2 December, 2019

Macro Research

Weekly update 49/2019

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Highlights

The world around us

The Norwegian economy

Market charts & comments

The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
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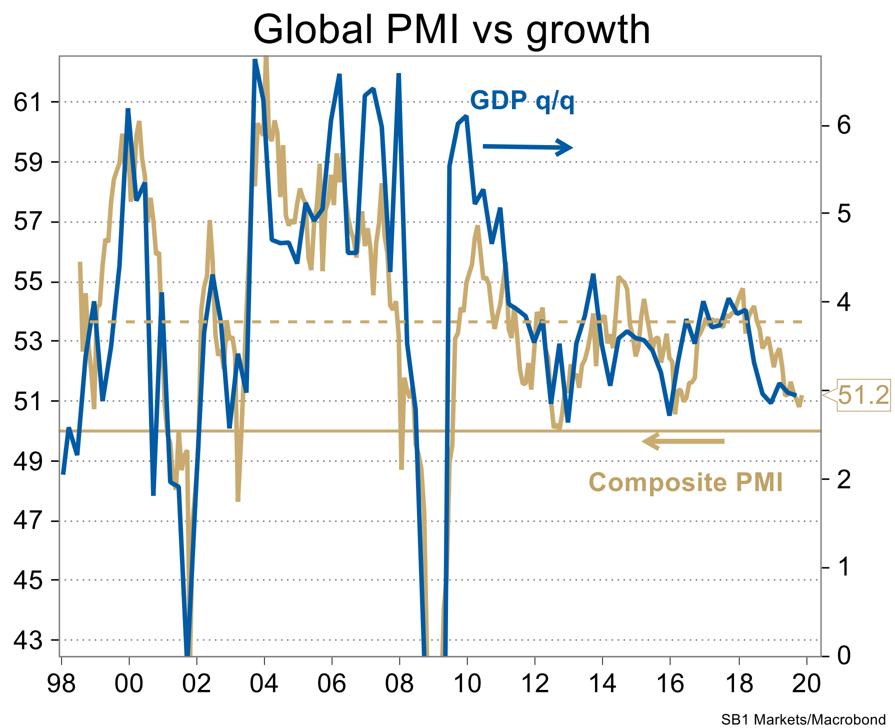
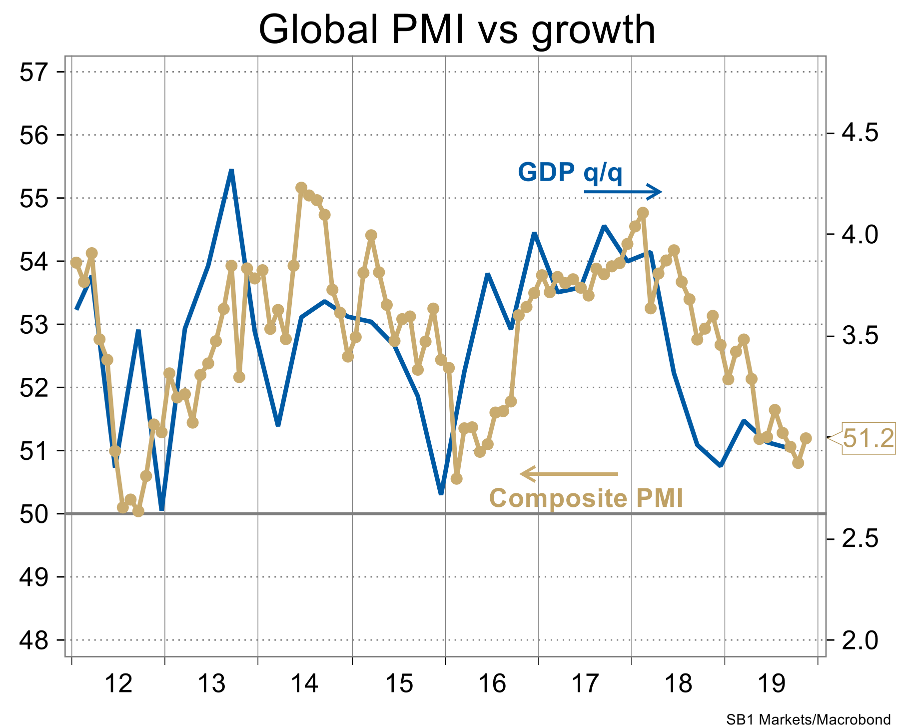
Last week – the main takes

- **A trade deal** before Dec 15 not likely, but will tariffs then be hiked? Probably not, the talks will continue. Trump made some upbeat comments on the negotiations with China on the phase 1 deal, brightening the mood in financial markets. Trump's acceptance of Congress' bill supporting democracy in Hong Kong infuriated the Chinese but they will most likely not leave the negotiation table. However, the Chinese reiterates that already imposed tariffs must be cut/lifted as a part of a phase 1 deal
- **China PMIs** far better than expected in Nov, as the official index rose sharply, and Markit's index rose, which was expected down following 4 consecutive increases, rose further. In sum, no slowdown in exports, manufacturing production or GDP signalled. Less need for policy stimulus, and more self confidence in the trade talks? 8 out of 12 **Asian PMIs** rose in November. The global PMIs (manufacturing, services & composite) probably up 0.4 p, the composite back to the April/May level
- Mostly upbeat US data last week: **US Q3 GDP** was nudged up by 0.2 pp in the 2nd estimate, to a 2.1% q/q pace. One weak spot; business profits are trending sharply in % of GDP. **Durable goods orders** inched up in Oct and both capital goods orders and sales increased, pointing to stalling business investments but no decline. Growth in **private consumption** is slowly ebbing, Q4 is off to a soft start. **Still, consumer confidence** remains upbeat and does not point to any rapid slowdown. **Core PCE inflation** rose just 0.1% m/m and the annual rate ticked down to 1.6%, expected unchanged at 1.7%. The **housing market** must be thriving; new home sales are soaring, pending home sales fell but are trending up, and house price inflation is accelerating. **Imports** are declining, probably reflecting weaker domestic demand, **exports** flat. **The Fed Beige book** reflects steady growth, supporting Fed's plans to keep interest rate on hold
- **Eurozone unemployment** has flattened out, broadly. **Core CPI inflation** ticked up to 1.3%, partly due to base effects, we doubt inflation is accelerating now. **Economic confidence** improved marginally. The **German Ifo survey** improved in Nov, as the PMI, suggesting that manufacturing activity is contracting at a slower pace
- **Swedish GDP** rose 0.3% q/q, 0.1 pp above expectations, and Q2 was revised up marginally. The details were OK
- More soft macro data points from Norway last week; **registered unemployment** once again disappointed by noting a 300 persons' increase (open unempl.), confirming the labour market is cooling. **LFS unemployment** surprisingly rose to 3.9% in Sept too, the highest in a year. The upturn is driven by rising participation, employment is still rising moderately, barring a decline in Sept. **Credit growth** is slowly retreating as household loans drag total credit growth down. **Retail sales** fell 0.8% in Oct, much weaker than expected. Sales have flattened out again, after a soft recovery in early 2019**. Norges Bank's expectations survey** was in sum marginally weaker in Q4 vs Q3 – but the employment index climbed. If not for the decline in NOK, and higher interest rates abroad, Norges Bank would have had to lower the interest rate path at the meeting Dec 19

Global PMI probably up in November, manufacturing back to above 50!

The index may have stabilised but is still not signalling more than 3% growth



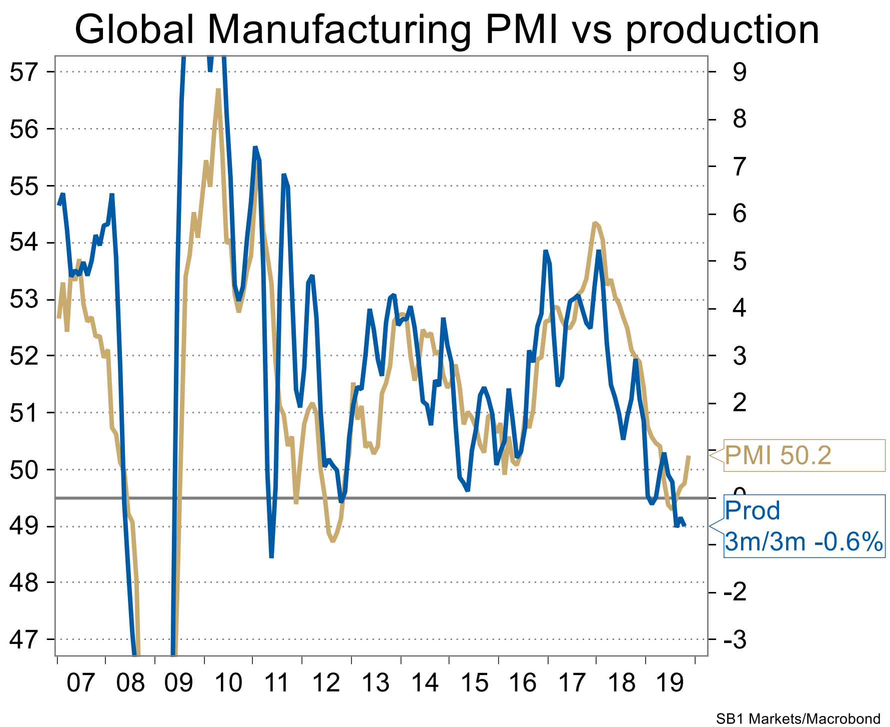


- The composite PMI rose 0.4 p to 51.2 in Nov (our estimate). The index is back to the same level as in April/May and confirms a close to 3% growth in global GDP – a growth rate which has been rather stable since Q3 last year
  - » Our estimate is based on PMIs from the US, EMU, UK and Japan. Japan PMI fell steeply, our estimate may put too much emphasize on this
- The PMI has fallen by 4 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 10 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

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

Global manufacturing PMI has recovered past 4 months, back to above 50

We estimate an 0.5 p uptick to 50.2 in November, signalling some 1% growth in production

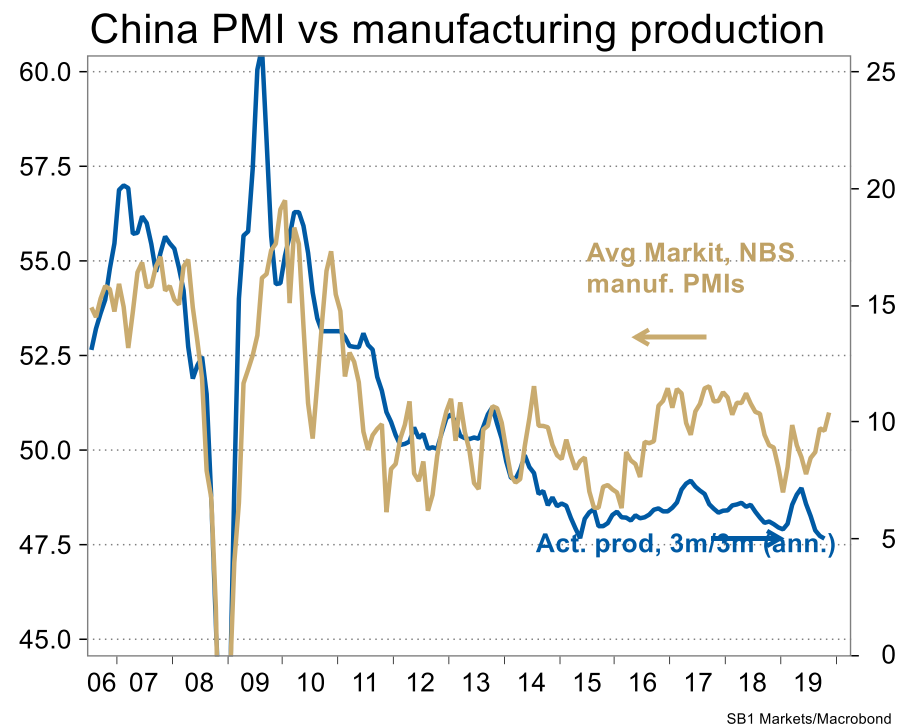


- Recent months, orders have been recovering too, while growth in inventories have slowed, a favourable mix (more next page). Thus, the order/inventory ratio has climbed, normally a good signal – however not a leading indicator

Memo: the last PMI data are our estimates on November PMI

Markit's manufacturing PMI still strong , CFLP's sharply up to above 50

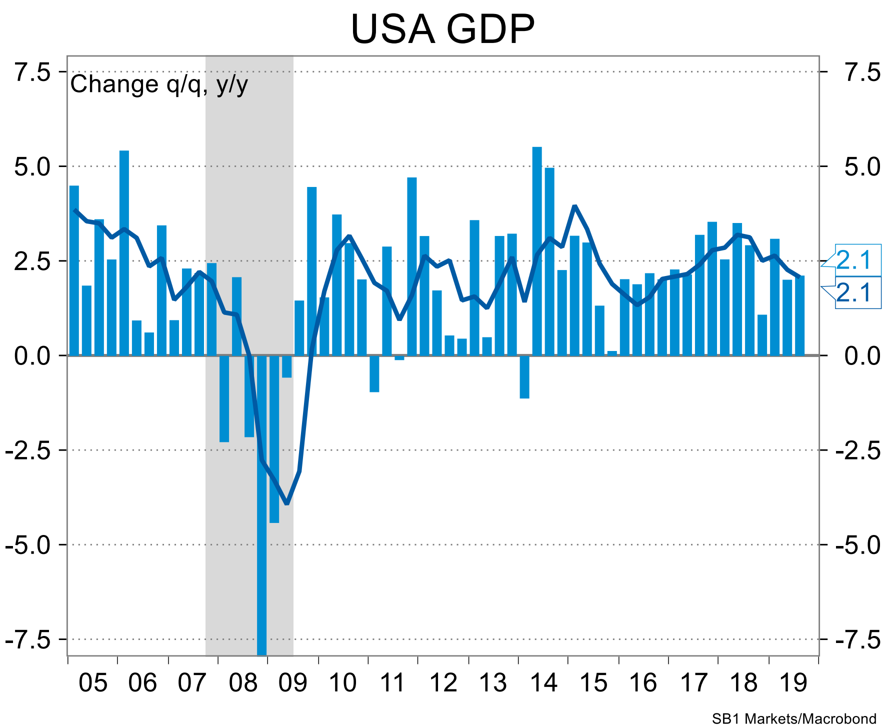
Both manufacturing surveys up in November, Markit's for the 5th time in row, to a high level

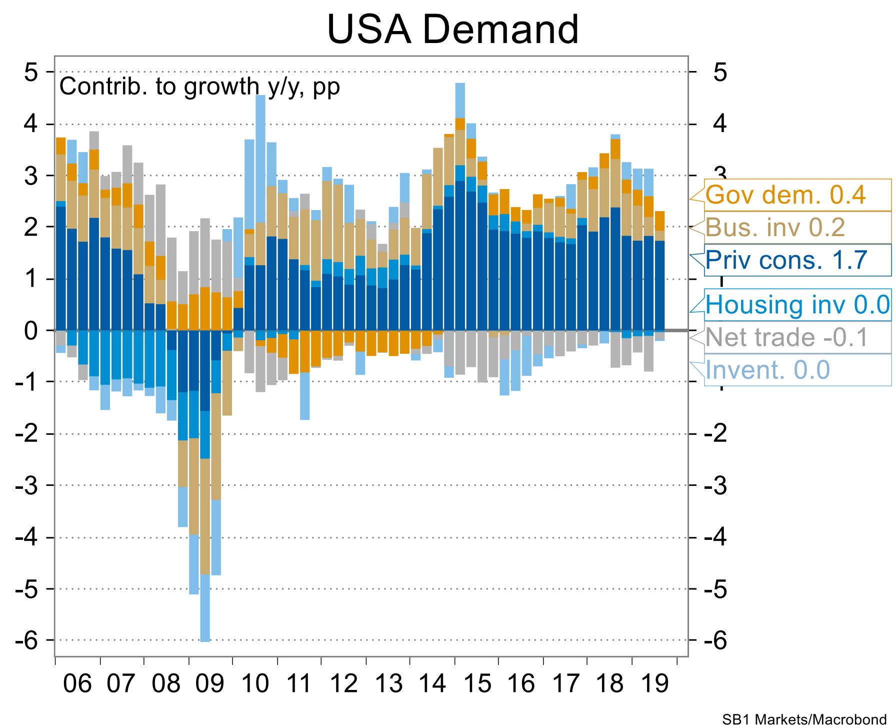


- Markit's manufacturing PMI rose 0.1p to 51.8 in Nov, expected down to 51.0, which would still be a decent level (the avg since 2012 is 49.9, and the world has survived that level pretty well…). The index is at the highest level since Dec 2016, and new orders are growing at a fast pace
- The 'official' NBS/CFLP manufacturing PMI surprisingly rose by 0.9 p to 50.2 in November, to the best level since March (but still below the avg level). The sub indices for both total and export orders rose
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs is suggesting faster growth in the manufacturing sector – which has slowed somewhat recent months
- <u>Policy implications: Less pressure to stimulate the economy, more self confidence in the trade negotiations with US</u>

Q3 GDP growth 0.2 pp higher than first reported

Growth was revised up to 2.1% in the 2nd estimate, mostly due to more inventory build-up

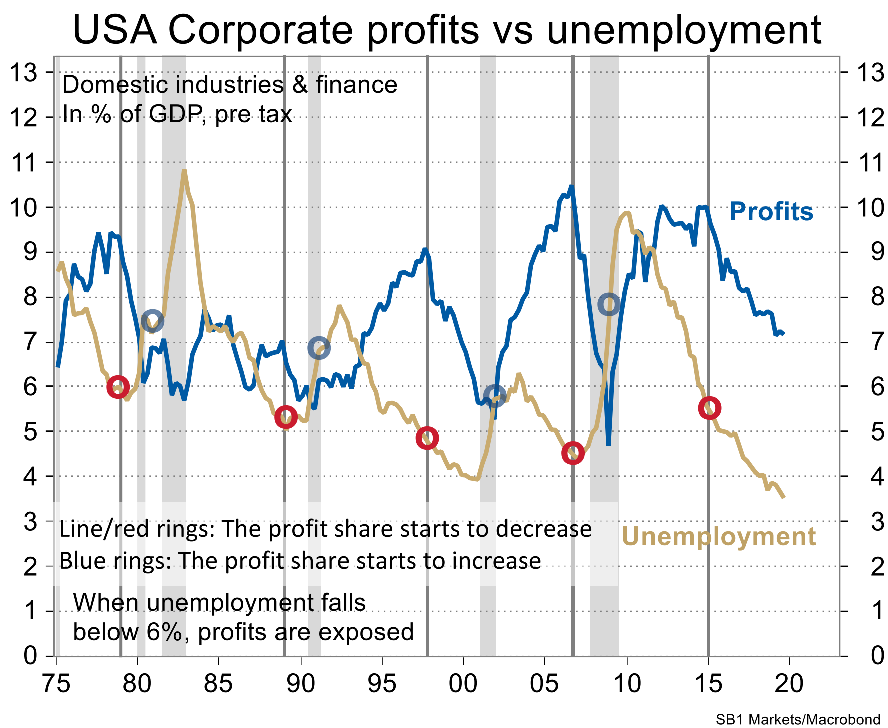


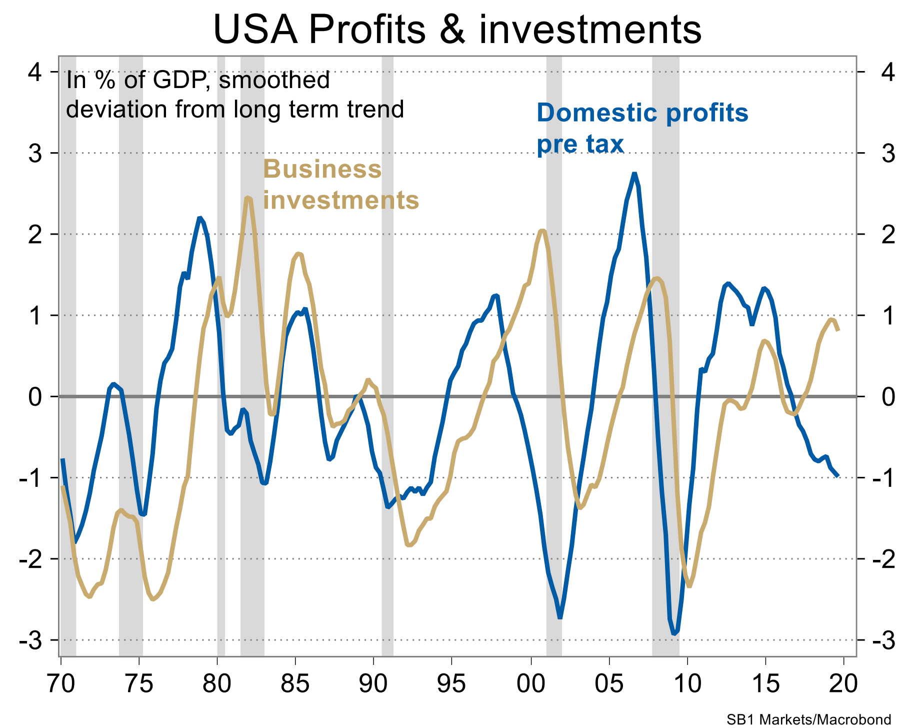


- GDP grew by 2.1% in Q3, 0.2 pp above the first estimate and up 0.1 pp from Q2. Annual growth at 2.1% (revised from 2.0%). Growth has slowed from 3.2% in Q2 2018, when the tax cuts boosted growth
- Just some minor sector revisions; Consumption was marginally stronger and business investments fell a tad less than first reported. Public demand grew marginally less than reported. Net trade was revised down slightly, offset by higher inventory growth (of which the latter by itself explained the upward revision in headline GDP growth)
- Private consumption has been the pillar of growth in the US economy the past year, as business investments has softened

When unempl. falls below 6%, profits are exposed. Thereafter investments

Profits will not turn up before unemployment has increased sharply, after a recession…





- Since WWII we have just once, in 1985-87, seen a substantial decline in the profit rate without being followed by a recession (however, in 1987 something else happened, BTW). The mid '80 setback in profits was just half the size of the current decline
- Investments have always turned down after at decline in the profit rate, sooner or later – which always (barring the mid-80 incident) has been when the US entered or was in a recession. <u>This is one of the main business cycle mechanics</u>
- The outlook is not the best now, also because US companies have increased their leverage substantially in order to buy back their own equity, accumulated in average by 5% of corporate GDP the past 13 years (vs real investments at 19% in avg)

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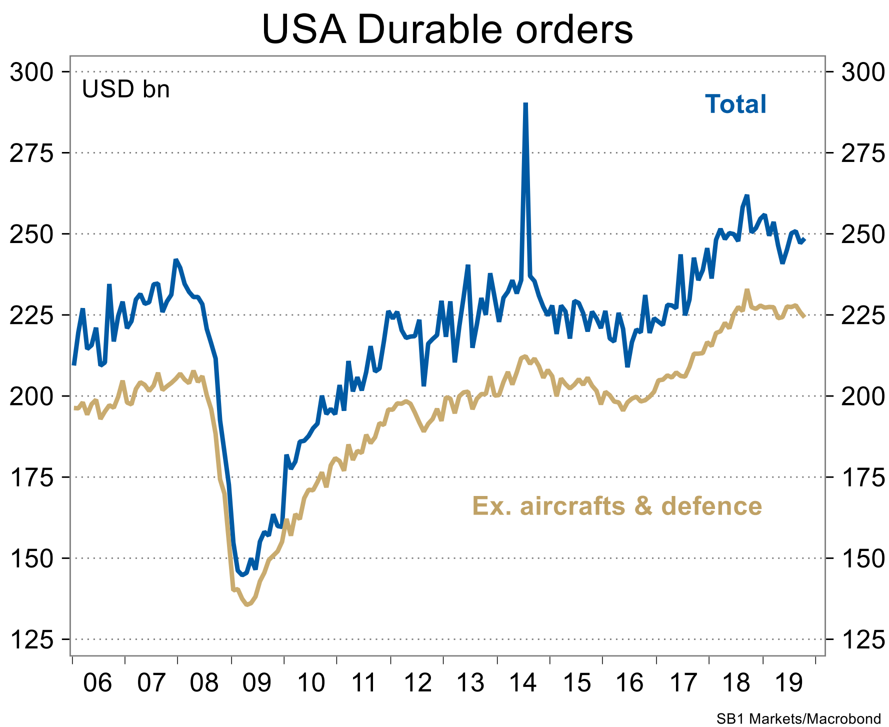
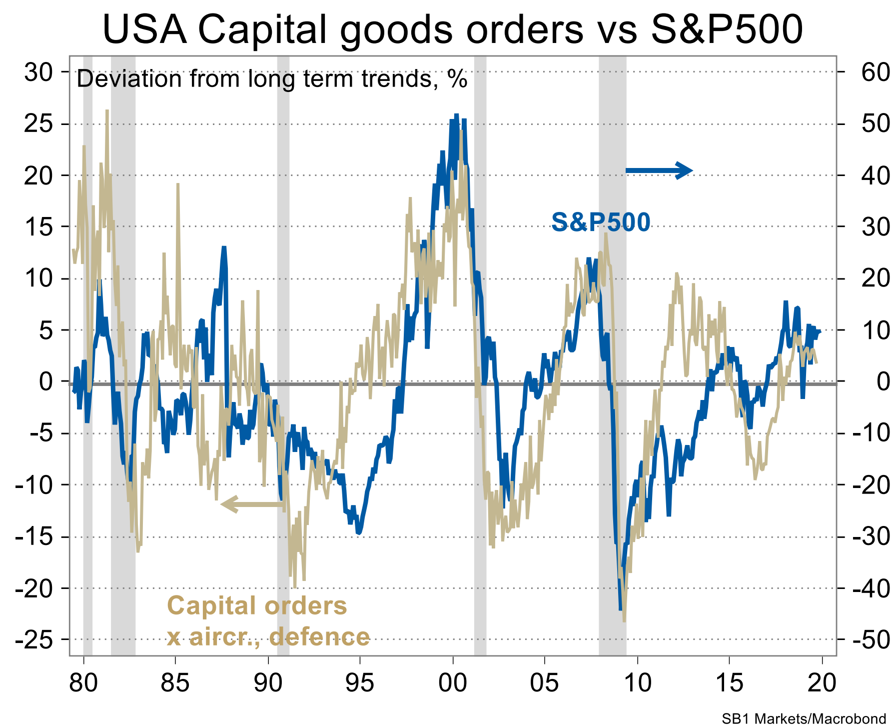
Durable goods orders are sliding slowly down, core orders just flattish

Core durable orders fell in Oct, but core capital orders rose – no investment setback signalled

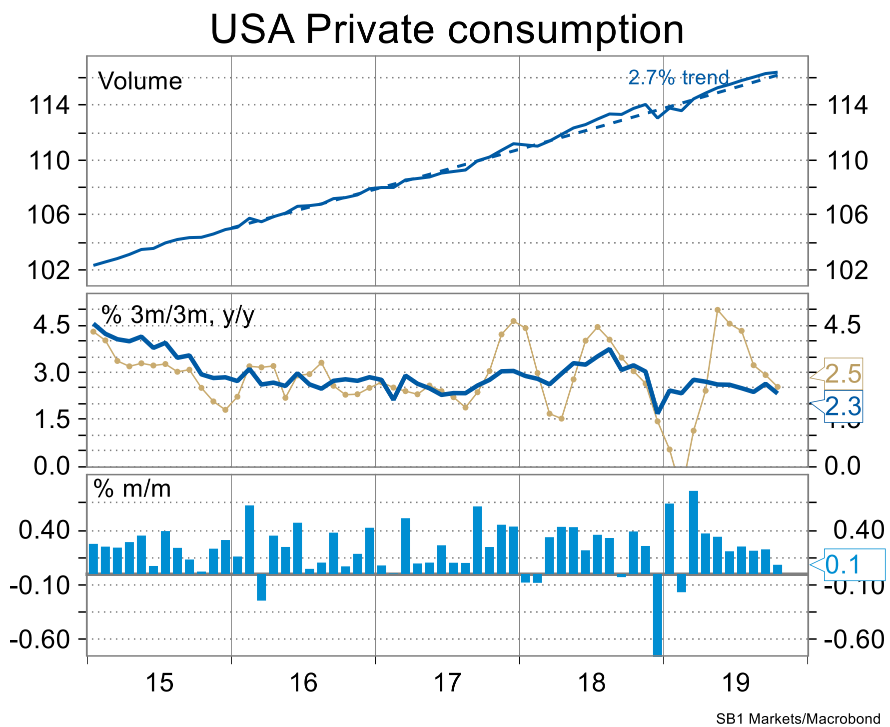


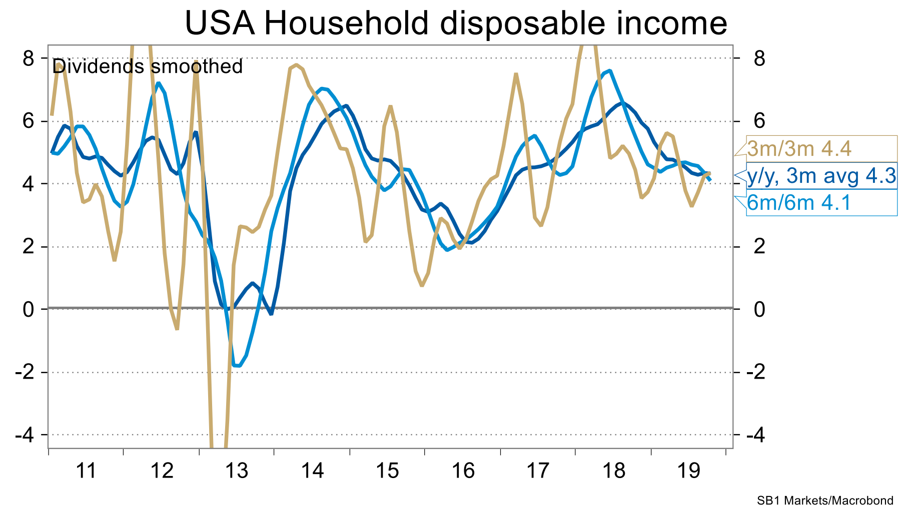


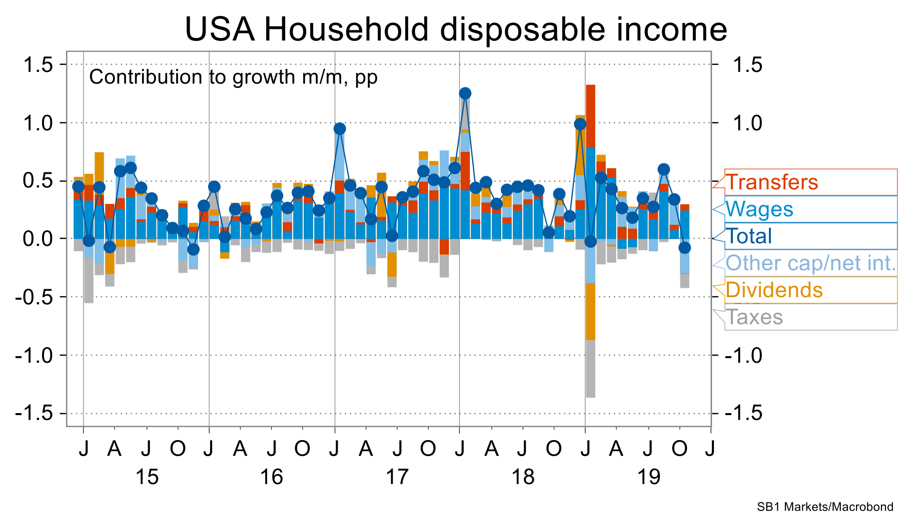
- Total durable orders increased by 0.6% m/m in Sept, sliding down for a year (with some Boeing aircraft trouble since the summer)
- Core orders (ex aircrafts and defence) edged down 0.7% in Oct and the decline in Sept was 0.4 pp steeper than previously reported. Core orders have stagnated for more than a year, the underlying pace is -0.7% (measured 3m/3m annualized)
- Core capital orders recovered the Sept decline and the trend is no better than flat. Capital goods sales rose marginally too but have fallen marginally recent months. However, given the Oct print, Q4 does not look that weak, for sales or business investments

Consumption growth keeps cooling off, still not 'dangerously' slow

Consumption up just 0.1% in Oct, 0.2 pp below expectations. Income growth stabilized recently



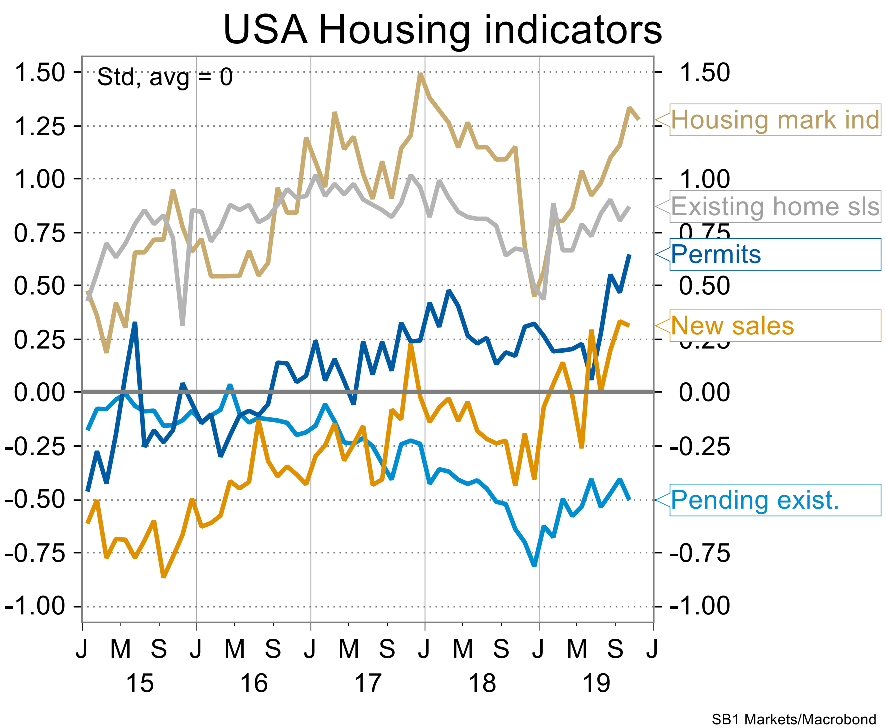




- Private consumption rose 0.1% m/m in Oct, 0.3% was expected. Underlying growth has slowed to 2.5% annualized, from 5% in the spring
- Households' nominal disposable income fell 0.1% m/m, 0.4 pp below expectations due to a decline in interest rate income. Still, underlying is at 4%, like the annual growth at 4.1%. Total wage & salary income up 4.9% y/y (volatile data)
- The savings rate fell to 7.8%

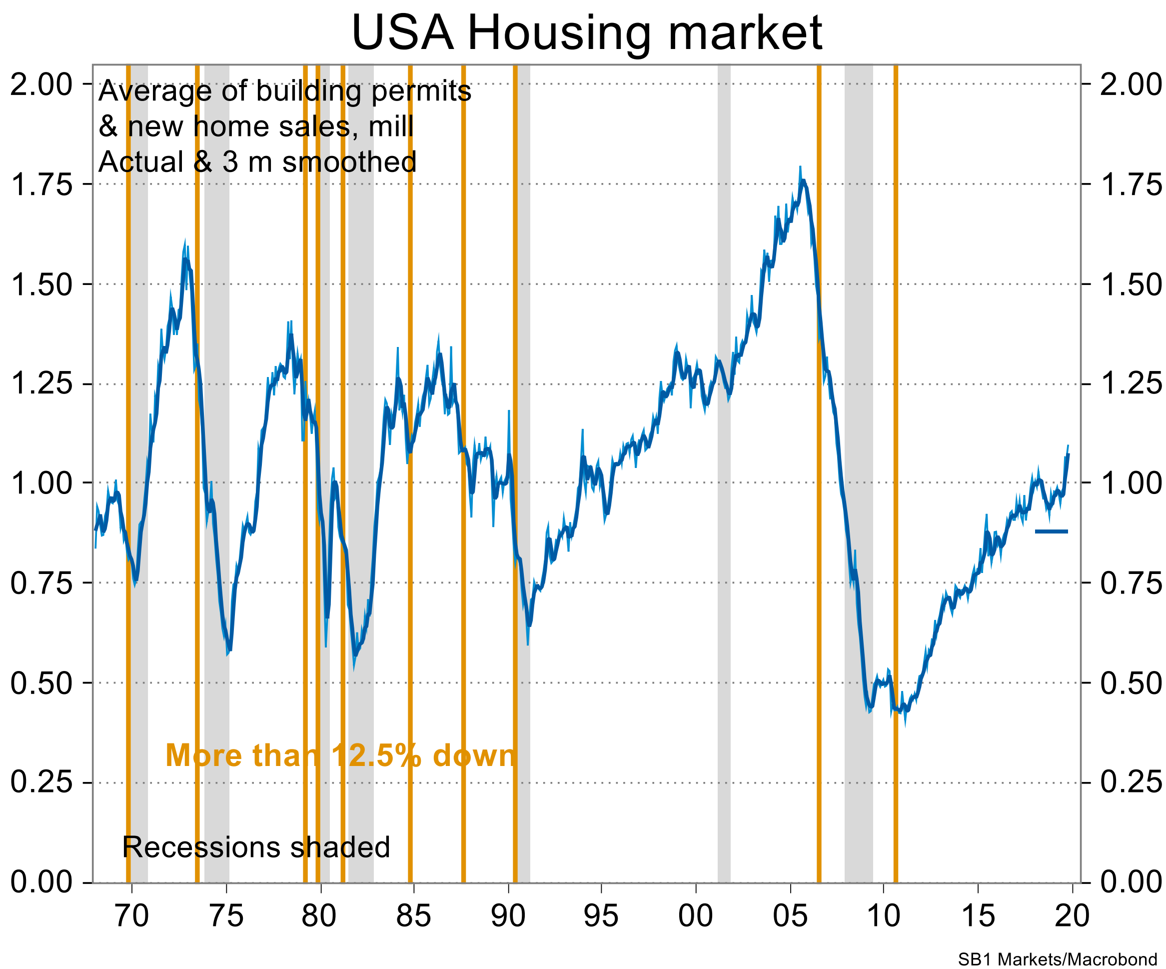
All housing market indicators are strengthening

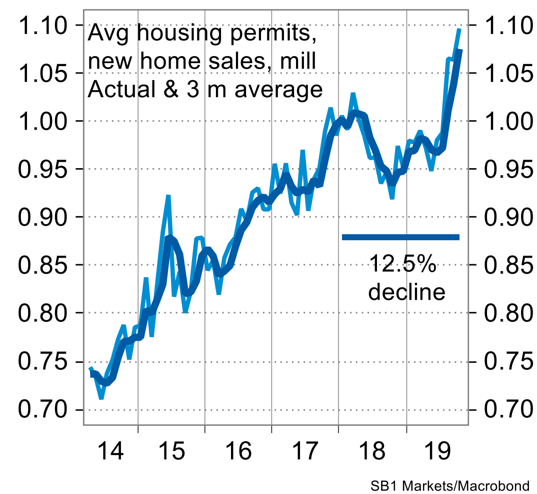
Home sales, housing starts/permits and confidence among the homebuilders are all climbing



- Low mortgage demand and a strong labour market have no doubt boosted demand for housing

Housing vs. recessions: No warning sign now, to put it mildly

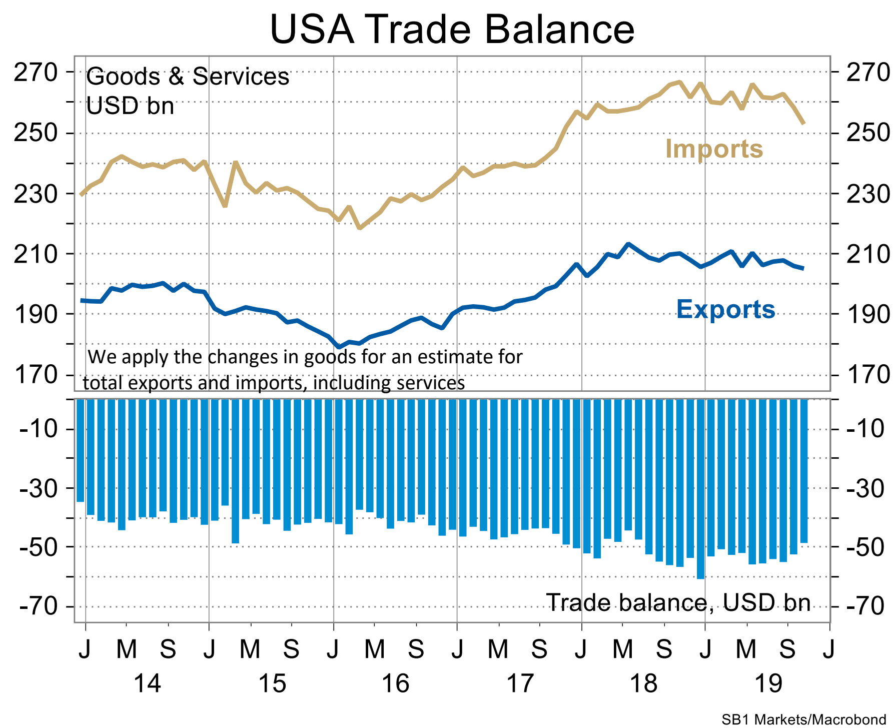


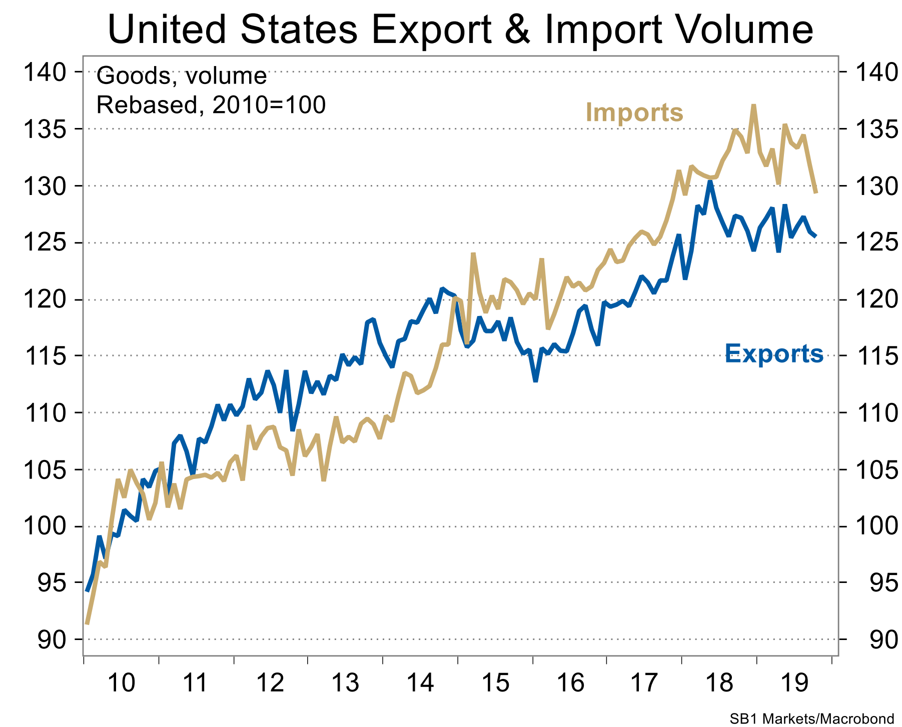


Memo: New Home sales are assumed down to 675' in in April, in line with consensus f'cast

The trade deficit shrank in Oct as imports dropped; tariffs or waning demand?

Imports have fallen the past 2 months and are trending down, exports trending flat

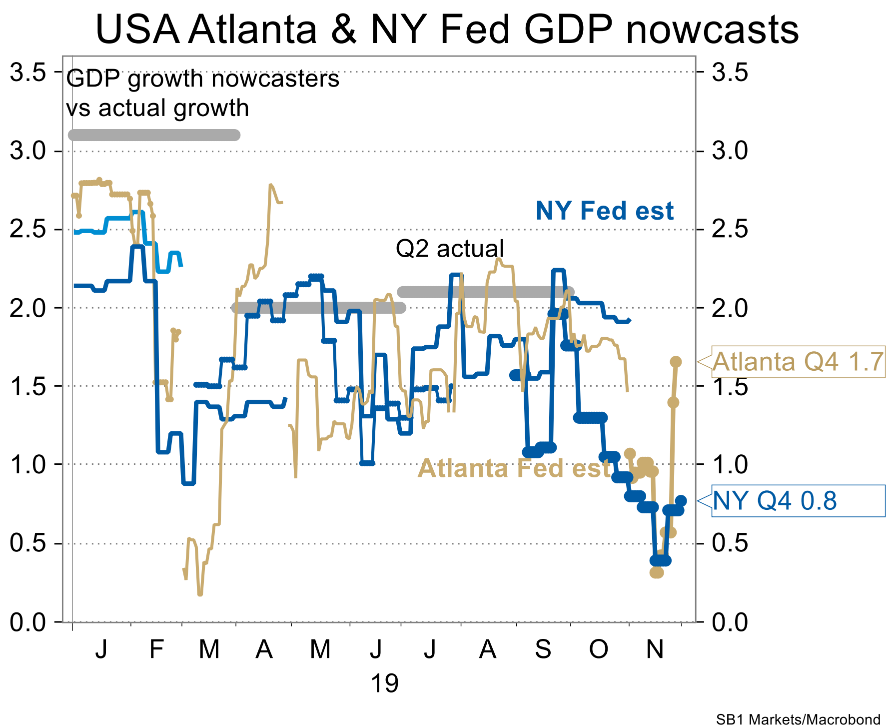


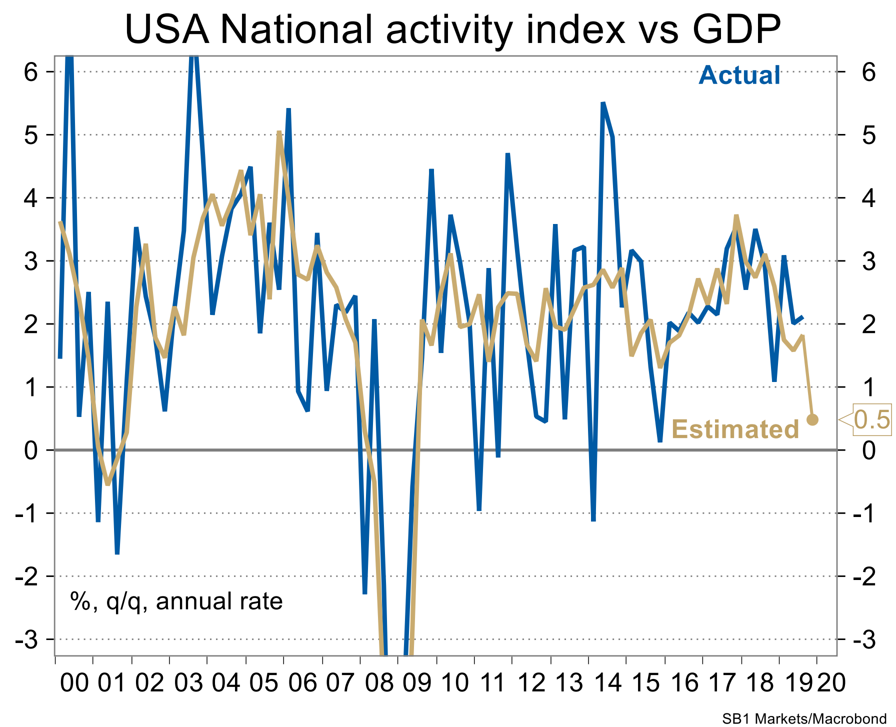


- The advanced trade deficit in goods shrank to USD 49 mrd in October, the lowest in more than a year. The deficit is trending marginally in the past year, due to weaker imports (not increased exports)
  - » Imports dropped 1.9% m/m in volume terms in October, heading down since Dec 2018. Imports are falling by a 5.7% speed y/y, the steepest decline (marginally) since the financial crisis! A sign of crumbling domestic demand or reduced imports from China due to tariff hikes? Mostly domestic demand, the deficit to China is shrinking, but deficits vs many other countries are widening. Check the next slide
  - » Export volumes fell 0.4% m/m in October. Exports have been flat the past year, annual growth at +1%
  - » In Q3, net trade was a drag on GDP growth, as it has since 2015, on the annual rate. **So far, Q4 is heading for a positive net trade contribution**

One nowcaster recovered sharply, signalling 1.7% in Q4. Others still below 1%

Higher net trade (and partly) new home sales drove Atlanta Fed's Q4 estimate up last week

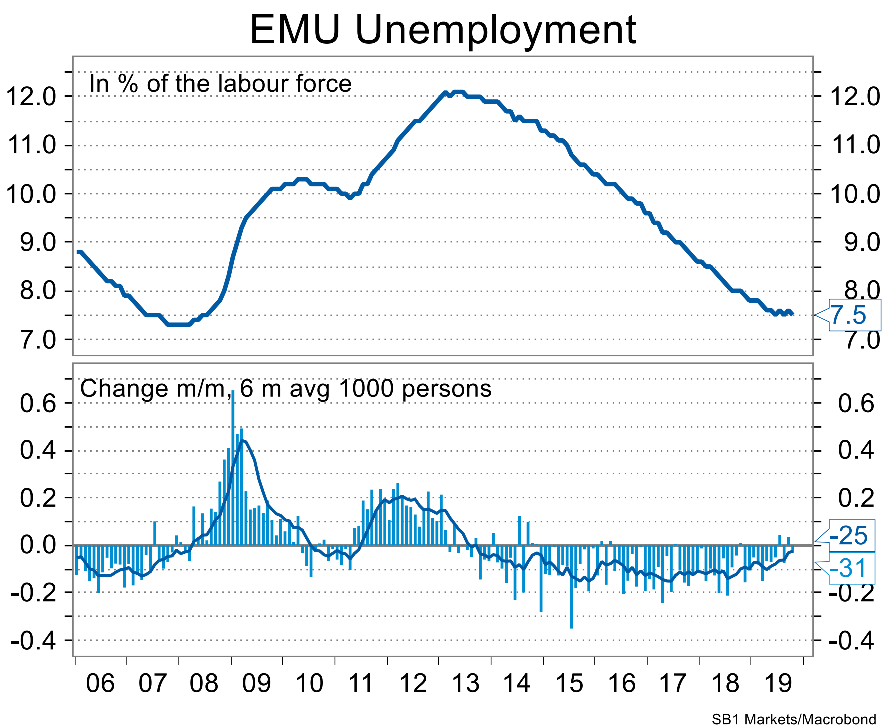


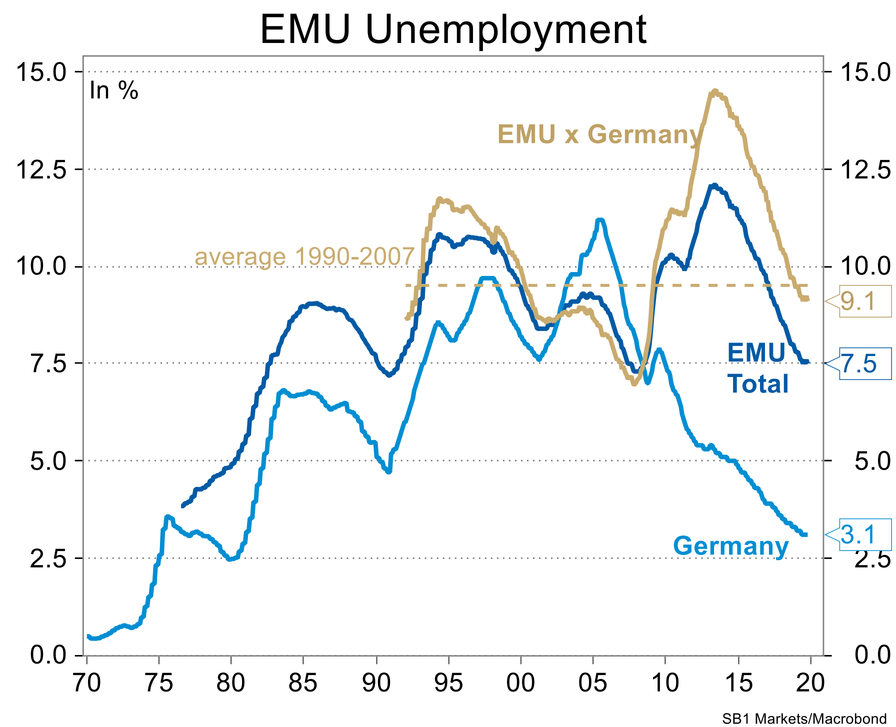


- Atlanta Fed's forecast shot up to 1.7% from 0.6% last week. NY Fed's index rose 0.1 pp to 0.8%
- The National Activity Index, which suggested 1.8% GDP growth in Q3 (0.3 pp below the actual number), now points to a slowdown to 0.5% into Q4 (Oct data)

Unemployment flattening out amid GDP growth slowdown

Unemployment has stabilized at 7.5-7.6%

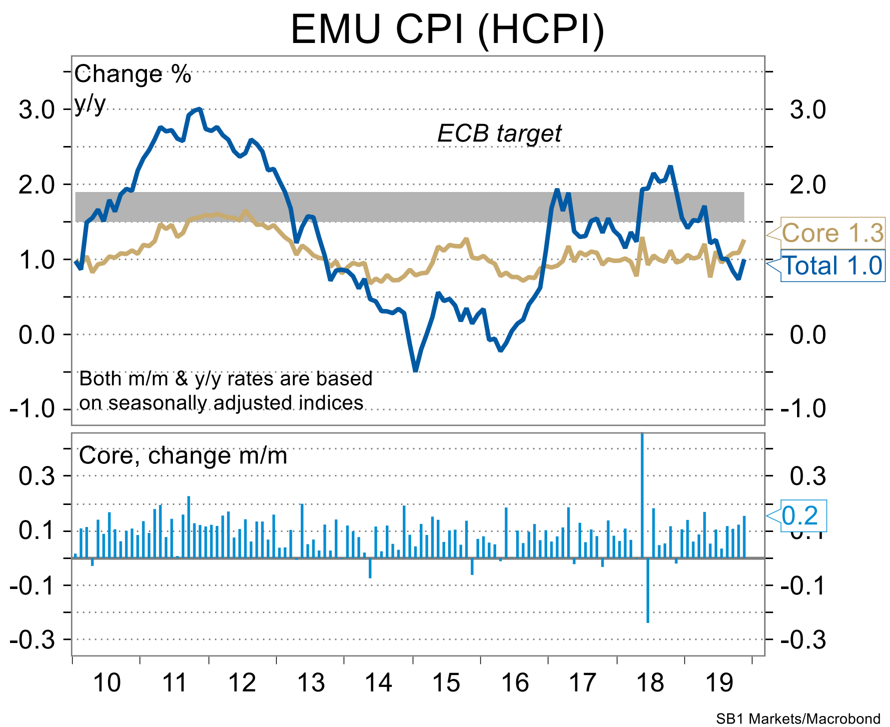


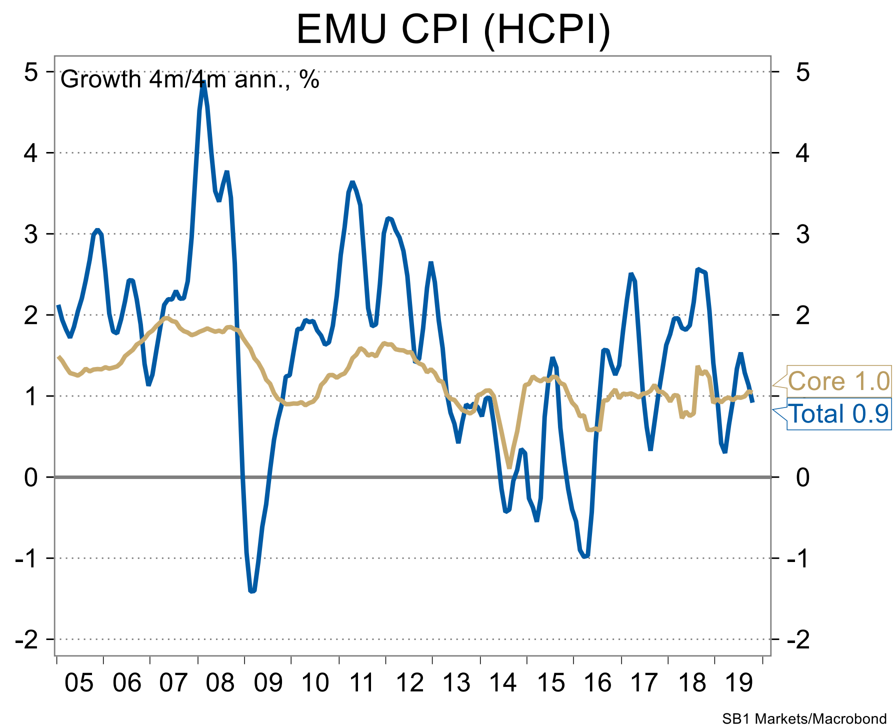


- The unemployment rate inched down to 7.5% in Oct, from an upward revised rate at 7.6% rate in Sept. The number of unemployed fell by 31’ in Oct (from +35’ in Sept). Thee 6 m average is still -25’ per month, however down from 140’ last summer (and -7’ the past 4 months)
- Unemployment in total EMU is well below the 1990-2007 avg, and it has fallen below the average in EMU ex Germany too
  - » In Germany, the unemployment rate held steady at 3.1%, the lowest in almost 40 years. Both Germany and other EMU have flattened out

Core CPI inflations spiked to 1.3%, partly due to base effects

Core inflation rose 0.2% m/m in Nov (and 0 in Nov last year). Total inflation edged up to 1%

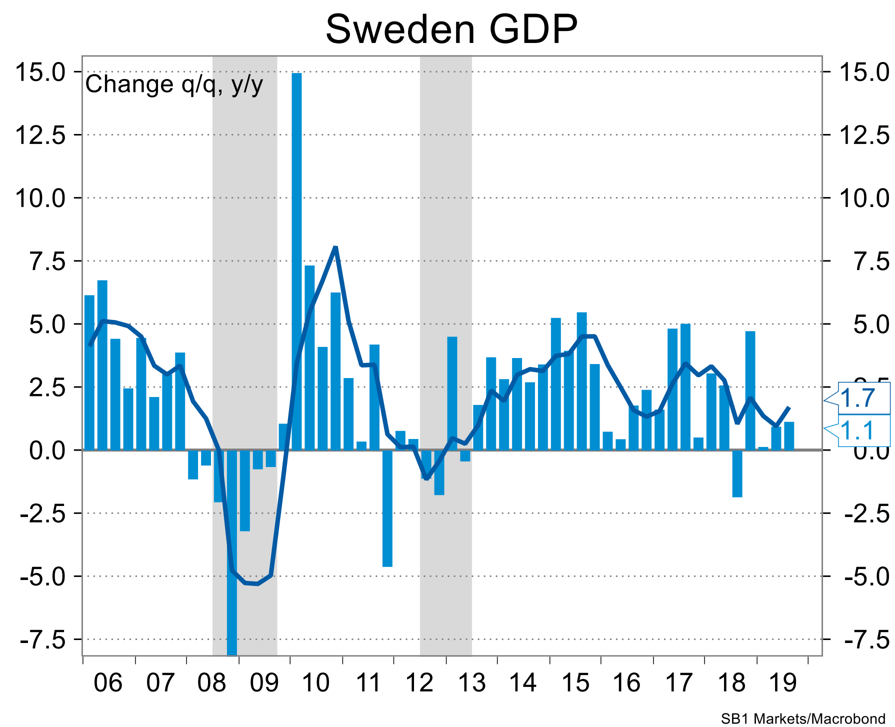


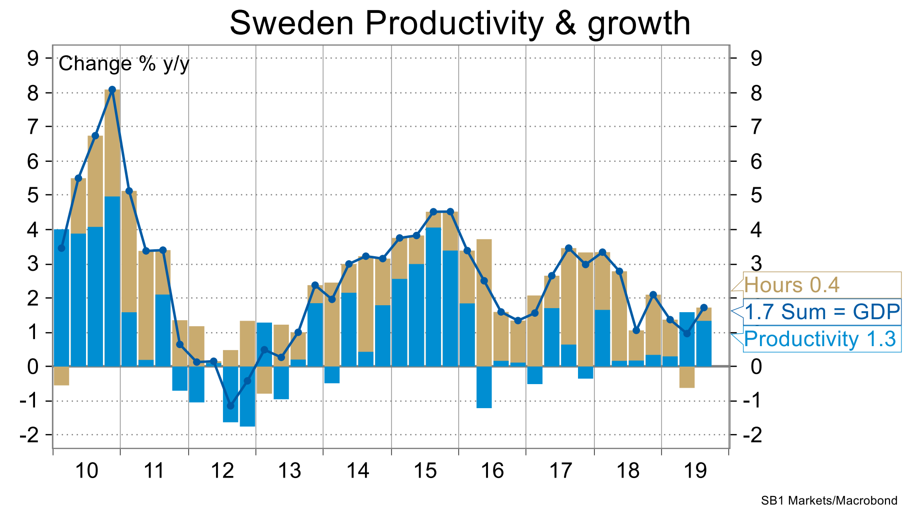


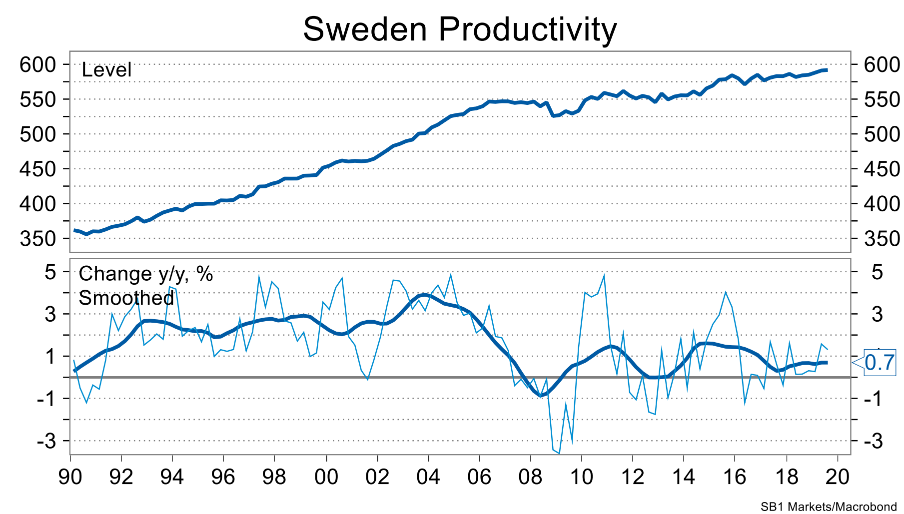
- Core CPI rose 0.2% m/m in Nov (0.015%, to be precise), somewhat higher growth than ‘usual’. In Nov last year, inflation was muted m/m, thus, the annual rate rose 0.2 pp. There are few other signs of an inflation uptick and underlying growth is flat at 1%, we doubt the upward trend is persistent.
- Total CPI growth came in at 1.0% in Nov, up 0.3 pp from the previous month. The oil price decline in the spring has sent total inflation down from above 1.5%, this effect may now be subsiding

Q3 GDP up 0.3% q/q, a tad higher than expected and Q2 revised up

The details were OK and productivity was revised up. Regardless, growth remains meagre



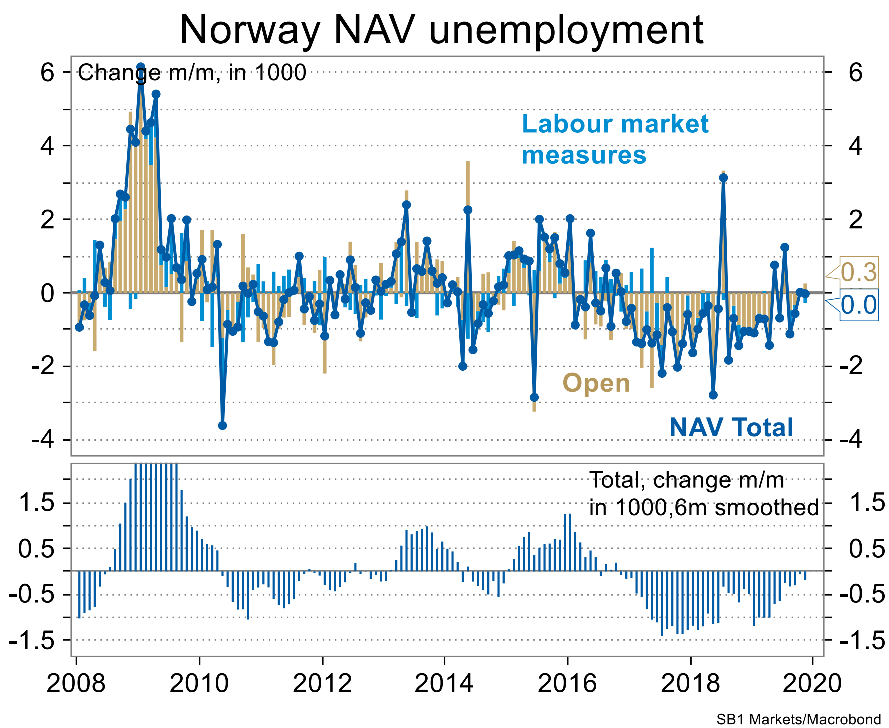


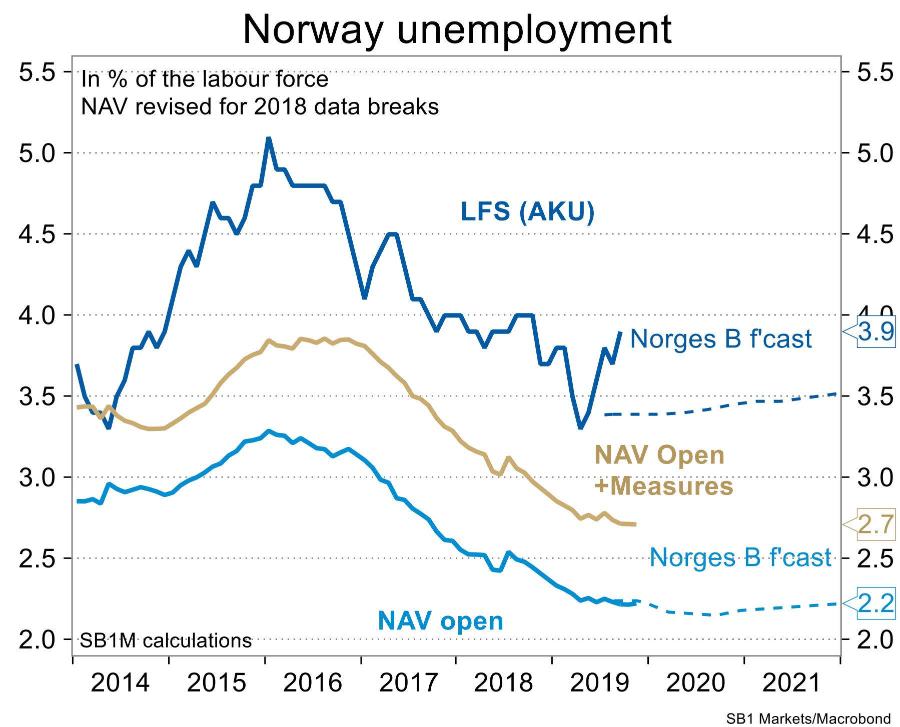


- GDP rose by 0.3% q/q (1.1% annualized), 0.1 pp better than expected. Moreover, Q2 was revised up by 0.1 pp
- Most demand components increased in Q3, just inventories dragged growth down. Net exports the major boost
- Productivity rose by 1.3% y/y and the past year was revised up substantially (Q2 to 1.6%, from 0.1%!) and hours worked revised down (blame Evry and the LFS scandal). However, productivity growth is anyway low and signals a limited growth potential!

NAV unemployment flattens out, LFS unemployment climbs

Open unemployment rose by 300 persons in Nov, confirming a softer labour market

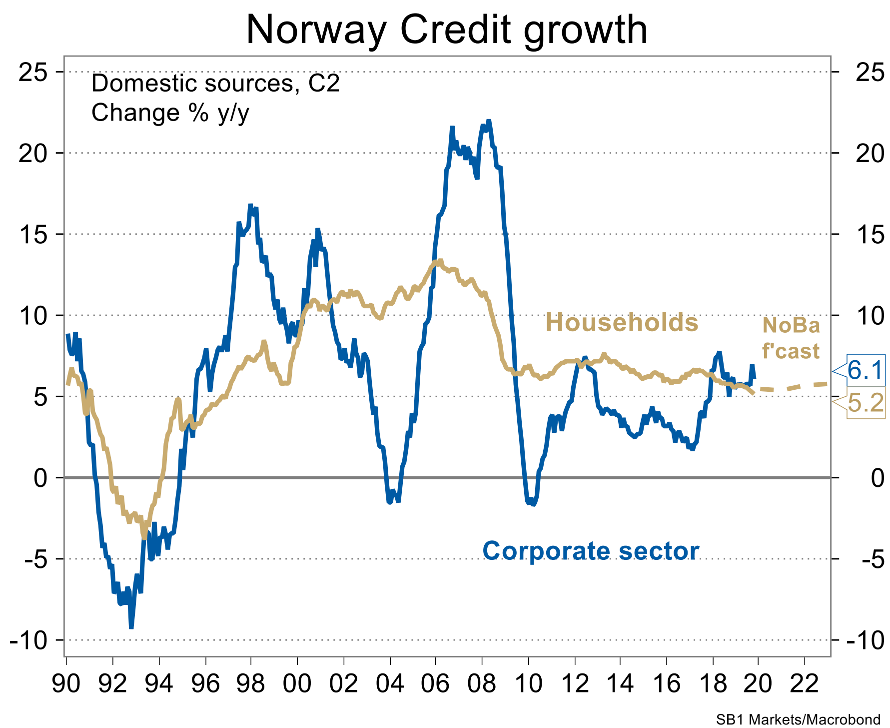


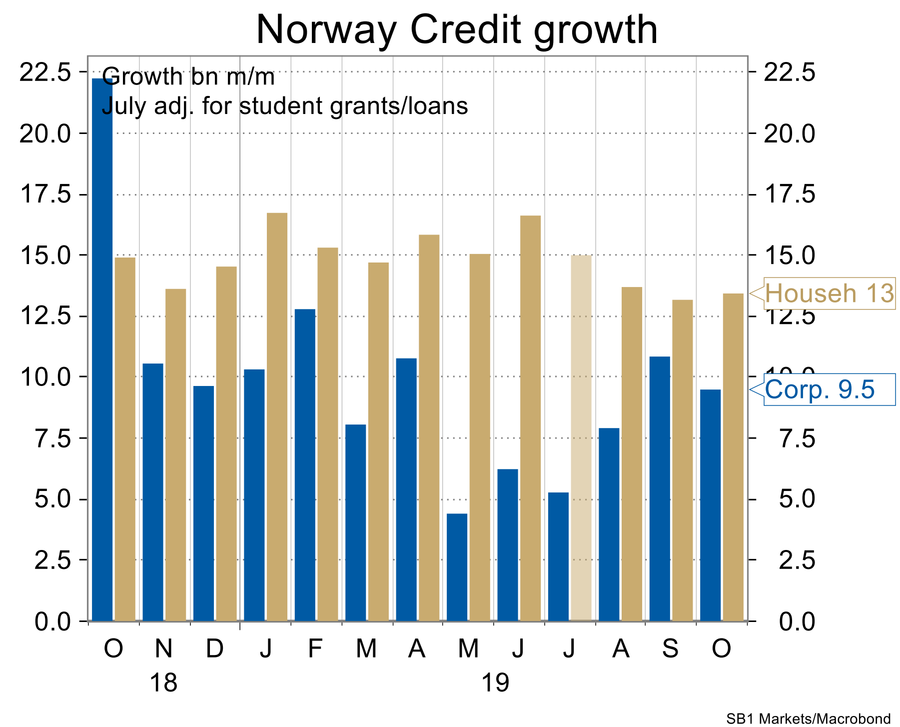


- NAV open unemployment increased by 300 persons in November, total unempl. (incl measures) was unchanged, we expected a similar decline. The pace of decline has slowed substantially, the 6m average decline has down to just 200 persons m/m, from 1000 in early ‘19
- The open unempl. rate held steady at 2.2%, marginally below NoBa’s f’cast, and in line with other forecasts
  - » Other indicators confirm a softer labour market: New jobless claims are heading marginally up, and the number of vacancies is slowly declining
- LFS unemployment rose to 3.9% in Sept, as employment fell more than participation. These data are much more volatile than NAV, our take is that a stabilization of unemployment is more likely. As long as employment is still growing at a solid pace, we are not too worried, short term
- NoBa expects NAV unemployment to tick down to 2.2% the coming months and stabilise in 2020. Thus, the slowdown seems to be occurring somewhat earlier than expected. Our take is anyway that NoBa will continue to signal an unchanged interest rate at the Dec meeting

Household credit growth the slowest since 1997, finally below income growth

No weakness in corporate credit growth

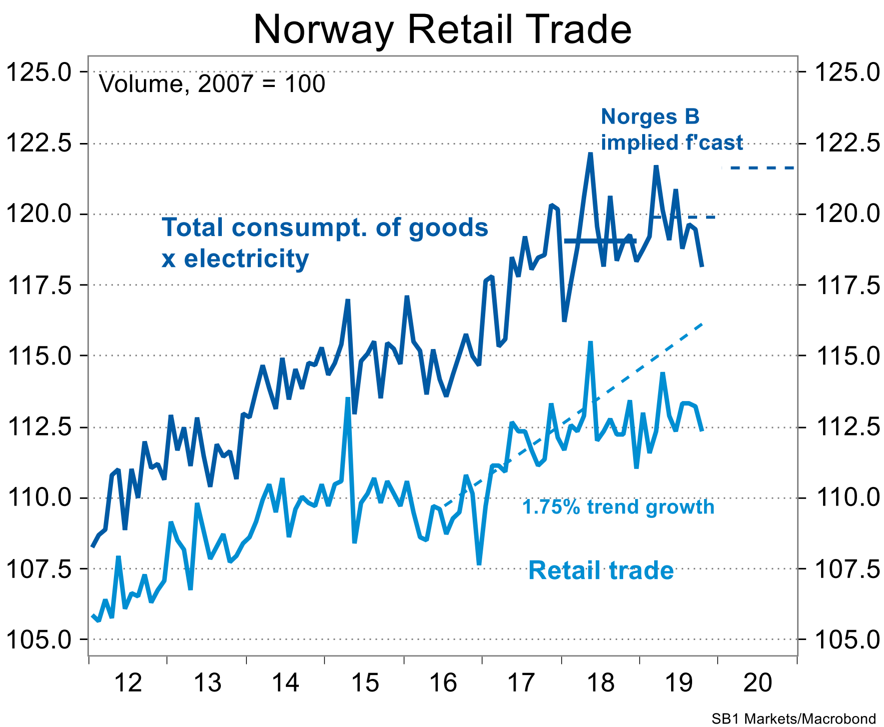


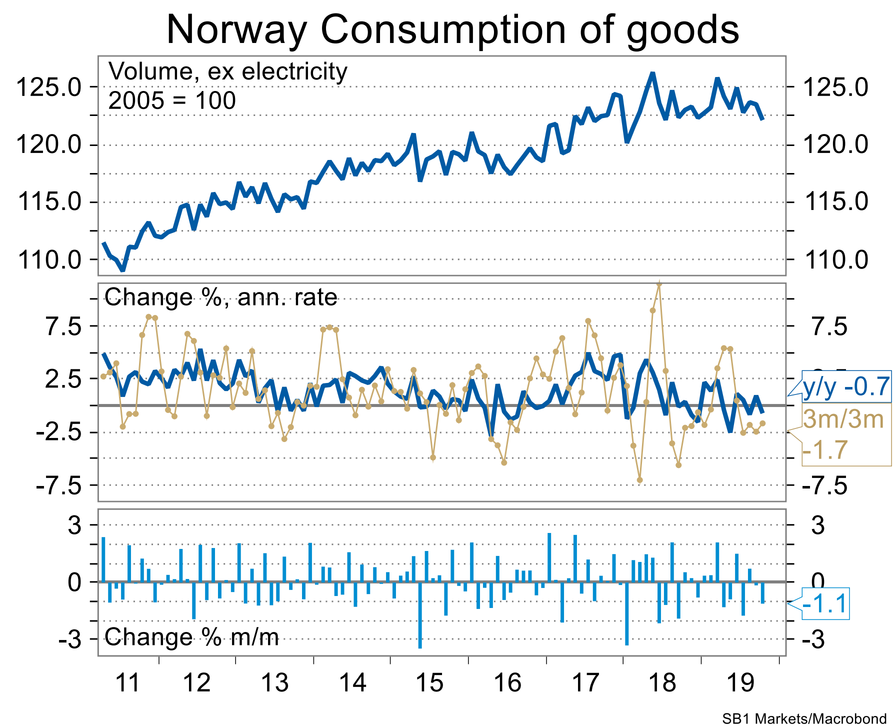


- Households' credit increased by NOK 13 bn m/m in October, an unchanged pace from Sept and the 3rd month of 'low' growth. The y/y rate edged down to 5.0%, from 5.1%, and underlying growth is slowing rapidly (flip to the next slide for more details)
  - Adjusted for a change in the timing of conversion of student loans to grants in July, the annual growth rate is 5.2%, as shown in the graphs
- Household credit growth has been trending slowly down since 2017. The slowdown recent months may be due to the interest rates hikes or recently due to tighter consumer credit regulation/the new debt registers
  - In Q2, consumer credit fell marginally, and the decline may have accelerated in H2 (no data yet). If so, consumer credit may explain a NOK 1 bn/m decline in the monthly growth rate which have fallen by NOK 2 bn/m since the summer, to approx NOK 13 bn/m
- Corporate credit (in C2, domestic lending) rose by 9.5 bn m/m in Oct. The annual rate edged down to 6.1%, after soaring to 7% in Sept, due to an unusual zig-sag in the monthly rates last year. Growth has anyway been steady at just below 6% since early 2019

Retail sales have softened, total consumption declines

Retail sales fell 0.8% in Oct, expected up. Black Friday Nov better? Auto sales a drag on total consump





- Retail sales volume (ex auto) dropped 0.8% m/m in Oct, expected up 0.2% (we f'casted +0.3%). Sales have slowed recent months, after a soft upturn in early 2019. Over the past 6 m (3m/3m), growth is still marginally positive (but the sign will change if sales not recover in Nov)
  - Sales were somewhat below par in both Oct 17 and '18. Thereafter, sales rose 1.8% m/m in November both years, probably a Back Friday impact, not yet recognised by the mechanical seasonal adjustment procedure. Until further notice, we expect a substantial gain in retail sales in Nov, say some 1.5%
- Total consumption of goods (ex electricity) fell by 1.1%. The downturn in consumption since the summer is partly driven by lower auto sales. The speed into Q4 is low, pointing to a negative GDP contribution
- Retail sales have flattened, and total consumption of goods is declineing. Consumer confidence is softening, as is the labour market and household credit growth. Are consumer becoming more careful? In Sept, NoBa expected 2.3% growth private consumption in 2020 (equals some 1.5% growth in consumption of goods). A downward revision is likely in the MPR (out Dec 19)

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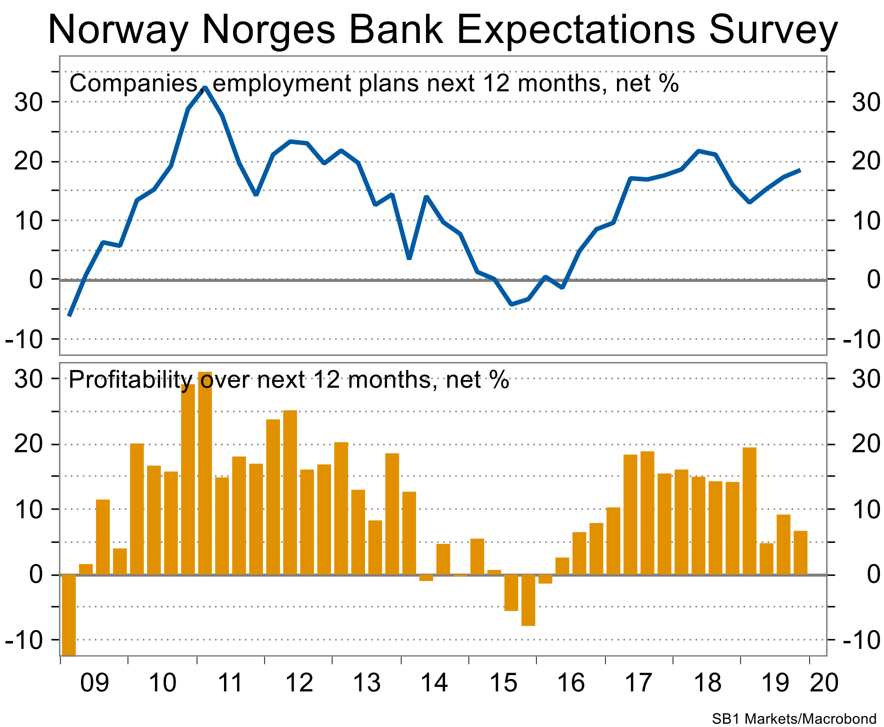
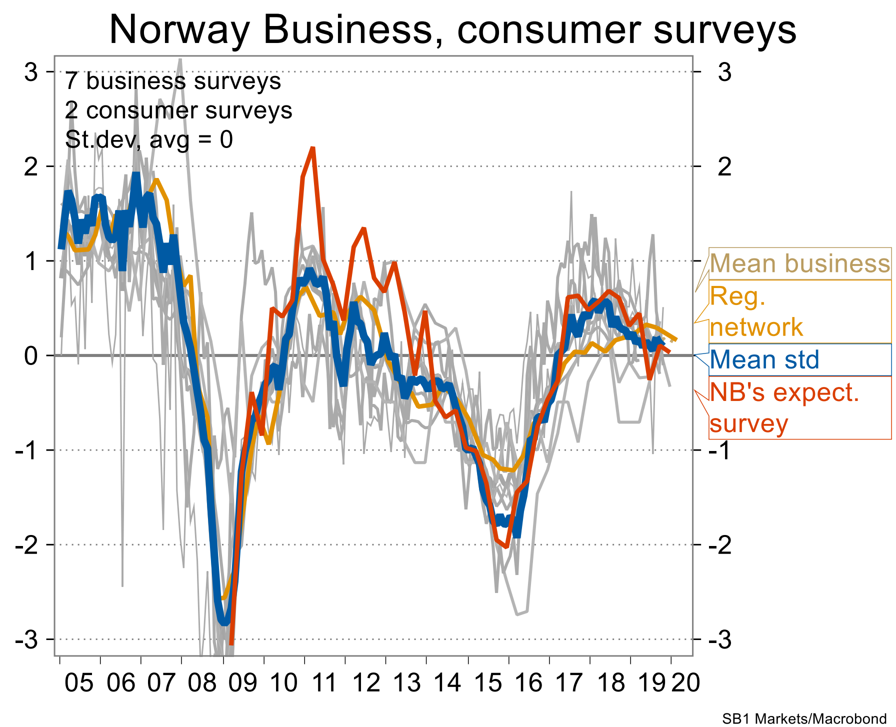
Norges Bank expectations survey a tad softer – but employment plans up

Profitability exp. inched down in Q4, employment plans were raised. Survey back at an avg level





- Norges Bank's expectation survey (not the Bank's Regional Network survey) came down just marginally in Q4, measured by the sum of employment plans and profitability expectations. The 'composite' index is just marginally above the average level, slightly softer than the avg of all Norwegian business surveys, pointing to almost 1 pp lower GDP growth
- Expectations of businesses' profitability the next 12 months weakened in Q4 from Q3, and the past 3 quarters have been lower than usual. Employment plans were raised, the index is pointing to steady growth in empl. at just below 2%, well above what we expected the companies to report. <u>We expect the Regional survey to report significantly slower growth next week</u>

The Calendar

In focus: Final November PMI/ISM, US nonfarm payrolls, Norwegian house prices

Time	Country	Indicator	Period	Forecast	Prior
Monday Dec 2					
08:30	SW	PMI Manufacturing	Nov	47	46
09:00	NO	PMI Manufacturing	Nov	53	54.9
10:00	NO	OBOS Oslo House Prices MoM	Nov		-0.8%
10:00	EC	Manufacturing PMI	Nov F	46.6	46.6
10:30	UK	Manufacturing PMI	Nov F	48.3	48.3
15:45	US	Markit Manufacturing PMI	Nov F	52.2	52.2
16:00	US	ISM Manufacturing	Nov	49.2	48.3
17:00	WO	Global Manufacturing PMI	Nov	(50.0)	49.8
Tuesday Dec 3					
	US	Vehicle Sales	Nov	16.85m	16.55m
Wednesday Dec 4					
01:30	JN	PMI Composite	Nov F		49.9
02:45	CH	PMI Composite, Markit/Caixin	Nov		52
08:00	NO	Savings Rate	3Q	(7.7%)	6.8%
08:00	NO	Current Account	3Q		30.6b
08:30	SW	PMI Composite	Nov		48.6
10:00	EC	Composite PMI	Nov F	50.3	50.3
10:30	UK	Composite PMI	Nov F	48.5	48.5
11:00	NO	House Prices MoM, Real Estate Norway	Nov	(0.2%)	0%
14:15	US	ADP Employment Change	Nov	145k	125k
15:45	US	Markit Composite PMI	Nov F	--	51.9
16:00	US	ISM Non-Manufacturing	Nov	54.5	54.7
17:00	WO	Global Composite PMI	Nov	(51.1)	50.8
Thursday Dec 5					
08:00	NO	SSB Economic Outlook	4Q		
08:00	GE	Factory Orders MoM	Oct	0.5%	1.3%
11:00	EC	Retail Sales MoM	Oct	-0.3%	0.1%
11:00	EC	GDP QoQ	3Q F	0.2%	0.2%
13:30	US	Challenger Job Cuts YoY	Nov	--	-33.5%
14:30	US	Initial Jobless Claims	Nov-30	215k	213k
14:30	US	Trade Balance	Oct	-$48.8b	-$52.5b
Friday Dec 6					
08:00	GE	Industrial Production MoM	Oct	0.2%	-0.6%
08:00	NO	Manufacturing Production MoM	Oct	0.2%	0.8%
09:30	SW	Industrial Orders MoM	Oct	--	-0.2%
14:30	US	Change in Nonfarm Payrolls	Nov	190k	128k
14:30	US	Unemployment Rate	Nov	3.6%	3.6%
14:30	US	Average Hourly Earnings YoY	Nov	3.0%	3.0%
16:00	US	U. of Mich. Consumer Sentiment	Dec P	97	96.8
Sunday Dec 8					
	CH	Exports YoY	Nov	0.6%	-0.9%

- **Global composite PMI + US ISM**
  - » We estimate a 0.4 pp increase in the **global composite PMI**, to 51.2. The manufacturing PMI rose for the 4th month in a row, by 0.4 p to 50.2, according to our estimates (based on PMIs published so far). The manufacturing PMI has contributed a stabilisation of the composite index. The US manufacturing ISM is expected up, from a low level
- **China**
  - » **Exports** are heading slowly up, while imports have flattened out. Don't pay attention to the reported actual y/y rate, it's just noise
- **US**
  - » **Employment growth** surprised on the upside in Oct, however, surveys point to a slowdown, probably mostly due to lack of labour. Wage growth is low vs unempl. but not vs productivity or CPI inflation, and the profit share is declining
  - » **Auto sales** fell in October and are trending slowly down
- **Eurozone**
  - » More details on **Q3 GDP** will be released. Most likely, private consumption was the major contributor on the demand side
  - » **Retail sales** are heading steadily up. Still, downside risk on the October f'cast, as sales dropped in Germany (and fell in Spain, too)
- **Norway**
  - » **House prices** are most likely climbing modestly, we expect some 0.2% m/m growth in November (seas adj; -0.7% actual)
  - » **Households' savings rate** will be published belatedly for both Q2 and Q3. Wage income growth has accelerated but higher interest rate payments will be felt too! Thus, we expect just a modest increase in the savings rate in Q3 vs. Q1, even if nominal consumption growth was low. Still, savings are on the way up, and the cash flow is turning less negative!
  - » **Manufacturing production** might recover in Q4 but growth peaked in Q2 and oil investments will not longer contribute on the upside

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

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 probably rose 0.4 p in Nov, and the manuf. survey rose for the 4th month in row, to 50.2, signalling a marginal growth in production. The composite signals 3% growth. Global auto sales are still sliding down but slowly
China	Growth is slowing, but just slowly. Recent data do not signal a further downshift. The invest/GDP ratio is still sliding down. Debt growth has slowed, and authorities do not seem willing to take the risk to simulate growth with debt funded demand as the debt level is very high. Fiscal policy has been activated but not more recently. 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. <u>But a trade deal will not bring growth back up, as this is not the reason behind the Chinese slowdown</u>**	<u>Both PMIs far better than expected in Nov, and they do not signal any further slowdown in neither manufacturing production or GDP</u>
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. Growth in consumption is softening. Housing date are very strong. 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**	<u>Private consumption is slowing and consumer inflation (PCE) has turned down. Durable goods orders rose do not signal any decline in business investments. Another week of upbeat US housing data. Lower net exports will boost GDP in Q4. Q3 revised up</u>
EMU	Growth has slowed and manufacturing data are worrying while the consumer sector remain resilient. Unemployment rates have stabilised at rather low levels, 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 <u>debate</u> has turned, policy nor. Less risk for a hard Brexit. **Risks: Trade war. Business investments. Italy.**	<u>Unemployment is stabilizing, in most countries. Core CPI inflation rose to 1.3% y/y in Nov, we expect a retreat the next month. Economic confidence has fallen to an average level, too upbeat vs PMI and CERP.</u>
Norway	Growth has been above trend but is probably peaking, partly due to the peak in oil investments. Unempl. has stabilised, and the upside risk vs. wage inflation (which is still accelerating) is limited. Mainland business inv. not low anymore, will slow in '20. Housing starts probably slowing, prices rising moderately. Electr. prices have taken the headline CPI down but core still slightly above target. Household credit growth has slowed, and is finally close to income growth. **Risks: Debt, housing. A harsh global slowdown**	<u>Registered unemployment is flattening out, broadly. LFS unemployment surprisingly ticked up, again, as employment fell less than participation. Household credit growth is retreating. Retail sales are softening</u>

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

In this report

Global

- Global macro data slightly more negative vs expectations this autumn
- Global retail sales hit by the Japanese VAT hike, Oct level probably too low
- Global PMI probably up in November, manufacturing back to 50

China

- Both PMIs far better than expected in November
- Profits sharply down in October – and the profit rate almost down 50% since '17

USA

- Q3 GDP growth 0.2 pp higher than first rep.
- Profits a tad up in Q3 but are trending sharply down in % of GDP, investments to follow?
- Fed's Beige Book reports steady growth
- Capital goods orders/sales do not suggest any further decline in business invest.
- Core PCE inflation eased to 1.6% in Oct
- Consumption keeps cooling off, still not weak
- Conference Board's sentiment index confirms upbeat consumers
- Pending home sales are zig-zagging upwards
- Case Shiller house price inflation gains pace
- New home sales are soaring
- The trade deficit shrank in Oct as imports dropped; tariffs or waning demand? Strong GDP support
- Jobless claims back down a low level (again)
- One nowcaster rebounded sharply, pointing to 1.7% others still around 0.5%

EMU

- Unemployment flattening out amid growth slowdown
- Core CPI inflations spiked to 1.3%, partly due to base effects
- EU economic sentiment survey steady in Nov
- German Ifo expectations improved marginally in Nov, adding to signs of stabilisation
- German retail sales slipped in October

Sweden

- Q3 GDP up 0.3% q/q, a tad higher than expected and Q2 revised up
- KI bus. survey points to a steeper slowdown
- Retail sales keep growing moderately, no demand weakness spotted
- Consumer confidence below avg but still points to decent growth in consumption?

Japan

- Retail sales and manufacturing production plunged on VAT hike in Oct, as usual
- Unemployment remains low, employment still increasing (but at a slower pace)

Norway

- NAV unemployment flattens out, LFS unemployment climbs
- Credit growth is slowly cooling, driven by households
- Soft retail sales, total consumption declines
- Norges Bank expectations survey a tad softer – but employment plans up

Highlights

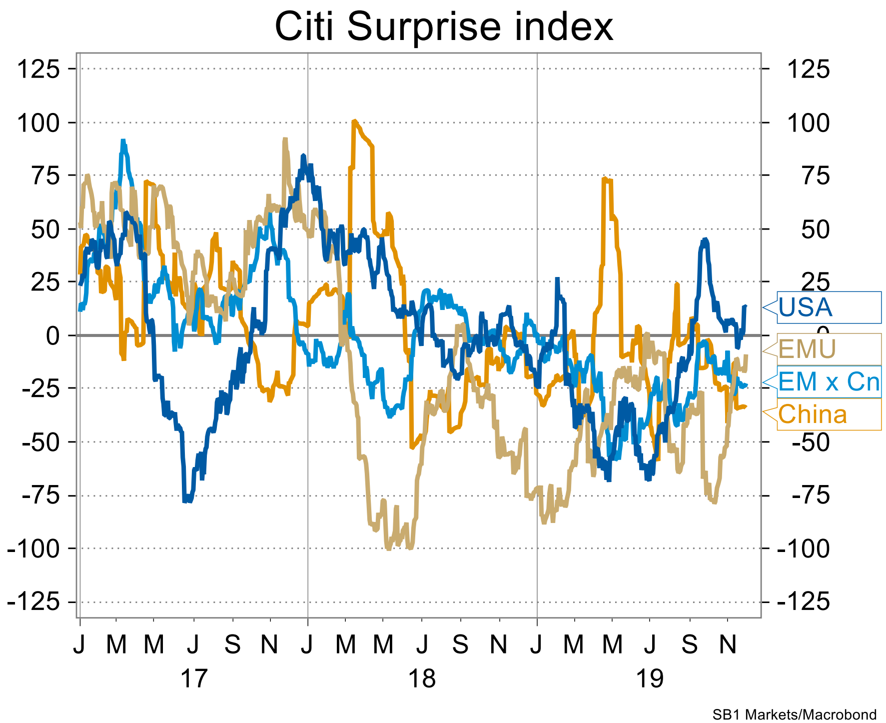
The world around us

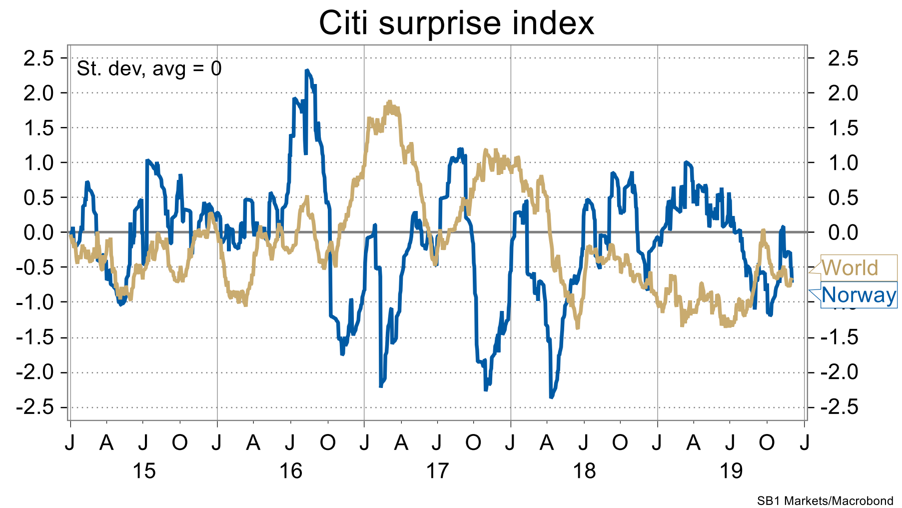
The Norwegian economy

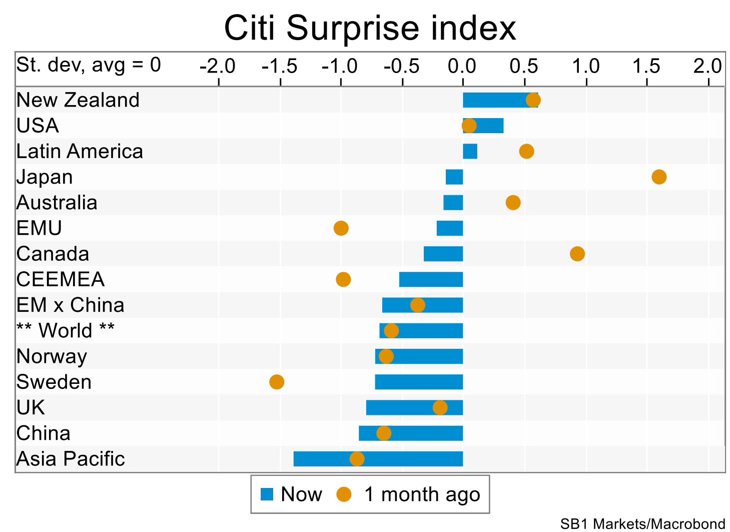
Market charts & comments

Global macro data slightly more negative vs expectations so far in Q4

Data from US surprised on the upside last week, EMU & China steady, Norwegian data below f'casts







- The global surprise index climbed to a 'neutral' level for the first time this year in mid-Sept. Since then, data have been more disappointing, in sum
- US data flows were upbeat last week, lifting the surprise index back up in positive territory. US data have mostly been stronger than expected the past months
- EMU data have been less disappointing recently, several indicators have stabilized
- China is sliding down again, Oct data below f'casts. A tad weaker than other EM
- Norwegian data are negative again, and Sweden is far into negative, both reasonable

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

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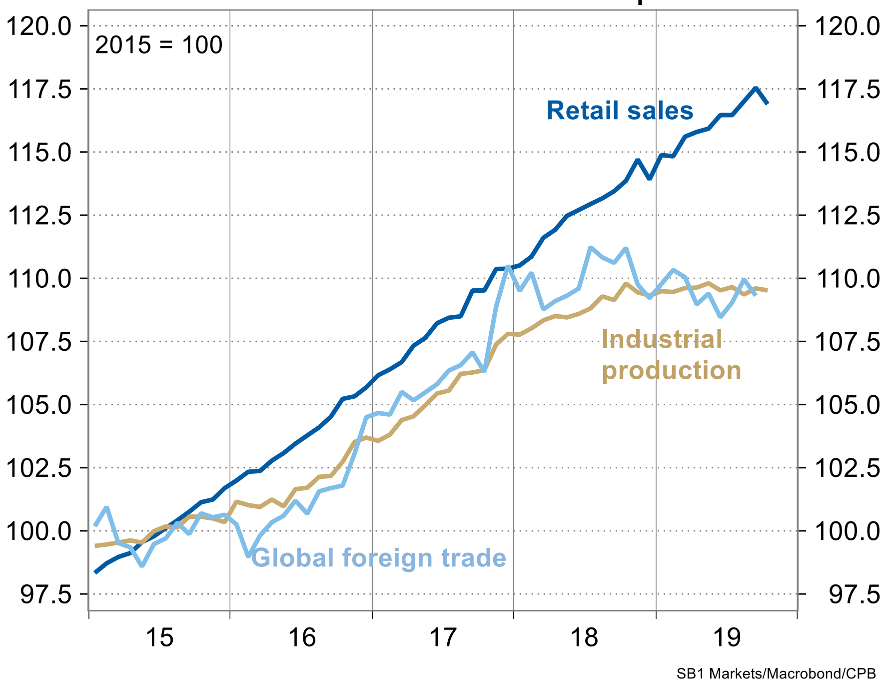
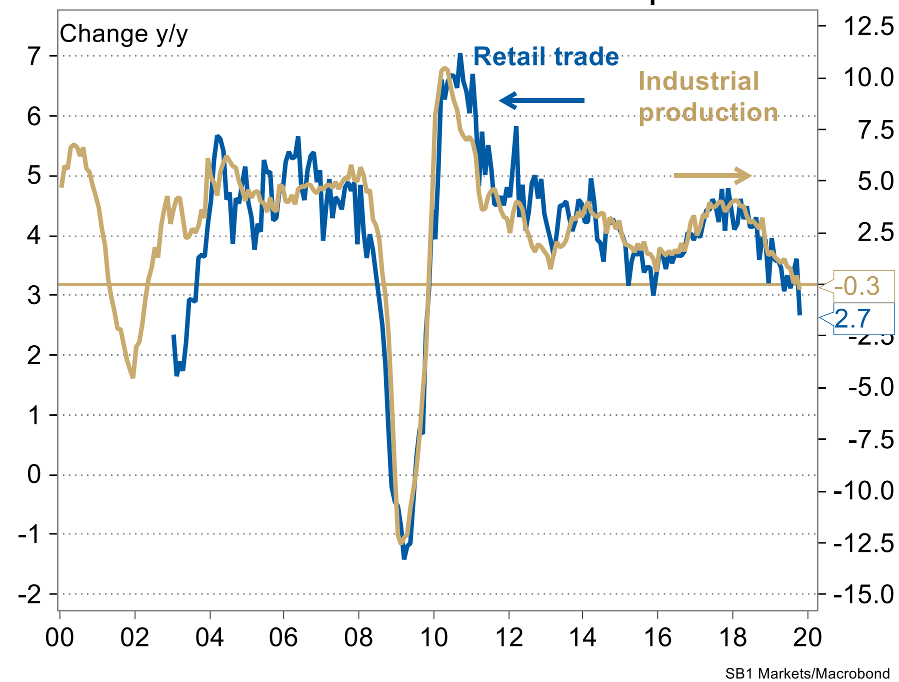
Global retail sales hit by the Japanese VAT hike, Oct level probably too low

Global foreign trade fell in September, and manufacturing production probably fell in Oct

Global Retail sales & industrial production



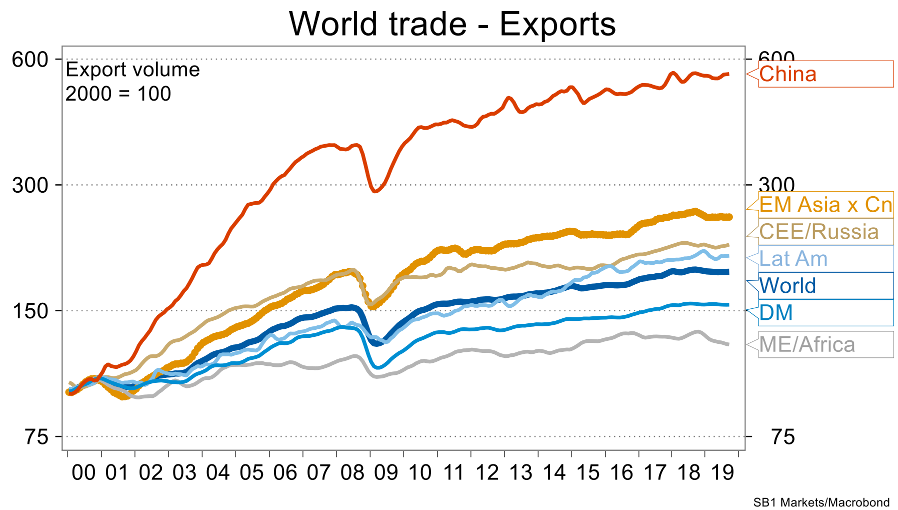
Global Retail trade & industrial production

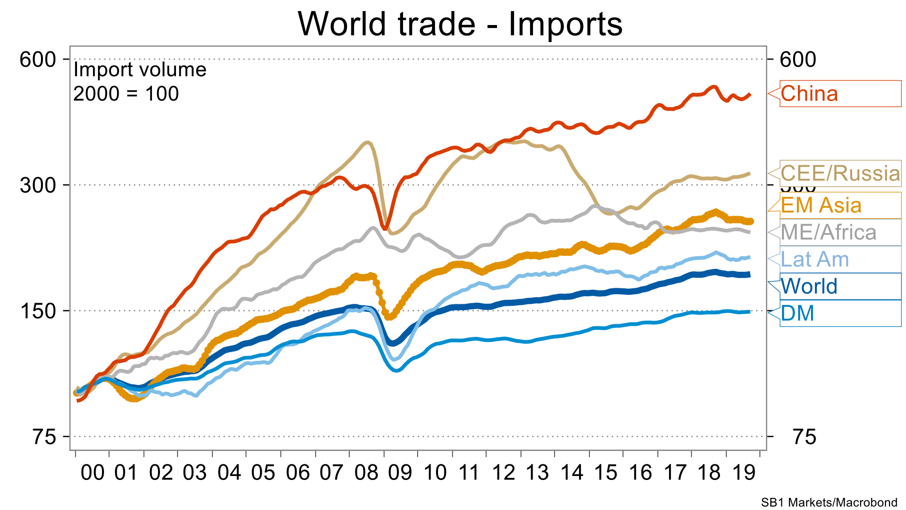


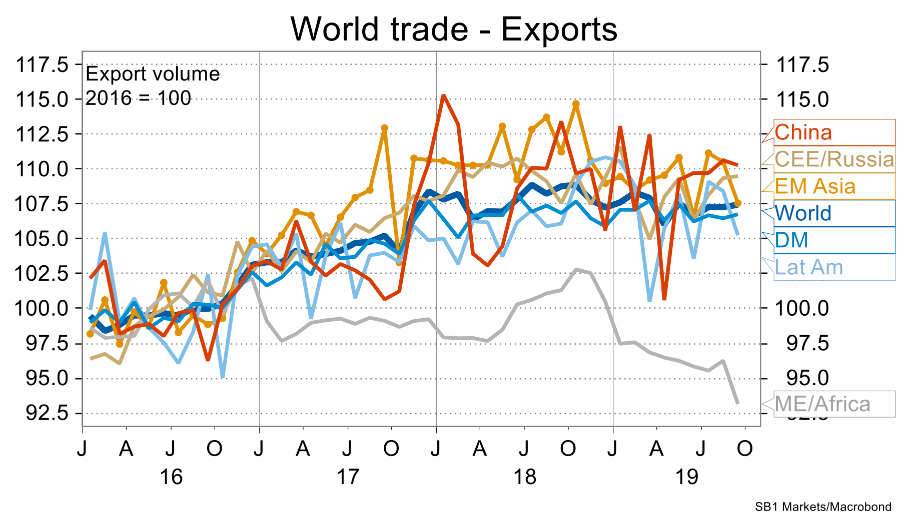
- **Retail sales** fell by 0.5% m/m in Oct (our prelim. est) reversing half of the 1% Aug/Sept lift. The volatility is due to the hike in VAT in Japan, that pushed sales forward to Aug/Sept and they collapsed by 14% in October, like 'normal' following Japanese VAT hikes (check for more here). The underlying growth in global retail sales recent months seems to be approx 3%, and quite stable
- **Global industrial production** declined 0.1% in Oct (our very prelim. est). Production has fallen marginally recent months, and the annual growth rate is -0.3%. The global manufacturing PMI now suggests a modest growth in production
- **Global foreign trade** dropped by 0.6% m/m in Sept (with our seasonal adjustment), reversing most of the 0.8% upturn the prior month. Trade flows have been trending down since last summer and the annual rate is down 1.2%, however, the uptick in July and August may reflect a stabilization – the level is not lower than in Q4 2018!

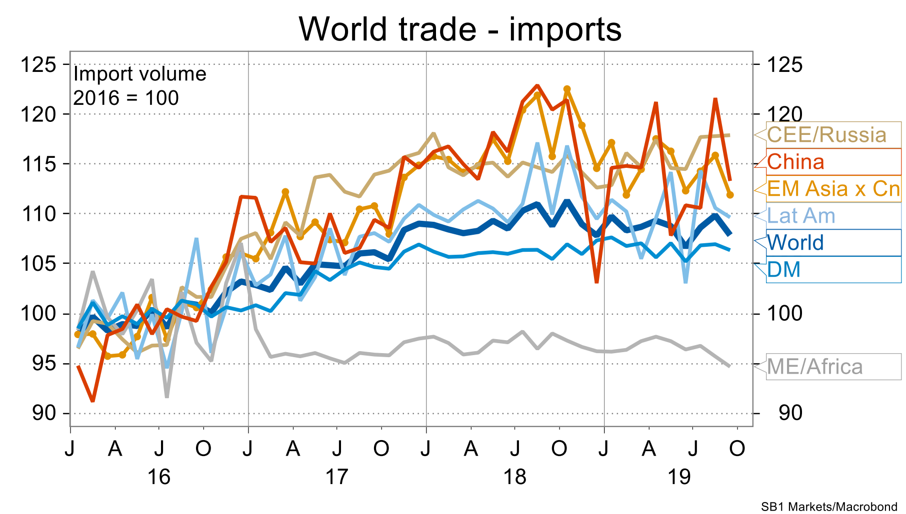
Global foreign trade has flattened (probably)

Exports from/imports too EM ME/Africa are still trending down, others trade flows not





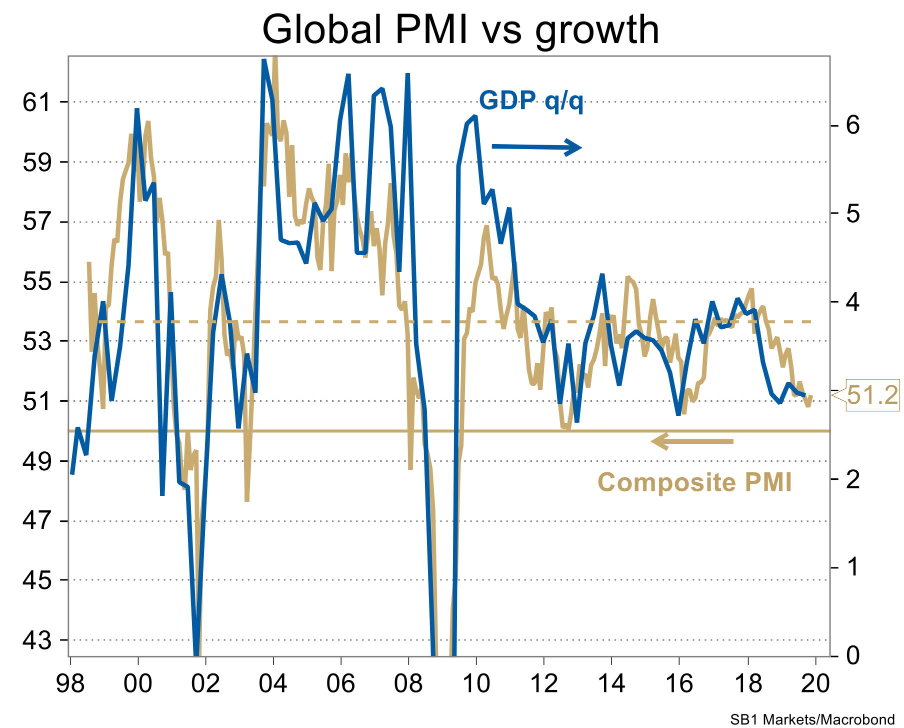


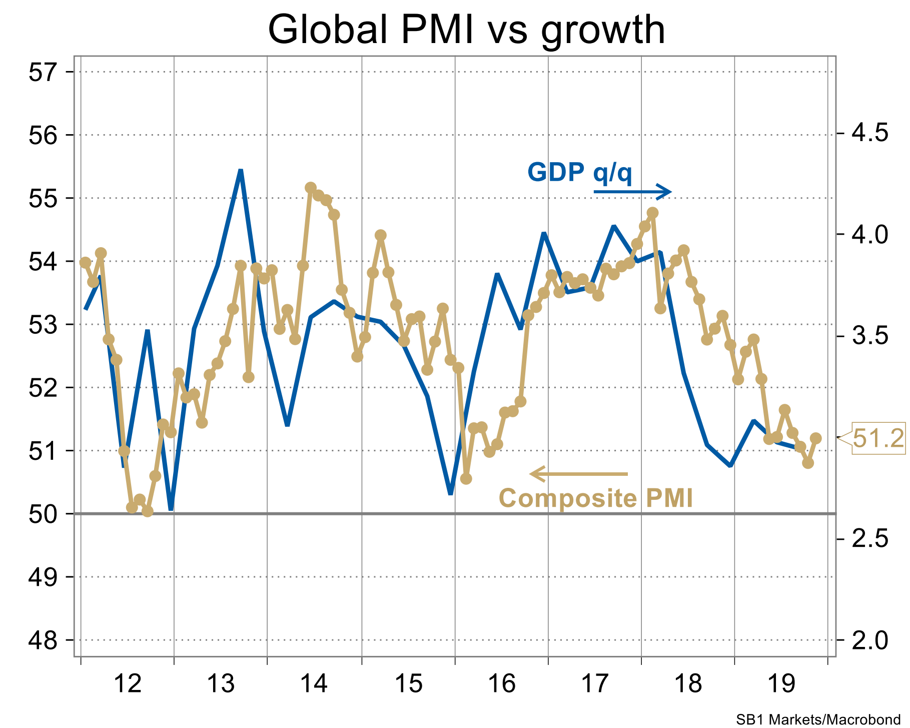


All foreign trade data from CPB, Netherlands. We have adjusted some CBP data for remaining seasonality, most important for Chinese exports

Global PMI probably up in November, manufacturing back to above 50!

The index may have stabilised but is still not signalling more than 3% growth



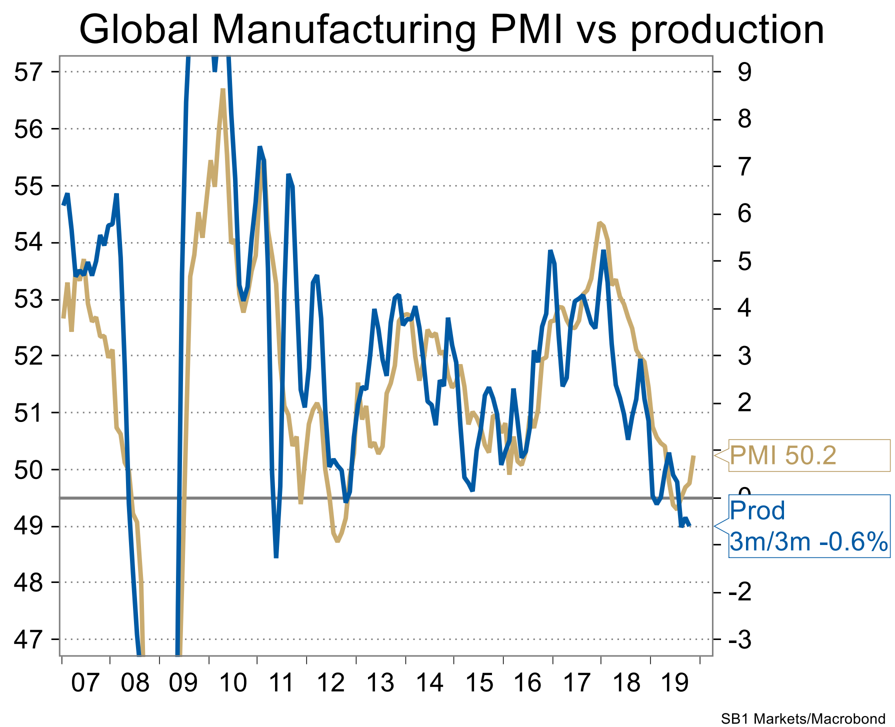


- The composite PMI rose 0.4 p to 51.2 in Nov (our estimate). The index is back to the same level as in April/May and confirms a close to 3% growth in global GDP – a growth rate which has been rather stable since Q3 last year
  - » Our estimate is based on PMIs from the US, EMU, UK and Japan. Japan PMI fell steeply, our estimate may put too much emphasize on this
- The PMI has fallen by 4 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 10 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

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

Global manufacturing PMI has recovered past 4 months, back to above 50

We estimate an 0.5 p uptick to 50.2 in November, signalling some 1% growth in production



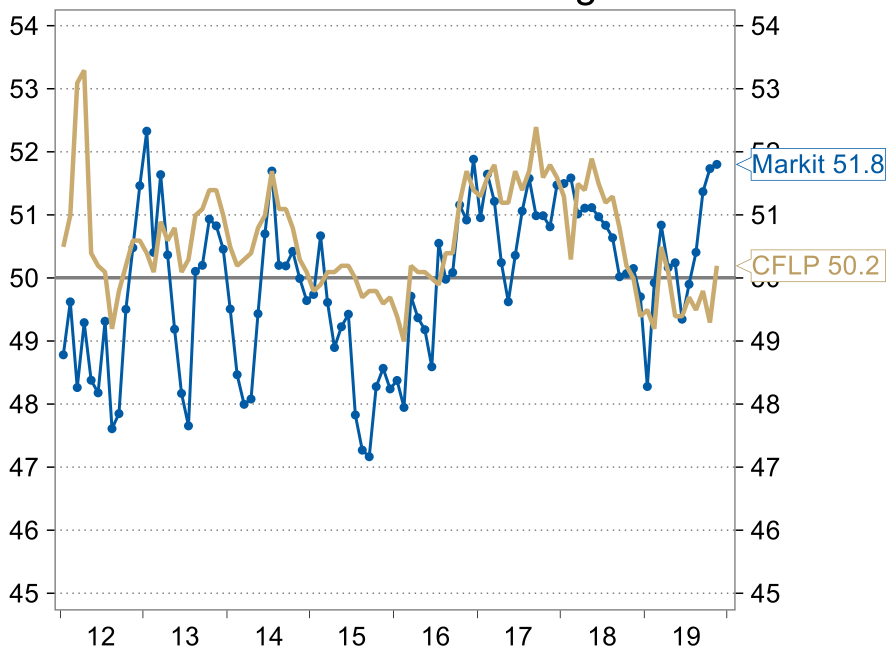
- Recent months, orders have been recovering too, while growth in inventories have slowed, a favourable mix (more next page). Thus, the order/inventory ratio has climbed, normally a good signal – however not a leading indicator

Memo: the last PMI data are our estimates on November PMI

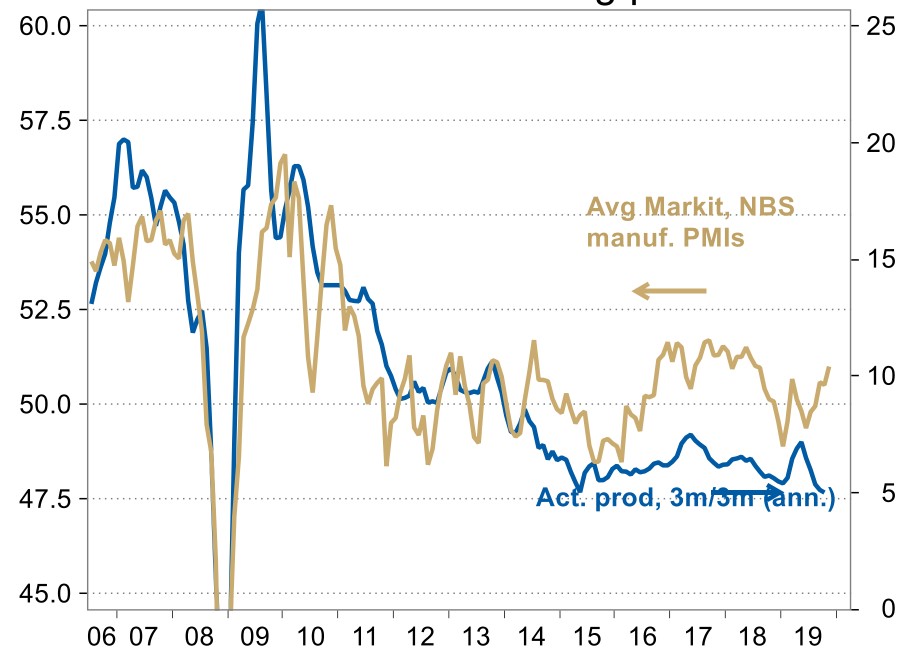
Markit's manufacturing PMI still strong , CFLP's sharply up to above 50

Both manufacturing surveys up in November, Markit's for the 5th time in row, to a high level

China Manufacturing PMI



China PMI vs manufacturing production



- Markit's manufacturing PMI rose 0.1p to 51.8 in Nov, expected down to 51.0, which would still be a decent level (the avg since 2012 is 49.9, and the world has survived that level pretty well…). The index is at the highest level since Dec 2016, and new orders are growing at a fast pace
- The 'official' NBS/CFLP manufacturing PMI surprisingly rose by 0.9 p to 50.2 in November, to the best level since March (but still below the avg level). The sub indices for both total and export orders rose
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies
- The avg of the NBS/Markit PMIs is suggesting faster growth in the manufacturing sector – which has slowed somewhat recent months
- Policy implications: Less pressure to stimulate the economy, more self confidence in the trade negotiations with US

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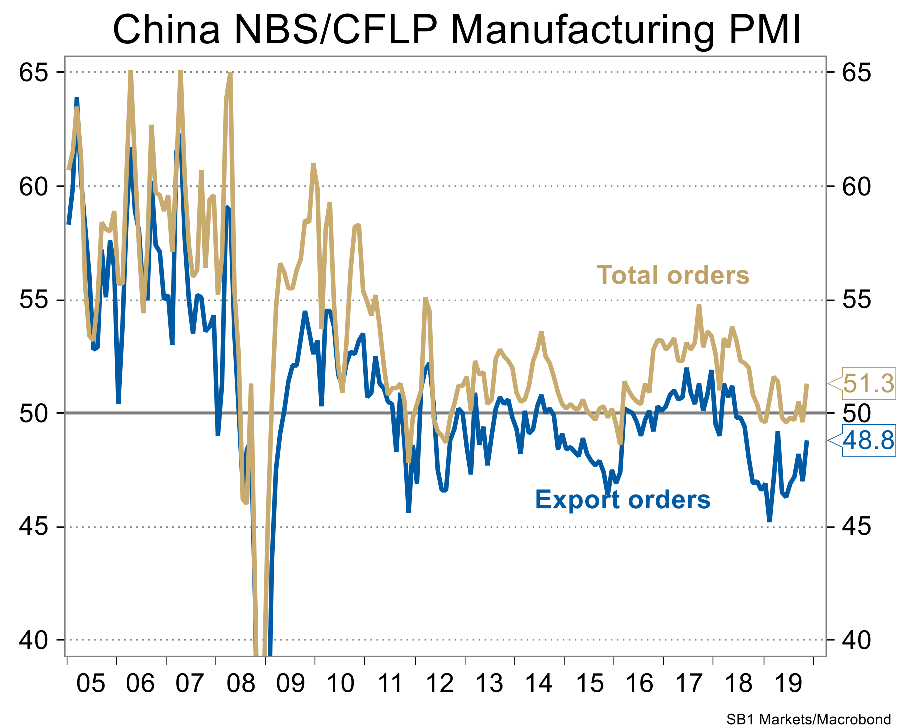
PMI order indices in sum up in November

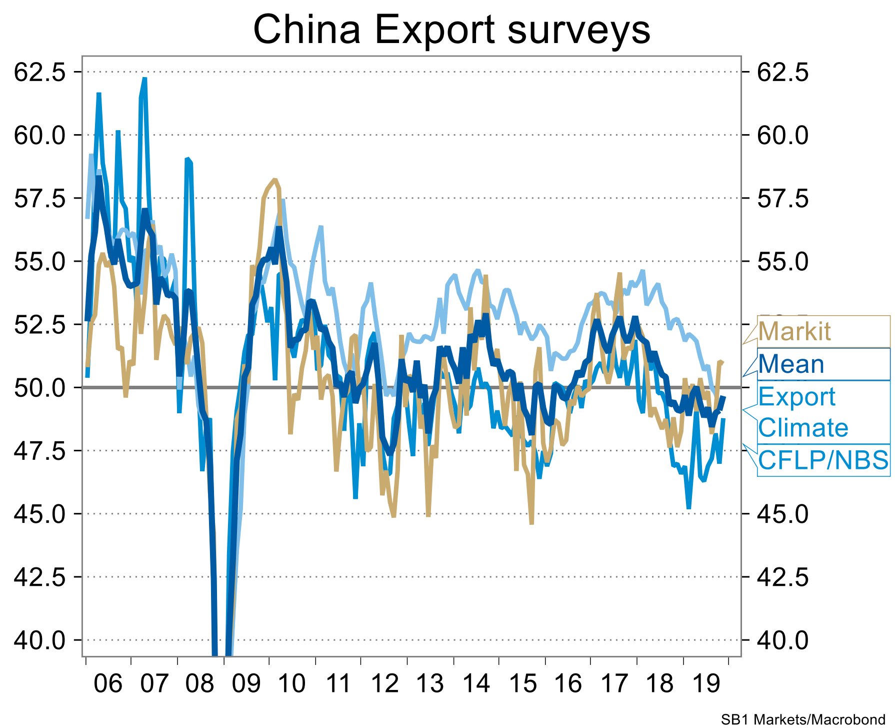
CFLP order indices sharply up, both total & export orders at average since 2012



- The total order index in Markit's index fell marginally in Nov, following two strong months. The level at 52.8, signals growth well above the average recent years. Even the export component is well above the past years average, at 51!
- The NBS/CFLP export orders index bottomed in February, has gradually recovered since that and reached a 'normal' level in November. The total index rose in Nov too, and is also back to an average level since 2012

Export surveys have not collapsed, neither have exports

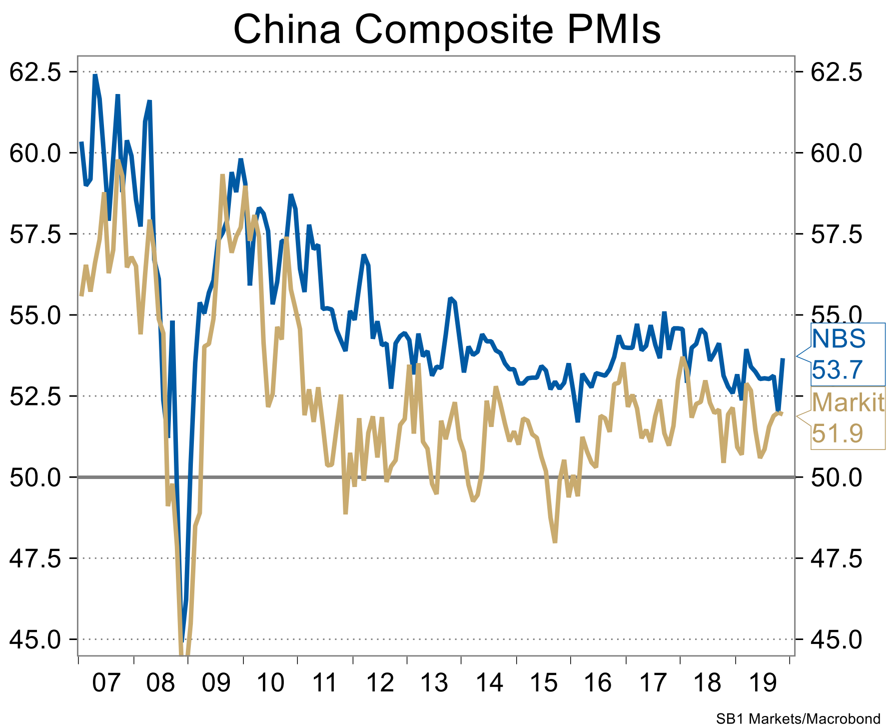
Exports surveys (2 PMIs + a climate index) have recovered recent months – and exports are steady

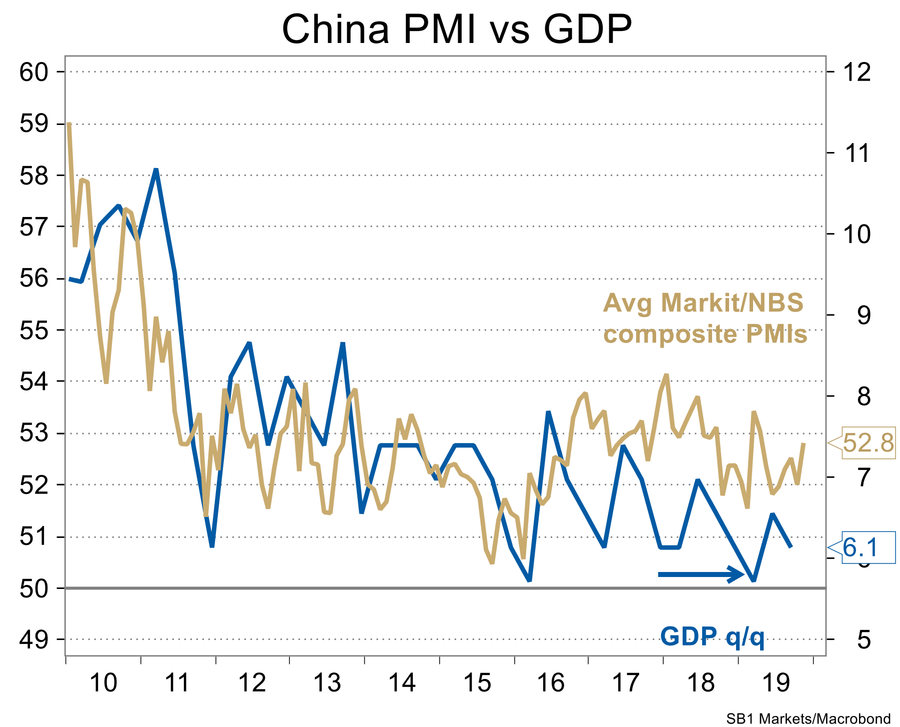


- The surveys we follow are now just marginally below the 50 line, and above the throughs in 2012, 2013 and 2015 and 2016. During these periods, export volumes flattened in 2012, 2013, and fell marginally in 2015/16 – without pushing the Chinese economy into tailspin.
- Export volumes fell in 2018 but have more or less stabilised in 2019. Surveys do not indicate any significant downturn, even if tariffs for exports to the US is approaching 20% in average and exports to the US have fallen sharply

A sharp recovery in the official composite PMI, Markit's stable at an OK level

The avg of surveys signals steady GDP growth

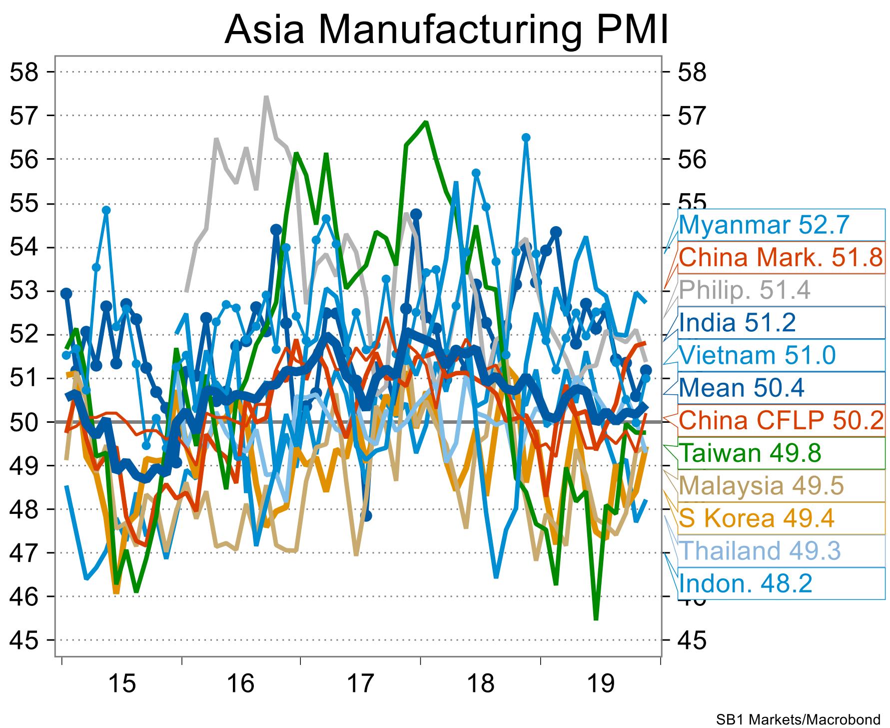


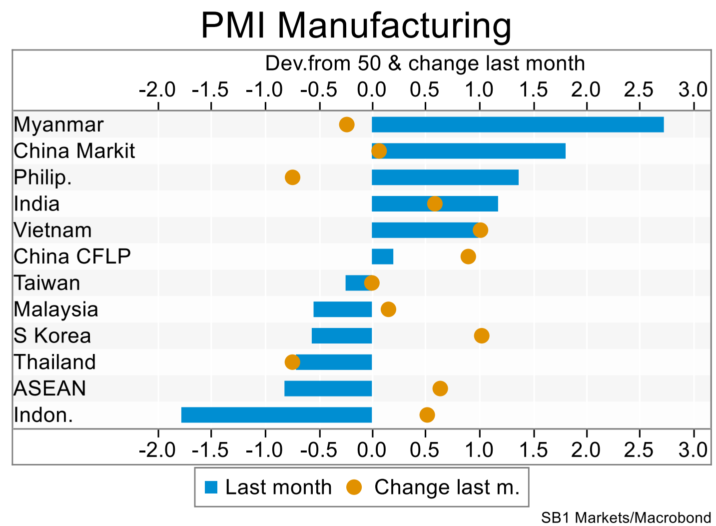


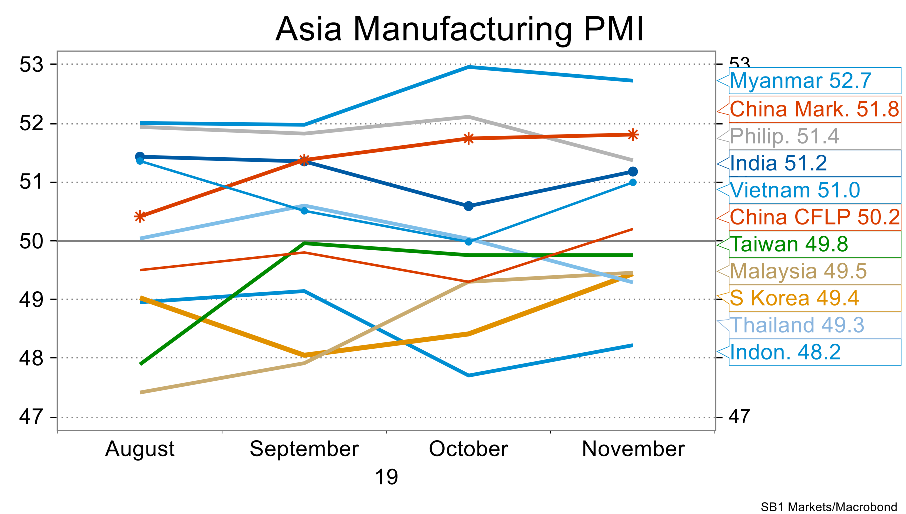
- NBS' 'official' composite PMI (CFLP) surprisingly rose to 53.7 in November, a 1.7 p hike to the best level since March (and the 2. best since last Sept). Both the manufacturing and the service index rose
- Markit's composite PMI (assuming an unchanged services PMI) was unch in Nov (with 'risk' on the upside), the fourth consecutive month of upturn
- In avg, the two PMI data sets have recovered since the early summer, and do not signal slower growth, at least not in Q4 (and growth has so far kept up pretty well)

8 PMIs up and 3 down (1 flat) in rest of Emerging Asia in November!

6 countries/regions are still below the 50-line. S-Korea has recovered sharply in H2



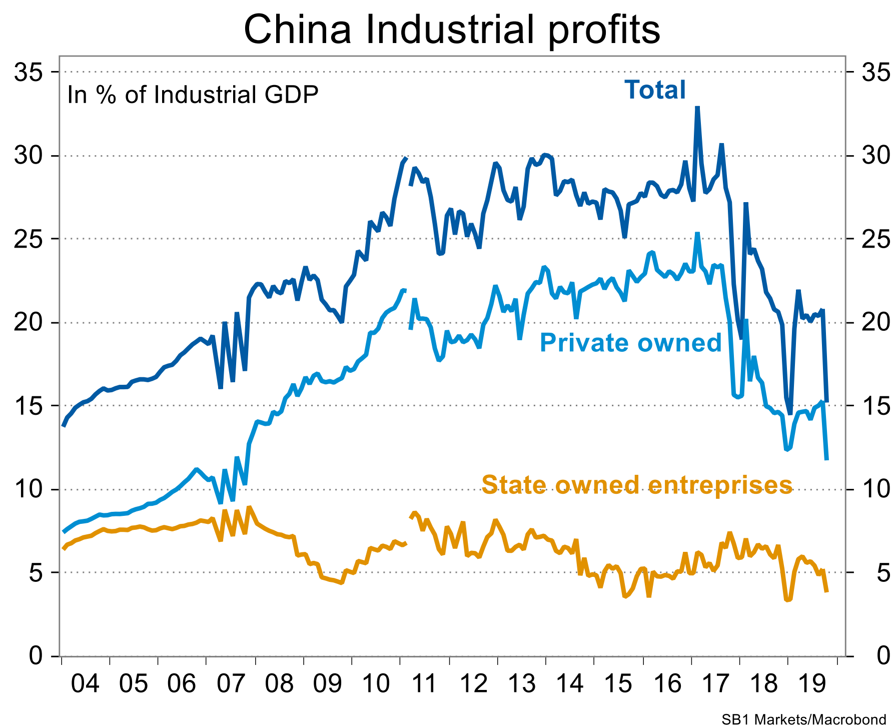


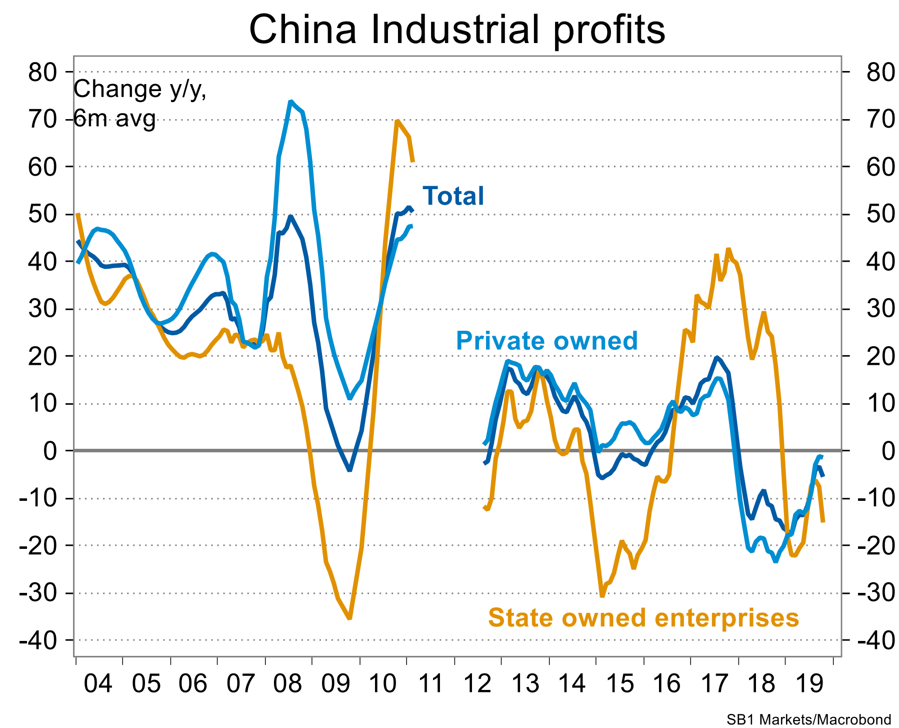


- The unweighted average of the 12 indices are marginally above the 50 line bur has recovered just marginally since the summer
- The Asian PMIs are producing a spaghetti chart like the one above. Take a deep breath before you draw any important conclusion based on any single observation

Profits sharply down in October – and the profit rate almost down 50% since '17

Industrial profits fell by almost 30% to Oct from Sept, probably an outlier. But the trend is down

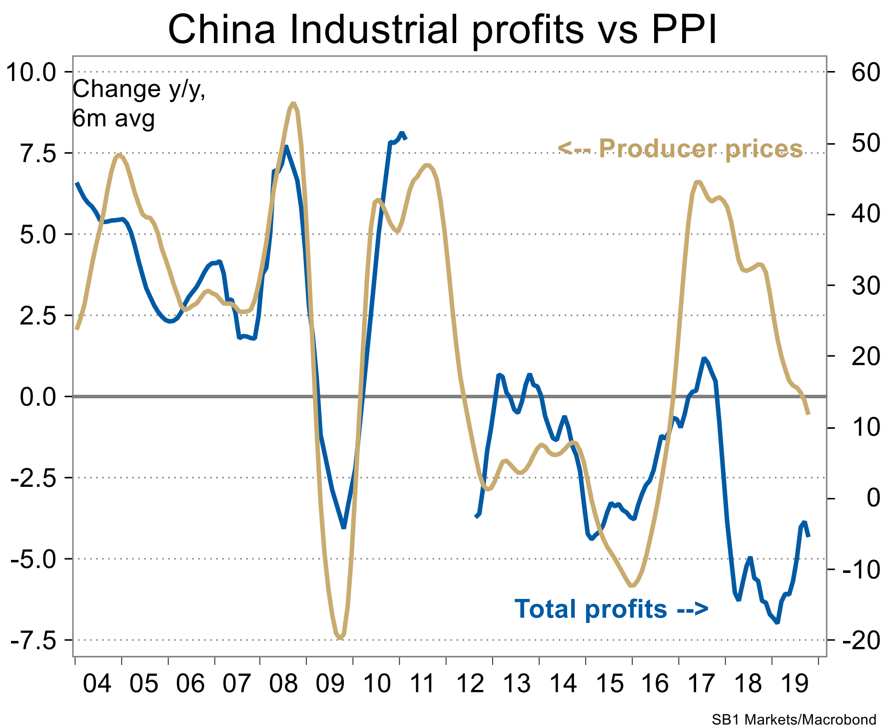




- Profits were down 24% y/y in October. These monthly data are volatile, and quite useless, and we suspect the October number to bee too low. A sudden and permanent drop of this size is not normal
- If we smooth the annual growth rates, total profits are down 4% y/y. State owned enterprises are down 15%, private enterprises down 1%
- However, over the past 3 years, profits are sharply down, from almost 30% of industrial GDP to 15 – 20% now, mostly among privately owned companies
  - » During the 2015/16 downturn, state owned companies reported a sharp drop in profits, while private companies were able to keep profits up
  - » Profits have been much weaker vs. producer price inflation than before, signalling increased cost pressure/less efficient production, check next page

Profit contraction without producer price deflation

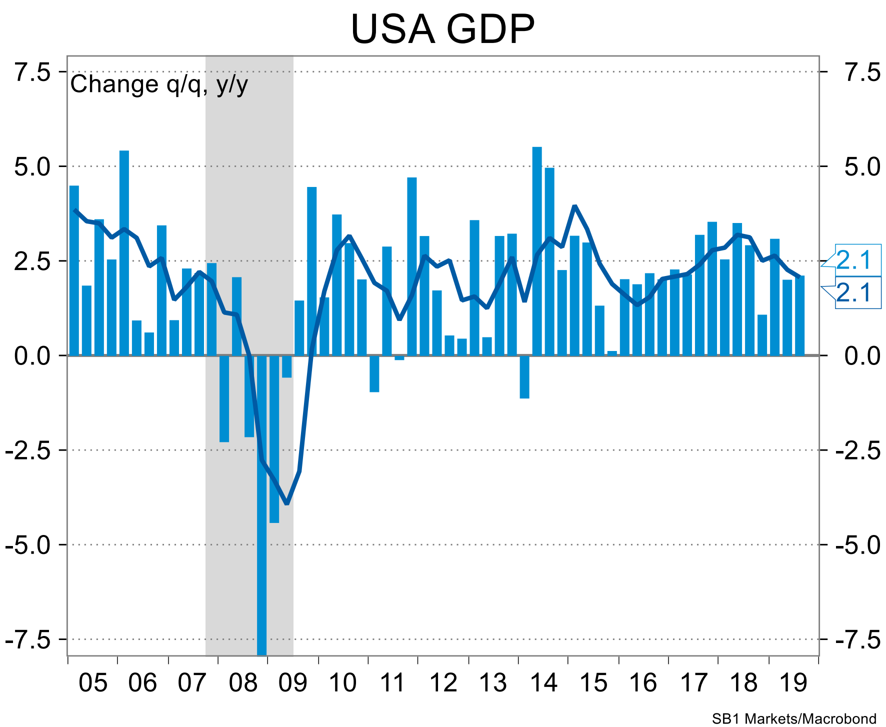
A substantial downward shift in profit generation capacity the past 3 years

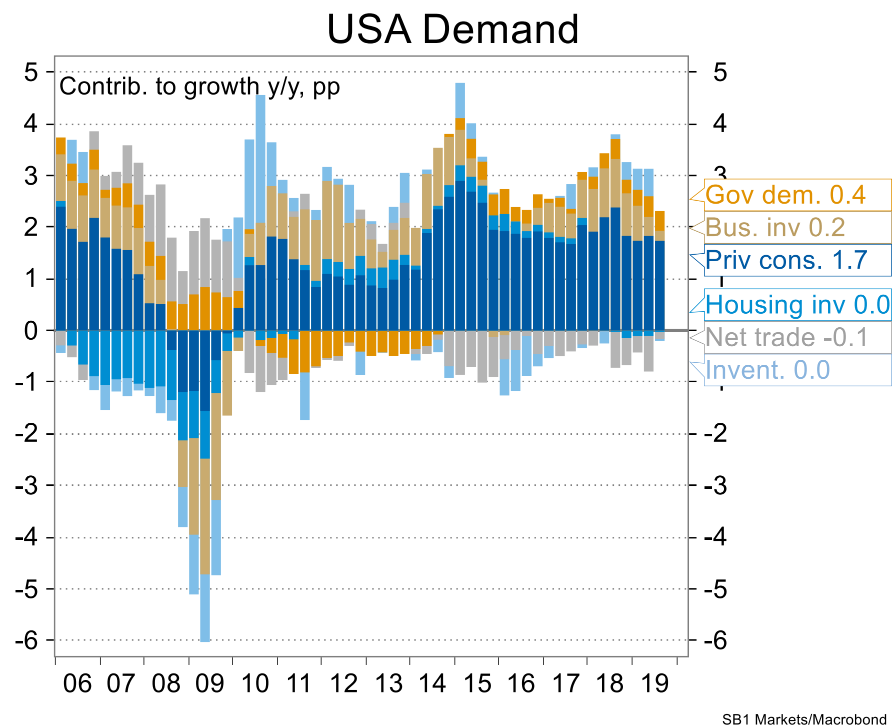


- Producer prices were strong in 2017 – 18, but profits still fell sharply
- Now prices are marginally down y/y, but profits are much weaker than normal, given flat prices
- Many possible explanations but increased cost pressures or lower productivity growth are reasonable explanations

Q3 GDP growth 0.2 pp higher than first reported

Growth was revised up to 2.1% in the 2nd estimate, mostly due to more inventory build-up

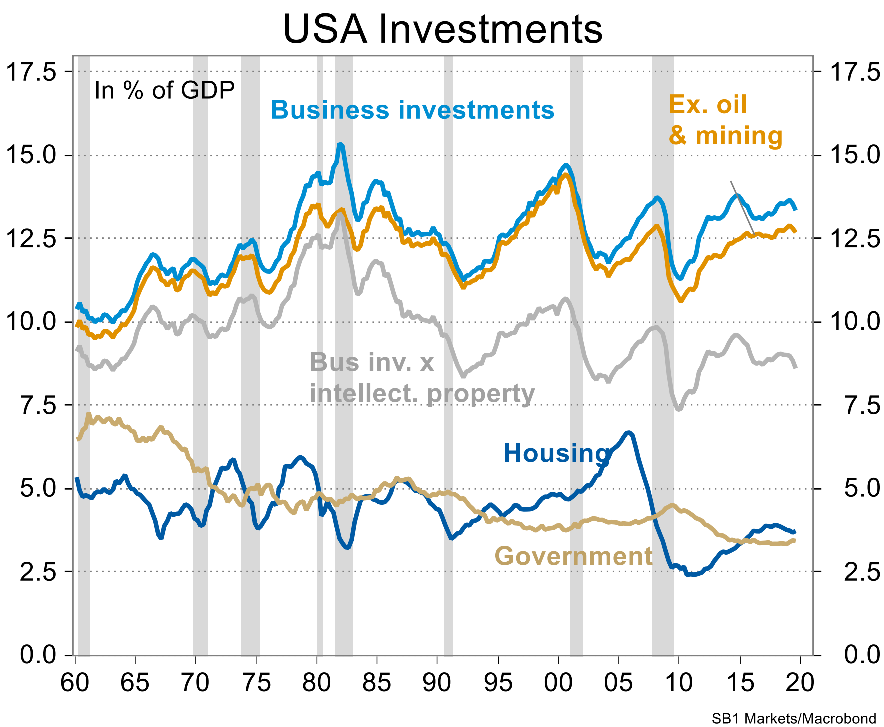


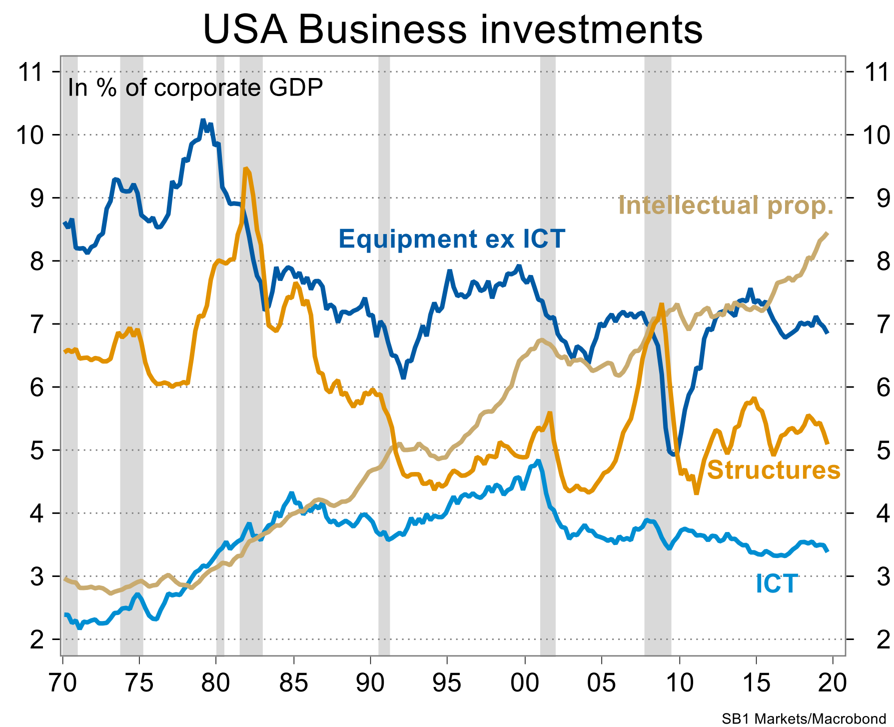


- GDP grew by 2.1% in Q3, 0.2 pp above the first estimate and up 0.1 pp from Q2. Annual growth at 2.1% (revised from 2.0%). Growth has slowed from 3.2% in Q2 2018, when the tax cuts boosted growth
- Just some minor sector revisions; Consumption was marginally stronger and business investments fell a tad less than first reported. Public demand grew marginally less than reported. Net trade was revised down slightly, offset by higher inventory growth (of which the latter by itself explained the upward revision in headline GDP growth)
- Private consumption has been the pillar of growth in the US economy the past year, as business investments has softened

In the long run: Business investments may have peaked, housing slows

IP investments are still rising sharply, masking a decline in equipment and structures investments

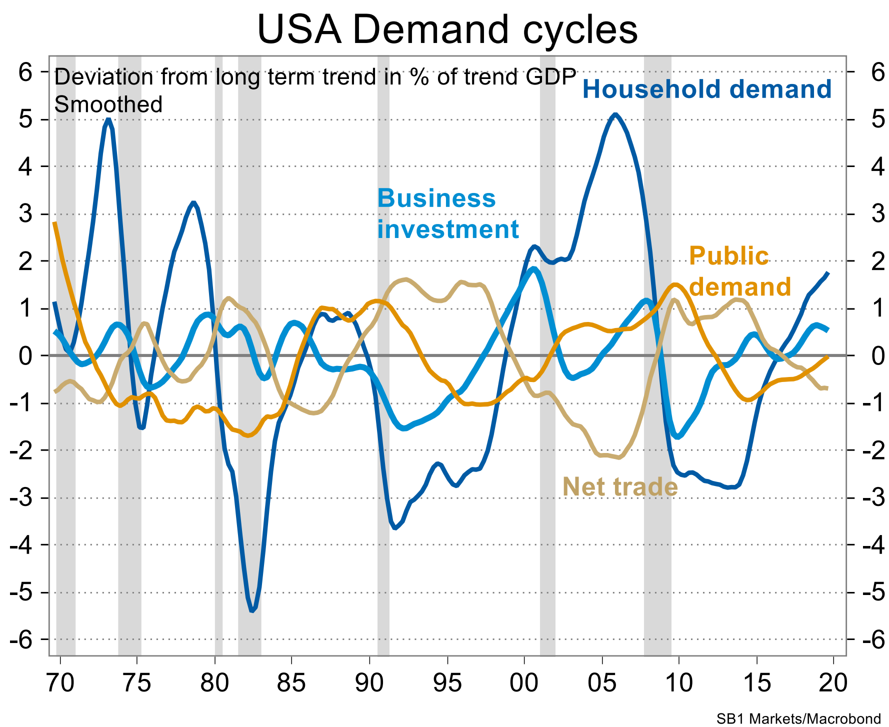


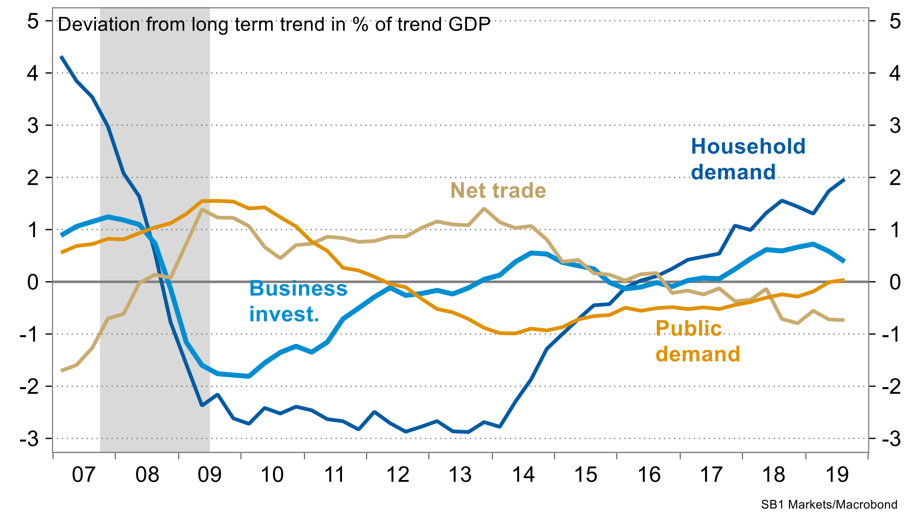


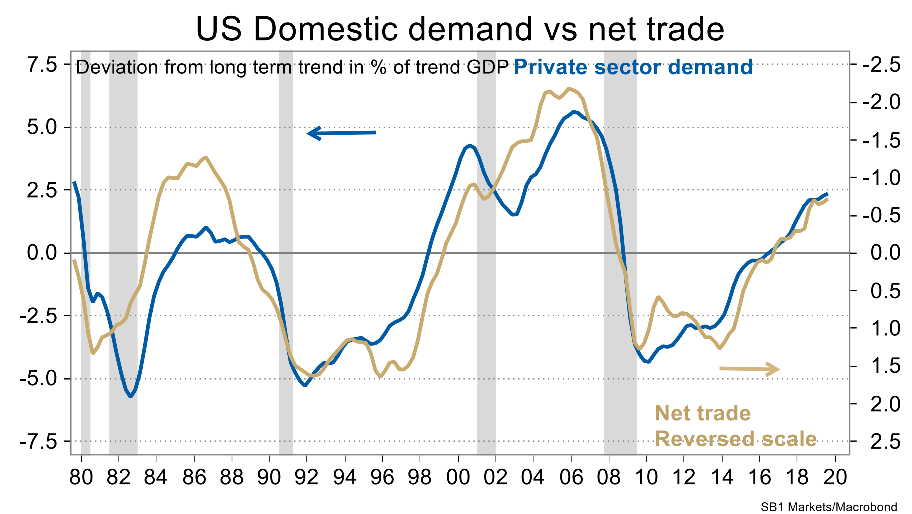
- Total business investments fell for the 2nd quarter in Q3, the first declines since 2015. Oil investments fell steeply in Q3, the 5th decline in a row, after boosting business investments in 2017-2018
- IP/software investments are increasing at a high speed, up 9% y/y vs total invest. 2.4%, and now constitutes more than 1/3rd of all business investments. These investments have always been less cyclical than investments goods, indicating that cycles in total investments will be less harsh than before. In addition, business investments in structures are not dangerously high, neither are equipment investments
- Housing investments are slowly declining vs GDP (marginally up in Q3). The level is not very high – and should the downturn come, it can not possibly be a large one. Yet, several housing recessions have started at approx. the same level of the housing investment/GDP ratio

Households have been the main demand force, still quite strong

Public demand has turned up, net trade have been heading down, due to rising domestic demand



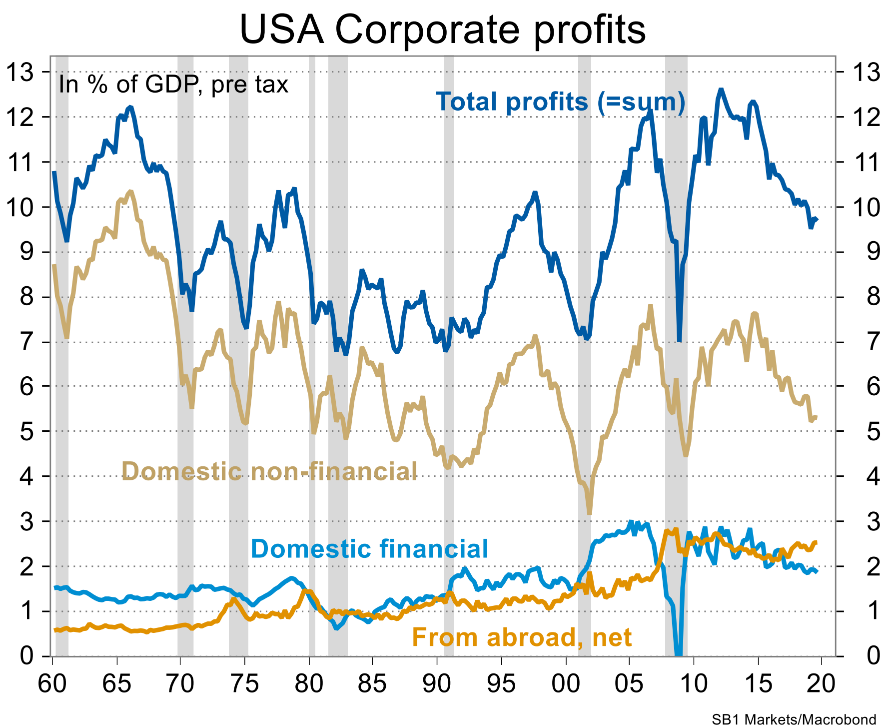




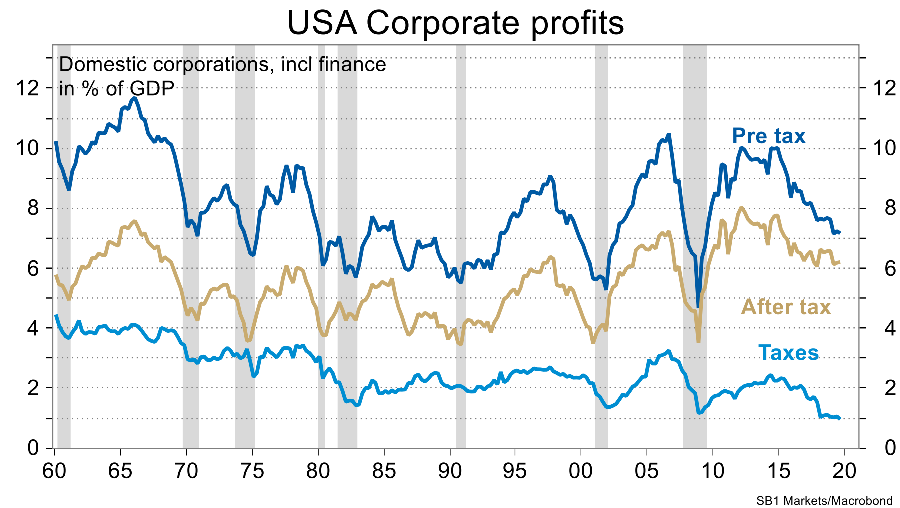
- A strong USD is not to blame for a negative growth contribution from net trade the past years, rather, it is a result of rising domestic demand
  - » Net trade correlates close to the activity level in the US, or rather more precise, to private US domestic demand
    - Net trade absorbs 1/3 of changes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

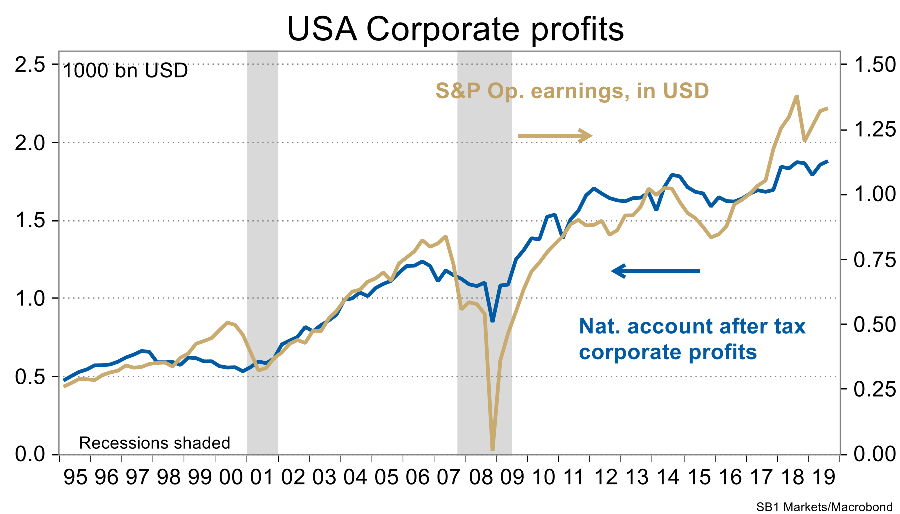
Profits a tad up in Q3 but are trending sharply down in % of GDP

Domestic corporate sector after-tax profits are still above average, just due to the tax cuts



- Corporate profits in % of GDP are heading steeply down, and the pre-tax profits is below the average level
- Total profits inched up 0.2% q/q in in Q3, mostly due to higher profits from US companies' activities abroad
- The after tax profit rate for companies operating in the US ('domestic corporations') is still above average but just because corporate taxes have been cut sharply recent years

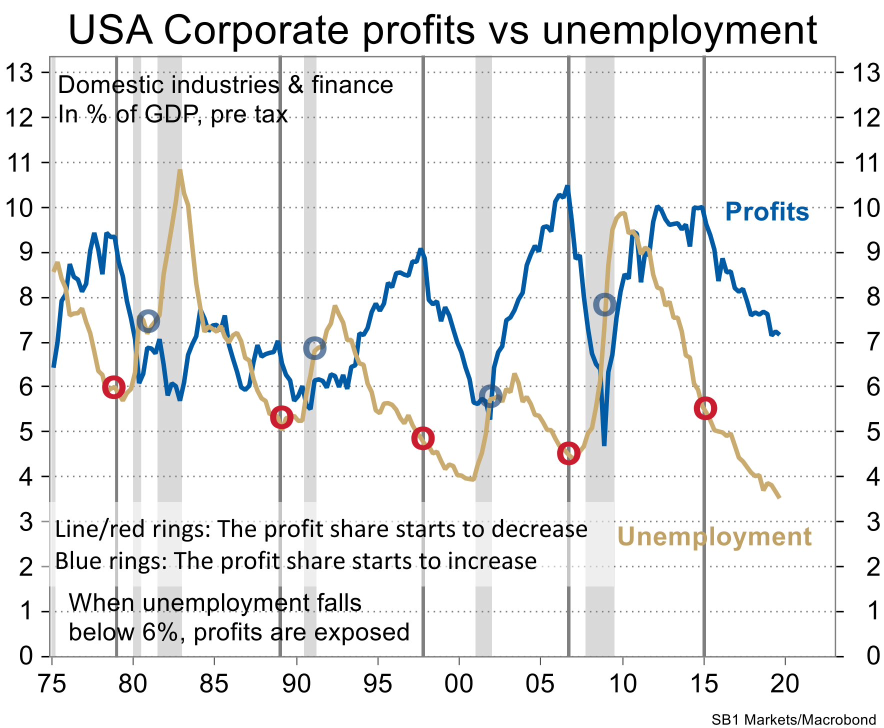


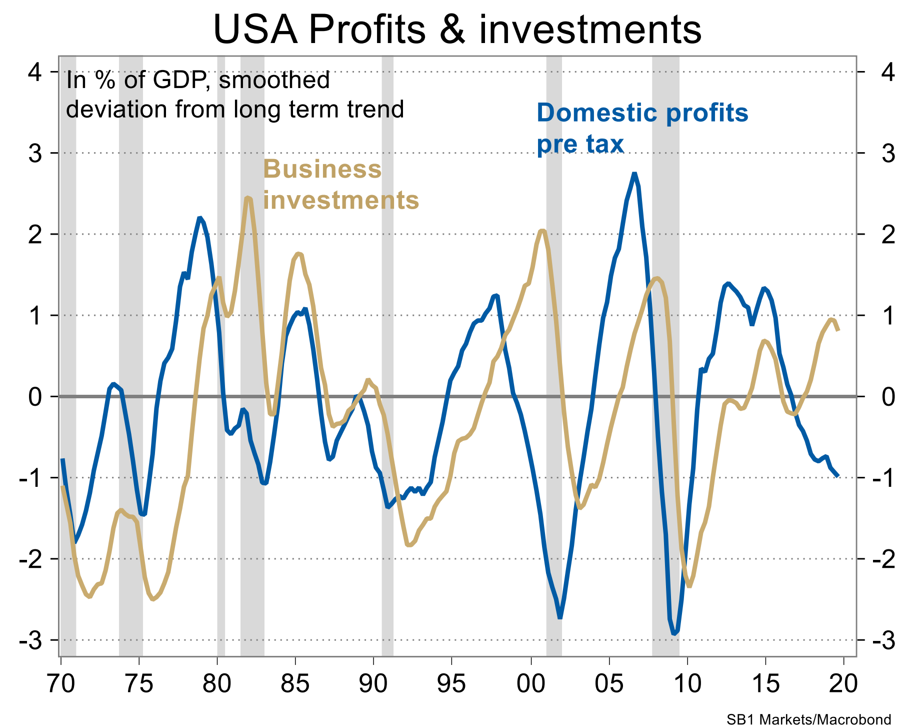


S&P 500 companies are reporting much higher growth in earnings than Nat. Acc. are able to detect. We have seen such discrepancies before, and so far S&P profits have yielded the following years, during recessions…

When unempl. falls below 6%, profits are exposed. Thereafter investments

Profits will not turn up before unemployment has increased sharply, after a recession…





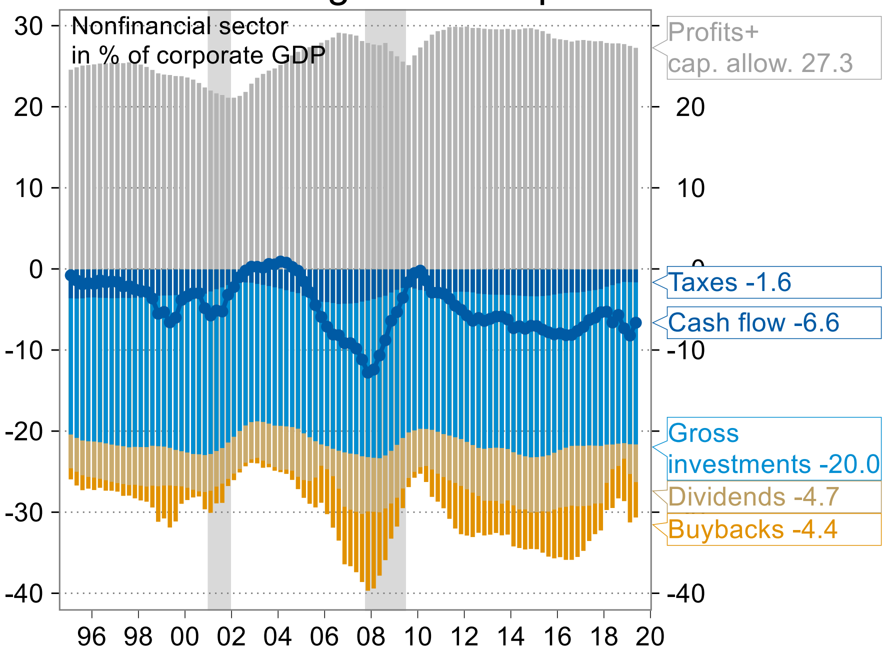
- Since WWII we have just once, in 1985-87, seen a substantial decline in the profit rate without being followed by a recession (however, in 1987 something else happened, BTW). The mid '80 setback in profits was just half the size of the current decline
- Investments have always turned down after at decline in the profit rate, sooner or later – which always (barring the mid-80 incident) has been when the US entered or was in a recession. This is one of the main business cycle mechanics
- The outlook is not the best now, also because US companies have increased their leverage substantially in order to buy back their own equity, accumulated in average by 5% of corporate GDP the past 13 years (vs real investments at 19% in avg)

SpareBank 1 MARKETS

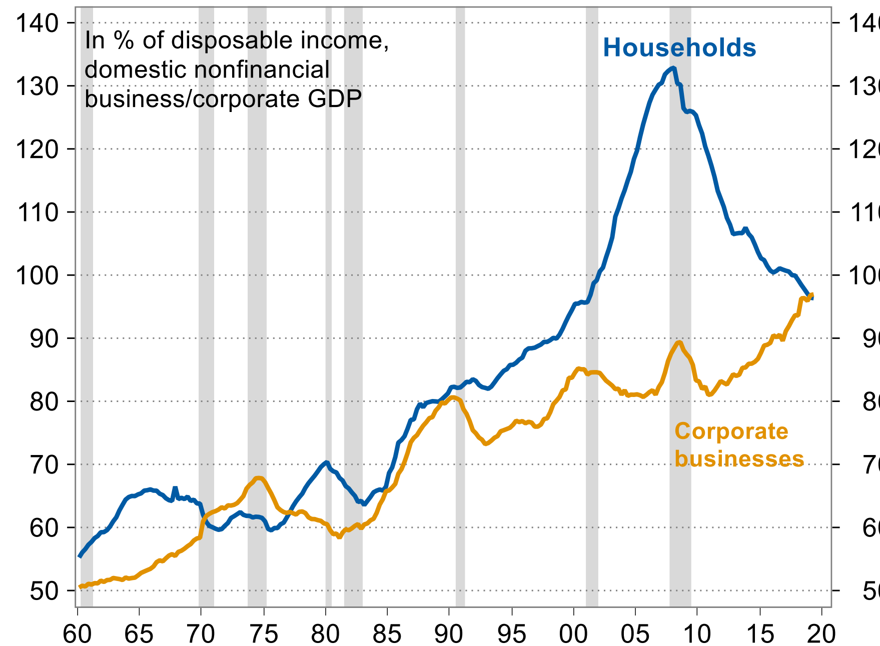
Risk: US companies have increased their leverage substantially

Share buybacks have to be funded – and the debt ratio is record high

USA Funding of the corporate sector



USA Private credit ratios

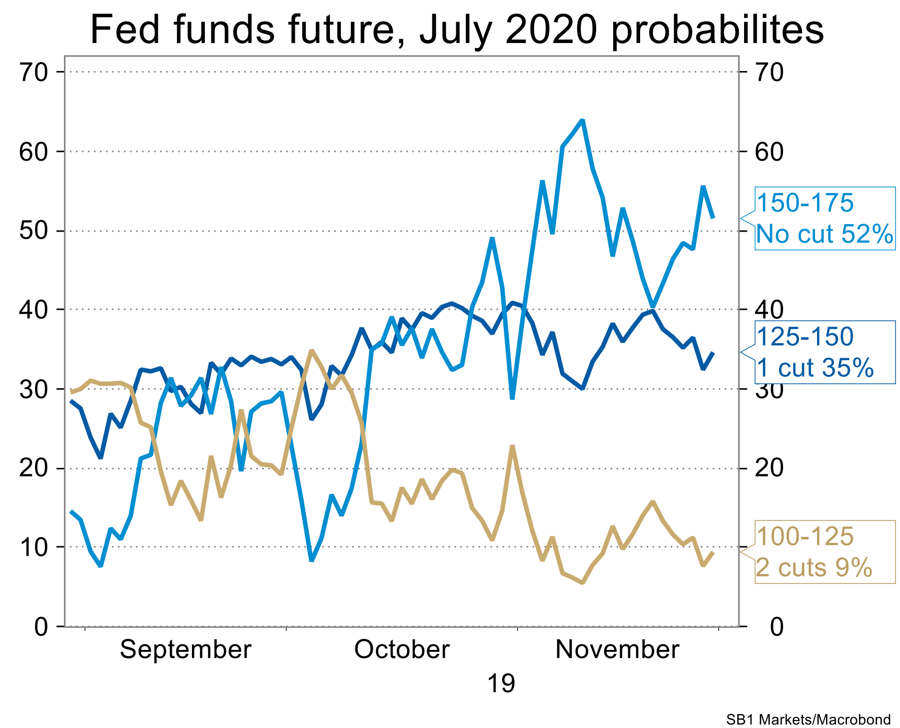


- The non-financial corporate sector cash flow is negative, by just slightly more than the amount companies spend on stock buybacks
- The debt/value added rate has climbed steeply recent year. Without buybacks, the debt ratio would have fallen sharply the past 15 years, to close half the actual level (compounded interest not included…)
- BTW, don't worry too much for the households, even of there might be problems within auto or student loans (but even here new delinquencies are on the way down). The debt/income ratio has fallen substantially since the Financial Crisis, the cost of serving debt obligations is record low vs. income is the lowest ever and mortgage delinquencies are running at very low levels

Fed's Beige Book reports steady growth and still tight labour markets

Fed's 'regional network' notes 'modest' growth, approx the same pace as in the October report

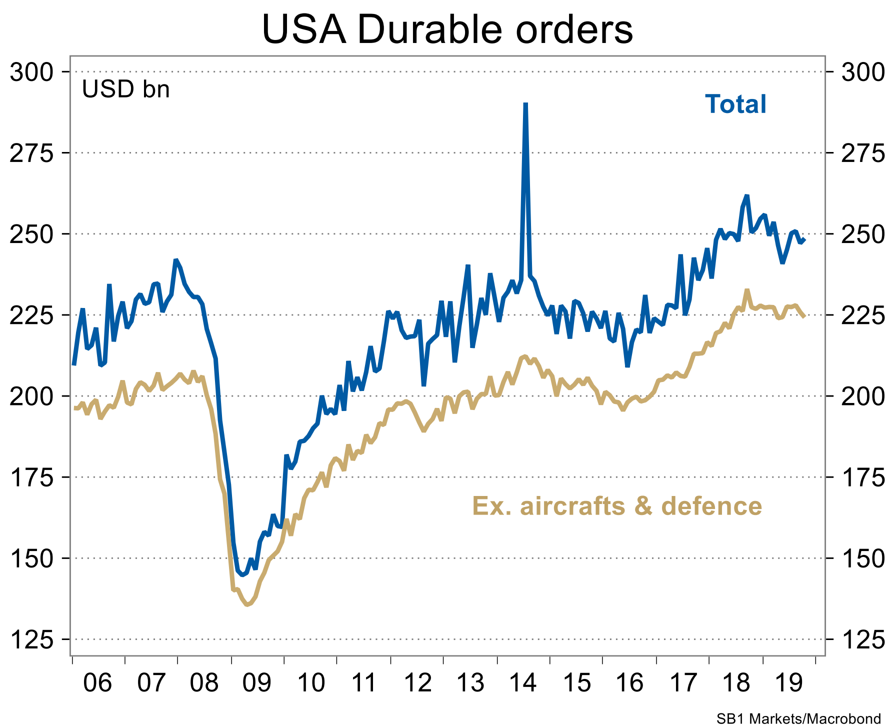
- Economic activity expanded at a '*modest*' rate in October and to mid-November, according to the Beige Book, from '*slight to modest*' in the October report. However, businesses noted a similar growth pace as in the prior period
- On the demand side
  - » Consumer spending remained solid and auto sales increased
  - » Most districts reported accelerating residential construction activity accelerated, home sales more or less flat
- On the supply side
  - » Manufacturing is still struggling, but more businesses reported an increase than in the prior report, another sign of a manufacturing stabilization
- Labour market
  - » Employment continued to rise at a slight pace, and widespread reports of labour shortages
  - » Wages still rose 'just' moderately but intensified for low skilled positions
- Prices
  - » Modest inflation and mixed reports on the impact of tariffs. The ability to pass on higher costs to consumer prices remained low
- **In total, the Beige book reflects steady growth in the US economy, as several other reports recently, an argument for keeping rates on hold, of course. 'Nobody' expects Fed to cut the signal rate December**

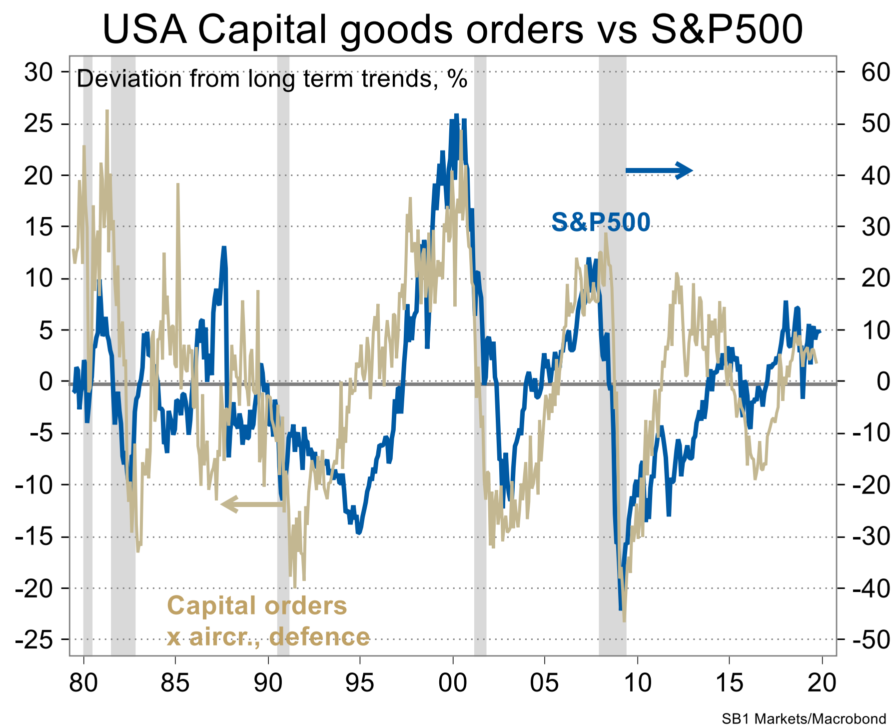


The market is pricing an unchanged Fed funds rate at the December meeting (by 95%) and just below 50% probability of a cut by July 2020. Thus, the market is now more in accord with the Fed's rate plan than in a long time

Durable goods orders are sliding slowly down, core orders just flattish

Core durable orders fell in Oct, but core capital orders rose – no investment setback signalled





- Total durable orders increased by 0.6% m/m in Sept, sliding down for a year (with some Boeing aircraft trouble since the summer)
- Core orders (ex aircrafts and defence) edged down 0.7% in Oct and the decline in Sept was 0.4 pp steeper than previously reported. Core orders have stagnated for more than a year, the underlying pace is -0.7% (measured 3m/3m annualized)
- Core capital orders recovered the Sept decline and the trend is no better than flat. Capital goods sales rose marginally too but have fallen marginally recent months. However, given the Oct print, Q4 does not look that weak, for sales or business investments

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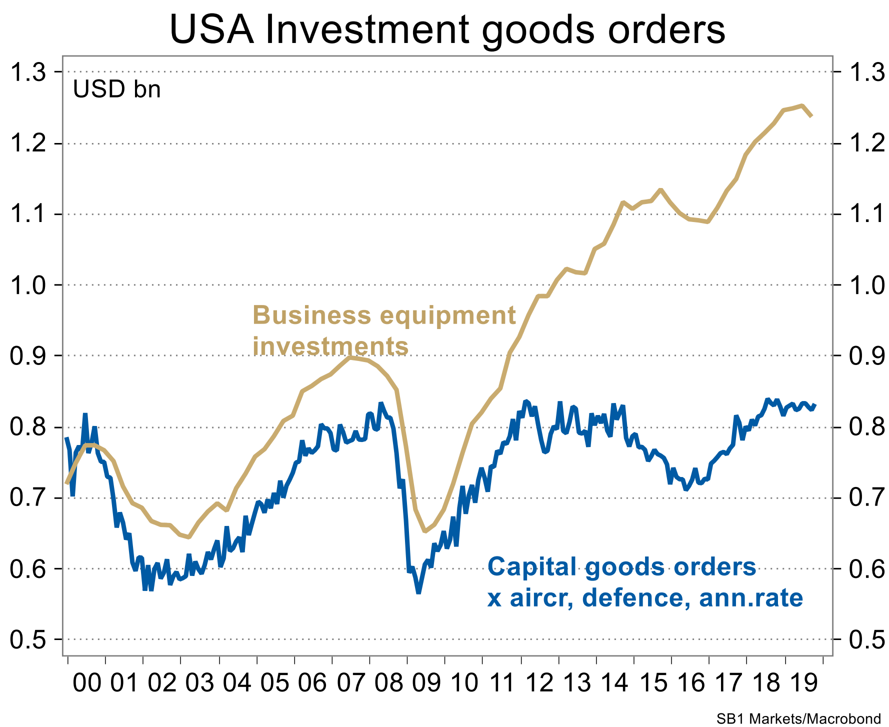
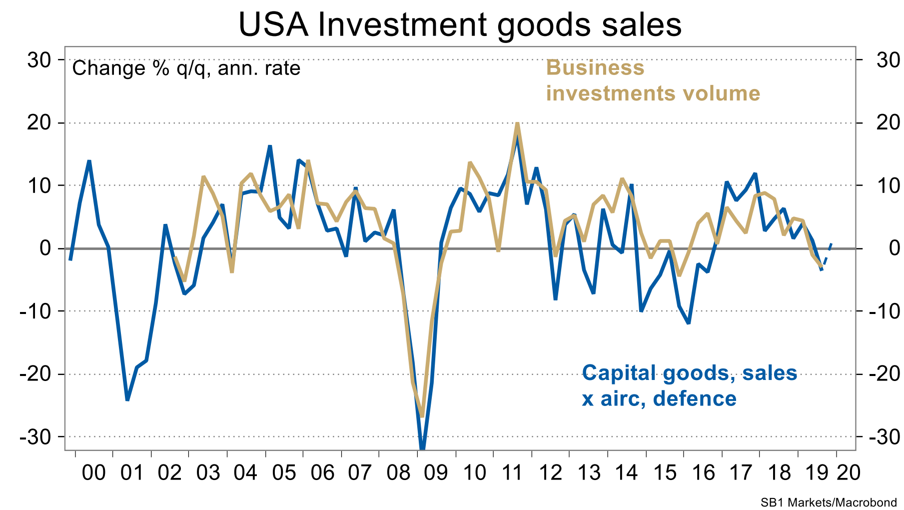
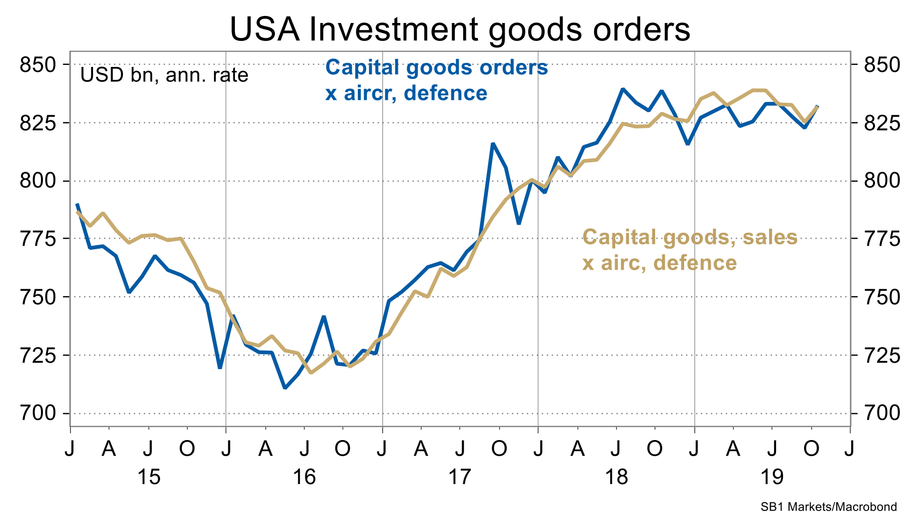
Capital goods orders/sales do not suggest any further decline in business investm

Core investment orders and sales have stagnated but October came in above expectations



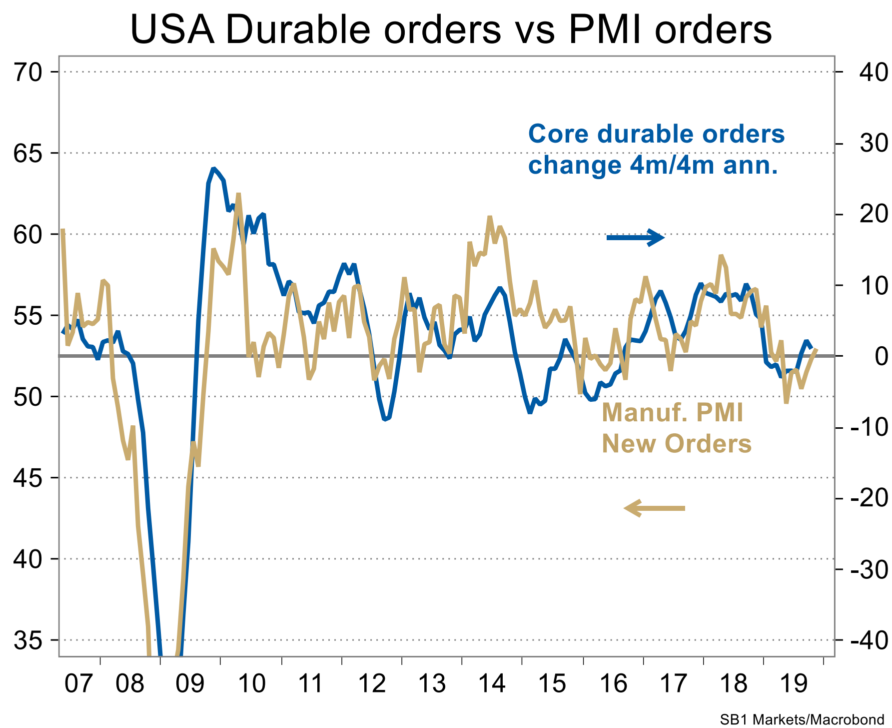


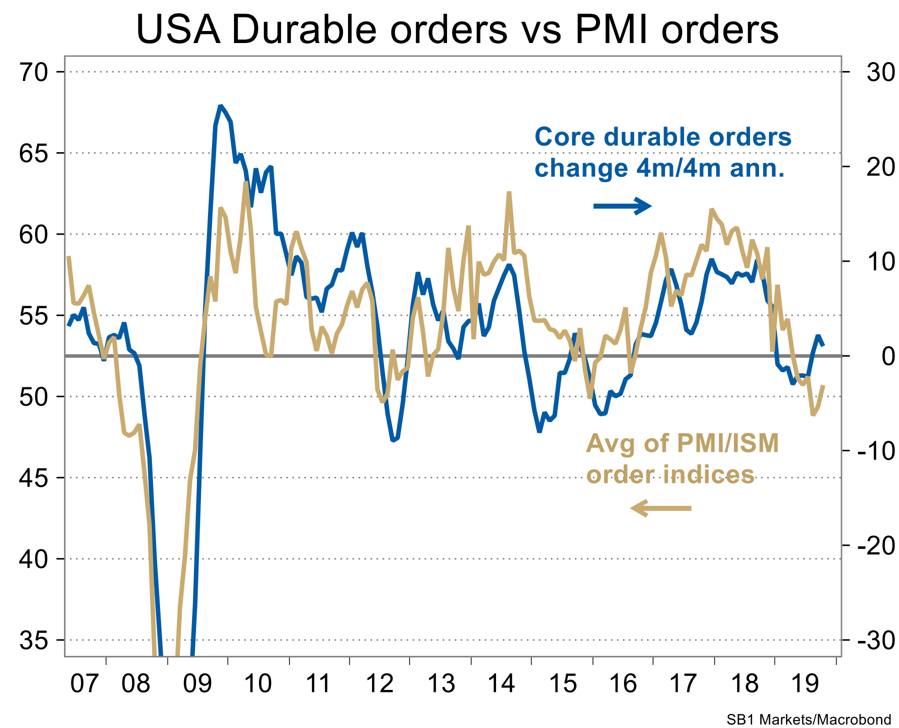


- Investment orders (core) increased by 1.1% m/m in Oct. Underlying growth is down a modest 1.3% (3m/3m) and the trend the past year is not worse than flat
- Sales rose by 0.6% m/m in Oct, after sliding slowly down recent months. Sales indicate muted growth in business investments into Q4, and not a further decline
- The PMI order index confirms a stabilization

Mixed signals but Markit's PMI order index has stabilized

Markit's index do not point to any deterioration, the ISM does, but is less correlated to actual orders

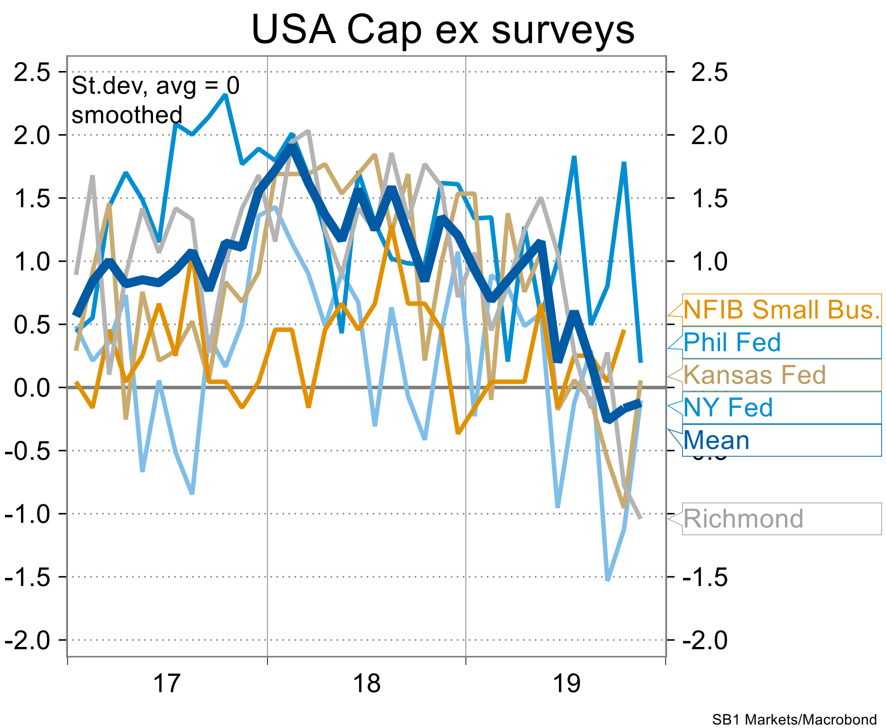


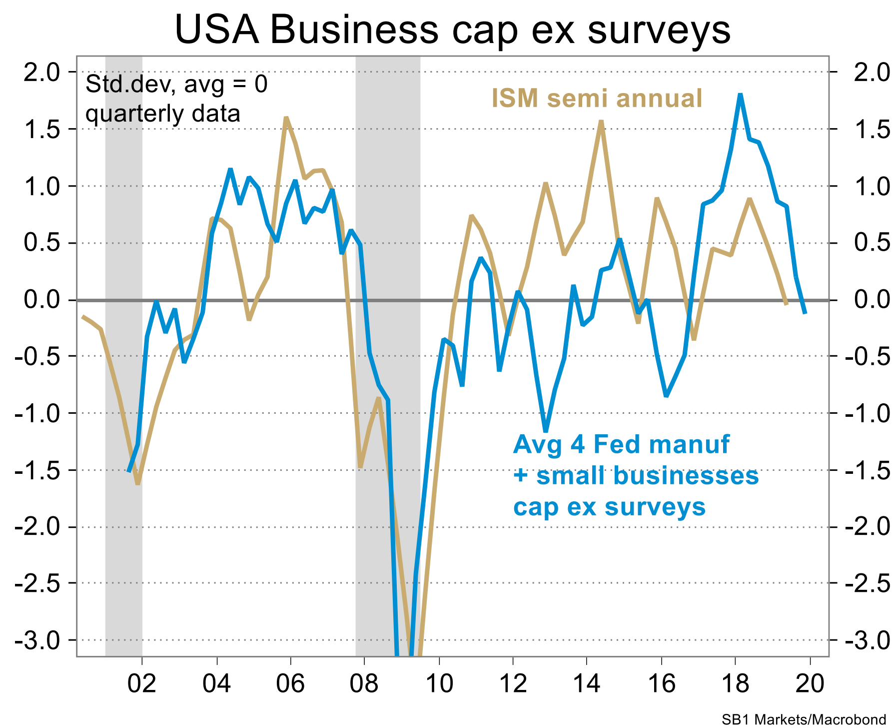


- An avg of the PMI and ISM order indices signals a decline in durable orders, however, Markit's is usually better correlated to actual order inflows, ISM more volatile

Investment surveys may confirm a stabilization this autumn

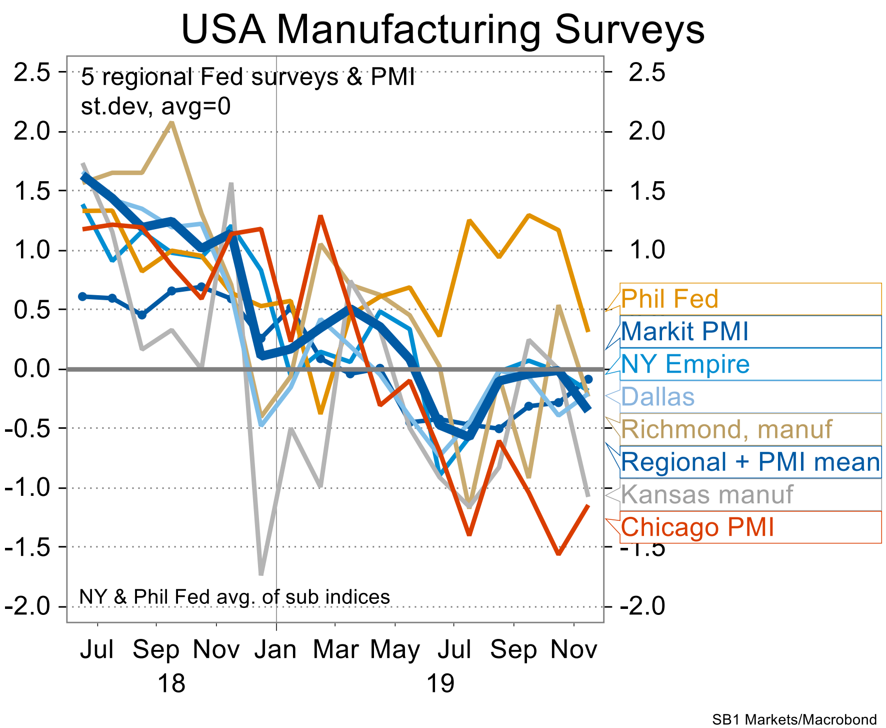
Surveys are pointing down but are not yet signaling falling investments, just growth below trend

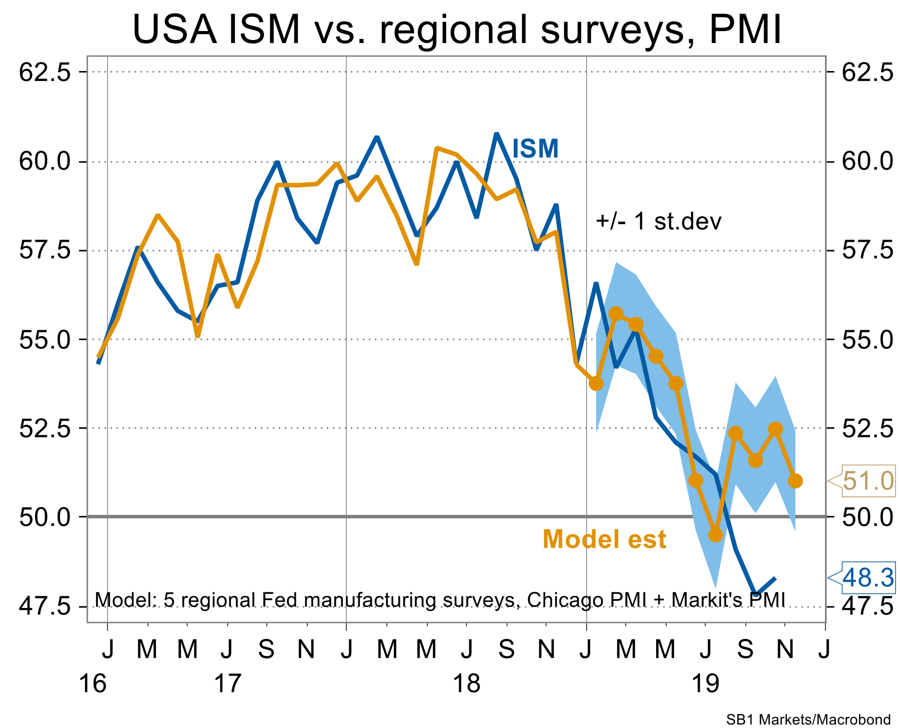




4 of 6 regional manufacturing activity surveys down, 2 up (+Markit's PMI)

In sum: A drop in the ISM is signalled. However, the ISM has been weaker the other surveys past 3m

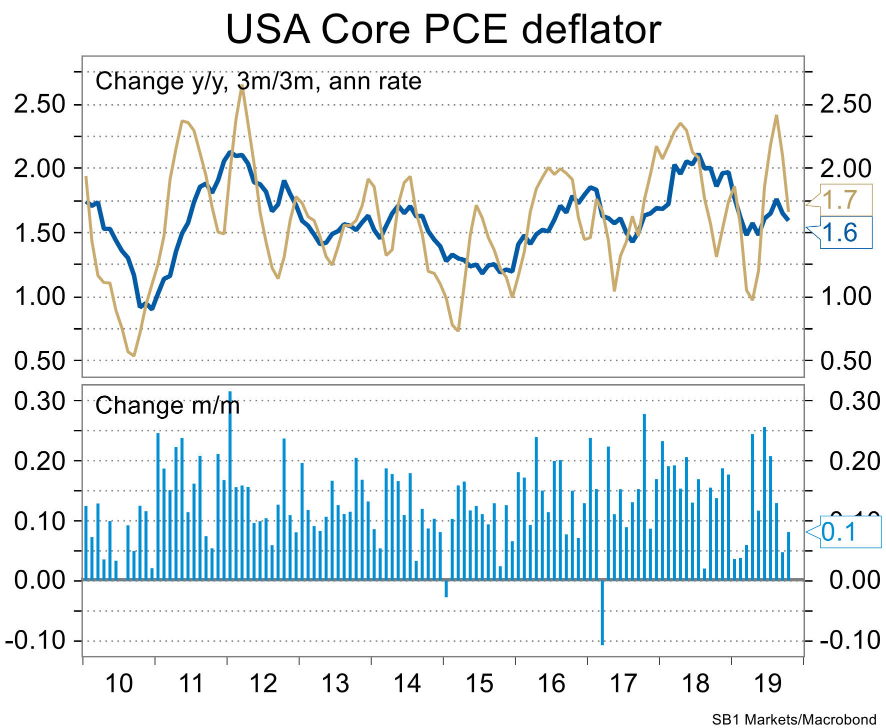


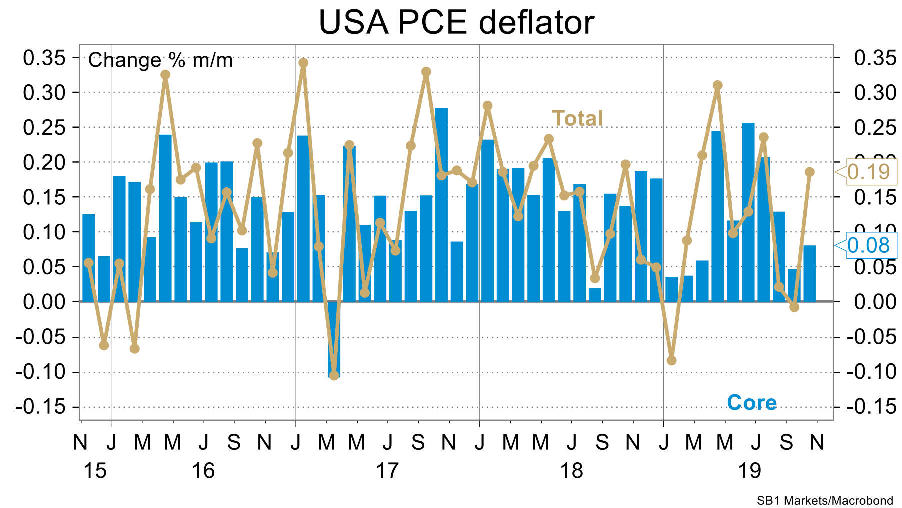


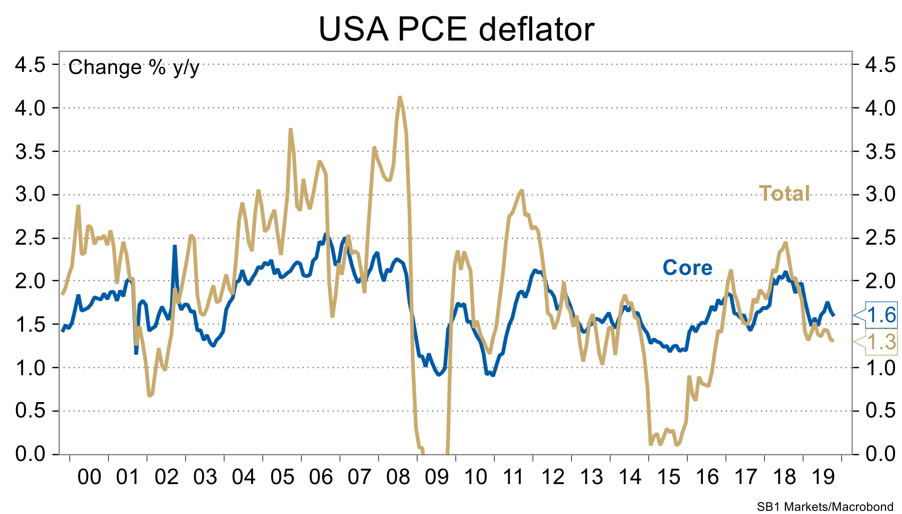
- The residual between the actual ISM and the model forecast has never been larger before
  - » The reason might be that the ISM surveys is skewed towards the larger, more internationally exposed countries compared to the regional surveys and Markit's PMI – and the larger companies are more exposed to the trade war/global uncertainties

Core PCE inflation eased to 1.6% in Oct and underlying growth is ebbing

Core PCE deflator up 0.1% m/m, as expected. Total inflation up 0.2%, annual rate unch at 1.3%



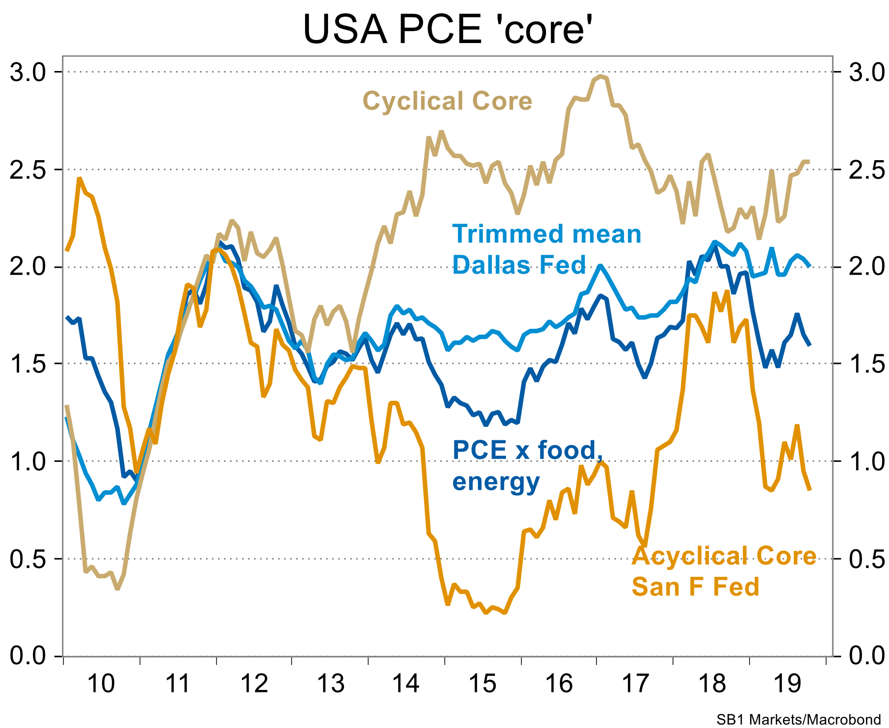


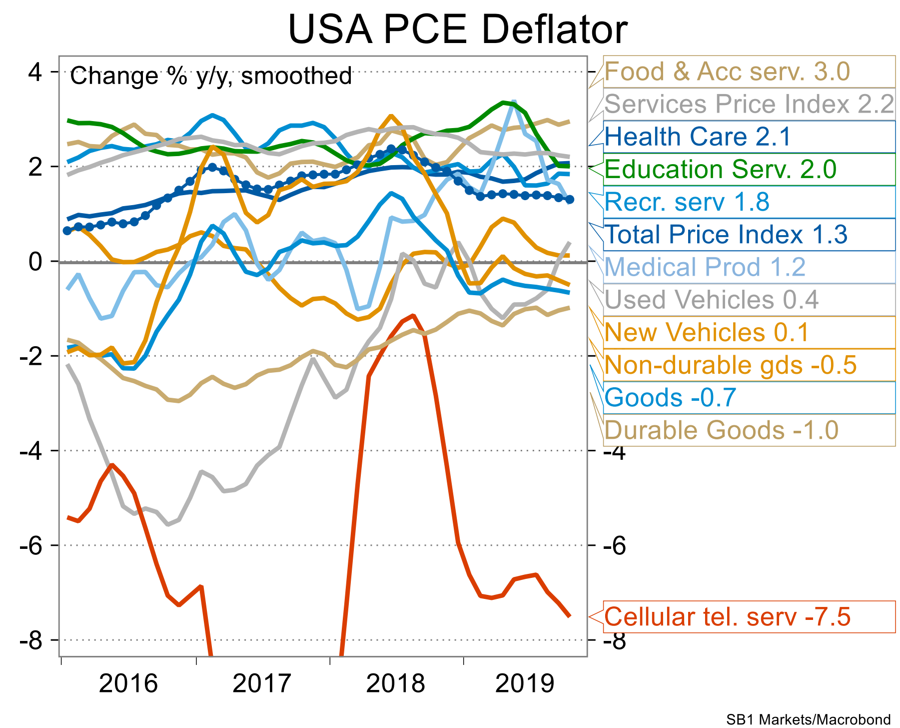


- The core price deflator rose by just 0.08% m/m in Oct, in line with expectations. Underlying growth has slowed the past 2 months, to 1.7% and does no longer suggest an upturn in the annual rate. Annual rate 0.1 pp below expectations
- Total PCE inflation held steady at 1.3% y/y. Total inflation has retreated as energy prices have come down. Good for real income growth!
- Core PCE is 0.4 pp below Fed's price target, which is not sufficiently low to alter the Fed's stance on keeping rates on hold unless the economy weakens substantially (and other data have been on the strong side)

Cyclical 'PCE inflation' at 2.5%, is heading up

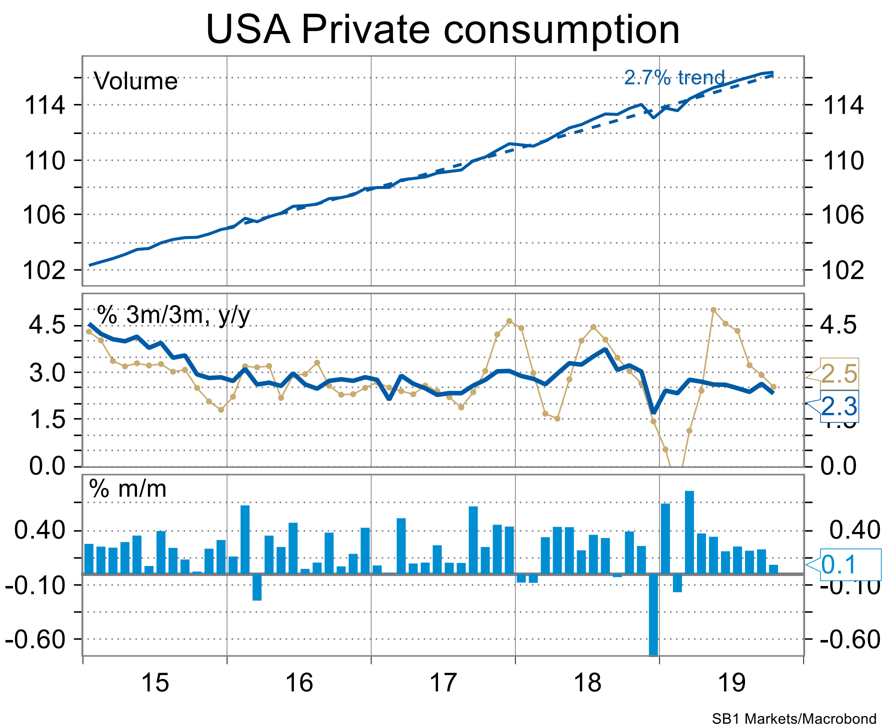
Still, many sectors have flattened/slowed, but the trimmed mean is marginally above target



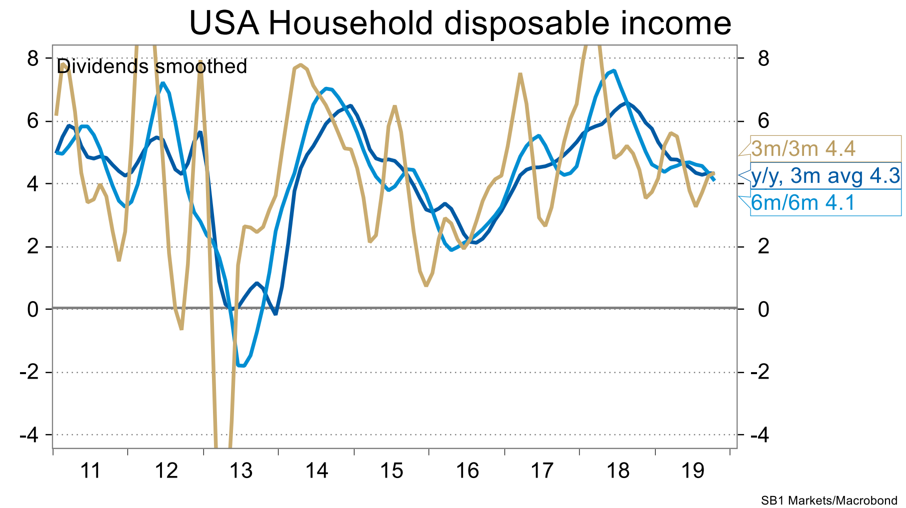


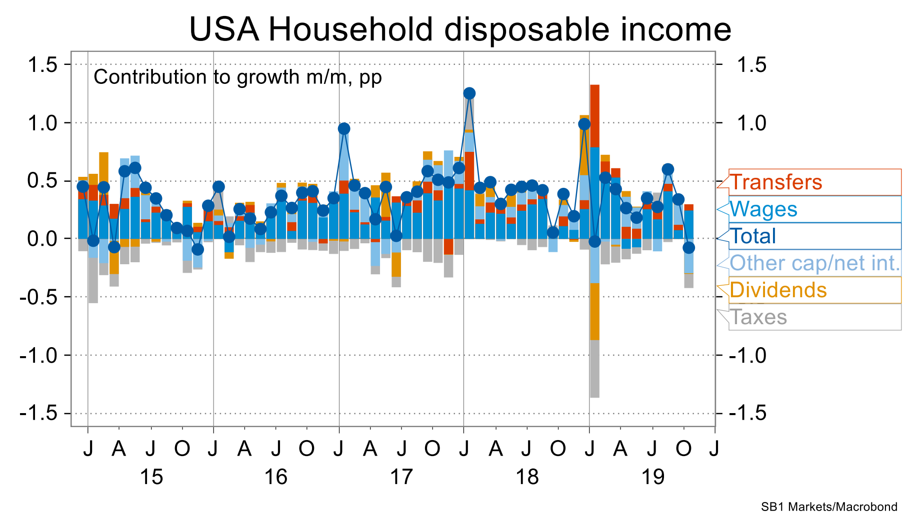
Consumption growth keeps cooling off, still not 'dangerously' slow

Consumption up just 0.1% in Oct, 0.2 pp below expectations. Income growth stabilized recently



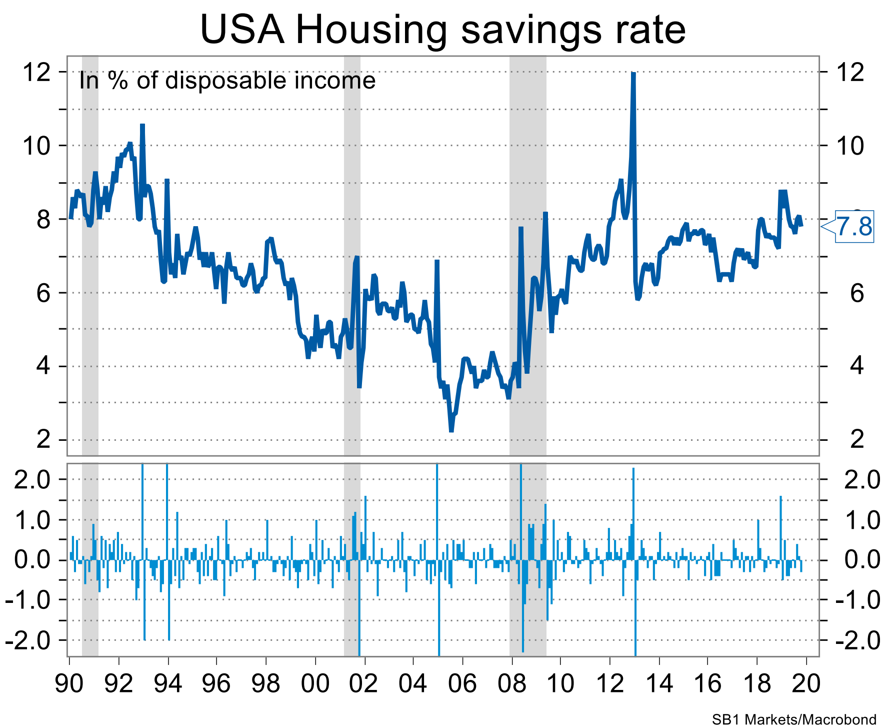
- Private consumption rose 0.1% m/m in Oct, 0.3% was expected. Underlying growth has slowed to 2.5% annualized, from 5% in the spring
- Households' nominal disposable income fell 0.1% m/m, 0.4 pp below expectations due to a decline in interest rate income. Still, underlying is at 4%, like the annual growth at 4.1%. Total wage & salary income up 4.9% y/y (volatile data)
- The savings rate fell to 7.8%

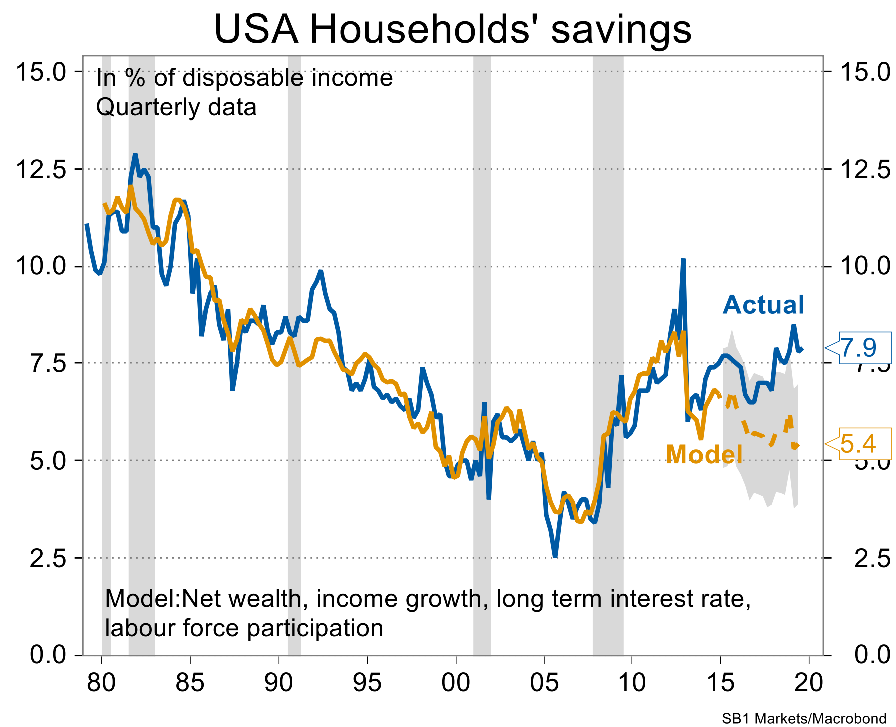




Households savings ticked down to 7.8%, Q3 revised down 0.2 pp

The savings rate has fallen in 2019, bringing consumption up. The longer term trend is still upwards

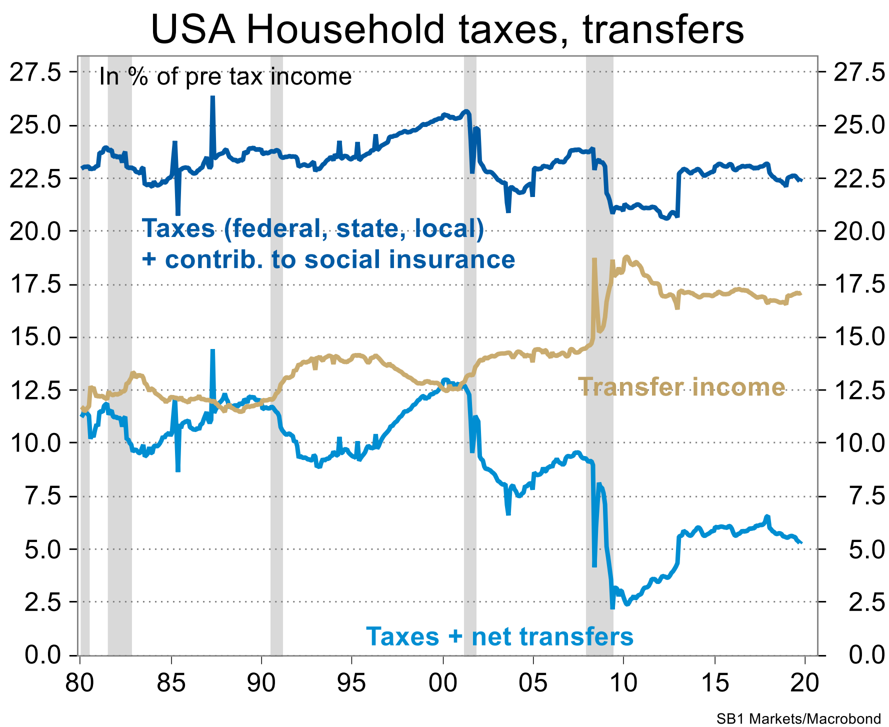


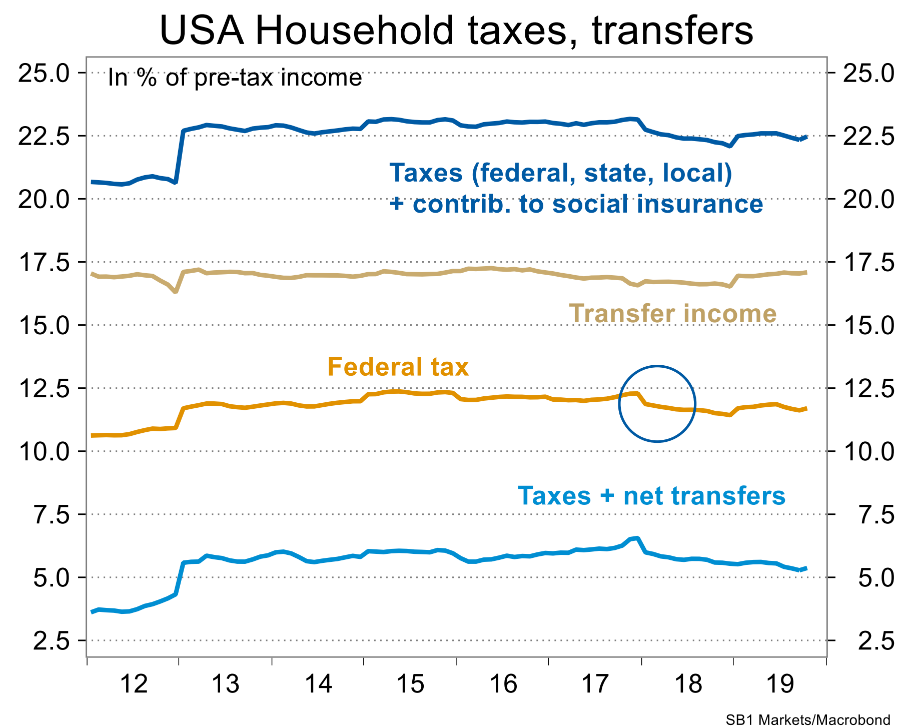


- Households' savings rate ticked down to 7.8% in Oct, from a 8.1% pace in Sept. Q3 revised down by 0.2 pp
- In Q3, the savings rate was 2.5 pp 3 above our model forecast! The rise in savings indicate that the tax cuts have largely been saved, and not spent (and incomes have been lifted due to a higher estimate of tax evasion…)
- Still, the decline in the savings rate so far in 2019 has funded 1/3rd of the close to 4% pace of growth in consumption. However, as the savings rate is high, a further decline is possible

The households have received their tax cuts, now they receive more transfers

The tax cuts boosted households' income in early 2018. Now transfers are rising

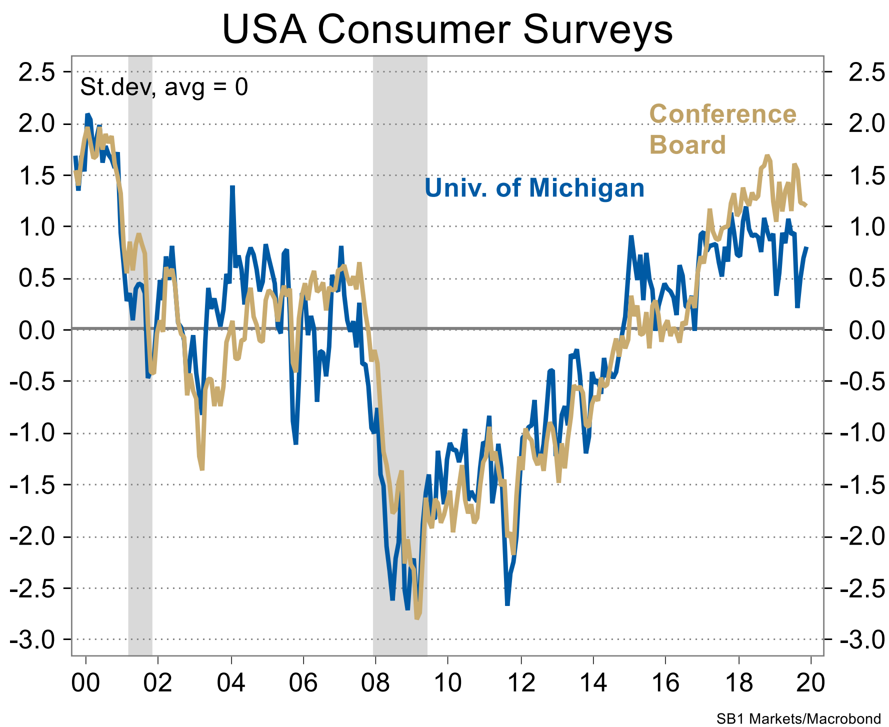


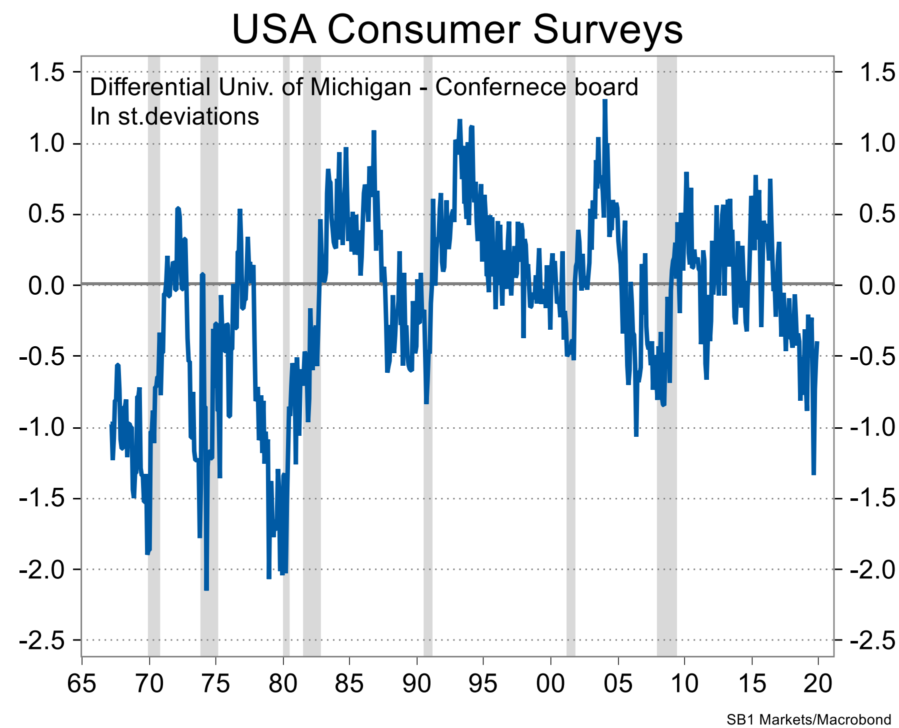


- In sum, household net taxes (taxes – transfers) are down 1% of disposable income since before the tax cuts were implemented. Not that impressive but given a strong economy in the meantime – that usually lifts net taxes substantially – the tax cut is pretty large. In the next recession, net taxes will again fall substantially, contributing to an even higher public sector deficit

Conference Board's sentiment index confirms upbeat consumers

Confidence fell just marginally in Nov – and the gap to the UoM is shrinking

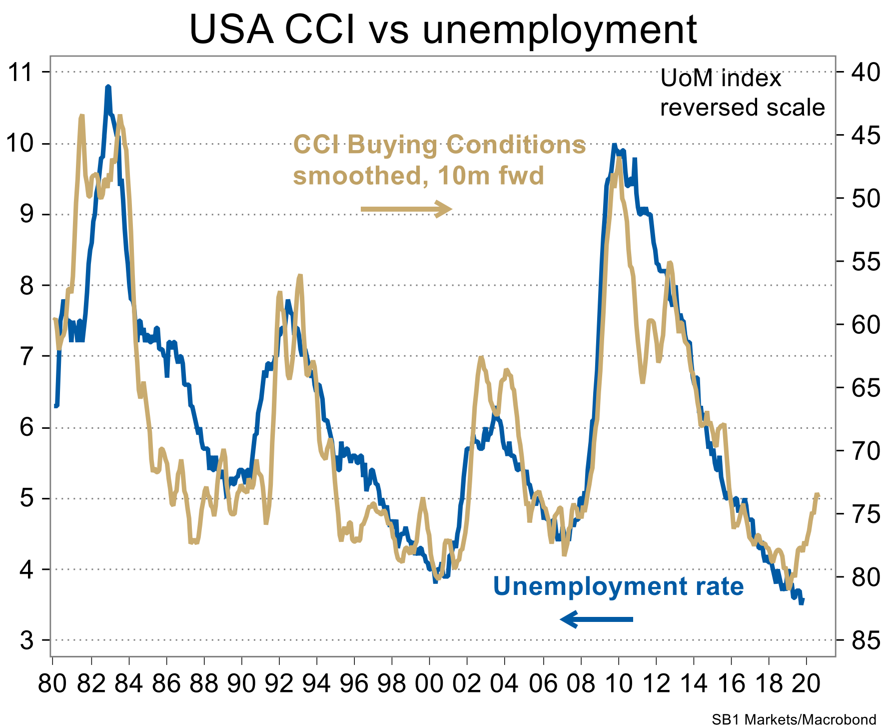


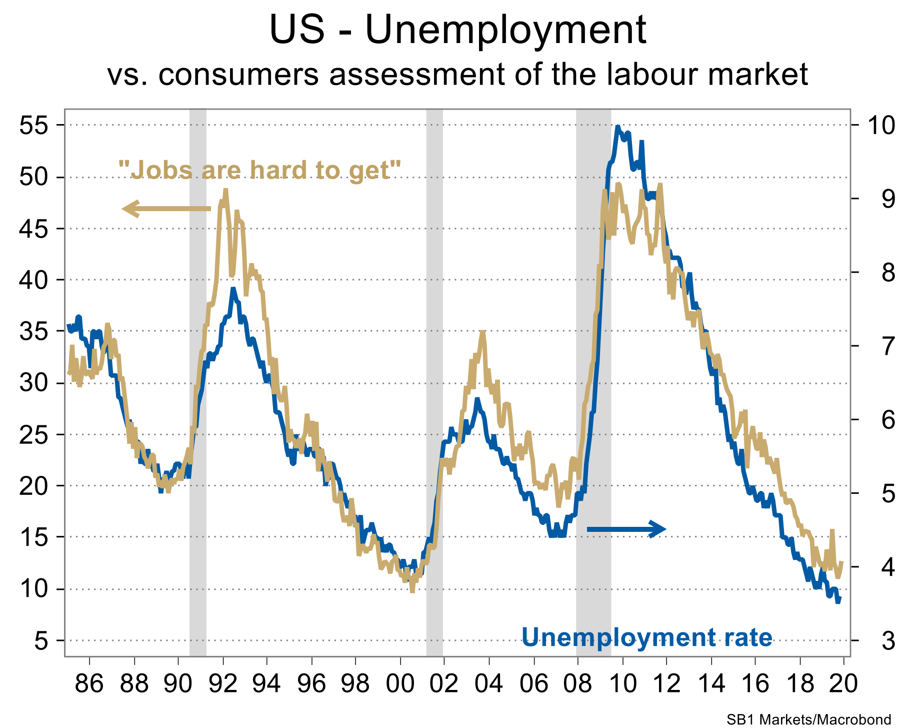


- CB's consumer confidence index inched down just 0.6 p in Nov. Confidence has been steady at an elevated level since late 2018, miles above an avg level. Expectations have flattened, the view of the present situation slides down just marginally
- University of Michigan's sentiment survey rose 1.3 p in Nov. The index is just 2.4 p below the July level, from before the it dropped steeply in August
  - » The gap to Conference Board's index is shrinking but remains higher than usual, which is not a signal of strength: This always happens ahead of economic downturns. However, the gap has narrowed substantially since July
- These surveys do not point to any sudden slowdown in consumption

Consumers' assessment of the labour market does not signal any weakness

However, households' buying plans for large durables (from UoM) may be sending a warning sign

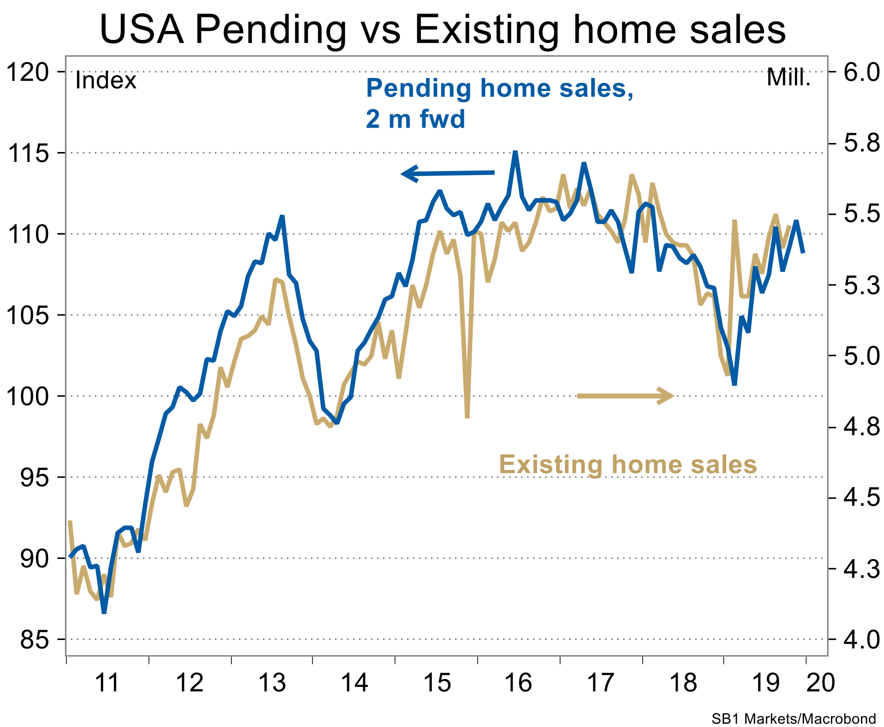


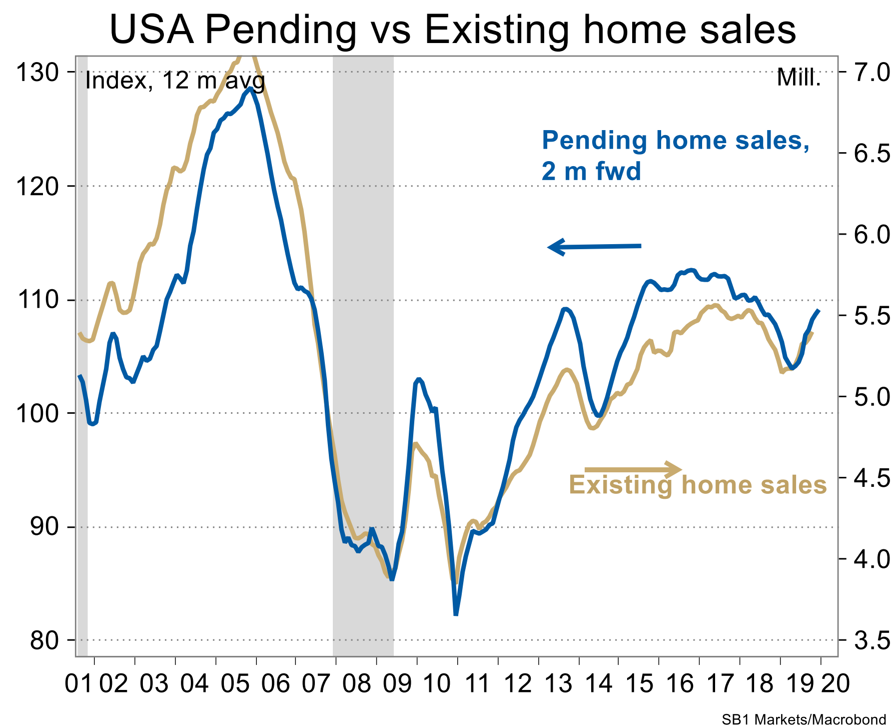


- The 'jobs are hard to get' index from Conference Board inched up in Nov, however, the index is close to a record-low level and is most likely still trending slowly down. The assessment of the labour market is usually quite well correlated to actual unemployment – but it is leading by just approx. 1 month
- The measure of buying conditions from UoM has been weakening since mid-2018. This index is usually quite closely correlated to the unemployment rate, leading by 10-12 months (with a lower correlation than the jobs assessment). The chart above is surely not encouraging, although false warnings have been sent before

Pending existing home sales are zig-zagging upwards

Pending home sales fell 1.8% in Oct, reversing the Sept increase but are still trending up

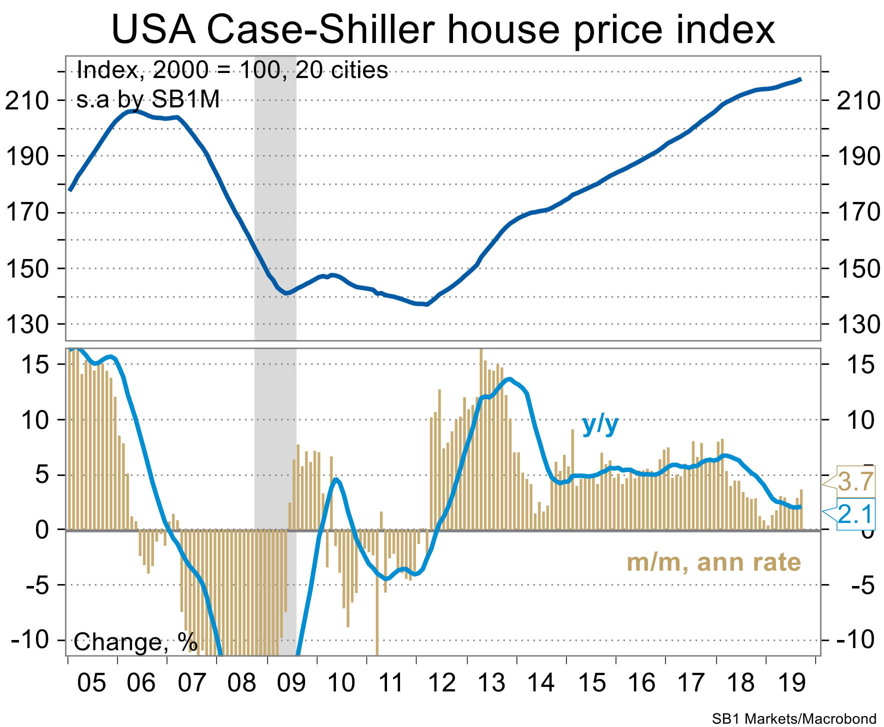


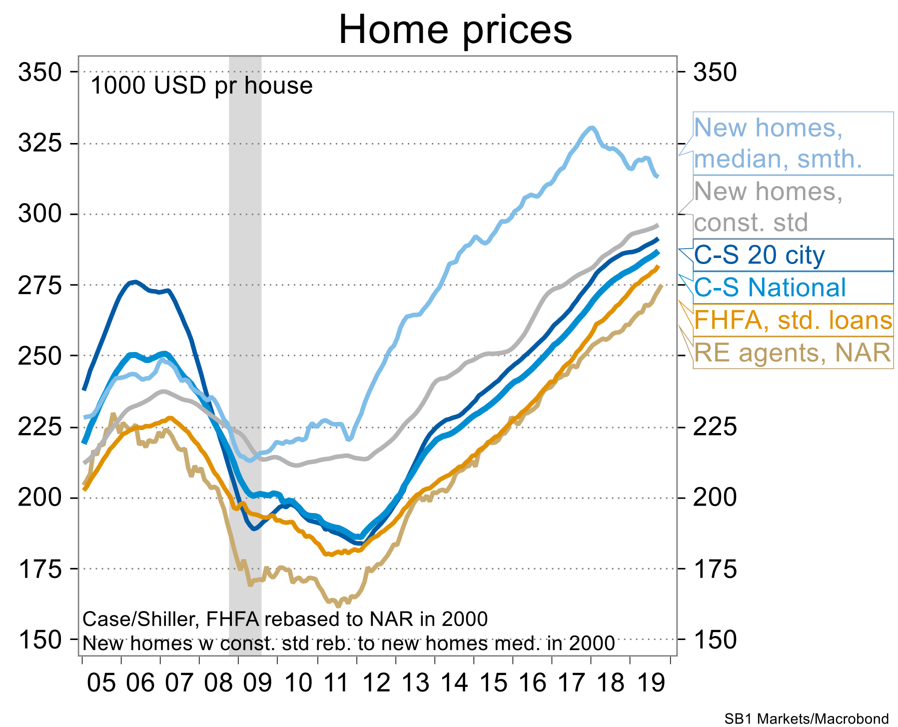


- Pending (existing) home sales fell 1.8% m/m, much weaker than expected. Regardless, sales are trending up and have increased by some 8% since the bottom in December ‘18, after a 10% decline in 2018
- Actual existing home sales are increasing strongly too. Pending sales are now pointing to steady existing home sales, these are usually quite well correlated

Case Shiller house price inflation is gaining pace again

C-S prices rose 3.7% annualised in Sept, highest in 1+ year, confirming an upbeat housing market

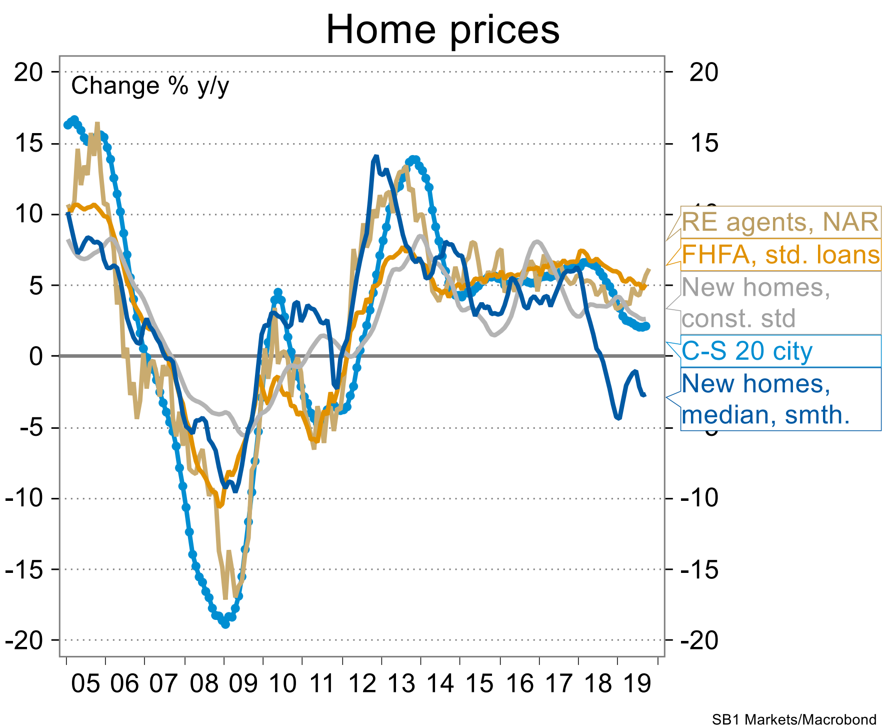


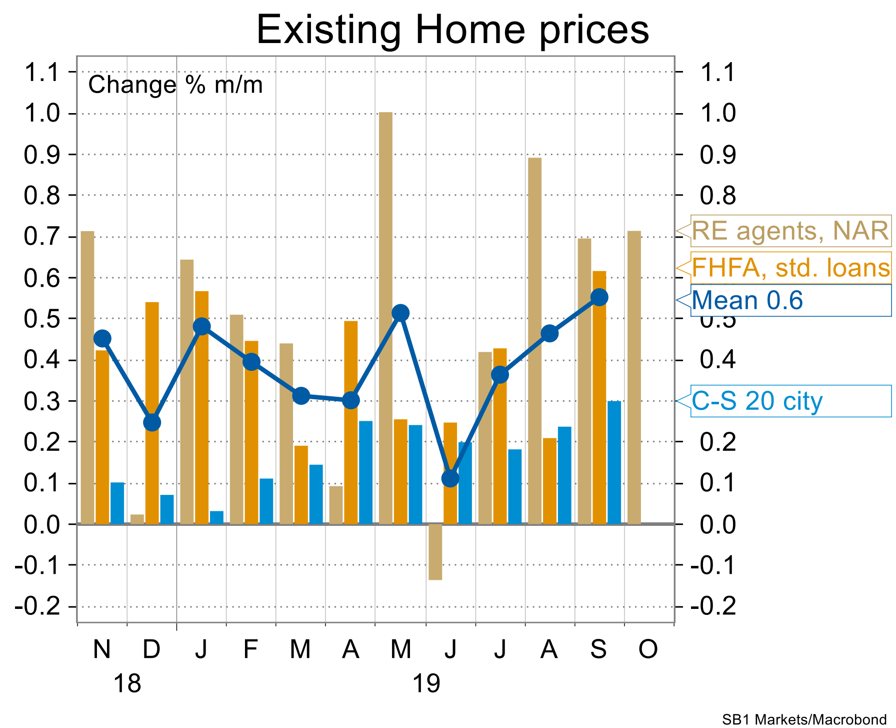


- Case-Shiller house prices rose by 0.3% m/m in October, equalling a 3.7% annualised speed (from an upward revised 2.9% in Sept). This is the highest since the summer of 2018. House price inflation has slowly accelerated since early 2019. Annual rate at 2.1%
  - » We apply our own seasonal adjustment, which is needed because there is a substantial residual seasonal pattern in the 'official' data. The official Oct figure was +0.4% m/m growth
  - » Other price indices on existing home prices confirm an upturn. However, new home prices are still declining
- The CS 20 city (nominal) avg is 6% above the 2006-peak level. The national avg (including more than the 20 cities) is 15% above the peak (while the real price levels are well below previous peak and much lower vs household income)

Existing home prices are accelerating, new home prices still declining

The C&S index is report a more modest upturn than the FHFA and NAR, in avg up 0.6% in Sept

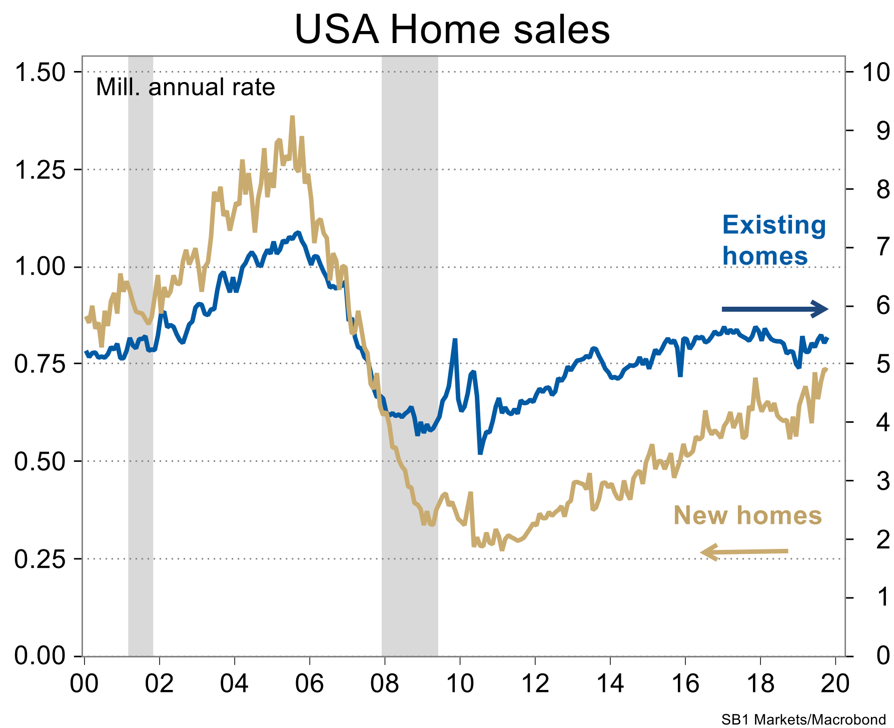


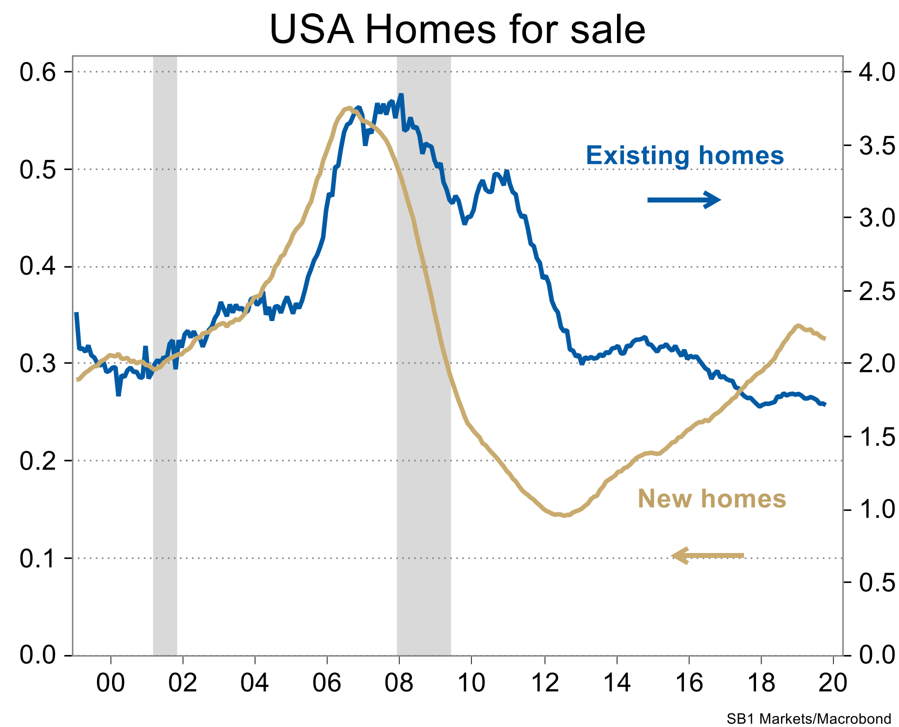


- The FHFA index (for homes financed by state guarantied loans) spiked 0.6% in September. Underlying growth (measured 3m/3m) gained pace in September, to 4.2%, following a slowdown since early 2019
- The realtors' index (NAR), which is more volatile, has soared the past 3 months, underlying growth up 7.6%!!
- The C&S index reports a more modest upswing, up 2.6% 3m/3m – but slowly accelerating since the spring
- New home prices are still falling (before standard adjustment) – implying that more cheap homes are sold

New home sales are soaring

Sales fell marginally in Oct, after a steeply upward revised Sept, and homes for sale are heading down

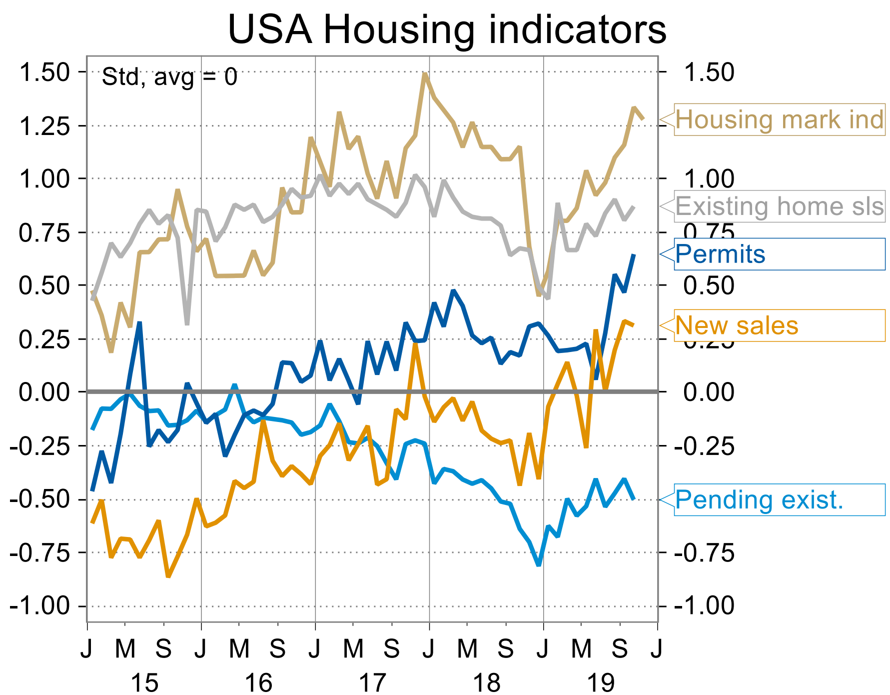




- New home sales fell marginally in Oct, down 0.7% m/m. The decline came after a steep upward revision of the prior month, to a 4.5% spike, from a 0.7% decline. The annual rate at 733' is almost 30' higher than expected. Sales are trending straight up and are now 3% higher than the 2017 local peak (but much lower than the pre-2008 levels)
  - » The number of unsold homes is heading down, both for new and existing, indicating strong housing demand. The number of completions have turned down recent months too – yet still trending up
- Existing home sales rose 1.9% m/m in Oct and are trending up, although at a slower pace than new home sales

All housing market indicators are strengthening

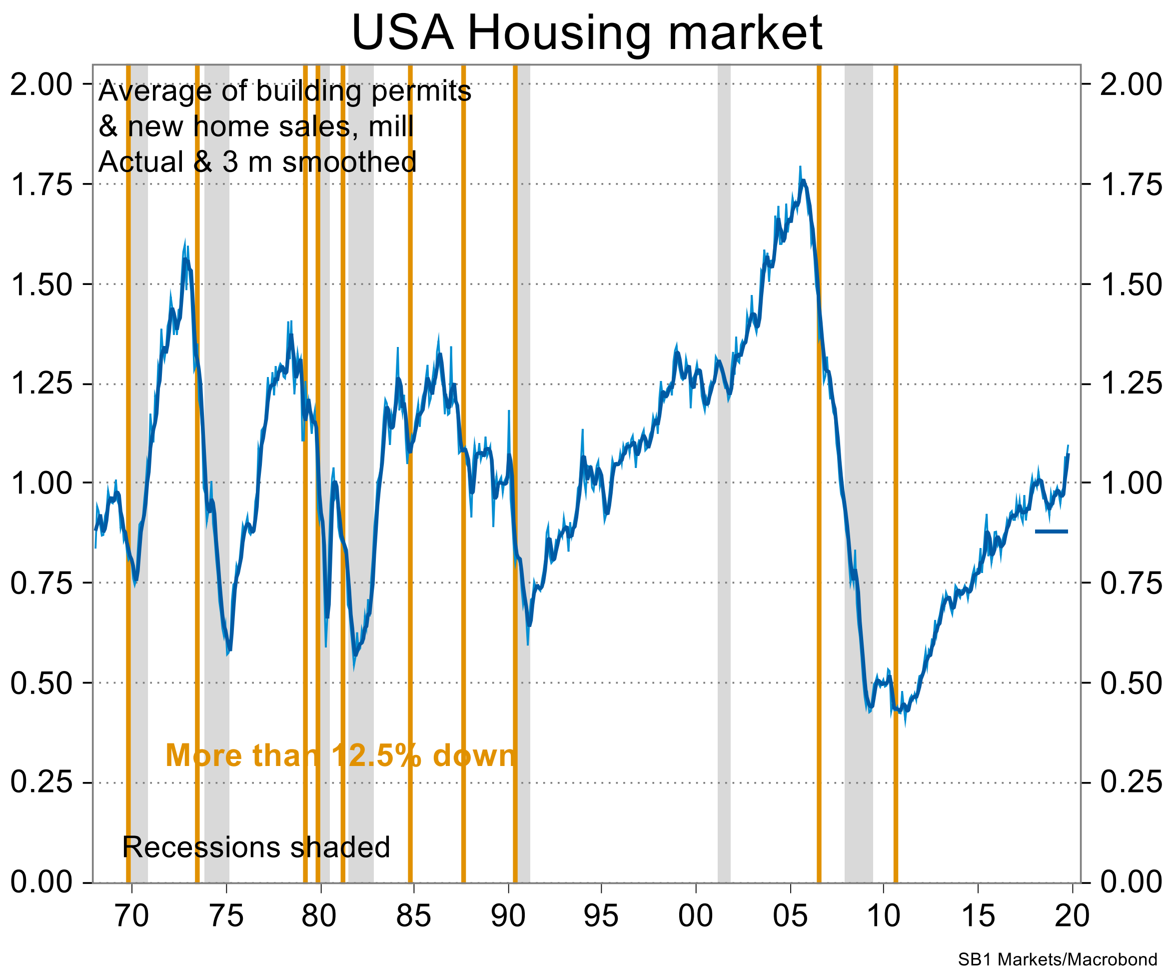
Home sales, housing starts/permits and confidence among the homebuilders are all climbing

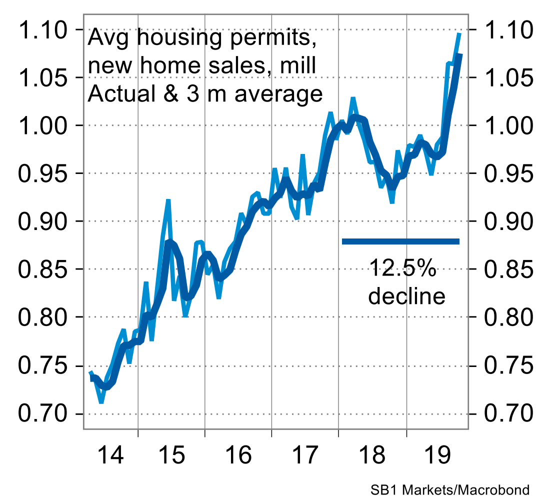


SB1 Markets/Macrobond

- Low mortgage demand and a strong labour market have no doubt boosted demand for housing

Housing vs. recessions: No warning sign now, to put it mildly

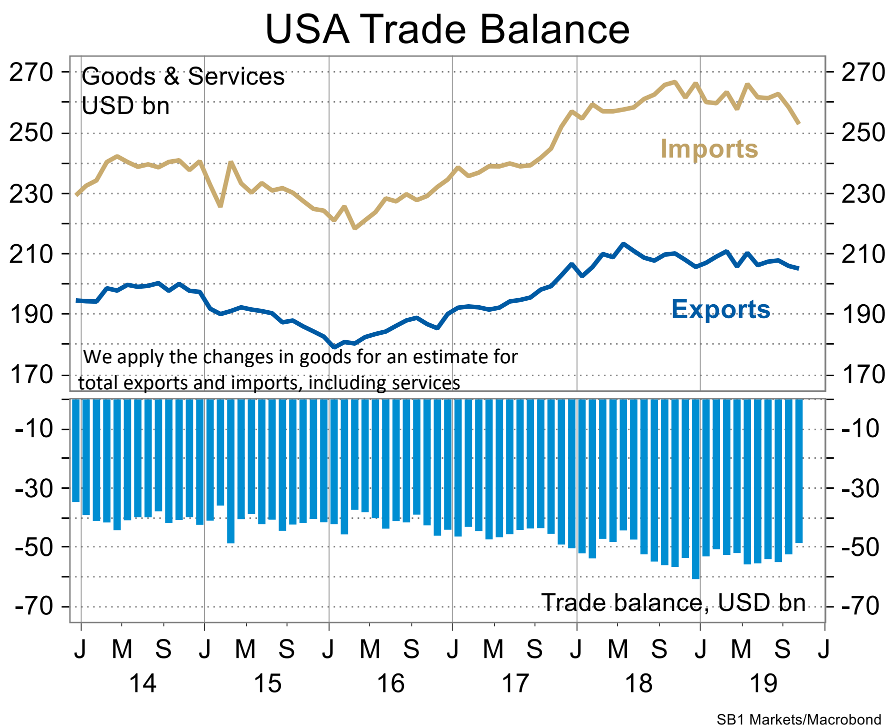


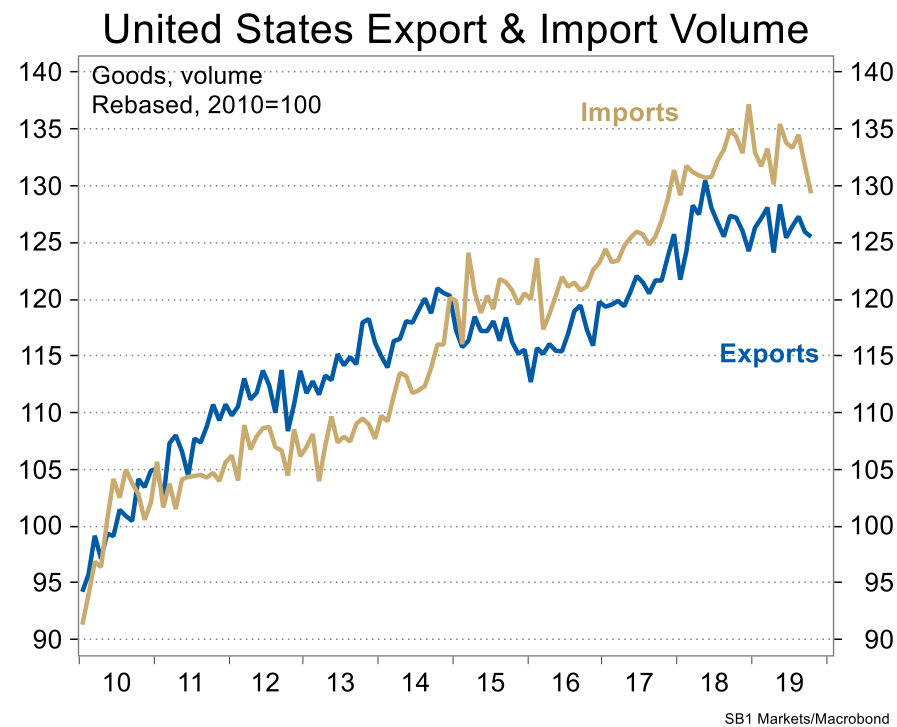


Memo: New Home sales are assumed down to 675' in in April, in line with consensus f'cast

The trade deficit shrank in Oct as imports dropped; tariffs or waning demand?

Imports have fallen the past 2 months and are trending down, exports trending flat

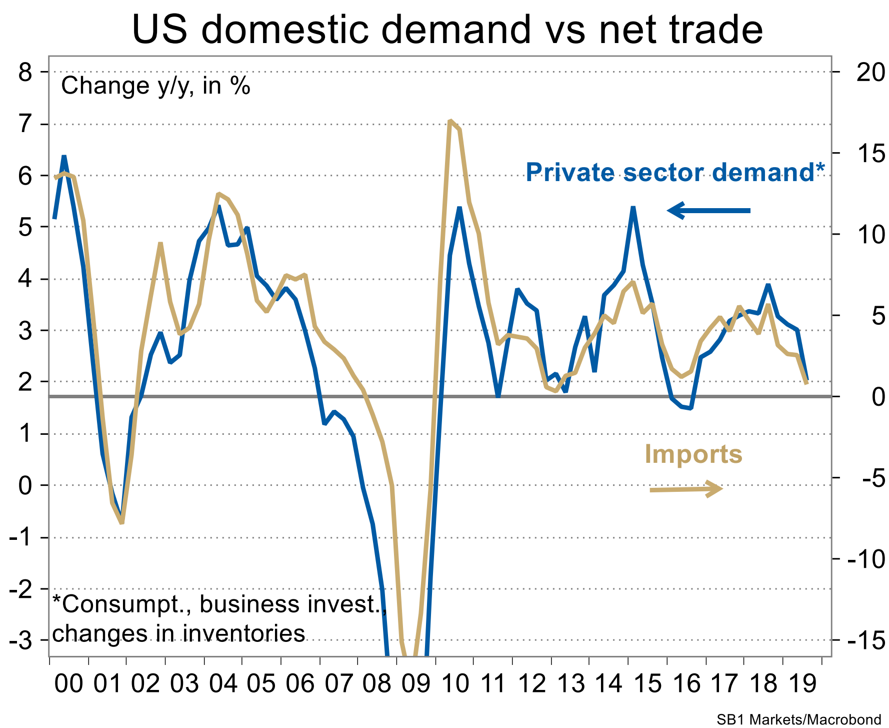


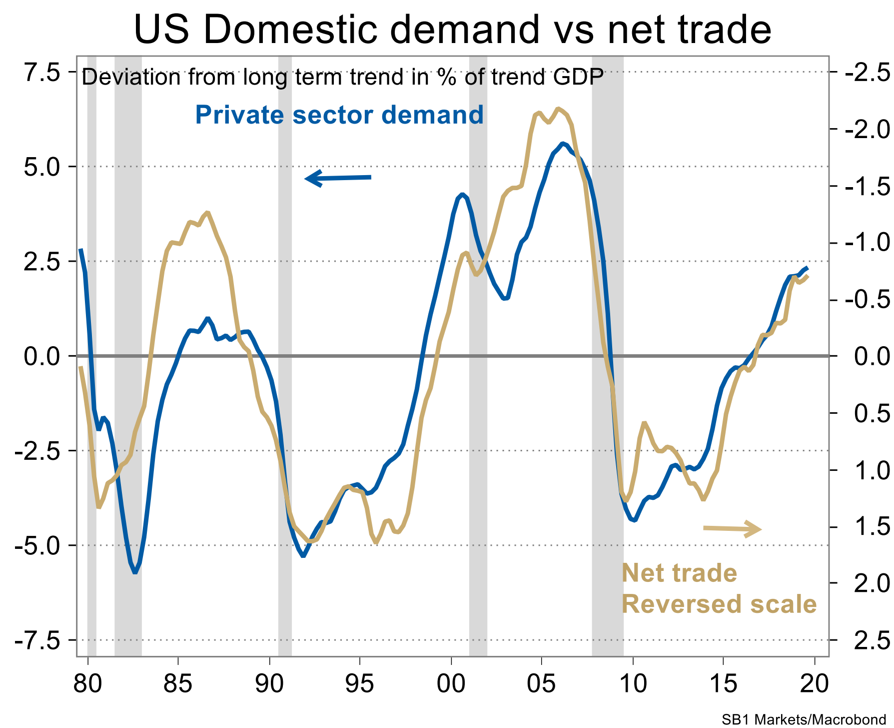


- The advanced trade deficit in goods shrank to USD 49 mrd in October, the lowest in more than a year. The deficit is trending marginally in the past year, due to weaker imports (not increased exports)
  - » Imports dropped 1.9% m/m in volume terms in October, heading down since Dec 2018. Imports are falling by a 5.7% speed y/y, the steepest decline (marginally) since the financial crisis! A sign of crumbling domestic demand or reduced imports from China due to tariff hikes? Mostly domestic demand, the deficit to China is shrinking, but deficits vs many other countries are widening. Check the next slide
  - » Export volumes fell 0.4% m/m in October. Exports have been flat the past year, annual growth at +1%
  - » In Q3, net trade was a drag on GDP growth, as it has since 2015, on the annual rate. **So far, Q4 is heading for a positive net trade contribution**

Imports are slowing along with private domestic demand

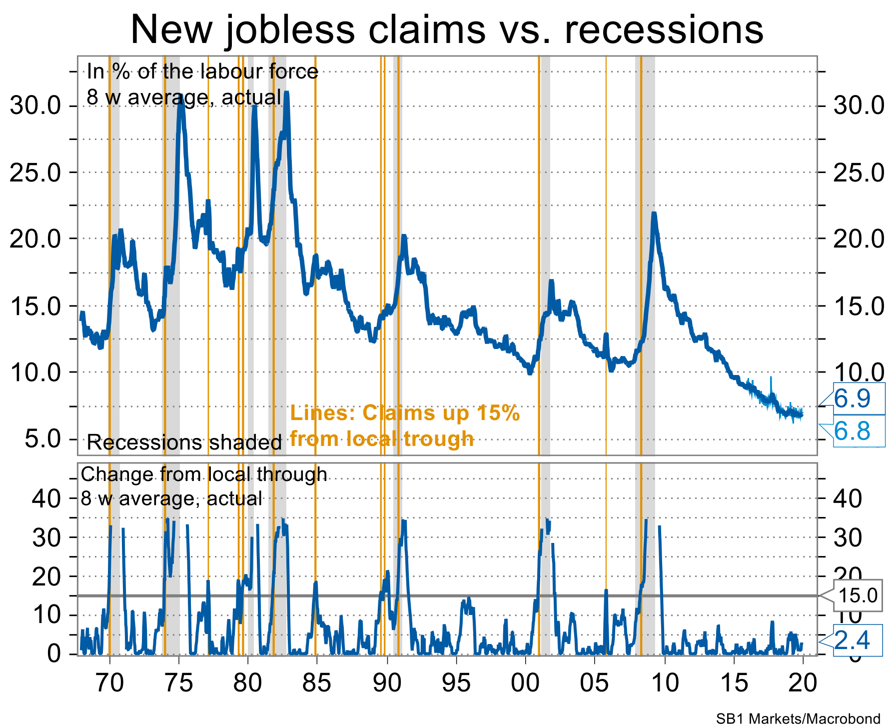
Import growth is decelerating as ‘normal’ when domestic business & consumer demand cool off

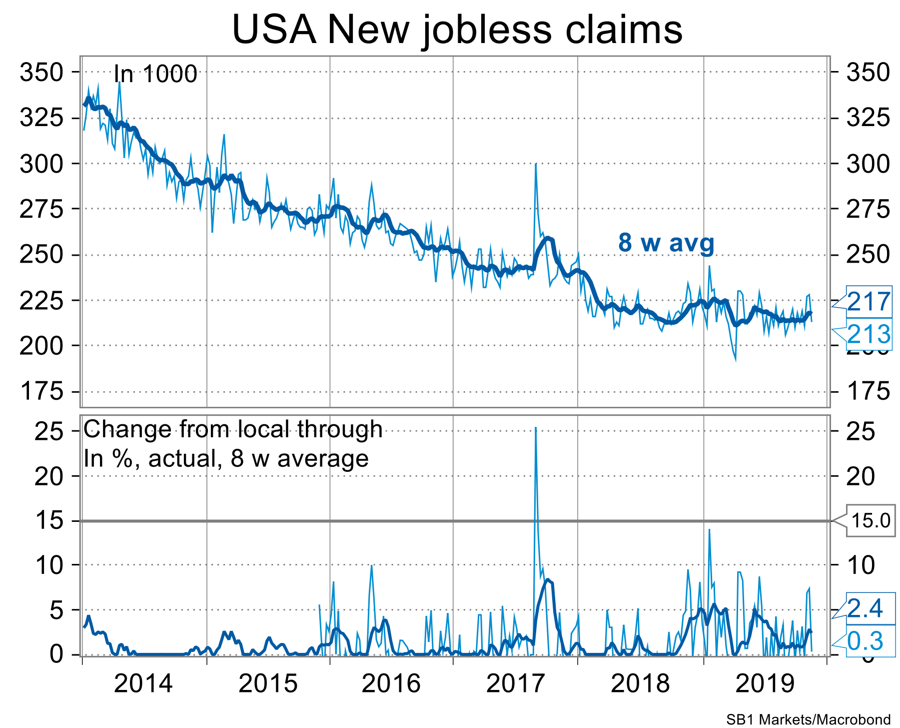




Jobless claims back down a low level (again), no signs of weakness

Jobless claims slipped to 213' last week, below the very low 8 w average at 217'

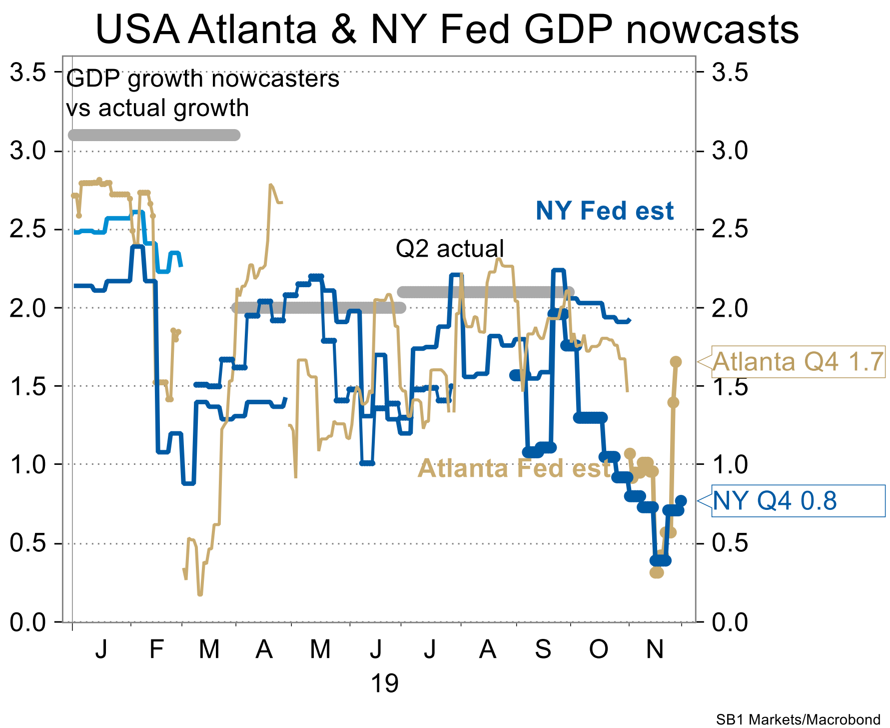


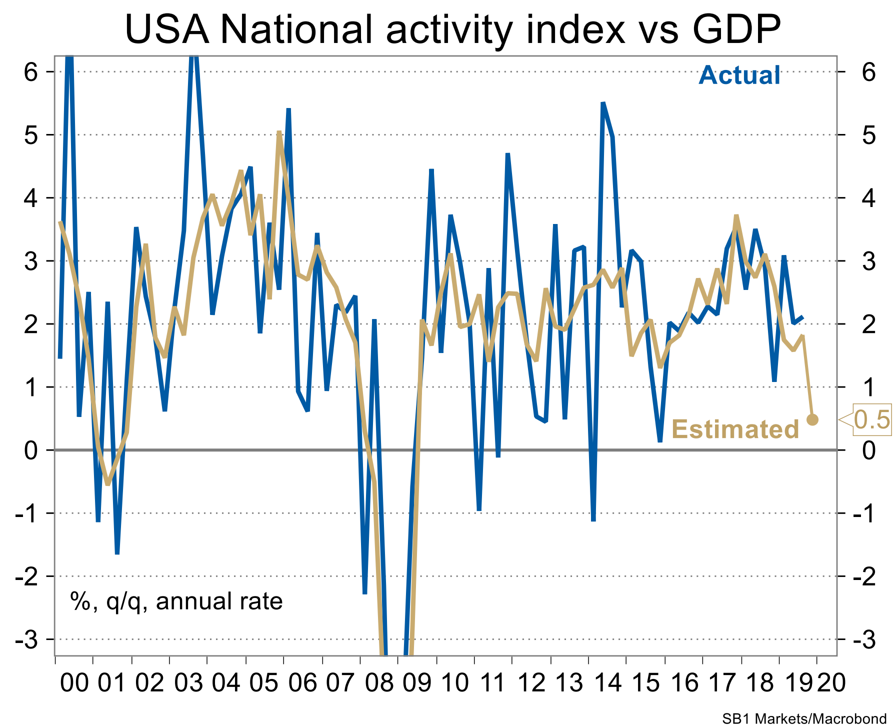


- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

One nowcaster recovered sharply, signalling 1.7% in Q4. Others still below 1%

Higher net trade (and partly) new home sales drove Atlanta Fed's Q4 estimate up last week



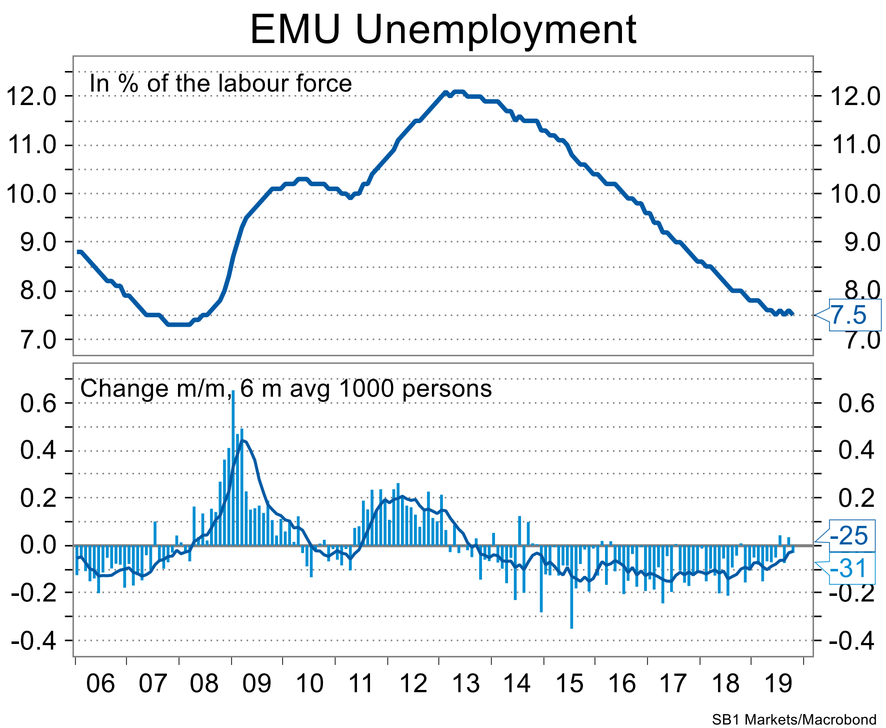


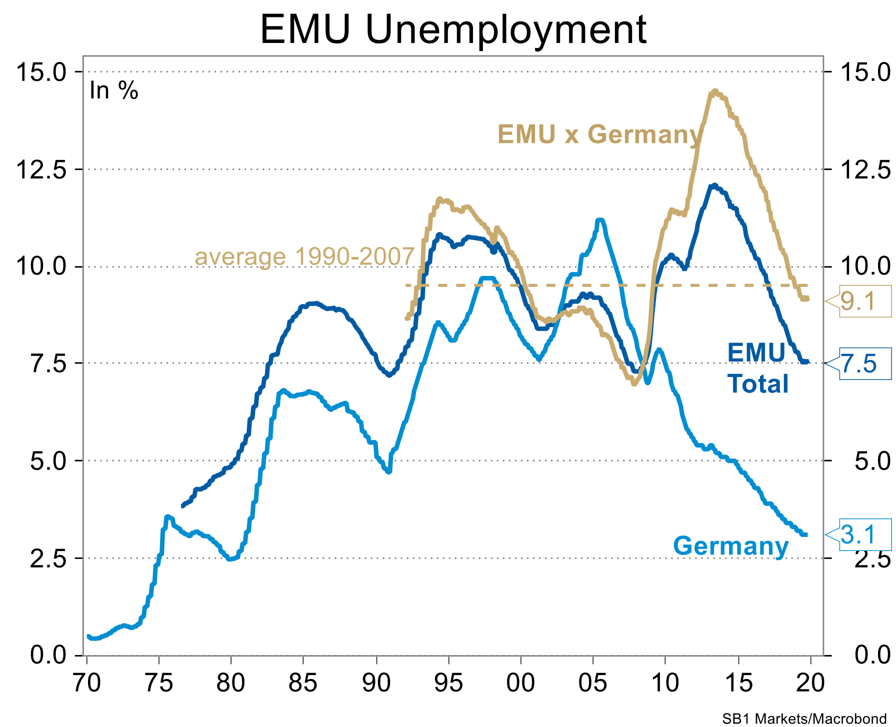
- Atlanta Fed's forecast shot up to 1.7% from 0.6% last week. NY Fed's index rose 0.1 pp to 0.8%
- The National Activity Index, which suggested 1.8% GDP growth in Q3 (0.3 pp below the actual number), now points to a slowdown to 0.5% into Q4 (Oct data)

SpareBank 1 MARKETS

Unemployment flattening out amid GDP growth slowdown

Unemployment has stabilized at 7.5-7.6%



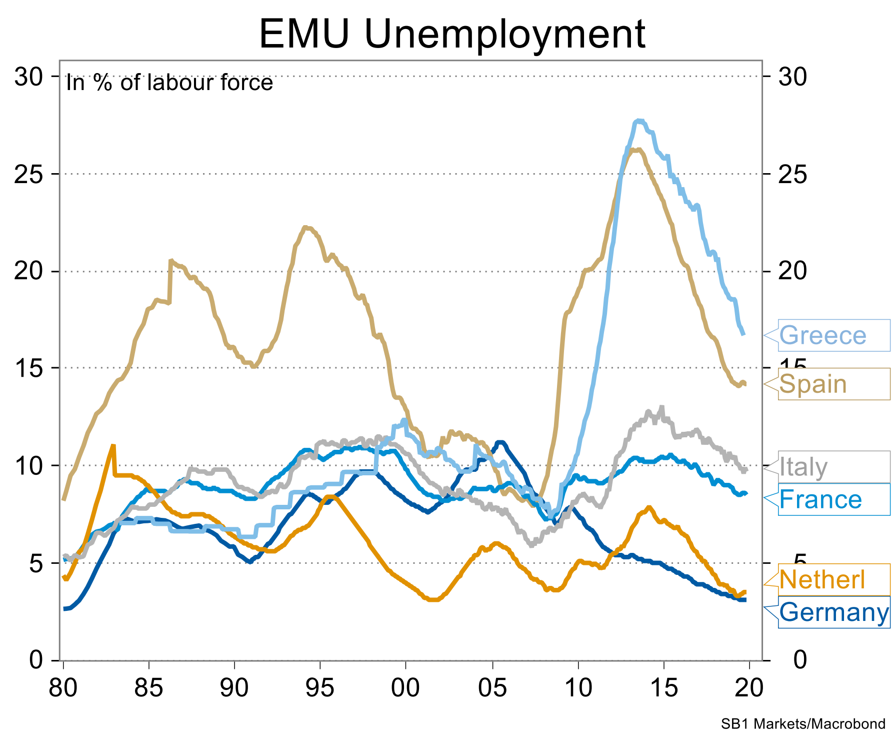


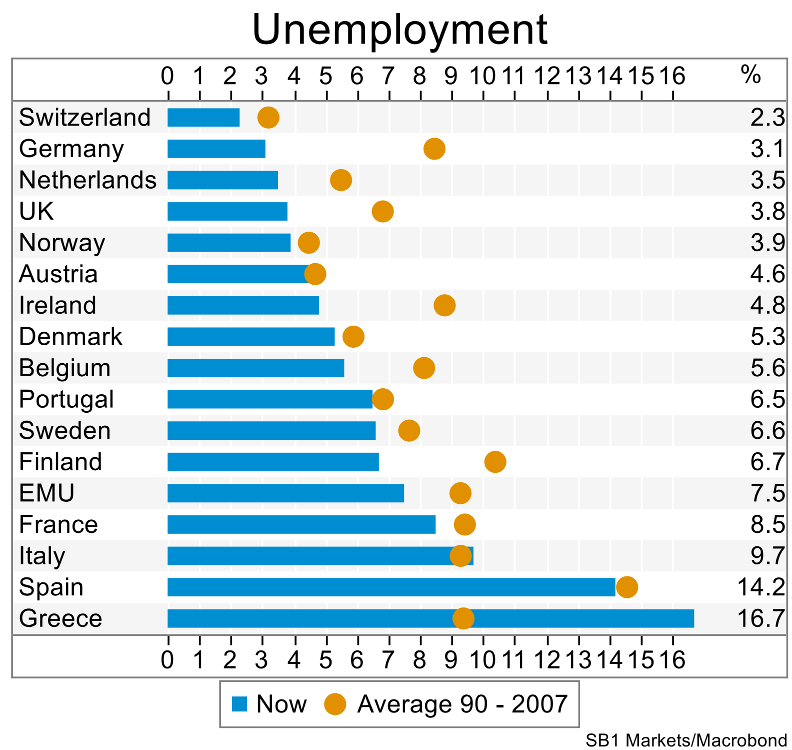
- The unemployment rate inched down to 7.5% in Oct, from an upward revised rate at 7.6% rate in Sept. The number of unemployed fell by 31’ in Oct (from +35’ in Sept). Thee 6 m average is still -25’ per month, however down from 140’ last summer (and -7’ the past 4 months)
- Unemployment in total EMU is well below the 1990-2007 avg, and it has fallen below the average in EMU ex Germany too
  - In Germany, the unemployment rate held steady at 3.1%, the lowest in almost 40 years. Both Germany and other EMU have flattened out

SpareBank 1 MARKETS

Unemployment is stabilizing in most major EMU countries

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

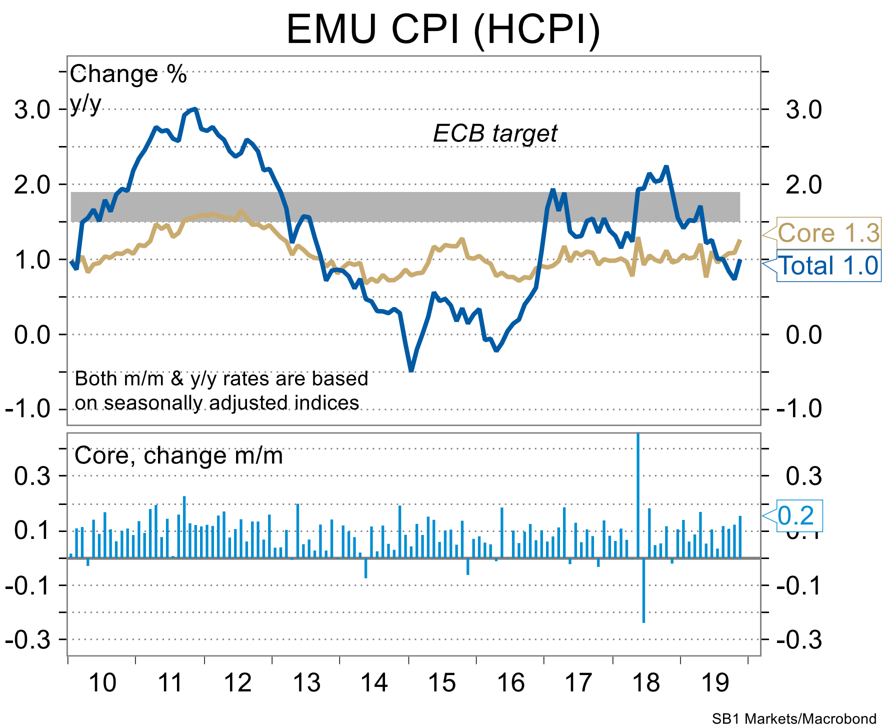


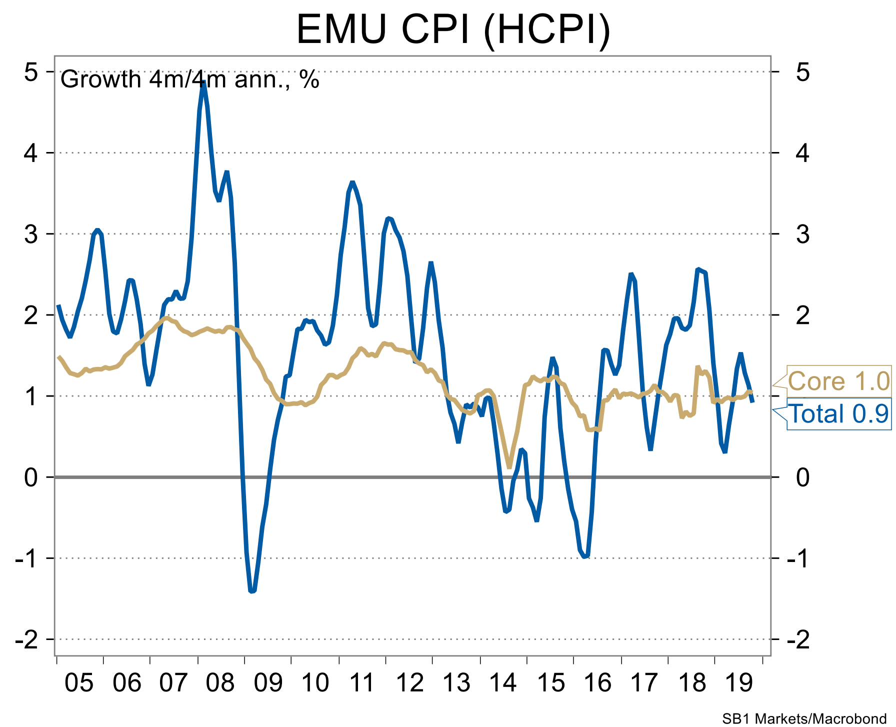


- Unemployment rates in Greece and Spain have fallen steeply since 2013, from awfully high levels. Unemployment is still very high in Greece, at 17%. Spain down to 14% from 26%, but it has been rising marginally since the spring
- Unemployment in Germany and the Netherlands have fallen to very low levels,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

Core CPI inflations spiked to 1.3%, partly due to base effects

Core inflation rose 0.2% m/m in Nov (and 0 in Nov last year). Total inflation edged up to 1%

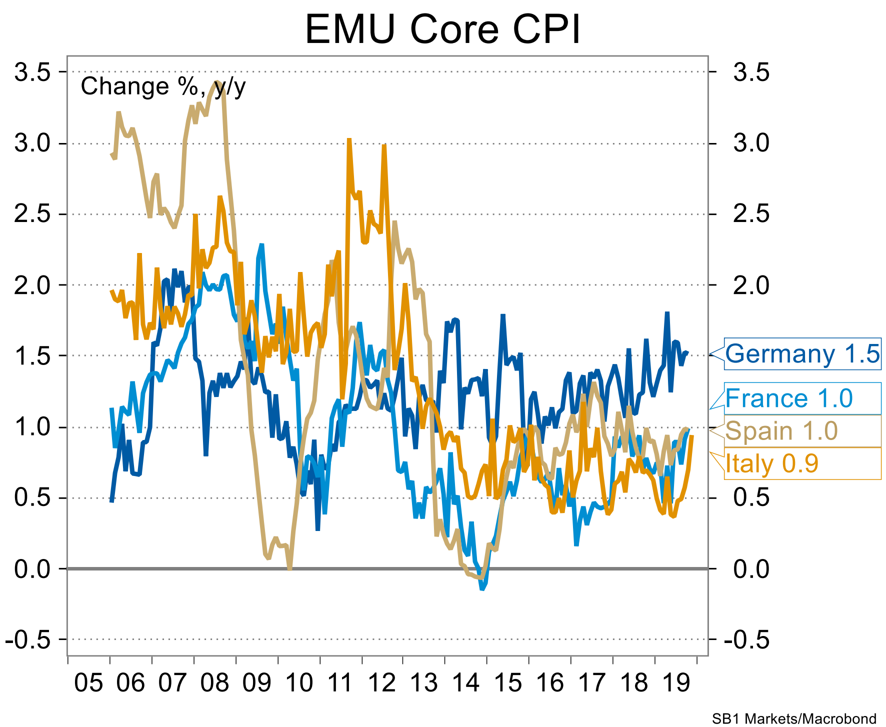




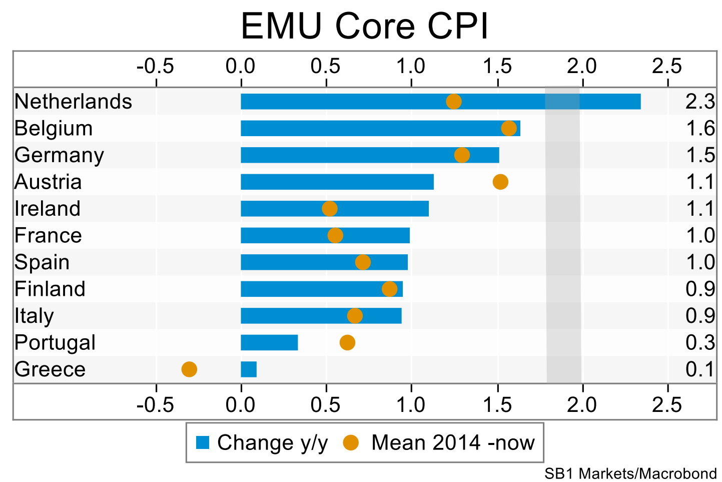
- Core CPI rose 0.2% m/m in Nov (0.015%, to be precise), somewhat higher growth than ‘usual’. In Nov last year, inflation was muted m/m, thus, the annual rate rose 0.2 pp. There are few other signs of an inflation uptick and underlying growth is flat at 1%, we doubt the upward trend is persistent.
- Total CPI growth came in at 1.0% in Nov, up 0.3 pp from the previous month. The oil price decline in the spring has sent total inflation down from above 1.5%, this effect may now be subsiding

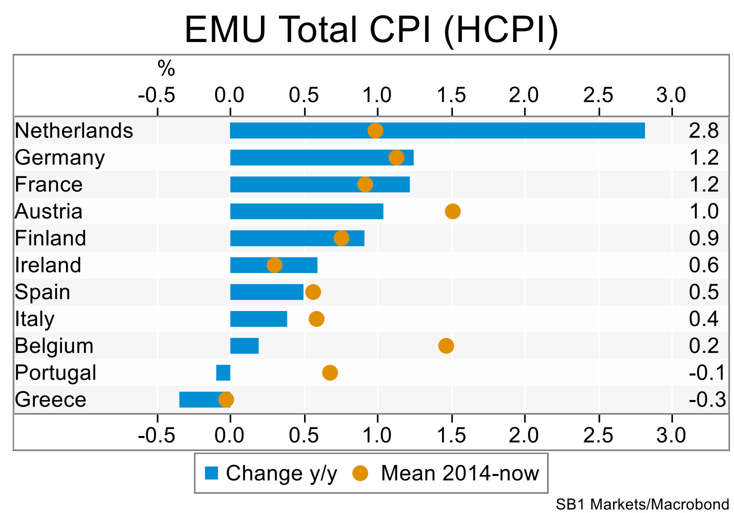
Core inflation still below target everywhere x Netherlands

Core inflation is trending up in both Germany, France, Spain and Italy, just Germany above 1%



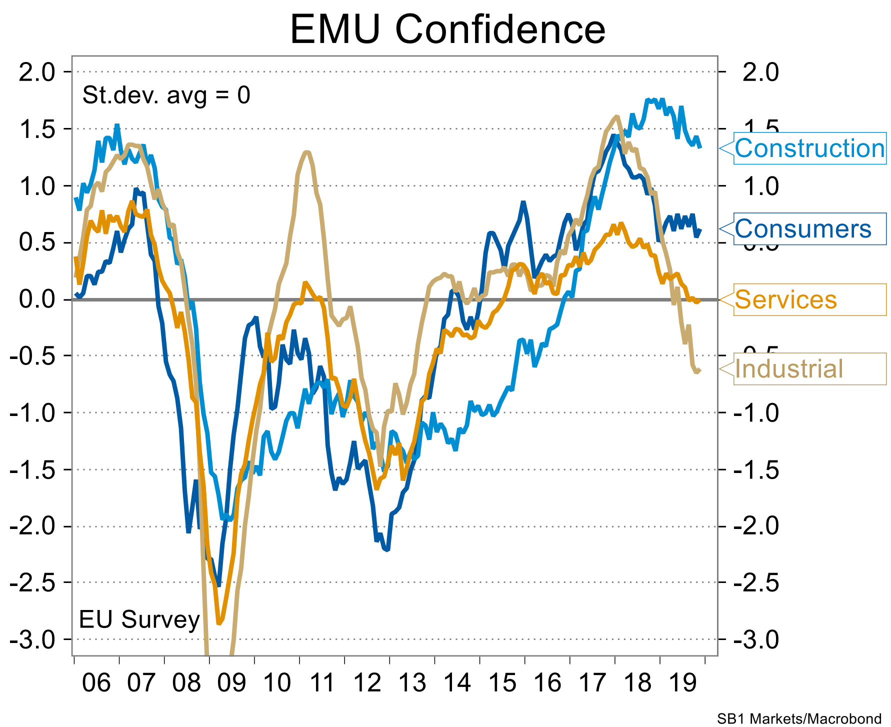
- Core inflation in Germany is up 1.5% y/y and has no doubt accelerated the past year (and flattened recently)
- In France, inflation is trending slowly up, to 1%. Spain have turned up too, and Italy accelerating (to 0.9%!)
- In the other major countries core inflation is flat/slowing
  - » Only the Netherlands is above the ECB's price target at just below 2%. Because the VAT rose to 9% from 6% in January….

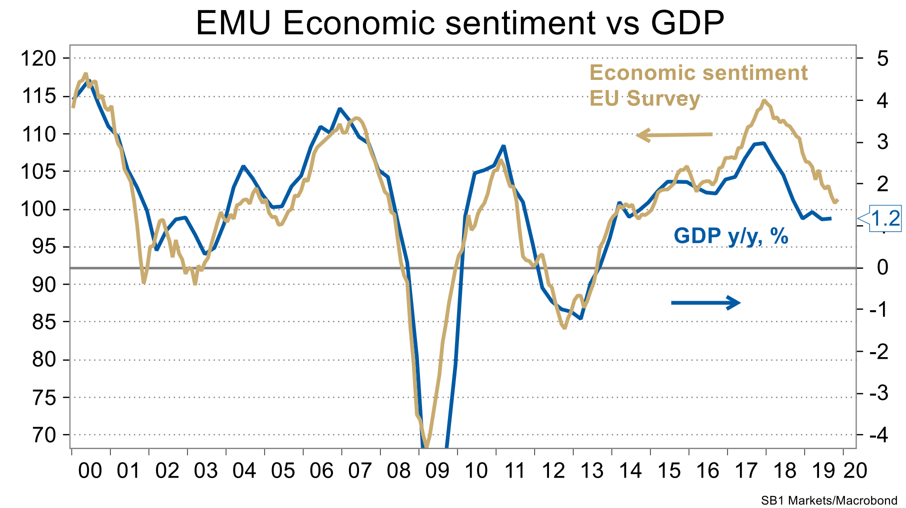


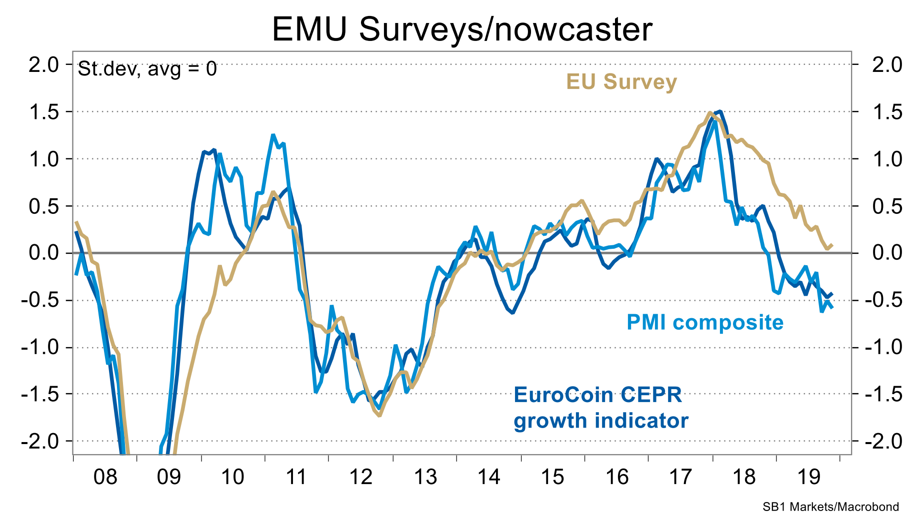


EU economic sentiment survey steady in Nov, trending straight down

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



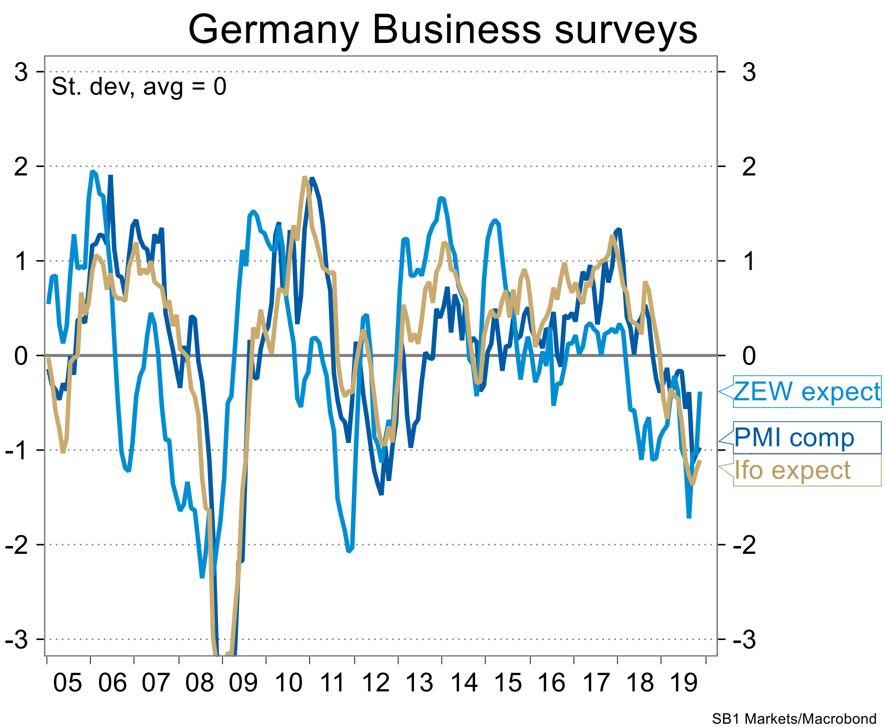


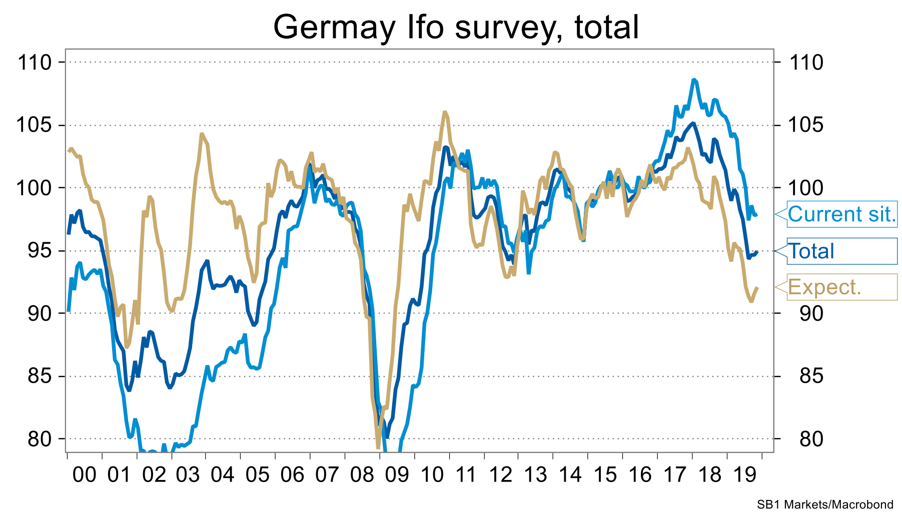


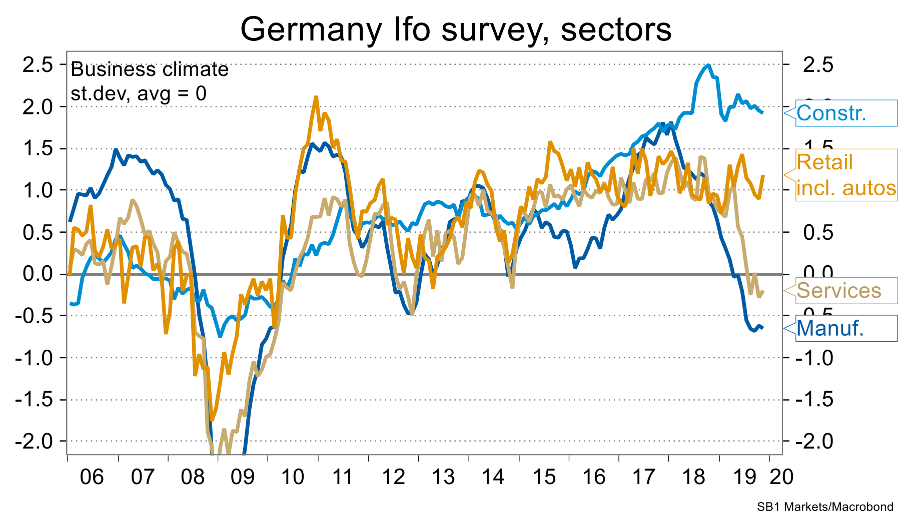
- Total sentiment inched up to 101.3 in Nov. The survey has fallen to an avg level – but it has been far too optimistic vs growth the past two years; the direction is probably more essential. Still, all surveys have showed some signs of stabilisation the past months
  - » The survey is usually lagging the PMI and CERP. The CEPR index rose marginally in Oct, signalling a 0.6% growth pace
- The ECI confirms the sector outlook which others are reporting; manufacturing struggles, dragging services down with it, while construction is still elevated. Consumer confidence is steady, reflecting a rather resilient consumer sector

Ifo expectations improved marginally in Nov, adding to signs of stabilisation

Expectations inched up for the 2nd month in a row, view of the current situation was unchanged



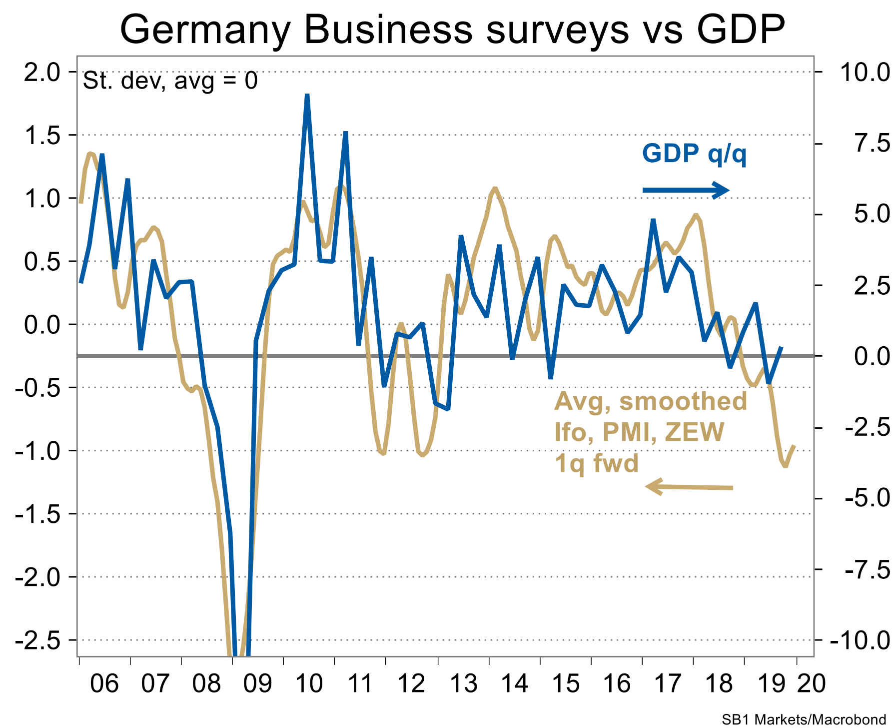




- Expectations have recovered marginally in Oct and Nov, together with the composite PMI. Businesses view of the current situation has stabilised the past 4 months, after a steep decline. The ZEW survey is more upbeat than Ifo & PMI (and less reliable)
- Both manufacturing and services have flattened out recent months, while the retail sector noted a strong rebound. Construction steady at an elevated level

Surveys still point to a substantial decline in GDP

However, the surveys have been too downbeat vs GDP growth the past 3 quarters

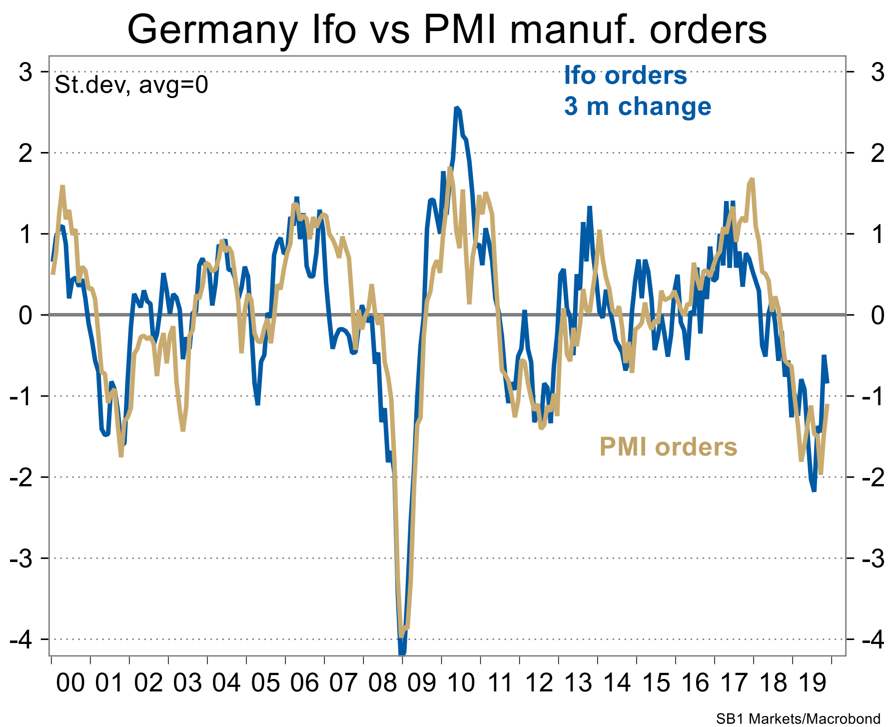


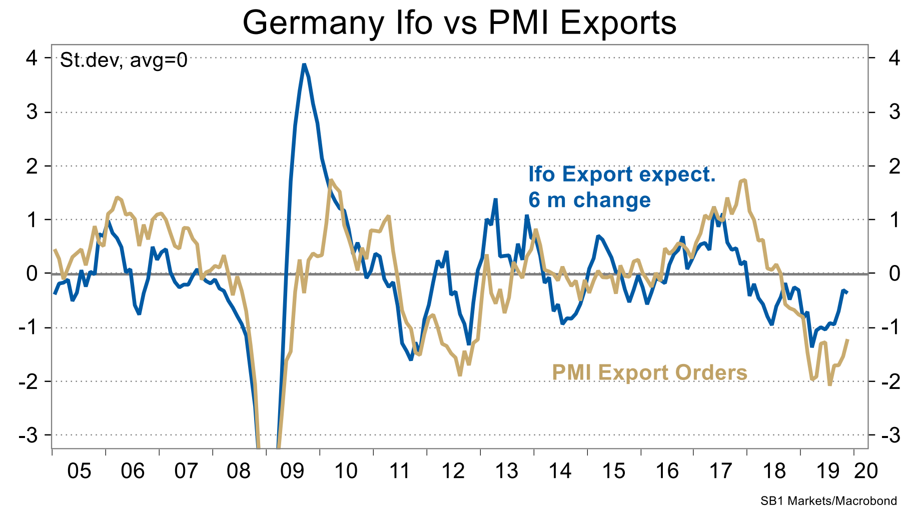
.. And the correlation is anyway not very strong, short term

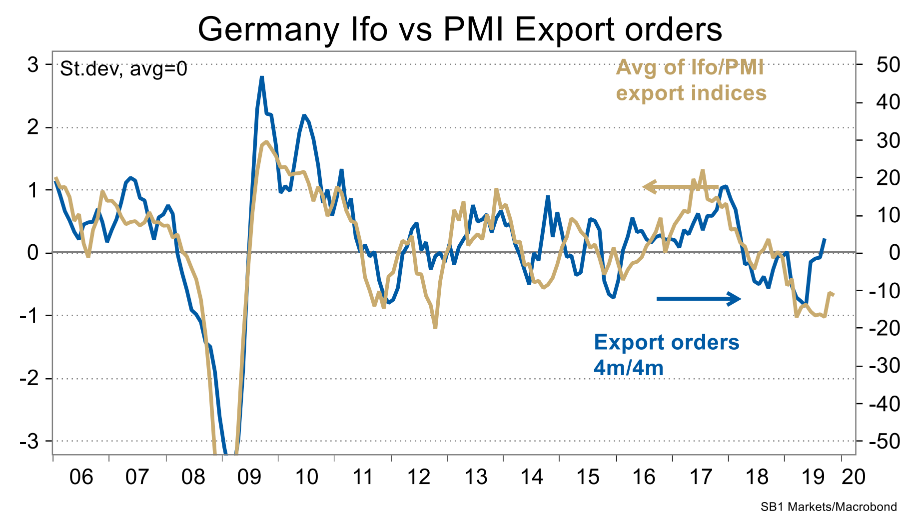
- Both Ifo expectations, the composite PMI and the ZEW survey are indicating decreasing activity. The avg of surveys signals some 3% decline in GDP into Q4, vs the 0.3% speed in Q3. Probably too pessimistic, the stabilization is most likely a more important sign

Order inflows are still falling steeply – but showing signs of recovery?

The avg of PMI and underlying growth in Ifo export climate still signals much weaker exports







- The level of the Ifo order index is far above the PMI. However, the change in Ifo (here a 3 m change), is closely correlated to – but usually leading – PMI orders. Now, both are reporting a decline in order inflows, although the Ifo has stabilised the past two months. Both domestic and foreign demand is weak
- An avg of Ifo/PMI points to a steep decline in export orders, even as both surveys have improved recent month

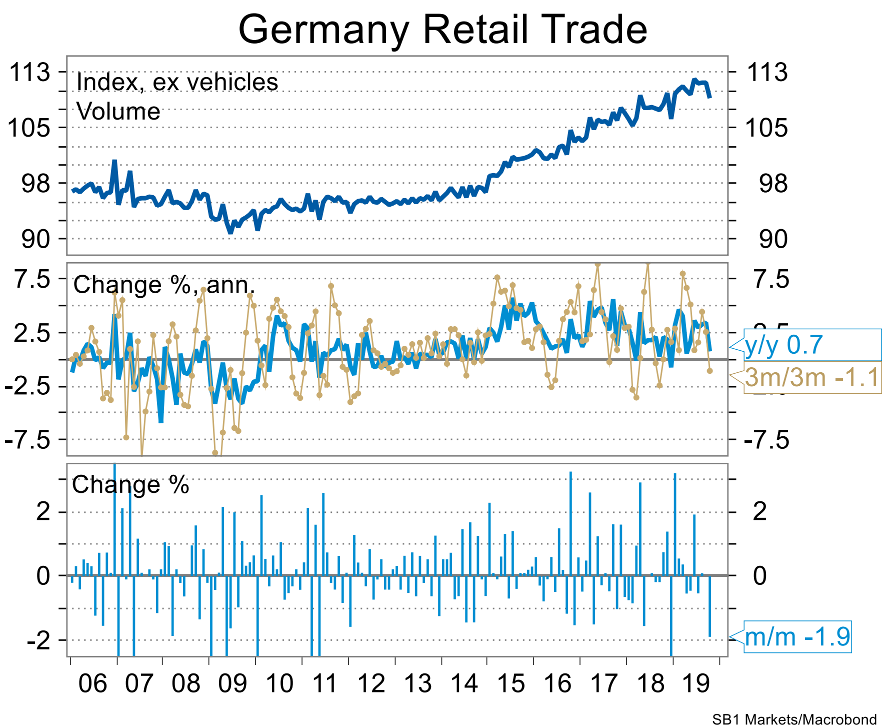
PMI/Ifo are no longer signalling a deeper manufacturing contraction

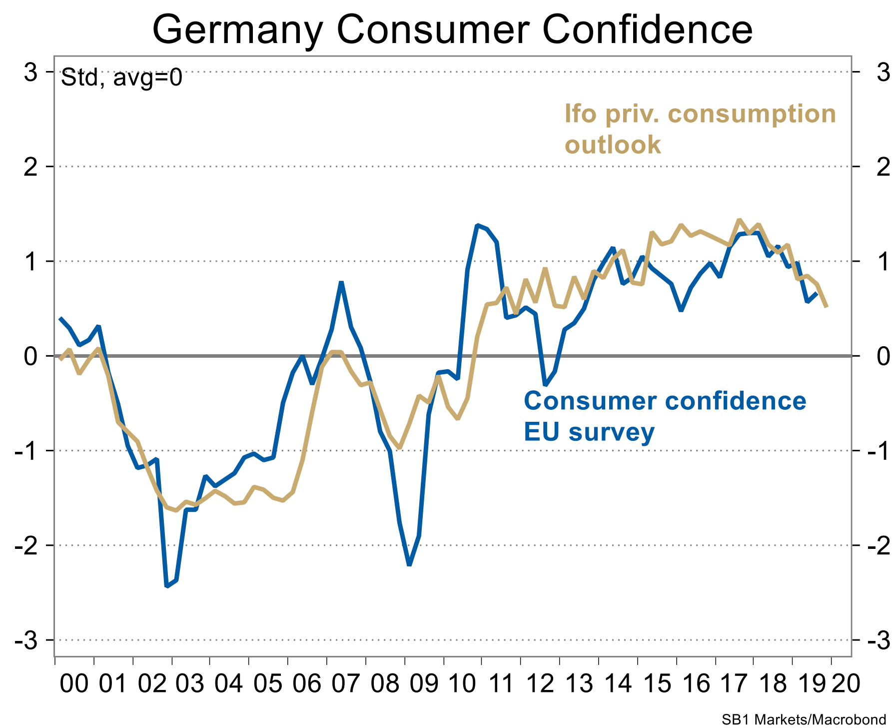
All 3 manufacturing surveys have edged up the past months, points to a steady 1% decline?

- The Ifo current situation index is much more upbeat than expectations, although the direction is the same. Unfortunately, this assessment is usually lagging Ifo expectations and the PMI

German retail sales slipped in October, trending up

Consumption has been the pillar of growth the past years, an early signs of weakness?

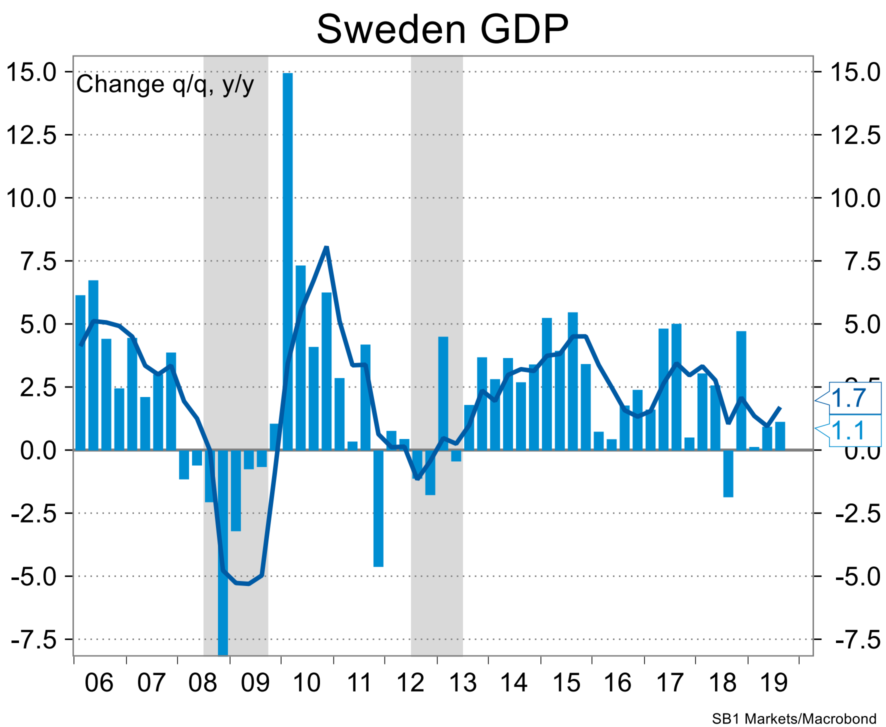


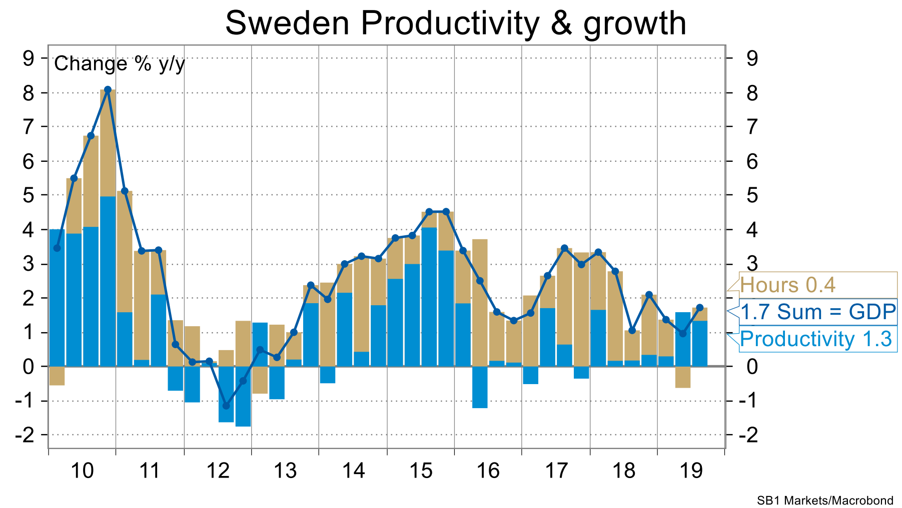


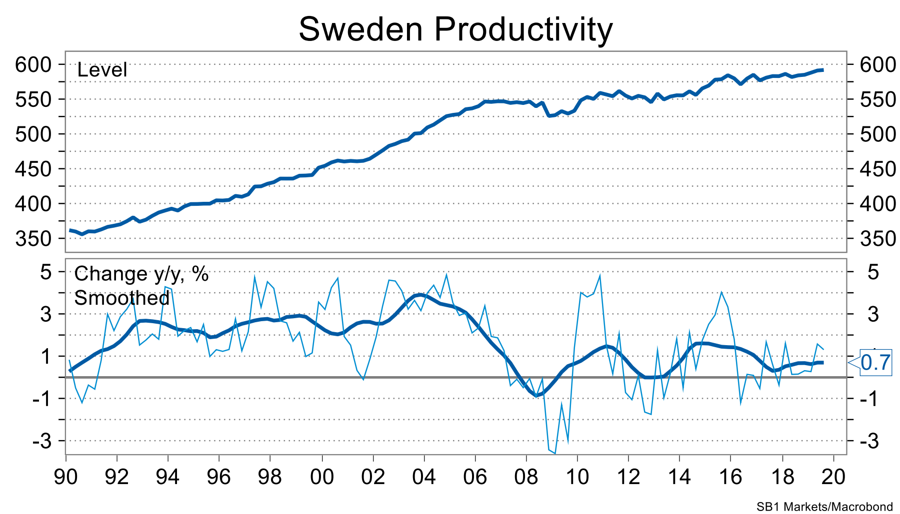
- Retail sales dropped 1.9% m/m in Oct, a 0.2% increase was expected. The underlying speed fell to -1.1%. These monthly figures are too volatile to indicate a shift in consumer demand, a rebound the next month is likely (and large downturns are almost always revised)
  - » Just Spain among the other major EMU countries has reported October data, sales fell 0.3% m/m
- Consumer confidence is sliding down, yet both the Ifo private consumption index and the EU consumer confidence remain well above avg

Q3 GDP up 0.3% q/q, a tad higher than expected and Q2 revised up

The details were OK and productivity was revised up. Regardless, growth remains meagre



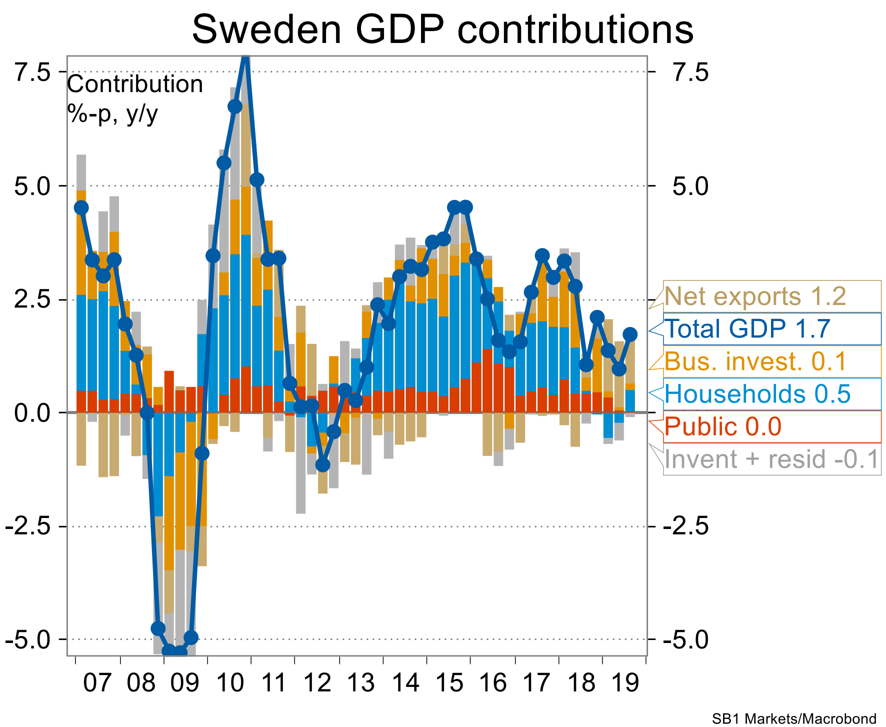


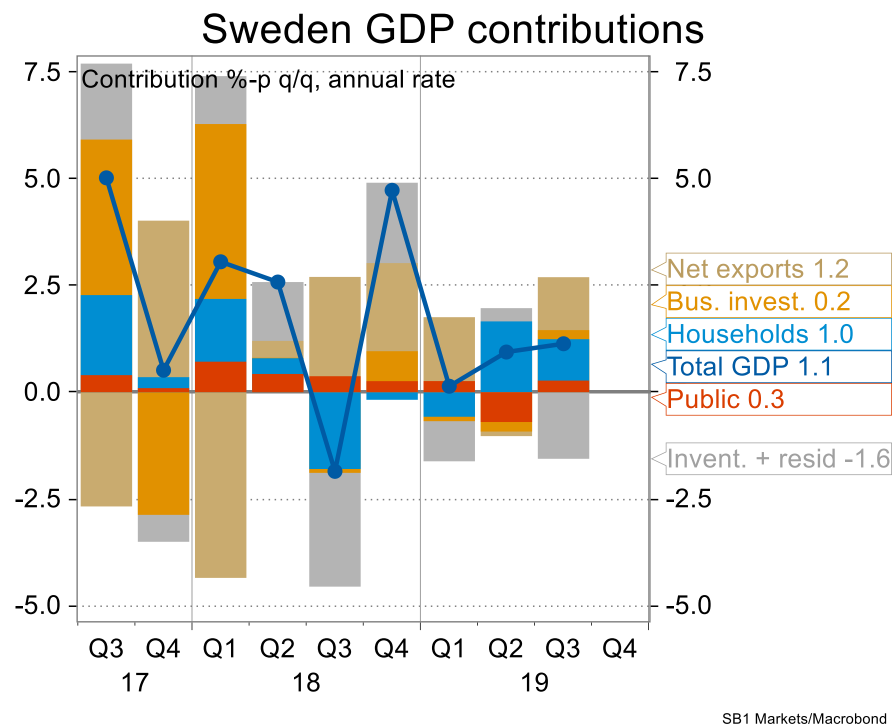


- GDP rose by 0.3% q/q (1.1% annualized), 0.1 pp better than expected. Moreover, Q2 was revised up by 0.1 pp
- Most demand components increased in Q3, just inventories dragged growth down. Net exports the major boost
- Productivity rose by 1.3% y/y and the past year was revised up substantially (Q2 to 1.6%, from 0.1%!) and hours worked revised down (blame Evry and the LFS scandal). However, productivity growth is anyway low and signals a limited growth potential!

Both household and business demand rose in Q3, just inventories pulled down

Still, domestic demand has slowed substantially, net exports have supported growth substantially

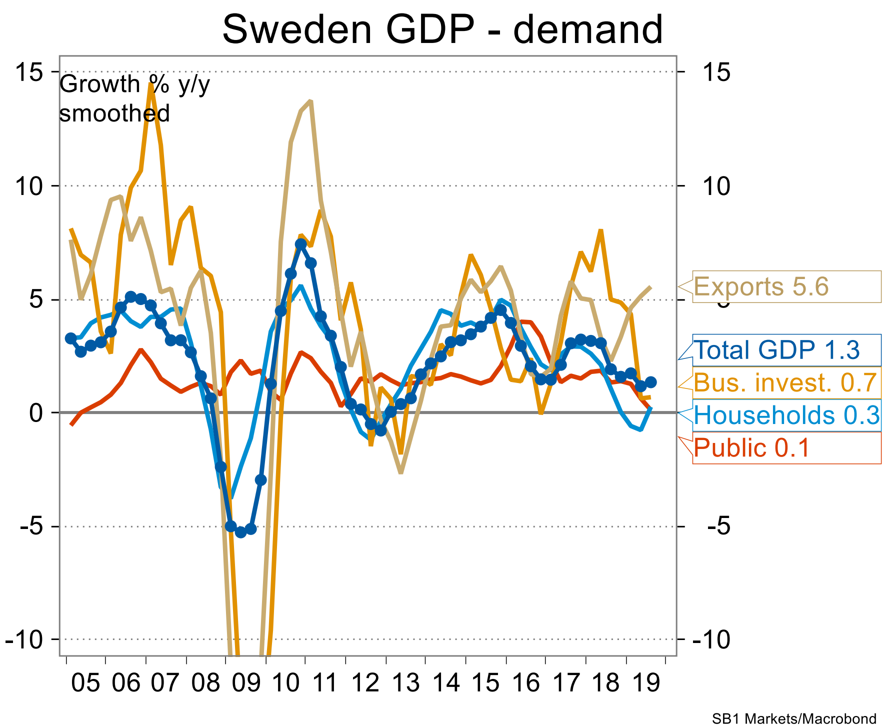


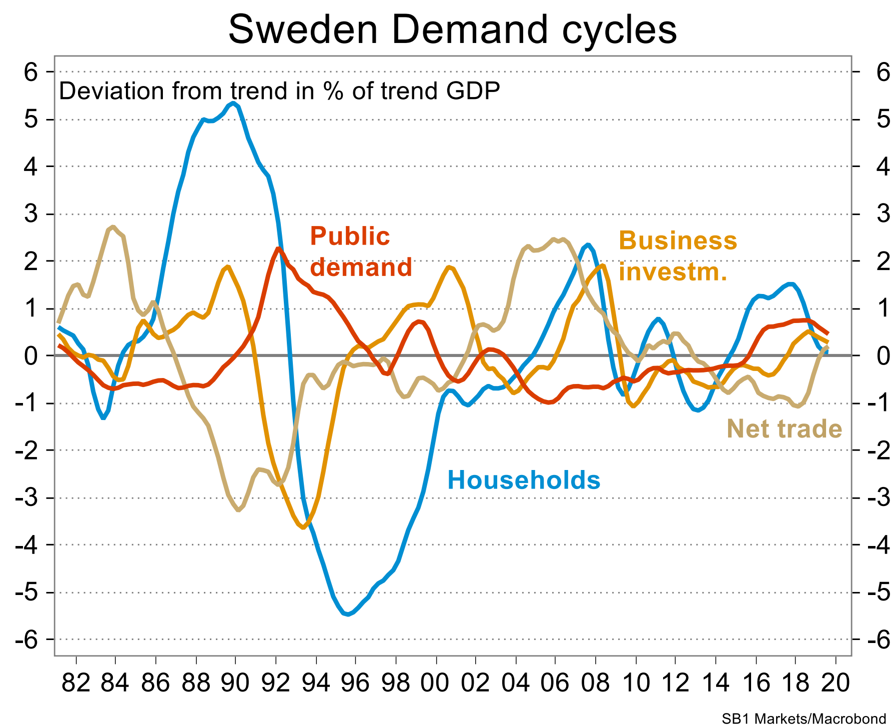


- Household demand (consumption+housing) lifted growth q/q by 1 pp annualised, a moderate contribution. Households' contribution to annual growth has turned positive but remains much lower than in 2013-2017. are contributing to 0.5 pp y! Both consumption and housing investments rose q/q but housing is still declining by some 4% y/y
- Business investments lifted growth marginally, the contribution to annual growth is modest at 0.1 pp. Global uncertainties may have made businesses more cautious, however, exports are still rising. Most likely, private consumption is probably to blame too
- Net exports was the major growth boost in Q3, as the past year, because exports have increased more than imports. Over the past year net exports have contributed by 1.2 pp

No growth in household demand (housing down), business investm. is slowing

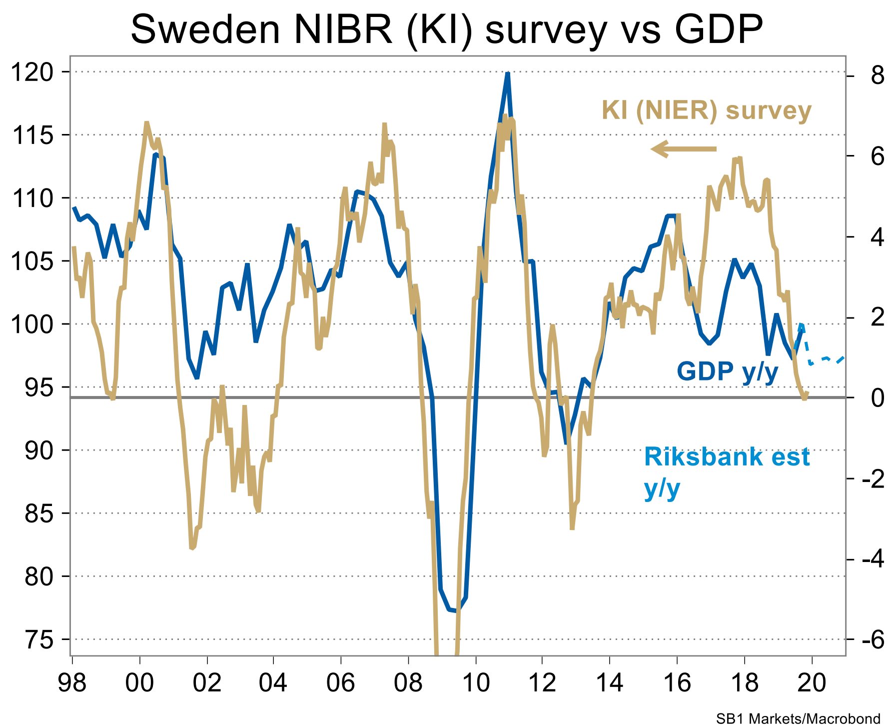
Exports are sharply up, as is the contribution to growth from net trade

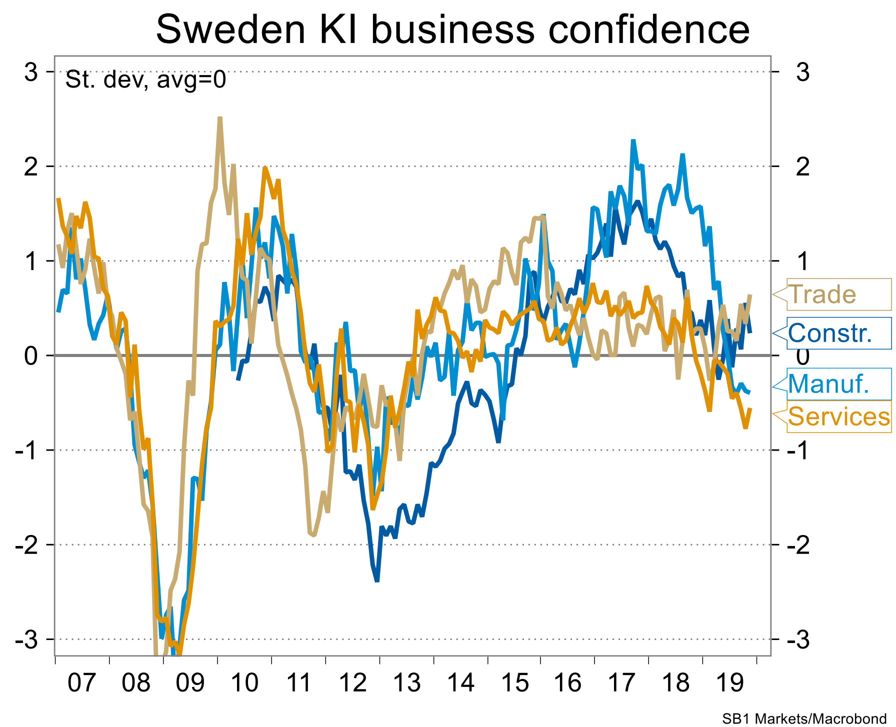




The KI business survey points to a steeper slowdown

Confidence remained weak in Nov; manufacturing and services struggle, retail & constr. improving

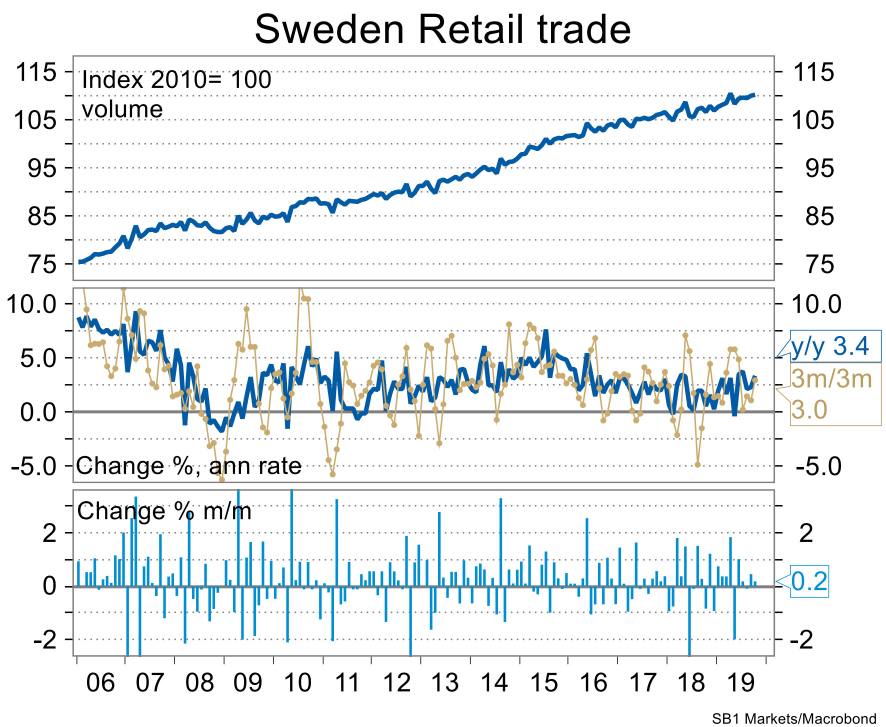




- The KI economic tendency survey, which usually correlates well with GDP growth, were pointing to unusual high growth rates from 2016 and until early 2019. Since then, the index has been plummeting, to the lowest level since 2012. The KI survey is now signalling halting GDP growth, at best. Services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

Retail sales keep growing moderately, no demand weakness spotted

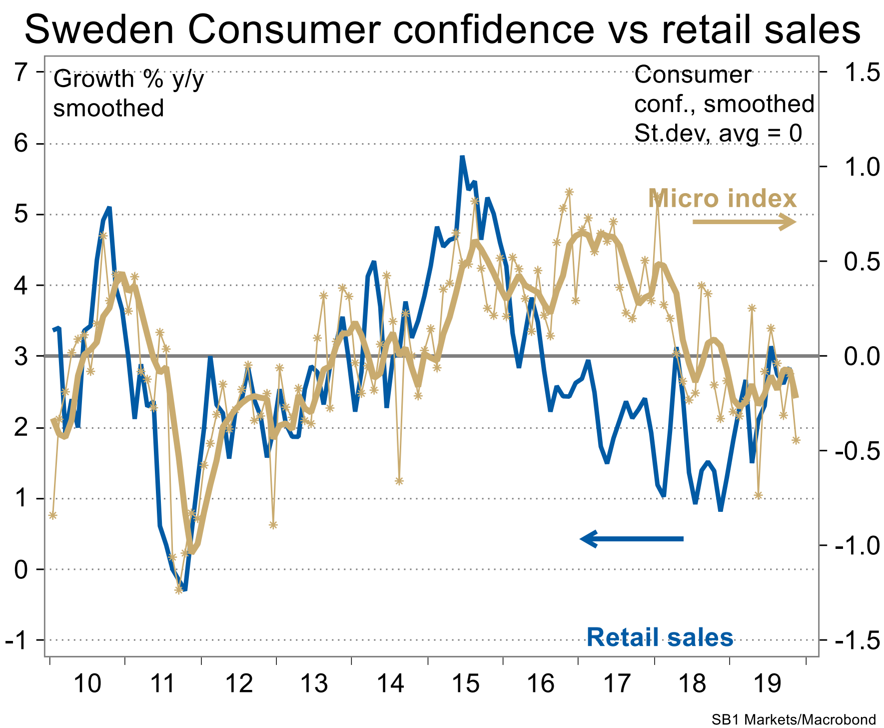
Sales rose 0.2% m/m in Oct and the underlying pace is solid at 3%. Risks are tilted to the downside

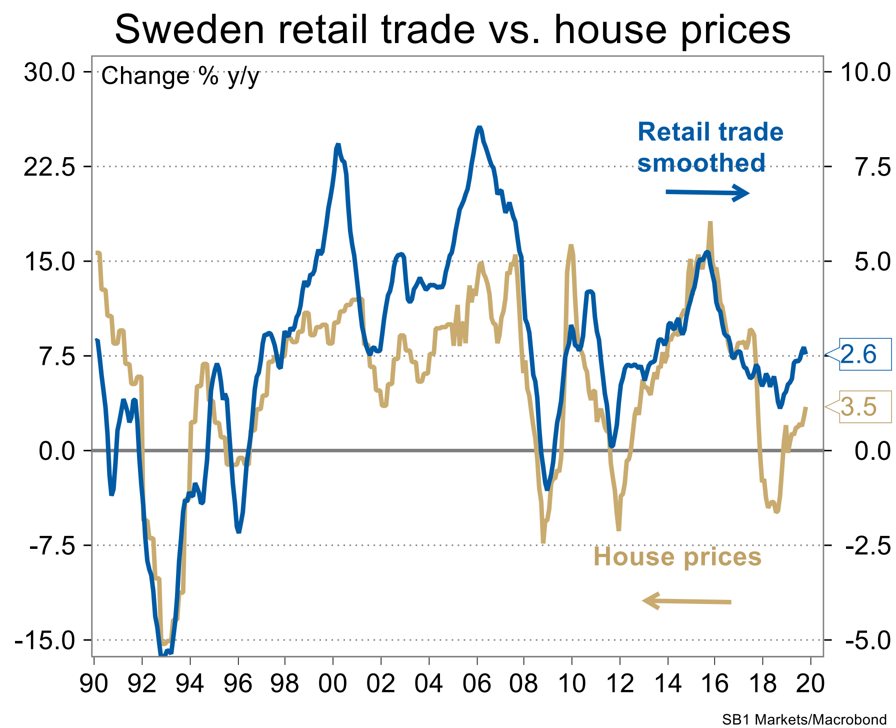


- Retail sales volume rose 0.2% m/m in Oct, a slight decline was expected. Sales are up 3% measured 3m/3m annualized and the trend growth since 2015 is intact. Annual rate at 3.4%. Retail sales growth is substantially stronger than in Norway, which we find strange…
- Given the recent slowdown in the Swedish economy, with declining employment (although less abrupt than reported) and sagging consumer confidence, the consumption outlook is not upbeat

Consumer confidence below avg but still points to decent consumption?

The confidence index has improved marginally this year, after sliding down through 2018

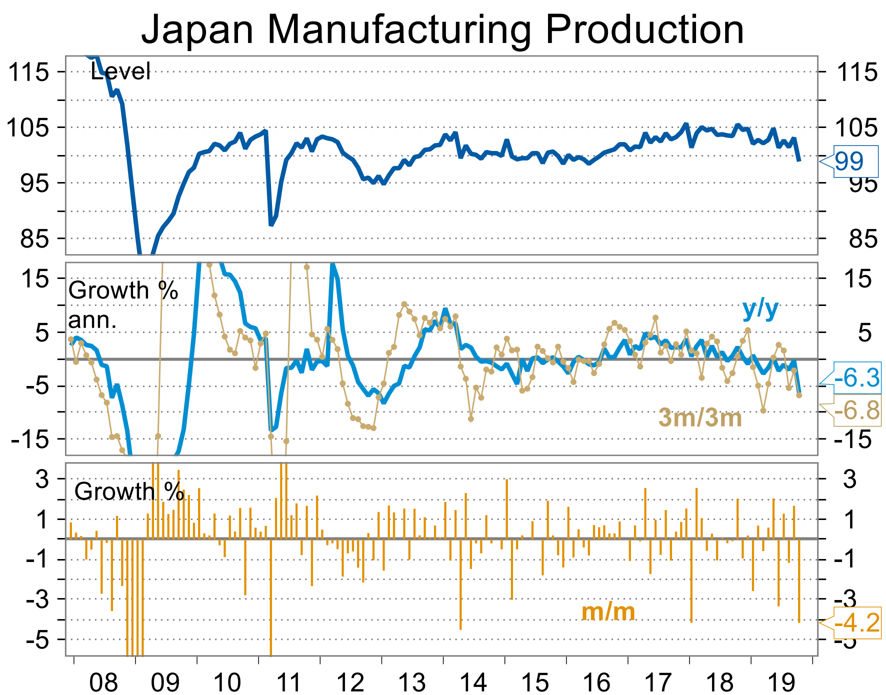


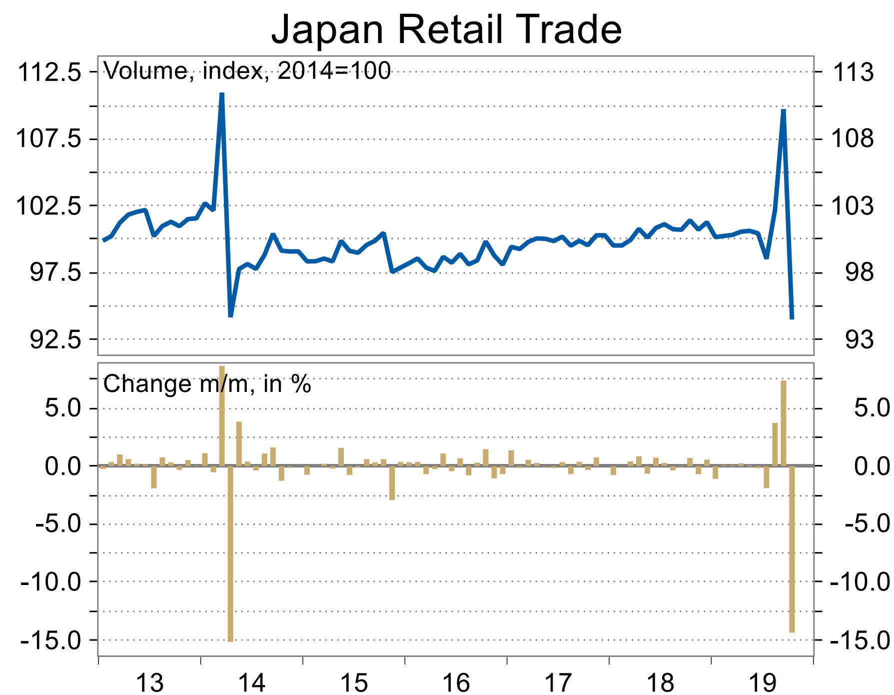


- The consumer confidence survey is volatile, and often zig-zags too much to give any useful signals. Still, the survey has stabilized since early 2019, and does not point to any steep drop in consumption, even as the level is below average. However, the correlation to consumption is not very strong – and the index was far too upbeat vs retail sales in 2016-2018 – may now suggest a slowdown
- House prices and retail sales are often quite closely correlated. Consumption did not follow house prices down in late 2017/early 2018 and now house prices have stabilised, and real wages are on the rise. On the other hand, a softening labour market is not a good sign!

Retail sales and manufacturing production plunged on the Oct VAT hike

Both retail sales and manuf. production fell equally in 2014, both recovered but just partly

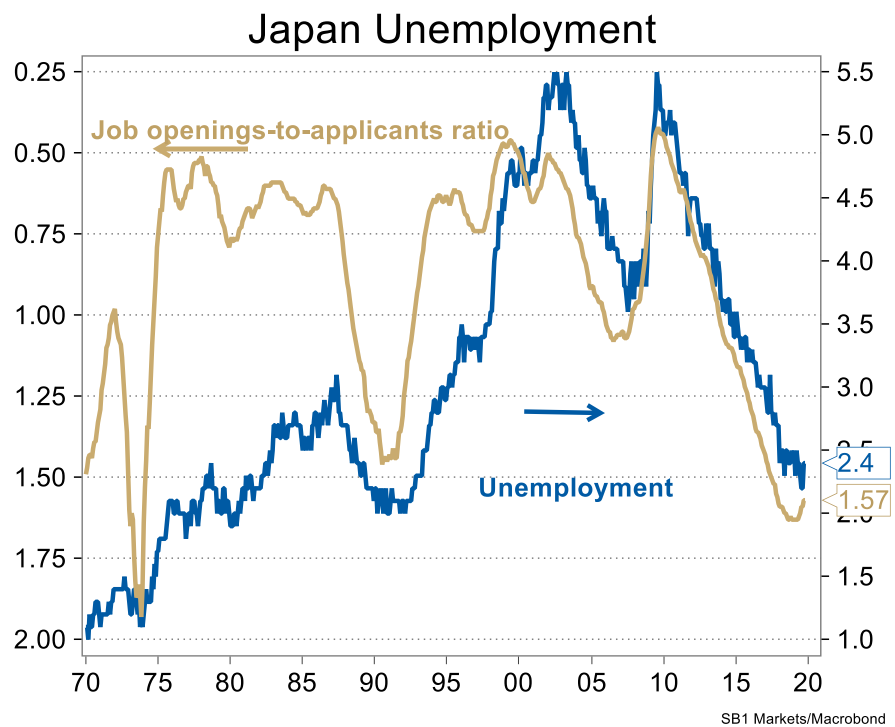


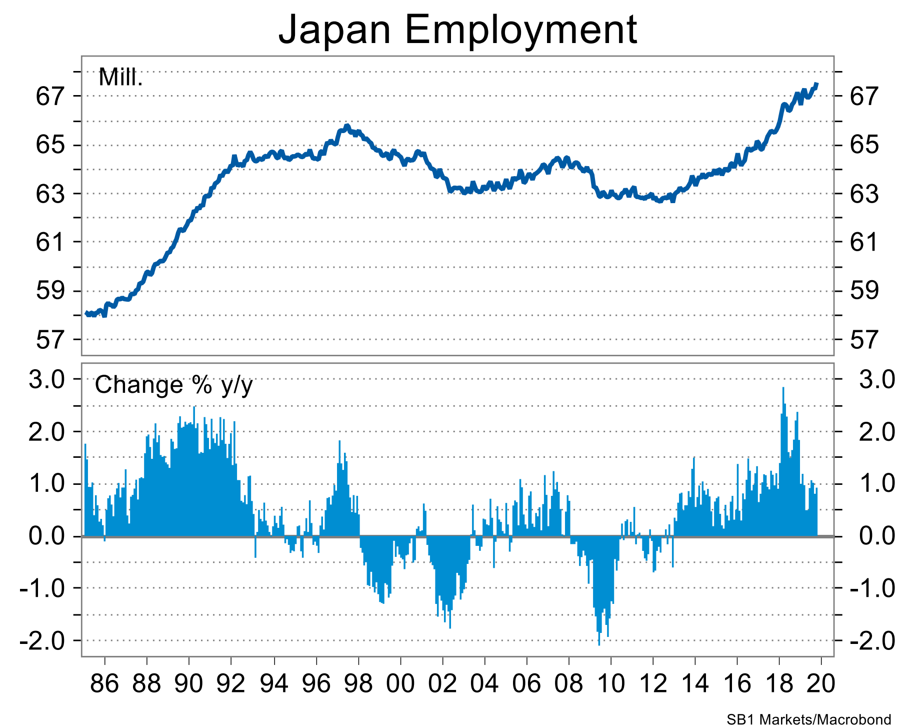


- Retail sales dropped 14% m/m in Oct, after soaring the two previous months, ahead of a consumer tax hike from Oct 1. The same occurred in 2014, the last time the VAT was raised. Sales rebounded the following months, however, sales remained lower than the pre-VAT levels the coming years. Thus, the retail sector is off to a bumpy road
- Manufacturing production slipped 4.2% m/m in October, much weaker than expected. The steep drop is most likely chiefly due to the consumer tax increase in October, as production fell at a similar pace in 2014 when the VAT was previously raised. Thus, a moderate upturn is expected the coming months. Regardless, production is not shining, the trend is slowly downwards and production was down a 2% y/y before the Oct drop. The PMI point to a persistent decline

Unemployment remains low, employment still increasing (at a slower pace)

Unemployment was unchanged at 2.4% in Oct, stabilized the past year, at a 27 y low

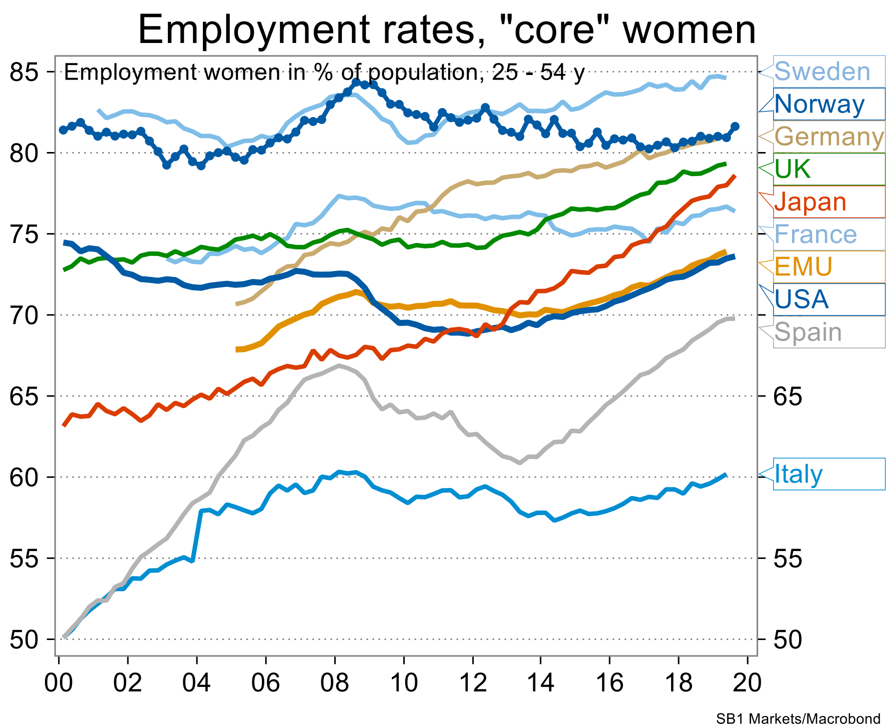


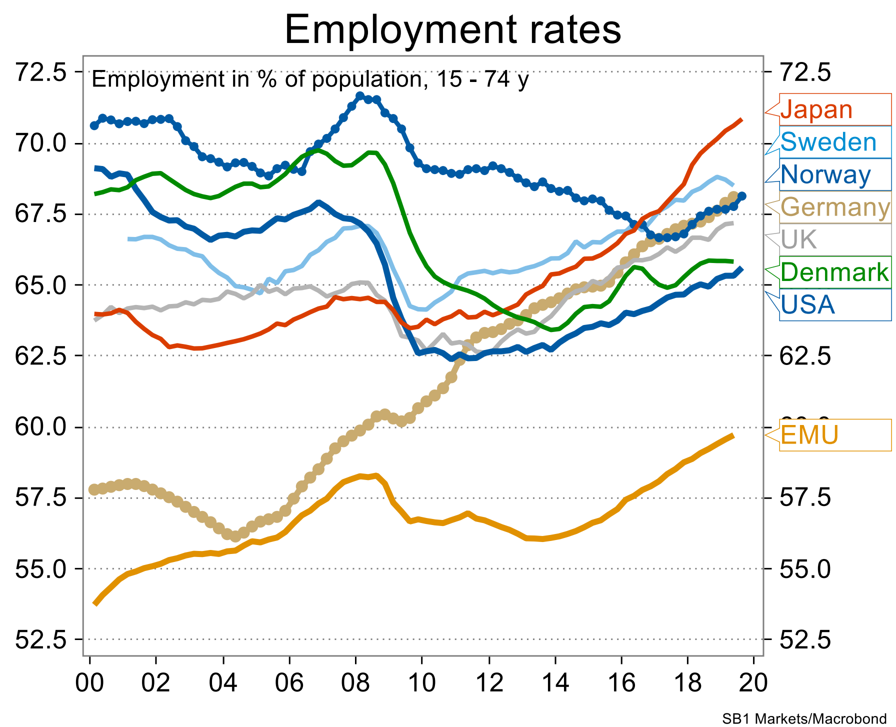


- Unemployment has flattened out the past year, at the lowest level in 27 years
  - » The job openings-to-application ratio has turned down, signalling some weakness? On the other hand, the level is the highest since the 1970'ies
- Employment is still growing at a decent speed, although the annual rate has slowed to 0.9%, from 1.8-1.2% in 20198. Employment rates have been soaring, and are at record high levels for all ages/genders. And of course, participation rates are straight up too
- Still: Wage inflation has fallen steeply this year
- Barring the high corporate savings rate (partly offset by the public sector deficit – Japan is running a huge current account surplus) - what's really the Japanese problem – when employment is 'more than full'

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

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





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

SpareBank 1 MARKETS

Highlights

The world around us

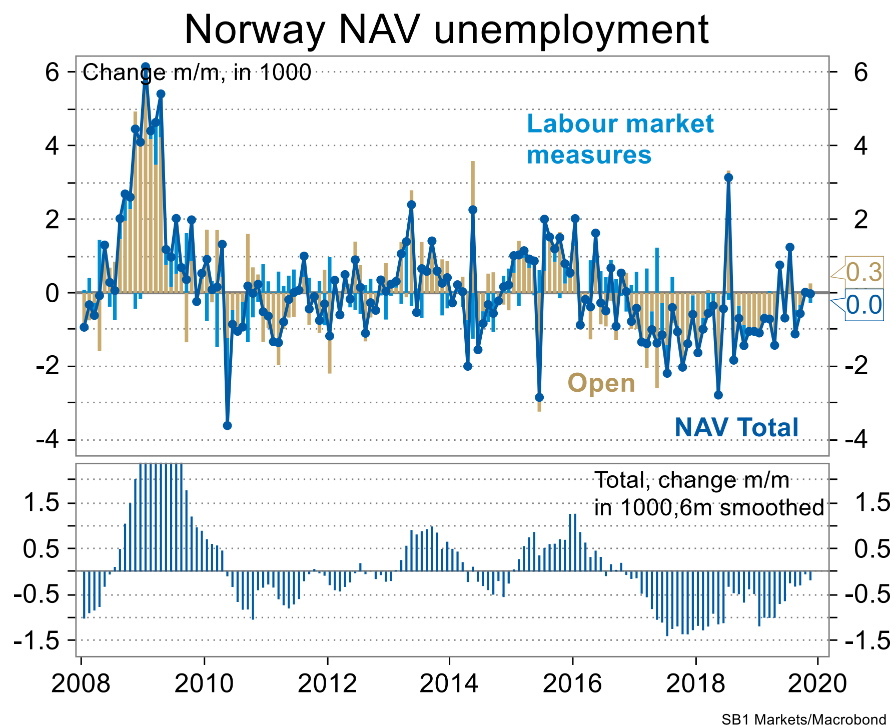
The Norwegian economy

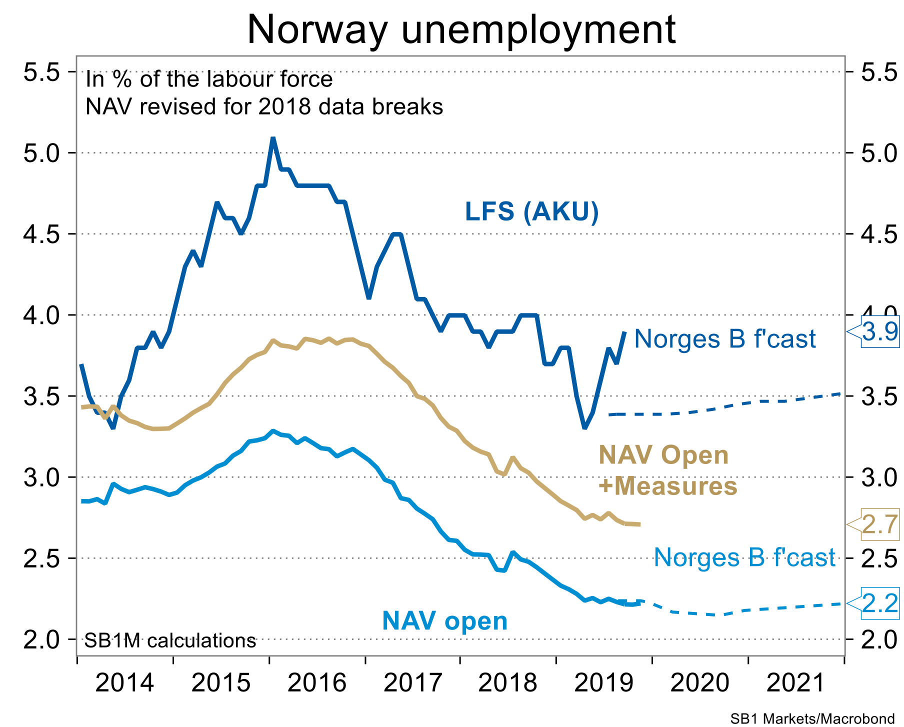
Market charts & comments

SpareBank 1 MARKETS

NAV unemployment flattens out, LFS unemployment climbs

Open unemployment rose by 300 persons in Nov, confirming a softer labour market

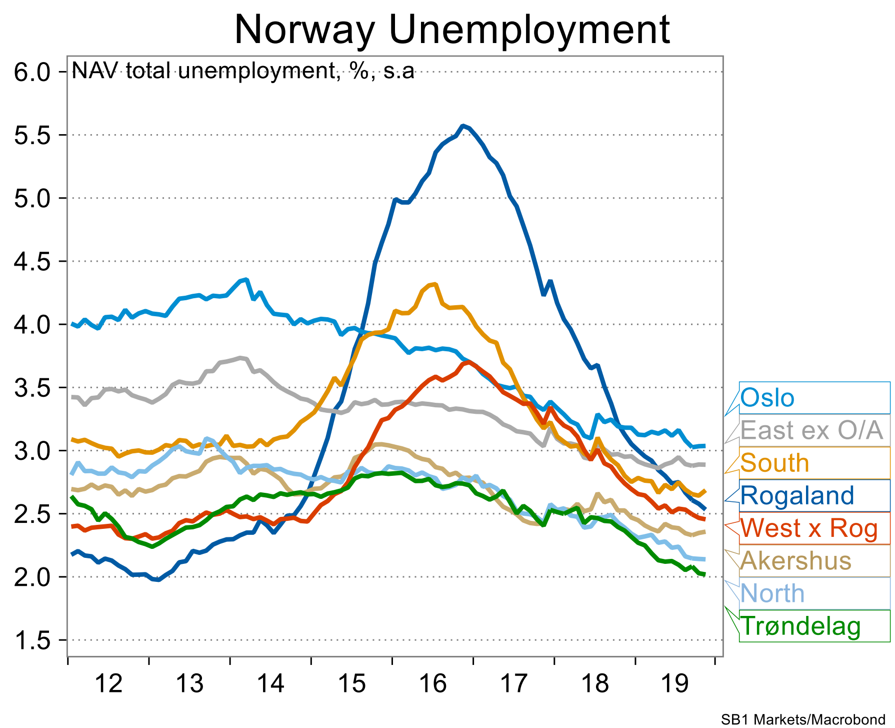


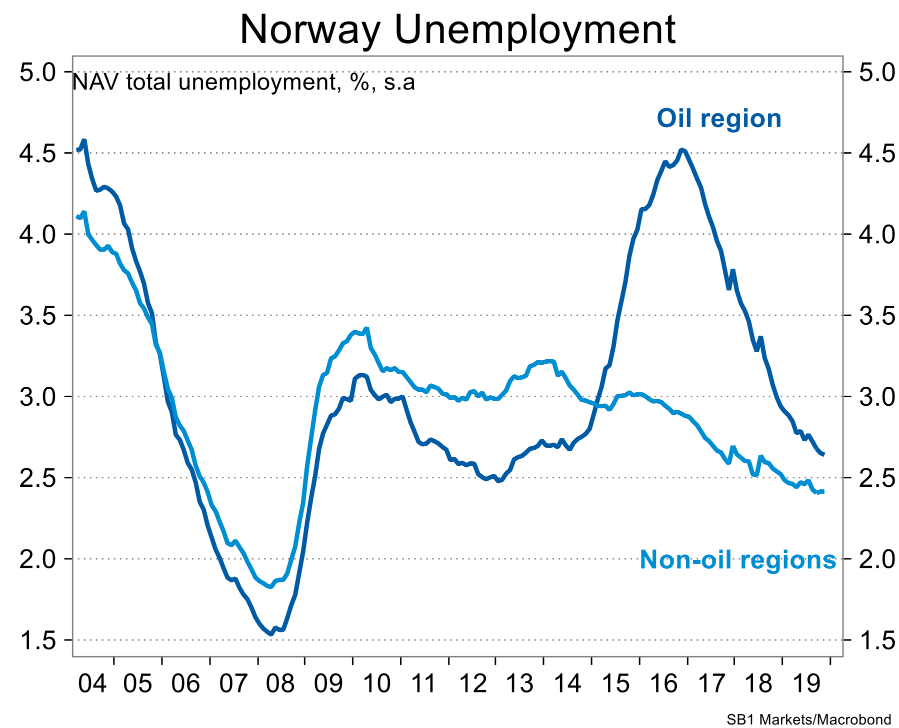


- NAV open unemployment increased by 300 persons in November, total unempl. (incl measures) was unchanged, we expected a similar decline. The pace of decline has slowed substantially, the 6m average decline has down to just 200 persons m/m, from 1000 in early ‘19
- The open unempl. rate held steady at 2.2%, marginally below NoBa’s f’cast, and in line with other forecasts
  - » Other indicators confirm a softer labour market: New jobless claims are heading marginally up, and the number of vacancies is slowly declining
- LFS unemployment rose to 3.9% in Sept, as employment fell more than participation. These data are much more volatile than NAV, our take is that a stabilization of unemployment is more likely. As long as employment is still growing at a solid pace, we are not too worried, short term
- NoBa expects NAV unemployment to tick down to 2.2% the coming months and stabilise in 2020. Thus, the slowdown seems to be occurring somewhat earlier than expected. Our take is anyway that NoBa will continue to signal an unchanged interest rate at the Dec meeting

Unemployment stabilises most places, oil regions still heading down

Unempl. flattens in Oslo & other East, South and North. West, Rogaland, Trøndelag still declining

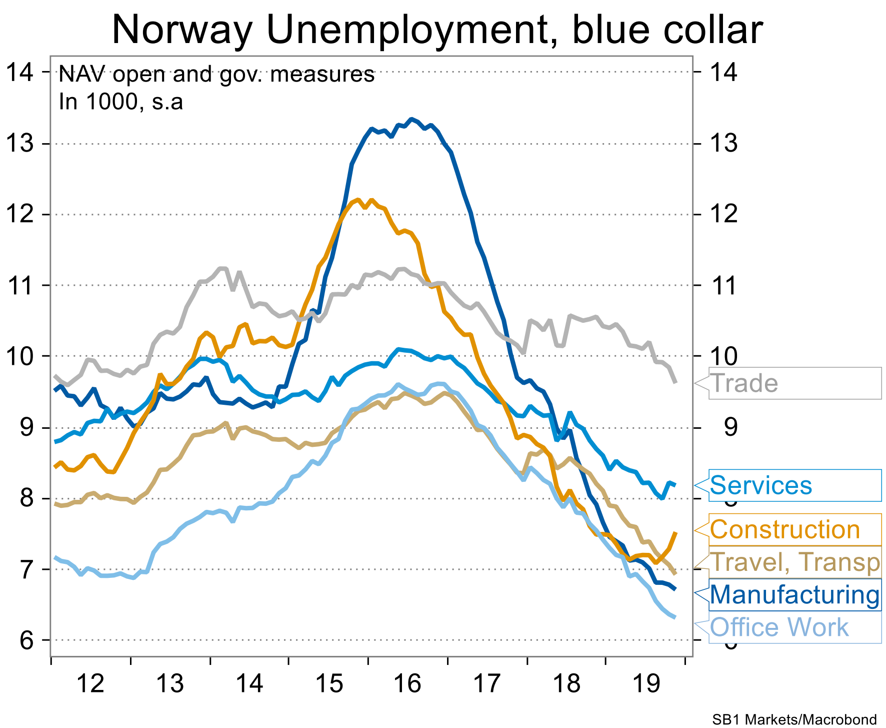


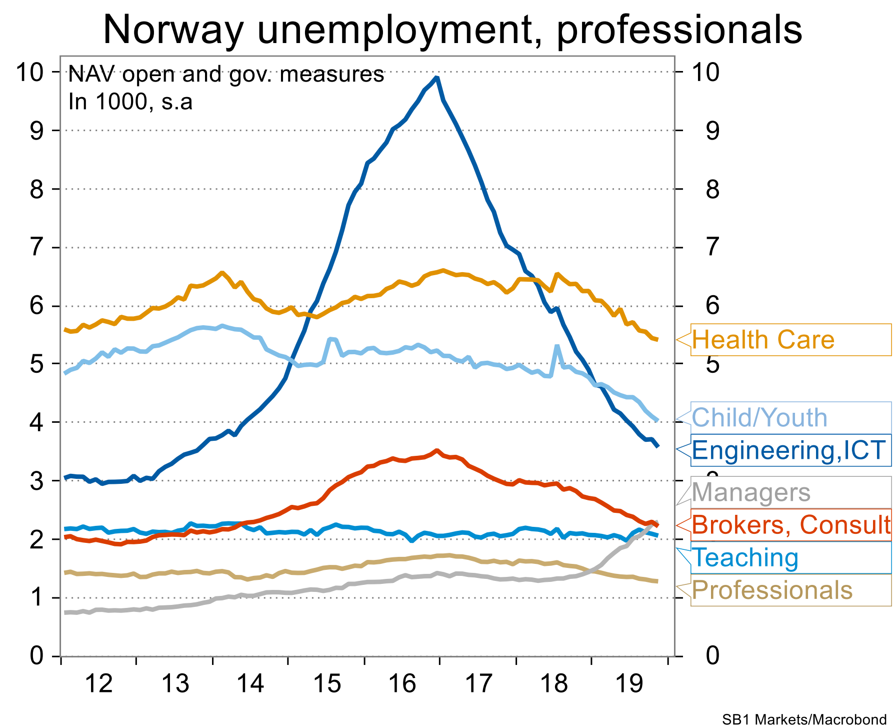


- Unemployment rates have flattened out in Oslo and Akershus the past months, as well as in the North. In the South, unemployment edged up in October. Trøndelag still on the way down, with the lowest unemployment rate!
- Unempl. in Rogaland and the rest of the Western (oil) coast is falling steadily
- The unemployment rate in the 'oil region' (Agder, Rogaland, Hordaland, Sogn & Fjordane, Møre & Romsdal) has dropped to 2.6%, from 4.5% at the peak in late 2016 and is just 0.2 pp above the non-oil regions

Unemployment is increasing in construction and services

Most occupancies still declines, even retail trade. But something is brewing in construction??



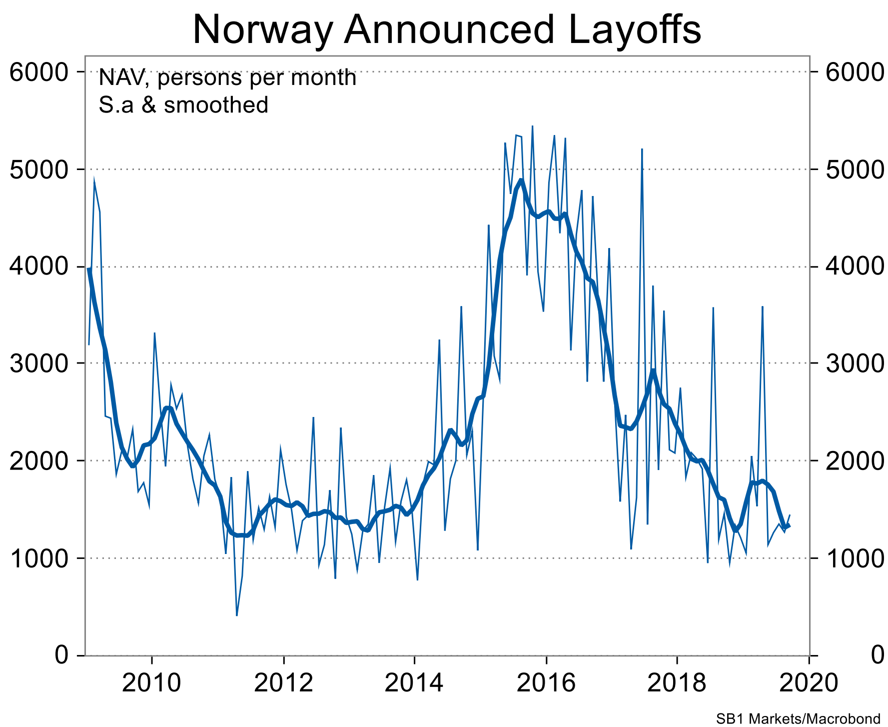


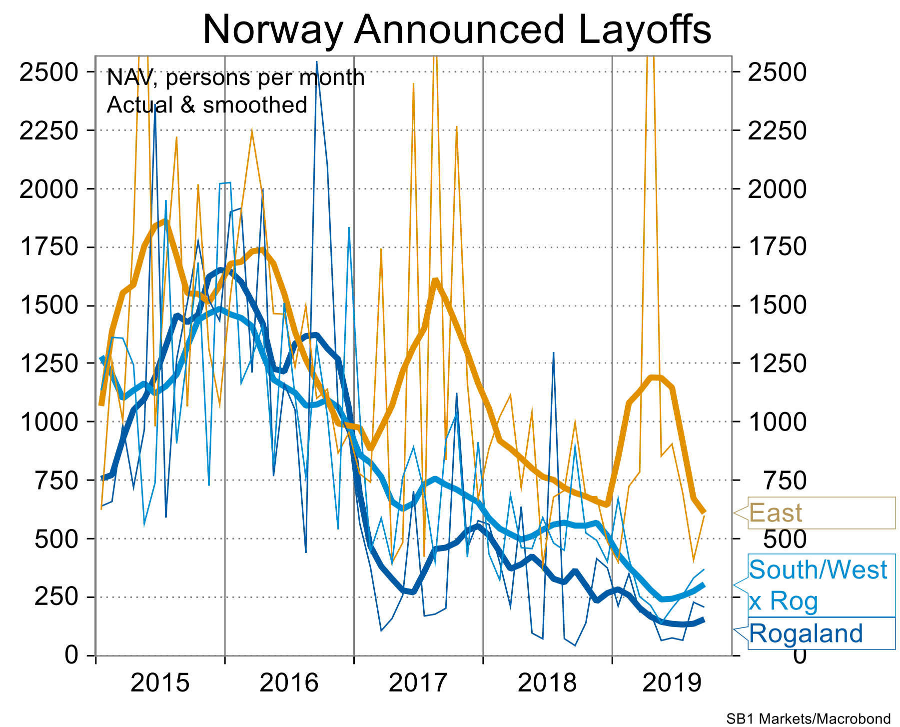
- Unemployment in engineering & ICT sectors, office works, travel & transport and health is still falling rapidly. Even retail trade is heading down, which is quite surprising, given soft retail sales. Manufacturing still on the way down, at a slower pace
- The past 2-3 months, unemployment in construction has increased visibly. Strange, as businesses have been reporting rising labour shortages (at least they did in Q3). Are companies pulling back activity? Perhaps, reports indicate that new home sales and starts are slowing. Service sector unemployment has ticked up the past months, too. The upturn among managers is chiefly due to a change of registration definitions in December 2018

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

A low level of layoffs

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

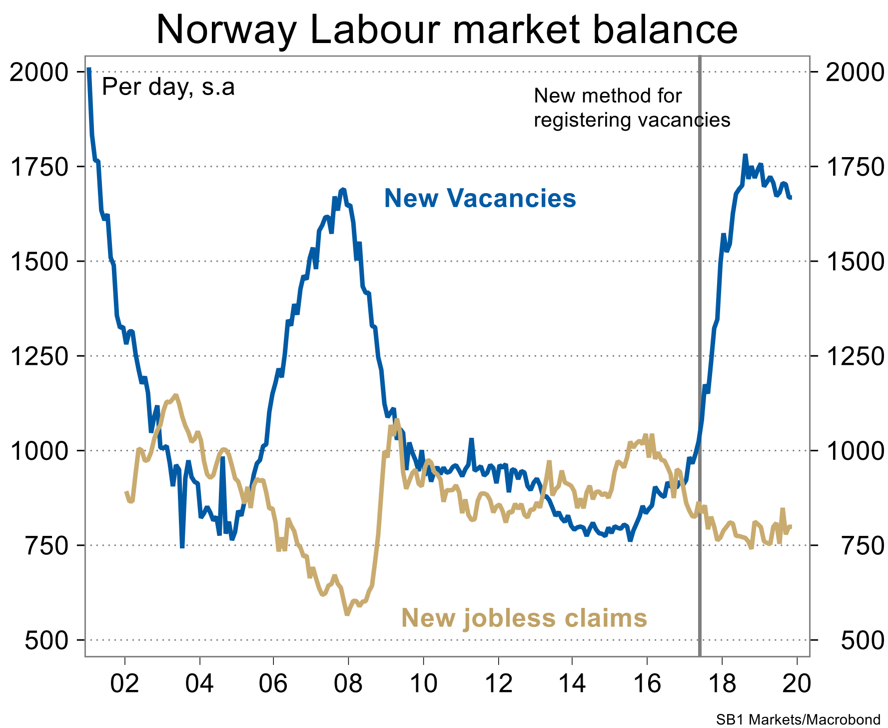




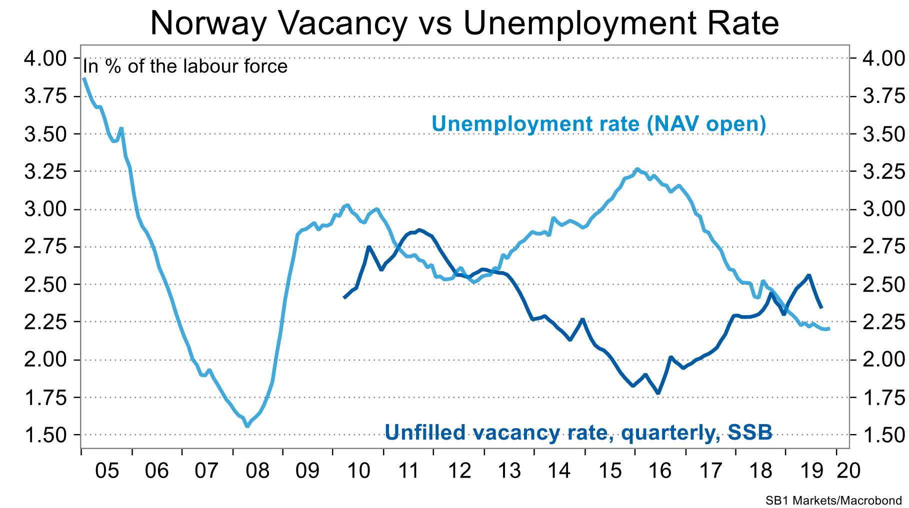
- These monthly data are very volatile and should not be taken too literally from one month to the next. The average of the past months is down, back at the 2018 trough

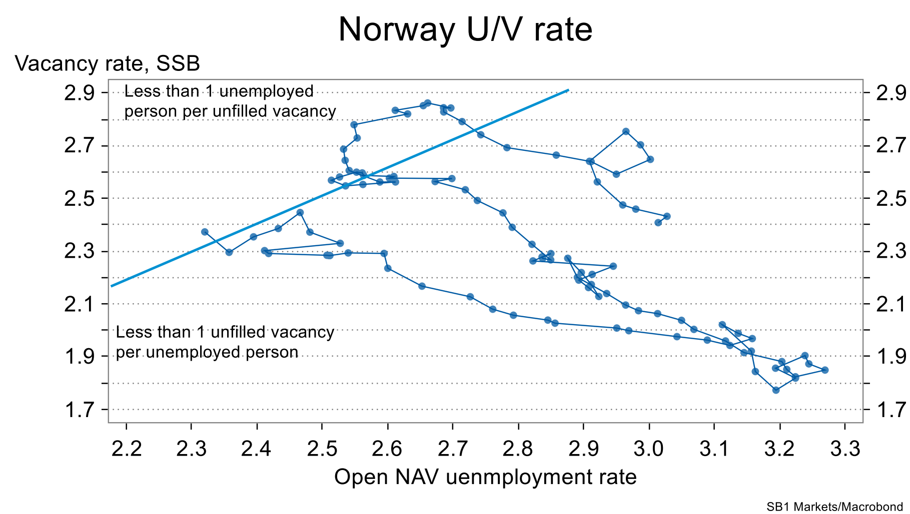
New jobless claims inching up, fewer (but far from few) new vacancies

Several signs of a somewhat calmer labour market, and SSB reported fewer unfilled vacancies in Q3



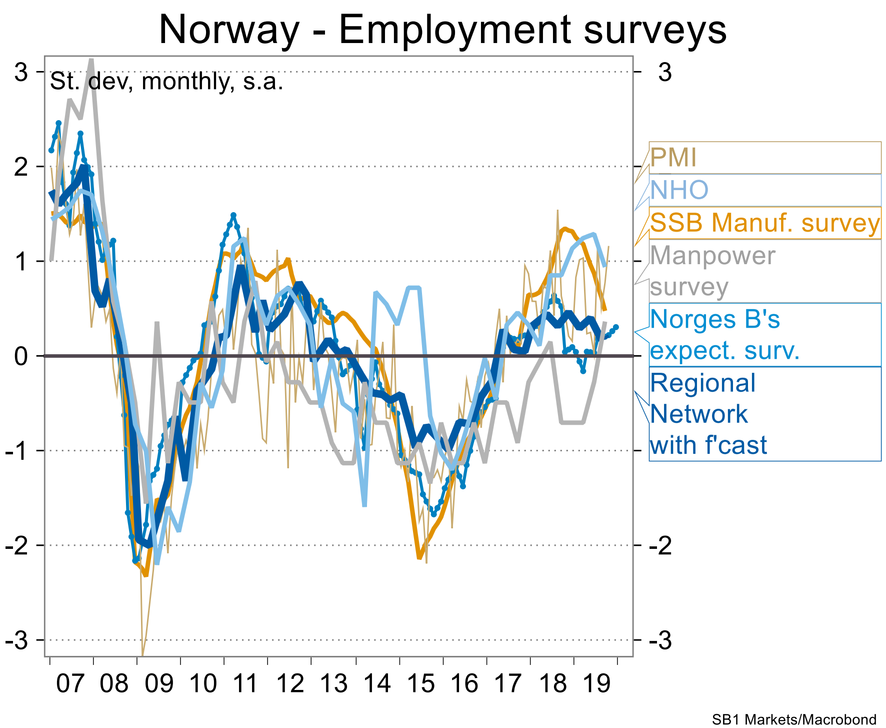
- New jobless claims were unchanged at 800/day in Nov. New claims are not trending down anymore – may now be heading slowly up
- NAV is reporting a soft decline in the number of new vacancies, as it has since the peak in Aug '18. Due to new collection methods, the level is not comparable to old data – but the direction is probably accurate
- SSB reported an decline in the number of unfilled vacancies in Q3, confirming a less tight labour market

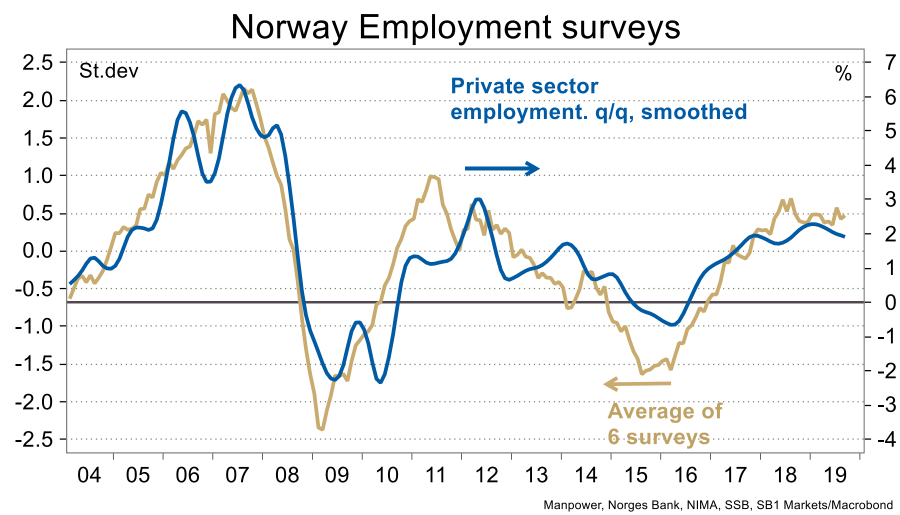


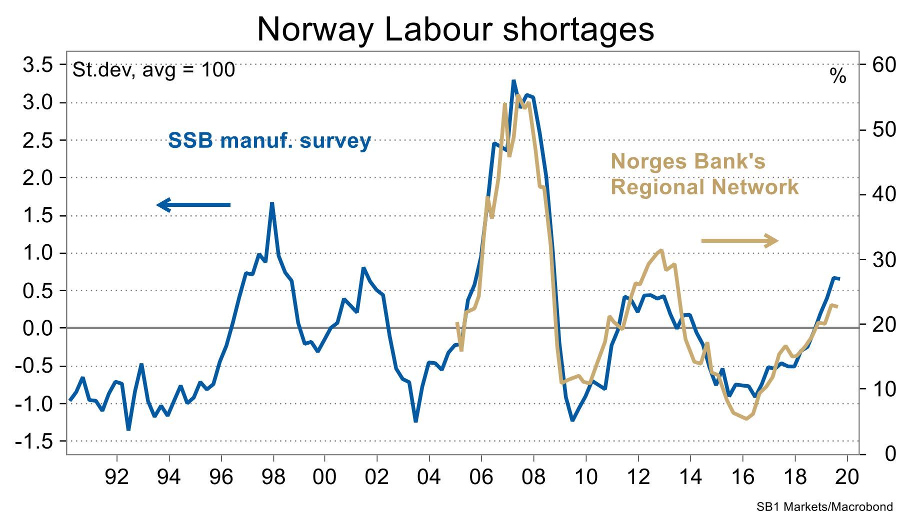


Labour shortages have been rising but do not mirror a very tight labour market

Employment surveys are signaling steady growth, no abrupt slowdown



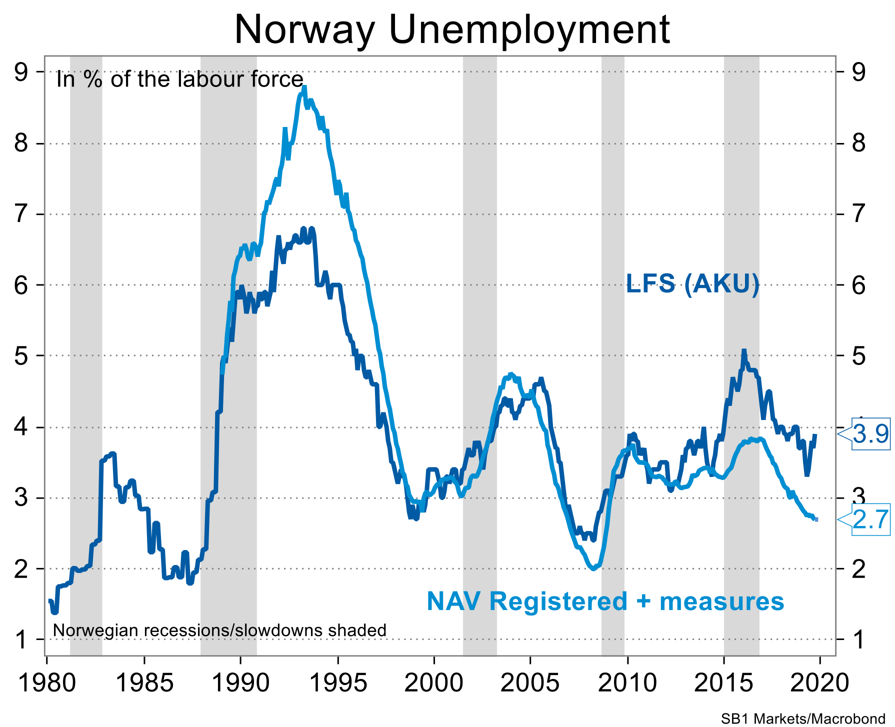


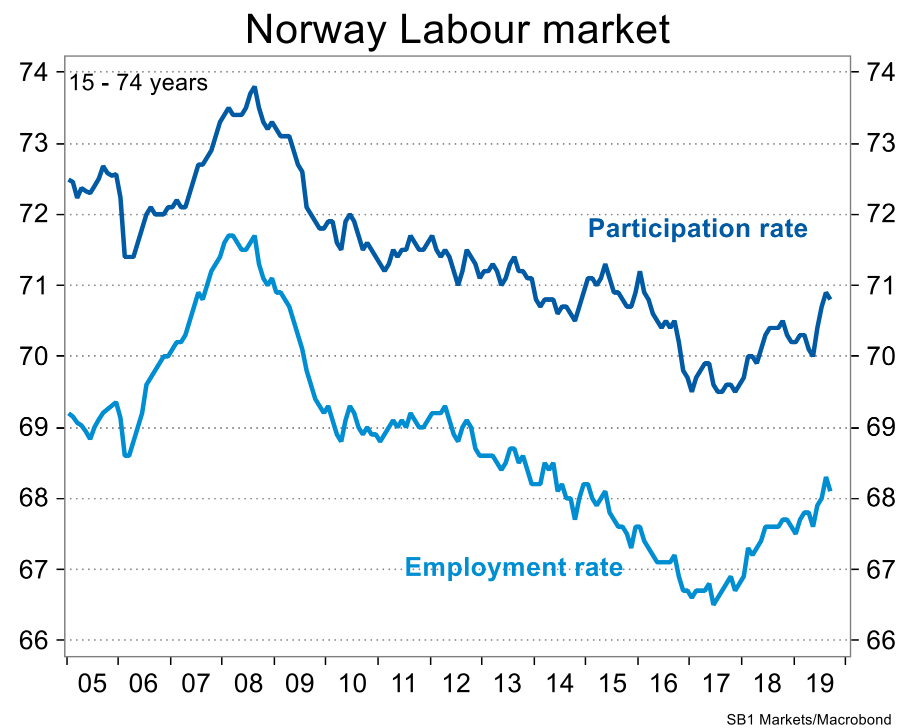


- The Regional Network did not report more labour shortages in Q3, in total
- In the Sept MPR, Norges Bank argued that the labour market tightness may be less pronounced than projected as labour shortages remain low, a plausible assumption

LFS unemployment up to 3.9% in Sept, employment growth slows

Unempl. surprisingly ticked up, we expect a correction the coming months, these data are volatile

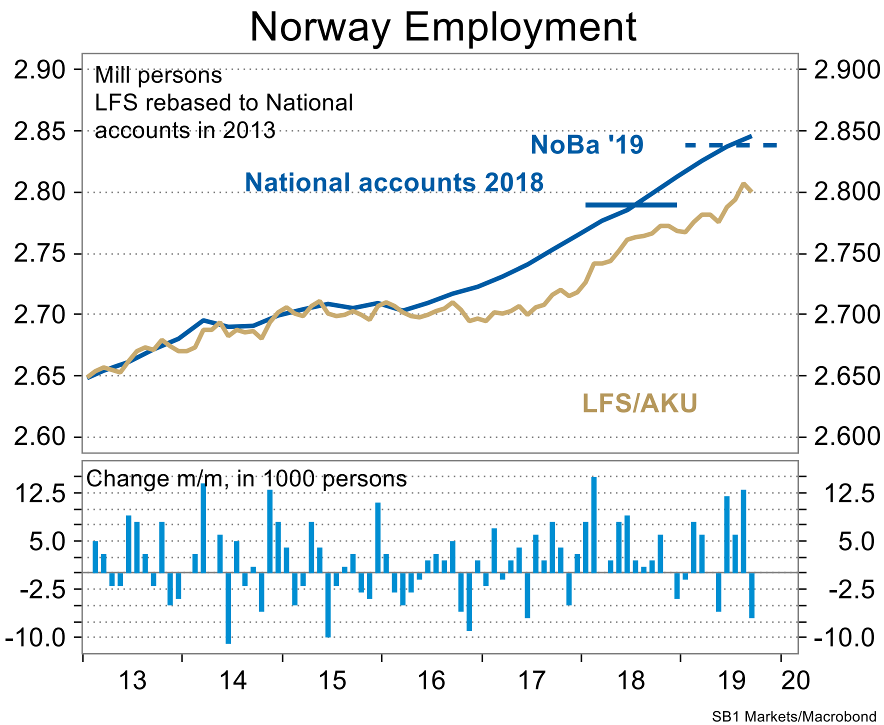


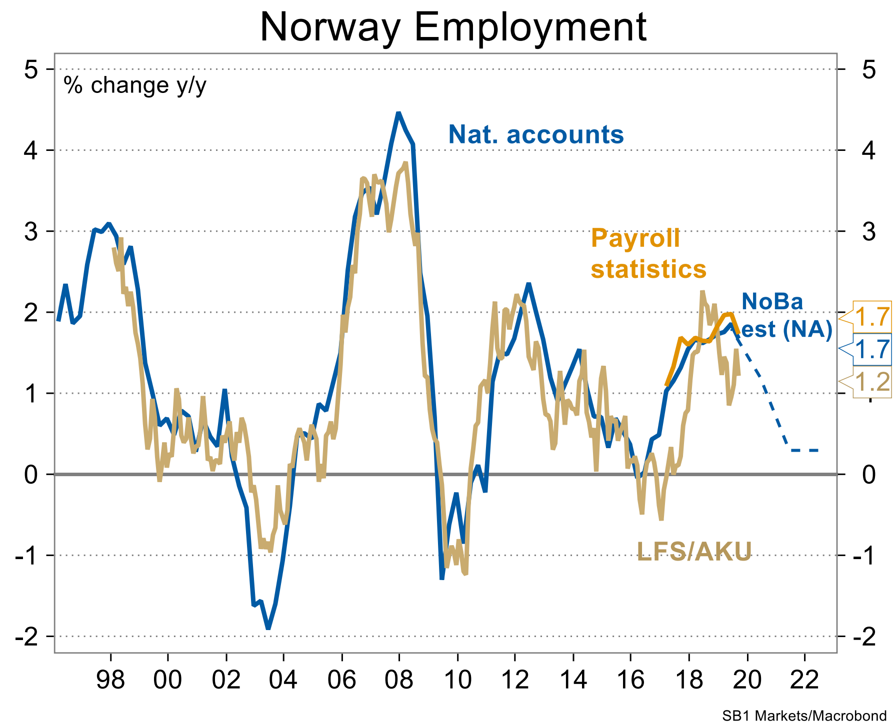


- LFS (AKU) unemployment rose 0.2 pp to 3.9% in September (avg Aug-Oct), expected unch. Unemployment has ticked up since early spring, to the highest level since October 2018. However, these data are volatile, we doubt unemployment is trending up (and anyway not fast); a flattening out is more likely. Norges Bank assumed a 3.4% unemployment rate and expect unemployment to flatten out at this level until late 2020
- In September, both employment and labour market participation came down; employment more than participation. However, during the past months, participation has been soaring, bringing unemployment up. Employment is trending up, the annual rate at 1.2% is not low (and Nat. Acc., which is more accurate, says 1.7%). Population growth has slowed substantially, to a low level
- NAV unemployment is flattening out, confirming a cooling labour market. Still, any sudden shift at the labour market is unlikely

Employment fell in Sept, growth is probably slowing (just modestly)

LFS empl. is up 1.2% y/y, 0.5 pp below the Q3 National Accounts and 0.5 pp below NoBa's f'cast

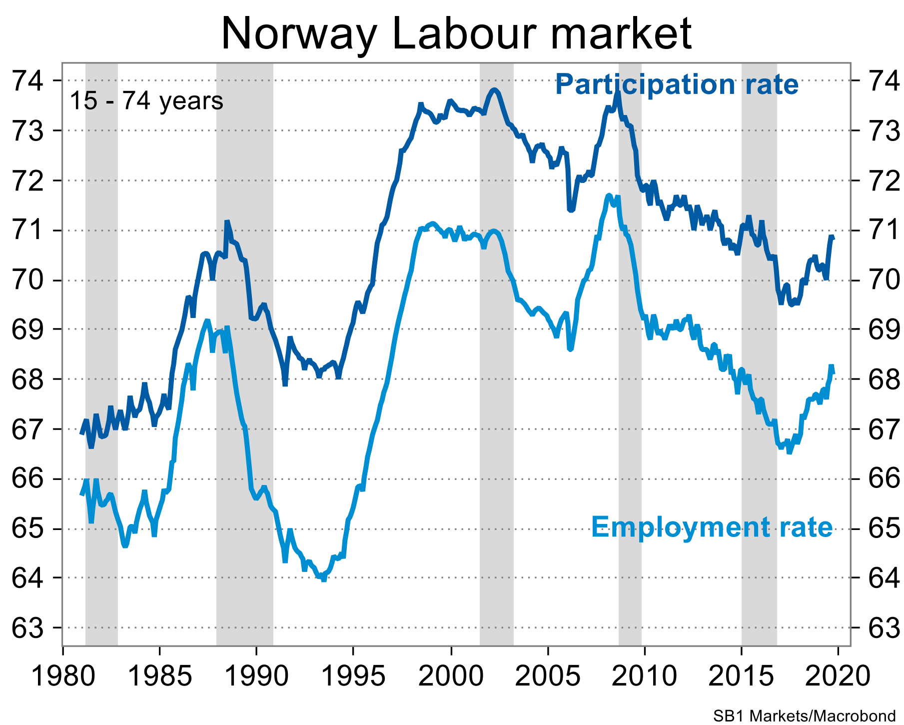


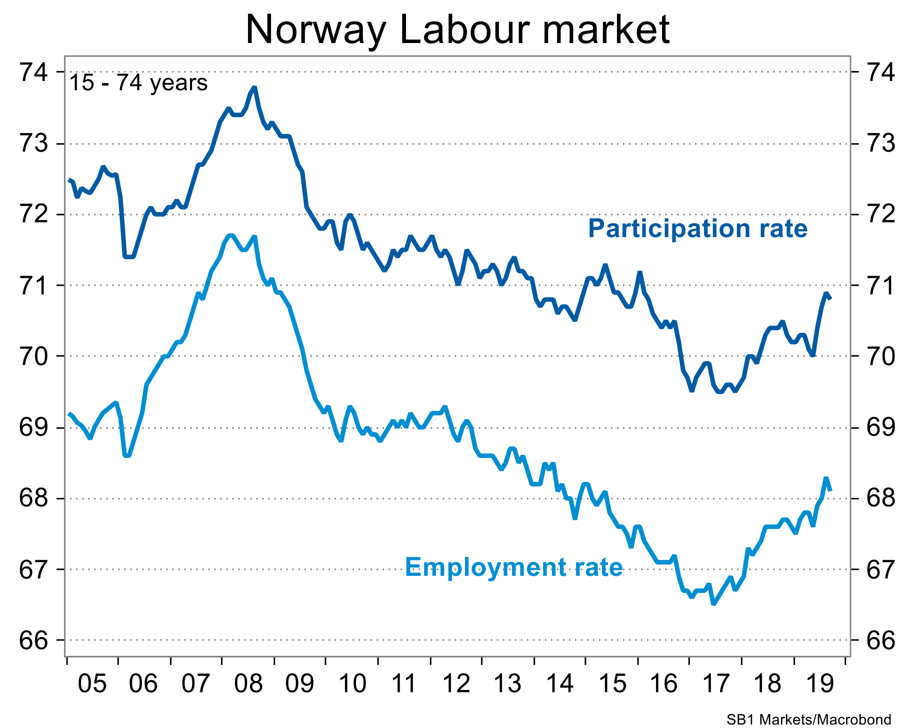


- Employment measured by the LFS accelerated through 2017 and the first half of 2018, to above 2%. The past year, employment has eased somewhat, to a 1.2% y/y rate
  - » National accounts' employment figures (and the new quarterly registry statistics) are no doubt more accurate than the LFS survey data. Nat. Acc. is noting higher employment growth the past year, up 1.7% y/y in Q3, slowing from 1.9% in Q2. Payroll statistics confirms 1.7% growth
  - » Norges Bank expects an average employment growth at 1.8% in 2019 and 1.2% in 2020 (and 0.3% in 2021)
  - » The working age population rose 0.5% y/y in Q3. Thus, a 1.7% (or 1.2%) employment growth is above trend, lifting the employment rate
- We expect a sharp slowdown in employment growth the coming years (as do Norges Bank), both due to supply side and demand side arguments

Labour market participation & employment down in Sept, trend straight up

Participation has increased by 0.8 pp since May, employment up 0.5 pp

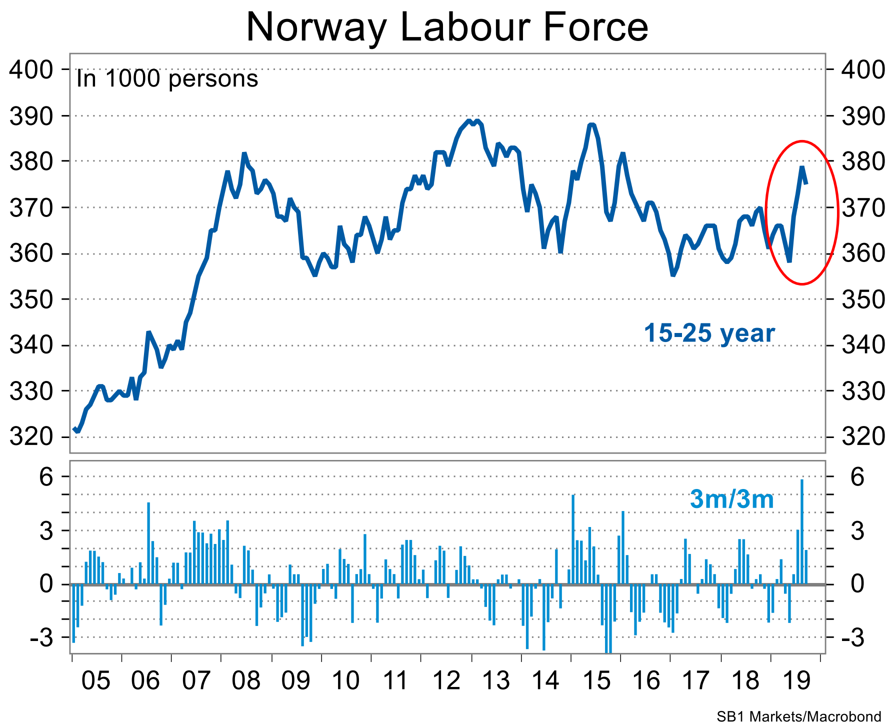


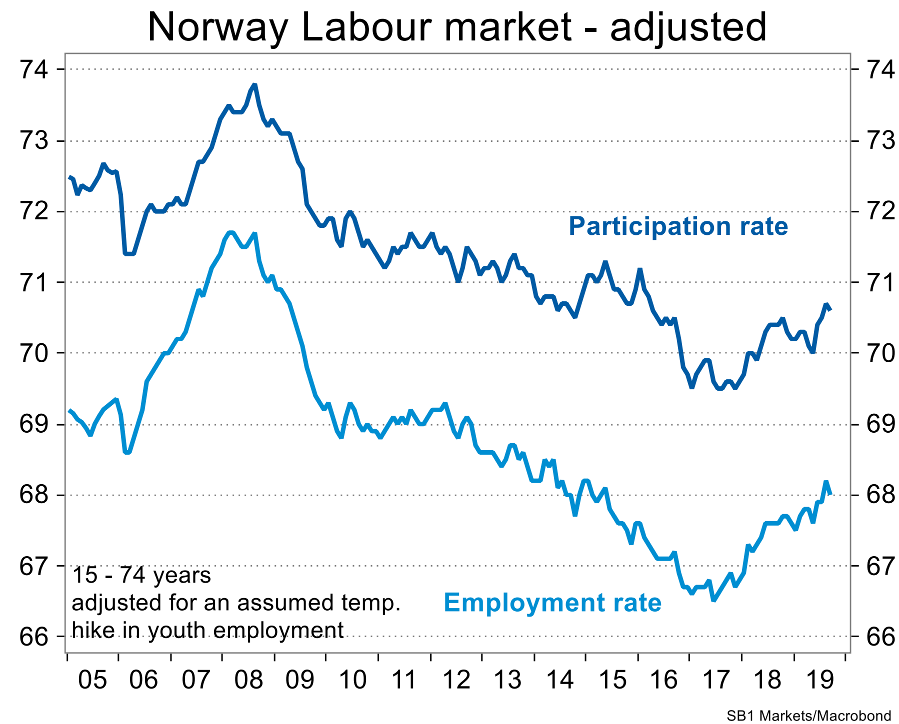


- The long term downturn in the participation rate and employment bottomed in 2017 and both were growing strongly through 2018, up some 1 p. The participation rate has been soaring the past months, at least until Sept, when it inched down to 70.8%. We doubt the strong trend will be sustained but the upturn is anyway an important sign
  - » We are not sure why supply would suddenly respond now, as demand has been strong for quite a while. Moreover, the upswing may be somewhat exaggerated due to an irregular spike among the 15-24 age group, we estimate participation to be some 0.2 pp 'too' high now
- The employment rate has been increasing rapidly too. In Sept, employment ticked down 0.2 pp to 68.1%. As long as employment is rising at a moderate pace, we are not worried about any sustained labour market softness

Our adjusted figures: Participation is increasing but less rapidly than reported?

Participation is 0.2 pp lower when adjusting for a suspicious jump in youth employment

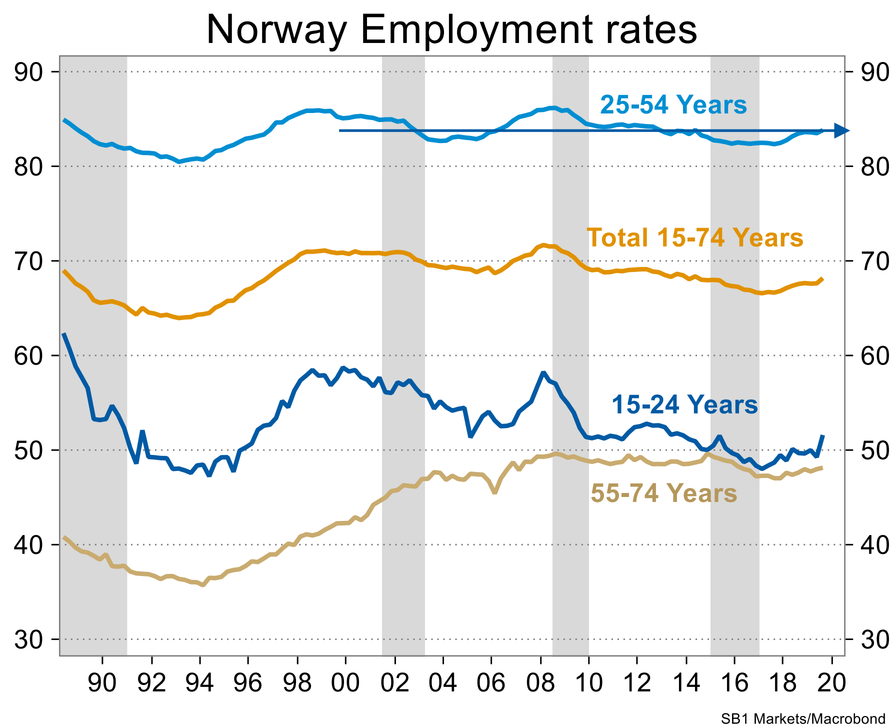


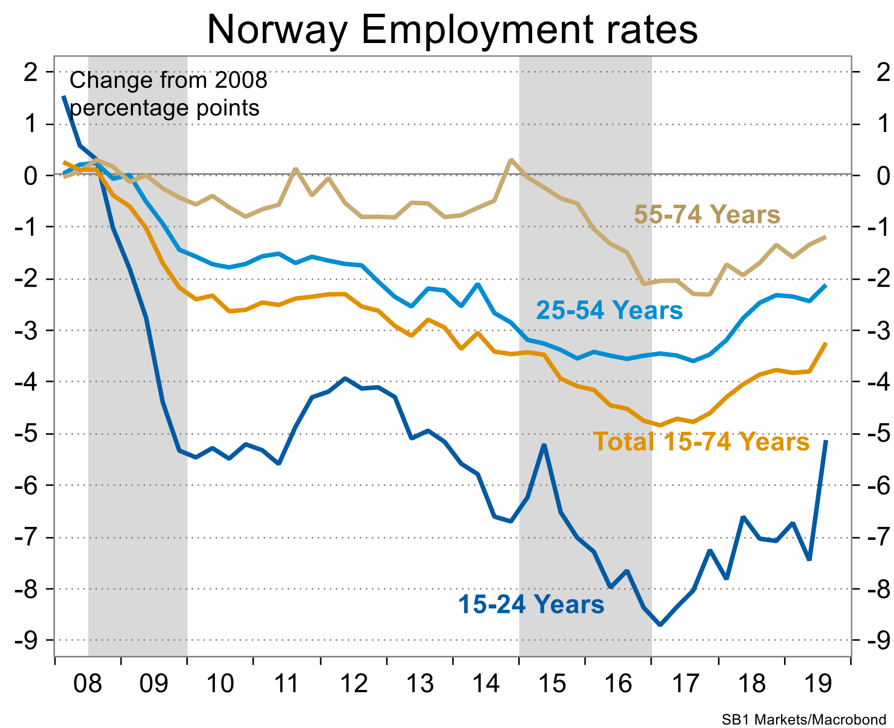


- Check the spike in youth participation in June-Sept at the chart to the left. The participation rate jumped to 57.5, from 54..4, such sharp upturns tend to be reversed. In Sept, participation came down 0.7 pp – and we expect somewhat more the coming months. If our assumption is correct, the participation rate is now 0.2 pp lower than reported (after deducting July/August spike), and employment 0.1 pp lower
- However, both participation and employment is anyway trending up

Employment rates up among all groups

Still, probably an outlier among the young

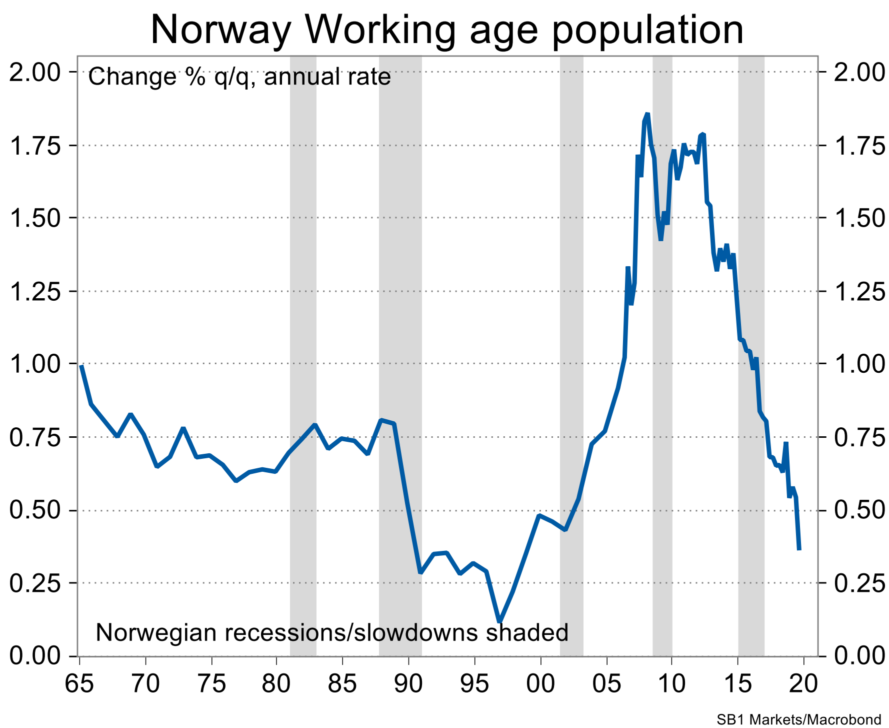


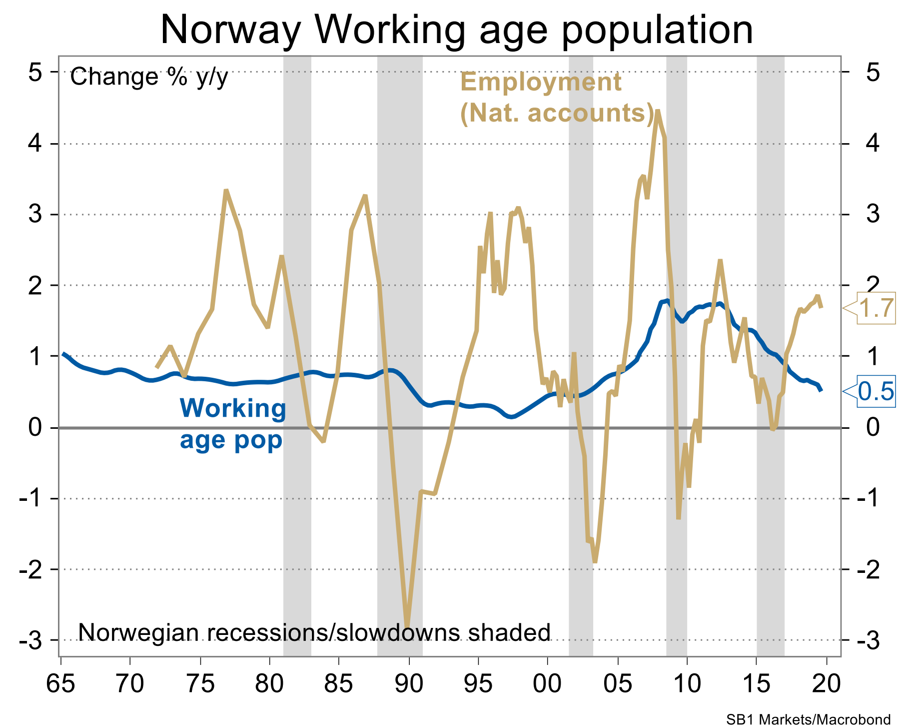


- Employment in the core 25 – 54y group is below the 2008 peak. Still, the level has been trending up the past two years and the level be at a mid-cycle level, like in 2005/06
- Employment in the 55y + group is slowly rising, following the decline during the 2015/16 slowdown. Unemployment in the ‘young’ sub group, 55 – 64y kept up during the slowdown, and is not increasing now
- (Quarterly data at the charts above)

Working age population growth the slowest in 2 decades

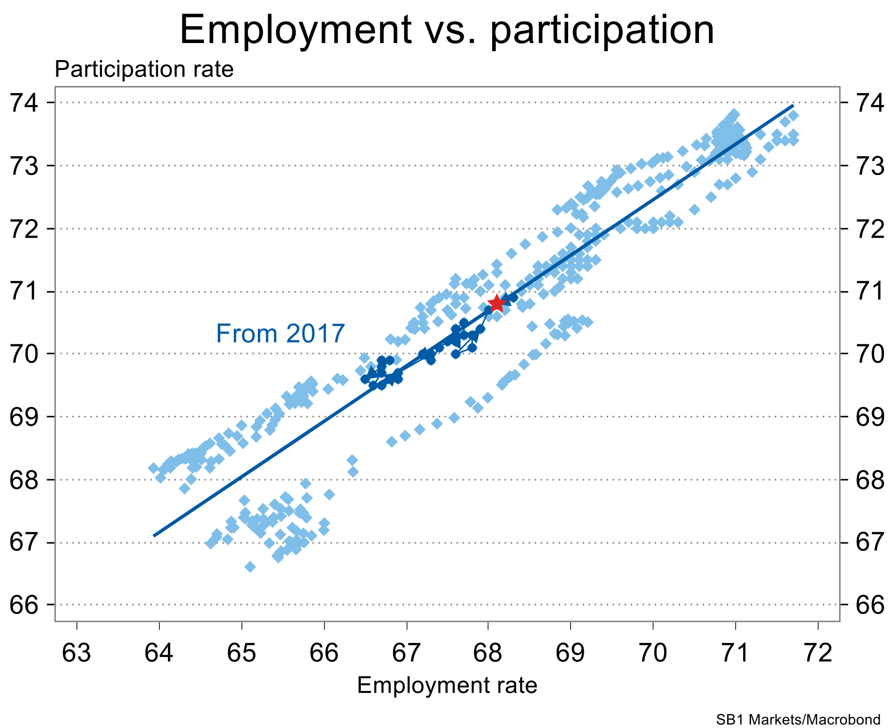
Over time, impossible to keep employment up at today's level

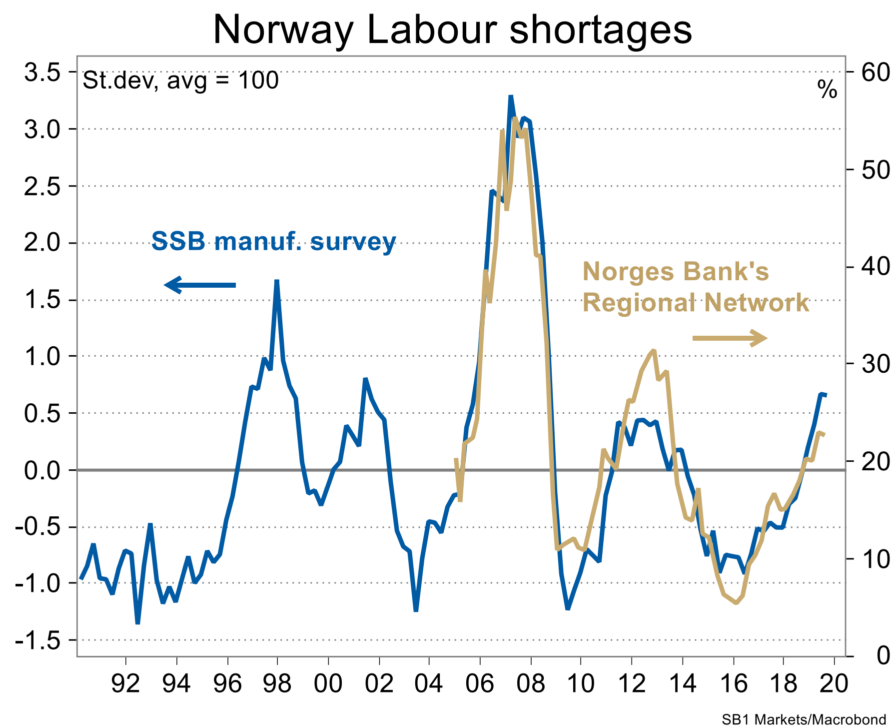




Participation was lower than usual vs employment – but not recent months

Participation is now at a normal’ level given the current employment rate

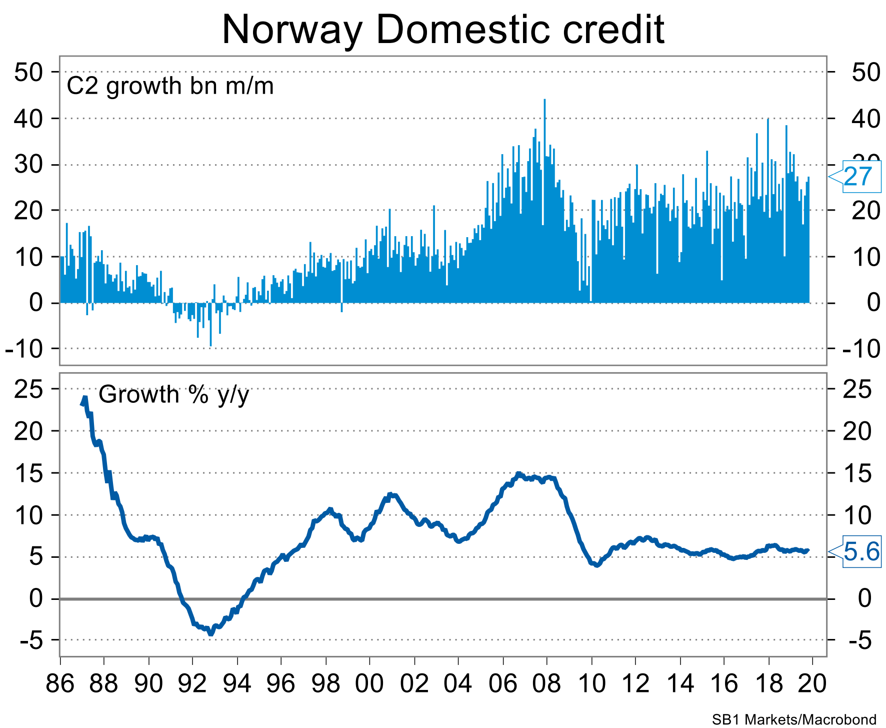


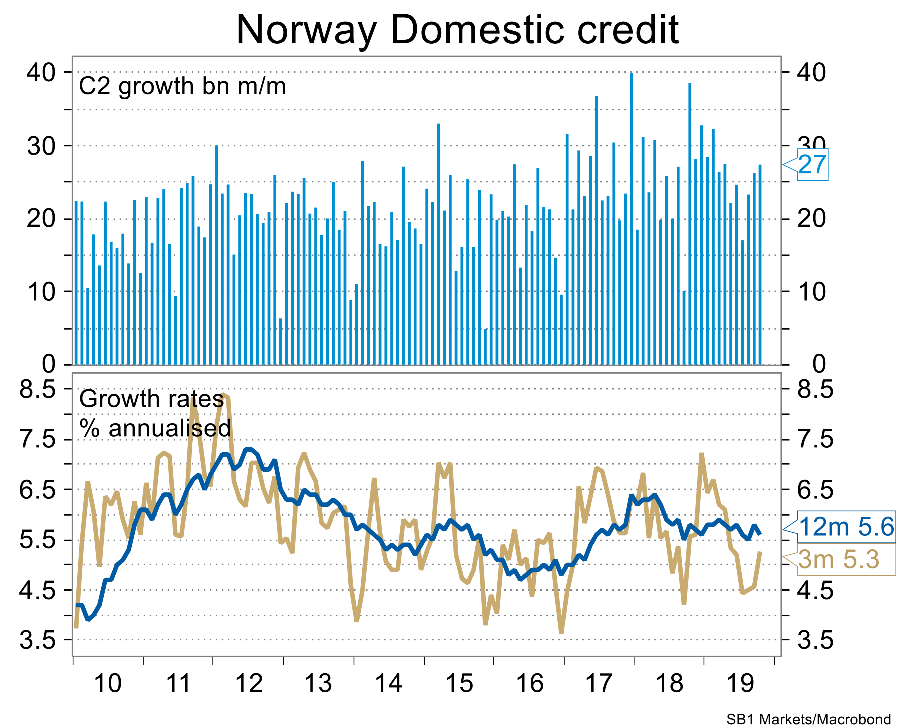


- The Norwegian unemployment rate is quite stable compared to changes in the employment rate – because the participation rate usually is quite responsive to the chances of getting a job; the employment rate. Flexible labour immigration from the EU has also contributed to keep the Norwegian unemployment rate stable
  - » In average since 1980, the labour force participation changes almost 0.9 x the change in the employment rate. Recent years, the response has been somewhat less, say 0.75. However, recent months, the participation rate has followed employment up
- Both Norges Bank’s Network and the SSB manufacturing surveys noted an unchanged level of labour shortages in Q3. Both are reporting labour shortages above avg, but still low vs the level of unempl., and do not indicate a very tight labour market

Credit growth is slowly cooling, driven by households

Household credit growth is abating, corporate credit growth steady. In Oct, the annual rate edged down to 5.6%

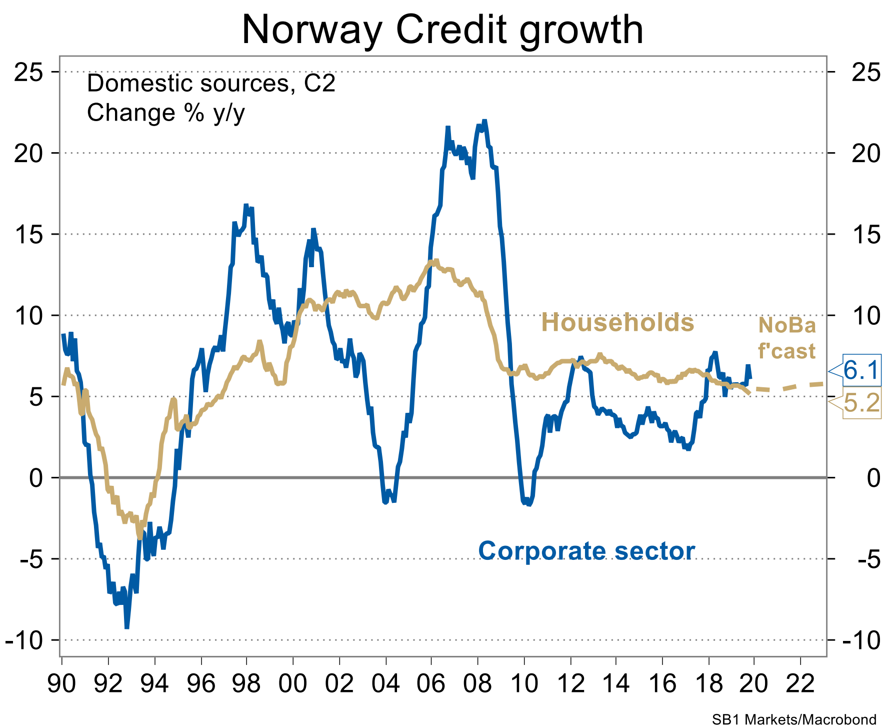


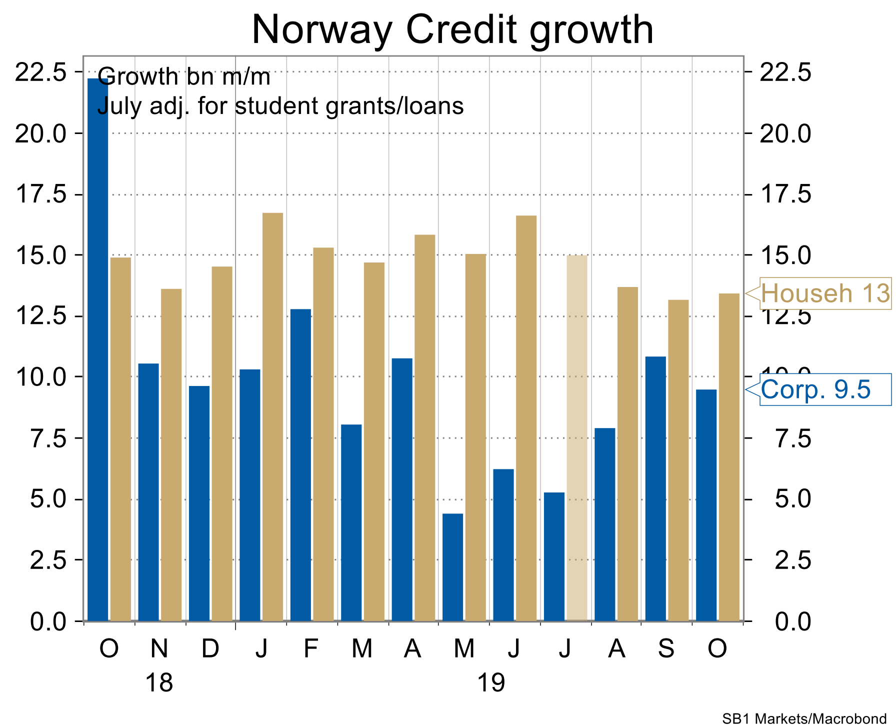


- Total domestic debt (C2) rose by NOK 27 bn m/m in October, heading slowly down the past year. The annual rate edged down to 5.6%, a 0.2 pp decline (we expected 5.4%, due to base effects). Avg growth over the past 3 months is annualised at 5.3%
- Household credit slowed for the 4th month in October. The annual rate decelerated to 5.0% (5.2% adjusted for student grants/loans), down from 5.7-5.8% in early 2019. Most likely, the interest rate hikes have dampened mortgage demand, along with slower growth in consumer credit loans (or decline recent months?)
- Corporate credit growth have gained some pace recent months, the annual rate fell to 6.1%, due to base effects

Household credit growth the slowest since 1997, finally below income growth

No weakness in corporate credit growth

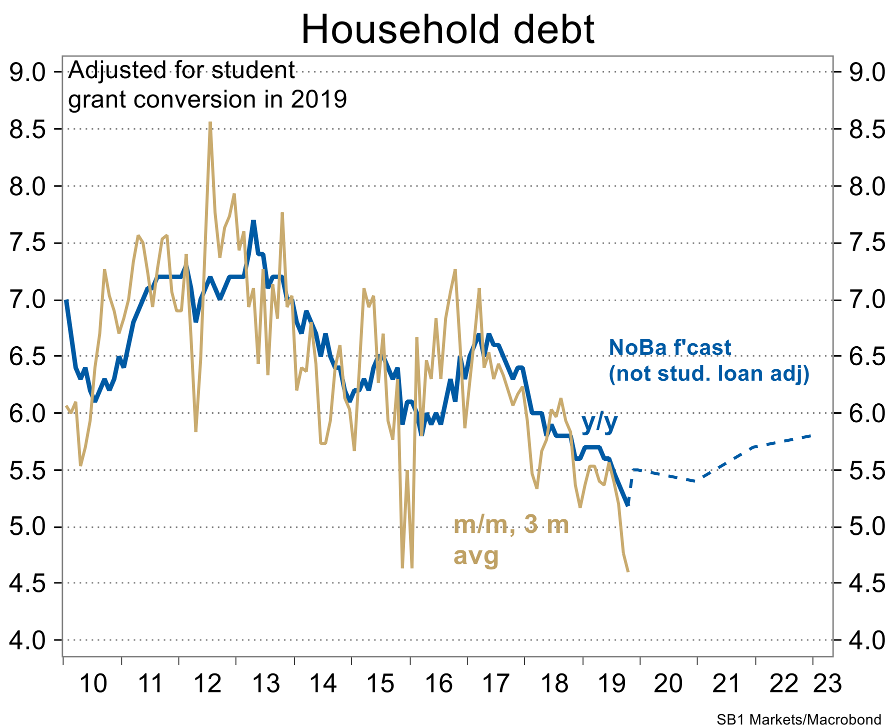


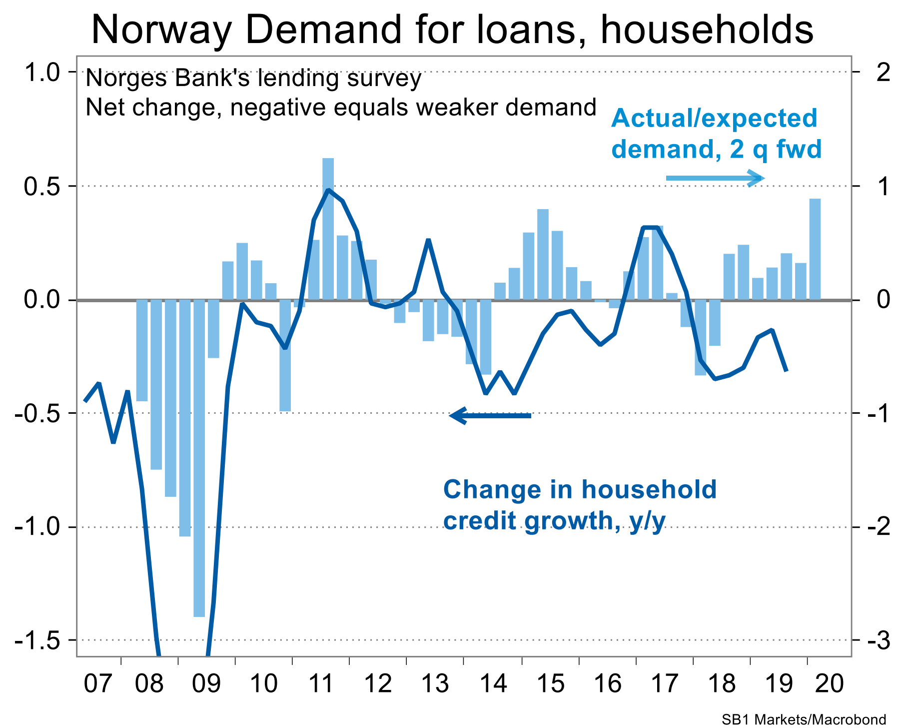


- Households' credit increased by NOK 13 bn m/m in October, an unchanged pace from Sept and the 3rd month of 'low' growth. The y/y rate edged down to 5.0%, from 5.1%, and underlying growth is slowing rapidly (flip to the next slide for more details)
  - Adjusted for a change in the timing of conversion of student loans to grants in July, the annual growth rate is 5.2%, as shown in the graphs
- Household credit growth has been trending slowly down since 2017. The slowdown recent months may be due to the interest rates hikes or recently due to tighter consumer credit regulation/the new debt registers
  - In Q2, consumer credit fell marginally, and the decline may have accelerated in H2 (no data yet). If so, consumer credit may explain a NOK 1 bn/m decline in the monthly growth rate which have fallen by NOK 2 bn/m since the summer, to approx NOK 13 bn/m
- Corporate credit (in C2, domestic lending) rose by 9.5 bn m/m in Oct. The annual rate edged down to 6.1%, after soaring to 7% in Sept, due to an unusual zig-sag in the monthly rates last year. Growth has anyway been steady at just below 6% since early 2019

Underlying growth down to 4.6%, below income growth

Growth is now clearly slowing, even as banks were expecting higher demand in Q3!

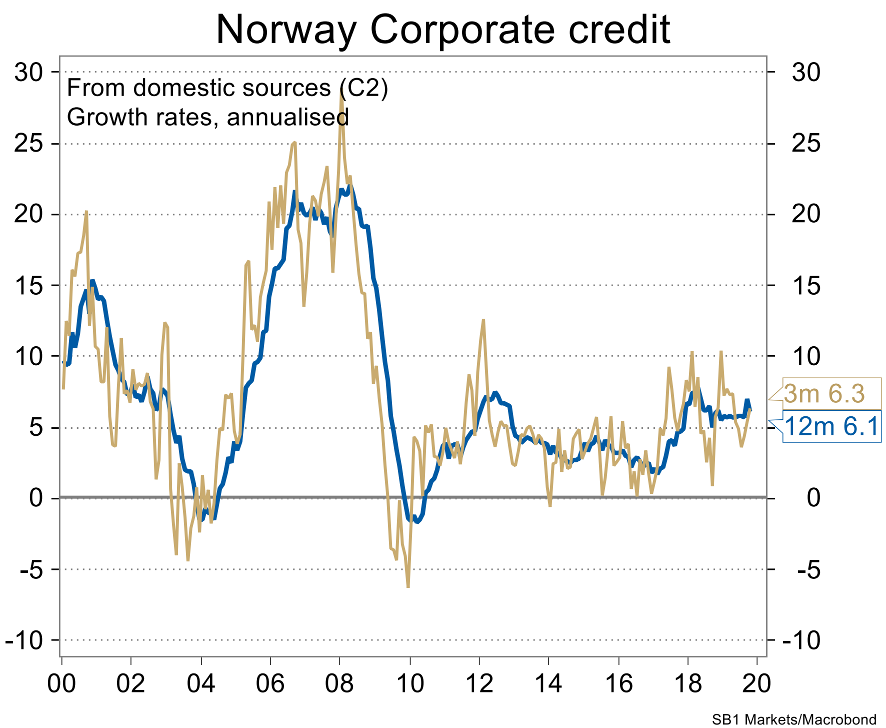


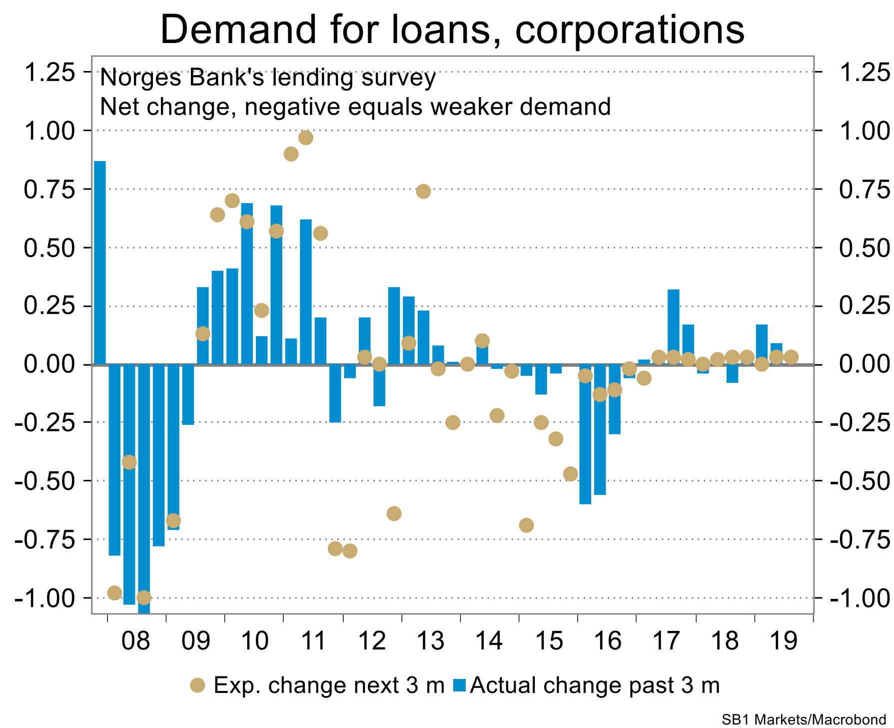


- In the longer term, household credit growth is slowing, from above 7% in 2012-2013 to just above 5% now, while the growth rate past 3 months has fallen to 4.6%
  - » Household income growth is running at approx 5% in 2019, or somewhat less (our estimate, just Q1 data published). Thus, the deb/income ratio may be stabilising –at a record high level, of course
- Surprisingly, banks in NoBa's Q3 lending survey reported higher household loan demand and they even expected an uplift in Q4. Strange if not the whole slowdown recent months is due to a faster contraction in consumer credit
  - » Consumer credit rose by some 1 bn/m at the peak (15% y/y). CC fell by some 0,2 bn/m in Q2, and the annual rate fell to 5%. Most likely, the downturn has accelerated in H2

Corporate credit growth quite stable (barring the Sept/Oct zig-zag)

Underlying growth has picked up, but these monthly data are volatile, the annual rate is steady

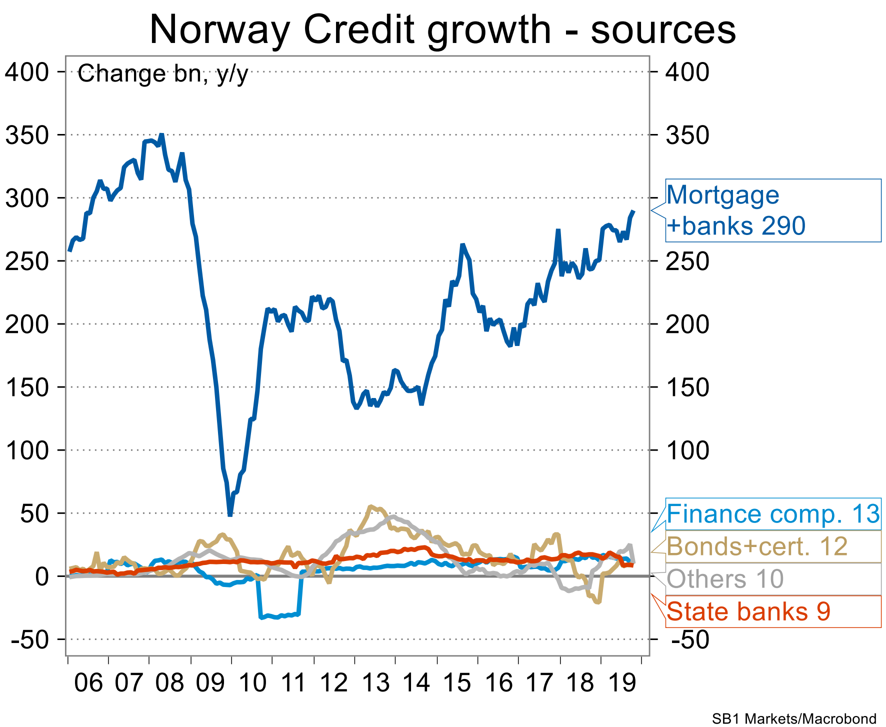


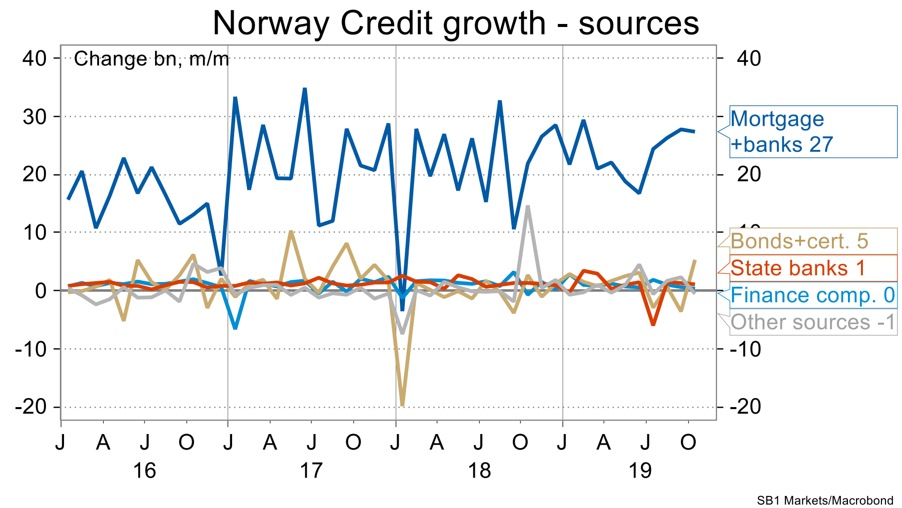


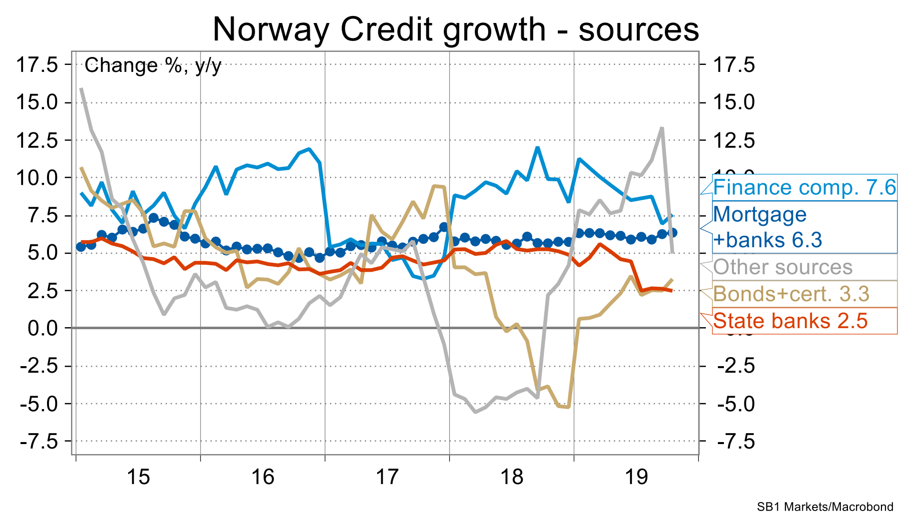
- In October, the annual rate edged down to 6.1%, from 7% in Sept. These shifts are just noise; due to some unusual volatility in the monthly rates last year. The annual rate has been steady at just below 6% the past months, from 7-8% growth rates in early 2017
- The underlying growth rate (3m) rose to 6.3% in Oct, turning up since the summer
  - » Corporate credit growth is more volatile than household credit and underlying pace has been zig-zagging the past two years

Total domestic credit supply (C2): No slowdown in bank lending

Banks and their mortgage institutions are totally dominating the domestic credit market





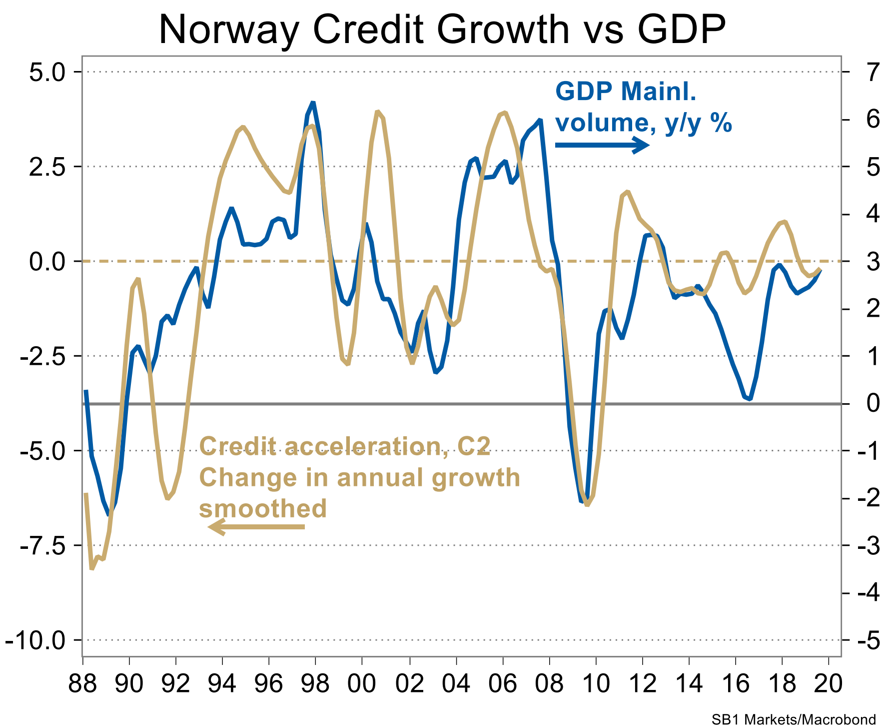


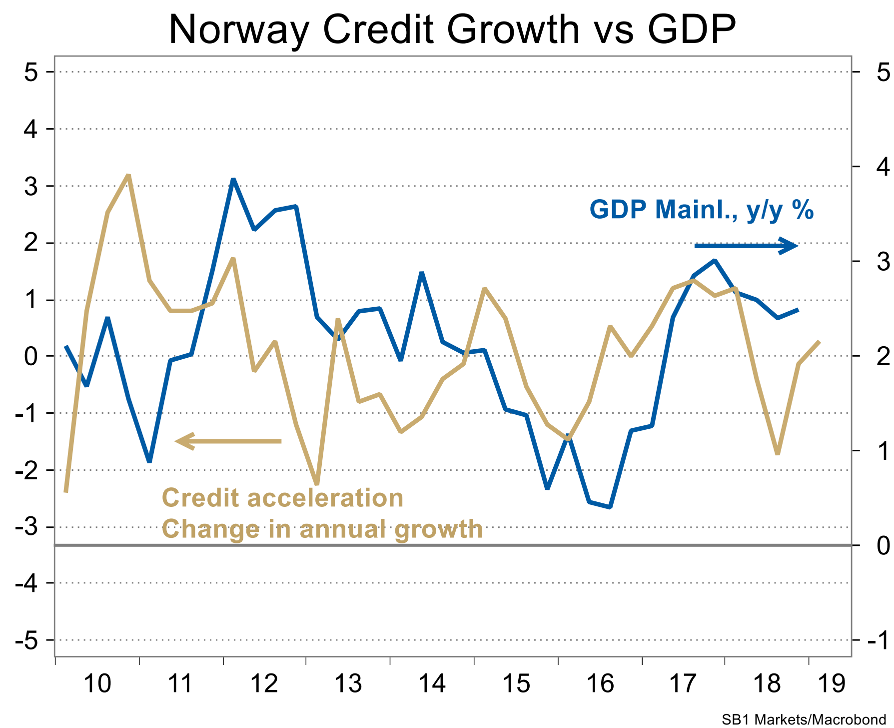
- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in ‘sum of the parts’ credit supply does not exactly equal changes in the total C2s

SpareBank 1 MARKETS

Credit and GDP growth are quite (usually) correlated

Total C2 credit growth is quite stable (the 2nd derivative) – does not signal a growth slowdown

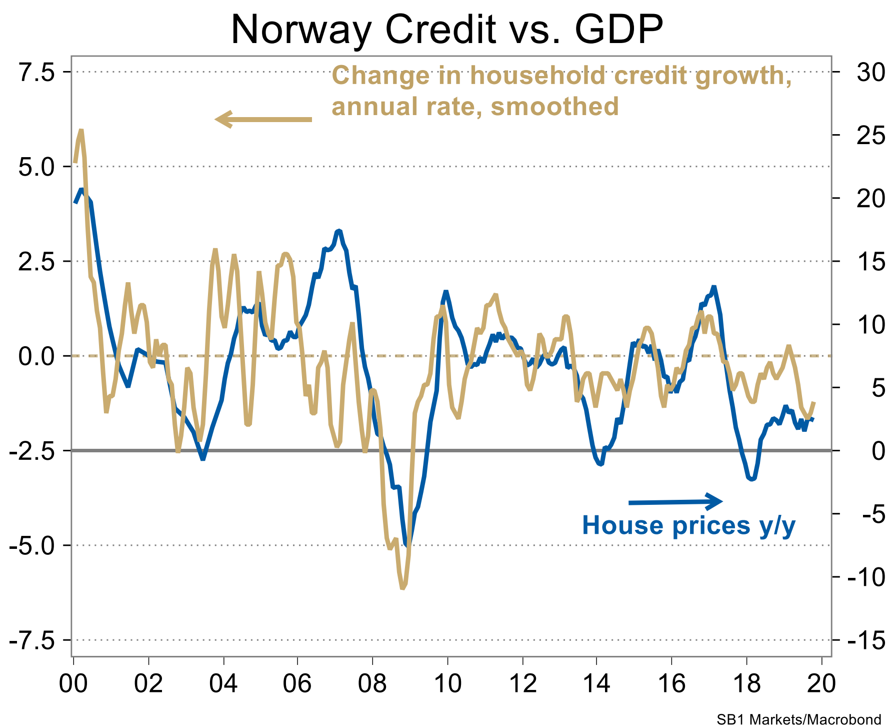




- GDP growth is quite coincident with changes in credit growth
- GDP growth at zero or below is usually associated with a decline in credit growth of some 3 pp over one year, say to 5% from 8%
  - » During the 2015/16 oil induced slowdown, domestic credit growth did not slow by much – at least partly because interest rates were cut

Lower household debt growth does not necessarily signal lower price inflation

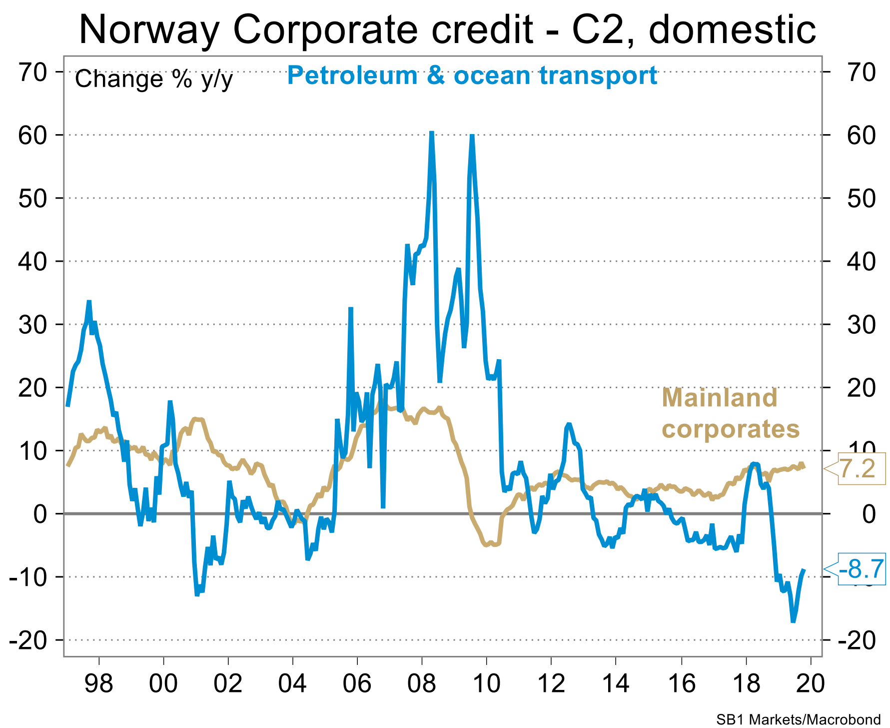
There is some correlation between changes in debt growth & house price inflation, even short term

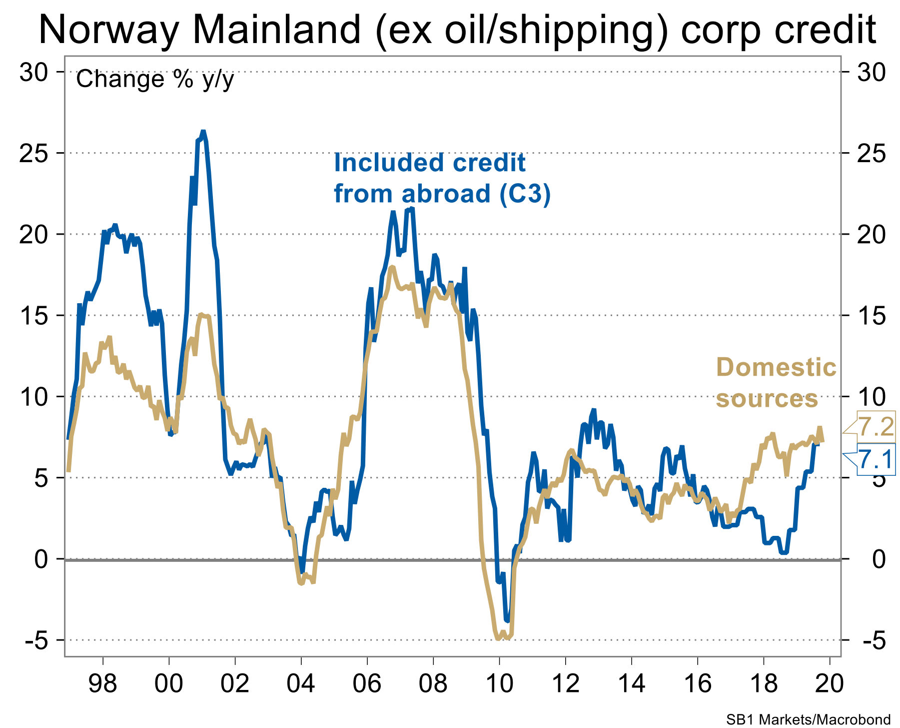


- Household debt growth has slowed to 5.2% y/y. Still, changes in credit growth (the 2nd derivative) does not point to slower price growth/declining prices
- Credit growth is at least coincident with house price inflation (and it is often leading)

The petroleum sector is still reducing the debt level

While non-oil/shipping companies are borrowing more, both at home and abroad

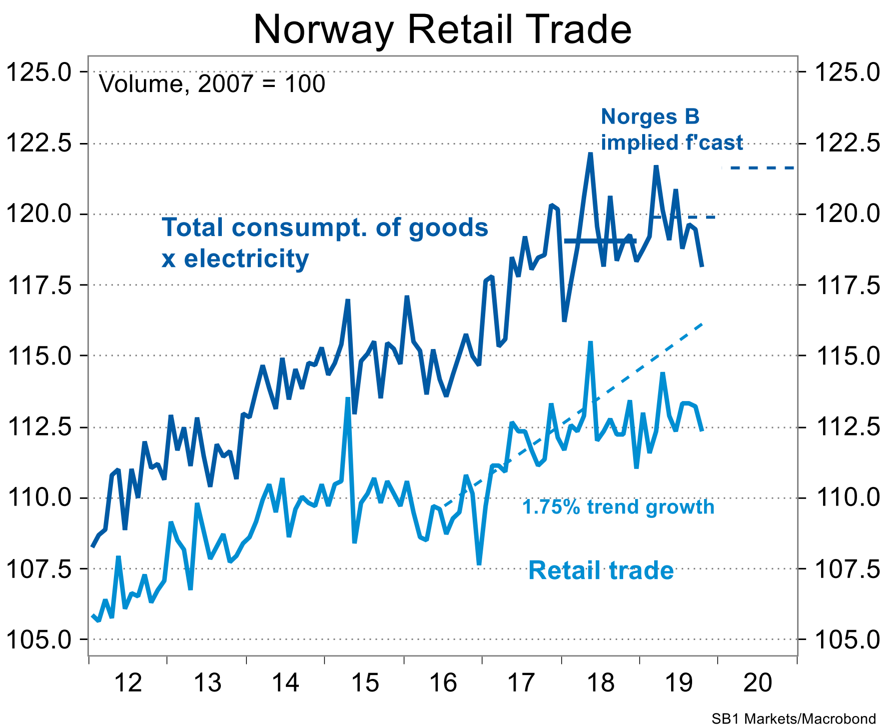


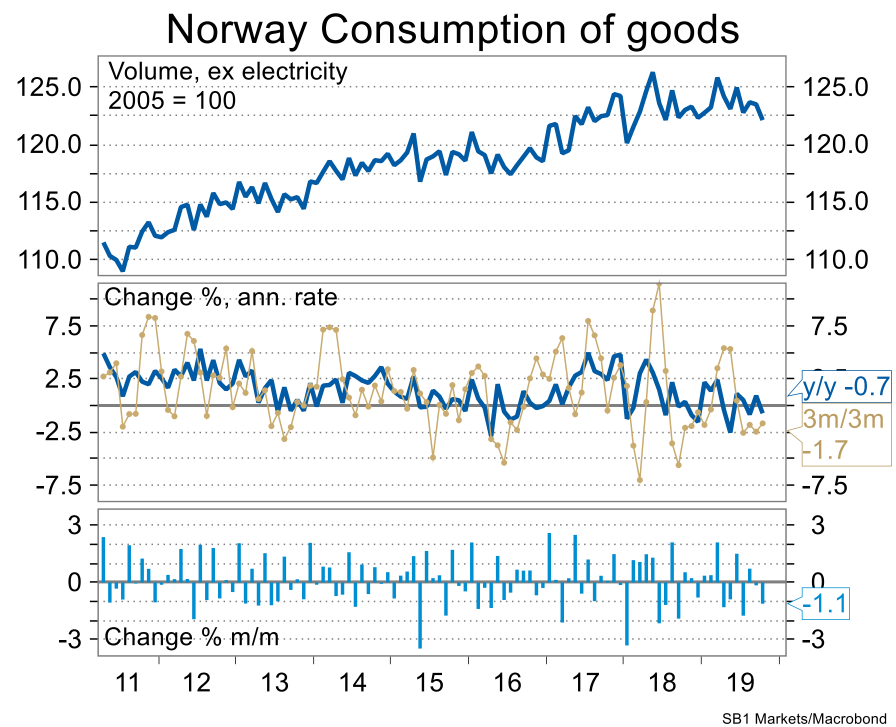


- Credit aggregates are influenced by balance adjustments in international corporations (both Norwegian and foreign owned, operating in Mainland Norway, and then categorized as Mainland corporations).

Retail sales have softened, total consumption declines

Retail sales fell 0.8% in Oct, expected up. Black Friday Nov better? Auto sales a drag on total consump

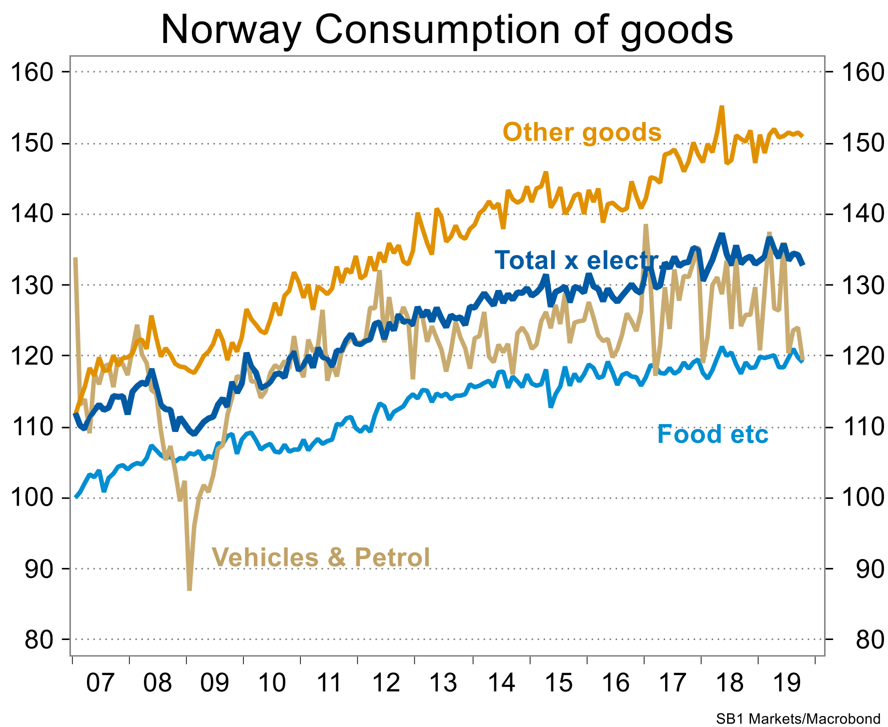


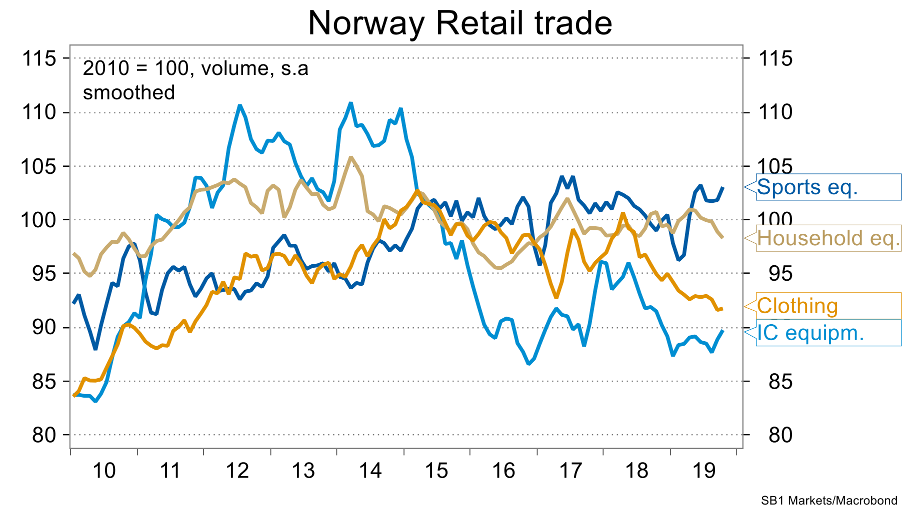


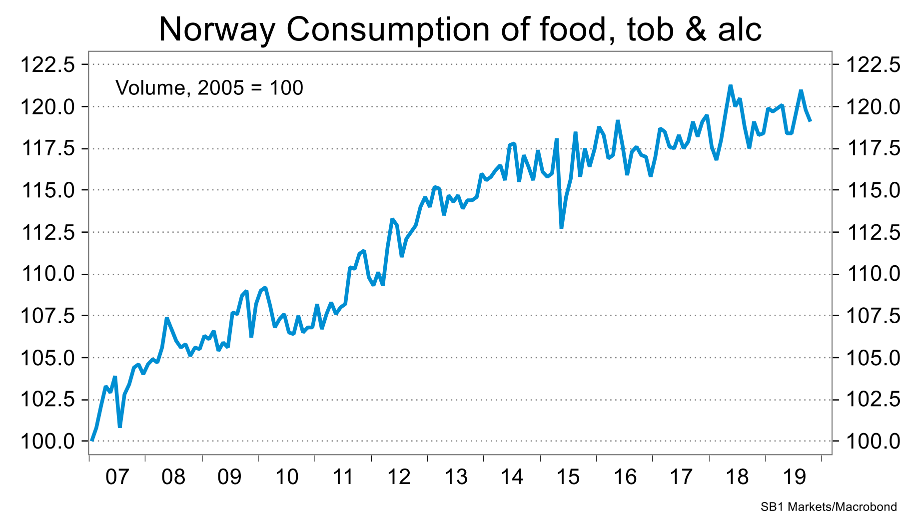
- Retail sales volume (ex auto) dropped 0.8% m/m in Oct, expected up 0.2% (we f'casted +0.3%). Sales have slowed recent months, after a soft upturn in early 2019. Over the past 6 m (3m/3m), growth is still marginally positive (but the sign will change if sales not recover in Nov)
  - Sales were somewhat below par in both Oct 17 and '18. Thereafter, sales rose 1.8% m/m in November both years, probably a Back Friday impact, not yet recognised by the mechanical seasonal adjustment procedure. Until further notice, we expect a substantial gain in retail sales in Nov, say some 1.5%
- Total consumption of goods (ex electricity) fell by 1.1%. The downturn in consumption since the summer is partly driven by lower auto sales. The speed into Q4 is low, pointing to a negative GDP contribution
- Retail sales have flattened, and total consumption of goods is declineing. Consumer confidence is softening, as is the labour market and household credit growth. Are consumer becoming more careful? In Sept, NoBa expected 2.3% growth private consumption in 2020 (equals some 1.5% growth in consumption of goods). A downward revision is likely in the MPR (out Dec 19)

Consumers spend less on clothing, household equipment (at least in the stores)

Auto sales have fallen steeply recent months. Food sales may have flattened out



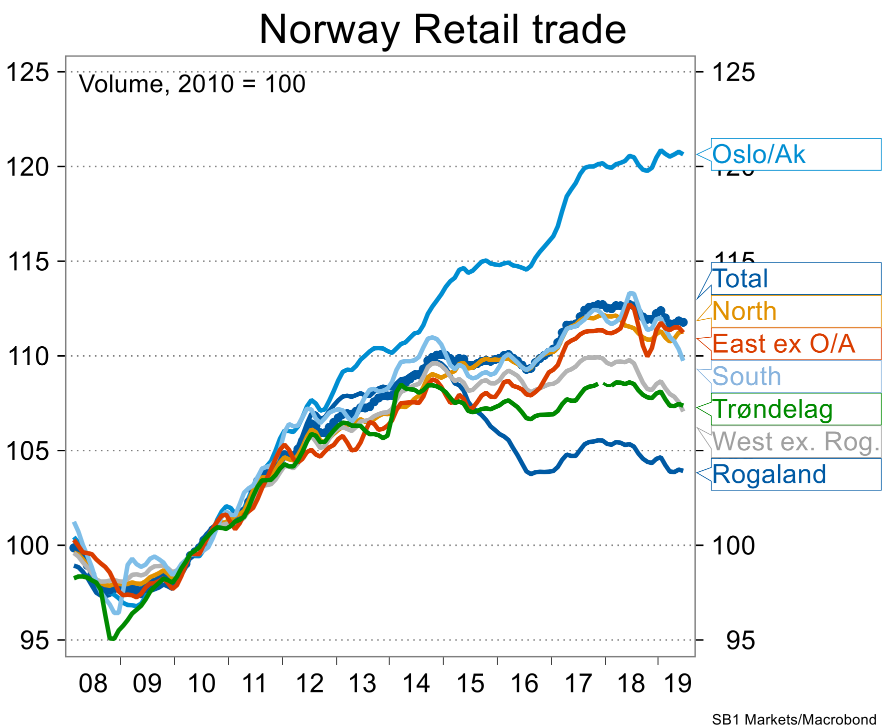


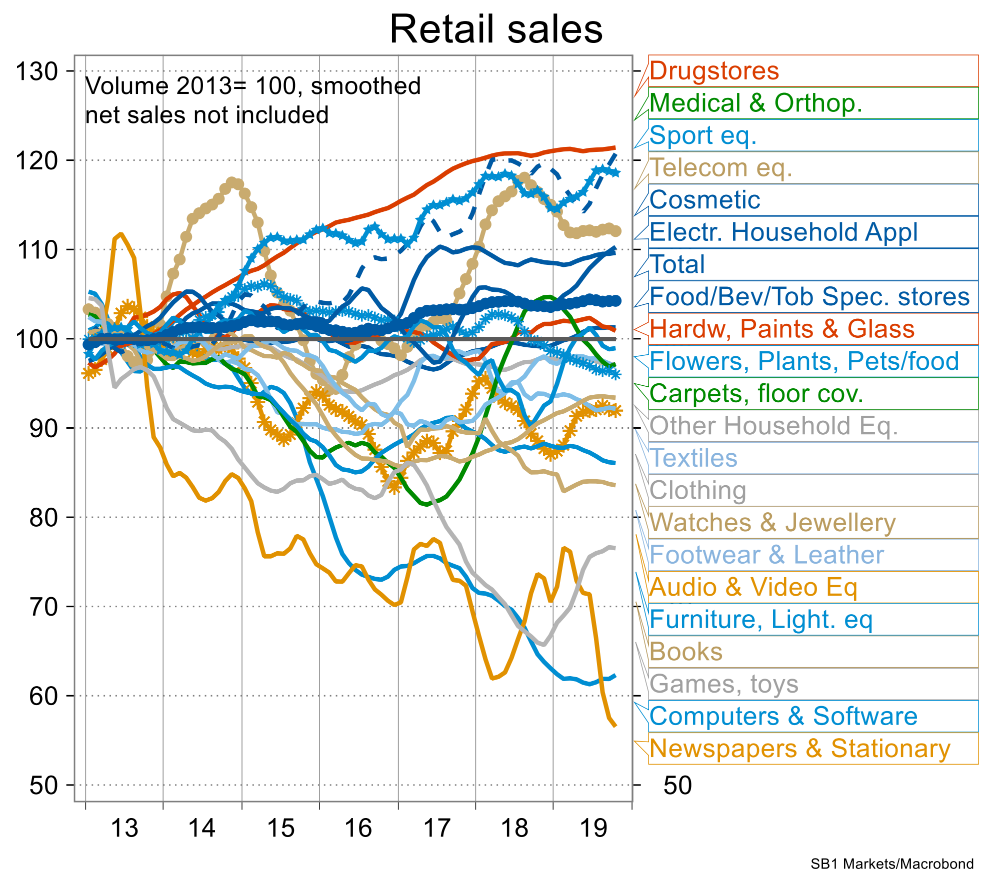


- Auto & gas sales fell in October and have been weak since a steep drop in July. The volatility in auto sales recently is probably due to supply bottlenecks, particularly for electrical vehicles. However, weaker overall demand can not be excluded as an explanation
- Other consumer goods are not impressive, clothing has fallen steeply since mid-2018. Household equipment have slowed the past months, while ITC equipment has flattened following a substantial downturn. Just sport equipment improving recent months (at least in volume terms) – but sales have basically been flat past 4 years

Substantial regional differences – and between branches

Oslo/Akershus (incl net sales) sharply up, others down. Most branches down

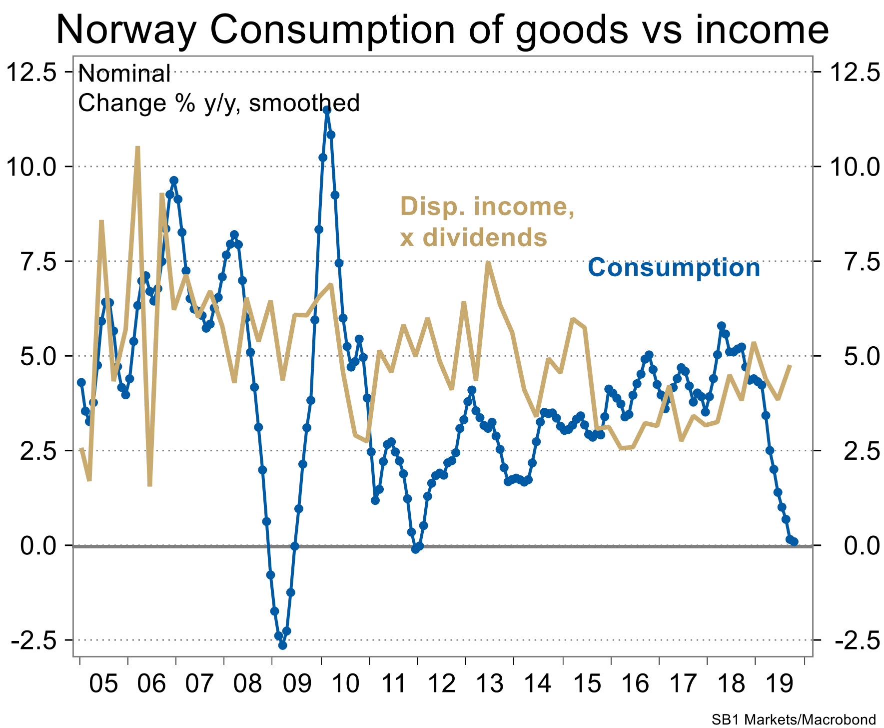


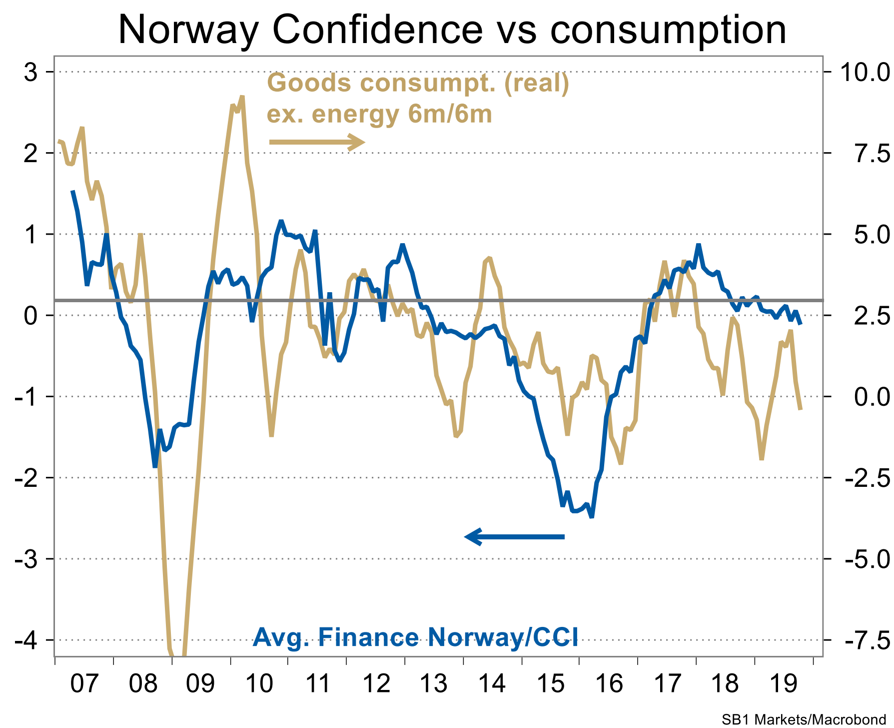


- Retail sales have been trending down in most regions past two years, just Oslo/Akershus is reporting higher sales (sales from internet outlets included)

Household income and confidence do not indicate muted consumption growth

Disposable income growth point to higher consumption, confidence is softening but it is not weak

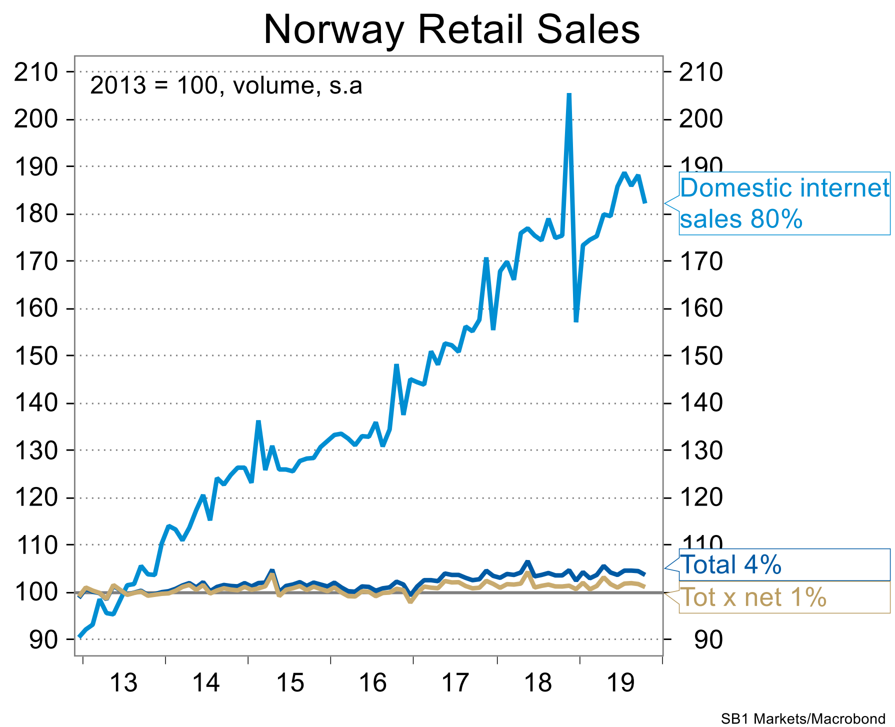


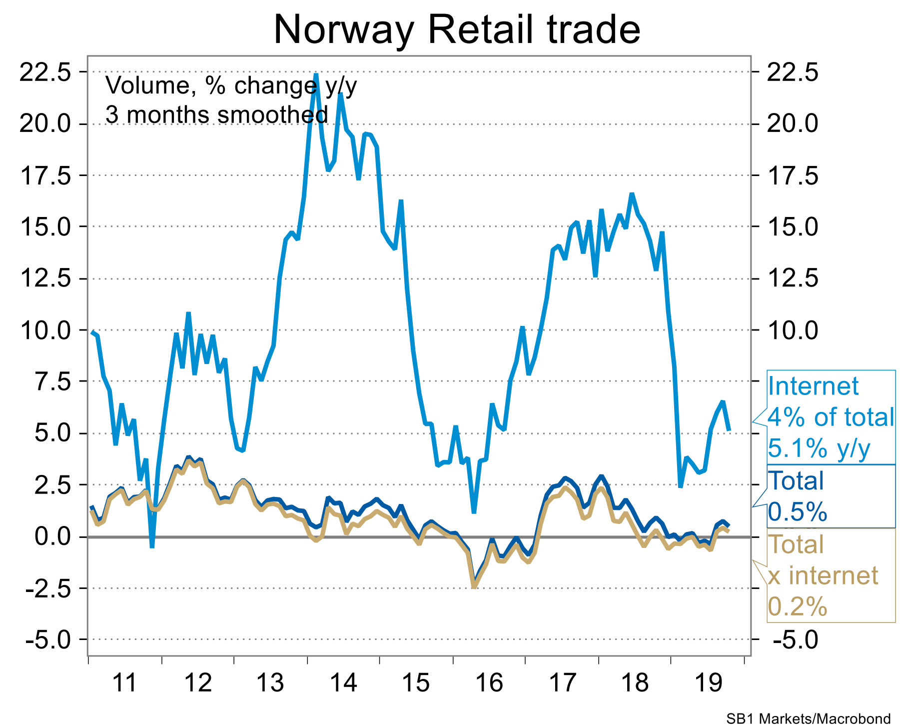


- Disposable income ex dividends was up some 4.5 y/y in Q3 (our est), and the savings rate is now increasing as consumption growth is low (but higher than consumption of goods as services are still on the way up)
- Consumer confidence is sliding down, the avg of Finance Norway and Opinion's CCIs is just below an average level. Still, growth in consumption of goods has declined at a faster speed than indicated by the sentiment surveys (although the correlation is not that strong)

Internet sales (domestic) growth has slowed substantially, to 5% from 15%

Still, over the past 6 years, almost no growth in sales from physical outlets. Just 0.2% y/y growth in Oct



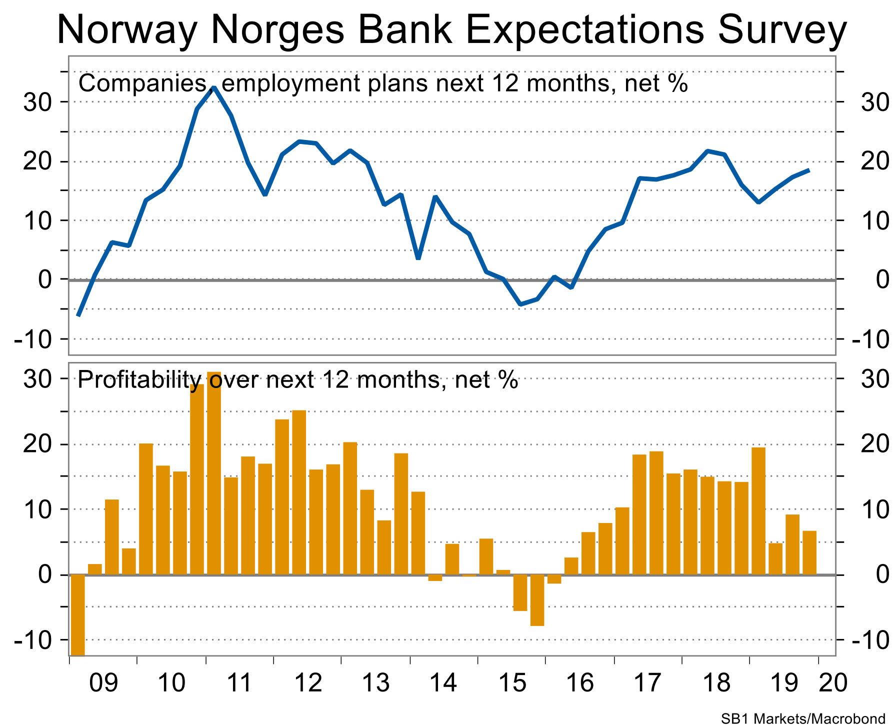


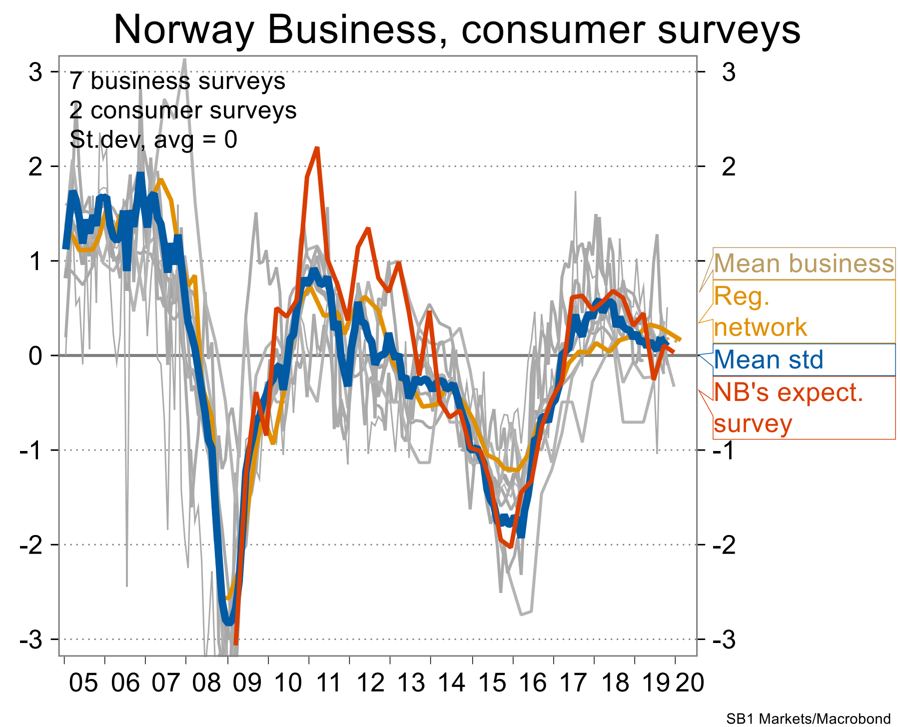
- The retail trade data cover only sales statistics from domestic outlets, not imports. From 2018, SSB included internet sales from abroad in the total consumption index but these figures are just estimates based on domestic internet sales
- SSB estimates that internet shopping from foreign sources (both services and goods) equalled NOK 40 bn in 2017, of which goods constitute the half, some NOK 20 bn. Internet import of goods have doubled past 5 years, more or less like sales from Norwegian outlets
  - If so: 'Direct' imports have increased by NOK 10 bn since 2013, equalling more than 2% of domestic retail sales since 2013
  - Domestic sales (in volume terms) is up 4% since 2013. If we add on an 2 pp contribution from internet sales from abroad, the total is up 6%.
  - Out of these 6%, 1 pp is sold in ordinary shops domestically, 2.5% via domestic net outlets, and 2.5% via foreign sites

SpareBank 1 MARKETS

Norges Bank expectations survey a tad softer – but employment plans up

Profitability exp. inched down in Q4, employment plans were raised. Survey back at an avg level



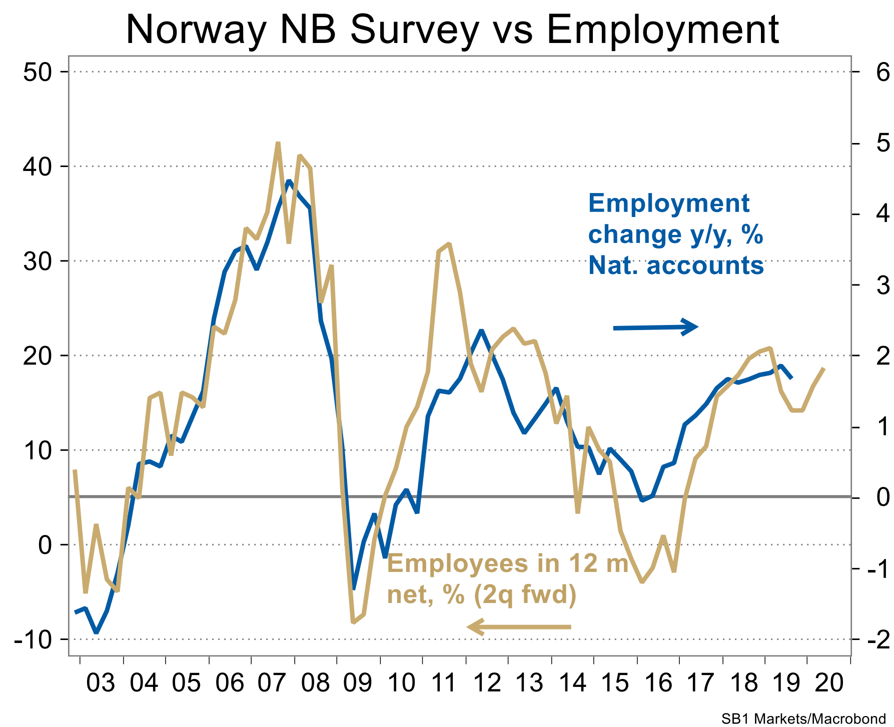


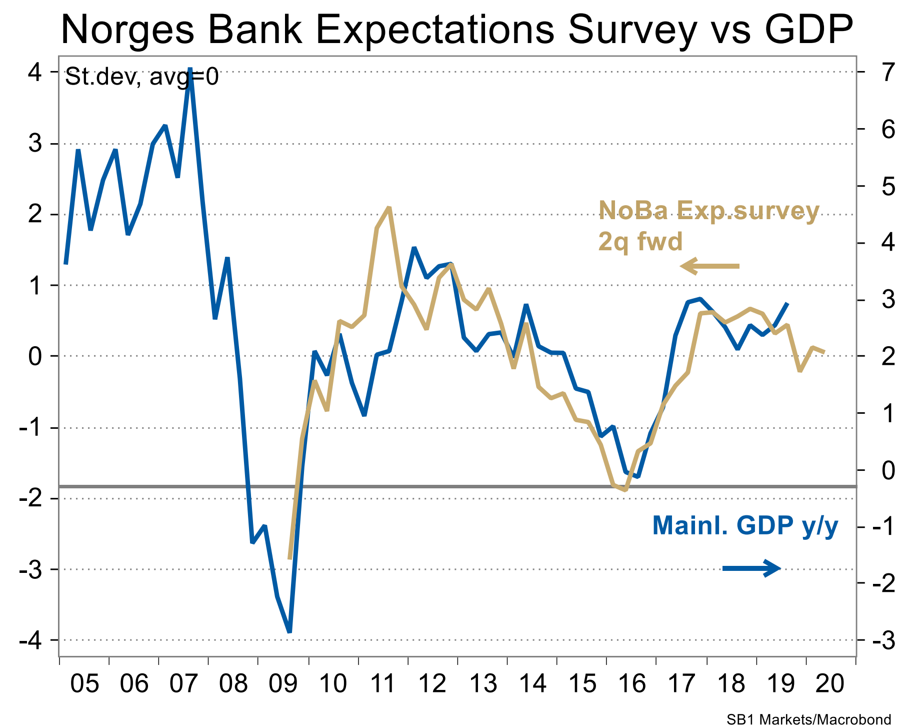
- Norges Bank's expectation survey (not the Bank's Regional Network survey) came down just marginally in Q4, measured by the sum of employment plans and profitability expectations. The 'composite' index is just marginally above the average level, slightly softer than the avg of all Norwegian business surveys, pointing to almost 1 pp lower GDP growth
- Expectations of businesses' profitability the next 12 months weakened in Q4 from Q3, and the past 3 quarters have been lower than usual. Employment plans were raised, the index is pointing to steady growth in empl. at just below 2%, well above what we expected the companies to report. <u>We expect the Regional survey to report significantly slower growth next week</u>

SpareBank 1 MARKETS

Employment plans further up in Q4, signals steady growth

Still, the 'composite' index points to a slowdown in GDP growth, to 2%, from 2.9% (y/y) in Q3

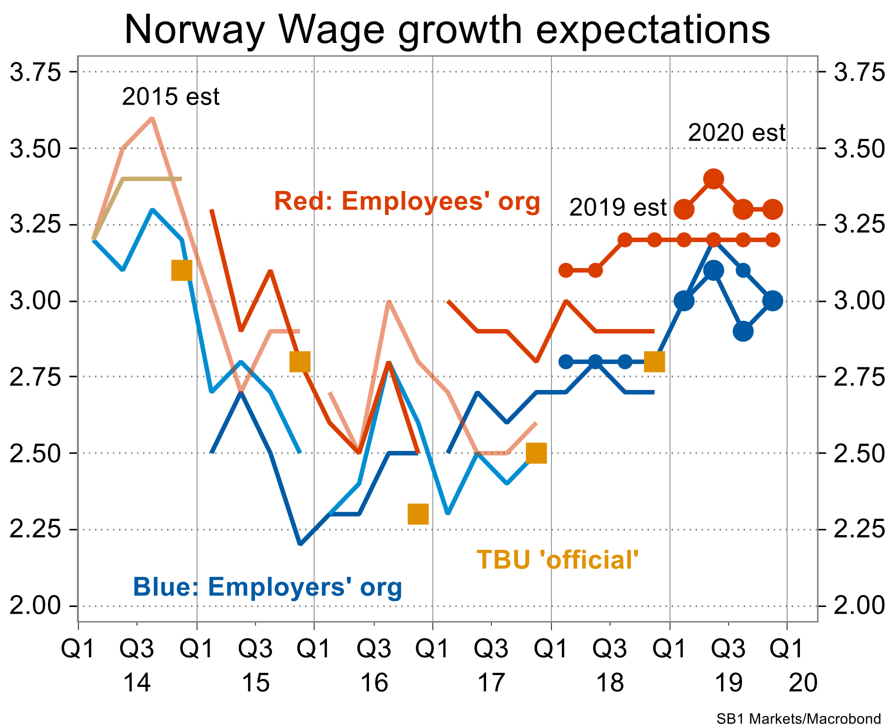




- Most other employment surveys are upbeat too, an avg of 5 surveys (SSB, Manpower, Norges Bank Regional Network, NB exp. survey, the PMI) indicates approx. 2.5% growth, steady the past year

2020 wage expectations flat/up

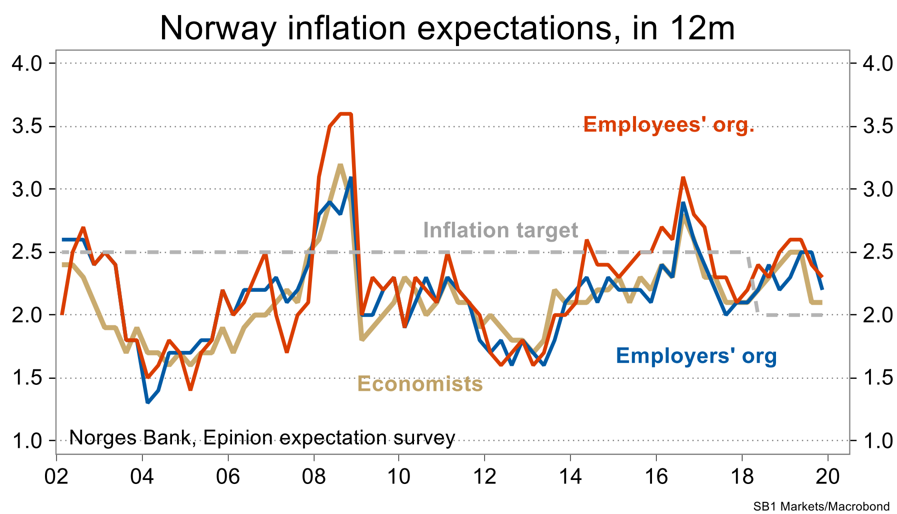
Employees' organisation are expecting 3.3% growth in '20, employers' up 0.1 pp to 3.0%

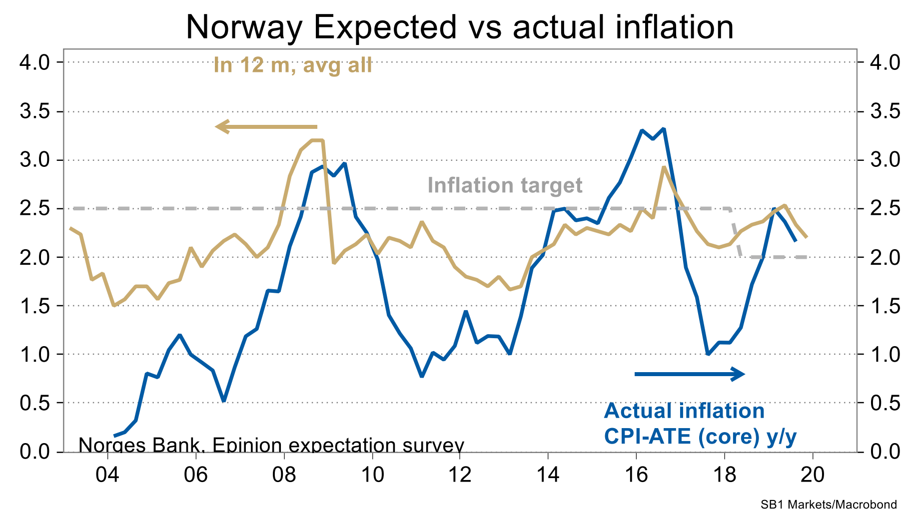


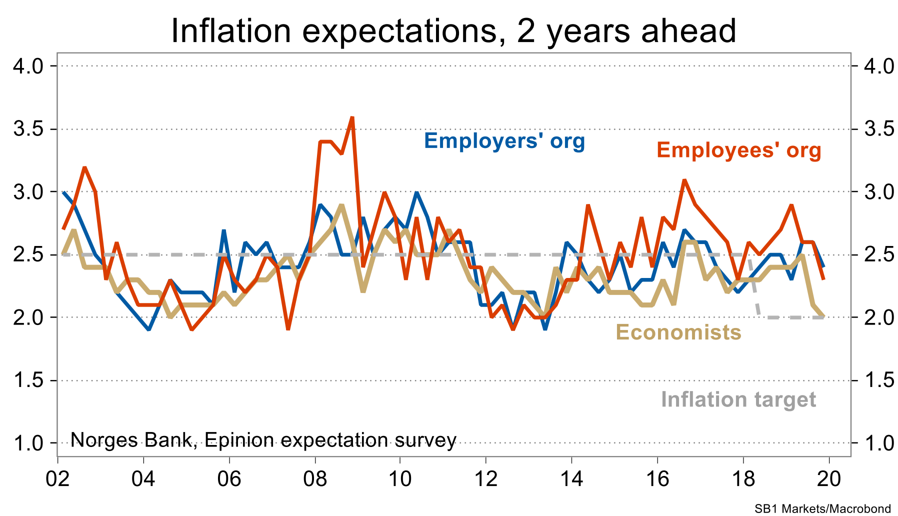
- **2018:** Wages rose 2.8%, according to the 'official' TBU estimate
- **2019:** The employee's organisations are expecting a 3.2% wage growth, unchanged since late 2018. The employer's organizations are expecting a 0.2 pp lower growth rate, down 0.1 pp from the previous quarter
  - » In general, employees' org expects higher wage growth than their peers at the employer side, as one should expect
- **2020:** The employees' organisations held their 2020 wage growth estimate unchanged at 3.3%, while the employers' organisations nudged up their f'cast to 3% (from 2.9%)

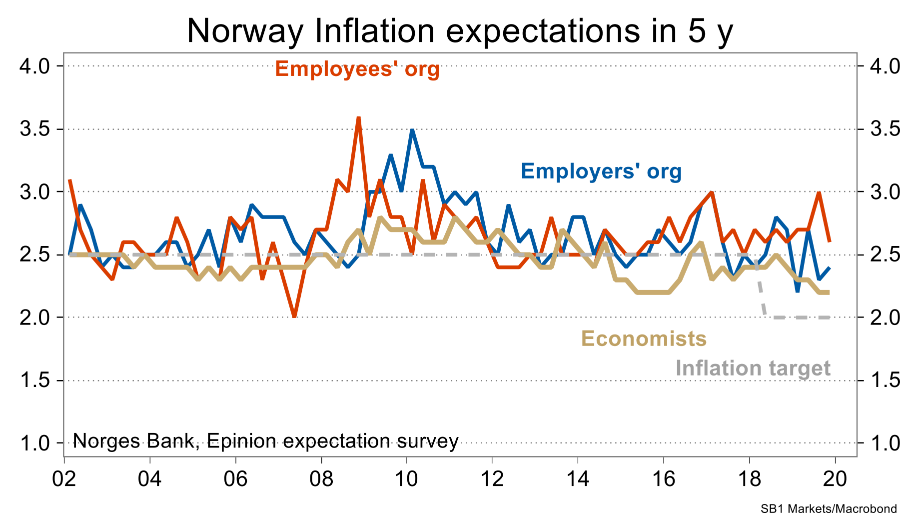
Inflation expectations are approaching the ‘new’ 2% target

Expectations the next year are not that far off anymore but organisations’ 2-5 y f’casts still elevated



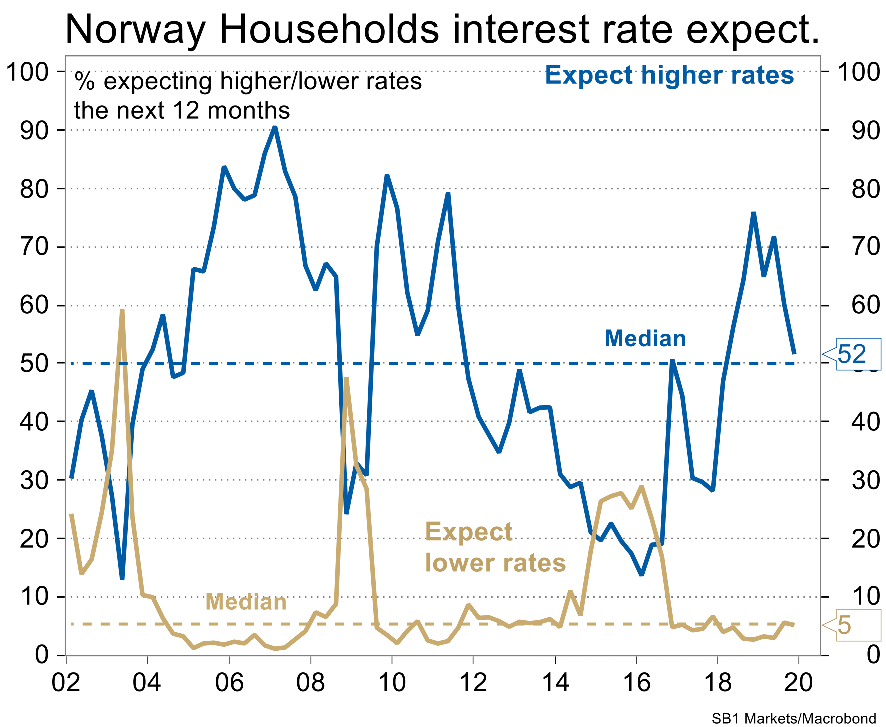






Most households are still expecting higher interest rates

52% of respondents are expecting higher rates, just 5% expect lower



Highlights

The world around us

The Norwegian economy

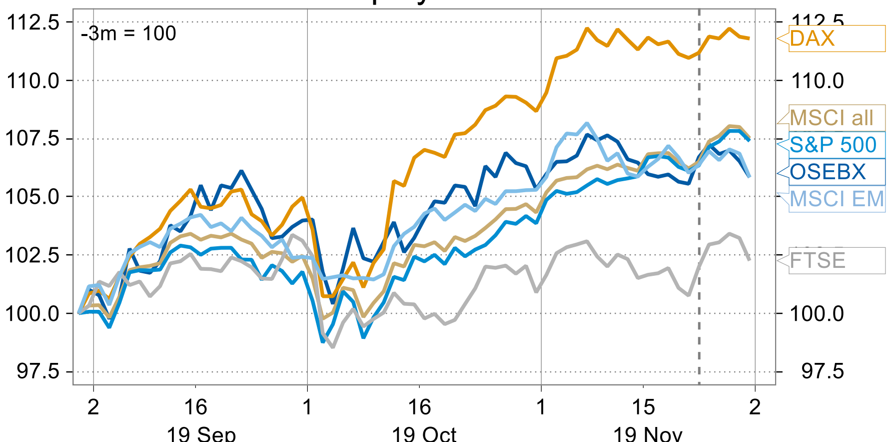
Market charts & comments

SpareBank 1 MARKETS

Stocks climb on trade deal hopes, bond markets are cautious

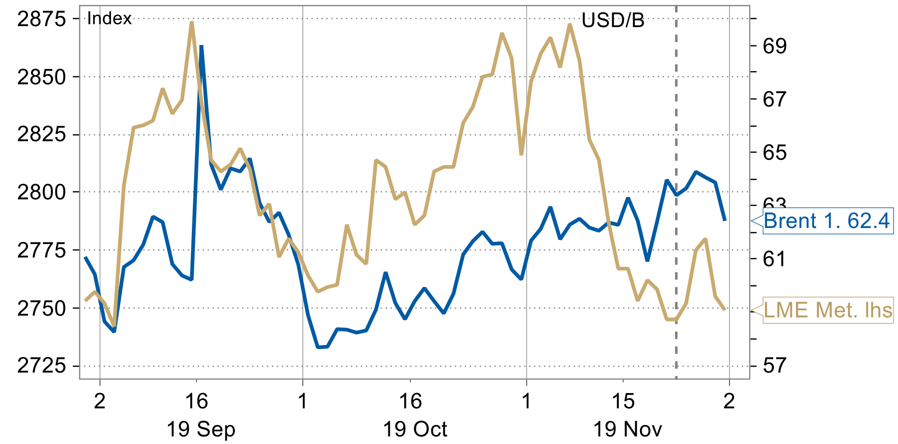
S&P rose to a new ATH last week, other stock markets followed up (but all down Friday). Bonds stabilised

Equity Indices



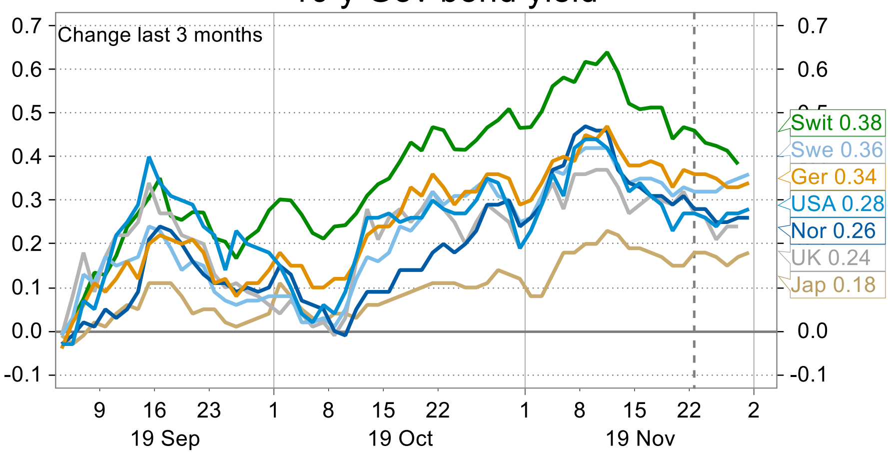
Stock markets rose broadly, after a 2 week pause. Strong US macro data and some positive comments on the US/China trade deal drove markets

Oil vs. metals



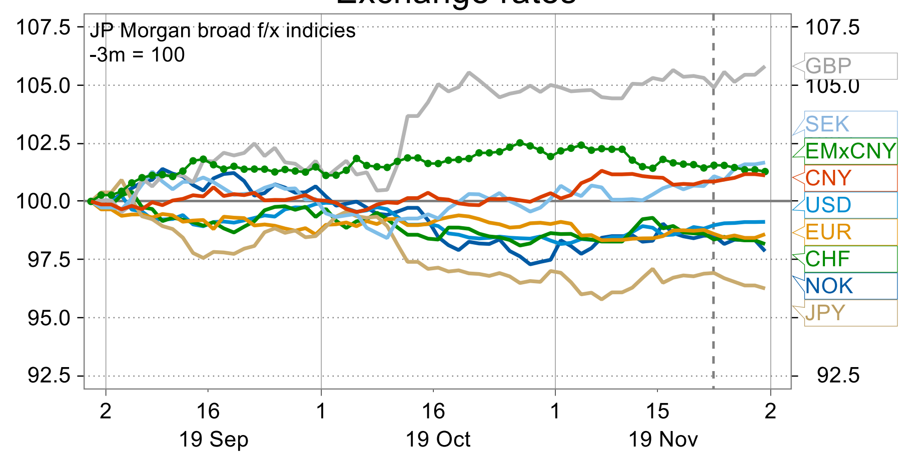
Brent oil price bounced back up above 63. Metal prices further down

10 y Gov bond yield



Bond yields were mixed last week; US flat, Germany down and NOK 10 y fell more, probably due to soft Norwegian macro data

Exchange rates

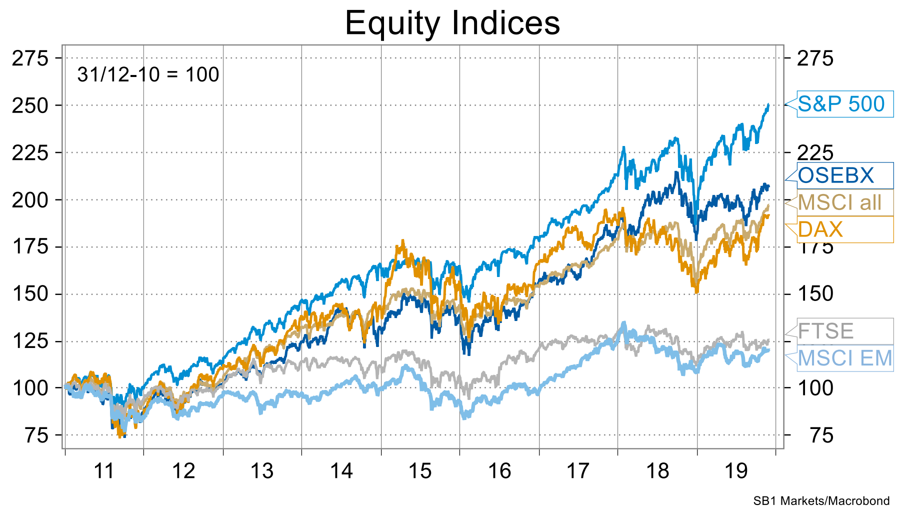


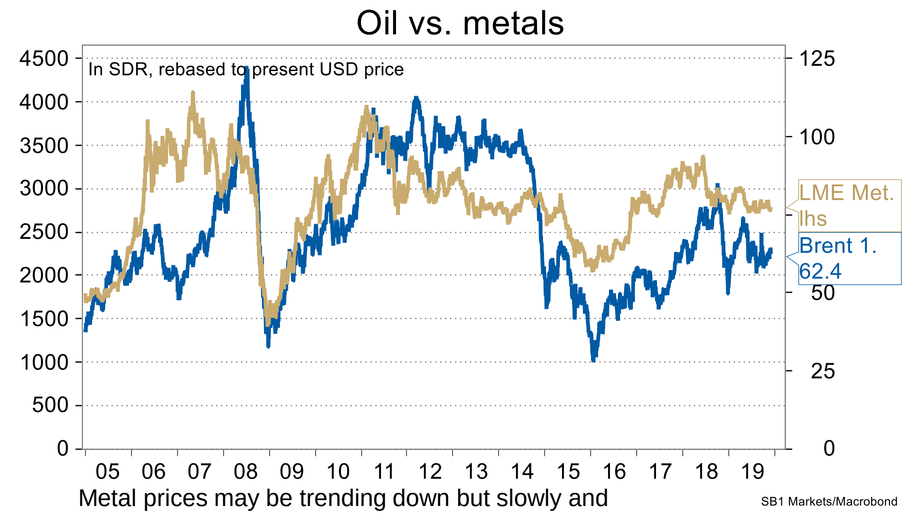
Most f/x steady last week, USD&CNY both climbed, EUR weakened, and the NOK, marginally

SpareBank 1 MARKETS

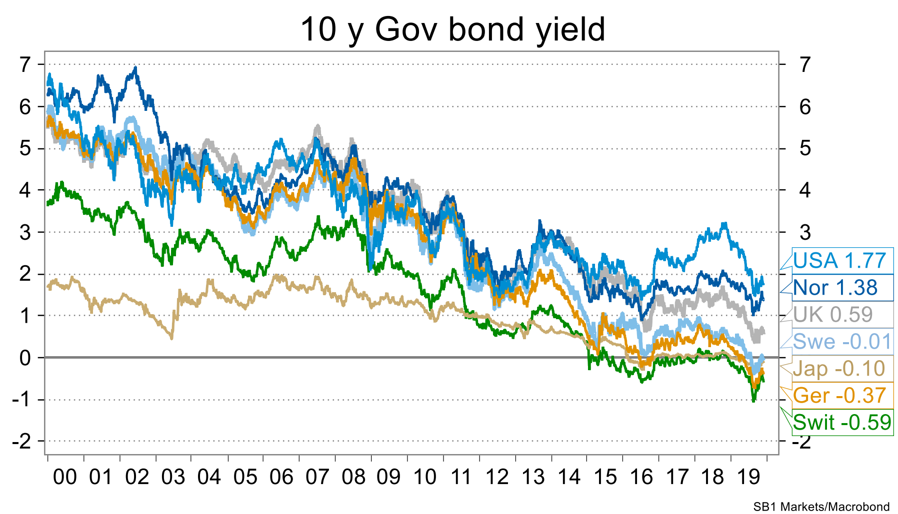
In the long run: US stocks at/close to ATH, bond yields not that far above ATL

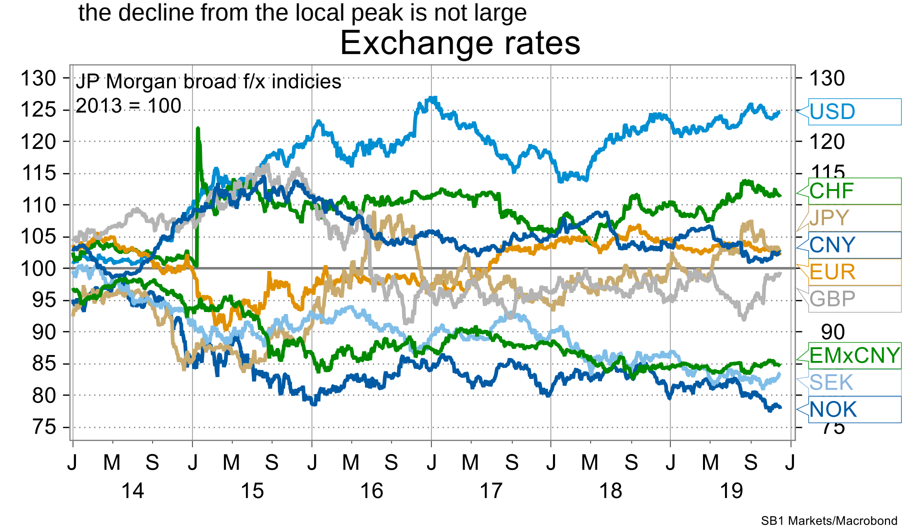
Oil, metals are trending slowly down. The trade war rules. And then some economic data





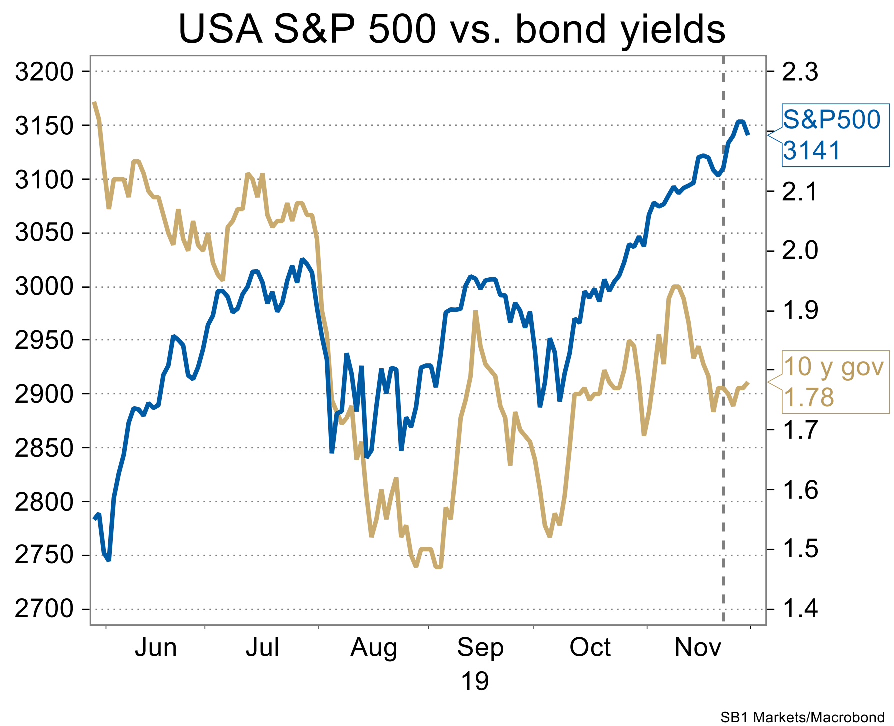
Metal prices may be trending down but slowly and the decline from the local peak is not large

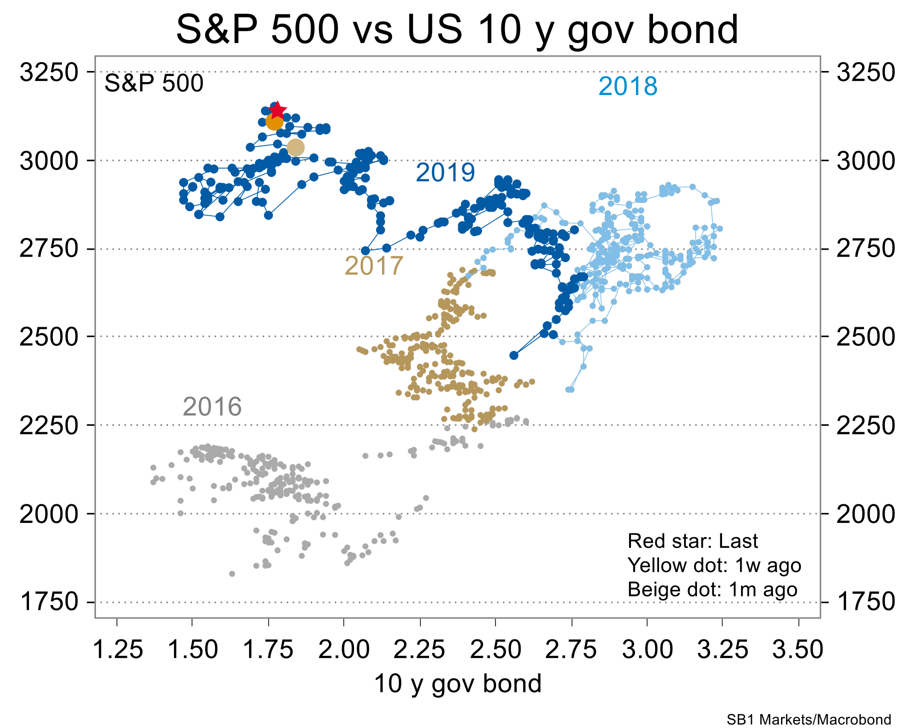




US: Stock markets are soaring, bond yields flat in spite upbeat US macro data

S&P jumped 1% last week, while bond yields held steady



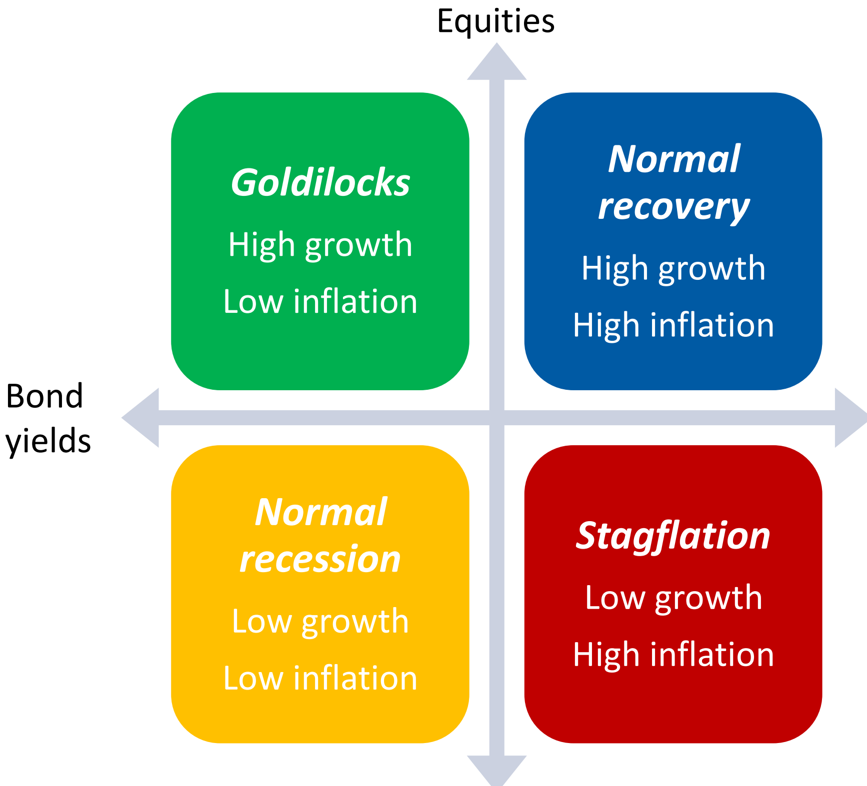


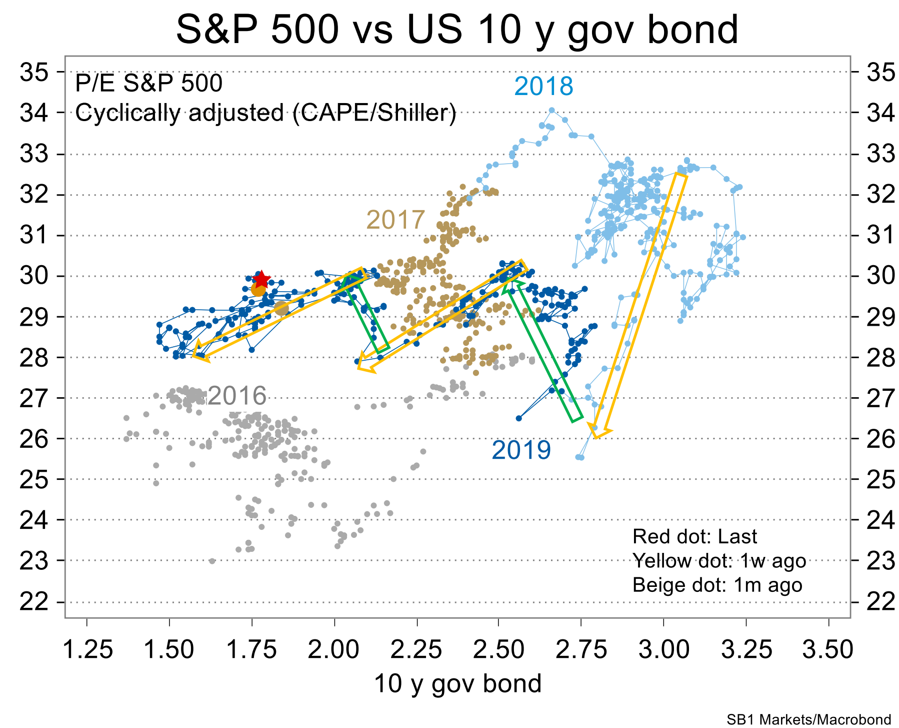
- Last week, the stock markets rally gained pace. The mood on the US/China trade negotiations lightened somewhat, after Trump commented that the negotiations were in the 'final throes' – and the Chinese did not react too harshly to Trumps decision to accept Congress' Hong Kong support laws. Moreover, both US net trade, durable goods orders and home sales came in above expectations, calming recession fears once again. Stock markets have been soaring since early October, to close to 5% above the July peak (S&P500)
- Bond yields held steady last week, after a two week downturn, in spite the stronger data and positive trade war news. Why are bond yields not following up? The 10 y gov is back at 1.78%, after reaching (intraday) almost 2% two weeks ago. Both inflation expectations and real rates were flat last week

SpareBank 1 MARKETS

US markets are moving towards the normal recovery corner

However, in November, the markets have moved towards the goldilocks' scenario

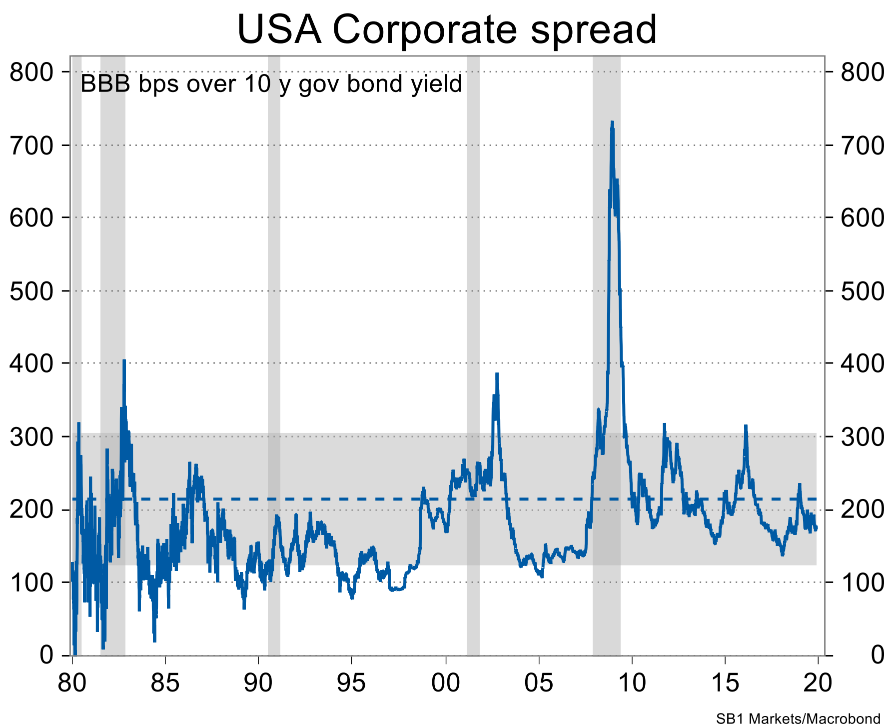


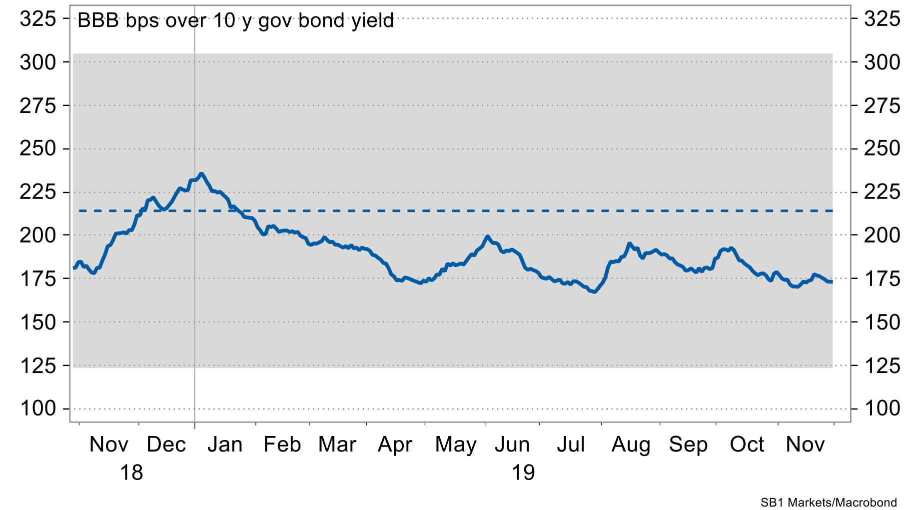


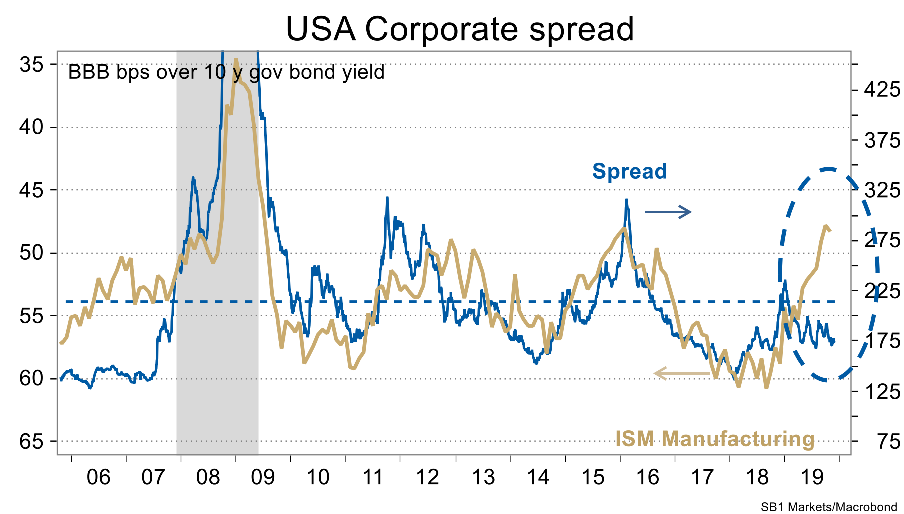
- Recent months, markets have been zig-zagging along with news on the trade war. In October and early November, trade news have been positive and markets have moved towards the 'normal recovery' corner. Later, doubts on the trade deal sent bond yields steeply down, while stock markets fell just marginally. Last week, stock markets turned up while bond yields remained flat
- 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. Thus, 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>*



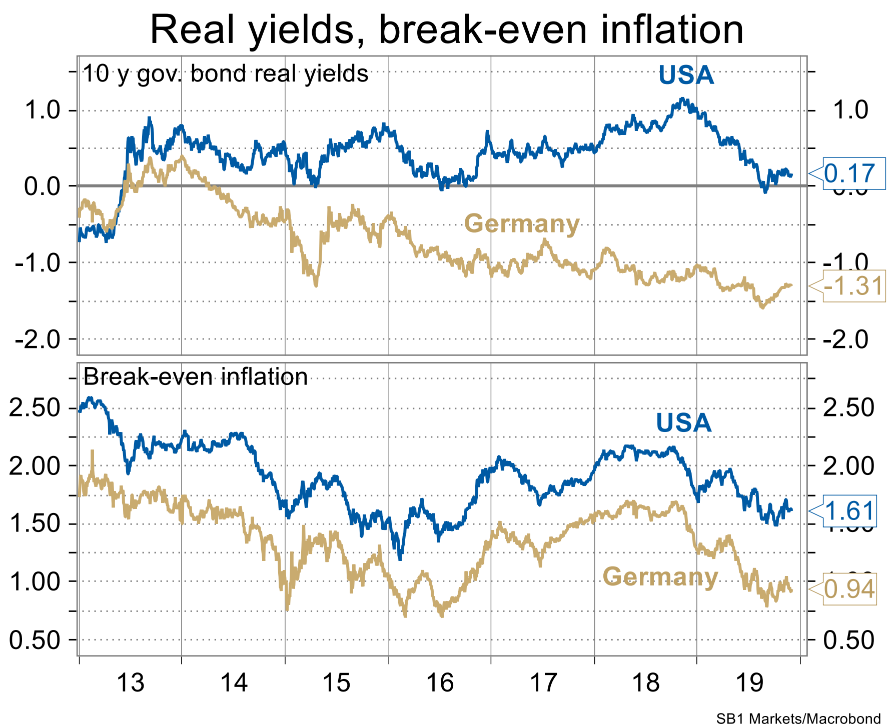


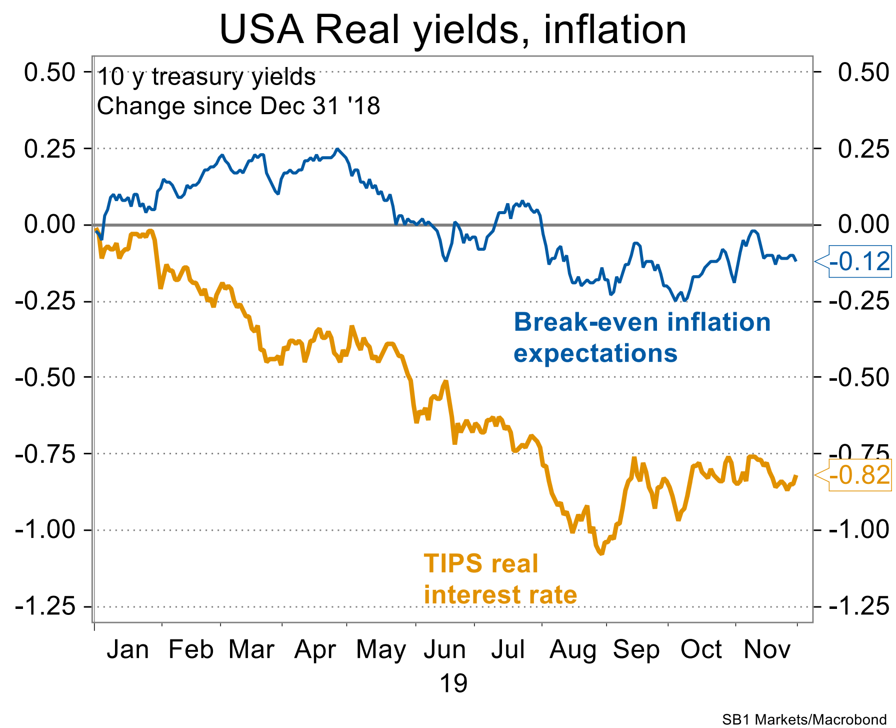


SpareBank 1 MARKETS

Both US real rates, inflation expectations have turned down

Still, over the past months, both US and German real rates and infl. expectations are trending up

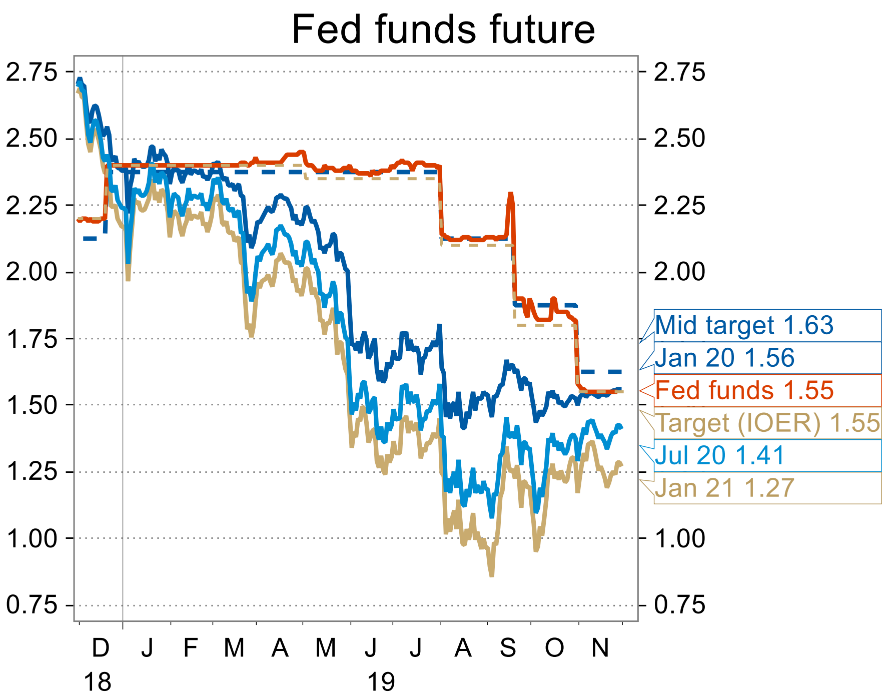


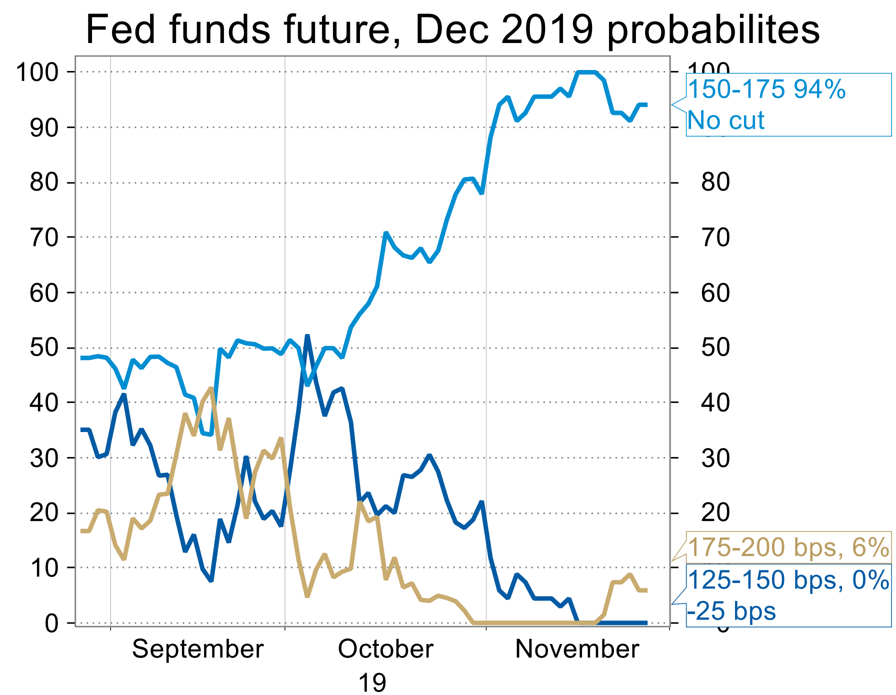


- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. In September and October, both real rates and inflation expectations have turned up, primarily due to hopes of a trade war solution
- US 10y inflation expectations held steady last week, the level at 1.63% seems more reasonable. The real rate fell marginally, 0.14% is very low
- German real rates have bottomed out and are slowly edging up. -1.31% is still very low. Inflation expectations at 0.94% does not seem that far off, although far below the ECB's price target at close to 2%

Expectations of a Dec cut remain subdued - and below 50% prob. of a cut in H1

Fed funds future rates climbed last week, just 1 interest rate cut is priced by the end of 2021

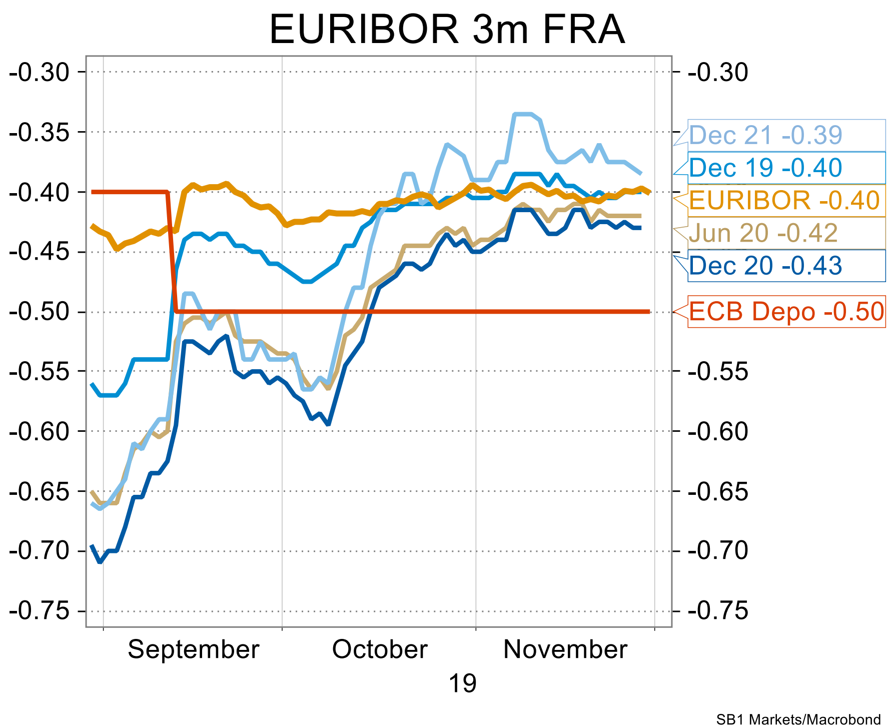


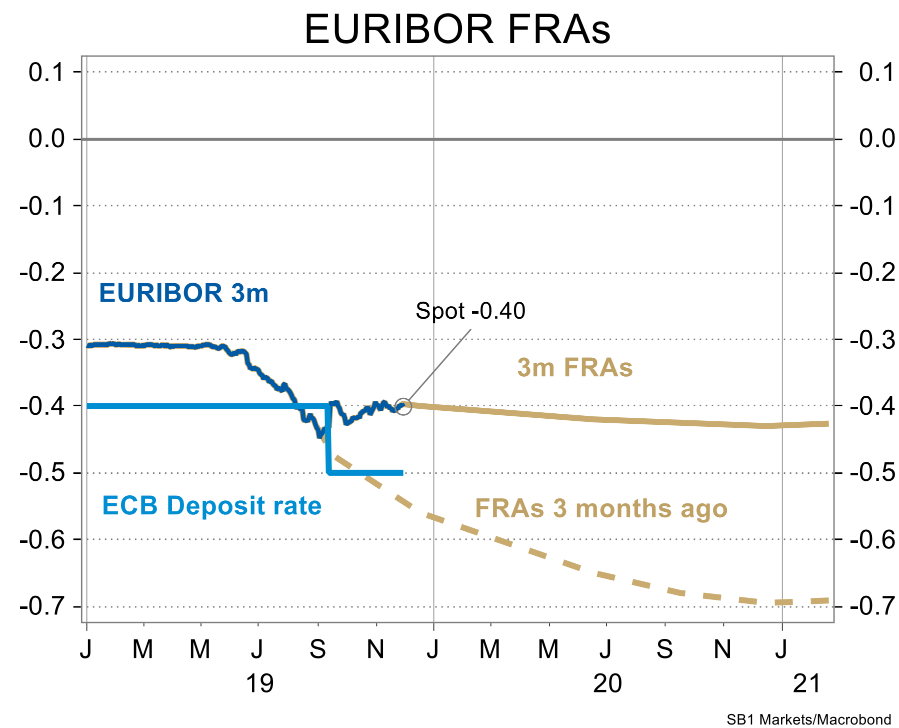


- The Fed funds rate remains close to the IOER (rate on bank's excess reserves at the Fed) at 1.55%
- Markets are more in line with the Fed's plans than in a long time (as the FOMC members will acknowledge that the policy rate was cut in October, even if they did not say so in September…) Probabilities of a Dec cut have been reduced to close to zero
- Longer term FRAs edged up last week, the Jan '21 contract at 1.29% indicates that the market is fully pricing just one interest rate cut by the end of 2021! Probabilities of a cut before July 2020 are approx 50%

EUR FRAs hold steady, interest rate cut expectations have vanished

Markets are betting on an unchanged interest rate the coming year





- Since early October, the FRA rates have turned steeply up all over the curve. Several rounds of positive news from the US/China trade talks turned the mood, as well as hopes of a soft Brexit. A divided ECB has no doubt lifted interest rate projections, as the ECB board is split on the appropriate level of monetary easing
- The past three weeks, the FRAs have flattened out, and fallen somewhat in the long end. Markets are pricing an unchanged interest rate this year and in 2020 (with just some 20% probability of a 2020 cut)

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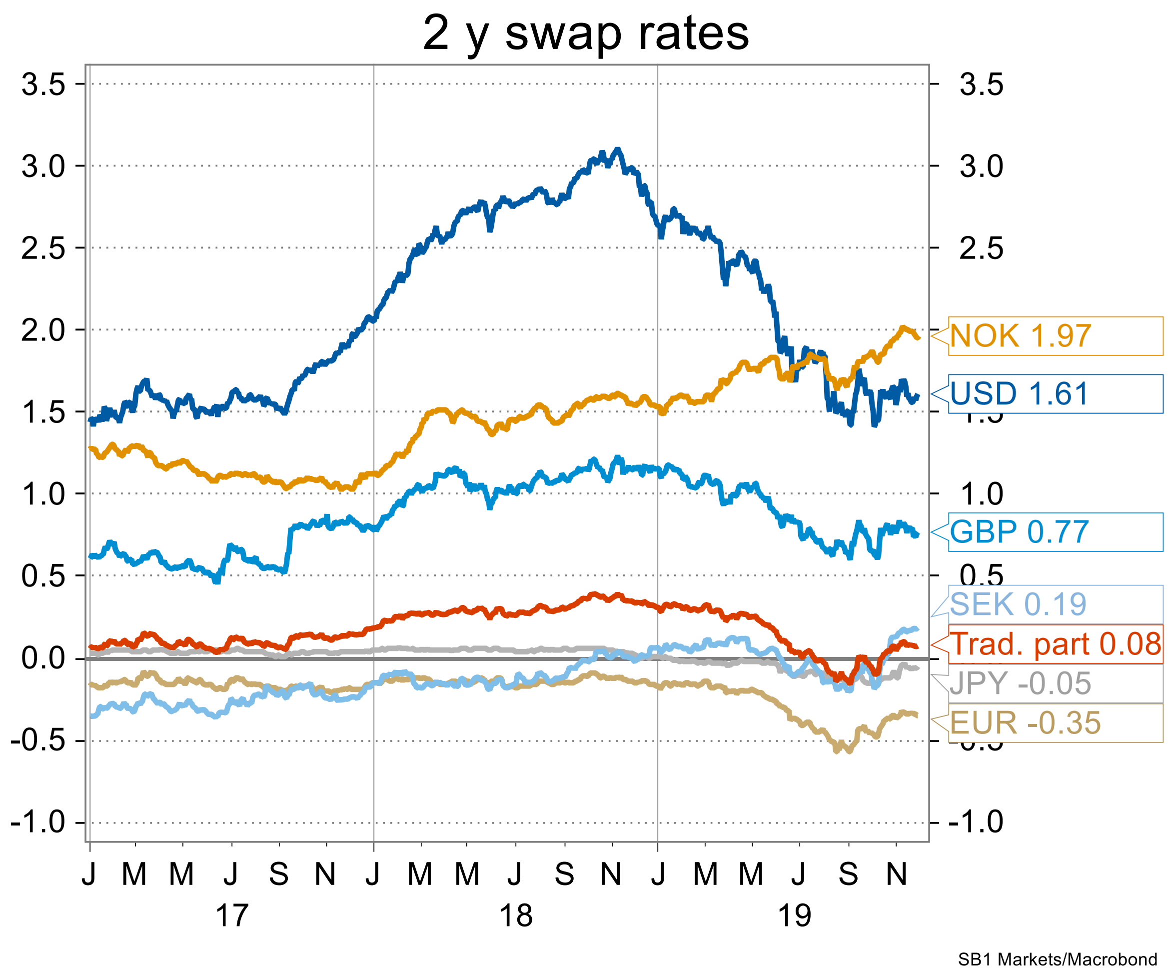
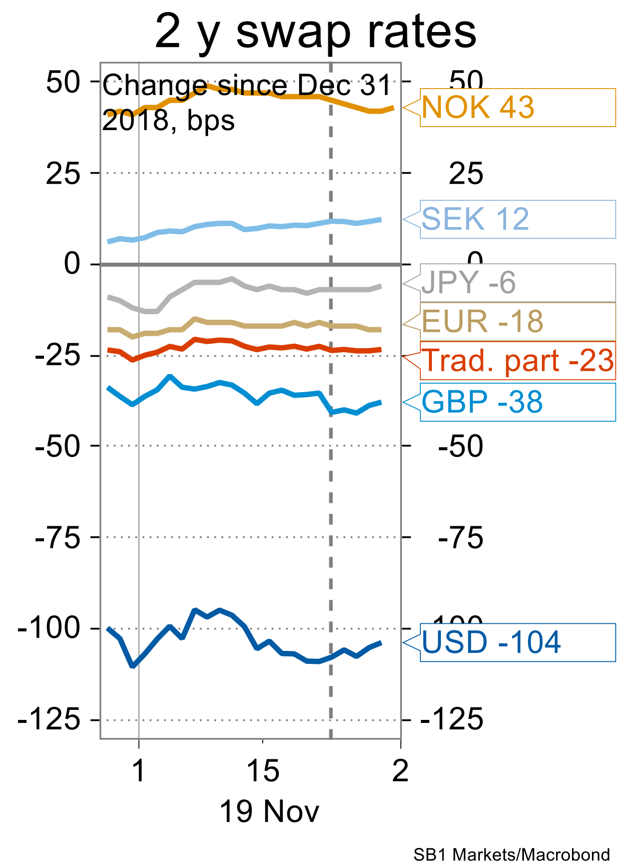
Short term rates were slowly edging up, with a pause the past weeks

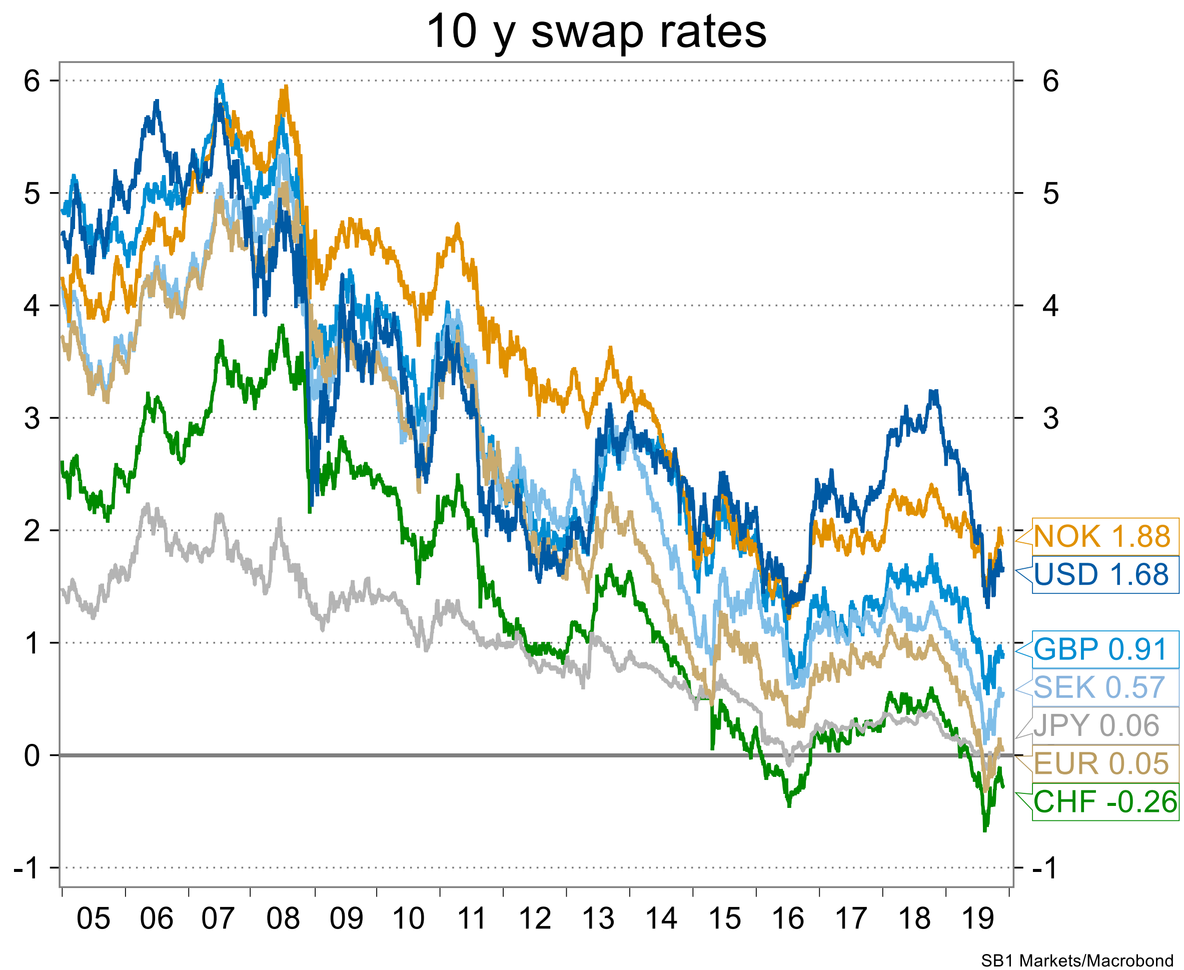
Last week, USD short term rate rose, EUR marginally down and NOK rates a tad more

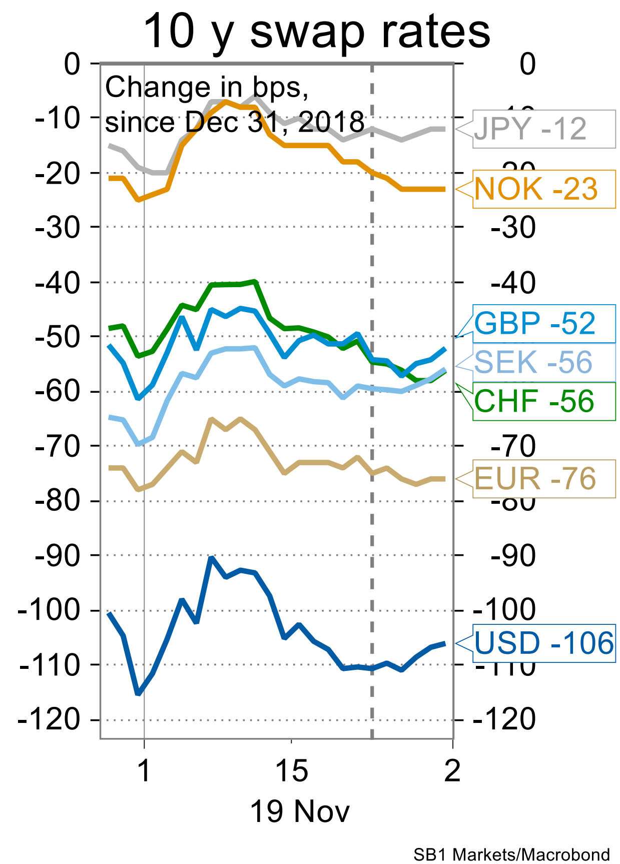




Long term swap rates recovered all over, until early Nov

The past 3 weeks, rates have fallen everywhere, chiefly triggered by US/China turbulence





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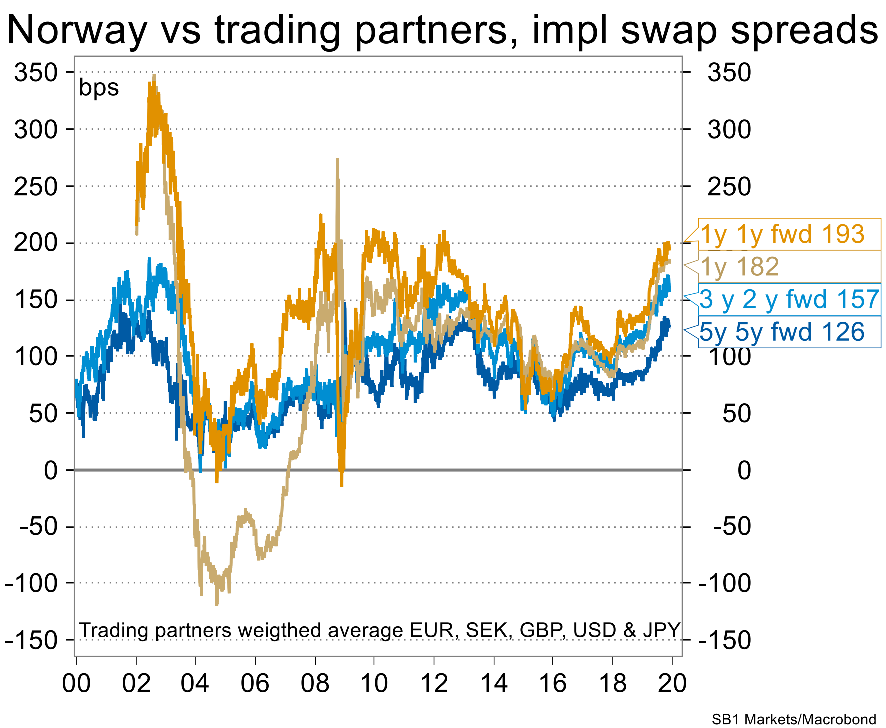
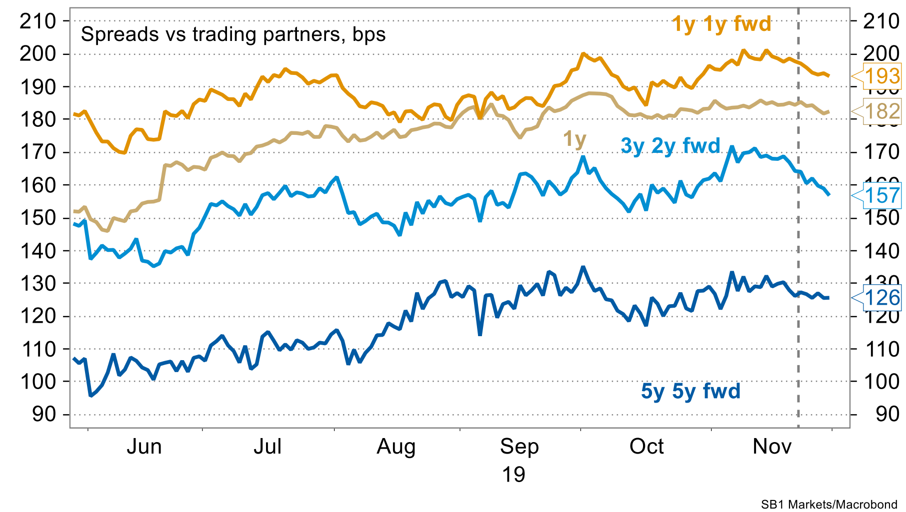
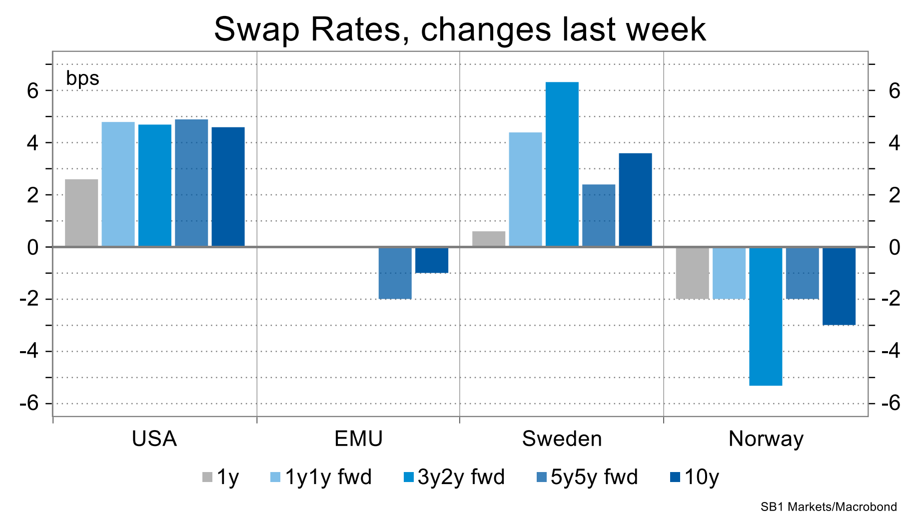
Swap spreads vs trading partners are caving in, all along the curve

Spreads have widened steeply the past year. The past two weeks, NOK rates have fallen



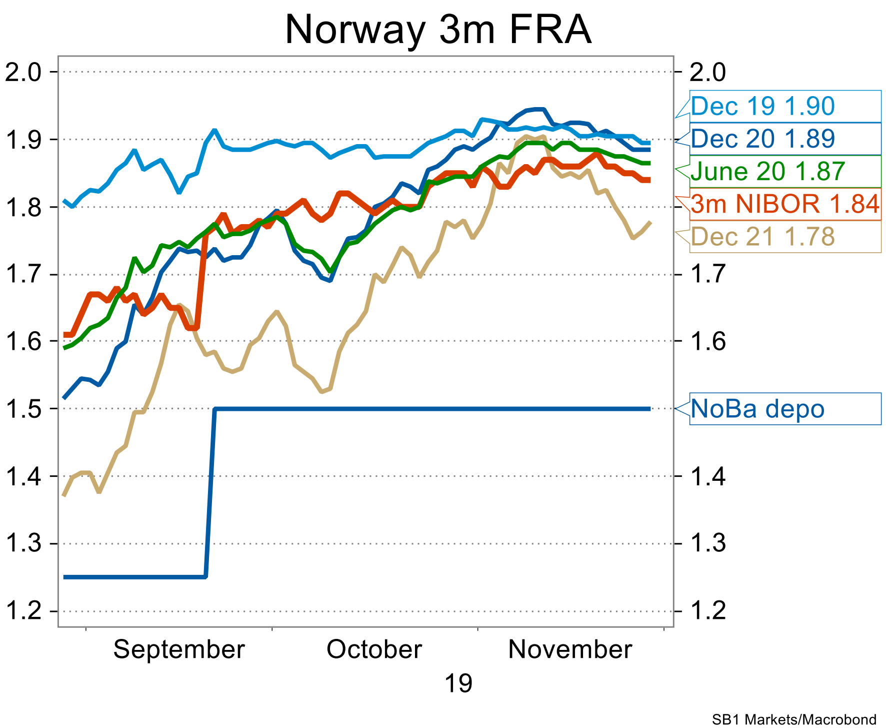


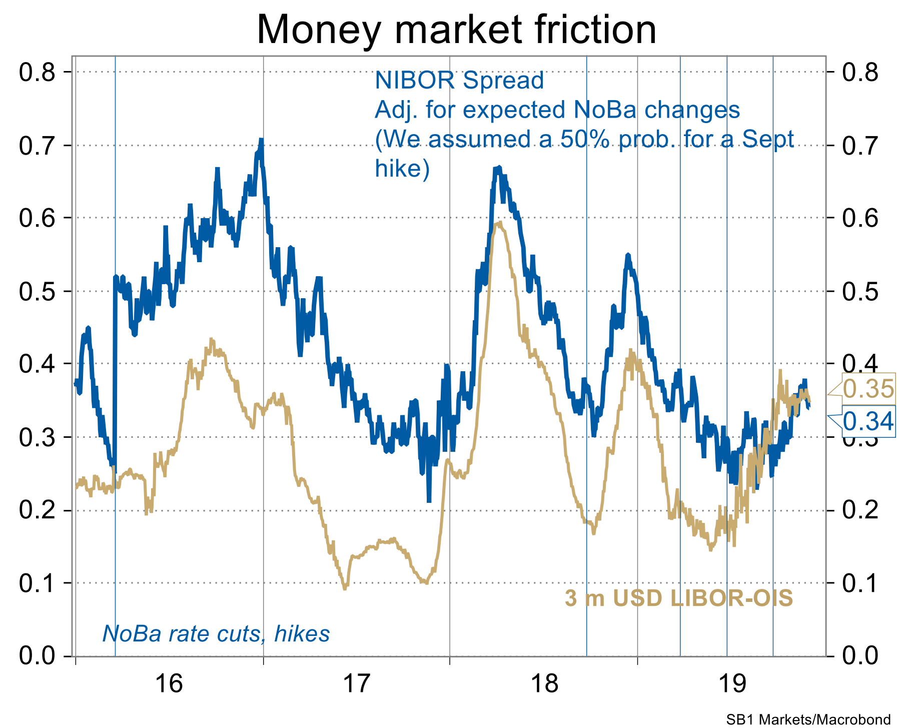


- Swap spreads between NOK rates and our trading partners have been widening rapidly this year, all over the curve
- While the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March. A 5y 5y fwd spread at 126 bps is still far too wide, long term

NIBOR and FRA rates slide slowly down, on soft Norwegian macro data?

Dec 20 FRA one inch down to 1.9%, signals a higher NIBOR. Cut expectations still muted through '20





- The 3m NIBOR came down 2 bps last week, to 1.84%. The Dec '19 FRA inched down to 1.90%, implying a 40 bps NIBOR – NoBa deposit spread. Thus, we continue to expect the 3m NIBOR to drift up the coming weeks. The US the LIBOR-OIS spread is 35 bps, like the actual NIBOR spread (assuming no expectations of any NoBa change the next 3 months). Historically, the NIBOR spread has been significantly wider than the LIBOR-OIS spread
  - » The Dec spread may be influenced by expectations of a year end liquidity squeeze – which has happened before
- Longer dated FRAs rate have fallen the past two weeks. The Dec 21 3m FRA fell by 2 bps last week (but it recovered late in the week). <u>The FRA path reflects expectations of an unchanged interest rate through 2020 and some 50% probability of a cut in 2021</u>

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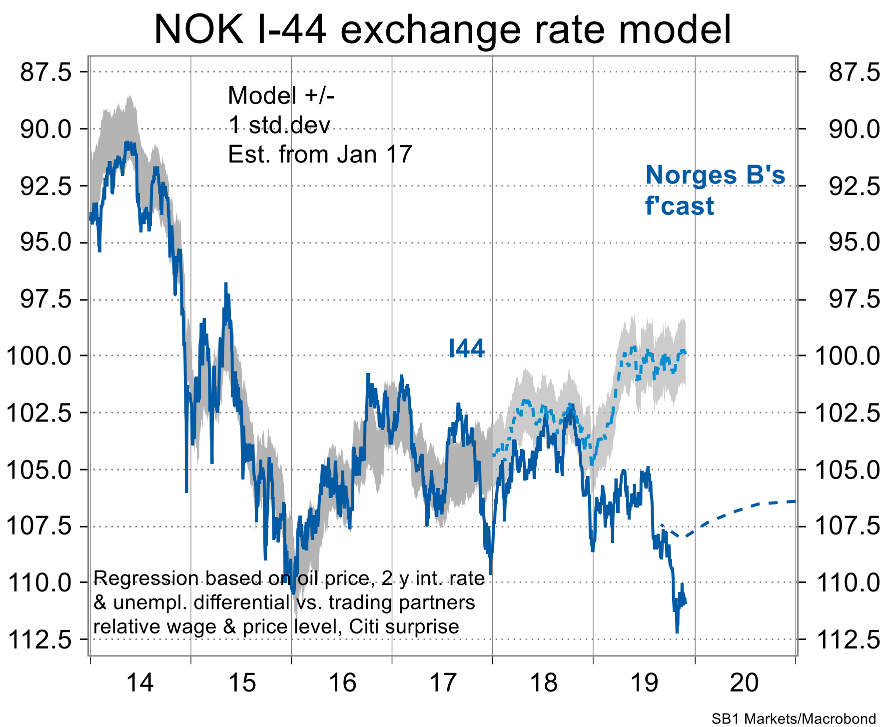
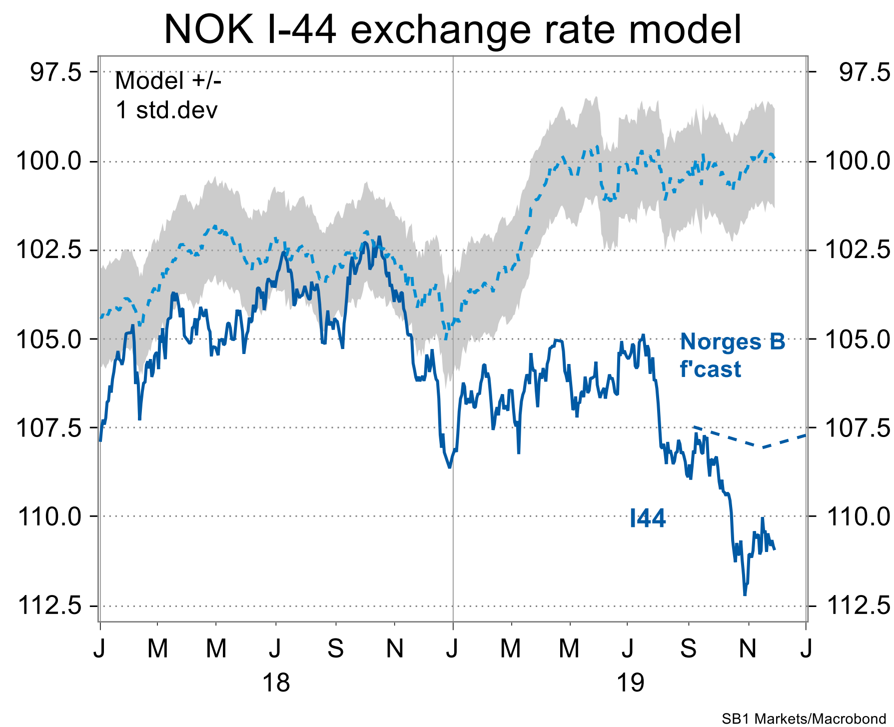
NOK weakens marginally, after a soft recovery

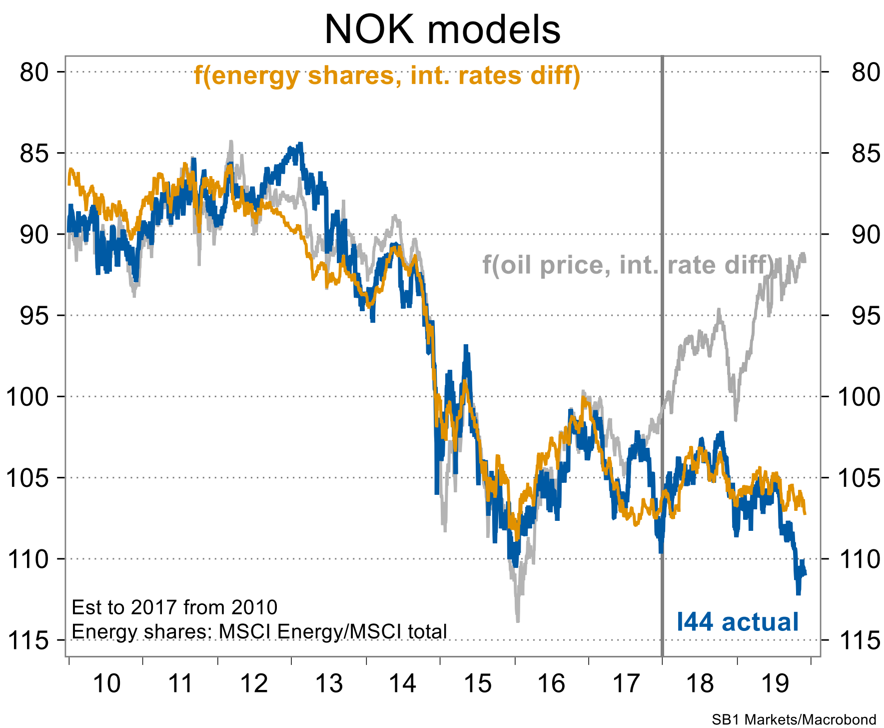
NOK is 11% below the standard model and 4% below the oil stocks & the supercycle models

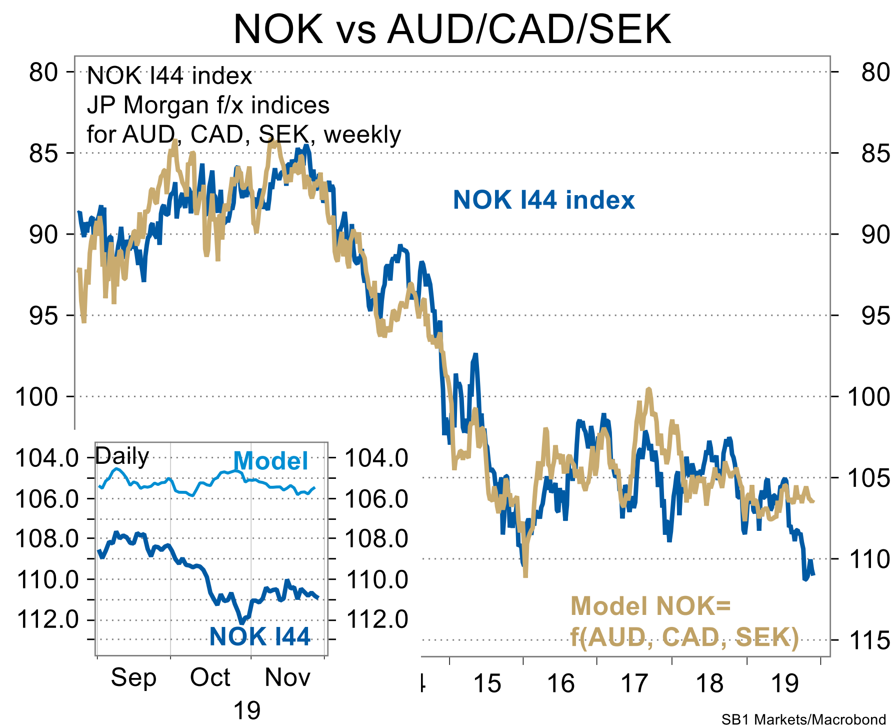




- NOK depreciated 0.4% last week, and is up some 1.2% from the record low bottom late October. The gap between the our ‘old’, standard model estimate and the actual I44 index is 11%, still extremely high
- Our ‘new’ models, based on the other super cyclical currencies or energy (oil) equities are far closer to the ball (check next page), but still the NOK is ‘too’ weak
- We stick to our **buy NOK** recommendation

NOK remains weak vs our 'alternative' models too





- Our NOK model based on pricing of oil companies has 'explained' the weak NOK much better than our traditional model since 2017, as have our 'supercycle currency model (NOK=f(AUD, CAD, SEK)
- Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook
  - » In October, both CAD, AUD and SEK recovered, probably fueled by hopes of Brexit solution, and a (slight) de-escalation of the US/China trade war. The gap to the NOK widened, even as the NOK recovered in late October. The past two weeks, the SEK has been recovering swiftly (without any obvious macro explanation, even as some data have been better than expected, but that came after the SEK upturn), CAD and AUD slightly down, with the NOK

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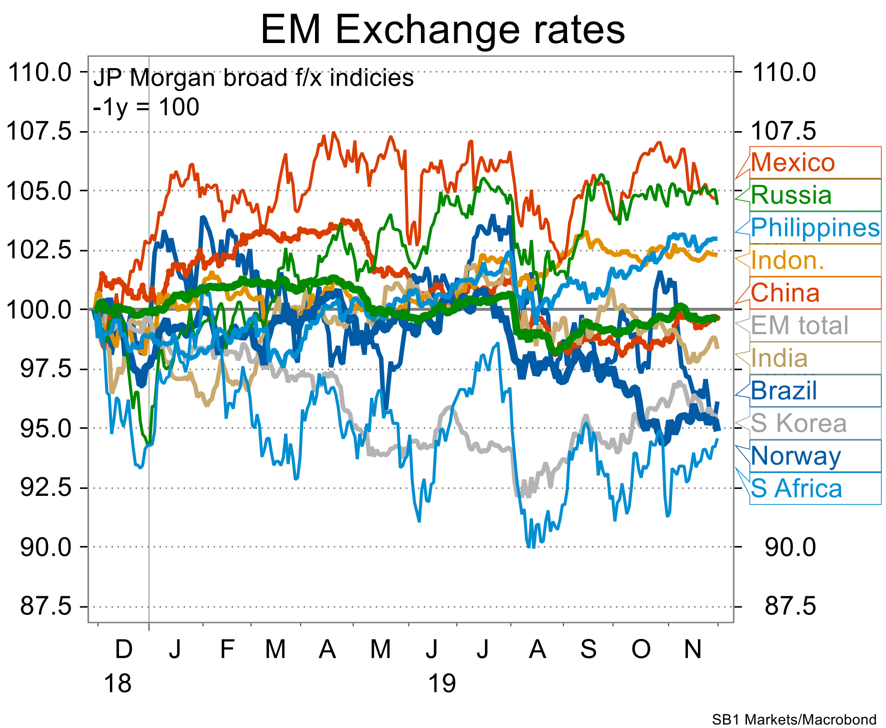
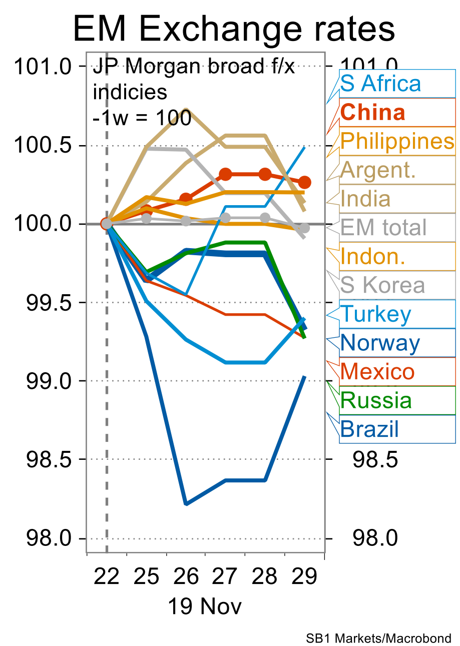
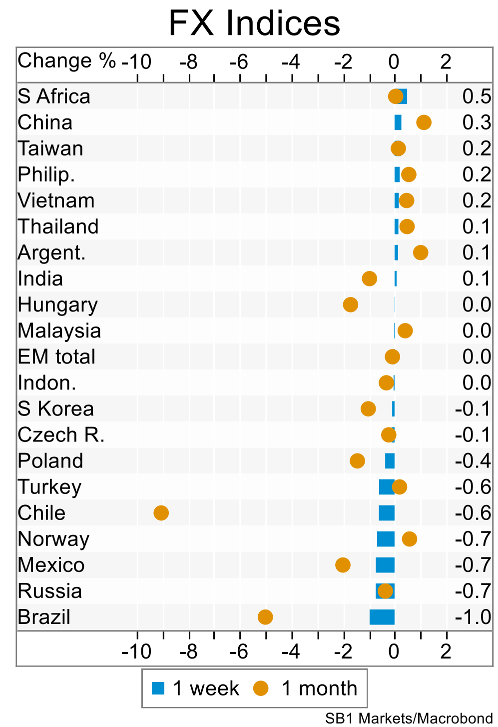
EM f/x steady last week, trending slowly up this autumn

The CNY is 'recovering' on hopes of a phase 1 US/China trade deal, with a pause the past 2 weeks







- Most EM currencies have stabilized/recovered this autumn, trade war de-escalation probably the best explanation. In early Nov, the mood turned, and currencies in Mexico, South Korea and Brazil weakened, along with the CNY. Last week, the CNY strengthened, Brazil and Turkey are struggling
- BTW, if we take out the Argentinian peso, the NOK has fallen substantially more than most of the main EM currencies the past year!! Even after the small NOK 'recovery' recently

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