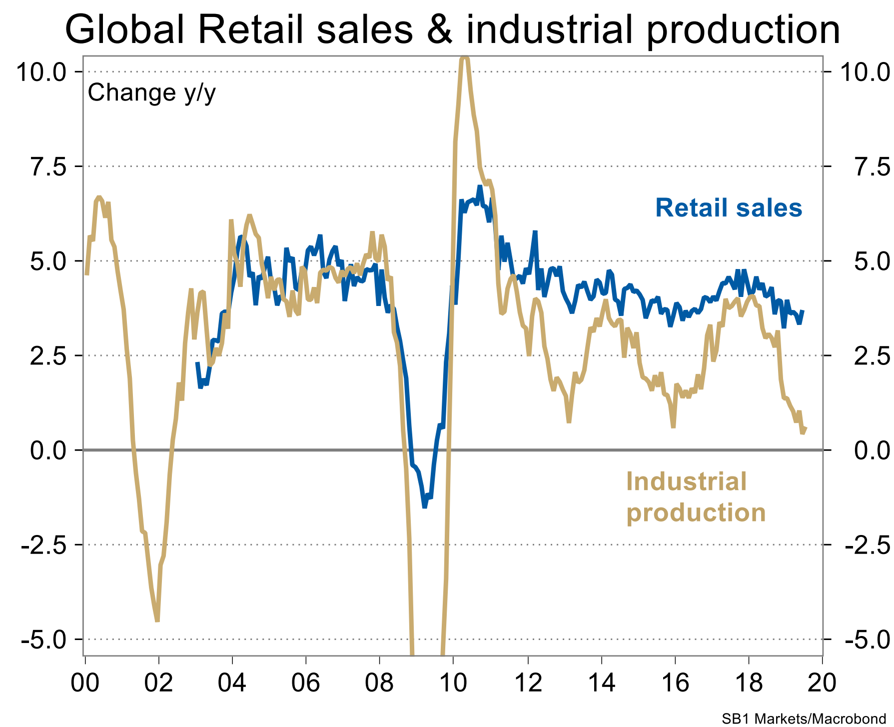


- The US/China trade equals less than 1% of global GDP, and most of this trade will be continued or reallocated
- However, the uncertainty the trade war creates vs the future trade, technological – and political – global order may have substantial impact on business confidence and investments, especially in a mature phase of the global economic cycle
- A substantial part of the slowdown in the global economy recent quarters, to 3% from 4%, is due to weaker business sector investments, but also lower auto sales, and slower growth in retail sales
- The escalation of the trade war increases the risk for a further decline in global growth, we expect 2.5% in 2020, from slightly above 3% in 2019, and from a 4% pace into 2018

Retail sales still strong, manufacturing production stagnates – exports implodes

Global foreign trade plunged in June, trending down since Q3 last year

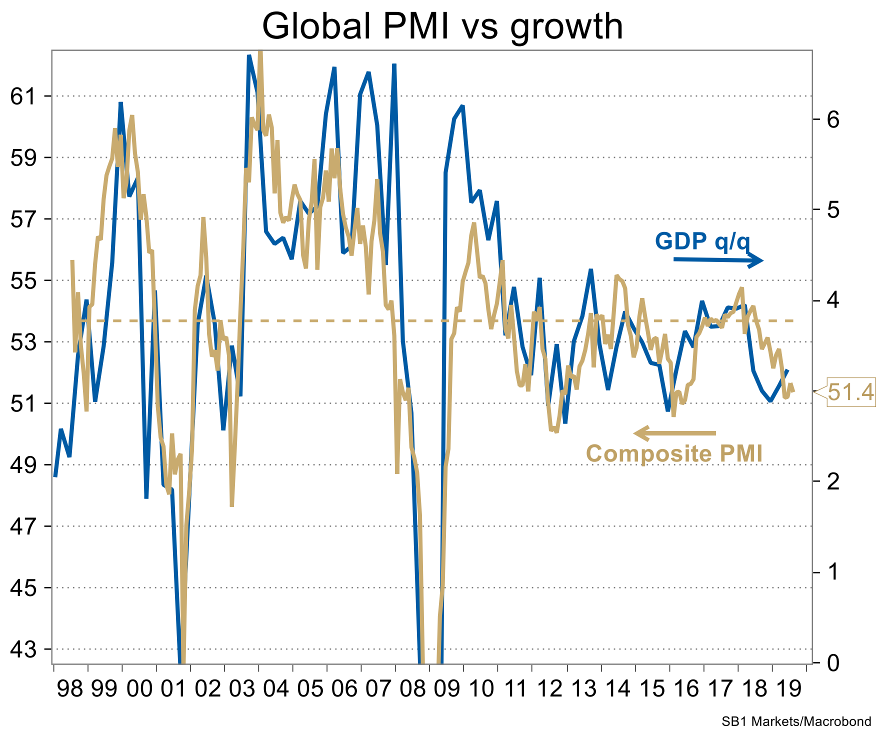


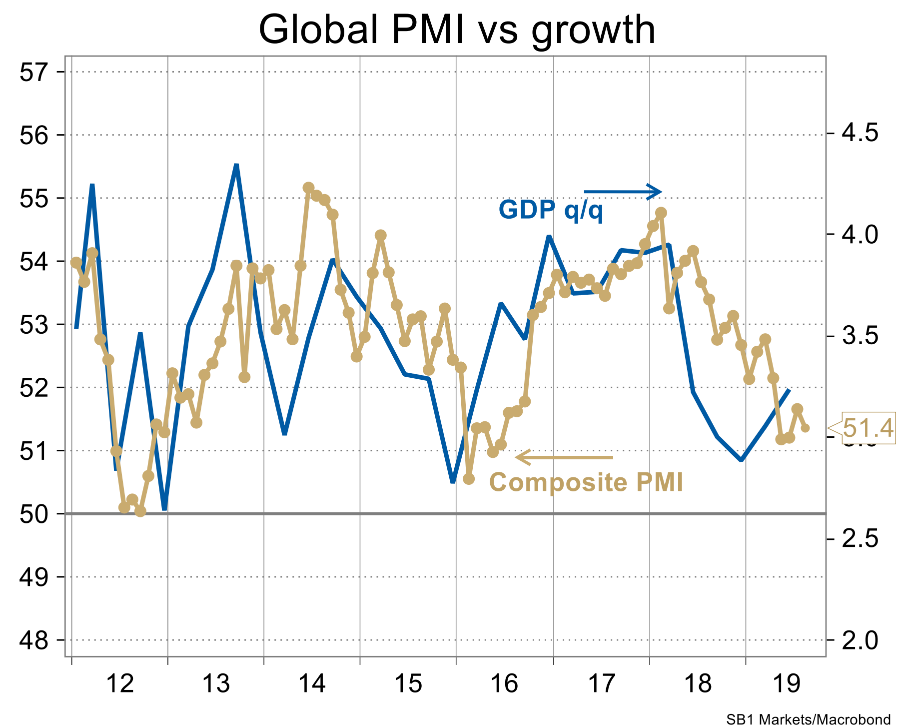


- **Global foreign trade** fell 1.4% m/m in June, and is now trending sharply down. The weakness was rather broad based but Emerging Asia ex China and Lat. Am were the weakest links in the chain
- Our very preliminary July global **industrial production** estimate indicates a recovery from the June slump, even if both China and the US have reported weak figures (some EMs fell sharply in June and probably recovered in July). Still, the trend is no more than flat
- **Retail sales** accelerated in June, and even if July might turn out to be somewhat weaker due to China, the trend signals that consumption is still supporting the global economy – even if it has slowed somewhat

Global PMI (probably) edged down in August, signals 3% growth

The PMI was lower in both 2012 and 16' but the cycle is more mature now and the PMI trends down



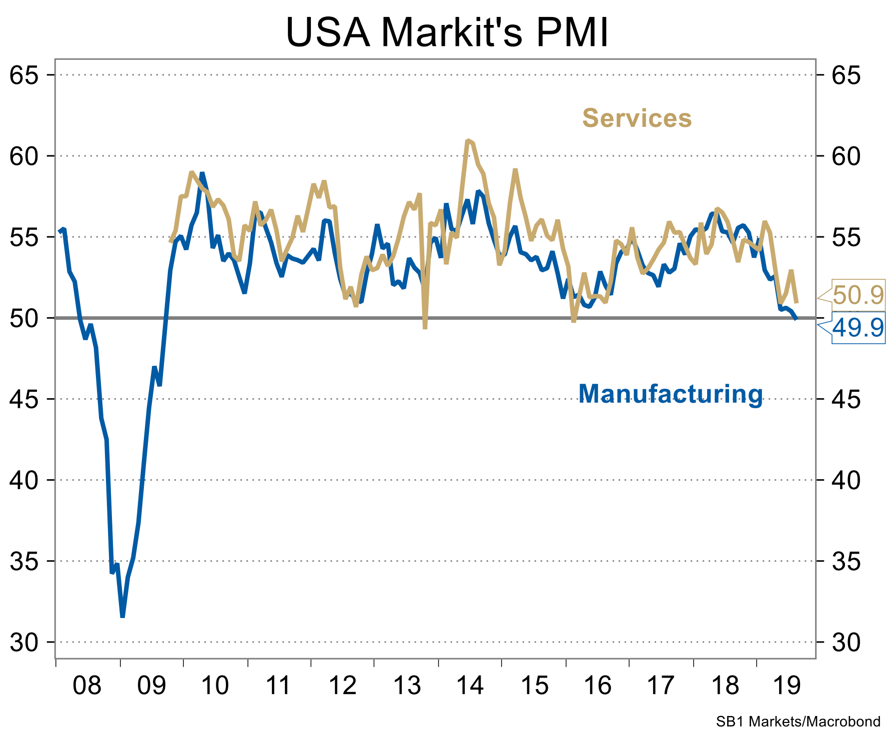


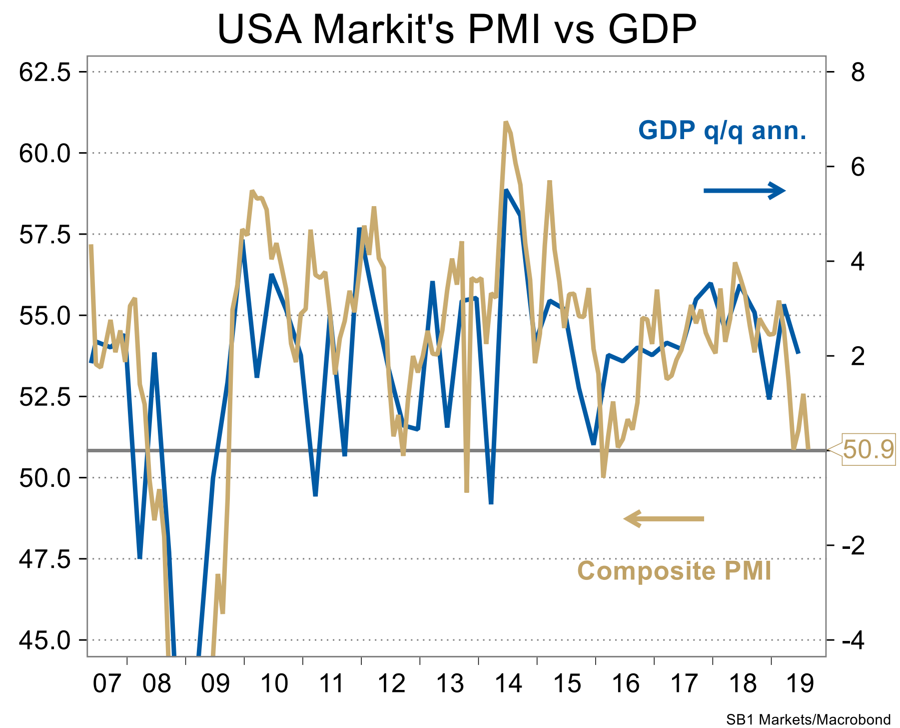
- We estimate a global composite PMI at 51.4 in August, a 0.3 p decline from July. The PMI points to a slowdown to close to 3% global GDP growth, vs 3¼ % in Q2 (our estimate)
- The PMI has fallen by more than 3 points from the January 18 local peal, equalling a 1 pp slower global GDP growth. The manufacturing PMI signals a 20 pp slowdown in global EPS (earnings per share), down to zero –which now has been recognised by analysts

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

An overall weak August PMIs – points to stagnating GDP growth

Not many bright spots; weakest manuf. PMI since the financial crisis, services down 2.1 p in August

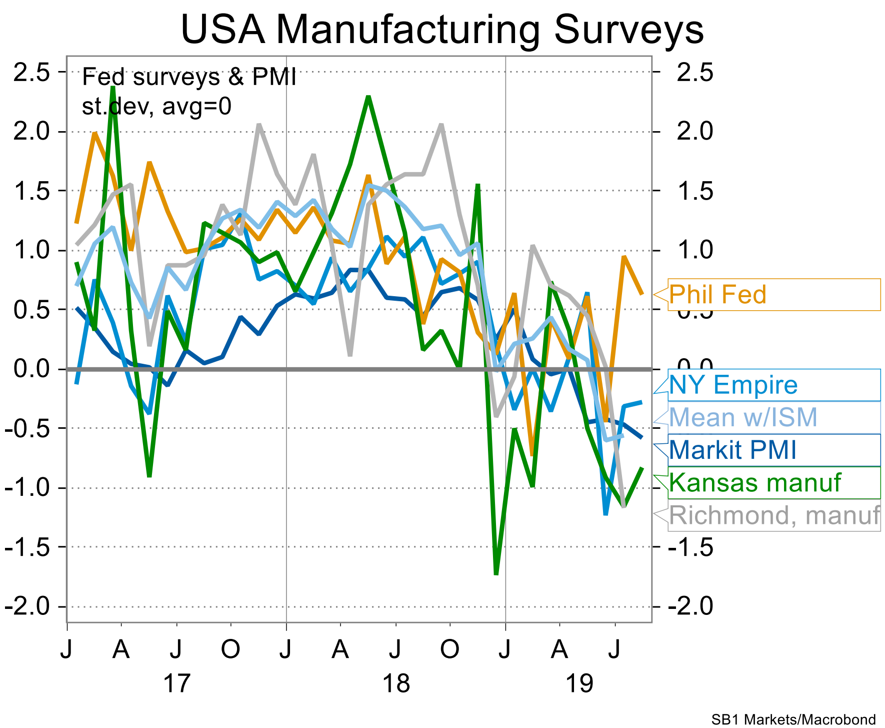


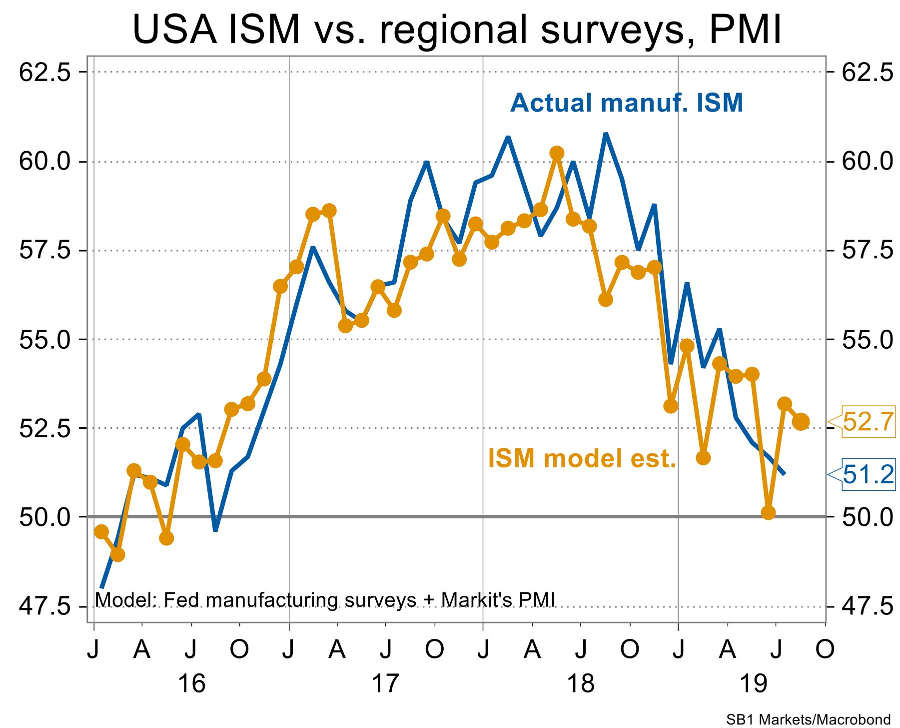


- The manufacturing PMI fell 0.5 p to 49.9 in August, expected one tick up. Even though the m/m decline is modest, the PMI reached the lowest level since the Financial Crisis, not a strong signal!
- The service sector index surprisingly slipped 2.1 p in August, to 50,9, far below any expectations. Hence, the manufacturing slump may now be dragging the (much larger) service sector down. The composite PMI fell to 50.9, signaling close to zero GDP growth so far in Q3
- Businesses are reporting the steepest decline in foreign manufacturing orders since 2009, the index fell to 46.1. However, domestic orders are not shining either, businesses are reporting just marginal growth in domestic orders (implicitly). And no employment growth!

Mixed August manuf. surveys; in sum points to a marginal decline in the ISM

Phil Fed, Markit's PMI slightly down, NY and Kansas Fed a tad up in August. 3 of 4 are below avg

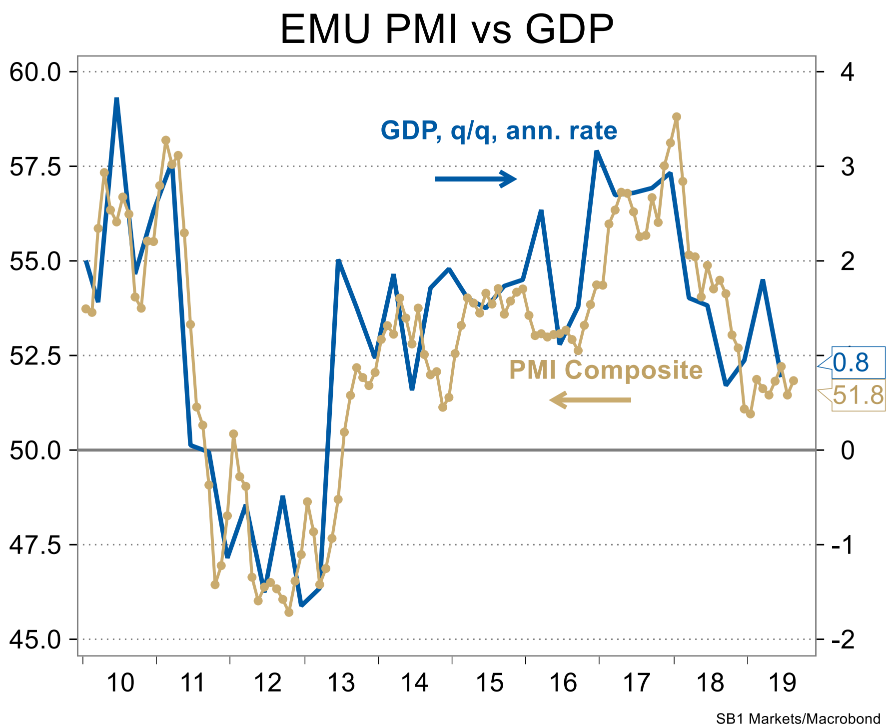


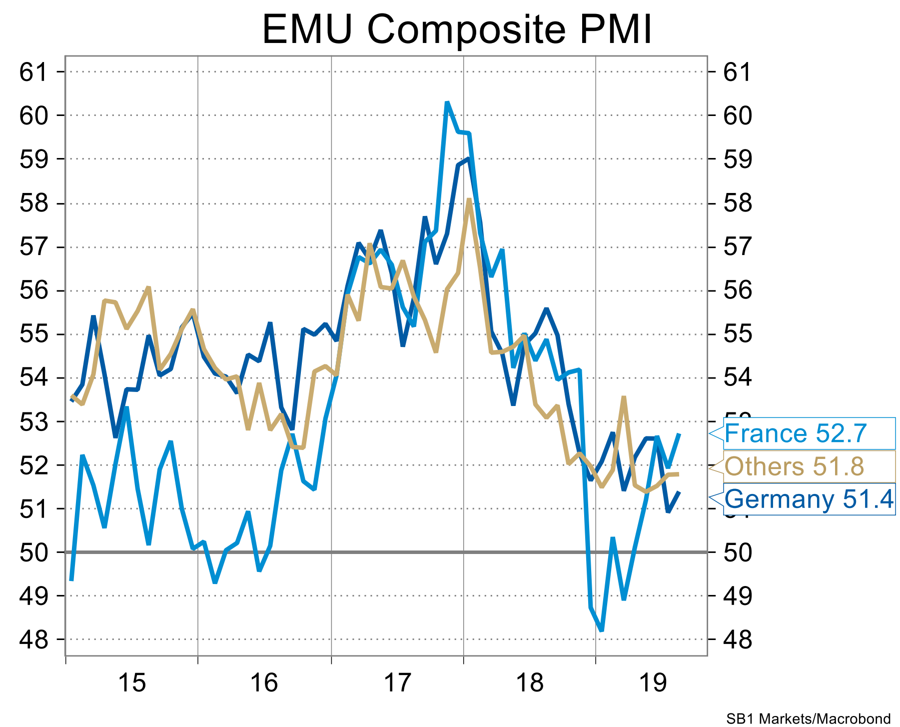


- Phil Fed's manufacturing index inched down in August but remains above an average level, more upbeat than the other regional surveys. Markit's manufacturing PMI weakened too, while NY Fed's index improved marginally and Kansas Fed somewhat more
- In sum, our model yields a slight decline in the August manufacturing ISM, down some 0.5 p vs th3 51.2 July print

Eurozone PMI edges up in August, the 7th month of stabilisation

Service sector still growing at a decent pace but manufacturing remain lacklustre





- The preliminary EMU composite ticked up to 51.8 in August, a 0.3 p increase, while a 0.3 p decline was expected. The PMI has inched up from 51.0 in January. The index do not point to any recovery from the meagre 0.8% GDP growth in Q2
- PMIs in both France and Germany improved, while the implicit estimate for the other countries was flat
- The manufacturing PMI rose marginally to 47.0 in August, the 7th month in contraction territory. Germany still disturbingly low, at 43.6. So far, manufacturing has not dragged services down with it

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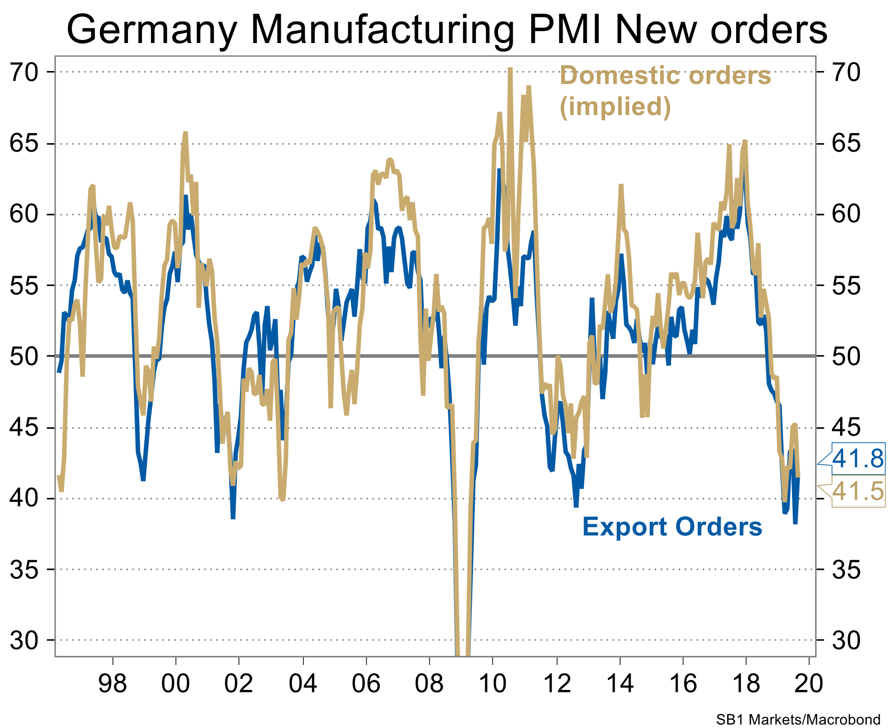
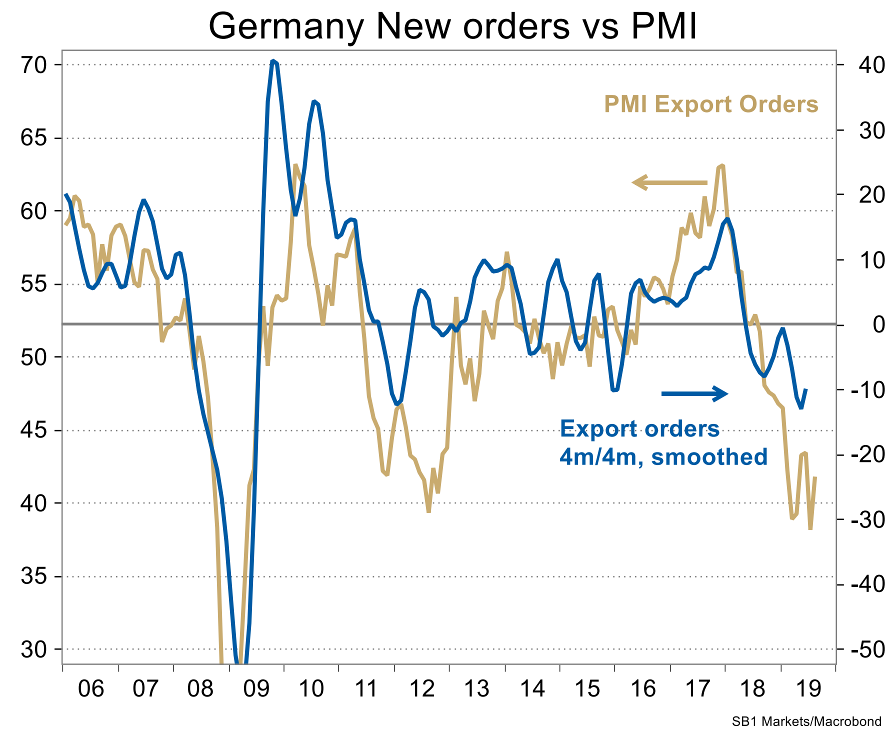
Businesses report steep declines in both export and domestic orders

In August, the export orders PMI improved, while domestic orders (implied) fell

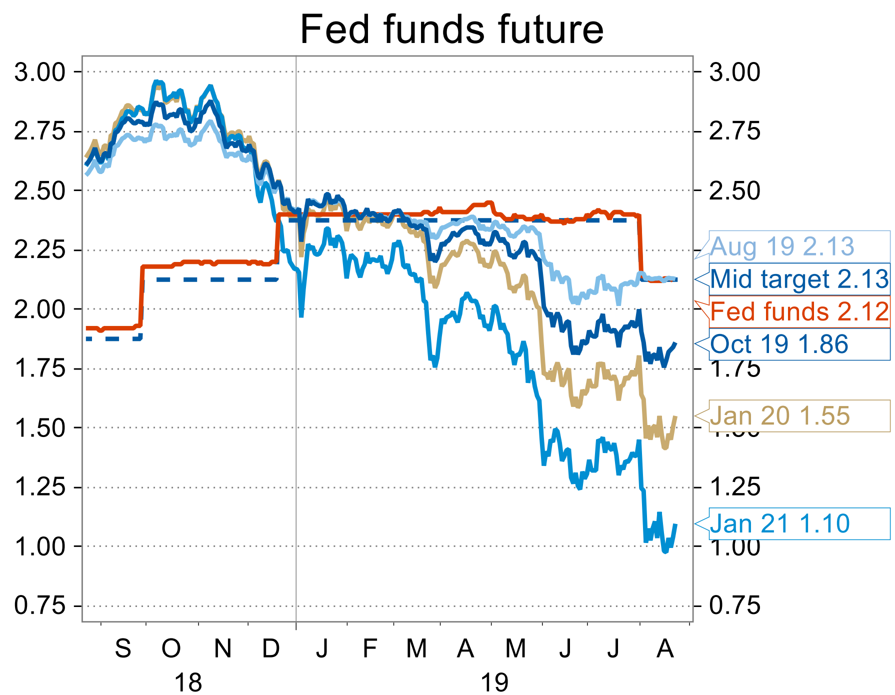




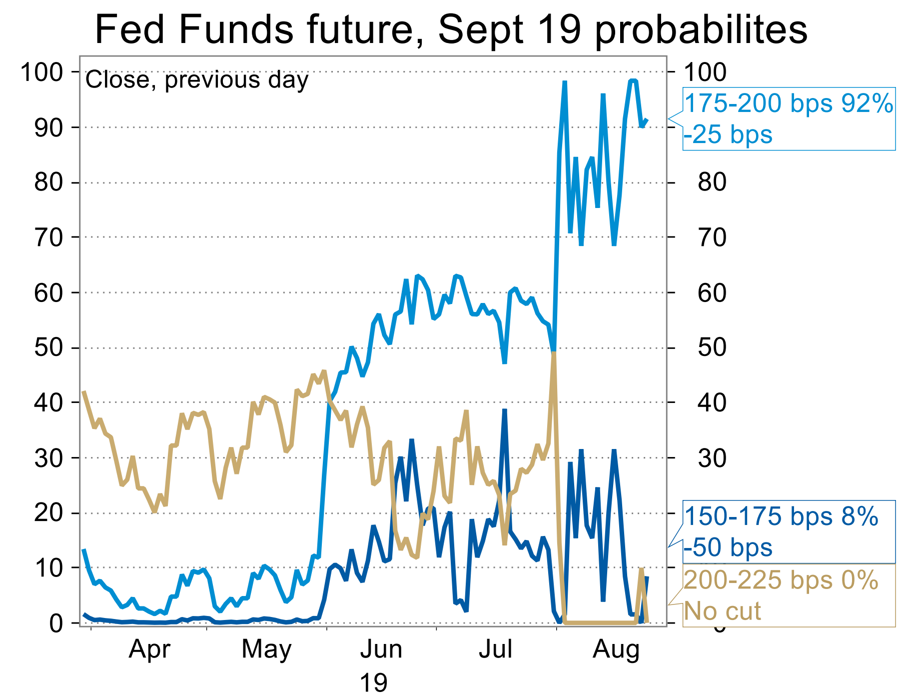
- Total orders have stabilised at a low level recently, well below the 50 line. Export orders are signalling a steep decline in actual export order. Actual orders have fallen but much less than the PMI indicates

No consensus at the FOMC, unusal disagreements on the way forward

Minutes from the July meeting revealed a divided FOMC, 'several' favored no cut, 2 wanted 50 bps



SB1 Markets/Macrobond

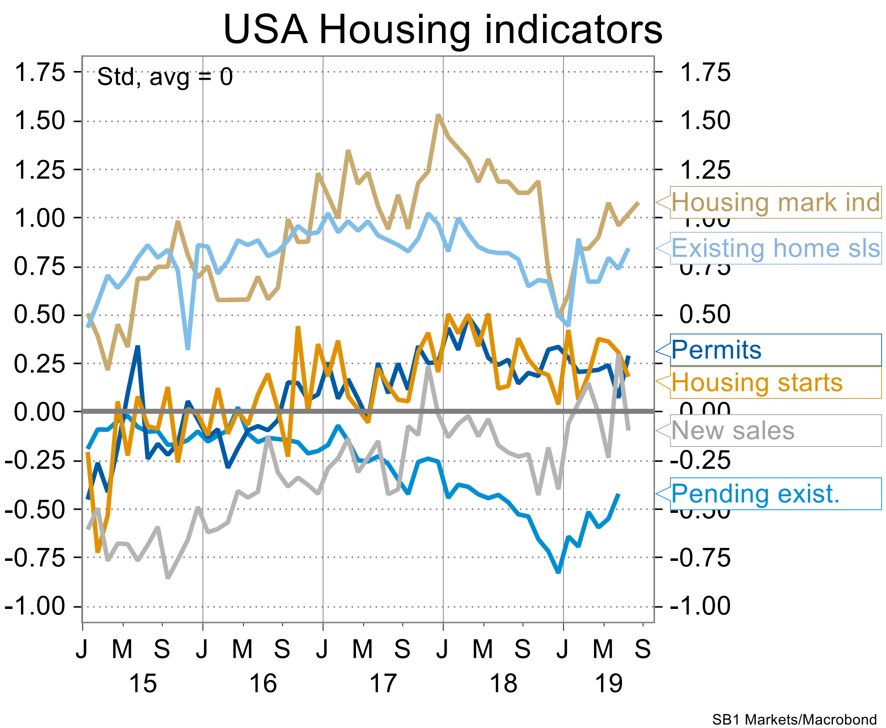


SB1 Markets/Macrobond

- Minutes from the July 31 meeting underlined the lack of consensus at the FOMC. While two out of ten members voted for an unchanged Fed funds rate, minutes revealed that 'several' favoured maintaining the current rate. 'A couple' preferred a 50 bps cut over the 25 bps cut
  - » Those who voted for a cut emphasized softness in business investments and manufacturing, slower growth in other countries, elevated global risks and uncertainties (read: trade war) and inflation running below the 2% target
  - » On the other hand, the FOMC stuck to its view that the US economy is growing at a solid pace, with favourable labour markets and strong consumption. Moreover, the participants agreed that economic conditions had improved over the intermeeting period and downside risks had diminished somewhat
  - » At the Jackson Hole conference Powell said that uncertainty had increased again since the meeting, opening the door for a Sept cut. He signalled than the Fed would stabilise the economy as good as the could, should the economy actually weaken due the trade war
- Market rates inched up following the publication, although many were confused by the ambiguous notes. The probability of a 50 bps cut in September increased to just below 10% at close Friday (on the chart above) but later rose to 30%! Zero probability of no cut

Most housing indicators have picked up

Home sales are climbing, housing permits/starts flat, and the housing market index is slowly rising



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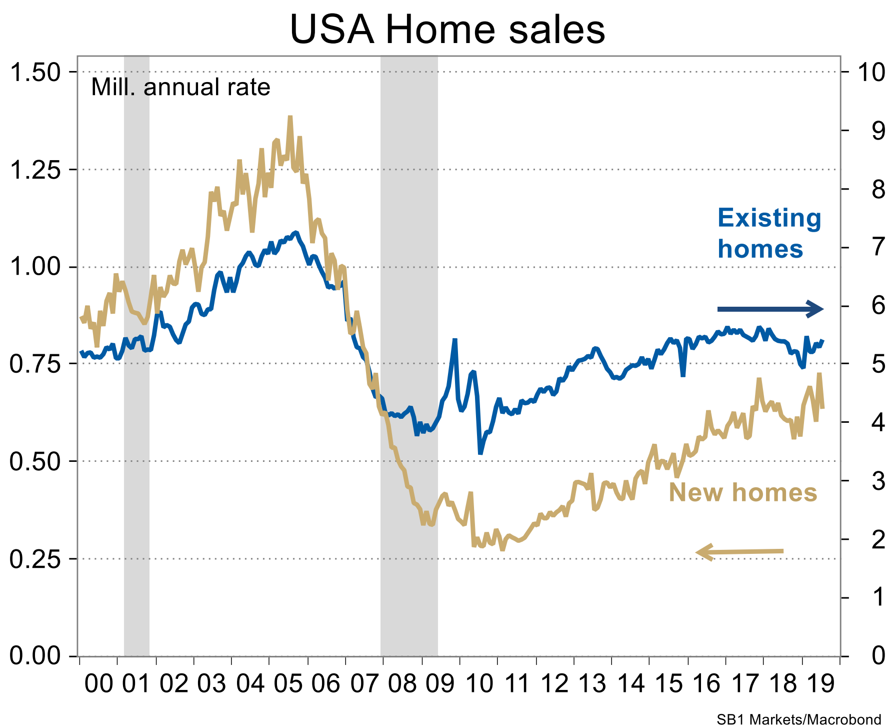
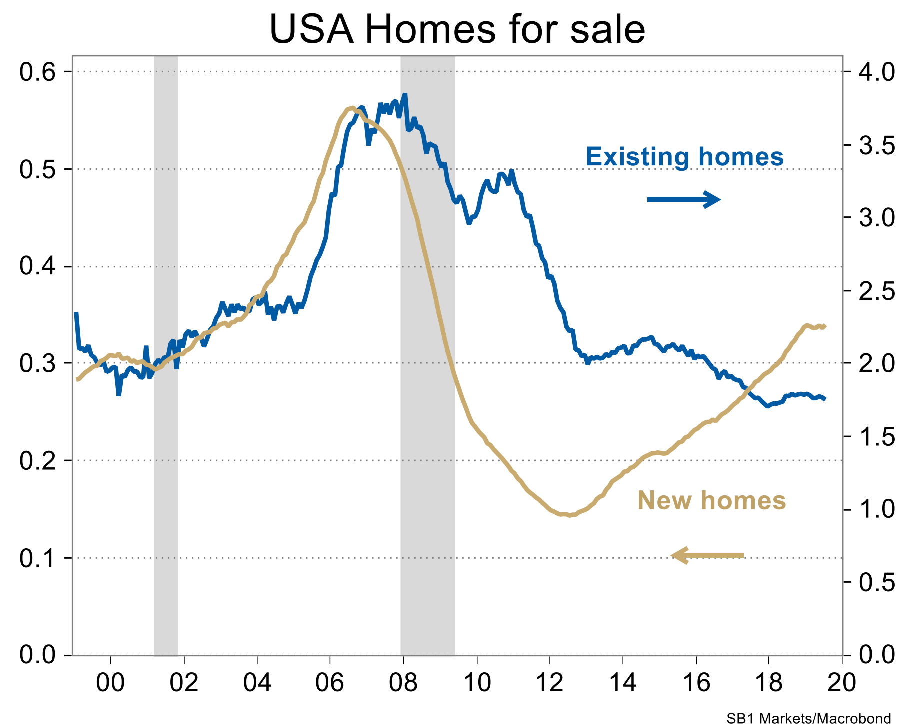
New homes sales fell in July, but just ‘due’ to a steep upward June revision

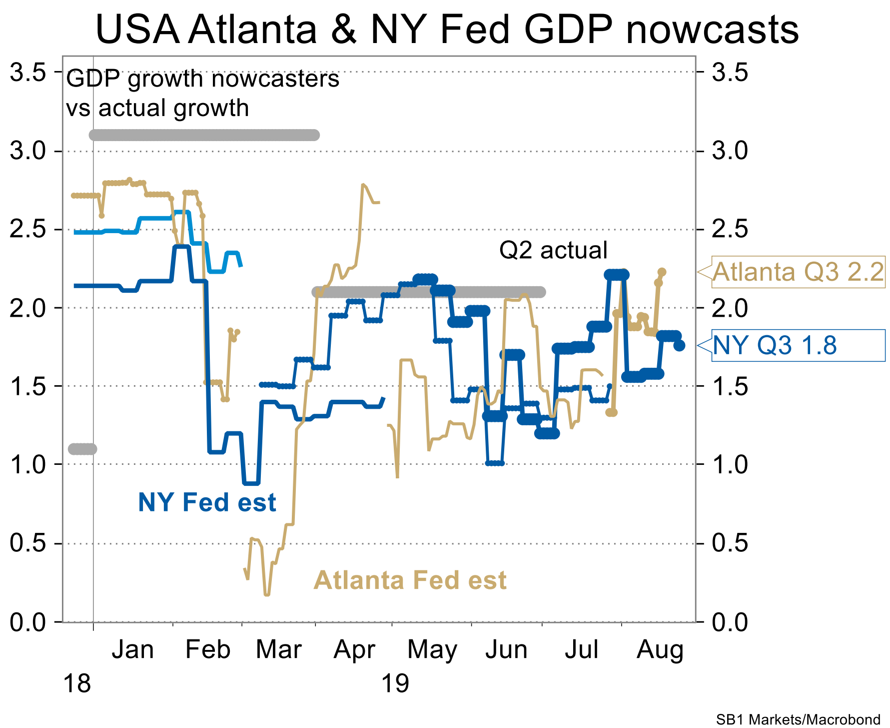
Sales in June/July were far better than previously reported/expected. Trend up since late 2018

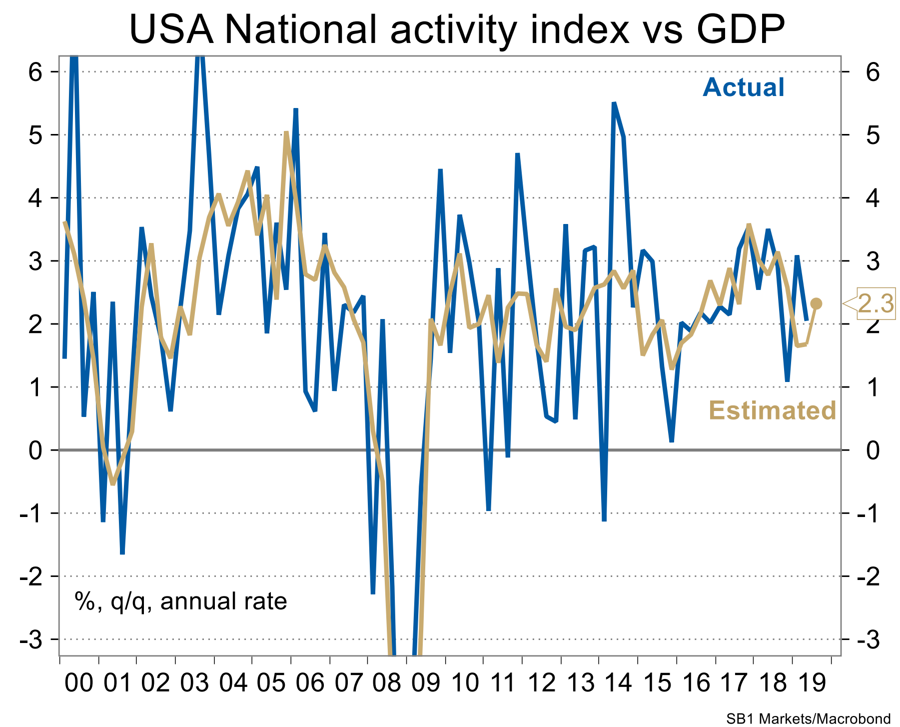




- New home sales dropped 13% to 635’ in July, expected 645’. However, since the June print was revised up 13%, the average of the two past months is 36’ or 6% higher than previously reported/expected - so the report was far better then expected
- Sales have been climbing up since the local bottom late 2018. Yet, given the steep decline in mortgage rates (from above 5¼ % in late 2018 to 4 % now, on the 30 y fix rate), has not put the housing market on fire
  - » The number of unsold homes rose marginally July but has been flat since Feb, after rising since 2012

Q3 growth accelerating? The nowcasters are suggesting 1.8 – 2.2%

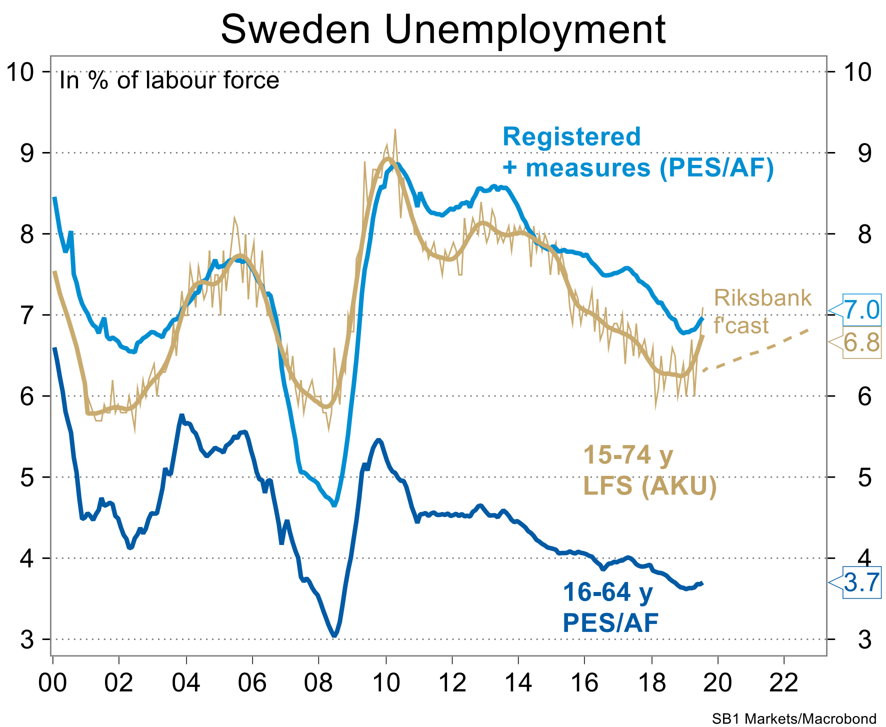


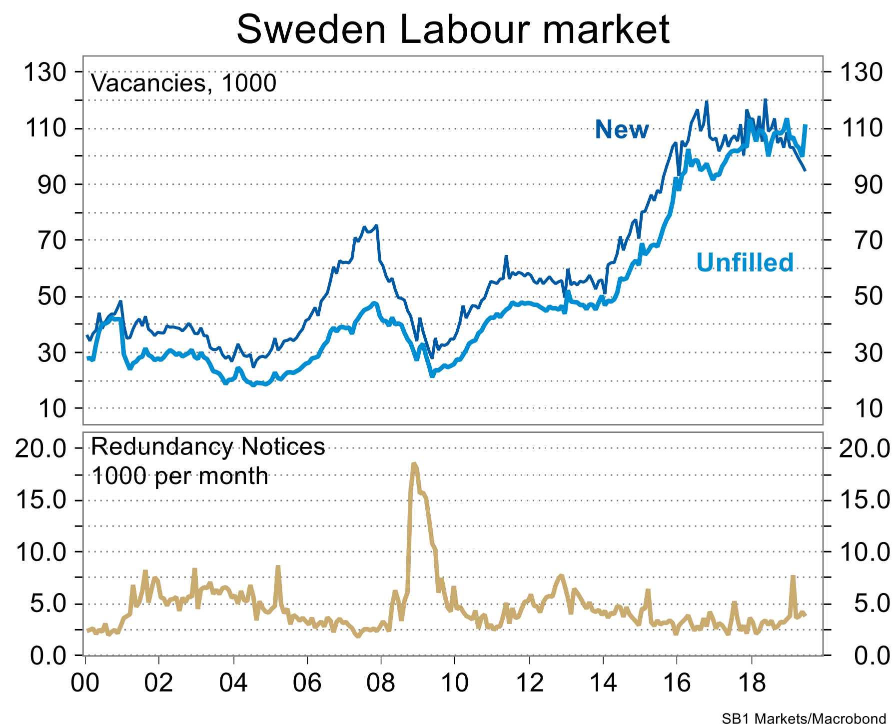


- The National activity reported 1.7% growth in Q2, and a 2.3% speed into Q3 (June level)

Is the labour market turning sour?

LFS unemployment sharply up, registered unempl. a tad, employment is falling, vacancies mixed

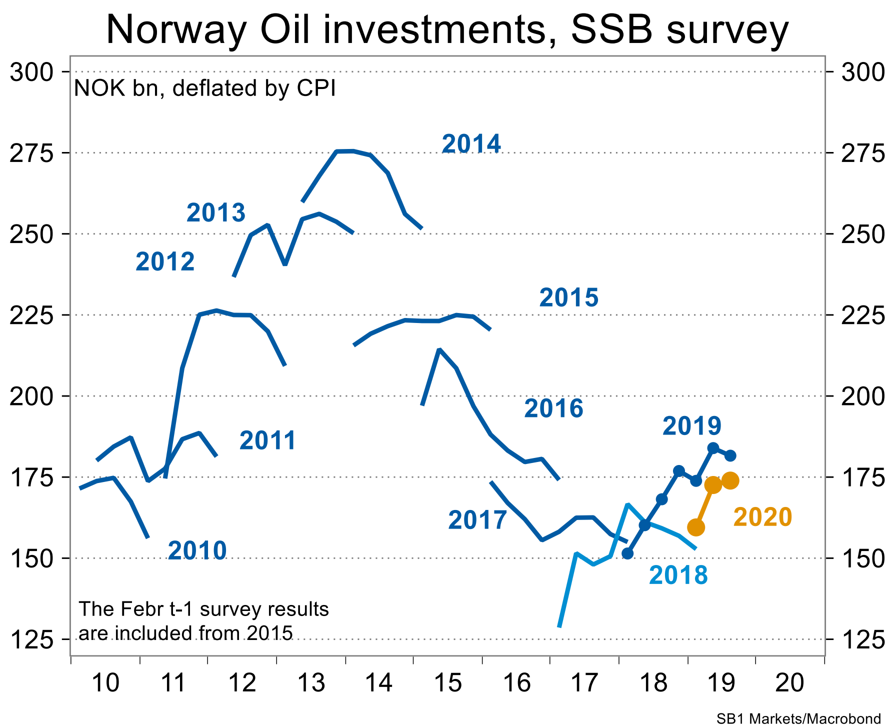




- The LFS unemployment rate jumped 0.4 p to 7.1% in July, the highest in 3 years. These data are volatile, but the unempl. rate has increased for 3 straight month. Thus, the smoothed rate, which we prefer, edged up to 6.8%, from 6.3% last winter
- Employment fell further in July and the annual rate has turned negative (-0.8%), something must be brewing
- PES/AF open (registered) unemployment rate is confirming a weakening labour market; it has turned (very) marginally up recent months
- On the other hand, the number of unfilled vacancies rose sharply in June, while the number of new vacancies continued downwards. We assume the trend is down for both, but levels are still very high. The number of redundancies may be trending slowly up

Oil investment f'casts a tad lower than expected, investments are peaking <u>soon</u>

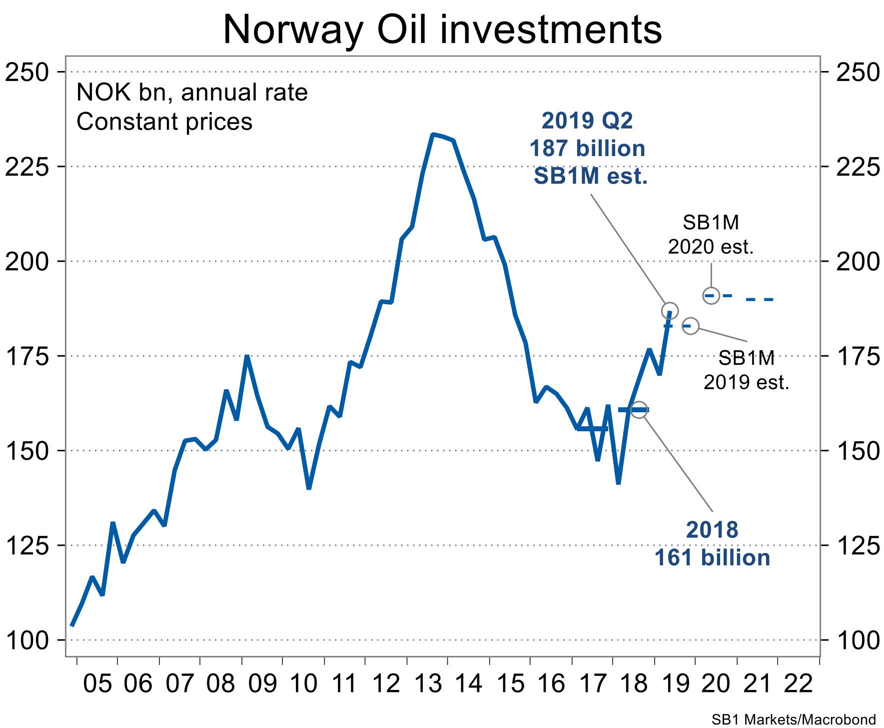
2020 f'cast was nudged up marginally, 2019 f'cast down, peak activity in H2 19?

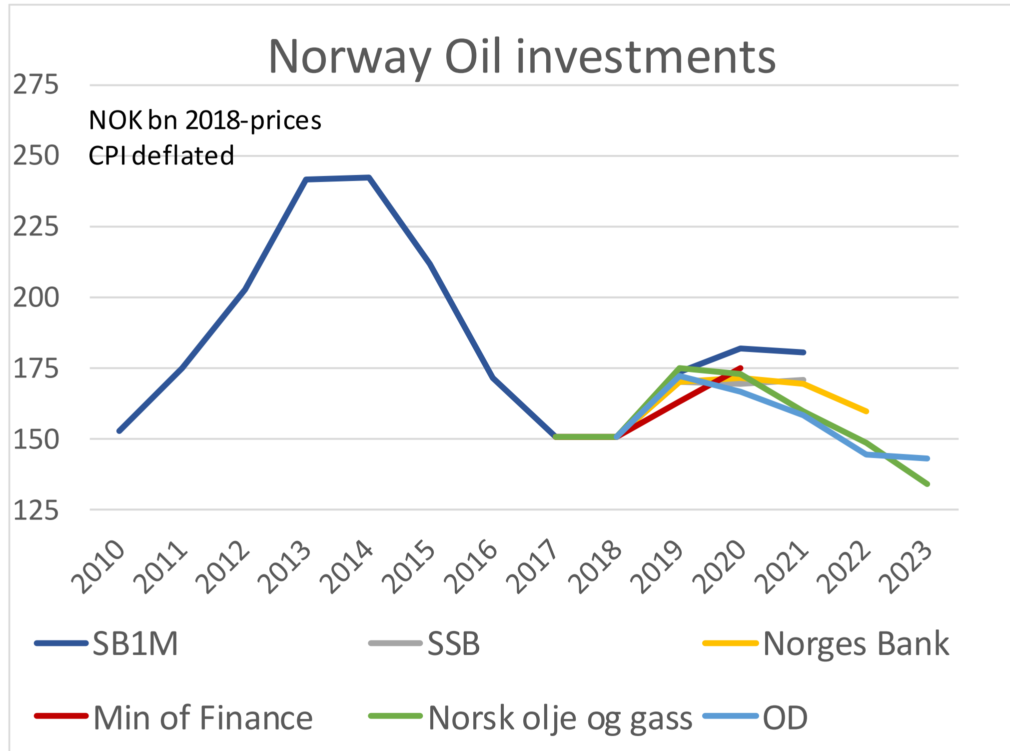


- In SSB's Q3 oil & gas investment survey, companies adjusted their **2019 investment f'cast** down by NOK 2.4 bn to NOK 182 bn. <u>We stick to our 14% volume growth in 2019, which is</u> equivalent to Norges Bank's f'cast
  - » If our estimate is correct, and investments rose as much as we assume in Q2, investments cannot increase much from the Q2 level in order to reach the annual 2019 forecast. <u>Most of the investment lift in 2019 from 2018 has already taken place</u>!
  - » Investment goods & services prices are now slowly increasing
- **The 2020 estimate** was lower than we assumed and we nudge our volume growth forecast down to 4% from 6%, with risk on the downside. <u>If so, the 2020 level is on par with the expected level in H2 2019 – and higher oil investments will not contribute to GDP growth, from 1 pp contribution now</u> (barring changes in the investment mix)
  - » The oil companies nudged up by NOK 1.4 bn to 174.1, less than we expected (180 bn). The 2020 f'cast is 3% above the equivalent 2019 f'cast
  - » However, the Balder x project will soon be included in the 2020 estimate (with some NOK 8-10 bn), we assume a 7% nominal growth.
  - » Norges Bank projects 1% volume growth in 2020, but we doubt the bank will revise its forecast up in the Sept MPR

Oil investments: Not much upside left

The 2020 volume estimate is just some 2% above the Q2 level (our est, Nat.Acc. data not released)

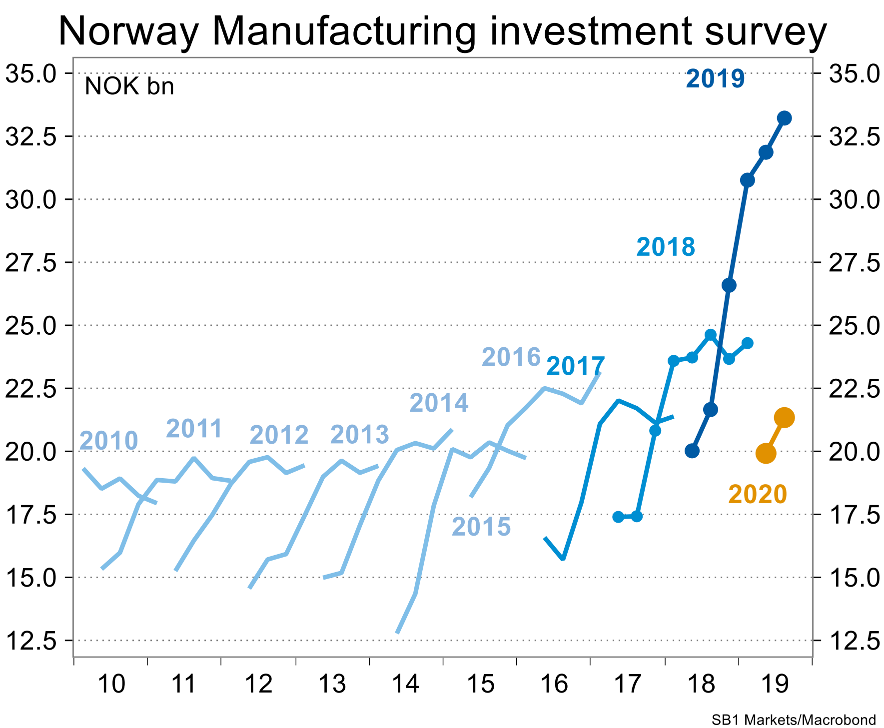


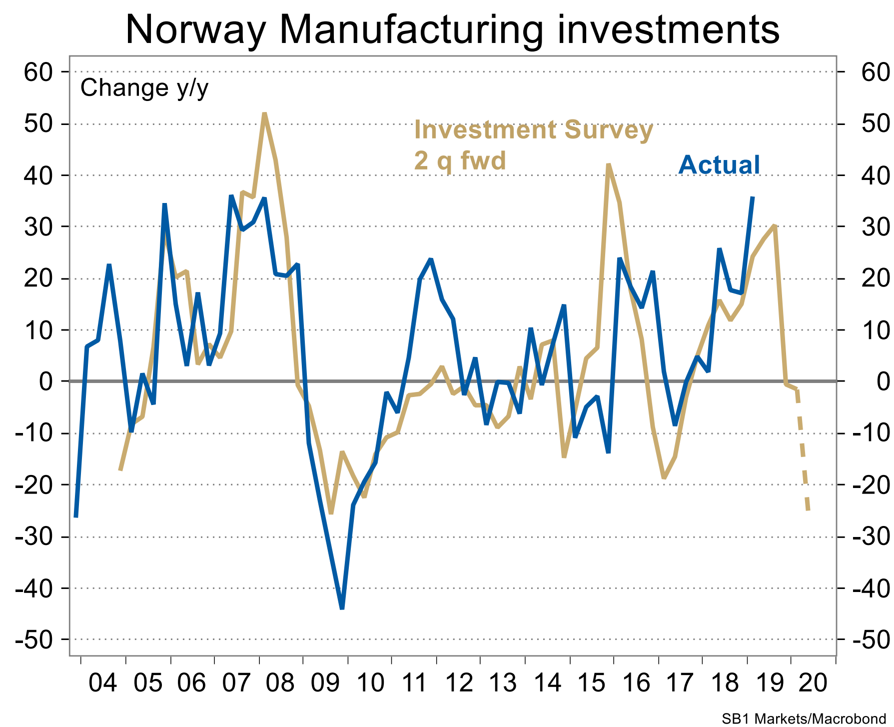


- Our 2019 volume growth estimate is 14%, we make no changes from the Q2 survey. We assume an Q2 investment level on NOK 187 bn (Nat. Acc data released this week), which is some 2% below the 2019 estimate. Investments will probably increase in H2 (the 2019 estimate is the average level), however, the upside is limited
- We estimate 4% volume growth into 2020, with a 2020 investment level at NOK 191 bn. If our assumptions are correct, there is just some 2% upside left vs the Q2 investment level, thus, a muted GDP growth impact in 2020
- After 2020 most forecasters expects a decline, as the Johan Sverdrup and Castberg projects are finalised and few new projects are announced. No doubt, the oil price will influence the investment level from 2020 onwards, as more projects may be added

The boom in manufacturing investments is behind us, down 20% in 2020?

2020 f'cast signals a substantial cut in investments next year, following a 35% (!!) hike in 2019



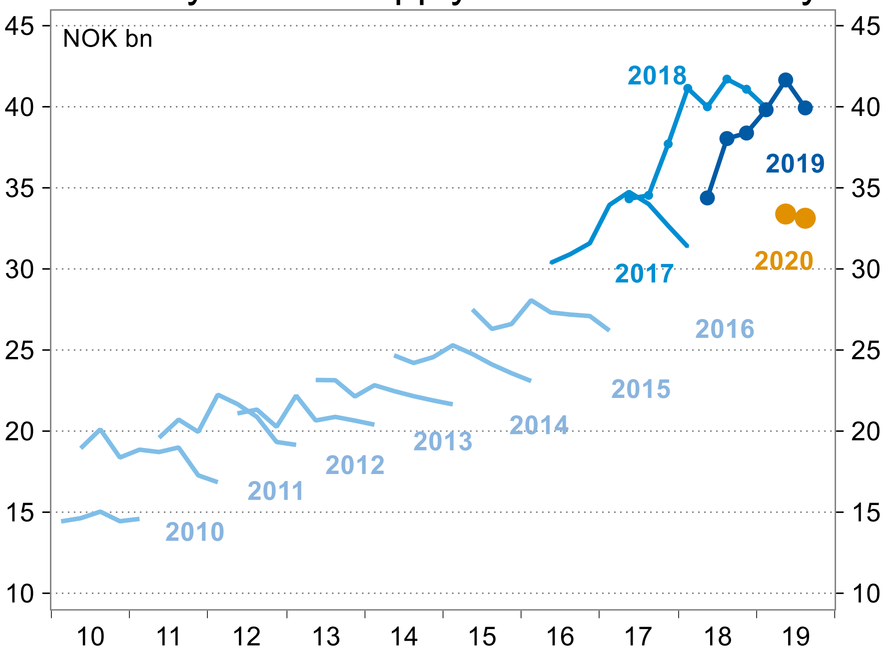


- Manufacturing companies adjusted their 2019 investment estimate up by NOK 1.3 bn in Q3, to record high NOK 33 bn. The estimate is 35% higher than the equivalent 2018 estimate (from Q3 2018)
  - » Many sectors are contributing to the lift in 2019, particularly in the refined petro, food and metals
- The 2020 estimate is nudged up by NOK 1.5 bn (a normal revision in the 2nd estimate), which is 1% lower than the equivalent 2019 estimate (from Q3 '18). However, the steep upward revisions through 2019 will very likely not be repeated in 2020, thus, we expect substantial decline in 2020 vs 2019. <u>Applying an average path from the first estimate yields a 20% drop in 2020 from 2019</u>

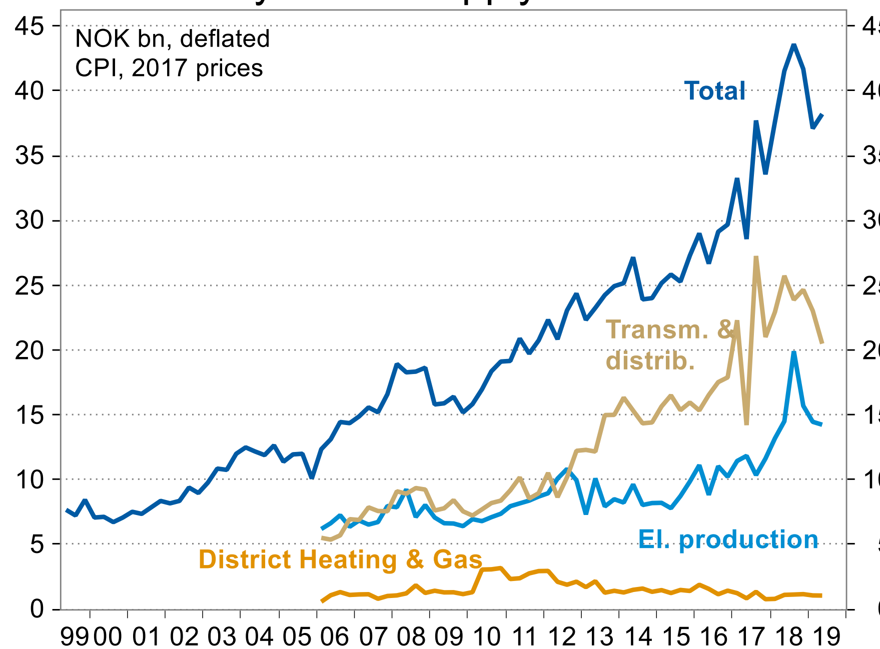
Power supply: A terrific party is over?

2020 investment estimate nudged marginally down, indicates at least a 13% decline

Norway Power supply investment survey



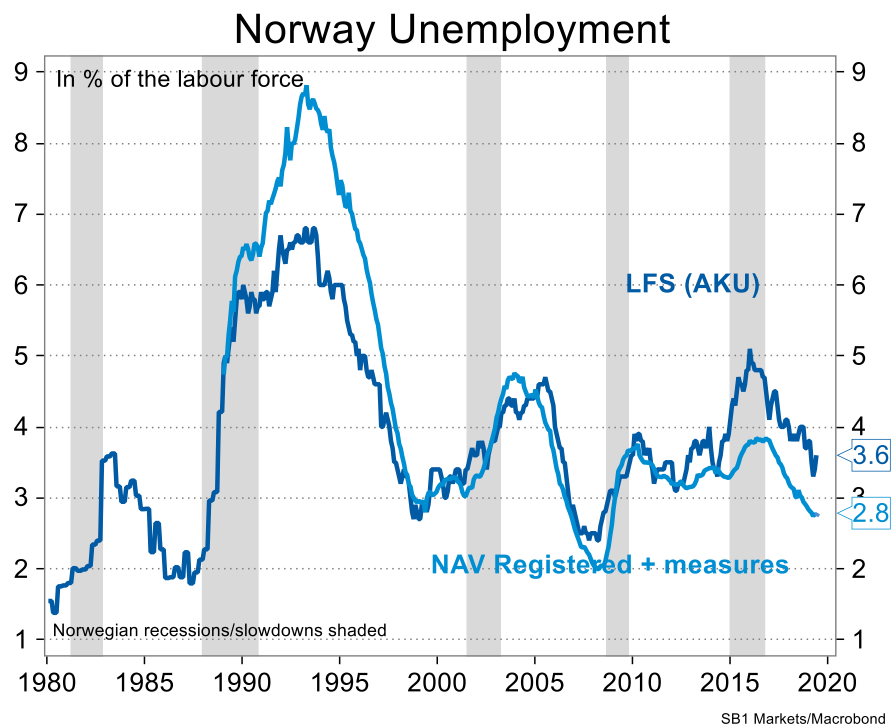
Norway Power supply investments

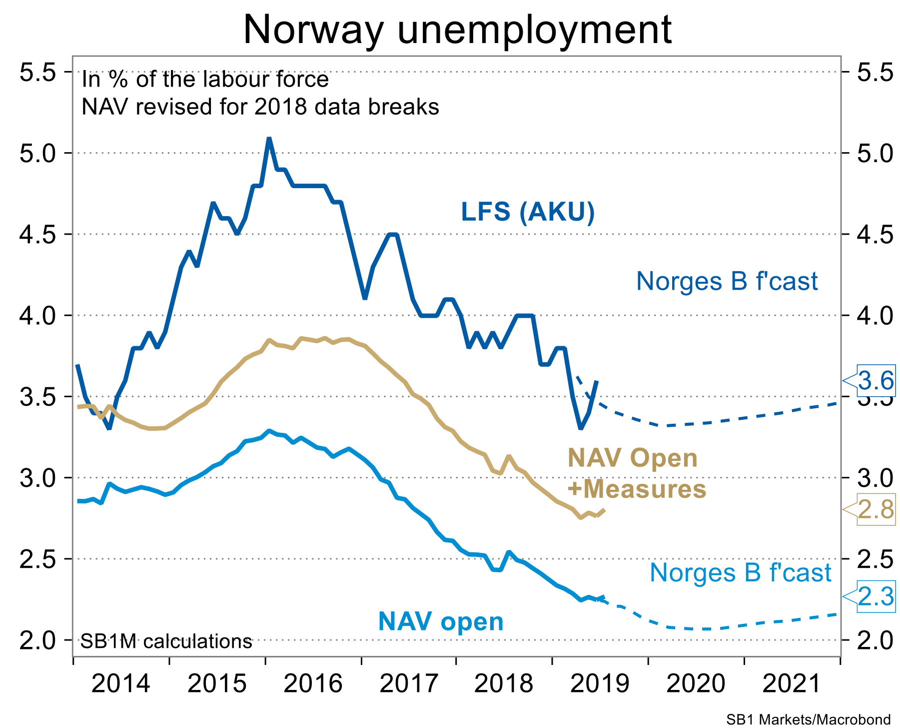


- Power supply (production & distribution) companies lowered their 2019 investment f'cast by NOK 2 bn to NOK 40 bn. The estimate is 4% below the equivalent 2018 f'cast; and investments will most likely decline, from 15-20% (!) annual growth rates previous years
  - » Investments in transmission and distribution of electricity have already fallen, investments in electricity production have peaked too
- The second 2020 estimate at NOK 33.2 bn is 13% below the second 2019 estimate, confirming our hypothesis that growth have peaked. In addition, the 2019 estimate has been revised up more than normal, an average revision of in the 2020 f'cast indicates a 18% decline to 2020 from 2019
- In 2018, investments rose more than 20%, and they have more than quadrupled in 25 years, more than 10% p.a in average. The investment level as % of Mainland GDP at 1.1% is the highest in decades

LFS reports higher unemployment but the employment rate is still increasing

Unempl. ticked up 0.2 pp to 3.6% in June; participation rose much more than employment

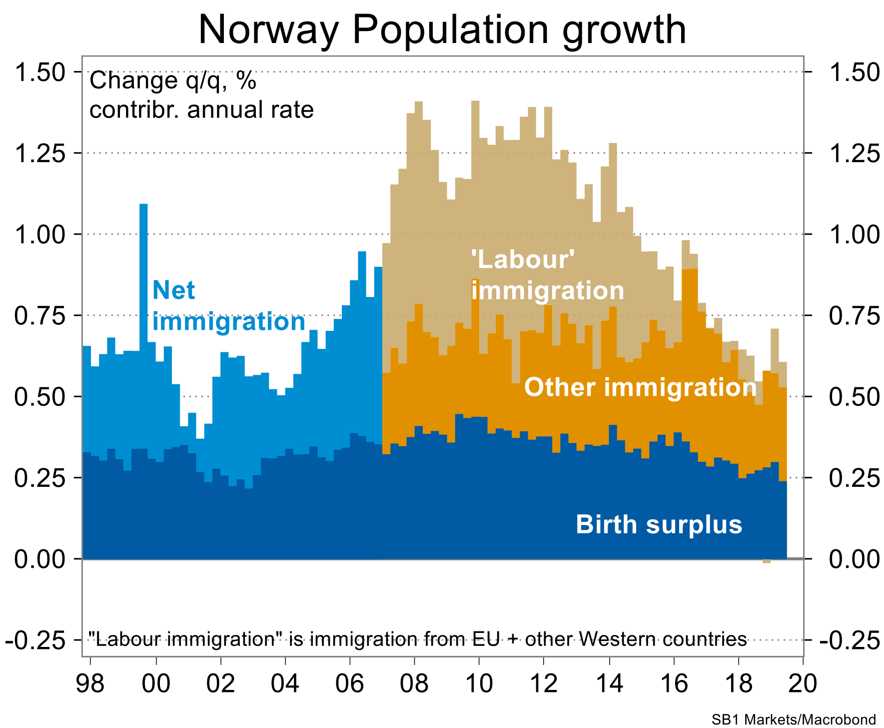


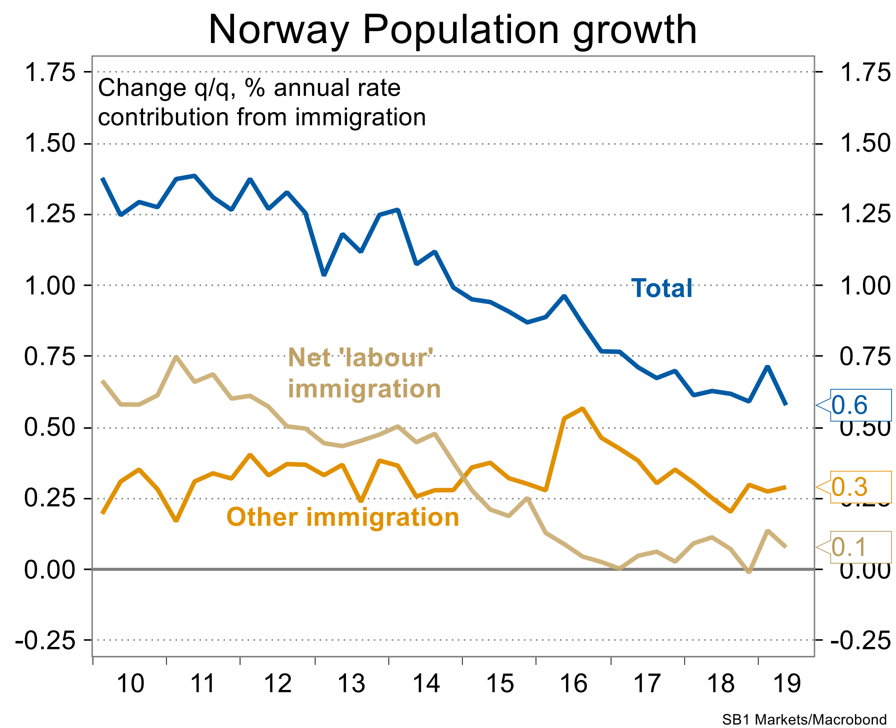


- LFS (AKU) unemployment ticked up 0.2 pp to 3.6% in June (avg May – July), expected unchanged. This is the second month of increase, although the trend is still straight down. Norges Bank assumed a 3.5% unemployment rate in the June MPR
- Employment rose by 9' m/m in June and the annual growth rate was flat at 0.9%, down from 2.1% in November last year – well below Nat. Acc, but the employment is still trending up. Labour market participation jumped 17' persons, and the rate is just marginally below the October (local) peak. If these figures are correct, the participation rate seems to be flattening out, and not retreating. If so, an important sign of more growth potential and a less tight labour market. However, our take is that NoBa will not put too much emphasis on one month's data
- On the other hand, the upswing in LFS unempl. may signal some labour market softness; the less volatile NAV data have been on the soft side the past 3 months too. August data out this week

Population growth has probably bottomed out, at a low level

Western (‘labour’) net immigration is very slowly the way up?



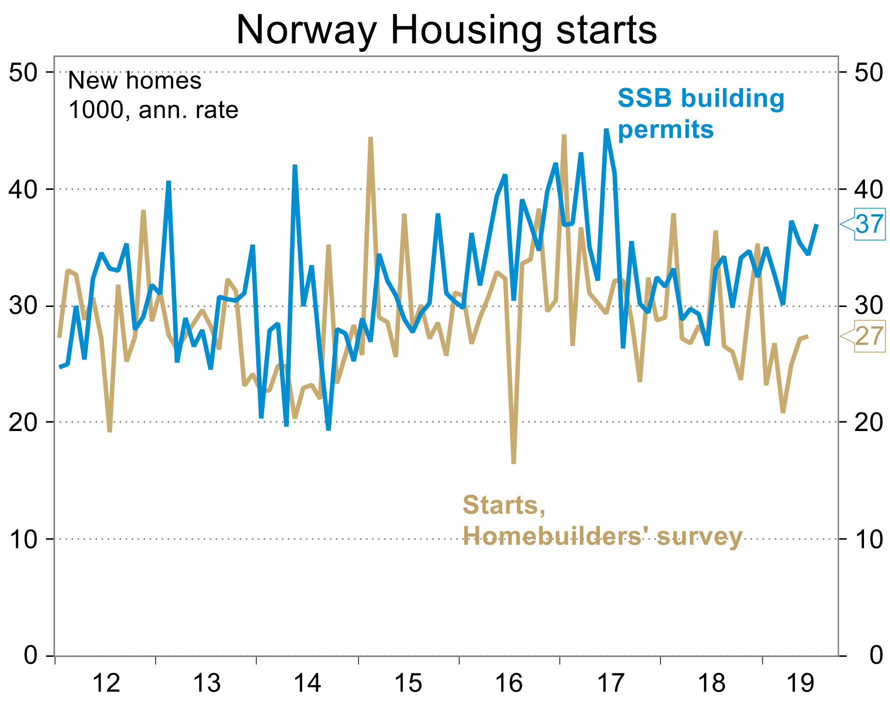


- Total population rose by 33’ persons y/y in Q2, down from 34’ in Q1. Growth has turned slowly up from the bottom in Q4 2018, which noted the lowest growth rate since 2005. Population is up 0.6% q/q annualised, down 0.7 pp from the upward revised Q1. Population growth has fallen from 1.3% annualised or 60’ persons in Q3 2014
  - At the peak, labour net immigration (whole EU + other ‘western’) ran at 30’ persons, equalling 0.75% of the population. It fell to zero in 2016 and remained marginally positive during 2017 and 2018, until Q4, when in was negative. In Q1 and Q2, net labour immigration has turned positive. Given the strengthening of the Norwegian labour market, especially in the oil region, we expect a gradual increase in net labour immigration
  - Non-western immigration increased marginally in Q2, growth is back at a normal level following ‘the Syrian’ peak in 2016
  - The net birth surplus has been stable the past year, at the lowest level since 2003, due to fewer births (not more deaths)

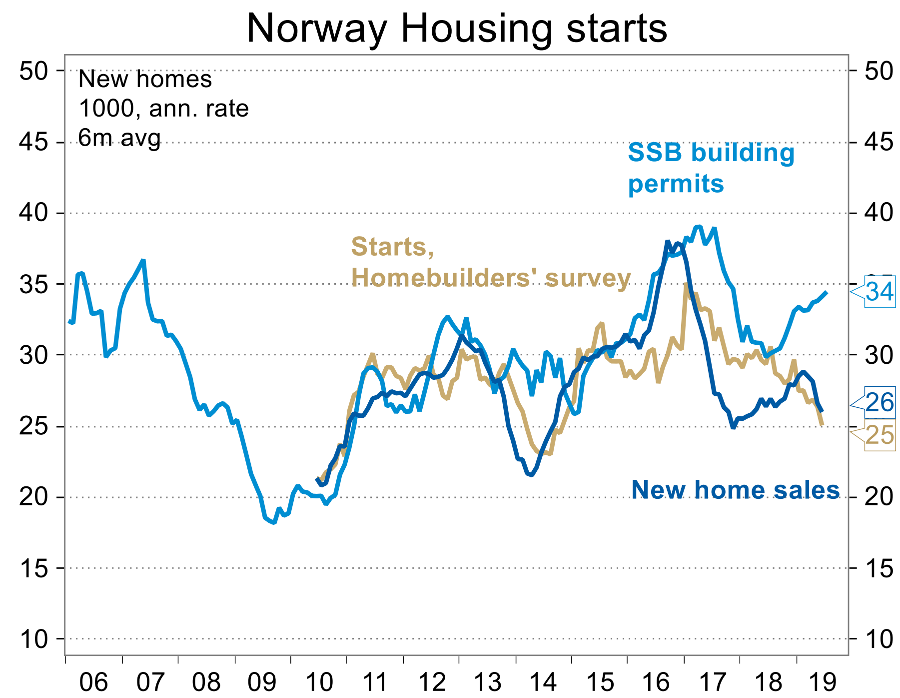
SpareBank 1 MARKETS

SSB reports climbing housing starts but the 'real' trend is probably just flat

Building permits rose to 37' in July. In H1, student homes contributed, other housing turned down



SB1 Markets/Macrobond

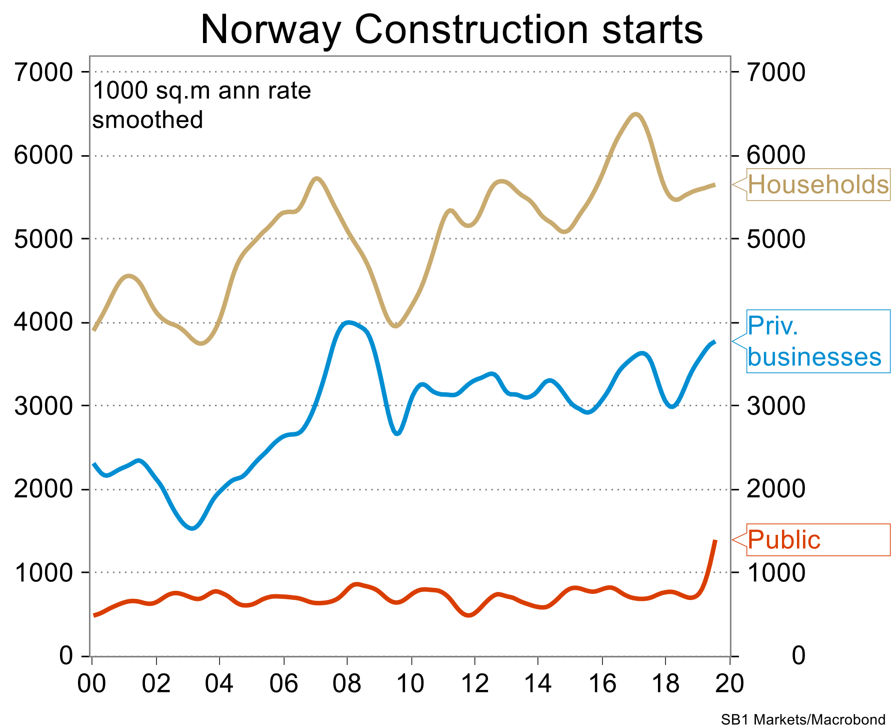


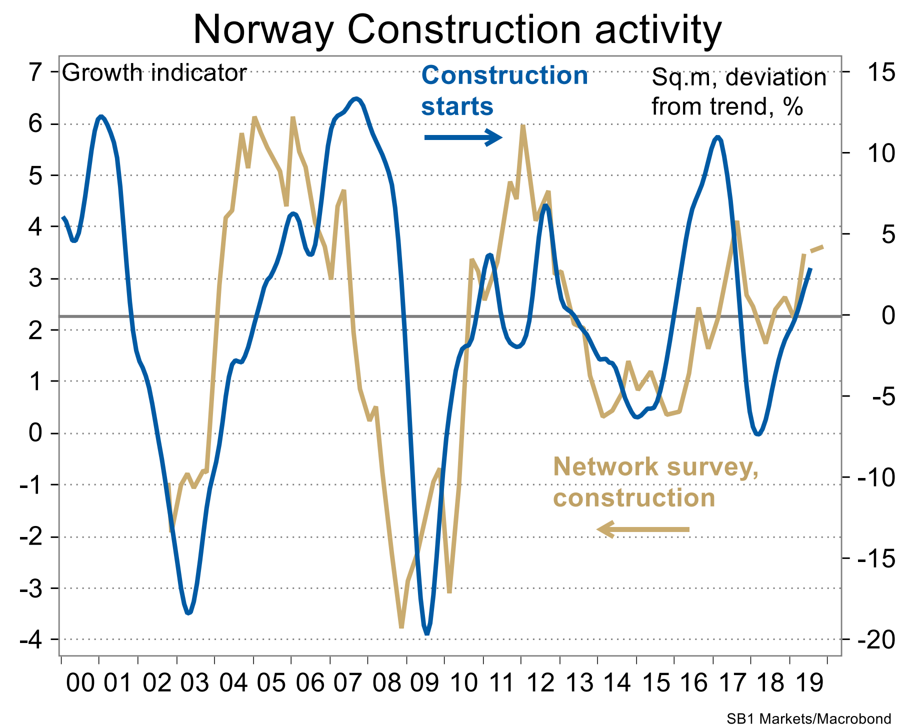
SB1 Markets/Macrobond

- SSB reported housing starts (building permits) at 37' annually in July, up from 34' in June. Starts are trending up, from just below 30' at the local trough in mid-2018
  - » The Homebuilders' are still reporting declining housing starts. A spike in student homes, which is only included in the SSB figures, explains more than half the deviance between SSB and the Homebuilders, at least in H1. Thus, our take is that other housing starts have turned down recently and the short term trend is flat, at best. Moreover, <u>new home sales have softened and do not indicate a rise in starts</u>
- Total housing starts have probably at the best flattened and indicate a muted growth (if any) in housing investments. The level is not low, although well below the 2016-2017 peak. Starts are above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too)

Regional Network expects construction growth slightly above trend

Total construction lifted by business construction, which is rising much more than housing





Public on the chart to the left: Construction starts in public administration, education and health

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. The escalation of the trade war a huge risk, of course	Mixed prelim. Aug PMIs, we estimate a 0.3 p decline in the global composite PMI, to 51.4. The PMI points to GDP growth at some 3%. Global manuf. PMI probably held up better than services, we f'cast an unchanged index
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 trade/tech war will be bad	July data were weaker than expected on almost all fronts. However, following an upbeat June, we do not find evidence of any rapid slowdown. Industrial production, retail sales are slowing, investments and credit stable. Surveys are not weak
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 weakened amid trade war uncertainty. Recent consumption data are solid, 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 more support. **Risks: Trump/trade/bus investments** (we told you so ☺)	Markit's preliminary August PMIs indicate a substantial slowdown in the US economy, with stalling GDP growth. The nowcasters are saying 1.8-2.2% in Q3. Home sales are trending up, confirming a solid US housing market. Jobless claims remain very low. The FOMC is split but will most likely cut by 25 bps in September
EMU	Growth has slowed and manufacturing data are worrying while services remain resilient. The labour market is still tightening, and labour cost infl. back to a normal level. Investment ratios on the way up but are not too high. Credit growth still muted. Household savings are high, still consumption has kept up well. Policy risk: Trade war, populist revolt. Italy 'saved' now, not forever. Even without obvious recession triggers, weak short term data signals a substantial risk for a downturn	Composite PMI has stabilized at an OK level recent months. Services still going strong, manufacturing tumbles. Consumer confidence edged down in Aug but the level is strong, signaling moderate consumption
Norway	Growth may soon be peaking but it still above trend – and unemployment declines further (some soft unempl. data recently, though!). 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 accelerating. Electr. prices have taken the headline CPI. Credit growth almost kept at bay just due to regulations. **Risks: Debt, housing.**	Q3 oil investment survey indicates that investments are peaking in H2 2019, implying a zero growth contribution in 2020. LFS unemployment came up, empl. still strong. Pop. growth probably slowly rising

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

The Calendar

In focus: China PMIs, US durable orders, PCE inflation, Norwegian Q2 GDP, unemployment

Time	Country	Indicator	Period	Forecast	Prior
Monday Aug 26					
10:00	GE	IFO Expectations	Aug	91.8	92.2
14:30	US	Chicago Fed National Activity Index	Jul	--	-0.02
14:30	US	Durable Goods Orders	Jul P	1.3%	1.9%
14:30	US	Capital Goods Orders Core	Jul P	0.1%	1.5%
Tuesday Aug 27					
08:00	GE	GDP QoQ, details	2Q F	-0.1%	-0.1%
15:00	US	CS 20-City House Prices MoM	Jun	0.2%	0.1%
16:00	US	Conf. Board Consumer Confidence	Aug	130	135.7
Wednesday Aug 28					
08:00	NO	Credit Indicator Growth YoY	Jul	(5.8)	5.7%
09:30	SW	Retail Sales MoM	Jul	0.3%	1.0%
Thursday Aug 29					
08:00	NO	GDP Mainland QoQ	2Q	0.8%(0.8)	0.3%
09:00	SW	Economic Tendency Survey	Aug	96	96.8
09:00	SW	Consumer Confidence	Aug	96.8	97.7
11:00	EC	Economic Confidence	Aug	102.4	102.7
14:30	US	GDP Annualized QoQ	2Q S	2.0%	2.1%
14:30	US	Core PCE QoQ	2Q S	--	1.8%
14:30	US	Advance Goods Trade Balance	Jul	-$74.0b	-$74.2b
14:30	US	Initial Jobless Claims	Aug-24	--	209k
16:00	US	Pending Home Sales MoM	Jul	0.0%	2.8%
Friday Aug 30					
01:30	JN	Jobless Rate	Jul	2.3%	2.3%
01:50	JN	Industrial Production MoM	Jul P	0.3%	-3.3%
08:00	NO	Retail Sales MoM	Jul	0.4%(1.0)	-0.4%
10:00	NO	Unemployment Rate, Registered	Aug	2.3%(2.3)	2.4%
11:00	EC	Unemployment Rate	Jul	7.5%	7.5%
11:00	EC	CPI Core YoY	Aug A	1.0%	0.9%
60.4%	US	Personal Spending	Jul	0.5%	0.3%
60.4%	US	PCE Core Deflator YoY	Jul	1.6%	1.6%
Saturday Aug 31					
03:00	CH	Composite PMI, NBS/CFLP	Aug	--	53.1
03:00	CH	Manufacturing PMI, NBS/CFLP	Aug	49.7	49.7
Monday Sept 2					
02:30	JN	Manufacturing PMI	Aug F	--	--
03:45	CH	Manufacturing PMI, Markit/Caixin	Aug	49.8	49.9

- **China**
  - » Both **Chinese composite PMIs** stabilized in July. The PMIs do not suggest that the Chinese economy is cooling abruptly and the manufacturing PMIs are not disturbingly low (and not declining)
- **US**
  - » Business investments are stalling and fell marginally in Q2, the July figures on **durable and capital goods orders** will be an important indication of the speed into Q3
  - » Core CPI inflation has accelerated the past 2 months, will the **PCE deflator** follow suit? Anyhow, even a sharp upturn cannot stop the Fed from cutting the Fed funds rate on September 18
  - » **Consumption** is rock solid and is expected up 0.5% m/m in July
  - » **Pending home sales** have been soaring and the steep drop in interest rates should help boost housing demand the coming months
  - » **House price inflation** is probably rising, however, there is no take off
- **Eurozone**
  - » **Core inflation** is stuck at 1% and there are no signs of an upswing
- **Norway**
  - » **Mainland GDP growth** probably gained speed in Q2, after a soft Q1. We project some 3.2% growth (0.8% not ann.), close to Norges Bank's 3.4% f'cast. Oil investments rose sharply
  - » **Registered unemployment** ticked up in May-July, may be an early indication of labour market weakness. The Aug NAV data will be crucial ahead of NoBa's Sept 19 meeting, we expect a small decline
  - » **Retail sales** are not thriving, the trend is not more than flat – even if we expect an uptick in July
  - » **Credit** is growing steadily and banks do not expect any slowdown

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

In this report

Global + PMIs

- The world a tad less disappointing recently, helped by the US, China (!)
- Global PMI (probably) edged down in August, signals 3% growth
- US services dragged the global PMI down, manufacturing remains muted
- Global manufacturing remains in the doldrums, PMI at the weakest since 2012
- An overall weak US August PMI – points to stagnating GDP growth
- Eurozone PMI edges up in August, the 7th month of stabilisation

USA

- No consensus at the FOMC, unusal disagreements on the way forward
- New homes much better than assumed/expected in June/July
- Existing home sales are following pending sales up
- Jobless claims remain very low, no signs of weakness
- The Leading indicators recovered in July (but August not that good?)
- Q3 growth stable in in Q3? The nowcasters are suggesting, 1.8 – 2.2%

EMU

- Consumer confidence, income signal moderate consumption growth

UK

- Manufacturing orders are still declining but fell much less than expected

Sweden

- Is the labour market turning sour?
- House prices rose marginally in July, trending slowly up

Japan

- Core CPI inflation is turning slowly up

Norway

- Oil investment f'casts a tad lower than expected, investments are peaking soon
- The boom in manufacturing investments is behind us, down 20% in 2020?
- Power supply: A terrific party is over?
- LFS reports higher unemployment but also stronger employment
- Population growth has probably bottomed out at a low level
- SSB reports climbing housing starts but the trend is probably just flat
- Norges Bank expectations survey improved in Q3, level not impressive

Highlights

The world around us

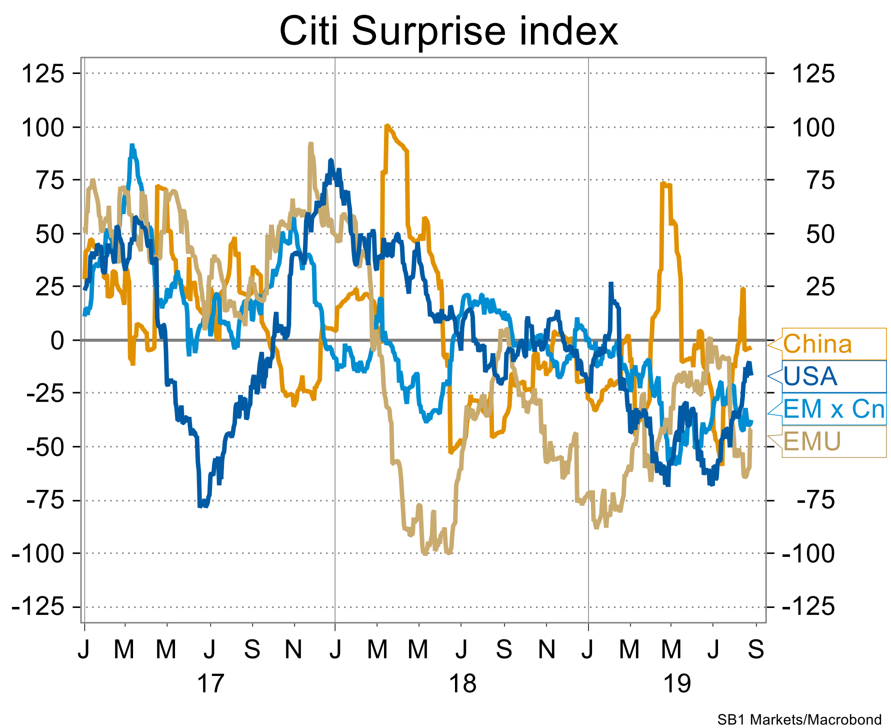
The Norwegian economy

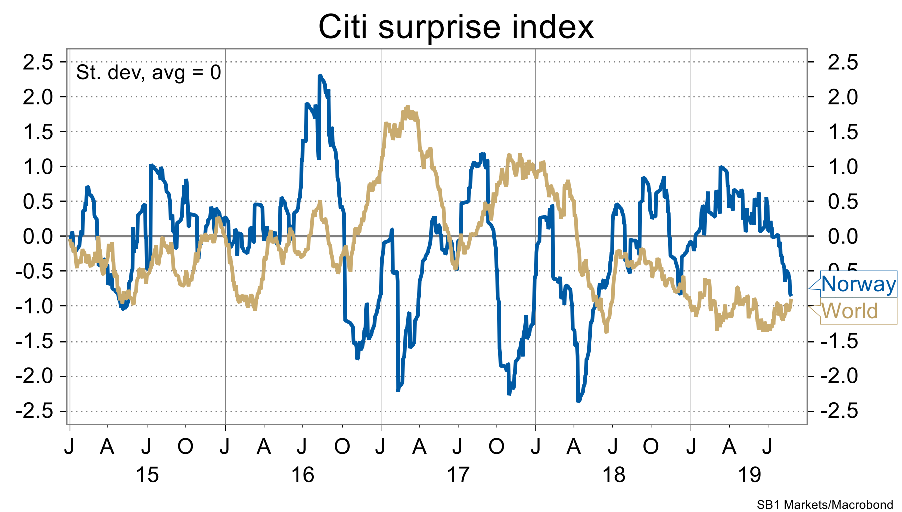
Market charts & comments

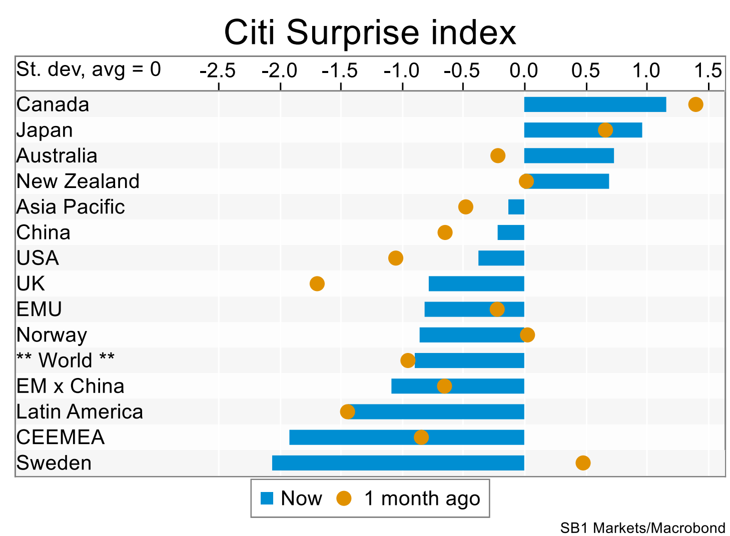
SpareBank 1 MARKETS

The world a tad less disappointing recently, helped by the US, China (!)

All major regions ex China are reporting data below par, world index stable last week





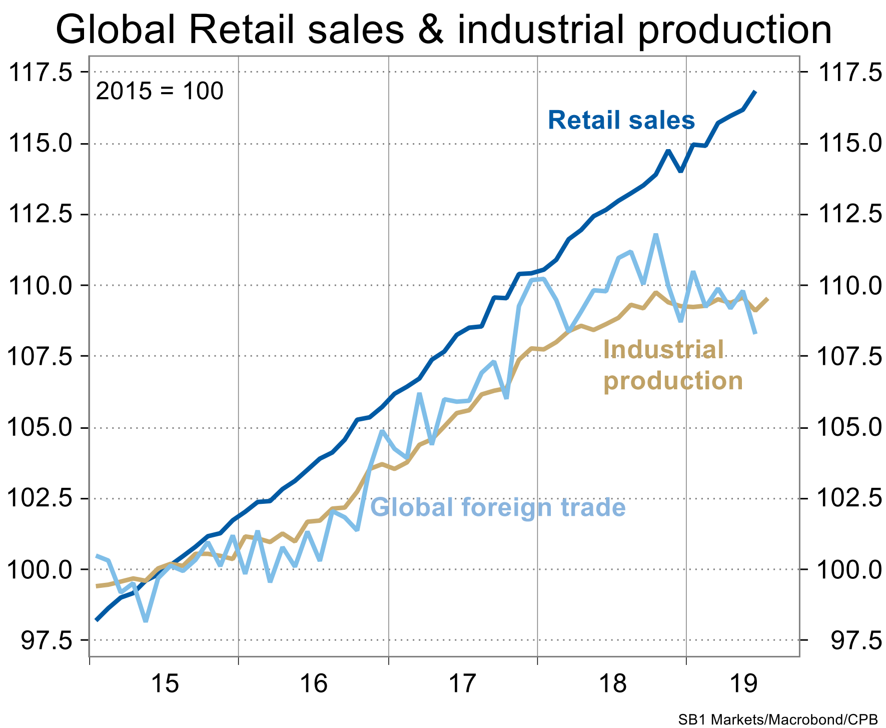


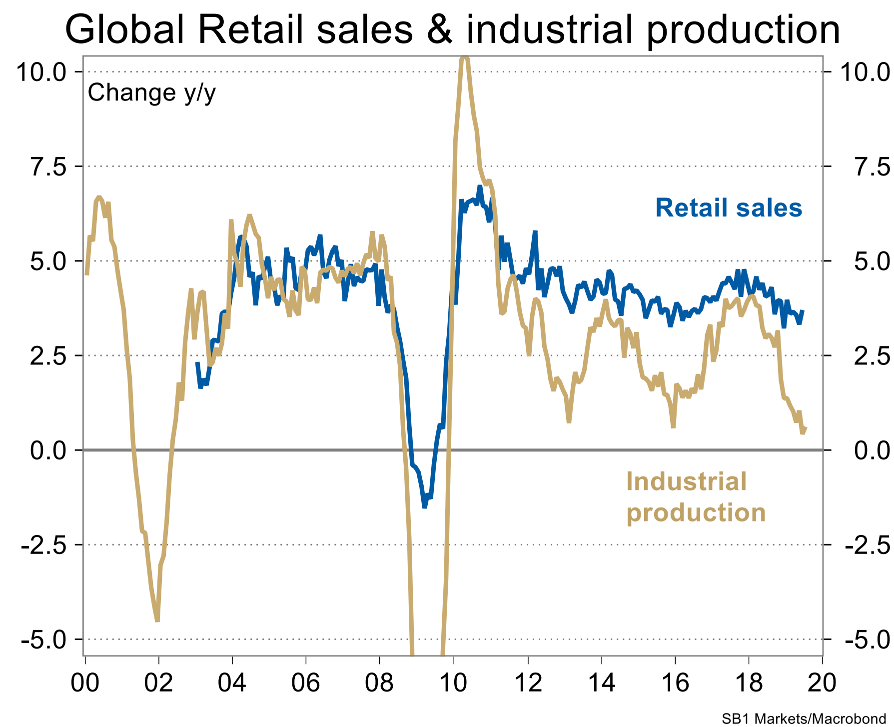
- The global surprise index has been in negative territory since last spring, improving somewhat through July and August
- The EMU surprise index is weak but a tad less so last week as the PMIs were better than feared
- US data less negative in July & August, mostly due to strength at the consumer side
- Chinese July data in sum neutral, from negative in July
- Norwegian data have been disappointing vs expectations the past month

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

Retail sales still strong, manufacturing production stagnates – exports implodes

Global foreign trade plunged in June, trending down since Q3 last year

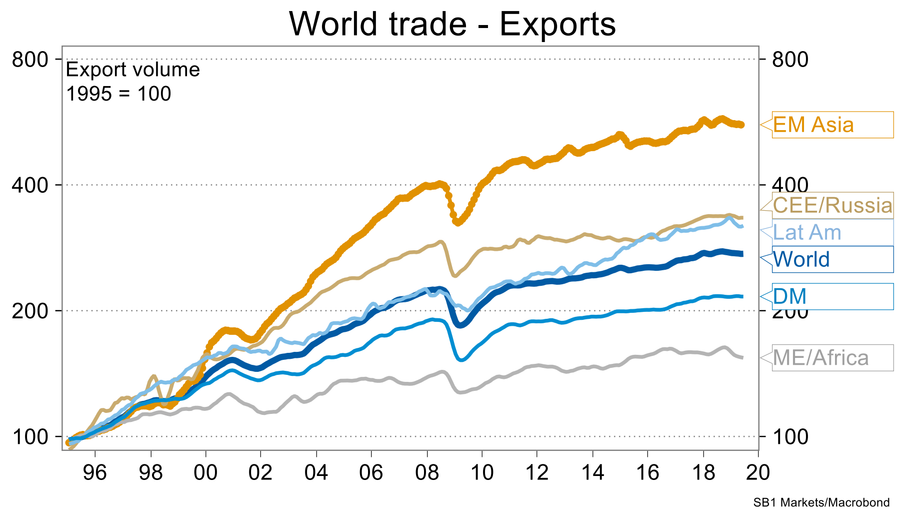


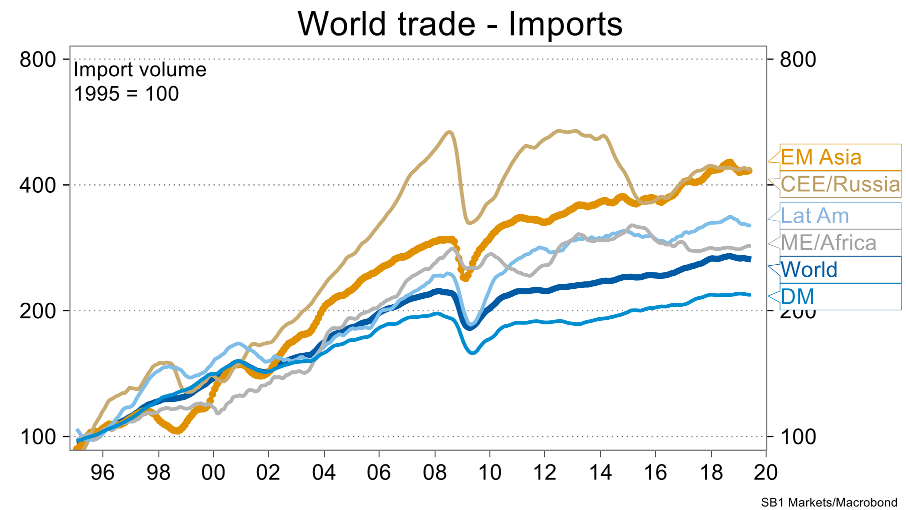


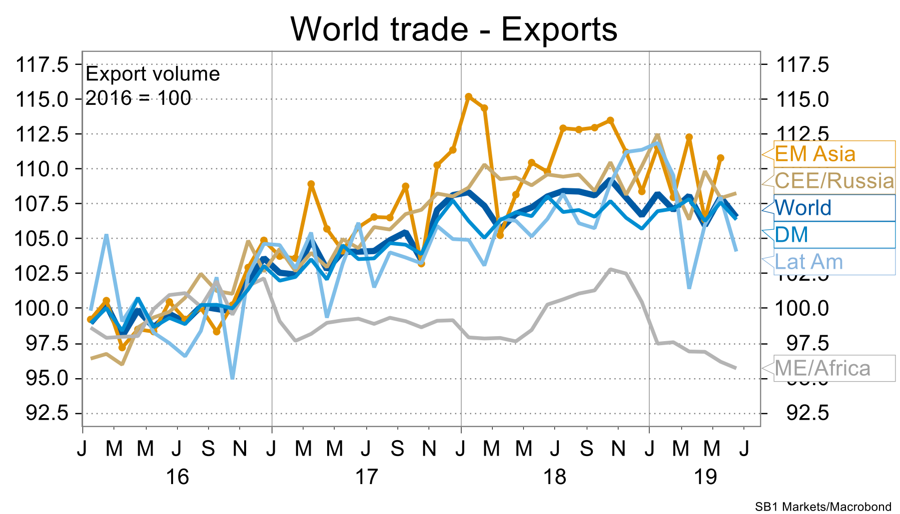
- **Global foreign trade** fell 1.4% m/m in June, and is now trending sharply down. The weakness was rather broad based but Emerging Asia ex China and Lat. Am were the weakest links in the chain
- Our very preliminary July global **industrial production** estimate indicates a recovery from the June slump, even if both China and the US have reported weak figures (some EMs fell sharply in June and probably recovered in July). Still, the trend is no more than flat
- **Retail sales** accelerated in June, and even if July might turn out to be somewhat weaker due to China, the trend signals that consumption is still supporting the global economy – even if it has slowed somewhat

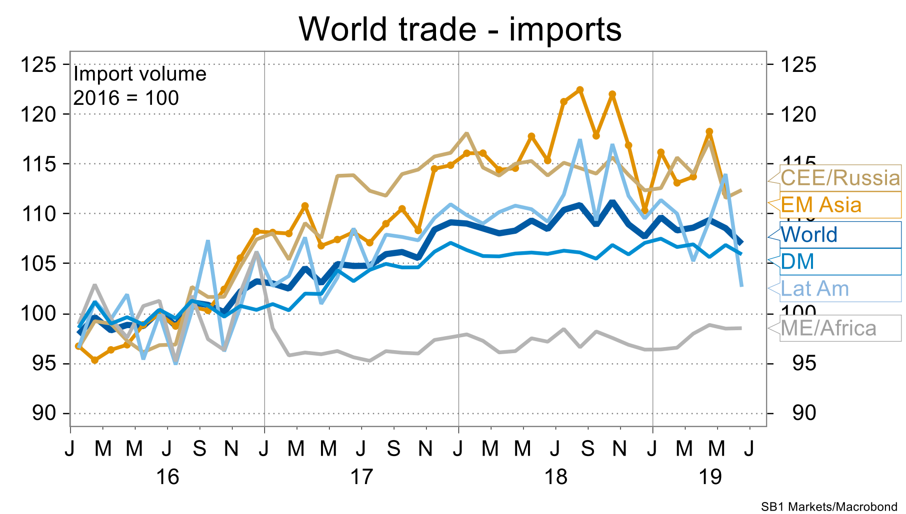
Imports & exports down, broadly. Lat-Am the weakest link in June

Other EM exports down, while DM exports have flattened in Q1





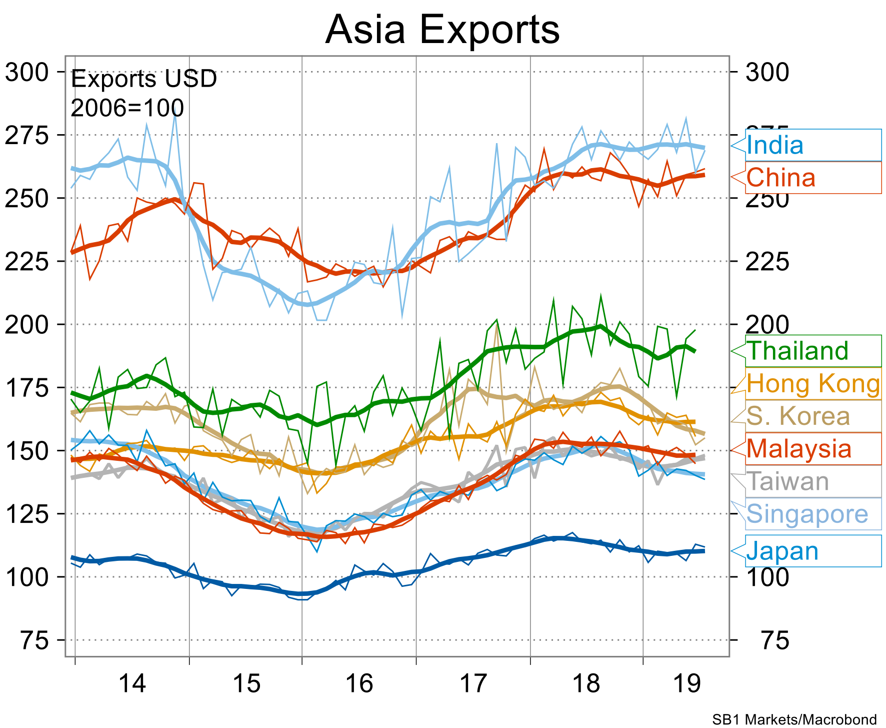


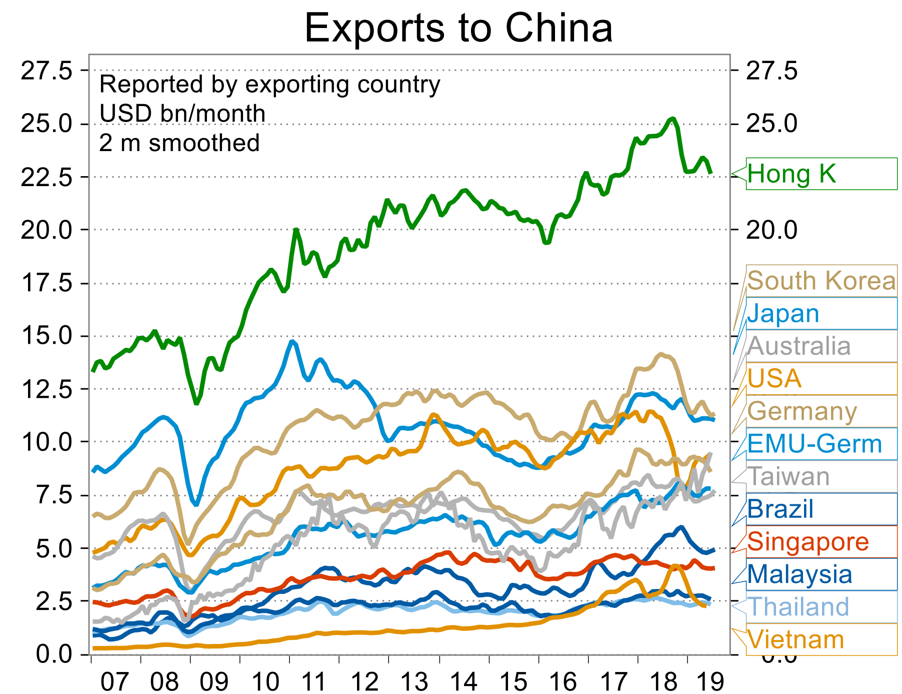


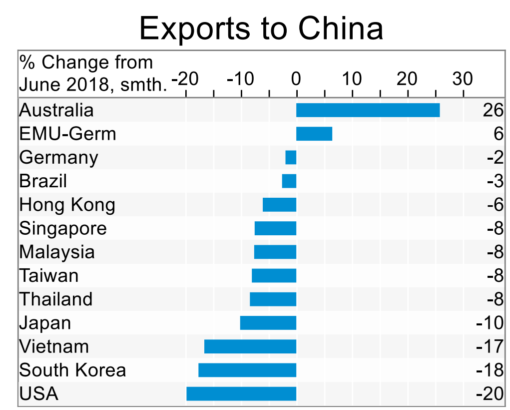
All foreign trade data from CPB, Netherlands

Exports to China down but not dramatically. But South Korea feels the heat

Asian exports have struggled since last summer/autumn

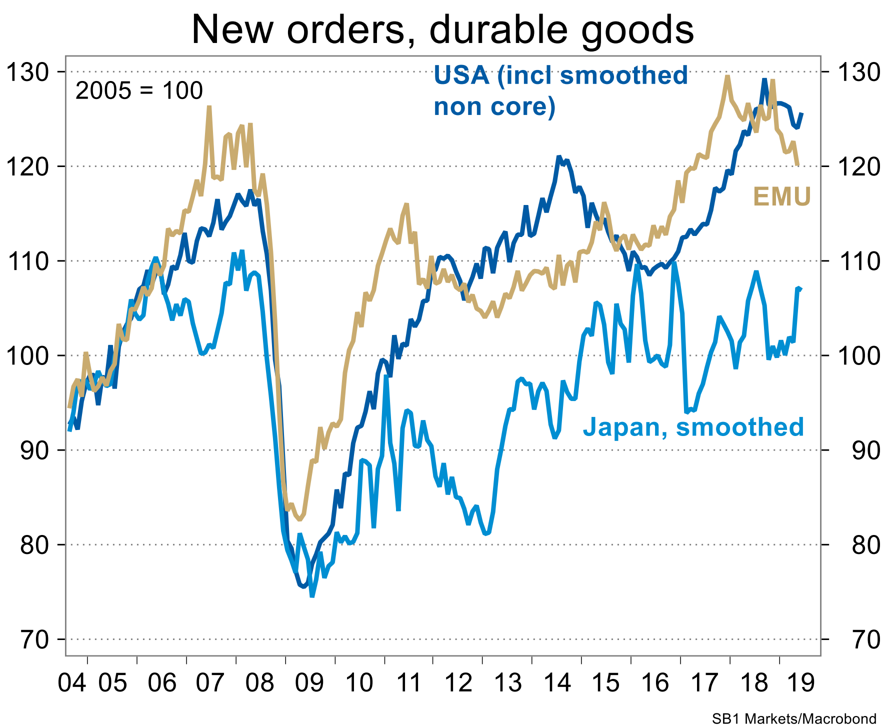


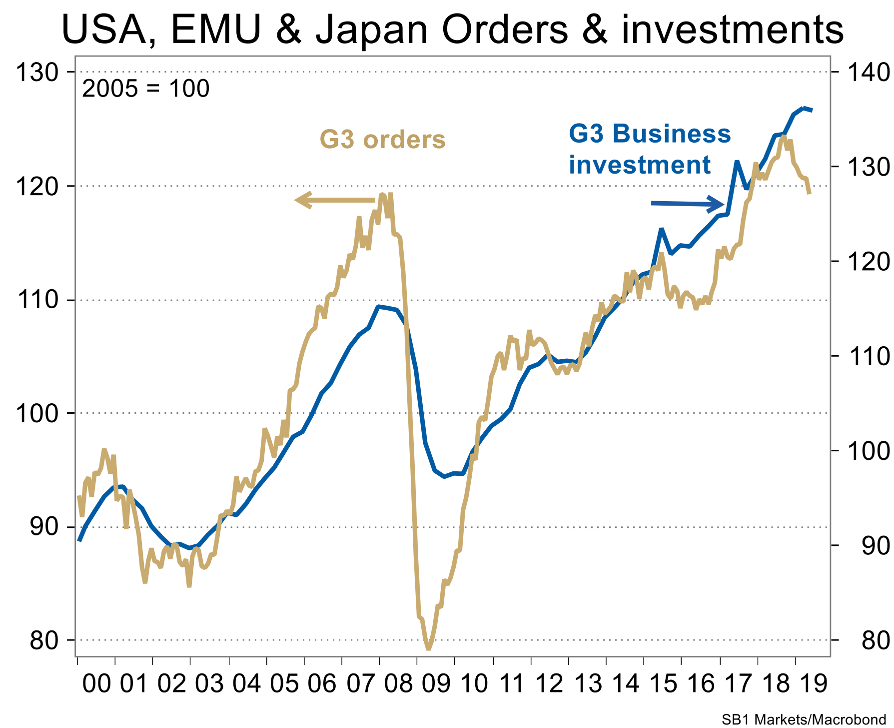




- Exports from everywhere to China is falling except from Australia (iron ore)
- The decline in Korean exports to China (and in other Korean exports as well) is worrisome

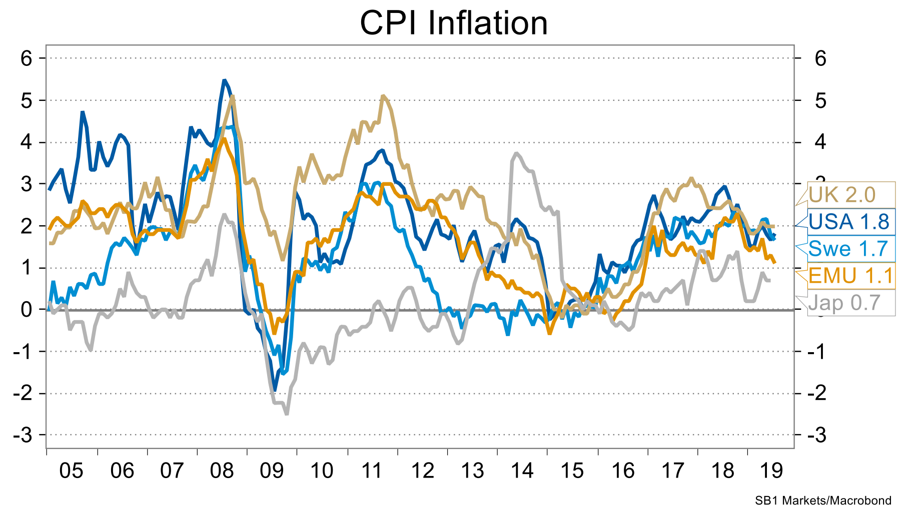
DM orders are falling – and investments peaked in Q1?

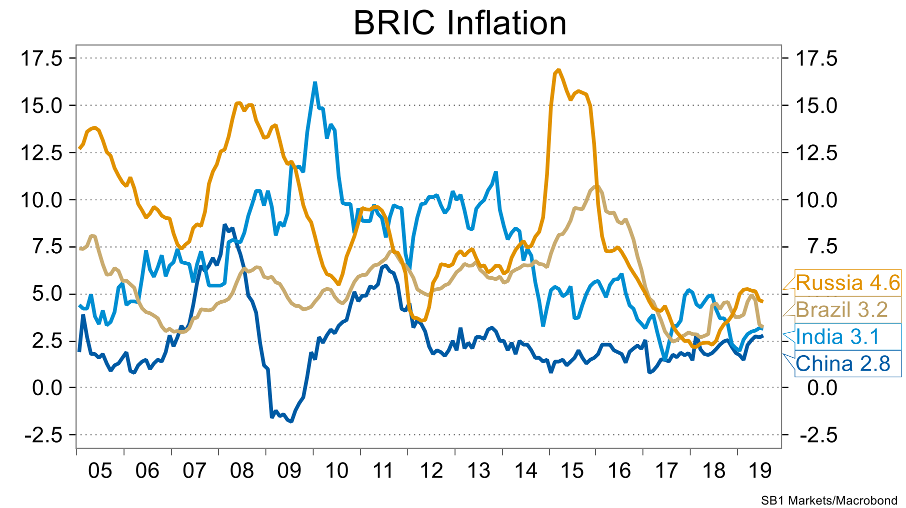


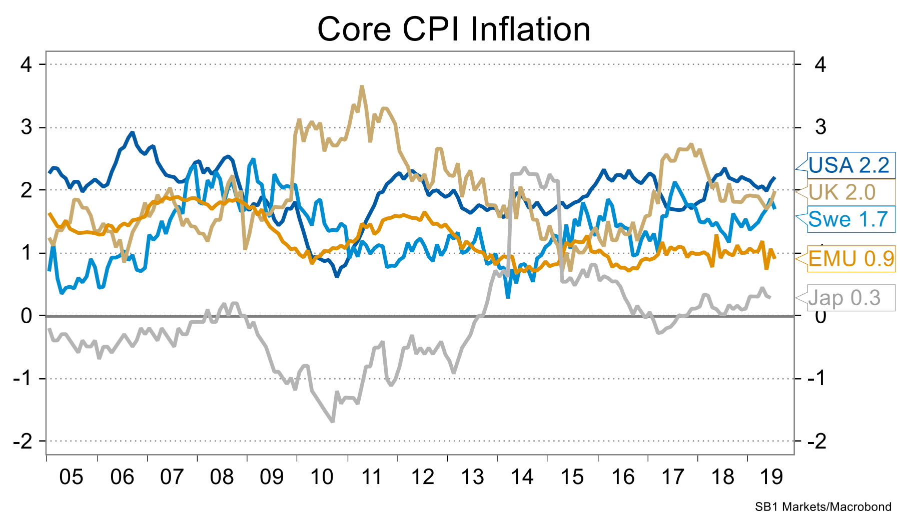


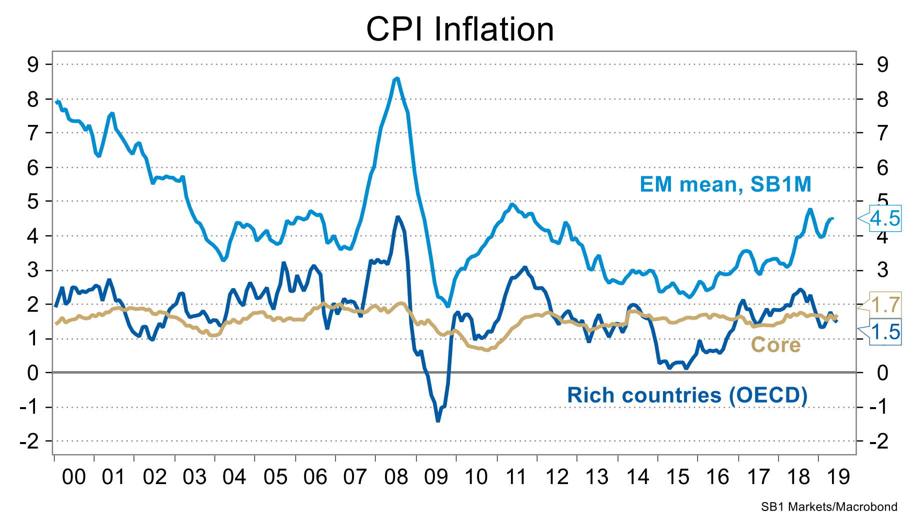
DM CPI has turned south, with the oil price. Core is sum flattish

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





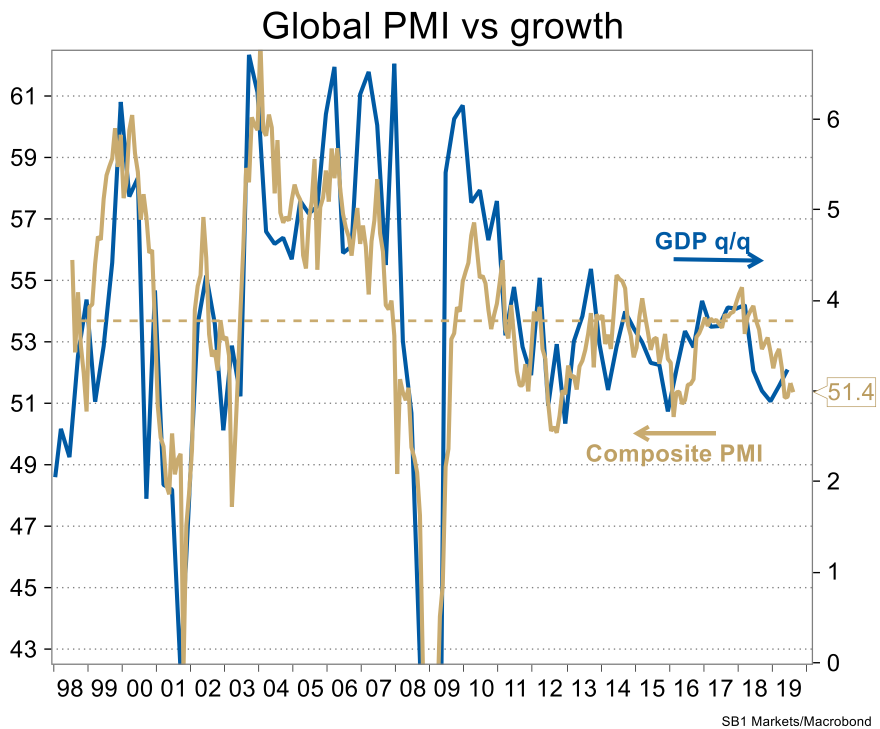


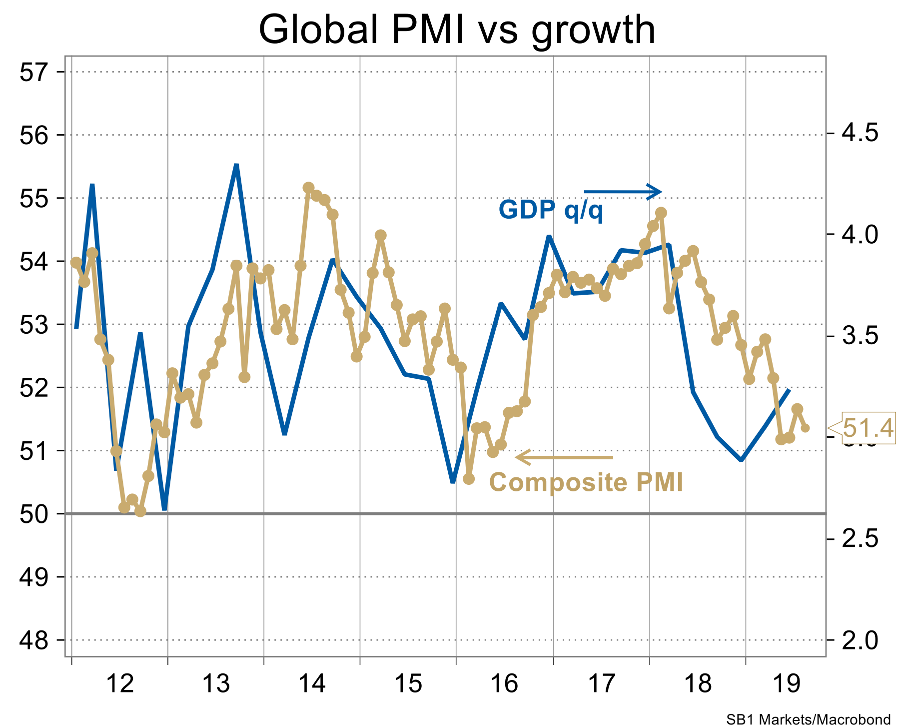


Change in % y/y in all charts. EMU core based on a seasonally adjusted price index

Global PMI (probably) edged down in August, signals 3% growth

The PMI was lower in both 2012 and 16' but the cycle is more mature now and the PMI trends down



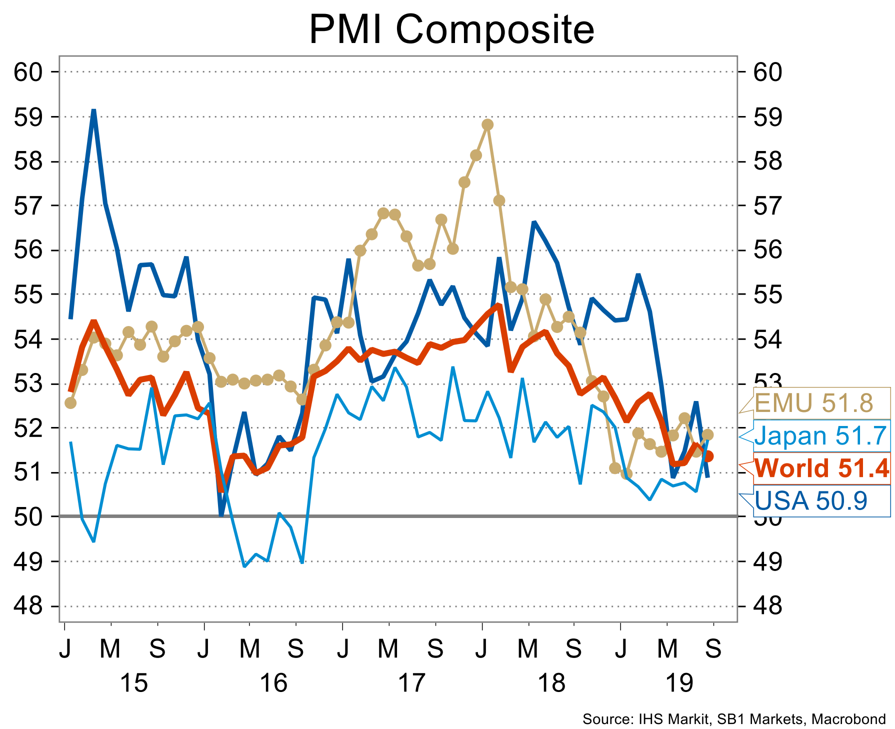


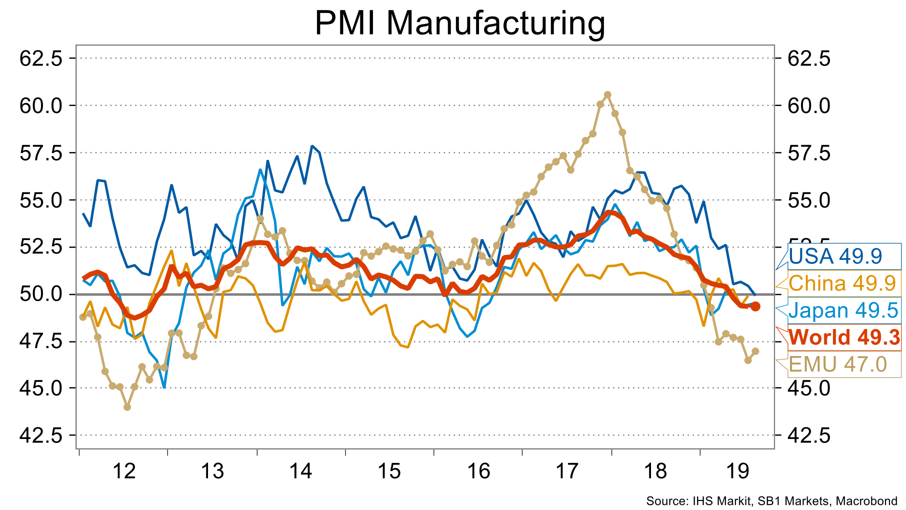
- We estimate a global composite PMI at 51.4 in August, a 0.3 p decline from July. The PMI points to a slowdown to close to 3% global GDP growth, vs 3¼ % in Q2 (our estimate)
- The PMI has fallen by more than 3 points from the January 18 local peal, equalling a 1 pp slower global GDP growth. The manufacturing PMI signals a 20 pp slowdown in global EPS (earnings per share), down to zero –which now has been recognised by analysts

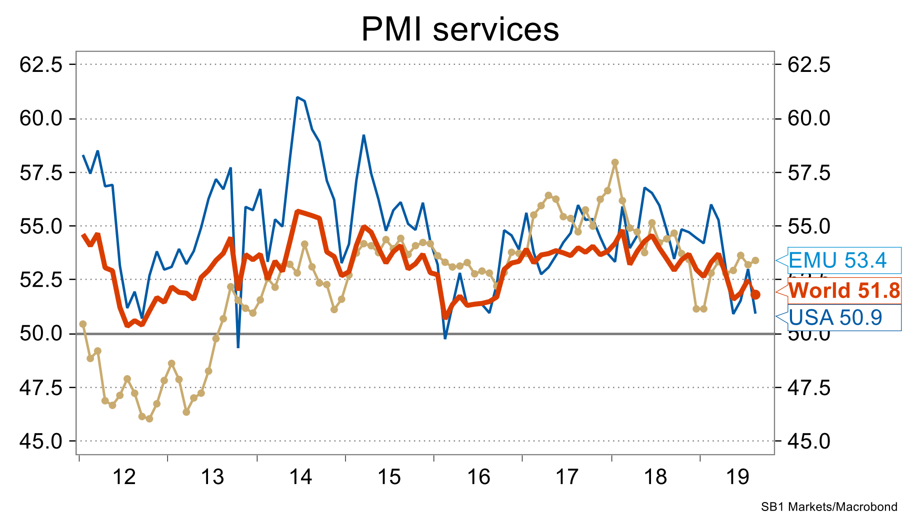
Our estimate is based on the preliminary composite PMIs from EMU, Japan and US,. The estimate is uncertain

US services dragged the global PMI down, manufacturing remains muted

Global manufacturing weakest since 2012. Services slides down in the US, steady in the EMU



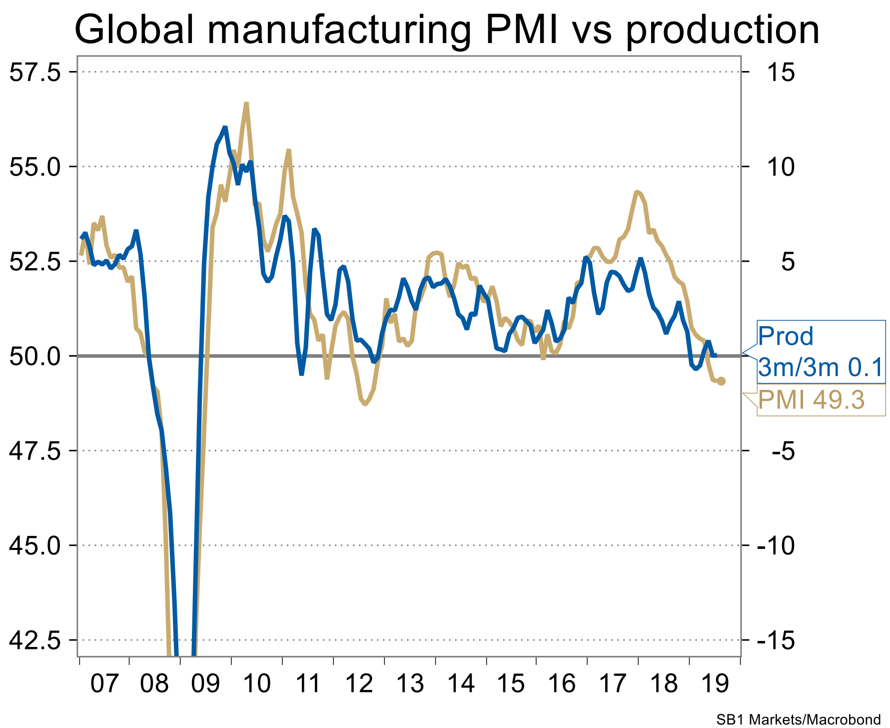




- Memo:
  - » The last obs for world indices for total, manuf. & services PMIs are based on prelim. data from the US, EMU, Japan
  - » The estimate is uncertain,
  - » China has not yet reported any August PMI data

Global manufacturing remains in the doldrums, PMI at the weakest since 2012

We estimate an unchanged manuf. PMI in Aug, pointing to a modest contraction in global production

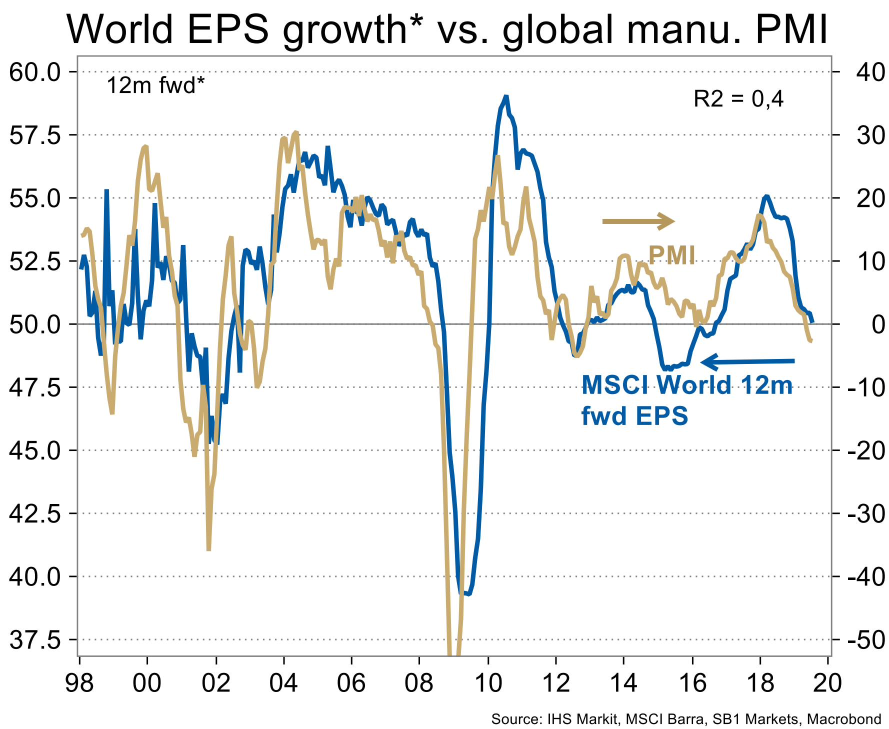


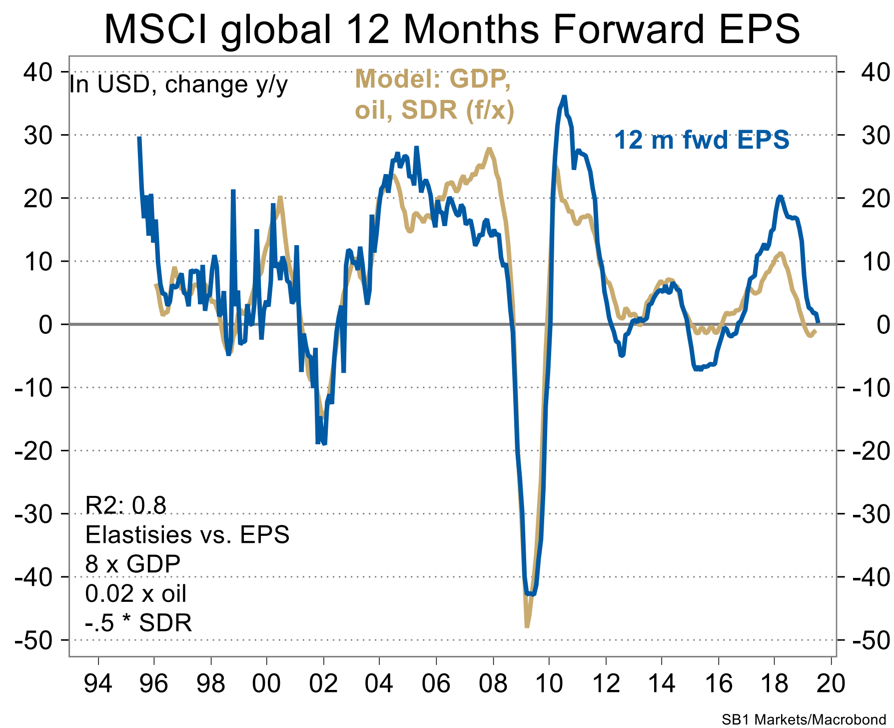
- Signals a 2% pa. decline in global manufacturing production

… And the PMI has been too upbeat the past two years…

A cycle is a cycle is a cycle

How to make a forecast (macro or micro): Listen to what companies said about the previous month

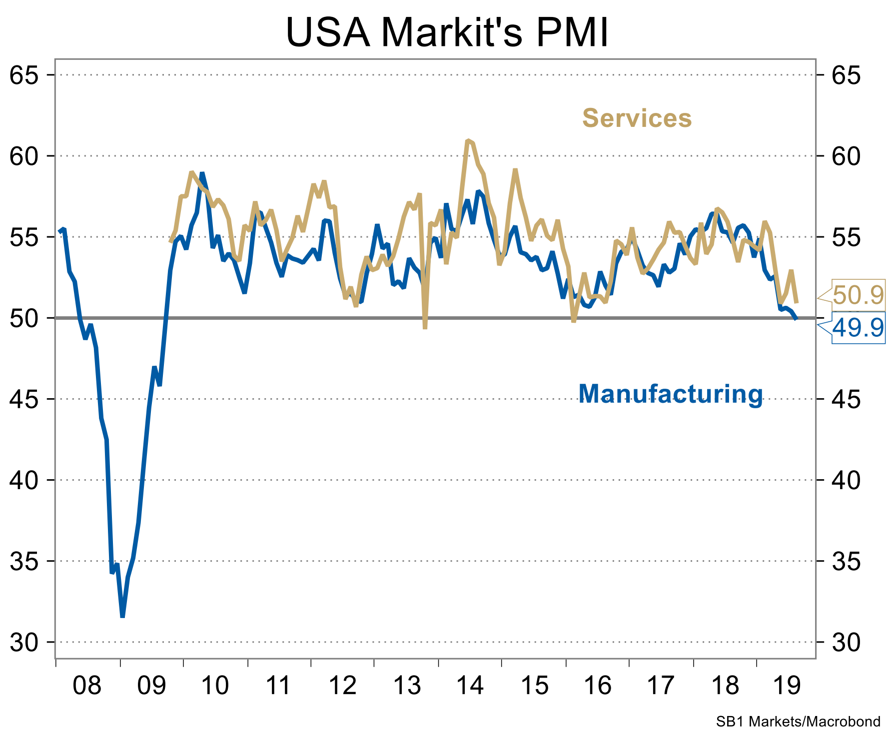


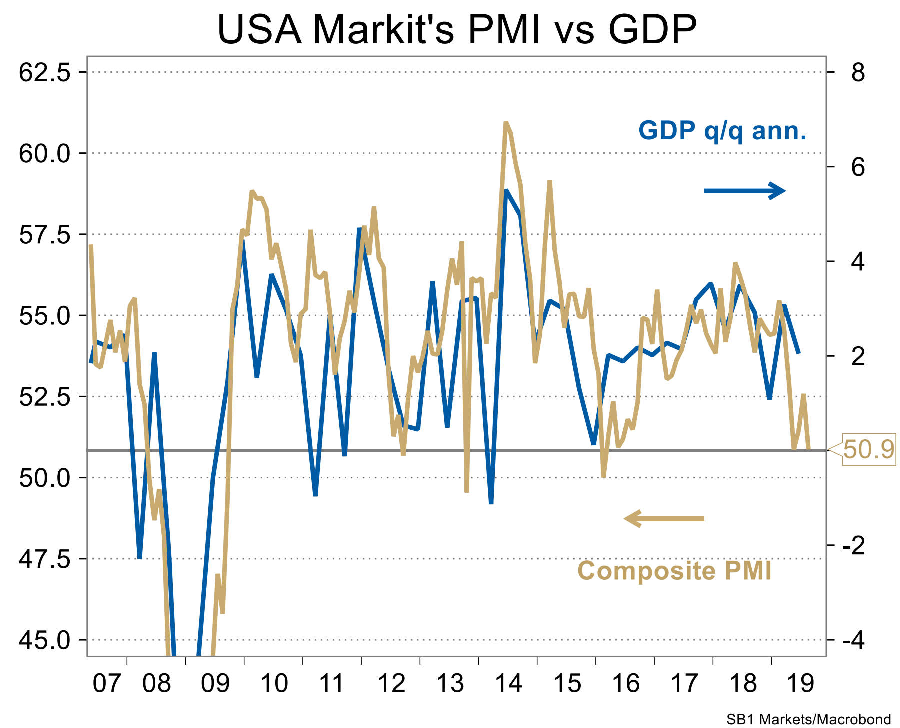


- A 1 p decline in the global PMI 'equals' approx ¼ pp slower growth in global GDP
- A 1 pp decline in global GDP 'equals' almost 10% decline in global corporate earnings (EPS) growth
  - » Thus: A 1 p decline in the global PMI 'equals' approx. 2.5 pp decline global EPS
- A model including global GDP, the oil price and the SDR/USD rate (to include f/x impacts), explains 90% of the global EPS cycle
- The PMIs (like the ISM) are not sentiment surveys. In the Purchasing Managers' Indices, companies are asked about actual changes in activity (orders, sales, employment etc) from the previous to the present month

An overall weak August PMIs – points to stagnating GDP growth

Not many bright spots; weakest manuf. PMI since the financial crisis, services down 2.1 p in August



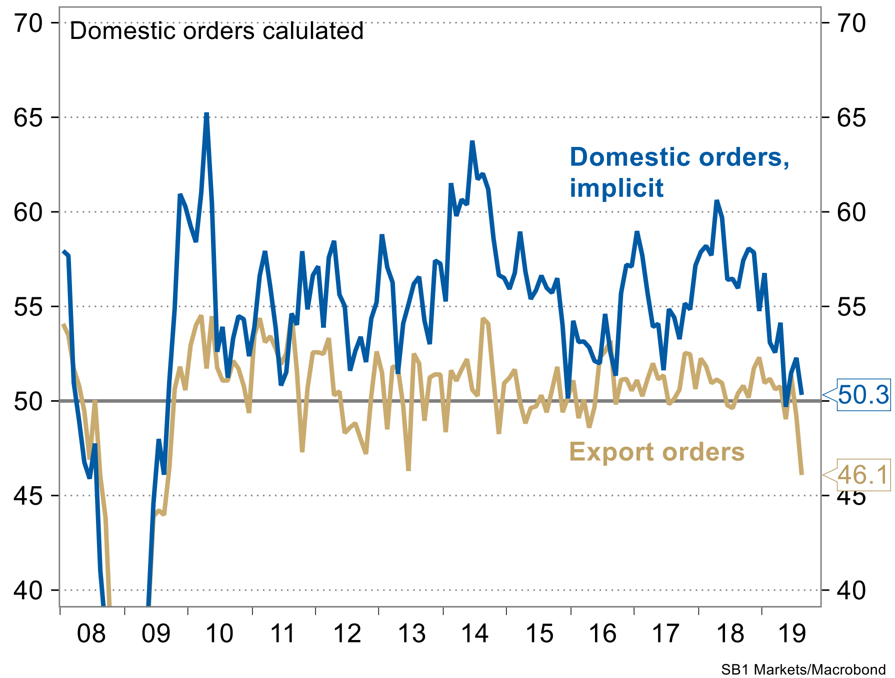


- The manufacturing PMI fell 0.5 p to 49.9 in August, expected one tick up. Even though the m/m decline is modest, the PMI reached the lowest level since the Financial Crisis, not a strong signal!
- The service sector index surprisingly slipped 2.1 p in August, to 50,9, far below any expectations. Hence, the manufacturing slump may now be dragging the (much larger) service sector down. <u>The composite PMI fell to 50.9, signaling close to zero GDP growth so far in Q3</u>
- Businesses are reporting the steepest decline in foreign manufacturing orders since 2009, the index fell to 46.1. However, domestic orders are not shining either, businesses are reporting just marginal growth in domestic orders (implicitly). And no employment growth!

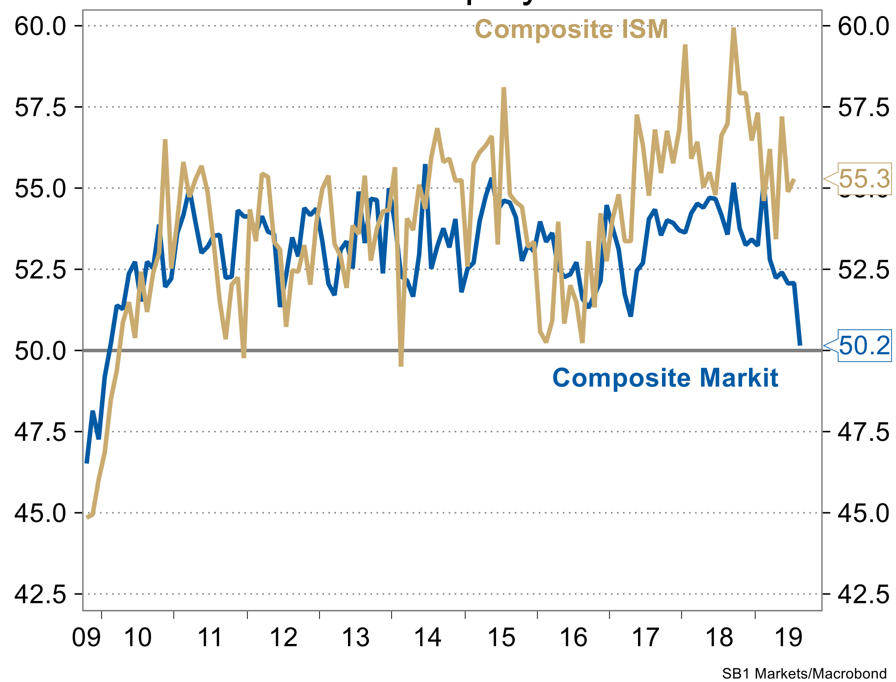
Export orders sharply down, domestic orders weak, zero empl. growth??

Domestic demand stalls, even if household demand keeps up (until now). Investments to blame?

USA Markit's Manuf. PMI New Orders



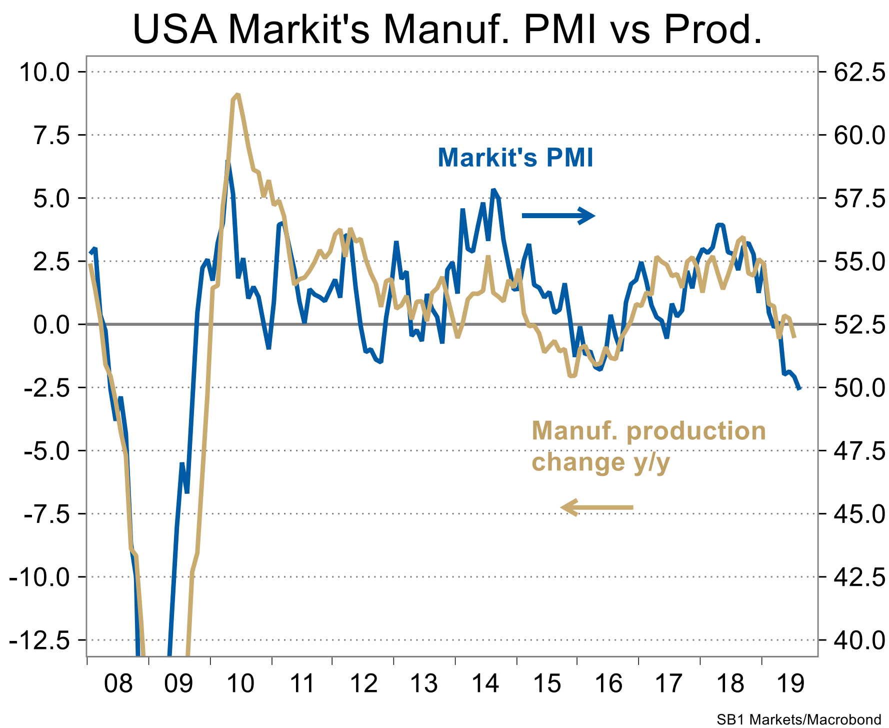
US PMI/ISM Employment index

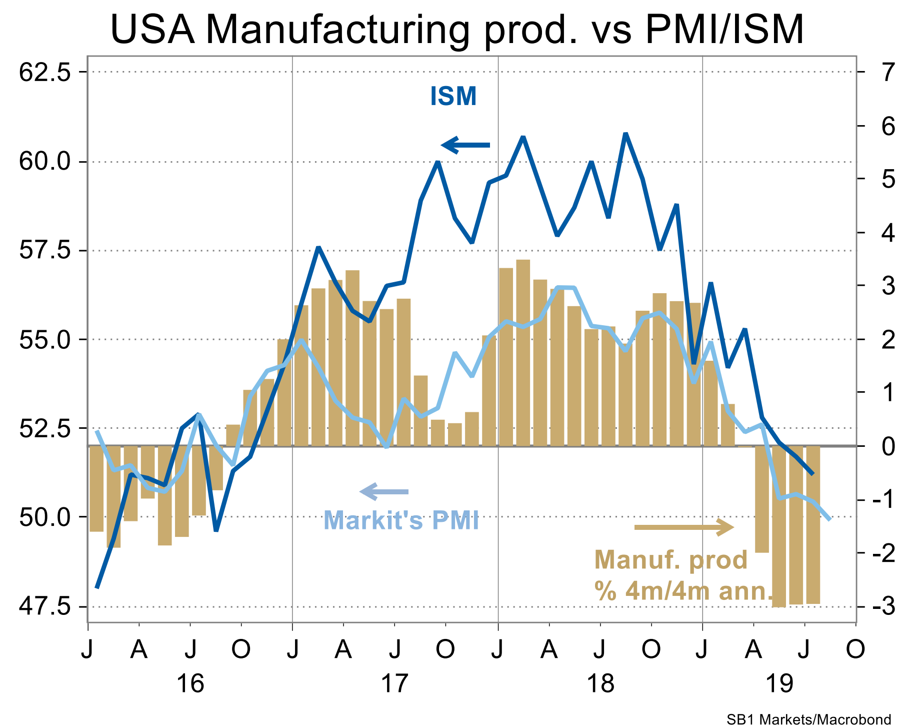


- The export order index, which have been stable the past year, noted the steepest decline since the financial crisis!
- Since late 2018, manuf. businesses have been reporting a significant downshift in growth in domestic orders. In August, the domestic component fell to 50.3, pointing to stagnating domestic demand. Thus, the PMI does not reflect any pick up in business investments from the soft Q2. And weaker household demand? So far we have not seen any signs of the latter
- The composite PMI employment index (chart to the right) dropped 1.9 p in August, to the weakest level since 2009. <u>A very disturbing report, and probably the weakest labour market data point at hand</u>

Markit's PMI has been closer to the ball vs production than the ISM recently

Now, the PMI is signaling a substantial decline in manuf. production (which has stagnated)





- The past years, Markit's PMI has been more closely correlated to actual manufacturing production than the ISM
  - » The PMI just reaches back to 2007, thus, the ISM a more 'reliable' recession indicator
- ISM has not reported August data yet, flip to the next slide for our f'cast

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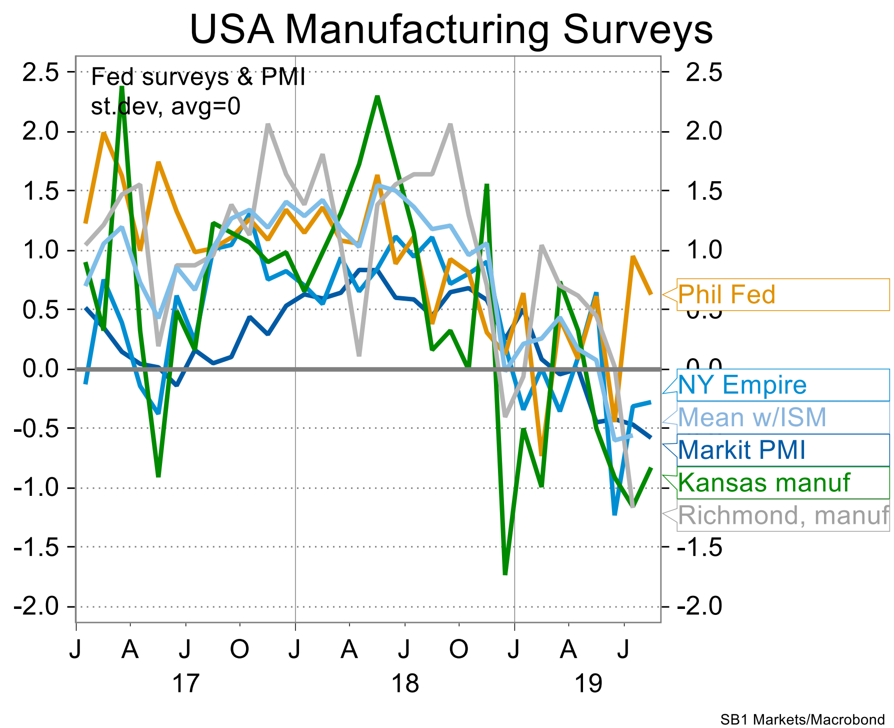
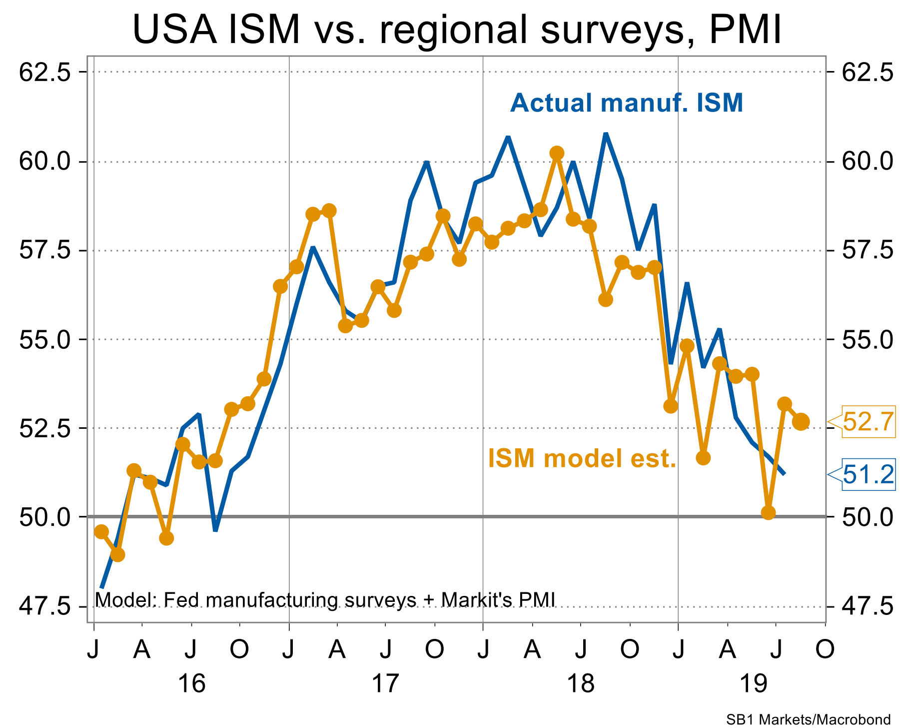
Mixed August manuf. surveys; in sum points to a marginal decline in the ISM

Phil Fed, Markit's PMI slightly down, NY and Kansas Fed a tad up in August. 3 of 4 are below avg

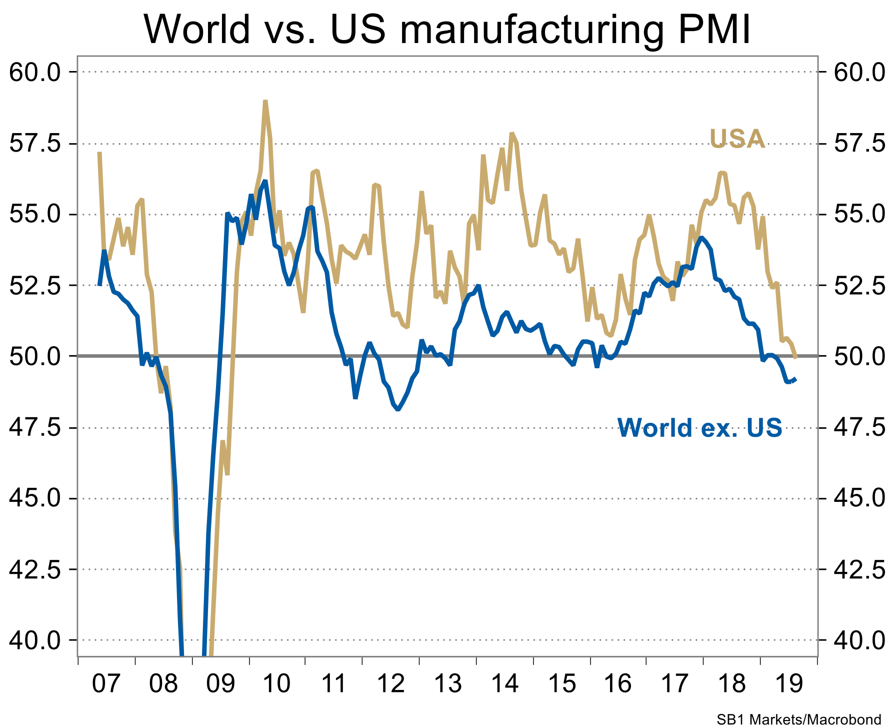


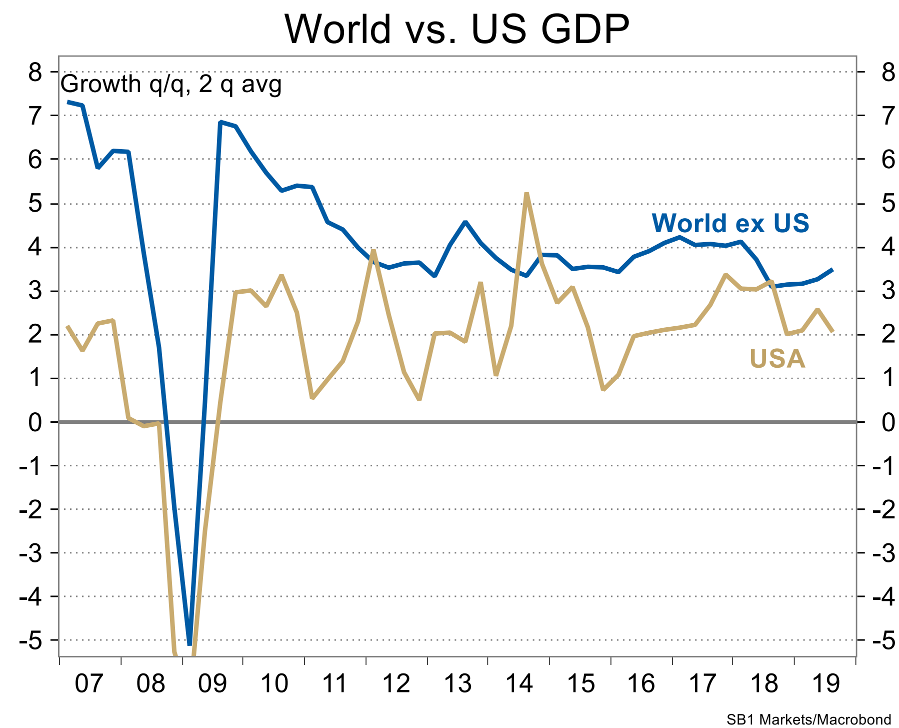


- Phil Fed's manufacturing index inched down in August but remains above an average level, more upbeat than the other regional surveys. Markit's manufacturing PMI weakened too, while NY Fed's index improved marginally and Kansas Fed somewhat more
- In sum, our model yields a slight decline in the August manufacturing ISM, down some 0.5 p vs th3 51.2 July print

It's the rest of the world, of course. Well…

The US manufacturing PMI has fallen more than in Rest of the World, and growth has slowed equally

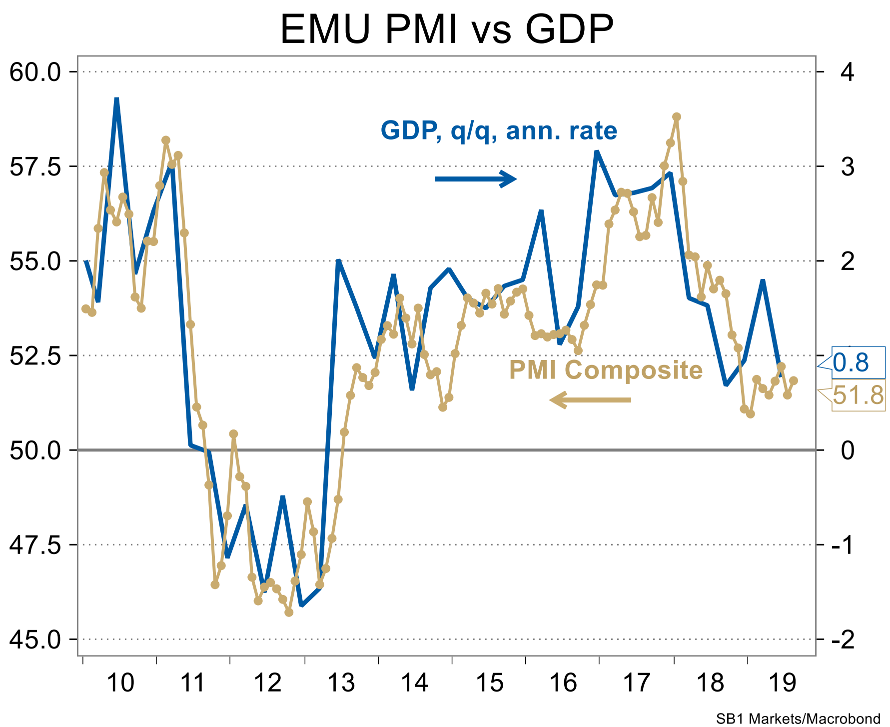


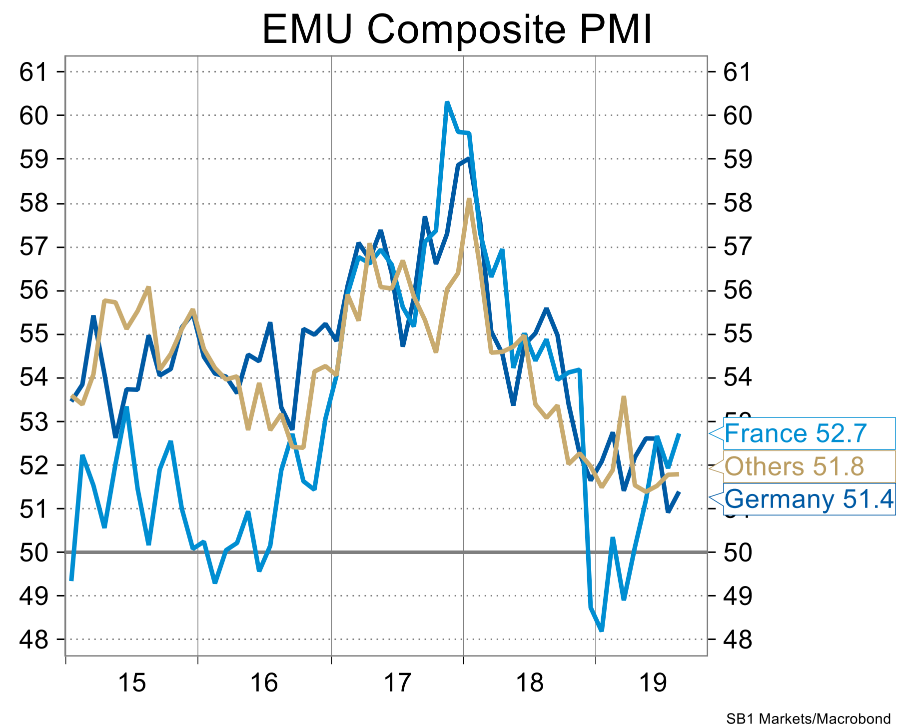


- The slowdown started somewhat earlier abroad than in US
- Still, based on previous changes in economic conditions in the ROW and the US, it is complete impossible to put the blame for the US slowdown on the "global slowdown". The US is just not that closely correlated to the global economy, and the recent slowdown abroad is not of a scale that should by itself hurt growth in the US significantly
- A better explanation: Trade war uncertainties creates trouble both US and in the ROW. And who should we blame for them, the ROW? Probably not. In addition, the impact of a maturing cycle may be felt several places

Eurozone PMI edges up in August, the 7th month of stabilisation

Service sector still growing at a decent pace but manufacturing remain lacklustre

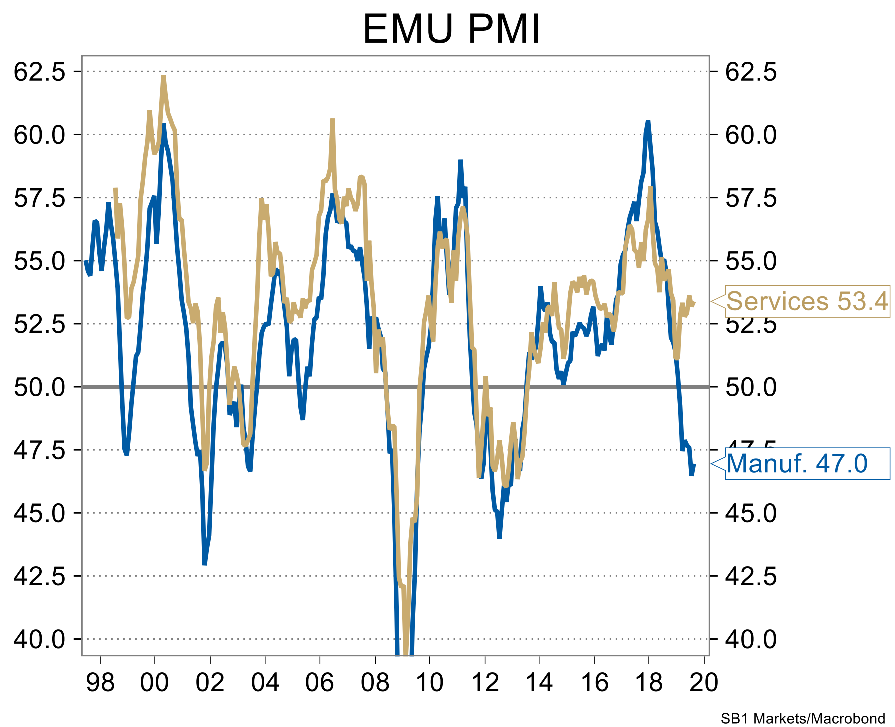


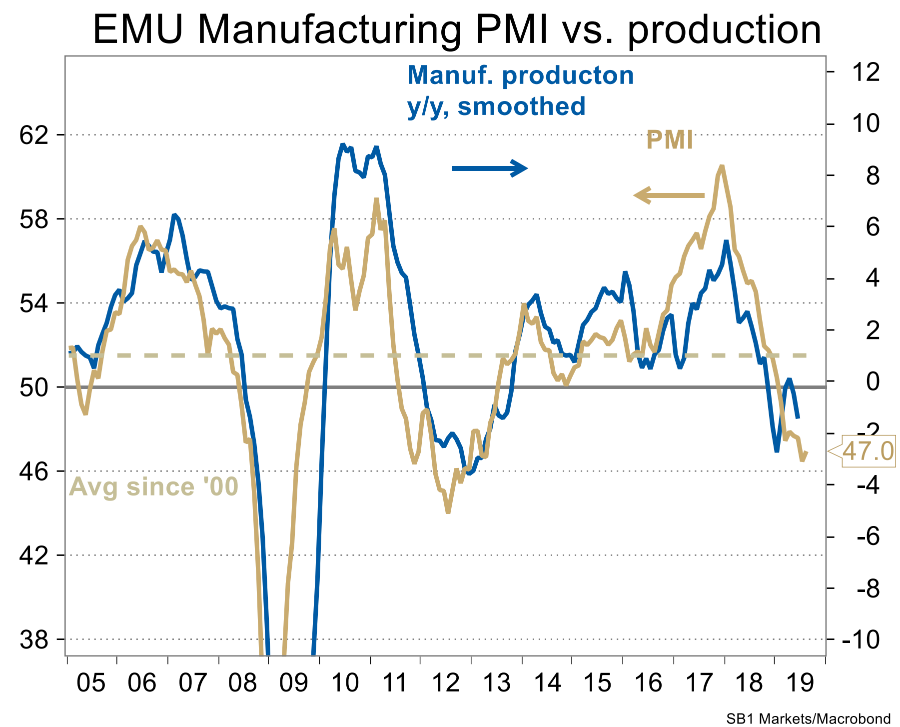


- The preliminary EMU composite ticked up to 51.8 in August, a 0.3 p increase, while a 0.3 p decline was expected. The PMI has inched up from 51.0 in January. The index do not point to any recovery from the meagre 0.8% GDP growth in Q2
- PMIs in both France and Germany improved, while the implicit estimate for the other countries was flat
- The manufacturing PMI rose marginally to 47.0 in August, the 7th month in contraction territory. Germany still disturbingly low, at 43.6. So far, manufacturing has not dragged services down with it

Manufacturing remains weak, growth 'saved' by a robust service sector

The manuf. PMI inched up to 47.0 in August, still suggesting more than 3% decline in production

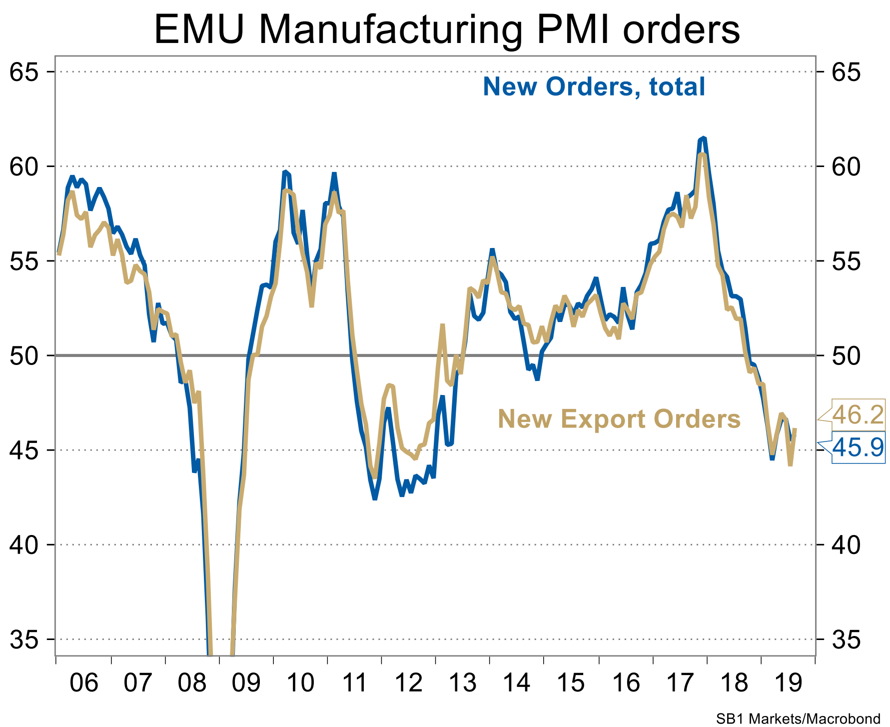


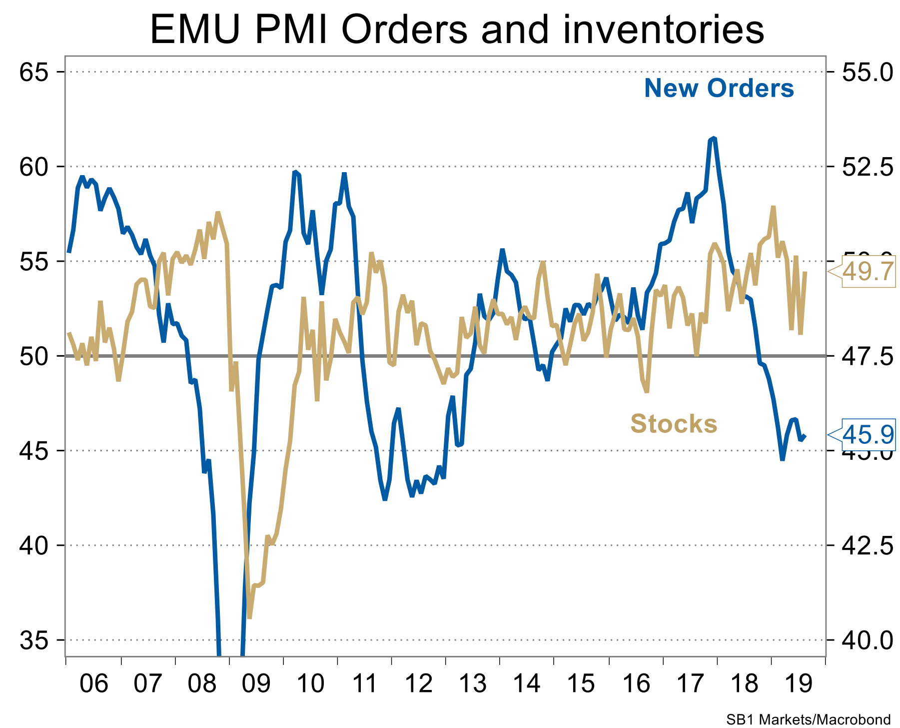


- Manufacturing PMI rose 0.4 p in August, the pace of decline has slowed somewhat the past 4-5 months
- Manufacturing production has stagnated (down 1.4% y/y in June) and the PMI indicates a steeper contraction

The downturn in orders still heavy, no inventory build-down, yet

Export orders fell less in August but remain lacklustre, as total new orders

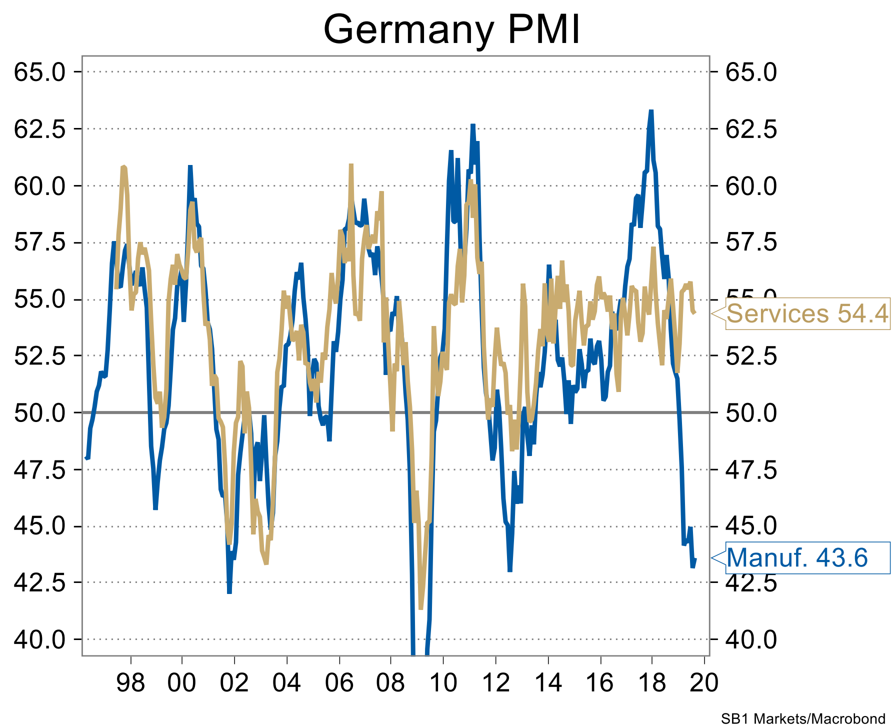


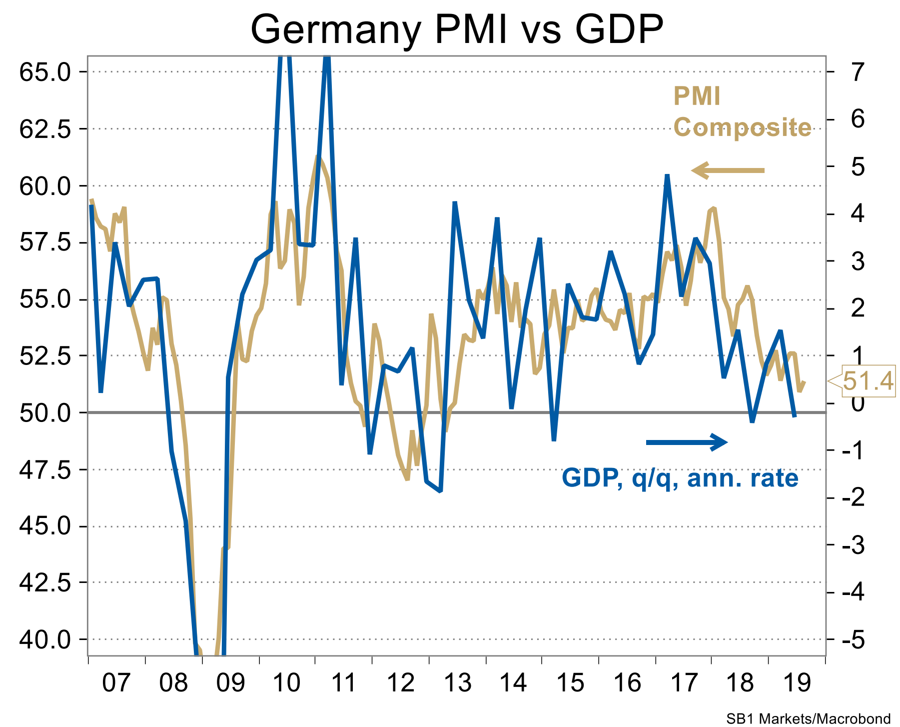


- The total orders index ticked up to 45.9, a 0.4 p increase. The downswing in orders have stabilised, but not recovered, recent months. Both domestic and export orders are still contracting (the export index includes intra-area exports and not just out of EMU exports, and is thus pretty useless). Orders are still falling at the fastest pace since the 2012 euro crisis
- The inventories of finished goods index bounced back up in August. The level is too high to signal a drawdown of inventories, but they are at least not exploding (anymore)

Services still strong, the manufacturing PMI has 'collapsed'

The composite PMI a tad up to 51.4, indicating just 0.5% growth (but no recession)





- The manufacturing PMI ticked up to 43.6, up 0.4 p from July. The level is the lowest since one month in 2012, during the euro crisis. A smoothed index is at the 3rd lowest level in 20 years (since the German PMI was established)
- The service PMI inched down to 54.4, the service continues to note solid growth. <u>The discrepancy between services and manufacturing is the highest since the Great Financial Crisis. So this is really special!</u>

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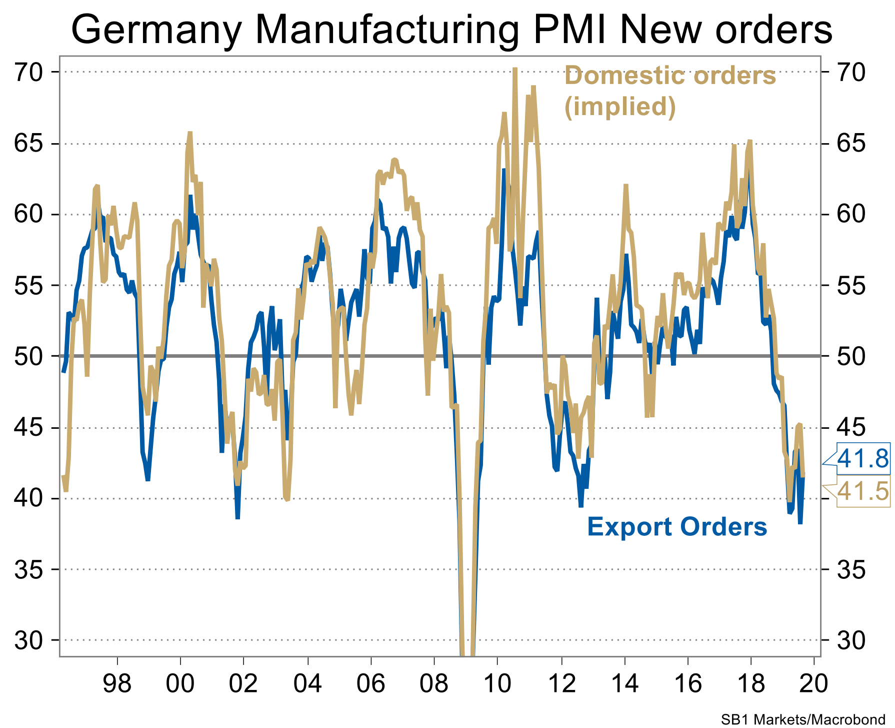
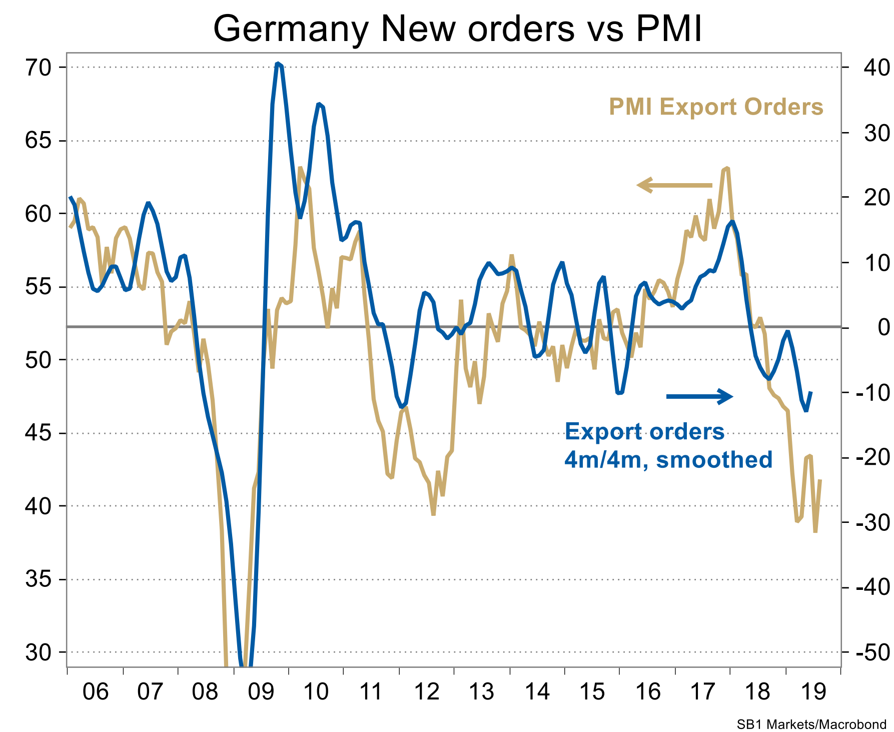
Businesses report steep declines in both export and domestic orders

In August, the export orders PMI improved, while domestic orders (implied) fell

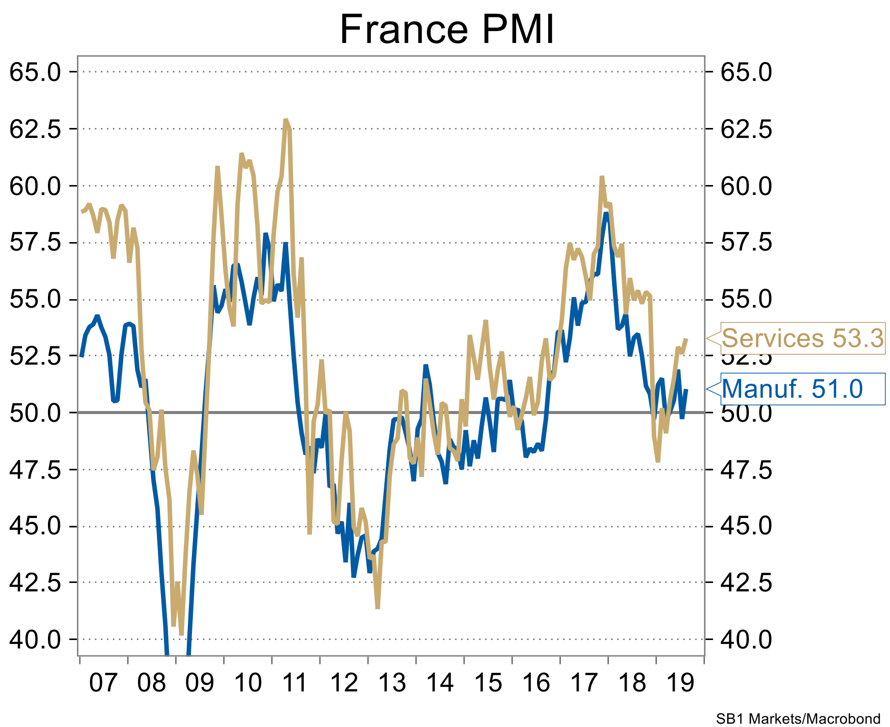


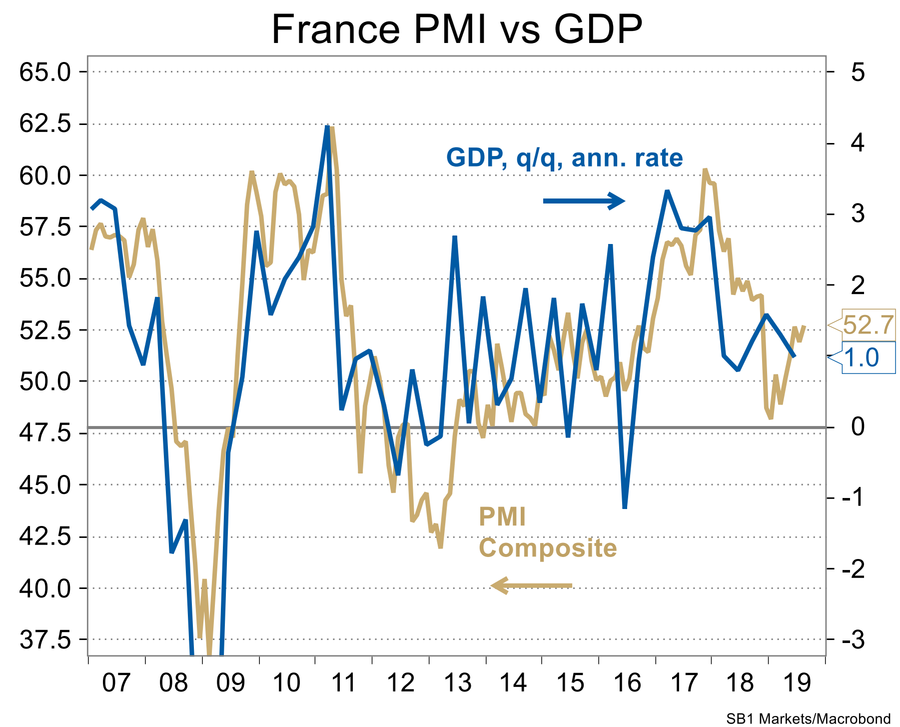


- Total orders have stabilised at a low level recently, well below the 50 line. Export orders are signalling a steep decline in actual export order. Actual orders have fallen but much less than the PMI indicates

One positive data point; PMI climbs, boosted by services

Composite PMI is up 4.5 p since January, as the service sector recovers from 'yellow vest' protests

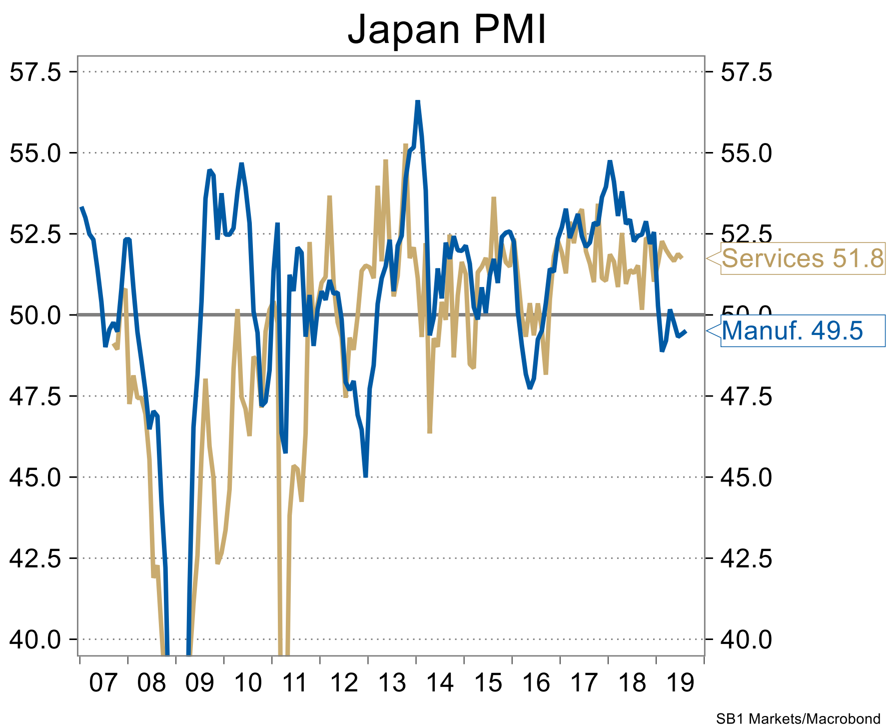


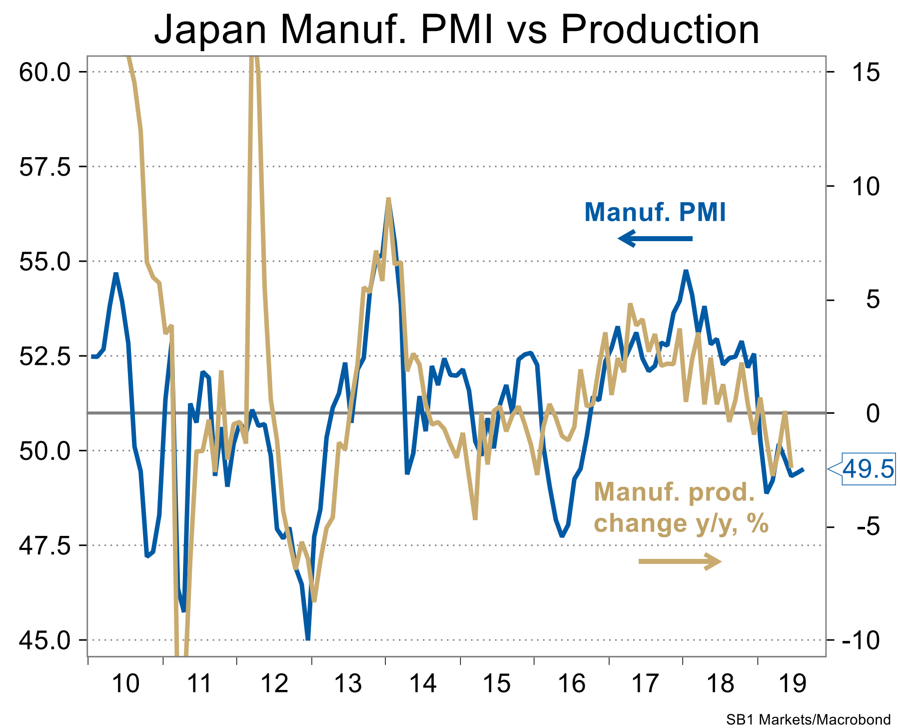


- The manufacturing PMI ticked up to 51 in August. The PMI has stabilised at just above the 50-line recent months, holding up much better than the other 'major' Eurozone countries
- Services PMI increased to 53.5 in August and the composite PMI to 52.7, suggesting decent GDP growth, at close to 1.5%

Manufacturing PMI one tick up in August, do not signal a rapid downturn

Manufacturers remain lacklustre but the PMI at 49.5 is not pointing to a disastrous decline

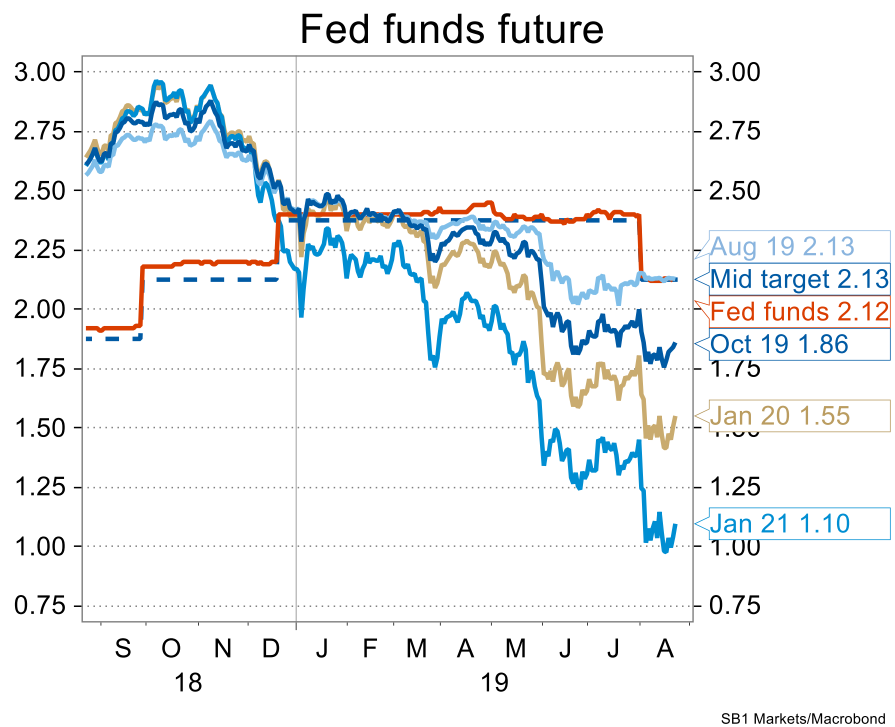


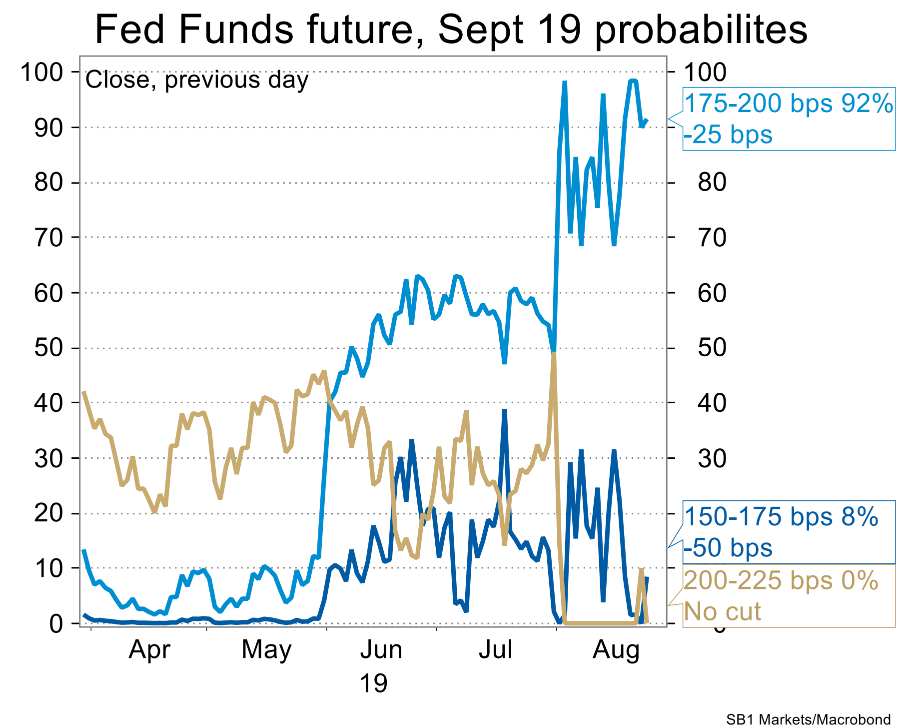


- Manufacturing PMI rose 0.1 p. Services August PMI has not been released yet
- Other Japanese surveys have softened but are in average not signalling any abrupt slowdown

No consensus at the FOMC, unusal disagreements on the way forward

Minutes from the July meeting revealed a divided FOMC, 'several' favored no cut, 2 wanted 50 bps

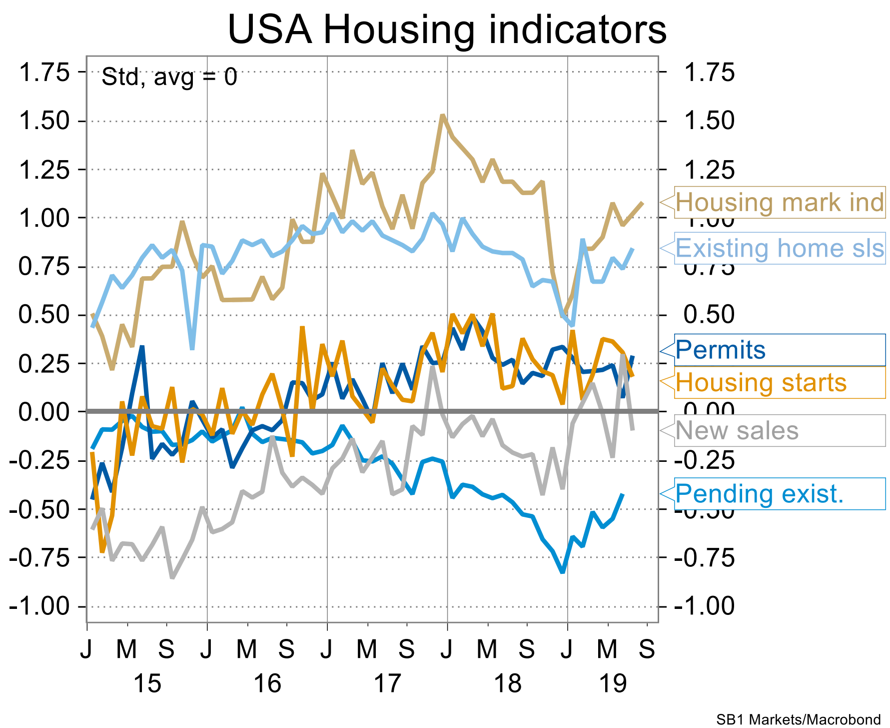




- Minutes from the July 31 meeting underlined the lack of consensus at the FOMC. While two out of ten members voted for an unchanged Fed funds rate, minutes revealed that 'several' favoured maintaining the current rate. 'A couple' preferred a 50 bps cut over the 25 bps cut
  - Those who voted for a cut emphasized softness in business investments and manufacturing, slower growth in other countries, elevated global risks and uncertainties (read: trade war) and inflation running below the 2% target
  - On the other hand, the FOMC stuck to its view that the US economy is growing at a solid pace, with favourable labour markets and strong consumption. Moreover, the participants agreed that economic conditions had improved over the intermeeting period and downside risks had diminished somewhat
  - At the Jackson Hole conference Powell said that uncertainty had increased again since the meeting, opening the door for a Sept cut. He signalled than the Fed would stabilise the economy as good as the could, should the economy actually weaken due the trade war
- Market rates inched up following the publication, although many were confused by the ambiguous notes. The probability of a 50 bps cut in September increased to just below 10% at close Friday (on the chart above) but later rose to 30%! Zero probability of no cut

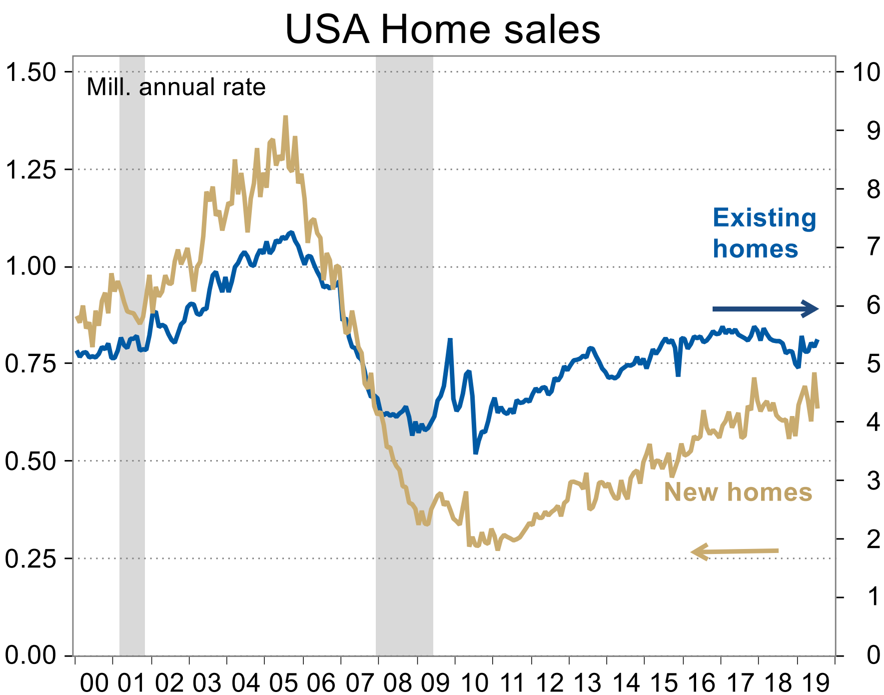
Most housing indicators have picked up

Home sales are climbing, housing permits/starts flat, and the housing market index is slowly rising

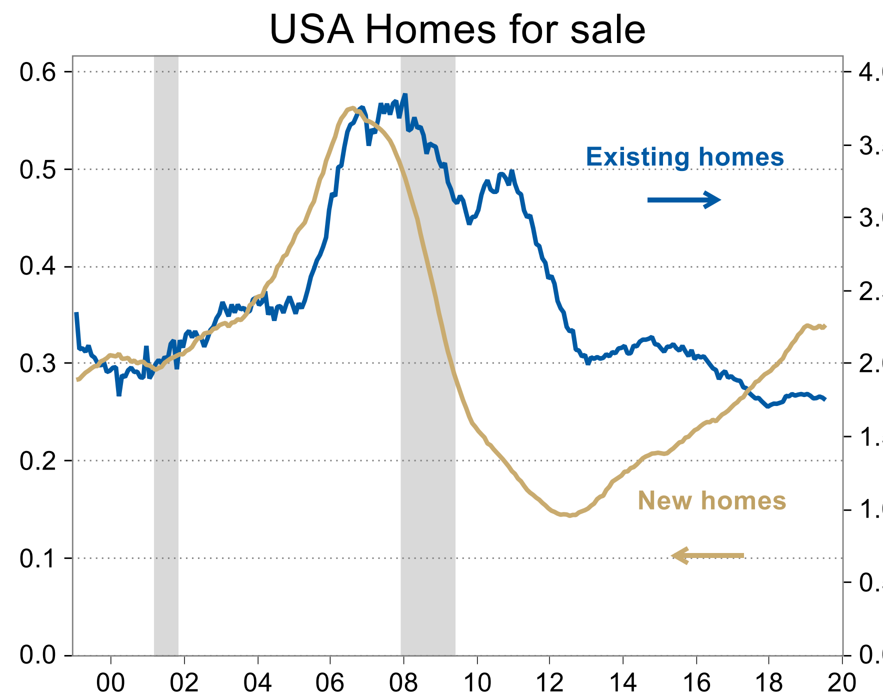


New homes sales fell in July, but just ‘due’ to a steep upward June revision

Sales in June/July were far better than previously reported/expected. Trend up since late 2018



SB1 Markets/Macrobond

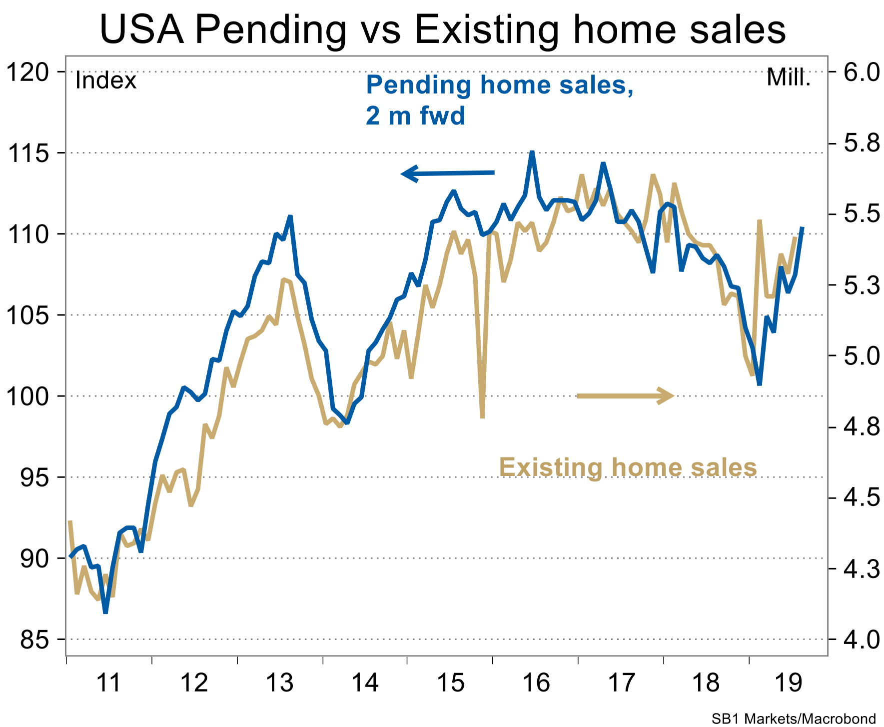


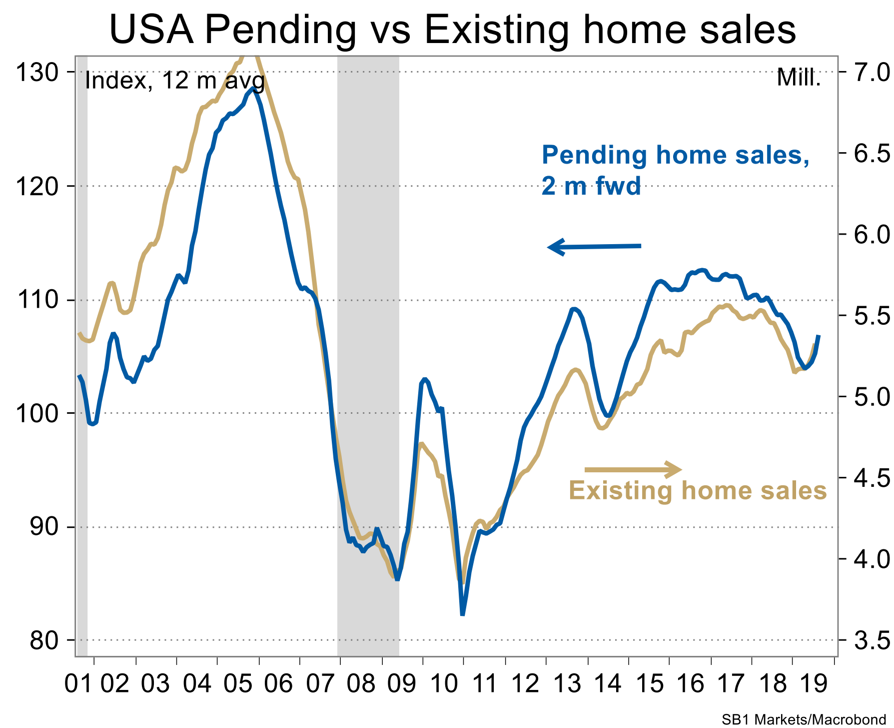
SB1 Markets/Macrobond

- New home sales dropped 13% to 635’ in July, expected 645’. However, since the June print was revised up 13%, the average of the two past months is 36’ or 6% higher than previously reported/expected - so the report was far better then expected
- Sales have been climbing up since the local bottom late 2018. Yet, given the steep decline in mortgage rates (from above 5¼ % in late 2018 to 4 % now, on the 30 y fix rate), has not put the housing market on fire
  - » The number of unsold homes rose marginally July but has been flat since Feb, after rising since 2012

Existing home sales are following pending sales upwards

Existing home sales rose 2.5% m/m in July and have been picking up since January





- Existing home sales increased to 5.42’ in July, just above expectations. Sales have been climbing so far in 2019, up 10% since January, following a some 12% retreat in 2018
  - » Pending (existing) home sales rose 2.8% m/m in June. Pending and actual sales are usually quite well correlated
- Housing market data have been on the strong side in July after a soft June. Building permits spiked but the trend is not much better than flat. Other housing market indicators confirm a stable housing market, which has recovered modestly this year, at least partly driven by tumbling mortgage rates

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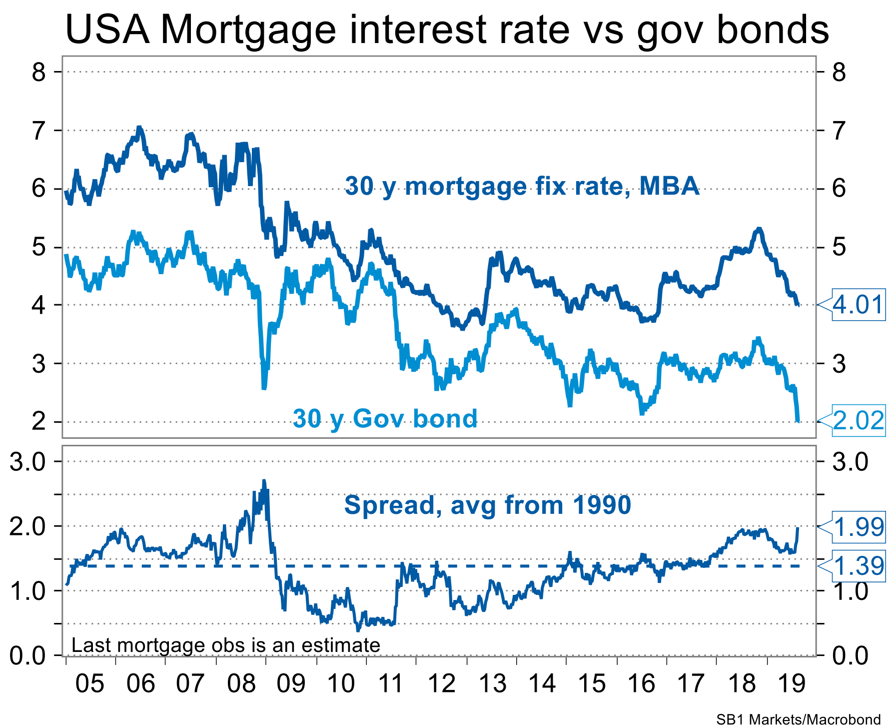
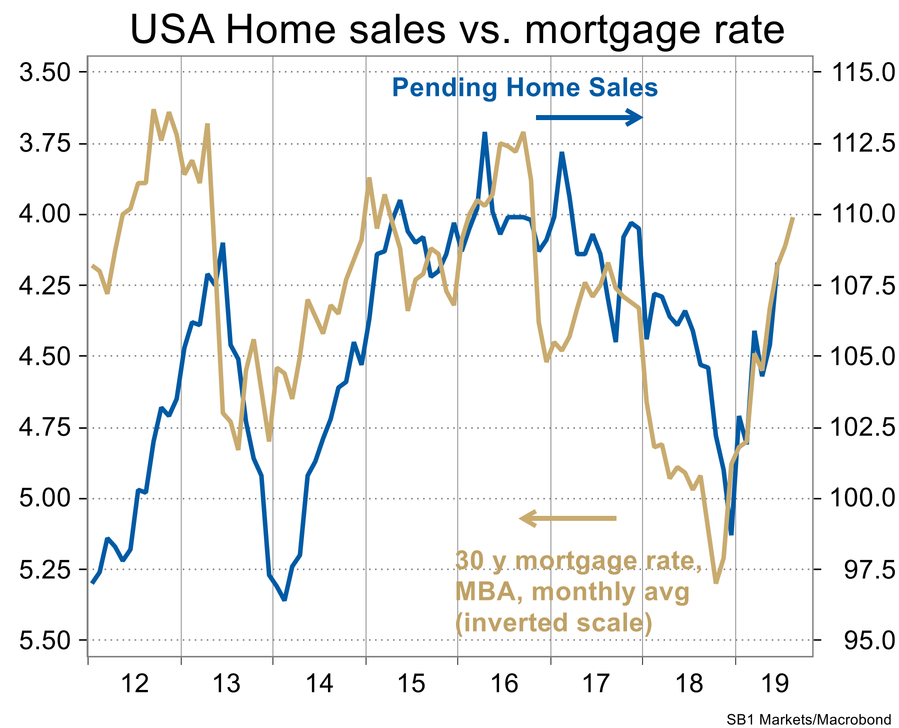
30 y treasury at ATL, at 2.02%. Fixed mortgage rates approaching ATL too

US households are paying just below 4% at their mortgages, was 5.25% last autumn

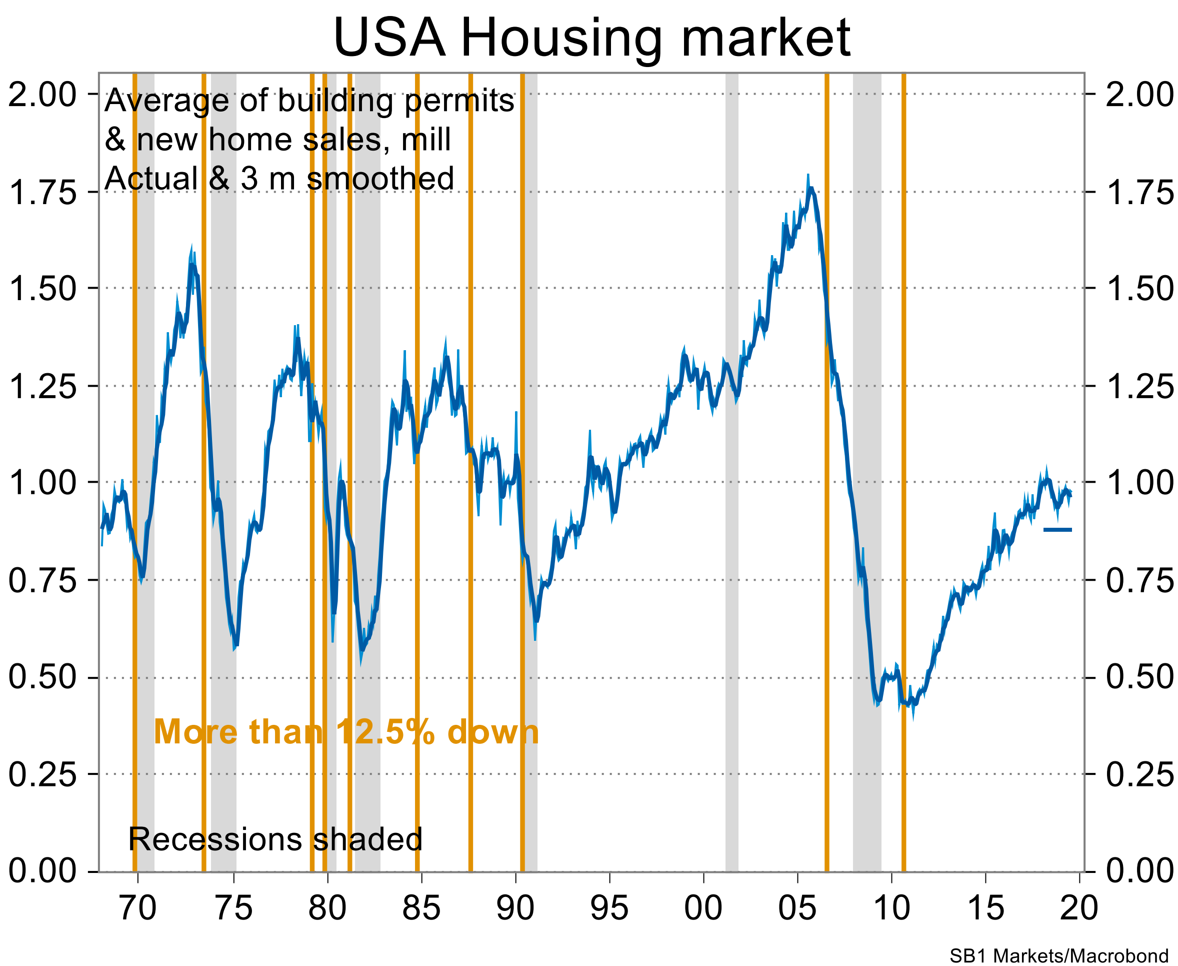


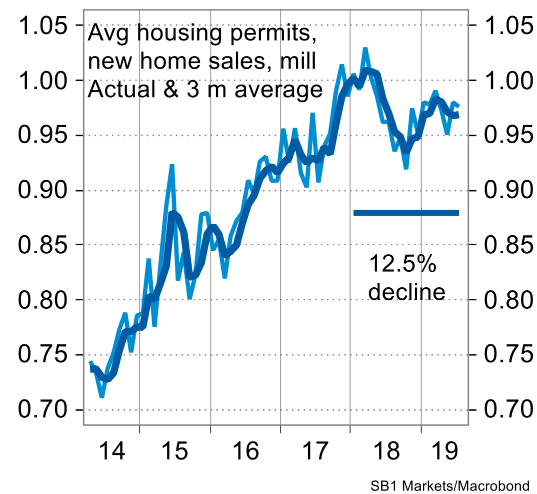


- Will the decline in mortgage rates initiate the animal spirit at the housing market when the labour market is strong at the same time?
  » Pending home sales have recovered most of the 2017/18 losses so far in 2019. The 30 y mortgage rate has fallen by more than 100 bps this year – and most likely the recent decline in the 30 y gov rate will pull the mortgage rate further down , say to 3.75% (the spread will decline following the recent hike)

Housing vs recession: Safe, for now

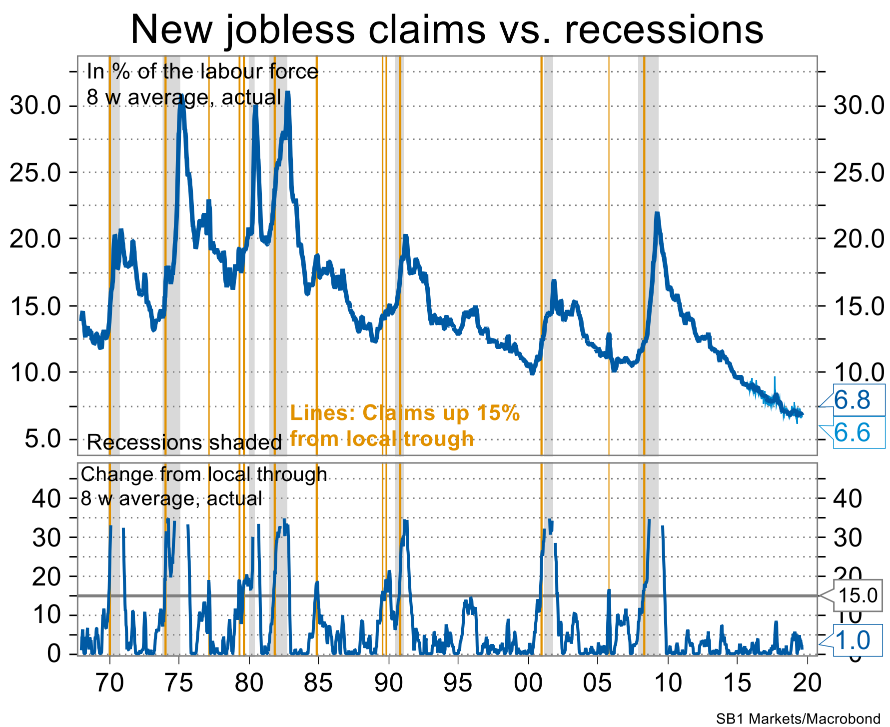
Building permits/new home sales in avg stable since the spring, after a soft recovery

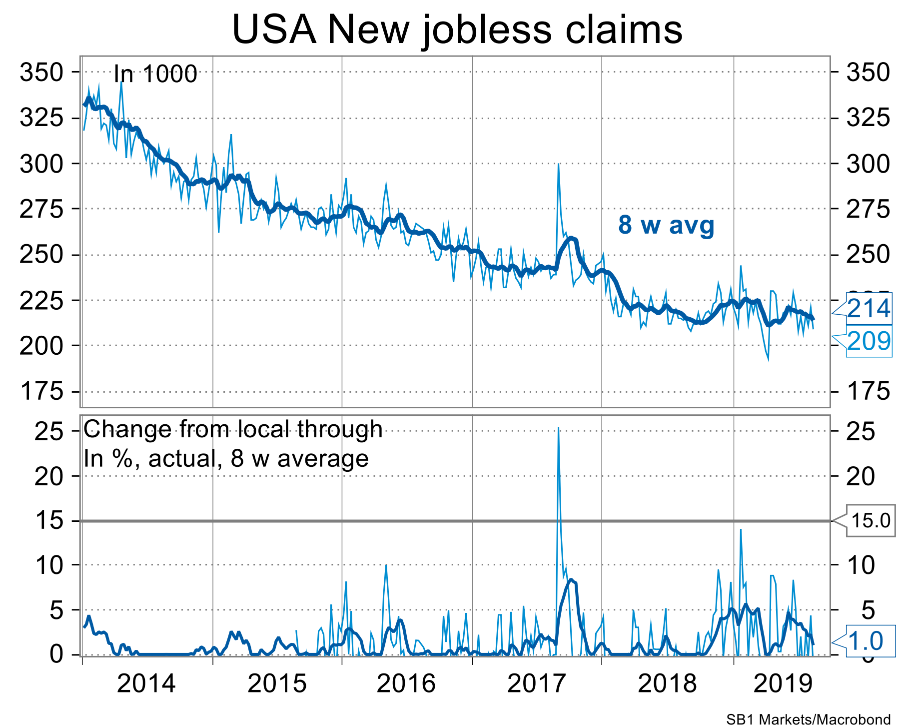




Jobless claims remain very low, no signs of weakness

Jobless claims fell to 209', the 8 w average is very low, at 214'. The labour market is tight

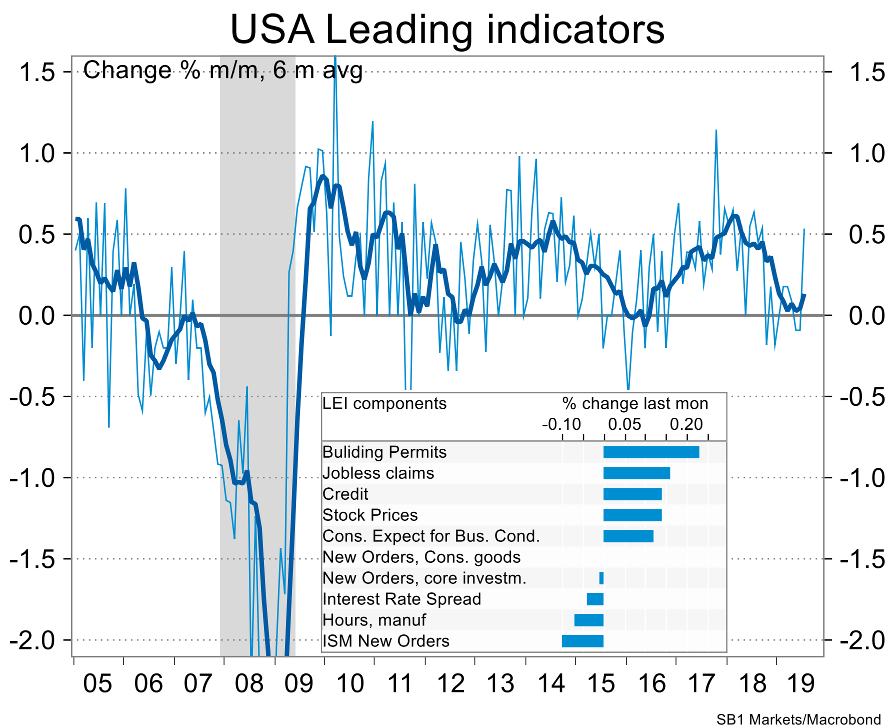




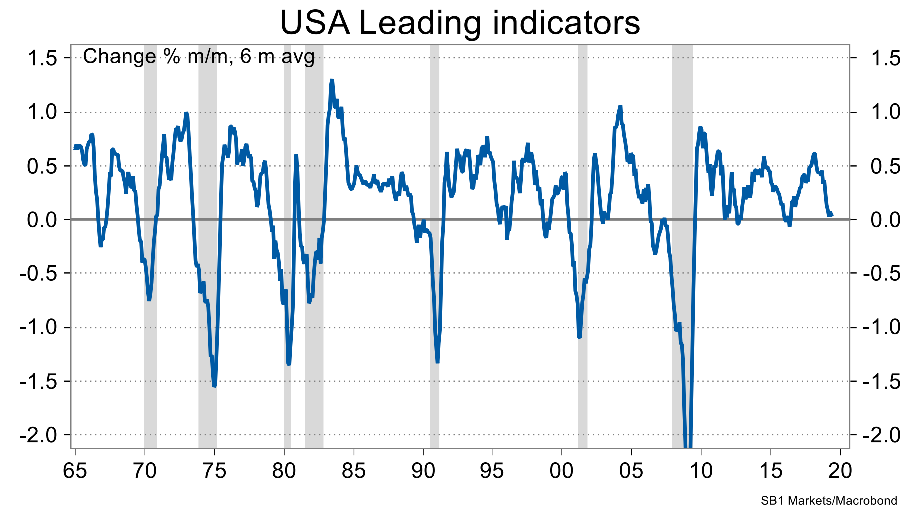
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

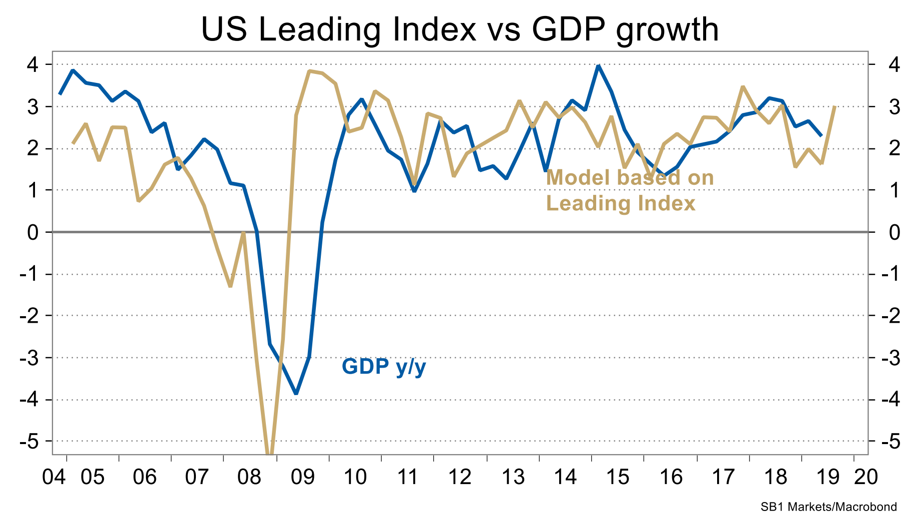
The Leading indicators recovered in July (but August will not be that good?)

The LEI has indicated a slowdown for a long while but the sun shined in July (but not in Aug?)



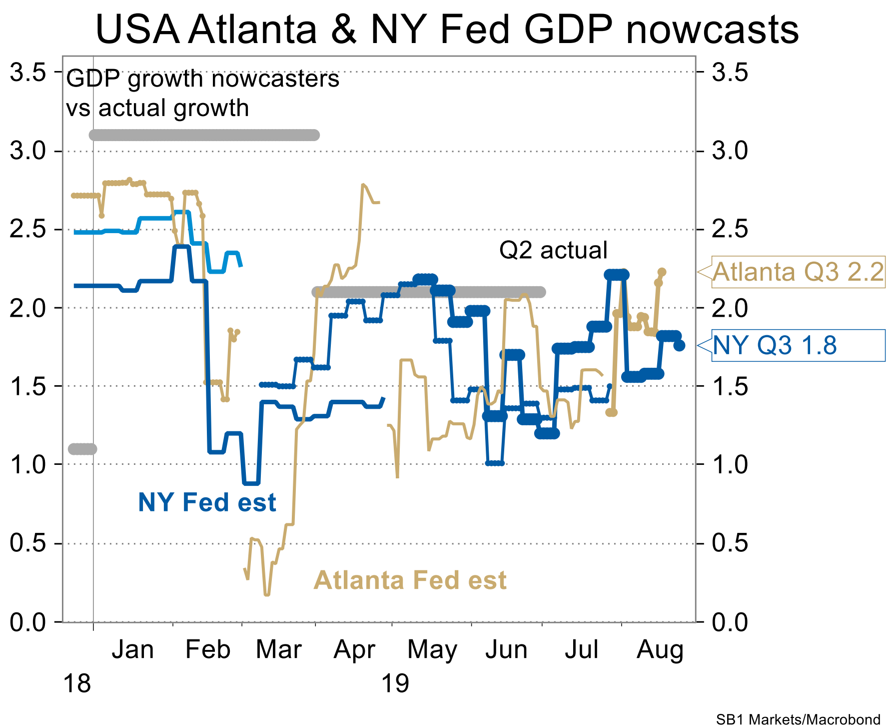
- Conference Board’s Leading indicators rose 0.5% in July, expected up 0.2%, and June was revised up
  - » Building permits, jobless claims, credit spread and the stock markets contributed on the upside, ISM on the downside. Stock and credit will (probably) turn sign, and the rise in permits will most likely not continue in August
- Face value, the LEI is suddenly signaling a 3% growth rate, well above other nowcasters and surveys

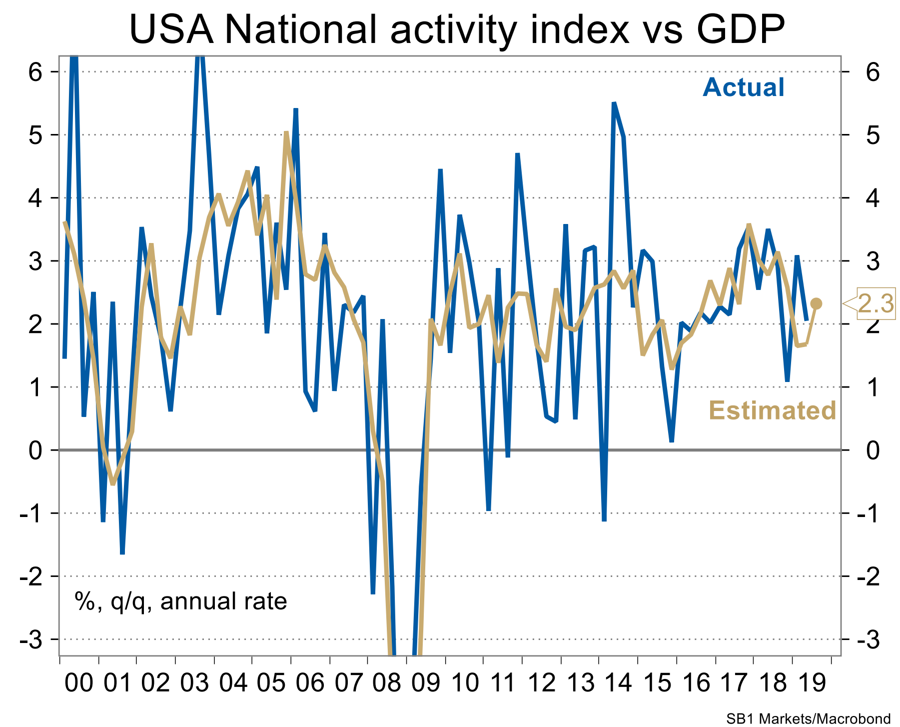




Conference Board’s Leading Index (LEI) is a composite index based on ten already published leading indicators that are judged to be leading the overall cycle

Q3 growth accelerating? The nowcasters are suggesting 1.8 – 2.2%

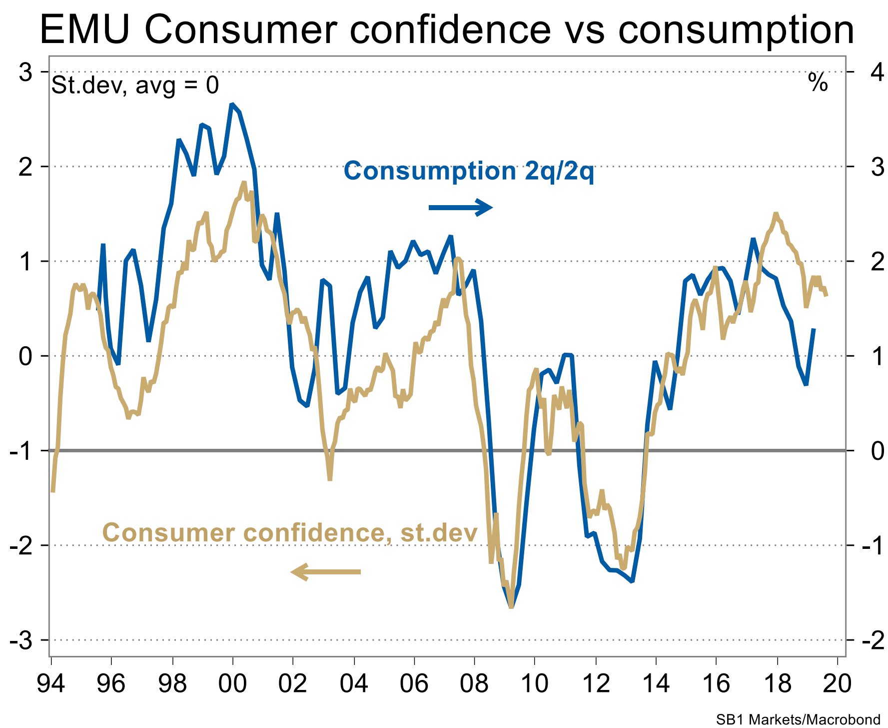


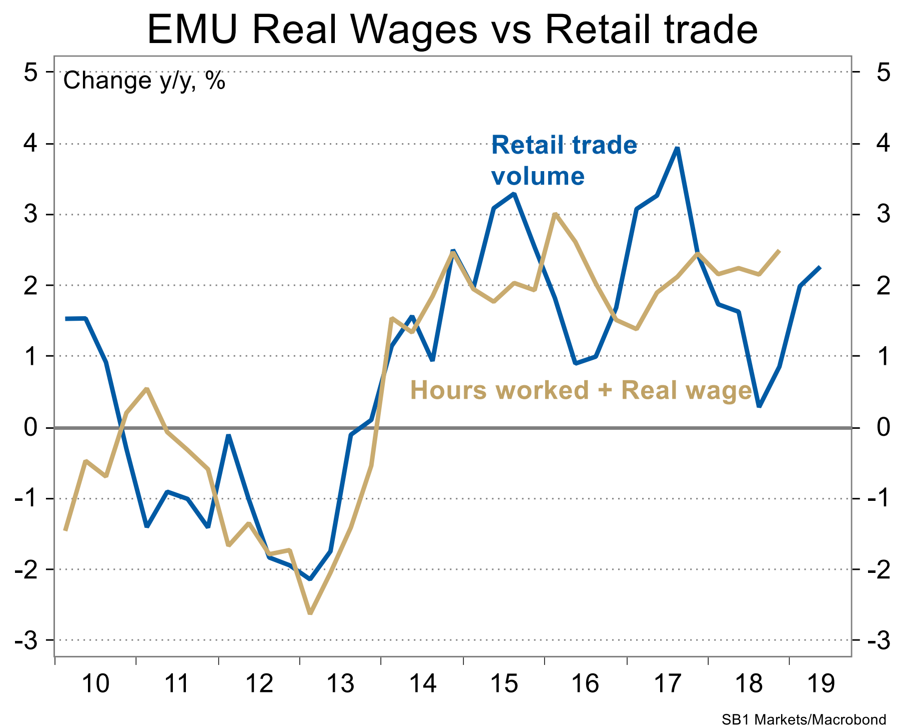


- The National activity reported 1.7% growth in Q2, and a 2.3% speed into Q3 (June level)

Consumer confidence, income signal decent consumption growth

Confidence has fallen slightly recent months but remain well above an average level





- Consumer confidence fell marginally in August too but the level remains approx. 0.7 st.dev above an average level
- Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed as sales

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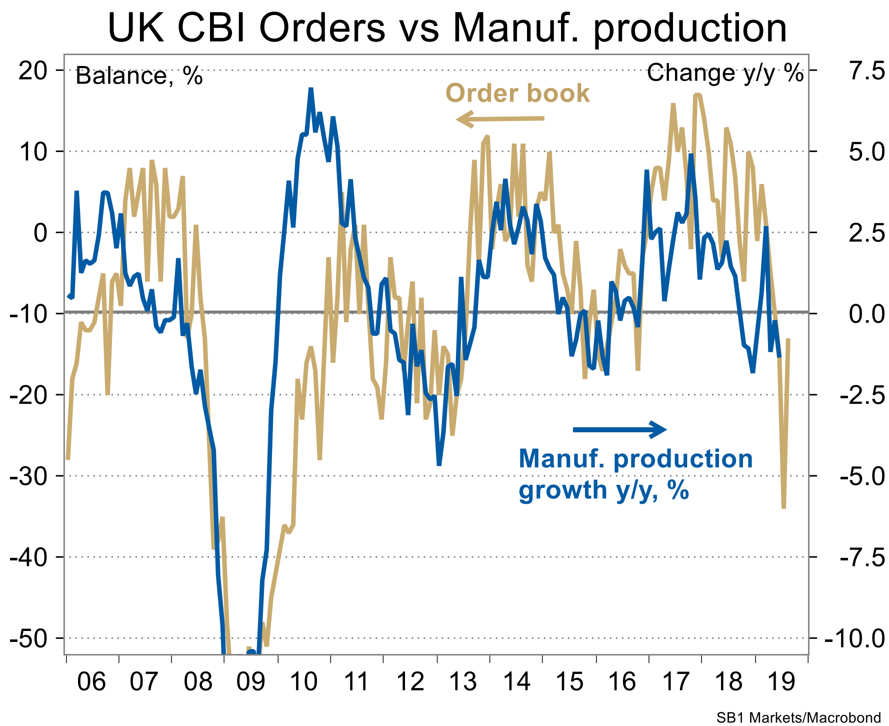
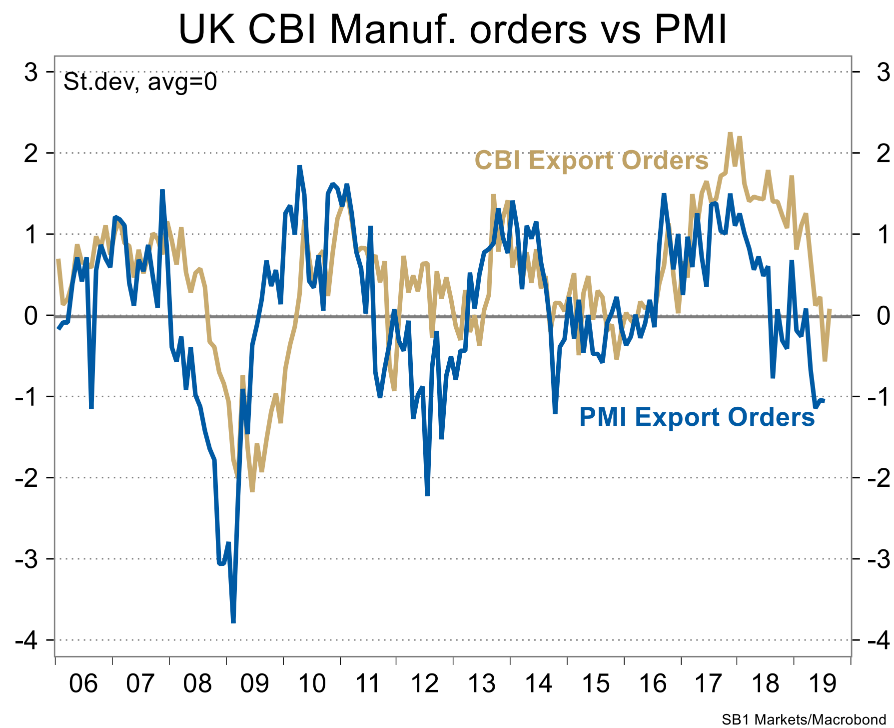
Manufacturing orders are still declining but fell much less than expected

CBI survey recovered more than expected in August, do not signal a deterioration in production

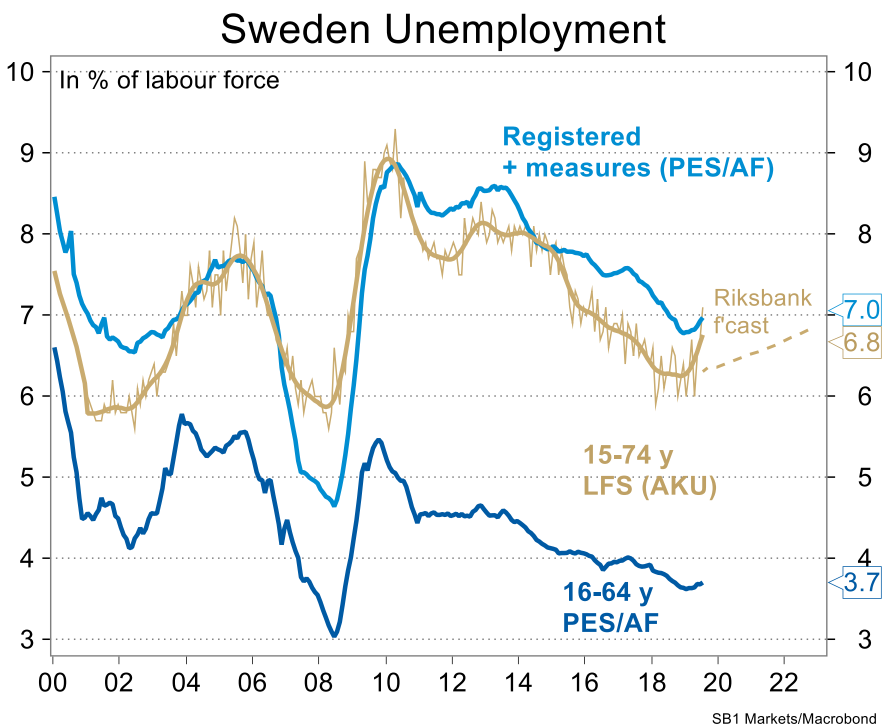


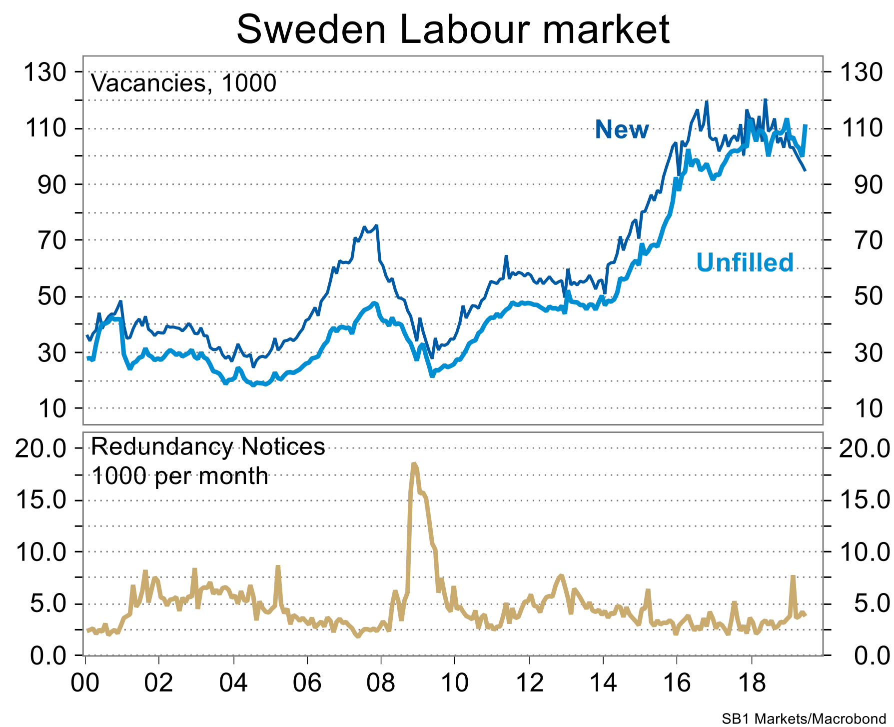


- The CBI order book index rose to -13 in August, from the 'collapse' to -34 in July, -25 was expected . Businesses are reporting just a slight decline in orders, better than expected in the aftermath of the huge inventory build up in the spring. Orders are signalling a steady decline in production, at some -1% y/y
  - » In the spring, demand was kept up by emergency stockpiling ahead of the (original) Brexit deadline. Since then, businesses have started cutting back inventories marginally and reducing new orders significantly
  - » The export order index rebounded in August and is much less negative than the PMI export order index

Is the labour market turning sour?

LFS unemployment sharply up, registered unempl. a tad, employment is falling, vacancies mixed

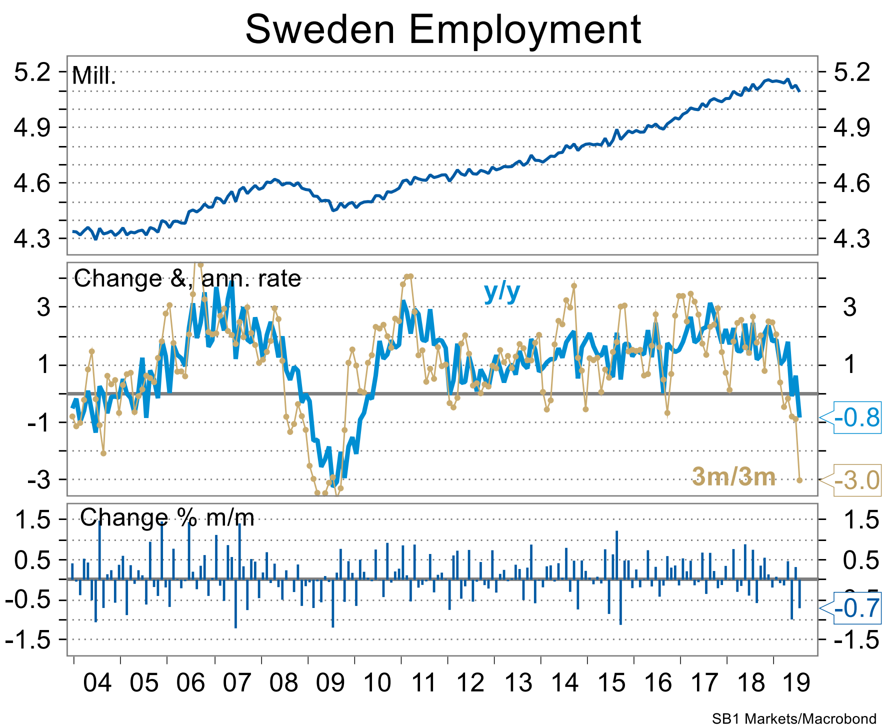


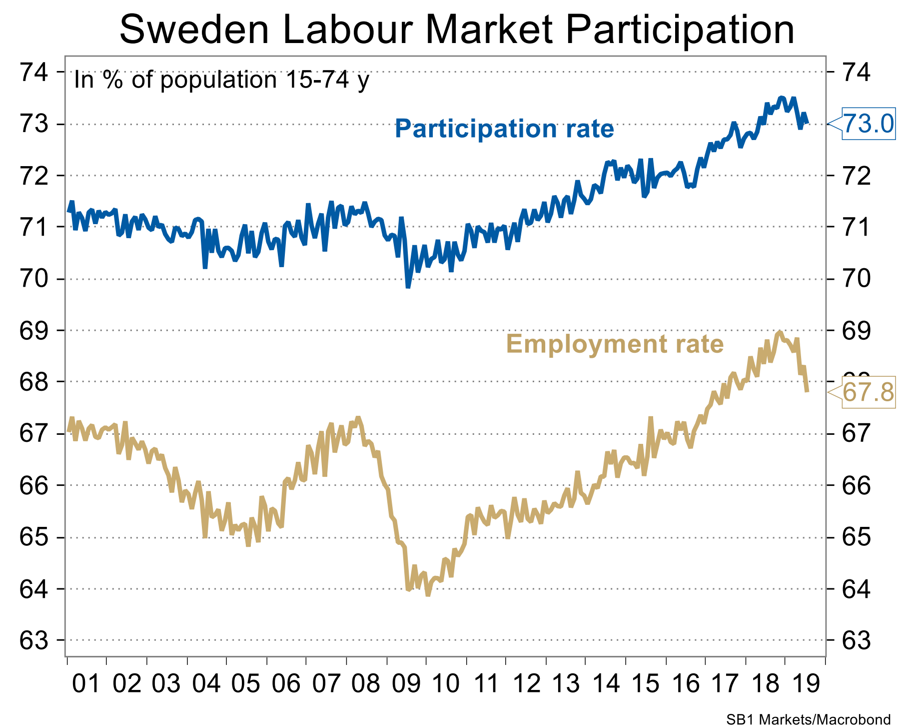


- The LFS unemployment rate jumped 0.4 p to 7.1% in July, the highest in 3 years. These data are volatile, but the unempl. rate has increased for 3 straight month. Thus, the smoothed rate, which we prefer, edged up to 6.8%, from 6.3% last winter
- Employment fell further in July and the annual rate has turned negative (-0.8%), something must be brewing
- PES/AF open (registered) unemployment rate is confirming a weakening labour market; it has turned (very) marginally up recent months
- On the other hand, the number of unfilled vacancies rose sharply in June, while the number of new vacancies continued downwards. We assume the trend is down for both, but levels are still very high. The number of redundancies may be trending slowly up

Employment is slowing rapidly

Employment rates have fallen sharply and even faster than participation recently, bringing unempl. up

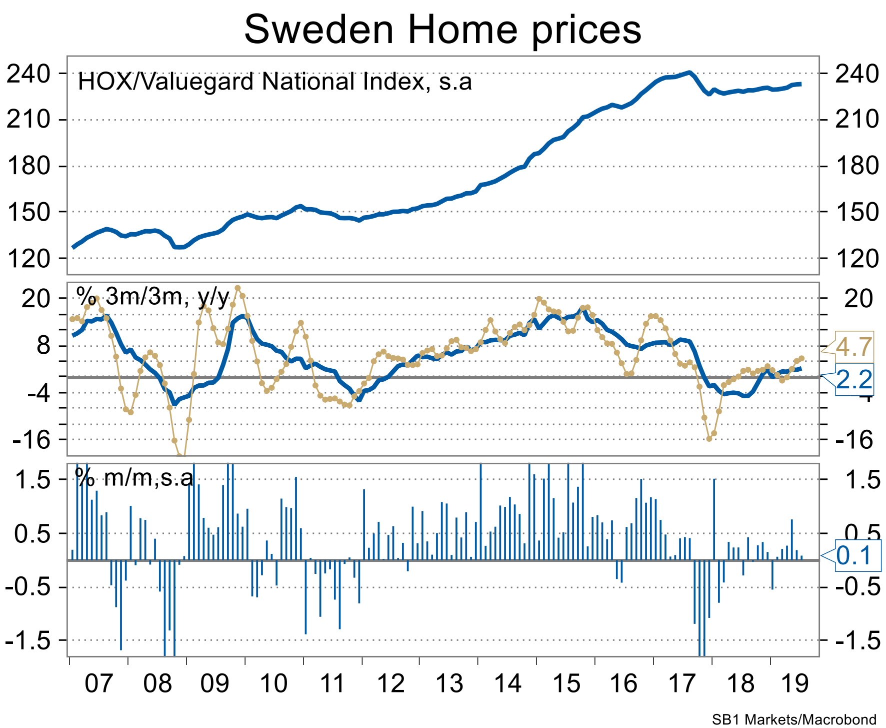


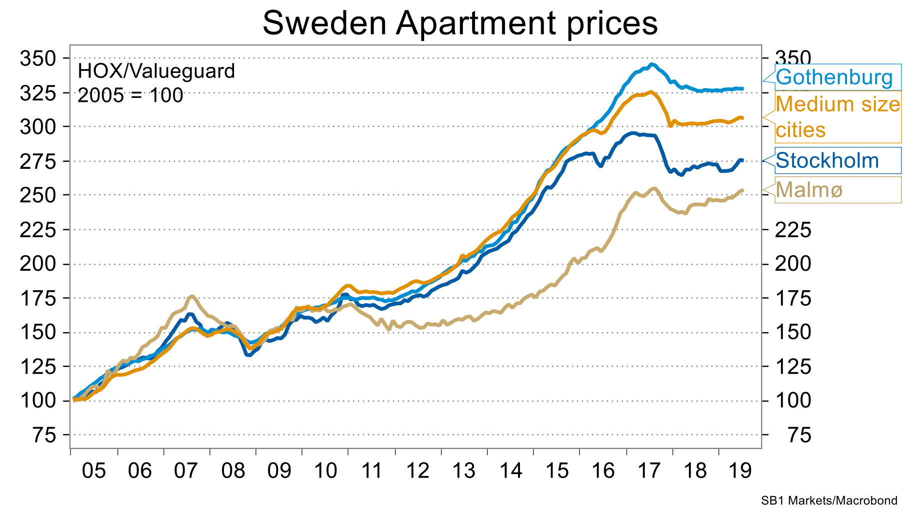


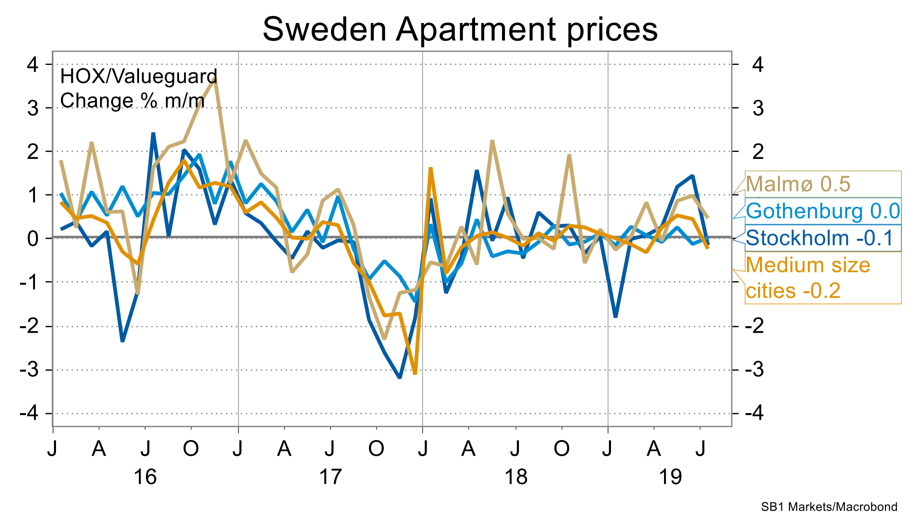
- Employment fell 0.7% in July and the annual rate declined to -0.8%. However, the speed of decline recent months is much higher, at 3%, the sharpest (and in practice, the first) decline since 2008!
  - » The employment rate has fallen more than 1 pp, huge contraction (albeit from a high level!)
- Labour market participation was trending up but has also retreated so far in 2019 but less than the employment rate – and the unemployment has nudged up

House prices rose marginally in July, trending slowly up

Prices rose ‘just’ 0.1% m/m in June, underlying growth at 4.7%



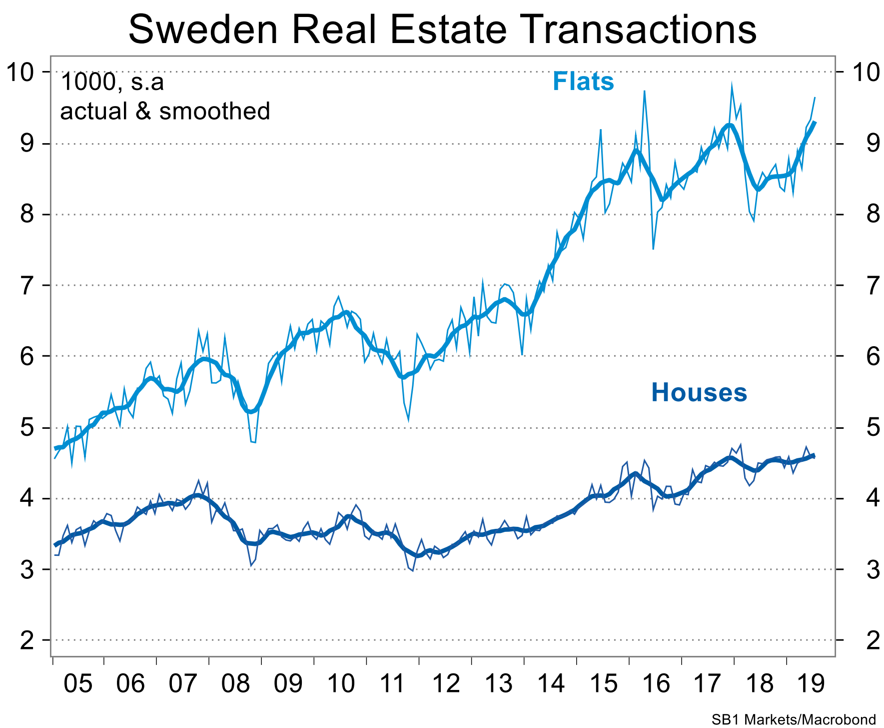


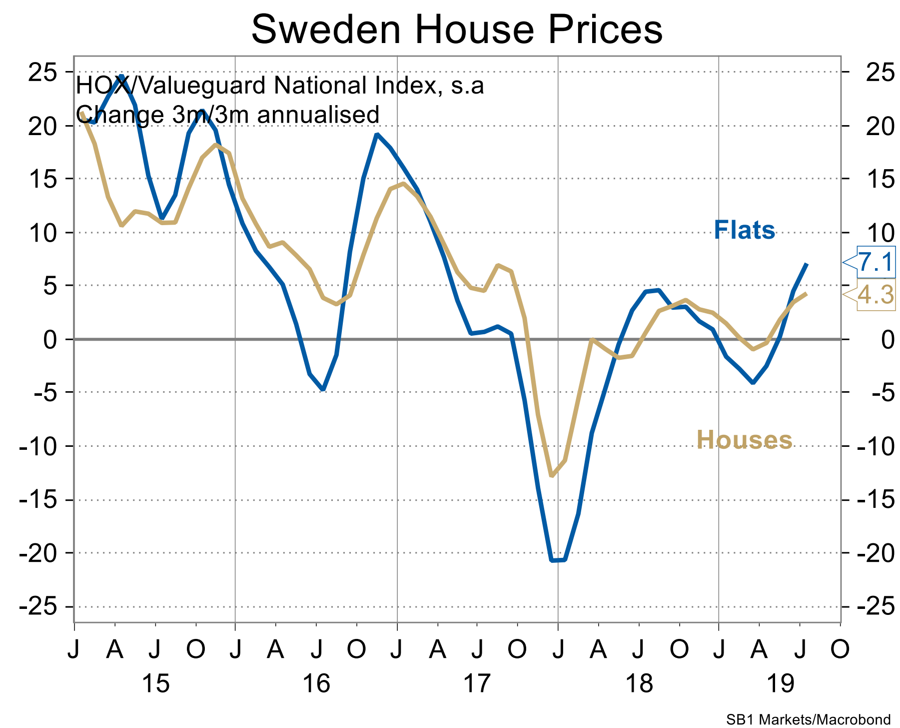


- Home prices rose 0.1% m/m seas. adj. in July. Prices are up 4.7% 3m/3m, and 2.2% y/y. Prices are still lower than before the late 2017 setback and real prices are significantly down
  - » Apartment prices are rising in Stockholm, Malmø and very slowly in medium size cities. In Gothenburg, prices are close to flat
- The number of transactions has increased recent months, check next page. The housing market is back on track?

Apartment sales are accelerating, houses slowly rising

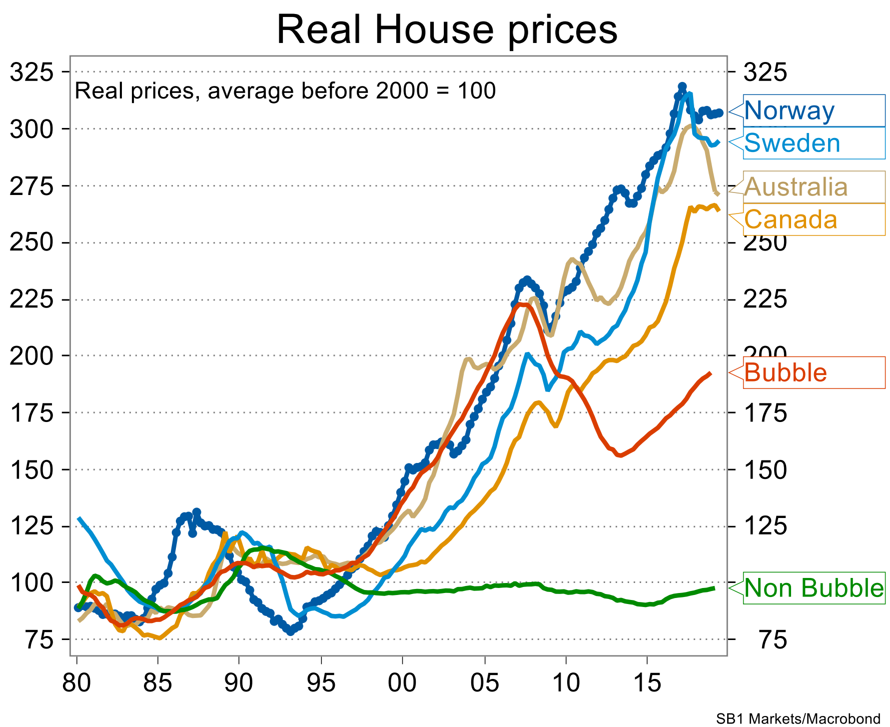
Demand must be strong, number of transaction above 2017 peak

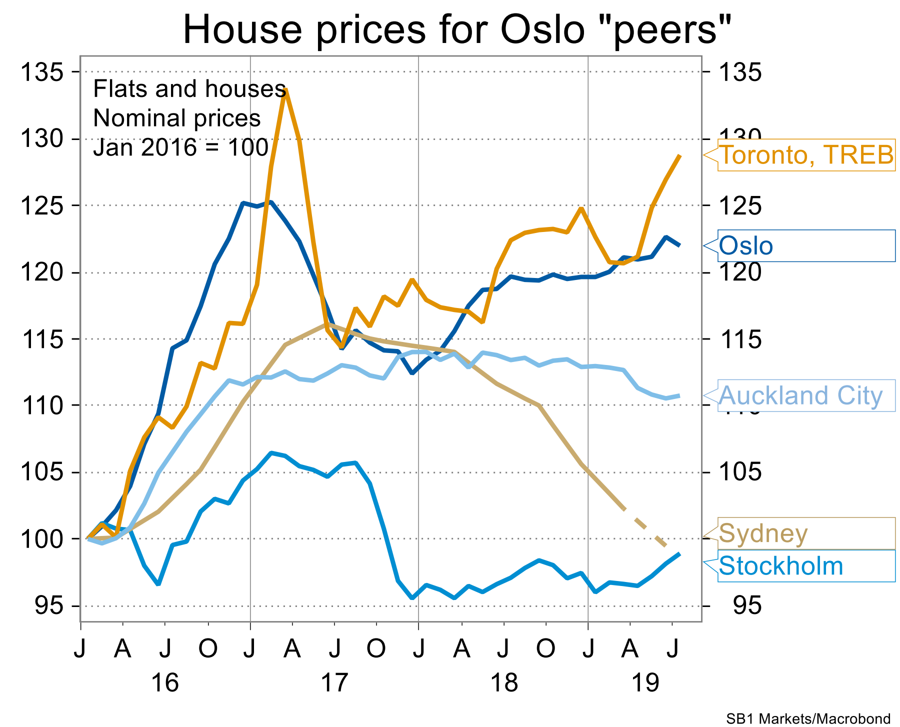




Real home prices have fallen/flattened out in all supercycle countries

Sweden down 7% in real terms, Norway 4% and Australia 10%, Canada flat

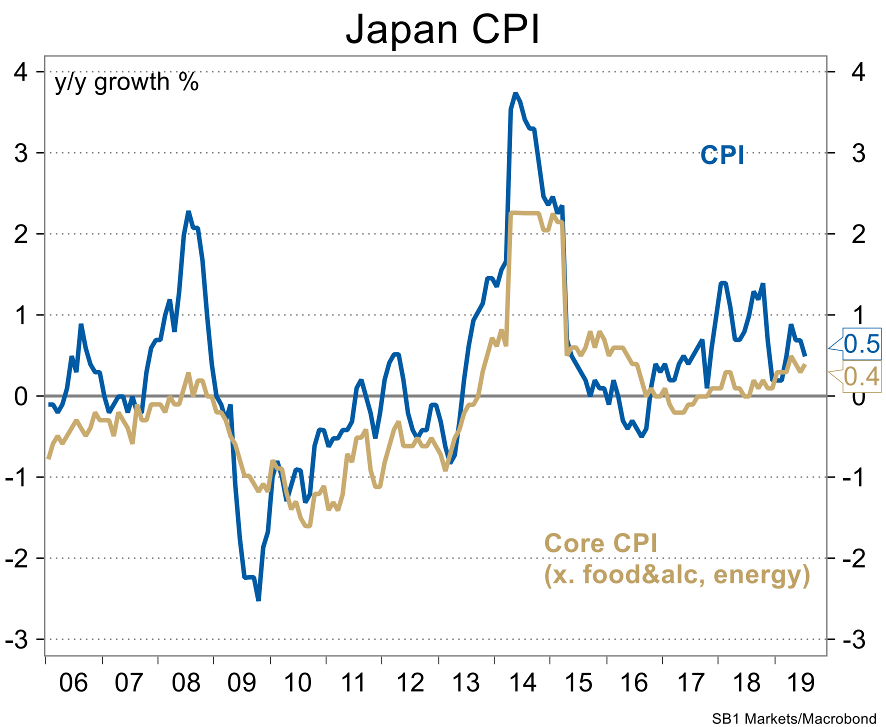


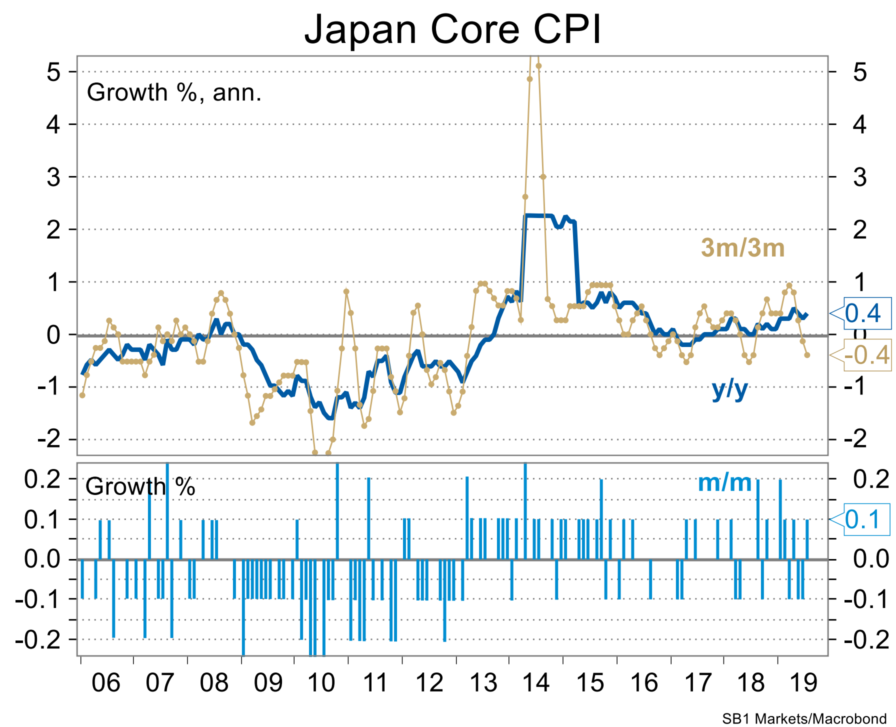


- Mixed among the super cycle guys recently: Oslo is slowly on the way up again, Stockholm flat (and slightly up most recently), Toronto more or less flat, after a comeback in May. Auckland is trending down and Sydney is falling steeply, down 12% from the peak in Q2 2017, in nominal terms!
- New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – may have created 'some turbulence' – prices have slowed/declined since 2017

Core CPI inflation is turning slowly up

Core prices were up 0.4% y/y in July vs 0 one year ago. Total inflation fell to 0.5%

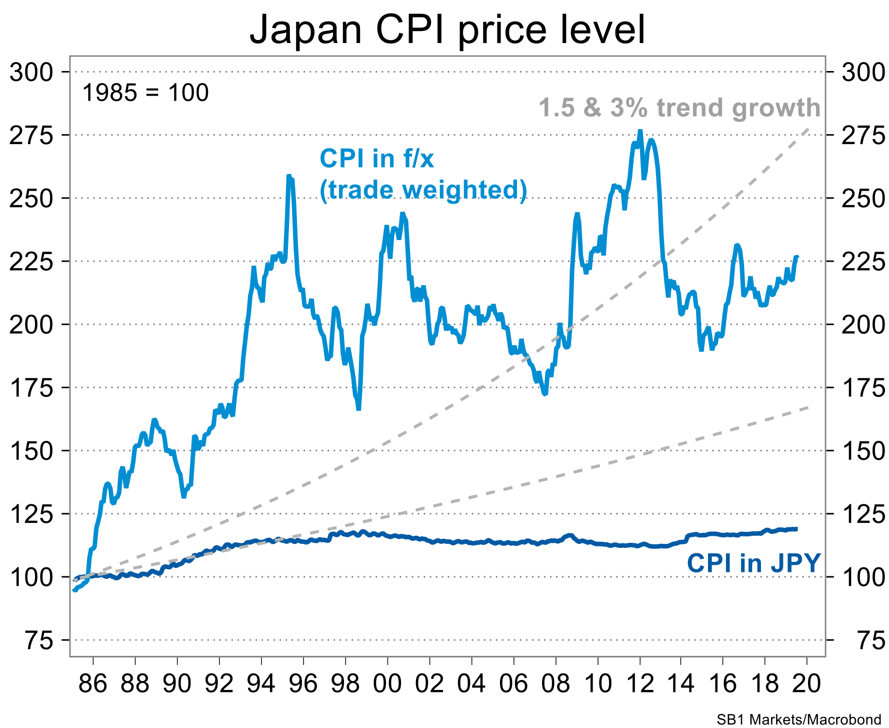


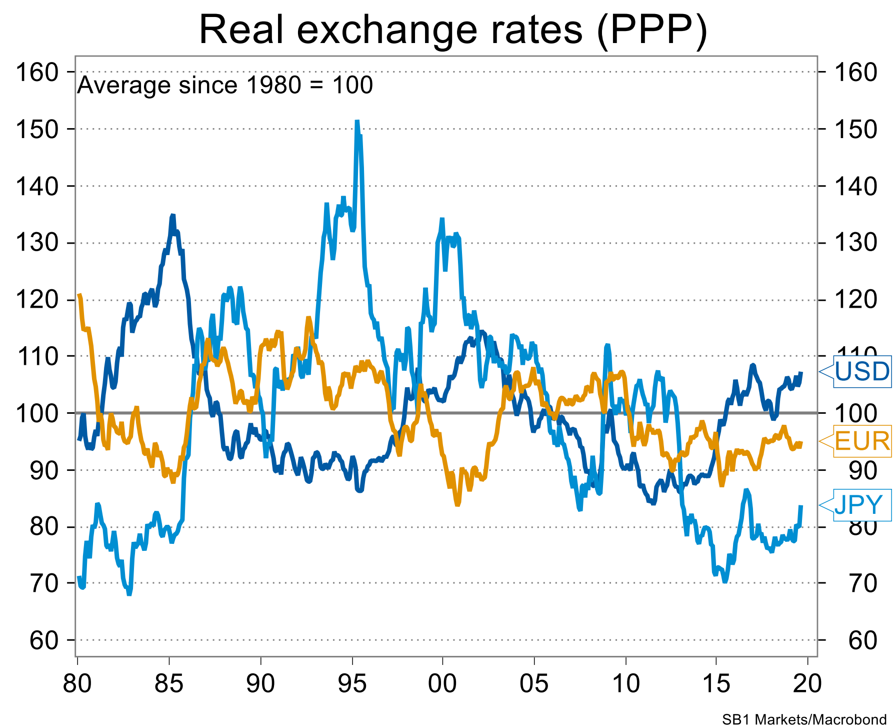


- Total inflation came down to 0.5% y/y. Core inflation is slowly turning up from the bottom, came in at 0.4% in June
- Wage inflation has fallen steeply this year and does not indicate accelerating price growth

Japanese deflation? Well, not measured in f/x

Is the flat price level in Japan past 25 years at least partly explained by the sharp JPY appreciation?





- The Japanese price level is lower than the 40 y average vs its trading partners, by some 15%
- Still, given the appreciation of the JPY until 2012 (with ups and downs), the Japanese wage and price level had to be kept down to prevent a loss of competitiveness

Highlights

The world around us

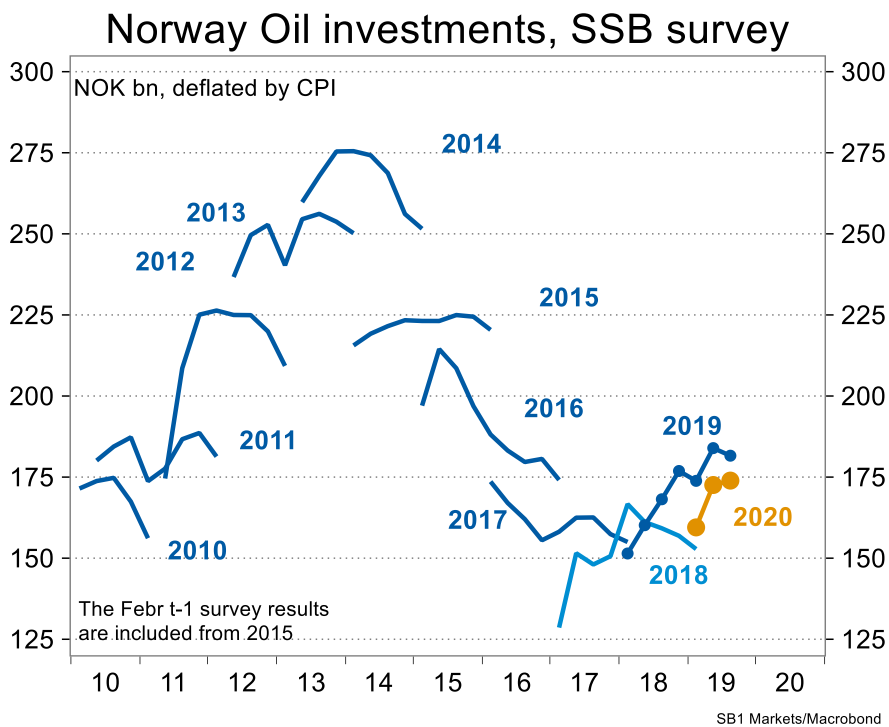
The Norwegian economy

Market charts & comments

SpareBank 1 MARKETS

Oil investment f'casts a tad lower than expected, investments are peaking soon

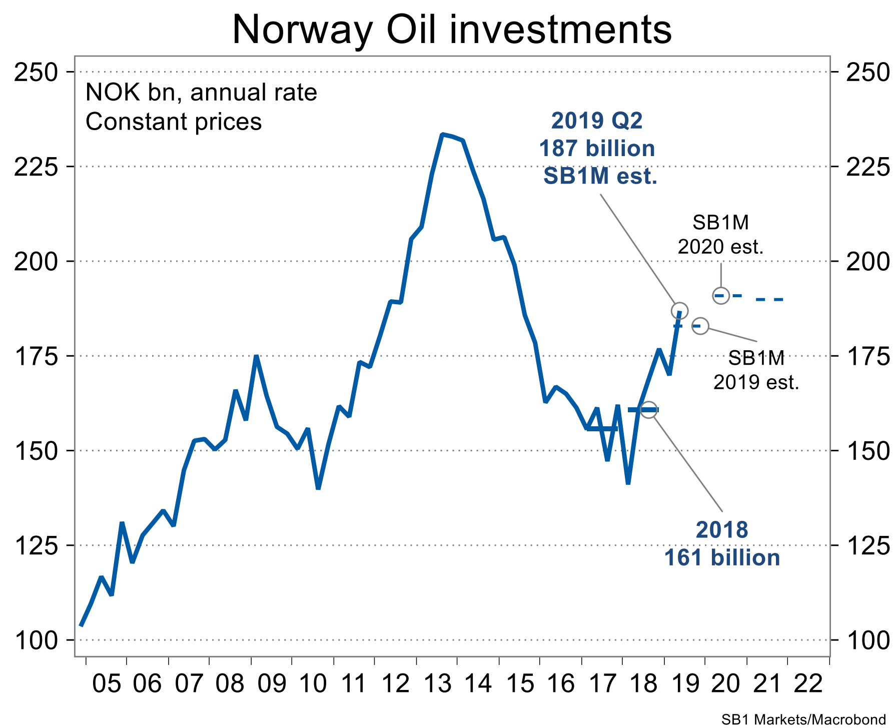
2020 f'cast was nudged up marginally, 2019 f'cast down, peak activity in H2 19?

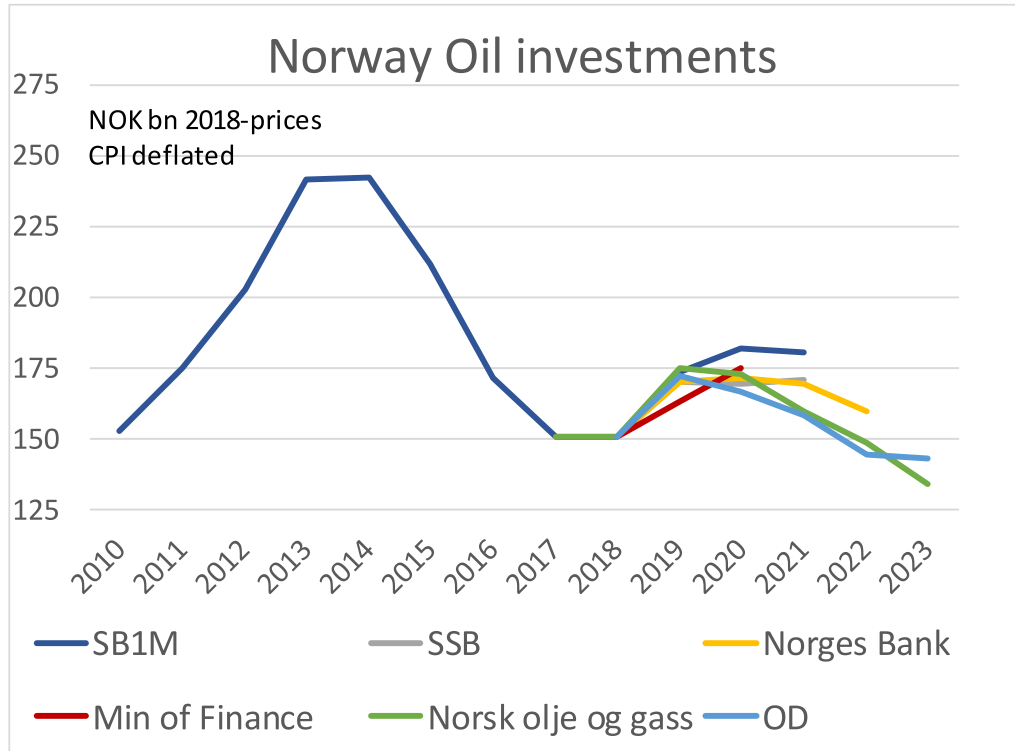


- In SSB's Q3 oil & gas investment survey, companies adjusted their **2019 investment f'cast** down by NOK 2.4 bn to NOK 182 bn. We stick to our 14% volume growth in 2019, which is equivalent to Norges Bank's f'cast
  - » If our estimate is correct, and investments rose as much as we assume in Q2, investments cannot increase much from the Q2 level in order to reach the annual 2019 forecast. Most of the investment lift in 2019 from 2018 has already taken place!
  - » Investment goods & services prices are now slowly increasing
- **The 2020 estimate** was lower than we assumed and we nudge our volume growth forecast down to 4% from 6%, with risk on the downside. If so, the 2020 level is on par with the expected level in H2 2019 – and higher oil investments will not contribute to GDP growth, from 1 pp contribution now (barring changes in the investment mix)
  - » The oil companies nudged up by NOK 1.4 bn to 174.1, less than we expected (180 bn). The 2020 f'cast is 3% above the equivalent 2019 f'cast
  - » However, the Balder x project will soon be included in the 2020 estimate (with some NOK 8-10 bn), we assume a 7% nominal growth.
  - » Norges Bank projects 1% volume growth in 2020, but we doubt the bank will revise its forecast up in the Sept MPR

Oil investments: Not much upside left

The 2020 volume estimate is just some 2% above the Q2 level (our est, Nat.Acc. data not released)

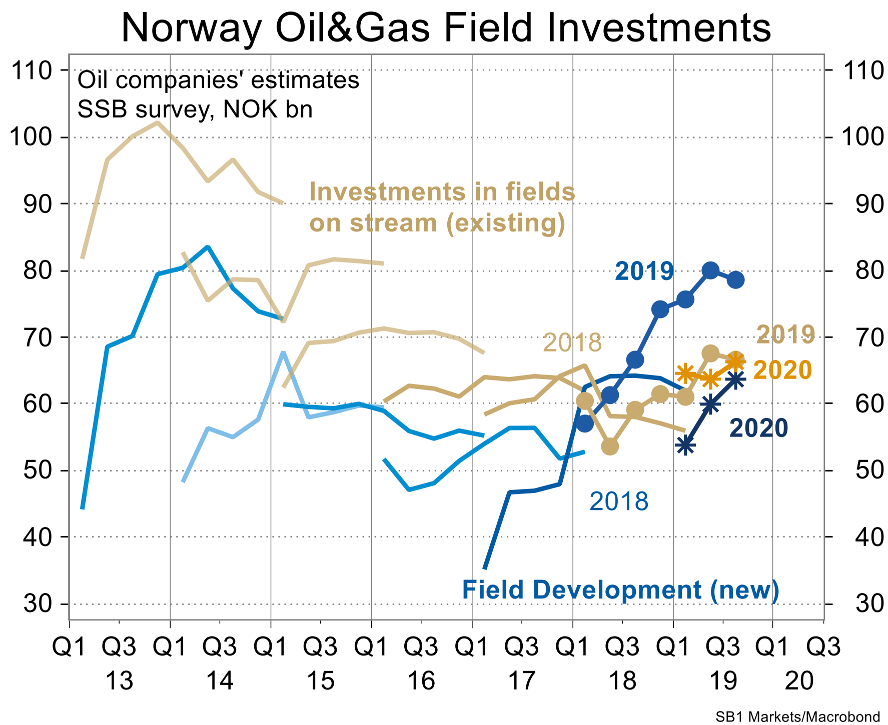


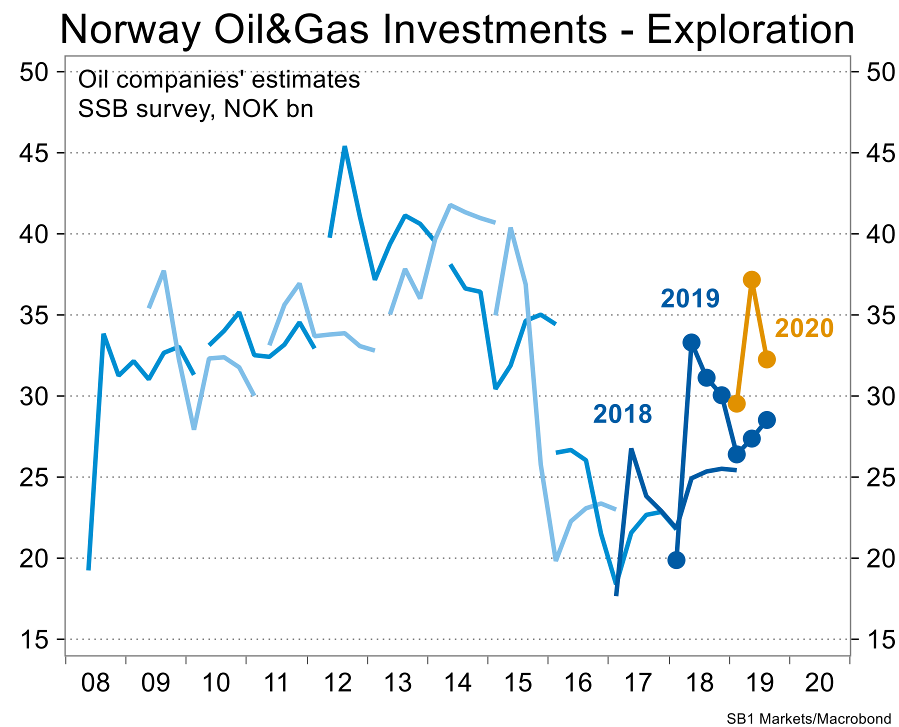


- Our 2019 volume growth estimate is 14%, we make no changes from the Q2 survey. We assume an Q2 investment level on NOK 187 bn (Nat. Acc data released this week), which is some 2% below the 2019 estimate. Investments will probably increase in H2 (the 2019 estimate is the average level), however, the upside is limited
- We estimate 4% volume growth into 2020, with a 2020 investment level at NOK 191 bn. If our assumptions are correct, there is just some 2% upside left vs the Q2 investment level, thus, a muted GDP growth impact in 2020
- After 2020 most forecasters expects a decline, as the Johan Sverdrup and Castberg projects are finalised and few new projects are announced. No doubt, the oil price will influence the investment level from 2020 onwards, as more projects may be added

Field explorations and field investments are probably close to peak

2020 f'cast on investments in new fields are 4% below the equivalent '19 estimate

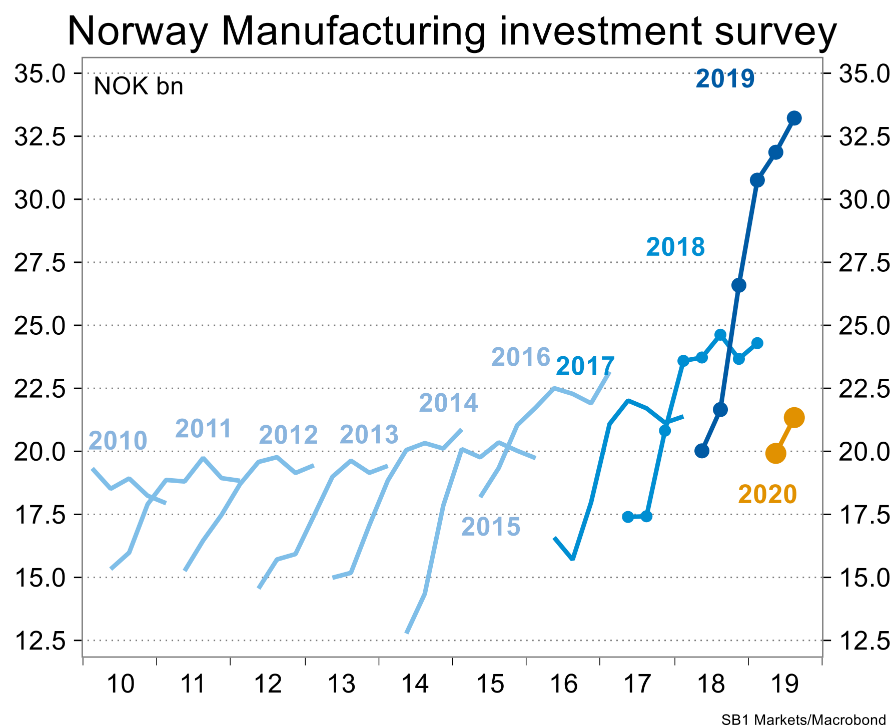


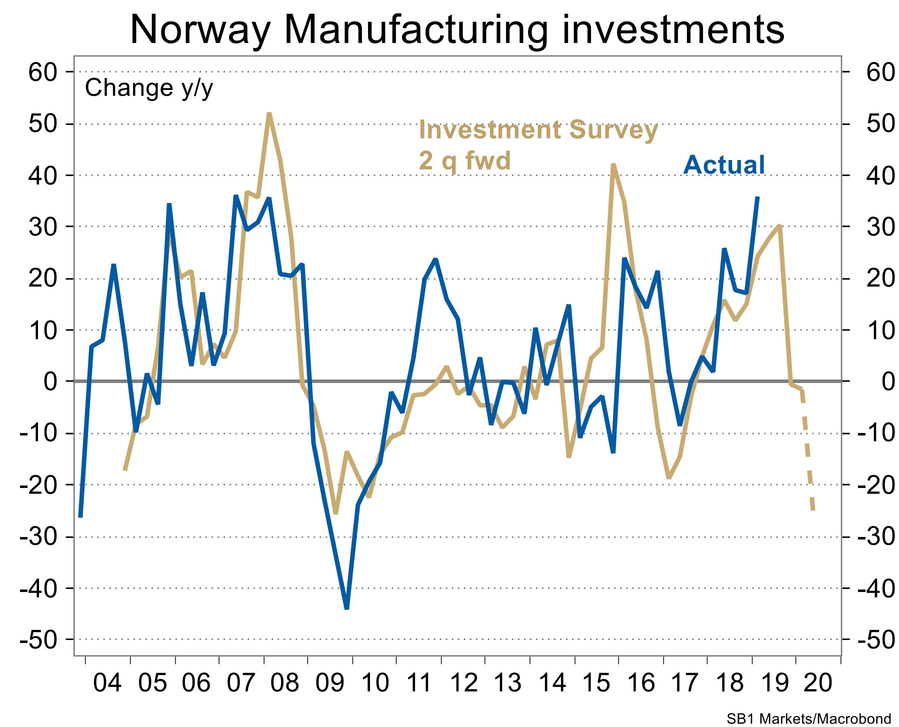


- One new PDOs (plans for development and operation) is included in the Q3 survey. SSB expect a PDO on the extensive Balder X project in the autumn and some smaller PDOs next year. The Balder X PDO will not contribute much to the '19 estimate but will lift the '20 estimate (if submitted) by some NOK 8 – 10 bn
- 2020 exploration investments were revised down by NOK 4.9 bn, f'casts are normally nudged down in the 3rd quarters. The 2020 f'cast is 3.5% above the equivalent 2019 estimate; exploration investments are rising, from a low level. The 2019 estimate was raised by 1.1 bn, which is some 12% above the 2018 f'cast
- Both fields developments and investments in fields on stream are nudged are estimated higher in 2020 than in the Q2 survey (as they often are). However, while investments in existing fields are 12% higher than the equivalent 2019 f'cast, investments in new fields are 4% lower. <u>These numbers are highly uncertain – and are often revised upwards from the early estimates</u>

The boom in manufacturing investments is behind us, down 20% in 2020?

2020 f'cast signals a substantial cut in investments next year, following a 35% (!!) hike in 2019

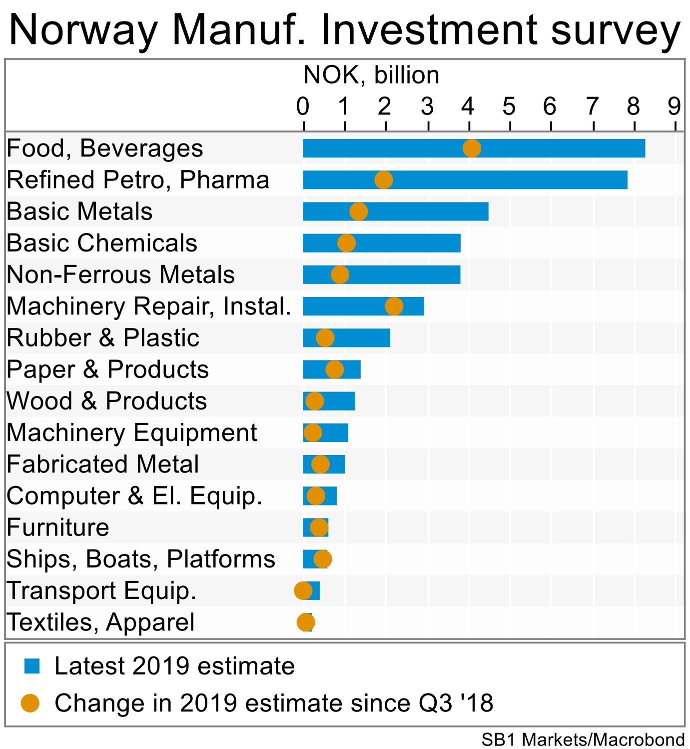


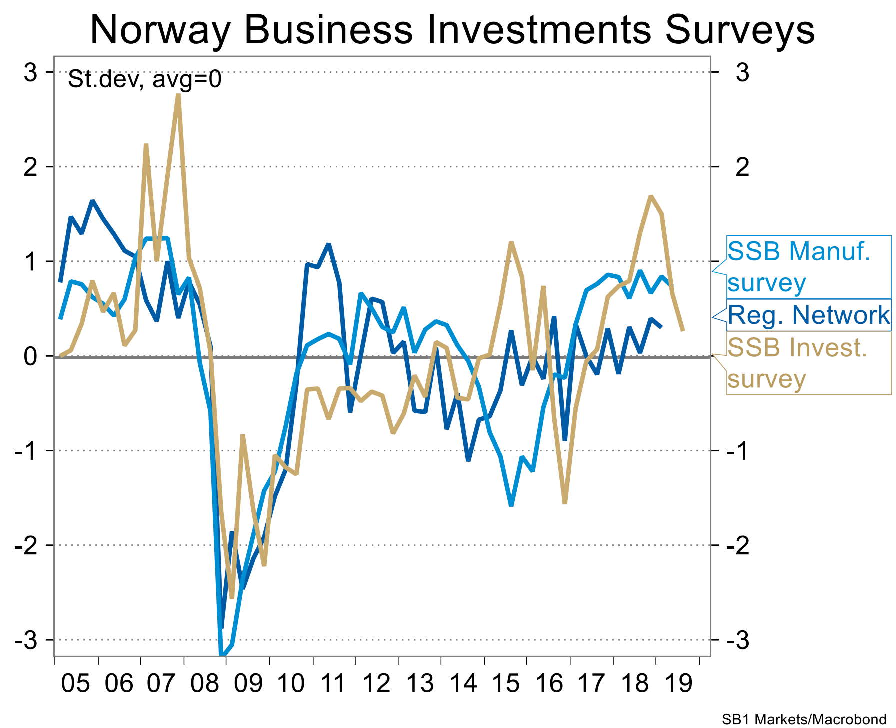


- Manufacturing companies adjusted their 2019 investment estimate up by NOK 1.3 bn in Q3, to record high NOK 33 bn. The estimate is 35% higher than the equivalent 2018 estimate (from Q3 2018)
  - » Many sectors are contributing to the lift in 2019, particularly in the refined petro, food and metals
- The 2020 estimate is nudged up by NOK 1.5 bn (a normal revision in the 2nd estimate), which is 1% lower than the equivalent 2019 estimate (from Q3 '18). However, the steep upward revisions through 2019 will very likely not be repeated in 2020, thus, we expect substantial decline in 2020 vs 2019. Applying an average path from the first estimate yields a 20% drop in 2020 from 2019

Refined petro, food and metals & chemicals are lifting total investments

2019 estimates on food production, machinery & refined petro have been nudged up the most



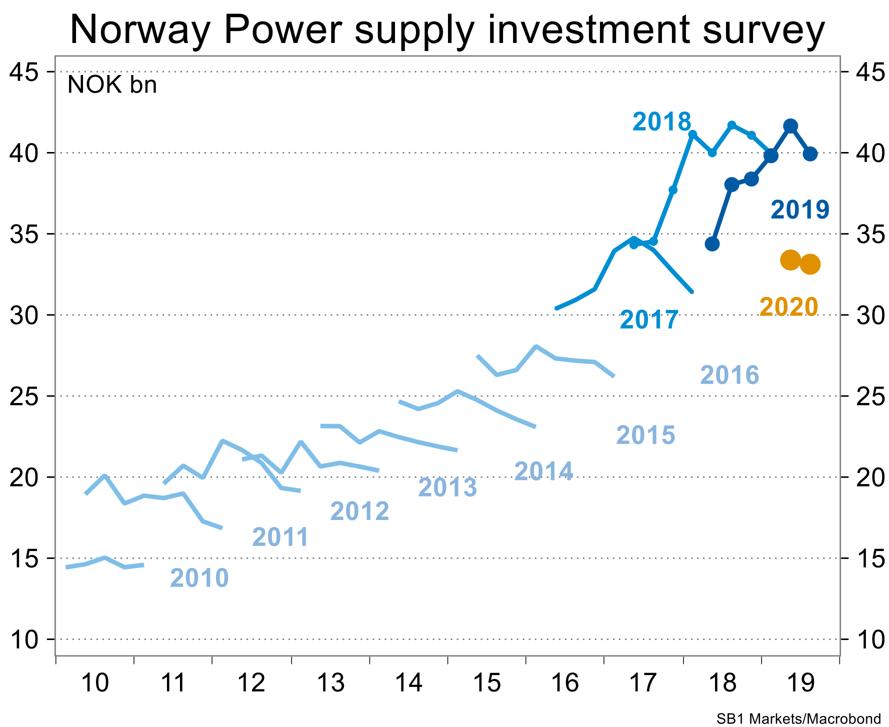


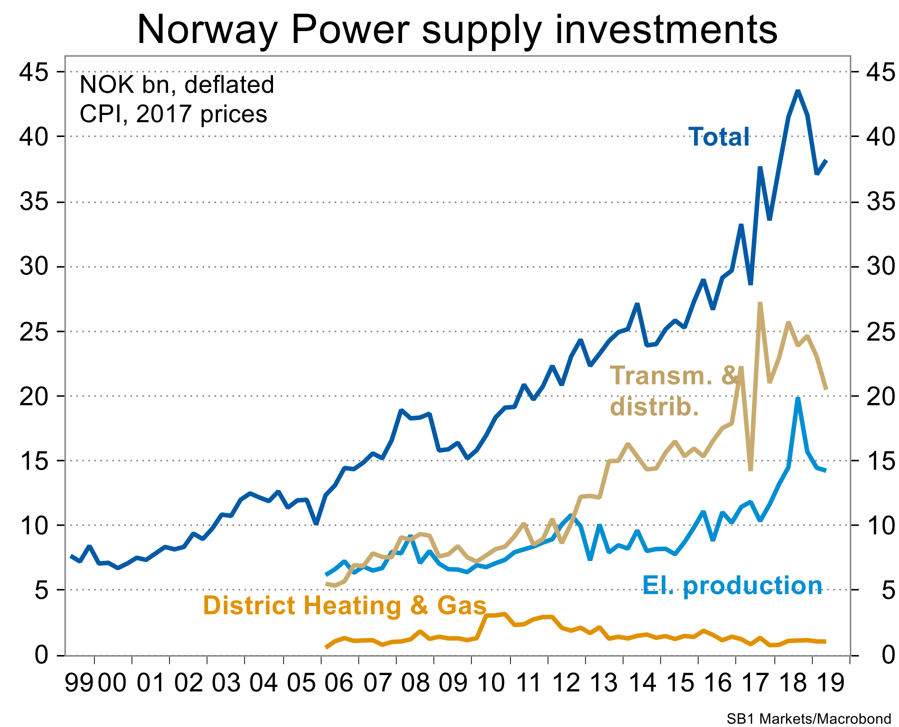
- SSB manuf. investment survey used to be much more upbeat than other surveys. Now, however, the level is equivalent to the Q2 Regional Network. SSB's manufacturing survey (not investment survey) is more upbeat
- SSB's investment survey is usually quite precise
- The other investment surveys have not yet published Q3 figures

SpareBank 1 MARKETS

Power supply: A terrific party is over?

2020 investment estimate nudged marginally down, indicates at least a 13% decline

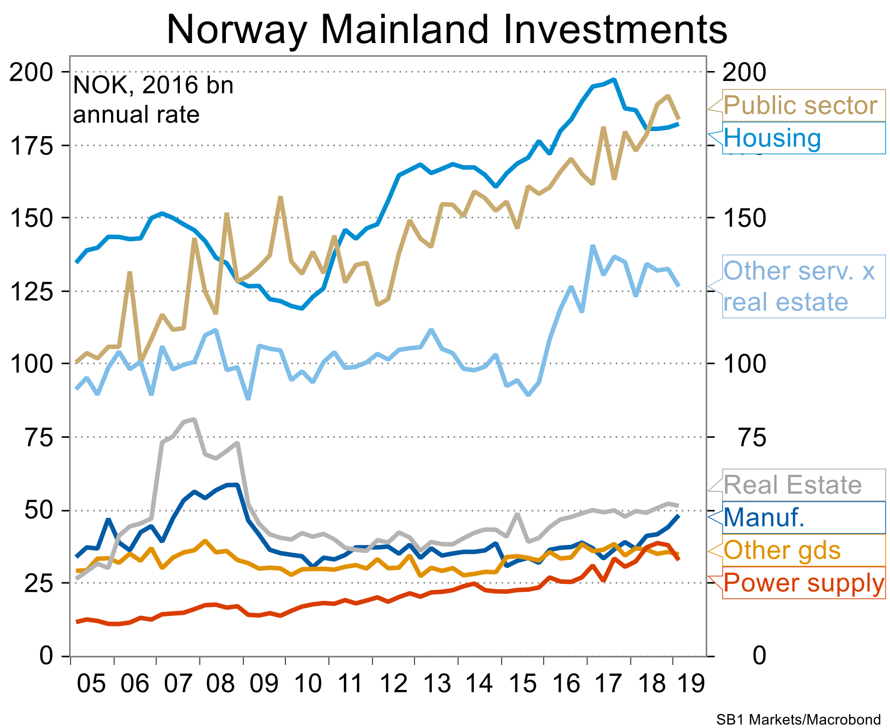


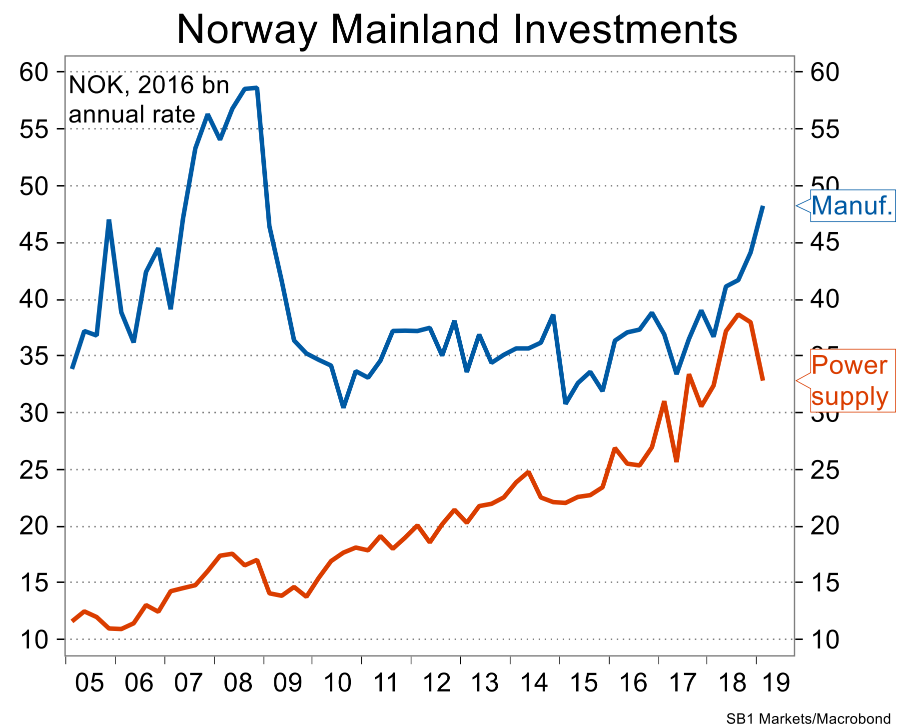


- Power supply (production & distribution) companies lowered their 2019 investment f'cast by NOK 2 bn to NOK 40 bn. The estimate is 4% below the equivalent 2018 f'cast; and investments will most likely decline, from 15-20% (!) annual growth rates previous years
  - » Investments in transmission and distribution of electricity have already fallen, investments in electricity production have peaked too
- The second 2020 estimate at NOK 33.2 bn is 13% below the second 2019 estimate, confirming our hypothesis that growth have peaked. In addition, the 2019 estimate has been revised up more than normal, an average revision of in the 2020 f'cast indicates a 18% decline to 2020 from 2019
- In 2018, investments rose more than 20%, and they have more than quadrupled in 25 years, more than 10% p.a in average. The investment level as % of Mainland GDP at 1.1% is the highest in decades

Power supply investments have peaked, manuf. investments will turn south soon

Both equal 1 - 1.5% of Mainland GDP and some 5-6% of Mainland investments



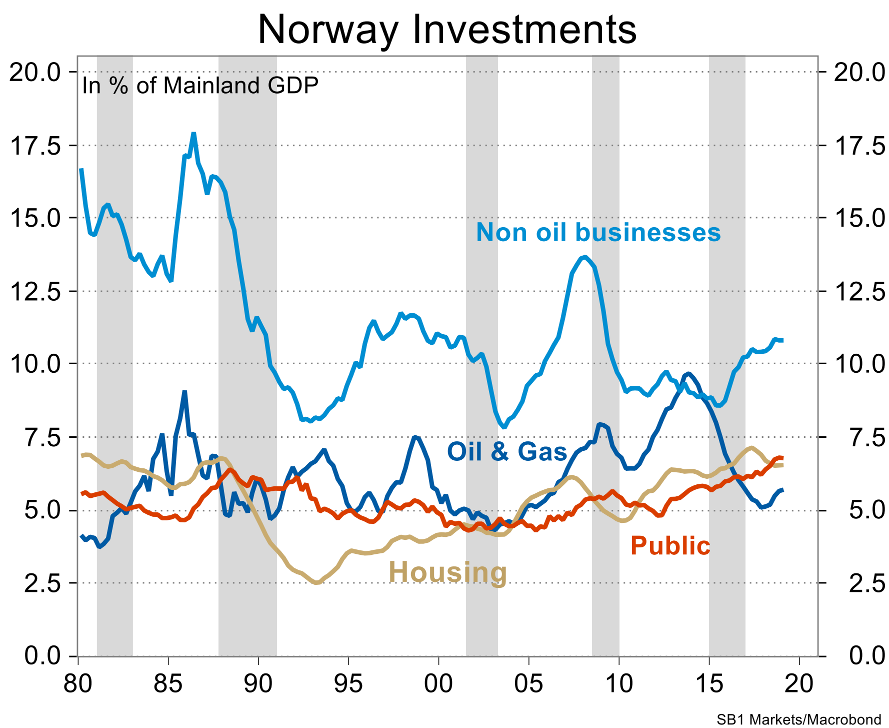


- The Q3 investment survey confirms that the power supply investments are now coming down
- In volume terms, investments in the manufacturing have accelerated sharply, but companies are signalling a sharp decline in 2020
  - Real estate investments and investments in other private services are the main components in Mainland <u>business</u> investments – and they remain at high level
- Memo: The public sector investments equals approx. 60% of Mainland <u>business</u> investments, housing some 70% (neither included in the business sector). Housing investments have fallen recent quarters, while public sector investments are still on the way up (but cannot continue like this for long) (BTW, oil sector investments equal 60% of Mainland business investments)

SpareBank 1 MARKETS

The investment cycles: Mainland business investments are not low anymore

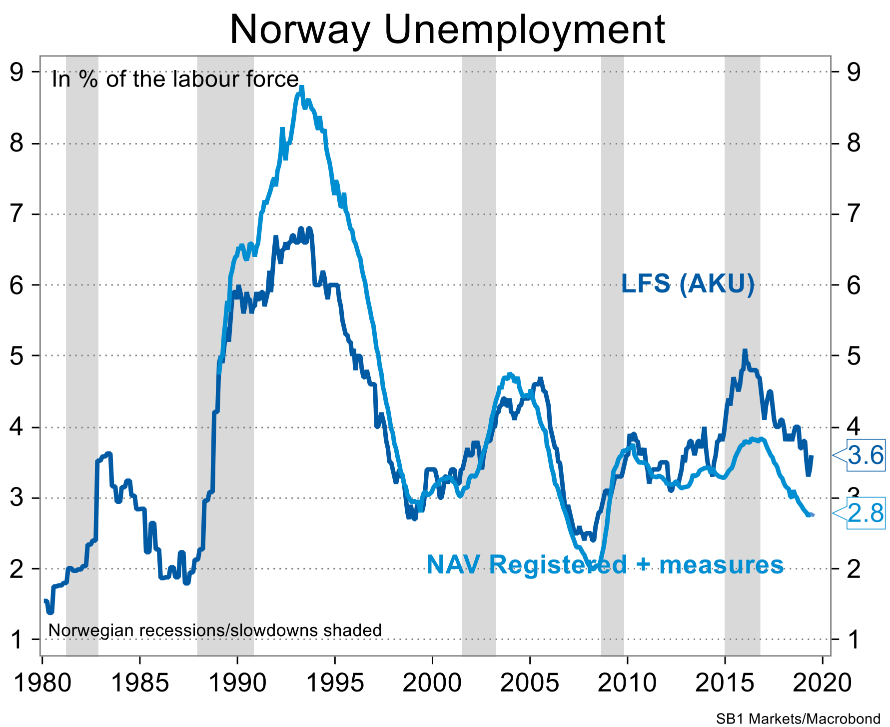
Downside risk, manufacturing, power supply down, and service sector investments are quite high

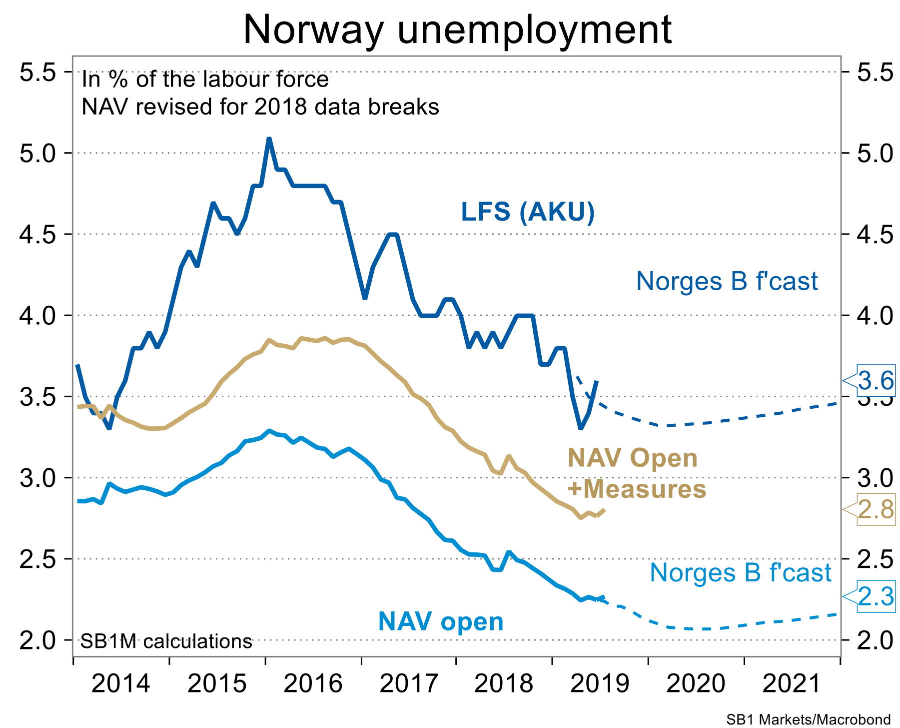


- **Oil investments** bottomed in Q4 2017/Q1 2018. The upside is limited from here
- **Mainland businesses** have been increasing their investments sharply since '16, and the level is not low anymore. They are probably close to peak
- **Government investments** are at the highest in decades, vs GDP. Will come down long term, but limited downside short term
- **Housing investments** have peaked but remain at a high level. Still, the downside is not large compared to the recent downturn in oil investments (barring a total housing marked breakdown)

LFS reports higher unemployment but the employment rate is still increasing

Unempl. ticked up 0.2 pp to 3.6% in June; participation rose much more than employment

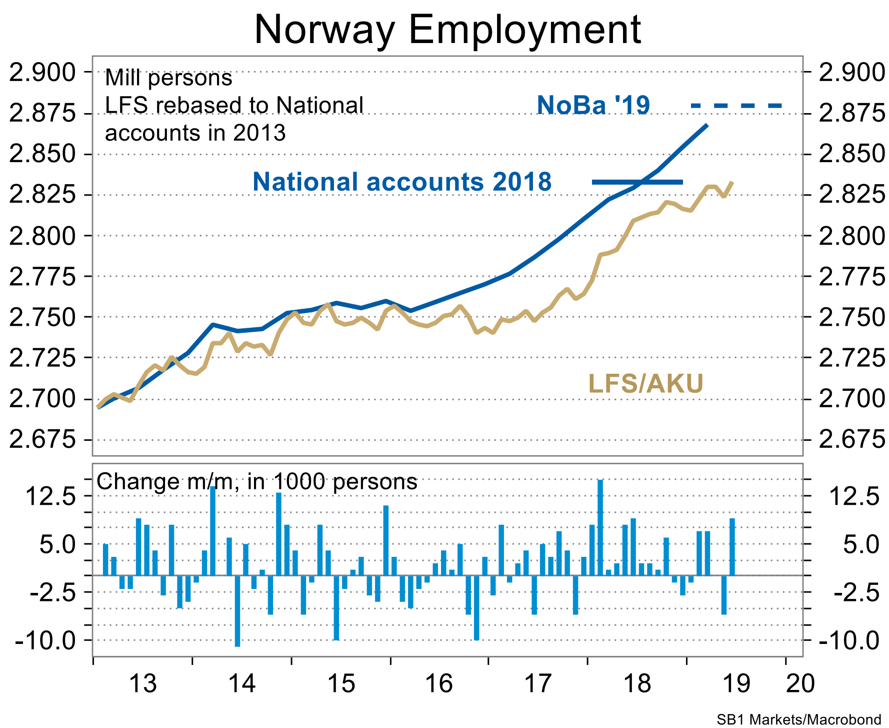


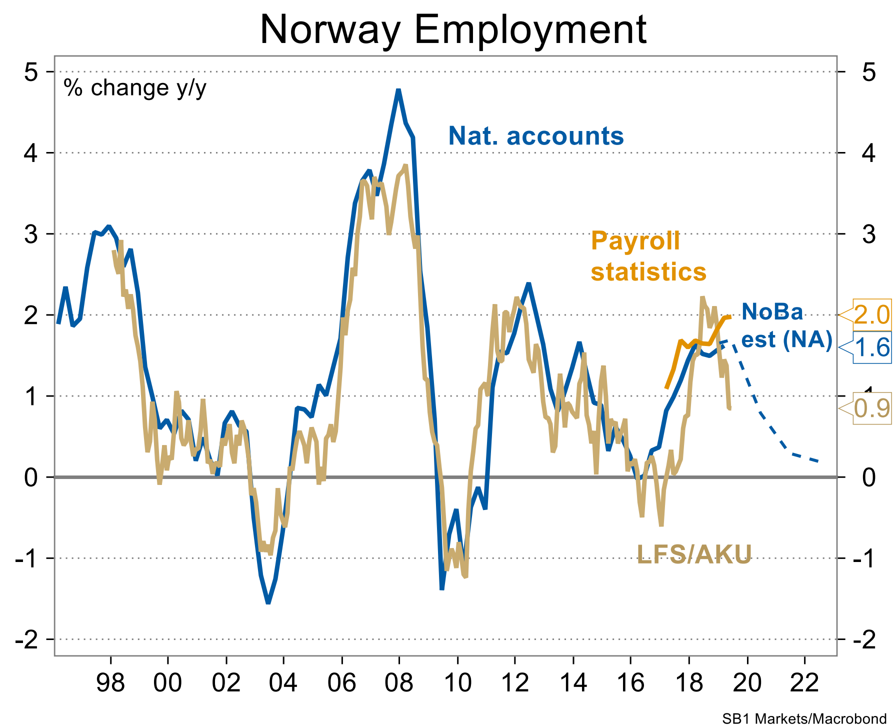


- LFS (AKU) unemployment ticked up 0.2 pp to 3.6% in June (avg May – July), expected unchanged. This is the second month of increase, although the trend is still straight down. Norges Bank assumed a 3.5% unemployment rate in the June MPR
- Employment rose by 9' m/m in June and the annual growth rate was flat at 0.9%, down from 2.1% in November last year – well below Nat. Acc, but the employment is still trending up. Labour market participation jumped 17' persons, and the rate is just marginally below the October (local) peak. If these figures are correct, the participation rate seems to be flattening out, and not retreating. If so, an important sign of more growth potential and a less tight labour market. However, our take is that NoBa will not put too much emphasis on one month's data
- On the other hand, the upswing in LFS unempl. may signal some labour market softness; the less volatile NAV data have been on the soft side the past 3 months too. August data out this week

LFS employment growth still solid – although slowing somewhat

LFS empl. is up 0.9%% y/y, 0.7 pp below the Q1 Nat. Acc., and 0.8 pp below NoBa's f'cast



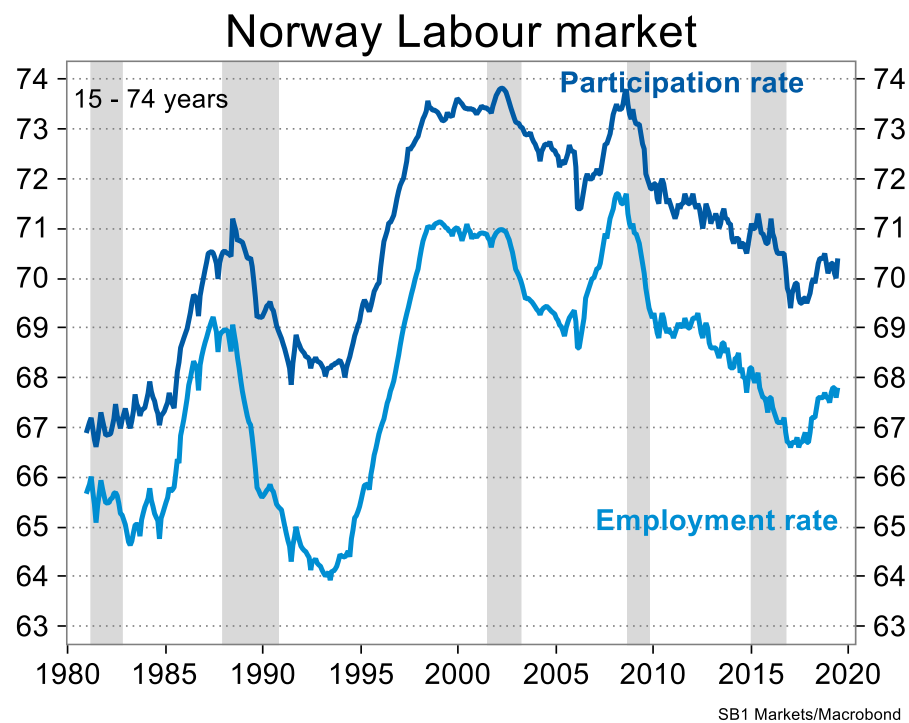


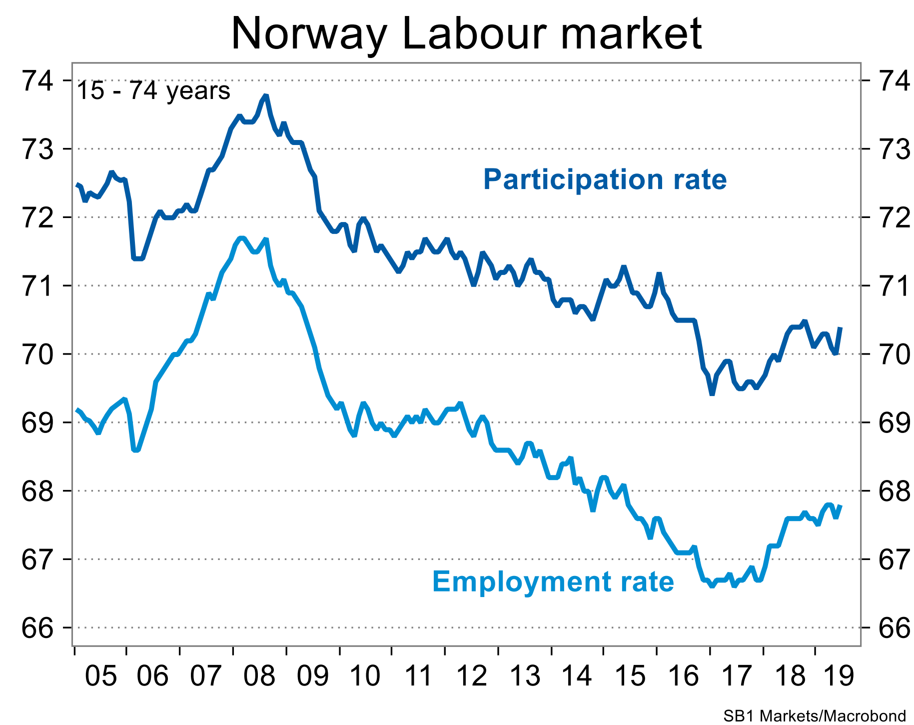
- Employment measured by the LFS accelerated through 2017 and the first half of 2018, to above 2%. The past year, employment has eased somewhat, to 0.9% in June. However, employment rose briskly in June and other data do not yet report a slowdown. Both Norges Bank and we expect a substantial slowdown in employment growth mainly due to lack of labour (which manufacturing companies are now reporting)
  - » National accounts' employment figures (and the new quarterly register employee statistics) are no doubt more accurate than the LFS survey data. Nat. Acc. reported a more rapid increase in employment than LFS through 2017, and is noting stable employment growth the past year, to 1.6% in Q1
  - » In the June MPR, Norges Bank nudged up its 2019 employment f'cast by 0.3 pp, to 1.7%
- Growth in the working age population was unchanged at 0.6% q/q annualized in Q1, from 1.75% at the peak in 2012. Thus, a 1.6% (or 0.9%) employment growth is above trend

SpareBank 1 MARKETS

Labour market participation jumped in June, flat the past year

The employment rate is still climbing slowly, participation has stagnated. Limited growth potential



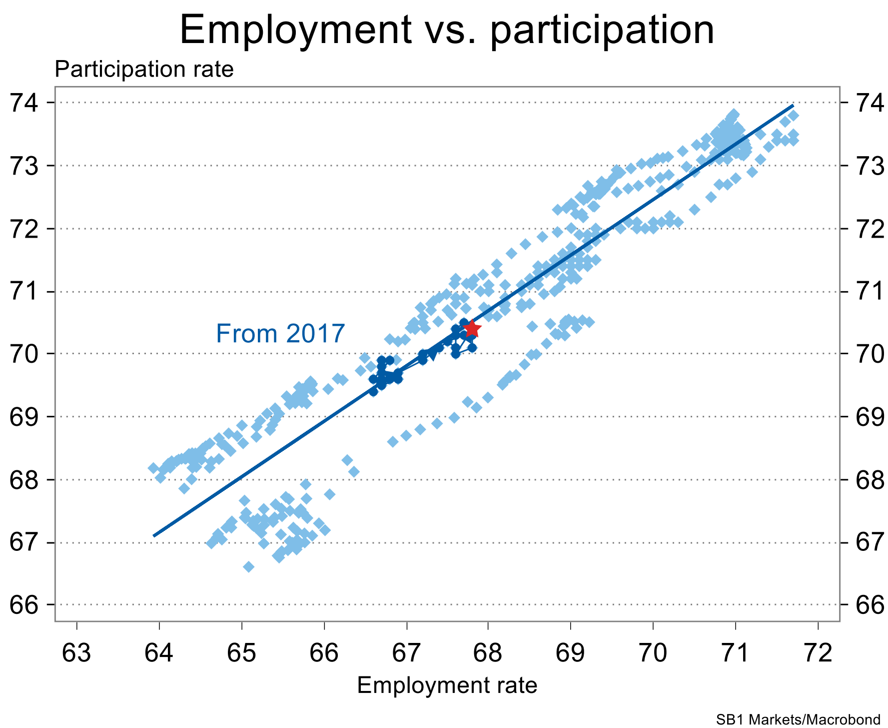


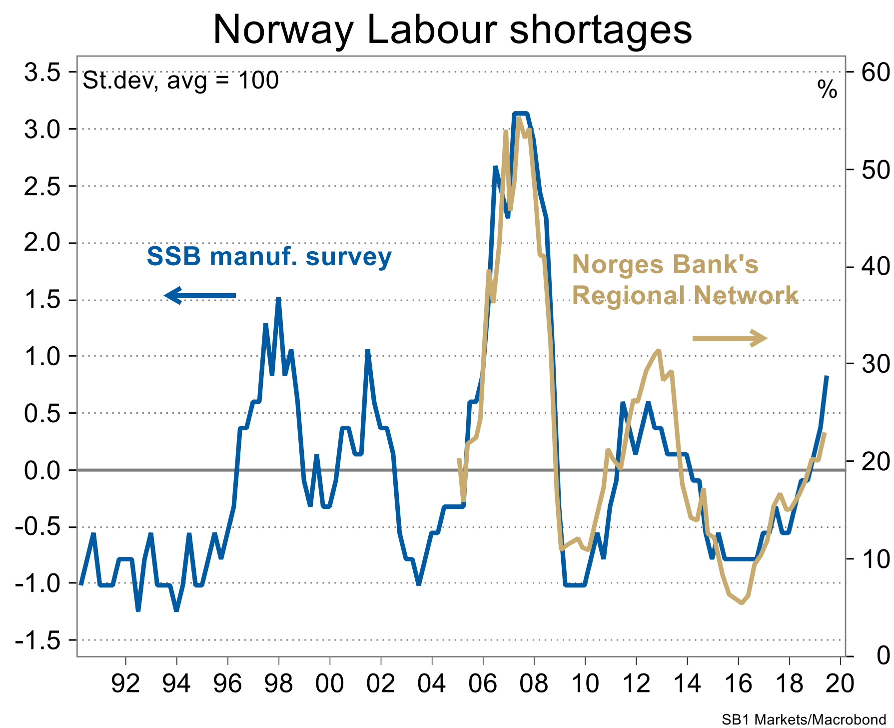
- The long term downturn in the participation rate and employment bottomed one 1½ y ago and both were growing strongly through 2018, up some 1 p. Since then, participation has been retreating, until it bounced back in June, up 0.4 pp. The direction over the past year is more or less flat, at a low level.
- The employment rate increased by 0.2 pp in June and is slowly increasing. These data signals a limited labour supply; participation is not responding to strong demand – and more companies are reporting lack of labour
  - » Wage inflation is picking up, reflecting a strengthening labour market, and more is expected, according to NoBa's expectations survey

SpareBank 1 MARKETS

Participation marginally lower than usual vs employment

Participation has been ‘below the line’ recently – signals supply constraints

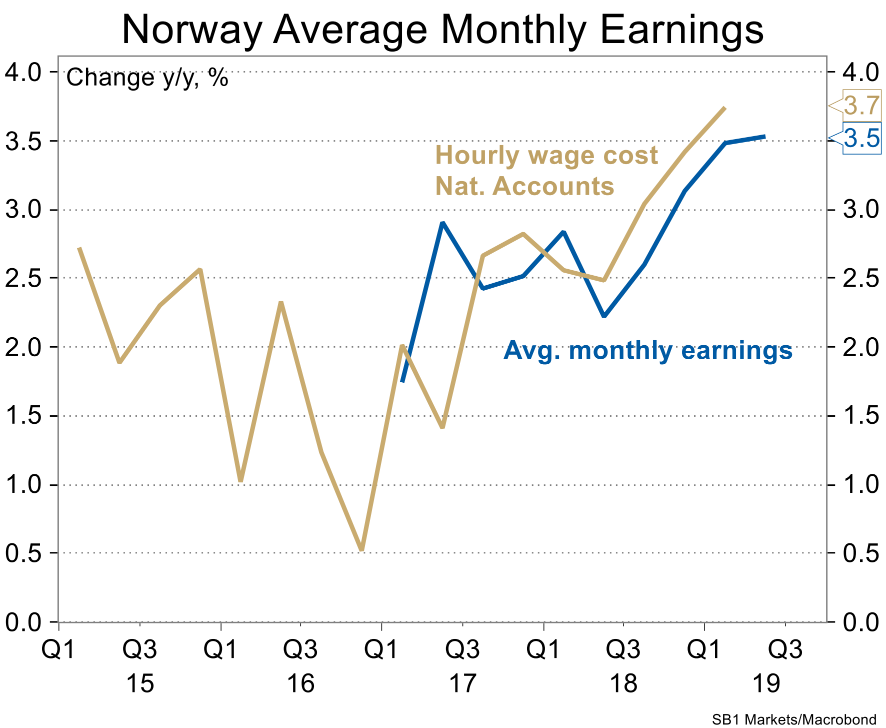


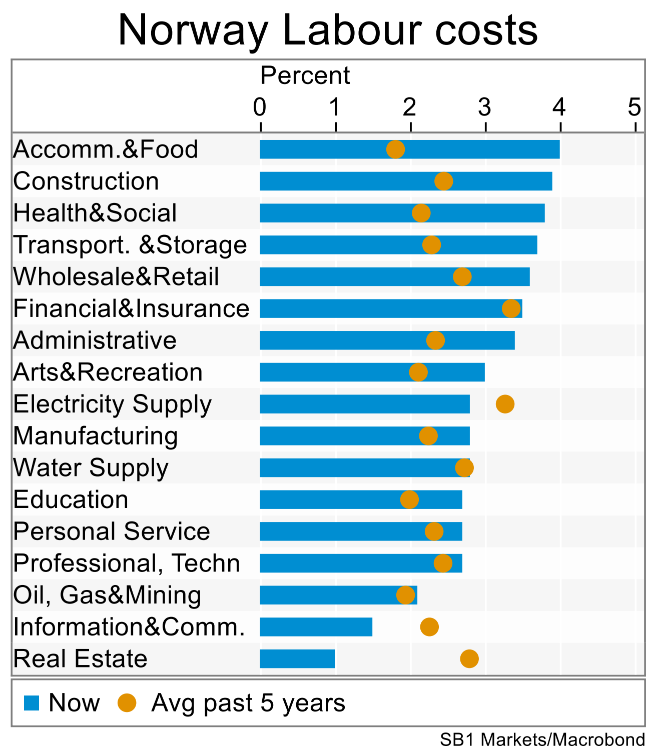


- The Norwegian unemployment rate is quite stable compared to changes in the employment rate – because the participation rate usually is quite responsive to the chances of getting a job; the employment rate. Flexible labour immigration from the EU has also contributed to keep the Norwegian unemployment rate stable
  - » In average since 1980, the labour force participation changes almost 0.9 x the change in the employment rate. Recent years, the response has been somewhat less, say 0.75. However, so far in 2019, the participation rate has stagnated even if the employment is still increasing, we are moving ‘southwards’! Thus, the unemployment rate has become too low vs. the employment level
- Businesses are reporting increasing labour shortages, and the SSB manufacturing Q2 survey well above an average level, more than in 2011 - 12

Labour costs are on the way up, almost all sectors above 2%

SSB reported average wage earnings at 3.5% in Q2, heading up from 2.2% one year ago

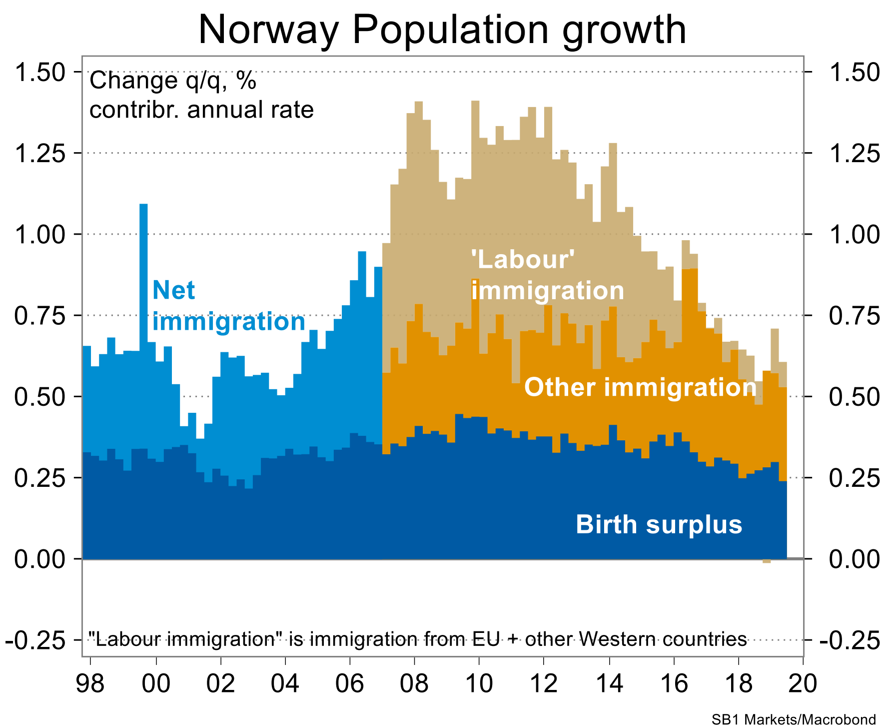


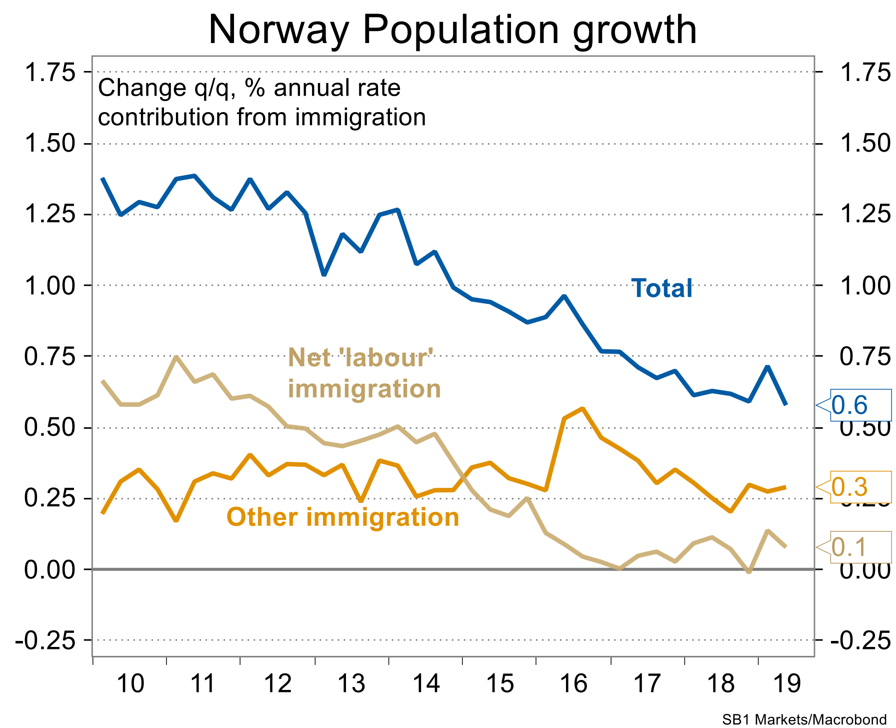


- Labour costs are higher than the 5 y average in 13 of 17 sectors and below the avg in just 3 sectors. Accommodation & food is accelerating, up 4% y/y and construction is up 3.9%, (businesses in this sector have been reporting increasing labour shortages

Population growth has probably bottomed out, at a low level

Western ('labour') net immigration is very slowly the way up?

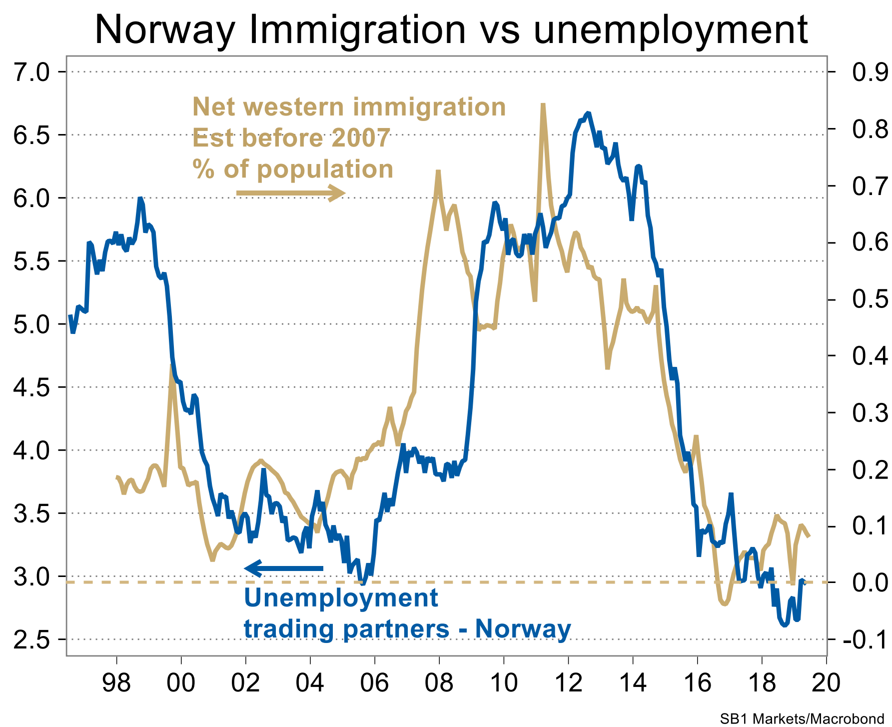


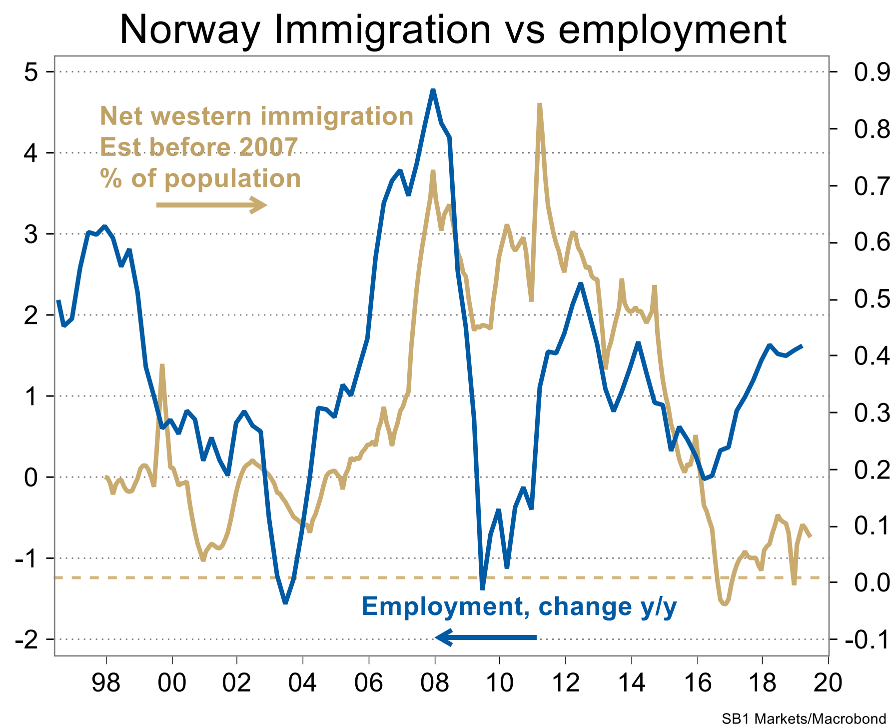


- Total population rose by 33' persons y/y in Q2, down from 34' in Q1. Growth has turned slowly up from the bottom in Q4 2018, which noted the lowest growth rate since 2005. Population is up 0.6% q/q annualised, down 0.7 pp from the upward revised Q1. Population growth has fallen from 1.3% annualised or 60' persons in Q3 2014
  - » At the peak, labour net immigration (whole EU + other 'western') ran at 30' persons, equalling 0.75% of the population. It fell to zero in 2016 and remained marginally positive during 2017 and 2018, until Q4, when in was negative. In Q1 and Q2, net labour immigration has turned positive. Given the strengthening of the Norwegian labour market, especially in the oil region, we expect a gradual increase in net labour immigration
  - » Non-western immigration increased marginally in Q2, growth is back at a normal level following 'the Syrian' peak in 2016
  - » The net birth surplus has been stable the past year, at the lowest level since 2003, due to fewer births (not more deaths)

Labour immigration is mostly a cyclical phenomenon

Relative Norwegian unemployment (& employment) one of several elements

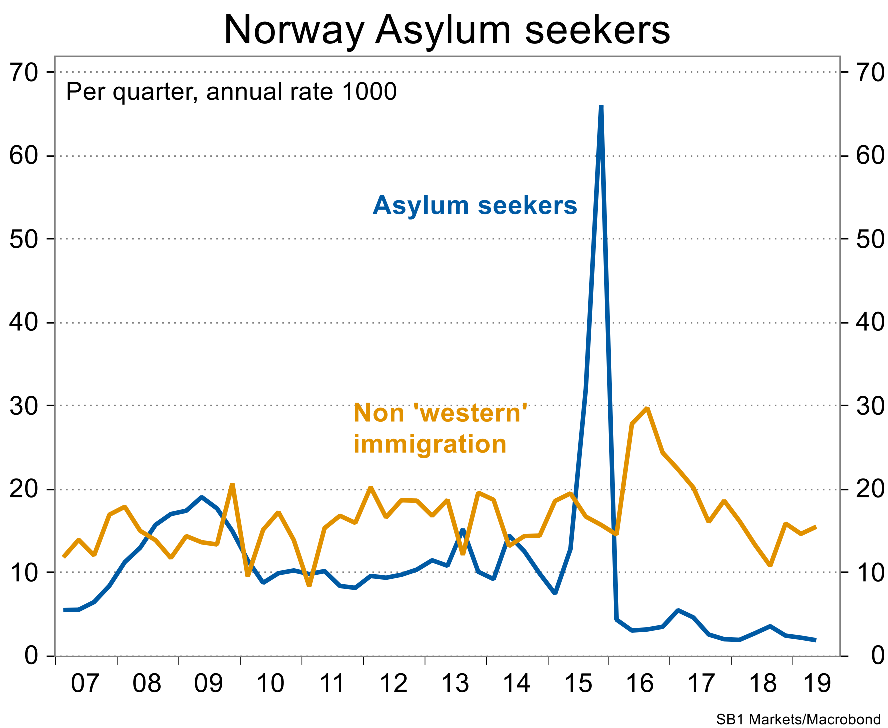


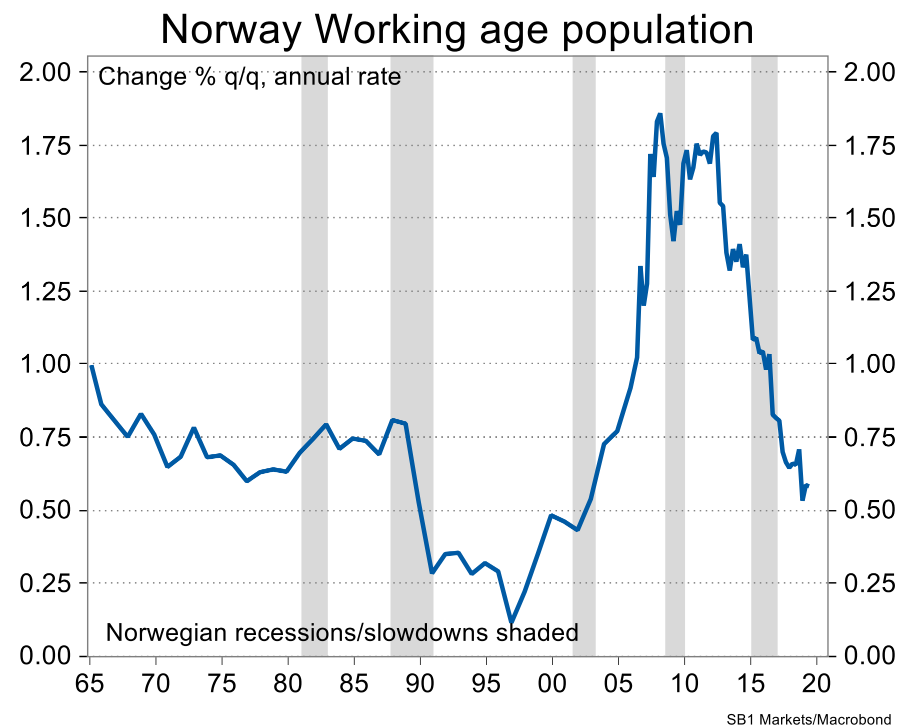


- Labour immigration slowed marginally in Q2 and is trending very modestly up from the 2016 bottom. Labour immigration has fallen sharply since the 2011 peak
- Unemployment in Norway is higher than 'normal ' vs unemployment among our trading partners (our neighbours), which partly explains the slowdown in western immigration recent years
- The Norwegian labour market is strengthening and employment growth is decent, suggesting that labour immigration may have bottomed out (however, the correlation to employment growth is not that strong as vs relative unemployment)

Non-western immigration normal. Working age population growth 0.6%

… and is now back at ‘normal’ level



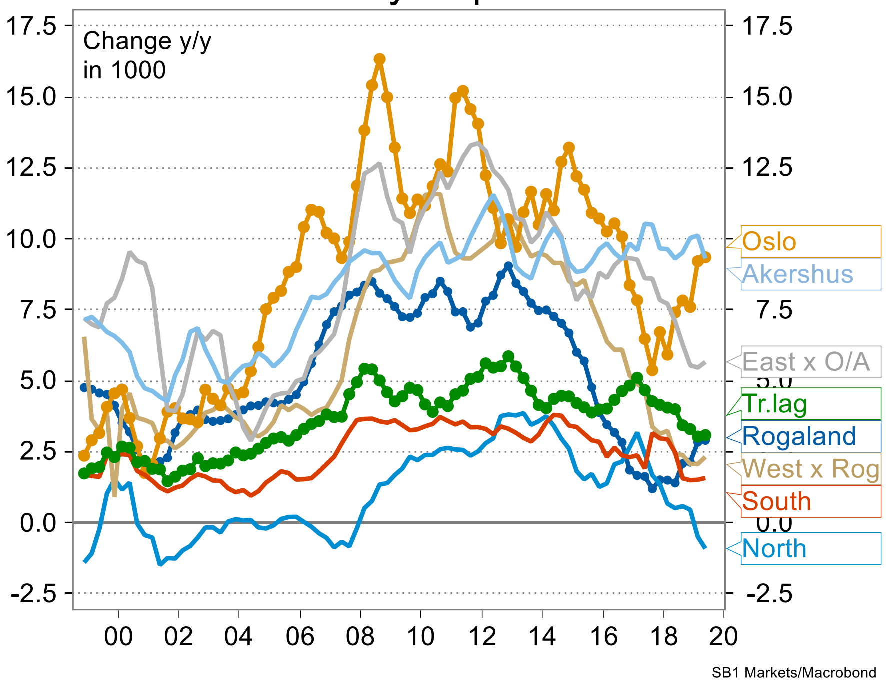


- Growth in non-western immigration has declined the past 3 years, following the ‘Syrian’ surge in 2016
  - The inflow of asylum seekers have stabilised at a low level, well below ½ of the ‘normal’ level. Signals a continued ‘low’ non-western immigration the coming quarters
- Growth in the working age population was stable at a low 0.6% level in Q2, down from 1.75% in 2012

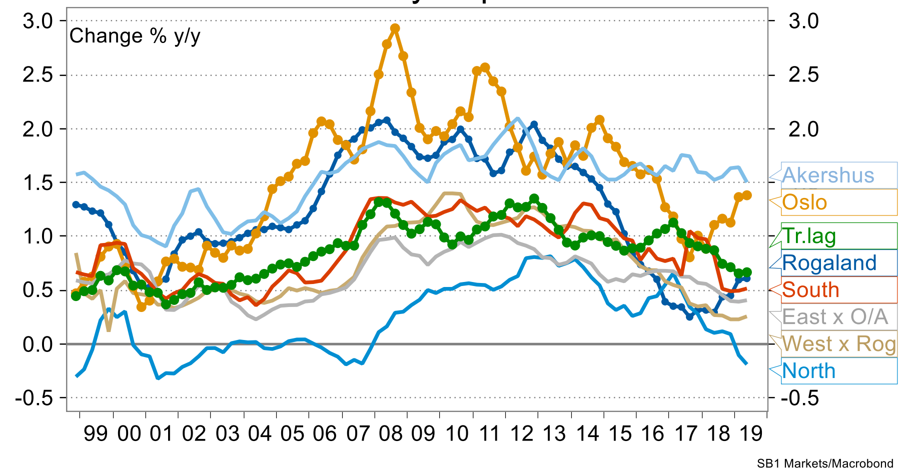
Akershus & Oslo are the winners, all others ex Rogaland have been slowing

Population growth is decreasing everywhere x Oslo/Akershus - and is negative in the North

Norway Population

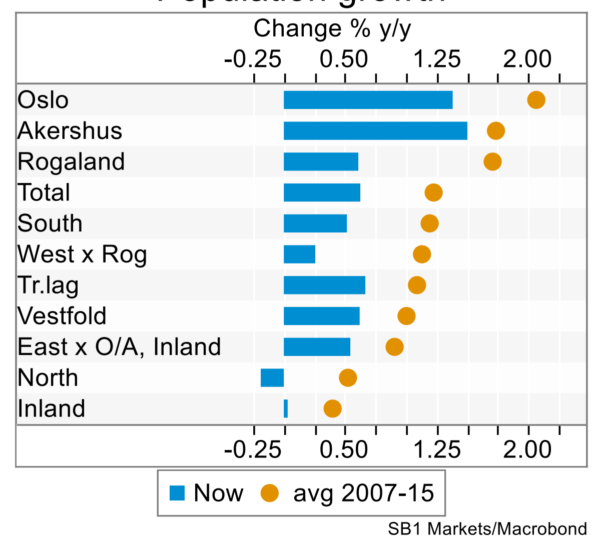


Norway Population



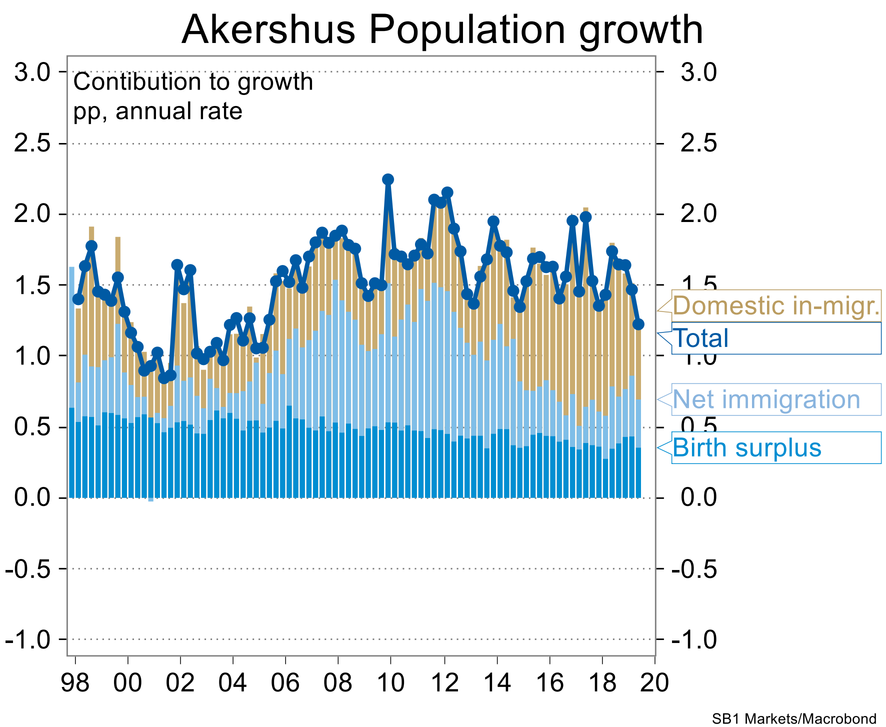
- Broad slowdown since 2012 (ex Akershus). Oslo has recovered steeply the past year, Rogaland is slowly gaining pace too. Still, both are far below 2008-2014 growth rates
- Population growth has been slowing significantly in all other regions, below 2010-15 levels in all regions. <u>But the South, West x Rogaland and East x O/A may have flattened</u>

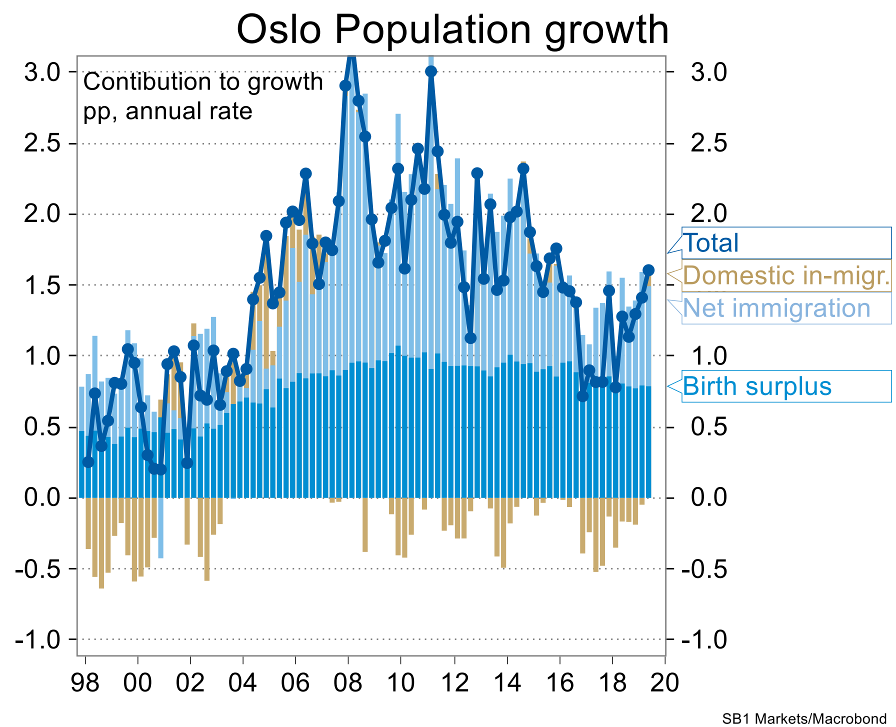
Population growth



Akershus losing some speed, Oslo on the way up

Population growth in Akershus has been kept up by a very high domestic in-migration…

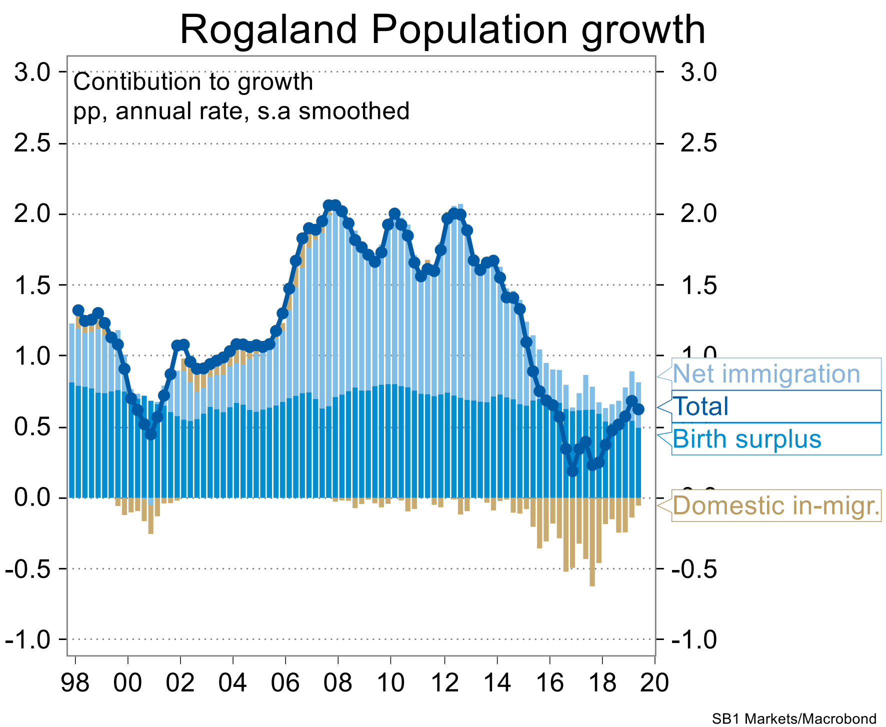


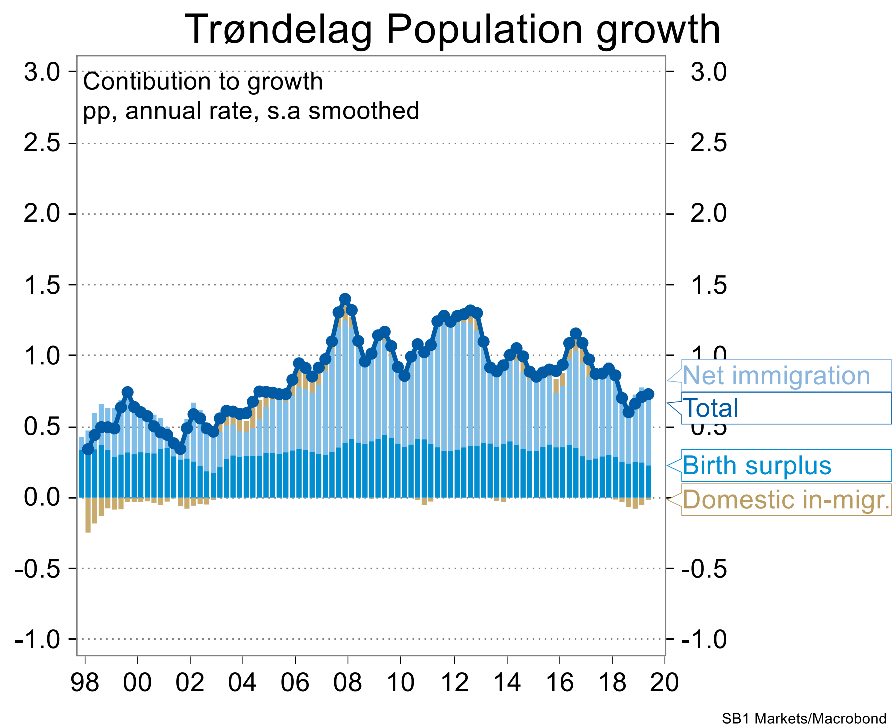


.. While people have been out-migrating from Oslo to other parts of the country (as usual, but nobody knows it!!). However, in Q2, domestic in-migration turned marginally positive, for the first time since 2016

A mild recovery in Rogaland; Trøndelag has bottomed out?

Trøndelag is now growing marginally faster than Rogaland

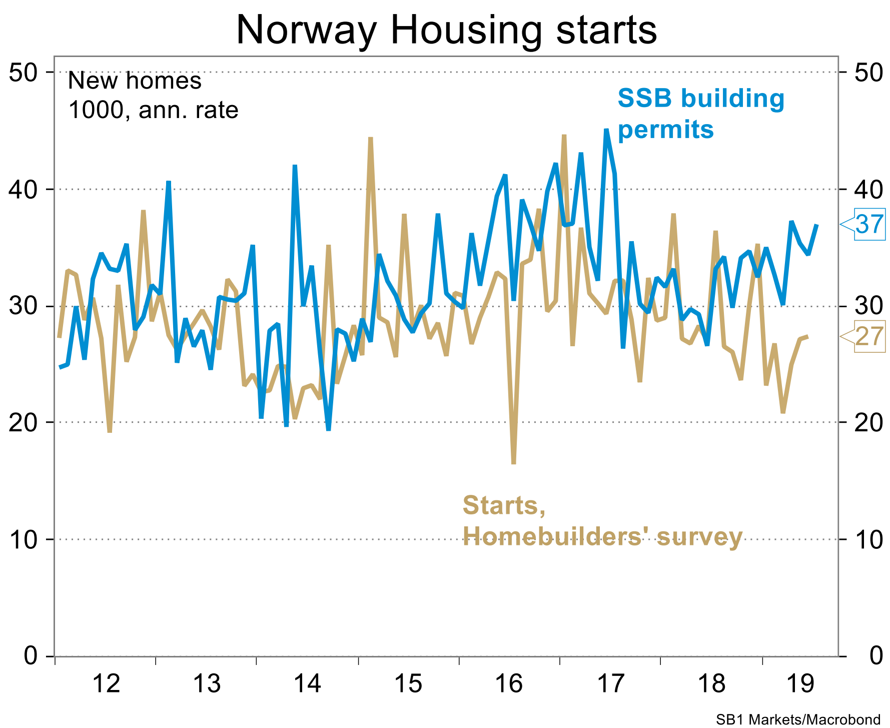


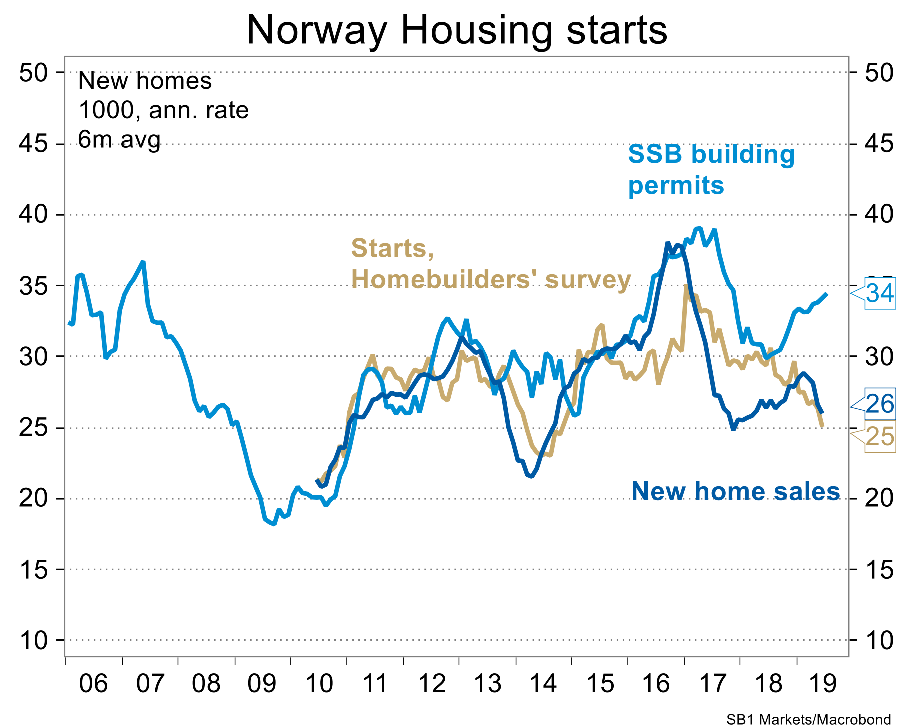


- Total population growth in Rogaland slowed marginally to 0.6% q/q in Q2, after climbing since 2016. Domestic in-migration is still declining, but by much less than it did 2-3 years ago
- Population growth in Trøndelag has inched up the past 3 quarters, to 0.7%. Domestic in-migration is marginally negative

SSB reports climbing housing starts but the 'real' trend is probably just flat

Building permits rose to 37' in July. In H1, student homes contributed, other housing turned down

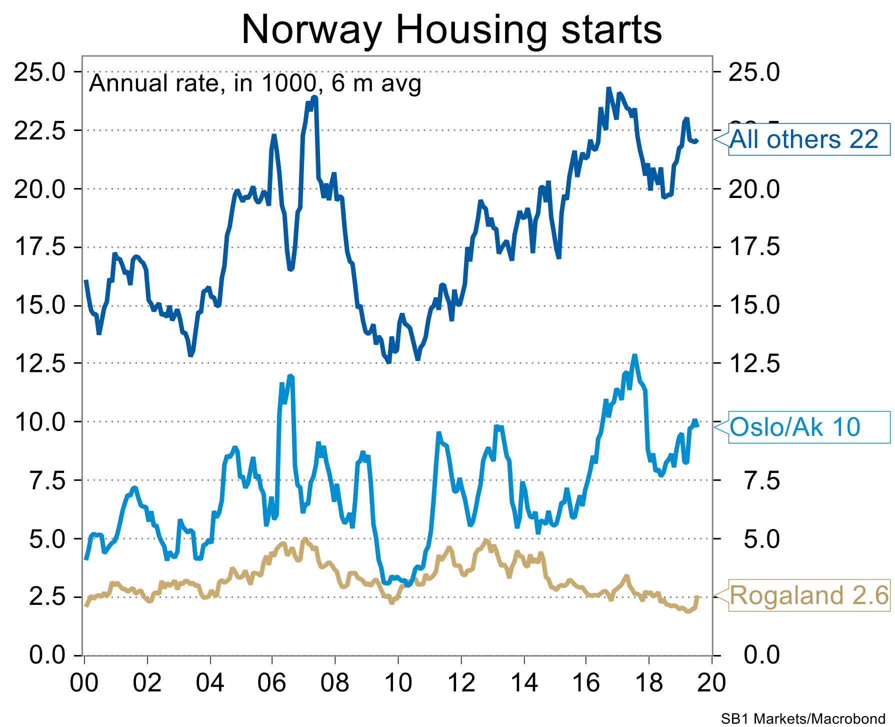


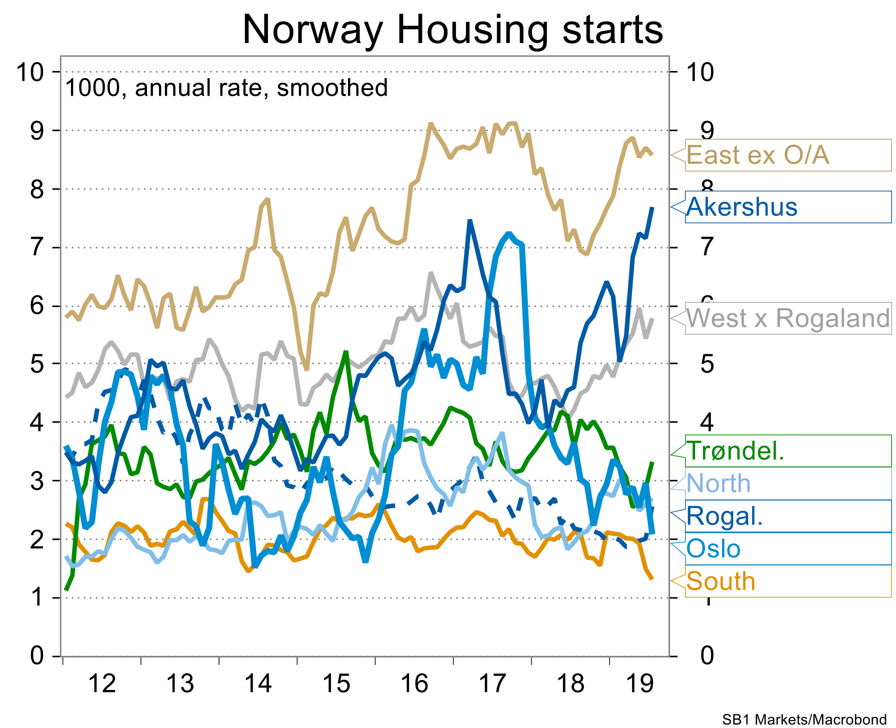


- SSB reported housing starts (building permits) at 37' annually in July, up from 34' in June. Starts are trending up, from just below 30' at the local trough in mid-2018
  - The Homebuilders' are still reporting declining housing starts. A spike in student homes, which is only included in the SSB figures, explains more than half the deviance between SSB and the Homebuilders, at least in H1. Thus, our take is that other housing starts have turned down recently and the short term trend is flat, at best. Moreover, new home sales have softened and do not indicate a rise in starts
- Total housing starts have probably at the best flattened and indicate a muted growth (if any) in housing investments. The level is not low, although well below the 2016-2017 peak. Starts are above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too)

Starts are soaring in Akershus & other East falling in Oslo, South

Starts have increased more in other parts of Norway than Oslo/Akershus. West x Rogaland climbs





- Housing starts ex. Oslo and Akershus have been soaring since early 2018, with a slight decline the most recent months. The level is much higher than 'normal' the past 20 years
  - » The upturn is driven by a steep rise in Akershus, East x Oslo/Akershus and West x Rogaland. Rogaland is sliding down but spiked in July. Trøndelag may have turned up from the bottom, North more or less flat
- In Akershus, building is accelerating, to above the 2017 peak level. The recent upswing is partly explained by a steep rise in student homes (close to 20% of all new Akershus dwellings in Q2!). In Oslo, starts fell much more than in Akershus in late 2017-2018 and gained much less last year (and fell in July), and the level miles below peak as the homebuilders are coping with a mild supply overhang.

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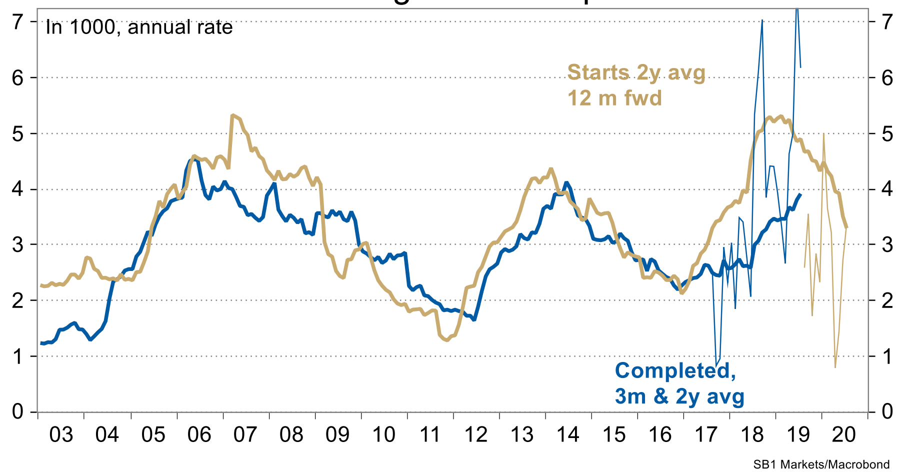
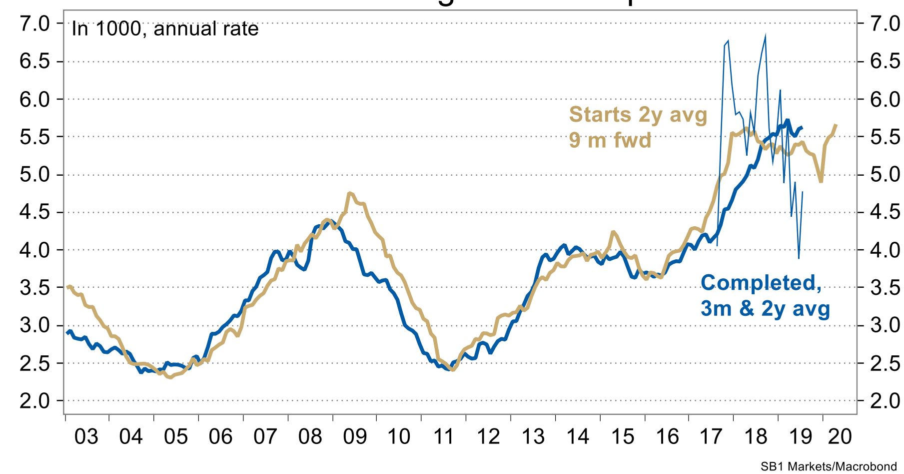
Housing completions close to peak but will remain high for some time

Oslo supply is soaring, will remain high. Akershus may have peaked, Norway x O/A prob. peaking

Oslo Housing starts/completions

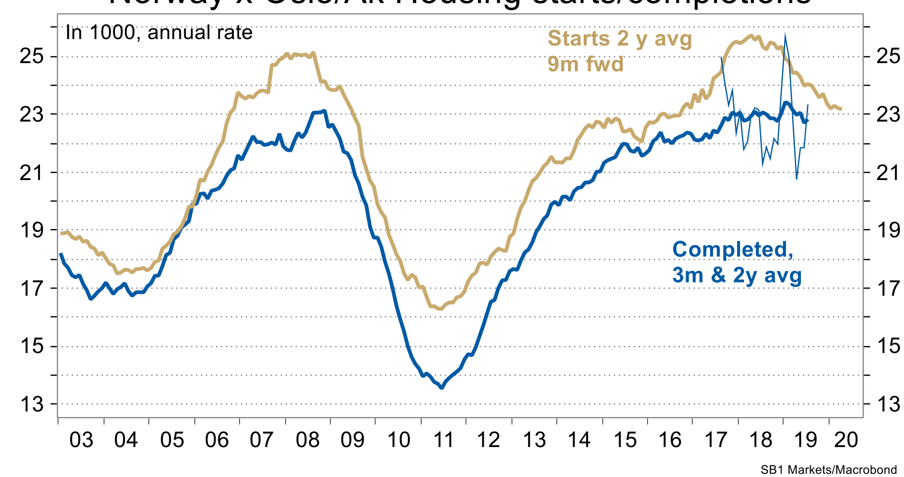


Akershus Housing starts/completions



- The number of completed homes in Oslo is rising steeply and it will remain higher than 'normal' (past 10 years) for some time
  - » Completions will most likely remain above a 4' annual rate for a while as 2 average no of starts were running above 5' for a while
- In Akershus, supply upswing is probably behind us, as the recent hike in starts is due to student homes
- In the rest of the country, the upside is probably not large but supply will remain high the coming months
- Usually, some of the permits are not utilised and the supply of new homes is lower than the permits indicate

Norway x Oslo/Ak Housing starts/completions



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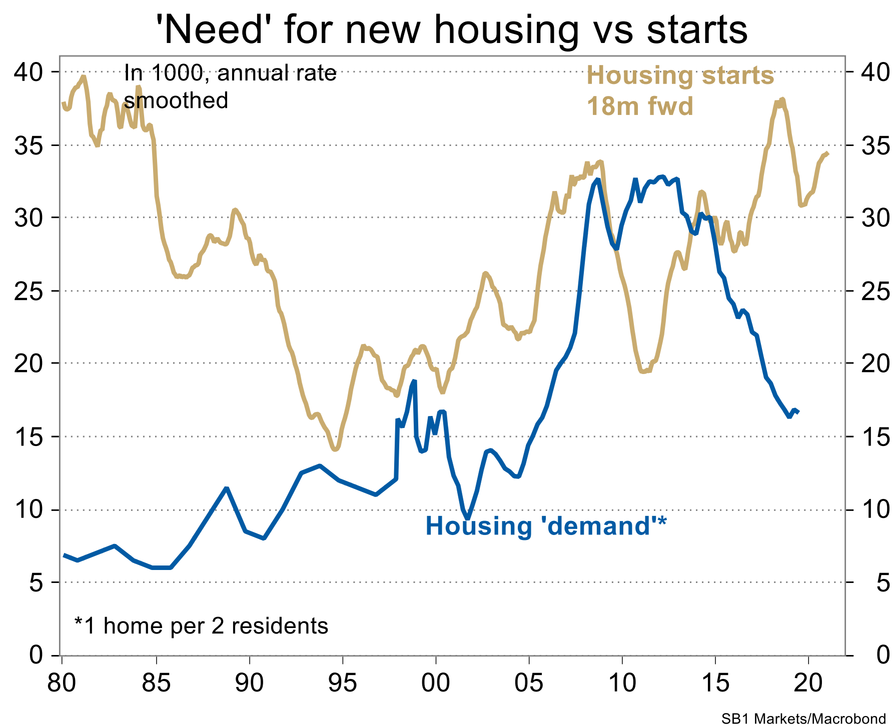
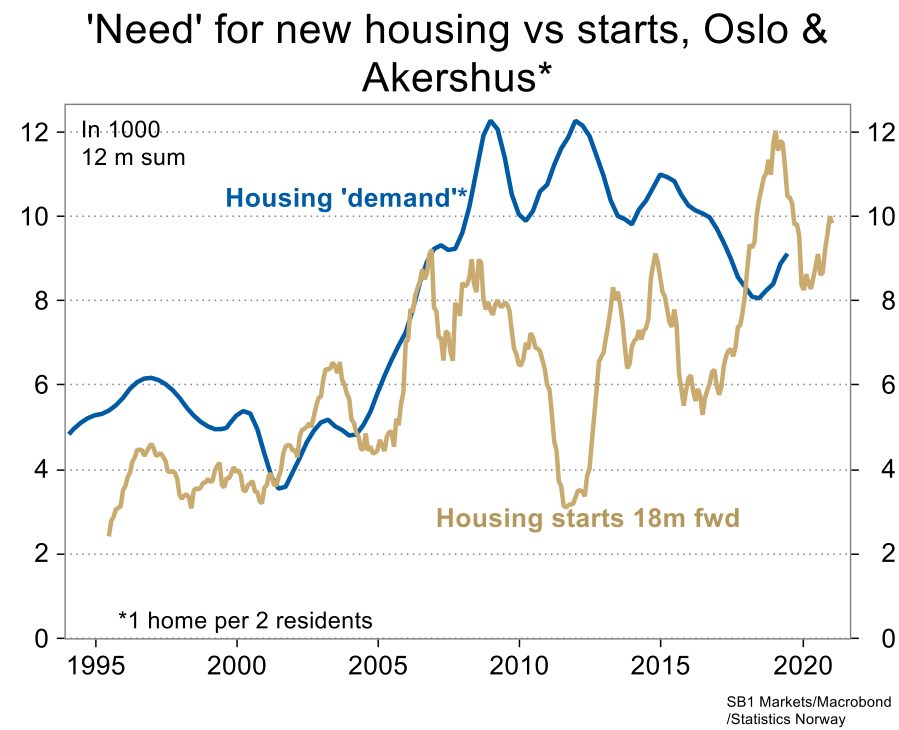
One house per new inhabitant (or 2 new house per ‘normal household)?

Based on pop. growth, too many homes have been built recently, except from in Oslo/Akershus?





- More new homes than people have been the norm in periods with high domestic migration, which is not the case now

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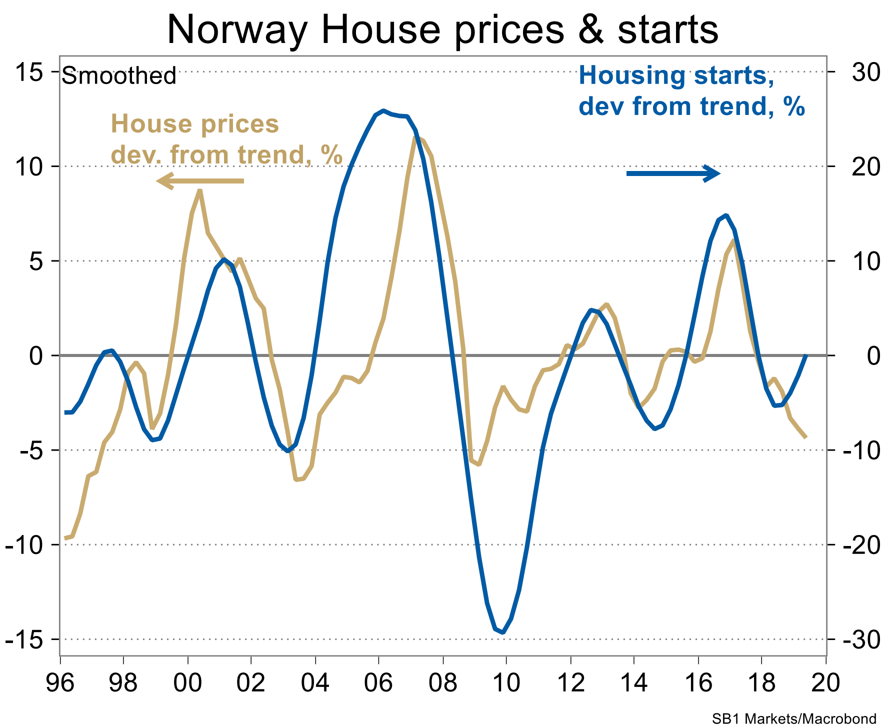
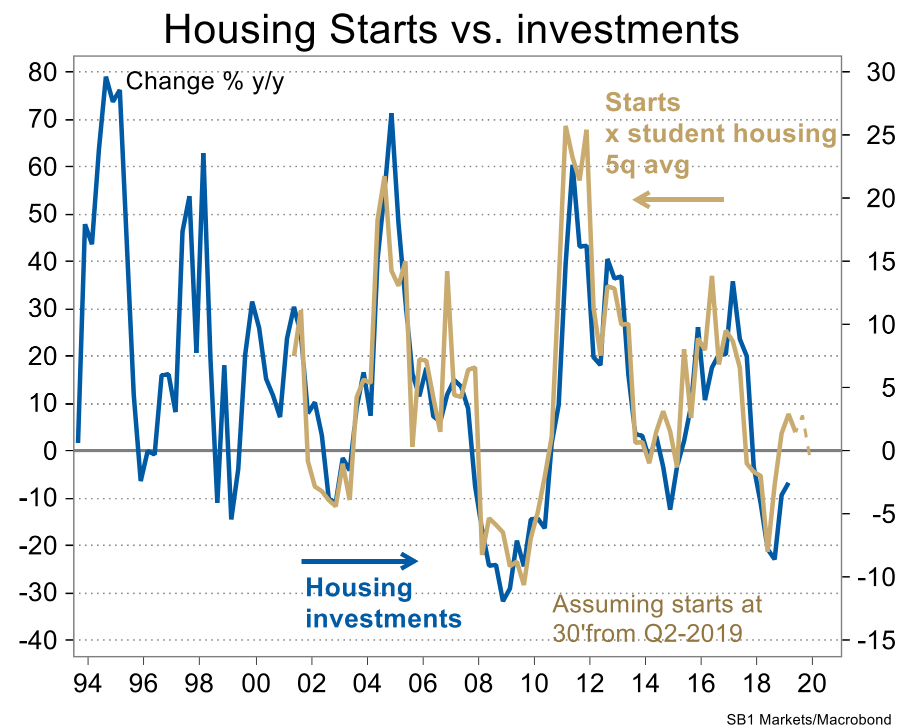
Soft house prices indicate lower housing starts – and muted investments

Housing investments have probably bottomed but housing starts (x student) signals muted growth

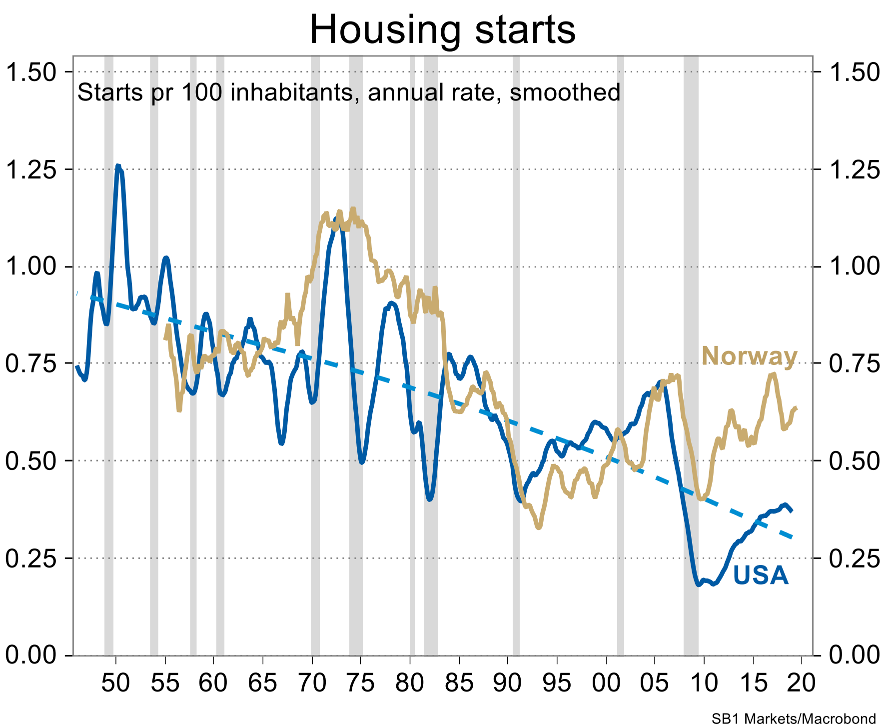


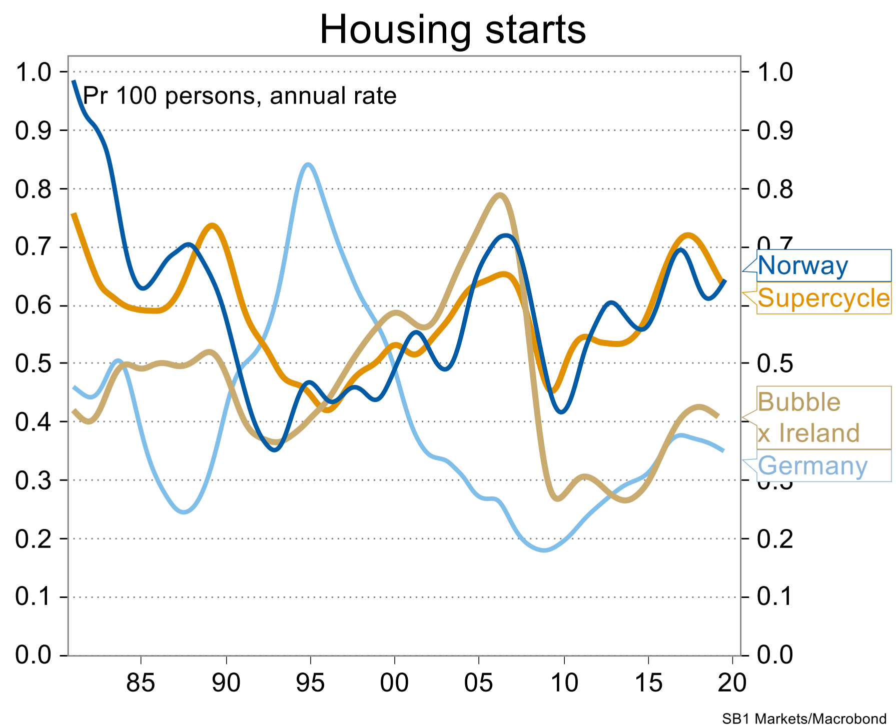


- Housing investments fell by 2.5% y/y in Q1 (but investments rose q/q). No Q2 figures have been released yet
- In the June MPR, Norges Bank nudged up its forecast on 2019 housing investments to +0.3% from zero. Given the level of total starts, this estimate is on the soft side. However, conducting student housing, which is contributing very modestly to investments, yields zero growth in housing investments (check the chart above)

Home building is still quite high vs. other countries

Except from the other 'supercycle' countries, in which starts have been 2 x higher than in other DM

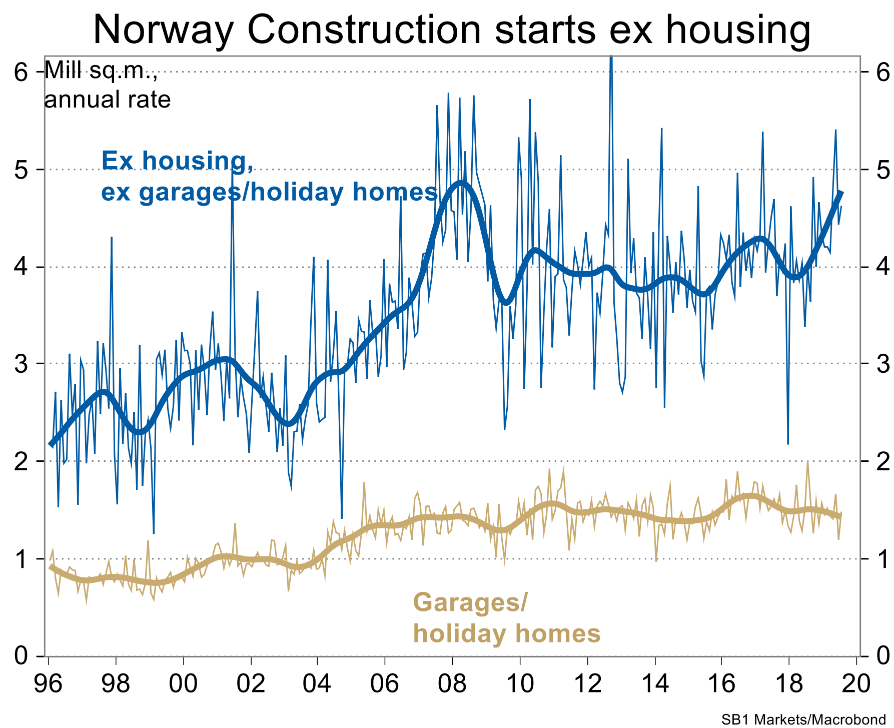


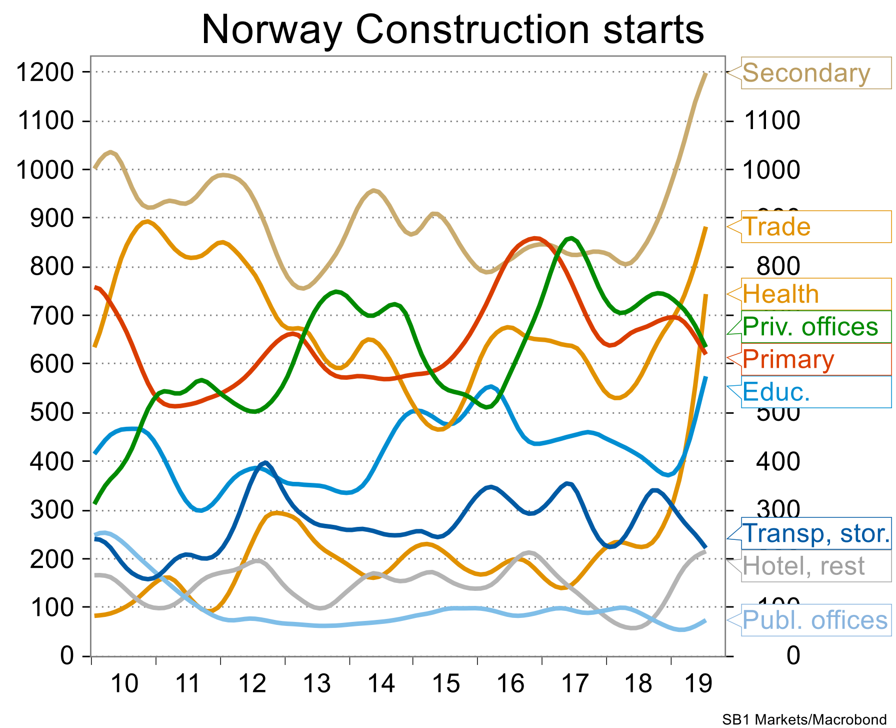


- The cycles among the supercyclicals (Australia, Canada, New Zealand, Norway, Sweden) have been quite closely correlated the past decades. Starts have fallen in both AUS, CAN and SWE the past 2 years (and in Norway before the recent uptick)
- House price and debt inflation are higher and yields are lower in these supercycle countries than other DMs. Because interest rates were cut to more or less the same level as in countries that actually needed a strong monetary stimulus?

Construction ex. housing is surging, back at 2008 peak level

Health, secondary (manuf, electricity +) and retail trade are trending steeply up





- Construction ex housing, garages/cabins is increasing rapidly and is almost back at the 2008 peak!
  - » The upswing is driven partly by the secondary (industry) sector. Electricity supply construction jumped in May and the smoothed rate will come down. The investment survey signals a sharp decrease in construction in manufacturing, and in power supply
  - » The health sector, trade, primary and education are building more too. The upswing in trade is surprising, given the weakness in retail sales (particularly physical sales). Construction within the transport sector is declining, as is primary sectors. Private offices are retreating
- Construction starts of cabins/garages are holding steady, heading slowly down recent months

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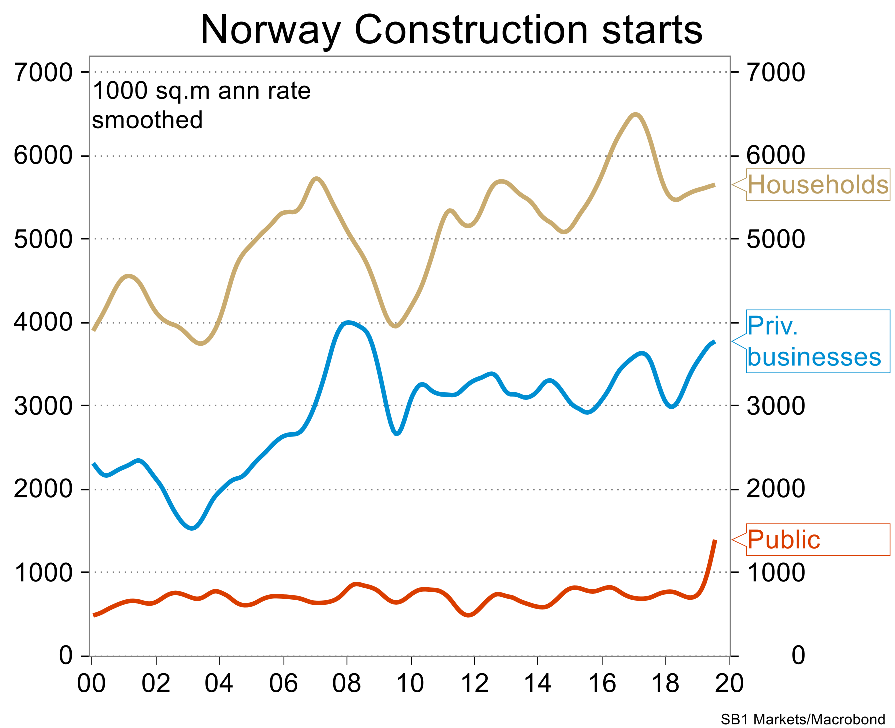
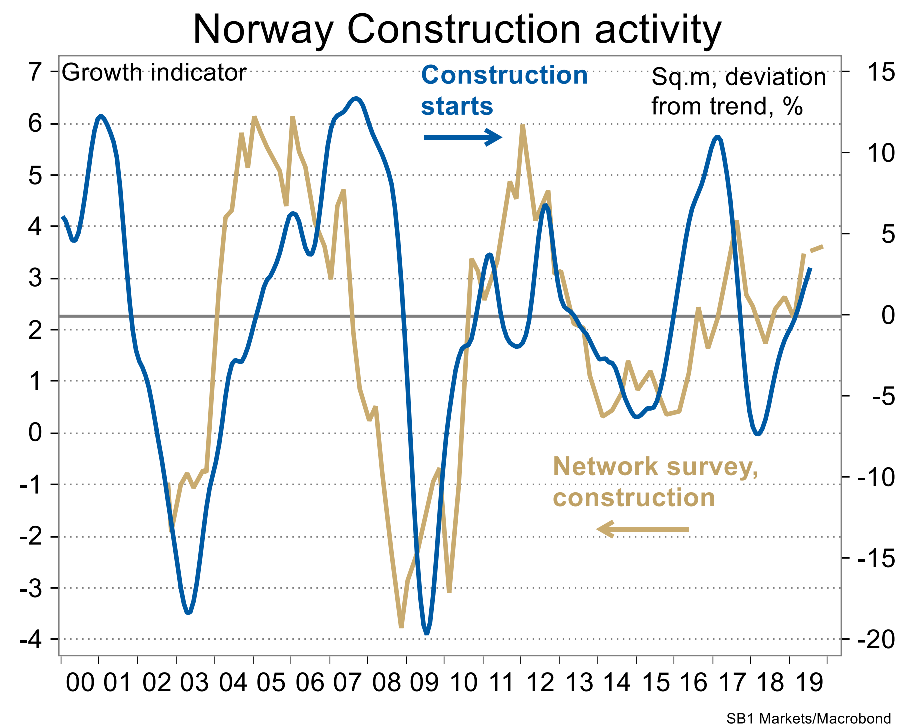
Regional Network expects construction growth slightly above trend

Total construction lifted by business construction, which is rising much more than housing





Public on the chart to the left: Construction starts in public administration, education and health

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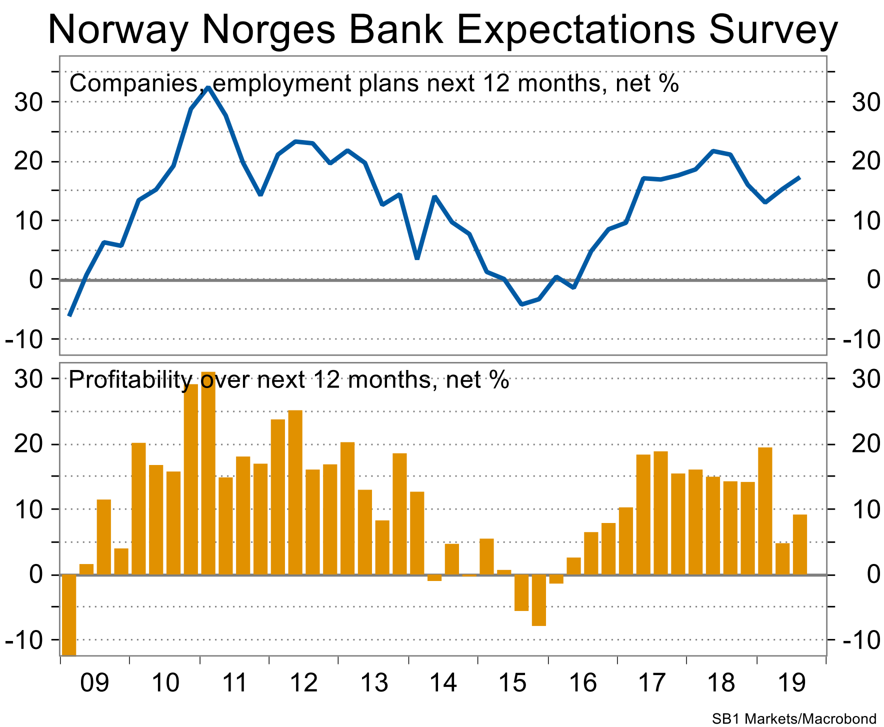
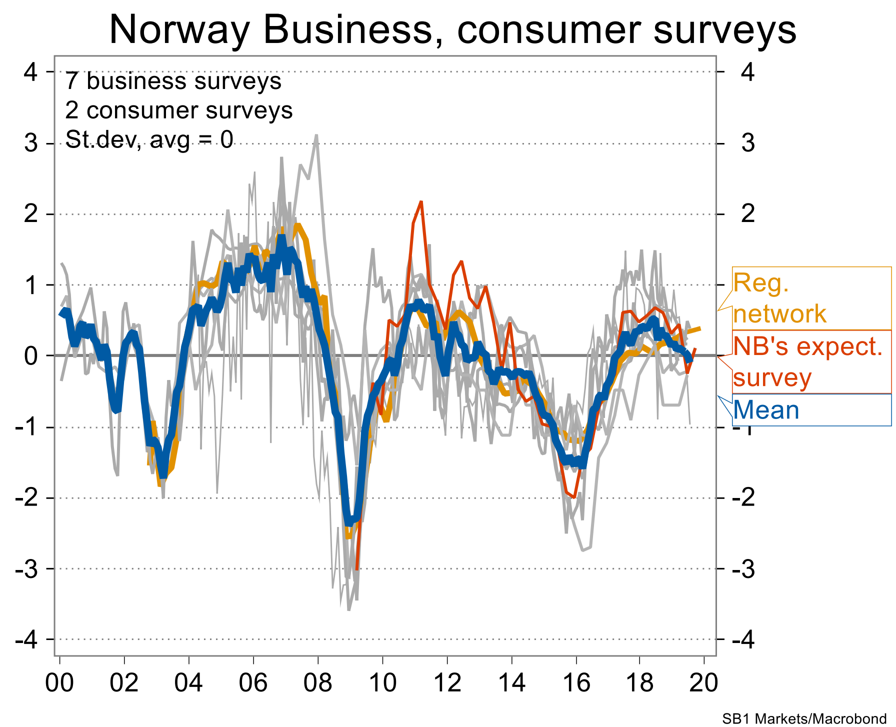
Norges Bank expectations survey improved in Q3, level not impressive

Both profitability expectations and employment plans were raised in Q3, from a soft Q2

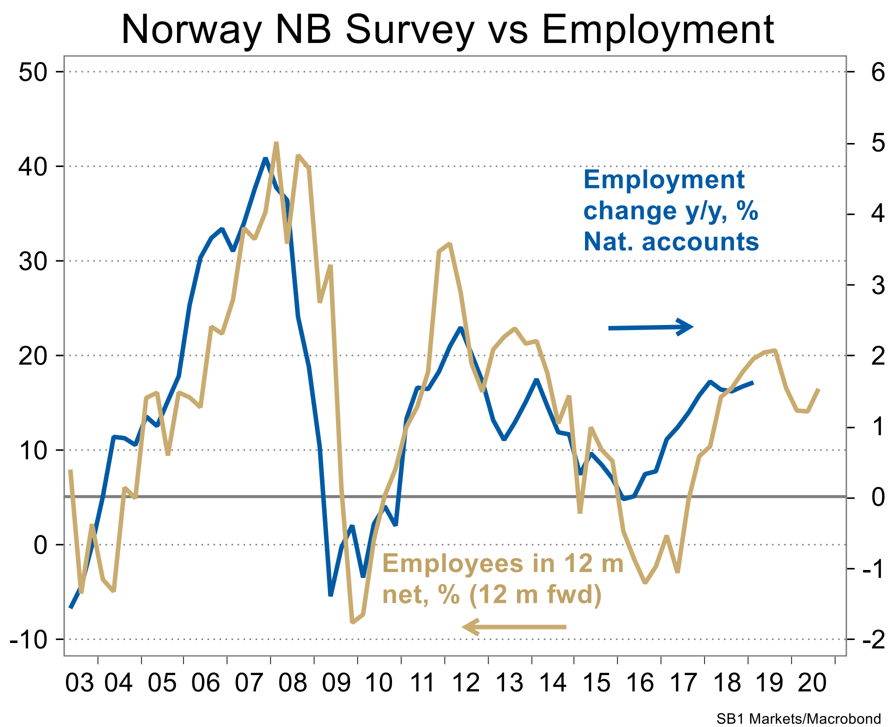


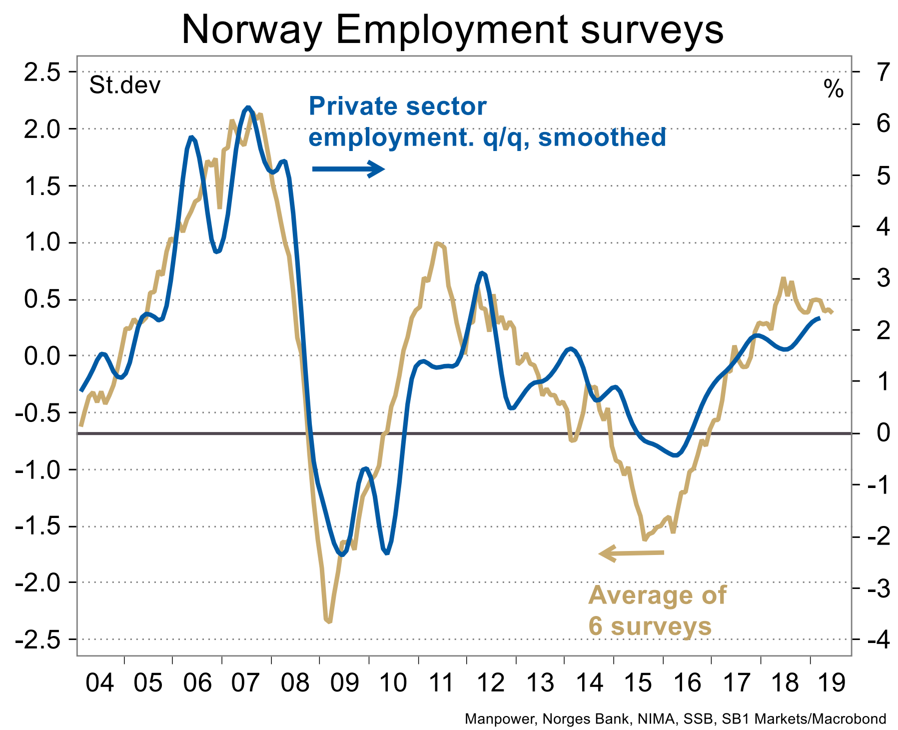


- Norges Bank's expectation survey (not the Bank's Regional Network survey) picked up in Q3 after a soft Q2, measured by the sum of employment plans and profitability expectations. Still, the 'composite' index is just marginally above the average level, weaker than most other Norwegian business surveys (ex the PMI, which is not reliable in July)
- Expectations of businesses' profitability the next 12 months improved but remain below a normal level. Employment plans ticked up and is pointing to steady growth in employment, at some 1.5%

Employment plans edged up in Q3, points to steady growth?

The survey is pointing to some 1.5% growth, close to Nat. Acc. n Q1. Other surveys more upbeat

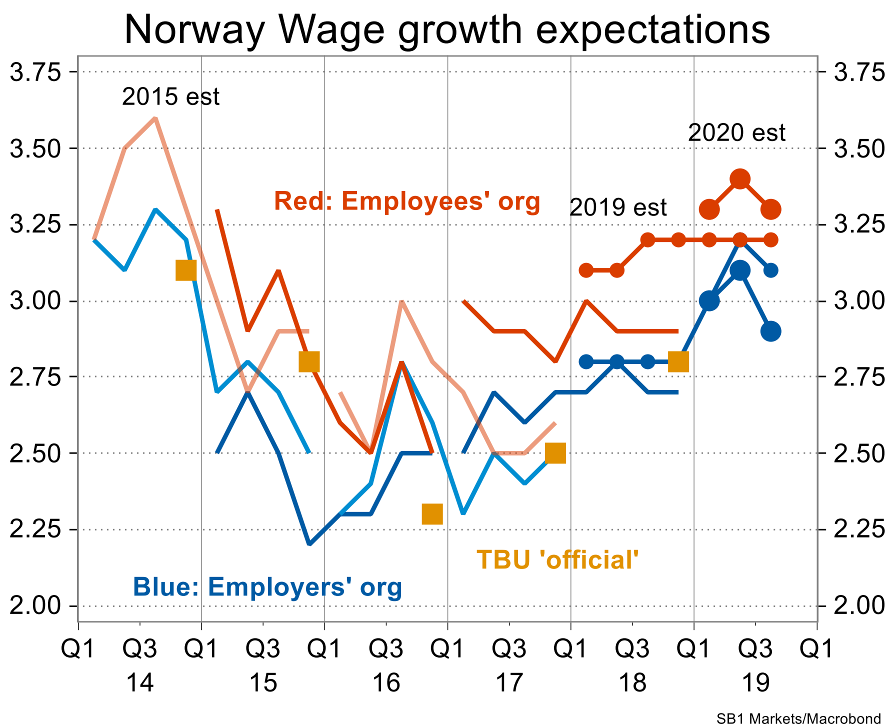




- Other employment surveys are more upbeat, an avg of 5 surveys (SSB, Manpower, Norges Bank Regional Network, NB exp. survey, the PMI) indicates approx. 2% growth but even this average come down trough last year

Wage expectations came down in Q3, still at 3%+

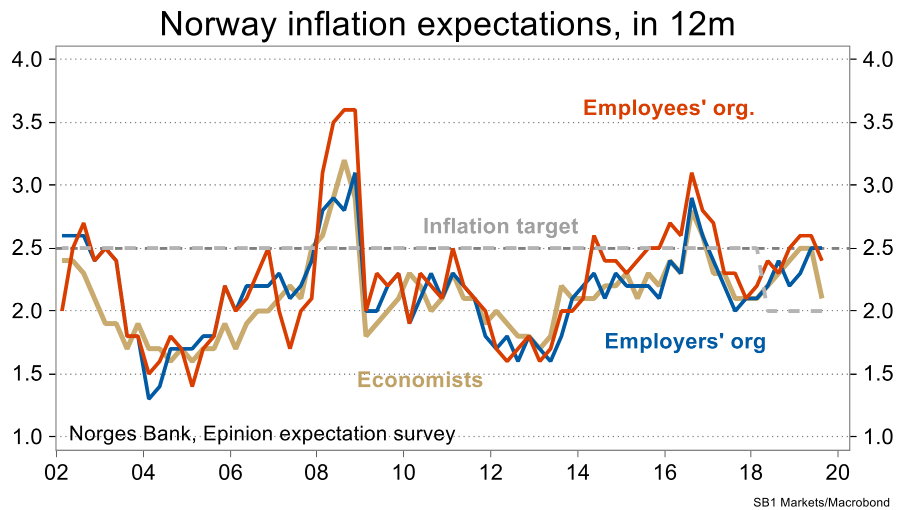
Employees' organisation are expecting 3.2% growth in '19, just 0.1 pp above the employers' org.

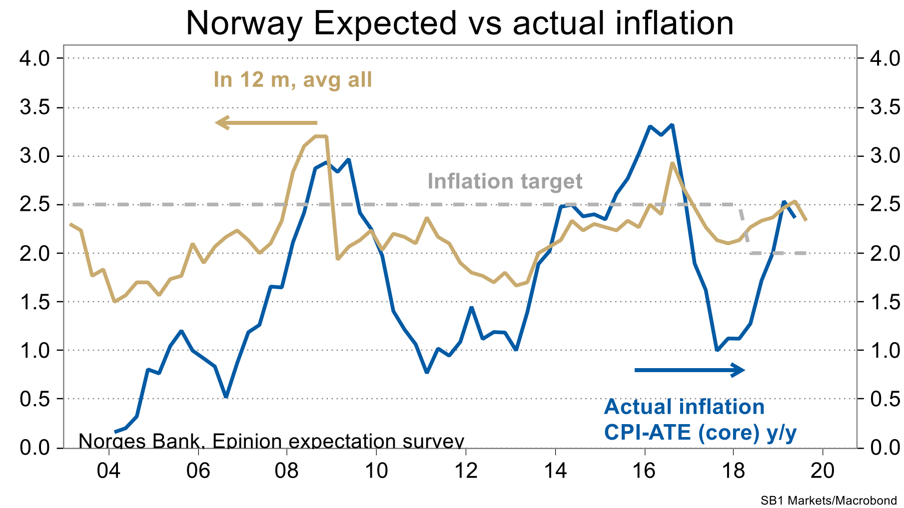


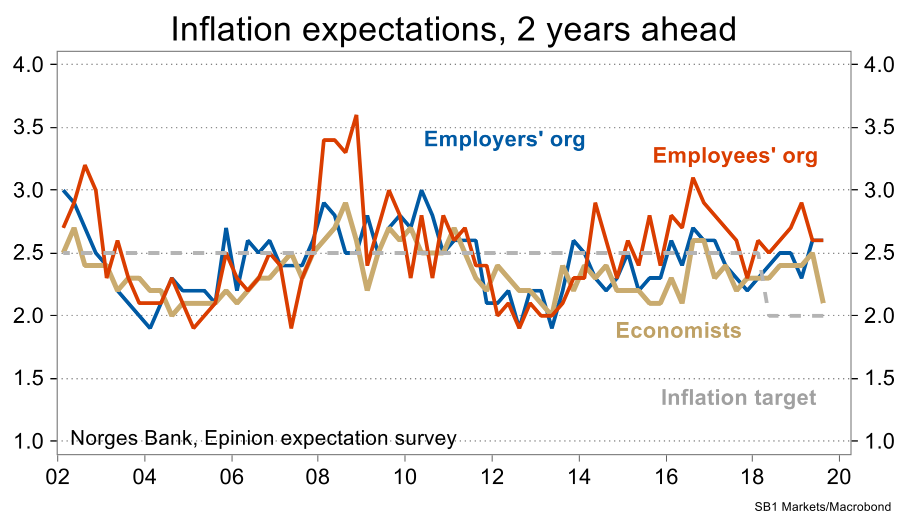
- **2018:** Wages rose 2.8%, according to the 'official' TBU estimate
- **2019:** The employee's organisation is expecting a 3.2% wage growth, unchanged since late 2018. The employer's organizations are expecting marginally lower growth, at 3.1%, down from 3.2% in Q2
  - » A 3.1% growth rate should be within reach?
  - » In general, employees' org expects higher wage growth than their peers at the employer side
- **2020:** Forecasts were nudged down in Q3. The employees' organisations reduced the estimate by 0.1 pp to 3.3%, while the employers' organisations believe in less than 3% growth (at 2.9% in Q3, down from 3.1%)

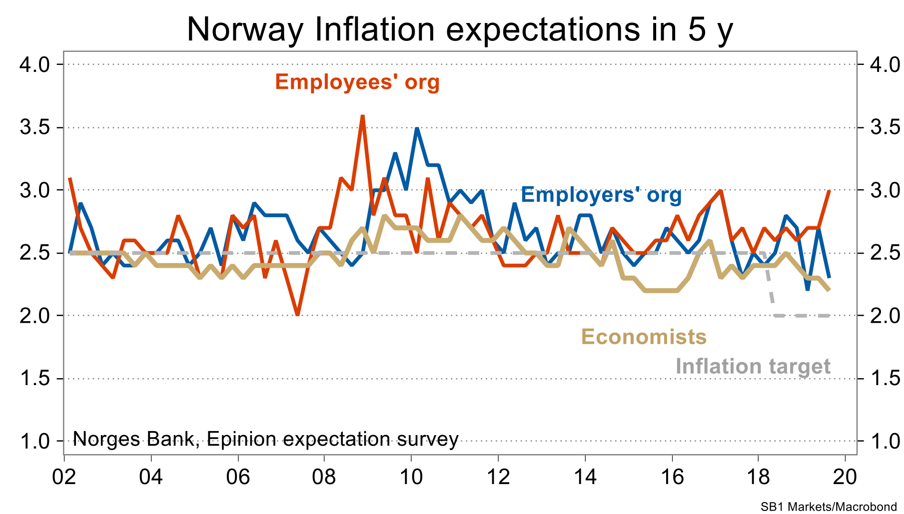
Inflation expectations are approaching the 'new' 2% target?

.. Well, at least among economists. The others are still expecting 2.6% in 2 years time. Strange



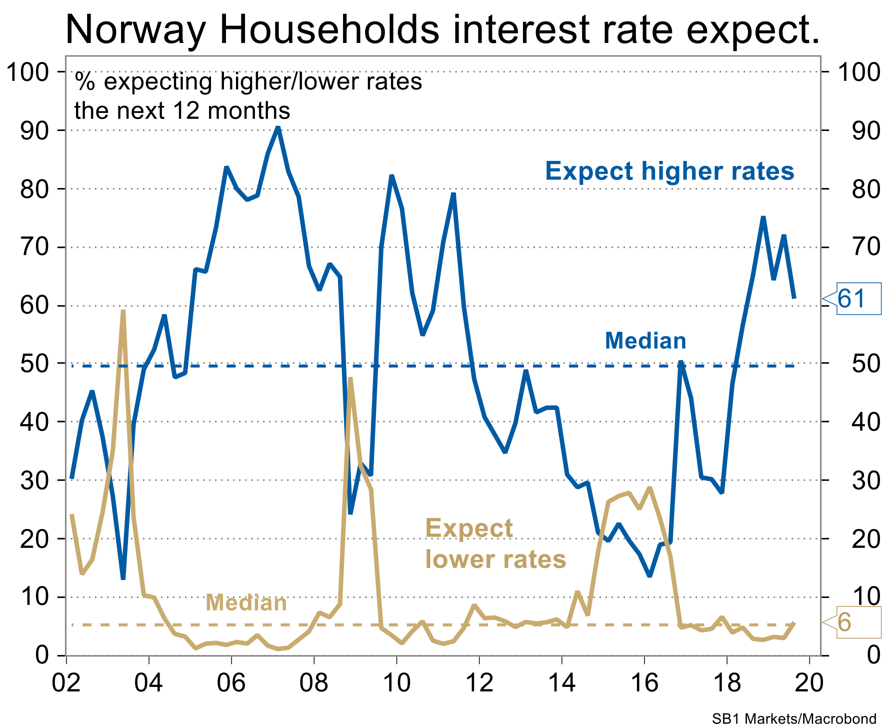






Most households are still expecting higher interest rates

61% of respondents are expecting higher rates, down from 73% in Q2. Just 6% expect lower



Highlights

The world around us

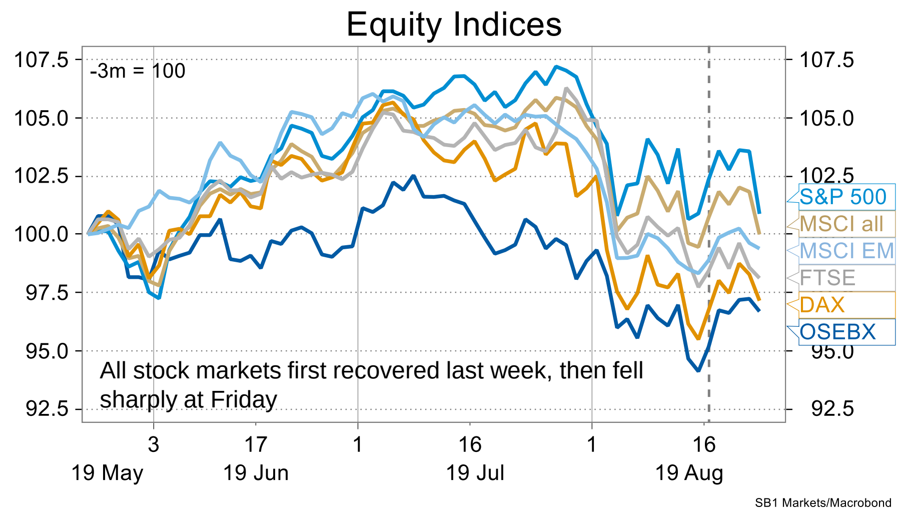
The Norwegian economy

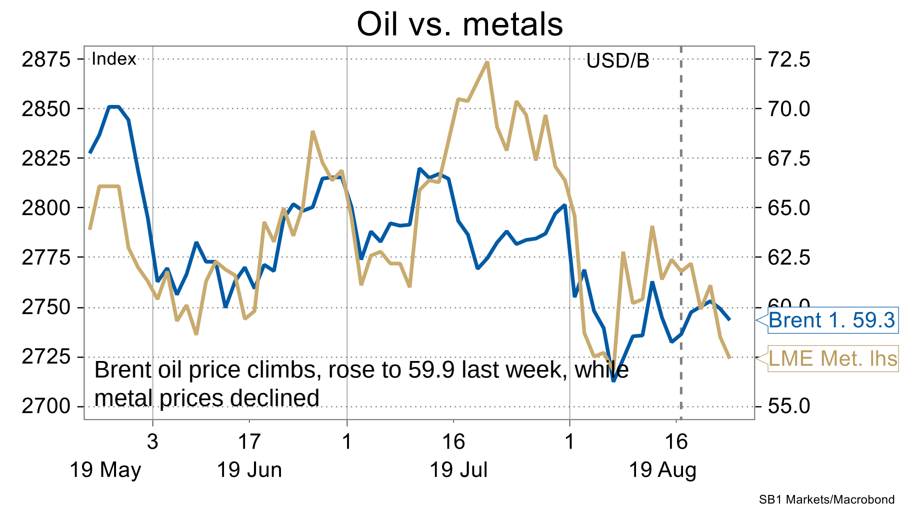
Market charts & comments

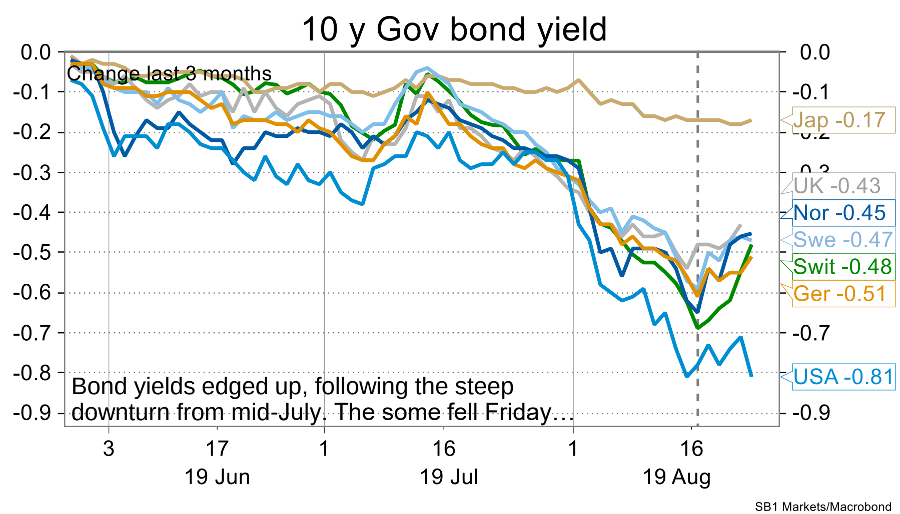
SpareBank 1 MARKETS

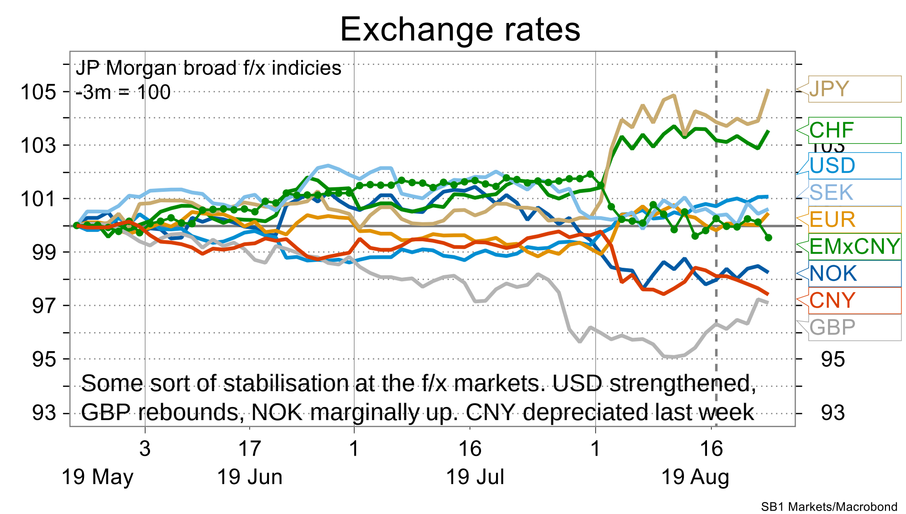
The US stock market fell the most Friday – as it closed later than the others

Both stock markets and bond yields were in recovery mood until the trade war escalated, Trump tweeted









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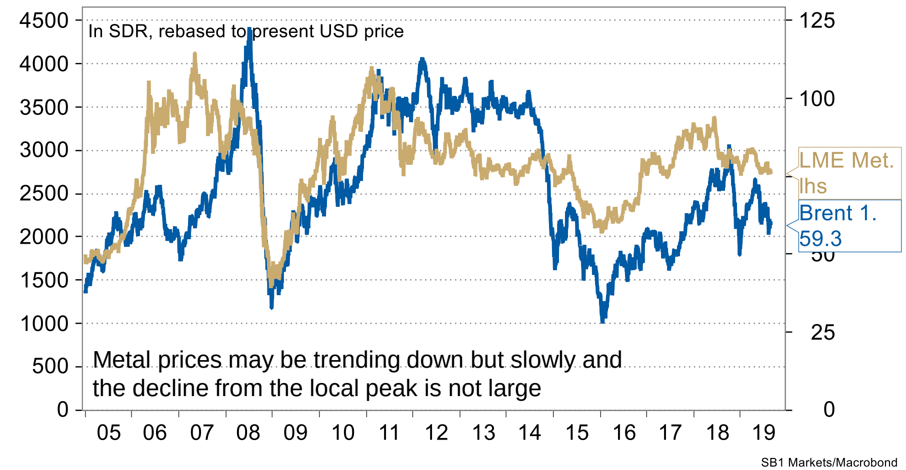
German bunds to a new ATL at -0.58%, S&P down some 4% from peak

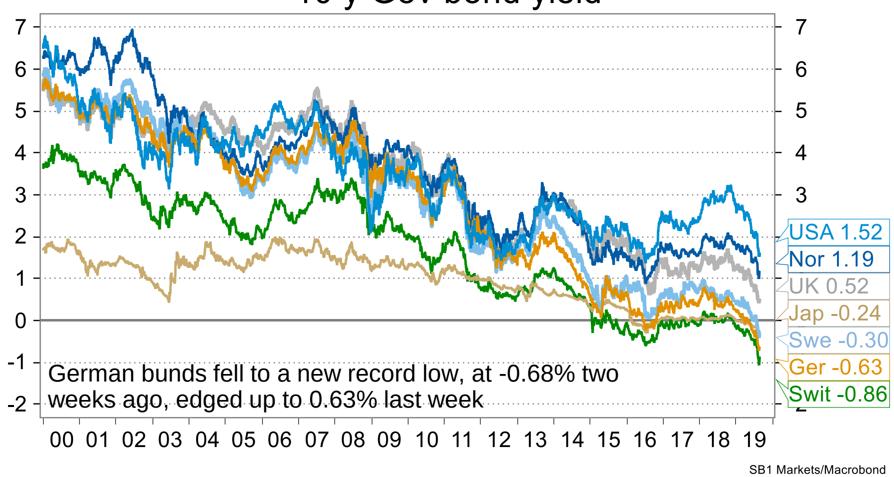
The trade war rules. And then some economic data

Equity Indices

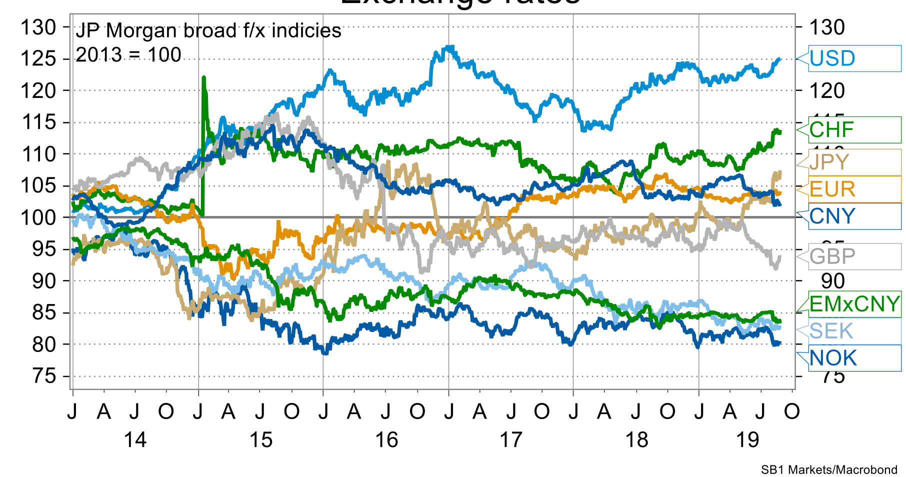
Oil vs. metals



10 y Gov bond yield

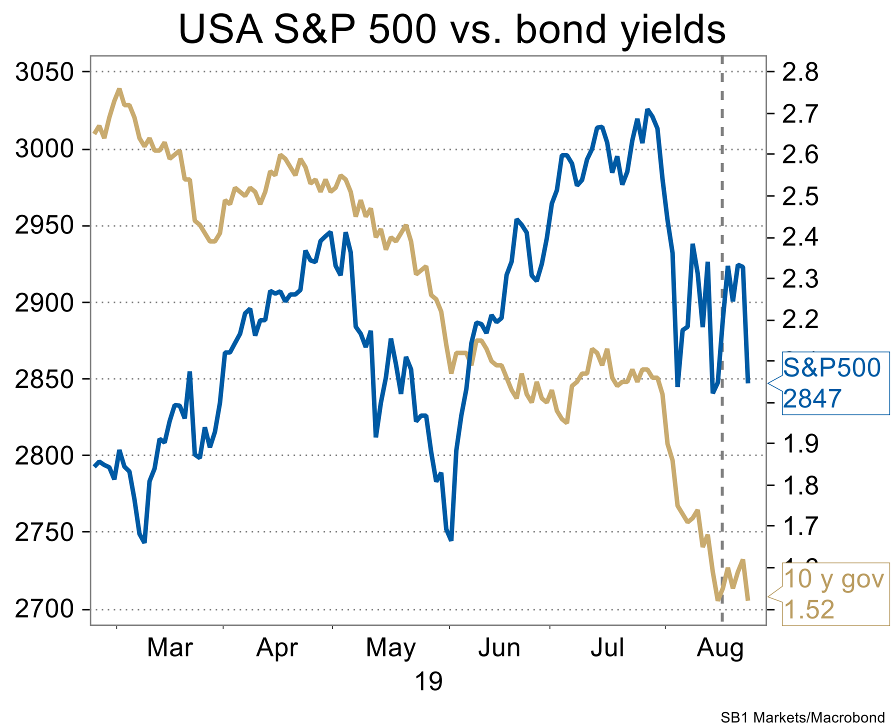


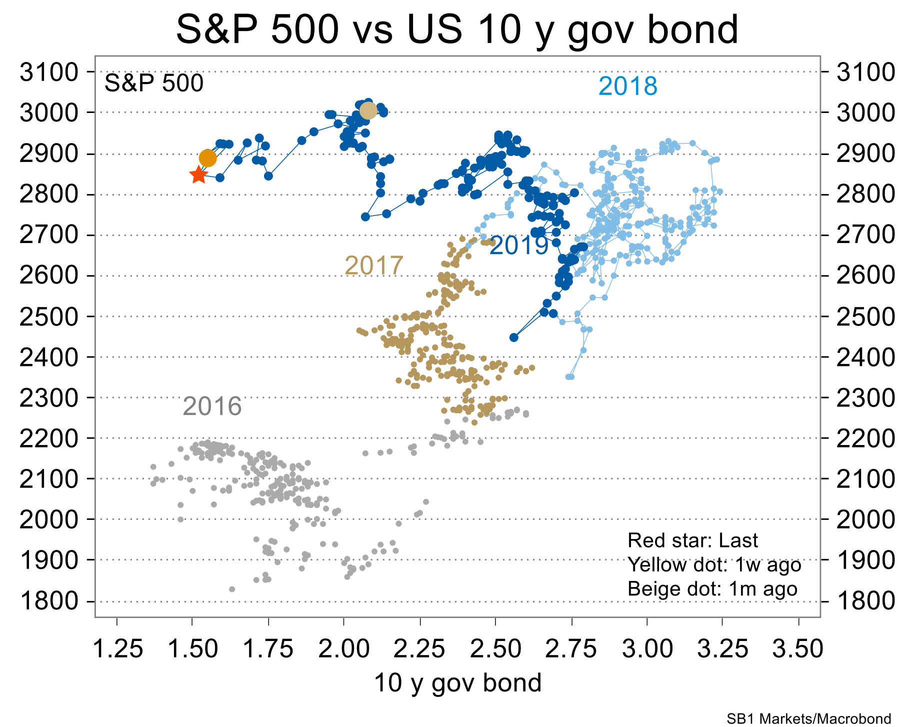
Exchange rates



US: Stocks and bond yields sharply down Friday, as the trade war escalated

Powell did not create the angst, someone else did it (again)

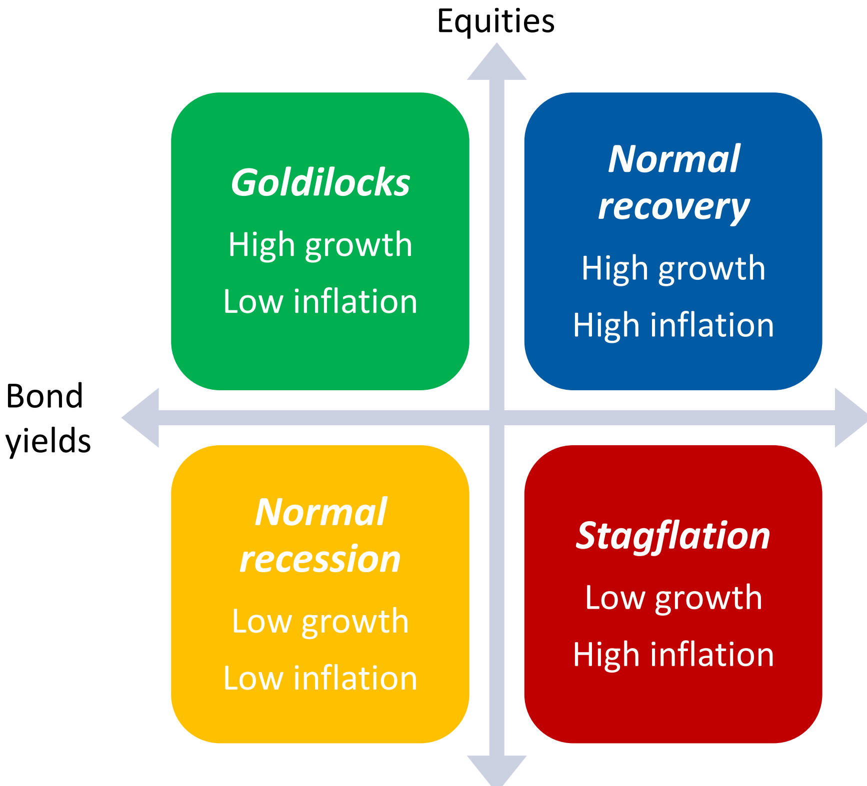


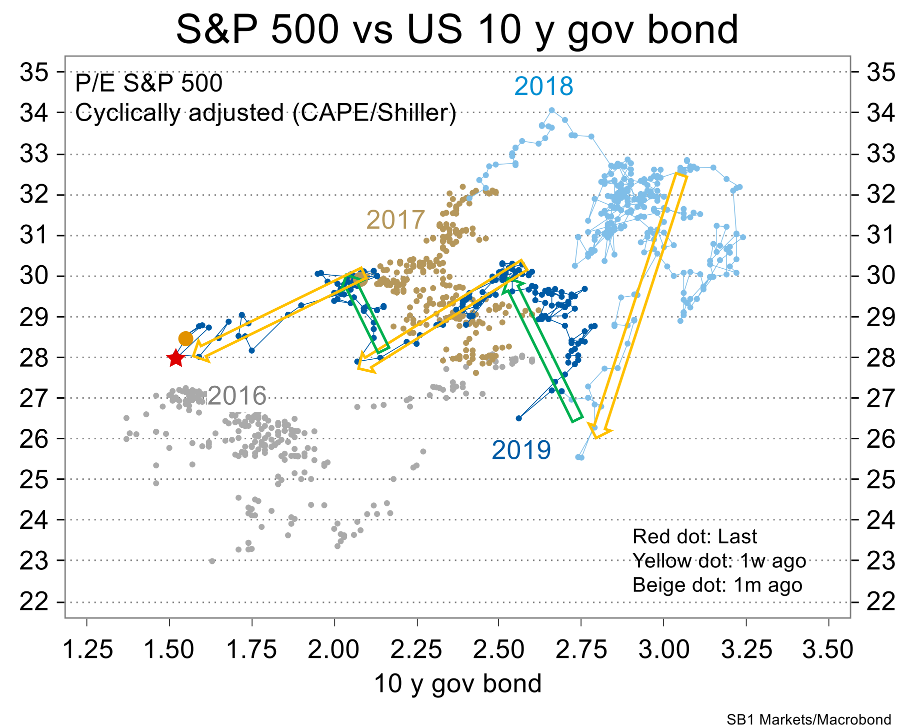


- Bond yields first stabilized last week, the fell sharply Friday
- Stock markets first gained too, then fell sharply Friday
- Trade war angst, and an erratic President, and not hawkish signal from Powell in Jackson Hole to blame
- For more on the relation between stocks and bonds, check next page

US markets were moving towards the recession corner, to ‘recovery’ last week

That is, until Friday and the escalation of the trade war and Trump’s tweet storm





- 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. In July, the market fluctuated mostly along the normal recession/normal recovery axis.
- So far in August, markets have moved towards the recession corner following the bad trade policy news.
- We still do not think the ‘Goldilocks’ scenario is likely. If yields decline substantially form here, it will be due to really weak economic news, which will not be good news for the equity markets. We are not that worried for the ‘Stagflation’ corner either; a take off in inflation will happen only if central banks make serious policy mistakes, over time. Trump wants the Fed to do just that but we doubt he will succeed. So, the normal recession/recovery axis is the most likely – and now we are heading towards the recession corner

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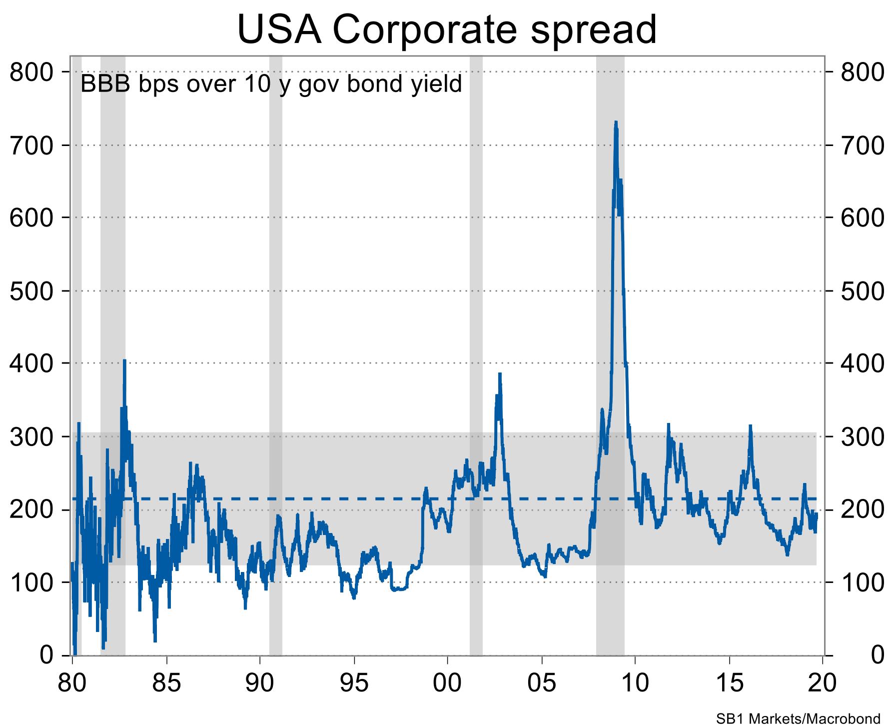
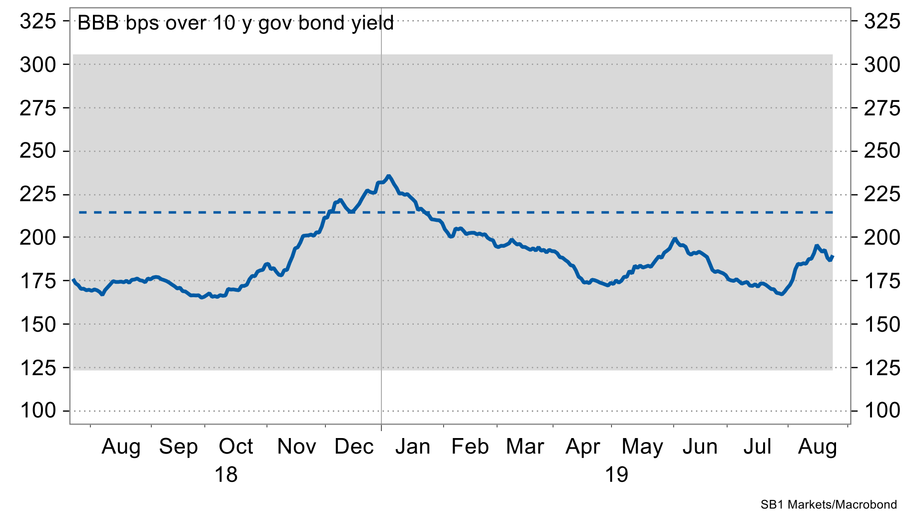
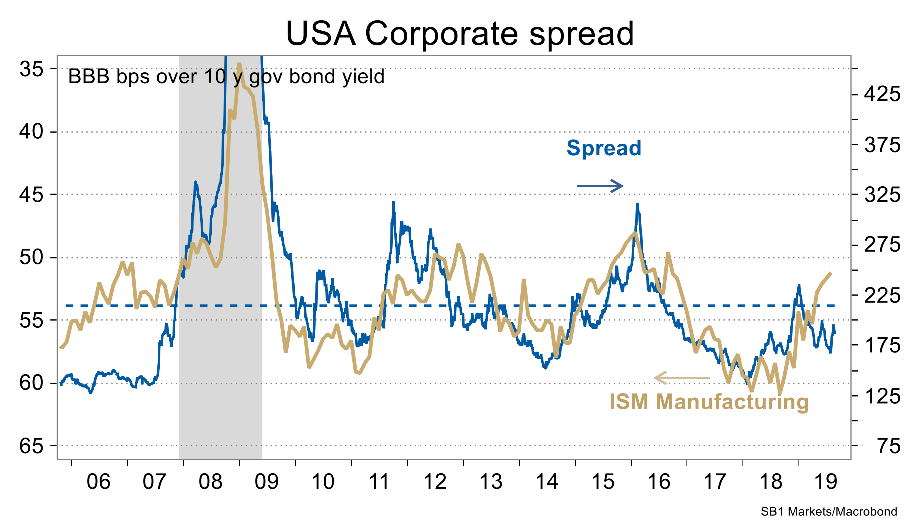
Credit spreads came in last week, are ‘too’ low given the current ISM level

Spreads are too low if the ISM and (most) other surveys are correct; if growth is slowing

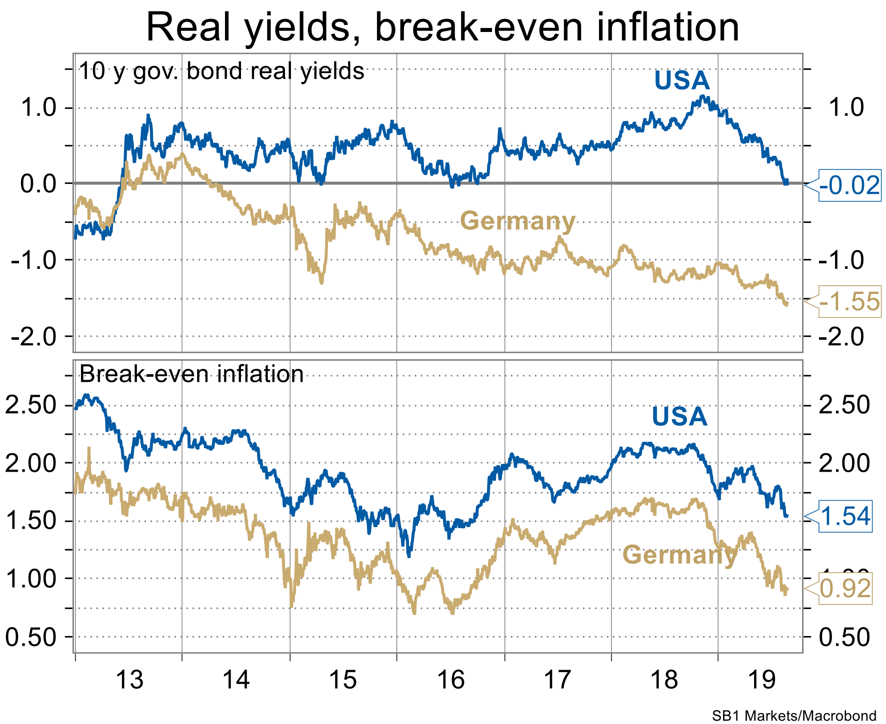


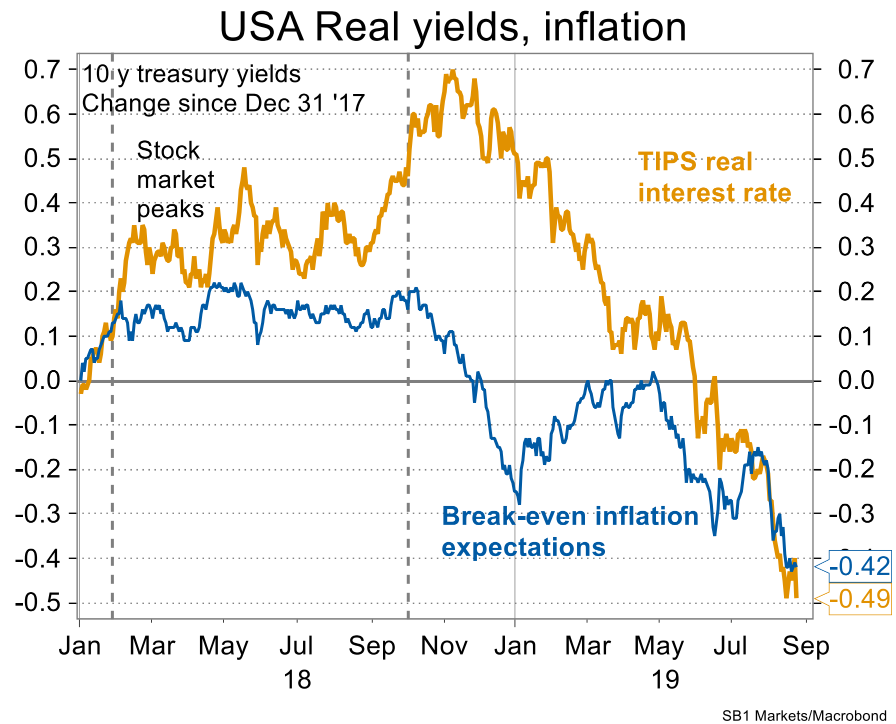




Real rates, inflation expectations, term premiums, have all tumbled

... and all fell further last week





- German real rates record low, US the lowest in three years

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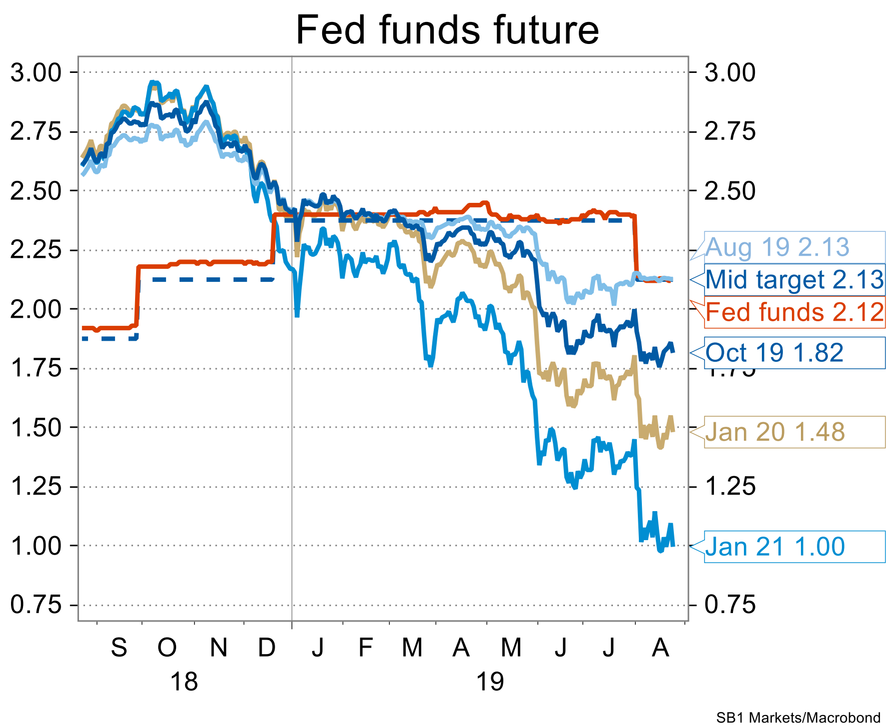
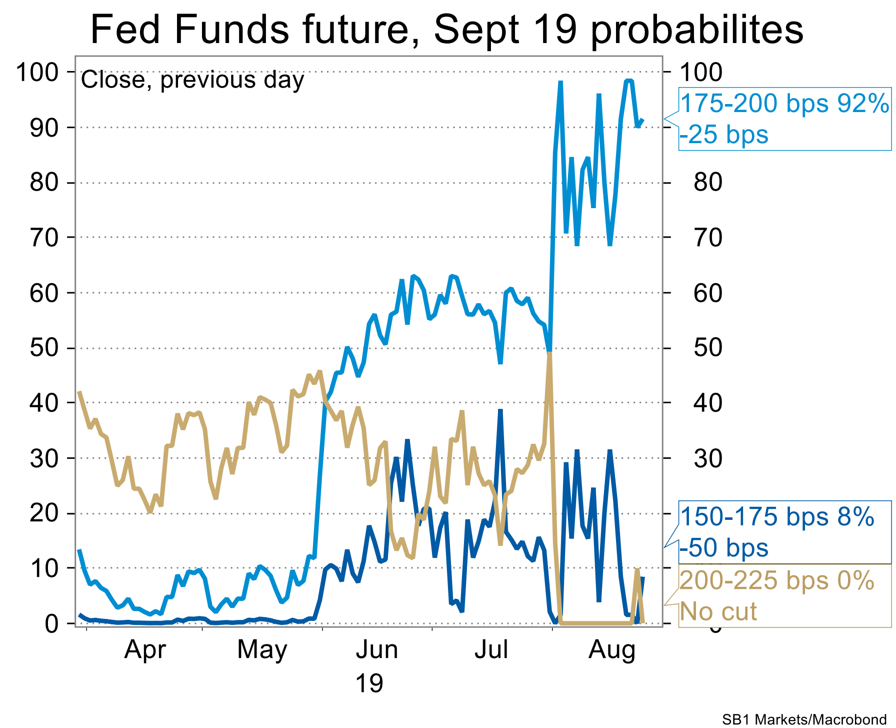
Fed fund futures edge up, markets are considering a 50 bps cut in Sept

A Sept cut is fully priced, the probability of 50 bps cut is back at 30%, everyone else expect 25 bps





- The trade war escalation and growth concerns, triggered by the yields curve inversion, took the Fed fund futures steeply down. Last week, the FRAs were rebounding, by 12 bps in the bottom of the curve before retreating somewhat Friday due to the escalation of the trade war (we doubt Powell's speech in Jackson Hole may have contributed too but that's hard to judge due to Trumps twitter storm at the same time.
- The implied probability of a Sept cut was reduced through last week. After close on Friday, the probability of a 50 bps cut rose to 30%, everyone else expect 25 bps. Market is pricing in 2½ cuts before Jan.
- US growth has slowed slightly but it is still above or at trend. 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. <u>The economy is not justifying another interest rate cut in Sept, but another 'precautionary' 25 bps cut is very likely to be delivered, as Powell indicated at Jackson Hole</u>

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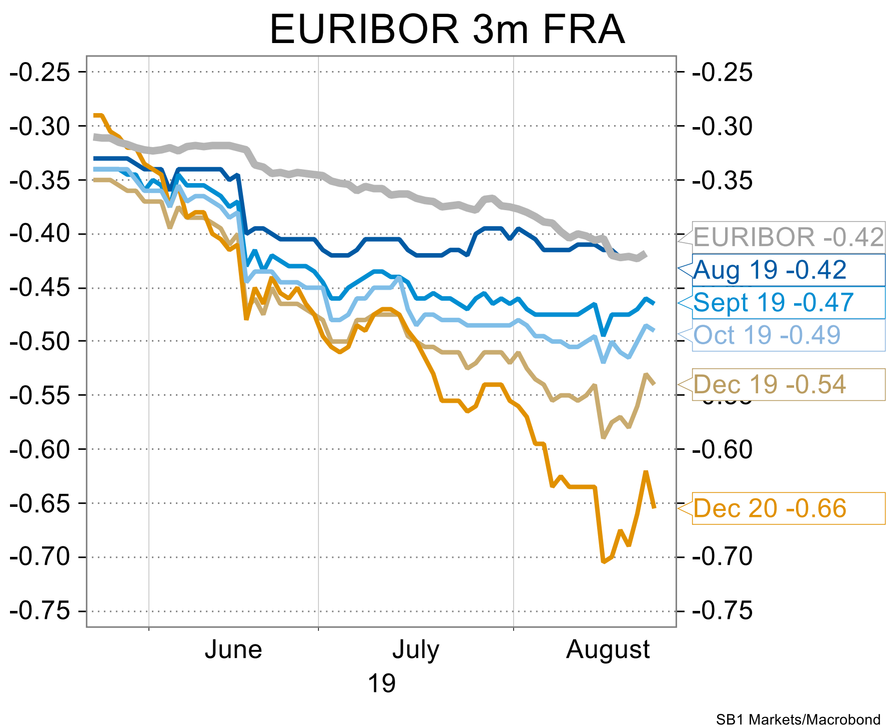
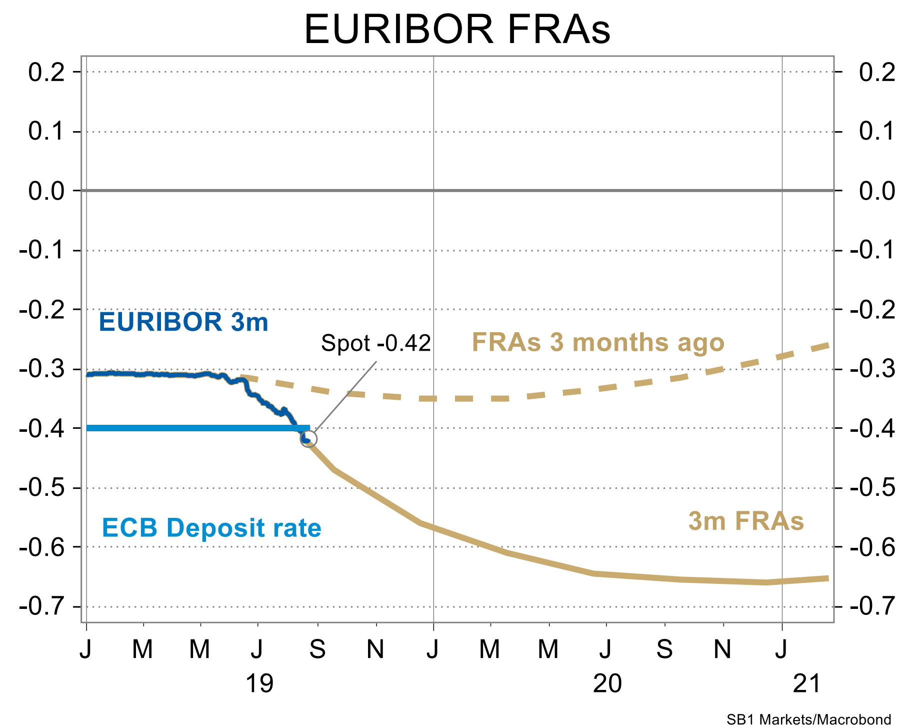
The EUR curve recovers but a Sept is still widely expected

The market is pricing some 80% probability of a 10 bps cut in Sept and zero for 20 bps (from 80%!)





- In July, the ECB hinted of a more accommodative monetary policy, if the economic/inflation outlook did not strengthen. Two weeks ago, board member Olli Rehn said that bank was prepared to cut rates and introduce aggressive QE measures
  - » Last week, the German finance minister suggested that massive fiscal stimulus would be imposed, if necessary (50 billion EUR, he said)
- The market is pricing some 80% probability for a cut at the September meeting, and the probability of 20 bps is now reduced to zero (from 80% last week!). Some 20% of no cut, which we regard as rather unlikely
- Unlike in the US, a more expansive monetary stance can be justified by weak data and muted inflation

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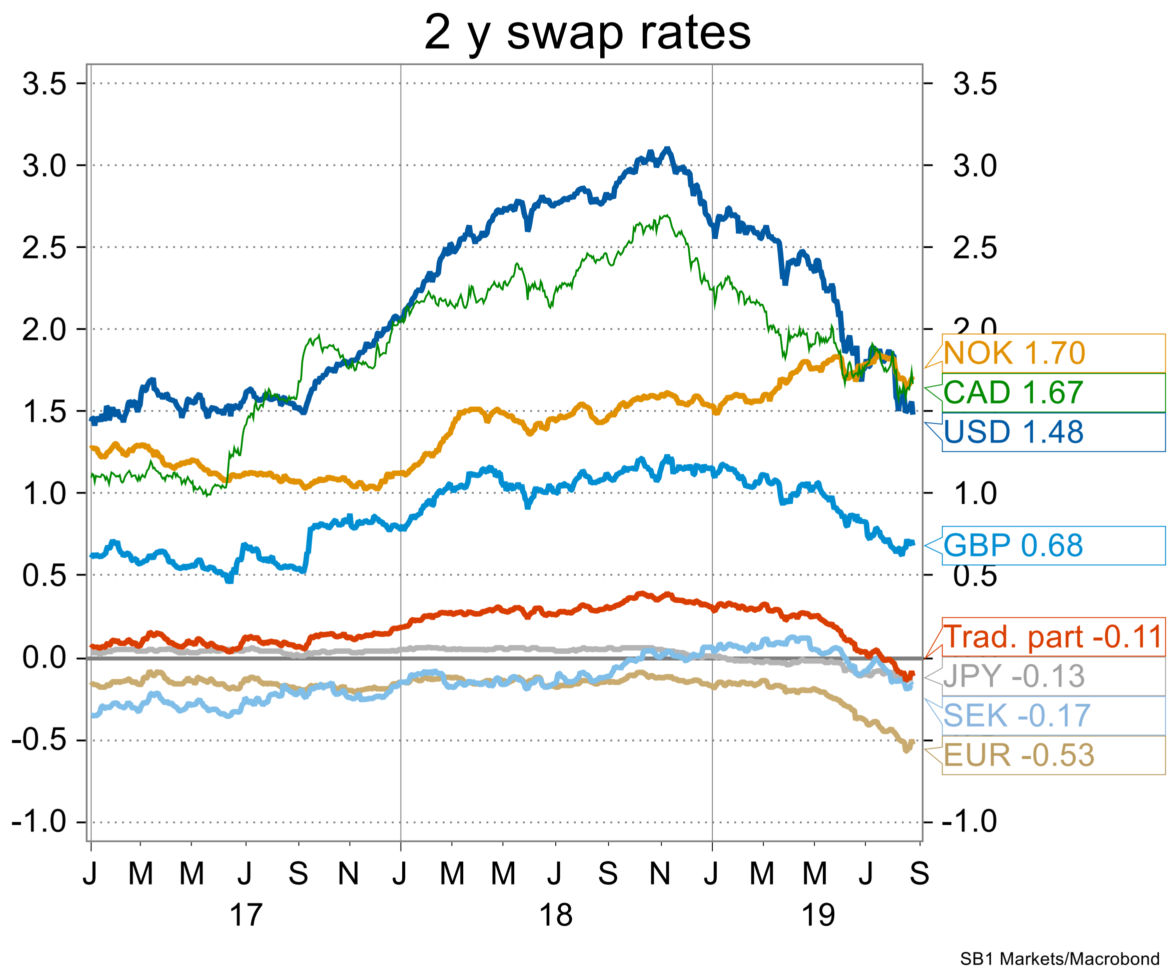
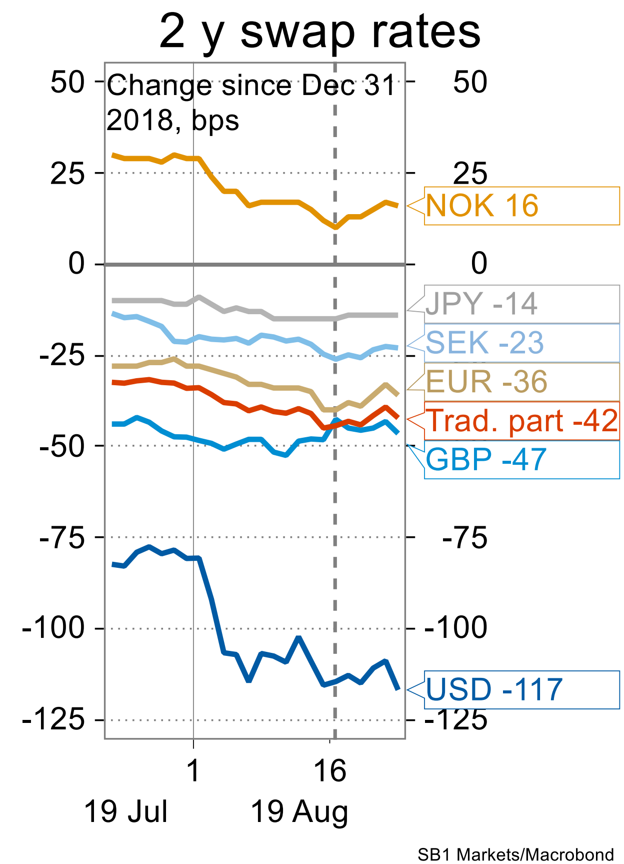
Short term rates mixed last week, mostly up

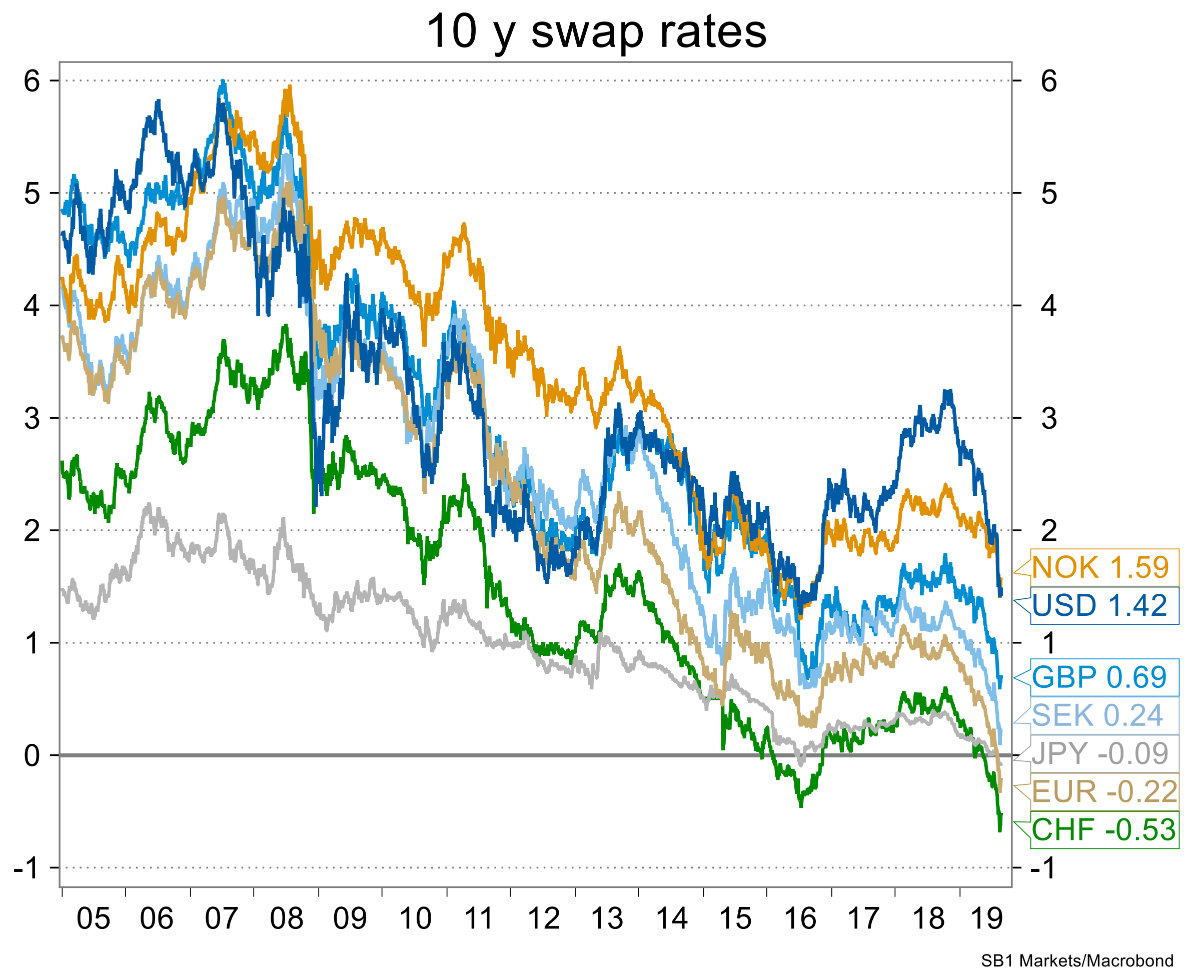
Short term rates everywhere have followed the US down after the trade war escalation on Aug 1

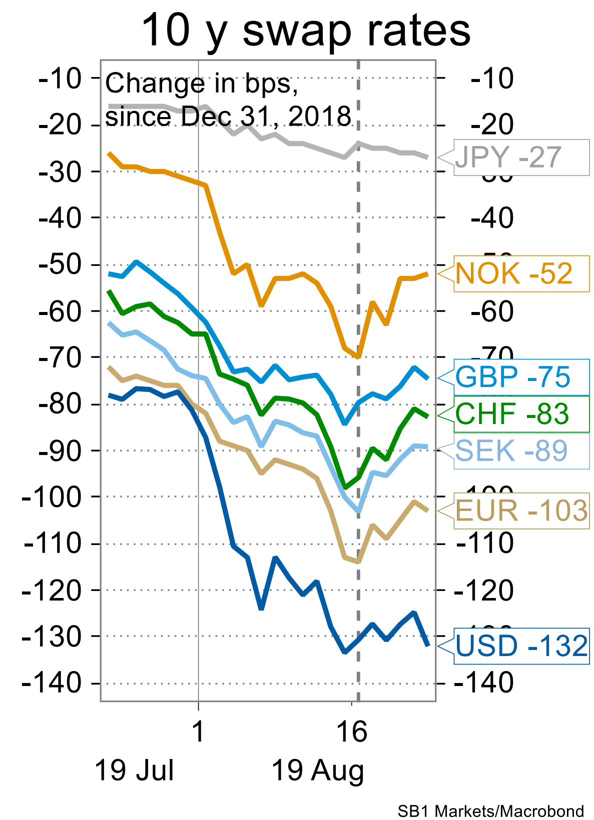




Long term swap rates have nosedived everywhere

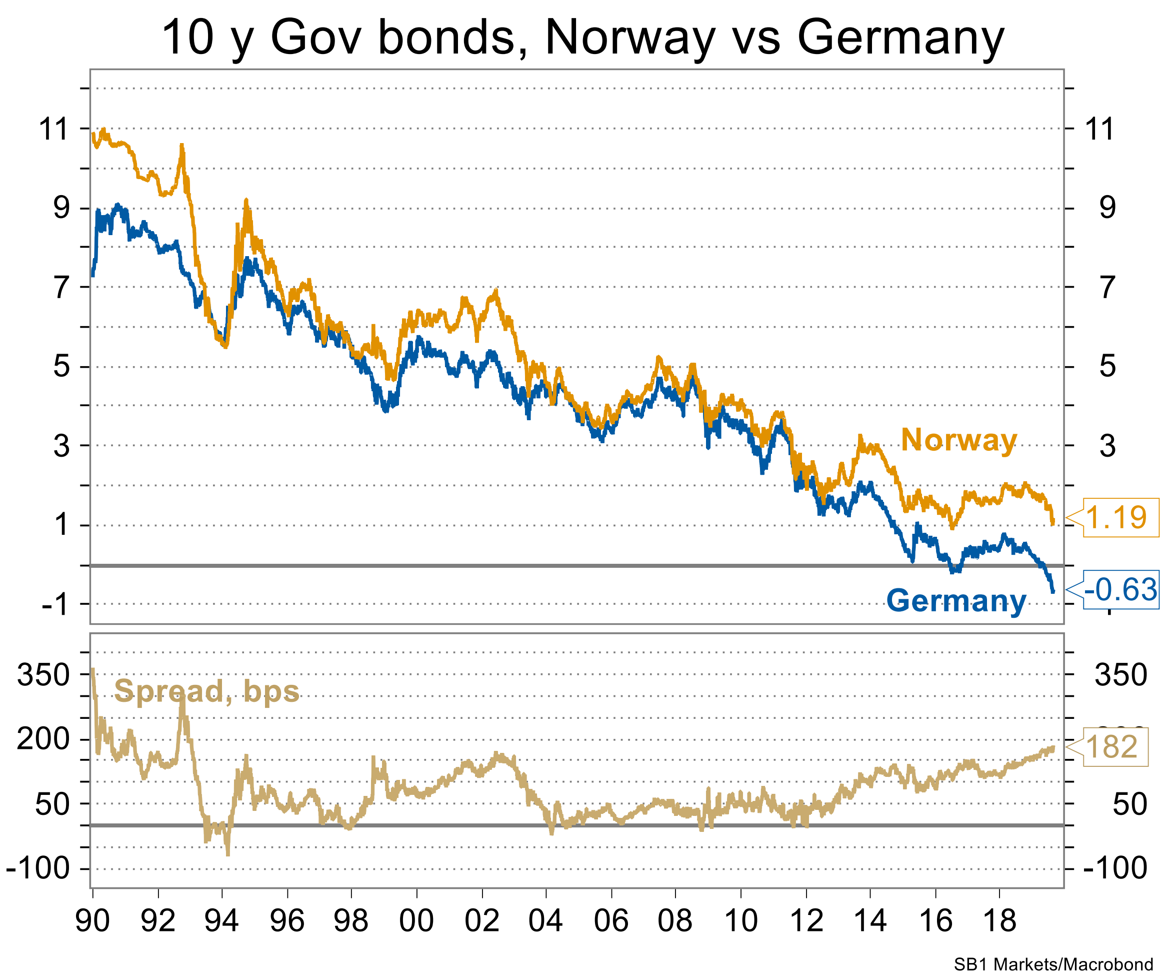
A soft recovery last week and EUR rates rose more than USD, hints of German fiscal stimulus helped

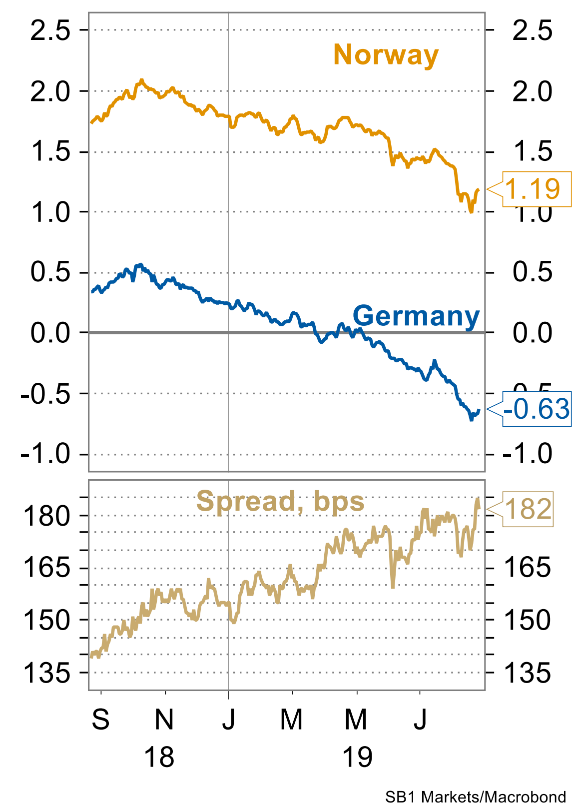




NOK 10 y gov recovered more than German bund, highest spread since ’93!

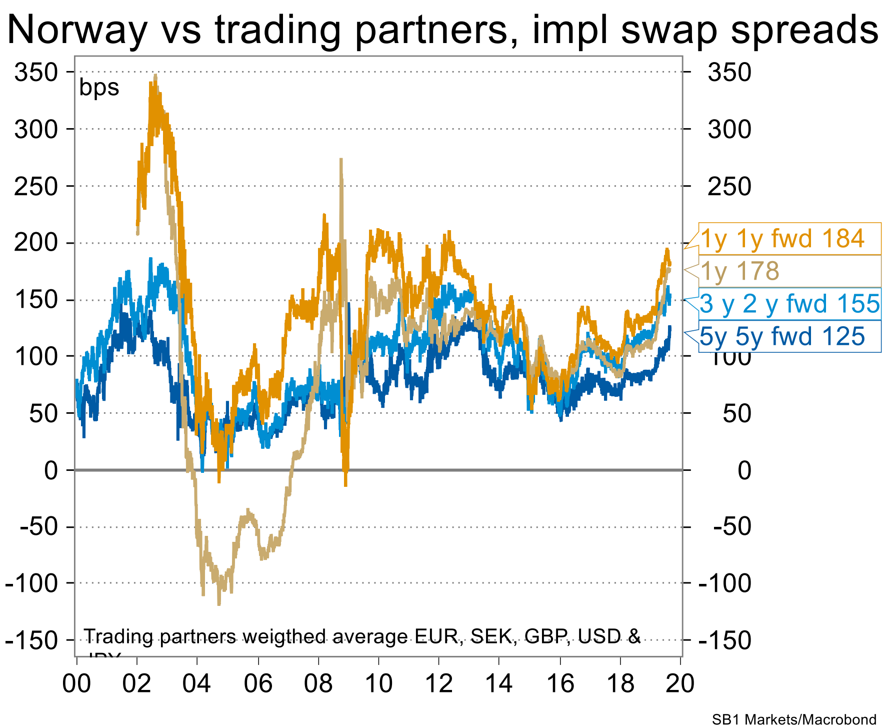
NO 10 y gov up 19 bps last week while the German bund rose 10 bps, spread widened to 185 bps!

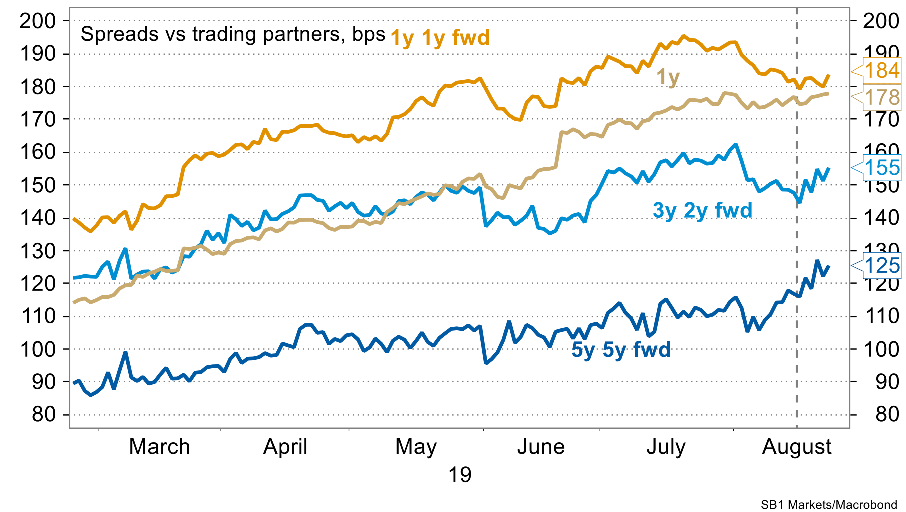


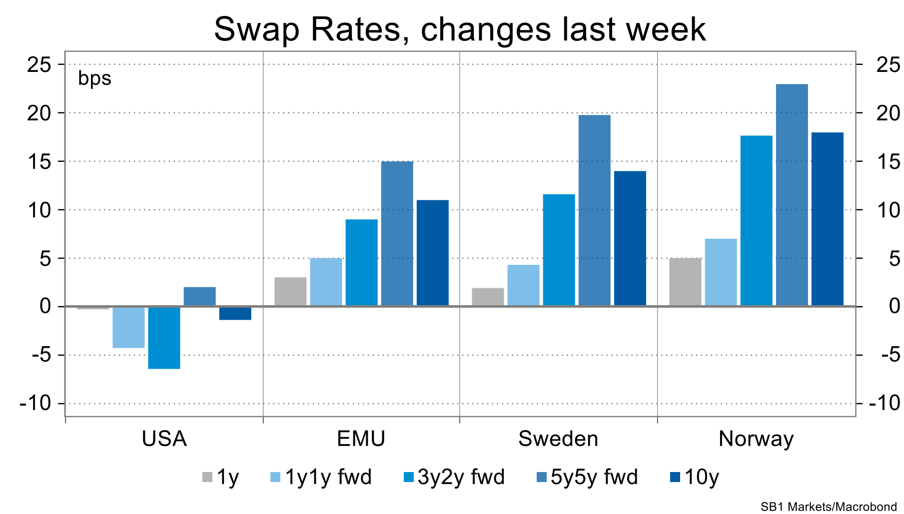


Spread vs trading partners narrows in the short end, widens in the long end

The spread is widening steeply in the long end of the curve, strange (and it is too high, long term!)







- Swap spreads between NOK rates and our trading partners have been narrowing in the short term since mid-July, as NOK rates have fallen more than others – but not further last week
- 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, which rose further last week. <u>It must bee ‘too’ high?</u>

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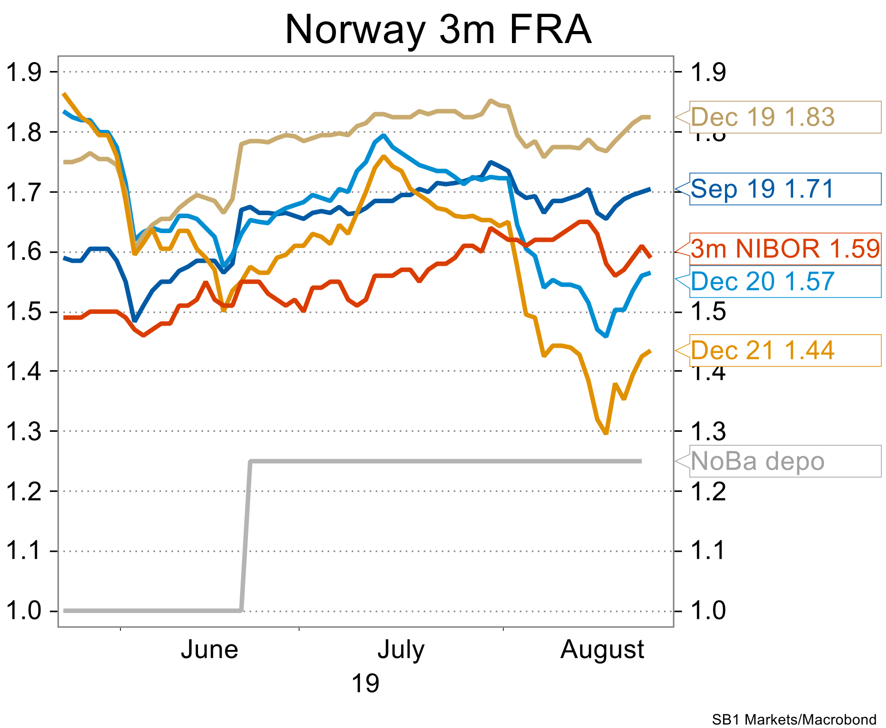
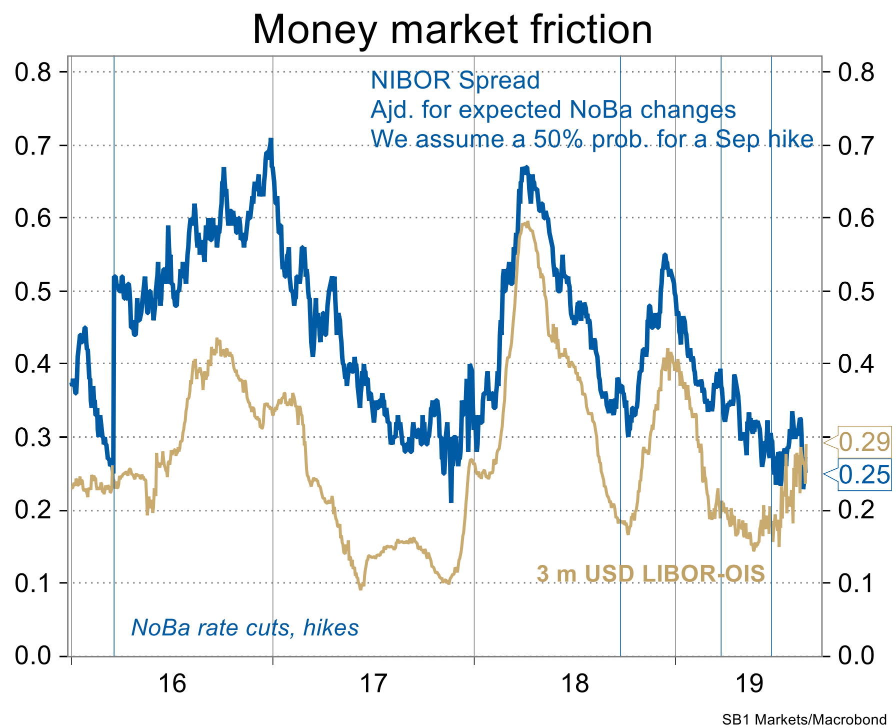
FRAs are climbing, Sept contract implies some 50% probability of a hike

Strange movements in the 3m NIBOR, 11 bps below the Sept FRA, liquidity effects?

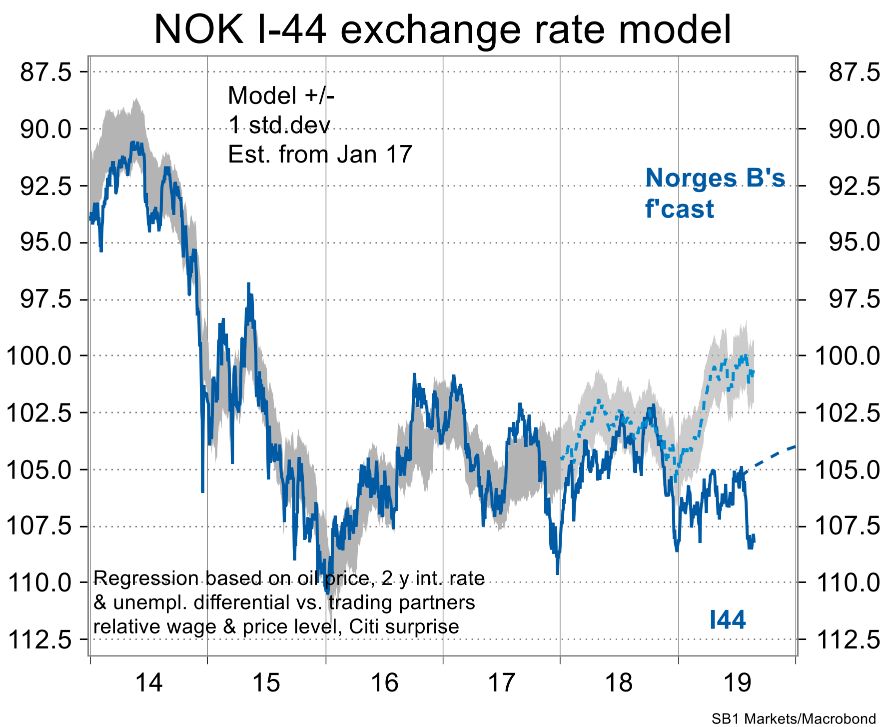


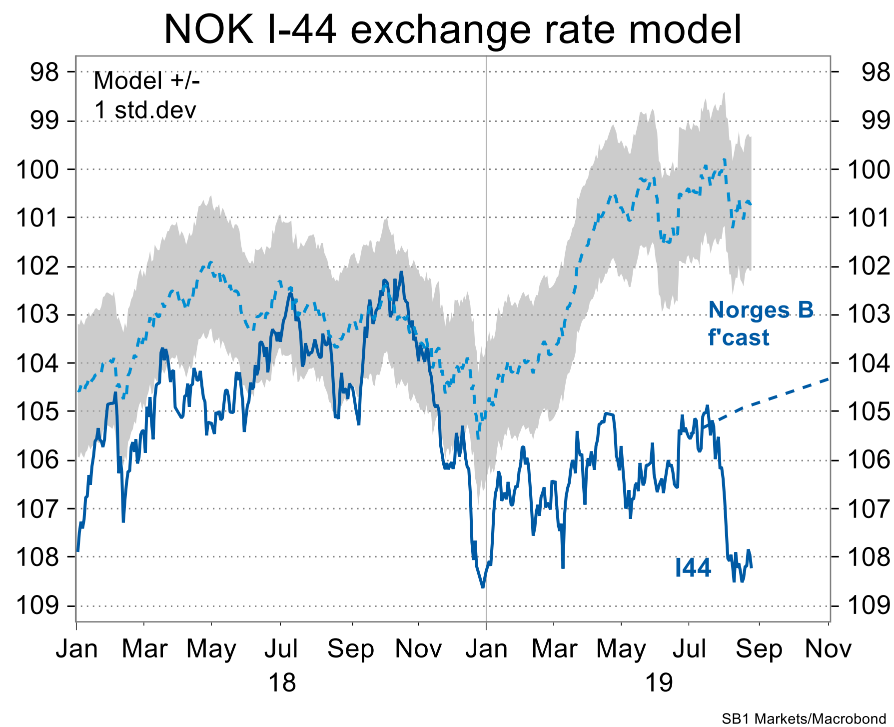


- Last week, we expected the difference between the 3m NIBOR, and the SEP 3m FRA contract to narrow as the differential was far too high (implying a very low NIBOR before Sept 19 and a high rate thereafter, more than a 100% probability for a NoBa sept hike could explain.
- Well, the difference widened, by 4 bps to 11 bps, even if the spread should narrow just due to the impact of the calendar; the two rate will be equal in less than one month
- The Sept 3 m FRA at 1.71% implies a 44% probability of a NoBa hike in September given a 35 bps money market spread, or a 64% probability if the spread is flat at 30 bps from June. The LIBOR-OIS spread has widened recently, signalling a higher NIBOR spread too. However, a 3m NIBOR, stretching more than 2 months into the Sept FRA, signals a much lower spread
  - » The market is pricing a hike by the end of the year by close to 100% (depending on the spread expectation). From Dec 19 and onwards, the curve is inverted. The market expects a Norges Bank cut in 2020. In June, NoBa planned (almost) one more hike in ‘20

NOK up 0.2%, helped by the oil price. Still more than 7% gap to the f/x model

NOK remains unusually weak vs the model

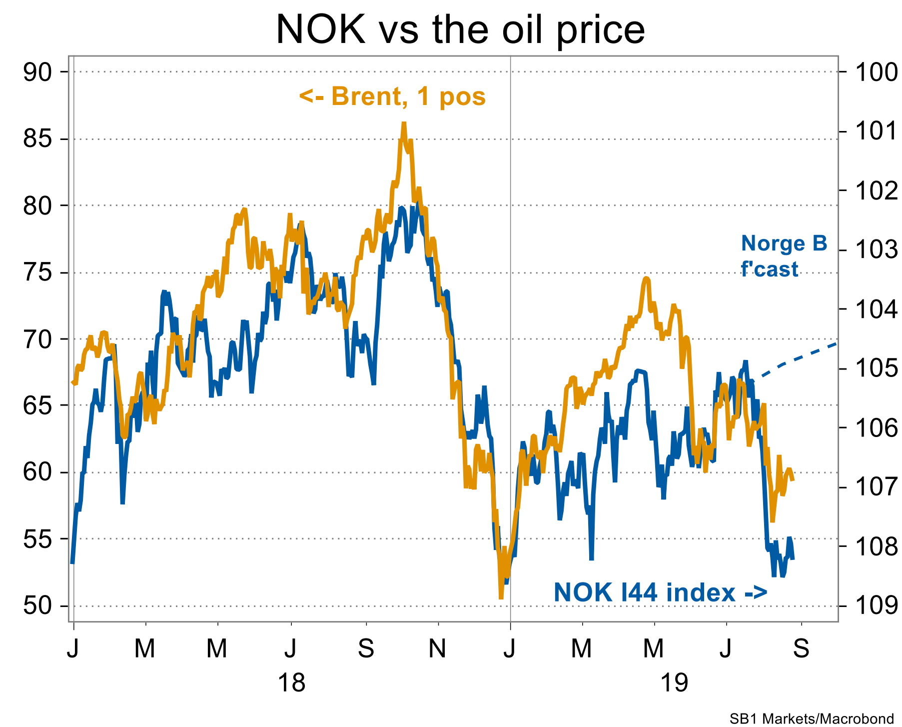


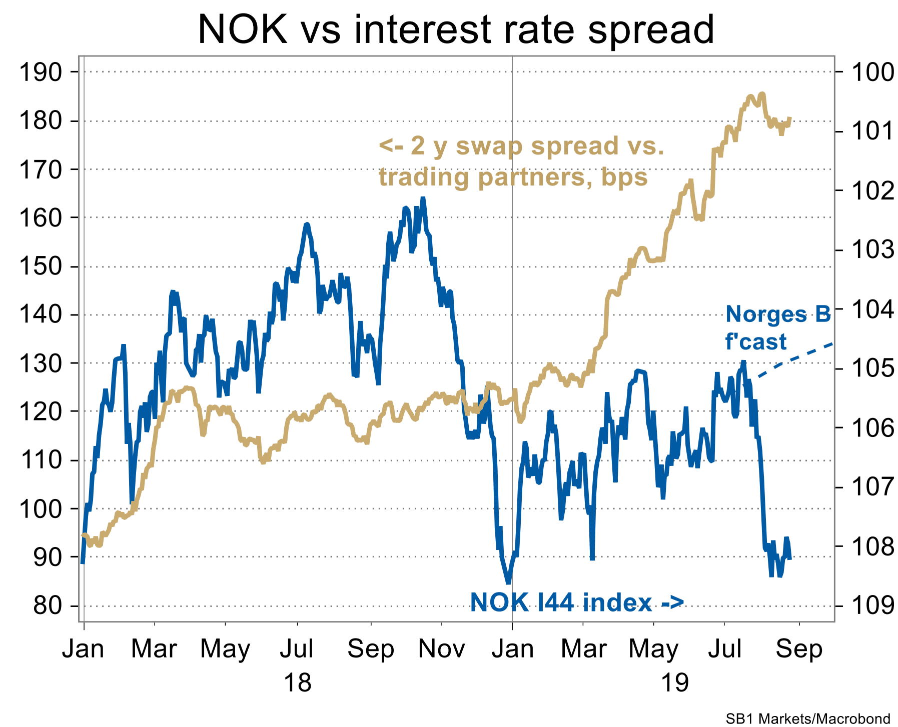


- Even our super-cycle f/x model has not explained the NOK weakness since mid-July
  - We have tested our models with global risk etc., without success
- We do not have any other recommendation than **Buy NOK**

The NOK weak vs. oil & the interest rate spread

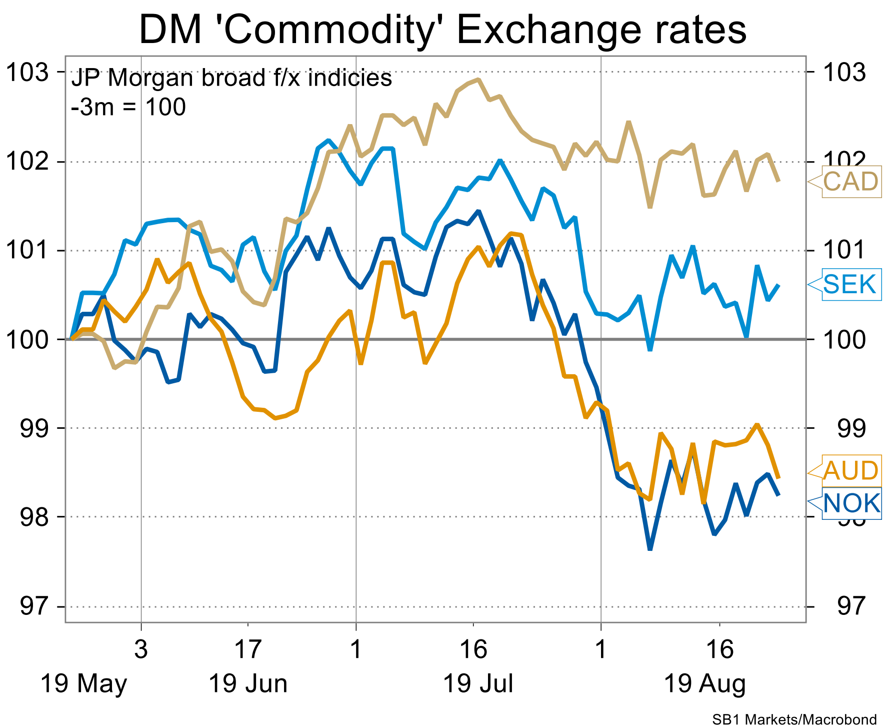
Oil price and the spread up, the NOK marginally up

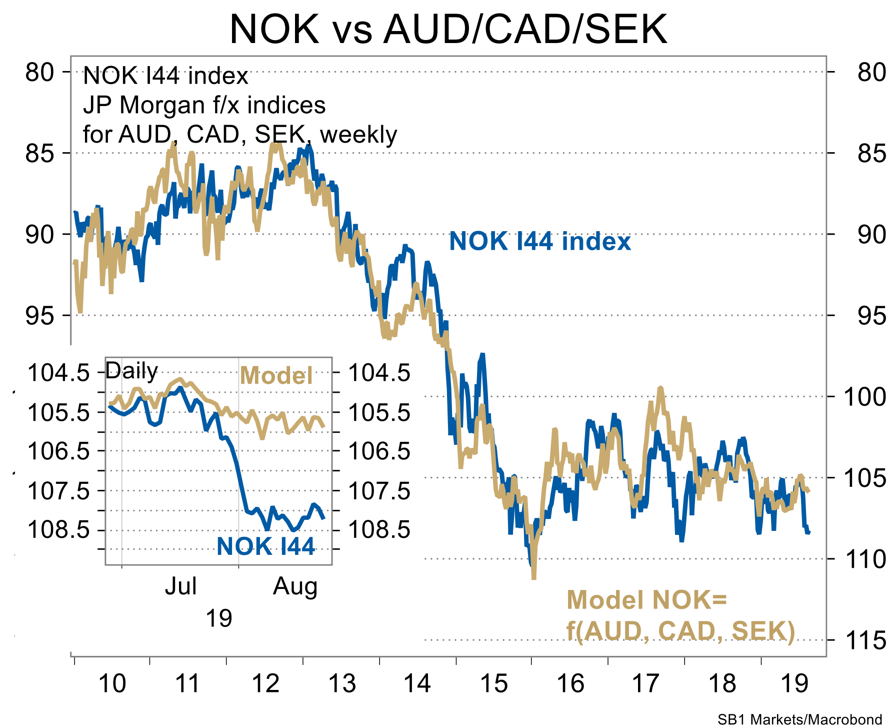




The CAD has not followed NOK down; AUD, SEK just partly

Together, the other supercyclicals cannot 'explain' the recent NOK setback

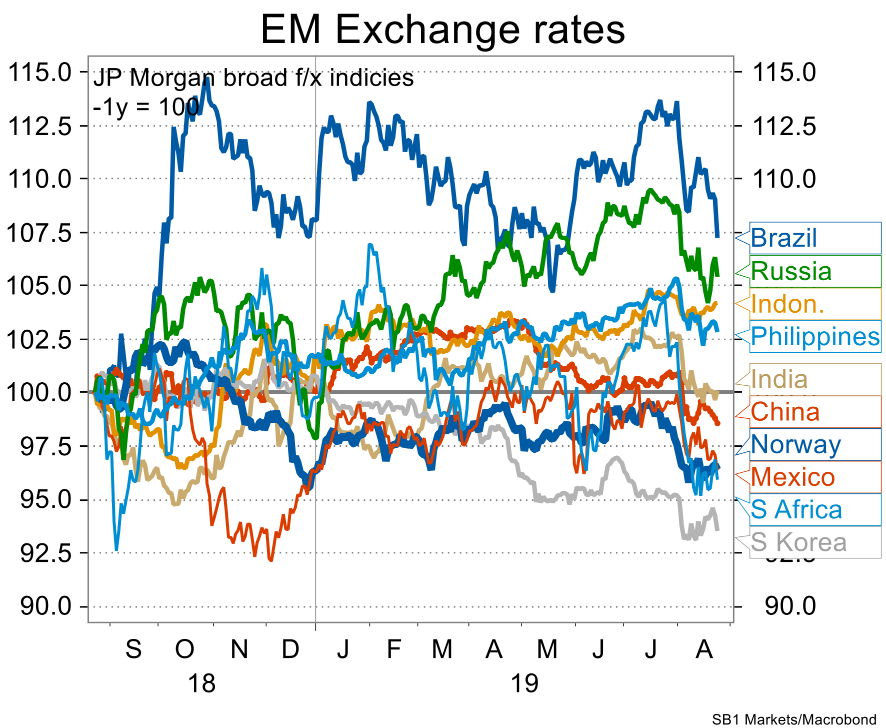


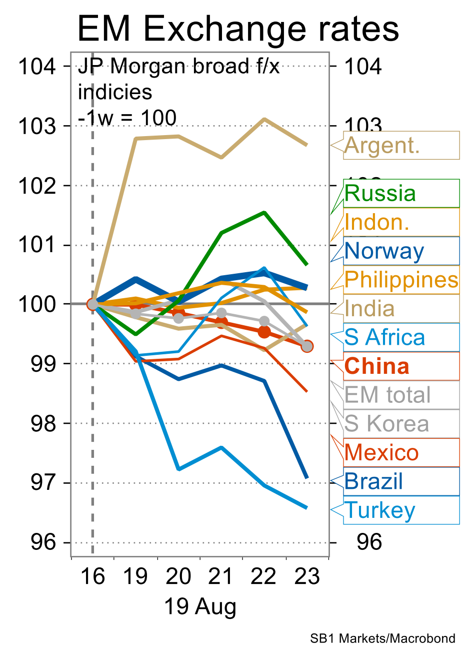


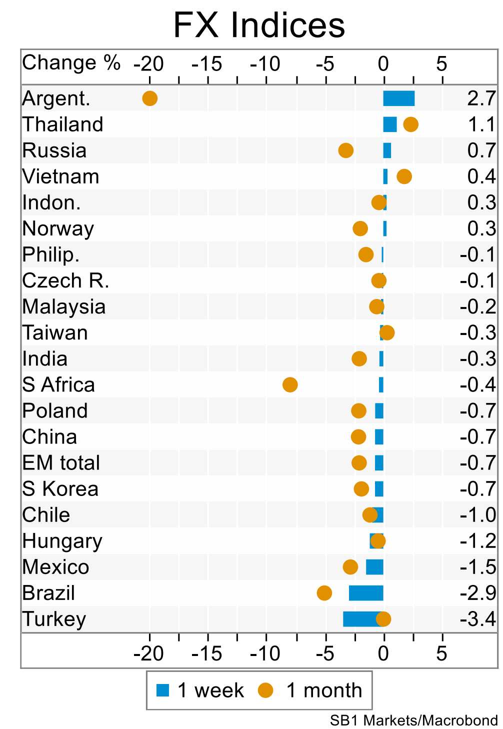
- The NOK has lost 2% vs. the the supercycle f/x model estimate over the past weeks.
  That's not unusual but not something that happens often either
- Strangely, the disturbingly weak Swedish labour market data reported this week (and the past months) did not cause any substantial SEK depreciation

EM f/x: CNY and Turkey depreciated last week but most strengthened

Still, the CNY is down just 2% since before the new tariffs were announced



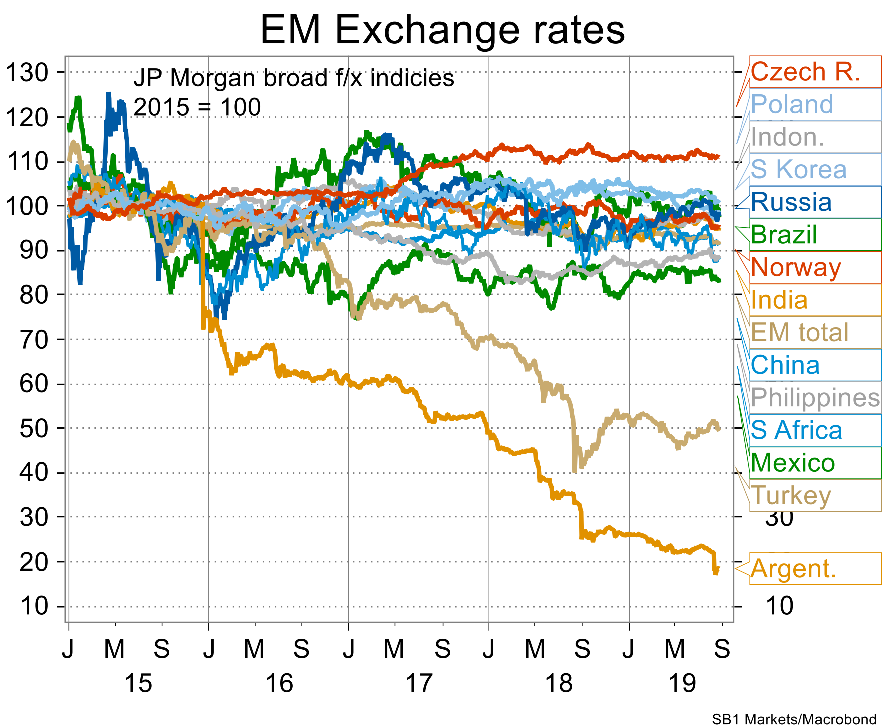


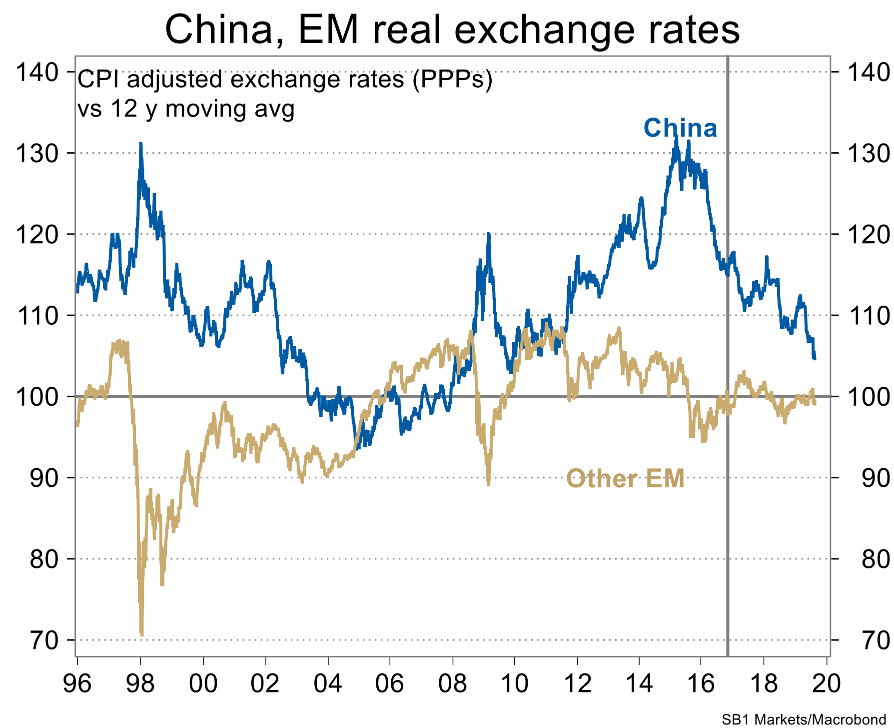


- Most EM currencies are down last month but not by much
- Argentina stabilised after collapsing two weeks ago

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

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





- 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, countered by a deficit at the service balance. The CNY real exchange rate has fallen by 10% since 2015 (of which 3% since early 2019) but is still 5% above its 12 y average
- Other EM currencies have in average been quite stable the recent years, even if some have run into problems, like always. Argentina and Turkey struggled last year, and Argentina once more now, for good reasons. The lira is down 50%, Argentina 82% (from 2015)

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