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Macro Research

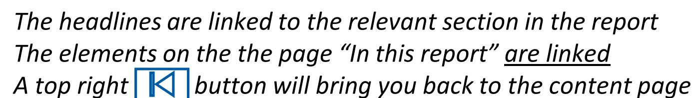
Weekly update 41/2019

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

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

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

- Highlights
- The world around us
- The Norwegian economy
- Market charts & comments



The headlines are linked to the relevant section in the report
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Last week – the main takes

- **Politics. Oh…** What a mess. But at least no trade war escalation, we think. China/US trade talks to resume in Washington this week
- **The global composite PMI** fell just 0.1 p in Sept, marginally less than we estimated. The PMI at 51.2 points to a GDP growth at 3%, like over the previous quarters, from 4% last year. The manufacturing PMI has stabilized (slightly up in both Aug & Sept) but is still signalling a contraction in manuf. production, while services ticked down. The Eurozone PMI was the major drag, both sectors fell steeply. The EMU decline was partly offset by a jump in China's manufacturing PMI (Markit, NBS also improved). Other EMs inched up too. The US PMIs steady, while **both ISMs fell sharply**, fuelling recession fears. The manuf. ISM fell to the weakest level since 2009, and signals some 70% recession risk. Both the Norwegian and Swedish manufacturing PMIs fell sharply, Norway seems just to be lagging its trading partners by approx. one year, on the way down
- **US auto sales** rose marginally in Sept, flat recent months. In the **Eurozone and in the UK**, sales fell steeply following the August spike, due to a new emission deadline on Sept 1. Before Aug/Sep, sales had more or less recovered from last year's emission turbulence. Still German auto production is down 20%! Sept global sales will decline substantially due to weaker European sales (China has not reported yet, no specific global estimate yet)
- **The US nonfarm payrolls** report confirms a tight labour market. Employment rose 126' in Sept, a tad weaker than expected but Aug was revised up. Employment growth is slowly cooling but not dramatically. Unemployment fell to 3.5%, the lowest in 50 years. Still, wage inflation was muted m/m in Sept and the annual rate surprisingly fell to 2.9%. **The trade deficit** widened marginally in Sept and has not been cut this year, as a reduced deficit vs China is offset by widening deficits vs most other trading partners
- **Eurozone unemployment** ticked down 0.1 p to 7.4% in August. Moreover, **retail sales** are still climbing, a sign of a resilient service sector? Still, **core CPI inflation** remains sluggish at 1%, as it has for 2 years
- **Norwegian house prices** rose slightly less than expected in Sept, up 0.2% m/m vs our f'cast at 0.4%. Prices are increasing in most cities, Stavanger (and Drammen most recently) are the exceptions. Oslo and nearby places in Bærum/Asker are accelerating. We stick to our view that prices will increase moderately going forward, as an elevated supply is still growing, and higher interest rates will dampen price inflation, even is demand is still solid. **Retail sales** are slowly turning up, but private consumption will most likely be a drag on GDP growth Q3

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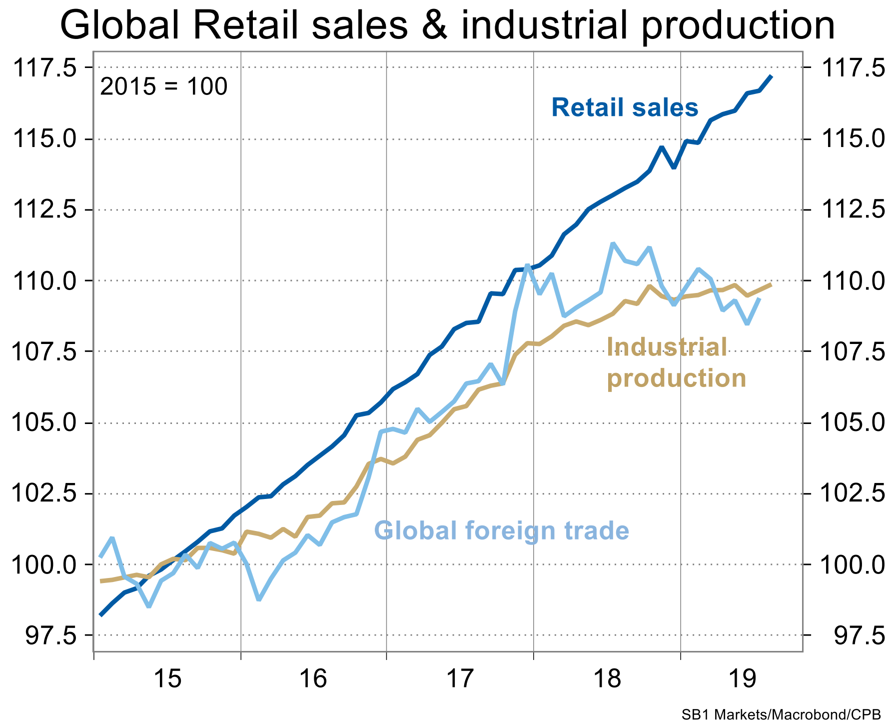
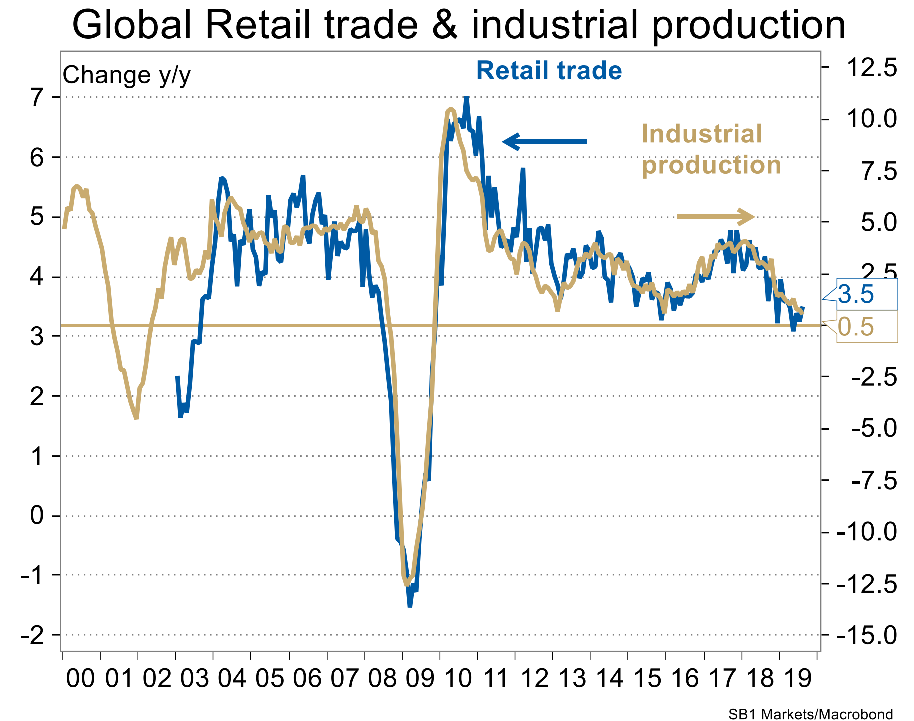
Retail sales, manufacturing production slows; global trade declines

Global trade flows rose in July but are no doubt heading down. Manufacturing production stalls





- **Global industrial production** most likely inched up some 0.2% m/m in Aug (our prelim estimate). The overall trend is no better than just marginally upwards, growth has slowed substantially. Global business surveys signal a modest decline
- **Retail sales** increased by 0.5% m/m in August, based on our estimate. Growth has come down, more or less in tandem with manufacturing production (given the normal correlation between the two, retail sales are less volatile than retail sales). Even so, consumption is still supporting the global economy
- **Global foreign trade** increased by 0.8% m/m in July (with our seasonal adjustment) but the decline in June was more abrupt than previously reported, down 0.8% m/m vs 0.5%. Trade flows are trending down, at a 2% pace since last summer, as trade uncertainties curb demand. The slowdown is rather broad based, Emerging Asia ex China and Lat. Am and Africa are the weakest links in the chain

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Global PMI has stabilised; down 0.1 p in September, still at the April/May level

Composite PMI fell marginally to 51.2, we f'casted -0.2 p. Signals stable global GDP growth at 3 %

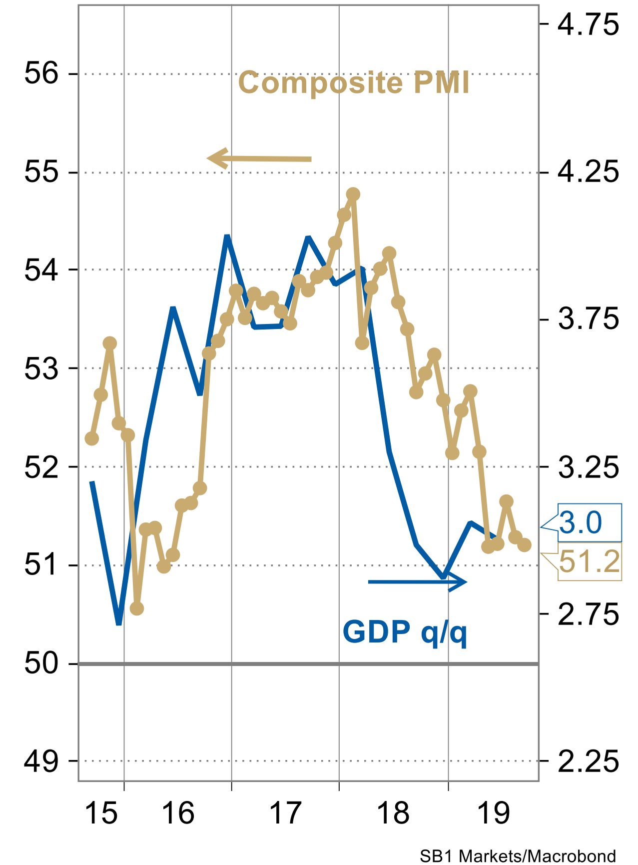
Global PMI vs growth

GDP q/q

Composite PMI

51.2

SB1 Markets/Macrobond



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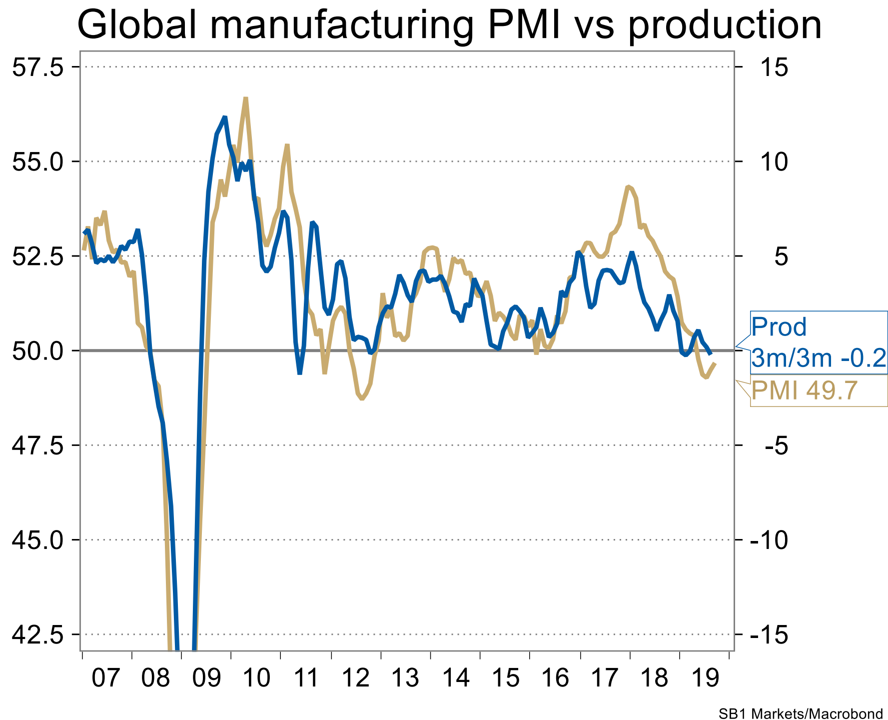
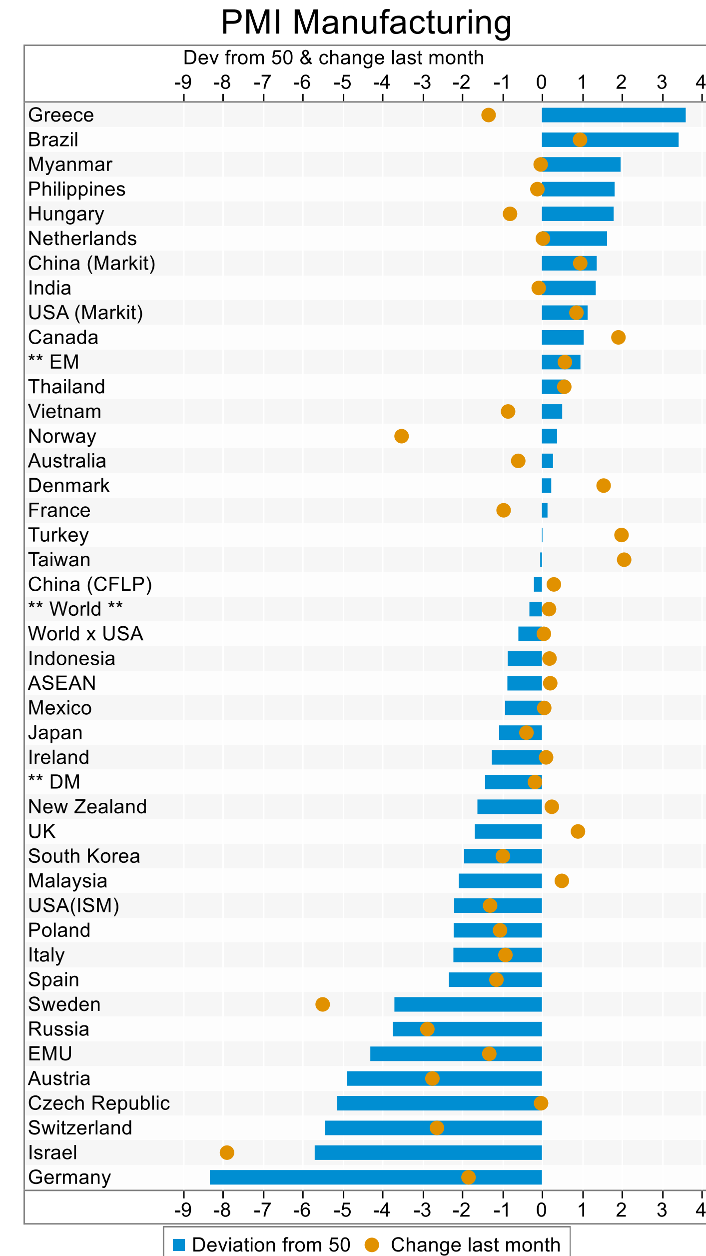
Manufacturing PMI slightly up, a stabilization?

PMI ticked up 0.2 p in Sept, DM a tad down, EM up 0.6





- PMI rose 0.2 p in September, we expected an unchanged PMI (based on the preliminary results from EMU/JP/US/China). The modest upswing comes after a similar increase in August, may be a signs of stabilization, after 15 consecutive months of decline. The index at 49.7 nevertheless signals a modest contraction in global manuf. production
  - » 17 (20 in July) countries/region PMIs rose in September and 22 declined (from 20)
  - » 25 of 43 countries/regions are below the 50 line. Germany at the bottom
  - » Developed Markets fell 0.2 p in average, Emerging Markets up 0.6 p

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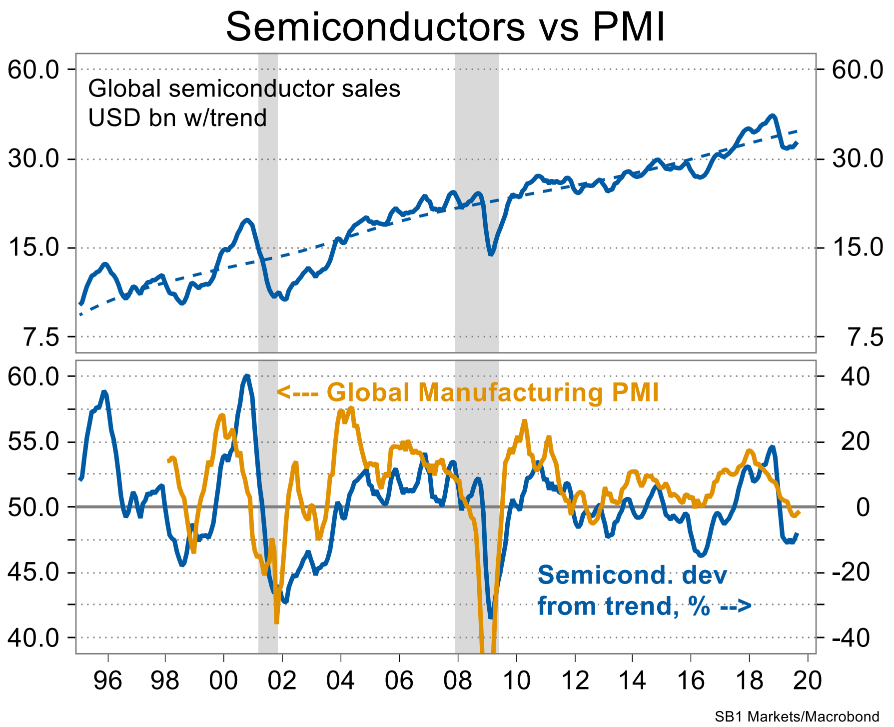
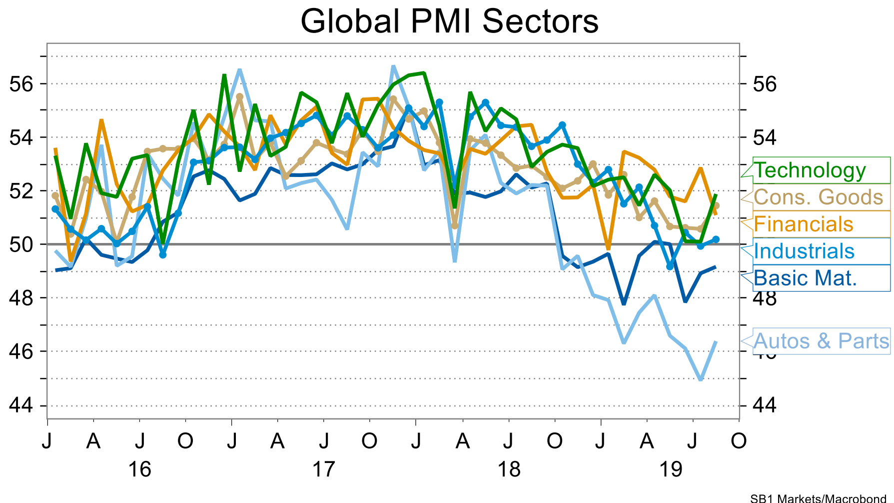
Both semiconductor bricks and the PMI have found a bottom?

Global semiconductor sales have <u>increased</u> marginally since April, and the PMI has stabilised too



- In average, the global manufacturing PMI leads semi sales by 4 months but the correlation is far from perfect and semiconductor demand is anyway an important signal for activity in the tech sector
- We do not yet have the PMIs for the various economic sectors for September, but the tech component rose sharply in August. Autos rose too, but remains extremely low



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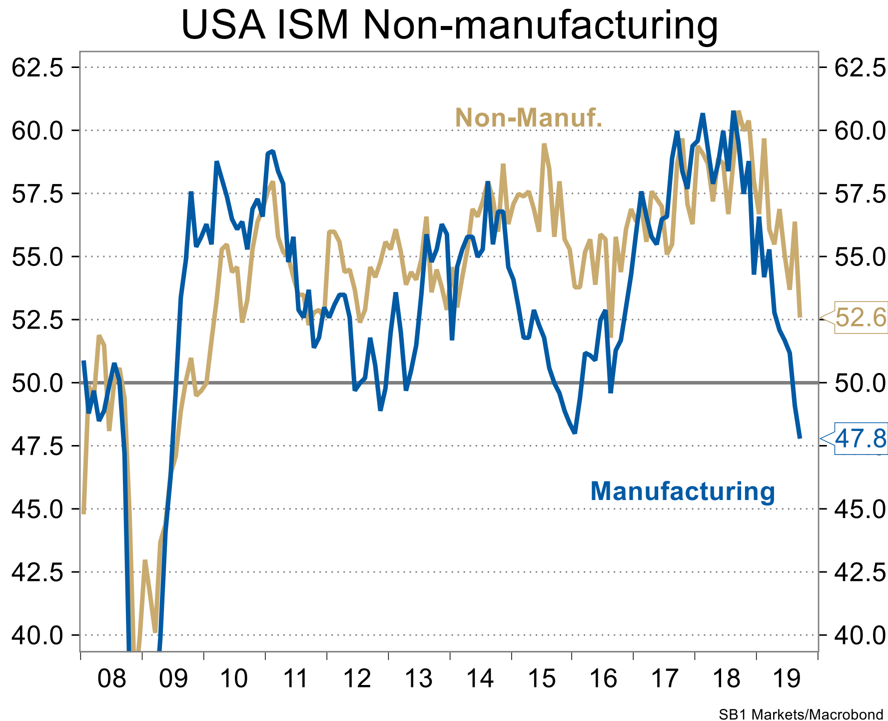
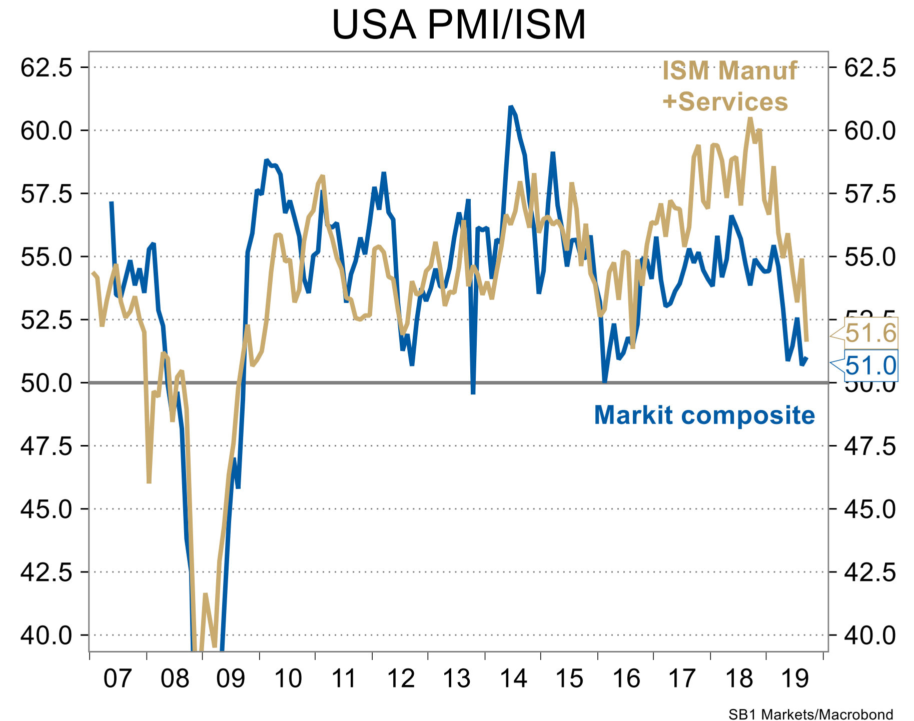
When pessimISM takes over

Manuf. ISM dropped 1.3 p, 'services' down 3.8 p, as the manufacturing weakness spreads?





- Both ISM indices came in far below expectations in Sept. Manufacturing businesses in the ISM survey are noting the worst downturn since 2009. Non-manufacturing businesses are still reporting growth, however, at a substantially slower pace, adding to signs that the manufacturing weakness is bleeding over to other sectors
- Markit's PMI, which has been somewhat less volatile than the ISM the past years, noted a marginal upswing in Sept. Still, the survey has been heading steeply down and is no doubt reflecting a rapid slowdown. The avg of the 'composite' ISM and PMI is now pointing to a stagnating US economy

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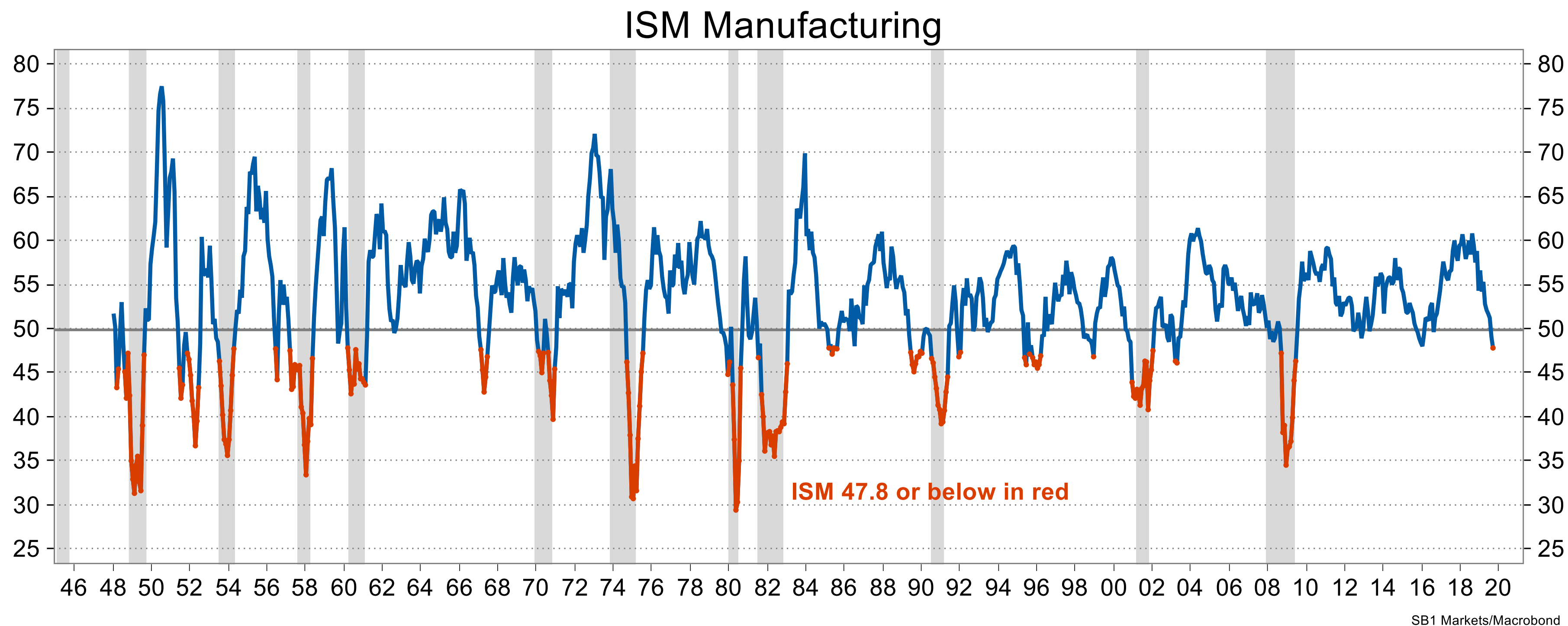
Manufacturing ISM plunged once again, weakest since 2009

At present level, 70% recession risk, based on (a manufacturing heavy) history



- Manuf. ISM fell to 47.8 in September, a 1.3 p decline. A soft recovery, to around 50 was expected after the steep drop in August. The ISM is now at the lowest level since the Financial Crisis. The speed down is highly worrisome, even though other surveys are not as downbeat as the ISM
  - In the ISM survey, just 3 out of 18 sectors reported growth and 15 sectors reported a contraction, the weakest mix since 2009
- Businesses report contracting new order but no deterioration from the August survey. However, export orders plunged to 41.0, also the lowest since the FC. An evident sign that trade war uncertainties are now hampering demand, although domestic orders are not shining, either
- The manufacturing ISM has fallen to 47.8 p (or below) 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions (double dips), and 6 times without any outright recession. Thus, the odds are not that attractive anymore. In addition, growth has slowed substantially every time the ISM fell down to the present level

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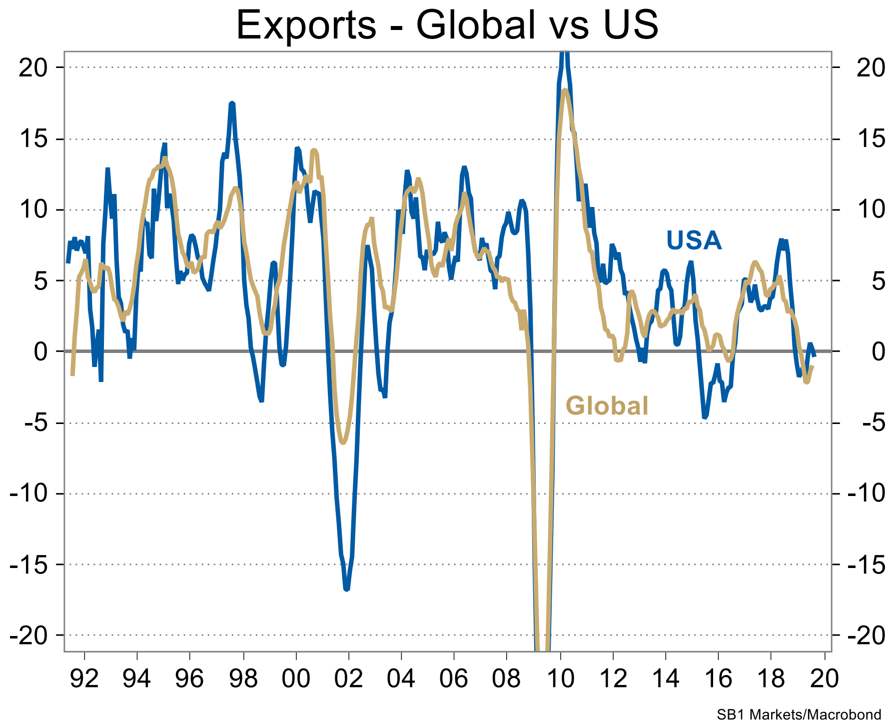
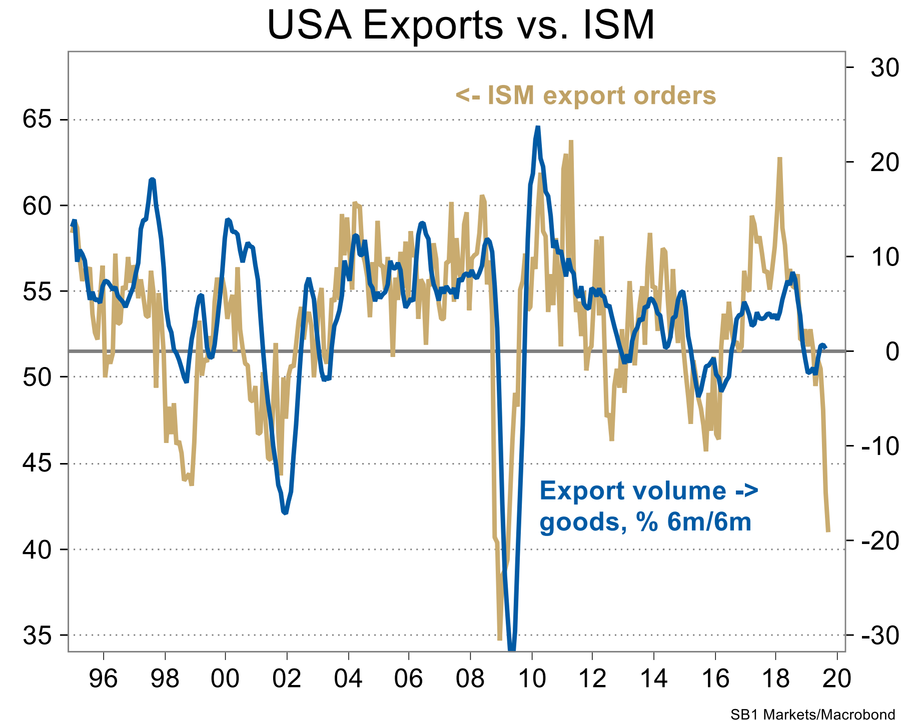
Export outlook not the best anymore… (And it's not the dollar, stupid…)

The ISM export order index signals a sharp decline in US exports. But if that's correct…





- … some other things will probably have gone sour as well
- US exports are closely correlated to global exports, it's just a tad more volatile (and a little slower growth rates over time). The slowdown in US exports now, mirrors the global export setback (as normal)
  - » The strong USD has some impact on exports, but less than 1% now - and a miniscule impact on GDP growth
- The ISM export order index is more closely correlated to actual export than Markit's export order index (which rose a tad in Sept)

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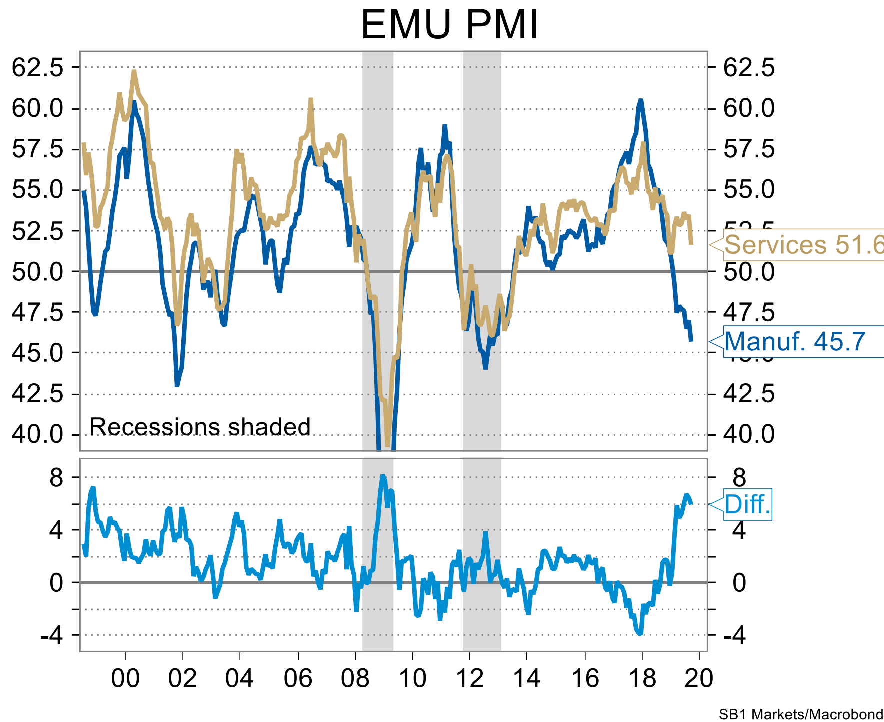
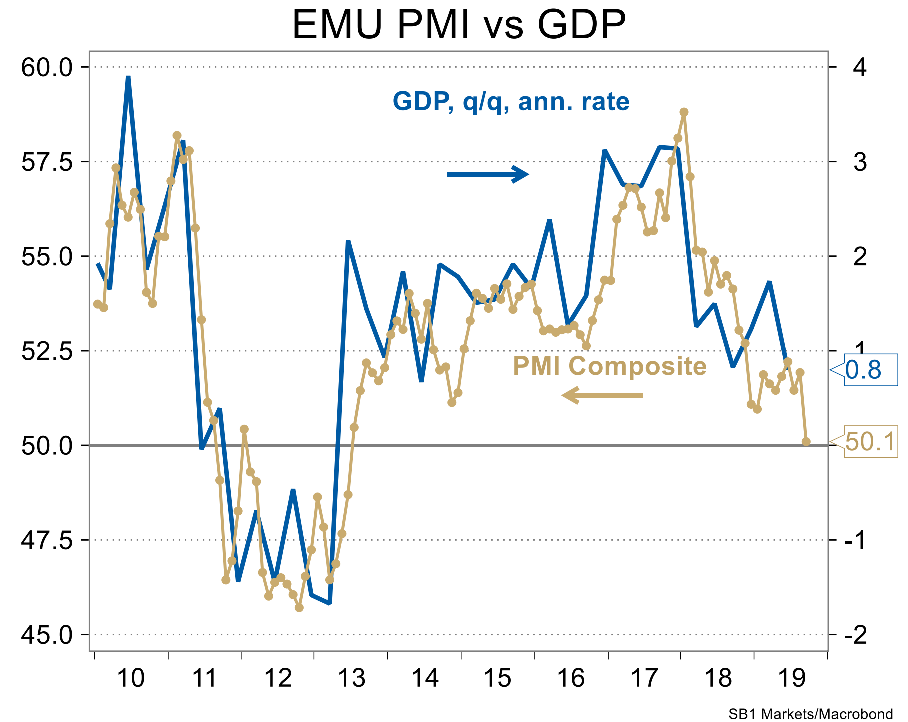
Eurozone PMI plunged in Sept, even weaker than the preliminary figure

Composite PMI slipped 1.8 p, 0.3 p lower than the first est. PMI points to stagnating GDP





- **The final composite index** came in at 50.1 in September, 0.3 p weaker than the preliminary figure, indicates that activity may have weakened throughout the month. The PMI at 50.1 is the lowest since the 2012 euro crisis and points to a stalling GDP
  - Manufacturing PMI dropped to disturbingly low 45.7 (revised up 0.1 p), while services fell to 51.6, 0.4 p below the first estimate. The downturn in the service sector may indicate that the manufacturing contraction is now spreading to the broader economy
- **Any hope?** Households are still optimistic and consumption is not weak, while net exports and business investments have slowed. Unemployment is still declining, wage inflation is slowly accelerating, and credit growth is rising, although there is no boom. The slowdown is most likely triggered by uncertainties stemming from trade war, Brexit. The auto sector trouble is no doubt fuelling the downturn too. <u>However, German domestic orders are tumbling, there must be a domestic problem too</u>

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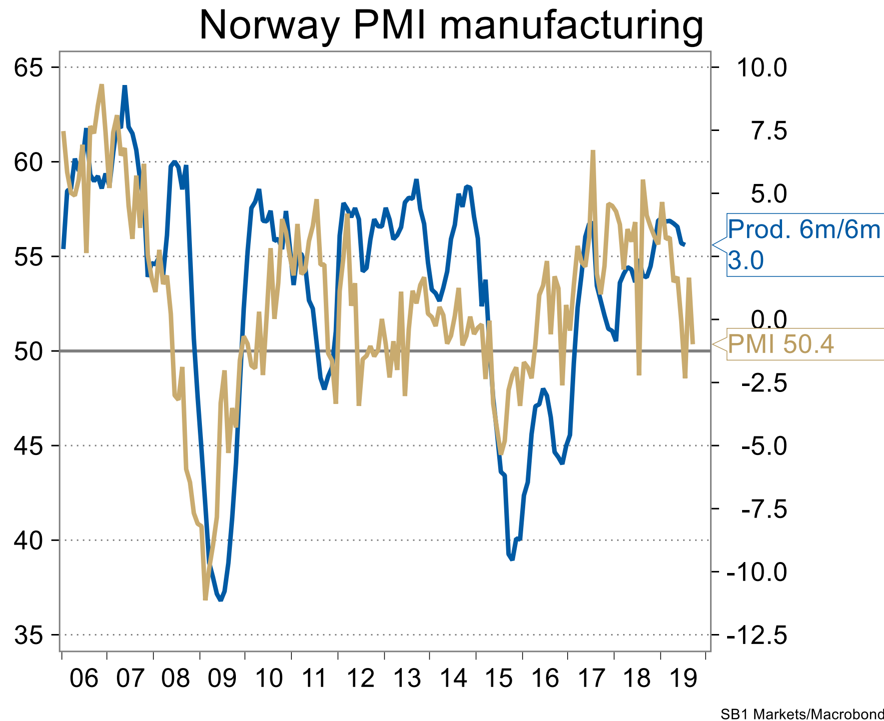
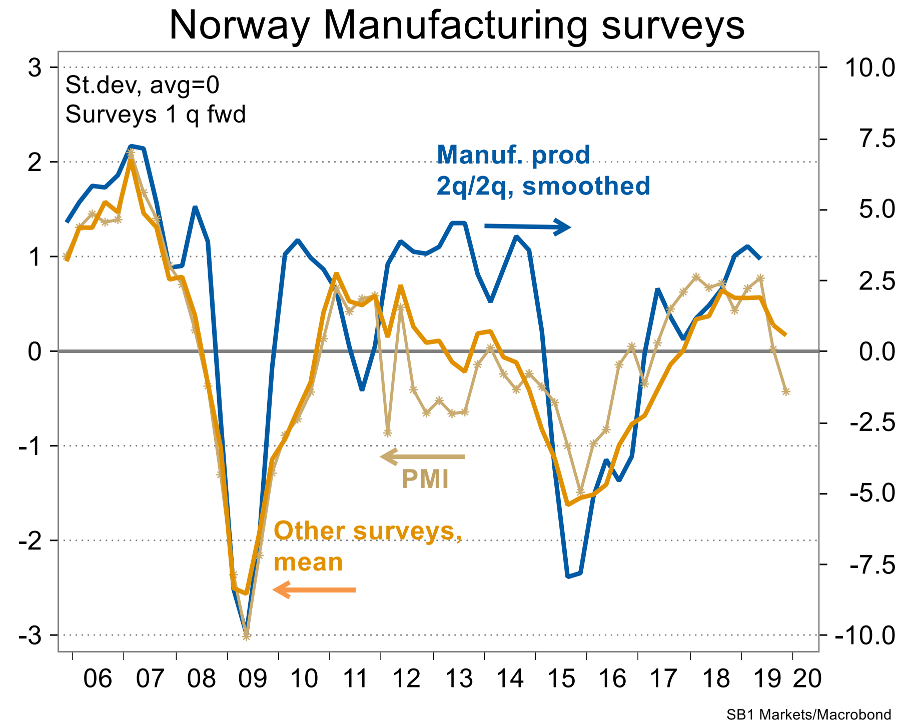
Manufacturing PMI slides down, more downbeat than other surveys

PMI fell back down, to 50.4 in Sept, after an uptick. PMI still signals softer growth in production





- The PMI dropped 3.5 p in September, following a spike in August. The Norwegian PMI is far too volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 51.0%, pointing to a rapid slowdown in manufacturing production
  - Actual manufacturing production has been soaring recent months, boosted by oil related sectors. Significant downside risk!
- The PMI is weaker than other Norwegian business surveys – and probably less accurate than the others. The Regional Network is still reporting strong growth in manufacturing, yet the avg of manufacturing surveys is no doubt pointing to a slowdown in production, to 1.5-2% annual growth vs 3% in Q2

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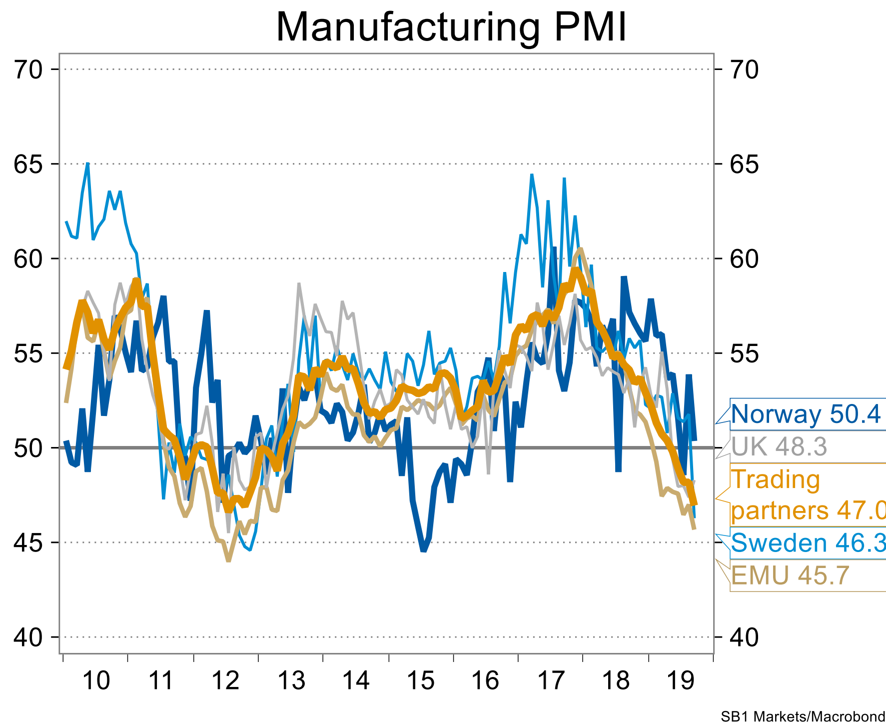
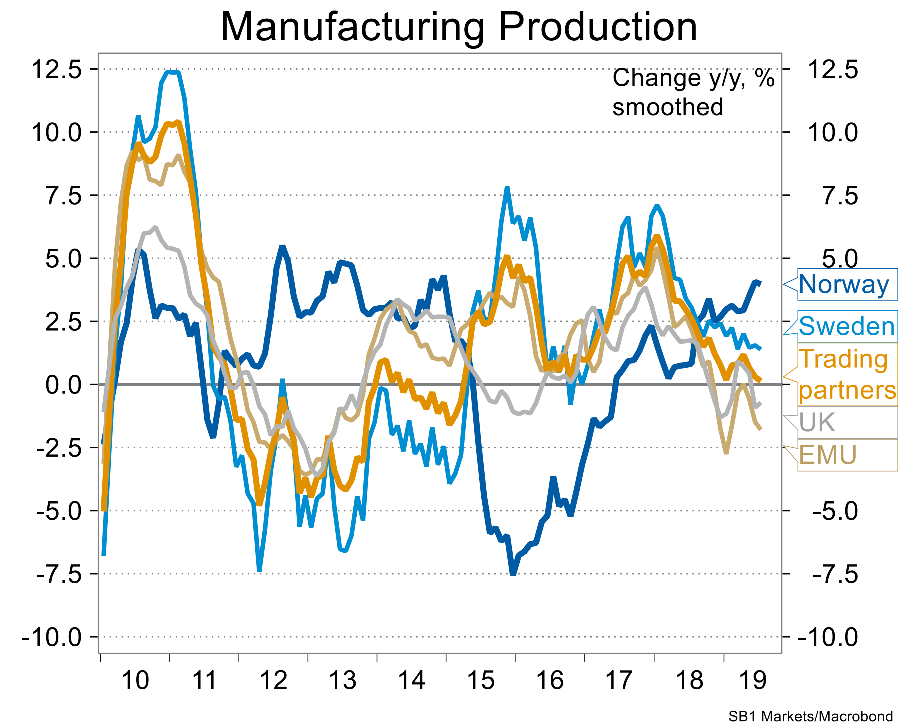
Norway not that resilient after all?

Manufacturing is holding up much better in Norway, fueled by oil related sectors. For how long??





- Well, the Norwegian PMI is still less downbeat than among our trading partners, but the speed of decline is similar to what we have seen among our trading partners – we are just lagging close to one year. Other
- The boost from oil & gas investments will most likely subside sharply into next year – and we expect growth in production to slow substantially into 2020

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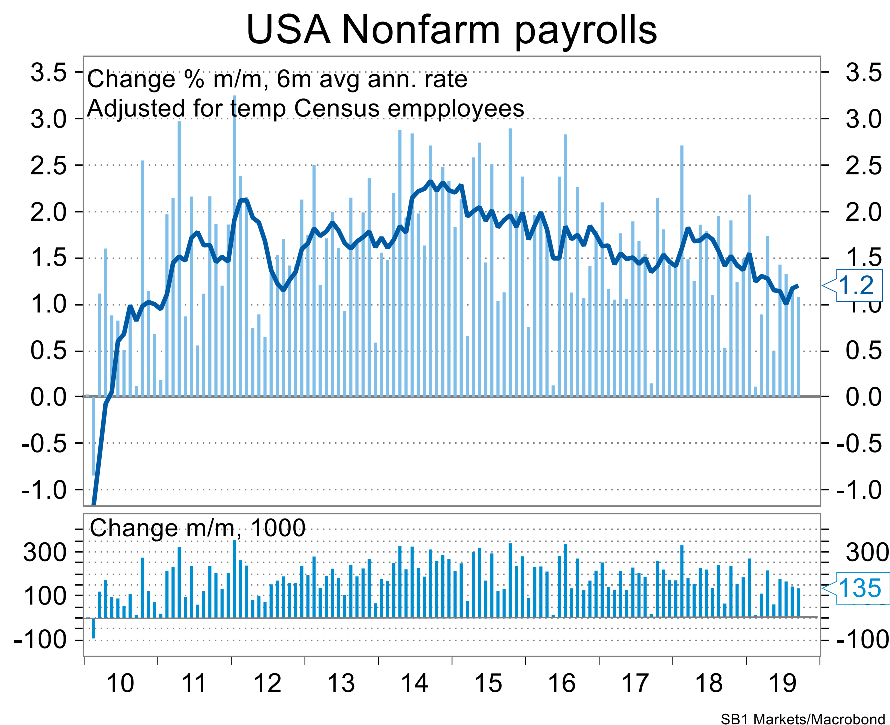
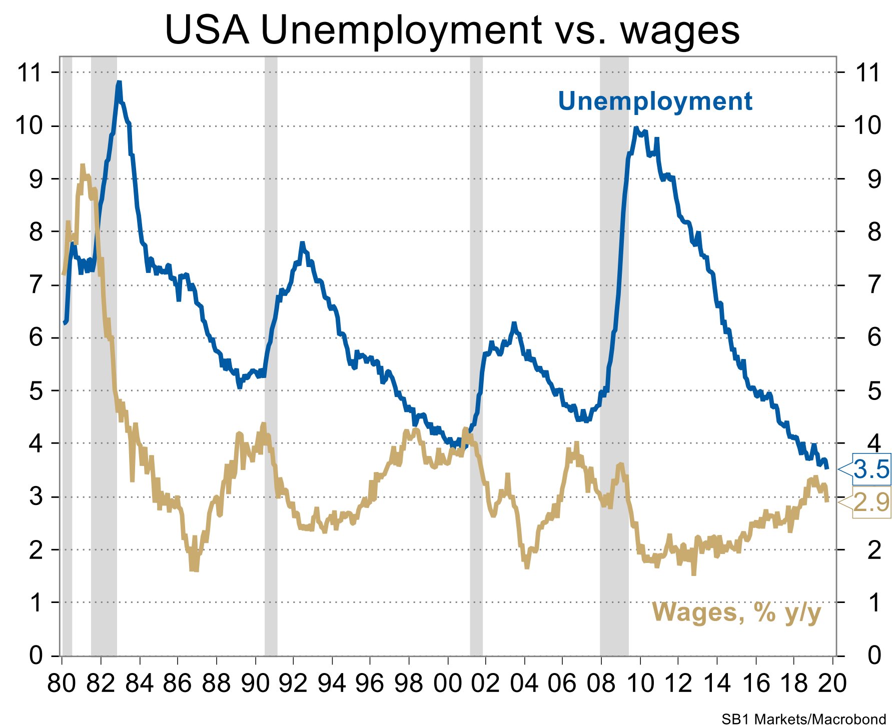
September nonfarm payrolls report confirms a tight labour market

Employment more up than expected (rev. included). Unempl. fell to 3.5%, but wage growth eased!





- **Employment** rose by 136' in September, 9' lower than expected, but July/August was revised up by 45'. The 6m m/m avg is sliding steadily down, in September it inched up to 1.2%. Growth is no doubt slowing, probably mostly due to lack of available labour, yet the slowdown has not accelerated recent months, and unemployment is still falling
- **The unemployment rate** fell to 3.5%, down 0.2 pp, the lowest in 50 years as the **participation rate** was unchanged at 63.2%, while the **employment** rate ticked further up. The participation rate is close to flat, even if demand for labour is strong. The labour market is very tight, and businesses are reporting record high difficulties finding labour and households are reporting that jobs are unusually easy to gett
- **Wages** were flat m/m and the annual rate dropped to 2.9%, down 0.3 pp, expected unchanged – and the annual rate is heading down
- Overall, these data still confirm a tight labour market, not an argument for cutting interest rates! Still, the market expects another cut on Oct 30

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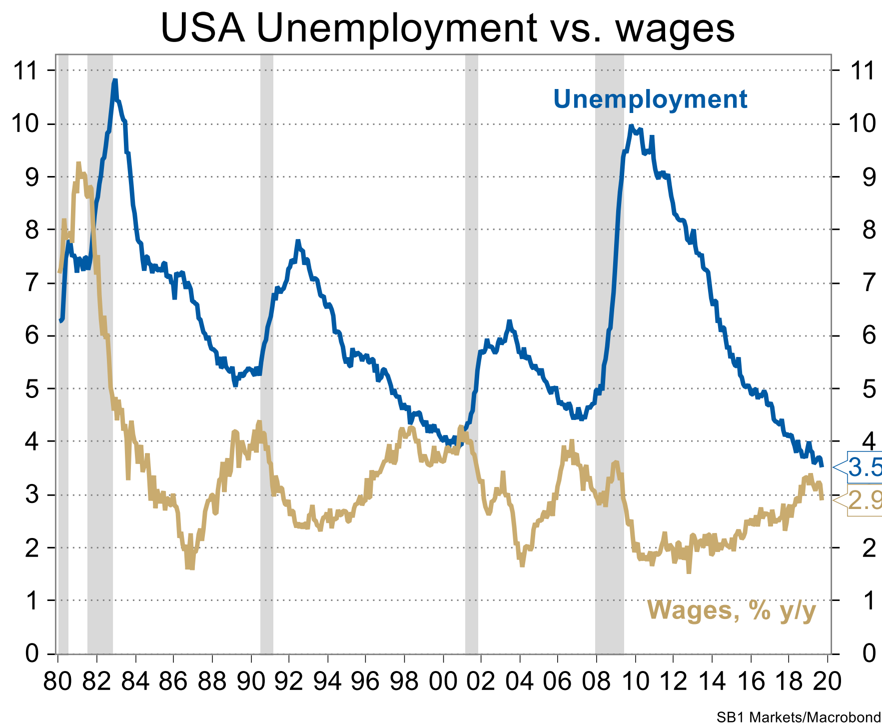
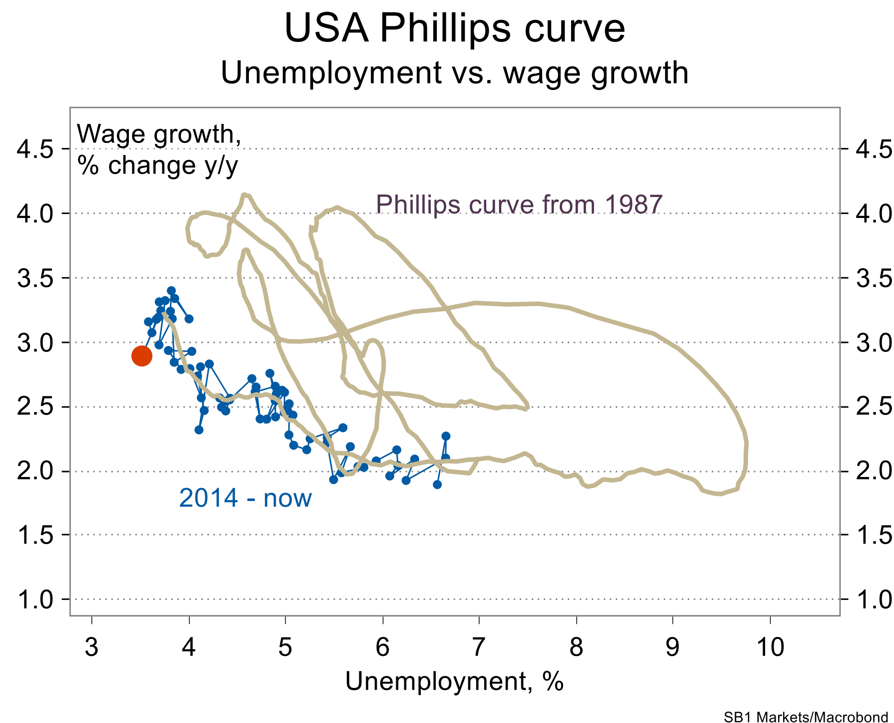
Wage inflation still lower than 'usual' vs. the unemployment rate

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





- However, we would not have guessed a wage growth at 2.9% y/y if we were told 6 m ago that the unemployment rate should decline to 3.5%!
- 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

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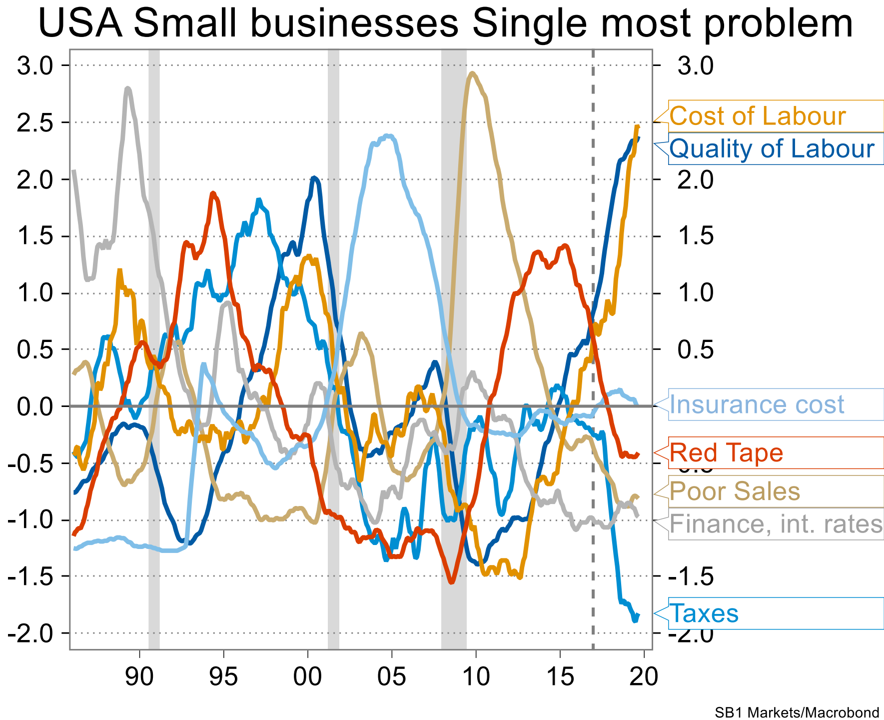
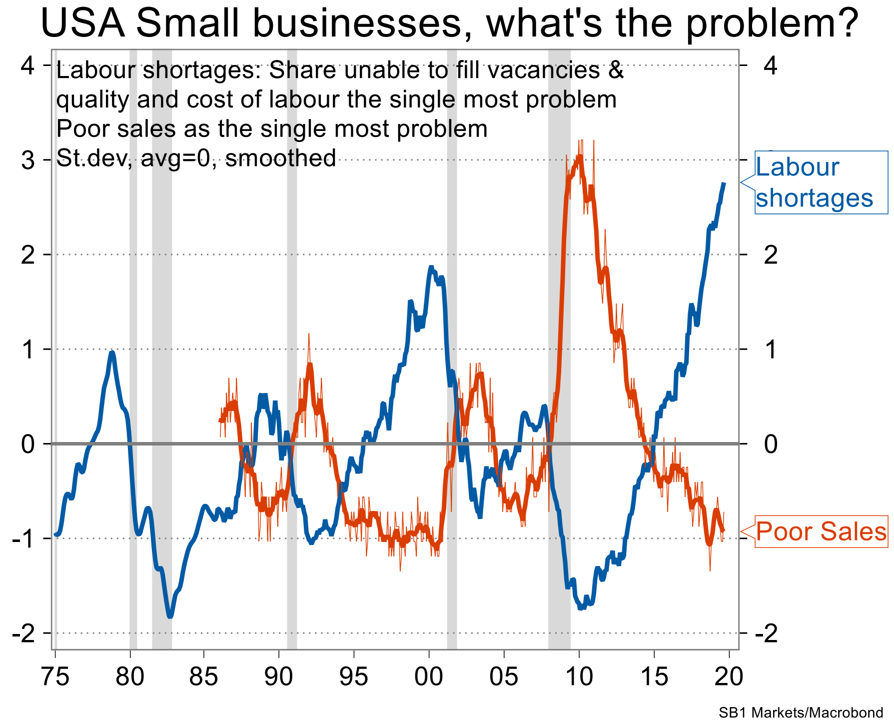
What's the problem?

Availability of labour & cost. Not sales, not interest rates, not taxes. Says the SMEs





- BTW, households are reporting that it is unusually easy to find a job. Confirms our view that the labour market is still very tight

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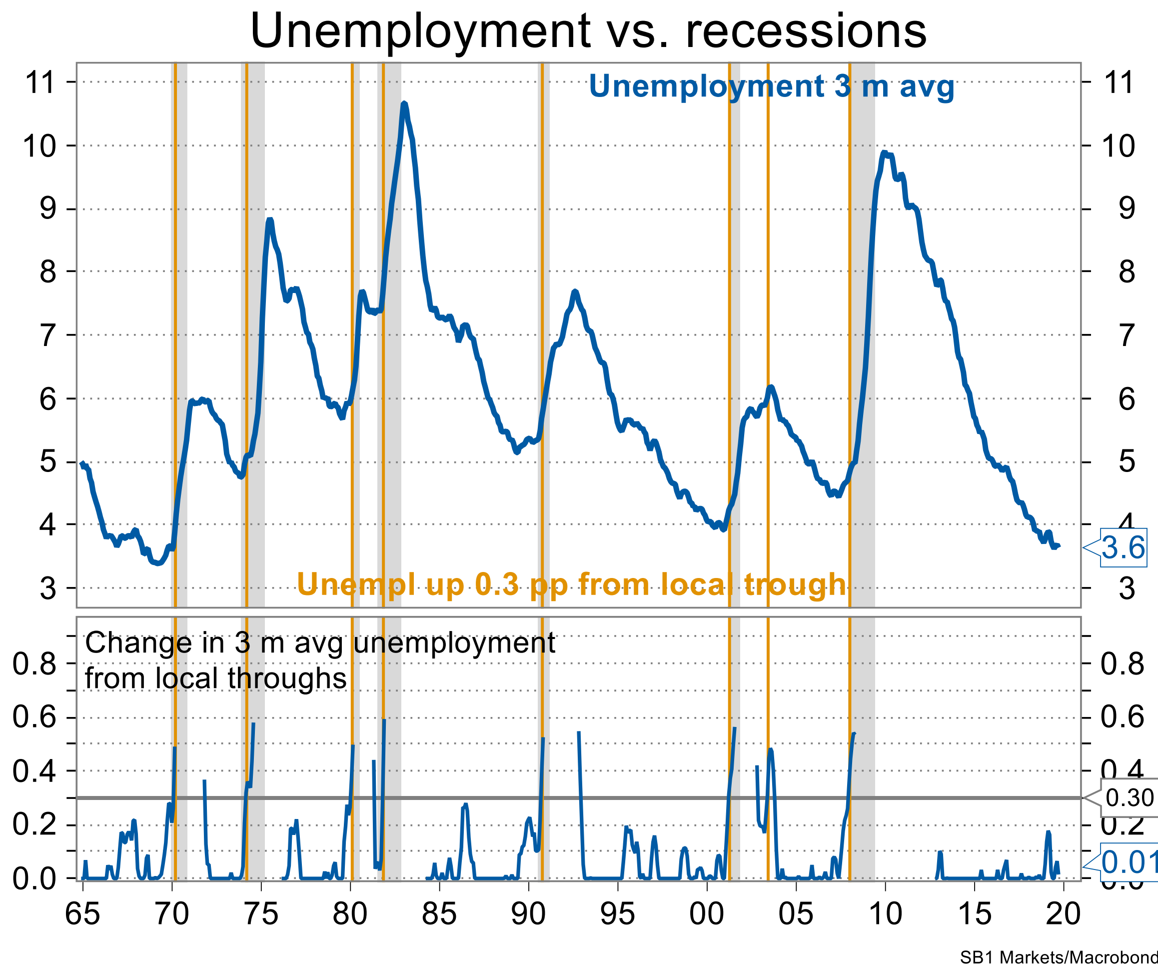
Unemployment not up yet, no recession now?

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, because it happens 'too late' – because unemployment is not a leading indicator
  - » 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

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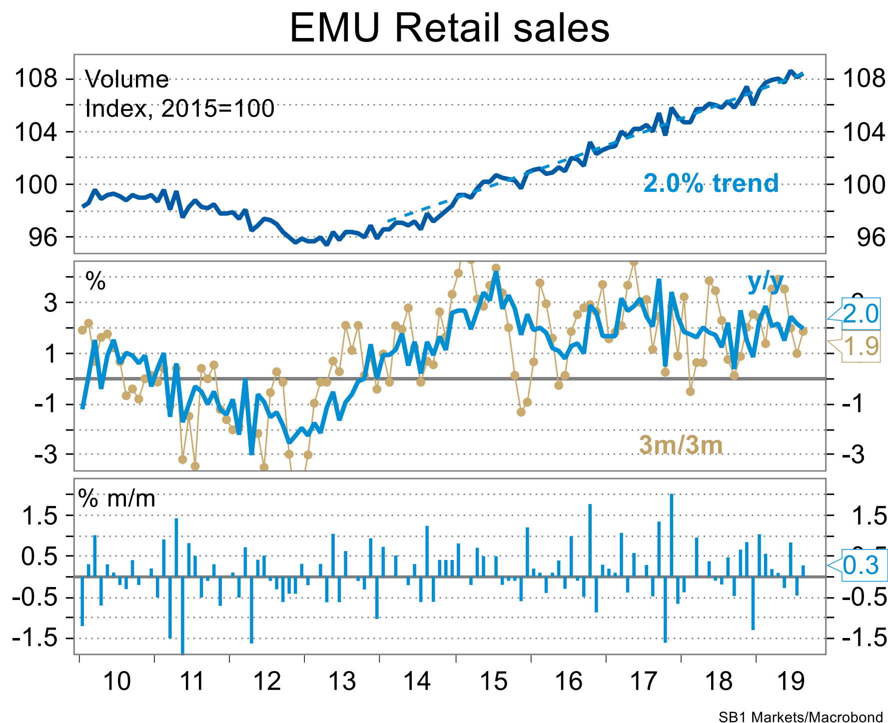
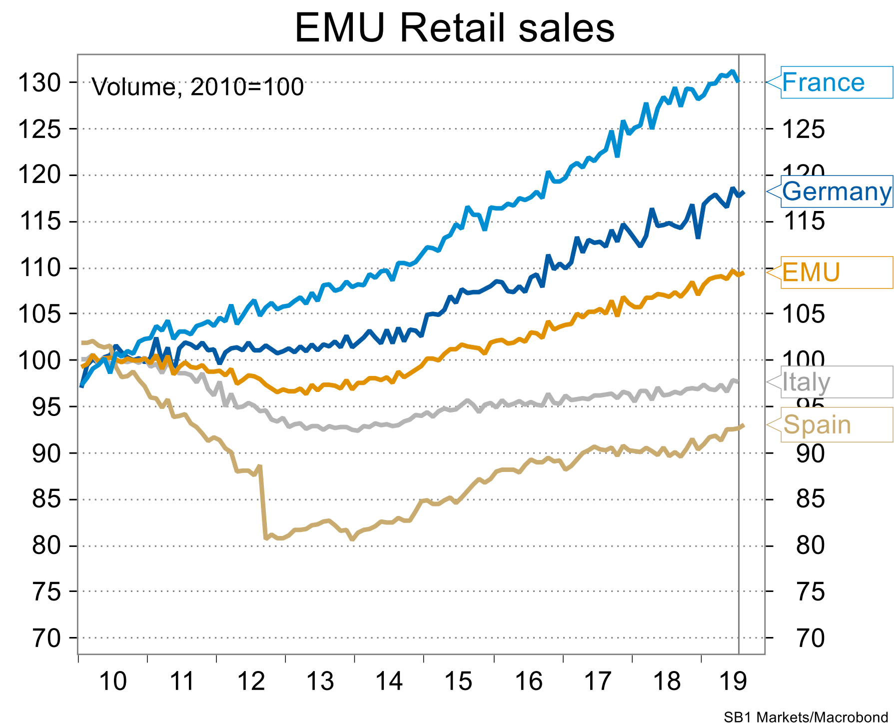
Retail sales still increasing moderately, even in Germany

Sales up 0.3% m/m in Aug, the 2% trend still intact, providing some comfort amid manufacturing dip





- Retail sales volume increased 0.3% m/m in August, in line with expectations. Underlying growth is up 1.9% and the annual rate 2%. The weakness in the Eurozone cannot be explained by lower consumption of goods (ex. autos). Nonetheless, the Q3 contribution from private consumption will most likely be modest (zero growth in retail sales in Sept yields a 0.7% q/q speed)
  - Germany reported a 0.5% increase and the large dip in July was revised up, underlying growth is solid at 3.4%. Indicating that consumer sectors are resilient to the manufacturing slowdown? The services PMI slipped in Sept, may be a warning sign. Sales in Spain and France are heading slowly up too, and even Italy gaining some speed too?
- Lower price inflation is probably supporting consumption, as well as rising real wages and employment

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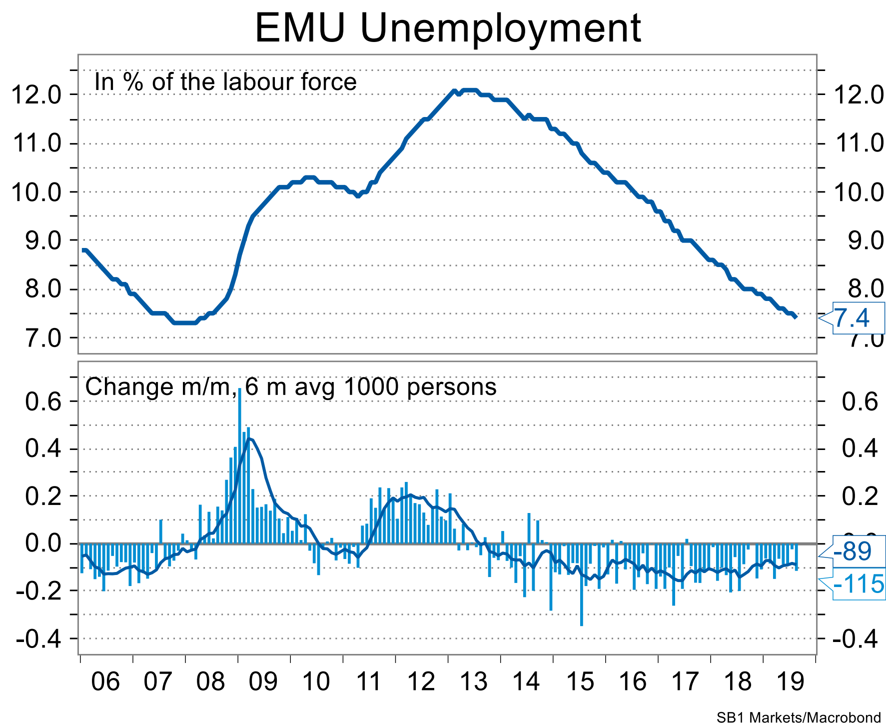
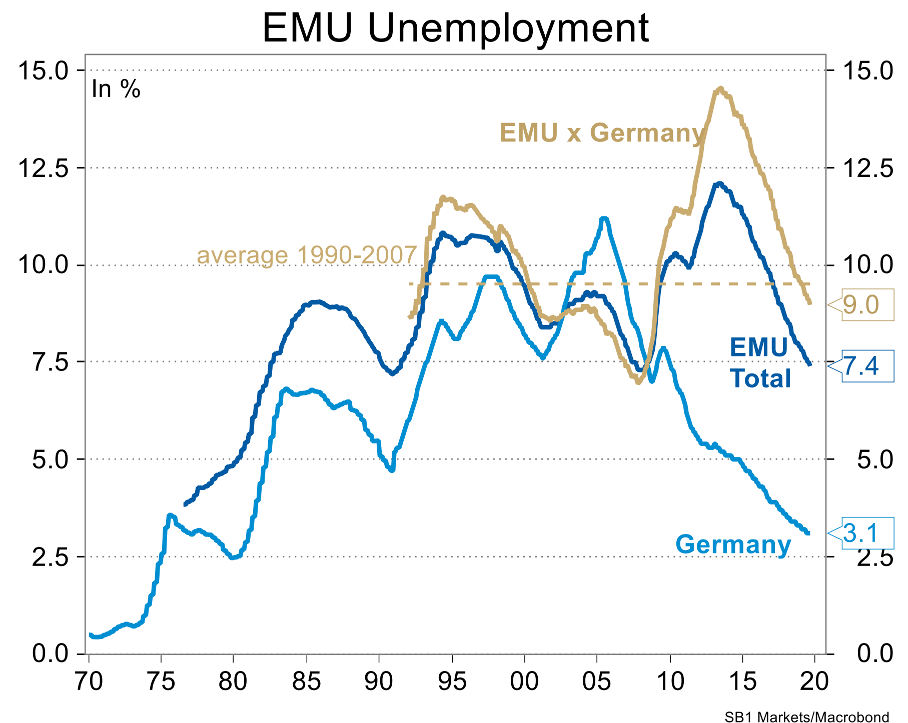
Unemployment keeps sliding down, an encouraging sign? (or just a lagging indicator)

Unemployment fell to 7.4% in August, at the fastest pace in 5 months





- The unemployment rate inched down to 7.4% in August, expected unchanged at 7.5%. The number of unemployed fell by 115' persons, the sharpest decline in 5 months. The long term trend is downwards but the pace has declined somewhat the past year
  - » Unemployment is falling in spite the soft patch that the Eurozone is in (some sectors, at least). Unfortunately, unemployment is not a leading indicator, it is at best a coincident one. Nonetheless, the decline in unemployment rate during the economic slowdown may also mirror that other sectors so far are persistent to the dip in manufacturing, as the PMIs and some other surveys have been reporting (until Sept, at least)
- Unemployment in total EMU is well below the 1990-2007 avg, and it has fallen below the average in EMU ex Germany too
  - » In Germany, the unemployment rate held steady at 3.1% in august, the lowest level in almost 40 years. But of course, a large fiscal stimulus is needed

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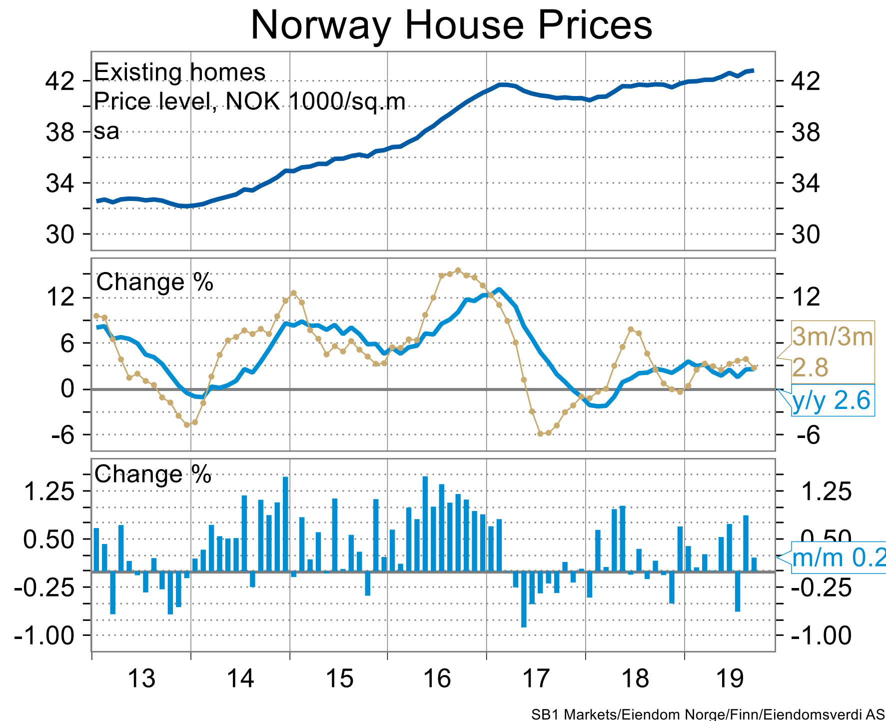
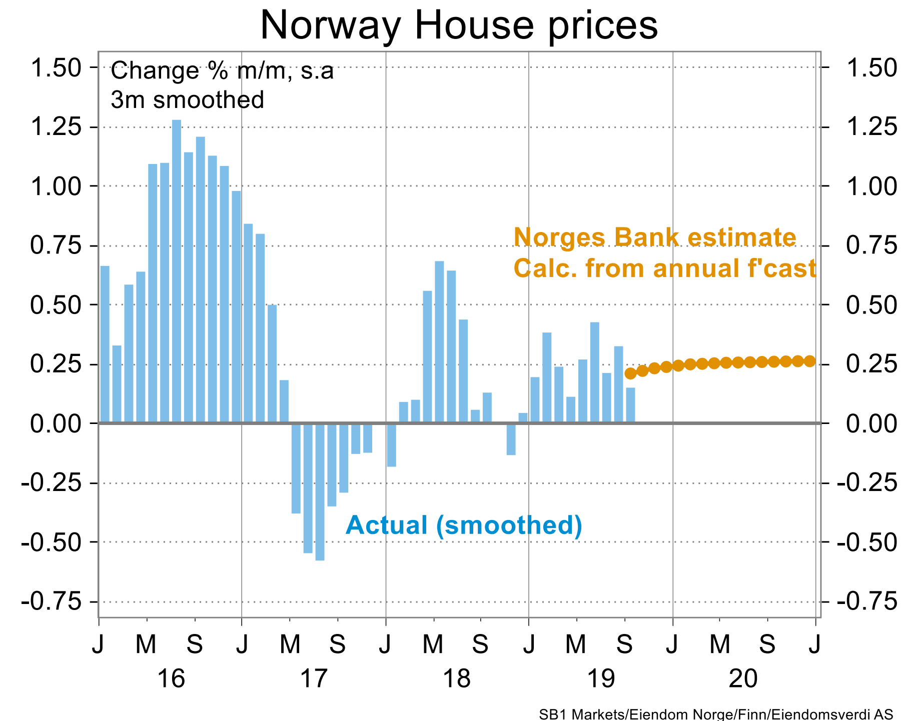
House prices rose modestly in September, Oslo & nearby in the lead

Prices up 0.2% in Sept, our f'cast was 0.4%. Market dynamics indicate soft growth going forward





- **House prices** increased 0.2% m/m s.a in Sept (-1.1% unadjusted), we expected +0.4%. The 3m average growth rate is 0.2% and underlying growth has slowed somewhat, to a moderate 2.8% in Sept. Annual growth at 2.6%. Price inflation is marginally below Norges Bank's expected growth pace
  - » Prices rose in just below half the cities in Sept. Recent months, prices have climbed everywhere ex Stavanger and Drammen. Oslo, Asker/Bærum in the lead
- **The number of unsold homes** keeps climbing and the level is rather elevated. The rising inventory is not a consequence of weak demand but of a high number of new listings (of existing homes). The number of transactions is trending steeply upwards, indicating that the interest rate hikes so far have not dampened demand noticeably
- **Short term dynamics signal continued moderate growth the coming months – while the risks are now tilted to the downside**

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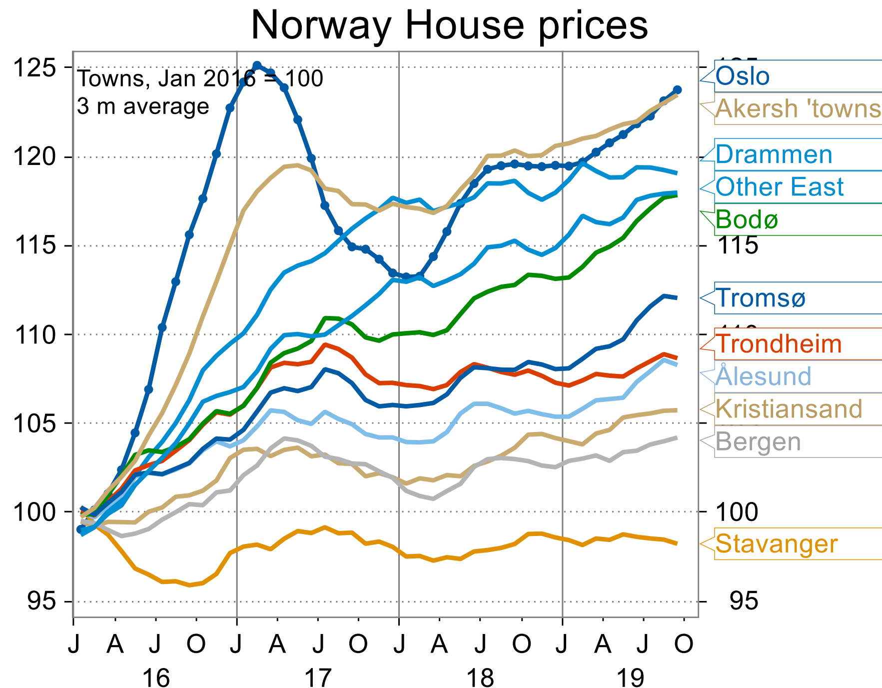
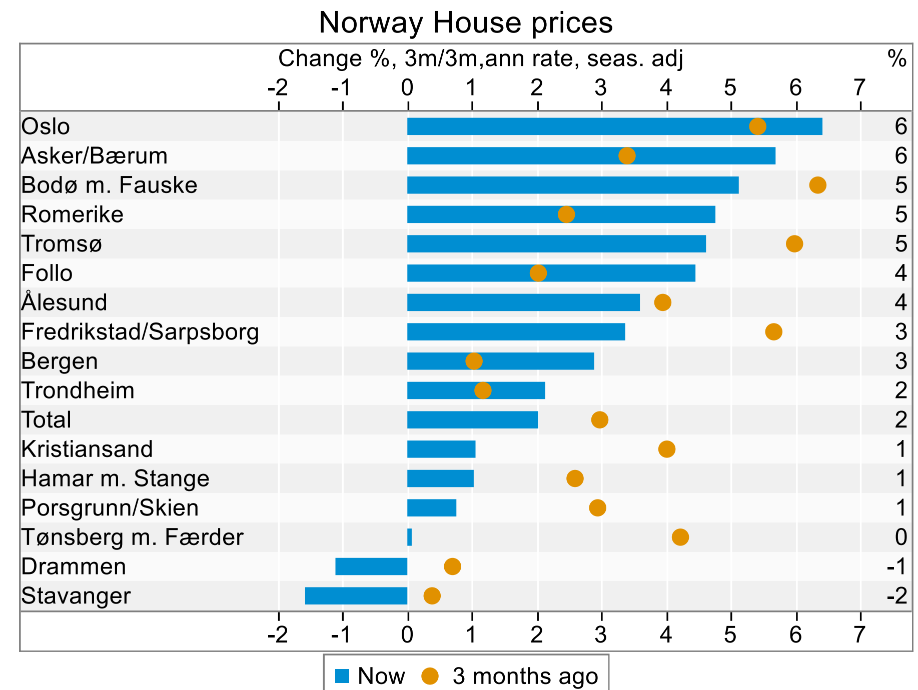
Recent months: Prices are climbing in most cities, falling in Stavanger, Drammen

Prices are soaring in Oslo & Asker/Bærum, and Bodø, Tromsø





- Measured 3m/3m, prices are now rising in all cities expect Stavanger and Drammen (and Tønsberg, which is flattening). Prices in Oslo and nearby areas like Asker/Bærum are accelerating, up 6% 3m/3m, followed by Bodø and Tromsø – and Romerike/Follo
  - » Compared to 3 months ago, prices are accelerating in 6 of 16 regions, slowing in 9 and declining in 2
- Prices in most cities are now above the local 2017 peak level
  - » Oslo is just 1% below the (very high) 2017 peak. Bergen is back at the peak level. Stavanger is 11% below the 2013 peak. Housing starts is reduced by some 50% since then but still many homes are built – we assume because 2.hand prices are still high enough to make newbuilding profitable

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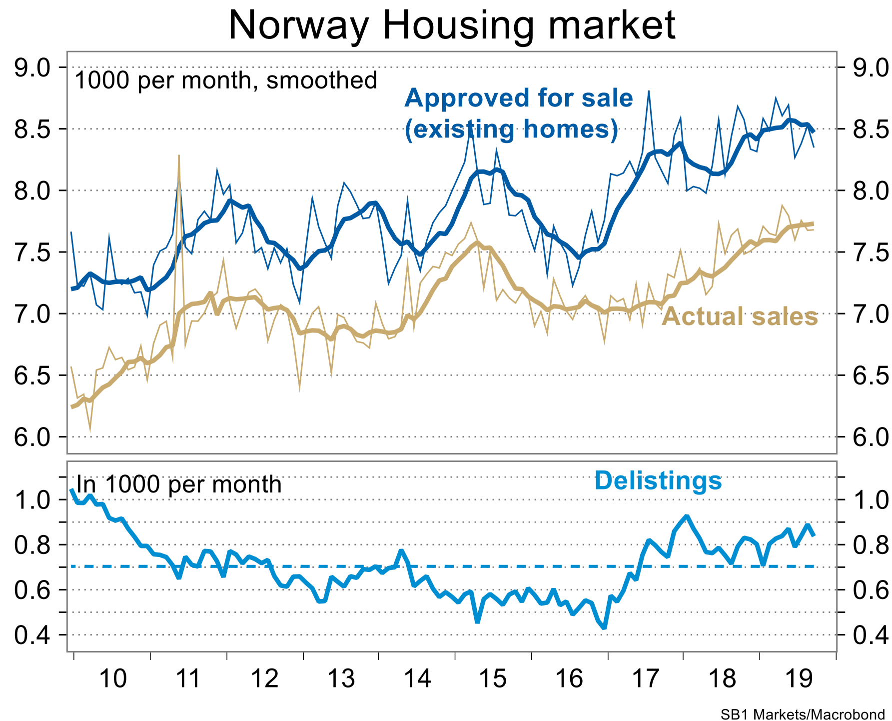
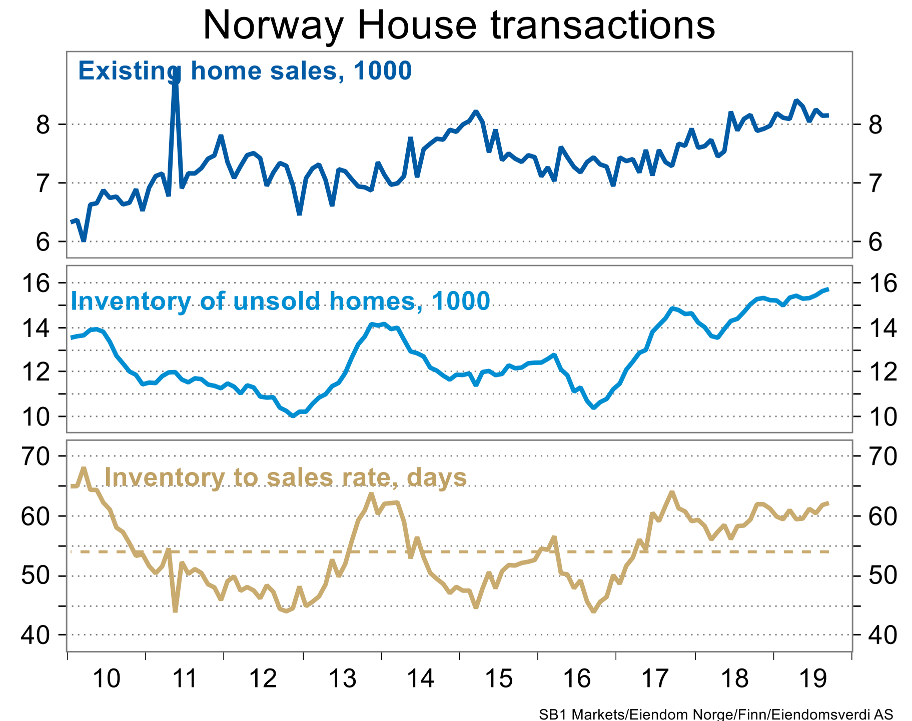
A record high no of sales is offset by a high no of new listings

Thus, the inventory of unsold homes soars, dampening house price inflation





- **New listings of existing homes** have fallen marginally the past 3 months but is anyway trending up and will most likely remain high for some time, partly because many newly built homes are completed
- **The number of sales** have climbed, reflecting strong demand, but has flattened in 2019, at a high level. However, demand is not sufficient to absorb the supply of homes; hence, the **number of homes for sale (inventory)** is rising. The inventory ticked up to another 10 y high in Sept. The inventory to sales ratio (turnaround) is quite high, at 62 days, vs avg at 53. The number of delistings (implicit) increases 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

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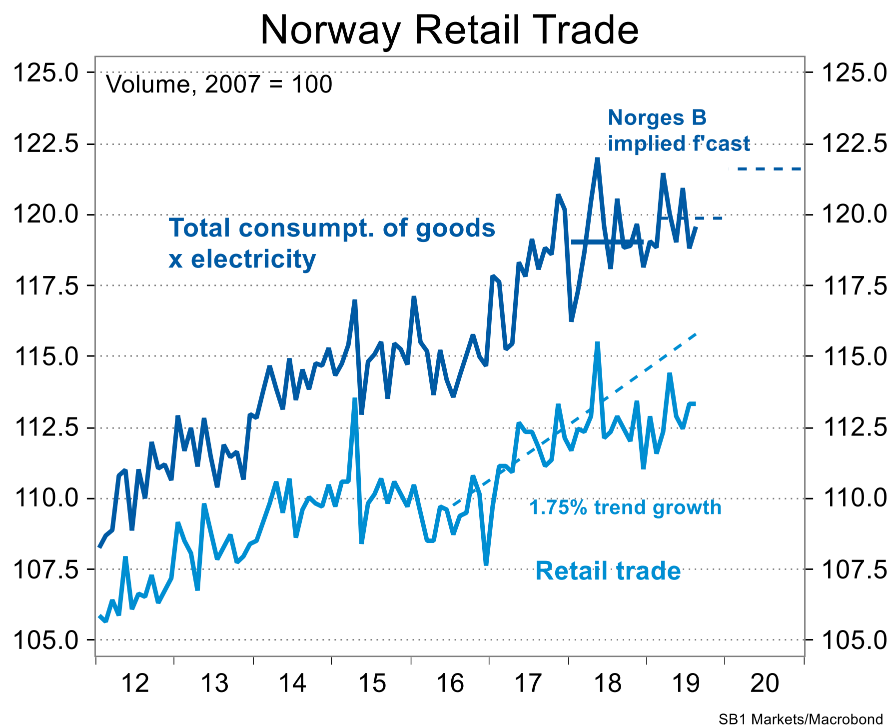
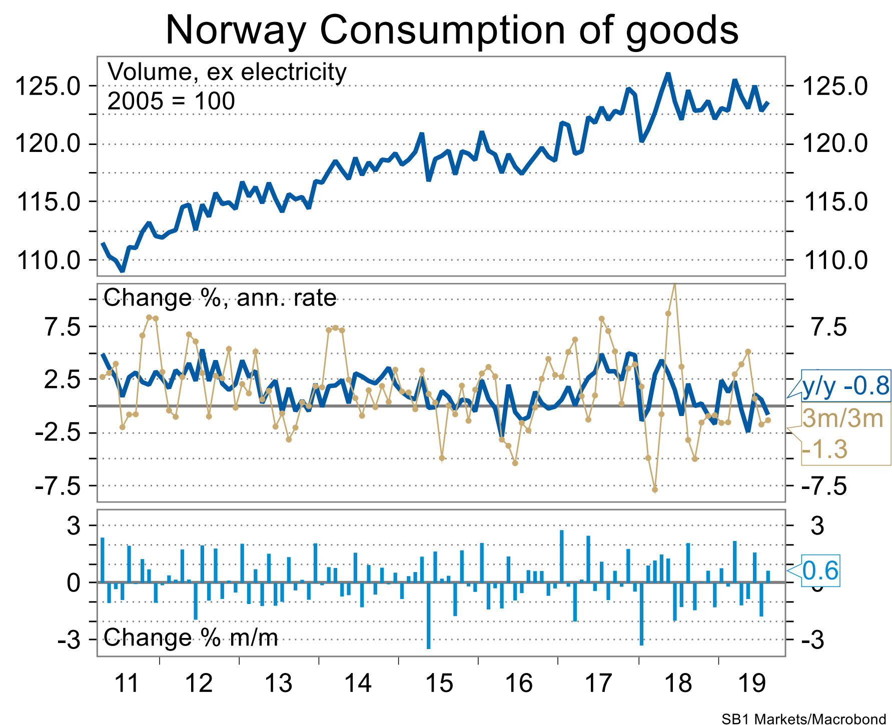
Retail sales slowly improving but consumption will be a drag on growth in Q3

Retail sales flat in August, trending very modestly up. Auto sales have dragged total consum. down





- Retail sales volume (ex auto) stalled m/m in August, slightly weaker than we expected. Sales are certainly not thriving, yet, the trend is most likely slightly upwards from the 2018 level. The underlying speed is -0.6% and the annual rate is up a modest 0.3%
- Total consumption of goods (ex electricity) expanded by 0.6% m/m. Consumption has slowed recent months and the Q3 GDP impact will most likely be negative, so far a -2.2% pace. The downswing is solely driven by a retreat in auto sales, which are volatile from month to month, particularly for electrical vehicles
- Total consumption is probably heading slowly up, we stick to our expectation that subsiding price inflation will support volume growth the coming months, although the upside is limited. In the Sept MPR, NoBa revised down the '19 consumption f'cast to 1.8%, still within reach?

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets, and the trade conflict is now doubt a factor behind the recent slowdown, especially in the manufacturing sector. 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 EMs 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. Investment rates are not far too high, few debt bubbles this time. **Still, growth has slowed to 3% from 4%, and we expect a further slowdown to 2.5%, even if trade conflicts are 'solved'. If ramped up, more downside risk**	The global composite PMI inched down just 0.1 p in Sept, to 51.2. The level points to some 3% GDP growth, as during the previous quarters. Global manuf PMI has stabilised but remains weak and actual prod. remains sluggish while retail sales are slowly cooling
China	The governments' stimulus measures may have stabilised the economy, and surveys and data do not point to hard downturn. 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/world hegemony war will hurt the Chinese economy**	The Sept PMIs far better than expected, and Markit's manuf. PMI is reporting decent growth
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 have weakened amid weaker growth in profits and trade war uncertainty. Recent consumption data are solid but may be softening (and partly funded by lower, although still high savings). Housing mostly positive. Fiscal stimulus continues but not by much. The deficit is far, far too high, given the low unemployment rate. Recession risk is increasing, but still not overwhelming, short term. **Risks: Trump/trade/business investments**	Sept PMIs (form Markit) were OK, but the ISMs both plunged. Manufacturing fell to a 10 y low, services steeply down to. Sept employment increased by 136', just a tad below expectations and unempl. fell to 3.5%. Wage growth eased, we assume a one off
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 are above trend. 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**	Both PMIs were weak in Sept, particularly in Germany. Core CPI inflation remains muted at 1%. Still, not all data are that bleak; unemployment is still declining and retail sales are growing at a decent 2% pace
Norway	Growth is still above trend but may soon be peaking. Unempl. is still declining, although at a slower pace. Wage inflation is accelerating. Oil investments are peaking in H2. Mainland business inv. not low anymore, will probably slow in '20. Mixed signals from the housing market, starts probably slowing. Electr. prices have taken the headline CPI down but core still above target. Credit growth slowing (households) still above income growth, is spite of heavy regulations. **Risks: Debt, housing. A harsh global slowdown**	House prices are increasing moderately, up 0.2% in Sept. Sales are high and heading up but supply is rich, dampening price growth. Retail sales OK in Aug, most likely trending slowly upwards. More will come?

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The Calendar

In focus: China exports, US Fed minutes, CPI; Norwegian Budget, CPI. + US/China trade talks (again)

Time	Country	Indicator	Period	Forecast	Prior
TBA	CH	Aggregate Credit Growth	Sep	1800.0b	1980.0b
Monday Oct 7					
08:00	GE	Factory Orders MoM	Aug	-0.4%	-2.7%
08:00	NO	Manufacturing Production MoM	Aug	-0.2%(0%)	1.0%
08:00	NO	National Budget, fiscal stance, % of GDP	2020	0.2	0.5
Tuesday Oct 8					
03:45	CH	PMI Composite Caixin/Markit	Sep	--	51.6
08:00	GE	Industrial Production MoM	Aug	-0.2%	-0.6%
09:30	SW	Industrial Orders MoM	Aug	--	0.4%
12:00	US	NFIB Small Business Optimism	Sep	102.5	103.1
14:30	US	PPI Core (Ex Food and Energy) YoY	Sep	2.3%	2.3%
Wednesday Oct 9					
08:00	NO	GDP Mainland (MoM)	Aug	-0.3%(-0.8)	1.0%
16:00	US	JOLTS Job Openings	Aug	--	7217
20:00	US	FOMC Meeting Minutes	Sep-18	--	--
Thursday Oct 10					
01:50	JN	Core Machine Orders MoM	Aug	0.0%	-6.6%
08:00	NO	CPI Underlying MoM	Sep	0.5%(0.5%)	-0.6%
08:00	NO	CPI Underlying YoY	Sep	2.1%(2.1%)	2.1%
08:00	GE	Trade Balance	Aug	18.6b	21.4b
08:45	FR	Manufacturing Production MoM	Aug	0.3%	0.3%
09:30	SW	CPIF Excl. Energy YoY	Sep	1.5%	1.6%
10:30	UK	Monthly GDP (3M/3M)	Aug	0.1%	0.0%
10:30	UK	Manufacturing Production MoM	Aug	0.2%	0.3%
14:30	US	CPI Ex Food and Energy MoM	Sep	0.2%	0.3%
14:30	US	CPI Ex Food and Energy YoY	Sep	2.4%	2.4%
14:30	US	Initial Jobless Claims	Oct-05	215k	219k
20:00	US	Monthly Budget Statement	Sep	$82.5b	$119.1b
Friday Oct 11					
16:00	US	UoM Consumer Sentiment	Oct P	92	93.2
Monday Oct 14					
	CH	Exports YoY	Sep	-3.0%	-1.0%

- **China**
  - **Exports** volumes have stagnated but are not declining. Lower exports to the US are offset by rising exports to the Asia x Japan
  - **Credit growth** is slowly accelerating thanks to a lift in lending from the shadow market
- **USA**
  - **Minutes from the Fed's Sept meeting** will probably reveal a highly divided FOMC, as 2 of 10 participants voted against the Sept cut
  - **Core CPI inflation** is picking up steam, underlying growth at 2.8% and the annual rate at 2.4%, the highest in 11 years. No inflation!?
  - **UoM Consumer sentiment** recovered just modestly in Sept, after a steep drop in August. CB's confidence fell in Sept but remains stronger
  - **Small business optimism** is probably softening, not due to too high interest rates or lack of demand, but due to a tight labour market!
- **EMU**
  - There are no signs of a manufacturing recovery, in fact, the PMIs point to a deterioration. **German and French production data** out this week
  - **German trade** is so far not any disaster, substantial downside risk
- **Norway**
  - We expect a continued fiscal expansion (0.2 % of GDP) in the **2020 National Budget**, at least if adjusted for temporary high climate quota sales. The Oil fund has appreciated by almost 20%, and transfers from the fund will anyway be miles below the long term 3% spending rule, we estimate 2.6%. The main figures out at 08:00, the full budget at 10:00 this morning
  - **Core CPI inflation** has slowed somewhat recent months but remains above the price target. We expect a steady 2.1% growth in Sept

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

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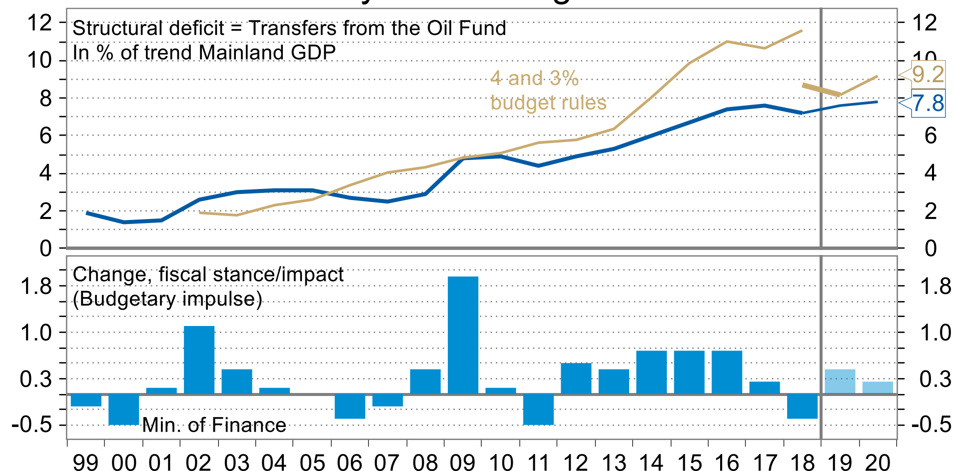
Preview of the National Budget: Still some honey left

We expect a marginal expansionary budget, transfer at 2.6% of the Oil Fund's value

Fiscal indicators NOK bn, per cent	2018	SB1 est 2019	SB1 est 2020
Actual surplus, incl. oil	*250*	*229*	*188*
Surplus ex. oil	*-219*	*-226*	*-238*
Structural surplus ex oil	***-214***	***-235***	***-250***
…. change in bn	*0*	*-21*	*-15*
.. in % of GDP	*-7.2*	*-7.6*	*-7.8*
… Change (fiscal indicator)	***-0.1***	***-0.4***	***-0.2***
.. in % of Oil Fund value	*2.5*	*2.7*	*2.6*
Spending rule, bn.	*-255*	*-261*	*-292*
Deviation from rule, bn.	*41*	*26*	*41*
Real growth in underlying spending	*1.7*	*1.3*	*1.8*
Petroleum Fund, bn, ult.	*8243*	*9721*	*10181*

Min of Finance, Sparebank 1 Markets



- The **2019** fiscal stance was expansionary (0.5% of GDP), according to the revised budget, vs a neutral position in the original proposal. Some of the weakening was due to technicalities (less sales of climate quotas, more sales next year at a higher price) but some also for real. We expect a small strengthening of the 2019 balance, to a 0.4% stimulus, and a structural deficit at NOK 235 bn vs the 3% spending rule guideline at 261 bn
- We expect a marginally 'real' expansionary **2020** budget proposal ('real' because we are uncertain how the volatile carbon quota sales will be booked, they should probably not be included in 'ordinary revenue'). A neutral budget will allow for an increase in the nominal deficit by NOK 9 bn, we expect at least a 15 bn increase (before booking of climate quotas), to NOK 250 bn (from our NOK 235 2019 est). Such a transfer from the fund equals 2.6% value of the oil fund's value (vs the 3% rule that yields somewhat above NOK 290 bn). Growth forecast will be just marginally revised down
- We would argue transfers from the fund should have been somewhat lower in order to build a wider buffer vs. a far from unlikely decline in the Fund's value during the coming 1 – 2 years.
  - » However, should the Fund's value decline by a substantial 20%, the 3% long term transfer rule would lower the spending rule guideline to NOK 230 bn, which is just a tad lower than the actual transfers in 2019. Should the fund's expected long term return be revised down to 2%, the spending rule will yield just below 200 bn – and a moderate fiscal tightening will be required over following years

In this report

Global + PMIs & ISMs

- Global surprise index dragged down by PMI/ISM last week, just below par
- Retail sales, manufacturing production slows; global trade declines
- Global PMI slides down, a 0.1 p decline in Sept
- A lift in China PMI and other EM was offset by weaker DM (mostly Eurozone)
- US: When pessimISM takes over
- Eurozone PMI plunged in Sept, even weaker than the preliminary figure
- Norwegian Manufacturing PMI slides down, more downbeat than other surveys
- US auto sales inched up in Sept, while an emission deadline sent European sales down

USA

- Nonfarm payrolls report confirm a tight labour market, the unemployment rate fell 3.5%
- Still, wage growth surprisingly cooled in Sept
- Jobless claims flat at a very low level, no signs of weakness
- Construction activity stalls, no growth since early 2018 (even nominally)
- The trade deficit widened marginally in Aug, both imports and exports are stalling
- Nowcasters are signalling 2% growth in Q3

EMU

- Retail sales still increasing moderately, even in Germany
- Unemployment keeps sliding down, an encouraging sign?
- Core CPI inflations remains meagre, unchanged at 1% in Sept

Japan

- Manufacturing production trending slowly down, PMI signals more
- Unemployment lowest in 27 years, employment growth at 1%, with a declining population

Norway

- House prices rose modestly in September, Oslo & nearby + North in the lead
- A record high no of sales is offset by a high no of new listings, and the inventory is very high and growing most places
- OBOS Oslo apartment prices confirms a strong Oslo market
- Retail sales slowly improving but consumption will be a drag on growth in Q3

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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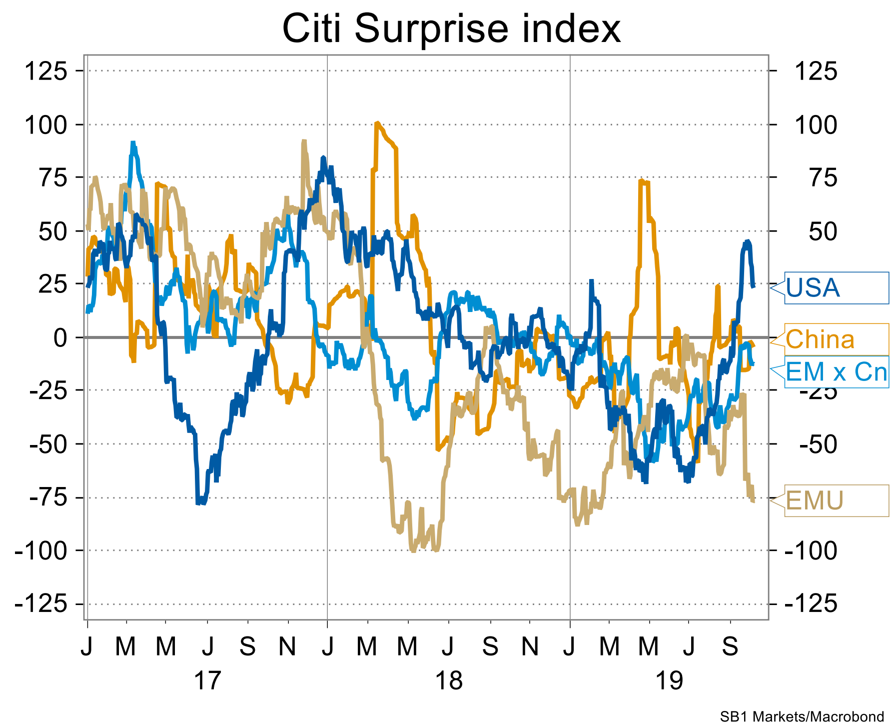
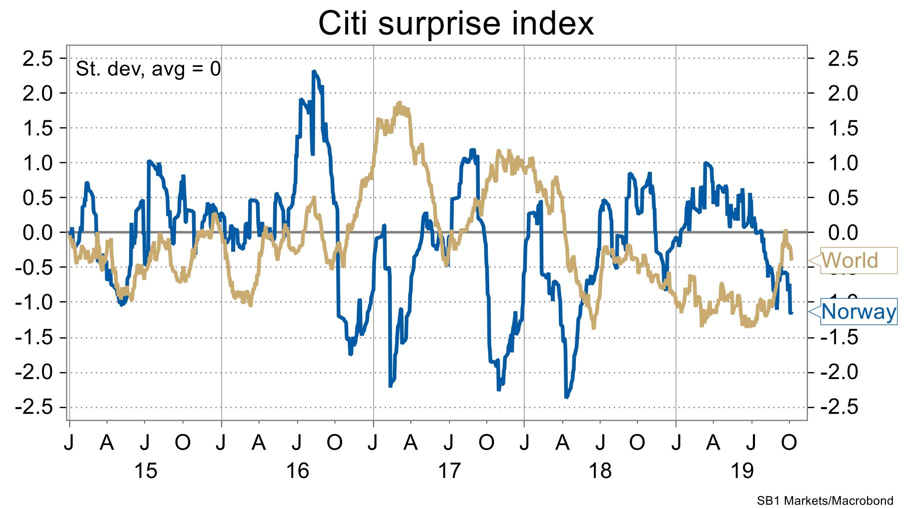
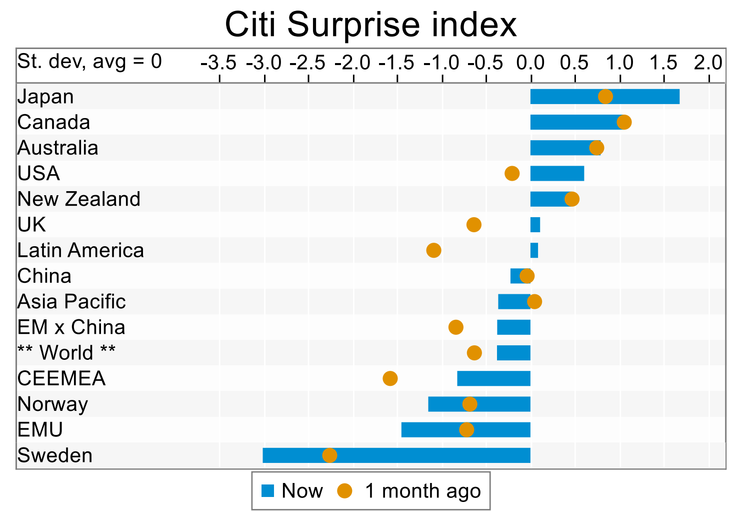
Global surprise index dragged down by PMI/ISM last week, just below par

US data less upbeat last week, due to the ISM. EMU weak, China back in neutral, thanks to PMI







- The global surprise index climbed to a ‘neutral’ level for the first time this year three weeks ago. The two past weeks, data have been slightly more disappointing, in sum
- US data flows have been beating expectations in sum, partly thanks to upbeat housing data, and inflation. Last week, the disturbingly weak ISMs pulled the US surprise index down
- The EMU surprise index plunged on disastrously weak PMIs two weeks ago
- China back in neutral, lifted by strong manufacturing PMIs
- Norwegian data are more disappointing than the world in general, we are not sure we agree

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

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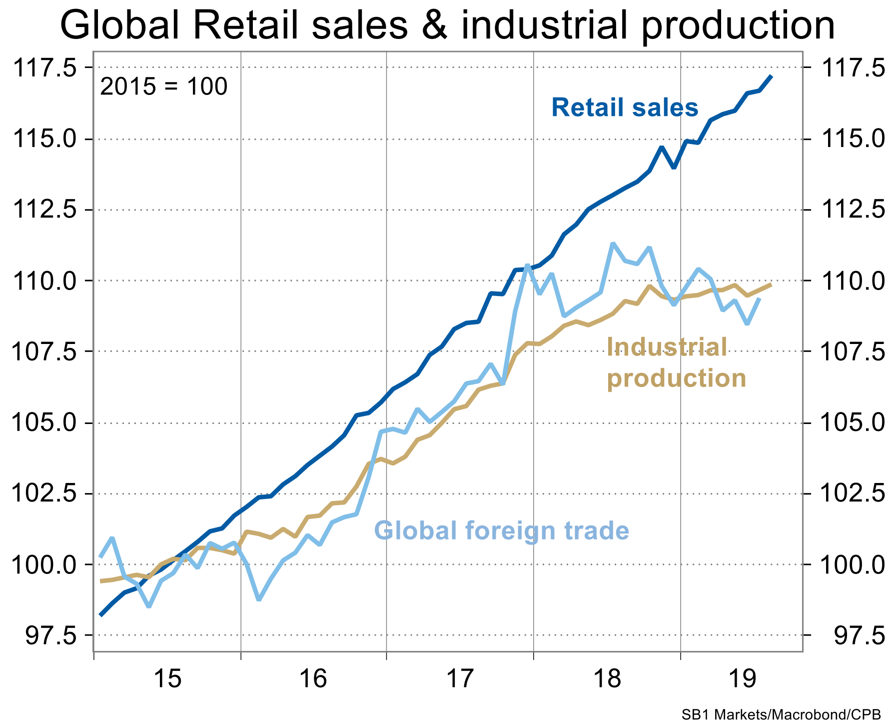
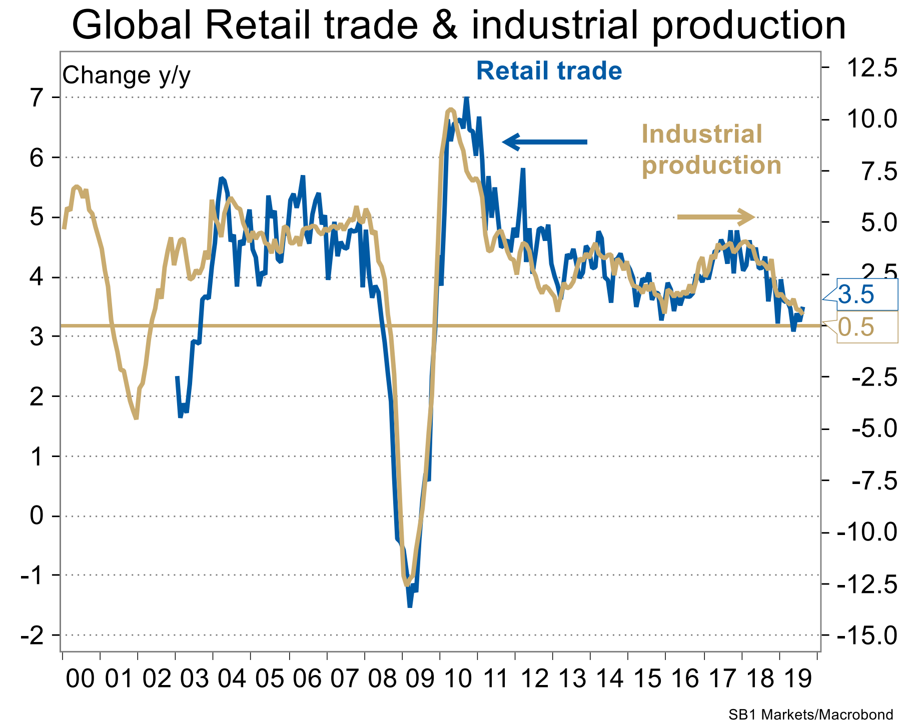
Retail sales, manufacturing production slows; global trade declines

Global trade flows rose in July but are no doubt heading down. Manufacturing production stalls





- **Global industrial production** most likely inched up some 0.2% m/m in Aug (our prelim estimate). The overall trend is no better than just marginally upwards, growth has slowed substantially. Global business surveys signal a modest decline
- **Retail sales** increased by 0.5% m/m in August, based on our estimate. Growth has come down, more or less in tandem with manufacturing production (given the normal correlation between the two, retail sales are less volatile than retail sales). Even so, consumption is still supporting the global economy
- **Global foreign trade** increased by 0.8% m/m in July (with our seasonal adjustment) but the decline in June was more abrupt than previously reported, down 0.8% m/m vs 0.5%. Trade flows are trending down, at a 2% pace since last summer, as trade uncertainties curb demand. The slowdown is rather broad based, Emerging Asia ex China and Lat. Am and Africa are the weakest links in the chain

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Global PMI has stabilised; down 0.1 p in September, still at the April/May level

Composite PMI fell marginally to 51.2, we f'casted -0.2 p. Signals stable global GDP growth at 3 %

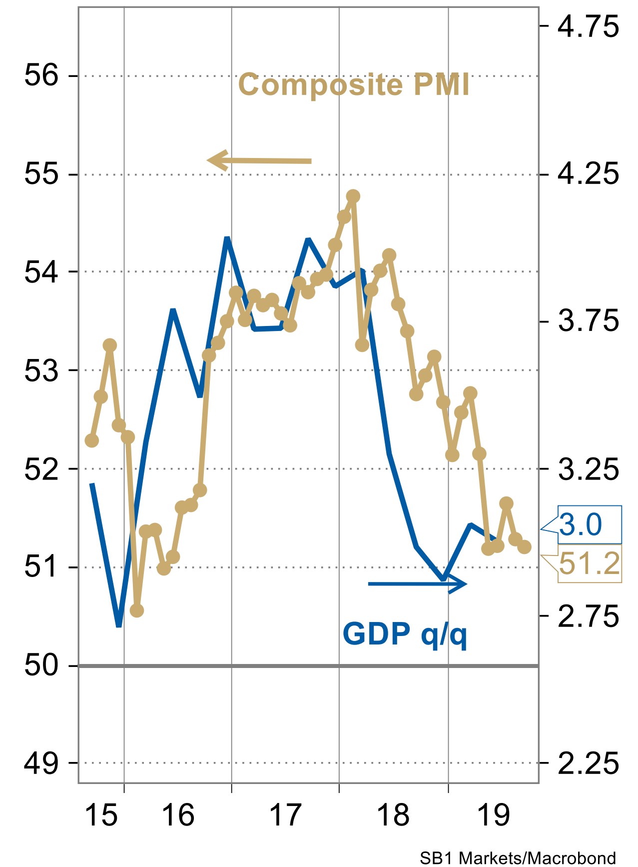
Global PMI vs growth

GDP q/q

Composite PMI

51.2

SB1 Markets/Macrobond



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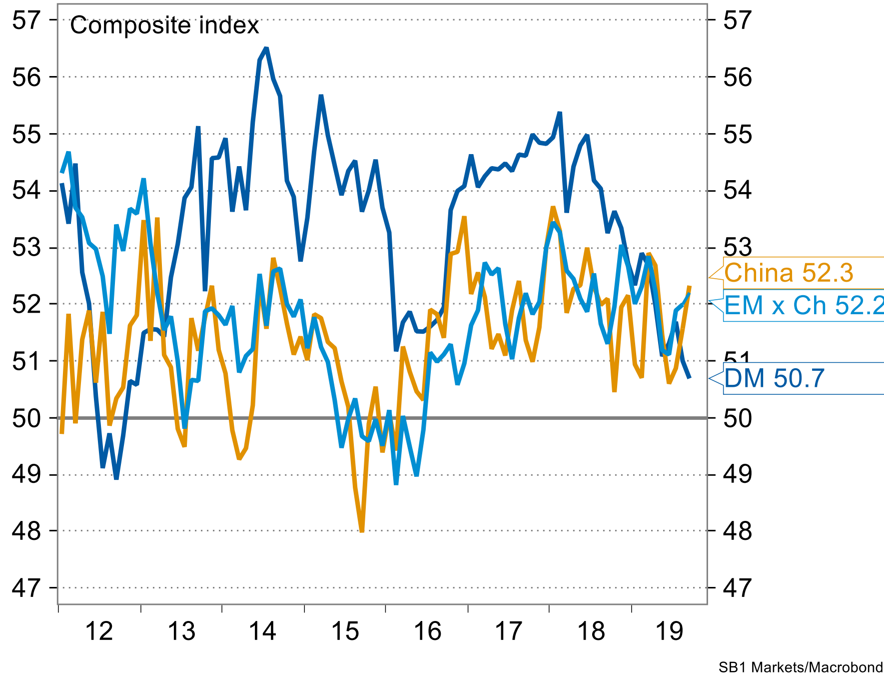
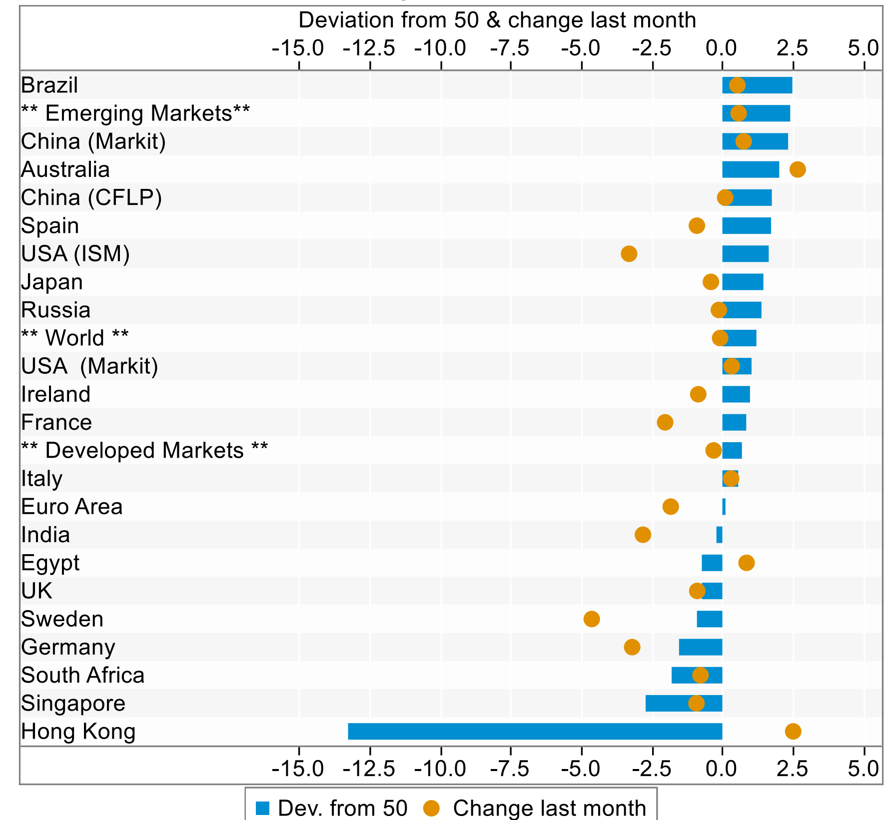
A lift in China PMI and other EM offset by weaker DM (mostly Eurozone)

Composite PMI: 7 countries/regions are below 50, Hong Kong at the bottom, of course





- 8 countries/regions reported an increase m/m (thus, activity accelerated or fell at a slower pace), from 12 in Aug. 14 countries weakened (from 10)
- 7 countries below the 50-line, from 5 in August
- DM average down 0.3 p, EM up 0.3, China 0.4 (Markit, serv. assumed unch) – and EM x China 0.2

Hong Kong services are collapsing, of course due the protests

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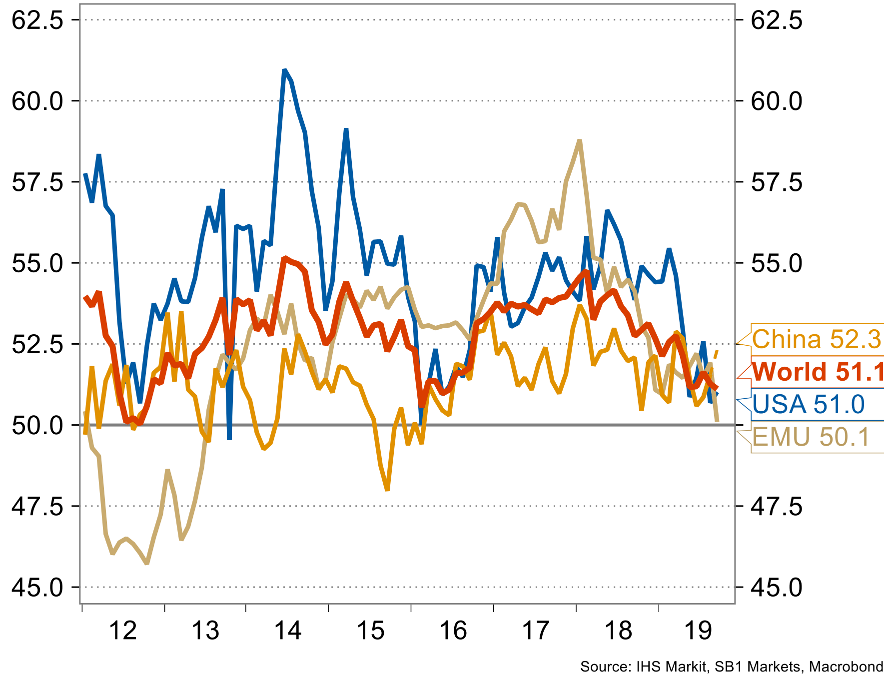
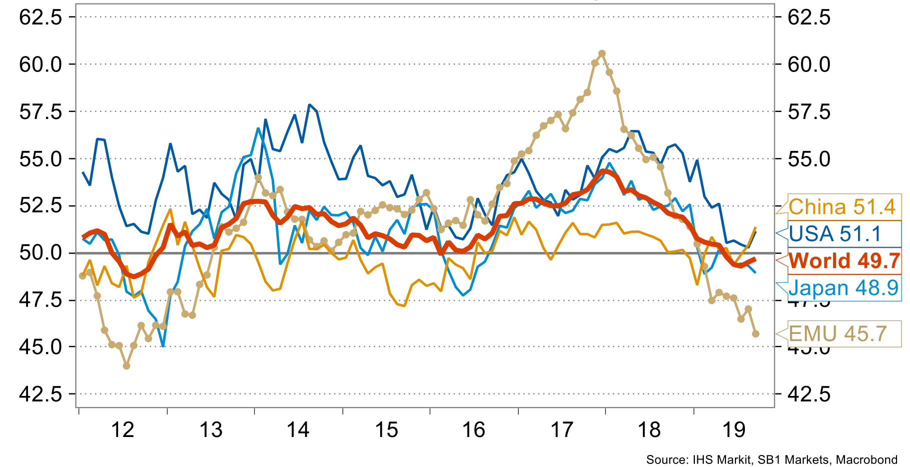
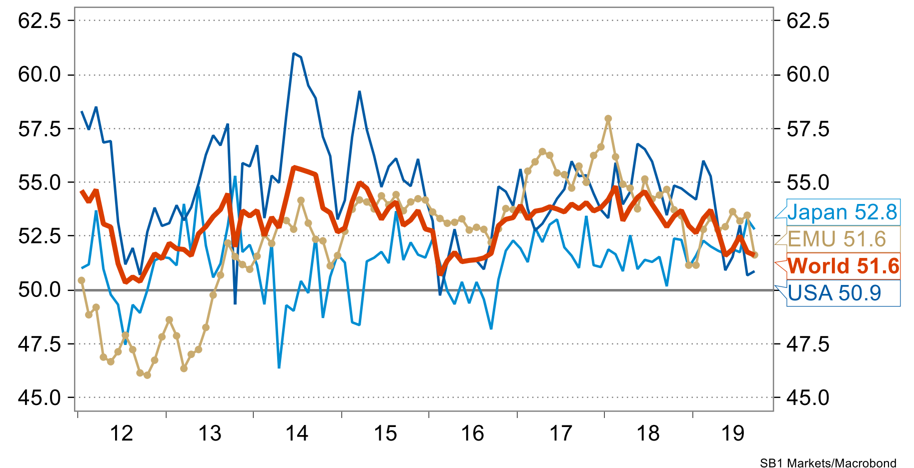
A halting EMU the major drag, US & Japan steady. And China straight up ☺

Both EMU indices fell steeply in Sept, China on the strong side. Global service expands slower







- The Eurozone manufacturing survey is far weaker than the other countries. US may have stabilized recent months (not the ISM), together with China and Japan
- Service sector is still growing moderately most places but are heading down most places, the downturn is spreading
- Memo:
  - » Markit has not yet reported the composite or service sector PMI from China

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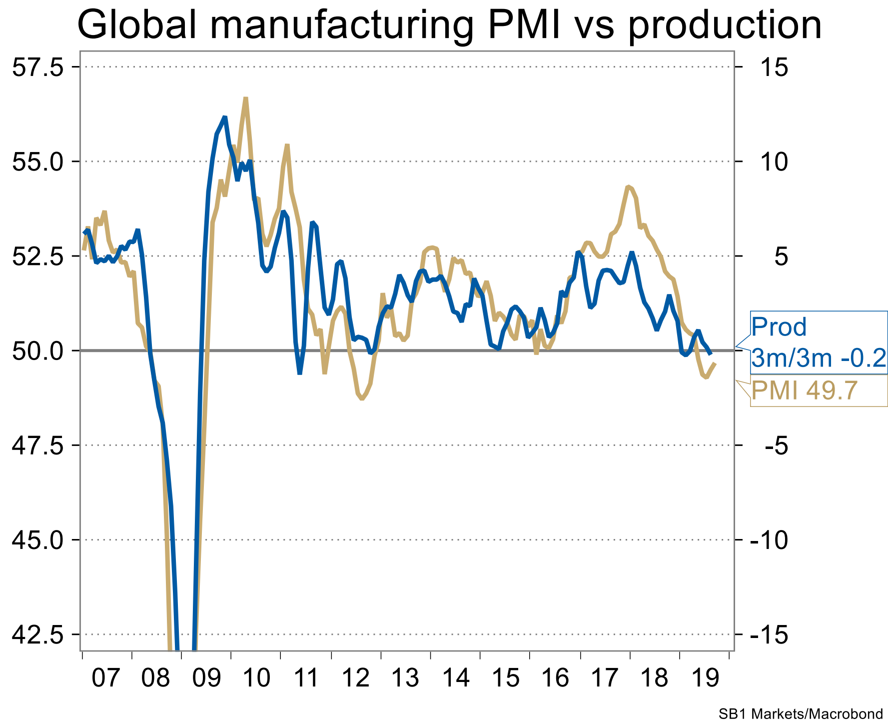
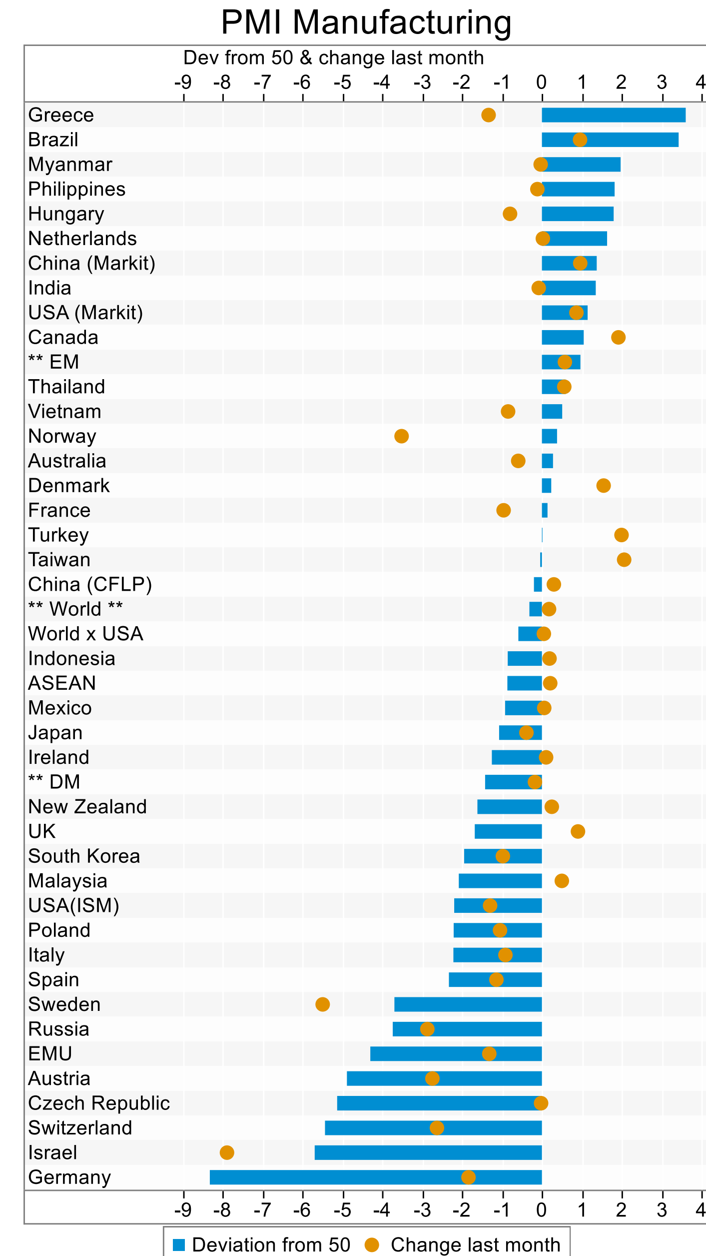
Manufacturing PMI slightly up, a stabilization?

PMI ticked up 0.2 p in Sept, DM a tad down, EM up 0.6





- PMI rose 0.2 p in September, we expected an unchanged PMI (based on the preliminary results from EMU/JP/US/China). The modest upswing comes after a similar increase in August, may be a signs of stabilization, after 15 consecutive months of decline. The index at 49.7 nevertheless signals a modest contraction in global manuf. production
  - » 17 (20 in July) countries/region PMIs rose in September and 22 declined (from 20)
  - » 25 of 43 countries/regions are below the 50 line. Germany at the bottom
  - » Developed Markets fell 0.2 p in average, Emerging Markets up 0.6 p

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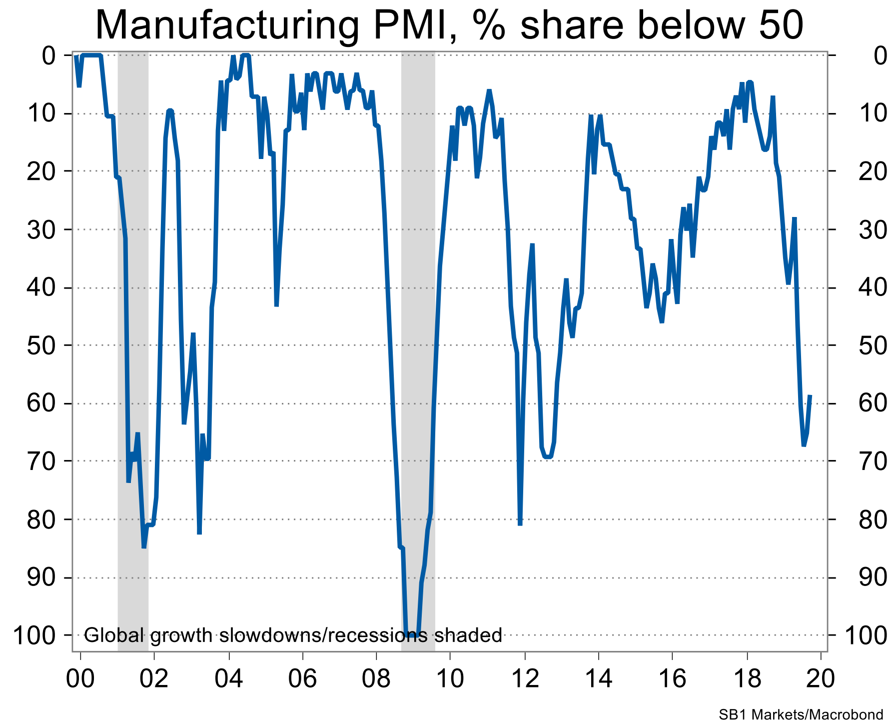
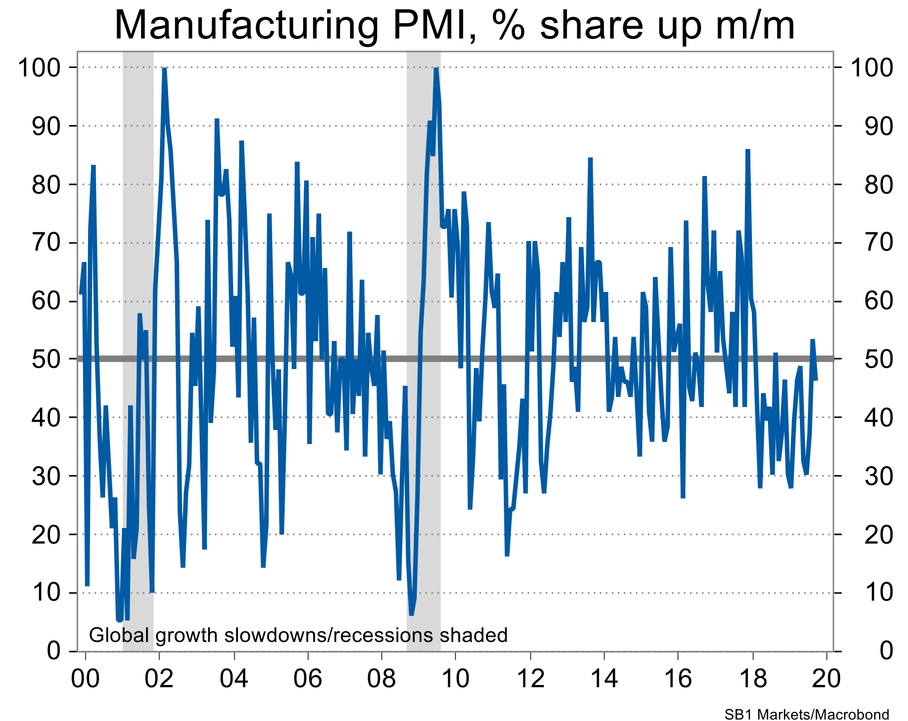
A broad based slowdown, almost 60% of countries/regions under 50

However, in August and September the net number of up/downs was close to zero





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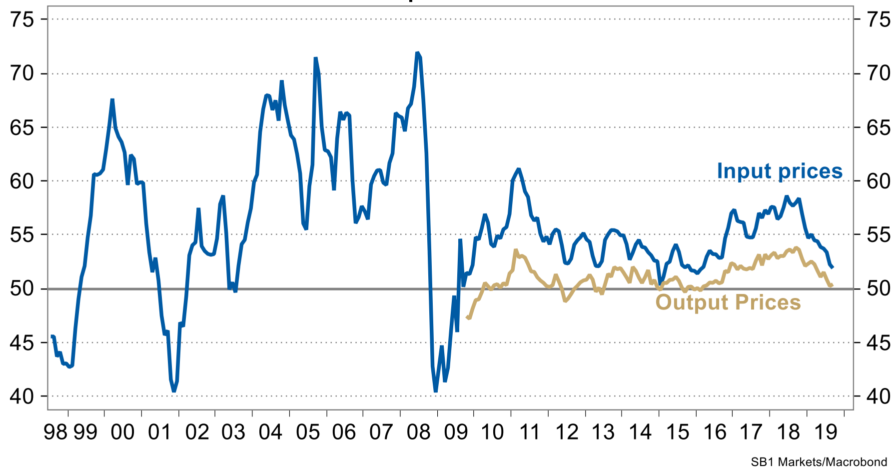
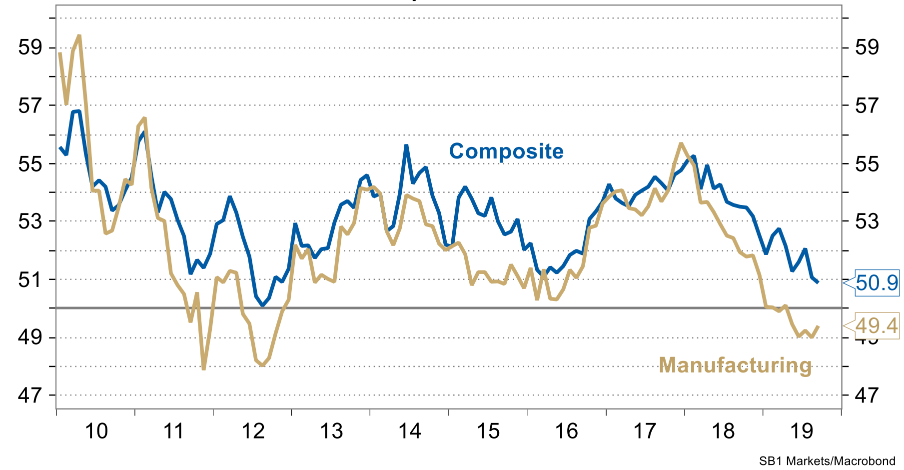
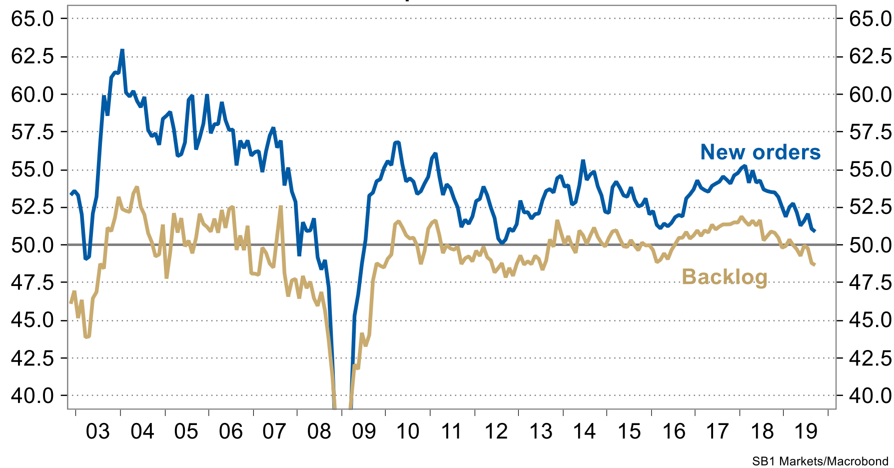
Orders and prices are slowing sharply, demand is no doubt weakening

Manuf. orders are still falling but slower, service orders increasing but much slower. Prices are slowing







- The PMI Manufacturing orders index has stabilised the past 3-4 months, the level signals a modest contraction global order inflows. Services, which have been quite resilient to the manufacturing slump, now seems to be following down. Composite orders are still growing, at a much slower speed
- Both input and output prices are easing – and rapidly (but not yet outright falling), confirming weaker demand

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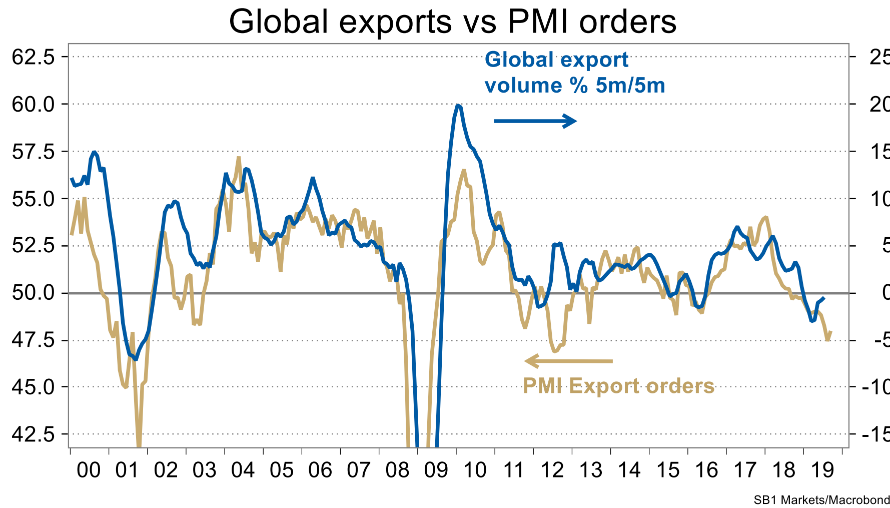
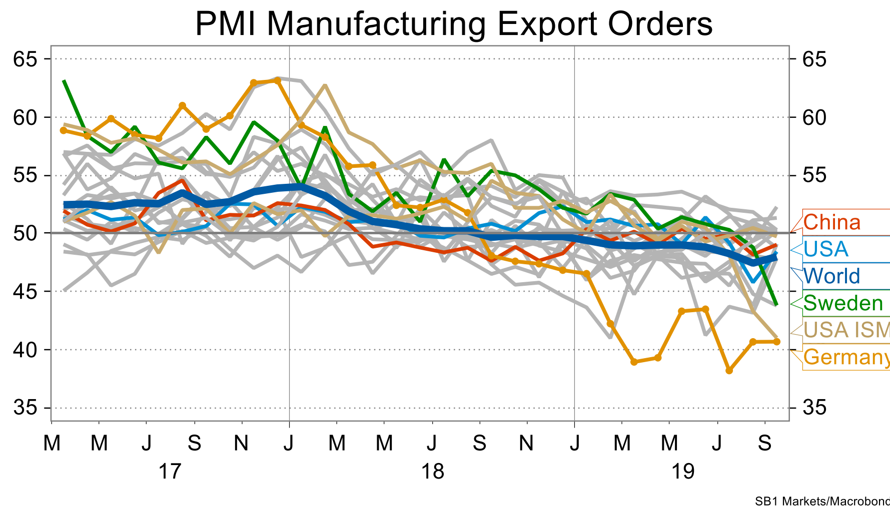
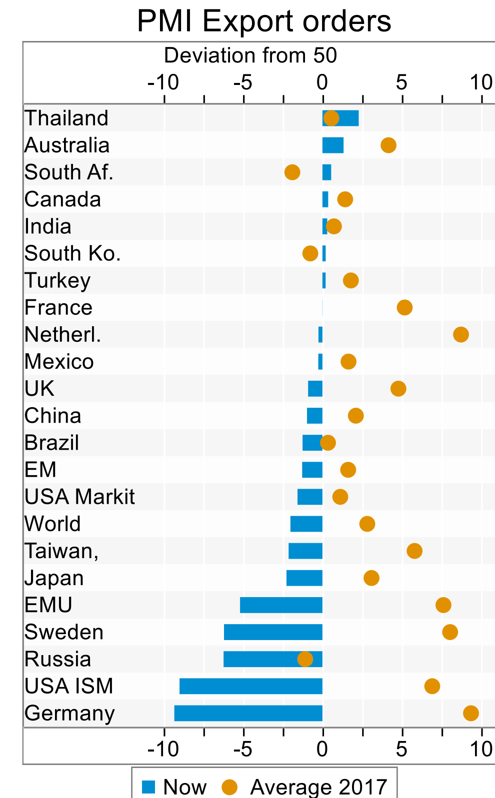
PMI export orders are still contracting, signals weaker exports

Export orders index improved marginally in Sept, to 48.0. Germany showing signs of stabilization?





- Actual global export volumes are falling, down -0.5% measured 5m/5m – but the decline has eased somewhat recent months. The PMIs now signals a faster decline
- A large majority of countries is now reporting declining export orders, just 3 countries above the 2017 average
- Uncertainties regarding the trade war and also Brexit have no doubt taken its toll on export demand. A broader, cyclical slowdown is probably also to blame, and troubles in the auto industry
- Germany export order index is weaker than any other country (but at the same level as the Sept ISM!), the auto industry is just one part of the story
- Chinese exporters are reporting an export order index at 49.0, slightly better than in August



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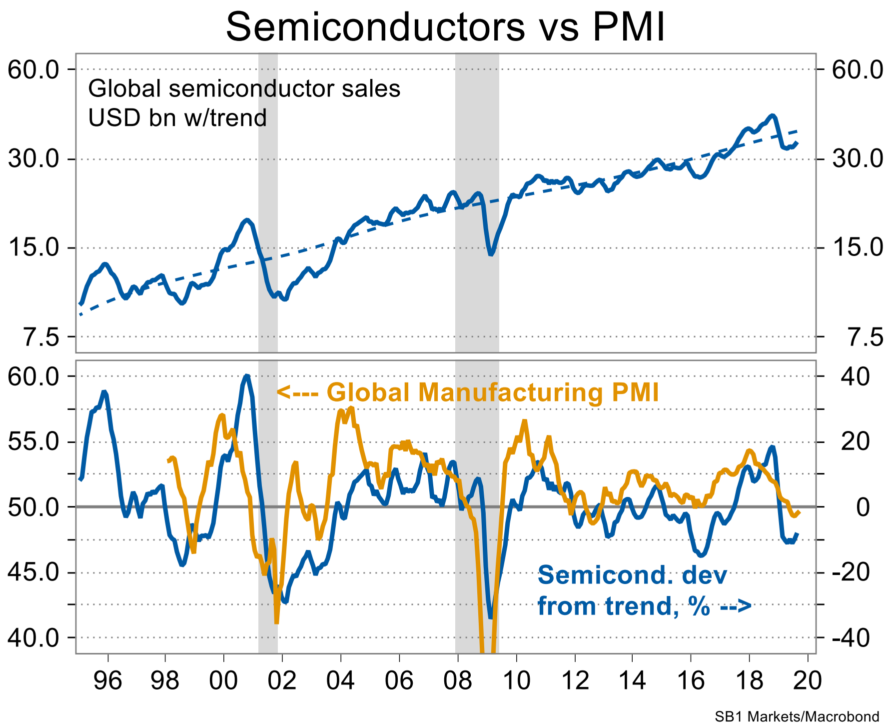
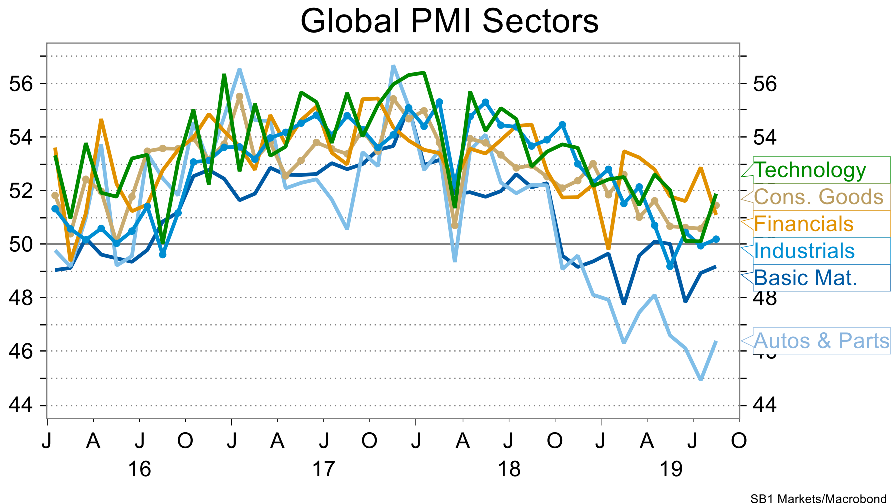
Both semiconductor bricks and the PMI have found a bottom?

Global semiconductor sales have increased marginally since April, and the PMI has stabilised too



- In average, the global manufacturing PMI leads semi sales by 4 months but the correlation is far from perfect and semiconductor demand is anyway an important signal for activity in the tech sector
- We do not yet have the PMIs for the various economic sectors for September, but the tech component rose sharply in August. Autos rose too, but remains extremely low



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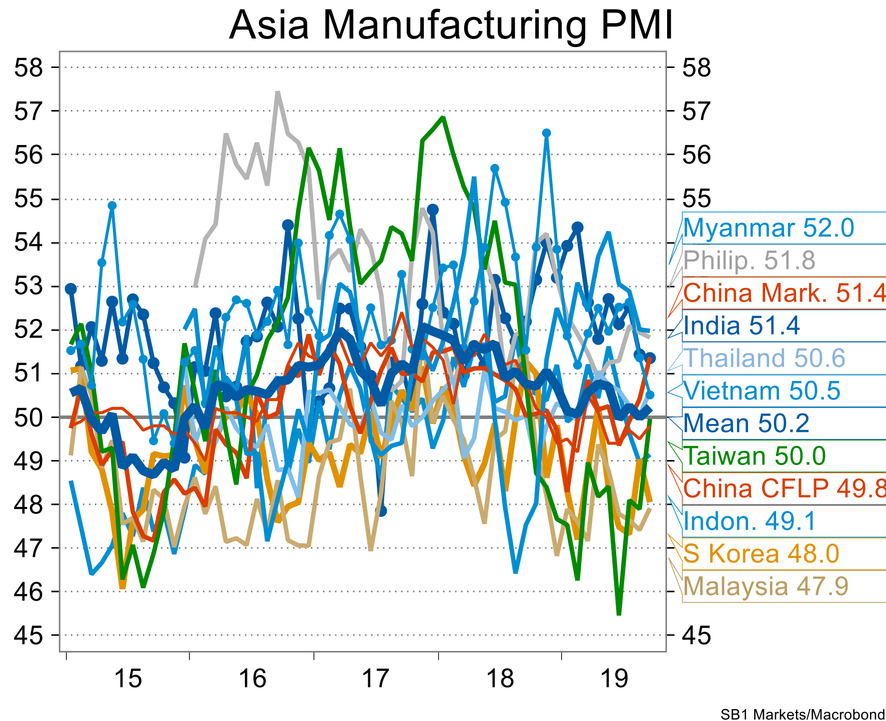
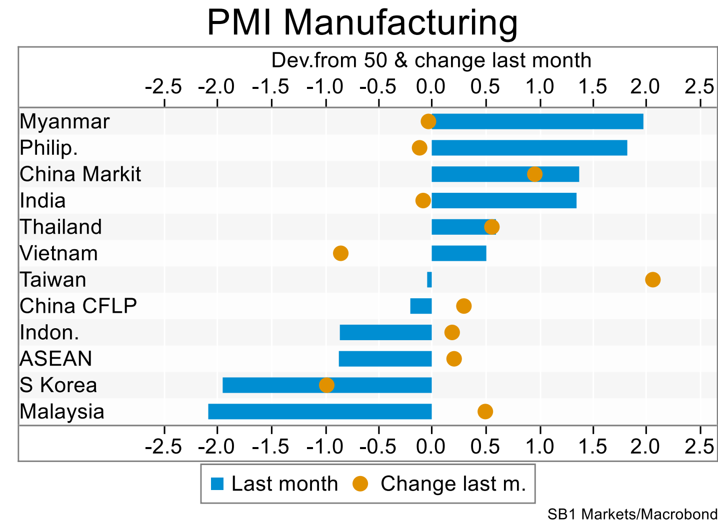
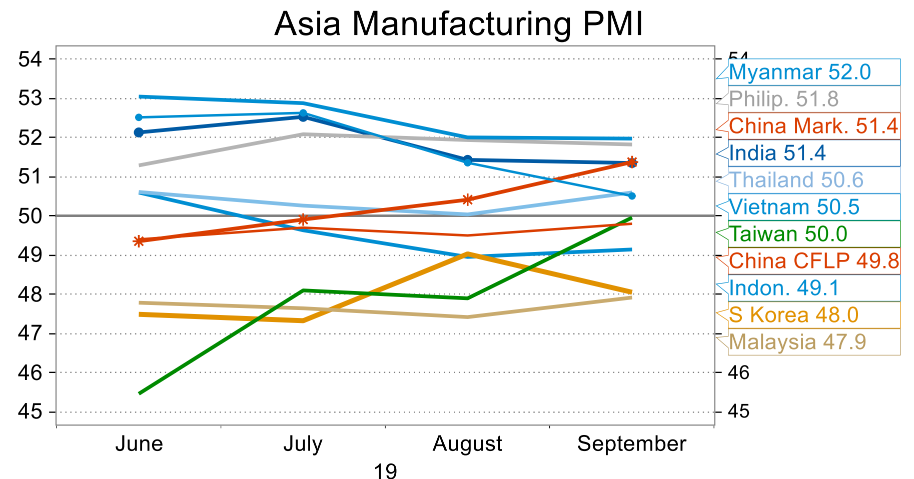
4 PMIs up and 3 down in rest of EM Asia in September

6 countries/regions are now below the 50-line, S. Korea and Malaysia at the bottom, 6 above







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

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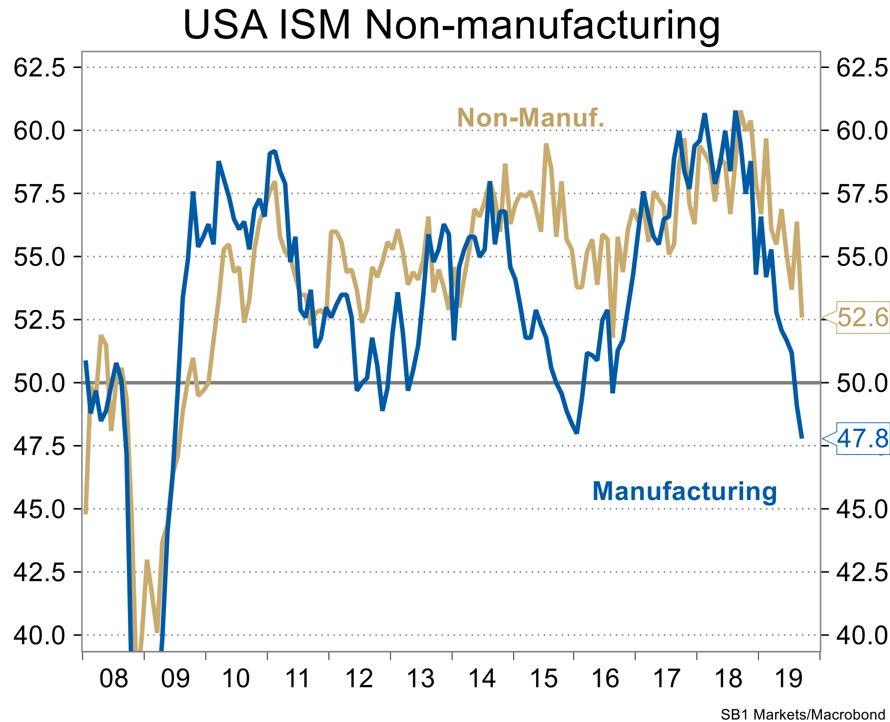
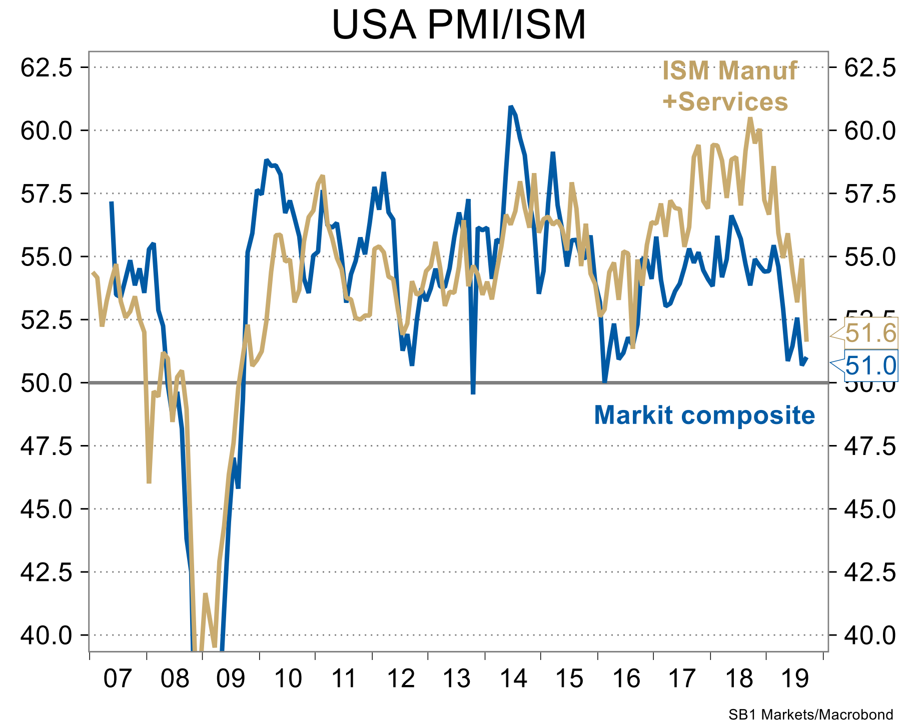
When pessimISM takes over

Manuf. ISM dropped 1.3 p, 'services' down 3.8 p, as the manufacturing weakness spreads?





- Both ISM indices came in far below expectations in Sept. Manufacturing businesses in the ISM survey are noting the worst downturn since 2009. Non-manufacturing businesses are still reporting growth, however, at a substantially slower pace, adding to signs that the manufacturing weakness is bleeding over to other sectors
- Markit's PMI, which has been somewhat less volatile than the ISM the past years, noted a marginal upswing in Sept. Still, the survey has been heading steeply down and is no doubt reflecting a rapid slowdown. The avg of the 'composite' ISM and PMI is now pointing to a stagnating US economy

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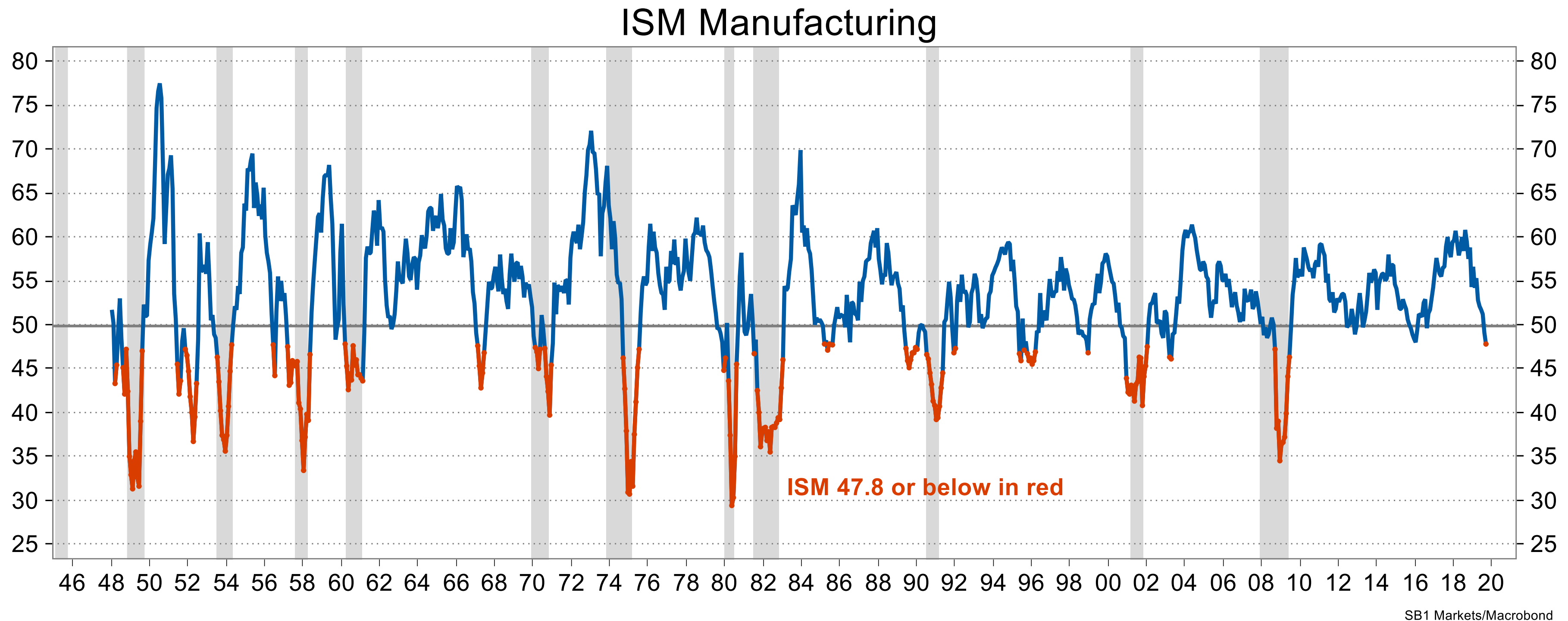
Manufacturing ISM plunged once again, weakest since 2009

At present level, 70% recession risk, based on (a manufacturing heavy) history



- Manuf. ISM fell to 47.8 in September, a 1.3 p decline. A soft recovery, to around 50 was expected after the steep drop in August. The ISM is now at the lowest level since the Financial Crisis. The speed down is highly worrisome, even though other surveys are not as downbeat as the ISM
  - » In the ISM survey, just 3 out of 18 sectors reported growth and 15 sectors reported a contraction, the weakest mix since 2009
- Businesses report contracting new order but no deterioration from the August survey. However, export orders plunged to 41.0, also the lowest since the FC. An evident sign that trade war uncertainties are now hampering demand, although domestic orders are not shining, either
- The manufacturing ISM has fallen to 47.8 p (or below) 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions (double dips), and 6 times without any outright recession. Thus, the odds are not that attractive anymore. In addition, growth has slowed substantially every time the ISM fell down to the present level

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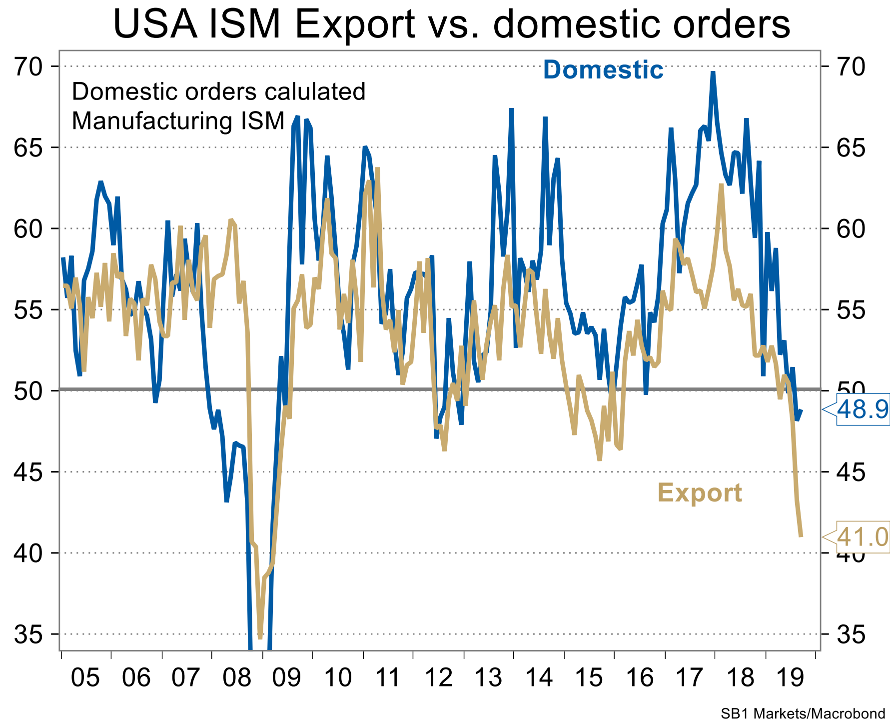
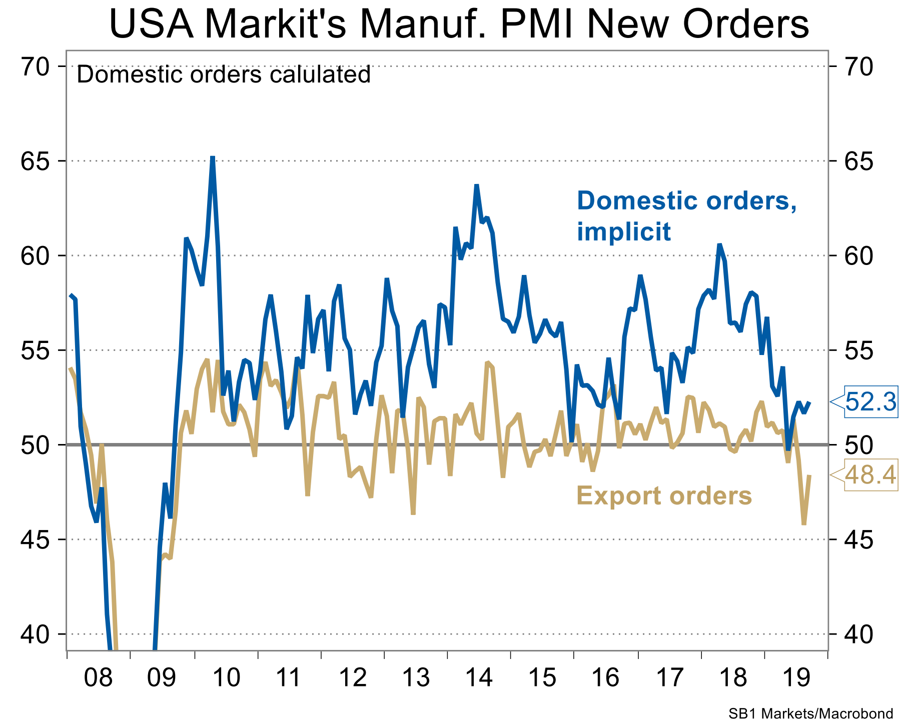
Export orders 'collapsing', domestic demand waning too

Domestic manuf. orders are much weaker according to the ISM than Markit but no doubt slowing





- The ISM export order index fell 2.3 p to 41 in Sept, the lowest level since the Financial crisis. Export orders are declining according to Markit's PMI too, although less than the ISM reports. More on the export outlook on the next slide

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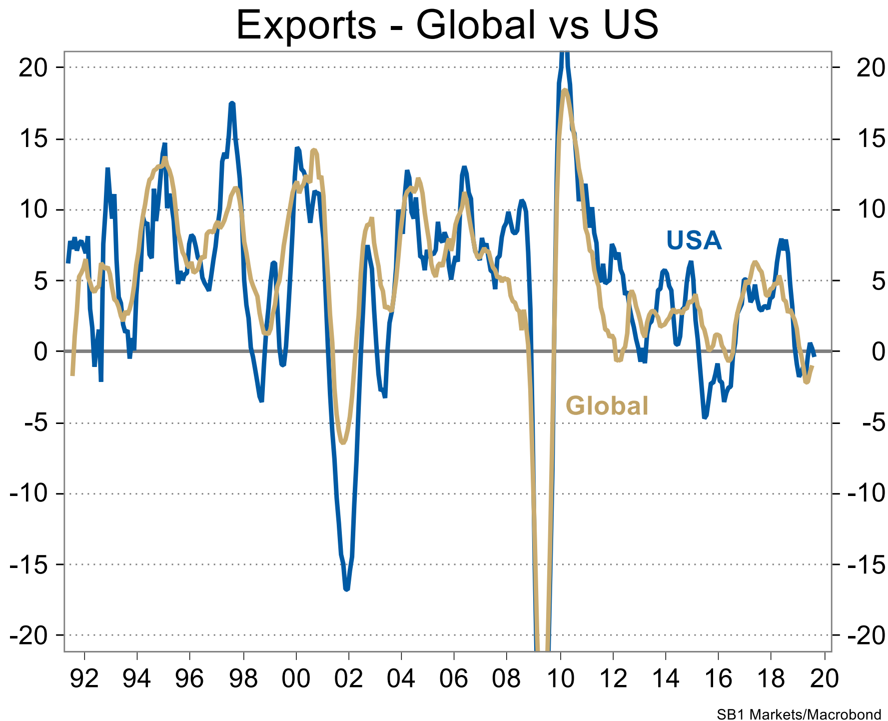
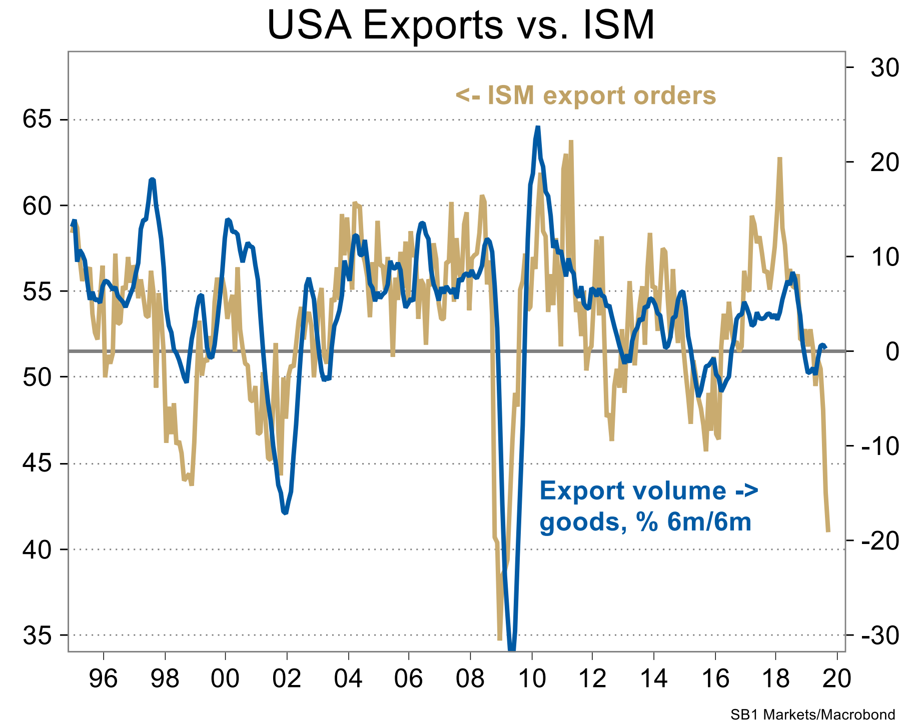
Export outlook not the best anymore... (And it's not the dollar, stupid...)

The ISM export order index signals a sharp decline in US exports. But if that's correct...





- ... some other things will probably have gone sour as well
- US exports are closely correlated to global exports, it's just a tad more volatile (and a little slower growth rates over time). The slowdown in US exports now, mirrors the global export setback (as normal)
  - » The strong USD has some impact on exports, but less than 1% now - and a miniscule impact on GDP growth
- The ISM export order index is more closely correlated to actual export than Markit's export order index (which rose a tad in Sept)

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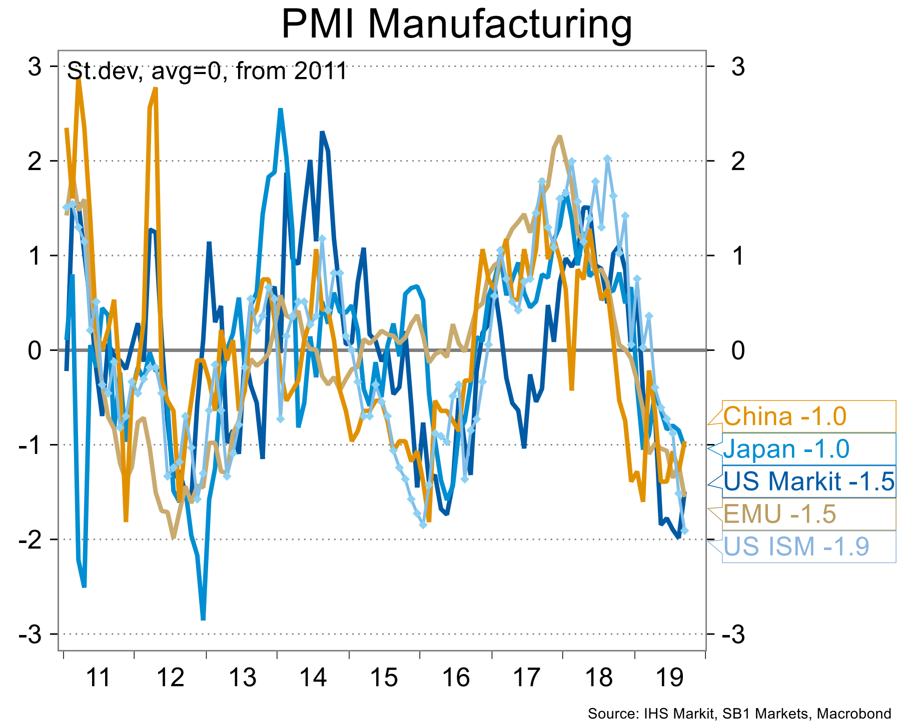
BTW, who has slowed the most, US or China?

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 (though just since 2011), the sharpest downswing recent months has been in the US! And ISM's PMI index is the weakest of them all in Sept

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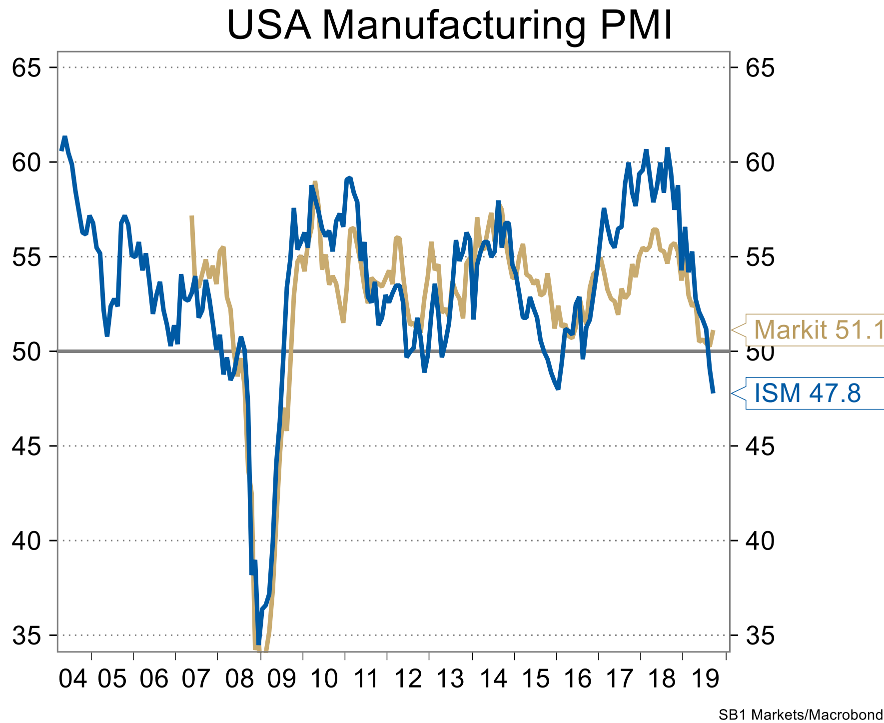
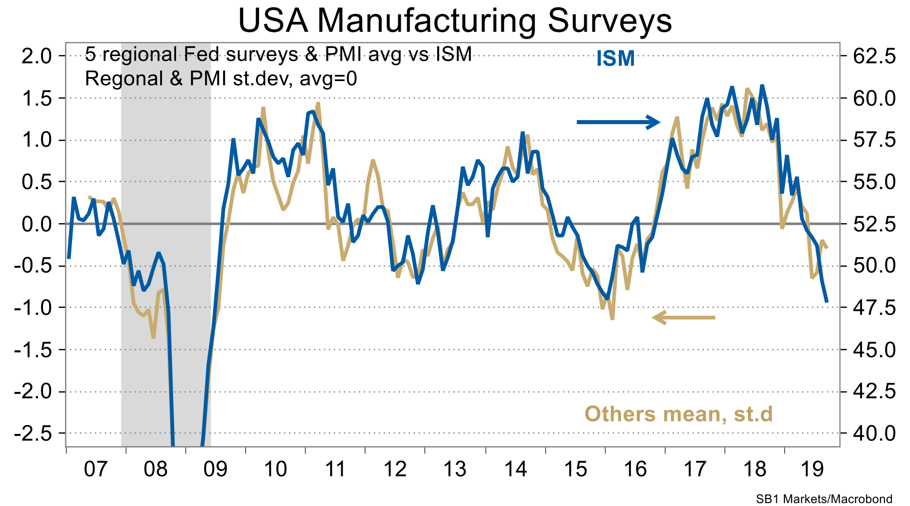
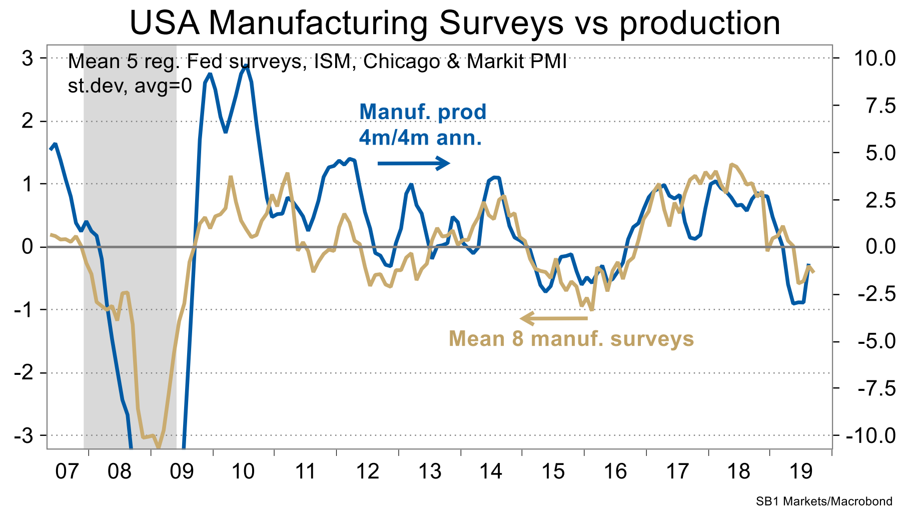
ISM weaker than Markit's PMI and others surveys but the direction is set

Markit's PMI ticked up to 51.1 in Sept, the avg of PMI and reg. surveys are more upbeat than ISM







- Markit's manuf. PMI rose 0.8 p in September, 0.1 p higher than the prelim. estimate. Fed's regional surveys weakened slightly, in average, however the levels are significantly higher than the ISM
- The avg of manufacturing surveys is anyway signalling a contraction in manufacturing production
- 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

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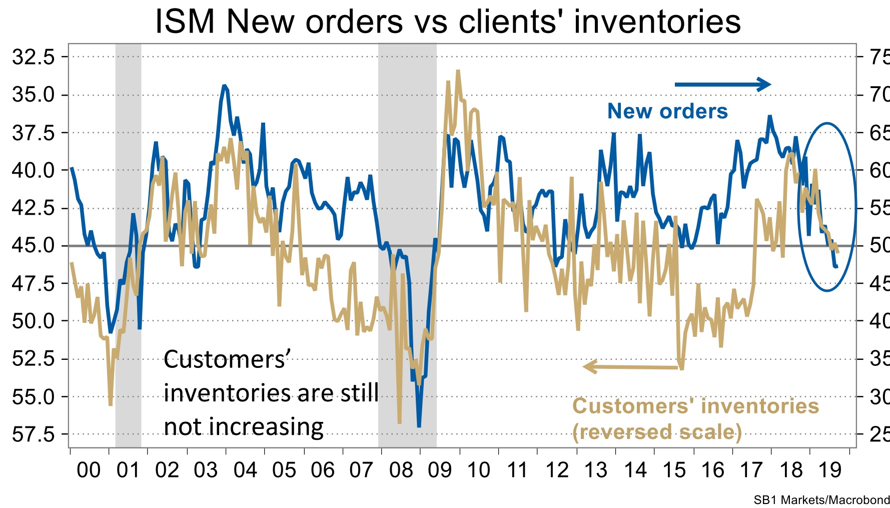
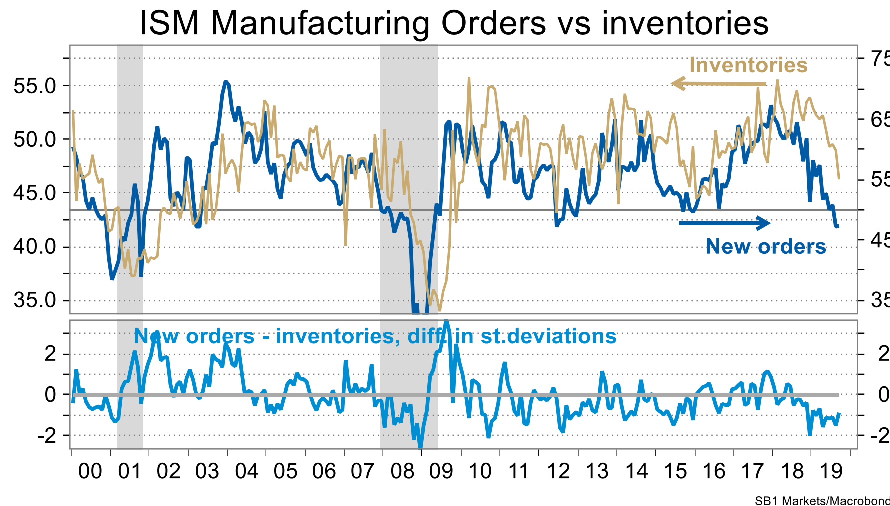
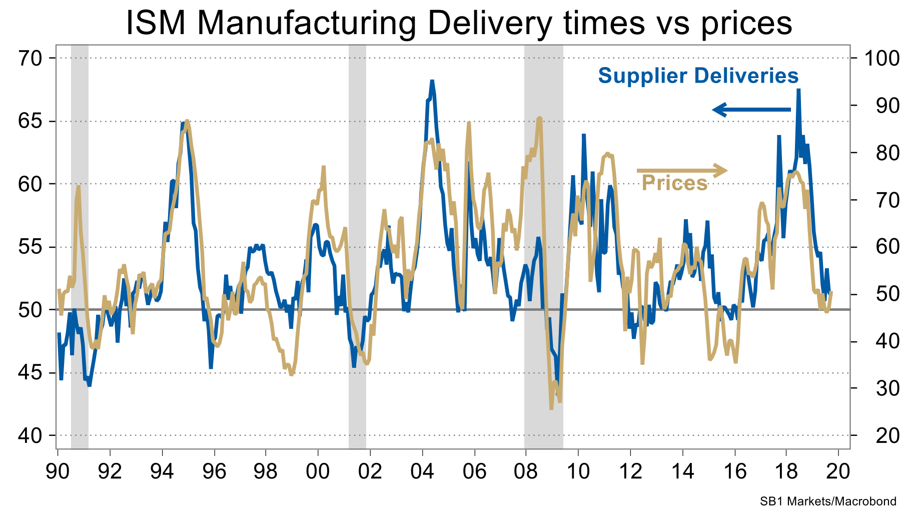
Weakest manufacturing order inflows since 2009 in Aug/Sept

Delivery times & prices below avg, inventory growth is finally slowing, because orders are reduced







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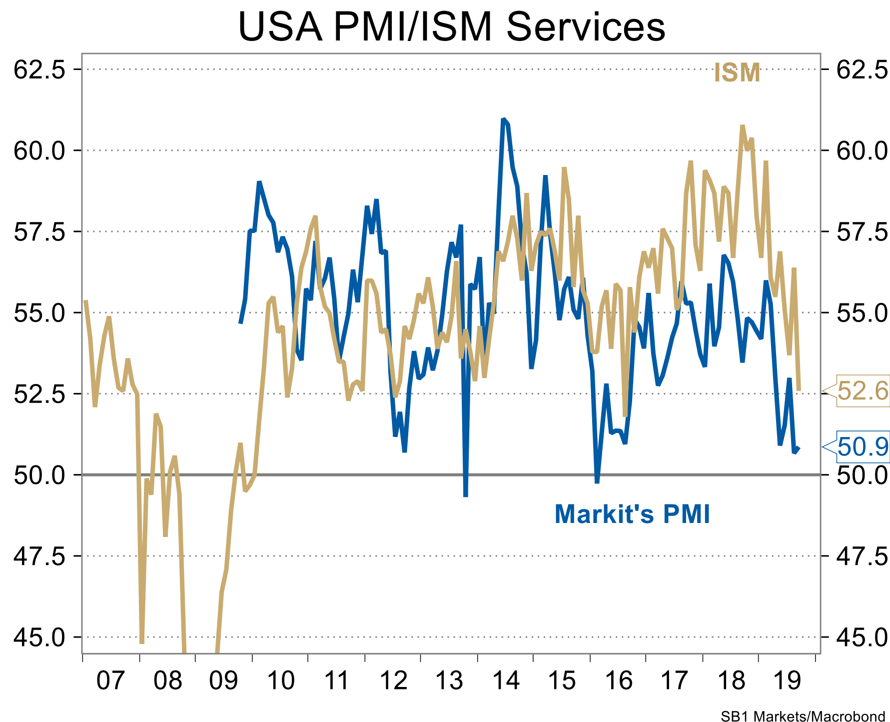
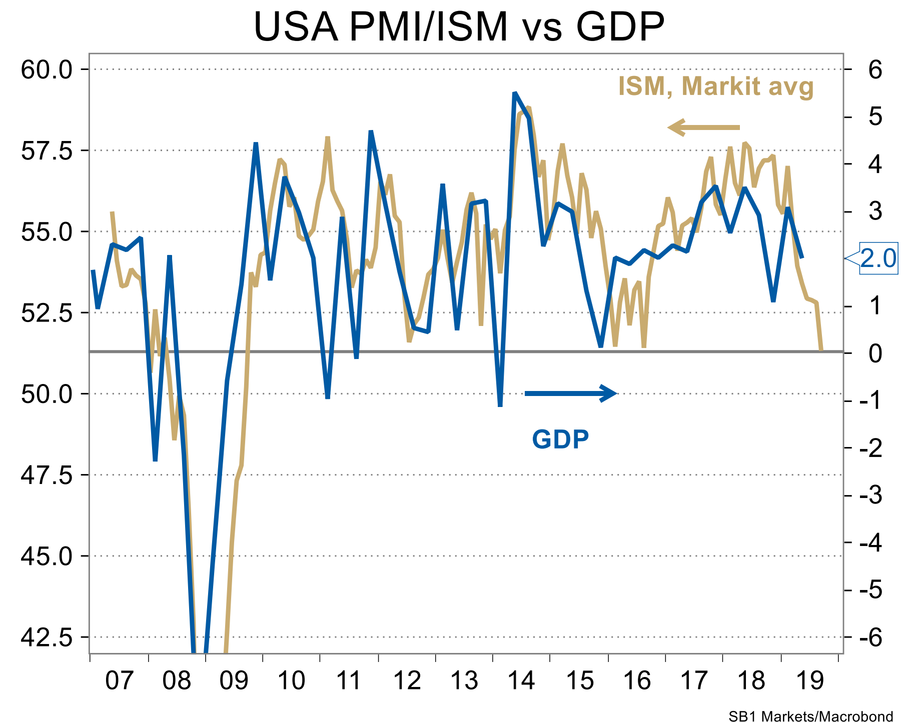
Services ISM tumbles too, Markit steady but the avg signals stalling GDP

Non-manuf. ISM slipped 3.8 p, Markit services up 0.2 p, both reporting a rapid growth slowdown





- Non-manuf. ISM came in far below expectations, down 3.8 p vs a 1.4 p expected decline. The level at 52.6 still signals expanding activity, however, at a rapidly slower pace. The 'composite' ISM (manufacturing weighted 20%, services 80%) tumbled to 51.6, the lowest level since one month in 2016, and before that, since 2009. A strong indication that the downturn in manufacturing is spreading to the broader economy
  - » 13 of 18 non-manuf. sectors reported growth and 4 reported a decrease. Troubles attracting qualified labour and rising wage costs are weighting on businesses
- Markit's service sector PMI inched up in Sept, however, the level is low, pointing to just marginally positive growth rates
- **The avg of the composite PMI/ISM points to an abrupt slowdown in the US economy, to zero GDP growth**

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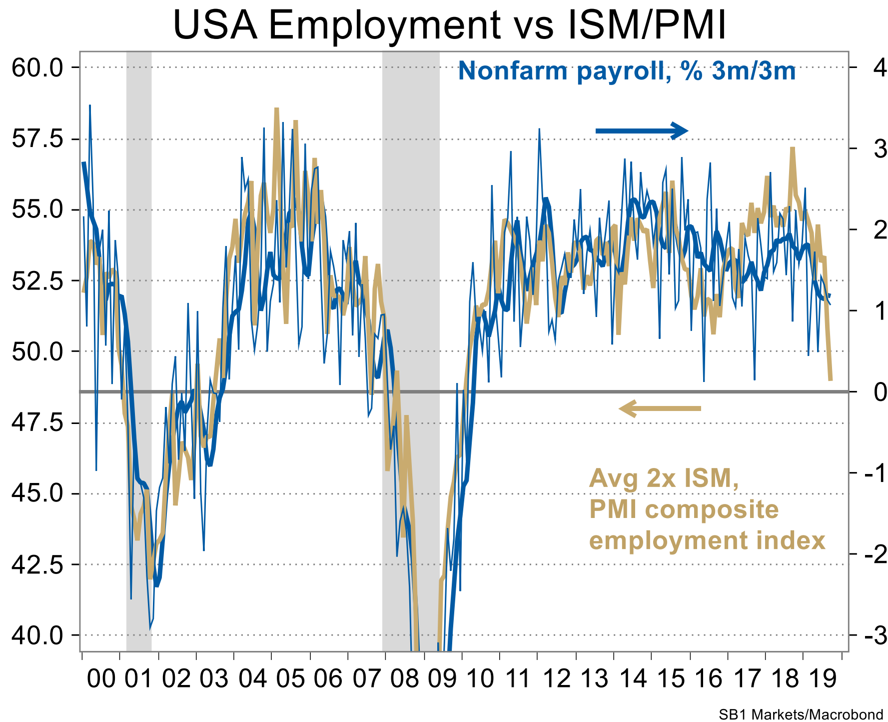
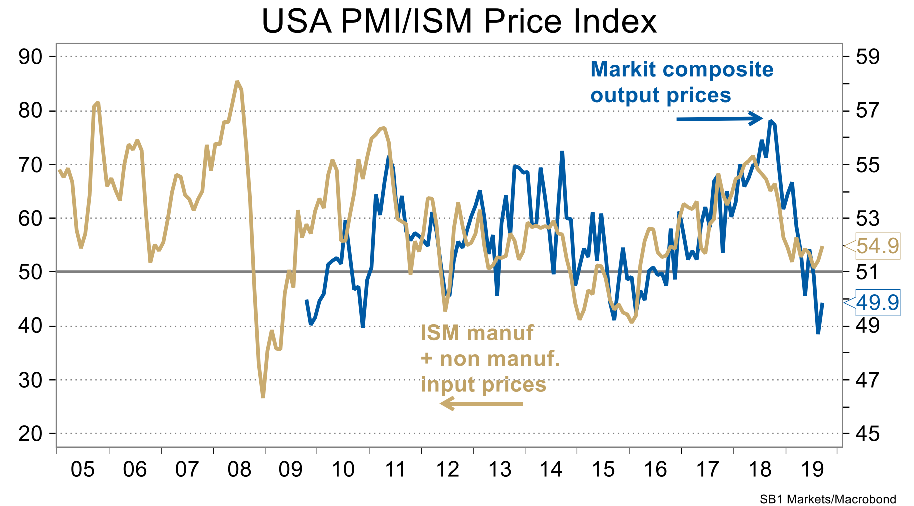
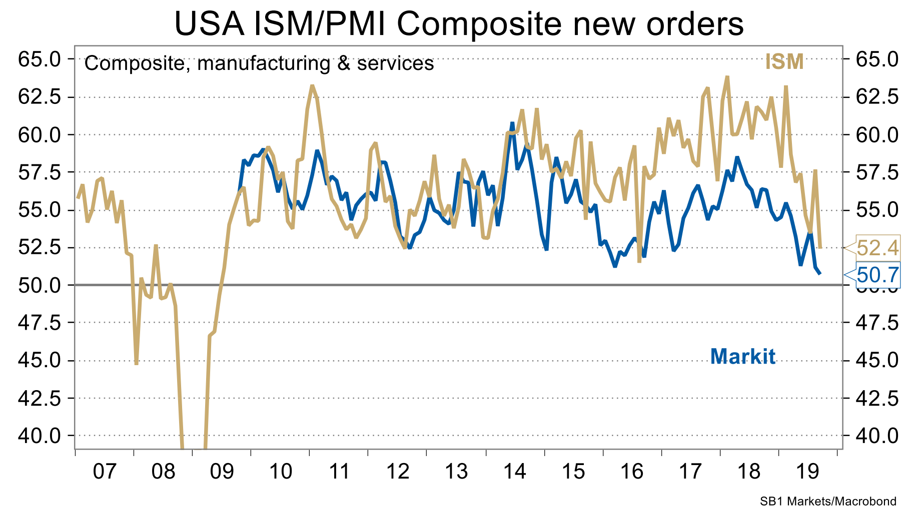
Composite PMI/ISM signals a steep drop in employment growth

Composite orders are still expanding but much slower; demand is no doubt weakening







- Both Markit and ISM reported a sharp slowdown in employment growth. The avg of ISM/PMI signals stalling growth in employment. There are some outliers in these surveys but anyway a highly worrisome sign!
- Composite orders are still expanding, at a much slower pace
- ISM is still reporting modest growth in prices, slightly higher in Sept, while Markit's PMI reports a decline

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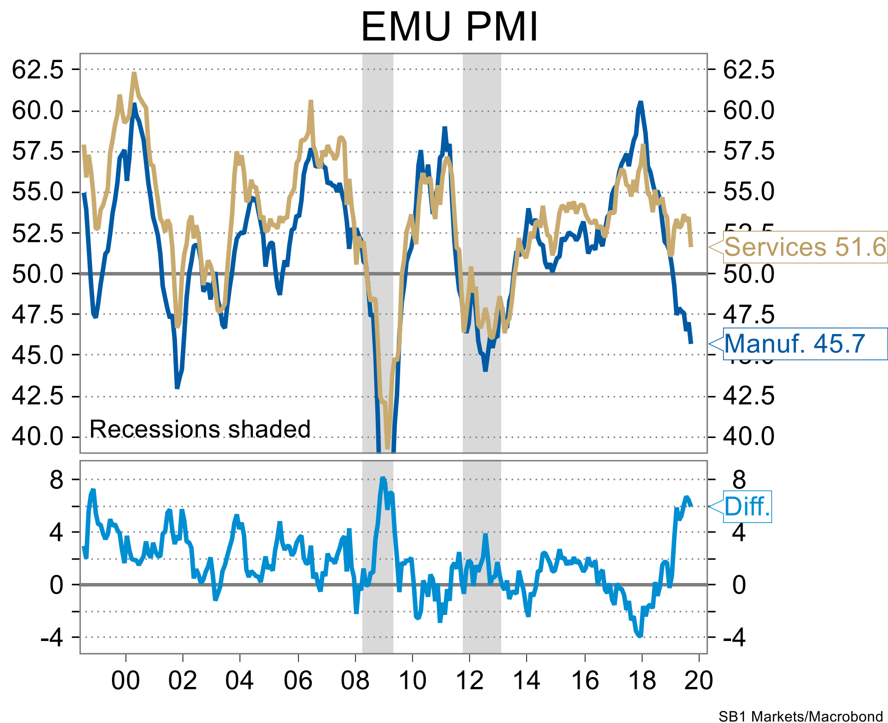
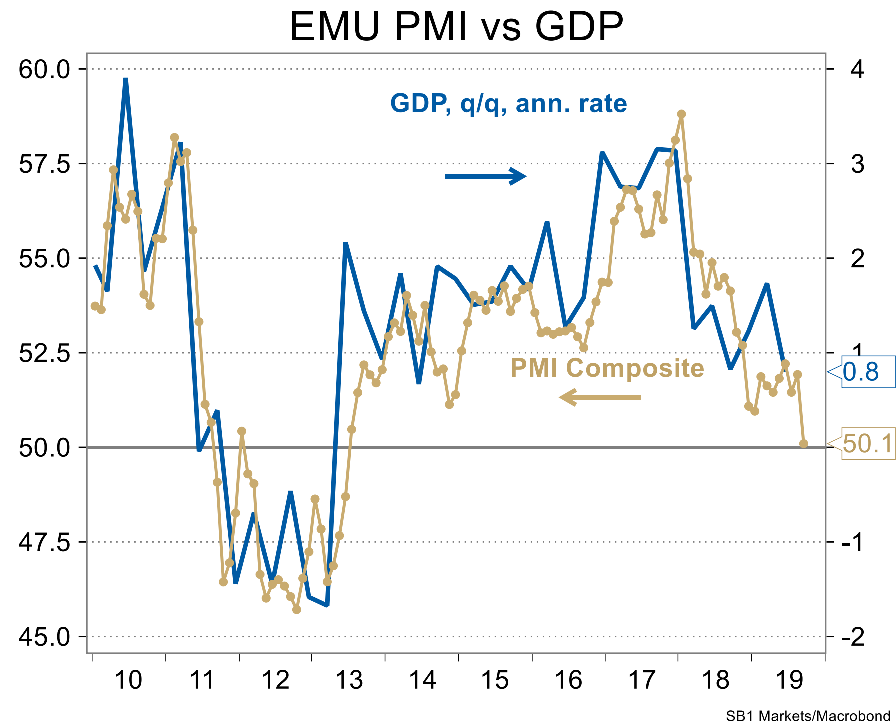
Eurozone PMI plunged in Sept, even weaker than the preliminary figure

Composite PMI slipped 1.8 p, 0.3 p lower than the first est. PMI points to stagnating GDP





- **The final composite index** came in at 50.1 in September, 0.3 p weaker than the preliminary figure, indicates that activity may have weakened throughout the month. The PMI at 50.1 is the lowest since the 2012 euro crisis and points to a stalling GDP
  - » Manufacturing PMI dropped to disturbingly low 45.7 (revised up 0.1 p), while services fell to 51.6, 0.4 p below the first estimate. The downturn in the service sector may indicate that the manufacturing contraction is now spreading to the broader economy
- **Any hope?** Households are still optimistic and consumption is not weak, while net exports and business investments have slowed. Unemployment is still declining, wage inflation is slowly accelerating, and credit growth is rising, although there is no boom. The slowdown is most likely triggered by uncertainties stemming from trade war, Brexit. The auto sector trouble is no doubt fuelling the downturn too. However, German domestic orders are tumbling, there must be a domestic problem too

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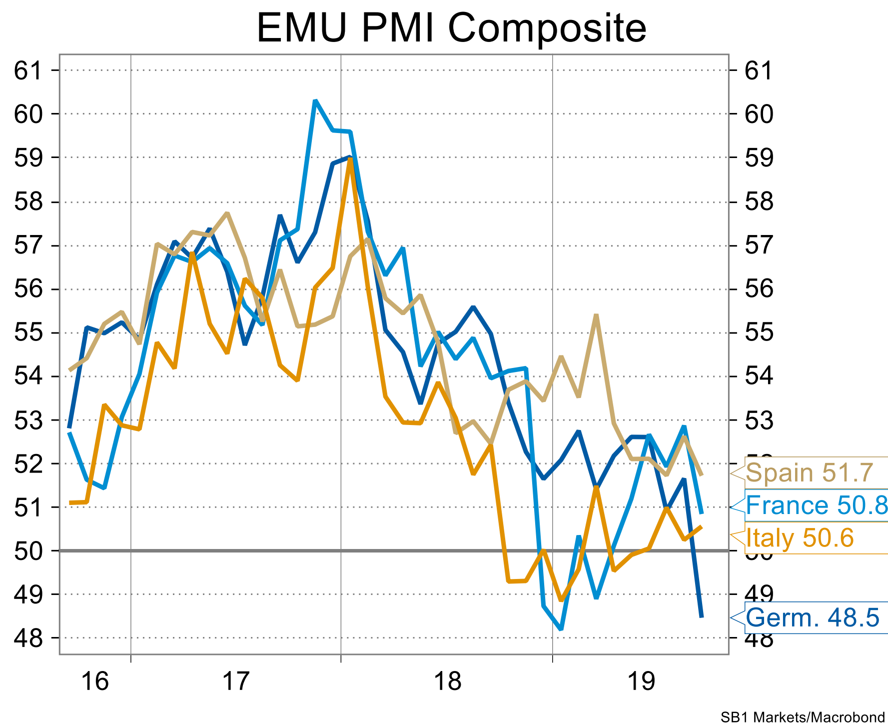
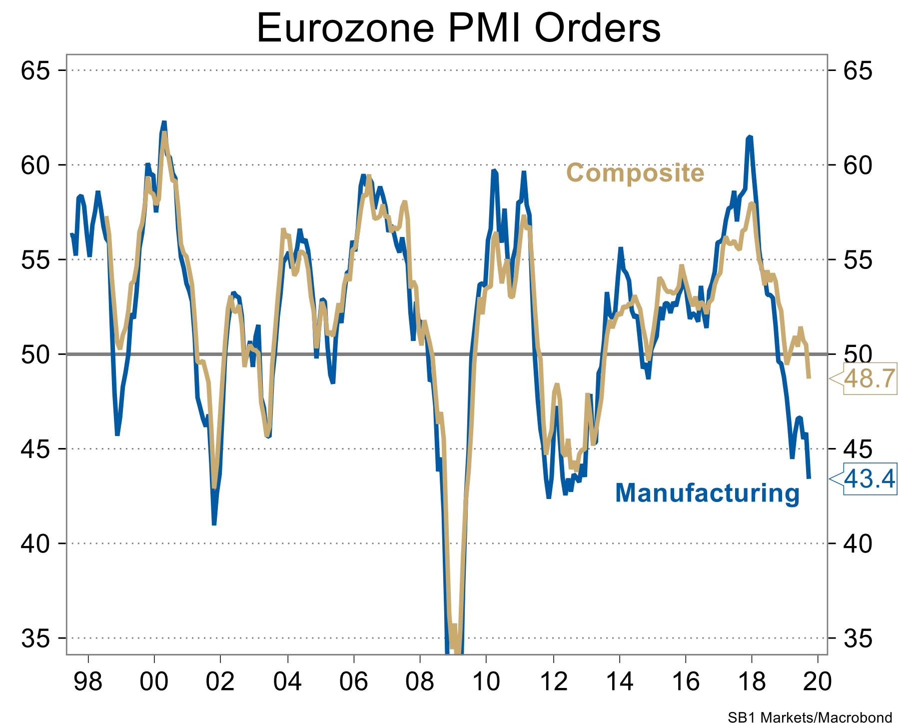
German manuf. the main drag but Spain is trending down. France, Italy trend up!

Manufacturing orders are tumbling – and composite orders are not increasing anymore





- Not many bright spots this month; Germany, France and Spain all reported deteriorating business conditions, Italy a tad up. However, barring Germany, all countries are still noting positive growth rates – and France and Italy trend up, from the January bottom for both
- Manufacturing orders plunged in Sept, signalling sharply falling order inflows. Composite orders are falling modestly

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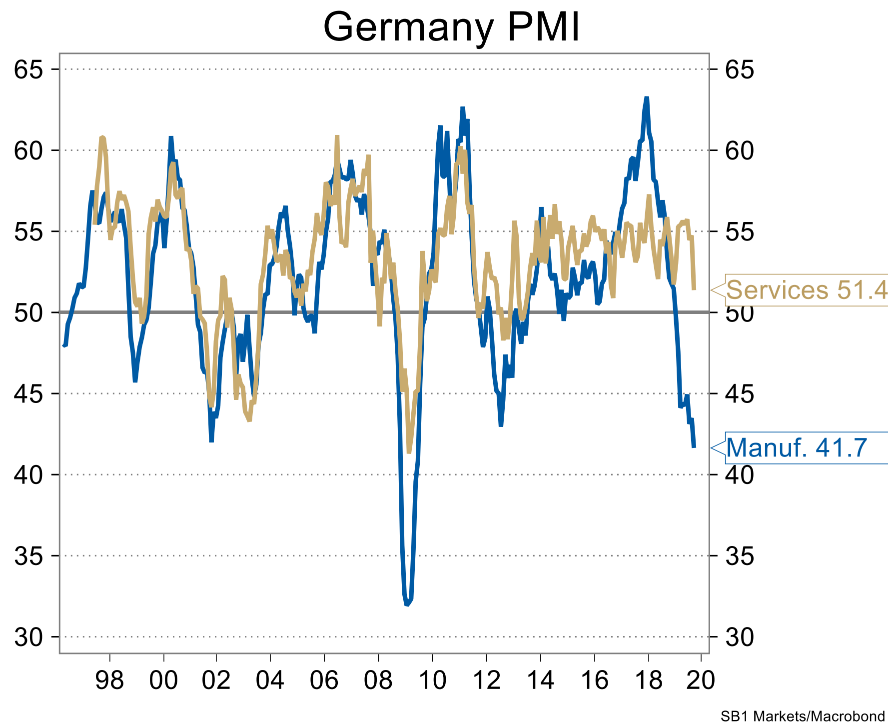
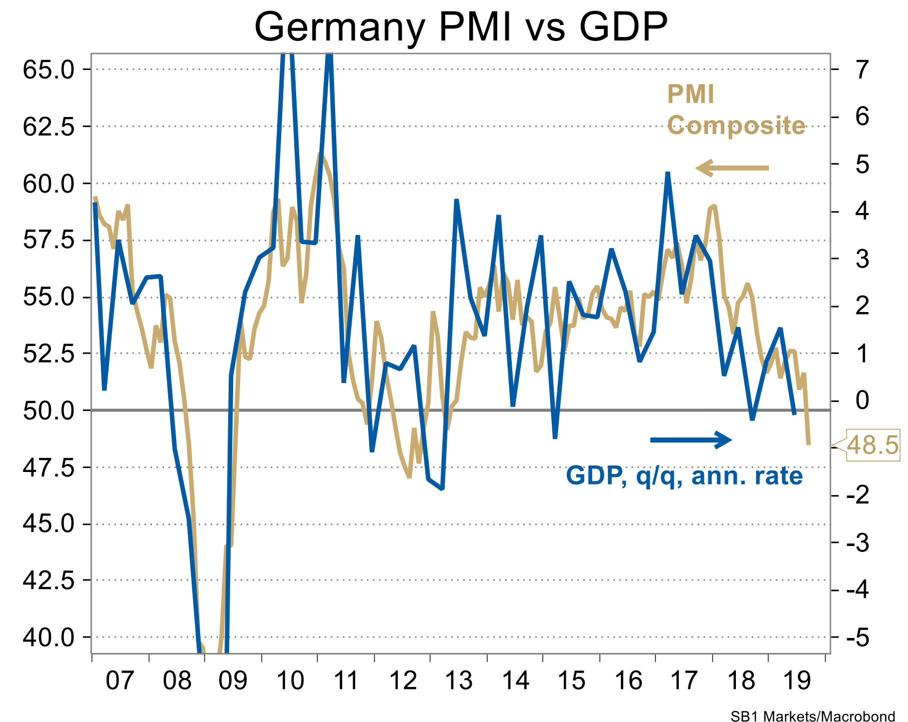
Manufacturing plunges – and now the service sector may be caving in too

Manufacturing down 1.8 p, 0.3 p above first est, services slipped 3.4 p, 0.9 weaker than the first est!





- The manufacturing PMI fell to 41.7 in Sept, far below expectations and the weakest since the financial crisis
- The service PMI fell steeply to 51.4, 0.9 lower than the preliminary figure, data must have deteriorated the latter part of Sept. The slowdown indicates that the manufacturing contraction may now be spreading to service sectors
- The composite PMI fell to 48.5 vs 49.1 in the first estimate. This is the first time the PMI falls below 50 since the 2012 euro crisis, fuelling fears that the German economy is sliding into recession. Other surveys are even more downbeat

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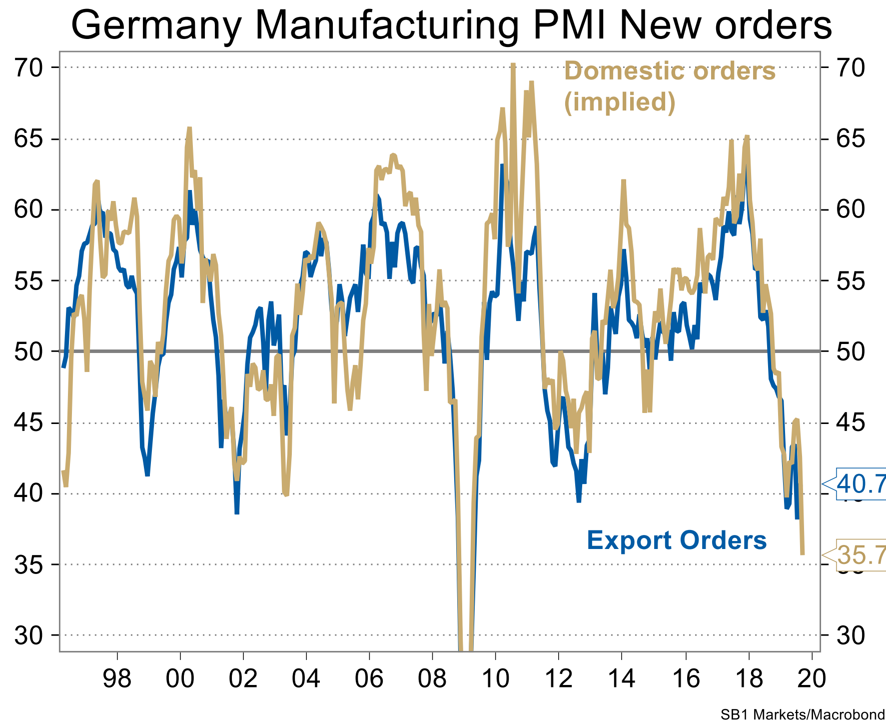
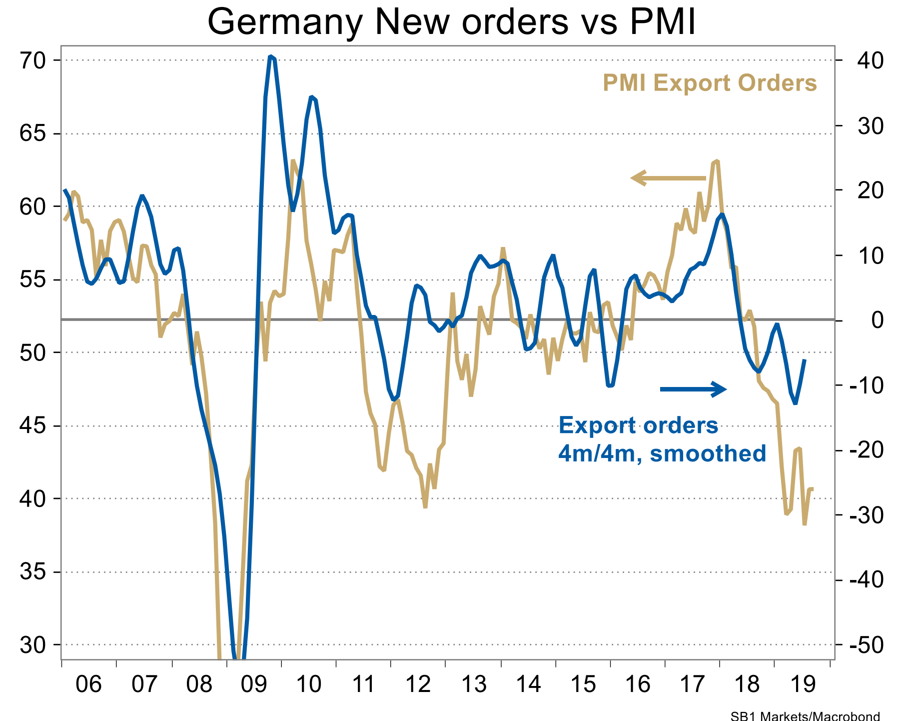
Germany: Businesses report steep declines in both export and domestic orders

In Sept, domestic demand fell more rapidly than foreign. Signals a decline in business investments





- Export orders are signaling a steep decline in actual export order. Actual orders have fallen but much less than the PMI indicates
- The most plausible explanation may be a mix of a maturing German manufacturing cycle, trouble in the auto industry and global uncertainties stemming from the trade war and Brexit. Not a promising mix…

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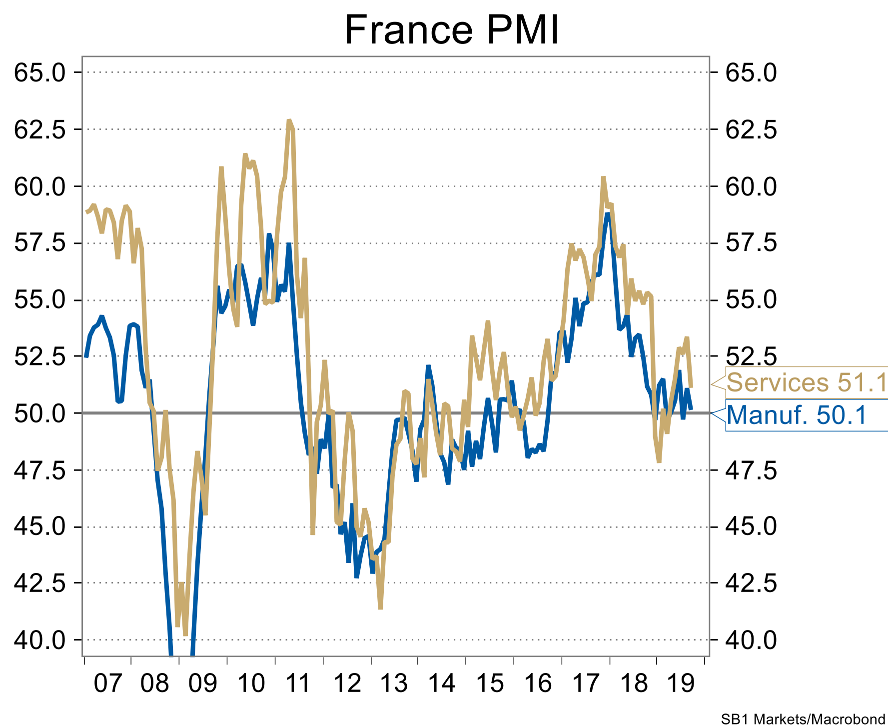
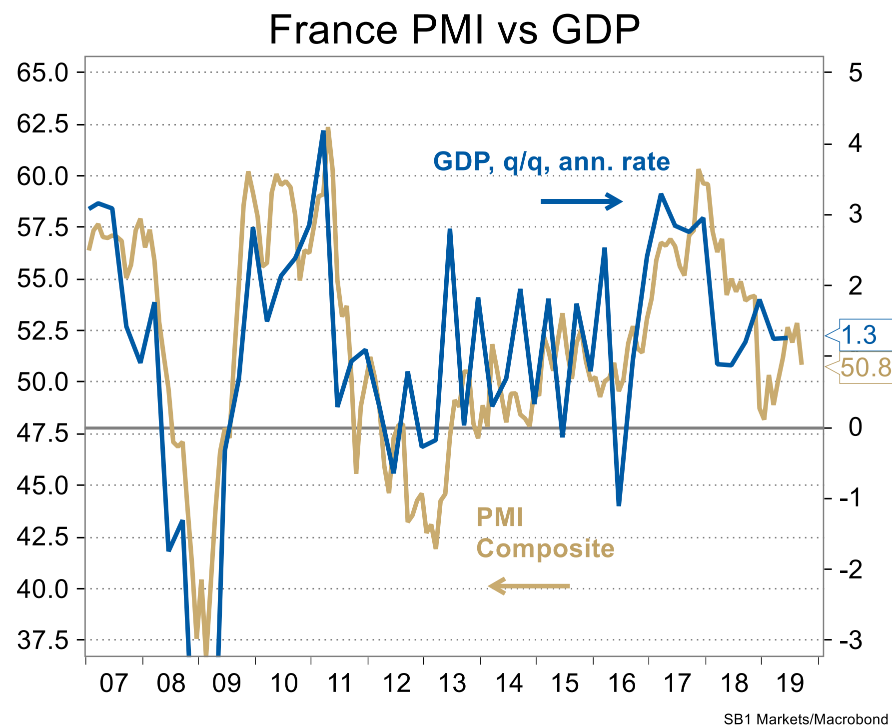
France: PMI down in Sept but still pointing to modest growth, at some 1%

Both PMIs were weaker than first reported in Sept, composite PMI at 50.8





- The manufacturing PMI ticked down 1 p in Sept, 0.2 p weaker than first reported. The service index came down 2.3 p, 0.5 p lower than the prelim. estimate. The manuf. PMI has stabilised at just above the 50-line recent months, holding up much better than the other ‘major’ Eurozone countries
- The composite PMI fell to 50.8, suggesting a slowdown to some 1% GDP growth, vs 1.3% in Q2

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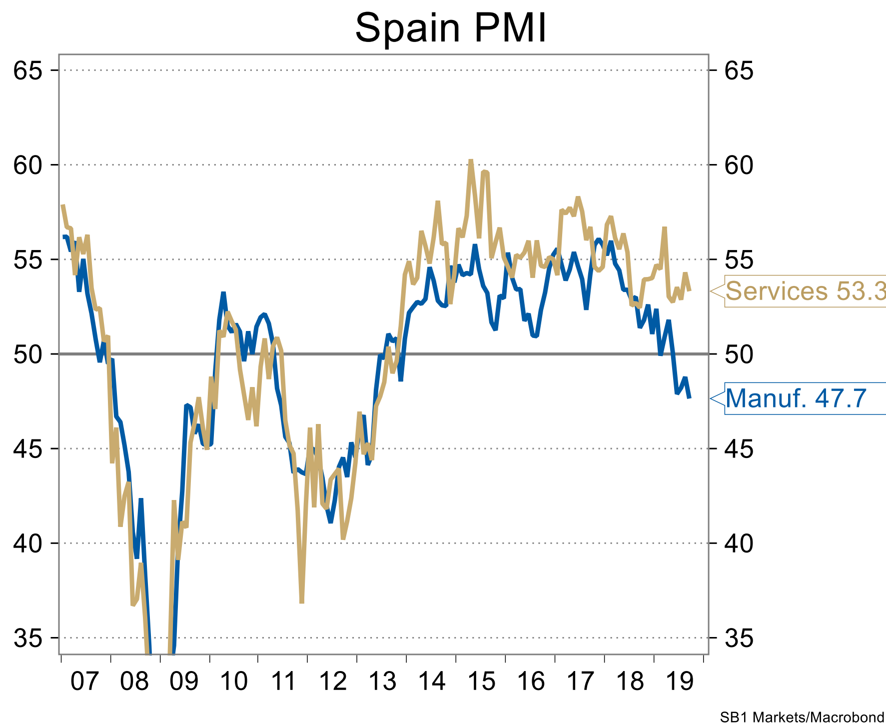
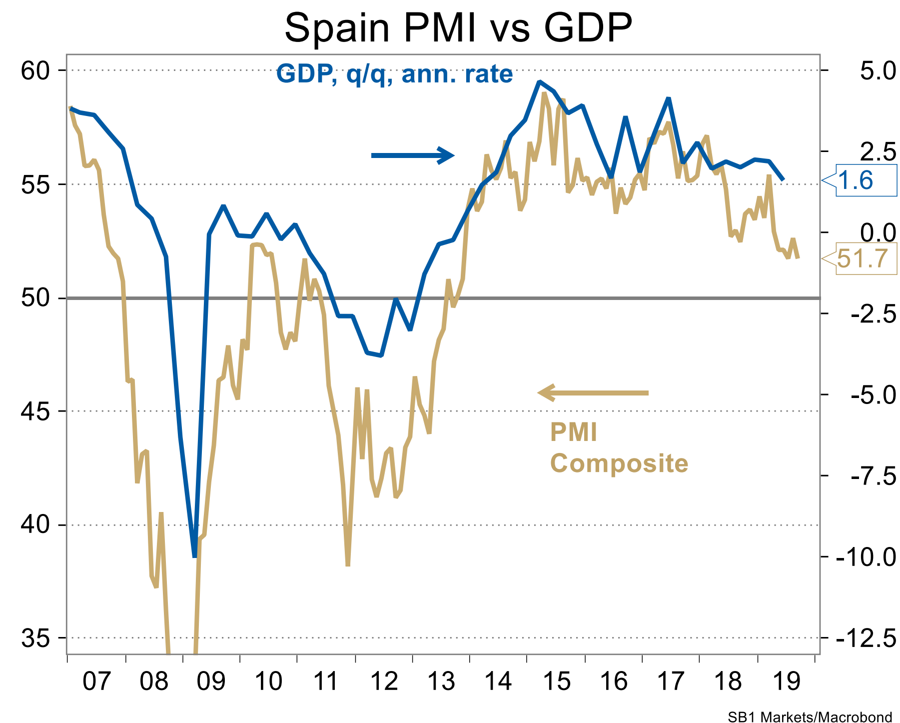
Spain: Composite PMI slides down slowly, fuelled by weak manufacturing

Both PMIs came down in Sept but services are holding up rather well, at 53.3





- The composite PMI fell by 0.9 p in Sept, both manufacturing and service indices contributed to the downfall
- Manufacturing businesses are no doubt struggling here too, while services are still growing at a solid pace

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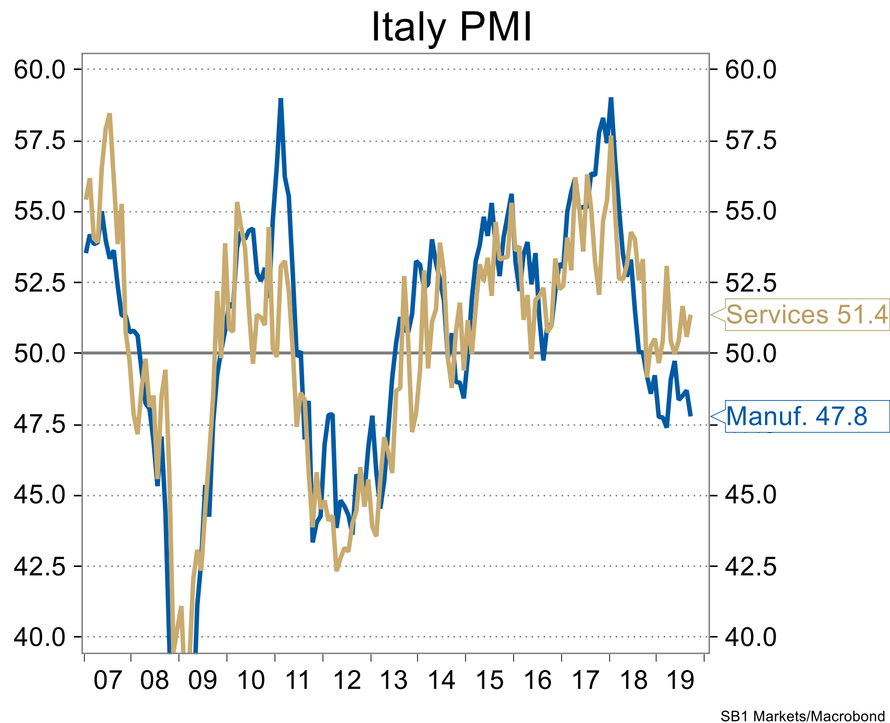
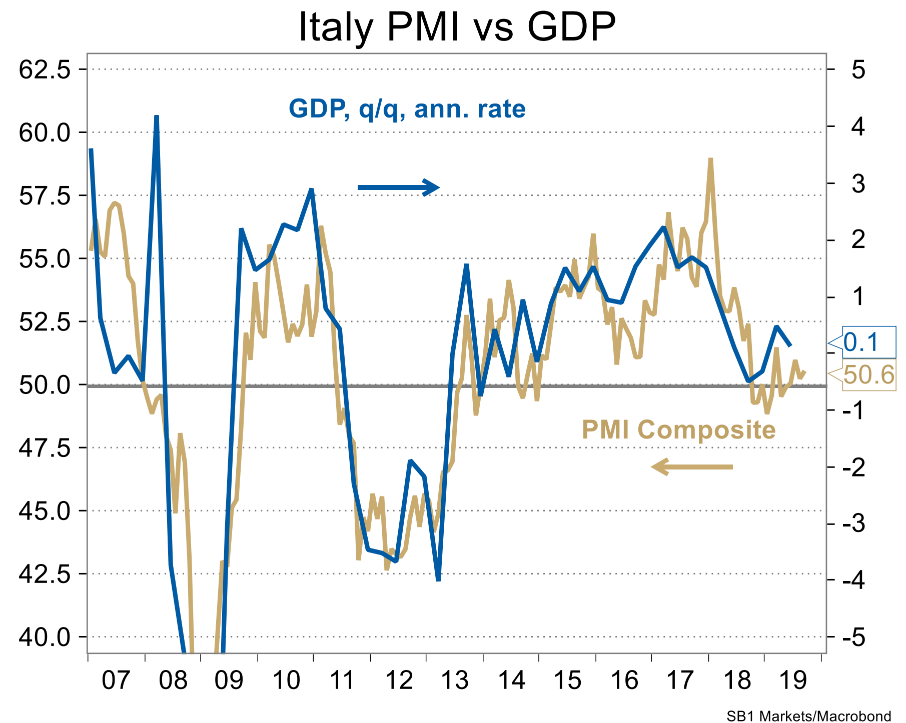
Italy: The PMIs point to continued muted growth

A slight recovery in September was boosted by services, manufacturing remains in the doldrums





- Composite PMI ticked up 0.3 p in September, to 50.6. The PMI has been trending slowly up from the local trough in January but the composite index remains to close to the 50-line for comfort. GDP grew rose just 0.1% q/q annualized in Q2, the PMIs are not pointing to any upswing
- The government expects 1.5% growth in 2019, to keep the budget deficit (almost) in check. That's impossible – and the deficit will widen substantially, whatever the new and more and moderate government may decide

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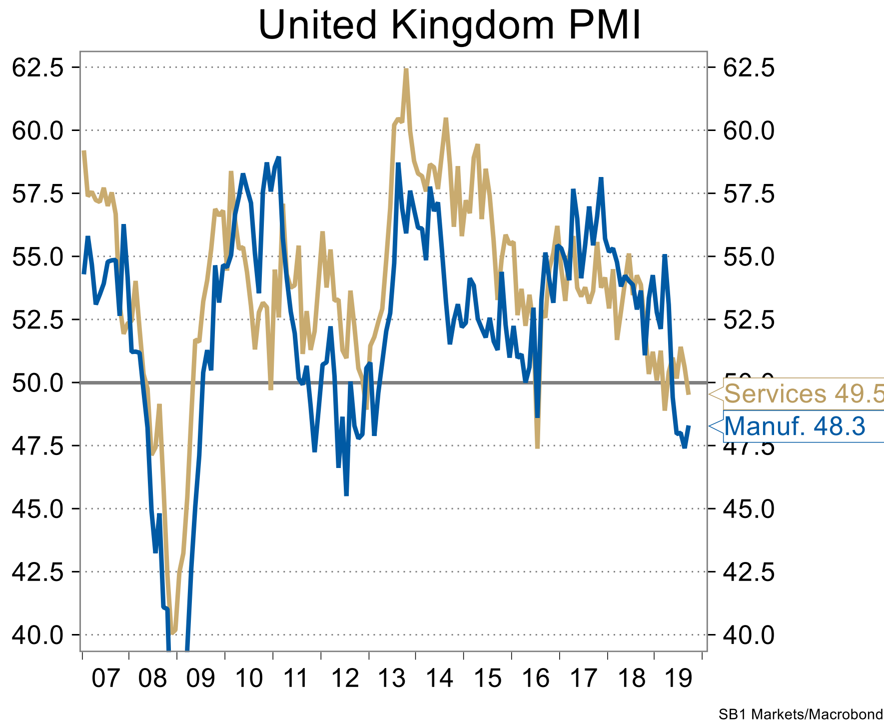
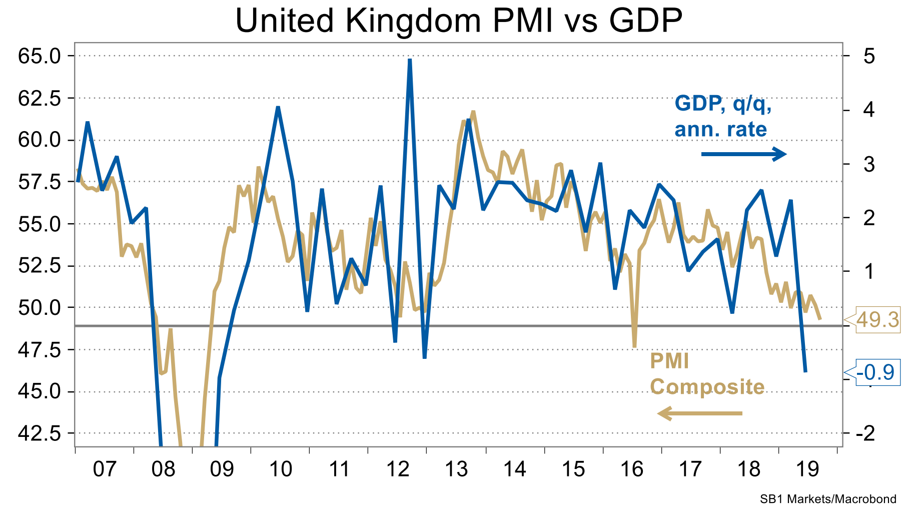
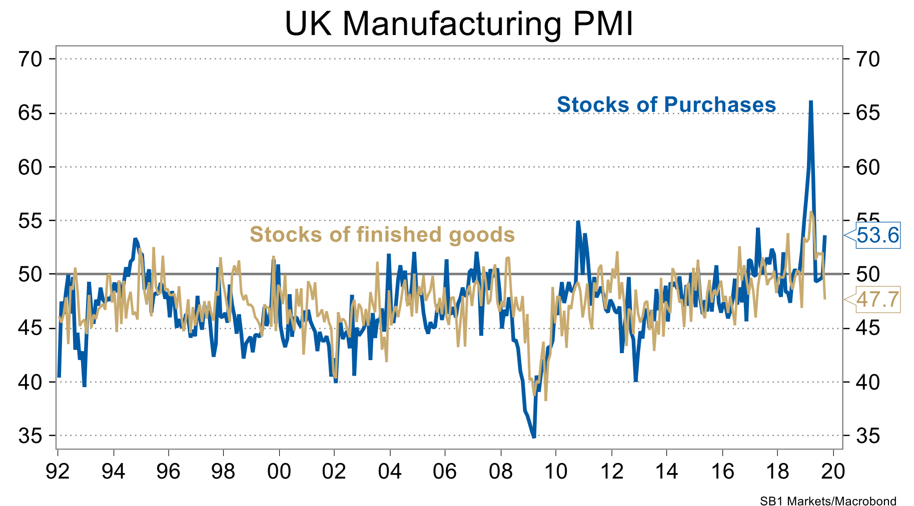
Manuf. PMI up but still well below the 50-lind, services down to below 50 too

UK manufacturers still struggle after stockpiling in the spring. Composite PMI signals muted growth







- Manuf. PMI rose 0.9 p in Sept but remains well into contraction mode. In the spring, activity was held up by massive efforts to purchase materials ahead of the original Brexit deadline. This is now being put 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 declining but less so in Sept
- Services PMI confirms a broad slowdown in the UK economy

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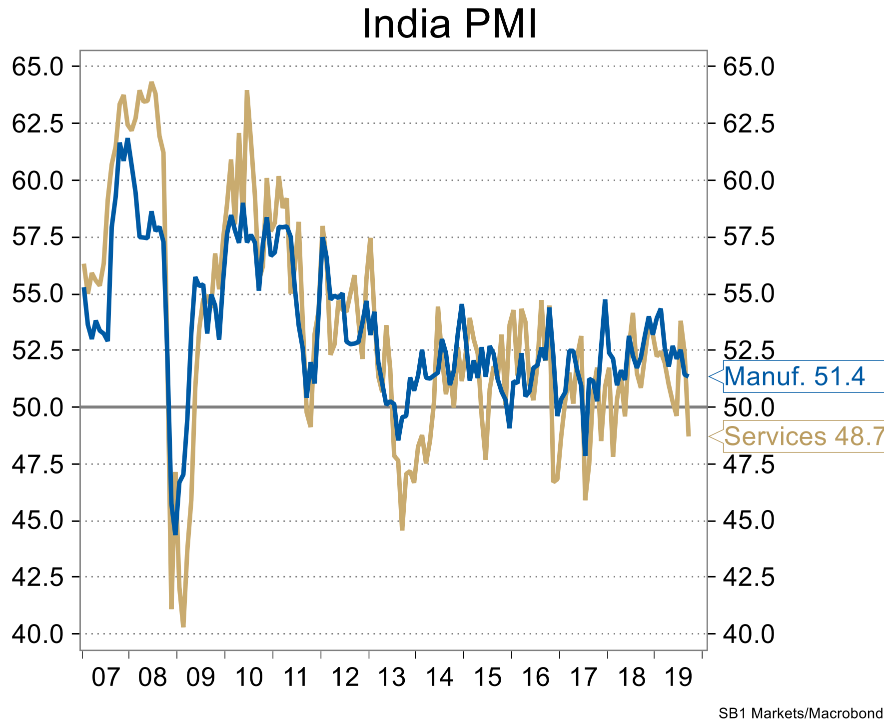
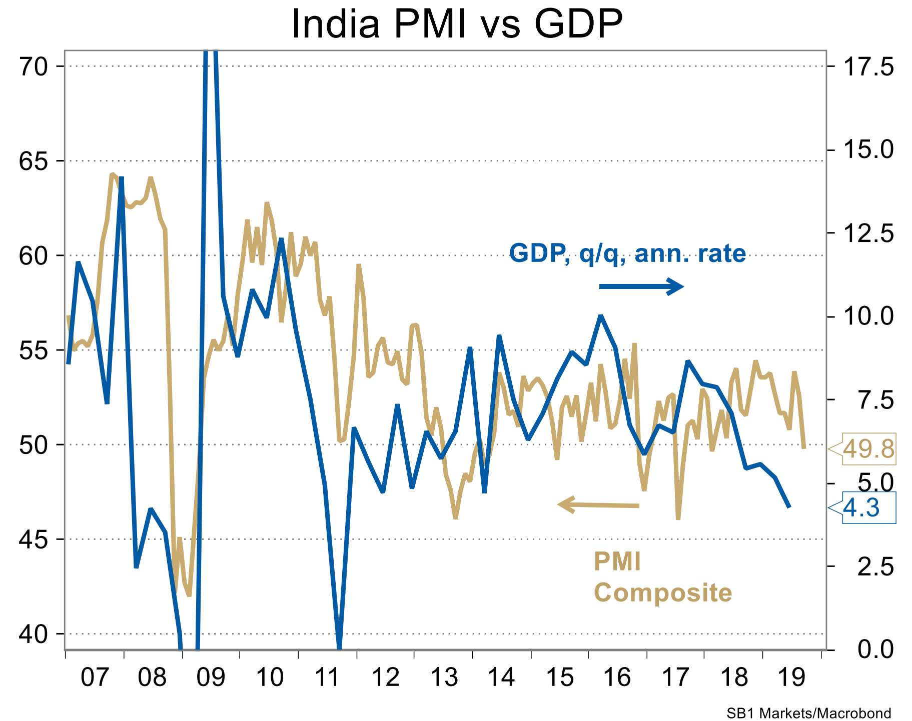
Composite PMI dropped in Sept but has not recognised the (actual) GDP dip

Services fell steeply and are reporting falling activity. Manufacturing remains at a decent level





- 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, even as it has fallen the two past months

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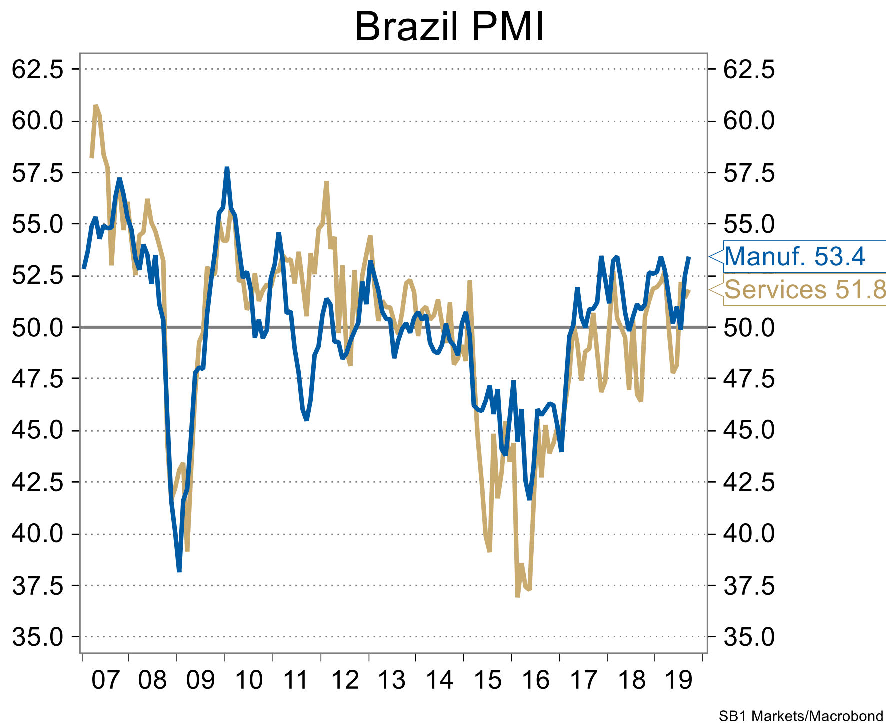
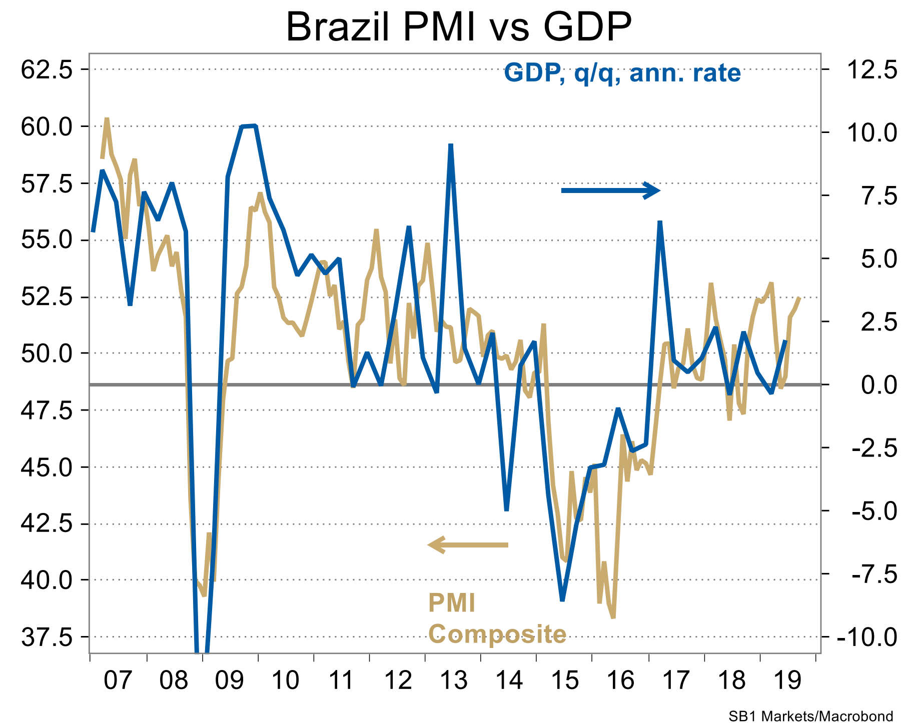
Strong rebound in manufacturing, services not bad either

The composite PMI edged up to 52.5, signalling somewhat higher GDP growth

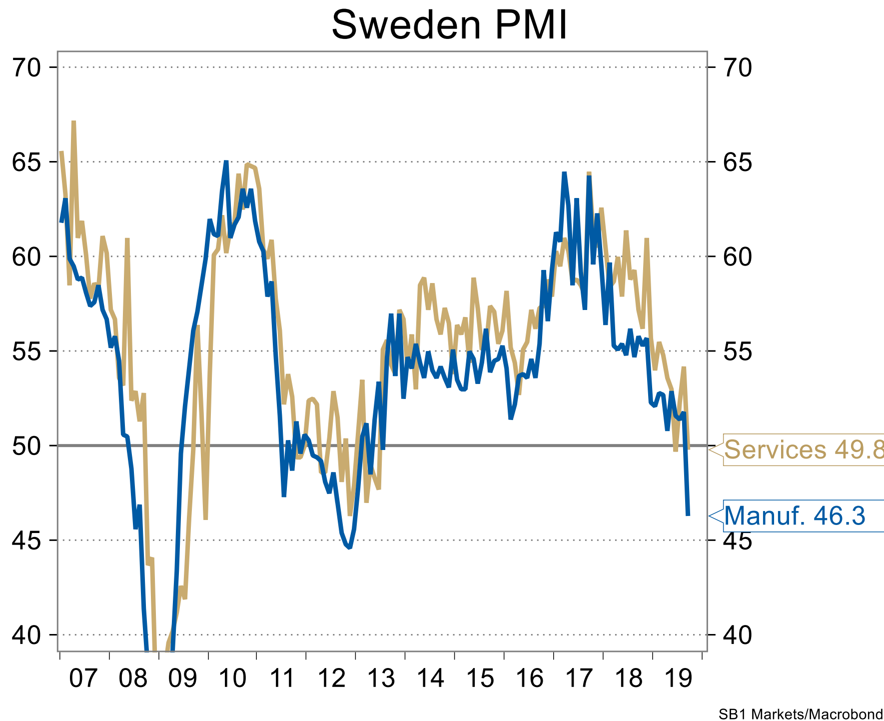


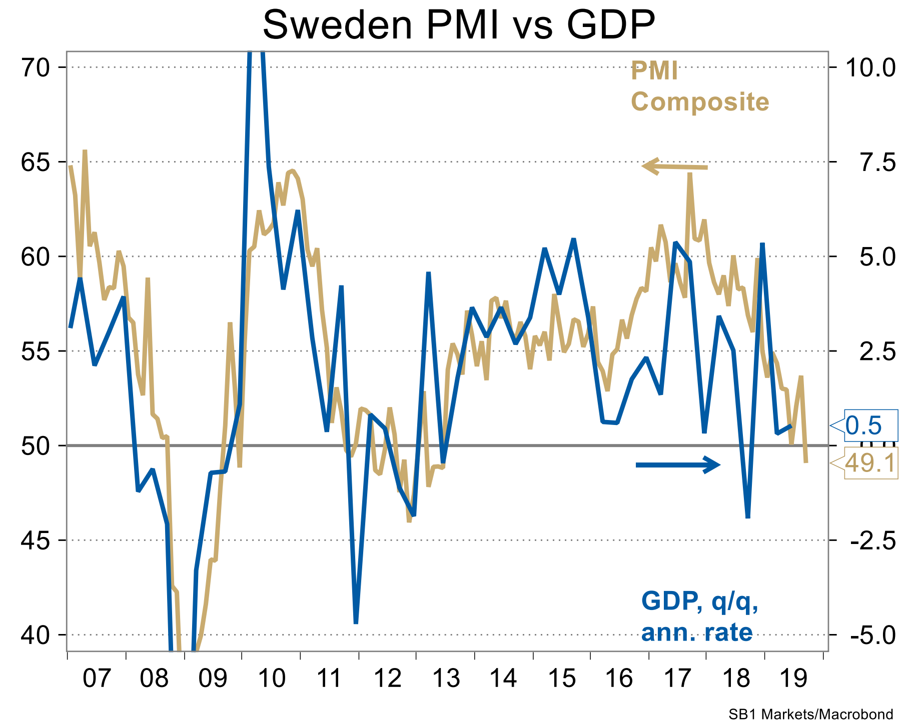


- GDP growth was up 1.8% in Q2, recovering from two quarters of contraction
- Disclaimer: The Brazilian PMI is rather volatile –and does not predict quarterly GDP particularly well but the growth cycle is well represented by the PMI

Both PMIs ‘collapsed’ in Sept, adding to signs of a rapid slowdown

Manufacturing slipped 5.5 p, services steeply down too. Composite PMI points to a GDP stagnation



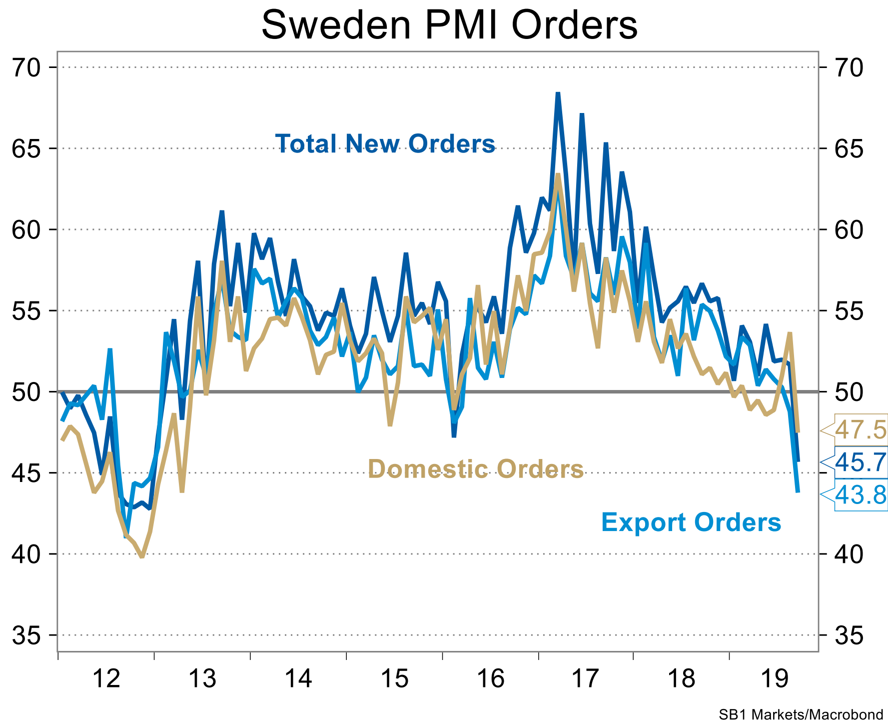


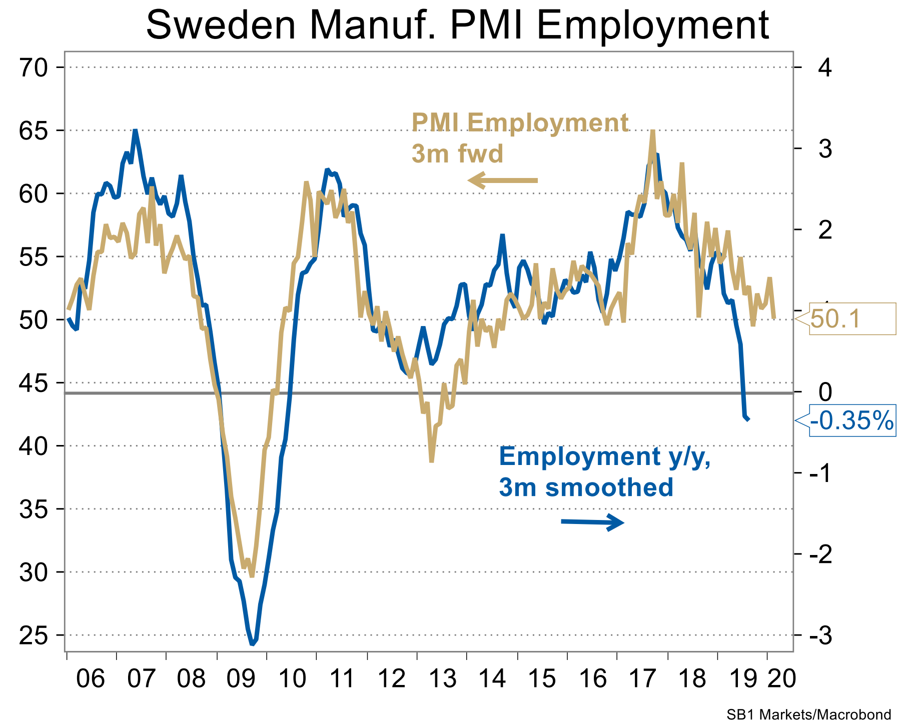
- Manufacturing PMI came in far below expectations in September, at 46.3, the weakest since 2012. Export orders tumbled, Swedish manufacturers are hit by global uncertainties. Domestic demand is no doubt weakening as well – and the softness in the service sector confirms a broader slowdown
  - » The PMIs follow several weak Swedish data points recently. The Riksbank will most likely have to abandon its plans to raise interest rates to 0
- The composite PMI fell 4.6 p in Sept, signalling muted economic growth

SpareBank 1 MARKETS

Foreign demand the main drag, domestic no doubt cooling too

The employment index is perhaps the most upbeat data point at hand, still signaling growth





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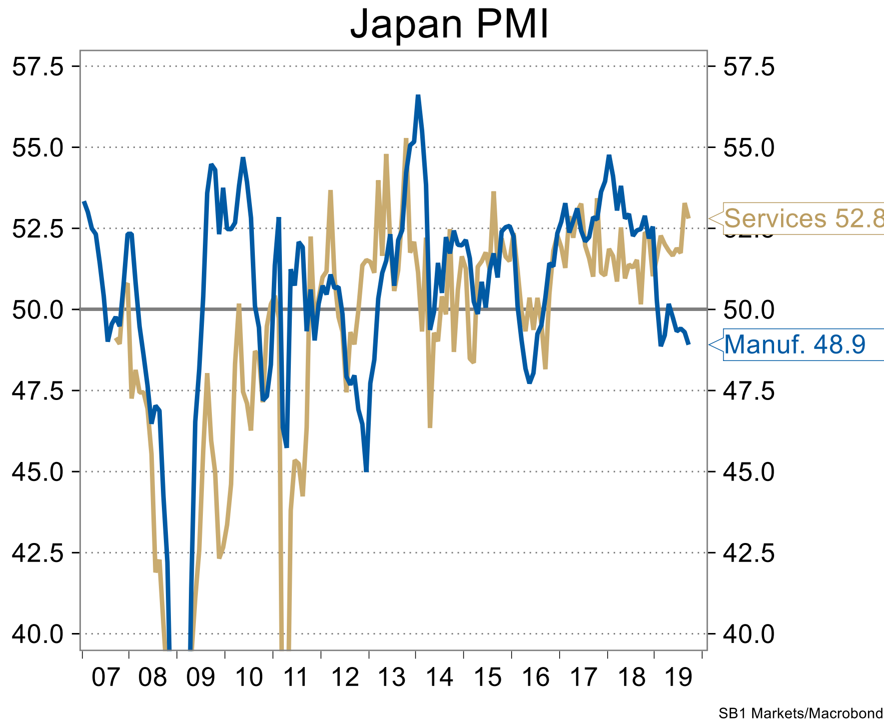
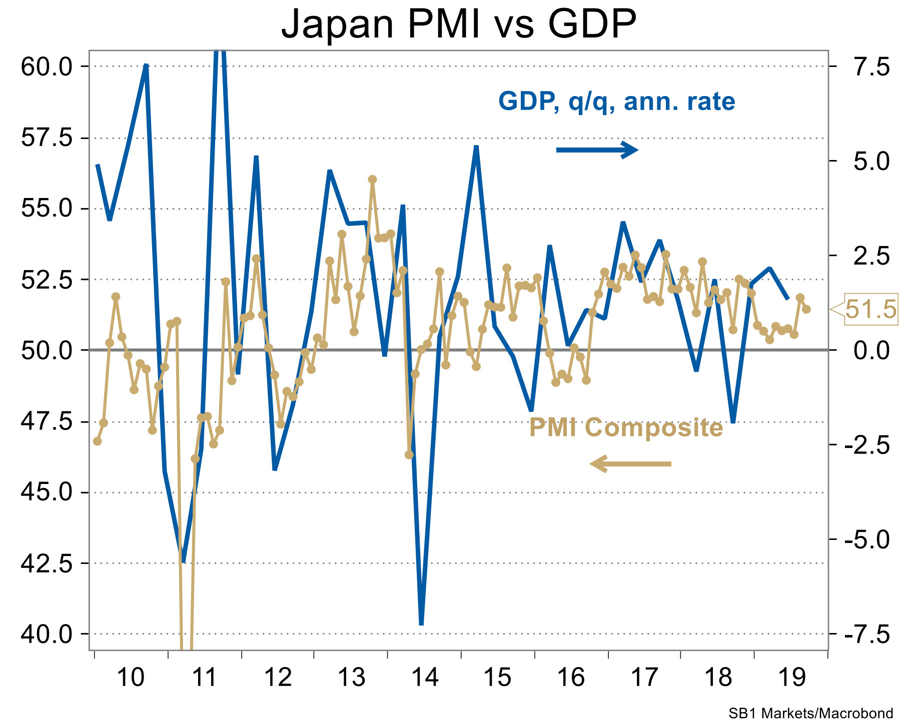
Manufacturing still struggling, service sector resilient?

Composite PMI ticked down to 51.5, does not point to any abrupt downturn





- Manufacturing PMI edged down to 48.9 in Sept, the 5th month below the 50-line but not an 'unusually' low level
- The composite PMI fell 0.4 p, pointing to steady GDP growth, at a rather modest 1% speed
  - » The correlation to actual growth is not impressive at all, especially in the near term
- Other Japanese surveys have softened but the avg of surveys was just as low/lower in both 2016, 2012, 2011

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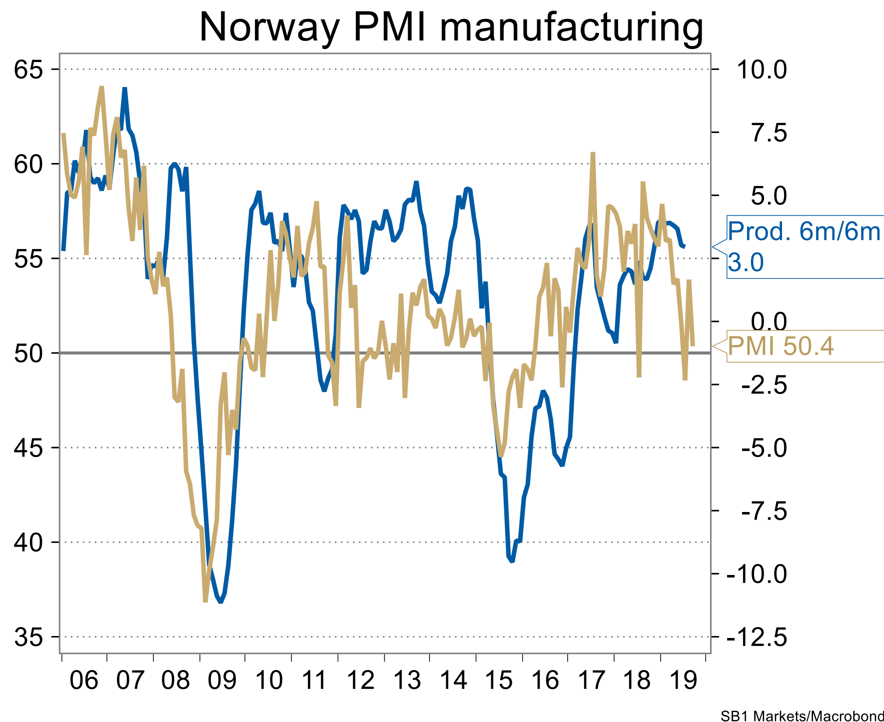
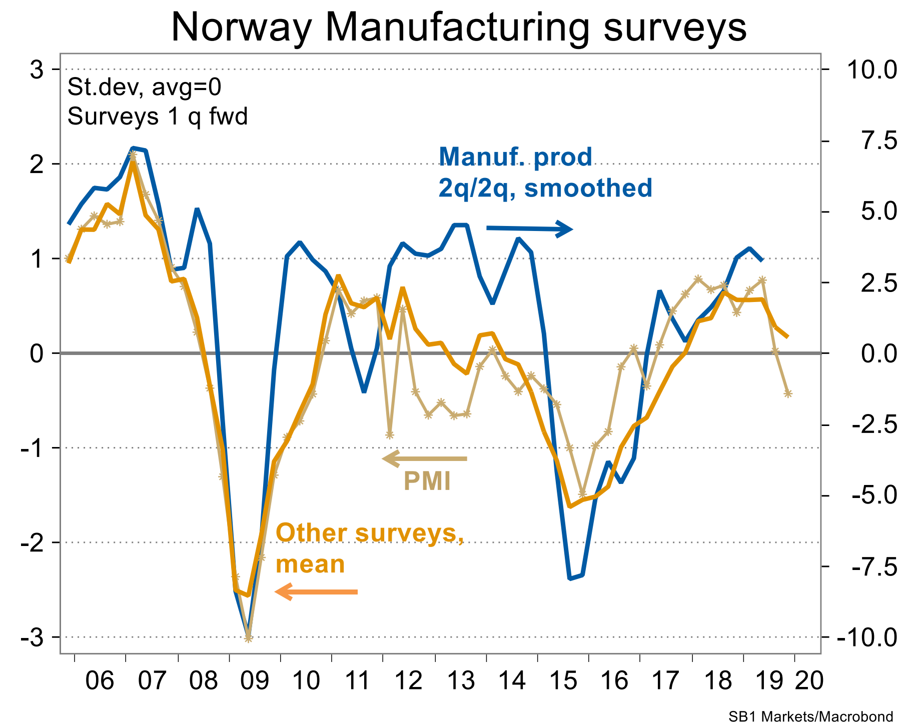
Manufacturing PMI slides down, more downbeat than other surveys

PMI fell back down, to 50.4 in Sept, after an uptick. PMI still signals softer growth in production

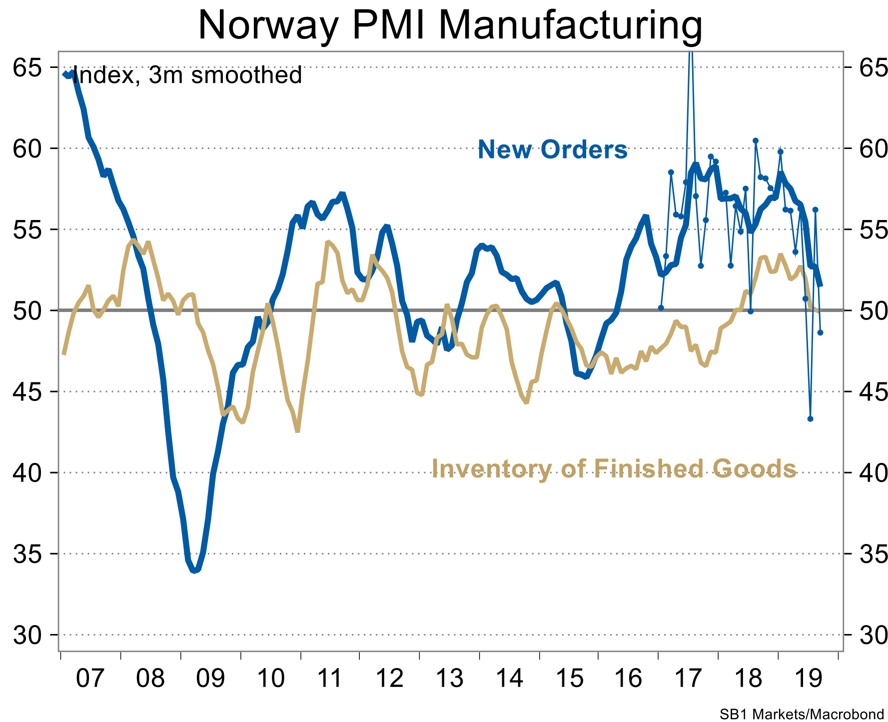


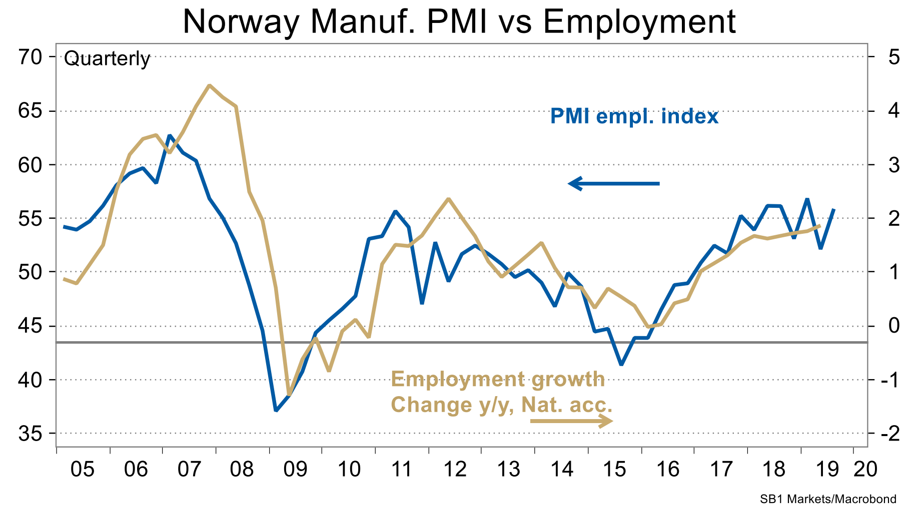


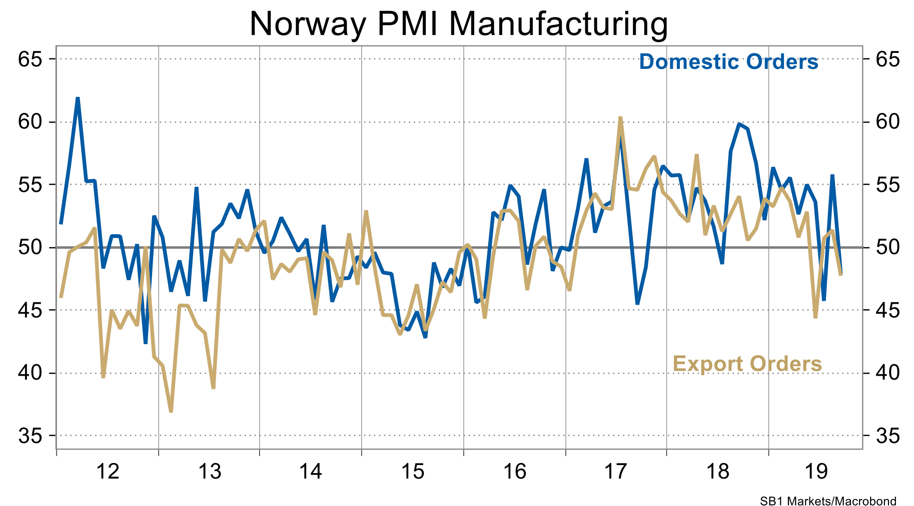
- The PMI dropped 3.5 p in September, following a spike in August. The Norwegian PMI is far too volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 51.0%, pointing to a rapid slowdown in manufacturing production
  - Actual manufacturing production has been soaring recent months, boosted by oil related sectors. Significant downside risk!
- The PMI is weaker than other Norwegian business surveys – and probably less accurate than the others. The Regional Network is still reporting strong growth in manufacturing, yet the avg of manufacturing surveys is no doubt pointing to a slowdown in production, to 1.5-2% annual growth vs 3% in Q2

PMI orders are softening, employment growing steadily

Both foreign and domestic orders weakened in Sept – and both are reporting decreasing demand







- The new orders index slipped to 48.7 in Sept, a ridiculous 7.6 p drop, following an even steeper rise in August. The current level signals a decline in orders, while a smoothed rate implies slower but still positive growth rates
- The upswing was driven by domestic orders. Export orders rose marginally too, but foreign demand is no doubt slowing

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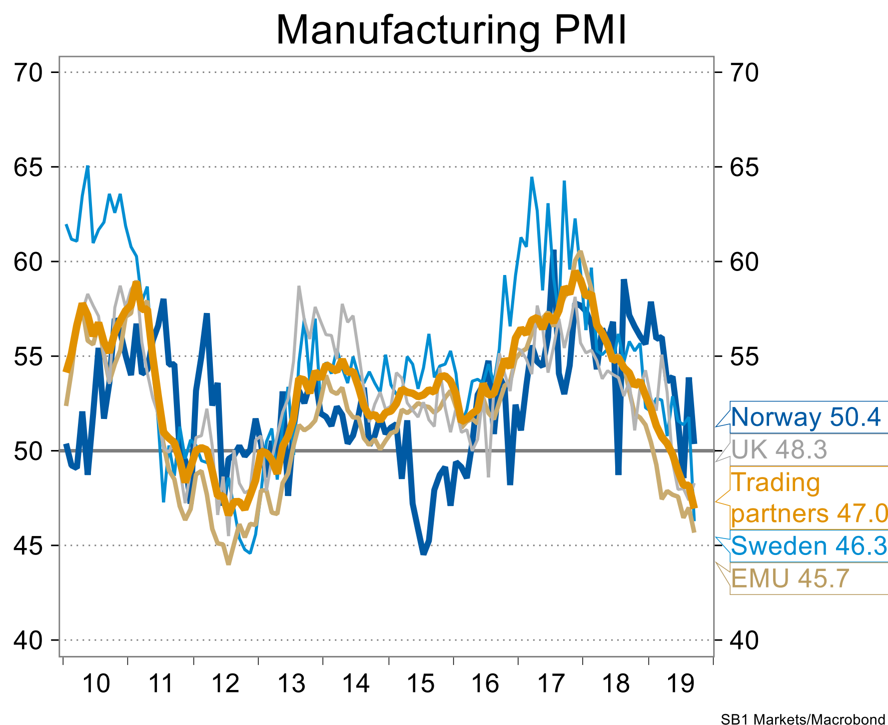
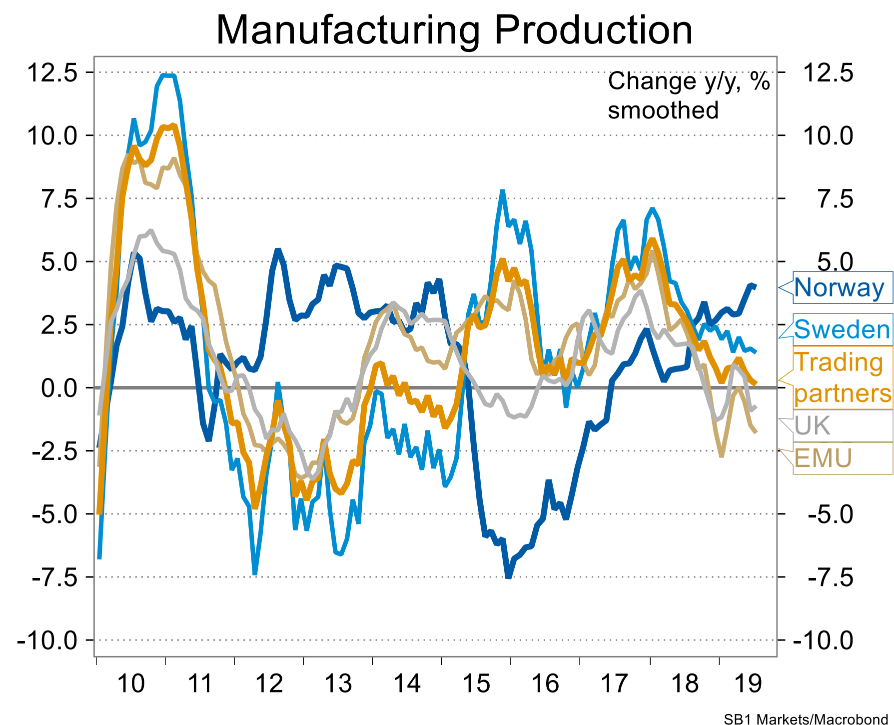
Norway not that resilient after all?

Manufacturing is holding up much better in Norway, fueled by oil related sectors. For how long??





- Well, the Norwegian PMI is still less downbeat than among our trading partners, but the speed of decline is similar to what we have seen among our trading partners – we are just lagging close to one year. Other
- The boost from oil & gas investments will most likely subside sharply into next year – and we expect growth in production to slow substantially into 2020

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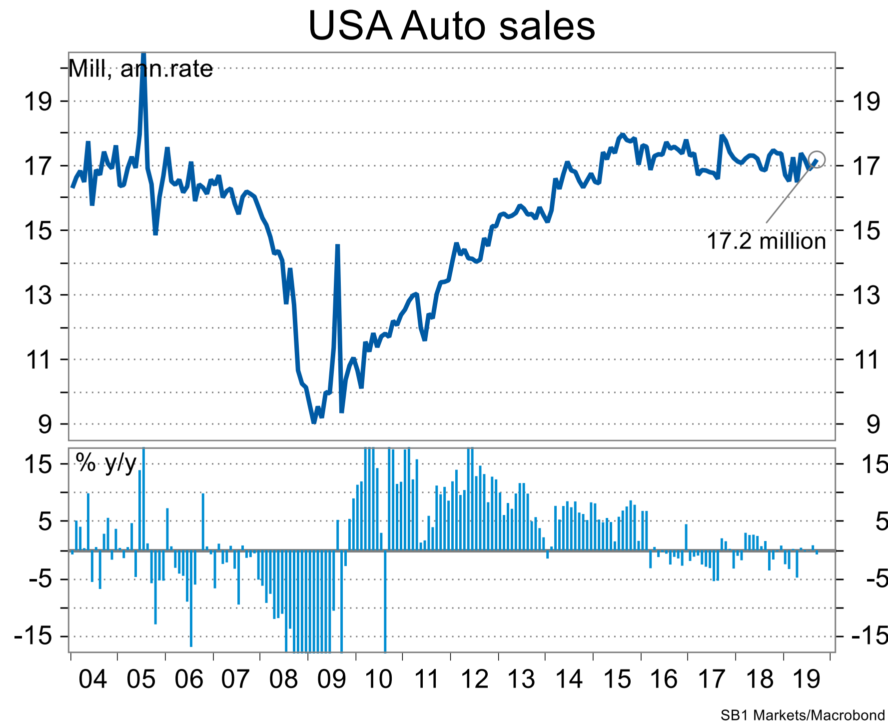
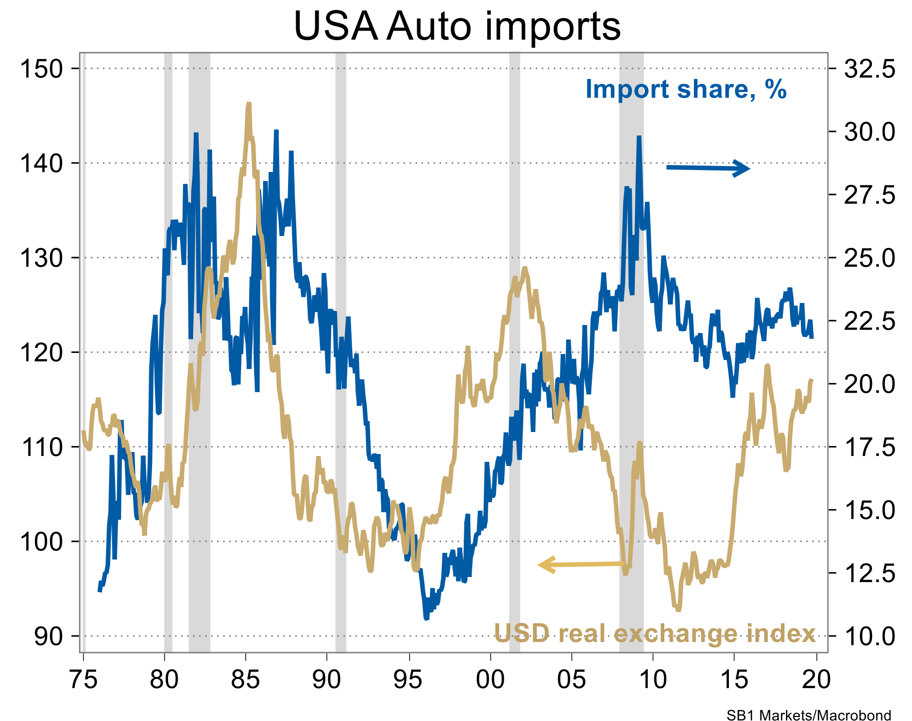
Auto sales inched up in September, trending slowly downward?

Sales have been flat recent months, heading very slowly down recent years



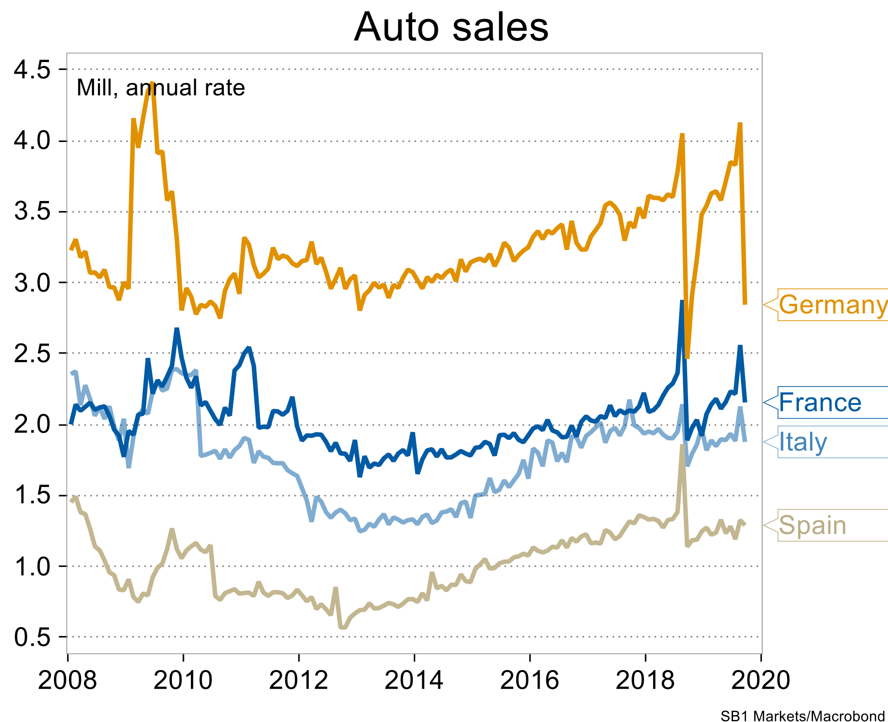


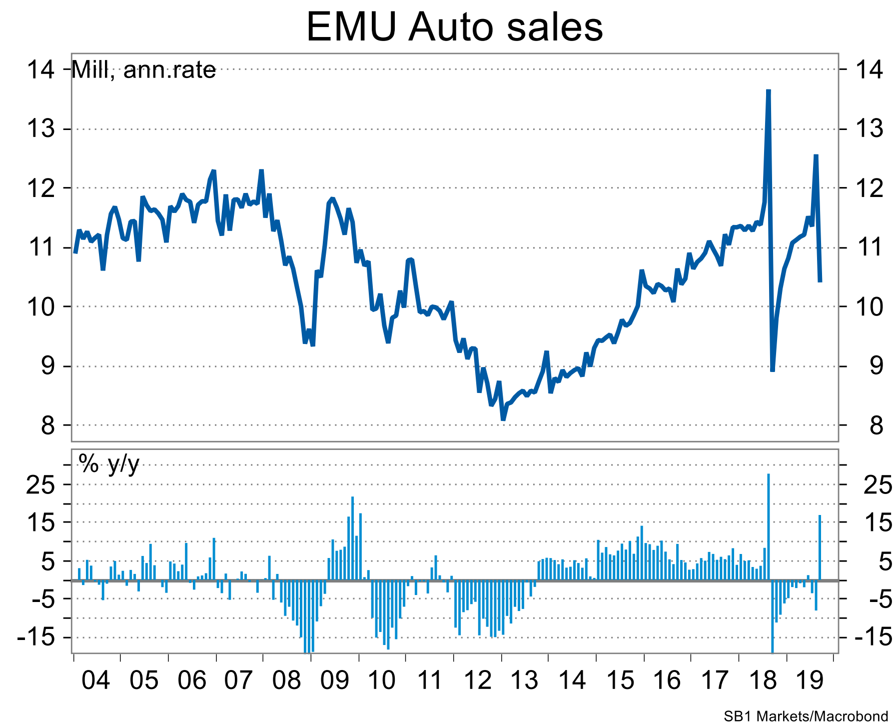
- Sales rose marginally in Sept (0.2 mill) to 17.2 mill (annual rate). Sales are flat y/y, while trend is pointing slightly down
- The import share has been sliding down recent months, following an increased the previous 3 years. At 22% the import share is above the long term average – but it has been 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

SpareBank 1 MARKETS

The emission deadline sent Eurozone auto sales straight down in Sept

In August, dealers hurried to sell cars ahead of the Sept deadline, thus, sales plunged this month





- When the new EU emissions regulations were implemented in September last year, producers were given a one year allowance to sell cars as 'new' vehicles if they failed the emission regulations. Consequently, sellers had to pre-register a huge amount of cars in August this year, at large discounts, and sales dropped like a stone in September
  - September sales are up 17% y/y (our estimate), because the drop is sales when the emission regulations were first implemented in Sept last year was even worse. Just wait for the media reports! (*Strong sales in Sept*, or something like that)
  - Until the sales rush in August, sales had more or less recovered from the first hit. It's hard to judge where the real is – we guess sales have flattened at a normal, high level

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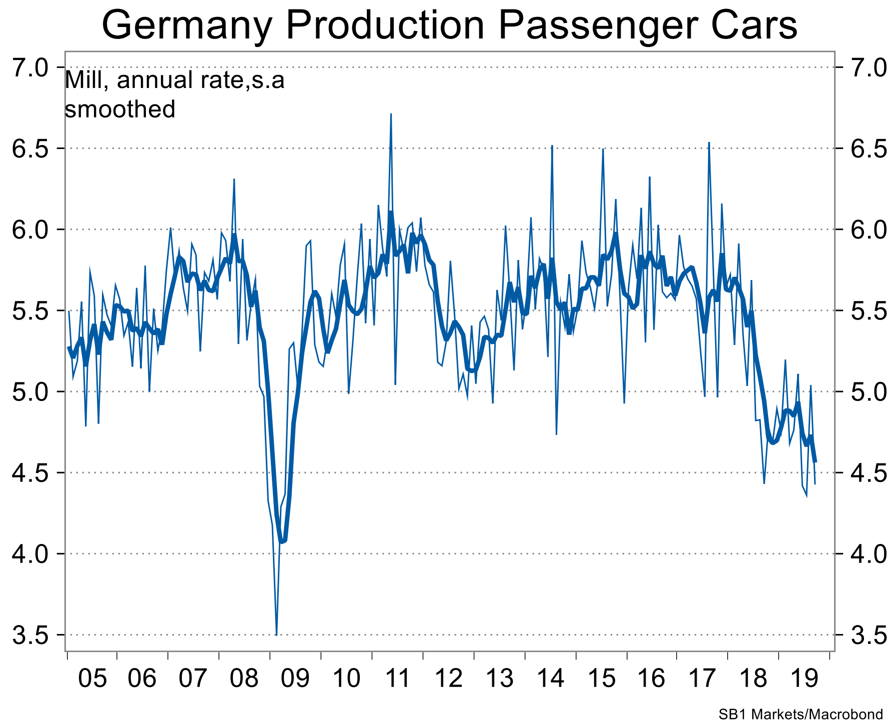
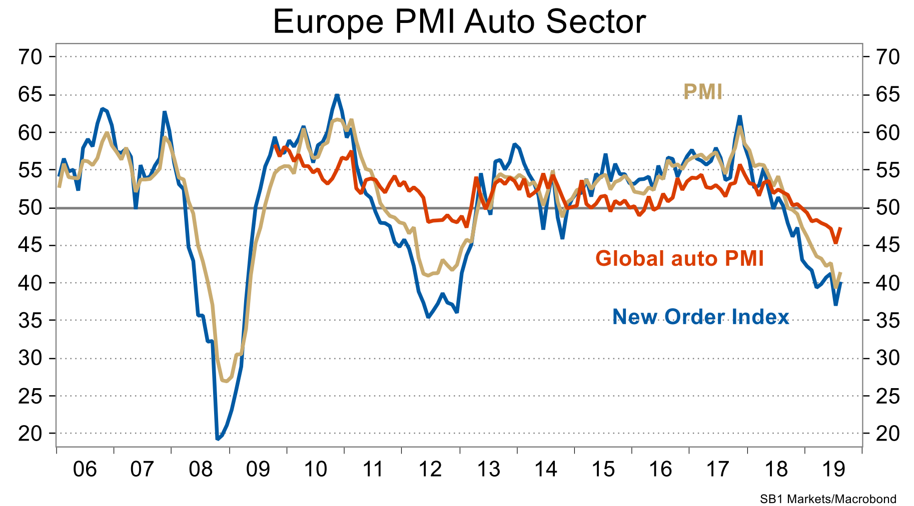
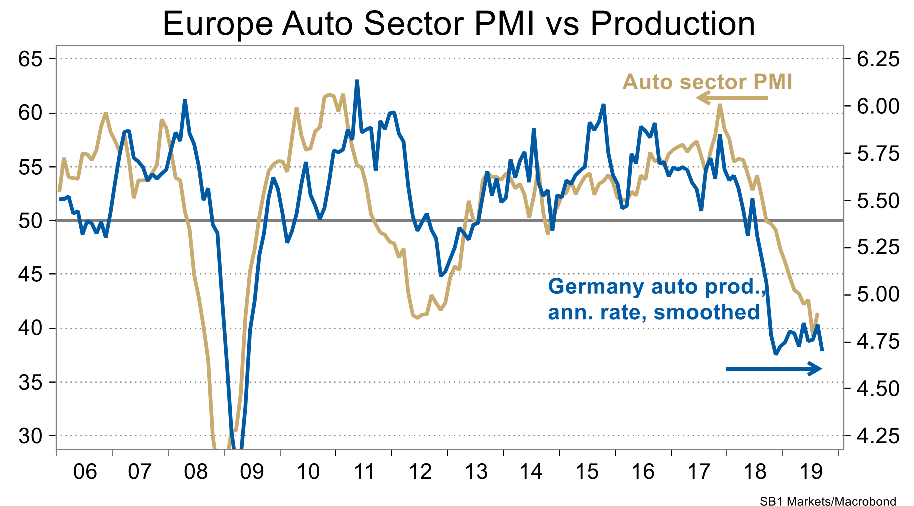
German auto production fell again in Sept, down 20% from ‘normal’ trends down

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







- German auto production is down approx 20%, an incredible number, given auto sales in Germany, EMU or even the world, which have fallen far less than 10% from the peak
- The European auto sector PMIs are not reporting any recovery, at least not in Aug, even if the downturn eased somewhat (Sept data not released). The European auto PMI is much weaker than the global auto PMI

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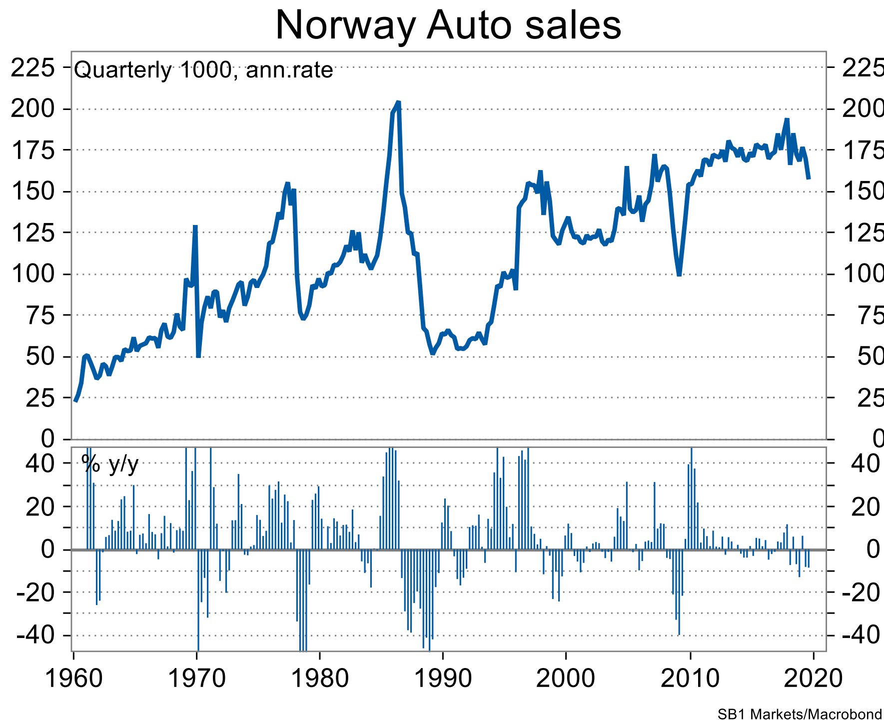
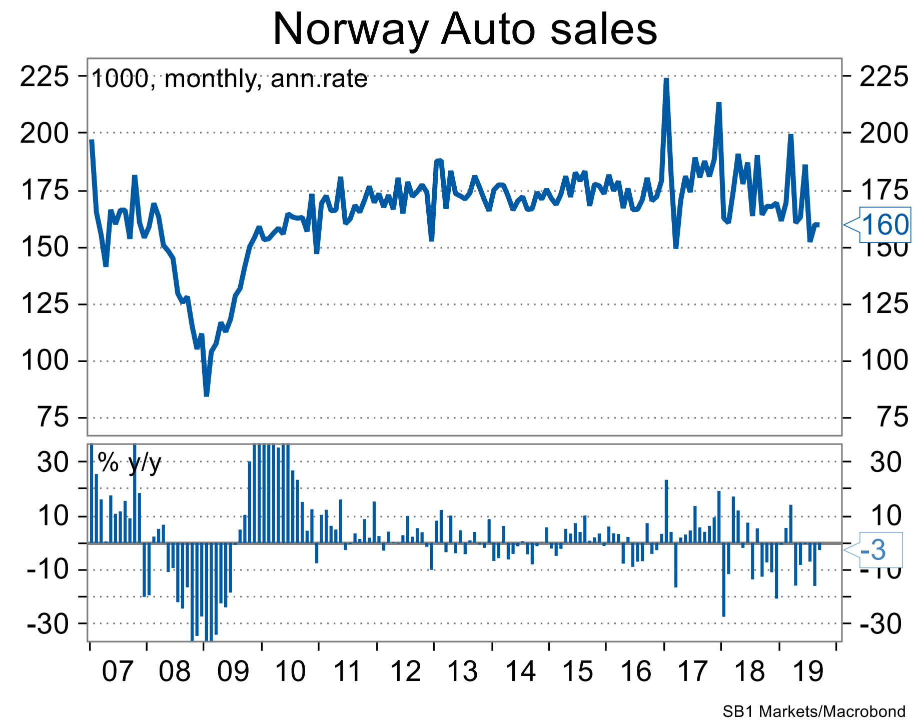
Auto sales stabilised in September, past 3 months at a ‘very’ low level

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





- First time registrations (incl. 2. hand imported cars) were stable at 160’ in Sept. The sum of the three (and 6!) past months is the weakest in 10 years – down some 8% y/y
  - » Monthly registration figures have been more volatile past 2 years than normal (barring impacts from changes in taxes in some December/Januarys) due to heavy supply bottlenecks, especially for popular EVs that now constitutes half of auto sales
  - » There are still waiting lists for many popular EVs, and the actual level of new registrations may still be lower than the actual sales rate. However, demand may have peaked too

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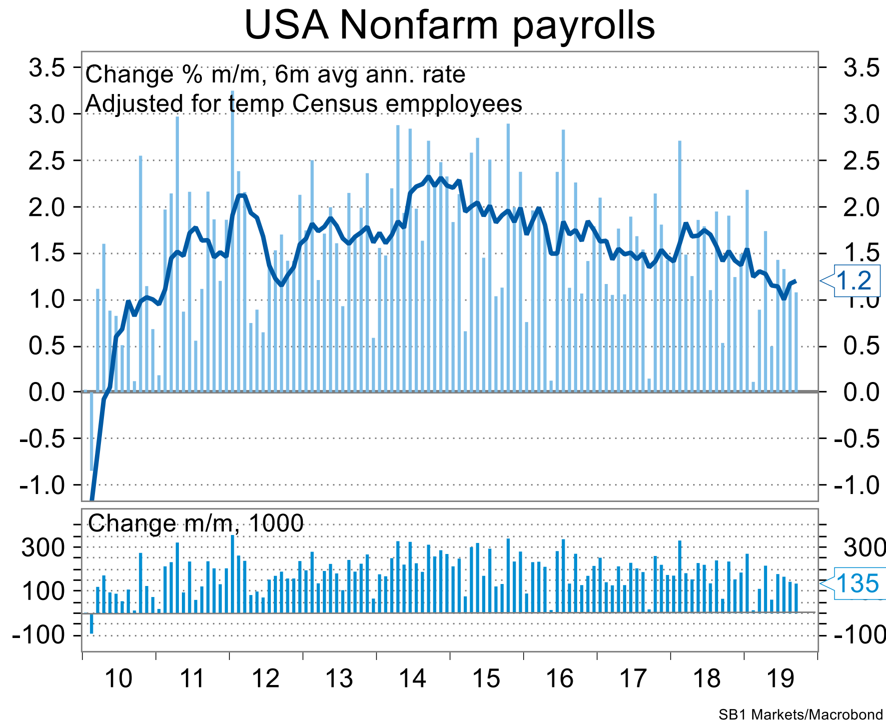
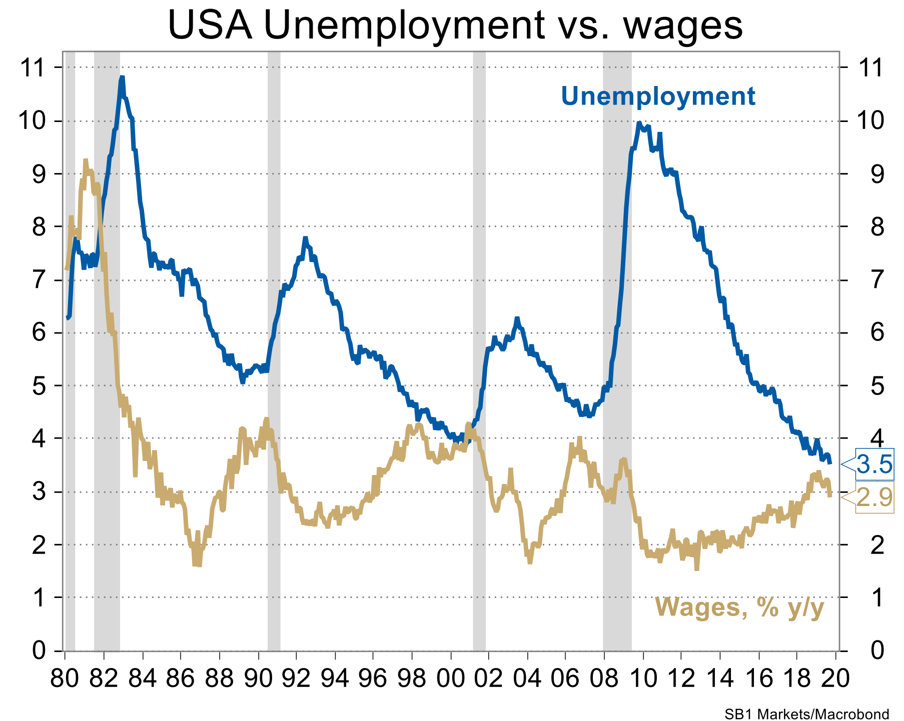
September nonfarm payrolls report confirms a tight labour market

Employment more up than expected (rev. included). Unempl. fell to 3.5%, but wage growth eased!





- **Employment** rose by 136' in September, 9' lower than expected, but July/August was revised up by 45'. The 6m m/m avg is sliding steadily down, in September it inched up to 1.2%. Growth is no doubt slowing, probably mostly due to lack of available labour, yet the slowdown has not accelerated recent months, and unemployment is still falling
- **The unemployment rate** fell to 3.5%, down 0.2 pp, the lowest in 50 years as the **participation rate** was unchanged at 63.2%, while the **employment** rate ticked further up. The participation rate is close to flat, even if demand for labour is strong. The labour market is very tight, and businesses are reporting record high difficulties finding labour and households are reporting that jobs are unusually easy to gett
- **Wages** were flat m/m and the annual rate dropped to 2.9%, down 0.3 pp, expected unchanged – and the annual rate is heading down
- Overall, these data still confirm a tight labour market, not an argument for cutting interest rates! Still, the market expects another cut on Oct 30

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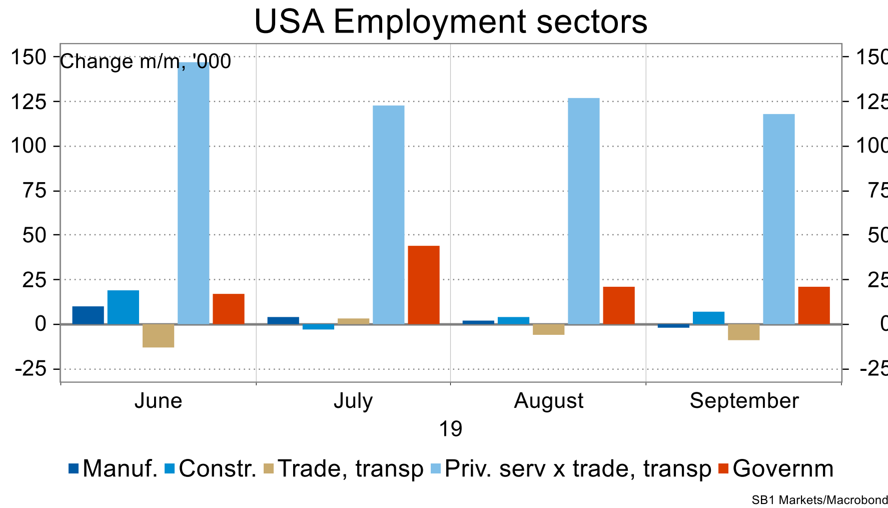
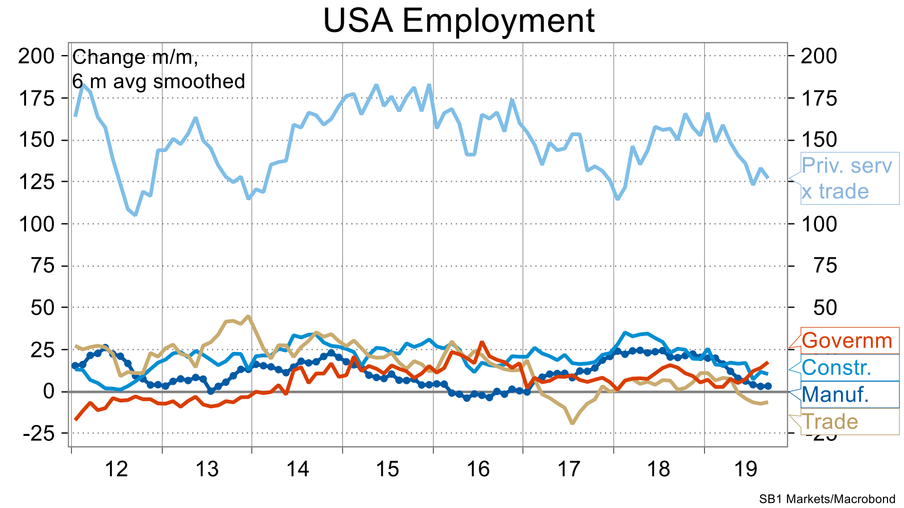
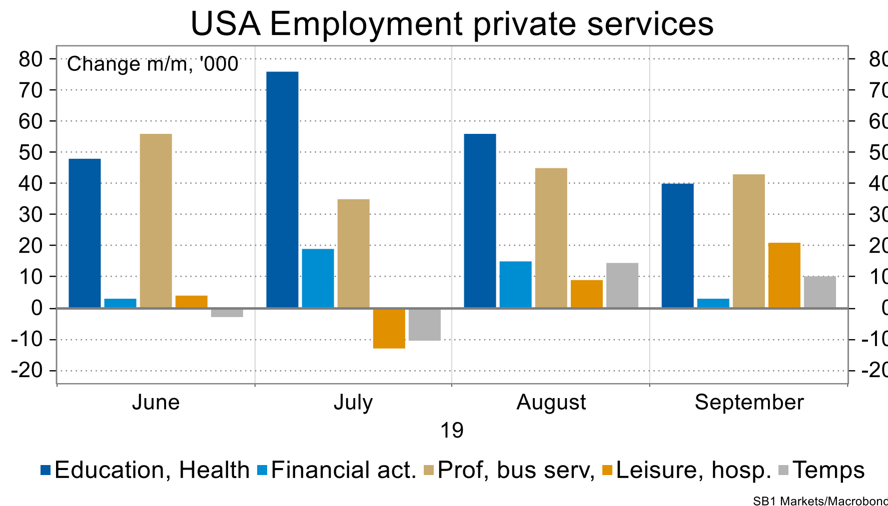
Broad slowdown in the private sector

Private services are still expanding, but at slower pace







- **In September:** Private services rose by 118', a 'normal' increase. Construction modestly up, manufacturing marginally down, both more or less flat recent months. Government employment is expanding more than usual (adjusted for Census temps, 25' in Aug but just 1' extra in Sept). Trade & transport fell slightly
- **Recent months:** Employment is still growing in all sectors x trade & transport. Both manufacturing, construction and private services have slowed, manuf. down to close to zero. Government accelerating somewhat, and well into plus
- **Big picture:** Manufacturing, construction both peaked in H1 '18. Manuf/construction activity signals lower declining employment. 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

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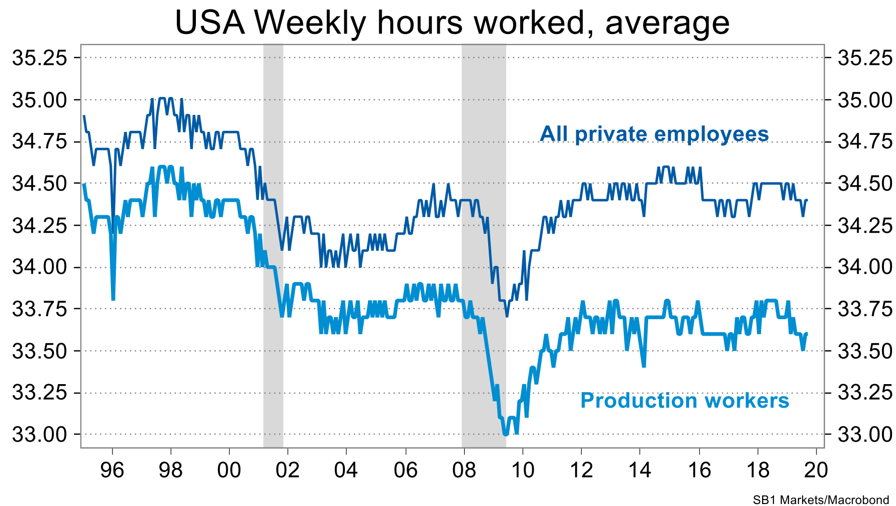
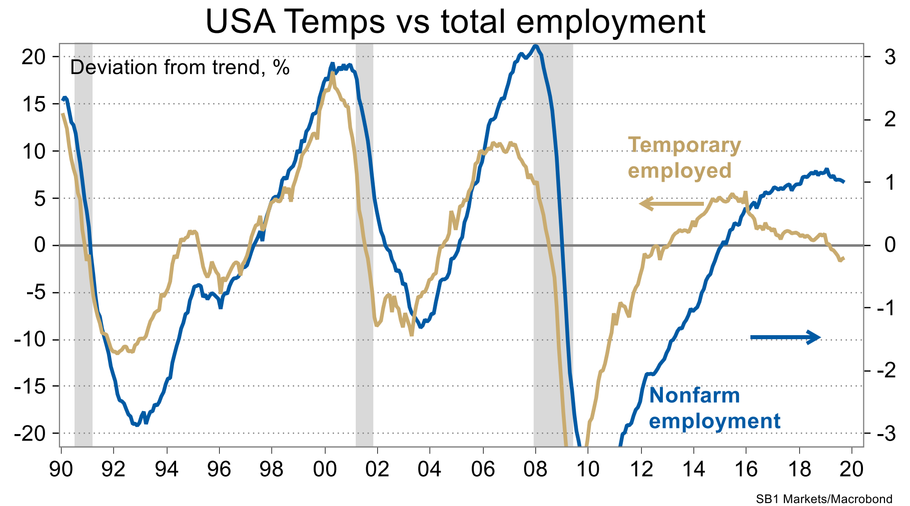
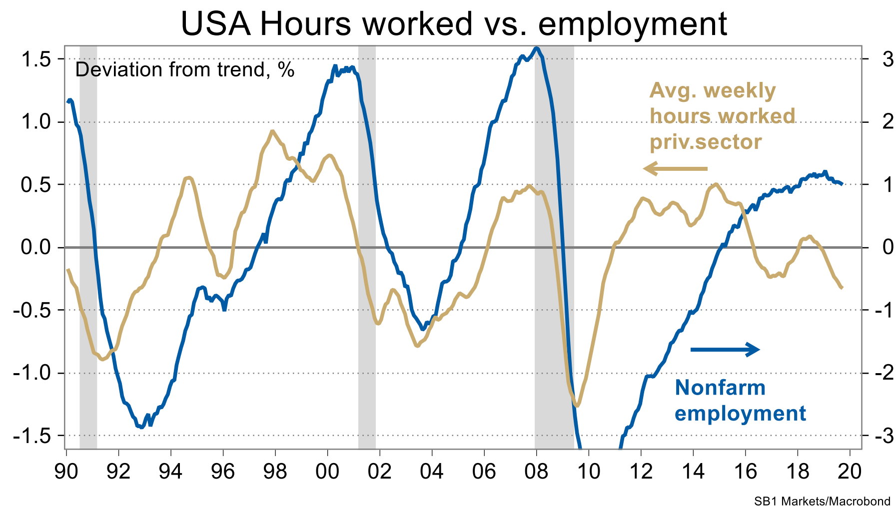
Weekly average hours flat in Sept, trending down, normally the 'first response'

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





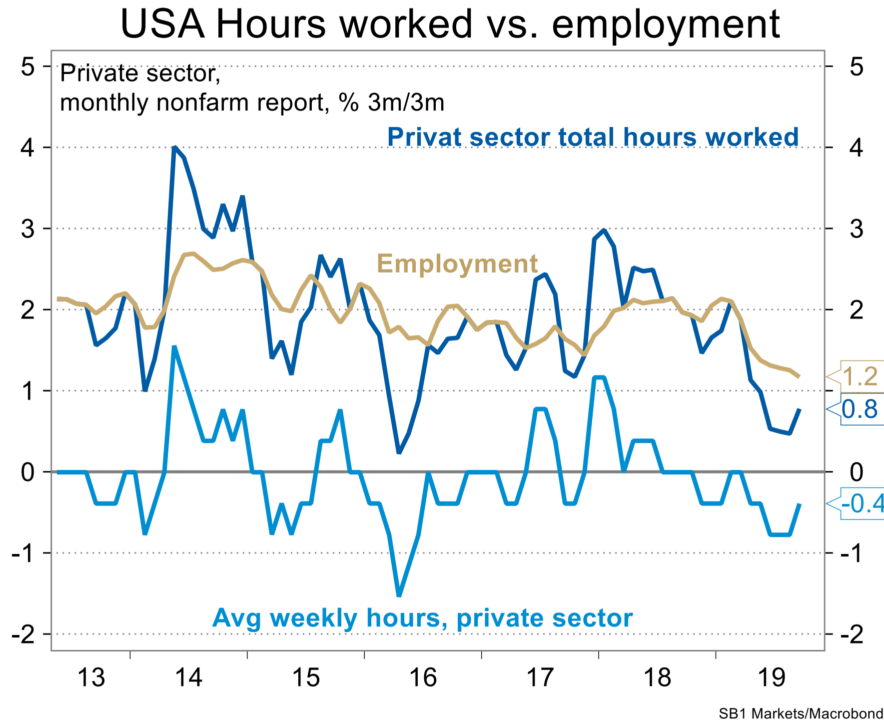


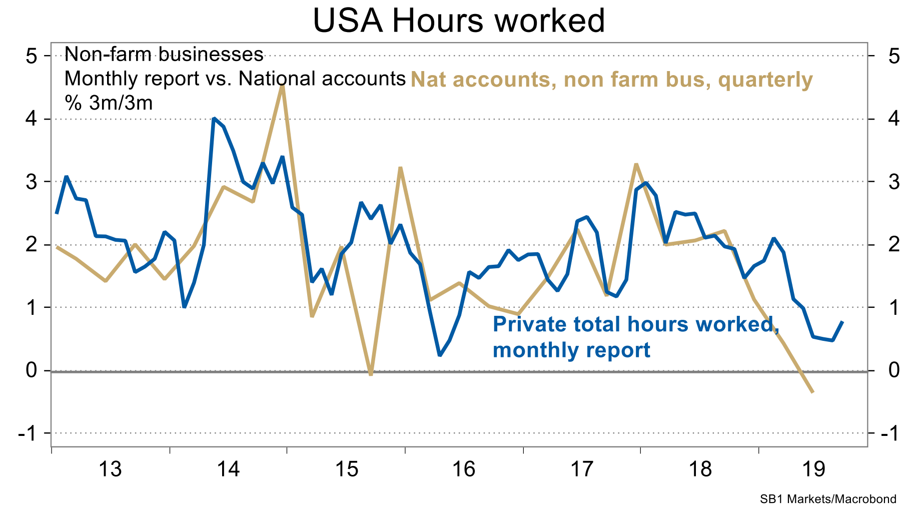
- Average weekly hours worked have fallen 0.3% since last September. <u>This is the best argument in favour of the weaker-demand-for-labour-story</u>
  - » The downturn is broad sector wise. Manufacturing and transport are in the lead, but finance and hospitality & leisure are on the way down
- On the other hand: Employers are still reporting aggressive hiring plans and unprecedented problems filling positions, and the number of unfilled vacancies is still very high, check here
- The number of temporary employed is waning (even after a small increase in Aug & Sept), usually a steady leading indicator for future slower total employment growth

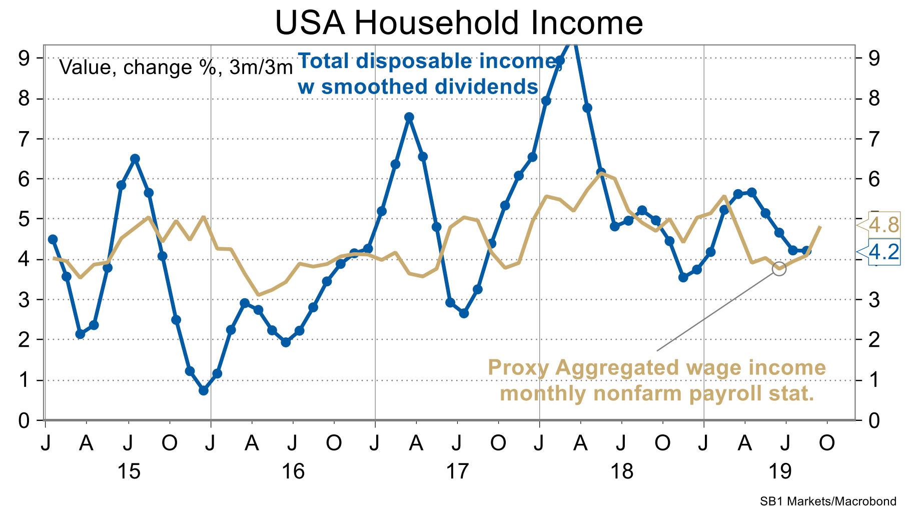
SpareBank 1 MARKETS

Avg hours are declining, employment is slowing: Hours worked growth at 0.8%

.. And then income growth is slowing too? Even if wage inflation had kept up







- Underlying growth in hours worked in the private sector has slowed to 0.8% now, from 2% early 2019 (but rose from 0.5% in Sept). Employment growth is slowing, and average weekly hours are falling
- Growth in wage income is slowing, although it has picked up the most recent months, to 4.8%. Total growth in disposable income is a tad above 4%

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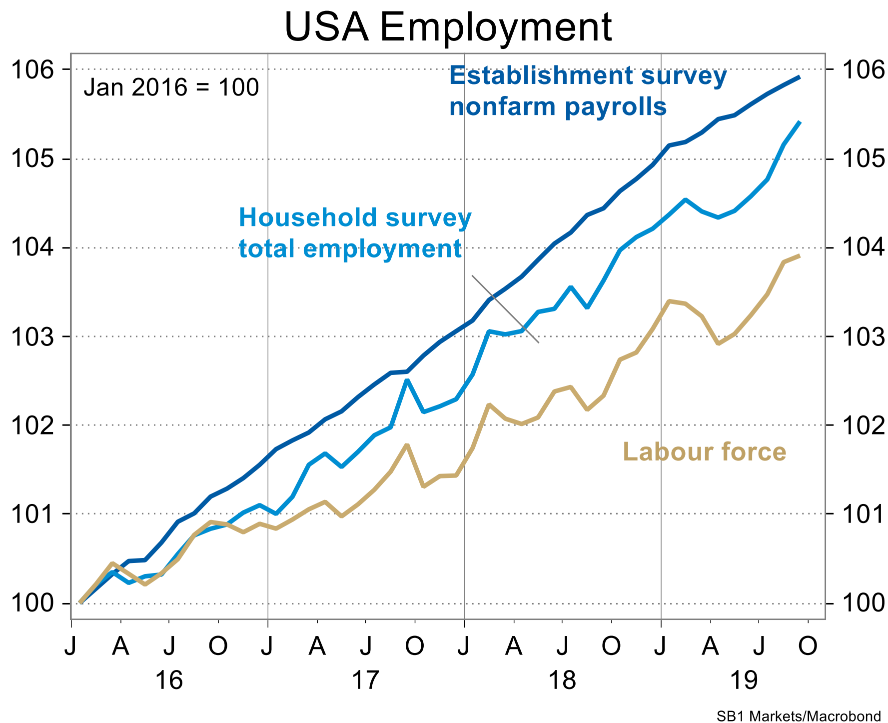
Household survey does not confirm a slowdown in employment growth, now

Total employment rose by 391’ according to the Household survey, accelerating recent months



- The household Labour Force Survey (LFS/‘AKU’) reported slower growth in employment than payrolls during the spring. The past 4 months, employment growth has recovered, according to this sample survey
  - » Total employment grew by 391’ according to the LFS (‘AKU’), while employment defined as in the payroll report rose by 282’
- The labour force rose by 117’ in September. The participation rate was flat at 63.2%, while the employment rate edged up to 61.0% (thus, the unemployment rate fell)
- The monthly household LFS survey employment data are much more volatile than nonfarm payrolls data, and are close to useless from month to month

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

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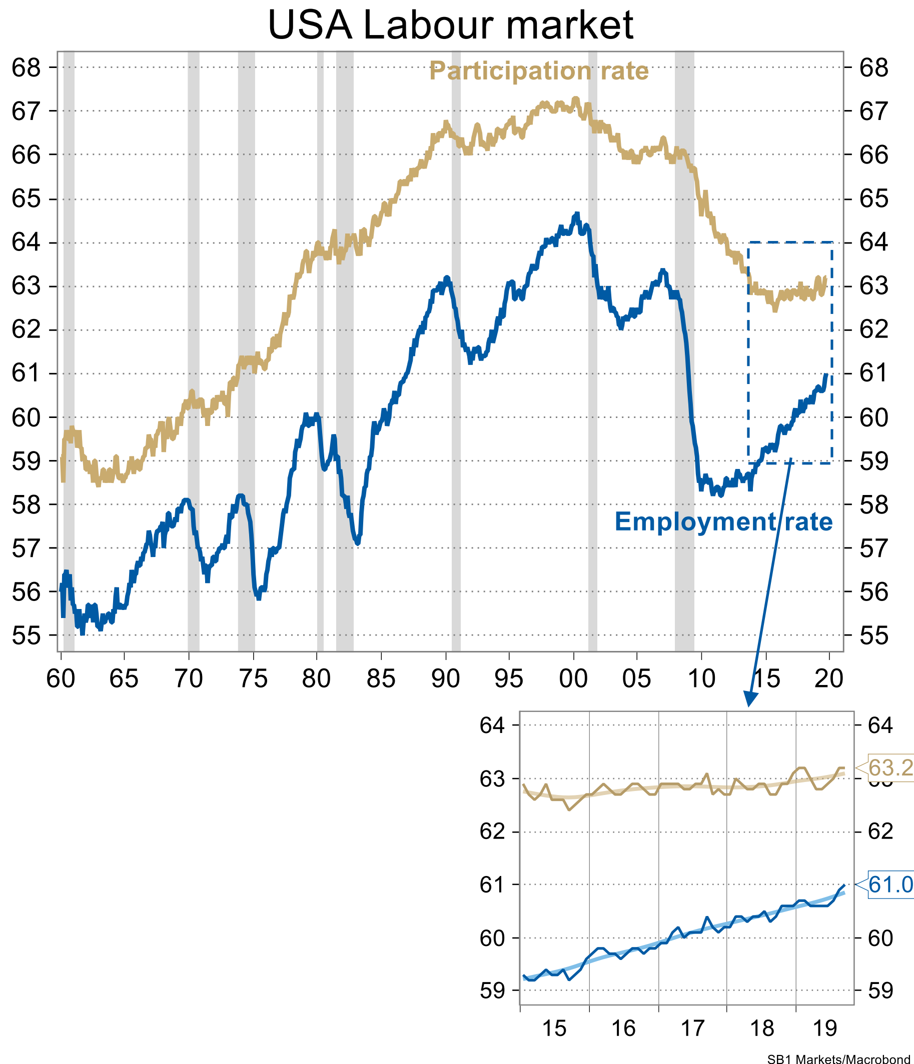
Participation trending to slowly up, creating a tight labour market

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



- The employment rate rose 0.1 pp to 61.0% in Sept., trending 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, and fewer of them are working) have contributed on the downside on the overall employment and participation rates recent years
- The participation rate was unchanged at 63.2. The trend is very slowly upwards and clearly less steep 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 market, due to a meagre supply side (participation) response

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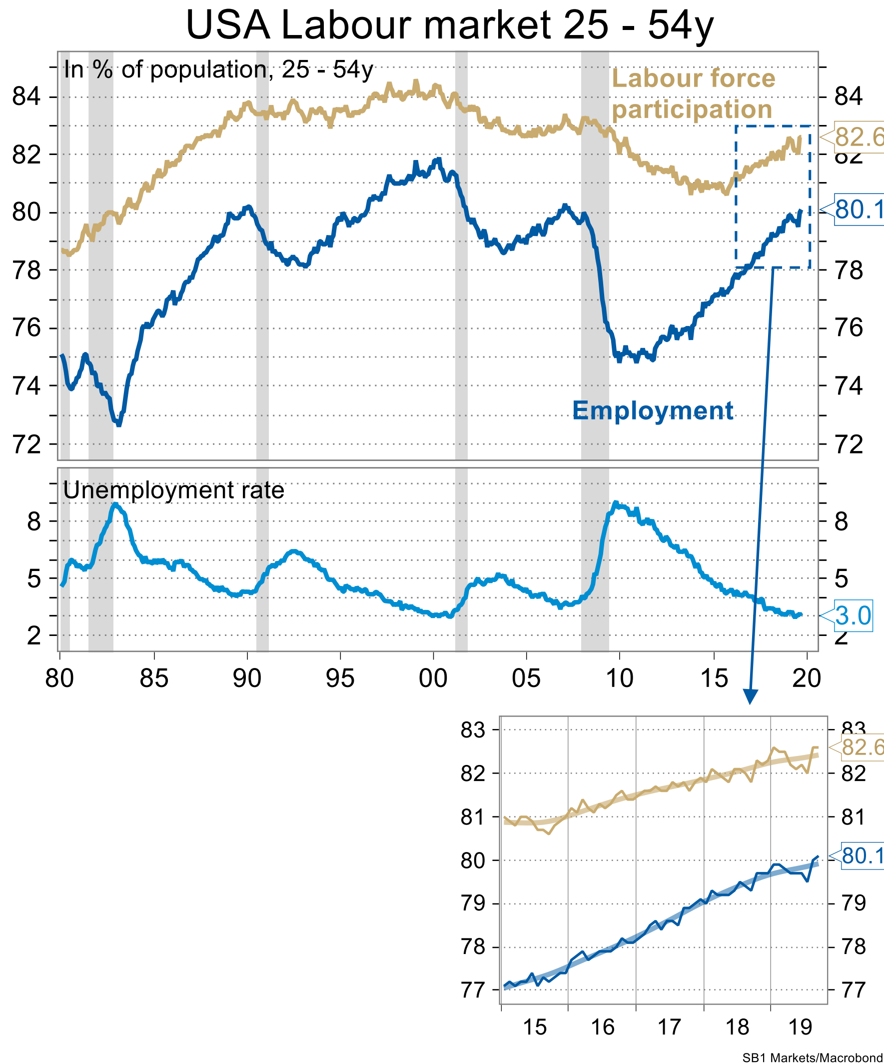
The core employment rate (25-54 y) is back to the pre-financial crisis level

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

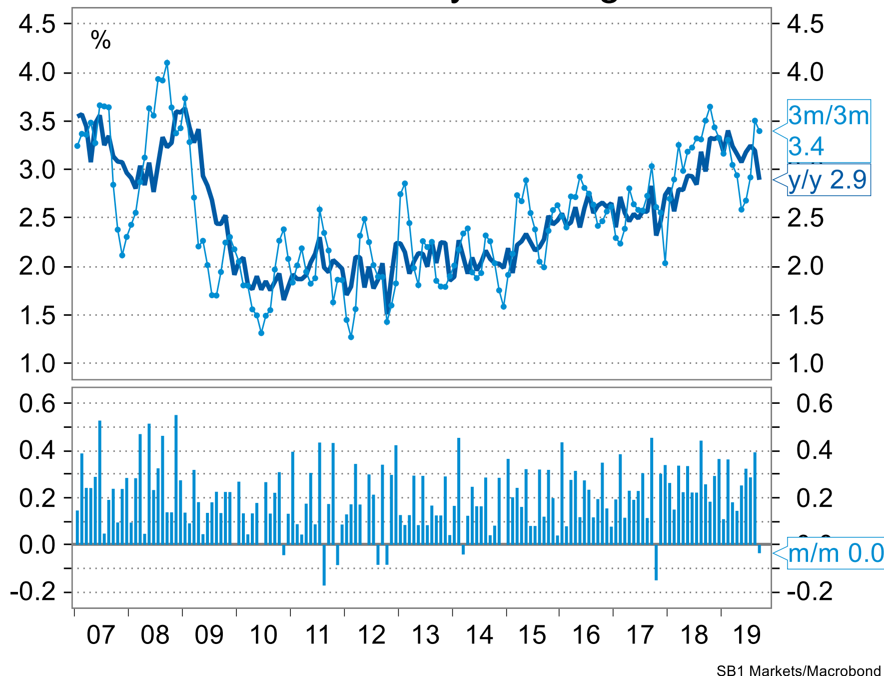


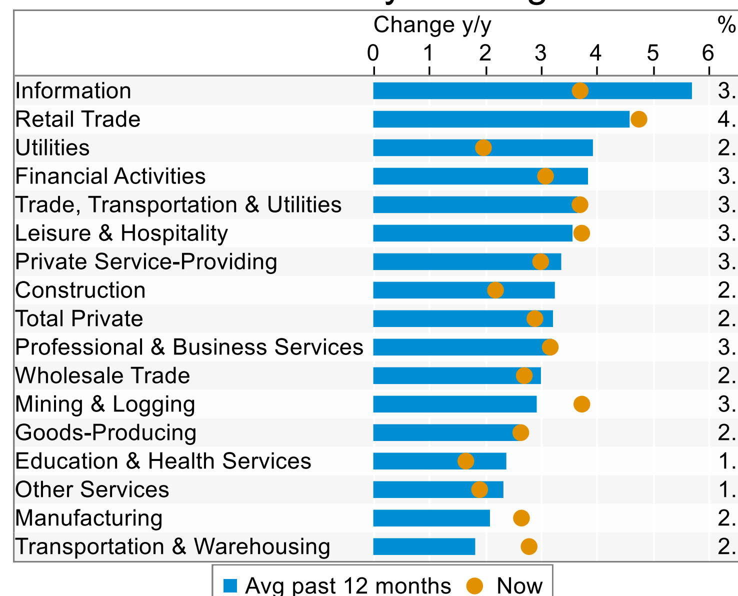
- While the total employment rate (over 16 y) is well below the pre-financial crisis level (more than -2 pp), the core age group (25-54y) employment rate is back at the 2007 peak level
  - » The core employment/unemployment rate most likely gives the most relevant measure of the tightness of the labour market
- In September, the ‘core’ participation rate was unchanged while employment inched up
- The good news is that the participation rate is inching up, implying that there may be some reserves left, not yet on the labour market

SpareBank 1 MARKETS

Wage growth surprisingly cooled in Sept, underlying still ‘high’

Zero growth m/m, the annual rate slipped to 2.9%, from 3.2%. We expect a rebound the next month





- Wage growth was muted in Sept, sending the annual rate down 0.3 pp. Underlying growth inched down to 3.4%, still signaling the annual rate may turn upwards
- All indicators are pointing to a tight labour market, hence, there are no reason to expect wage inflation to ease at this point
- Annual wage inflation is accelerating vs. the average over the past year in just 5 sectors/aggregates and slowing in 9 (and unch in 3). 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

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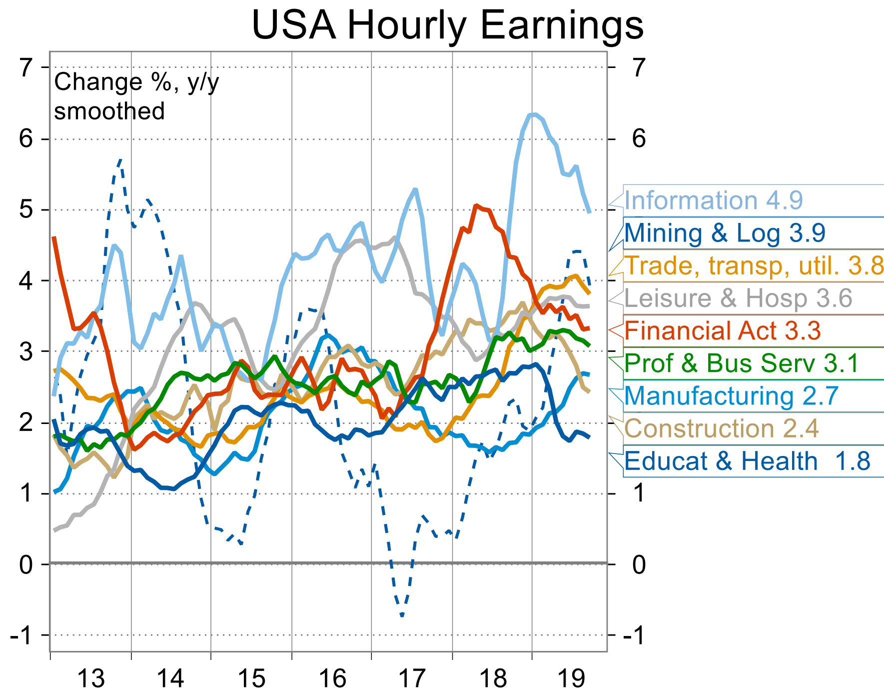
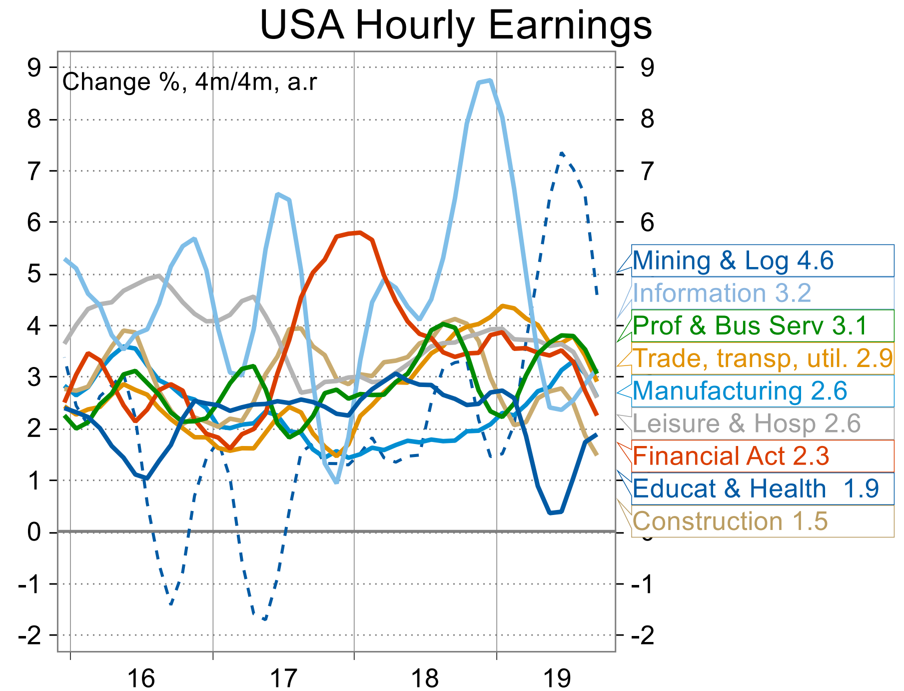
Weakness in wage inflation in most sectors recently

Monthly wage inflation has slowed in all sectors x education and information the past months





- So far in 2019, wage growth has been slowing/flattening out in all sectors x manufacturing and, until last month, mining & lodging activities.

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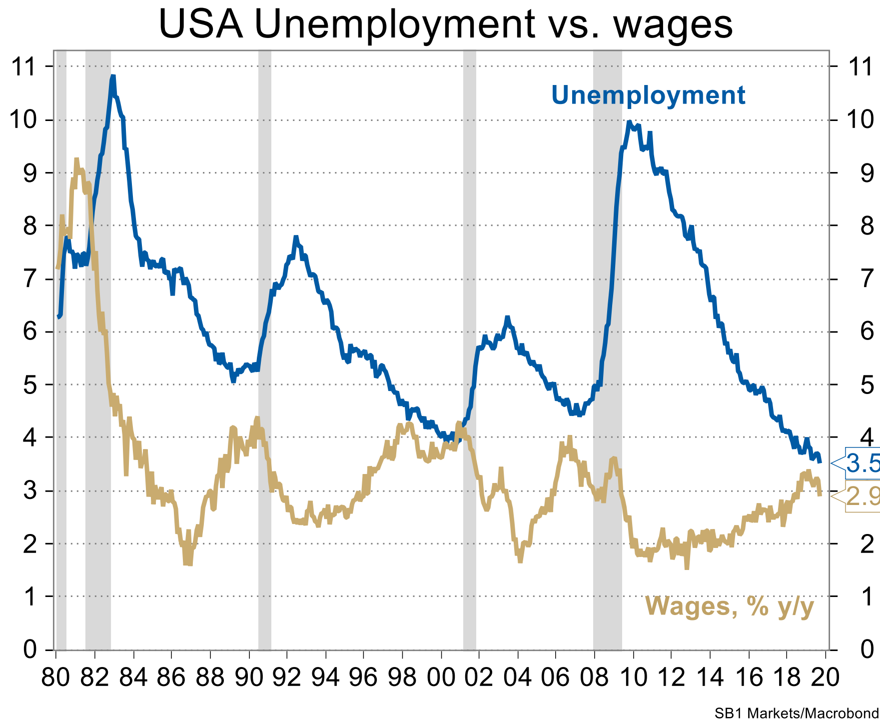
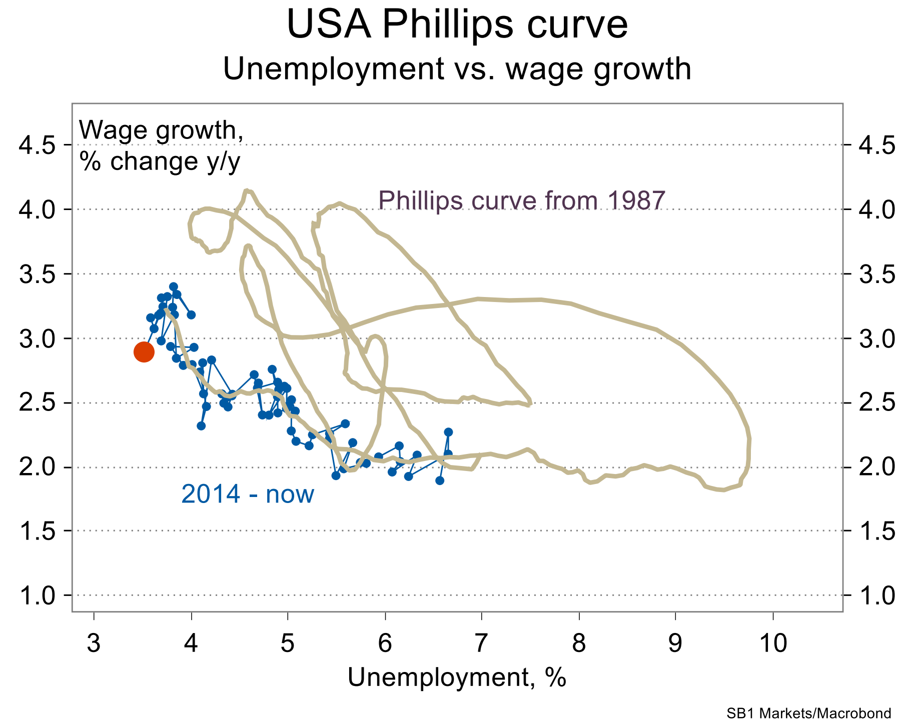
Wage inflation still lower than 'usual' vs. the unemployment rate

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





- However, we would not have guessed a wage growth at 2.9% y/y if we were told 6 m ago that the unemployment rate should decline to 3.5%!
- 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

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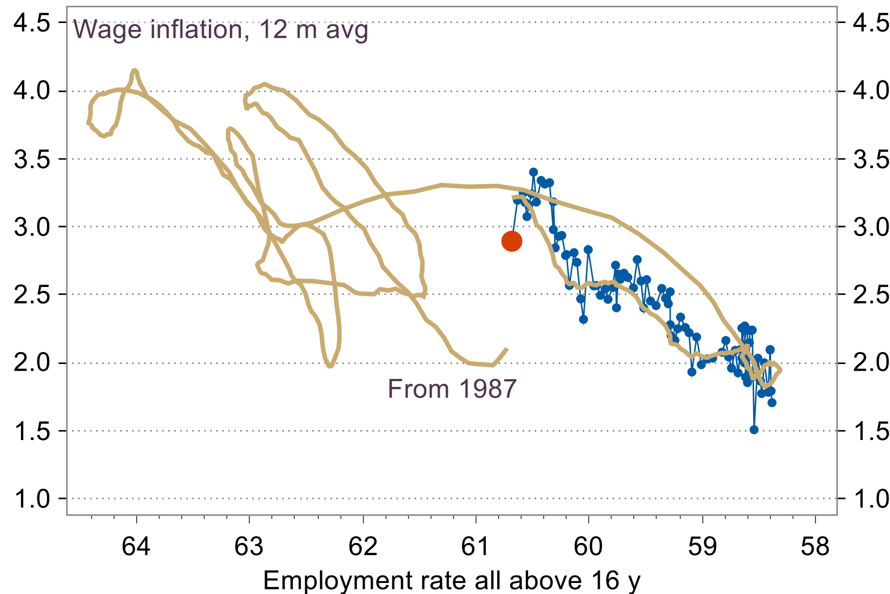
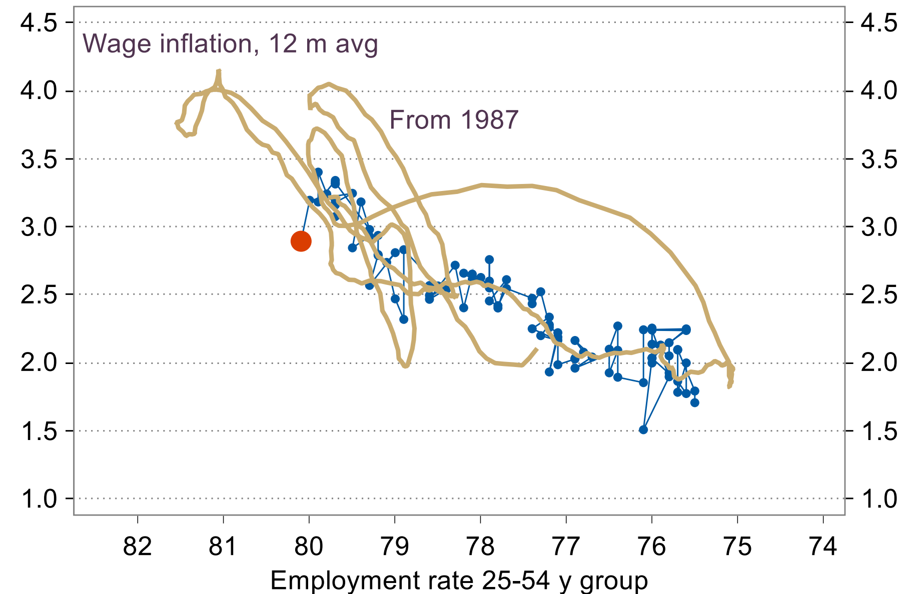
Two alternative Phillips curves – wage inflation vs. employment rates

May the core employment rate give the best indication of labour market tightness?





Wage inflation is

1) Too low vs. the unemployment rate (previous page)
2) Too high vs. the total employment rate (chart to the left above)
3) Quite normal vs the core employment rate, at least until September (chart to the right)

More indicators on labour market tightness some few pages out in the report

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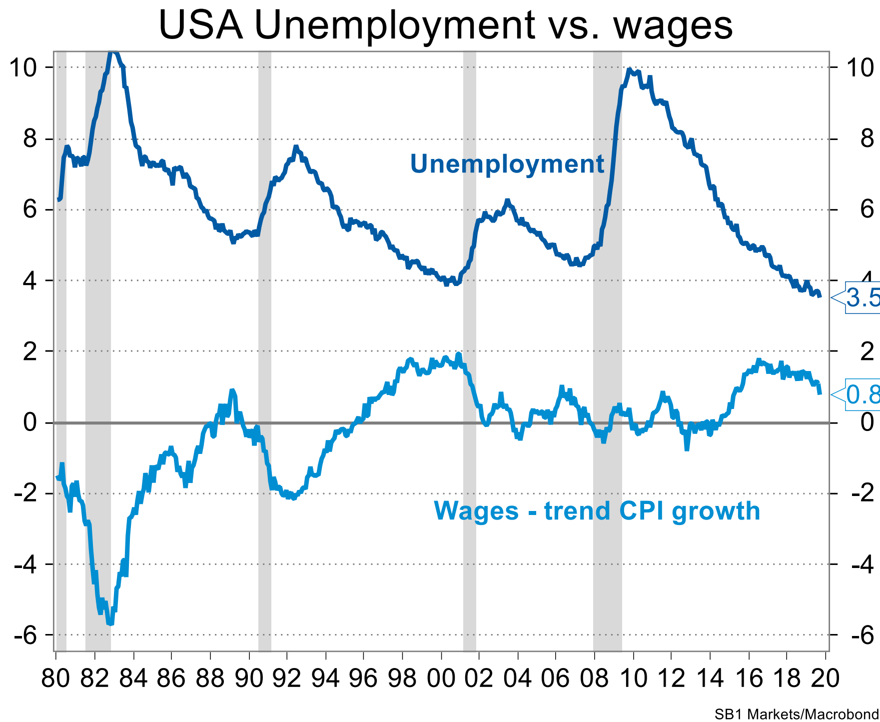
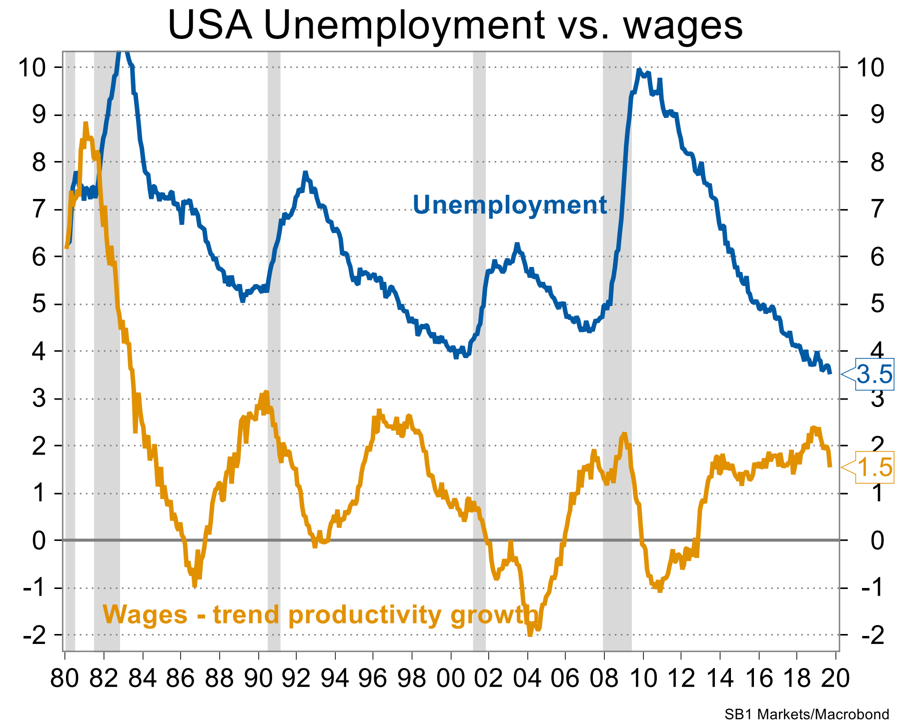
Wage inflation is <u>not</u> low vs. prices or productivity

In fact, real wages are still increasing <u>faster</u> than normal, and <u>more</u> than normal vs. productivity



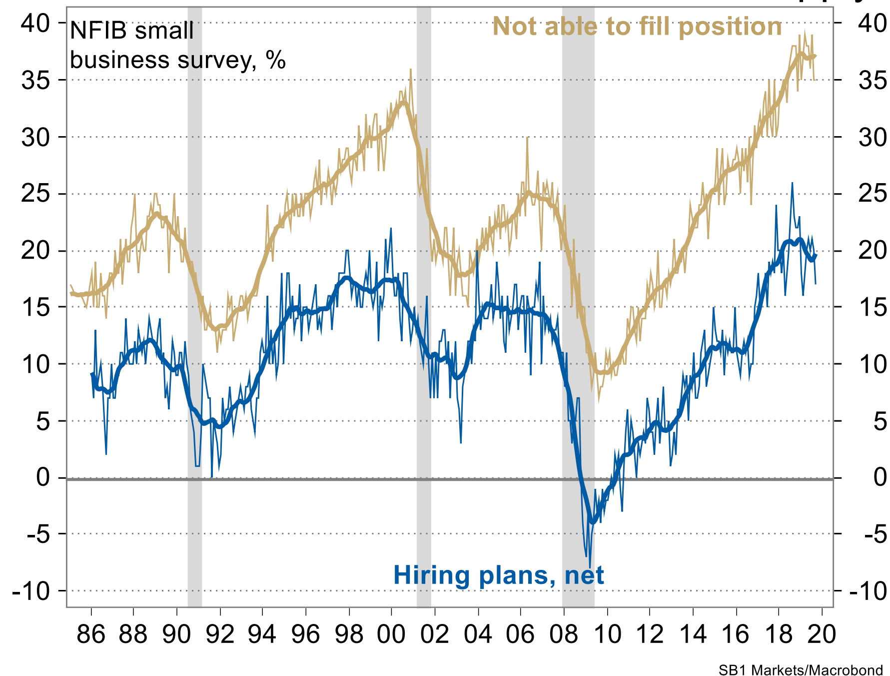


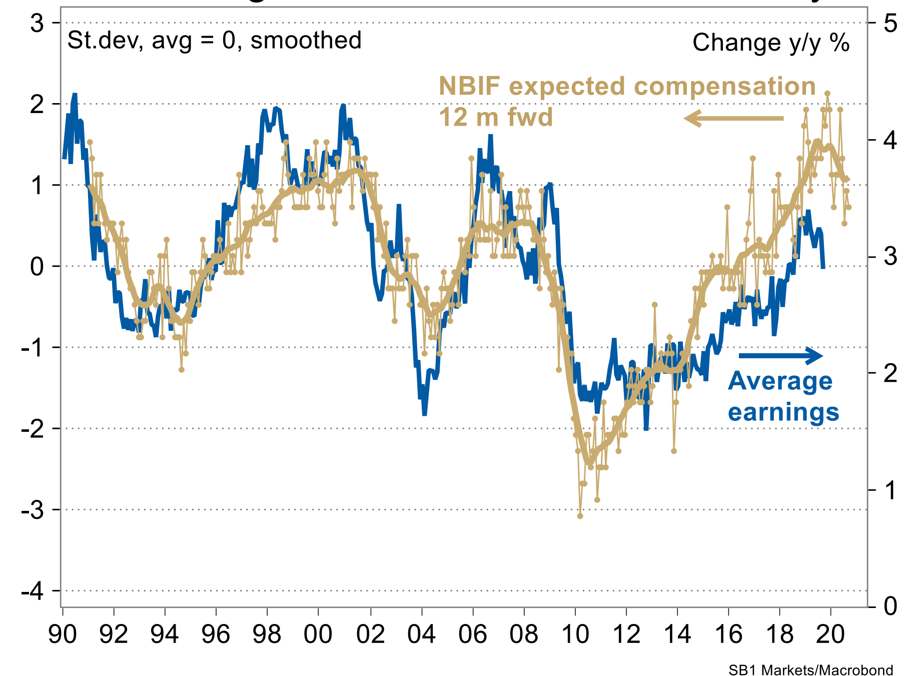
- In Q2, the wage – productivity gap, or labour cost per unit produced (ULC, unit labour cost, using the monthly wage data) declined marginally but it is close to 2% - close to the highest seen in decades.
  - » Another indication: The corporate profit share has fallen sharply the previous years because <u>cost inflation</u> (=wage inflation – productivity growth) <u>has been too high the inflation, as normal when the labour market tightens</u>
- Real wages has been increasing faster than normal too

SpareBank 1 MARKETS

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

Hiring plans may have peaked



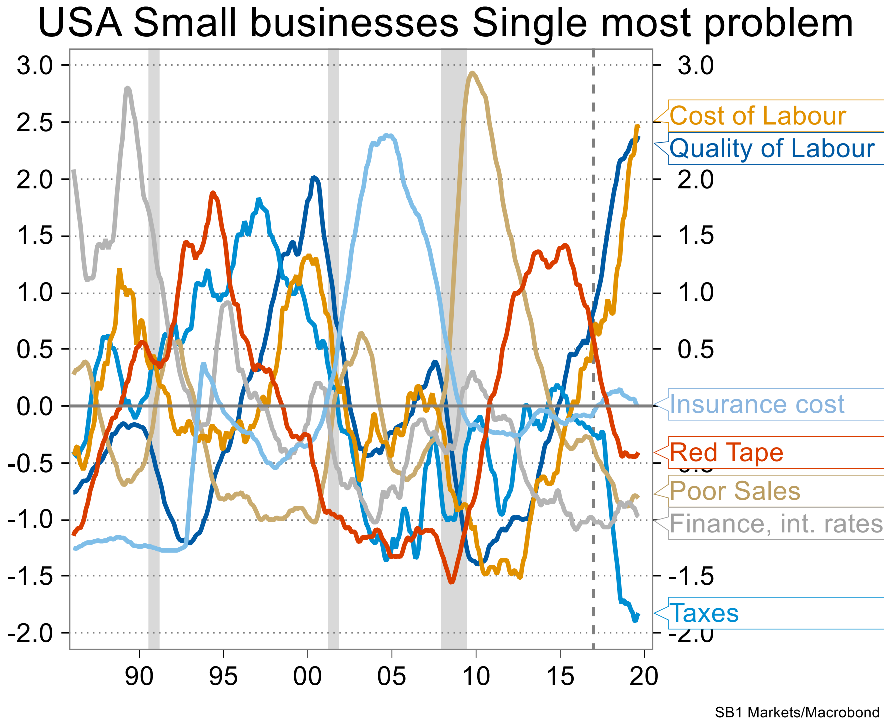


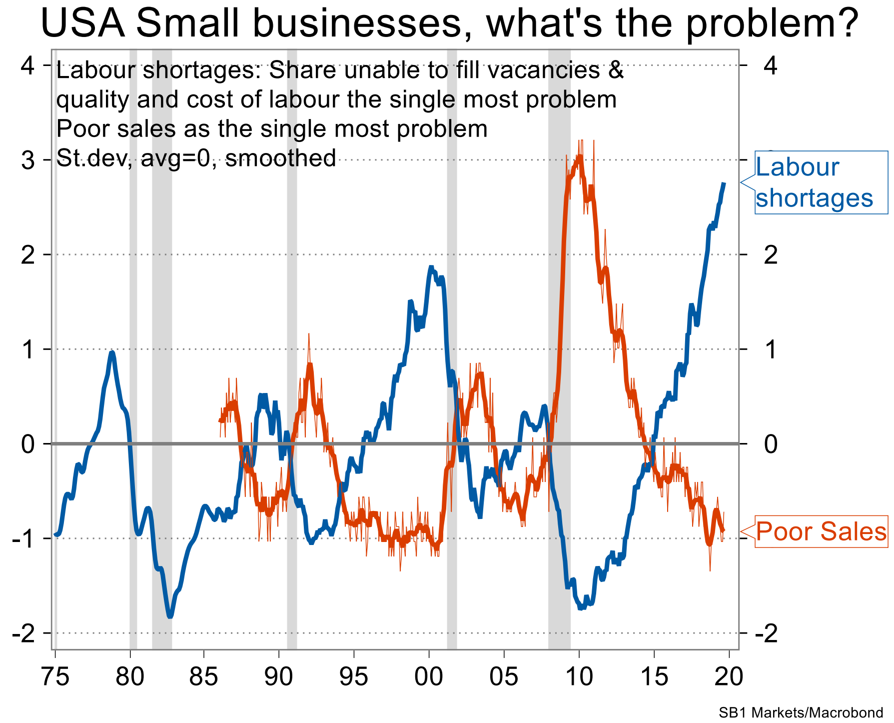
- SME companies reported less aggressive hiring plans in Sept. Hiring plans have become a tad less aggressive in 2019, compared to the late 2018 levels. An early sign of demand weakness or due to difficulties attracting labour? These data are volatile – and the level is still high
  - » Most likely, 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). *Check more on labour shortages next page*
- The companies are still not able to fill their vacancies, although the share of companies reporting were unchanged in September. Companies are also reporting unprecedented problems finding qualified labour
- Compensation expectations have been shifted down recent months, marginally lower in September. However, the level is still quite high and does not necessarily signal slower wage growth

SpareBank 1 MARKETS

What's the problem?

Availability of labour & cost. Not sales, not interest rates, not taxes. Says the SMEs



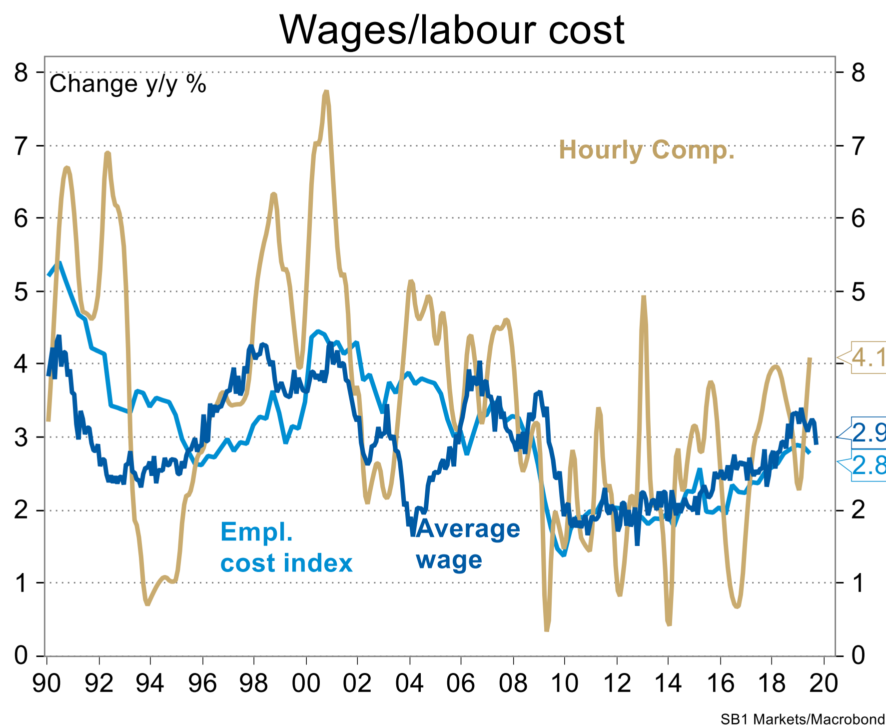


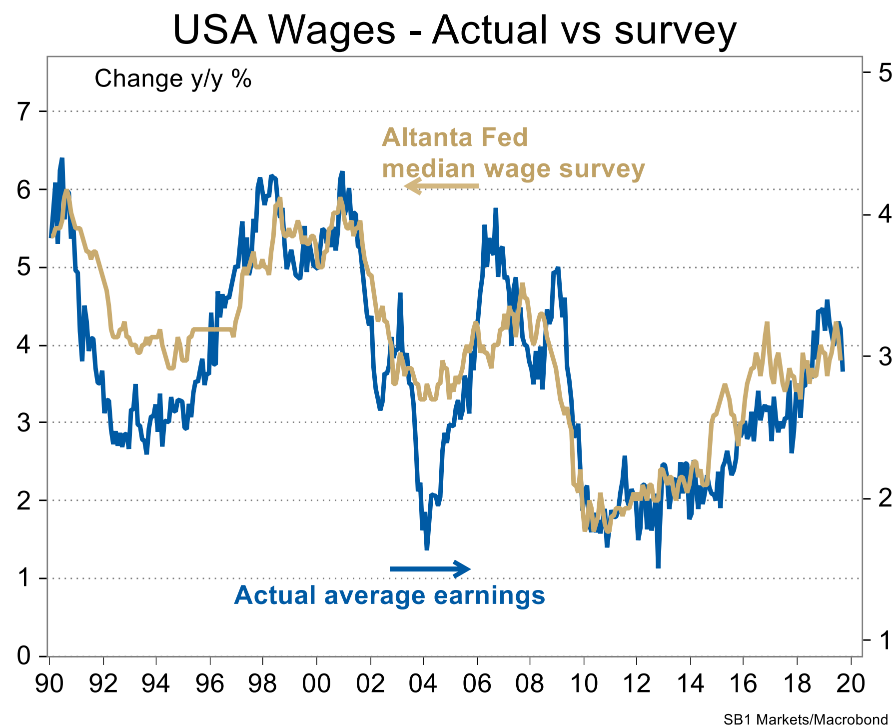
- BTW, households are reporting that it is unusually easy to find a job. Confirms our view that the labour market is still very tight

SpareBank 1 MARKETS

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

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

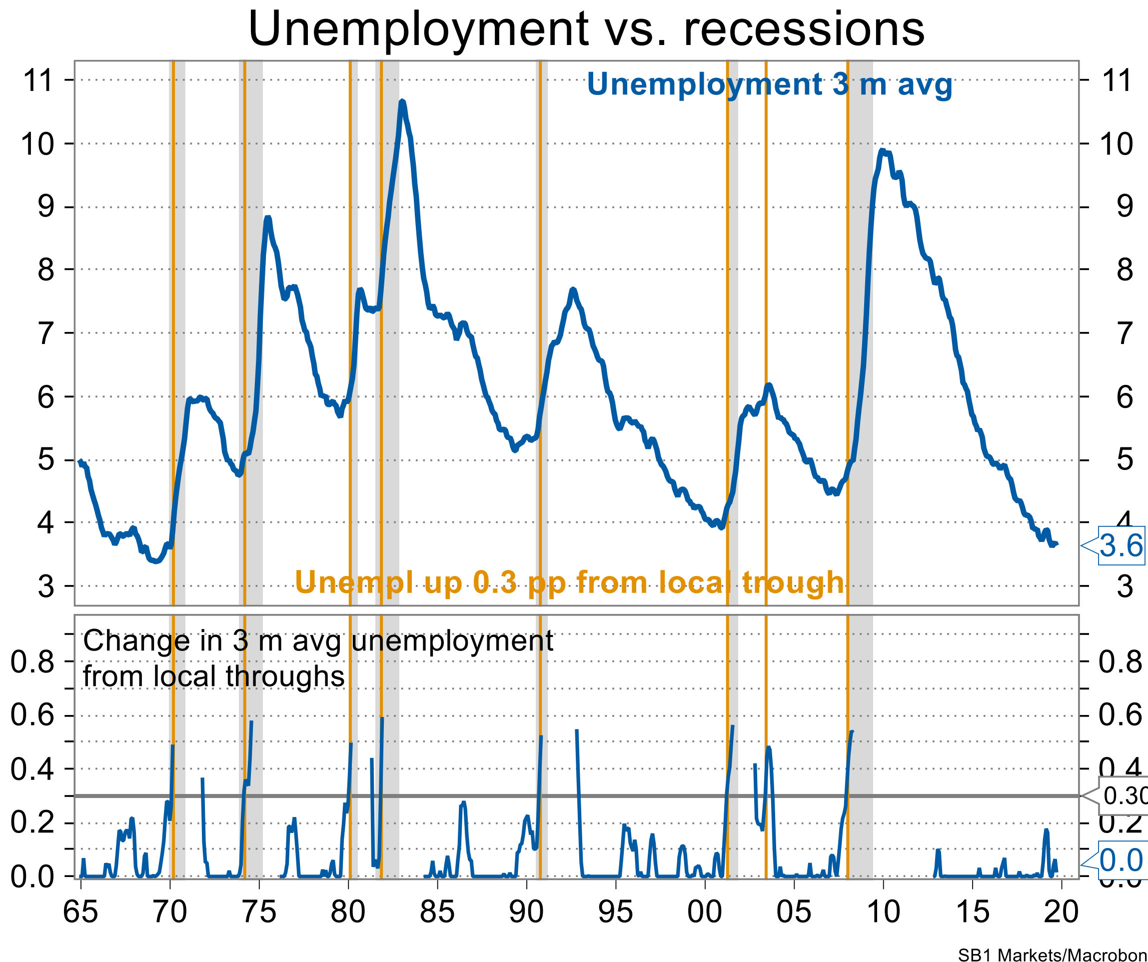




- In the monthly employment report, wage inflation eased to 2.9% y/y
- The Employment cost index slowed to 2.4% q/q annualised in Q2, the lowest in 2 years, from 3% in Q1. The annual rate came down 0.1 p to 2.8% - still up over the recent years
- Hourly compensation (from National Accounts) is the final 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 3.8% median wage growth, slowing somewhat in Aug/Sept but probably signalling slightly higher average wage inflation

Unemployment not up yet, no recession now?

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

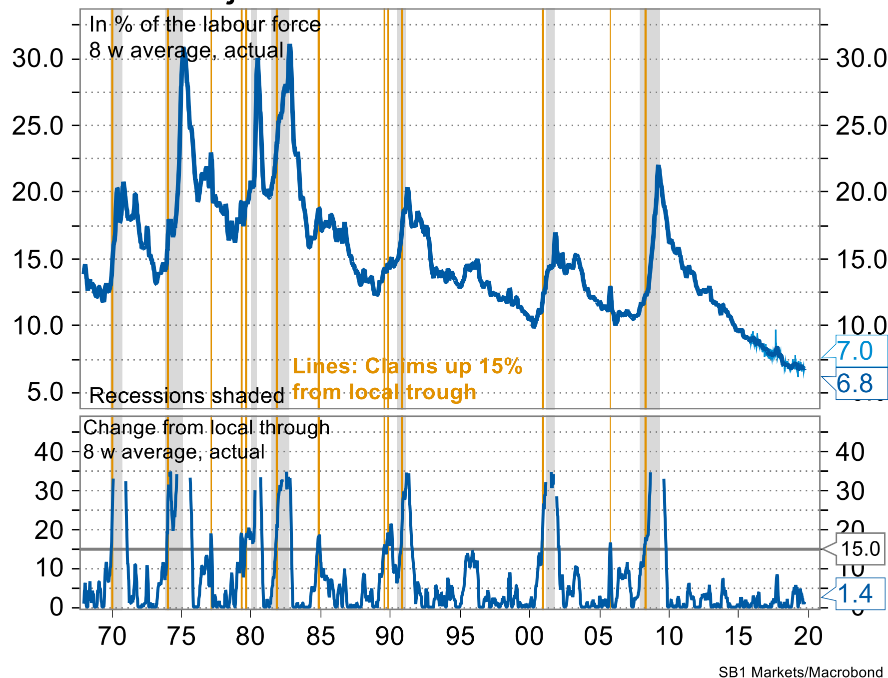


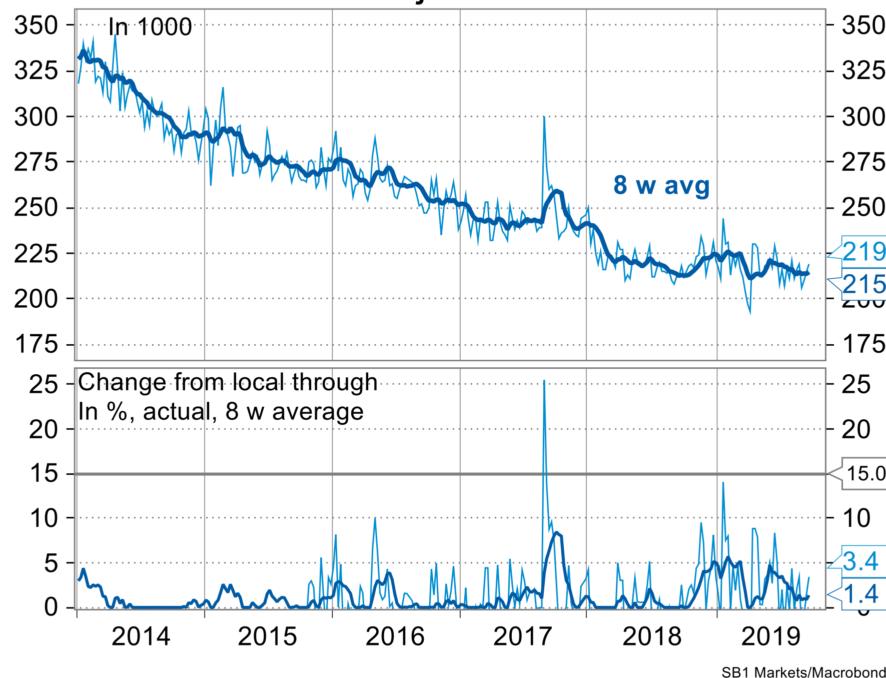
- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession confirmation, but has not been a good recession pre-warning, because it happens 'too late' – because unemployment is not a leading indicator
  - » Unemployment always increases substantially during recessions
  - » An 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

SpareBank 1 MARKETS

Jobless claims flat at a very low level, no signs of weakness here either

Jobless claims ticked up to 219' last week, just above the 8 w avg at 215'



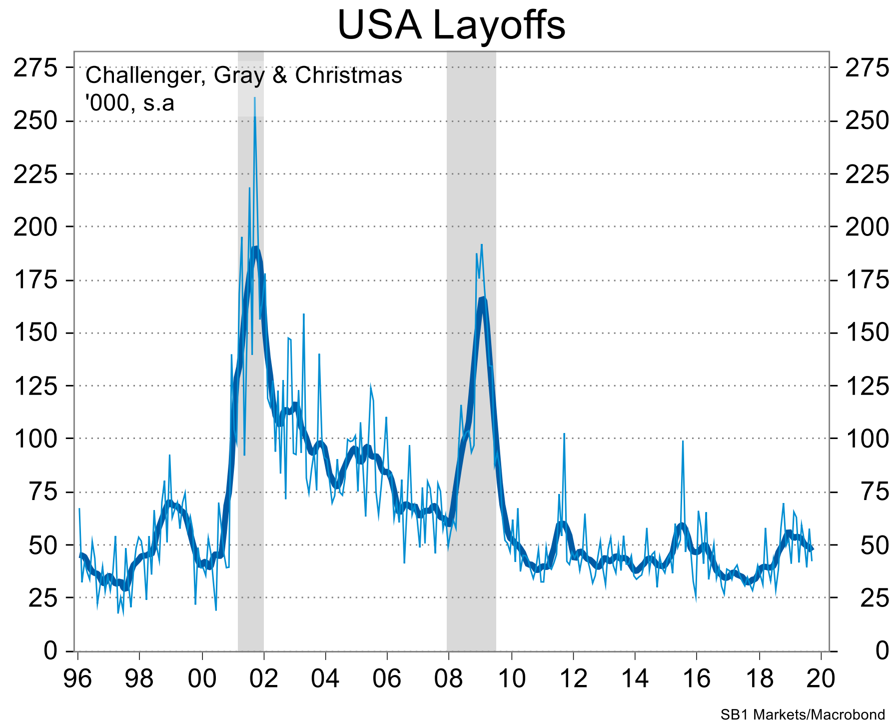


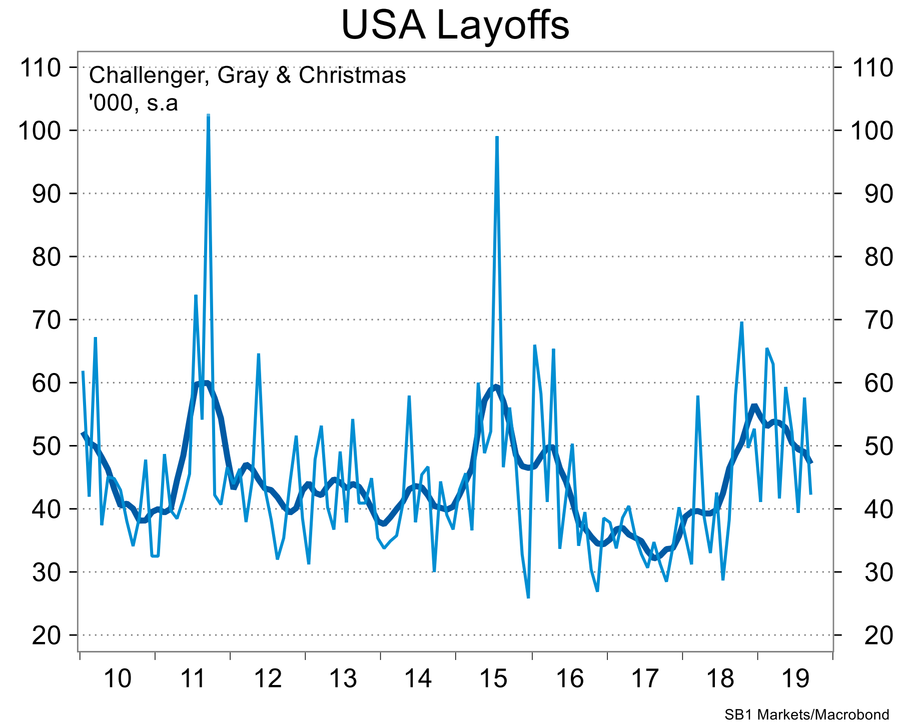
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

SpareBank 1 MARKETS

The number of layoffs down again in Sept, level is close to normal

Layoffs have declined recently, from an above the normal level (measures since the Fin. Crisis)



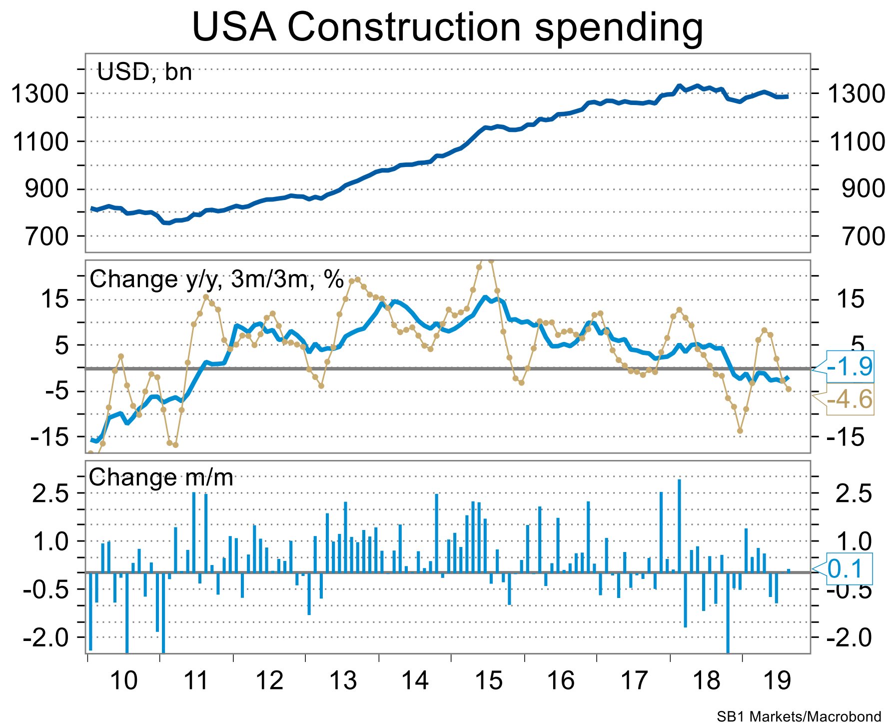


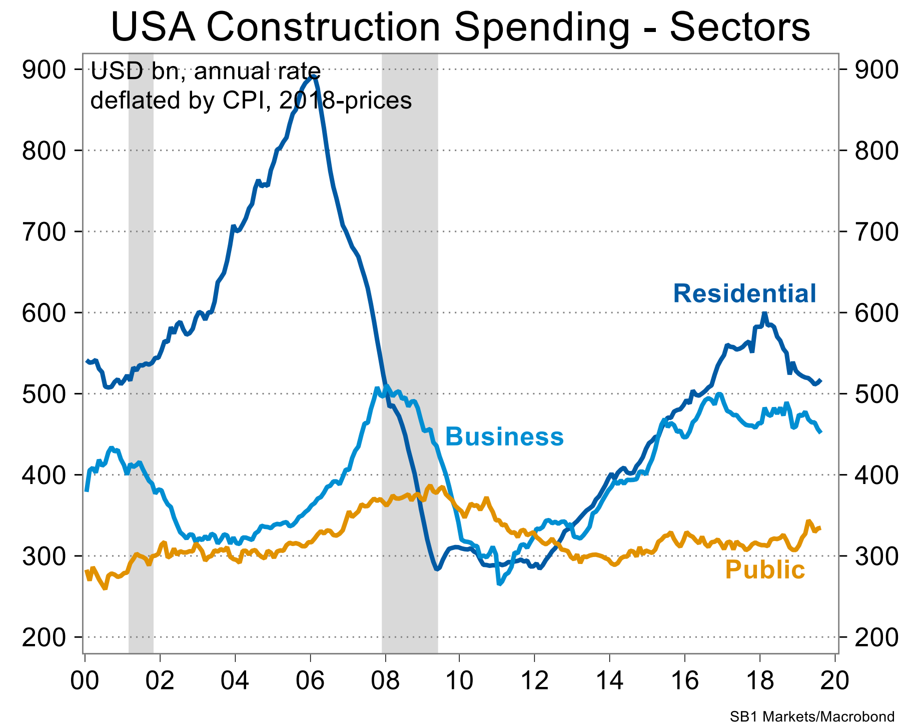
- The number of announced layoffs has been trending down since late 2018. Layoffs turned up through 2018, and the level is not low, <u>may reflect some weakness in the labour market.</u> However, as the direction has turned downward and other labour market measures are solid, we are not too worried
-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

SpareBank 1 MARKETS

Construction activity stalls, no growth since early 2018 (nominally)

No signs of any uptick now. Residential the biggest drag but business spending down to (CPI adj)



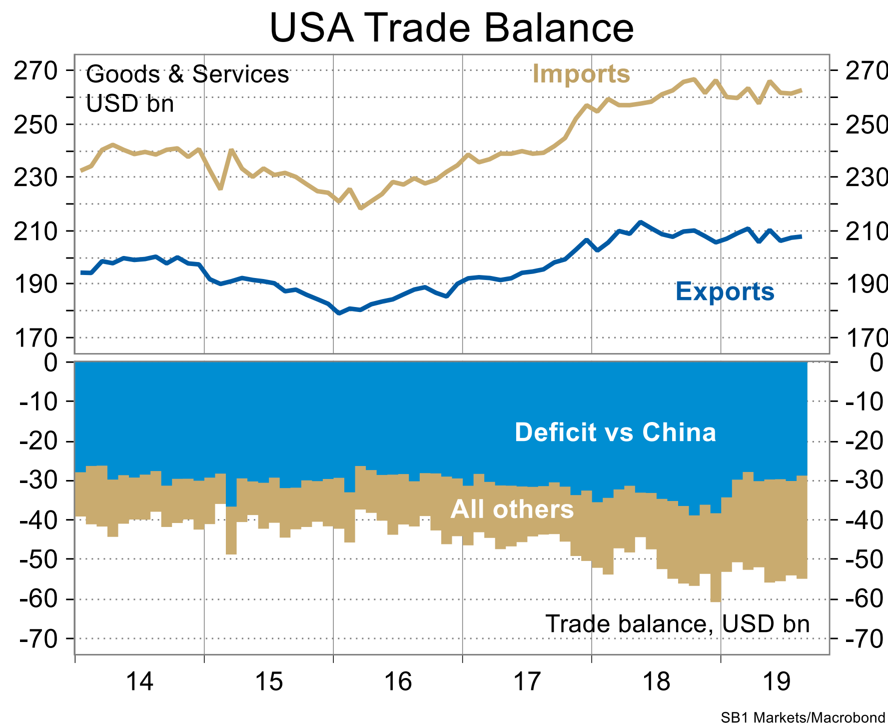


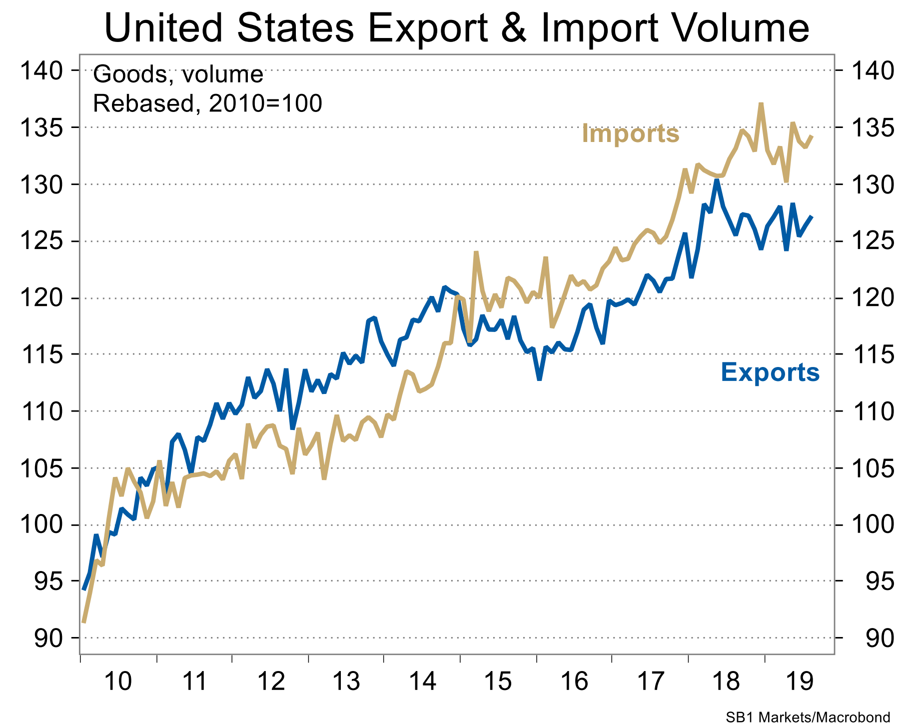
- Activity up 0.1% in August but construction spending is heading slowly down, in nominal terms
- Employment in the construction sector is no doubt exposed – is has already slowed substantially

SpareBank 1 MARKETS

The trade deficit widened marginally in Aug, both imports, exports have stalled

Both export and imports volume rose in Aug. Deficit vs China shrinks, most others trending out



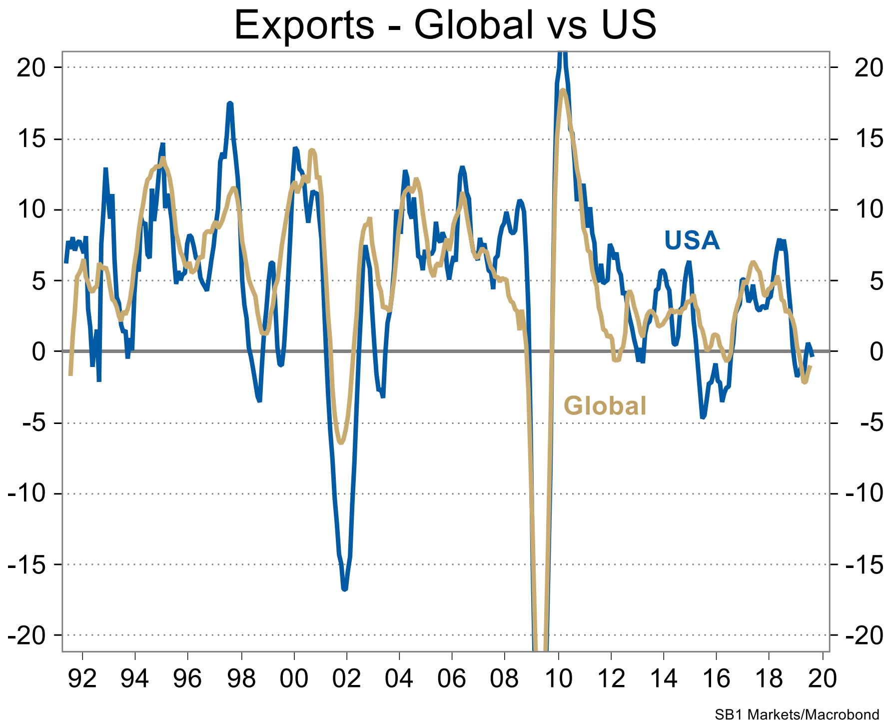


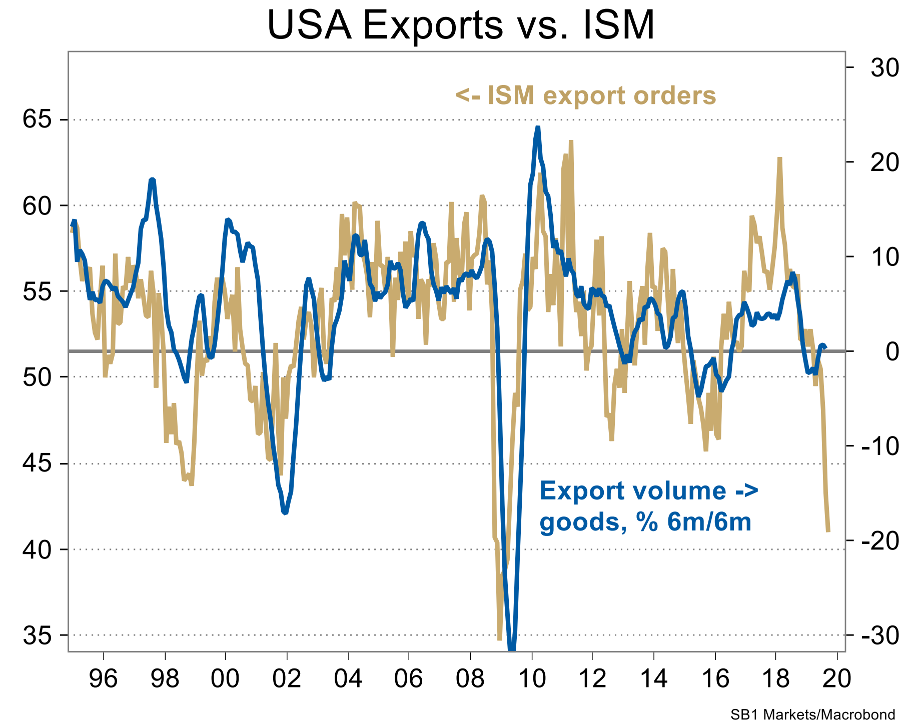
- The overall trade deficit widened slightly in August, to USD 55.0 bn
  - Imports of goods and services rose 0.5% m/m in volume terms, heading slowly down since Dec 2018, annual growth at 0%
  - Export volumes increased by 0.2%. Exports have been flat recent months, heading down over the past year, annual rate 0.1%
  - Net trade dragged GDP growth down in Q2, data this far in Q3 signals a muted growth contribution
- The deficit vs. China is reduced, no doubt due to the trade war, as imports from China have fallen sharply. <u>The overall US deficit is not cut as it is widening vs most other trading partners</u>

SpareBank 1 MARKETS

Export outlook not the best anymore… (And it's not the dollar, stupid…)

The ISM export order index signal a sharp decline in US exports. But if that's correct…



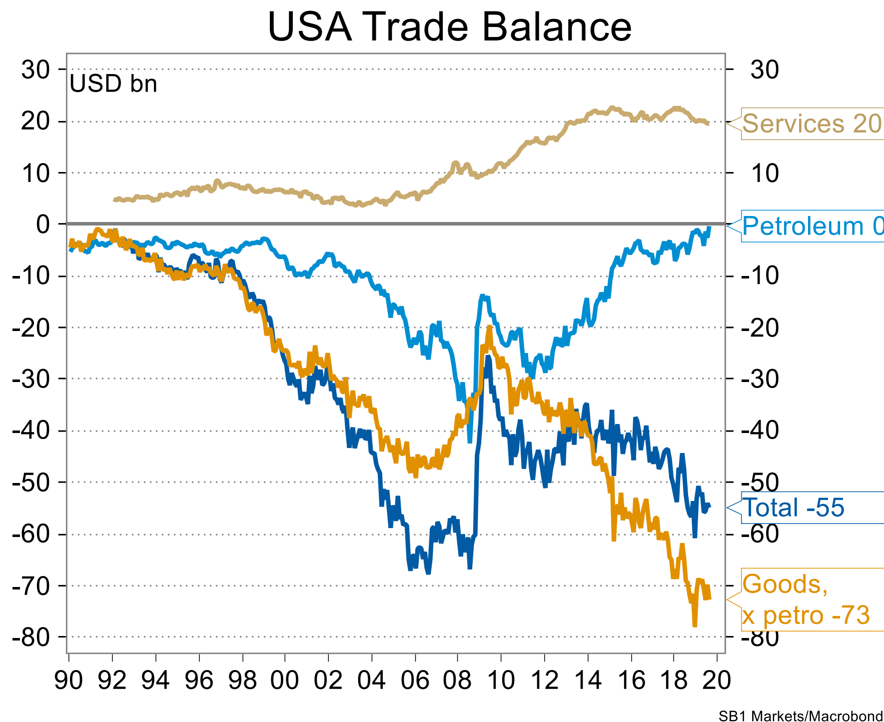


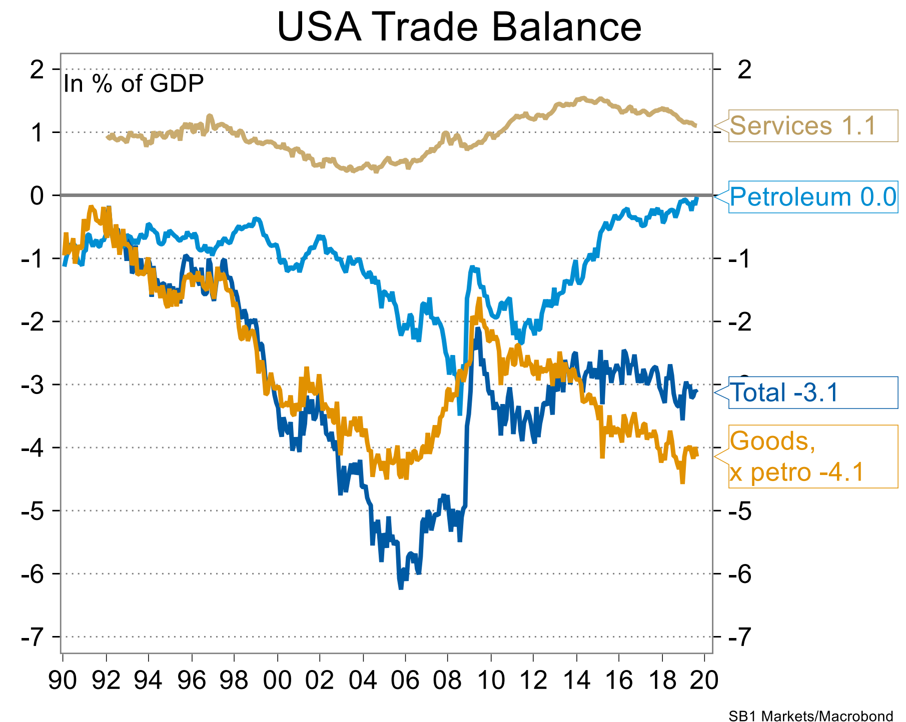
- … some other things will probably have gone sour as well
- US exports are closely correlated to global exports, it's just a tad more volatile (and a little slower growth rate over time). The slowdown in US exports now, mirrors the global export setback (as normal)
  - » The strong USD has some impact on exports, but less than 1% now - and a miniscule impact on GDP growth
- The ISM export order index is more closely correlated to actual export than Markit's export order index (which rose a tad in Sept)

SpareBank 1 MARKETS

If not for petroleum, a ‘catastrophe’. Total deficit 3.1% of GDP, it used to be 6

The goods deficit ex petroleum is close to record high, even in % of GDP, at 4.1%



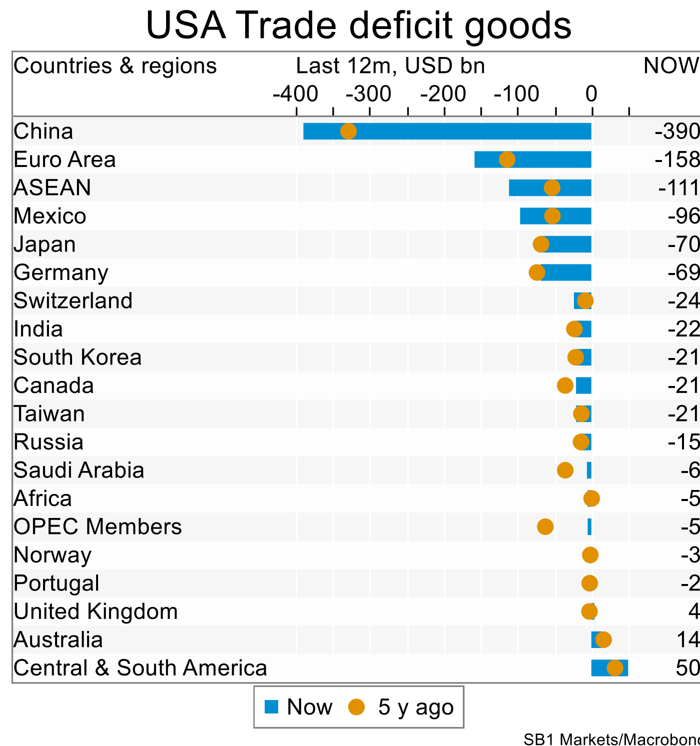


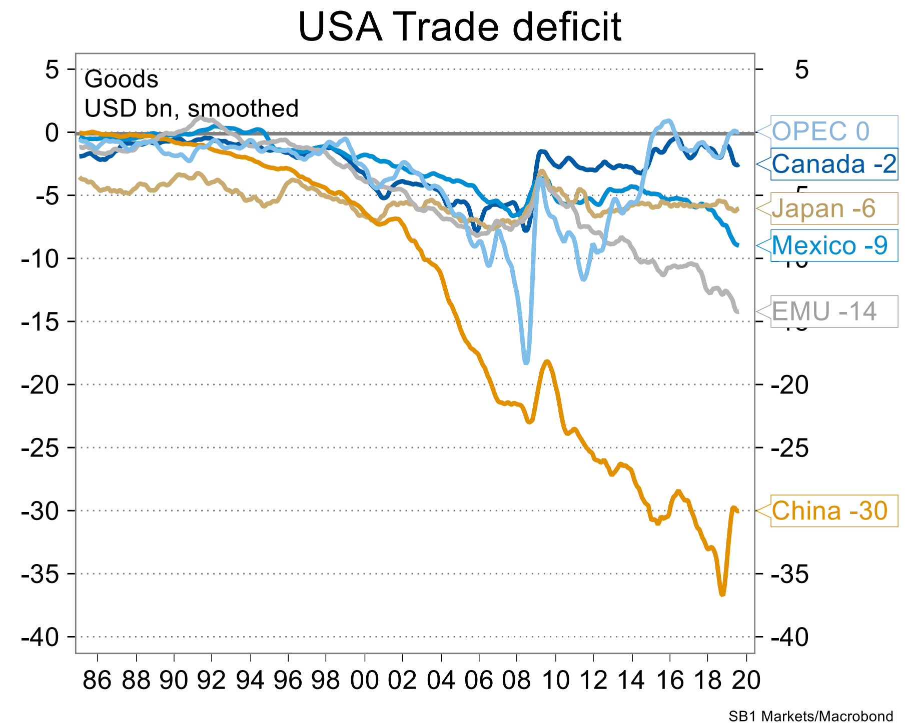
- In Aug, the goods x petro deficit widened marginally to USD -73 bn, or 4.1% of GDP. The deficit reached ATH in Dec ’18
- The petroleum trade deficit has disappeared, from USD 30 bn/m in 2012
- The US has a surplus in services at USD 20 bn, equalling 1.1% of GDP (but it is now trending slowly down)

SpareBank 1 MARKETS

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

Deficits vs Mexico, Canada and EMU are all trending out



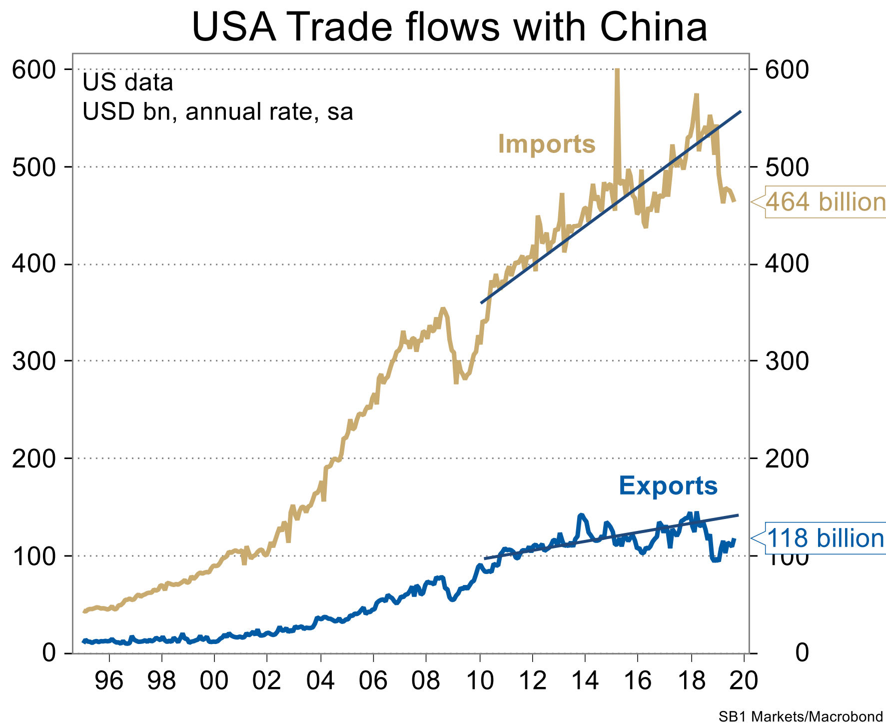


- The US deficit vs China equals some 40% of the total deficit in goods, from 50% last autumn
- The deficit vs Mexico has widened markedly the past 1 ½ year, vs EMU it trending out too
- The deficit vs Canada has widened recently, trending flat over the past years, close to balance. Deficits vs OPEC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

SpareBank 1 MARKETS

US imports from China have fallen more than exports to China (in USD)

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

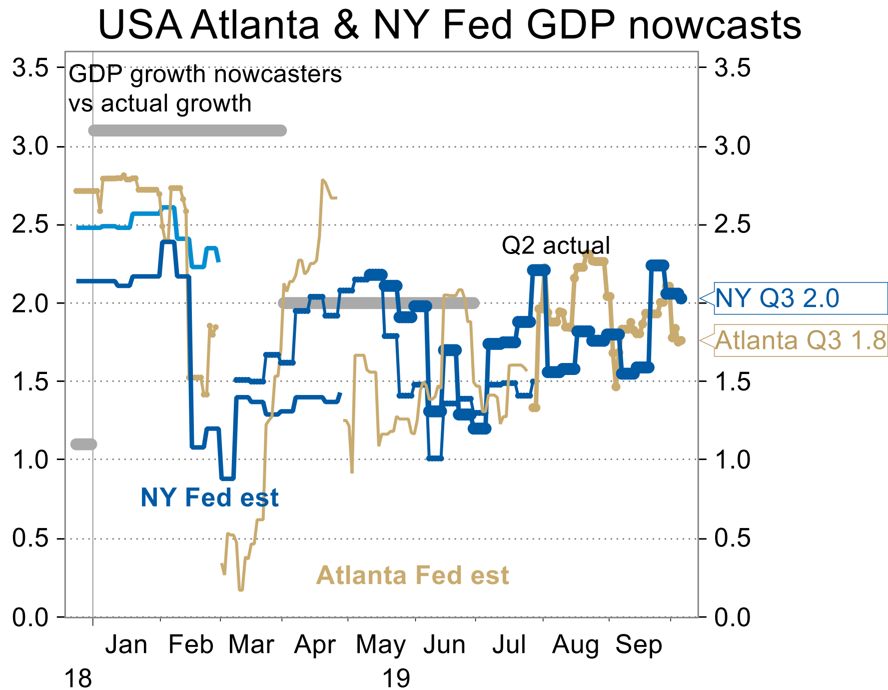


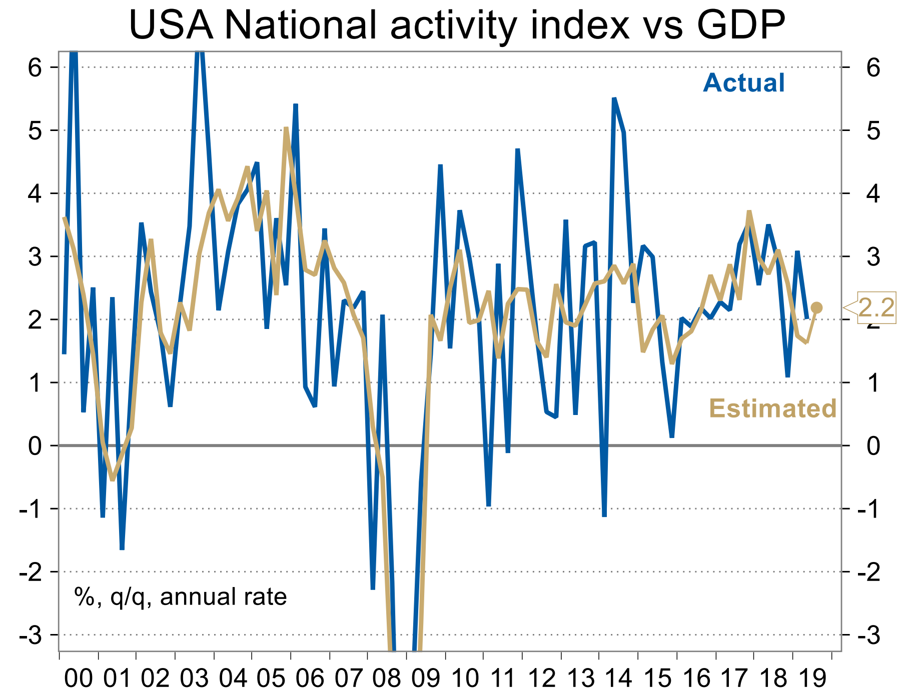
- According to US data, imports from China has fallen almost 15%, and export to China has fallen by 15%. Measured in USD, the decline in imports from China is far larger the decline in exports – and the US deficit vs China has fallen by almost USD 100 bn, to 350 bn. However, the US deficit vs. other countries has increase even more…
- China has always reported a smaller surplus vs. US, than the US figure for deficit vs. China. The discrepancy has been stable over time and is very likely due to exports reported FOB and exports CIF included. (Their respective bilateral export/import data are also very similar, no fake news here)

SpareBank 1 MARKETS

Nowcasters are signalling 2% growth in Q3 as well

The nowcasters are noting 1.8-2% GDP growth in Q3, the National Activity index at 2.2%



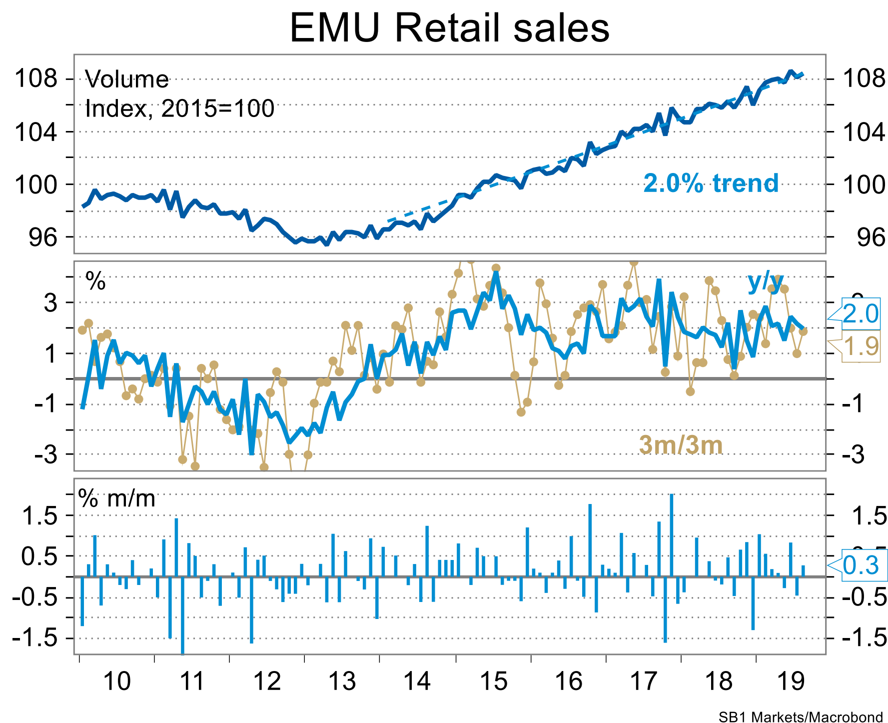


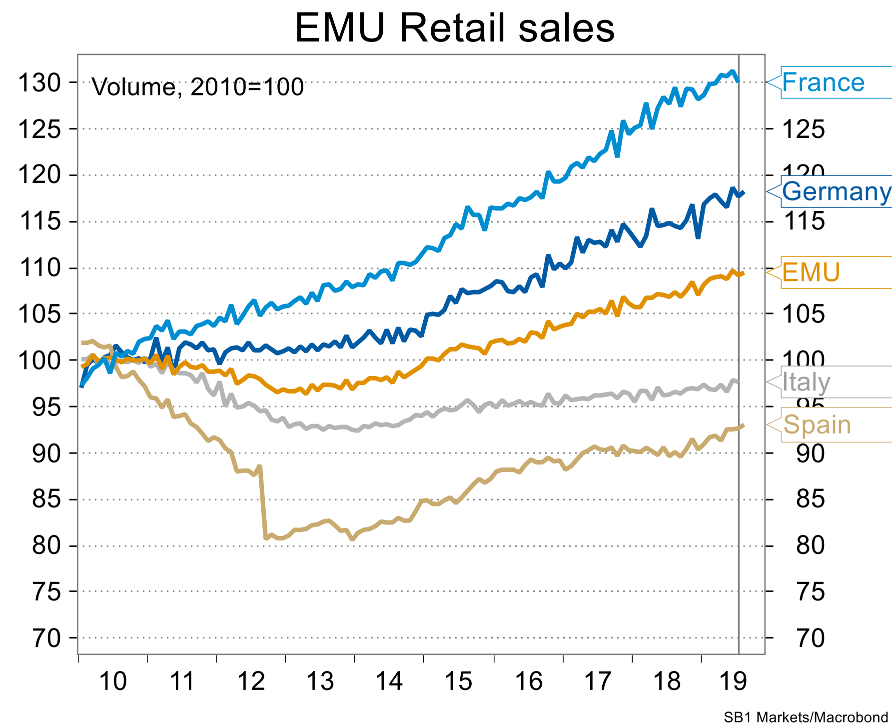
- The NY Feds weekly gauge fell to 2.0% last week, the ISM contributed. Atlanta Fed's model estimate fell to 1.8% a week ago, due to weaker consumption data
- Chicago Fed's National Activity index bounced back in August, after retreating in July. The index points to 2.2% GDP growth in Q3, from 1.6% last month (and 2.0% reported GDP growth in Q2)

SpareBank 1 MARKETS

Retail sales still increasing moderately, even in Germany

Sales up 0.3% m/m in Aug, the 2% trend still intact, providing some comfort amid manufacturing dip



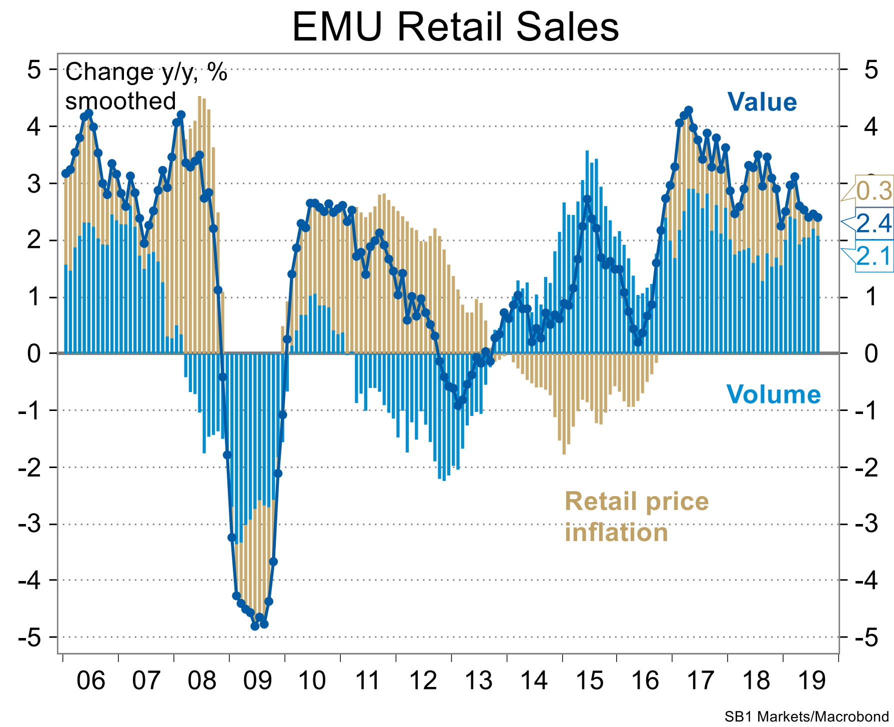


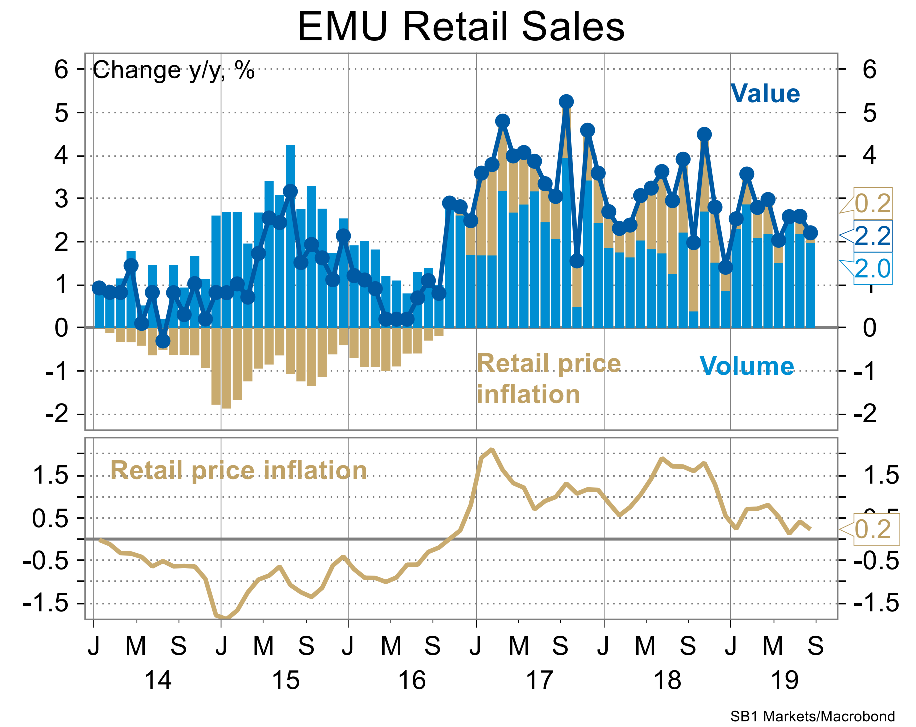
- Retail sales volume increased 0.3% m/m in August, in line with expectations. Underlying growth is up 1.9% and the annual rate 2%. The weakness in the Eurozone cannot be explained by lower consumption of goods (ex. autos). Nonetheless, the Q3 contribution from private consumption will most likely be modest (zero growth in retail sales in Sept yields a 0.7% q/q speed)
  - » Germany reported a 0.5% increase and the large dip in July was revised up, underlying growth is solid at 3.4%. Indicating that consumer sectors are resilient to the manufacturing slowdown? The services PMI slipped in Sept, may be a warning sign. Sales in Spain and France are heading slowly up too, and even Italy gaining some speed too?
- Lower price inflation is probably supporting consumption, as well as rising real wages and employment

SpareBank 1 MARKETS

Volume growth is helped by low price inflation

Retail price inflation has fallen from almost 2% to close to zero, supporting volume growth



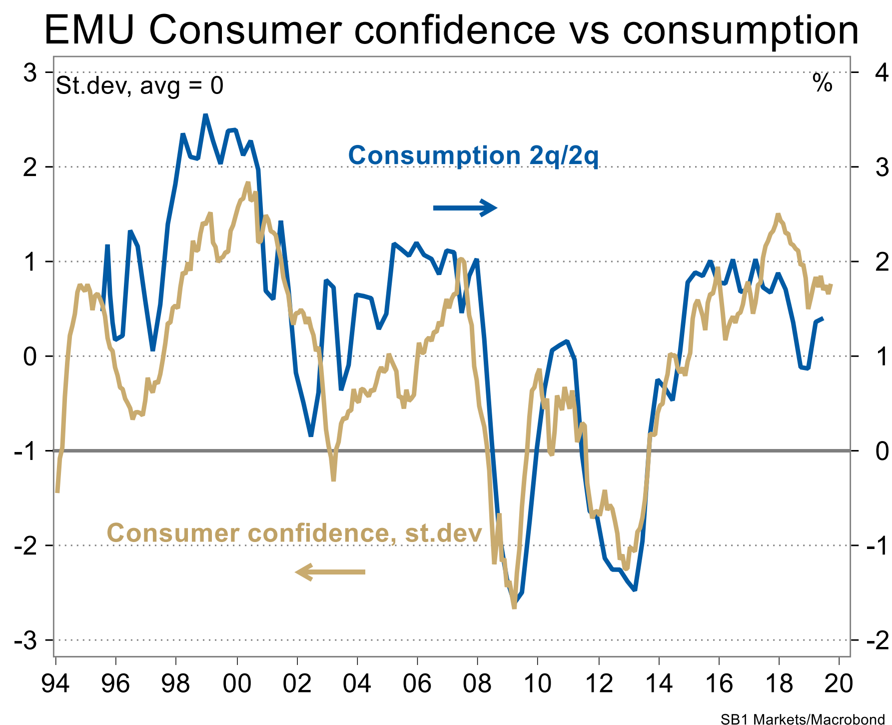


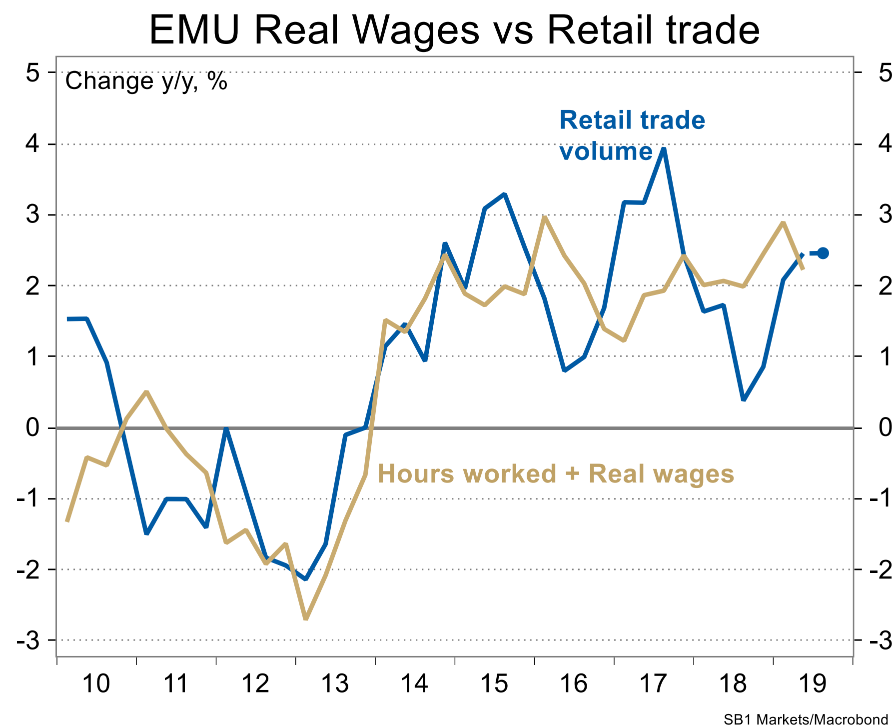
- Total inflation has been subsiding too, due to lower energy prices, thus, supporting growth in purchasing power

SpareBank 1 MARKETS

Consumer confidence, income signal solid consumption growth

.. However, the upside is probably limited



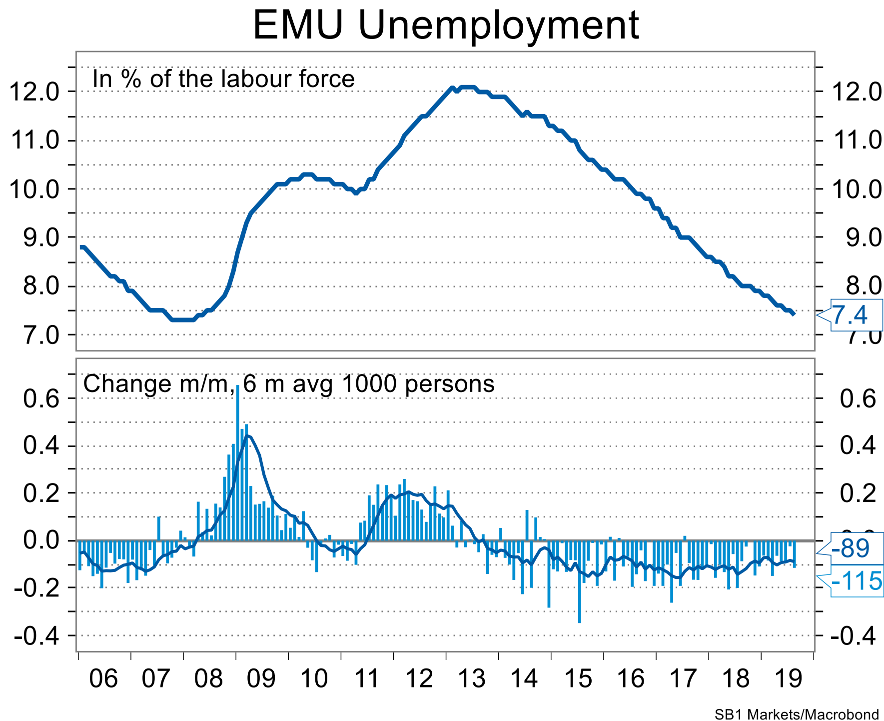


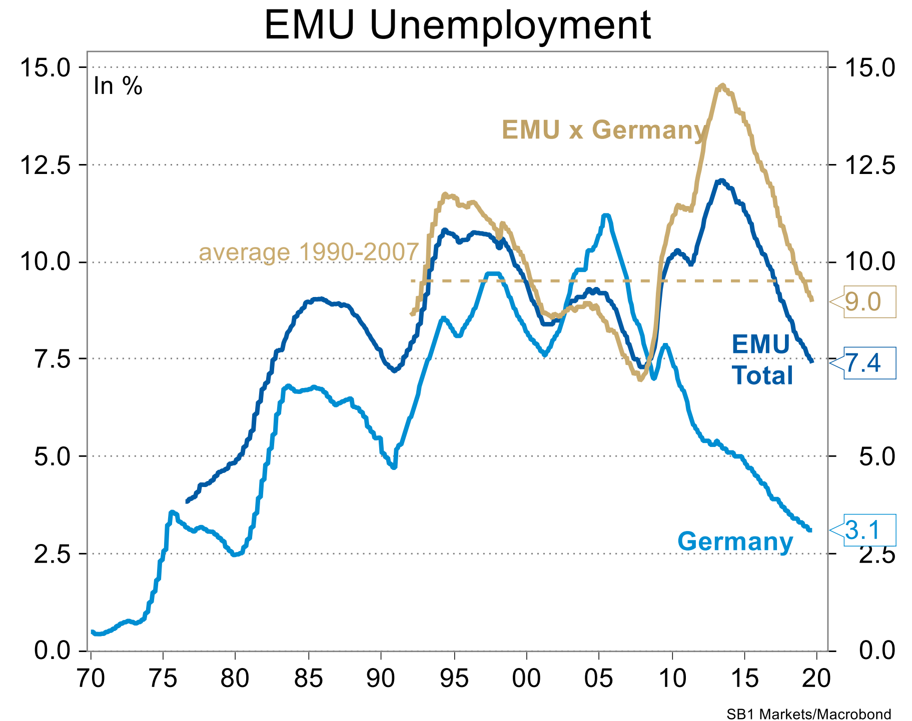
- Consumer confidence has improved somewhat and the level is not low, even if the index fell rapidly through 2018
- Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed as sales

SpareBank 1 MARKETS

Unemployment keeps sliding down, an encouraging sign? (or just a lagging indicator)

Unemployment fell to 7.4% in August, at the fastest pace in 5 months



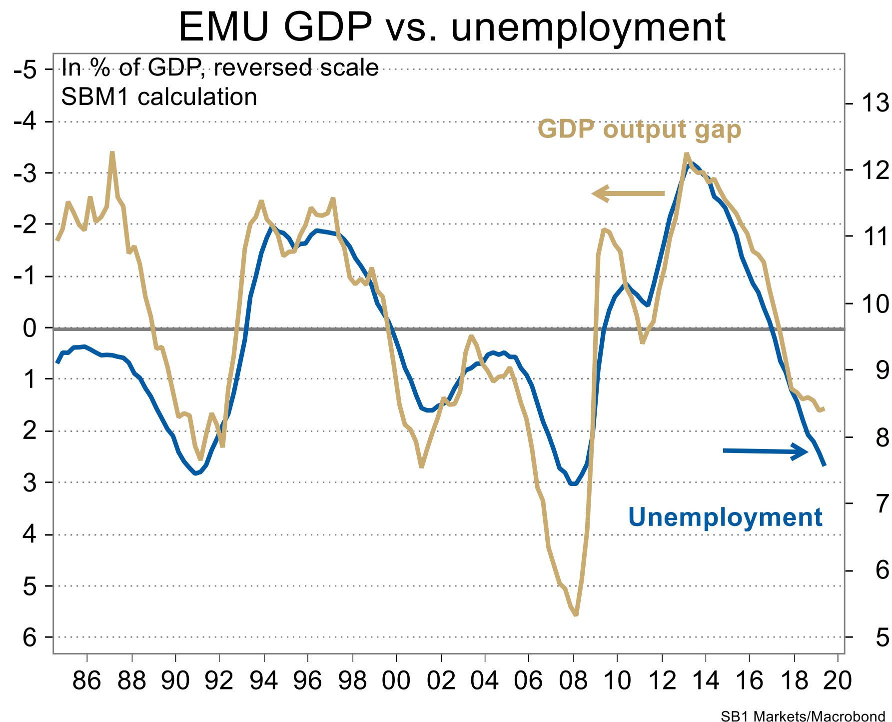


- The unemployment rate inched down to 7.4% in August, expected unchanged at 7.5%. The number of unemployed fell by 115' persons, the sharpest decline in 5 months. The long term trend is downwards but the pace has declined somewhat the past year
  - Unemployment is falling in spite the soft patch that the Eurozone is in (some sectors, at least). Unfortunately, unemployment is not a leading indicator, it is at best a coincident one. <u>Nonetheless, the decline in unemployment rate during the economic slowdown may also mirror that other sectors so far are persistent to the dip in manufacturing, as the PMIs and some other surveys have been reporting (until Sept, at least)</u>
- Unemployment in total EMU is well <u>below</u> the 1990-2007 avg, and it has fallen below the average in EMU ex Germany too
  - In Germany, the unemployment rate held steady at 3.1% in august, the lowest level in almost 40 years. But of course, a large fiscal stimulus is needed

SpareBank 1 MARKETS

The labour market leading or lagging? Lagging…

But not by that much, 1 quarter or somewhat more, in average

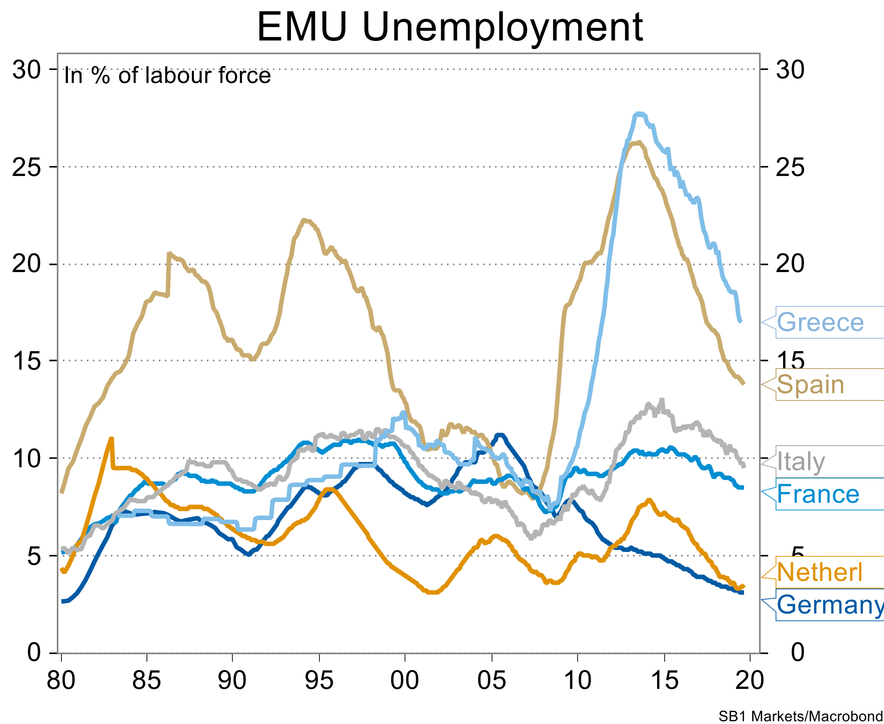


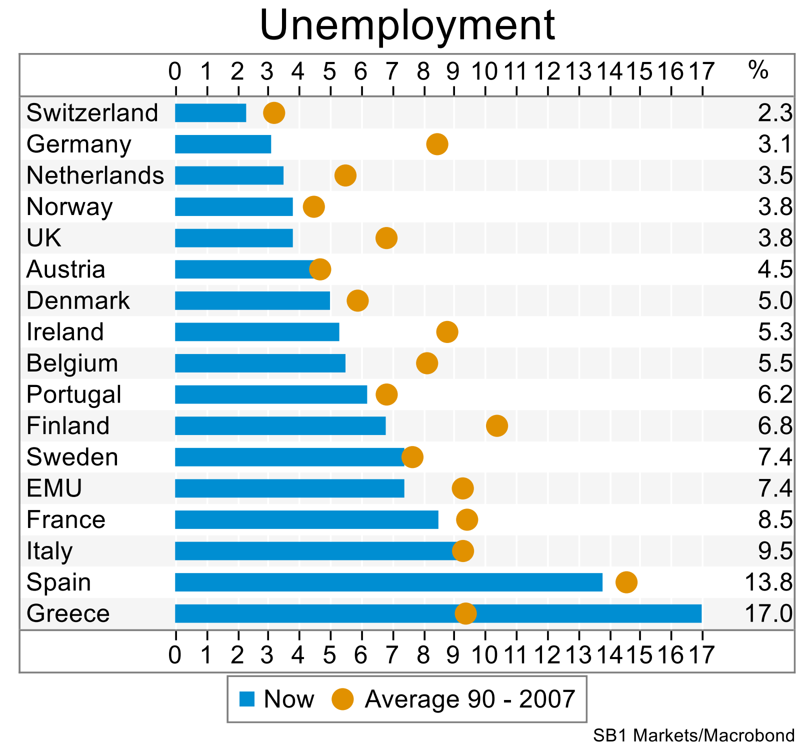
- GDP growth has slowed, and growth was below trend in Q2 (we hope), but growth has probably been marginally above trend growth over the last year (we estimate a 1% trend growth potential, GDP is up 1.2%) – and the output gap has increased (reversed scale at the chart to the left)
- So, it is not that strange that unemployment is still trending down. Should growth come down to the level indicated by the PMIs and some other surveys (close to zero, unemployment will start to increase

SpareBank 1 MARKETS

Unemployment is still heading down everywhere

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



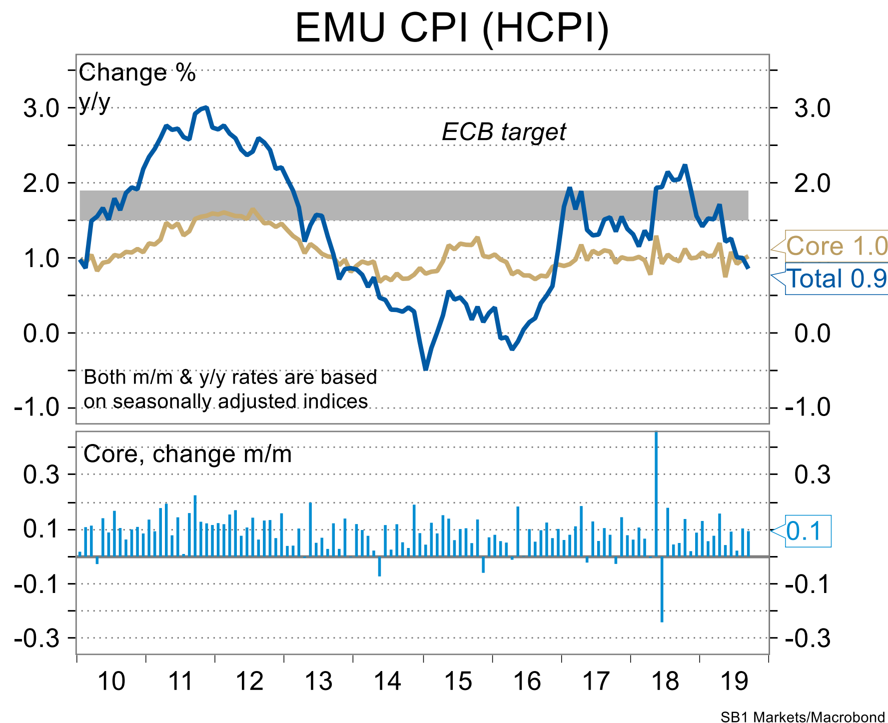


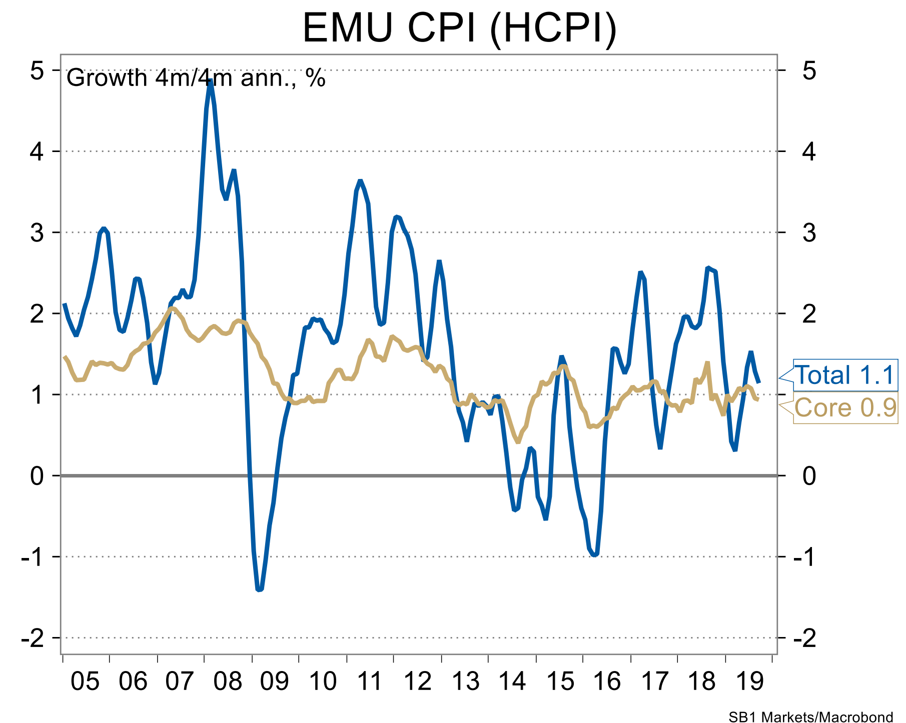
- Unemployment rates in Greece and Spain have fallen sharply since 2013, from awfully high levels. Unemployment is still very high in Greece, at 17% (down from 28% in 2013!). Spain down to 14% from 26%
- Unemployment in Germany and the Netherlands have fallen to very low levels, limited downside potential! Recent months, unemployment rates in both the Netherlands and France have flattened out
- Employment rates are in general high – but lower than before the GFC in Greece, Spain and France (but not in Italy)

SpareBank 1 MARKETS

Core CPI inflations remains meagre, unchanged at 1% in Sept

Core inflation has been flat at +/-1% for 2 years. Total inflation ticked down to 0.9%, due to oil prices



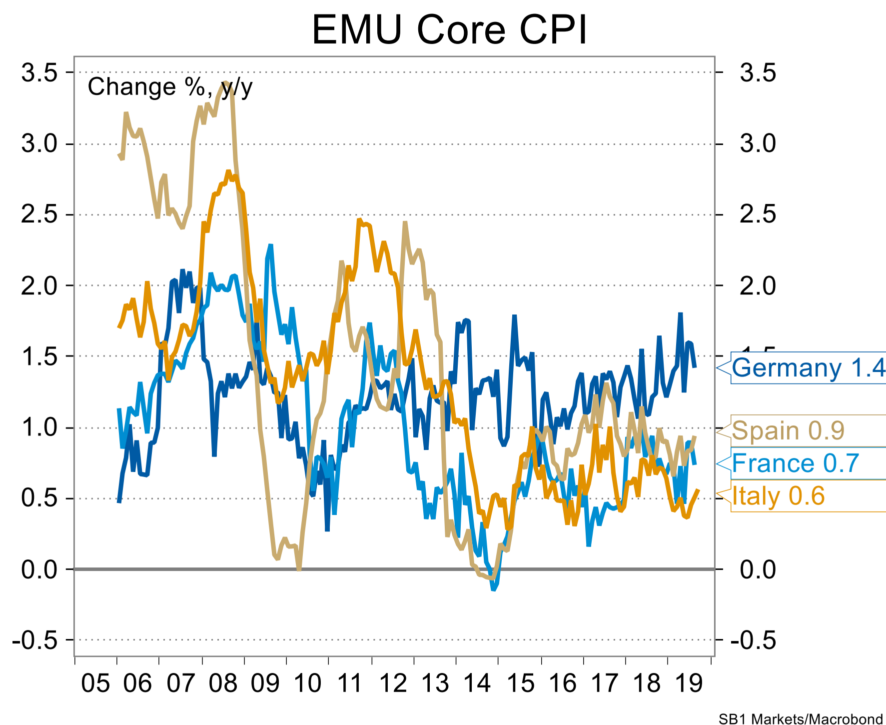


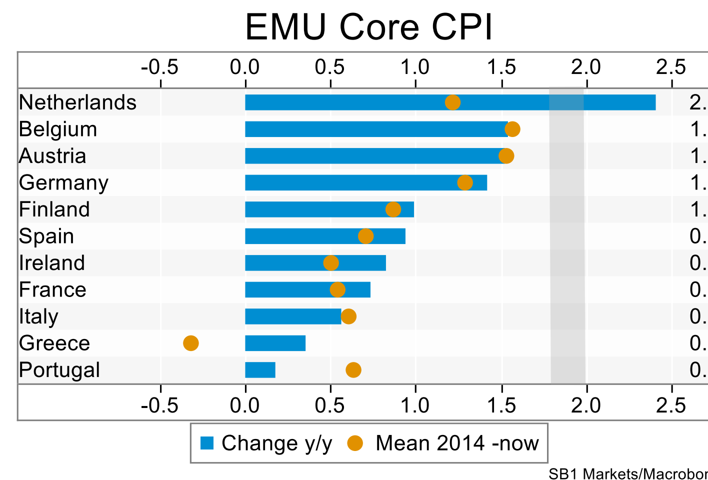
- Core CPI rose 0.1% m/m in September. The annual rate held steady at 1%, in line with expectations. Core inflation is trending flat and growth measured 4m/4m does not point to any lift in the annual rate
  - » Subdued inflation has no doubt increased pressure on ECB to step up support
- Total CPI growth decreased by 0.1 pp. The oil price decline in the spring has sent total inflation down from above 1.5%. We expect headline inflation to decline further the coming months, to well below 1%

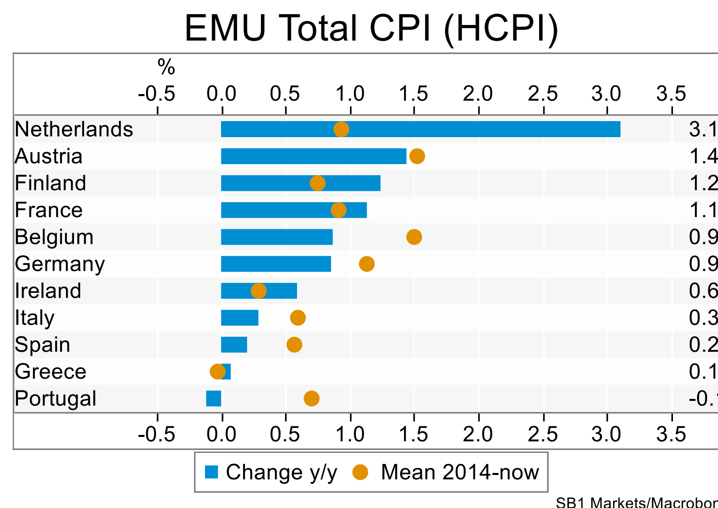
SpareBank 1 MARKETS

Core inflation below target everywhere x Netherlands

Still, inflation is lower than 'normal' just in Portugal, Italy. Germany heading slowly up



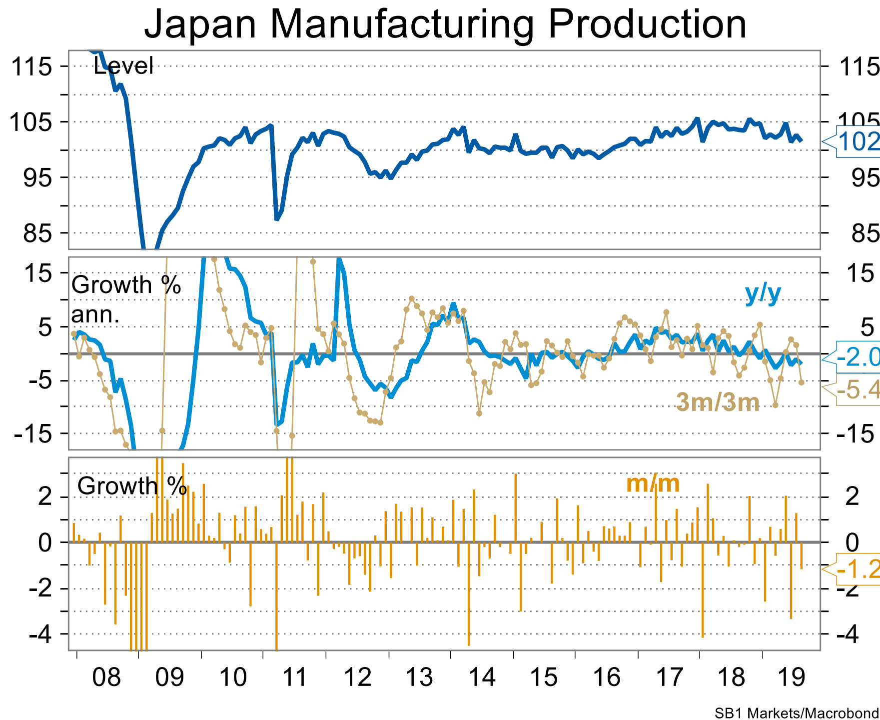


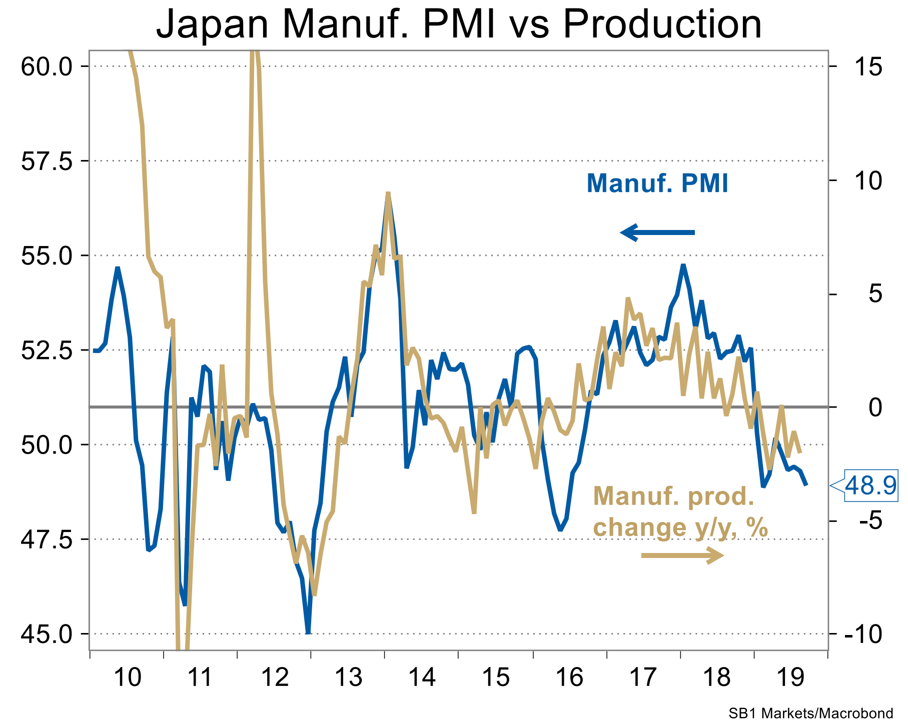


- Core inflation in Germany is up 1.4% y/y (in Sept), and has no doubt accelerated the past year
- In France, inflation is meagre at 0.7%. Spain gaining some speed now? Trend probably not more than flat
- In the other major countries core inflation has slowed
  - Only the Netherlands is at the ECB's price target at just below 2%, the total is above 3%. Higher clothing prices contributed the most in August

Manufacturing production trending down, PMI signals more to come

Production retreated in August, is trending down at a 2% pace

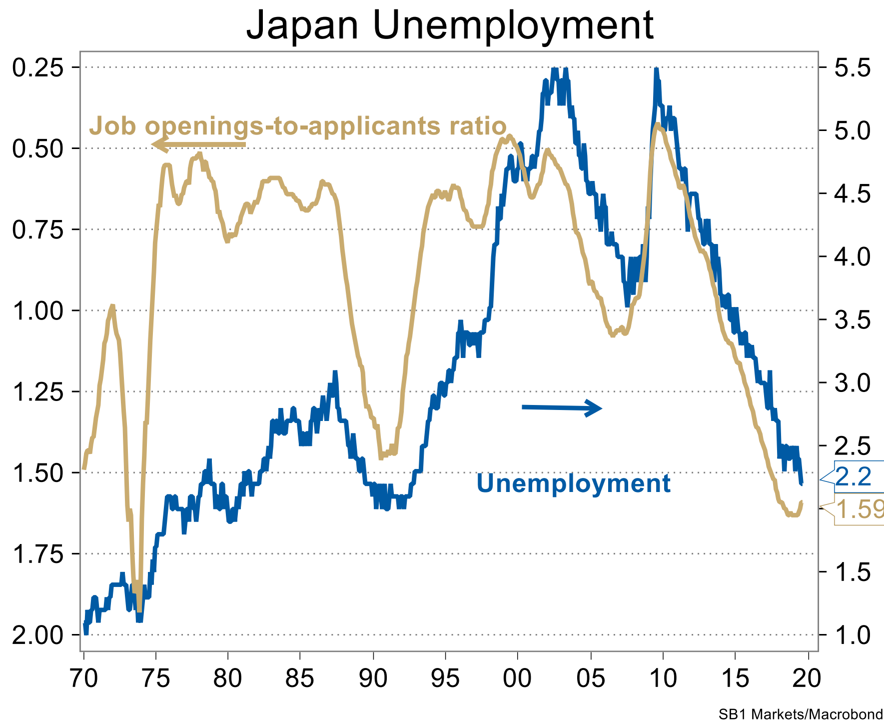


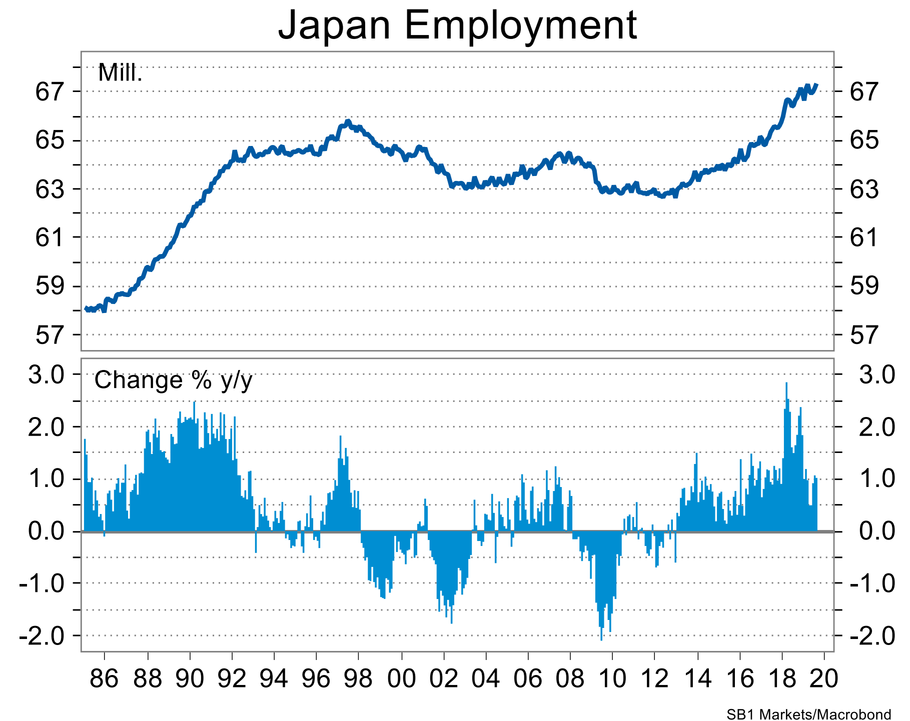


- Manufacturing production fell 1.2% m/m in August, weaker than expected. Production is down 2% y/y
- Manufacturing orders have improved recent months, may signal an upturn in production. However, these data are highly volatile and the correlation to production is not that strong. The PMIs are pointing to a deteriorating decline
  - » Export orders and export volumes have fallen sharply – while domestic orders have kept up somewhat better. However, the PMI indicates weaker domestic demand

Unemployment lowest in 27 years, employment growth at 1%

Unemployment was unchanged at 2.2% in August, to the lowest level in 27 years





- Unemployment has been trending down since 2009, and at the lowest level in 27 years (2.2%) it is still pointing down - at the lowest level in 27 years
  - » The job openings-to-application ratio may have turned down, signalling some weakness? On the other hand, level is the highest since the 1970'ies
- Employment growth is improving, at least it did in June-Aug, although slower than in 2018. Employment rates have been soaring, and are at record high levels for all ages/genders, with those over 55 y in the lead. And of course, participation rates are straight up too
- Still: Wage inflation has fallen recent months
- Barring the high corporate savings rate (partly offset by the public sector deficit – Japan is running a huge current account surplus) - what's really the Japanese problem – when employment is 'more than full'

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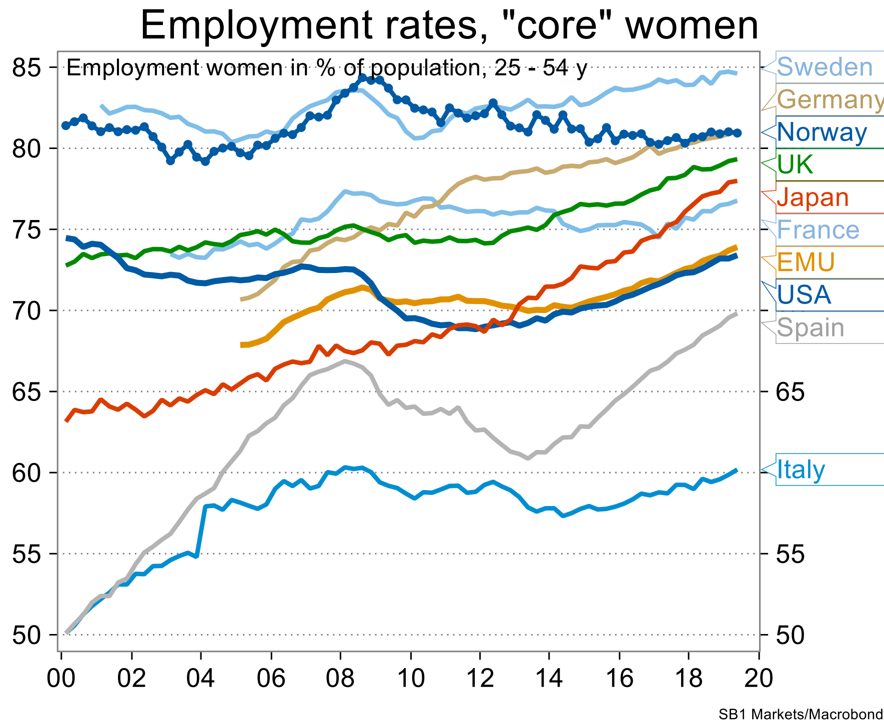
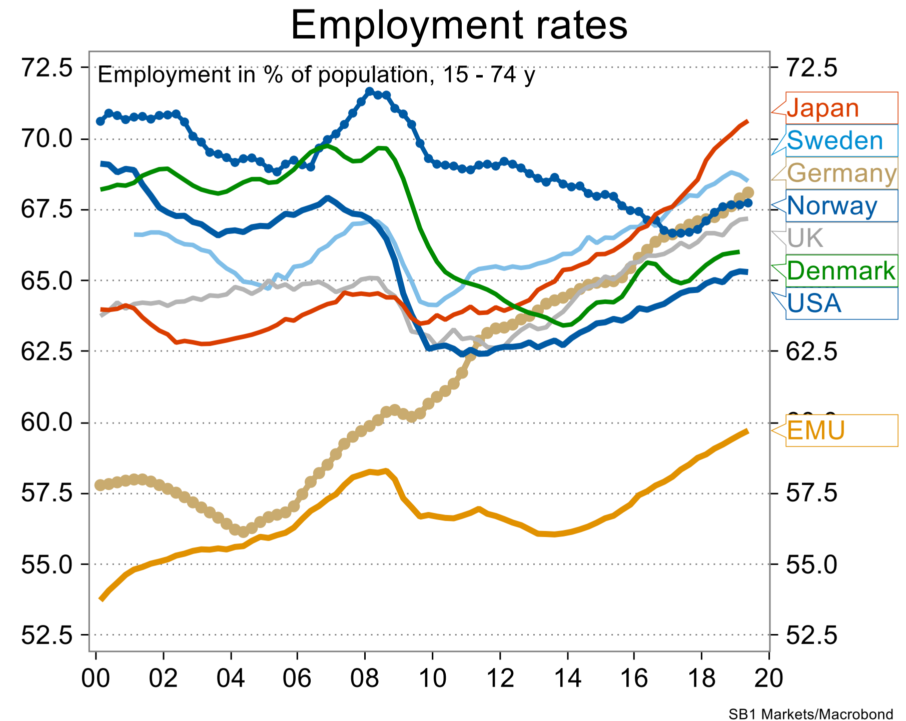
If you don't have more people, make more people work

Japan (and Germany) have been through labour market revolutions the past 10 - 15 years





- Check the amazing increase in the overall employment rate (to the right), Japan is now in the lead, by far!
- Still, particularly Japanese women may have more to give, even after an incredible increase in their labour market participation rate
- BTW, Germany women are now overtaking Norwegian women in labour market participation. The Norwegian women had an almost 10 pp lead less than 15 years ago, in the core 25 – 54 y group! Sweden is suddenly far ahead of Norway, we used to be equal! Norway is more or less the only country with a declining employment rate for women (but it is still quite high, and ahead of the most) (and employment among men is higher in both Germany in Japan than in Norway)

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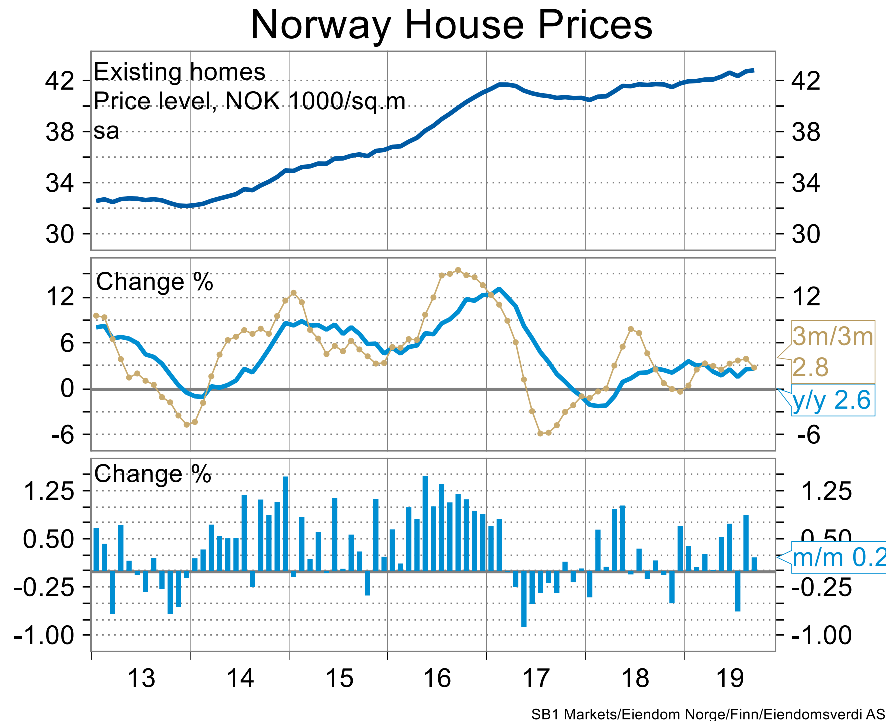
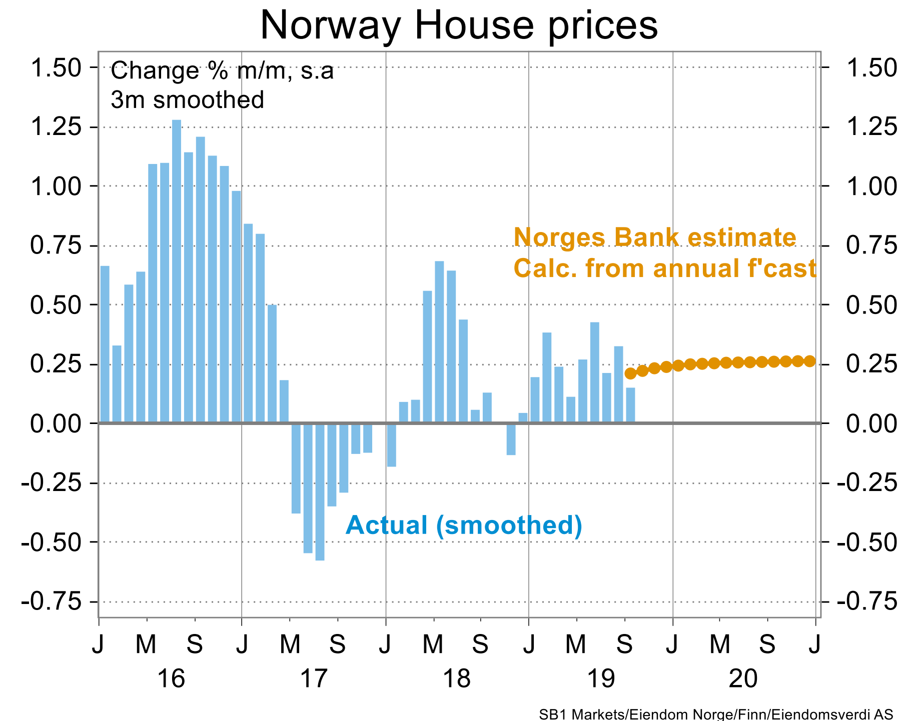
House prices rose modestly in September, Oslo & nearby in the lead

Prices up 0.2% in Sept, our f'cast was 0.4%. Market dynamics indicate soft growth going forward

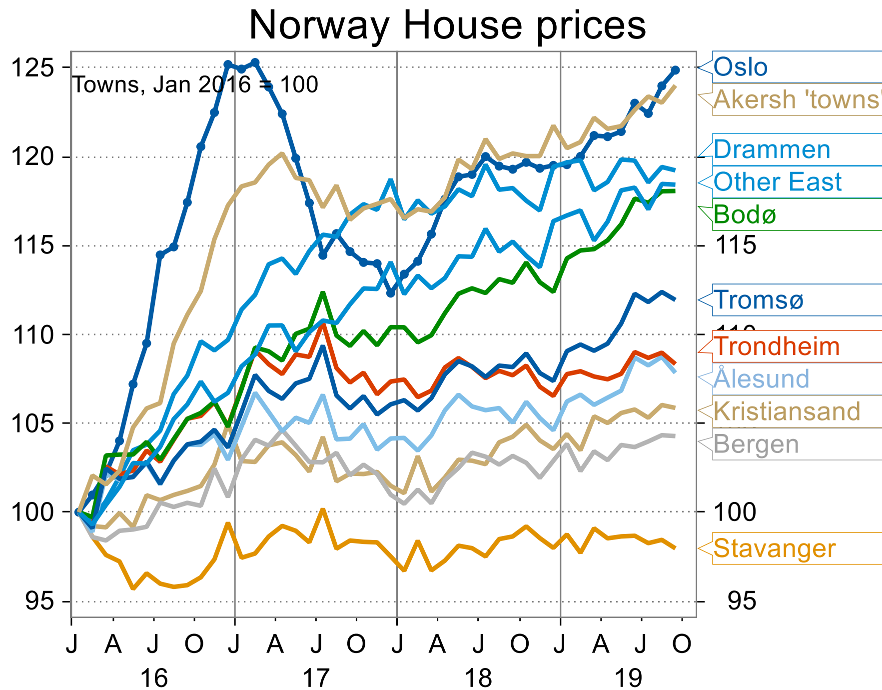


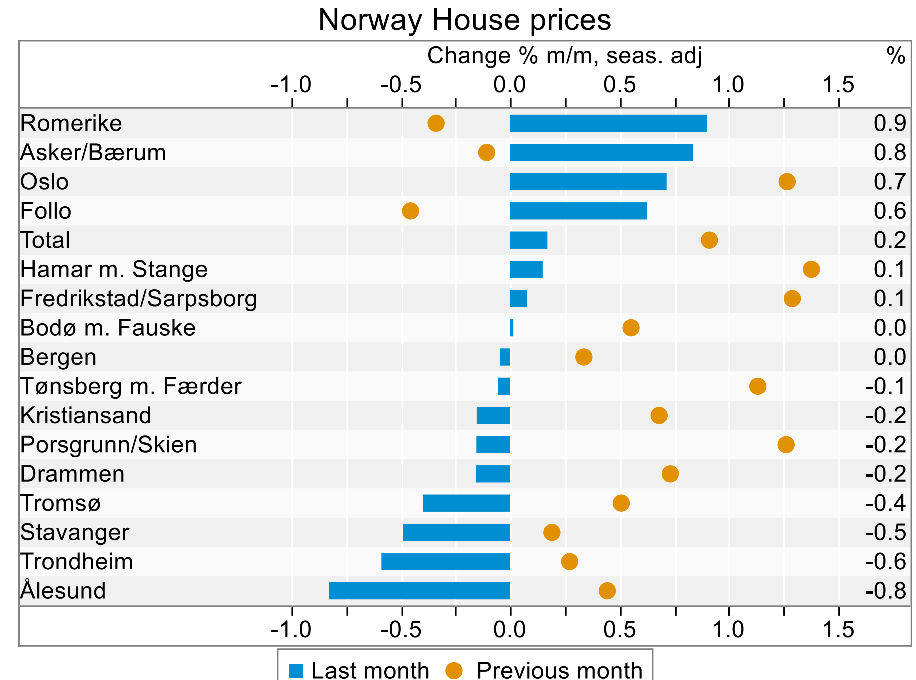


- **House prices** increased 0.2% m/m s.a in Sept (-1.1% unadjusted), we expected +0.4%. The 3m average growth rate is 0.2% and underlying growth has slowed somewhat, to a moderate 2.8% in Sept. Annual growth at 2.6%. Price inflation is marginally below Norges Bank's expected growth pace
  - » Prices rose in just below half the cities in Sept. Recent months, prices have climbed everywhere ex Stavanger and Drammen. Oslo, Asker/Bærum in the lead
- **The number of unsold homes** keeps climbing and the level is rather elevated. The rising inventory is not a consequence of weak demand but of a high number of new listings (of existing homes). The number of transactions is trending steeply upwards, indicating that the interest rate hikes so far have not dampened demand noticeably
- **Short term dynamics signal continued moderate growth the coming months – while the risks are now tilted to the downside**

Prices rose in 6 regions in Sept, fell in 9

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





- The monthly data are too volatile, check the much more 'relevant' 3 month averages next page

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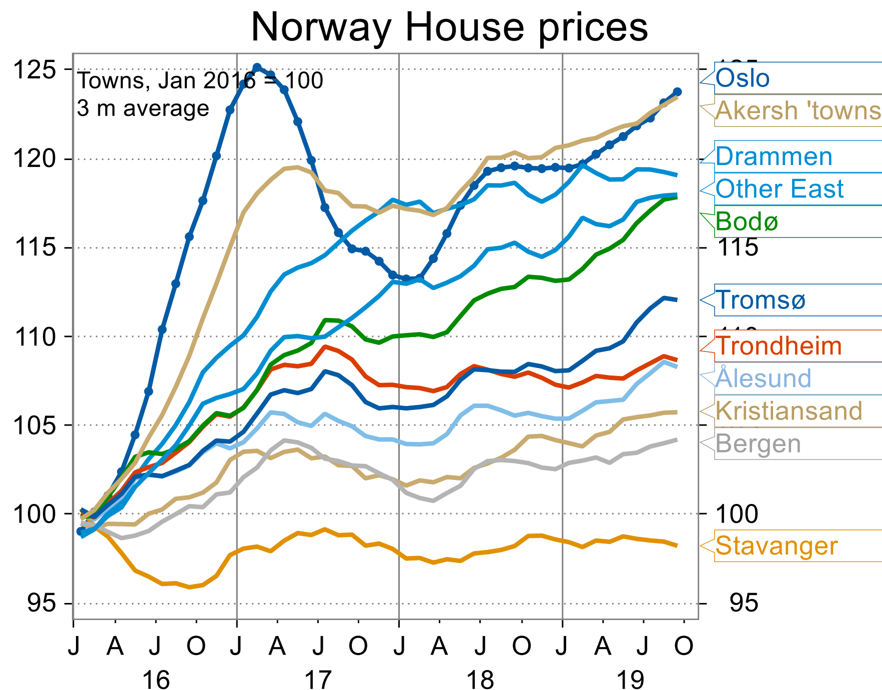
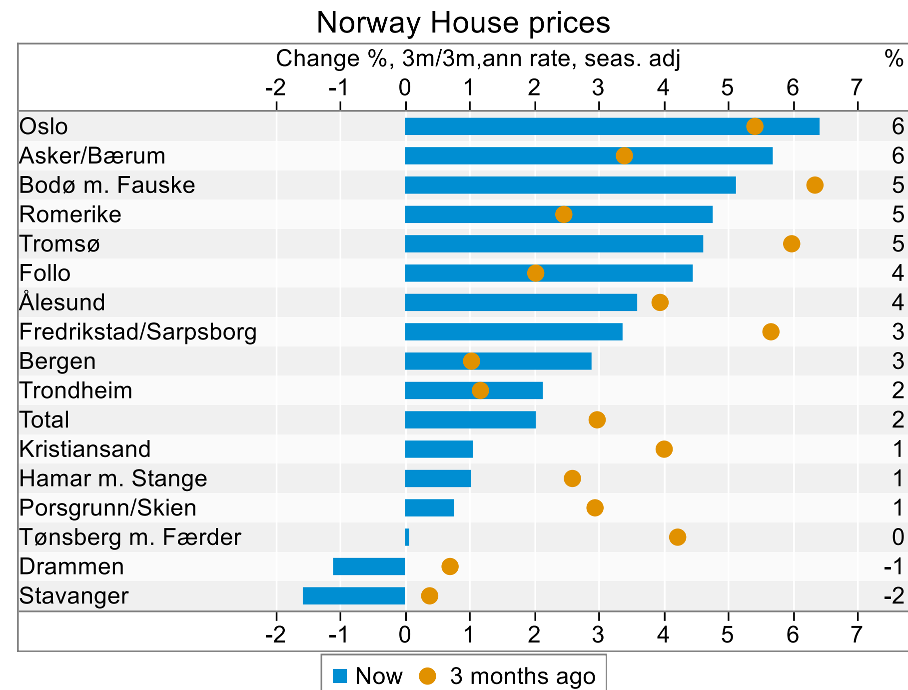
Recent months: Prices are climbing in most cities, falling in Stavanger, Drammen

Prices are soaring in Oslo & Asker/Bærum, and Bodø, Tromsø





- Measured 3m/3m, prices are now rising in all cities expect Stavanger and Drammen (and Tønsberg, which is flattening). Prices in Oslo and nearby areas like Asker/Bærum are accelerating, up 6% 3m/3m, followed by Bodø and Tromsø – and Romerike/Follo
  - Compared to 3 months ago, prices are accelerating in 6 of 16 regions, slowing in 9 and declining in 2
- Prices in most cities are now above the local 2017 peak level
  - Oslo is just 1% below the (very high) 2017 peak. Bergen is back at the peak level. Stavanger is 11% below the 2013 peak. Housing starts is reduced by some 50% since then but still many homes are built – we assume because 2.hand prices are still high enough to make newbuilding profitable

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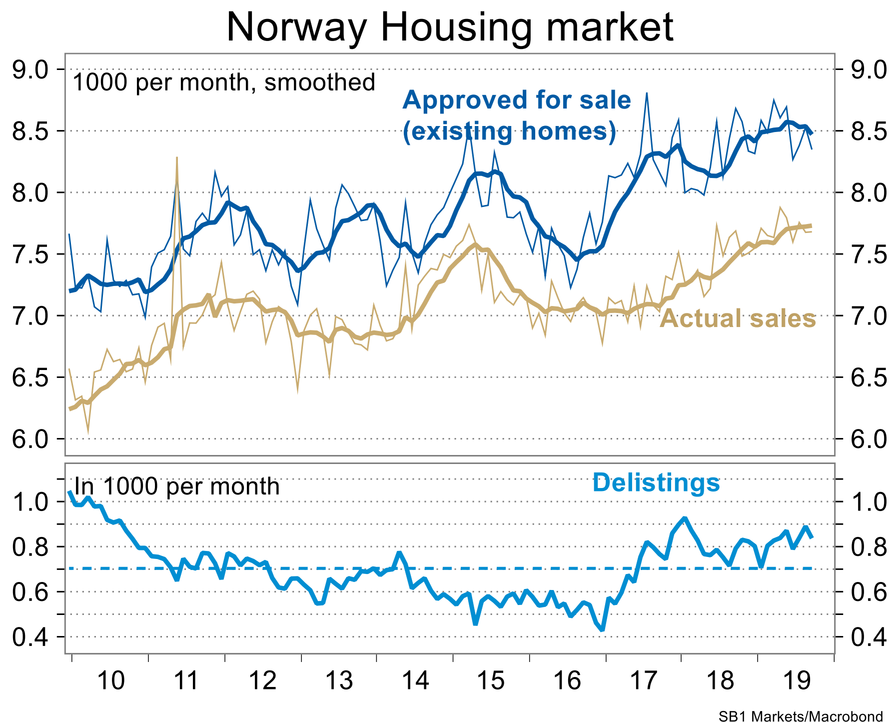
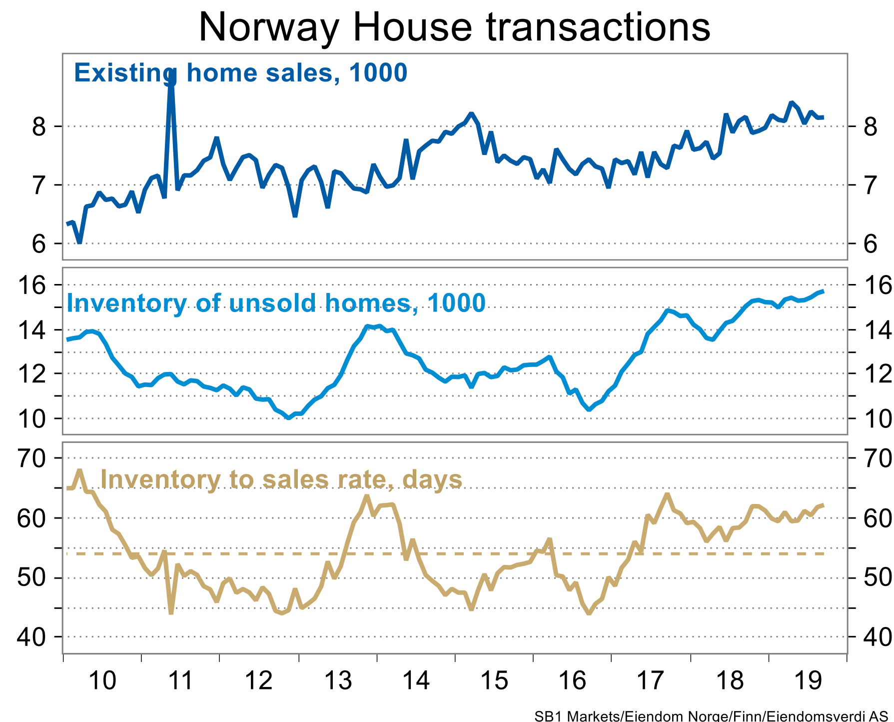
A record high no of sales is offset by a high no of new listings

Thus, the inventory of unsold homes soars, dampening house price inflation





- **New listings of existing homes** have fallen marginally the past 3 months but is anyway trending up and will most likely remain high for some time, partly because many newly built homes are completed
- **The number of sales** have climbed, reflecting strong demand, but has flattened in 2019, at a high level. However, demand is not sufficient to absorb the supply of homes; hence, the **number of homes for sale (inventory)** is rising. The inventory ticked up to another 10 y high in Sept. The inventory to sales ratio (turnaround) is quite high, at 62 days, vs avg at 53. The number of delistings (implicit) increases 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

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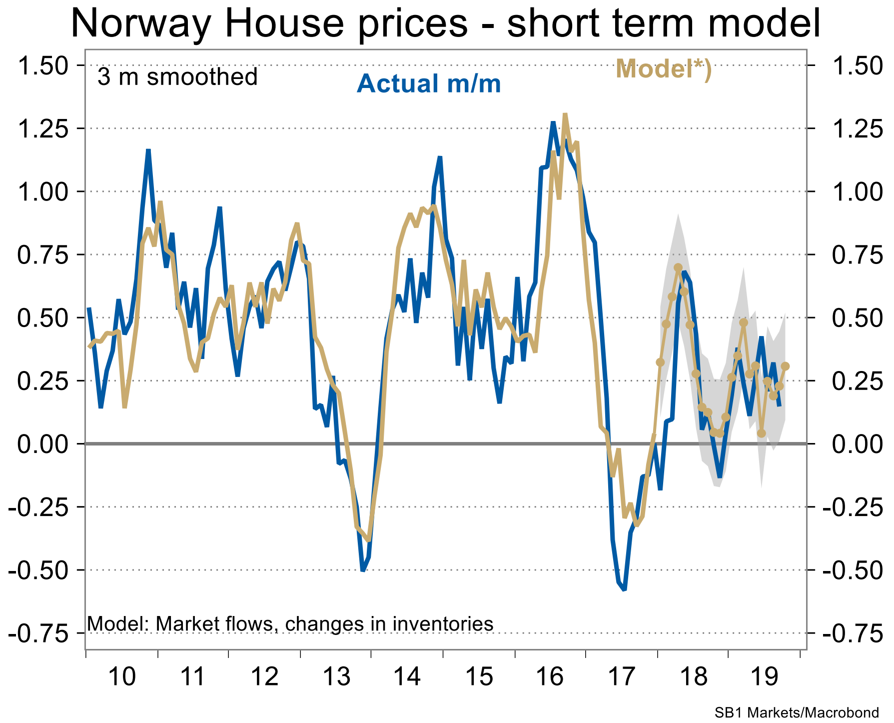
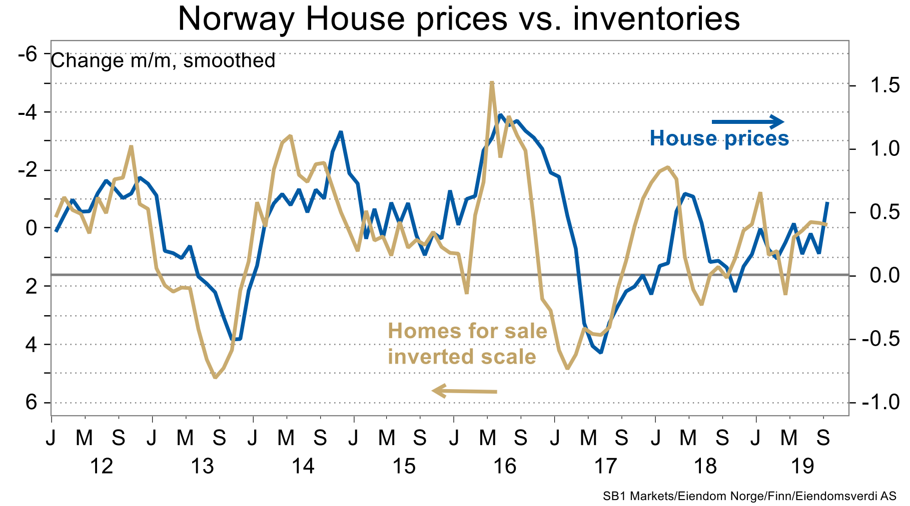
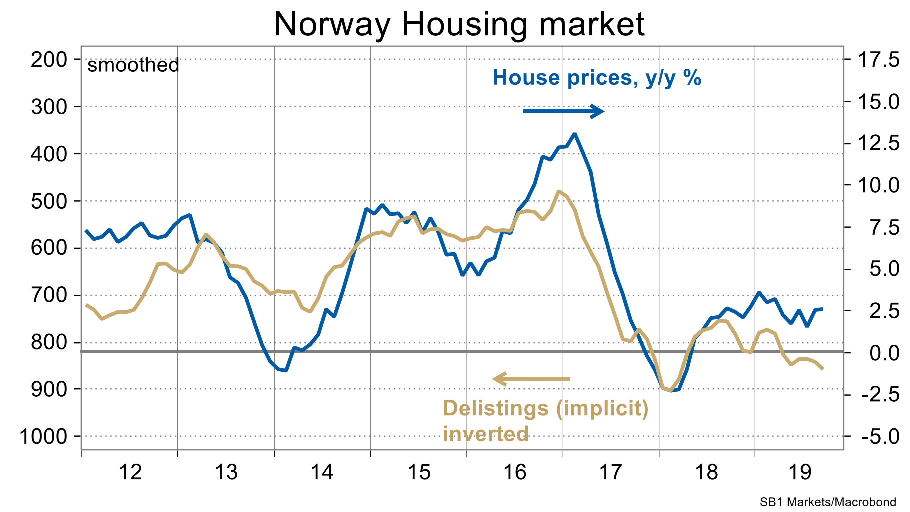
Market flows signal moderate price growth the coming months

An elevated inventory of unsold homes does not indicate 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 0.2-0.3% m/m. The model now signals 0.3%
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

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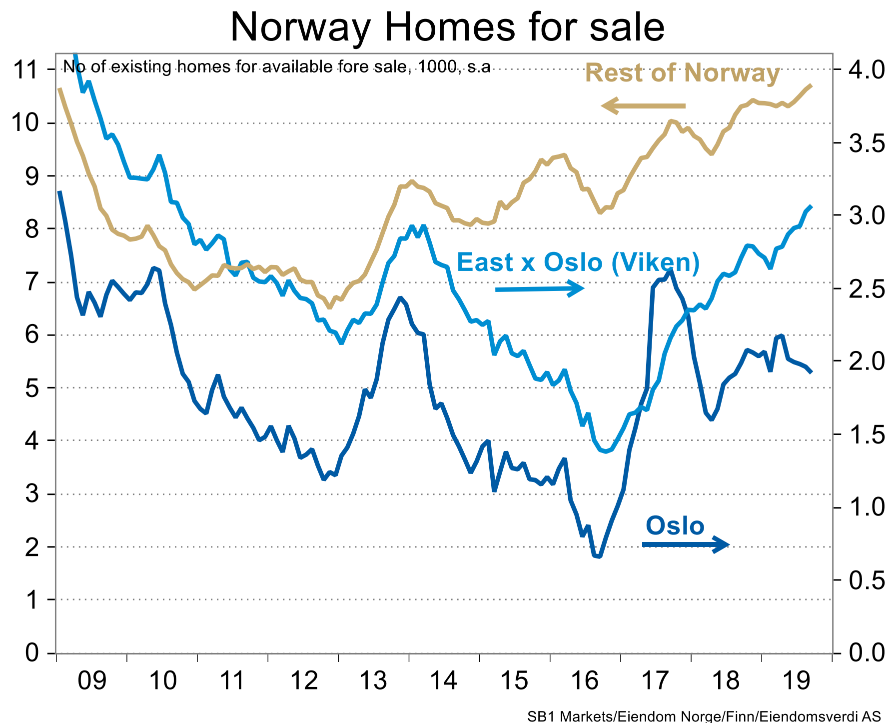
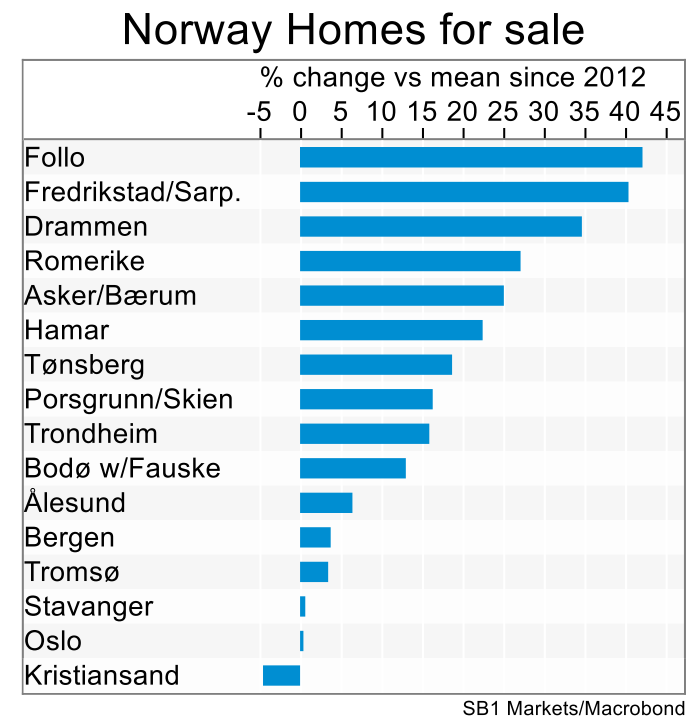
The number of homes for sale is higher than 'normal' almost everywhere

… Ex Oslo, where the inventory is below the 2017 level





- The number of homes for sale have been increasing all regions x Kristiansand, Oslo and Stavanger
- Norway outside Oslo & Viken (Akershus, Buskerud, Østfold; or East x 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 Drammen are at the top of the listings ranking vs the average since 2021
- The Oslo inventory is trending marginally down – flattening out, well below the 2017 peak level

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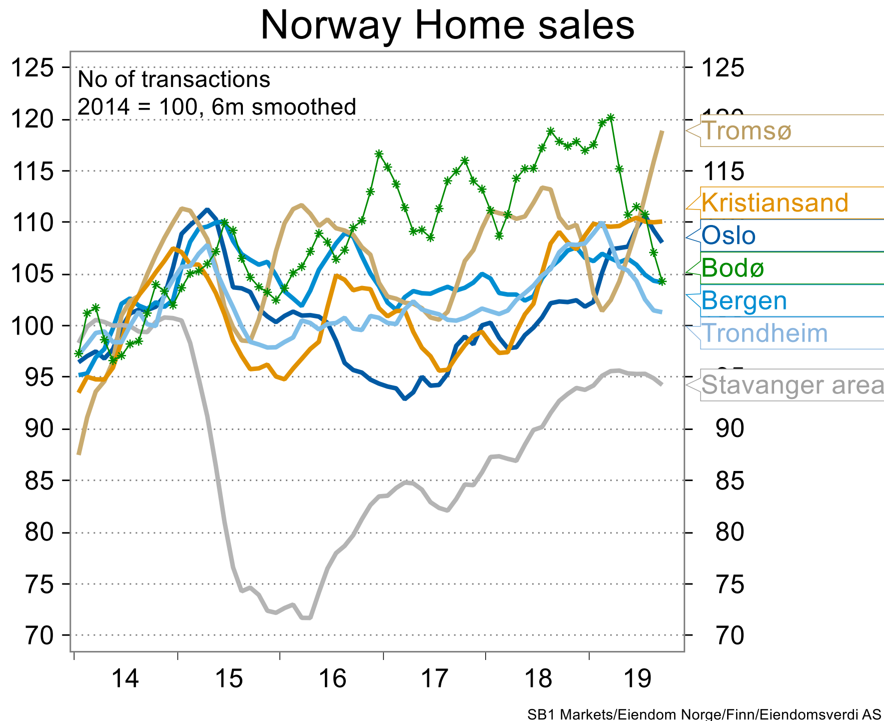
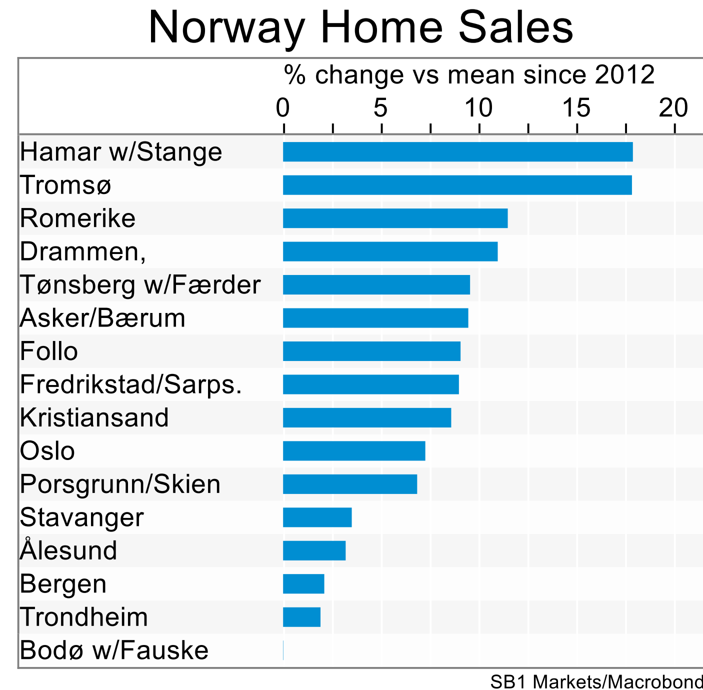
Sales are surging in Tromsø, sagging in Bodø, Trondheim

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 has been recovering since (we apply a 6m smoothing on the chart above). Prices are anyway soaring in Bodø, there are no other signs of demand weakness
- Oslo demand is solid and sales are trending up, although softening recent months

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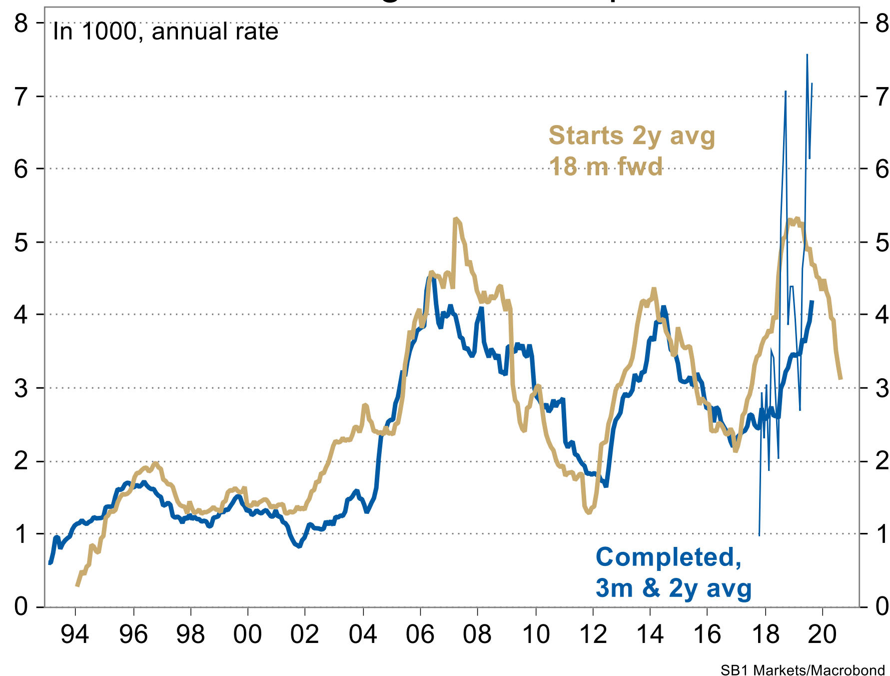
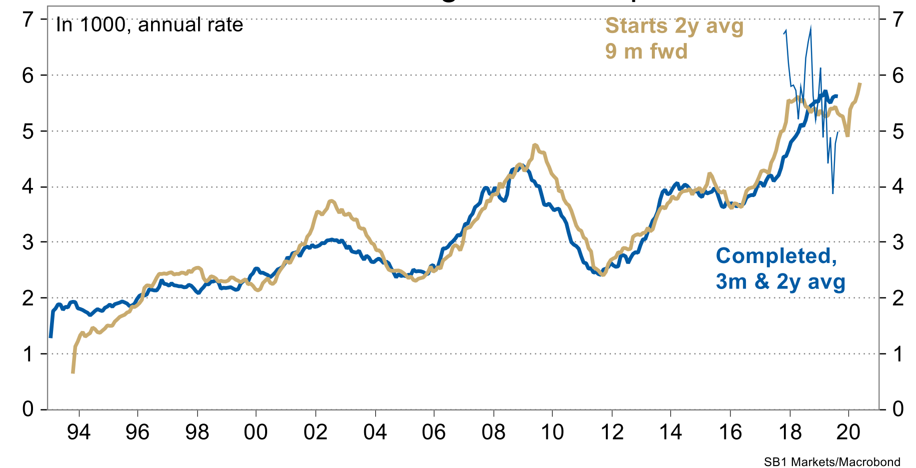
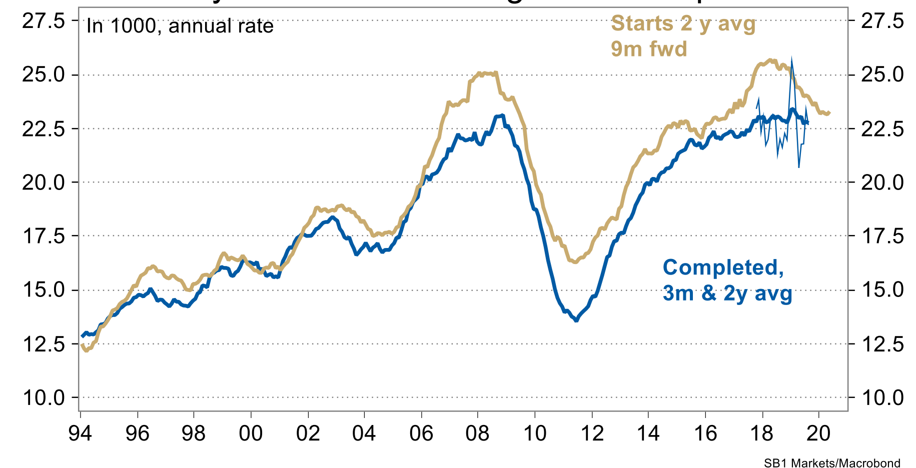
A lot of new homes to be filled up but supply may be close to peak

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





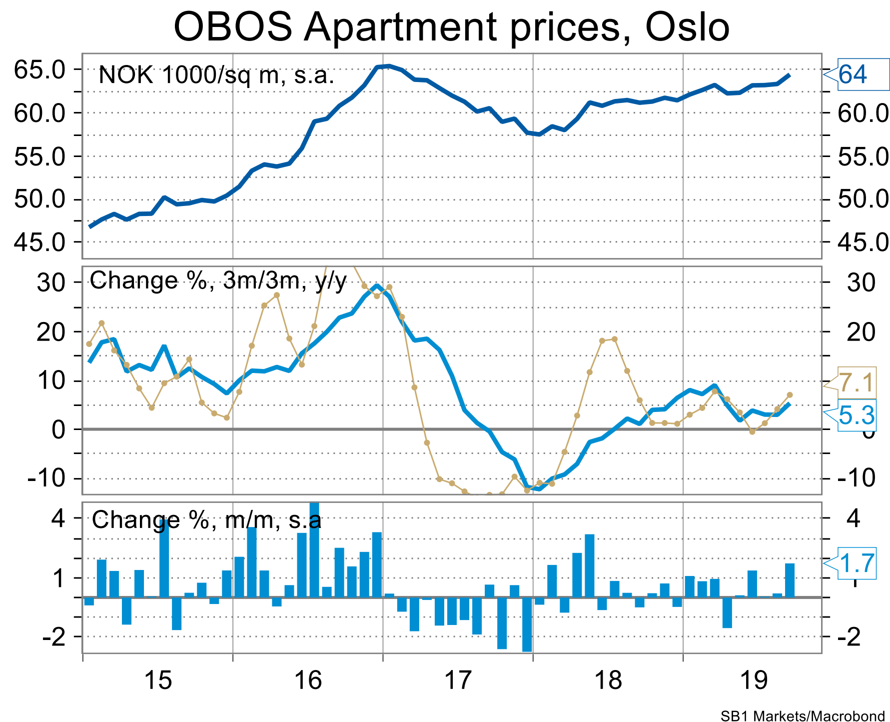


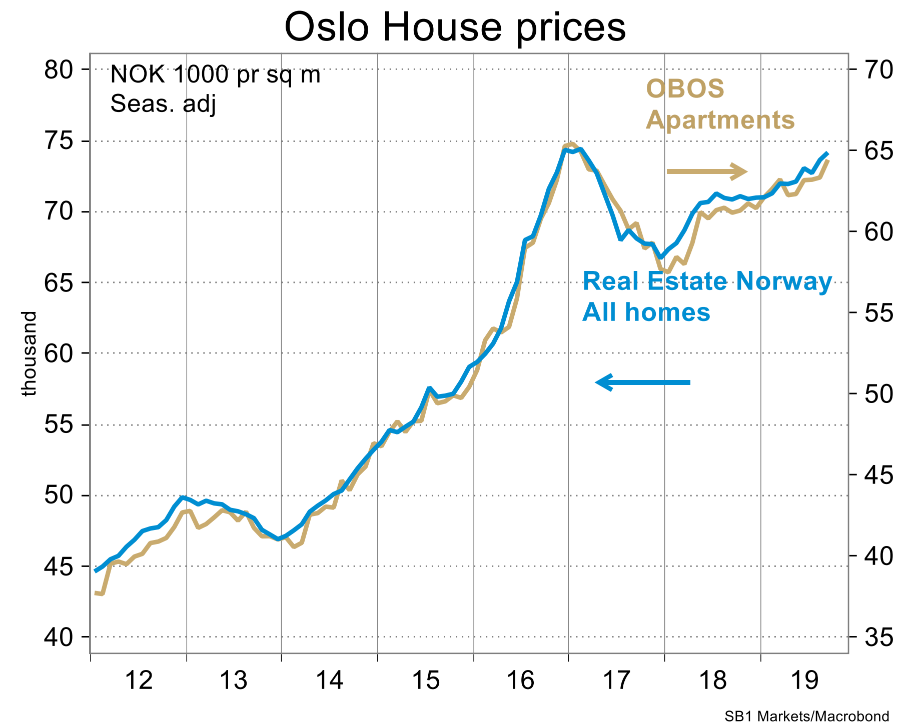
- Due to a high level of housing starts in Oslo in 2016–17, the number of completions is rising rapidly and will probably stay at a high level the coming year or more
  - » Supply have probably peaked Akershus but the coming deliveries in Oslo are larger than a marginal decline in Akershus
- Supply of 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

SpareBank 1 MARKETS

OBOS Oslo apartment prices confirms a strong Oslo market

OBOS prices up 1.7% s.a in Sept, higher than Real Estate Norway but both are heading up



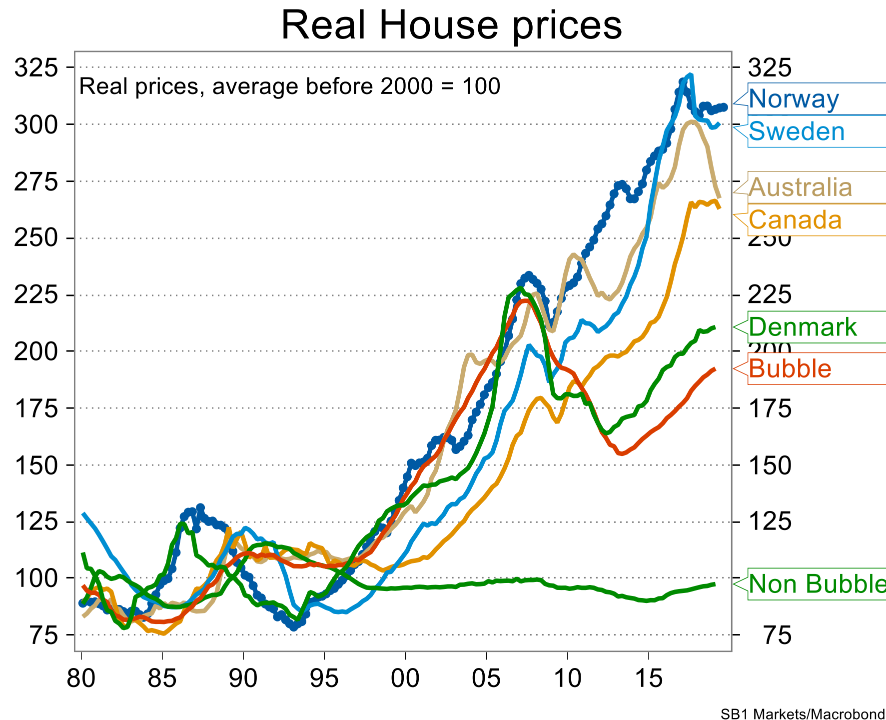


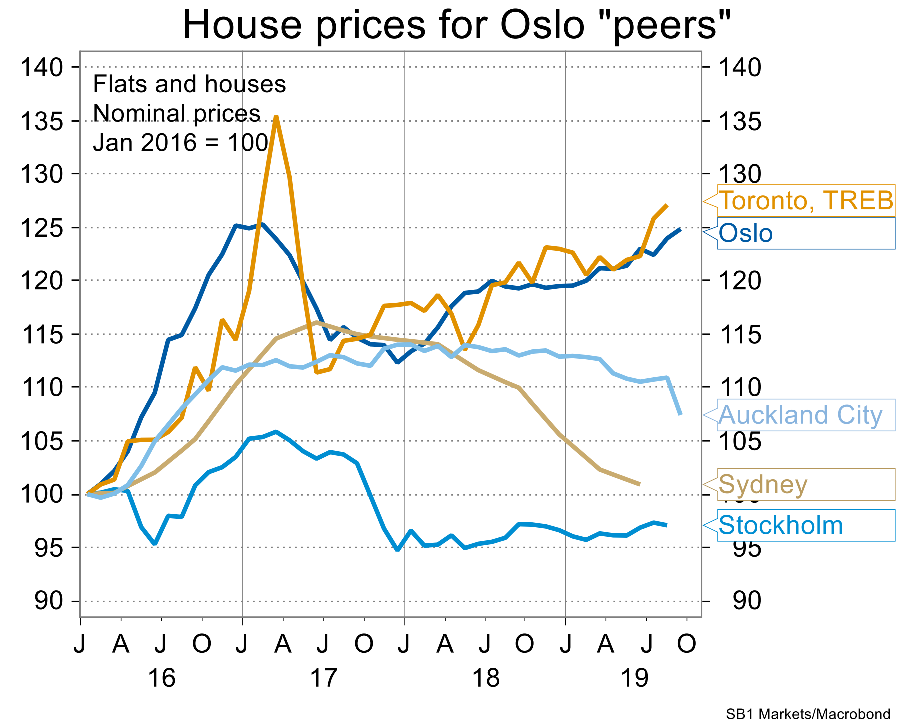
- OBOS Oslo apartment prices rose 1.7% m/m seasonally adjusted in September (vs Real Estate Norway at +0.7%). Prices have been accelerating recent months, up 7.1% 3m/3m annualised and the annual rate ticked up to 5.3%
  - » Prices are just 1.5% below the ATH in January 2017. The real price is down more than 6%. That's something
- OBOS' monthly data are more volatile than Real Estate Norway. Now, both are reporting accelerating Oslo prices

SpareBank 1 MARKETS

Some housing weakness in the 'super cycle' countries

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



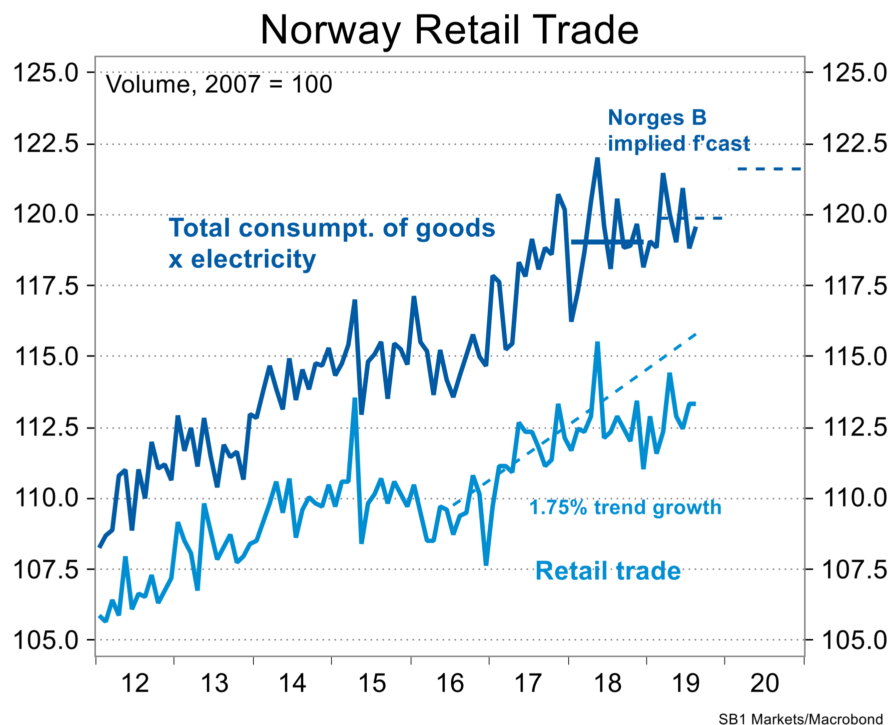


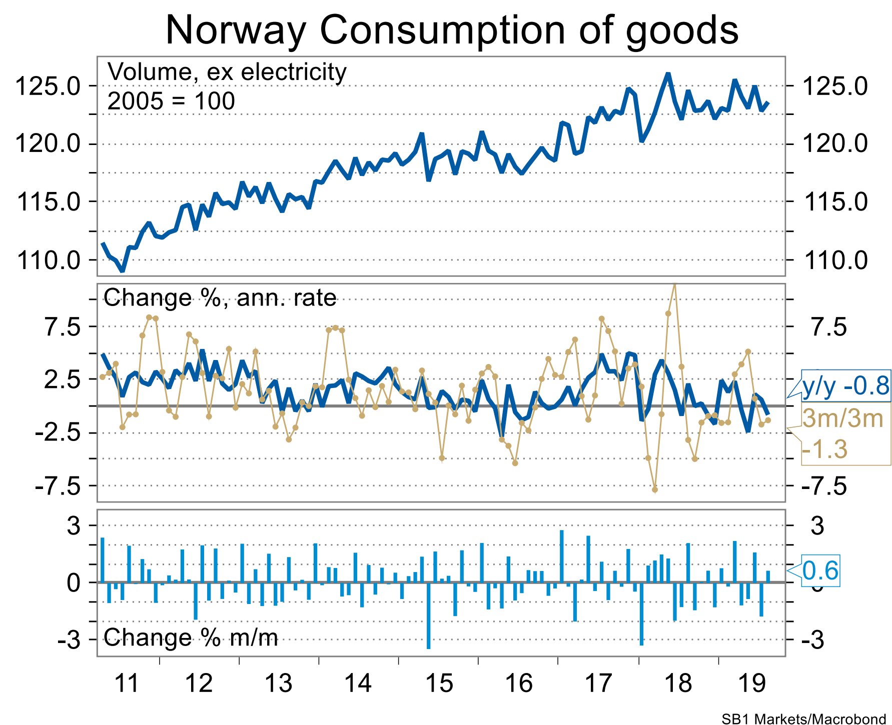
- Somewhat mixed among the super guys recently: Oslo and Toronto have been accelerating recently, Stockholm slowly up. Auckland and Sydney are falling sharply, Sydney down almost 15% from the peak in Q2 2017, in nominal terms!
  - » New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – may have created 'some turbulence' – 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??)

SpareBank 1 MARKETS

Retail sales slowly improving but consumption will be a drag on growth in Q3

Retail sales flat in August, trending very modestly up. Auto sales have dragged total consum. down





- Retail sales volume (ex auto) stalled m/m in August, slightly weaker than we expected. Sales are certainly not thriving, yet, the trend is most likely slightly upwards from the 2018 level. The underlying speed is -0.6% and the annual rate is up a modest 0.3%
- Total consumption of goods (ex electricity) expanded by 0.6% m/m. Consumption has slowed recent months and the Q3 GDP impact will most likely be negative, so far a -2.2% pace. The downswing is solely driven by a retreat in auto sales, which are volatile from month to month, particularly for electrical vehicles
- Total consumption is probably heading slowly up, we stick to our expectation that subsiding price inflation will support volume growth the coming months, although the upside is limited. In the Sept MPR, NoBa revised down the ‘19 consumption f’cast to 1.8%, still within reach?

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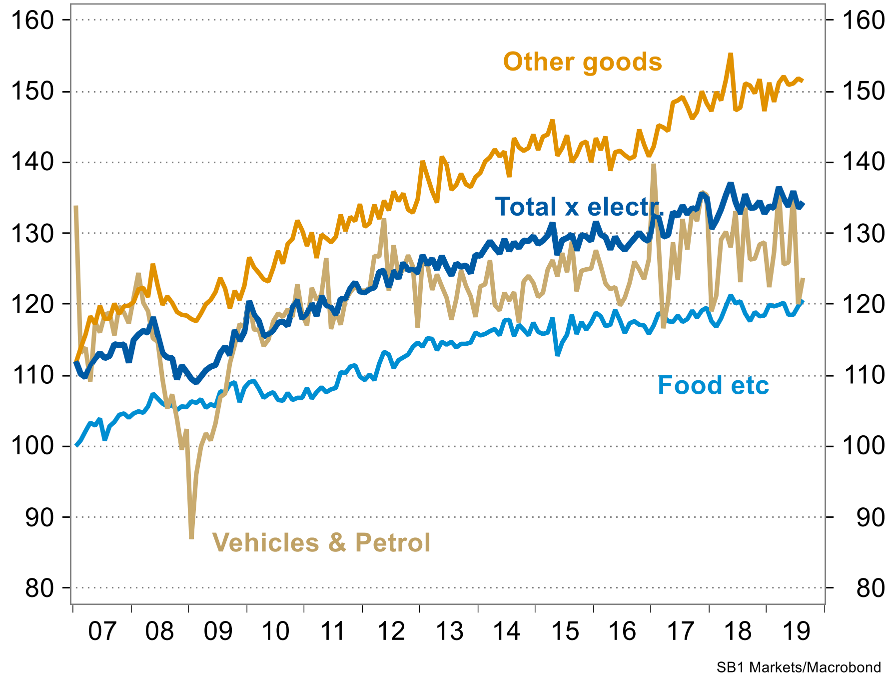
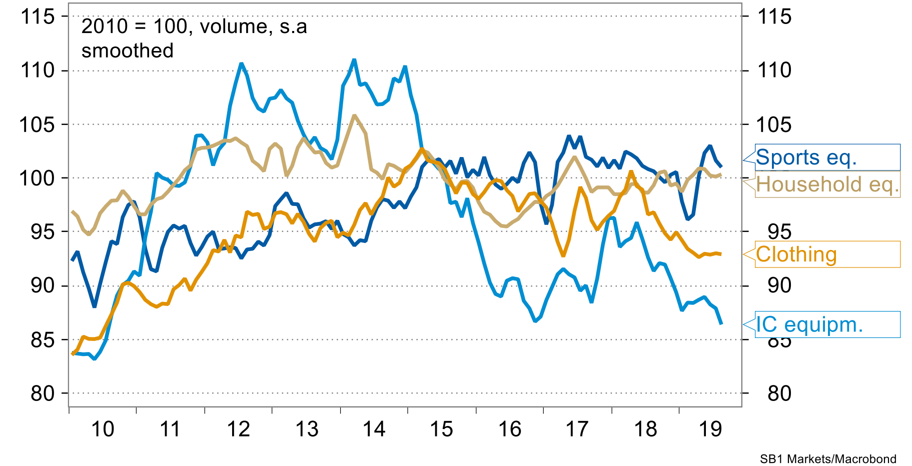
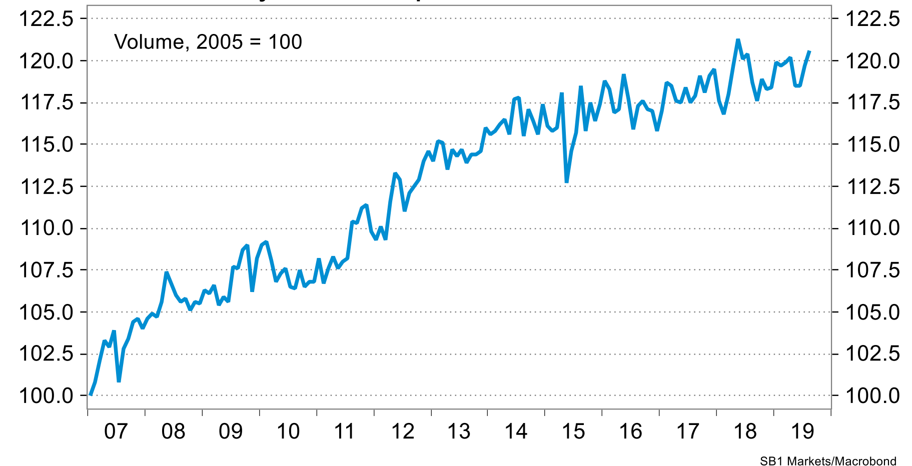
Consumers are buying less clothing, household equipments

Auto sales steeply down recent months, temporarily. Food sales heading slowly up





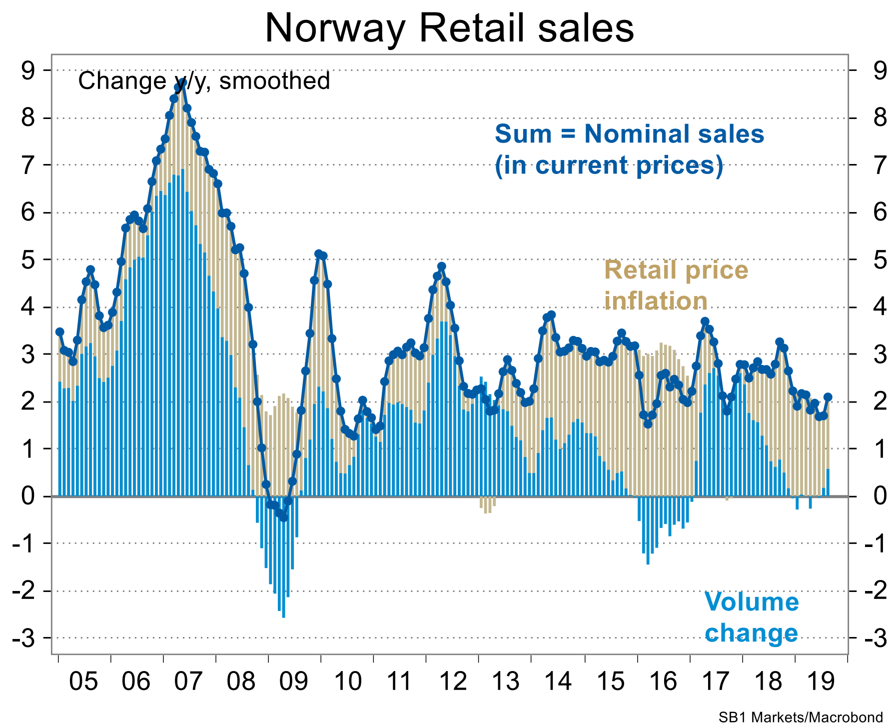


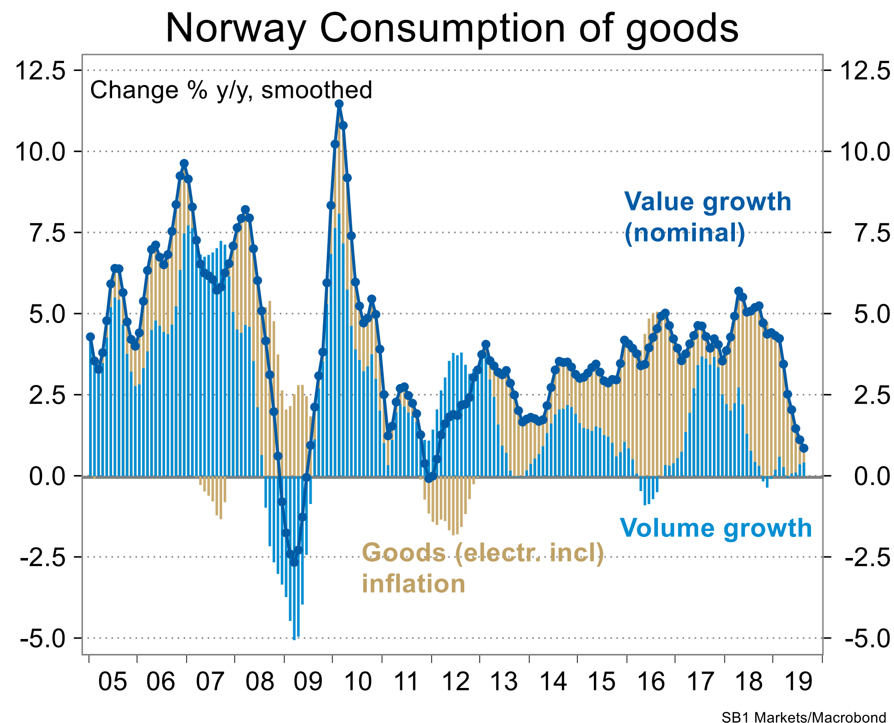
- Auto & gas sales slipped in July and have not recovered since. The volatility in auto sales recently is due to supply bottlenecks, particularly for electrical vehicles. Trend flat/softly down
- Food consumption has increased the two past months but the short term trend is flat, long term up
- Other consumer goods are not very impressive, clothing and IC equipment have fallen, just sport equip. improving recently

SpareBank 1 MARKETS

Retreating retail price inflation slowly driving volume up?

Total goods inflation has slowed to 0.4%, from 5%, will most likely boost consumption





- Growth in nominal total consumption of goods has slowed sharply, to 0.9% y/y in Aug. The downswing is driven by retreating price inflation, primarily due to a sharp decline in electricity prices. Yet, the response from volume growth has so far been modest, up 0.4% y/y in Aug. We expect easing inflation to eventually bring volume growth up
  - » The decline in electricity prices have probably not yet been fully felt by consumers due to the lag between changes in prices, and households' actual payments which anyway are mostly done automatically, through their bank accounts. Thus, it will take time for consumers to recognise the gain – and start spending the money saved on the electricity bill
- The annual growth in nominal retail sales is 2.1%. Volume growth has gained pace the past 2 months

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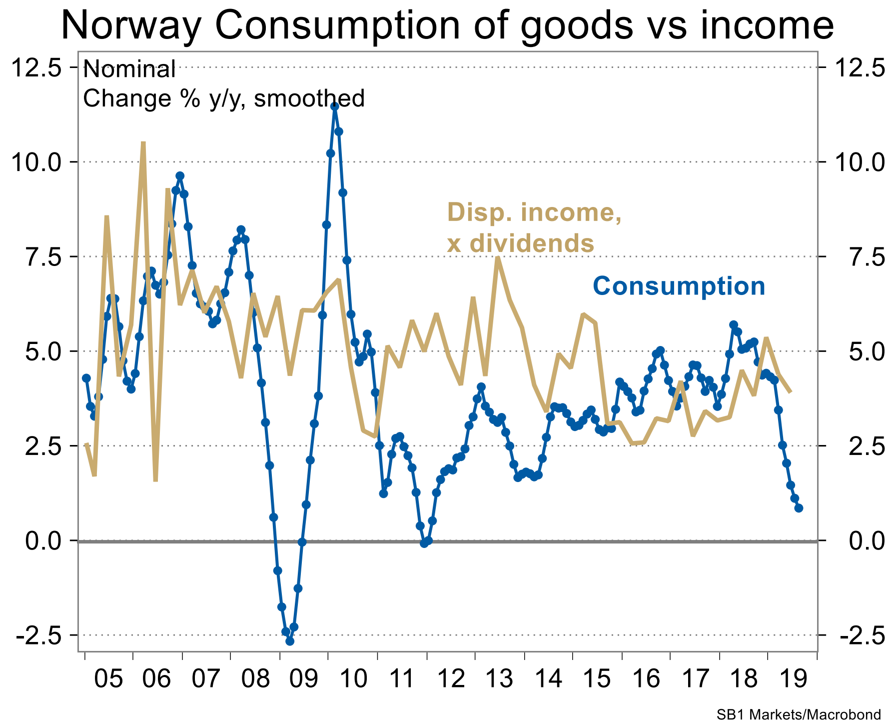
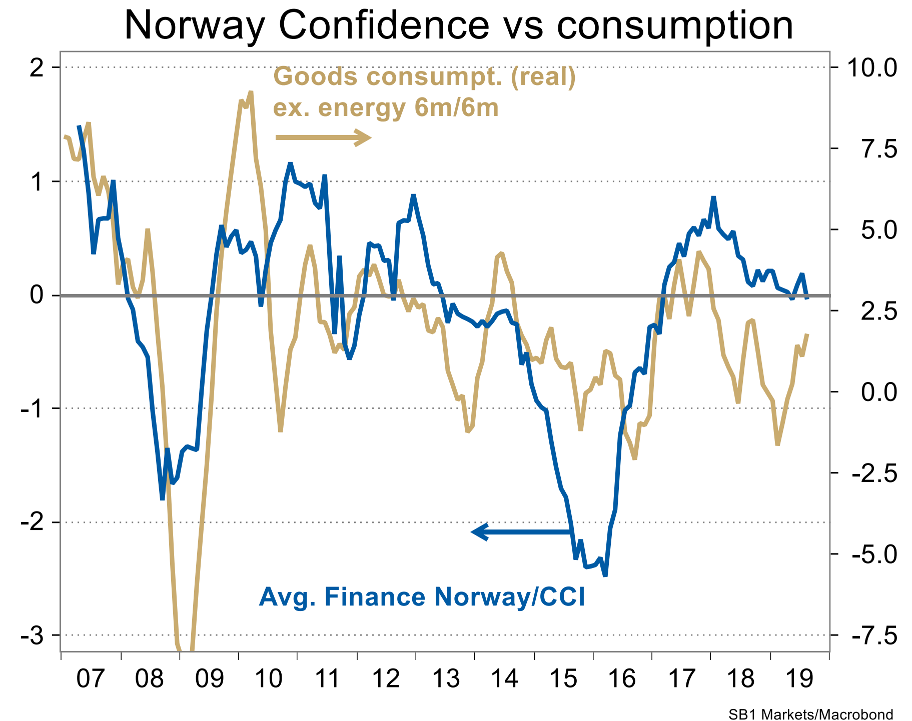
Household income and confidence do not signal muted consumption growth

Both disposable income growth and confidence are pointing to somewhat higher consump. growth





- Disposable income ex dividends was up 3.9 y/y in Q2 (our est), and the savings rate is now slowly increasing slowly again and it probably grew marginally in Q2
- Consumer confidence has softened, although Finance Norway's survey rose in Q3 and Opinions CCI rebounded in Sept. Growth in consumption of goods has anyway been weaker than indicated by the sentiment surveys (not a strong correlation)

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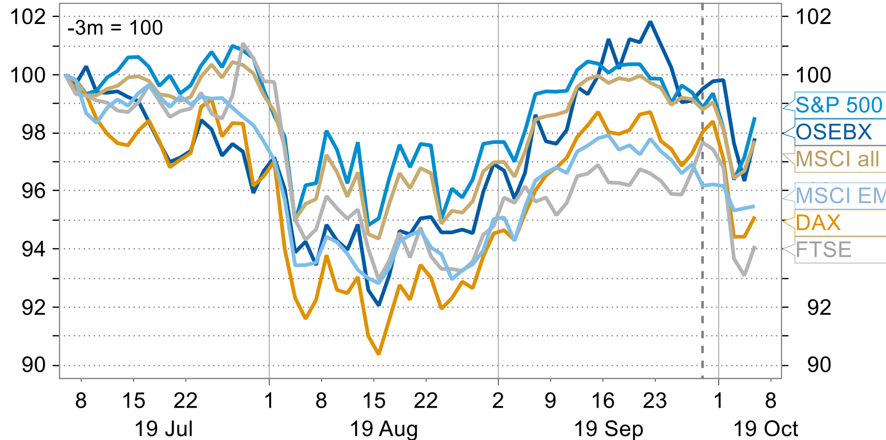
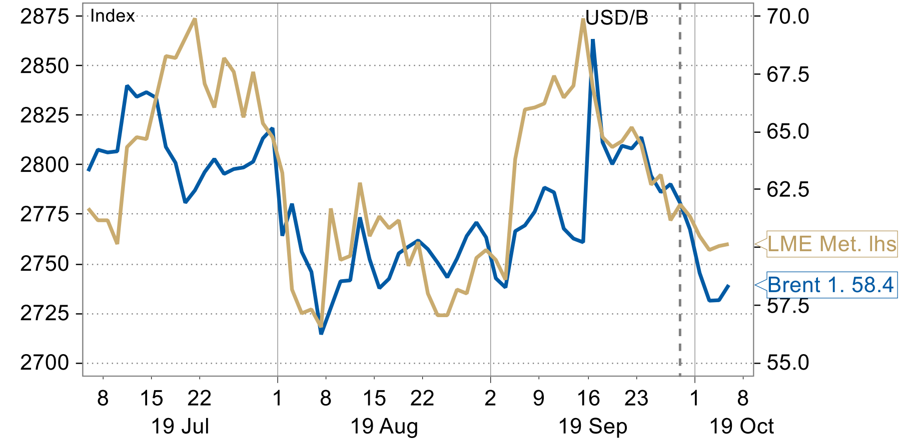
Stock markets and bond yields dropped as weak US data fuel recession fears

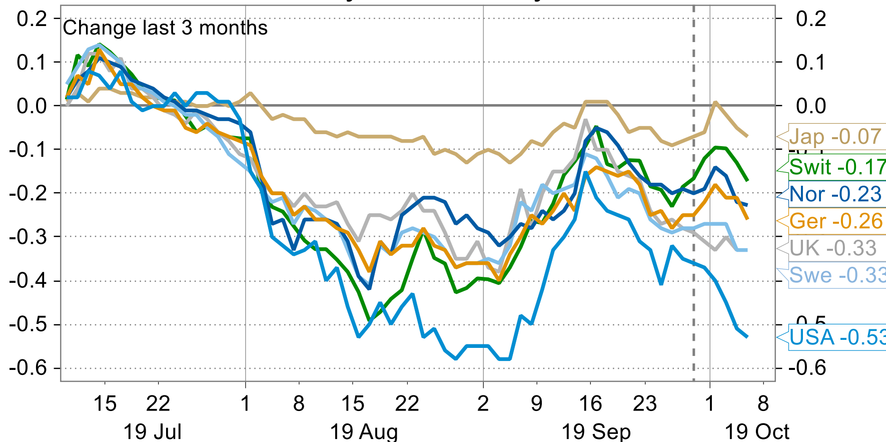
Steep drops in ISM surveys and US tariffs on the EU sent risk markets down. A nice nonfarm lifted the mood



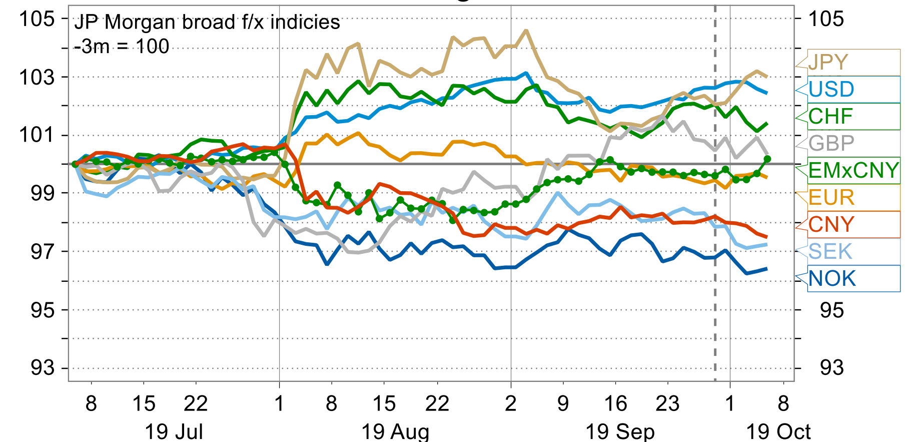
Stock markets recovered Thursday/Friday but down w/w



The oil price fell to USD 58.4/b, below the pre-Saudi attack level



Bond yields fell everywhere last week. US 10 y bond down 17 bps



No clear direction – USD & CNY down, EUR up, GBP down
EM x Cn up (Brazil), SEK, NOK is still trending down

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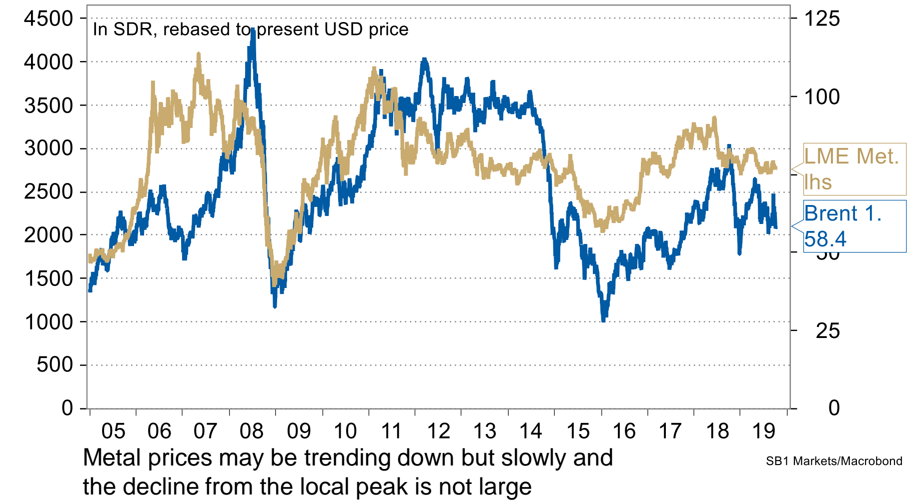
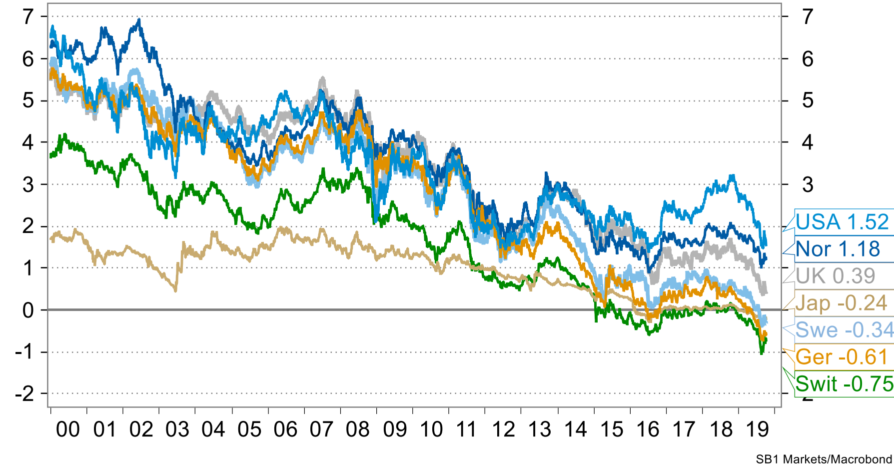
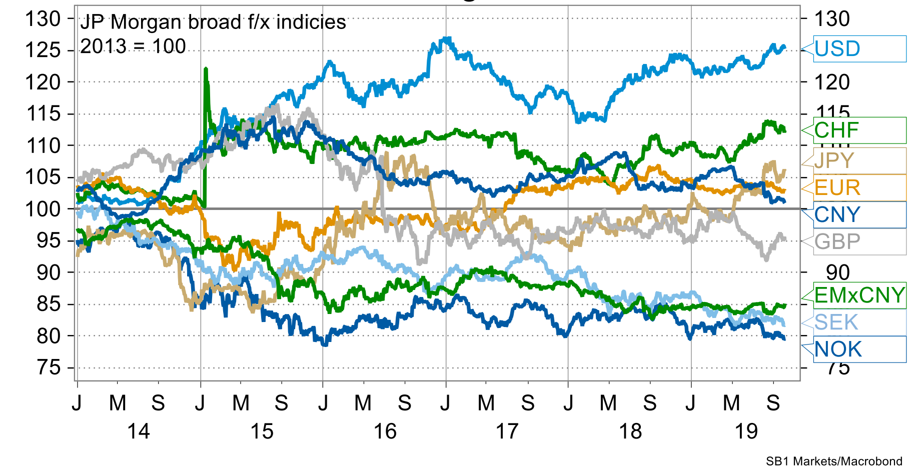
In the long run: Bond yields close to ATLs, US stock markets not far below ATHs

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



Metal prices may be trending down but slowly and the decline from the local peak is not large





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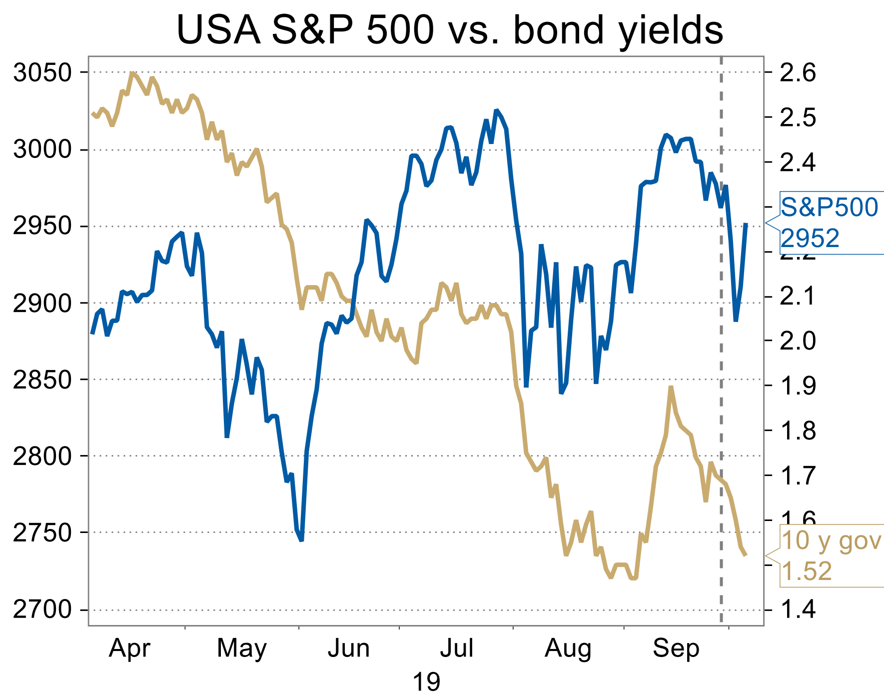
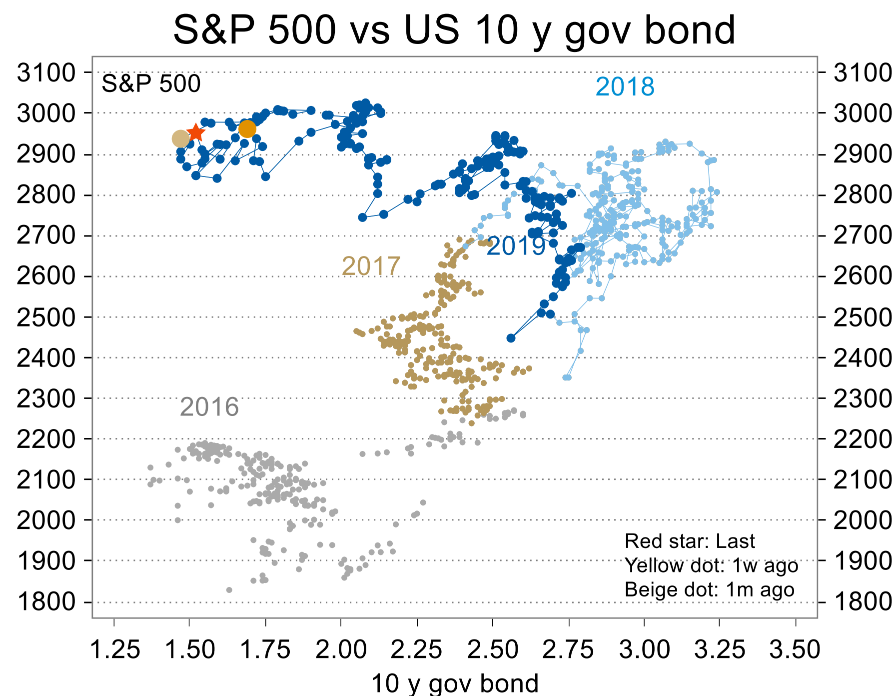
US: Both bond yields and stocks down on growth angst

Bond yields are tumbling, 10 y down 17 bps last week, S&P down just 0.3%





- Much weaker US ISMs than expected triggered the downturn in both stocks and bond yields last week
- At Friday, the nice mix of decent employment growth, and a decline in the unemployment rate – but lower wage inflation lifted the stock market and reversed most of the setback earlier in the week and lowered interest rates
- All in all during 2019, the stock market is up, while bond yields have fallen. Still, the broad picture, the cyclical adjusted PE (Shiller), is heading down (albeit supported by an artificial increase in the 10 y average EPS, as the disastrous financial crisis earnings slides out of the calculation)

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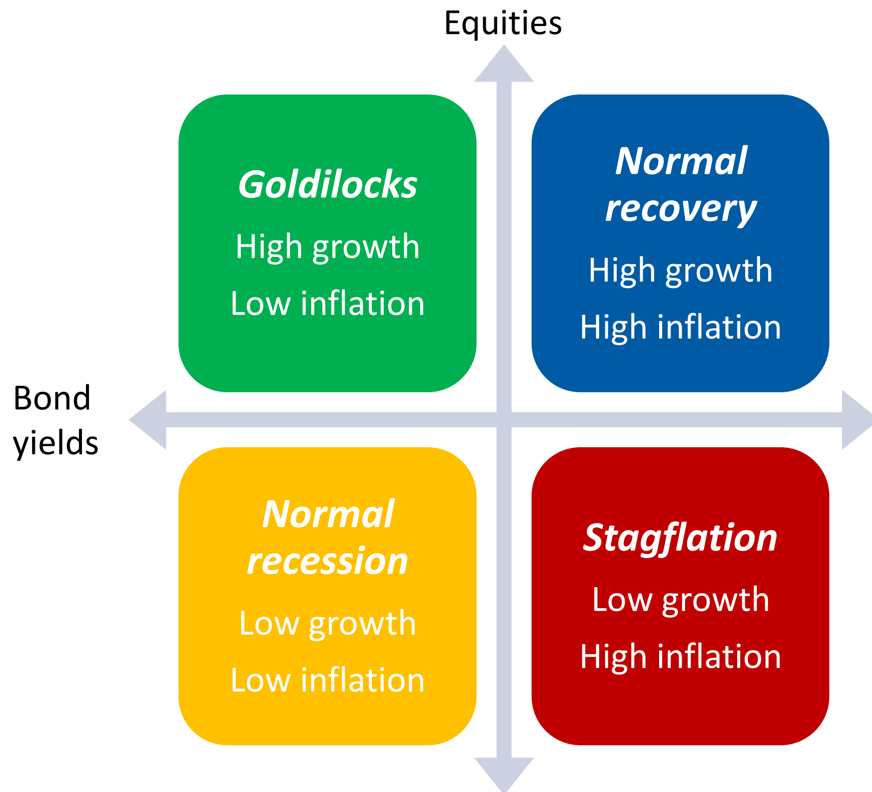
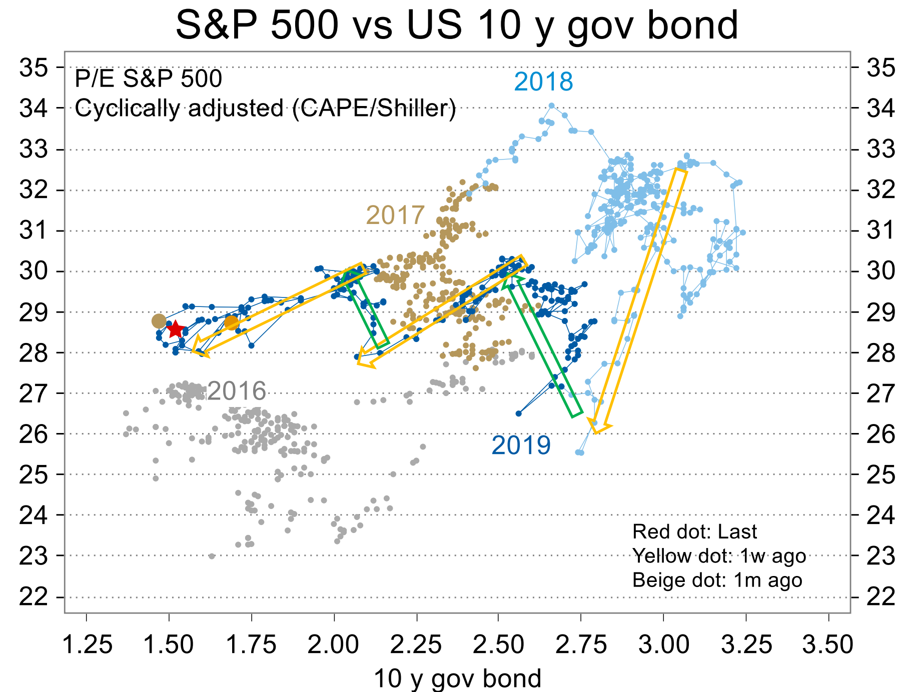
US markets move towards the recession corner (with Goldilocks twist) last week

Yields down, stocks (marginally) down on growth angst





- In August, markets moved towards the recession corner following the bad trade policy news. In early September, both markets were recovering, on hopes of a trade war de-escalation and some upbeat US macro data.
- The past two weeks markets have moved marginally towards the recession corner. However, low wage inflation reported in the nonfarm payroll report contributed to lower yields Friday, and at the same time supporting the stock market (towards the Goldilocks' corner)
- We 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

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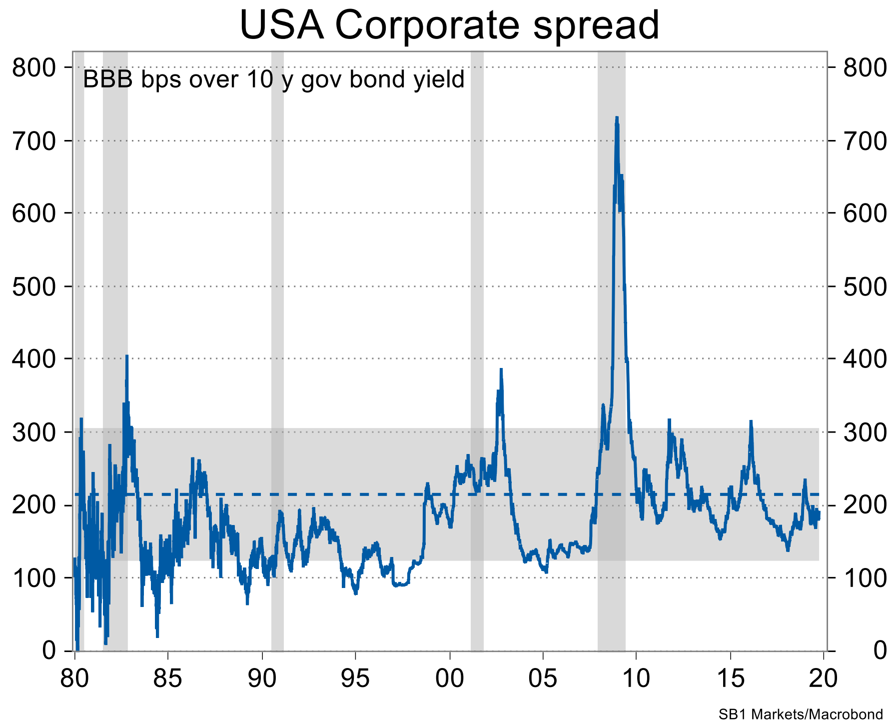
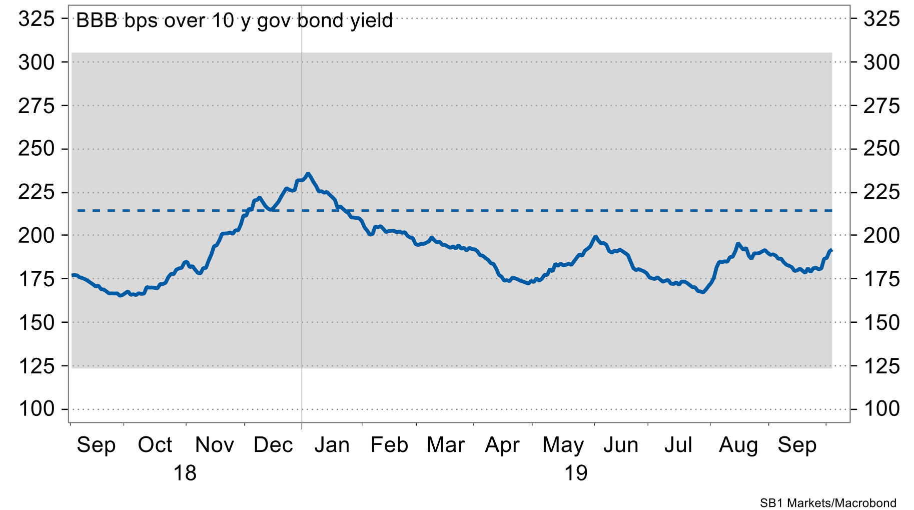
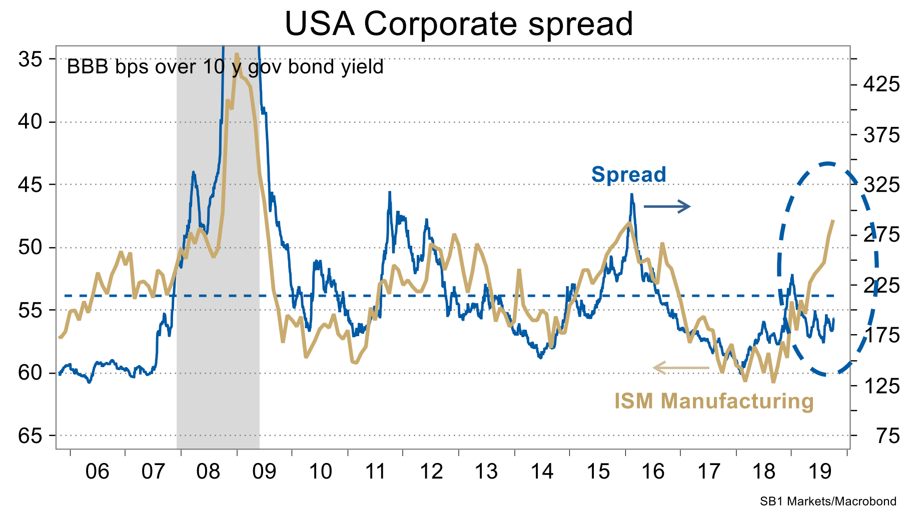
Credit spreads stable at a below average level, far too low?

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







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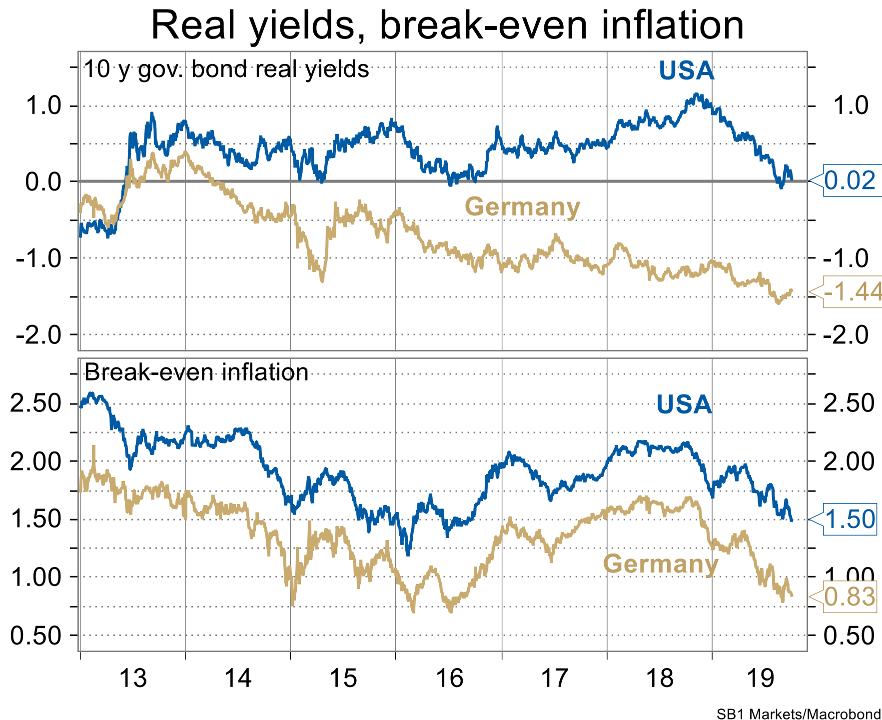
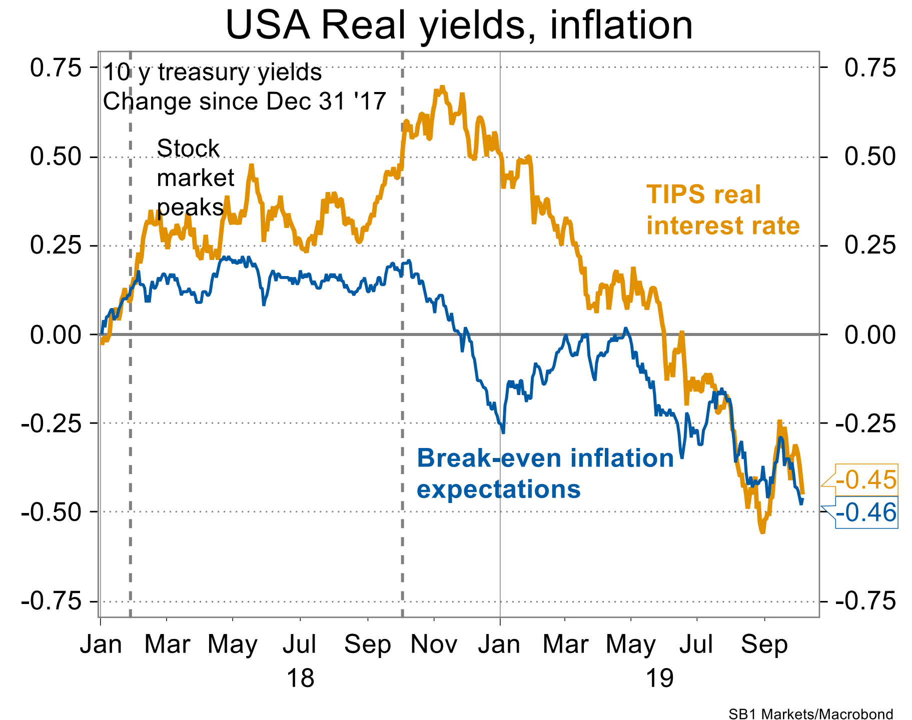
Both real rates and inflation expectations are heading down

US real rates just marginally positive, Germany at -1.44%





- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. In early September, both elements were recovering, even in Germany. The two past weeks, both US real rates and inflation expectations have fallen, inflation exp. slightly more, probably drive by the oil price. In Germany, inflation expectations have fallen, real rates marginally up
- German real rates bottomed out at 1.6% in late August and have edged up to -1.44%, which is still ridiculously low. Inflation expectations at 0.86% does not seem that far off, although far below the ECB's price target at close to 2%
- US inflation expectations fell to 1.50% last week, the real rate down to 0.02% (from 0.16)

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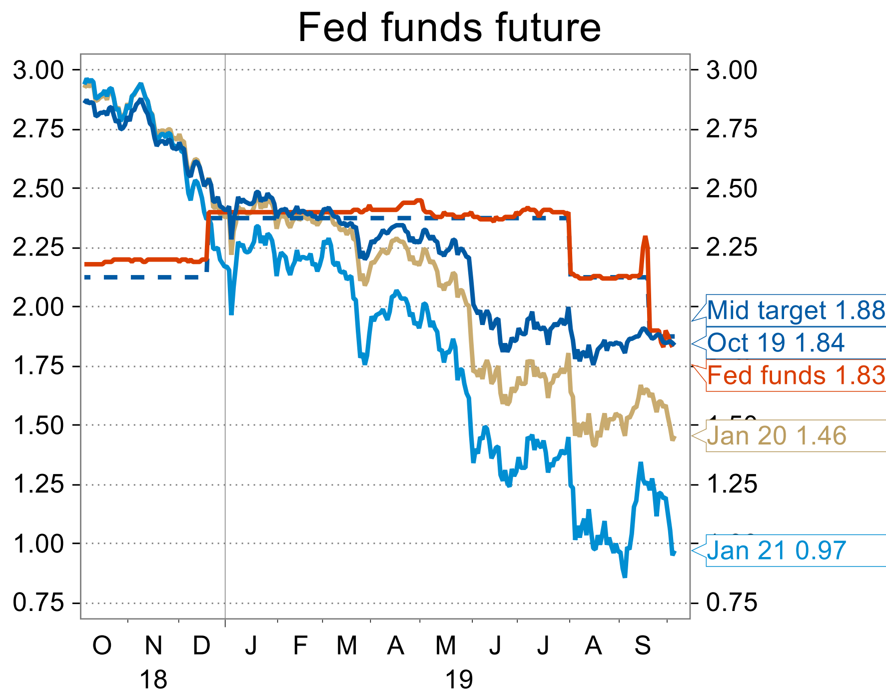
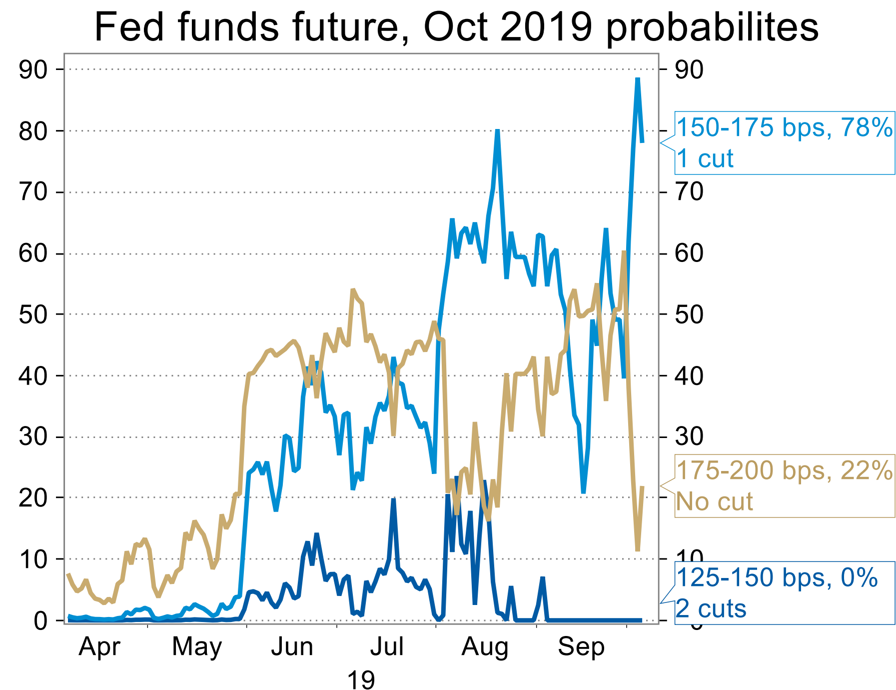
Fed fund futures slip, pricing 80% probability of an October cut

Fed fund futures steeply down last week, markets are starting to price two more cuts this year





- The probability of a 25 bps Fed cut at the Oct 30 meeting soared to 90% from 50% following the weak ISM reports but the probability yielded to 80% following the decent nonfarm payroll report. The Jan '20 contract implies some 50% probability of another cut in December. 3-4 cuts (of 25 bps) are expected by the end of '20, adding one more cut vs two weeks ago
- US growth is slowing but it is still above or at trend. PCE inflation is not far below the target. Yes, 'soft' data are deteriorating but 'hard' data are not yet that weak. And the USD is stronger than normal but not by that much. The economy does not justify more interest rate cuts , in our view

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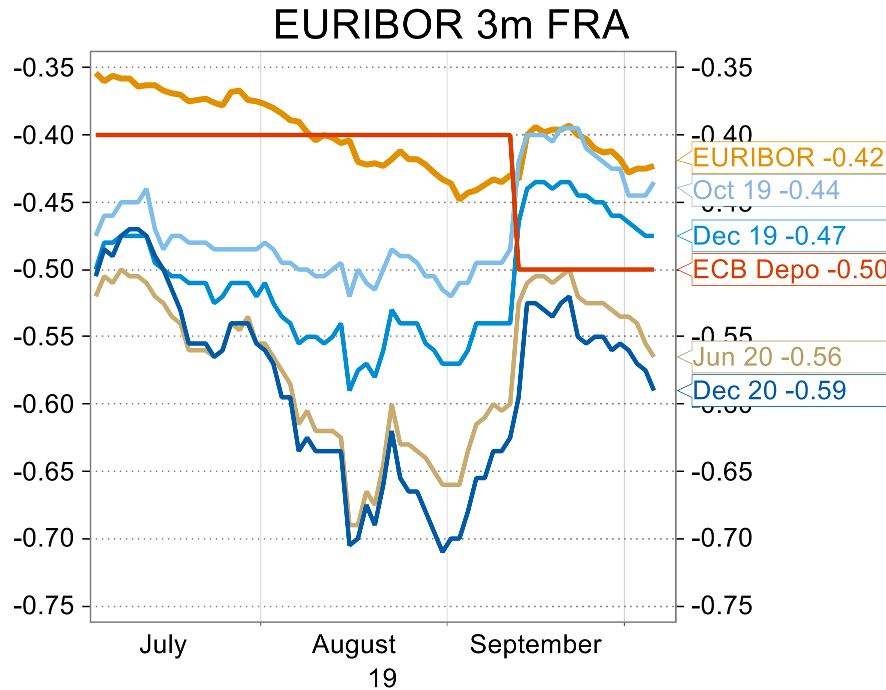
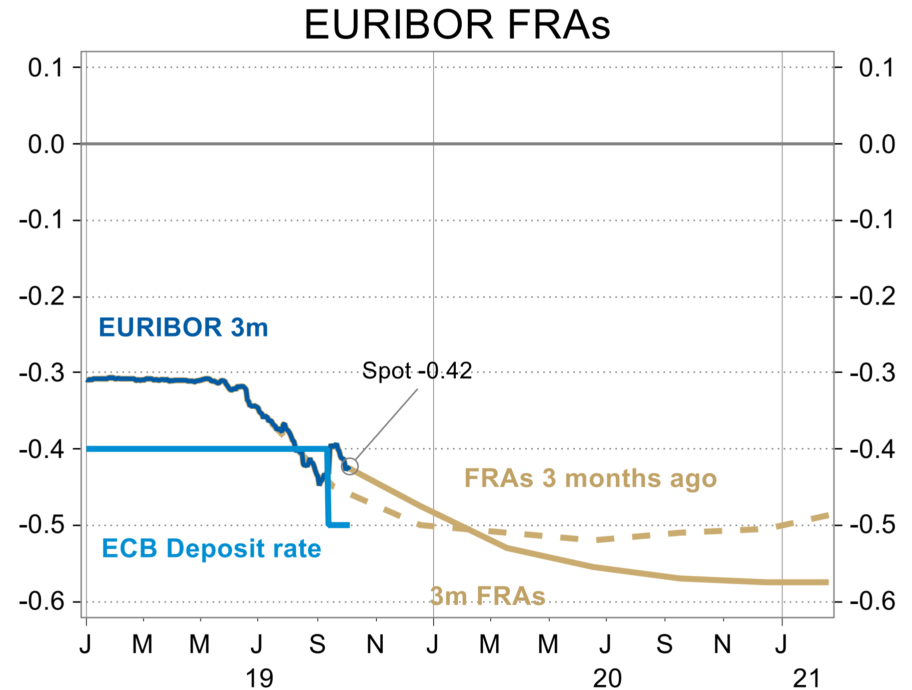
The EUR curve is sliding down, 50% probability of a December cut

FRAs climbed sharply in the first half of 2019, retreating the past 3 weeks, on soft macro data?





- Weak PMIs triggered a downturn in the EURIBOR FRAs two weeks ago, and soft US data last week probably contributed
  - » At the Sept meeting, the **ECB** delivered a sweeping stimulus package; the deposit rate was cut 10 bps to -0.5%, the bond buying program was reintroduced by a smaller than expected EUR 20 bn per month but without any fixed time limit. Measures to smooth bank lending were announced; changes to the TLTRO and a two tier system in which parts of banks excess liquidity will be excluded from negative interest rates
  - » Still, there is a widening split at the top of the ECB when it comes to the loosening monetary policy

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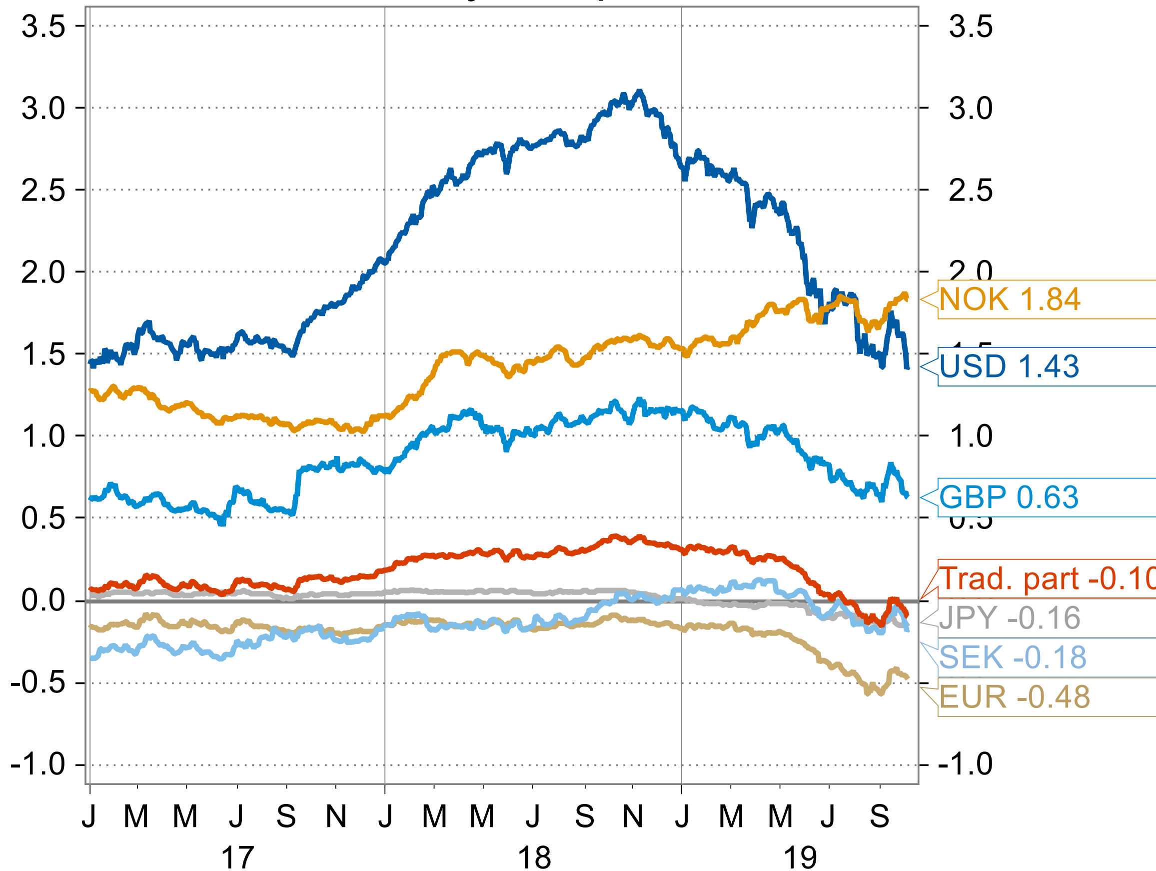
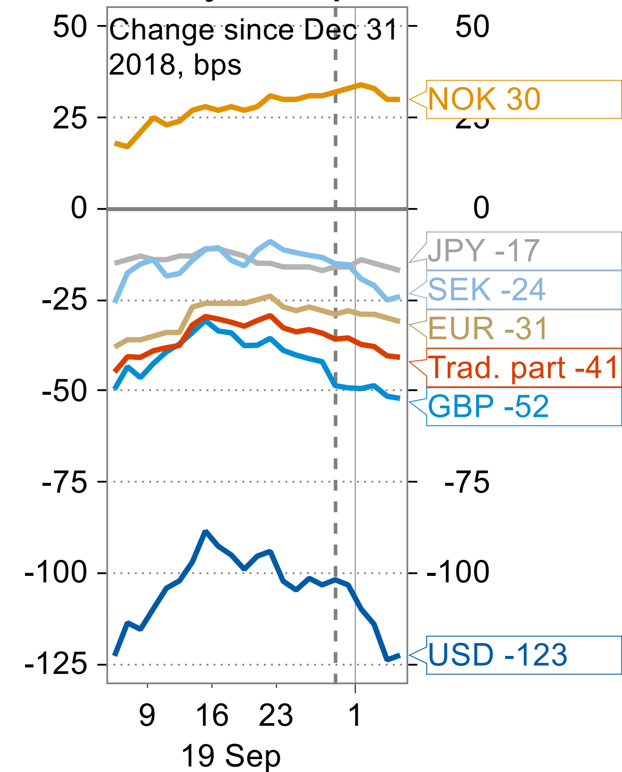
Short term rates are dropping, but not in Norway

Weak macro data sent swap rates down all over, NOK down just 2 bps vs trading partners at - 4bps





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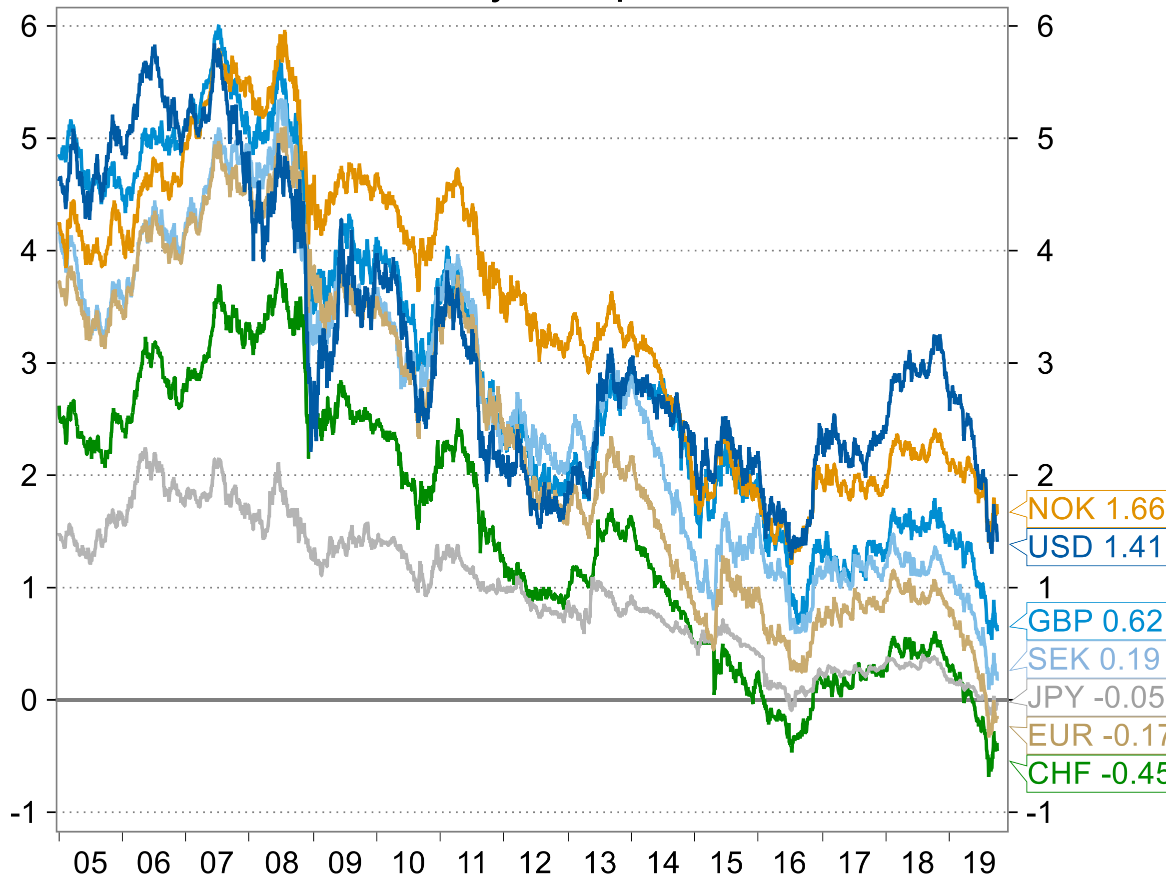
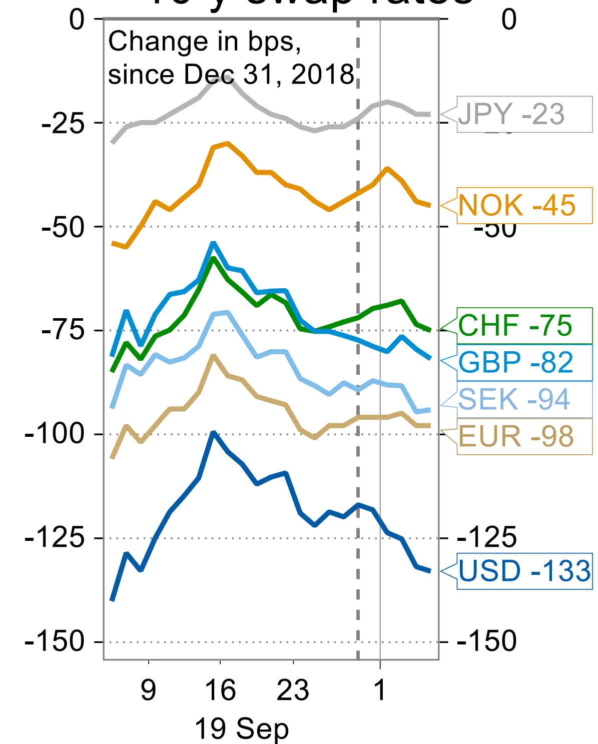
Long term swap rates steeply down in the US; Norway, EUR steady

US 10 y swap rate down 34 bps since mid-Sept, EUR -17 bps, and NOK just -15 bps





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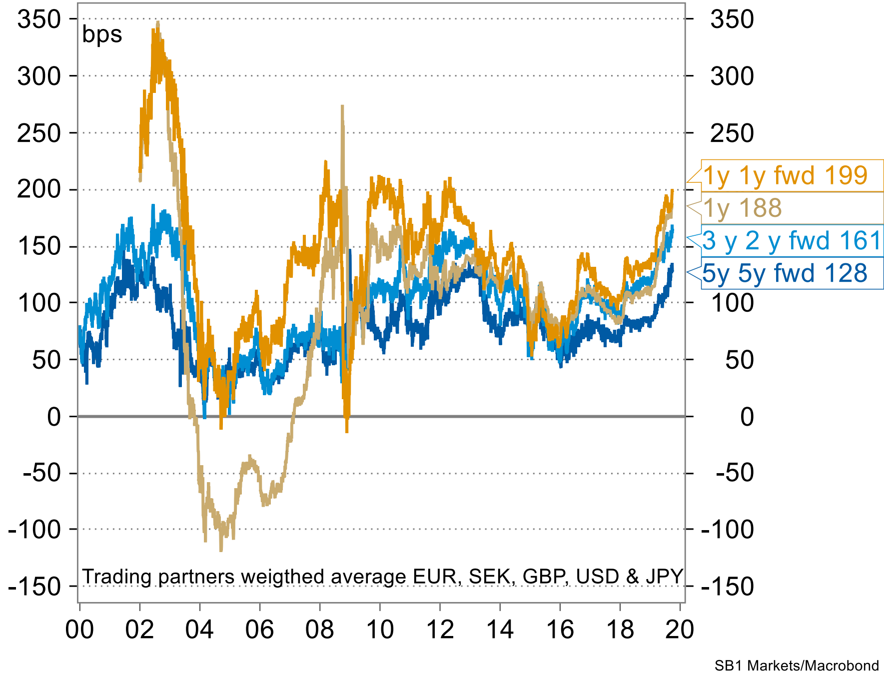
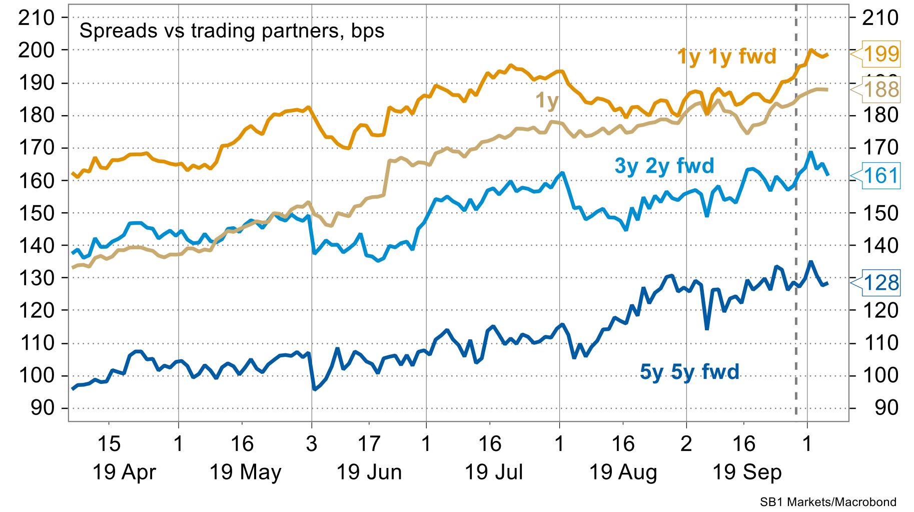
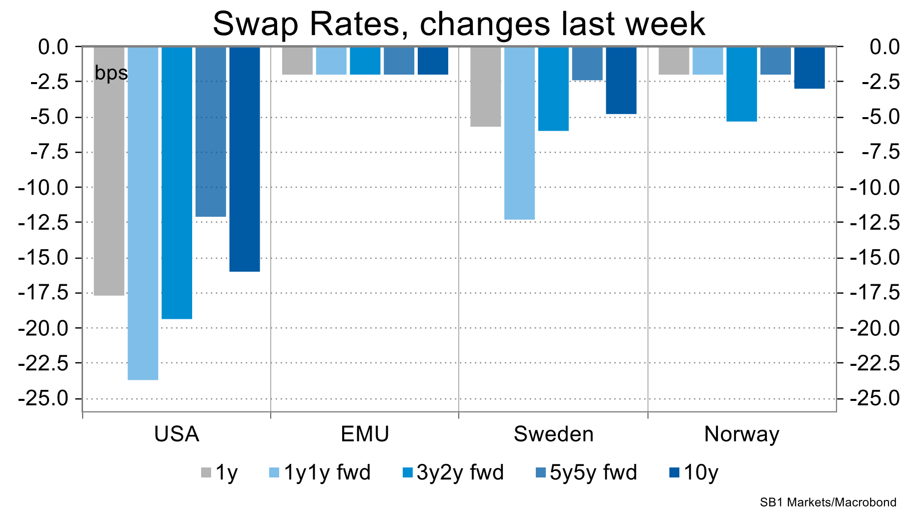
NOK swap spreads vs trading partners are widening, rapidly in the short end

Spreads are climbing the most in the short end, while the long end remain stubbornly high







- Swap spreads between NOK rates and our trading partners have been widening rapidly this year. Spreads in the short end of the curve have increased rapidly last 2 weeks, as yields have fallen more among trading part.
- 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. It must be 'too' high?

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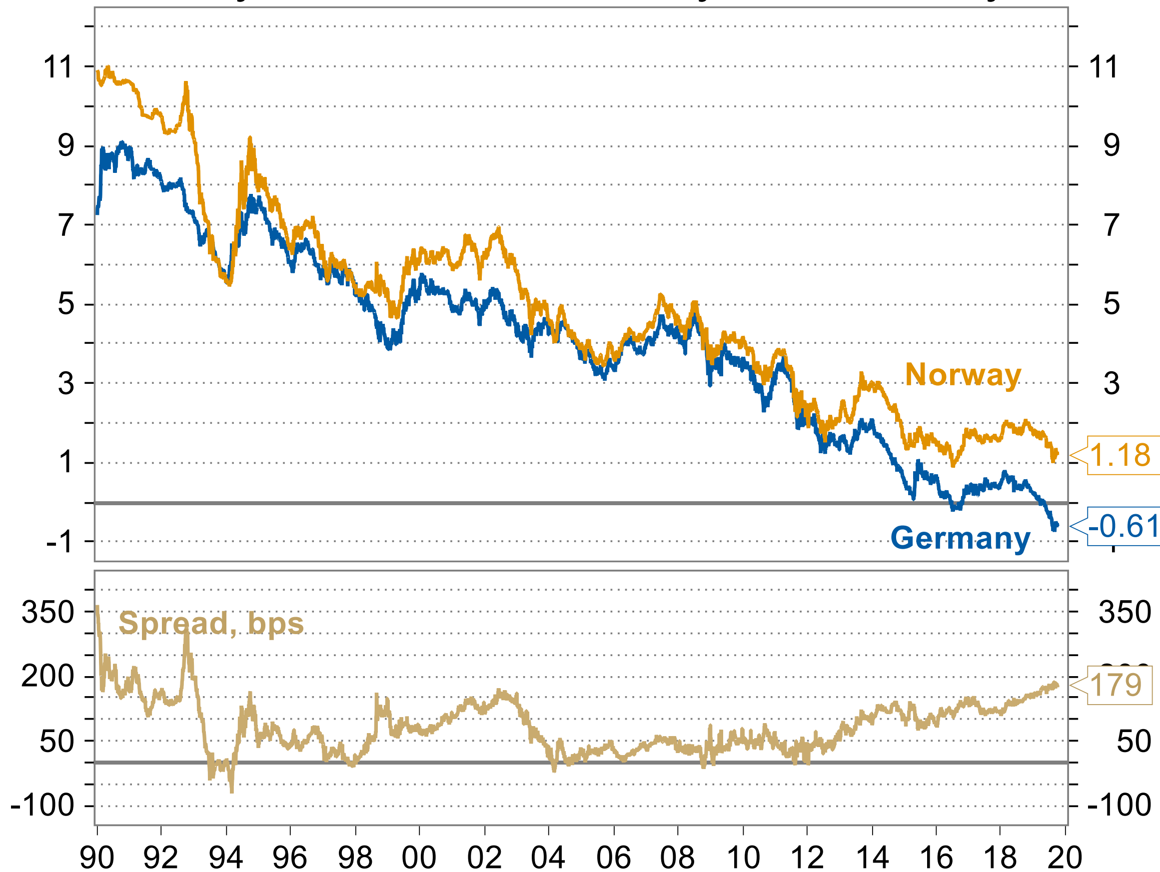
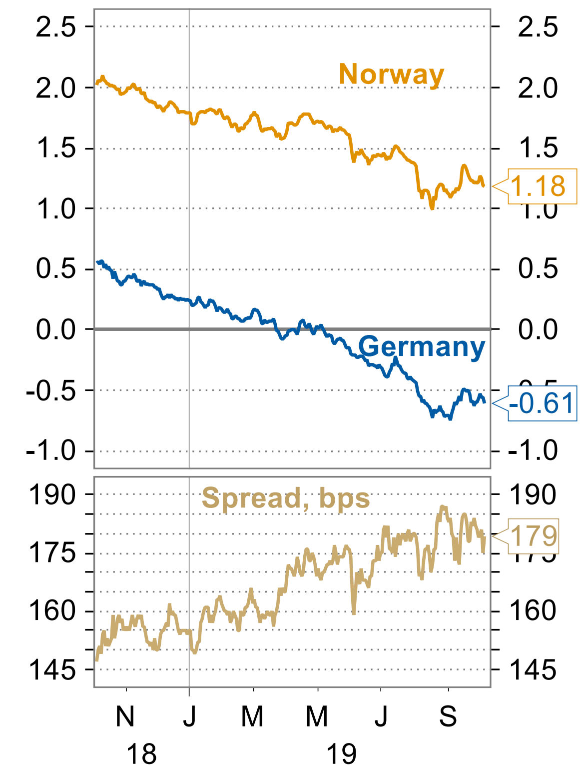
The Norway/German 10 y gov spread marginally in

The spread at 1.79% is still unusually elevated (even though it was even higher in August)





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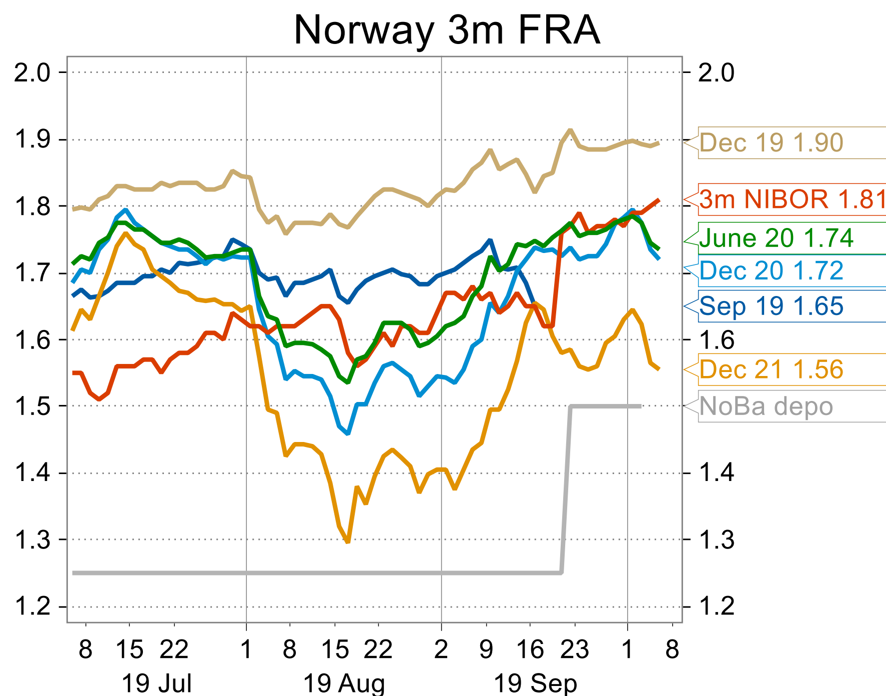
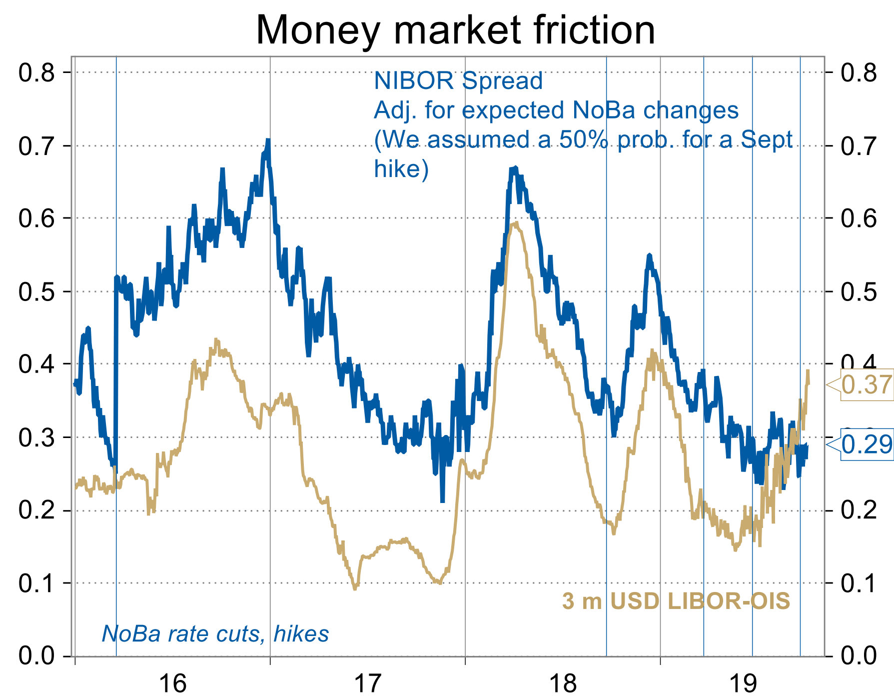
The 3m NIBOR inching further up, to 1.81% Friday

Dec 20 contract at 1.89% still implies a much higher spread (and zero hike probability, we assume)





- The NIBOR – NoBa deposit spread has come up to 31 bps, from 26 bp immediately after Norges Bank's hike two weeks ago. We still think the spread is still too narrow. The Dec 3 m FRA trades at 1.90% (implying a 40 bps spread), and in the US the LIBOR-OIS spread has widened to 37 bps. Historically, the NIBOR spread has been wider than the LIBOR spread. Norges Bank assumed a 40 bps NIBOR spread in the MPR.
  - The Dec spread may be influenced by expectations of a year end liquidity squeeze – which has happened before. The FRA-curve peaks in Dec '19, and there are smaller local peaks in the next Dec FRAs as well. Still, we expect the 3m NIBOR to drift upwards the coming weeks
- Longer dated FRAs fell sharply last week. The FRA curve is inverted after Dec '19 but the market is pricing a high probability of an unchanged interest rate through 2020 and a cut is fully priced in around mid 2021

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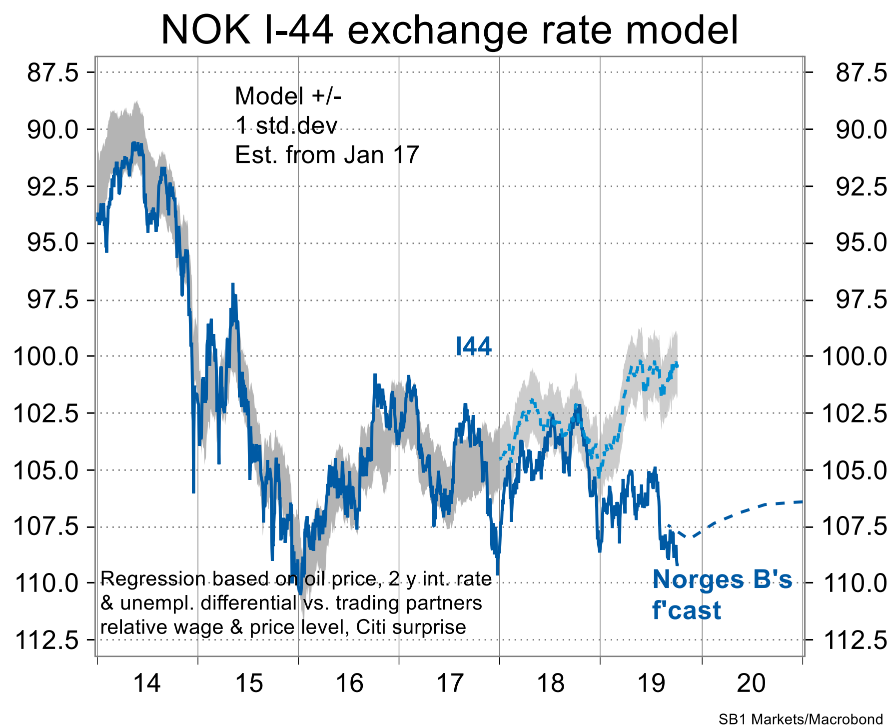
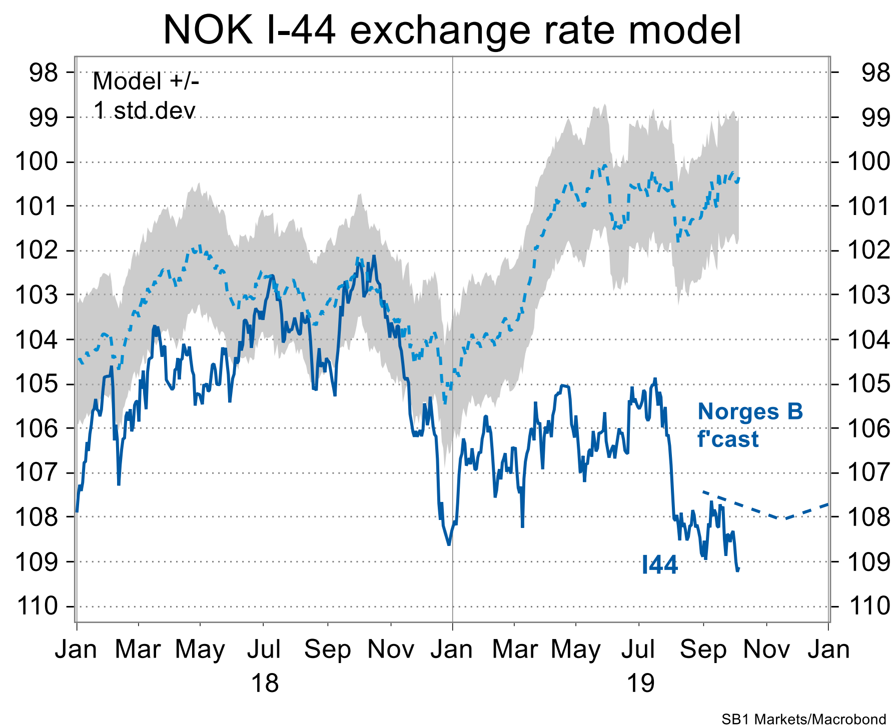
NOK weakened again last week, with the oil price

NOK is 8.7% below the standard model (the highest gap ever) and 3% below other supercycles





- NOK fell 0.7% last week, the model said unch (oil price down, interest rate spreads up). The gap to the model is wide, close to 9%, the highest we have witnessed
- Last week, all 'supercycle' currencies depreciated, a global risk off sentiment? Well, EM currencies did not weaken. Also, even if our super-cycle f/x model explains the weakness last week, it does not fully explained the weak NOK since mid July. NOK is still some 3% below our super cycle peers
  - » We have tested our models with global risk etc., without success
- Long term, we stick to our long term **buy NOK** recommendation

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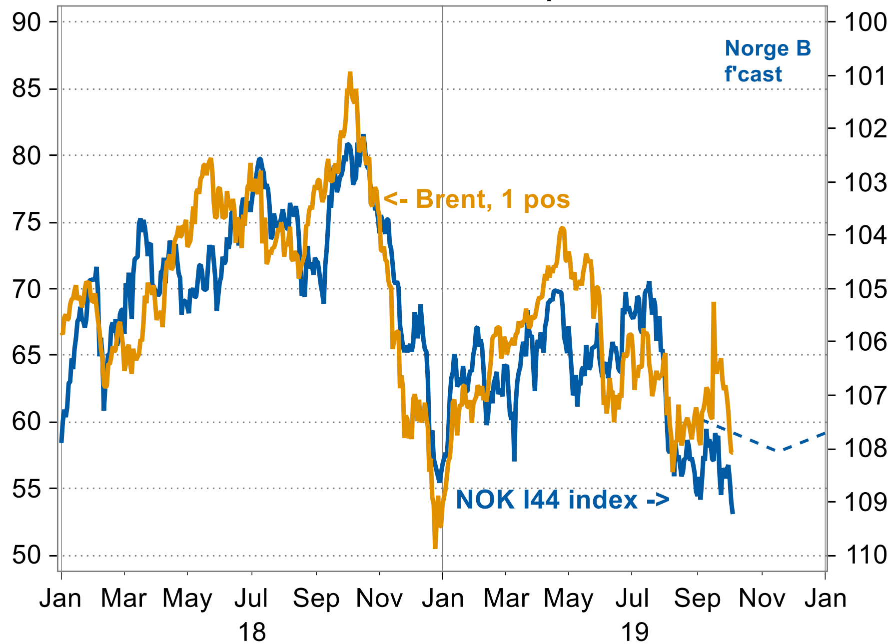
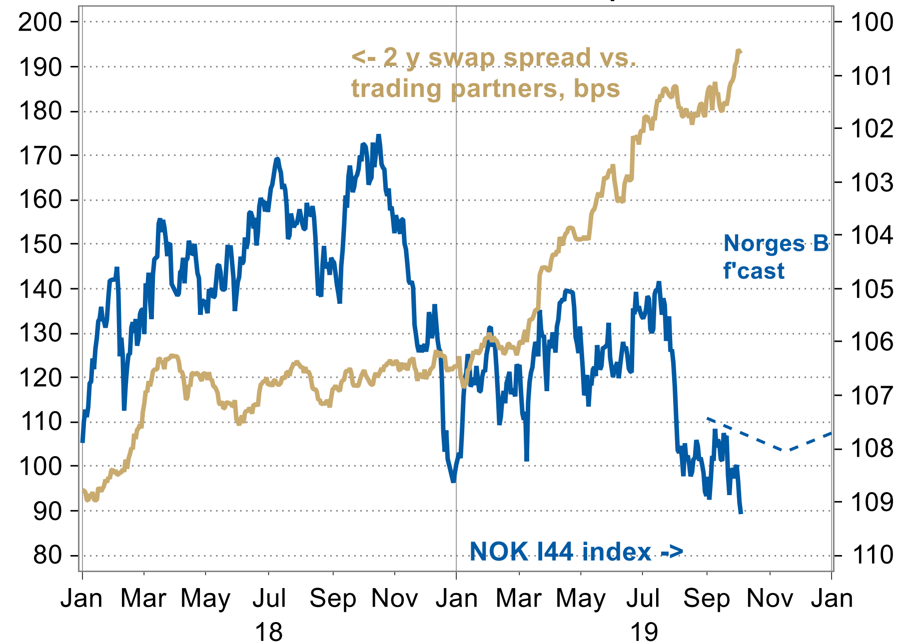
Oil down, the 2y interest rate spread vs. trading partners sharply up





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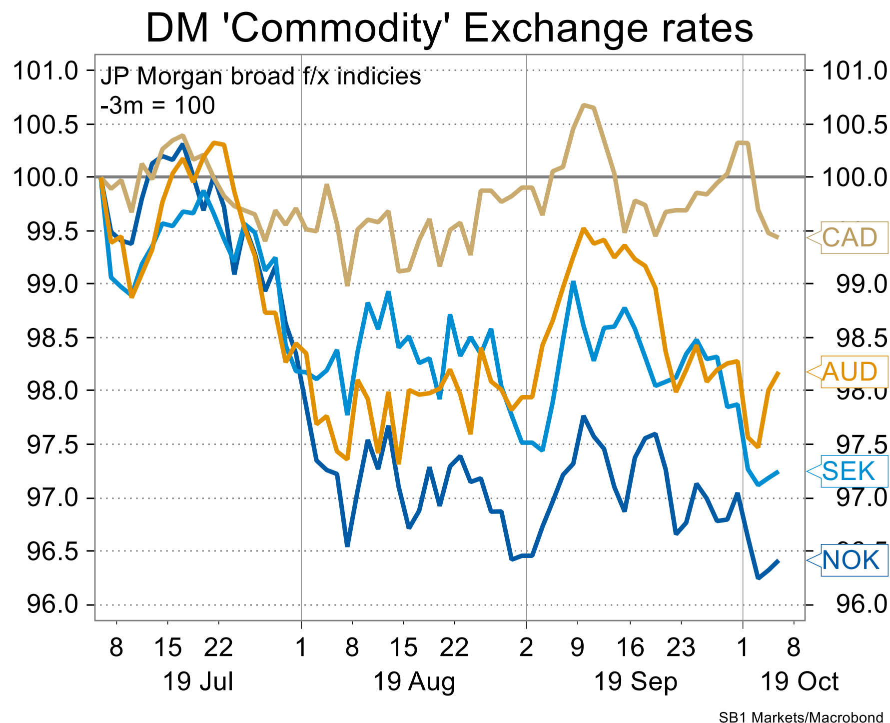
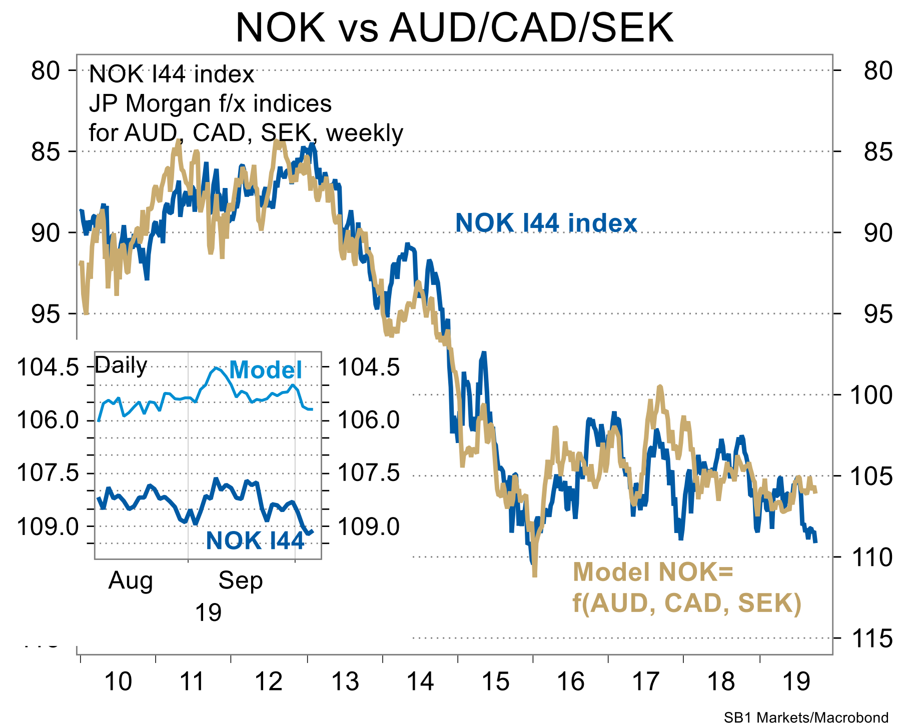
All 'supercyclicals' down last week, the 'gap' to NOK still 3%

CAD is much stronger than the others, AUD & SEK have fallen less than the NOK since July





- Both CAD, AUD and SEK fell along with the NOK last week, although the AUD recovered strongly on Thursday
- Not even the NoBa hike brought the NOK up. So there must be something else going on here...
- 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. 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 been rather stable, while AUD & SEK have depreciated but both less than the NOK

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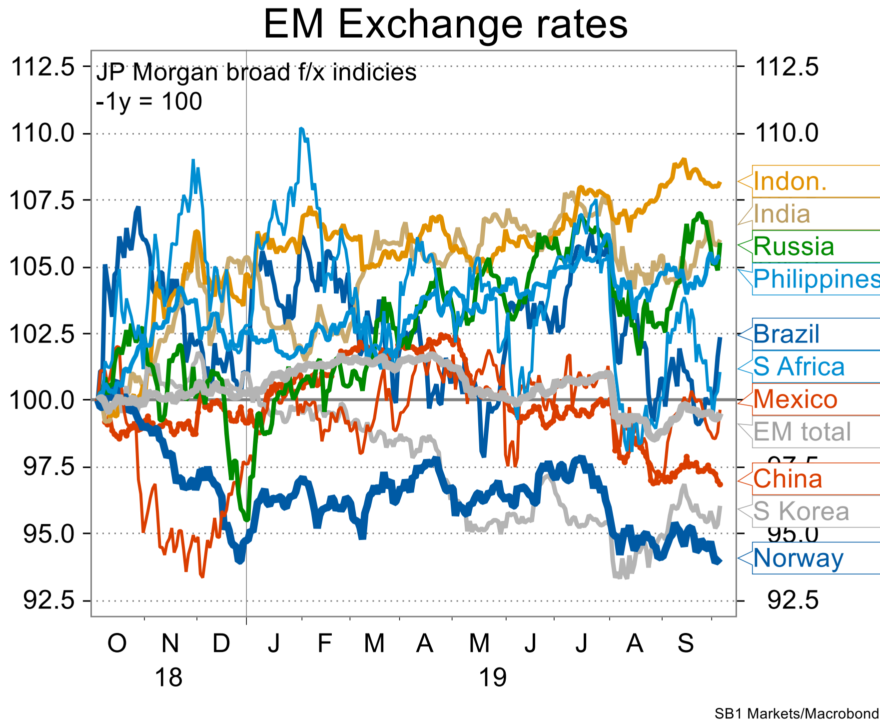
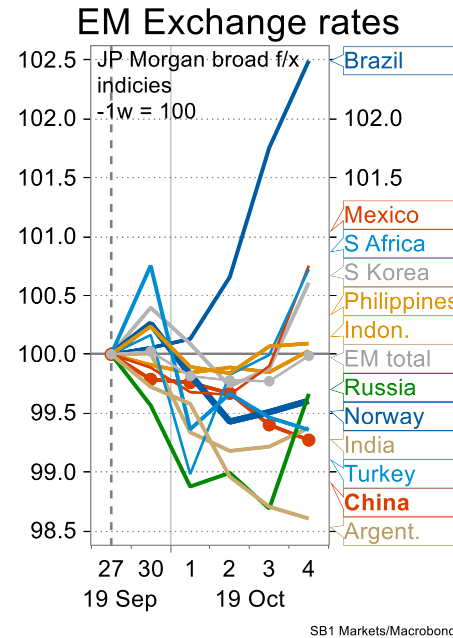
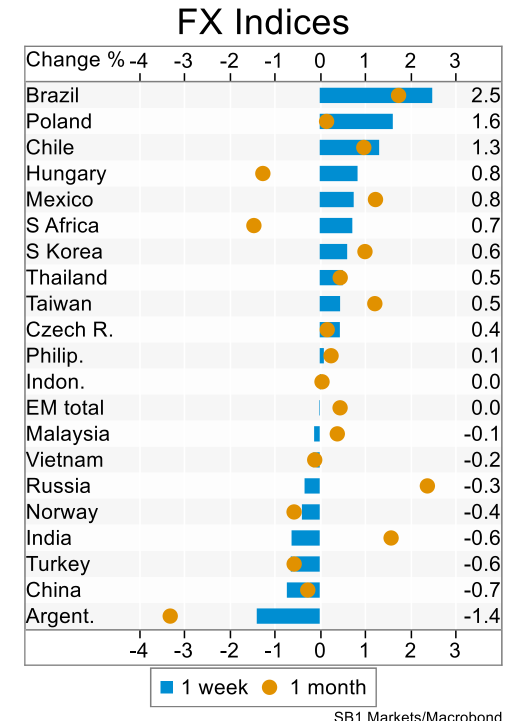
Mixed among EM f/x; Brazil up, China down

Most EM currencies have appreciated the past month, helped by trade war de-escalation







- Most EM currencies have recovered after falling in early August. Trade war easing may be an explanation but the Chinese yuan has lost ground again
- Last week the Brazilian real rose sharply
- BTW, if we take out the Argentinian peso, the NOK has fallen substantially more than any of the (other) 18 main EM currencies we are following the past year!

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