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Macro Research

Weekly update 37/2019

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Highlights

The world around us

The Norwegian economy

Market charts & comments

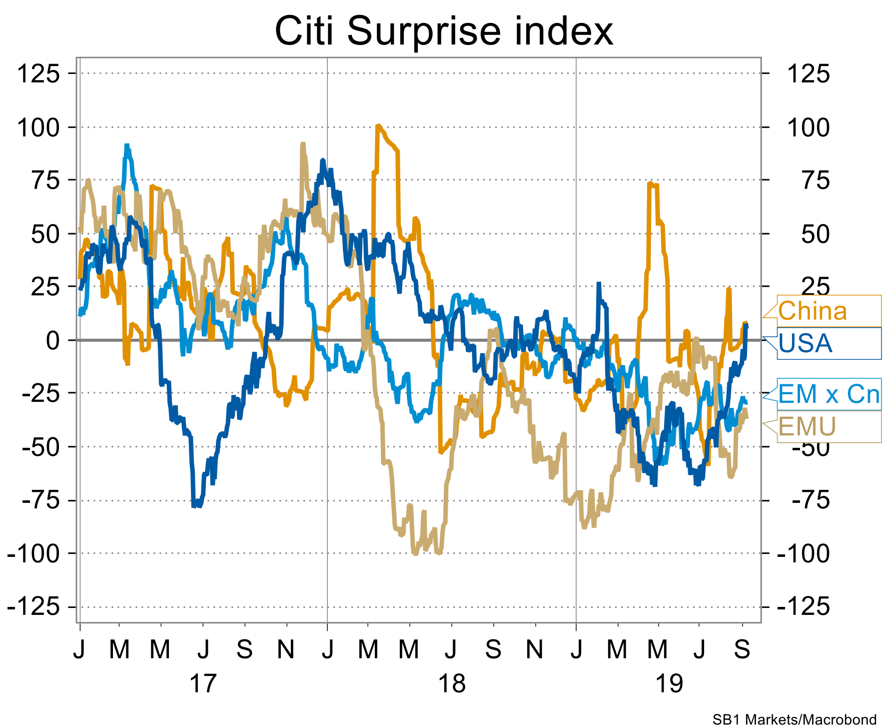
The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

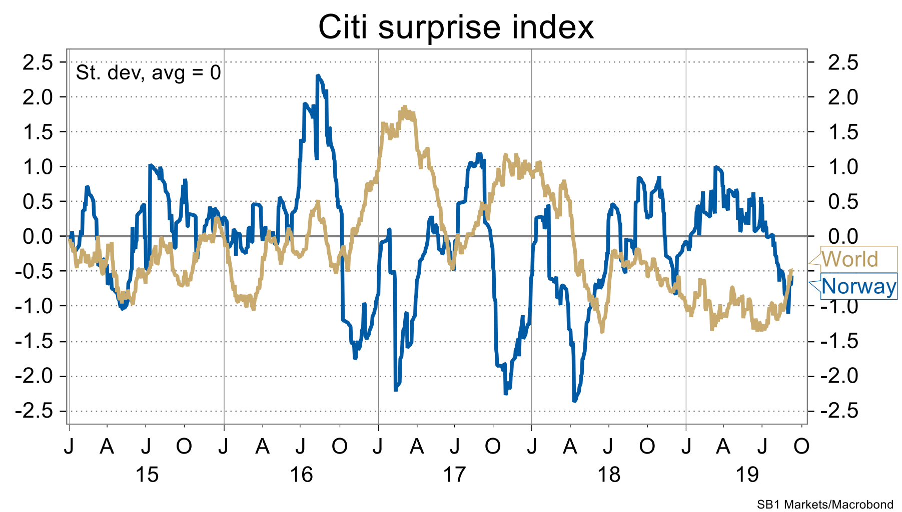
Last week – the main takes

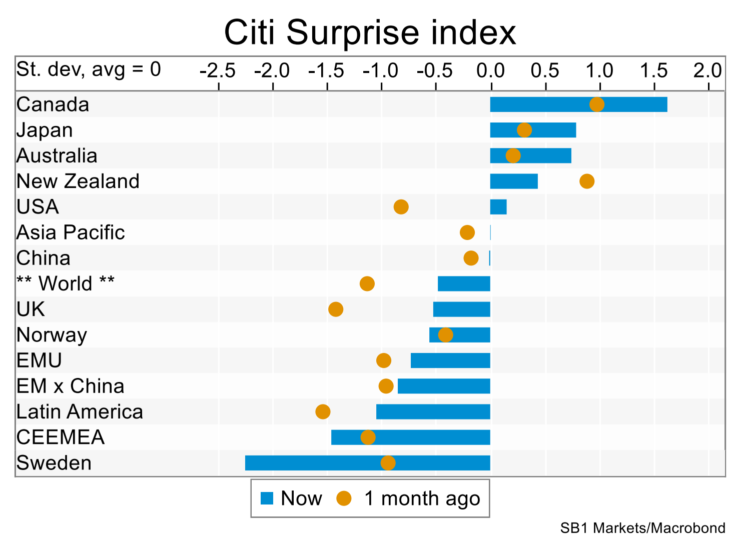
- **They are friends** (again), and will get together (again), and no doubt smile (again), and start up the trade negotiations (again)! After that, time will show… The main challenge: China will not yield on what the authorities deem to be their vital national interests, while too many in the US will not accept these policies (but Trump is not the most aggressive, he needs a deal too). Elsewhere: The British parliamentarism has been through one of it's most … well, exciting weeks. It seems like the Brexit will be postponed (again), following the four defeats PM Boris Johnson experienced
- **Global composite PMI** fell 0.3 p in August, 0.1 p weaker than we estimated. The PMI at 51.3 signals 3% global GDP growth. Unlike recent months, the service sector was the major drag in August. The manufacturing PMI inched up 0.1 p to 49.5, pointing to a modest contraction in global production, but orders yielded. Service PMI is still reporting growth. Mixed US PMIs/ISM; Markit composite PMI declined and a steep drop in the manufacturing ISM frightened markets – but a strong non-manufacturing ISM provided some comfort. Developed Markets weakened, in sum, while China and other EMs improved. The Norwegian manufacturing PMI rebounded from the July dip, but the trend is down
- **China lowered the reserve requirements** for the 6th time since last spring, while bank lending has been decelerating. Rates are not yet cut. **Exports** fell marginally in Aug (2% m/m and 1% y/y) as exports to the US have fallen 15% (equaling 3% of total) while other exports have partly compensated. Imports rose 4% m/m but are still down 6% y/y – still not a large or unusual decline. Iron ore & oil imports up
- **US employment growth** slowed in August but not dramatically. Employment was up 130' (incl 25' Census temps) vs expected 160' and growth is slowly cooling. The employment rate rose, and unemployment flat at 3.7%. Wages up 0.4% m/m, 3.2% y/y, more than exp. Not an argument for cutting interest rates! **Fed's Beige Book** noted continued modest growth and tight labour markets. The report did not reveal any need for another interest rate cut either, even though manufacturers reported some weakness. **Import volumes** fell in July while **exports** ticked up. The trade deficit vs China is shrinking but most others are trending out. **Auto sales** rose marginally
- **Eurozone GDP details** were of course soft, however, better than we feared. Investments surprisingly increased (although slower than 'normal) and consumption grew modestly. **Retail sales** fell as expected in July but trending steadily up. The consumer sector is holding up quite well amid the manufacturing contraction, a reassuring sign. **German manufacturing production** is tumbling, down 0.8% in July and is declining at the fastest pace since the financial crisis (measured y/y). **Manufacturing orders** do not signal any recovery. However **auto sales** rose sharply
- **The Swedish Riksbank** still plans to raise the interest rate in Q4 or Q1, quite surprising! Rate path nudged down after that
- **Norwegian house prices** increased more than expected in August, up 0.9% s.a. Prices are trending moderately up, slightly faster than NoBa f'casted. The high number of homes for sale do not signal accelerating price inflation, even as demand is brisk. **Manufacturing production** is growing strongly but just supported by oil related sectors and <u>no</u> contribution from other sectors. The growth peak must be very close. **The number of unfilled vacancies** edged up to 2.6% of the labour force in Q2 (vs unemployment at 2.2%), reflecting a tightening labour market

Global macro less disappointing, and US & China surprise on the upside again!

US at 7 month high, China data above par too, EMU and Emerging Markets less negative





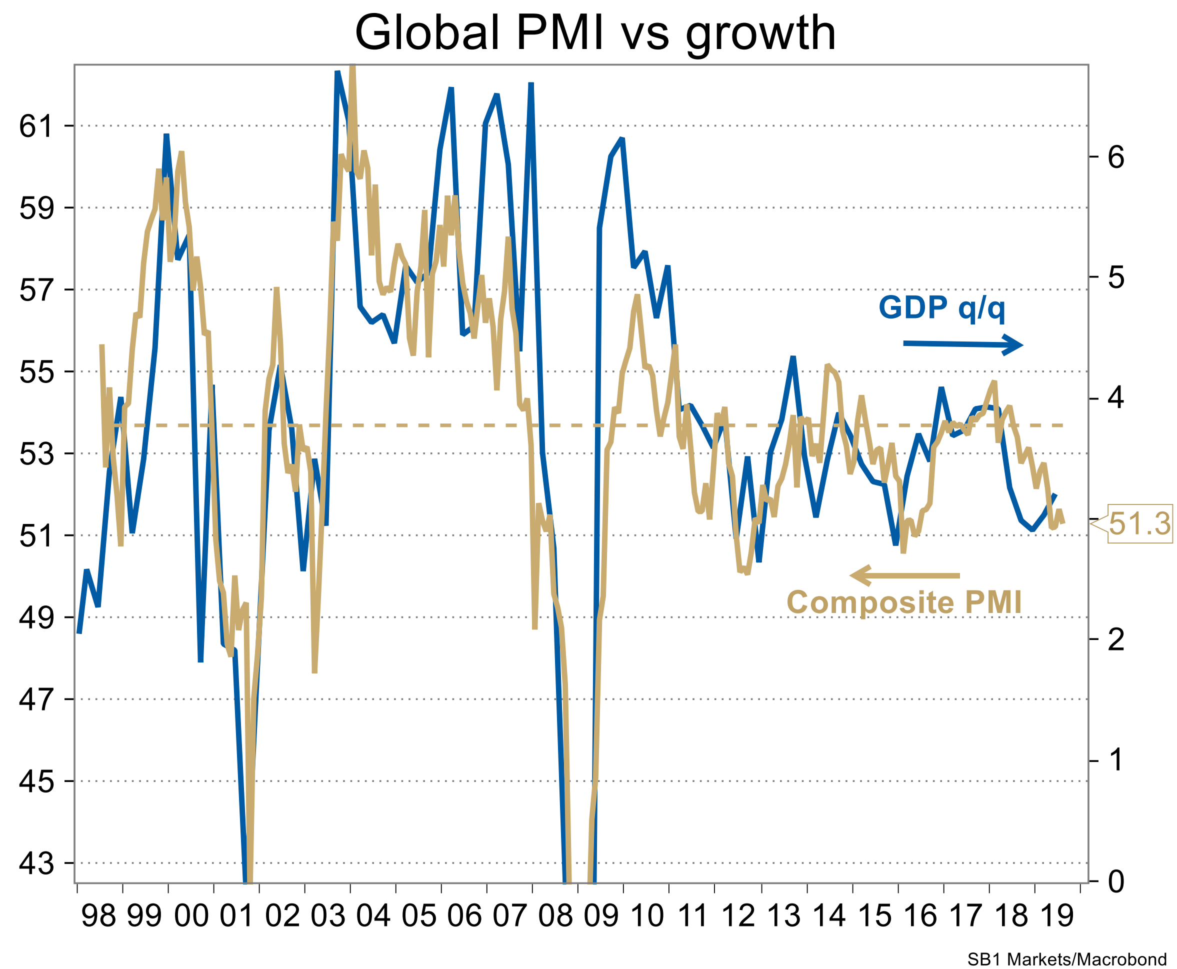


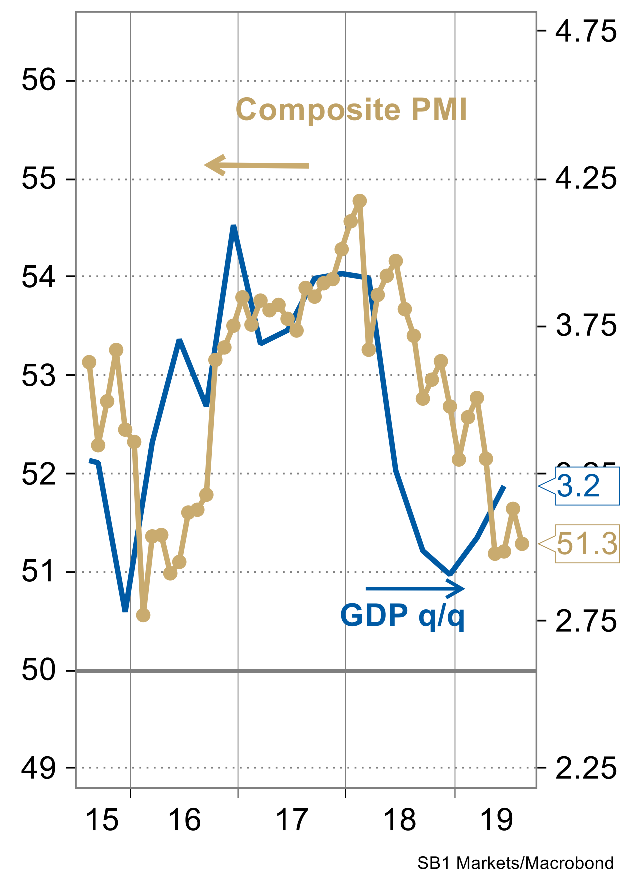
- The global surprise index has been in negative territory since last spring. The index has improved through July and August, last week it rose to the highest level since late 2018!
- US data flows are now in sum more upbeat than expected, for the fist time since Feb! Strong consumer data, a spike in the non-manufacturing ISM is lifting the surprise index
- The EMU surprise index is weak but less so recently, PMIs better than feared
- Chinese July data in sum slightly better than expected too
- Norwegian data are disappointing vs expectations but a tad less last week

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

Global PMI fell 0.3 p in August, this time the service sector is to blame

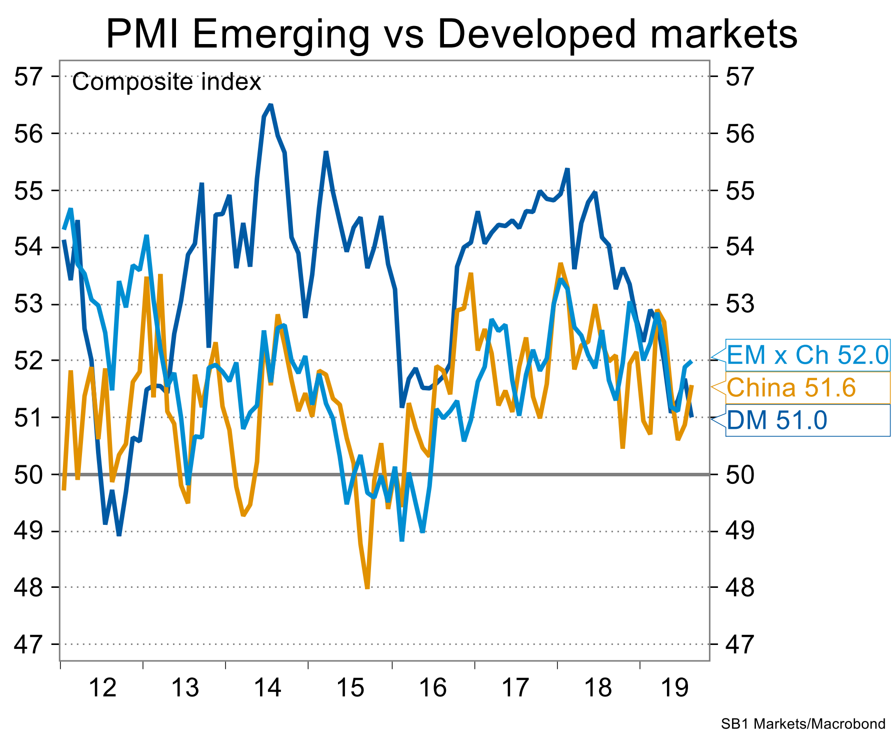
Composite PMI fell to 51.3, 0.1 p weaker than we f'casted. Signals global GDP growth at 3 %

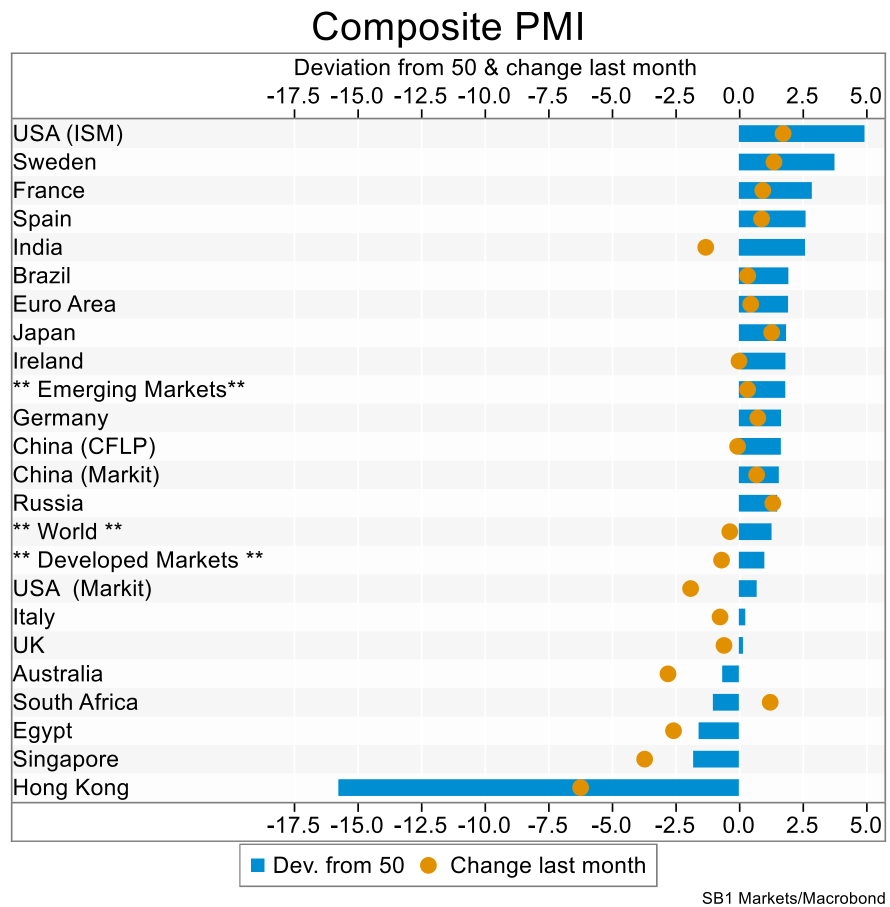




A lift in Emerging markets PMI was offset by weaker DM (mostly US)

Composite PMI: Just 5 countries/regions are below 50, Hong Kong at the bottom, of course



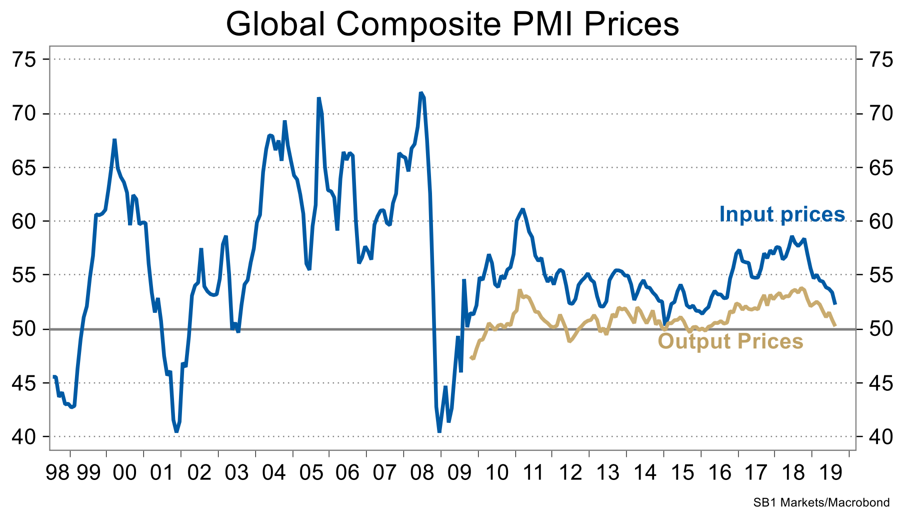


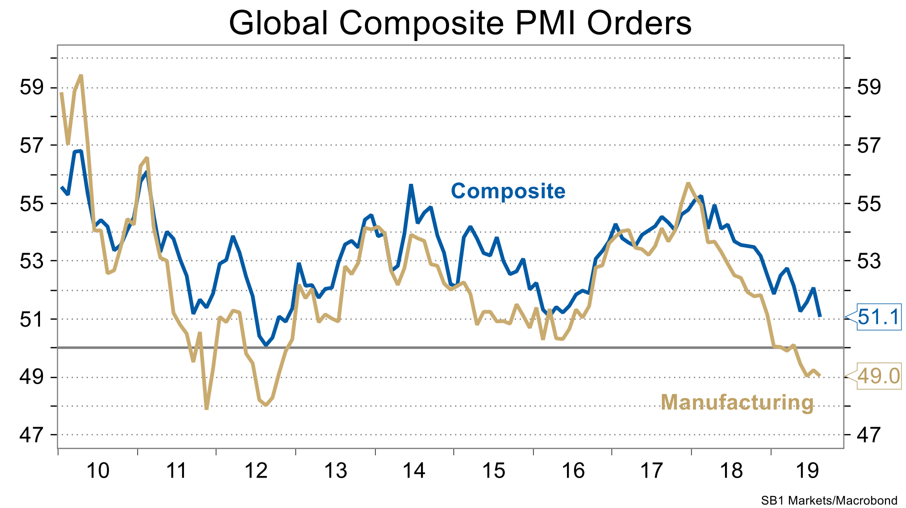
- 12 countries/regions reported a higher PMI in August than in June (thus, activity accelerated or fell at a slower pace), from 13 in July. 10 countries weakened (from 9)
- 5 countries below the 50-line, from 6 in July
- DM average down 0.7 to 51.0. EM x China rose 0.1 p to 52.0 China (Markit) rose 0.7 p while the NBS/CFLP index was unch.

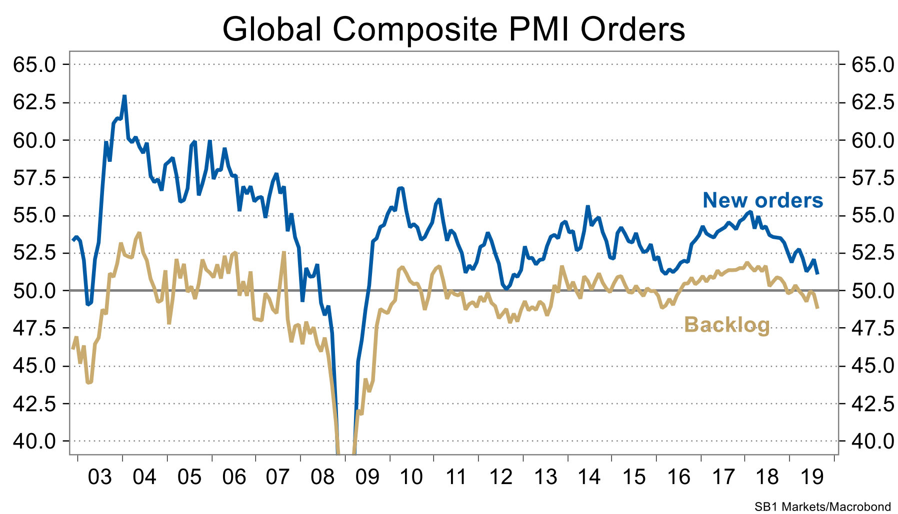
Hong Kong services collapsed, of course due the protests

Orders and prices are slowing sharply

Manufacturing orders fell faster, and service orders slowed sharply in Aug. Prices are slowing



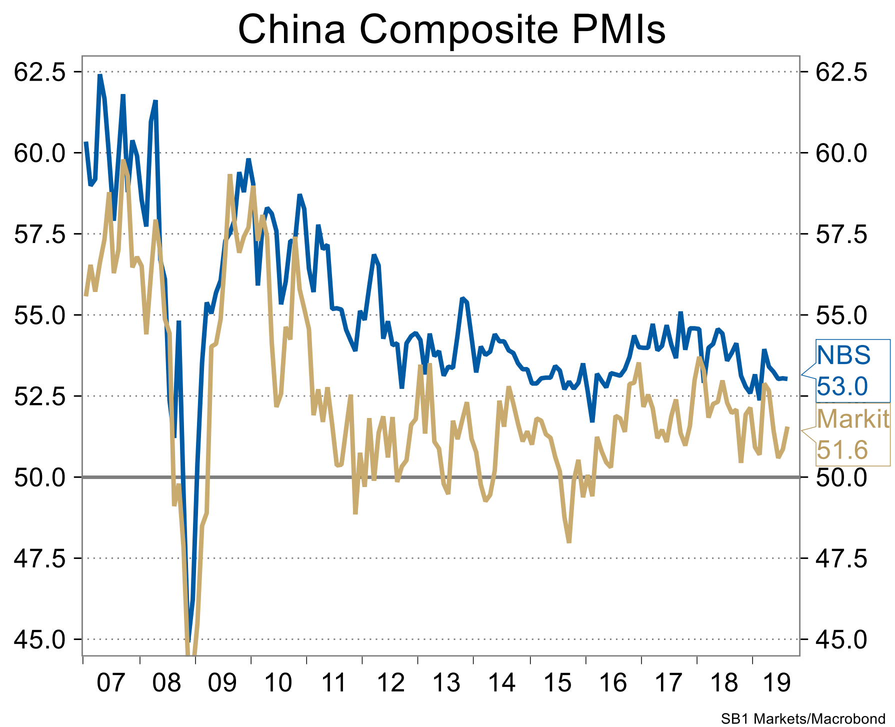


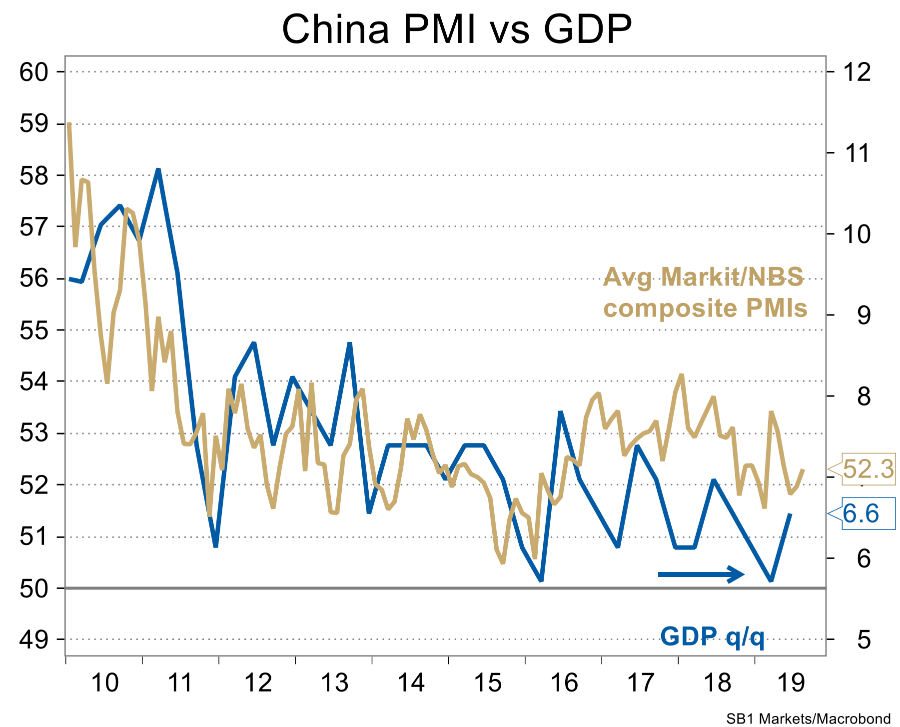


- Manufacturing orders index signals modestly contracting order inflows. Services have so far been quite resilient to the slump in manufacturing but the index fell sharply in August and took the composite index down
- Both input and output prices are easing – and rapidly (but not yet outright falling), confirming weaker demand

The PMIs in sum upbeat in August, no signals of a sudden setback

Markit's composite PMI edged up, NBS flat. The avg of PMIs points to steady growth





- NBS' composite PMI (CFLP) was flat at 53 in August, the service index edged up while manufacturing came marginally down
- Markit's composite PMI rose 0.7 p, both manufacturing and services reported improved business conditions
- The avg of the PMIs is sliding slowly down but do not signal any abrupt halt in the Chinese economy

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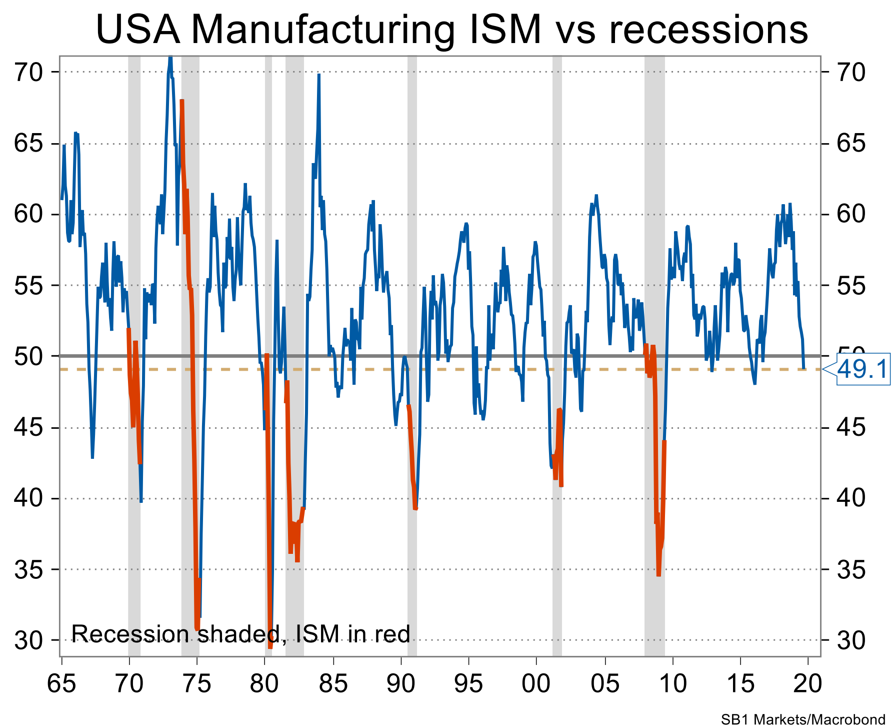
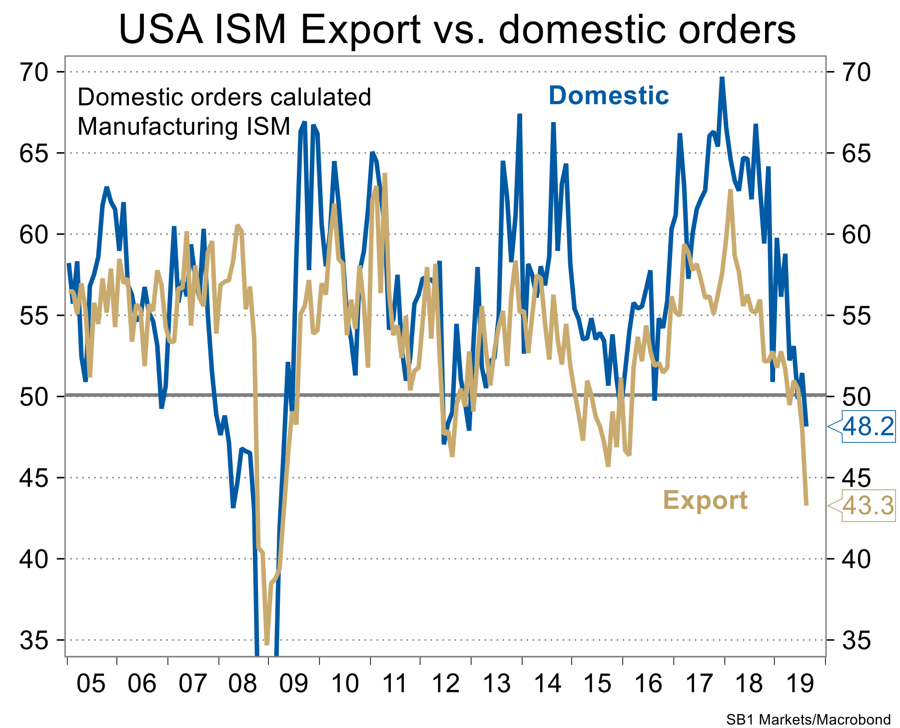
Manufacturing ISM down below 50 in August; weak orders, employment

ISM surprisingly slipped to 49.1. Weakest export orders since ‘09, domestic demand is waning too





- Manuf. ISM fell to 49.1 in August, a 2.1 p decline and much weaker than expected (51.3). This is the weakest ISM since 2016 and below the long term average at 52.9. The speed down is highly worrisome, particularly as other surveys are confirming a downswing
  - In the ISM survey, 9 out of 18 sectors reported growth (unchanged from 9 in July) and 7 (from 9) sectors reported a contraction
- Businesses report contracting new orders, the steepest decline since the Financial Crisis. The August drop was driven by a plunge in export orders but domestic orders (implicit calc) are declining as well
- The manufacturing ISM has fallen to 49.1 p 16 times since 1965, of which 4 before and 3 during the 7 recessions since then.

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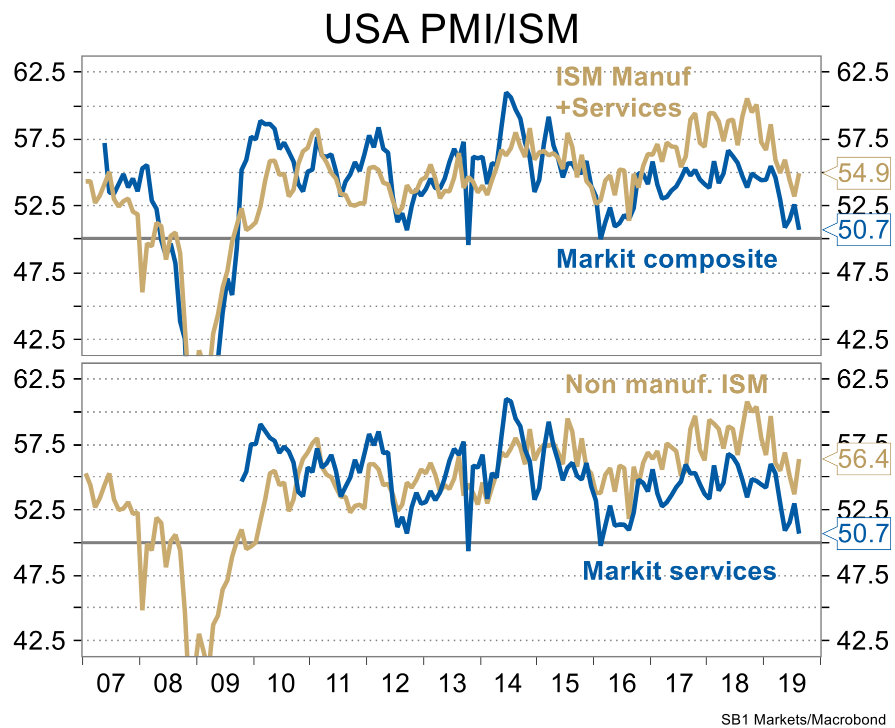
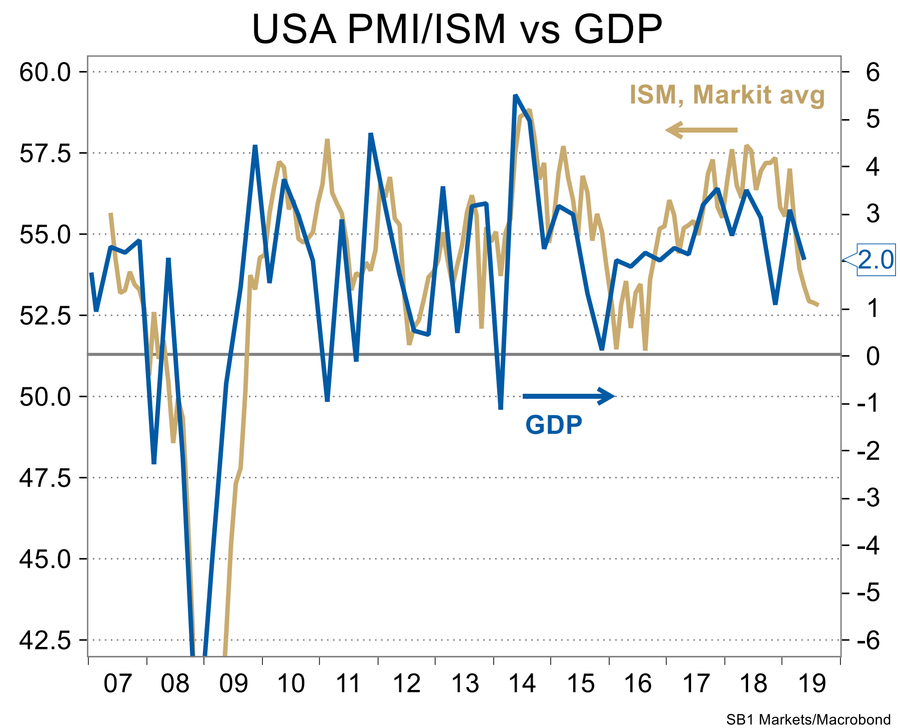
Mixed services indices; ISM jumped in August, Markit's PMI down

Non-manuf. ISM soared 2.7 p, Markit down 2.3 p. Avg of composite PMI/ISM signals 1% GDP growth

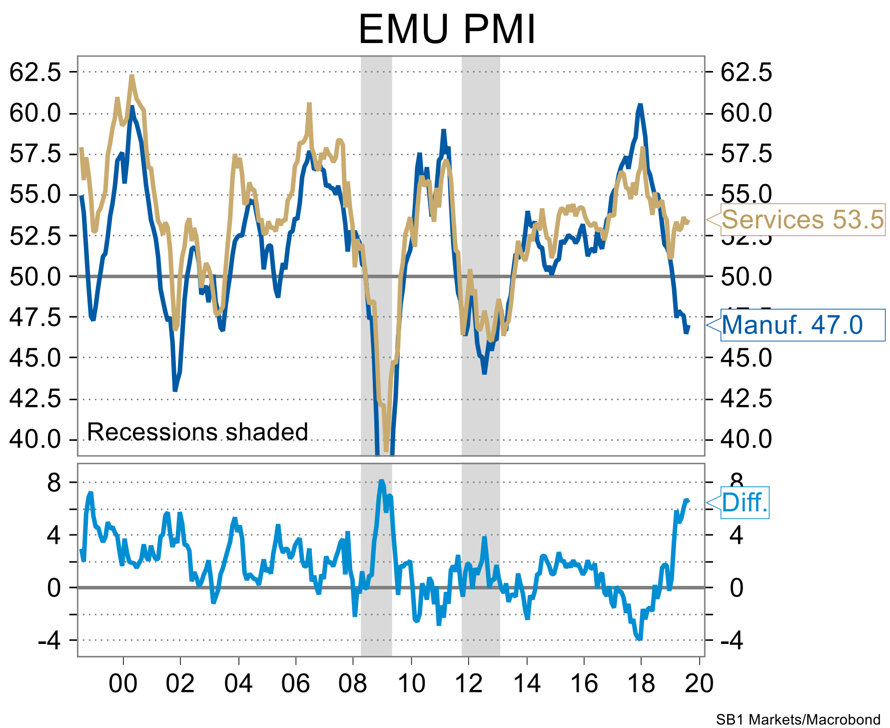


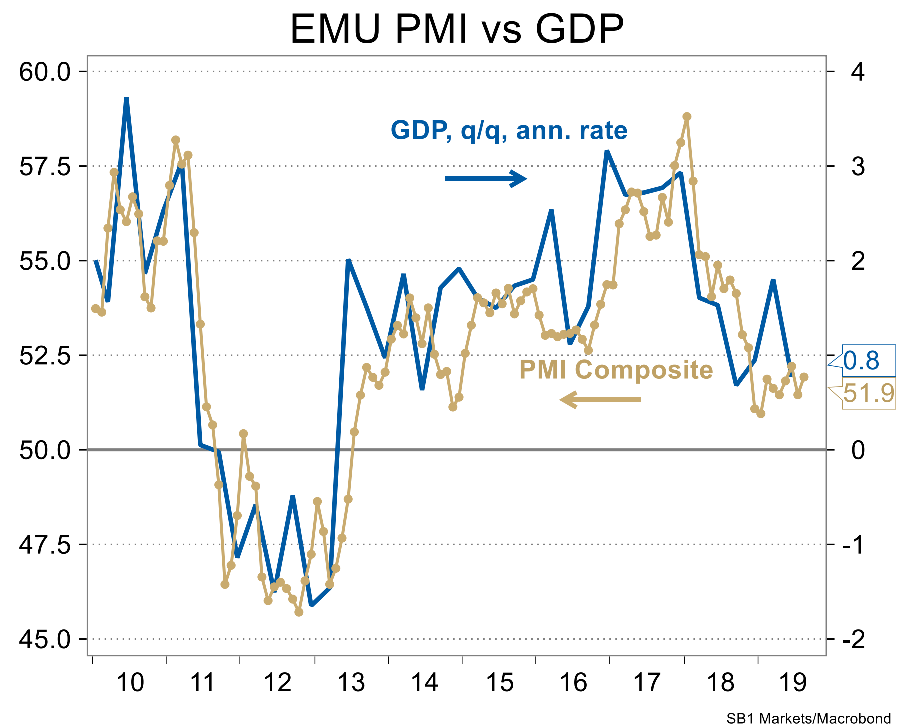


- Non-manuf. ISM came in far above expectations, a 0.3 p increase was expected vs the 2.7 p actual rise. The level at 56.4 suggests that the service sector is holding up well amid the manufacturing slump, even as the direction is not impressive here either. The 'composite' ISM (manufacturing weighted 20%, services 80%) rose 1.7 p to 54.9, not a recession signal!
  - 16 of 18 non-manufacturing sectors reported growth and only 1 reported a decrease (agriculture). Non-manufacturing orders spiked in August
- Markit's service sector PMI came fell 0.9 p to 50.7, 0.2 p below the first estimate. The composite PMI fell to 50.7 as well
- **The avg of the composite PMI/ISM points to a slowdown in GDP growth to 1%, primarily dragged down by weaker manufacturing activity**

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

Composite PMI rose to 51.9, up 0.1 pp from the first report. The gap between sectors is soaring

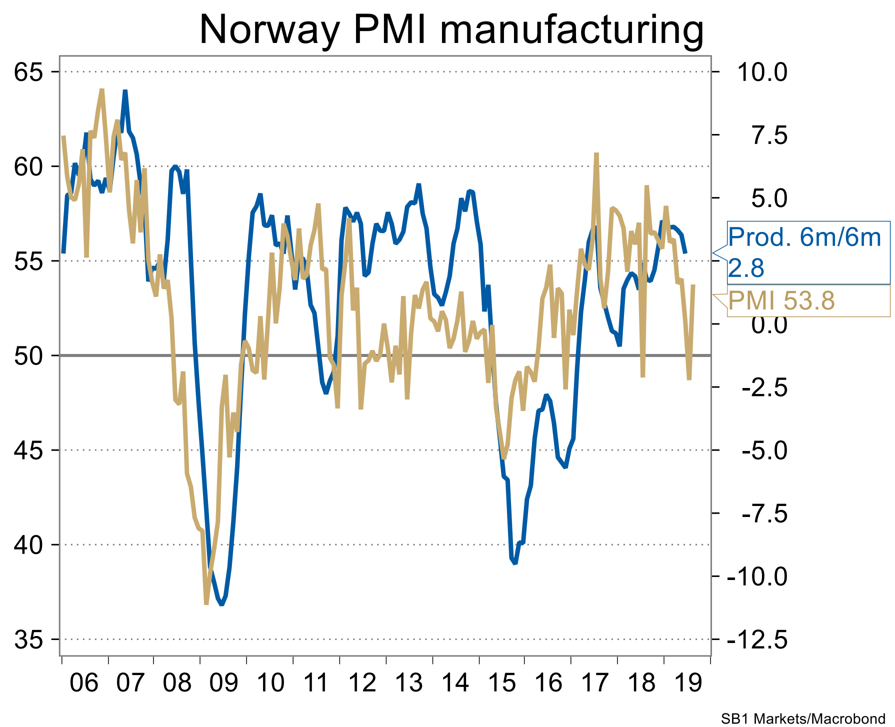


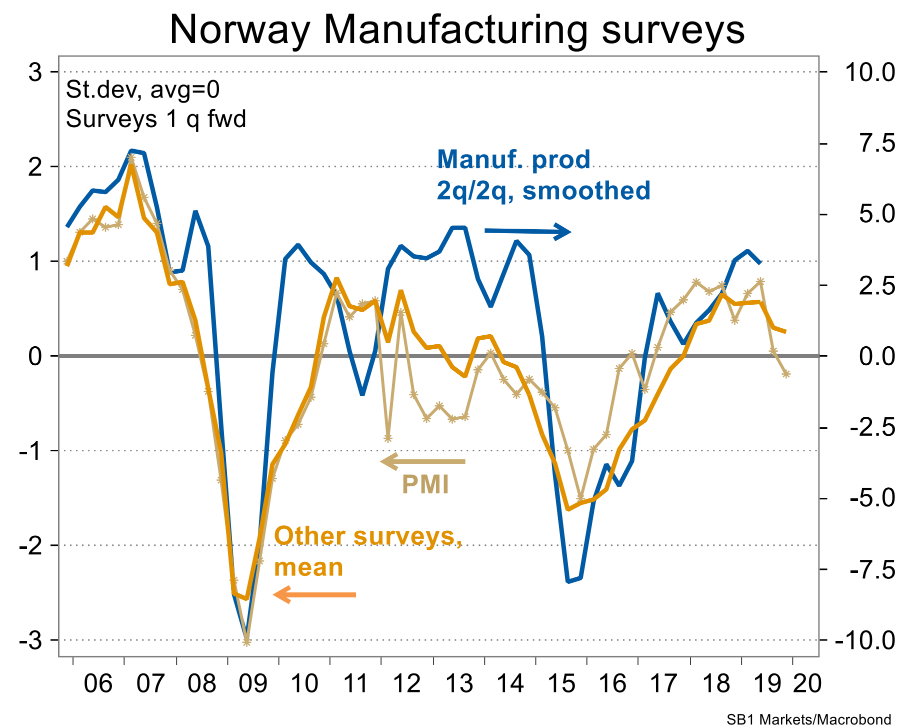


- **The final composite index** came in at 51.9 in August, 0.1 pp higher than the preliminary report and up 0.4 p from July. The PMI has stabilised at a low level this year, thanks to steady growth in the service sector. The PMI do not signal any rebound from the meagre 0.8% GDP Q2 growth rate
  - » Manufacturing PMI inched up to 47.0, signalling a substantial decline in production, while service industries have improved recent months
- **Any hope?** Households are still optimistic and consumption is strong, while net exports and business investments have slowed. Unemployment is still declining and is not record low, wage inflation is slowly accelerating, and there is no credit boom. So it may all come down to the trade war, Brexit, Italian politicians…

Manufacturing PMI rebounding in August, back at a decent level

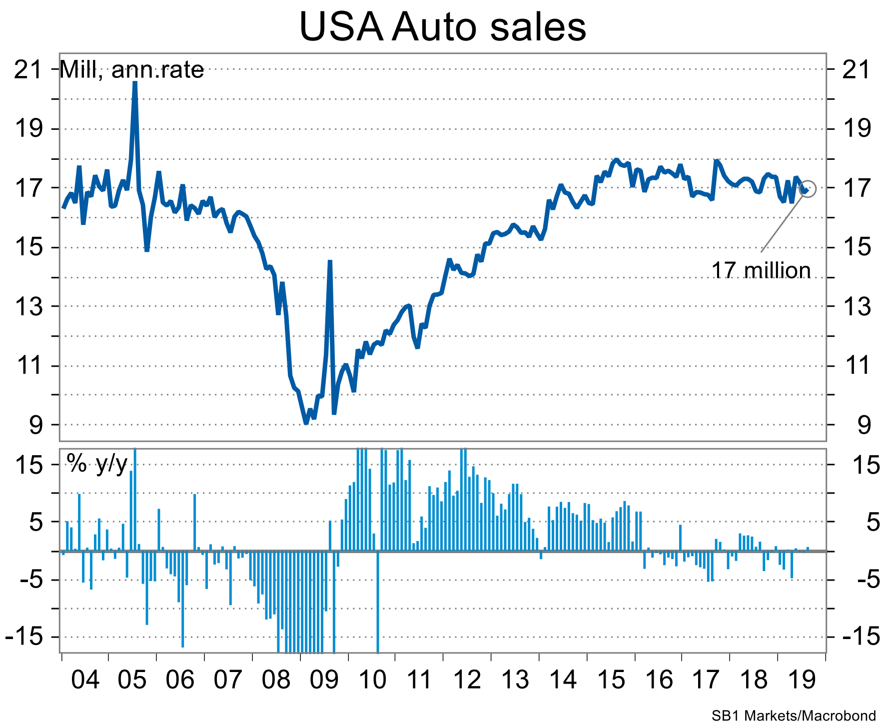
PMI jumped to 53.8, following a weak July. PMI still signals somewhat softer growth in production

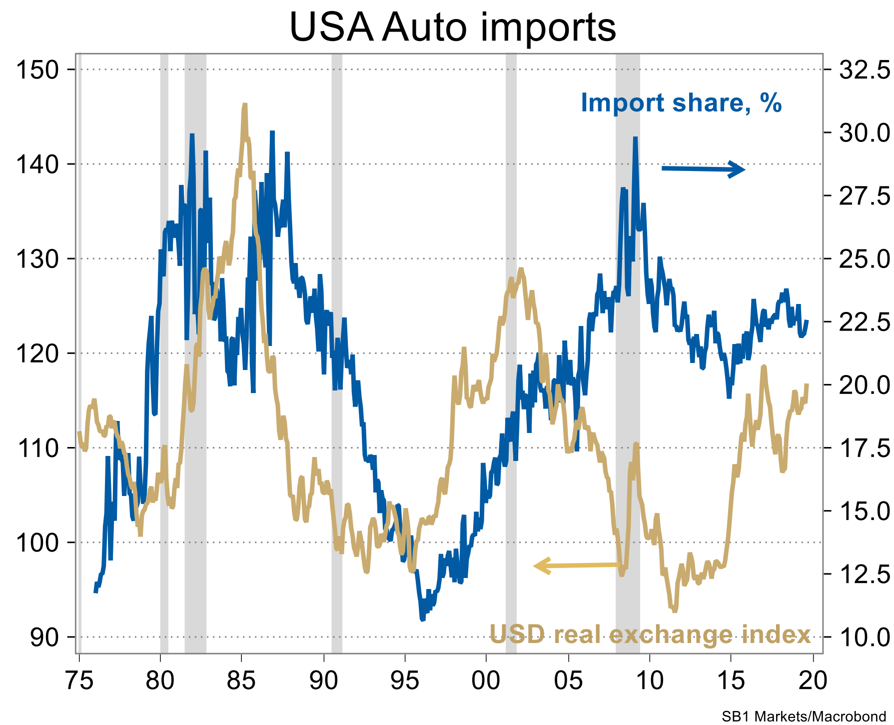




- The PMI soared 5.1 p in August, after a steep decline in July (and June). The upswing confirms that the July PMI data are useless due to a low number of respondents. The current index at 53.8 signals growth in production but slower than recent months, down to a 1-2% rate
  - Actual manufacturing production has been soaring recent months, boosted by oil related sectors. At peak?
- The PMI is still among the weakest surveys, equivalent to Norges Bank's expectations survey. The avg of manufacturing surveys is above the avg level but anyway pointing to a slowdown in production

Auto sales rose marginally in August, trending slowly downward?





- Sales rose marginally in Aug (0.2 mill) to 17.0 mill (annual rate). Sales are flat y/y, while trend is pointing slightly down
- The import share rose marginally July but the share has fallen slightly recent months, following an increased the previous 3 years. At 22% it is above the long term average – but it has been far higher several times before. The sharp USD appreciation to 2017 from 2012 may explain the increase. The USD is some 10 % above the long term average
- In May, Trump announced a 6 months postponement of the decision whether 25% tariffs should be applied to auto imports (excluding from Mexico and Canada) but following good conversations at G7 the risk for an escalations has fallen

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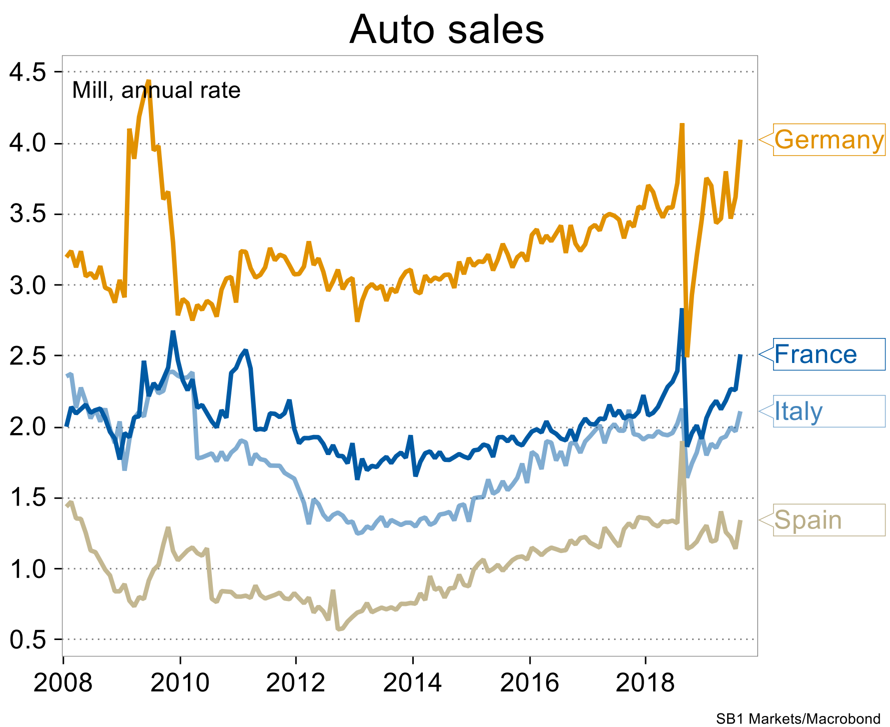
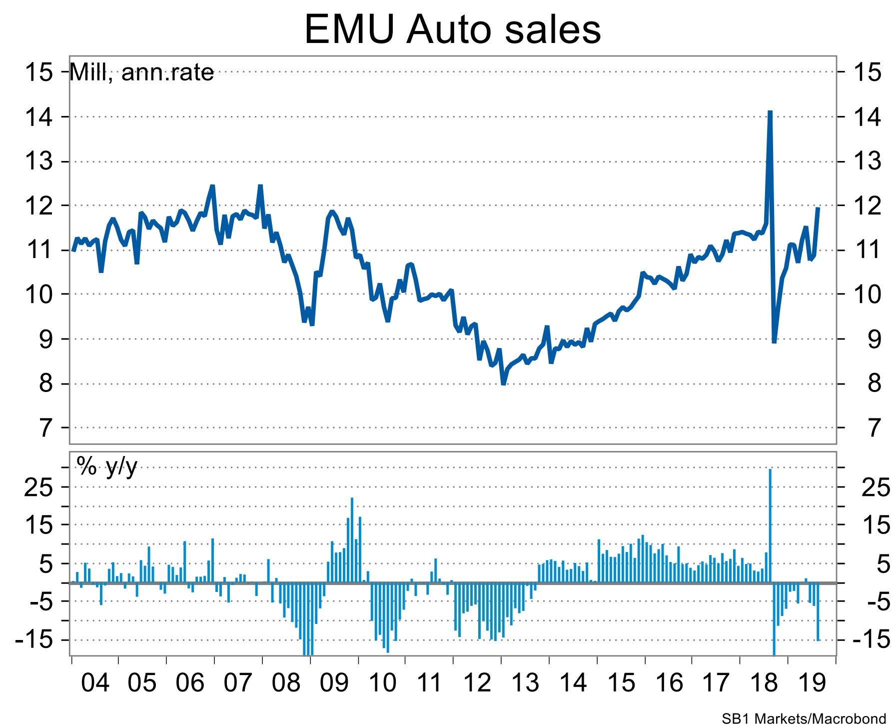
What, auto sales straight up in August?

Sales sharply up in all big 4, level way above 'normal'. Why, new regulations, taxes?

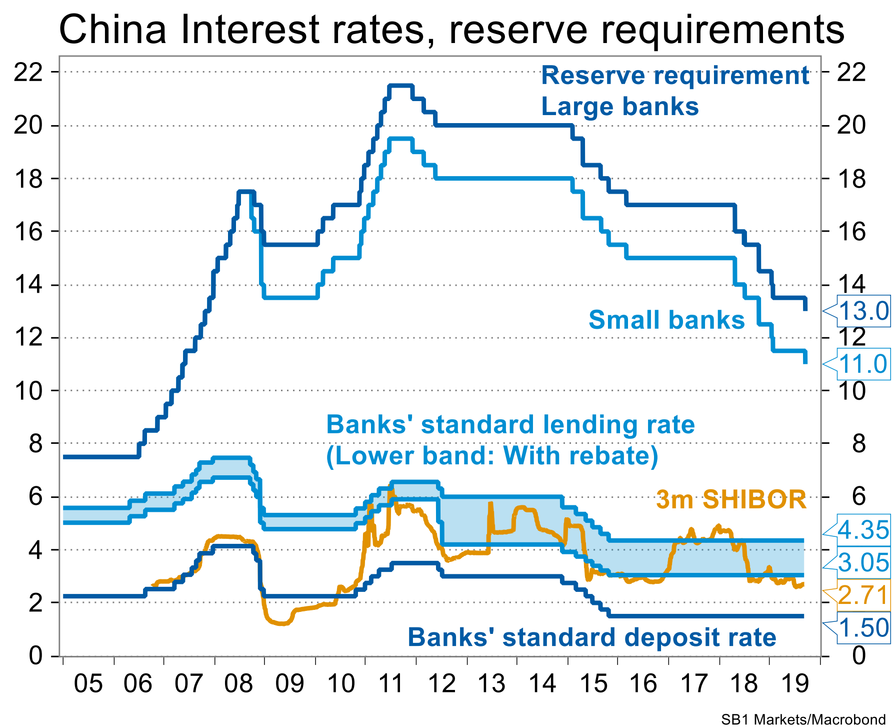


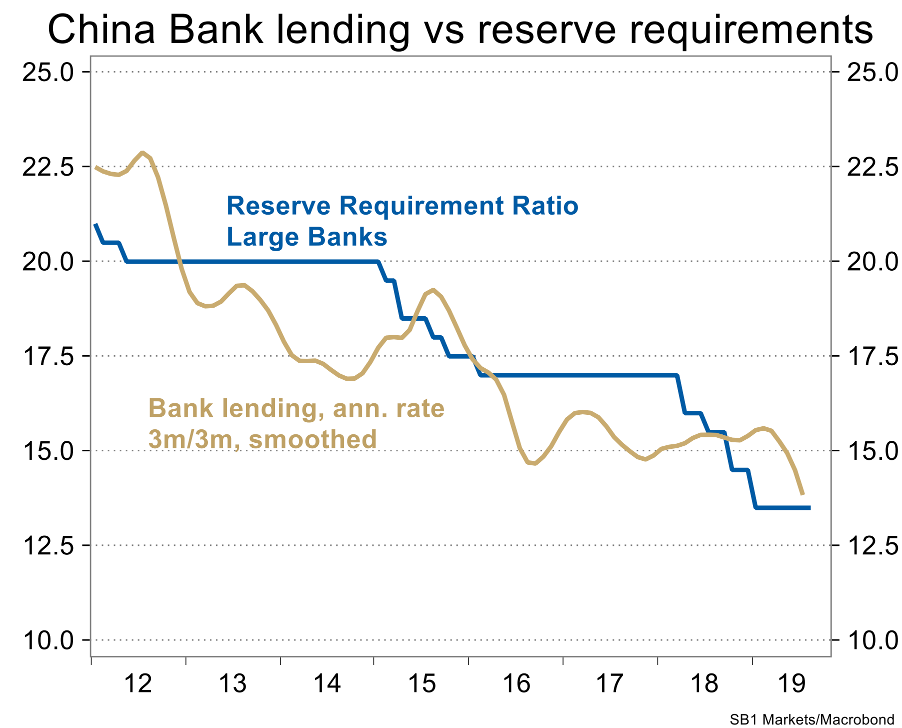


- Sales rose 7 – 18% m/m in the 4 biggest EMU countries – and sales were close to ATH in EMU, barring the spike in August last year, before the new emission rules were implemented in September
  - » August sales were 15% lower measured y/y, so just wait for the media reports. Then think about what they will report next month, we expect to see some 20% growth ☺
  - » Any rule or tax changes again, like one year ago?? We have not seen any news on that.
- We just wonder, who have produced these cars – or are the dealers inventory cleared? Anyway, good news
- (July and August EMU sales on the chart to the right are our estimates. The August estimate is conservative)

Another cut in banks' reserve requirements, will it make wonders? Probably not

Requirements cut 0.5 pp to 11/13%, were 15/17% when this easing cycle started. But lending slows

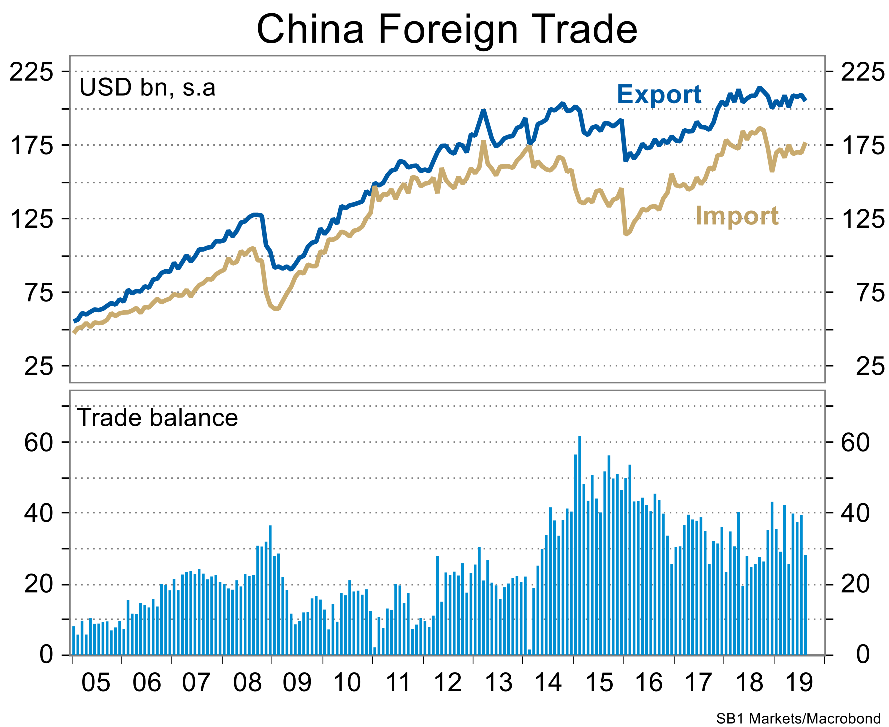




- This was the 6th cut in the reserve requirement since April last year, in total 4 pp, to 11 for small banks and 13 for large banks. The ratio is down 8.5 p from the peak in 2011. The requirement ratio has been reduced by 3.5 pp last year (until Fridays cut), freeing up bank lending equalling 5% of outstanding loans. Still, actual bank lending has slowed somewhat of course not because the requirements ratio is cut but because other factors have been stronger, on the downside. We do not expect the last cut to have a huge impact on bank lending either
- The 3 m SHIBOR at 2.71% has been trending marginally down, but not enough to signal the PBoC plans to lower the interest rate. In addition, the CNY exchange rate is down from the peak, stimulating the (foreign) exposed sector in China
- The PBoC recently introduced a new model for setting interest rates a prime lending rate has been cut by 0.1 pp below the banks' standard lending rate

Exports are flattening, imports are not dead

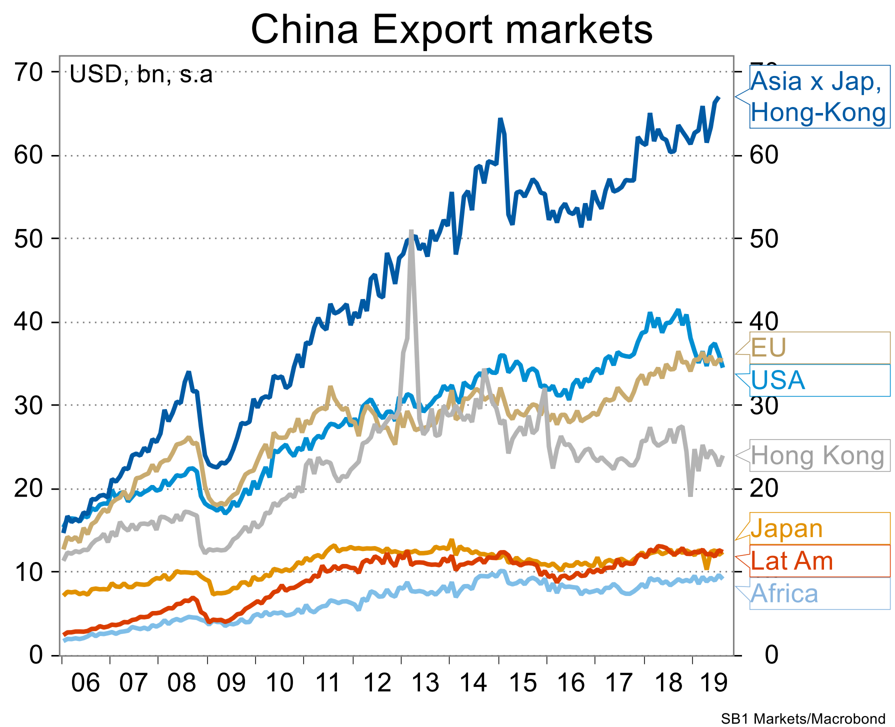
Exports to the US down, a 3% overall drag – the sum still flat. Imports down, far from out

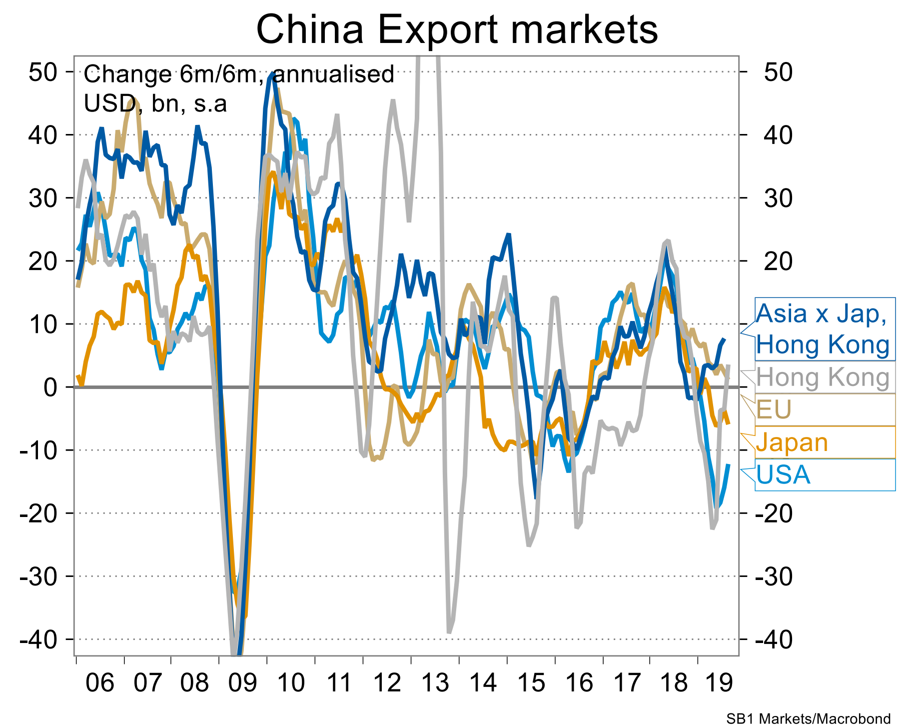


- Exports were reported down 1% y/y in USD in Aug, 4% below expectations. Exports fell 2% m/m and has flattened recently. Export volumes have flattened over the summer too (and are flat y/y, close to all time high)
  - Exports to the US is down USD 6 bn, or 15% since 2018 (equalling 3% over total exports). Exports to other regions have compensated for the decline in export to US, especially to the rest of Asia. Still, growth has slowed in most directions
- Imports were down 5.6% y/y in Aug, close to expectations. However, imports rose 4% m/m, and the trend is slowly up from the weak Q4. Thus, <u>import data (neither in value nor volume terms) do not signal a sharp weakening of domestic demand</u>
- The trade balance was somewhat weaker than expected, USD 38 bn (-12 bn, seasonally adj)

Exports to the US have stabilised recent months, down 10% from the peak

H-K down, but exports to other Asia x Japan are increasing. Others are slowing but no drama





- Exports to the US are hurt by the tariffs, now down some 15% since last autumn, or 3% vs all Chinese exports. Tariffs were lifted substantially from Sept 1 and more tariffs are announced in October as in December. A further decline in exports to the US must be expected
  - » Exports to the US equalled 18% of total Chinese goods exports (and exports to EU 16%, rest of Asia 48%, all before US tariffs)
  - » Total exports equal some 20% of GDP, exports to the US 3.6% of GDP – now down 15%, shaving a gross 0.6% from GDP (however, dampened by lower need for imports as inputs for these exports, and the impact of redirections of exports). The total trade surplus in volume terms is up, as imports have fallen – and net trade is supporting Chinese growth
  - » The real economic risk for China & elsewhere: Trade rule uncertainty is hurting investments as companies may postpone investment decisions until the dust settles – and both Chinese and foreign company may reallocate to other countries. Some households may become worried too

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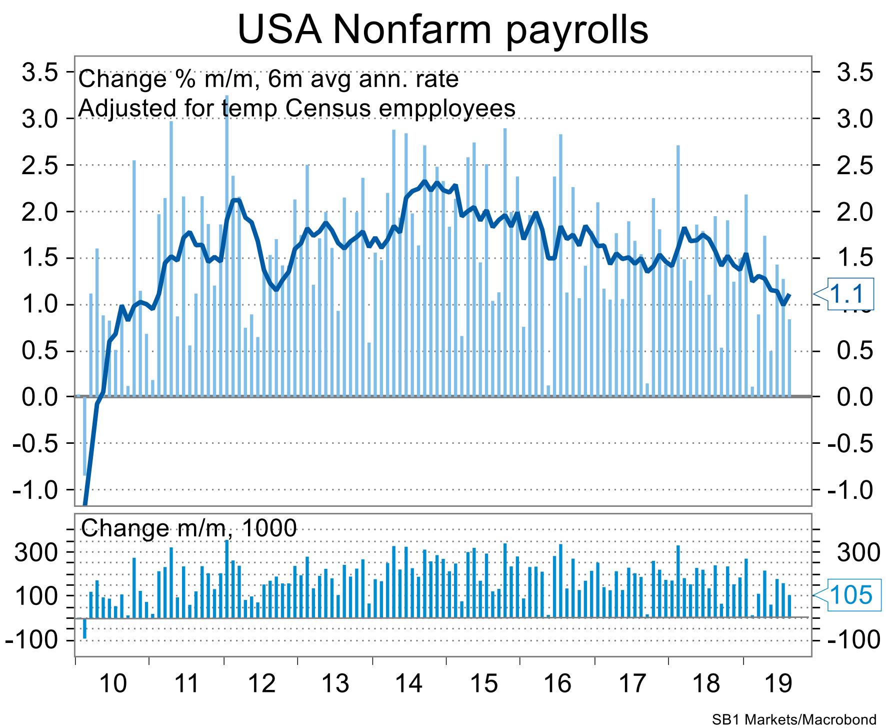
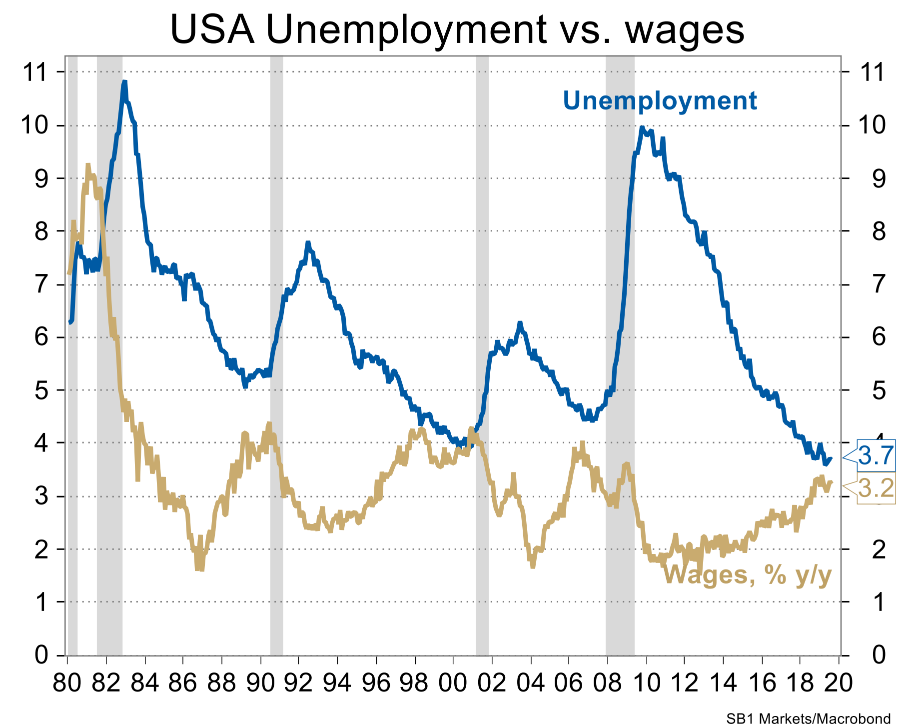
August labour market report confirms a gradual employment slowdown

Employment up 130’, 30’ weaker than expected. Unempl. flat, wage growth rose more than exp.

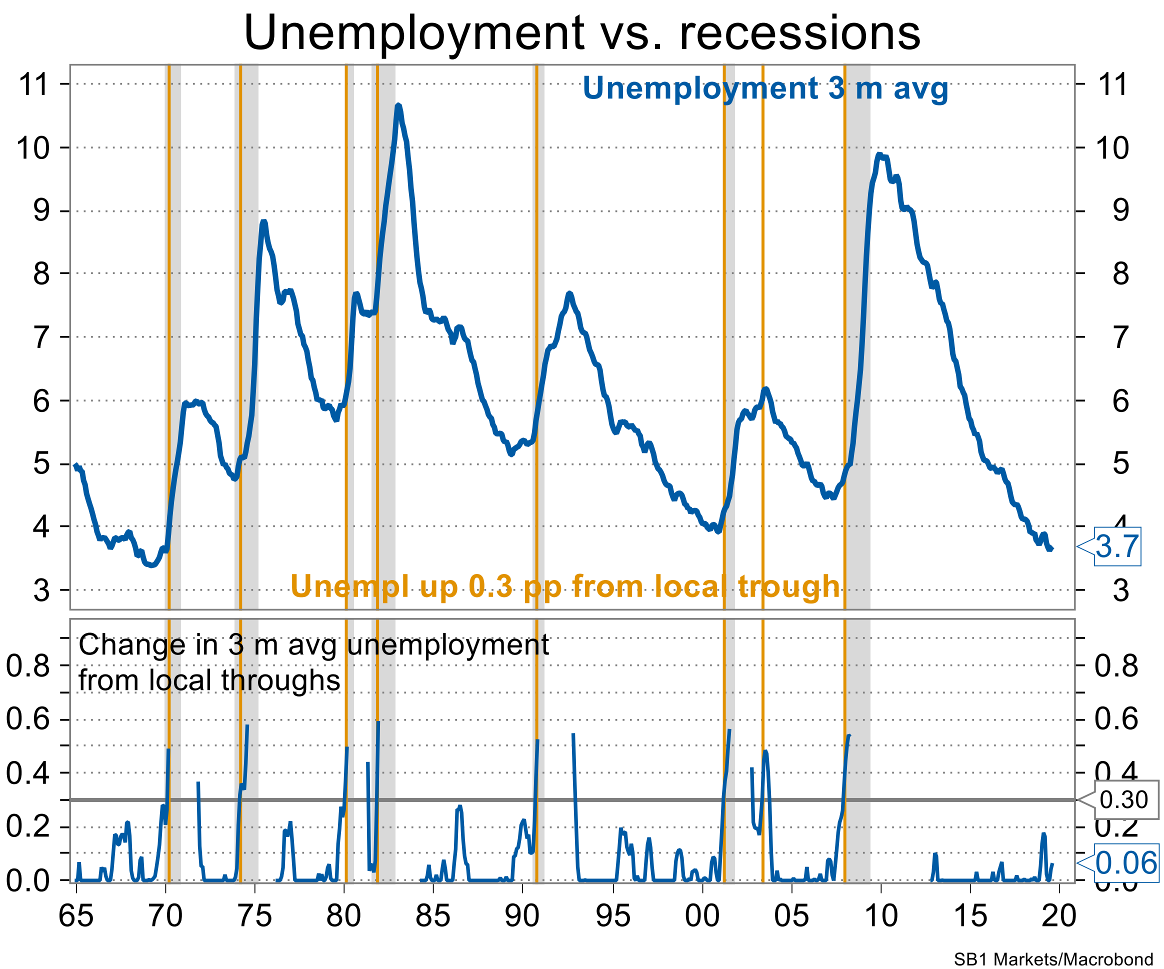




- **Employment** rose by 130’ in August, 30’ lower than expected and a 29’ decline from July (revised down by 5’, and June revised down 15’). Public sector employed 25’ Census temps, which we adjusted for at the chart above. In sum, the August level was some 75’ lower than assumed. On the chart above we have also adjusted for the March 18-Feb 19 annual revision (see next page). The 6m m/m avg is sliding steadily down, in August it inched up to 1.1%, down from 1.6% one year ago. Growth has no doubt slowed, we think mostly due to lack of available labour
- **The unemployment rate was unch at** 3.7%, as expected. The trend is still down, but slower. The **participation rate** rose by 0.2 pp to 63.2%, and the **employment** rate grew by the same. Particip. may is trending very slowly up over the past year, yet not sufficient to signal that the aggregate supply side is responding to strong demand. The labour market is tight, and businesses are reporting record high difficulties finding labour
- **Wages** rose 0.4% m/m, 0.1 pp more than expected and the annual rate was flat at 3.2%. Underlying growth is accelerating
- Overall, these data confirm a tight labour market, not an argument for cutting interest rates! The Fed will anyway deliver a 25 bps cut on the 18th

Unemployment not up yet, no recession now?

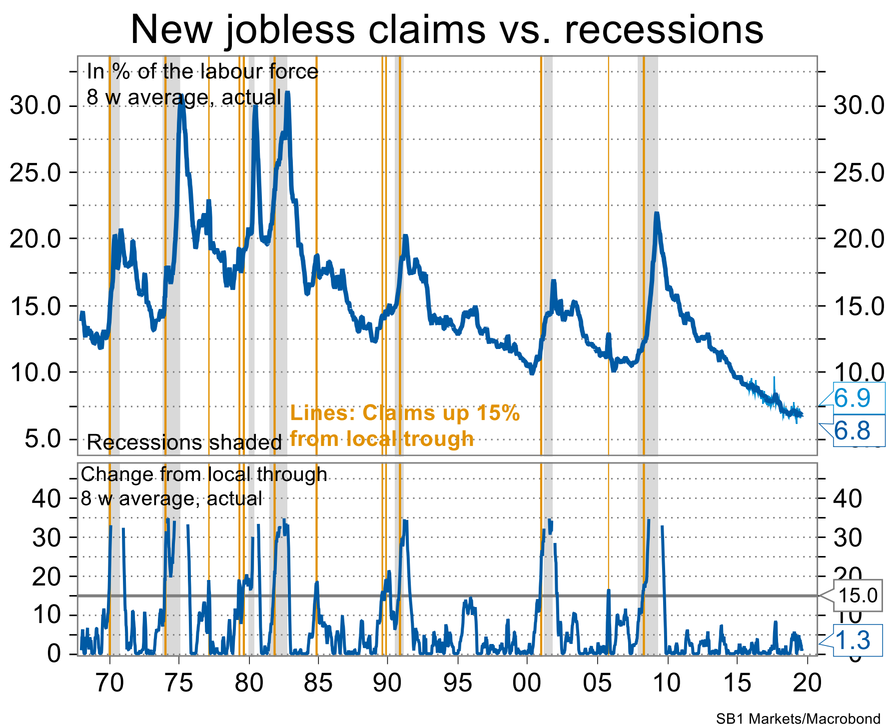
Unempolyment usually turns up as the recession hits (but not before)

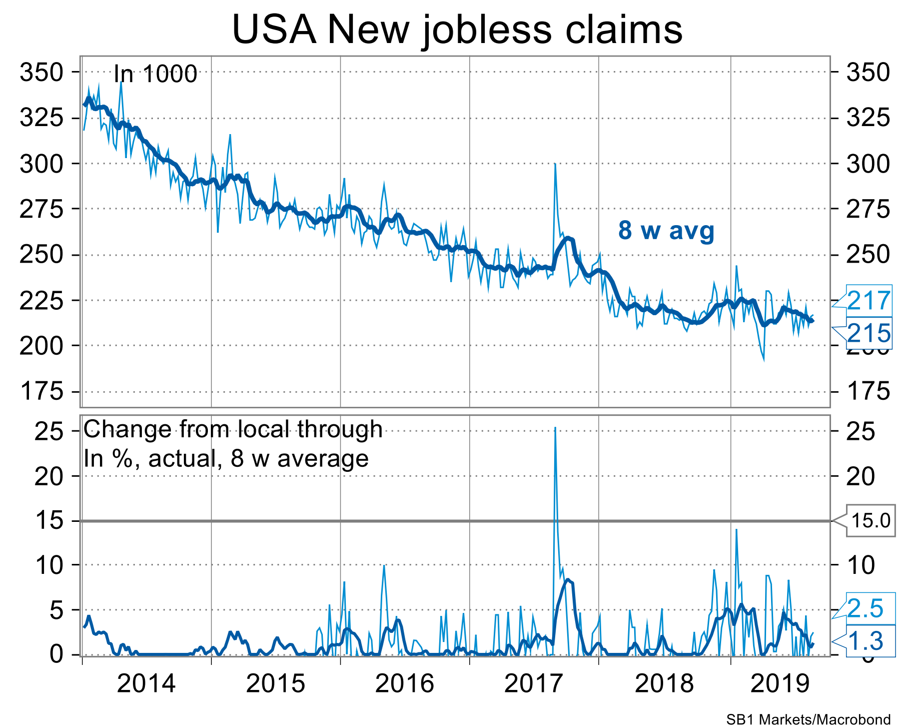


- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession <u>confirmation</u>, but has not been a good recession <u>pre-warning</u>
  - » Unemployment always increases substantially during recessions
  - » An often used threshold for signalling a recession is a 0.3 pp increase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

Jobless claims are still very low, no signs of weakness

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





- 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?

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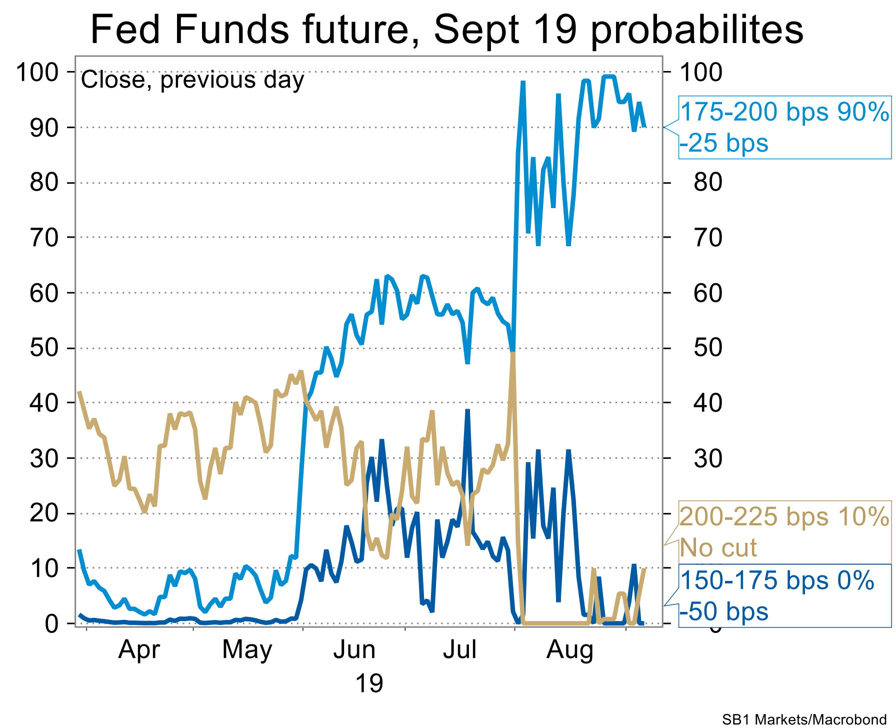
Fed's Beige Book reports no sudden slowdown – but Fed will cut more anyway

Fed's 'regional network' reports continued modest growth and tight labour markets

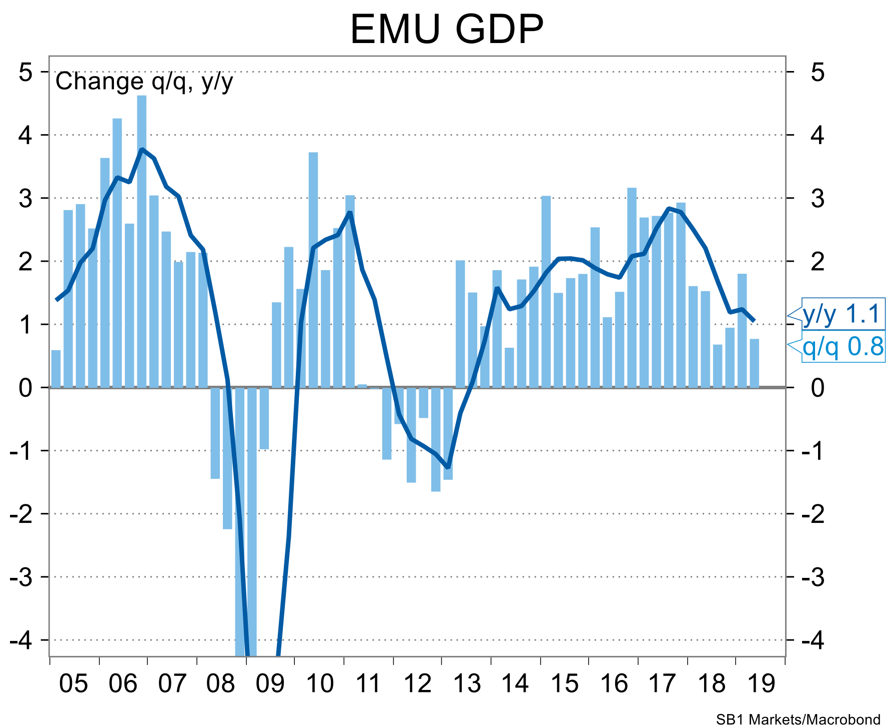
- Economic activity expanded at a '*modest*' rate, according to the respondents to Beige book, unchanged from the assessment in the June report. The outlook is generally viewed as positive, *despite continued concerns about trade-related uncertainty and tariffs*
- On the demand side
  - » Consumer spending was mixed, most Districts reported solid growth in retail sales and increasing auto sales
  - » Home sales were muted, due to a low inventory (we are not so sure about that). Other construction still growing
- On the supply side
  - » Manufacturing activity had fallen slightly from the previous report, and manufacturing employment was down to flat
  - » Non-financial services still OK, solid tourism, softer transportation
- Labour market
  - » Employment continued to grow modestly, unchanged from June
  - » The labour market is tight, continued worker shortages and wages are rising but still at a modest to moderate pace
- Prices
  - » Still modest inflation and mixed reports on the impact of tariffs
- **In total, the Beige book does <u>not signal any need for a second interest rate cut</u> in order to stimulate demand. The Fed can only legitimize the cut by 'trade related/global uncertainty' as at the July meeting**

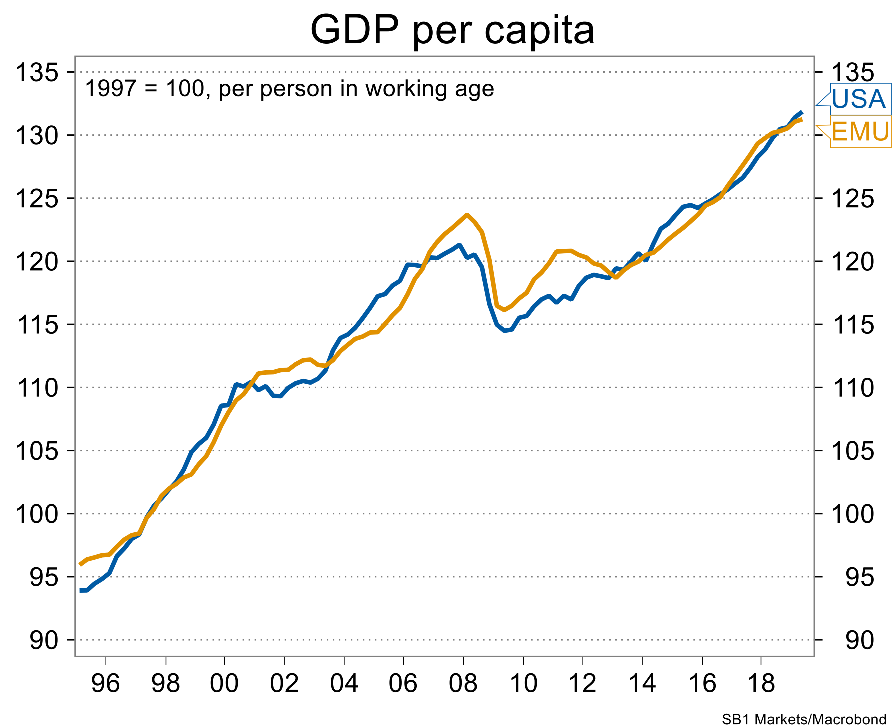


The market is pricing a 25 bps Fed cut on Sept 18 by a 90% probability (and 10% for no cut). The probability of a large cut of 50 bps has understandingly vanished.
Still: The market expects 2-3 cuts by the end of the year

GDP confirmed up 0.8%, details are soft but not disastrous

Q2 growth was unchanged in the 3rd release. Household and business demand increased but slower

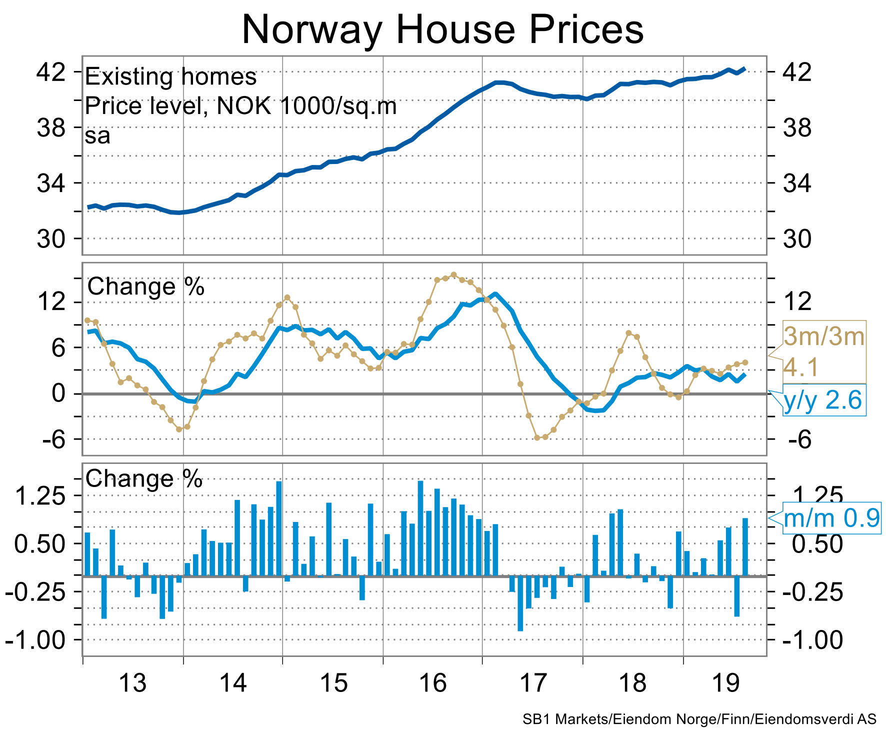


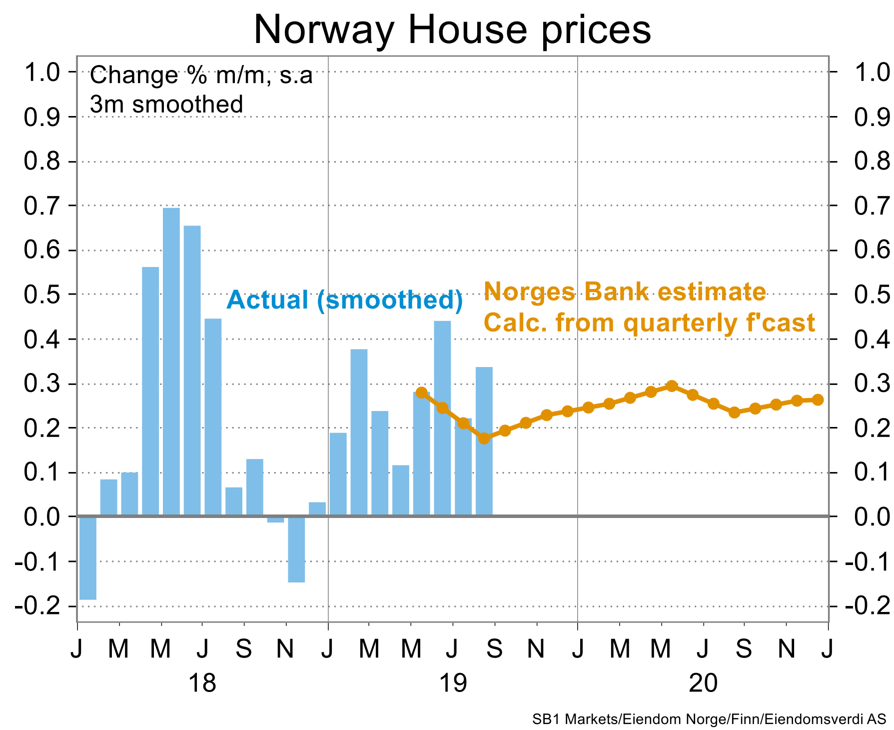


- Q2 growth was unchanged at 0.8% q/q annualised in the 3rd release.
- GDP per capita in working age grew slightly slower in the Eurozone than in the US. Growth in GDP per capita has been higher in the US than in the EMU two past years, However, if we adjust for the change in the structural budget deficit (the fiscal impulse), the ‘real’ growth has been higher in EMU the past years than in the US. Since mid 1990’ies we are not able to spot any material difference. Are you?

House prices bounced back in August, heading moderately up

Prices spiked 0.9 m/m s.a, we expected +0.2%. Market dynamics indicate soft growth going forward

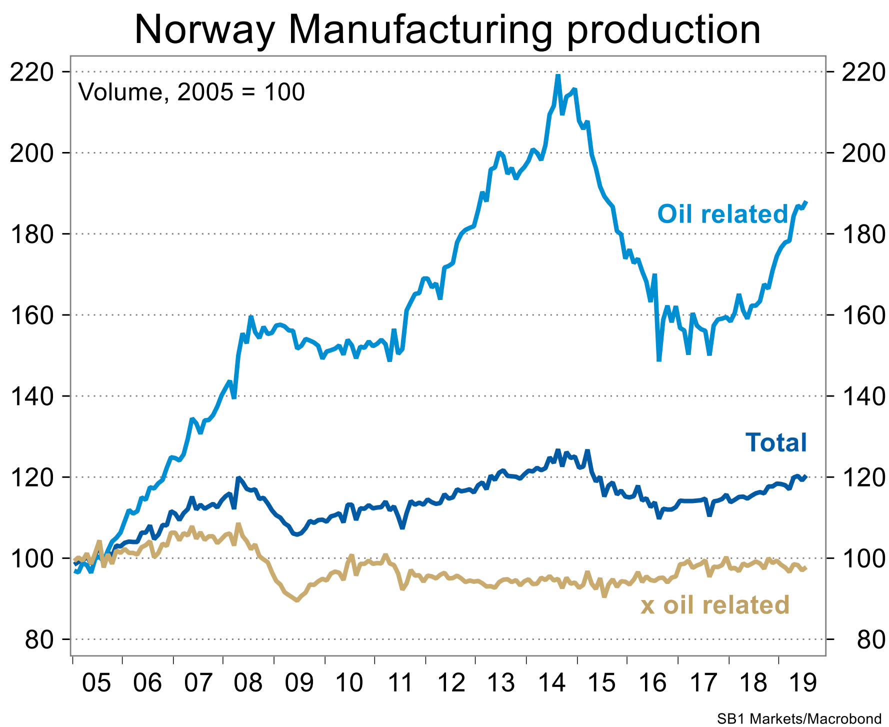


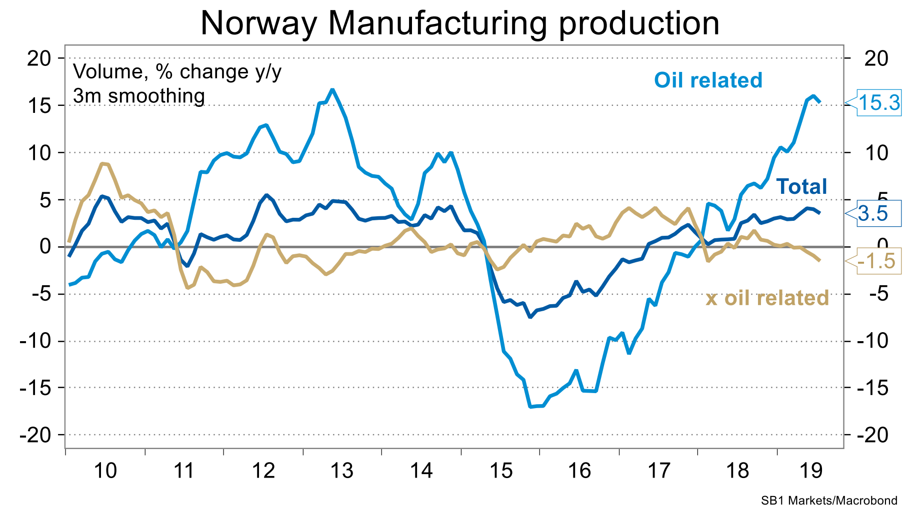


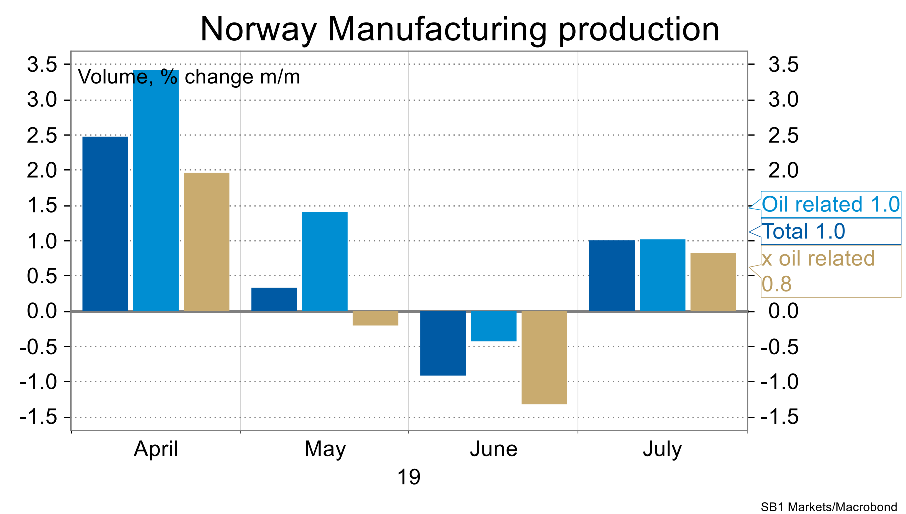
- **House prices** rose 0.9% m/m s.a in August (1-9% unadjusted), following a 0.6% drop in July. The 3m average growth rate is 0.3% and underlying growth is slowly accelerating, to 4.1% in August. Annual growth ticked up to 2.6%. Prices are running marginally above Norges Bank's June f'cast
  - » A broad upswing among regions; prices are climbing in all cities ex Stavanger, which has flattened out. Highest growth in Bodø, Tromsø and Ålesund
- **The number of unsold homes** is still high and rising, to another 10 year high. The elevated inventory is not due to lack of demand but to a high number of new listings (of existing homes). The number of transactions is trending steeply upwards, reflecting brisk demand
- **The interest rate hikes have not dampened demand for housing – short term dynamics signal continued moderate growth the coming months**

Manufacturing production is soaring but only helped by oil related

Production rose 1% in July and is up 3.5% y/y. Oil related sectors up 15%, close to growth peak?







- Total manuf. production rose 1.0% m/m in July, well above expectations. The speed into Q3 is moderate (2%) following a strong Q2. Annual rate is up 3.5% (smoothed)
- The upturn is merely driven by oil-related manufacturers, which are up 15% y/y, the same speed as at the 2013 growth peak! Oil companies have indicated that growth is peaking in H2 2019, muted in 2020
- Non-oil related sectors have been completely flat the past 2 years and is even heading slowly down recent months, down 1.5% y/y
- Surveys have softened, suggesting slower growth

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Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. Rich countries (DM) in the lead, more to go in most EM. Unemployment is low, wage inflation on the way up, not low vs. productivity. Most emerging countries (EM) x China are in recovery mode. Some hotspots EM will get burned, as usual – but there are fewer EM imbalances than normal. Barring policy mistakes, the global economy is not yet rigged for a *hard* downturn	Global composite down 0.3 p in August, to 51.3, suggesting some 3% GDP growth. US service sector (but not according to the ISM!) was the weakest link. The global manuf. PMI rose marginally, after 15 months of decline
China	The governments' stimulus measures may have stabilised the economy, and surveys and data do not point to any swift turn of growth momentum. The invest/GDP ratio is still sliding down. 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. Exports to US approx 2% of GDP, and a (so far) 10 % decline here is manageable. **However, a full scale trade and even more a tech war will hurt the Chinese economy**	The Aug PMIs more up than down. Markit's composite PMI ticked up to 51.6, NBS flat at 53. The PMIs are not reflecting any sudden setback, even though the manuf. sector is slowing modestly. Trade figures still not weak, but exports to the US are down 15%
USA	Growth has slowed, from well above trend. The employment rate is still trending up, and unemployment down while inflation is just marg. below target. No serious overinvestments but most sectors at/above trend and corporate debt is high. Business investments has weakened amid weaker growth in profits and trade war uncertainty. Recent consumption data are solid, halfway funded by lower (but still unusual high) savings. Housing mostly positive. Fiscal stimulus continues in '19/20 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/business investments**	The labour market is tight, employment is slowing modestly. Wage growth flat. Diverged PMI/ISM in Aug; the manufacturing ISM dropped to 49.1 while services jumped to 56.4! Markit reported a slowdown in both sectors. In sum, slower growth in the US but not rapidly. The trade deficit shrank marginally due to a lower deficit vs China
EMU	Growth has slowed and manufacturing data are worrying while services remain resilient. The labour market is still tightening, and labour cost infl. is back to a normal level. Investment ratios on the way up but are not too high, overall. Credit growth is accelerating, but still muted. Household savings are high, still consumption has kept up well. Policy: ECB has turned dovish but has not that much ammunition left, barring a huge QE. Fiscal policy debate has turned. **Risks: Trade war (but less risk for a US/EU war after G7). Italy. Weak short term data signals a substantial further slowdown risk**	PMIs have stabilized, thanks to solid growth in the service sector. GDP details were not that weak, even as all sectors are slowing. The manuf. PMI remains in contraction mode. Retail sales heading moderately up.
Norway	Growth is still above trend but may soon be peaking. For now, unempl. declines further (some soft data recently, though!). Wage inflation is accelerating. Oil investments are peaking in H2. Mainland business inv. not low anymore, will probably slow in '20. Housing investments have bottomed, for now. Electr. prices have taken the headline CPI down but core still above target. Credit growth still above income growth, is spite of heavy regulations. **Risks: Debt, housing. A harsh global slowdown**	August house prices confirms strong demand, even as supply is soaring. Manufacturing production is climbing, non-oil sectors muted, at best. Vacancies rising

The Calendar

In focus: China August data, ECB meeting, US consumer confidence, Norges Bank Regional Network

Time	Country	Indicator	Period	Forecast	Prior
TBA	CH	Credit Growth CNY	Aug	1609.0b	1010.0b
Monday Sept 9					
08:00	GE	Trade Balance	Jul	16.0b	16.8b
08:00	NO	GDP Mainland (MoM)	Jul	0.1%	0.2%
10:30	UK	Monthly GDP (3M/3M)	Jul	-0.1%	0.3%
10:30	UK	Manufacturing Production MoM	Jul	-0.3%	-0.2%
Tuesday Sept 10					
03:30	CH	CPI YoY	Aug	2.6%	2.8%
08:00	NO	CPI YoY	Aug	1.8%(1.9)	1.9%
08:00	NO	CPI Underlying YoY	Aug	2.2%(2.2)	2.2%
08:45	FR	Manufacturing Production MoM	Jul	0.5%	-2.2%
09:30	SW	CPIF Excl. Energy YoY	Aug	1.8%	1.7%
10:00	NO	NoBa Region Network: Next 6M	Aug	1.38(1.35)	1.57
10:30	UK	Average Weekly Earnings YoY	Jul	3.7%	3.7%
10:30	UK	ILO Unemployment Rate	Jul	3.9%	3.9%
12:00	US	NFIB Small Business Optimism	Aug	103.5	104.7
16:00	US	JOLTS Job Openings	Jul	7311	7348
Wednesday Sept 11					
14:30	US	PPI Ex Food and Energy MoM	Aug	0.2%	-0.1%
14:30	US	PPI Ex Food and Energy YoY	Aug	2.1%	2.1%
Thursday Sept 12					
01:50	JN	Core Machine Orders MoM	Jul	-9.0%	13.9%
06:00	SW	PES Unemployment Rate	Aug	--	3.8%
10:30	NO	Homebuilders' Survey, Sales	Aug		27'
11:00	EC	Industrial Production MoM	Jul	-0.1%	-1.6%
13:45	EC	ECB Deposit Facility Rate	Sep-12	-0.5%	-0.4%
14:30	US	CPI Ex Food and Energy YoY	Aug	2.3%	2.2%
14:30	US	Initial Jobless Claims	Sep-07	216k	217k
20:00	US	Monthly Budget Statement	Aug	--	-$119.7b
Friday Sept 13					
08:00	NO	Households Savings rate	2Q		6.8%
09:30	SW	GDP QoQ	2Q F	-0.1%	-0.1%
11:00	EC	Labour Costs YoY	2Q	--	2.4%
14:30	US	Retail Sales Advance MoM	Aug	0.2%	0.7%
14:30	US	Retail Sales Core (Control Group)	Aug	0.3%	1.0%
16:00	US	U. of Mich. Sentiment	Sep P	90.4	89.8
16:00	US	Business Inventories	Jul	0.3%	0.0%
04:00	CH	Investments YoY	Aug	5.7%	5.7%
04:00	CH	Industrial Production YoY	Aug	5.2%	4.8%
04:00	CH	Retail Sales YoY	Aug	8.0%	7.6%

- **China**
  - **China** is gradually cooling but there are so far no indications that the trade war has triggered a rapid slowdown. In July, both **industrial production, retail and investment growth** came in on the softer than expected, however, given the strong June, it was not a dramatic downswing. **Credit growth** has accelerated somewhat recent quarters
- **US**
  - **Retail sales** have been soaring, for how long? Businesses are reporting moderate growth and consumer sentiment is weakening (in average)
  - **UoM consumer sentiment** noted a dramatic decline in August, while the CB index held steady. Will the September print confirm a weakening sentiment?
  - **Core CPI inflation** has increased to above Fed's target, although the PCE deflator has not yet followed suit (it probably will)
- **EMU**
  - **The ECB** will announce a 'stimulus packages' on Sept 12. We expect a 10 bps interest rate cut to -0.5%, the market is pricing some 50% prob. of a larger, 20 bps cut. A restart of QE is likely, and more support to banks, to lessen the burden of a negative ECB deposit rate?
  - **Industrial production** contracts and the PMIs point to a deterioration
  - **Labour costs** are slowly accelerating as the labour market strengthens
- **Norway**
  - Most Norwegian business surveys have softened somewhat, we do not expect **Norges Bank's Regional Network** to continue to report accelerating growth vs the 3% growth noted in Q2. But only a dramatic downswing can prevent Norges Bank from hiking next week
  - **Core CPI inflation** is running just above the price target at 2%, we agree with consensus, unch at 2.2%
  - **Households' savings rate** may have bottomed out, after a decline in the rate has funded ½ of the consumption growth since 2015

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

In this report

Global +PMIs

- Global macro data are improving (or forecasts have been nudged down?)
- Retail sales still OK, manufacturing production stagnates – exports are sinking
- Global PMI fell 0.3 p in August, this time the service sector is to blame
- Manufacturing ISM noted a contraction in August; weak orders, employment
- Mixed US services indices; ISM jumped in August, Markit's PMI down
- Eurozone PMI edges up in Aug, has stabilised
- US auto sales rose marginally in August
- What, Eurozone auto sales straight up in August?

China

- Reserve reuirements cut for the 6th time
- Exports hurt by tariffs but total still flat. Import have not collapsed

USA

- August labour market report confirms a modest slowdown in employment
- Wage growth higher than expected in August, underlying accelerates
- Jobless claims are still very low, no signs of weakness
- Fed's Beige Book reports no sudden slowdown – but Fed will cut more anyway
- The trade deficit shrank marginally, both imports and export trending down
- Q3 growth down towards 1.5%

EMU

- GDP confirmed up 0.8%, details are soft but not disastrous
- Retail sales down in July, after a strong June, trend up
- German manufacturing production tumbles, steepest decline since 2009
- German manufacturing orders slipped again in July, no recovery in sight

Sweden

- The Riksbank surprised markets by sticking to its plan to hike in Q4/Q1

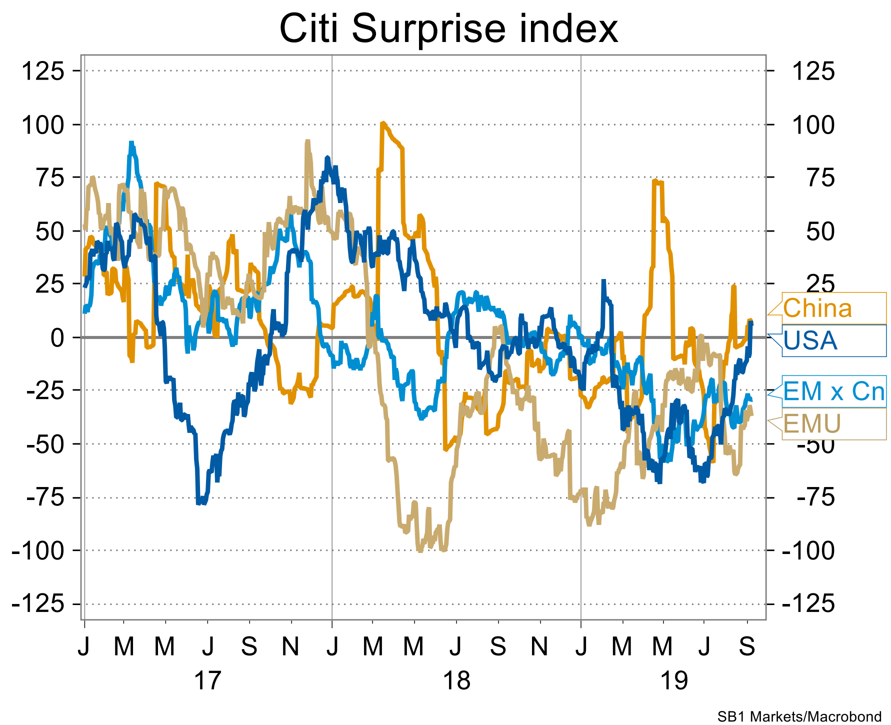
Norway

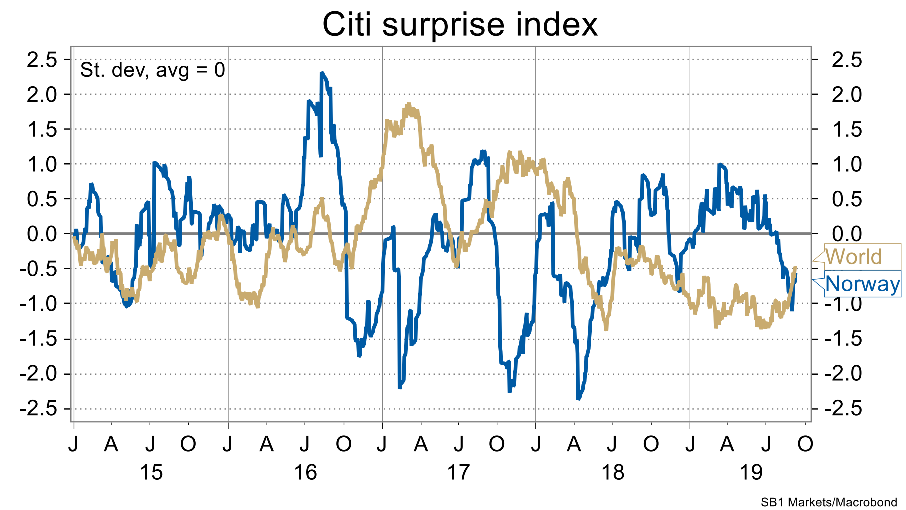
- The Financial News Index down in August
- House prices bounced back in August, heading moderately up
- OBOS Oslo apartment prices are slowly climbing
- Manufacturing production is soaring but only helped by oil related
- Manufacturing PMI rebounding in August, back at a decent level
- Unfilled vacancies are climbing, signs of a tightening labour market
- Current account surplus a tad down in Q2, on lower capital income & oil exports

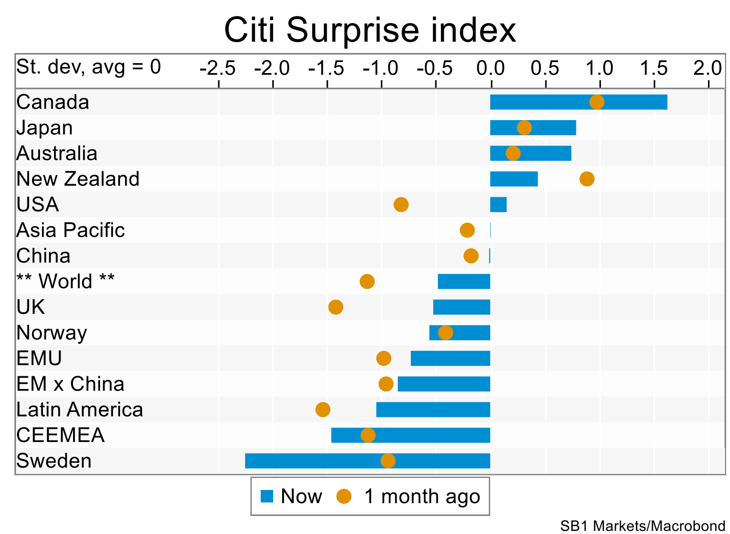
SpareBank 1 MARKETS

Global macro less disappointing, and US & China surprise on the upside again!

US at 7 month high, China data above par too, EMU and Emerging Markets less negative





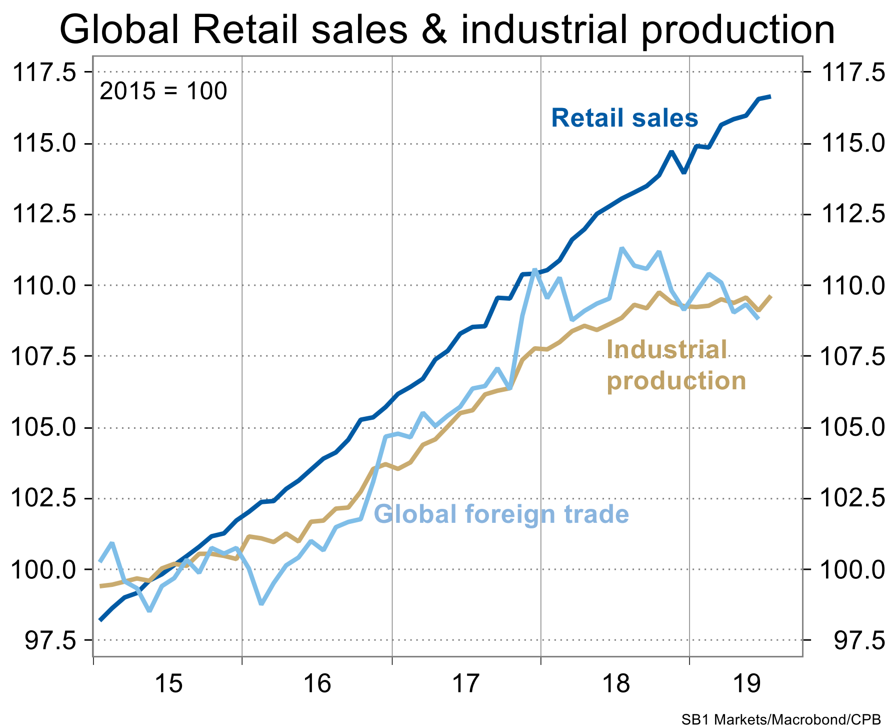


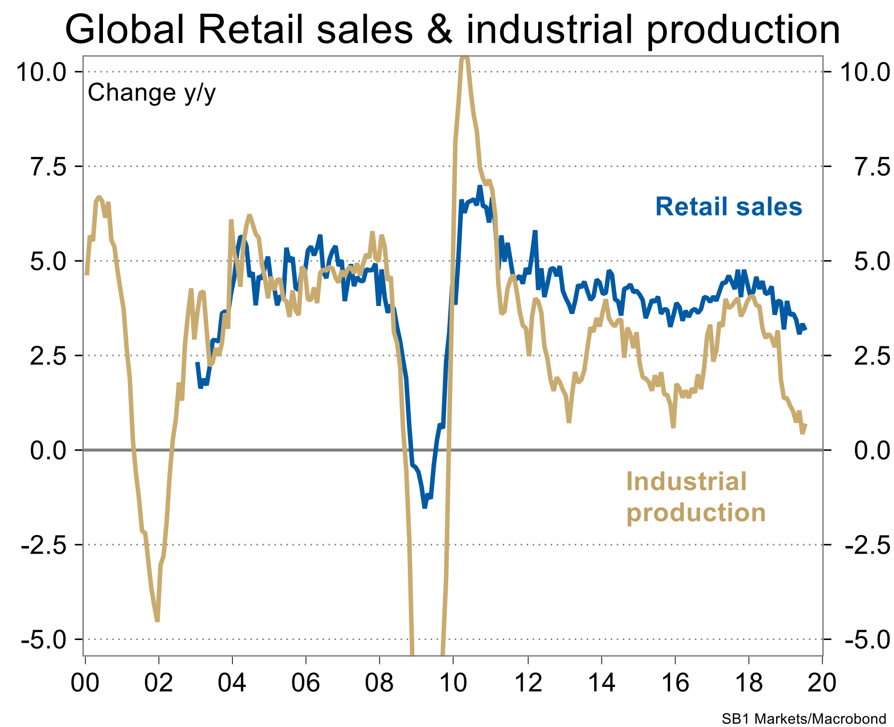
- The global surprise index has been in negative territory since last spring. The index has improved through July and August, last week it rose to the highest level since late 2018!
- US data flows are now in sum more upbeat than expected, for the fist time since Feb! Strong consumer data, a spike in the non-manufacturing ISM is lifting the surprise index
- The EMU surprise index is weak but less so recently, PMIs better than feared
- Chinese July data in sum slightly better than expected too
- Norwegian data are disappointing vs expectations but a tad less last week

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

Retail sales still OK, manufacturing production stagnates – exports implodes

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

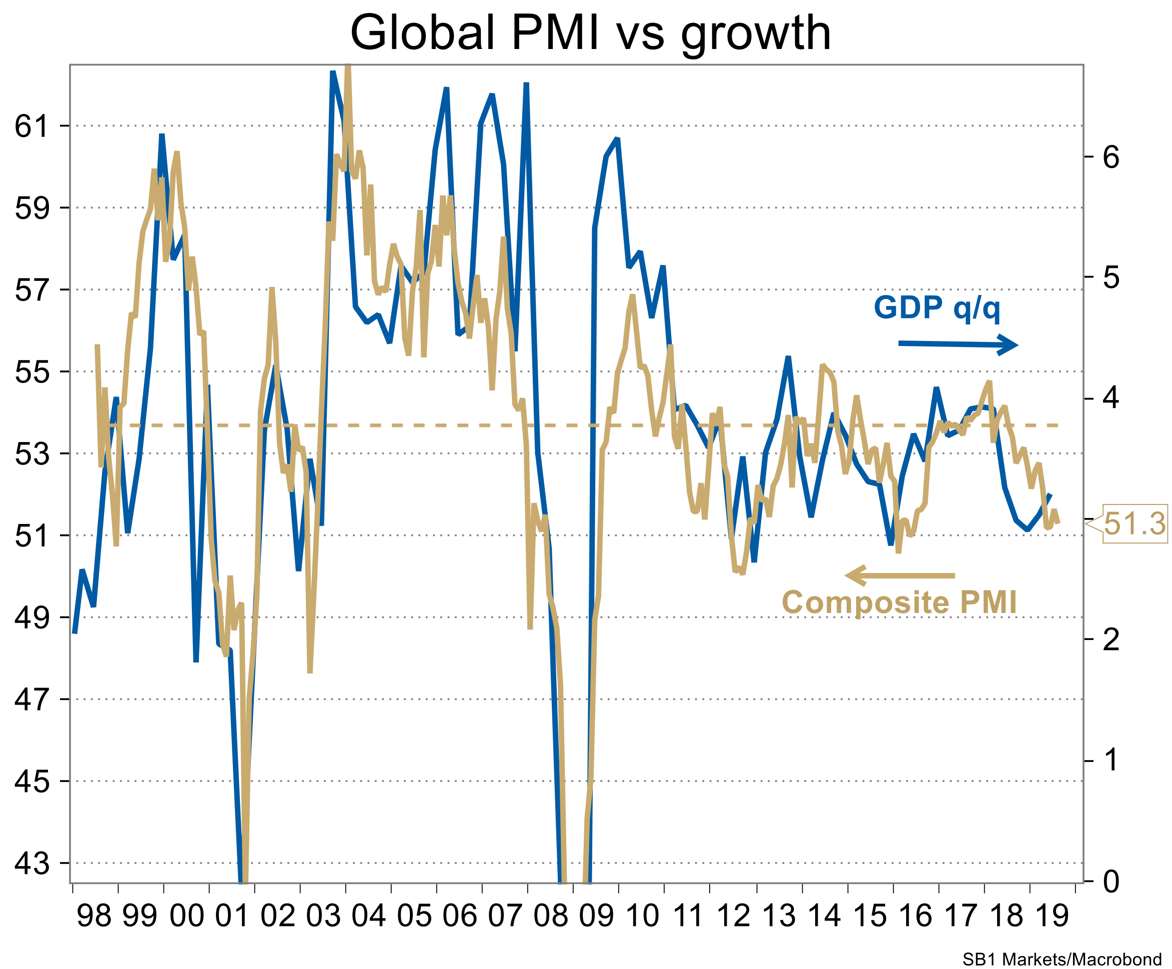


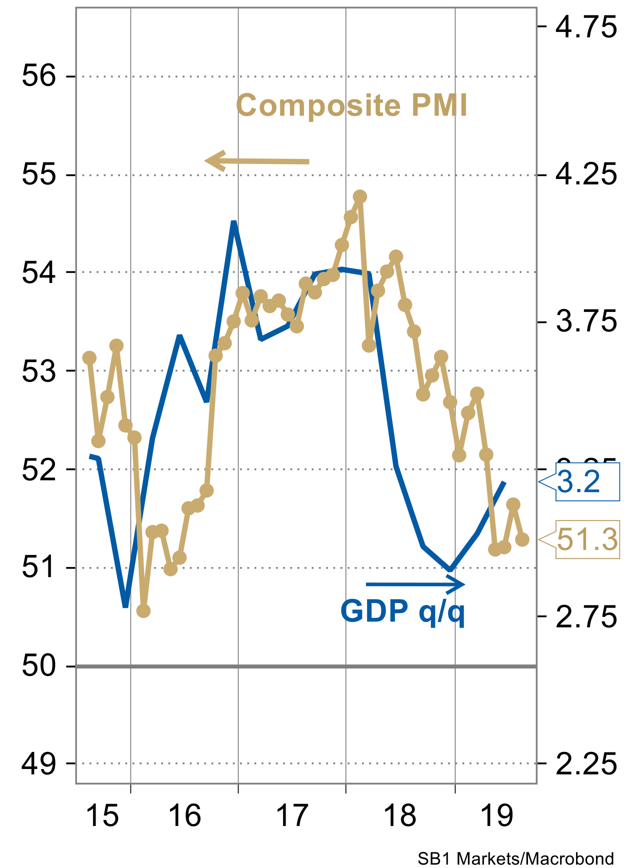


- **Global foreign trade** fell 0.5% m/m in June, and is now trending sharply down. The weakness was rather broad based but Emerging Asia ex China and Lat. Am were the weakest links in the chain
- Global **industrial production** probably recovered in July, from the June slump, even if both China and 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 probably rose marginally in July. The trend signals that consumption is still supporting the global economy – even if it has slowed somewhat

Global PMI fell 0.3 p in August, this time the service sector is to blame

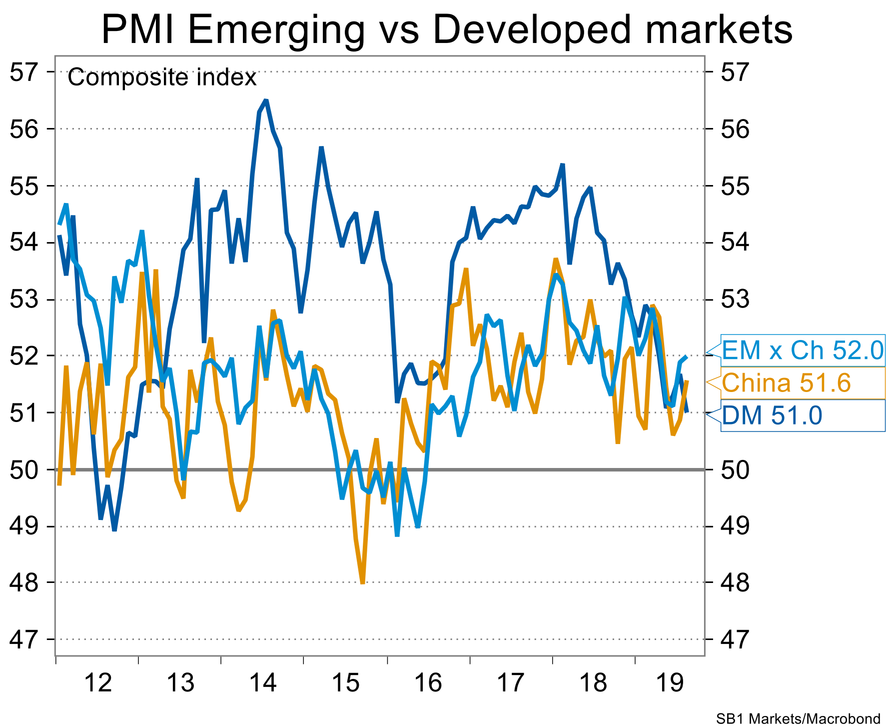
Composite PMI fell to 51.3, 0.1 p weaker than we f’casted. Signals global GDP growth at 3 %

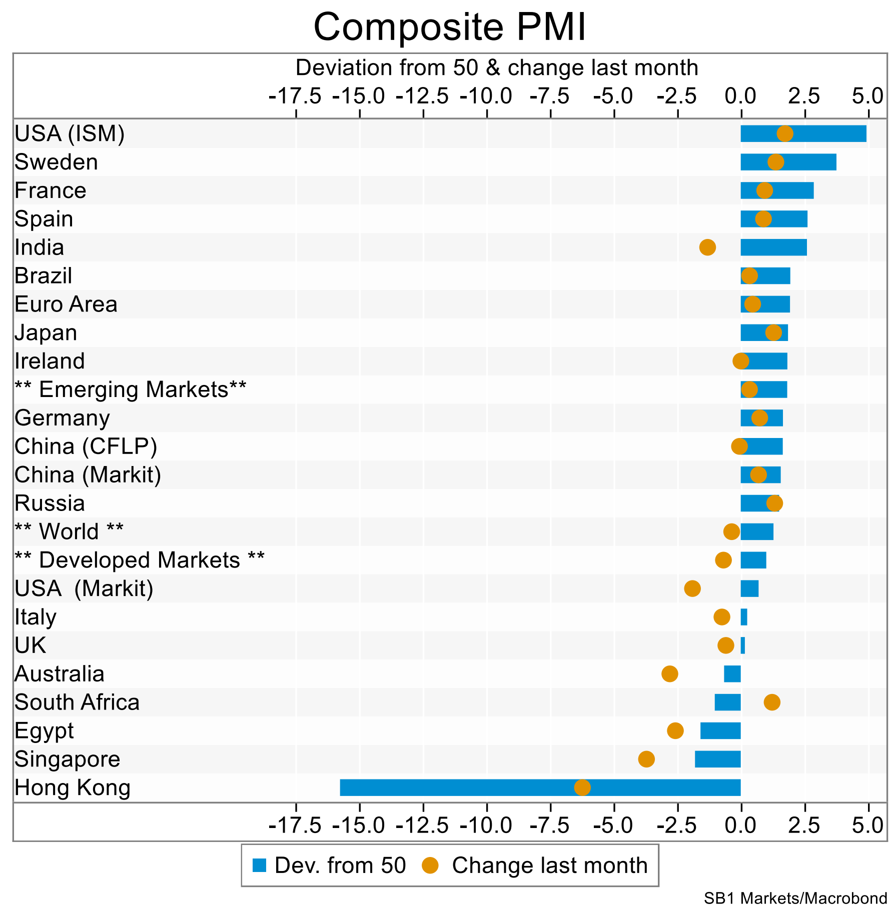




A lift in Emerging markets PMI was offset by weaker DM (mostly US)

Composite PMI: Just 5 countries/regions are below 50, Hong Kong at the bottom, of course



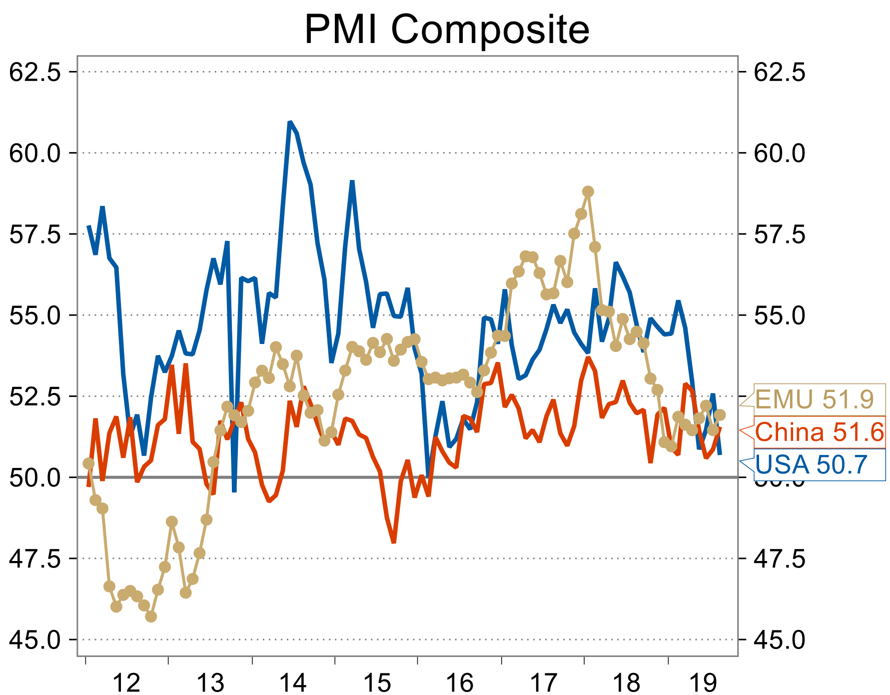


- 12 countries/regions reported a higher PMI in August than in June (thus, activity accelerated or fell at a slower pace), from 13 in July. 10 countries weakened (from 9)
- 5 countries below the 50-line, from 6 in July
- DM average down 0.7 to 51.0. EM x China rose 0.1 p to 52.0 China (Markit) rose 0.7 p while the NBS/CFLP index was unch.

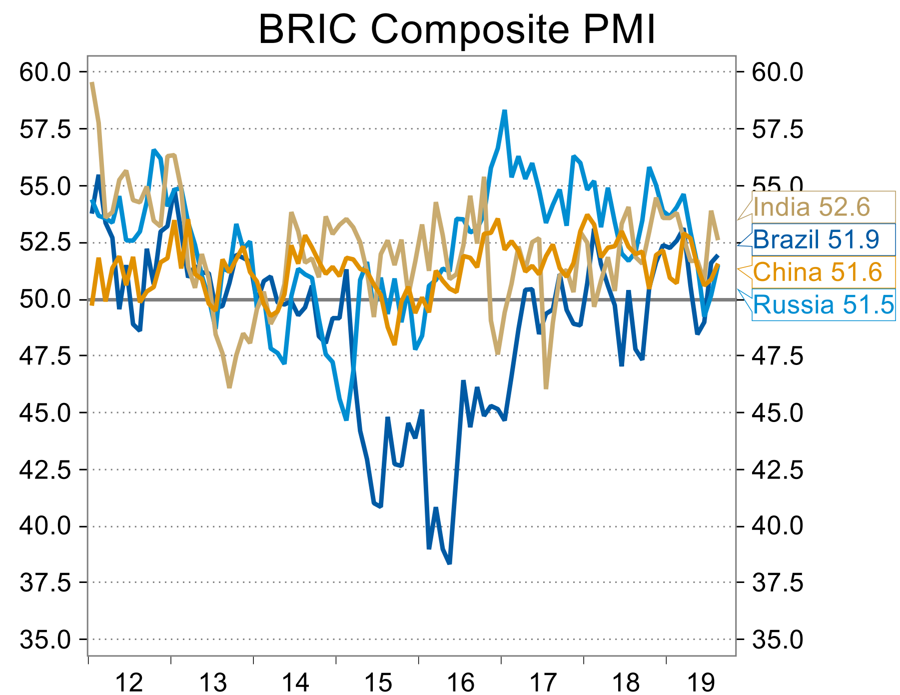
Hong Kong services collapsed, of course due the protests

US down (Markit, the ISM rose) but EMU, China, Russia and Brazil up

US composite PMI even weaker than first reported, due to a larger decline in service sector PMI



Source: IHS Markit, SB1 Markets, Macrobond

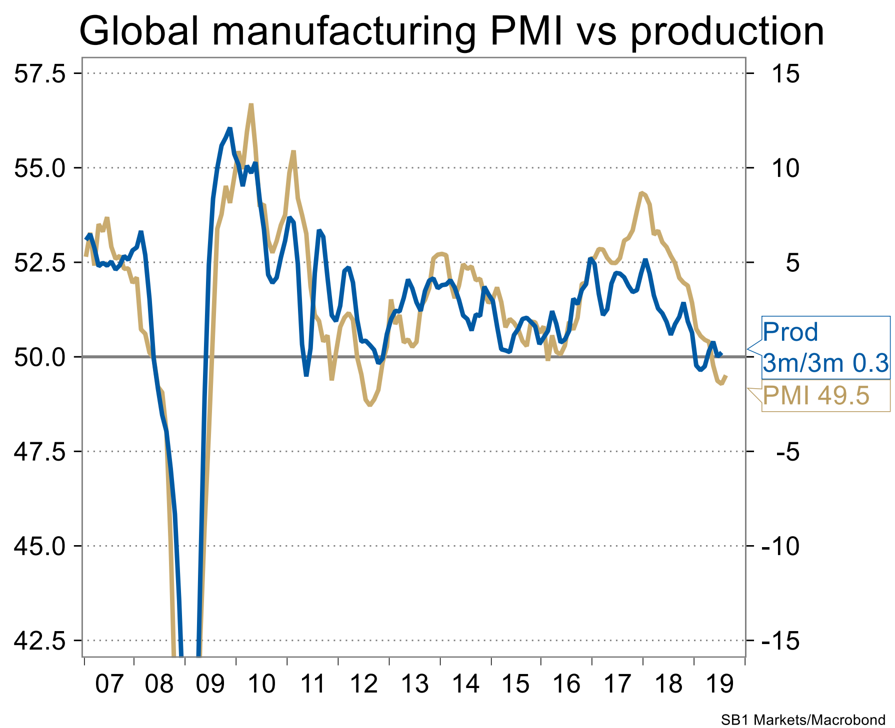


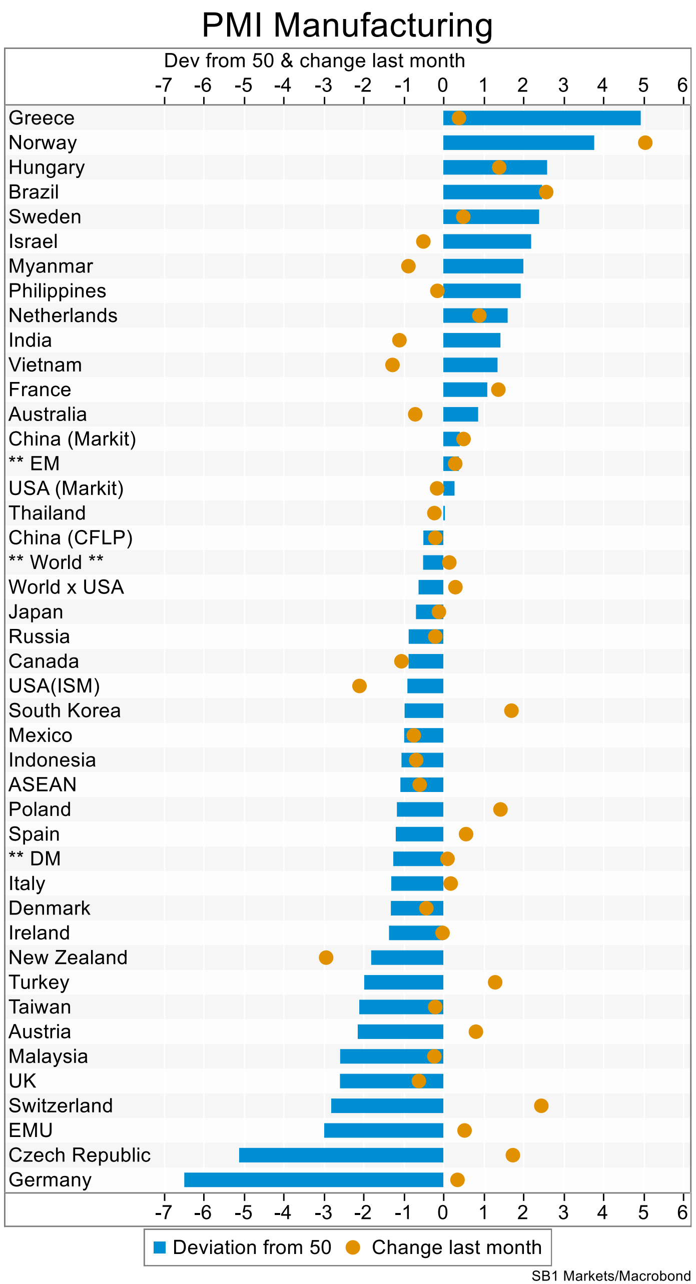
SB1 Markets/Macrobond

- Markit's US composite PMI fell 1.9 p in August, 0.2 p weaker than first reported. Services slipped, manufacturing marginally down. The 'composite' ISM came up due to a lift in the service index, while manufacturing dropped
- The EMU PMI edged up to 51.9, trending modestly up since early 2019. Manufacturing is struggling, service sector still solid
- In sum, a lift in Chinese PMIs; Markit's composite index rose while NBS was flat. Both are still signalling growth
- All BRIC composite PMIs are above the 50 level, Brazil, Russia and China all improved in August

Manufacturing PMI a tad up in August, to 49.5

Both EM and DM rose marginally, 2/3rd are below 50

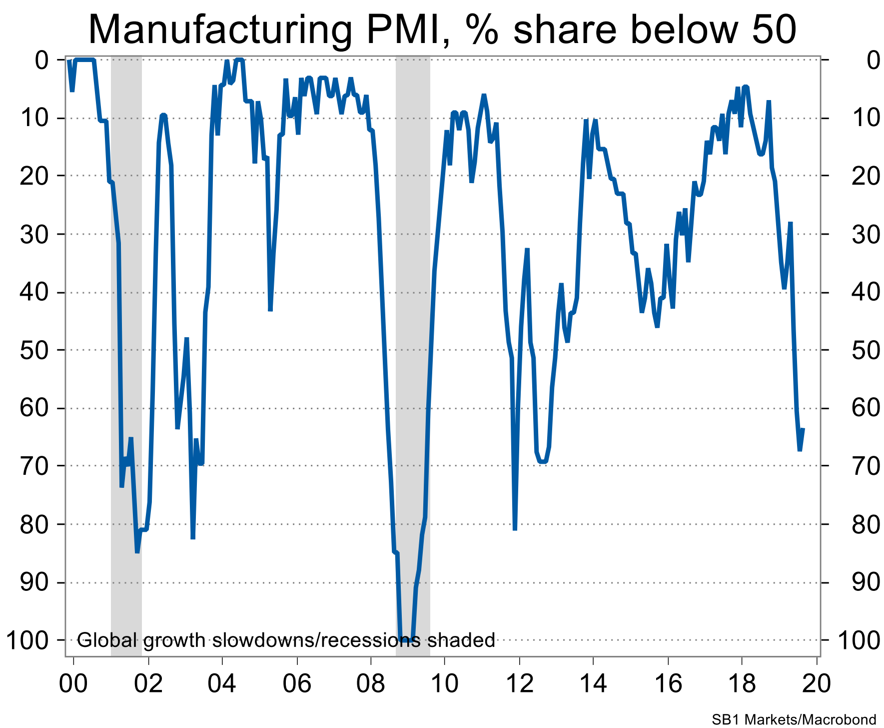


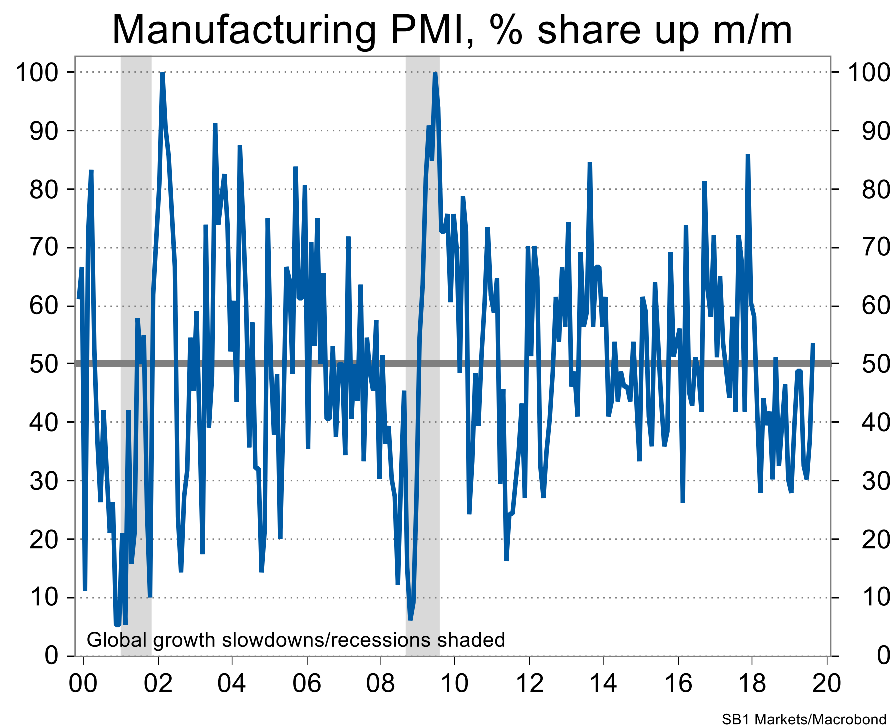


- PMI rose 0.2 p, 0.1 pp above our estimate (based on the preliminary results from EMU/JP/US/China). **This is the first upturn after a 15 months decline. The index at 49.5 signals a modest contraction in global manuf. production**
  - 20 (16 in July) countries/regions rose in August, and 20 declined (from 22)
  - 27 of 43 countries/regions are below the 50 line. Germany and EMU at the bottom
  - Developed Markets rose 0.1 p in average, Emerging Markets up 0.3 p

A broad based slowdown, 65% of countries/regions under 50

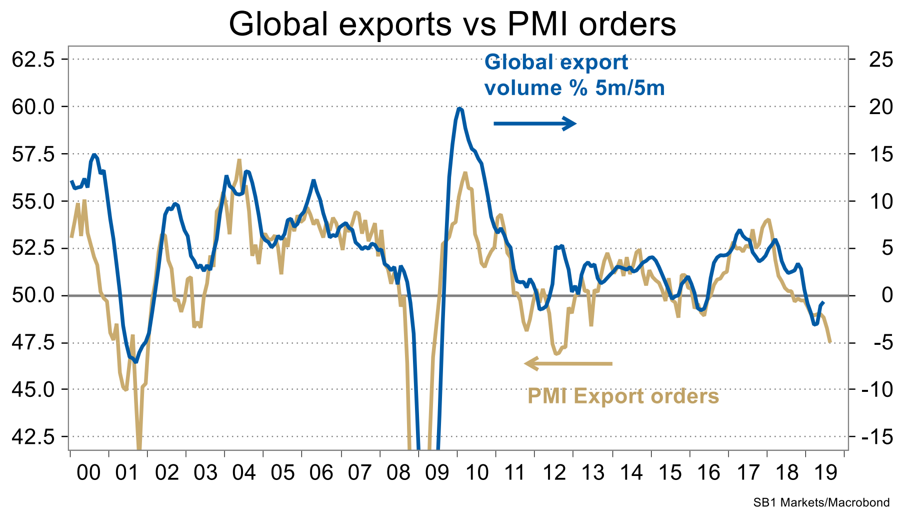
However, in August more PMIs rose than declined, for the first time in 1 year

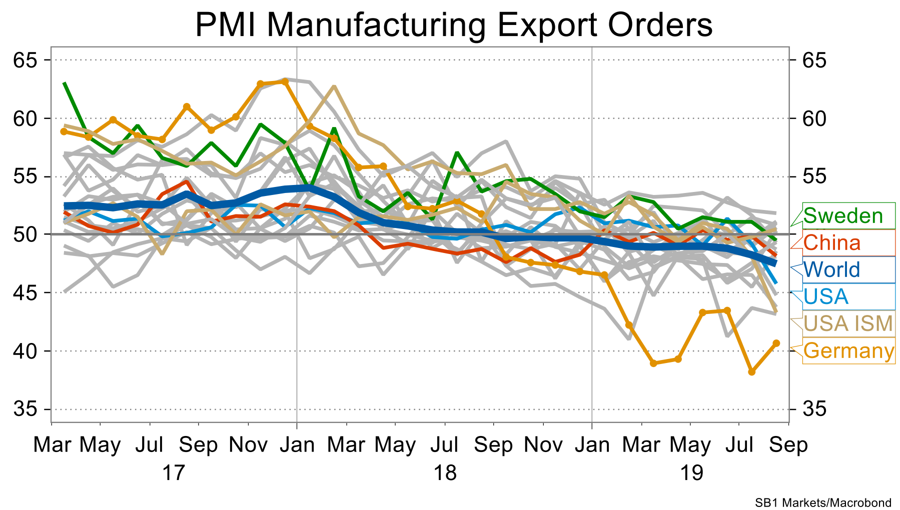




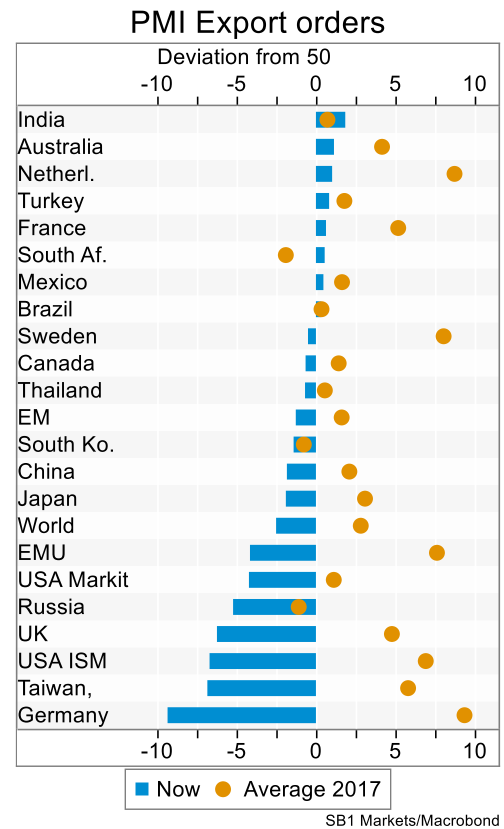
PMI export orders are still contracting, broadly and faster

Export orders index fell -0.8 p 47.5 in August. The German contraction eased but still very intense



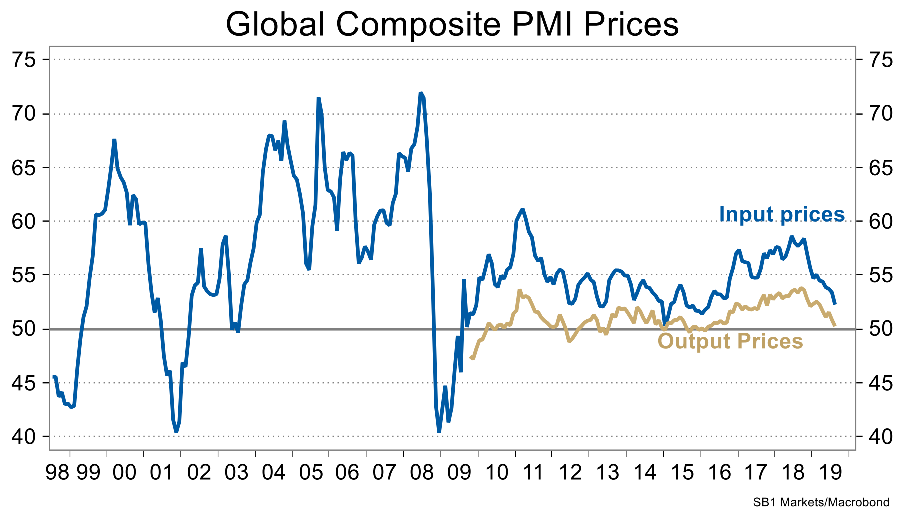


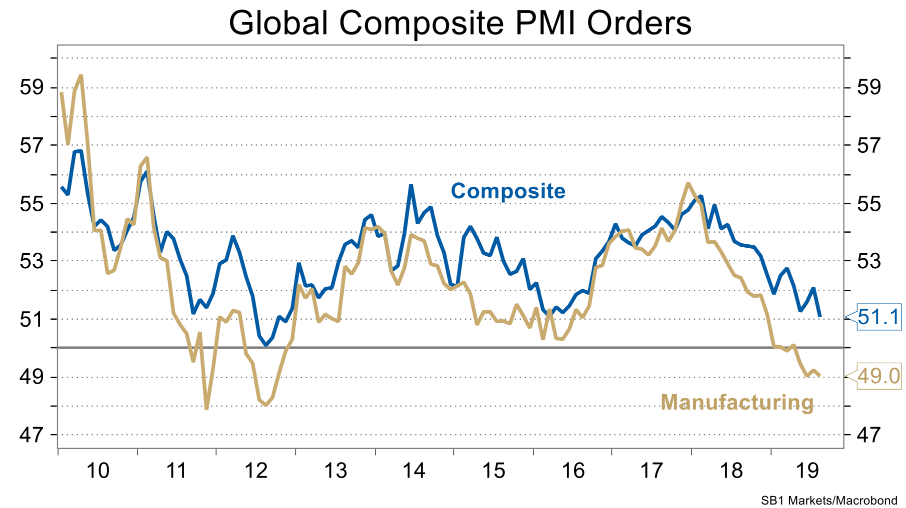
- Actual global export volumes have fallen recent months, down -1% measured 5m/5m – and the decline is not accelerating. The PMIs signals a faster decline
- A large majority of countries is now reporting declining export orders, just India export order PMI is above the 2017 average
- Uncertainties regarding the trade war and also Brexit has no doubt taken its toll on export demand. The Eurozone slump may partly be blamed, and slowdowns in China and the US
- Germany is weaker than any other country, trouble in the auto industry is just one part of the story
- Chinese exporters are reporting an export order index at 48.2, the weakest since late 2018

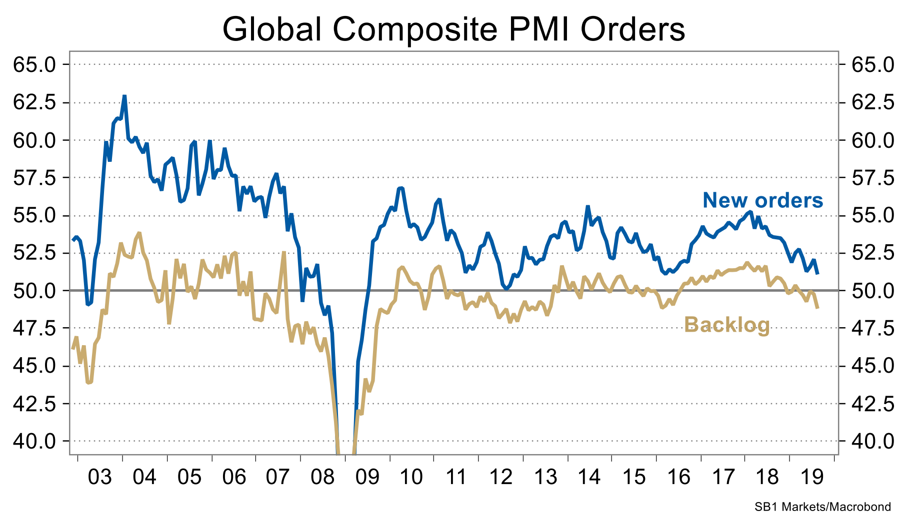


Orders and prices are slowing sharply

Manufacturing orders fell faster, and service orders slowed sharply in Aug. Prices are slowing







- Manufacturing orders index signals modestly contracting order inflows. Services have so far been quite resilient to the slump in manufacturing but the index fell sharply in August and took the composite index down
- Both input and output prices are easing – and rapidly (but not yet outright falling), confirming weaker demand

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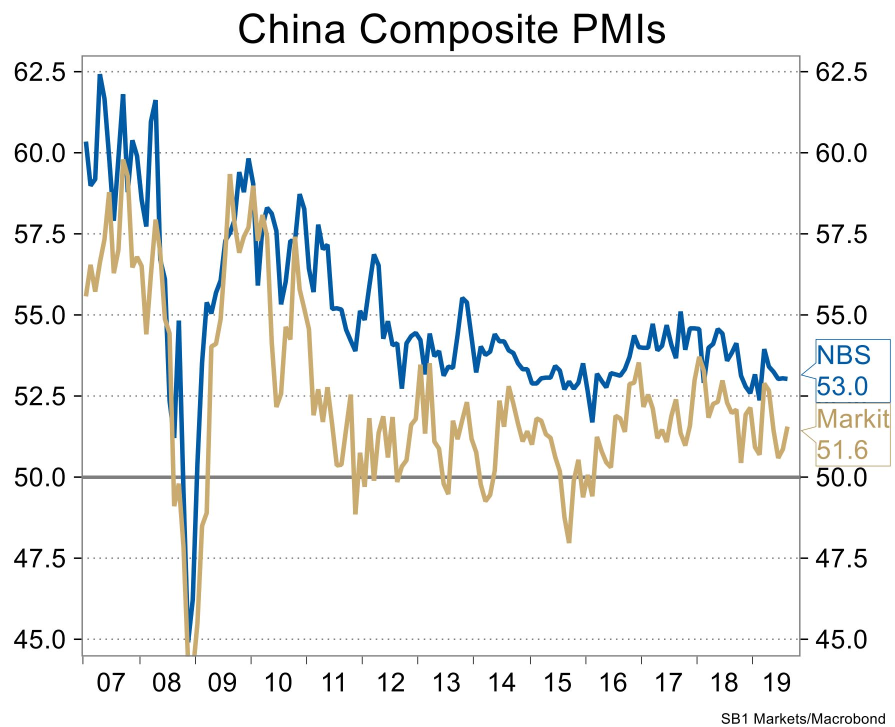
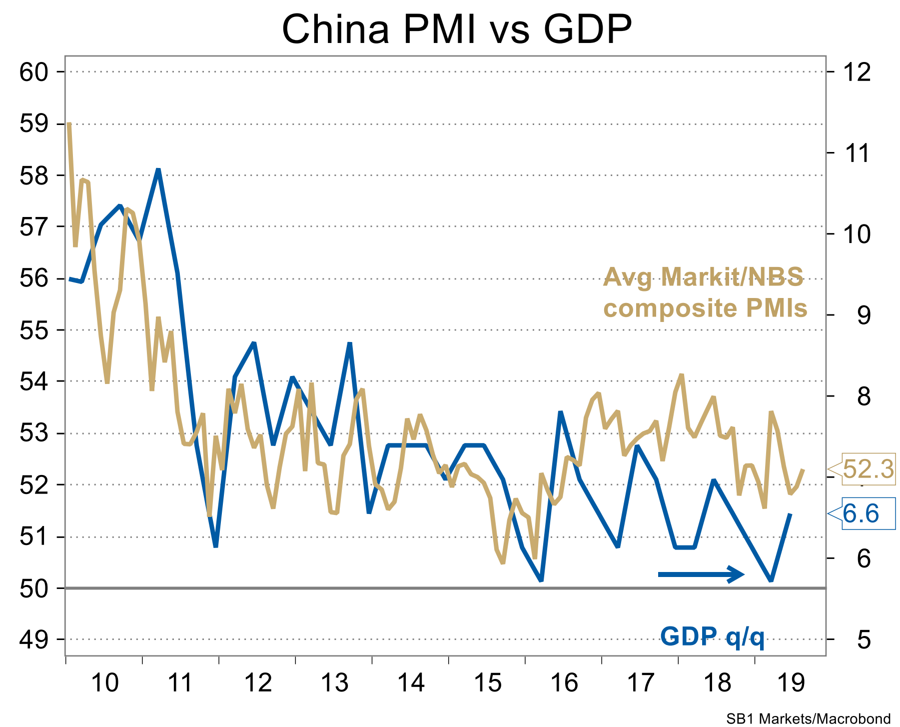
The PMIs in sum upbeat in August, no signals of a sudden setback

Markit's composite PMI edged up, NBS flat. The avg of PMIs points to steady growth

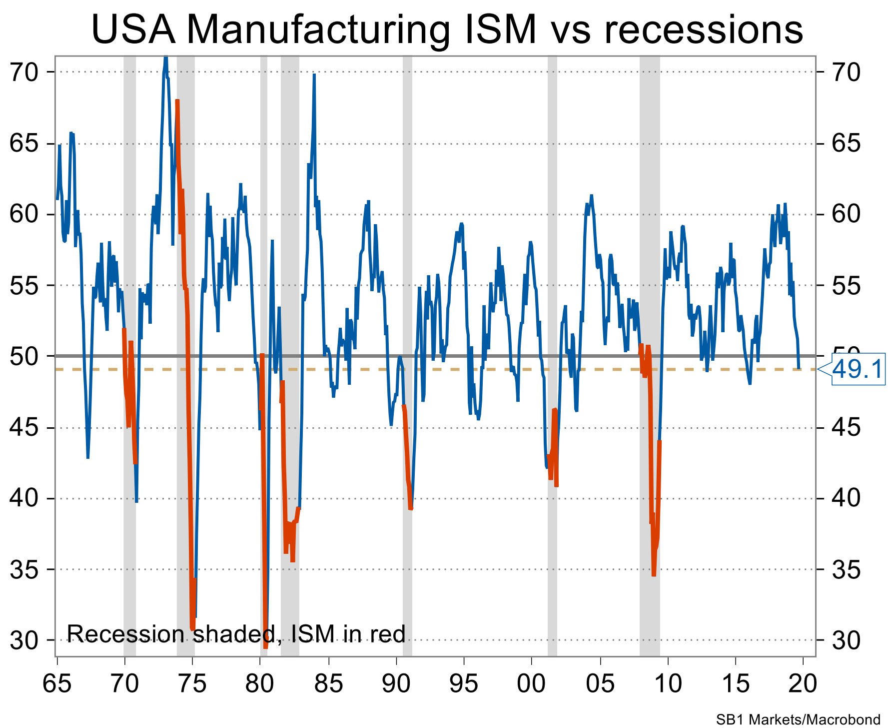


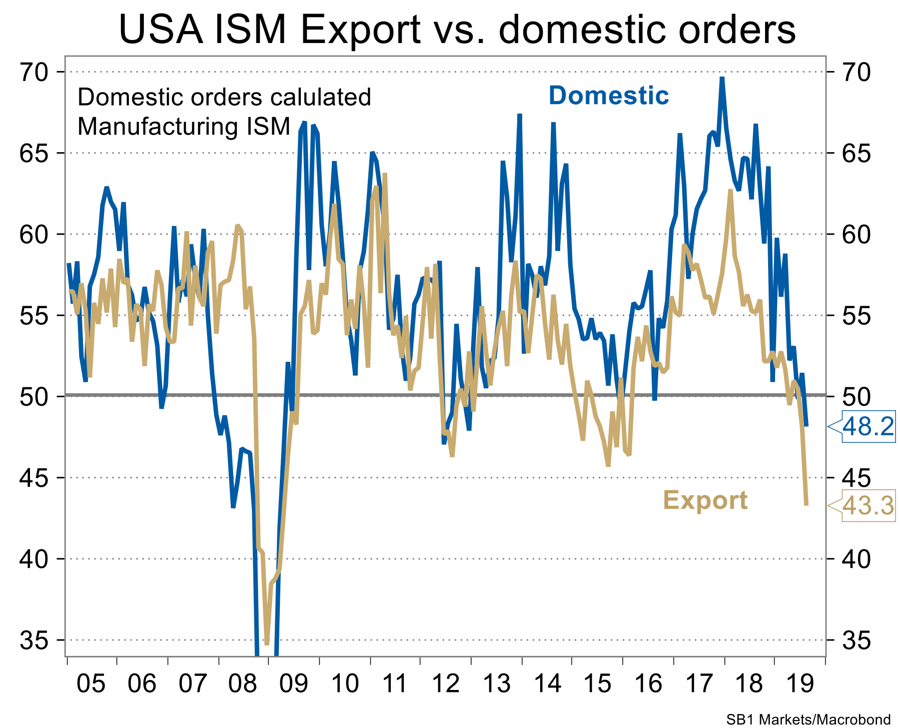


- NBS' composite PMI (CFLP) was flat at 53 in August, the service index edged up while manufacturing came marginally down
- Markit's composite PMI rose 0.7 p, both manufacturing and services reported improved business conditions
- The avg of the PMIs is sliding slowly down but do not signal any abrupt halt in the Chinese economy

Manufacturing ISM down below 50 in August; weak orders, employment

ISM surprisingly slipped to 49.1. Weakest export orders since '09, domestic demand is waning too

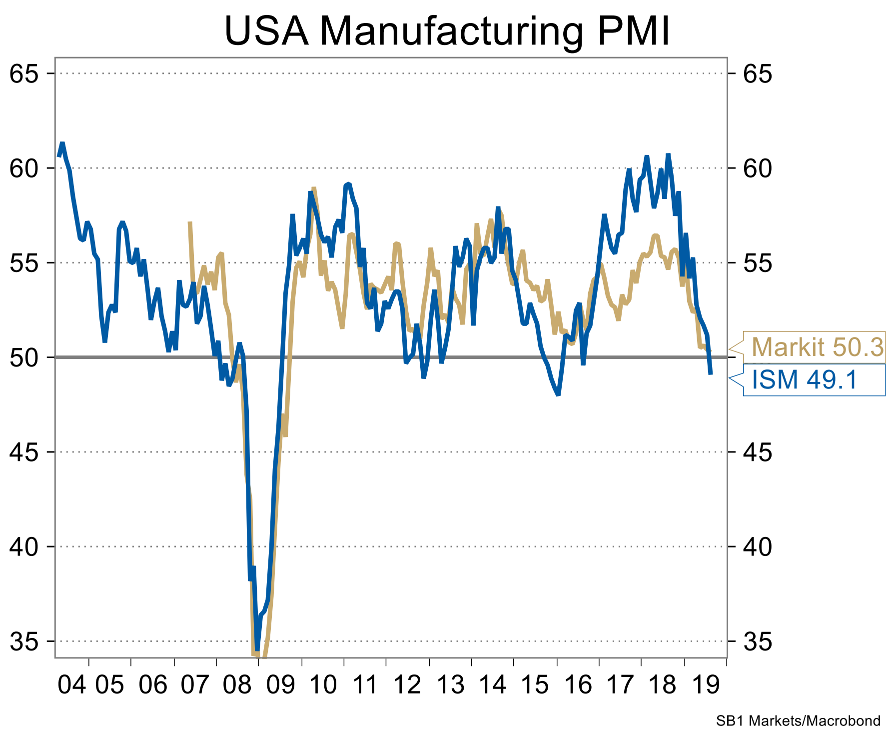


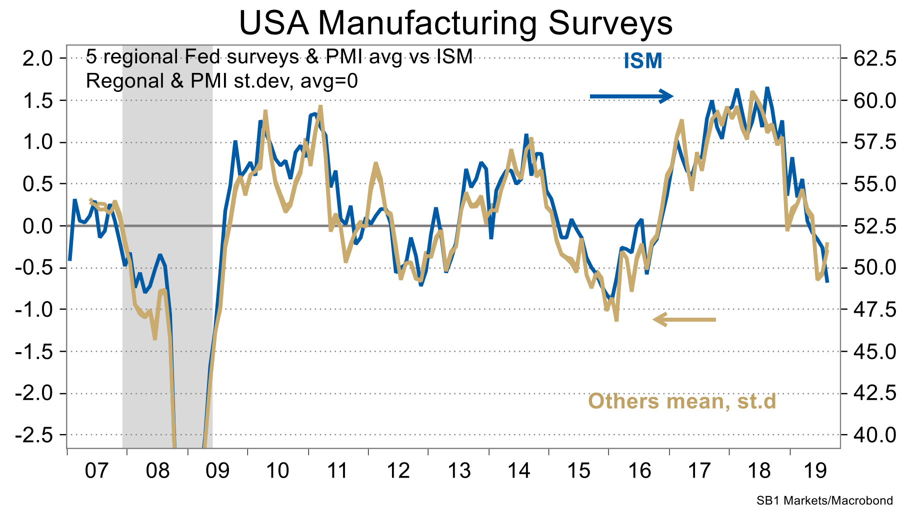


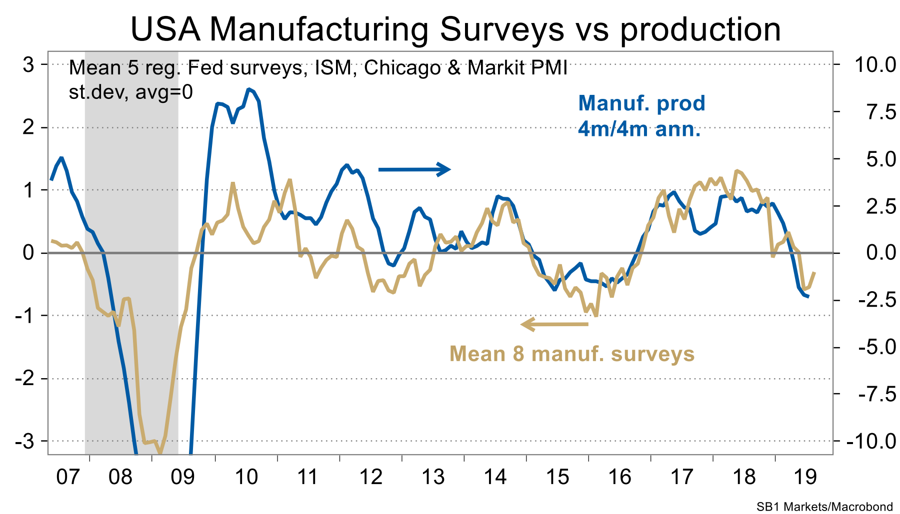
- Manuf. ISM fell to 49.1 in August, a 2.1 p decline and much weaker than expected (51.3). This is the weakest ISM since 2016 and below the long term average at 52.9. The speed down is highly worrisome, particularly as other surveys are confirming a downswing
  - In the ISM survey, 9 out of 18 sectors reported growth (unchanged from 9 in July) and 7 (from 9) sectors reported a contraction
- Businesses report contracting new orders, the steepest decline since the Financial Crisis. The August drop was driven by a plunge in export orders but domestic orders (implicit calc) are declining as well
- <u>The manufacturing ISM has fallen to 49.1 p 16 times since 1965, of which 4 before and 3 during the 7 recessions since then.</u>

ISM weaker than Markit's PMI and others surveys in August but all are falling

Markit's PMI came in 0.4 p above the first report, at 50.3, while the regional surveys rose, in avg







- Markit's manuf. PMI fell less than first reported, as it has recent months. Fed's regional surveys were mostly on the strong side in Aug, 5 of 6 surveys improved
- The avg of manufacturing surveys is signalling a contraction in manufacturing production – but not faster than so far in 2019
- Manufacturing ISM has been much stronger than Markit's PMI the past 2 years but Markit has been closer to the ball vs actual production. And both are falling and are below average now

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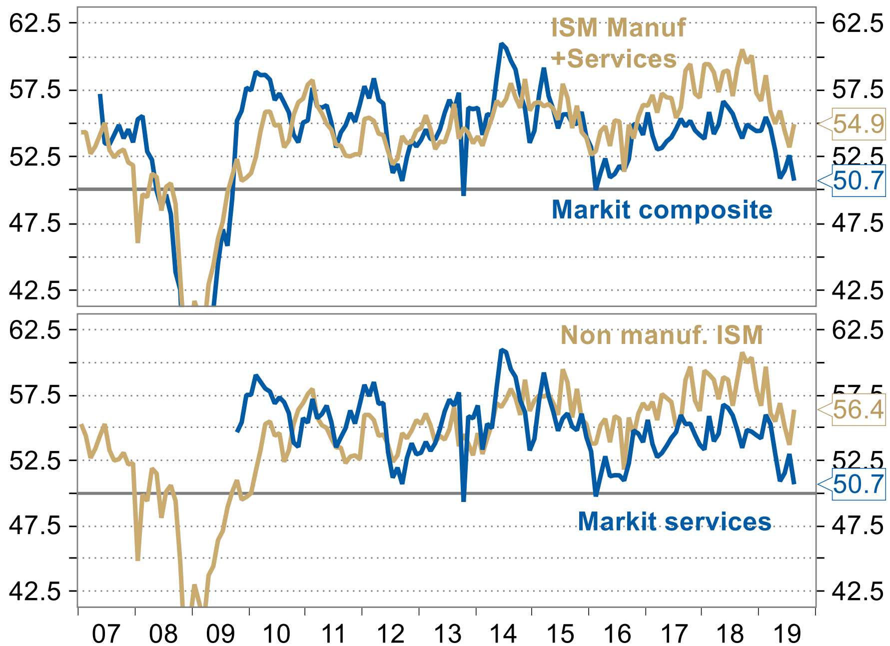
Mixed services indices; ISM jumped in August, Markit's PMI down

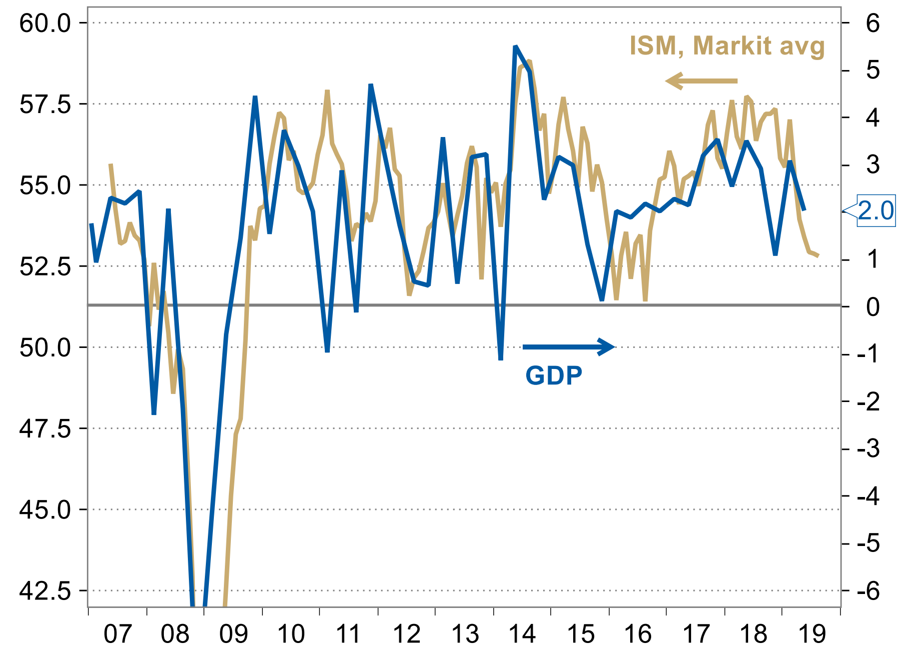
Non-manuf. ISM soared 2.7 p, Markit down 2.3 p. Avg of composite PMI/ISM signals 1% GDP growth

USA PMI/ISM



SB1 Markets/Macrobond

USA PMI/ISM vs GDP



SB1 Markets/Macrobond

- Non-manuf. ISM came in far above expectations, a 0.3 p increase was expected vs the 2.7 p actual rise. The level at 56.4 suggests that the service sector is holding up well amid the manufacturing slump, even as the direction is not impressive here either. The 'composite' ISM (manufacturing weighted 20%, services 80%) rose 1.7 p to 54.9, <u>not a recession signal!</u>
  - » 16 of 18 non-manufacturing sectors reported growth and only 1 reported a decrease (agriculture). Non-manufacturing orders spiked in August
- Markit's service sector PMI came fell 0.9 p to 50.7, 0.2 p below the first estimate. The composite PMI fell to 50.7 as well
- **The avg of the composite PMI/ISM points to a slowdown in GDP growth to 1%, primarily dragged down by weaker manufacturing activity**

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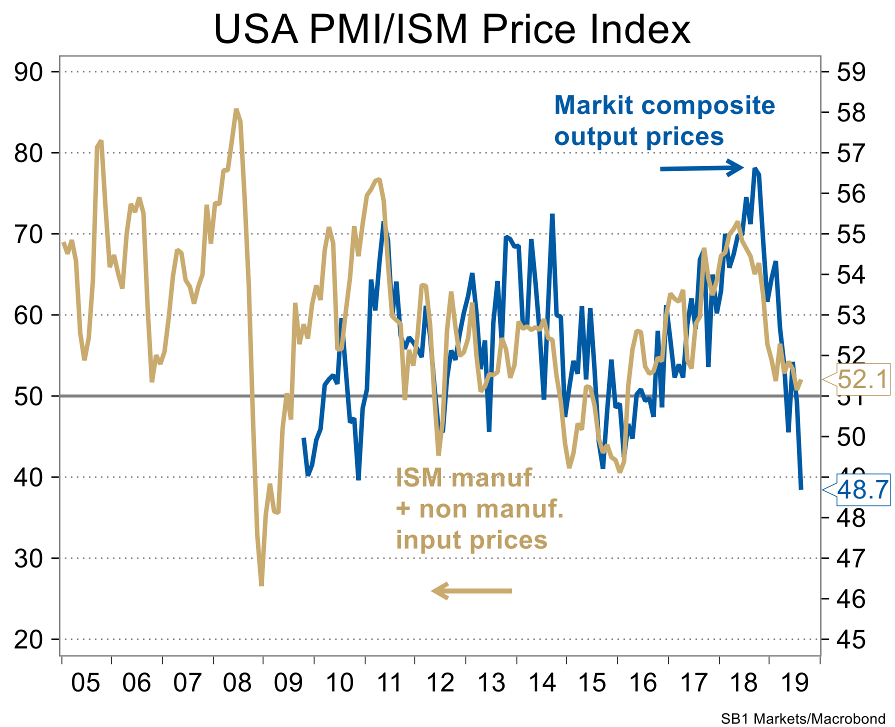
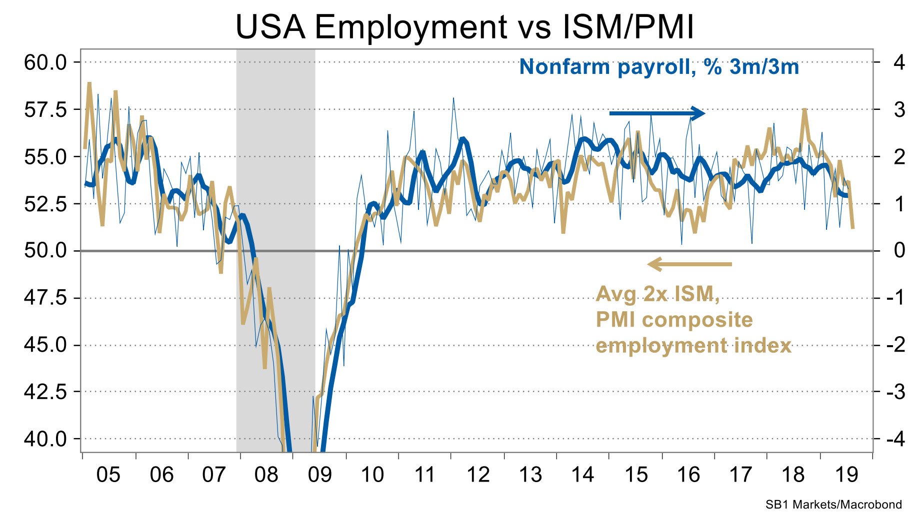
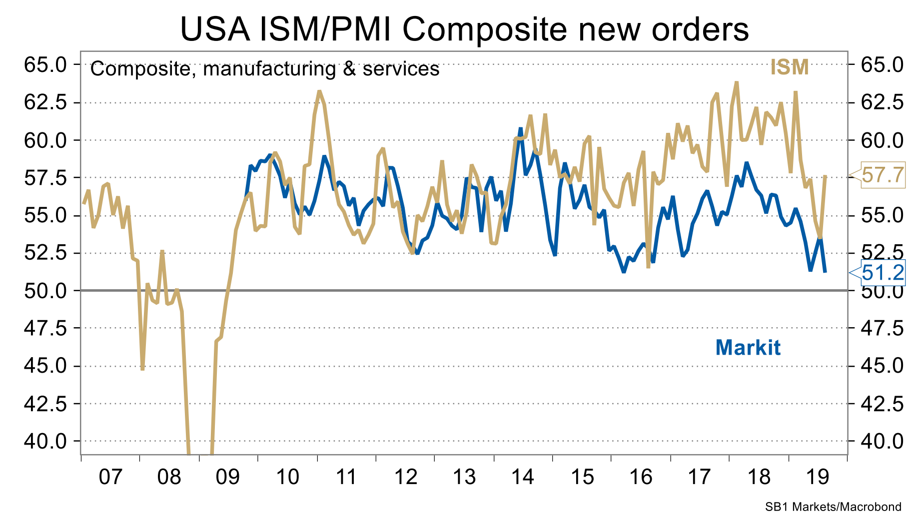
Composite PMI/ISM signals stalling prices – and slow employment growth

Composite orders are still expanding but prices are not; demand is weakening



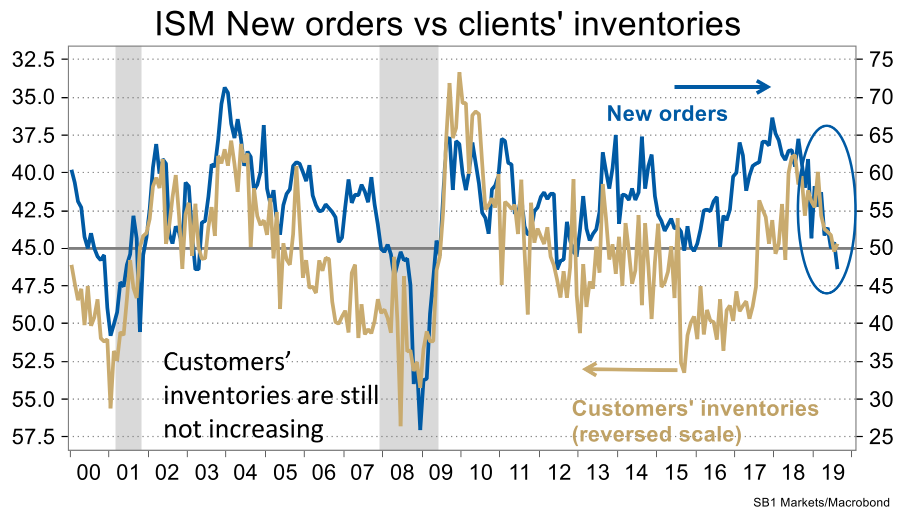


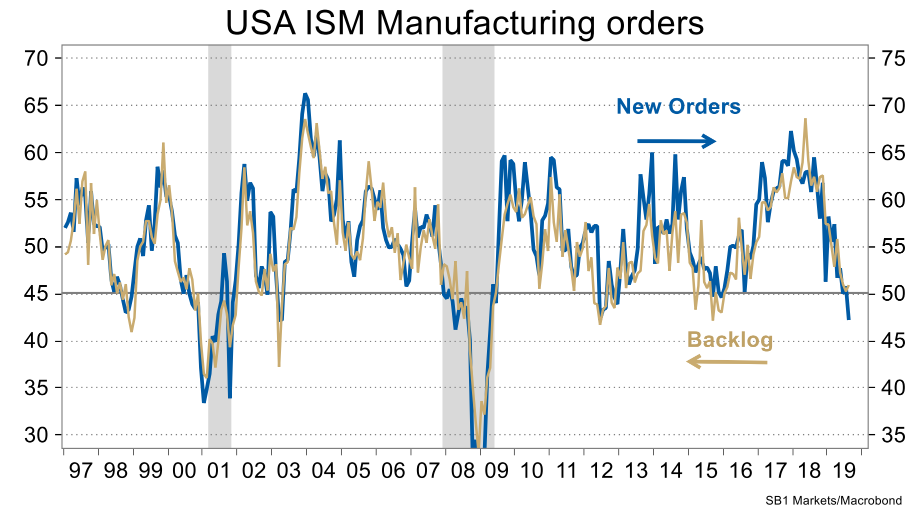


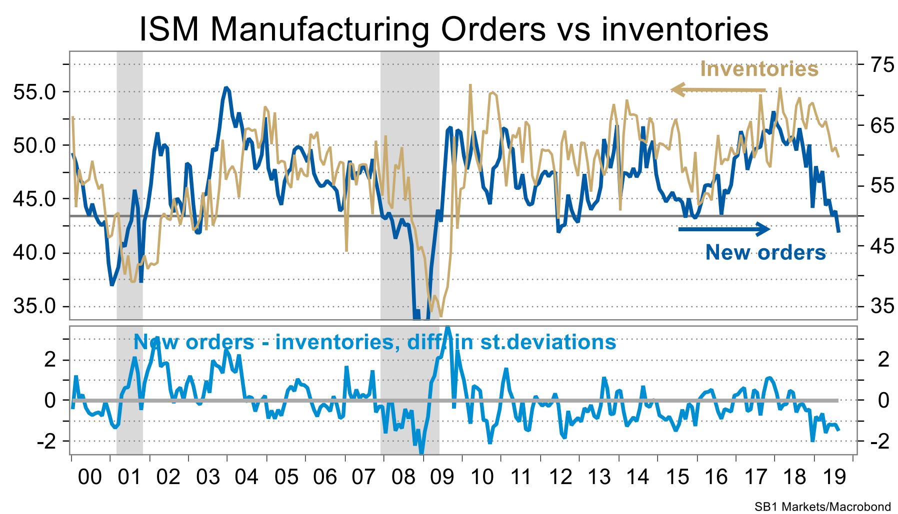
- Both Markit and ISM reported a sharp slowdown in employment growth in August. The avg of ISM/PMI signals somewhat slower employment growth, to some 1% (3m/3m)
- ISM is still reporting modest growth in prices, while Markit's PMI reported the steepest decline 'ever'. Avg at 50.4
- Composite orders are still expanding, ISM noted a rebound

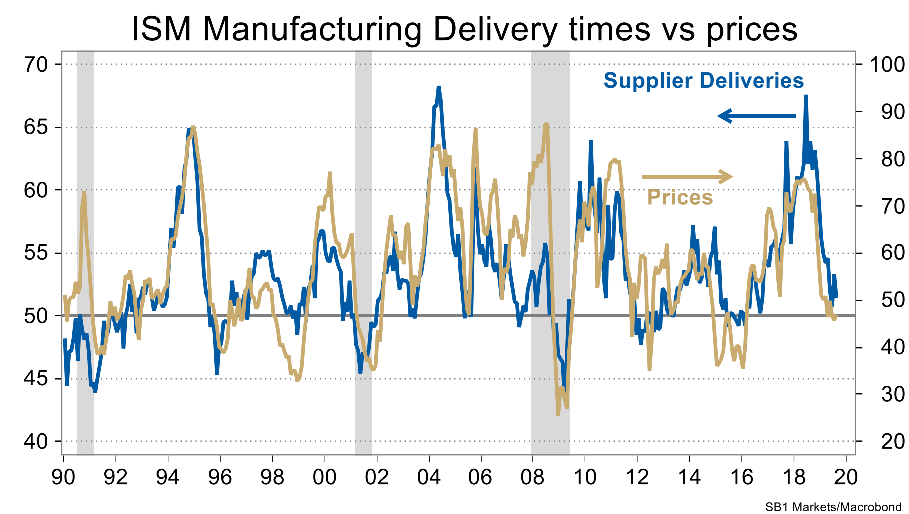
Weakest manuf. order inflows since ‘09, less capacity constraints, falling prices

Delivery times far below average but inventory growth is slowing



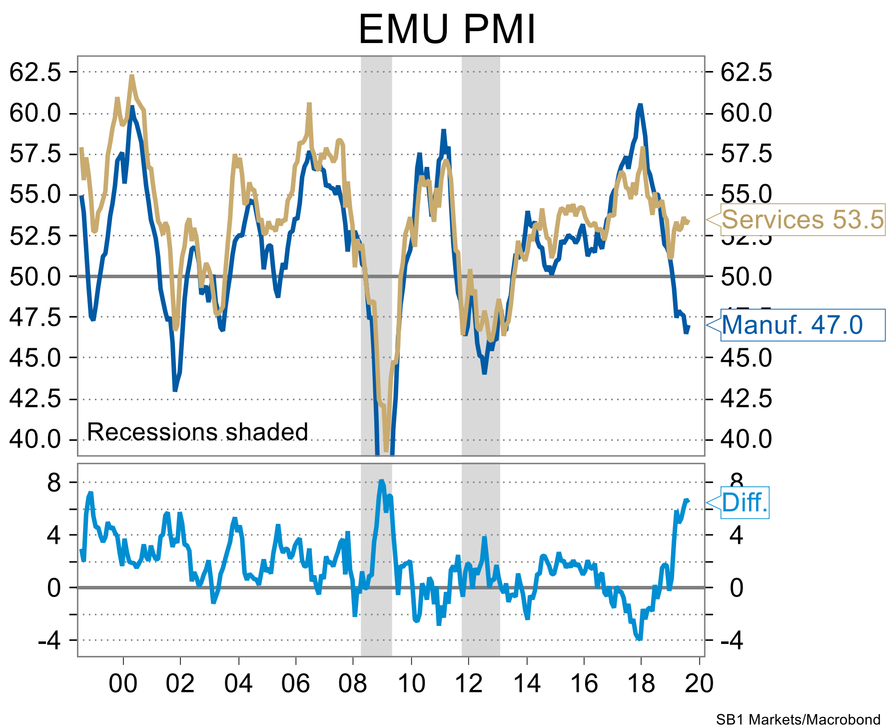


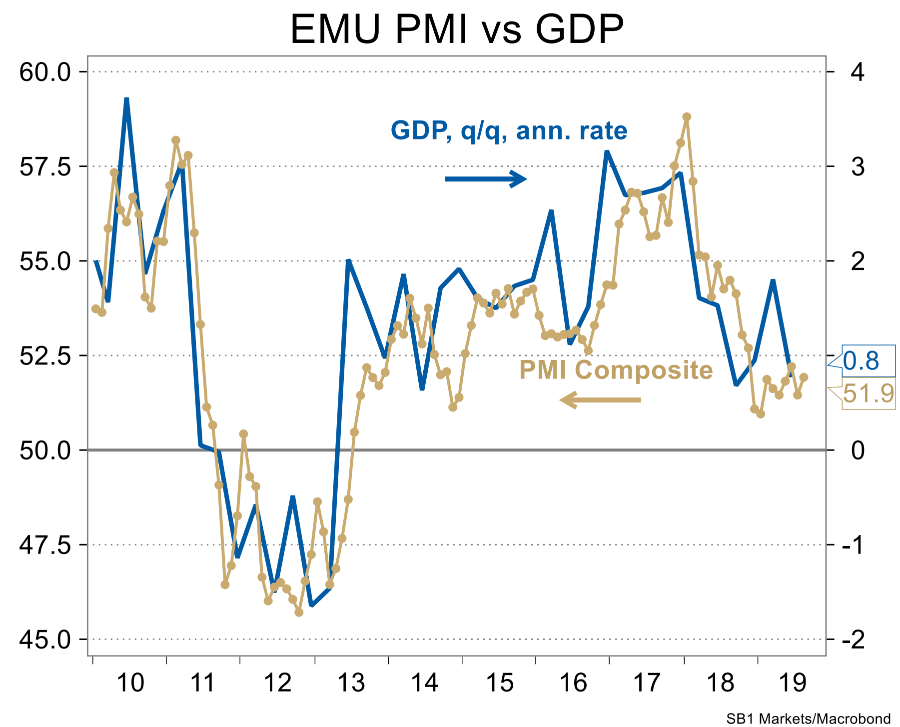




Eurozone PMI edges up in August, the 7th month of stabilisation

Composite PMI rose to 51.9, up 0.1 pp from the first report. The gap between sectors is soaring

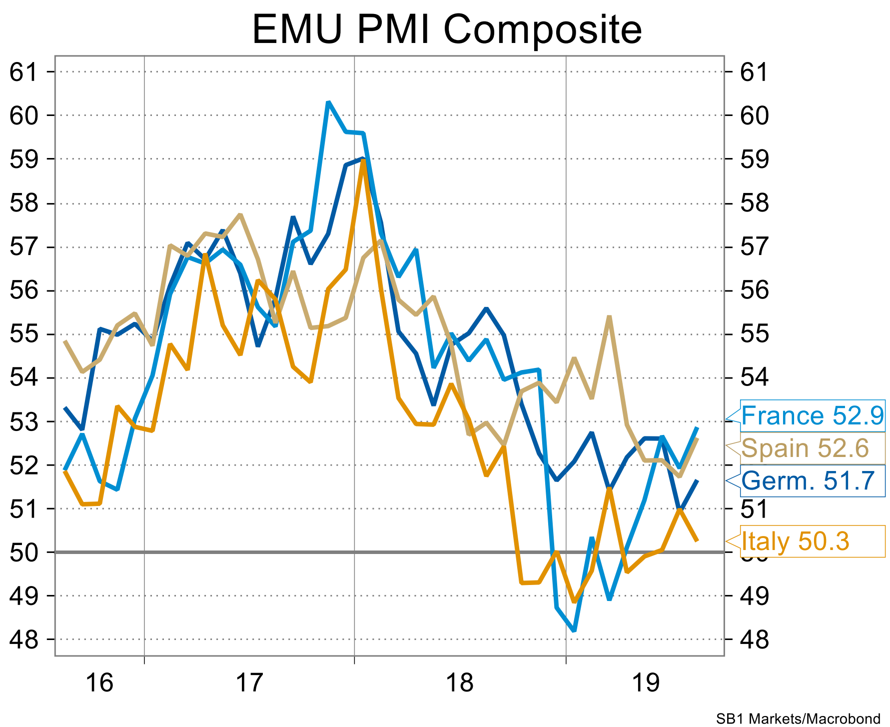


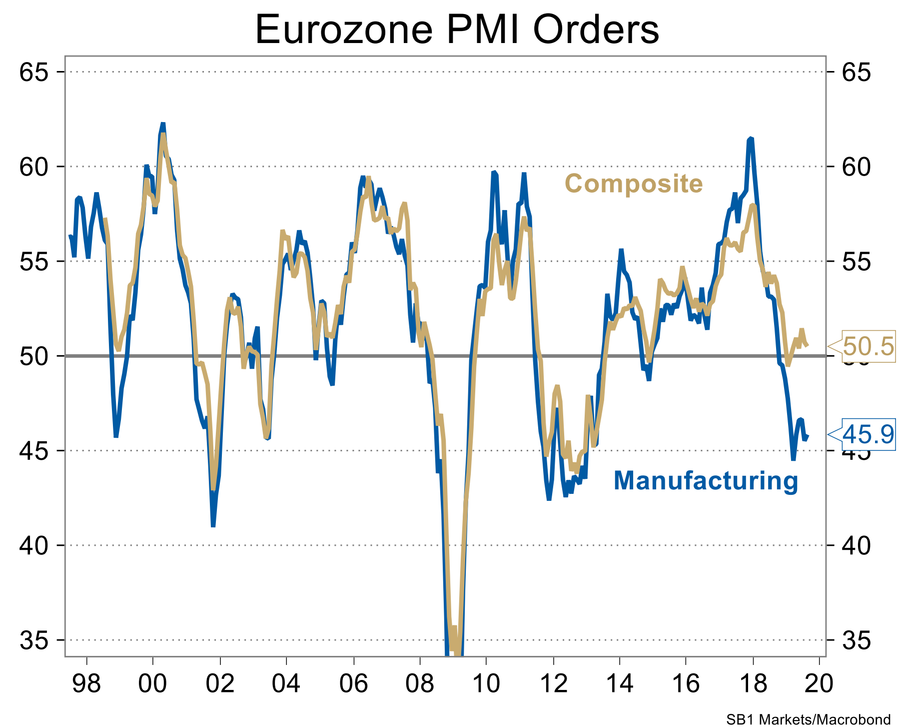


- **The final composite index** came in at 51.9 in August, 0.1 pp higher than the preliminary report and up 0.4 p from July. The PMI has stabilised at a low level this year, thanks to steady growth in the service sector. The PMI do not signal any rebound from the meagre 0.8% GDP Q2 growth rate
  - » Manufacturing PMI inched up to 47.0, signalling a substantial decline in production, while service industries have improved recent months
- **Any hope?** Households are still optimistic and consumption is strong, while net exports and business investments have slowed. Unemployment is still declining and is not record low, wage inflation is slowly accelerating, and there is no credit boom. So it may all come down to the trade war, Brexit, Italian politicians…

All main countries are reporting modest growth

Manufacturing orders are tumbling, composite orders still growing marginally thanks to services

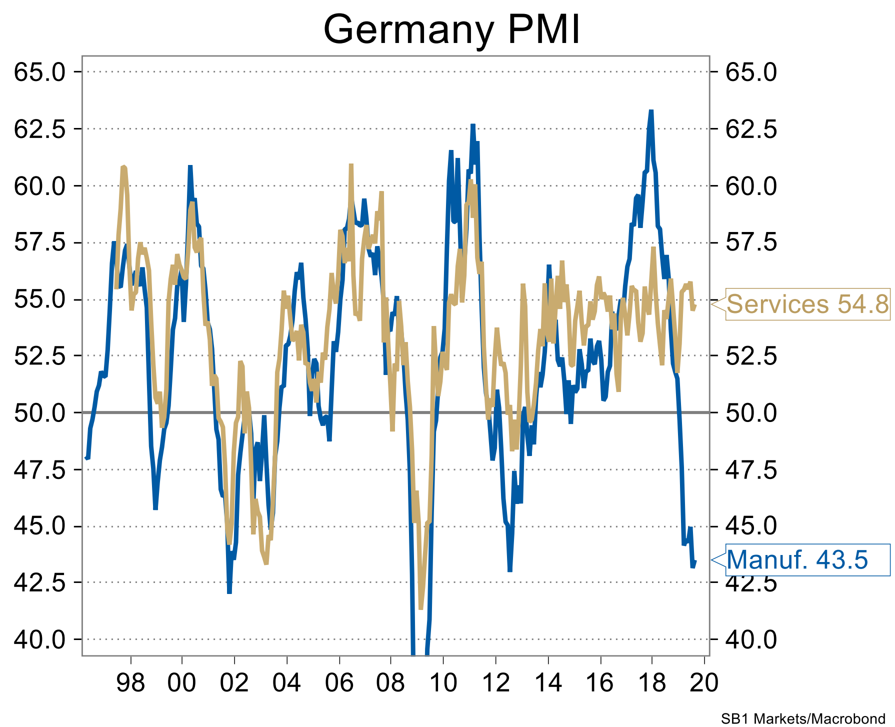


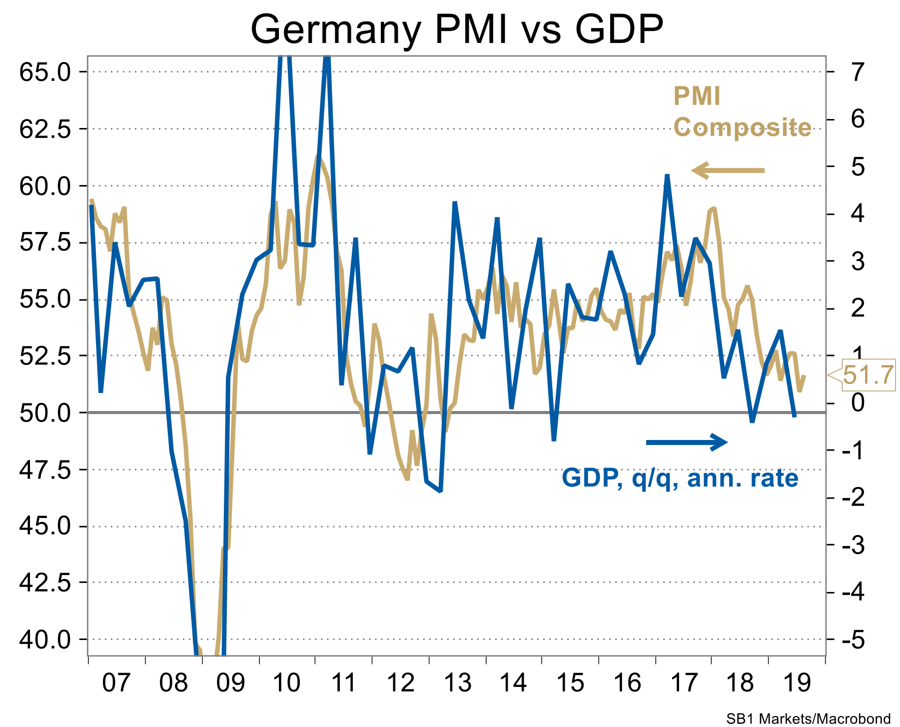


- More up than down in August; France, Germany and Spain all reported higher activity, while the Italian PMI came down
  - » France is trending up, from the low levels during the yellow vests protests in Q4 last year. Spain & Germany have slowed substantially
- The manufacturing orders have recovering somewhat the past 5 months, however, the level at 45.9 is signalling sharply falling order inflows. Composite orders are expanding modestly, service orders growing

Manufacturing PMI plummeting, service sector seems fully resilient

Composite PMI inched up to 51.7, points to muted GDP growth but no contraction

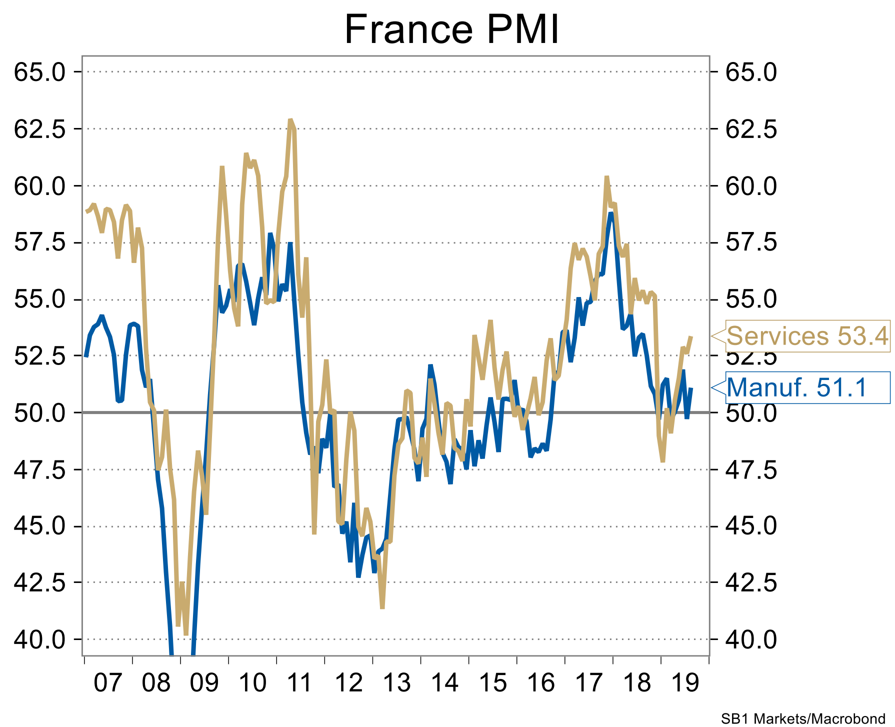


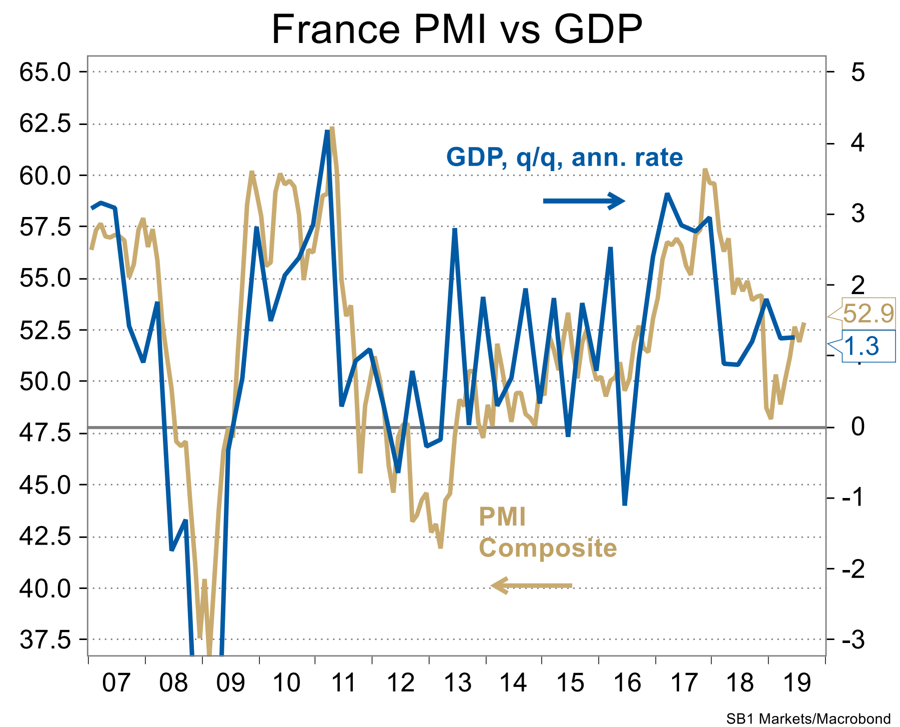


- The manufacturing PMI ticked up to 43.5 (vs 43.4 in the first report). The level is the lowest since one month in 2012, during the euro crisis. A smoothed index is at the 3rd lowest level in 20 years (since the German PMI was established)
- The service PMI rose 0.3 p to 54.8, 0.4 p better than first reported. The service sector is so far resilient to the manufacturing contraction, as confirmed by increasing retail sales and upbeat consumers. The discrepancy between services and manufacturing is the highest since the Great Financial Crisis. So this is really special!

Composite PMI climbs, boosted by a recovering service sector

Composite PMI rose to 52.9 in Aug (0.2 p above 1st est), suggesting steady GDP growth at some 1.3%

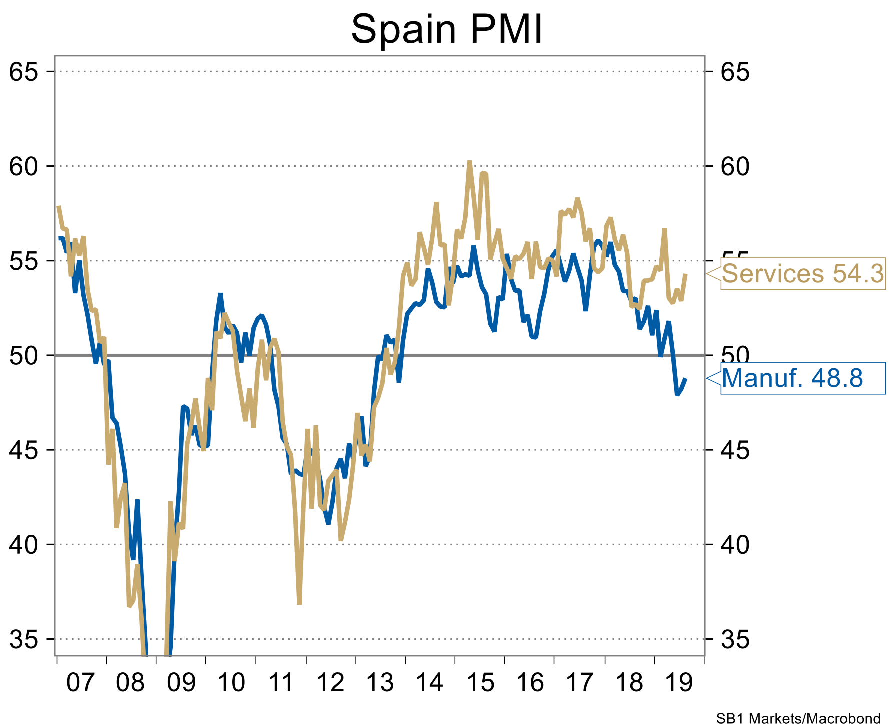


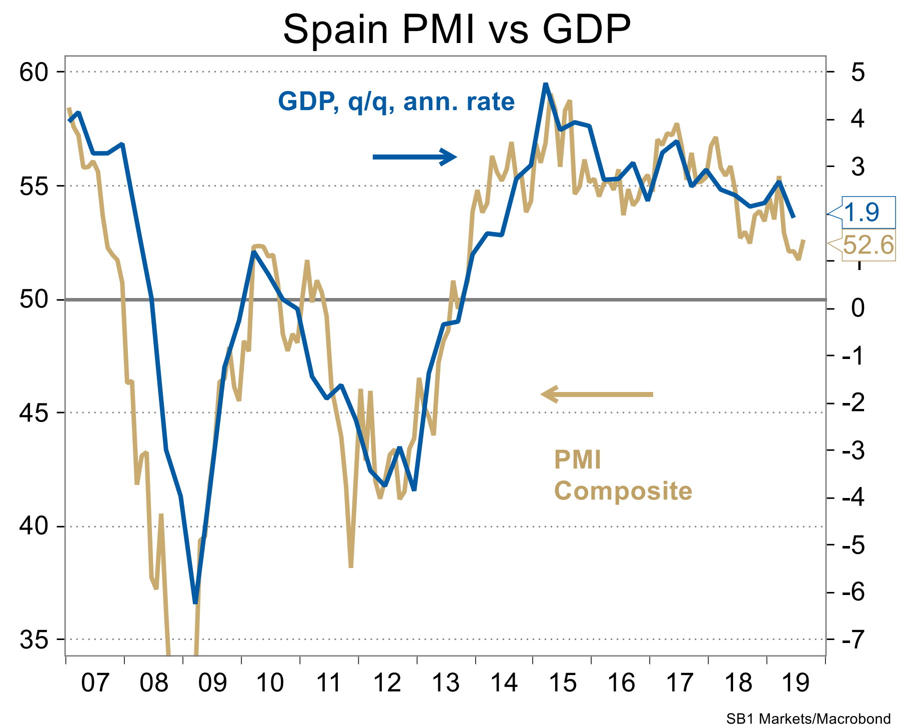


- The manufacturing PMI ticked up to 51.1 in August. The index has stabilised at just above the 50-line recent months, holding up better than the other 'major' Eurozone countries
- Services PMI increased to 53.4 in August and the composite PMI to 52.9, suggesting decent GDP growth, at close to 1.5%
  - » Business activity has recovered from the yellow vest protests in late 2018/early 2019, back at a decent level

Spain: Manufacturing output is declining, services still strong

The composite PMI ticked up to 52.6 in August, suggesting just above 1% GDP growth

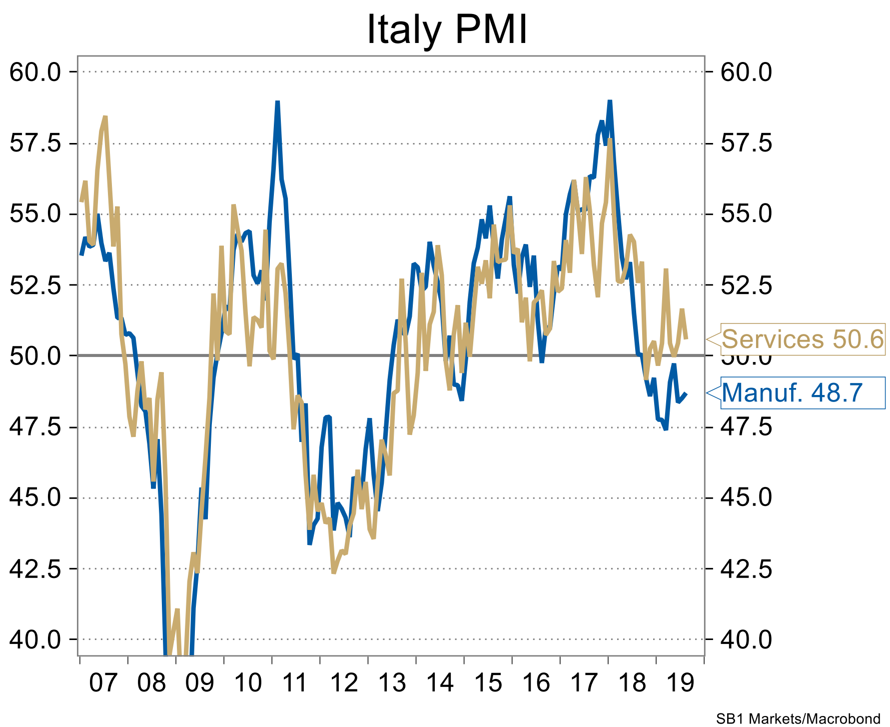


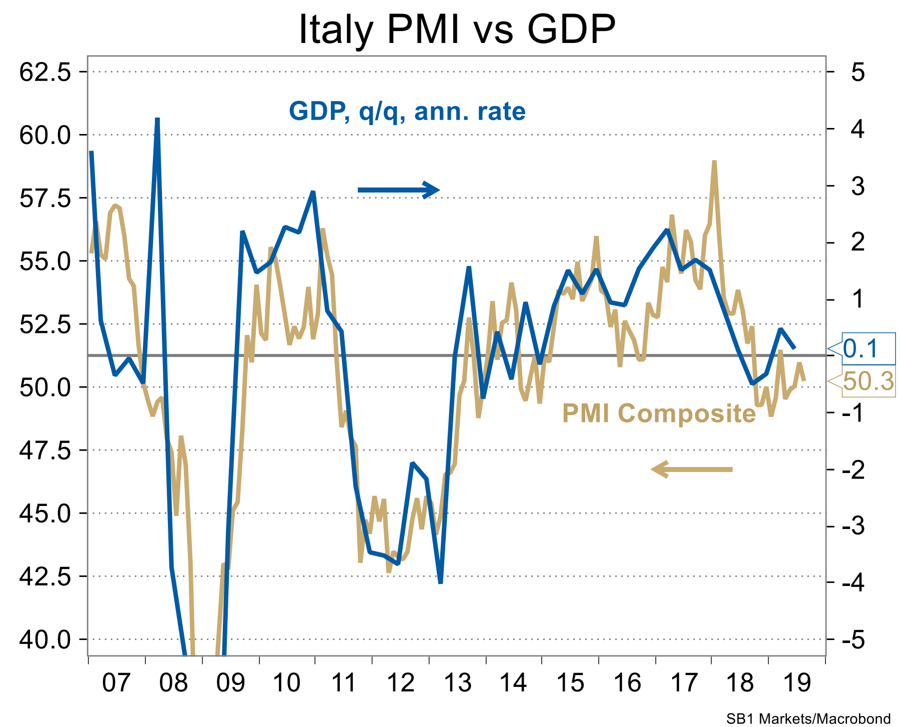


- The composite PMI increased by 0.9 p in August, both manufacturing and service indices improved
- Manufacturing businesses are no doubt struggling here too, while services are still growing at a solid pace

Italy: The PMIs do not point to any growth recovery

A slight recovery in manufacturing PMI was offset by a declining service PMI, composite down 0.7 p

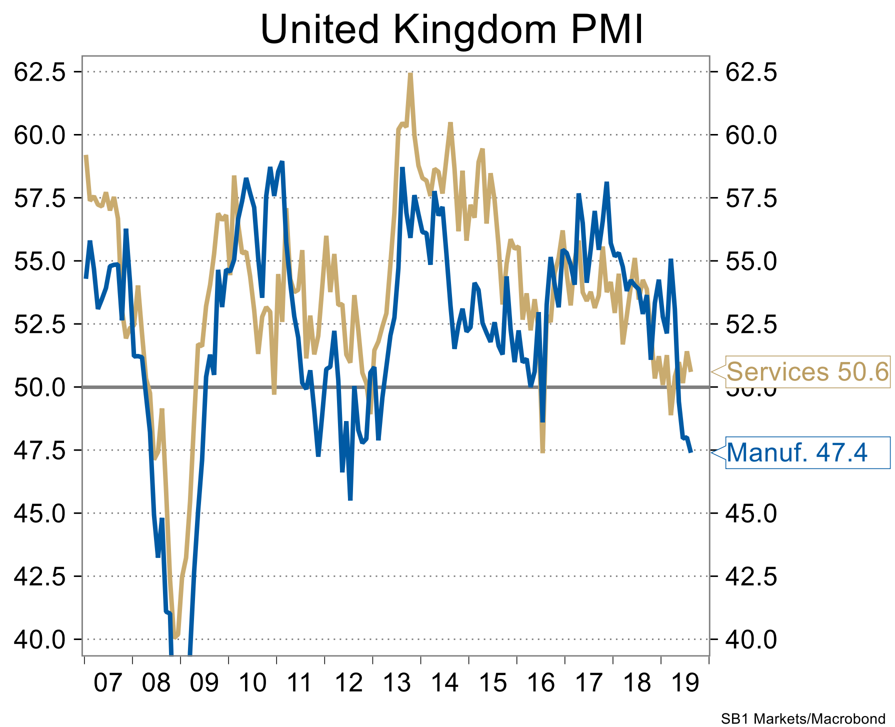


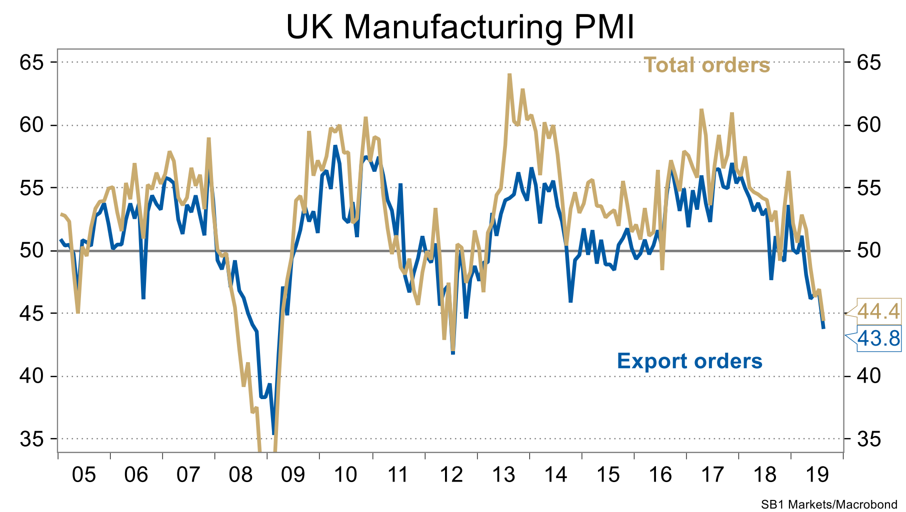


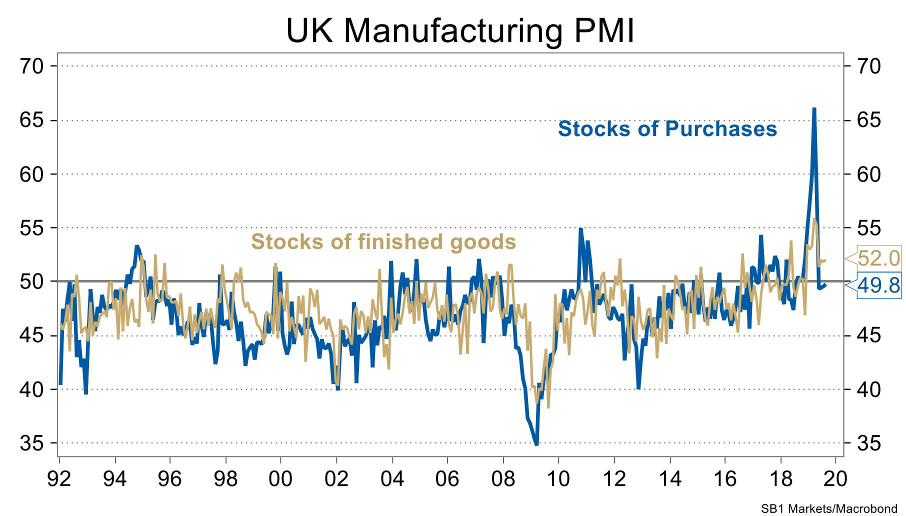
- Composite PMI came down to 50.3 in August. The PMI has remained close to the 50-line this year, signaling stagnating growth. Actual GDP growth rose just 0.1% q/q annualized in Q2
- The government expects 1.5% growth in 2019, to keep the budget deficit (almost) in check. Seems very unlikely – and the deficit will widen substantially, even without the extra spending the Government wants

Manufacturing PMI further down, orders are falling steeply

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



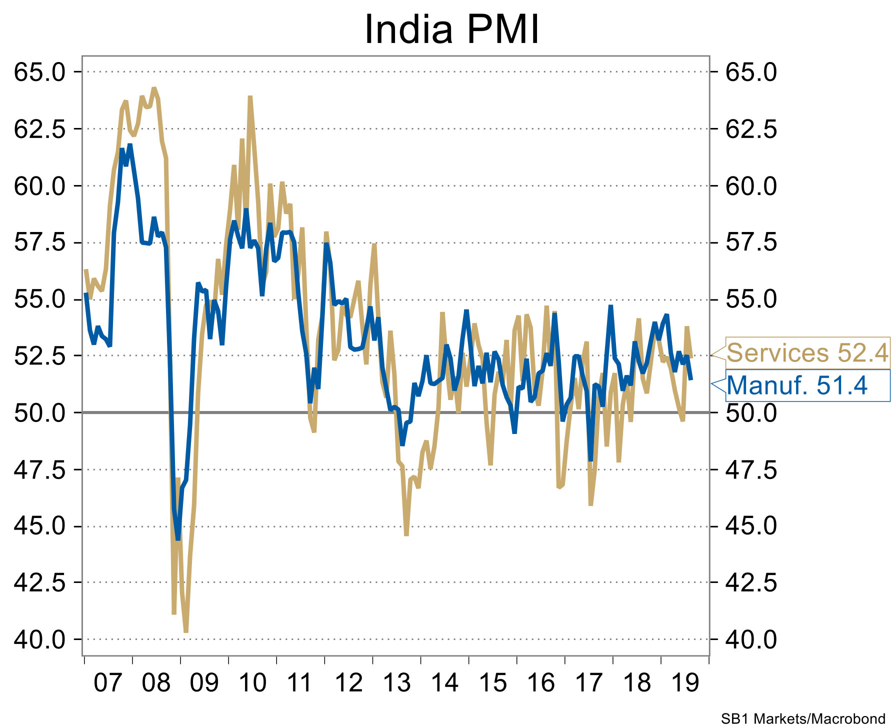


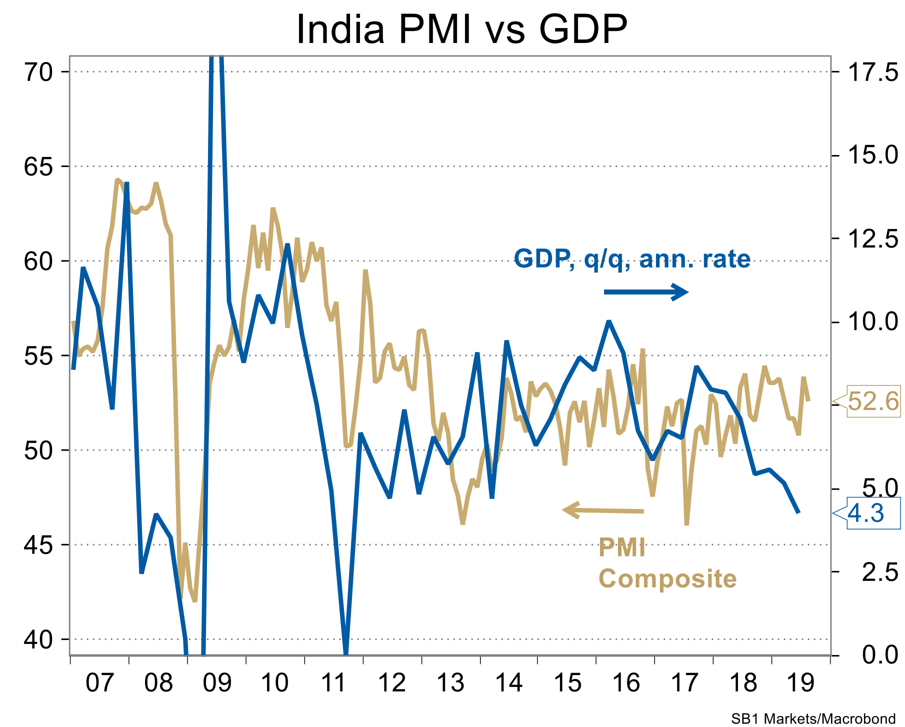


- Manuf. PMI fell to 47.7 in August, a 0.6 p decline, to the lowest level since the 2012 euro crisis. In the spring, activity was held up by massive efforts to purchase materials ahead of the original Brexit deadline. This is now being out in reverse, although businesses are no yet reporting declining inventories. Soon, these inventories will have to be cut back, hurting production
  - » Both export and domestic orders are plummeting

Composite PMI somewhat weaker in August, has not recognised GDP slowdown

Services are reporting solid growth and manufacturing is still growing, although slower in Aug

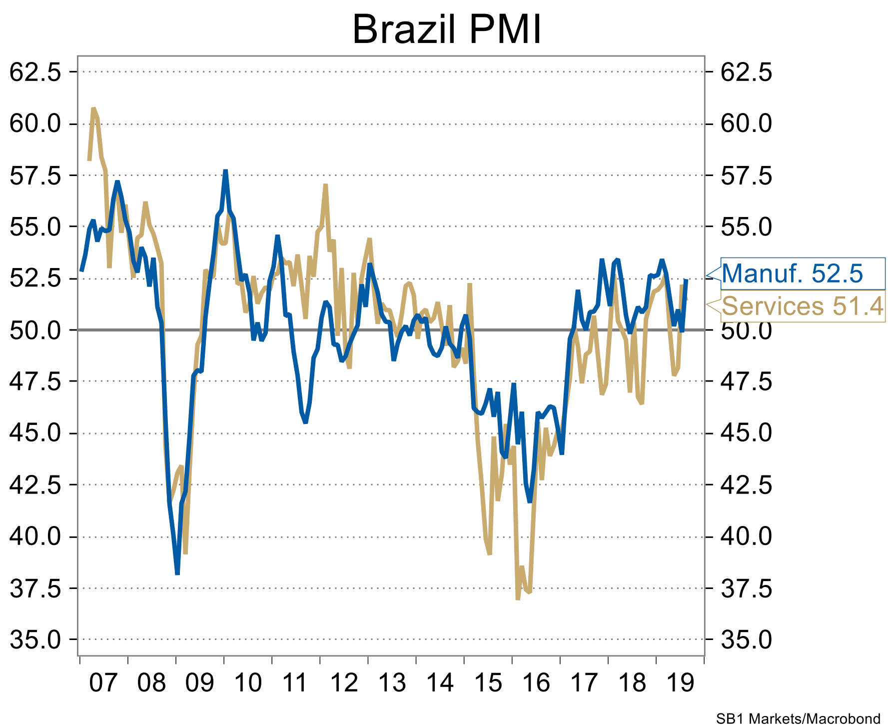


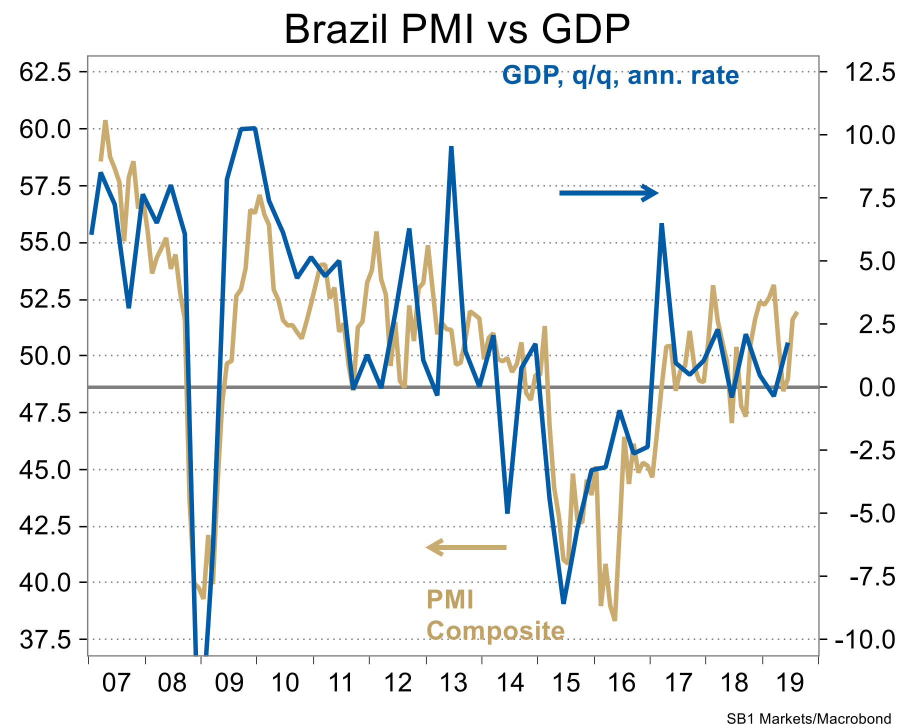


- The Indian PMI is does not correlate well with reported GDP growth. The setback in GDP growth to 4% from 8% the past year has not been detected by the PMI, in fact it has been rising!

Strong rebound in manufacturing in August, services still OK

The composite PMI edged up to 51.9, signalling somewhat higher GDP growth

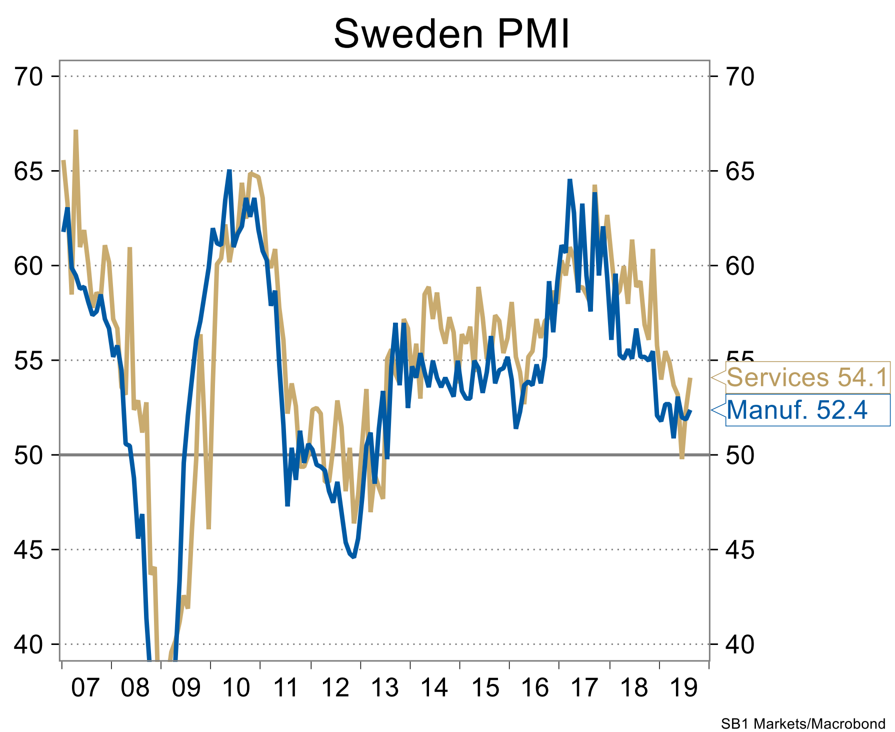


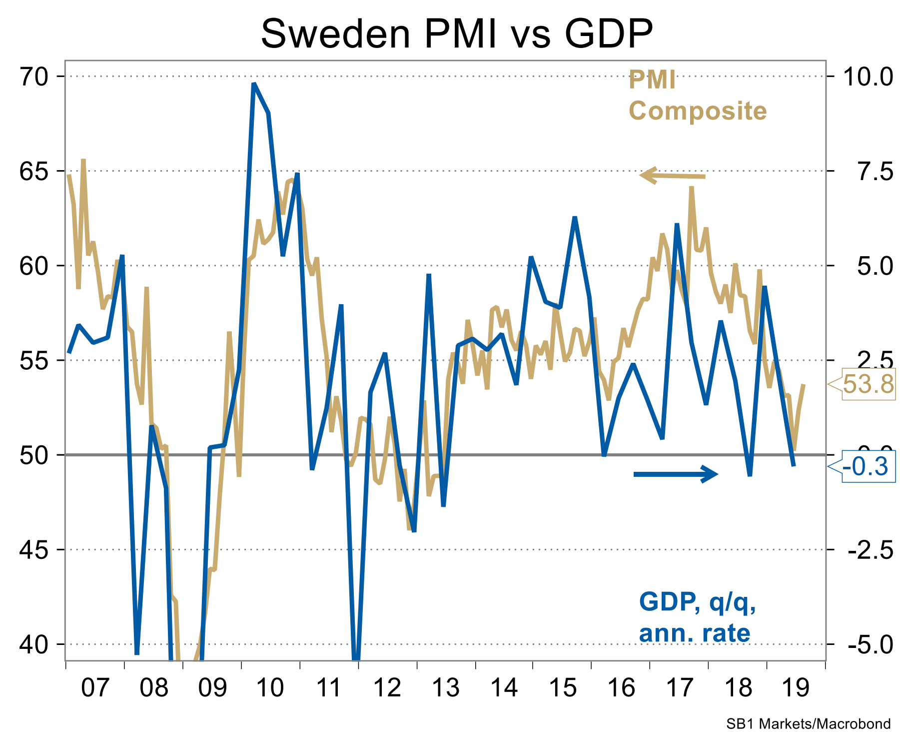


- GDP growth was up 1.8% in Q2, recovering from two quarters of contraction
- Disclaimer: The Brazilian PMI is rather volatile –and does not predict quarterly GDP particularly well but the growth cycle is well represented by the PMI

Services bounced back, manufacturing stabilised

Services recovering, manuf. a tad up in Aug, composite PMI points to some 2% growth vs -0.3% in Q2

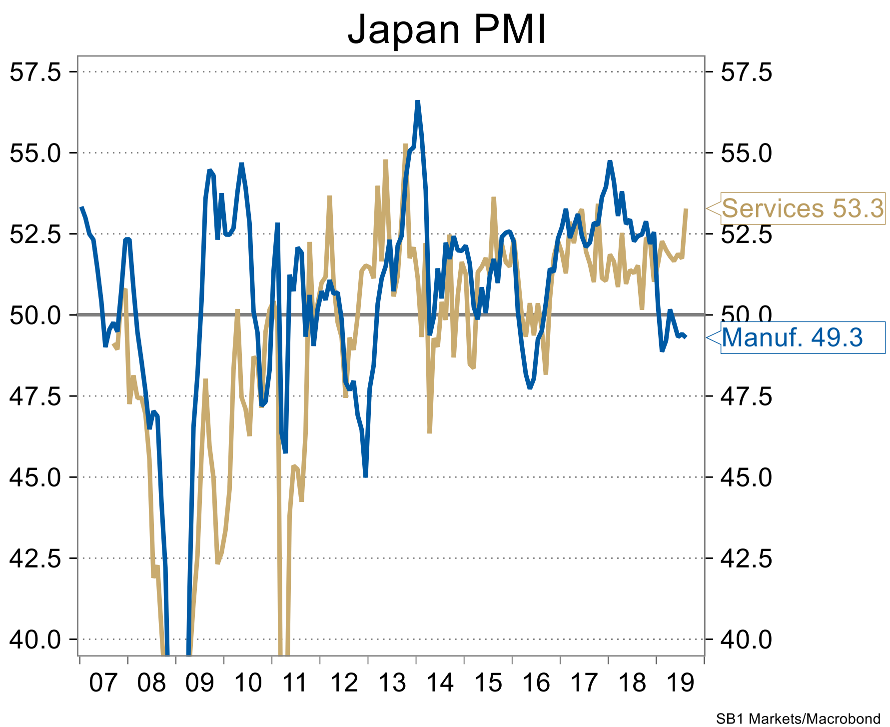


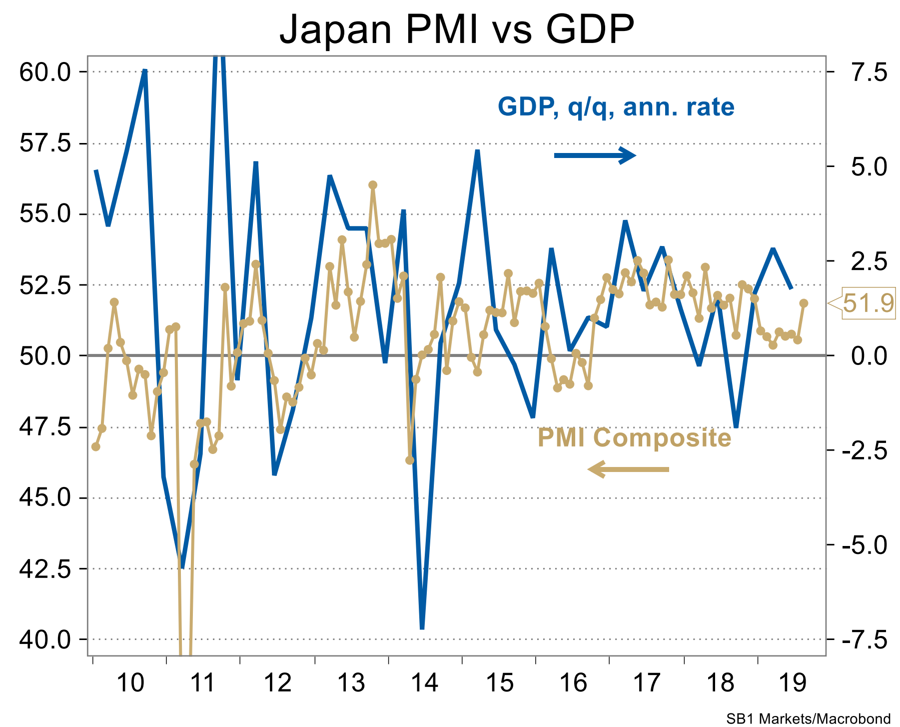


- The composite PMI rose by 1.4 p in August, following a solid increase in July. The index has fallen sharply through 2019 and is no doubt mirroring cooling Swedish growth. However, the recent uptick signals decent GDP growth, at some 2%, a recovery from the -0.3% print in Q2

Manufacturing still struggling, services PMI spiked in August

Composite PMI jumped 1.3 p to 51.9, boosted by the service sector. Most likely a one off??

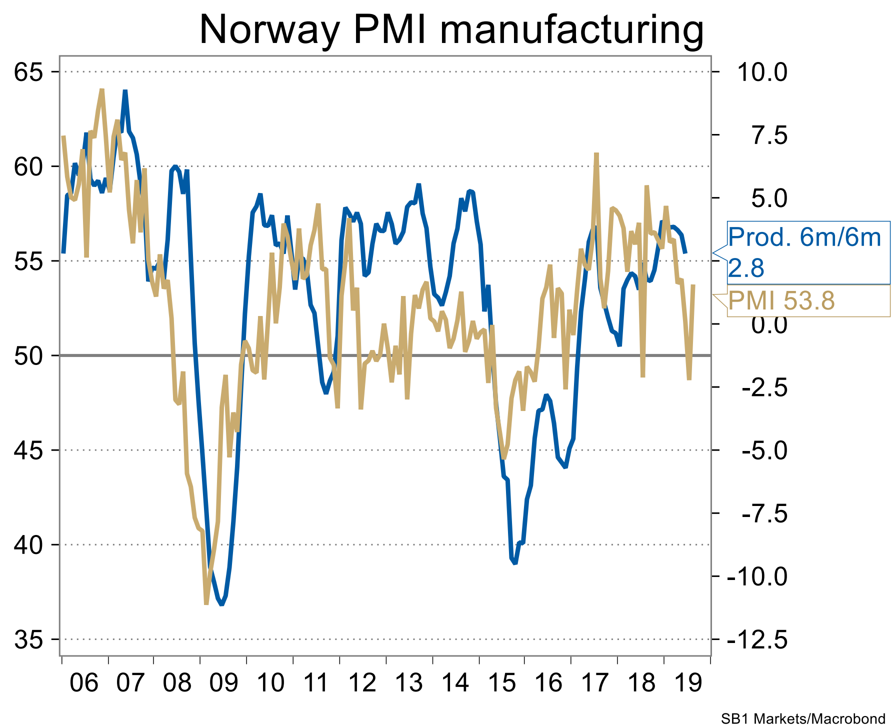


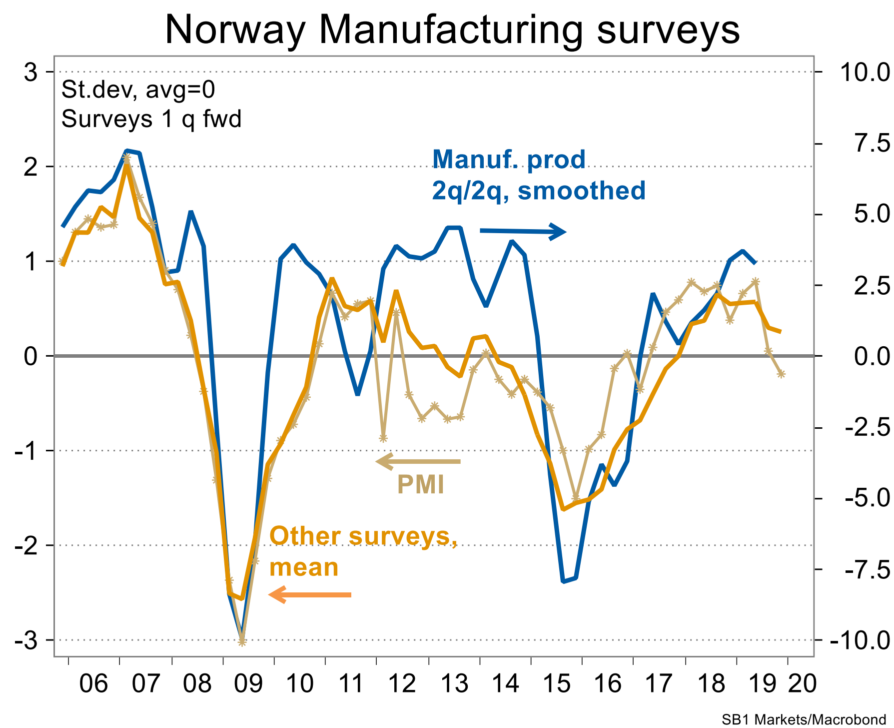


- The composite PMI rose to 51.9, the highest since late 2018. The index is pointing to continued modest GDP growth.
  - » However, the correlation to actual growth is not impressive at all, especially in the near term
- Manufacturing PMI is stuck below the 50-line, it fell marginally to 49.3 in August
- Other Japanese surveys have softened but are not signalling any abrupt slowdown

Manufacturing PMI rebounding in August, back at a decent level

PMI jumped to 53.8, following a weak July. PMI still signals somewhat softer growth in production

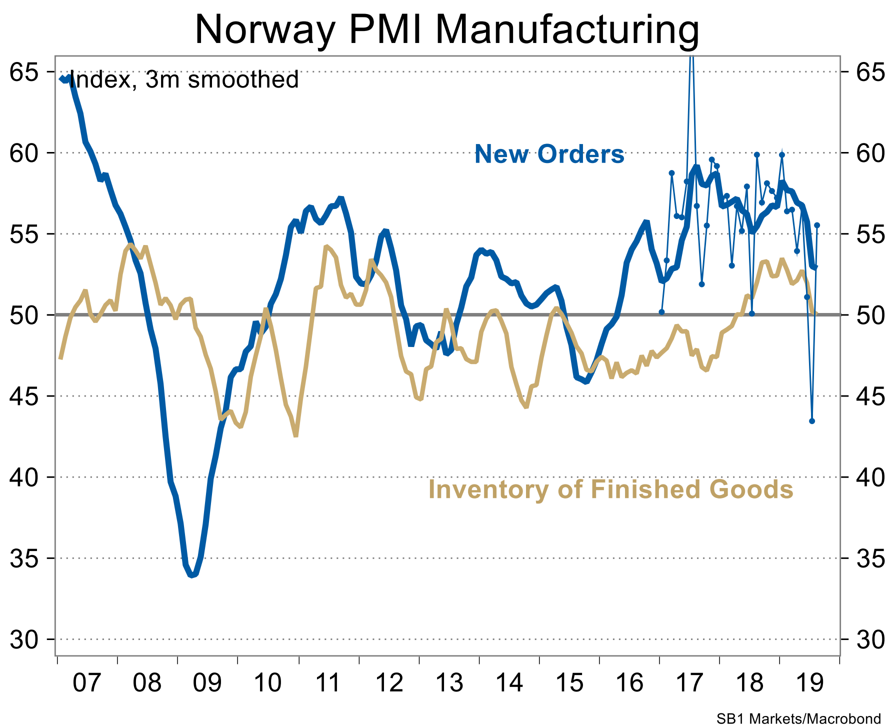




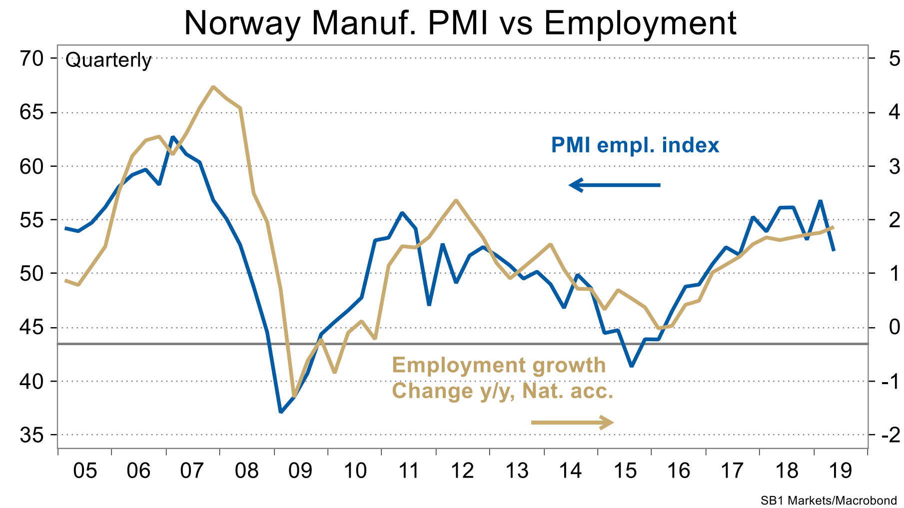
- The PMI soared 5.1 p in August, after a steep decline in July (and June). The upswing confirms that the July PMI data are useless due to a low number of respondents. The current index at 53.8 signals growth in production but slower than recent months, down to a 1-2% rate
  - » Actual manufacturing production has been soaring recent months, boosted by oil related sectors. At peak?
- The PMI is still among the weakest surveys, equivalent to Norges Bank's expectations survey. The avg of manufacturing surveys is above the avg level but anyway pointing to a slowdown in production

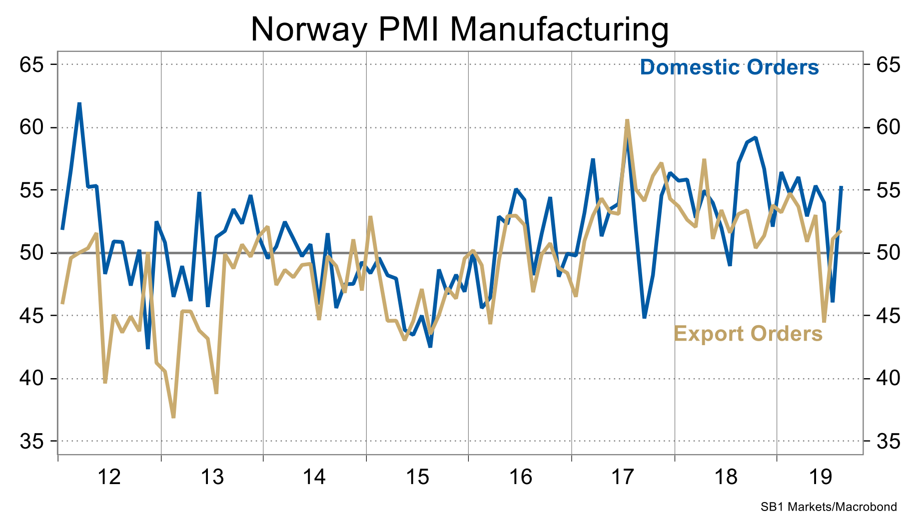
PMI orders are growing solidly, employment a tad weaker

Domestic orders bounced back in August, to a high level, while export orders slide down



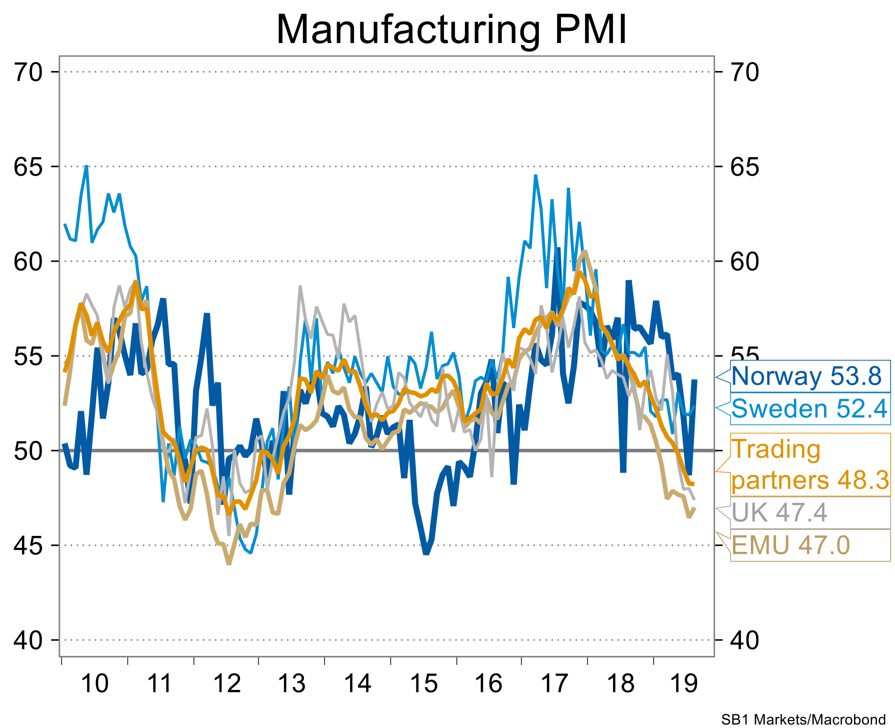
- The new orders index jumped to 55.6 in August, a ridiculous 12 p increase from July. The current level reflects solid growth in new orders
- The upswing was driven by domestic orders. Export orders rose marginally too, but foreign demand is no doubt slowing

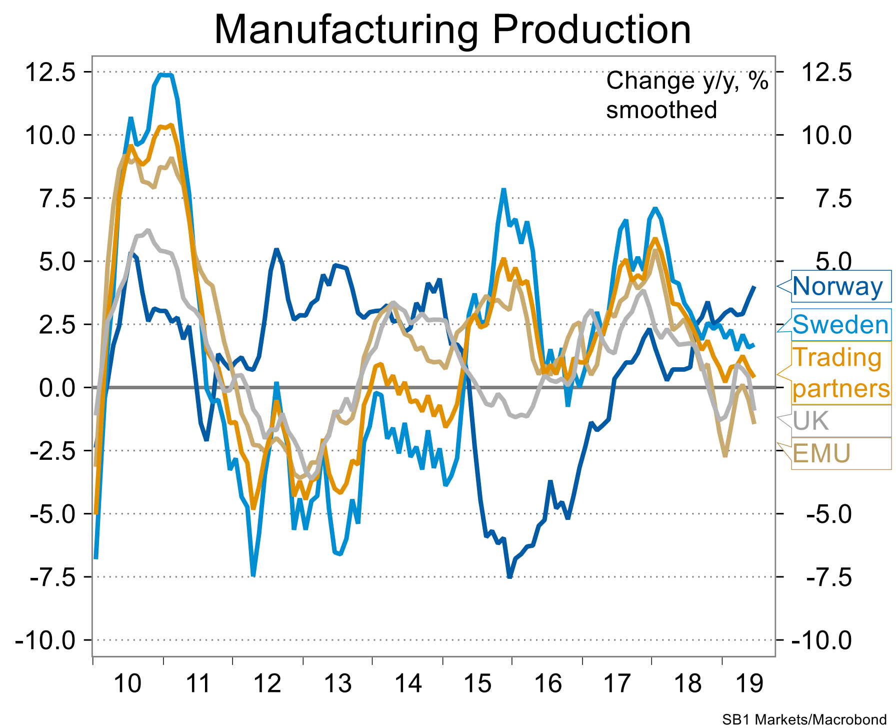




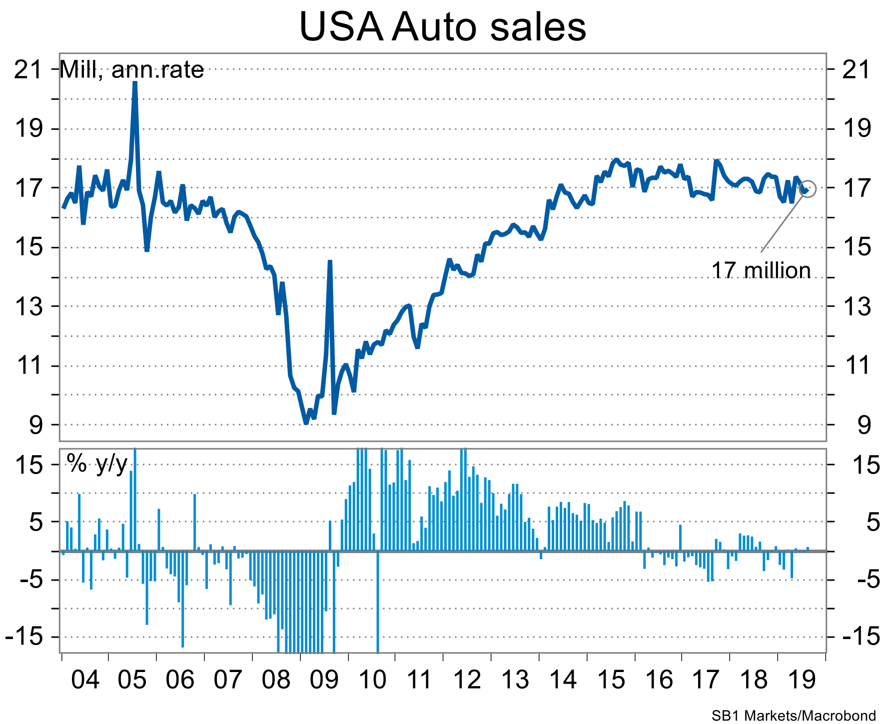
Manufacturing holding up much better than trading partners, for now

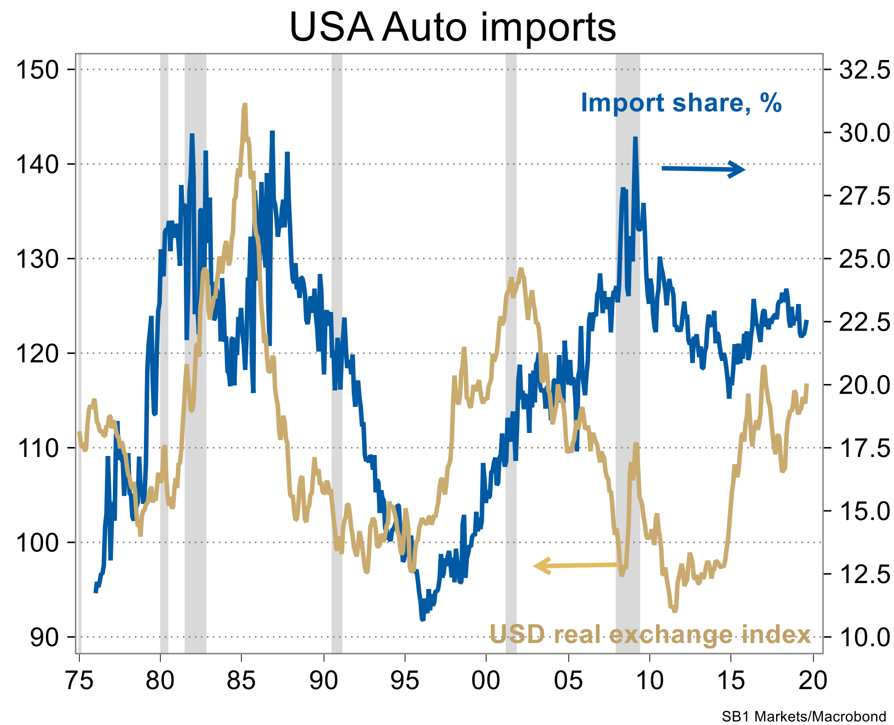
… helped by thriving oil related sectors, of course. For how long?





Auto sales rose marginally in August, trending slowly downward?

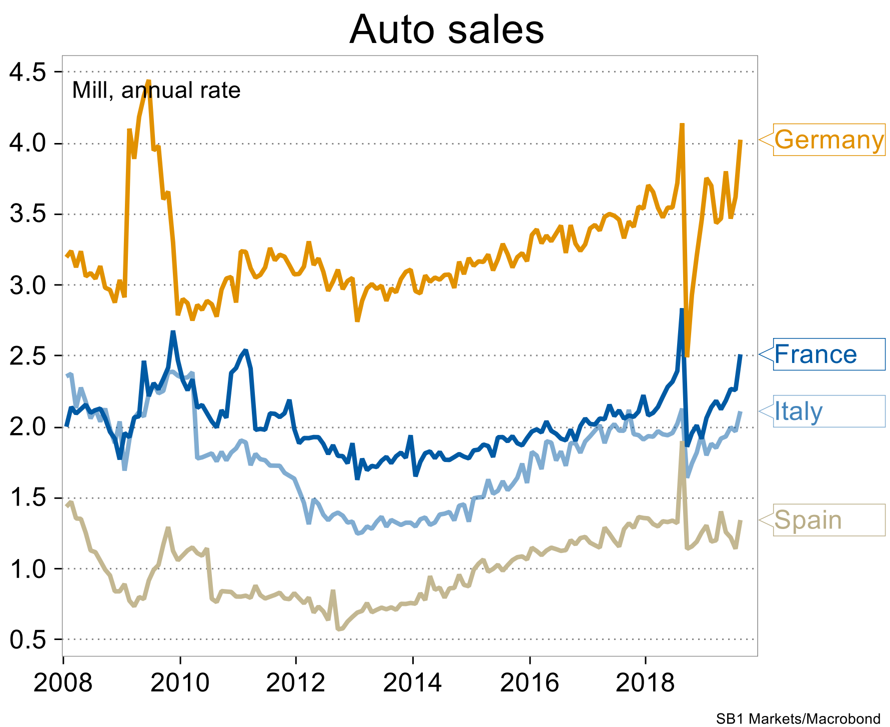


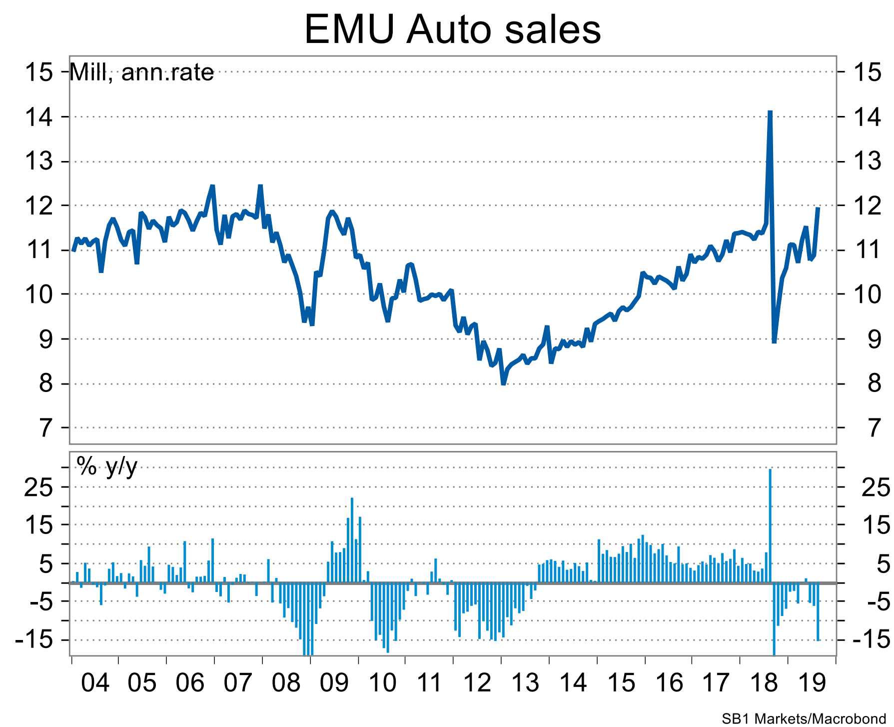


- Sales rose marginally in Aug (0.2 mill) to 17.0 mill (annual rate). Sales are flat y/y, while trend is pointing slightly down
- The import share rose marginally July but the share has fallen slightly recent months, following an increased the previous 3 years. At 22% it is above the long term average – but it has been far higher several times before. The sharp USD appreciation to 2017 from 2012 may explain the increase. The USD is some few % above the long term average
- In May, Trump announced a 6 months postponement of the decision whether 25% tariffs should be applied to auto imports (excluding from Mexico and Canada) but following good conversations at G7 the risk for an escalations has fallen

What, auto sales straight up in August?

Sales sharply up in all big 4, level way above 'normal'. Why, new regulations, taxes?



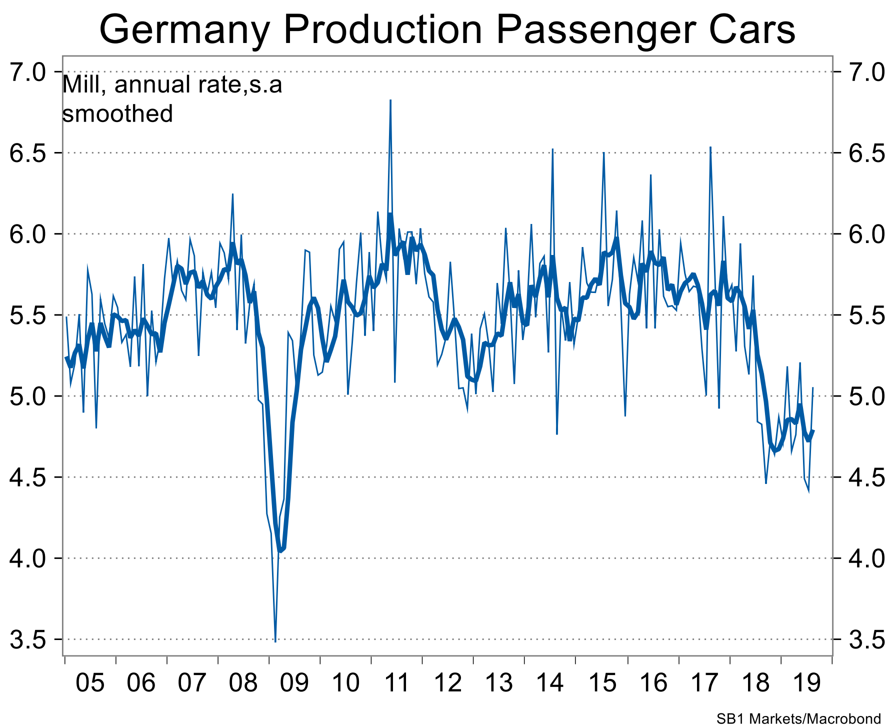


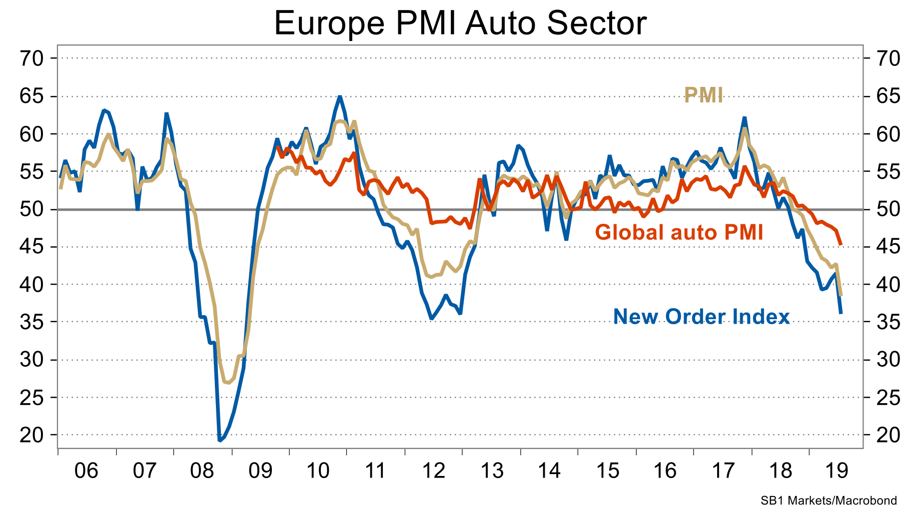
- Sales rose 7 – 18% m/m in the 4 biggest EMU countries – and sales were close to ATH in EMU, barring the spike in August last year, before the new emission rules were implemented in September
  - » August sales were 15% lower measured y/y, so just wait for the media reports. Then think about what they will report next month, we expect to see some 20% growth ☺
  - » Any rule or tax changes again, like one year ago?? We have not seen any news on that.
- We just wonder, who have produced these cars – or are the dealers inventory cleared? Anyway, good news
- (July and August EMU sales on the chart to the right are our estimates. The August estimate is conservative)

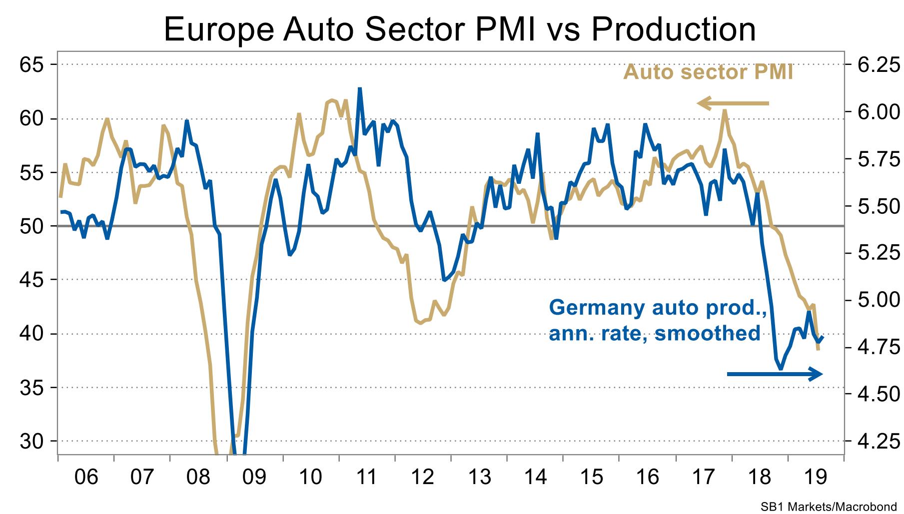
SpareBank 1 MARKETS

German auto production up in August but still very weak

German auto production is remarkably weak given German, European or global auto sales



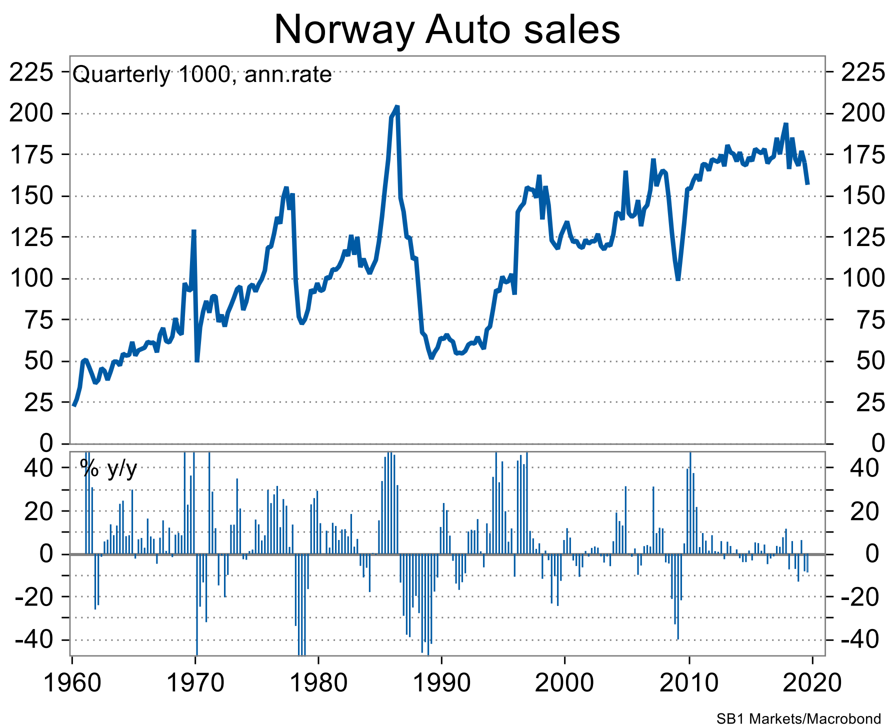


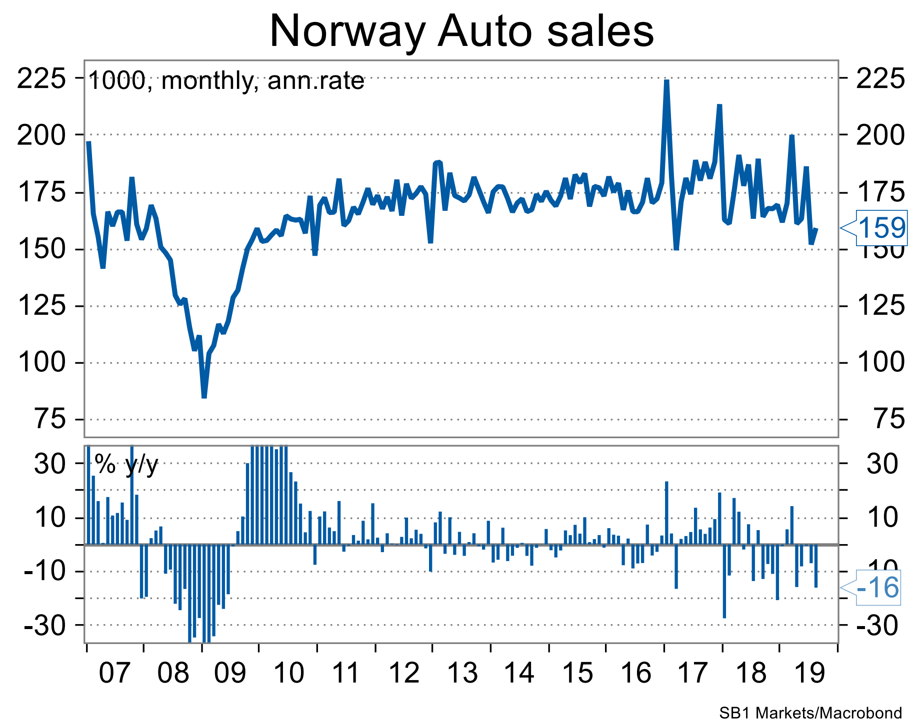


- German auto production is down less than 20% if we smooth data somewhat, still an incredible number, given auto sales in Germany, EMU or even the world
- The European auto sector PMIs are not reporting any recovery, at least not in July (Aug data not yet released). The European auto PMI is much weaker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

Auto sales below par in August too

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

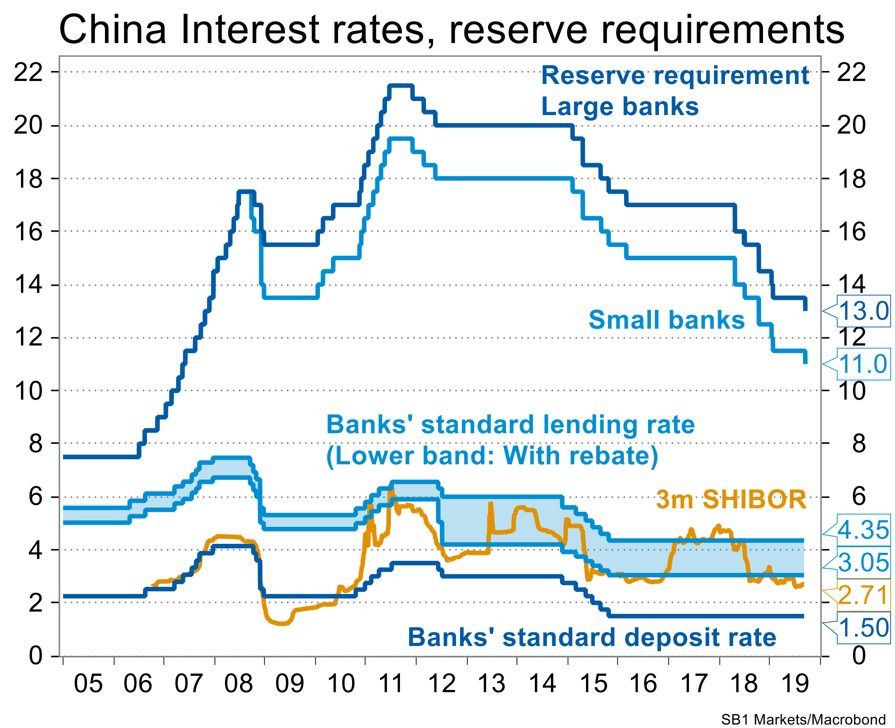


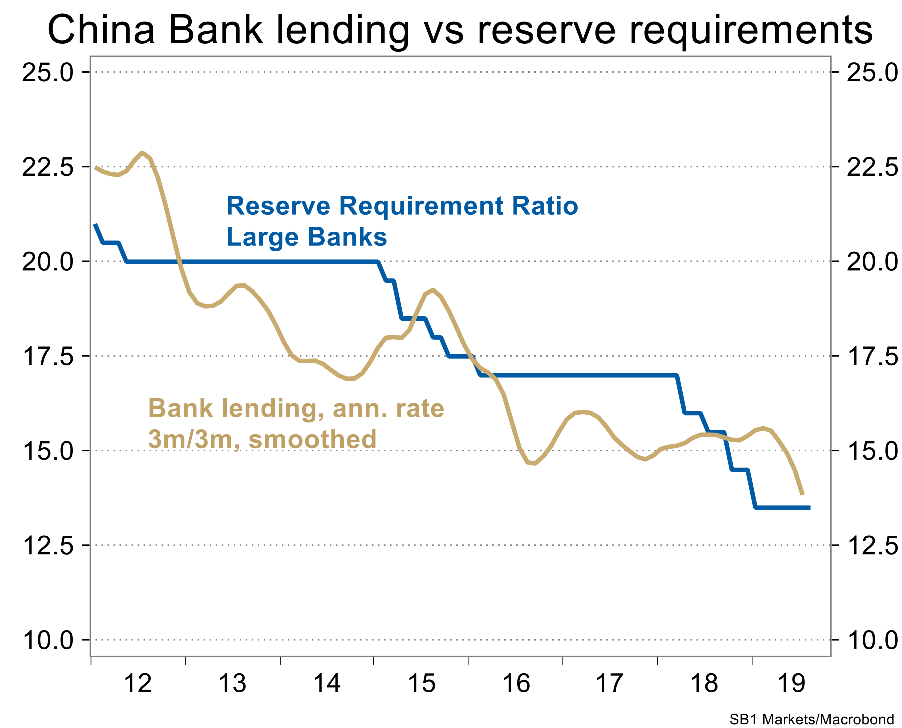


- First time registrations (incl. 2. hand imported cars) rose to 159’ in August, from 152’ in June. The sum of the two past months are the weakest in 10 years – and down 12% y/y
  - » Monthly registration figures have been more volatile than normal (barring impacts from changes in taxes in some December/Januarys) due to heavy supply bottlenecks, especially for the popular EVs that now constitutes half of auto sales
  - » There are still long waiting lists for many popular EVs, and the actual level of new registrations may still be lower than the actual sales rate – at least there are many cars to be delivered coming months
- The trend in sales is pointing down the past year, even before de low level the to past months

Another cut in banks' reserve requirements, will it make wonders? Probably not

Requirements cut 0.5 pp to 11/13%, were 15/17% when this easing cycle started. But lending slows

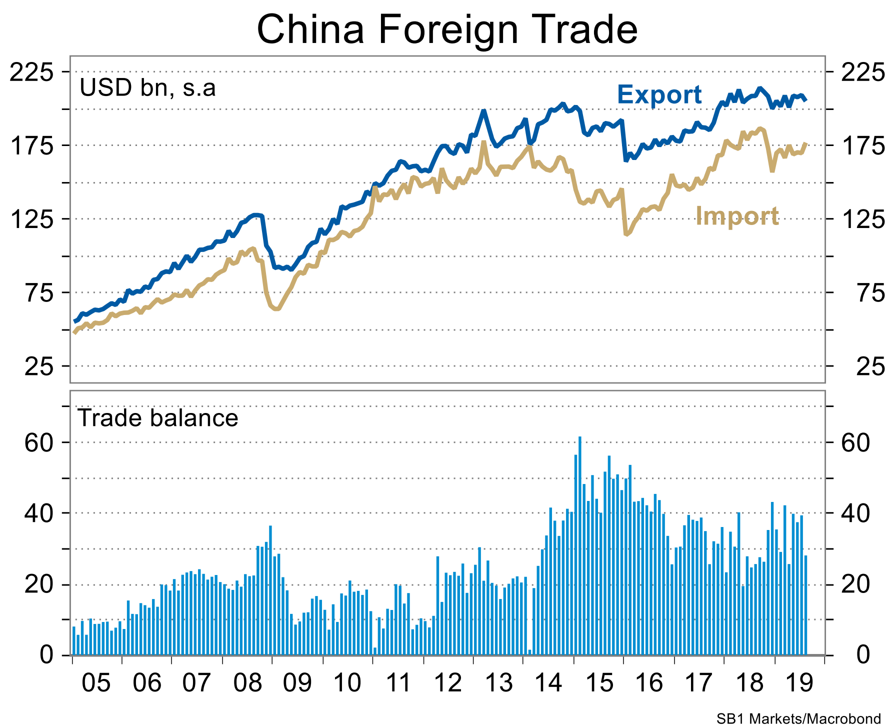




- This was the 6th cut in the reserve requirement since April last year, in total 4 pp, to 11 for small banks and 13 for large banks. The ratio is down 8.5 p from the peak in 2011. The requirement ratio has been reduced by 3.5 pp last year (until Fridays cut), freeing up bank lending equalling 5% of outstanding loans. Still, actual bank lending has slowed somewhat of course not because the requirements ratio is cut but because other factors have been stronger, on the downside. We do not expect the last cut to have a huge impact on bank lending either
- The 3 m SHIBOR at 2.71% has been trending marginally down, but not enough to signal the PBoC plans to lower the interest rate. In addition, the CNY exchange rate is down from the peak, stimulating the (foreign) exposed sector in China
- The PBoC recently introduced a new model for setting interest rates a prime lending rate has been cut by 0.1 pp below the banks' standard lending rate

Exports are flattening, imports are not dead

Exports to the US down, a 3% overall drag – the sum still flat. Imports down, far from out



- Exports were reported down 1% y/y in USD in Aug, 4% below expectations. Exports fell 2% m/m and has flattened recently. Export volumes have flattened over the summer too (and are flat y/y, close to all time high)
  - Exports to the US is down USD 6 bn, or 15% since 2018 (equalling 3% over total exports). Exports to other regions have compensated for the decline in export to US, especially to the rest of Asia. Still, growth has slowed in most directions
- Imports were down 5.6% y/y in Aug, close to expectations. However, imports rose 4% m/m, and the trend is slowly up from the weak Q4. Thus, <u>import data (neither in value nor volume terms) do not signal a sharp weakening of domestic demand</u>
- The trade balance was somewhat weaker than expected, USD 38 bn (-12 bn, seasonally adj)

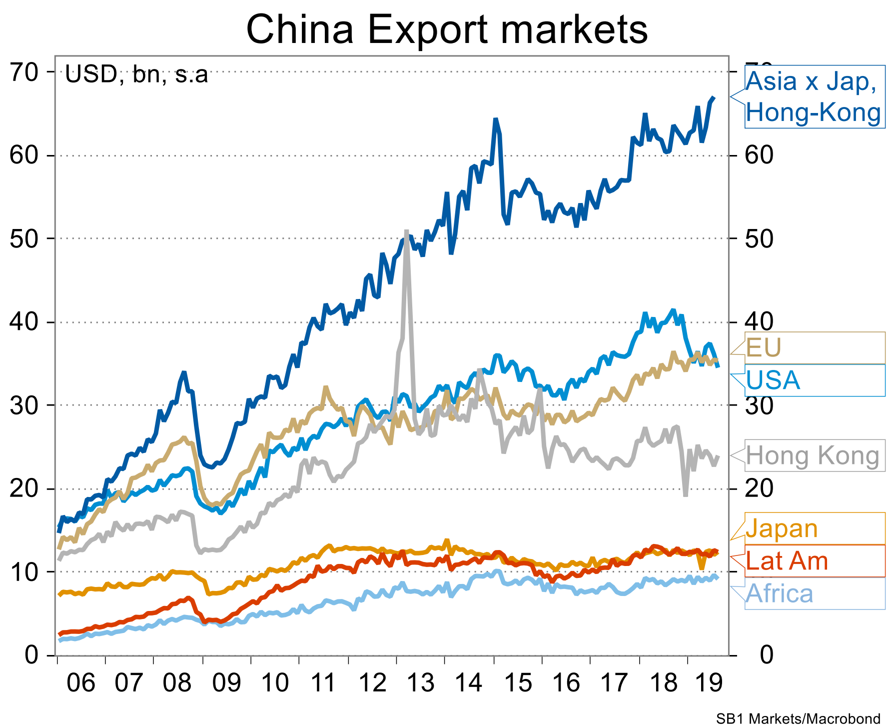
Export surveys are signalling a modest decline in exports, no collapse

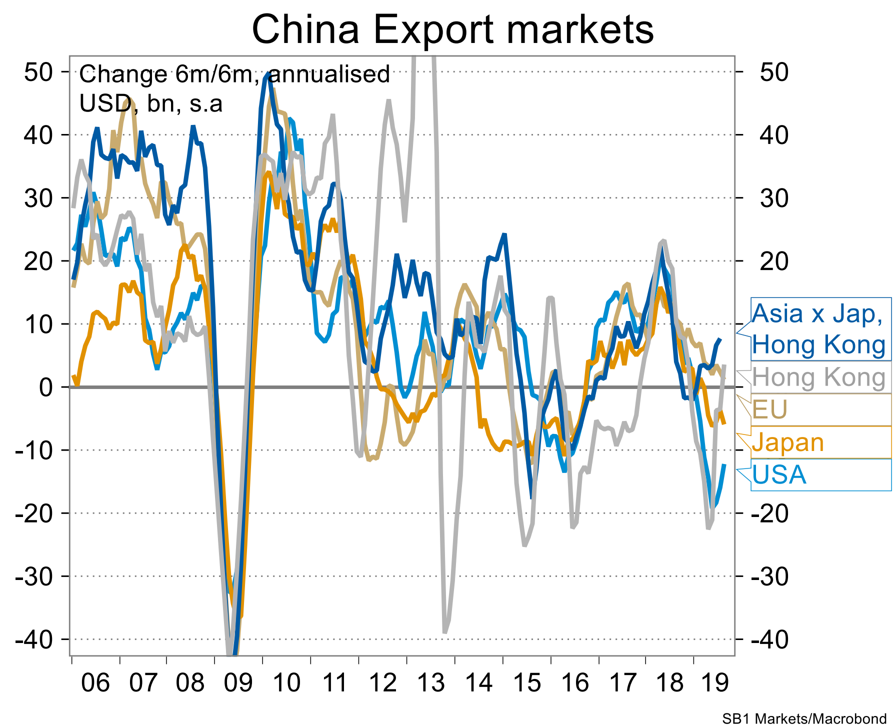
A slowdown/marginal decline has been signalled, as in 2011, ’12, ‘13, and ’15/16

- .. And actual export volumes fell in 11/12, were flat in 13 and fell in 2015 – without creating huge problems in the Chinese economy
- Now, exports still growing

Exports to the US have stabilised recent months, down 10% from the peak

H-K down, but exports to other Asia x Japan are increasing. Others are slowing but no drama

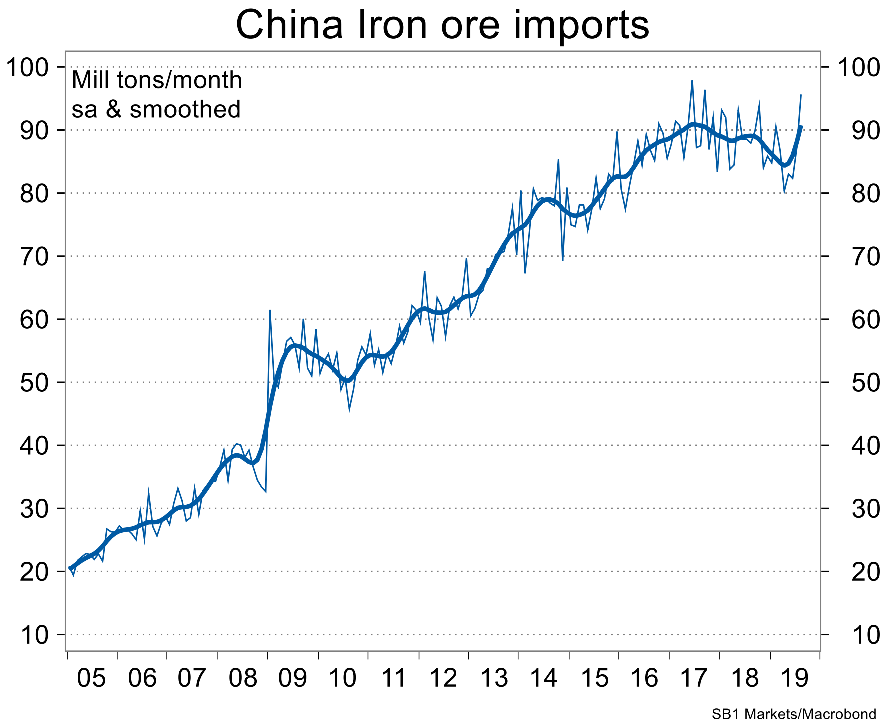


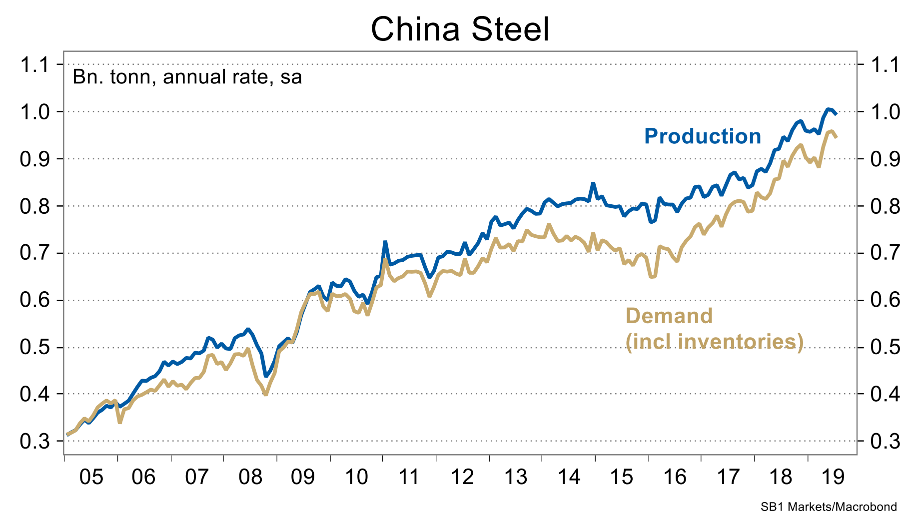


- Exports to the US are hurt by the tariffs, now down some 15% since last autumn, or 3% vs all Chinese exports. Tariffs were lifted substantially from Sept 1 and more tariffs are announced in October as in December. A further decline in exports to the US must be expected
  - » Exports to the US equalled 18% of total Chinese goods exports (and exports to EU 16%, rest of Asia 48%, all before US tariffs)
  - » Total exports equal some 20% of GDP, exports to the US 3.6% of GDP – now down 15%, shaving a gross 0.6% from GDP (however, dampened by lower need for imports as inputs for these exports, and the impact of redirections of exports). The total trade surplus in volume terms is up, as imports have fallen – and net trade is supporting Chinese growth
  - » The real economic risk for China & elsewhere: Trade rule uncertainty is hurting investments as companies may postpone investment decisions until the dust settles – and both Chinese and foreign company may reallocate to other countries. Some households may become worried too

Iron ore imports almost back to all time high in August

Net steel exports is trending down, domestic demand even more up than production

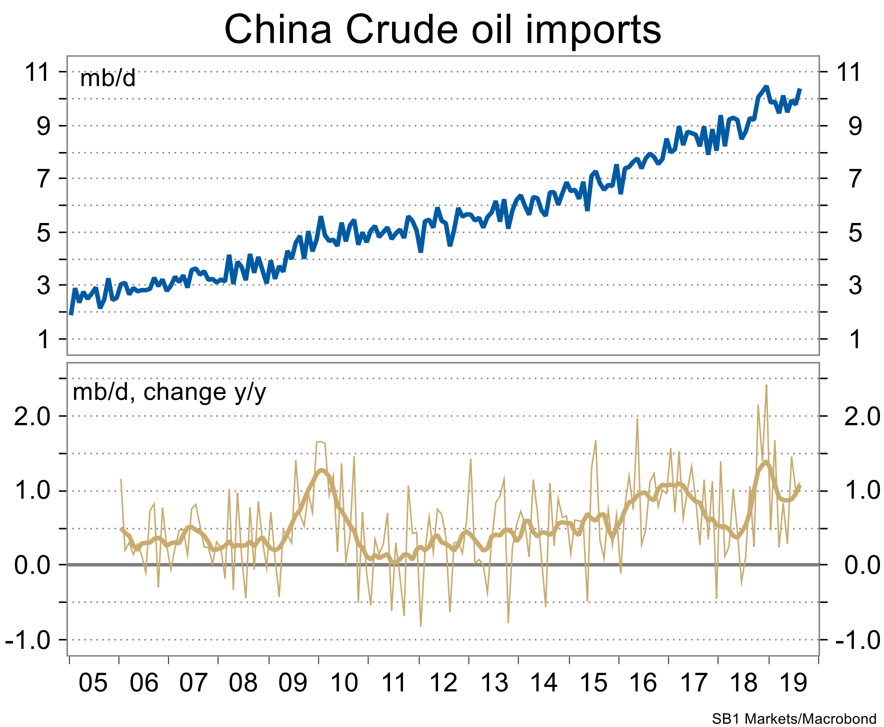


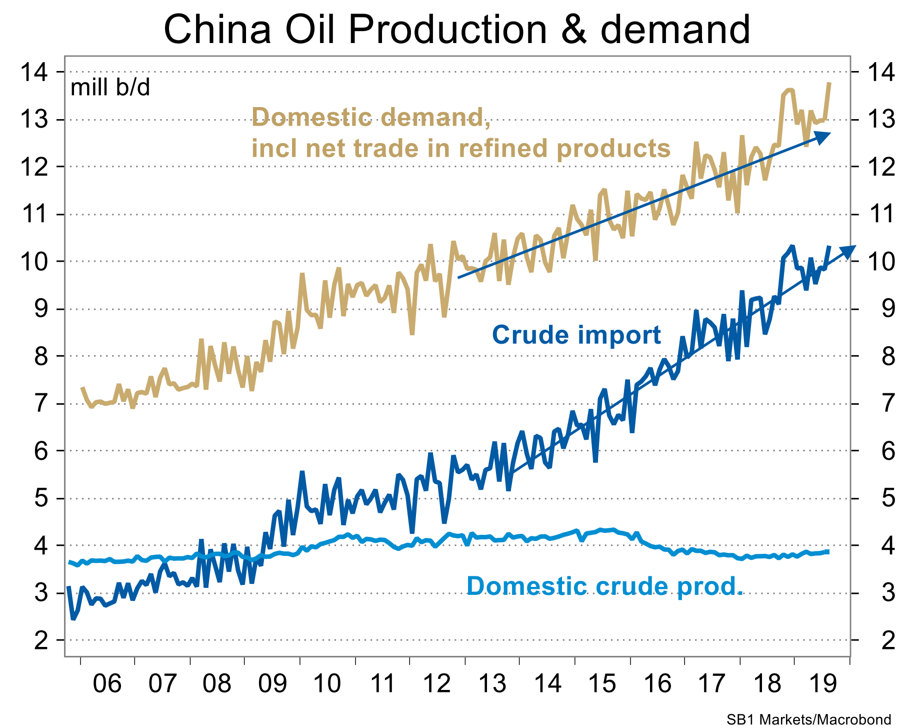


- Iron ore imports have been dragged down due to production problems in Brazil. Imports rose in both July and August – and the level is back to normal – which is needed (at least) as steel production is record high, and domestic ore supply is limited. Inventories must have been run sharply down
- Net steel exports equals some 5% of Rest of World production, and is trending up again – most likely not sustainable. However, 3 years ago it equalled 13%!!

Oil imports (and demand) up in August, trend is still strong

Crude imports are volatile short term but are trending up by almost 1 mb/d per year

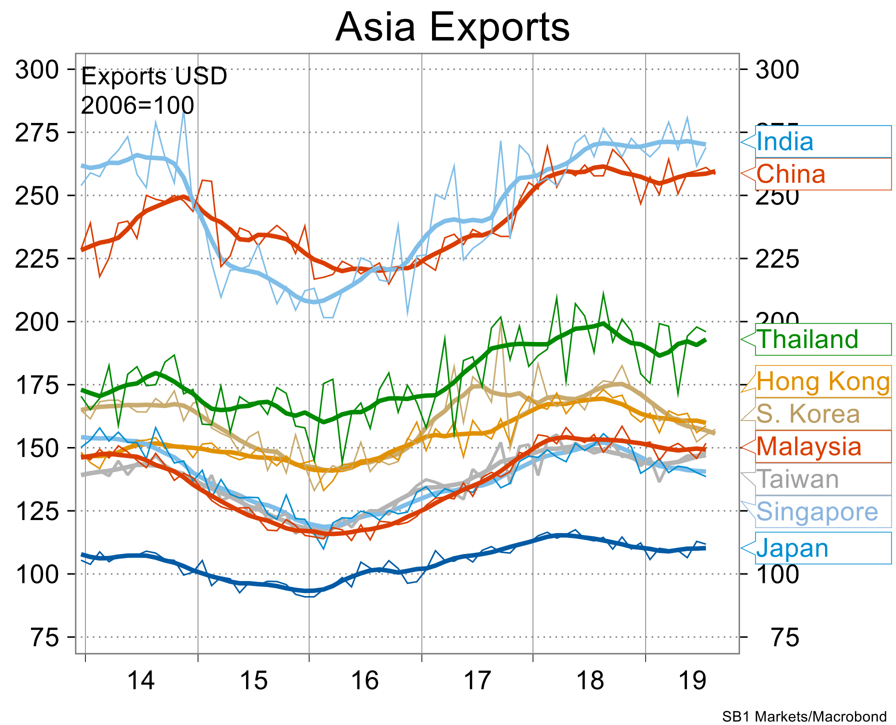




- Crude oil imports were up 1 mill b/d y/y in July & August, and is trending up . Oil imports are trending up with no signs of abating, even if imports fell in the first part of 2019
  - » Beside reporting errors, just an aggressive stock rebuilding can explain the unprecedented increase in imports through 2018; it is highly unlikely that end-user demand could have increased by up to 1.5 mb/d

South K. exports still on the way down, mixed elsewhere, some are recovering

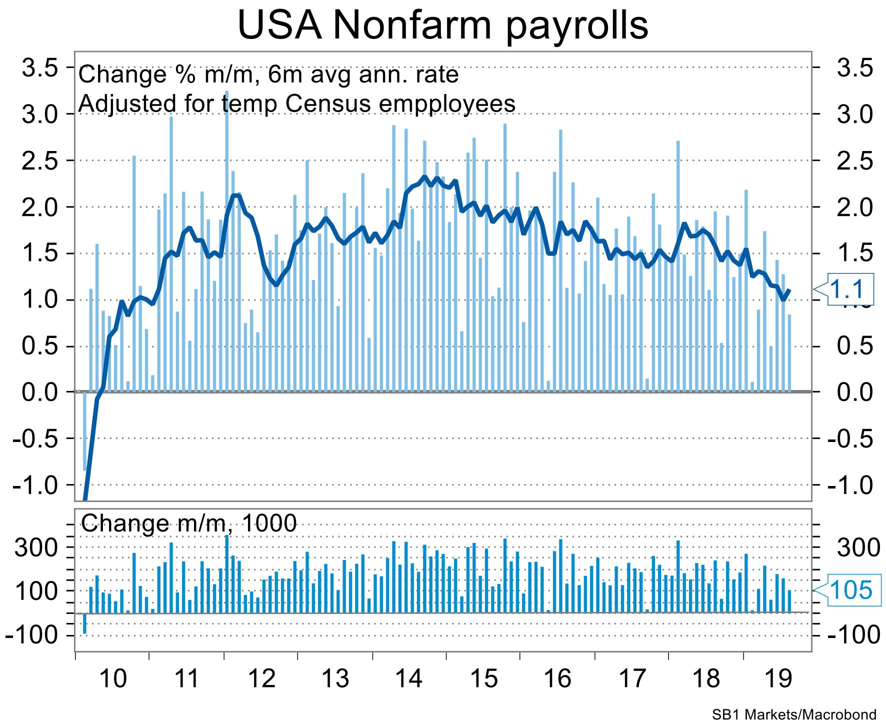
Bright spots in Taiwan, Thailand and Japan

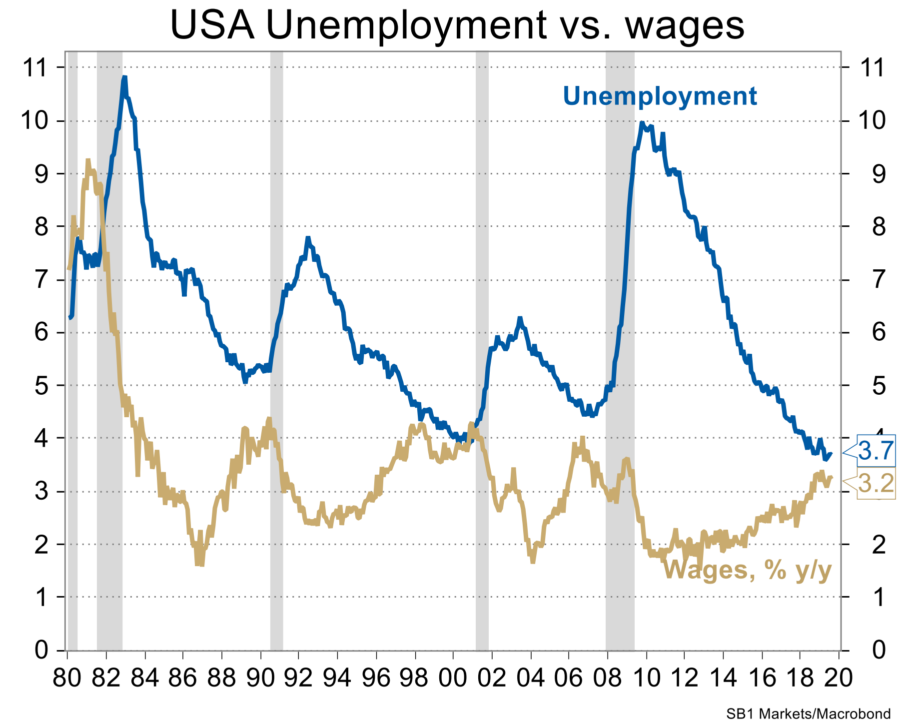


- The decline in South Korean exports is worrisome, Singapore weak too
- Exports from Taiwan and Thailand is recovering, as from Japan
- China is of course the world's biggest exporter country (55% larger than the US!) – and the 2nd biggest importer!
  - » China will probably take the pole position in imports too, in some few years time

August labour market report confirms a gradual employment slowdown

Employment up 130’, 30’ weaker than expected. Unempl. flat, wage growth rose more than exp.



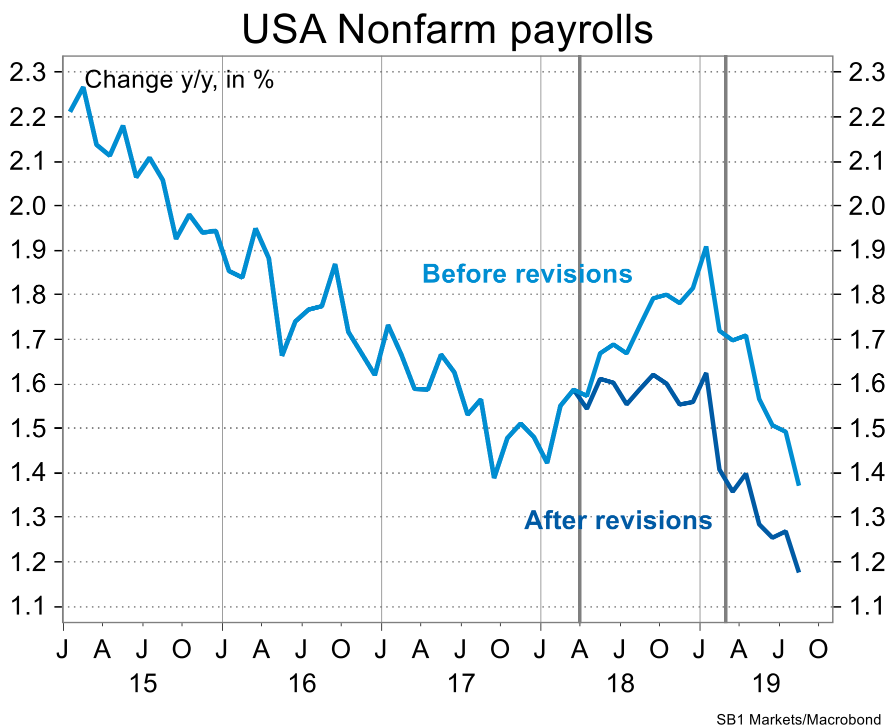


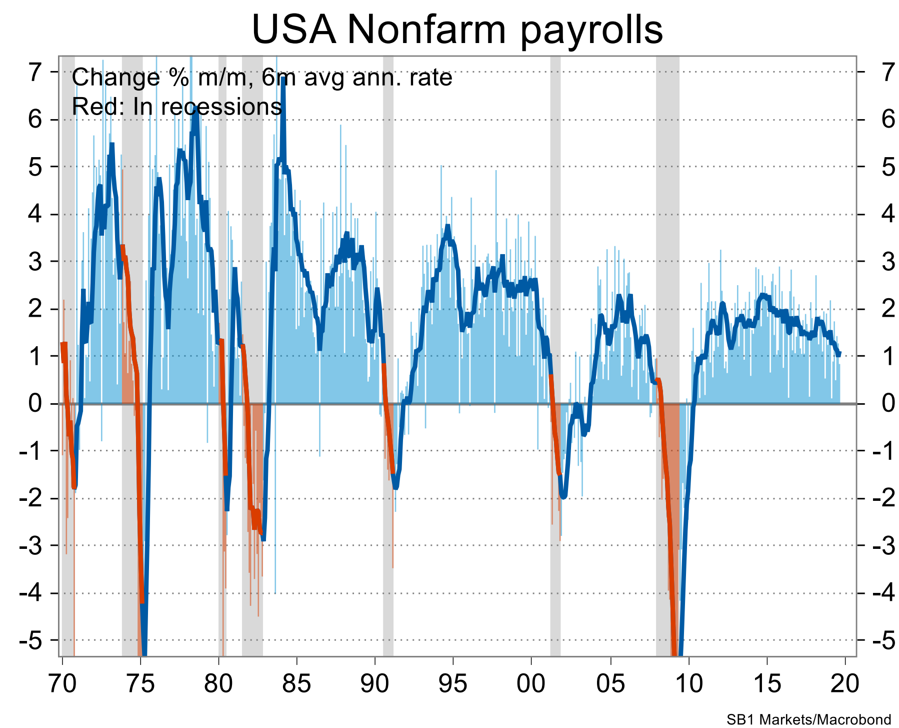
- **Employment** rose by 130’ in August, 30’ lower than expected and a 29’ decline from July (revised down by 5’, and June revised down 15’). Public sector employed 25’ Census temps, which we adjusted for at the chart above. In sum, the August level was some 75’ lower than assumed. On the chart above we have also adjusted for the March 18-Feb 19 annual revision (see next page). The 6m m/m avg is sliding steadily down, in August it inched up to 1.1%, down from 1.6% one year ago. Growth has no doubt slowed, we think mostly due to lack of available labour
- **The unemployment rate was unch at** 3.7%, as expected. The trend is still down, but slower. The **participation rate** rose by 0.2 pp to 63.2%, and the **employment** rate grew by the same. Particip. may is trending very slowly up over the past year, yet not sufficient to signal that the aggregate supply side is responding to strong demand. The labour market is tight, and businesses are reporting record high difficulties finding labour
- **Wages** rose 0.4% m/m, 0.1 pp more than expected and the annual rate was flat at 3.2%. Underlying growth is accelerating
- Overall, these data confirm a tight labour market, not an argument for cutting interest rates! The Fed will anyway deliver a 25 bps cut on the 18th

SpareBank 1 MARKETS

The annual revisions noted some 40' lower employment growth per month

Employment has been revised down significantly from March '18 to Feb '19, by 500' (0,3%)

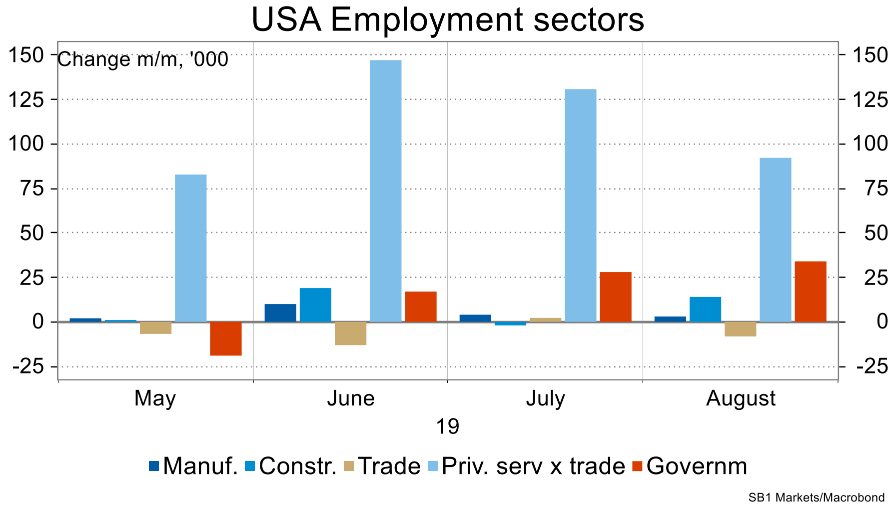


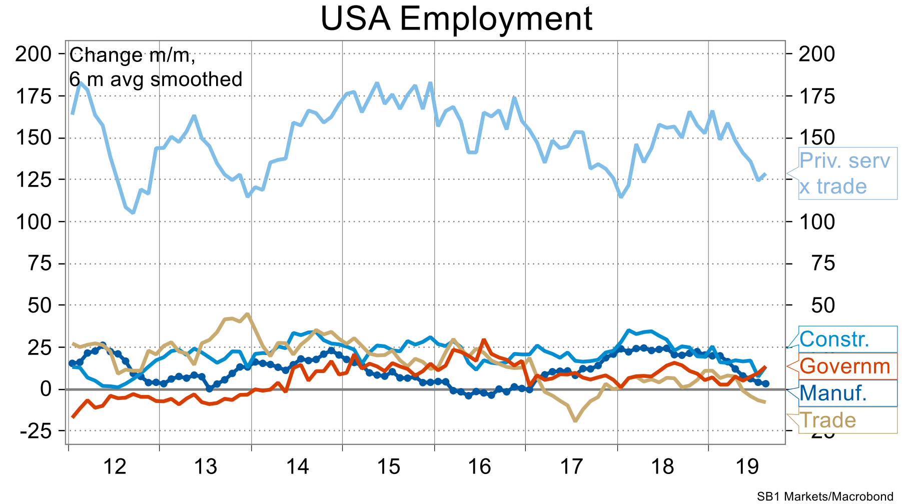


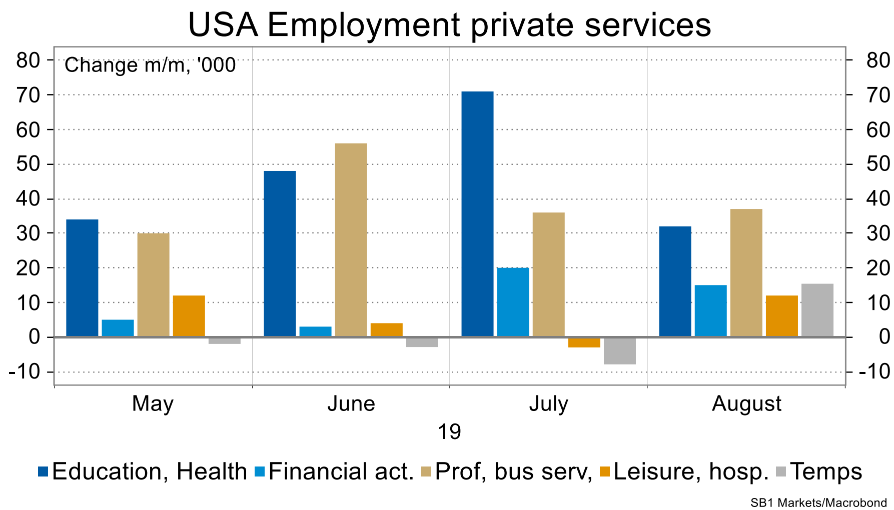
- Approx 1/5th of growth was taken out due to the annual revision. Hence, employment growth did not accelerate through 2018 but rather slowed, and growth has slowed more than we previously were told.
- It is not unlikely that employment growth in the April – August period will be revised down too (but we will not know before early August in 2020)
- We add a long term story to the right: Employment growth has slowed, but not dramatically. However, employment is a lagging indicator, and employment usually grows a month or two into the recession (or even more, like during the 'strange' (oil shock induced) 1973/74 recession

Broad slowdown in the private sector, public sector boosted by Census temps

Private services still expanding, but at slower pace





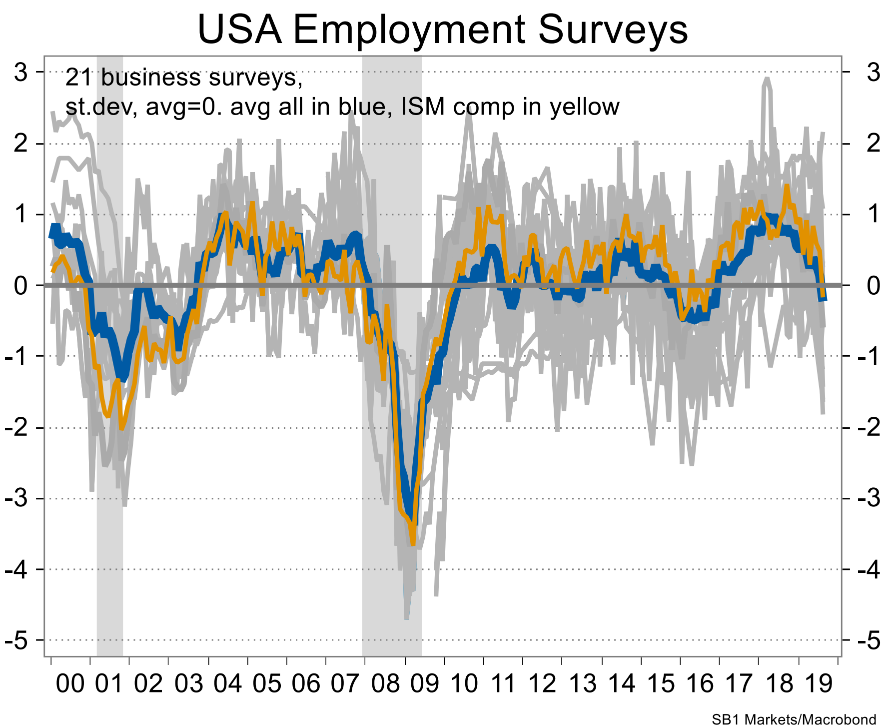


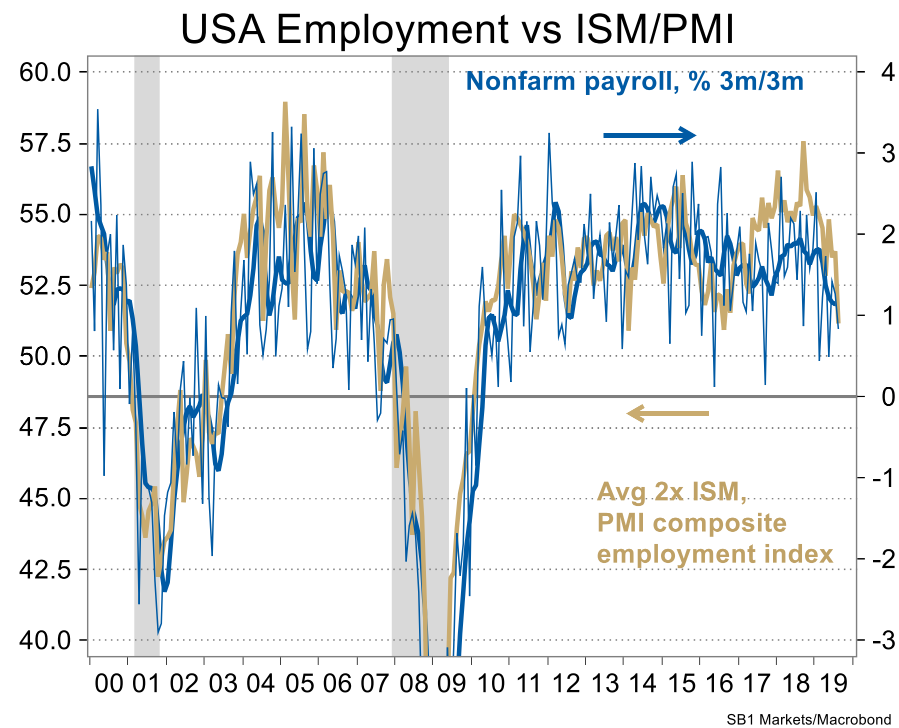
- **In August:** Private services, +92’, weaker than ‘normal’. Construction modestly up, manufacturing close to flat. Government employment expanded more than usual, but just due to 25’ census temp employees. Trade fell slightly
- **Recent months:** Employment is still growing in all sectors but trade. Both manufacturing and private services have slowed, and construction has eased sharply. Government accelerating somewhat, and well into plus
- **Big picture:** Manufacturing, construction both peaked in H1 ’18, construction most recently. Private services x trade empl. recovered last year but is slowing sharply again. Trade has been week since 2016, is now declining
- The annual revision is not yet included in these sector data

SpareBank 1 MARKETS

Employment surveys are softening – signaling a further slowdown

… however, the ISM/PMI are still indicating decent growth, at some 1%

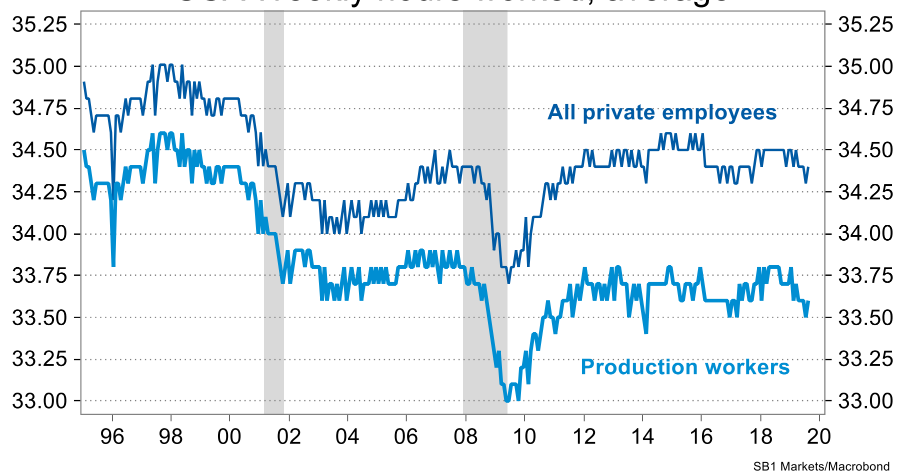




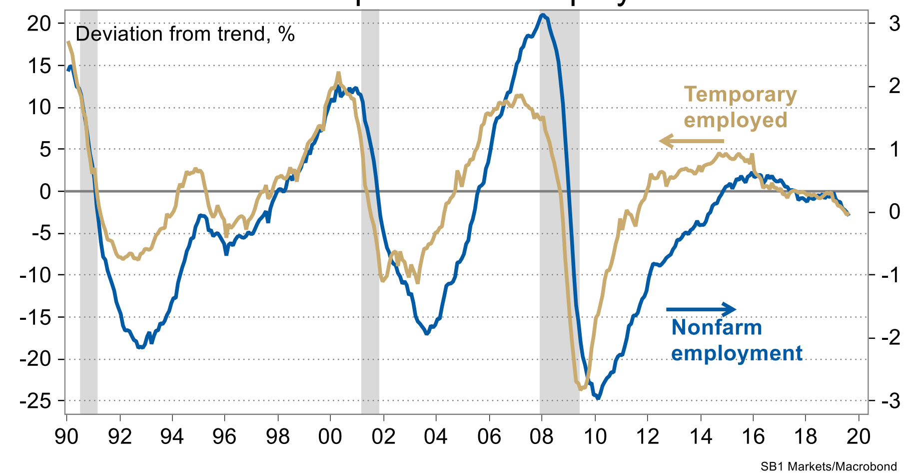
Weekly average hours up in August, trending down, normally the ‘first response’

Demand for temps is slowing too, usually not a good sign either

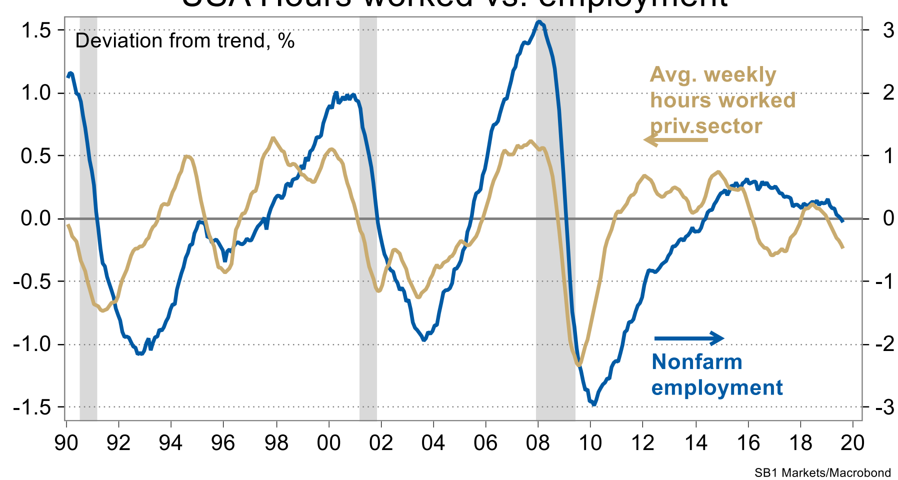
USA Weekly hours worked, average



USA Temps vs total employment



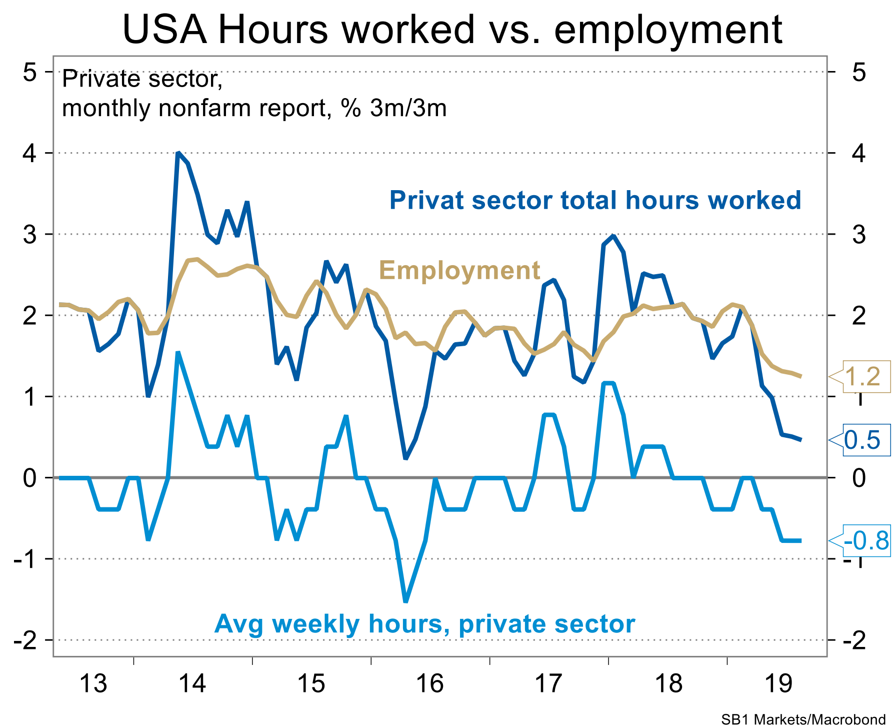
USA Hours worked vs. employment

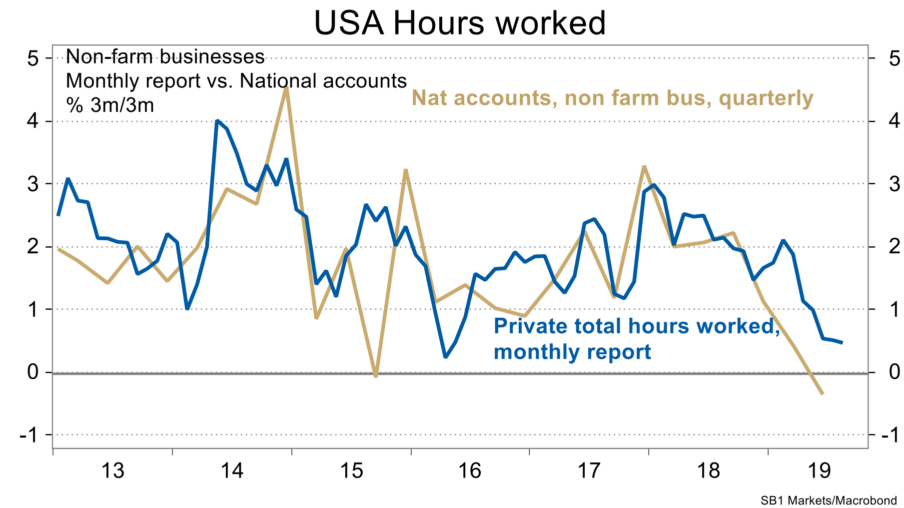


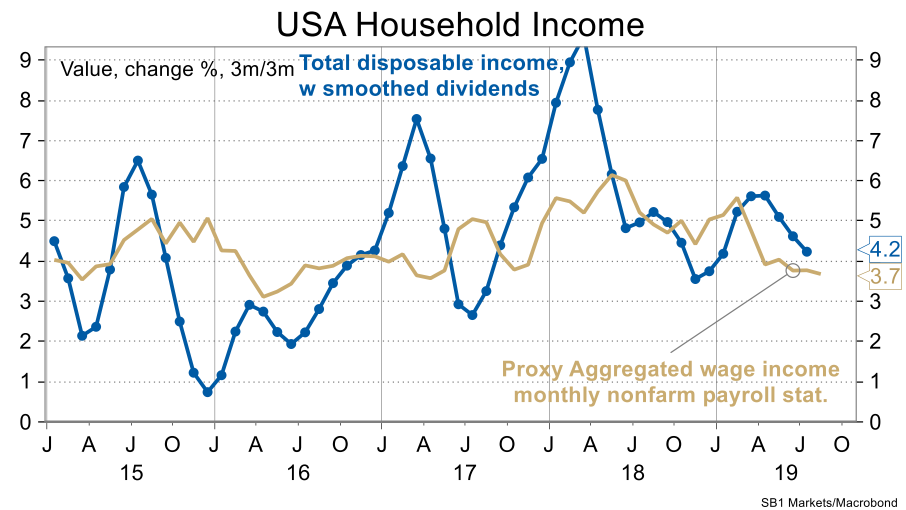
- Average weekly hours worked have fallen 0.3% since last August. <u>This is the best argument in favour of the weaker demand for labour-story</u> but it might also be due to employees not wanting long hours.
  - » On the other hand: Employers are still reporting aggressive hiring plans and unprecedented problems filling positions, and the number of unfilled vacancies is still very high
- The number of temporary employed is waning (even after a small increase in Aug) , usually a leading indicator for future slower total employment growth

Avg hours are declining, employment is slowing: Hours worked growth at 0.5%

.. And income growth is slowing too, even if wage inflation is kept up





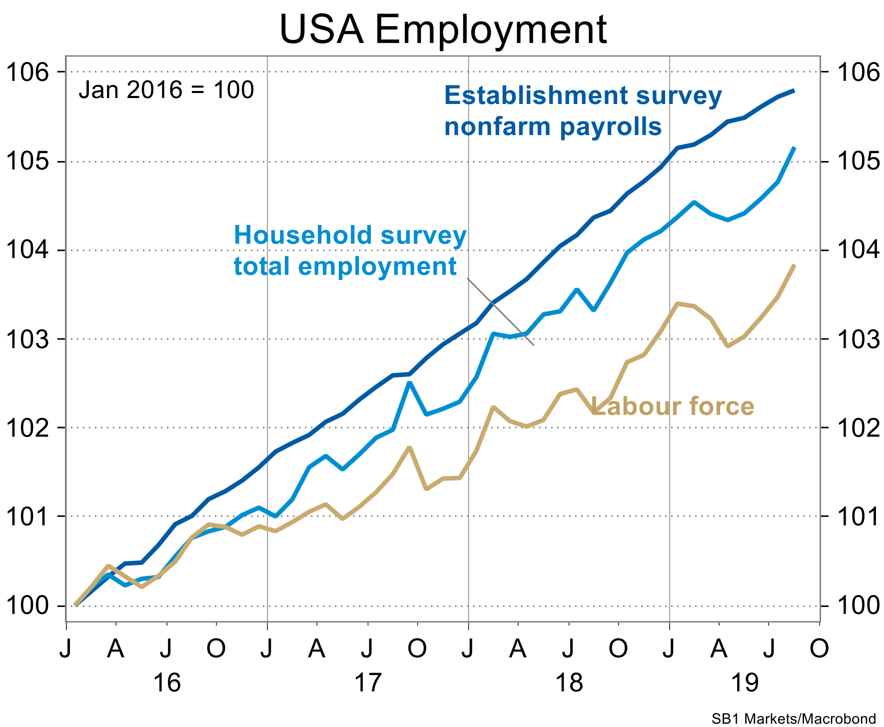


- Underlying growth in hours worked in the private sector has slowed to 0.5% now, from 2% early 2019. Employment growth is slowing, and average weekly hours are falling

- Growth in wage income is slowing too, down to below 4%. Total growth in disposable income is a tad above 4%

Household survey does not confirm the slowdown in employment growth, now

Total employment rose by 590 mill. according to the Household survey, after slowing in the spring

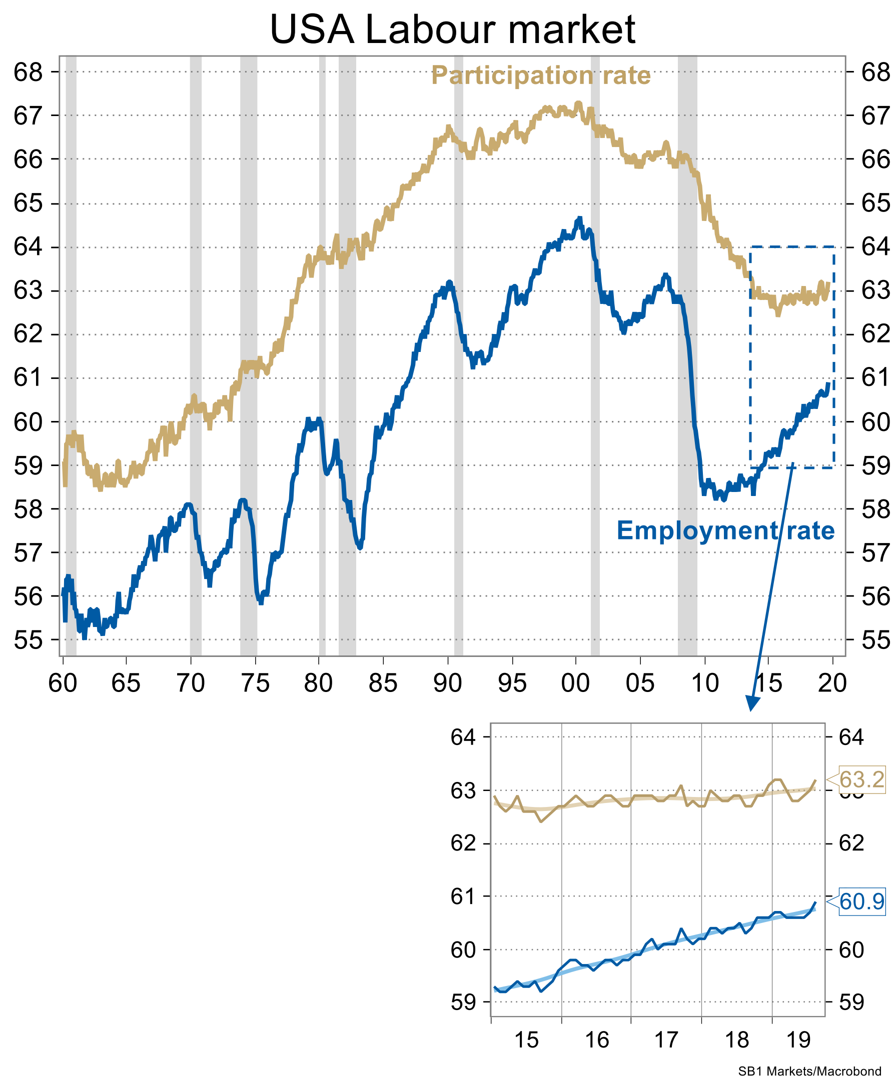


- The household Labour Force Survey (LFS/'AKU') reported slower growth in employment than payrolls during the spring. The past 3 months, employment growth has recovered strongly, according to the this survey
  - » Total employment grew by 590' according to the LFS ('AKU'), while employment defined as the payroll report rose by 1 mill.
- The labour force rose by 579' in August. The participation rate rose, but is far from impressive, check next page
- The monthly household LFS survey employment data are more volatile than nonfarm payrolls data, and are close to useless short term
  - » Over the past year, employment growth has slowed, measured by both the payroll survey and the household survey

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

Participation inches up, trend still almost flat, indicating a tight labour market

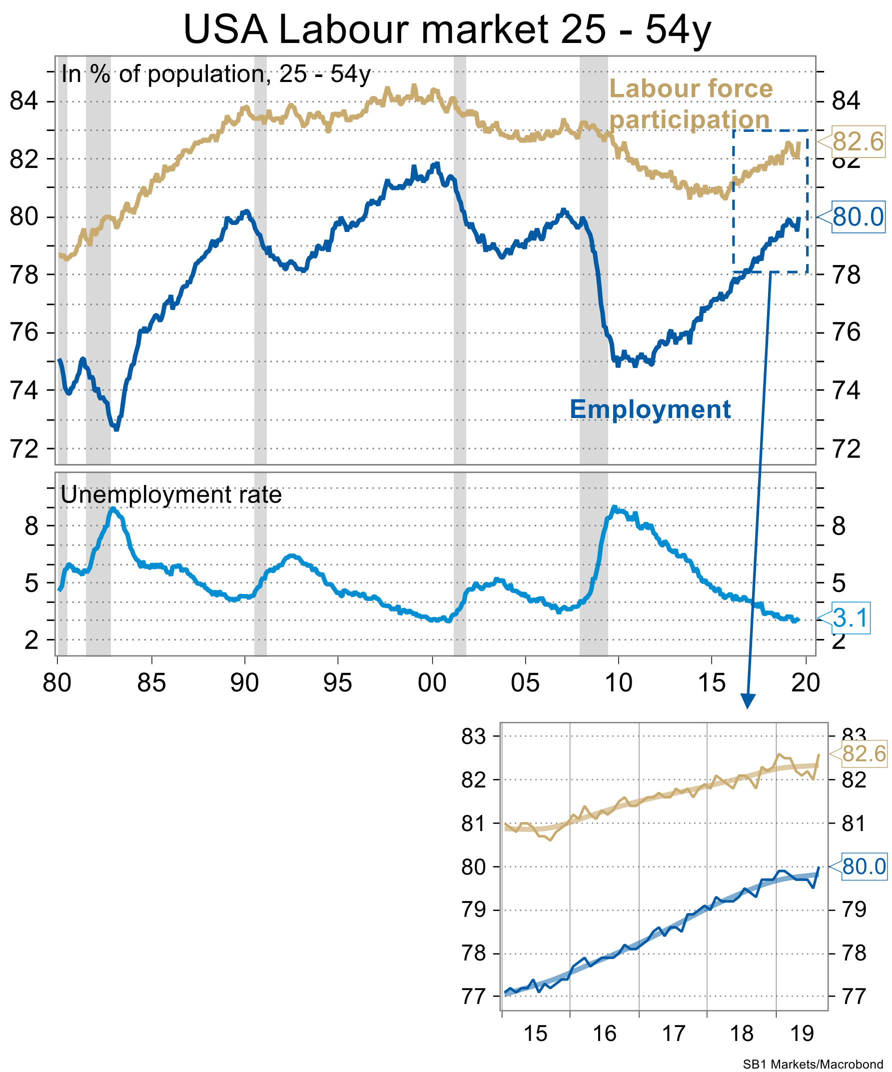
The participation rate may be heading slowly up, the level is low. Employm. rate still faster up



- The employment rate rose 0.2 pp to 60.9% in Aug. The trend is still upwards. The level is well below the pre-financial crisis levels.
  - » For the core age group, employment is back to a normal level (see next page). Youngsters (their employment rate is down) and the oldies (there are more of them) has contributed on the downside recent years
- The participation rate rose 0.2 p to 63.2, back to the cycle high level reached early 2019. The trend is very slowly upwards and clearly less steeply than the employment rate – that's why the unemployment rate is still trending down
- Participation & employment rates do not signal any weakness on the demand side of the labour market but rather a tightening labour marked, due to a meagre supply side (participation) response
- It might be that the August rates are too high, perhaps due to a lower response rate than normal (higher uncertainty)

The core employment rate (25-54 y) is back to the pre-financial crisis level

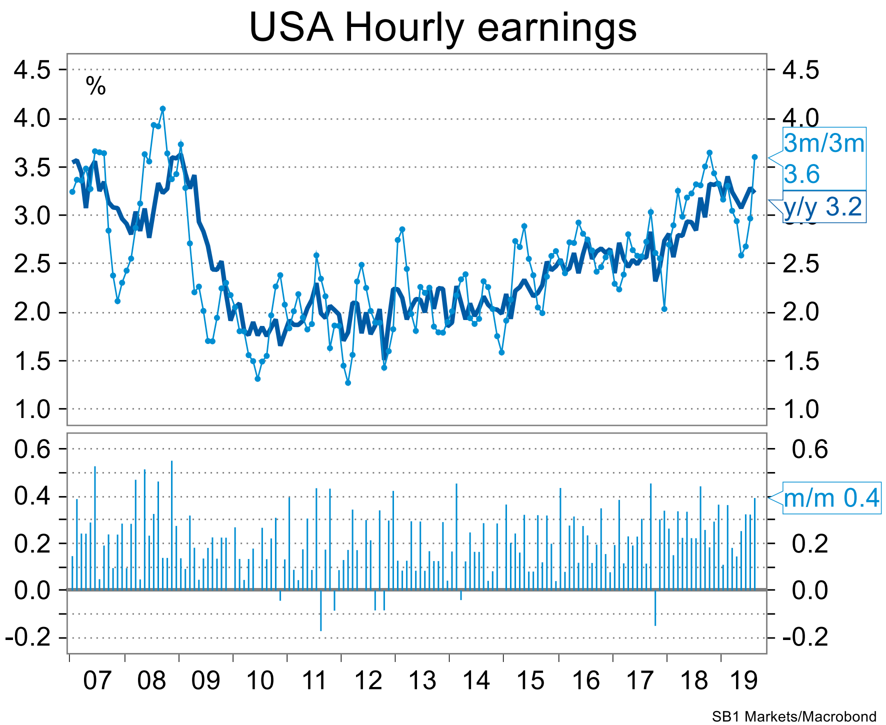
Is this the most relevant employment rate? Most likely. The trend is still up, level not low anymore

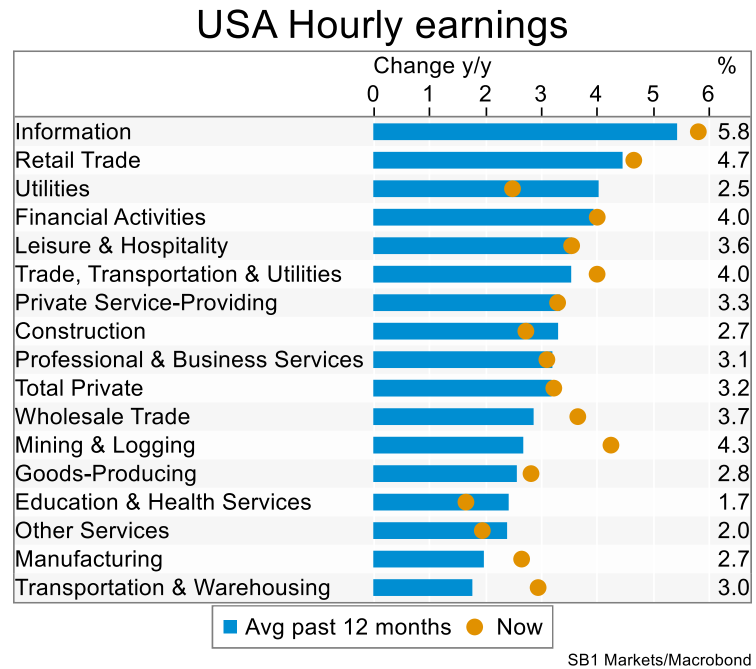


- While the total employment rate (over 16 y) is well below the pre-financial crisis level (almost -3 pp), the core age group (25-54y) employment rate close to the 2007 peak level.
  - » Youth employment is lower than before, probably structural as the education rate has increased
  - » Employment among the 55+ group is stable, but lower than for the core – and the oldies gradually constitute a larger share of the labour force, dragging the avg. empl. rate down
  - » The core employment/unemployment rate most likely gives the most relevant measure of the tightness of the labour market
- In August both the employment and participation rates rose sharply, after some weaker months

Wage growth higher than expected in August, underlying accelerates

Wages rose 0.4% m/m, 0.1 pp above expectations. The annual rate was flat at 3.2%, expected 3.0%

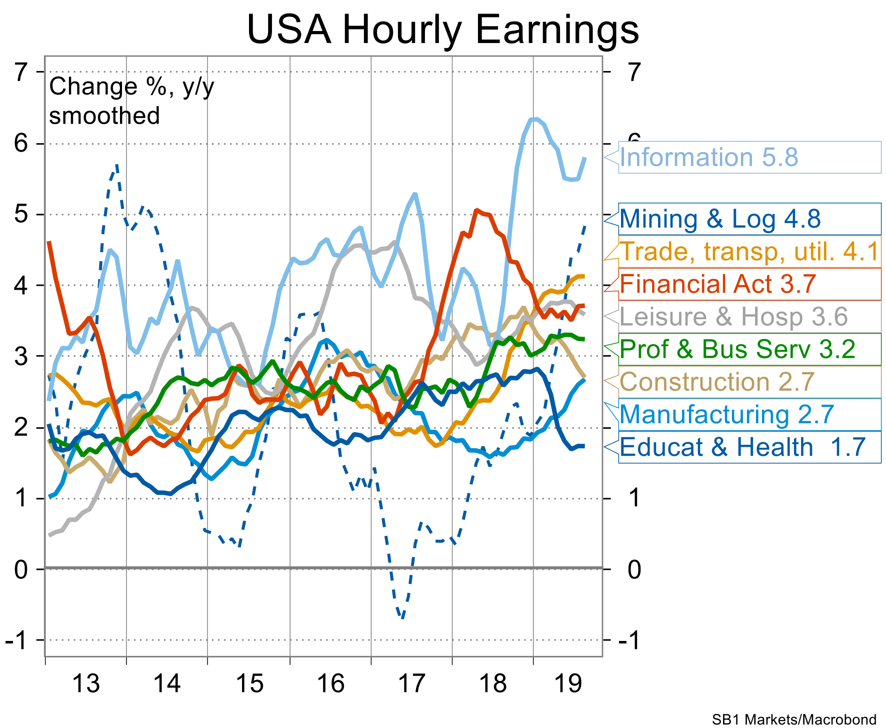


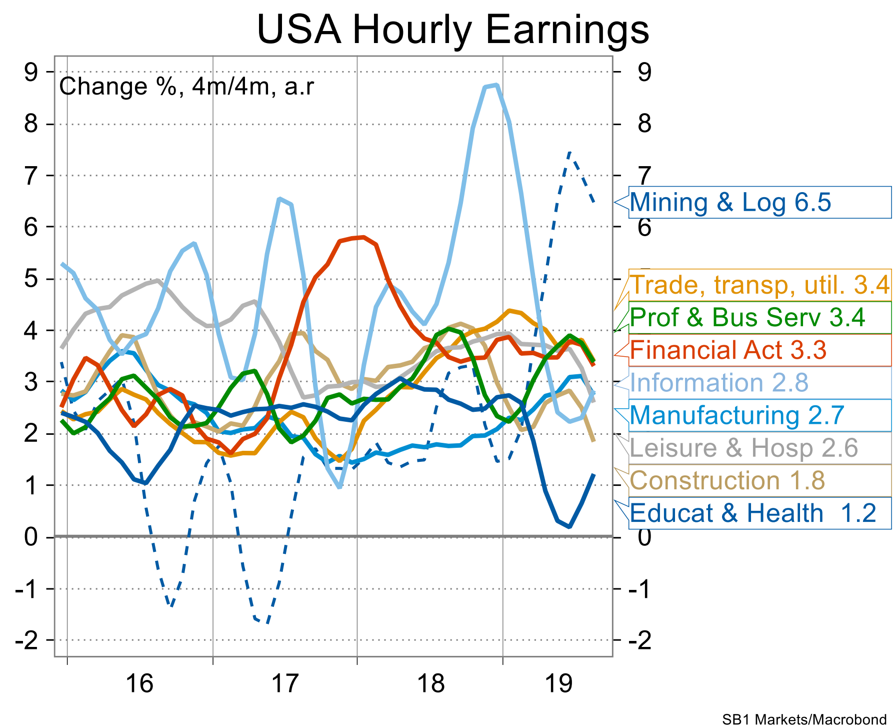


- Underlying growth is picking up, the 3m/3m rate rose to 3.6% in August. May signal a lift in the annual rate
- Annual wage inflation is accelerating vs. the average over the past year in 8 sectors/aggregates and slowing in 5 (and unch in 2). Wages are still increasing the most in information activities – and retail trade as advanced on the ranking, to the 2nd place!
- Wage inflation is not high vs historical standards but it is not low vs. underlying CPI inflation, and not vs productivity growth, see three pages further out. In addition, companies are not reporting much slower wage growth to surveys, and a measure of median wage growth (Atlanta Fed) is still accelerating

Weakness in wage inflation in most sectors recently

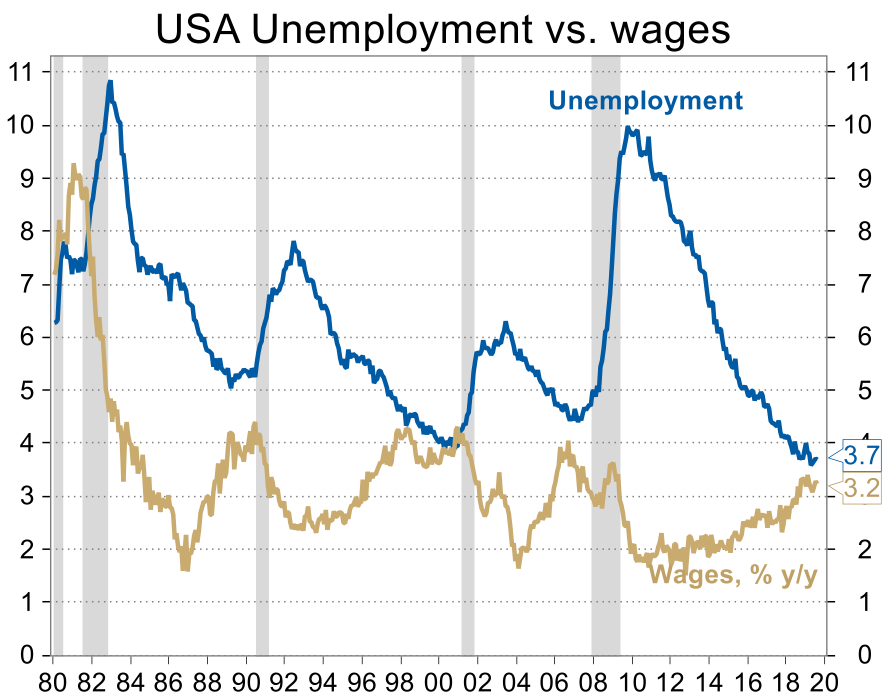
Monthly wage inflation has slowed in all sectors ex mining & lodging. Two sectors turned up in Aug



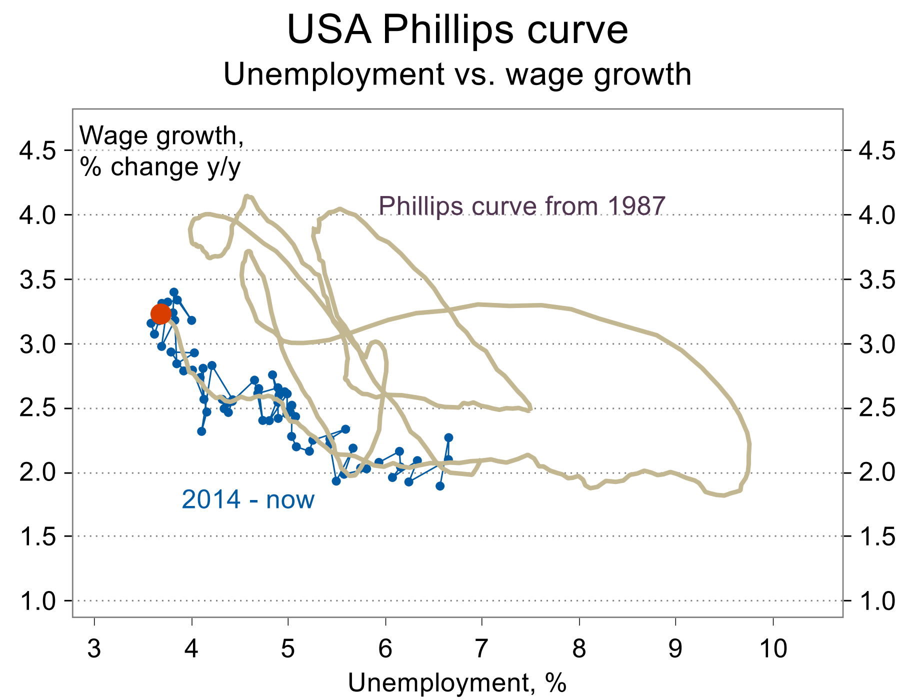


Wage inflation still somewhat lower than 'usual' vs. the unemployment rate

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



SB1 Markets/Macrobond

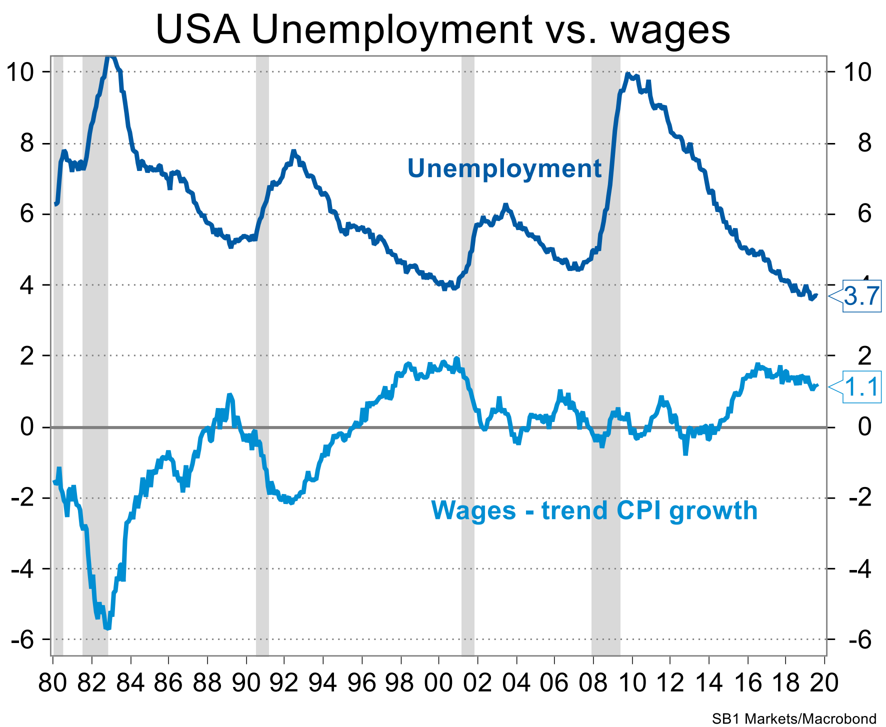


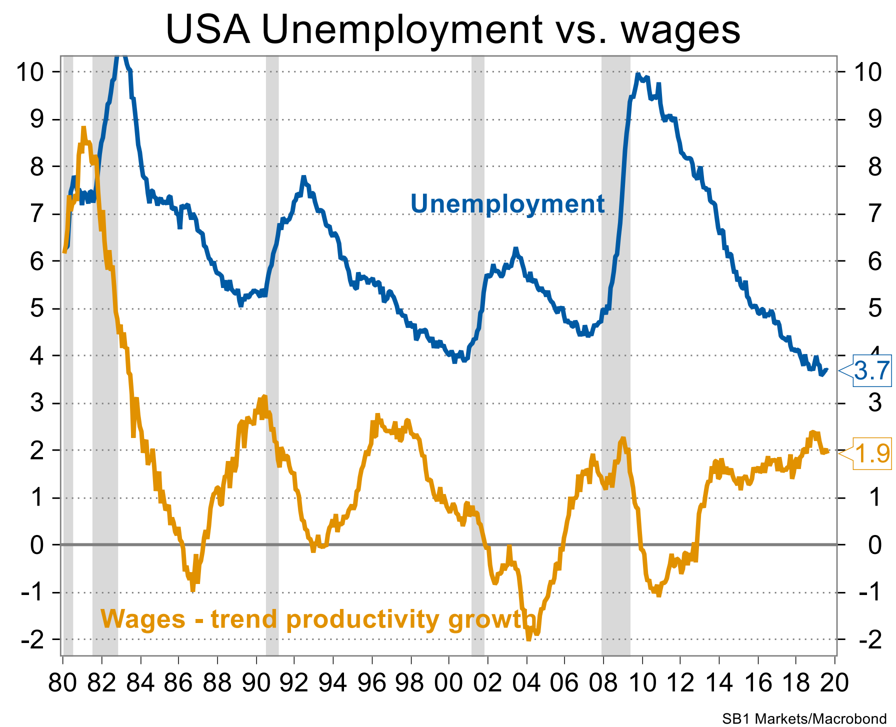
SB1 Markets/Macrobond

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

Wage inflation is not low vs. prices or productivity

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





- In Q2, the wage – productivity gap, or labour cost per unit produced (ULC, unit labour cost, using the monthly wage data) decline marginally but it is close to 2% - close to the highest seen in decades
- Real wages are increasing more than normal too

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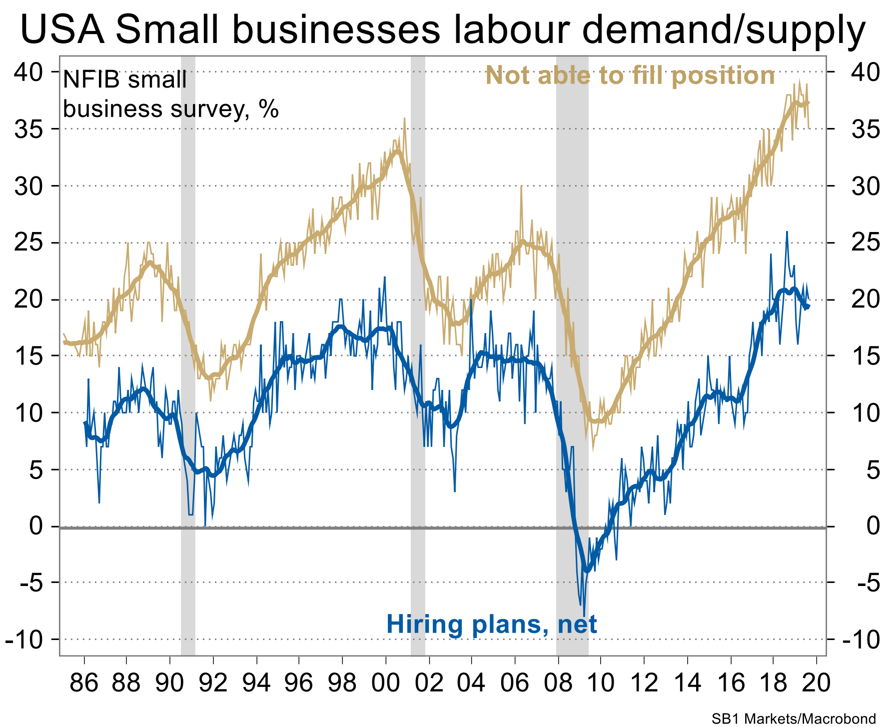
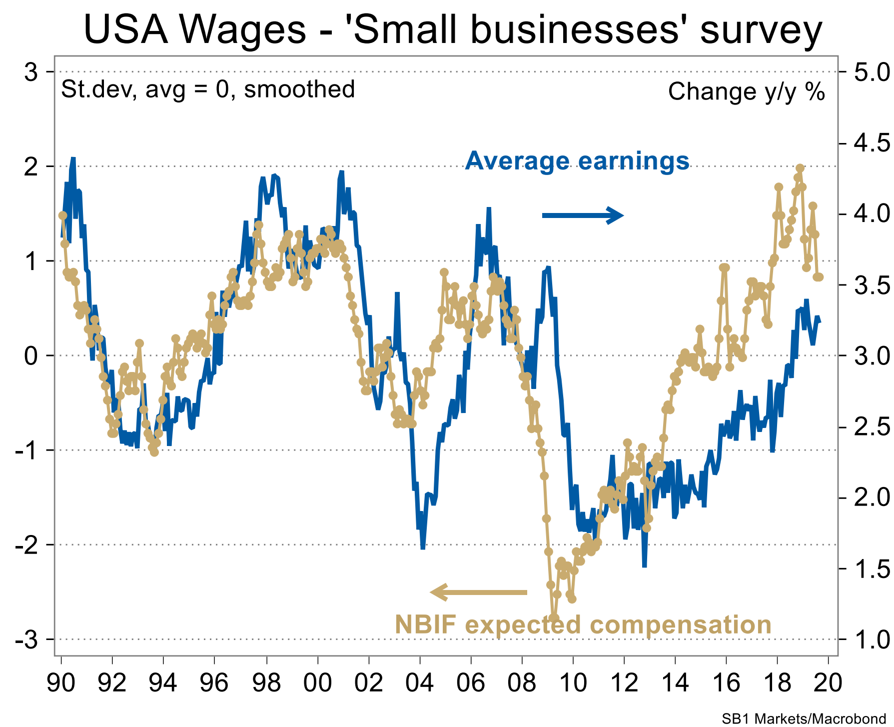
Small companies are reporting tight labour market but are scaling back pay plans

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

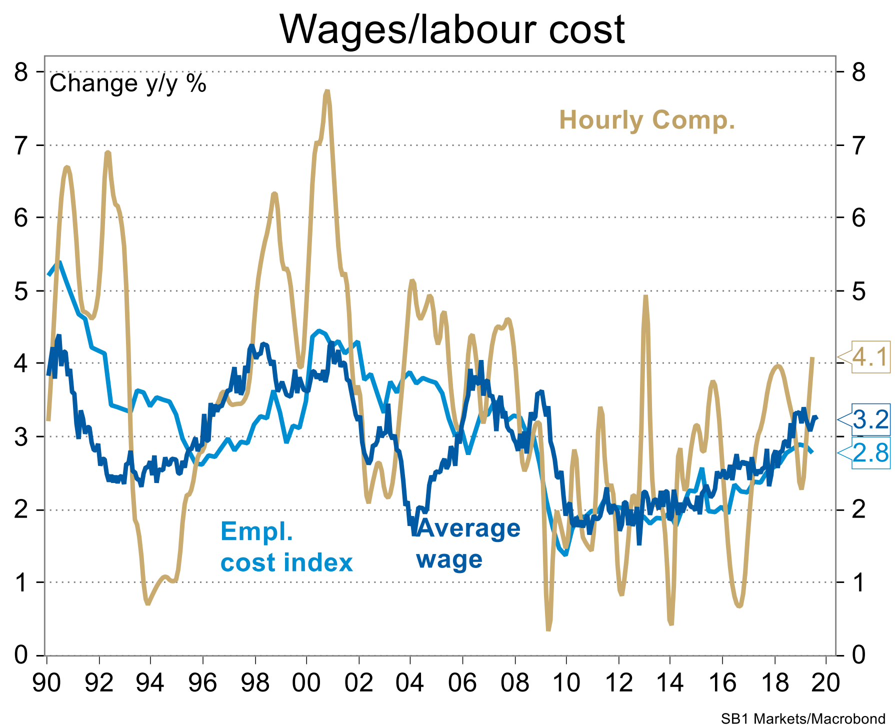


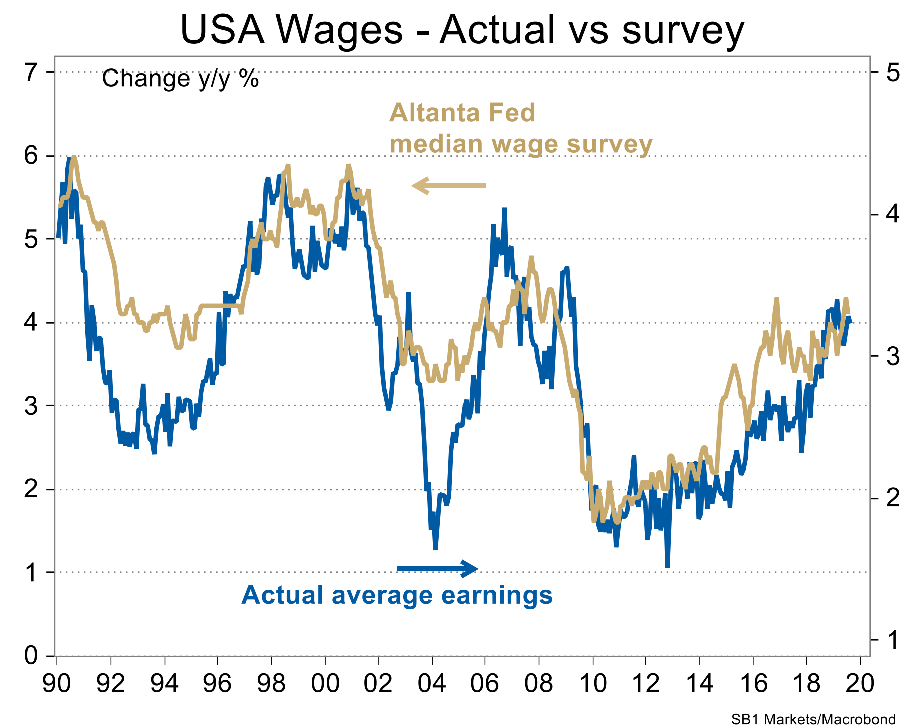


- SME companies have been reporting somewhat less aggressive hiring plans so far this year, compared to the late 2018 levels. An early sign of demand weakness? These data are volatile – and the level is still close to ATH.
  - Most likely, companies will scale back their hiring plans before they start reporting that it's easier to fill vacancies, and the unemployment rate will turn up – some months before the US economy really slows (or worse)
- The companies are still not able to fill their vacancies, although the share of companies reporting so fell in August. Companies are also reporting unprecedented problems finding qualified labour These problems may be a reason for less aggressive hiring plans. An increasingly uncertain outlook have probably contributed as well.
- Compensation expectations have been shifted down recent months, flat in August. However, the level is still quite high and does not necessarily signal slower wage growth

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

Still, wage inflation has not accelerated the most recent months

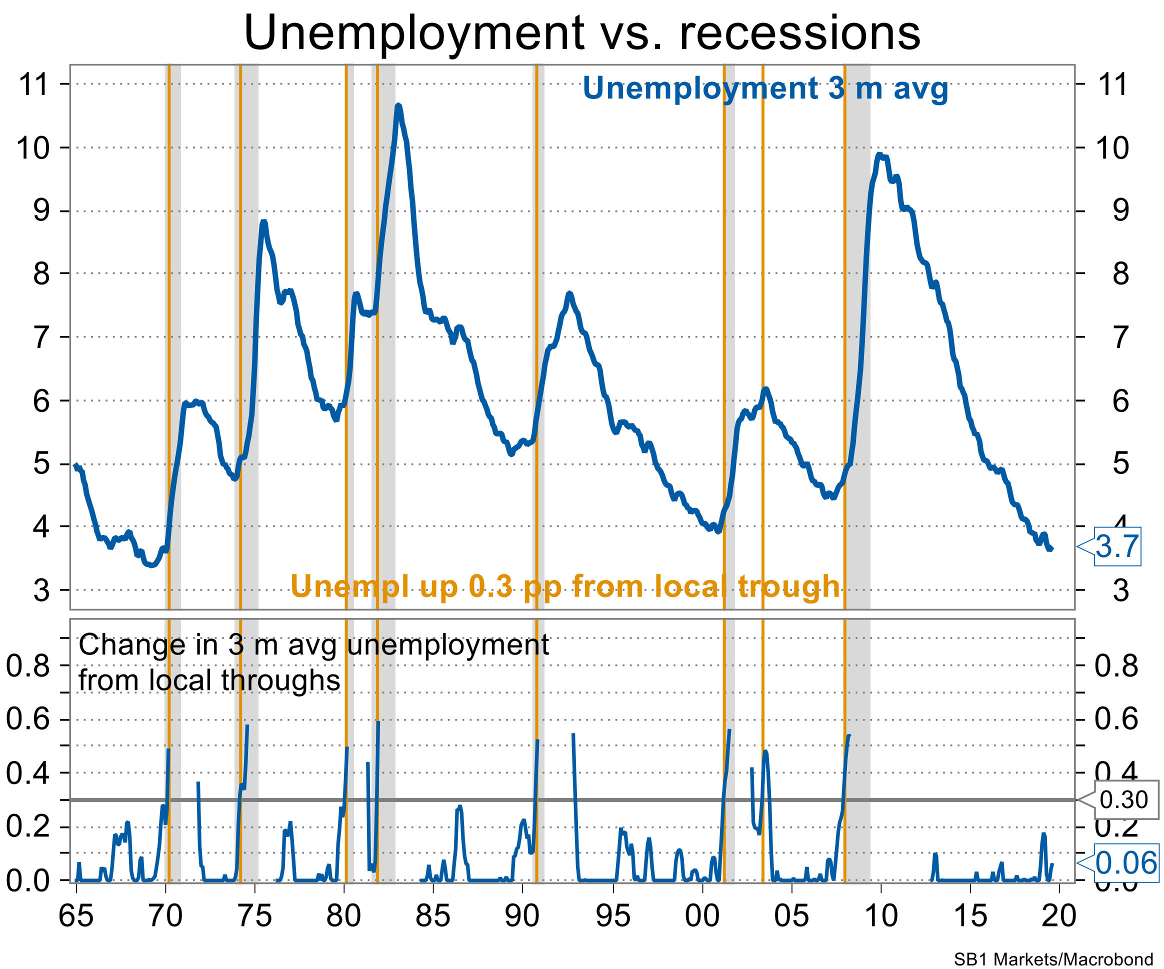




- In the monthly employment report, wage inflation is 3.2% y/y
- The Employment cost index slowed to 2.4% q/q annualised in Q2, the lowest in 2 years, from 3% in Q1. The annual rate came down 0.1 p to 2.8% - still up over the recent years
- Hourly compensation (from National Accounts) is the final assessment of all sorts of labour compensation. It is much more volatile than other labour cost measures. It rose 4.9% q/q in Q2 (from 9.4% (!) in Q1) and accelerated to 4.1% y/y, the highest since 2013
- Atlanta Fed's wage survey reports 4.1% median wage growth, which normally do not signal average wage inflation below 3%

Unemployment not up yet, no recession now?

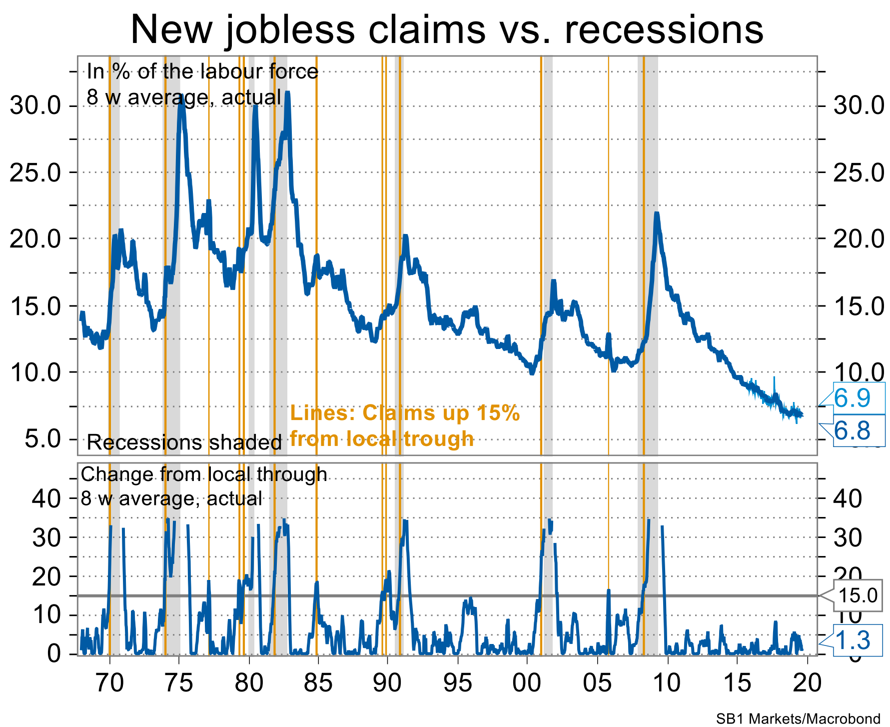
Unempolyment usually turns up as the recession hits (but not before)

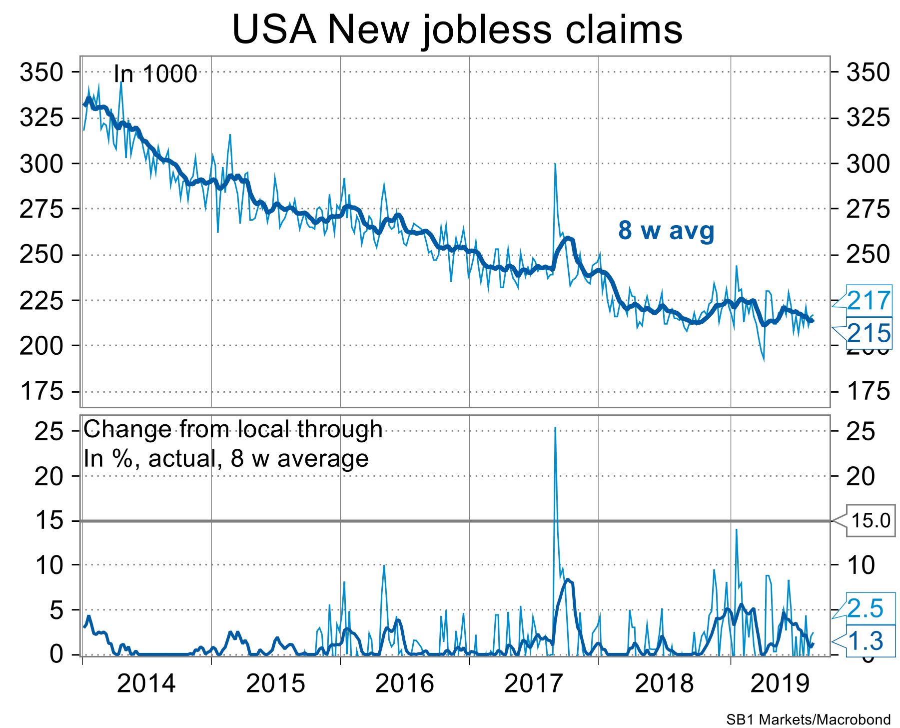


- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession confirmation, but has not been a good recession pre-warning
  - » Unemployment always increases substantially during recessions
  - » An often used threshold for signalling a recession is a 0.3 pp increase in the 3 month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

Jobless claims are still very low, no signs of weakness

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

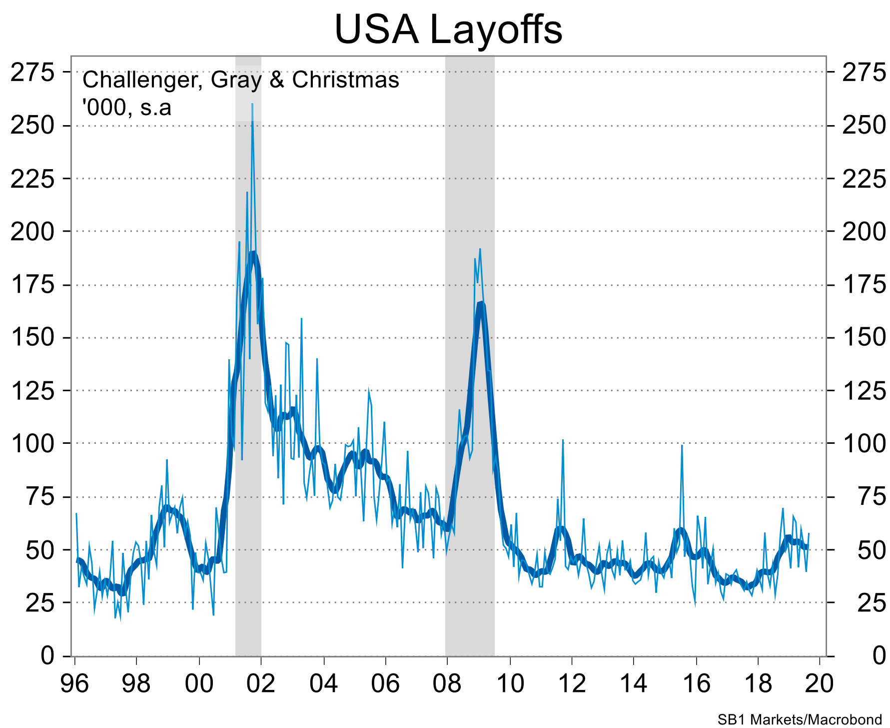


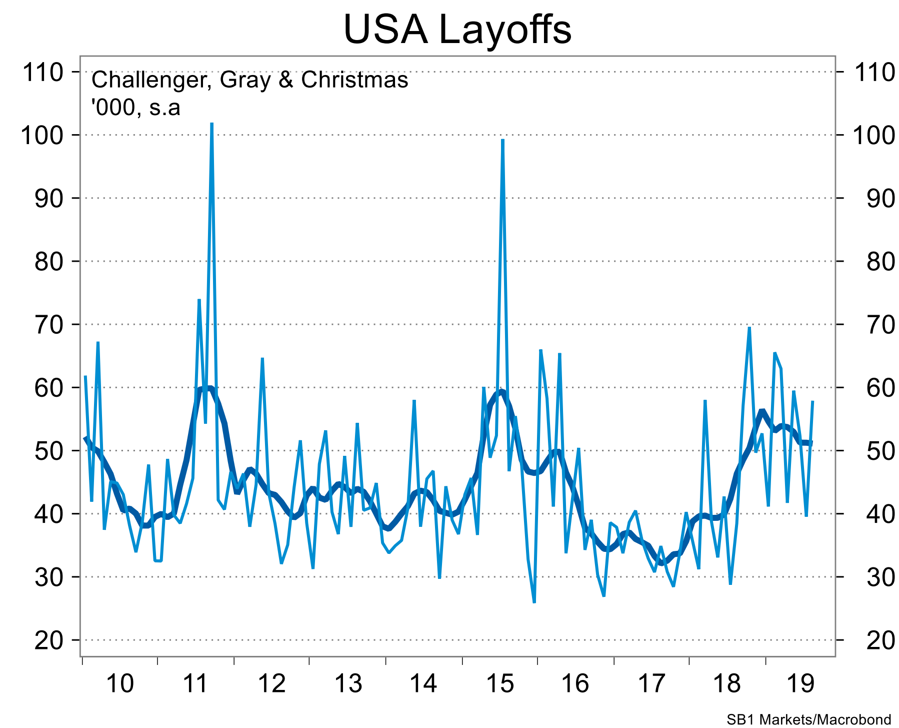


- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow ‘recession’ warning line is to be drawn, check the chart to the left. So, no reason to worry now?

The number of layoffs rose in August, level not that low recent months

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



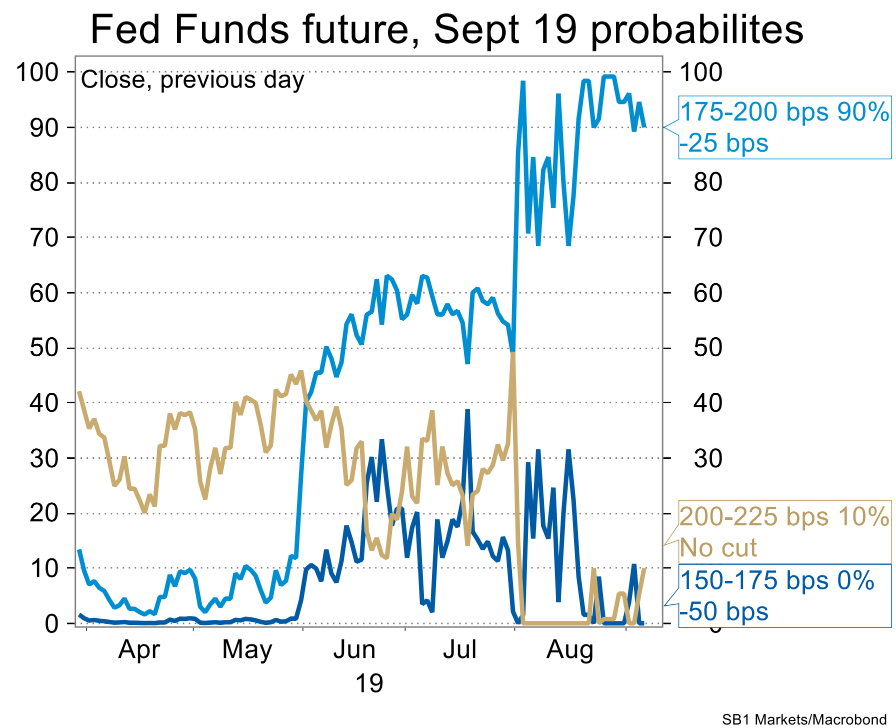


- The number of announced layoffs bounced back in August but has been trending down since late 2018. Layoffs turned up through 2018, and the level is not low, may reflect some weakness in the labour market
- However, as the direction has turned downward and other labour market measures are solid, we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

Fed's Beige Book reports no sudden slowdown – but Fed will cut more anyway

Fed's 'regional network' reports continued modest growth and tight labour markets

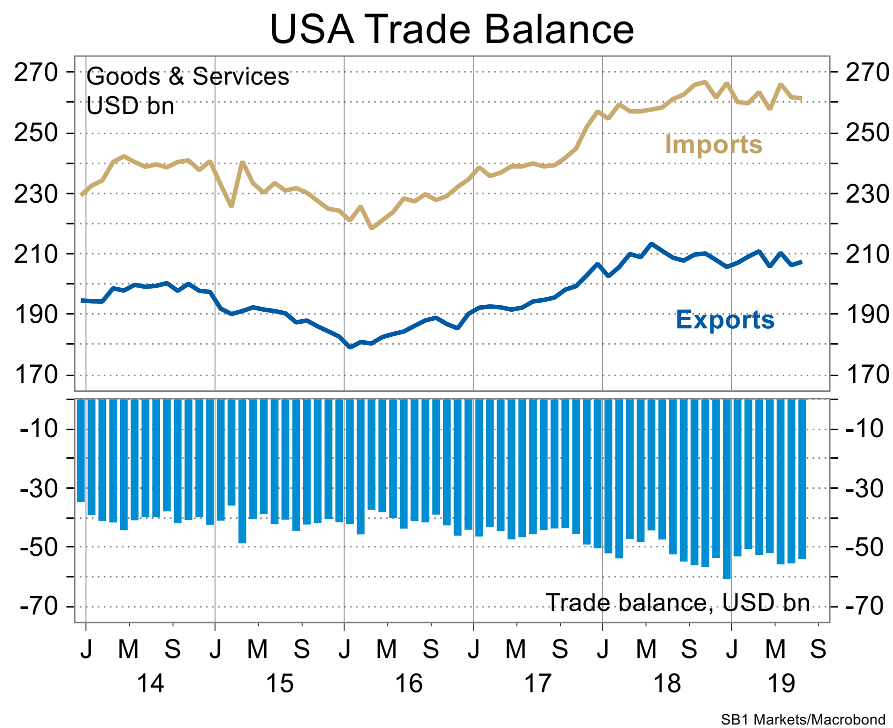
- Economic activity expanded at a '*modest*' rate, according to the respondents to Beige book, unchanged from the assessment in the June report. The outlook is generally viewed as positive, *despite continued concerns about trade-related uncertainty and tariffs*
- On the demand side
  - » Consumer spending was mixed, most Districts reported solid growth in retail sales and increasing auto sales
  - » Home sales were muted, due to a low inventory (we are not so sure about that). Other construction still growing
- On the supply side
  - » Manufacturing activity had fallen slightly from the previous report, and manufacturing employment was down to flat
  - » Non-financial services still OK, solid tourism, softer transportation
- Labour market
  - » Employment continued to grow modestly, unchanged from June
  - » The labour market is tight, continued worker shortages and wages are rising but still at a modest to moderate pace
- Prices
  - » Still modest inflation and mixed reports on the impact of tariffs
- **In total, the Beige book does <u>not signal any need for a second interest rate cut</u> in order to stimulate demand. The Fed can only legitimize the cut by 'trade related/global uncertainty' as at the July meeting**

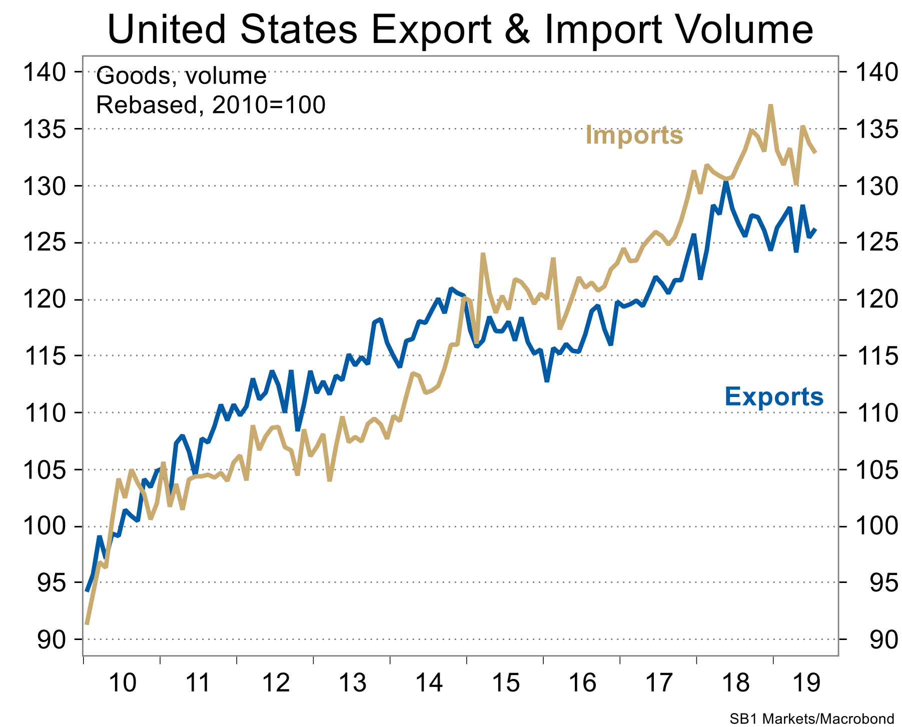


The market is pricing a 25 bps Fed cut on Sept 18 by a 90% probability (and 10% for no cut). The probability of a large cut of 50 bps has understandingly vanished.
Still: The market expects 2-3 cuts by the end of the year

The trade deficit shrank marginally, both imports and export trending down

Export volume slightly up in July, imports down. Deficit vs China shrinks, most others trending out

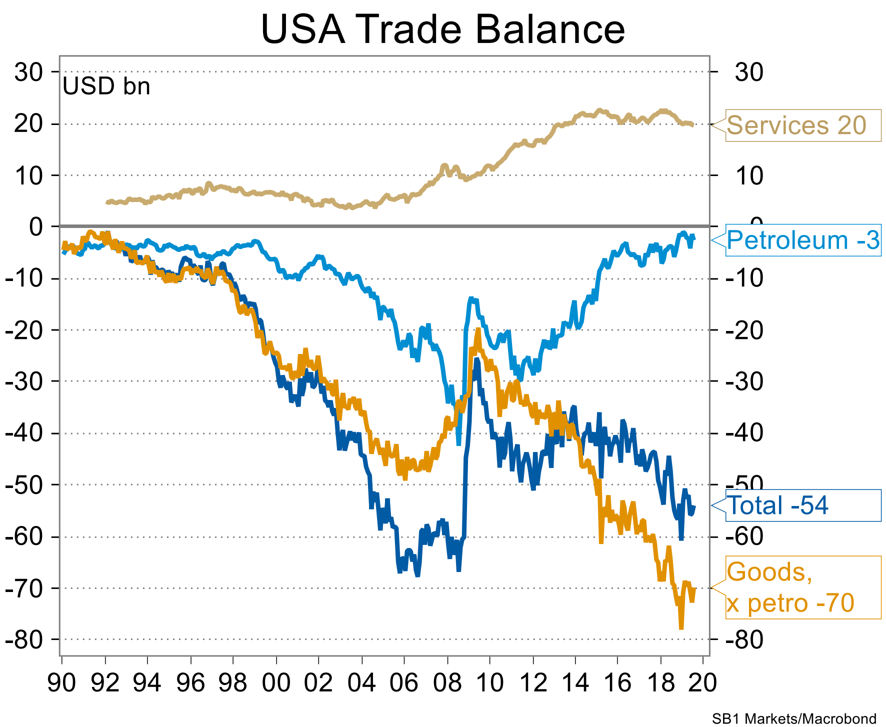


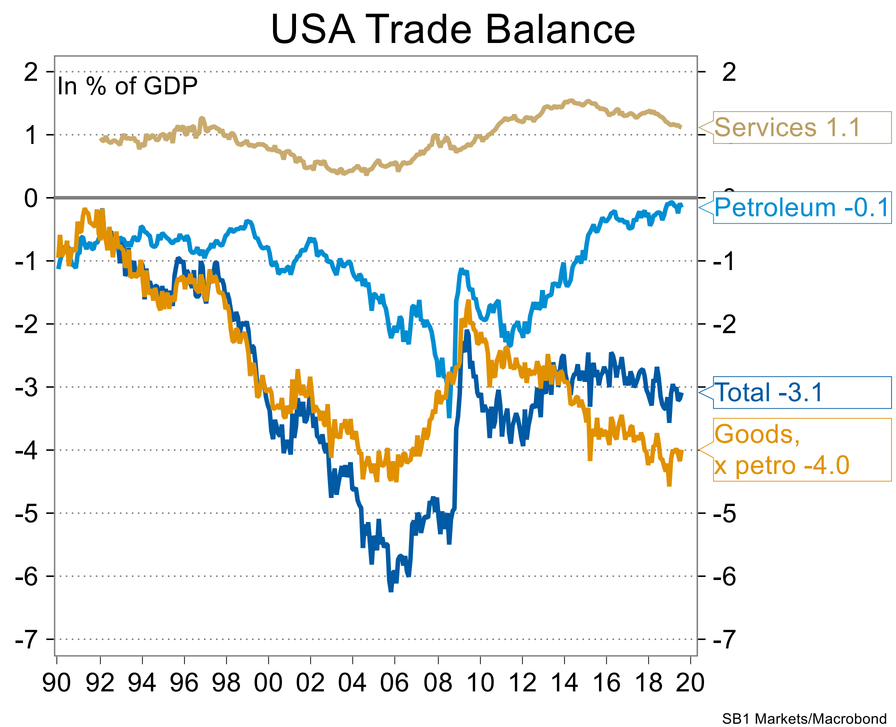


- The overall trade deficit came in marginally in July, to USD 54.0 bn
  - » Imports fell by 0.7% m/m in volume terms (in value, flat), heading slowly down since Dec 2018
  - » Export volumes rose by 0.6%. Exports have been flat recent months, heading down over the past year
  - » Net trade dragged GDP growth down in Q2, data into Q3 signals a muted growth contribution
- The deficit vs. China is reduced (albeit it has widened somewhat the past two months), no doubt due to the trade war, as imports from China is sharply down. The overall US deficit is not cut as it is widening vs most other trading partners

If not for petroleum, a 'catastrophe', total deficit 3.1% of GDP, it used to be 6

The goods deficit ex petroleum is still very large, at 4% of GDP

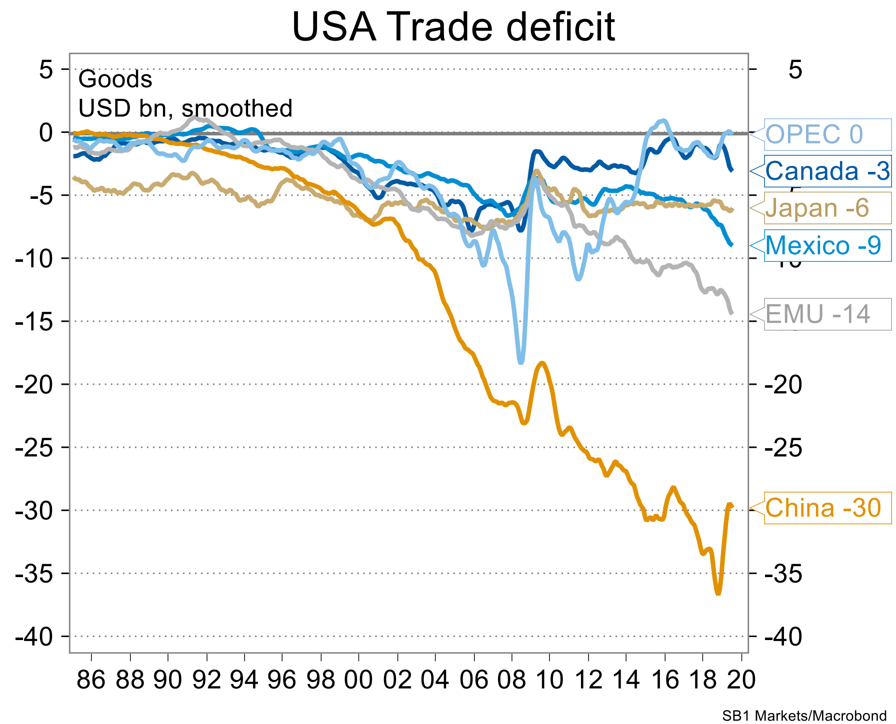




- In July, the goods x petro deficit shrank marginally to USD -70 bn, or 4.1% of GDP. The deficit reached ATH in Dec '18
- The petroleum trad deficit has been shrinking from USD 30 bn/m in 2012 to USD 3 bn now
- The US has a <u>surplus</u> in services at USD 20 bn, equalling 1.1% of GDP (but it is now trending slowly down)

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

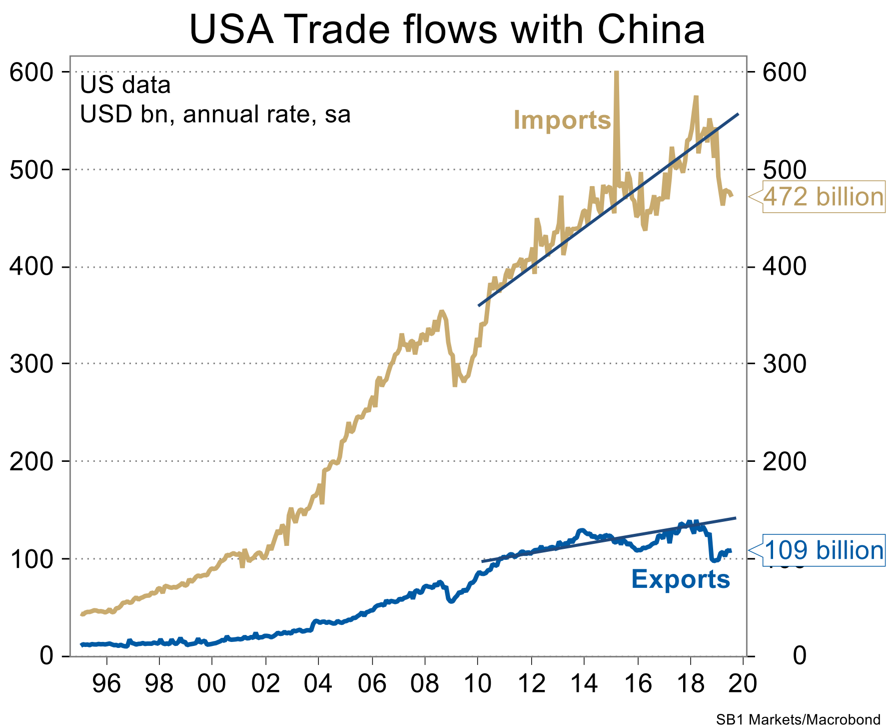
Deficits vs Mexico, Canada and EMU are all trending out

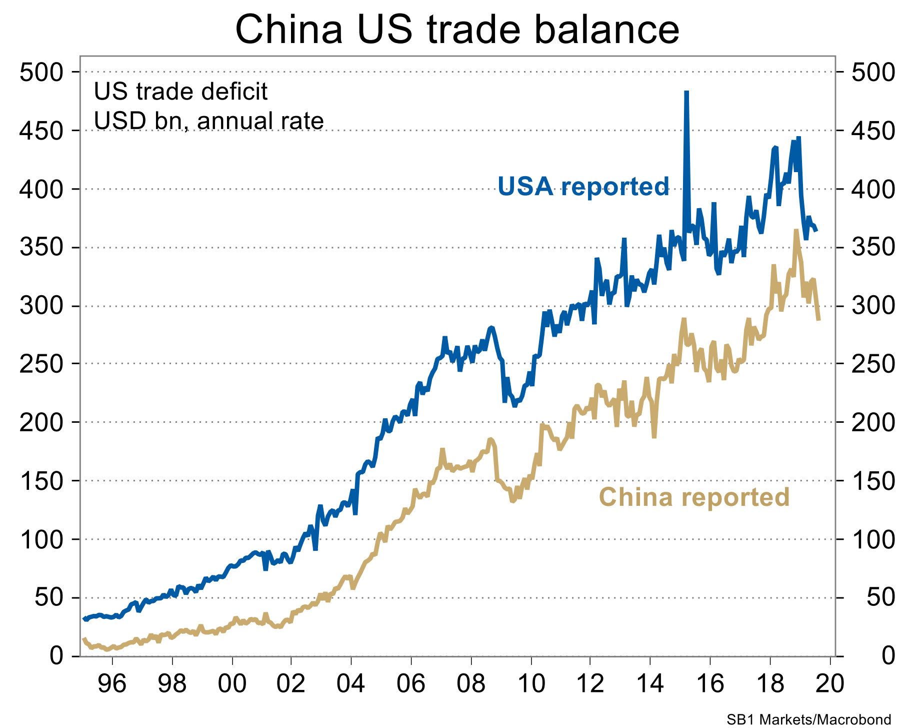


- The US deficit vs China equals some 40% of the total deficit in goods, from 50% last autumn
- The deficit vs Mexico has widened markedly the past 1 ½ year, vs EMU it trending out too
- The deficit vs Canada has widened recently, trending flat over the past years, close to balance. Deficits vs OPEC are closed

US imports from China have fallen more than exports to China

Tariffs have hurt bilateral trade significantly, and Chinese exports more than US exports, in USD bn

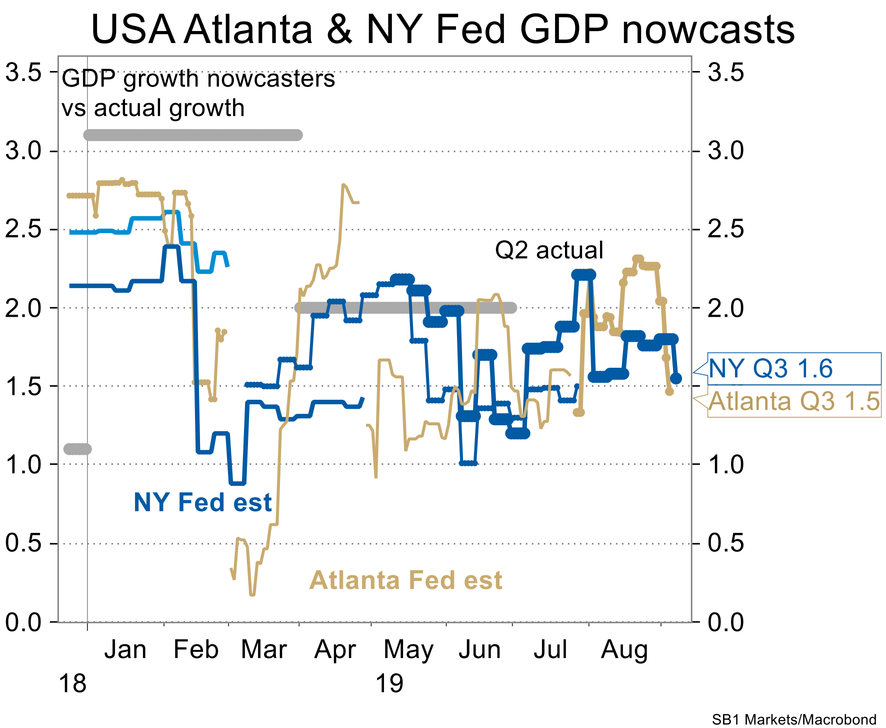


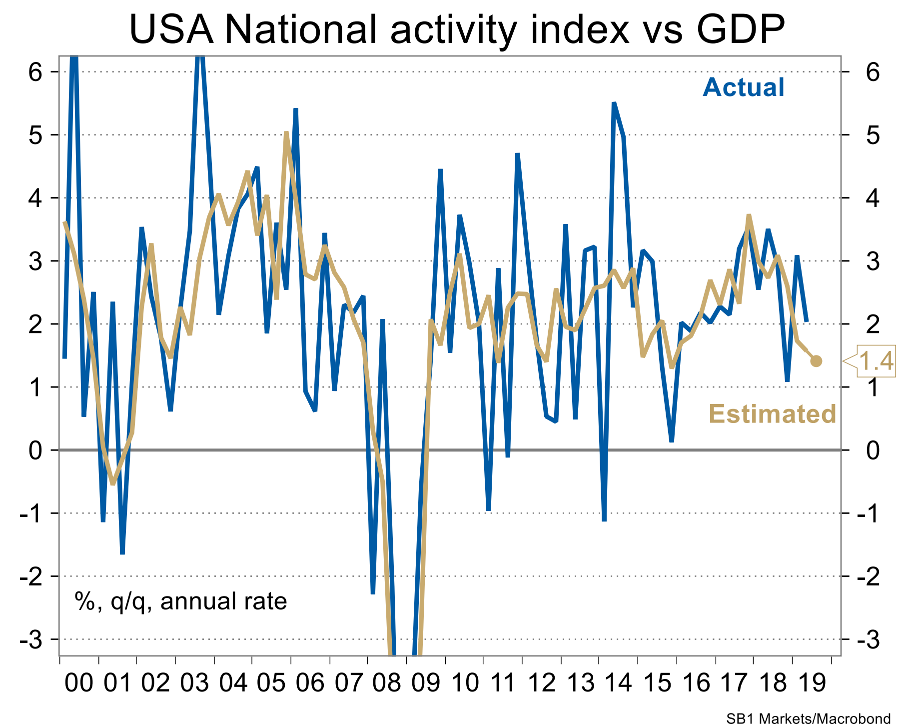


- The Chinese are reporting a smaller decline in the surplus vs. US, than US reported decline in deficit vs. China. FOB exports vs. CIF exports explains some of the difference between the two measures of 'the same'
- <u>However, in per cent, US exports to China have slowed more than US imports from China the past year</u>

Q3 growth close to… 1.5%?

The nowcasters are noting 1.5-1.6% GDP growth in Q3, the National Activity index at 1.4%

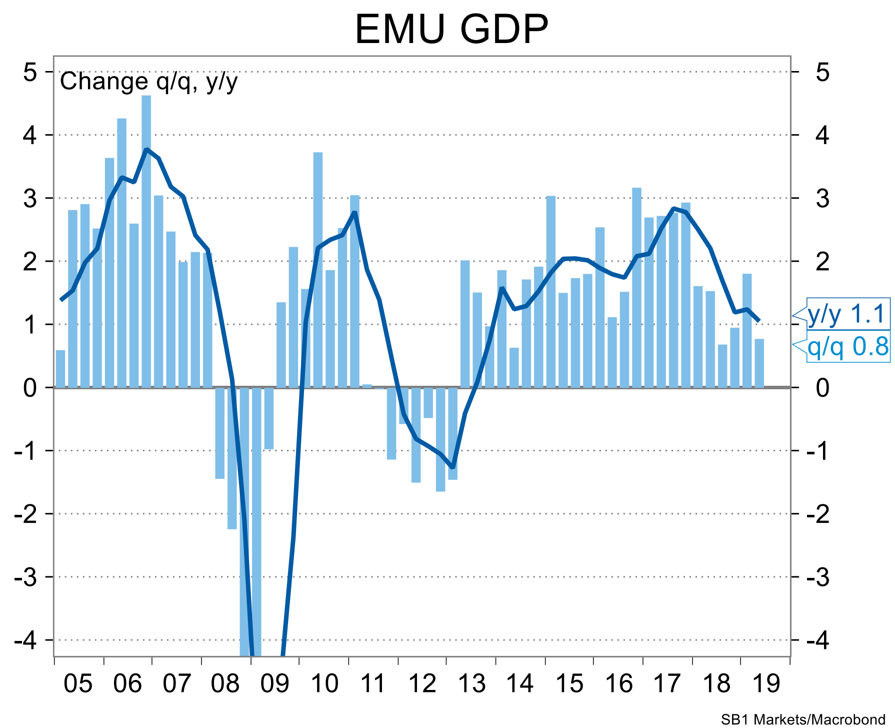


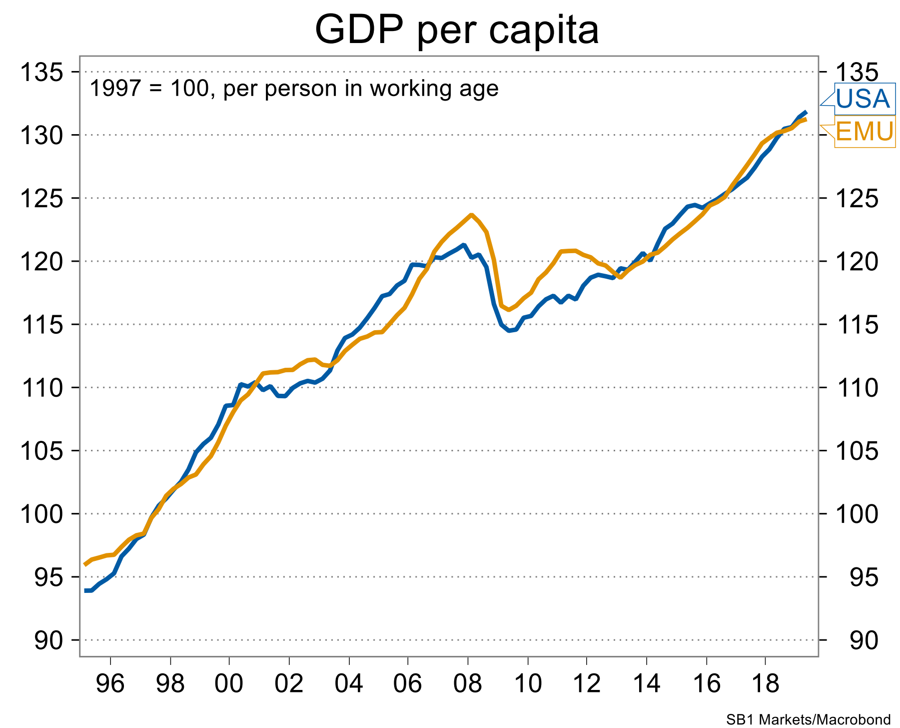


- The decline in Atlanta Fed' GDPnow Q3 growth forecast to 1.5% from 2.3% two weeks ago is mainly du to lower business investments but also weaker private consumption
- The National activity reports 1.4% GDP growth in Q3 vs the 2.1% in Q2 (However, the index was too downbeat, at 1.7%)

GDP confirmed up 0.8%, details are soft but not disastrous

Q2 growth was unchanged in the 3rd release. Household and business demand increased but slower

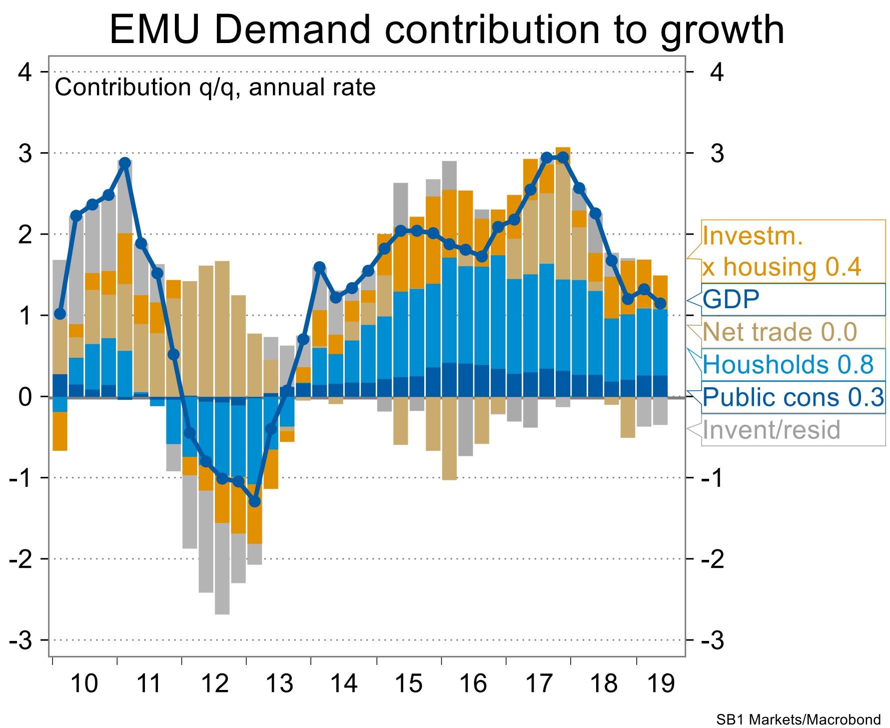


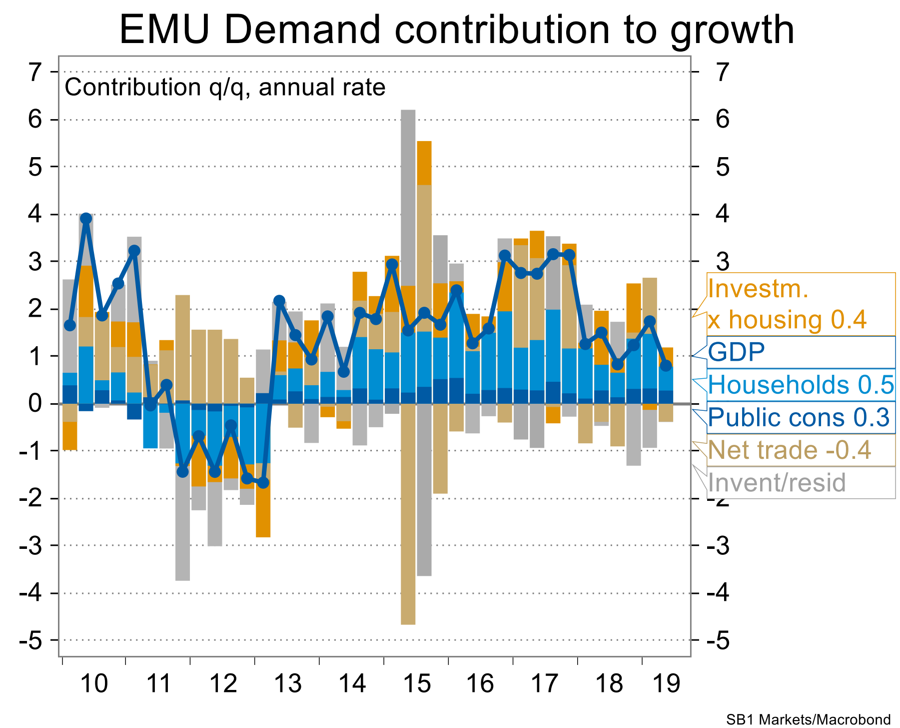


- Q2 growth was unchanged at 0.8% q/q annualised in the 3rd release.
- GDP per capita in working age grew slightly slower in the Eurozone than in the US. Growth in GDP per capita has been higher in the US than in the EMU two past years, However, if we adjust for the change in the structural budget deficit (the fiscal impulse), the 'real' growth has been higher in EMU the past years than in the US. Since mid 1990'ies we are not able to spot any material difference. Are you?

Modest contributions from consumption and investments saved GDP growth

Only net trade dragged growth down. Domestic demand still decent, downside risk on investments?





- Private consumption lifted q/q growth by 0.4%, which is lower than the avg contribution the past 4-5 years
- Investments expanded at a slower pace than 'normal' too but made a decent 0.5 pp contribution (q/q), much better than we anticipated given tumbling business surveys and weak manufacturing data
- Net trade once again contributed to the decline in GDP growth , as exports fell more than imports (but net trade has not contributed on the downside from one year ago!)
- Inventories were flat in Q2 after being trimmed the past two quarters, partly due to German auto inventories

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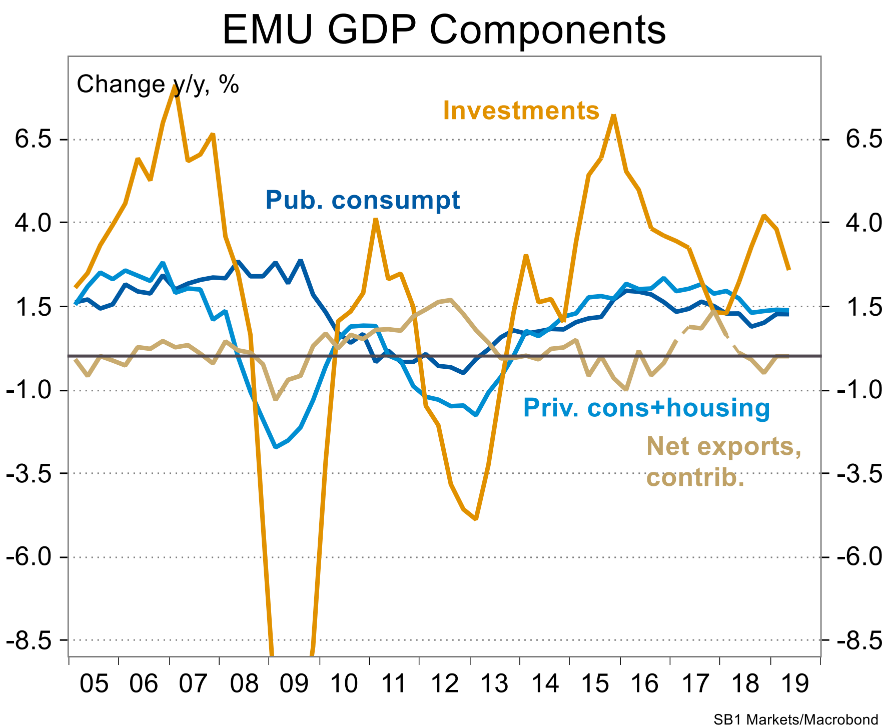
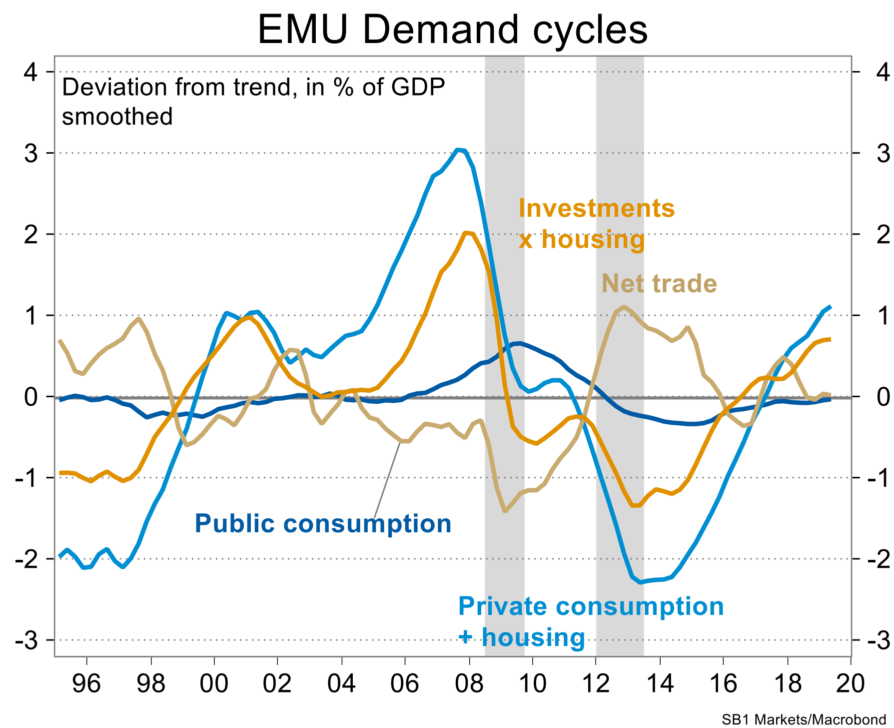
Investments have been main growth engine, private consumption above trend

Just net exports is halting but investments are now slowing? Public consumption grows modestly





- Investments are still far above trend, an obvious downward risk the coming quarters

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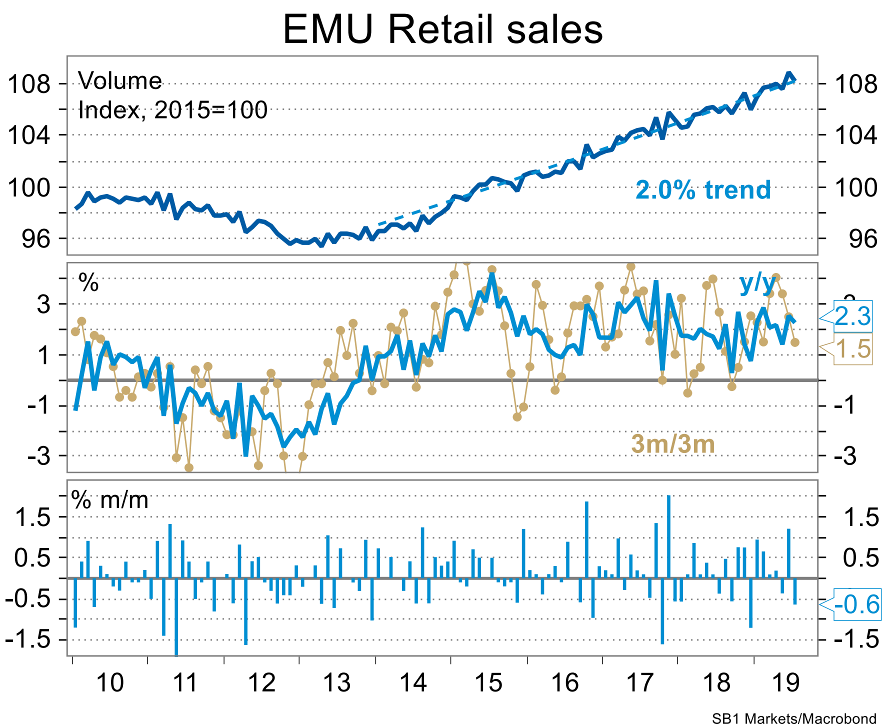
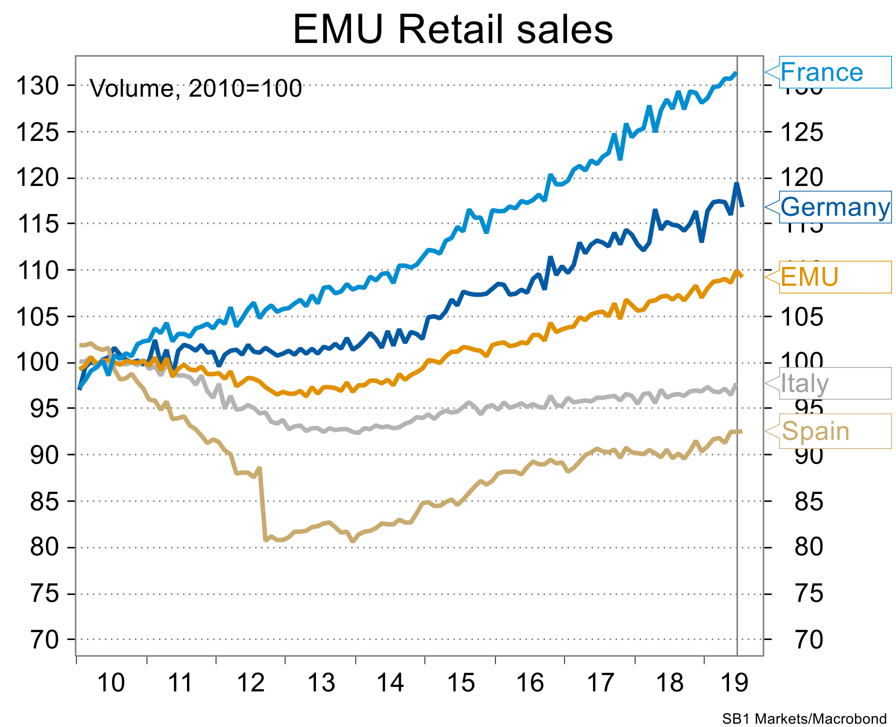
Retail sales down in July, after a strong June, trend up

Retail sales fell 0.6% m/m, after a 1.2% surge the prior month. 2% upward trend still intact

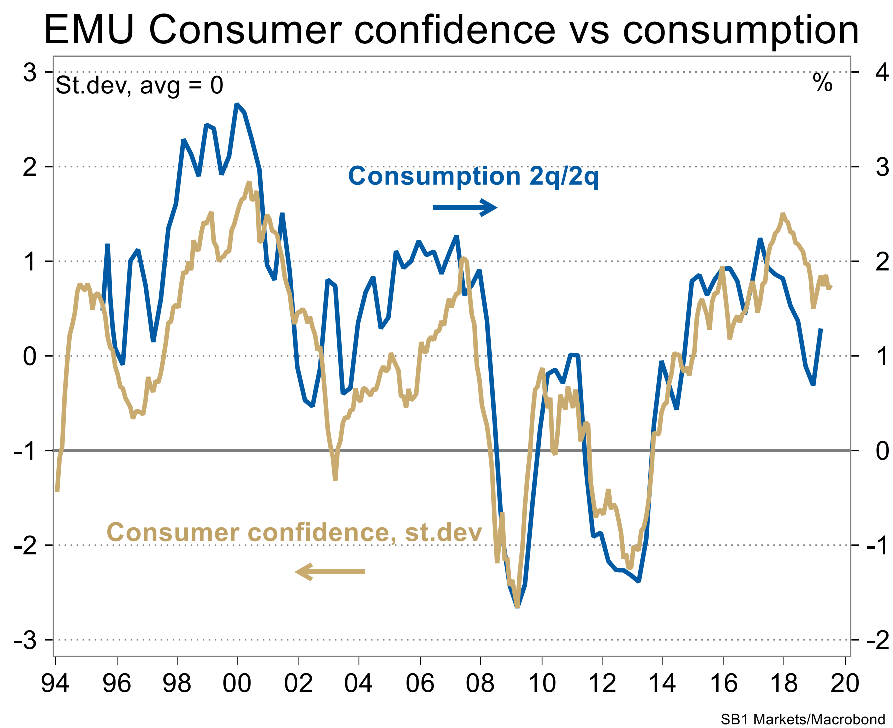


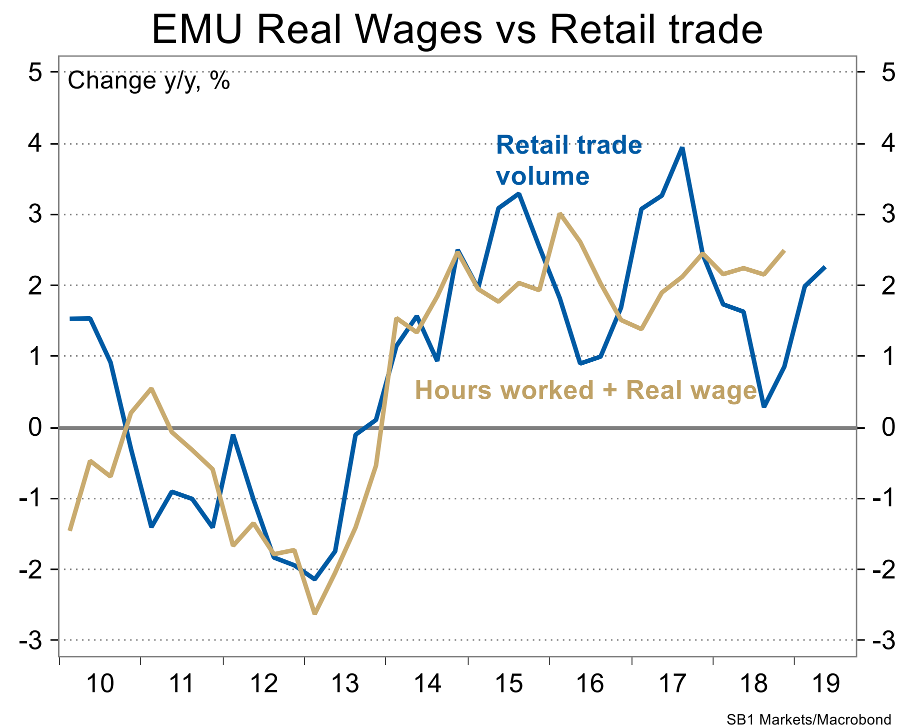


- Retail sales volume fell 0.6% m/m in July, as expected. The July print is not weak given the strong upswing in June, and sales are heading steadily up, however, Q3 is off to a weak start. The weakness in the Eurozone cannot be stemming from consumer demand, as PMIs/other surveys also signal
  - » Germany reported a 2.2% decline after a 3% rise in June and is still trending up. Spain and France are heading up too, Italy more or less flat
  - » Lower price inflation is probably supporting consumption, as well as rising real wages and employment

Consumer confidence, income signal moderate consumption growth

.. However, the upside is probably limited

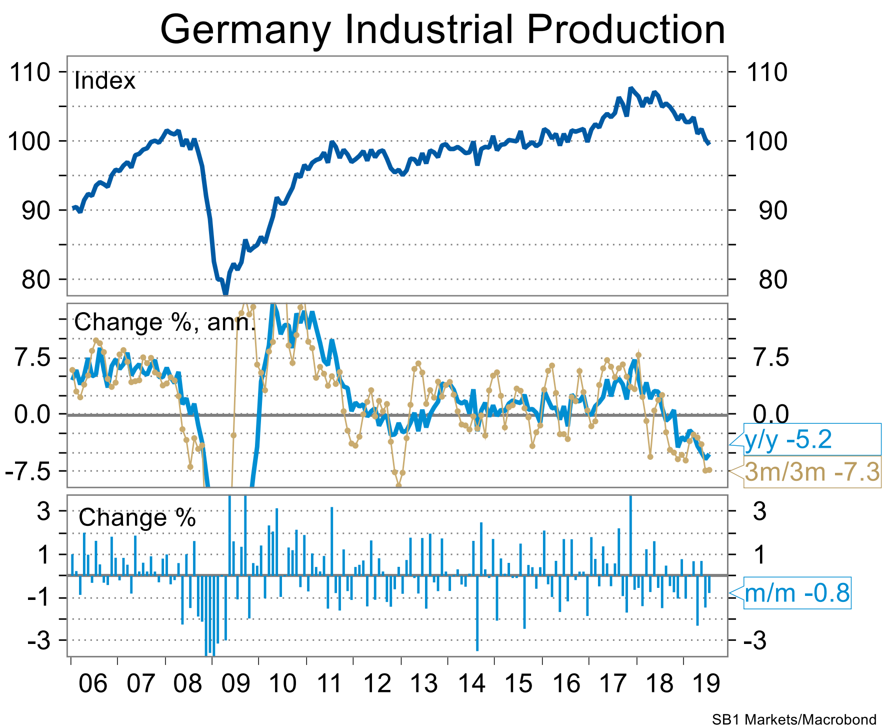


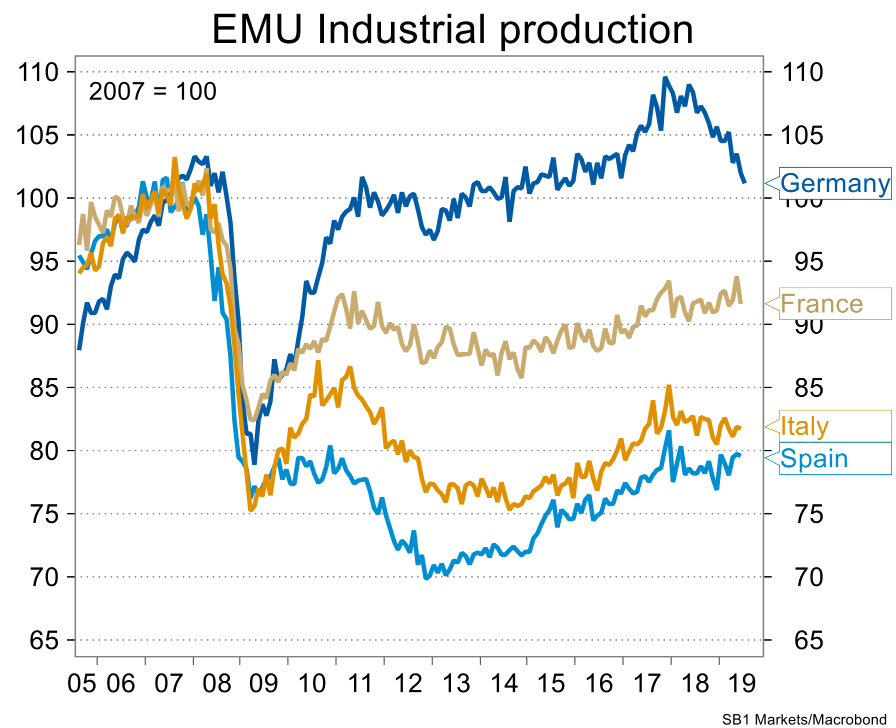


- Consumer confidence has improved and the level is not low, even if the index fell rapidly through 2018
- Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed as sales

Manufacturing production tumbles, steepest decline since 2009

Production slipped 0.8% in July and is down 5.3% y/y. Orders/PMI do not signal any upturn

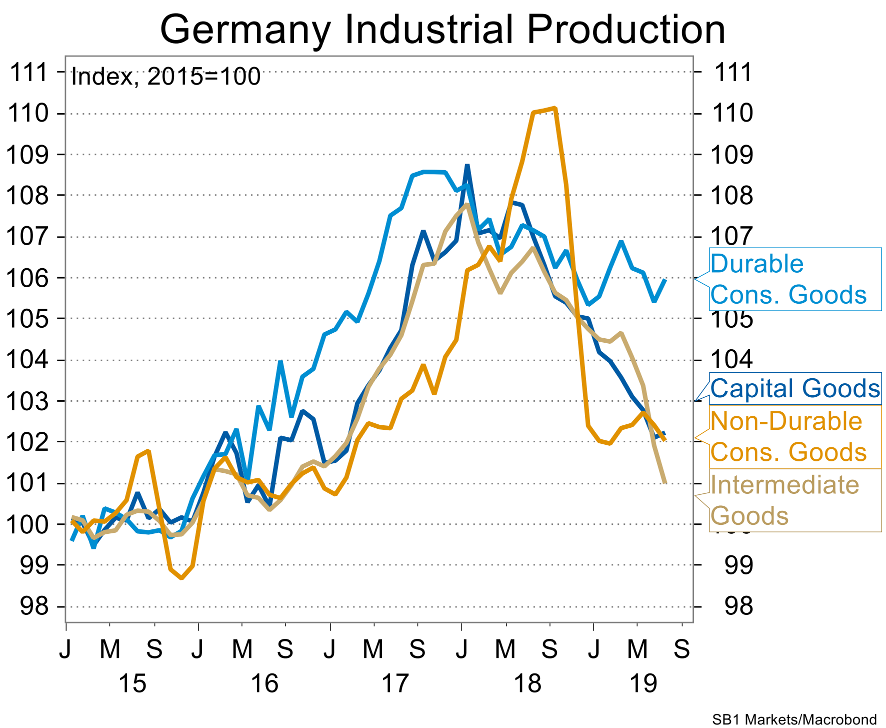


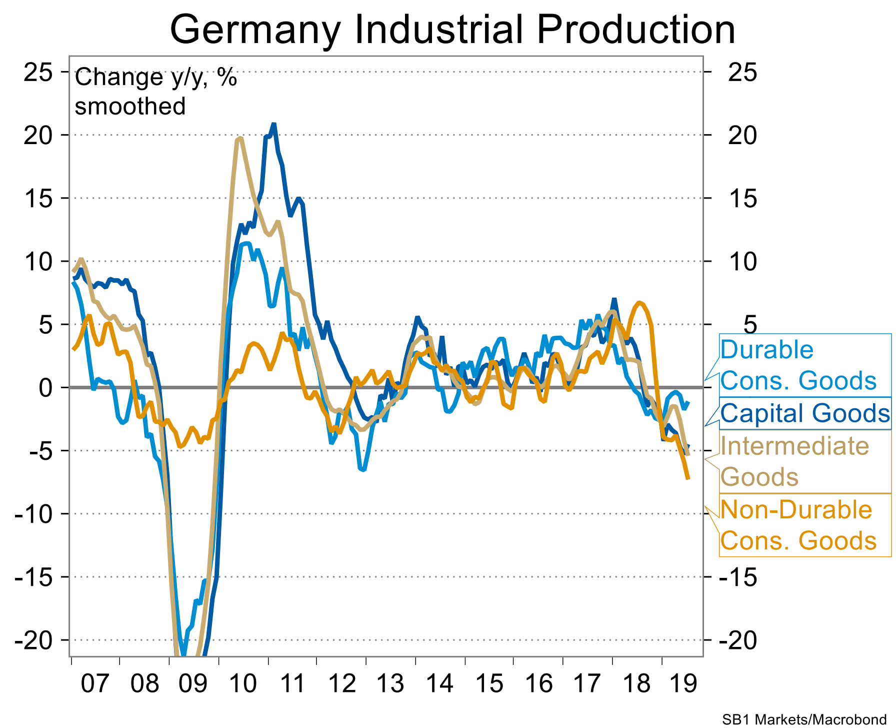


- Manuf. production has been contracting since last summer, speed of decline now at 7%
  - » Trouble in the auto industries are partly to blame, as producers have been struggling to cope with the new emission standards. The trade war and Brexit uncertainties are most likely dampening demand, too
- Production in other EMU countries is stagnating, more July data out this week (just German has so far reported)
- Unfortunately, PMIs and manufacturing orders are crashing, signalling an accelerating decline. Flip two pages forward

Production slips in intermediate, capital and consumer goods sectors

.. The auto sector cannot be blamed for the downswing, other sectors are struggling too

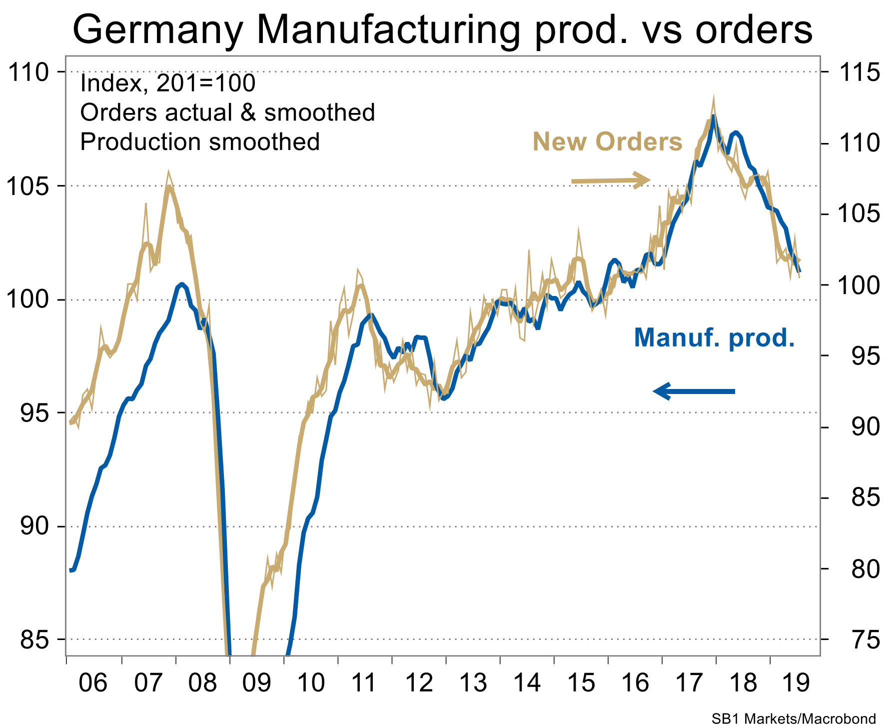


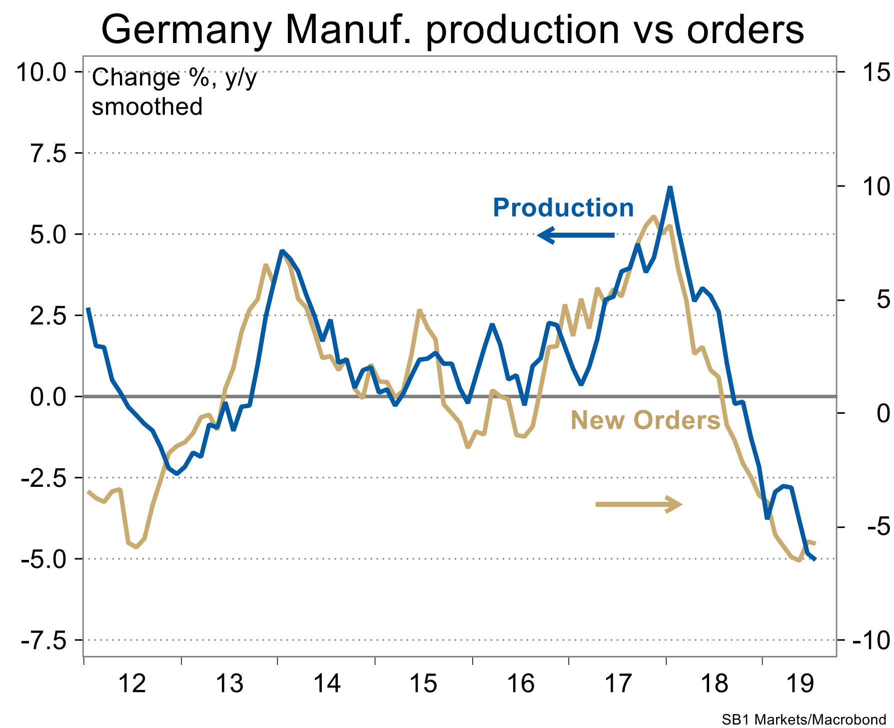


- Surveys confirm the broad slowdown, check the sector PMI and Ifo on this slide

Manufacturing orders slipped again in July, no recovery in sight

Orders are falling steeply and surveys are still weak

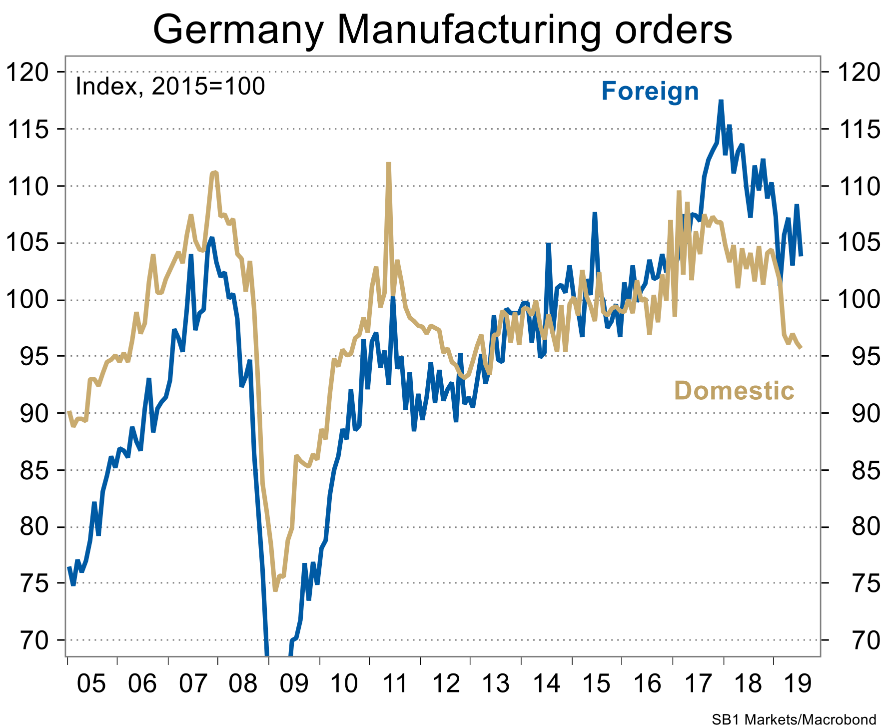


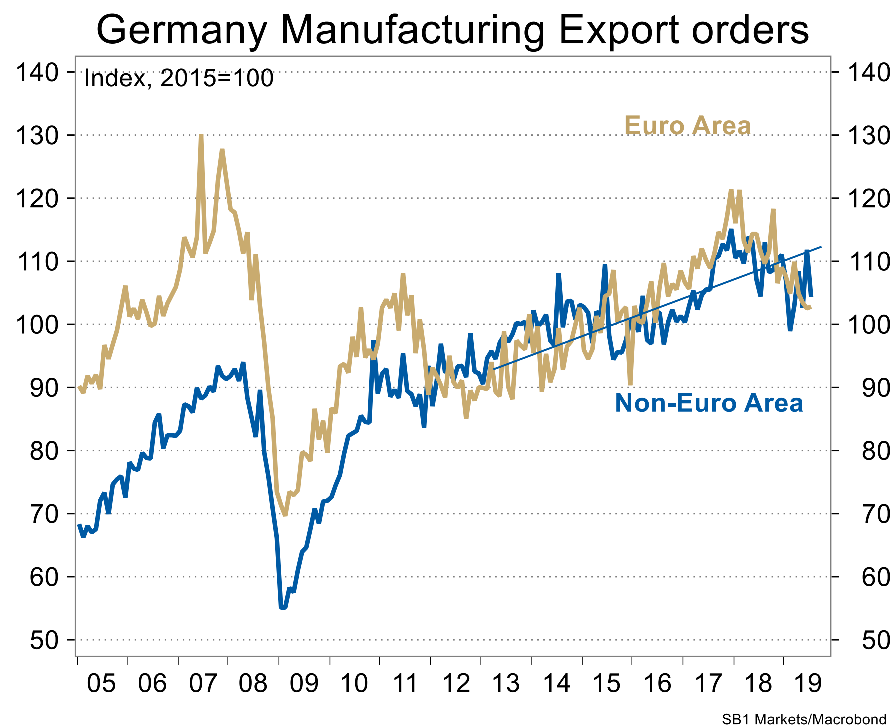


- Total manufacturing orders fell by 2.7% m/m in July, more than reversing the June upturn. Orders are falling at the fastest pace since 2009, even as the decline have slowed somewhat recent months. Orders are down 5.7% y/y (smoothed), pointing to a continued steep decline in production
- The downswing recent months is primarily driven by weaker domestic demand, while foreign orders fell rapidly in 2018. Thus, the weakness cannot merely be directly attributed to global uncertainties and trade wars, there must be a domestic problems as well, including of course impacts of global/Brexit uncertainties

Domestic orders still on the way down, foreign down in July but is trending up?

Orders from within Germany are plummeting, export orders have stabilized, non-EMU trending up?

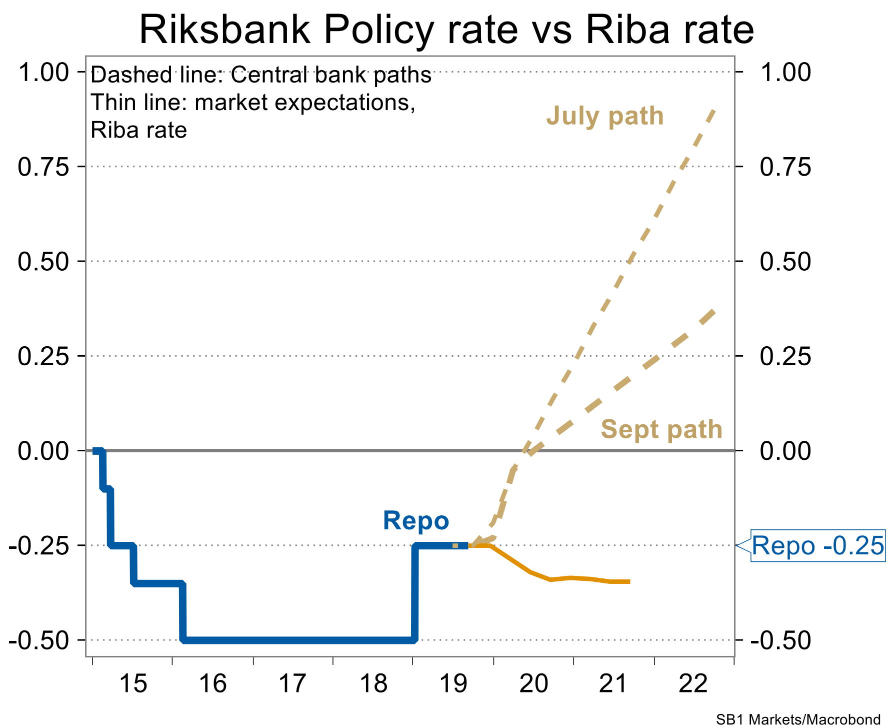


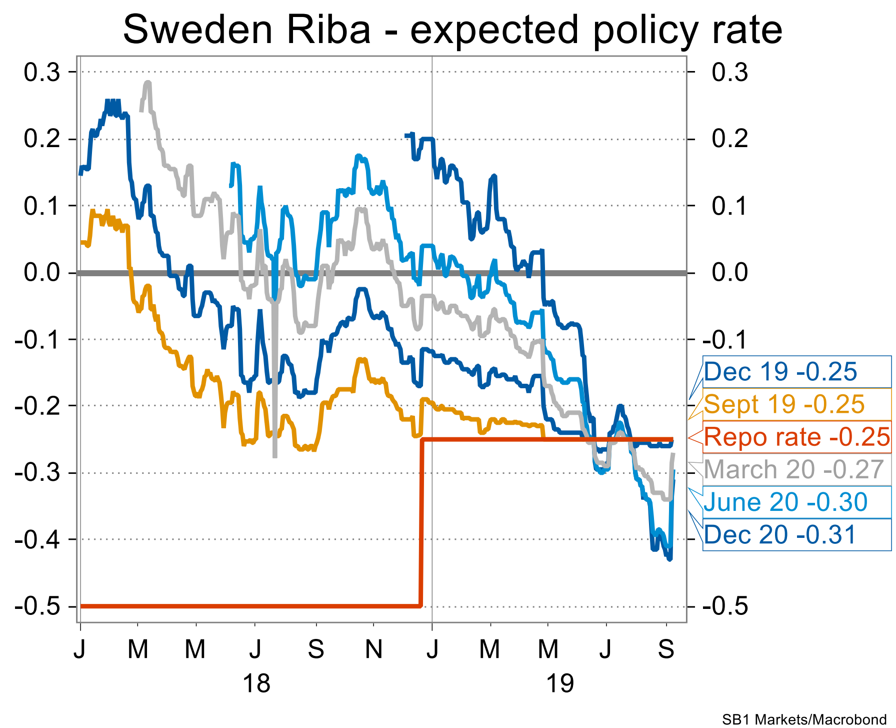


- Media reported a steep decline in foreign orders in July, but had already forgotten the even steeper growth in June – and orders from outside the EMU area seem like trending up, as do total foreign orders!
- Why is domestic demand waning? There is no specific problem within consumption sectors, businesses must be struggling

The Riksbank surprised markets by sticking to its plan to hike in Q4/Q1

... But the market does not believe it. A 2020 interest rate cut is priced in by some 30-40% prob.





- Markets expected the Riksbank to yield but it did not, the Bank still expects the repo rate to be lifted in Q4 or in Q1, to zero from -0.25%. However, the Bank lowered the path from there and assumes just 1½ more hike, 2 hikes less than assumed two months ago
  - » Riba contracts rose by up to almost 10 bps on the hawkish Rixbank message – but the marked is still discounting a minor cut next year, the market's path is 50 bps below the Riksbank's medio .

Highlights

The world around us

The Norwegian economy

Market charts & comments

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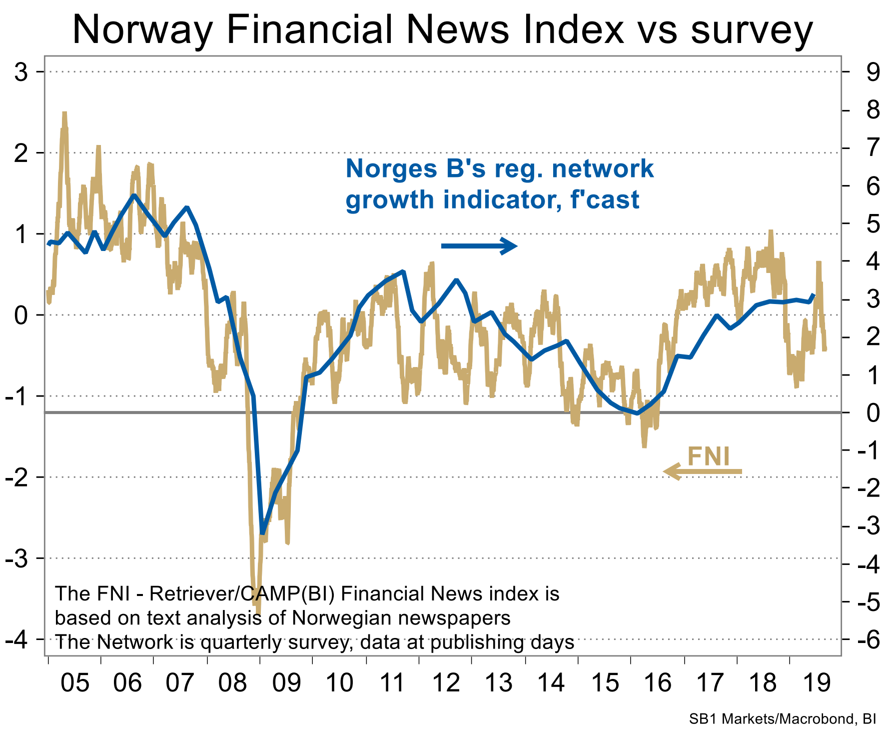
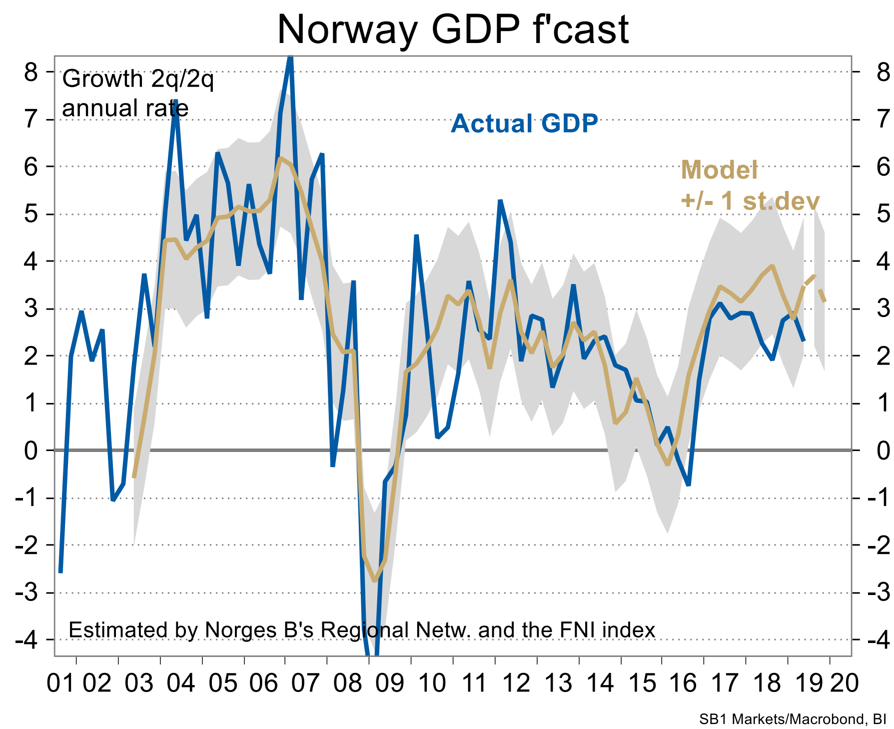
The Financial News Index down in August

The FNI fell during August, more negative reporting on the economy





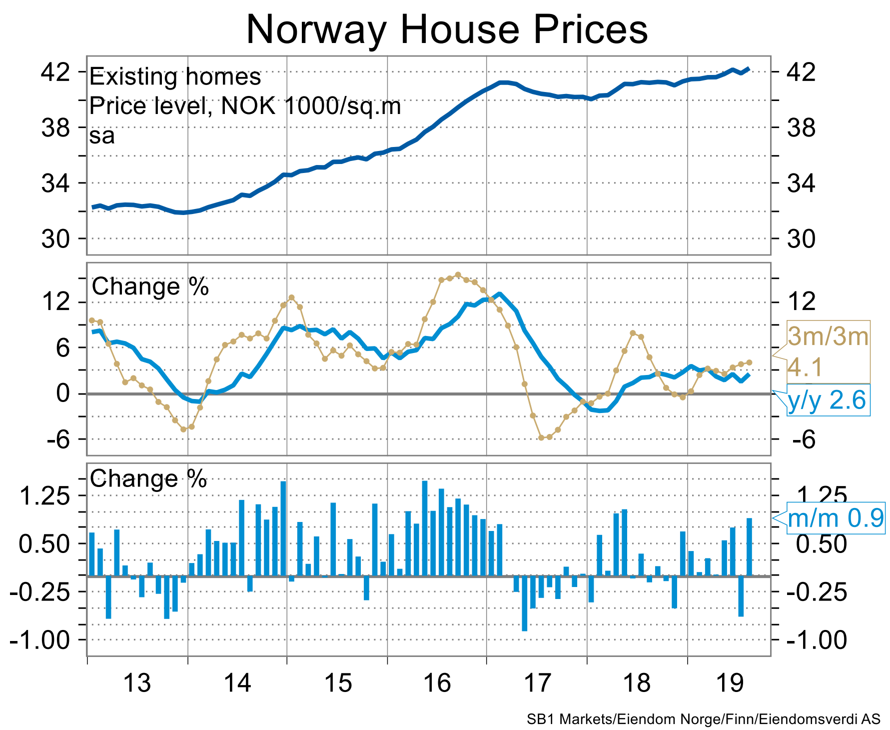
- Once more, trade tension and market turmoil created more a more negative news flow in financial media
- Still, the index does not signal low growth

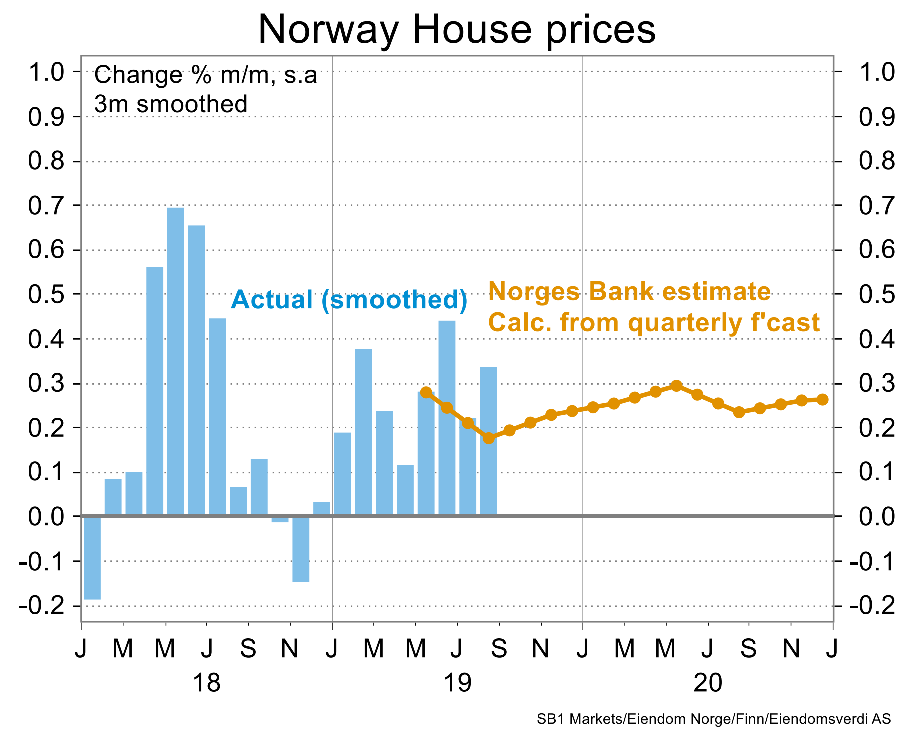
Financial News Index is based on an analysis of text in Norwegian newspapers covering the economy, tracking 'economic' words and assessments. The index follows the cycle well but is rather volatile, short term. The FNI is published by Retriever/CAMP(BI)

SpareBank 1 MARKETS

House prices bounced back in August, heading moderately up

Prices spiked 0.9 m/m s.a, we expected +0.2%. Market dynamics indicate soft growth going forward

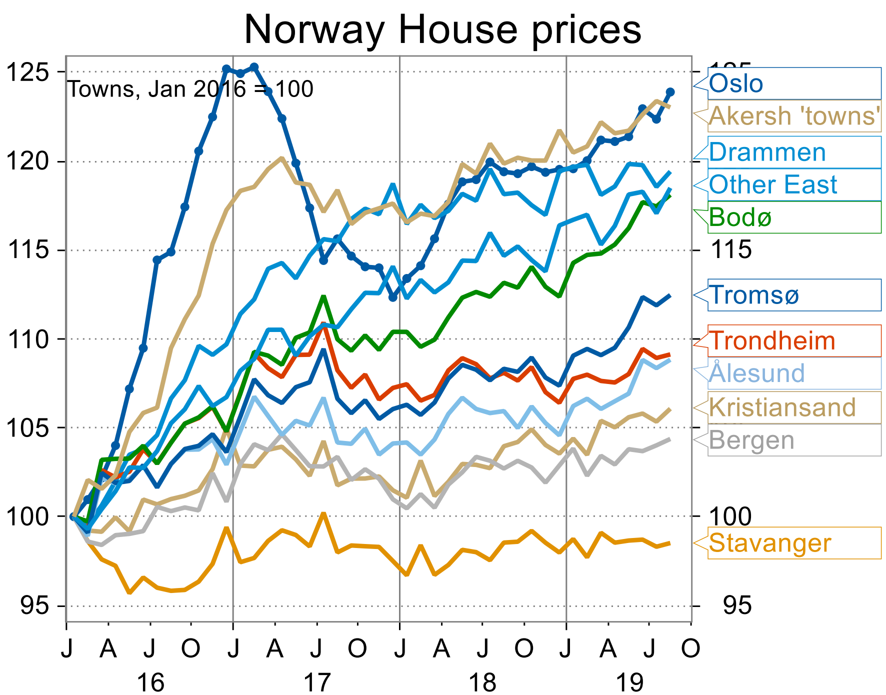




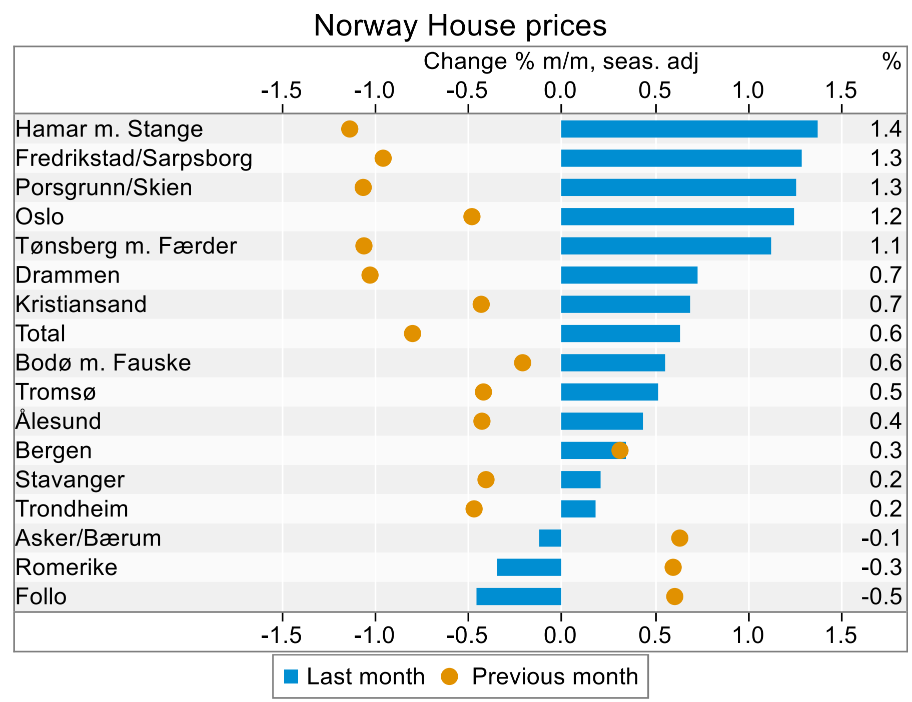
- **House prices** rose 0.9% m/m s.a in August (1-9% unadjusted), following a 0.6% drop in July. The 3m average growth rate is 0.3% and underlying growth is slowly accelerating, to 4.1% in August. Annual growth ticked up to 2.6%. Prices are running marginally above Norges Bank's June f'cast
  - » A broad upswing among regions; prices are climbing in all cities ex Stavanger, which has flattened out. Highest growth in Bodø, Tromsø and Ålesund
- **The number of unsold homes** is still high and rising, to another 10 year high. The elevated inventory is not due to lack of demand but to a high number of new listings (of existing homes). The number of transactions is trending steeply upwards, reflecting brisk demand
- **The interest rate hikes have not dampened demand for housing – short term dynamics signal continued moderate growth the coming months**

A broad upswing in August, just 3 of 16 regions declined

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



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



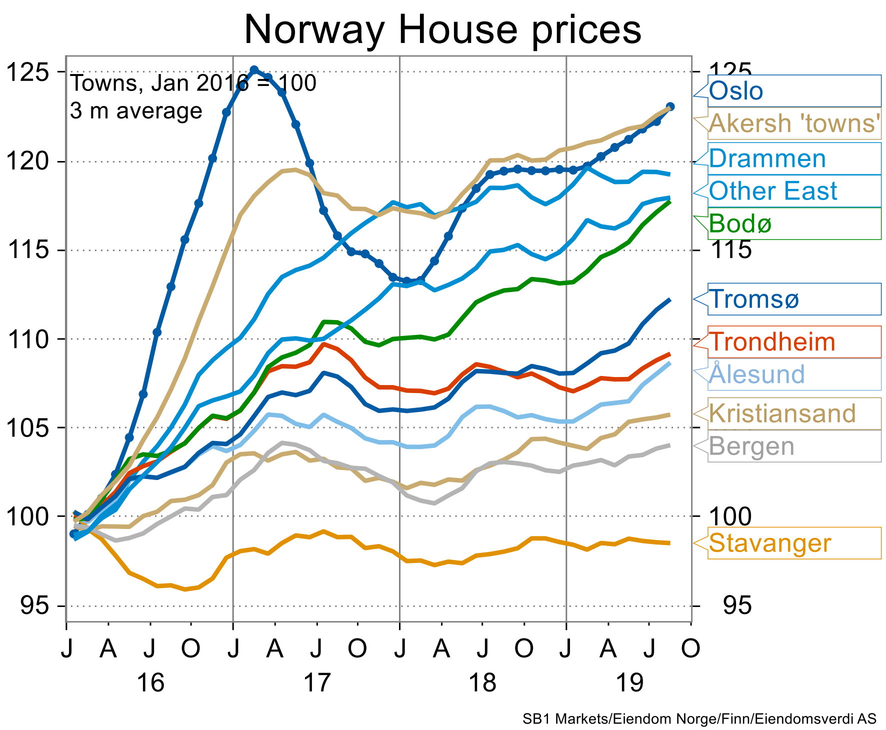
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

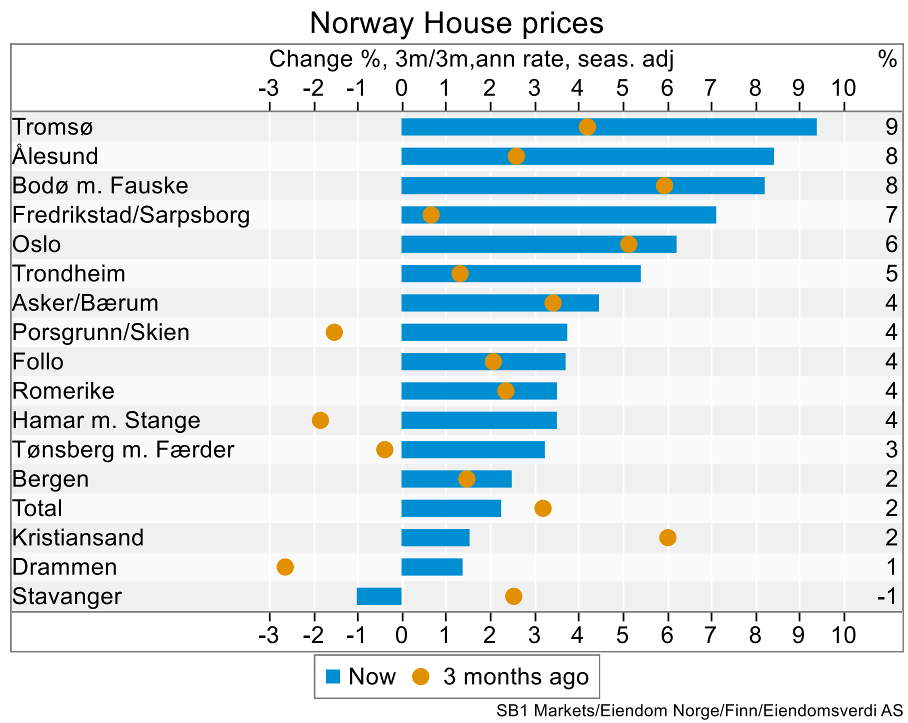
- The monthly data are too volatile, <u>check the much more ‘relevant’ 3 month averages next page</u>

SpareBank 1 MARKETS

Recent months: Prices are climbing in all cities x Stavanger

Prices are accelerating in 13 of 16 cities, decelerating in two and declining in just one



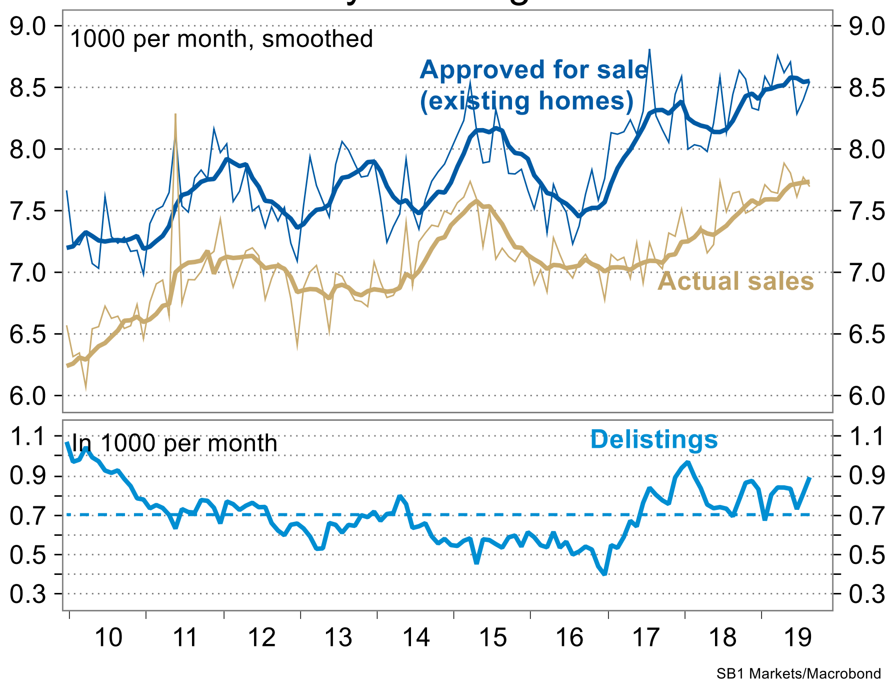


- Measured 3m/3m, prices are now rising in all cities expect from Stavanger, in which prices have fallen marginally. Bodø, Tromsø and Ålesund have been soaring recent months, followed by Fredrikstad, Ålesund and Oslo (the latter is up 6%)
  - » Compared to 3 months ago, prices are accelerating in 13 of 16 regions, slowing in two and declining in just one!
- Prices in most cities are now above the local 2017 peak level
  - » Oslo is just above 1% below the (very high peak) and Stavanger is 11% below the 2013 peak. Bergen is back at the peak level

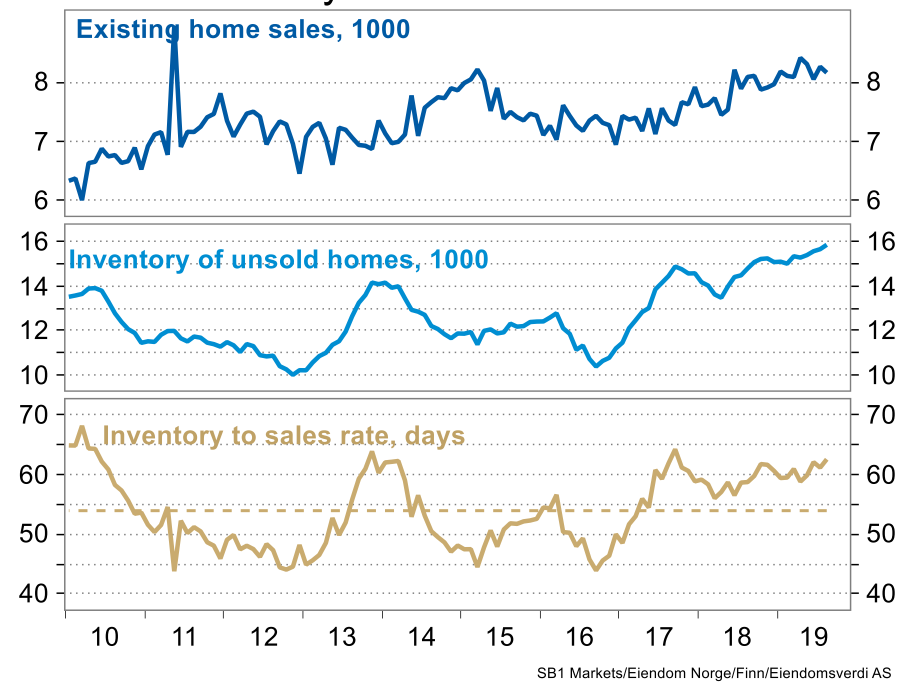
Record high no of sales, new listings are climbing, very high no of unsold homes

The inventory is up not due weak demand but many homes approved for sale

Norway Housing market



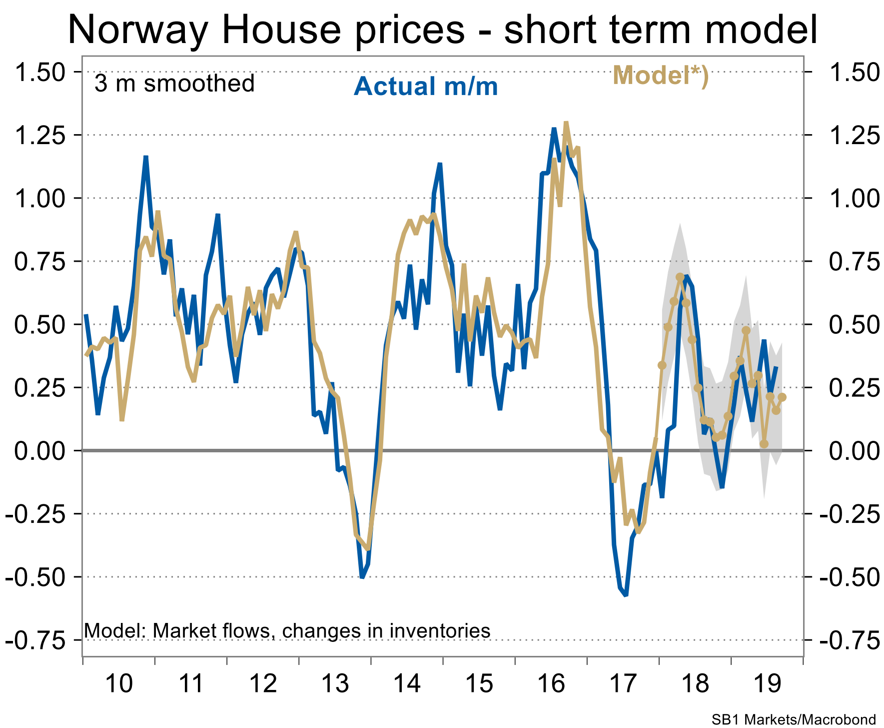
Norway House transactions

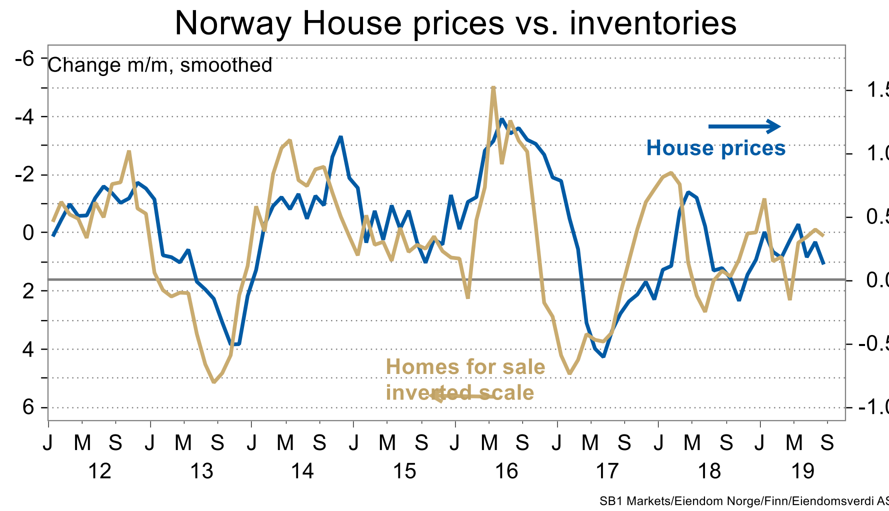


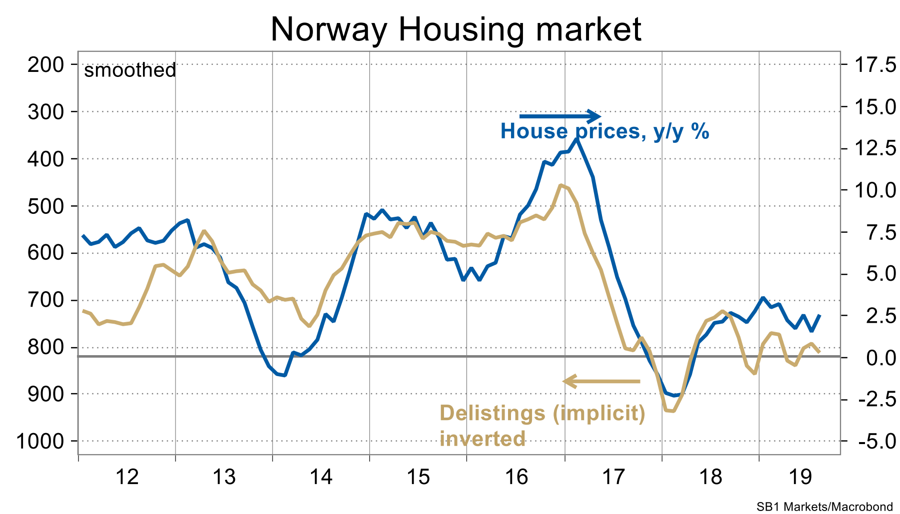
- **New listings of existing homes** rose in August, trending up and will most likely remain high for some time
- **The number of sales** is climbing too, reflecting strong demand. However, demand is not sufficient to absorb the supply of homes; thus, the **number of homes for sale (inventory)** is rising. The inventory ticked up to another 10 y high. The inventory to sales ratio (turnaround) is slowly rising, to 62 days, vs avg at 53 days. The number of delistings (implicit) increased in August and is higher than normal, may indicating some mismatch between buyers' and sellers' price expectations
- The flow balance on the housing market indicates moderate price growth the coming months, check next page

Market flows signal moderate price growth the coming months

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





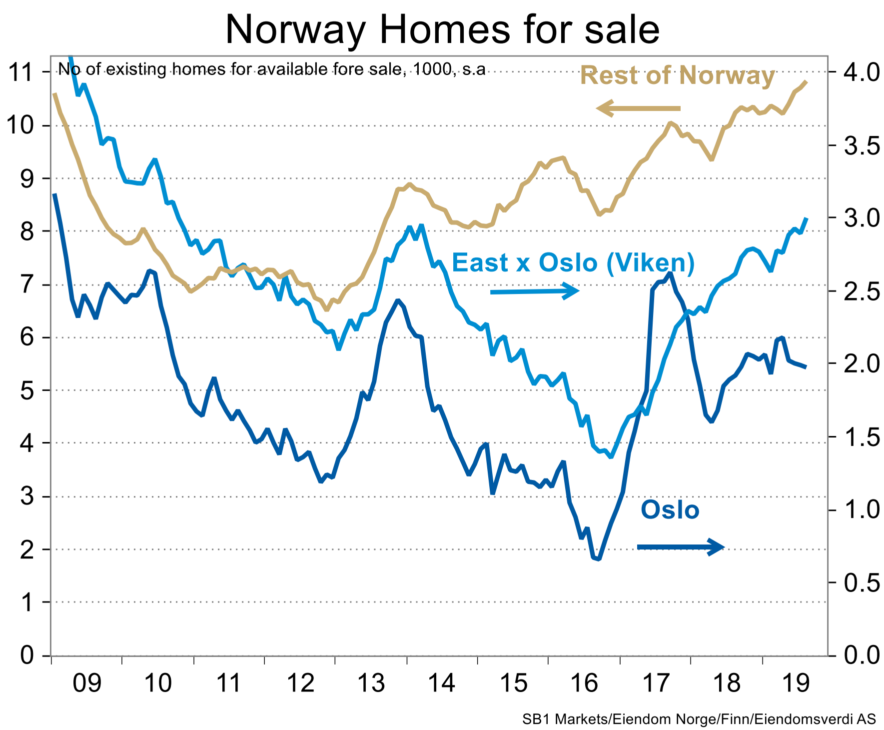


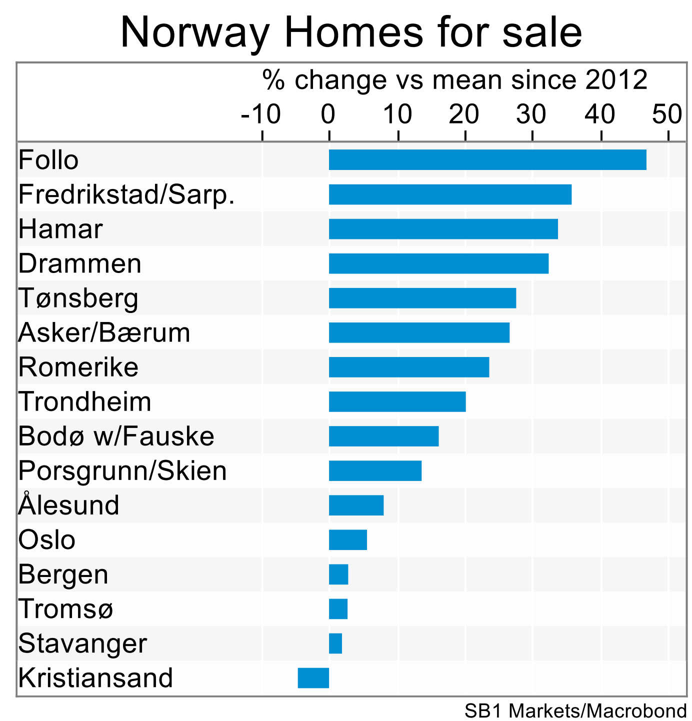
- Strong supply of new homes for sales and an increased inventory suggest modest growth the coming months. The avg growth rate the past 3 months have been close to our model f'cast, at approx. 0.2% m/m. The model now signals 0.2-0.3%
- *This is <u>not</u> a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

SpareBank 1 MARKETS

The number of homes for sale is higher than 'normal' almost everywhere

... while the inventory in Oslo is well below the 2017 level



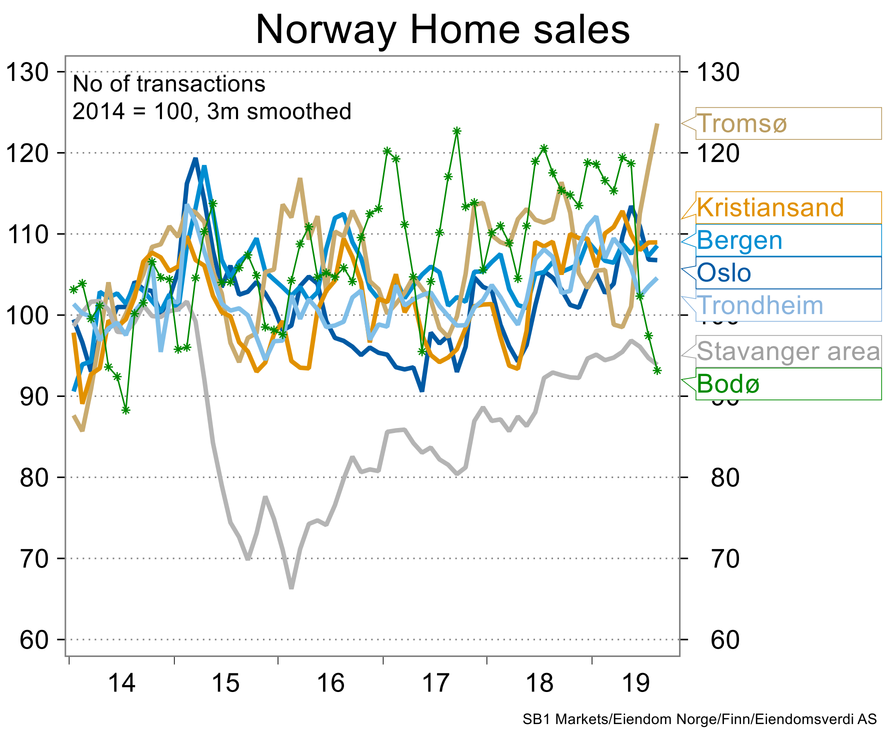


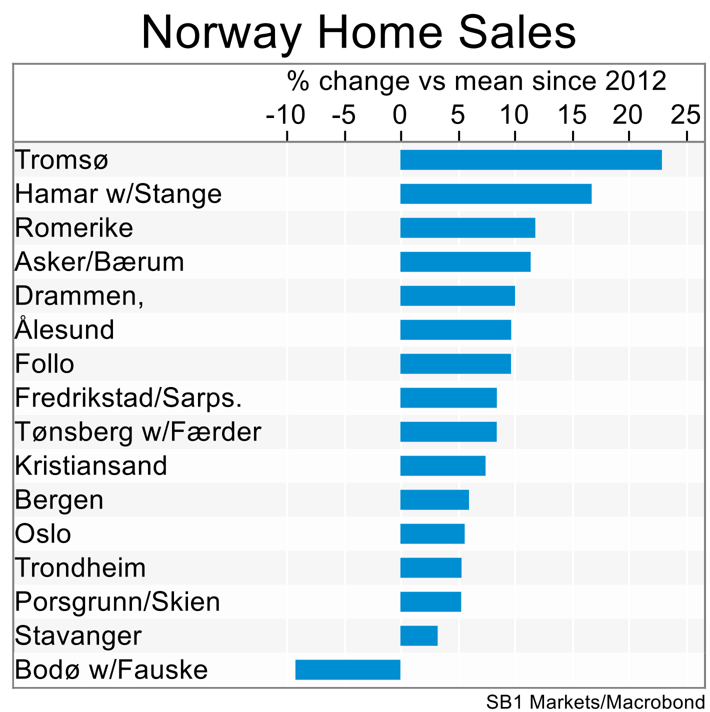
- The number of homes for sale have been increasing <u>all regions x Kristiansand recent</u>, higher than the avg since 2012
- Norway outside Viken (Akershus, Buskerud, Østfold; or East x Oslo) & Oslo reports a soaring number of existing homes for sale, the highest one record (2009). The inventory in Viken is increasing rapidly too, at the highest level since 2010. Follo, Fredrikstad and Hamar are at the top of the listings ranking vs the average since 2021
- The Oslo inventory is flattening out and is still well below the 2017 peak level

SpareBank 1 MARKETS

Sales are surging in Tromsø, Eastern Norway, sagging in Bodø

The number of transactions is higher than the avg since 2012 in all regions x Bodø

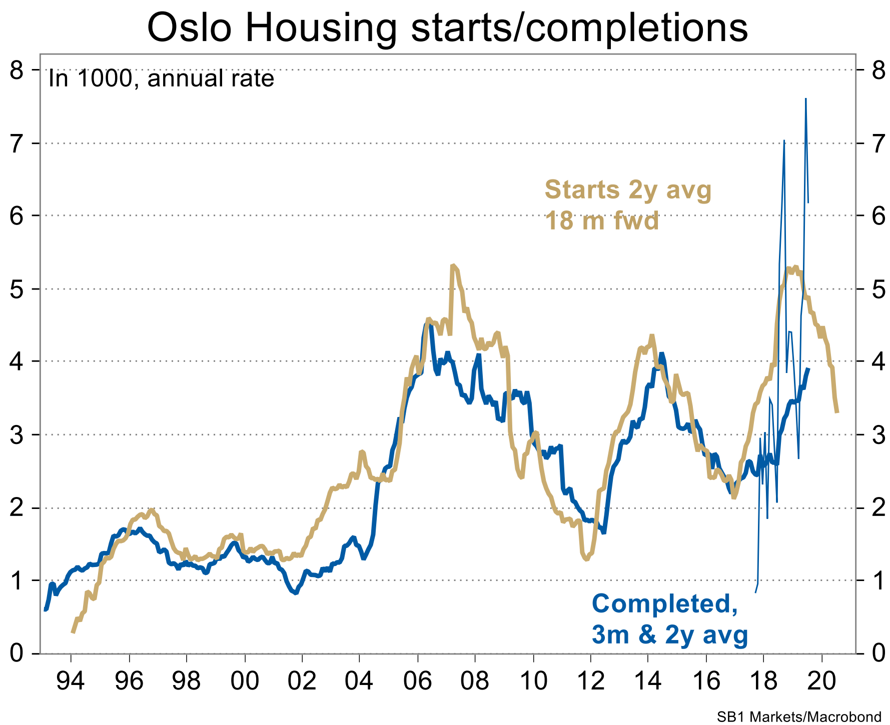


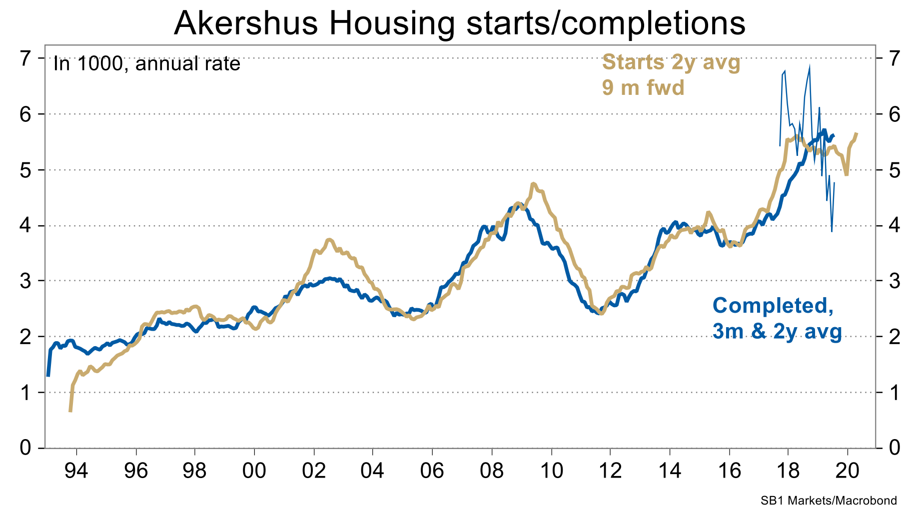


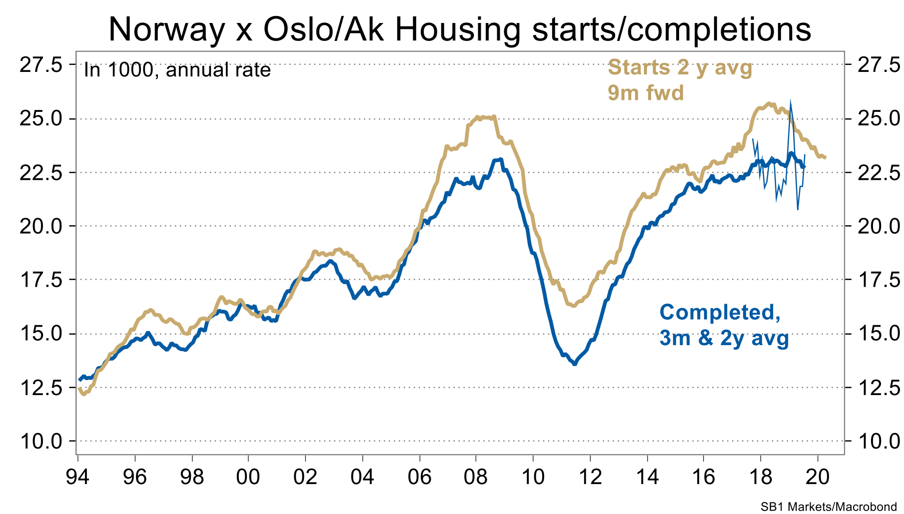
- In Tromsø, sales declined rapidly through H2 2018, and until the spring. Now, sales are soaring and price inflation is accelerating; demand must be blooming
- In Bodø, the number of transactions fell steeply in July and recovered somewhat in August. However, accelerating price growth does not indicate any demand weakness, and the inventory of unsold existing homes is not that large
- Oslo demand is solid, even as sales have softened recent month

A lot of new homes to be filled up but supply may be close to peak

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



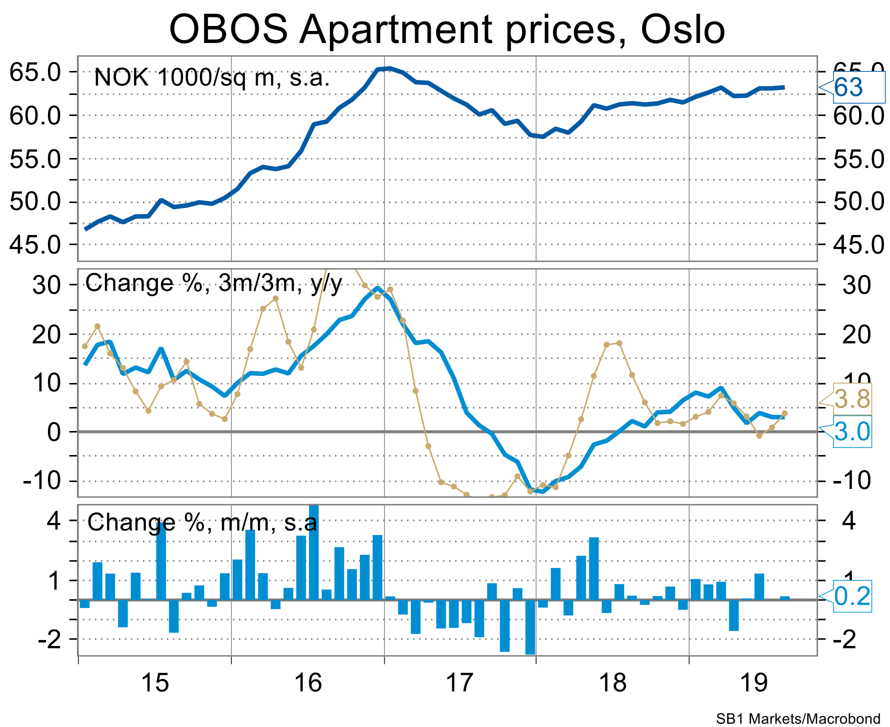


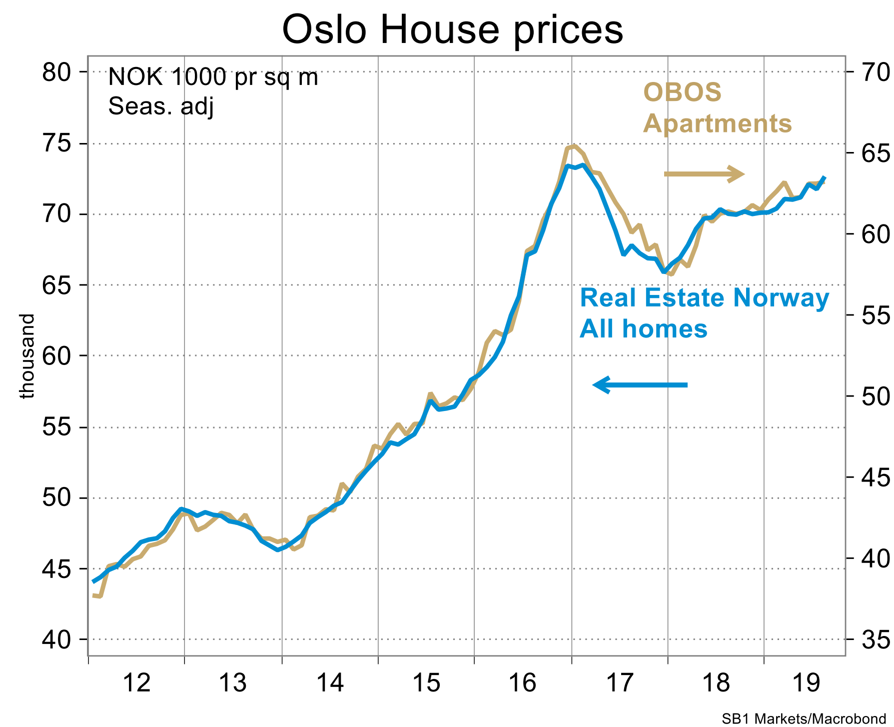


- Due to a high level of housing starts in Oslo in 2016–17, the number of completions is rising rapidly and will probably stay at a high level the coming year or more
  - » Supply have probably peaked Akershus but the coming deliveries in Oslo are larger than a marginal decline in Akershus
- Supply of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

OBOS Oslo apartment prices are slowly climbing

OBOS prices rose 0.2% s.a in Aug, marginally slower growth than Real Estate Norway recent months

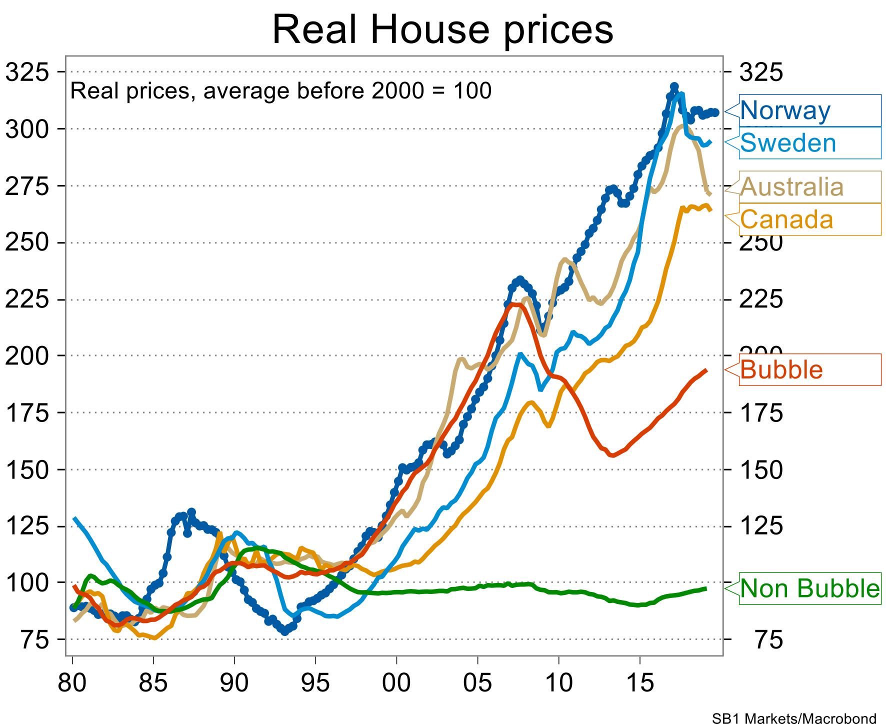


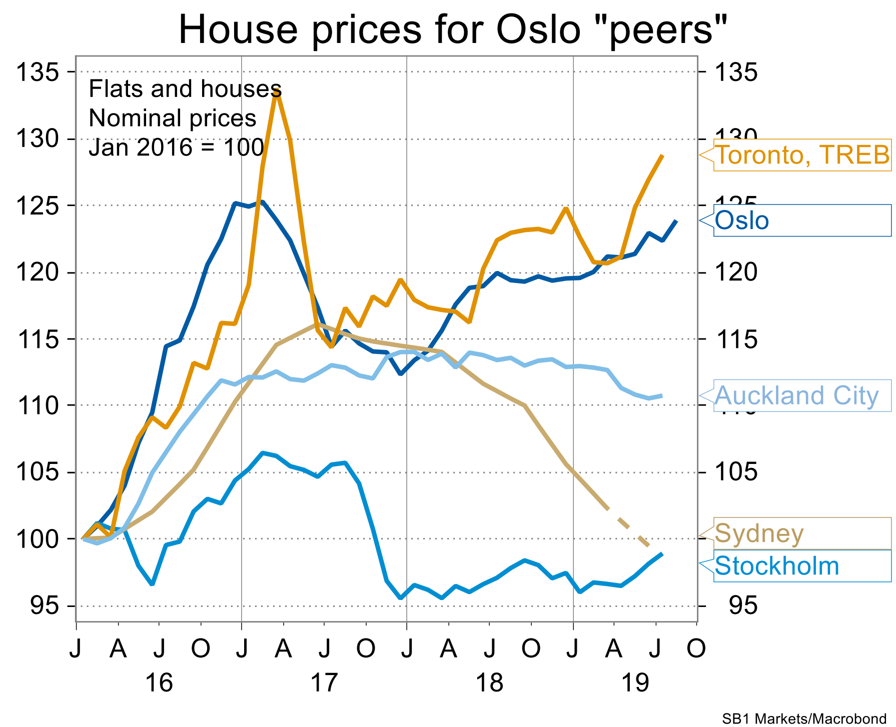


- OBOS Oslo apartment prices rose 0.2% m/m seasonally adjusted in August (1.4% unadjusted). Prices are heding slowly up, underlying growth is moderate at 3.8% (vs Real Estate Norway at 6.2%), annual rate flat at 3.0%
  - » Prices are still some 3% below the ATH in January 2017. The real price is down more than 8%. That's something
- OBOS' monthly data are more volatile than Real Estate Norway. RE's Oslo prices (all houses, not just apartments) have gained pace recent months, more so than OBOS prices

Some housing weakness in the 'super cycle' countries

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

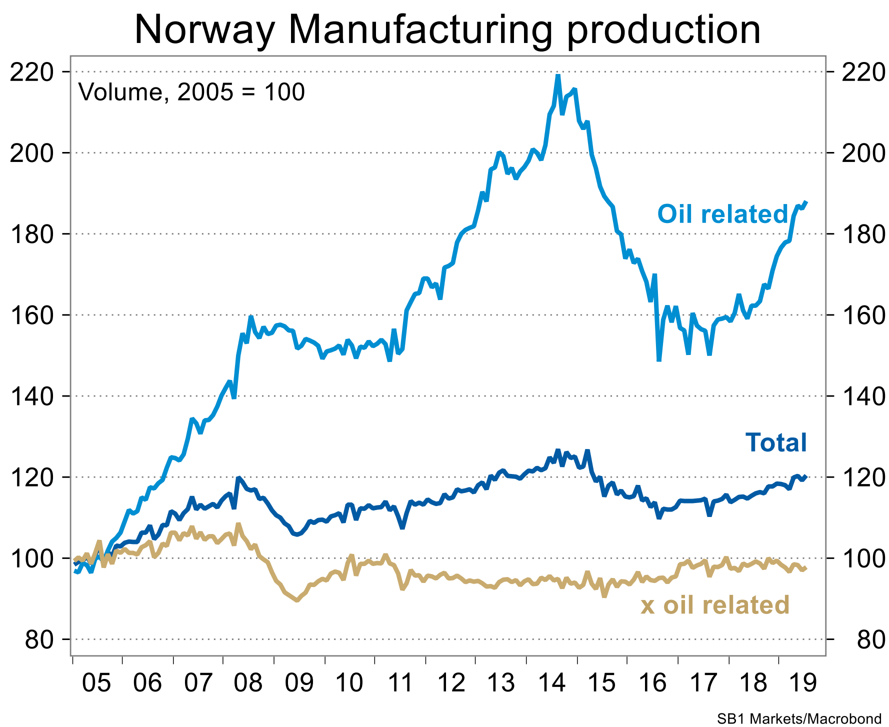


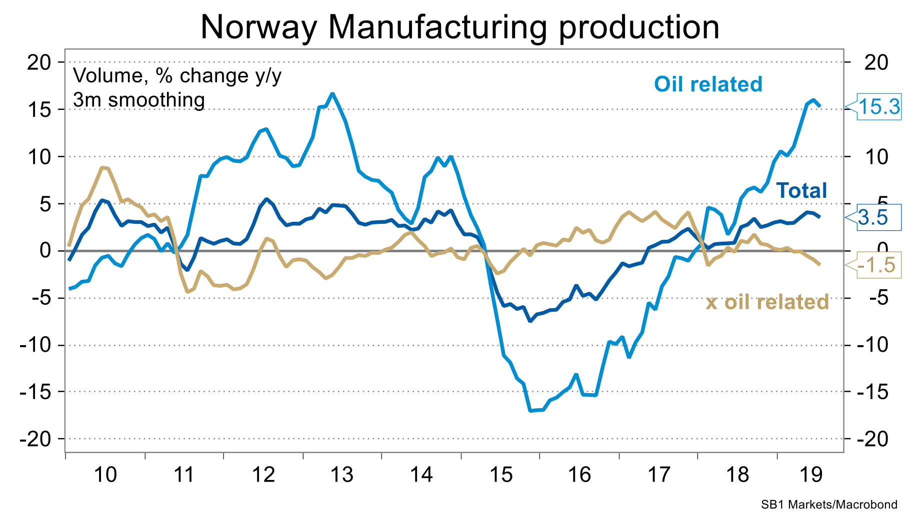


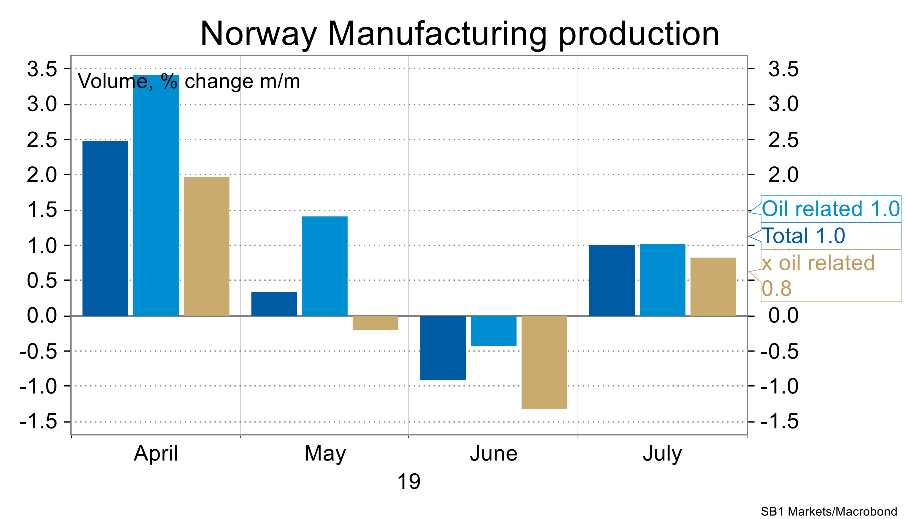
- Somewhat mixed among the super guys recently: Oslo and Stockholm are picking up. Auckland is trending down while Sydney is falling sharply, down some 15% from the peak in Q2 2017, in nominal terms! Toronto has gained pace recently
  - » New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – may have created 'some turbulence' – and real prices have slowed/declined since 2017
- No surprise, household debt is high and rising in these countries, with Norway in the lead, at some 240% of disp. income (it has nothing to do with low interest rates, right??)

Manufacturing production is soaring but only helped by oil related

Production rose 1% in July and is up 3.5% y/y. Oil related sectors up 15%, close to growth peak?



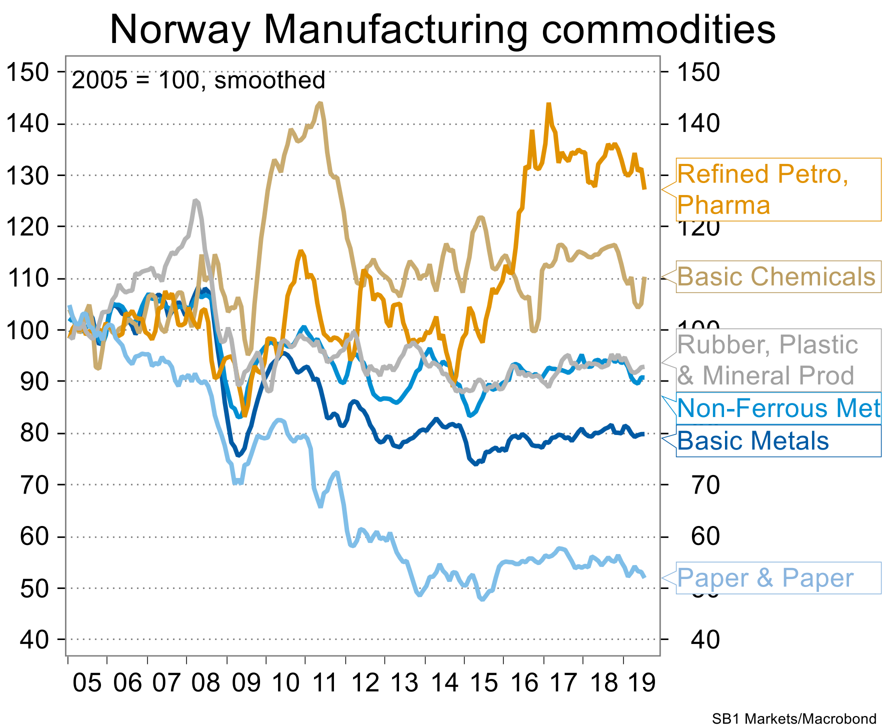


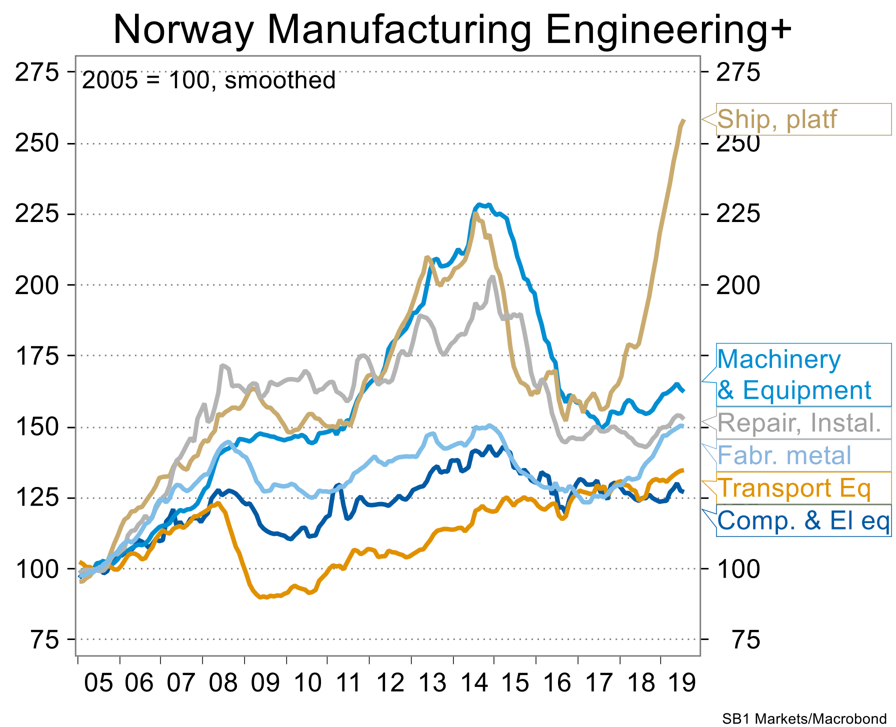


- Total manuf. production rose 1.0% m/m in July, well above expectations. The speed into Q3 is moderate (2%) following a strong Q2. Annual rate is up 3.5% (smoothed)
- The upturn is merely driven by oil-related manufacturers, which are up 15% y/y, the same speed as at the 2013 growth peak! Oil companies have indicated that growth is peaking in H2 2019, muted in 2020
- Non-oil related sectors have been completely flat the past 2 years and is even heading slowly down recent months, down 1.5% y/y
- Surveys have softened, suggesting slower growth

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

Most commodities have lost steam, chemicals have fallen, while engineering sectors are thriving

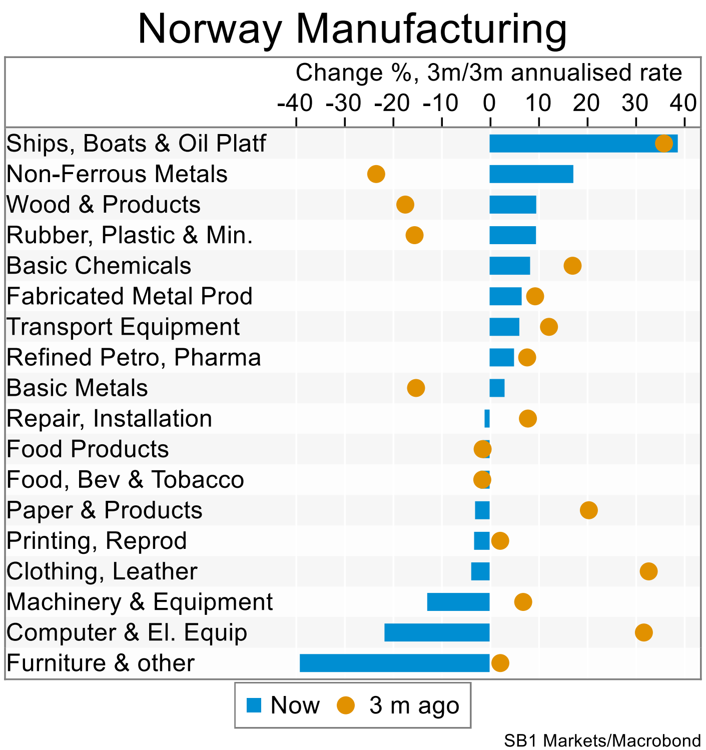


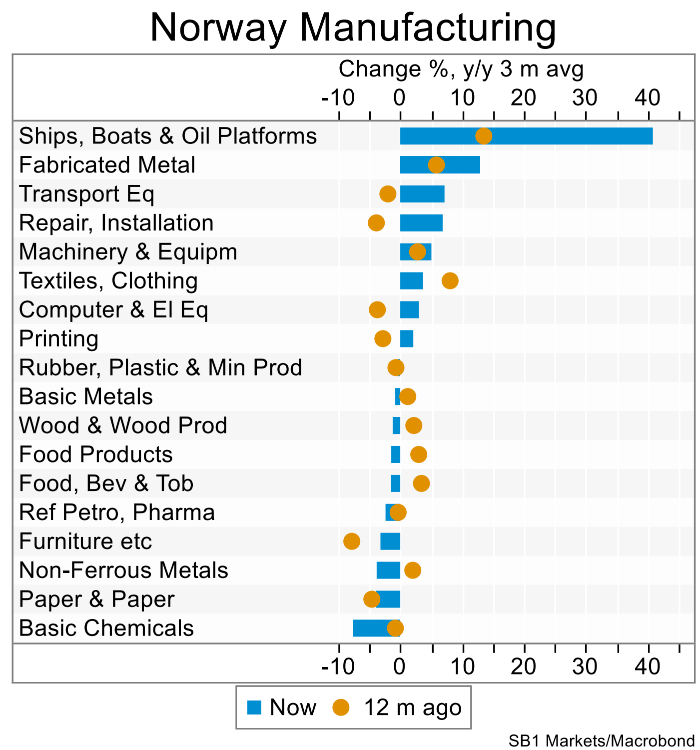


- It's almost as we do not believe it, production of ships and platforms is now 14% higher than at the 2014 peak, in volume terms. However, the overall petro related manufacturing and support activities are down some 14% from the peak in volume terms, and by 17% in value terms (value added), as prices have fallen
- Engineering sectors: ships & platforms are surging, followed by other partly oil-related sectors; both fabricated metals, machinery & equipment and repair & installation are accelerating. Computer equip. may be turning slowly up too?
- Commodities: All sectors have softened, even refined petroleum and pharmaceuticals heading down recent months. Basic chemicals 'collapsed' in May and recovered somewhat in July, however, production in this sectors is volatile

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

Production is increasing in 9 sectors and accelerating in 5, while 6 sectors are declining

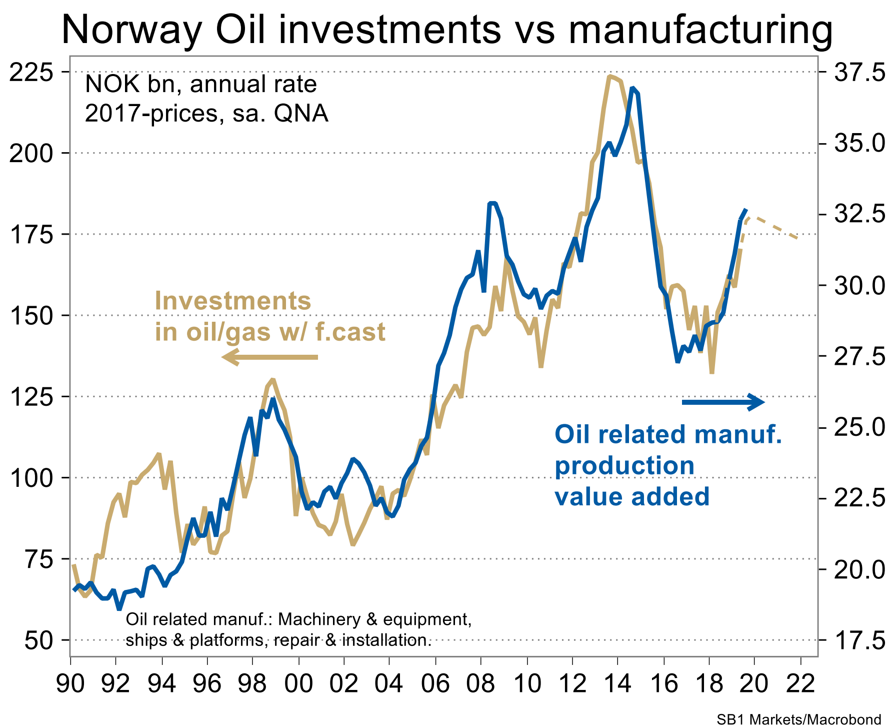




- Ships/platforms production is up 40% y/y (smoothed), an acceleration from 14% one year ago
- Not that impressive in other oil related sectors; machinery +5% y/y, repair & installation up 7%
- Fabricated metals and transport equipment are growing strongly at 13% and 7%
- Production of baric chemicals, furniture, paper and non-ferrous metals and refined petro, pharma are declining y/y

How large is the upside in oil related industries? Not much…

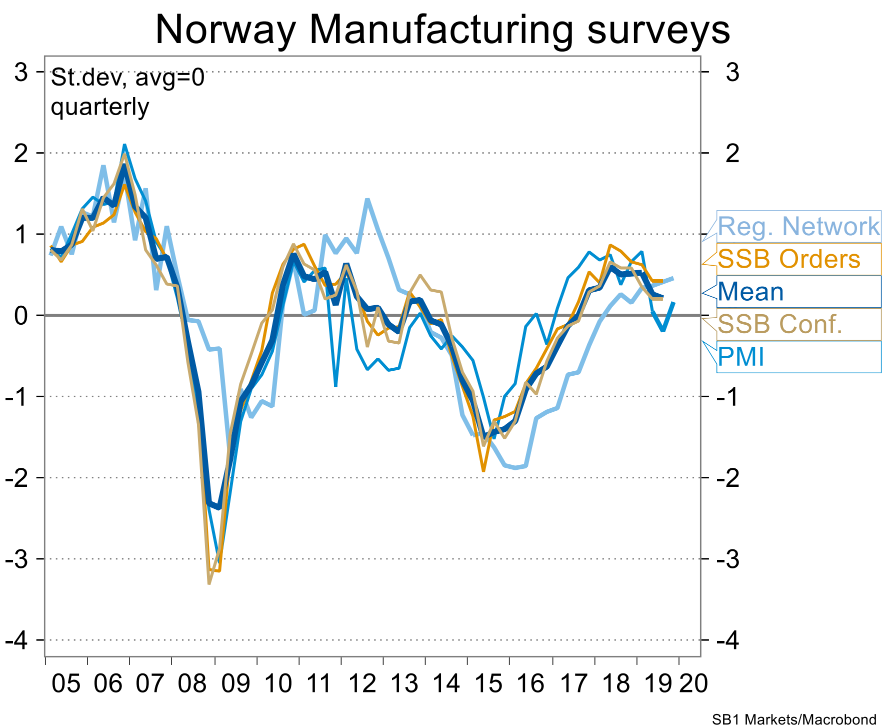
Oil investments are just 4% below our 2020 estimate, do not signal much higher production growth

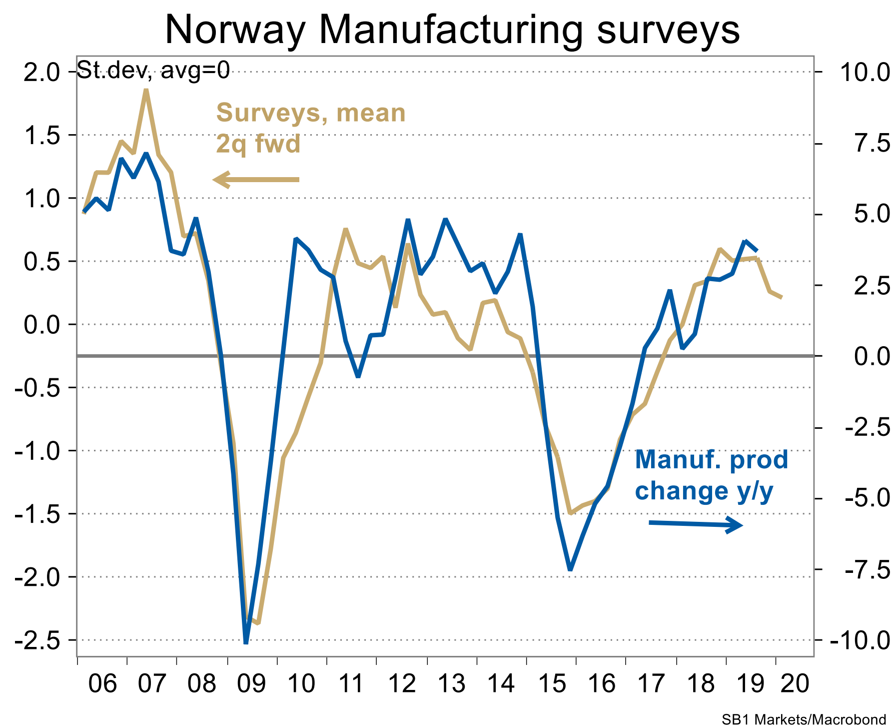


- The upside from the National Accounts Q2 investment level is not large. We assume the investment peak (later in 2019) is some 6% above the Q2 calculated level
- However, as production in oil related manufacturing sectors have surged recent months, the production level is not far below what we assume it will be at peak, with our estimates for investments in the oil and gas sector
- Moreover, businesses are expecting a sharp cut in manufacturing investments in 2020, after soaring in 2019

Manufacturing surveys signal a slowdown in production

All manufacturing surveys x Regional Network (from Q2) have softened somewhat

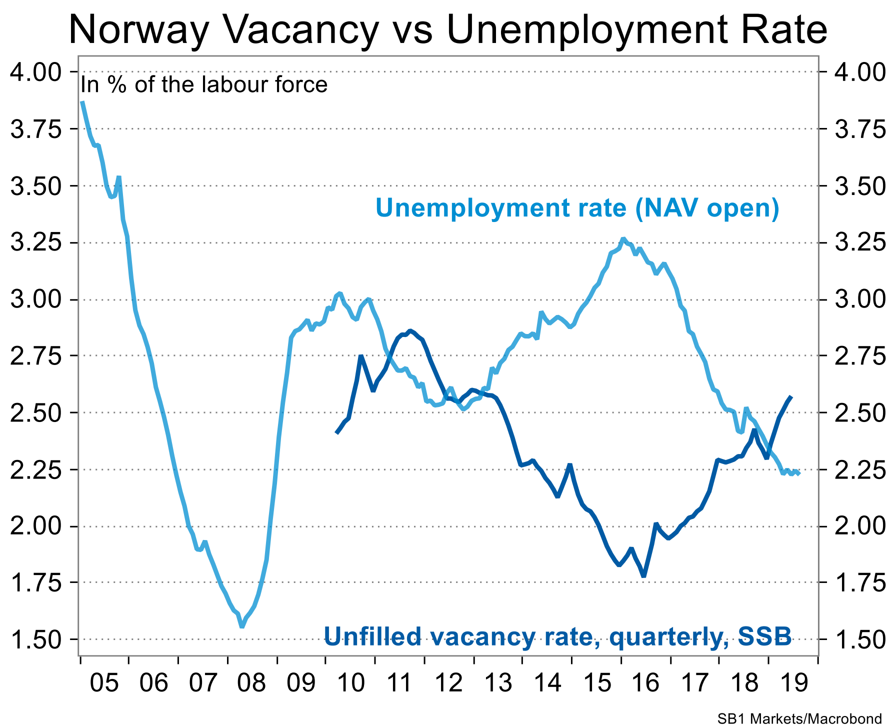


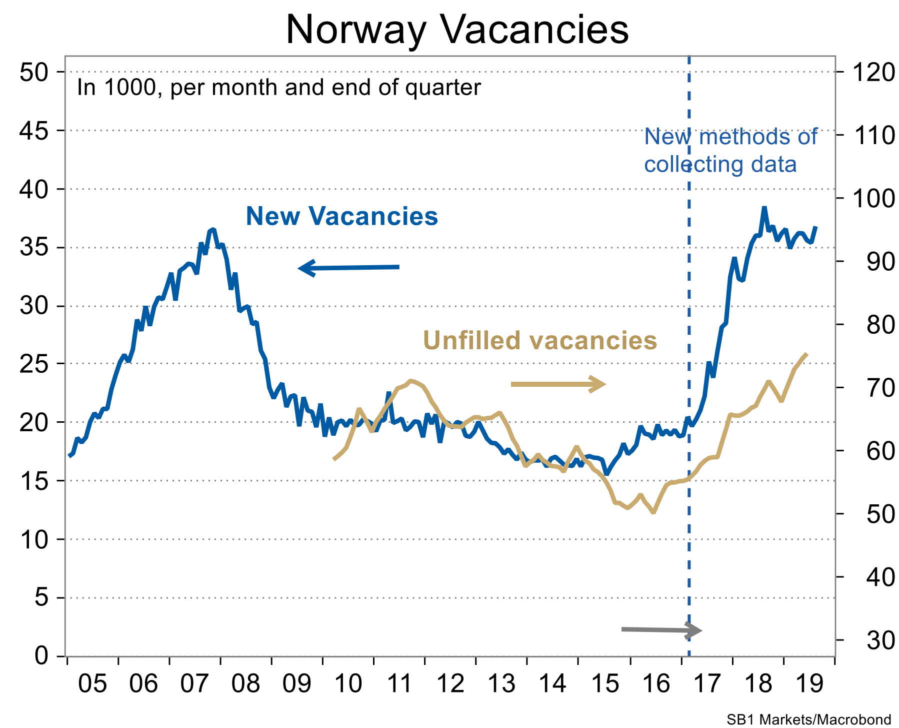


- The PMI is the weakest of the surveys, even as it rebounded in August. All surveys are above their respective averages, signalling still solid growth
- Unlike the others, Norges Bank's Q2 Regional Network reported accelerating growth. This survey is probably the most trustworthy and also the one which NoBa prefers. The Q3 report is published this week
- <u>The surveys suggest that the production growth peak is behind us</u>

Unfilled vacancies are climbing, signs of a tightening labour market

Vacancy rate rose to 2.6% in Q2, up 0.1 pp and well above unemployment at 2.2% (of labour force)





- The vacancy rate inched up to 2.6% of the labour force in Q2, the highest since 2013 and 0.4 pp higher than the share of unemployed. The number of unfilled vacancies is up some 50% from the 2016 bottom
  - » Increasing unfilled vacancies is reflecting a tightening labour market and do not confirm the softness which some labour market measures have been indicating (registered unempl. a tad softer, new jobless claims may be ticking up)
- NAV has been reporting a much sharper rise in new vacancies recent years. However, the numbers from March 2017 and onwards are not comparable with previous figures, due to a new method of collecting vacancy data. Since then, the number of new vacancies have flattened out, at best. We trust the SSB figures to be more accurate

Highlights

The world around us

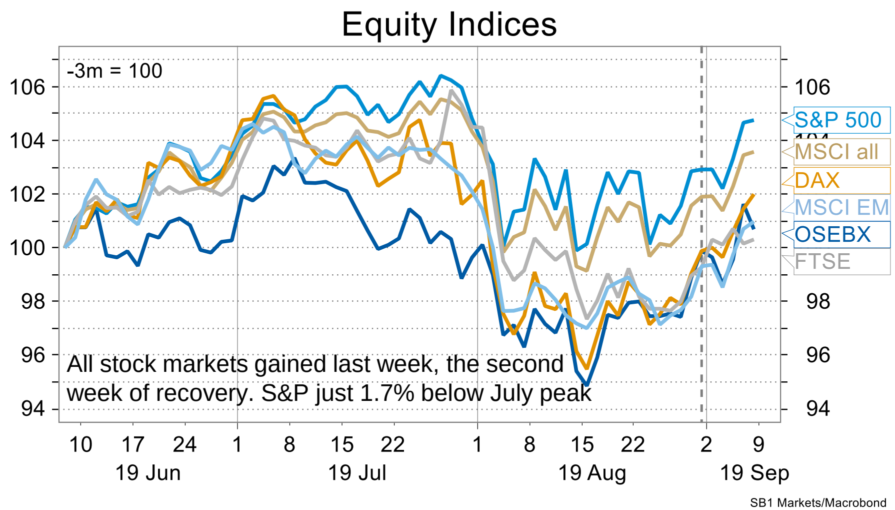
The Norwegian economy

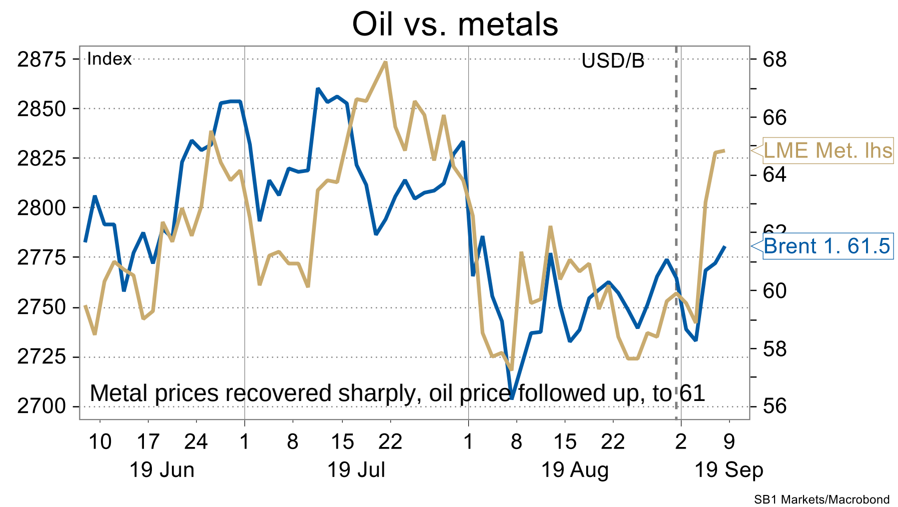
Market charts & comments

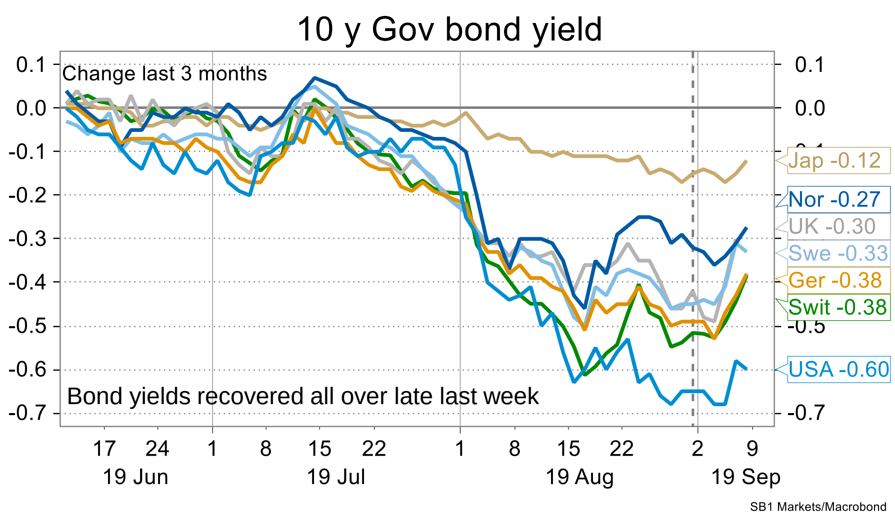
SpareBank 1 MARKETS

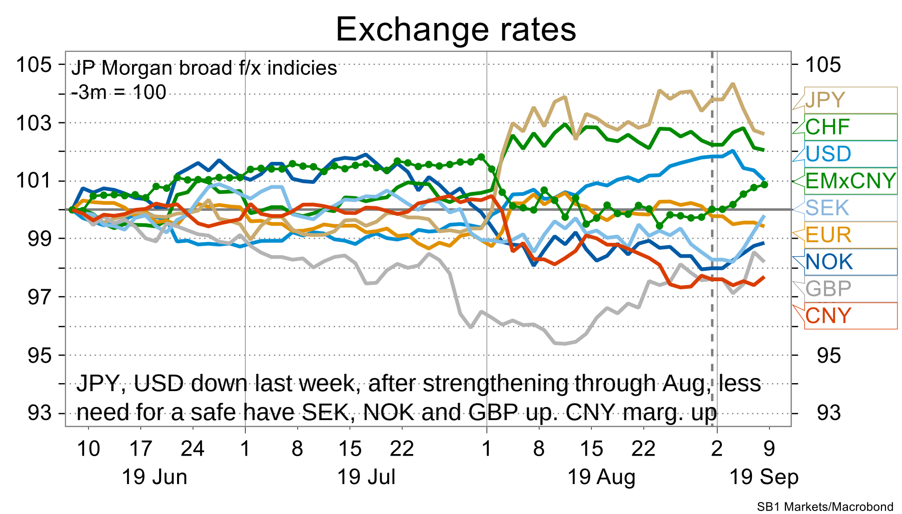
Risk markets recover on renewed hopes of trade deal and strong services ISM

Broad stock marked rebound, S&P up 1.8% w/w, US 10 y up 6 bps. Metal prices soaring, oil bounced back



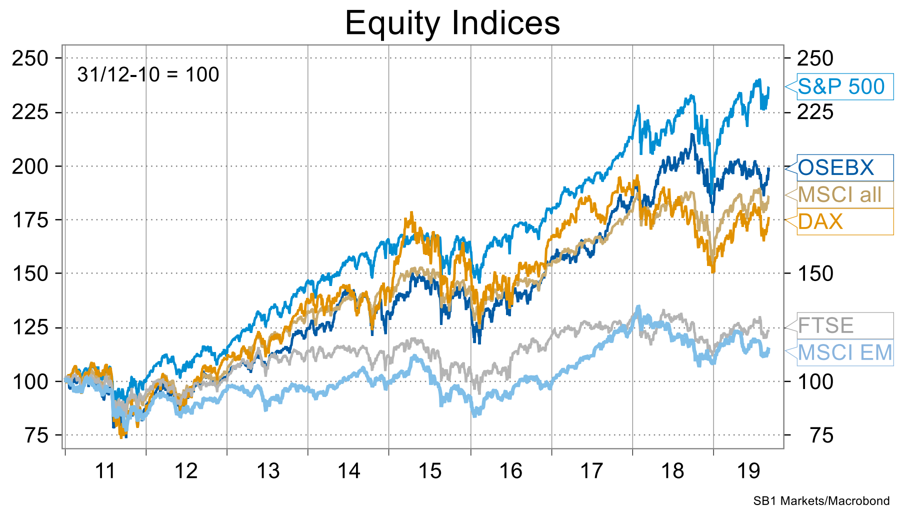


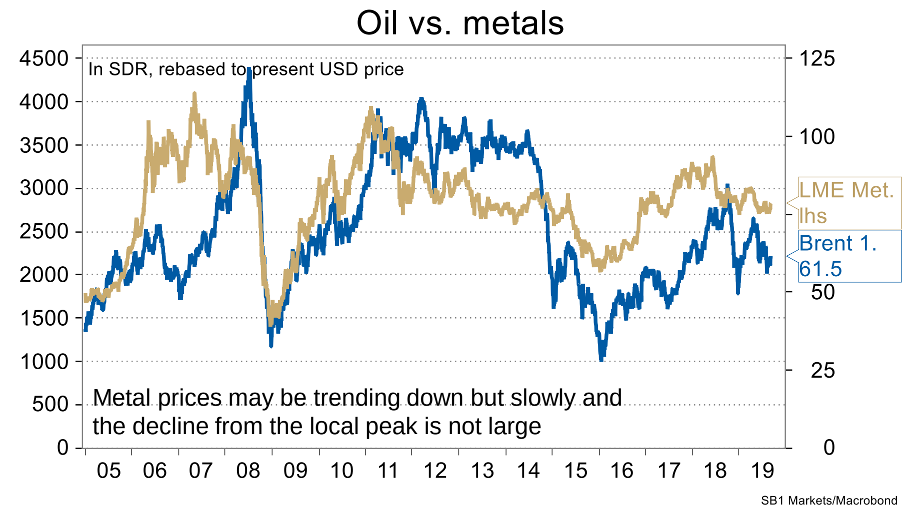


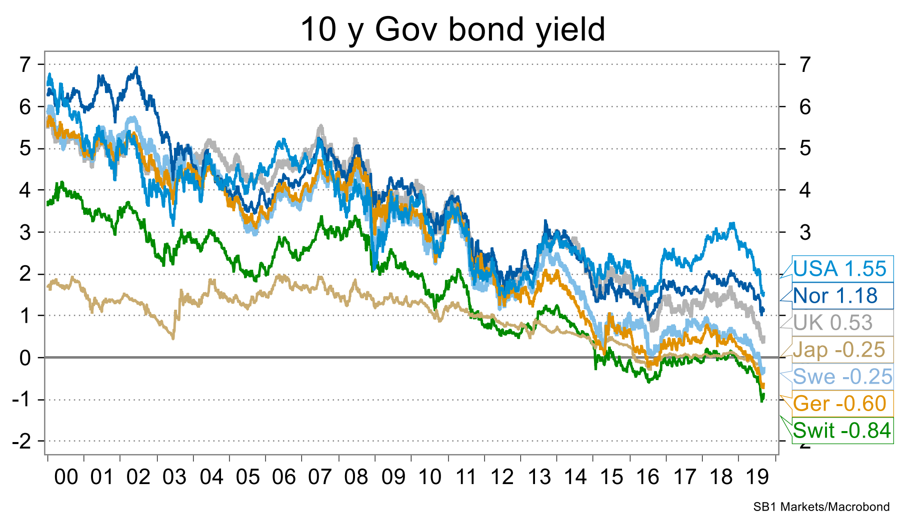


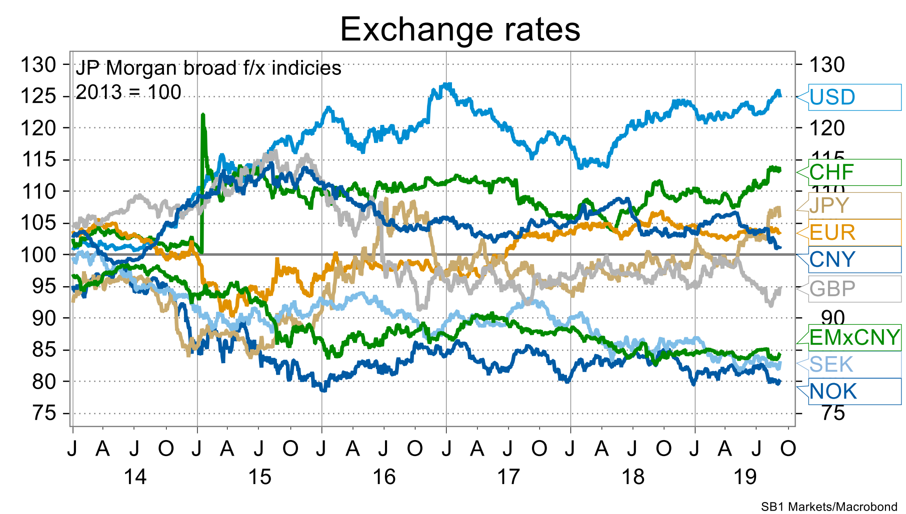
In the long run: Bond yields at/close to ATLs, US stock markets not far below ATH

The trade war rules. And then some economic data. Increasing volatility is probably here to stay





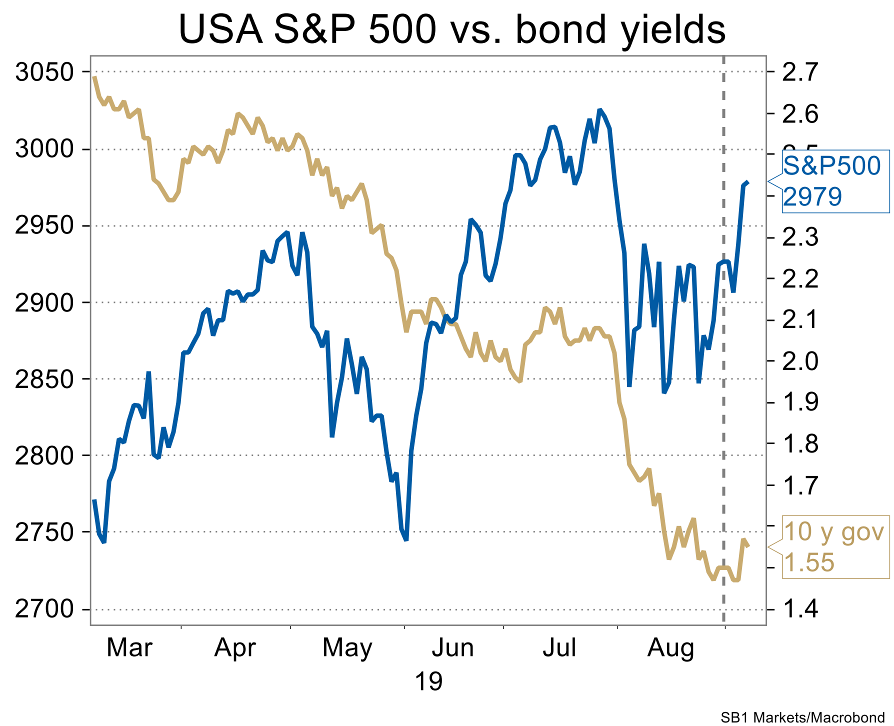


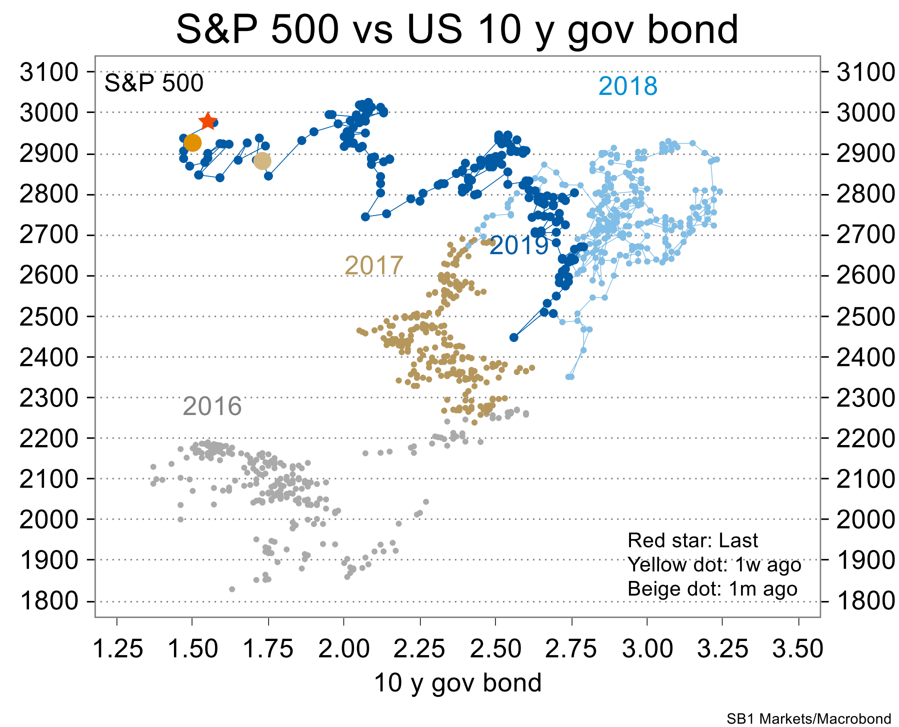


SpareBank 1 MARKETS

US: Renewed hopes of a trade deal + a soaring services ISM comforted investors

10 y gov up 5 bps to 1.55%, S&P up 1.8% on the week. The trade war cycle continues…



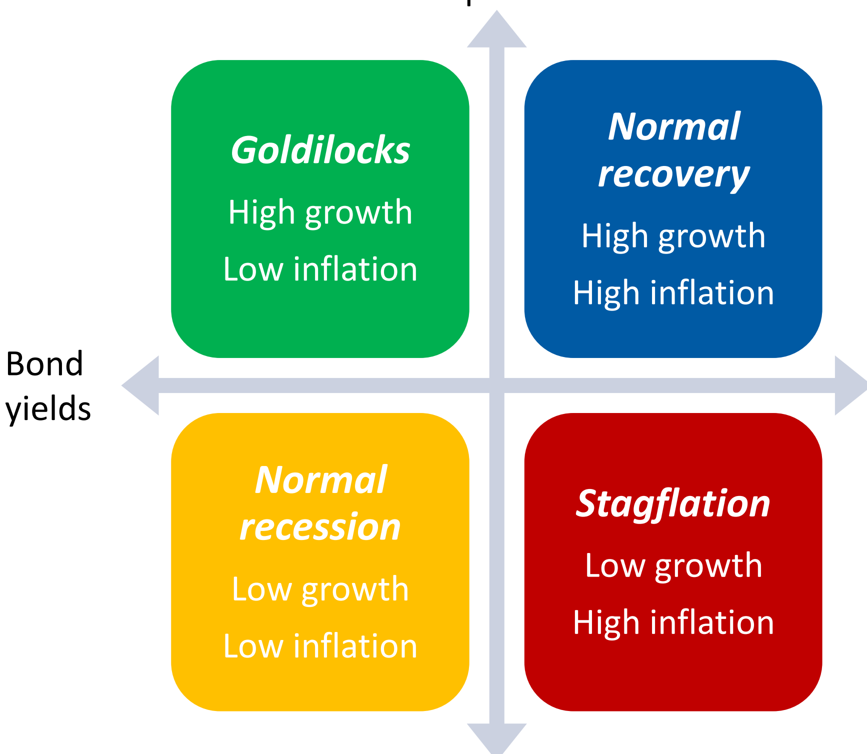


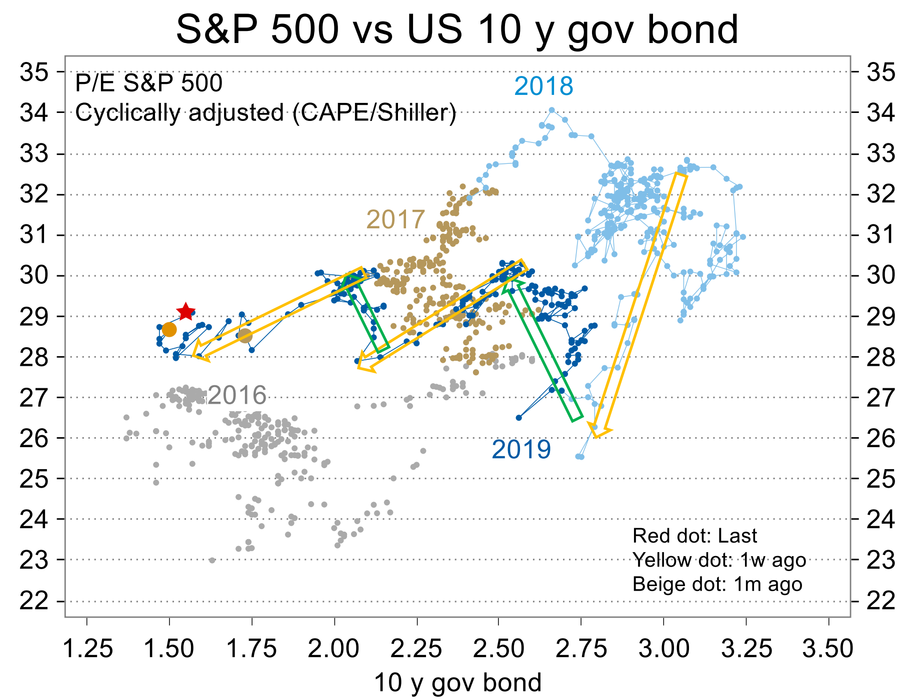
- Stock markets gained last week after the US announced a face to face meeting with China next month. A much stronger than expected non-manufacturing ISM (after a weak manufacturing ISM) helped stocks further up
- Bond yields soared 10 bps Thursday, after falling to 1.47% on Thursday, following the disappointing manufacturing ISM
- For more on the relation between stocks and bonds, check next page

SpareBank 1 MARKETS

US markets <u>were</u> moving towards the recession corner

Last week: markets moved toward ‘normal recovery’, as both bond yields and equities gained



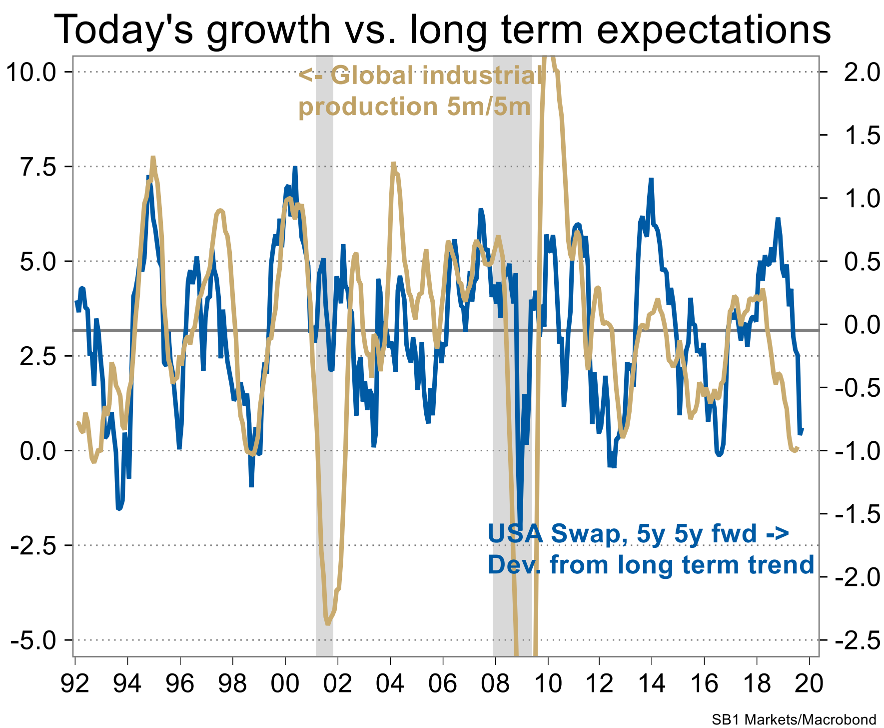


SB1 Markets/Macrobond

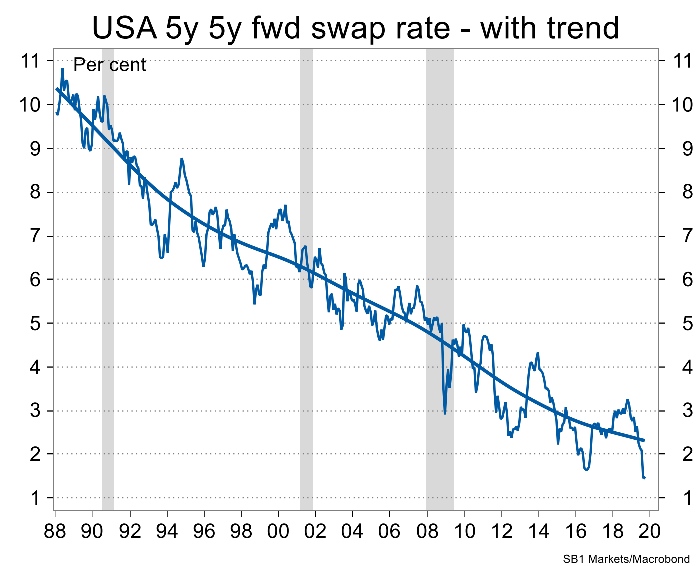
- In <u>July,</u> the market fluctuated mostly along the normal recession/normal recovery axis
- In <u>August</u>, markets moved towards the recession corner following the bad trade policy news. Last weeks, both markets recovered
- We still do not think a long term Goldilocks scenario is likely. If yields 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

Long term interest rates are driven by the short term business cycle

… just like the short term cycle is driving most long term expectations…



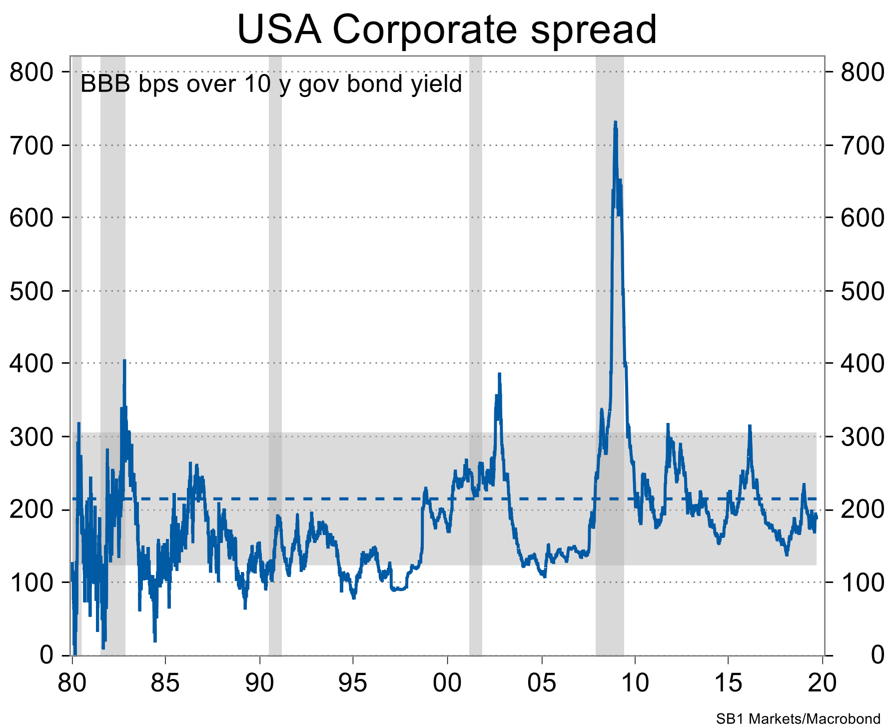
- USD 5y 5y swap is down more than 150 bps since last autumn
- This is the normal decline if the business cycle slows, like we have seen since last autumn, as growth in global manufacturing production has slowed to zero, from 4%
  - » The global manufacturing PMI and other surveys are signalling a marginal a small decline in production but not by much
- Sure, interest rates may decline further short term but the bet is not 'obvious' anymore, given the 'normal' decline recent monhts

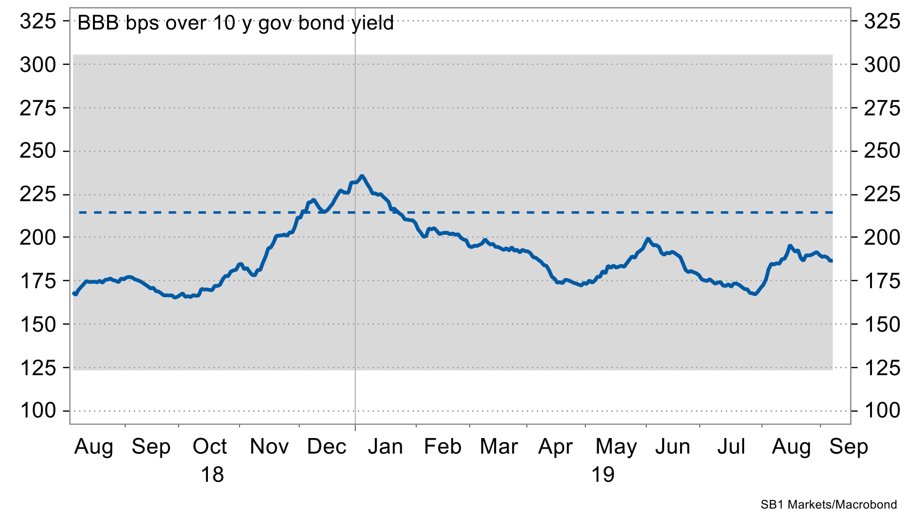


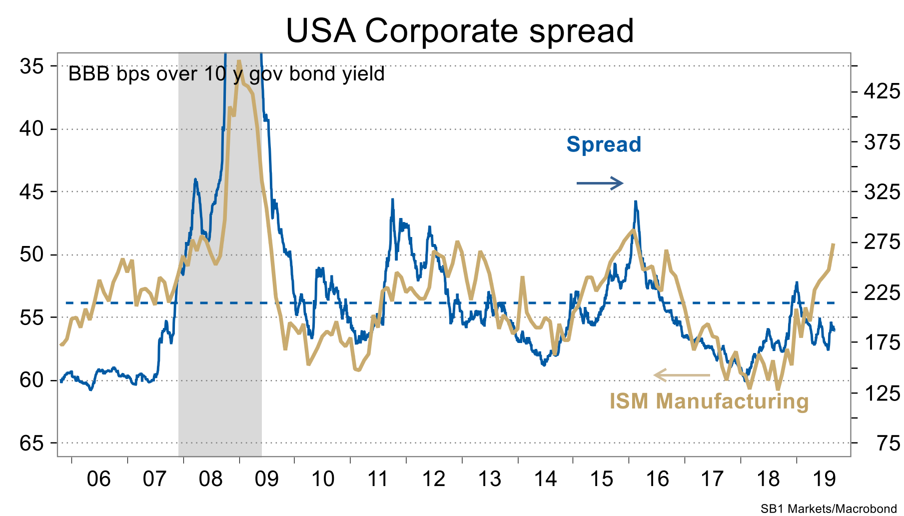
- We decompose the past 30 y USD 5y 5y in two components, the long term trend (approx -0.4 pp per year), and a short term cyclical component
- The cyclical component (the difference between the actual obs. and the trend on the chart to the right) is compared withe the short term business cycle at the chart above. There are some similarities… The biggest miss: Long term rates fell less than they 'should' during the 2001 recession – and long term rates were 'too stable' during the financial crisis vs the huge down/upturn in the global manufacturing cycle

Credit spreads are 'too' low given the current ISM level

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

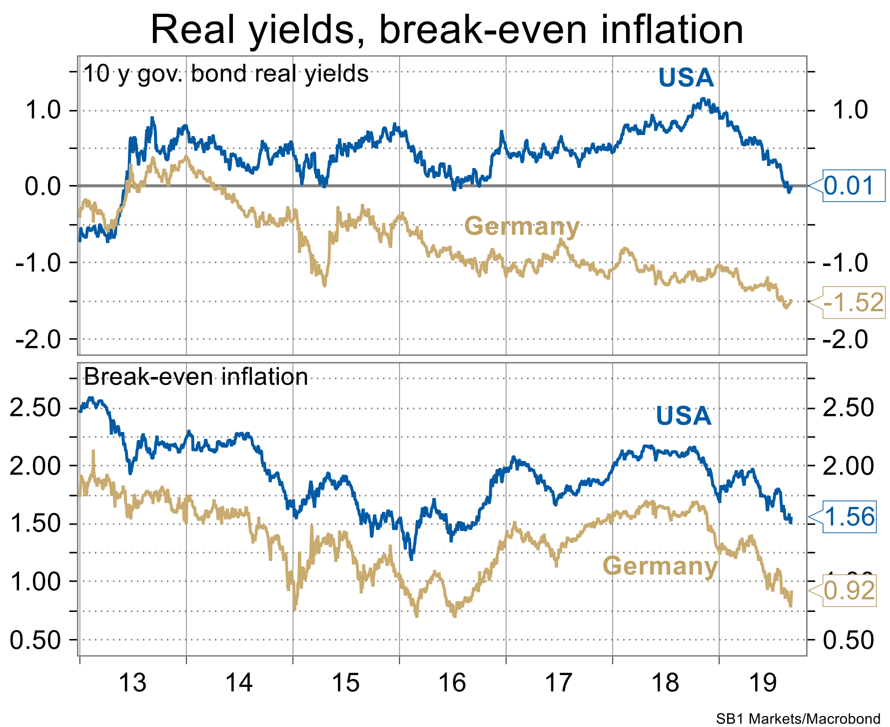


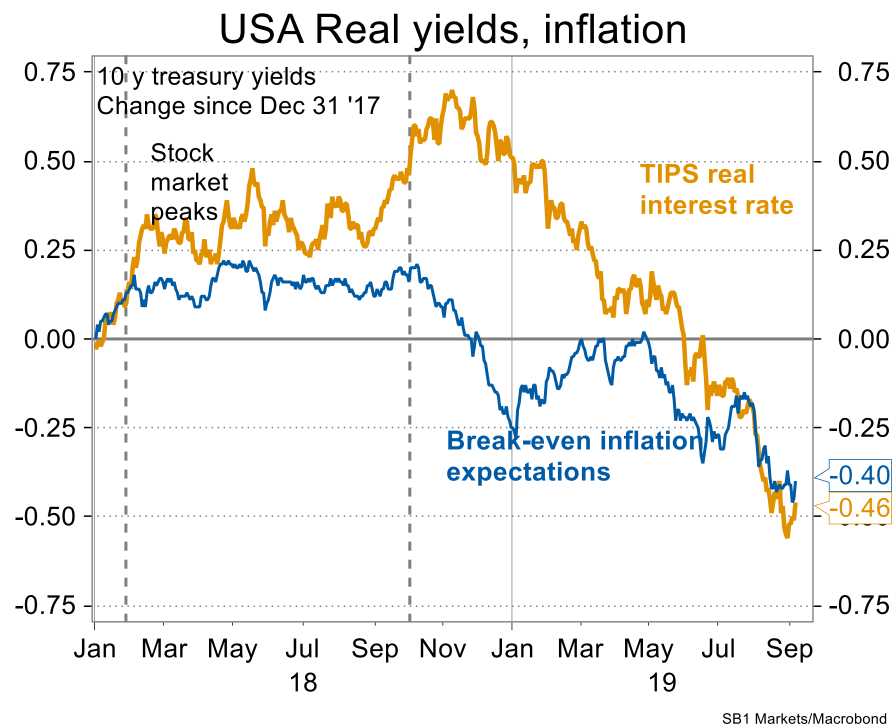




US real rates rebounding, inflation expectations slightly up too

Real rates, inflation exp. and term premiums have dropped. Last week, real rates up 6 bps, infl. 1 bps

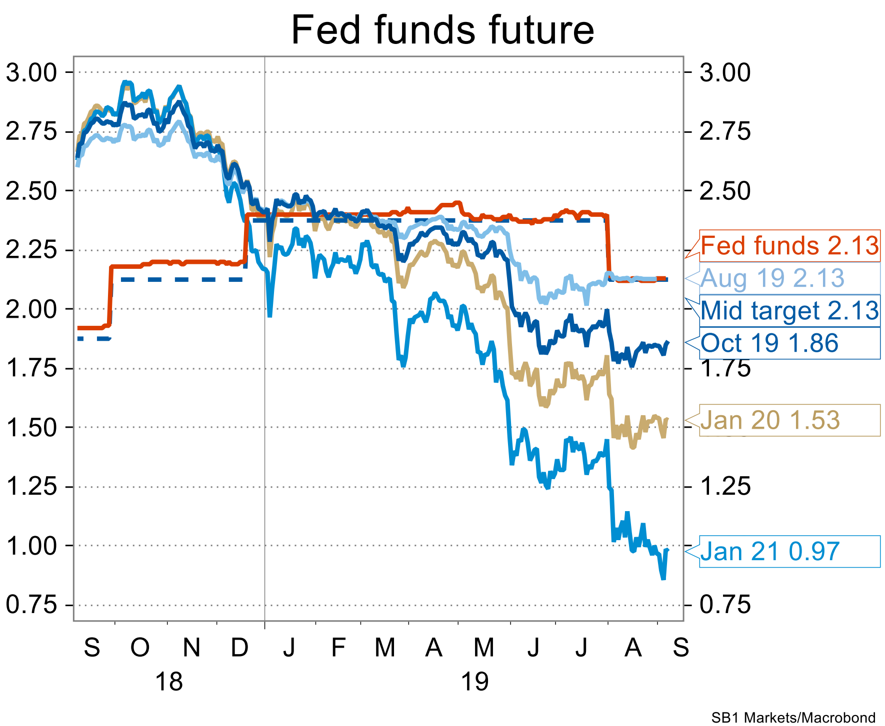


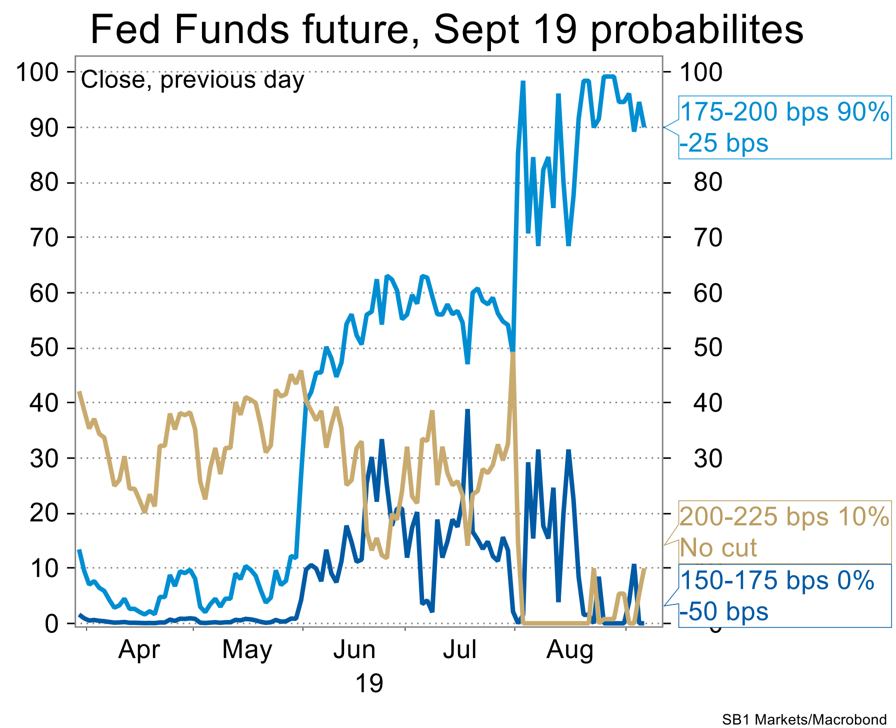


- Both real rates and break even inflation have been sliding sharply down in both US and Germany
- German real rates recovered modestly last week, up to -1.52% (+0.3 pp) while inflation expectations increased by 8 bps, to 0.92%. Inflation expectations do not seem that far off, real rates do..
- Inflation expectations rose marginally to 1.56% in the US, real rates picked up, to 0.01%

Fed fund futures flat on the week, ‘everybody’ is expecting a 25 bps cut in Sept

A 25 bps Sept cut is fully priced, the probability of 50 bps cut is reduced to zero

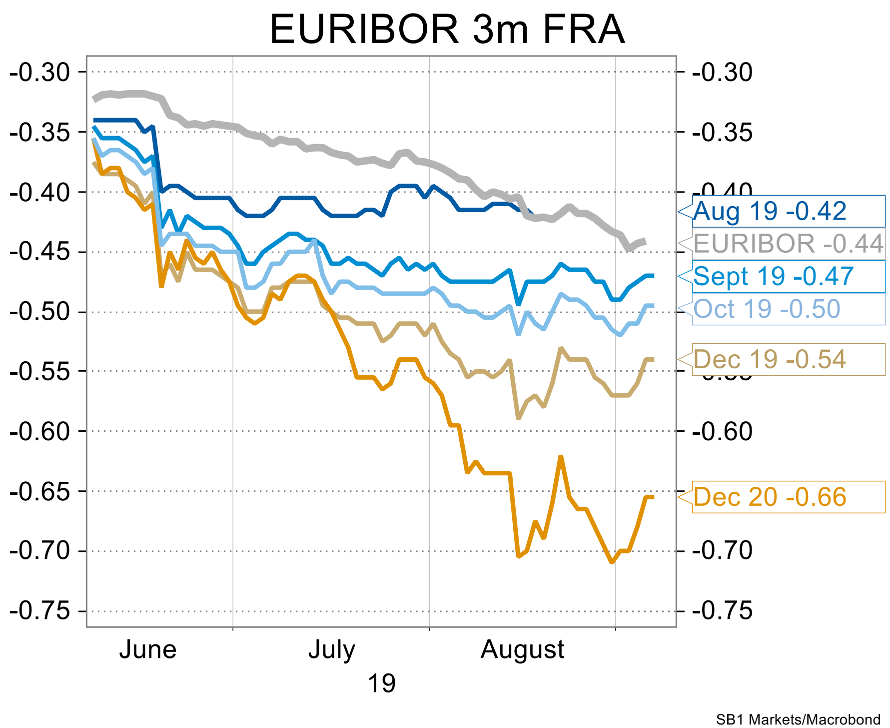


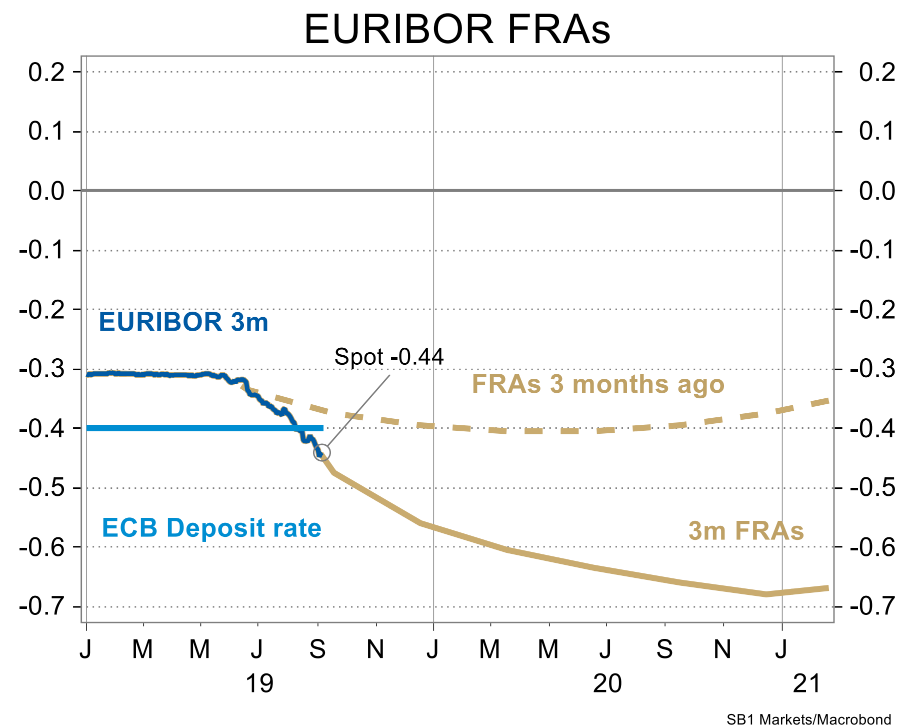


- The trade war escalation and growth concerns, triggered by the yields curve inversion, have taken the Fed fund futures steeply down. The past two weeks, the shorter FRAs have stabilised, the Oct ‘19 contract is up 9 bps from the bottom on Aug 15
- The probability of a 50 bps cut is reduced to zero, and 10% for no cut. Market is pricing in 2-3 cuts before Jan and 4-5 cuts by the end of 2020
- US growth is slowing but it is still above or at trend. Inflation is not far below the target. Yes, there are clouds at the horizon but is still not raining. The USD is stronger than normal but not by that much. 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

The EUR curve recovering, still some belief in a 20 bps cut this week

The market is pricing some 45% prob. of a 20 bps cut in Sept and 55% for 10 bps.. And some QE?





- In July, the ECB hinted of a more accommodative monetary policy, if the economic/inflation outlook did not strengthen. A board member Olli Rehn said in Aug that bank was prepared to cut rates and introduce aggressive QE measures
  - » The German finance minister suggested that massive fiscal stimulus will be imposed, if necessary (50 billion EUR, he said) More debates on fiscal policy other places too – reducing the need for aggressive monetary stimulus?
- The market is pricing just above 50% probability for a 25 cut at the September meeting, and just below 50% of a 50 bps (from zero in mid-Aug). No one is expecting an unchanged rate. More QE will be announced too, and some relief for banks depositing money in the central bank (a proportion can 'receive' a less negative (or zero) interest rate
- Unlike in the US, a more expansive monetary stance can be justified by somewhat weaker data and muted inflation

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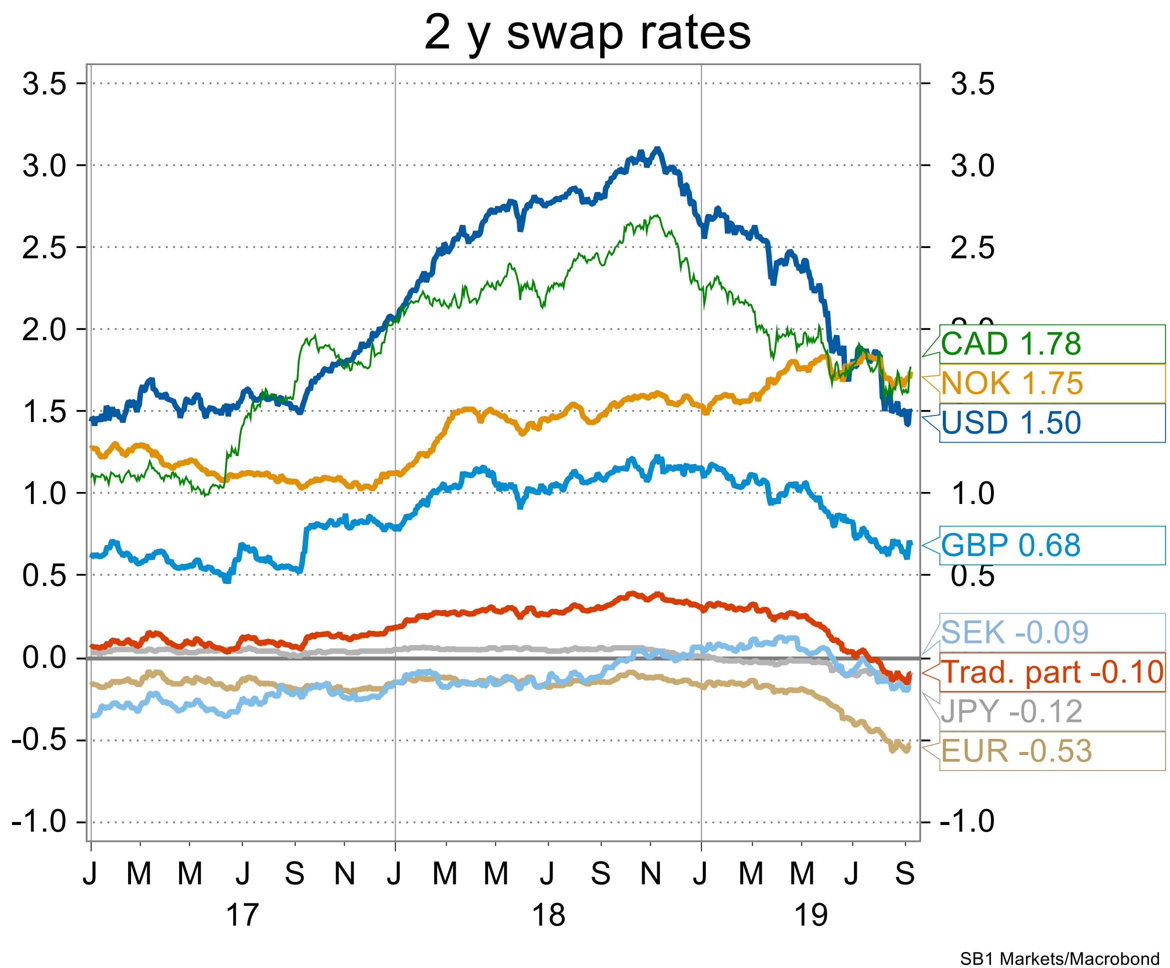
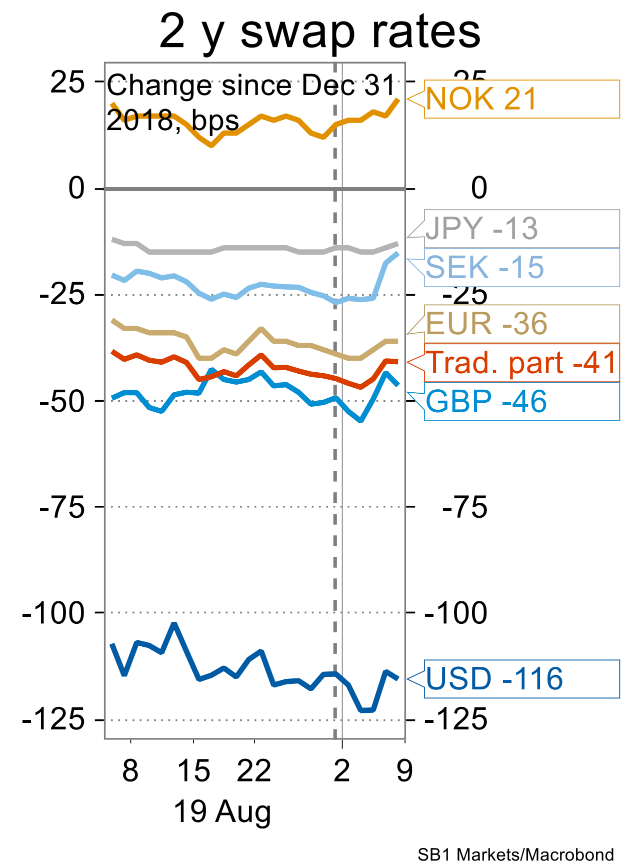
Short term rates turned up all over last week

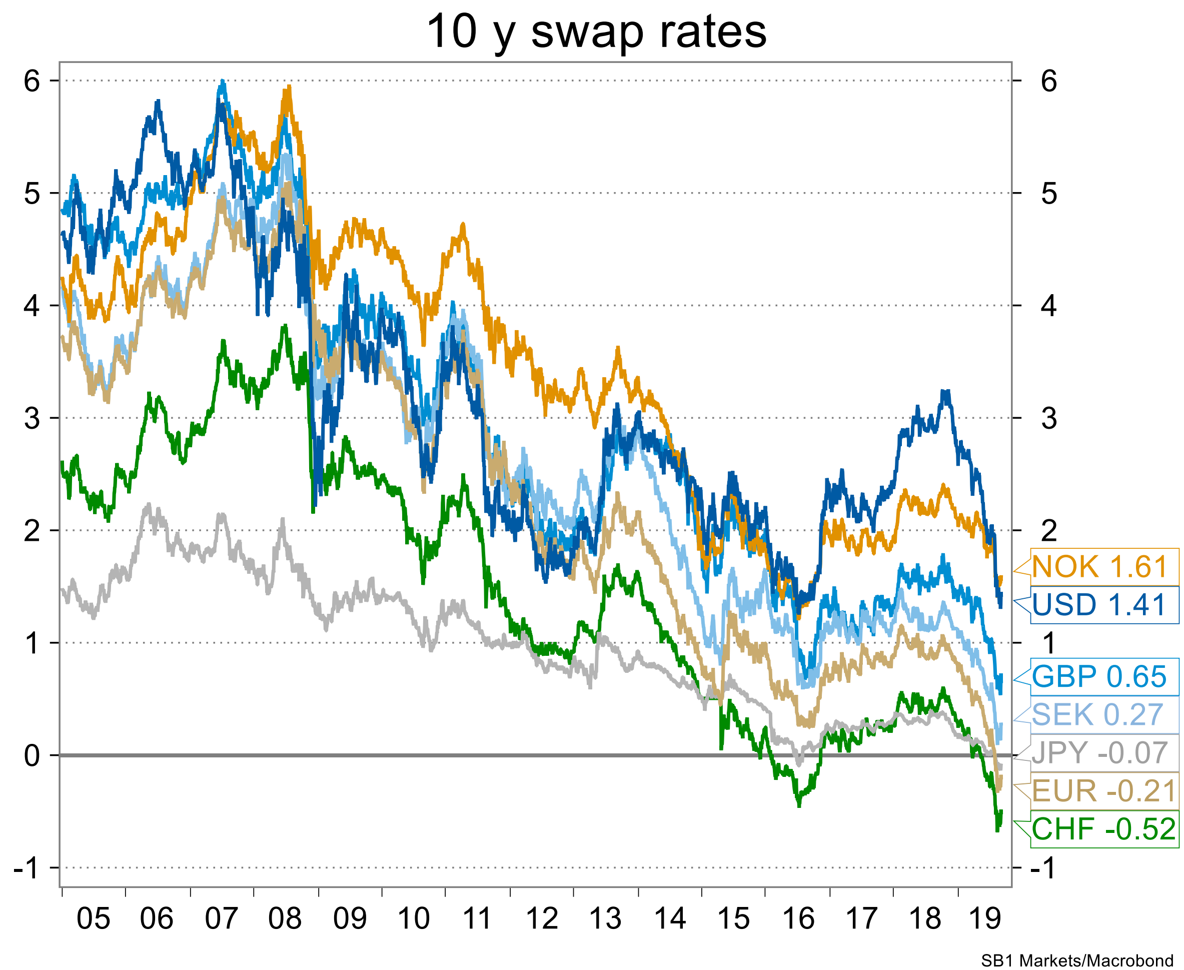
A persistent Riksbank sent the SEK rates up and an Boris J's 4 Parliament Brexit defeats lifted the GBP

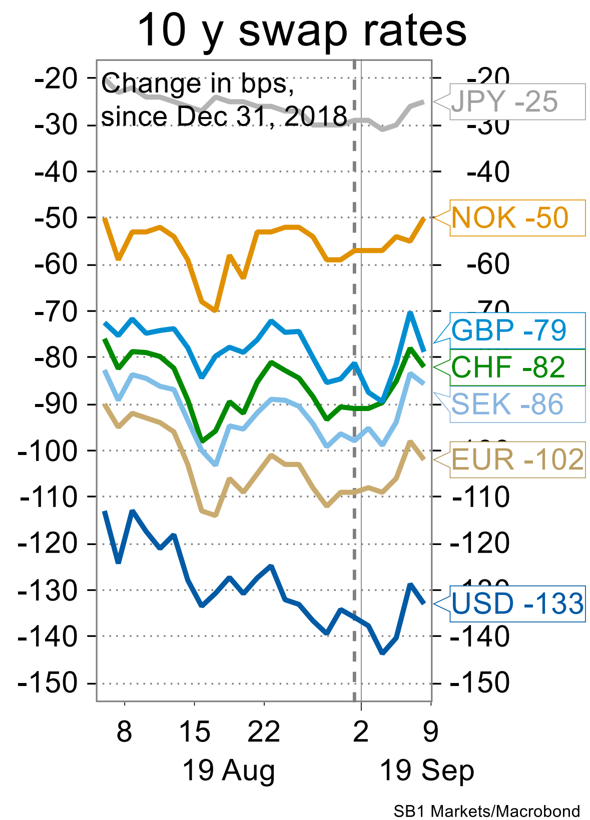




Long term swap rates recovered ‘everywhere’ – the least in Norway

GBP up 11 bps last week, SEK up 14 bps, USD + 7 bps. Norway just 2 bps

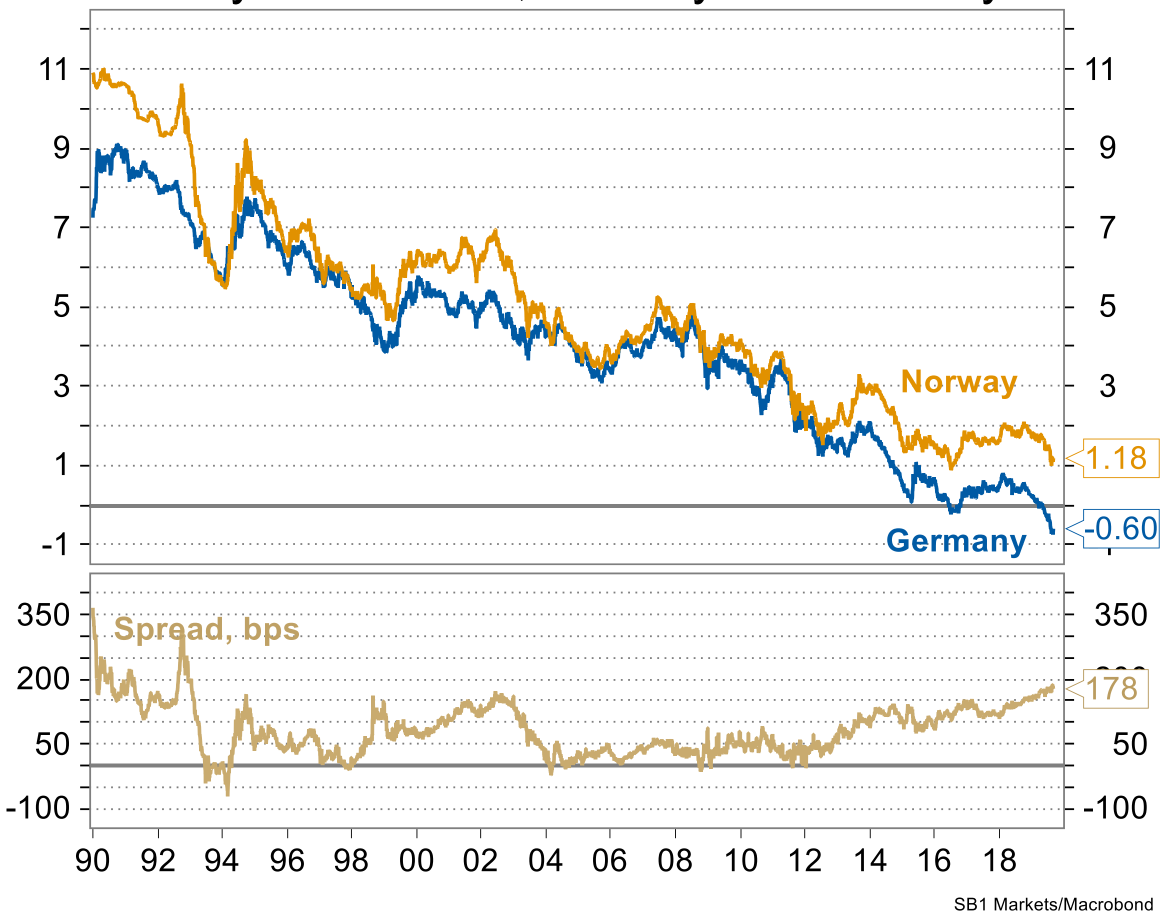


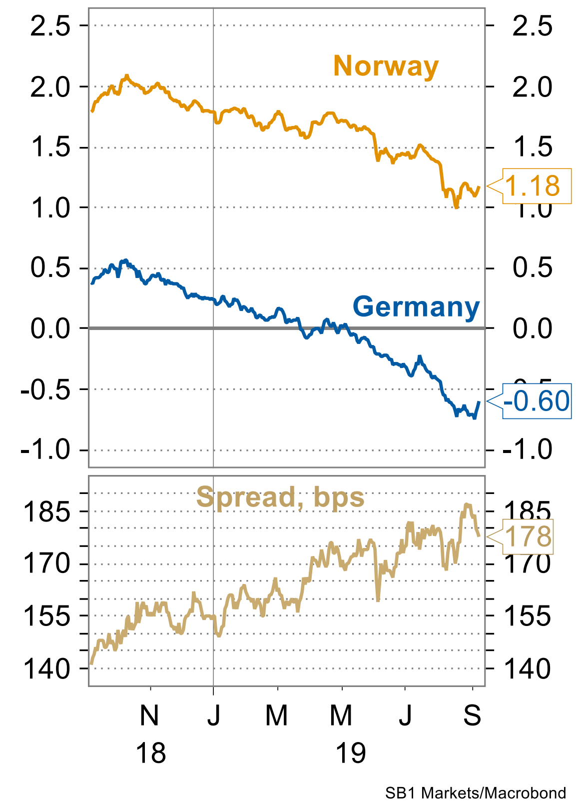


The NOK/German bund spread shrinks as the Bund recovered more than NOK

Through August, NOK recovered more than German bund, the spread is unusually elevated

10 y Gov bonds, Norway vs Germany





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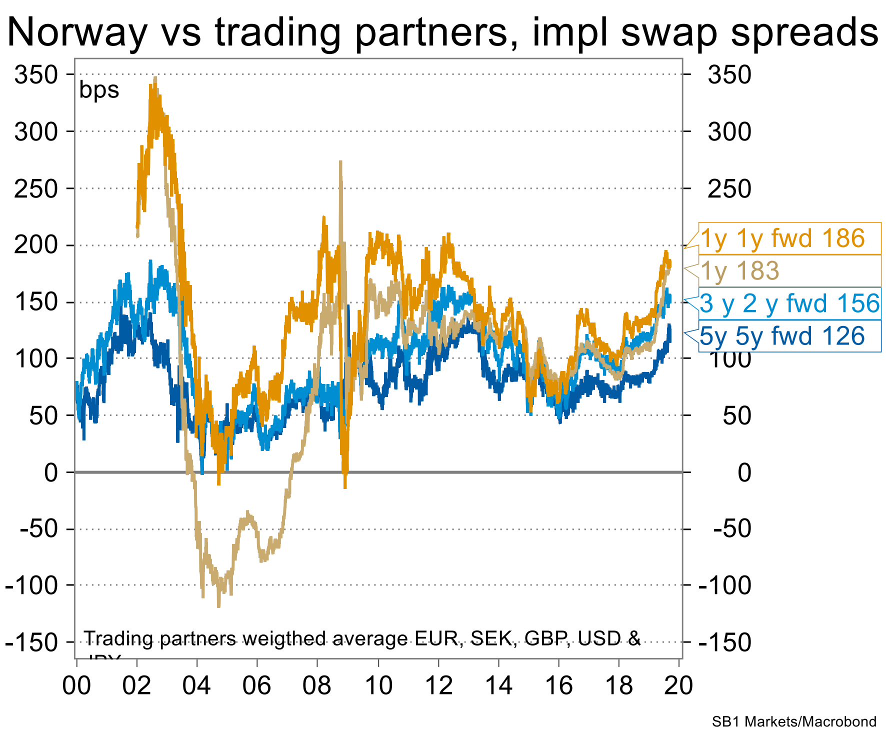
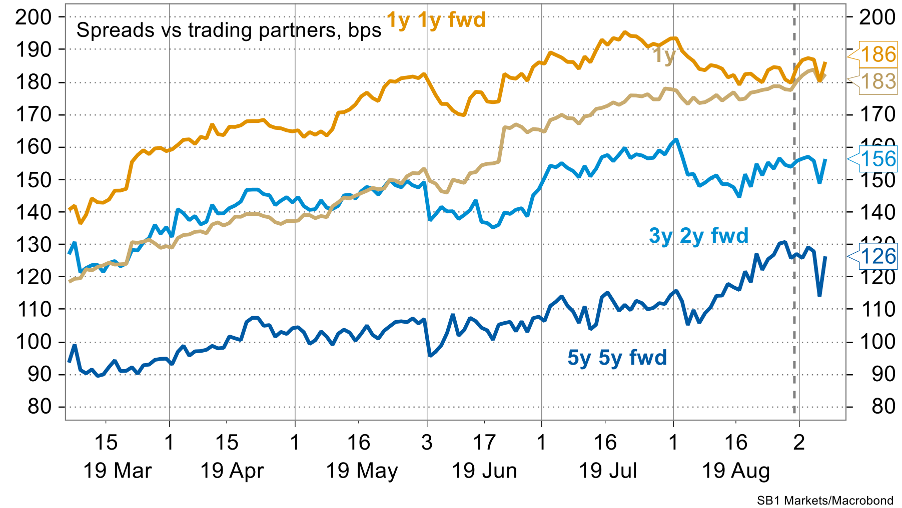
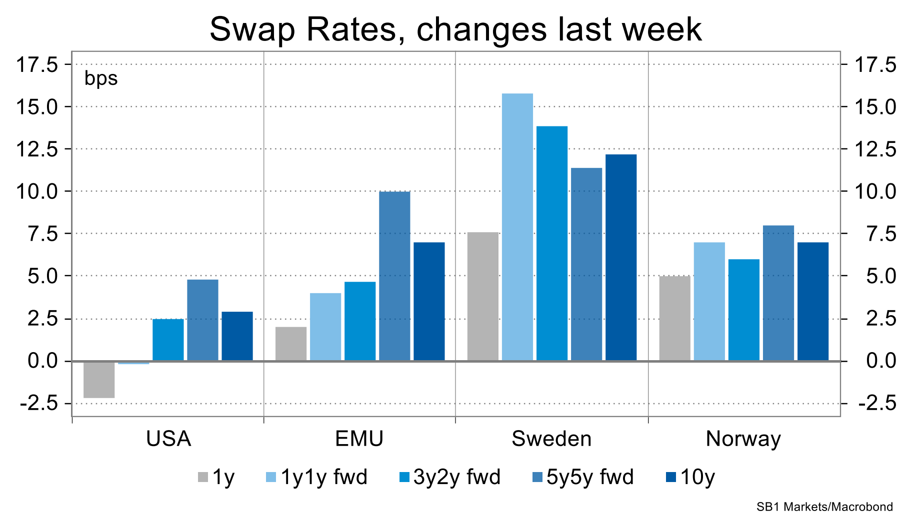
Spreads vs trading partners have peaked?

At least for maturities above 2 years? Well, to early to conclude but spreads have been too high!



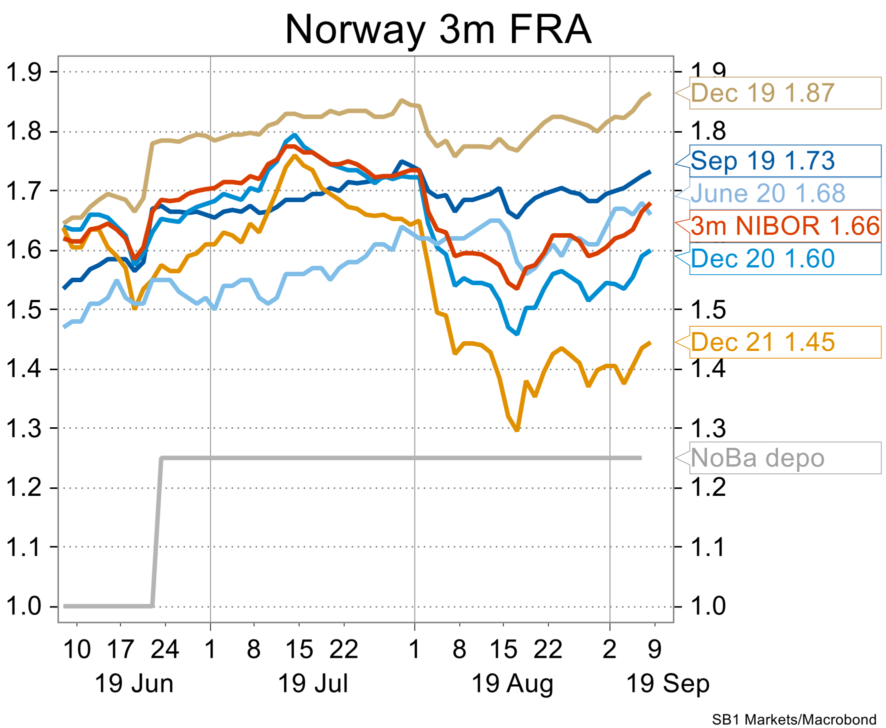


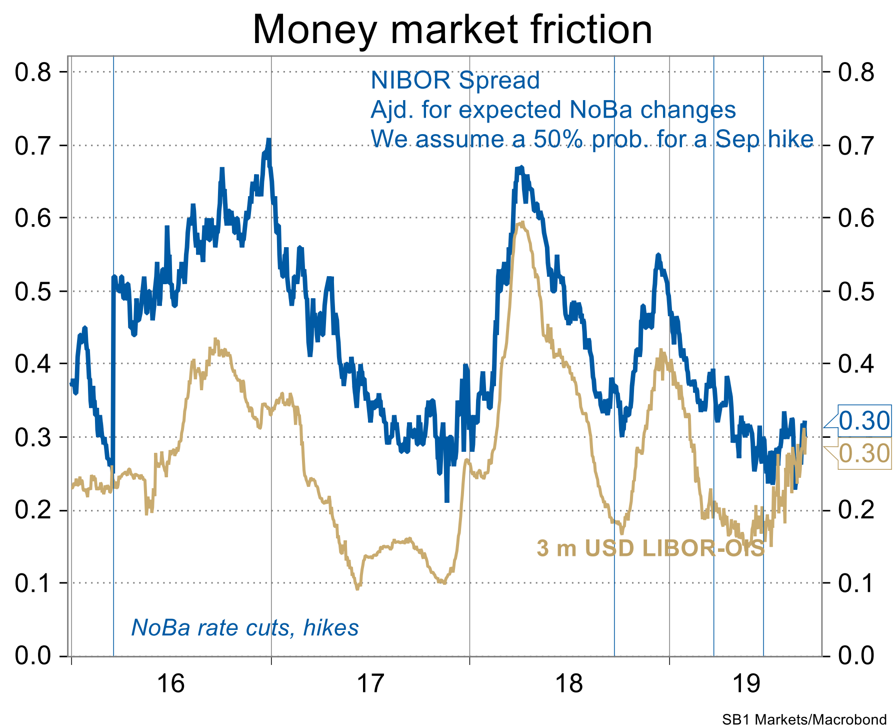


- Swap spreads between NOK rates and our trading partners narrowed in the short term through late July and the first half of August. Spreads have flattened out the past weeks (and came in late last week)
- While the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March. Last week, long term yields recovered much more among trading partners than here, reducing the spread. More to go, it must be ‘too’ high still?

FRAs edging up, more hike expectations or a higher NIBOR spread?

Most likely, the NIBOR spread has widened recently. Still, a substantial probability for a Sept hike





- We have been waiting for the difference between the 3m NIBOR, and the SEP 3m FRA contract to narrow as the differential has been far too high for three weeks (implying a very low NIBOR before Sept 18th and a high rate thereafter, more than a 100% probability for a NoBa Sept hike could explain). The 7 bps gap is elevated, they will converge by the 18th
- The Sept 3 m FRA rose 4 bps last week, implying a 50% probability of a NoBa hike in September if we assume a 35 bps NIBOR spread (from 30 in mid June). However, the US LIBOR - OIS spread has widened, and the NIBOR spread may now be higher.
  - » On the chart to the right we calculate the spread by using the 3 m NIBOR, which is probably several bps too low now, signalling a too low 'real' NIBOR spread
- The increase in the DEC 3 m FRA to 1.87% indicate a substantially higher spread too, the market can impossibly not take it for granted that NoBa will hike before Christmas (implying a 37 bps spread). A 75% probability for a 25 bps hike yields a 43 bps NIBOR spread, a 50% probability a 50 bps spread

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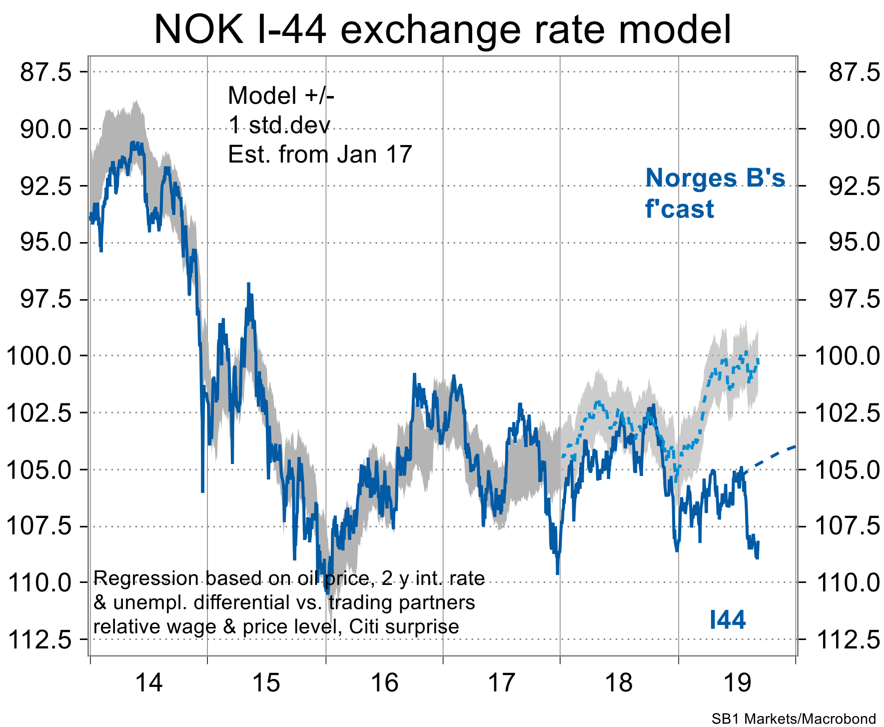
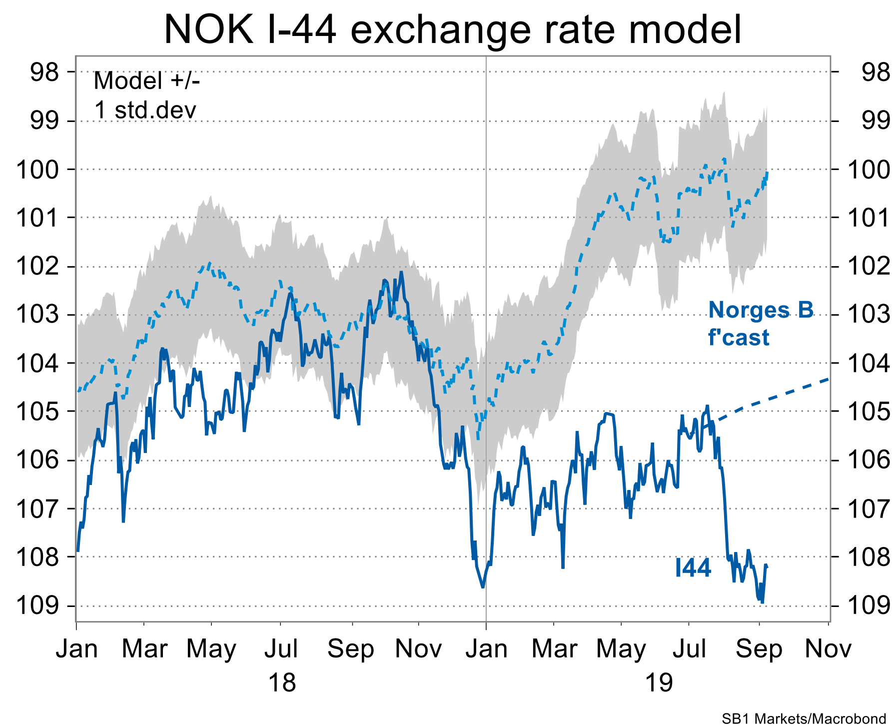
NOK recovered 0.6% last week, more than 0.3% indicated by our model

NOK is still unusually weak vs the model as vs ‘supercycles’ currencies too

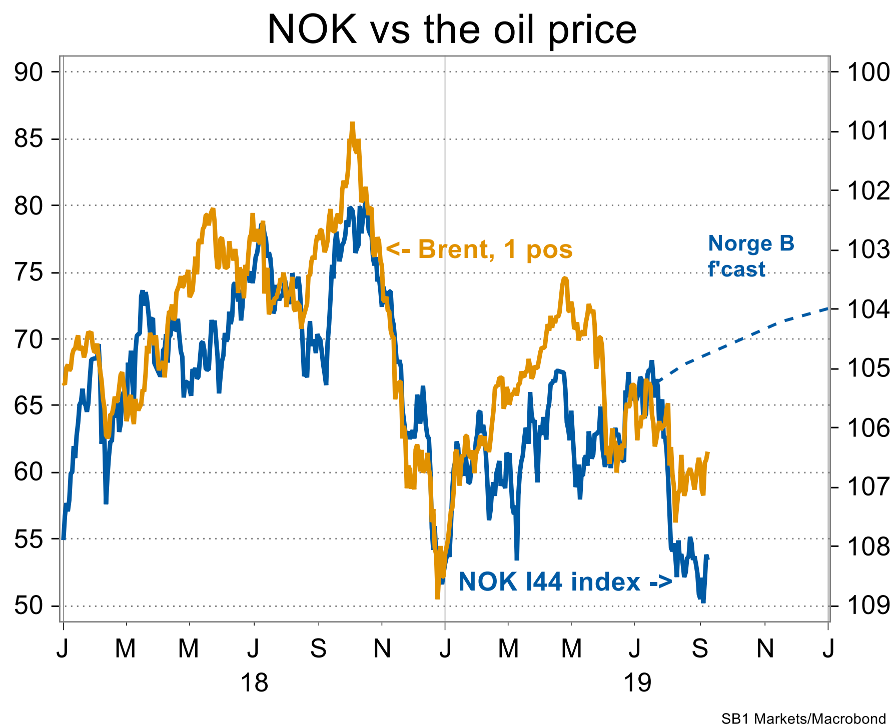


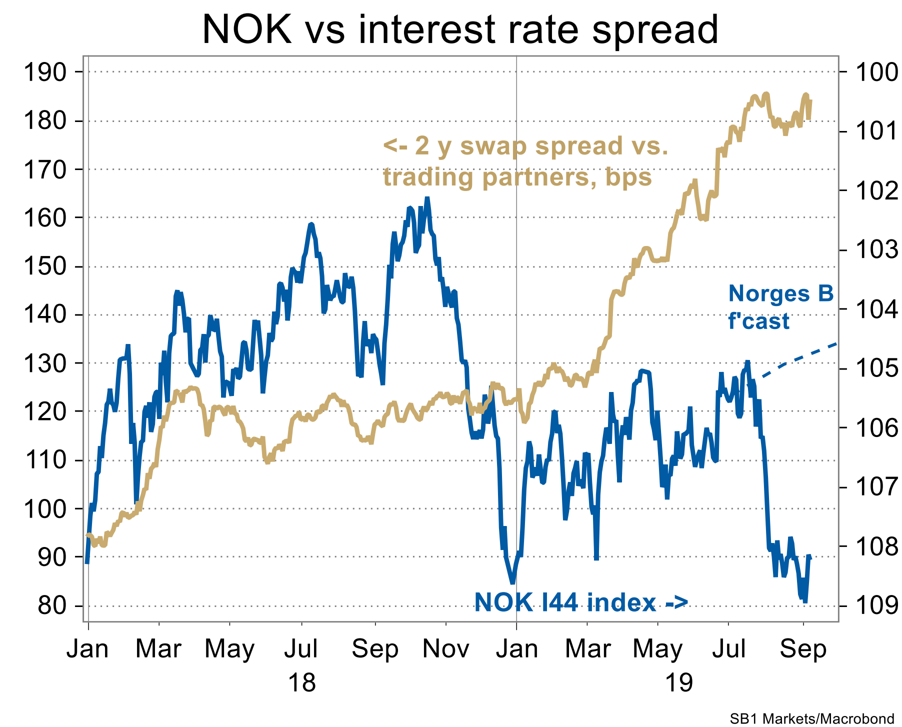


- NOK appreciated more than the oil price and interest rate spreads suggested last week, up 0.6% on the week. The gap to the model is still wide, at 8% (the gap was record high at 8.5% Monday)
- Even our super-cycle f/x model does not fully explained the NOK weakness since mid July. Last week, all supercycles appreciated, as trade tensions receded. The AUD and the SEK got extra help from their central banks (no RBA cut, the Riksbank said it expected to hike in Q4/Q1)
  - We have tested our models with global risk etc., without success
- Long term, we stick to our long term **buy NOK** recommendation

The NOK is weak vs. oil & the interest rate spread

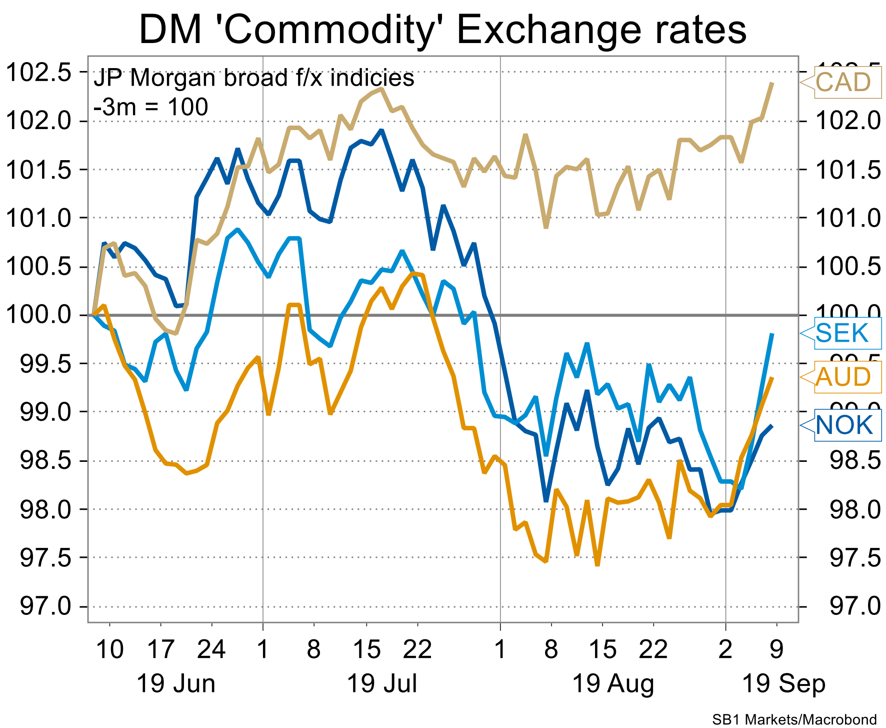
The oil price rose, NOK strengthened even as the interest rate spread vs trading partners came in

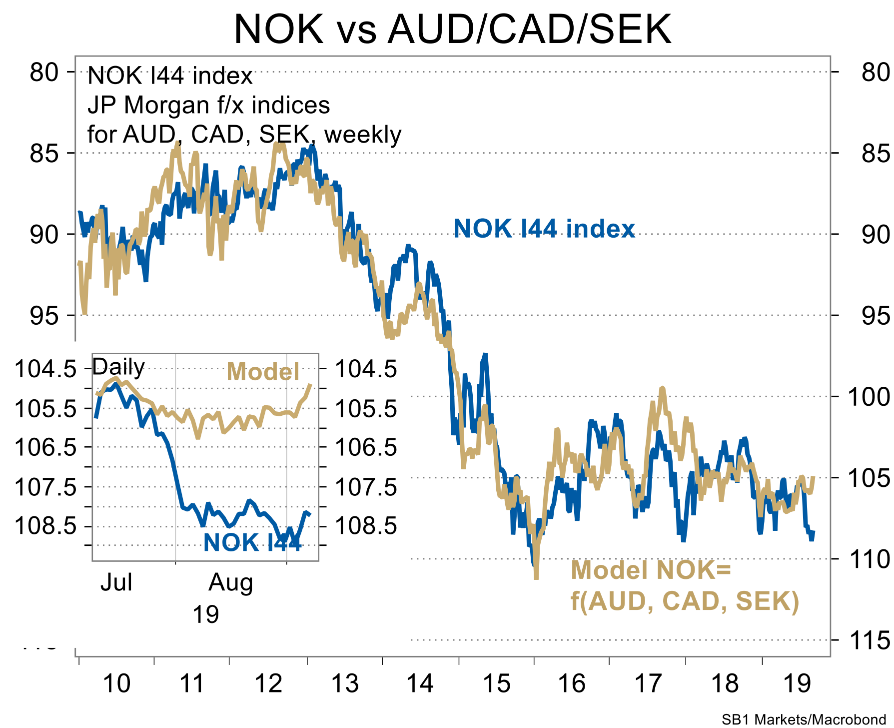




All ‘supercyclicals’ recovered last week, “trade talks in October”

The NOK is anyway still lower than ‘normal’ vs the other supercycles, or at least vs the CAD

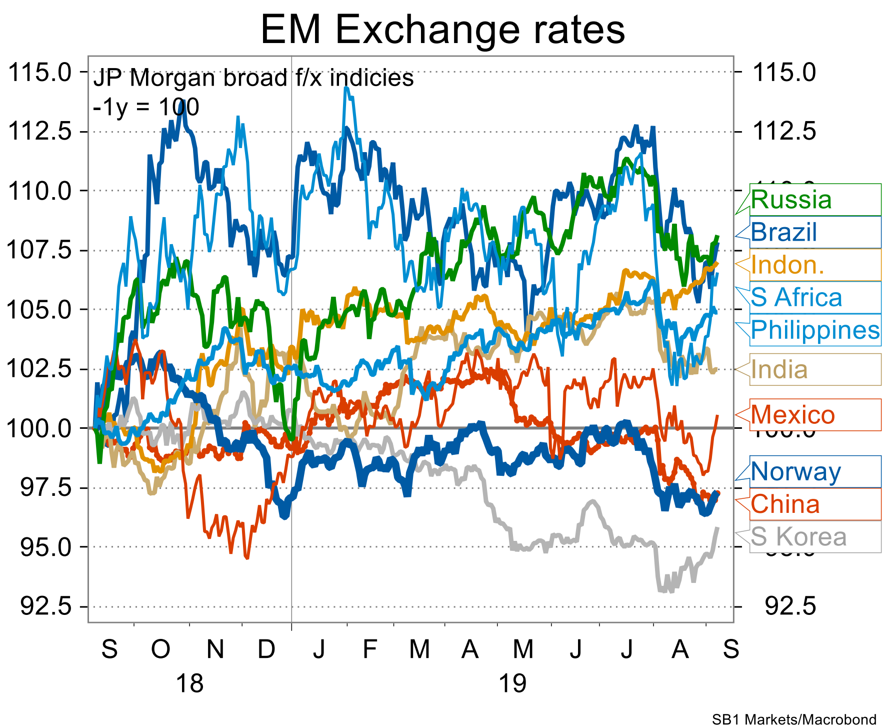


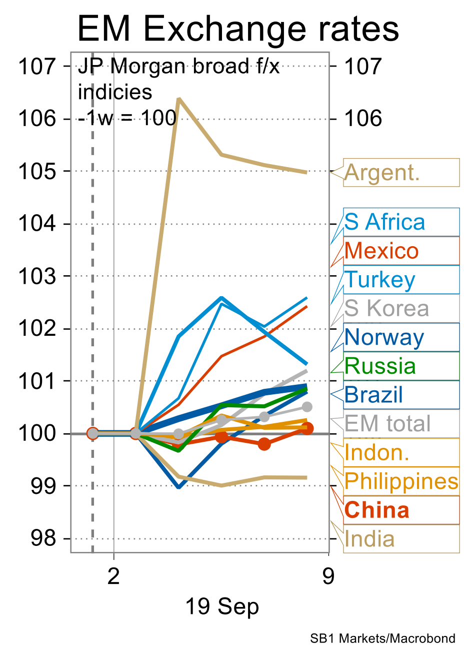


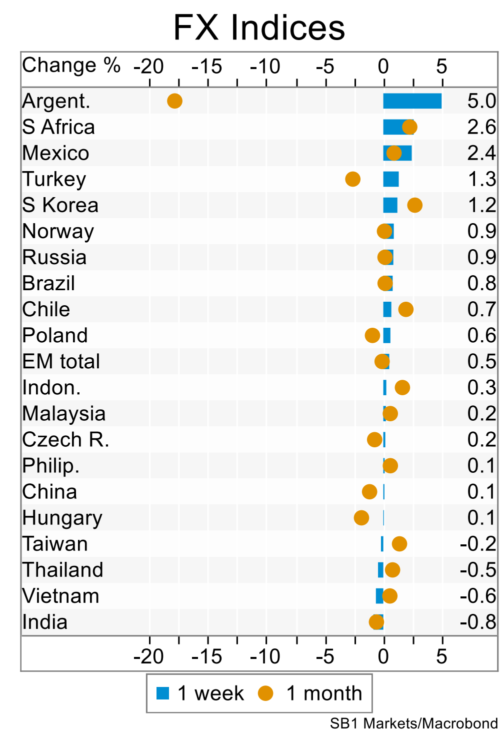
- Together, the other supercyclicals cannot ‘explain’ the recent NOK setback. The NOK has lost 3% vs. the supercycle f/x model estimate since mid July (when the NOK was at a fair value vs. our model). The discrepancy is not unusual but not something that happens that often either
  - » Our model is tilted towards the link between NOK and CAD, more than towards AUD or SEK (even if AUD works pretty good). Since July, the CAD has appreciated, while AUD & SEK has depreciated but less than the NOK.
  - » Last week, the Riksbank said it still expected to hike the repo rate in Q4/Q4. The RBA did not cut its signal rate either. Thus, both the AUD & SEK appreciated more than the NOK

EM f/x: US/China trade talks to resume, most EMs up

A broad upswing last week, just some few depreciated



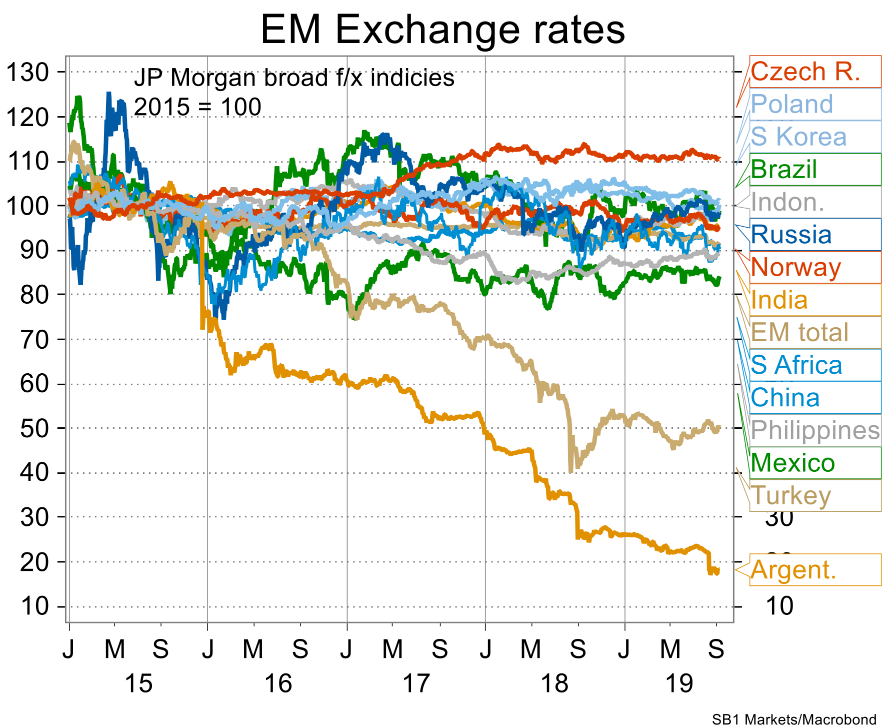


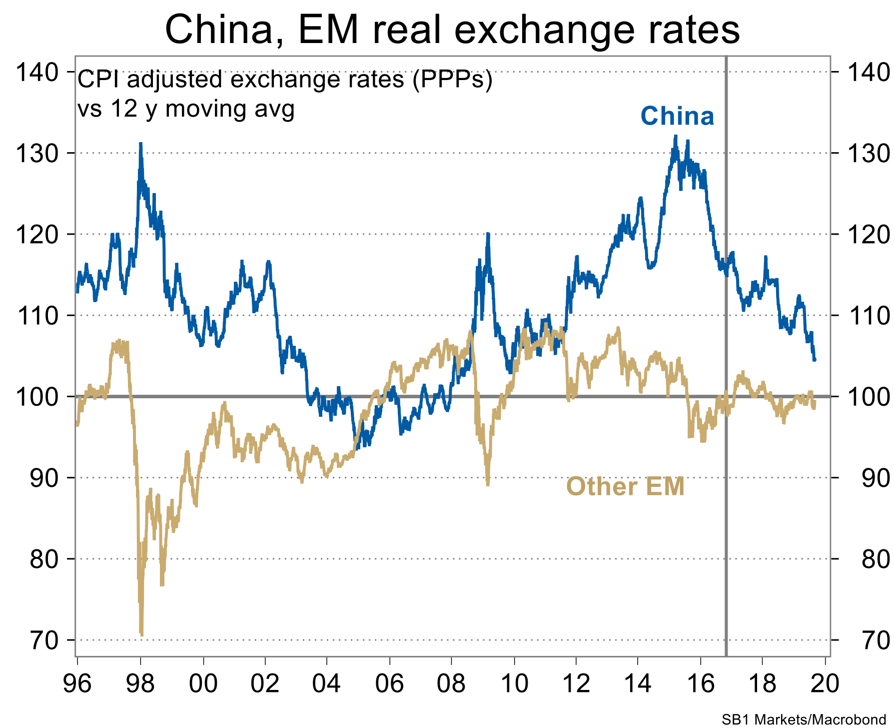


- Most EM currencies have appreciated the past 2 weeks after falling in early August. Because trade war and growth anxiety have been easing, of course
- Argentina struggles, but the peso recovered some of the recent losses last week, as the government imposed capital controls and proposed (another) debt re-scheduling plan

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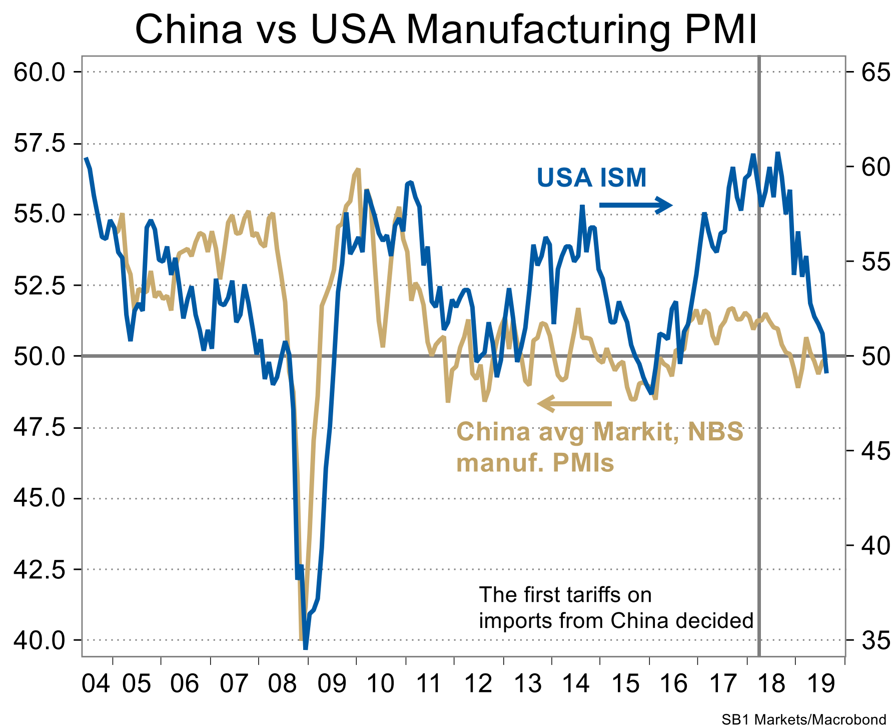
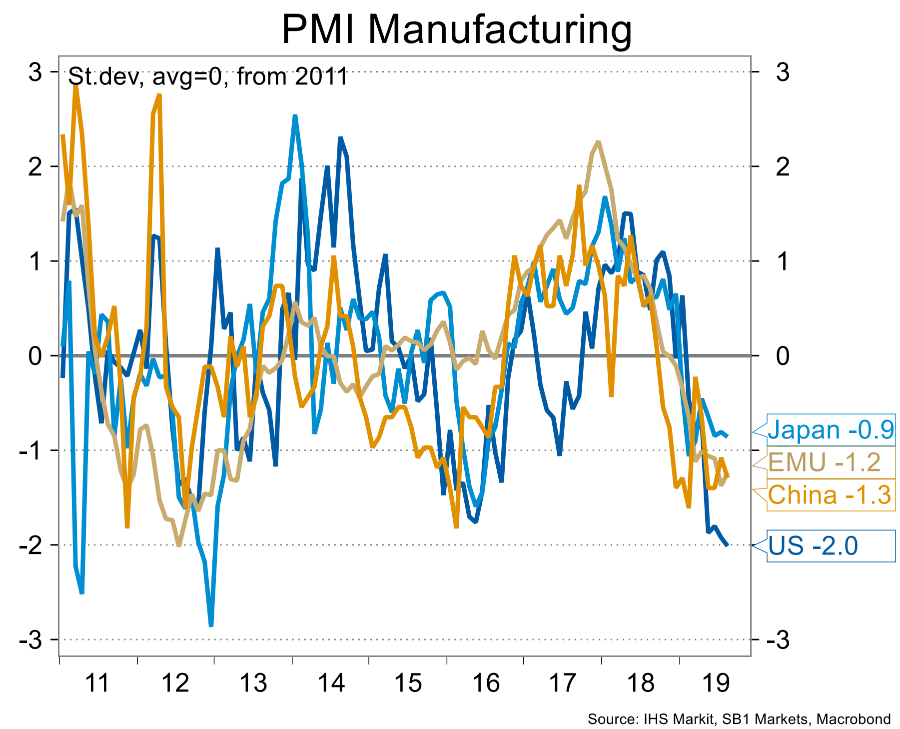
BTW, who has slowed the most, US or China?

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





- Don't forget: The manufacturing PMI/ISM in both US and China were weaker in 2015/16, as in 2012
  - » 2008/9 was much worse, but that's (hopefully) an irrelevant comparison
- The biggest decline in the manufacturing PMI has been in the EMU, however, compared to 'normal' deviations in the PMIs (since 2011), the sharpest downswing recent months has been in the US!