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Macro Research

Weekly update 46/2019

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Last week – the main takes

- **China and the US** apparently have agreed to roll back some tariffs as trade talks advance. Chinese officials report that a partial deal could be reach within a few weeks. Well, at least that was the case until Friday afternoon, when Mr T. announced he had not yet agreed to remove any tariffs
- **Global composite PMI** ticked down to 50.8 in October, a 0.3 p decline (we expected -0.2 p). The level points to below 3% GDP growth, somewhat softer than the Q3 print at 2.9% (our estimate). A steep drop in services PMI from Japan, caused by a hike in taxes on consumption, explains most of the global downturn this month. Both the US, Eurozone and China stabilized, helped by signs of recovery in manufacturing. The service sector is softening, particularly in the US
- **Global auto sales** were probably stable in Oct, due to higher sales in EMU and a huge lift in India, while sales in Japan fell sharply. Sales are down 8% from the record level in early 2018
- **Chinese exports** fell m/m in October, however, exports are trending slowly up since late 2018 (that's not what you read in most newspapers!). Imports have flattened out and weakened slightly recent months but do not reflect any collapse in demand
- **US productivity** declined marginally in Q3, weaker than expected. Still, productivity growth is slowly accelerating but labour cost are accelerating, putting a further pressure of profits –which are declining rapidly vs. GDP. **Job openings** are heading down from the peak, may be an early sign of weakness
- **Eurozone manufacturing production** probably held steady in Sept, but fell 3.5% in Q3. Germany has slumped 8% from peak. **EMU retail sales** keep growing moderately, a sign of a resilient consumer sector. **German export** surprisingly increased in Sept and are holding up better than manuf. orders or PMIs indicate. **The European Commission** nudged down it's growth forecast. The 2019 GDP growth f'cast was lowered to 1.1%, down 0.1 pp, while the 2020 f'cast was revised to 1.2%, from 1.4% in July
- **The Bank of England** kept the interest rate unchanged at 0.75%, however, 2 of 9 members voted for an interest rate cut, and the bank lowered both growth and inflation forecasts. The market expects a cut early next year
- **Norwegian house prices** were flat m/m seasonally adjusted in Oct, as we expected. The no of transactions is high and trending up, demand must be blooming. The inventory of homes for sale is still elevated but may be stabilizing. **Manufacturing production** rose in Sept and is growing by a solid 2.5% speed annually. Growth in oil related sectors may now be flattening out, we expect a slowdown into 2020 (and no contribution from other sectors)

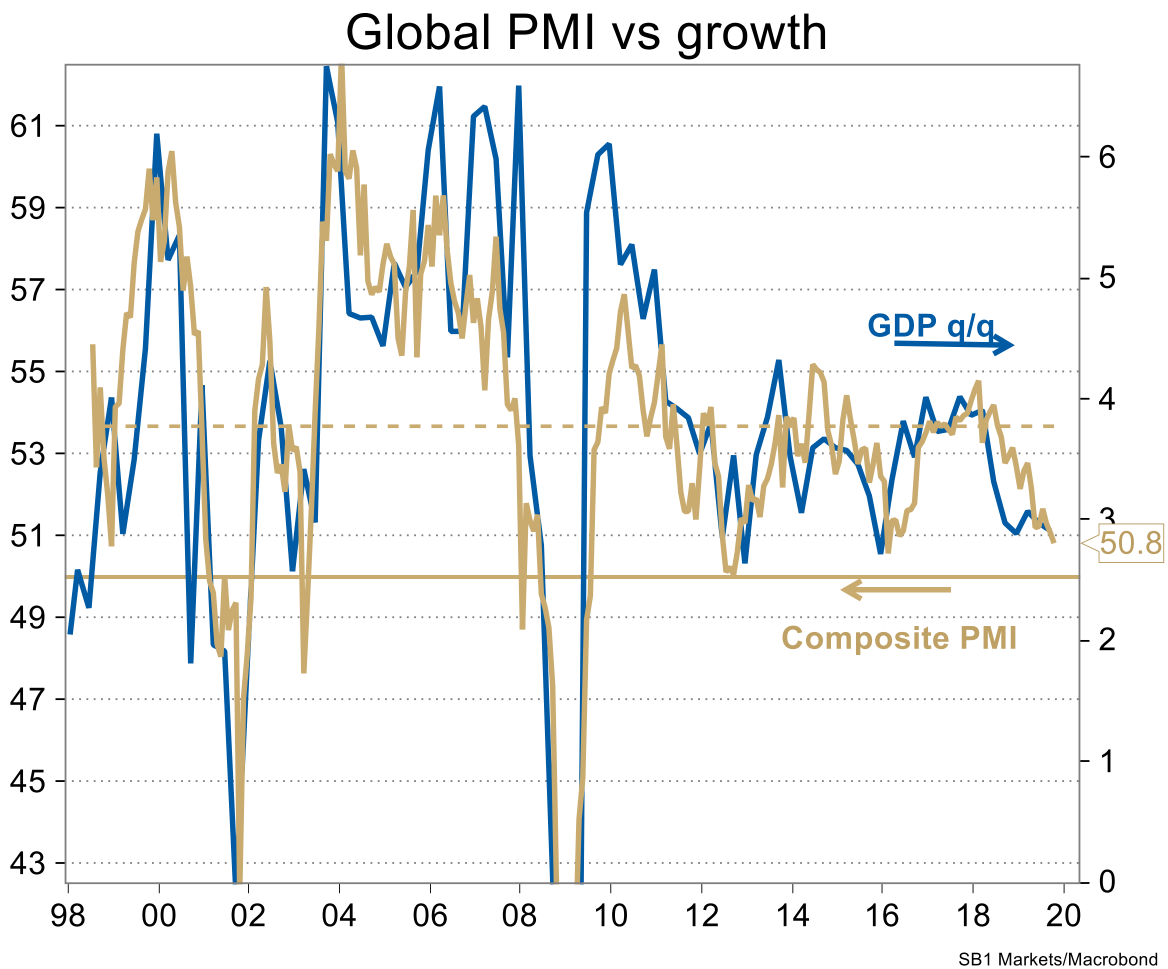
Our main views

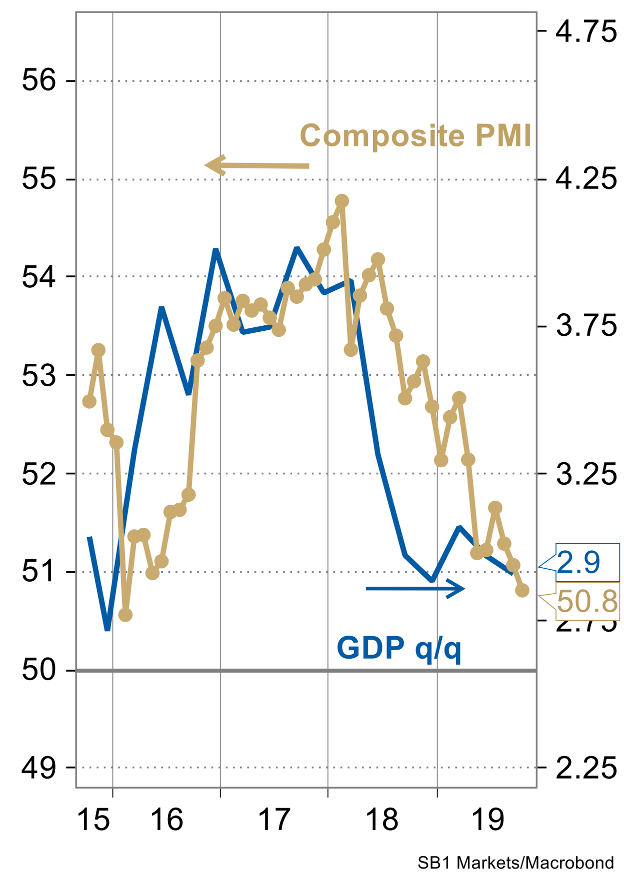
	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets, and the trade conflict is now doubt a factor behind the recent slowdown, especially in the manufacturing sector. Rich countries (DM) are slowing, more to go in most EM. Unemployment is low, wage inflation on the way up (but slowing some places), not low vs. productivity. Most EM x China are in recovery mode. Some hotspots EM will get burned, as usual – but there are fewer EM imbalances than normal. Barring policy mistakes, the global economy is not yet rigged for a *hard* downturn. 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**	Global composite PMI ticked down 0.3 p in October, slightly more than we f'casted. The level at 50.8 points to below 3% GDP growth, somewhat slower than Q3 (our est). Manufacturing stabilized, services slow
China	The governments' stimulus measures may have stabilised the economy, surveys and data do not point to a hard downturn, rather, a stabilization. The invest/GDP ratio is still sliding down. Debt growth has slowed, and will not accelerate much even if authorities are stimulating 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) 20% decline here is manageable. **A full scale trade and even more a tech war will of course hurt the economy. But a trade deal will not bring growth back up, as this is not the reason behind the Chinese slowdown**	Both Oct composite PMIs came in at 52.0, but disagree on the direction; Markit's PMI climbs while NBS drops. The avg anyway does not point to any slowdown from the Q3 pace. Exports fell less than expected in Oct, trending up. Imports slightly down recently
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**	Non-manufacturing ISM noted a solid upturn, yet the avg of ISM/Markit PMI no doubt point to substantially softer GDP growth. Productivity was muted in Q3, trending slowly up. Jop openings are heading down, a sign of softness. CCI still solid
EMU	Growth has slowed and manufacturing data are worrying while the consumer sector remain resilient. The labour market is still tightening, but at a slower speed, 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 signal a substantial further slowdown risk**	PMIs came in slightly above the first estimates, composite PMI at 50.6 indicates very low growth. Retail sales are growing at a moderate pace, no weakness in consumer sectors. Industrial production probably flat m/m in Sept, underlying growth is weak
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 now. Mainland business inv. not low anymore, will probably slow in '20. Mixed signals from the housing market, starts probably slowing, prices rising moderately. 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**	House prices were flat m/m in October (s.a), underlying growth is moderate. Manufacturing production rose in Oct but growth is on the way down

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

Global PMI slides down faster than expected, down 0.3 p in October

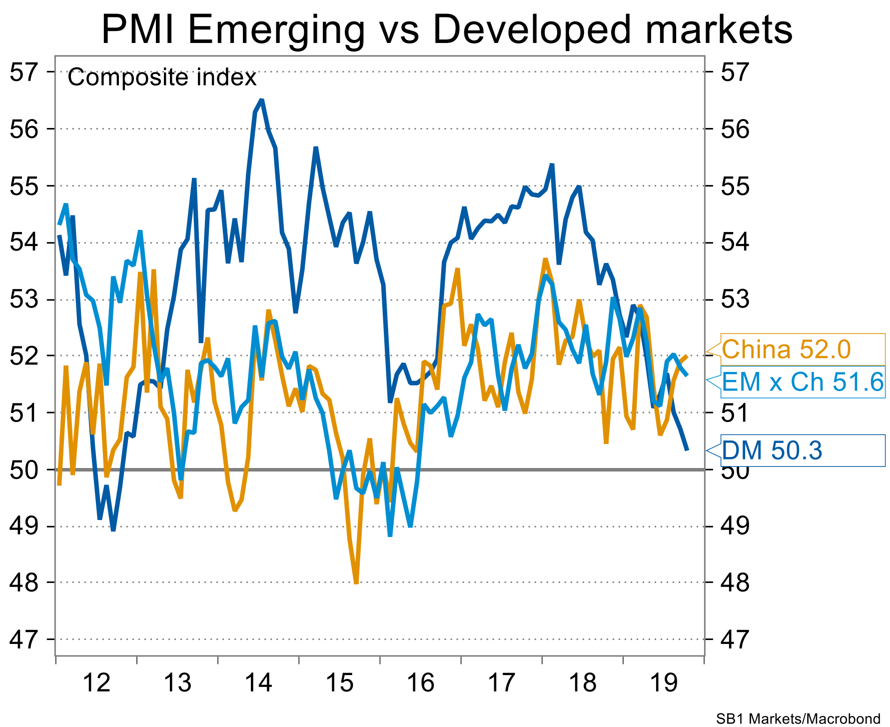
Composite PMI ticked down to 50.8, signals below 3% growth, marginally weaker than growth in Q3

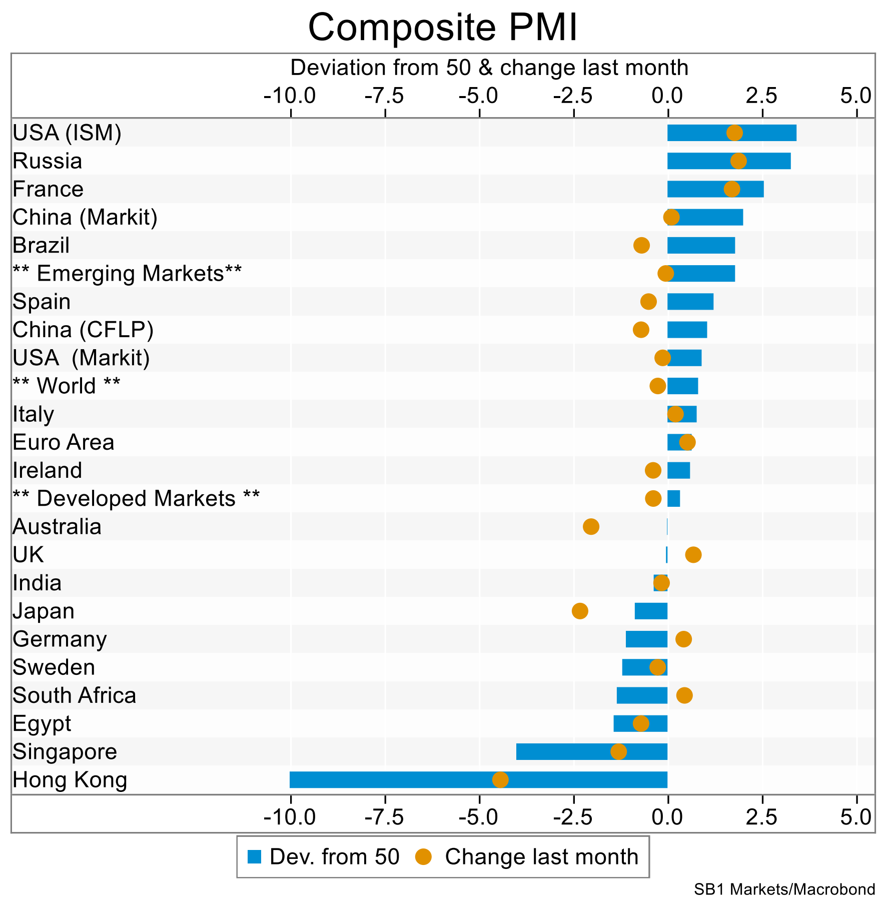




A drop in PMI from Japan sent DM down, EM unchanged, at a decent level

Composite PMI: Most countries are still reporting growth but DM are slowing quite rapidly



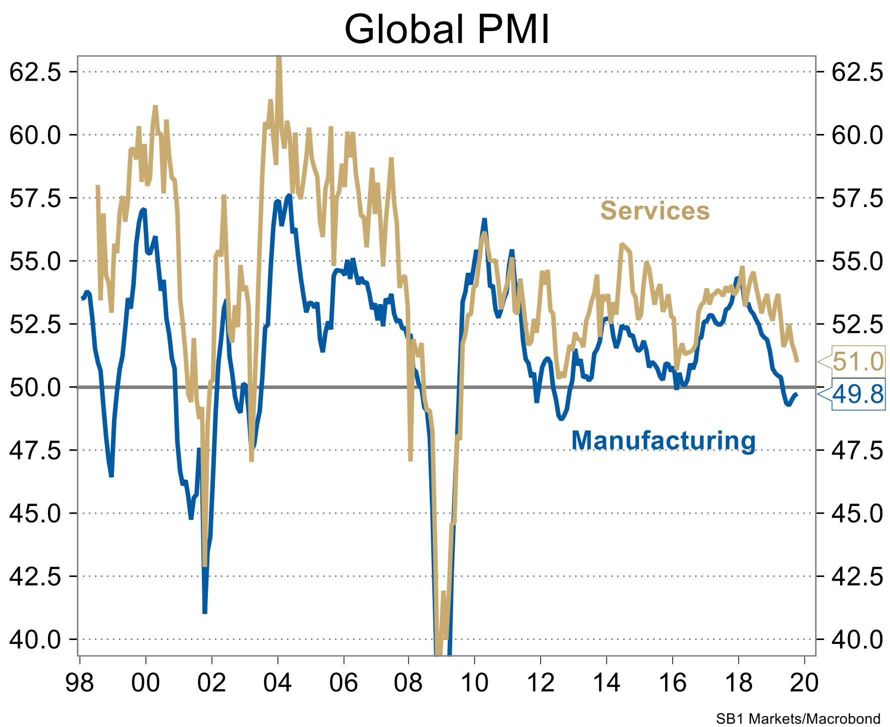


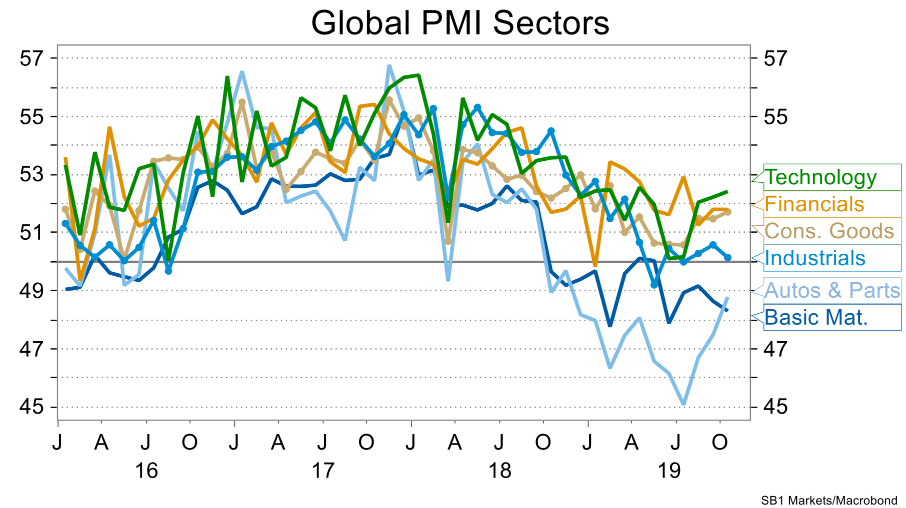
Hong Kong services are collapsing, of course due the protests, composite PMI slipped to 32.3 (the scale above is too narrow)

- 9 countries/regions reported an increase m/m (thus, activity accelerated or fell at a slower pace), from 8 in Sept. 13 countries noted weaker activity (from 14)
- Most countries/regions are still reporting growth; 8 countries below the 50-line, 14 above
- DM average down 0.4 p, EM unchanged, China up 0.1 p (Markit)
  - » DM was primarily dragged down by weak Japan PMI, check the next slide

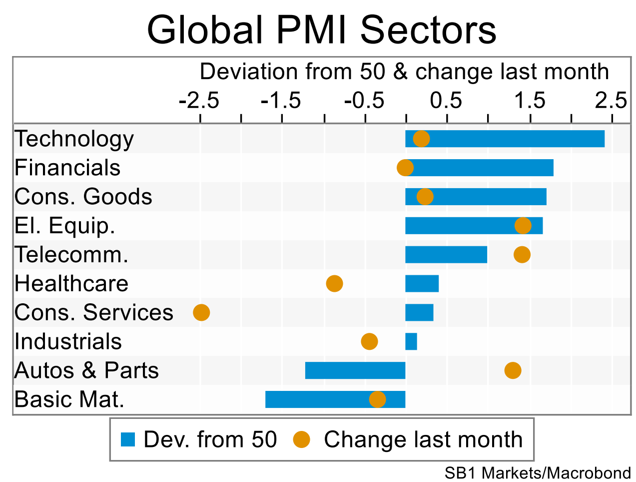
Manufacturing showing signs of stabilization, services PMI slows rapidly

The auto industry is still signalling lower production, but the PMI has climbed to 49 from 45





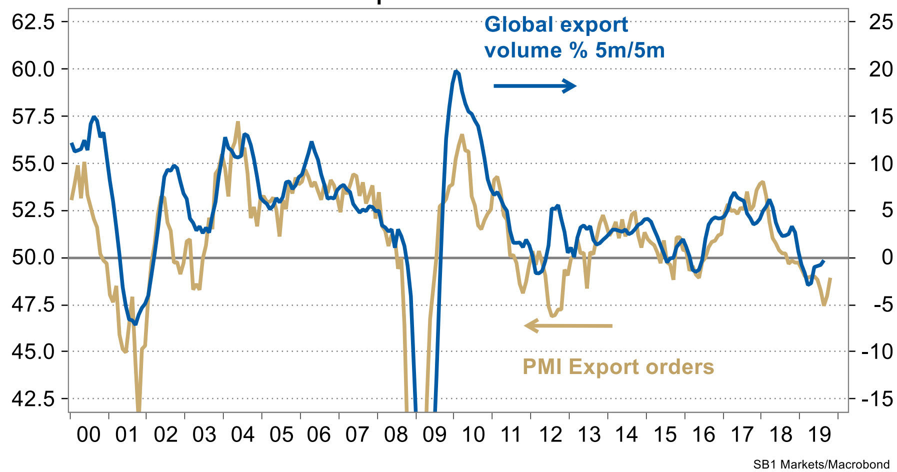
- The manufacturing PMI has ticked marginally up the past 3 months
- Services are slowing, but so far the downturn has been much more mild than that of manufacturing businesses
- Basic metals have overtaken autos at as the weakest sector. Tech and consumer goods are on the way up, the latter a leading sector



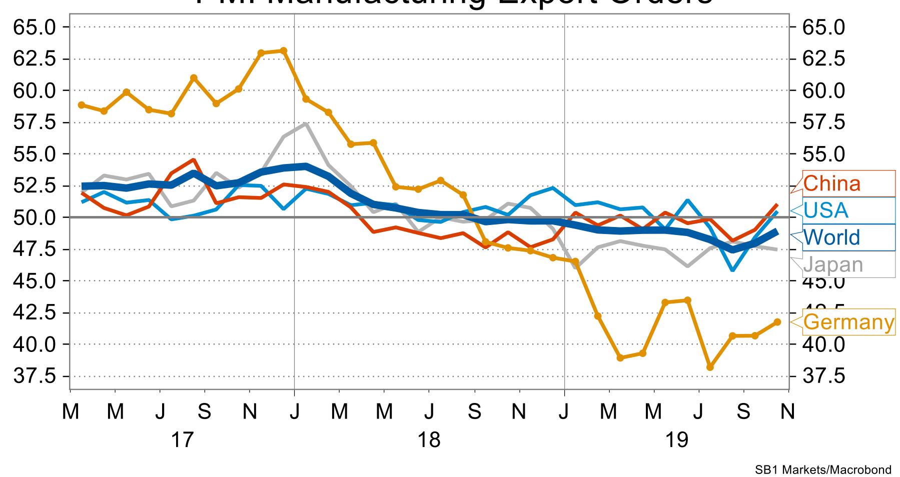
PMI export orders suggest a stabilization in export demand?

Export orders index rose to 48.7, still signalling a decline but less than two months ago

Global exports vs PMI orders

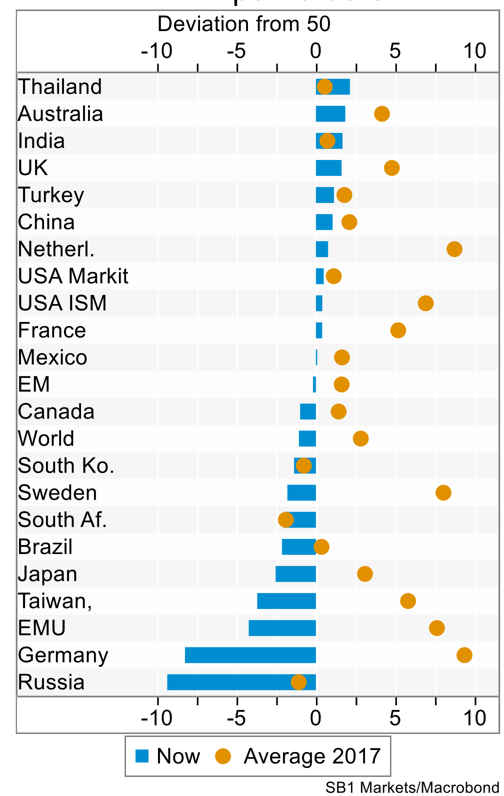


PMI Manufacturing Export Orders



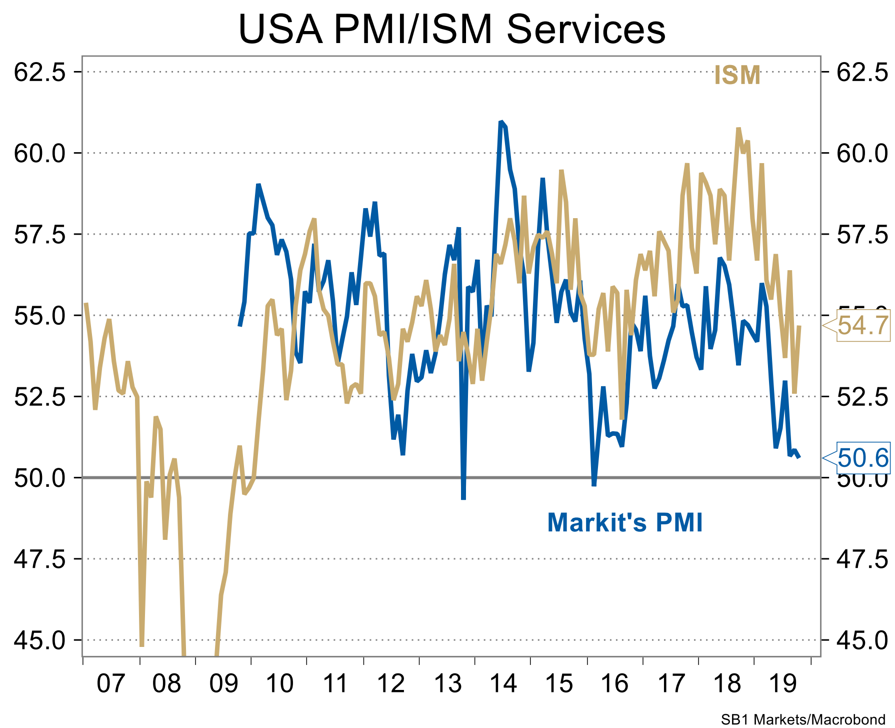
- Actual global export volumes have fallen but less recent months, the 5m/5m rate is down just 0.3%, from 2.9% in the spring. The PMIs confirms a stabilization, although the level is somewhat 'lower'
- A small majority of countries is now reporting declining export orders (it was a large majority a few months ago)
- Uncertainties regarding the trade war and also Brexit have no doubt taken its toll on export demand. A broader, cyclical slowdown is probably also to blame, and troubles in the auto industry
- Germany export order index is weaker than any other country, however, the index has stabilized since early '19
- Chinese exporters are reporting increasing orders, the index at 51.1 is the highest since early 2018!
- US exports orders are improving too, at 50.5 in Oct

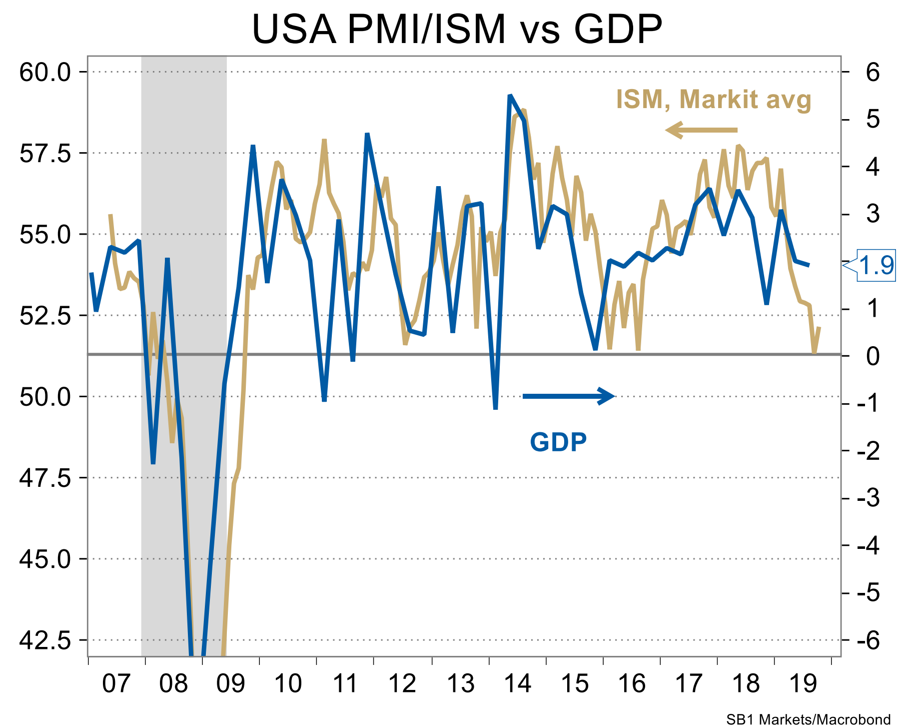
PMI Export orders



Non-manufacturing ISM recovered more than expected, to 54.7, trend still weak

The 'composite' ISM rose to 53.4, Markit a tad down, the avg still signals subdued GDP growth





- Non-manuf. ISM rose 2.1 p in October, a stronger recovery than expected following the 3.8 p dip in September. The level at 54.7 still signals a decent growth rate, although the speed down no doubt reflects a slowdown. The 'composite' ISM (manufacturing weighted 20%, services 80%) rose to 53.4, down from 60 in late 2018
  - » 13 of 18 non-manuf. sectors reported growth, unchanged from Sept, and 5 reported a decrease
- Markit's service sector PMI came down 0.3 p vs the first reported 0.1 p upturn. Composite PMI fell just 0.1 pp to 50.9, stabilized recent months
- **The avg of the composite PMI/ISM points to a steep slowdown in the US economy, to just some 0.5% GDP growth**

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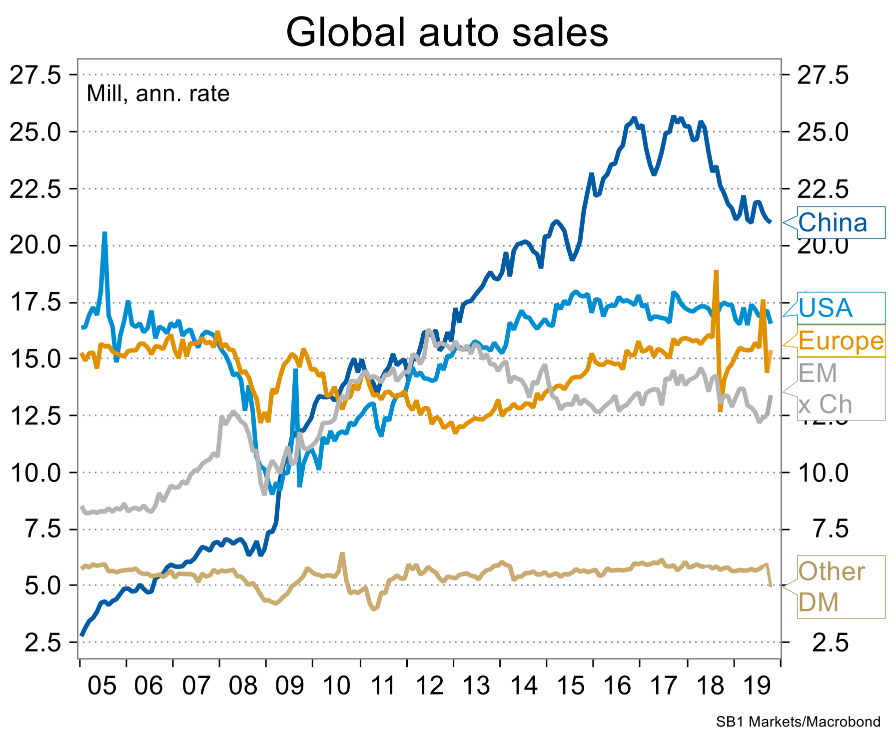
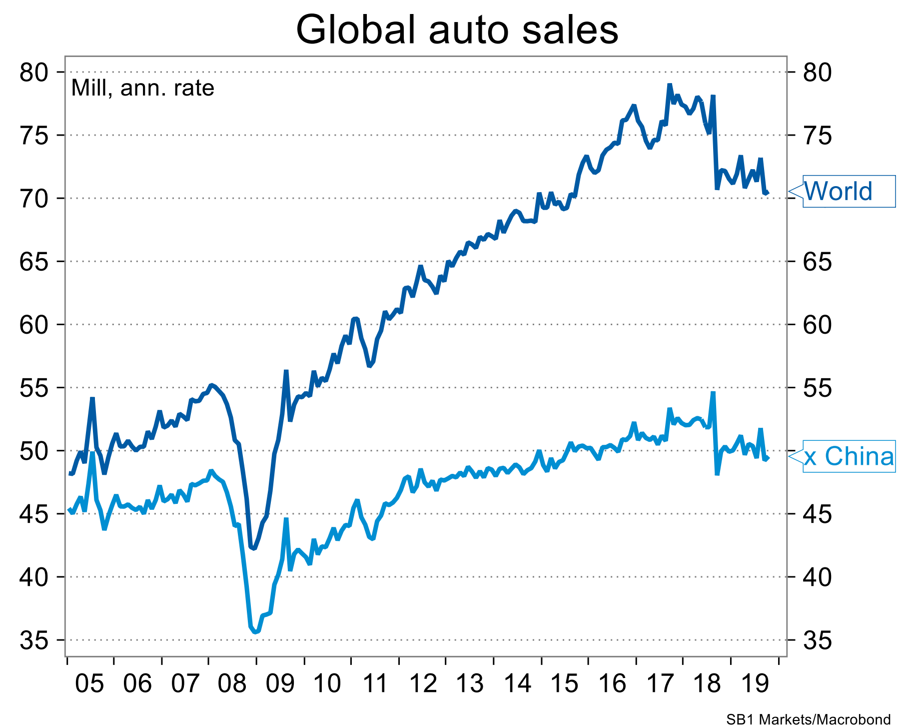
Auto sales probably flat at a ‘low’ level in October

European & Indian sales sharply up, Japanese sales down due to the VAT lift





- Global sales unch in Oct, and are down 2% y/y but some 8% from the level last summer. Data are preliminary, also Chinese sales
- Sales in Europe fell sharply from a high level in Aug when inventories for cars complying with old emission standards had to be cleared, with substantial rebates. Sales in Sept were low, but recovered almost fully in Oct. US sales fell more than expected. Sales in Japan fell sharply, due to the hike in the VAT rate from October (included in Other DM at the chart to the left above)
- Chinese sales probably fell further but just marginally in Oct. Sales are anyway trending down – and are down almost 20% from the peak last year
- Auto sales in EM ex. China rose sharply in Oct due to a 35% hike in sales in India (according to media reports, no official data out yet). EM x China sales have been week the previous months, mostly due to low sales in India

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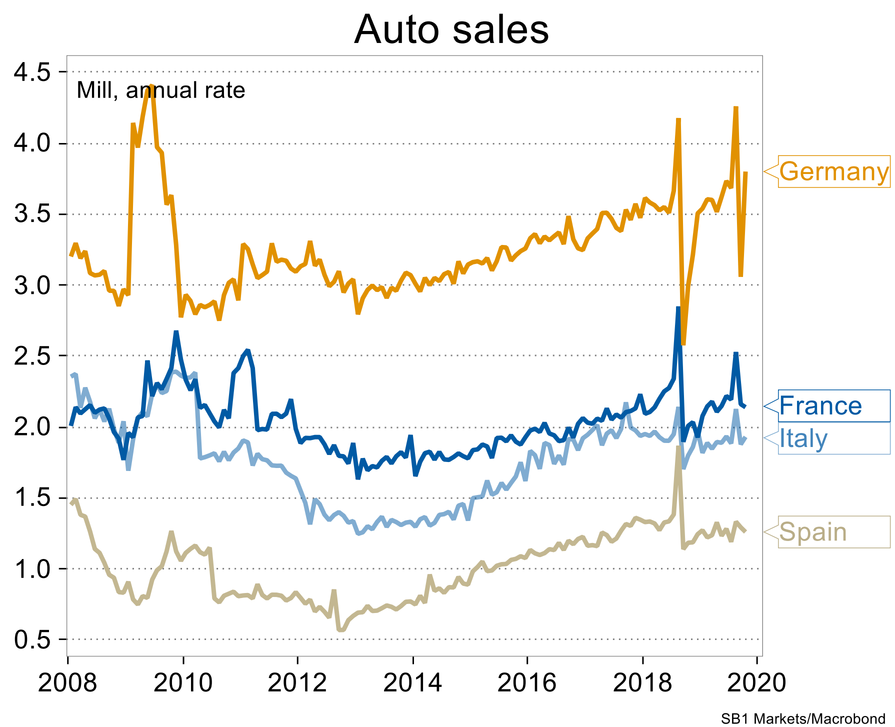
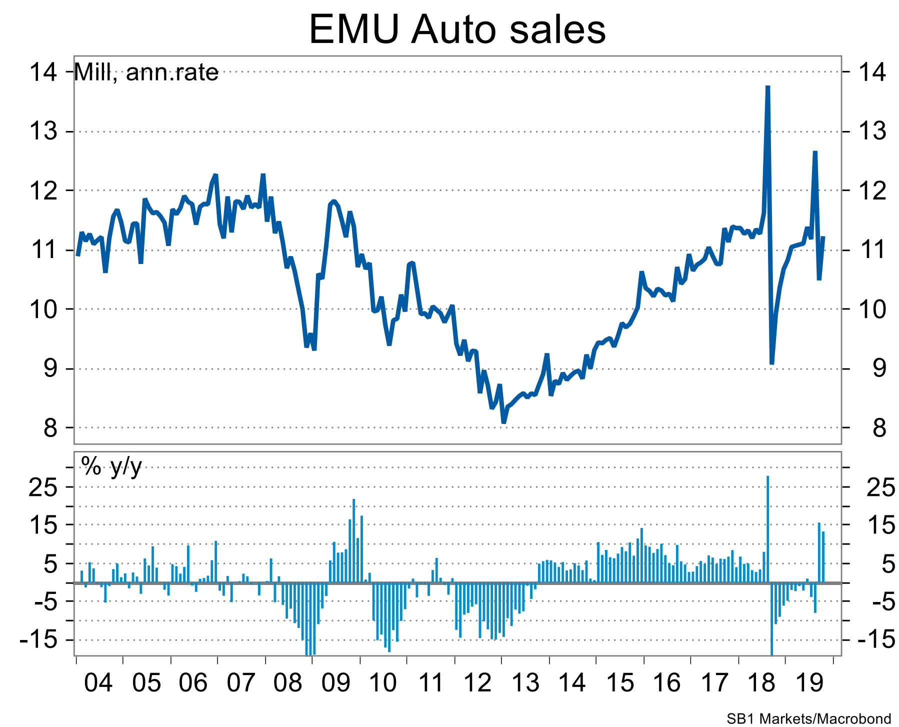
German sales straight up in Oct, total EMU sales almost back on track

German sales record high (barring policy actions), total EMU sales marginally below ‘normal’

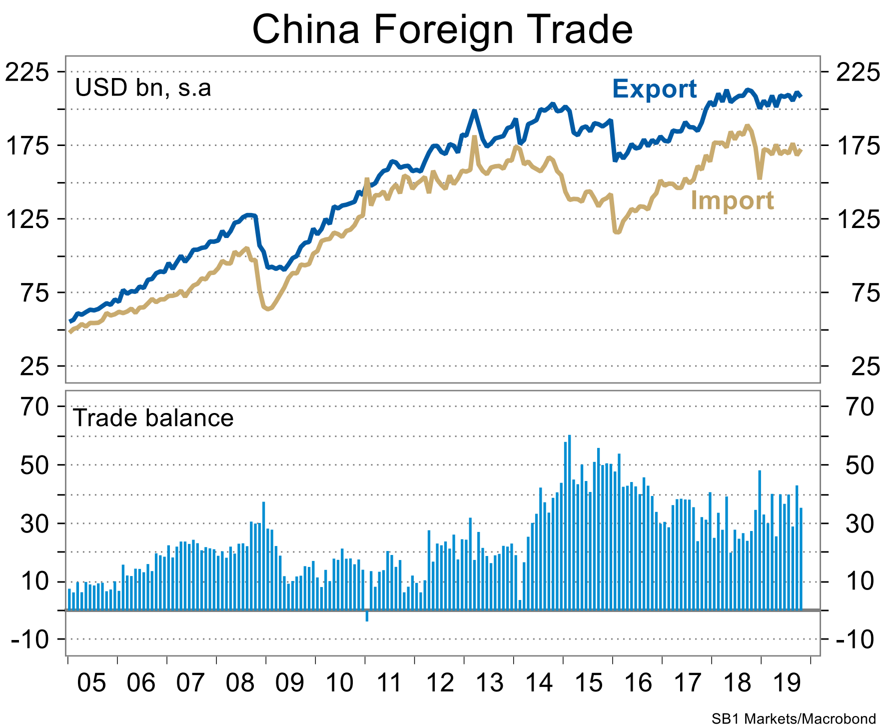


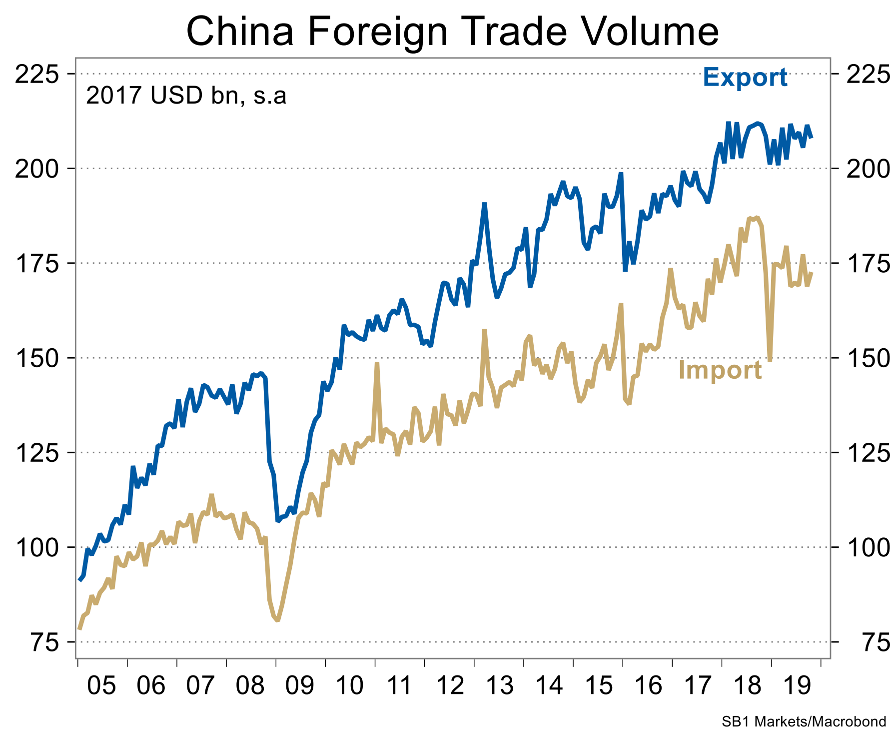


- German sales rose sharply in October, following the decline in Sept when the introduction on new emission standards slowed sales sharply. Oct sales were the highest ever, barring the record sales in 2009, when taxes were cut temporarily and the spikes in Sept ‘18 and ’19 ahead of tighter emissions standards
- In other countries, sales were close to flat in Oct, however from Sept levels that were not that specifically weak (as they were in Germany
- We forecast a 7% m/m increase in total EMU sales, and a 13% increase from Oct 18 (where sales still were low following the Sept rule tightening. Still, we assume sales to be trending slowly down in the EMU, as in the US

Exports are trending up, imports are flat, none are signalling any crisis

Exports have been climbing since Dec '18, both in value/volume, import volumes slightly weaker

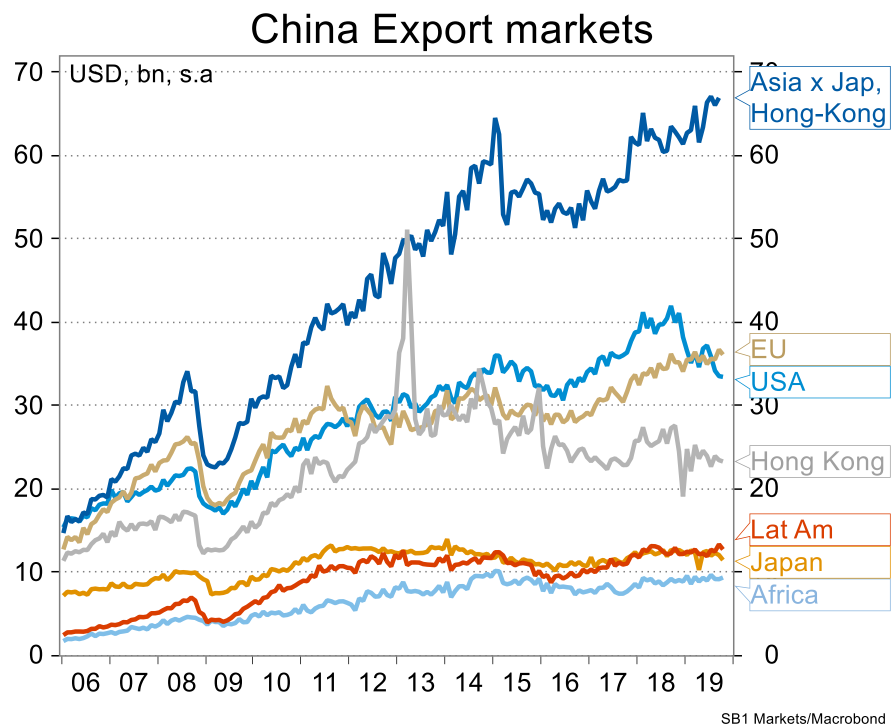


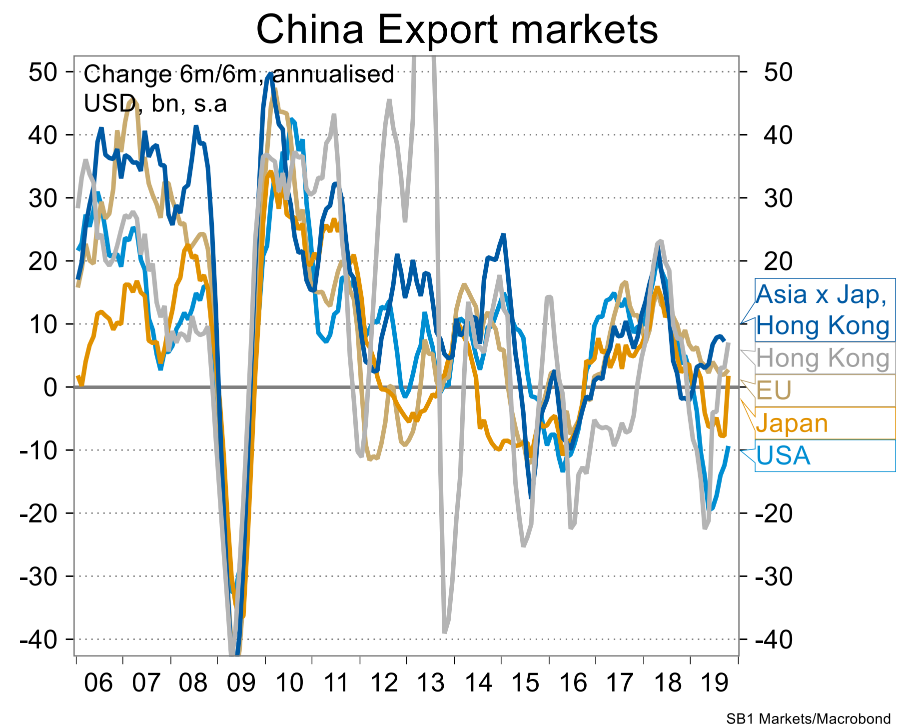


- Exports were reported down 0.9% y/y in USD in Oct, a milder decline than expected. Exports fell 1.7% m/m but have been trending up since the local bottom last Dec. If exports keep up at the current level in spite of the trade war, China will soon report growth y/y. Export volumes are heading up too and the trend is more or less flat since early 2018, when the trade war started, down 1.4% y/y (smoothed)
  - Exports to the US fell further and have fallen 20% since 2018 (equalling 4% of total exports). Exports to other regions have compensated most of the decline in export to US, especially to the rest of Asia. Still, growth has slowed in most directions
- The 'headline' figure on imports is a 6.4% y/y decline, less than expected. However, imports rose by 2.5% m/m in October. The trend is quite flat recent months. In volume terms, imports are down 7.4% y/y (smoothed), a substantial decline but not that unusual – and import volumes are not far below a reasonable long term trend line. Hence, imports do not signal a sharp weakening of domestic demand
- The trade surplus shrank to USD 35.5 bn, lower than expected. The surplus has widened slightly since mid-2018

Exports to the US down 20%, but there is a ROW

Exports to H-K have fallen too, while exports to most of the rest of the world are still on the way up

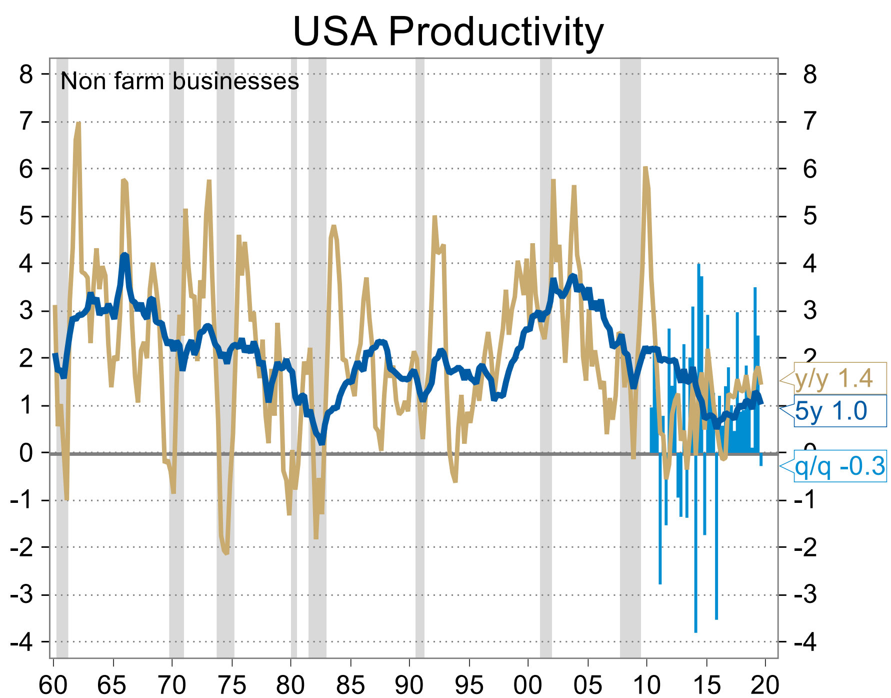




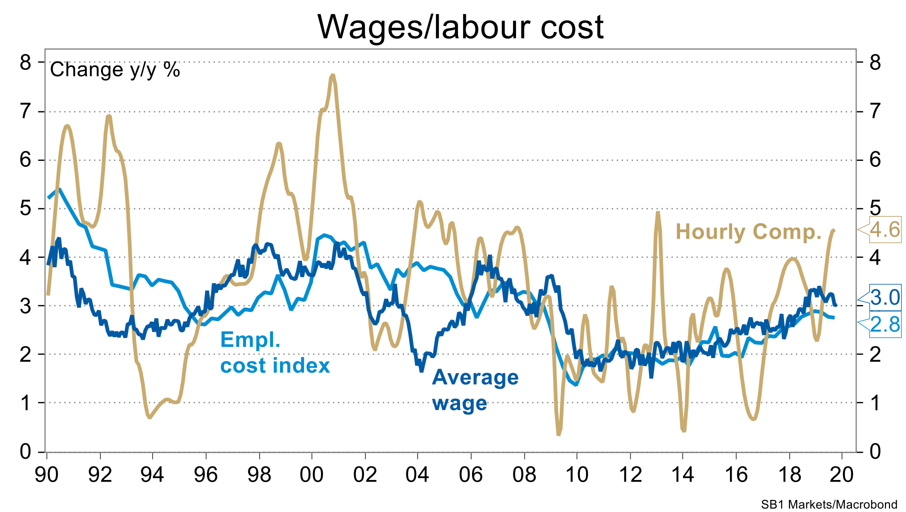
- Exports to the US are hurt by the tariffs, down some 20% from the peak in early 2018, equalling 4% of all Chinese exports. Tariffs were lifted substantially from Sept 1 and more tariffs are planned to be implemented in Dec (China and US apparently have agreed to gradually reduce tariffs as the trade talks progress, time will show). A further decline in exports to the US is expected, for now
  - » Exports to the US equalled 18% of total Chinese goods exports before the tariffs (now, 16%), and exports to EU 16%, rest of Asia 48%
  - » Total exports equal some 20% of GDP, exports to the US 3.6% of GDP – now down 20% from the peak, subtracting ¾ pp from GDP growth (however, dampened by lower need for imports as inputs for these exports, and the impact of redirections of exports to other countries)
  - » The real economic risk for China & elsewhere: Trade rule uncertainty is hurting investments as companies may postpone investment decisions until the dust settles – and both Chinese and foreign company are reallocating from China to other countries. Some households may become worried too

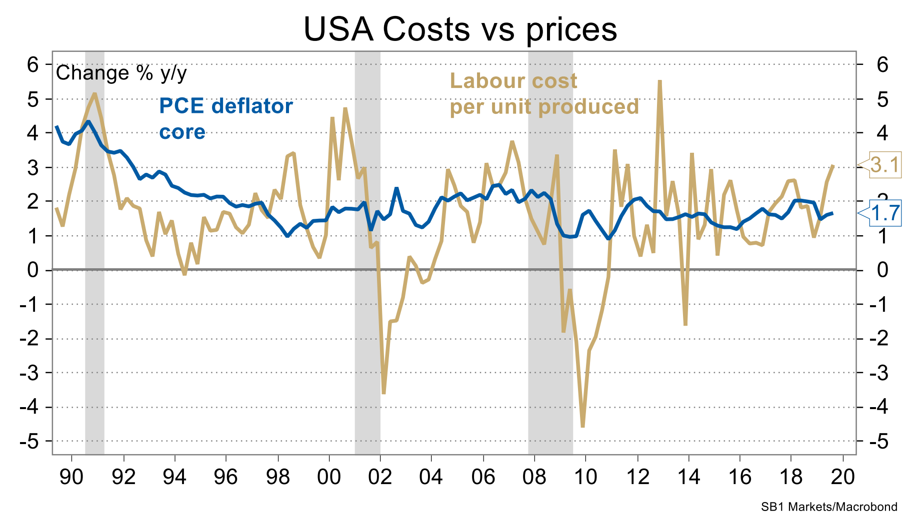
Productivity growth muted in Q3, upward trend still intact, cost infl. is high!

Productivity fell 0.3% in Q3, annual growth eased to 1.4%; cost pressure is building, ULC at 5 y high



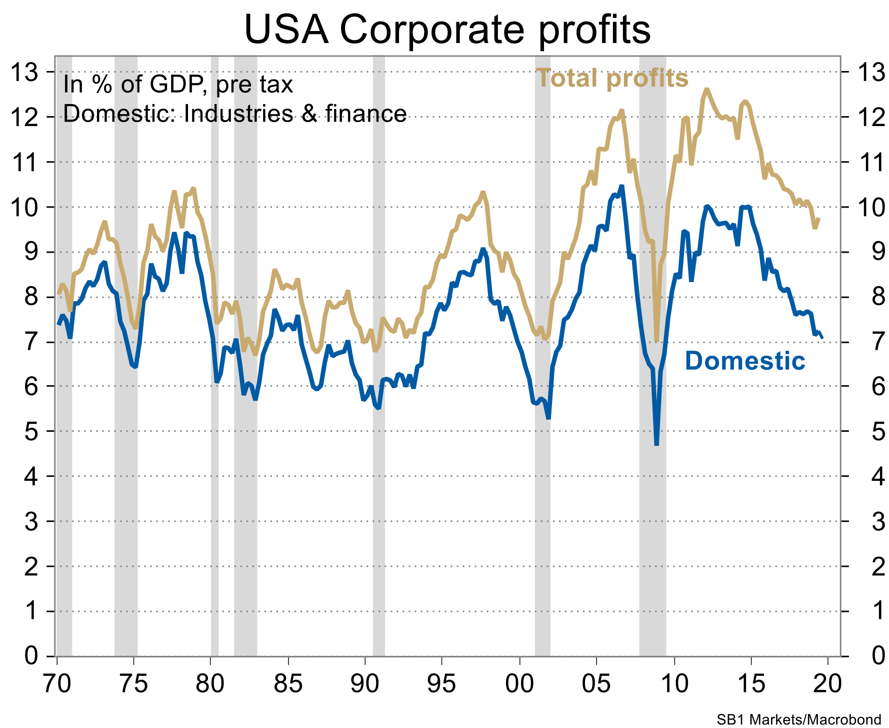
- Productivity fell by 0.3% q/q annualised in Q3, weaker than expected. The annual rate slowed to 1.4%, from 1.8%, still trending up. The 5 y average is inching up too, to 1%. **Good news, of course**
- On the other hand: **Labour cost inflation is increasing**, unit labour costs rose 3.6% q/q in Q3 and by 3.1% y/y, the fastest speed in more than 5 years. Cost pressure must be building up, taking its toll on corporate profits. The profit rate is declining sharply
- **Underlying wage inflation is approx. 3%, and underlying productivity growth at just above 1%. <u>Underlying ULC inflation is probably approx 2%, like we have assumed for a while</u>**

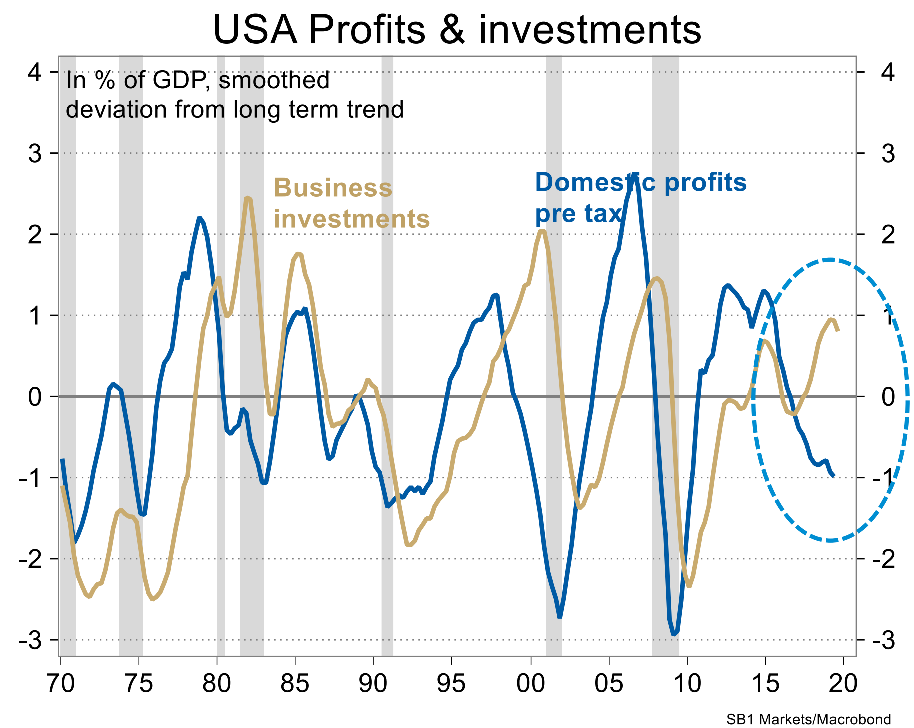




Cost inflation higher than price inflation – and profits are under pressure

The profit cycle turned in 2015, and pre tax profits are not high anymore. Investments exposed?





(Q3 domestic profits/GDP ratio our estimate)

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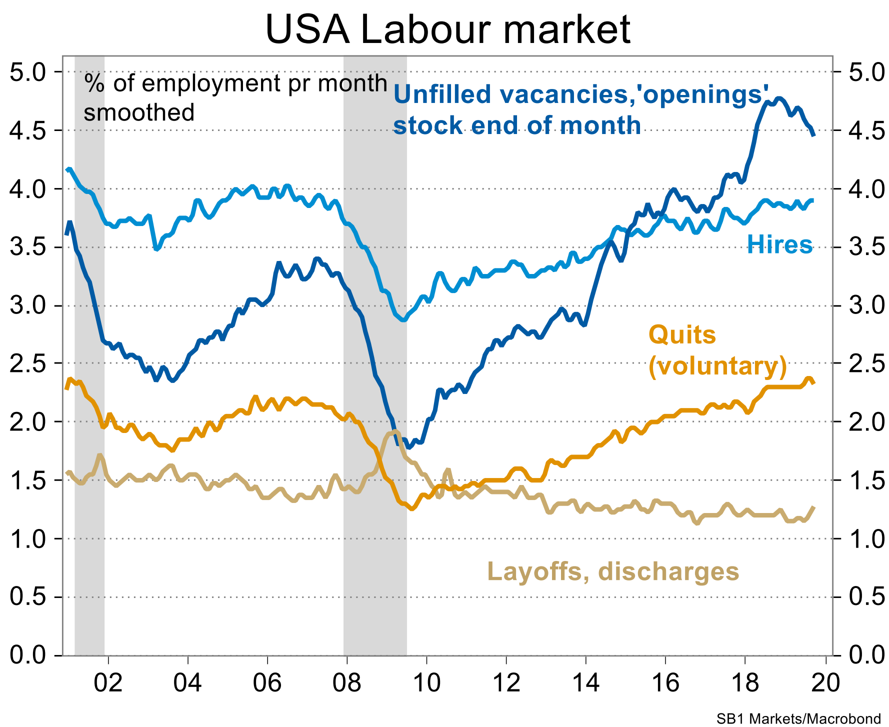
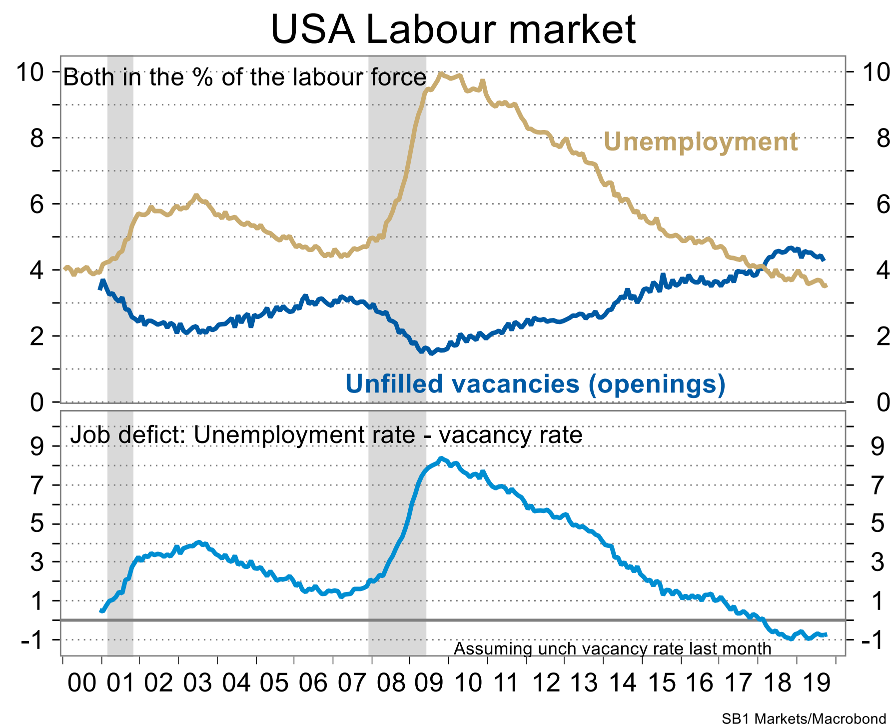
Unfilled vacancies are sliding down, an early sign of a cooling labour market?

The number of people leaving their job voluntary is still high but layoffs may be heading up

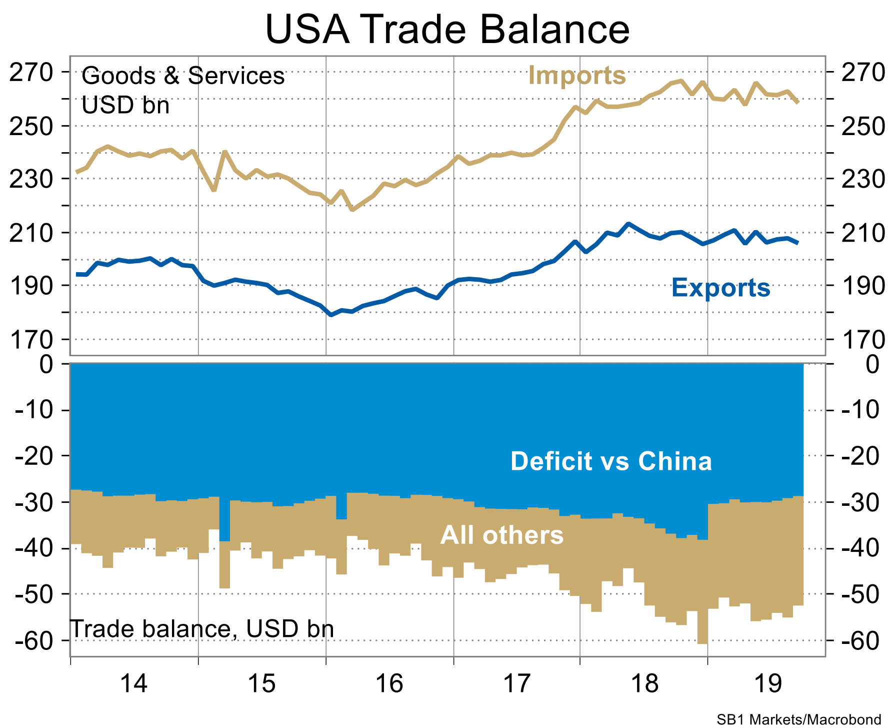


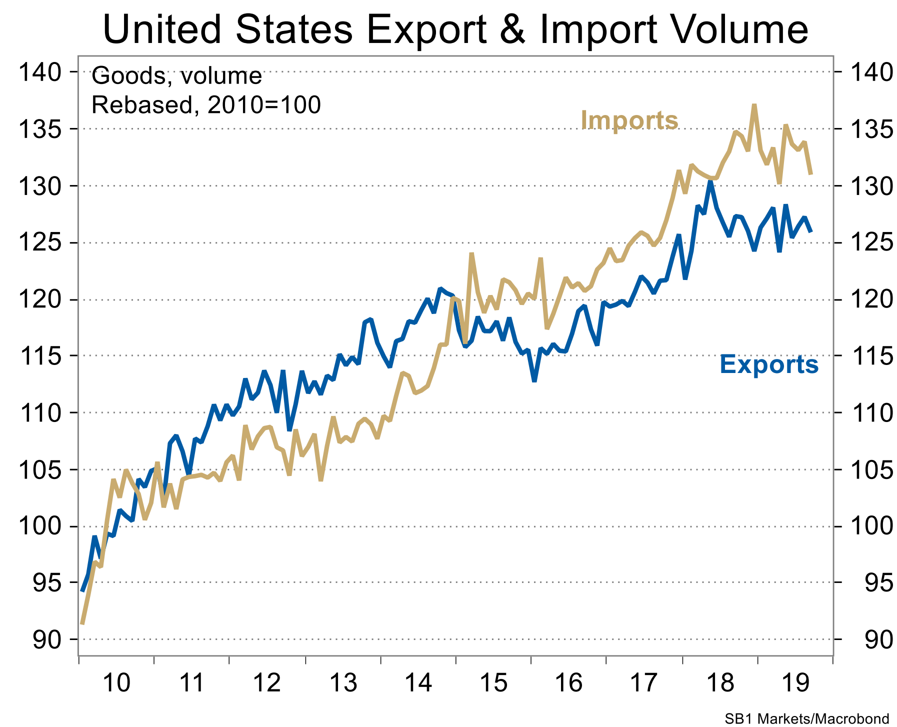


- The September JOLTS report suggests that the labour market is starting to slowly cool off as the economy slows, job openings (unfilled vacancies) are coming down from the peak. The level remains high and the labour market is no doubt tight; there are still more unfilled jobs (4.4%) than unemployed people (3.6%). Monthly (gross) hiring equals 3.9% (of total employment) and is still increasing just marginally, a sign of a strong demand for labour
- The number of voluntary quits is rising marginally, at a very high level – as many employees leave for better (paid) jobs
- Layoffs are still at a very low level, however, September noted the third month of increase (even if it used to be a lagging indicator)

The trade deficit shrank in September, as imports fell more than exports

The deficit decreased in Sept but net trade was a (minor) drag on growth in Q3





- The overall trade deficit of goods & services shrank to USD 52 mrd in Sept. The deficit is trending more or less flat this year
  - » Imports slipped 2.2% m/m in volume terms, heading slowly down since Dec 2018, annual rate at -1.6%
  - » Export volumes came down 1.1% in Sept. Exports have been flat recent months, annual growth at -0.1%
  - » Net trade dragged GDP growth down marginally in Q3. The contribution on annual GDP growth has been negative since 2015
- The deficit vs. China is reduced, no doubt due to the trade war, as imports from China have fallen sharply. <u>The overall US deficit is not cut as it is widening vs most other trading partners</u>

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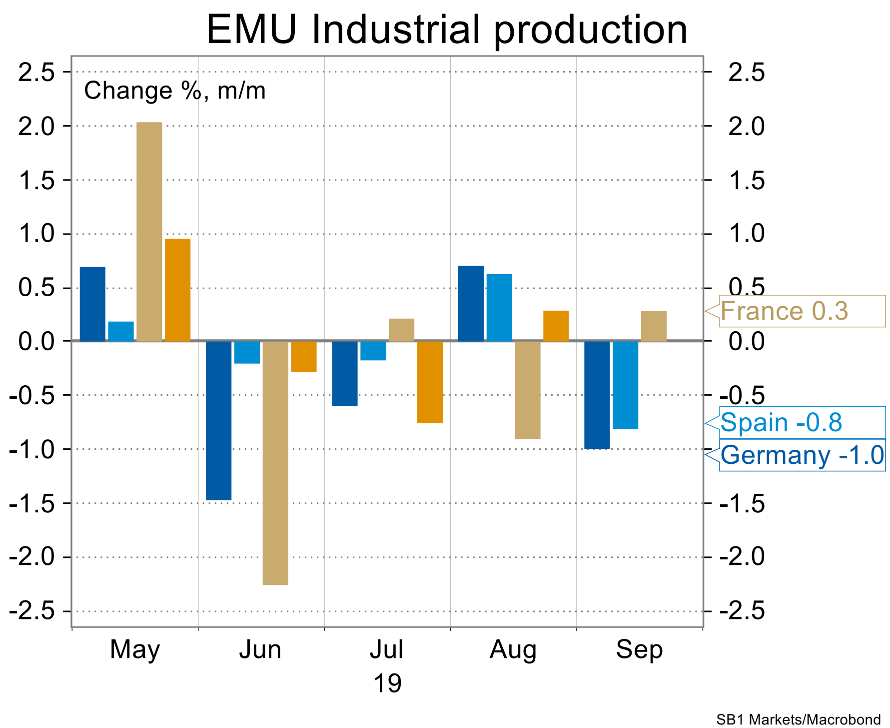
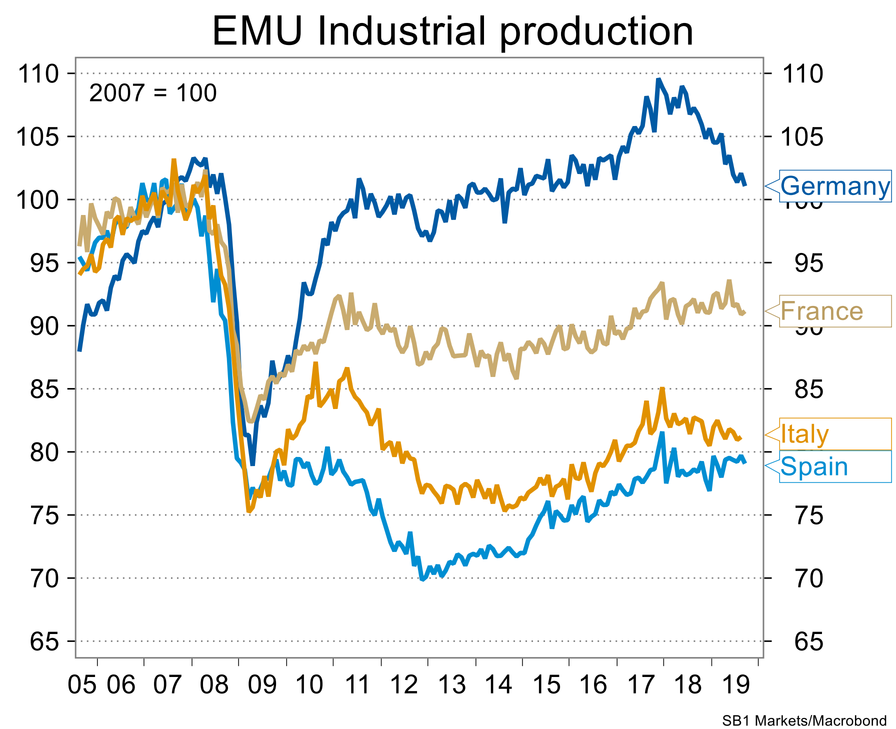
Industrial production probably flat in Sept, Germany tumbles

Production slipped in Germany & Spain, France recovered marginally (but Ireland saved the day)

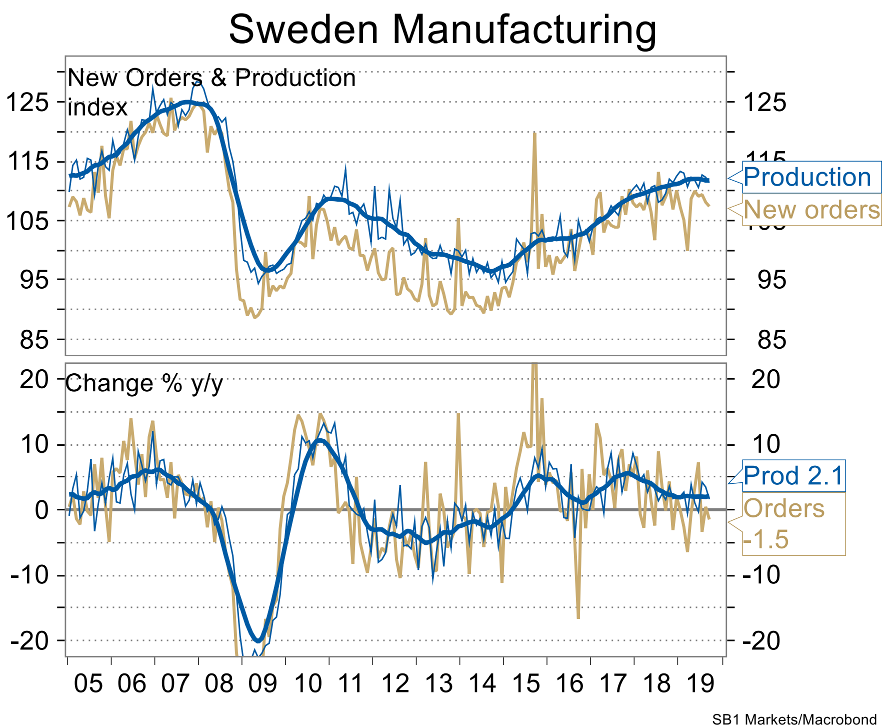


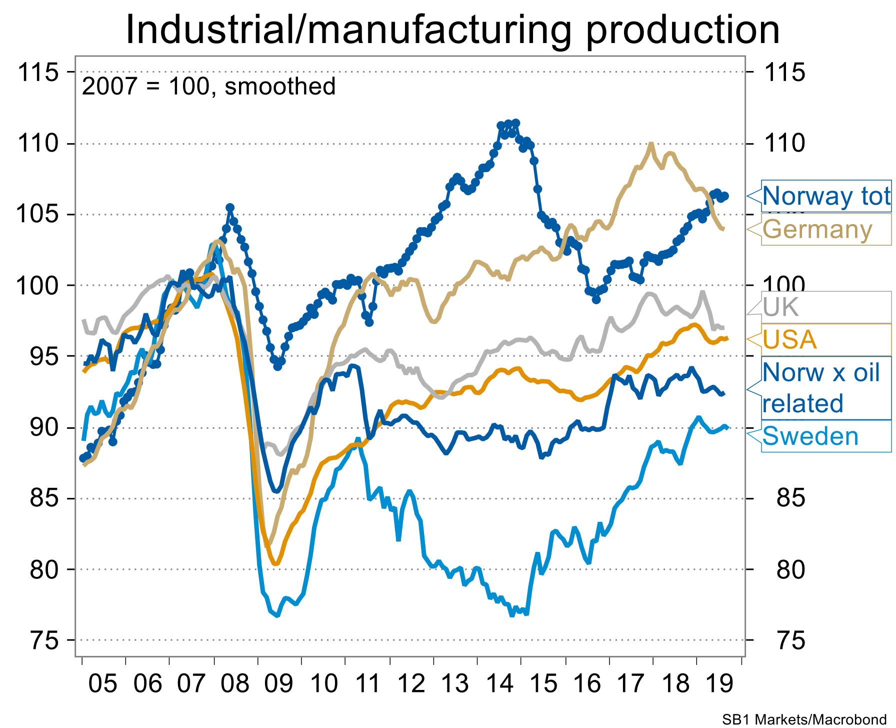


- We estimate a flat print m/m in total EMU industrial production (ex construction) in Sept, following a slight uptick in Aug. If our projection is correct, production fell by 3.5% annualized in Q3 and is down 2.1% y/y
- Germany and Spain declined in Sept (Germany fell 1% x construc., total -0.6%), France edged up, with Ireland sharply up, and the Netherlands significantly up (-0.5% without these two heavy September lifters)
- The Eurozone industrial sector is no doubt struggling heavily, led by Germany, in which production has fallen by 8% from the 2018 peak. Still, Germany is not the only problem; France and Spain are just close to flat, Italy is trending down at 1% pace
- Unfortunately, the manufacturing PMI points to a continued downturn

Manufacturing production and orders have (probably) both peaked

Production down 0.8% in Sept, and the trend is close to flat. Orders slightly weaker but no collapse

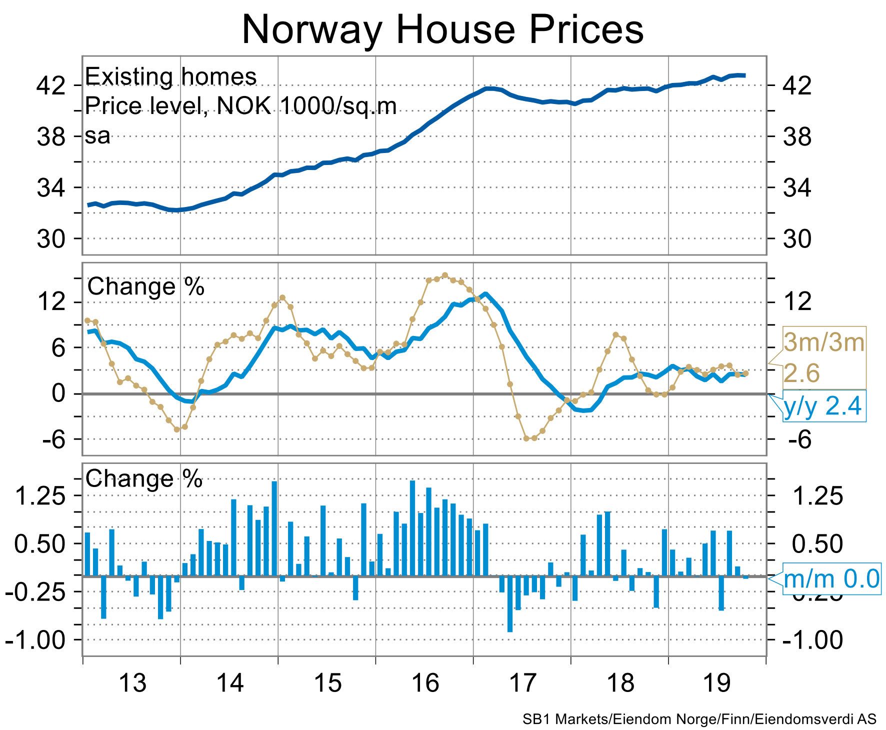


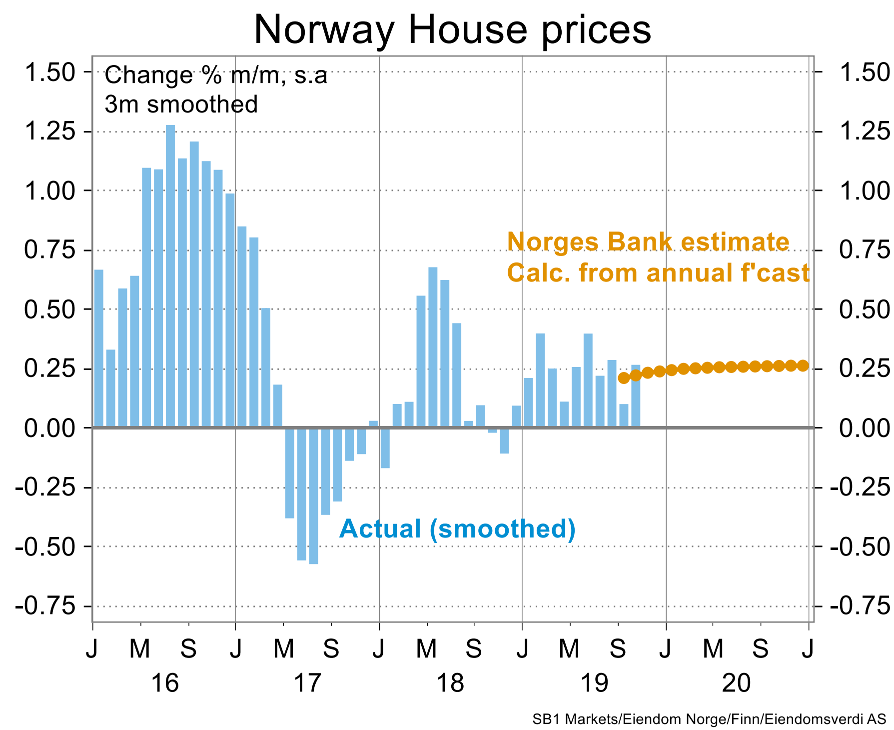


- Swedish manufacturing orders are down some 1.5% y/y, the weakness recent months stems from domestic demand, not foreign
- The manufacturing PMI at 46 signals declining production, even as the PMI is very volatile. Downside risk

House prices flat in October, strong sales and still elevated supply of homes

Prices were unchanged m/m, but trends up at 2½% pace. Growth everywhere x Stavanger

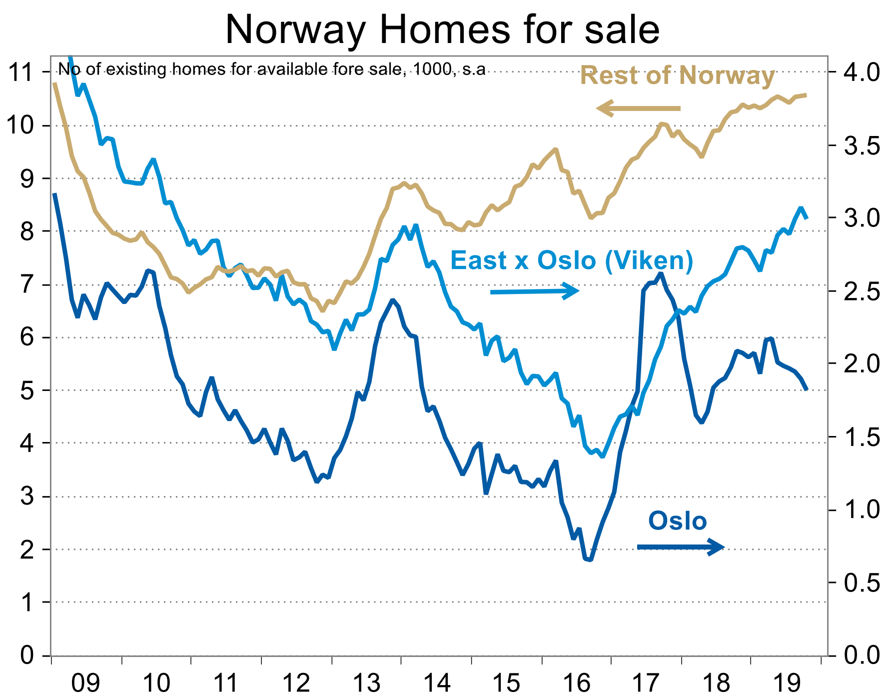




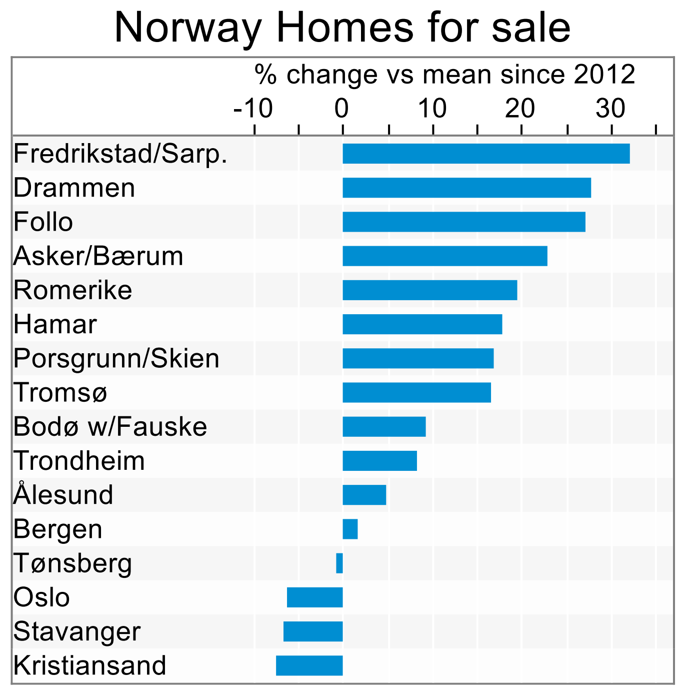
- **House prices** were unchanged m/m s.a in October (-0.8% unadjusted), as we expected. The 3m average growth rate is 0.3%, 3m/3m at 2.6%, and annual growth is at 2.4%. Price inflation is marginally Norges Bank's expected growth pace (implied, from annual f'cast)
  - » Prices are climbing in all towns/regions ex Stavanger (and a flat Drammen recently). Oslo, Bergen and Bodø are accelerating at the fastest speed
- **The number of unsold homes** has not increased much recent months – but the level remains record high (well, with data back to 2010). The elevated inventory is not due to lack of demand but of a high number of new listings (of existing homes). The number of transactions is trending steeply upwards, indicating that the interest rate hikes so far have not dampened demand noticeably
- **Short term dynamics signal moderate growth the coming months, however, the risks are tilted to the downside**

The number of homes for sale is higher than 'normal' most places

… Barring Oslo, where the inventory is well below the 2017 level



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

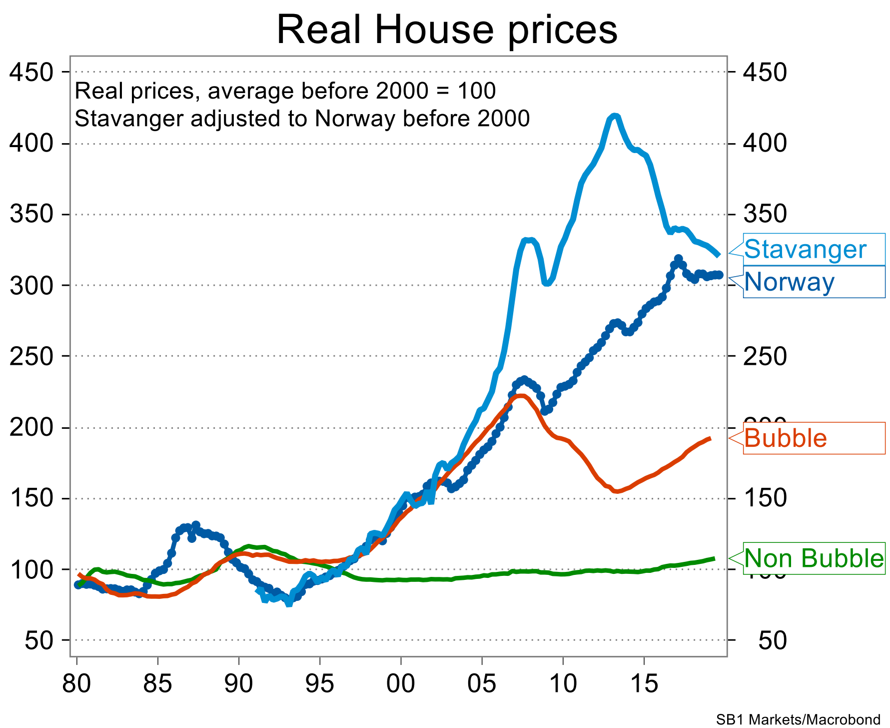


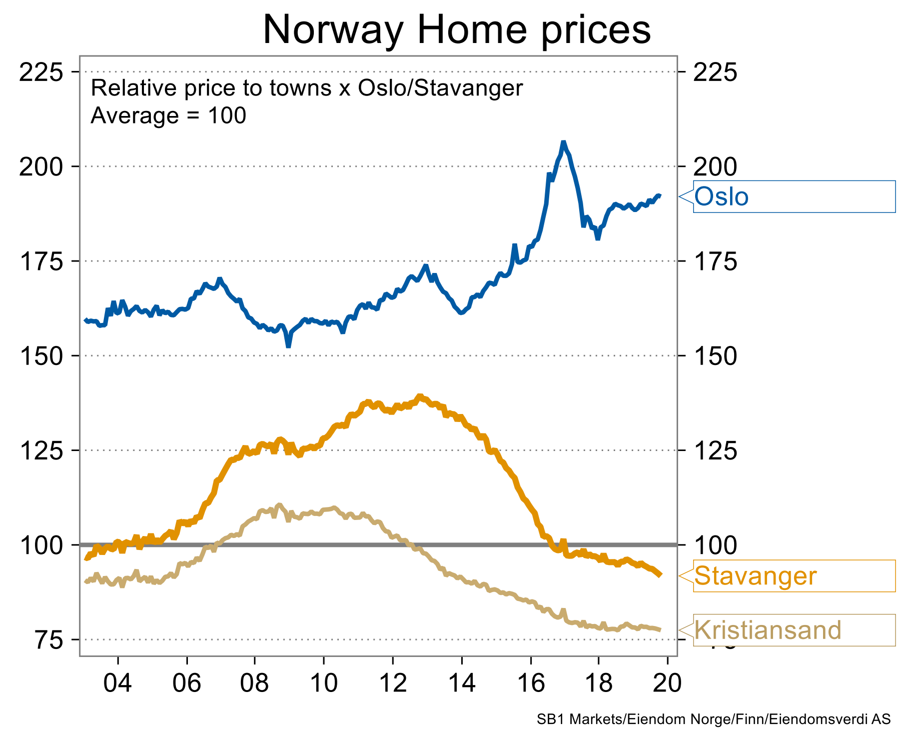
SB1 Markets/Macrobond

- The number of homes for sale have been increasing all regions x Kristiansand, Oslo and Stavanger
- Norway outside Oslo & Viken (Akershus, Buskerud, Østfold; or East x Oslo) reports a soaring number of existing homes for sale, the highest one record (2009). The inventory in Viken is increasing rapidly too, at the highest level since 2010. Follo, Fredrikstad and Drammen are at the top of the listings ranking vs the average since 2021
- The Oslo inventory has been reduced recent months, and the level is well below the 2017 peak level

The Stavanger 'bubble' has burst?

Real prices down 25%, a "normal' setback when house prices fall

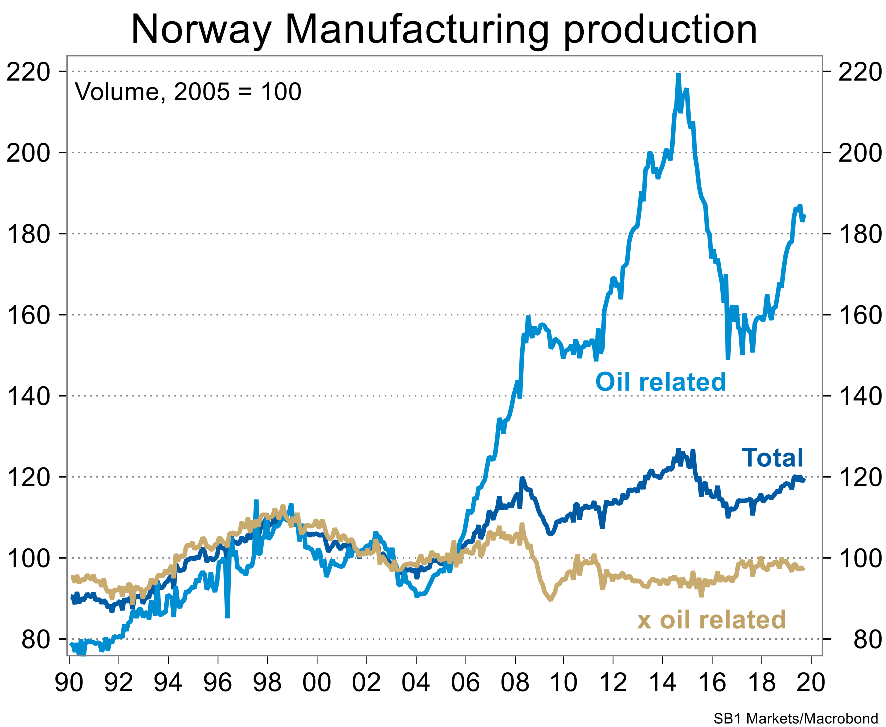


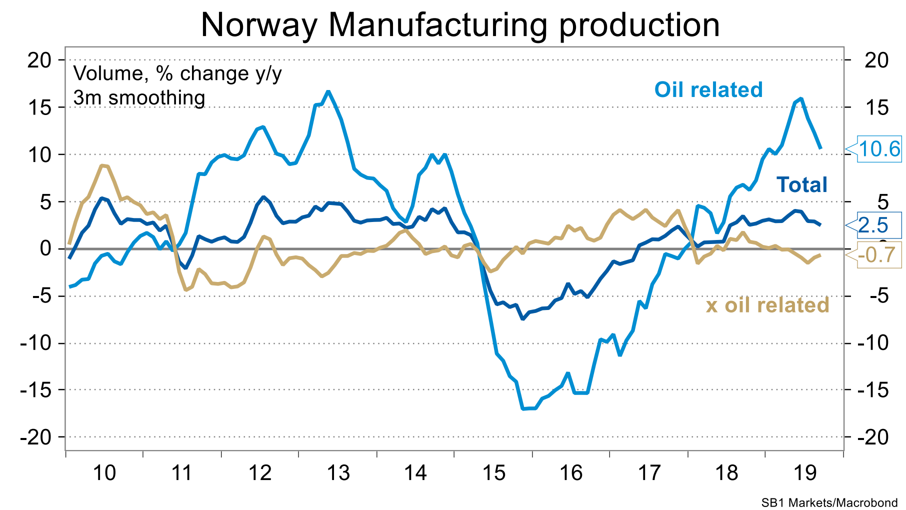


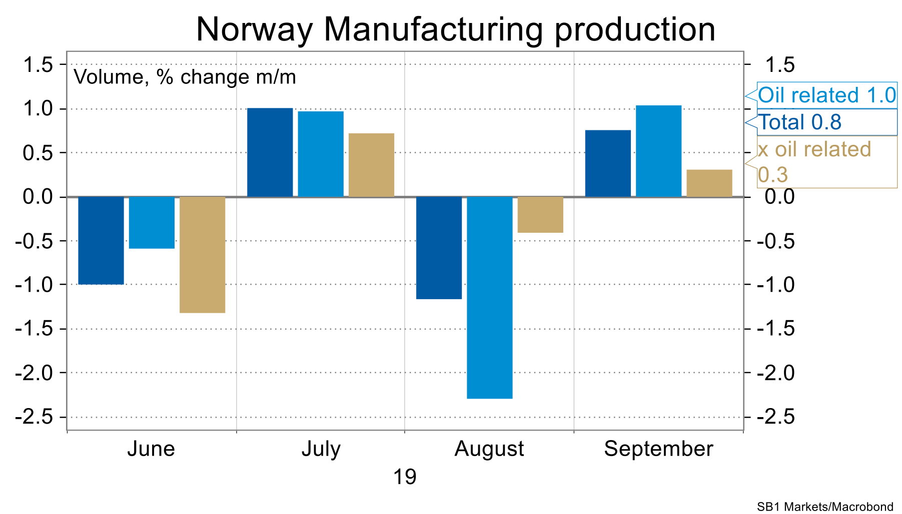
- Stavanger real prices back to the 2007-level
- Prices are below the national average (prices are between level in Bodø and Hamar)
- Housing starts in Stavanger/Rogaland have fallen but are still above the past 25 years' average, indicating that prices are sufficiently high to support the market with new homes
- That could be case in other parts of the country too, even if prices fell back to the 2007 level?

Manufacturing production flattens as oil related sectors are cooling

Production rose 0.8% in Sept but growth vanished in Q3. Surveys signal a prompt slowdown



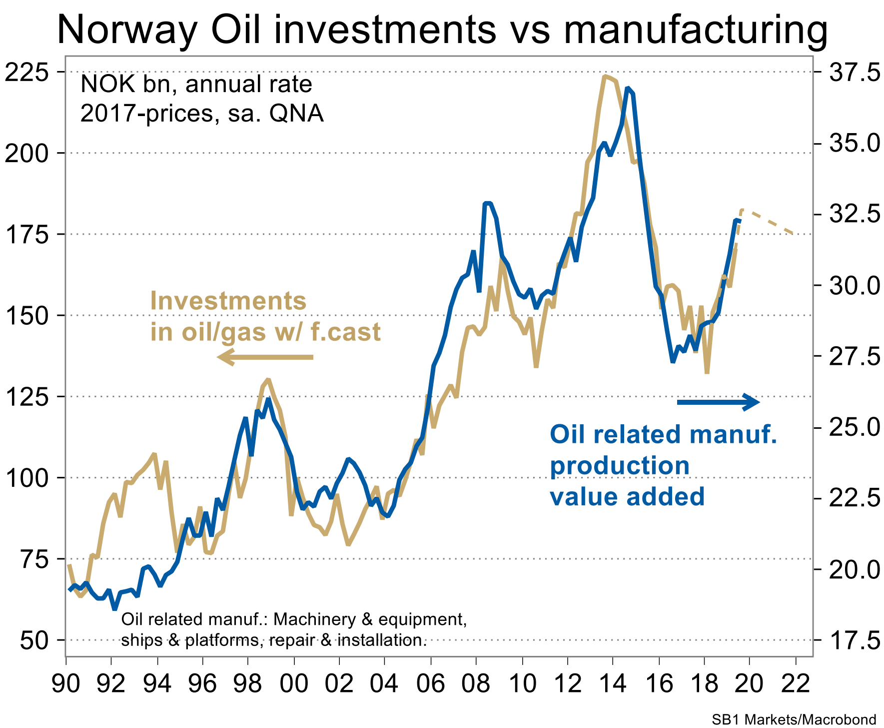




- Total manuf. production increased by 0.8% m/m, 0.2 pp below our f'cast but 0.4 pp above consensus. Prod. fell 0.3% annualised in Q3, from a +6.7% speed in Q2. The annual rate is easing, to 2.5%, from 4 (smoothed)
- The upturn the past 2 years has merely been driven by oil-related manufacturers, which are up 10.6% y/y. However, we assume the oil investments – and thus oil related production – is peaking now
- Non-oil related sectors have been flat the past couple of years (and the past 25 years!), no reason to expect any upturn
- Surveys have softened and point to weaker growth going forward

How large is the upside in oil related industries? Probably nothing

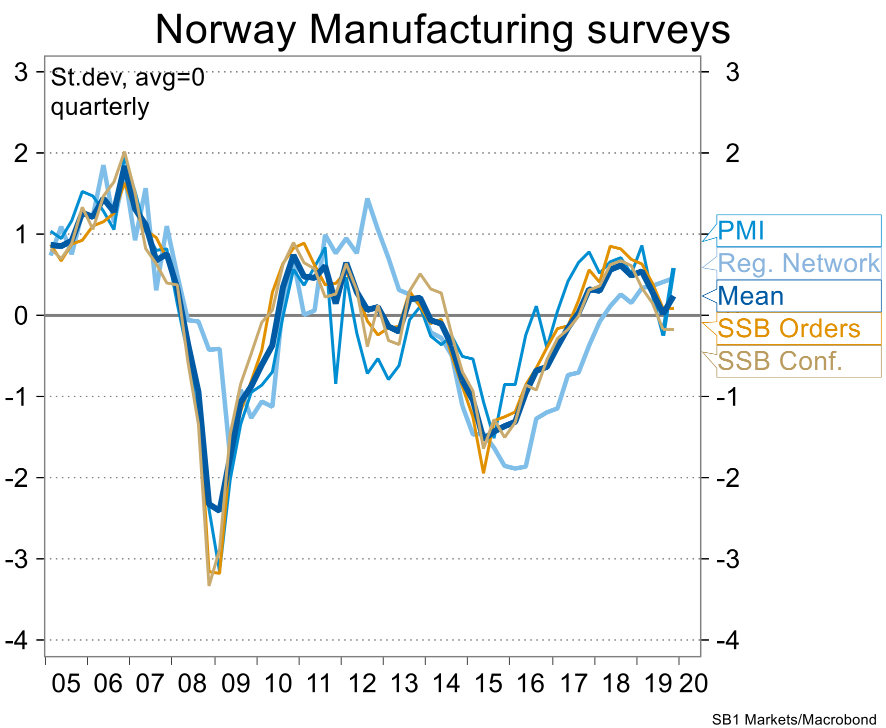
Oil investments will probably be close to our 2020 estimate by the end of H2 this year

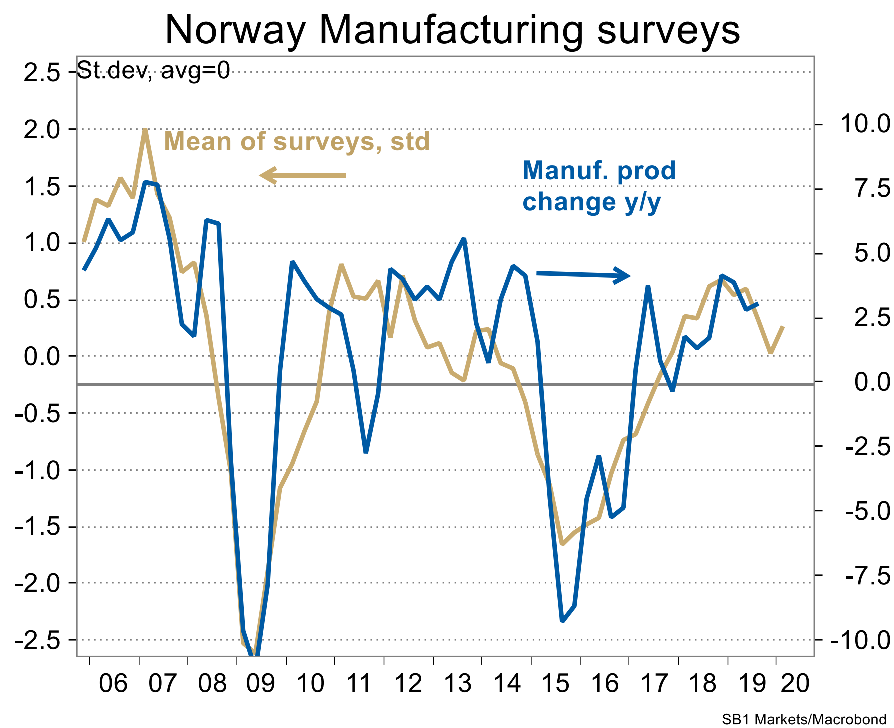


- Production in oil related industries have soared since late 2017, closely correlated to the increase in oil investments, as reported in the National accounts
- Oil investments will probably come close to the local peak now – during H2 – at some 6% above the Q2 '19 level
- If correct – and if Norwegian manufacturers do not gain market shares from foreign competitors – oil related production will soon flatten out
  - » Neither Norges Bank's regional survey (in Q3), SR-bank's regional survey (Q3) signal an immediate halt in growth. However, SSB's Q3 manufacturing survey points to a decline to zero growth the coming months
- A modification: Non-oil related shipbuilding may become more important if oil investments flattens out. Not totally unreasonable, given the weak NOK
- However, some extra negative signals: Both manufacturing and power supply investments are expected sharply down in 2020, according to SSB's investment surveys for these two sectors

Manufacturing surveys signal a slowdown in production, no contraction

All manuf. surveys x Reg. Network have softened, SSB's confidence survey the most downbeat





- Surveys are somewhat mixed, with the Regional Network and the PMI as the most upbeat and SSB's industrial confidence survey at the bottom. In sum, the surveys suggest that the growth peak is behind us, signalling 1 – 2% growth
- SSB's Q3 industrial confidence survey notes the steepest decline, to zero growth. The PMI is the most volatile of surveys, rebounding strongly in October and is now the most upbeat of these surveys
- Norges Bank's Q3 Regional Network has so far not report decreasing growth but we expect a substantially weaker Q4 survey

The Calendar

In focus: China October data, US CPI, retail sales, manufacturing, Norwegian Q3 GDP, CPI inflation

Time	Country	Indicator	Period	Forecast	Prior
	CH	Credit Growth, CNY	Oct	950.0b	2270.0b
Monday Nov 11					
00:50	JN	Core Machine Orders MoM	Sep	0.9%	-2.4%
08:00	NO	CPI YoY	Oct	1.8%(1.9)	1.5%
08:00	NO	CPI Underlying YoY	Oct	2.3%(2.3)	2.2%
10:30	UK	GDP QoQ	3Q P	0.4%	-0.2%
10:30	UK	Manufacturing Production MoM	Sep	-0.2%	-0.7%
Tuesday Nov 12					
06:00	SW	Unemployment Rate, Registered	Oct	--	3.8%
08:00	NO	Average Earnings YoY	3Q	--	3.4%
08:00	NO	GDP Mainland QoQ	3Q	0.8%(0.9)	0.7%
10:30	UK	Average Weekly Earnings YoY	Sep	3.8%	3.8%
10:30	UK	ILO Unemployment Rate	Sep	3.9%	3.9%
11:00	GE	ZEW Survey Expectations	Nov	-13	-22.8
12:00	US	NFIB Small Business Optimism	Oct	102	101.8
Wednesday Nov 13					
08:00	NO	Vacancy Rate	3Q		2.6%
09:30	SW	CPIF Excl. Energy YoY	Oct	1.7%	1.6%
10:30	UK	CPI Core YoY	Oct	1.7%	1.7%
11:00	EC	Industrial Production MoM	Sep	-0.2% (0.0)	0.4%
14:30	US	CPI Ex Food and Energy MoM	Oct	0.2%	0.1%
14:30	US	CPI Ex Food and Energy YoY	Oct	2.4%	2.4%
20:00	US	Monthly Budget Statement	Oct	--	$82.8b
Thursday Nov 14					
00:50	JN	GDP QoQ Annualized	3Q P	0.9%	1.3%
03:00	CH	Investments YTD YoY	Oct	5.4%	5.4%
03:00	CH	Industrial Production YoY	Oct	5.4%	5.8%
03:00	CH	Retail Sales YoY	Oct	7.8%	7.8%
08:00	GE	GDP QoQ	3Q P	-0.1%	-0.1%
09:30	SW	Unemployment Rate, LFS	Oct	--	7.4%
10:30	NO	Homebuilders' Survey	Oct		27'
10:30	UK	Retail Sales Ex Auto Fuel MoM	Oct	0.2%	0.2%
11:00	EC	Employment QoQ	3Q P	--	0.2%
11:00	EC	GDP QoQ	3Q P	0.2%	0.2%
14:30	US	PPI Ex Food and Energy MoM	Oct	0.2%	-0.3%
14:30	US	Initial Jobless Claims	Nov-09	215k	211k
Friday Nov 15					
02:30	CH	New Home Prices MoM	Oct	--	0.5%
08:00	NO	Trade Balance	Oct	--	-1.2b
14:30	US	Empire Manufacturing	Nov	6	4
14:30	US	Retail Sales Core (Control Group)	Oct	0.3%	0.0%
15:15	US	Manufacturing Production	Oct	--	-0.5%

- **China**
  - » **Industrial production** rose steeply in September, we doubt this will be repeated. However, the PMIs do not signal any slowdown either
  - » **Investments** are growing steadily, just a marginal cool off the past year
  - » **Growth in retail sales** is more or less stabilized, after a slowdown through 2018. Consumer confidence is still high
  - » **Credit growth** is gaining speed as monetary policy has been eased
- **US**
  - » **Core CPI inflation** rose to 2.4% y/y in Sept and underlying growth is even higher. Still, producer price inflation does not indicate an further lift
  - » **Retail sales** is slowly losing steam, after soaring in mid-2019, consumption has been the main growth engine this year. For how long?
  - » **Manufacturing production** has improved somewhat recent months, surveys are split; the ISM signals a steep downturn, others less so
- **Eurozone**
  - » 2nd estimate on **Q3 GDP growth** will be released this week with details on the German GDP, which most likely rose marginally
  - » **Employment growth** is slowing, another tick down in Q3 is likely
  - » **Industrial production** probably was close to flat m/m in Oct, Germany and Spain fell while production in France expanded (and some others)
- Norway
  - » We f'cast **Mainland GDP growth** at 0.9% in Q3 (3.8% annualized, consensus 0.8%)), up from 0.7% in Q2. Private consumption, business investments and housing investments probably turned up, while oil investments slowed slightly
  - » **Core CPI inflation** is running just above the price target, we expect the annual rate to edge up in Oct, due to muted m/m growth last year

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

In this report

Global + PMIs

- Global macro data steady in negative territory, Eurozone less disappointing
- Global retail sales boosted by Japanese VAT, manufact. heads slowly upwards
- Global PMI slides down faster than expected, down 0.3 p in October
- US, EMU and China stabilized, Japan steeply down on VAT hike
- Non-manufacturing ISM recovered more than expected, to 54.7
- Auto sales probably flat at a 'low' level in October

China

- Exports are trending up, imports are flat, none are signalling any crisis

USA

- Productivity growth muted in Q3, upward trend still intact, but cost inflation high, profits down
- Unfilled vacancies are sliding down, an early sign of a cooling labour market?
- Jobless claims flat at a very low level
- UoM Consumer sentiment steady in Nov, level not weak
- The trade deficit shrank in September, as imports fell more than exports
- Nowcasters were close to the ball in Q3, now they say 1% GDP growth in Q4

EMU

- Industrial production probably flat in Sept, Germany tumbles
- Retail sales still ticking up, offering some comfort on the outlook
- German manufacturing orders are trending down but offers some hope?
- Exports are holding up surprisingly well, given orders and PMIs

Sweden

- Manufacturing production and orders are not that weak

Norway

- House prices flat in October, strong sales and still elevated supply of homes
- A record high no of sales is offset by a high no of new listings
- Manufacturing production down from peak as oil related sectors cool
- The Financial News Index down through October, still signals above 2% growth

Market data

- Some charts and comments on global and Norwegian markets

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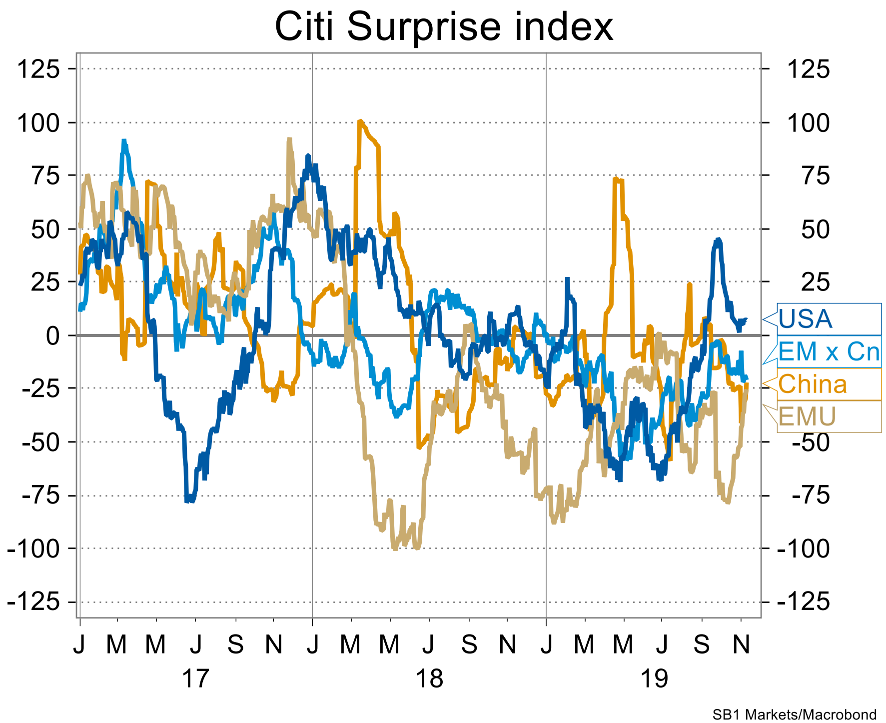
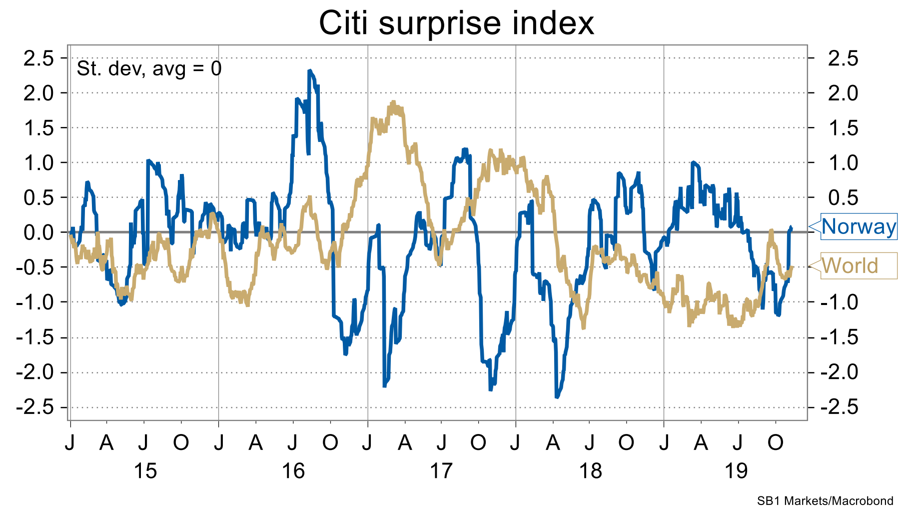
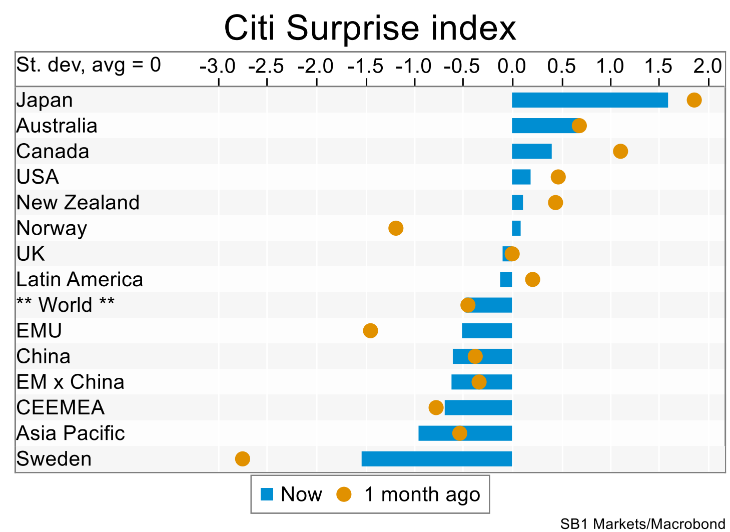
- Highlights
- **The world around us**
- The Norwegian economy
- Market charts & comments

Global macro data steady in negative territory, Eurozone less disappointing

Macro data from the US are neutral vs expectations, China softer, Eurozone less downbeat





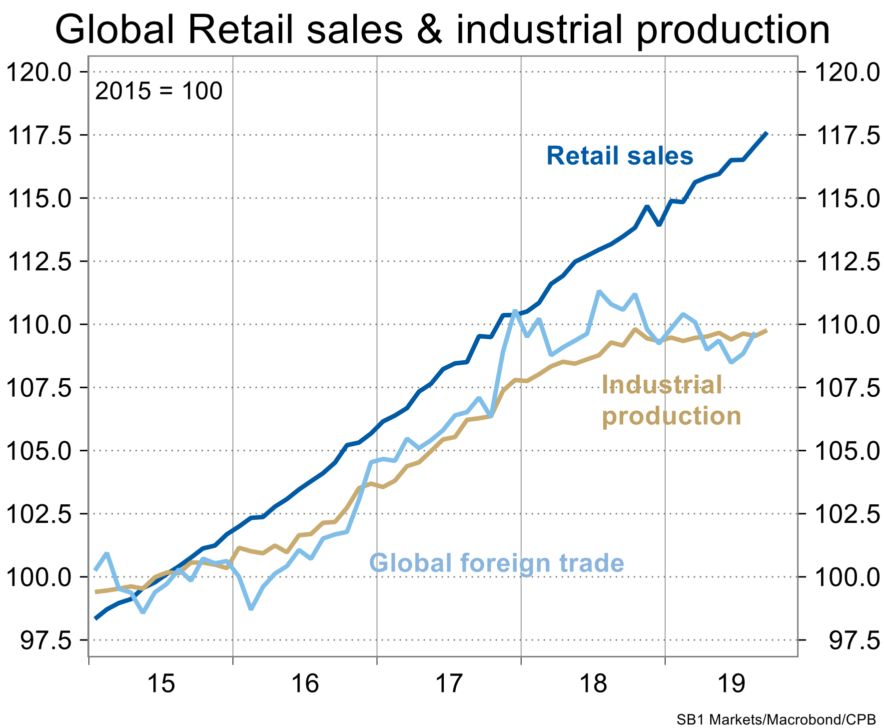


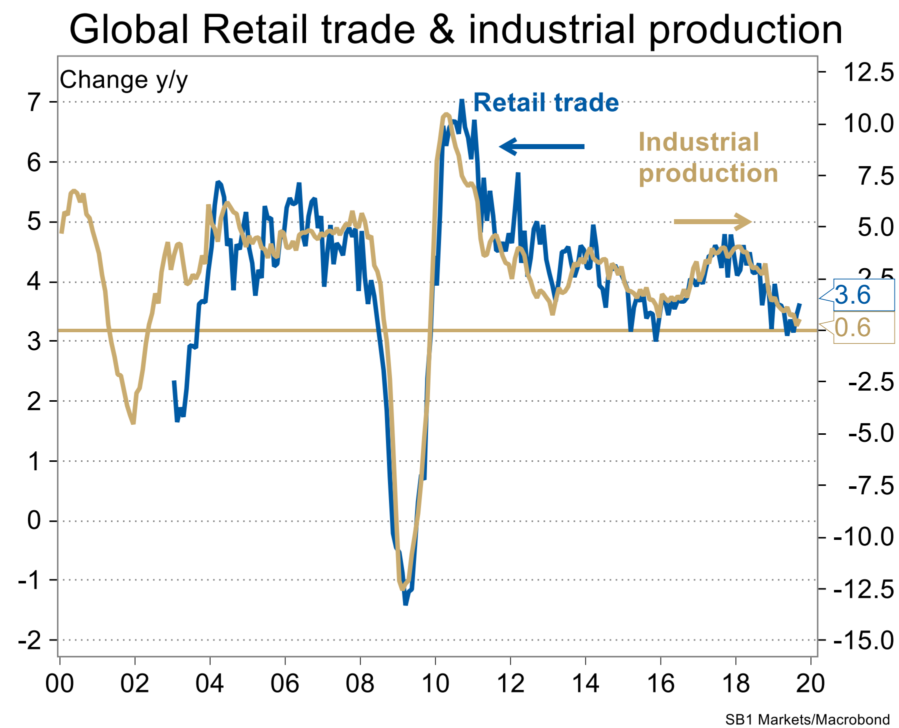
- The global surprise index climbed to a ‘neutral’ level for the first time this year in mid-Sept. Since then, data have been slightly more disappointing, in sum. Marginally better last week
- US data flows were beating expectations in October, much less recently. ISM and other surveys, retail, orders, job openings have sent the index down to ‘neutral’
- EMU data have been less disappointing recently, not many data points have deteriorated
- China sliding down again, below other EM, even with an upbeat Markit PMI, with manufacturing at a 3 y high. Strange
- Norwegian data back to neutral, boosted by 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

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

Global foreign trade rose further in August, has stabilised?

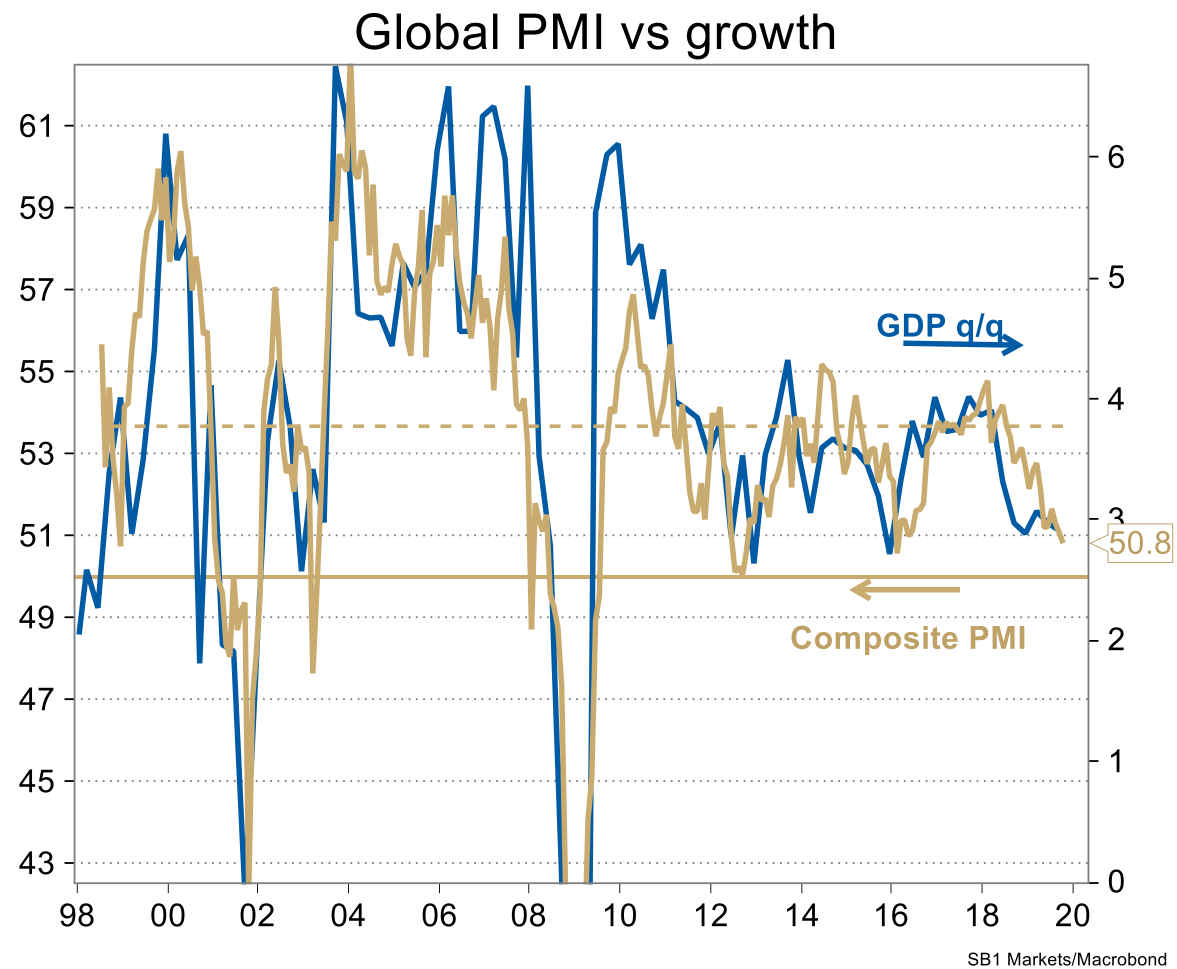


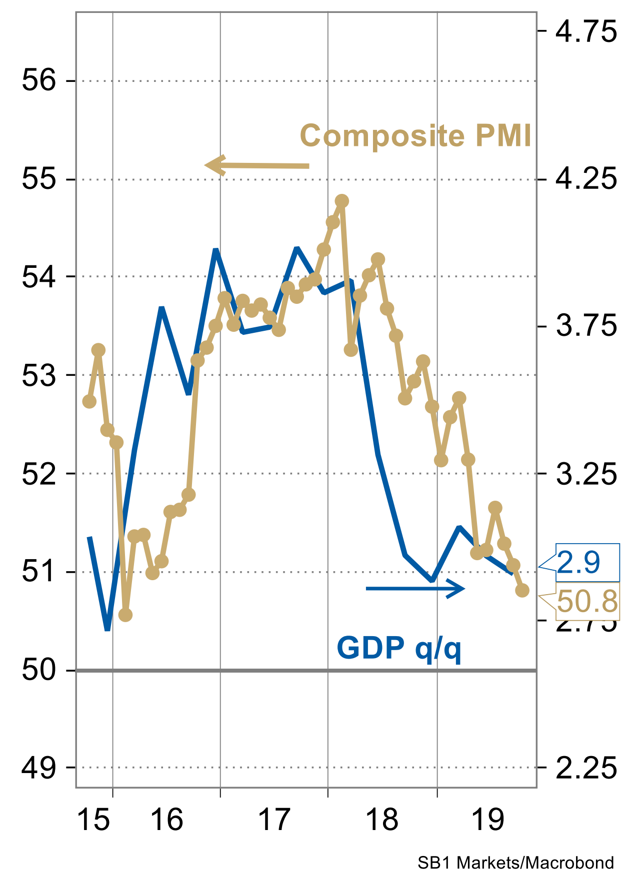


- **Retail sales** grew by 0.5% m/m in Sept (our prelim. est), as in Aug. Half of the 1% Aug/Sept lift is due to a 11% boost in retail sales in Japan ahead of the VAT hike in October – just like we have seen before earlier Japanese VAT hikes, and sales will 'collapse' in Oct. Without this surge, the 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

Global PMI slides down faster than expected, down 0.3 p in October

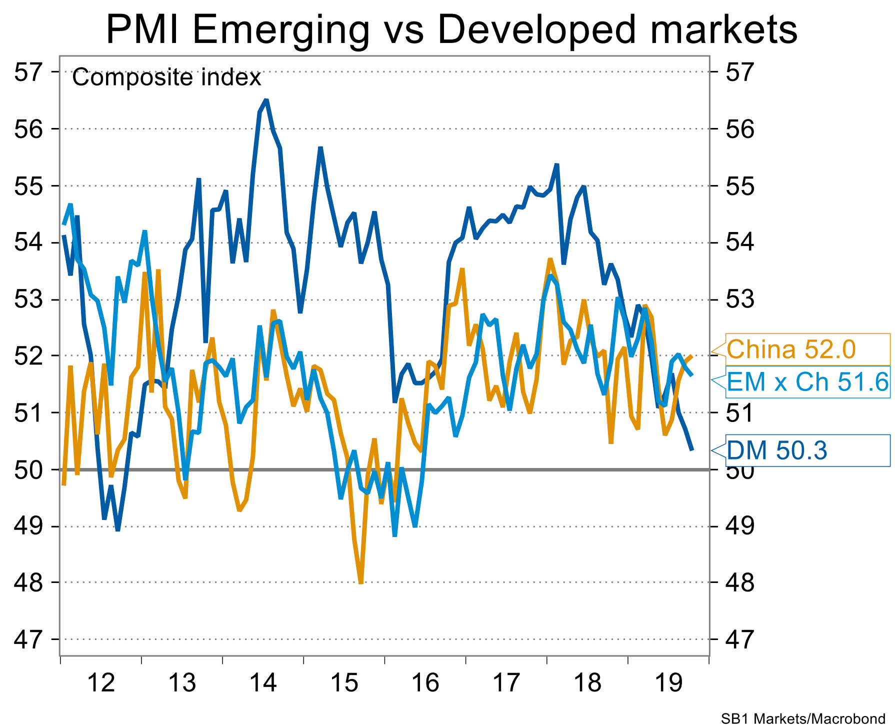
Composite PMI ticked down to 50.8, signals below 3% growth, marginally weaker than growth in Q3

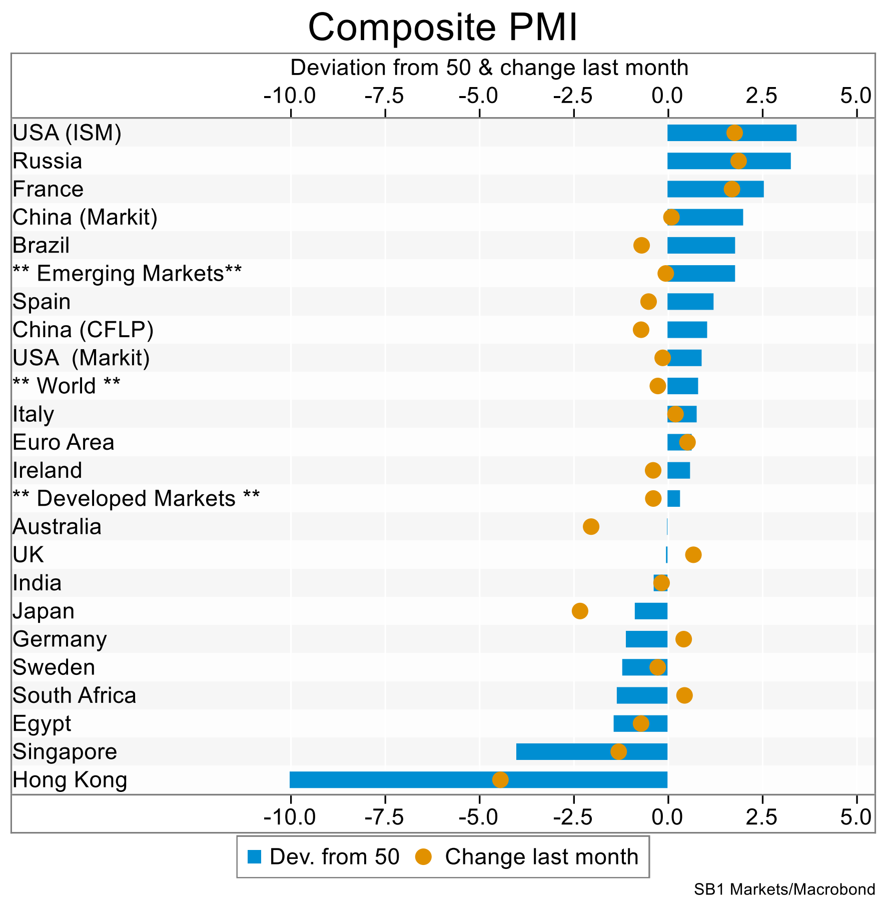




A drop in PMI from Japan sent DM down, EM unchanged, at a decent level

Composite PMI: Most countries are still reporting growth but DM are slowing quite rapidly



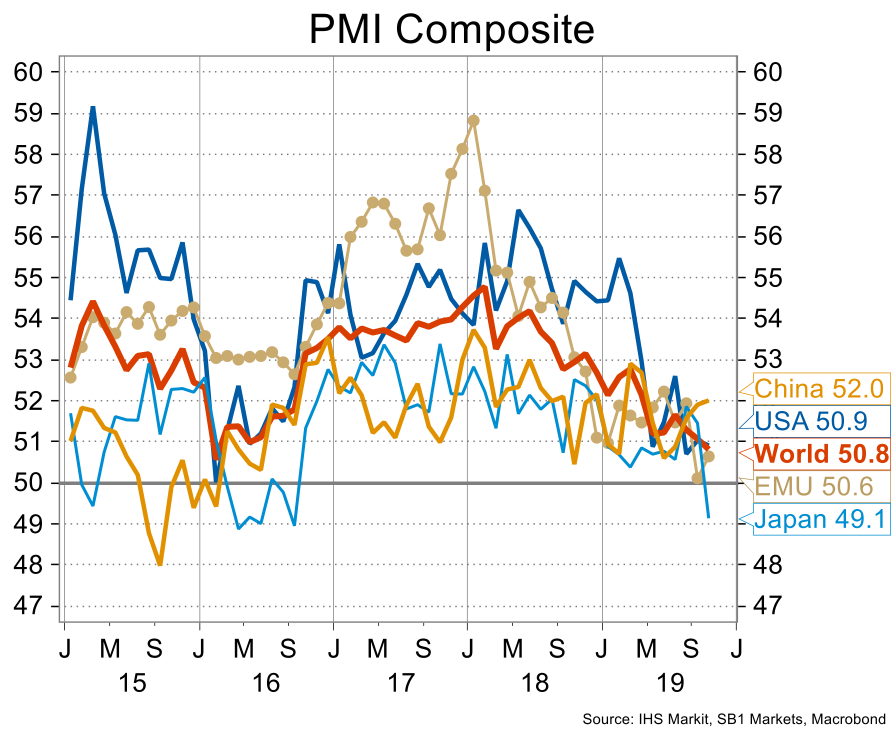


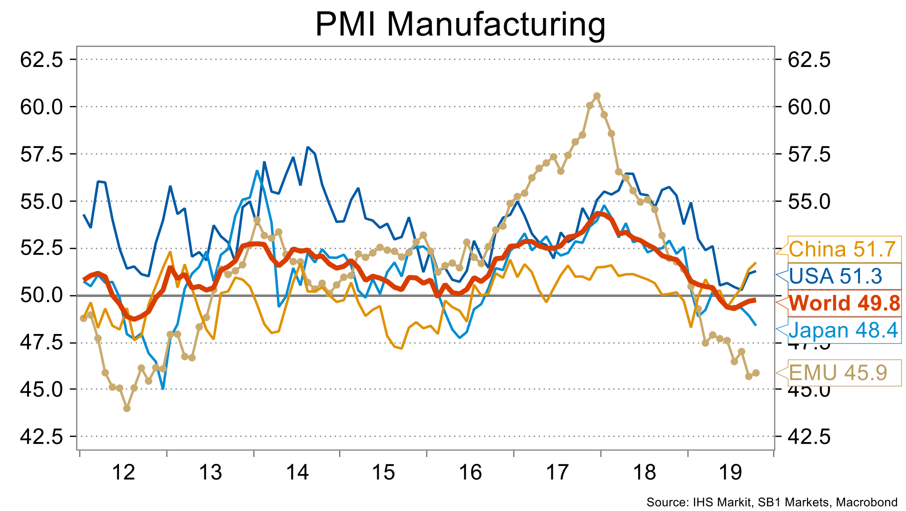
Hong Kong services are collapsing, of course due the protests, composite PMI slipped to 32.3 (the scale above is too narrow)

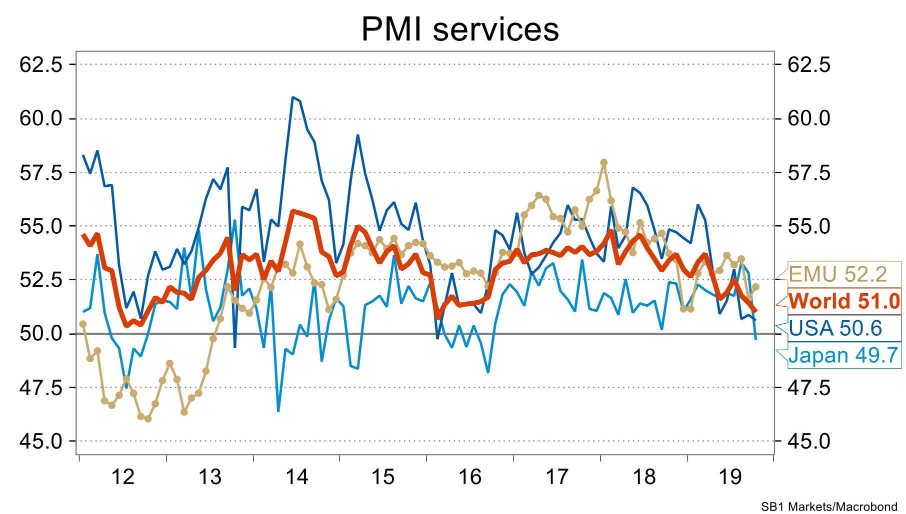
- 9 countries/regions reported an increase m/m (thus, activity accelerated or fell at a slower pace), from 8 in Sept. 13 countries noted weaker activity (from 14)
- Most countries/regions are still reporting growth; 8 countries below the 50-line, 14 above
- DM average down 0.4 p, EM unchanged, China up 0.1 p (Markit)
  - » DM was primarily dragged down by weak Japan PMI, check the next slide

US, EMU and China stabilized, Japan steeply down on VAT hike

The drop in Japanese services PMI explains 0.25 p of the 0.3 p decline in the global composite PMI



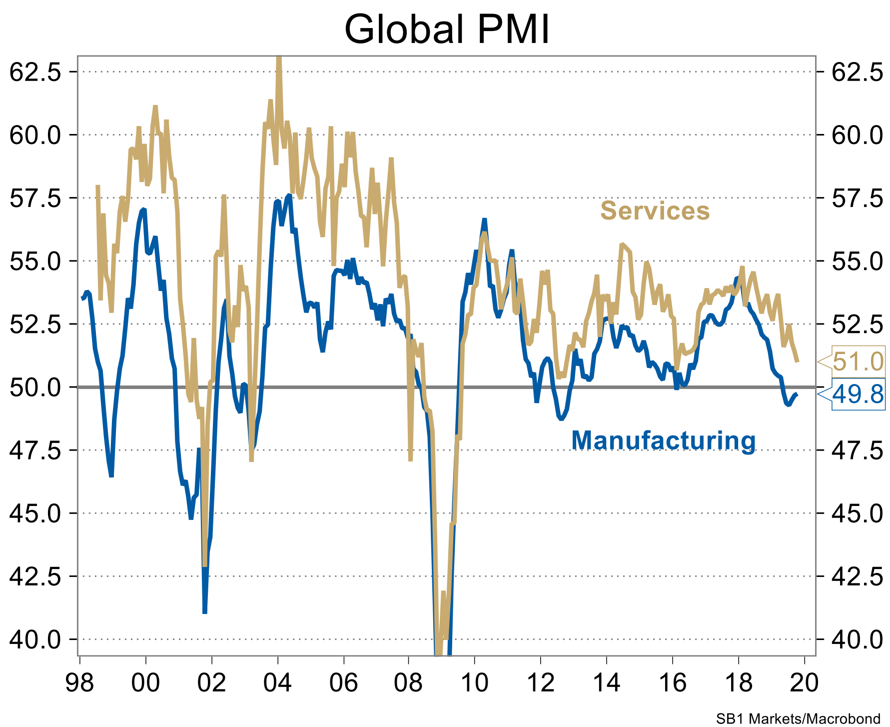


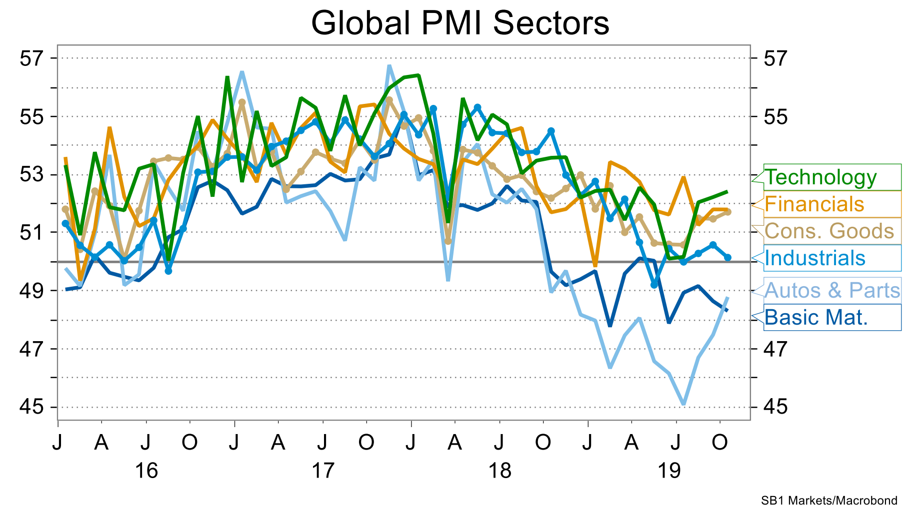


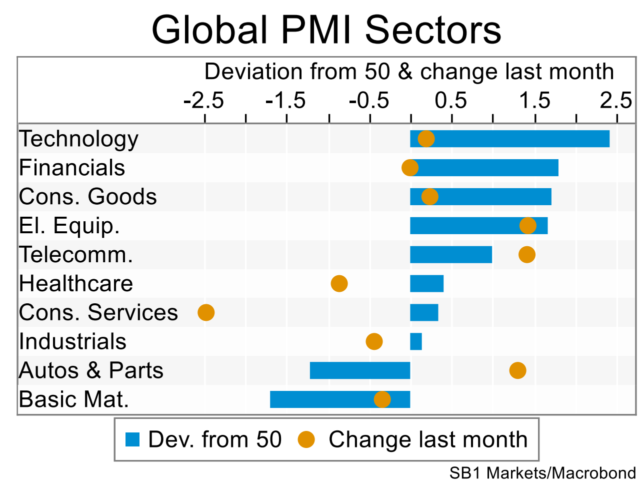
- The Eurozone manufacturing survey rose marginally in Oct, still far weaker than the other countries. US manuf. PMI has stabilized recent months (not the ISM), together with China (according to Markit)
- The service sector is still growing moderately most places but is no doubt slowing, suggesting that the manufacturing downturn is spreading to the broader economy
- Services PMI from Japan slipped 3.1 p in October, very likely due to the VAT hike on consumer goods in October (which boosted retail sales in Aug/Sept and most likely tanked them in Oct). This explains almost the entire October drop in the global PMI (although few other countries were thriving). A services rebound is likely the coming months

Manufacturing showing signs of stabilization, services PMI slows rapidly

The auto industry is still signalling lower production, but the PMI has climbed to 49 from 45



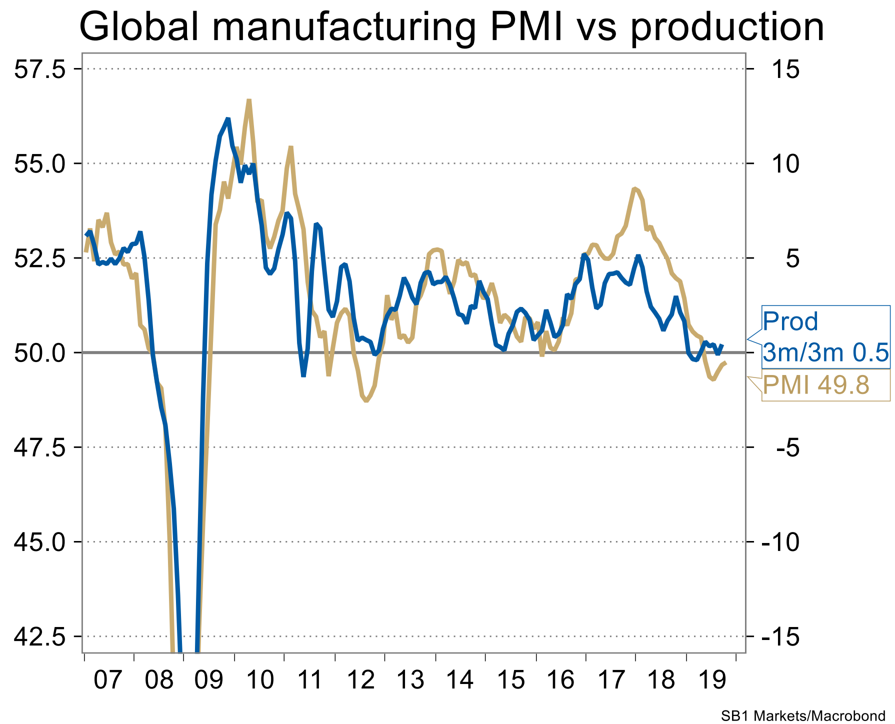




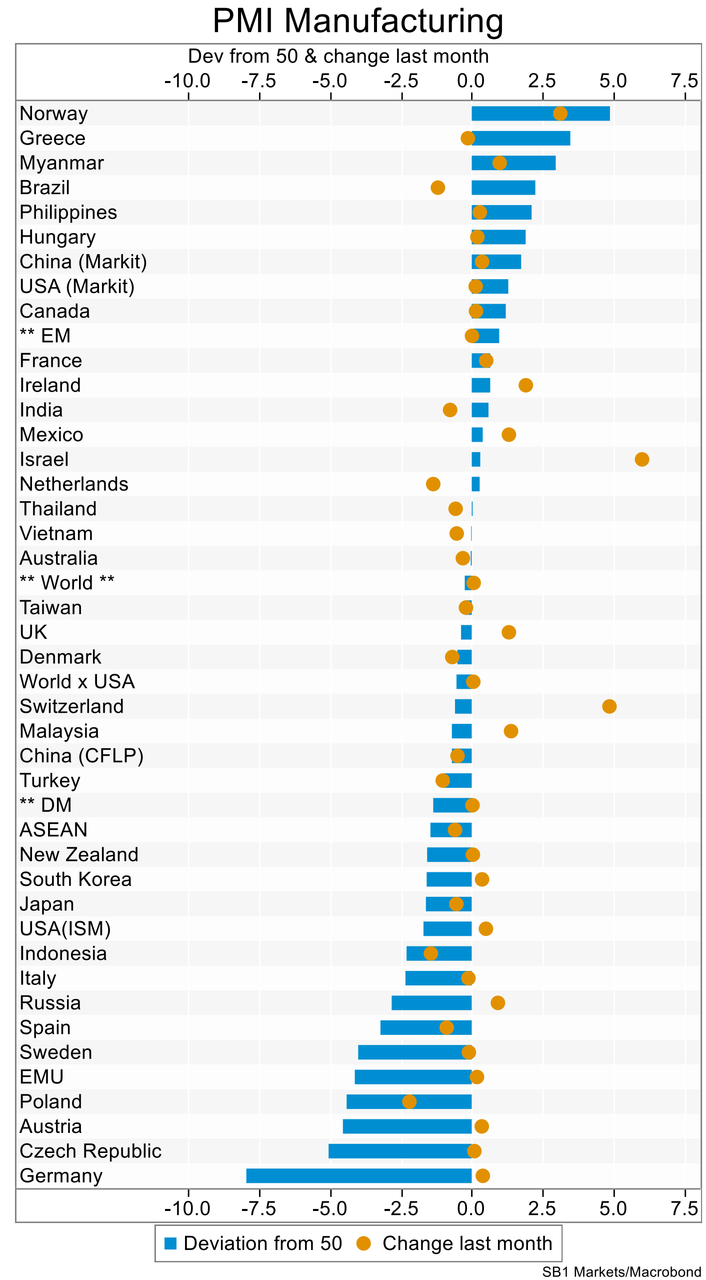
- The manufacturing PMI has ticked marginally up the past 3 months
- Services are slowing, but so far the downturn has been much more mild than that of manufacturing businesses
- Basic metals have overtaken autos at as the weakest sector. Tech and consumer goods are on the way up, the latter a leading sector

Manufacturing PMI slightly up, a stabilization?

PMI inched up 0.1 p in October, DM unchanged, EM up 1 p



- PMI rose 0.1 p in Oct, in line with our f'cast (based on the preliminary results). The modest upswing comes after a similar increase the prior 2 months, a sign of stabilization, after a steep decline. The index at 49.8 nevertheless signals a marginal contraction in global manuf. production
  - » 21 (from 17) countries/region PMIs rose in Oct and 18 declined (from 22)
  - » 25 of 43 countries/regions are below the 50 line. Germany remains at the bottom
  - » Developed Markets were unchanged in average, Emerging Markets up 2.0 p



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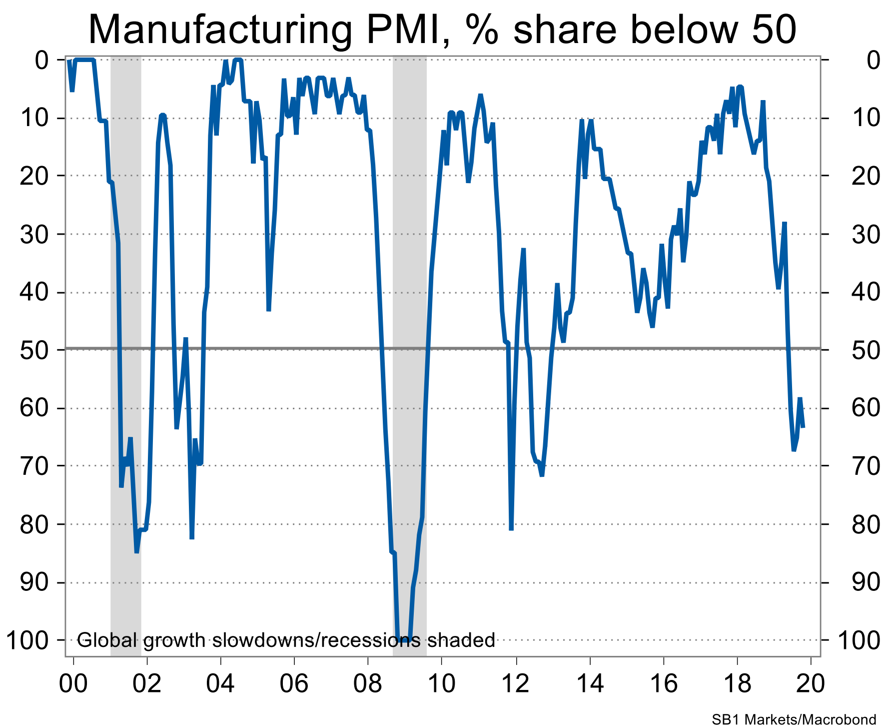
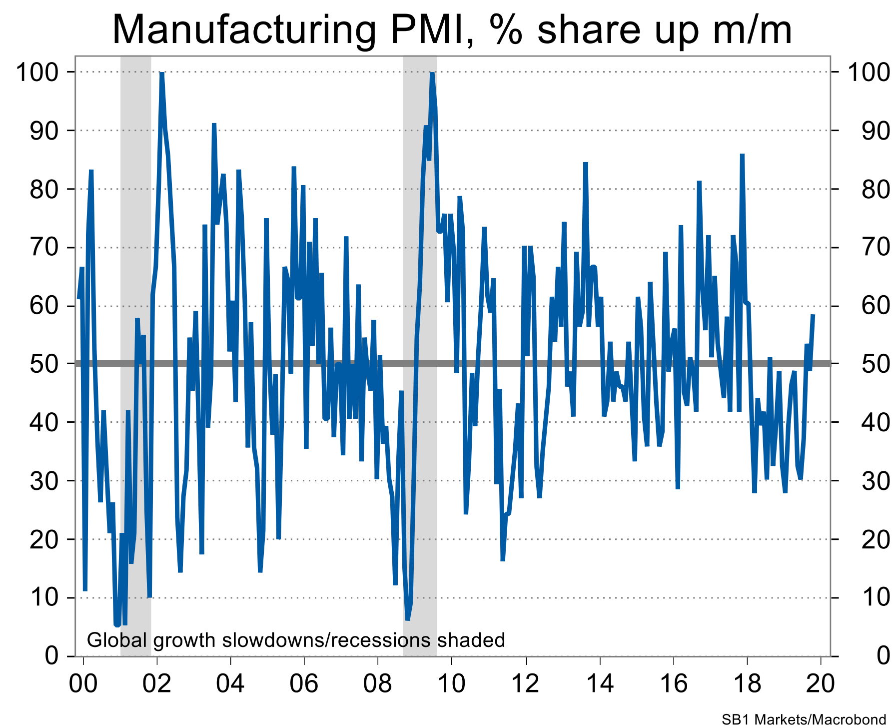
Most countries still below the 50 line but more are up than down m/m

The m/m balance is the best since January

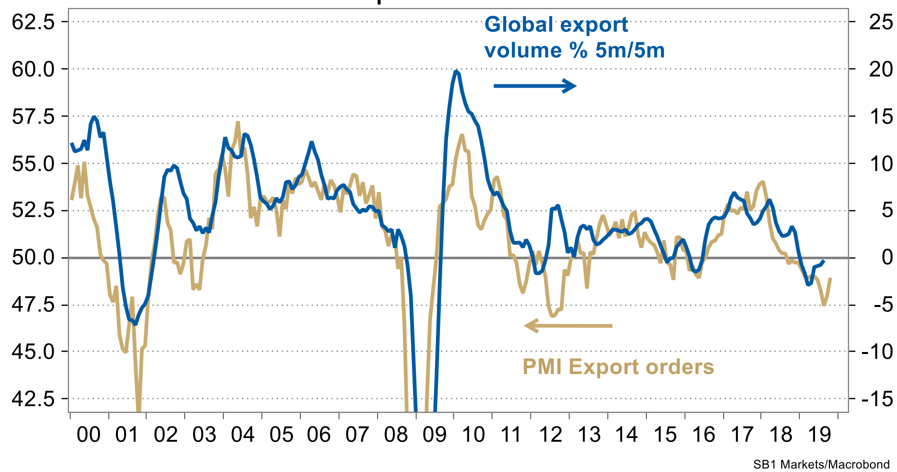




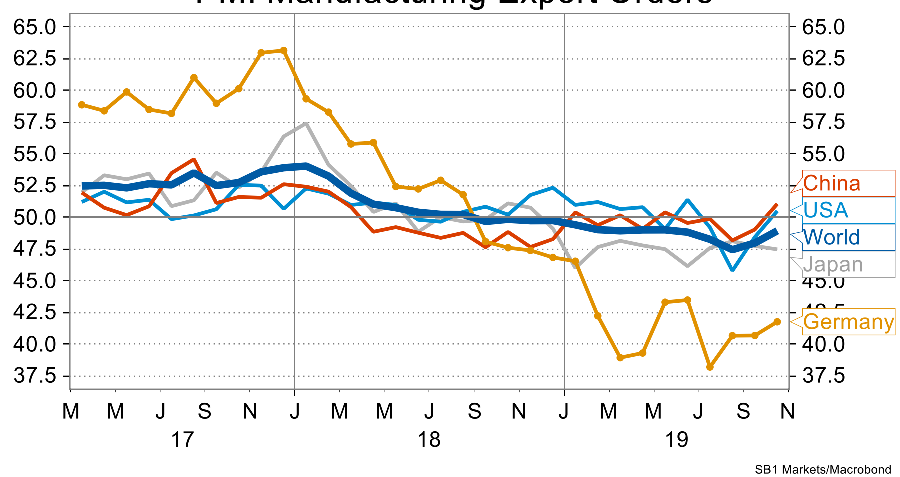
PMI export orders suggest a stabilization in export demand?

Export orders index rose to 48.7, still signalling a decline but less than two months ago

Global exports vs PMI orders

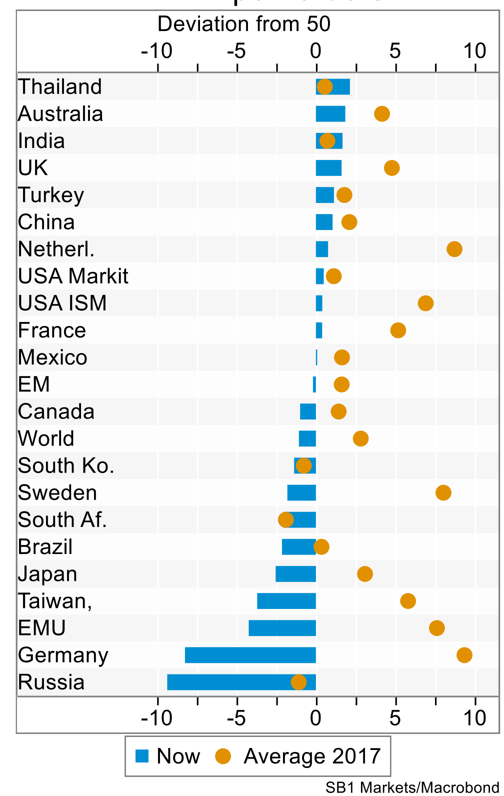


PMI Manufacturing Export Orders



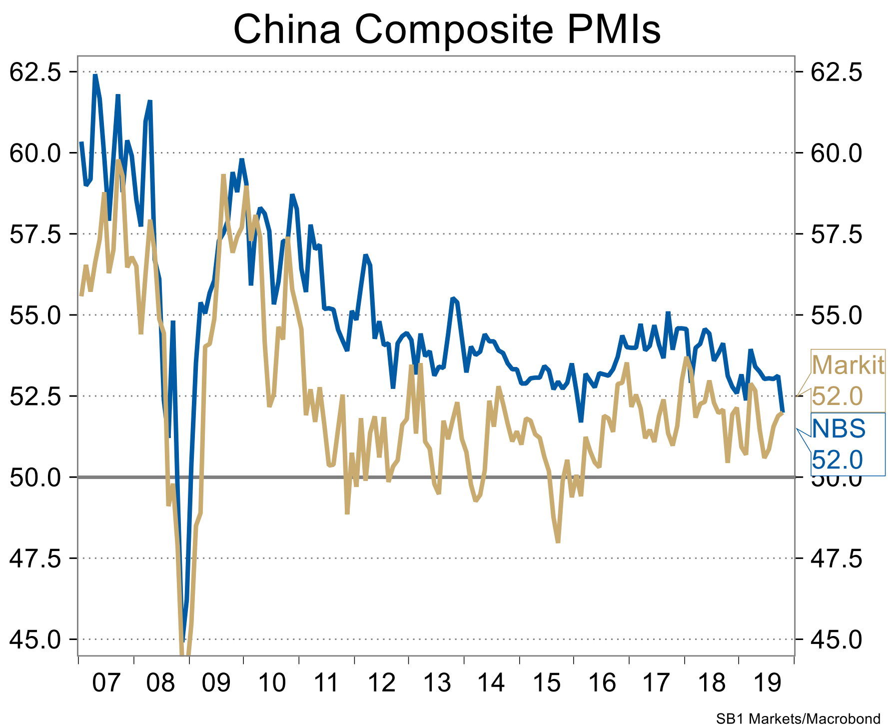
- Actual global export volumes have fallen but less recent months, the 5m/5m rate is down just 0.3%, from 2.9% in the spring. The PMIs confirms a stabilization, although the level is somewhat 'lower'
- A small majority of countries is now reporting declining export orders (it was a large majority a few months ago)
- Uncertainties regarding the trade war and also Brexit have no doubt taken its toll on export demand. A broader, cyclical slowdown is probably also to blame, and troubles in the auto industry
- Germany export order index is weaker than any other country, however, the index has stabilized since early '19
- Chinese exporters are reporting increasing orders, the index at 51.1 is the highest since early 2018!
- US exports orders are improving too, at 50.5 in Oct

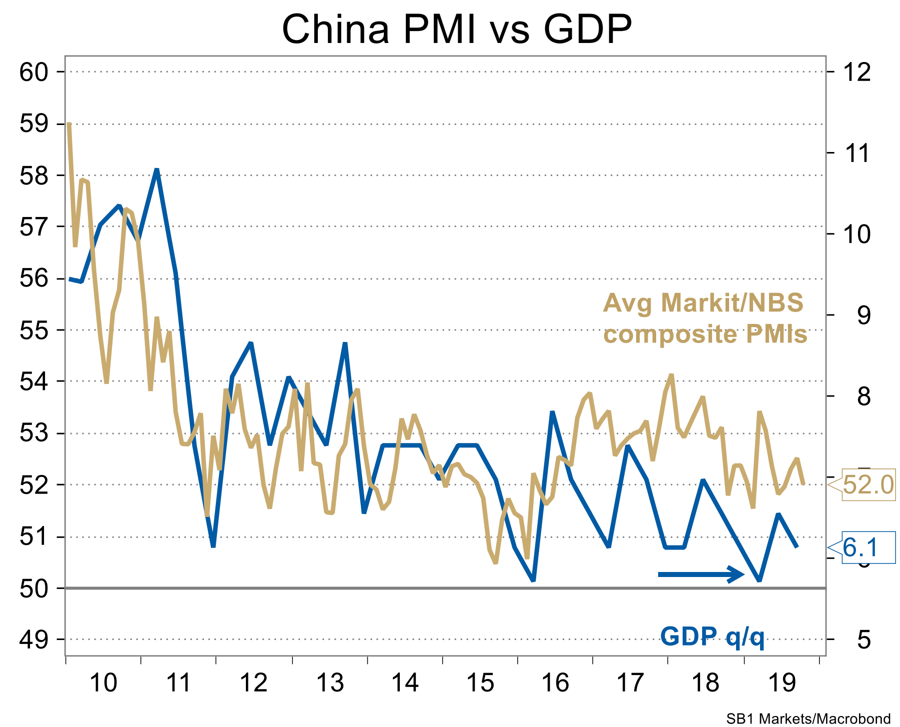
PMI Export orders



Mixed October composite PMIs; avg signals steady growth

One down, one up in Oct, Markit notes accelerating growth in manufacturing

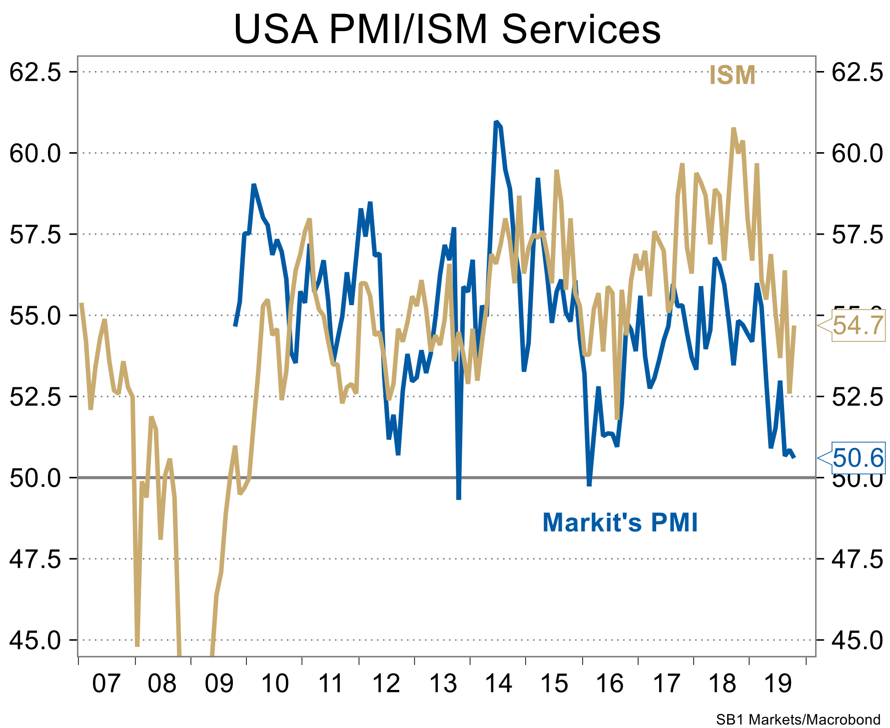


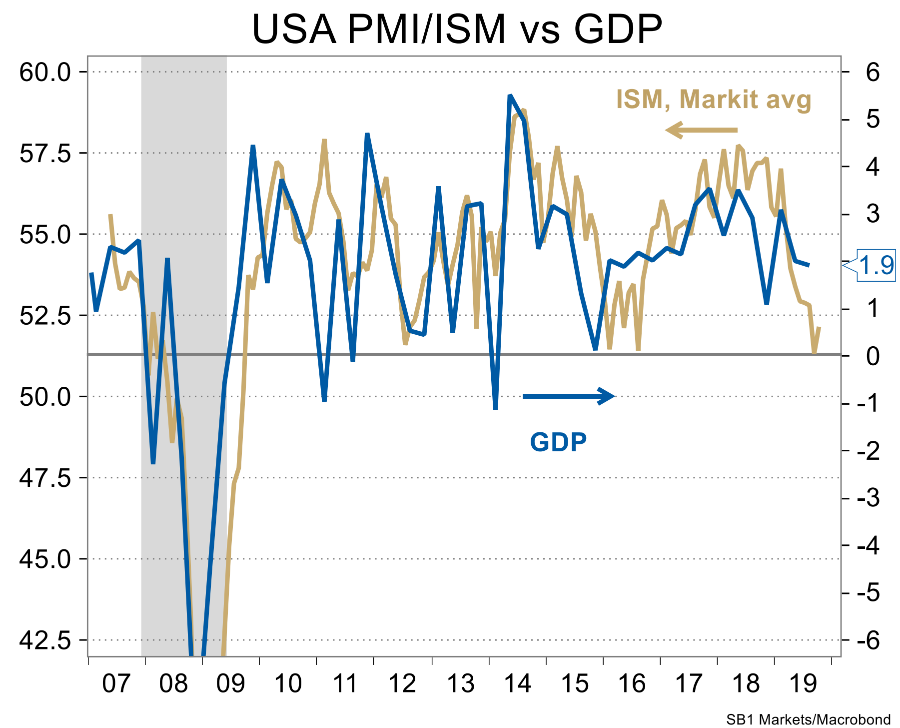


- Markit's services PMI (released this week) edged down 0.2 p, to 51.1. The composite PMI anyway rose due to a strong manufacturing survey
- NBS' composite PMI (CFLP) dropped 1.1 p, as both sectors reported weaker growth
- The avg of the two composite PMIs fell to 52.0, the same level as one year ago. Does not signal any abrupt halt in the Chinese economy!

Non-manufacturing ISM recovered more than expected, to 54.7, trend still weak

The ‘composite’ ISM rose to 53.4, Markit a tad down, the avg still signals subdued GDP growth

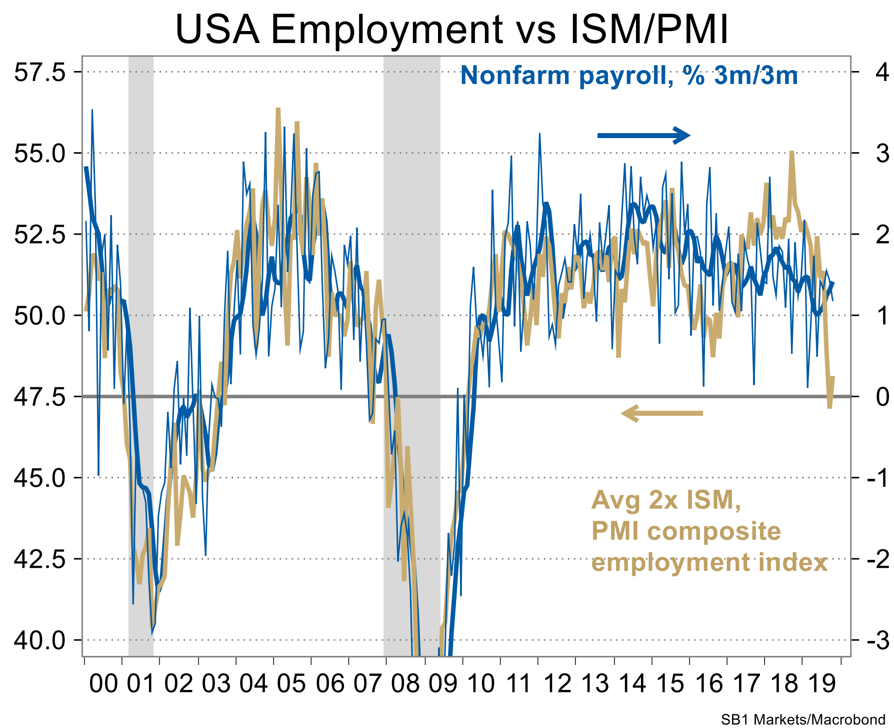


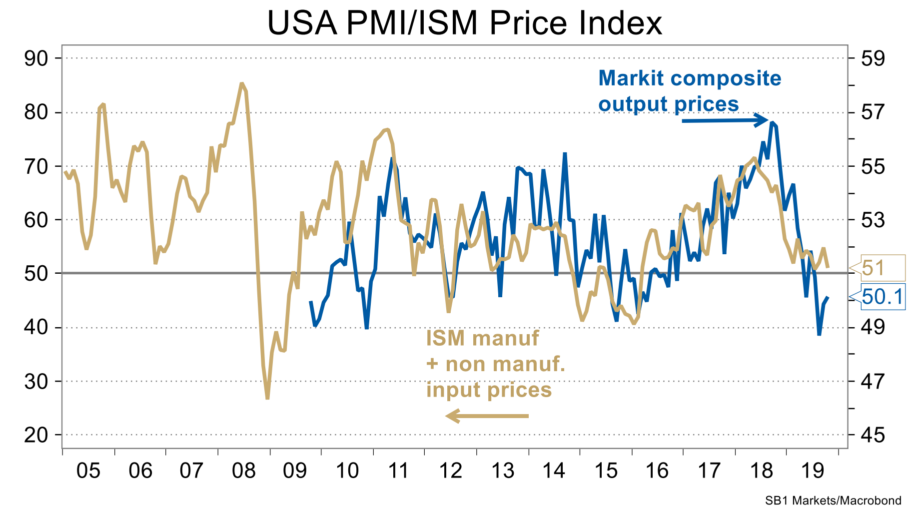


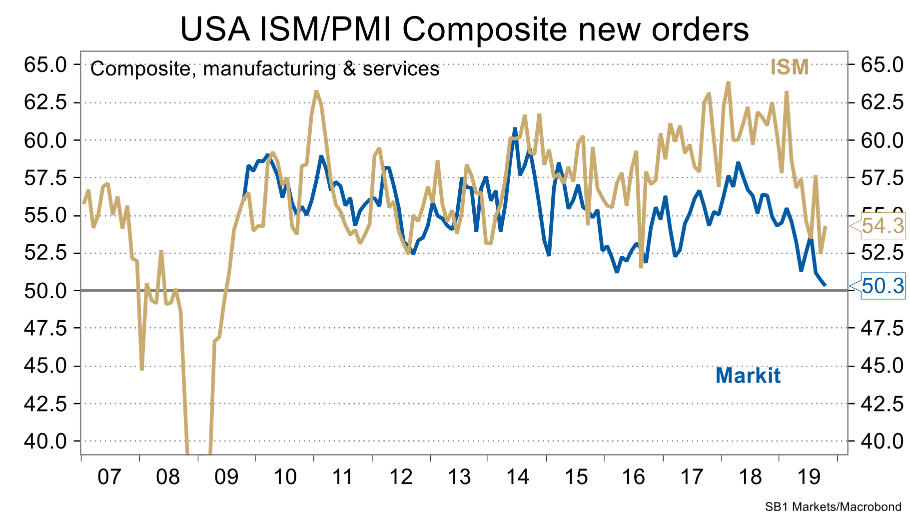
- Non-manuf. ISM rose 2.1 p in October, a stronger recovery than expected following the 3.8 p dip in September. The level at 54.7 still signals a decent growth rate, although the speed down no doubt reflects a slowdown. The ‘composite’ ISM (manufacturing weighted 20%, services 80%) rose to 53.4, down from 60 in late 2018
  - » 13 of 18 non-manuf. sectors reported growth, unchanged from Sept, and 5 reported a decrease
- Markit’s service sector PMI came down 0.3 p vs the first reported 0.1 p upturn. Composite PMI fell just 0.1 pp to 50.9, stabilized recent months
- **The avg of the composite PMI/ISM points to a steep slowdown in the US economy, to just some 0.5% GDP growth**

Composite PMI/ISM signals a steep drop in employment growth

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



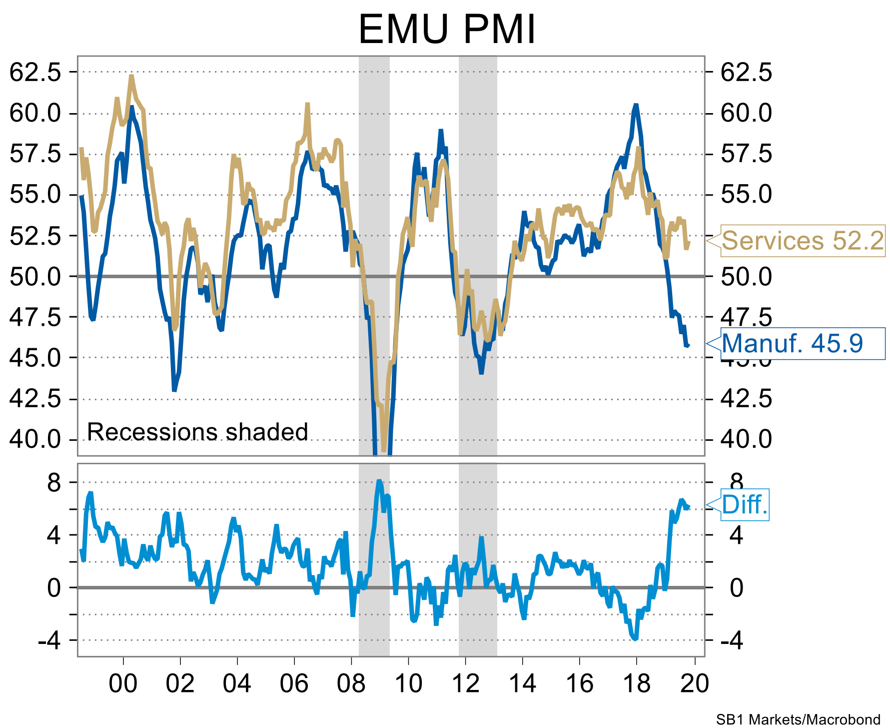


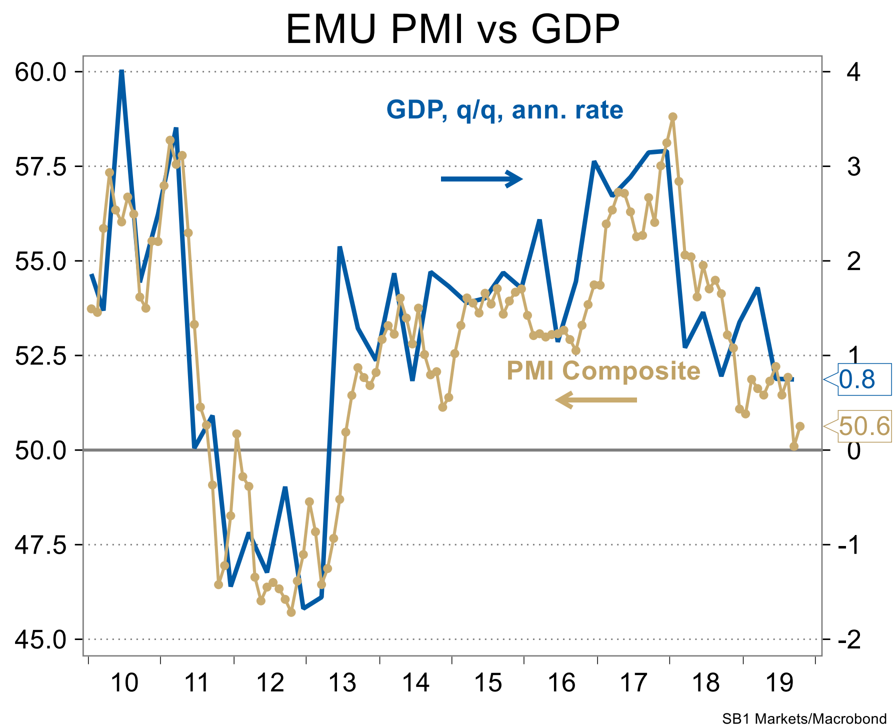


- Both Markit and ISM report a sharp slowdown in employment growth, although the Oct data were mixed (ISM recovered, Markit slipped). The avg of ISM/PMI signals stalling growth in employment. There are some outliers in these surveys but anyway a highly worrisome sign!
- Composite orders are still expanding, at a much slower pace
- ISM is still reporting modest growth in prices, while Markit's PMI reports stagnating prices

Eurozone PMI edged up in Oct, more than the first estimate

Composite PMI rose 0.5 p, 0.4 p above the first estimate. The PMIs still point to stalling growth

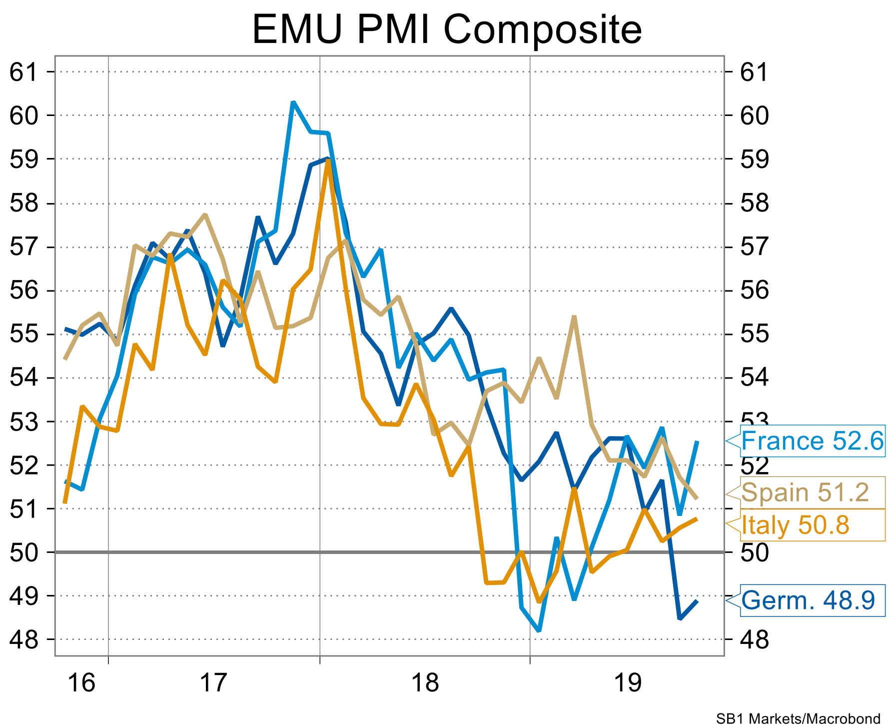


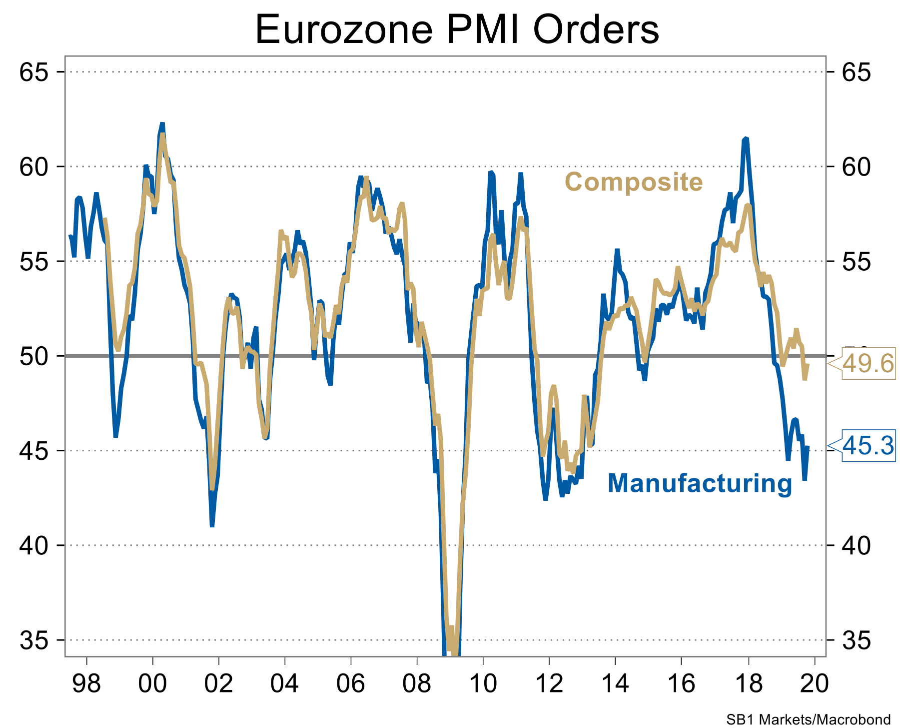


- **The final composite index** came in at 50.6 in Oct, 0.4 p better than the preliminary figure. Thus, the PMI recovered 0.5 p of the 1.8 p drop in September. The PMI is still at the lowest level since the 2012 euro crisis and points to a muted GDP growth
  - Manufacturing PMI increased 0.2 p, 0.2 p (first reported flat), while services edged up to 52.2, 0.4 p above the first estimate. Services fell steeply in Sept but the level is not low; indicating that the manufacturing downturn has not yet spread to the broader economy, at least not rapidly
- **Any hope?** Households are still quite optimistic and consumption is increasing moderately, while net exports and business investments have slowed. Some signs of softness at the labour market, unemployment is falling at a slower pace. Credit growth is rising, although there is no boom. The slowdown is most likely triggered by uncertainties stemming from trade war, Brexit. The auto sector trouble is no doubt fuelling the downturn too. And a domestic problem, particularly in Germany, in which domestic orders are tumbling?

German manuf. still the main drag but Spain is trending down, too

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

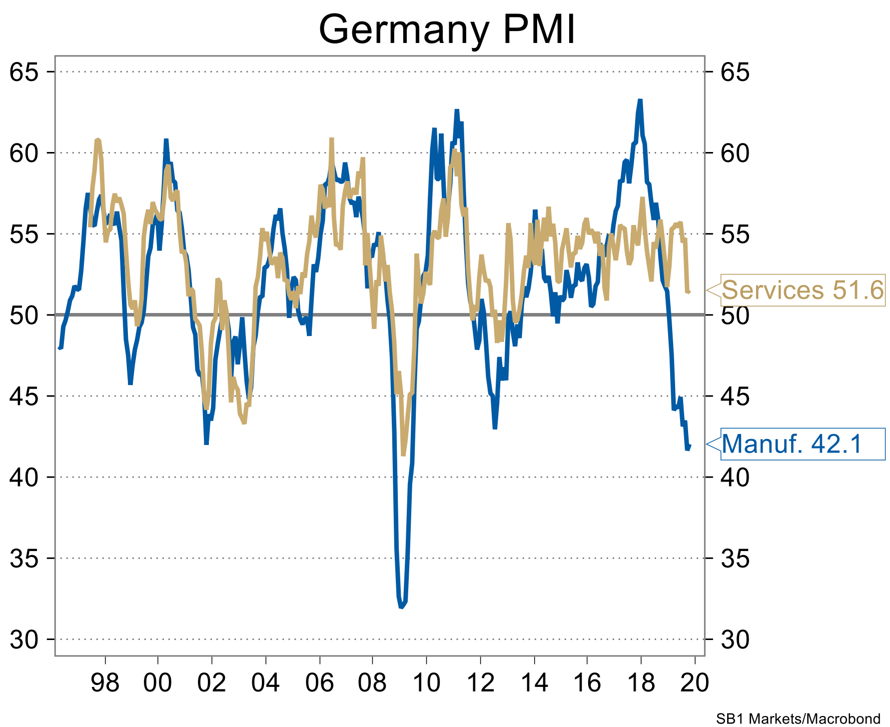


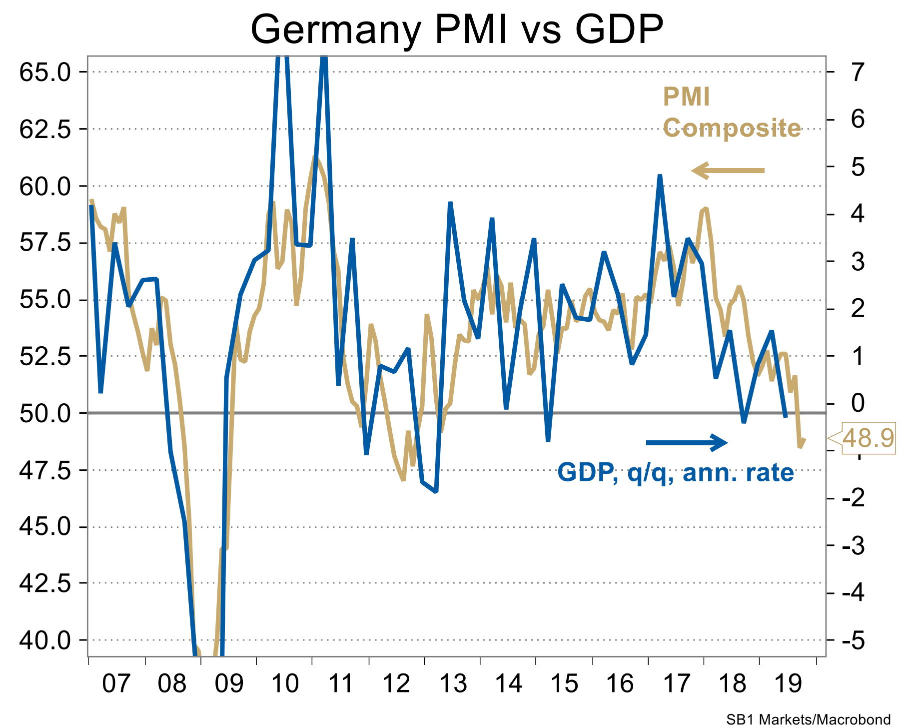


- Germany recovered marginally in October, still weak. The other main countries are still reporting increasing activity. France is in the lead, after a solid lift in the spring. Italy may have stabilised, slowly improving the past year. In Spain, businesses reported a further slowdown in October and the trend is straight down
- Manufacturing order PMI rose in Oct but are signalling sharply falling order inflows. Composite orders are falling just modestly, as service orders are still increasing

Manufacturing remains in the doldrums, services may be caving too?

Manufacturing recovered just 0.4 p, lowest level since the FC. Composite signals a contraction

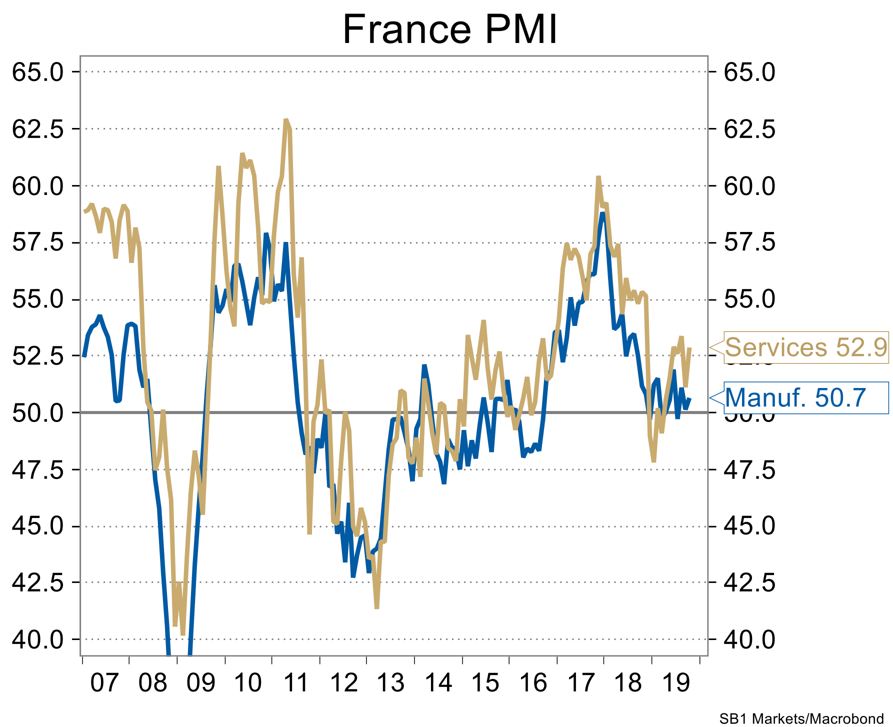


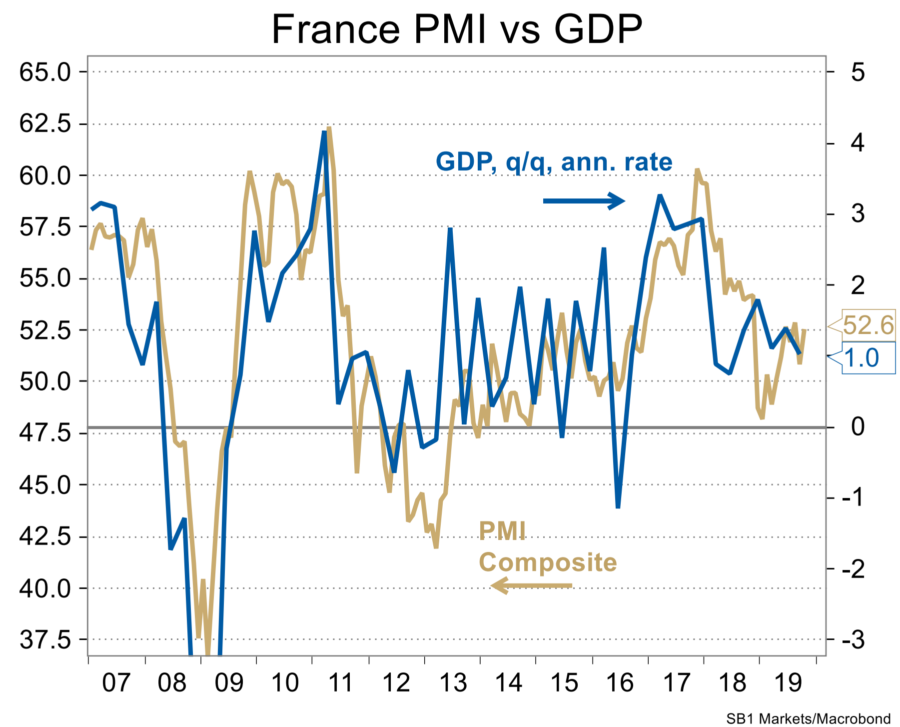


- The manufacturing PMI came in 0.2 pp above the prelim. estimate but anyway a very low level, the weakest since the financial crisis
- The service PMI rose marginally after a steep rise in Sept (a slight decline was first reported).The slowdown indicates that the manufacturing contraction may now be spreading to service sectors, even as activity is still increasing
- The composite PMI edged up to 48.9. The level is the lowest since the euro crisis, fuelling fears that the German economy is sliding into recession. Other surveys are not promising, either

France: PMI more upbeat than other countries, pointing to above 1% growth

Manufacturing PMI steady just above 50, services have stabilized after a strong rebound in the spring

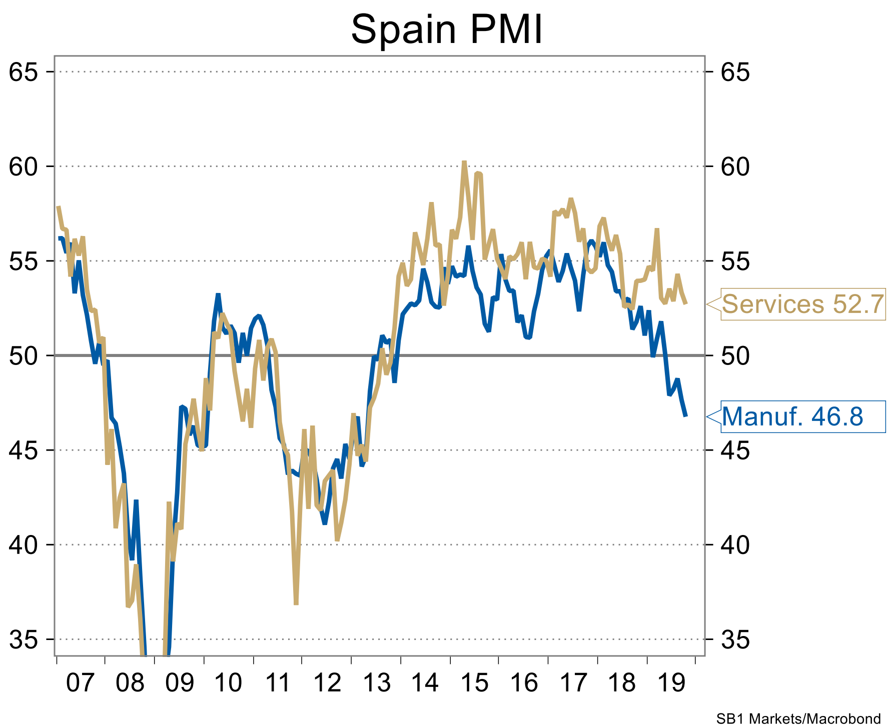


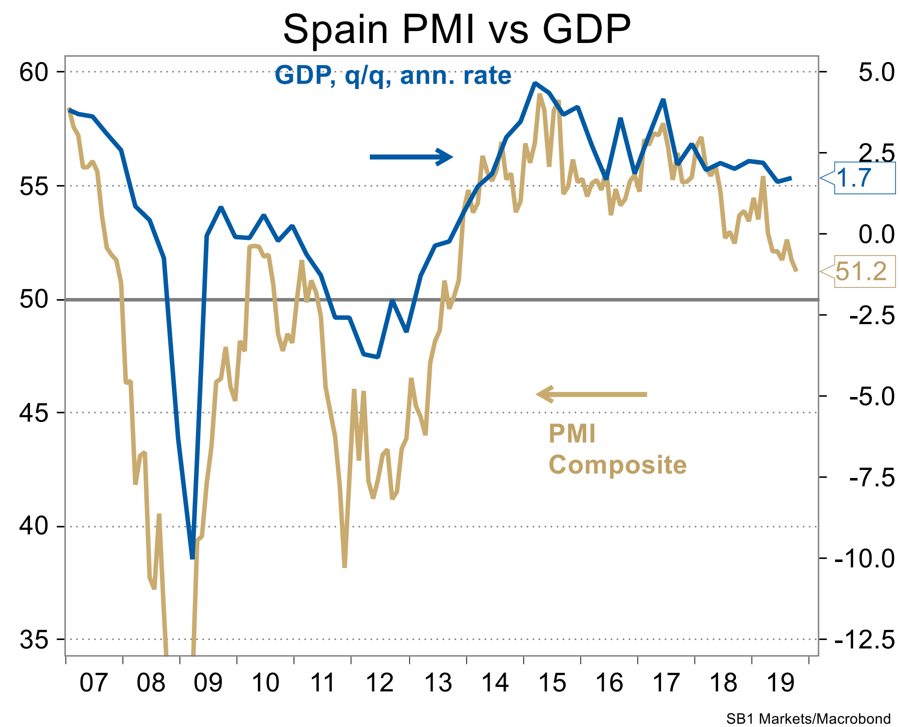


- The manufacturing PMI ticked up to 50.7 in October. The manuf. PMI has stabilised at just above the 50-line recent months, holding up much better than the other ‘major’ Eurozone countries. The service index bounced back up to 52.9, reflecting moderate growth
- The composite PMI rose to 52.6, suggesting just above 1% GDP growth, a small upturn from 1% in Q3

Spain: Composite PMI falls steeply, fuelled by weak manufacturing

Both sector PMIs weakened in Oct, services still at a decent level, manufacturing not





- The composite PMI fell by 0.5 p in October, , both manufacturing and service indices came down
- Manufacturing businesses are no doubt struggling, more than in France and Spain (and less than in Germany). Sercices are still growing at a moderate pace

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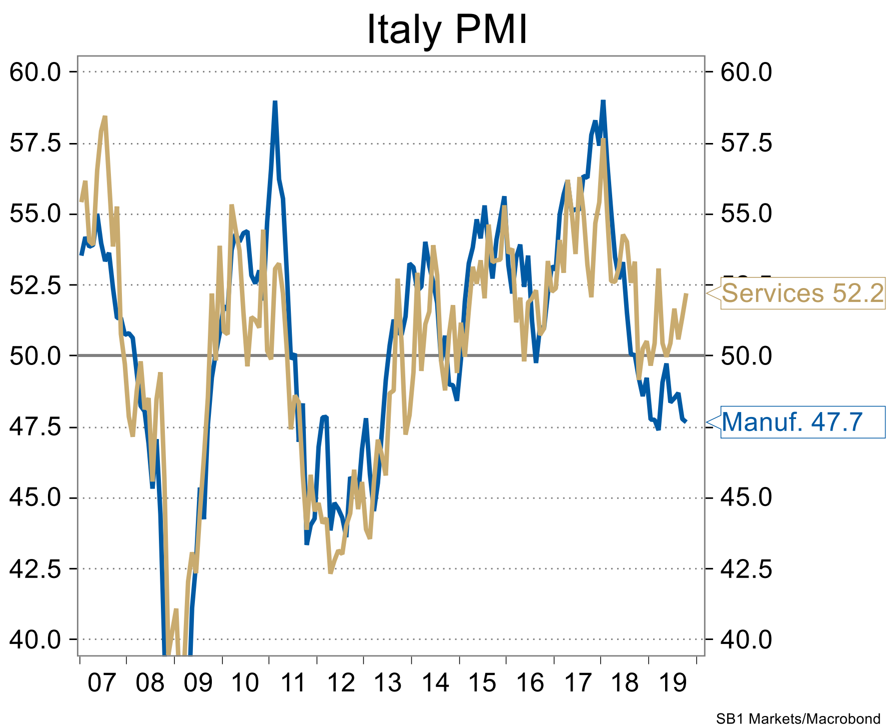
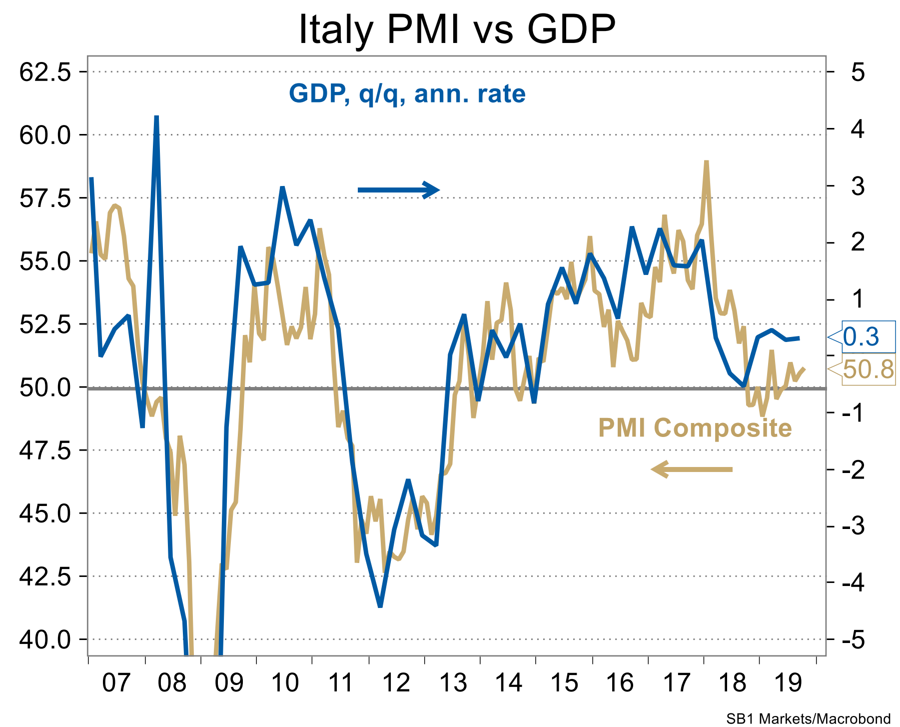
Italy: The composite PMI inches up, thanks to recovering services

The PMI still points to zero GDP growth or worse, dragged down by weak manufacturing

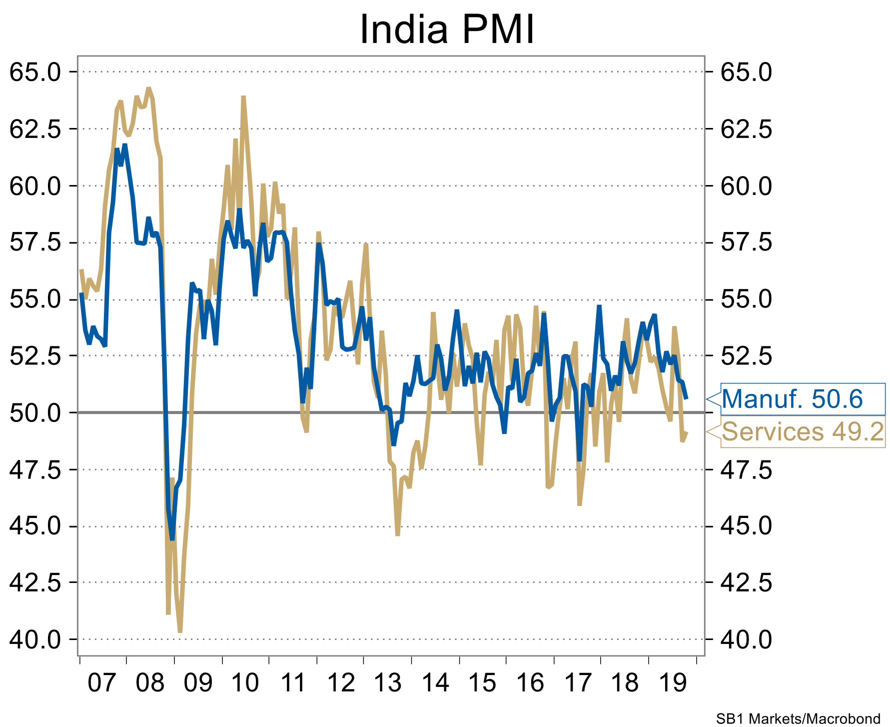


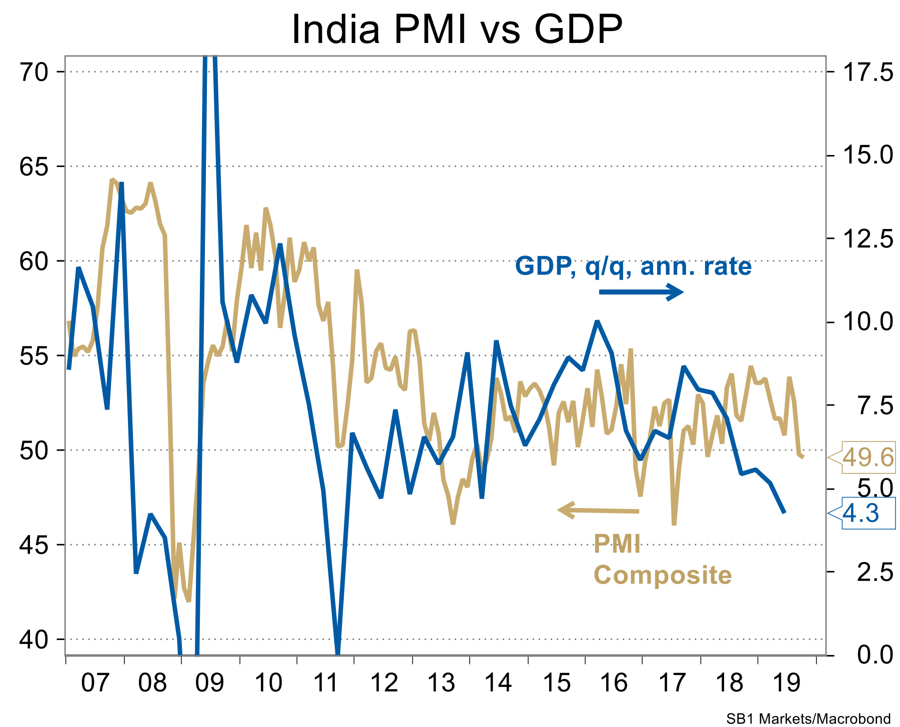


- Composite PMI ticked up 0.2 p in Oct, to 50.8. The PMI has been trending slowly up from the local trough in January but the composite index remains to close to the 50-line for comfort. GDP grew just 0.3% q/q annualized in Q3, the PMIs are not pointing to any upturn (rather, slightly weaker growth)
- The government expects 1.5% growth in 2019, to keep the budget deficit (almost) in check. That's impossible – and the deficit will widen substantially, whatever the new and more and moderate government may decide

Composite PMI steady in Oct, has not recognised the (actual) GDP dip

Services are weaker than manuf., composite PMI indicates higher growth (the direction does not)

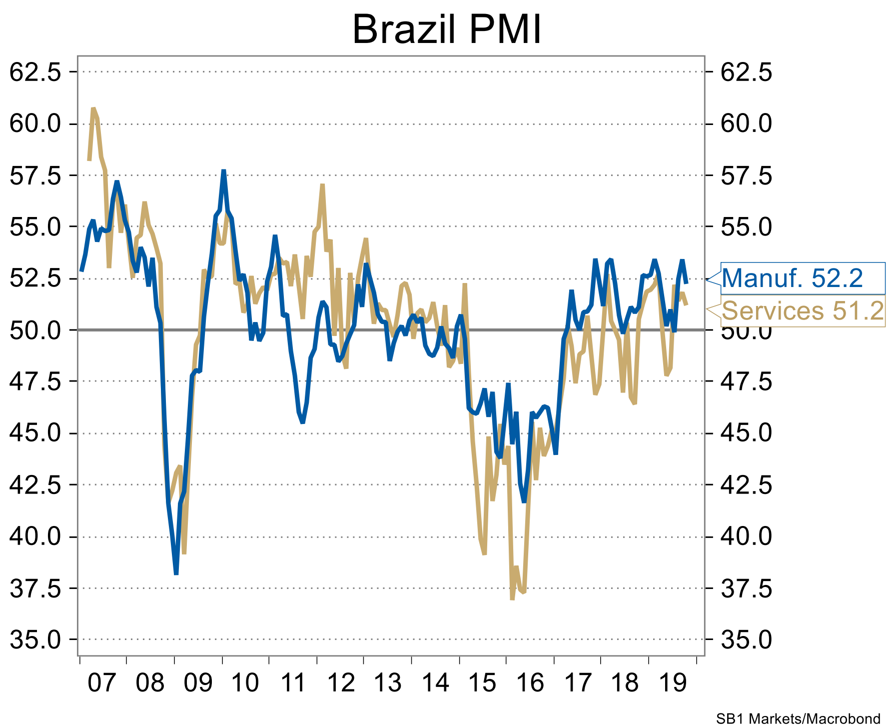


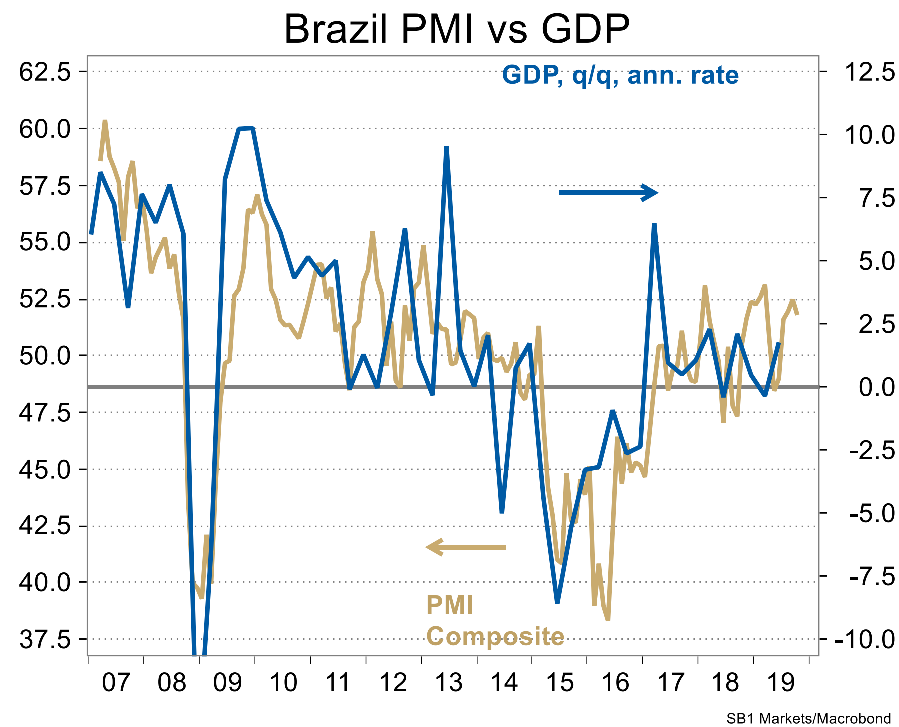


- The Indian PMI is does not correlate well with reported GDP growth. The setback in GDP growth to 4% from 8% the past year has not been detected by the PMI, even as it has fallen the two past months

Composite PMI inched down, still points to a growth upswing

Both manufacturing and services softened this month, none are weak

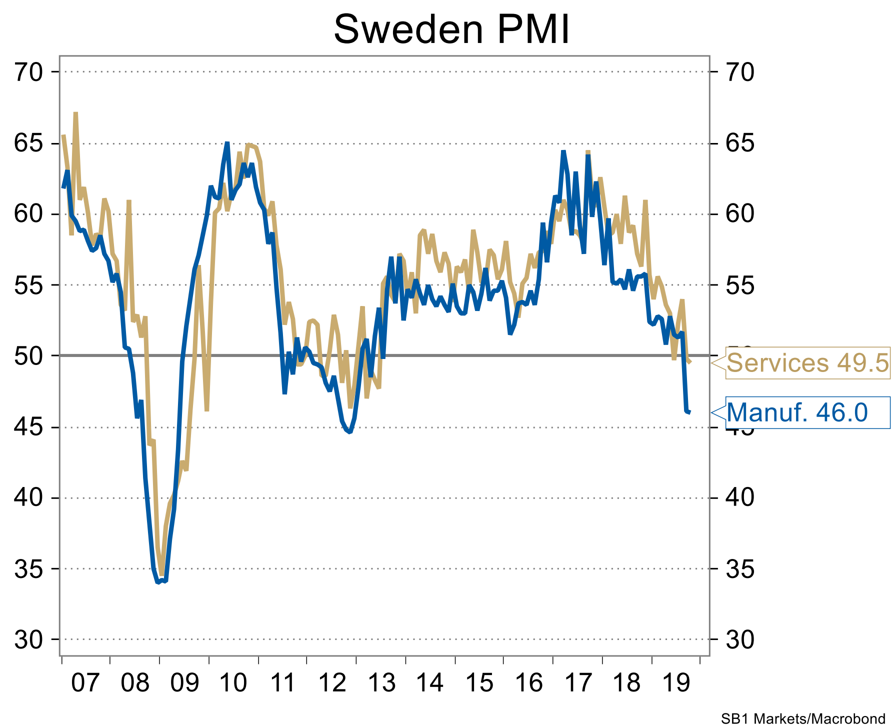


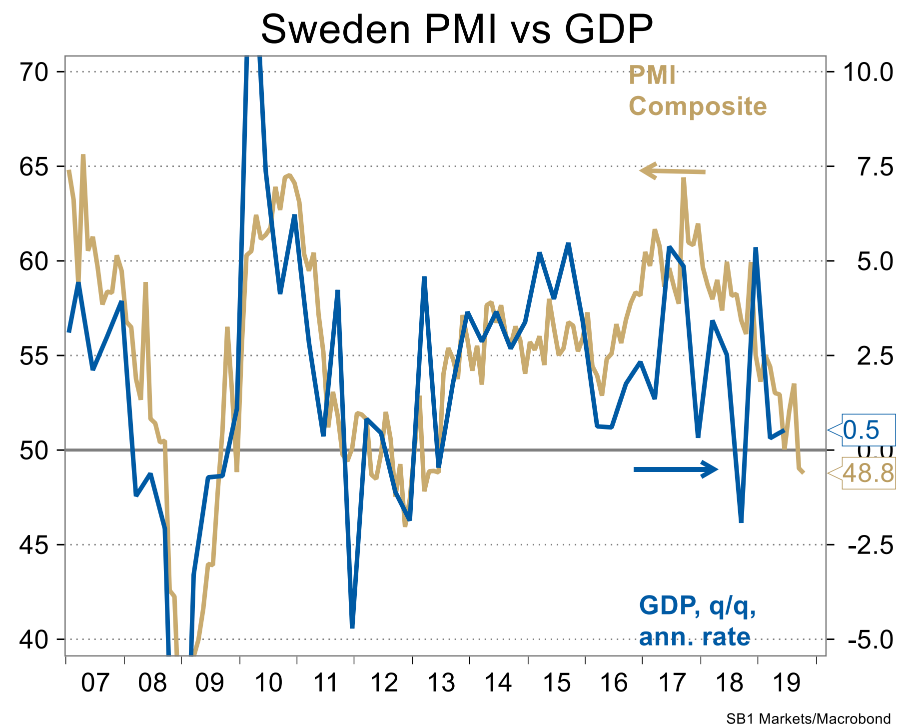


- GDP growth was up 1.8% in Q2, recovering from two quarters of contraction
- Disclaimer: The Brazilian PMI is rather volatile –and does not predict quarterly GDP particularly well but the growth cycle is well represented by the PMI

Both PMIs failed to recover in Oct, following Sept 'collapse'

Both sector PMIs are below 50 and trending steeply down, adding to signs of a steep slowdown

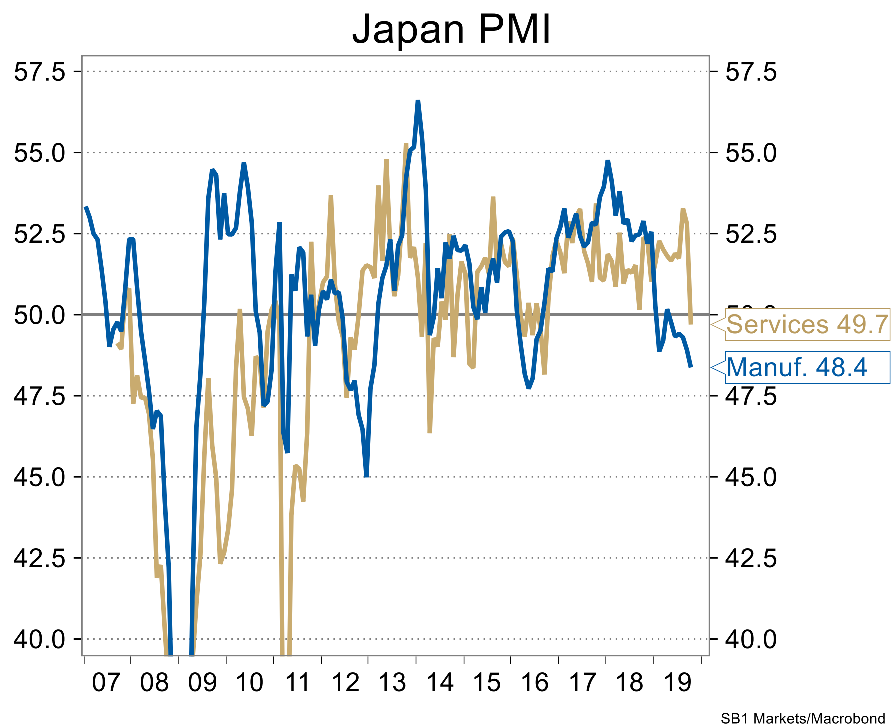


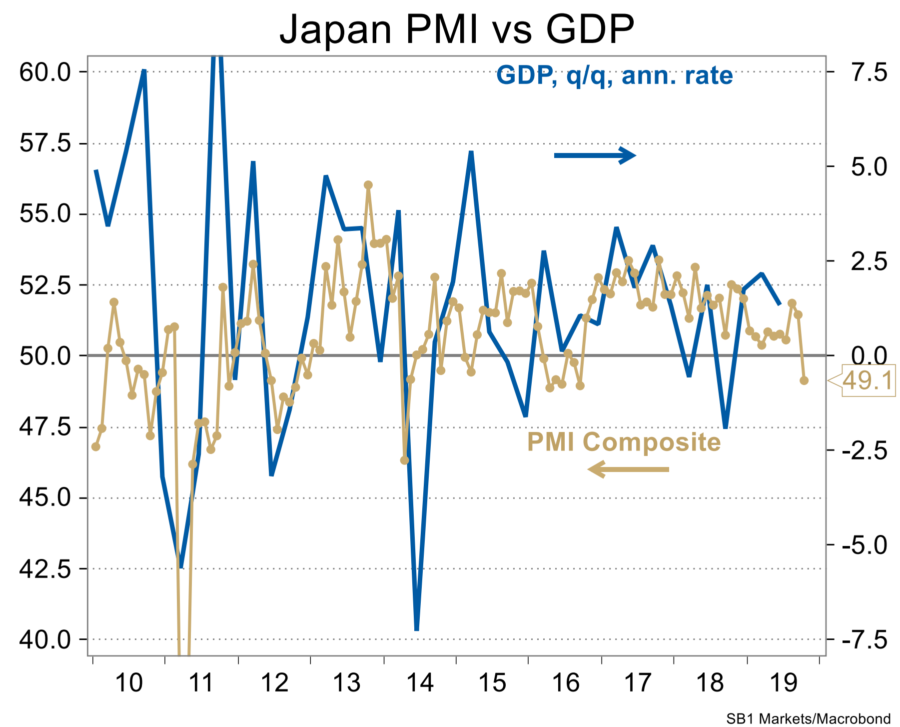


- Manufacturing PMI came down one inch in Oct, services down 0.3 p, both at the weakest levels since the euro crisis
  - » Export orders recovered in Oct (albeit orders are still declining), while domestic orders tumbled. The Swedish economy is hit by global uncertainties but also sharp deterioration of domestic demand, as several other data points indicate
- The composite PMI at 48.8 signals muted economic growth, at best

PMI tumbled in October, on consumption tax hike

Composite PMI slipped to 49.1, services PMI noted the steepest drop since 2014, will be reversed

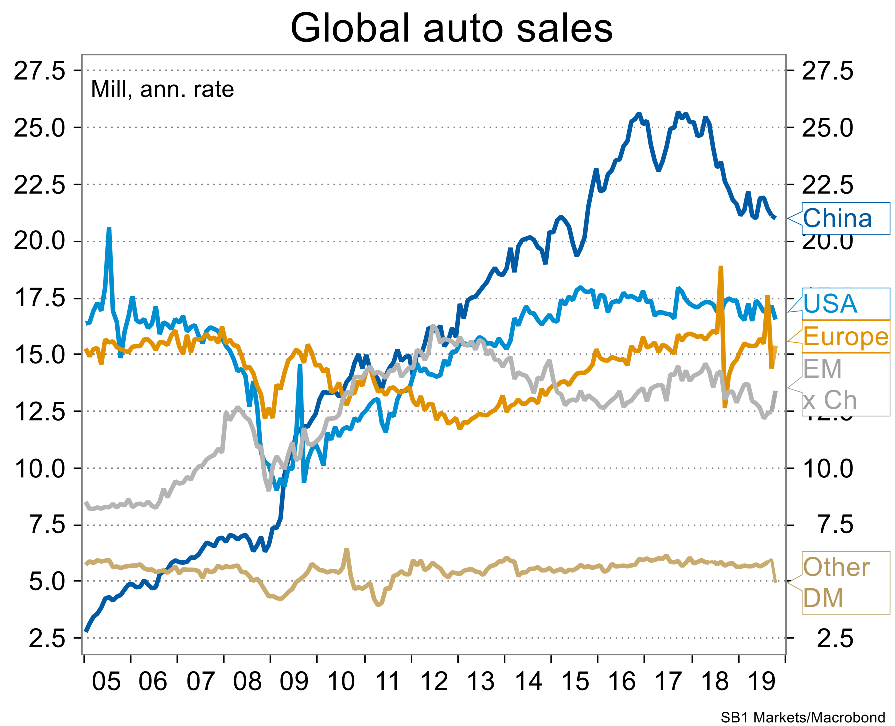


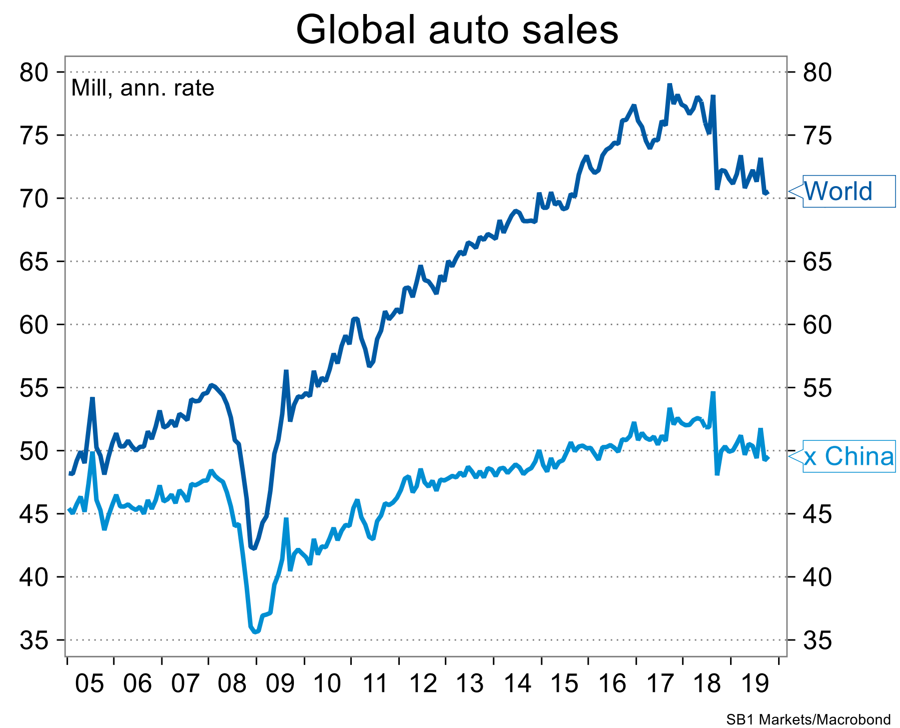


- Manufacturing PMI fell 0.5 p in Oct, to 48.4sliding down recent months. The level is low – but it was lower in both 2016, 2012 and 2011
- The services PMI plunged by 3.1 p, the steepest decline since 2014. The decline is chiefly a consequence of the October VAT increase on consumption, we expect a rebound in a couple months timehe composite PMI dropped to 41.1
- Other Japanese surveys have softened but the avg of surveys was just as low/lower in both 2016, 2012, 2011

Auto sales probably flat at a ‘low’ level in October

European & Indian sales sharply up, Japanese sales down due to the VAT lift

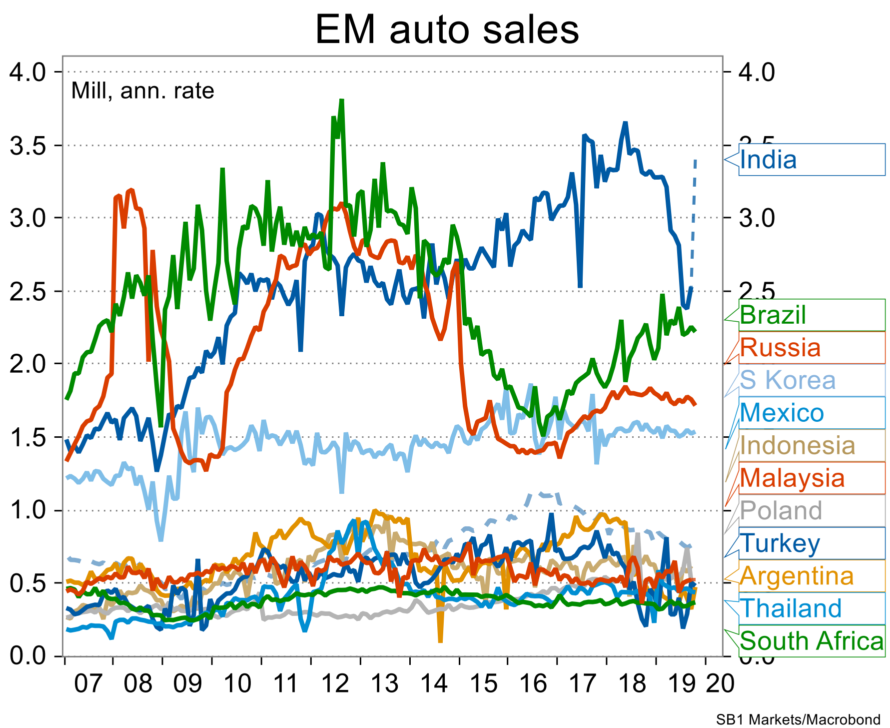


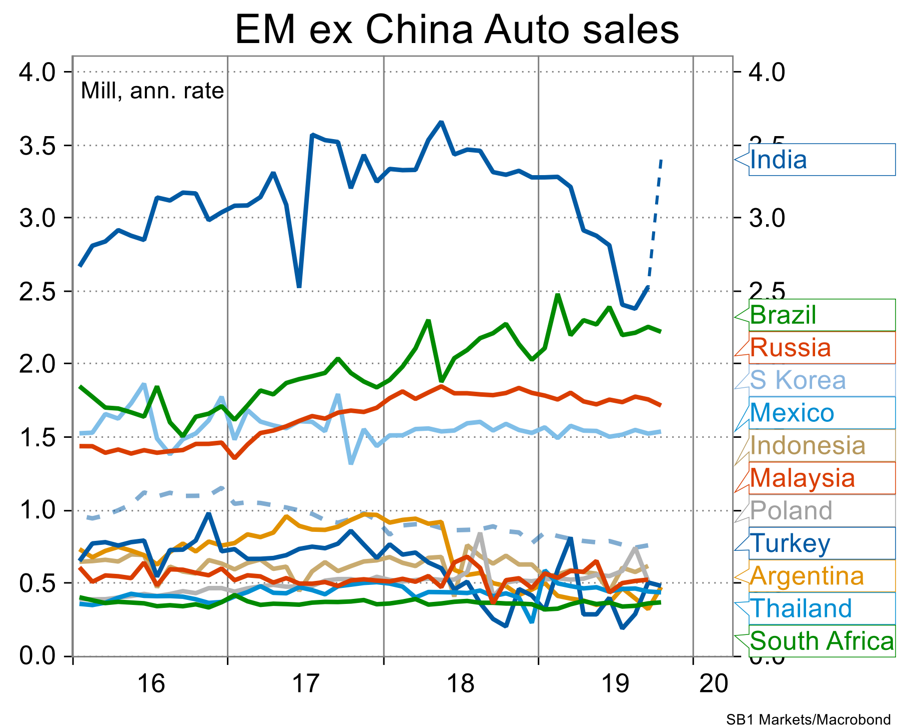


- Global sales unch in Oct, and are down 2% y/y but some 8% from the level last summer. Data are preliminary, also Chinese sales
- Sales in Europe fell sharply from a high level in Aug when inventories for cars complying with old emission standards had to be cleared, with substantial rebates. Sales in Sept were low, but recovered almost fully in Oct. US sales fell more than expected. Sales in Japan fell sharply, due to the hike in the VAT rate from October (included in Other DM at the chart to the left above)
- Chinese sales probably fell further but just marginally in Oct. Sales are anyway trending down – and are down almost 20% from the peak last year
- Auto sales in EM ex. China rose sharply in Oct due to a 35% hike in sales in India (according to media reports, no official data out yet). EM x China sales have been week the previous months, mostly due to low sales in India

Did Indian auto sales recover fully in October??

Some media reports say so due to much higher Maruti sales – but no official data out yet





- Indian sales rose 35% m/m in Oct, and the 3.5 mill level (annual rate) is close to the record high level in early 2018
- Brazilian sales have flattened. Russia is still trending slowly down. Sales are sluggish in South Korea & even more in Mexico. Sales in Turkey are up the recent months

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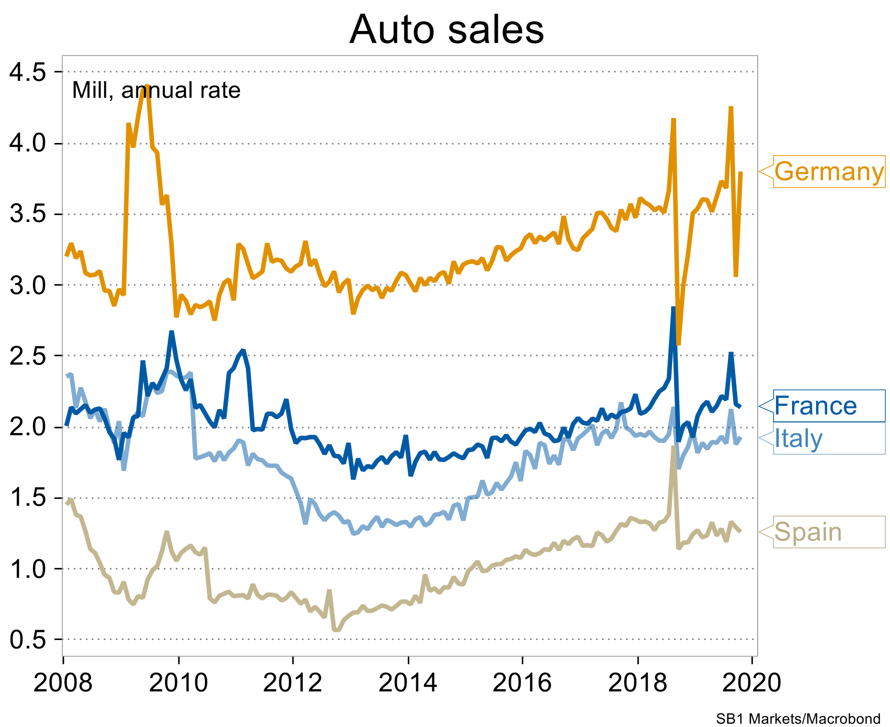
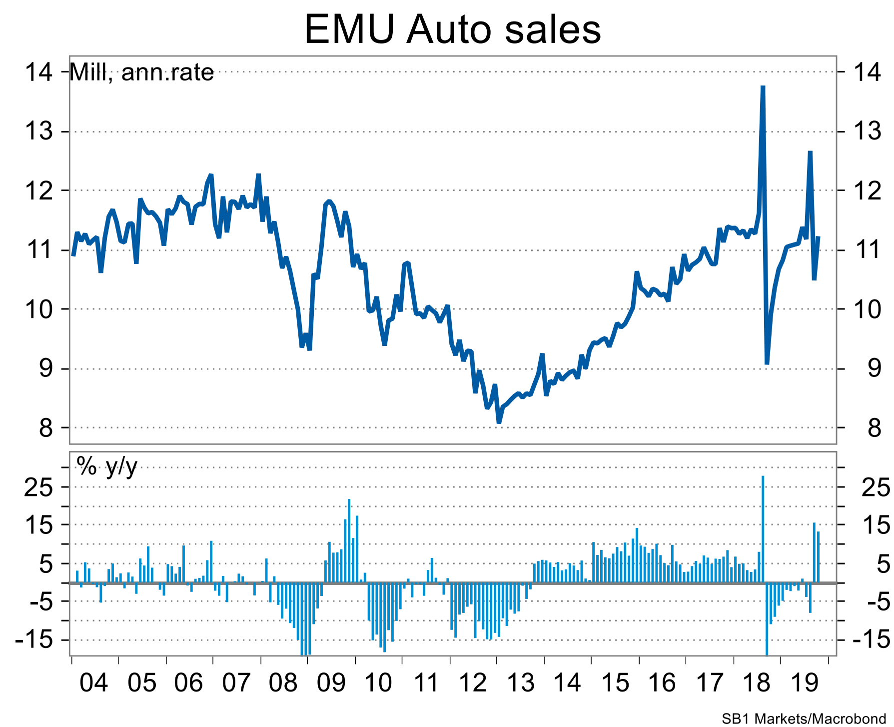
German sales straight up in Oct, total EMU sales almost back on track

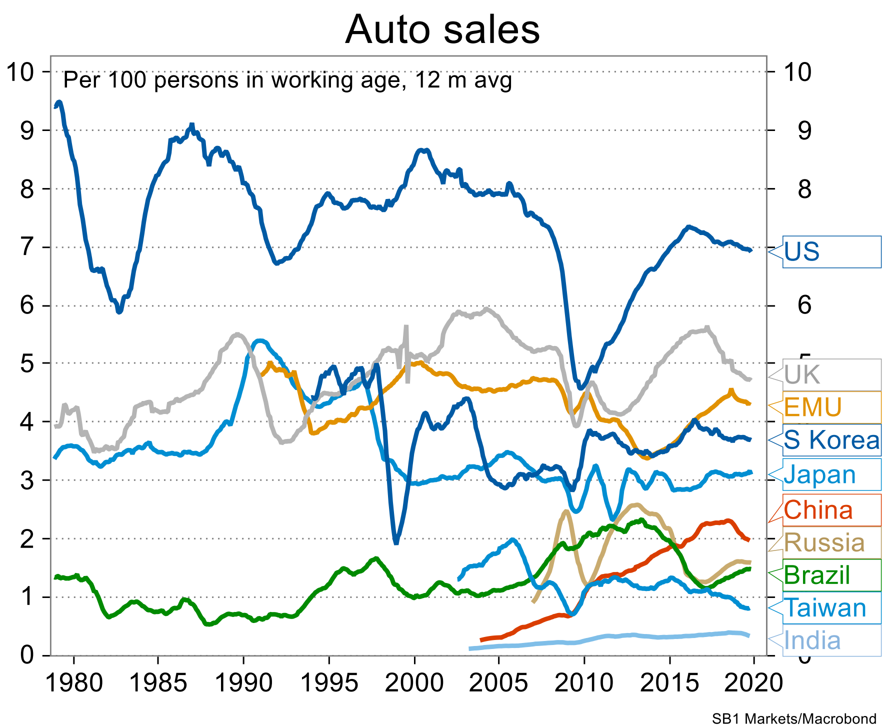
German sales record high (barring policy actions), total EMU sales marginally below 'normal'

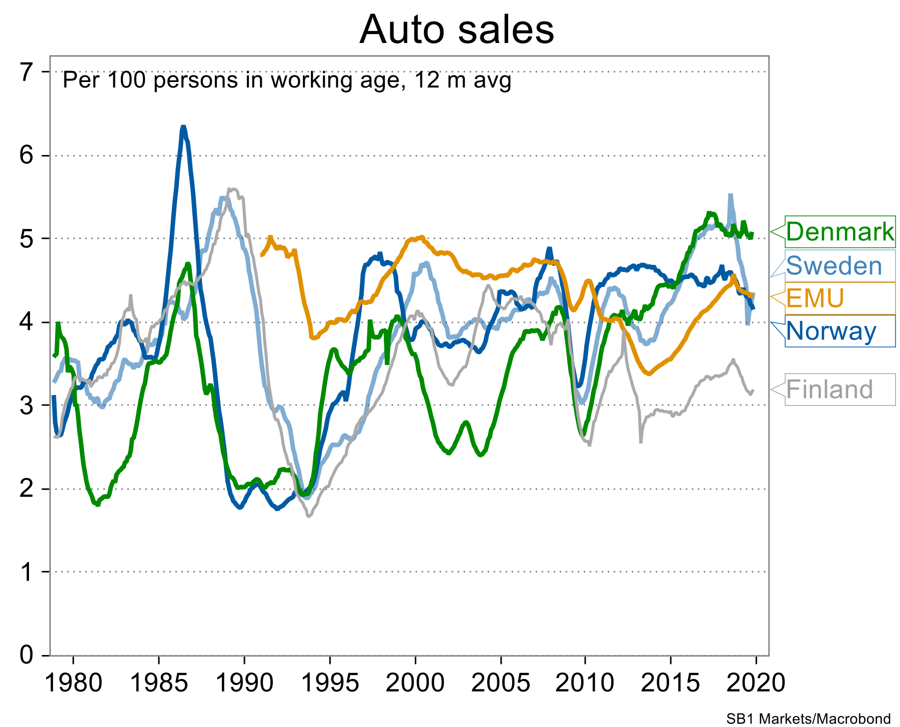




- German sales rose sharply in October, following the decline in Sept when the introduction on new emission standards slowed sales sharply. Oct sales were the highest ever, barring the record sales in 2009, when taxes were cut temporarily and the spikes in Sept '18 and '19 ahead of tighter emissions standards
- In other countries, sales were close to flat in Oct, however from Sept levels that were not that specifically weak (as they were in Germany
- We forecast a 7% m/m increase in total EMU sales, and a 13% increase from Oct 18 (where sales still were low following the Sept rule tightening. Still, we assume sales to be trending slowly down in the EMU, as in the US

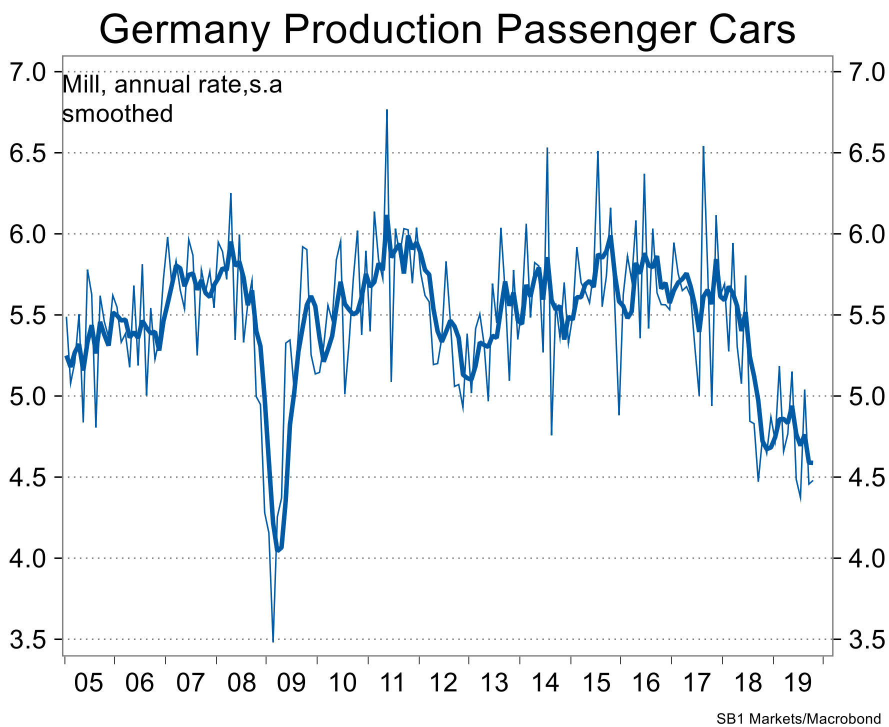
Sales are sagging almost everywhere – in the Nordics too

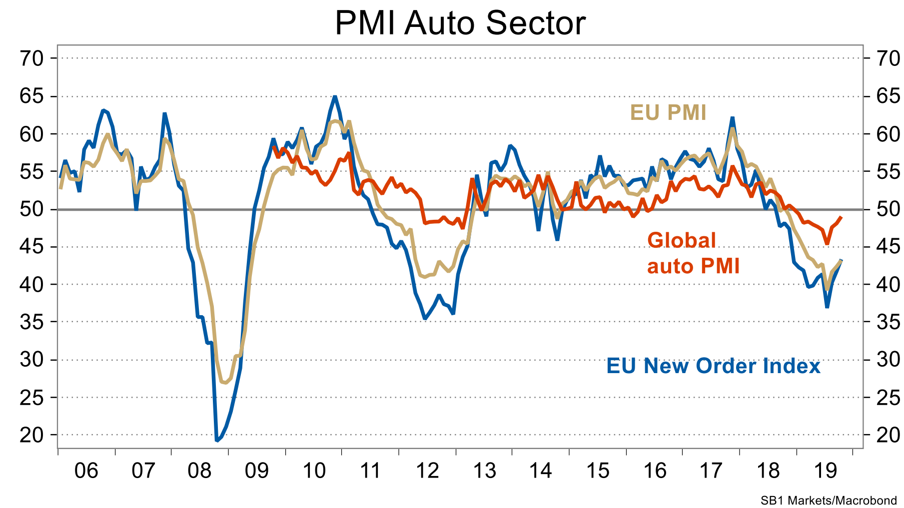


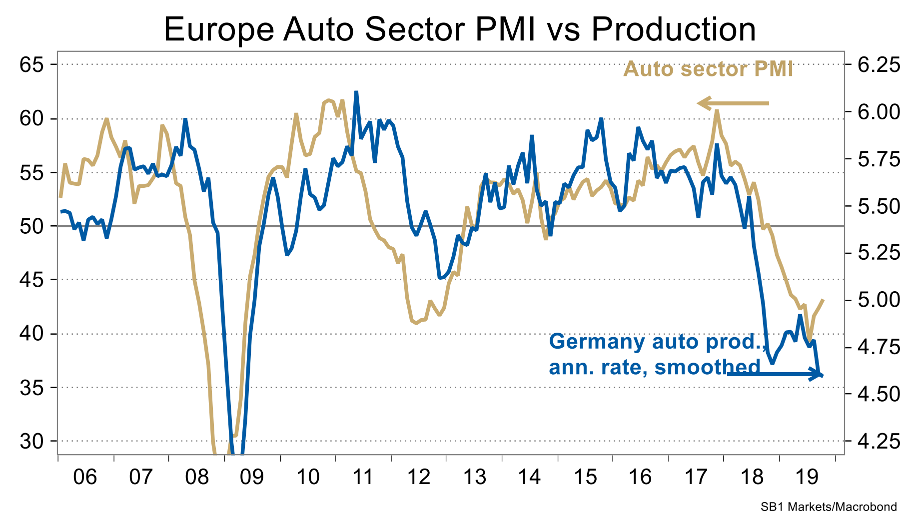


German auto production remained in the doldrums in October

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



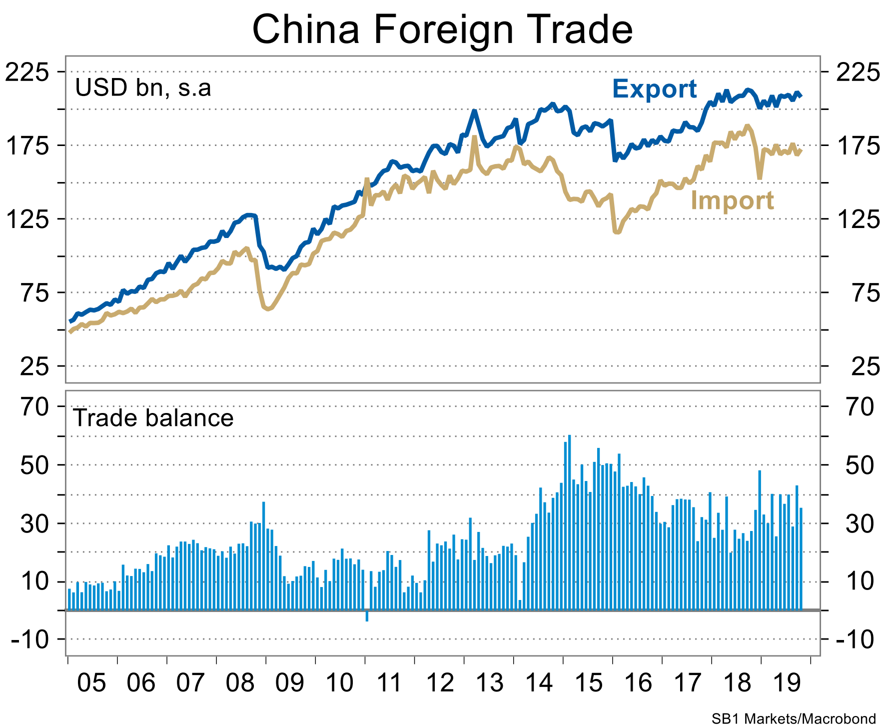


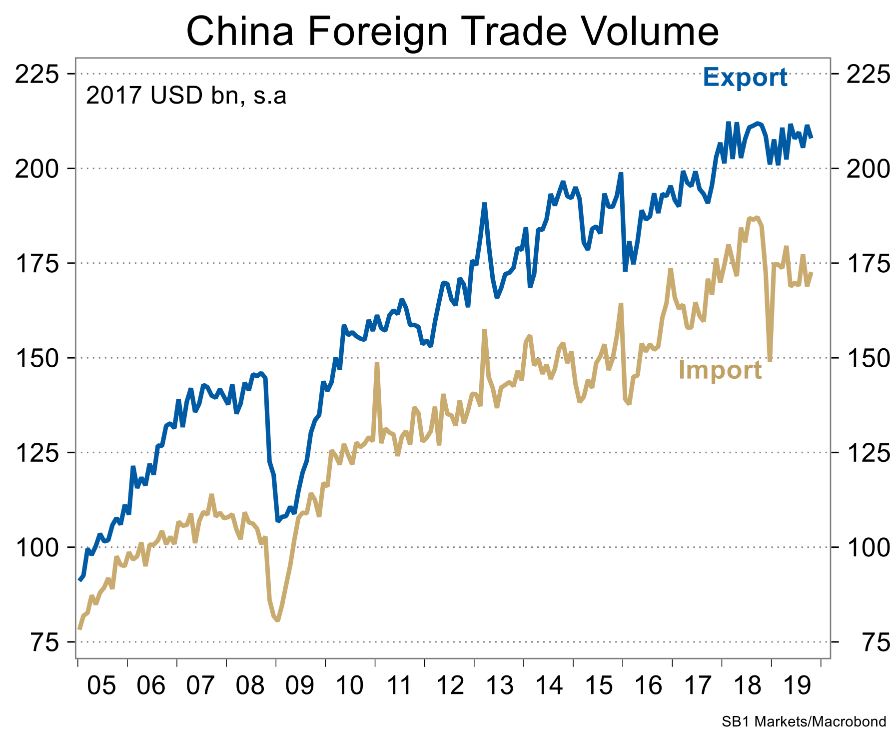


- German auto production is down approx 20%, an incredible number, given auto sales in Germany, EMU or even the world, which have fallen far less than 10% from the peak
- The European auto sector PMIs are not reporting any recovery. The European auto PMI is much weaker than the global auto PMI

Exports are trending up, imports are flat, none are signalling any crisis

Exports have been climbing since Dec '18, both in value/volume, import volumes slightly weaker





- Exports were reported down 0.9% y/y in USD in Oct, a milder decline than expected. Exports fell 1.7% m/m but have been trending up since the local bottom last Dec. If exports keep up at the current level in spite of the trade war, China will soon report growth y/y. Export volumes are heading up too and the trend is more or less flat since early 2018, when the trade war started, down 1.4% y/y (smoothed)
  - » Exports to the US fell further and have fallen 20% since 2018 (equalling 4% of total exports). Exports to other regions have compensated most of the decline in export to US, especially to the rest of Asia. Still, growth has slowed in most directions
- The 'headline' figure on imports is a 6.4% y/y decline, less than expected. However, imports rose by 2.5% m/m in October. The trend is quite flat recent months. In volume terms, imports are down 7.4% y/y (smoothed), a substantial decline but not that unusual – and import volumes are not far below a reasonable long term trend line. Hence, imports do not signal a sharp weakening of domestic demand
- The trade surplus shrank to USD 35.5 bn, lower than expected. The surplus has widened slightly since mid-2018

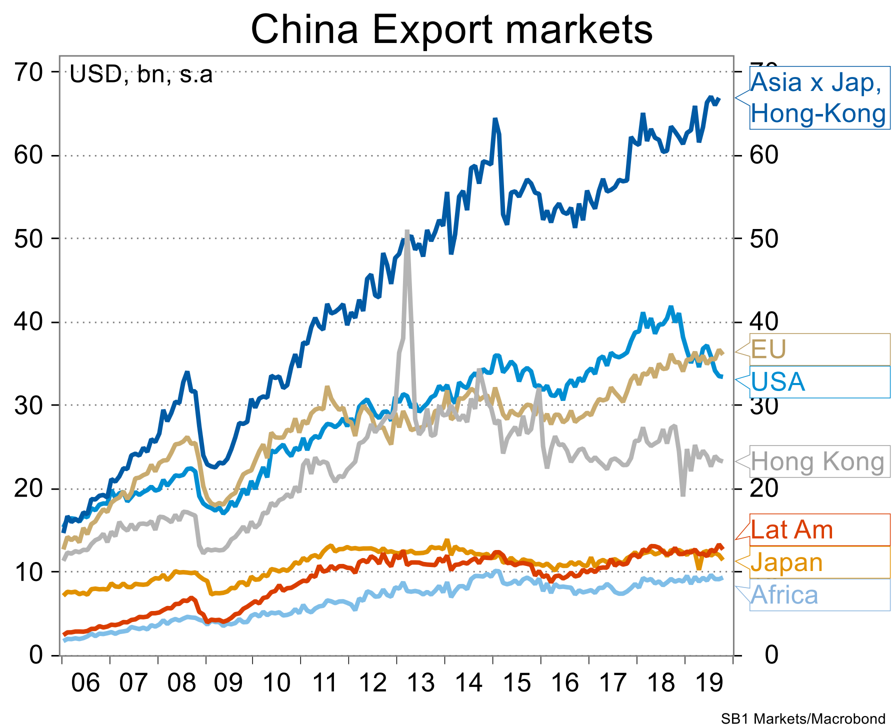
Export surveys are signalling a modest decline in exports, no collapse

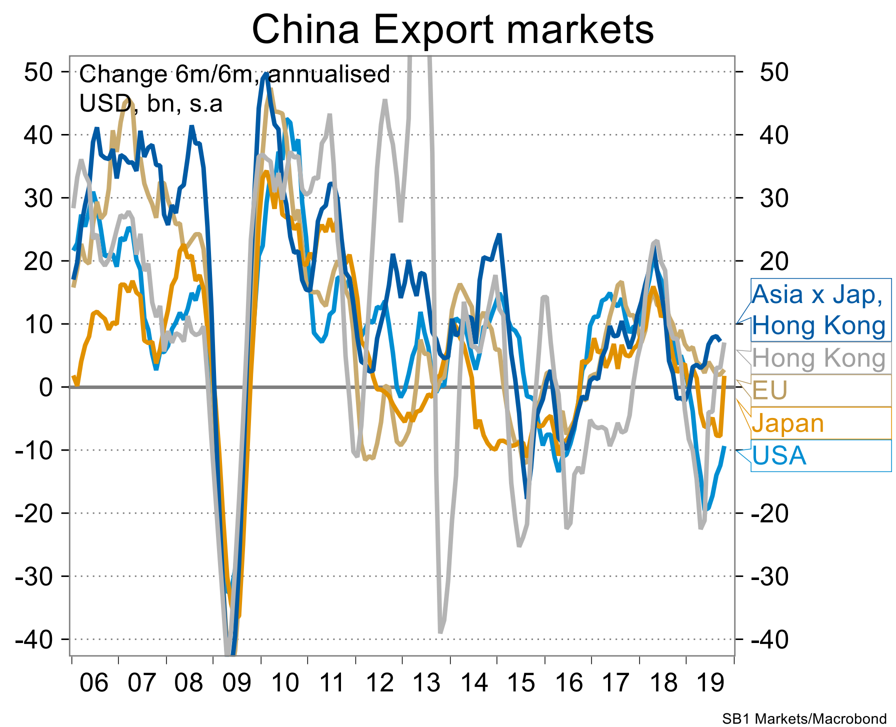
A slowdown/marginal decline has been signalled, as in 2011, ’12, ‘13, and ’15/16

- .. And actual export volumes fell in 11/12, were flat in 13 and fell in 2015 – without creating huge problems in the Chinese economy
- Now, exports are slightly down y/y but has been trending up since last December

Exports to the US down 20%, but there is a ROW

Exports to H-K have fallen too, while exports to most of the rest of the world are still on the way up

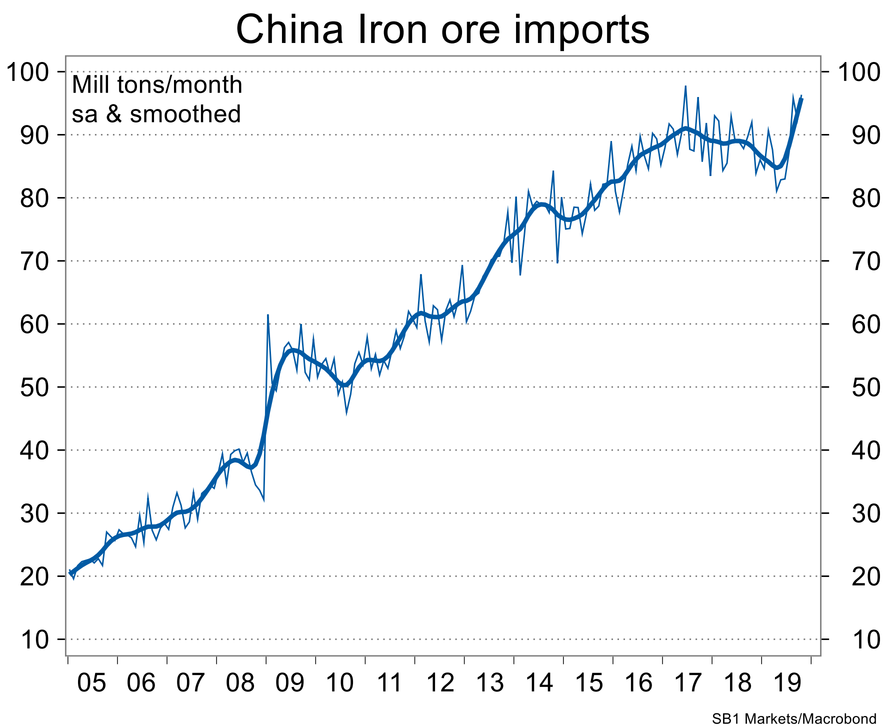


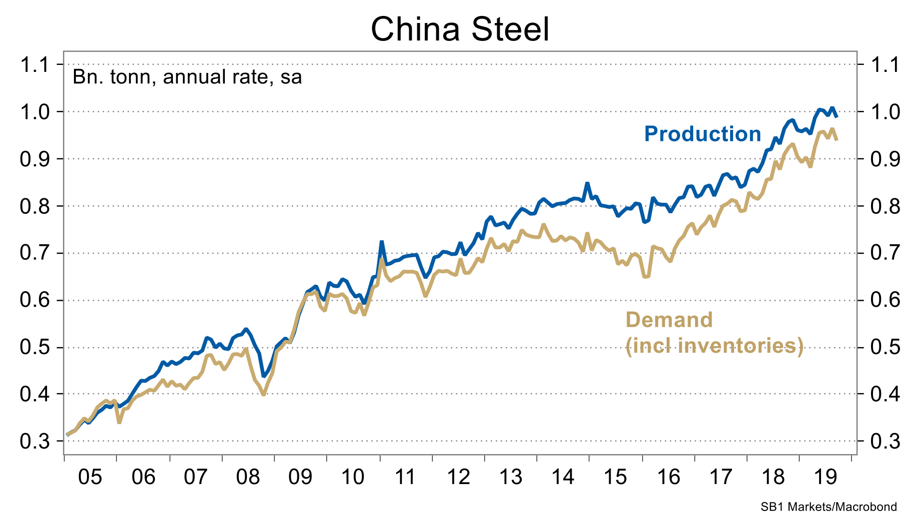


- Exports to the US are hurt by the tariffs, down some 20% from the peak in early 2018, equalling 4% of all Chinese exports. Tariffs were lifted substantially from Sept 1 and more tariffs are planned to be implemented in Dec (China and US apparently have agreed to gradually reduce tariffs as the trade talks progress, time will show). A further decline in exports to the US is expected, for now
  - Exports to the US equalled 18% of total Chinese goods exports before the tariffs (now, 16%), and exports to EU 16%, rest of Asia 48%
  - Total exports equal some 20% of GDP, exports to the US 3.6% of GDP – now down 20% from the peak, subtracting ¾ pp from GDP growth (however, dampened by lower need for imports as inputs for these exports, and the impact of redirections of exports to other countries)
  - The real economic risk for China & elsewhere: Trade rule uncertainty is hurting investments as companies may postpone investment decisions until the dust settles – and both Chinese and foreign company are reallocating from China to other countries. Some households may become worried too

Iron ore imports back to all time high

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

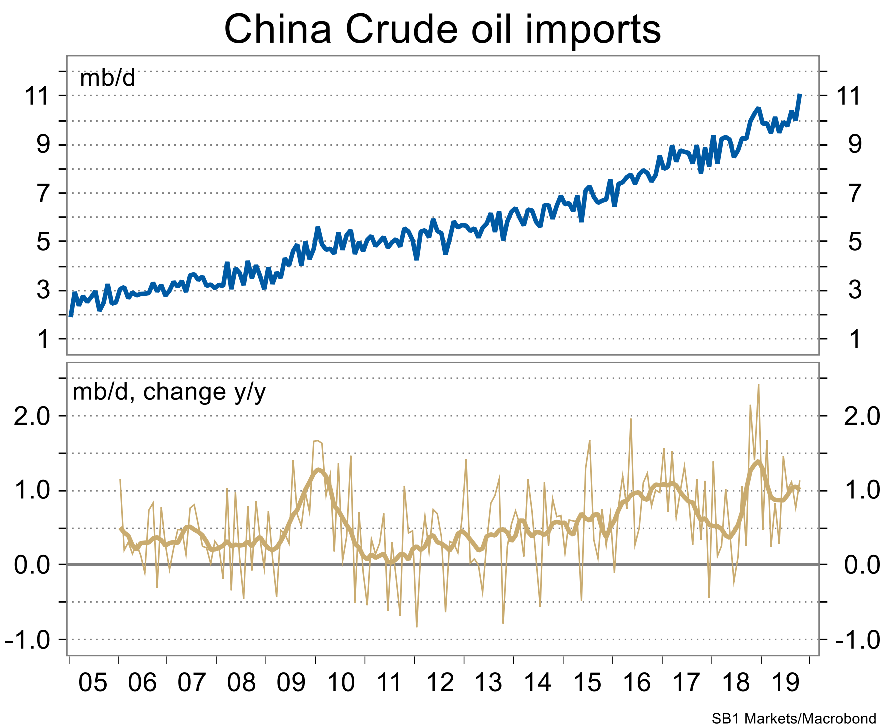


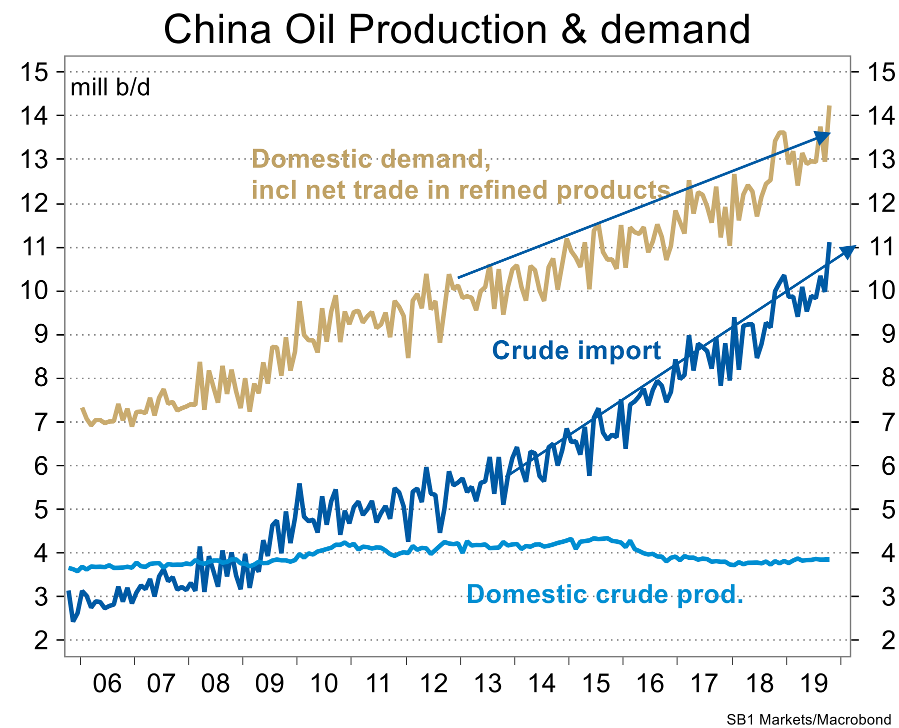


- Iron ore imports were dragged down in the spring, due to production problems in Brazil. Following a 15% surge in the summer/autumn, imports are at a record high levels – which is needed, given a record high level of crude steel production (and record high domestic demand)
- Net steel exports equals some 6% of Rest of World production, probably too high. However, 3 years ago it equalled 13%!!

Oil imports (and ‘demand’) soared in October

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

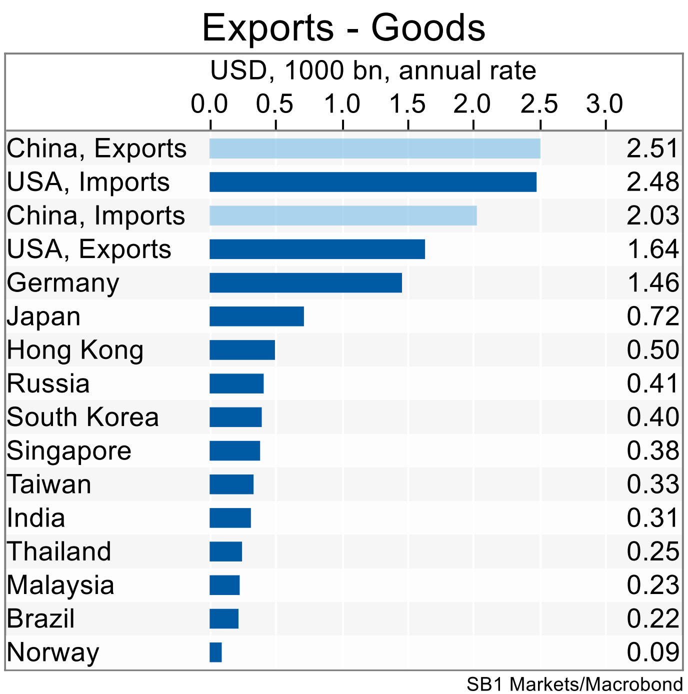


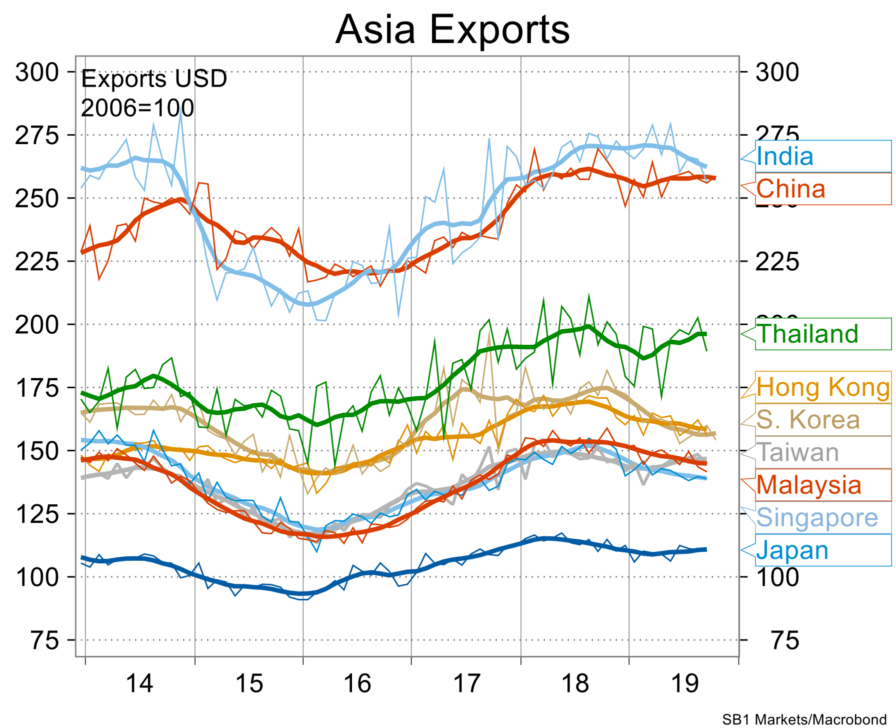


- Crude oil imports are up 1 mill b/d y/y, higher than ‘normal’

Not many bright Asian export spots

Exports from Thailand, Taiwan, Japan are trending up, all others x China are slowing

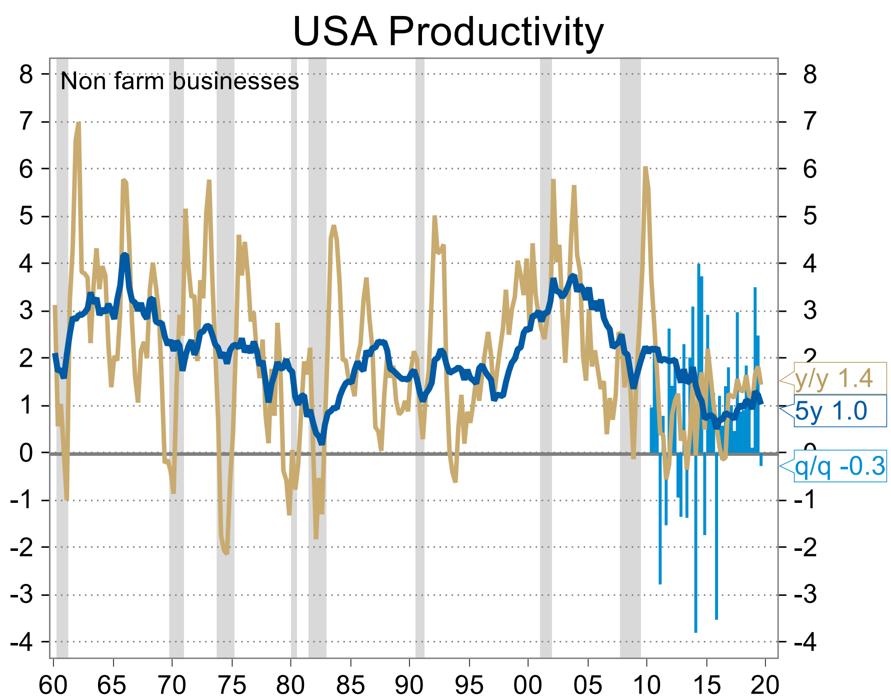




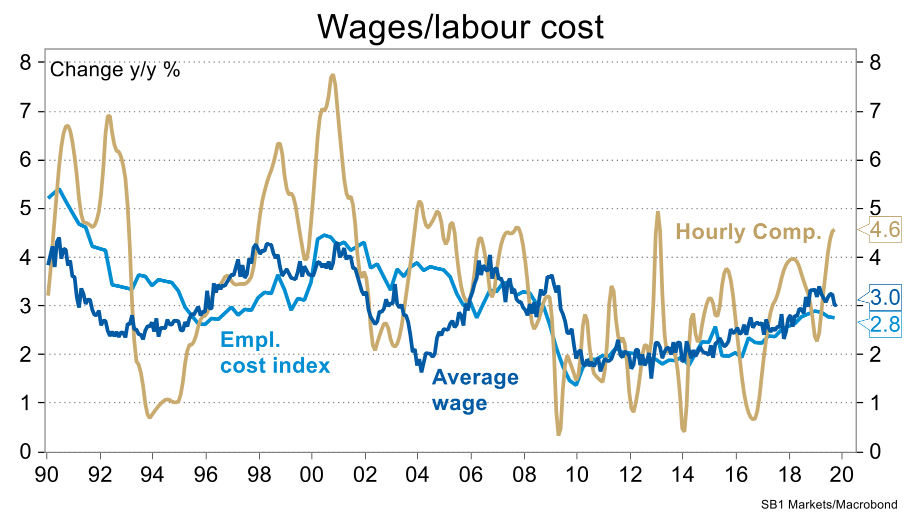
- China is of course the world's biggest export country (55% larger than the US!) – and the 2nd biggest importer!
  - » China will probably take the pole position in imports too, in some few years time

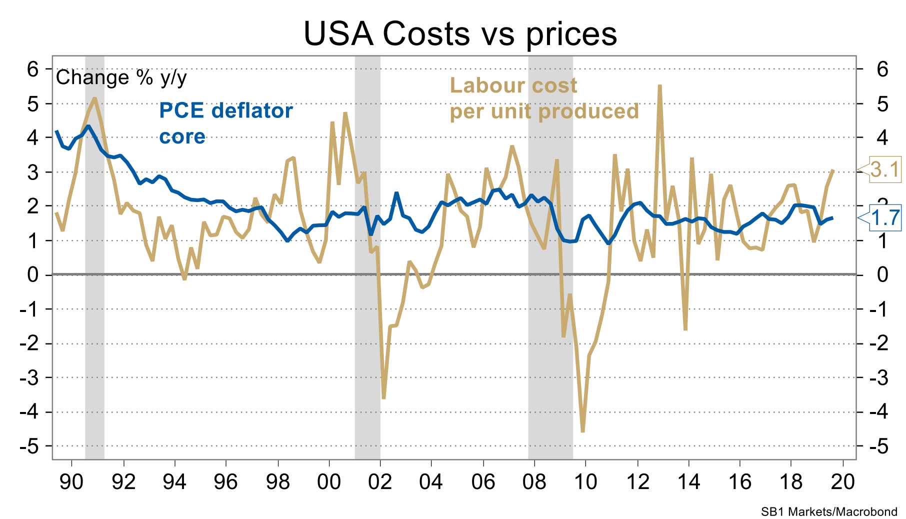
Productivity growth muted in Q3, upward trend still intact, cost infl. is high!

Productivity fell 0.3% in Q3, annual growth eased to 1.4%; cost pressure is building, ULC at 5 y high



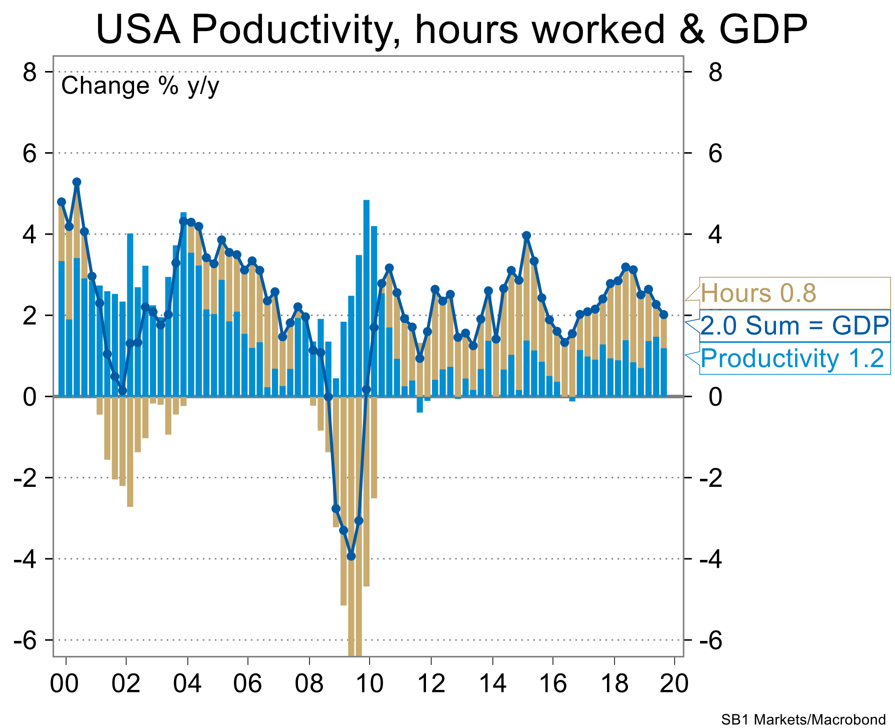
- Productivity fell by 0.3% q/q annualised in Q3, weaker than expected. The annual rate slowed to 1.4%, from 1.8%, still trending up. The 5 y average is inching up too, to 1%. **Good news, of course**
- On the other hand: **Labour cost inflation is increasing**, unit labour costs rose 3.6% q/q in Q3 and by 3.1% y/y, the fastest speed in more than 5 years. Cost pressure must be building up, taking its toll on corporate profits. The profit rate is declining sharply
- **Underlying wage inflation is approx. 3%, and underlying productivity growth at just above 1%. <u>Underlying ULC inflation is probably approx 2%, like we have assumed for a while</u>**

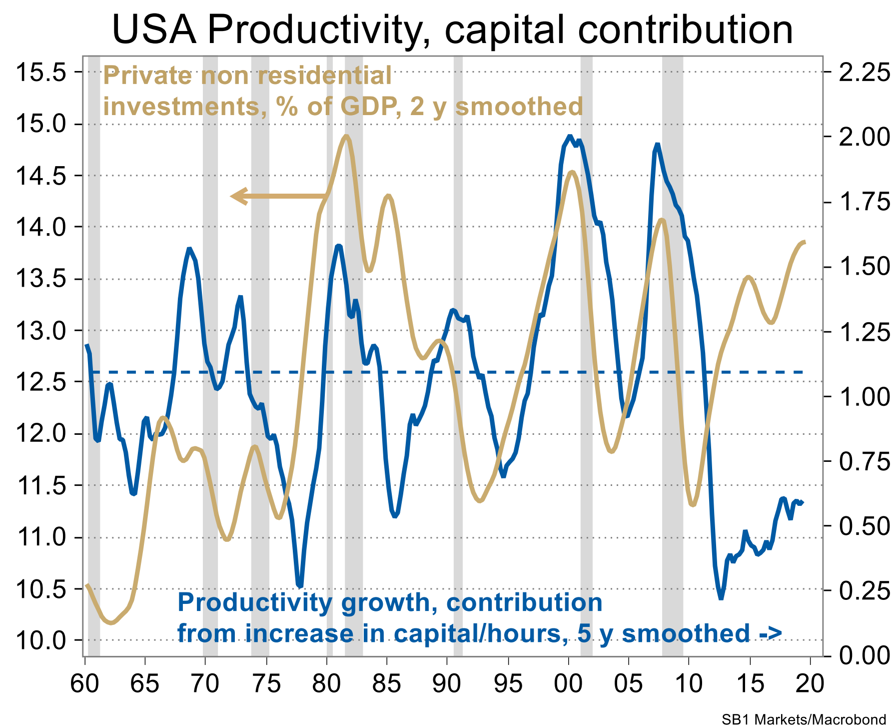




Total economy labour productivity growth eased to 1.2%, hours worked steady

Total factor productivity is not accelerating much, even if investments are high





- Total economy 1.2% productivity growth + 0.8% hours worked = 2.0% growth in GDP y/y in Q3
  - » Growth in hours worked has been higher than likely over time (which is normal boom periods). Since Q3 2018, growth has been slowing mostly due to weakness in overall demand. In Q3, growth in hours was unchanged at 0.8%
  - » Productivity growth at 1.2% y/y is still not impressive
- A substantial decline in productivity growth since 2005 is due to a slowdown in capital deepening, leading to a much slower growth in capital/hours worked (the workers are not supplied with more capital to make them more productive). Growth in capital/hours worked remains low, even if business investments are quite high, which is rather strange, *check next page too*

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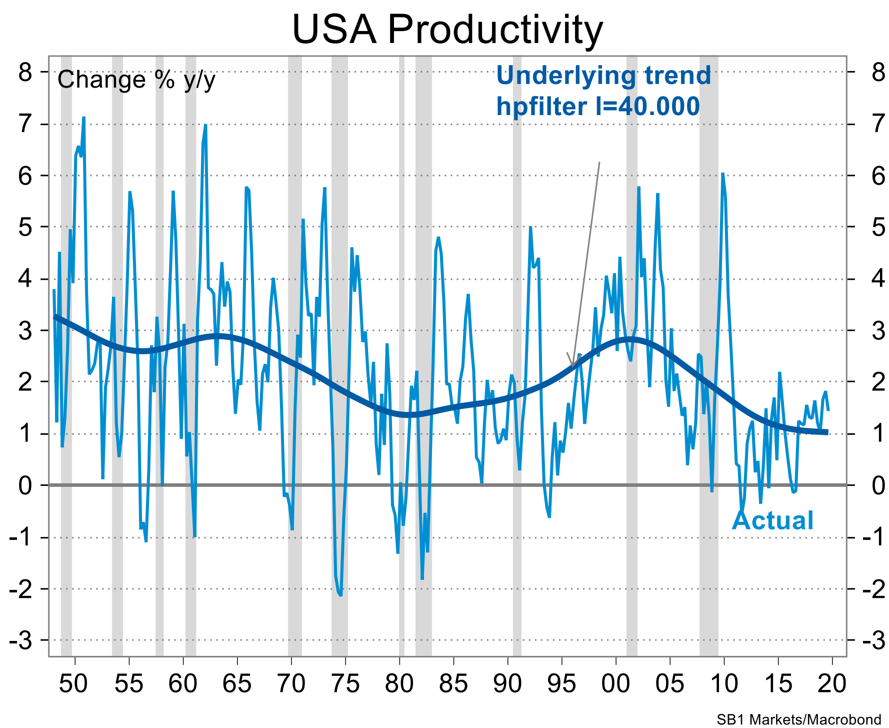
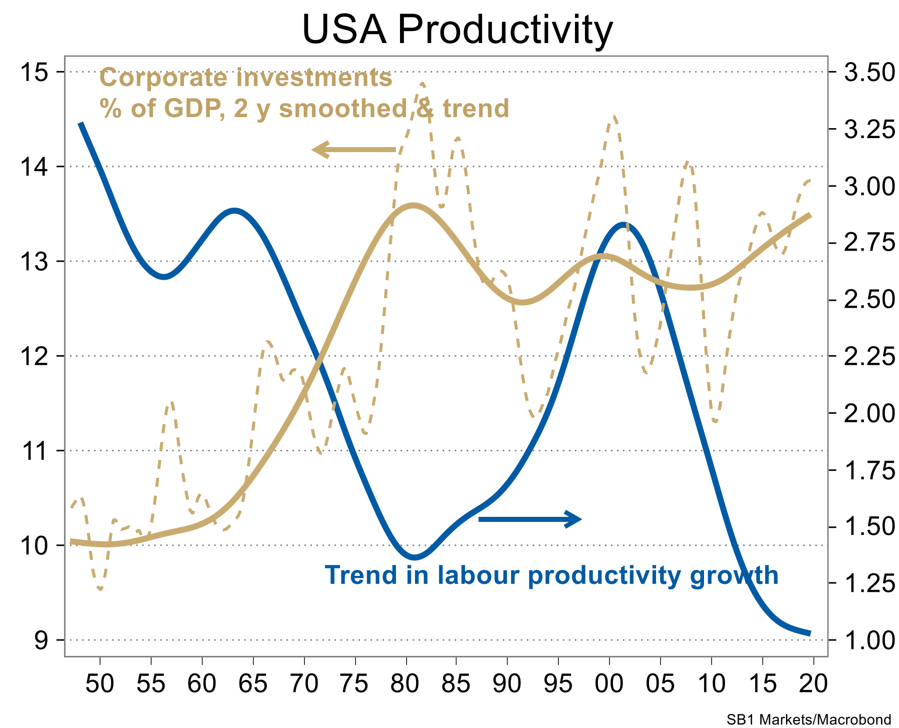
Where is the trend productivity growth? The most important figure…

It is, per definition, impossible to know in real time where the long term trend is





What is the underlying labour productivity growth now? We do not for sure know before well after the fact. We (always) have three alternatives:

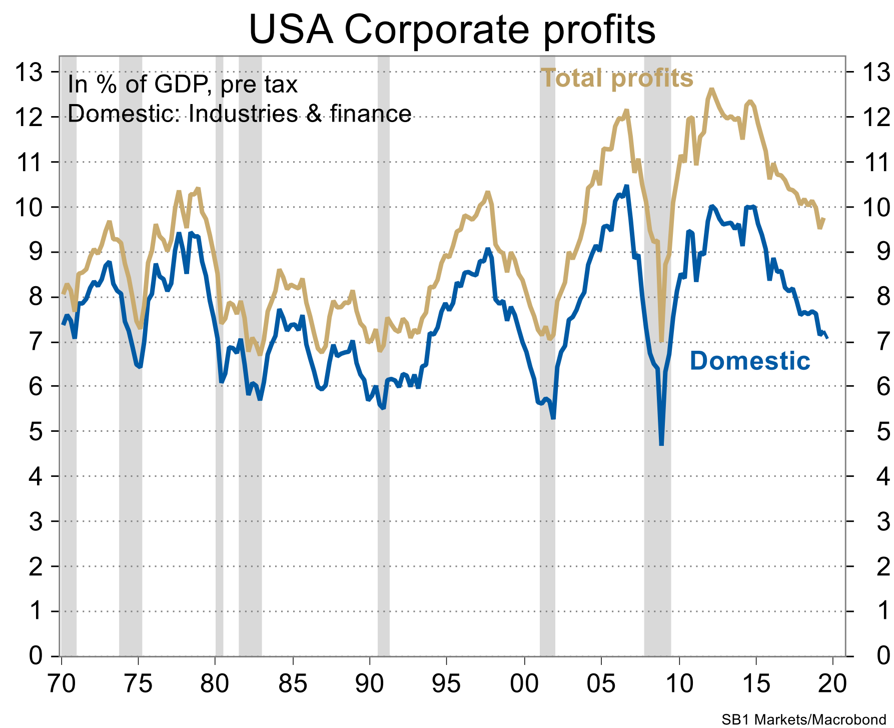
1) A normal short term impact due to a faster GDP-growth (hours worked is adjusted over time)

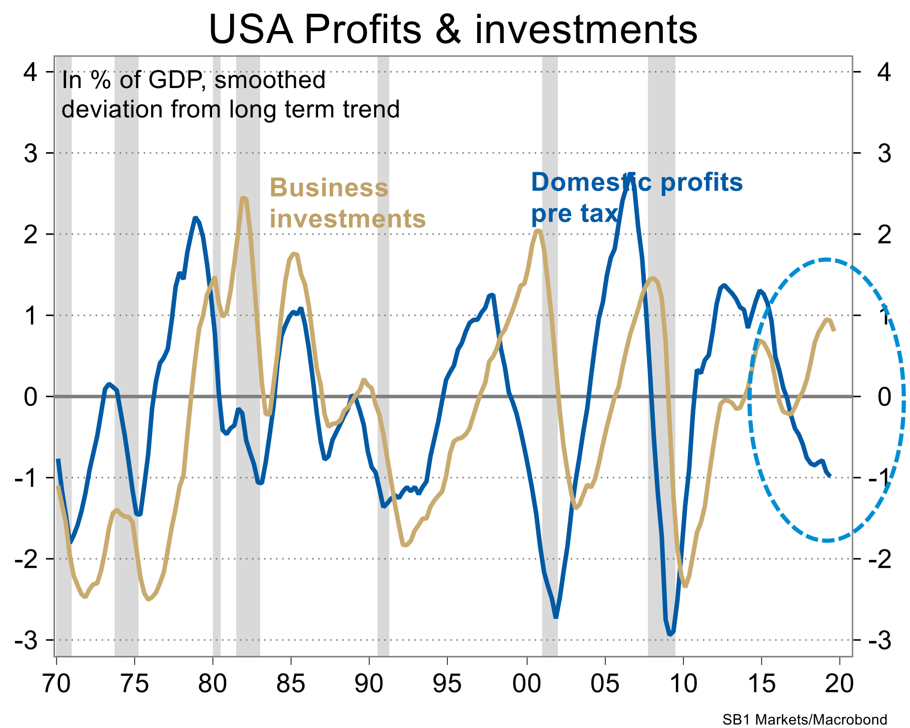
2) A medium term increase in productivity due to lack of labour and higher wages that incentivise companies to rationalise by utilising and investing in known technology, methods

3) A longer term in productivity growth due to a structural recovery and implementation of new and more efficient technologies, possibly embedded in investments. However there is no close correlation between the smoothed investment ratio and trend in productivity growth

Cost inflation higher than price inflation – and profits are under pressure

The profit cycle turned in 2015, and pre tax profits are not high anymore. Investments exposed?

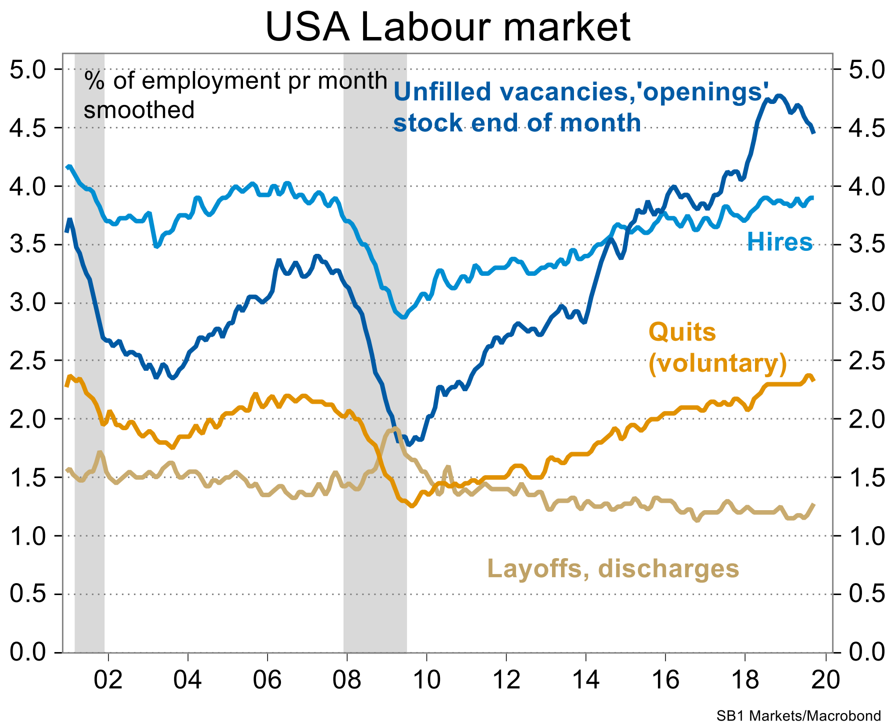


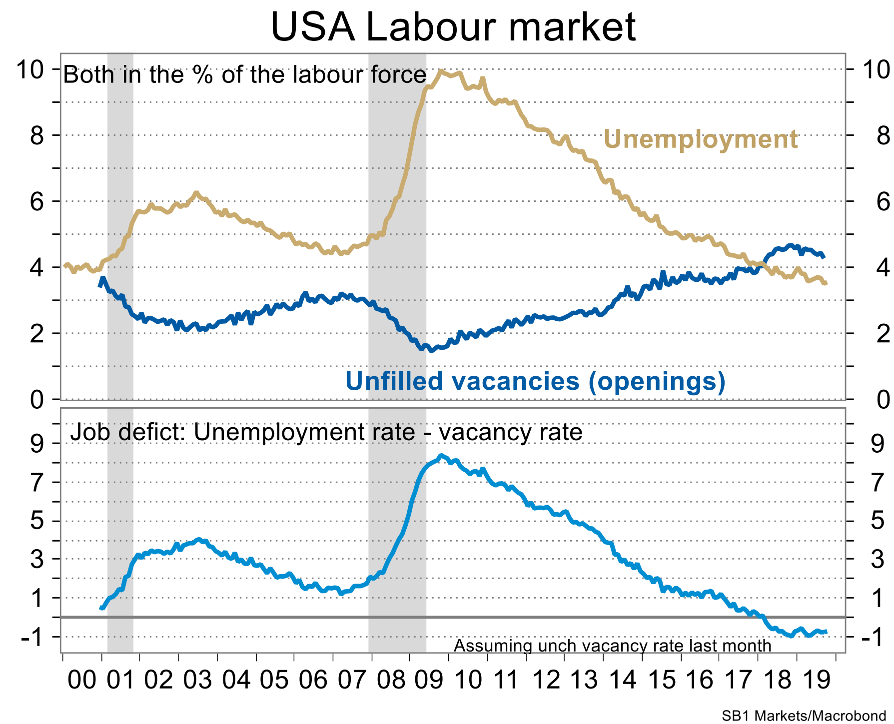


(Q3 domestic profits/GDP ratio our estimate)

Unfilled vacancies are sliding down, an early sign of a cooling labour market?

The number of people leaving their job voluntary is still high but layoffs may be heading up





- The September JOLTS report suggests that the labour market is starting to slowly cool off as the economy slows, job openings (unfilled vacancies) are coming down from the peak. The level remains high and the labour market is no doubt tight; there are still more unfilled jobs (4.4%) than unemployed people (3.6%). Monthly (gross) hiring equals 3.9% (of total employment) and is still increasing just marginally, a sign of a strong demand for labour
- The number of voluntary quits is rising marginally, at a very high level – as many employees leave for better (paid) jobs
- Layoffs are still at a very low level, however, September noted the third month of increase (even if it used to be a lagging indicator)

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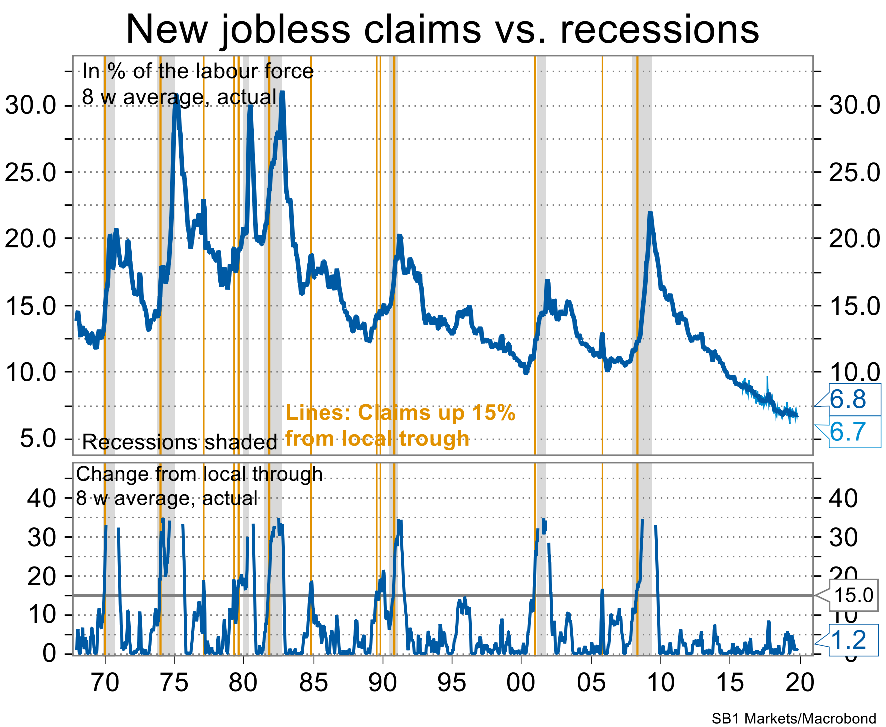
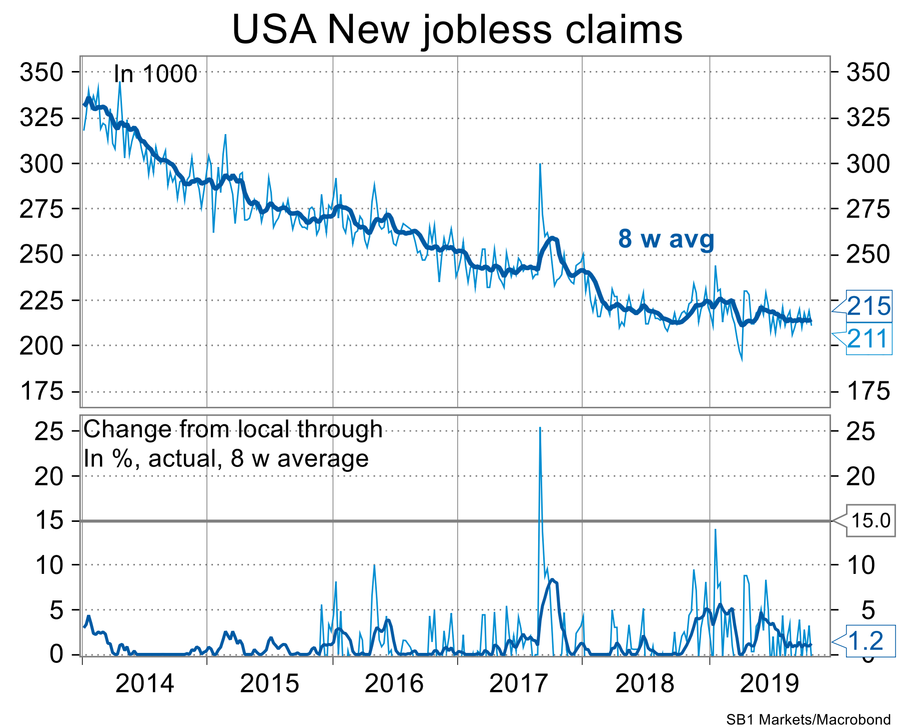
Jobless claims flat at a very low level, no signs of weakness

Jobless claims inched down to 211' last week, just below the (very low) 8 w avg at 215'

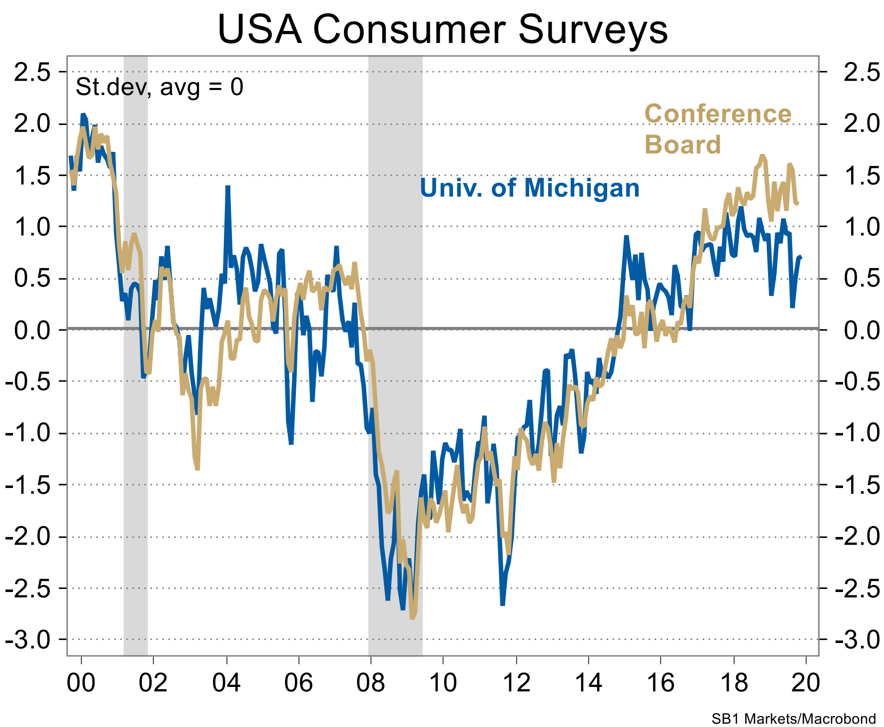


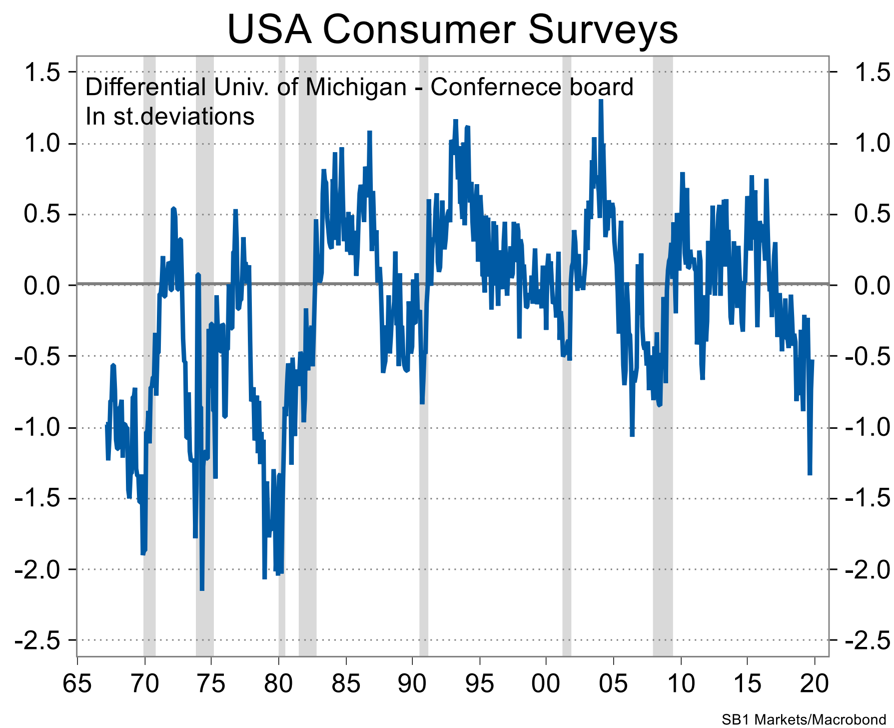


- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

UoM Consumer sentiment steady in Nov, level down from peak but not weak

Confidence rose marginally and the level is far above avg, another sign of solid consumer demand

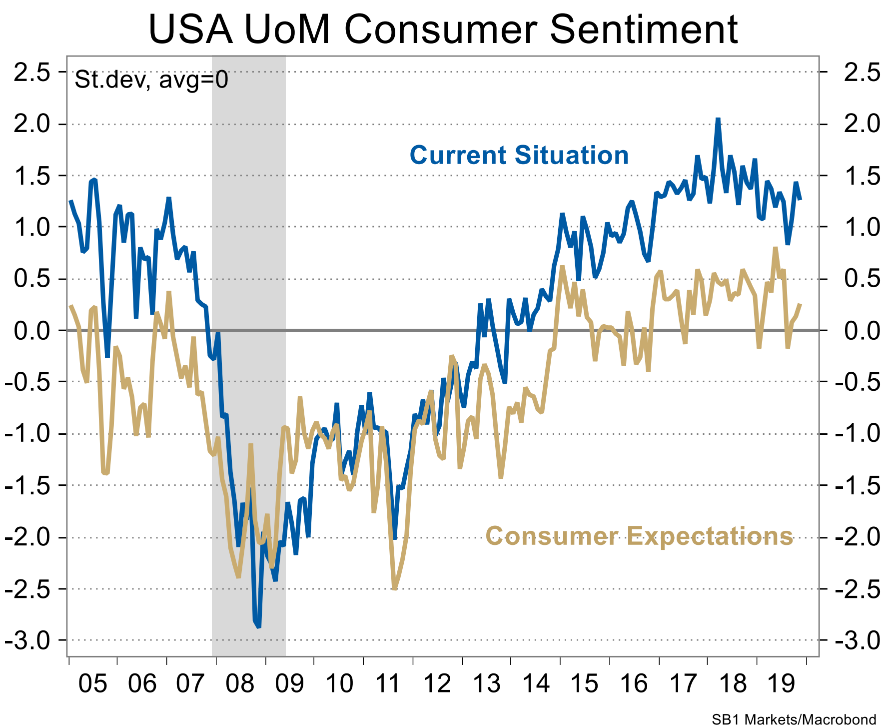


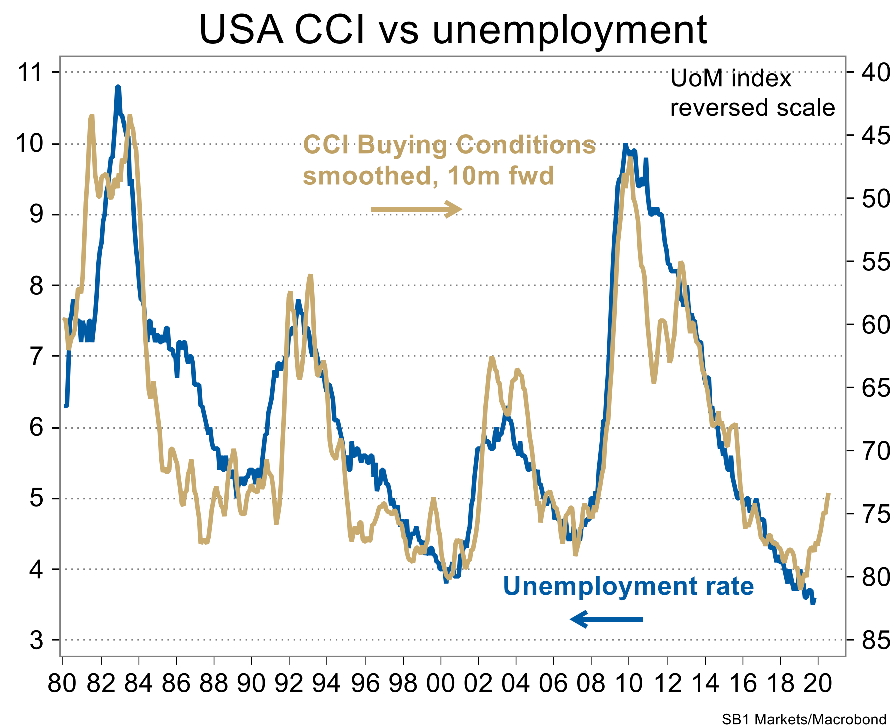


- University of Michigan's sentiment survey rose 0.2 p 95.7 in Nov, a tad weaker than expected. The index is just 2.7 p below the July level, from before the index dropped steeply in August. The gap to the Conference Board's consumer confidence index remains more elevated than usual and it is not a signal of strength: Thus always happens ahead of economic downturns. However, the gap has narrowed substantially the past 3 months
  - » Both the view of the current situation and expectations have improved the past 3 months. Expectations are marginally above avg, curr. sit. well above
- CB's consumer confidence index was flat in October, trending more or less flat recent months, at a high level
- These surveys do not point to any sudden halt in consumption. But there are some signs of weakness, check the next slide

Households' buying plans for large durables may be sending a warning sign

Buying conditions for durable goods usually well correlated to unemployment, with a 10 m lead

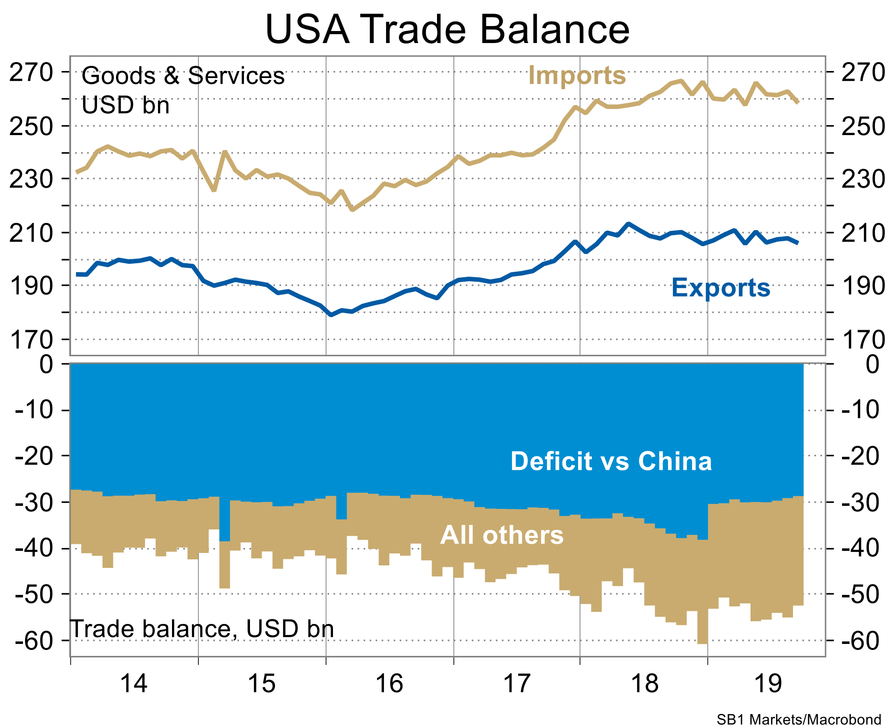


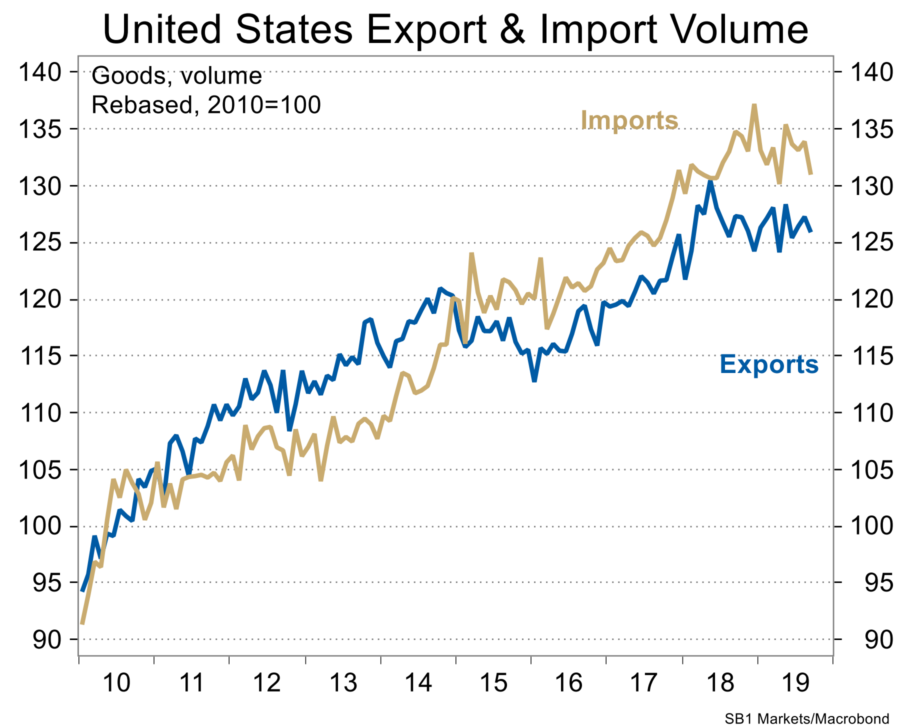


- The measure of buying conditions for large durable household goods has been weakening since mid-2018. This index is usually quite closely correlated to the unemployment rate, leading by 10-12 months. The chart above is surely not encouraging, although false warnings have been sent before
- The past months, both consumers' view of the current situation and consumer expectations have improved

The trade deficit shrank in September, as imports fell more than exports

The deficit decreased in Sept but net trade was a (minor) drag on growth in Q3

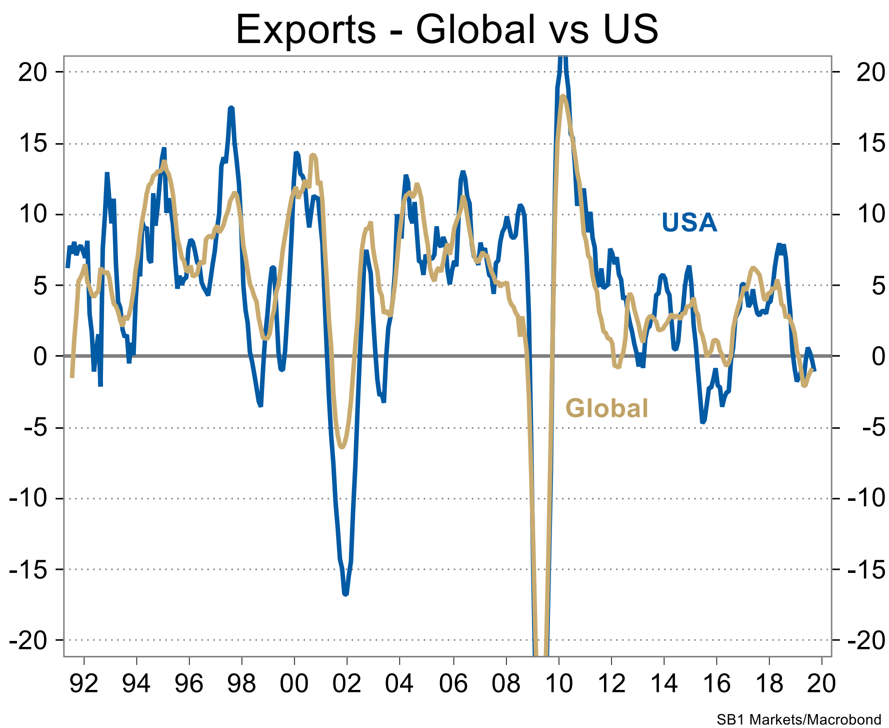


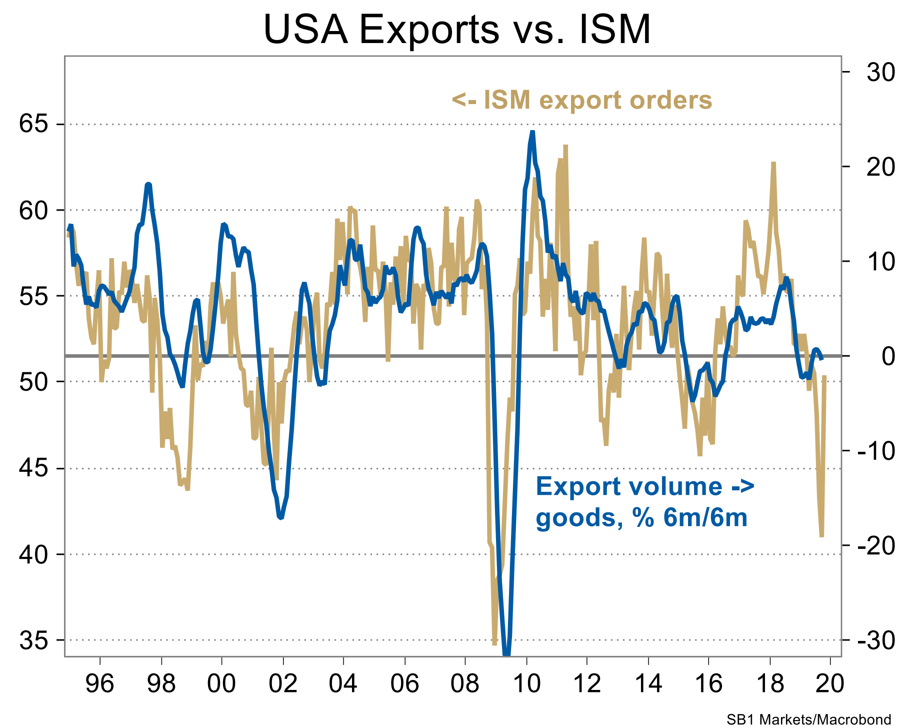


- The overall trade deficit of goods & services shrank to USD 52 mrd in Sept. The deficit is trending more or less flat this year
  - » Imports slipped 2.2% m/m in volume terms, heading slowly down since Dec 2018, annual rate at -1.6%
  - » Export volumes came down 1.1% in Sept. Exports have been flat recent months, annual growth at -0.1%
  - » Net trade dragged GDP growth down marginally in Q3. The contribution on annual GDP growth has been negative since 2015
- The deficit vs. China is reduced, no doubt due to the trade war, as imports from China have fallen sharply. The overall US deficit is not cut as it is widening vs most other trading partners

US exports closely correlated to global, stabilising now?

The ISM export order index rebounded strongly in October, does not signal much weaker exports

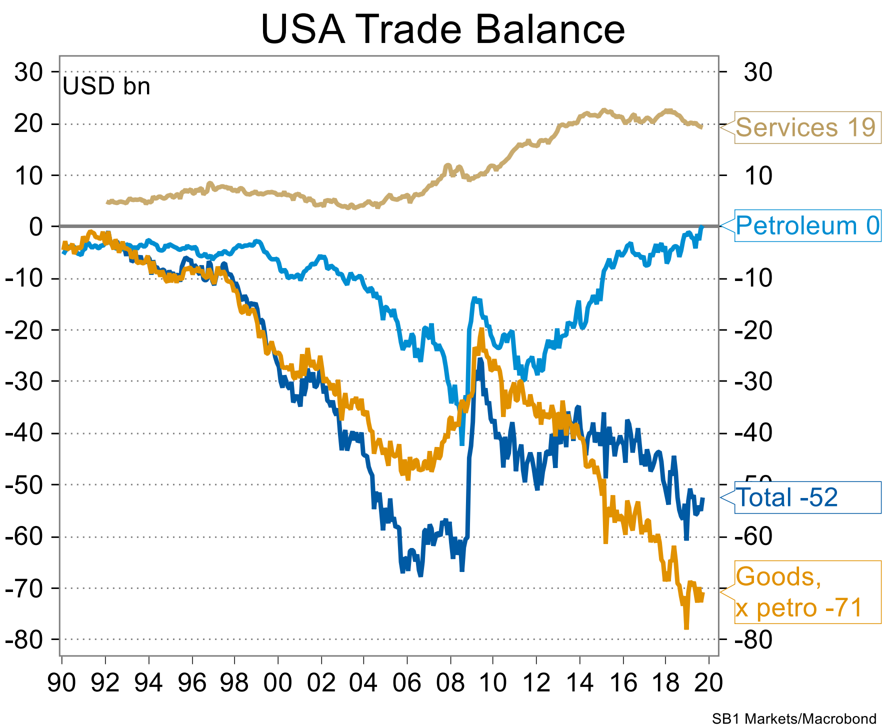


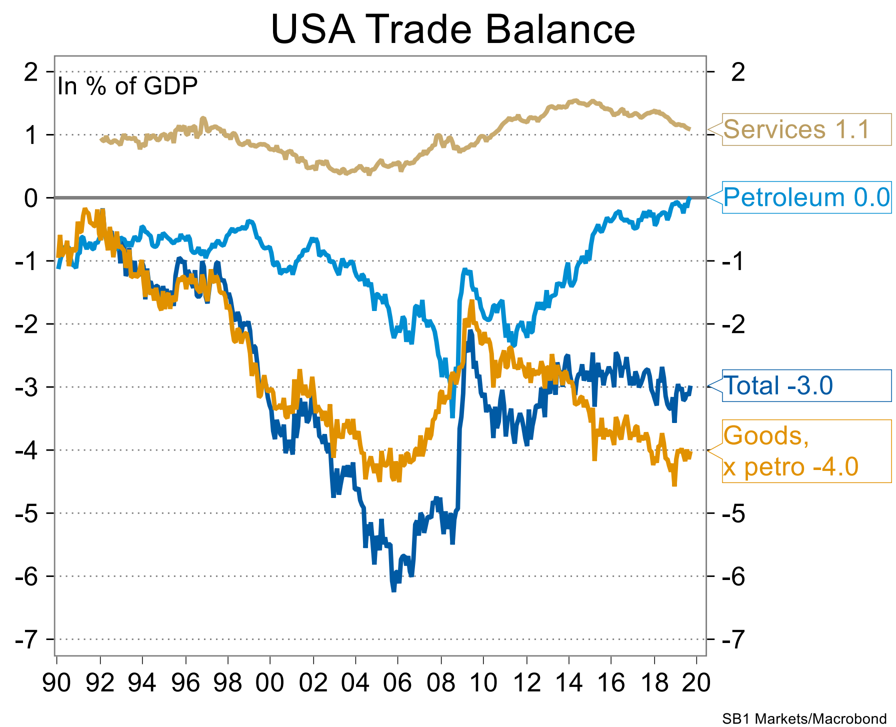


- US exports are closely correlated to global exports, it's just a tad more volatile (and a little slower growth rate over time). The slowdown in US exports now, mirrors the global export setback (as normal)
  - » The strong USD has some impact on exports, but less than 1% now - and a miniscule impact on GDP growth
- The ISM export order index is more closely correlated to actual export than Markit's export order index. The index plunged in September but recovered all of it in October, does not suggest a large decline in exports

If not for petroleum, a 'catastrophe'. Total deficit 3% of GDP, it was 6!

The goods deficit ex petroleum is high, even in % of GDP, at 4.0%

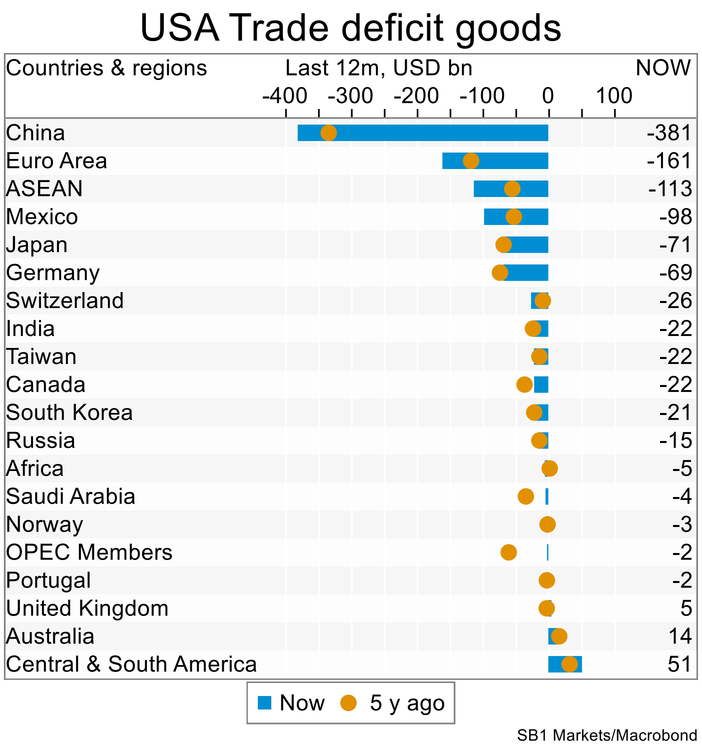


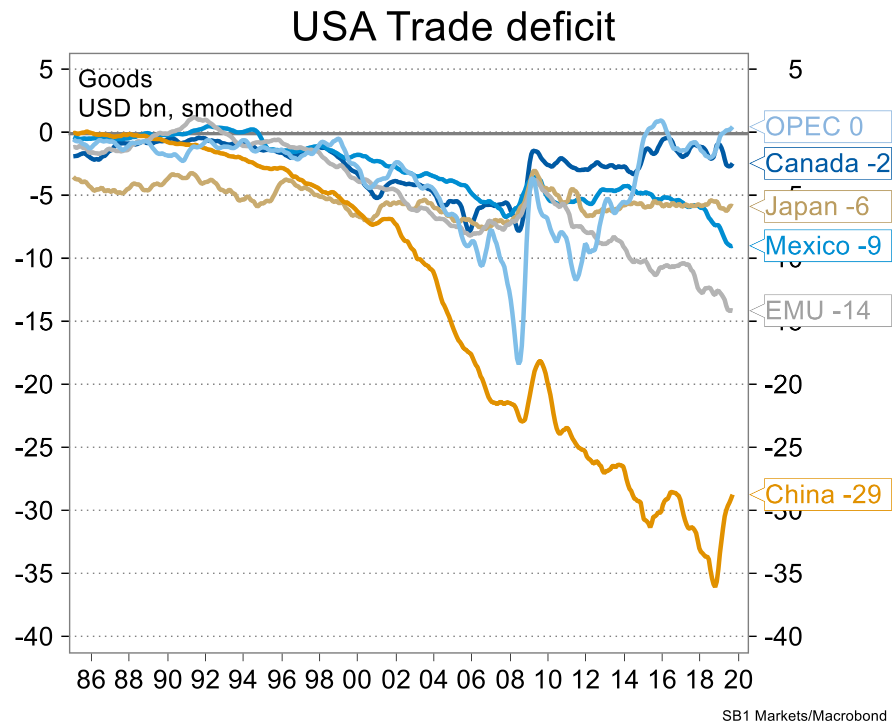


- In Sept, the goods x petro deficit shrank marginally to USD -71 bn, or 4.0% of GDP. The deficit reached ATH in Dec '18
- The petroleum trade deficit has disappeared, from USD 30 bn/m in 2012
- The US is having a surplus in services at USD 19 bn, equalling 1.1% of GDP (but it is now trending slowly down)

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

Deficits vs Mexico, Canada and the Eurozone are all trending out

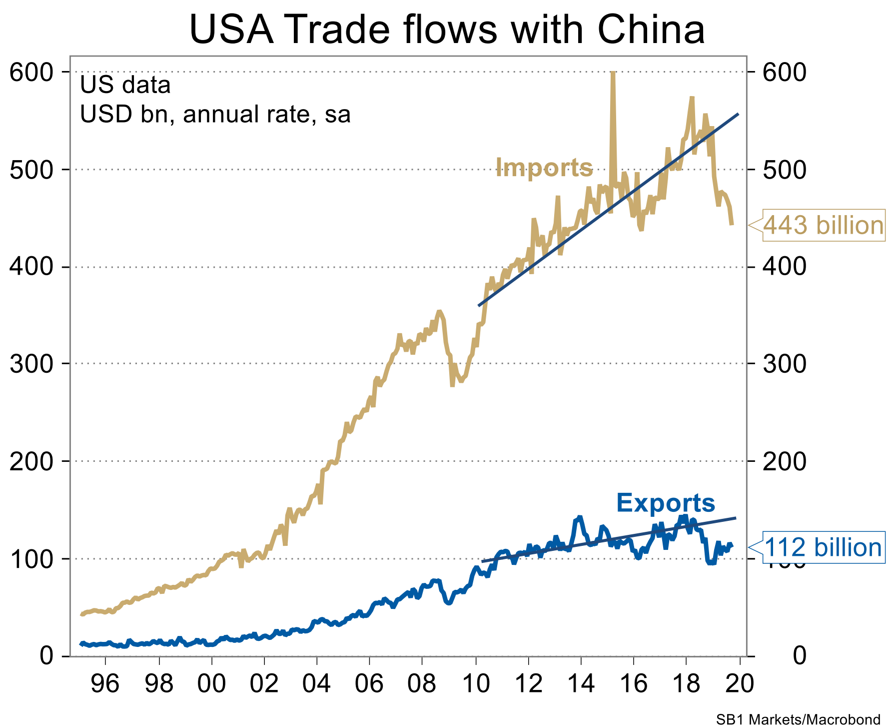


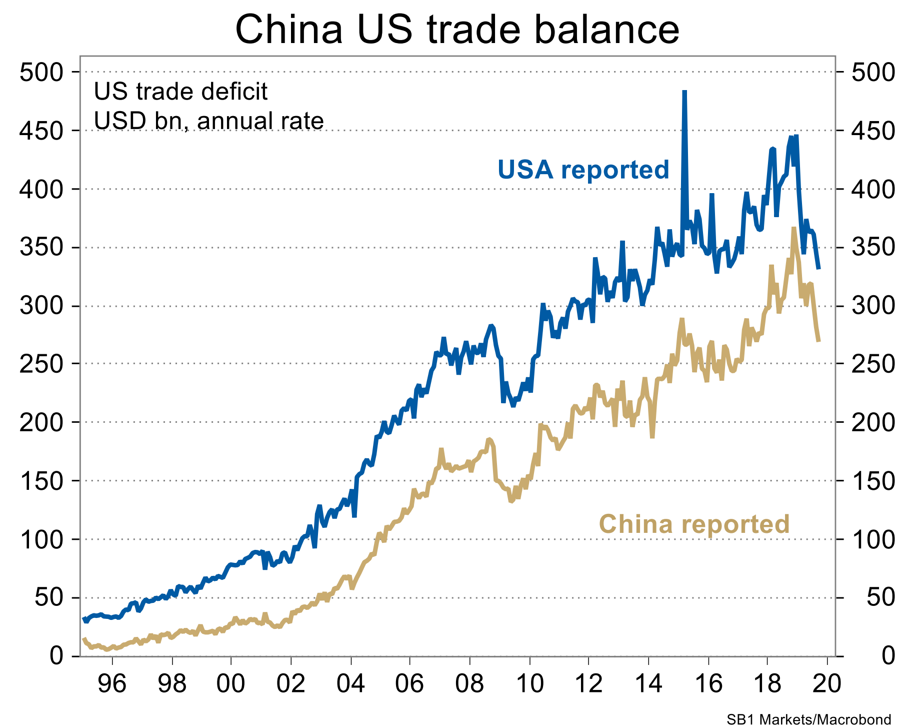


- The US deficit vs China equals some 45% of the total deficit in goods
- The deficit vs Mexico has widened markedly the past 1 ½ year, vs EMU it trending out too
- The deficit vs Canada has widened recently, trending flat over the past years, close to balance. Deficits vs OPEC are closed

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

Tariffs have hurt bilateral trade significantly, and China more than US most recently

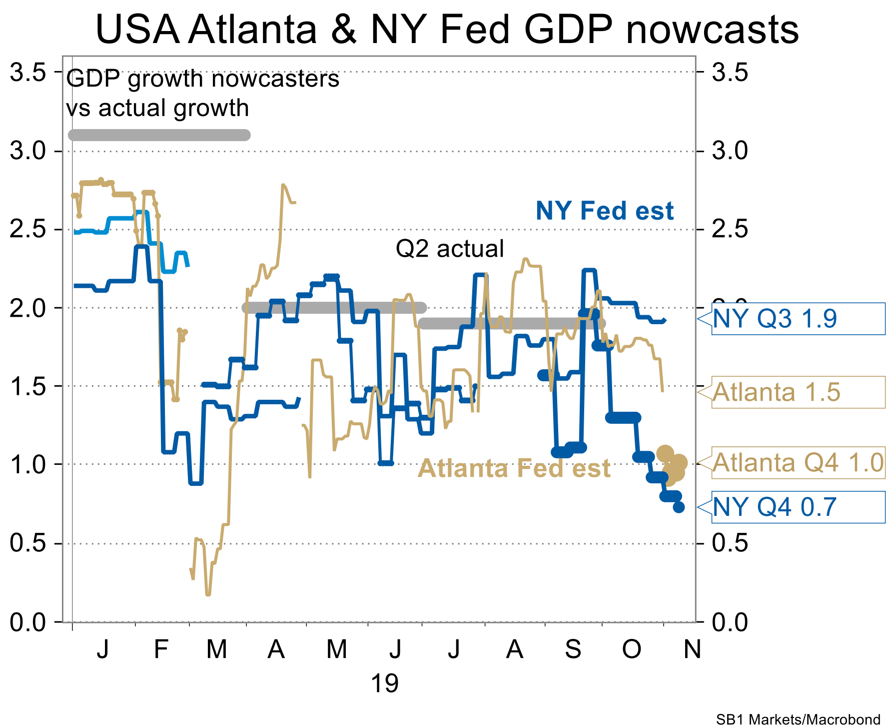


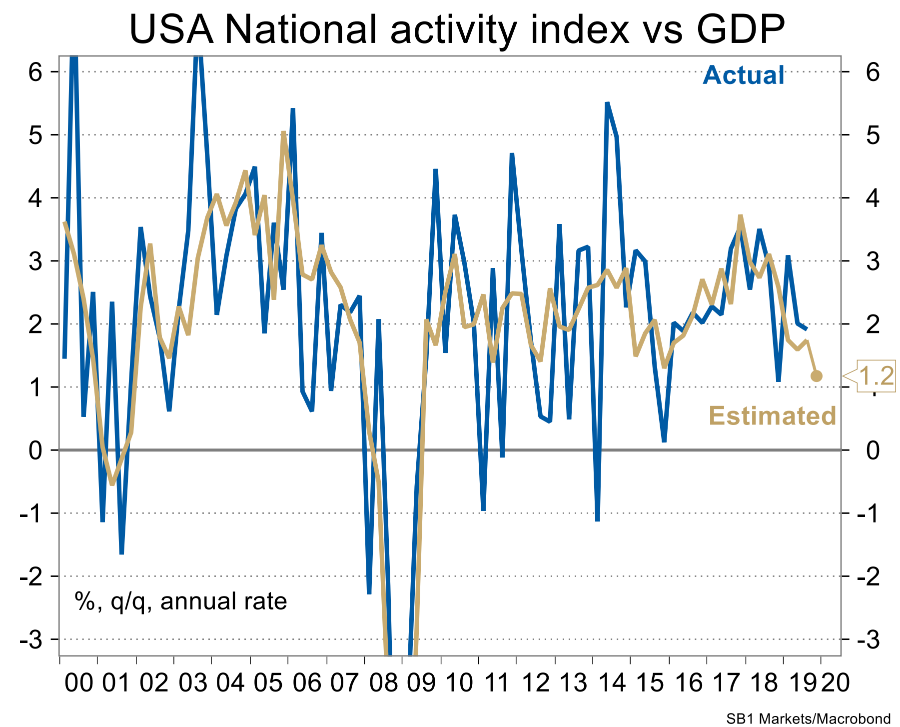


- According to US data, imports from China has fallen by some 15%, and export to China has fallen by 18% since January 2018, before the first tariffs were implemented. Measured in USD, the decline in imports from China is far larger the decline in exports – and the US deficit vs China has fallen by some USD 115 bn, to 330 bn. However, the US deficit vs. other countries has increased even more…
- China has always reported a smaller surplus vs. US, than the US figure for deficit vs. China. The discrepancy has been stable over time and is very likely due to exports reported FOB and imports CIF included. (Their respective bilateral export/import data are also very similar, no fake news here)

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

Both NY & Atlanta Fed and National Activity index signal just 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 0.7% now. The first Atlanta nowcast is 1.0%.
- The National Activity Index, which suggested 1.8% GDP growth in Q3 (0.1 pp below the actual number), now signals a slowdown to 1.2% into Q4

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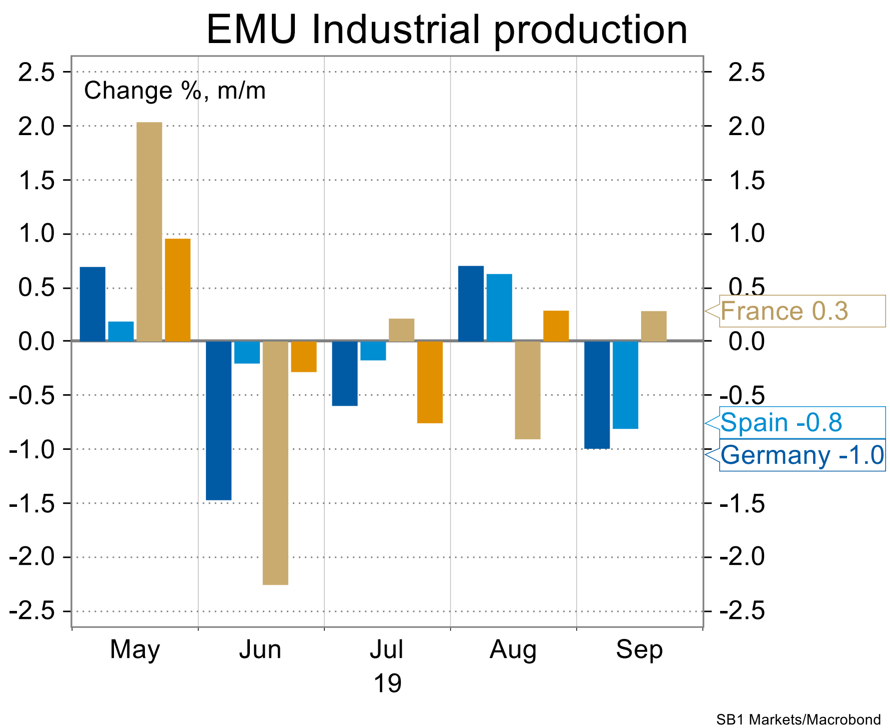
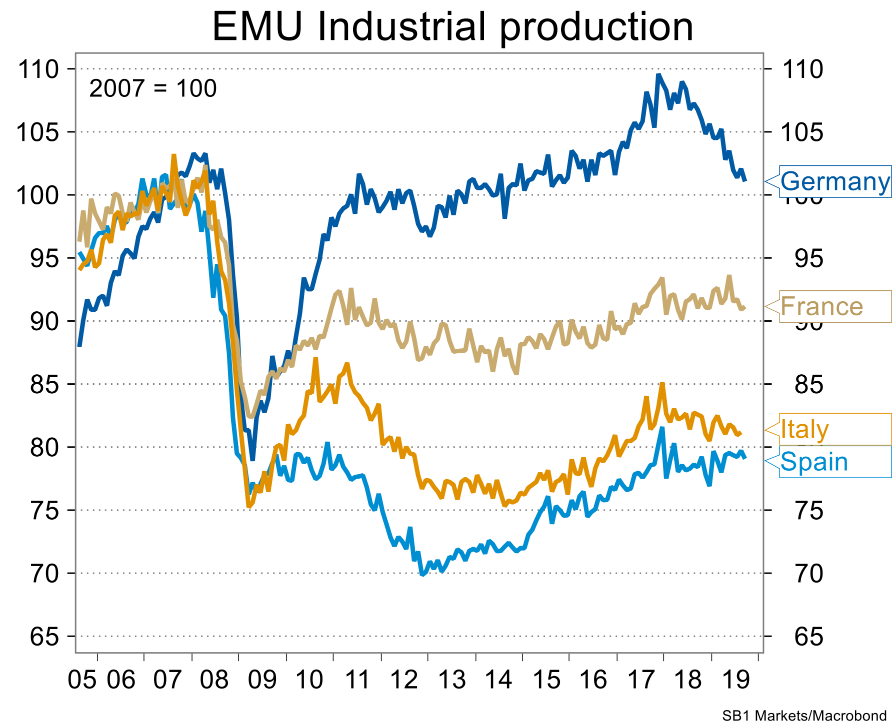
Industrial production probably flat in Sept, Germany tumbles

Production slipped in Germany & Spain, France recovered marginally (but Ireland saved the day)





- We estimate a flat print m/m in total EMU industrial production (ex construction) in Sept, following a slight uptick in Aug. If our projection is correct, production fell by 3.5% annualized in Q3 and is down 2.1% y/y
- Germany and Spain declined in Sept (Germany fell 1% x construc., total -0.6%), France edged up, with Ireland sharply up, and the Netherlands significantly up (-0.5% without these two heavy September lifters)
- The Eurozone industrial sector is no doubt struggling heavily, led by Germany, in which production has fallen by 8% from the 2018 peak. Still, Germany is not the only problem; France and Spain are just close to flat, Italy is trending down at 1% pace
- Unfortunately, the manufacturing PMI points to a continued downturn

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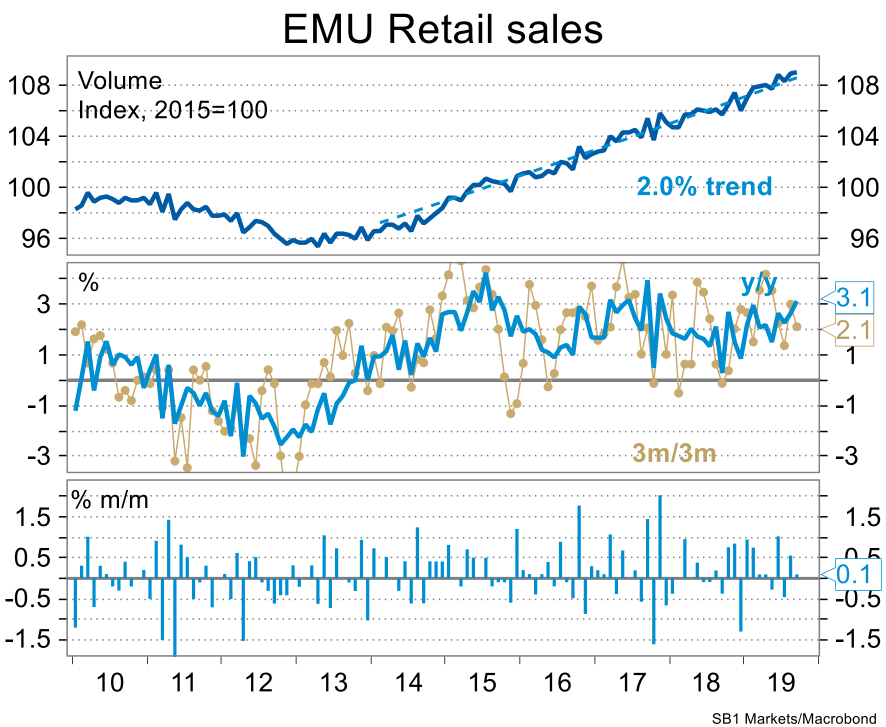
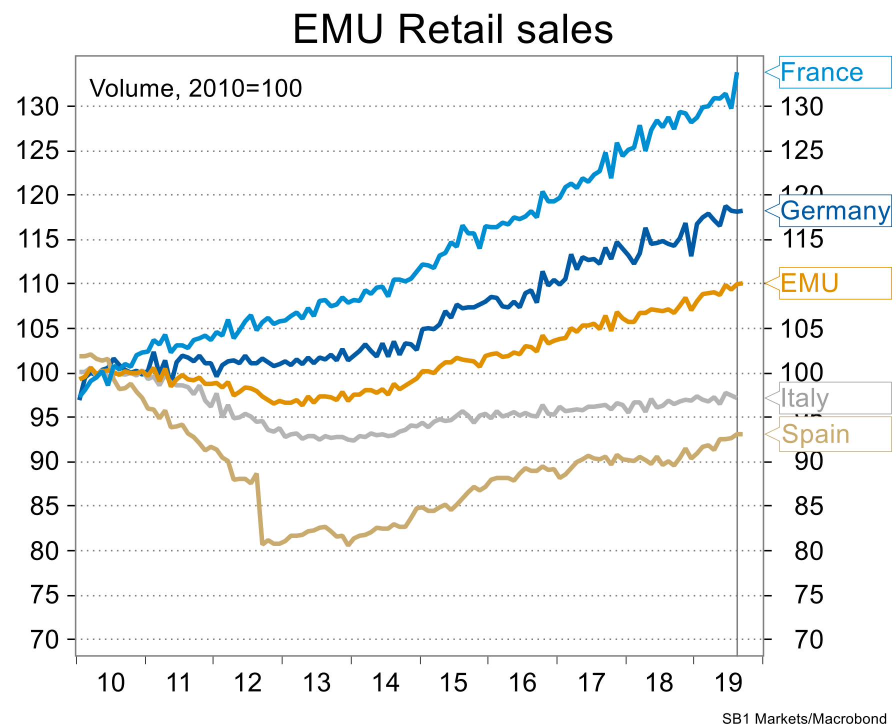
Retail sales still ticking up, offering some comfort

Sales up just 0.1% m/m in Sept but Aug revised up to 0.5%. Sales rose 2.1% in Q3 and is up 3.1% y/y

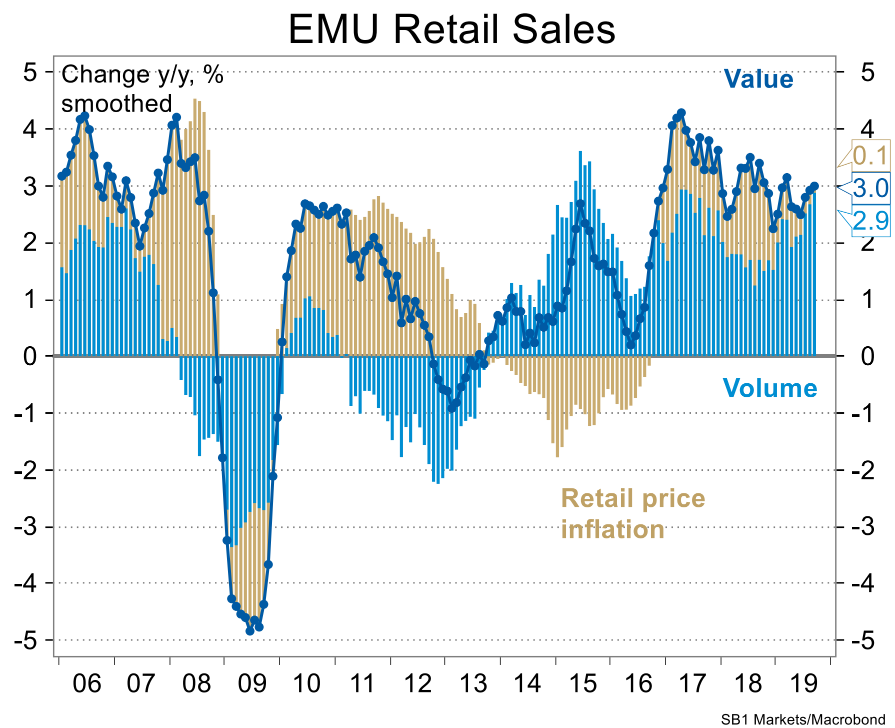


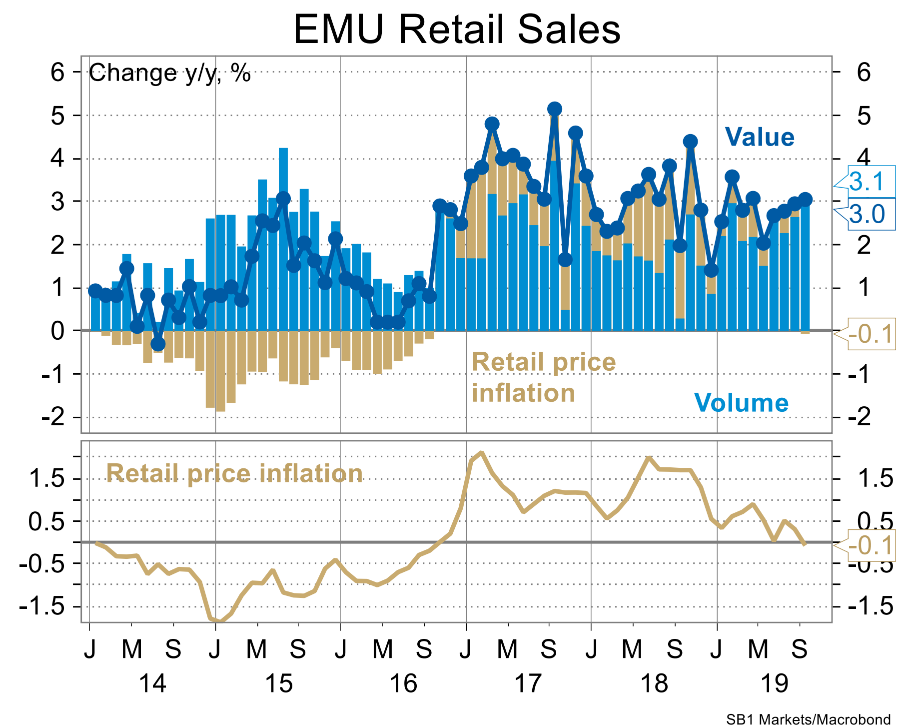


- Retail sales volume increased by 0.1% m/m in September, however as expected, while growth in Aug was revised up by 0.2 pp to 0.5%. Sales rose 2.1% in Q3 and the 2% trend growth is intact. Thus, the slowdown in the Eurozone economy cannot be explained by lower consumption of goods (ex. autos, which anyway have recovered after some extreme volatility on new regulations)
  - » Germany reported a 0.1% rise in Sept, underlying growth is solid at 2.5%. An indication of a resilient consumer sector, amid the manufacturing contraction. No other country details yet, sales probably fell in France after a spike. All trending up, x Italy
- Muted price inflation is probably supporting consumption, as well as rising real wages and employment

Volume growth is helped by waning price inflation

Retail price inflation has fallen from almost 2% to -0.1% in Sept, supporting volume growth

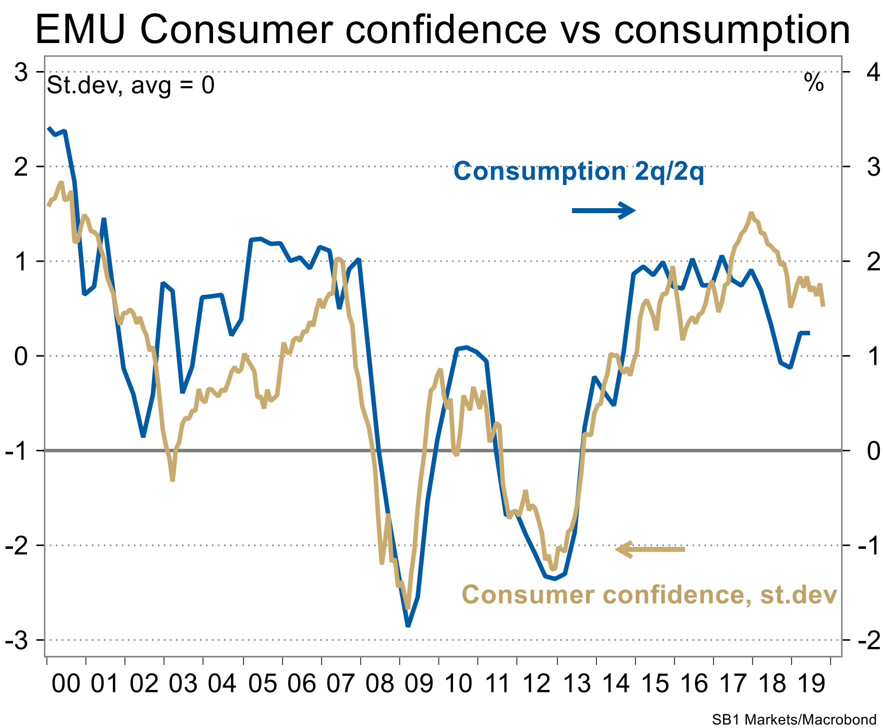


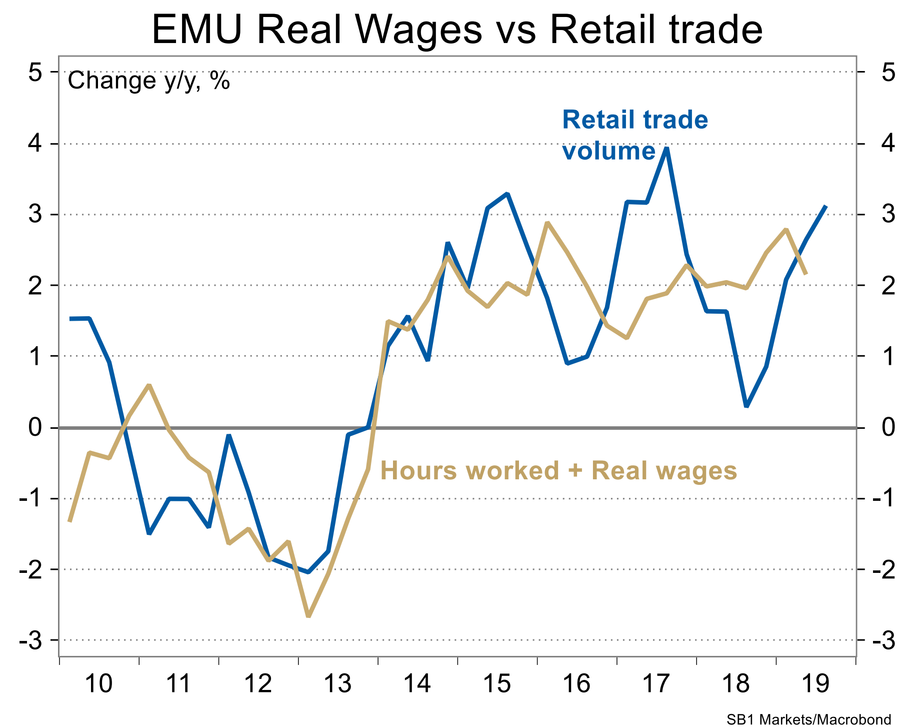


- Total inflation has been subsiding too, due to lower energy prices, thus, supporting growth in purchasing power

Consumer confidence, income signal a limited upside on consumption growth

Consumer confidence is still strong, total disposable income trending up but slowed in Q2

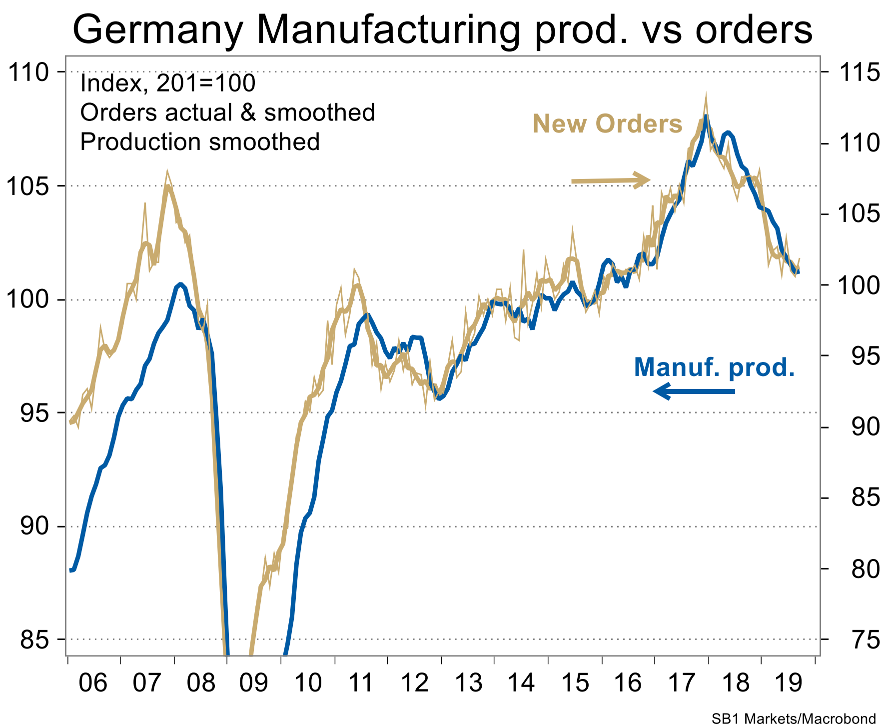


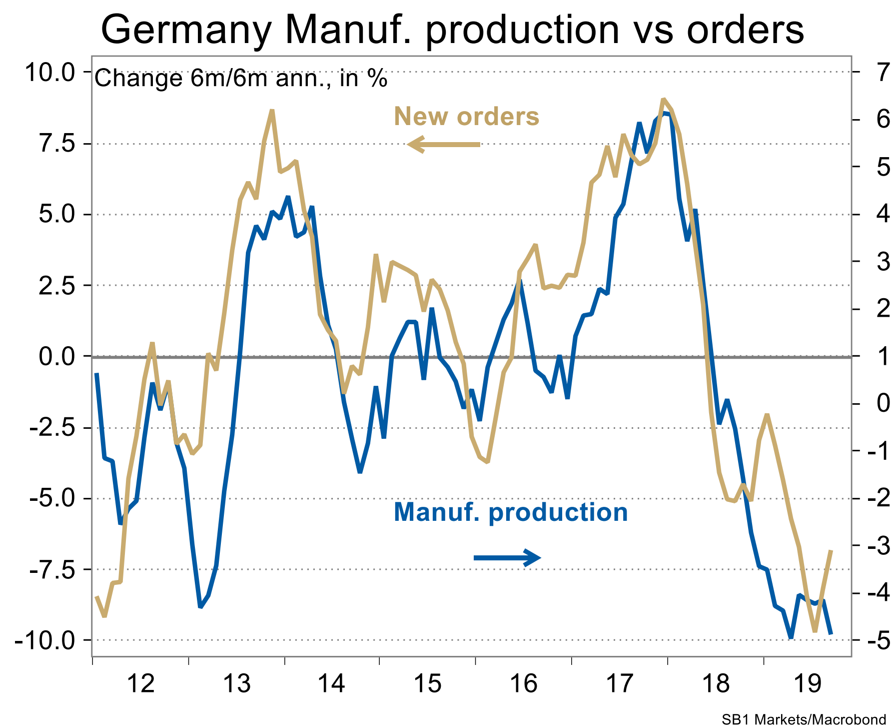


- Consumer confidence dropped in Oct, yet level is not low, well above the average level
- Real wages + hours worked, a good proxy of total disposable income is expanding approx. at a lower speed than sales

Manufacturing orders are trending down but offer some hope?

Orders are sliding down but the speed of decline is slowing, signalling a smaller decline in production

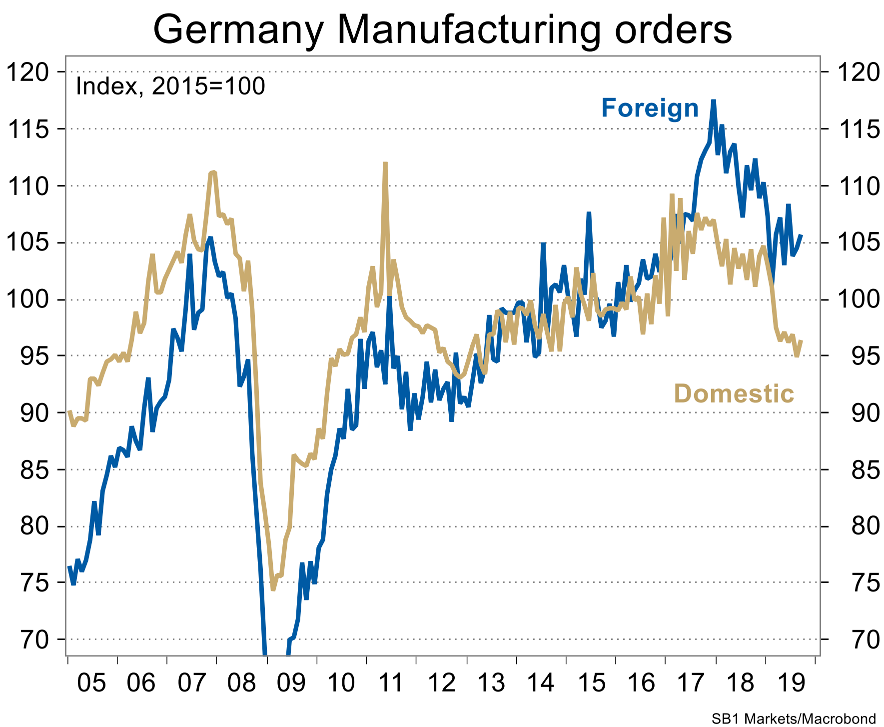


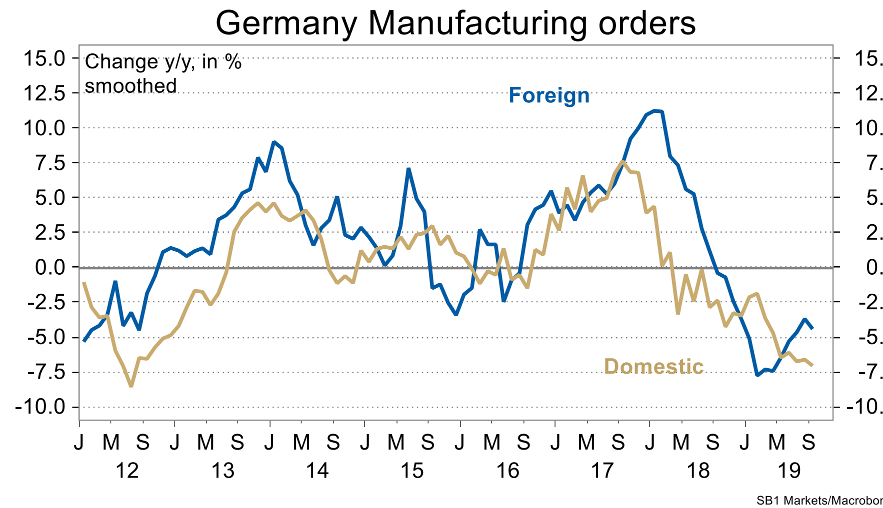


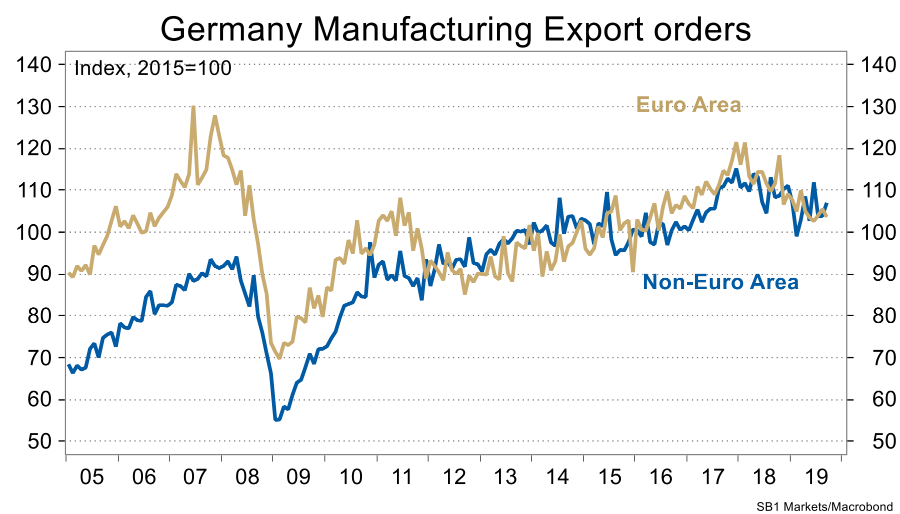
- Total manufacturing orders increased by 1.3% m/m in Sept. Orders are trending steeply down, however, there are some signs of stabilisation recent months. Underlying growth has recovered, the 6m/6m rate up to -3%, from -5% and measured 3m/3m, the decline has slowed to -4%, from -15% in the spring
- Orders do not suggest any swift upturn in production vs the 4% y/y decline but a modest recovery may be within reach
- The downturn recent months is primarily driven by weaker domestic demand, while foreign orders fell rapidly in 2018. Weaker domestic demand is a reflection of both a mature German growth cycle, challenging adjustments to new auto emission standards and also impacts from uncertainties regarding the future global trade regime (both vs the US and UK)

Domestic orders are dropping, foreign orders are recovering?

Orders from within Germany have fallen steeply, while export orders have improved slightly recently



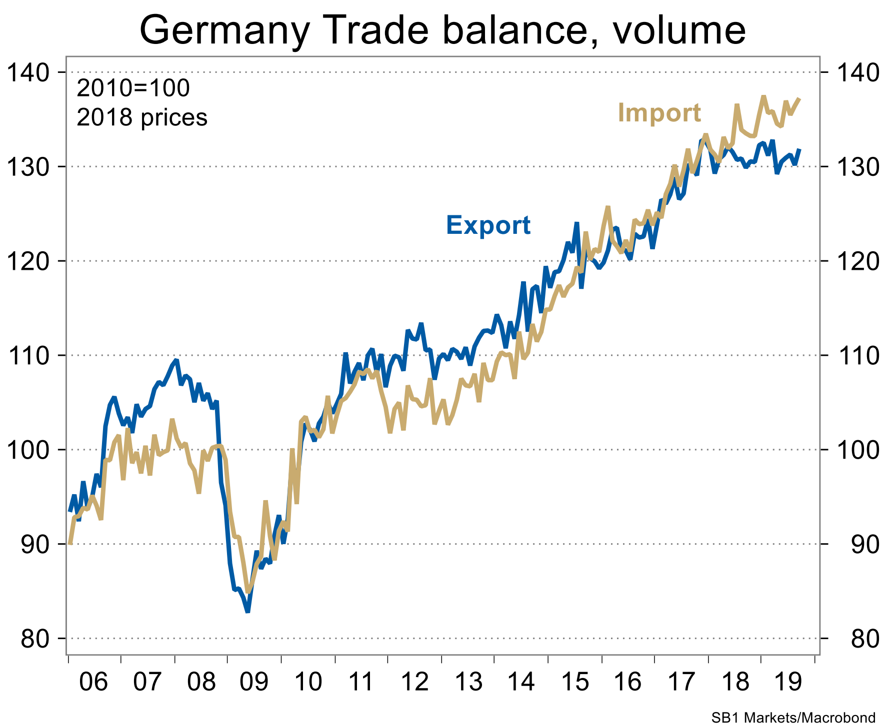


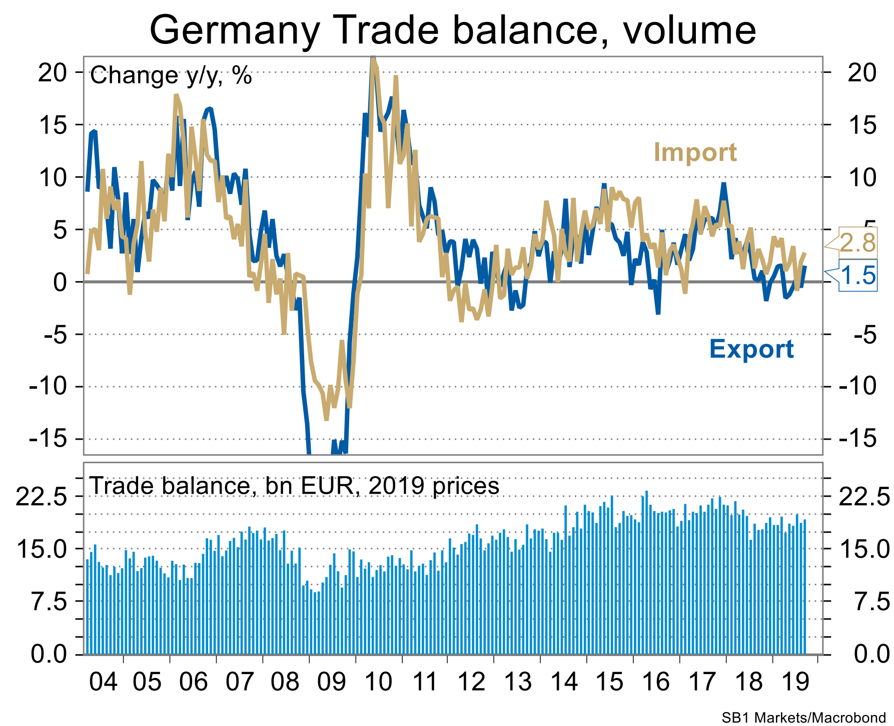


- Export orders from both non-EU countries and within EU slowed in 2018, stabilizing recent months
- On domestic orders, check the previous page

Exports are holding up surprisingly well, given orders and PMIs

Exports have flattened out but is still up y/y - and imports are trending up

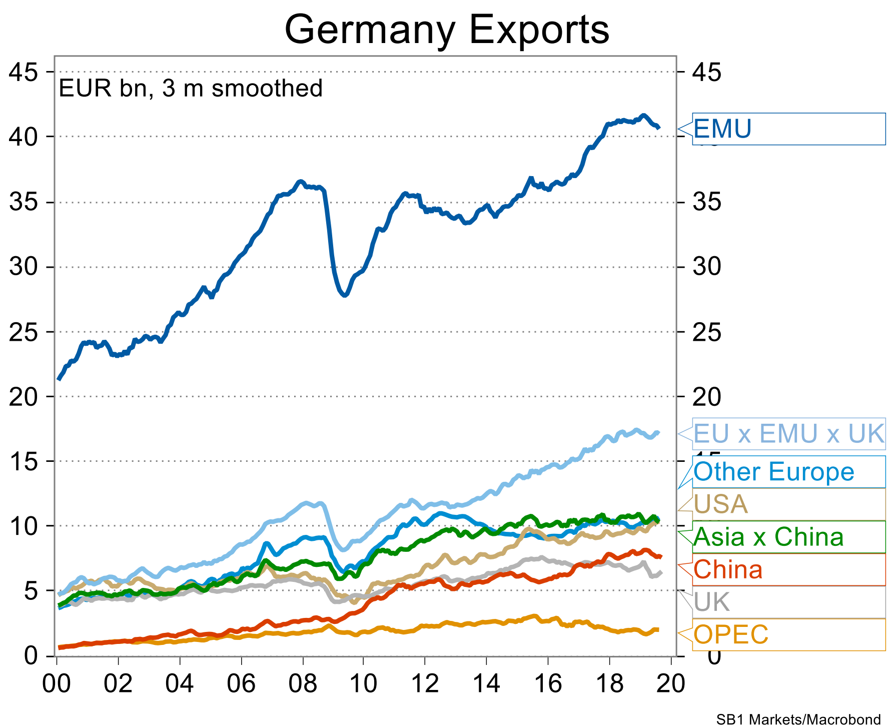


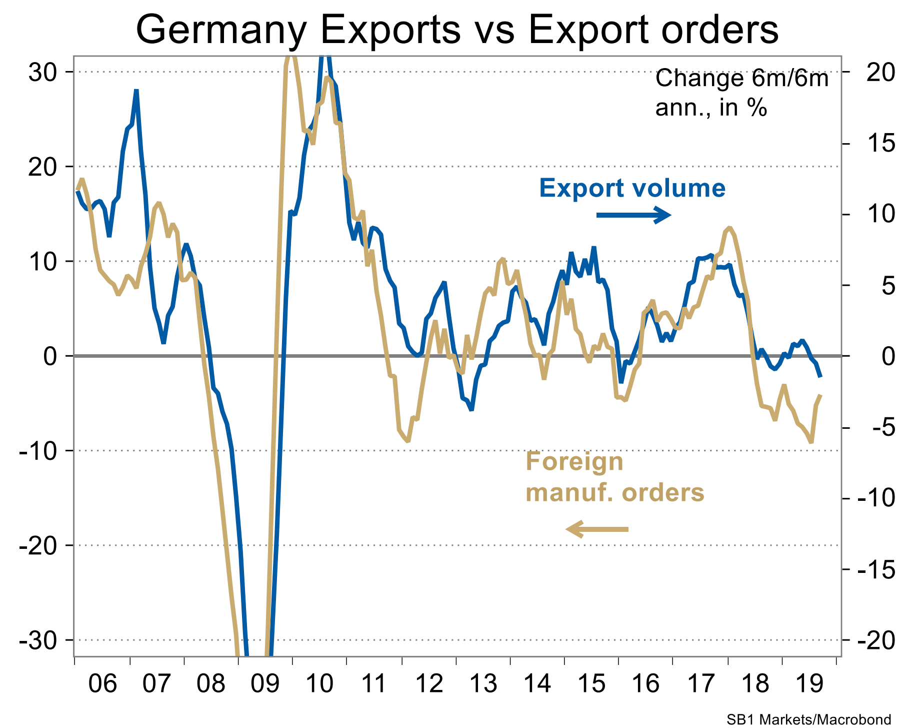


- Export volumes increased by 1.3% m/m in Sept and the Aug decline was milder than first reported. Exports have flattened out over the past year but are not decreasing, and the annual rate ticked up to 1.5% in Sept. Exports have hold up much better export orders
- Manufacturing production has fallen more than exports. However, that's normal, manufacturing production is just a tad weaker than normal vs. exports (see two pages forward)
- Import volumes rose 0.6% m/m and are still trending up, and the annual rate is up 2.8%
- The German trade surplus is slowly shrinking, now equalling approx. 6% of GDP, from 8% in 2016

Exports have slowed in several directions, US still heading up

Foreign orders have fallen more than actual exports – but some signs of stabilisation now?

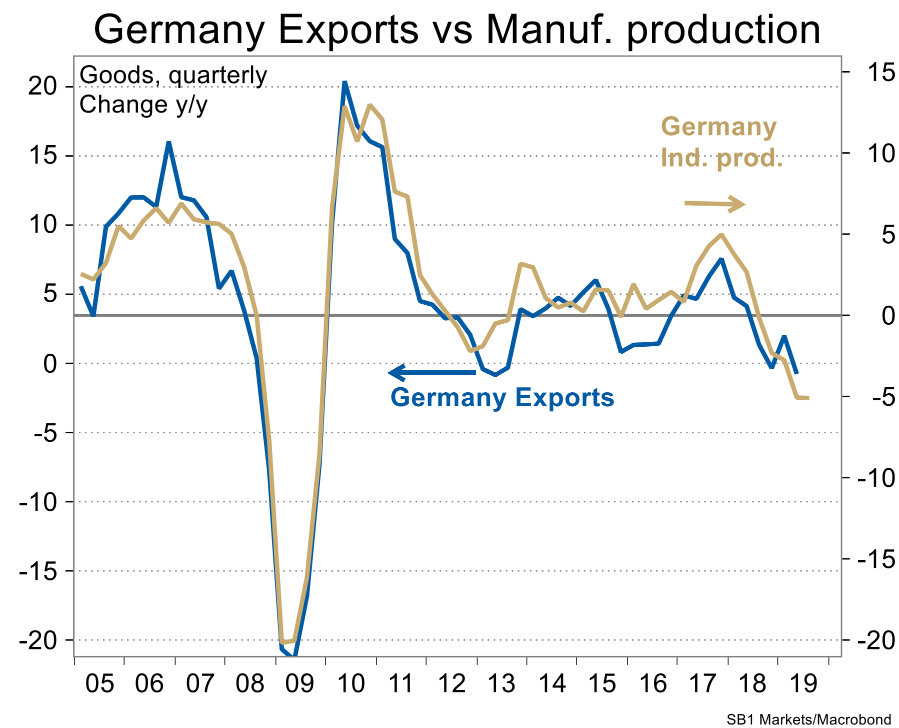




- Most likely, exports are softening due to a global retreat in business investments, triggered by trade war/Brexit uncertainties and probably also a 'normal' mature cycle, in Germany and elsewhere
  - » Exports to China have slowed the past months and are down 5% y/y, vs above +8% growth in the spring
  - » Exports to UK have recovered somewhat after a rapid decline in the spring, Brexit 'preparations'. Exports to the US is still trending up and are growing by 8% y/Y. Exports to other EMU partners have slowed, while exports to other EU countries have improved recent months
  - » Germany's main export markets: The other EMU countries (37%), other EU countries x UK (15%), Asia x China (10%), Europe x EU (10%), USA (9%), China (7%), UK (6%)

Guess what, German foreign trade is closely correlated to…

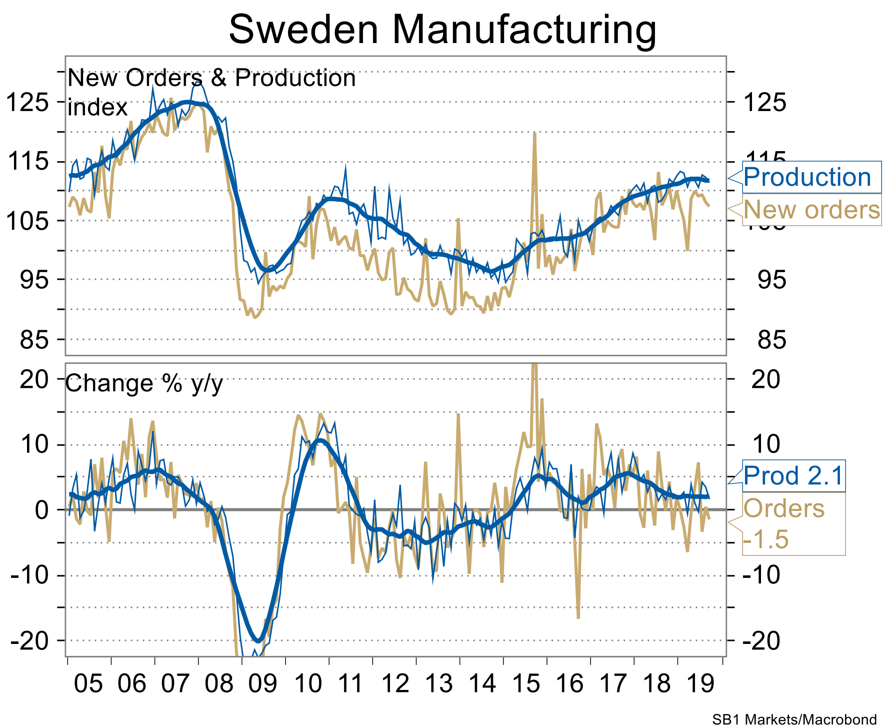
.. global trade. Now, both are struggling amid trade war/Brexit uncertainties and a mature cycle

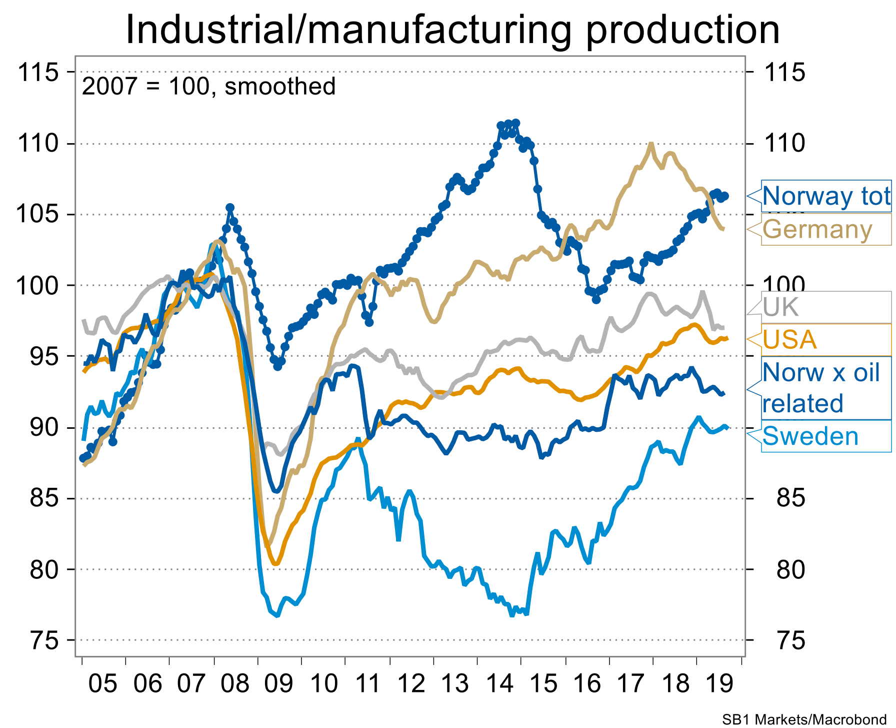


- Both German foreign trade (and thus lobal trade) is highly correlated to German industrial production, though with production growing at a slower pace. In addition, production is a tad more volatile than exports
  - » In sum, the current decline in production is not that far below 'normal', given the modest decline in exports
- The reason is that domestic demand weakens in line with global demand (or some inventories are emptied or imports have taken a larger market share). Given signals from PMIs/other surveys, a near term production recovery is not likely

Manufacturing production and orders have (probably) both peaked

Production down 0.8% in Sept, and the trend is close to flat. Orders slightly weaker but no collapse

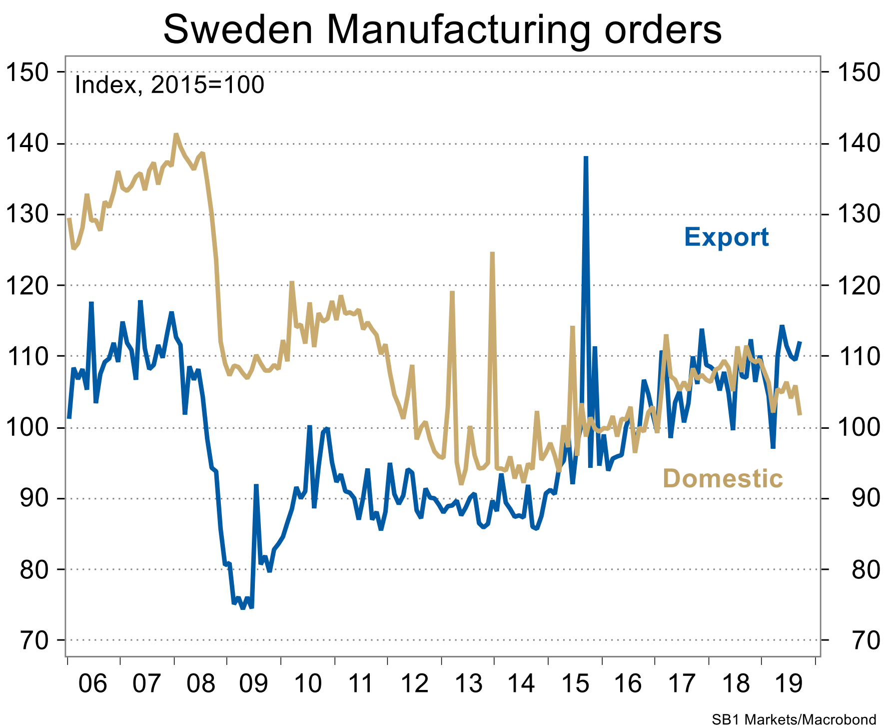


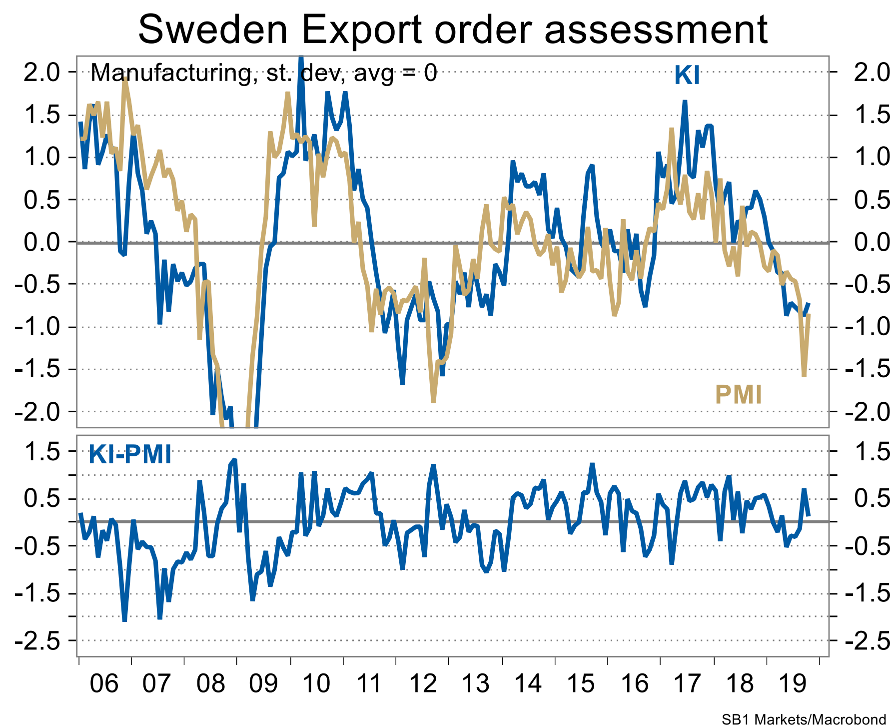


- Swedish manufacturing orders are down some 1.5% y/y, the weakness recent months stems from domestic demand, not foreign
- The manufacturing PMI at 46 signals declining production, even as the PMI is very volatile. Downside risk

Manufacturing orders almost OK, exports orders not weak. But surveys…

Exports orders down in Aug, but is back at normal level. Surveys signal a sharp setback



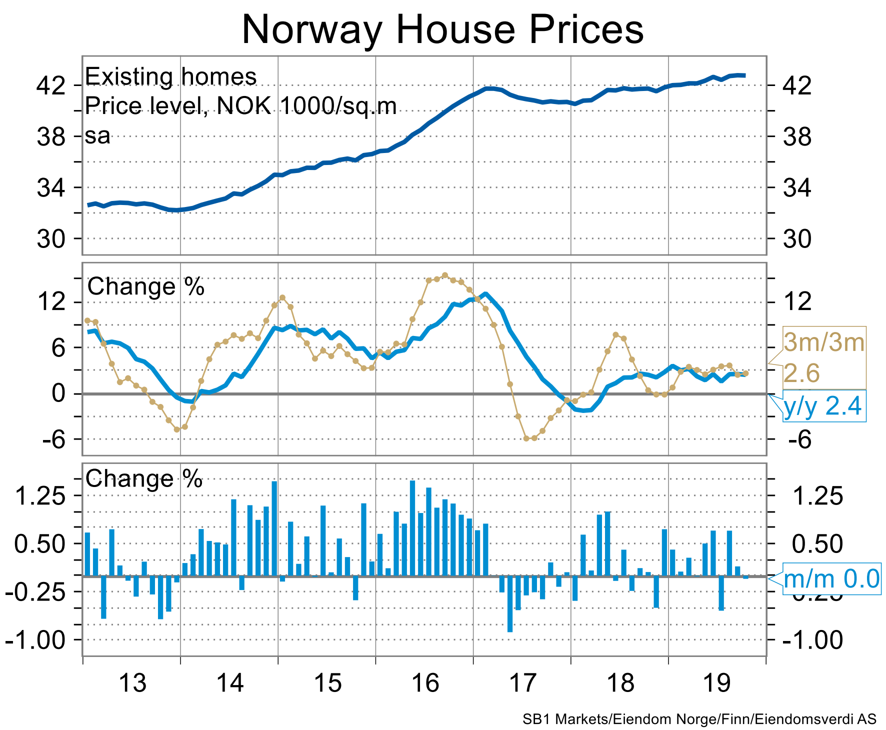


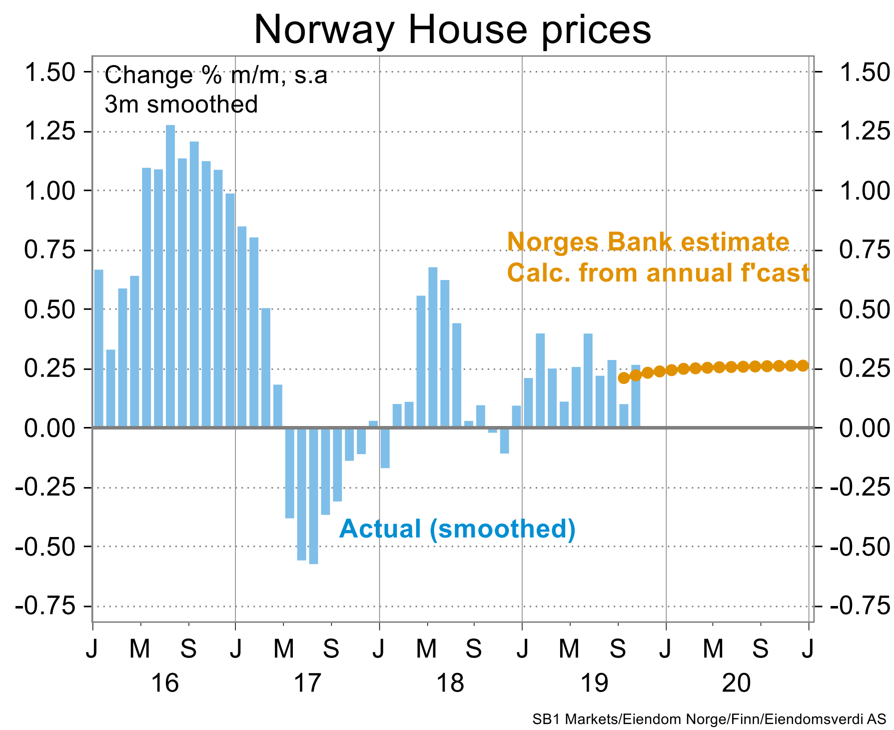
- Domestic orders have recovered from the March local trough but remains below the 2018 (local) peak

SpareBank 1 MARKETS

House prices flat in October, strong sales and still elevated supply of homes

Prices were unchanged m/m, but trends up at 2½% pace. Growth everywhere x Stavanger



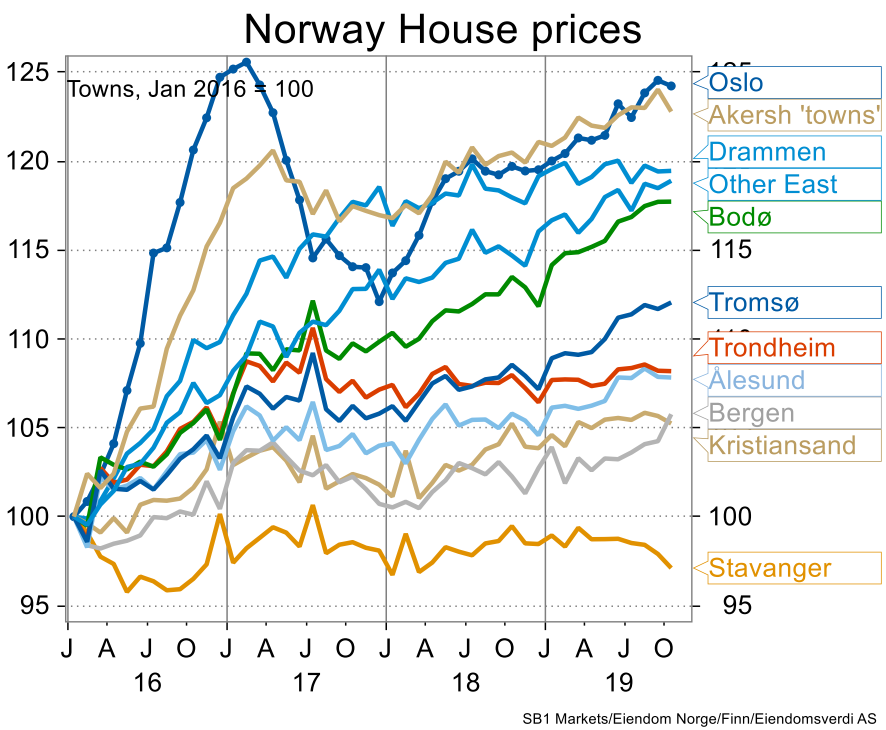


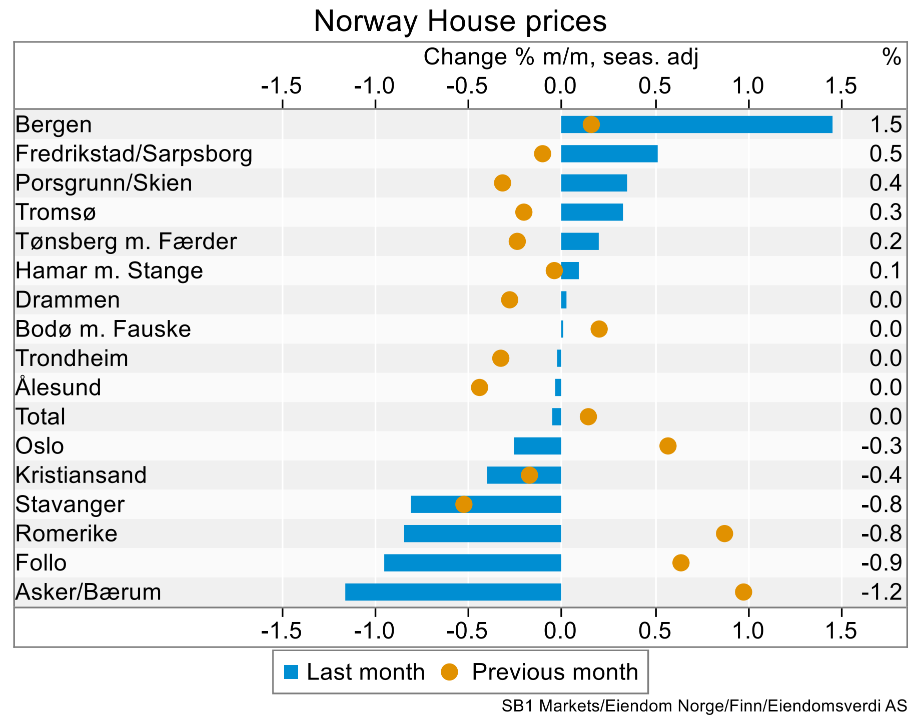
- **House prices** were unchanged m/m s.a in October (-0.8% unadjusted), as we expected. The 3m average growth rate is 0.3%, 3m/3m at 2.6%, and annual growth is at 2.4%. Price inflation is marginally Norges Bank's expected growth pace (implied, from annual f'cast)
  - » Prices are climbing in all towns/regions ex Stavanger (and a flat Drammen recently). Oslo, Bergen and Bodø are accelerating at the fastest speed
- **The number of unsold homes** has not increased much recent months – but the level remains record high (well, with data back to 2010). The elevated inventory is not due to lack of demand but of a high number of new listings (of existing homes). The number of transactions is trending steeply upwards, indicating that the interest rate hikes so far have not dampened demand noticeably
- **Short term dynamics signal moderate growth the coming months, however, the risks are tilted to the downside**

SpareBank 1 MARKETS

Prices rose in 6 regions in October, fell in 7

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

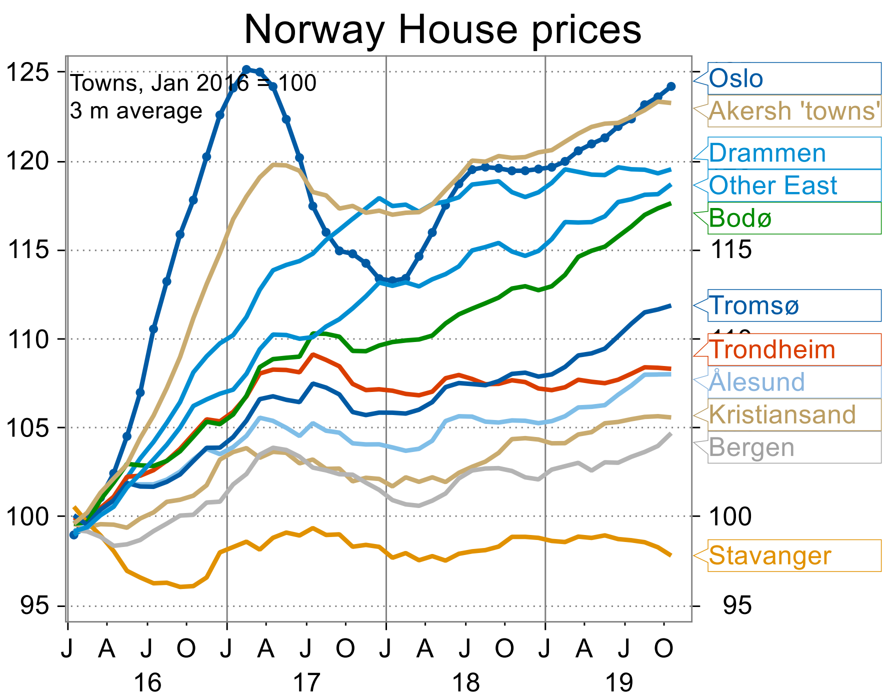




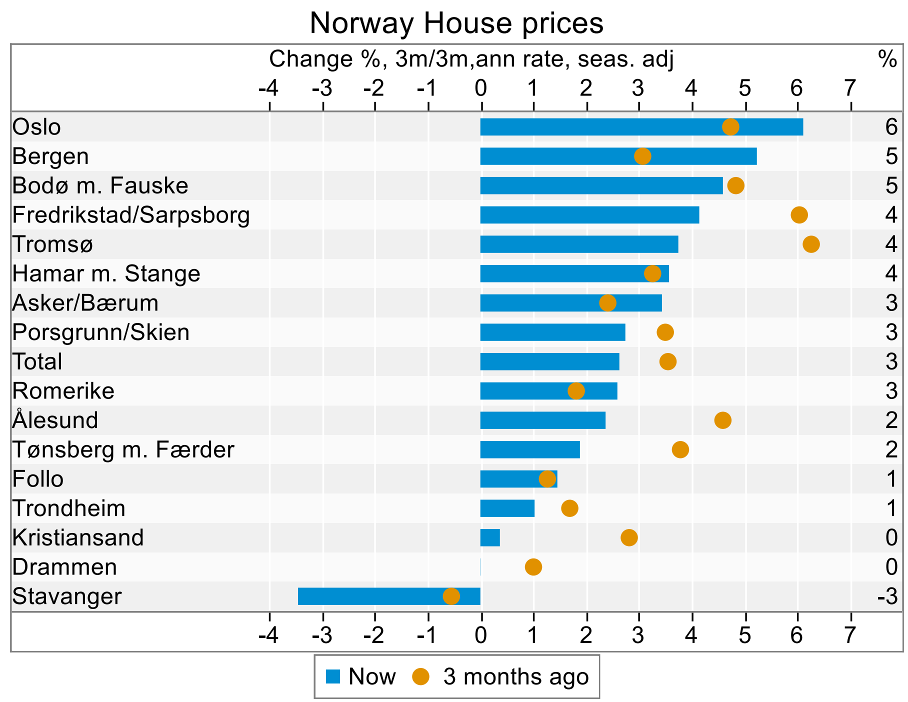
- The monthly data are too volatile, <u>check the much more ‘relevant’ 3 month averages next page</u>

Recent months: Prices are increasing in most cities, declining in Stavanger

Prices are soaring in Oslo, Bergen and Bodø but most have cooled somewhat recent months



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

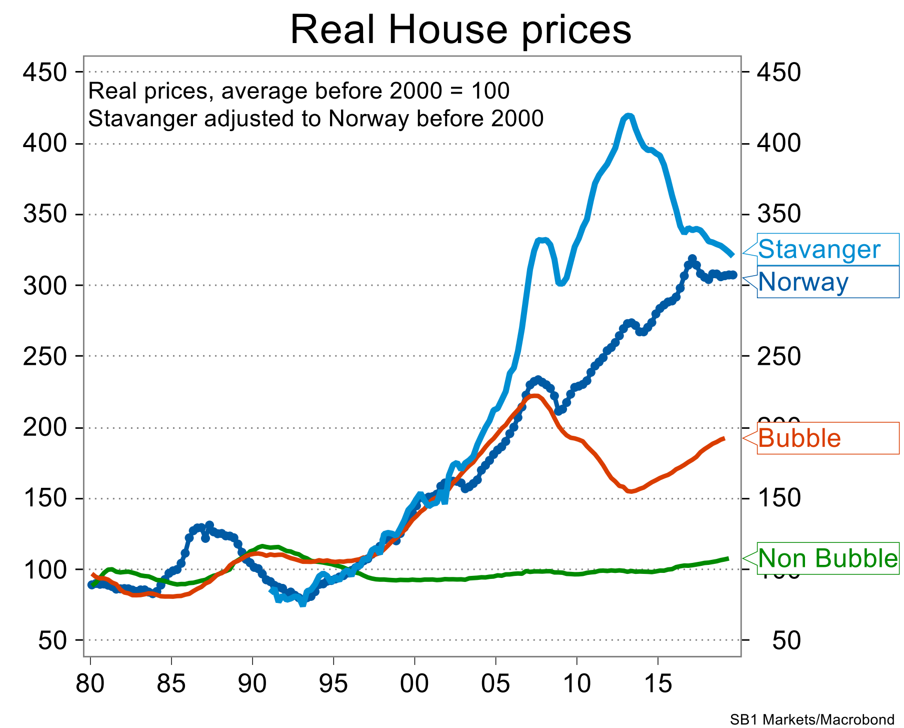


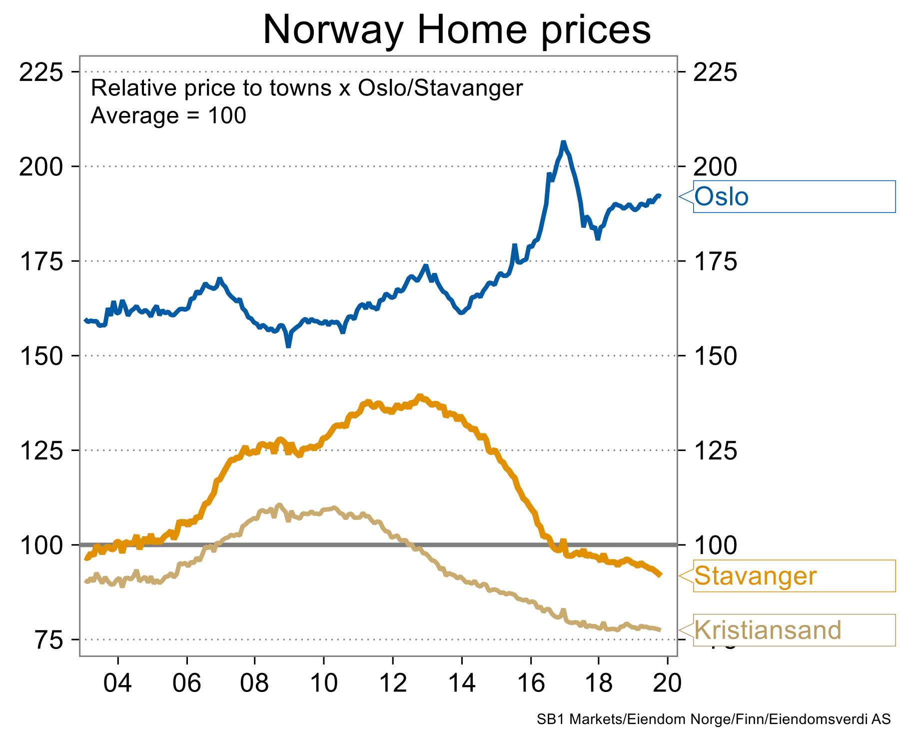
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Measured 3m/3m, prices are now rising in all cities expect Stavanger, in which prices are falling by 3%, and a flat Drammen, Prices in Oslo and accelerating, up 6% 3m/3m, followed by Bergen at 5%
  - » Compared to 3 months ago, prices are accelerating in 6 of 16 regions, slowing in 10 (and declining in 1)
- Prices in most cities are now above the local 2017 peak level
  - » Oslo is just some 1% below the (very high) 2017 peak. Bergen is above the peak level. Stavanger is 12% below the 2013 peak. Housing starts is reduced by some 50% since, but still many homes are built, <u>we assume because 2.hand prices are still high enough to make building profitable</u>

The Stavanger bubble has burst?

Real prices down 25%, a “normal’ setback when house prices fall

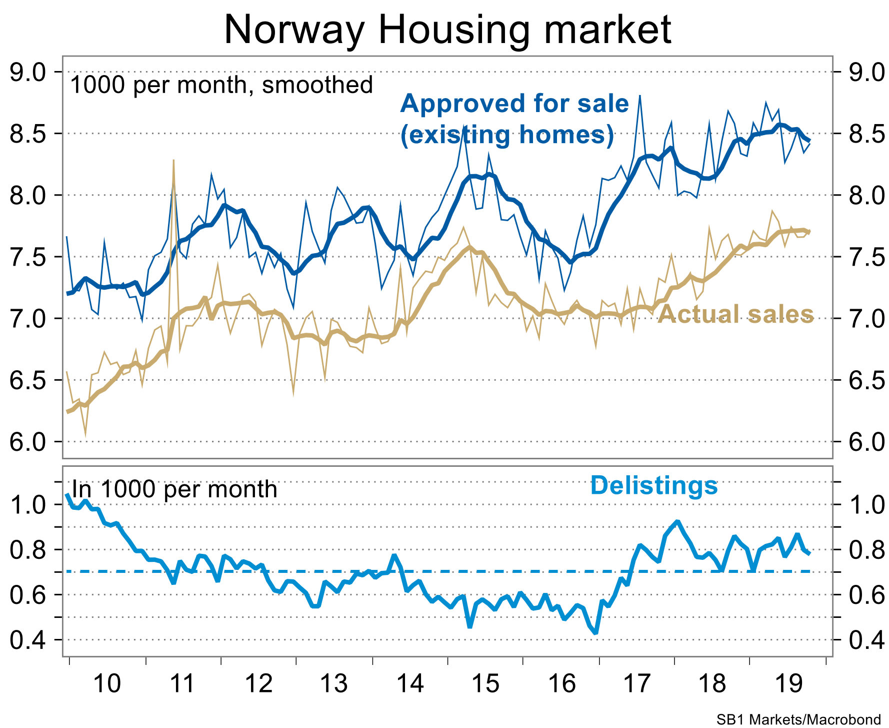


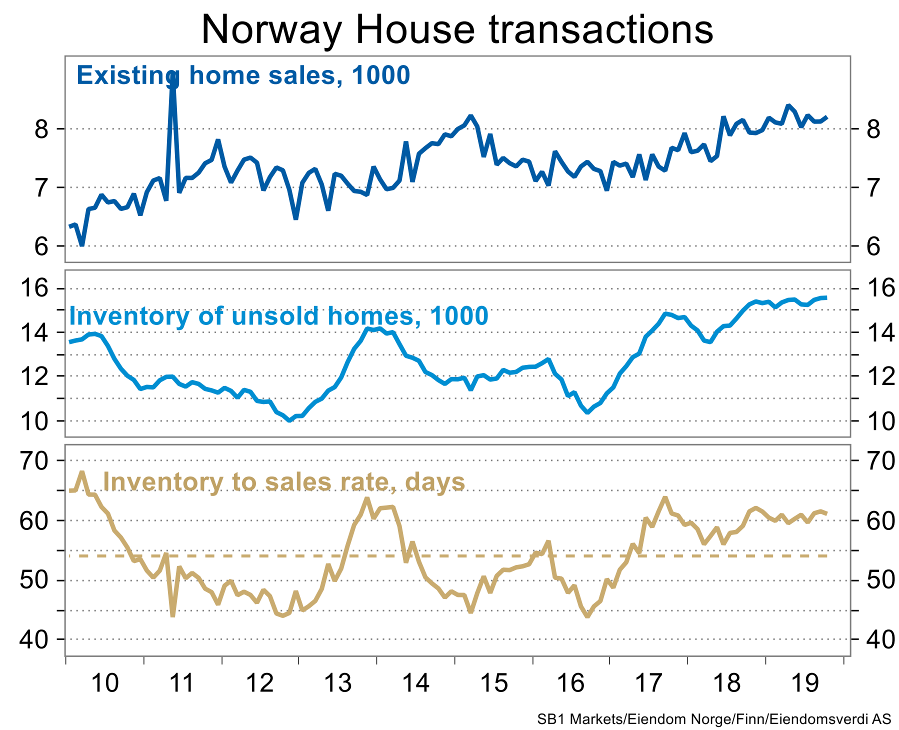


- Stavanger real prices back to the 2007-level
- Prices are below the national average (prices are between level in Bodø and Hamar)
- Housing starts in Stavanger/Rogaland have fallen but are still above the past 25 years’ average, indicating that prices are sufficiently high to support the market with new homes
- That could be case in other parts of the country too, even if prices fell back to the 2007 level?

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

Thus, the inventory of unsold homes remains high – but the upward speed has slowed

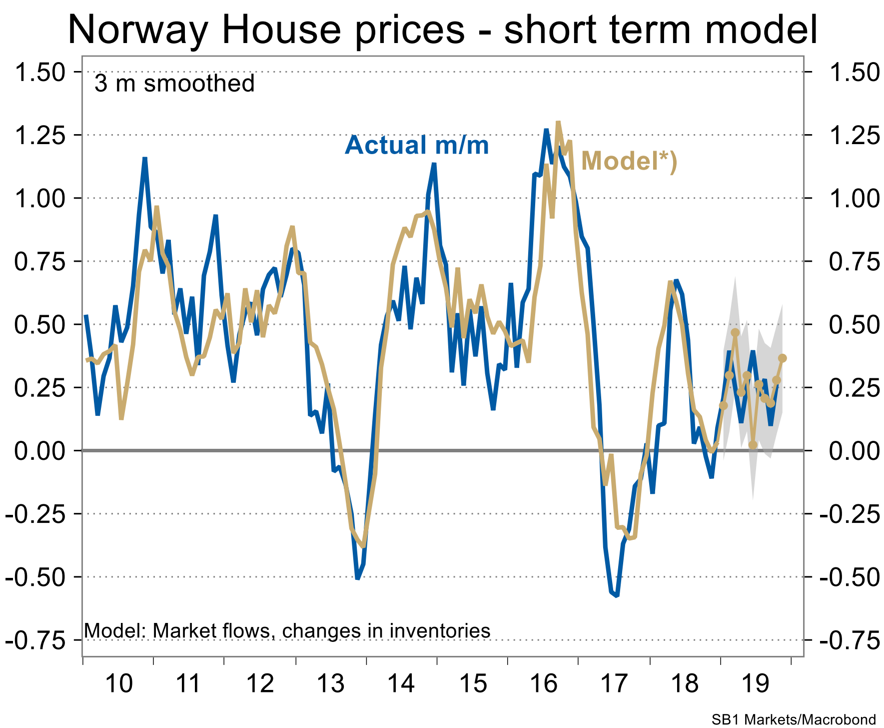


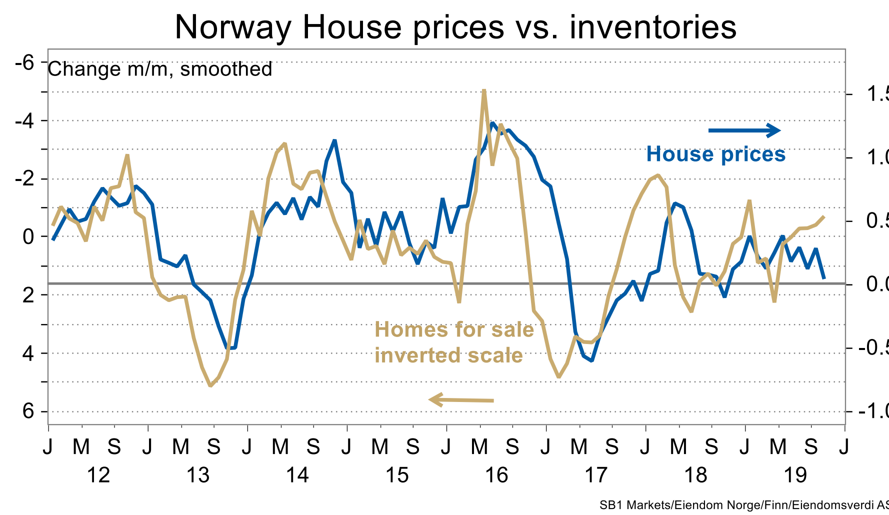


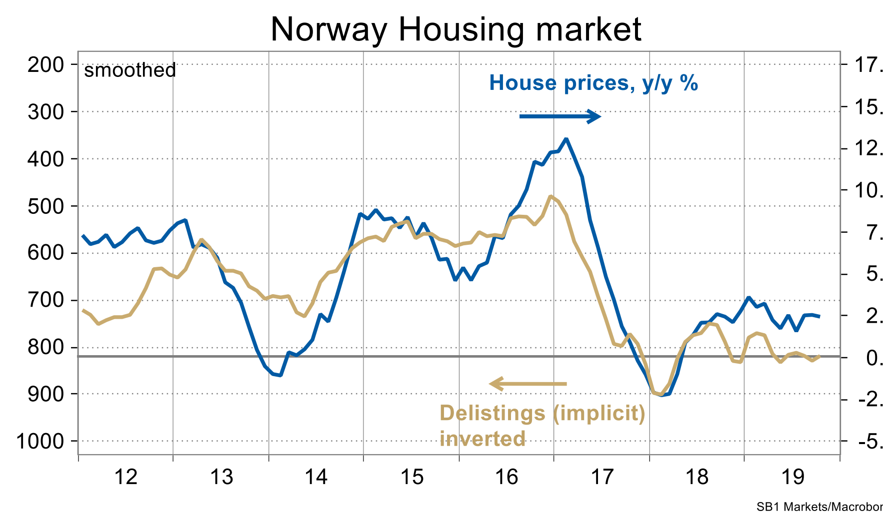
- **New listings of existing homes** have fallen somewhat the past 3-4 months but the level is very high and will most likely remain high for some time, partly because many newly built homes are completed
- **The number of sales** have climbed, reflecting strong demand, may be flattening out now, at a high level. However, demand has not been sufficient to absorb the supply of homes; hence, the **number of homes for sale (inventory)** is kept up. The inventory rose marginally in October, growth has slowed recently, at a high level. The inventory to sales ratio (turnaround) is quite high, at 62 days, vs avg at 53. The number of delistings (implicit) is higher than normal; may indicating some mismatch of price expectations
- The flow balance on the housing market indicates moderate price growth the coming months, check next page

Market flows signal somewhat higher price growth, other factors do not

The inventory build up has slowed, suggesting higher growth. But interest rates have been hiked…



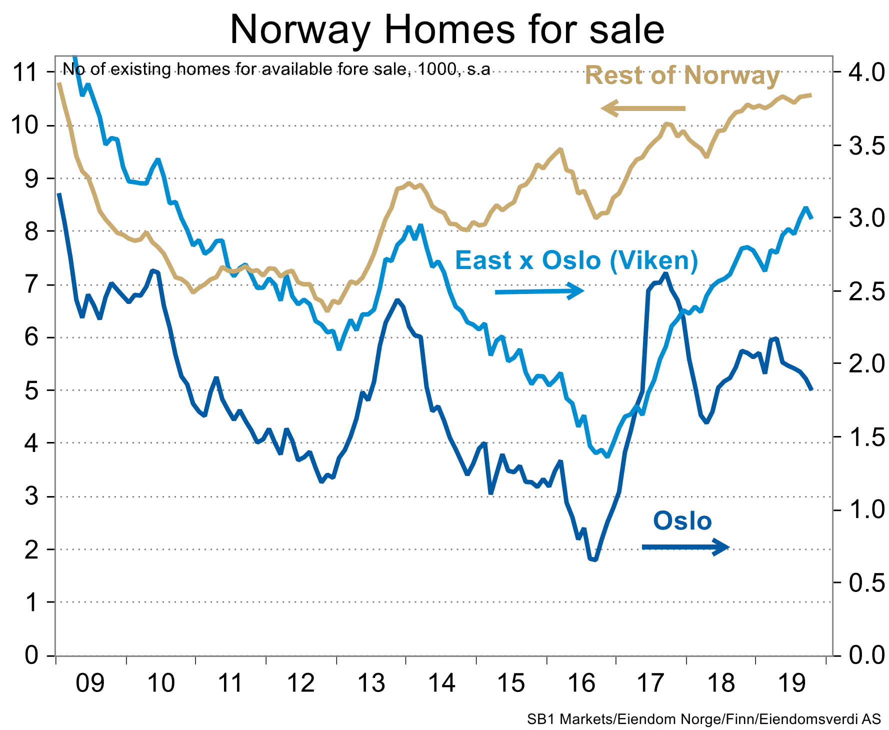


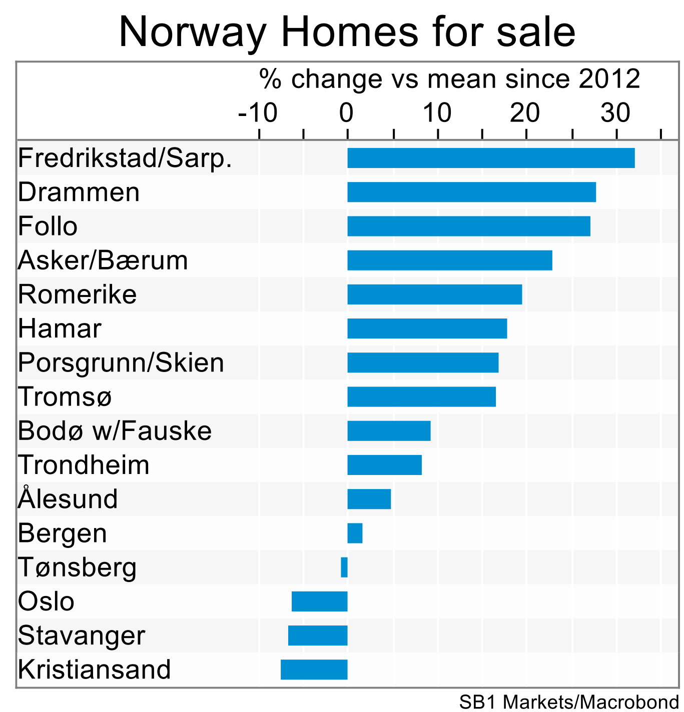


- The supply of new homes for sales and the inventory suggest some 0.4% m/m growth the coming months, higher than the recent price inflation
- On the other hand; other factors indicates lower growth; interest rates have been increased and credit growth is slowing
- *This is <u>not</u> a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

The number of homes for sale is higher than 'normal' most places

... Barring Oslo, where the inventory is well below the 2017 level

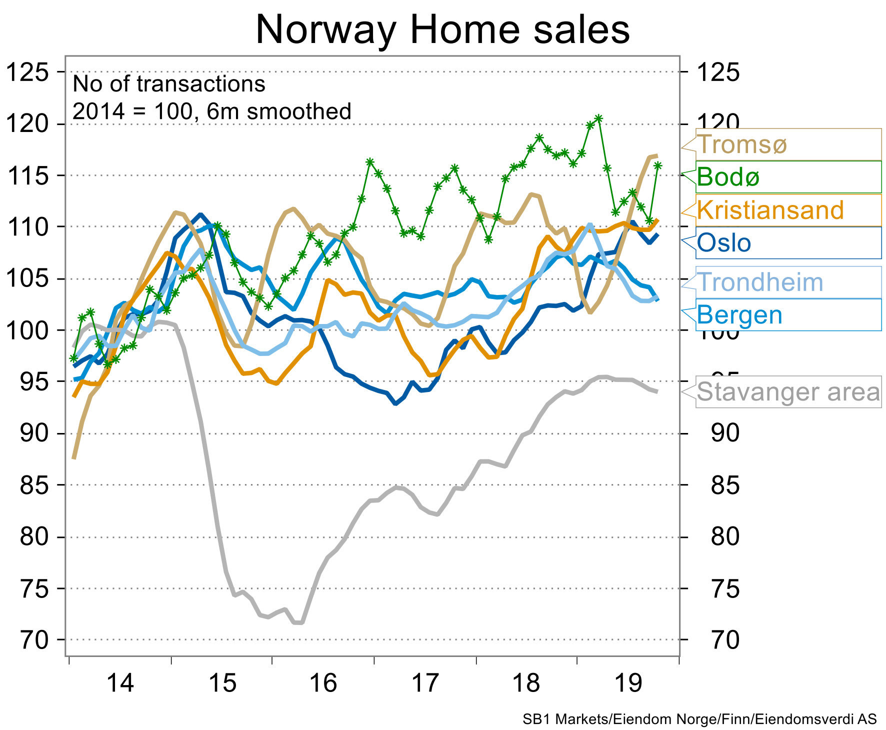


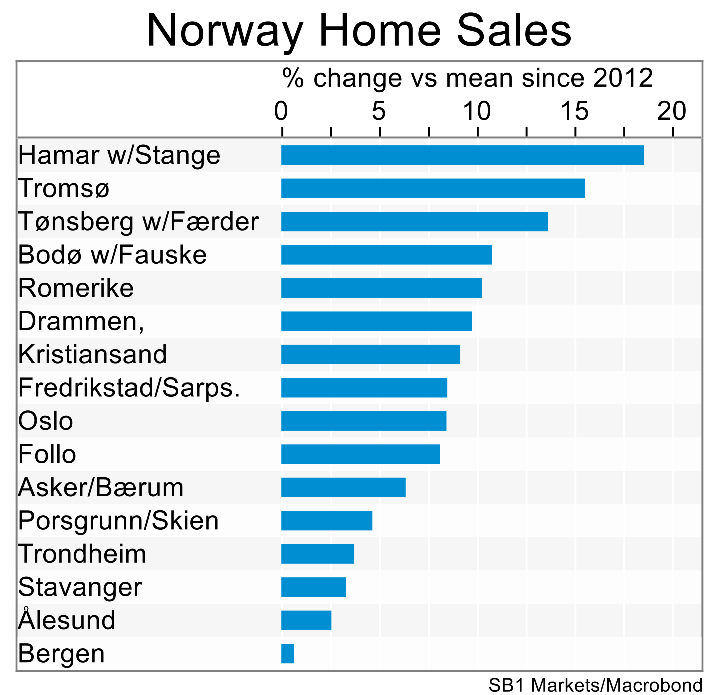


- The number of homes for sale have been increasing all regions x Kristiansand, Oslo and Stavanger
- Norway outside Oslo & Viken (Akershus, Buskerud, Østfold; or East x Oslo) reports a soaring number of existing homes for sale, the highest one record (2009). The inventory in Viken is increasing rapidly too, at the highest level since 2010. Follo, Fredrikstad and Drammen are at the top of the listings ranking vs the average since 2021
- The Oslo inventory has been reduced recent months, and the level is well below the 2017 peak level

Sales are surging in Tromsø, Oslo, sagging in Trondheim, Bergen

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



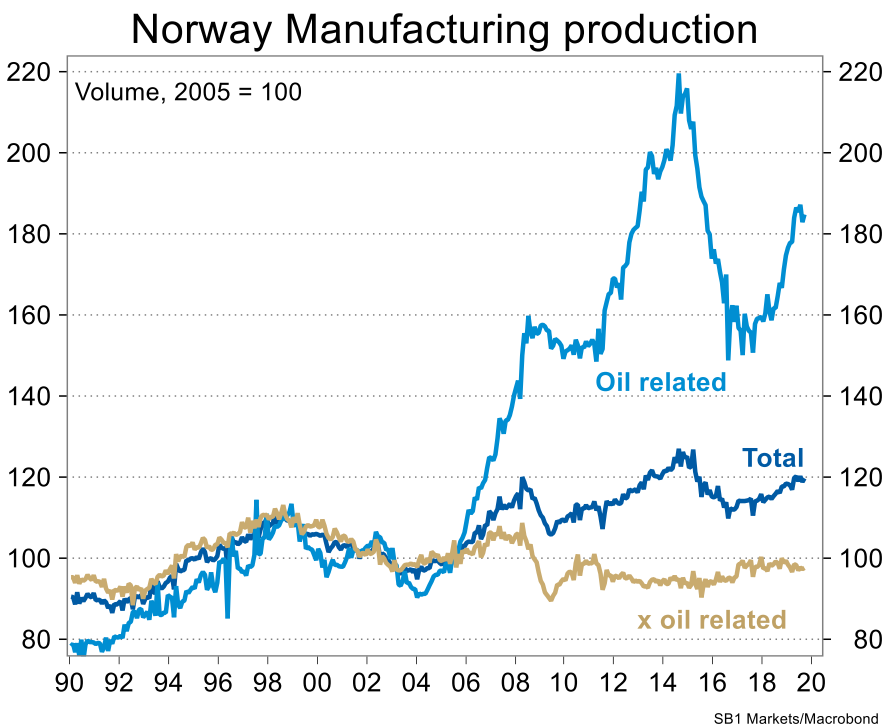


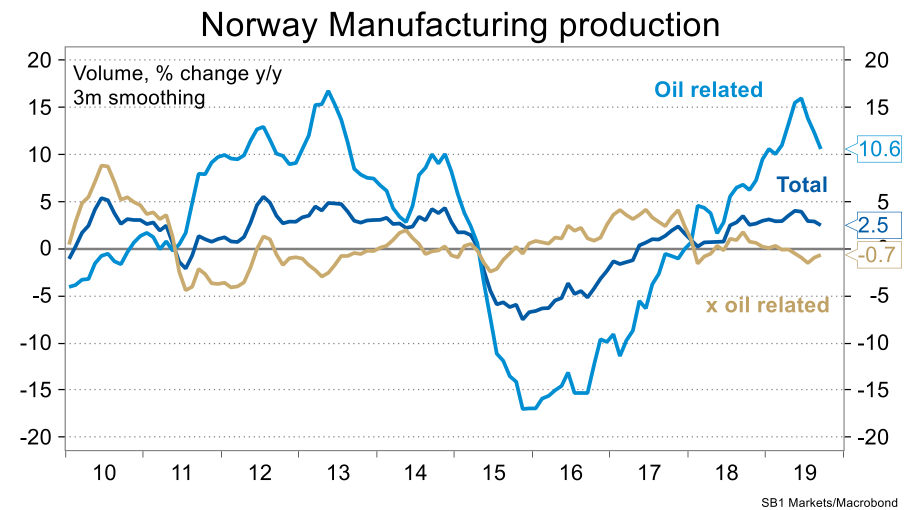
- In Tromsø, sales are soaring and prices are increasing, demand must be strong. In Bodø, the number of transactions fell steeply in July and has been recovering steeply since (we apply a 6m smoothing on the chart above). Prices are anyway soaring in Bodø, no demand weakness
- Oslo demand is solid and sales are trending up, although softening recent months
- Sales are declining in Trondheim and Bergen, but probably due to suppy factors and not weak demand, as the number of homes for sale has slowed in both cities

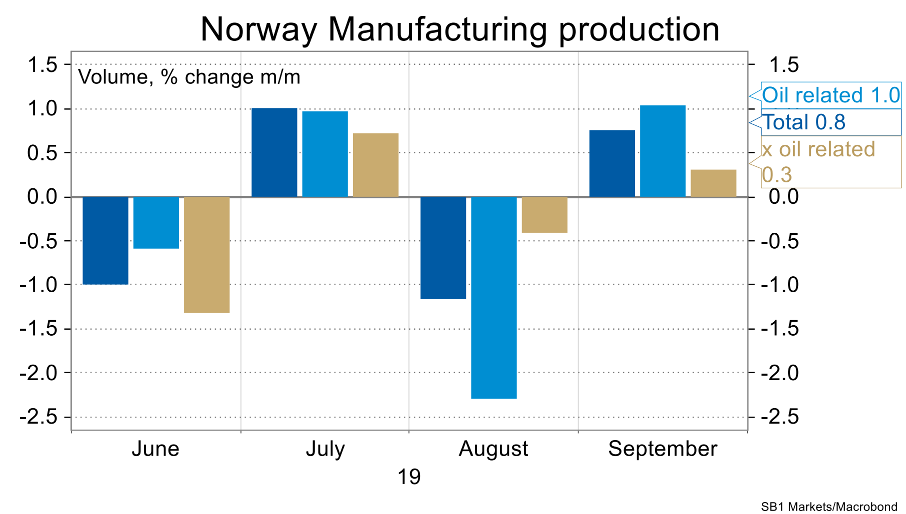
SpareBank 1 MARKETS

Manufacturing production flattens as oil related sectors are cooling

Production rose 0.8% in Sept but growth vanished in Q3. Surveys signal a prompt slowdown





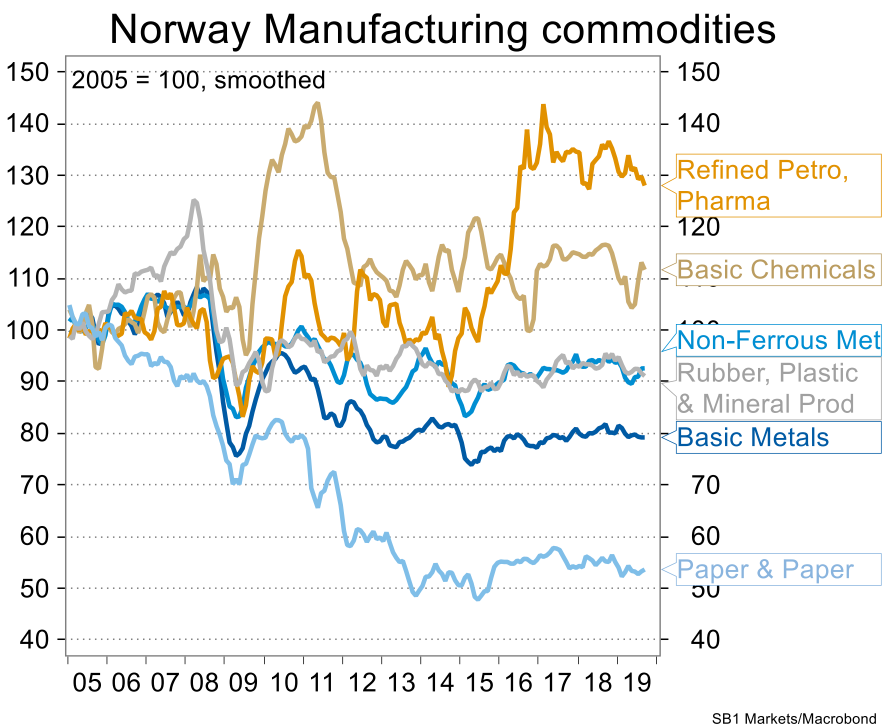


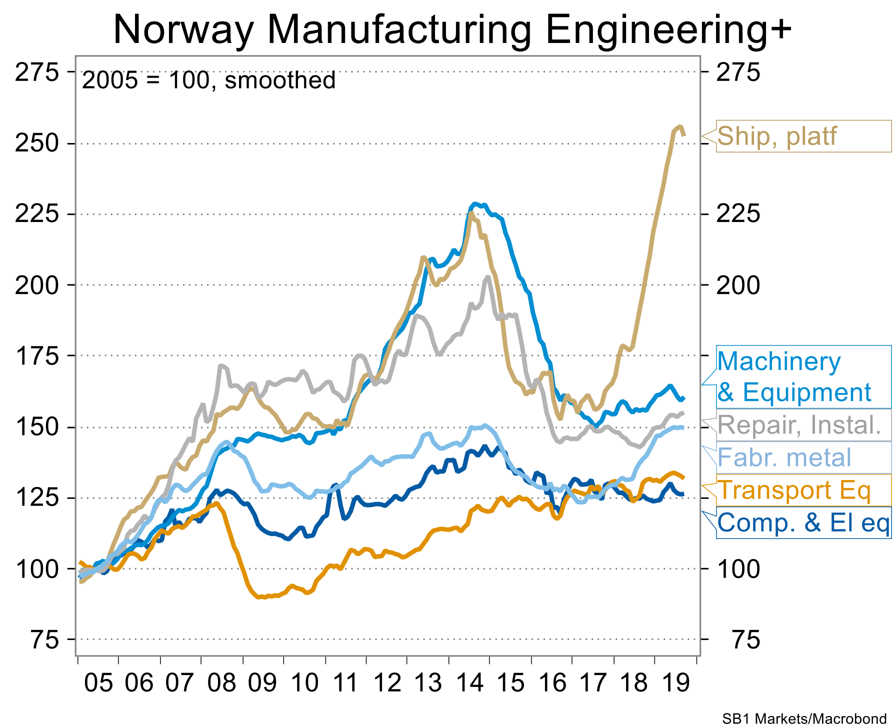
- Total manuf. production increased by 0.8% m/m, 0.2 pp below our f'cast but 0.4 pp above consensus. Prod. fell 0.3% annualised in Q3, from a +6.7% speed in Q2. The annual rate is easing, to 2.5%, from 4 (smoothed)
- The upturn the past 2 years has merely been driven by oil-related manufacturers, which are up 10.6% y/y. However, we assume the oil investments – and thus oil related production – is peaking now
- Non-oil related sectors have been flat the past couple of years (and the past 25 years!), no reason to expect any upturn
- <u>Surveys have softened and point to weaker growth going forward</u>

SpareBank 1 MARKETS

Production of ships & platforms has been soaring, commodities not impressive

Most engineering sectors trending up, ships/platforms and machinery & equipment slowing now?

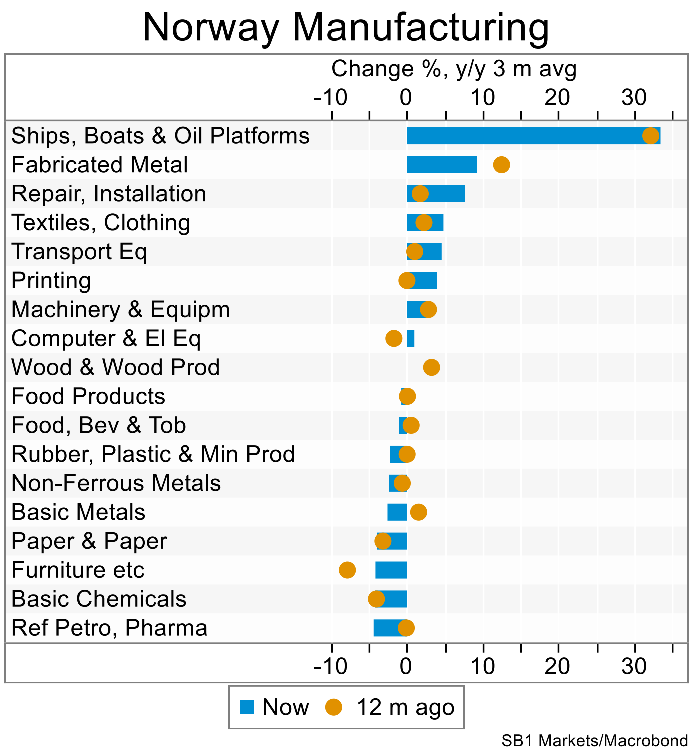


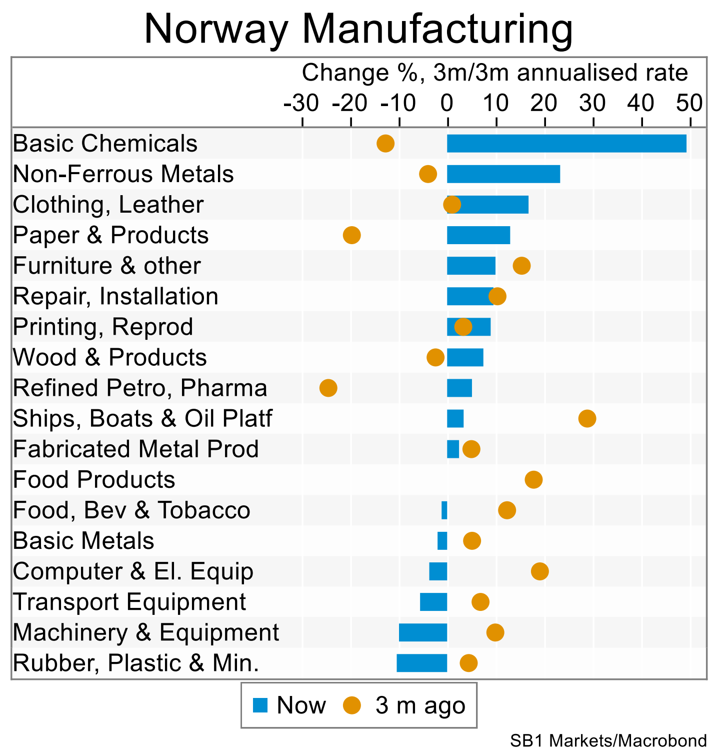


- It’s almost as we do not believe it, production of ships and platforms is almost 15% higher than at the 2014 peak, in volume terms. However, overall petro related manufacturing and support activities are down some 15% from the peak in volume terms
- Engineering sectors: ships & platforms may be peaking now (or soon), production slowed in Aug/Sept. Most other partly oil-related sectors are trending up but most have lost some steam recent months, particularly machinery & equipment production
- Commodities: Basic chemicals and non-ferrous metals have turned up recent months but none are impressive, even refined petroleum and pharmaceuticals are not more than flat, at best. Basic chemicals have recovered but the trend is down

Production of ships & platforms up just 3% in Q3, vs 29% in Q2

Production is increasing in 11 sectors and accelerating in 6, just 6 sectors are declining (5 slowing)

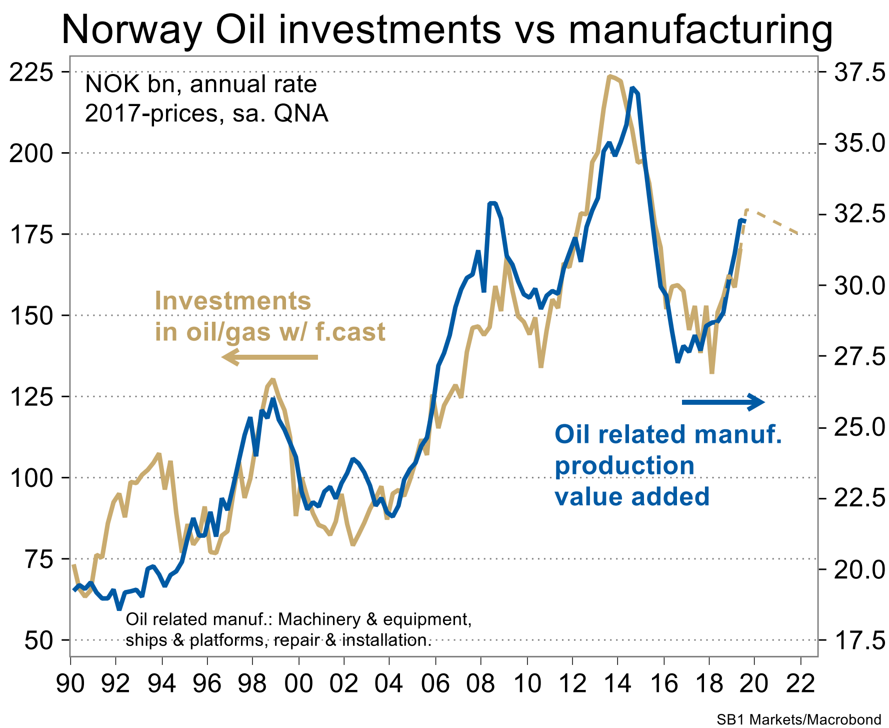




- Ships/platforms production is up 34% y/y (smoothed), an acceleration from 22% one year ago. However, the entire upswing took place up until 6 months ago, growth has not increased the past 6 months
- Not that impressive in other oil related sectors; machinery up just 2.7% y/y, repair & installation up 7.7%
- Fabricated metals have been growing strongly at 9% but production is slowing now /
- Production is declining y/y in half of the sectors

How large is the upside in oil related industries? Probably nothing

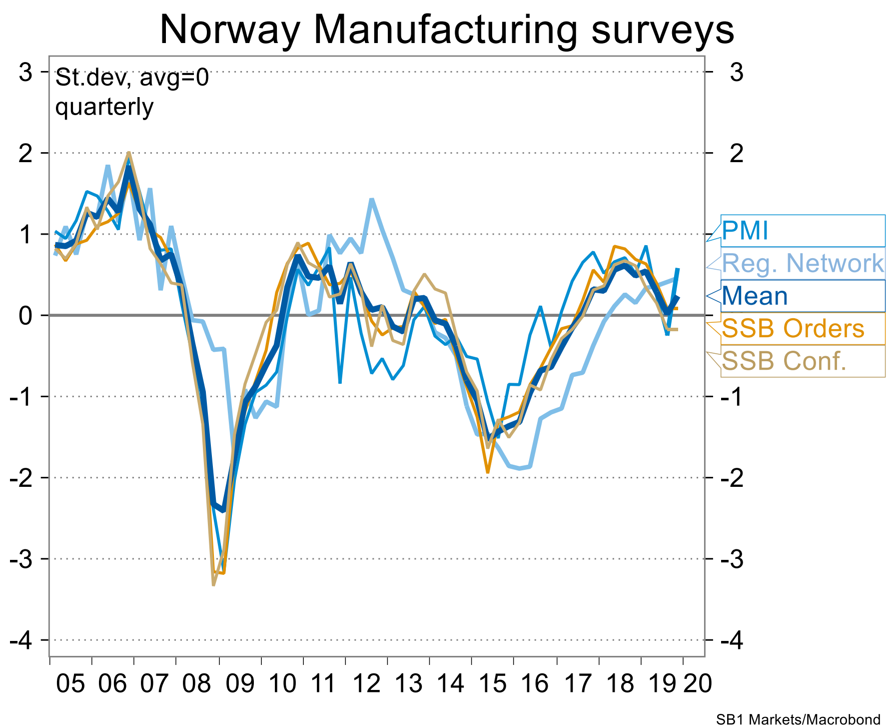
Oil investments will probably be close to our 2020 estimate by the end of H2 this year

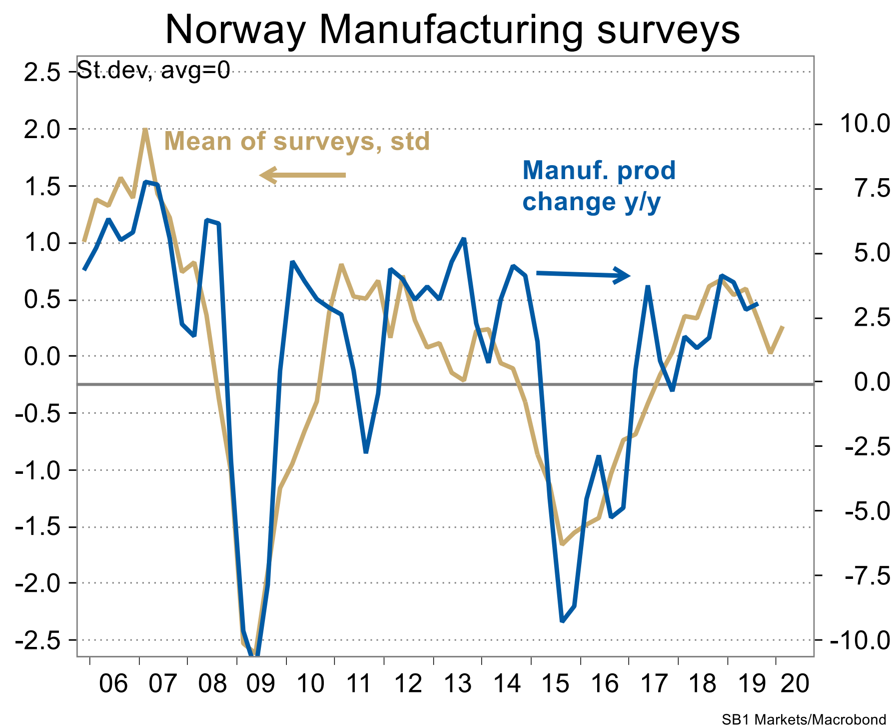


- Production in oil related industries have soared since late 2017, closely correlated to the increase in oil investments, as reported in the National accounts
- Oil investments will probably come close to the local peak now – during H2 – at some 6% above the Q2 '19 level
- If correct – and if Norwegian manufacturers do not gain market shares from foreign competitors – oil related production will soon flatten out
  - » Neither Norges Bank's regional survey (in Q3), SR-bank's regional survey (Q3) signal an immediate halt in growth. However, SSB's Q3 manufacturing survey points to a decline to zero growth the coming months
- A modification: Non-oil related shipbuilding may become more important if oil investments flattens out. Not totally unreasonable, given the weak NOK
- However, some extra negative signals: Both manufacturing and power supply investments are expected sharply down in 2020, according to SSB's investment surveys for these two sectors

Manufacturing surveys signal a slowdown in production, no contraction

All manuf. surveys x Reg. Network have softened, SSB's confidence survey the most downbeat



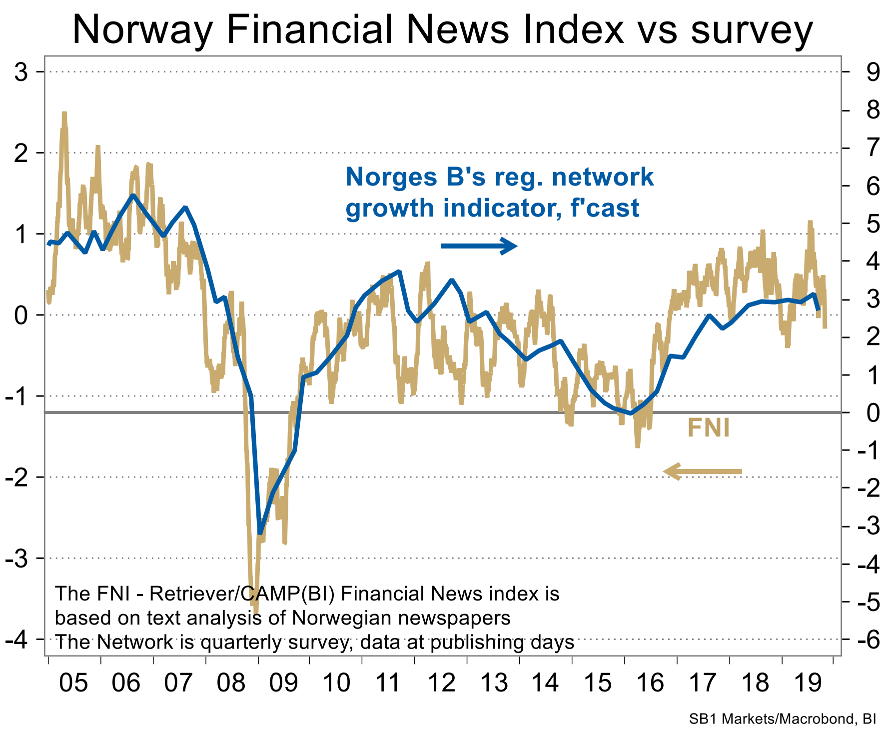


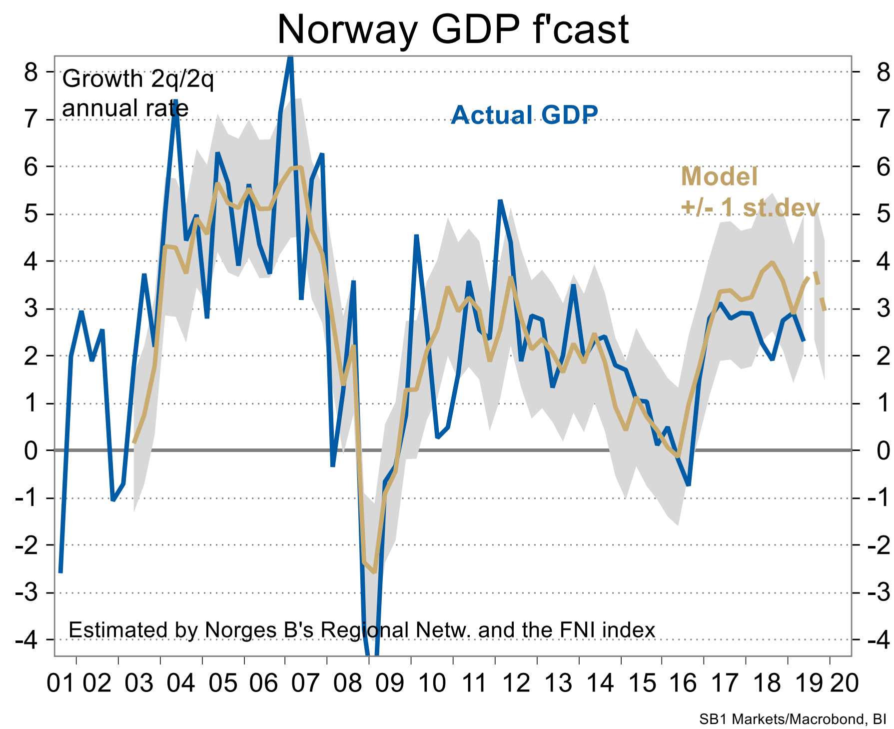
- Surveys are somewhat mixed, with the Regional Network and the PMI as the most upbeat and SSB's industrial confidence survey at the bottom. In sum, the surveys suggest that the growth peak is behind us, signalling 1 – 2% growth
- SSB's Q3 industrial confidence survey notes the steepest decline, to zero growth. The PMI is the most volatile of surveys, rebounding strongly in October and is now the most upbeat of these surveys
- Norges Bank's Q3 Regional Network has so far not report decreasing growth but we expect a substantially weaker Q4 survey

SpareBank 1 MARKETS

The Financial News Index down through October, still signals above 2% growth

Reports on the economy have been more negative since mid-July but still better than early 2019





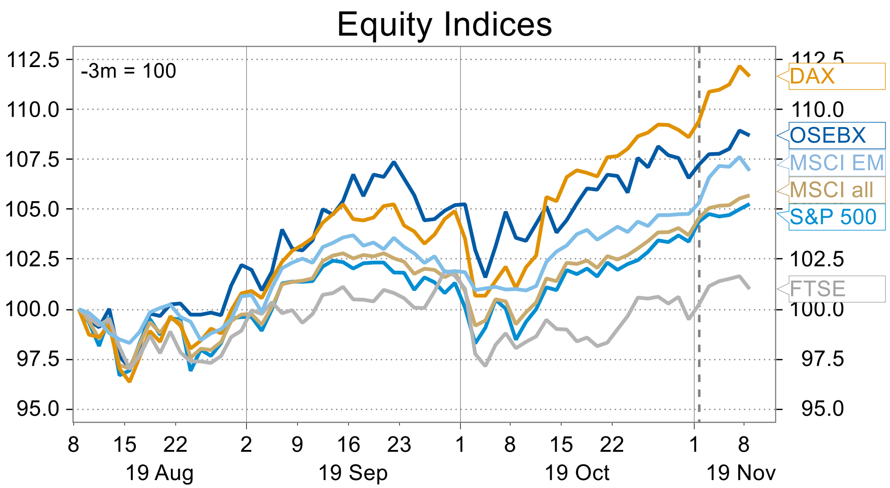
- The FNI tracks media reports on the economy. Trade tension, market turmoil, and a few softer key macro indicators have created more negative news flow in financial media since mid-July. In October, trade war news have been positive and financial markets have recovered. Some soft Norwegian data may have sent the index down
- The index does not signal lower growth, but somewhat slower than the rather upbeat Regional Network

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

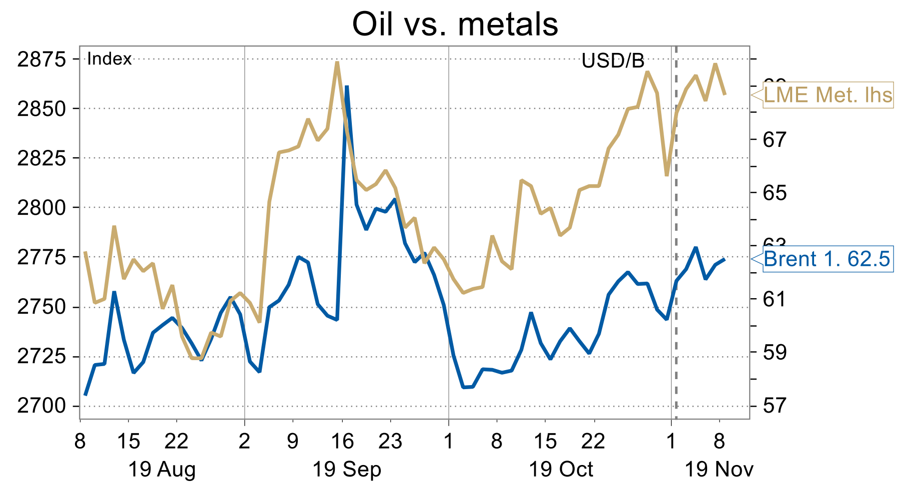
SpareBank 1 MARKETS

Risk markets are cheering positive (or now mixed?) US/China trade news, again

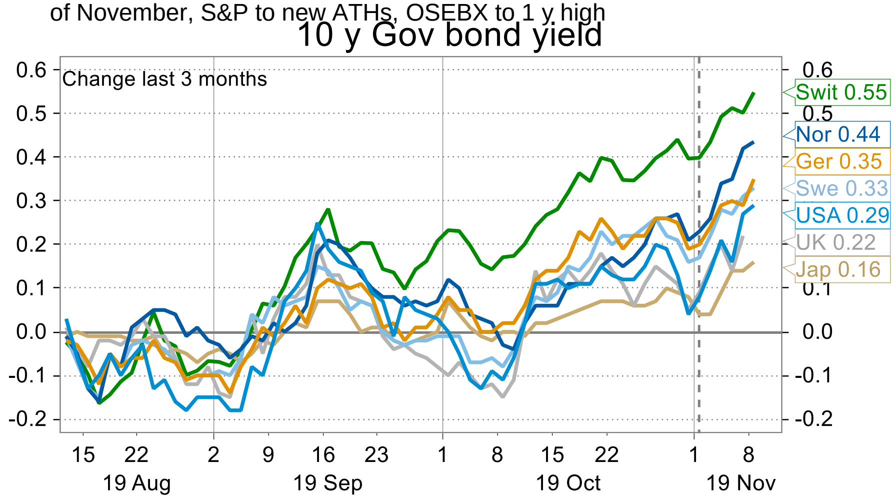
Stocks and yields climbed everywhere, and the oil price rose. USD&JPY weaker, SEK&NOK recovering



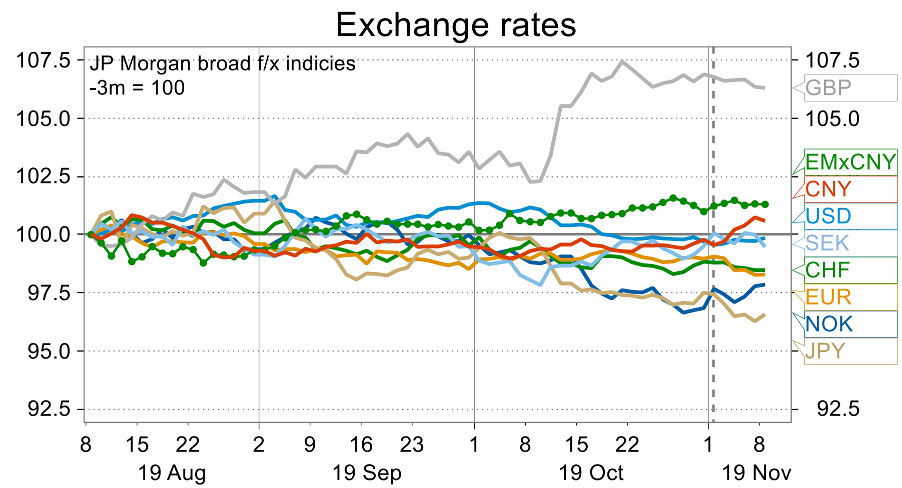
Stock markets have climbed through October and in the first week of November, S&P to new ATHs, OSEBX to 1 y high SB1 Markets/Macrobond



Brent oil price and metal prices rose last week, oil price at 62.3 SB1 Markets/Macrobond



Bond yields recovered all over last week, triggered by hopes of a US/China trade deal. US 10 y gov at 3 month high Thursday SB1 Markets/Macrobond



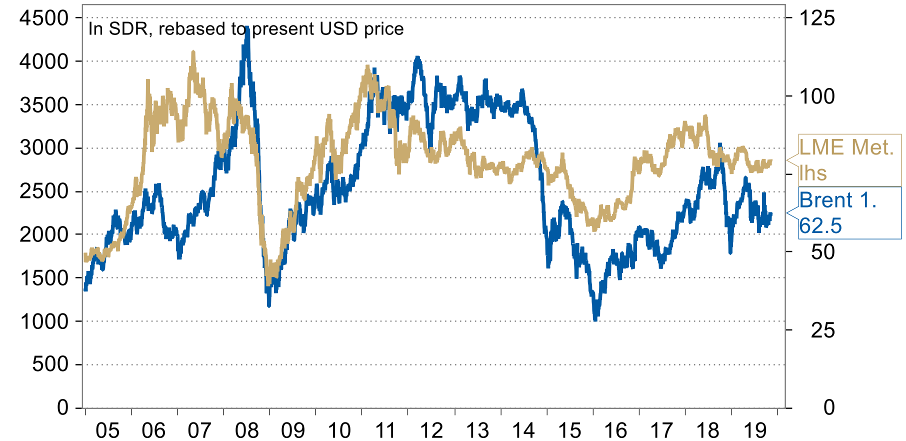
Risk on; EUR & JPY weakened last week, the USD flat, the CNY appreciated, and NOK (finally) and SEK softly up SB1 Markets/Macrobond

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

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

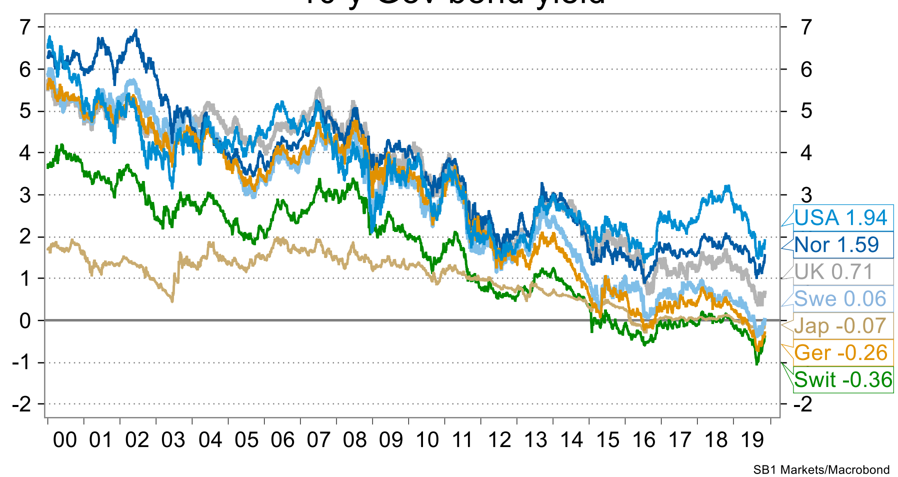
Equity Indices

Oil vs. metals

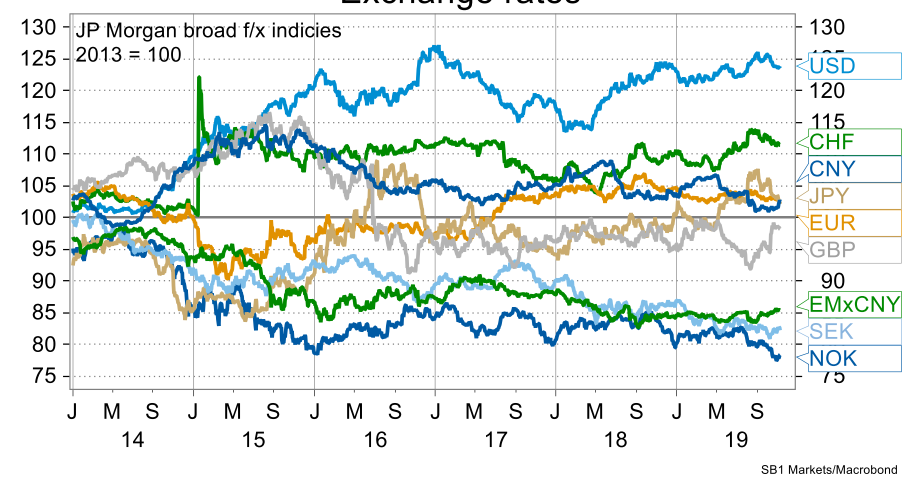


Metal prices may be trending down but slowly and the decline from the local peak is not large

10 y Gov bond yield

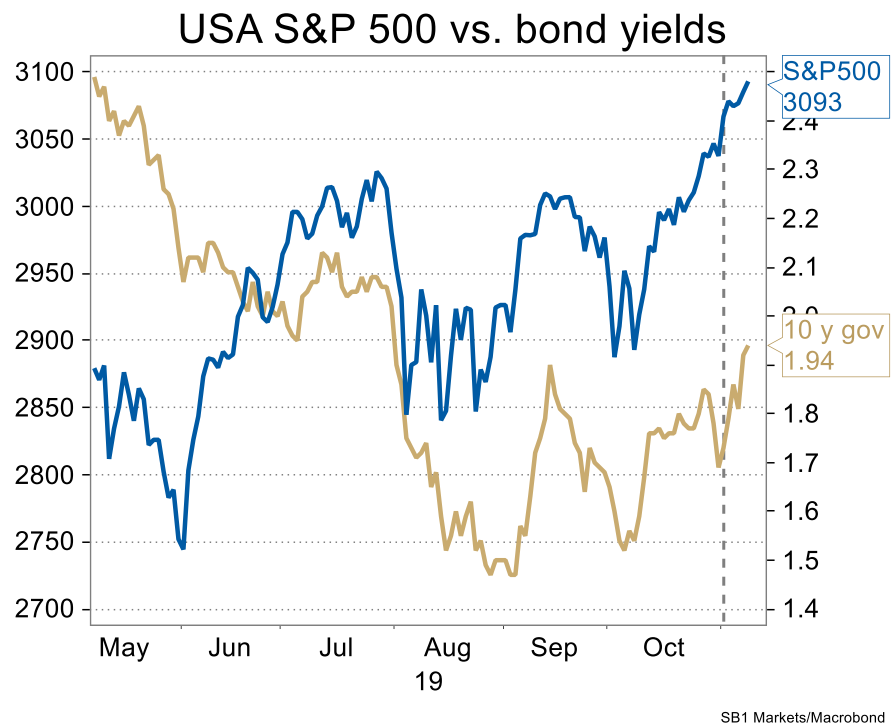


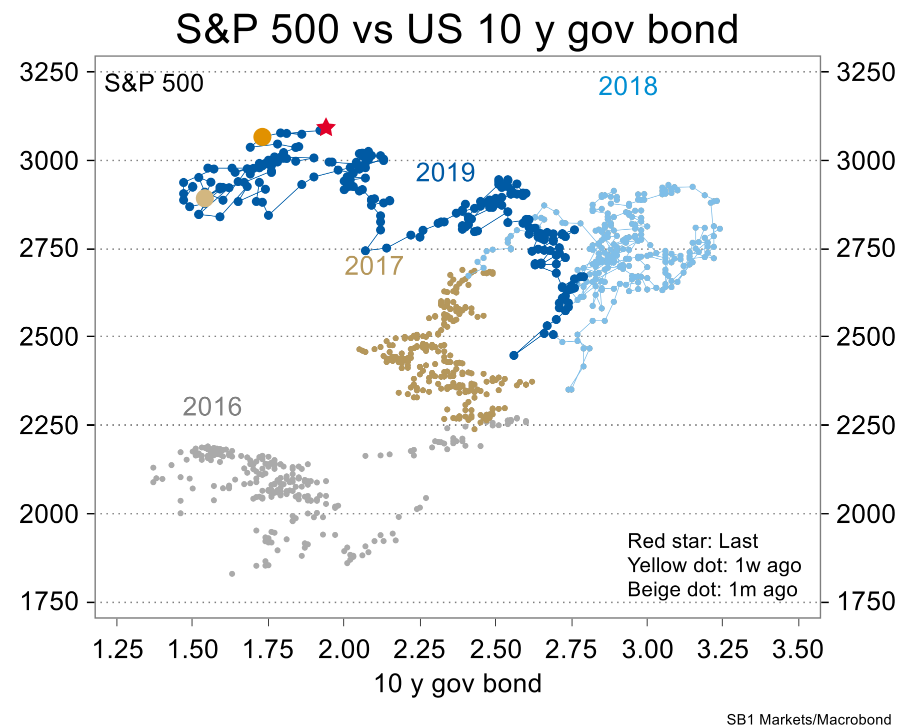
Exchange rates



US: Hopes of a phase 1 trade deal boost stocks and bond yields

The 10 y gov yield soared 21 bps last week, to the highest level since July, S&P up 0.9%

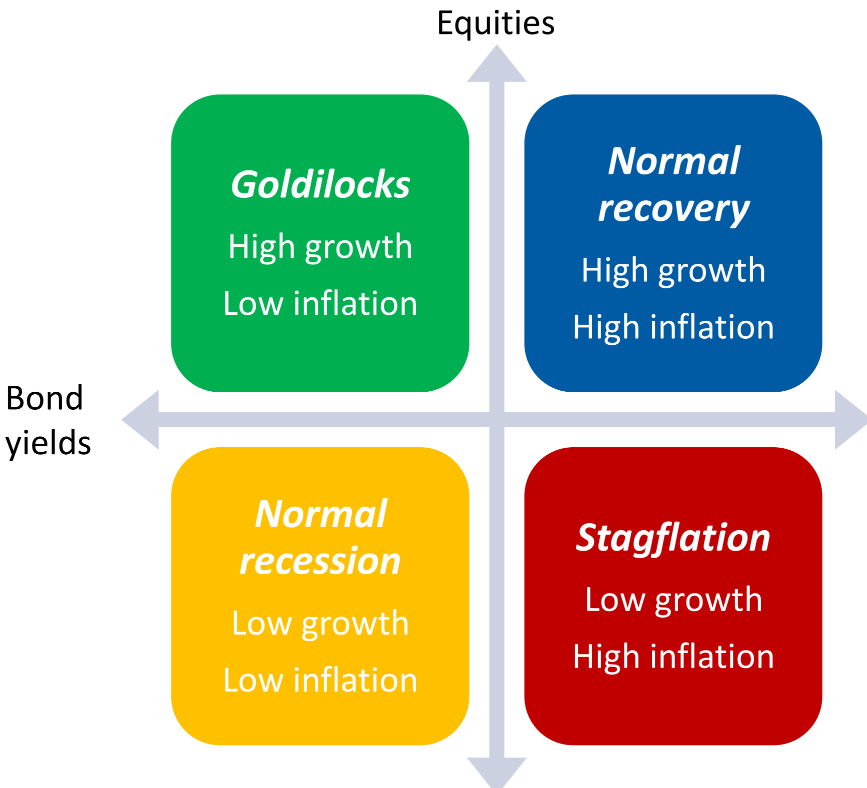


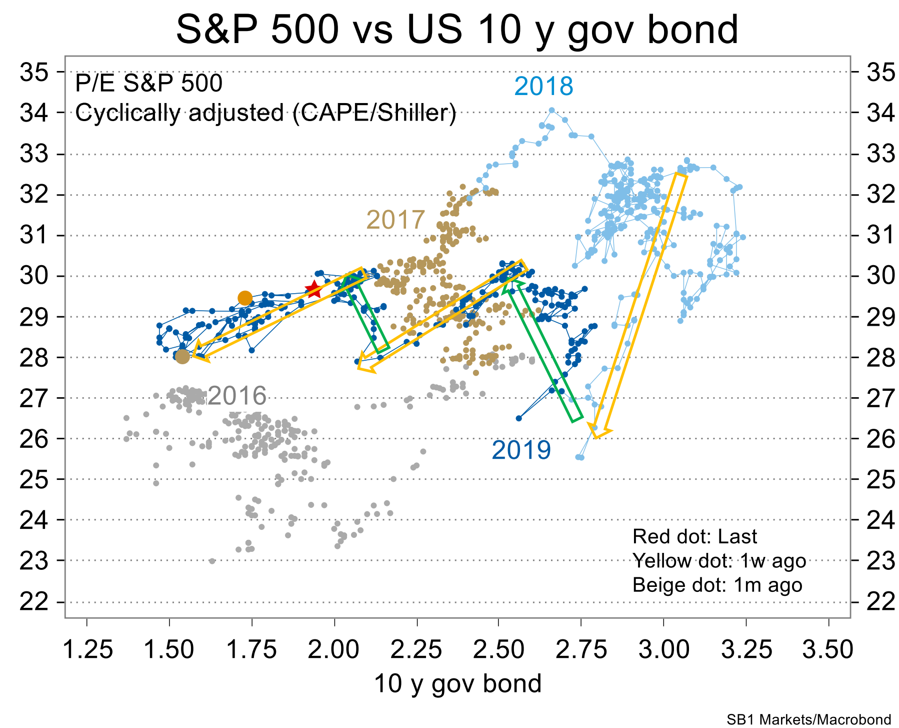


- Stock markets (measured by the S&P) have been soaring the past month, to 2% above the July peak. Stock markets cheered the upbeat US nonfarm payrolls report two weeks ago and positive trade deal reports last week
- Bond yields rose steeply as well, the 10 y gov spiked 19 bps on the week, to 1.92% (and was up to almost 1.97% intraday. The upturn is driven by both higher real rates and inflation expectations

US markets move towards the normal recovery corner

The past month, stocks/bonds have been slowly rising – and the recovery accelerated last week

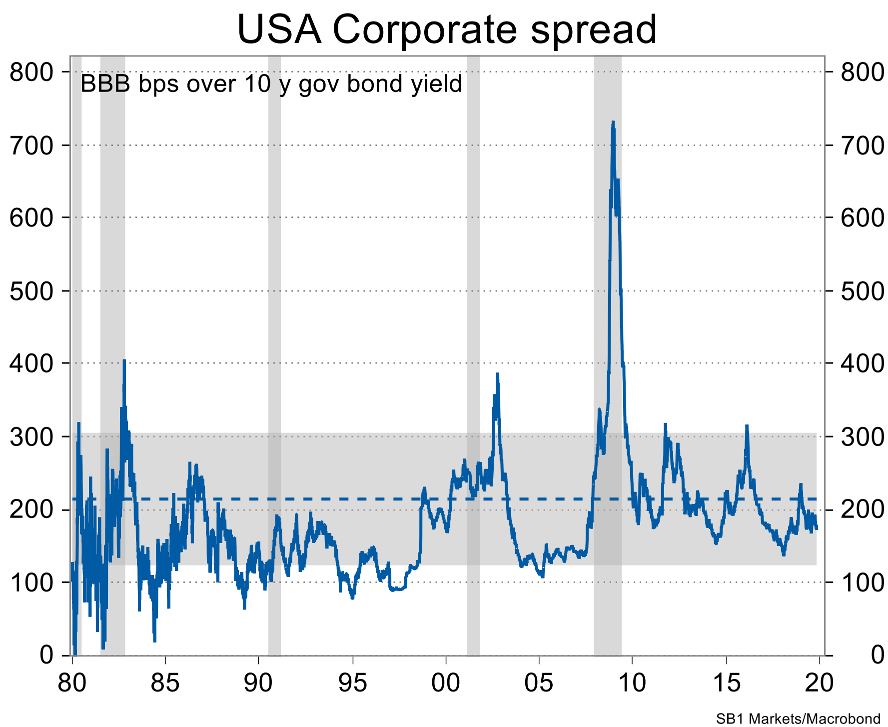


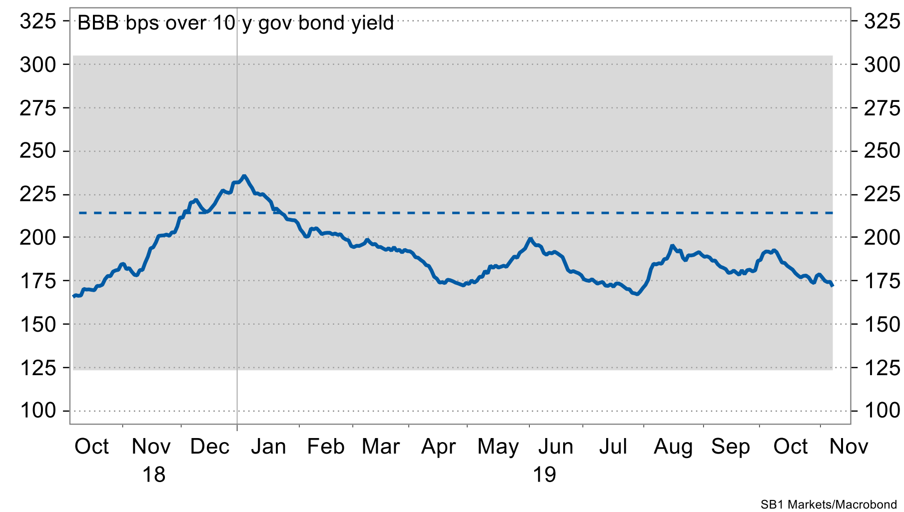


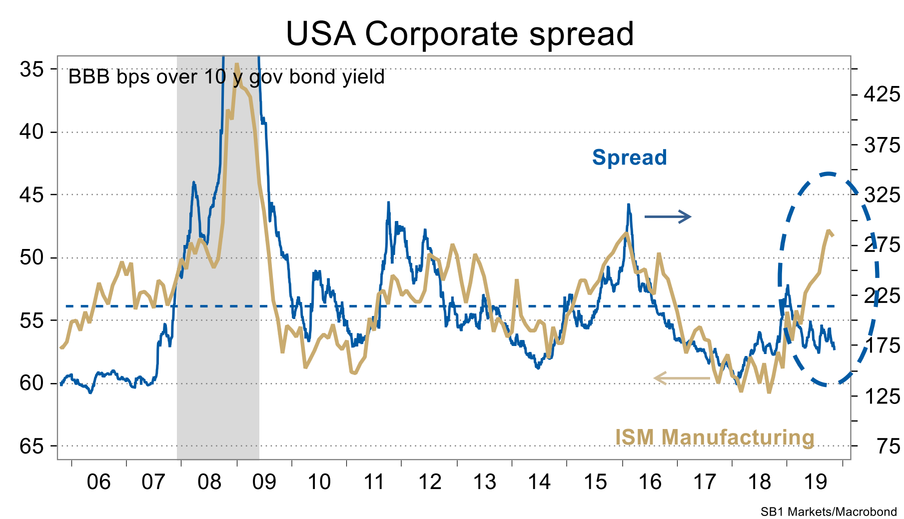
- Recent months, markets have been zig-zagging along with developments/news on the trade war. In August, markets moved towards the recession corner following the bad trade policy news. In early September, both markets were recovering, on hopes of a trade war de-escalation and some upbeat US macro data. In October and so far in November, trade news have been positive and markets have moved towards the 'normal recovery' corner
- We do not think a long term Goldilocks scenario is likely. Should yield decline substantially, 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. So, the normal recession/recovery axis is the most likely

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>

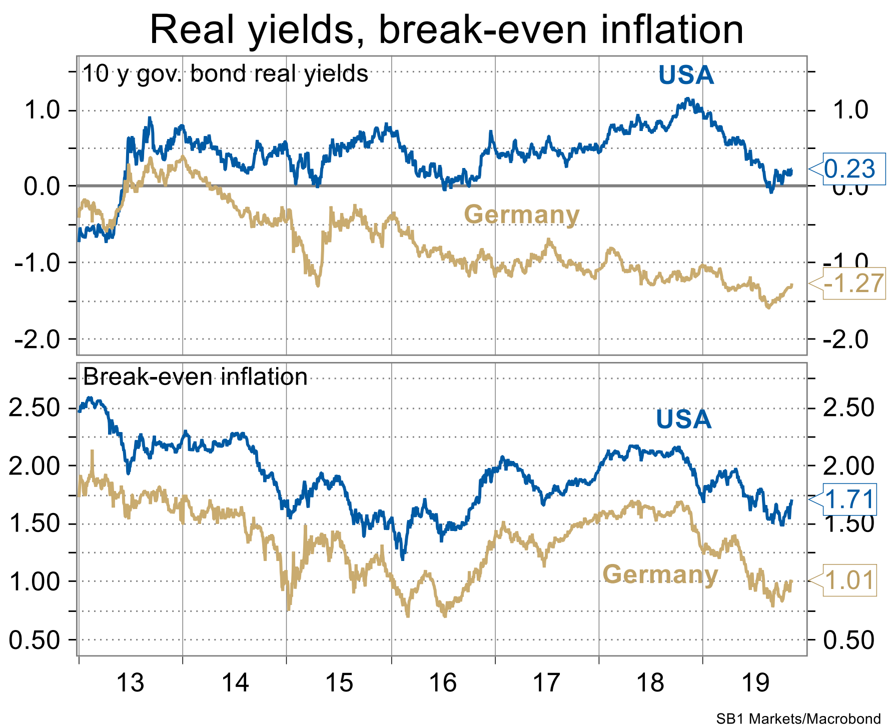


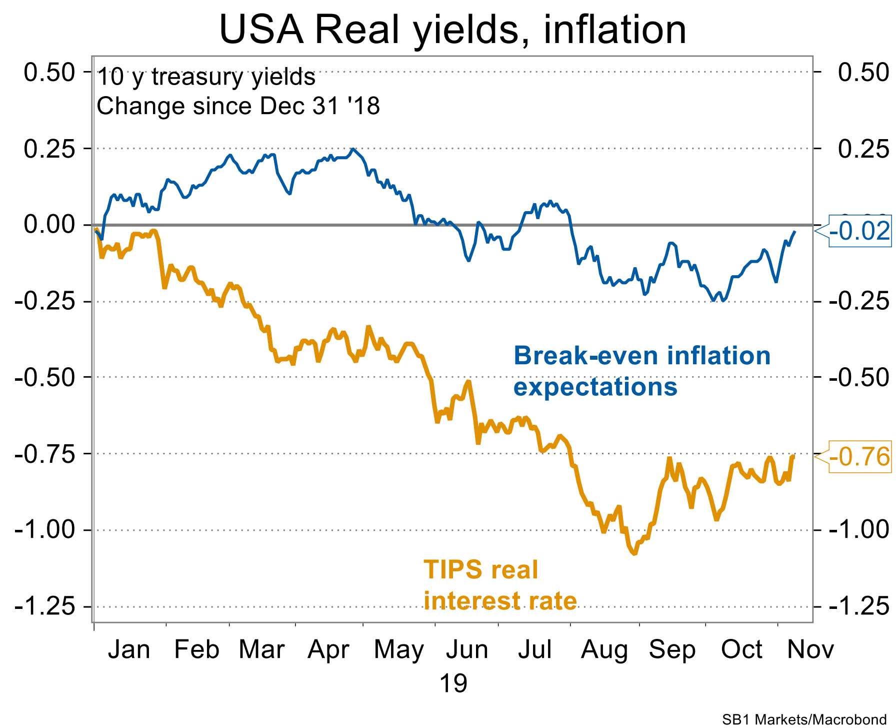




Both real rates and inflation expectations are slowly turning up

German real rates are up 28 bps since August, US real rates up 24 bps

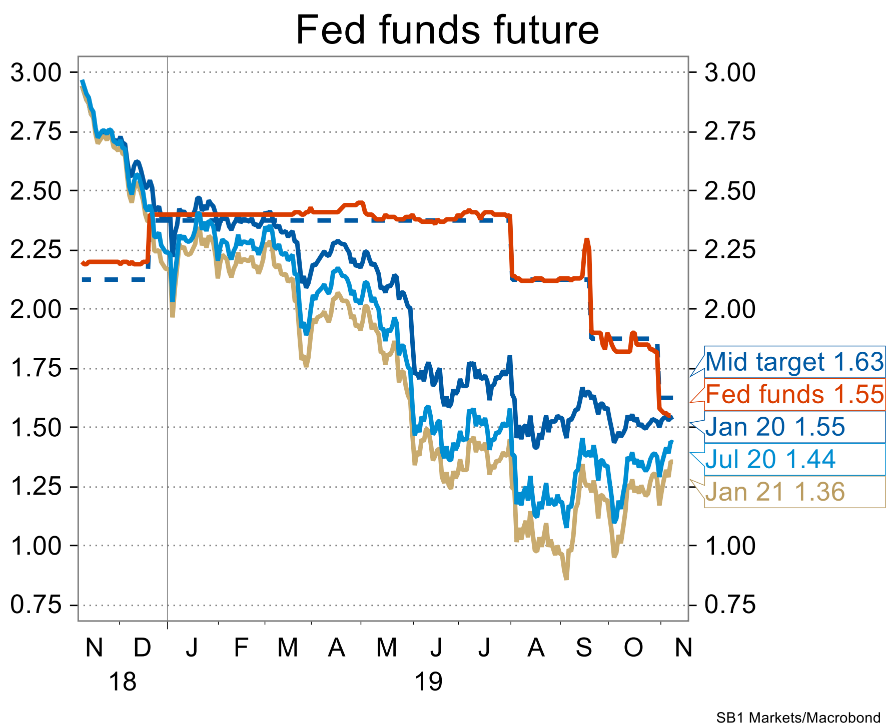


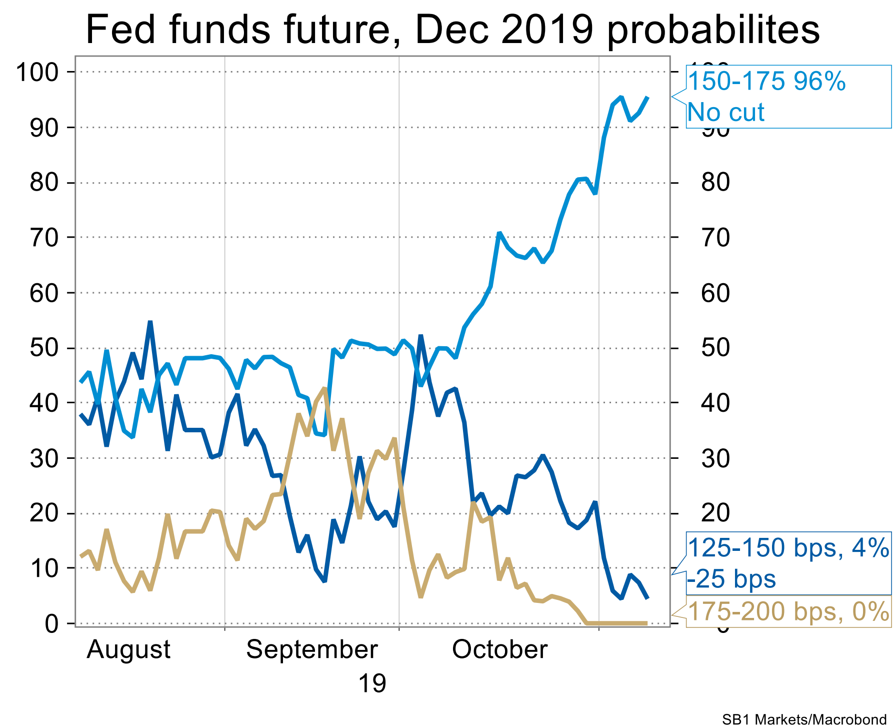


- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. Since early Sept, real rates have recovered somewhat more than inflation expectations, probably primarily due to hopes of a trade war solution
  - » The past week, both real rates and infl. expectations came up in the US, and German inflation expectations (real rates flat)
- German real rates bottomed have increased to -1.27%, still very low. Inflation expectations at 1.01% does not seem that far off, although well below the ECB's price target at close to 2%
- US 10y inflation expectations at 1.71% seems more reasonable, real rate still low, at 0.23%

Expectations of another 2019 Fed cut have been slashed

Fed fund futures are rising, just 1 interest rate cut is expected in 2020, vs 2 (and a Dec cut) in Sept





- At the October meeting, the Fed cut the interest rate to 1.5-1.75% but signaled no additional cuts the coming year. For the first time since the trade war escalation, markets now seem to have (more) faith in Fed's plans, probabilities for another 2019 cut have been reduced to below 10%
- The Jan' 21 FRA at 1.36% indicates that markets are pricing just 1 interest rate cut (of 25 bps) in 2020, most likely in H1 (by some 80% probability)
- The actual Fed Funds rate is now well below the target rate, liquidity in the money market must be rich

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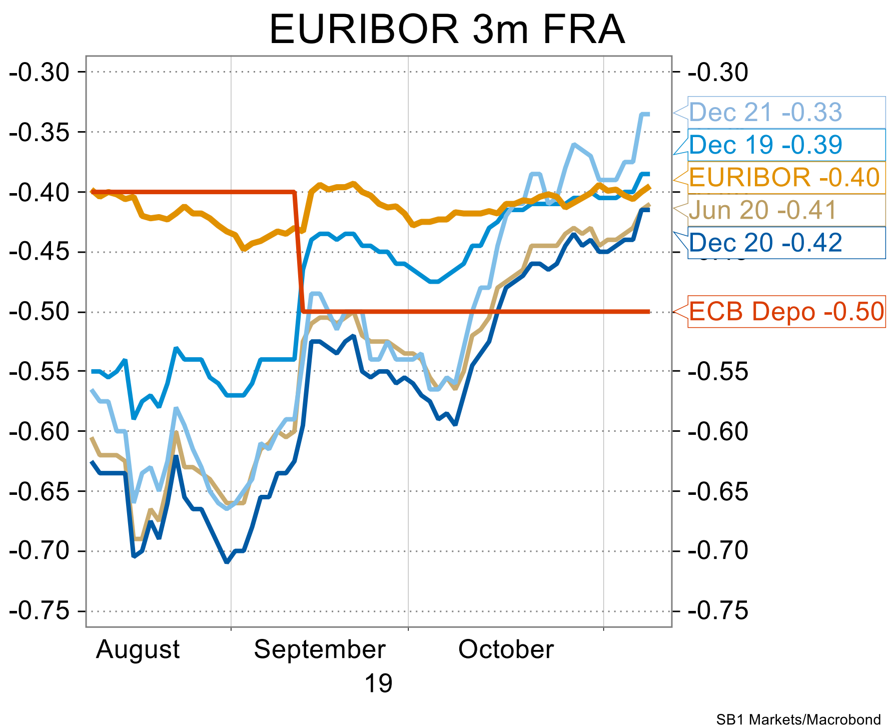
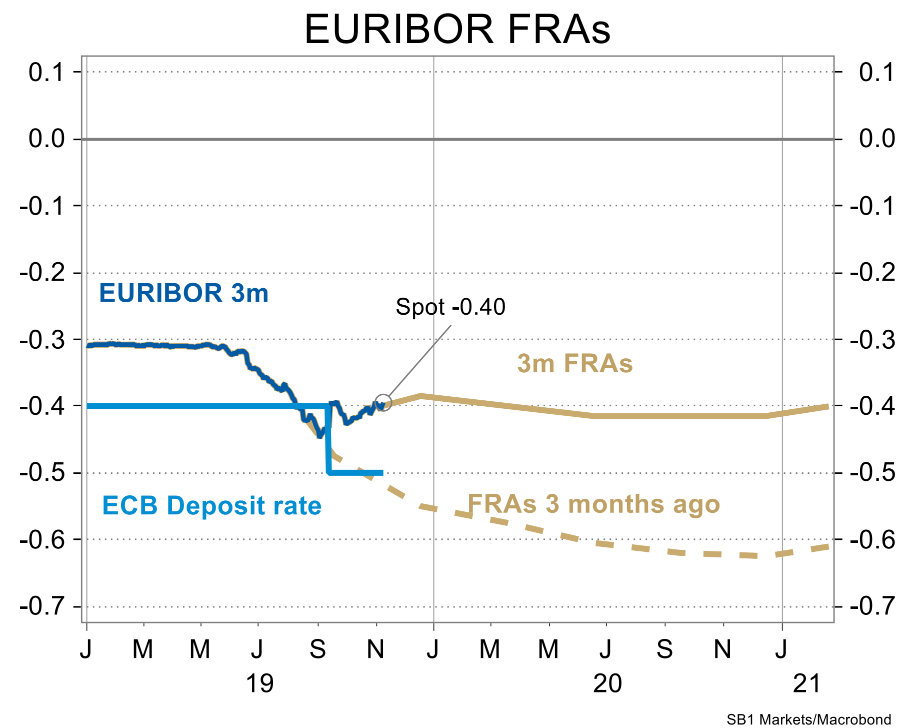
EUR FRAs are soaring, interest rate cut expectations have vanished

Markets expect an unchanged interest rate the coming year (with some 40% prob. of a ‘20 cut)

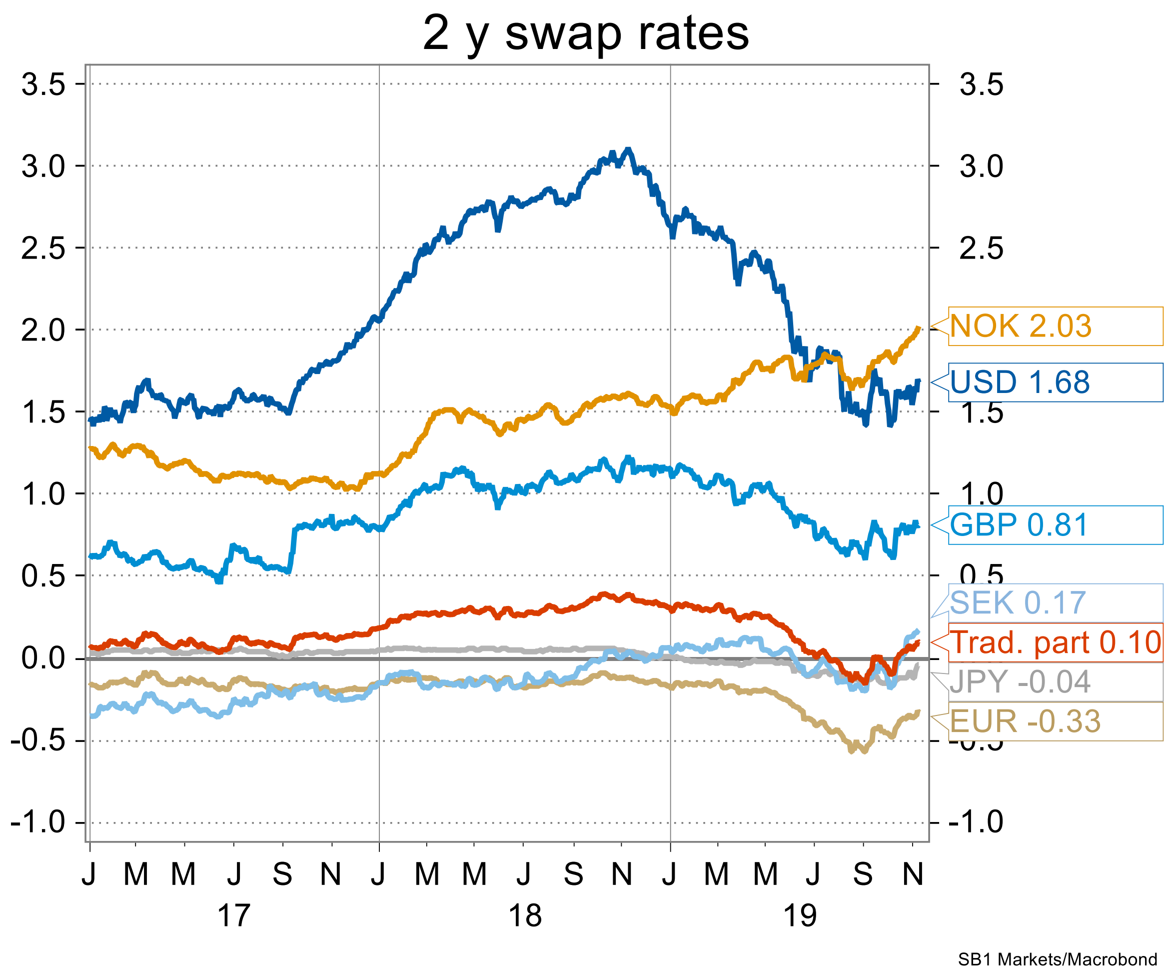


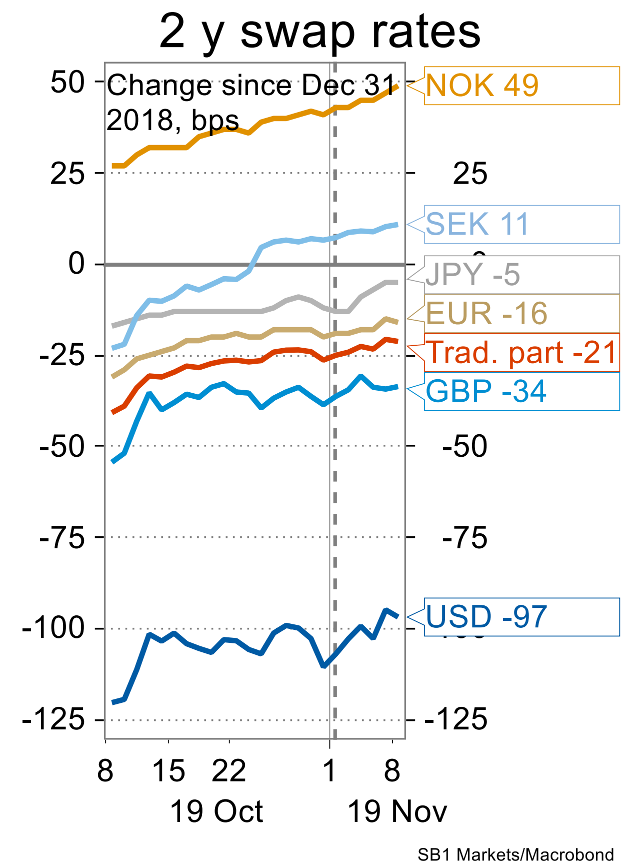


- Weak macro data sent EUR FRAs down in late Sept/early Oct. Since then, the FRA rates have turned steeply up all over the curve. Several rounds of positive news from the US/China trade talks have helped turned the mood. Hopes of a soft Brexit has contributed as well – and a divided ECB, which are split on the appropriate level of monetary easing
- The FRAs are rising all over the curve, the mid-2020 path is 20 bps higher than 3 months ago

Short term rates up are turning up everywhere

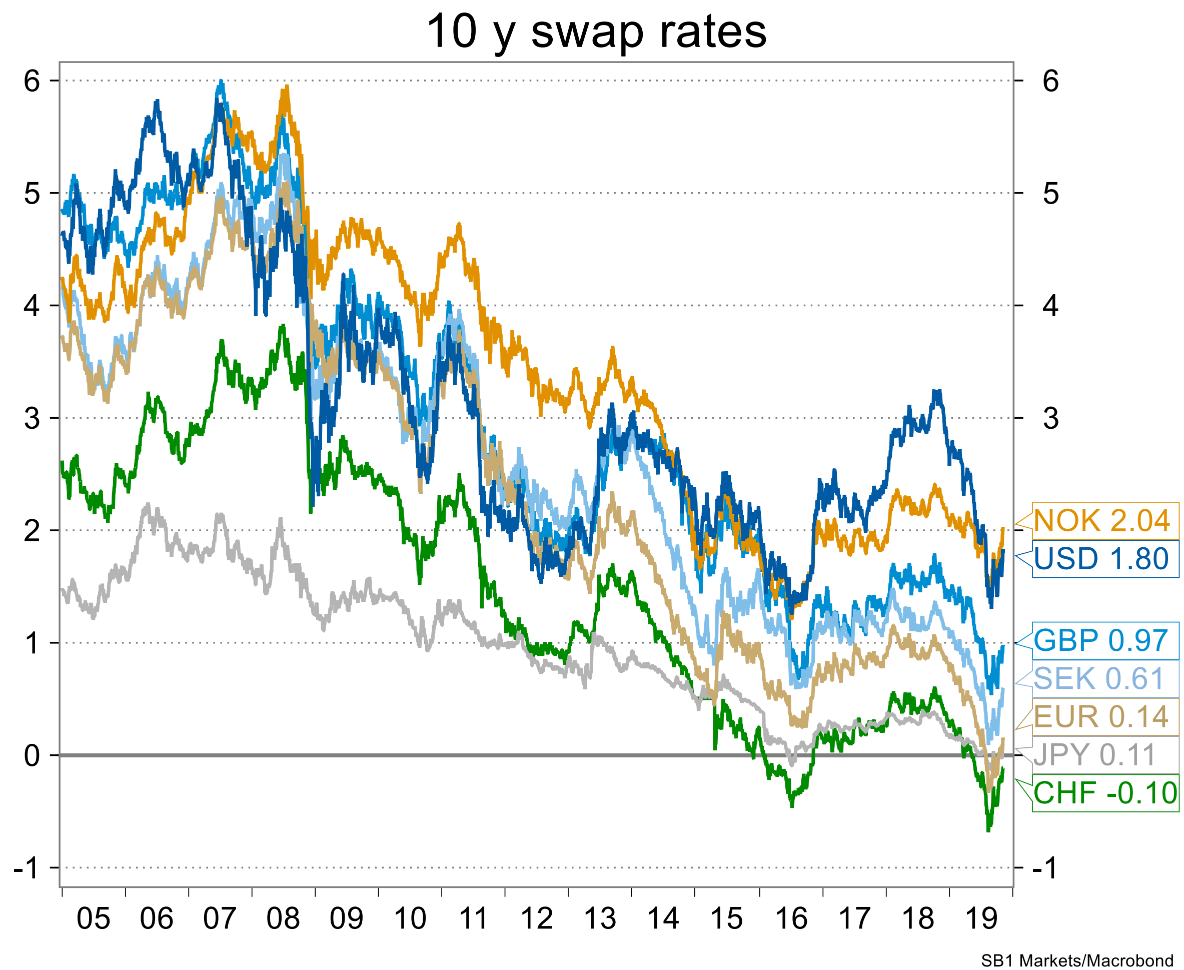
Short term rates rose everywhere last week, the US 2 y swap noted the steepest rise

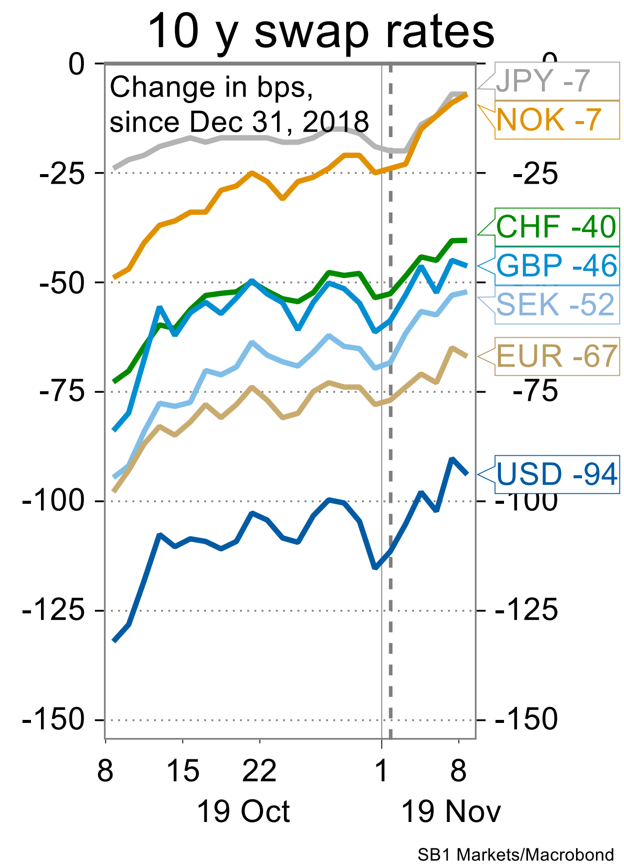




Long term swap rates are recovering all over

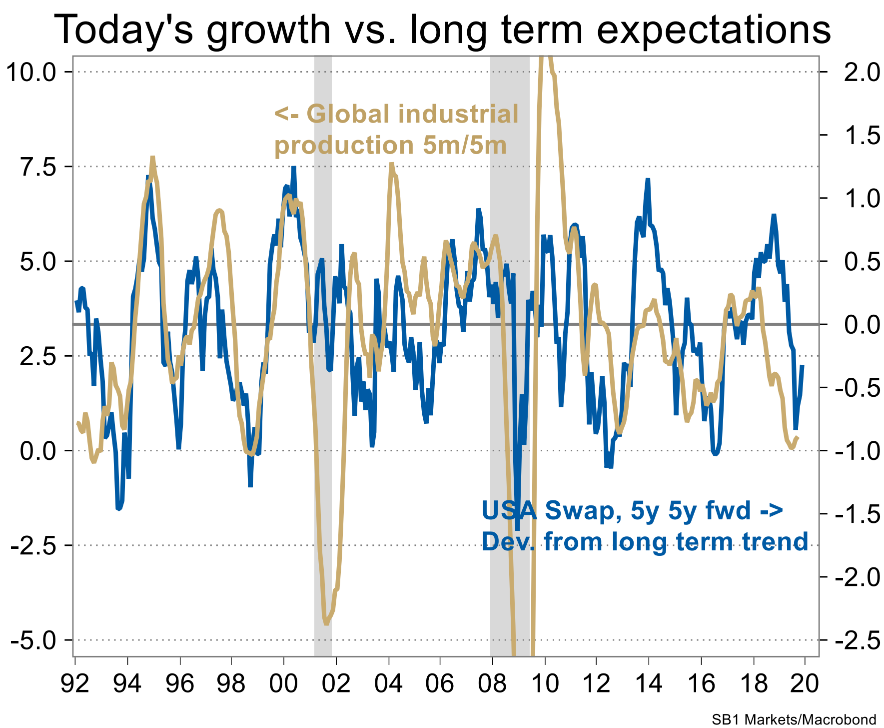
All swap rates have turned up, US 10 y swap rate is up 53 bps from the early Sept trough!



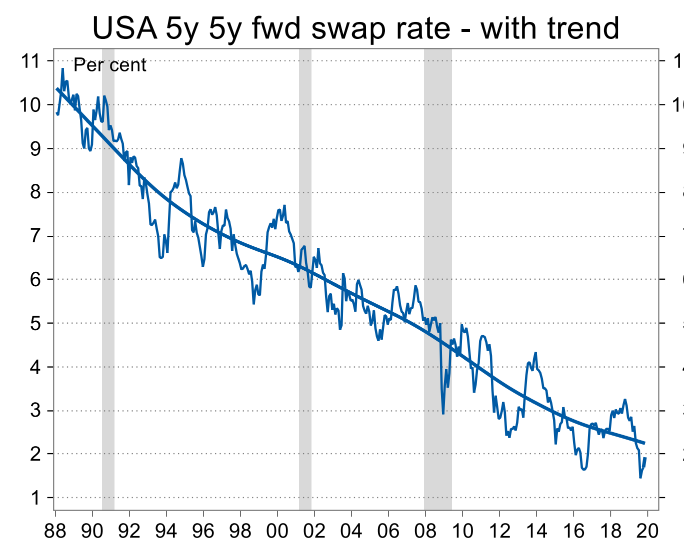


Long term interest rates are driven by the short term business cycle

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



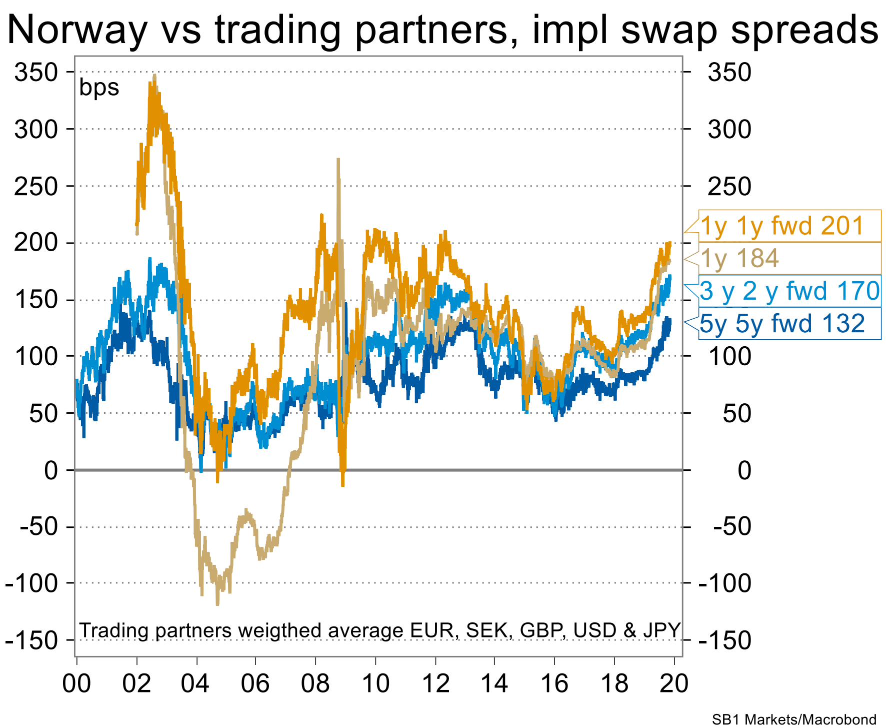
- USD 5y 5y swap fell more than 150 bps from last autumn until August
  - This is the normal decline if the business cycle slows, like last slowdown in global manufacturing activity, to almost zero growth from 4%
- Now, the 5y 5y fwd rate has climbed 50 bps, at the same time as manufacturing PMIs have strengthened marginally, and production at least has not started to decline

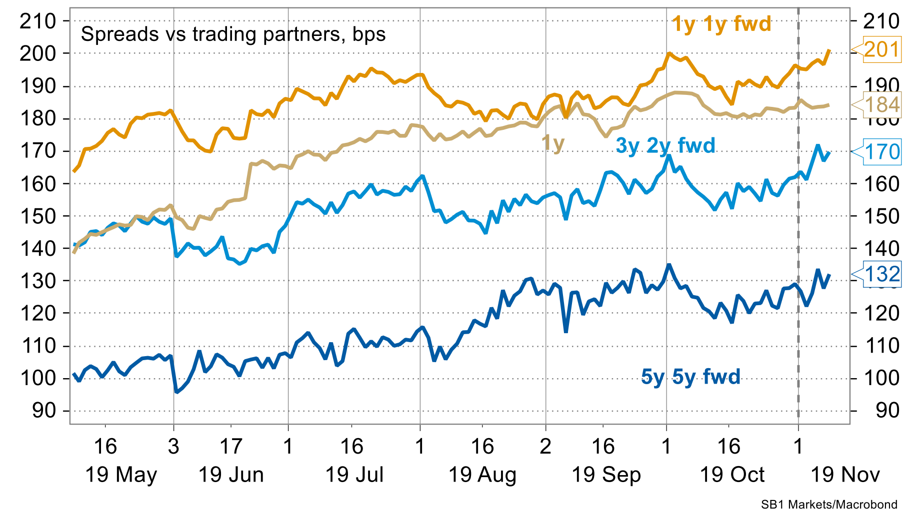


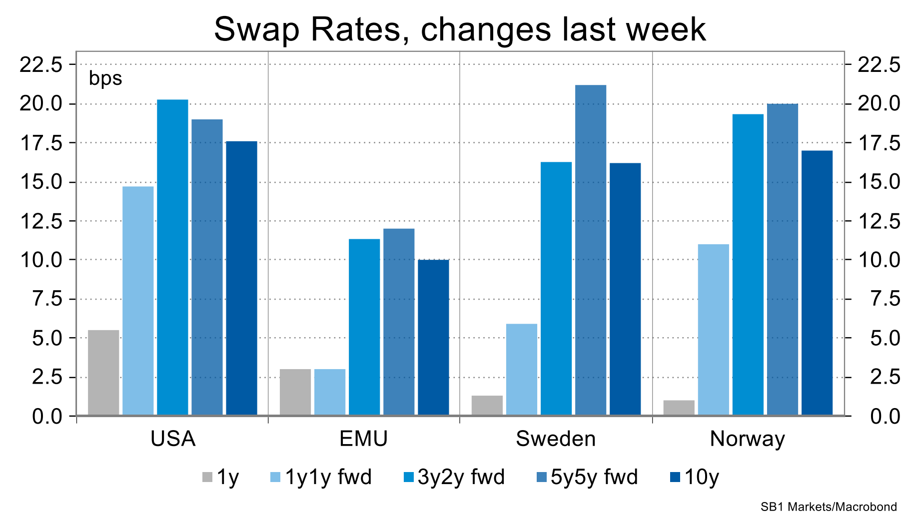
- We decompose the past 30 y USD 5y 5y in two components, the long term trend (approx -0.4 pp per year), and a short term cyclical component
- The cyclical component (the difference between the actual obs. and the trend on the chart to the right) is compared with the short term business cycle at the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

Swap spreads vs trading partners are widening again

Swap rates are rising among all trading partners but NOK rates move up even more



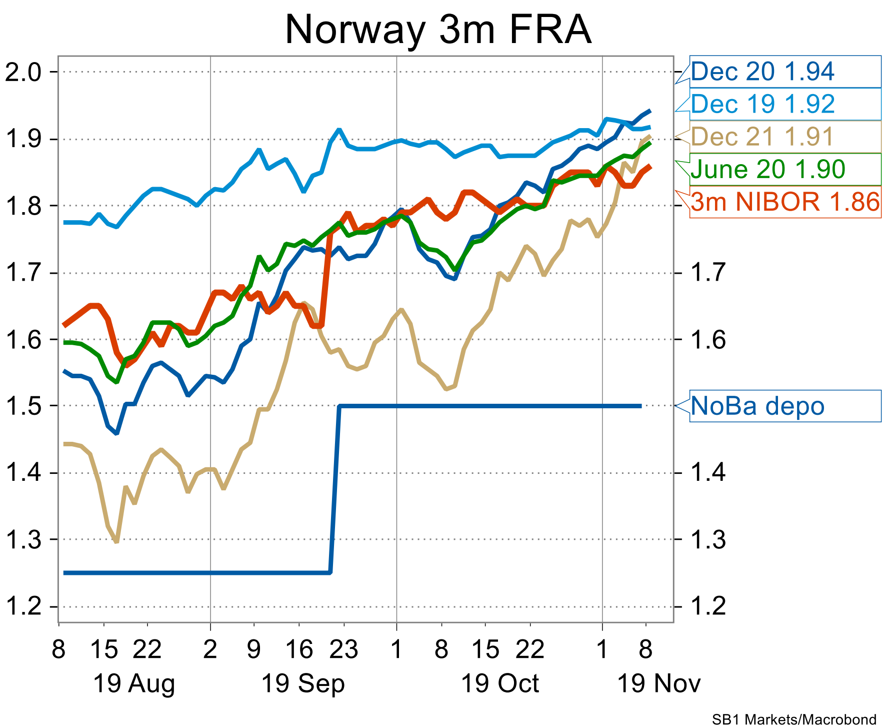


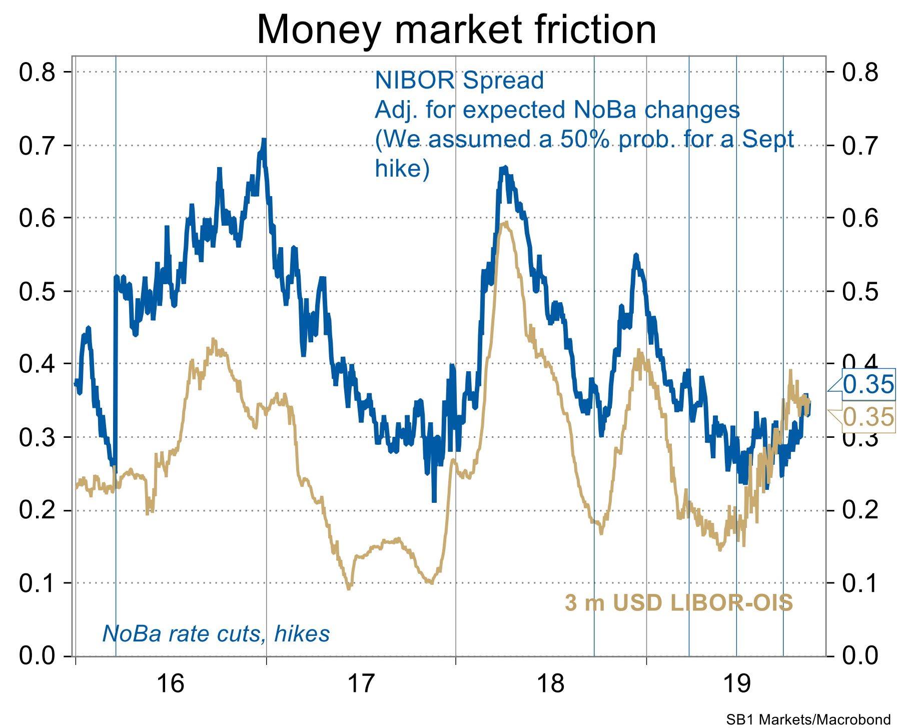


- Swap spreads between NOK rates and our trading partners have been widening rapidly this year, all over the curve. Spreads were narrowed in early Oct, widening again the past weeks
- While the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March. 130 bps+ is

3m NIBOR marginally down to 1.85%, FRAs steeply up in the long end

Dec 20 3m FRA at 1.92% signals a higher NIBOR the coming weeks. A 2020 cut no longer expected

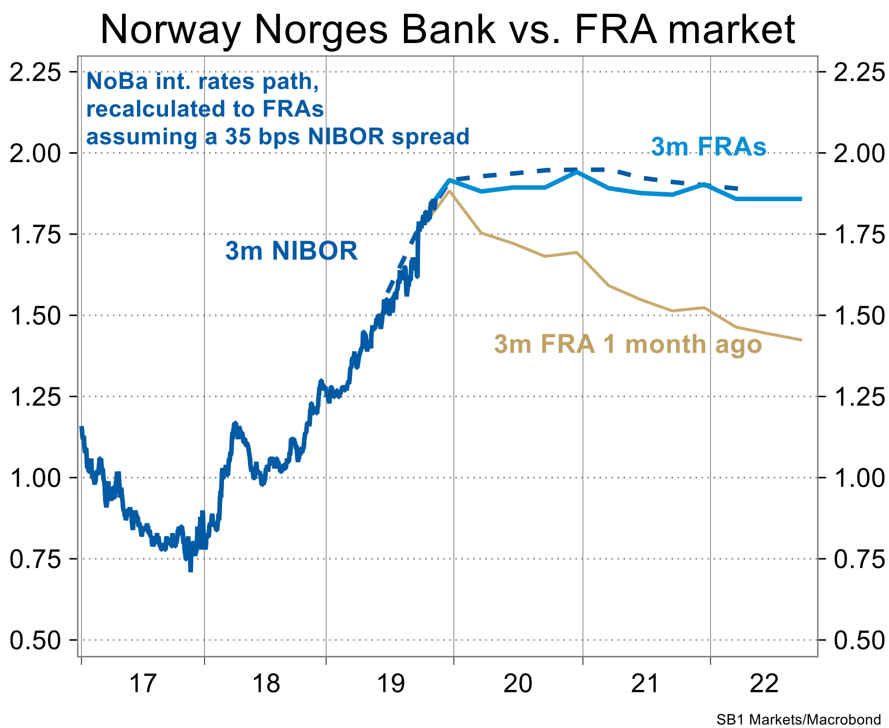


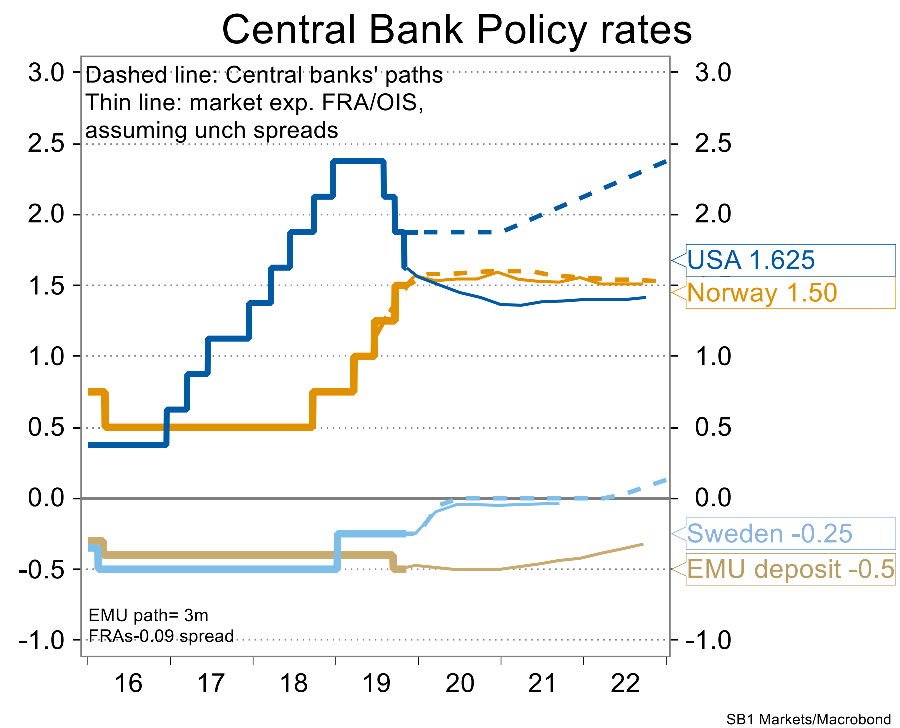


- The 3m NIBOR fell marginally to 1.86% last week, after climbing slowly through October. The Dec '19 FRA inched down to 1.92%, implying a 42 bps NIBOR – NoBa deposit spread. The US the LIBOR-OIS spread is 35 bps. Historically, the NIBOR spread has been significantly wider than the LIBOR-OIS spread. We expect the 3m NIBOR to drift up the coming weeks
  - » The Dec spread may be influenced by expectations of a year end liquidity squeeze – which has happened before
- Longer dated FRAs are climbing – the Dec 21 3m FRA is up 60 bs to 1.91%. Thus, the FRA curve is no longer inverted after Dec '19. The market is pricing an unchanged interest the next two years, the probability of a 2021 cut has been slashed

Expectations of monetary easing have been diminished everywhere

Market expectations are coming to terms with policy rate paths, in Norway as elsewhere





- Memo: The Fed did not publish a new 'dot plot' at the October meeting, when the Fed funds rate was cut for the 3rd time this year. Thus, the current dot plot does not reflect the October cut. The ECB does not publish any rate path

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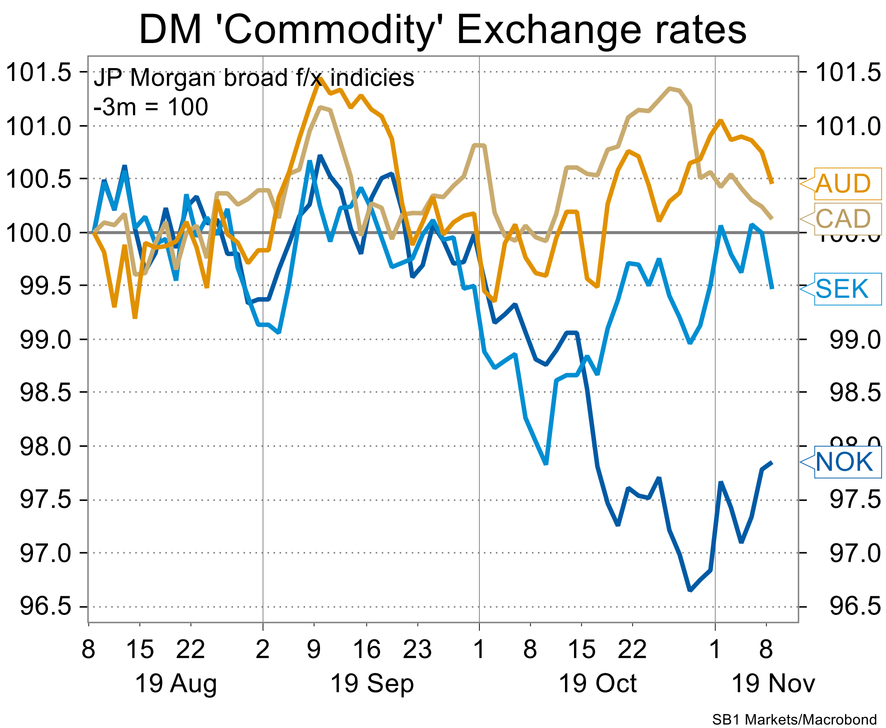
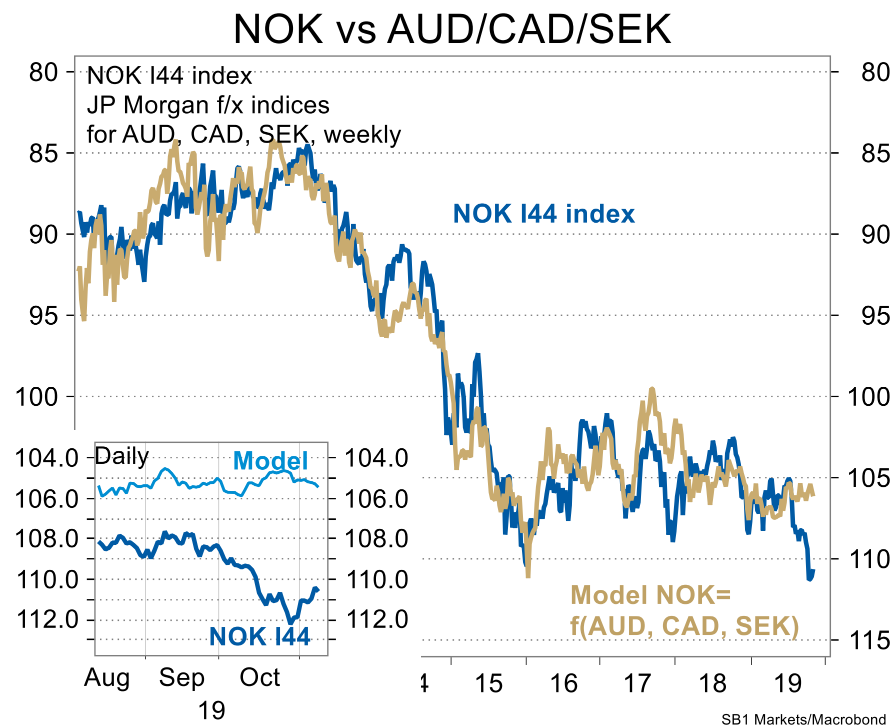
Finally, NOK slightly up, the other supercyclicals marginally down

NOK is up 1.3% from the bottom but still 5% lower than our supercyclical friends (vs our model calc)

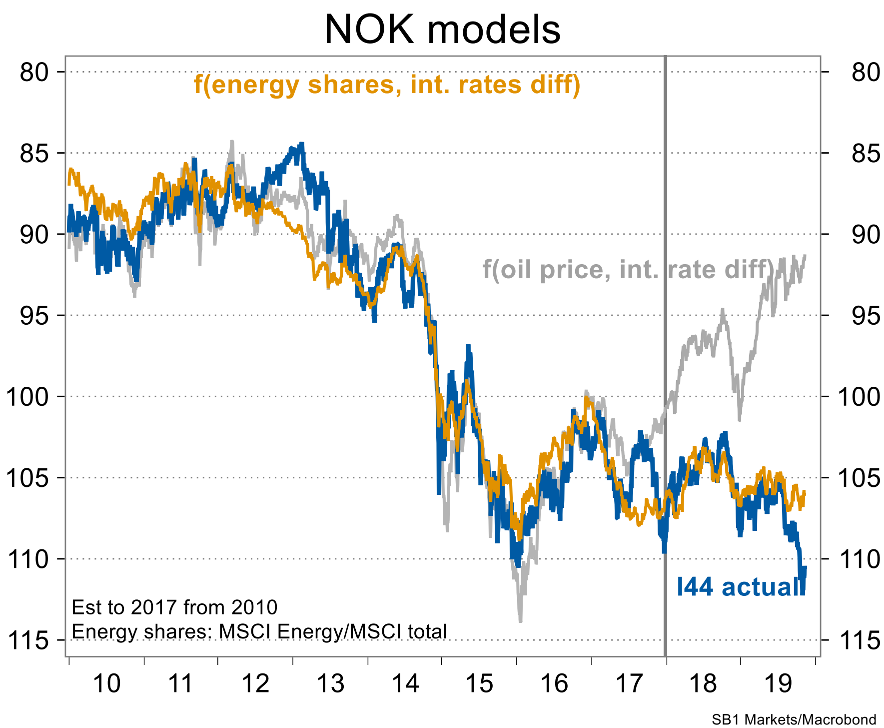


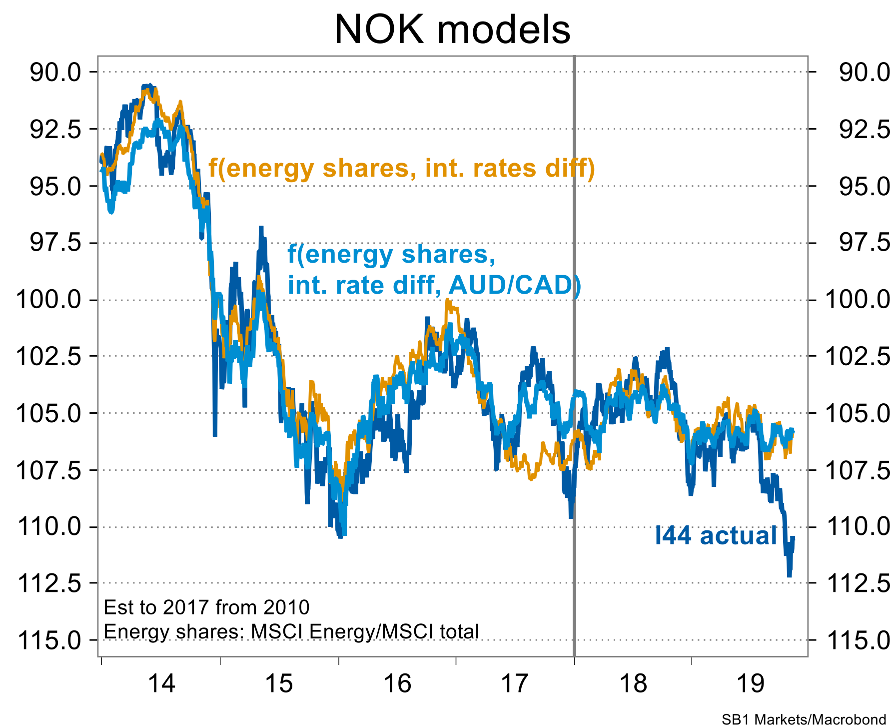


- The supercycle currencies are all sensitive to oil/energy prices (check the previous slide) and global growth outlook. In October, both CAD, AUD and SEK have recovered, probably fueled by hopes of Brexit solution, and a (slight) de-escalation of the US/China trade war. Unlike our peers, the NOK tumbled in October, before edging up last week
- Together, the other supercyclicals cannot 'explain' the NOK setback recent weeks. The NOK has lost 5% vs. the supercycle f/x model estimate since mid-July, of which half in Oct. The discrepancy is not unprecedented but its now unusual large

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?





- The first step: 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 model parameters estimated 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 5%, 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. And not because of greenwashing, but out of real concerns for the future for oil/gas producers. ***We think the market puts too much weight on the oil sector's importance on the oil sector, but that's another debate***

- If we include AUD and CAD in the model, the model works even better. Both Australia and Canada are energy net exporters (Aust. coal, Canada oil/gas). Their energy exports equals some 5% of their GDPs vs 12-15% for Norway. 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

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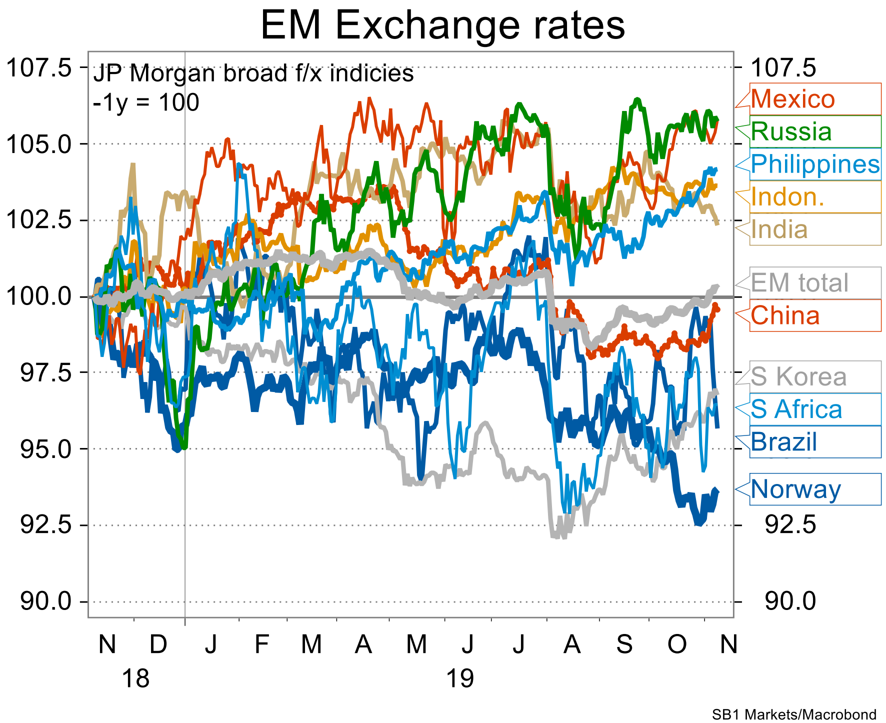
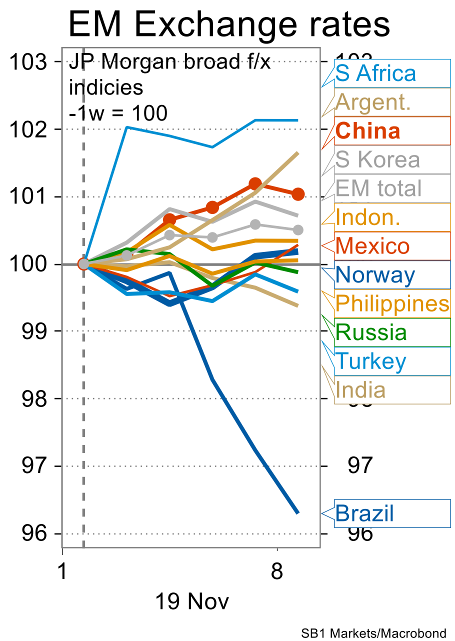
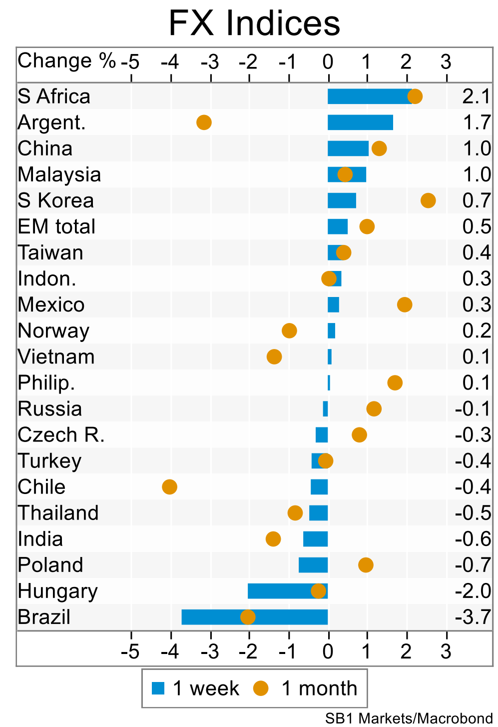
EM f/x rose last week, in avg, CNY steeply up on trade deal hopes

Most EM currencies have strengthened the past month, with some exceptions







- Most EM currencies have stabilized/recovered in Sept/Oct. Trade war de-escalation probably the best explanation
- The Brazilian real fell sharply last week, we have not seen any important news to explain it (except the release from jail of the former president Lula). Chile has been the big loser last month, due to the recent social unrest
- BTW, if we take out the Argentinian peso, the NOK has fallen substantially more than most of the main EM currencies we are following the past month, and the past year!!

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