4 November, 2019

Macro Research

Weekly update 45/2019

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

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

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

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

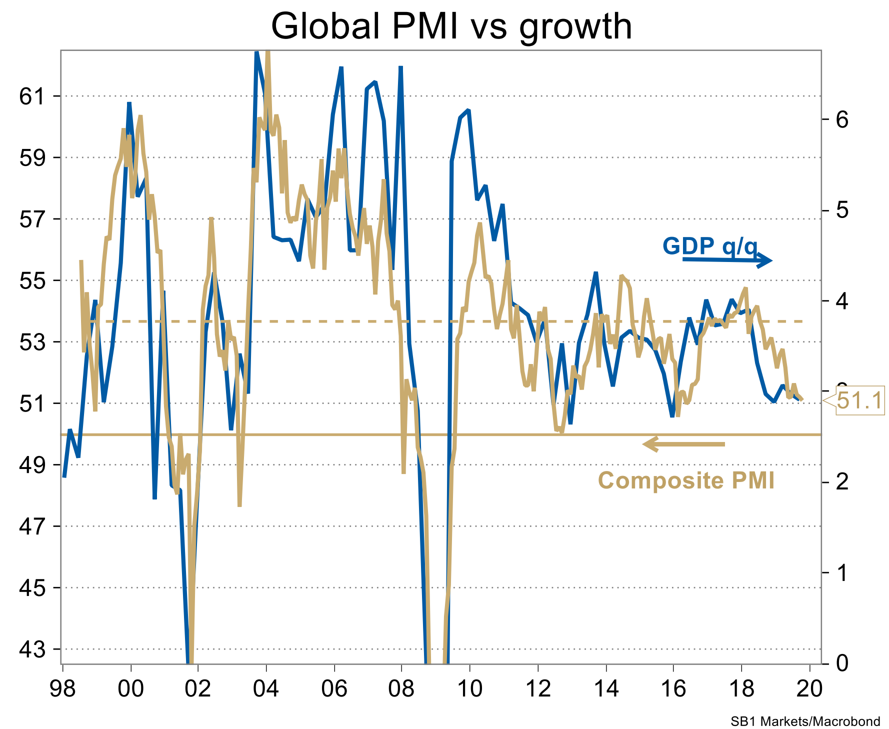
Last week – the main takes

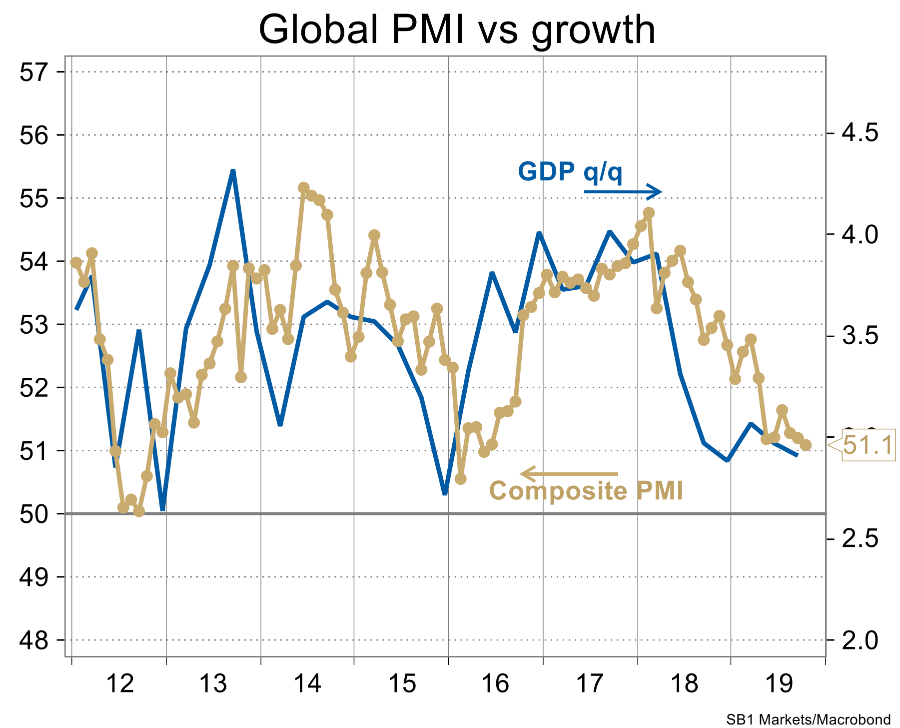
- Hopes of an extensive **US/China trade deal** were reduced early last week as Chinese officials expressed doubts as to whether a long term trade deal with the US could be reached. On Friday, the mood turned after a US statement of 'a constructive' call with Chinese representatives (haven't we heard that before??)
- **Global manufacturing PMI** rose just marginally in October (our estimate), the 3rd month of a marginal upturn. **Mixed October China PMIs**; both manufacturing and services weakened, according to the 'official' NBS PMI. In contradiction, Markit's manufacturing edged up for the 4th month, to a 3 year high at 51.7. Our take is that Markit's Chinese PMI is too upbeat, even as activity may have stabilized. **The US manufacturing ISM** failed to recover in October, up just 0.5 p to 48.3, a stronger rebound was expected. The ISM is much weaker than other US manufacturing surveys, an unusual gap. **The Swedish manufacturing PMI** remained in the doldrums while the volatile **Norwegian PMI** noted a strong rebound, we doubt it will last
- **US employment** rose at a solid 128' speed in October, far better than expected (or by 195' if we adjust for the GM strike and fewer Census temps). Employment has slowed but not faster recent months, reflecting a solid labour market. Unemployment rose back to 3.6%, as expected, as participation increased marginally. Wage growth is still moderate, up just 0.2% m/m 3.0% annually. **The Fed** lowered the interest rate by 25 bps to 1.5-1.75%, as expected and Powell signaled an unchanged interest rate in the near future, if economic data should not deteriorate substantially. Still, interest rates fell. **Q3 GDP growth** slowed to 1.9%, better than expected (but nowcasters reports 1% growth in Q4). Solid growth in private consumption was the main growth engine in Q3, while business investments shrank as expected. Core PCE inflation rose 2.2% in Q3! **House price inflation** is slowly picking up, **pending home sales** are trending up
- **Eurozone GDP growth** was unchanged at 0.8% annualized in Q3 from Q2, beating f'casts. The bad news; **unemployment** rose in Sept and the underlying pace of decline is no doubt reduced. **Core inflation** subdued at 1%
- **Norwegian registered unemployment** fell by just 100 persons in Oct (and was unchanged incl. measures, expected down). Unemployment is still heading down but the speed has been reduced significantly the past months, suggesting a somewhat softer labour market. The unempl. rate held unchanged at 2.2%. **Credit growth** gained in Sept, due to a technical spike in corporate credit. Household credit growth is losing speed; a consumer credit setback or higher interest rates to blame? **OBOS Oslo house prices** fell by 0.8% s.a in Oct, following +1.7% in Sept

SpareBank 1 MARKETS

Global PMI slides slowly down, we estimate a 0.1 p decline in October

The PMI was lower in both 2012 and 16' (one month) but the cycle is more mature now



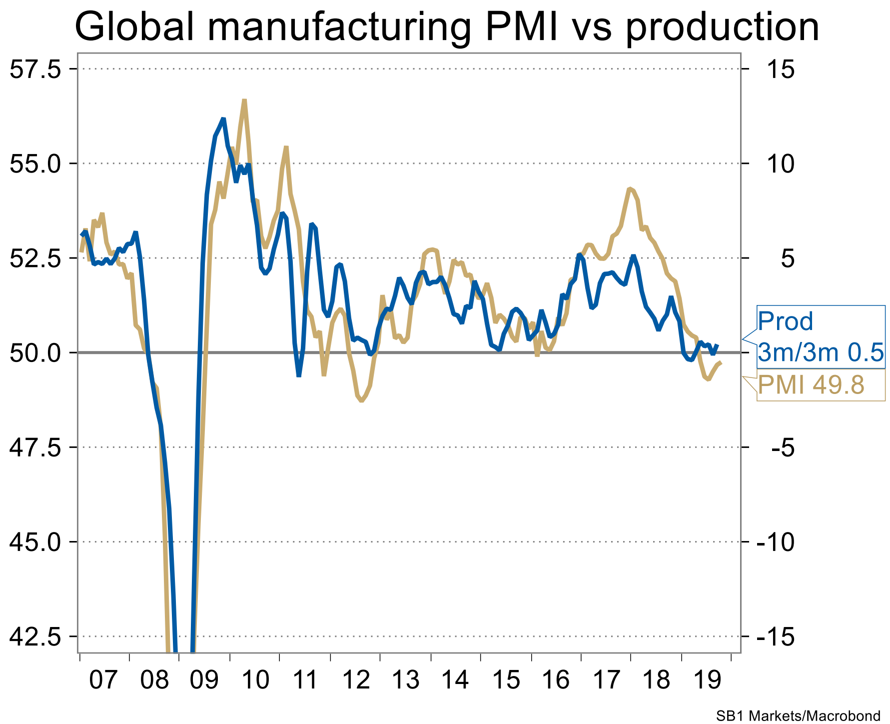


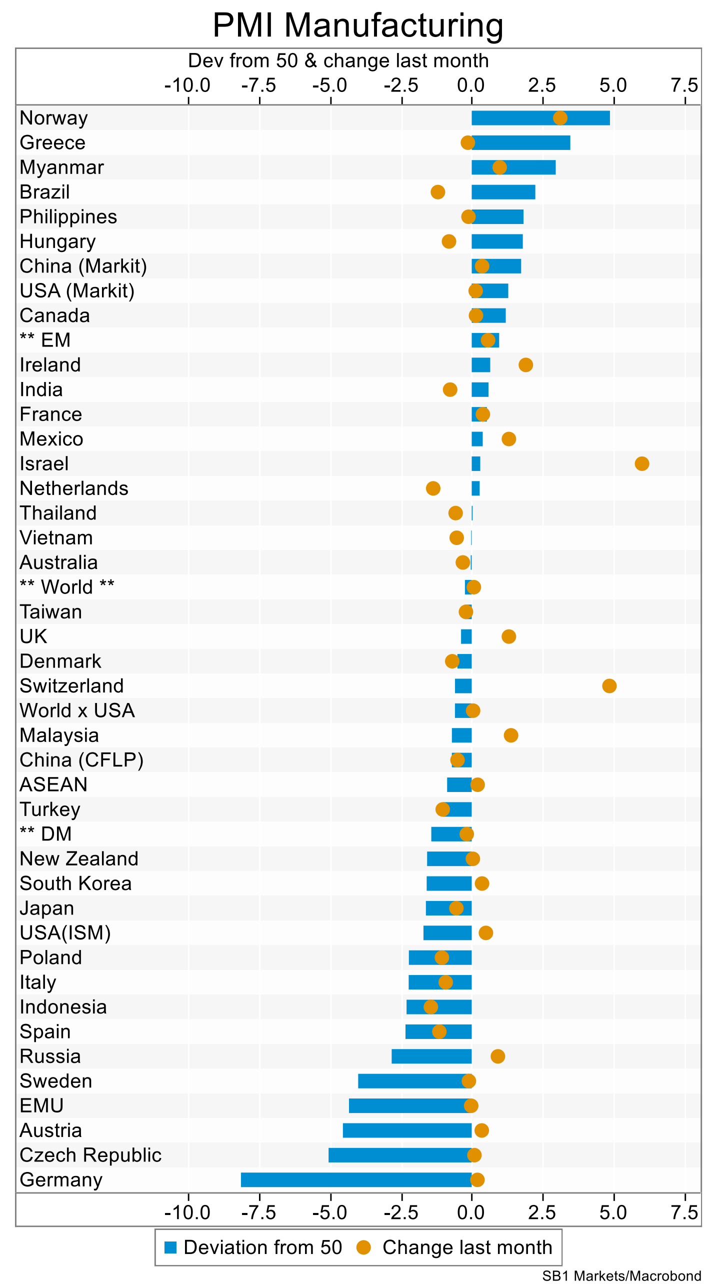
- We estimate a global composite PMI at 51.1 in October, down 0.1 p (we have nudged up our f'cast by 0.1 pp following more country reports, and an unch. print is well within reach). The PMI points to a slowdown to just below 3% global GDP growth, vs close to 2.8% in Q3 (our estimate) and just a marginal slowdown from Q3 last year
- The PMI has fallen by 4 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 10 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

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

Manufacturing PMI slightly up, a stabilization?

PMI probably ticked up 0.1 p in Oct (our estimate)

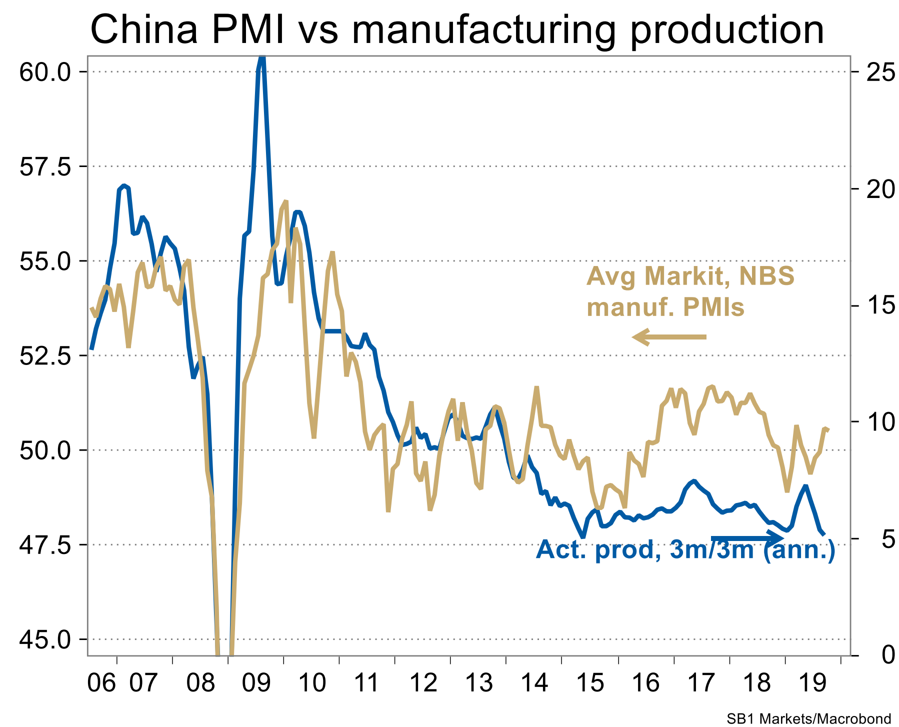




- We estimate 0.1 p increase in the global manufacturing PMI in Oct. The modest upswing past 3 months may be a sign of stabilization, following 15 consecutive months of decline. The index at 49.8 nevertheless signals a modest contraction in global manuf. Actual production has stabilised – and has climbed marginally recent months
  - » A majority of countries reported an upswing in Oct, but a majority is still below the 50 line, with Germany at the very bottom
- The Norwegian PMI is at the (but the index is far to volatile to trust short term)
- The final global manufacturing PMI is released this afternoon

Markit's PMI is soaring, CFLP weakens, which one will yield?

The gap between the surveys is unusually large. We doubt the steep rise in Markit's PMI is correct

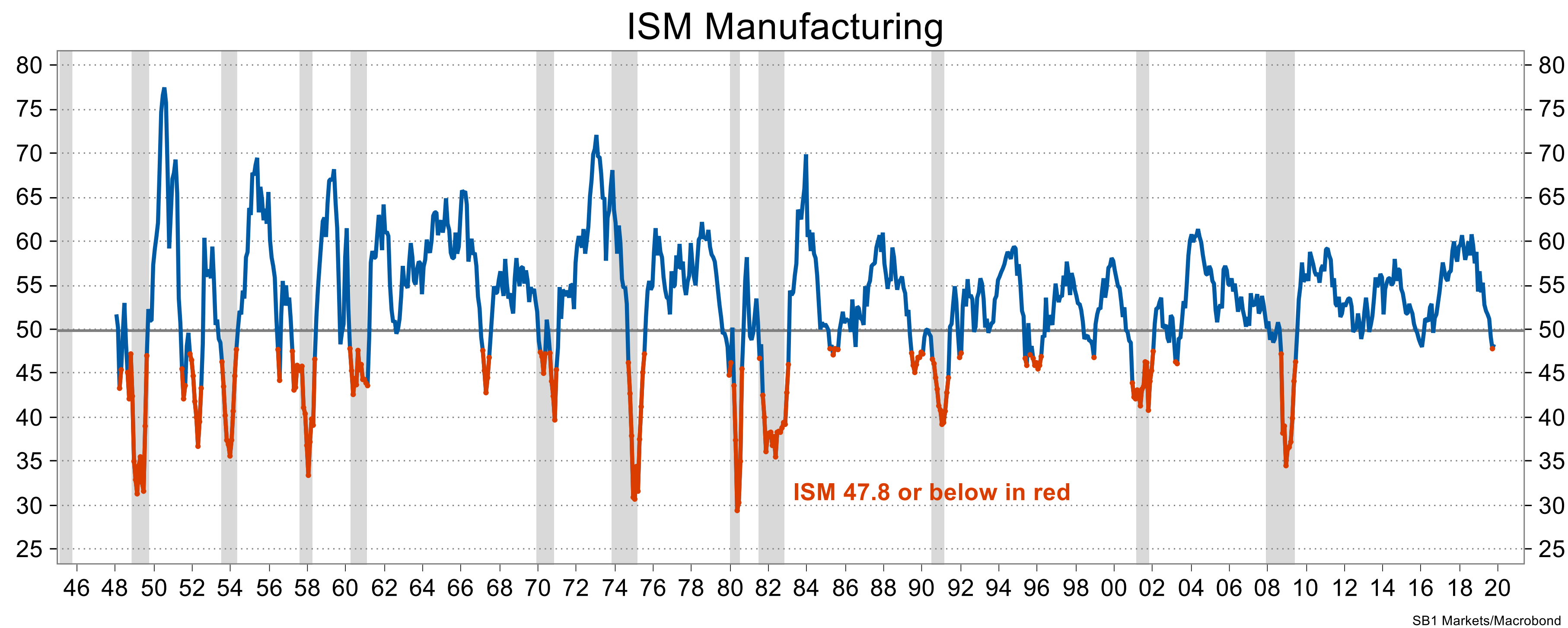


- Markit's manufacturing PMI rose to 51.7 in October, a 0.3 p rise, and the 4th straight month of increase. The index is at the highest level since Dec 2016, and new orders are thriving (at a 8 y high!?), according to the PMI. We doubt so, even as the authorities stimulus may be boosting activity. Both export and domestic demand are improving.
- The 'official' NBS/CFLP manufacturing PMI fell by 0.5 p, the index at 49.3 is below the average level since 2012, at 49.9. The export orders fell more than domestic orders in October and the level is rather weak
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs is suggesting a stabilization in manufacturing activity – which by the way has not been that weak recently

SpareBank 1 MARKETS

Manufacturing ISM stabilised in October, still quite weak

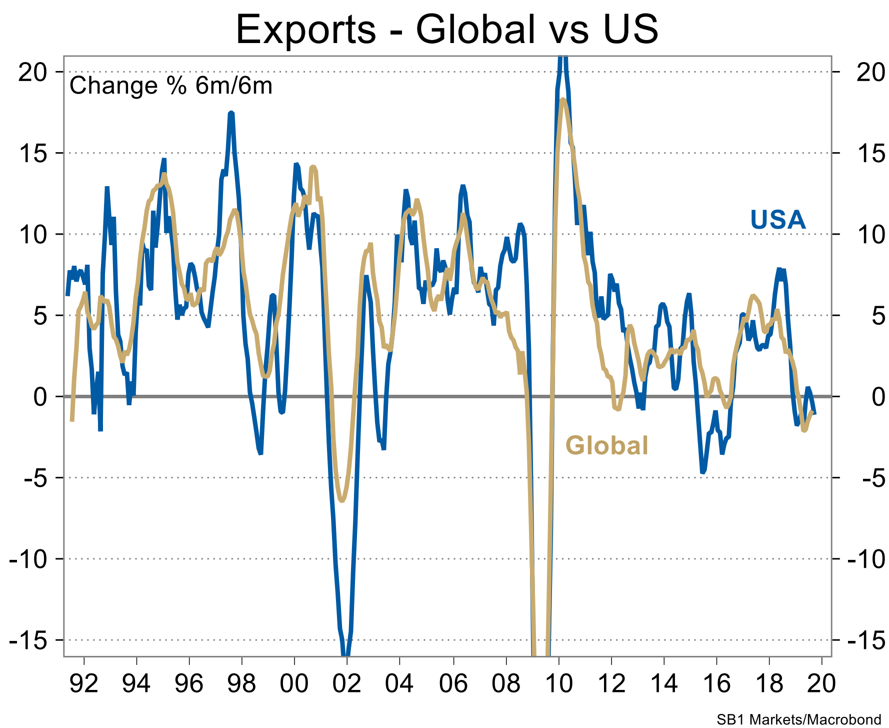
At present level, a 70% recession risk, based on (a manufacturing heavy) history

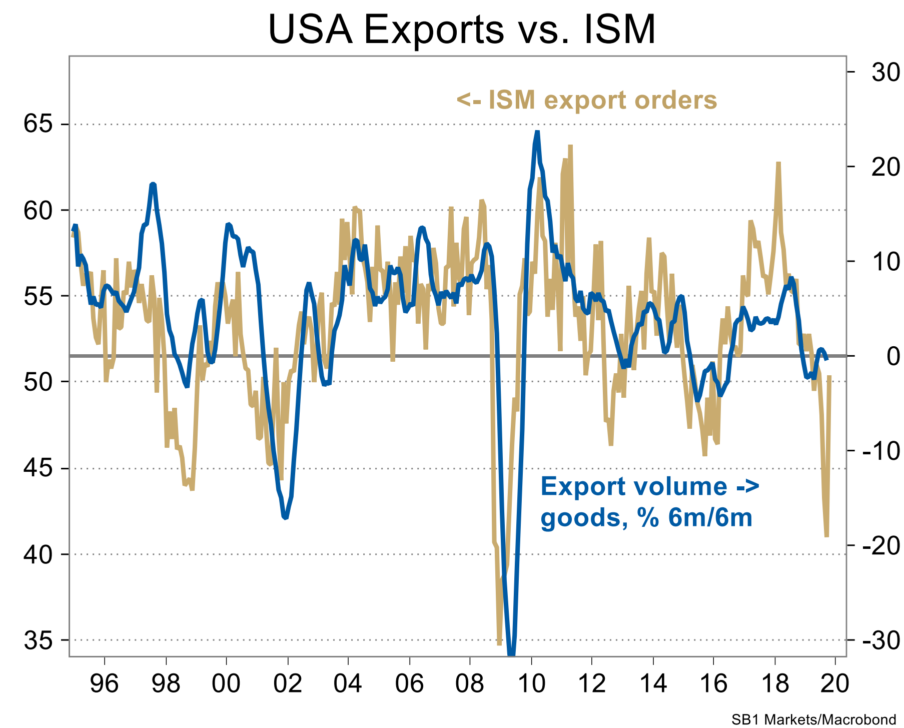


- Manuf. ISM rose 0.5 to 48.3 October, expected up to 49. The ISM is at the lowest level since the Financial Crisis. Other surveys are not that downbeat, and have recovered somewhat recent months
  - In the ISM survey, 5 out of 18 sectors reported growth (from 3 in Sept) and 12 (from 13) sectors reported a contraction, a weak mix
  - Trade war is stated as an important reason for the slowdown but demand weakness is quite wide spread, while others are reporting cost/margin pressures
  - Order inflow is still contracting but at a slower pace than in September, mostly due to a sharp recovery in the export order index (which is still signalling contracting exports)
- The manufacturing ISM has fallen to the present level (or below) 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions, 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

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

The ISM export order index back up to a more normal level in Oct, still signalling a contraction



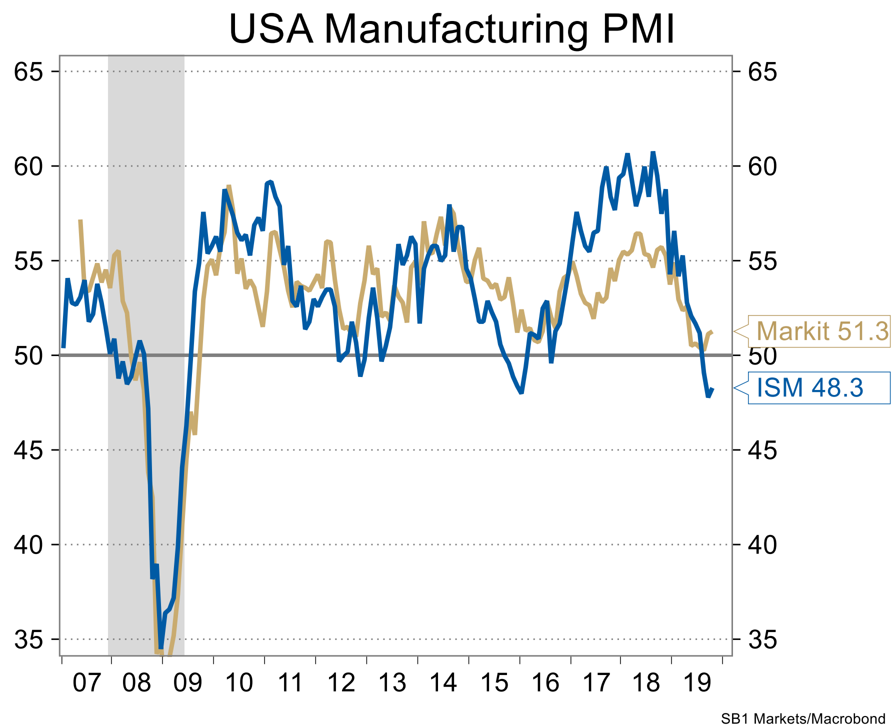


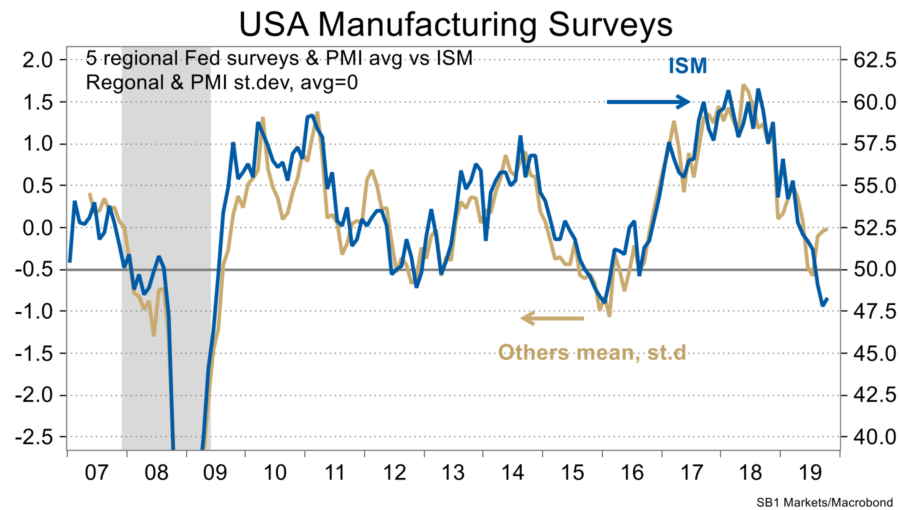
- The export index fell sharply in Sept, down to 41 but recovered just as sharply in Oct, up to 50.4. Even if the index is above the 50-line, it signals a further contraction in US exports, albeit mild
- US exports are closely correlated to global exports, it's just a tad more volatile (and a little 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

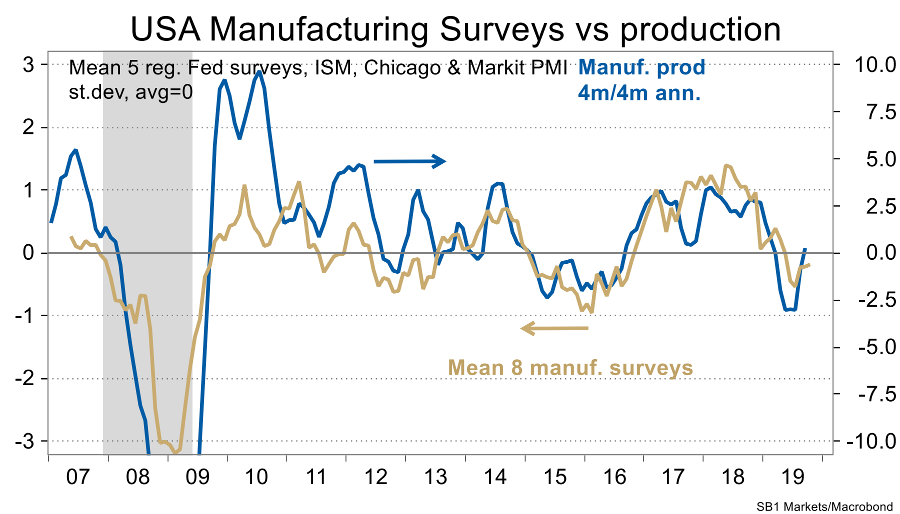
SpareBank 1 MARKETS

ISM says 48, the others '52.5'

The average of 7 other manufacturing surveys equals an ISM at 52.5, up from 50 in August



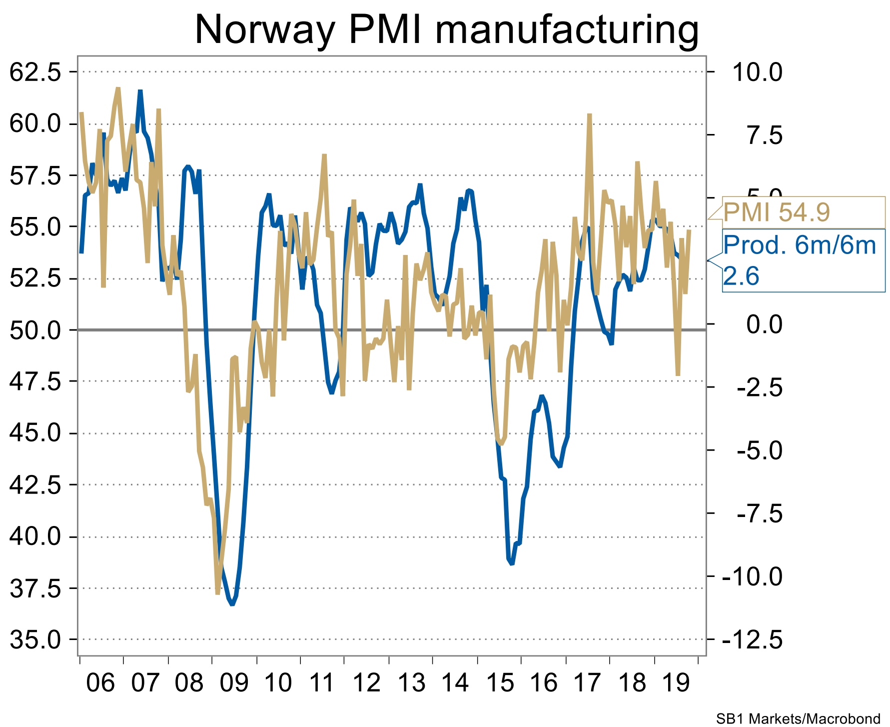


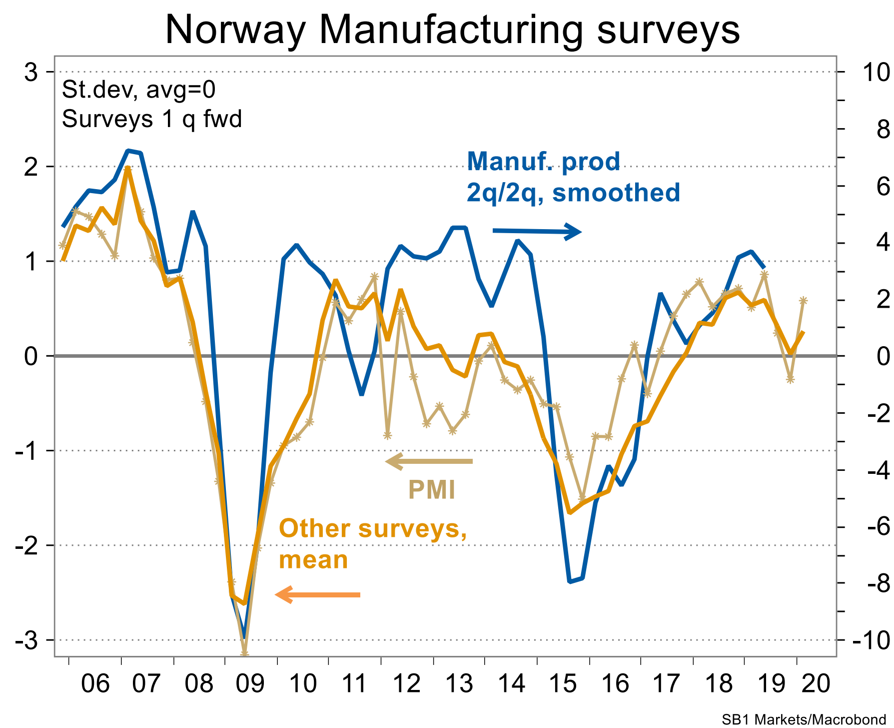


- Markit's manuf. PMI rose less than first reported in Oct, to 51.3, from 51.1 in Sept (first est 51.5)
- More up than down for regional surveys – and the (rebased) average level is far stronger than ISM
- Manufacturing ISM has been much stronger than Markit's PMI the past 2 years but Markit has been closer to the ball vs actual production

Volatile manufacturing PMI bounced back in Oct

PMI jumped 3.1 p, reversing the Sept decline. The 6m average is at a decent 52.7 level, but trends down

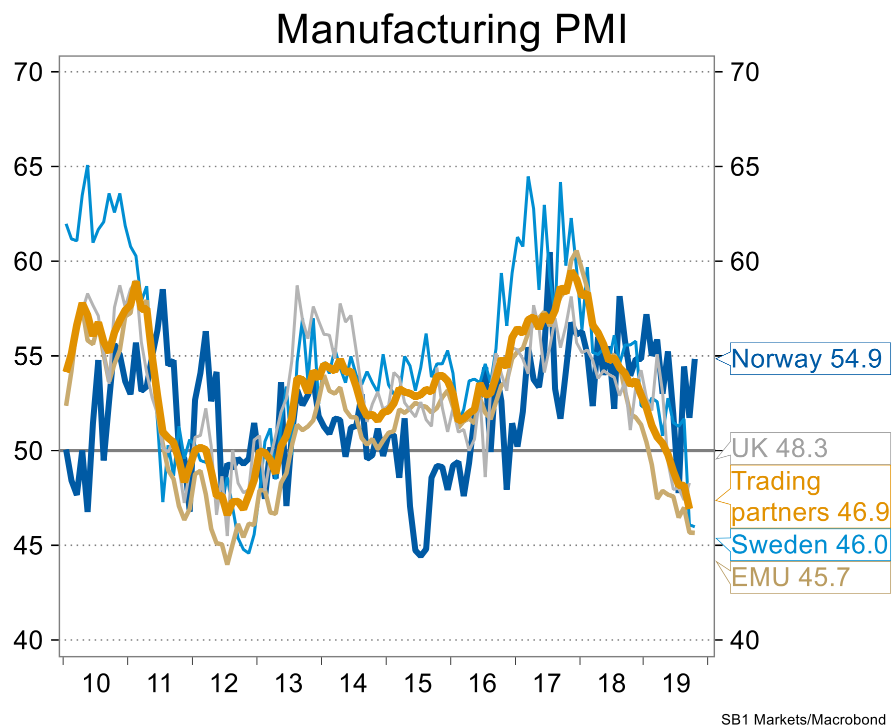


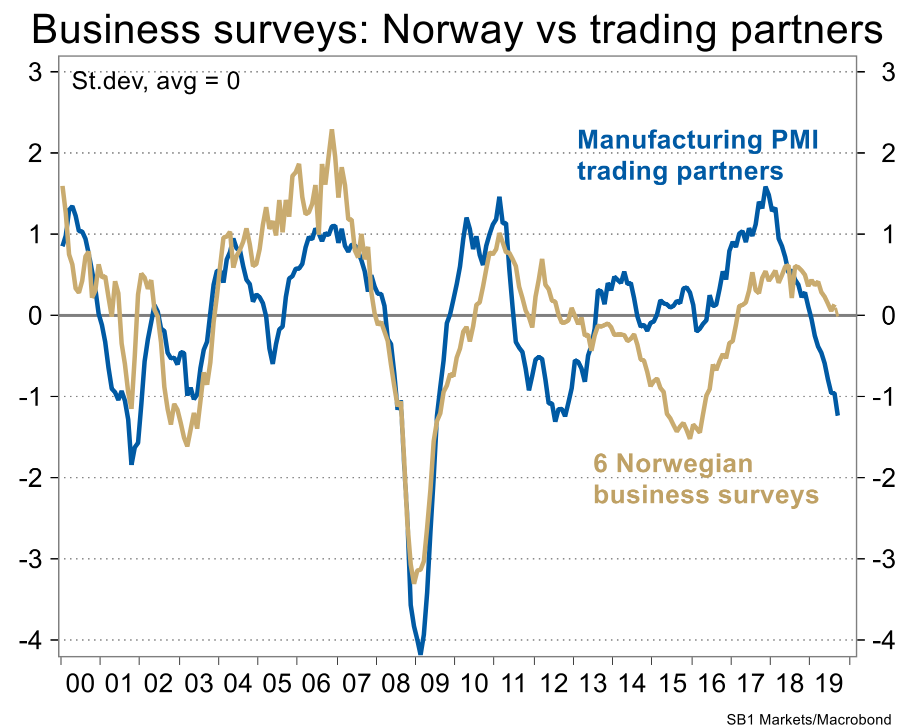


- The PMI surprisingly jumped in October, to 54.9, more than reversing the Sept drop. The Norwegian PMI is far too volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 53.7 and the 6m average at 52.7, both signalling a slower growth in manufacturing production (but far from a contraction, as PMIs in many of our trading partners are indicating)
- The PMI is more volatile than other business surveys – the survey is now more upbeat than others. The Regional Network is still reporting strong growth in manufacturing, while Statistics Norway's manufacturing survey fell sharply in Q3, and signaled zero growth
- Taken together, manufacturing surveys signals a growth slowdown. We assume that oil related manufacturing production is flattening out now, as investments in the oil and gas sectors is now most likely reaching the local peak level

Norway is slowly following its trading partners down

Manufacturing is still holding up better in Norway, fueled by oil related sectors. But not for long??

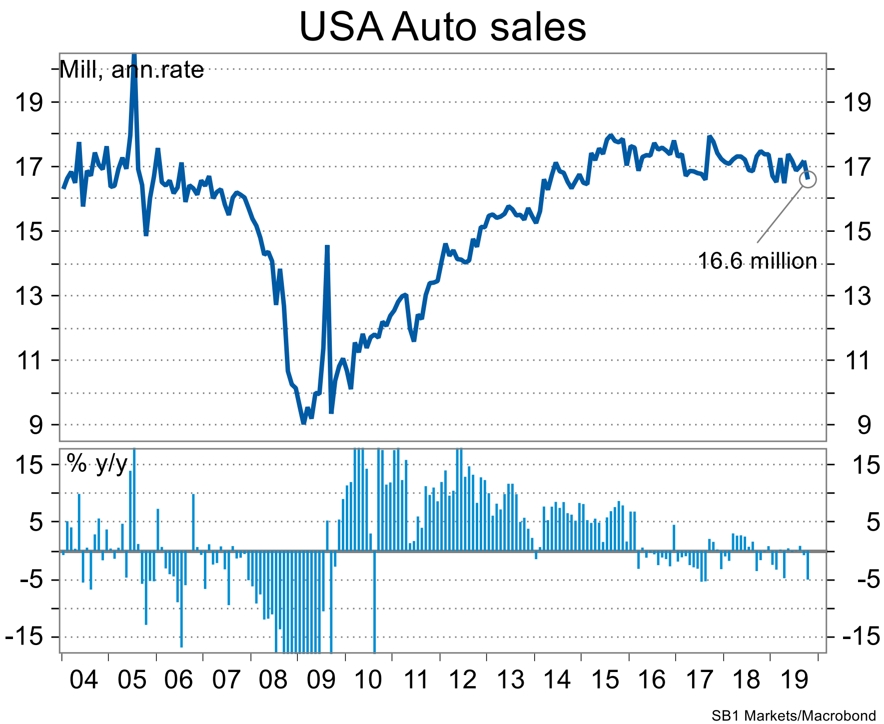


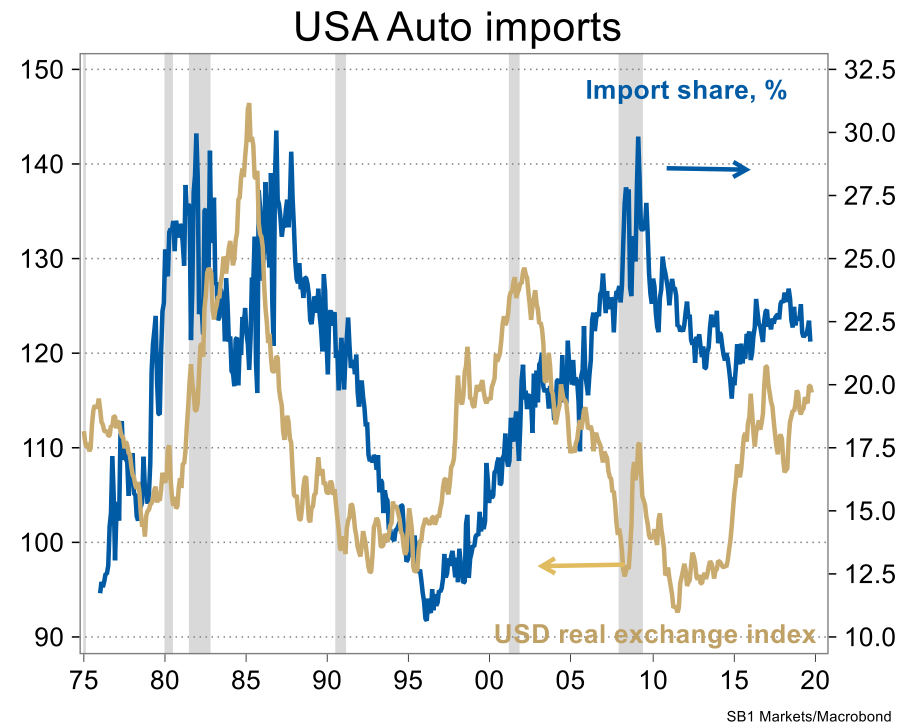


- Well, the Norwegian PMI is still less downbeat than among our trading partners. The PMI is normally lagging our trading partners by close to one year. Other surveys are slowly turning down too
- The boost from oil & gas investments will most likely subside sharply into next year – and we expect growth in production to slow substantially into 2020

Auto sales down in October, trending slowly downward?

Sales down 3% to 16.6 mill, weaker than expected



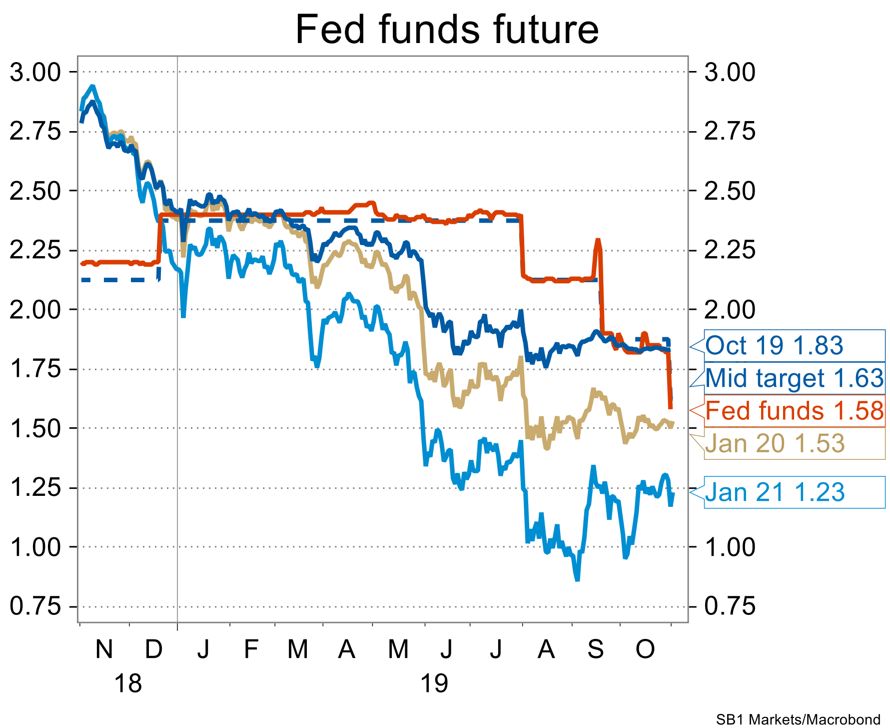


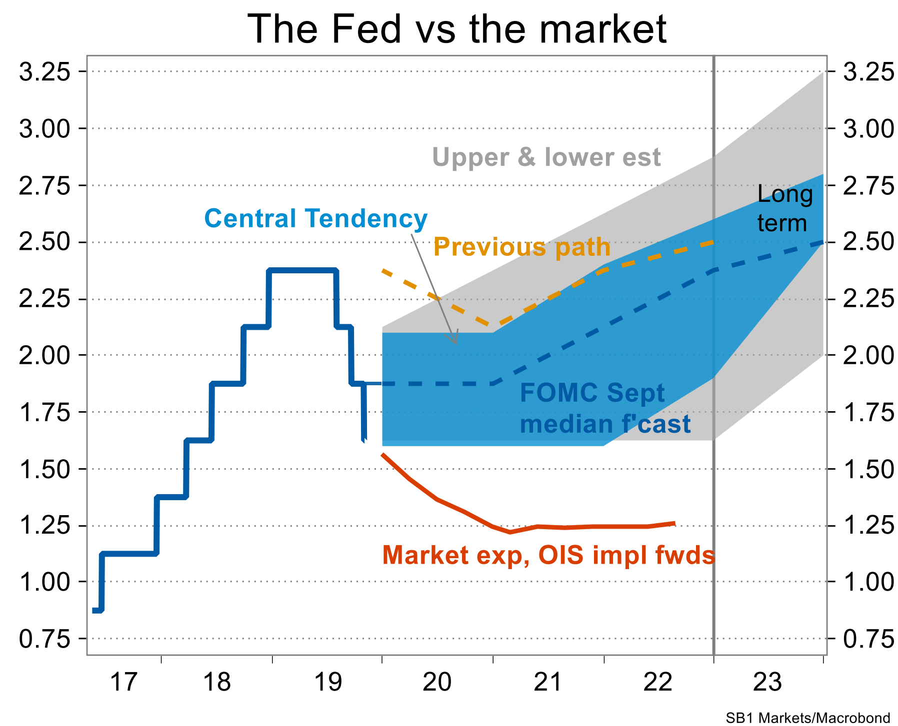
- Sales fell 0.7 mill (annual rate) to 16.6 mill, expected down to 17 mill. Sales are trending slowly down, from the local peak in 2015 (!)
- The import share has been sliding down recent months, following an increased the previous 3 years. At 22% the import share is above the long term average – but it has been far higher several times before.

SpareBank 1 MARKETS

The Fed delivered the 3rd interest rate cut but signals a pause

FOMC cut by 25 bps to 1.5-1.75% as expected – and signaled that's enough, for now

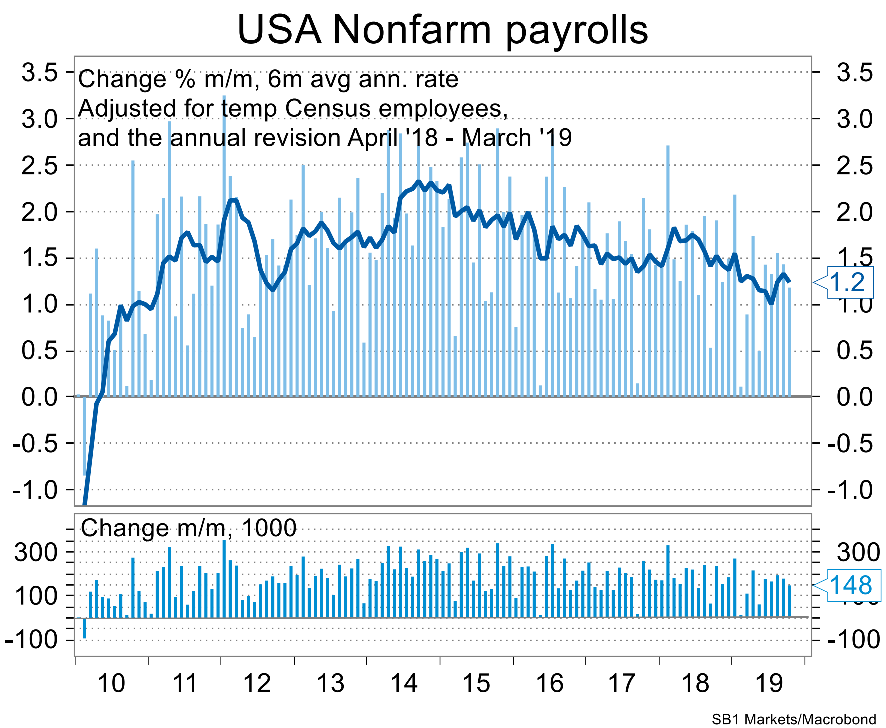


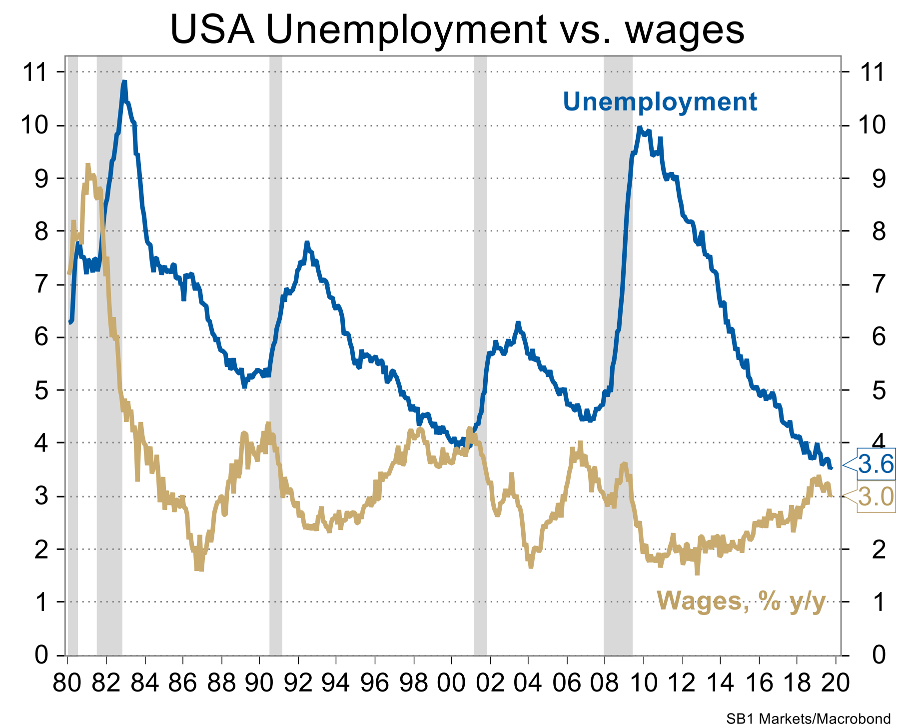


- The FOMC delivered the 25 bps cut to 1.5-1.75%, which markets expected by at least a 90% probability. As at the Sept meeting, the FOMC was divided; 2 of 10 board members voted against the decision, as they preferred an unchanged Fed funds rate. No new dot plot or f'casts at this meeting. The Sept dot plot (all FOMC members) indicated an unchanged interest rate the next year – but the (voting) FOMC cut anyway
- In his speech, Chairman Powell signaled that the interest rate would remain at the current level unless incoming economic data deteriorates materially. An appropriate assessment, in our view, as consumer spending remains strong, labour markets are tight and overall growth is not weak (as confirmed by the 1.9% GDP growth is Q3)
- Market reactions: Unlike what some headlines suggested, the Fed's communication was not a hawkish surprise. Stock markets rose slightly and interest rates fell following the announcement, the 10 y gov by 6 bps and the 2 y by 3 bps. The Fed funds '20 FRA contract was unchanged and the Jan '21 FRA came down 3 bps. The market now puts just a 12% probability for another cut before year end, we thing rightly so, while a cut is expected in H1 next year

Employment rose more than expected in Oct, prior months revised up

Employment growth has stabilized the past 4-5 months. Unempl. back at 3.6%, wage growth at 3.0%

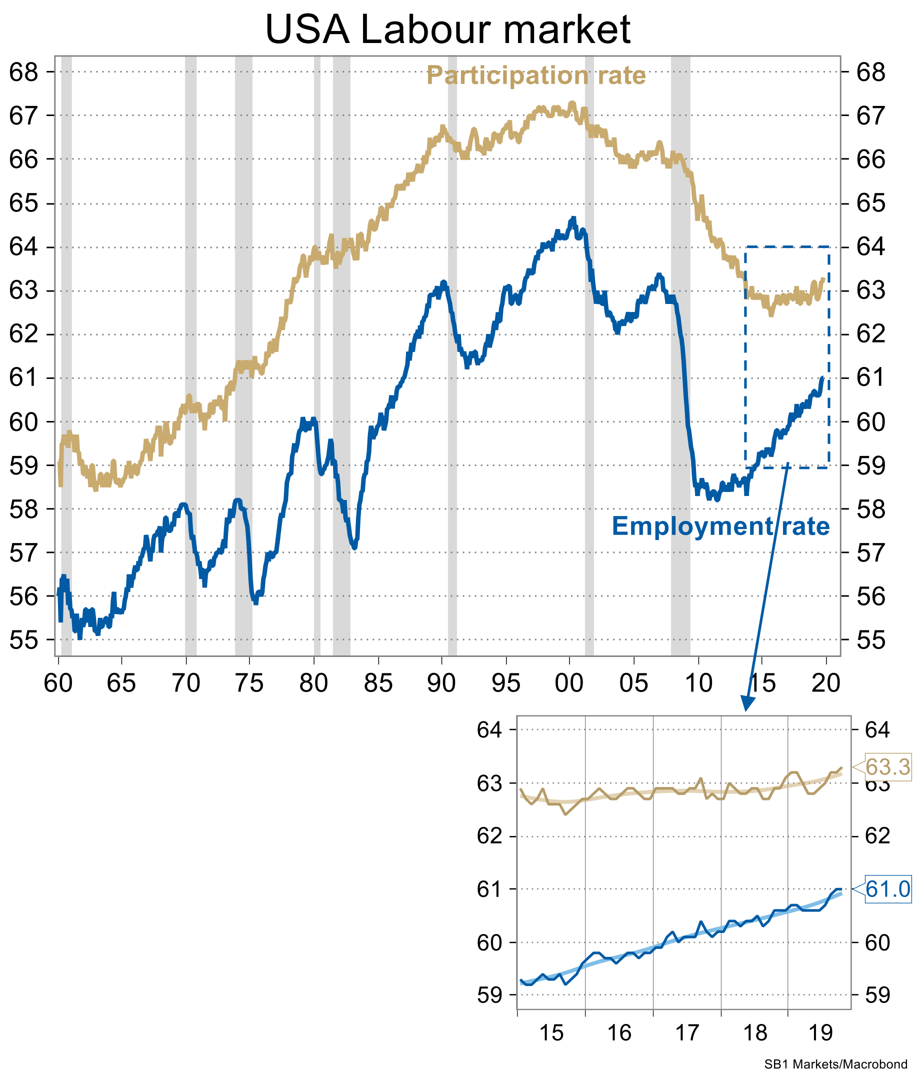




- **Employment** rose by 128' in October (and 148' adjusted for a cut in Census temps), some 60' better than expected, and Sept/Aug was revised up substantially, by 95'. Moreover, the GM strike had an impact of 46' employees in October, according to official stats, and the 'real' Oct no. was 194'! Following these revisions, employment growth has stabilized recent months rather than eased, the 6m average is up 1.2%. Growth has been slowing over the past year, however, the decline has not accelerated this autumn/summer, reflecting a still solid US labour market
- **The unemployment rate** inched back up to 3.6%, from 3.5%, as expected. Participation rose by 0.1 pp to 63.3 while the employment rate held steady. Participation is now heading slightly upwards but too little to assume that the supply side is now responding to the strong demand
- **Wages** rose 0.2% m/m, 0.1 pp below expectations and the annual rate was flat at upward revised (by 0.1 pp) 3.0%
- Overall, these data confirm a tight labour market and support Fed's plans to 'pause' monetary easing

Participation trending to slowly up, creating a tight labour market

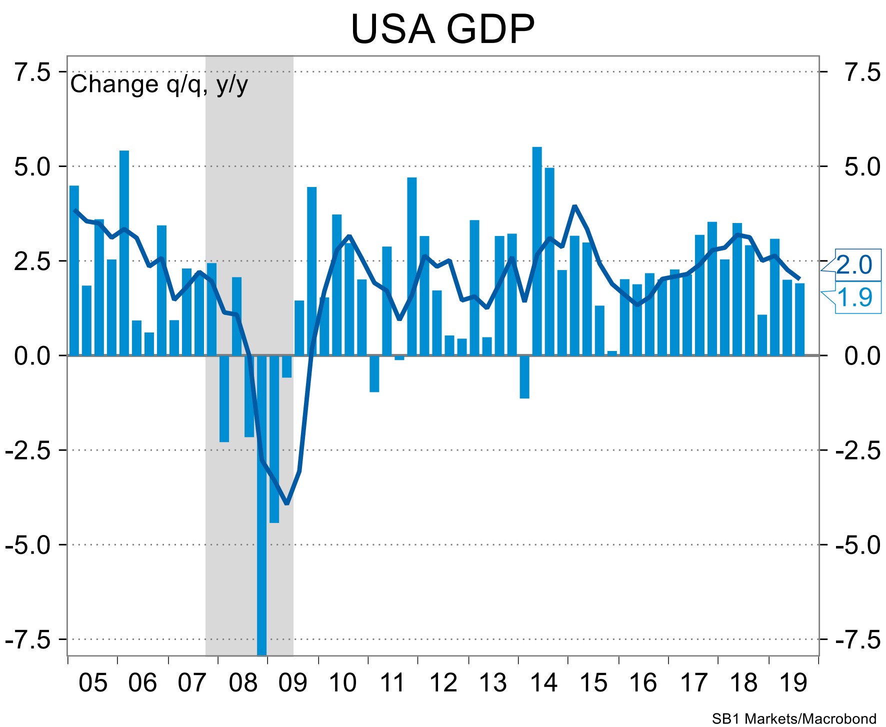
The participation rate may be heading slowly up, the level is low. Employment rate faster up

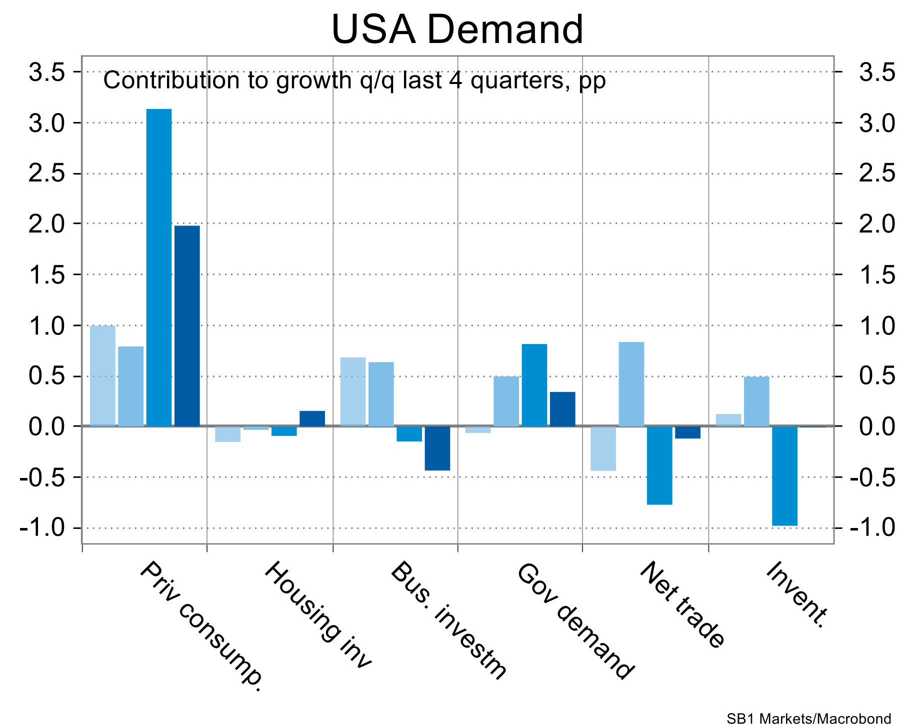


- The employment rate was flat at 61.0% in October, trending upwards. The level is well below the pre-financial crisis levels.
  - For the core age group, employment is back to a normal level (*see next page*). Youngsters (their employment rate is down) and the oldies (there are more of them, and fewer of them are working) have contributed on the downside on the overall employment and participation rates recent years
- The participation rate rose marginally to 63.3. 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

GDP growth slowed less than expected in Q3, up 1.9%

Growth cooled just marginally; consumption saved the day, business investments the major drag

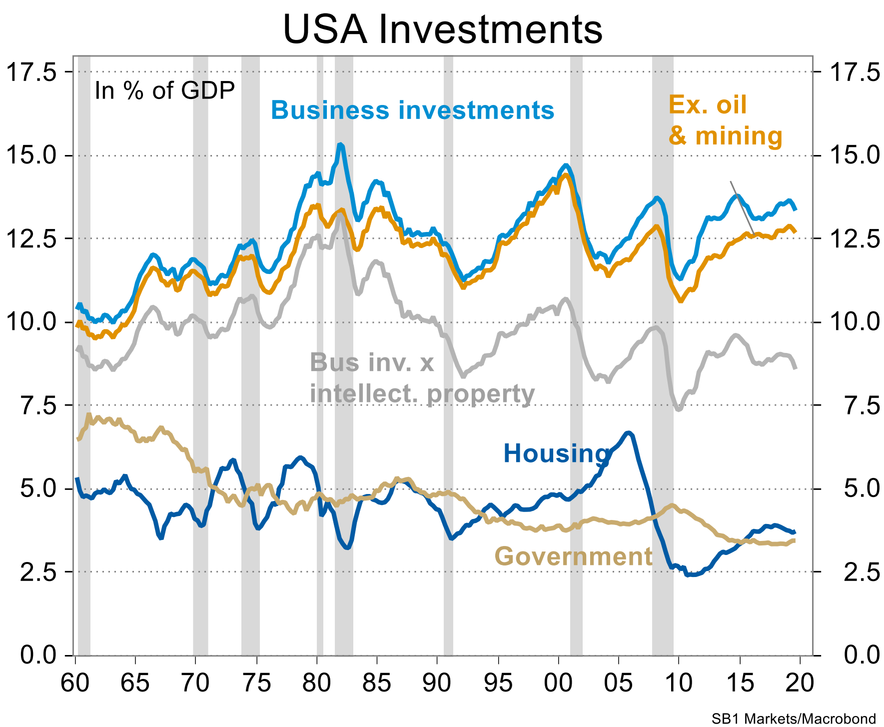


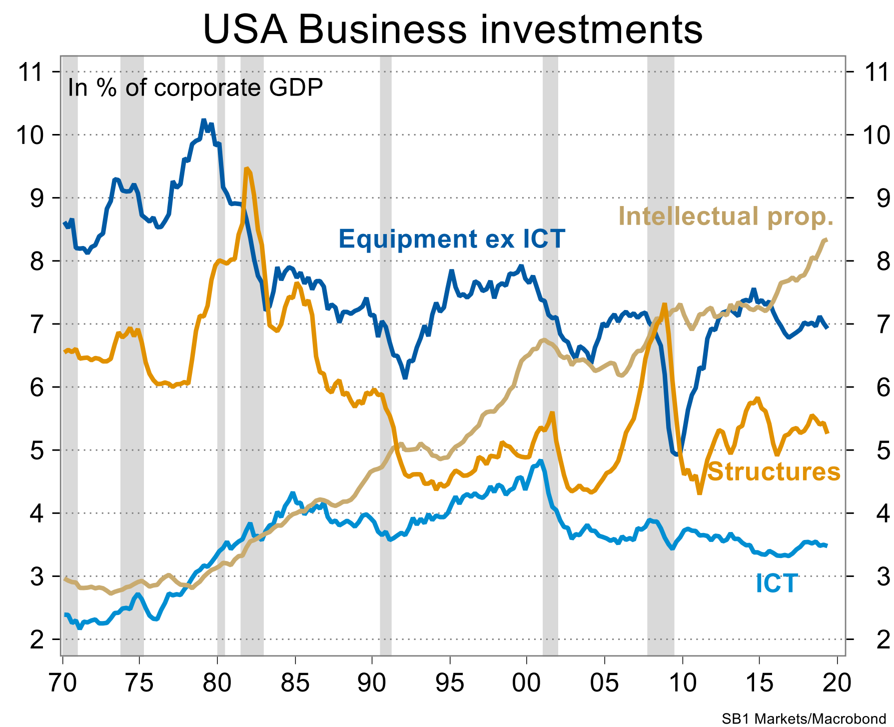


- GDP grew by 1.9% q/q annualized in Q3, 0.3 pp better than expected (but close to the nowcasters) and just a 0.1 pp downtick from Q2. The annual growth rate fell to 2.0%, from 2.3%
- Private consumption rose by a solid 2.9%, contributing by 2.0 pp to the Q3 growth rate. Still, consumption slowed from an impressive 4.6% speed in Q2. Government demand grew 2%, lifting GDP by 0.3 pp. Business investments fell by 3%, close to our expectations, and dragged GDP down by 0.4 pp, the weakest since Q4 2015. Net trade declined marginally, housing investments rose slightly
- Core PCE inflation (Fed's price measure) accelerated to 2.2% in Q3, from 1.9% in Q2, in line with expectations. Definitely an argument supporting Fed's signal that it will now pause its monetary easing, as inflation pressures are not muted

Business investments are turning down, from a quite high level

Housing investments may have stabilized, government investments have bottomed?

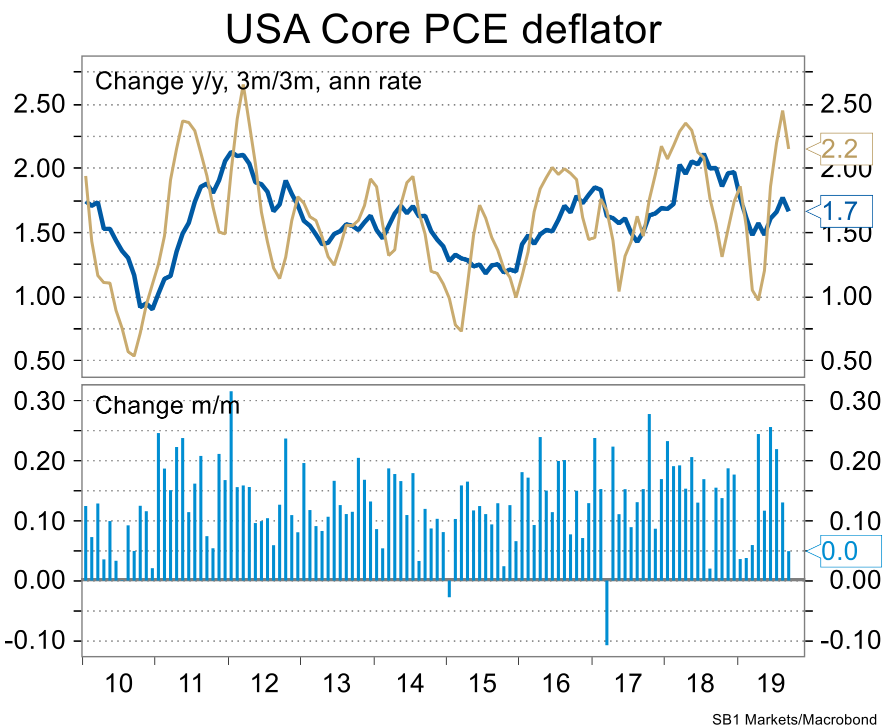


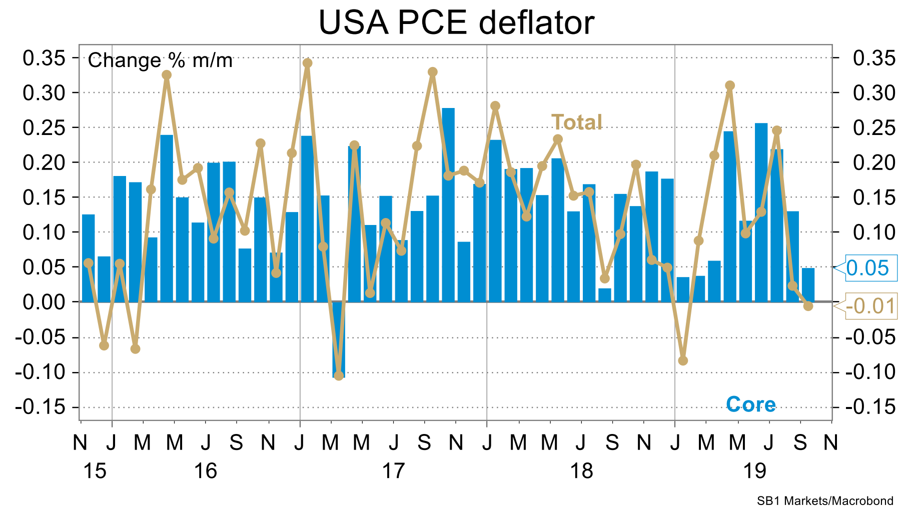


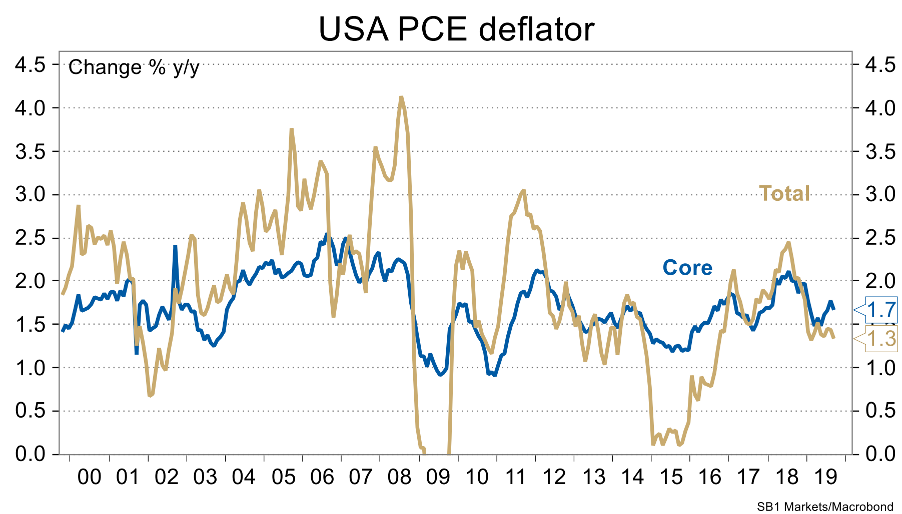
- Total business investments have fallen for two consecutive quarters, the first decline since Q4 '15. Oil investments were the main driver for higher business investments in 2018. In Q3, both total bus. investment and oil investments declined, more than half the downturn was due to lower oil investments, the fifth decline in a row
  - » IP/software investments are still increasing at a high speed (some 8% y/y), and now constitutes more than 1/3rd of all business investments. These investments have always been less cyclical than investments goods, indicating that cycles in total investments will be less harsh than before. In addition, business investments in structures are not dangerously high, neither are equipment investments.
- Housing investments turned marginally up in Q3, after slowly slowly declining vs GDP. The level is not very high – and should a downturn come, it can not impossible be a very large one

Core PCE y/y inflation slowed to 1.7% in Sept but Q3 up 2.2%

The Core PCE deflator rose just marginally in Sept after a strong July/Aug, lifting Q3 to 2.2%



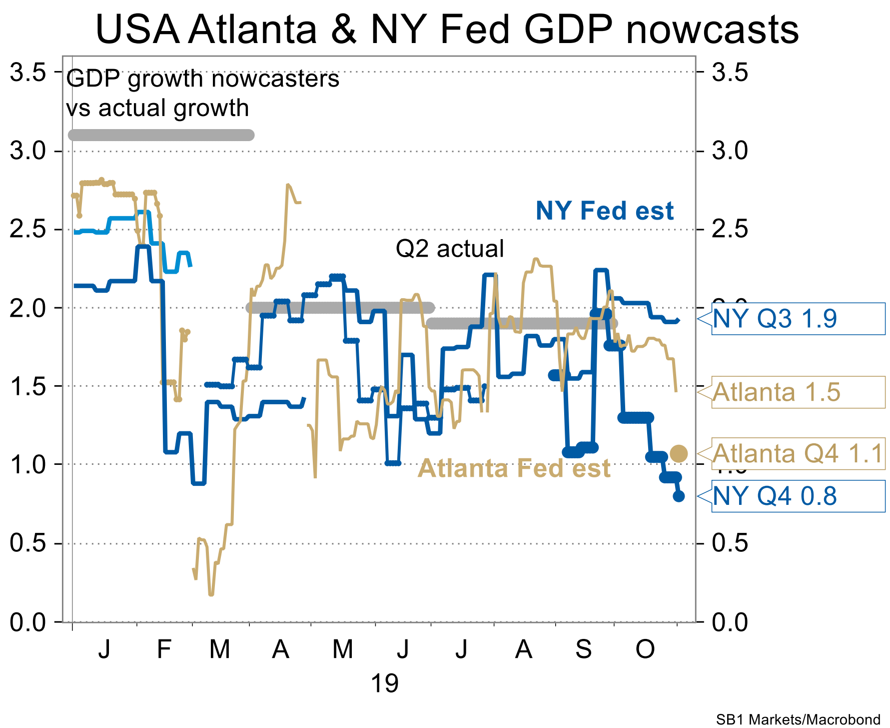


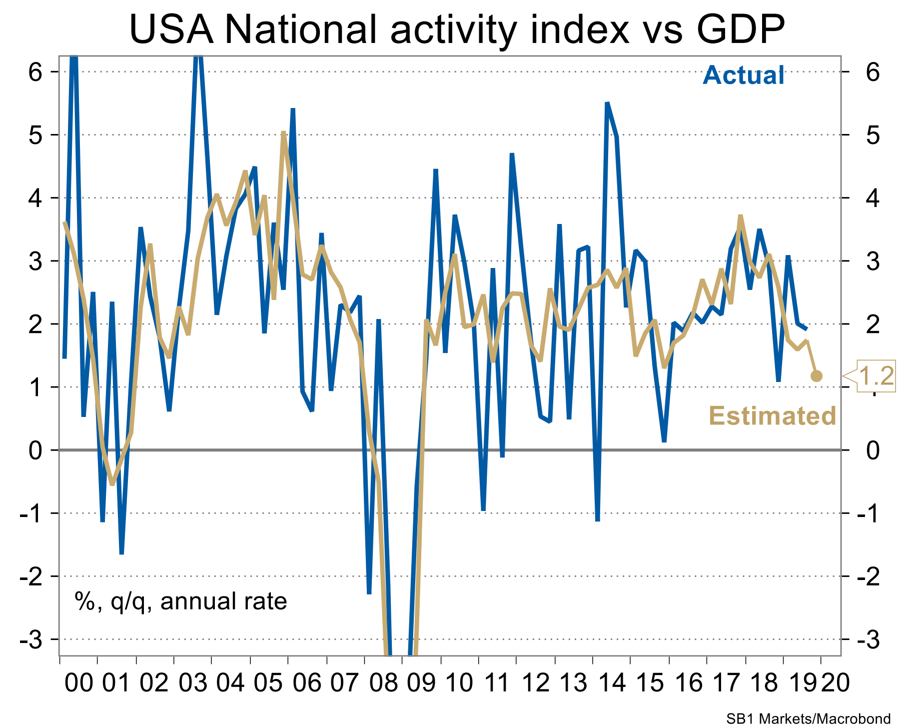


- The core price deflator rose by just 0.05% m/m in Sept, slightly softer than expected. The monthly speed has been strong in June-Sept, bringing the q/q rate up to 2.2% in Q3. The annual rate inched down to 1.7%, as expected
- Total PCE inflation eased to 1.3 y/y. Total inflation has retreated as energy prices have come down. Good for real income growth!
- Core PCE is 0.3 pp below Fed's price target but the underlying speed is 0.2 pp above, inflation pressures are not muted. Thus, inflation alone does not justify a rapidly easing monetary policy (as the Fed recognizes, in noting that inflation near the price target is expected over time)

Nowcasters were close to the ball in Q3, now says 1% in Q4

Both NY & Atlanta Fed and National Activity index signal a 1% speed into Q4



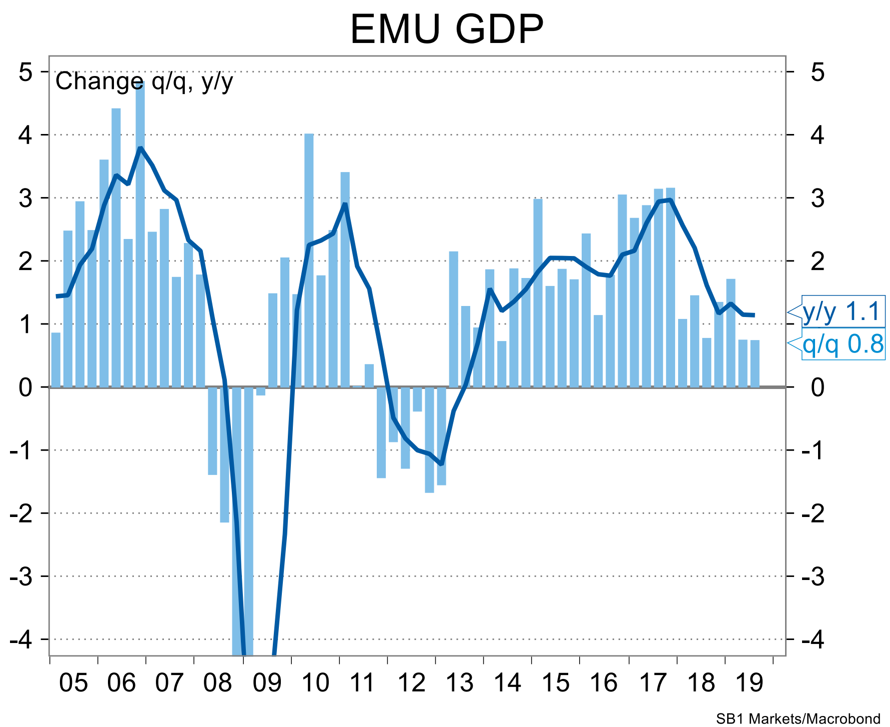


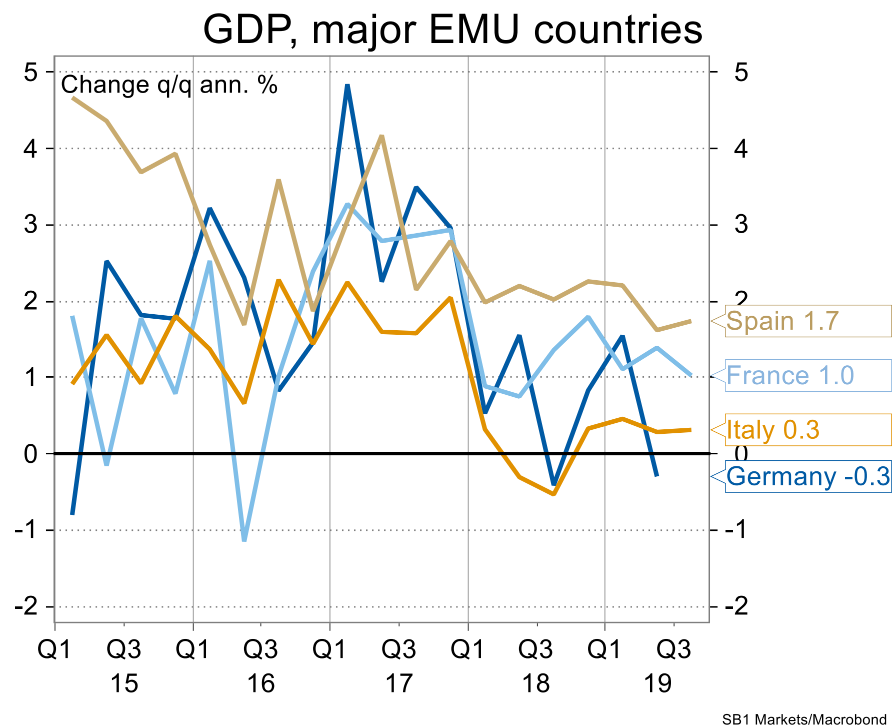
- NY Fed's Q3 estimate was rather accurate at 1.9%, while Atlanta Fed's nowcast was 0.2 pp below the preliminary GDP figure (and fell by another 0.2 pp just before the report was released)
- NY Fed's Q4 est has fallen from 2% late Sept to 0.8% now. The first Atlanta nowcast is 1.1%.
- The National Activity Index, which suggested 1.8% GDP growth in Q3 (0.1 pp below actual GDP), now signals a slowdown to 1.2% into Q4

SpareBank 1 MARKETS

GDP growth held steady in Q3, better than expected

GDP rose 0.2% q/q, or 0.8% annualized, expected 0.1%. Spain and France OK, Italy remains soft

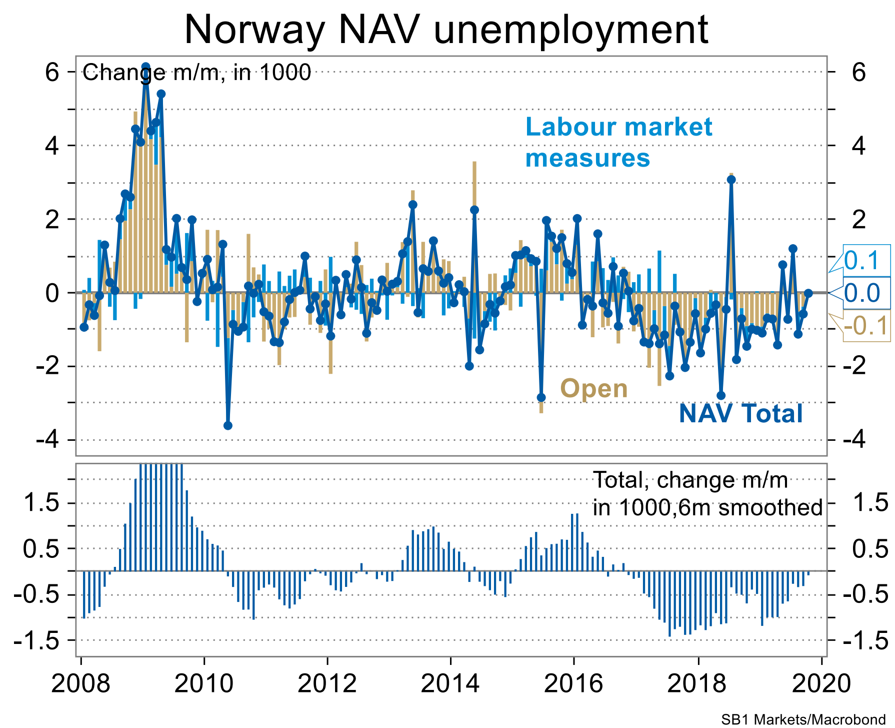


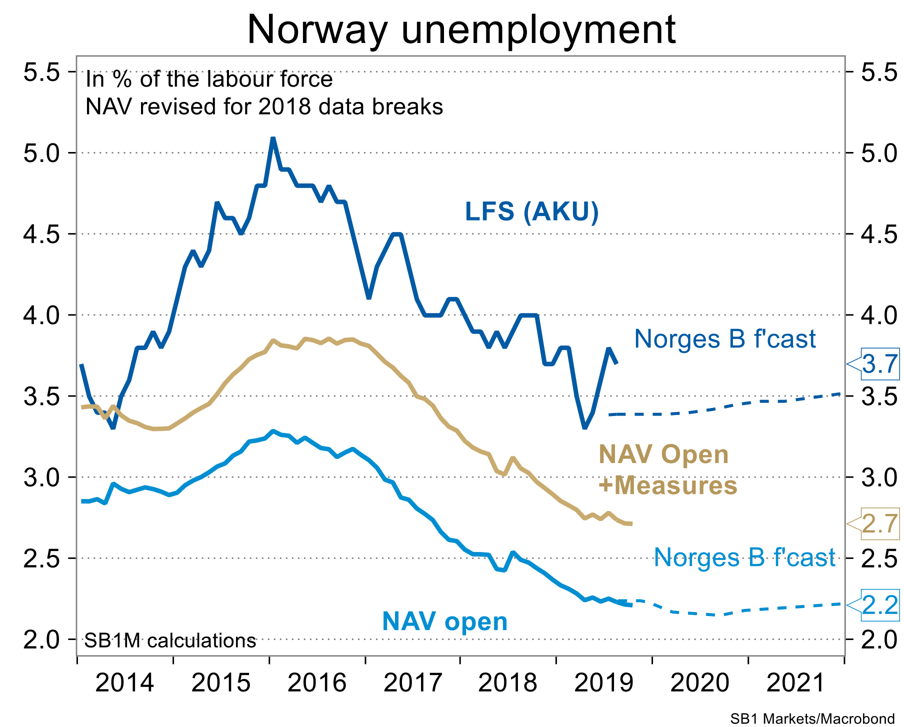


- GDP growth did not ‘vanish’ as feared in Q3, output rose 0.8% q/q annualized, 0.4 pp above expectations. Thus, growth held unchanged from Q2, in spite deteriorating manufacturing data
- France reported a slowdown to 1% growth, from 1.4% in Q2. Spain accelerated a tad to 1.7% while growth in Italy remained muted at 0.3% (and 0.08% not annualized). Germany has not yet reported Q3 data, data from the other 3 major countries and the total EMU figure indicate a marginally positive growth rate
  - » No sector details are published yet, we assume that modest private spending kept growth up while business investments softened

NAV unemployment flat in October, the decline is losing speed

Unemployment is still decreasing, at a slower speed. NAV data more accurate than LFS

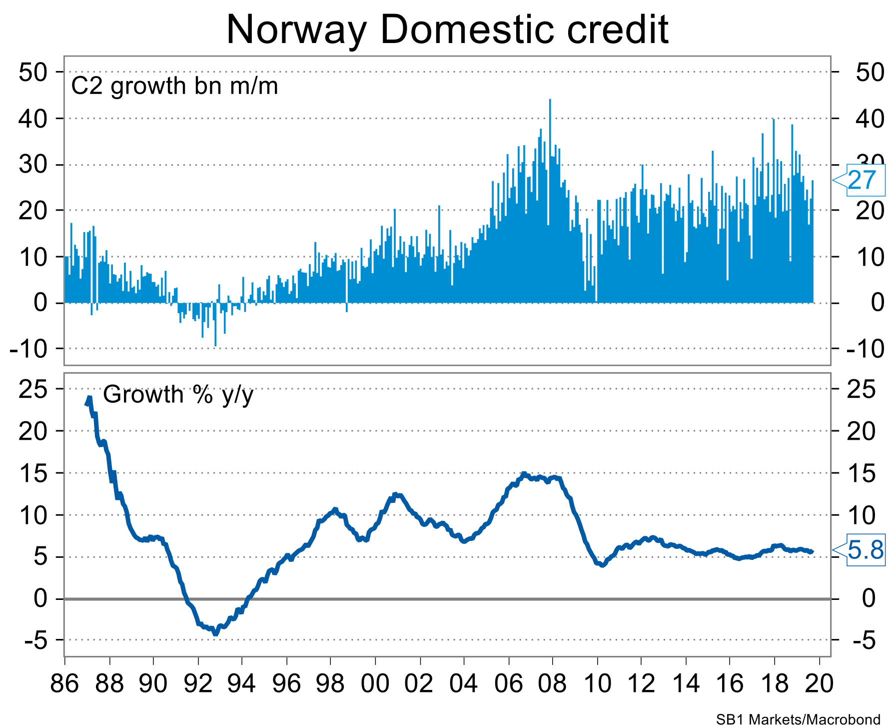


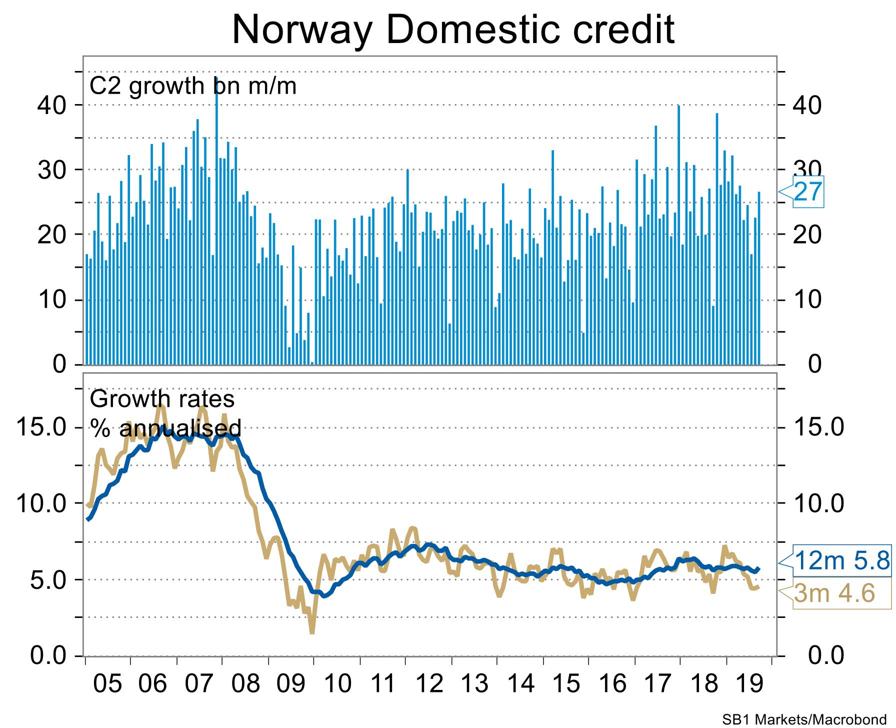


- NAV open unemployment fell by 100 persons in October, total unempl. (incl measures) was unchanged, we expected -400. The pace of decline has no doubt slowed, even as the 3m decline average decline accelerated to 600 persons. However the 6m average decline is just 100 persons
- The open unempl. rate held steady at 2.2%, marginally above NoBa's f'cast (we exp. 2.1%). Other indicators are confirming a slightly softer labour market:
  - » New jobless claims are heading marginally up, and the number of new vacancies is slowly declining
- LFS unemployment inched down to 3.7% in Aug, after increasing from 3.3% in the spring. The lift is due to higher labour market participation. These data are much more volatile than NAV and we judge the trend to still be downwards, however, the softness in NAV unemployment confirms that the labour market is slowly losing steam. Employment is still growing at a solid pace and we are not too worried, short term
- NoBa expect NAV unemployment to stabilse next year – at a low level – a reasonable guesstimate

Credit growth spiked in Sept but is slowly easing, due to households

Household credit is now slowing, while corporate credit growth is steady (although Sept jump will be reversed)

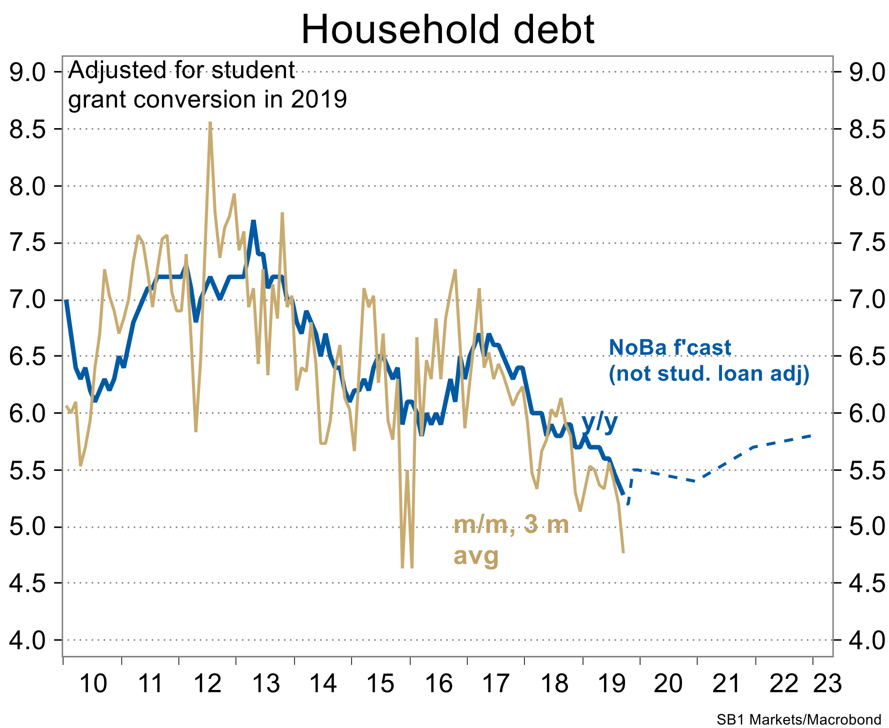


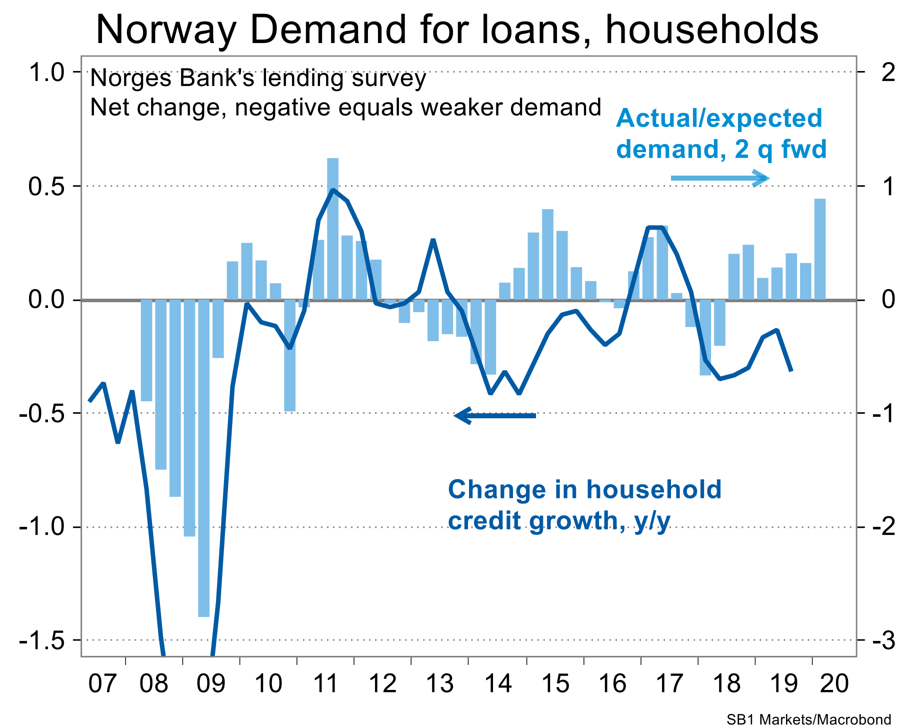


- Total domestic debt (C2) rose by NOK 27 bn m/m in September, heading steadily down this year. The annual rate rose by 0.3 pp to 5.8%, 0.1 pp above our f'cast. Avg growth over the past 3 months has fallen to 4.6%. Over the past 5-6 years, the trend is flat
- Household credit has been cooling the past 3 months, and the annual rate is now at 5.1%, from 5.7-5.8% in early 2019. The slow decline in household credit growth is not surprising given rising interest rates and moderate house price growth
- Corporate credit growth spiked y/y in Sept (to 6.9%, from 5.7% last month) due to a drop in Sept last year, but still, monthly credit growth has picked up recent months

Household credit growth is now clearly slowing

The downturn has accelerated the past 3 months. Even as banks are reporting higher demand!

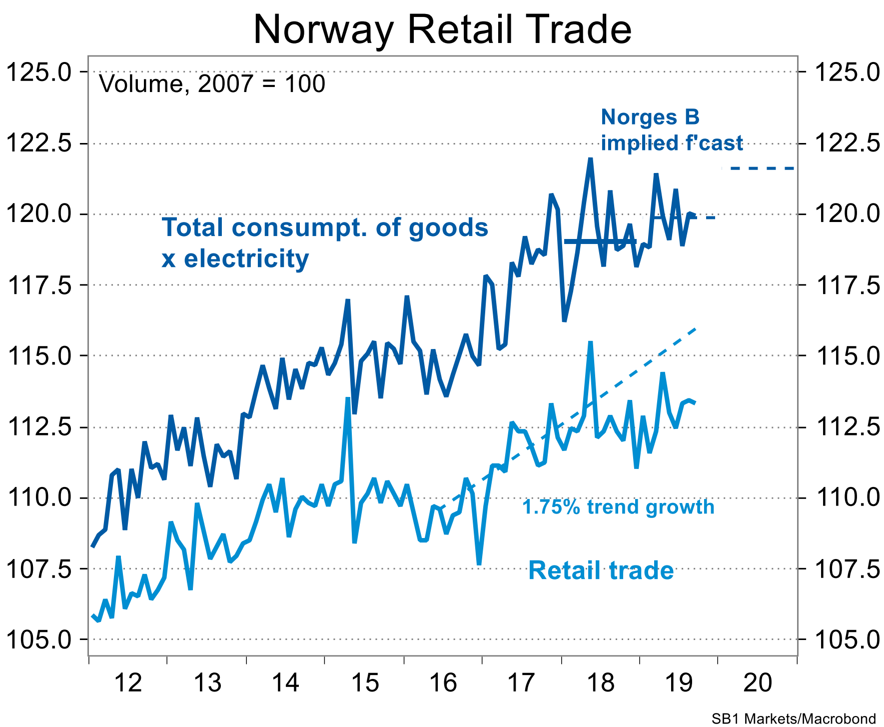


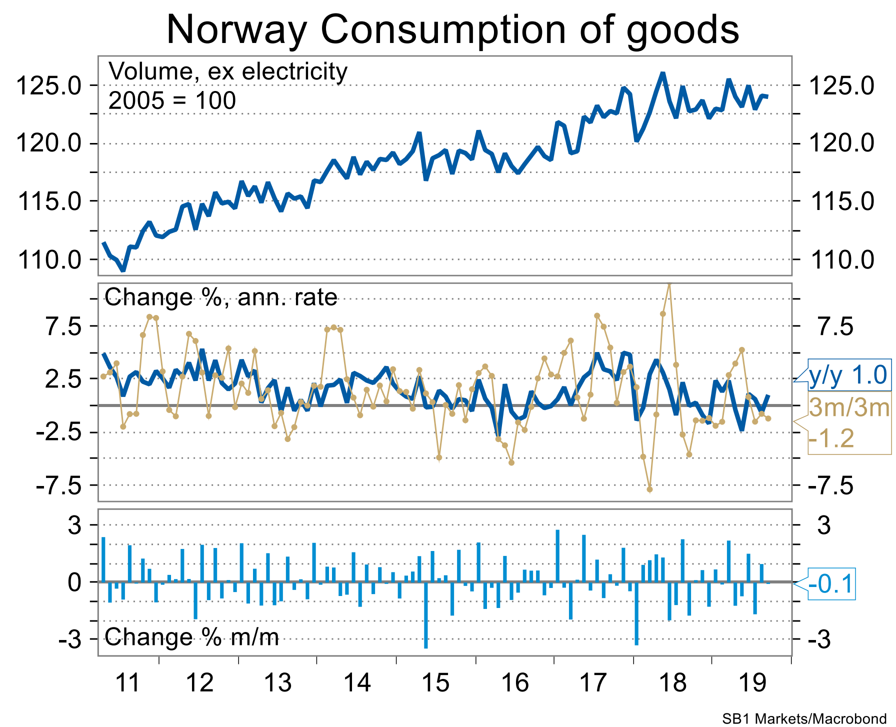


- In the longer term, household credit growth is slowing, from above 7% in 2012-2013 to just above 5% now
  - » Even as household credit is slowly easing, credit growth is still (marginally) above income growth – and the debt/income ratio is still inching upwards, as Norges Bank expects it to do the coming years. Norw. households have the highest debt ratio in the world
- Surprisingly, banks in NoBa's lending survey reported higher household loan demand in Q3 and they even expect an uplift in Q4. However, given increased interest rates and a modest rise in house prices, the risks are tilted to the downside
  - » Consumer credit loans are under pressure following tighter regulations, and the introduction on the 3 national unsecured debt registries
  - » On the other hand, higher existing home sales could keep growth up for a while

Retail sales heading modestly up, goods consumption a drag on growth in Q3

Retail sales fell marginally in Sept, trending slowly up. Auto sales have dragged total consum. down

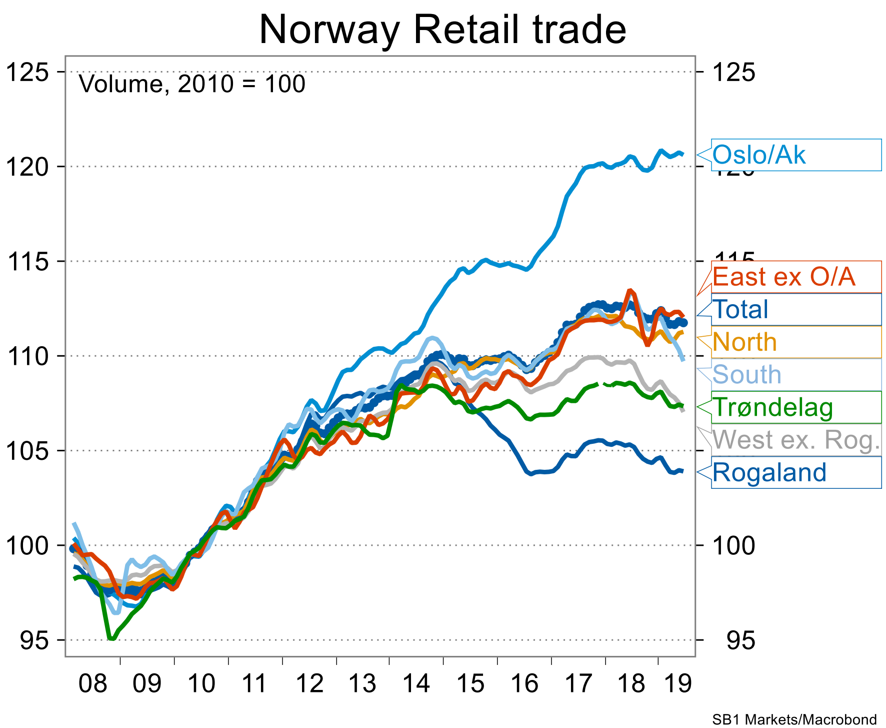


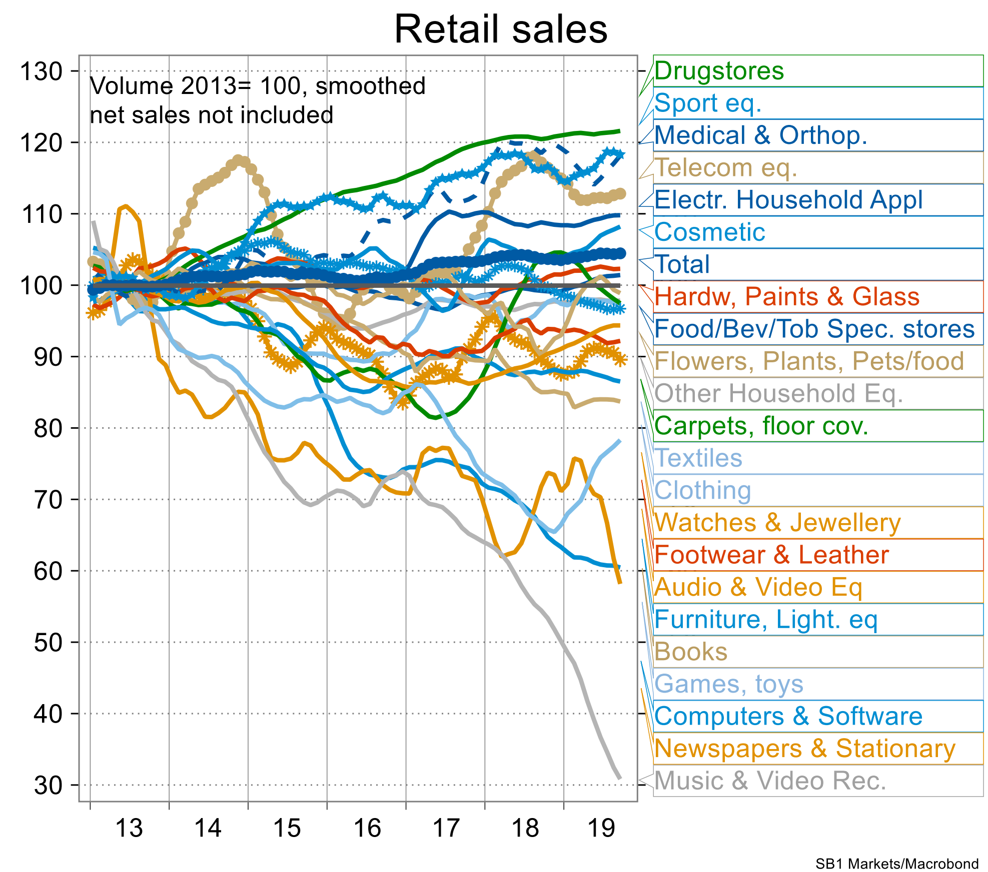


- Retail sales volume (ex auto) stalled inched down 0.1% m/m in Sept, weaker than we expected. Sales are trending very slowly up this year, following a weak 2018. The underlying speed was 0.3% annualized in Q3 and the annual rate is up a modest 0.9%
- Total consumption of goods (ex electricity) fell equally by 0.1% in Sept. Consumption has slowed recent months and the Q3 GDP impact will be negative, by -1.2%. The downswing is solely driven by auto sales, which are volatile from month to month, particularly for electrical vehicles
- Total consumption has flattened out, yet we stick to our expectation that subsiding price inflation will support volume growth the coming months. In the Sept MPR, NoBa revised down the '19 consumption f'cast to 1.8%, still within reach?

Substantial regional differences – and between branches

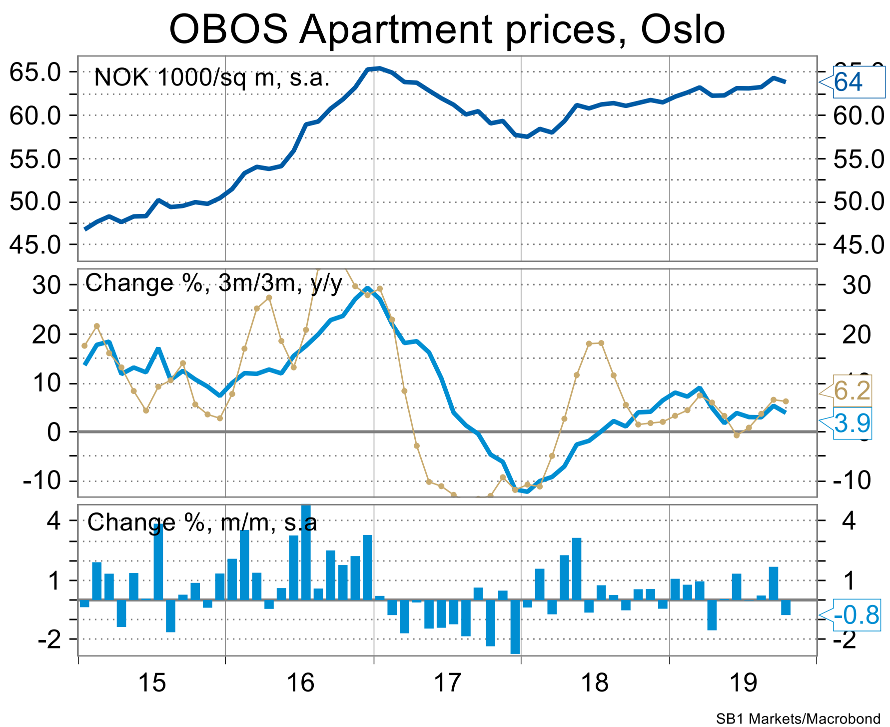
Oslo/Akershus (incl net sales) sharply up, Rogaland still weak. Most branches down

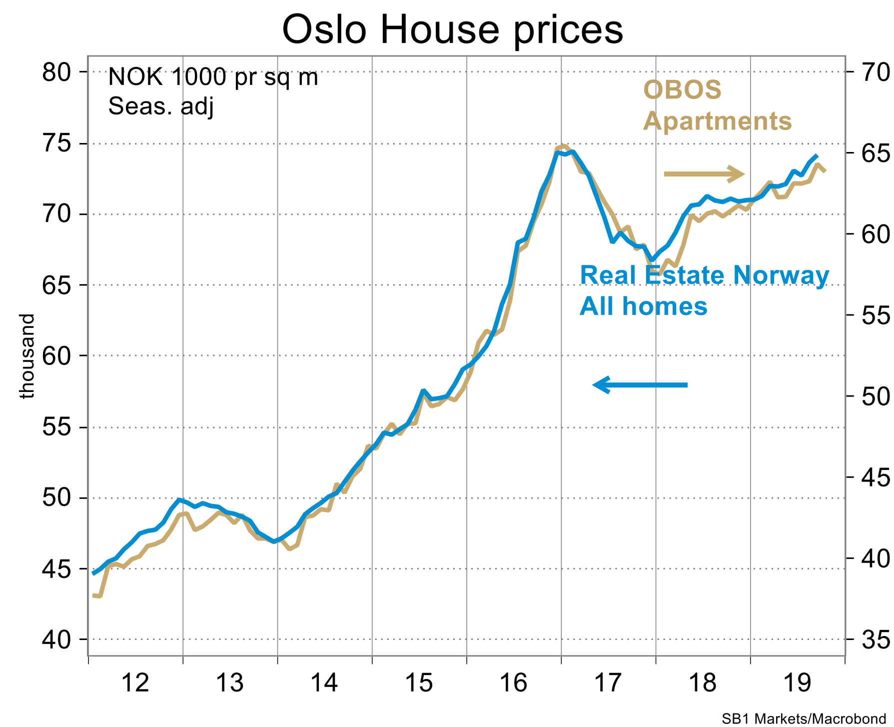




OBOS Oslo apartment prices fell in Oct but less the prices rose in Sept; trend up

OBOS prices declined by 0.8% s.a in Oct, underlying growth remains strong at 6.2%





- OBOS Oslo apartment prices fell by 0.8% m/m seasonally adjusted in October (-2.8% not adjusted), following the 1.7% lift in September – the avg of the two last months is not low. Prices are up 6.2% 3m/3m annualised, and 3.9% y/y
  - » Prices are still 2% below the ATH in January 2017 but have been heading steadily up the past year
- OBOS' monthly data are more volatile than Real Estate Norway. Real Estate Norway reports October data on Tuesday

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% in 2020, even if trade conflicts are 'solved'. If ramped up, more downside risk**	We estimate a 0.1 p decline in the global composite PMI in October, due to a further decline in services, manufacturing inched up 0.1 p (our estimate)
China	The governments' stimulus measures may have stabilised the economy, and surveys and data do not point to a hard downturn (rather, a stabilization recent months). 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**	Diverged October PMIs; Markit's manufacturing PMI climbed to a 3 y high at 51.7. NBS' 'official' PMI fell to 49.3 and services PMI came down. Markit prob. too upbeat, a stabilization the middle ground?
USA	Growth has slowed, from well above trend. The employment rate is still trending up, and unemployment down, but wage growth is not accelerating. Price 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 now 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**	Nonfarm payrolls came in above f'casts, the labour market is still solid. Manuf. ISM failed to recover in October. Fed cut the interest rate for the 3rd time this year but signaled a pause in the easing cycle. Q3 GDP slowed just marginally to 1.9%, above f'casts.
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 does not have that much ammunition left, barring a huge QE, and the ECB policy makers are split. 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**	GDP growth held up better than expected in Q3, at 0.8%. Unemployment increased in Sept and the speed of decline is easing. No signs of upturn in core CPI inflation. Economic confidence is weakening rapidly
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 slightly above target. Credit growth slowing (households) still above income growth, is spite of heavy regulations. **Risks: Debt, housing. A harsh global slowdown**	Registered unemployment fell just marginally (and flat incl. measures) in Oct, adding to signs of a slightly softer labour market. Household credit growth is cooling. OBOS house prices fell s.a in October

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

The Calendar

In focus: Final October PMI/ISM, Chinese exports, US productivity, Norwegian house prices

	CH	Credit Growth, CNY	Oct	887.5b	2270.0b
Monday Nov 4					
10:00	EC	Manufacturing PMI	Oct F	45.7	45.7
16:00	WO	Manufacturing PMI		(49.8)	49.7
Tuesday Nov 5					
02:45	CH	PMI Composite, Markit/Caixin	Oct	--	51.9
08:30	SW	PMI Services	Oct	--	49.8
09:30	SW	Industrial Orders MoM	Sep	--	-1.8%
10:00	NO	Norges Bank Financial Stability Report	2019		
10:30	UK	Composite PMI	Oct	49.5	49.3
10:30	NO	House Prices, Real Estate Norway	Oct	(0.0%)	0.2%
14:30	US	Trade Balance	Sep	-$53.0b	-$54.9b
15:45	US	Markit Composite PMI	Oct F	51.1	51.2
16:00	US	JOLTS Job Openings	Sep	--	7051
16:00	US	ISM Non-Manufacturing Index	Oct	53.6	52.6
Wednesday Nov 6					
08:00	GE	Factory Orders MoM	Sep	0.1%	-0.6%
10:00	EC	Composite PMI	Oct F	50.2	50.2
11:00	EC	Retail Sales MoM	Sep	0.1%	0.3%
14:30	US	Nonfarm Productivity	3Q P	1.0%	2.3%
14:30	US	Unit Labor Costs	3Q P	2.2%	2.6%
16:00	WO	Global Composite PMI	Oct	(51.1)	51.2
Thursday Nov 7					
08:00	GE	Industrial Production MoM	Sep	-0.3%	0.3%
08:00	NO	Manufacturing Production MoM	Sep	0.4%(1.0)	-1.1%
11:00	EC	EU Commission Economic Forecasts			
13:00	UK	Bank of England Bank Rate + Infl. Report	Nov-07	0.75%	0.75%
14:30	US	Initial Jobless Claims	Nov-02	215k	218k
Friday Nov 8					
	CH	Exports YoY	Oct	-3.8%	-3.2%
08:00	GE	Trade Balance	Sep	18.9b	16.2b
08:45	FR	Manufacturing Production MoM	Sep	0.2%	-0.8%
16:00	US	U. of Mich. Consumer Sentiment	Nov P	96	95.5
Saturday Nov 9					
02:30	CH	CPI YoY	Oct	3.2%	3.0%

- **October composite PMIs**
  - » We estimate a 0.1 p decline in the **global composite PMI** in October, to 51.1 and a 0.1 p upturn in the manufacturing PMI, to 49.8. Both US and Eurozone PMIs stabilized, while Japan slipped. The PMI points to just below 3% global GDP growth, close to the Q2-Q3 speed
- **China**
  - » **Exports** the US have fallen substantially but total exports are held up, thanks to higher exports to other Asia x Hong Kong and EU
  - » **Credit growth** is gaining speed as monetary policy has been eased
- **US**
  - » **Productivity growth** picked up to 1.8% y/y in Q2 and is slowly trending upwards, but is expected to have slowed substantially in Q3
  - » **Job openings** have probably peaked and may be an early sign of labour weakness, although employment is still growing
  - » Both **exports and imports** have more or less flattened out and Trump has so far not succeeded in bringing the US trade deficit down
  - » **UoM consumer sentiment** has recovered most of the Aug drop and is back at a decent level, do not point to any rapid consumption slowdown
- **Eurozone**
  - » **Retail sales** are growing moderately in spite struggling manufacturing businesses and softening economic surveys. For how long?
  - » **Manufacturing production** is falling and there are no signs of upswing. Germany and France are reporting Sept country data
- **Norway**
  - » We expect flat **house prices** in Oct, weaker than our short term model suggests but in line with reports from real estate agents and our long term view, that risks on prices and housing investments are titled to the downside
  - » **Growth in manufacturing production** has probably peaked, we expect a substantial slowdown into next year (but still a reversal of the setback in Aug)

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

In this report

Global + PMIs

- Global macro data steady in negative territory
- Retail speeds up (but just due to Japan, manuf. prod slightly up ; global trade too
- Global PMI slides slowly down, we estimate a 0.1 p decline in October
- Manufacturing PMI slightly up, a stabilization?
- Diverged China October PMIs; the 'official' PMI softened, Markit's recovers
- Manufacturing ISM marginally up in Oct but still weak at 48.3
- Volatile Norw. manuf. PMI bounced back in Oct

USA

- The Fed delivered the 3rd interest rate cut but signals a pause
- Employment rose more than expected in Oct, prior months revised up
- GDP growth slowed less than expected in Q3, up 1.9%
- Consumption is moderating but expanding at a solid rate
- Core PCE y/y inflation slowed to 1.7% in Sept but Q3 up 2.2%
- Pending sales are climbing
- US auto sales fell more than exp. in Oct
- CS house price inflation slowly accelerating
- Conf. Board's Consumer Confidence stable in Oct, not far below the local peak
- The trade deficit narrowed in Sept

EMU

- GDP growth held steady in Q3, better than expected
- Unemployment flattening out amid growth slowdown?
- Core CPI inflations remains meagre at 1%, total inflation subsides
- EU economic sentiment survey slides down, led by manufacturing

Japan

- Manufacturing production rebounding in Sept, Q3 anyway weak
- Unemployment remains low, at 2.4%, employment growth has slowed to 0.8%

Sweden

- The KI business survey drops, reflecting a rapid slowdown

Norway

- NAV unemployment flat in October, the decline is losing speed
- Credit growth spiked in Sept but is slowly easing, due to households
- Retail sales heading modestly up, goods consumption a drag on growth in Q3
- OBOS Oslo apartment prices fell in October, trending moderately up
- Auto sales have stabilised, at a 'low' level

Highlights

The world around us

The Norwegian economy

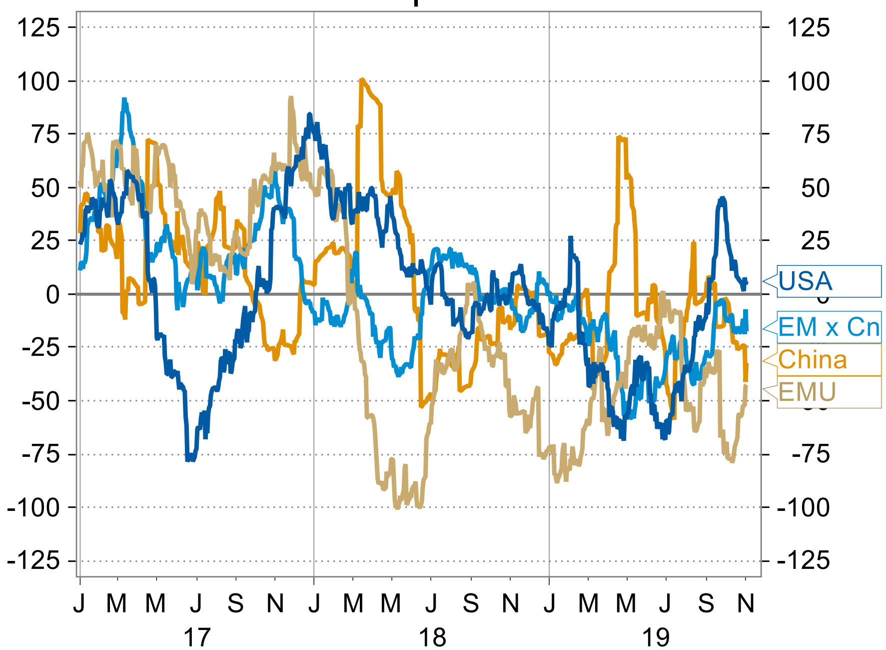
Market charts & comments

SpareBank 1 MARKETS

Global macro data steady in negative territory

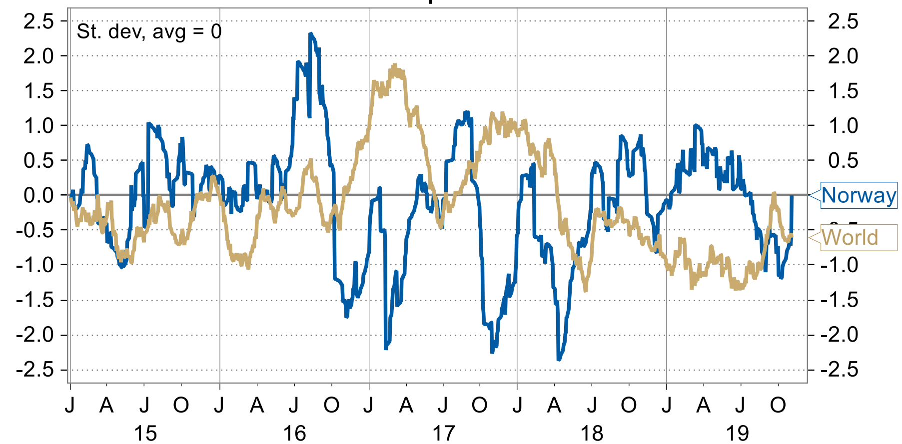
Macro data from the US are less positive, China softer, Eurozone less downbeat

Citi Surprise index



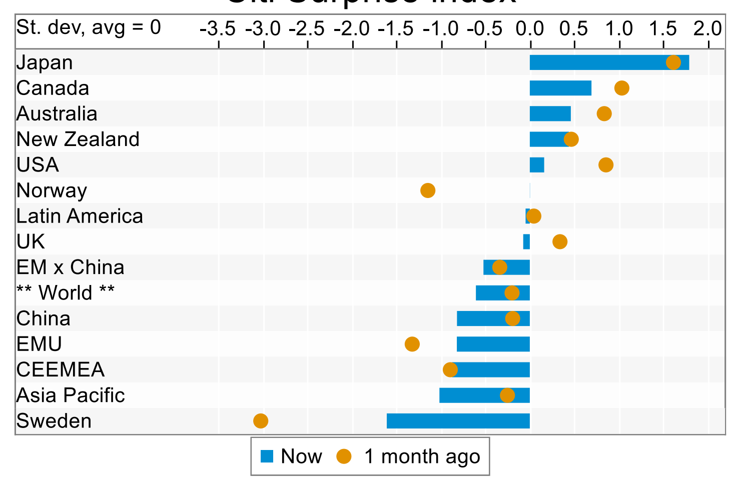
SB1 Markets/Macrobond

Citi surprise index



SB1 Markets/Macrobond

Citi Surprise index



SB1 Markets/Macrobond

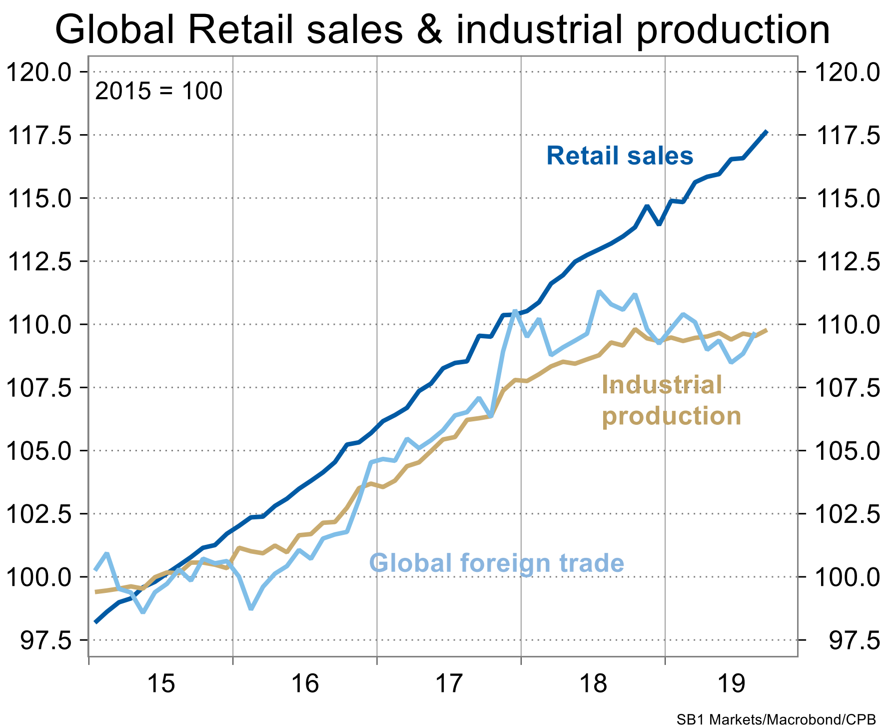
- The global surprise index climbed to a 'neutral' level for the first time this year in mid-Sept. Since then, data have been slightly more disappointing, in sum
- US data flows have been beating expectations the past month, however, much less recently. ISM and other surveys, retail, orders, job openings have sent the index down
- EMU data have been less disappointing recently, helped by Q3 GDP last week
- China sliding down again, below other EM (we are not sure we agree on this view)
- Norwegian data jumped back to neutral, due to a spike in the manuf. PMI (which is far too volatile on a monthly basis), Sweden the most disappointing, rightfully

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

SpareBank 1 MARKETS

Global retail sales boosted by Japanese VAT, manufact. heads slowly upwards

Global foreign trade rose further in August, has stabilised?

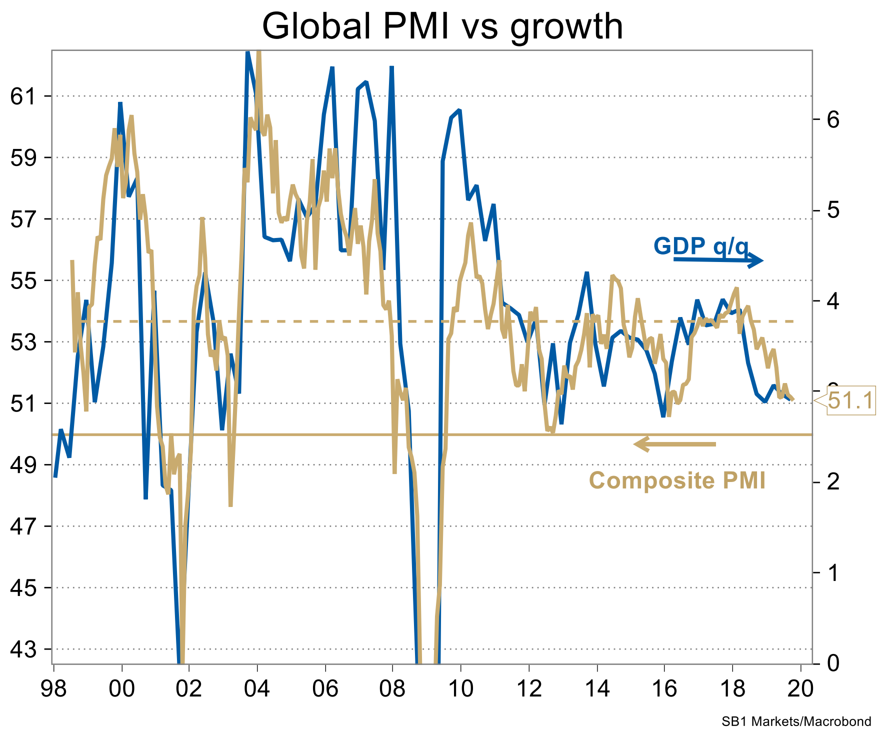


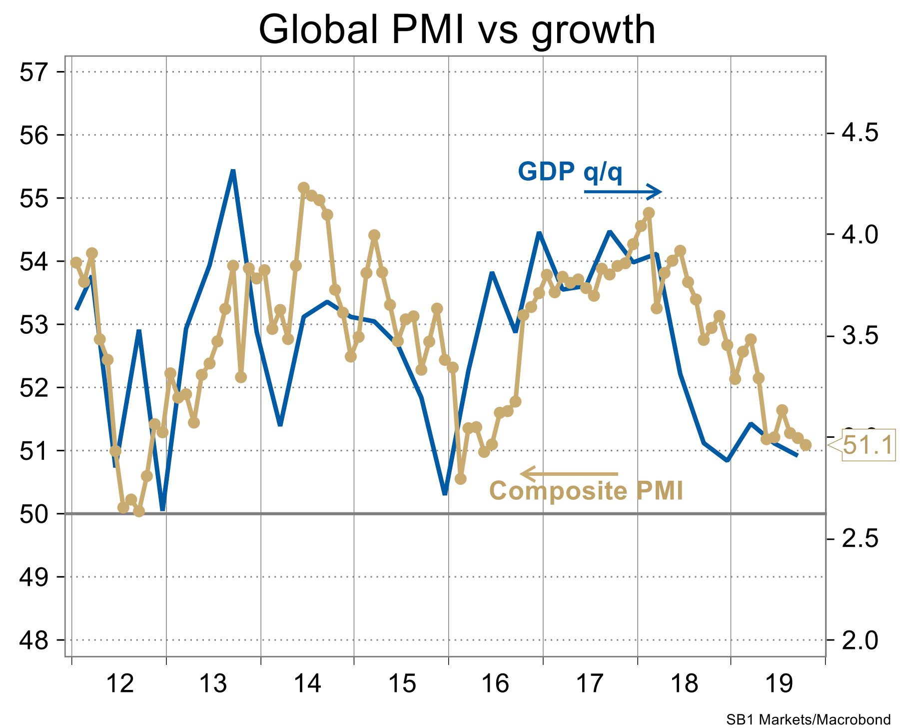
- **Retail sales** grew by 0.5% m/m in Sept (our prelim. est), as in Aug. Half of the 1% Aug/Sept lift is due to a 11% boost in retail sales in Japan ahead of the VAT hike in October – just like we have seen before earlier Japanese VAT hikes, and sales will 'collapse' in Oct. Without this surge, the growth in Aug/Sept is in line with previous months, at a 3% pace
- **Global industrial production** rose 0.2% in Sept (our prelim. est). Recent months production has climbed marginally. Global business surveys signal a modest decline
- **Global foreign trade rose by 0.8%** m/m in August (with our seas adj.) up from 0.3% in July (revised down from 0.7%). Trade flows have been trending down since last summer, at 2% pace but may now have stabilised; the August level is the best since March

SpareBank 1 MARKETS

Global PMI slides slowly down, we estimate a 0.1 p decline in October

The PMI was lower in both 2012 and 16' (one month) but the cycle is more mature now



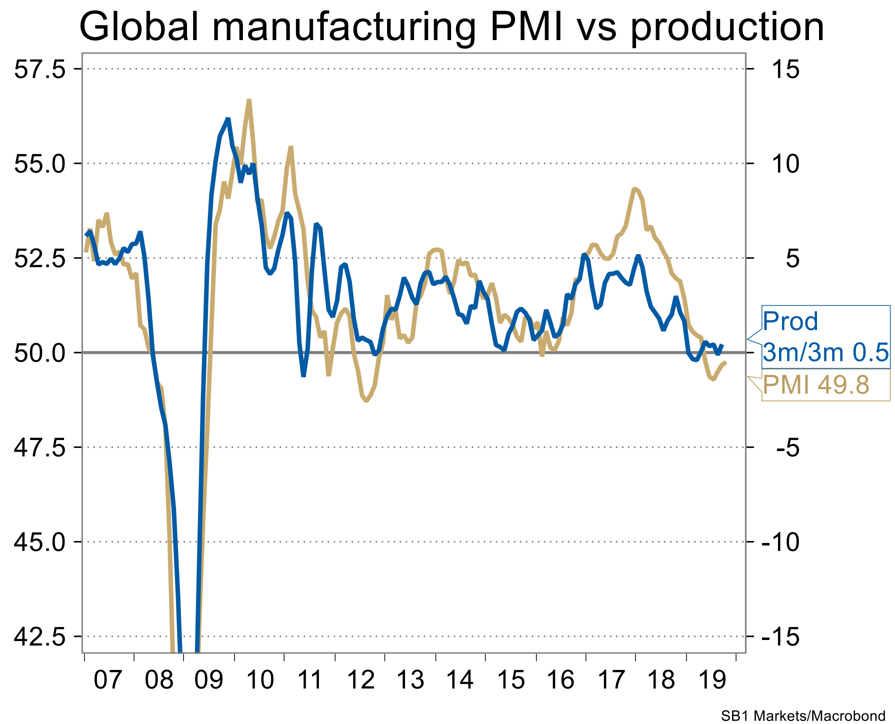


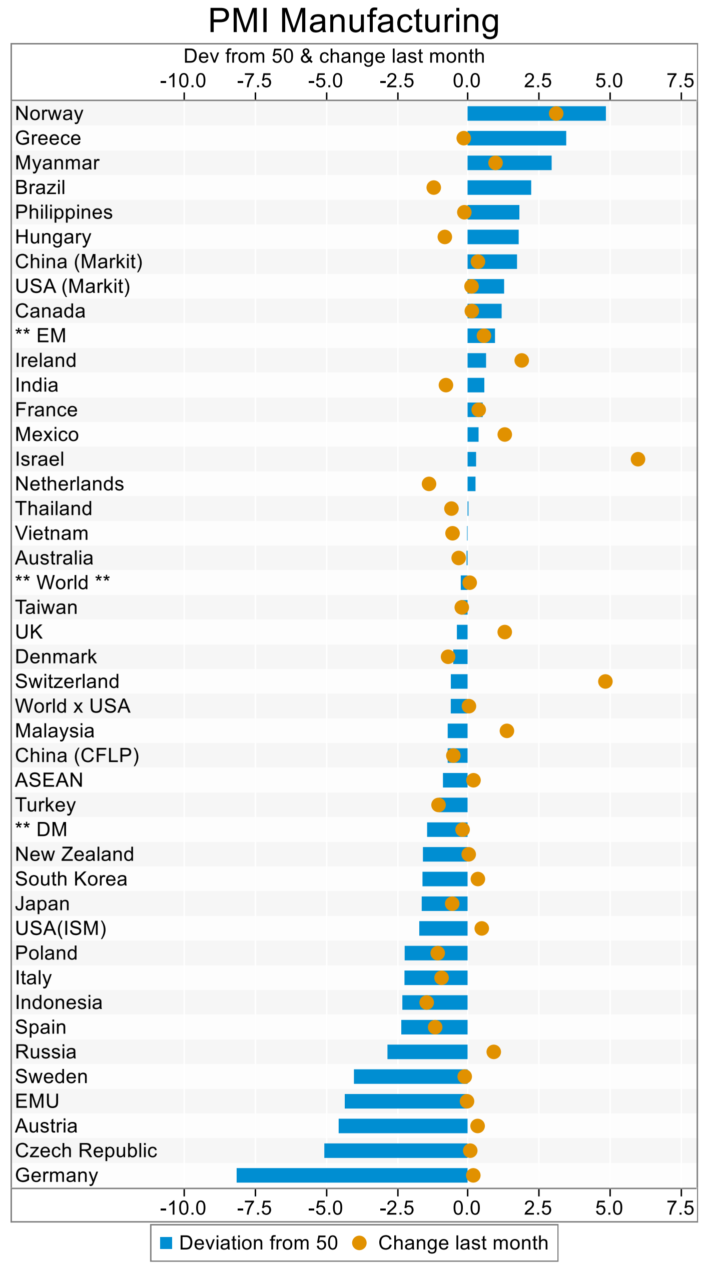
- We estimate a global composite PMI at 51.1 in October, down 0.1 p (we have nudged up our f'cast by 0.1 pp following more country reports, and an unch. print is well within reach). The PMI points to a slowdown to just below 3% global GDP growth, vs close to 2.8% in Q3 (our estimate) and just a marginal slowdown from Q3 last year
- The PMI has fallen by 4 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 10 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

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

Manufacturing PMI slightly up, a stabilization?

PMI probably ticked up 0.1 p in Oct (our estimate)

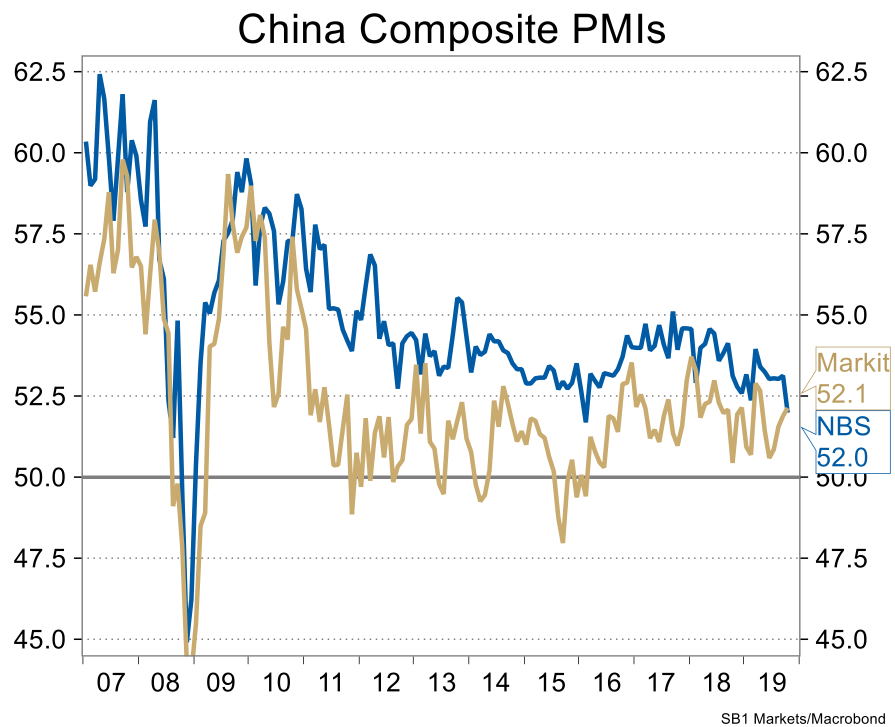


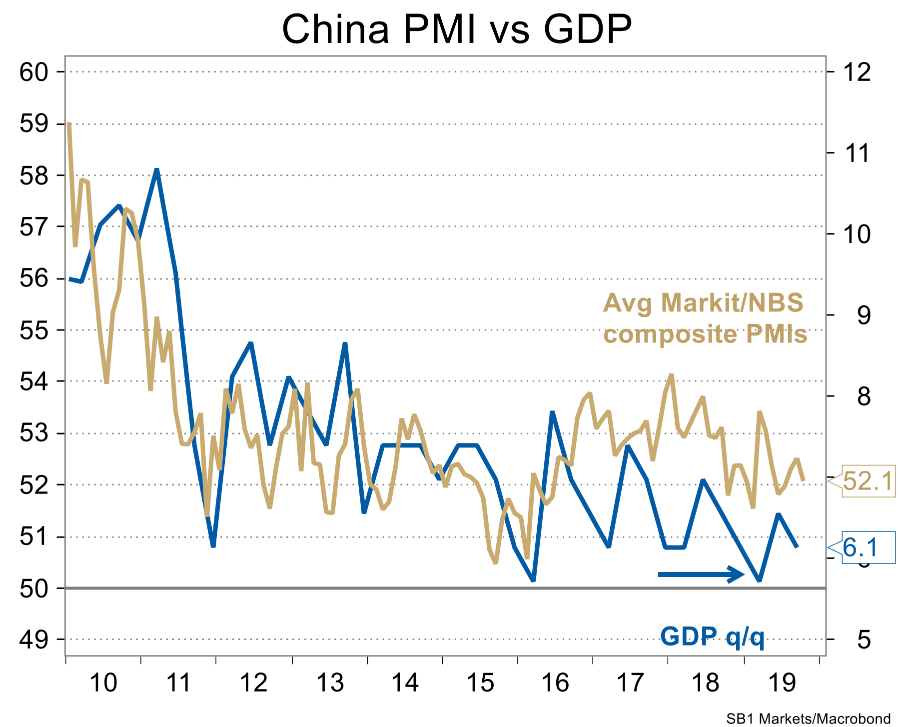


- We estimate 0.1 p increase in the global manufacturing PMI in Oct. The modest upswing past 3 months may be a sign of stabilization, following 15 consecutive months of decline. The index at 49.8 nevertheless signals a modest contraction in global manuf. Actual production has stabilised – and has climbed marginally recent months
  - » A majority of countries reported an upswing in Oct, but a majority is still below the 50 line, with Germany at the very bottom
- The Norwegian PMI is at the (but the index is far to volatile to trust short term)
- The final global manufacturing PMI is released this afternoon

Diverged China October PMIs; the ‘official’ PMI softened, Markit’s recovered

Markit’s PMI has stabilized, NBS slides down. The avg of surveys signals steady GDP growth

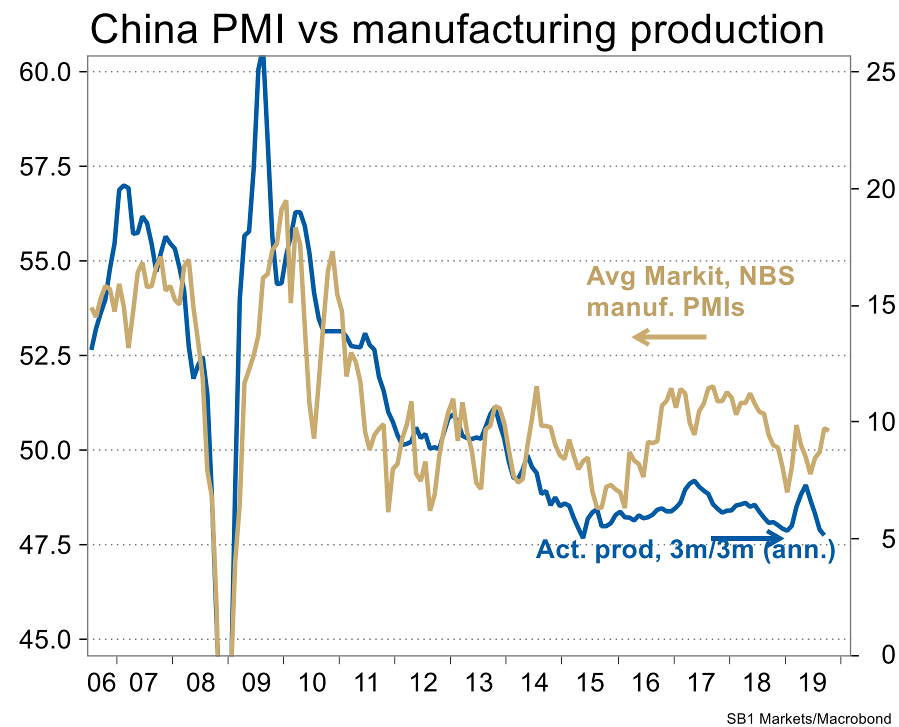




- NBS’ ‘official’ composite PMI (CFLP) fell to 52.0 in October, a 1.3 p decline, as activity slowed in both manufacturing and services. This is the weakest level since early 2016, suggesting that the Chinese authorities are failing to bring growth up
- In contradiction; Markit’s composite PMI (assuming an unchanged services PMI) rose 0.2 p, the fourth consecutive month of upturn. The manufacturing index rose 0.3 p, to the highest level in 51.7, <ins>the highest level since 2016, check next page</ins>
- In avg, the two PMI data sets have stabilized recent months and does not point to a steeper slowdown in the Chinese economy

Markit's PMI is soaring, CFLP weakens, which one will yield?

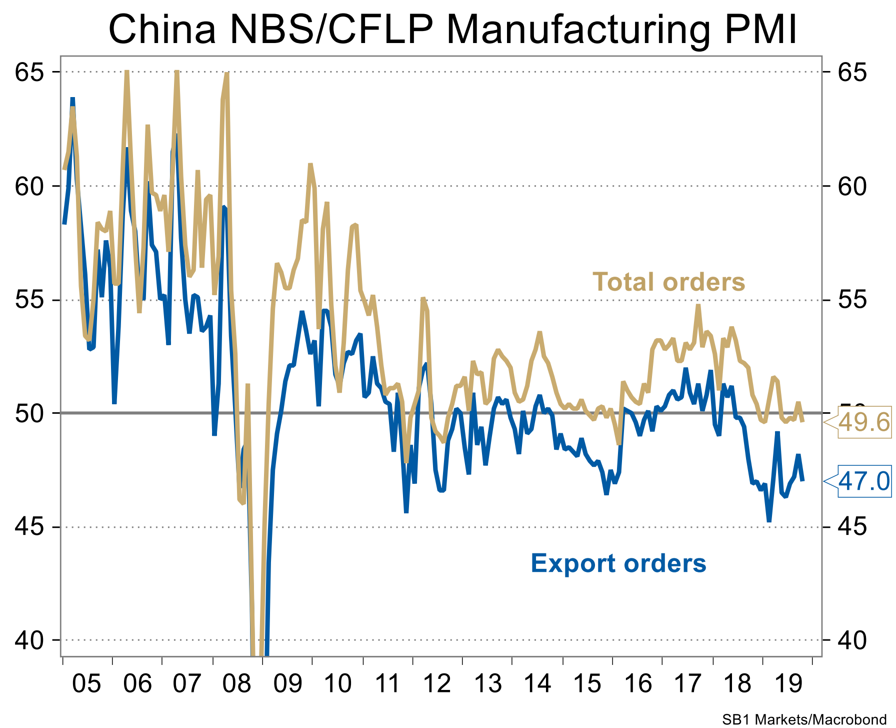
The gap between the surveys is unusually large. We doubt the steep rise in Markit's PMI is correct



- Markit's manufacturing PMI rose to 51.7 in October, a 0.3 p rise, and the 4th straight month of increase. The index is at the highest level since Dec 2016, and new orders are thriving (at a 8 y high!?), according to the PMI. We doubt so, even as the authorities stimulus may be boosting activity. Both export and domestic demand are improving.
- The 'official' NBS/CFLP manufacturing PMI fell by 0.5 p, the index at 49.3 is below the average level since 2012, at 49.9. The export orders fell more than domestic orders in October and the level is rather weak
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs is suggesting a stabilization in manufacturing activity – which by the way has not been that weak recently

PMI order indices are painting an opposite picture but none are weakening

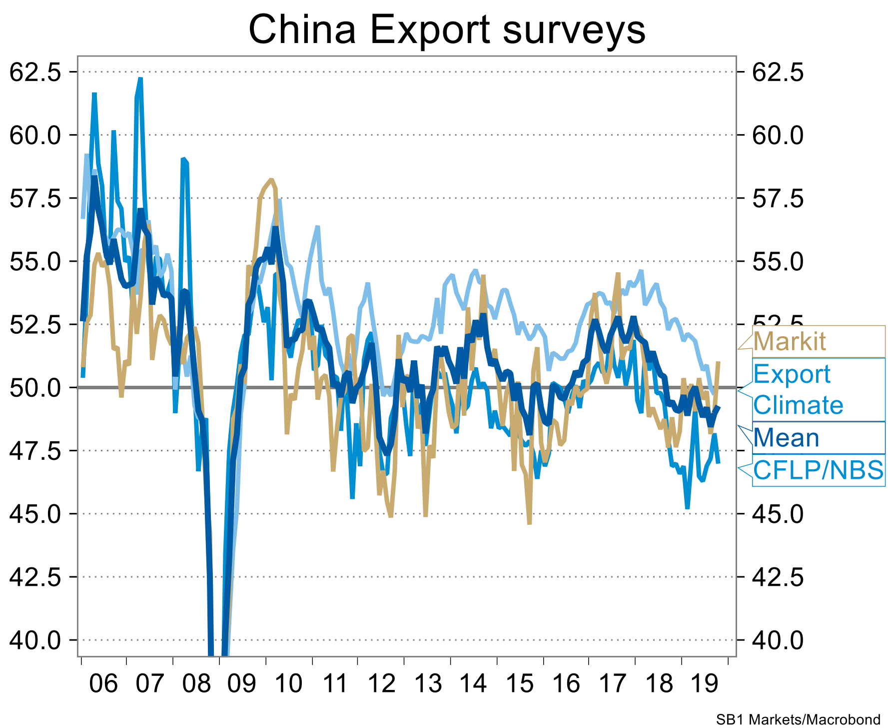
CFLP export orders fell deeper into contraction in Oct, while Markit's spiked, total orders at 8y high?



- Export orders jumped well into growth territory in October, according to Markit's PMI. In contradiction, NBS/CFLP reported a decline
- However, even as NBS orders are at a much weaker level than Markit is reporting, the NBS order assessment has not deteriorated since late 2018

Export surveys have not collapsed, neither have exports

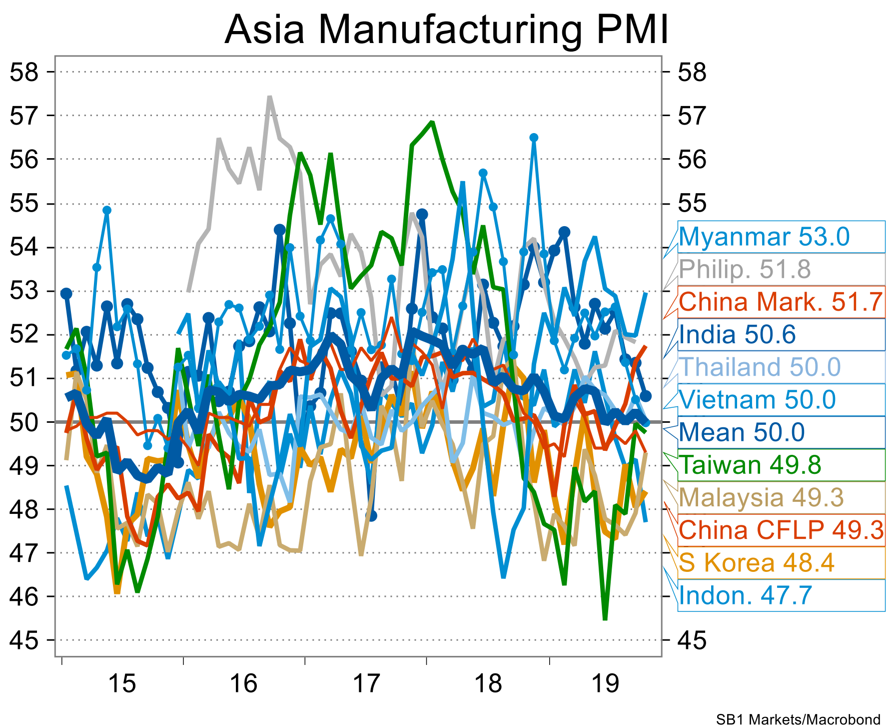
Companies are reporting modestly deteriorating export conditions, in avg

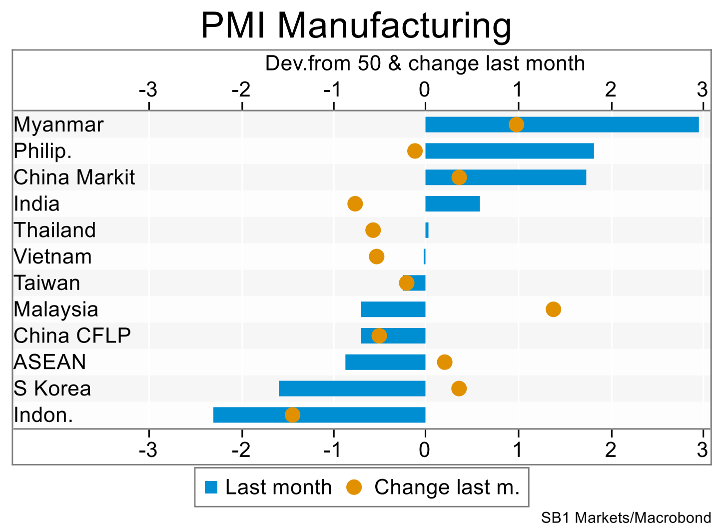


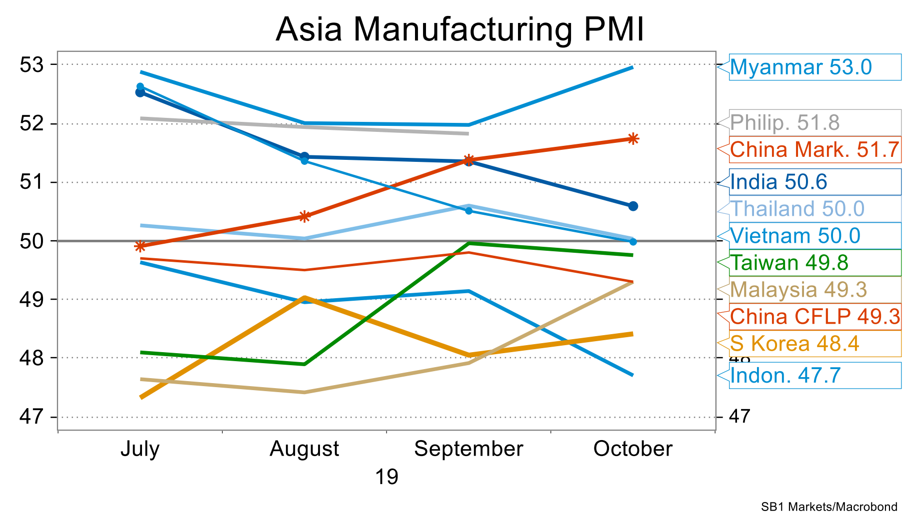
- The surveys we follow are down and below average. Still, the figures are not dramatically weak; the export orders surveys were as weak as now (or weaker) in 2012, 2013 and 2015 and 2016, without any rapid slowdown in the Chinese economy, even if export volumes flattened in 2012, 2013, and 2015/16.
- Export volumes fell in 2018 but have more or less stabilised in 2019. Surveys may now signal slightly weaker exports

4 PMIs up and 6 down in rest of Emerging Asia in October

6 countries/regions are now below the 50-line, S. Korea and Indonesia at the bottom, just 4 above





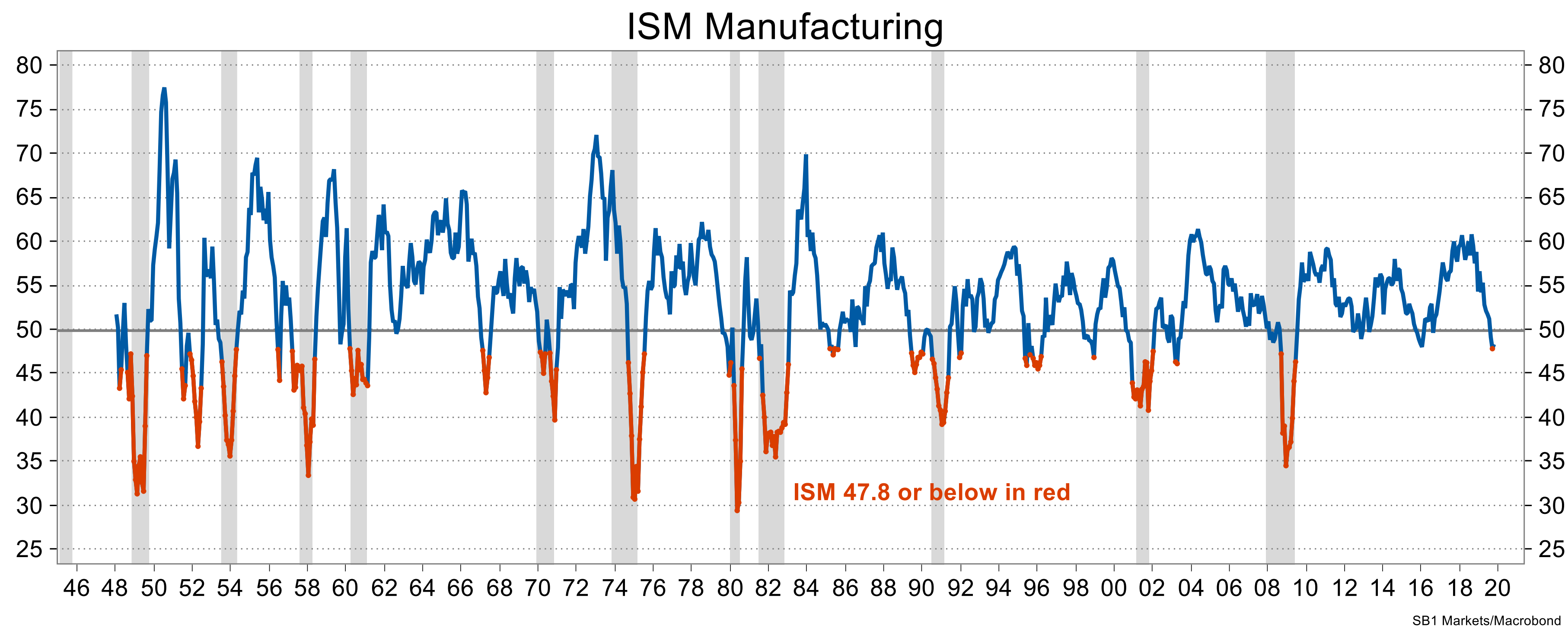


- The Asian PMIs are producing a spaghetti chart like the one above. Take a deep breath before you draw any important conclusion based on any single observation

SpareBank 1 MARKETS

Manufacturing ISM stabilised in October, still quite weak

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

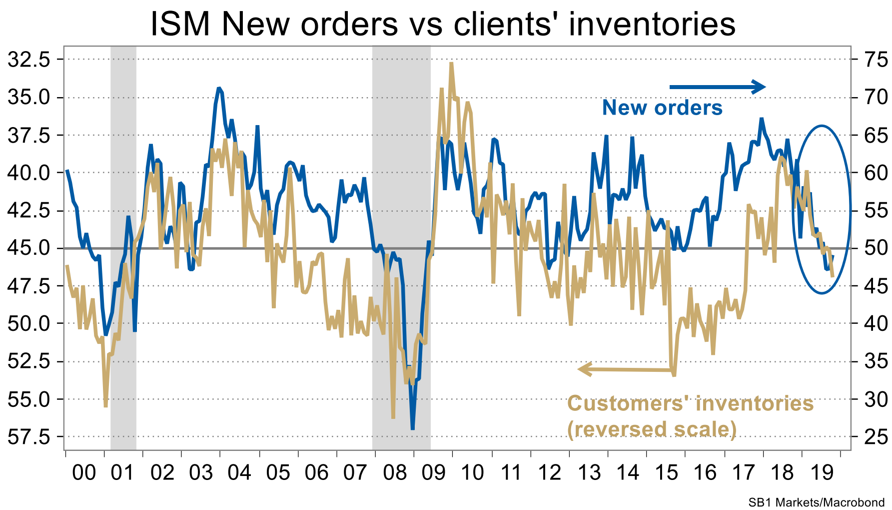


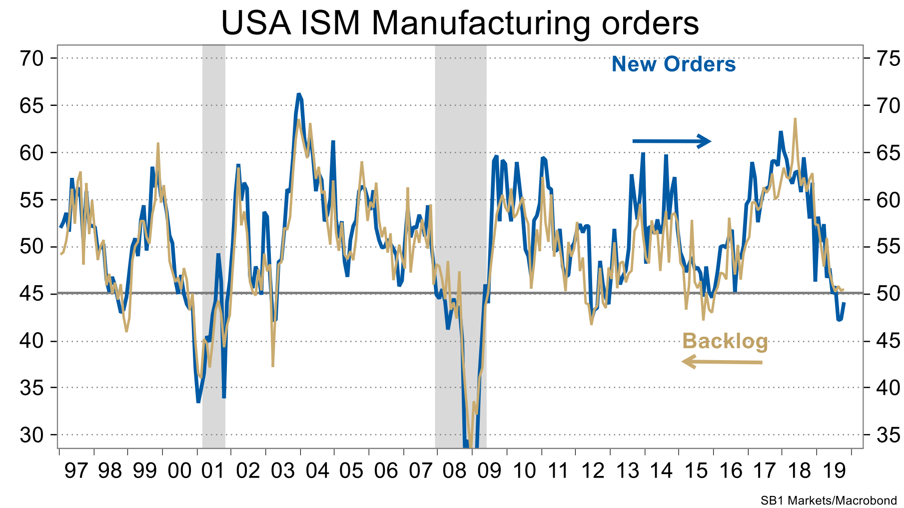
- Manuf. ISM rose 0.5 to 48.3 October, expected up to 49. The ISM is at the lowest level since the Financial Crisis. Other surveys are not that downbeat, and have recovered somewhat recent months
  - » In the ISM survey, 5 out of 18 sectors reported growth (from 3 in Sept) and 12 (from 13) sectors reported a contraction, a weak mix
  - » Trade war is stated as an important reason for the slowdown but demand weakness is quite wide spread, while others are reporting cost/margin pressures
  - » Order inflow is still contracting but at a slower pace than in September, mostly due to a sharp recovery in the export order index (which is still signalling contracting exports)
- The manufacturing ISM has fallen to the present level (or below) 20 times since 1948, of which 14 (70%) up to 1 year before or during 11 recessions, 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

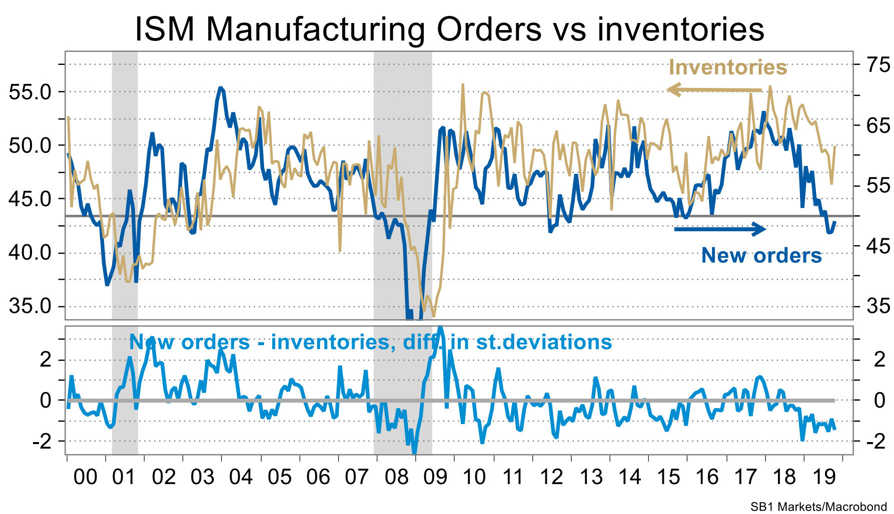
SpareBank 1 MARKETS

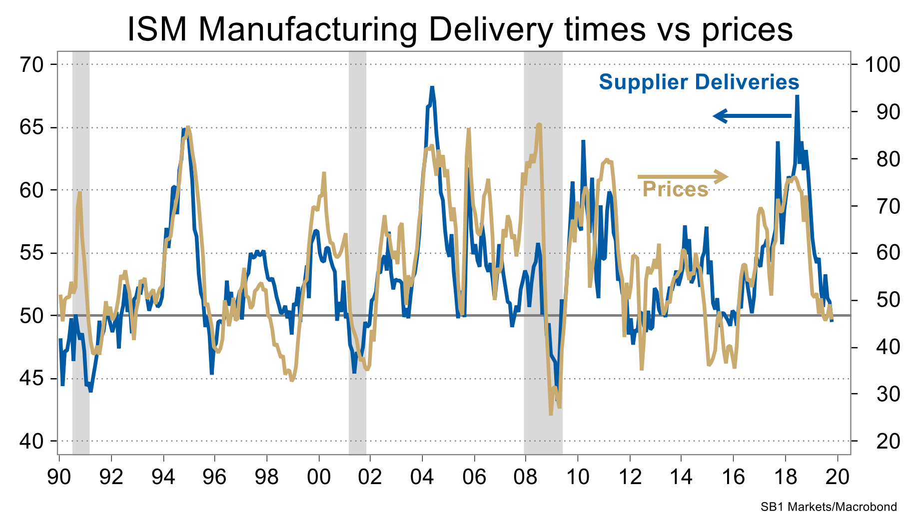
Orders are still declining, own/customers inventories increasing

Shorter delivery times & lower prices are also signalling weaker demand, capacity utilisation





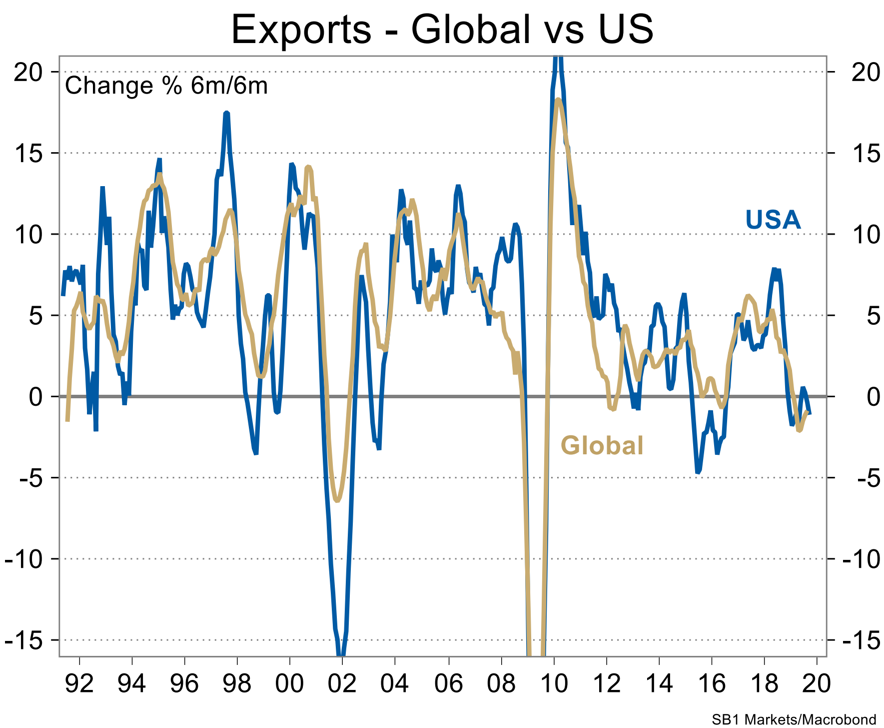


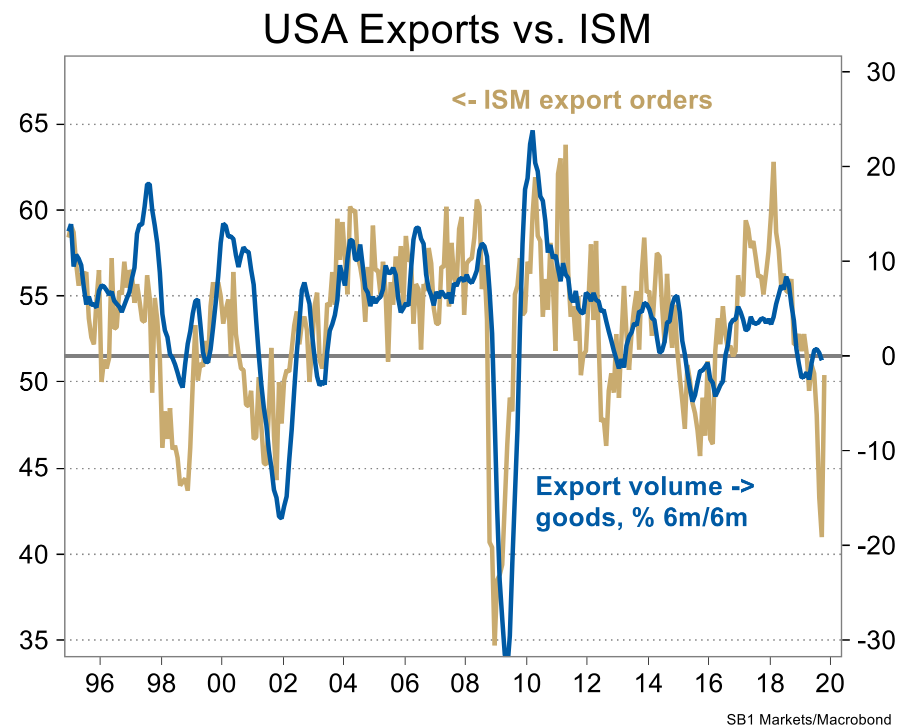


SpareBank 1 MARKETS

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

The ISM export order index back up to a more normal level in Oct, still signalling a contraction





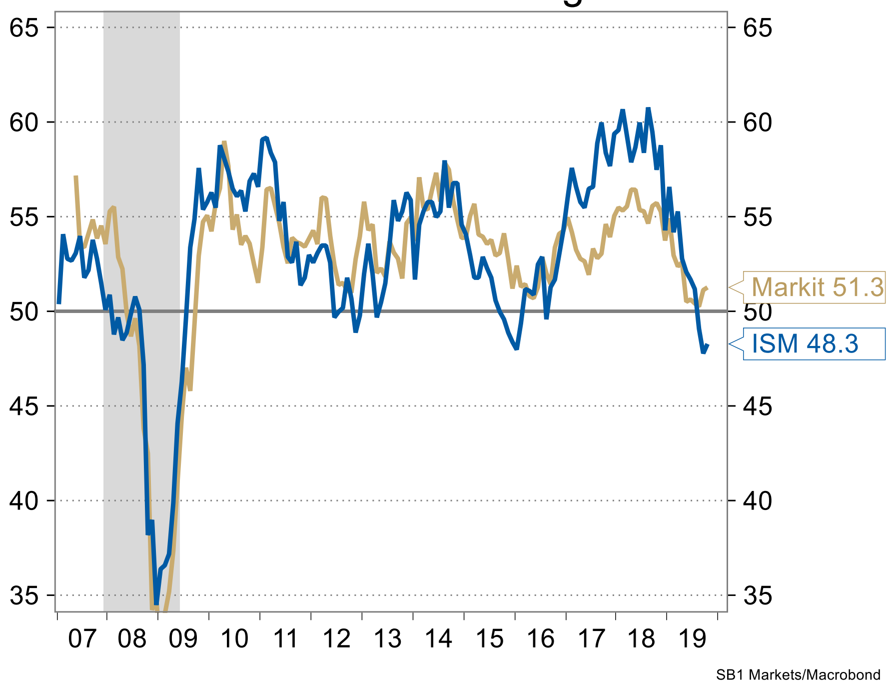
- The export index fell sharply in Sept, down to 41 but recovered just as sharply in Oct, up to 50.4. Even if the index is above the 50-line, it signals a further contraction in US exports, albeit mild
- US exports are closely correlated to global exports, it's just a tad more volatile (and a little 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

SpareBank 1 MARKETS

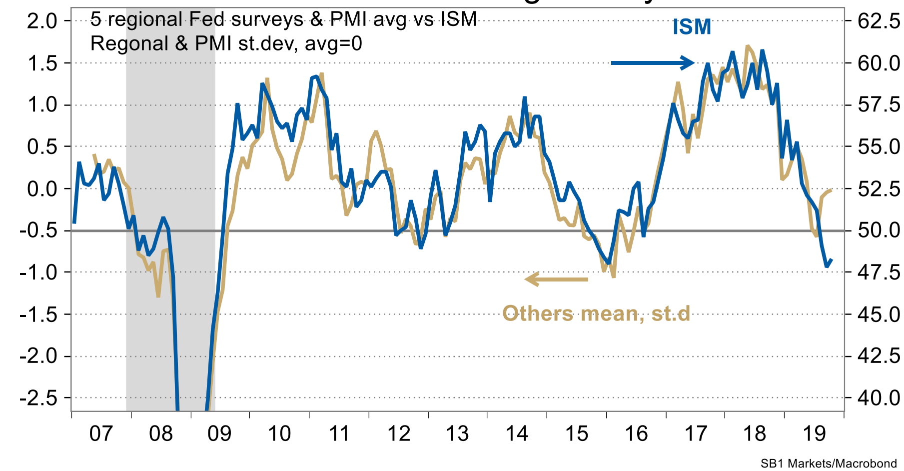
ISM says 48, the others ‘52.5’

The average of 7 other manufacturing surveys equals an ISM at 52.5, up from 50 in August

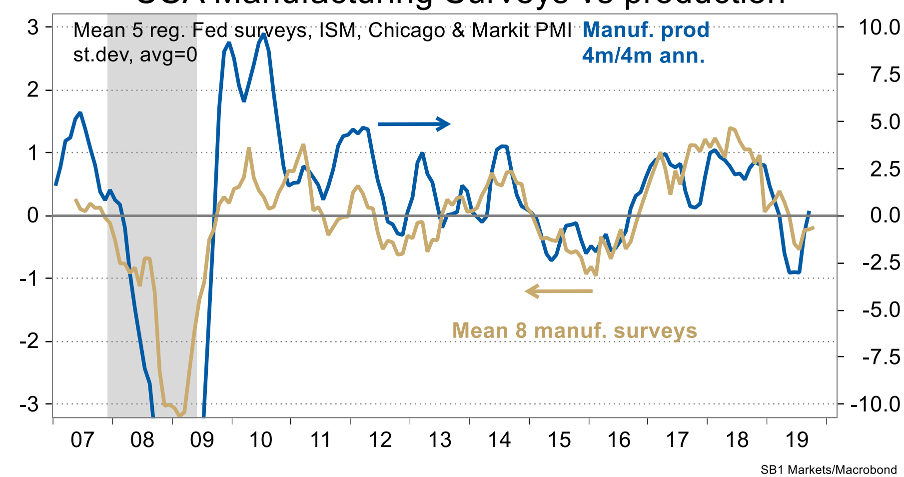
USA Manufacturing PMI



USA Manufacturing Surveys



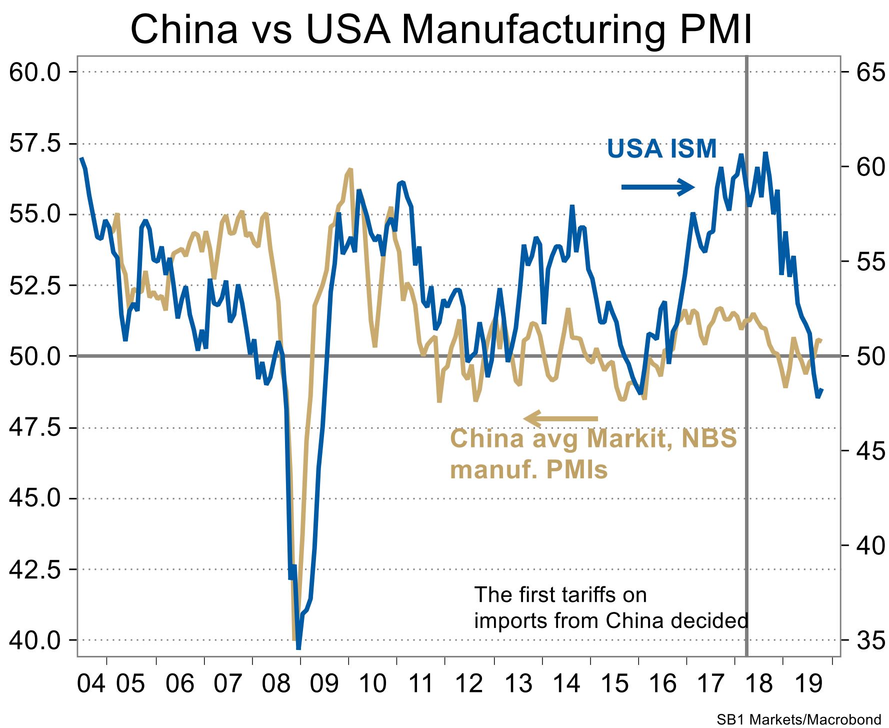
USA Manufacturing Surveys vs production

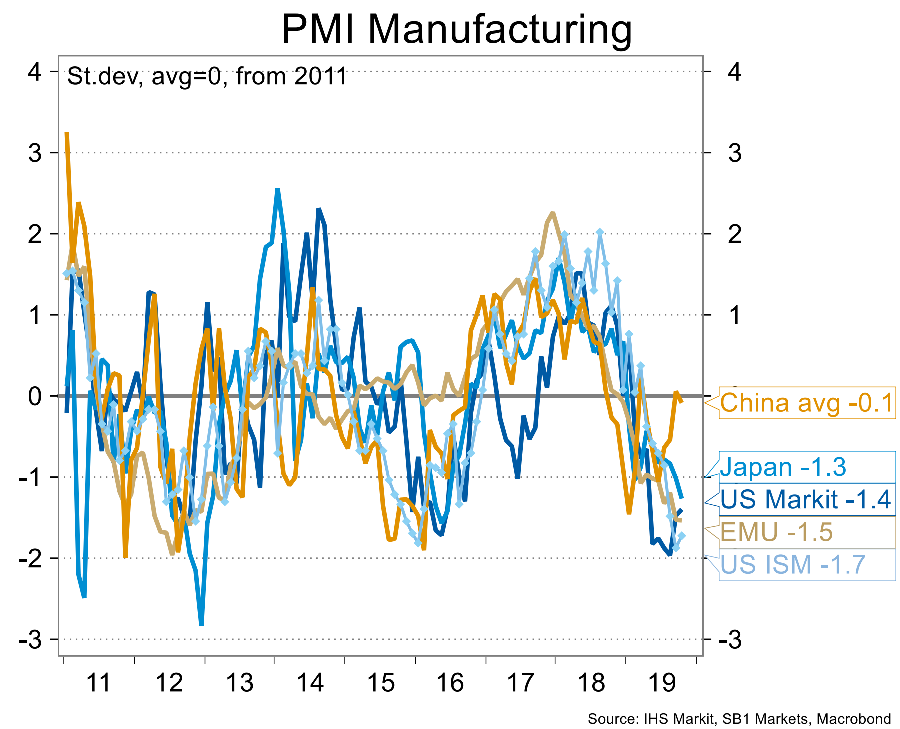


- Markit’s manuf. PMI rose less than first reported in Oct, to 51.3, from 51.1 in Sept (first est 51.5)
- More up than down for regional surveys – and the (rebased) average level is far stronger than ISM
- Manufacturing ISM has been much stronger than Markit’s PMI the past 2 years but Markit has been closer to the ball vs actual production

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??

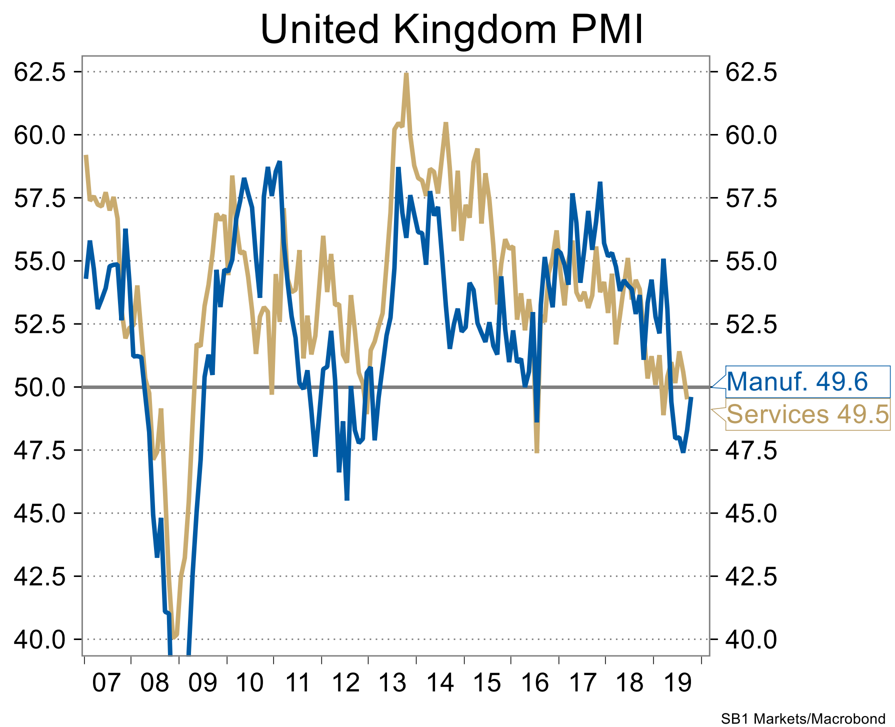


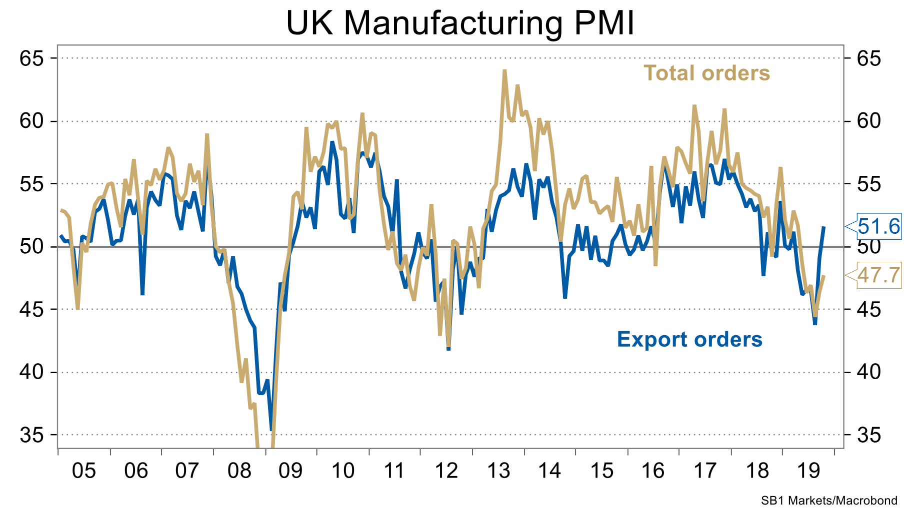


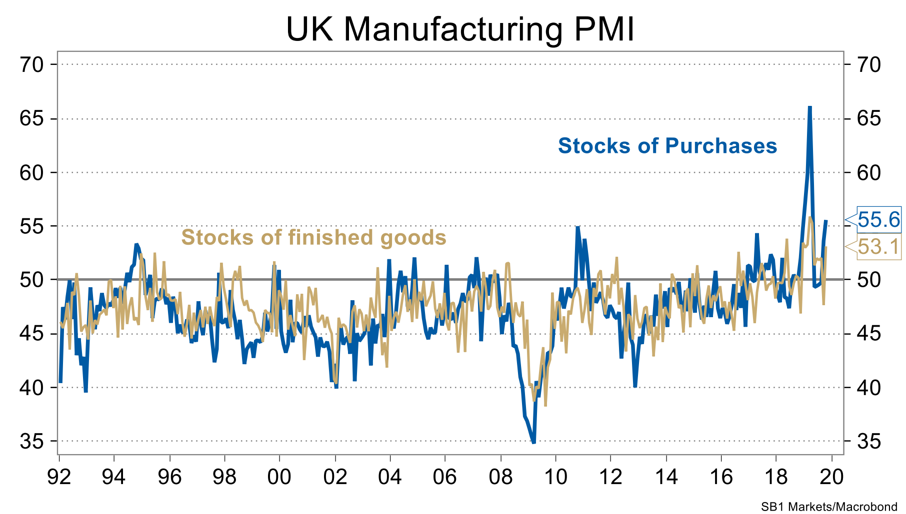
- Don't forget: The manufacturing PMI/ISM in both US and China were weak in 2015/16, as in 2012
  - » 2008/9 was much worse, but that's (hopefully) an irrelevant comparison
- The biggest decline in the manufacturing PMI has been in the EMU, however, compared to 'normal' deviations in the PMIs (though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

Manufacturing activity recovered on another (milder) Brexit stockpiling

Manuf. PMI rose to 49.6, as businesses built up stocks October Brexit deadline



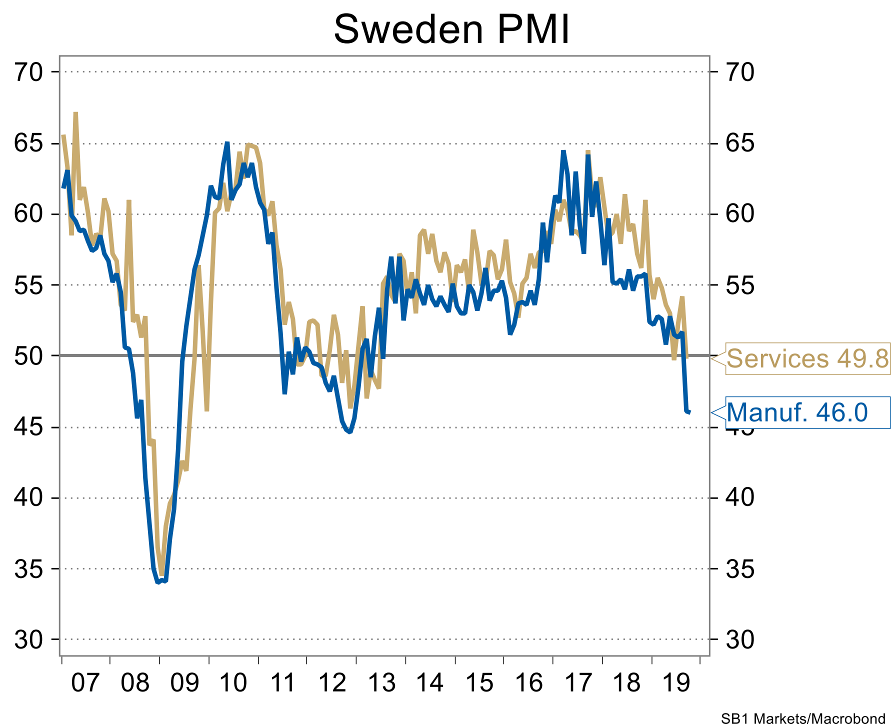


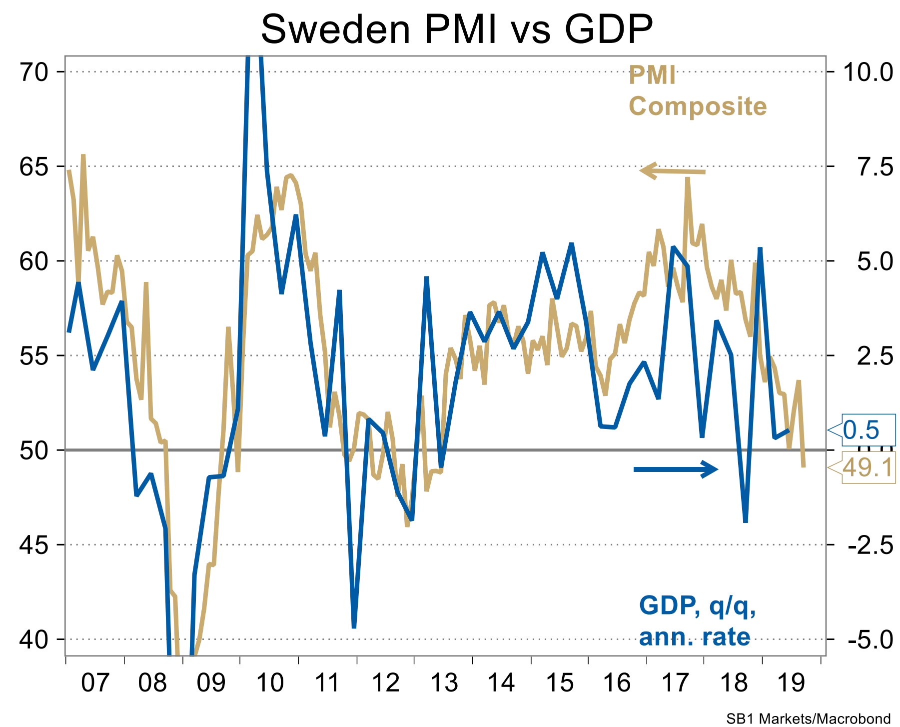


- Manuf. PMI improved by 1.3 p in Oct, still reflecting declining activity. In October, businesses ramped up stockpiling and orders improved both from domestic and foreign sources, as businesses were preparing for the October Brexit deadline.
  - We expect a downturn in inventories the coming months, whatever Brexit outcome
- Export orders recovered in Oct, while domestic imports are still contracting sharply

Manufacturing PMI remained weak in October, adding to signs of slowdown

PMI fell marginally to 46.0. Export orders recovered slightly, domestic orders deeper into contraction

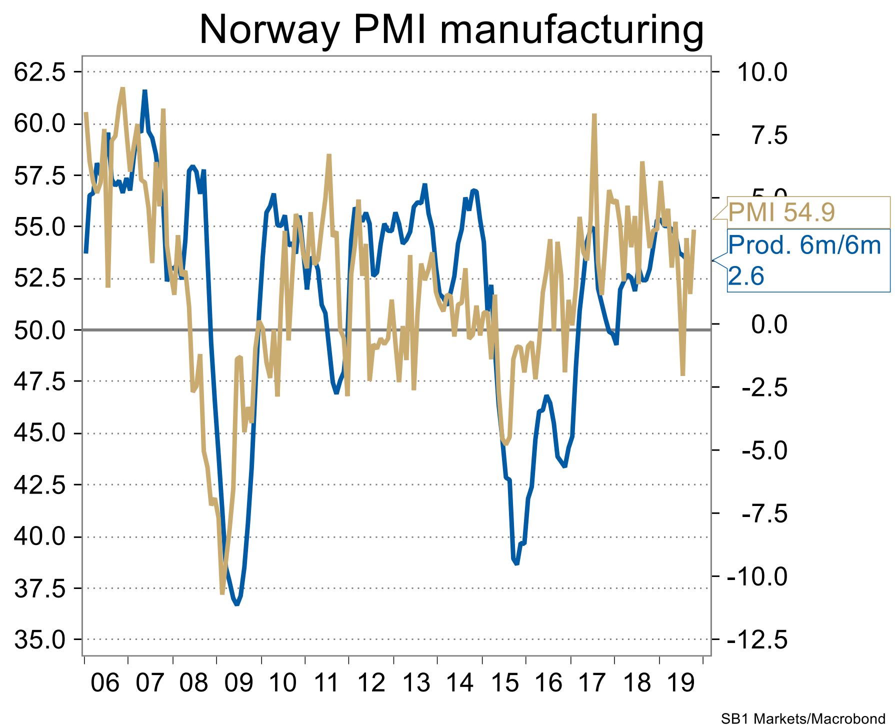


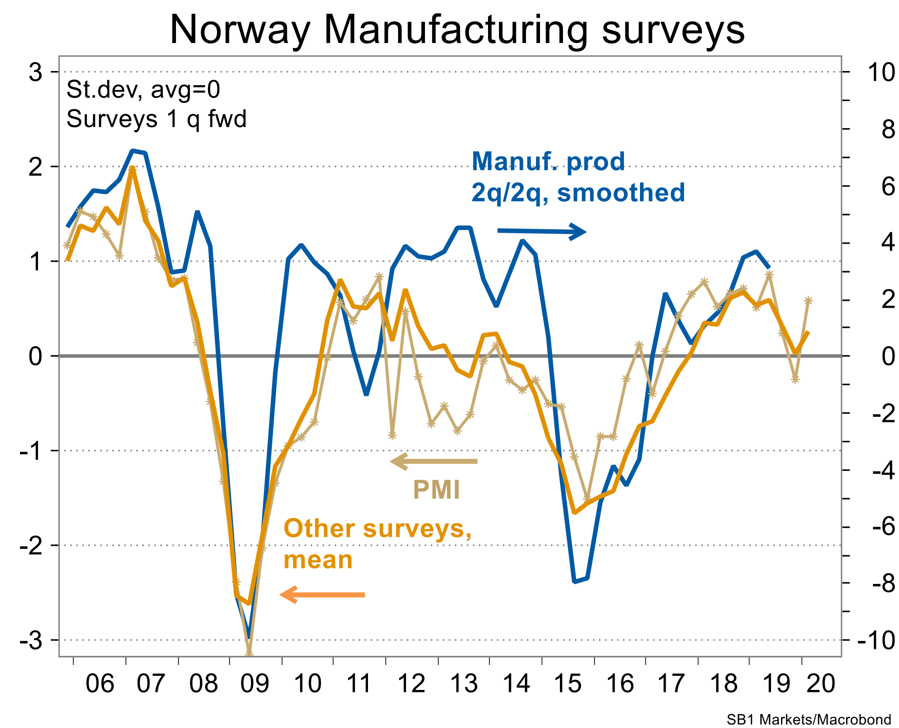


- Manufacturing PMI failed to recover in October, after a steep drop in September. The PMI is at the weakest level since the 2012 Euro crisis and points to a rapid slowdown in the Swedish economy (particularly as the services PMI has stagnated as well, no Oct data yet)
  - » The PMIs follow several weak Swedish data points recently, other surveys are weakening too

Volatile manufacturing PMI bounced back in Oct

PMI jumped 3.1 p, reversing the Sept decline. The 6m average is at a decent 52.7 level, but trends down

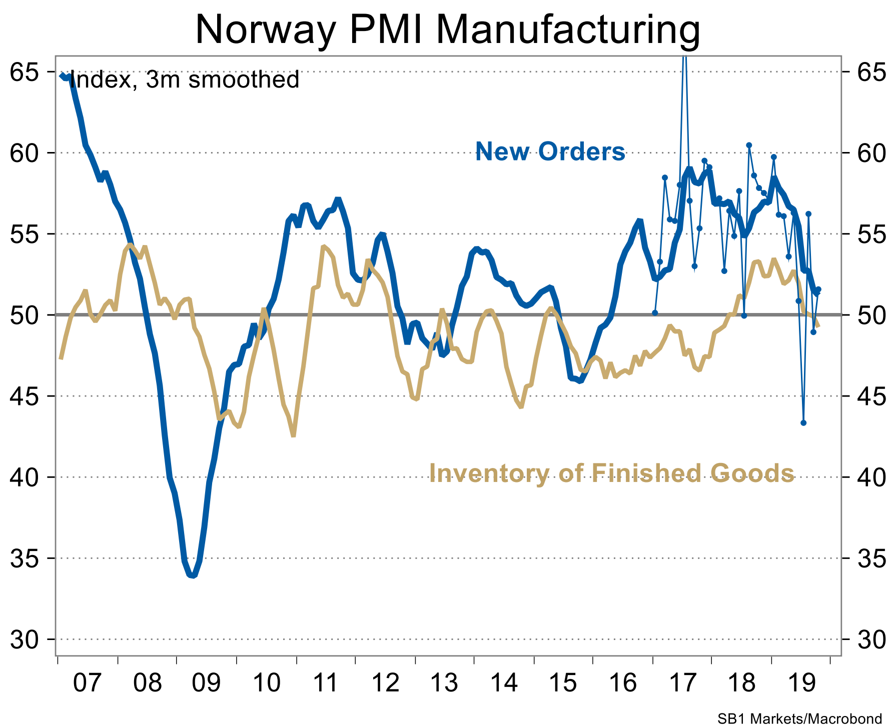


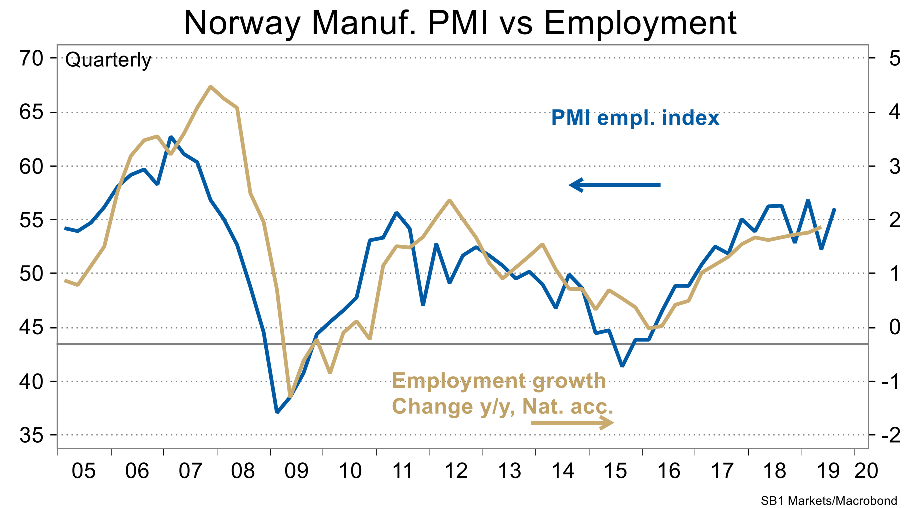


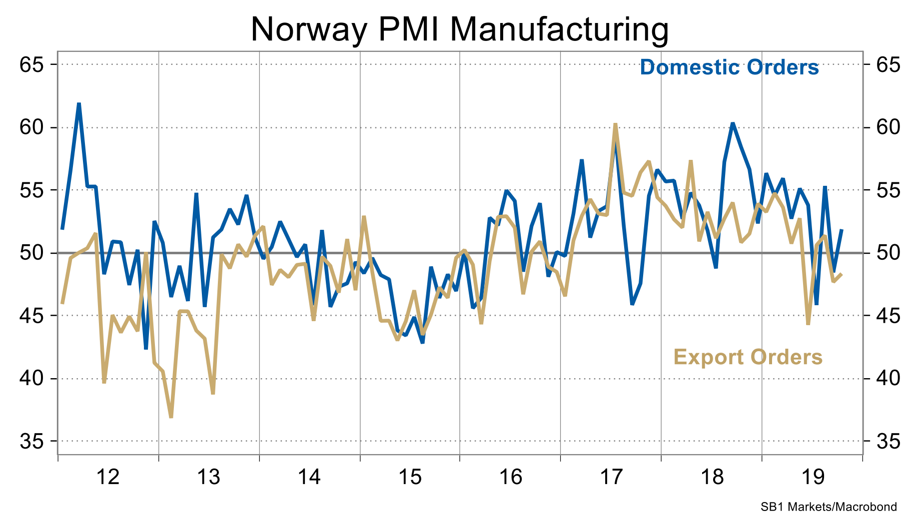
- The PMI surprisingly jumped in October, to 54.9, more than reversing the Sept drop. The Norwegian PMI is far too volatile, we prefer a smoothed index. A 3 months smoothing yields a PMI at 53.7 and the 6m average at 52.7, both signalling a slower growth in manufacturing production (but far from a contraction, as PMIs in many of our trading partners are indicating)
- The PMI is more volatile than other business surveys – the survey is now more upbeat than others. The Regional Network is still reporting strong growth in manufacturing, while Statistics Norway's manufacturing survey fell sharply in Q3, and signaled zero growth
- Taken together, manufacturing surveys signals a growth slowdown. We assume that oil related manufacturing production is flattening out now, as investments in the oil and gas sectors is now most likely reaching the local peak level

PMI orders are softening, employment still growing strongly

Both foreign and domestic orders have slowed but only foreign orders are declining



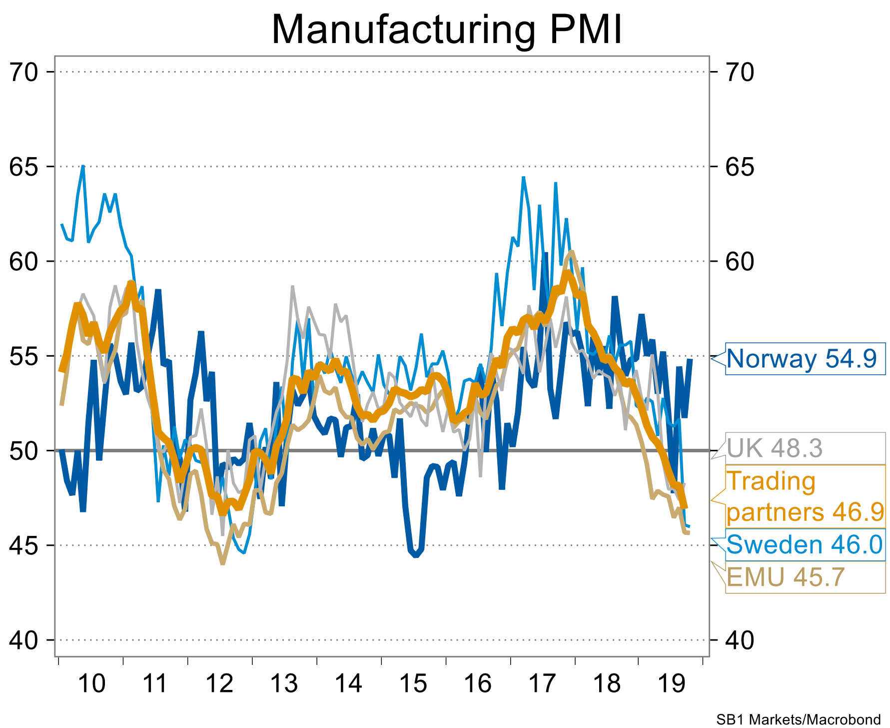


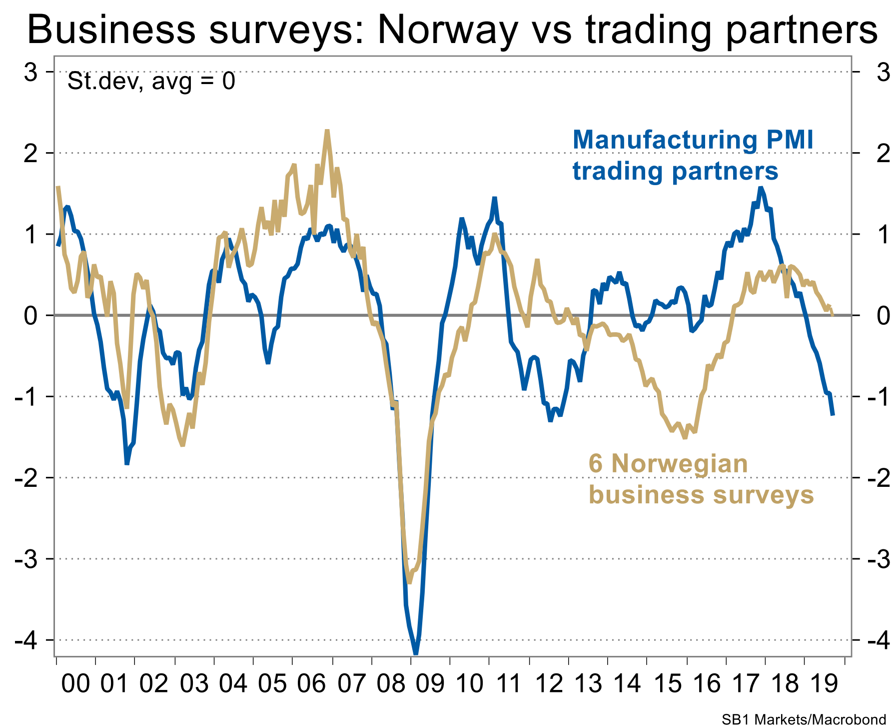


- The new orders index ticked up to 51.6 in Oct, slowing steeply since early 2019. The current level signals slightly positive growth in orders
- The Oct upswing was driven by domestic orders. Export orders rose marginally too, but foreign demand is no doubt slowing

Norway is slowly following its trading partners down

Manufacturing is still holding up better in Norway, fueled by oil related sectors. But not for long??

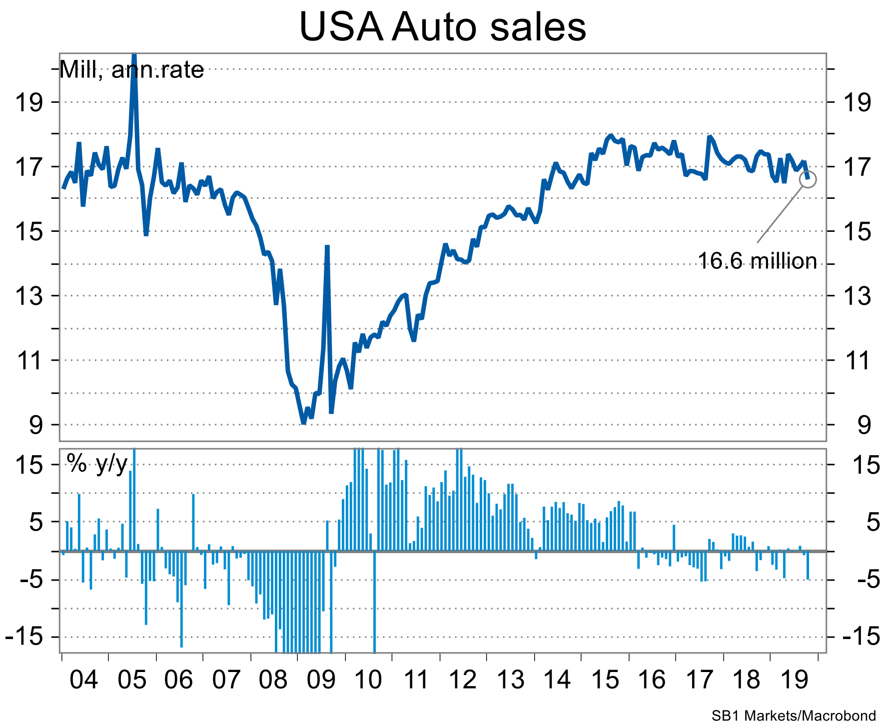


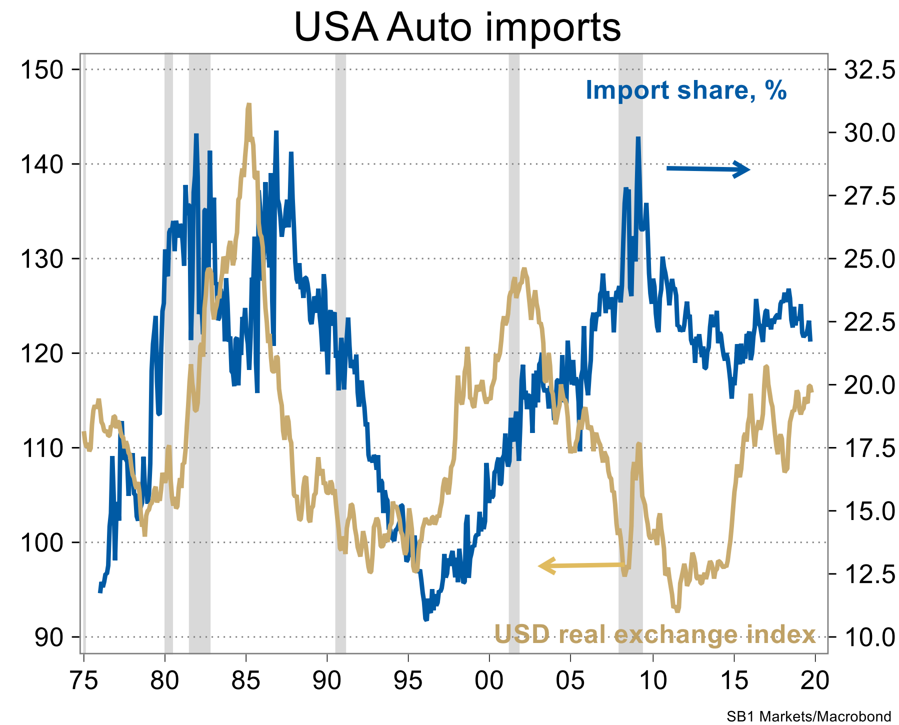


- Well, the Norwegian PMI is still less downbeat than among our trading partners. The PMI is normally lagging our trading partners by close to one year. Other surveys are slowly turning down too
- The boost from oil & gas investments will most likely subside sharply into next year – and we expect growth in production to slow substantially into 2020

Auto sales down in October, trending slowly downward?

Sales down 3% to 16.6 mill, weaker than expected

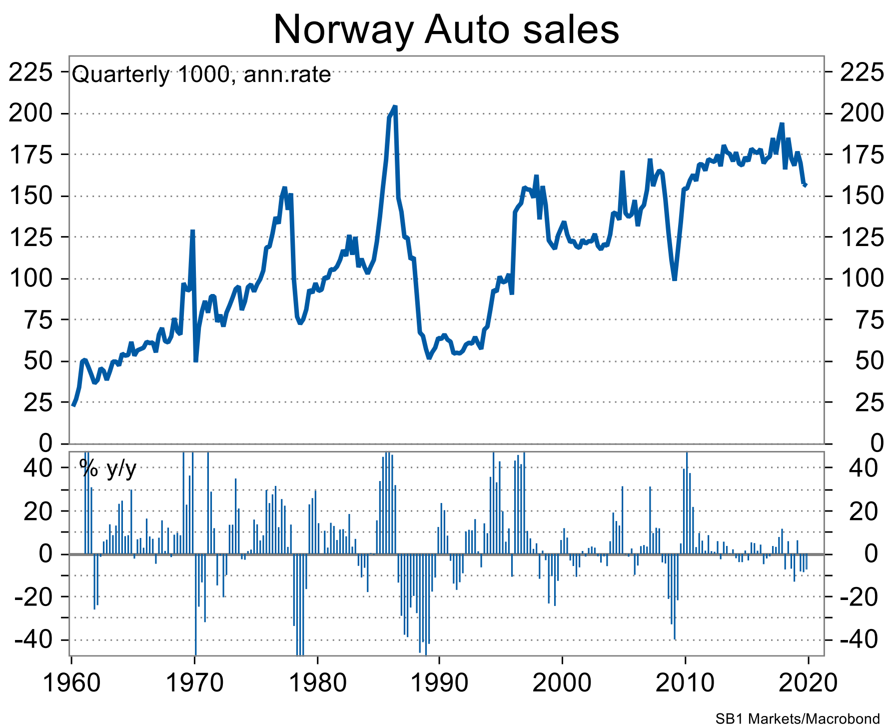


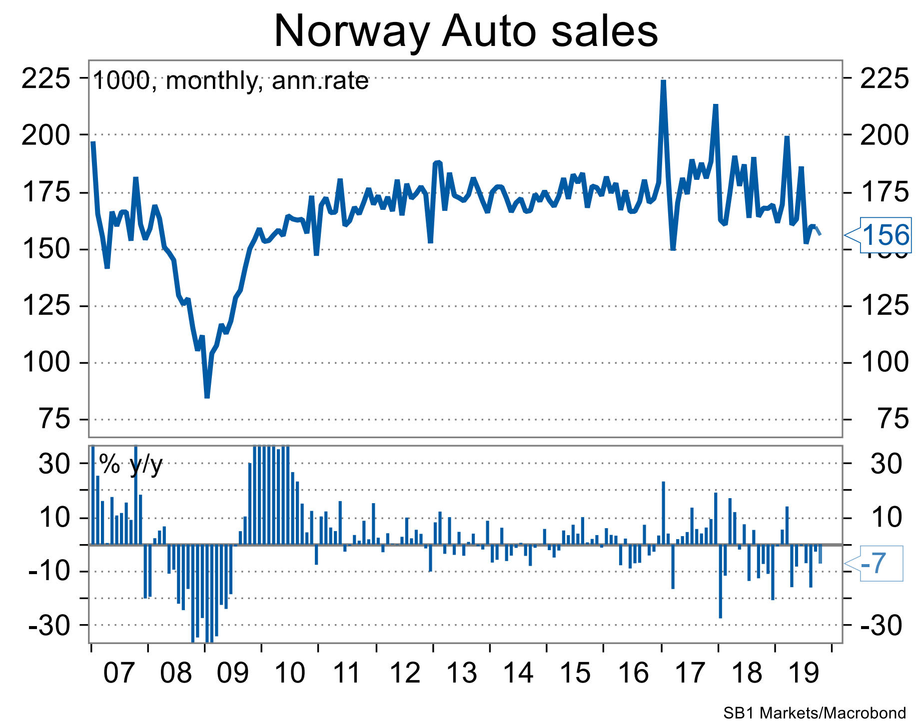


- Sales fell 0.7 mill (annual rate) to 16.6 mill, expected down to 17 mill. Sales are trending slowly down, from the local peak in 2015 (!)
- The import share has been sliding down recent months, following an increased the previous 3 years. At 22% the import share is above the long term average – but it has been far higher several times before.

Auto sales stabilised recent months, at a 'low' level

Sales are down some 13% from the 2017 (smoothed) peak. Supply bottlenecks or weaker demand?

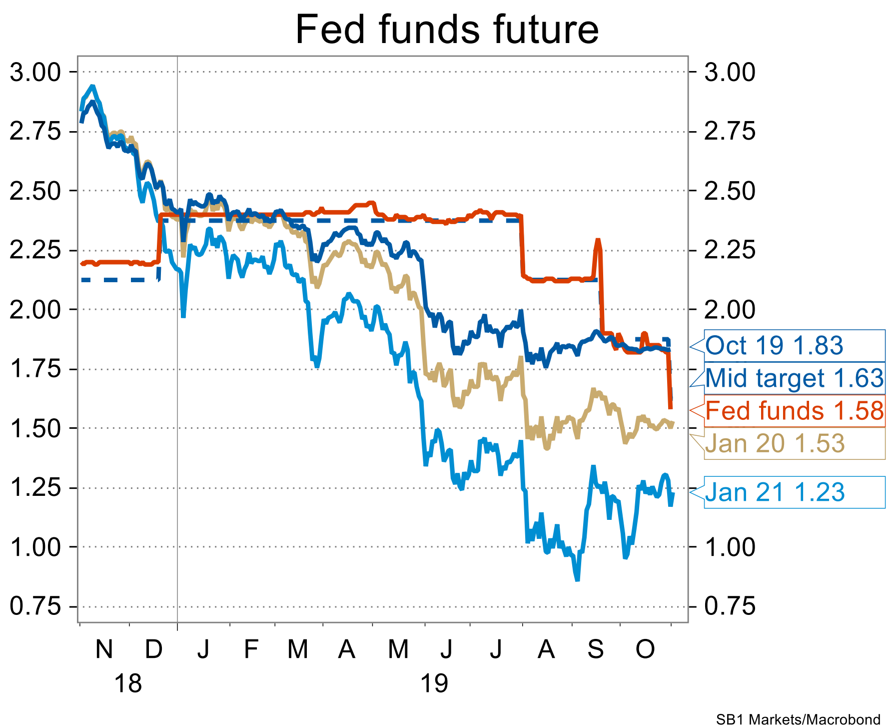


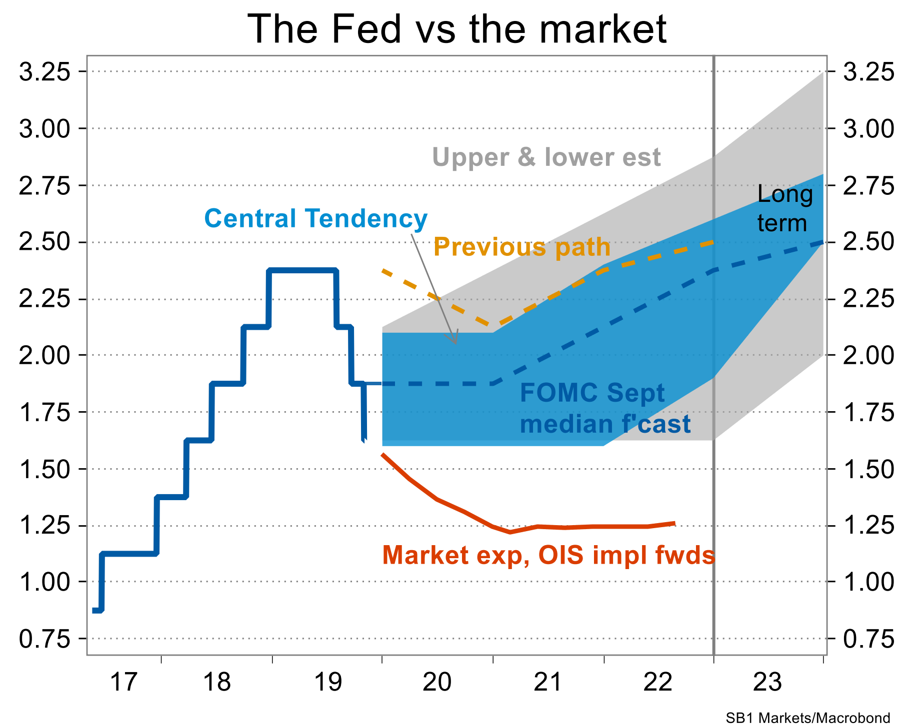


- First time registrations (incl. 2. hand imported cars) fell to 156' in Oct (our preliminary est). The sum of the three (and 6!) past months is the weakest in 10 years – down some 8% y/y (but more vs the peak level in 2017)
  - » Monthly registration figures have been more volatile past 2 years than normal (barring impacts from changes in taxes in some earlier 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. <u>However, demand may have peaked too</u>

The Fed delivered the 3rd interest rate cut but signals a pause

FOMC cut by 25 bps to 1.5-1.75% as expected – and signaled that's enough, for now

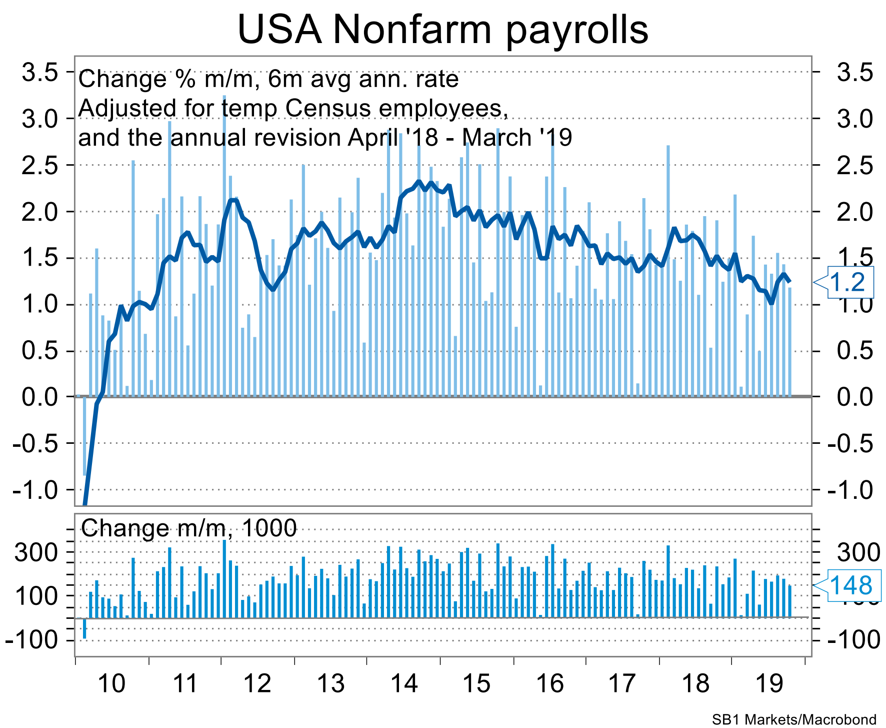


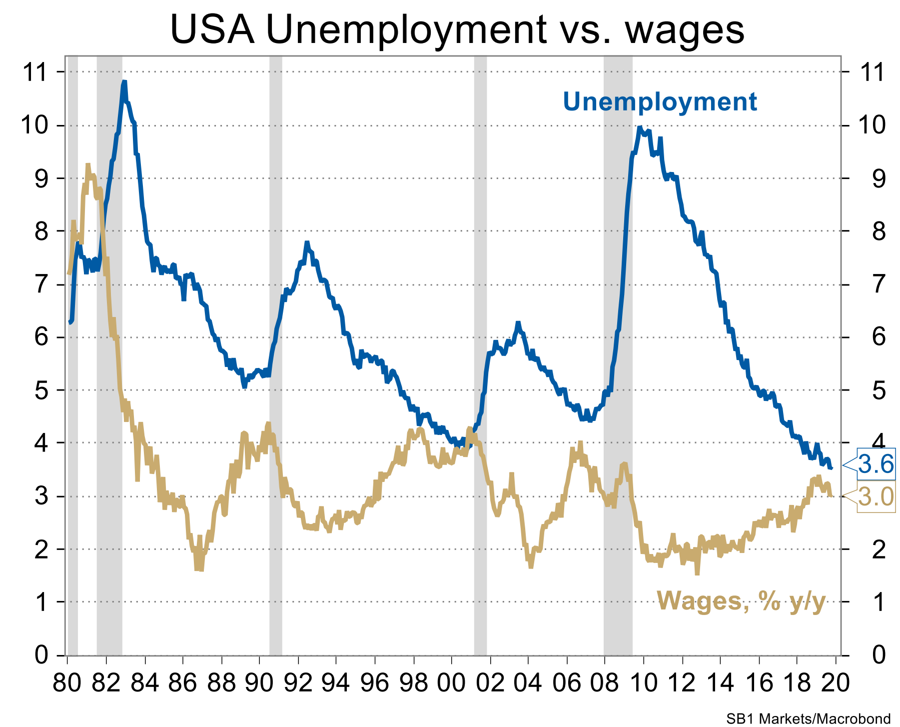


- The FOMC delivered the 25 bps cut to 1.5-1.75%, which markets expected by at least a 90% probability. As at the Sept meeting, the FOMC was divided; 2 of 10 board members voted against the decision, as they preferred an unchanged Fed funds rate. No new dot plot or f'casts at this meeting. The Sept dot plot (all FOMC members) indicated an unchanged interest rate the next year – but the (voting) FOMC cut anyway
- In his speech, Chairman Powell signaled that the interest rate would remain at the current level unless incoming economic data deteriorates materially. An appropriate assessment, in our view, as consumer spending remains strong, labour markets are tight and overall growth is not weak (as confirmed by the 1.9% GDP growth is Q3)
- Market reactions: Unlike what some headlines suggested, the Fed's communication was not a hawkish surprise. Stock markets rose slightly and interest rates fell following the announcement, the 10 y gov by 6 bps and the 2 y by 3 bps. The Fed funds '20 FRA contract was unchanged and the Jan '21 FRA came down 3 bps. The market now puts just a 12% probability for another cut before year end, we thing rightly so, while a cut is expected in H1 next year

Employment rose more than expected in Oct, prior months revised up

Employment growth has stabilized the past 4-5 months. Unempl. back at 3.6%, wage growth at 3.0%

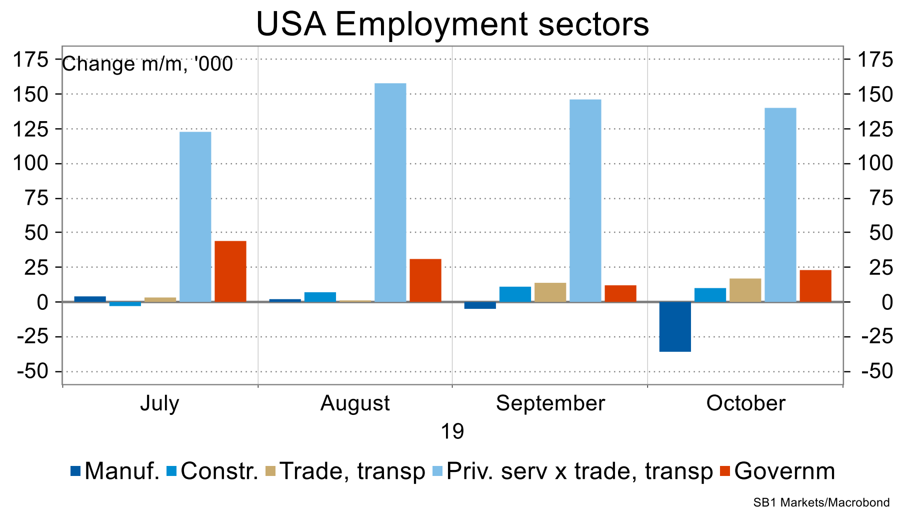


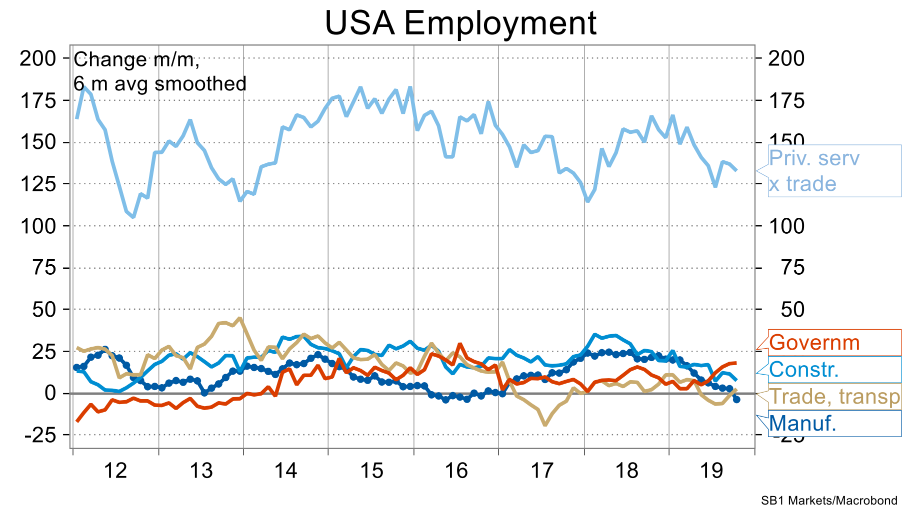


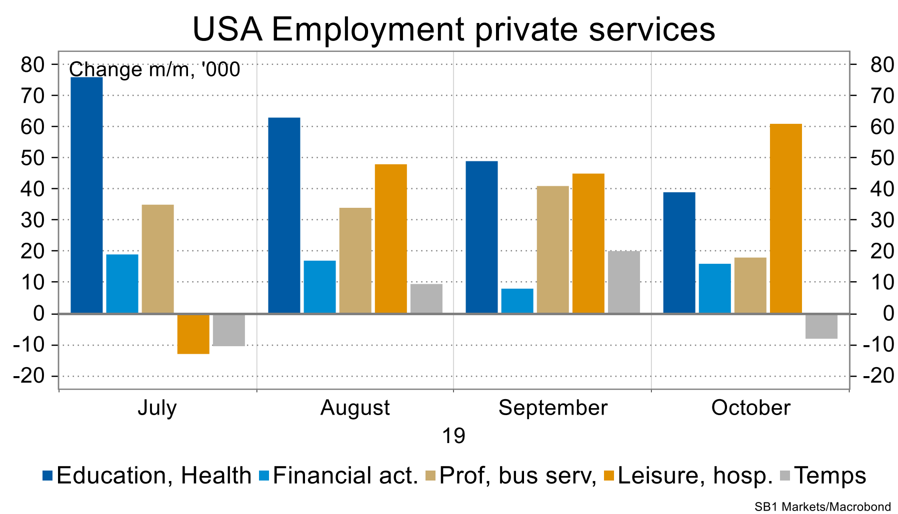
- **Employment** rose by 128' in October (and 148' adjusted for a cut in Census temps), some 60' better than expected, and Sept/Aug was revised up substantially, by 95'. Moreover, the GM strike had an impact of 46' employees in October, according to official stats, and the 'real' Oct no. was 194'! Following these revisions, employment growth has stabilized recent months rather than eased, the 6m average is up 1.2%. <u>Growth has been slowing over the past year, however, the decline has not accelerated this autumn/summer, reflecting a still solid US labour market</u>
- **The unemployment rate** inched back up to 3.6%, from 3.5%, as expected. Participation rose by 0.1 pp to 63.3 while the employment rate held steady. Participation is now heading slightly upwards but too little to assume that the supply side is now responding to the strong demand
- **Wages** rose 0.2% m/m, 0.1 pp below expectations and the annual rate was flat at upward revised (by 0.1 pp) 3.0%
- <u>Overall, these data confirm a tight labour market and support Fed's plans to 'pause' monetary easing</u>

Employment is rising in all sectors, manufacturing clouded by GM strike in Oct

Manufacturing employment fell by 36’ in Oct, impact of GM strike estimated to 46’



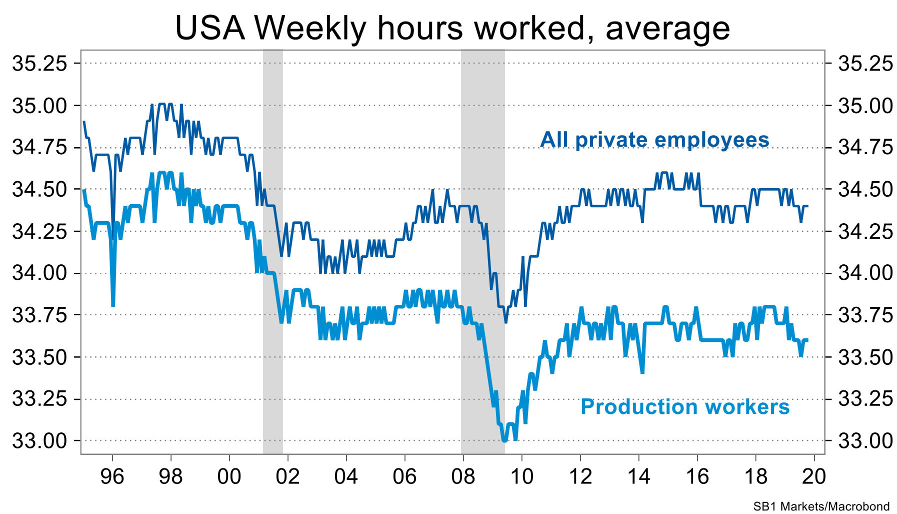


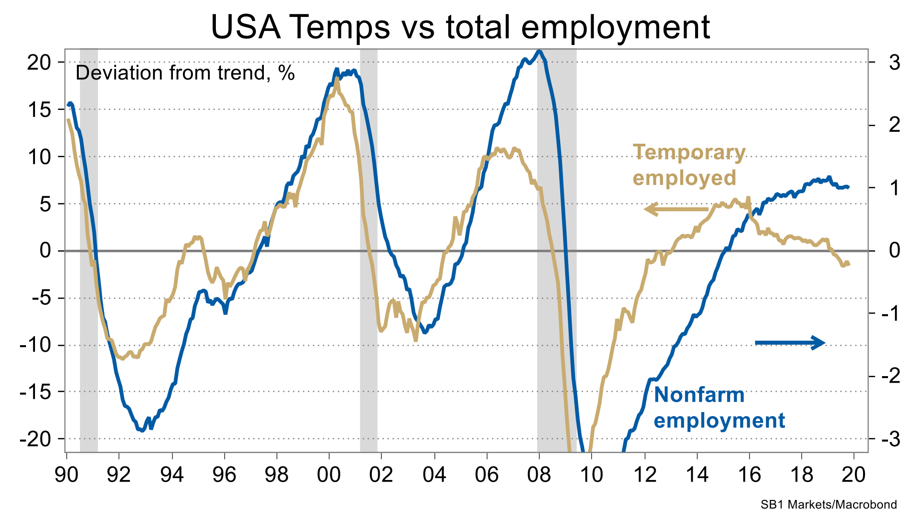


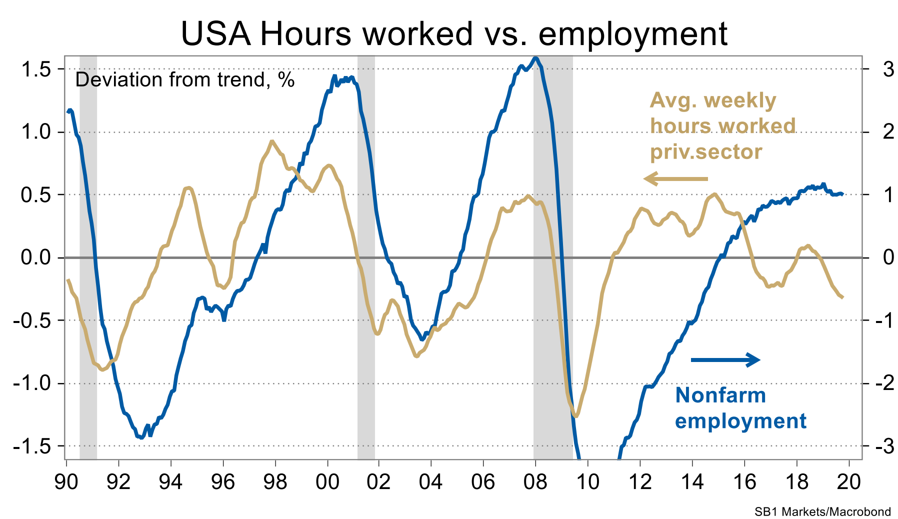
- **In October:** Private services rose by 140’, a solid increase. Construction modestly up, manufacturing slipped 36’, the strike in General Motors deducted 46’. Government employment is expanding more than usual (adjusted for Census temps). Trade & transport slightly up too
- **Recent months:** Employment is has been growing in all sectors x trade & transport but even this sector turned positive (6 m avg), in Oct. Both manuf. construction and private services have slowed. Government accelerating somewhat, and well into plus
- **Big picture:** Manufacturing, construction both peaked in H1 ’18. Manuf/construction activity signals lower employment. Private services x trade empl. recovered last year but is slowing again. Trade has been week since 2016
- The annual revision is not yet included in these sector data

Weekly avg hours flat recent months, trending down, normally a 'first response'

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





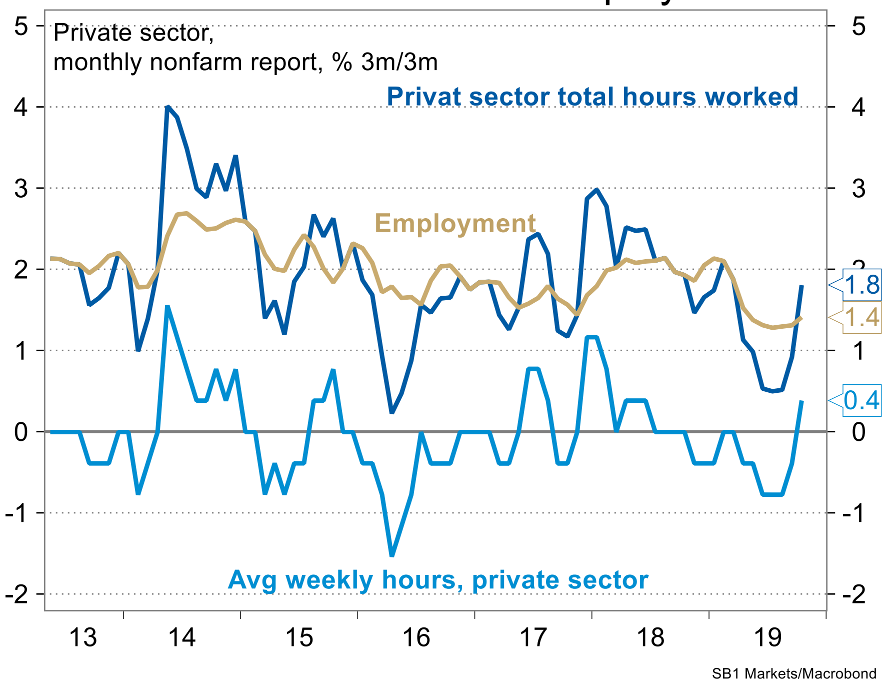


- Average weekly hours worked have fallen 0.3% since last October. <u>This is the best argument in favour of the weaker-demand-for-labour-story</u>
  - » The downturn is broad sector wise. Manufacturing and transport are in the lead, but finance and hospitality & leisure are on the way down
- On the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

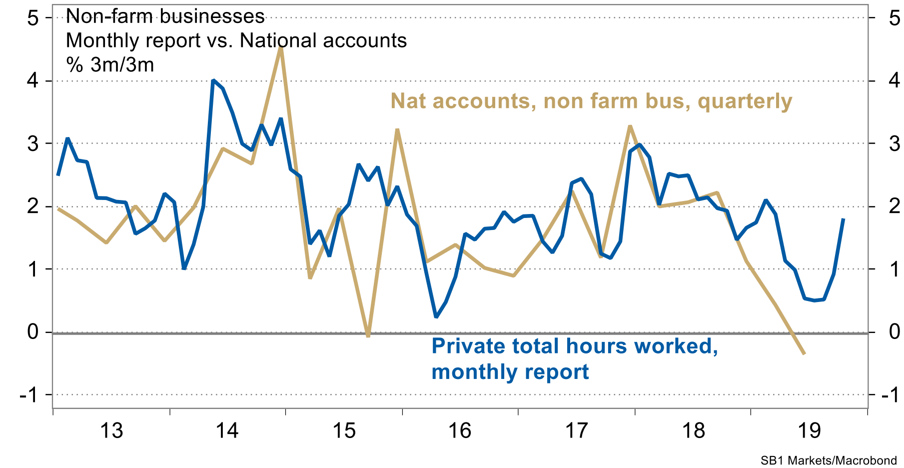
Avg hours was slowing, underlying speed is now picking up

Income growth has stabilised, wages income slowly on the way up?

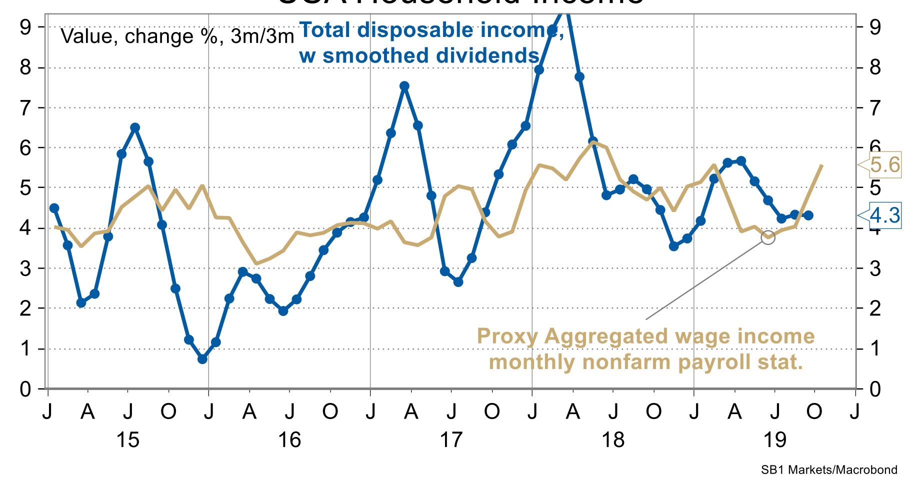
USA Hours worked vs. employment



USA Hours worked



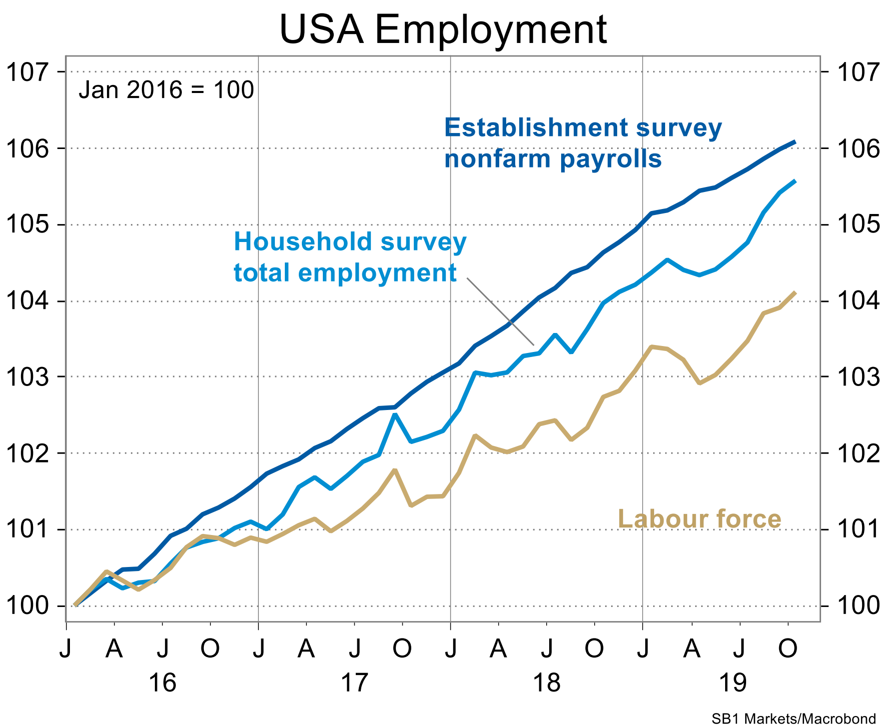
USA Household Income



- Underlying growth in hours worked in the private sector rose to 1.8% in October, up upturn from 0.5% in July (but below the 2018 peak levels. Employment growth has been slowing, but has stabilised recent months, and average weekly hours are increasing by 0.4%. In Q3 hours worked rose 1% (payroll report), implying still muted productivity growth
- Growth in total wage income has picked up the most recent months, to 5.6% in October. Total growth in disposable income is steady at just above 4%

Household survey does not indicate a slowdown in employment growth

Total employment rose by 240’ according to the Household survey, solid growth recent months

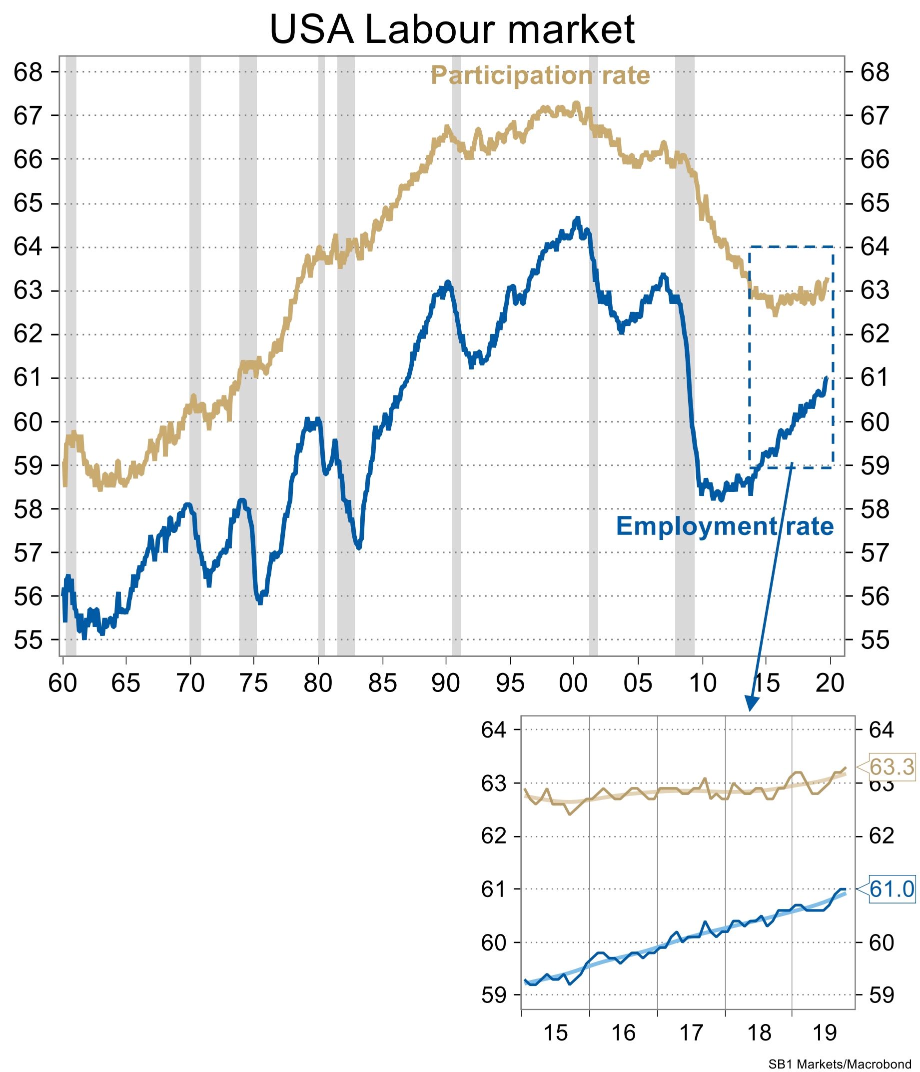


- The household Labour Force Survey (LFS/‘AKU’) reported slower growth in employment than payrolls during the spring. The past months, employment growth has gained pace, according to this survey
  - » Total employment grew by 240’ according to the LFS (‘AKU’), while employment defined as in the payroll report fell by 138’
- The labour force rose by 325’ in October. The participation rate inched up to 63.3%, while the employment rose by 240’ without lifting the employment rate up from 61.0% (thus, the unemployment rate edged up)
- 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)

Participation trending to slowly up, creating a tight labour market

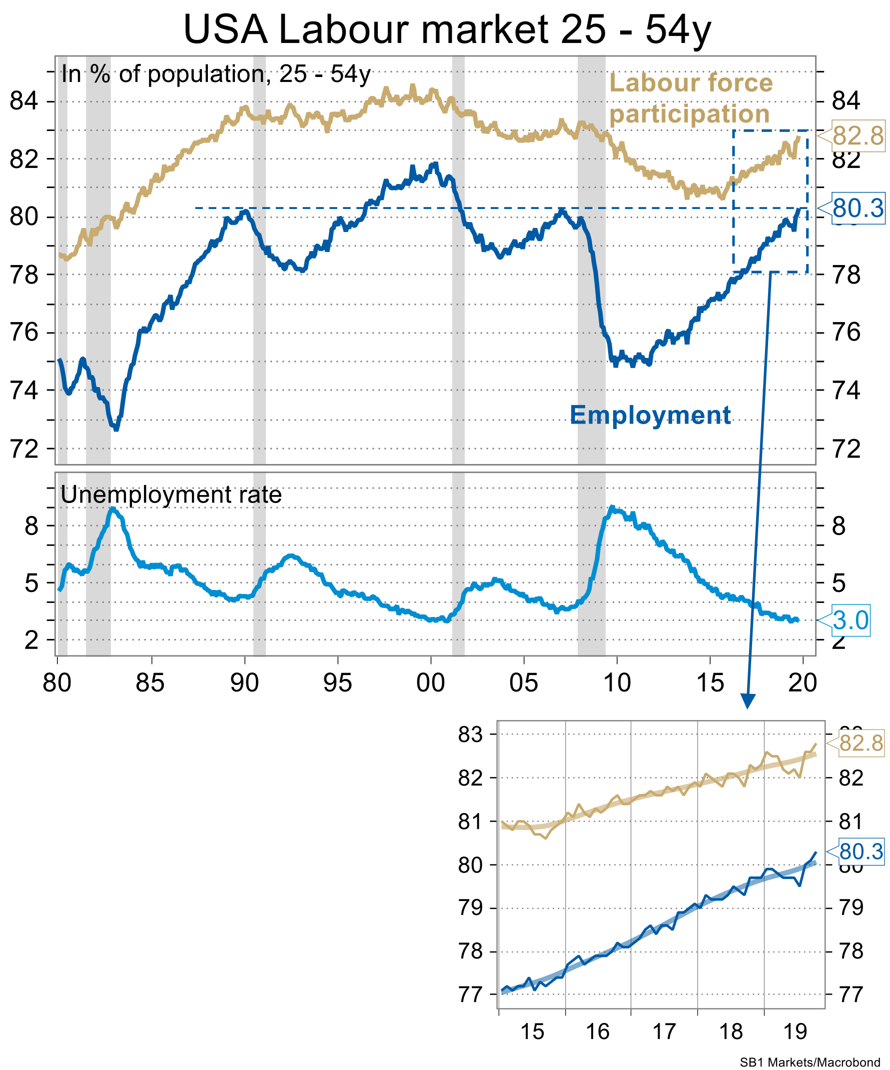
The participation rate may be heading slowly up, the level is low. Employment rate faster up



- The employment rate was flat at 61.0% in October, 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 rose marginally to 63.3. 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

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

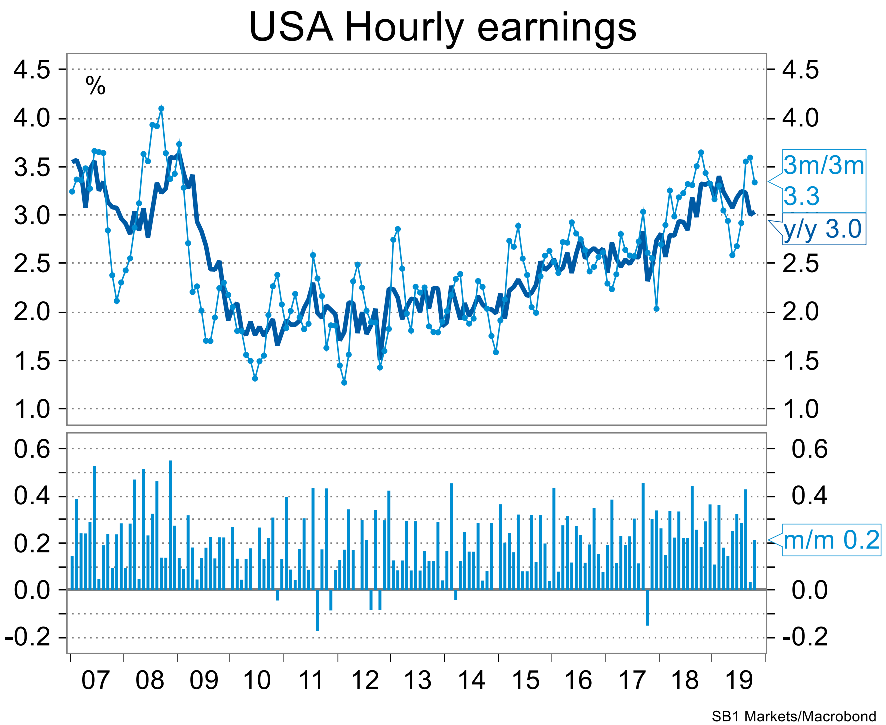
Is this the most relevant employment rate? Most likely. The trend is still up, level not low anymore

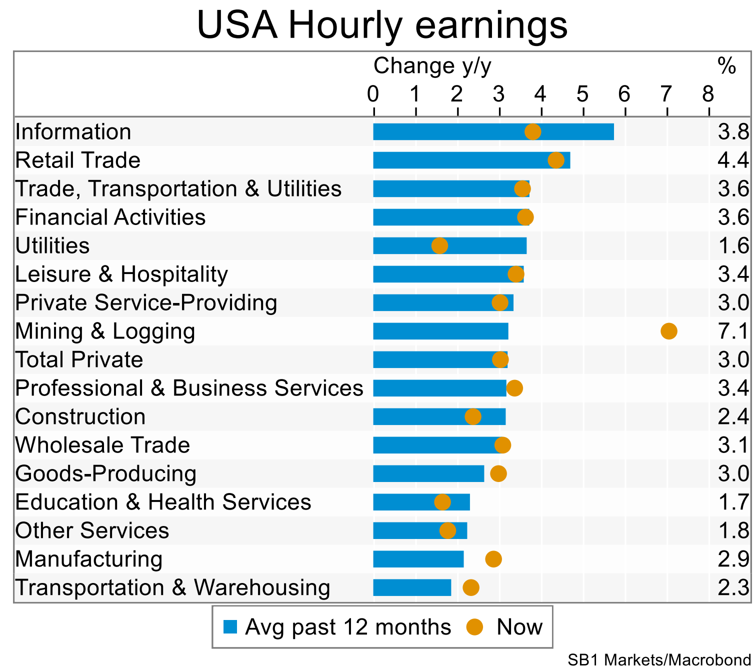


- While the total employment rate (over 16 y) is well below the pre-financial crisis level (more than -2 pp), the core age group (25-54y) employment rate is back at the 2007 peak level
  - » The core employment/unemployment rate most likely gives the most relevant measure of the tightness of the labour market
- In October, the 'core' participation rate rose to 82.8 (a 0.2 pp increase) and employment rose equally to 80.3
- The good news is that the participation rate is inching up, implying that there may still be some reserves left

Wage growth remains moderate in spite labour market tightness

Wages rose 0.2% in Oct, 0.1 pp below expectations, the annual rate flat at (upward revised 3.0%)



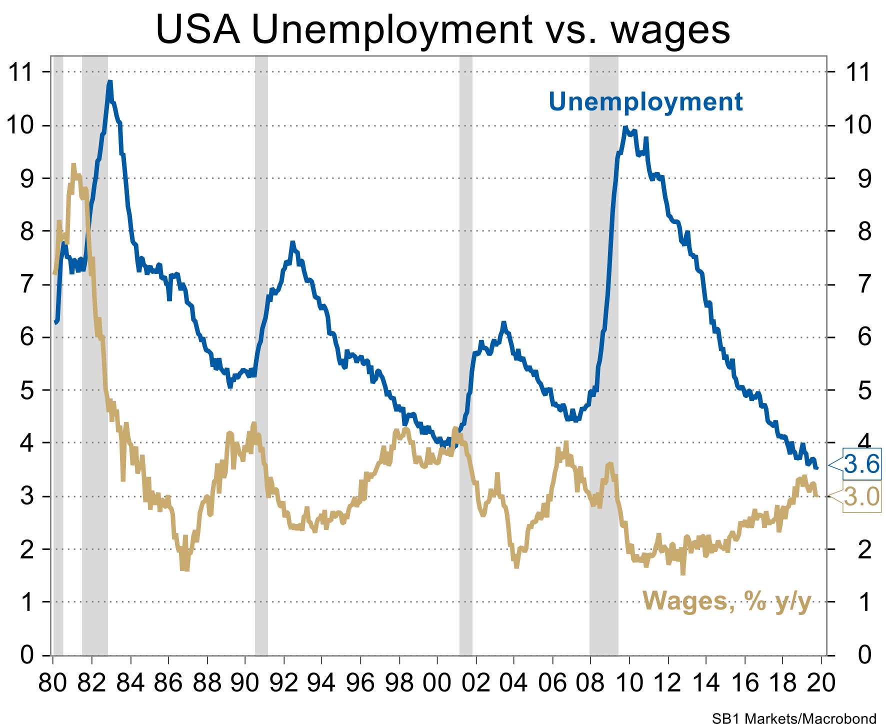


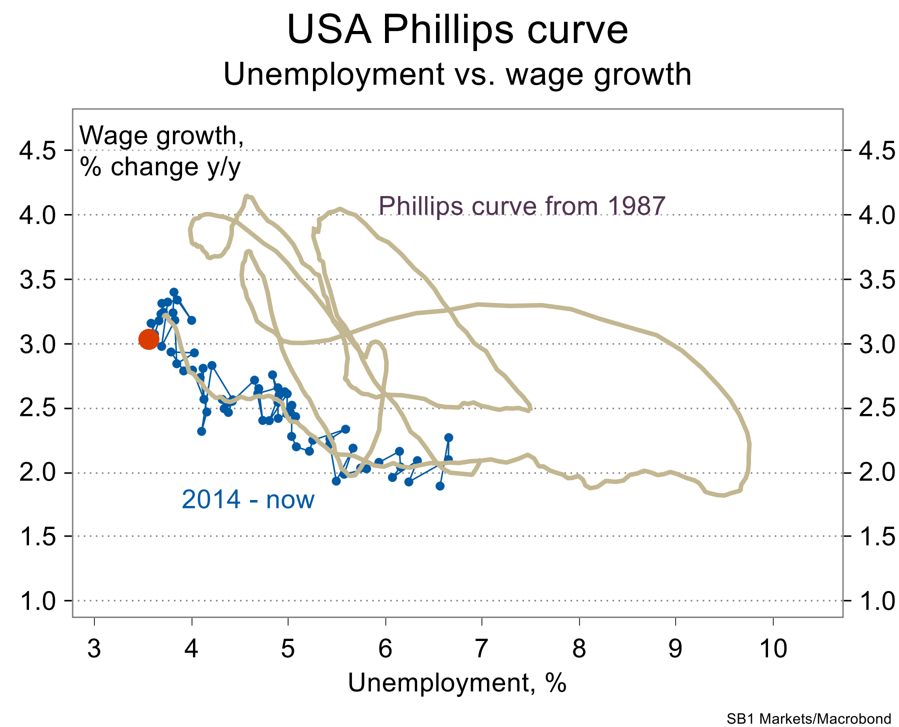
- Wage inflation is not high vs historical standards but it is not low vs. underlying CPI inflation, and not vs productivity growth, see three pages further out. In addition, companies are not reporting much slower wage growth to surveys, and a measure of median wage growth (Atlanta Fed) is still accelerating

- Wage growth rose just 0.2% m/m, following muted growth the prior month. The annual rate came in at 3.0% as expected, while Sept was revised up just marginally. Underlying growth has slowed to 3.3%, 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 decelerating vs. the average in most sectors. Wages are still increasing the most in information activities – and retail trade as advanced on the ranking, to the 2nd place!

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

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

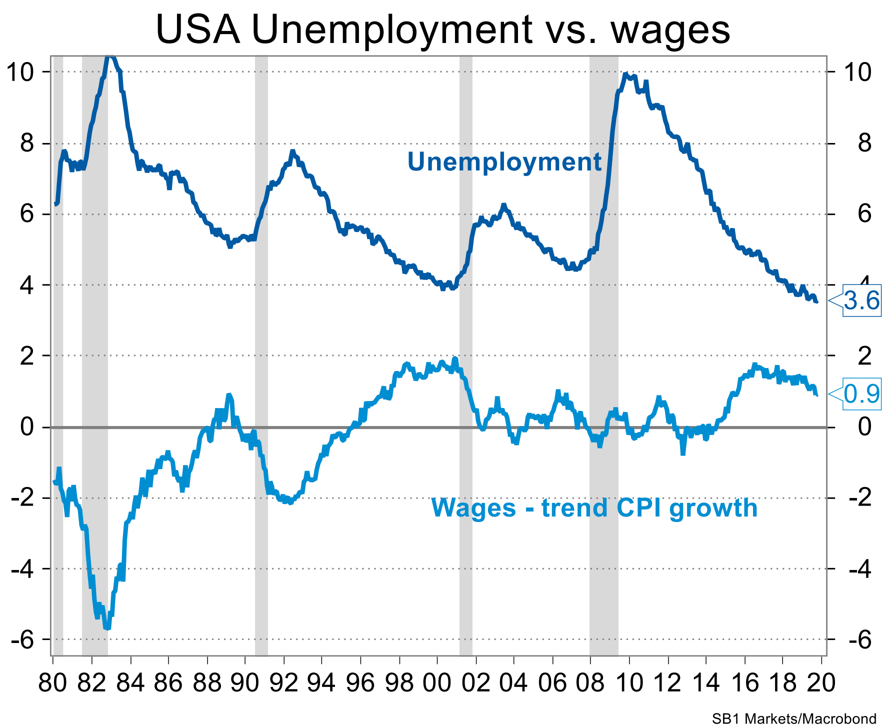


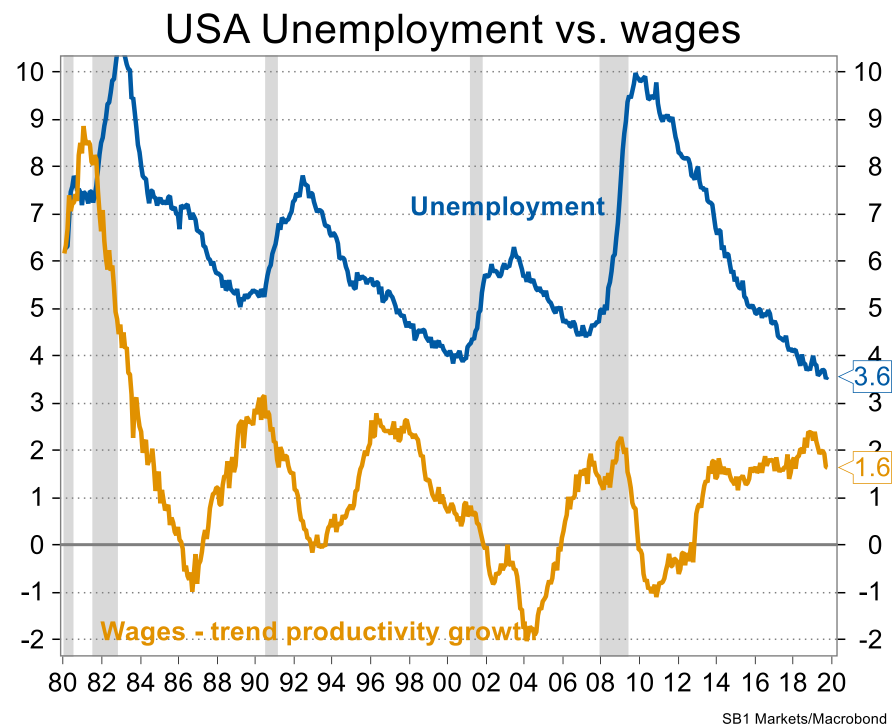


- However, we would not have guessed a wage growth at 3.0% y/y if we were told 6 m ago that the unemployment rate should decline to 3.6%!
- On the other hand, if we calculate the Phillips curve using the employment rate, or the core (25-55y) employment rate, the Phillips curve is either far to the 'right' (and not to the 'left' as at the chart above) or just pretty normal

Wage inflation is not low vs. prices or productivity

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

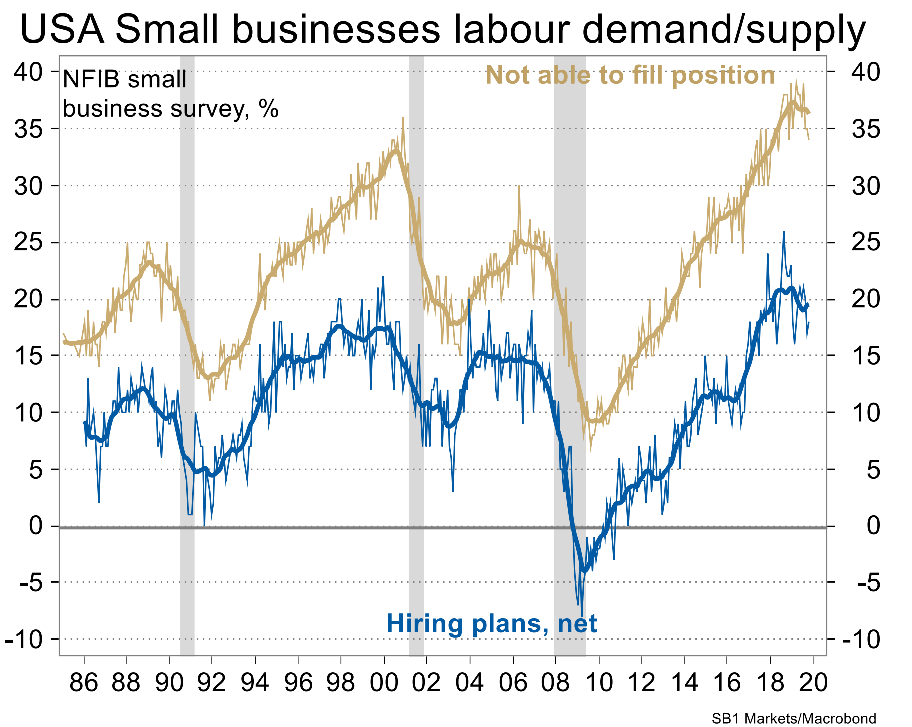


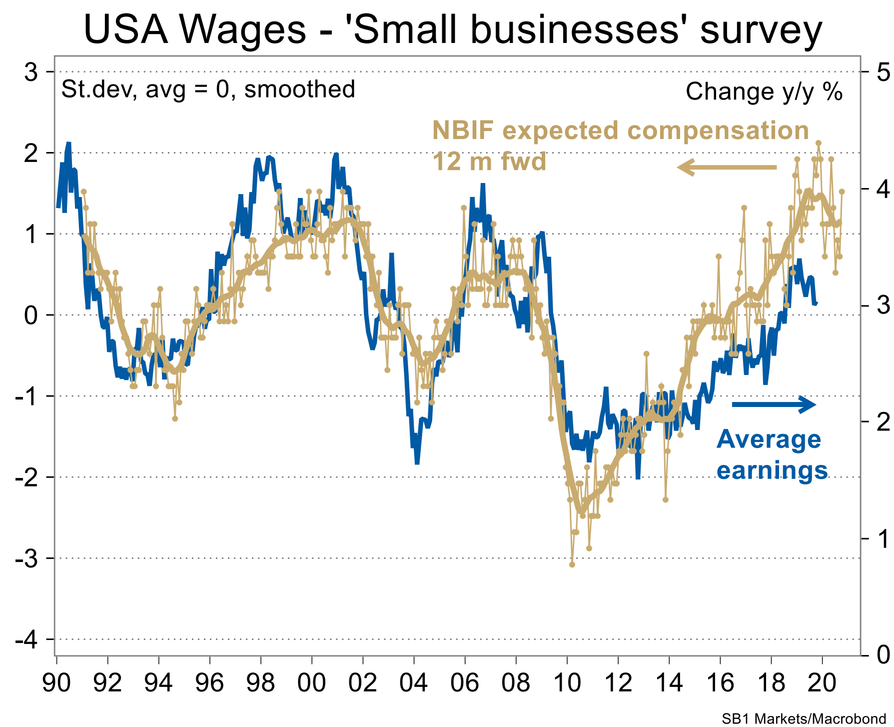


- The Wage inflation – Productivity growth gap, or labour cost per unit produced (ULC, unit labour cost, using the monthly wage data vs the underlying trend in profits) declined to 1.6% in October – slowing from above 2% in early 2019
- Another indication: The corporate profit share has fallen sharply the previous years because cost inflation (=wage inflation – productivity growth) has been higher than inflation, as normal when the labour market tightens
- Real wages has been increasing faster than normal too

Small companies are reporting tight labour market but keep the lid on wages?

Both hiring plans and the share of businesses not able to fill positions may now have peaked

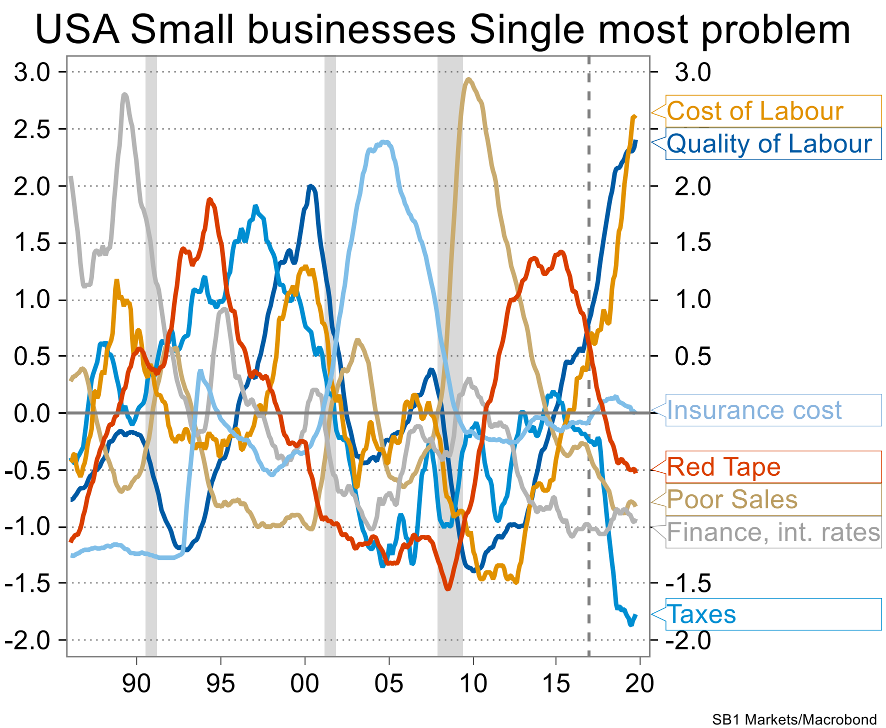


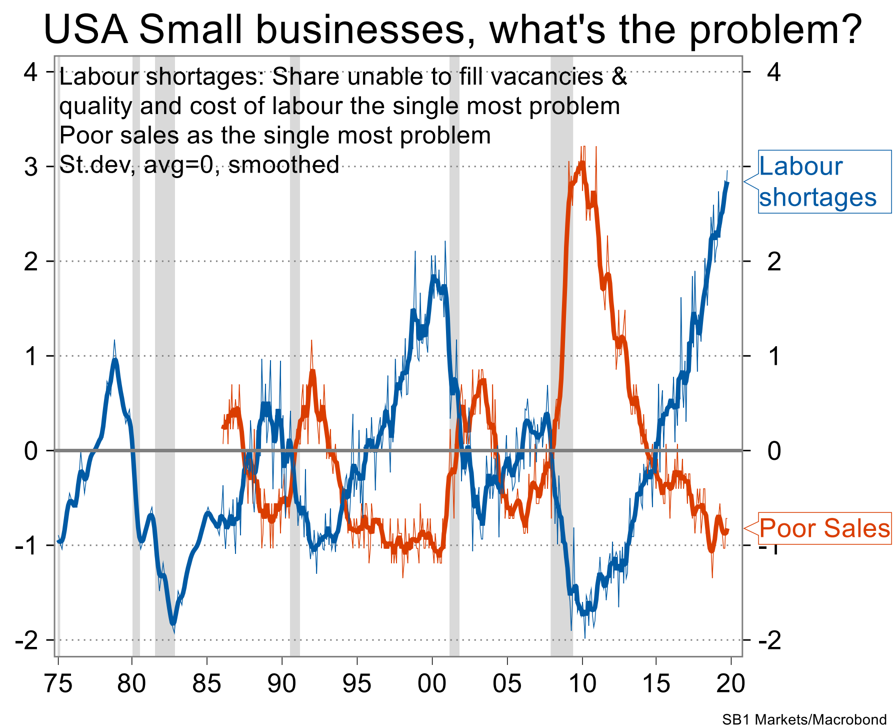


- SME companies are reporting somewhat less aggressive hiring plans, the survey was unchanged in Oct. Hiring plans have become a tad less aggressive in 2019, compared to the late 2018 levels. An early sign of demand weakness or due to difficulties attracting labour? These data are volatile – and the 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 have come down the past 3 months. Companies are also reporting unprecedented problems finding qualified labour (check next page)
- Compensation expectations rose in October, after having been shifted down recent months. The level is still quite high and does not necessarily signal slower wage growth – but not wage inflation take off either

What’s the problem?

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

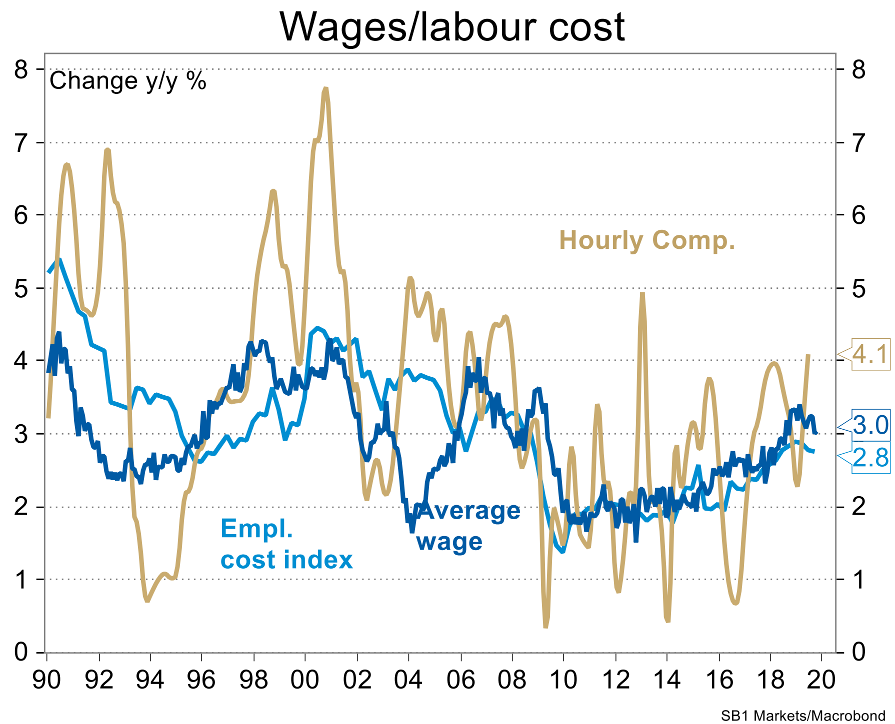


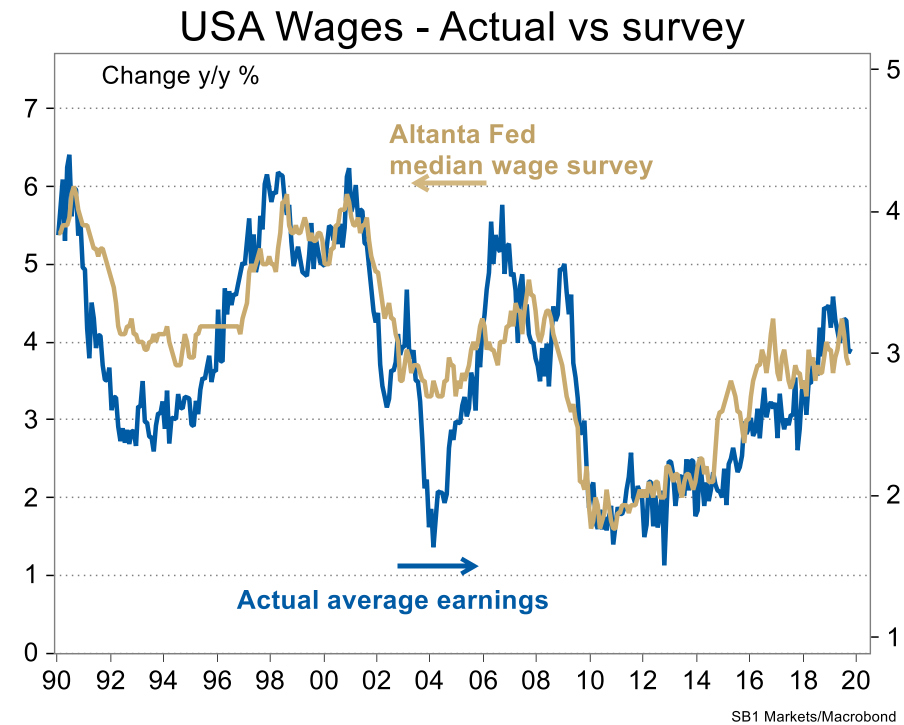


- BTW, households are reporting that it is unusually easy to find a job. Confirms our view that the labour market is still very tight

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

Still, wage inflation has probably not accelerated in 2019



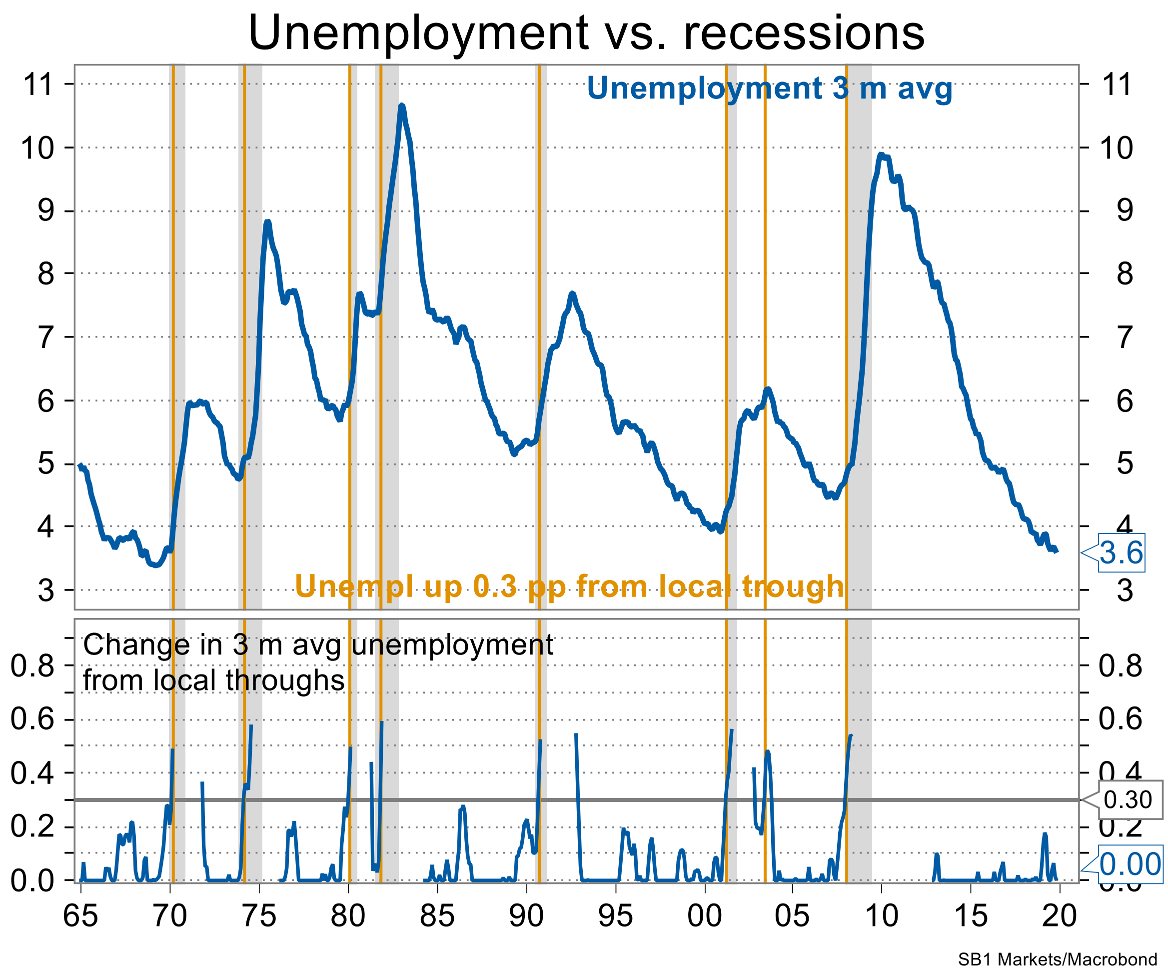


- In the monthly employment report, wage inflation was flat at 3.0% y/y (from an upward revised September)
- The Employment cost index ticked up to 3.0% q/q annualised in Q3, from 2.4% in Q2. The annual rate was flat at 2.8%, it peaked at 2.9% in Q1, but is trending up over the recent years
- Hourly 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 4.1% q/q in Q2 and by the same pace y/y, the highest since 2013
- Atlanta Fed's wage survey reports 3.7% median wage growth, slowing since June but probably signalling slightly higher average wage inflation

SpareBank 1 MARKETS

Unemployment not up yet, no recession now?

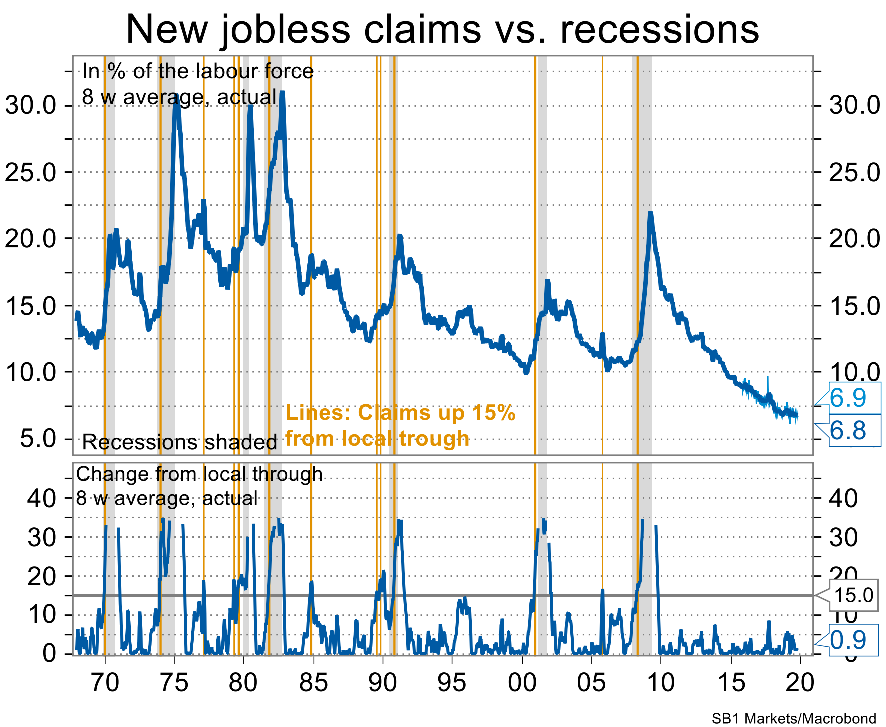
Unempolyment usually turns up as the recession hits (but not before)

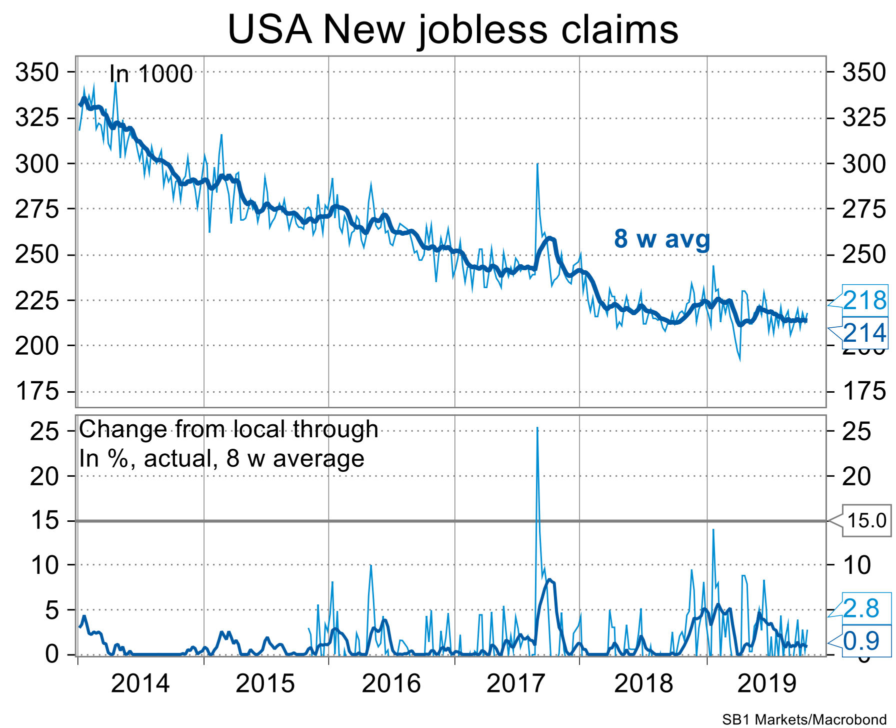


- A 0.3 pp increase in the 3 m avg unemployment rate has been a quite safe recession confirmation, but has not been a good recession pre-warning, because it happens 'too late' – because unemployment is not a leading indicator
  - » Unemployment always increases substantially during recessions
  - » An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

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

Jobless claims ticked up to 218' last week, just above the 8 w avg at 214'



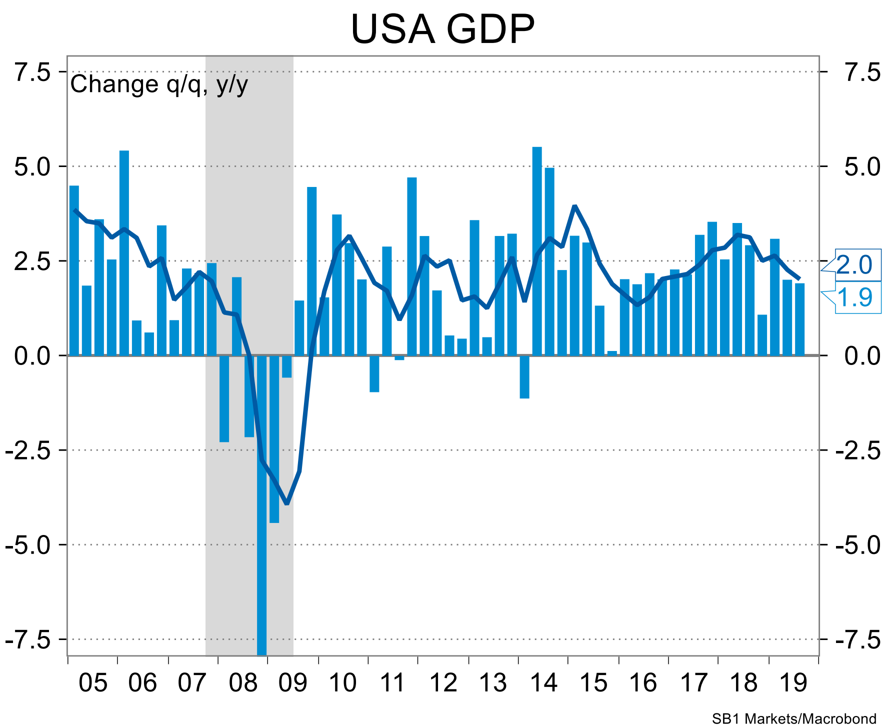


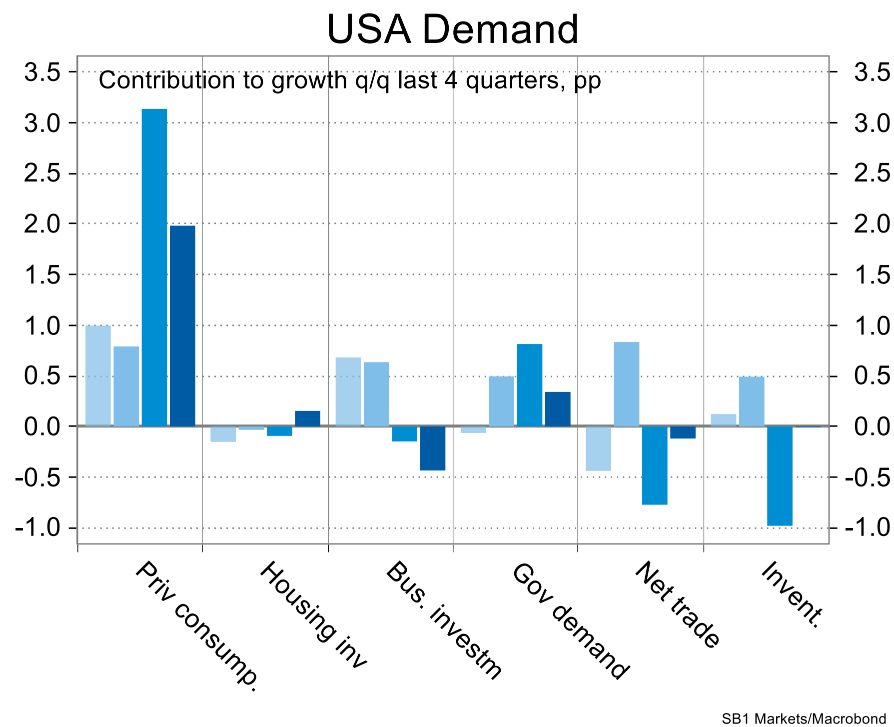
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

SpareBank 1 MARKETS

GDP growth slowed less than expected in Q3, up 1.9%

Growth cooled just marginally; consumption saved the day, business investments the major drag

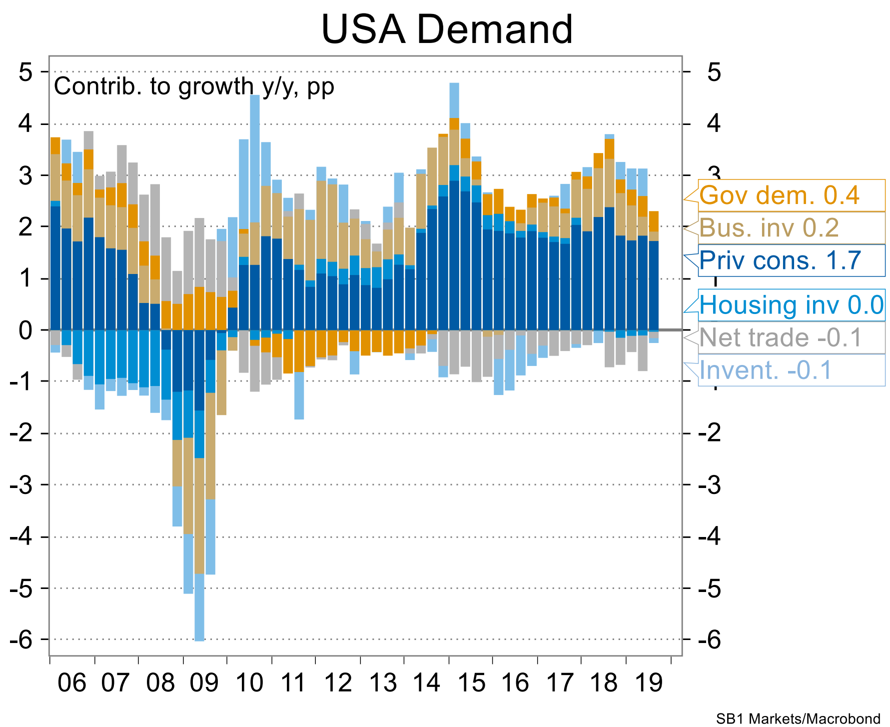


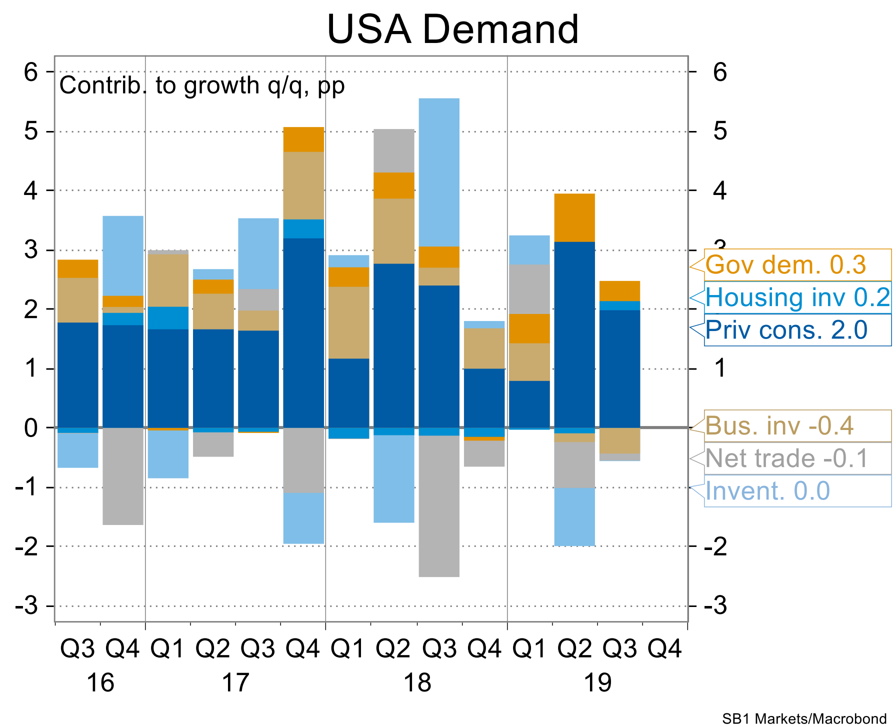


- GDP grew by 1.9% q/q annualized in Q3, 0.3 pp better than expected (but close to the nowcasters) and just a 0.1 pp downtick from Q2. The annual growth rate fell to 2.0%, from 2.3%
- Private consumption rose by a solid 2.9%, contributing by 2.0 pp to the Q3 growth rate. Still, consumption slowed from an impressive 4.6% speed in Q2. Government demand grew 2%, lifting GDP by 0.3 pp. Business investments fell by 3%, close to our expectations, and dragged GDP down by 0.4 pp, the weakest since Q4 2015. Net trade declined marginally, housing investments rose slightly
- Core PCE inflation (Fed's price measure) accelerated to 2.2% in Q3, from 1.9% in Q2, in line with expectations. Definitely an argument supporting Fed's signal that it will now pause its monetary easing, as inflation pressures are not muted

Private consumption remains the main growth driver, helped by gov. demand

Solid consumption offset a moderate decline in business investments this quarter

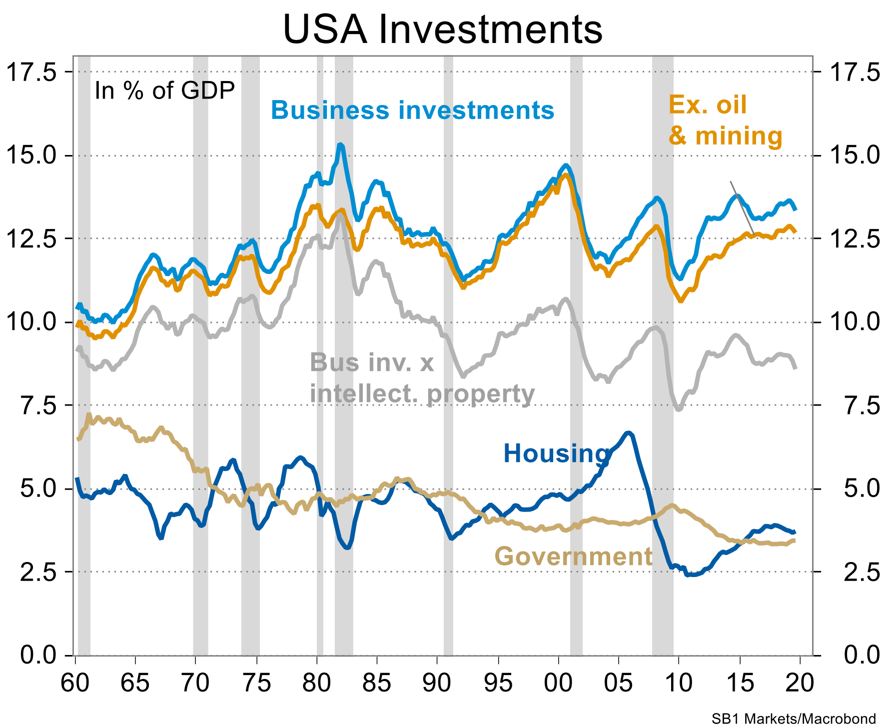


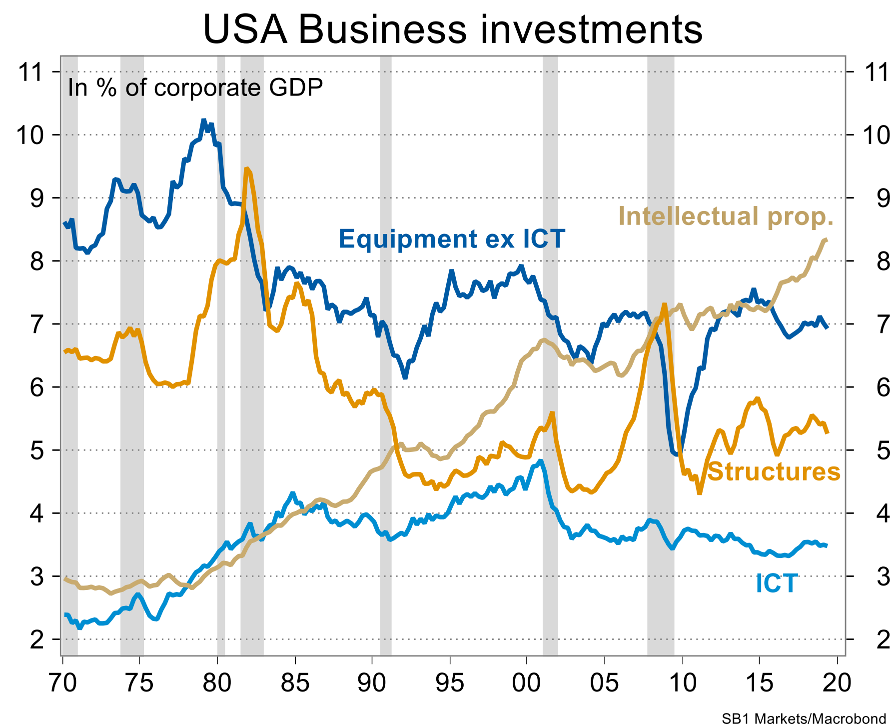


- Private consumption lifted growth by 2.0 pp q/q, and by 1.7 pp on the annual rate y/y, out of total GDP growth at 2.0!. Housing investments made a marginally positive contribution, by 0.2 pp on the quarterly rate
- Business investments fell by 3% and dragged growth down by 0.4 pp. Business investments are still up 1.3% y/y (a 0.2 pp contribution)
- Imports rose more than exports and net trade deducted 0.1 pp of GDP growth q/q. The contribution on annual growth has been negative since 2015 – because domestic demand has been on the strong side
- Government demand made a 0.3 pp contribution, following a strong 0.8 pp pp in Q2 – and by 0.4 pp the last year

Business investments are turning down, from a quite high level

Housing investments may have stabilized, government investments have bottomed?

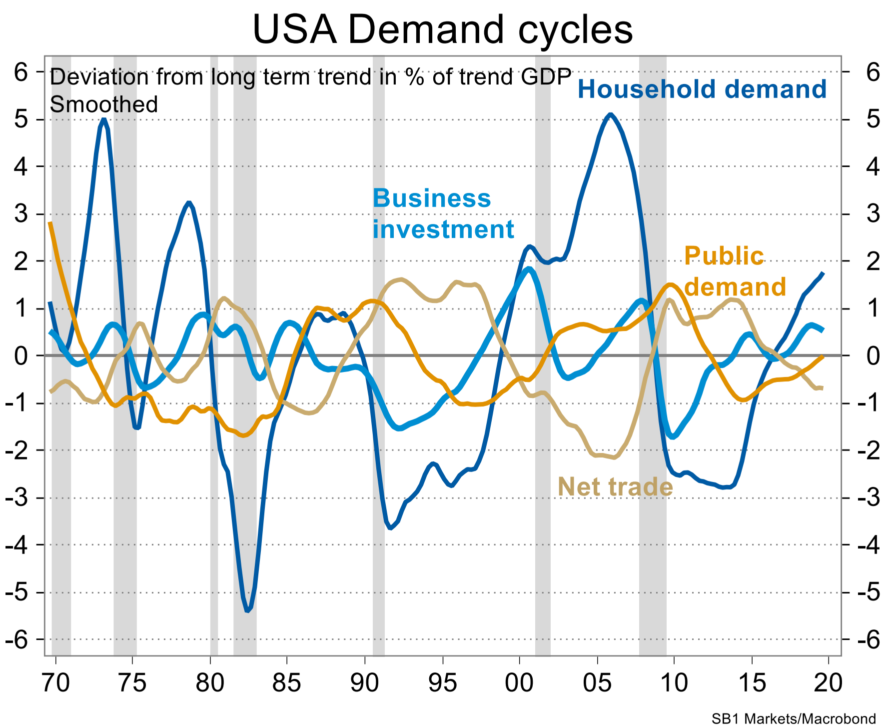


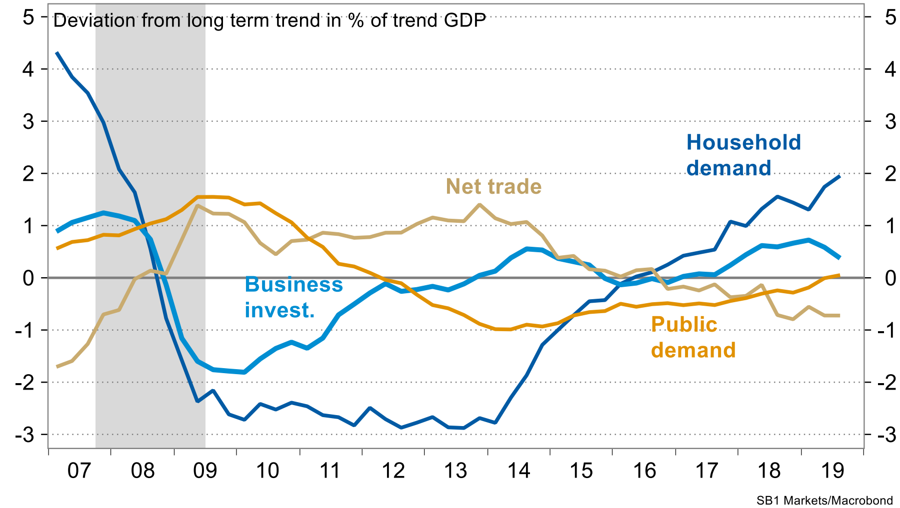


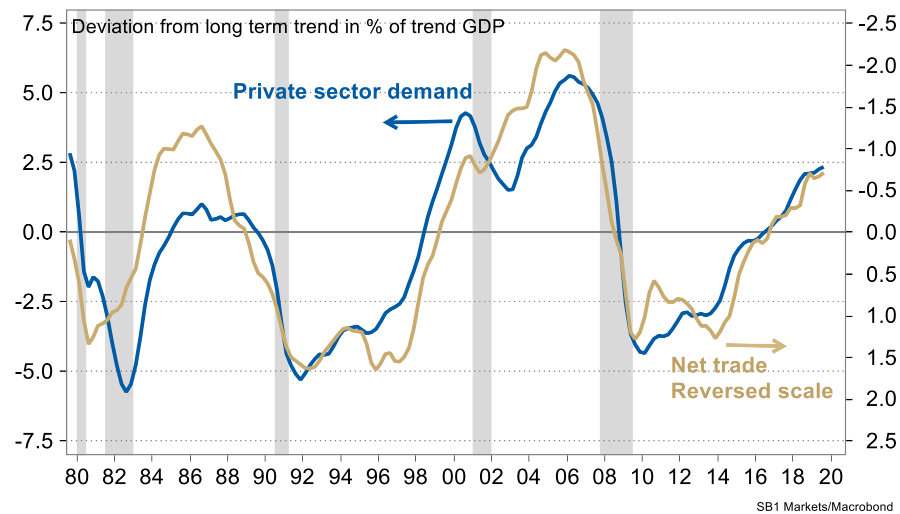
- Total business investments have fallen for two consecutive quarters, the first decline since Q4 '15. Oil investments were the main driver for higher business investments in 2018. In Q3, both total bus. investment and oil investments declined, more than half the downturn was due to lower oil investments, the fifth decline in a row
  - » IP/software investments are still increasing at a high speed (some 8% y/y), and now constitutes more than 1/3rd of all business investments. These investments have always been less cyclical than investments goods, indicating that cycles in total investments will be less harsh than before. In addition, business investments in structures are not dangerously high, neither are equipment investments.
- Housing investments turned marginally up in Q3, after slowly slowly declining vs GDP. The level is not very high – and should a downturn come, it can not impossible be a very large one

Households the main demand force, business investments have peaked

Public demand has recovered. Net trade trending down, due to strong domestic demand



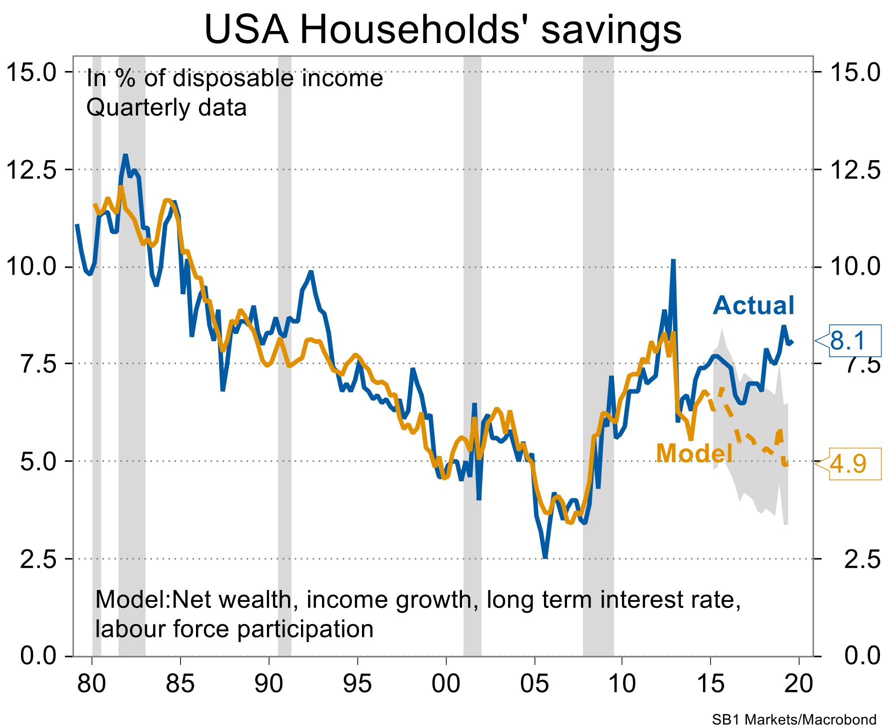


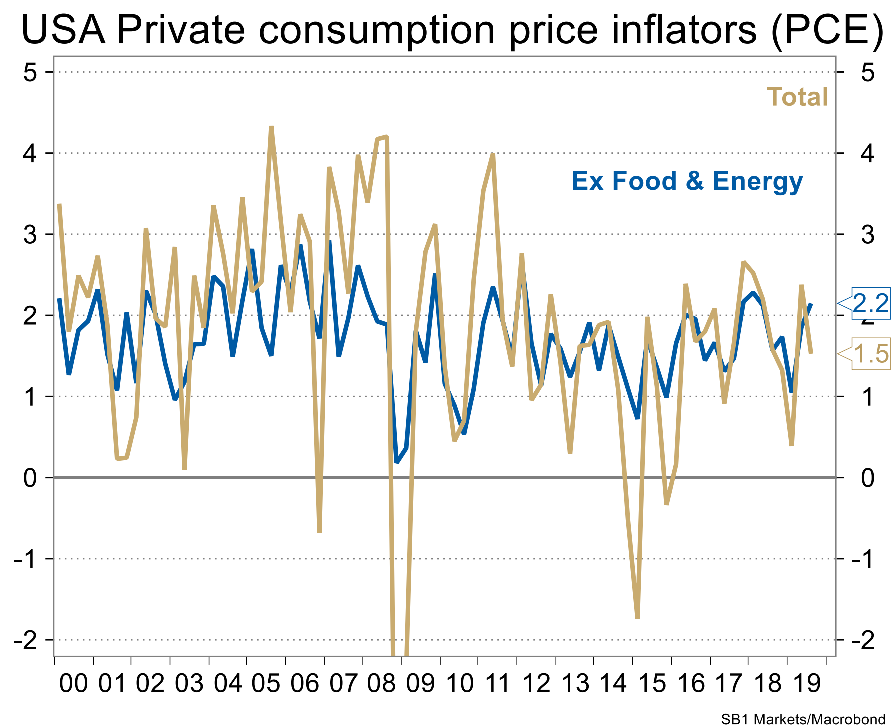


- A strong USD is not to blame for a negative growth contribution from net trade the past years, a strong USD is rather a result of strong domestic demand
  - » Net trade correlates close to the activity level in the US, or rather more precise, to private domestic demand in the US
    - Net trade absorbs 1/3 of changes in private domestic demand, the inevitable net trade 'leakage', as domestic production can not take the whole adjustment

Marginally higher savings in Q3, trend steeply up

The rising savings rate indicate that tax cuts have largely been saved, not spent, signalling robustness

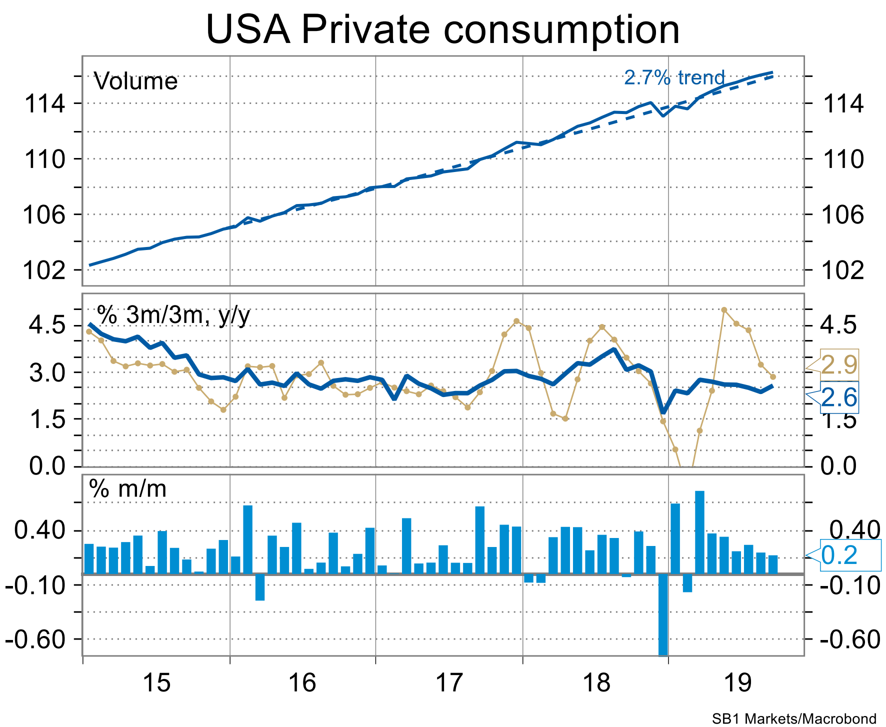


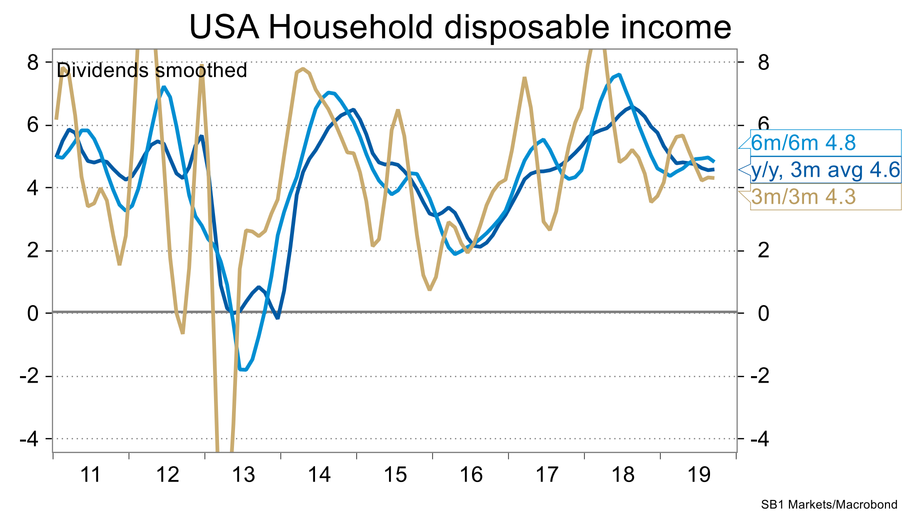


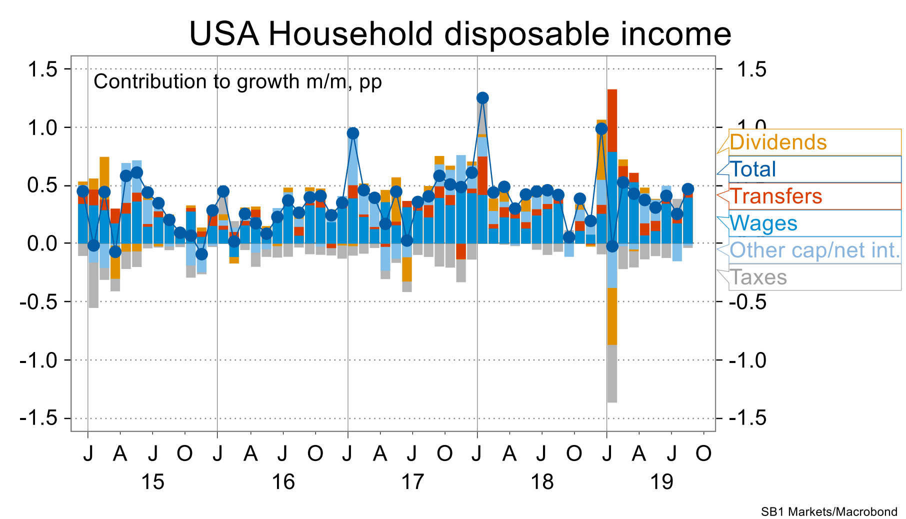
- The savings rate rose marginally to 8.1% in Q3, from 8% in Q2. Savings have increased from 7% in 2017 (after some substantial upward revisions earlier this year), far above our model f'cast. Household cash flows are strong!
- The core PCE price deflator accelerated to 2.2% in Q3, from 1.9%, 0.2 pp above the Fed's 2% long term inflation target! The total PCE deflator eased to 1.5%.

Consumption is moderating but still expanding at a solid rate

Consumption rose 0.2% in Sept and was up 2.9% in Q3. Income growth stabilized recent months



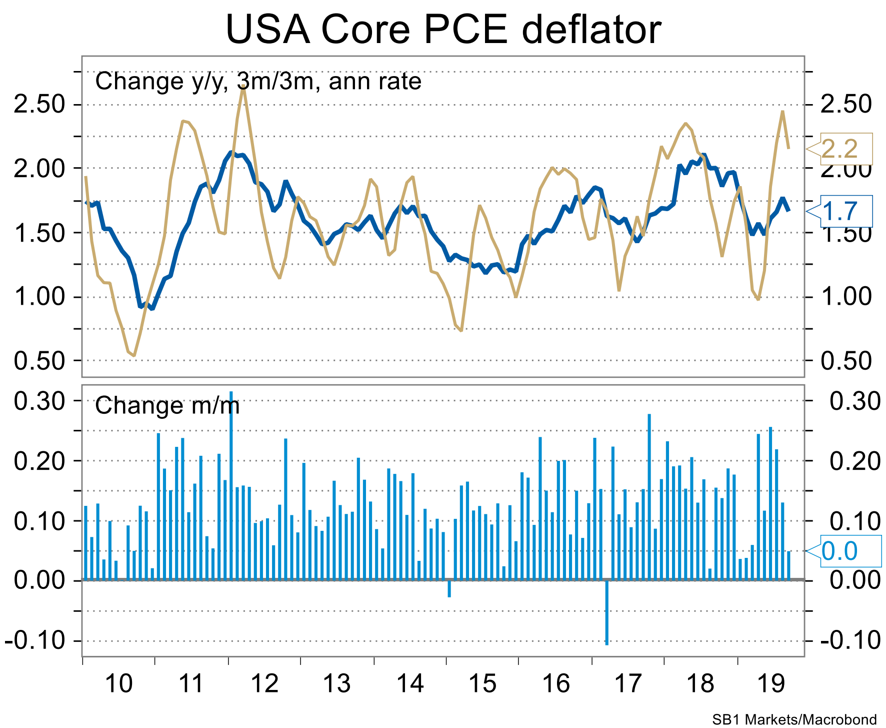




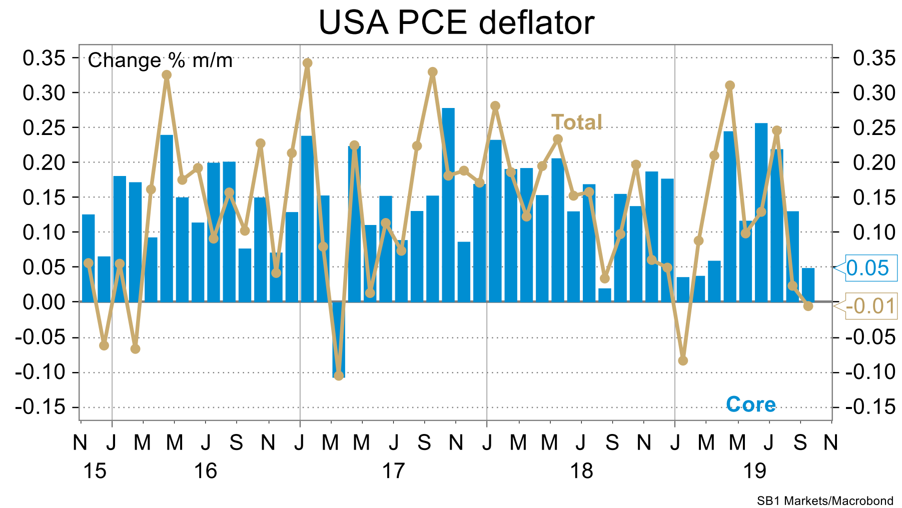
- Private consumption grew 0.2% m/m in Sept, 0.1 pp softer than expected but Aug was revised up one inch. Consumption was up 2.9% in Q3, from soaring 4.6% in Q2
- Households' nominal disposable income rose 0.3 m/m, as expected. Income was up 4.3% q/q, a slowdown from 4.7% in Q2. annual growth at 4.6%. Total wage & salary income up 5.2% y/y (volatile data)
- The savings rate inched up to 8.3% in Sept, a rather high rate

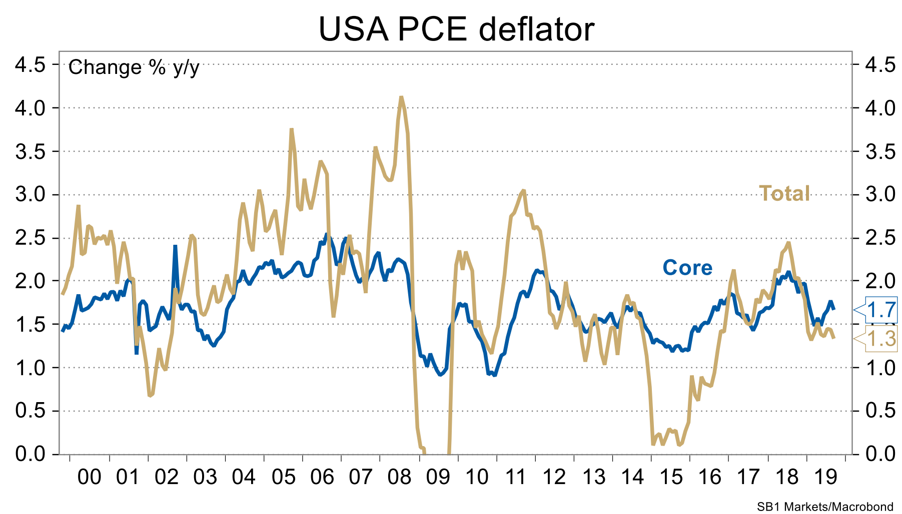
Core PCE y/y inflation slowed to 1.7% in Sept but Q3 up 2.2%

The Core PCE deflator rose just marginally in Sept after a strong July/Aug, lifting Q3 to 2.2%



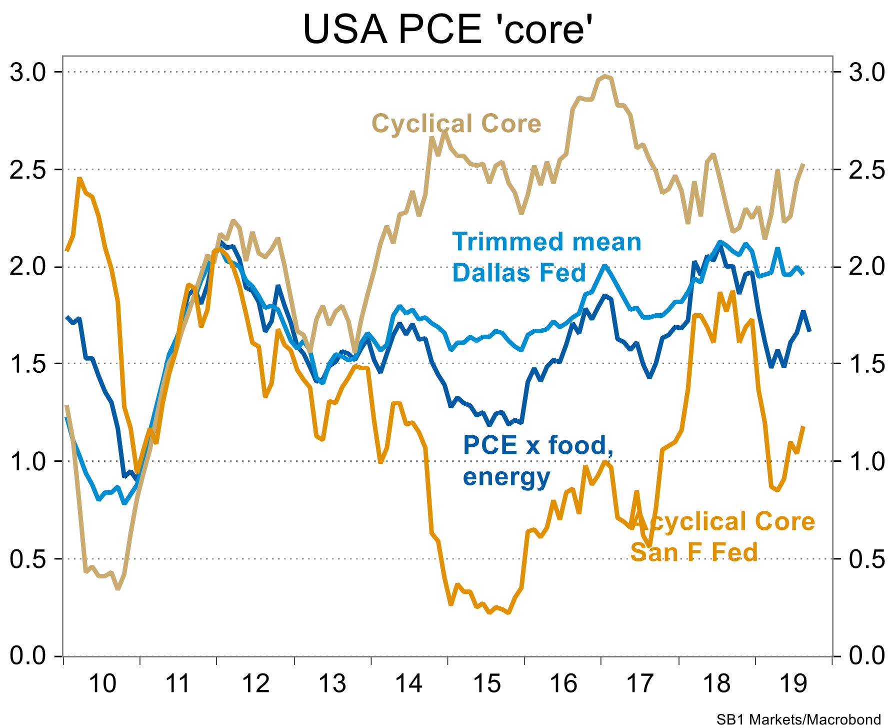
- The core price deflator rose by just 0.05% m/m in Sept, slightly softer than expected. The monthly speed has been strong in June-Sept, bringing the q/q rate up to 2.2% in Q3. The annual rate inched down to 1.7%, as expected
- Total PCE inflation eased to 1.3 y/y. Total inflation has retreated as energy prices have come down. Good for real income growth!
- Core PCE is 0.3 pp below Fed's price target but the underlying speed is 0.2 pp above, inflation pressures are not muted. Thus, inflation alone does not justify a rapidly easing monetary policy (as the Fed recognizes, in noting that inflation near the price target is expected over time)

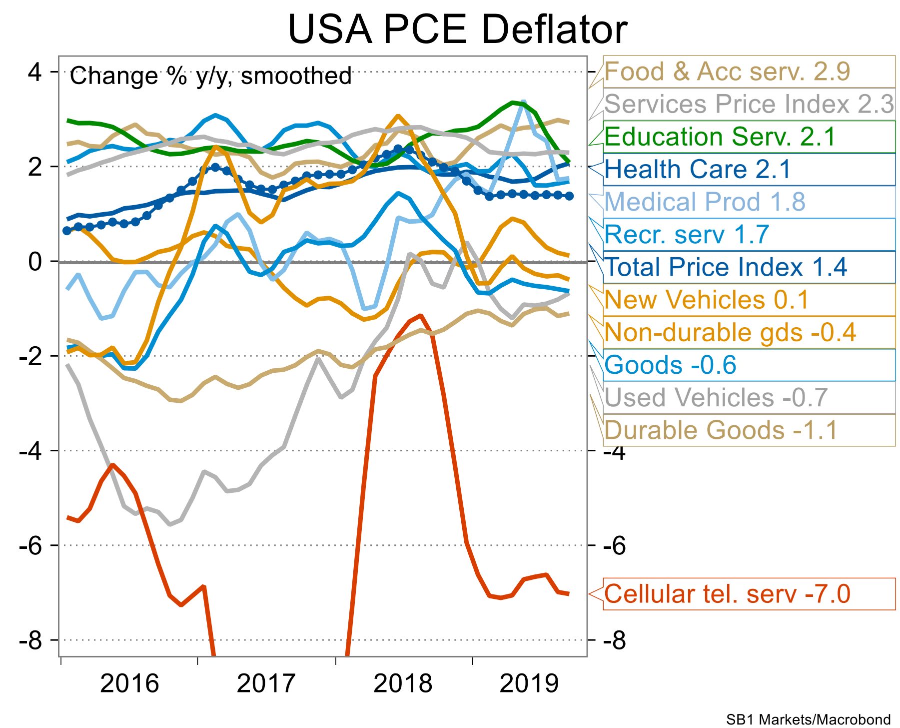




Cyclical ‘PCE inflation’ at 2.5%, heading slowly up

Many sectors have flattened/slowed, but the trimmed mean is still at target

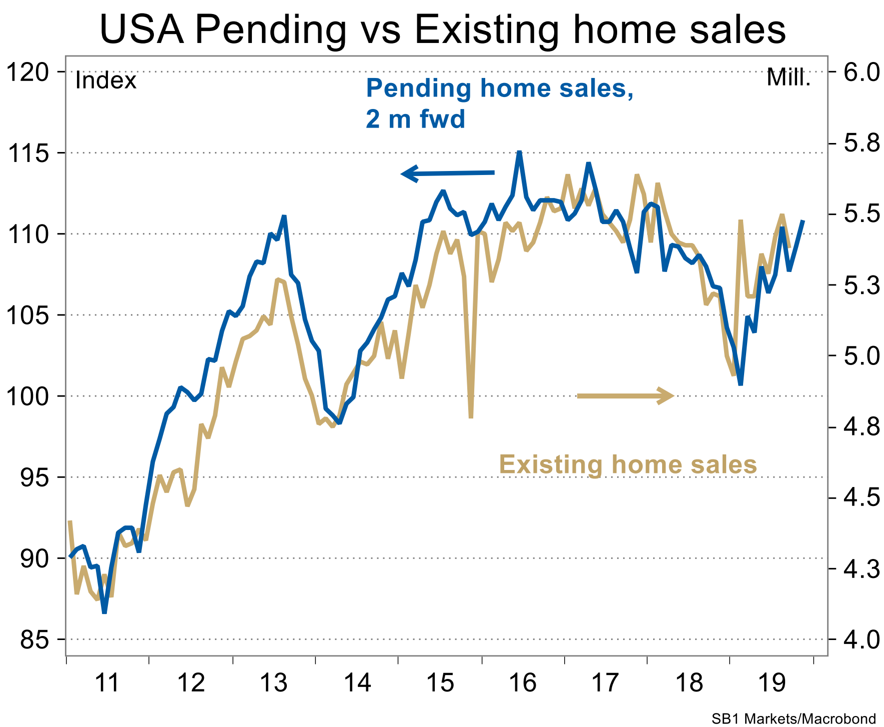


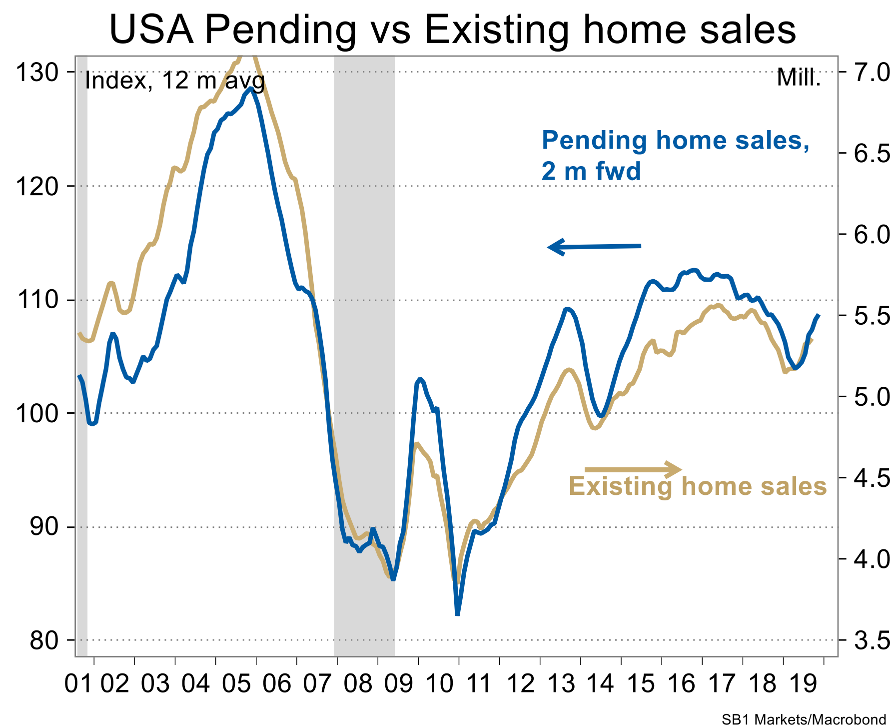


- Durable goods, cell phones and used vehicles are dragging prices down

Pending sales are climbing, not far below 2018 peak level

Pending home sales are up more than 10% since last Dec, most of the 17/18 decline reversed

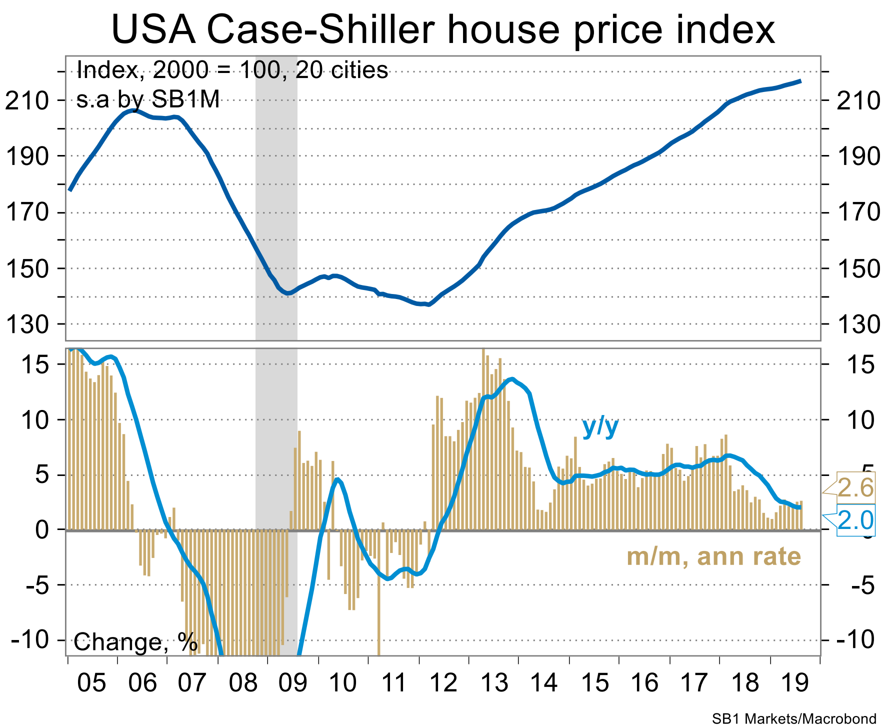


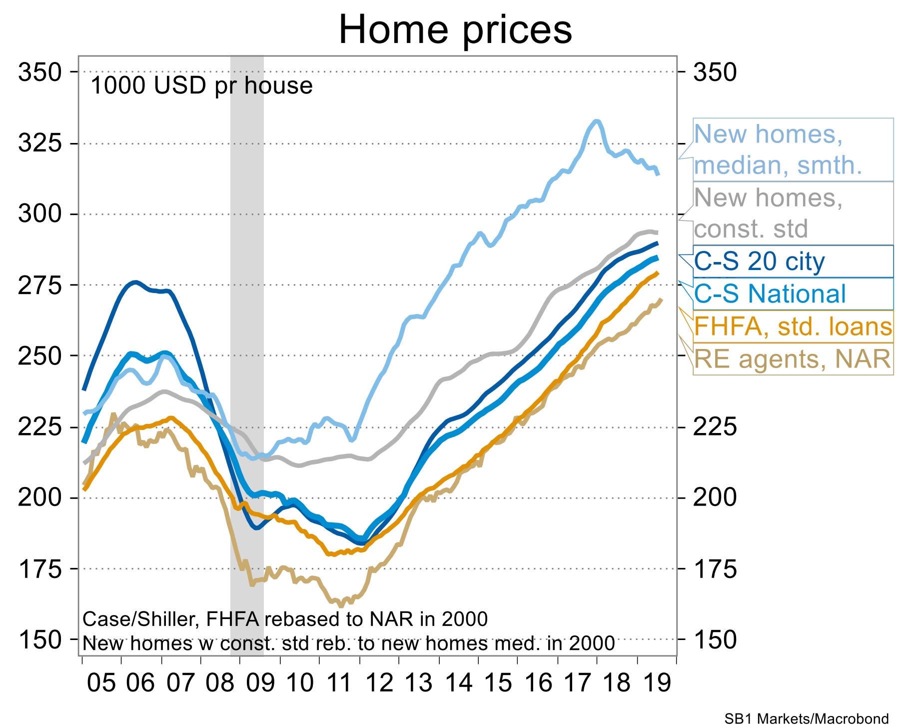


- Pending (existing) home sales rose 1.5% m/m in Sept, fully reversing the July decline. Sales are heading steeply up, a 10% increase since the bottom in December '18, following a 10% decline in 2018
- Actual existing home sales are increasing strongly too. Pending sales are now pointing to steady/slightly higher existing home sales, these are usually quite well correlated)
- Strong home sales adds to upbeat housing data this autumn, demand must be strong

Case Shiller house price inflation slowly accelerating

C-S prices rose 2.6% ann. in Aug, was below 1% in early 2019. No take off – but no setback either





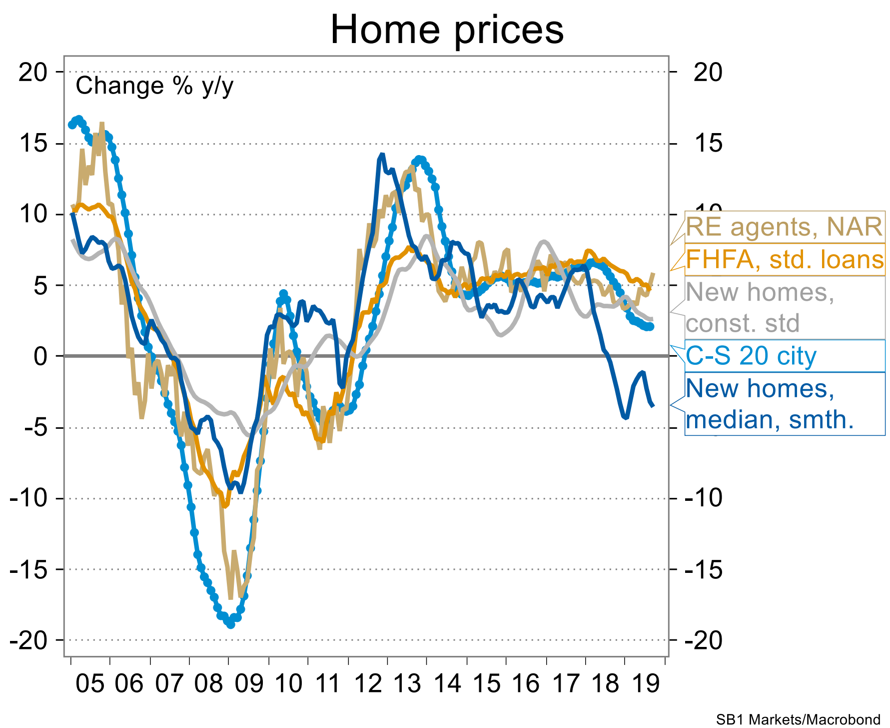
- Some data details: The seasonally adjusted Case-Shiller 20 price index fell by 0.2 m/m in Aug, according to S&P, 0.1% weaker than expected. Following our seasonal adjustment (which is needed because there is a substantial residual seasonal pattern in the 'official' data) prices rose 0.21% (2.6% annualised). House price inflation has accelerated slowly since early 2019. Annual rate down to 2.0%, from a 6-7% in early '18
  - » Other house price indices are mixed, check next page
- The CS 20 city (nominal) avg is some 5% above the 2006-peak level. The national avg (including more than the 20 cities) is 13% above the peak (while the real price levels are well below previous peak and much lower vs household income)
- Moderate house price inflation is probably the softest housing market data point at hand

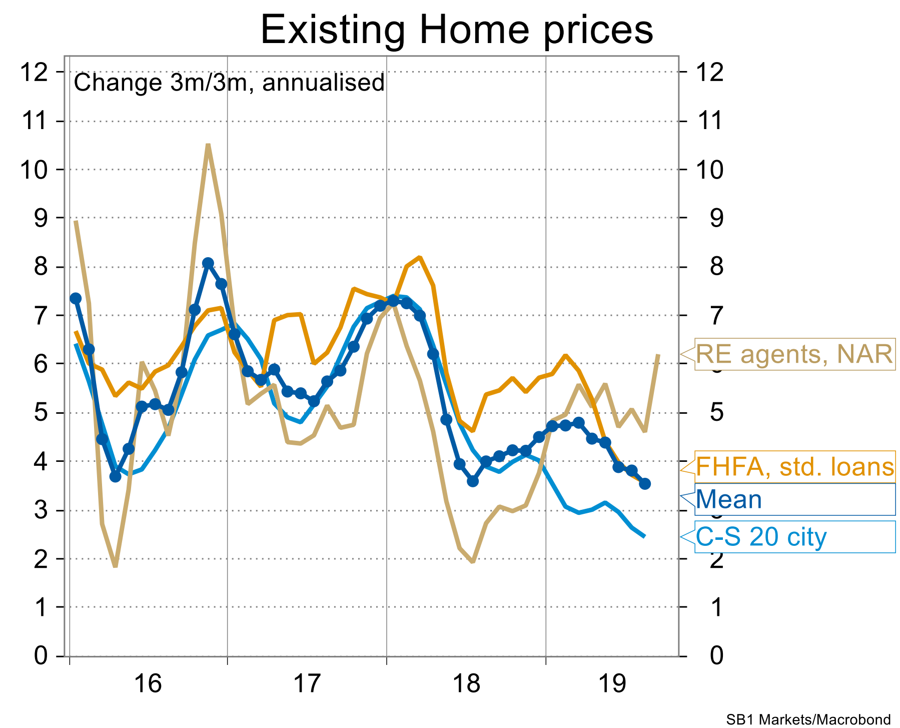
We are making an extra seasonal adjustment of the S&P Core Logic/Case-Shiller price indices as there are a significant seasonality left in the 'official' seasonally adjusted data

SpareBank 1 MARKETS

Mixed house price indices; 2 of 3 are decelerating, 1 gaining pace

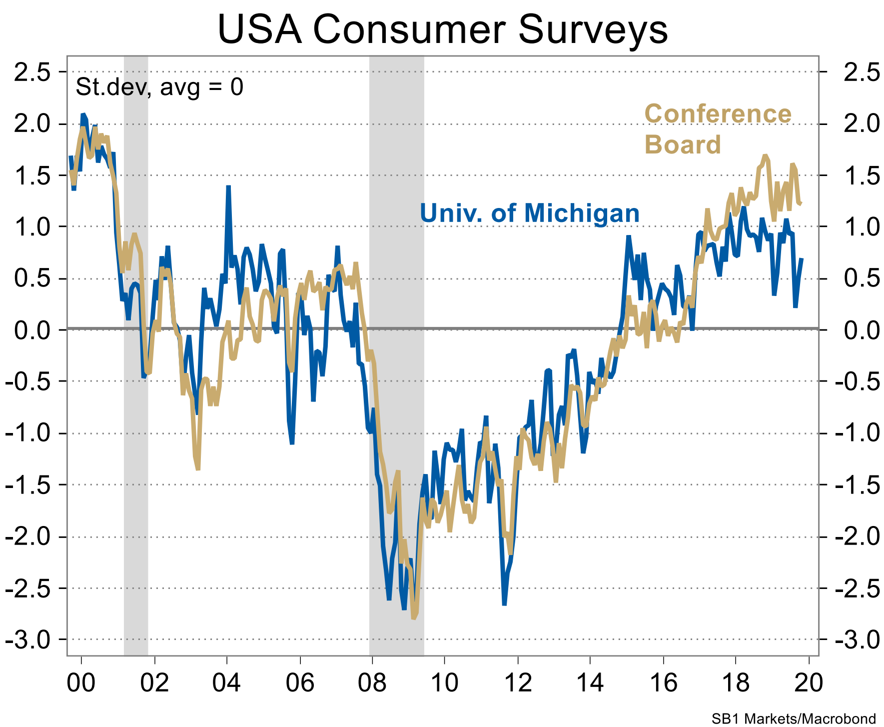
The C&S index is the softest but FHFA report slow growth recently, too

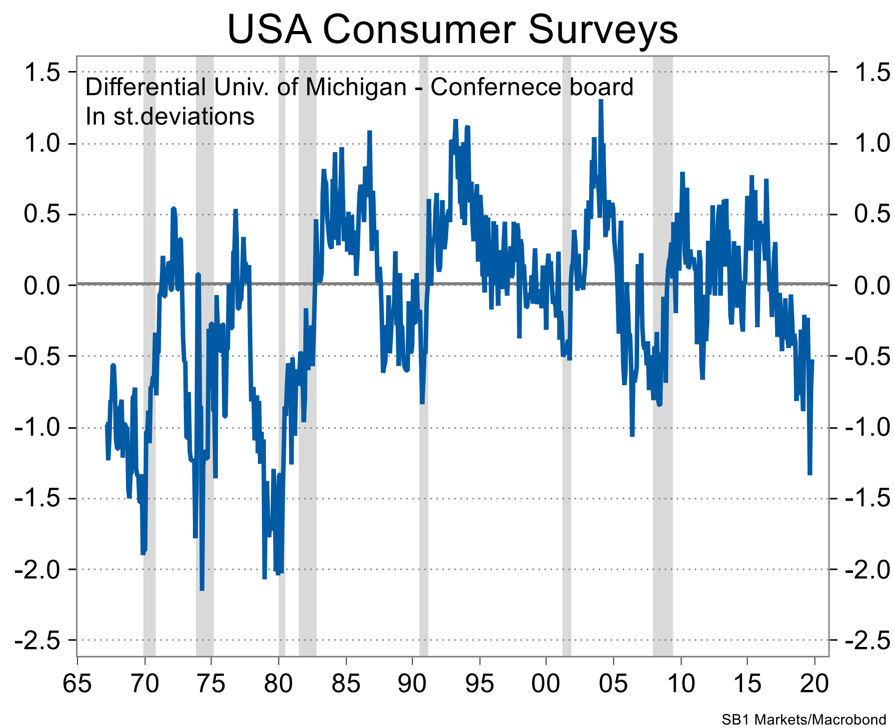




- The FHFA index (for homes financed by state guarantied loans) rose 0.4% in Aug, down from 0.4% in July. Underlying growth (measured 3m/3m) has cooled since Q1, to 3.6% in Aug, well below the 2018 growth trough
- The realtors' index (NAR), which is more volatile, spiked in both Aug and Sept. Underlying growth soared to 6.2% (3m/3m)
- The C&S index reports slower growth now 2%+
- New home prices are still falling (before standard adjustment) – implying that more cheap homes are sold

Conf. Board's Consumer Confidence stable in Oct, not far below the local peak

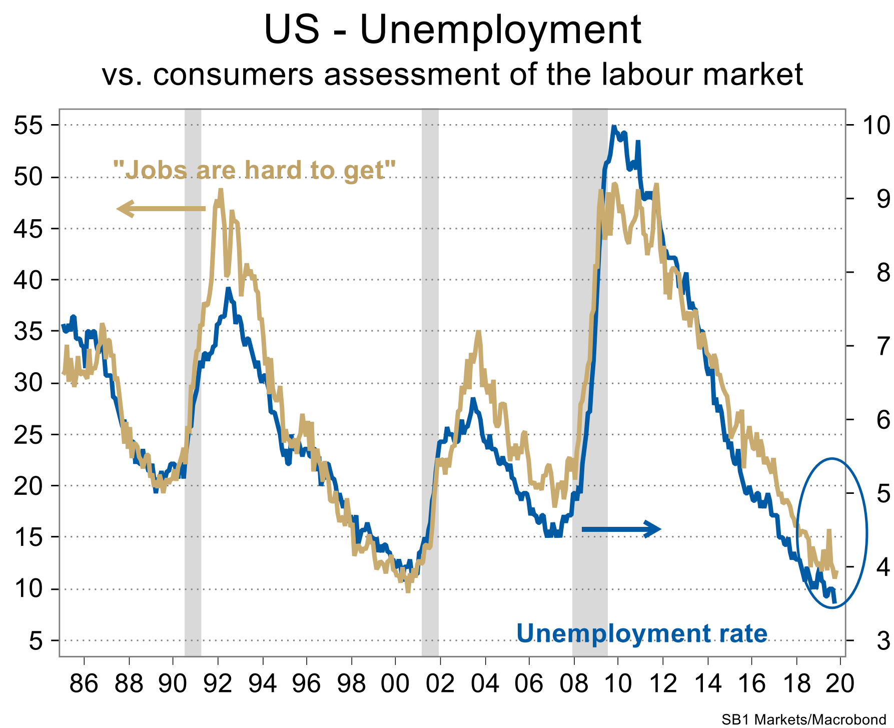


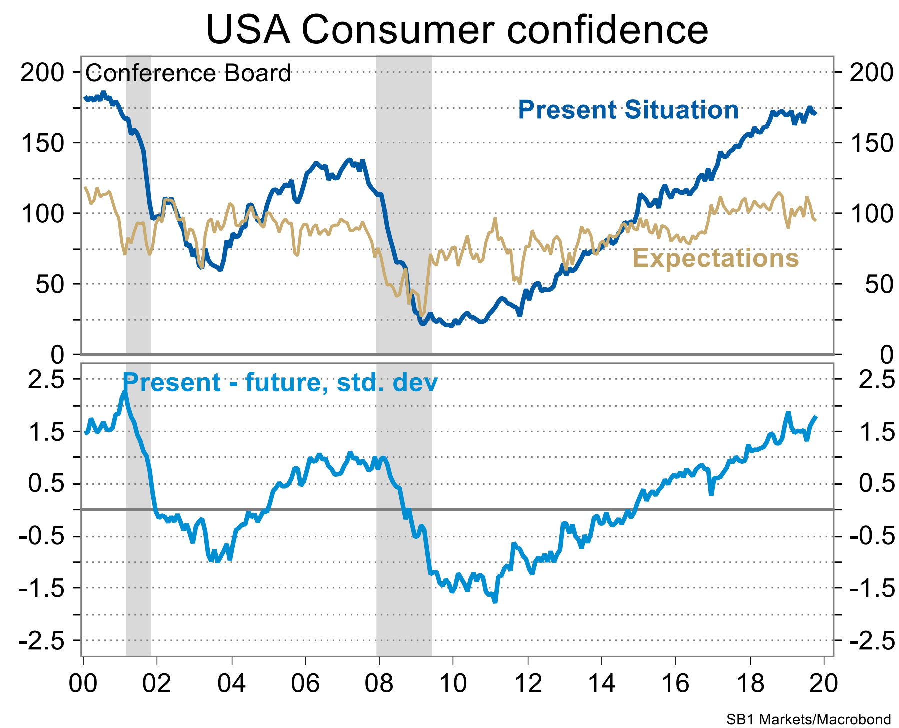


- Conference Board's consumer confidence fell but just marginally in October. The level is high. Expectations have fallen somewhat but the current situation is still strong. Jobs are not hard to get at all
- University of Michigan's sentiment survey dropped in August but has recovered most of the decline. Now, the level is not far below the local peak level
- Both surveys are above their long term averages and they do not signal a sudden halt in consumption

Consumers report the most favorable labour markets conditions in 19 years

General expectations have fallen somewhat but is still at high level

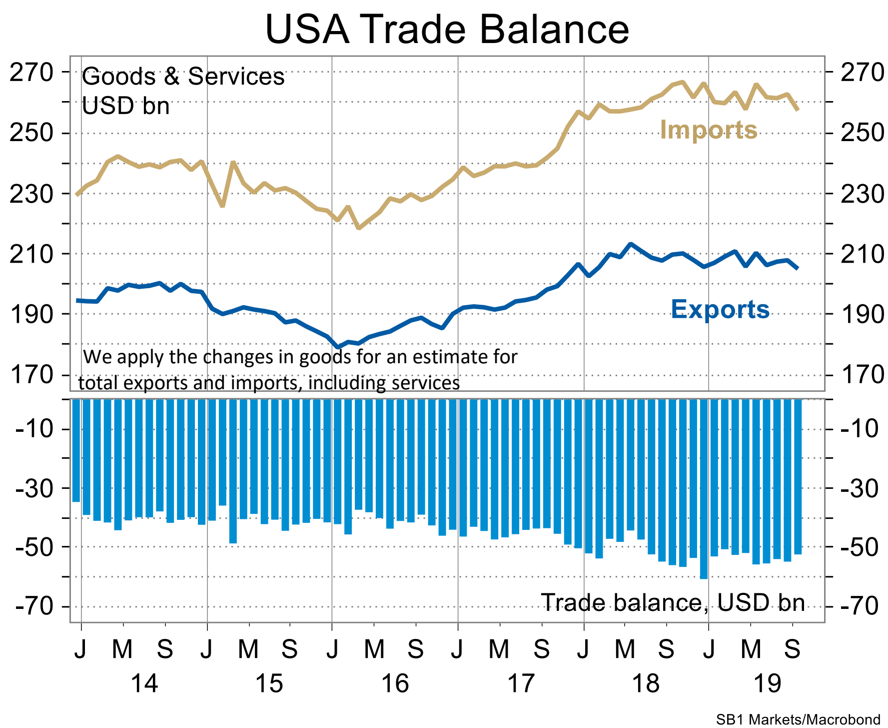


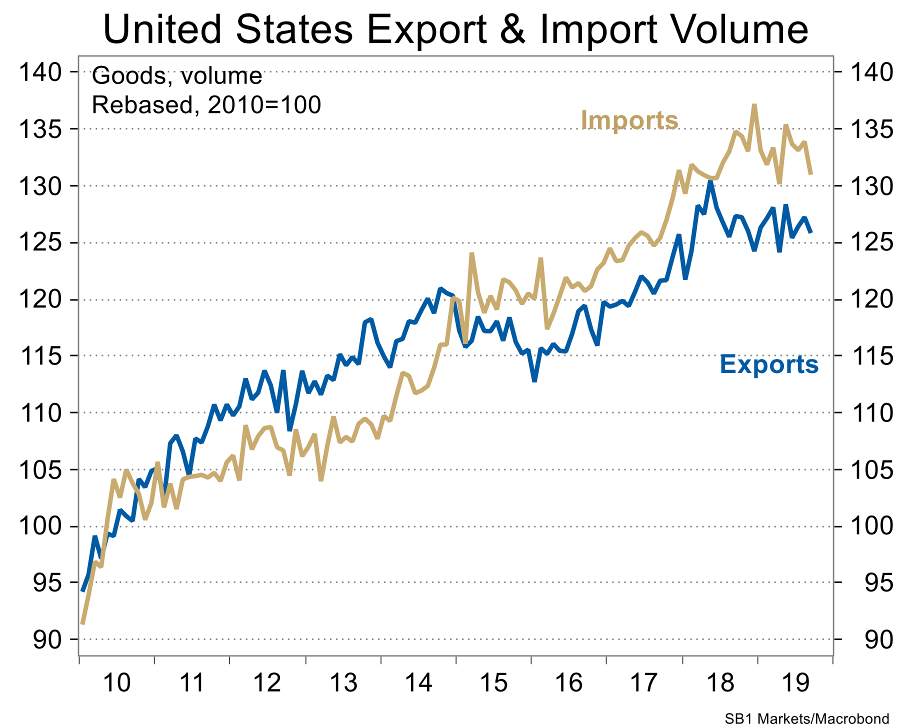


- The ‘jobs are hard to get’ assessment is quite well correlated to movements in unemployment and is usually not a lagging indicator. The level is very low and implies a very tight labour market

The trade deficit narrowed in Sept, imports fell more than exports

Total export and import volumes both rose in Q3, net trade a marginal drag on GDP growth

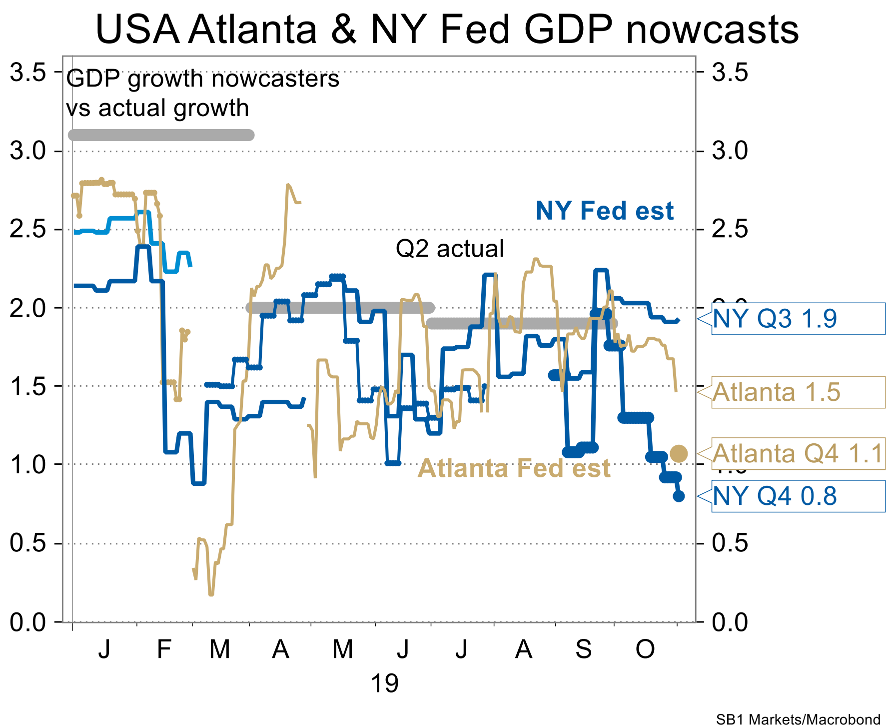


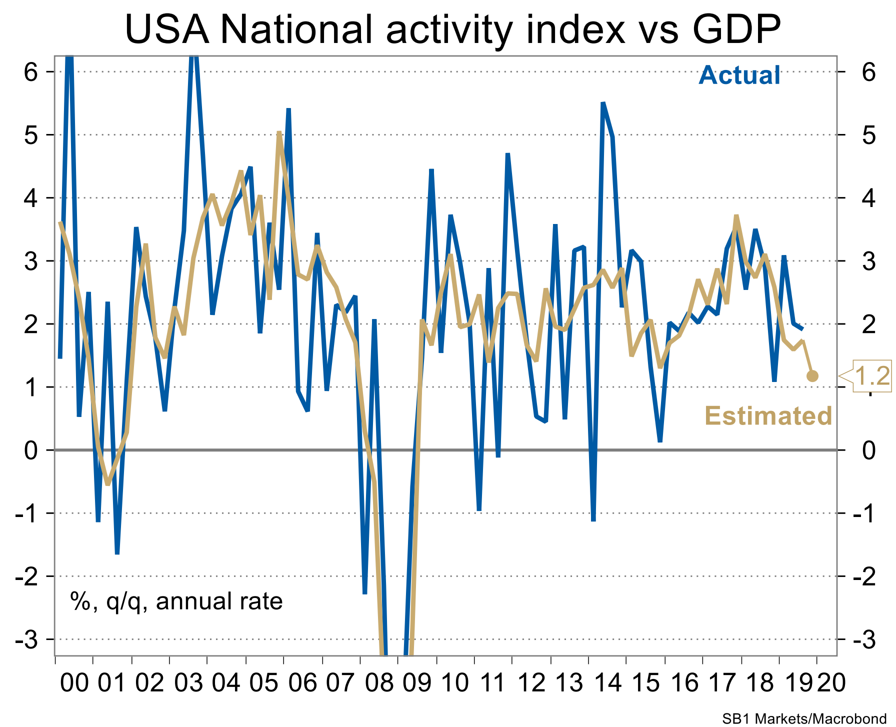


- The advanced trade deficit (in goods) fell 2.4 bn to 70.3 bn, expected 73.5 as imports (of consumer goods) fell
  - » Imports fell 2.1% m/m in volume, trending slowly down since Dec 2018
  - » Export volumes fell by 1.1%. Exports have been flat recent months but is marginally lower than in early 2018
  - » Net trade fell marginally in Q3 and dampened GDP growth by 0.1 pp on the q/q annualized rate

Nowcasters were close to the ball in Q3, now says 1% in Q4

Both NY & Atlanta Fed and National Activity index signal a 1% speed into Q4



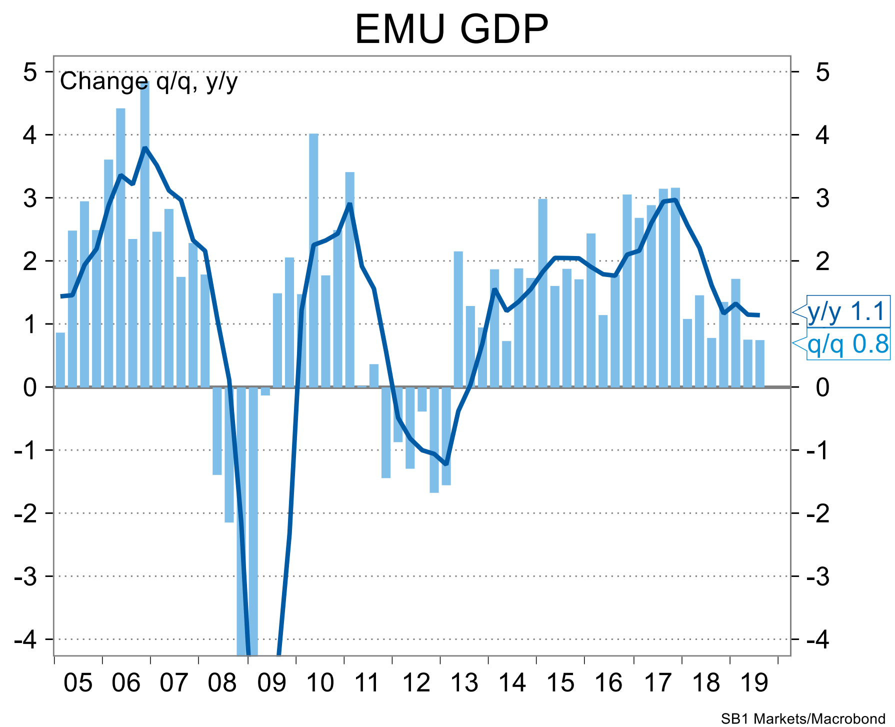


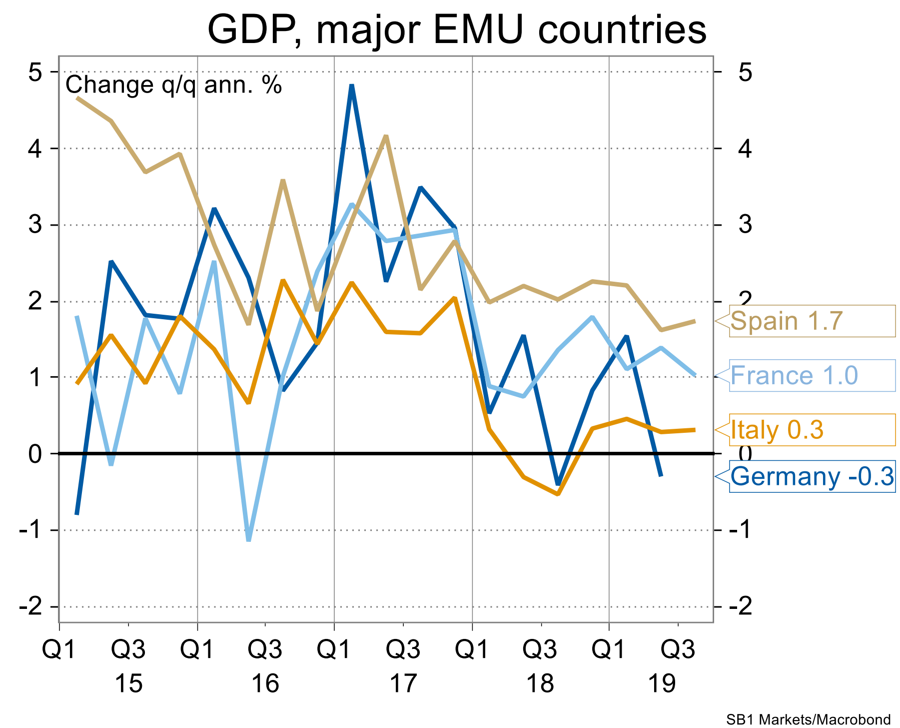
- NY Fed's Q3 estimate was rather accurate at 1.9%, while Atlanta Fed's nowcast was 0.2 pp below the preliminary GDP figure (and fell by another 0.2 pp just before the report was released)
- NY Fed's Q4 est has fallen from 2% late Sept to 0.8% now. The first Atlanta nowcast is 1.1%.
- The National Activity Index, which suggested 1.8% GDP growth in Q3 (0.1 pp below actual GDP), now signals a slowdown to 1.2% into Q4

SpareBank 1 MARKETS

GDP growth held steady in Q3, better than expected

GDP rose 0.2% q/q, or 0.8% annualized, expected 0.1%. Spain and France OK, Italy remains soft



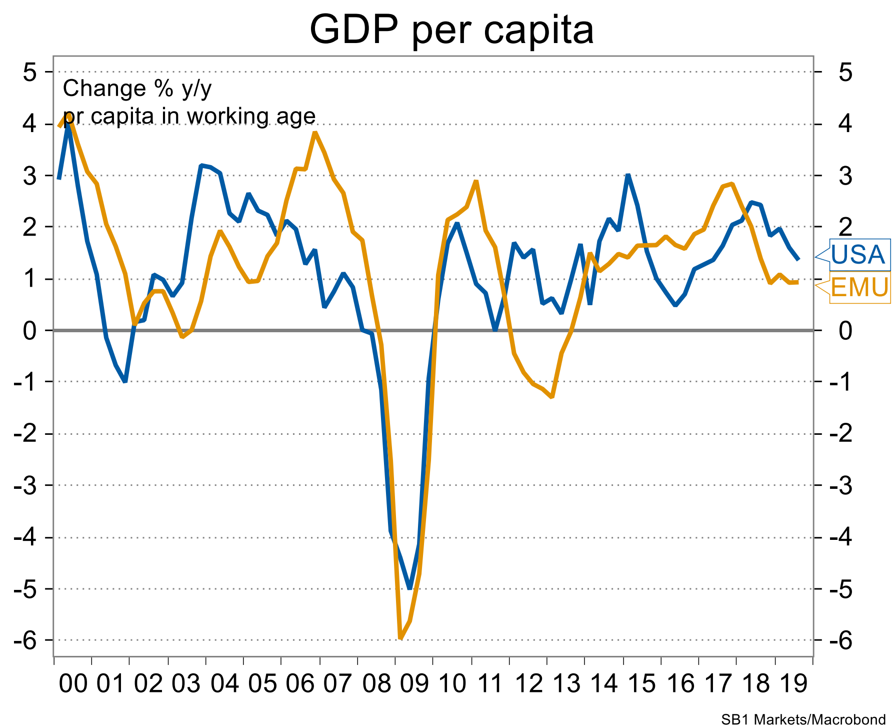


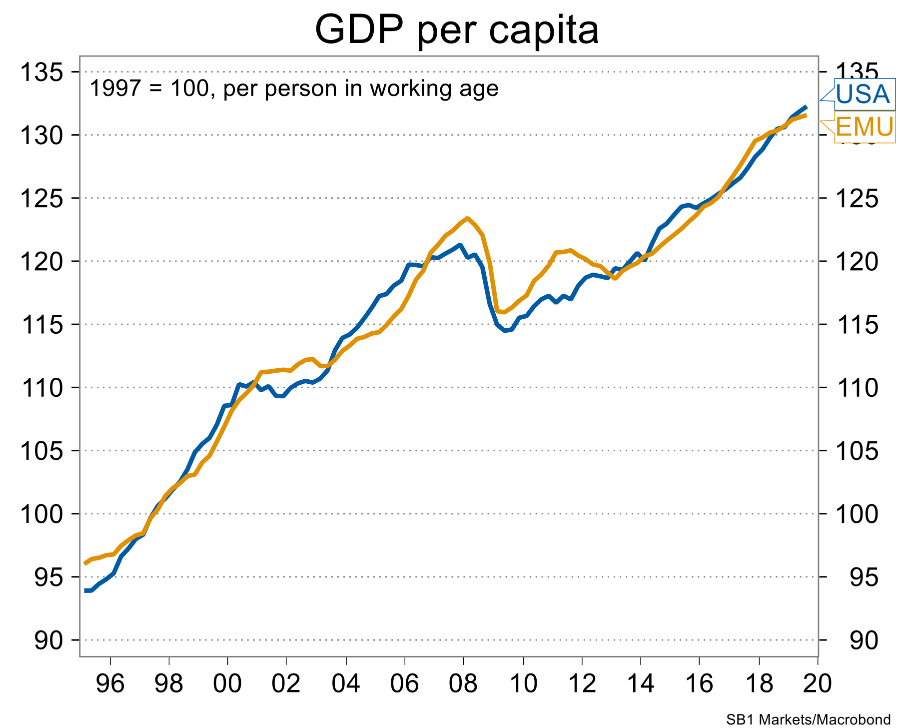
- GDP growth did not 'vanish' as feared in Q3, output rose 0.8% q/q annualized, 0.4 pp above expectations. Thus, growth held unchanged from Q2, in spite deteriorating manufacturing data
- France reported a slowdown to 1% growth, from 1.4% in Q2. Spain accelerated a tad to 1.7% while growth in Italy remained muted at 0.3% (and 0.08% not annualized). Germany has not yet reported Q3 data, data from the other 3 major countries and the total EMU figure indicate a marginally positive growth rate
  - » No sector details are published yet, we assume that modest private spending kept growth up while business investments softened

SpareBank 1 MARKETS

EMU vs US: Spot any important differences, long term?

US has been growing faster since early 2018 (not adjusted for fiscal or monetary policy differences)



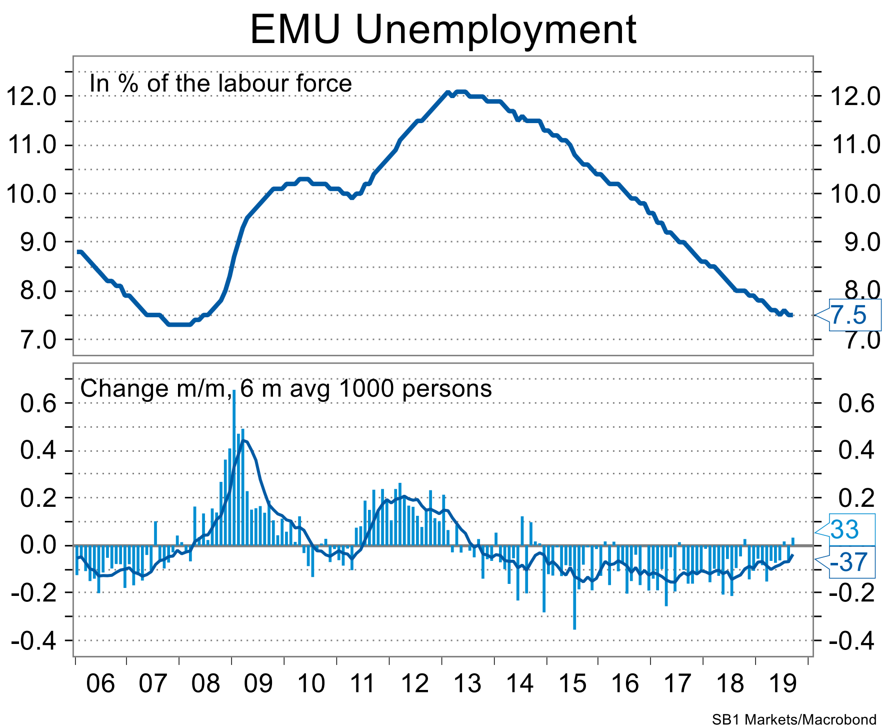


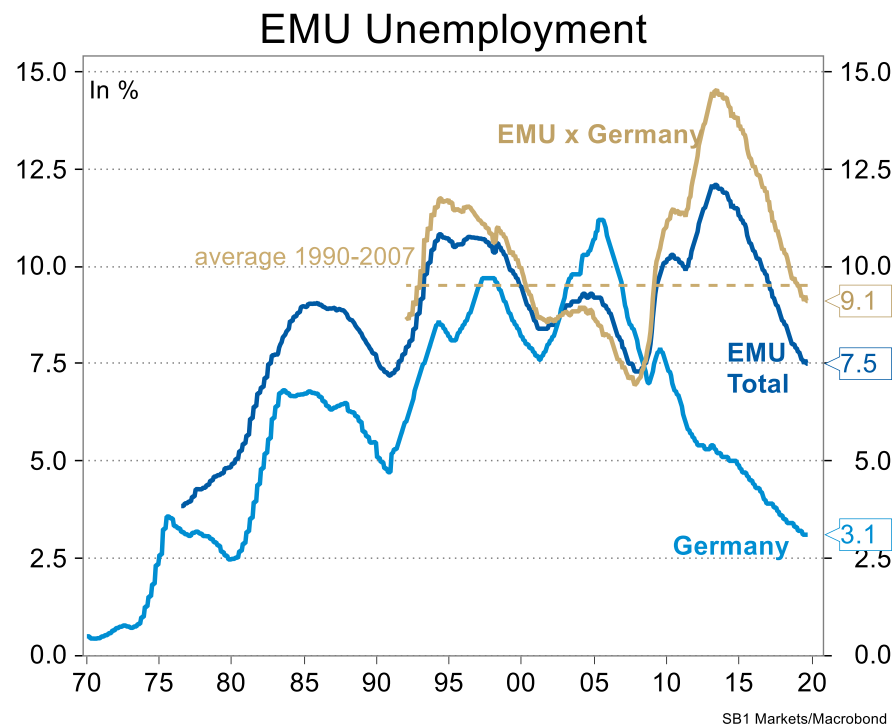
- However, over the past 20 years – or more – GDP per person in working age has been growing at exactly the same speed, just with some unimportant +/- differences through the cycles

SpareBank 1 MARKETS

Unemployment flattening out amid growth slowdown?

Unemployment rose to 7.5% in Sept and prior months revised up, the labour market is softening

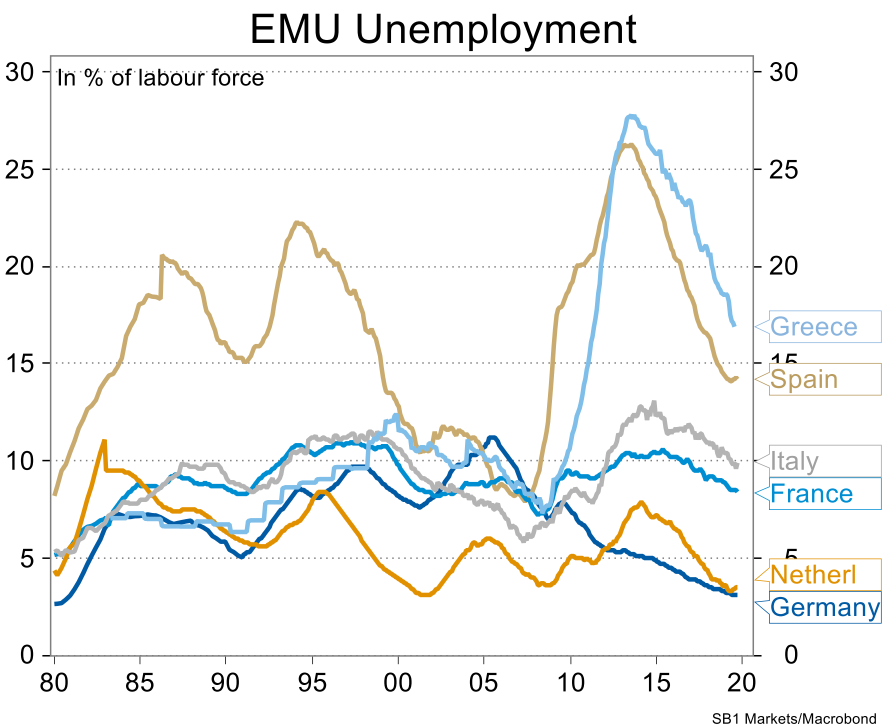


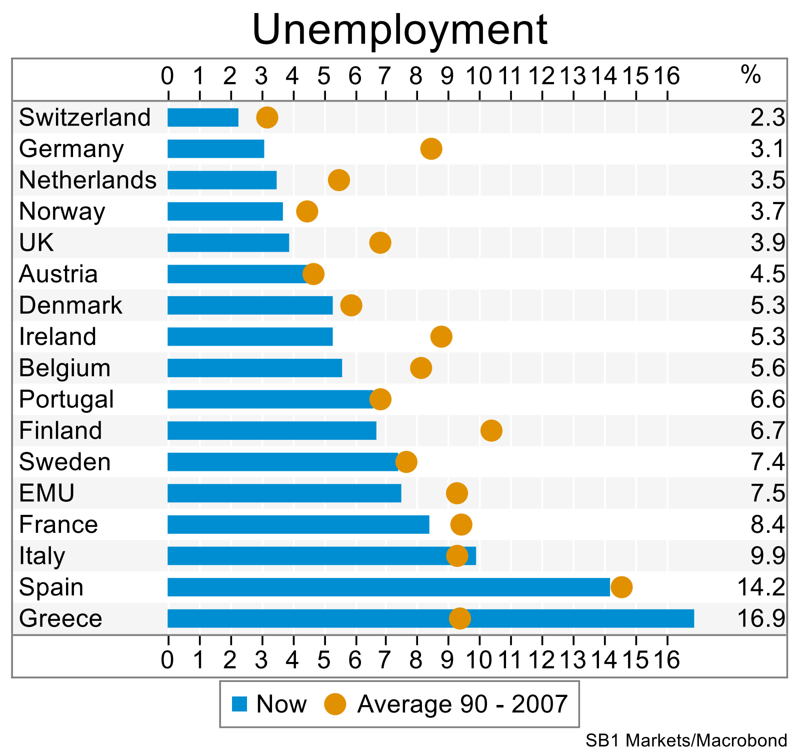


- The unemployment rate held steady at 7.5% in Sept, after an 0.1 pp upward revision of the prior months. The number of unemployed rose by 33' in Sept, and recent months were revised up. Thus, unemployment is still falling but at a gradually slower pace recent months, the 6m average at 37' is the lowest since 2014
  - » Most likely, unemployment is now slowing along with the downturn in the Eurozone economy; unemployment is usually a lagging indicator
- 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 Sept, the lowest in almost 40 years. EMU x Germany has increased marginally

Signs of softness in Spain and Netherlands, still falling elsewhere?

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

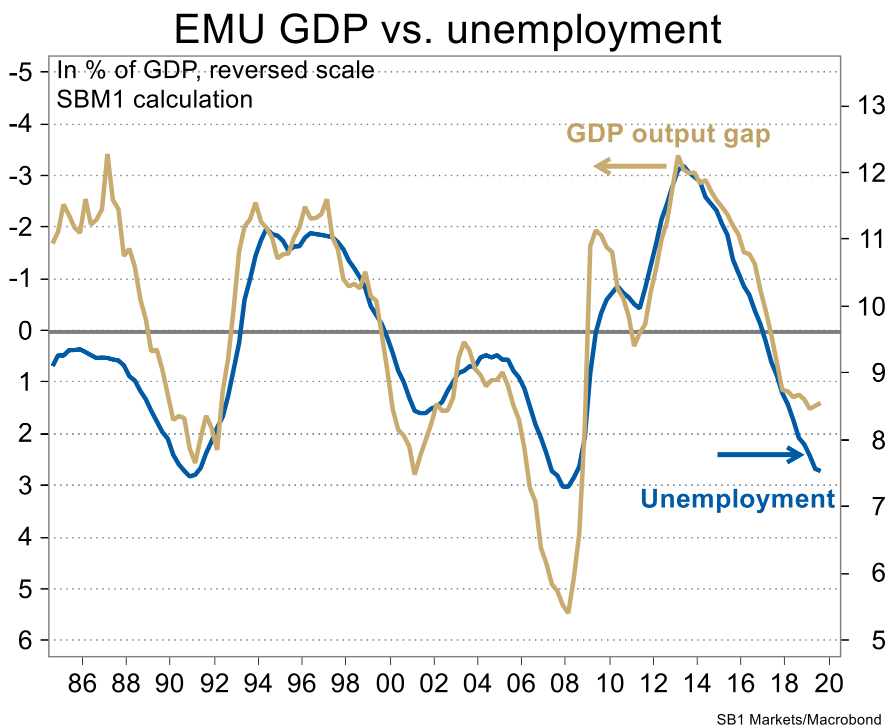




- Unemployment rates in Greece and Spain have fallen steeply since 2013, from awfully high levels. Unemployment is still very high in Greece, at 17%. Spain down to 14% from 26%, but rising marginally since the spring
- Unemployment in Germany and the Netherlands have fallen to very low levels, limited downside potential! Recent months, unemployment rates Germany have flattened out, while the Netherland has inched up 0.3 pp from the bottom
- Employment rates are in general high – but lower than before the GFC in Greece, Spain and France (but not in Italy)

The labour market leading or lagging? Lagging…

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

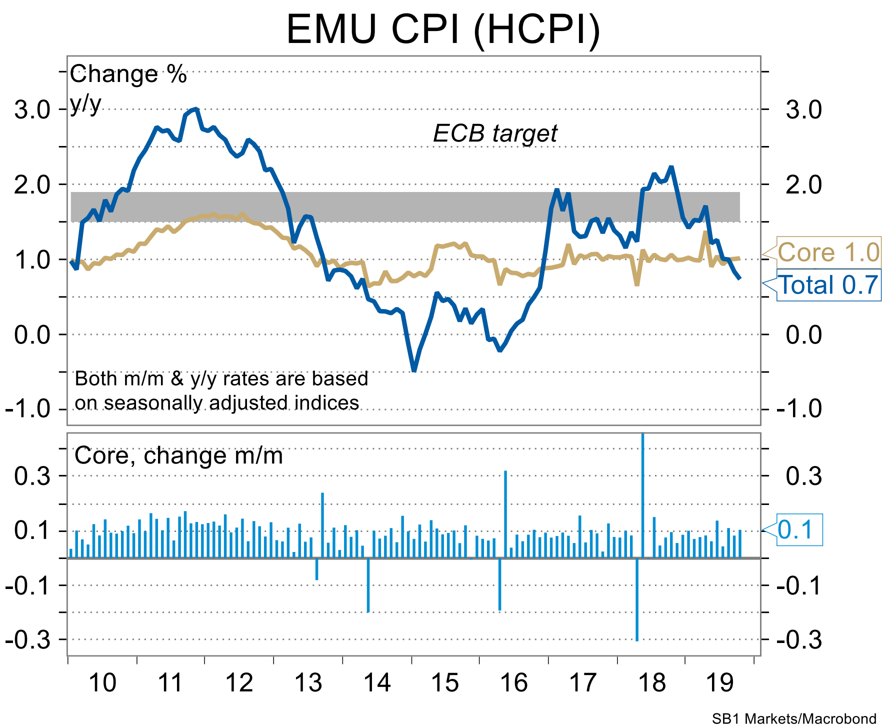


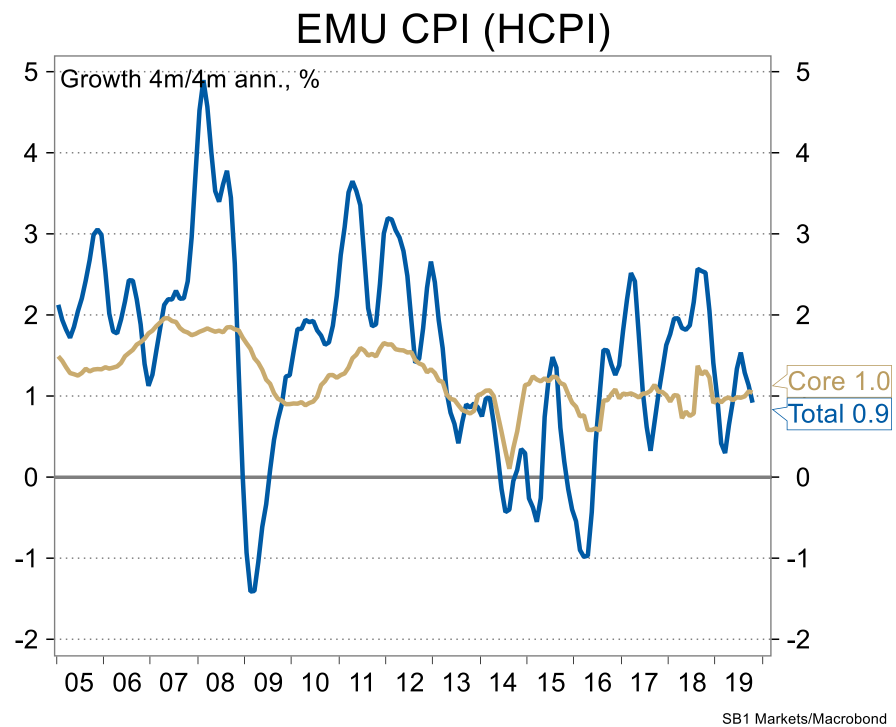
- GDP growth has slowed, and growth was below trend in Q3 (we hope), but growth has probably been marginally above trend growth over the last year (we estimate a 1% trend growth potential, GDP is up 1.1%) – and the output gap has increased (reversed scale at the chart to the left)
- So, it is not that strange that unemployment has been 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

Core CPI inflations remains meagre at 1%, total inflation subsides

Core inflation has been flat at +/-1% for 2 years. Total inflation fell to 0.7%, due to oil prices

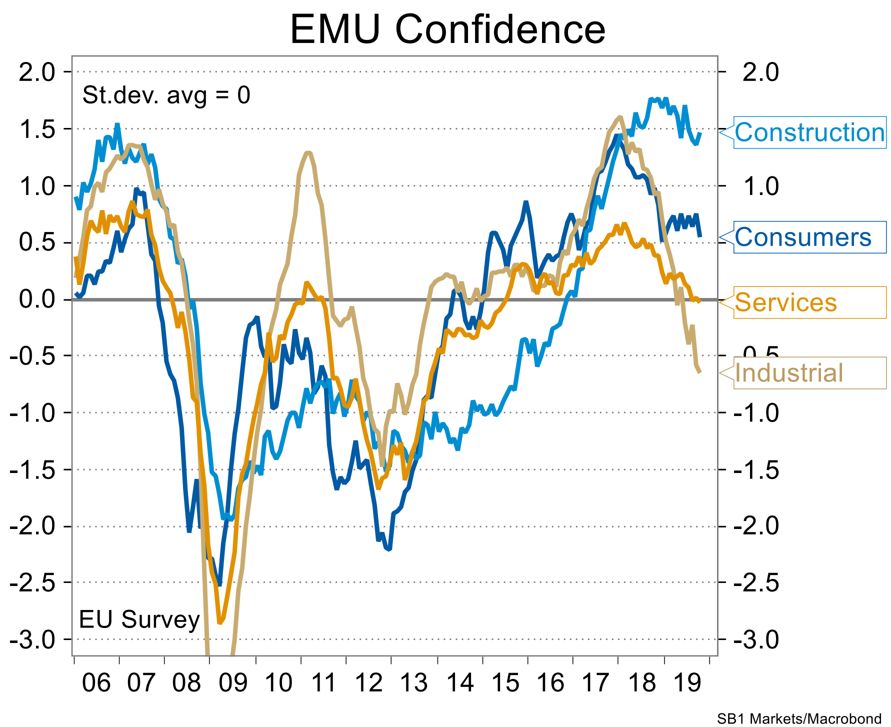


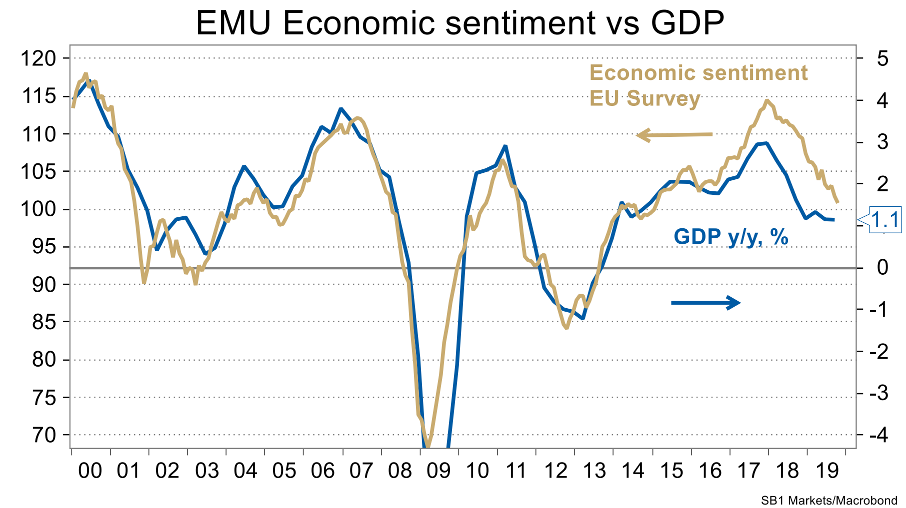


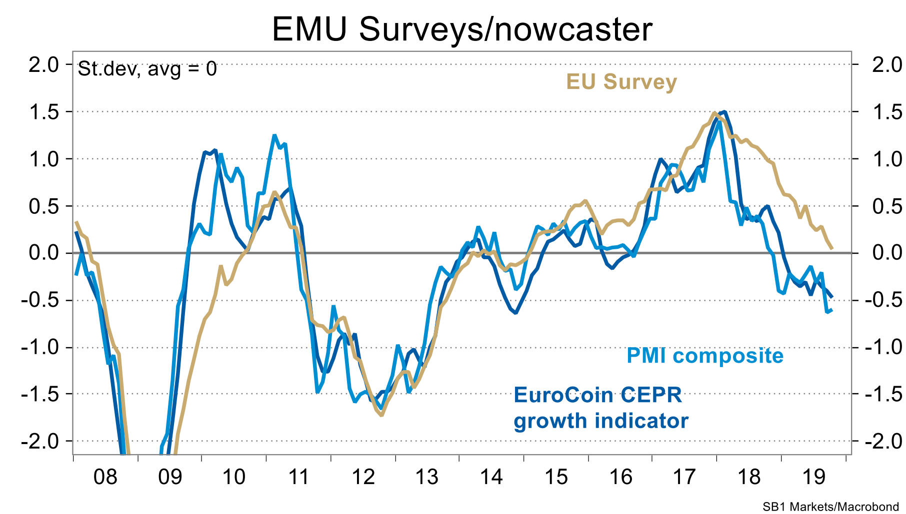
- Core CPI rose 0.1% m/m in Oct, as the prior months. The annual rate held steady at 1%, in line with expectations. Core inflation is trending flat and growth measured 4m/4m does not point to any lift in the annual rate
  - » Subdued inflation has been a headache for the ECB and no doubt contributed to ECB decision to ease monetary policy in September
- Total CPI growth decreased by 0.1 pp this month. 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

EU economic sentiment survey slides down, led by manufacturing

The ECI is far more optimistic than other surveys (and usually lagging the PMI and CERP)



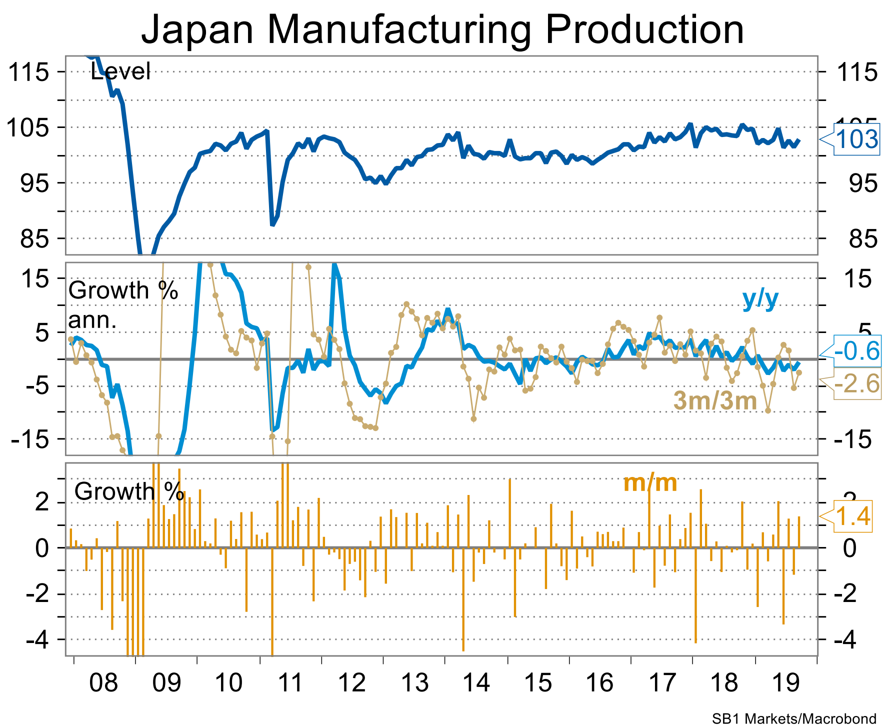


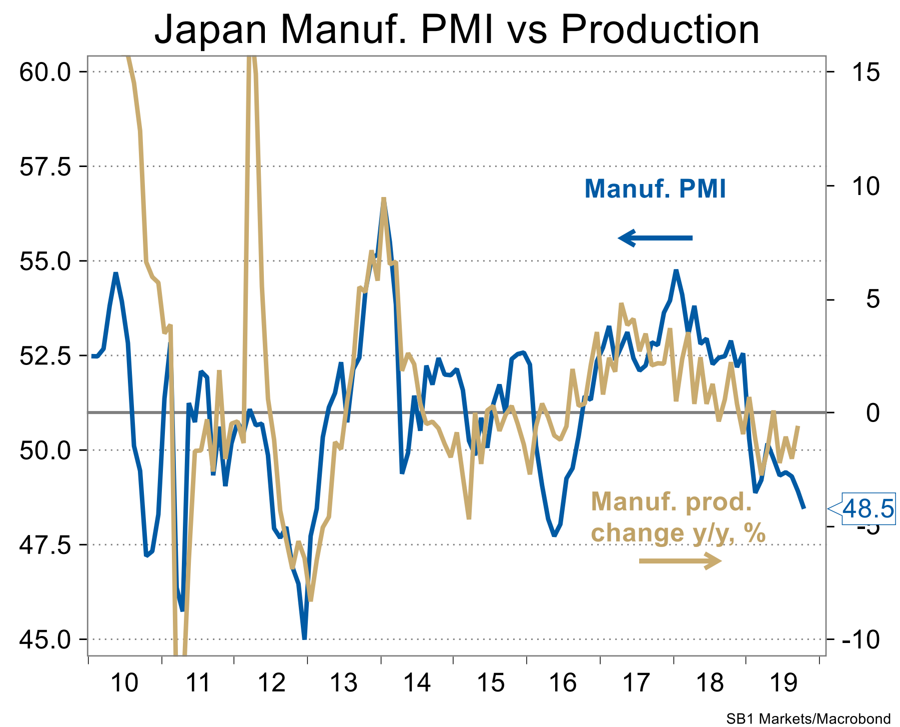


- Total sentiment fell to 100.8 in Oct. The survey came down to an average level this month, however, it has been far too optimistic vs growth the past two years; the direction is probably more essential
  - » The survey is usually lagging the PMI and CERP which are more downbeat
- The ECI confirms the sector outlook which others are reporting; manufacturing is plummeting, dragging services down with it, while construction is still elevated. Consumer confidence fell in Oct but is not weak, reflecting a rather resilient consumer sector

Manufacturing production rebounding in Sept, Q3 anyway weak

Production rose by 1.4% in Sept but fell 2.6% in Q3 – and the PMI signals a much steeper decline

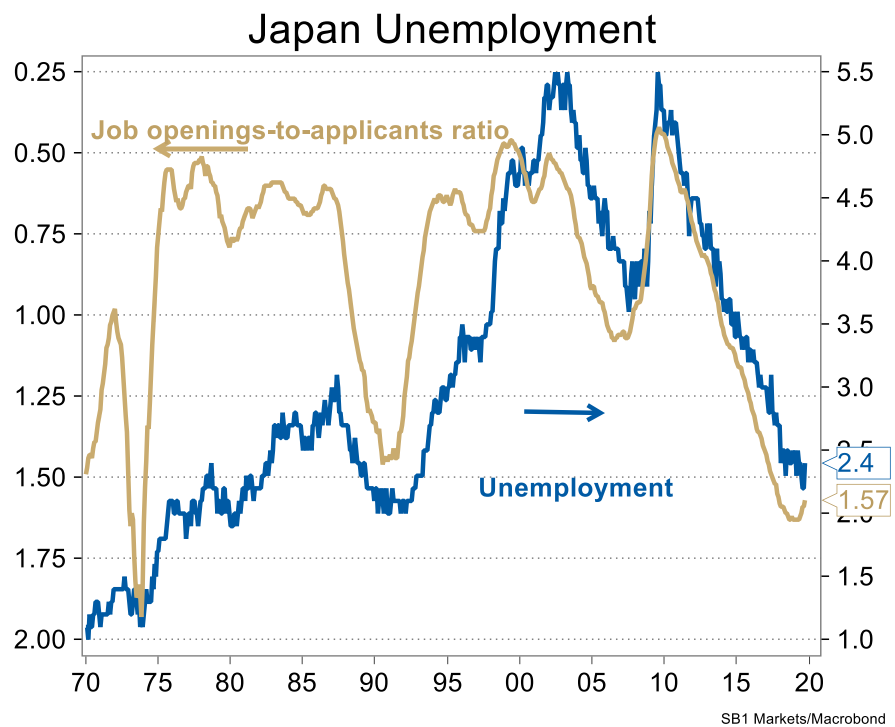


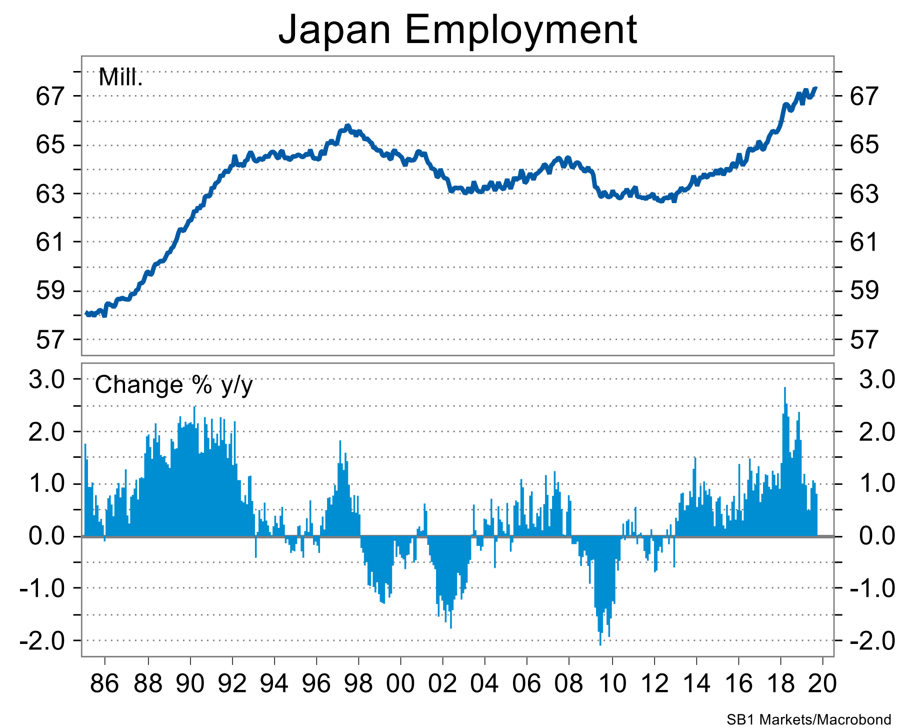


- Manufacturing production bounced back 1.4% m/m in Sept, stronger than expected. These monthly data are far too volatile, production fell 2.6% annualized in Q3 and is down 0.6% y/y. Thus, production has softened but not collapsed
- Unfortunately, the outlook is not bright; the manuf. PMI is falling and points to a more substantial decline in production. Total manufacturing orders (incl. foreign orders) are trending down too, reflecting a broad slowdown
  - » Export orders and export volumes have fallen sharply – while domestic orders have kept up better

Unemployment remains low, at 2.4%, employment growth has slowed to 0.8%

Unemployment inched up to 2.4% in Sept, more or less stabilizing the past year, at a 27 y low

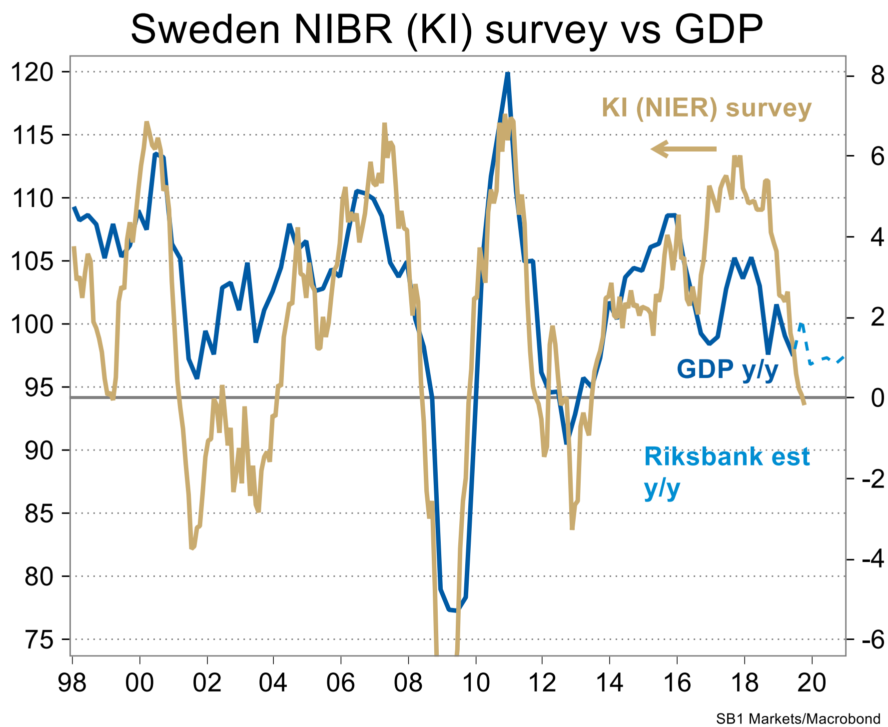


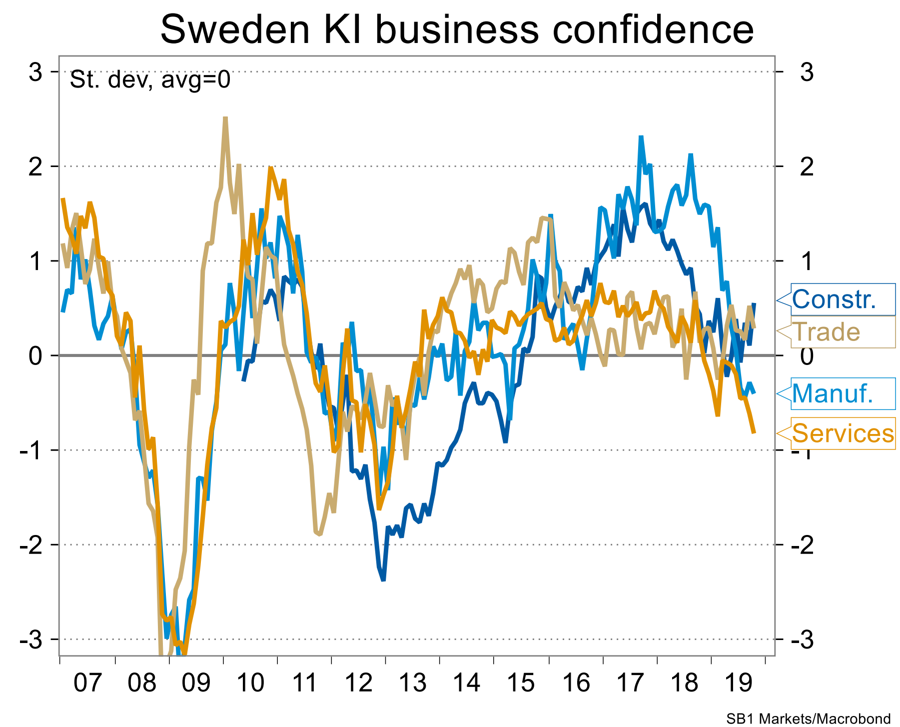


- Unemployment has been trending down since 2009, and at the lowest level in 27 years. Now, unemployment may have flattened out
  - » The job openings-to-application ratio has turned down, signalling some weakness? On the other hand, level is the highest since the 1970'ies
- Employment is still growing at a decent speed, although the annual rate fell to 0.8% in Sept. 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'

The KI business survey drops, reflecting a rapid slowdown

Confidence is weakening in manufacturing and services, trade & construction remains above avg





- The KI economic tendency survey, which usually correlates well with GDP growth, were pointing to unusual high growth rates from 2016 and until early 2019. Since then, the index has been plummeting, to the lowest level since 2012. The KI survey is now signalling halting GDP growth, at best. Services are even weaker than manufacturing, both well below the avg levels, while retail trade & construction remain at decent levels. For how long??
  - From the demand side: Companies are reporting weaker order inflows, both domestic and foreign orders are falling, according to the PMI
  - From the supply side: The best long term reason for slower growth is that productivity growth has slowed to zero – and now hours worked are cooling

Highlights

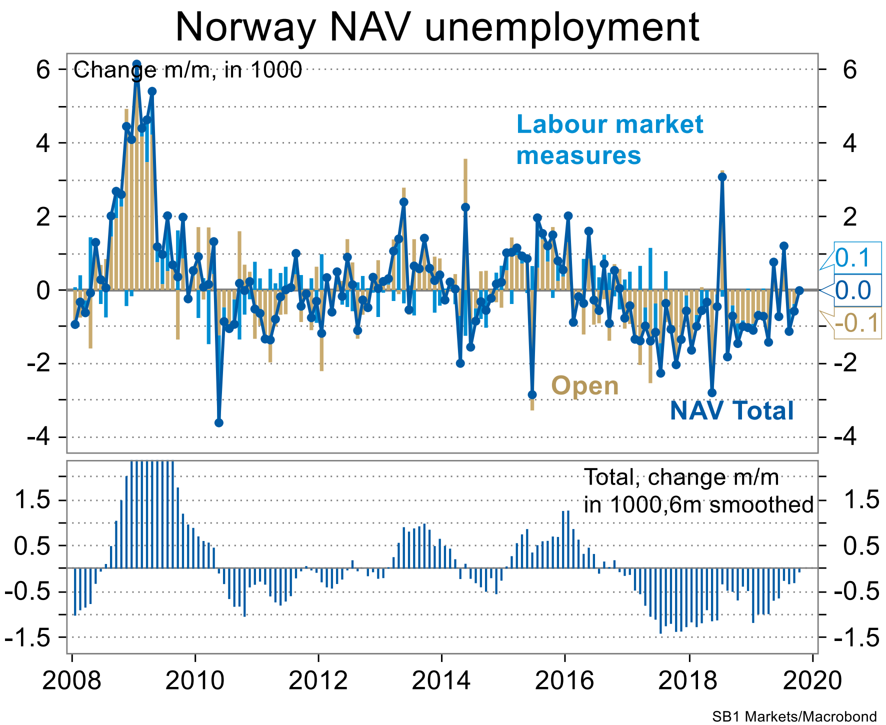
The world around us

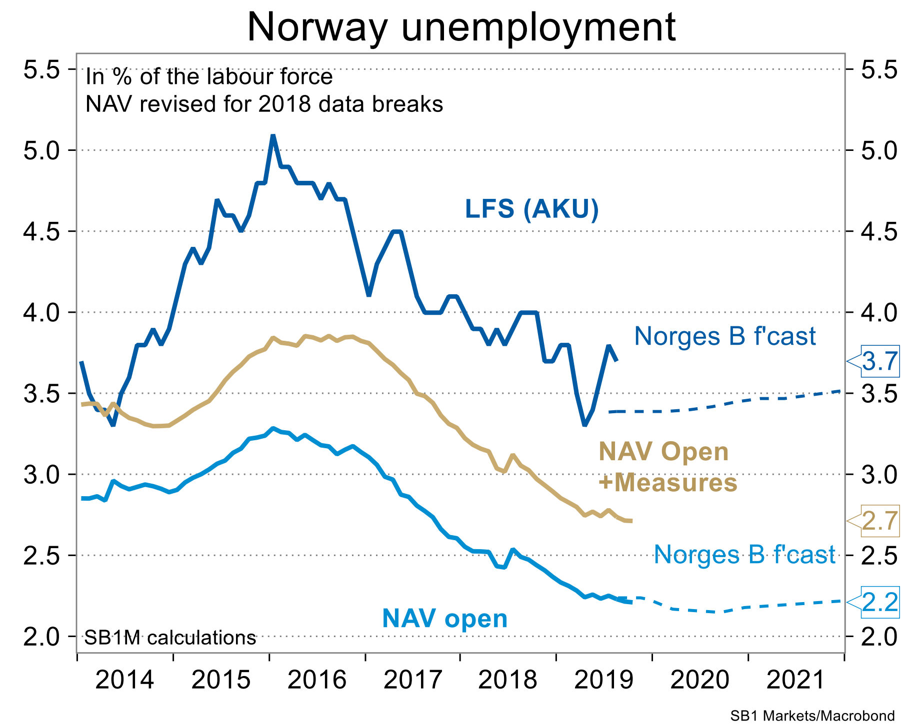
The Norwegian economy

Market charts & comments

NAV unemployment flat in October, the decline is losing speed

Unemployment is still decreasing, at a slower speed. NAV data more accurate than LFS

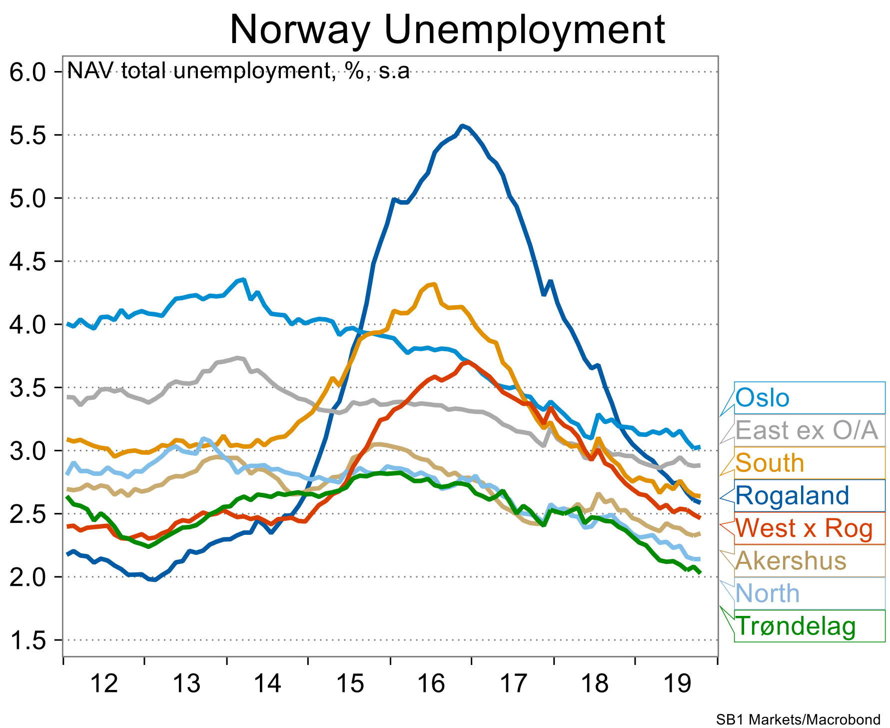


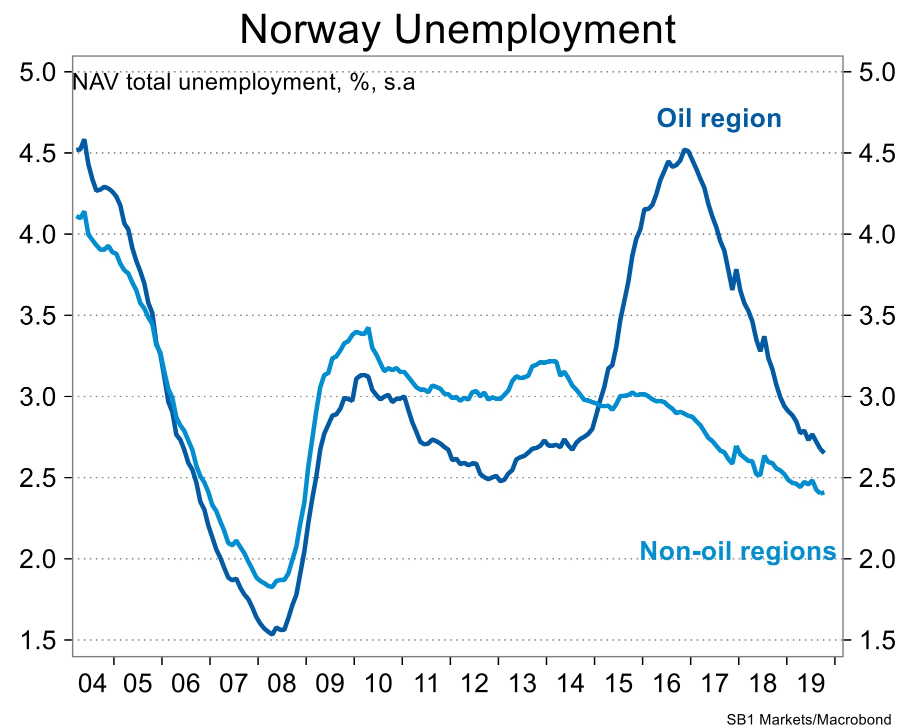


- NAV open unemployment fell by 100 persons in October, total unempl. (incl measures) was unchanged, we expected -400. The pace of decline has no doubt slowed, even as the 3m decline average decline accelerated to 600 persons. However the 6m average decline is just 100 persons
- The open unempl. rate held steady at 2.2%, marginally above NoBa's f'cast (we exp. 2.1%). Other indicators are confirming a slightly softer labour market:
  - » New jobless claims are heading marginally up, and the number of new vacancies is slowly declining
- LFS unemployment inched down to 3.7% in Aug, after increasing from 3.3% in the spring. The lift is due to higher labour market participation. These data are much more volatile than NAV and we judge the trend to still be downwards, however, the softness in NAV unemployment confirms that the labour market is slowly losing steam. Employment is still growing at a solid pace and we are not too worried, short term
- NoBa expect NAV unemployment to stabilse next year – at a low level – a reasonable guesstimate

Unemployment still slowly falling in non-oil regions, straight down in Rogaland

Unemployment has flattened in East x O/A most others heading down. Rogaland steeply down

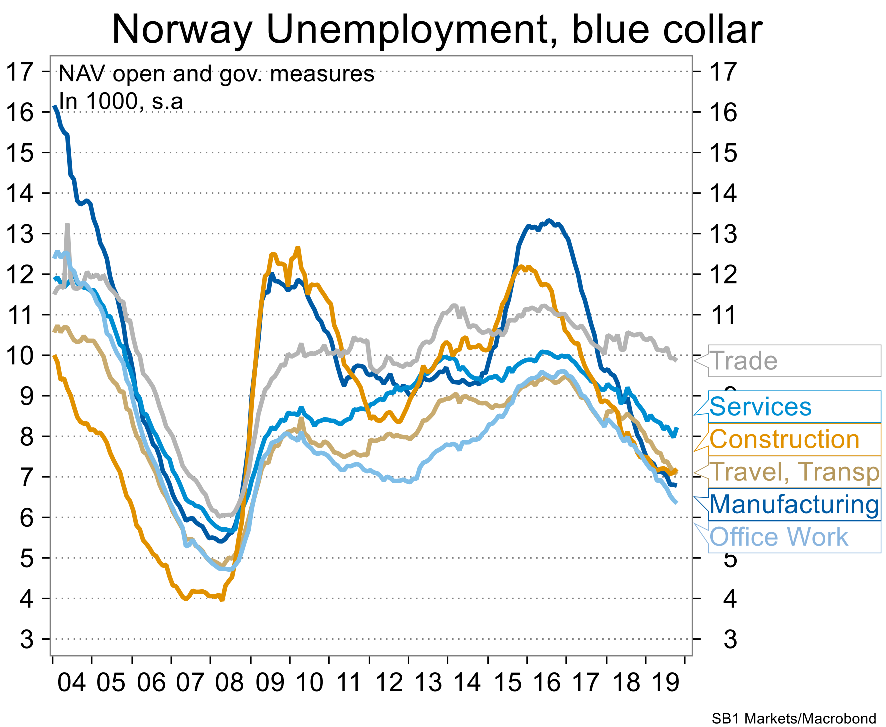


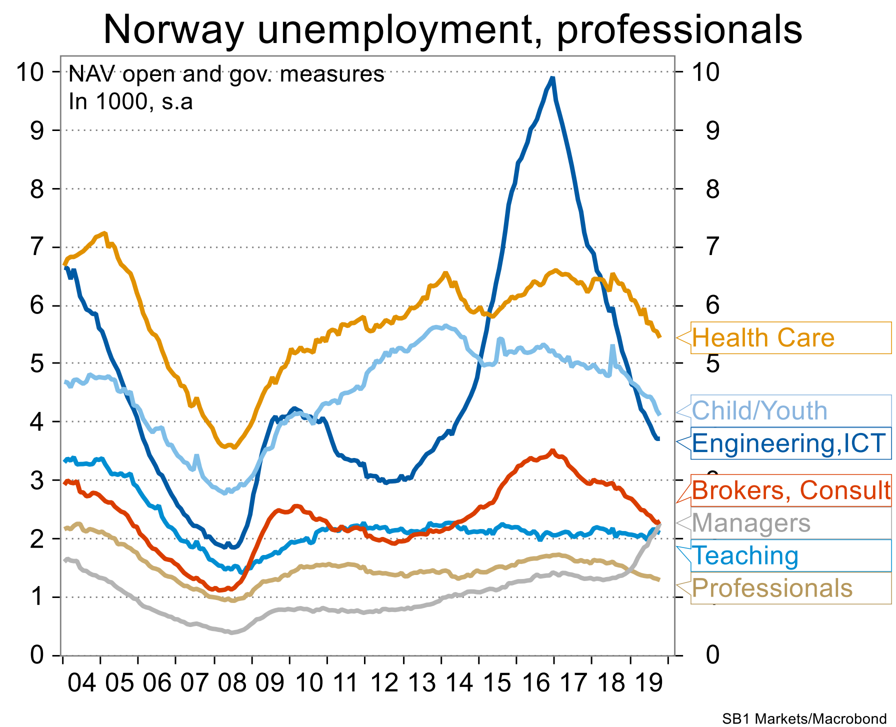


- Unemployment rates are still declining in Oslo and Akershus, albeit at a slower pace than the prior years. Most other 'non oil' regions are still on the way down. Eastern counties x Oslo/Akershus increasing marginally
- Unempl. in Rogaland and the rest of the Western (oil) coast is falling steadily. And in the North! Trøndelag at the bottom!
- The unemployment rate in the 'oil region' (Agder, Rogaland, Hordaland, Sogn & Fjordane, Møre & Romsdal) has dropped to 2.7%, from 4.5% in late 2016 and is just 0.3 pp above the non-oil regions

Unemployment is falling among most occupancies, even in retail trade

Engineering, manufacturing are dropping, construction flattens? Managers, teaching are heading up



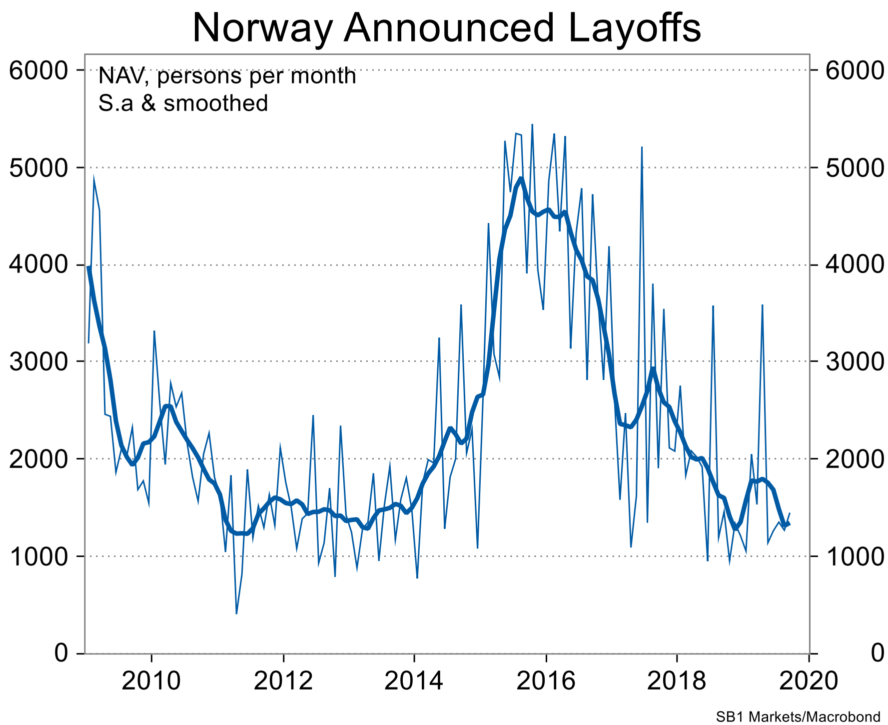


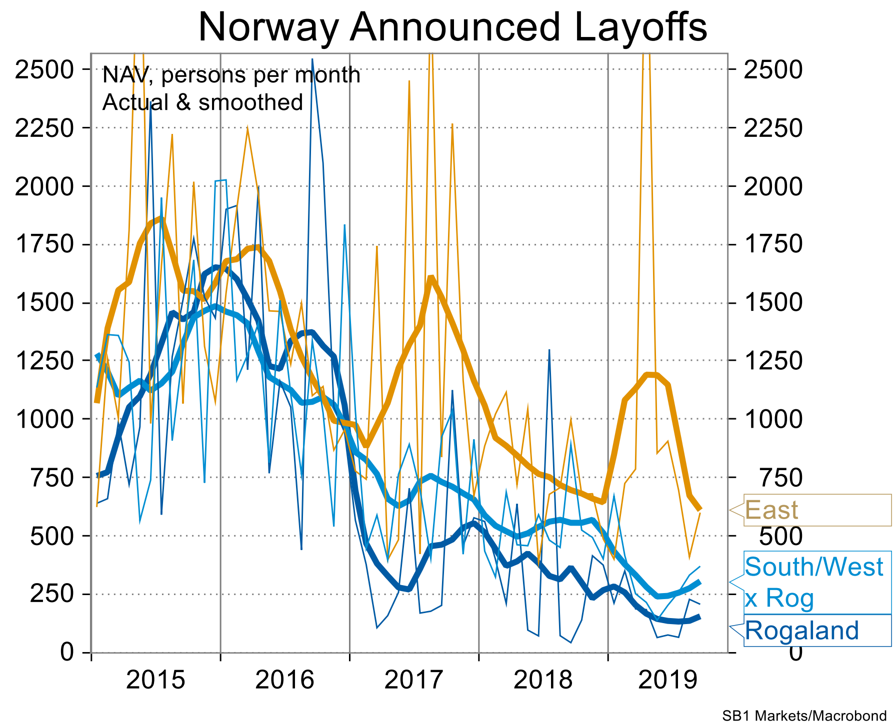
- Unemployment in engineering & ICT sectors, office works and manufacturing is falling rapidly. Construction now flattening out?
- Most other sectors are heading down, ex teaching, which has edged up recent months. And what is going on among managers? A change in definitions probably explains some of the increase among managers
- Retail trade has been the soft spot, no surprise given sluggish sales the past year. Unemployment is now inching down
- Unemployment in other 'blue collar' occupancies have dropped since 2015/2016, services somewhat slower than the others

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

A low level of layoffs

The number of layoffs has decreased recent months, no warning signal to find,, here

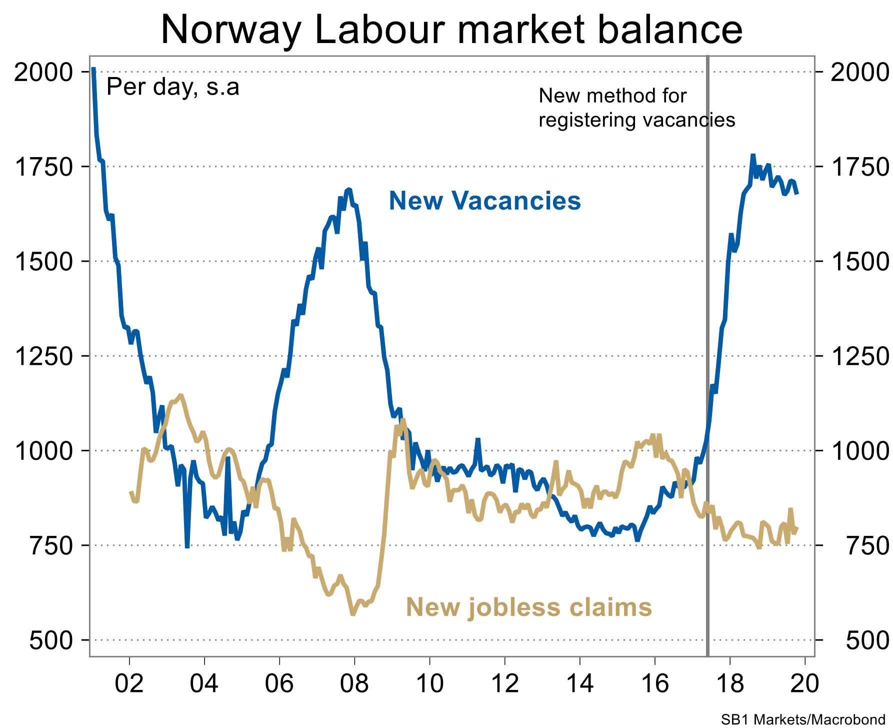


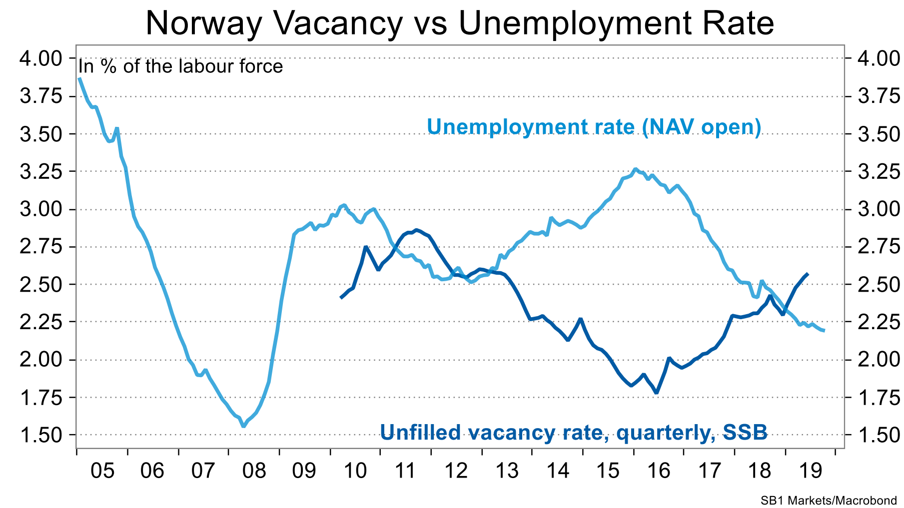


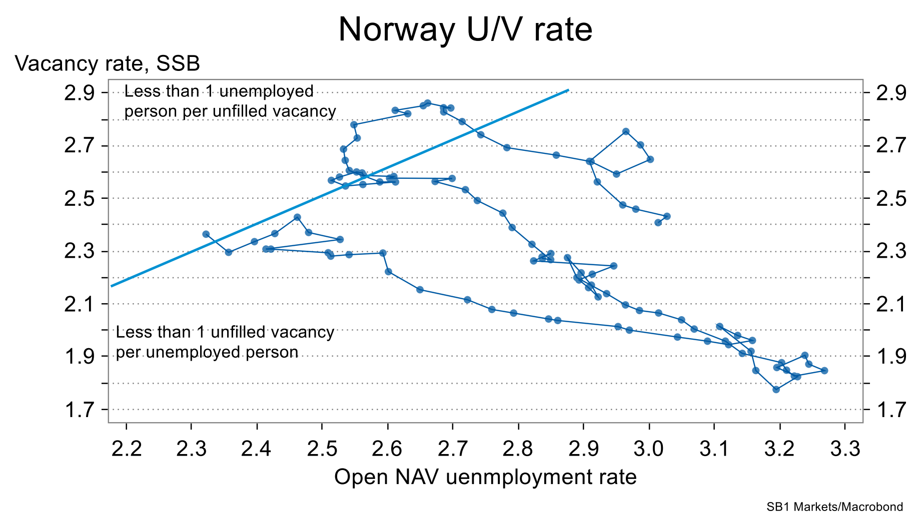
- These monthly data are very volatile and should not be taken too literally from one month to the next. The average of the past months is down, back at the 2018 trough

New jobless claims inching up, fewer (but far from few) new vacancies

May be signs of a somewhat calmer labour market. But SSB reports more unfilled vacancies (Q2)



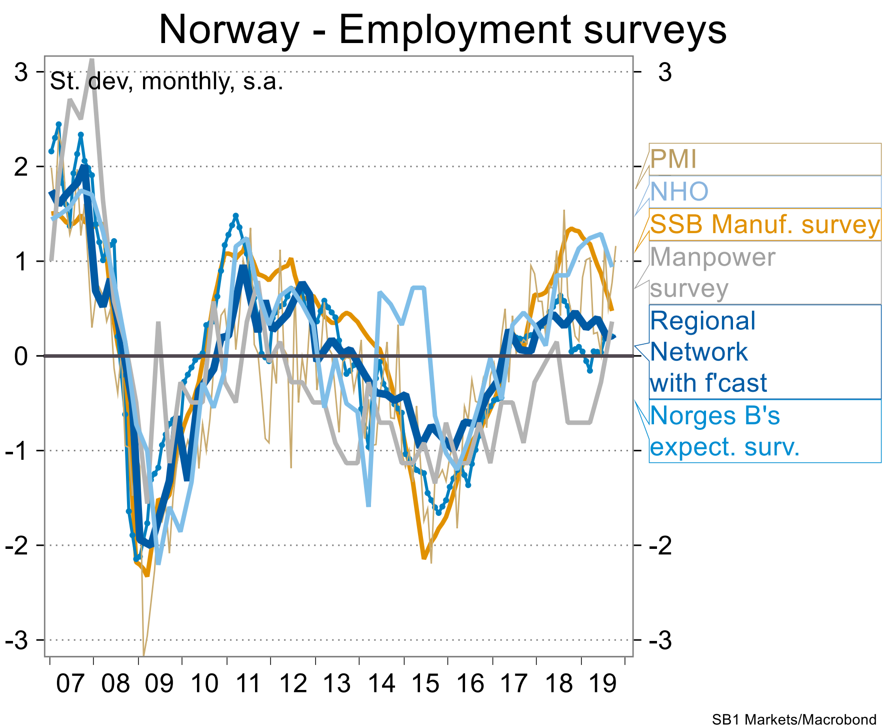


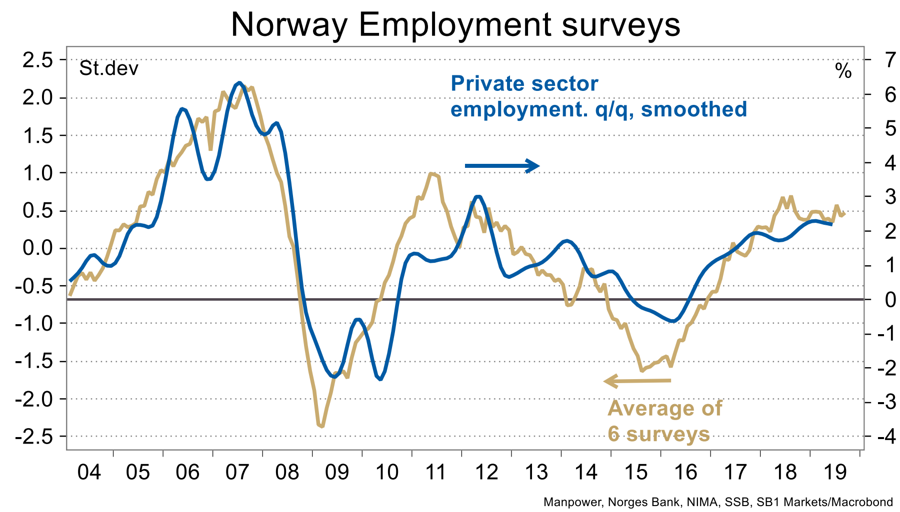


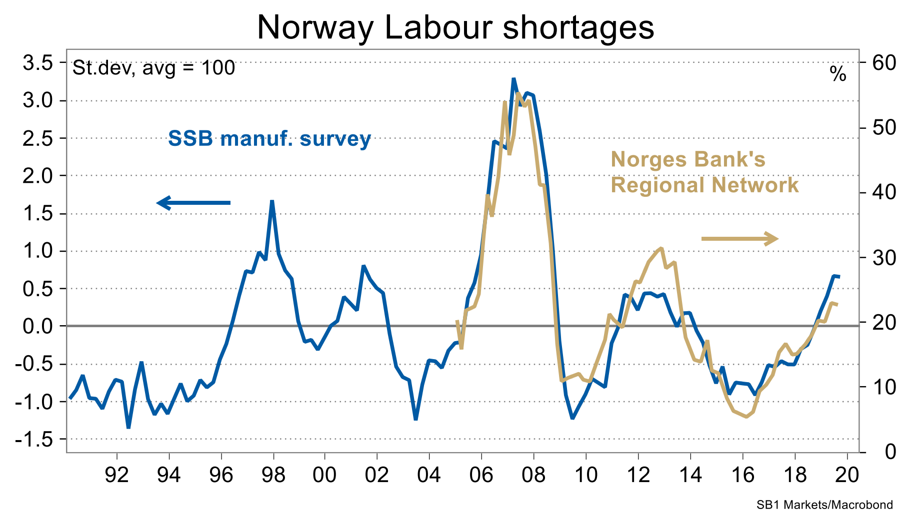
- New jobless claims rose marginally to 800/day in Oct, after spiking in August. New claims have flattened out the past year, and the trend is not down anymore – and is may now be heading slowly up
- NAV is reporting a soft decline in the number of new vacancies, as it has since the peak in Aug '18. Due to new collection methods, the level is not comparable to old data – but the direction is probably accurate
- SSB reported an increase in the no of unfilled vacancies in Q2, indicating a tighter labour market (no Q3 data have been reported yet)

Labour shortages have been rising but do not mirror a very tight labour market

Employment surveys have flattened out, in avg, signaling steady growth in demand



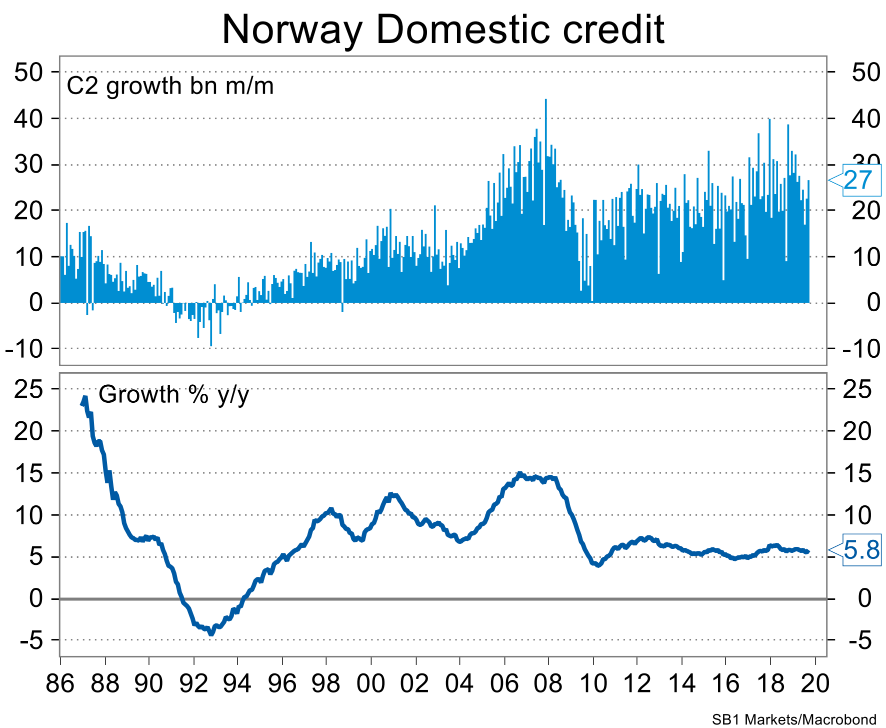


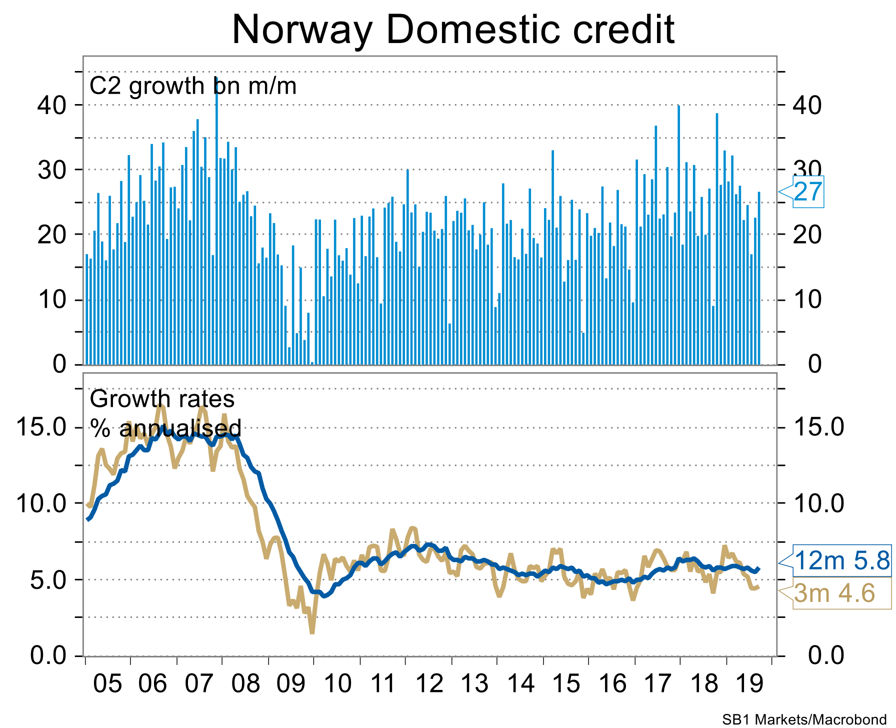


- The Regional Network did not report more labour shortages in Q3, in total
- In the Sept MPR, Norges Bank argued that the labour market tightness may be less pronounced than projected as labour shortages remain low, a plausible assumption

Credit growth spiked in Sept but is slowly easing, due to households

Household credit is now slowing, while corporate credit growth is steady (although Sept jump will be reversed)

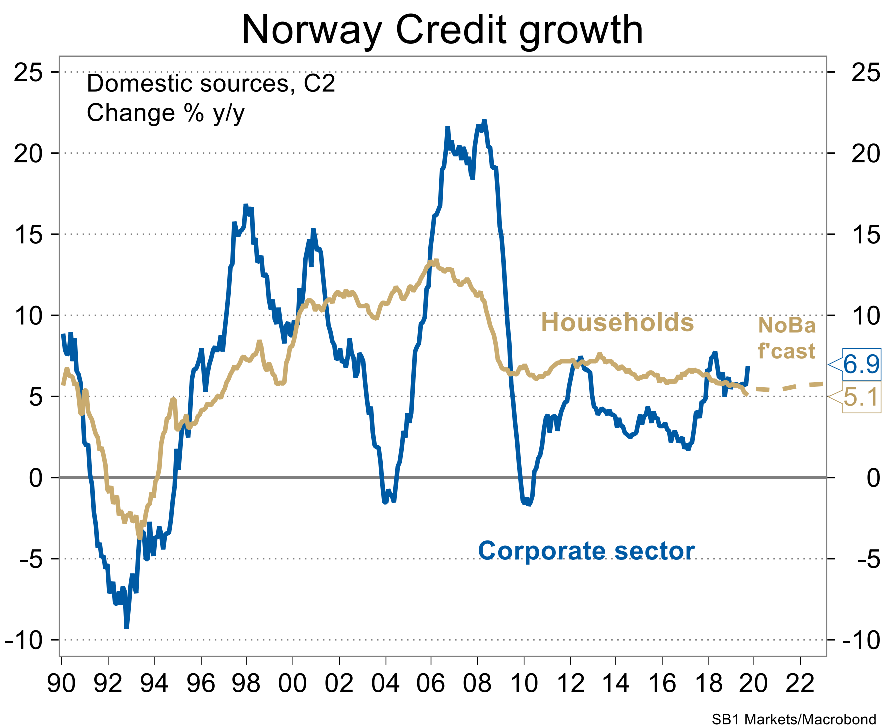


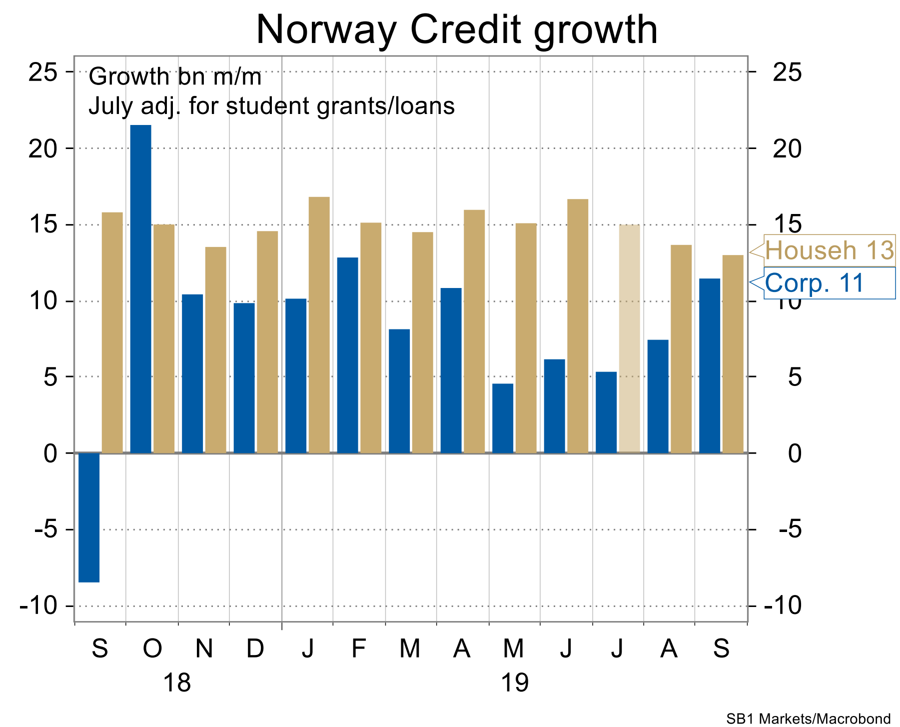


- Total domestic debt (C2) rose by NOK 27 bn m/m in September, heading steadily down this year. The annual rate rose by 0.3 pp to 5.8%, 0.1 pp above our f'cast. Avg growth over the past 3 months has fallen to 4.6%. Over the past 5-6 years, the trend is flat
- Household credit has been cooling the past 3 months, and the annual rate is now at 5.1%, from 5.7-5.8% in early 2019. The slow decline in household credit growth is not surprising given rising interest rates and moderate house price growth
- Corporate credit growth spiked y/y in Sept (to 6.9%, from 5.7% last month) due to a drop in Sept last year, but still, monthly credit growth has picked up recent months

Interest rate hikes showing signs of dampening credit appetite

Household credit growth is slowly easing, growth lower than 'usual' the past 3 months

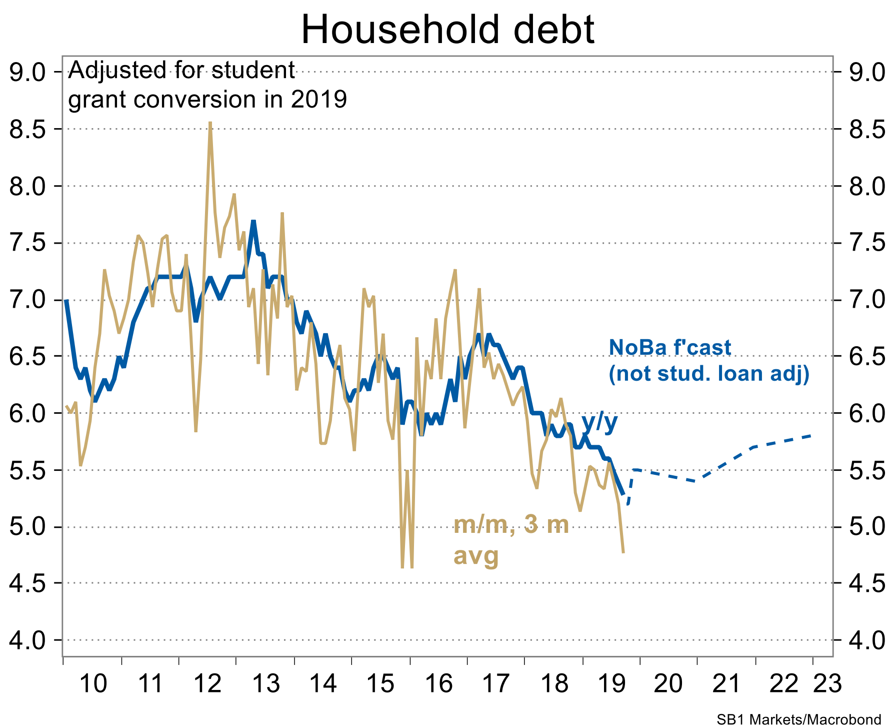


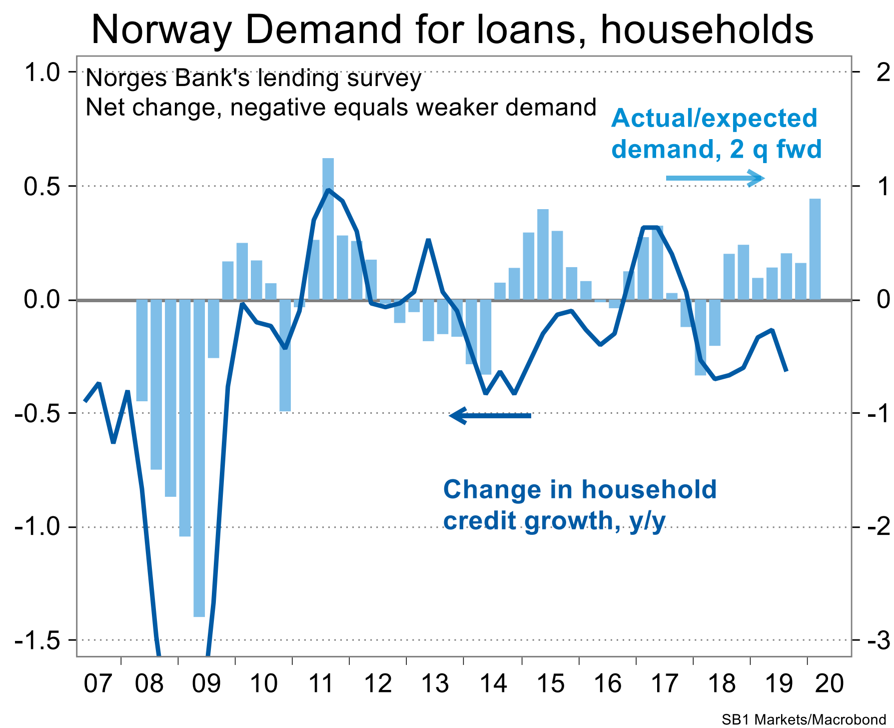


- Households' credit increased by NOK 13 bn m/m in September, a small slowdown from August (which was revised up just marginally). The y/y rate edged down to 5.1%, a 0.1 pp decline
  - » The July dip was primarily due to a change in the timing of conversion of student loans to grants. According to our calculations, this explains 0.2 pp of the decline in the annual rate (thus, the adjusted Aug rate is 5.3%)
- Household credit growth has anyway been trending slowly down since 2017. The Sept18/March19/June19 hikes have not lowered credit growth substantially, however, the slowdown the past 3 months is indicating that demand is now losing steam. Some (of not all) of the slowdown may still be due to the flatling (or worse) of consumer credit loans following the introduction of the national debt register
- Corporate credit (in C2, domestic lending) rose 11 bn m/m in Sept, gaining pace in Aug/Sept. The annual rate jumped to 6.9%, from 5.7%, due to an unusal drop in Sept '18. Will be reversed next month, as growth rebounded strongly in Oct '18. Growth has been steady at just below 6% since early '19

Household credit growth is now clearly slowing

The downturn has accelerated the past 3 months. Even as banks are reporting higher demand!

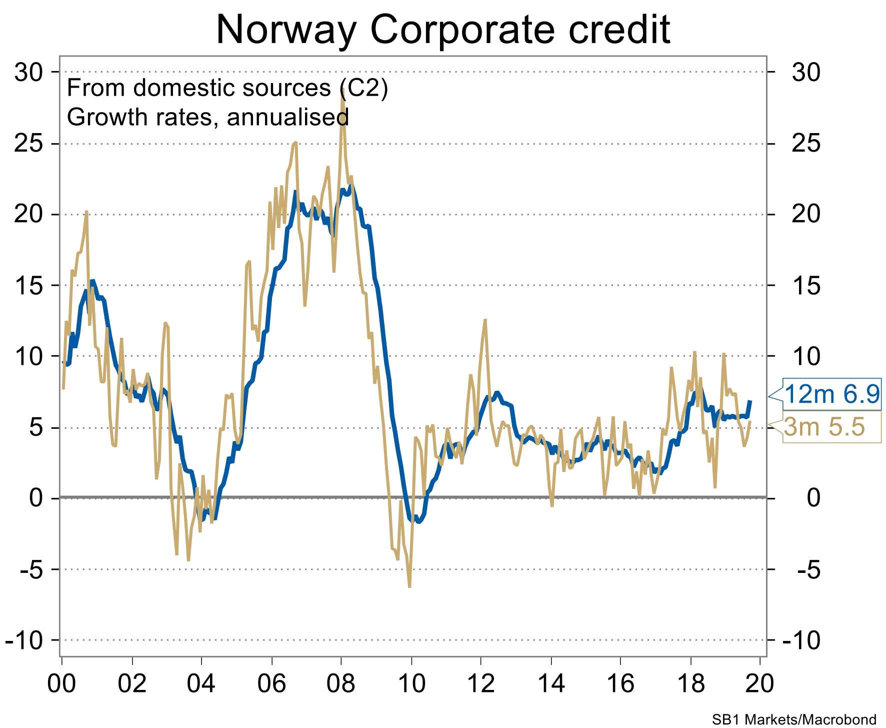


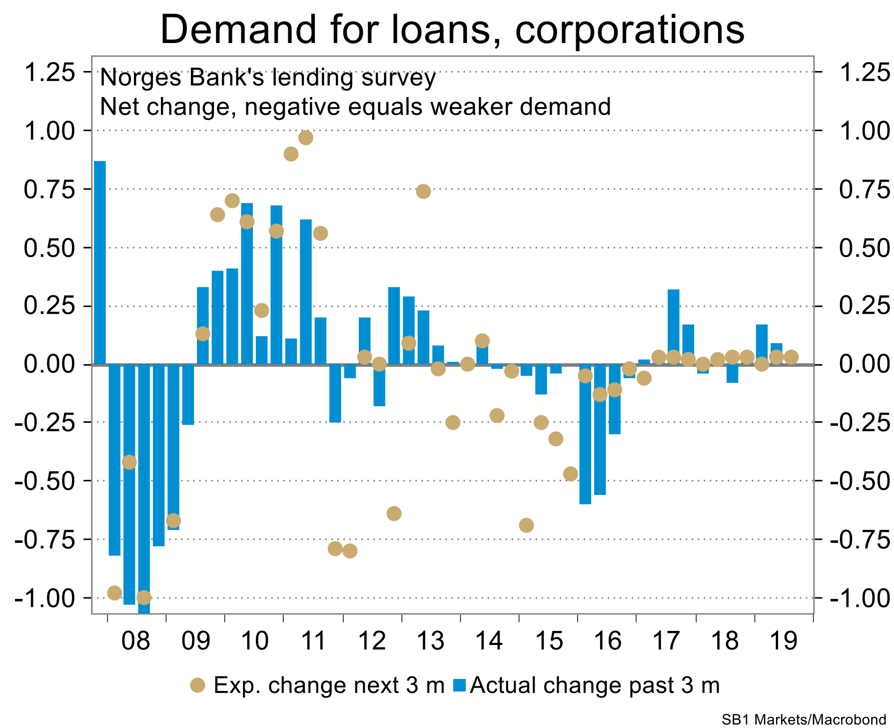


- In the longer term, household credit growth is slowing, from above 7% in 2012-2013 to just above 5% now
  - » Even as household credit is slowly easing, credit growth is still (marginally) above income growth – and the debt/income ratio is still inching upwards, as Norges Bank expects it to do the coming years. Norw. households have the highest debt ratio in the world
- Surprisingly, banks in NoBa's lending survey reported higher household loan demand in Q3 and they even expect an uplift in Q4. However, given increased interest rates and a modest rise in house prices, the risks are tilted to the downside
  - » Consumer credit loans are under pressure following tighter regulations, and the introduction on the 3 national unsecured debt registries
  - » On the other hand, higher existing home sales could keep growth up for a while

Corporate credit growth quite stable below 6% (forget about the Sept jump)

Underlying growth has been slowing, as monthly data are volatile, the annual rate is holding steady

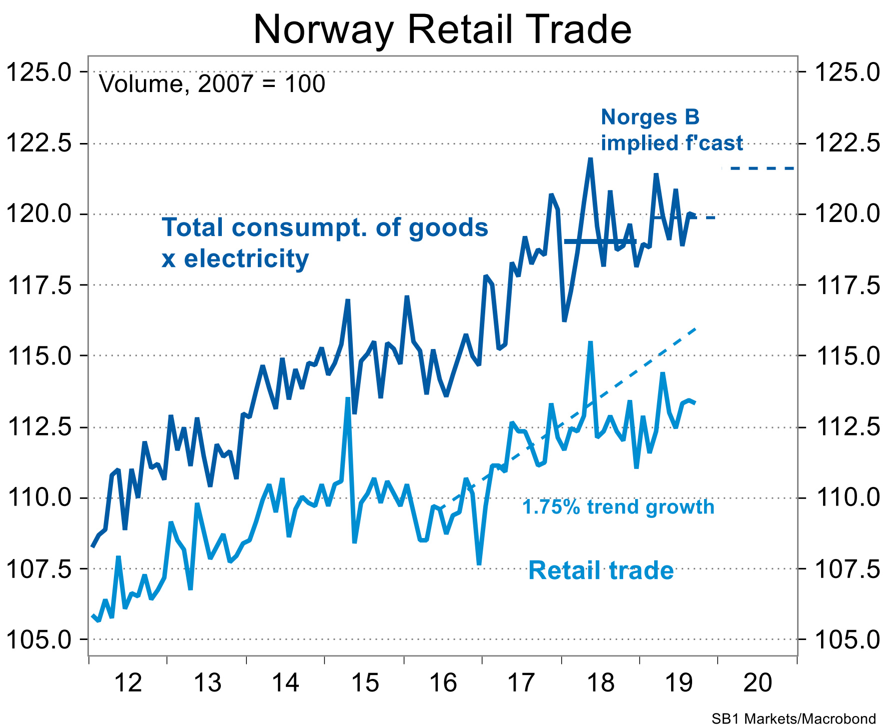


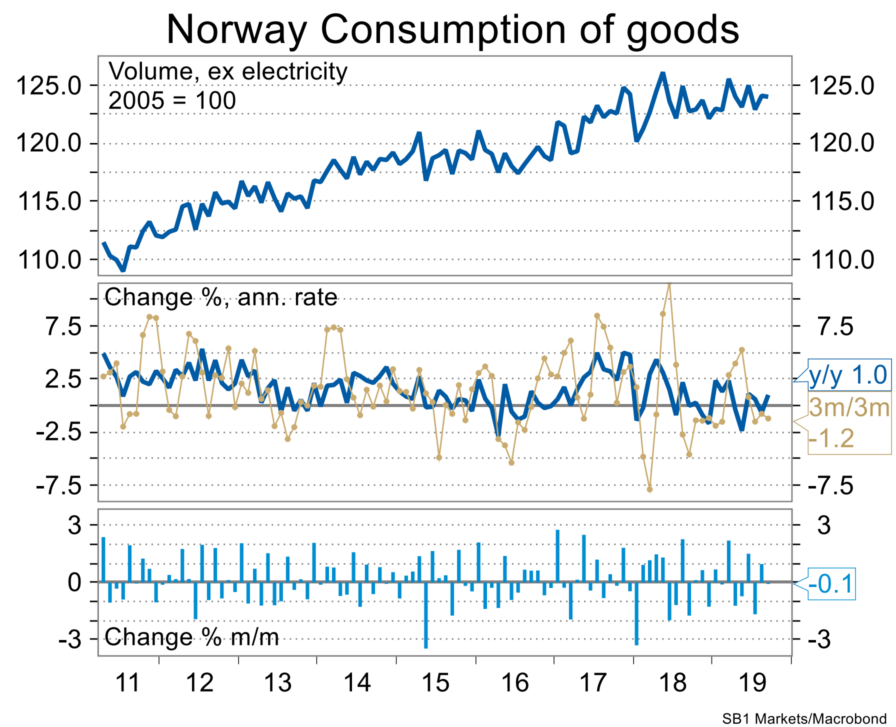


- Barring the temporary Sept jump, the annual rate has been steady at 5.6-5.8% the past months, from 7-8% growth rates in early 2017. Corporate credit growth is more volatile than household credit and underlying pace has been zig-zagging the past two years
- The underlying growth rate (3m) rose to 5.5% in Sept, after slowing in the summer/spring (following a strong growth in early 2019). Businesses have probably been pulling back demand after an acceleration in late 2018/early 2019

Retail sales heading modestly up, goods consumption a drag on growth in Q3

Retail sales fell marginally in Sept, trending slowly up. Auto sales have dragged total consum. down

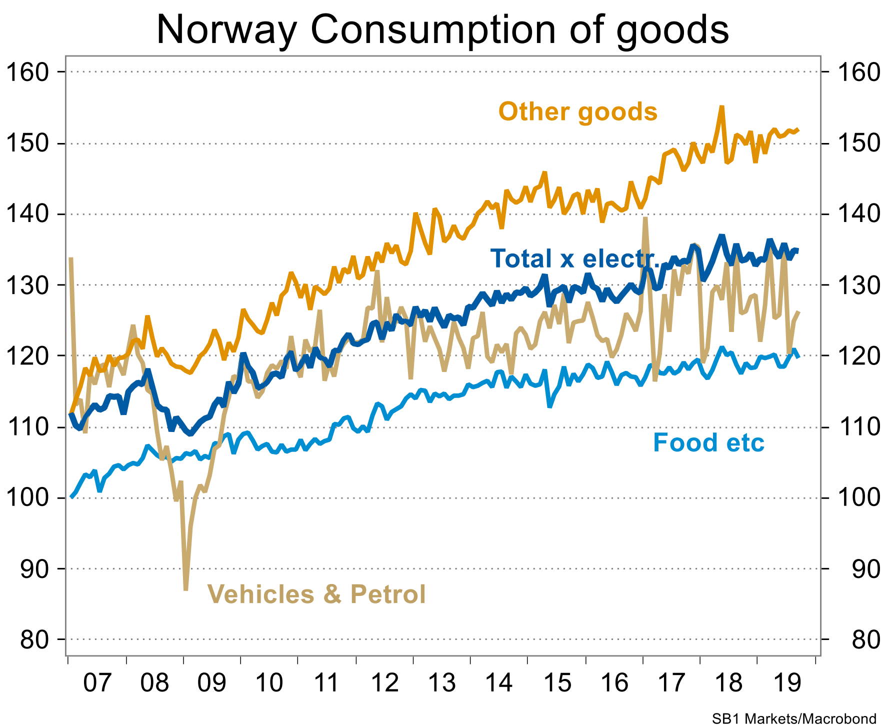


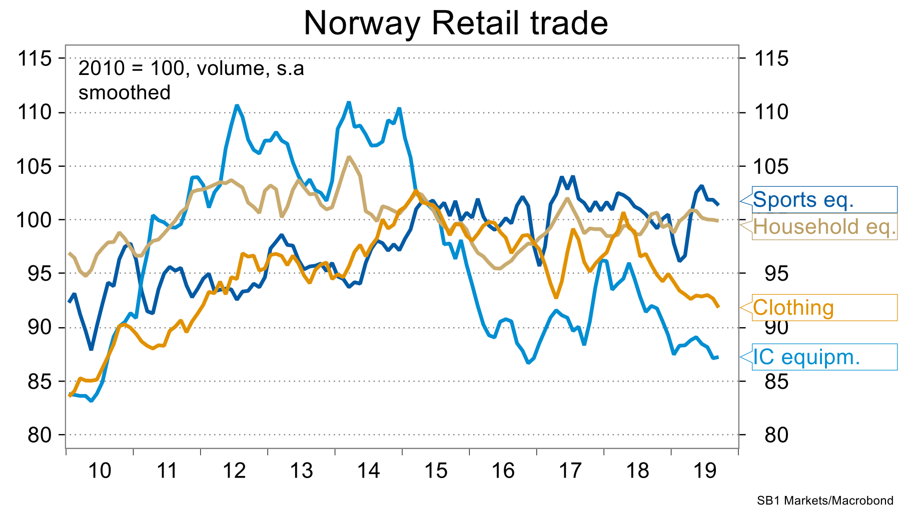


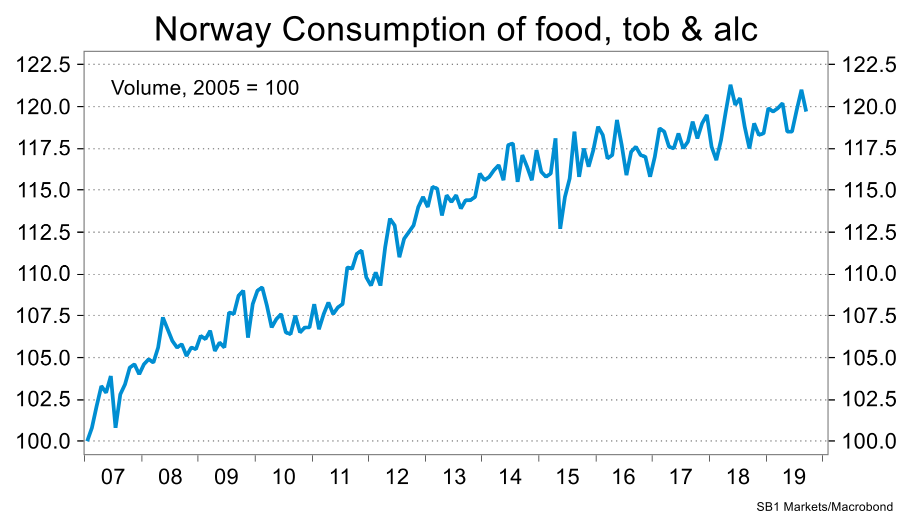
- Retail sales volume (ex auto) stalled inched down 0.1% m/m in Sept, weaker than we expected. Sales are trending very slowly up this year, following a weak 2018. The underlying speed was 0.3% annualized in Q3 and the annual rate is up a modest 0.9%
- Total consumption of goods (ex electricity) fell equally by 0.1% in Sept. Consumption has slowed recent months and the Q3 GDP impact will be negative, by -1.2%. The downswing is solely driven by auto sales, which are volatile from month to month, particularly for electrical vehicles
- <u>Total consumption has flattened out, yet we stick to our expectation that subsiding price inflation will support volume growth the coming months. In the Sept MPR, NoBa revised down the '19 consumption f'cast to 1.8%, still within reach?</u>

Consumers are buying less clothing, IC equipment

Auto sales have fallen steeply, we assume temporarily. Food sales are heading slowly up





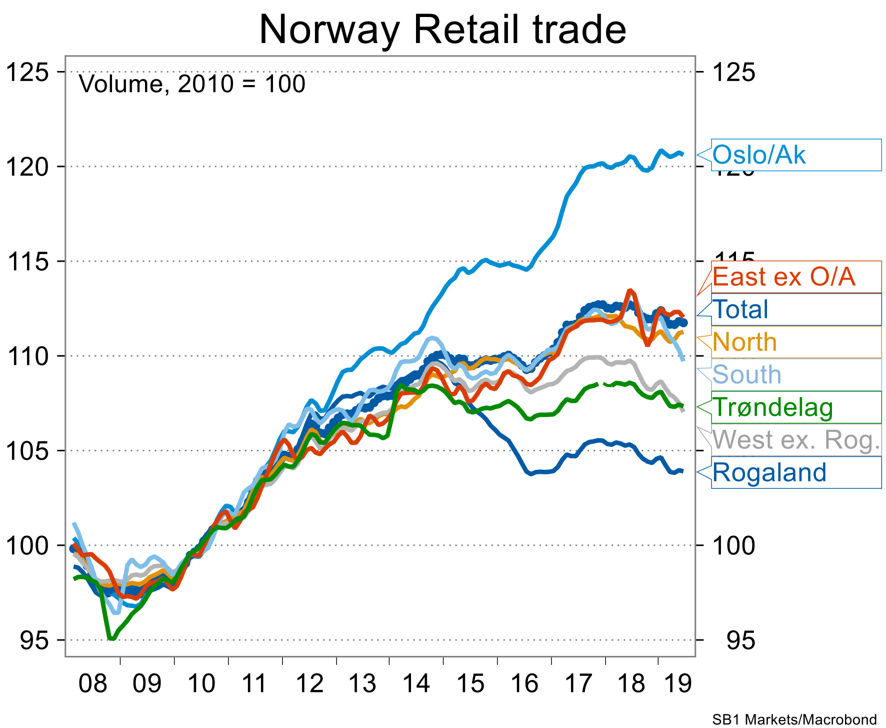


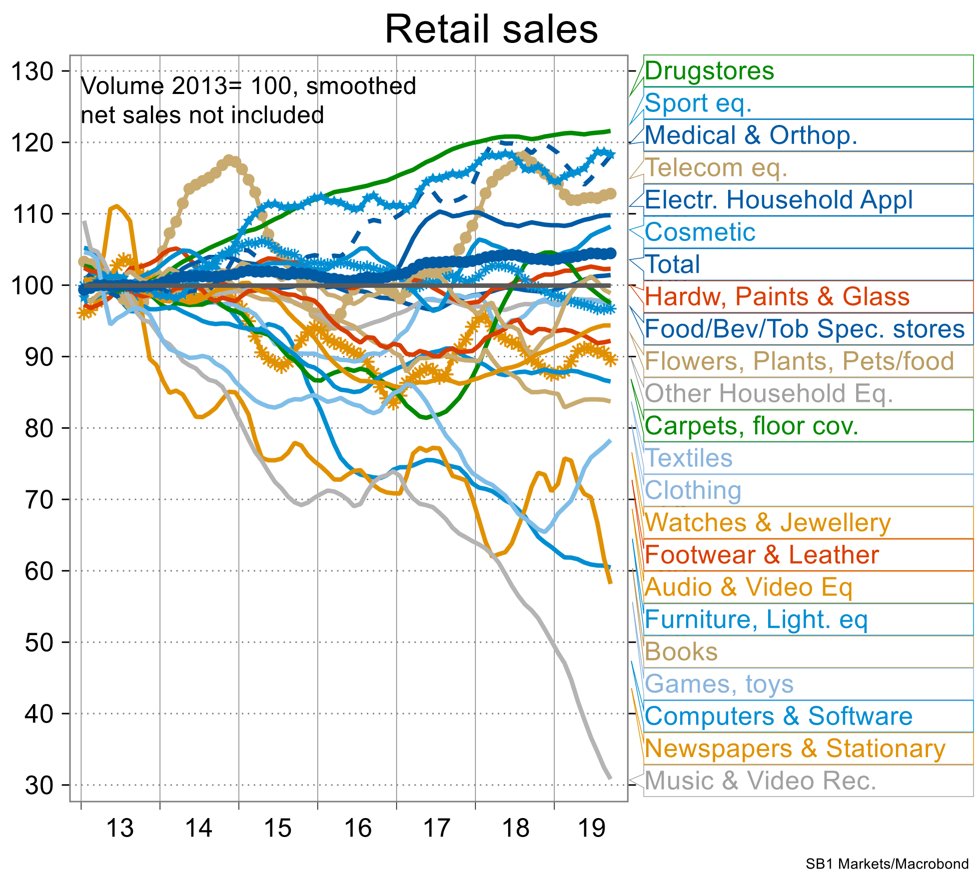
- Auto & gas sales slipped in July and have not recovered since. The volatility in auto sales recently is due to supply bottlenecks, particularly for electrical vehicles. Trend flat/softly down
- Food consumption fell in Sept, the short term trend is flat, long term modestly up
- Other consumer goods are not impressive, clothing and IC (info/communication) equipment have fallen, household equip. flat, just sport equip. improving still trending up (and slowing the past months)?

SpareBank 1 MARKETS

Substantial regional differences – and between branches

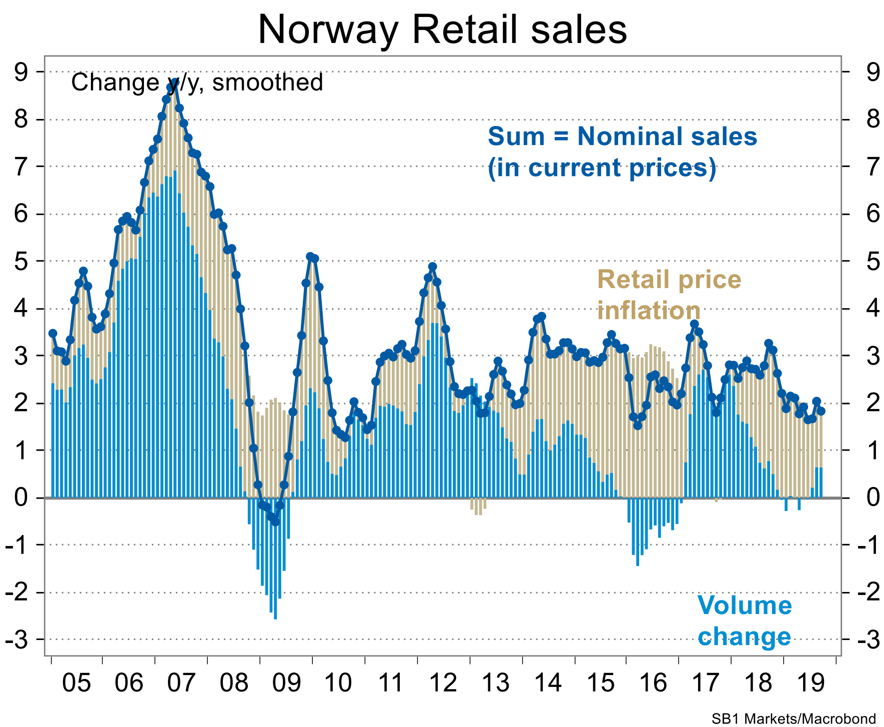
Oslo/Akershus (incl net sales) sharply up, Rogaland still weak. Most branches down

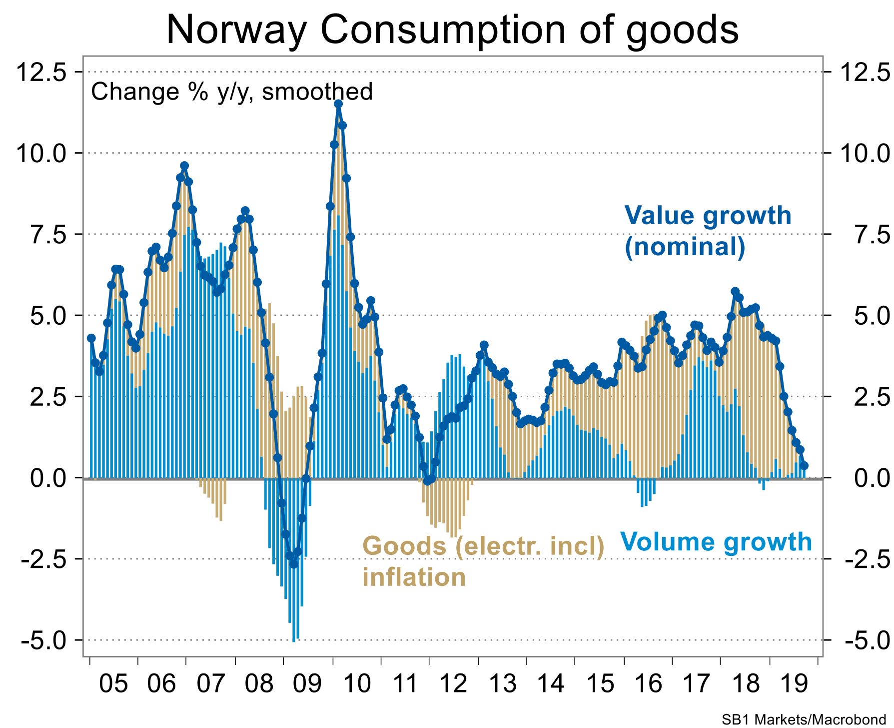




Retreating retail price inflation slowly drives volume up

Total goods inflation has slowed to 0, from 5%, will soon boost consumption?

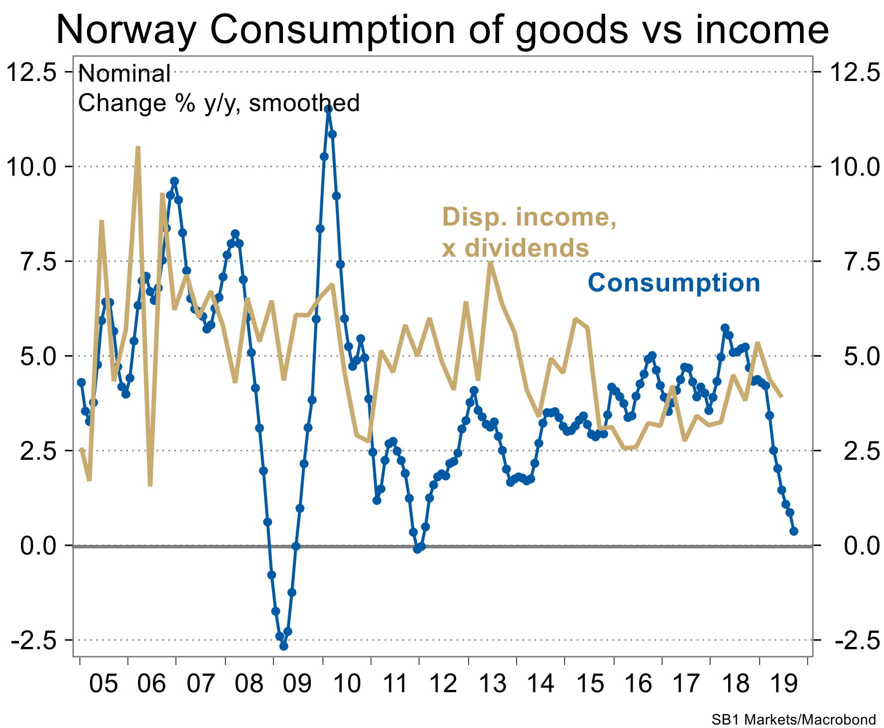


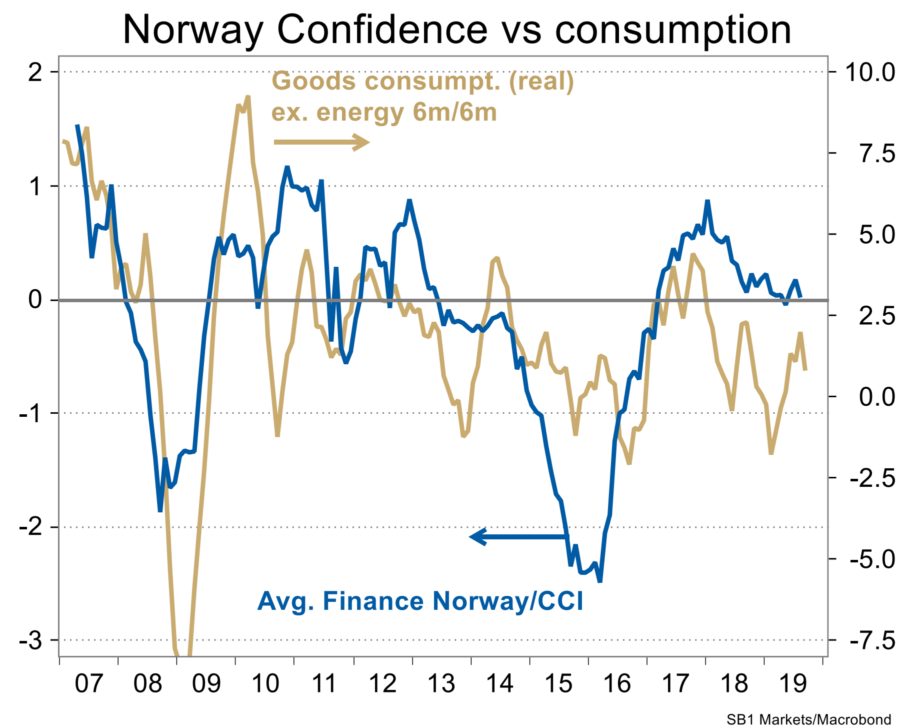


- Growth in nominal total consumption of goods is slowing swiftly, to 0.4% y/y in Sept. The downswing is driven by retreating price inflation, primarily due to a sharp decline in electricity prices. Yet, the response from volume growth has so far been modest, just a 0.4% y/y growth. We expect easing inflation to eventually bring volume growth up
  - » The decline in electricity prices has 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 1.8%. Volume growth has gained pace the past months

Household income and confidence do not indicate muted consumption growth

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

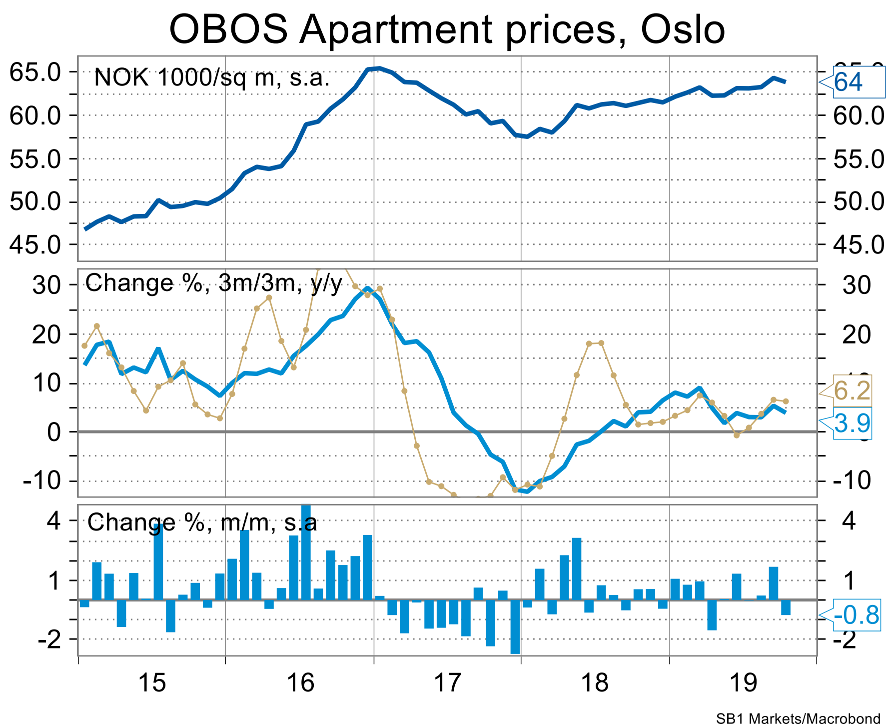


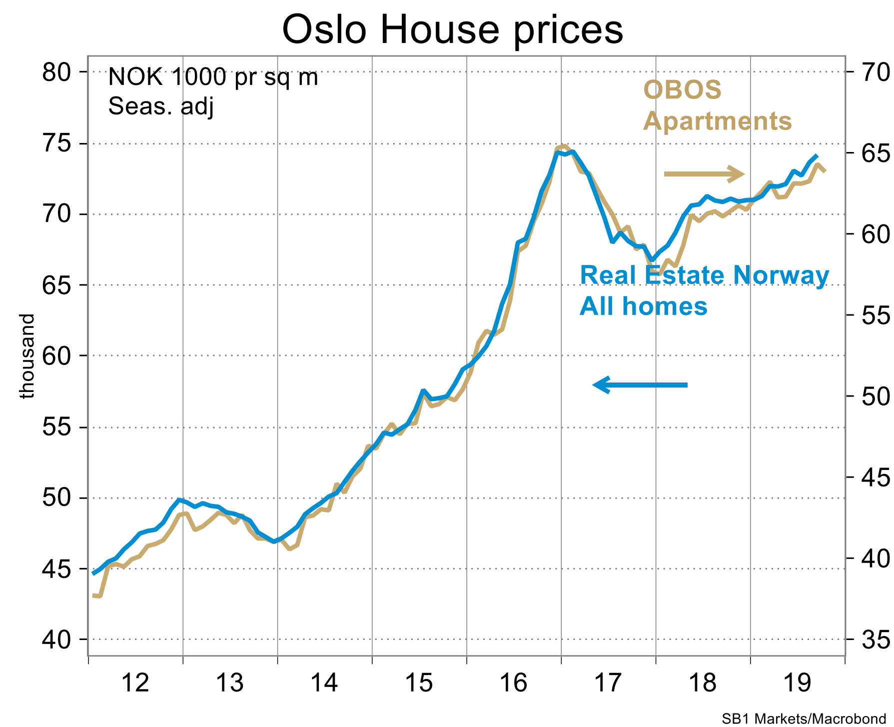


- Disposable income ex dividends was up 3.9 y/y in Q2 (our est), and the savings rate is now slowly increasing slowly again and it probably grew marginally in Q2
- Consumer confidence has softened but is not weak. Growth in consumption of goods has anyway been softer than indicated by the sentiment surveys (not a strong correlation)

OBOS Oslo apartment prices fell in Oct but less the prices rose in Sept; trend up

OBOS prices declined by 0.8% s.a in Oct, underlying growth remains strong at 6.2%





- OBOS Oslo apartment prices fell by 0.8% m/m seasonally adjusted in October (-2.8% not adjusted), following the 1.7% lift in September – the avg of the two last months is not low. Prices are up 6.2% 3m/3m annualised, and 3.9% y/y
  - » Prices are still 2% below the ATH in January 2017 but have been heading steadily up the past year
- OBOS' monthly data are more volatile than Real Estate Norway. Real Estate Norway reports October data on Tuesday

Highlights

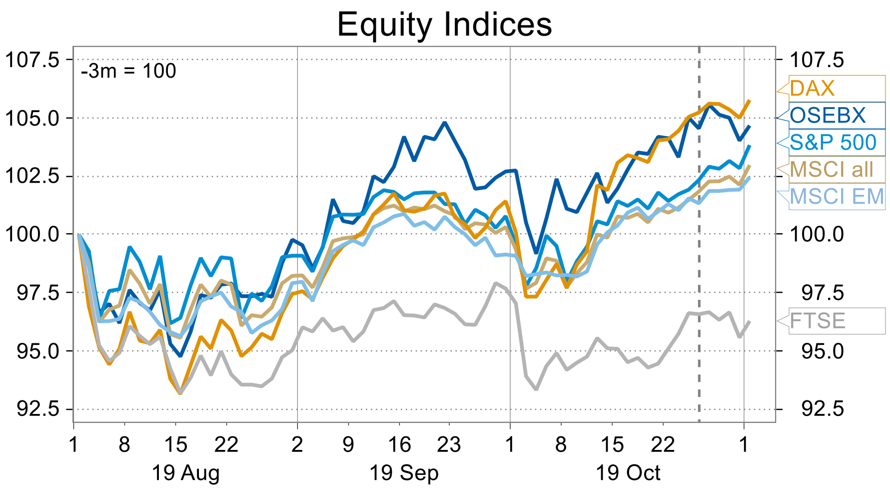
The world around us

The Norwegian economy

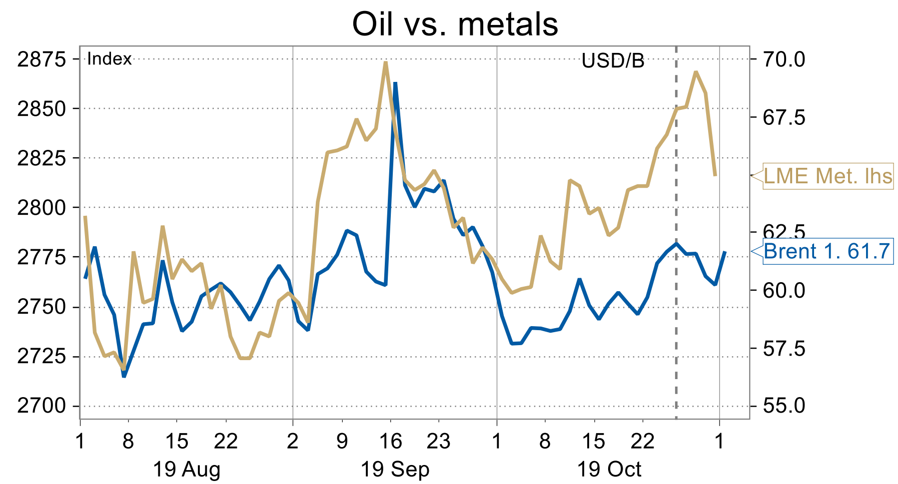
Market charts & comments

Stock markets, oil price ended up, after strong empl. data & positive trade news

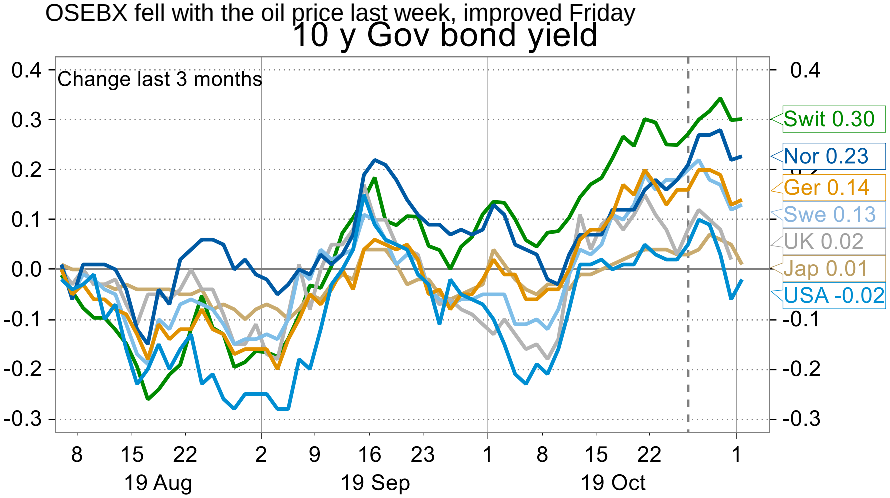
S&P reached a new ATH, while bond yields fell 'everywhere' on the week but recovered Friday



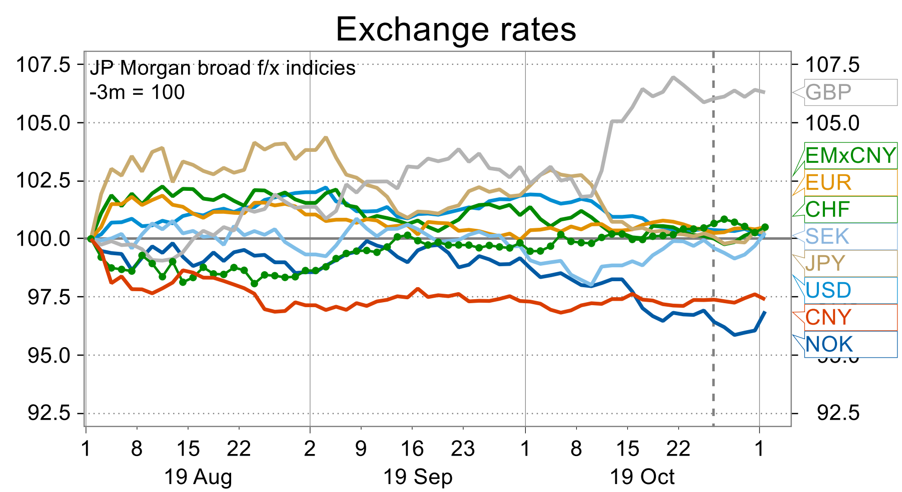
Stock markets have climbed through October, S&P to new ATHs. OSEBX fell with the oil price last week, improved Friday



Brent oil price rose Friday, while metal prices slipped



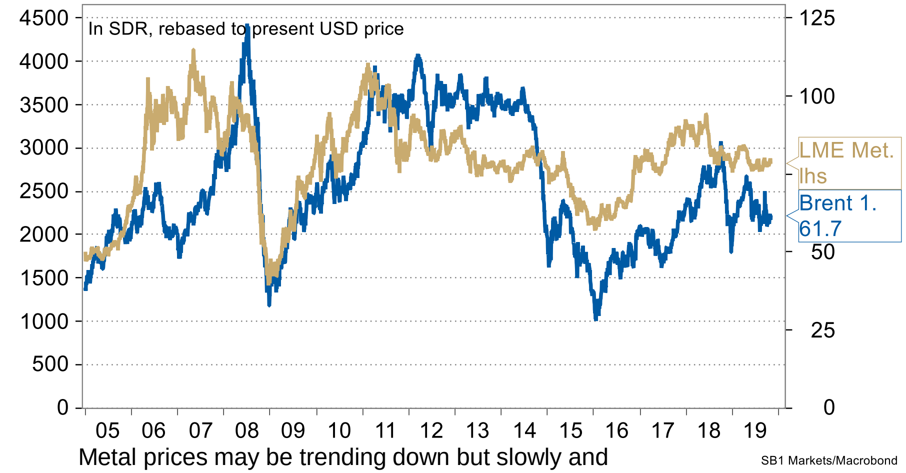
Bond yields fell until Friday, on negative trade deal statements from China. The mood changed after a strong nonfarm payrolls report and positive trade news from the US



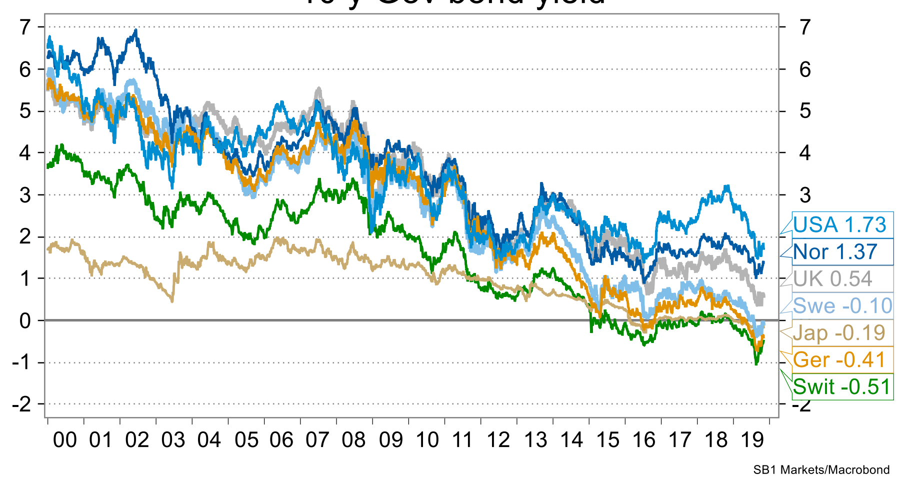
GBP steady, SEK and NOK recovered somewhat late last week

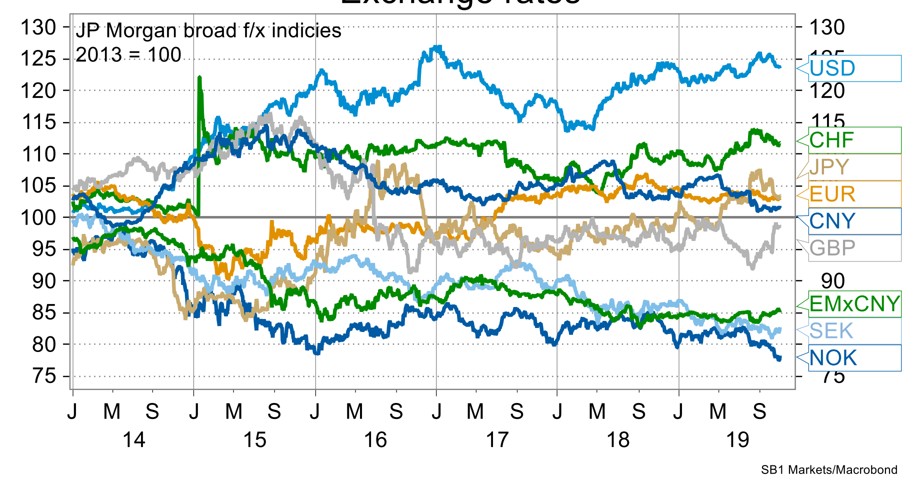
In the long run: US stocks at to ATH, bond yields not far above ATL

Oil, metals are trending slowly down. The trade war rules. And then some economic data



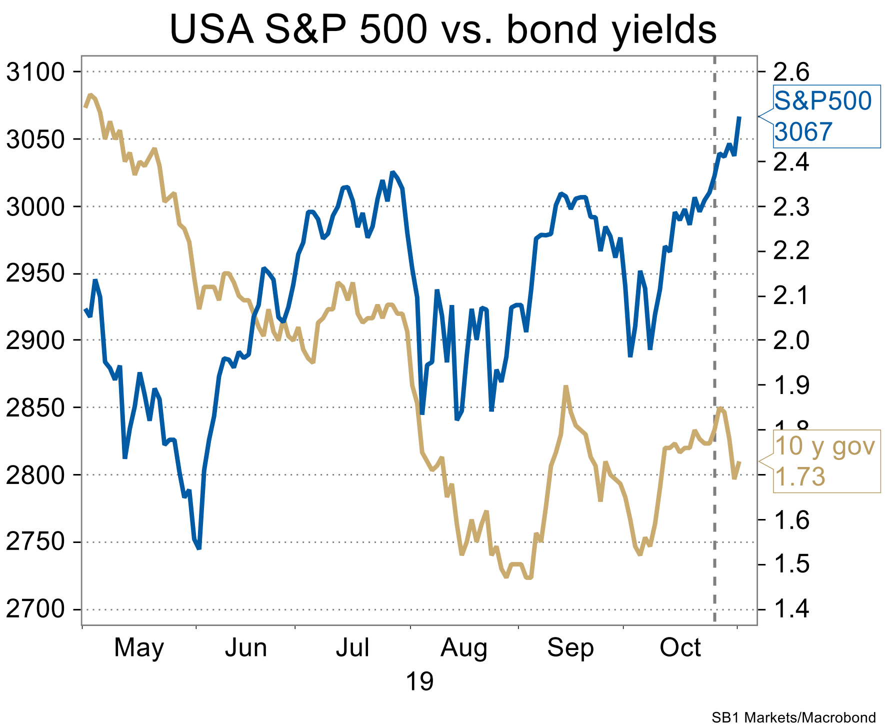
Metal prices may be trending down but slowly and the decline from the local peak is not large

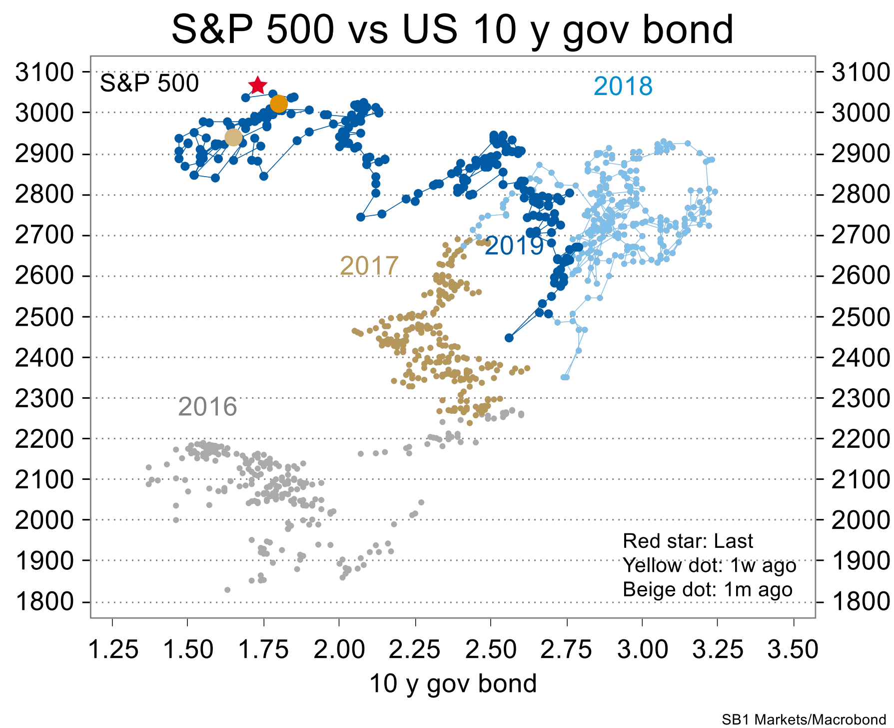




US: Stocks markets are thriving, bond yields down, again

S&P rose 1.5% last week, the 10 y gov yield fell 7 bps (but recovered 4 bps on Friday)

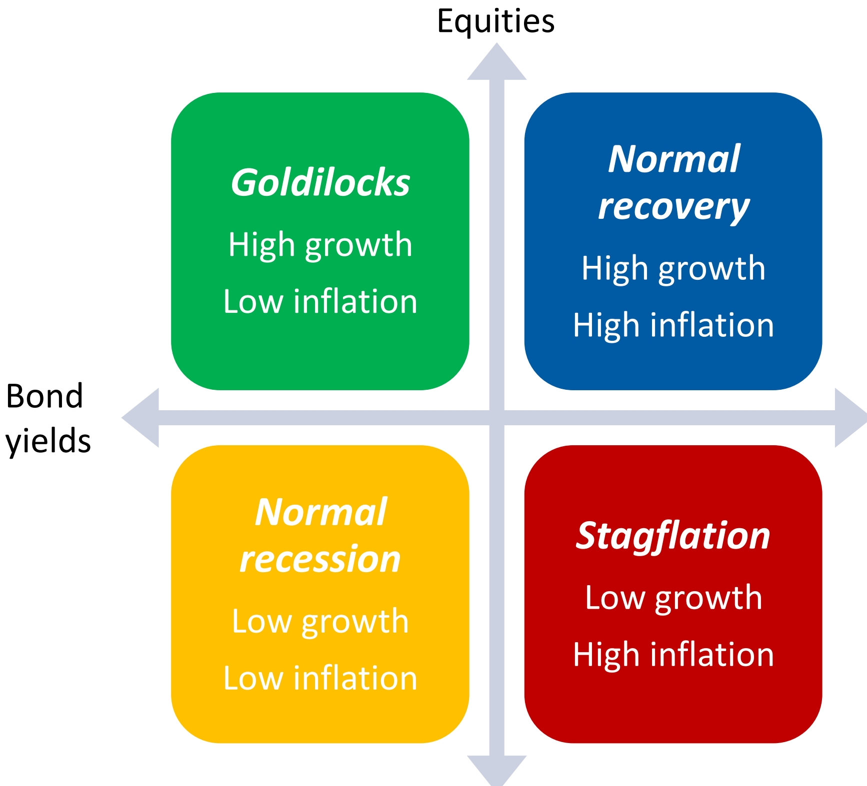


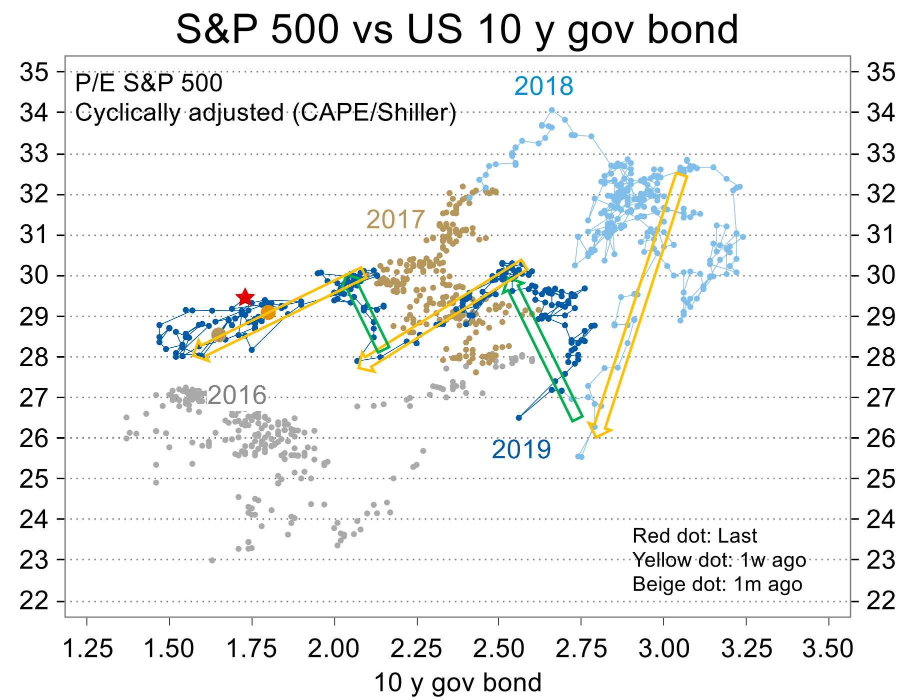


- Stock markets (measured by the S&P) have been soaring in October, to 1.4% above the July peak. Stock markets cheered the upbeat US nonfarm payrolls report and positive trade deal reports from the US on Friday
- In contradiction, bond yields are 40 bps below the July peak, although edging up through October. Bond yields fell early last week on reduced hopes of an extensive US/China trade deal after Chinese officials noted doubts as to whether a long term deal was possible. Bond yields recovered 4 bps Friday

US markets moved towards the Goldilocks corner last week

Stocks/bonds are slowly recovering, bond yields so far not following (at least not last week)





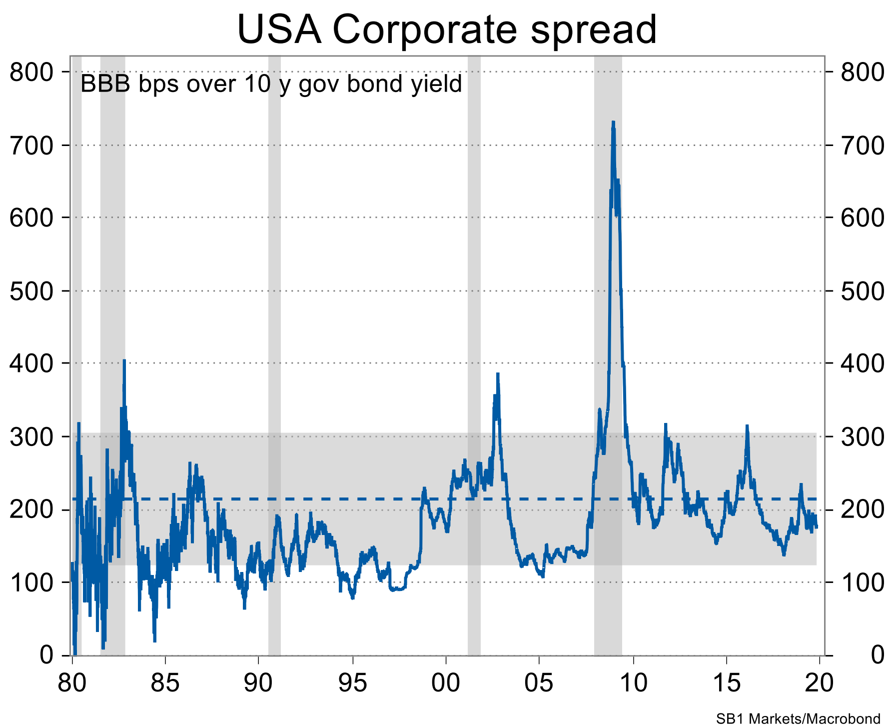
SB1 Markets/Macrobond

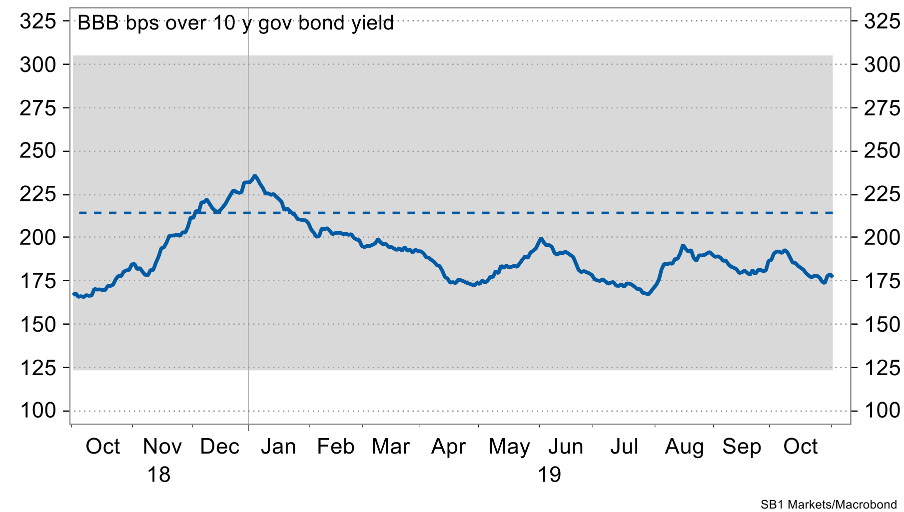
- Recent months, markets have been zig-zagging along with developments/news on the trade war. In August, markets moved towards the recession corner following the bad trade policy news. In early September, both markets were recovering, on hopes of a trade war de-escalation and some upbeat US macro data. In October, trade news have been positive, and market recovered early in the month, again – out of the recession corner. The past week, some negative trade news sent bond yields down, while stocks climbed
- We do not think a long term Goldilocks scenario is likely. Should yield 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

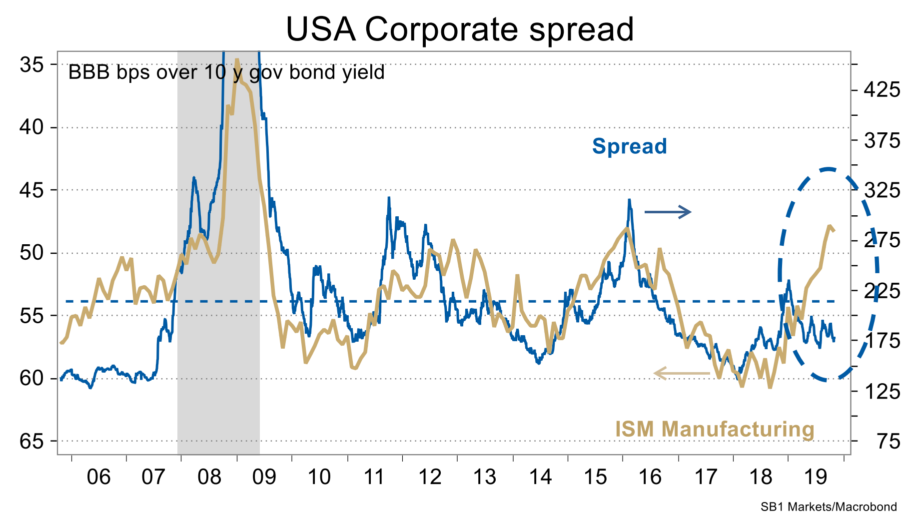
SpareBank 1 MARKETS

Credit spreads are below an average level, far too low?

Spreads are <u>far too low</u> if the ISM is correct; that is, <u>*if growth is slowing*</u>

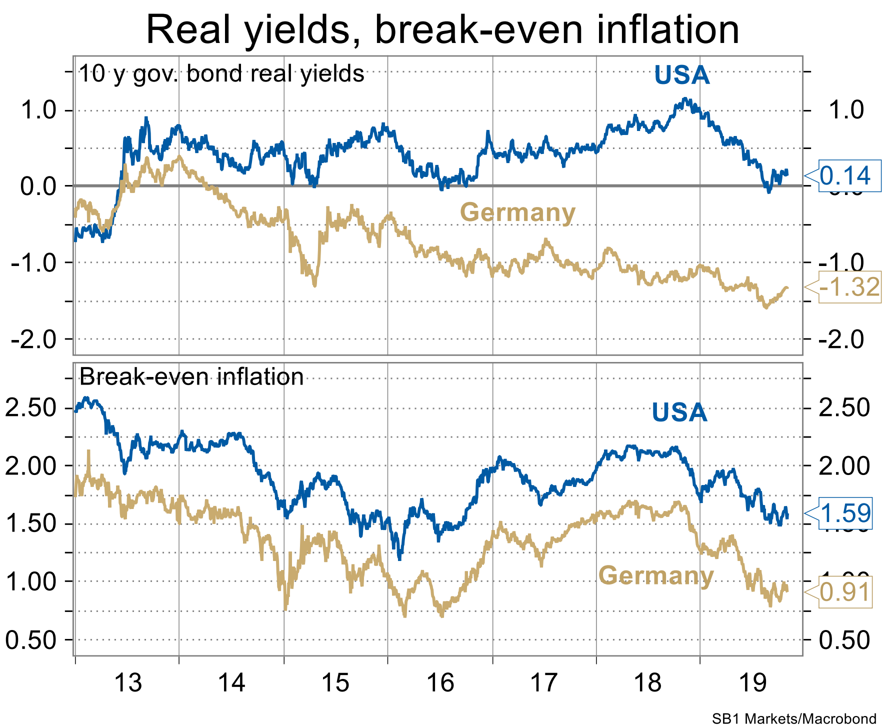


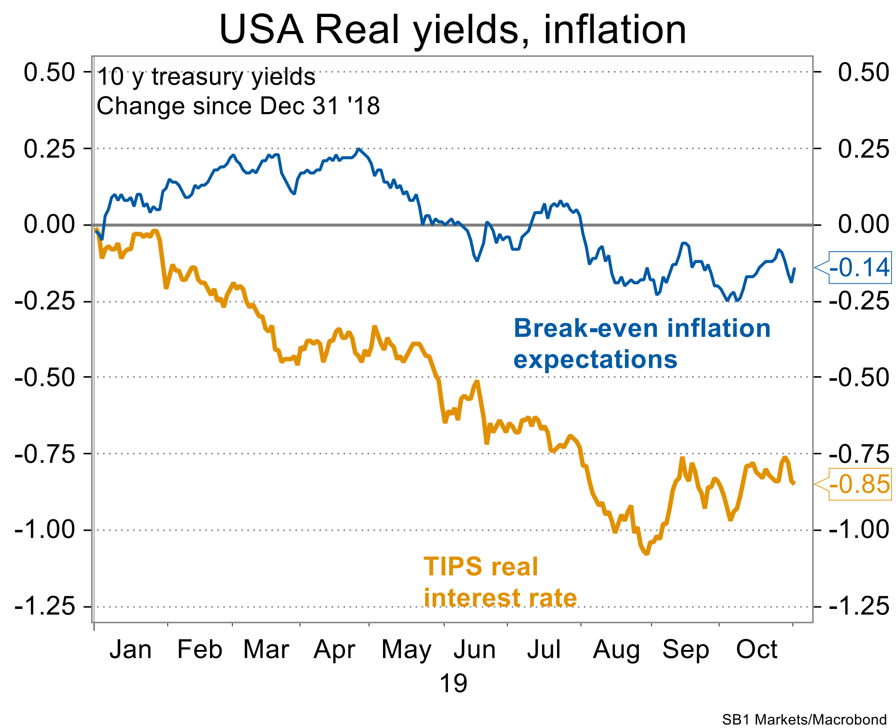




Both real rates and inflation expectations are slowly turning up

German real rates are up almost 30 bps since August, US real rates up 22 bps

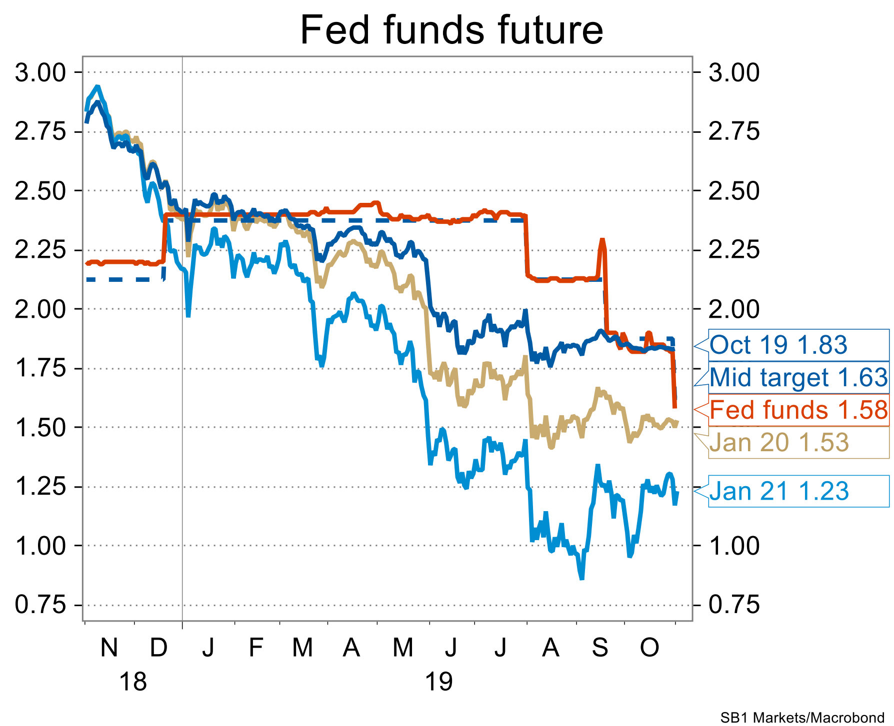


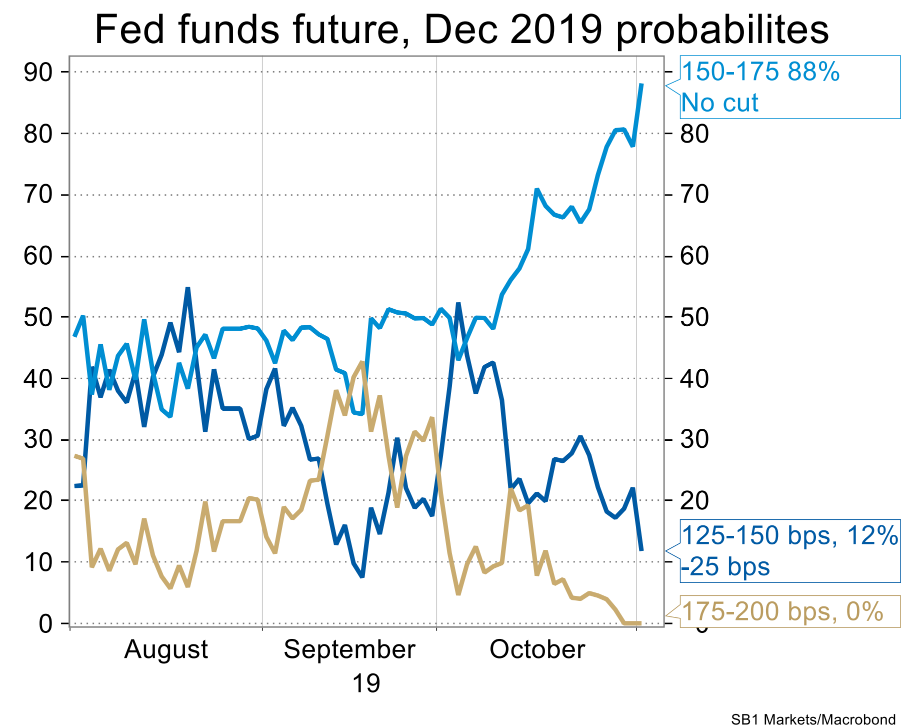


- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. Since early Sept, real rates have recovered more than inflation expectations, probably primarily due to hopes of a trade war solution
  - » The past week, both real rates and infl. expectations fell
- German real rates bottomed out at 1.6% in late August, and have increased to -1.32%, still very low. Inflation expectations at 0.91% does not seem that far off, although far below the ECB's price target at close to 2%
- US 10y inflation expectations fell to 1.59% last week, the real rate marginally down, to 0.14%

Expectations of another 2019 cut have been slashed

Fed fund futures have climbed through October and further last week, just 12% prob. of a Dec cut



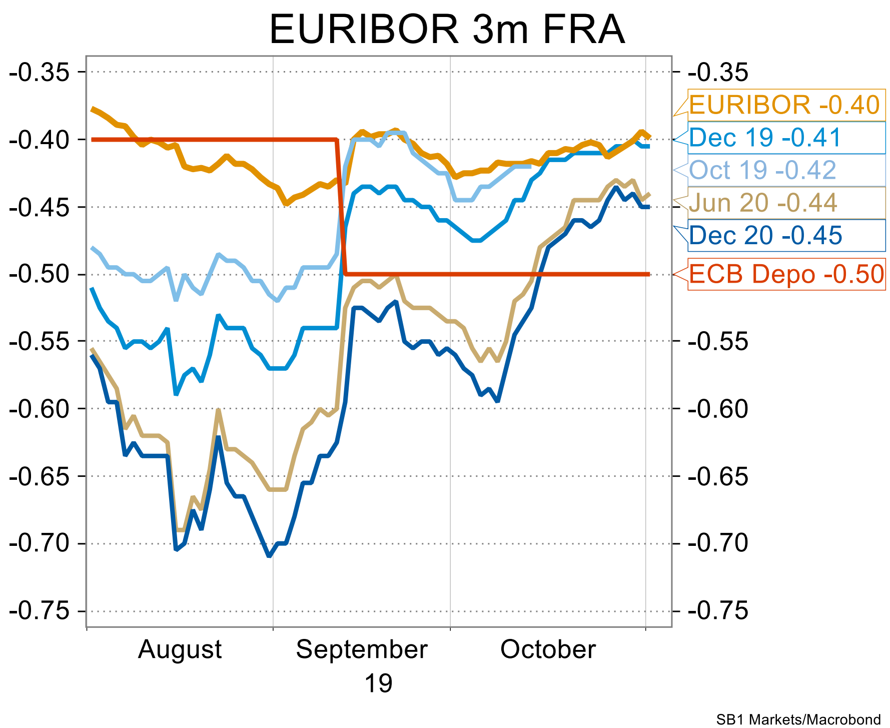


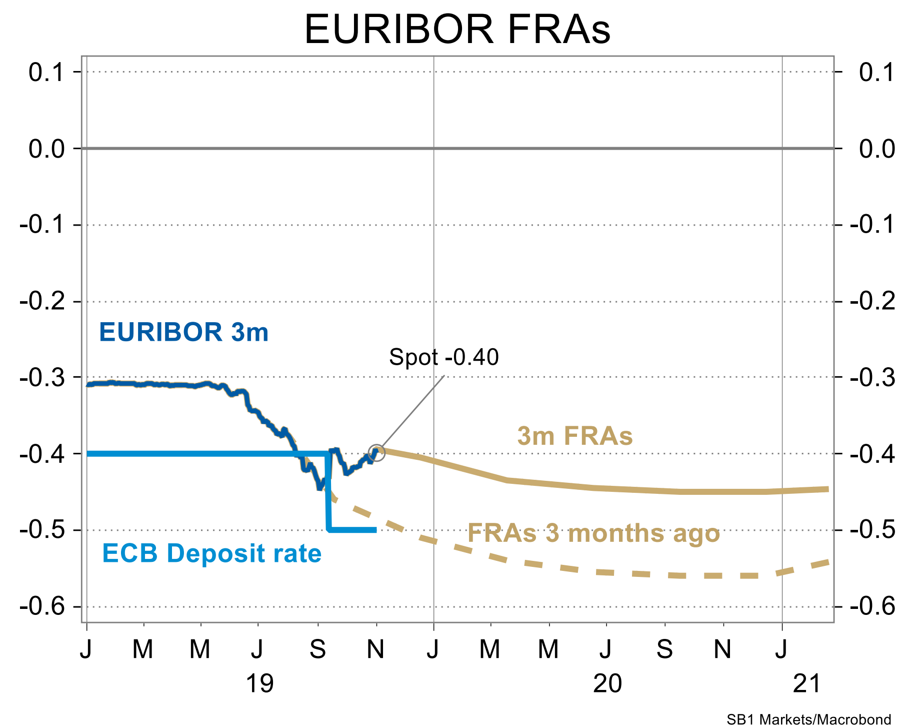
- More on the Fed's October interest rate cut on this slide
- The Jan' 21 FRA at 1.23% indicates that markets are expecting just some 1 ½ interest rate cut (of 25 bps) through 2020

SpareBank 1 MARKETS

Expectations of another 2019 ECB cut have vanished, too

FRAs have been recovering all over the curve, fuelled by positive Brexit and US/China news

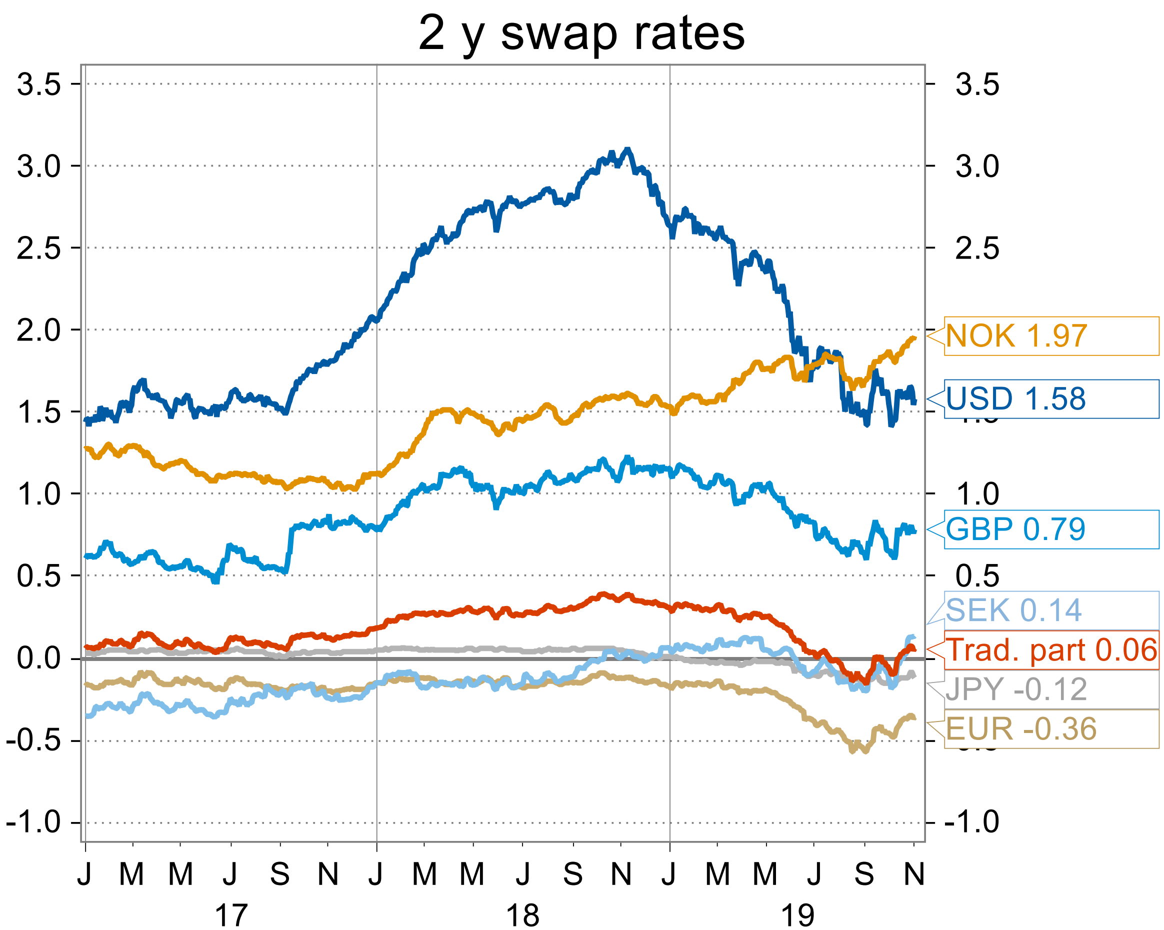


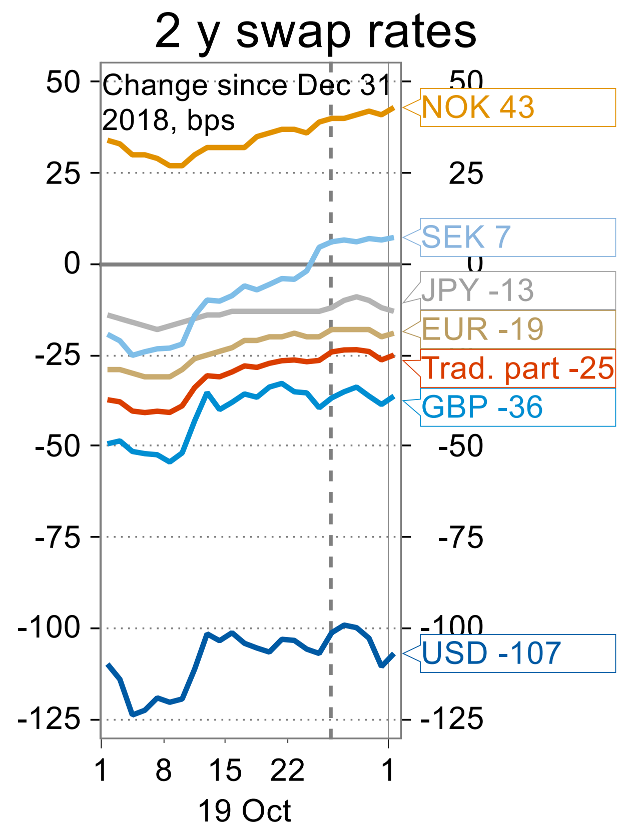


- Weak macro data sent EUR FRAs down in late Sept/early Oct. Since then, the FRA rates have turned up all over the curve. Positive news from the US/China trade talks turned the mood, even as the partial trade deal was narrow. Hopes of a soft Brexit has contributed as well – and a divided ECB

Short term rates up are slowly turning up

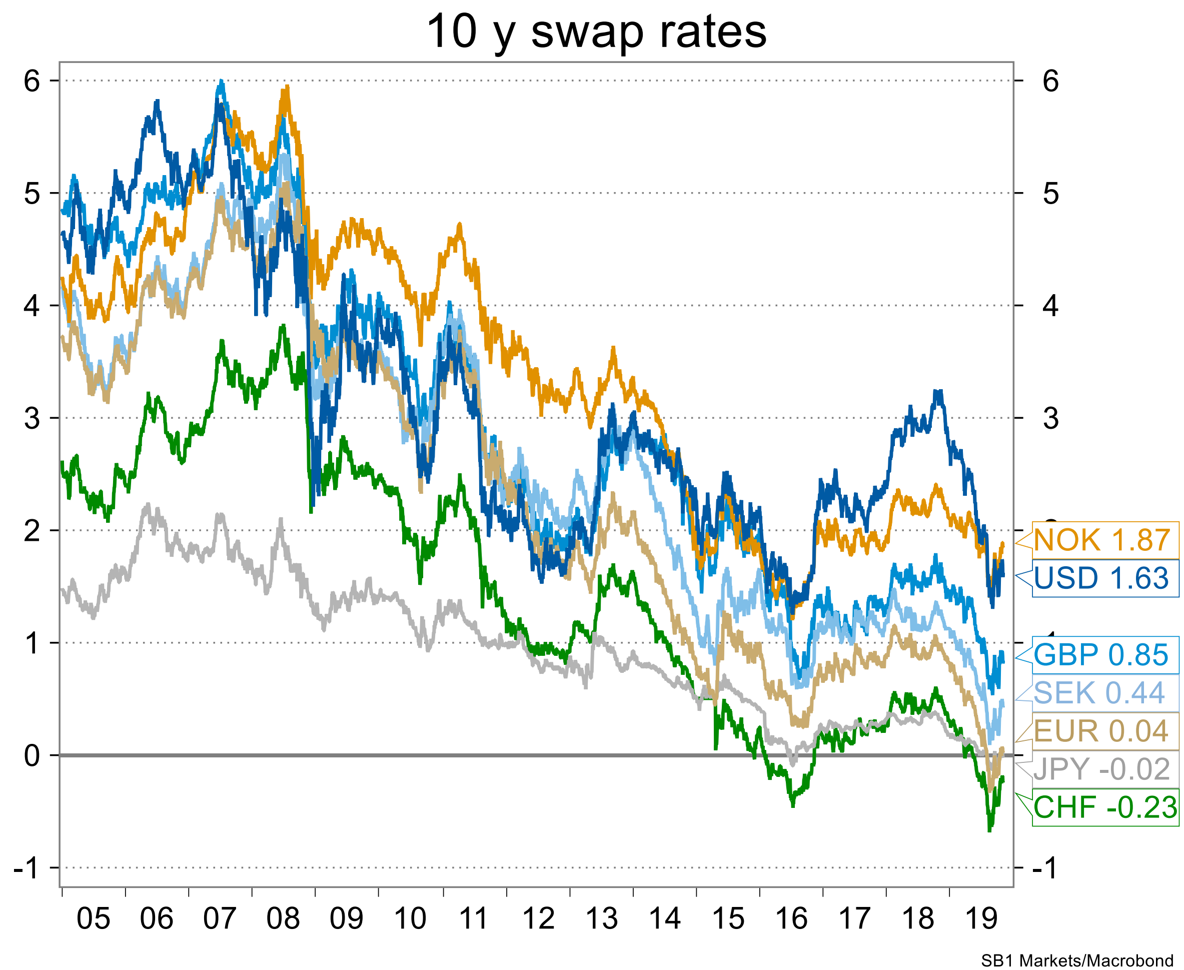
Short term rates mostly flat last week, US rates down. NOK and SEK rates are climbing

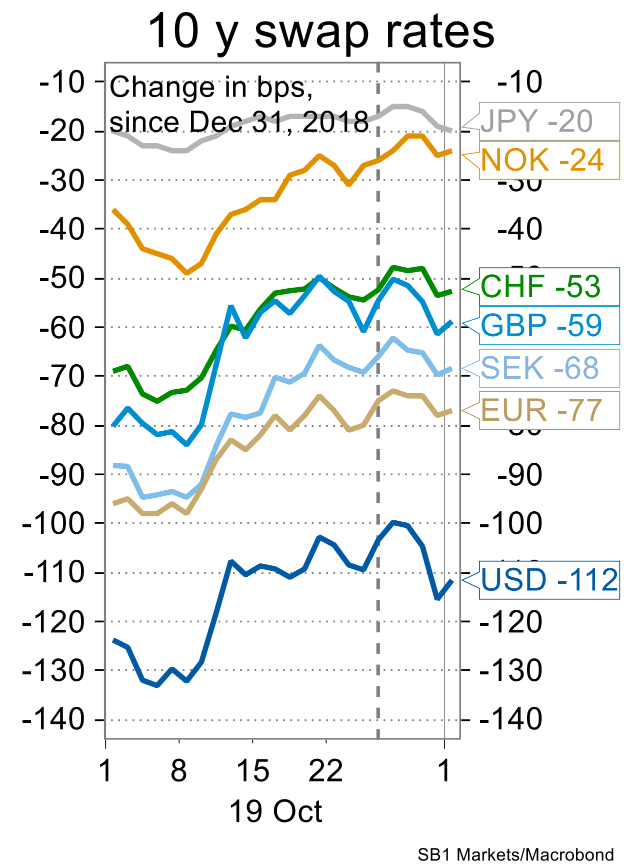




Long term swap rates up from the bottom, with a pause last week

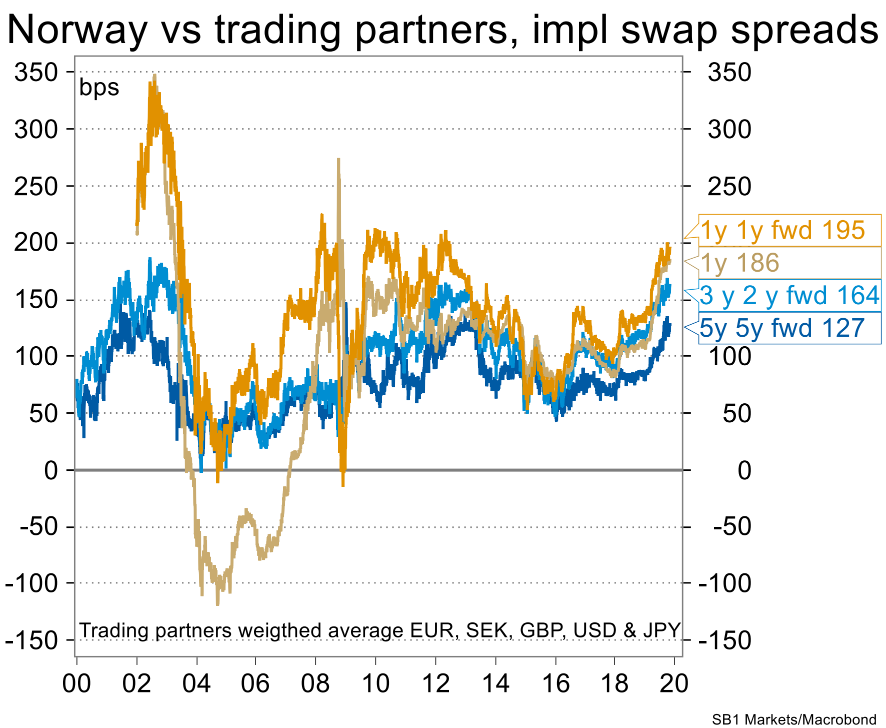
All swap rates have turned up, US 10 y swap rate is up 32 bps from the early Sept trough

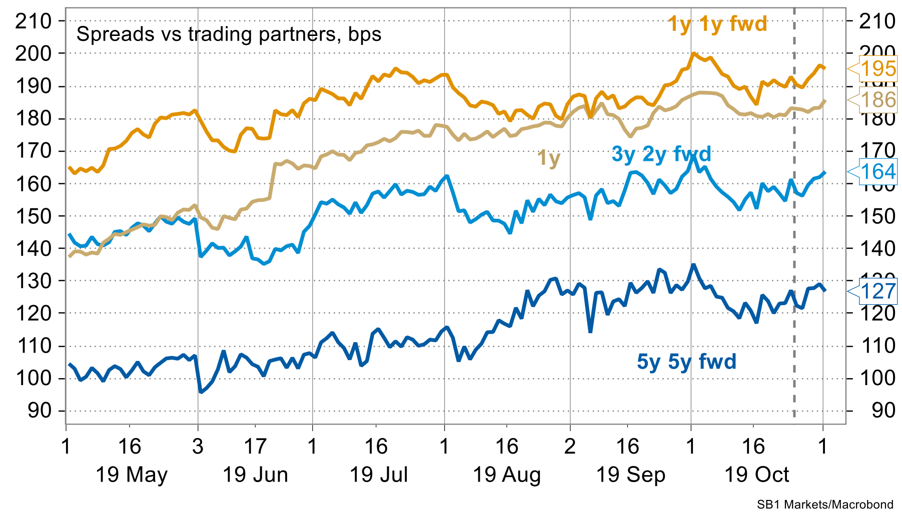


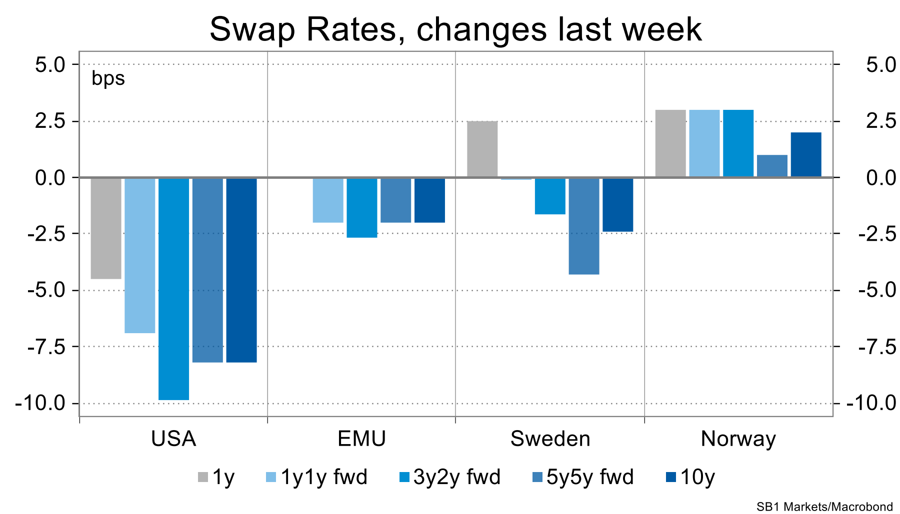


Swap spreads vs trading partners widening again, as NOK rates climb

Swap rates fell among most trading partners last week, NOK rates up



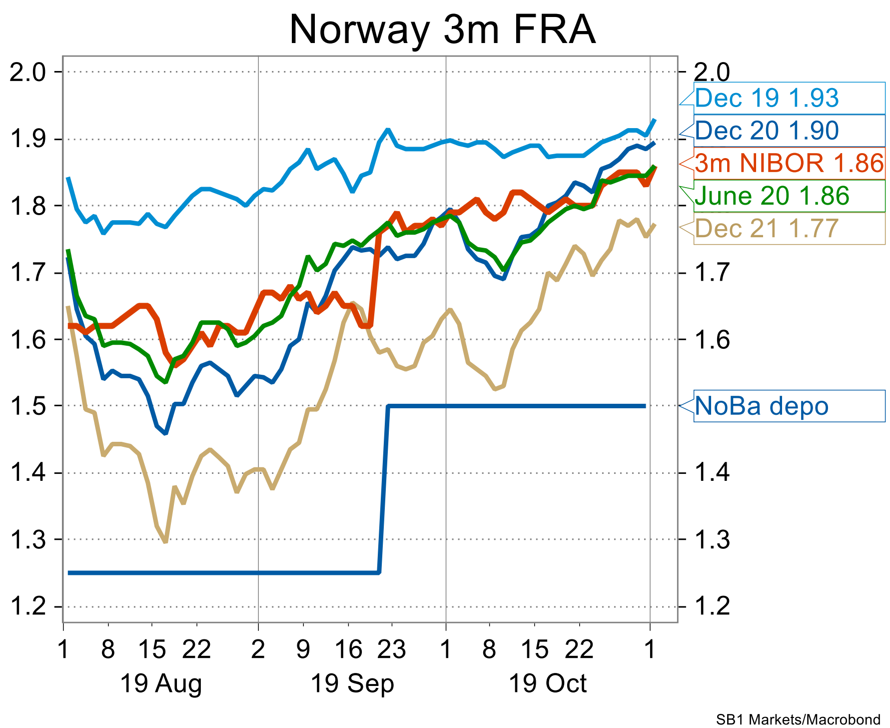


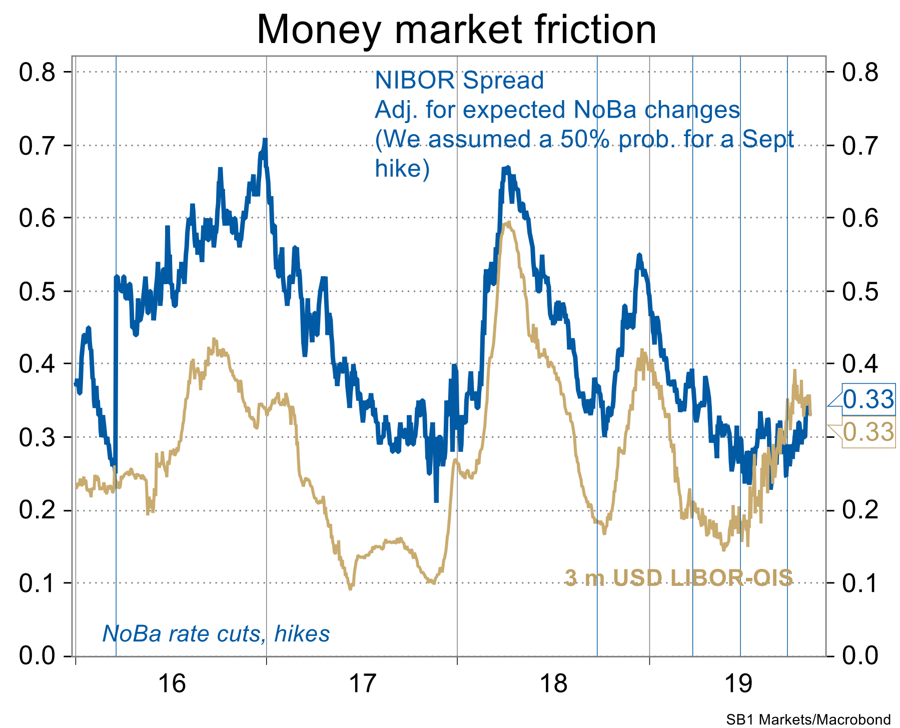


- Swap spreads between NOK rates and our trading partners have been widening rapidly this year, all over the curve. Spreads were narrowed in early Oct, widening again the past week
- While the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March. It must be 'too' high, still?

3m NIBOR up to 1.86%, FRAs climbed further too

Dec 20 3m FRA up to 1.93%, signalling an even higher NIBOR the coming weeks



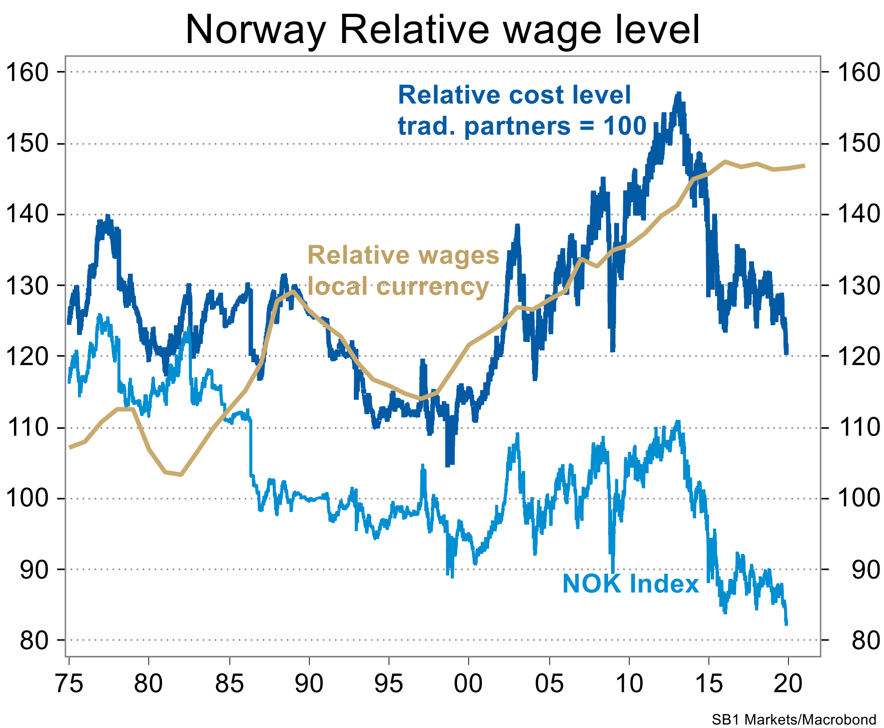


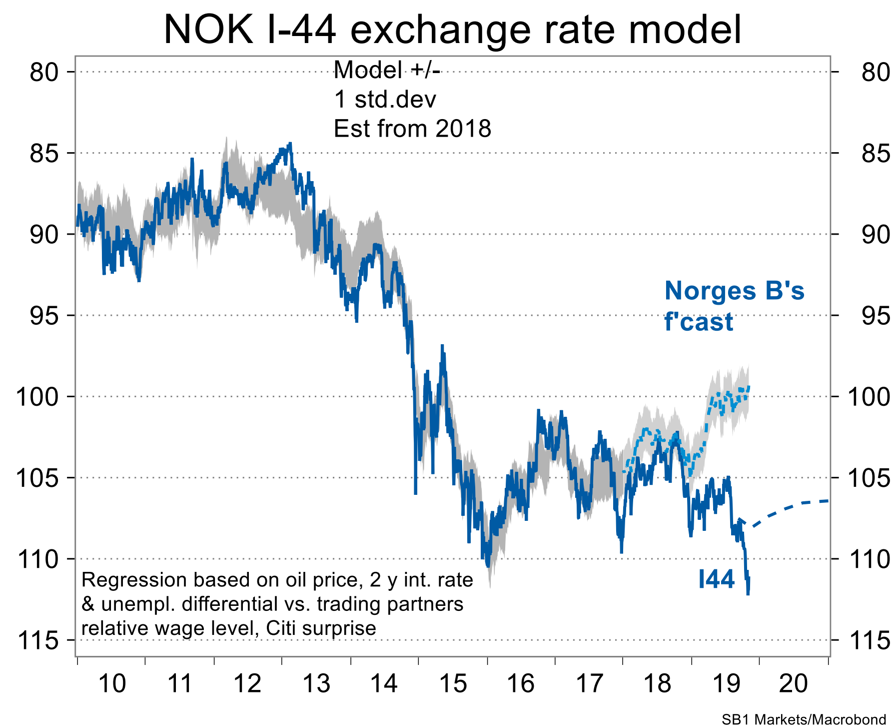
- The 3m NIBOR rose to 1.86% last week, up 2 bps from the prior week, implying a 36 bps NIBOR-NoBa spread (assuming expectations of an unchanged NoBa deposit rate). FRAs are edging up too, the Dec '19 contract to 1.93%, implying a 43 bps spread. The US the LIBOR-OIS spread is 33 bps. Historically, the NIBOR spread has been wider than the LIBOR-OIS 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. We expect the 3m NIBOR to drift further upwards the coming weeks
- Longer dated FRAs are climbing. The FRA curve is still inverted after Dec '19. The market is pricing less than a 50% probability of at cut by the end of 2021

SpareBank 1 MARKETS

The weakest nominal NOK, ever!

Adjusted for the wage level, the NOK is well below the average from before year 2000, -23% from top

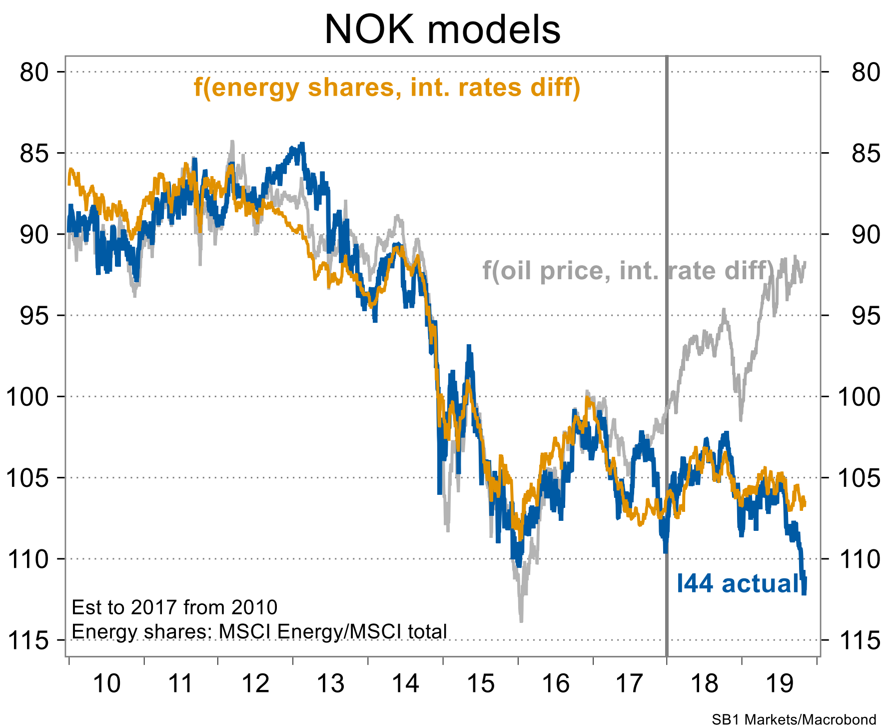


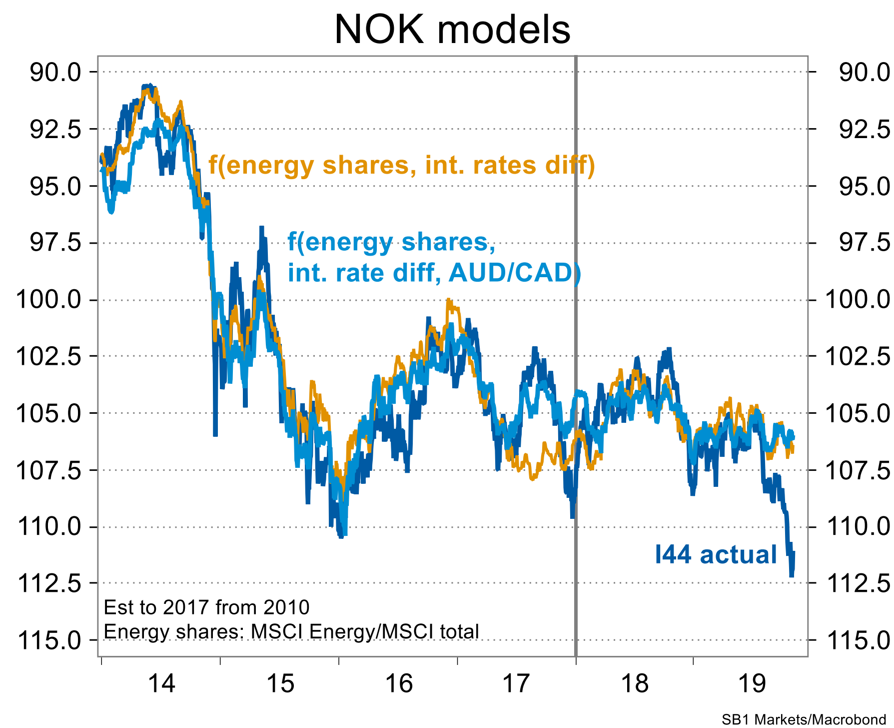


- Compared to the pre-2000 period, Norway has established a 3 x GDP Oil fund. The expected capital income from the fund can now cover (finance) ¼ of Norway's imports. Thus, Mainland exports do not have to pay for all of our imports, as before. The cost level has to be adjusted upwards (so that we can enjoy the benefits of the fund's return). The present cost level is probably too low
- Our old behavioural model does not seem to work any more, NOK is 11% below the model's forecast. Any explanations? We repeat the model we introduced last week, flip to the next page

NOK hit by the green wave, like the oil industry?

Our old short term behavioural f/x model has not worked well past two years. Why? The green shift?



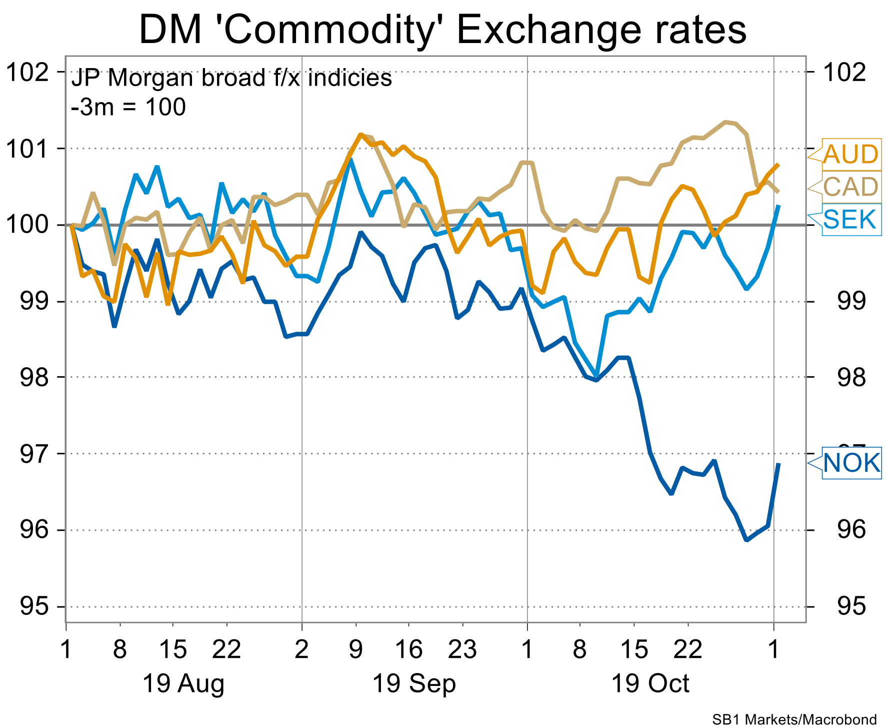


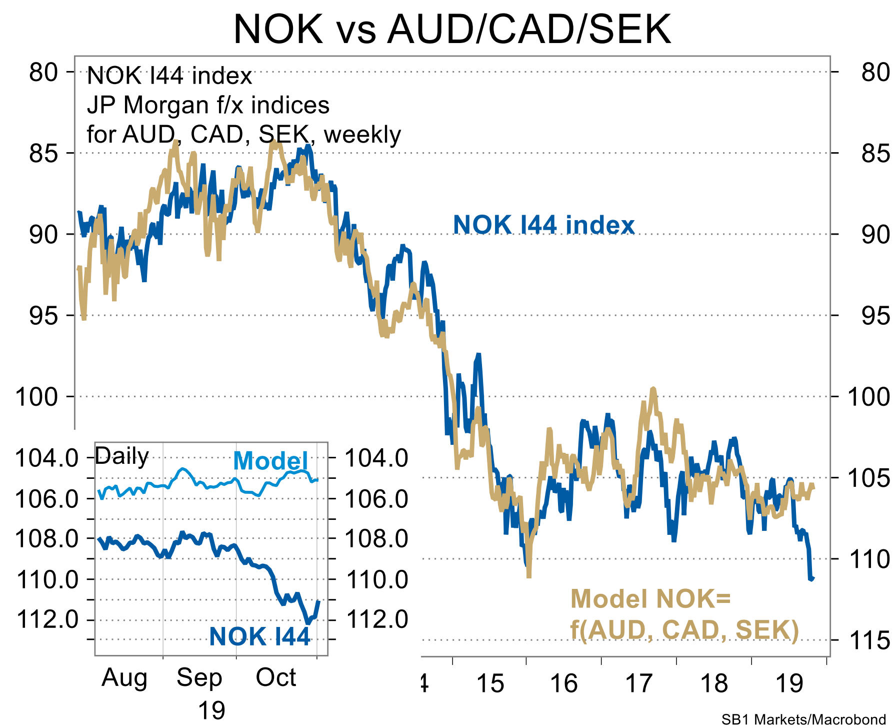
- We have swapped the oil price with the market's pricing of oil assets, measured by the relative return for energy shares vs the total market in the NOK f/x model. Until 2017 it did not matter which 'oil' variable we applied, the two explained the NOK equally well. When forecasting the NOK, by using the energy shares in 2010 – 2017 (including the 2y interest swap rate spread vs. trading partners), the deviation is startling. The energy share price model explains the actual NOK way better than the oil price model. The residual is 4%, compared to the 20% gap vs. a simple oil price model. The market judges the Norwegian economy as it judges oil companies, and has lost the long term confidence in both. We think the market puts too much weight on the oil sector's importance on the oil sector, but that's another debate. *Check next page for energy companies vs. the oil price*

- If we include AUD and CAD in the model, the forecast model works even better. Both Australia and Canada are energy net exporters (Aust. coal, Canada oil/gas). Even a NOK model with just AUD and CAD (and SEK, but just to please our neighbours) as explanatory variables, works far better over the past 2 years than the oil price/int. rate differential model
  - » However, both the model with the relative return of energy shares and the one including AUD and CAD fail to explain the NOK weakness since late July. NOK is 4% too weak

NOK & SEK recovered Friday, NOK still far too weak vs other supercyclicals

NOK appreciated 0.7% Friday but is almost 6% lower than vs. our supercyclical friends

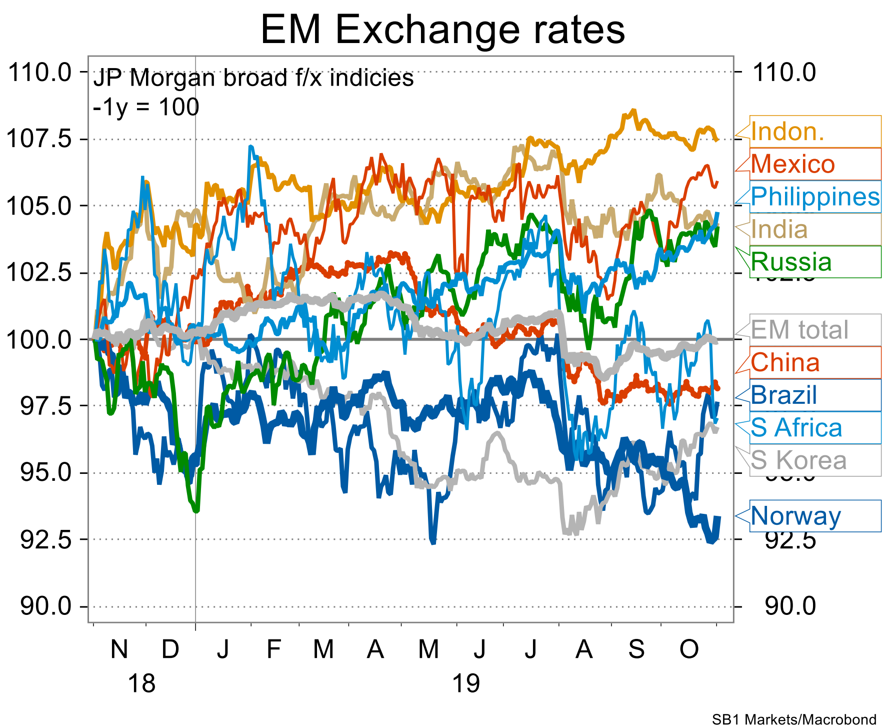


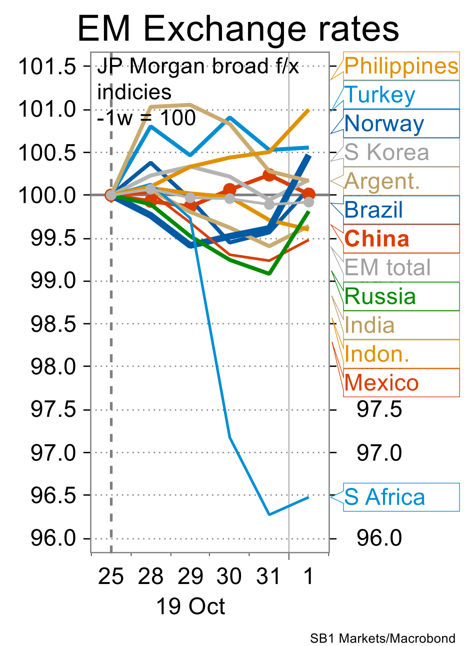


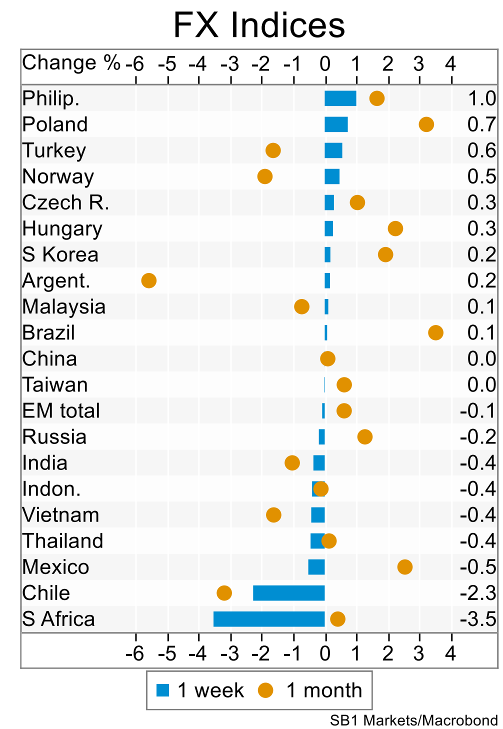
- The supercycle currencies are all sensitive to oil/energy prices (check the previous slide) and global growth outlook. The past month, both CAD, AUD and SEK have recovered, probably fueled by hopes of Brexit solution, and a (slight) de-escalation of the US/China trade war. Unlike our peers, the NOK tumbled in October (and finally came up Friday)
- Together, the other supercyclicals cannot 'explain' the NOK setback recent weeks. The NOK has lost 6% vs. the supercycle f/x model estimate since mid-July. The discrepancy is not unprecedented but its now unusual large

EM f/x down last week, in avg, appreciating the past month

Most EM currencies have been stable through October, with some exceptions







- Most EM currencies have stabilized/recovered in Sept/Oct. Trade war de-escalation probably the best explanation
- 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 month, and the past year!!
- The South African rand tumbled last week on official projections of a rapidly widening budget deficit

DISCLAIMER

DISCLAIMER

SpareBank 1 Markets AS ("SB1 Markets")

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

No investment recommendation

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

No personal recommendation

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

Research for the purposes of unbundling

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

Conflicts of interest

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

Accuracy of sources

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

Risk information

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

Limitation of liability

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

Limitation on distribution

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